

Japan Macro Alert

Fumio Kishida appointed LDP President – considering the impact on Japan's stock market

- Kishida was elected as the new leader of the Liberal Democratic Party (LDP) on 29 September 2021.
- Kishida proposed a growth strategy for a new style of Japanese capitalism and a distribution policy for 'income doubling' in the Reiwa era (the new imperial era in Japan that began in May 2019).
- New favourable signs needed for further growth of Japanese stocks, keys to sustainable long-term government are the cabinet approval rating and the upper house election next summer.

Kishida wins in runoff vote with 257 votes to 170 for Kono

The results of the LDP leadership election were announced on 29 September, with Fumio Kishida winning 256 votes, Taro Kono 255, Sanae Takaichi 188, and Seiko Noda 63. Since no candidate received a majority, a runoff vote was immediately called between Kishida and Kono, with Kishida receiving 257 votes and Kono, 170 votes.

Kishida will be nominated as the 100th Prime Minister of Japan at the extraordinary Diet session scheduled to convene on 4 October.

Kishida's victory is believed to be due to the fact that he won a large number of Diet members' votes in the first round and in the runoff election.

Table 1: First round voting results

	Kono	Kishida	Takaichi	Noda	Total
Diet members	86	146	114	34	380
Party members	169	110	74	29	382
Total	255	256	188	63	762

Table 2: Final vote

	Kono	Kishida	Total
Diet members	131	249	380
Prefectural chapters	39	8	47
Total	170	257	427

Kishida proposed growth strategy for new style of Japanese capitalism and a distribution policy for 'income doubling' in the Reiwa era

Kishida has proposed constructing a new style of Japanese Capitalism by creating a virtuous circle of economic growth and distribution of wealth, a growth strategy to address the wellbeing of people, and welfare measures for a Reiwa-era income doubling plan.

The growth strategy includes a call for the accelerated rollout of 5G, development of digital infrastructure in rural areas, and a "clean energy strategy" that not only covers renewable energy but also resuming operations at nuclear power plants.

In terms of welfare/distribution of wealth policies, the government has set out to improve financial support for housing and education, and to fundamentally review public costs for nursing and care in order to expand the middle class. He has also indicated an intention to review income tax rates in order to abolish the '100 million yen ceiling', which reduces the income tax burden for those earning an income of over 100 million yen. However, these are relatively mild measures, as they do not include tax hikes for high-income earners or particularly great support for middle- and low-income groups.

New favourable signs needed for further growth of Japanese stocks, keys to long-term government are cabinet approval rating and the upper house election next summer

Regarding monetary policy, the Bank intends to maintain the existing quantitative easing policy with a price stability target rate of 2 percent. As for fiscal policy, the government has announced that it will formulate economic stimulus packages worth tens of trillions of yen this year, and it is likely to accept fiscal expansion in the short term. He has also stated that while he will not consider raising consumption tax for about 10 years, he will not lower the flag for fiscal reconstruction. It is expected that the government will continue its economic support policies for the time being, which is reassuring news for the stock market.

However, it seems that the market has already factored in the fact that the new LDP president has been elected and that the ruling party will not lose a large number of seats in the lower house election. In order for Japanese stocks to rise further on the back of political developments, some new favourable signs that have not yet been factored into the market are needed, such as the ruling party's overwhelming victory in the forthcoming lower house election or the announcement of a major economic stimulus package. Moreover, since a long-term government is generally desirable for Japanese stocks, there will be a lot of attention focused on the approval rating of Kishida's new cabinet and the Upper House election in July 2022.

Table 3: Key dates ahead of the general election

Date	Event
4 October	Extraordinary Diet convenes, Prime Minister and cabinet appointed
8 October	Announcement of policies
Early October	Opinion polls
Early October	Economic policy set forth
11-13 October	Questions from party representatives
13-14 October	Dissolution or adjournment of the extraordinary Diet
21 October	End of four-year term for House of Representatives
30-31 October	G20 Summit
7-14 November	General Election

Appendix: Summary of Kishida's core policies

Monetary policy	<ul style="list-style-type: none"> Maintain the existing quantitative easing policy with a price stability target rate of 2%
Fiscal policy	<ul style="list-style-type: none"> Set forth multi-trillion-yen economic measures by year end No intention to raise consumption tax for about 10 years Uphold banner of fiscal reconstruction
COVID response	<ul style="list-style-type: none"> Zero medical refugees (establishment of temporary medical facilities, etc.) Stay-home economic measures (multi-trillion yen plan) Electronic vaccination passports and free or expanded testing (regular school testing, etc.) Drastic strengthening of contingency measures for infectious diseases (amendment of laws to control human flow etc.)
Growth Strategy	<ul style="list-style-type: none"> Science and technology nation (10 trillion yen university endowment fund, etc.) Economic security (promote free and reliable data flow, etc.) "Digital garden city state concept" (early rollout of 5G, etc.) Alleviate anxiety in the era of 100-year lifespan (universal social insurance, etc.)
Distribution policy	<ul style="list-style-type: none"> Stamp out subcontractor bullying (strengthen supervisory structure for subcontracting transactions, etc.) Housing and education support (strengthening support for the child-rearing generation, etc.) Complete review of public costs (review of wages for nursing and care staff, etc.) Reform bad practice of the single-year fiscal policy (systematic approach to national issues, etc.)

Sources:

Masahiro Ichikawa, "LDP Leadership Election: Key Points for the Run-up to Voting", 28 September 2021.

Yasuhiro Takahashi, "LDP Leadership Election Update", 29 September 2021

Masahiro Ichikawa, "Fumio Kishida Appointed New LDP President - Considering the Impact on Japan's Stock Market", 30 September 2021

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