

Daiwa's Economic View

LDP leadership race: Koizumi seems to be holding lead even after early debates

- Koizumi tops survey of LDP Diet members; made it through early debates (biggest concern) without incident
- Fiscal policy: All candidates (including most fiscal expansionary candidate Takaichi) oppose consumption tax cuts
- Monetary policy: Dovish inclination held by Takaichi (most dovish candidate) may be easing
- Koizumi somewhat cautious about forming coalition with opposition parties; we need to monitor future developments

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Agriculture Minister Shinjiro Koizumi appears to remain the frontrunner in the Liberal Democratic Party's (LDP) leadership race. Indeed, he captured the top spot in a survey of LDP Diet members. He has so far successfully navigated the early stages of the campaign, holding up during recent debates (seen as his biggest concern). All candidates have expressed their reluctance to cut the consumption tax, even former Economic Security Minister Sanae Takaichi, who is seen as the candidate favoring fiscal expansion the most. Takaichi, the most dovish candidate, may also be slightly shifting her stance on monetary policy. Regarding the formation of coalitions with opposition parties, which is key to political stability, leading candidate Koizumi is somewhat cautious. We will need to carefully monitor developments going forward.

Koizumi solidifying lead after avoiding early debate risks

It seems that Koizumi continues to hold the lead in the LDP presidential race. Indeed, he was ranked as the top choice in a survey of LDP Diet members. He managed to navigate the early debates (which were a concern) without losing any momentum.

Also, he had already secured first place in a survey of LDP party members (see our 22 Sep report, "[Daiwa's Economic View: Koizumi has advantage over Takaichi in LDP presidential election](#)"). Furthermore, in an ANN survey of LDP Diet member votes released on 23 September, Koizumi took the top spot (about 80 votes), followed by Hayashi (roughly 50 votes), and Takaichi (about 40 votes).

Furthermore, between 22 and 24 September, Koizumi navigated three key events (one joint press conference and two debates) without incident. Last year, he failed to speak effectively during the party's presidential election debates and fell behind other leading candidates. However, this time around, he has guarded himself with cautious responses, avoiding major any setbacks.

All candidates concerned about fiscal discipline; extreme expansionist policies receding

The recent debates helped to clarify the fiscal policies of each candidate. None of the candidates are advocating extreme expansionist policies. Indeed, they all expressed support for fiscal discipline.

Koizumi outlined two main pillars for addressing rising prices. One is the abolition of the provisional gasoline tax. The other is revising the income tax system in response to inflation. The latter involves raising the annual income threshold. Here, he also suggested an inflation adjustment system that increases the tax deduction amount in line with rising prices. This would likely involve gradual increases, as compared to the Democratic Party for the People's (DPP) proposal to raise the threshold to ¥1.78mn all at once.

Takaichi remains the candidate with the most expansive fiscal policies. She has also stated that issuing JGBs to fund fiscal policies would be unavoidable. Her approach prioritizes economic growth and aims to reduce the debt-to-GDP ratio by expanding the denominator (GDP). Still, Takaichi again denied that she wants a 0% consumption tax on food items, which had been a point of concern on the market.

Takaichi's dovish tone for monetary policy may be waning

The recent debates revealed that Takaichi's dovish monetary policy stance may have softened somewhat. She is known for an extremely cautious stance against raising interest rates. During the recent debates, as well, she indicated that raising interest rates is not the appropriate solution.

Meanwhile, regarding the relationship between the government and the BOJ, she stated that "The government should determine the direction of policy, while the BOJ should decide the means." This statement could also be interpreted as supporting BOJ independence.

Coalition building key to political stability; Is Koizumi's stance as he says?

The next administration's biggest challenge will be resolving the minority ruling party situation. However, the approach to cooperation with opposition parties varies among the candidates. Here, the cautious stance on coalition building held by Koizumi, the leading candidate, is a cause for concern.

There are two key reasons why expanding the coalition to include opposition parties is important. First, the ruling party currently holds a minority in the Lower House. This means that opposition parties can pass no-confidence motions against the cabinet at any time. If a snap general election is held without any further coalition building, the LDP and its coalition partner Komeito would likely lose even more seats in the Lower House and opposition party demands for tax cuts would become increasingly achievable. Second, in the case of "partial coalitions" formed around individual policies, policy decisions are often delayed and lose coherence.

In response to this situation, Takaichi and Toshimitsu Motegi (one of candidates) expressed a willingness to hasten the expansion of the coalition. Meanwhile, Koizumi has advocated a cautious step-by-step approach.

That said, we must carefully observe whether Koizumi's "step-by-step" approach reflects his true intentions. During the recent debate, a reporter asked about rumors of a coalition plan. The content of that rumor was, "If a Koizumi administration is formed, it will team up with the Japan Innovation Party. We keep hearing information that electoral district adjustments have already begun in Osaka." Koizumi denied this rumor, but left room for interpretation by stating that "Even if there are backroom dealings, I will maintain my silence." On 24 September, it was reported that LDP Vice President Yoshihide Suga met with Japan Innovation Party's Diet Affairs Chief Takashi Endo. If a Koizumi administration is formed, we will closely monitor the developments regarding coalition building.

Market concerns about fiscal expansion continue to recede

There has been no significant change in Koizumi's status as the frontrunner even after the recent debates. We have confirmed that Takaichi, who is right behind Koizumi, has moderated her stance on fiscal expansion. Market concerns about fiscal expansion may be retreating after all. That said, elections can change dramatically over trivial matters. So, we will continue to closely monitor the situation.

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