

Economic Research View:

Election of Sanae Takaichi as the 104th Prime Minister of Japan and Its Impact on Economic and Monetary Policy Outlook

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In the election for prime minister on October 21, LDP president Sanae Takaichi won and the Takaichi Cabinet was inaugurated. There are three points that would affect the development and implementation of policy.

- Although the Takaichi administration currently leads a minority government, if the coalition partners remain united it would effectively hold a majority in the House of Representatives. Attention should be paid, however, to the risk of a short-term breakdown of the coalition, since differences of opinion among the partners are significant.
- The agreement between the Liberal Democratic Party (LDP) and the Nippon Ishin (Japan Innovation Party, "Ishin") makes the Takaichi administration's policy direction more predictable. Immediate measures to address rising prices are unlikely to cause major upheaval. However, the extraordinary Diet session may be contentious over plans to reduce the number of Diet seats, and the regular session could see heated debate over the "vice-capital" proposal (a plan to develop a secondary administrative center) both within the ruling parties and between the government and the opposition.
- Prime Minister Takaichi's aggressive economic stance — combining expansionary fiscal policy with monetary easing — may be less forceful than previously assumed. That said, this does not imply support for early rate hikes. We view that rate increases will be implemented at roughly a biannual pace starting in 2026.

Result of the prime minister designation vote: elected on the first ballot in the House of Representatives.

With 465 seats in the House of Representatives, a majority requires 233 seats. Takaichi won a majority with 237 votes. In addition to the Liberal Democratic Party (LDP) (196) and its coalition partner Nippon Ishin (Japan Innovation Party, Ishin) (35), members of Kaikaku no Kai (three former Ishin members) and two independents, including the chairperson, voted for Takaichi.

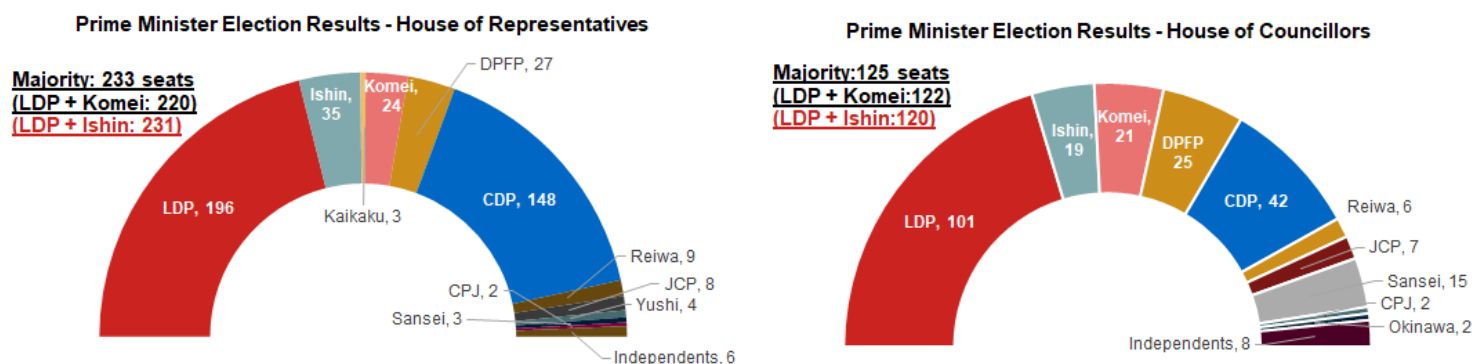
In the House of Councillors, which has 248 seats, 246 members voted and the majority threshold was 124. Takaichi received 123 votes from the LDP, Ishin, and independents, falling one vote short of a majority and ultimately winning in the runoff.

The main point to note is the distribution of seats in the House of Representatives and the voting behavior in this election. The LDP–Komeito coalition held only 220 seats, so they would need to reach agreement with a party holding more than 13 seats to secure a majority. The LDP and Ishin together held 231 seats, and with the chairperson's vote included they were effectively one vote short of a majority. This time, three of the seven members of Yushi Kaikaku no Kai broke ranks and voted for Takaichi in the first round. Although they were previously expelled from Ishin, they may vote more like members of the ruling parties in the future.

