

Economic Research View

Japan: Kishida Cabinet Reshuffle and Its Impact on BOJ Policy

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On September 13, Prime Minister Fumio Kishida announced the new members of his Cabinet following a reshuffle. Economic policy is unlikely to change, with most of the economic ministers and the LDP policy chief retaining their posts. The Deputy Chief Cabinet Secretary will be replaced by Hideki Murai, a Special Advisor to the Prime Minister, from Seiji Kihara who has been a key figure in policymaking. The question is whether this reshuffle will boost the Cabinet's approval rating. If not, Kishida may postpone the dissolution of the Diet's lower house and the subsequent snap election until after the September 2024 LDP presidential election, which could have a major impact on the timing of BOJ policy decisions.

Reshuffle of Kishida Cabinet

- The lineup of Prime Minister Fumio Kishida's reshuffled Cabinet was announced on September 13. Of the 19 new Cabinet members, there are a record 5 female ministers and 11 first-time appointees. Finance Minister Shunichi Suzuki and Economy, Trade and Industry Minister Yasutoshi Nishimura will remain in office, while Yoshitaka Shindo (Acting Chairperson of the LDP Policy Research Council) will be replaced by Shigeyuki Goto as Minister in charge of Economic Revitalization. Since Toshimitsu Motegi, Secretary-General of the LDP, and Koichi Hagiuda, Chairperson of LDP Policy Research Council, will remain in office, no change in economic policy is expected. On the other hand, Deputy Chief Cabinet Secretary Seiji Kihara, who is believed to have formed the main pillar of the Kishida administration's policy, has retired, and his role has been succeeded by Hideki Murai, a Special Advisor to the Prime Minister. Kihara is reportedly set to be appointed as both the LDP's Acting Secretary-General and Acting Chairperson of the Policy Research Council, implying that he will act as a liaison between the LDP and Prime Minister Kishida and will also be in charge of LDP policy planning. "Mr. Kihara was a senior in the Ministry of Finance that inspired me to apply to the Ministry when I was in college, and he was also a senior in the world of politics who I always consulted when I set out to become a politician ..." Murai wrote on his blog.
- The appointment of Ms. Yoko Kamikawa is the centerpiece of the Cabinet reshuffle. Ms. Kamikawa, who has served as Minister of Justice three times, becomes the first female Minister of Foreign Affairs since the Koizumi administration. Also notable is the appointment of Hideki Murai, Special Advisor to the Prime Minister as the Deputy Chief Cabinet Secretary, taking on from Seiji Kihara. The Kishida Administration, which holds the G7 presidency this year and is considered skilled with diplomacy, may have hoped for a boost in its approval rating by having a female minister in an important cabinet position with high exposure. The foreign ministers of France, Canada and Germany in the G7 are women. According to a published profile, Kamikawa, who is strongly associated with her former role

as Minister of Justice, completed a master's degree in political administration at the JF Kennedy School of Government at Harvard University and served as a policymaking staff member for a U.S. senator, according to media sources.

