

# Politics Watch

FICC Research Dept

## LDP presidential election announced, campaigning underway; focus on economic, fiscal, and monetary policies

- Record nine candidates, increased importance of LDP party member votes
- Slight differences in terms of economic policy (specifics for continuation of PM Kishida's approach), fiscal policy (striking economic and fiscal balance), monetary policy (continuation of Abenomics, correction of yen depreciation)

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The ruling Liberal Democratic Party (LDP) announced its presidential election and campaigning is now underway. There are nine candidates, a record high. The votes of LDP Diet members will be more dispersed, so party member votes will carry more weight. In terms of economic policy, the approach taken by Prime Minister Fumio Kishida should be continued. While there are no major differences among the candidates in terms of direction, some differences in policy specifics were seen when the campaigning officially kicked off. In terms of fiscal policy, many candidates are taking into account the balance between the economy and finances. However, some candidates believe that fiscal stimulus can lead to fiscal soundness.

The groundwork for normalizing monetary policy will be laid once Japan's economy normalizes after three decades of stagnation. Candidate responses in the event of excessive yen depreciation is another point of interest.

### Status of election: With nine candidates, party member votes to carry more weight

The LDP presidential election was announced on 12 September, at which time campaigning officially started. Voting will take place on 27 September.

There is a record nine candidates this time due to (1) Kishida's decision not to run for re-election and (2) the dissolution of most factions within the LDP. Each candidate has secured the prerequisite 20 nominations from party lawmakers, so roughly half of the votes from the 367 LDP Diet members (21 x 9 = 189) are now set. Some observers believe that the importance of votes by party members, which are equal to the number of Diet member votes, will increase.

On 9 September, public-broadcaster NHK conducted a survey asking LDP supporters who they think should become the next party president. 29% said Shigeru Ishiba, 27% said Shinjiro Koizumi, 13% said Sanae Takaichi, and 6% said Taro Kono. We plan to closely monitor the upcoming policy debates to see if these rankings change.

However, as there are nine candidates, the amount of time each candidate has to speak during debates and on street corners is quite limited. Significantly boosting support during the short election campaign period will be one difficult aspect of the campaigning.

As there are nine candidates, no candidate will capture a majority of votes on the first ballot. As such, a run-off vote will be held between the top two vote-getters. There are 367 LDP Diet member votes and 47 votes from prefectures (runoff election candidate with most rank-and-file member votes per Pref. receives that Pref.'s vote).

As a run-off vote will be held almost immediately after the first vote, each Diet member will only have a short period of time to think and consult before casting their vote. When there is difficulty deciding between the remaining two candidates, there is the tendency to vote for the candidate who has been elected more often and is older than the other candidate. There seems to be a desire to avoid generational change.

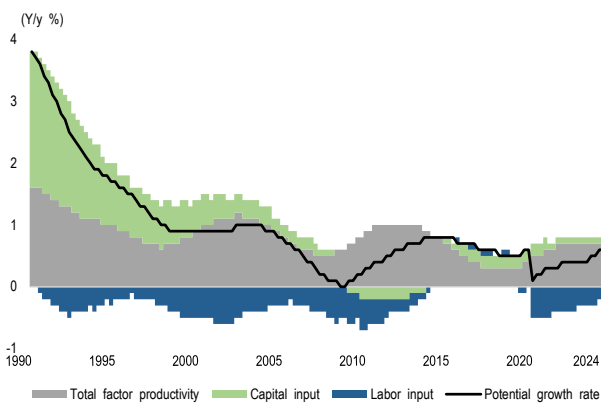
Since there are so many candidates, we want to keep these points in mind and assess the situation in a clear manner.

### Economic policy focus: Specifics for continuation of PM Kishida's approach

The Kishida administration has been working hard to break Japan free from its 30-year economic slump. Specific approaches have included the realization of a “virtuous cycle between wages and prices” and the “transition from a cost-cutting economy to a growth economy.” The 2024 spring labor-management wage negotiations were very successful in terms of encouraging corporations to hike wages.

