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Daiwa Securities

Daiwa's Economic View

Scale of comprehensive economic measures likely around Y18tn; some policies to be included in FY26 initial budget

- Comprehensive economic measures in FY25 supplementary budget expected to include roughly Y18tn in expenditures
- Fiscal support continues for same challenges as before (addressing high prices, hiking wages), while amounts for growth investment/crisis management investment likely to increase
- Some policies likely to be included in FY26 initial budget
- Await verification of effectiveness of fiscal policies advocated by JIP

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The scale of the comprehensive economic measures that the Takaichi administration will announce (as soon as this month) is likely to be quite substantial. In this report we estimate that the expenditure portion included in the FY25 supplementary budget will come to roughly Y18tn. That said, a scale of even Y20tn would not be surprising.

The first reason for the expanded scale of the comprehensive economic measures is that the same challenges as those under the Kishida (FY23) and Ishiba (FY24) administrations persist, such as addressing high prices and hiking wages. Japan's macroeconomy continues to require fiscal support.

The second reason is that the items included under growth investment and crisis management investment (centerpiece of PM Takaichi's policies) cover a wide range of areas.

Moreover, in addition to the FY25 supplementary budget expenditures, there are several policies likely to be included in the FY26 initial budget, including policies where the amounts and execution remain undecided.

There is no objection to the idea of "prioritizing economy over fiscal policy." That said, the Takaichi administration will likely be called upon to verify the effectiveness of its fiscal policies, leveraging its coalition with the Japan Innovation Party (JIP).

General account expenditures for comprehensive economic measures may grow to nearly Y20tn

We had expected that the comprehensive economic measures prepared by the Takaichi administration would entail Y16tn to Y18tn in general account expenditures for the FY25 supplementary budget (see our 6 Oct 2025 *Daiwa's Economic View: Fiscal policy of new Takaichi administration and its impact on JGB market*). In this report we revised this figure to the upper limit of this forecast range (Y18tn).

Major itemization within the economic measures varies each time. So, we have broken down the items contained in the Kishida administration's economic measures from November 2023 and in the Ishiba administration's economic measures from November 2024 and extracted the respective expenditure amounts. The latest package of comprehensive economic measures is reported to have three pillars, specifically "addressing high prices," "growth investment/crisis management investment," and "strengthening defense and diplomatic capabilities." As such, we restructured each item so that they align with the three pillars, which allows for comparisons with the economic measures and their scales in FY23 and FY24 (Chart 1).

Chart 1: Forecasted General Account Expenditures for Economic Measures: FY25 vs. FY23-24 (Y tn)

	FY23	FY24	FY25	FY24→FY25	
Total for comprehensive economic measures	**13.1**	13.9	**18.0**	**4.1**	
Measures to address high prices	**2.7**	**3.4**	**3.5**	**0.1**	
Gasoline & diesel fuel	0.2	1.0	**0.0**		
Electricity & gas	0.6	0.3	**0.3**		
Priority support grants for local governments	1.6	0.6	**2.0**	**1.4**	
Support for low-income households	0.0	1.1	1.0		**Measures to address**
Energy efficiency support	0.3	0.2	0.2		**high prices**
Others	0.0	0.2	0.0		**Y5.1tn (down Y1.3tn y/y)**
Regional revitalization	**1.5**	**2.1**	**0.7**	**-1.4**	
Revitalization of local economies	0.8	1.0	0.5		
Digital administrative reform	0.7	0.3	0.2		
Increase in local allocation tax	0.0	0.8	0.0		
Support for wage increases	**0.6**	**0.9**	**0.9**	**0.0**	
Support for SME financing & capex	0.5	0.5	0.2		
Improved remuneration in medical, nursing care, and disability welfare sectors	0.1	0.3	0.3		
Others	0.0	0.1	0.4		
Expansion of domestic investment	**3.4**	**2.7**	**6.5**	**3.8**	
Advanced semiconductors	1.6	1.3			
AI	0.1	0.1			
Space	0.1	0.4			
GX	0.2	0.2			
Drug discovery	0.0	0.1			
Fusion energy	0.0	0.0			**Crisis management and**
Marine/ocean-related	0.0	0.0			**growth investment**
Advanced projects	0.3	0.2			**Y9.7tn (up Y4.3tn y/y)**
Human resource development	0.2	0.0			
Startups	0.5	0.0			
Economic security	0.1	0.1			
Others	0.3	0.3			
Cybersecurity	**0.0**	**0.0**	**0.3**	**0.3**	
Food security	**0.1**	**0.0**	**0.2**	**0.2**	
Disaster prevention/mitigation & national resilience	**1.7**	**2.0**	**2.0**	**0.0**	
Disaster recovery	**0.4**	**0.7**	**0.7**	**0.0**	
Diplomacy	**0.4**	**0.6**	**0.8**	**0.2**	
Strengthening of Self-Defense Forces	**0.7**	**0.8**	**1.2**	**0.4**	**Strengthening defense and**
Response to US tariff measures	**0.0**	**0.0**	**1.0**	**1.0**	**diplomatic capabilities**
Support for children, women, and the elderly	**0.2**	**0.8**	**0.2**	**-0.6**	**Y3.2tn (up Y1.0tn y/y)**
Others	**3.4**	**0.0**	**0.0**	**0.0**	

Source: MOF; compiled by Daiwa.
Note: We restructured economic measures in FY23 and FY24 by item.