- Though support for the Cabinet had been on a downward trend, it is showing signs of a turn toward recovery. In September, an NHK poll showed the approval rating rose slightly to 36% from 33%. A strategy for the dissolution of the lower house will be devised after the Administration can judge how the Cabinet reshuffle and the appointment of party officials has affected approval ratings. The term of office of lower house members expires in October 2025, but the LDP presidential election is scheduled for September 2024. If Kishida seeks re-election as LDP president, he might time the dissolution of the lower house so that LDP victories in the snap general election help secure his position as LDP president. Alternatively, he may consider aligning the timing with the special election to fill vacant Diet seats planned for October 22. In fact, dissolution of the lower house has often been timed to coincide with the extraordinary Diet session in autumn in recent years. If the Administration's approval rating is slow to recover and the dissolution doesn't happen within 2023, the end of the regular Diet session around June 2024 could be the next opportunity. On the other hand, if a strong rival to Kishida does not emerge, we can envision a scenario in which he will accelerate policy discussions within the LDP as part of the September 2024 presidential election, increase his media exposure, and then dissolve the lower house after winning the election.
- This fluid political schedule will influence the Bank of Japan's (BOJ's) monetary policy decisions. Given its moves from June to July 2023, it seems that the BOJ has taken political considerations into account. If the BOJ assumes that politicians would not welcome any changes that could be interpreted as an "abolishment of Abenomics", as such changes would harm Kishida's support from the Abe faction in the presidential election, it is difficult for the bank to enact any major shifts in the policy framework, such as the elimination of the YCC and negative interest rates, ahead of the presidential election and the snap general election. If the snap general election is completed before the September 2024 LDP presidential election, the BOJ will be able to move more easily in October 2024 and thereafter. However, it will be more difficult to do so if the snap election is to be held after the presidential election. It is also possible that the BOJ will seek to take action in January or April 2024 in order to minimize the impact of the busy political schedule. The introduction of flexibility of the YCC in July 2023 may have been fortunate timing given the coming elections and the growing uncertainty in overseas economies.
- Based on the above, we confirm the schedule for each BOJ Monetary Policy Meeting in 2024.
 - Although BOJ Governor Kazuo Ueda said there is a "not zero" chance that they will recognize a virtuous cycle of wages and prices within 2023, it will take a considerable upswing in the economy, prices and wages spanning several months for the Bank to acknowledge a virtuous cycle in January 2024 and change the policy framework. There is also the question of whether, if the policy framework is to be changed, some kind of review should be made. Although the "Review from a Broad Perspective" is not supposed to be directly linked to short-term policy changes, it would be easier to explain changes in policy framework by linking them to the Review's results. The final results of the Review will probably not be available in April as the second workshop with experts is scheduled to be held around May 2024, but there is a possibility that the date will be moved up.
 - If the BOJ misses the April 2024 timing for implementation, the policy meetings in July and September could be influenced by the LDP presidential election. The October policy meeting could be an opportune time if the snap election is completed prior to the September 2024 LDP presidential election. If the final results of the Review are postponed until October 2024, policy changes could be taken at the same time as their publication. But there are risks in October, such as the risk of the financial market instability ahead of the U.S. presidential election on November 5. If BOJ were to wait this long, it may instead choose to wait another month and a half and decide

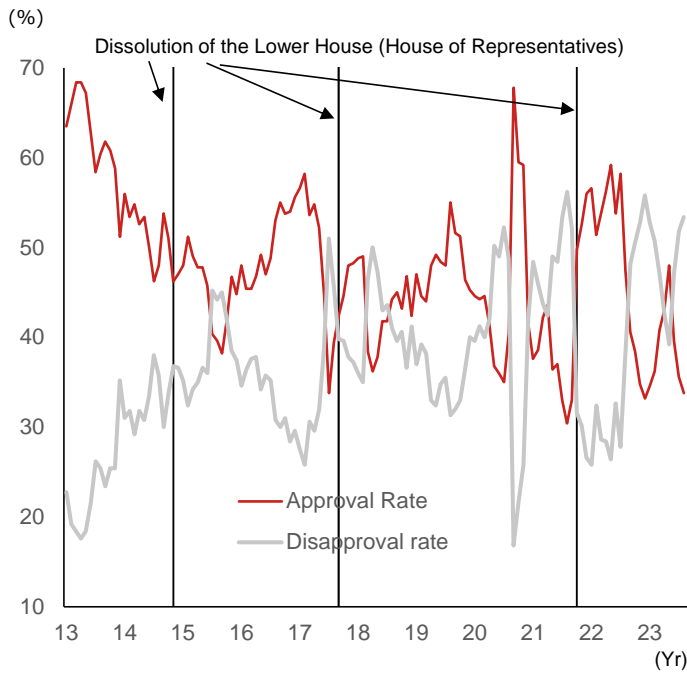
at the December policy meeting. BOJ might feel more comfortable explaining that its decisions incorporate the analysis of the Review.