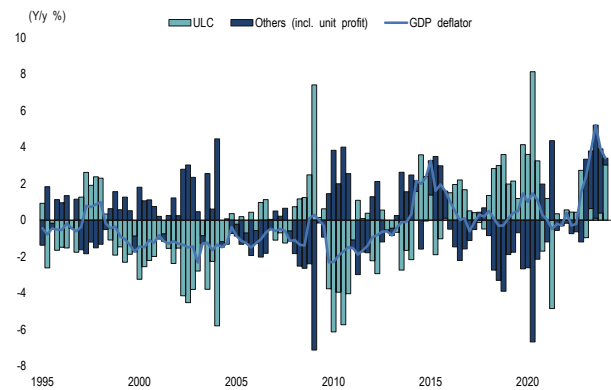
Wage increases will not last long if the government only prods companies to raise wages. In addition to that, (1) shifting higher costs (wages) to prices must spread from large corporations to SMEs, and (2) labor market reforms and domestic capital investment are needed to raise employee productivity. Also, (3) the government must be willing to provide long-term support and nurture new industries in which companies are confident of growth and are willing to allocate facilities and human capital.

Chart 1: Breakdown of Contributions to Potential Growth Rate



Source: Cabinet Office; compiled by Daiwa.

Chart 2: Breakdown of Contributions to GDP Deflator



Source: Cabinet Office; compiled by Daiwa.

One challenge for the next administration will be determining how to best continue the policies that the Kishida administration has pursued and how to achieve further results.

The candidates all share roughly the same policy approaches. However, when they officially announced their intentions to run in the party presidential election, some modest differences pertaining to steps for specific policies emerged. For example, former LDP Secretary-General Ishiba compiled a collection of policies<sup>[1]</sup> that included many policies that the Kishida administration focused on. We hope to hear about more specific measures from each candidate during the election campaign.

[1] These include “economy as backbone of fiscal affairs,” “bold public/private investment in a growth economy,” “transition from cost-cutting economy to high value-added economy,” “development of supply chains in Japan, especially for semiconductors and other exporters,” “stimulate private investment through taxation and other measures, while also strengthening national investment,” “continue to strengthen measures supporting start-ups,” and “virtuous cycle of higher wages and eased labor shortages (wage hikes → increased consumption → increased investment [= increased productivity = alleviation of labor shortages] → increased earnings → wage hikes),” among others.

### Fiscal policy focus: Economy or fiscal affairs

To break Japan free of its 30-year economic slump, the government needs to encourage the private sector to change its behavior. Meanwhile, JGB yields are rising while the government's long-term debt-to-GDP ratio remains prominently high among developed countries. The BOJ is also reducing its purchases of JGBs.

The trump card for fiscal soundness is increased tax revenues through economic growth. However, there is a certain time lag between rolling out fiscal stimulus and increasing tax revenues. Larger fiscal expenditures raise the hurdle for smooth digestion of JGBs in the future. In addition to the time lag, there is also a risk that tax revenues will not increase even in the case of fiscal disbursement. More than ever, ingenuity in terms of “wise

spending” is required to steadily increase tax revenues while keeping government spending as low as possible. We should note that if the government’s long-term debt becomes too large, the increase in interest expense will not keep pace with the increase in tax revenues.

Many of the candidates in this election have shown a willingness to address fiscal soundness while working to revitalize the economy.

Meanwhile, some candidates want to prioritize fiscal soundness.

Also, Economic Security Minister Sanae Takaichi stated that if the economy recovers through fiscal stimulus and tax measures, tax revenues will also increase. She stated that a primary balance surplus can be achieved naturally. LDP Secretary-General Toshimitsu Motegi favors a similar policy and he has proposed no tax increases. Former Economic Security Minister Takayuki Kobayashi also advocates fiscal policy driven by a strong economy. Fiscal stimulus that steadily leads to increased tax revenues is required.