The ruling parties remain in the minority in both houses of the Diet. Some observers argue that the coalition is less cohesive than the LDP–Komeito partnership because Ishin did not appoint any ministers and there is no agreement on electoral cooperation. However, as long as the LDP and Ishin maintain their cooperation, the House of Representatives is effectively within one vote of a majority, and the situation may be considered more stable than it was under the Ishiba administration.

The House of Representatives holds the upper hand on issues such as no-confidence motions against the cabinet, the budget, and treaty approvals. Consequently, the likelihood that the budget will fail or that a successful no-confidence vote will be carried is likely to diminish for the time being.

Figure 1. Prime Minister Election Results at Diet



Source: House of Representatives and House of Councillors HP sites: https://www.shugiin.go.jp/internet/itdb_english.nsf/html/statics/english/strength.htm, <https://www.sangiin.go.jp/japanese/joho1/kousei/eng/members/index.htm#a10>

LDP: Liberal Democratic Party, DPFP: Democratic Party for the People, CDP: Constitutional Democratic Party, CPJ: Conservative Party of Japan, JCP: Japan Communist Party

Coalition government's policy schedule: Extraordinary Diet starting in October 2025 to focus on measures against high prices and reducing the number of House of Representatives seats

Figure 2. Political Schedule of Takaichi Administration

	2025				2026												2027									No specified time limit								
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.	Aug.	Sep.										
Regime	• Became LDP President Takaichi (Oct 4) • Komeito Breaks Out of the Coalition (Oct 10) • Formed coalition with Ishin no Kai (Japan Innvation Party) (Oct 21) • Takechi adminisration starts (Oct 22)																• Takaichi expiration of term for LDP Presidency																	
Diet	2025 Extraordinary Diet Session (October 21 to December 17)				2026: Ordinary Diet Session (Jan-Jun, 150 days * possible extension)												Possible 2026 Extraordinary Diet Session		2027: Ordinary session (Jan-Jun, possible 150 day extension)															
Economic and Fiscal Policies	• Abolition of Provisional Gasoline Tax Rate (Extraordinary Diet Session) • Measures against high prices, including subsidies for electricity and gas rates (extraordinary Diet session) • System design for revision of basic income tax deduction, etc. (by the end of the year)																• Tax credits with benefitts (to be designed as soon as possible) • Establishment of the Government Efficiency Bureau (tentative name) for general review of special tax measures and large subsidies • Consideration of legislation with a view to reducing the consumption tax on food and drink (for two years) • Do not provide cash transfers																	
Social Security	• Concrete system design for the medical system reform described in the three-party agreement, etc. (within the fiscal year) • Agreement (within the fiscal year) on performance burden, revision of the definition of the elderly, revision of the Type 3 insured person system, etc.												• Concrete system design for the latter stage and implementation (within the fiscal year)								• Implementation of measures to improve the management of hospitals and nursing care facilities in light of the severe business conditions caused by rising prices													
Governance Structure Reform	• Extraordinary Diet Session Establishes a Consultative Body of the Parties on the Vice-Capital Plan				• Legislation on the secondary capital plan passed (ordinary Diet session)																													
Political Reform	• Extraordinary Diet Session establishes Consultative Body on Political Party Fundraising • A bill to reduce the number of members of the House of Representatives by 10% (extraordinary Diet session)																Conclusions on Corporate Group Donations (during the term of President Takaichi)									• Consideration of the Political Parties Law								
Other	• Article 9 of the Constitution is revised, and a council for drafting articles is established (extraordinary Diet session). • Establishment of a council to draft emergency provisions (extraordinary Diet session) • Population Decline Countermeasures Headquarters (tentative name) established in the government (extraordinary Diet session) • Start of studies on legislation related to the prevention of intelligence and espionage (by the end of the year)				• Revision of the Imperial House Law (Ordinary Diet Session) • Legislation Bill for Use of Maiden Names by Common Name (Ordinary Diet Session) • Implementation of measures to regulate mega-solar power (ordinary Diet session) • Establishment of the Committee on Foreign Investment in Japan (Japanese version of CFIUS) (Ordinary Diet Session) • Bill on Strengthening Regulations on Land Acquisition by Foreigners and Foreign Capital (Ordinary Diet Session)																				• Design of systems that need to be developed to propose constitutional amendments									
													• Submission of draft emergency provisions to the Diet (within the fiscal year) • Formulation of a "Population Strategy" (within the fiscal year) that specifies numerical targets and basic policies for accepting foreign nationals																					
																									• Foreign Intelligence Agency (tentative name) established (end of fiscal year) • Establishment of training institute for intelligence personnel (end of fiscal year)									

