

## **Economic Research View:**

### **Japan – Takaichi Administration's Policy Updates**

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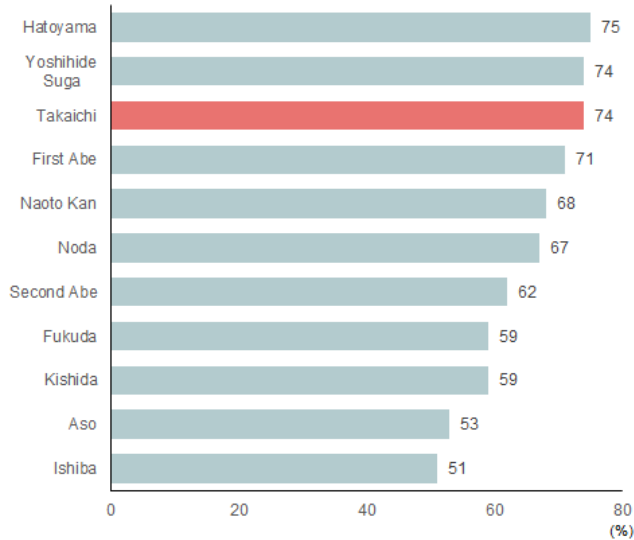
The Takaichi administration started with high cabinet approval ratings, but precisely because of that it is necessary to keep in mind the possibility of an early dissolution and general election. There are also precedents in which administrations that started with high expectations quickly lost support, and there is a risk that differences with the Japan Innovation Party will surface at an early stage.

On policy, there has been progress on measures such as abolishing the temporary gasoline tax, making high school tuition-free, and increasing defense spending. Abolishing the temporary gasoline tax and making high school tuition-free are likely to help push down the 2026 inflation rate and could improve real income conditions. The increase in defense spending is expected to be accompanied by higher imports, which would subtract from GDP, but the net effect is likely to be GDP-positive.

After the Japan-US finance ministers' meeting, Treasury Secretary Scott Bessent expressed a stance encouraging the Bank of Japan to raise rates. Unless fundamentals deteriorate significantly, it will likely be difficult for the Takaichi administration to strongly deter rate hikes.

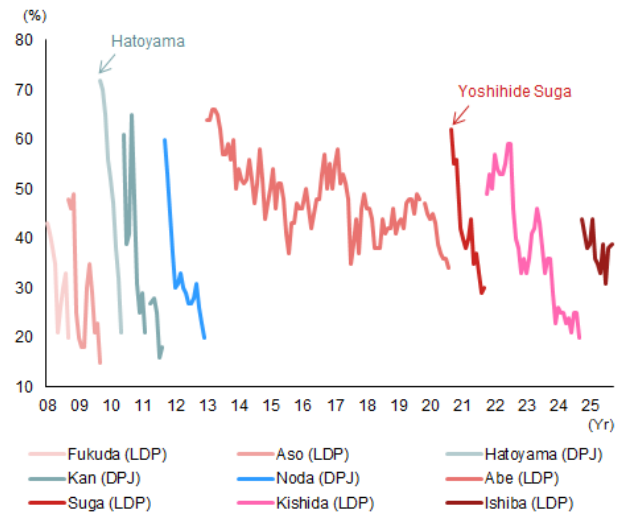
## Update on political developments and progress on the Takaichi administration's policies

Figure 1. Cabinet approval rating at the start of the administration



(Source) Prepared by Nomura Asset Management based on Nikkei Newspaper materials. As of October, 2025.

Figure 2 Trends in cabinet approval ratings



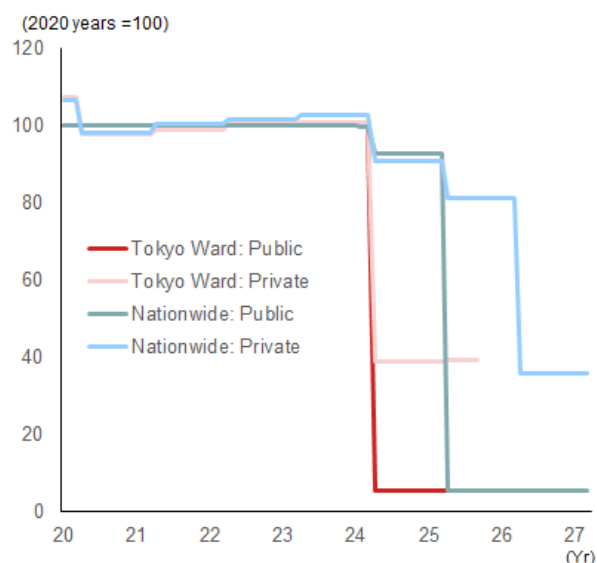
(Source) Prepared by Nomura Asset Management from NHK data. As of October 2025.