### Monetary policy focus: Responding to excessive yen depreciation

First, as mentioned above, once the Japanese economy emerges from its 30-year economic slump and starts to normalize, the groundwork will be laid for monetary policy normalization as well. While only a few candidates have directly touched on monetary policy, Takaichi suggested the need for continued easing at her policy announcement press conference. She still seems to have Abenomics in mind, as we expected.

Conversely, it is noteworthy that when the yen weakened to around USD/JPY160, Digital Transformation Minister Taro Kono, Motegi, and former Chief Cabinet Secretary Katsunobu Kato all called for monetary normalization and a correction of the yen’s excessive weakness.

**Chart 3: Candidates’ Economic, Fiscal, and Monetary Policies**

Candidate	Stance	Descriptions of policies, etc.
Shigeru Ishiba (Former Secretary General)	Economic growth and sound fiscal conditions	<ul style="list-style-type: none"> <li>Support for the economy via flexible fiscal spending (establishment of supply chains for semiconductors, etc., bolstering national investment, etc.).</li> <li>Virtuous cycle with wage hikes and easing of labor shortage.</li> <li>Conducting of economic fiscal operations while taking into account fiscal discipline.</li> </ul>
Shinjiro Koizumi (Former Environment Minister)	-	<ul style="list-style-type: none"> <li>Regulation reform to create new industries (support for startups, etc.) and labor market reform (review of dismissal regulations, etc.).</li> <li>Basic aim is to take over programs of Kishida administration (such as wage hikes and shift from saving to investment).</li> </ul>
Sanae Takaichi (Minister for Economic Security)	Fiscal expansion / Monetary easing	<ul style="list-style-type: none"> <li>Bold investment in crisis control and strategic fiscal spending related to growth investment to eventually increase tax revenues without raising tax rates.</li> <li>If Japan were to return to deflationary economy with primary balance discipline the supreme objective, it would simply result in decline in national power.</li> </ul>
Taro Kono (Minister for Digital Transformation)	Fiscal soundness / Monetary normalization	<ul style="list-style-type: none"> <li>Stable price target cannot be said to have been achieved with prices still weak in terms of core core CPI.</li> <li>Restoration of disciplined fiscal conditions, given fiscal leeway for emergencies and new normal with positive interest rates.</li> </ul>
Takayuki Kobayashi (Former Minister for Economic Security)	Prioritizing economy	<ul style="list-style-type: none"> <li>The currency is a problem for Japan—the yen is too weak, and its value needs to be restored.</li> <li>Prioritization of economy over fiscal conditions. Improvement of fiscal conditions through increased tax revenues via establishment of strong economy.</li> <li>Now is the time to press on the gas pedal.</li> </ul>
Yoko Kamikawa (Foreign Minister)	Fiscal soundness	<ul style="list-style-type: none"> <li>Commencement of “strengthening of fiscal conditions in Reiwa Era,” in which flexible and strong growth is achieved, and market confidence maintained.</li> </ul>
Toshimitsu Motegi (Secretary General)	Economic growth and sound fiscal conditions / Monetary normalization	<ul style="list-style-type: none"> <li>Increase in tax revenues via economic growth, and investment in growth areas using increased tax revenues.</li> <li>BOJ needs to clearly communicate how it will normalize monetary policy, including considering gradual interest rate hikes.</li> </ul>
Yoshimasa Hayashi (Chief Cabinet Secretary)	Fiscal soundness	<ul style="list-style-type: none"> <li>Lowering of debt-to-GDP ratio in a stable manner in order to maintain confidence in JGBs, even as yields rise.</li> <li>Government needs to clearly show its intentions to avoid lax fiscal conditions.</li> </ul>
Katsunobu Kato (Former Chief Cabinet Secretary)	Economic growth and sound fiscal conditions / Monetary normalization	<ul style="list-style-type: none"> <li>Preference towards conducting current economic operations while aiming for sound fiscal conditions in the medium/long term.</li> <li>It is clear that Japan should move towards an economy with positive interest rates in order to continue virtuous cycle with prices and wages.</li> </ul>

Source: Candidates’ websites and news reports; compiled by Daiwa.

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