

Daiwa's Economic View

Comprehensive economic measures put measures to address high prices and oppositions' requests ahead of Takaichi's agenda

- FY25 supplementary budget for comprehensive economic measures includes Y3.8tn increase in expenditures compared to FY24, but breakdown consists mainly of measures addressing high prices; future fiscal stimulus to depend on high raw material costs
- Some fiscal stimulus under Takaichi administration will have funding amounts reconsidered in initial budget for FY26; total, including that, around Y20tn range?
- Calendar-based market issuance amount for JGB issuance plan remains unchanged for FY25 supplementary budget; initial budget for FY26 may include increased issuance for 2yr, 5yr, and 10yr JGBs, decreased issuance for 20yr JGBs

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The government approved a set of comprehensive economic measures at a Cabinet meeting on 21 November. The FY25 supplementary budget expenditures came to Y17.7tn, exceeding the FY24 economic stimulus package of Y13.9tn by Y3.8tn. However, the increase was mainly due to measures to address high prices and a significant portion was also added to comply with requests from opposition parties. Funding for Prime Minister Sanae Takaichi's crisis management and growth investment initiatives have not increased as much as expected. Future fiscal stimulus will depend on high raw material cost trends.

Fiscal stimulus under the Takaichi administration extends beyond this package of comprehensive economic measures. Some policies will have their funding amounts reconsidered in the initial budget for FY26. When including that amount, it looks this package is set to reach the Y20tn range.

The calendar-based market issuance amount will remain largely unchanged for the FY25 supplementary budget. The initial budget for FY26 is expected to see increased issuance for the 2-year, 5-year, and 10-year JGBs, while issuance of the 20-year JGBs will likely decrease.

Comprehensive economic measures prioritize addressing high prices over Takaichi's agenda, features budget mindful of opposition requests

These comprehensive economic measures will address the same policy challenges as last year and the year before, specifically inflation and wage increases. We had thought that policies favored by Takaichi, such as crisis management investments and growth investments, would be added. However, in reality, the amounts allocated for items like addressing high prices and wage increases have grown the most. Allocations for investing in crisis management and growth have not increased as much as expected (Chart 1).

Promoting wage hikes also serves the medium/long-term policy objective of escaping three decades of economic stagnation. Raising real wages, which have been eroded by inflation, is a higher immediate priority. The ruling parties' loss of their majority in both houses of the Diet was largely due to the impact of rising prices caused by global increases in resource and raw material costs.

Budgets increased for measures to address high prices and wage increases, due in part to opposition party requests. The Komeito demanded an additional Y20,000 per child in child allowance payments. The necessary budget amount for that initiative is reported to be approximately Y400bn. The Democratic Party for the People (DPP) demanded repayment of approximately Y570bn that the general account still owes from the Special Automobile Safety Account. This is also included in the measures for livelihood security and addressing high prices.

The reason that opposition parties' demands were immediately accepted was that the LDP and the Japan Innovation Party (JIP) no longer hold a majority in both houses of the Diet. The approval of opposition parties is essential for the passage of the budget and budget-related bills in the Diet. The ruling parties' loss of their majority in both houses of the Diet stems not only from issues involving politics and money-related scandals, but also, as mentioned earlier, from hardships for Japanese citizens, especially soaring prices.

In order to curb the expansionary fiscal policies that have persisted even after the pandemic ended, Japan must resolve the new national crisis of rising resource and raw material costs.

Chart 1: Comparison of Economic Package Sizes: FY24 vs. FY25 (expenditures from supplementary budgets, ¥ tn)

	FY24	FY25	Difference
Total	13.9	17.7	3.8
Measures for livelihood security and addressing high prices	7.2	8.9	1.7
Addressing high prices			
Regional revitalization			
Wage hikes			
Crisis management & growth investment	5.4	6.4	1.0
Economic security			
Food security			
Energy & resource security			
Disaster prevention, mitigation, and national resilience			
Investment expansion			
Defense & diplomatic capabilities	1.4	1.7	0.3
Defense & security			
US tariffs			
Contingency reserves	0.0	0.7	0.7

Source: Cabinet Office, MOF; compiled by Daiwa.