The macroeconomic environment is such that continued fiscal support is needed for addressing high prices and promoting wage hikes.

According to reports, the priority support grants for local governments, which municipalities can use with a certain degree of freedom for measures such as addressing high prices, will likely be increased. The "rice coupons" mentioned in recent news reports will also be funded from this source. While regional revitalization is not particularly prominent in this economic stimulus package, such grants may play a somewhat similar role.

Substantial funds for strengthening defense and diplomatic capabilities were also allocated within the economic measures of the Kishida and Ishiba administrations.

Growth investment and crisis management investment are likely to exceed the amounts allocated under the Kishida administration (general account expenditures in supplementary budget: Y13.1tn) and the Ishiba administration (Y13.9tn).

Of particular note is the "growth strategy issues for consideration" presented by the government's "Japan's Growth Strategy Headquarters" on 4 November. The 17 strategic areas and seven cross-sectional issues are too much to list. Moreover, with the exception of certain items, the Kishida administration and the Ishiba administration did not allocate budgets for their economic measures. Furthermore, reports indicate that the government aims to swiftly establish a fund worth approximately Y1.0tn for the shipbuilding, aviation, and space industries. Compared to the economic stimulus measures of the past two years, the amount allocated to this item is likely to increase by trillions of yen.

The scale of the comprehensive economic measures under the Takaichi administration remains unclear. However, growth investment and crisis management investment will be added along with addressing the same challenges as the economic measures of the Kishida and the Ishiba administrations. We had expected significant growth, but apparently it will cost a considerable amount. LDP Policy Research Council Chairman Takayuki Kobayashi stated to reporters on 11 November that there remains a significant gap in scale between the party and fiscal authorities. Apparently, the amount under consideration will not be comparable to last year's level.

Some policies to be included in FY26 initial budget

The comprehensive economic measures are a package of various policies, including measures executed outside of the FY25 supplementary budget expenditures (Chart 1). Some policies will probably be limited to just the headings due to not enough time for coordination among political parties. Although not included in the comprehensive economic measures, coordination with other parties is expected to move forward and some policies are expected to be included in the FY26 initial budget proposal.

Tax cuts for growth investment/crisis management investment

- FY25 supplementary budget likely to include only expenditures, such as establishing funds
  Reports that capex promotion tax system will be discussed in FY26 tax reforms
  Tax revenue likely to decrease in FY26
  Amount still unknown, but potential for trillions of yen

Abolition of provisional tax rates on gasoline, diesel fuel

- Provisional gasoline tax rate set to expire at end of 2025, with ruling and opposition parties already reaching agreement
  Since this is a tax cut, it is not included in supplementary budget expenditure list (Chart 1)
  Tax revenues to fall by around Y0.3tn in FY25 supplementary budget
  As this is a permanent tax cut, tax revenue is projected to decrease by approximately Y1tn in the FY26 initial budget
- Provisional tax rate on diesel fuel scheduled to be abolished from Apr 2026
  As prefectural tax revenues decline, national government likely to compensate for shortfalls in the FY26 initial budget

Free education

- LDP and JIP working together to implement plan starting in FY26
  Included in FY26 initial budget expenditures
  Reports indicate cost, combined with elimination of elementary school lunch fees, at Y0.8tn to Y0.9tn

Raising annual income threshold

- Democratic Party for the People currently requesting immediate tax threshold increase to Y1.78mn
- PM Takaichi stated during questioning at extraordinary Diet session that FY26 tax reforms will include measures to raise basic deduction in line with inflation
  Amount and other details have not yet been finalized

Consumption tax cut

- JIP not strongly pushing consumption tax cut and discussions not progressing
  If discussions are held, likely to take place during FY26 tax reform process
  If included in budget, likely added to FY26 initial budget
  If implemented, likely to start mid-year (such as Oct) considering preparation period
  Eliminating consumption tax on food would cost Y5.0tn over full year, but amount would decrease if implemented mid-fiscal year

Hopes for administrative/financial reforms submitted to government by JIP

On 11 November, the LDP and JIP each submitted proposals to the government for their comprehensive economic measures. The LDP compiled a policy package outlining necessary expenditures and tax cuts. JIP's approach was fundamentally similar to that offered by the LDP, but JIP's proposal to place administrative and fiscal reforms at the forefront to ensure the effectiveness of its comprehensive economic measures was attention grabbing.

- Assessment of macroeconomic spillover effects (multipliers) and quantitative impacts on fiscal policy
- Expressed overall project scale, "fresh water" expenditure amount, and execution deadline
- Breakdown of funding sources (taxes, expenditure cuts, surplus funds, construction bonds, FILP) and deadlines
- Setting numerical targets for KPIs (price stability, real wages, potential growth rate)
- Conduct comprehensive review of special tax measures and large-scale subsidies, abolishing those with low policy effectiveness
- Review long-standing special tax measures from scratch
  Discontinue items that have achieved their purpose, those with unclear effectiveness, and those without a long-term track record of utilization
- Comprehensively evaluate large-scale subsidies based on execution rates, policy effectiveness, spillover effects to private sector
  Inefficient approaches will be eliminated or significantly revised
- Establish a Government Efficiency Bureau (tentative name) as body for making reviews

If the Takaichi administration aims for responsible expansionary fiscal policy, JIP will be an ideal coalition partner. Whether or not the government properly incorporates the administrative and fiscal reforms proposed by JIP will likely impact confidence in the JGB market.

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