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# Aurora Japan: Ishiba begins pointing to a post-Abenomics future, January 22, 2025

## The Tearsheet

- Although Prime Minister Ishiba Shigeru toned down his more striking anti-Abenomics rhetoric during and after the LDP leadership election in September 2024, he and his government are steadily reshaping the country's economic program.
- The most notable shift from Abenomics is the Ishiba government's move away from relying on macroeconomic stimulus to drive economic growth, with a broad acceptance that the Bank of Japan (BOJ) will gradually scale back monetary stimulus.
- Income policies remain a cornerstone of the Ishiba government's economic agenda, with real wage increases identified as its "highest goal." Like his predecessors, Ishiba aims to create a virtuous cycle of rising wages, increased consumption, and greater investment.
- As macroeconomic policies become less central, the Ishiba government is increasingly focusing on industrial and other supply-side policies.

## 1. New Agenda for Japan

- With the start of the new year, Prime Minister Ishiba has been using public appearances and press conferences to begin articulating a positive agenda for his government as he enters his first ordinary session of the Diet as prime minister.
- What is becoming increasingly clear is that while the prime minister backed away from some of his more flamboyant anti-Abenomics rhetoric during and after the LDP leadership election in September 2024, he and his government are gradually transitioning the government's economic program to something new.
- There remains considerable continuity – the government is still pursuing an active incomes policy as it seeks to promote a virtuous cycle of rising wages, consumption, and investment – but the overall policy mix is evolving.
- The prime minister has largely acquiesced to monetary policy normalization, and, with interest rates rising, is placing a greater emphasis on fiscal consolidation.
- While the government is not withdrawing macroeconomic stimulus, government and Bank of Japan (BOJ) officials are thinking more about how to ensure sustainable and equitable growth and competitiveness in light of Japan's demographics and global economic developments. To an extent that did not seem possible when then-candidate Ishiba backed away from his long-standing opposition to Abenomics, the outline of a post-Abenomics Japan may in fact be taking shape.

## 2. Fiscal and Monetary Policy Reforms

- The most significant departure from Abenomics is that the Ishiba government is **moving away from macroeconomic stimulus as a driver of economic growth**. It has largely accepted that the Bank of Japan (BOJ) will continue to withdraw monetary stimulus gradually.
- Ahead of the BOJ's January 23-24 policy board meeting, Governor Ueda Kazuo and Deputy Governor Himino Ryōzo have used public remarks to express their confidence that, as Ueda said in remarks to the business federation Keidanren on 25 December, "the sustainable and stable achievement of the 2 percent price stability target is now within sight."

- Both expressed their confidence that with firms and households now expecting and adapting to inflation, it is possible to continue to move to policy normalization, using short-term rates to influence economic behavior; the bank will continue to pursue an accommodative policy in the near term, since it will likely raise rates slowly and gradually, ensuring that negative real rates will continue.
- With BOJ officials signaling that a rate hike will be under consideration at the policy board meeting – and a majority of the board reportedly on board with a hike – the Ishiba government has been largely silent.
- Most importantly, in its approach to the FY2025 budget and fiscal policy more broadly, **Ishiba and his government have been emphasizing fiscal sustainability as part of an adaptation to "a world with interest rates."**
- At a meeting of the Council on Economic and Fiscal Policy (CEFP) on January 17, Ishiba noted that although, according to the government's mid-term estimate, the government will not meet its goal of a primary fiscal surplus by FY2025, it is still projected to run the smallest primary deficit since FY2001 and is projected to achieve a primary surplus in FY2026. "Hereafter we will not lower the flag of fiscal consolidation," he said.
- While the final figures could change given the government's need to negotiate with opposition parties to pass the budget, the government's proposal projects a sizable increase in tax revenues (JPY 8.83tn), for total projected tax revenues of JPY 78.4tn, and a corresponding decrease in new debt issuance by JPY 6.8tn to JPY 28.6tn. The latter figure is 24.8% of total revenue, the first time the government's draft has projected a debt dependency ratio below 25% since FY1998.
- The upshot is that both the Ishiba government and the BOJ are anticipating a world in which Japan's economy is less dependent on fiscal and monetary stimulus for growth, instead using macroeconomic policy tools to respond to emergencies. (At the CEFP meeting this month, Ishiba echoed Ueda in suggesting that fiscal consolidation can give the government capacity with which to respond to crises and shocks.)
- Of course, the Ishiba government has not abandoned fiscal stimulus or deficit spending, but it is laying the groundwork for a political shift towards fiscal sustainability.