In summary, the coalition agreement makes the new government largely predictable. Near-term economic measures are already underway and are unlikely to cause major disruption. During the extraordinary Diet session, the number of Diet seats will be reduced, and in next year's ordinary session, disagreements are expected over the vice-capital plan and policies on foreign investment in Japan. Regarding an upside risk, the new administration could become more stable by deepening cooperation with the Democratic Party for the People—for example, by raising the income tax exemption threshold. Conversely, downside risk could be internal disagreements within the coalition that would drive the two parties apart or a party could leave the coalition at an early stage, which would require attention.

Following are the main themes in the schedule:

LDP presidential election;

In October 2025, events unfolded rapidly. On October 4, Ms. Takaichi assumed the presidency of the Liberal Democratic Party; on October 10, Komeito withdrew from the coalition; on October 21, a coalition agreement with Nippon Ishin / Japan Innovation Party (JIP) was reached; and on October 22 the Takaichi administration was inaugurated. At the time of Komeito's withdrawal, a scenario in which a coalition of major opposition parties might seek to replace the government became realistic, and political uncertainty increased substantially. To establish a stable government, however, Takaichi moved quickly to accelerate coalition negotiations with Ishin. Previously, the main scenario had been for then–Minister of Agriculture, Forestry and Fisheries Shinjiro Koizumi (now Minister of Defense) to become LDP president and deepen cooperation with Ishin, so there appeared to be a basis for collaboration between the two parties. Following LDP–Ishin negotiations, a policy agreement was announced, clarifying the Takaichi administration's schedule. The administration's actions are therefore largely predictable.

Extraordinary session of the Diet starting on October 22

The 2025 extraordinary session of the Diet was convened on October 21 and is expected to continue until mid-December. In this session the focus will be on economic and fiscal policy, measures to counter high prices—such as abolishing the provisional gasoline tax rate and providing subsidies for electricity and gas—and the submission of legislative proposals to reduce the number of House of Representatives members by 10% as part of political reform.

The December Research Commission on the Tax System is expected to focus on redesigning the basic deduction for income tax and reviewing the ¥1.03 million exemption threshold in line with inflation. Because economic and fiscal policy is included in the coalition agreement between the LDP and Ishin, major opposition criticism is unlikely. The LDP, Komeito, and the Democratic Party for the People (DPFP) have also agreed to raise the annual income tax exemption threshold.

By contrast, reducing the number of Diet members will not be easy. First, the coalition parties must reach agreement on the details. Even if a majority in the House of Representatives approves the proposal, it will still require support in the House of Councillors. Therefore, while economic measures currently under consideration are likely to be approved relatively easily during the extraordinary session, the debate over reducing the number of Diet members is expected to attract attention and could provoke conflict within the ruling parties and between the ruling and opposition camps.

2026 ordinary session of the Diet

The 2026 ordinary session of the Diet will be convened in January. Regarding social security (the fourth item in the top row of Figure 2), a system design and future policy for reform intended to reduce the burden on the working generation are expected to be announced by March. After that, the reforms will be implemented in stages.

Regarding governance structure reform (the fifth item in Figure 2), this ordinary session of the Diet aims to pass a bill related to the "vice-capital" concept. Osaka is envisaged as a secondary capital; the aim is to develop a strong economic zone outside Tokyo and to establish a backup system for crisis management. Osaka Prefecture's documents set the target for the 2050s, making this a long-term plan. The government will promote systems supporting Osaka's efforts to become a vice-capital and will push for related legislation. This will require deregulation, transfers of authority, and reallocations of fiscal resources. I expect the government will need to provide financial support, including funds for infrastructure and the economic stimulus that may result from formally designating a secondary capital. Given the LDP's recent history, this aligns with former Prime Minister Ishiba's regional revitalization agenda and Prime Minister Takaichi's crisis-management investment policies, so close attention should be paid to future discussions.

