Japan could gain a new “Iron Lady” prime minister

Sanae Takaichi could become Japan’s first female prime minister. A staunch conservative and protégé of late PM Shinzo Abe, markets have moved to price in fiscal stimulus and a dovish monetary policy view. But the constraints of LDP divisions, a minority government, and the bond market, mean we do not expect policy changes on the scale of Abenomics.

Key Takeaways

- Sanae Takaichi, the former economic security minister, won the LDP leadership election on 4 October, and could become Japan’s first female prime minister later this month.
- Because she wasn’t the favourite to win, the market has had to rapidly price in Takaichi’s views on fiscal stimulus, industrial policy, and her dovish monetary policy stance. The “Takaichi trade” has seen equities surge, the yen weaken, and long-end bonds sell off.
- However, some of these moves may prove to be an overreaction. The details of Takaichi’s election campaign reveal a softer stance on monetary and fiscal easing than the headlines might suggest.
- Takaichi proposes *targeted* fiscal measures to help ease inflation pressure on households. But she has also acknowledged the need for fiscal constraint given Japan’s high debt ratio.
- Indeed, the fragility of the bond market, combined with internal LDP divisions and the need to cooperate with opposition parties, will likely tame any fiscal excesses.
- Takaichi has also tempered her previous strong stance on monetary policy, saying that rates should be decided by the BoJ, and we maintain our view that the central bank will hike 25bps to 0.75% in January.
- Takaichi plans investment for strategic industries such as AI, chips, quantum computing and cyber defence, which may support key equity sectors.

Takaichi: an aspiring “Iron Lady”

Sanae Takaichi won the LDP leadership election in a run-off against the favourite Shinjiro Koizumi and could become Japan’s first female prime minister.

However, the withdrawal of junior coalition partner Komeito shortly after Takaichi’s win, means she is now involved in intense talks to form a new coalition.

Risks of a snap election remain high, but the LDP is still the largest party in Japan and the opposition is too fragmented to form an alternative alliance that can last a meaningful period of time. The next few days will be critical to the political outlook, but Takaichi still has significant chances of becoming the nation’s first ever female prime minister when parliament resumes.

Takaichi is a pro-stimulus conservative nationalist, who pledged to revitalise the economy with fiscal support and strategic industry investment.

First elected to the House of Representatives in 1993, Takaichi was very close to the late PM Shinzo Abe. She openly idolises the politics of the former UK PM “Iron Lady” Margaret Thatcher. She held positions as minister of internal affairs and communications, chair of the LDP policy research council and minister for economic security.

Takaichi’s policy: evolving toward a softer stance

Takaichi is known for her strong support for Abenomics-era stimulus, and scepticism over premature interest rate hikes. Earlier this year she advocated for the controversial cut of consumption tax for food products from 10% to 0%, and stated Bank of Japan (BoJ) rate hikes would be “stupid”.

However, Takaichi tempered her fiscal stance during the leadership campaign and is likely to be wary of Japan's debt burden and the fragility of the country's government bond (JGB) market. The details of Takaichi's election campaign reveal a softer stance on monetary and fiscal easing than the headlines might suggest.

Detente with the BoJ

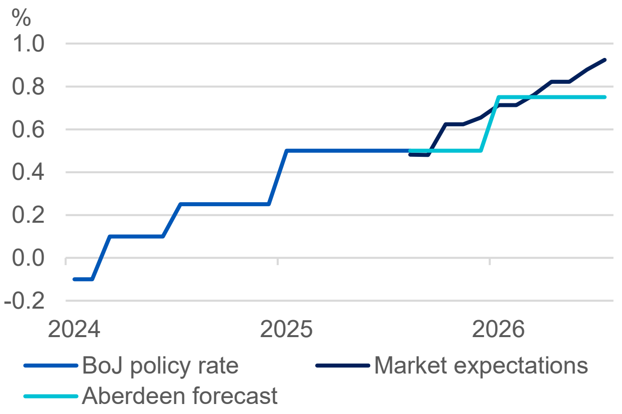
Takaichi said monetary policy should be decided by the BoJ and be consistent with government economic policy, which is in line with the existing BoJ Act.

We will pay close attention to future comments and politicisation risks. However, the BoJ has historically been quite firm in ignoring political pressure and focusing on data developments.

The BoJ will also be mindful that the Japanese government bond (JGB) market remains illiquid and highly sensitive to any doubts over central bank independence. But it has the tools to manage bond market dislocation.

We maintain the view that the BoJ will wait until January to raise rates. Any delay in this timing will be a result of insufficient evidence of inflation meeting the central bank's forecasts and not because of political duress.

Figure 1: Market pricing for 2026



Source: BoJ, October 2025

Tackling the cost-of-living crisis

The consumption tax cut was removed from Takaichi's campaign, respecting the broader party line. It is a major revenue source for the government and a key signal for bond investors looking for risks of fiscal irresponsibility. Instead, Takaichi proposes *targeted* fiscal measures to reduce the impact of inflation, including:

- Cash transfers and tax credits for households, reduction of diesel fuel delivery tax, ending the gasoline tax, and grants for local governments to use at their discretion;
- support for families facing severe living difficulties combined with an increase in medical and nursing care fees to raise incomes of medical workers and support staff;
- plans to formulate a system of tax breaks with cash handouts to reduce the burden of low-middle income households.

Industrial policy

Takaichi wants to promote investment in AI, chips, quantum computing, and strengthen cyber defence.

