

Economic Research View:

Sanae Takaichi Appointed as a New Liberal Democratic Party Leader

Nomura Asset Management Co., Ltd. Published October 6, 2025

Rumi Kurumizawa, Chief Economist

Sanae Takaichi won the Liberal Democratic Party (LDP) leadership election held on October 4. Immediate measures to address rising prices are likely to focus on expanding priority support grants for local governments and abolishing the provisional taxes on gasoline and diesel. Although she has not ruled out cutting the consumption tax, her rhetoric on the issue has softened considerably. By contrast, she has taken a more proactive stance toward raising the threshold of the “income wall” or the annual income threshold for income taxation. Strengthening defense has been a long-standing position for her, and an increase in defense spending is possible. In the stock market, proactive fiscal policy could be viewed positively, but the bond market is likely to remain cautious of fiscal deterioration. Although she has refrained from the more extreme statements heard last year, and even with the idea of a “high-pressure economy” in mind, she still appears reluctant to push the Bank of Japan to raise rates. Her stance is therefore expected to lead to a weaker yen and higher long-term interest rates.

Figure 1. Result of the 2025 LDP Leadership Election (First Ballot)

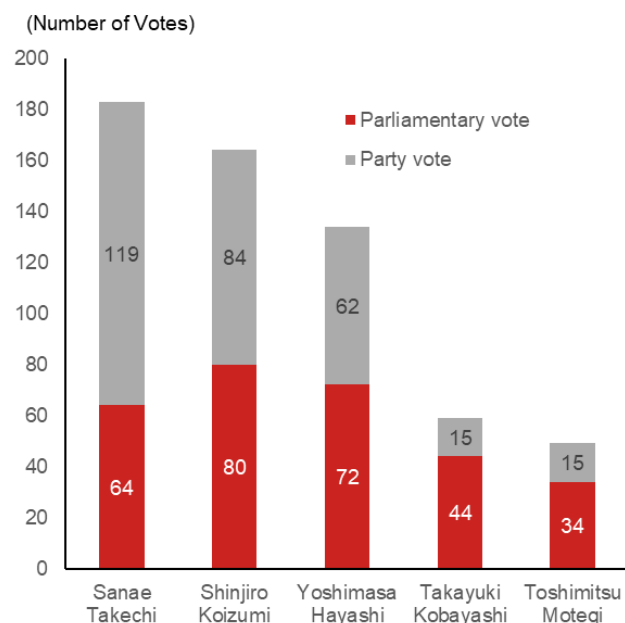
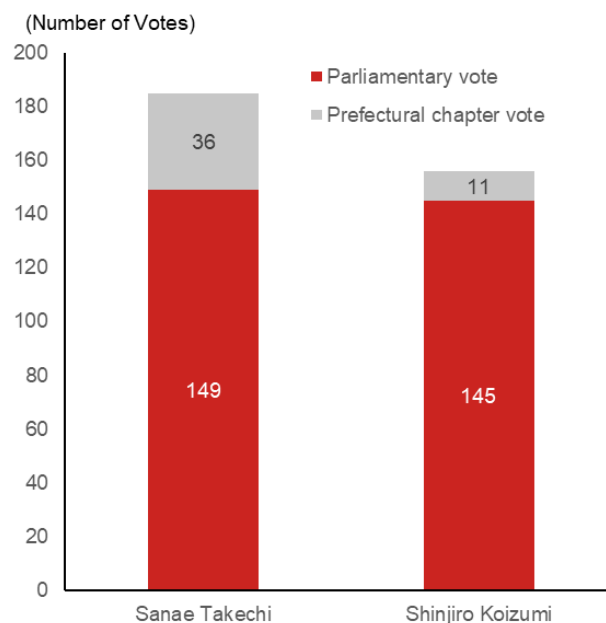


Figure 2. Result of the 2025 LDP Leadership Election (Runoff Ballot)



The new LDP leader, Sanae Takaichi, focuses on (1) expanding grants for local governments and (2) abolishing the provisional gas and diesel fuel taxes, and appears to be cautious about additional rate hikes by the Bank of Japan.

Takaichi wins LDP leadership race: On October 4, former minister in charge of economic security Sanae Takaichi won the LDP leadership election. In the initial ballot she secured more than 40% of the rank-and-file members' votes but placed third in the MPs' vote behind Agriculture Minister Shinjiro Koizumi and Chief Cabinet Secretary Yoshimasa Hayashi. In the runoff against Minister Koizumi, however, she outpolled him among lawmakers. According to some reports, former Prime Minister Taro Aso asked factional members to vote for former economic security minister Takayuki Kobayashi and former secretary-general Toshimitsu Motegi in the first ballot and to support Takaichi in the runoff. In the runoff, Kobayashi's and Motegi's camps reportedly backed Takaichi, while most of Hayashi's camp supported Koizumi. As a result, Aso is credited as a key figure behind Takaichi's victory, and there is speculation that LDP personnel appointments may elevate Aso's factional ally—his brother-in-law, Shunichi Suzuki, currently the Chairperson of the LDP's General Council—to the post of secretary-general.

Measures against inflation: In her inaugural press conference as party leader, Takaichi named support for small and micro businesses that are running losses and therefore cannot utilize wage-increase tax incentives, as well as support for the agriculture, forestry and fisheries sector, as urgent measures to deal with rising prices. She said she would expand priority support grants for local governments so they can provide subsidies tailored to the circumstances of each region. Regarding hospitals, nursing homes and similar facilities, she hinted at raising medical and long-term care fees but expressed willingness to provide support through a supplementary budget first. She has advocated abolishing the provisional tax rates on gasoline and diesel fuel; however, she noted that she alone raised the issue of the diesel tax during the leadership contest and said she will consider whether both taxes can be addressed. Even if a law is passed in the extraordinary Diet session, she said that until it takes effect, she will distribute ¥800 billion from the fund's balance as subsidies. As for funding, she asked that the party's Policy Research Council examine options taking into account higher-than-expected tax revenues and the current fund balance. On cutting the consumption tax, she said she would not rule it out as an option, but argued it lacks immediacy and responsiveness, so the price-stabilization measures described above would take priority.