Also listed at the bottom are the establishment of the Committee on Foreign Investment in Japan (a Japanese counterpart to CFIUS) and bills to tighten restrictions on land acquisitions by foreign individuals and entities. A key concern is whether these measures will be implemented in a way that deters foreign investment.

There is some uncertainty about a consumption tax cut for food and beverages. The agreement states: "Consider enacting legislation to exempt food and beverages from consumption tax for a period of two years." This phrasing is difficult to interpret. Because no deadline has been set, it is unlikely that the Research Commission on the Tax System (the Commission) will make a decision this year. If so, the Commission would be held no earlier than December 2026, and the tax cut would not take effect until mid-2027, effectively putting the measure on hold. (The table excludes items that were not given deadlines in the agreement.)

So far, almost all opposition parties have advocated cutting the consumption tax as a measure against high prices. Before the leadership election, Ms. Takaichi expressed sympathy for cutting the consumption tax but said it would take time and would not have an immediate effect, given intra-party discussions and the practical arrangements required before implementation. At the leadership election, Mr. Takayuki Kobayashi, chair of the LDP's Policy Research Council, said he was not opposed to cutting the consumption tax, but viewed it not as a short-term anti-inflation measure but rather as a fiscal stimulus to be used if economic uncertainty rises substantially in the future.

Mr. Fumitake Fujita, co-chair of Ishin, said on the party's YouTube program that he strongly supported keeping the consumption-tax language in the agreement. However, given the circumstances described above, the government is likely to limit itself to examining how to design a system that would make future changes to the consumption tax easier.

Economic policy of the Takaichi administration 1

– Fiscal Policy: Distancing itself from “irresponsible expansionary fiscal policy”?

Regarding fiscal policy, it may not be as expansionary as Ms. Takaichi's perceived stance. Then-Supreme Advisor and former Prime Minister Taro Aso (now Vice President of the LDP) played a major role in Ms. Takaichi's victory in the LDP presidential contest, and former Minister of Finance Shunichi Suzuki has become LDP Secretary-General, raising hopes that Aso will check one-directional fiscal expansion.

What effect will Ishin's participation have? Clues can be found in the preamble to the coalition agreement. The agreement states that "the two parties share the view that economic growth improves people's lives." Ishin's position—summarized in green on the right—is to pursue thorough expenditure reform by pruning bloated and inefficient spending. Ishin takes particular pride in Osaka's fiscal improvement achieved through expenditure reform.

The figure on the right shows the future fiscal-burden ratio for Osaka Prefecture and other prefectures with similar economic sizes. Simply put, the future fiscal-burden ratio indicates how much future repayment obligations can be covered by current income; a lower ratio denotes a healthier fiscal position. The gray line shows the overall average, and the red line represents Osaka Prefecture, which appears to be improving faster than the average.

In response to Ishin's stance, Satsuki Katayama, as Minister of Finance, has been assigned responsibility for reviewing special tax measures and subsidies, in addition to overseeing financial services. The agreement also calls for the establishment of a Government Efficiency Bureau (a Japanese counterpart to the so-called "DOGE") to oversee these reviews. The policy aims to implement effective, efficient investments and expenditures while cutting measures that are not cost-effective. Overall, this approach will lead to net fiscal expansion, but at this stage it is likely to avoid triggering a significant rise in bond-market concerns.