Figure 1. Bank of Japan Monetary Policy Meeting Schedule

| | Bank of Japan | | | | Political Schedule | Spring Labor Negotiation | U.S. and European Monetary Policy Forecasts | |
|--------|-------------------------|----------------|--------------------|--|--|--|--|-----------------|
| | Monetary Policy Meeting | Outlook Report | Bond Market Survey | Review of Monetary Policy from a Broad Perspective | | | FED | ECB |
| Jan-24 | 22-23 | ✓ | | | Convention of the regular Diet session | | The U.S. and European economies expected to mark negative or zero growth | |
| Feb-24 | | | | | Dissolution during the ordinary Diet session? (1990) | | | |
| Mar-24 | 18-19 | | ✓ | | End of month: Initial budget and tax reform bills | Early: summation of the demands of the spring labor negotiations Mid: First summary of responses | | |
| Apr-24 | 25-26 | ✓ | | April - October: Final results of the Review | | | | |
| May-24 | | | | | | | | |
| Jun-24 | 13-14 | | ✓ | | In the mid-month: The Basic Policy on Economic and Fiscal Management and Reform approved by the Cabinet. | | | |
| Jul-24 | 30-31 | ✓ | | | Dissolution at the end of the regular Diet session? (1993, 2005, 2009, etc.) | Early: Summary of the final responses to the spring labor negotiations Late to early August: Report by the Central Minimum Wage Council on the revision of the minimum wage | 25 bps rate cut | 50 bps rate cut |
| Aug-24 | | | | | | | | |
| Sep-24 | 19-20 | | ✓ | | September: Term of office of LDP President Kishida expires | | 25 bps rate cut | 50 bps rate cut |
| Oct-24 | 30-31 | ✓ | | | Dissolution at the extraordinary Diet session in autumn? (1996, 2003, 2012, 2014, 2017, 2021, etc.) | | 25 bps rate cut | 25 bps rate cut |
| Nov-24 | | | | | 5: US presidential election | | | |
| Dec-24 | 18-19 | | ✓ | | | | 25 bps rate cut | |

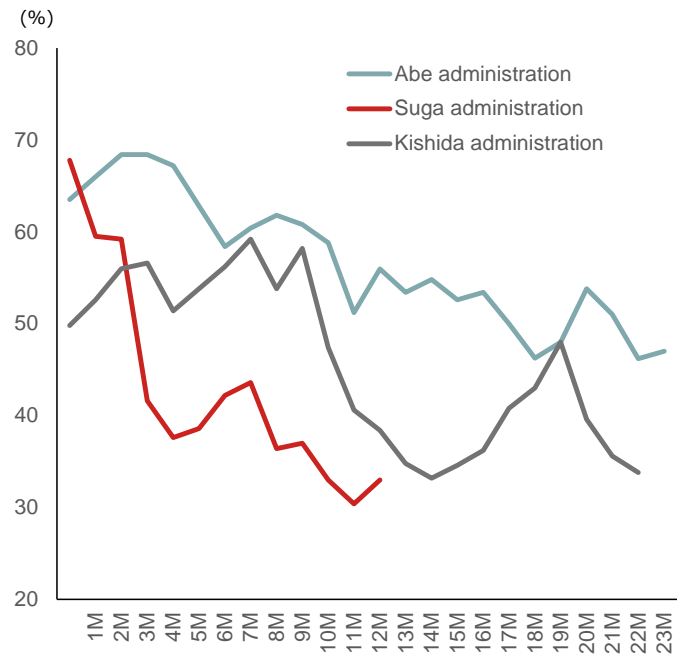
Note: The BOJ Outlook Report will be released in its entirety on the following business day, with the basic views released after the decision meeting. The bond market survey is released in February, May, August and November on the first business day of the following month. U.S. and European monetary policy forecasts are based on company's forecast. Source: Nomura Asset Management based on various reports by the Bank of Japan, the United Nations and Reuters

Figure 2. Approval Rating of Abe and Kishida



Note: The Abe administration was in power until August 2020, the Suga administration from September to September 2021, and the Kishida administration thereafter. Average of the Nikkei TV East, Asahi, Yomiuri, Mainichi and NHK surveys. Source: Nomura Asset Management based on Real Politics Japan data

Figure 3. Changes in Cabinet approval ratings in the first two years of the administration



Note: Average of the Nikkei TV East, Asahi, Yomiuri, Mainichi and NHK surveys. Source: Nomura Asset Management based on Real Politics Japan data

*This commentary is based on personal views of the author and does not necessarily represent Nomura Asset Management house view.

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