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Insecure Ishiba pivots on economic policy

Key takeaways

- In meetings with Bank of Japan (BOJ) Governor Ueda Kazuo, Prime Minister Ishiba Shigeru and his cabinet ministers indicated that they do not think that additional rate hikes are appropriate now.
- In general, Ishiba, once the Liberal Democratic Party's (LDP) most vocal opponent of Abenomics, has embraced his predecessor's "Abenomics-lite" economic policy agenda.
- Ishiba's about-face likely reflects his tenuous political position, making it difficult to pursue policies that would harm Japan's growth outlook, as well as consumer and investor sentiment.

On Wednesday, 2 October, his second day as prime minister, Ishiba Shigeru met with Bank of Japan (BOJ) Governor Ueda Kazuo and promptly signaled that the Ishiba who will govern Japan will be different not only from the Ishiba who sought the Liberal Democratic Party's (LDP) leadership and premiership but also from the Ishiba who was the LDP's leading critic of Abenomics for much of the late Abe Shinzō's second administration.

In public remarks following his meeting with Ueda, the prime minister said that the government and BOJ would continue to work closely together to promote growth and inflation, and Ishiba stated that he would continue his predecessor Kishida Fumio's policies to defeat deflation, boost incomes and consumption, and promote investment (which, to be clear, he also [signaled](#) during the campaign). Then, in response to a question about the outlook for additional interest rate hikes by the BOJ, he said, "I do not personally believe that we are in such an environment. I do not believe that we are in such an environment that additional rate hikes should be implemented. I have told the

governor that I hope that the economy will continue to grow persistently while maintaining an accommodative policy stance, and that the economy will continue to move towards overcoming deflation.” Meanwhile, on 3 October, Finance Minister Katō Katsunobu and Economic Revitalization Minister Akazawa Ryōsei met with Ueda in which they reaffirmed the 2013 accord between the LDP-led government and the BOJ to achieve sustainable inflation. In his inaugural press conference, Katō also emphasized that overcoming deflation would take priority in the Ishiba government’s management of fiscal policy.

To some extent, Ishiba’s about-face is a testament to the “stickiness” of the first and second arrows of Abenomics. It is easier to talk about an exit from monetary easing – and fiscal stimulus – than it is to follow through when it means higher interest rates, lower stock prices, and more uncertainty about the growth environment. Perhaps, to some extent, all Japanese politicians are Abe-ists now, if only because the alternatives are less palatable. Of course, it may also be easier for Ishiba to shift given that the debate now is not whether the BOJ should continue unconventional policies like negative interest rates or yield curve control, but how quickly the BOJ moves to exit monetary easing.

But it also speaks to Ishiba’s [tenuous](#) political position upon taking office as prime minister. Not only is Ishiba facing an anti-mainstream bloc within the LDP led by his defeated opponent Takaichi Sanae that [believes](#) monetary policy normalization is “stupid” – suggesting that he could encounter resistance if he were to push too dramatically for policy normalization – but, more significantly, his government may not be able to count on as much goodwill from the public as Ishiba may have expected given his longstanding popularity with voters as a whole. In the first polls taken after his inauguration, Ishiba’s approval ratings are among the lowest received by a new government since 2002 (when pollsters introduced their current methods), as voters are waiting to see how he leads before awarding him with a honeymoon period. The vote of no-confidence that markets gave in Ishiba’s leadership – plunging JPY 1910 on Monday, 30 September, the first trading day after his victory, what has been called the “Ishiba shock” – may have been one vulnerability too many, prompting the abrupt shift in Ishiba’s messaging about macroeconomic policy, particularly with just over three weeks until the 27 October general election the prime minister announced this week.

While it is still unlikely that Ishiba will take as heavy handed an approach to Ueda and the BOJ as Takaichi would have as prime minister, he is also unlikely to pursue a sharp break with Kishida’s “Abenomics-lite” approach over the next year, particularly with upper house elections next summer. He may well try to exert quiet pressure on the BOJ to hold off on additional rate hikes, particularly in light of global economic uncertainty (which Ueda himself [cited](#) last month). His more controversial proposals for raising taxes on corporations and financial earnings – as well as Kishida’s proposals for tax hikes for defense spending – will likely be shelved until the prime minister’s political standing is more secure. As such, in his policy speech on Friday, 4 October, Ishiba is

expected to emphasize his commitment to overcoming deflation by boosting incomes and helping lower-income households deal with the impact of higher prices for basic commodities. He is also expected to continue Kishida's use of industrial policy to promote green and digital transformations, attract manufacturing back to Japan, and promote start-up formation.

Ishiba's new tone may be necessary as he finds his footing in power, but, having pivoted away from his anti-Abenomics crusade, it may be difficult to ever shift back even if his political prospects brighten. The upshot is that Ishiba may end up being a more conventional prime minister than he had hoped to be. Whether that will be sufficient to keep him in power remains to be seen.

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