Figure 3. Political Schedule

	2025			2026												2027
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Sep
Administration	• Became LDP President Takaichi (10/4) • Komeito breaks out of the Coalition (10/10) • Formed coalition with Nippon Ishin no Kai (Japan Innovation Party) (10/21) • Takechi administration comes to power (10/22)															Takaichi expiration of term as LDP President
Diet	2025 Extraordinary Diet Session (October 21 to December 17)			2026: Ordinary session of the Diet (Jan-Jun, 150 days * possible extension)									Possibility of 2026 Extraordinary Diet Session			
Measures against high prices	• Provisional gasoline tax rate abolished (extraordinary Diet session) ★ 1 trillion yen → to be abolished by the end of the year • Early abolition of diesel delivery tax (?) ★ 500 billion yen • Measures against high prices, including subsidies for electricity and gas (extraordinary Diet session) • Expansion of Priority Support Local Grants for Local Governments (Extraordinary Diet Session) • System design for revision of the basic reduction for income taxthe end of the year) • 1.03 million yen income tax exemption threshold to 1.6 million yen (year-end adjustment) • Funding support for SMEs						Free high school and school lunches (April) ★ 600 billion yen =>LDP-Komeito-Ishin agreement									
Diplomatic Security	Measures to increase defense spending to 2% of GDP ahead of schedule (During FY) 2% of GDP (2022) by FY 2025 ★ Over 1 trillion yen															
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)												

(Source) Prepared by Nomura Asset Management based on materials from the Japan Innovation Party, the Cabinet Public Affairs Office, and various media reports.

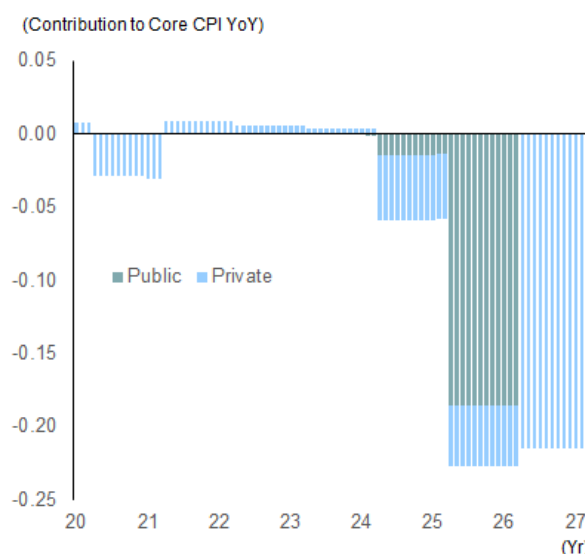
Figure 4. CPI High School Tuition (Level)



(Note) The figures for nationwide calculations after October 2025 are based on Tokyo's wards.

(Source) Prepared by Nomura Asset Management from Statistics the Ministry of Internal Affairs and Communications data

Figure 5. Impact of Free High School Tuition on Inflation



(Note) The figures for nationwide calculations after October 2025 are based on Tokyo's wards.

(Source) Prepared by Nomura Asset Management from Statistics the Ministry of Internal Affairs and Communications data

The Takaichi administration started with high approval ratings: Since the Takaichi administration took office on October 22, public opinion polls have consistently shown high approval ratings. According to a Nikkei survey, these levels are second only to the Hatoyama administration (2009) that took office after the first Abe administration. However, a strong start does not guarantee that approval will be sustained. The Hatoyama administration and the Suga administration both began with high approval but saw ratings drop rapidly thereafter. The notable exception was the second Abe administration, where persistent resistance to the Democratic Party and the presence of a solid core support base may have helped maintain stable approval. For the Takaichi administration, likewise, it will be important to recover and secure a core support base in order to keep approval ratings relatively high.

### Political Focus 1: Snap Election

The House of Representatives term expires on October 26, 2028; the House of Councillors members elected in 2022 have terms expiring on July 25, 2028; and Takaichi's term as LDP president runs until the end of September 2027. Barring major problems, the government is therefore likely to remain in power for roughly two years. That said, an early dissolution remains possible if approval ratings are high and there is a clear political rationale. Even if the ruling parties were to win a snap election, the upper house would remain in a minority position at least until October 2028. There are also risks such as a loss of vote-getting capacity if electoral cooperation with Komeito is dissolved, and the question of whether to coordinate with the Japan Innovation Party in certain districts.

On the other hand, the administration does have several potential justifications for calling a dissolution. For example, it could seek a mandate on planned reductions in Diet seats to be proposed in the current extraordinary Diet session, or on social security reform whose design is expected to advance within the fiscal year. (The proposed concept of a "vice-capital" is another major theme, but it is generally not widely anticipated; given that the Osaka Metropolis plan was twice rejected in referenda and that the initiative originated with the junior coalition partner, it would be difficult to present this as a central justification for dissolution.)