Note: We have reclassified the breakdown of FY24 economic package to align with the categories for FY25.

Takaichi's fiscal stimulus not limited to just comprehensive economic measures

The total scale of the comprehensive economic measures announced on 21 November (including tax cuts) is said to be ¥21.3tn. However, the ¥1.2tn in income tax cuts resulting from raising the annual income threshold was agreed upon by the LDP, Komeito, and JIP during Diet deliberations on the FY25 budget. This is not a new Takaichi administration policy (① in Chart 2).

Chart 2: Amounts of 2025 Economic Package, Amounts of Policies to be Determined by FY26 Tax Reform & Budget (¥ tn)

FY25 general account supplementary budget expenditures	17.7	
Abolition of provisional tax rates on gasoline & diesel fuel	1.5	
Raising annual income thresholds (2025 tax reform)	1.2	①
Subtotal	19.2	
Free school education	0.2–0.3?	②
Raising annual income thresholds (2026 tax reform)	Several hundred billion yen?	③
Corporate tax cuts for capex	Several hundred billion yen?	④
Tax cuts combined with cash transfers	Only policy design	⑤
Total	¥20tn range?	

Source: Cabinet Office, various media reports; compiled by Daiwa.

Meanwhile, the package of comprehensive economic measures this time only includes policy items, with the amounts for some policies to be determined during the FY26 tax reforms and budget compilation.

“Free school education” is one of the conditions JIP set for forming a coalition with the LDP. Among these, the provision of free elementary school lunches will be implemented starting in FY26. Media reports have indicated that the amount to cover that initiative is approximately ¥0.2tn. As for free high school education, the government will first present the “High School Education Reform Grand Design 2040 (tentative name)” in FY25. After that, advance support will

be provided through funds established by prefectures and other entities. Furthermore, securing stable funding sources is a prerequisite for implementation. The extent to which this can be fully implemented starting in FY26 remains highly uncertain (② in Chart 2).

The objective of “raising the annual income threshold” will continue to be considered in the FY26 tax reforms. The proposal by the government and ruling parties is inflation-linked, limiting a loss in FY26 revenue to several hundred billion yen. However, the DPP’s proposal to raise the amount uniformly to ¥1.78tn is reported to result in a loss of several trillion yen in revenue (③ in Chart 2). The focus will be on whether the initial FY26 budget and related bills will pass the Diet even without the support of the DPP.

Takaichi wants to include corporate tax cuts for capex in the FY26 tax reforms, specifically for crisis management and growth investments. The exact amount is unknown, but it will likely come to around several hundred billion yen (④ in Chart 2).

The tax cuts combined with cash transfers have drawn interest not only from Constitutional Democratic Party of Japan (CDP) leader Yoshihiko Noda, but also from Takaichi. However, institutional designs, such as keeping track of income, are necessary. Execution will likely take a little more time (⑤ in Chart 2).

Major revision of calendar-based market issuance amount in FY26 initial plan?

We expect the calendar-based market issuance amount for the JGB issuance plan to remain unchanged for both the FY25 supplementary budget and the FY26 initial budget. We had also anticipated that the government could have maintained the issuance amount if it wanted to (see [our 14 November 2025 Daiwa's Economic View: JGB issuance plan outlook for FY25 supplementary budget, FY26 initial budget](#)).

In this report we also forecast that the FY25 supplementary budget will be “maintained at current levels” ((b) - (a) in ① of Chart 4). There are three reasons for that assumption. First, Finance Minister Satsuki Katayama stated on 22 November that the supplementary budget will be finalized within the coming week. Some reports had indicated 28 November as the date. Of note, the Meeting of JGB Investors and the Meeting of JGB Market Special Participants (primary dealers) are slated for 27 November. Perhaps the JGB issuance plan will likely be finalized before formally soliciting opinions from investors and primary dealers. When taking that into consideration, the calendar-based market issuance amount is likely to remain unchanged or see only minimal adjustments.