Her energy policy plans advocate for next-generation nuclear reactors and new nuclear fusion for cheap and stable energy supply, as well as domestic production of solar panels instead of imports.

She also plans to increase defence spending to at least 2% of GDP over the next five years.

Funding policy

In the past, Takaichi has been willing to raise bond issuance to fund cost of living measures and industrial policy. But recently she has proposed funding via available government funds and an expected upswing in tax revenues.

She acknowledges the need for fiscal consolidation, but it is not the main goal – raising consumer sentiment and economic growth is the priority.

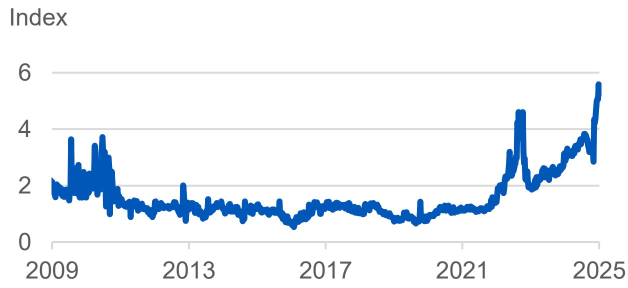
The policies outlined, even with household cash handouts in the next supplementary budget, are not expected to raise the debt burden. Interest payments remain low, and tax revenues have steadily increased.

It seems unlikely Takaichi will immediately adopt large-scale fiscal expansion, but this could creep in over time.

We think that internal LDP divisions as well as the challenge of a minority government should curtail extensive fiscal easing. The coalition will continue to collaborate with opposition parties on a policy-by-policy basis.

Recent episodes of bond volatility should prevent the party from simply reverting to the easy fiscal policy of Abenomics.

Figure 2: Bond market liquidity measures show the heightened level of sensitivity to fiscal headlines



Source: Bloomberg, Aberdeen, June 2025. Note: Liquidity index tracks average yield deviations from fair value. Higher readings signal poor liquidity.

It will be important to watch how Takaichi responds to pressure from opposition parties who support more aggressive tax cuts.

Countering the rise of populist fringe parties

The LDP has become increasingly fragmented, especially over the past five years, with no single faction able to dominate.

Since the late Shinzo Abe stepped down as prime minister in September 2020, the party entered a period of political churn with four prime ministers in just five years.

Koizumi was considered the front-runner as he led the polls among Diet members. Meanwhile Takaichi was favoured by local party members.

As Diet member votes hold a higher weight in the second-round, polls in the run up to the vote implied a Koizumi win. However, the vote composition (Figure 3) reveals that Takaichi narrowly won the Diet member votes as well as rank and file during the run-off.

But Takaichi's surprise win among Diet members represents a shift toward a more conservative and nationalistic stance.

The vote split signals a cautious desire to win back younger voters and counter the rise of populist fringe parties, but little appetite for a major policy overhaul.

However, there remains a risk of a coalition realignment extending beyond the current two-party coalition.

With a minority government in both the upper and lower house, the ruling LDP-Komeito coalition struggled through policy stasis, needing to partner with opposition parties on a policy-by-policy basis. And fringe parties have gained momentum in the polls as frustration over inflation has dominated the political narrative since the pandemic.

Figure 3: Diet member vote split reveals a cautious shift to the right to regain populist voters

First Round

	Total	Diet members	Rank and file
Takaichi	183	64	119
Koizumi	164	80	84
Hayashi	134	72	62
Kobayashi	59	44	15
Motegi	49	34	15

Run-off

	Total	Diet members	Prefecture
Takaichi	185	149	36
Koizumi	156	145	11

Source: LDP, October 2025

Author:

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Geopolitical hawk

Takaichi's brand of staunch nationalism will likely increase tensions with both China and South Korea.

Critical of Chinese economic practices, claiming intellectual property theft, she favours reducing Japan's economic dependence on China. She visited Taiwan earlier this year and has endorsed a pro-Taiwan stance with deeper cooperation on defence and security.

There is a strong chance that the PM will visit the Yasukuni Shrine for the war dead. This will anger both Beijing and Seoul, reversing some of the efforts to improve Japan-Korea relations in recent years.

While Takaichi supports a US-Japan alliance, she also favours reopening elements of the US investment agreement that are deemed not aligned to Japanese interests. Pushing forward with this would risk retaliatory tariffs from the US.

Markets need to decipher the overall policy mix

Overall, we do not expect major policy changes from the Takaichi administration. The combination of internal LDP divisions and a minority government will limit the scale of fiscal spending.

Nevertheless, the bond market will likely remain sensitive to Takaichi's communication. Any signal of conceding to more expansionary fringe party demands will lead to bouts of bond volatility and yield spikes.

Planned fiscal spending on strategic investments should be supportive for equity markets.

The relationship with President Donald Trump will be closely watched. Takaichi's stance on the investment element of the US trade deal risks delaying progress on current negotiations.

Key dates to watch

The next quarter will be critical for investors to understand Takaichi's policy path.

Mid-October: Extraordinary Diet session begins, PM appointment, new cabinet formed, supplementary budget discussions begin.

28-29 October: Trump visits Japan

29-30 October: BoJ monetary policy meeting with Outlook Report

December: FY2026 Tax Reform Plan

18-19 December: BoJ monetary policy meeting

Late December: FY2026 Budget proposals for Cabinet approval

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