Given these circumstances, the baseline scenario assumes the government will not rush into a dissolution. However, a House of Representatives dissolution could occur in either of the following cases: (1) the ruling coalition enjoys high approval ratings and seeks popular endorsement to build momentum for passing key bills; or (2) conversely, the coalition collapses and the government needs a reset because bills cannot pass, as described in the next section.

### **Political Focus 2: Risk of Early Collapse of the Coalition:**

For example, Prime Minister Takaichi has said she would provide subsidies to small and medium-sized enterprises that cannot raise wages, whereas the Japan Innovation Party (represented by leader Hirofumi Yoshimura and co-leader Fumitake Fujita) opposes even wage-increase tax incentives. Although the parties are aligned on core policies such as diplomacy, security, and energy, there are undeniable fundamental differences in economic policy. The Takaichi administration emphasizes expansionary fiscal policy, while the Innovation Party prioritizes structural reform and deregulation. These approaches are not necessarily incompatible, but it is uncertain how well they can be balanced. In addition, measures that the Innovation Party stresses — such as reducing the number of Diet seats and the “vice-capital” idea — were not priorities for the LDP, so disagreements could become prominent in future debates. Based on the Innovation Party’s statements, they would not necessarily quit the coalition if a bill related to seat reductions fails to be enacted in the current extraordinary Diet session; however, they insist that the ruling parties must submit a legislator-sponsored bill on the matter. If coordination among the ruling parties falters, the risk of the Innovation Party leaving the coalition will increase.

### **Progress toward policy implementation:**

Some policies listed in the coalition agreement between the LDP and the Japan Innovation Party have seen progress.

**(1) Abolition of the temporary gasoline tax:** There were disagreements between the ruling and opposition parties over timing, but six parties from both blocs have reached a broad agreement to abolish the tax within the year. Currently, a flat reduction of ¥10 per liter is in place, but subsidies are expected to be expanded to ¥25 per liter (equivalent to the temporary gasoline tax) and then switched to a tax cut. This would amount to an annual tax reduction on the order of ¥1 trillion.

**(2) Tuition-free high school education:** The LDP, the Japan Innovation Party, and Komeito have agreed to start making high school tuition free from fiscal 2026. The three parties state that securing permanent funding, including through tax measures, is necessary. The estimated budgetary cost is around ¥600 billion.

**(3) Increase in defense spending:** Measures to bring defense spending forward to a 2% of GDP level were announced. In her policy speech, Prime Minister Takaichi mentioned that such measures would be taken within the fiscal year, combined with a supplementary budget. According to Bloomberg, compared with GDP at the time the National Security Strategy was formulated in 2022, defense-related spending in the initial FY2025 budget amounts to ¥9.9 trillion, or about 1.8% of GDP; based on that baseline, more than ¥1 trillion in additional budget measures would be required.

**Impact on the economy and prices:** Regarding the economic and price effects of the policy developments described above, the following points can be noted:

1. The abolition of the temporary gasoline tax and the introduction of tuition-free high school are expected to put downward pressure on the inflation rate, improve real income conditions, and thus support real consumption.
2. The expansion of defense spending will generate value added by funding purchases of defense equipment and research and development, thereby contributing to GDP. However, because some of this spending is likely to increase imports, the import component would subtract from GDP; the net effect on GDP will depend on the balance between domestic value added and increased imports.

Regarding point 1., our price outlook had already incorporated the impact of making high school tuition-free, but did not account for the abolition of the temporary gasoline tax (we had assumed some form of continued price support). As a result, the abolition of the temporary gasoline tax represents a factor necessitating a downward revision to our inflation forecast.

**Monetary Policy:** Monetary Policy: On October 27, Finance Minister Satsuki Katayama met with US Treasury Secretary Scott Bessent. At a press conference, Katayama said that the Bank of Japan's monetary policy "did not come up as a direct topic of discussion." Meanwhile, the US Treasury released a statement saying: "During their discussions, Bessent emphasized the important role of sound monetary policy formulation and communication in anchoring inflation expectations and preventing excessive exchange-rate volatility, noting that conditions are substantially different twelve years on from the introduction of Abenomics." (According to the statement, during the meeting, Secretary Bessent emphasized that appropriate formulation and communication of monetary policy play an important role in anchoring inflation expectations and restraining excessive exchange-rate moves. He noted that the situation 12 years after the introduction of Abenomics is substantially different.)

Furthermore, Bessent posted on X, "Abenomics has moved from a purely reflationary policy to a program that must balance growth and inflationary concerns for the citizens of Japan. The Government's willingness to allow the Bank of Japan policy space will be key to anchoring inflation expectations and avoiding excess exchange rate volatility". The US administration appears wary that the "high-pressure economy" advocated by the Takaichi administration could delay rate hikes and create downward pressure on the yen and upward pressure on the US dollar. If the economic fundamentals justify rate increases, it will likely be difficult for the Takaichi administration to strongly restrain rate hikes.

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

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