Even when looking at past cases, changes to the calendar-based market issuance of JGBs in the supplementary budget are minimal. Substantial changes are often implemented in the initial budget for the following fiscal year. If government plans to make significant changes, it would be more appropriate to do so after it has a clear view of conditions for the following fiscal year.

Finally, the projected amount of new JGB issuance was revised downward from ¥13.0tn to ¥11.4tn. The scale of the comprehensive package of economic measures was largely as expected. However, as views emerged that corporate profits for FY25 would not decline, the corporate tax outlook was revised upward. The adjustments between fiscal years amount for the JGB issuance plan will require only ¥4.2tn in front-loaded JGB draw downs instead of ¥5.8tn ((b) in ② of Chart 4).

The calendar-based market issuance amount is also expected to remain flat, posing no particular issues. However, the supply/demand balance across maturities may be carefully reassessed based on opinions expressed at the Meeting of JGB Investors and the Meeting of JGB Market Special Participants.

The projected new JGB issuance amount was reduced from ¥35.0tn to ¥34.2tn. This was due to an upward revision for corporate taxes and reductions in the scope of tax reductions (① in Chart

3). The total amount of JGBs issued by legal grounds also decreased from Y182.9tn to Y182.1tn ((c), ② in Chart 3).

As for the JGB issuance plan by financing method (Chart 4), our forecast for the calendar-based market issuance increased from Y172.3tn to Y174.7tn ((c), ① in Chart 4). If the issuance amounts per offering for each maturity and number of issues are unchanged, the amount would be the original Y172.3tn. However, taking into account the worsening supply/demand situation in the super-long zone, we considered Y0.1tn reductions for each 20-year JGB offering and Y0.1tn increases for each issuance of medium/long-term JGBs (2yr, 5yr, 10yr). This would allow the government to reduce issuance of 20-year JGBs, which are facing deteriorating supply/demand conditions. Also, the adjustment amount between fiscal years ((c), ② in Chart 4) would be -Y4.5tn and the Y4.2tn amount drawn down from the FY25 supplementary budget ((b), ② in Chart 4) could be replenished.

Chart 3: JGB Issuance Plan for FY25-26 by Legal Grounds: Actuals and Forecasts (Y tn)

	FY25		FY26			
	Initial (revised)	Total of initial budget and extra budget (forecasts)		Initial (forecasts)		
	(a)	(b)	(b)-(a)	(c)	(c)-(a)	(c)-(b)
Newly-issued bonds	28.6	40.0	11.4	34.2	5.6	-5.8
Reconstruction bonds	0.1	0.1	0.0	0.1	0.0	0.0
GX economy transition bonds	0.7	0.7	0.0	0.7	0.0	0.0
Children special bonds	1.1	1.1	0.0	1.1	0.0	0.0
FILP bonds	10.0	10.0	0.0	10.0	0.0	0.0
Refunding bonds	136.2	135.8	-0.4	135.9	-0.3	0.1
Total	176.9	187.9	11.0	182.1	5.2	-5.8

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

Chart 4: JGB Issuance Plan for FY25-26 by Financing Methods: Actuals and Forecasts (Y tn)

	FY25		FY26			
	Initial (Jun)	Total of initial budget and extra budget (forecasts)		Initial (forecasts)		
	(a)	(b)	(b)-(a)	(c)	(c)-(a)	(c)-(b)
Calendar-based market issuance	171.8	171.8	0.0	174.7	2.9	2.9
Non-price competitive auctions II	6.8	6.8	0.0	6.8	0.0	0.0
Fiscal year adjustment	-6.9	4.2	11.0	-4.5	2.4	-8.7
Subtotal financed in market	171.7	182.8	11.0	177.0	5.3	-5.8
Sales to individual investors	5.1	5.1	0.0	5.1	0.0	0.0
Public sector (BOJ rollovers)	0.0	0.0	0.0	0.0	0.0	0.0
Total	176.9	187.9	11.0	182.1	5.2	-5.8

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

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