## 3. Virtuous cycle of rising wages, consumption, and investment

- As both the Ishiba government and the BOJ move away from dependence on macroeconomic stimulus, they are turning to two (or three) other areas.
- First, for the Ishiba government **incomes policies remain a central part of its economic program**, indeed the government has characterized real wage increases as its "highest goal." Like his predecessors, Ishiba is seeking a virtuous cycle of rising wages, consumption, and investment.
- Ishiba has continued to use the language preferred by his predecessor Kishida Fumio, talking of a transition from a "cost cutting economy" – which characterized the deflationary period – to a "growth-oriented economy driven by rising wages and investment." (BOJ officials have used similar language as well.)
- To this end, Ishiba has stressed the need for employers to continue raising base pay in this year's *shuntō* wage negotiations, continuing to work through the tripartite government-business-labor council established during the second Abe administration.

- Like his predecessors, Ishiba has also called for additional minimum wage increases, helping lower-income households keep pace with inflation. He is also, perhaps to a greater extent than his predecessors, focusing on the business environment for small- and medium-sized enterprises (SMEs).
- In public remarks, including a meeting with small business owners on 16 January, the prime minister has said that he wants to encourage businesses to abandon practices that prevent them from passing price increases along to customers; encourage SMEs to invest in labor-saving investments that enable them to pay higher wages; and improve conditions for subcontractors to be paid fairly by larger firms.

## 4. Revitalization and Global Strategy

- Meanwhile, with macroeconomic policies receding in importance, the Ishiba government will rely ever more heavily on **industrial policies and other supply-side policies**.
- As Deputy Governor Himino suggested, overcoming the structural challenges of a shrinking population and global competition will have to be overcome by "both firms and the government [pursuing] strategies to adapt to the emerging structure of the international economy."
- Given the government's growing focus on fiscal sustainability – more than 80% of the general budget proposal is social security, interest payments, local transfers, and defense spending, leaving comparatively little room for additional policy expenditures – it will rely heavily on private investment to accomplish these goals
- Some of these policies are programs that Ishiba has inherited – Kishida's green transformation (GX) and digital transformation (DX) programs, for example – while others will reflect Ishiba's own priorities.
- For example, reflecting his longstanding interest in regional revitalization, Ishiba is expected to use his January 24 policy speech to articulate what he calls his "Plan to Transform the Japanese Archipelago for the Reiwa era" (a reference to his mentor Tanaka Kakuei's signature economic development program).
- This plan is likely to include proposals for relocating government functions away from Tokyo, incentivizing incumbent and start-up businesses to relocate across Japan, and promoting greater collaboration between government, businesses, and universities at the regional level.
- The government is considering an array of policies to attract investment in strategic and high-valued added sectors; promote the development new export powerhouses through regulatory reforms and encouraging M&A activity and business succession planning; and continuing the Kishida government's policies to make Japan an asset management power.
- Finally, not unlike the second Abe administration, which pursued trade agreements like the Trans-Pacific Partnership (TPP) as a vehicle for creating larger markets for Japanese businesses, the Ishiba government will continue to seek to shape global economic rules through bilateral and multilateral engagement with international partners, recognizing that, in the words of an outline presented to the CEFP, "For Japan, a country without natural resources, expanding trade and investment overseas – and bolstering the scientific and technological capabilities that are the basis for expanding trade and investment – is indispensable for strengthening our growth potential."

- To be sure, the Ishiba government may have a harder time pursuing market access than the second Abe government. Reflecting the post-Covid, post-Ukraine war landscape, the Ishiba government recognizes that it will need to balance globalization with economic security.

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