



With Ishiba's resignation confirmed, what happens next?

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Japan Equity Research Team SMD-AM

We are one of the largest investment management companies in Japan, offering discretionary investment management, investment trusts and advisory services to a range of institutional investors, pension funds, government agencies and retail investors worldwide.

After weeks of intense speculation about his political future, Prime Minister Ishiba held a press conference yesterday and announced his resignation. Citing that a resolution had been reached regarding U.S. tariffs, he stated, 'I have made the decision to pass the baton to the next generation.'

As of last week, Prime Minister Ishiba had indicated his intention to stay in office by showing plans to develop economic measures this fall, but these measures proved insufficient to appease his critics. There were increasing calls within the Liberal Democratic Party for an earlier presidential election which eventually could no longer be ignored.

Constitutional questions raised

Domestic and international observers are eager to see how responsive the Japanese political system can be when the need for a swift resolution is paramount. Following Prime Minister Ishiba's announcement of his resignation, the Liberal Democratic Party immediately held an executive meeting and an election management committee this morning to plot a path forwards. We now expect that discussions will focus on confirming the schedule and format of the inevitable presidential election. Regarding the format, in urgent cases such as when a sitting president resigns mid-term, a streamlined approach involving representatives from the national legislature as well as prefectural chapters could be applied.

However, Secretary-General Moriyama, who was instructed by Prime Minister Ishiba to carry out the election, stated, 'It is important to explore a form that allows as many party members as possible to participate directly,' suggesting the possibility of using a more elaborate and complex method that includes party member voting. According to some reports, there is a proposal to officially announce the election in mid- to late-September, with voting and counting possibly occurring as early as October 4. As such, the expectation is that clarity and direction could return to Japanese politics within a shorter timeframe than could have been the case. The estimated timeline below remains our base scenario.

What was agreed between Japan and the US?

Date	Event
Sept 2	LDP House of Councilors election concluded
Sept 7	Prime Minister Ishiba announces resignation
Mid–Late Sept	Announcement of LDP presidential election
Oct 4 (Expected)	Voting for LDP presidential election
Mid–Oct (Expected)	Extraordinary Diet session convened → Election of new Prime Minister; deliberation of FY2025 supplementary budget
Dec (TBD)	Cabinet decision on the FY2026 draft initial budget and major tax reform outline
Jan 2026 (TBD)	Ordinary Diet session convened
Mar 2026 (TBD)	Passage of FY2026 draft initial budget and related tax reform bills

Runners and riders

The leading contenders to succeed Ishiba are still seen as Ms. Takaichi, Mr. Koizumi, and Mr. Hayashi as presented in the table below. Koizumi and Takaichi are currently running neck-and-neck in public opinion polls, while Hayashi trails not far behind. However, Hayashi is widely recognized for and credited with being able to deliver stability given his experience as Chief Cabinet Secretary under the Kishida–Ishiba administration, as well as his previous tenure as Foreign Minister and Minister of Agriculture, Forestry and Fisheries. Following these three leaders are less probable but not impossible figures such as Mr. Kobayashi and Mr. Motegi.

A closer look at the post-Ishiba candidates

Candidate	Fiscal Policy	Monetary Policy	Party Base
Sanae Takaichi	Fiscal expansion	Monetary easing	Some members of former Abe faction; Aso faction?
Shinjiro Koizumi	Economic	Defer to BOJ	Former Suga faction
Yoshimasa Hayashi	Economic	Defer to BOJ	Former Kishida faction
Takayuki Kobayashi	Economic	Defer to BOJ	Younger / mid-level lawmakers; Aso faction?
Toshimitsu Motegi	Economic	Defer to BOJ	Former Motegi faction; Aso faction?

Economic policies in the spotlight

As for the economic policies of the post-Ishiba candidates, whilst each candidate already has a well-established public persona in this regard, the exact details are expected to become clearer through joint press conferences and debates during the leadership race.





The following weeks will be full of such announcements, and we expect candidates to present and advocate for their policies actively in the days ahead.

We can summarize their expected stances with a high degree of confidence, however, given that all are well-known to the public and market participants in Japan. Based on their past remarks, Ms. Takaichi stands out in her adherence to Abenomics, favoring fiscal expansion and monetary easing. She has also voiced support for temporarily lowering consumption tax on food items in direct opposition to Ishiba's policy stance. Likewise in April—when U.S. tariffs were imposed—she argued vigorously for a rate cut to support the domestic economy. It is uncertain whether she continues to see a need for rate cuts now that a U.S.–Japan agreement has eased concerns over adverse effects, but her commitment to prioritizing low interest rates is unlikely to change.