Figure 3. Excerpt from coalition agreement between the LDP and Ishin

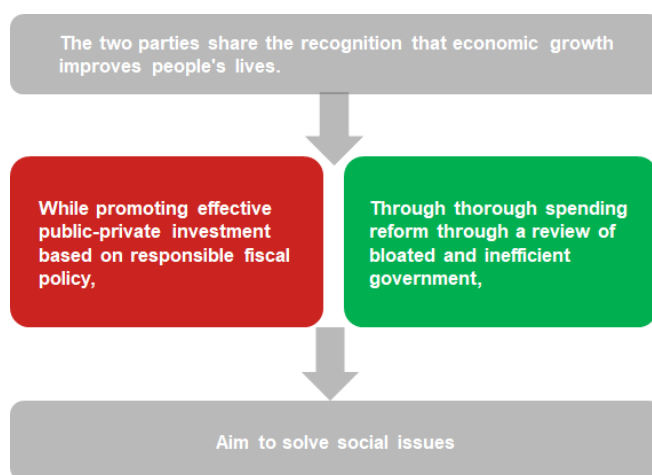
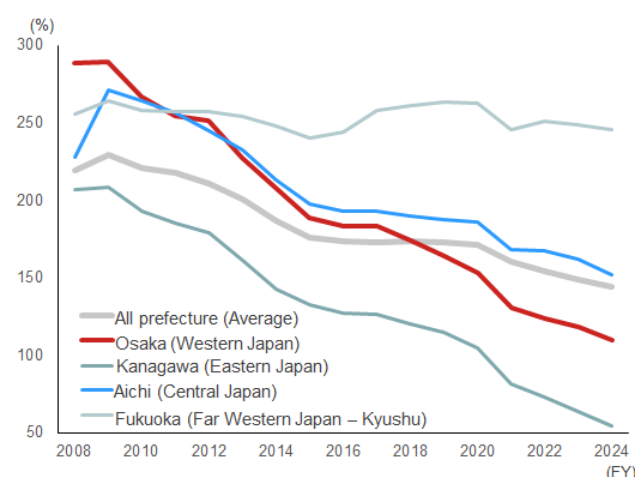


Figure 4. Future Burden Ratio



Note: Future burden ratio is the ratio of actual liabilities to be borne by the general account, etc. to the standard fiscal size. Source: Compiled by Nomura Asset Management based on data from the Japan Restoration Party and the Ministry of Internal Affairs and Communications (<https://www.soumu.go.jp/>)

Economic policy of the Takaichi administration 2

– Monetary Policy: Relatively cautious about interest rate hikes?

Based on the comments made so far, the BOJ is expected to be relatively more cautious about raising rates than it would have been if the Ishiba administration had remained in power. Rather than emphasizing the BOJ's independence and avoiding intervention, the new government would likely seek closer cooperation with the BOJ and deepen its involvement.

Below are the comments from Prime Minister Takaichi, former special advisor to the Cabinet Etsuro Honda, former BOJ deputy governor Masazumi Wakatabe, and other leading economic policy figures.

In her inaugural press conference as prime minister, Takaichi said, "The Japanese economy is relatively close to the edge, and with cost-push inflation, it is too early to assume that deflation is over." After Takaichi's election win the yen weakened further, and in an interview Honda said he favored raising interest rates within the year. In response, former BOJ Policy Board member Goushi Kataoka —himself once described as a reflationist — reacted on X, writing, "Hasty comments — no evidence for a December rate hike." Honda later posted an explanation. Wakatabe said it would be difficult to raise rates by the end of the year, adding that there would have to be "a very strong reason" to hike in December.

Finance Minister Katayama has not directly discussed monetary policy recently, but after the BOJ decided not to raise rates in May she posted on X: "The governor has assessed the situation objectively, and the decision to hold rates this time is appropriate." In an April 2024 interview about the possibility of an early BOJ rate hike to correct the yen's depreciation, she said it would be better not to rush into further increases, given the need to confirm whether global economic risks subside. Uncertainty remains about the impact of US tariff policy. Applying that reasoning now, it is difficult to say she is in favor of an early rate hike.

Would this change if Ishin joined the government? I think not. When asked about BOJ policy, Ishin co-representative Fumitake Fujita said his views are not very different from Takaichi's. Ishin's latest policy platform adds a focus on maximizing employment and sustaining higher nominal economic growth to the BOJ's goals, signaling a willingness to deepen involvement. Even if Ishin does not overtly intervene with the BOJ, we do not believe that this administration will place a high value on the BOJ's independence.

Ishin's leadership does not appear to have a strong stance on the timing of a short-term rate hike. Ishin leader Hirofumi Yoshimura and co-leader Fujita have rarely commented on the BOJ, monetary policy, or exchange rates; these issues are unlikely to be their primary focus. By contrast, Policy Research Council Chairperson Alex Saito, a former member of the Finance and Monetary Policy Committee, has in the past strongly opposed giveaway-style fiscal policy and monetary easing in an X post. In September he said, "What we are facing now is the return of an era of structural inflation." Whether Saito becomes an active voice on monetary policy could influence the administration's stance. For the time being, however, Ishin is expected to concentrate on submitting legislative proposals to reduce the number of Diet members rather than on monetary policy or the BOJ.

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

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