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Daiwa's Economic View

Prime Minister Takaichi: Next focus of attention will be Cabinet reshuffle and LDP executive appointments

- Most likely scenario for this to happen is mid-September, following period of deliberation during Obon holidays in mid-August

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With the consumption tax cut issue settled, markets are turning their attention to the political calendar in autumn

The reduction in the consumption tax on food was approved by the Cabinet as scheduled. The Takaichi administration is now expected to deliver on its most important campaign pledge since taking office—one of its long-cherished goals—thereby resolving one of its immediate political challenges. Although the question of how to finance the measure remains unresolved, the market's attention is gradually shifting away from the consumption tax cut itself and toward how the administration will be managed thereafter.

The next focus of attention will be the Cabinet reshuffle and changes to the LDP executive lineup. However, the personnel changes are unlikely to take place immediately. According to the *Sankei Shimbun*, a series of important commemorative dates falls in the first half of August, including the anniversary of the atomic bombing of Hiroshima on 6 August, the anniversary of the atomic bombing of Nagasaki on 9 August, and the anniversary of the end of World War II on 15 August. The government is also prioritizing its response to the Kumamoto earthquake. Reportedly, there is a growing view among those close to the prime minister that she will use the Obon holidays in mid-August to carefully consider the new lineup.

Indeed, PM Takaichi avoided making any definitive comments about personnel appointments at her press conference in late July, and there is currently only limited information suggesting that specific preparations are under way. She is likely to give some thought to the administration's future lineup during the Obon period first, before moving on to coordinating full-scale changes thereafter.

Estimated timetable for personnel changes, working backward from the extraordinary diet session in autumn

The forthcoming personnel changes are likely to be aimed primarily at establishing a lineup for the extraordinary Diet session in autumn. In recent years, extraordinary Diet sessions have generally been convened in October, but observers point to the possibility of a slightly earlier timeline this year. According to the *Sankei Shimbun*, some within the ruling parties favor convening the session in early October, while the possibility of a convocation taking place in September has also emerged in connection with discussions over a realignment of the opposition parties.

The underlying issues will be legislation related to the consumption tax cut and a bill to reduce the number of seats in the House of Representatives. Both are expected to face resistance from opposition parties, making it necessary for the government and the ruling parties to complete their preparations for managing the Diet at an early stage. If a convocation in September becomes a serious possibility, there will be pressure to bring forward the personnel changes, as well. However, if the session ends up being convened in October, that will leave ample time to conduct a reshuffle of personnel in mid-September.

Okinawa gubernatorial election will be the main scheduling constraint

An important factor when considering the timetable will be the Okinawa gubernatorial election, for which voting and ballot counting are scheduled for 13 September. According to the *Sankei Shimbun*, the Takaichi administration regards the election as one of the most important electoral contests of the year. The newspaper reports that some within the LDP are opposed to entering the election campaign immediately after reshuffling the party leadership. Concerns have also been raised regarding a newly appointed Election Strategy Committee Chairman being forced to manage a major campaign immediately after taking office. Therefore, if the administration places a high priority on the Okinawa gubernatorial election, the personnel changes are likely to be postponed until after the election.

Following the gubernatorial election, there will be an extended holiday period from 19 to 23 September, after which the United Nations General Assembly, which the prime minister is expected to attend, is scheduled to take place. In light of this political calendar, the *Sankei Shimbun* has identified the most likely time for the Cabinet reshuffle to take place as being around 16 September. At present, conducting the personnel changes in mid-September, after the Okinawa gubernatorial election, would seem to be more consistent with the political calendar than conducting them in the second half of August. Another reason would be to avoid any disruptions to the government's response to the Kumamoto earthquake.

Markets will be more focused on the future direction of the administration than on individual appointments

Market participants are unlikely to focus primarily on the individual appointments themselves. Rather, the personnel changes will provide an opportunity to assess the future direction of the Takaichi administration: whether it will maintain its expansionary fiscal stance centered on the consumption tax cut, or shift its emphasis toward an approach that gives greater consideration to the balance between fiscal and monetary policy.

The personnel changes will also have implications for the LDP leadership election in September next year, as well as for the extraordinary Diet session this autumn. Under normal circumstances, the new lineup is likely to remain in place until the leadership election, meaning that the appointments will serve as the strategic groundwork for PM Takaichi's party management for the future. The key question will be what roles will be assigned to Defense Minister Shinjiro Koizumi, Minister for Internal Affairs and Communications Yoshimasa Hayashi, Foreign Minister Toshimitsu Motegi, and LDP Policy Research Council Chair Takayuki Kobayashi, all of whom contested last year's LDP leadership election.

In this respect, the Cabinet's approval of the consumption tax cut represents both a milestone and a starting point. The political calendar will proceed with deliberations over personnel appointments during the Obon period in August, followed by the Okinawa gubernatorial election in September, and then the extraordinary Diet session in autumn. The Cabinet reshuffle and LDP executive appointments are likely to provide the first sign indicating the foundation by which the Takaichi administration intends to manage the government following the consumption tax cut, as well as the future direction its policies will take.

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