Other candidates so far show little divergence in their fiscal and monetary policy stance, although this picture is expected to alter in the weeks ahead as each attempts to stake-out some distinctive ground where they can differentiate themselves from their rivals. Fiscally, they are expected to adopt a cautiously expansionary approach which is generally supportive of the economy within certain debt-imposed parameters. Monetarily, most of the candidates would defer to the Bank of Japan in terms of rate setting policy and are unlikely to strongly intervene in this decision. The independence of the central bank this appears as a consensus item amongst all candidates so far, and to some extent signals to international investors that Japan seems to be positioning itself as a beacon of stability and predictability in the years ahead regardless of who wins this coming contest. In this sense, there are no major distinctions from Ishiba's own policy stance in this area.

Cabinet Secretary under the Kishida–Ishiba administration, as well as his previous tenure as Foreign Minister and Minister of Agriculture, Forestry and Fisheries. Following these three leaders are less probable but not impossible figures such as Mr. Kobayashi and Mr. Motegi.

What is expected to change and why?

Expectations for a fundamental shift in fiscal and monetary policy would rise if Ms. Takaichi were to win the LDP presidential election. She enjoys strong popularity among party members and has already demonstrated her strength in the previous leadership race as shown in the table below. If the upcoming election is conducted under the extended procedure in contrast to a more streamlined method giving less of a role to party members, this would provide favorable conditions for her. At the same time, while she is supported among national legislature members mainly by part of the former Abe faction, she faces some vulnerabilities in her party base.

In this regard, a key question is whether she can secure the backing of Mr. Aso, seen as one of the central kingmakers in this political drama, and whether she can unify the conservative bloc behind her candidacy. Meanwhile, Mr. Aso appears to be well-aware of his dominant role in this process and is currently weighing-up which conservative candidate to support among Takaichi, Kobayashi, and Motegi. For Takaichi's breakthrough and eventual victory to take place, securing his support is correctly seen as indispensable. If she succeeds in building a cooperative framework among conservative forces on top of this, she will be well-positioned for success.

Results of the 2024 LDP Presidential Election (Runoff)

Candidate	Total	Diet Members	Prefectural Votes
Shigeru Ishiba	215	189	26
Sanae Takaichi	194	168	26
Abstain / Blank	6	6	0
Total	415	363	47

Results of the 2024 LDP Presidential Election (First-round)

Candidate	Total	Diet Members	Party Members
Sanae Takaichi	181	72	109
Shigeru Ishiba	154	106	48
Shinjiro Koizumi	136	43	93
Yoshimasa Hayashi	65	41	24
Takayuki Kobayashi	60	41	19
Toshimitsu Motegi	41	30	11
Akira Amari	47	43	4
Seiji Kihara	11	11	0
Katsunobu Kato	0	0	0
Abstain / Blank	41	1	40
Total	736	368	368

What could this all mean for the Japanese market?

Fiscal expansion and monetary easing are now seen as more likely to occur than would have been the case under Ishiba. These could serve as drivers of higher stock prices, but if concerns around Japan's fiscal soundness intensify and long-term government bond rates rise, this would create downside risks for equities. However, this concern is far from exclusive to Japan—having now appeared in virtually all development market government bond markets—and it can be pointed out that the rates faced by the Japanese government remain well south of those confronting many Western governments at this point in the cycle.



Against this backdrop, attention now focuses on whether Takaichi will continue to put forward the highly expansionary fiscal measures that have been proposed in the past. Large-scale tax cuts would provide significant stimulus to the economy but would again direct attention back towards the long-term sustainability of the Japanese government's fiscal position. However, if she aims to broaden her intra-party support considering the lessons learnt from her failure in the previous leadership race, she may refrain from overly radical proposals. Whatever policy agenda emerges is therefore likely to be a compromise between these different considerations, with the urgency of the situation nudging all participants towards consensus. Furthermore, Mr. Asō reiterated on September 3rd his personal opposition to a consumption tax cut; whether that stance in particular influences Takaichi's own policy positions will also warrant close attention.

Source: Prepared by SMD-AM based on various reports.

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