Underlying "high-pressure economy": During last year's leadership race, Takaichi warned against the BOJ rate hikes, saying "I think it would be silly to raise rates now," but facing growing public dissatisfaction with rising prices she appears to have somewhat adjusted her stance. Nevertheless, remarks at her inaugural press conference and on recent YouTube appearances indicate that a "high-pressure economy" remains at the core of her thinking. She said, "Now is the time to hang tough and fully break free from deflationary mindsets," and she is seen as cautious about prompting the BOJ to raise rates quickly.

- At her inaugural press conference, she said: At her inaugural press conference, she said: "By IMF standards this is already inflation and not deflation, but Japan's economy is still hanging by a thread. Companies and related businesses will likely start feeling the impact of Trump tariffs, and sudden disasters could occur. In such circumstances, it would be premature to take comfort in saying we are no longer in deflation simply because cost-push inflation is occurring. Rather, I see as best a demand-pull inflation in which wage rises lead to greater demand, prices of goods rise modestly, and companies make profits. Until that situation is achieved, we must maintain close communication with the BOJ."
- In a YouTube program recorded on September 21, she sat with Etsuro Honda (former Cabinet Office policy advisor and former ambassador to Switzerland) to explain "why a high-pressure economy now?" She described it as a policy that aims for demand in the economy to slightly exceed supply; if that condition persists for a certain period of time, corporate

behavior will change. Honda clarified: “If firms can be confident that what they make will sell, they have a stronger incentive to expand supply. Productivity will rise, and strengthening demand will, through that pressure, expand supply — a balanced expansion of supply and demand is what a high-pressure economy achieves.”

- Honda also commented: “BOJ Governor Kazuo Ueda has a good sense of balance. He would like to bring up the policy rate to around 1 percent, but he refrained from raising rates [at the September 18–19 Monetary Policy Meeting].” Considering GDP and the economy, deciding not to act now was a good judgment. What I asked Prime Minister Abe was to hold regular informal meetings with the BOJ governor, to send a message that the government and the BOJ are in dialogue. I don’t know whether then Prime Minister Kishida or current Prime Minister Ishiba did that. You must not make it look like pressure, but it is important to show a cooperative stance.” This echoes Takaichi’s call for “close communication with the BOJ,” and Honda and former Deputy Governor Masazumi Wakatabe are likely to exert significant influence on her monetary policy views.

Fiscal expansion: Among the five leadership candidates, Takaichi was the only one to explicitly say that financing through issuing deficit-financing government bonds could be a possibility. She appears most inclined toward fiscal expansion but compared with when she previously expressed support for cutting the consumption tax, her tone has softened: she has downplayed an immediate consumption-tax cut and said that proposals such as refundable tax credits would take several years to implement. As a result, the risk of a sharp short-term rise in the fiscal deficit appears to have eased somewhat. However, with the ruling coalition holding only a slim majority, the government would likely need cooperation from some opposition parties to pass a supplementary budget. Takaichi has also pledged to strengthen defense, and fellow conservative Takayuki Kobayashi has mentioned raising defense spending. Taking these factors into account, aggressive fiscal policy could be viewed positively by the stock market, while concerns about fiscal deterioration are likely to persist in the bond market.

- In an April interview, Takaichi mentioned a time-limited proposal to set the reduced-rate portion of the consumption tax to zero. During the leadership contest, however, although she had raised the idea with the party’s tax commission, she failed to win support. She suggested that building consensus within the party would be difficult and that register (POS) system adjustments would take time, so it is not an immediate focus. Taro Aso, a key backer of Takaichi’s rise, has been critical of cutting the consumption tax, saying, for example, “It is true that prices have been rising sharply, but there are no cases where cutting the consumption tax under inflation has increased consumption,” and “Once you cut it, you will eventually have to raise it again—when would you do that?” Taken together, these remarks suggest a consumption-tax cut is now unlikely.
- By contrast, Takaichi supports raising the income threshold (i.e., increasing the basic personal exemption) and has said it is “something that must be done quickly.” The Democratic Party for the People estimates that raising the combined basic and employment income deductions from the current ¥1.03 million to ¥1.78 million would reduce national and local tax revenues by approximately ¥7.6 trillion.

- Regarding the immediate target of abolishing the provisional tax rates on gasoline and diesel, estimates indicate an annual revenue loss of approximately ¥1 trillion if only the provisional rate on gasoline is abolished, and approximately ¥1.5 trillion if the provisional rate on diesel is also removed.

The commentary is based on personal views and does not necessarily reflect the house view.

Disclaimer

This report was prepared by Nomura Asset Management Co., Ltd. for information purposes only. Although this report is based upon sources we believe to be reliable, we do not guarantee its accuracy or completeness. Unless otherwise stated, all statements, figures, graphs and other information included in this report are as of the date of this report and are subject to change without notice. The contents of this report are not intended in any way to indicate or guarantee future investment results. Further, this report is not intended as a solicitation or recommendation with respect to the purchase or sale of any particular investment. This report may not be copied, re-distributed or reproduced in whole or in part without the prior written approval of Nomura Asset Management Co., Ltd. Registration Number: Director-General of the Kanto Local Financial Bureau No.373 Membership: The Investment Trusts Association, Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association.