

# The Takaichi Administration's Fiscal Policy: Clarity Expected by This Summer

19 March 2026

## Focus on the Funding Sources for Consumption Tax Cuts and the Scale of Growth Investment

Concerns persist in the bond market regarding the fiscal sustainability of the Takaichi administration, which advocates a proactive fiscal policy stance. These concerns largely stem from uncertainties surrounding the funding sources for consumption tax cuts and the scale of the budget allocated to growth investment. Prime Minister Takaichi has framed the consumption tax cut as a temporary bridge until the introduction of a refundable tax credit. As potential funding sources, she has cited reviews of subsidies and special tax measures, as well as non-tax revenues. We believe it is feasible to secure funding for reducing the consumption tax on food to zero per cent (approximately 5 trillion yen per year). Looking ahead to this summer, when the framework and design of the consumption tax cut are expected to be finalised, we anticipate that market concerns will ease gradually.



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## Is There Funding for Consumption Tax Cuts?

Reviews of subsidies and government funds have already been conducted by the Administrative Reform Promotion Council, and surplus funds are being actively returned to the national treasury. Of the roughly 200 government funds, the review results released in April 2024 indicate that 112 funds will not receive any new budget allocations. Aggregating the fiscal year-end 2023 balances of these funds suggests that surplus amounts exceed 3 trillion yen. If drawdowns of fund balances are also considered, additional transfers to the national treasury could be expected.

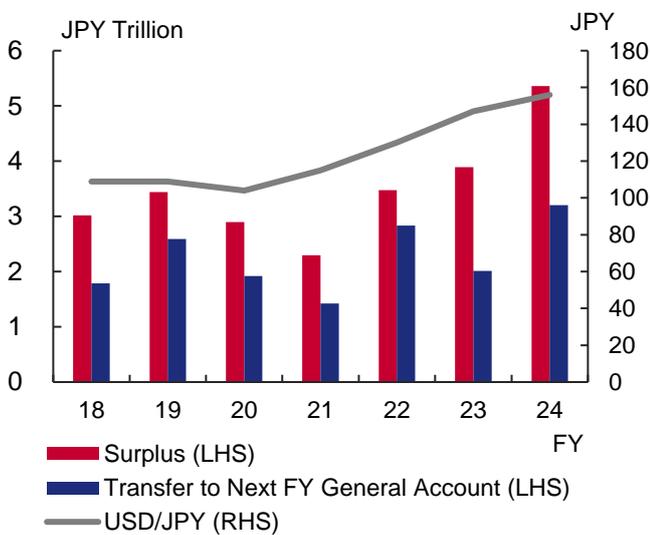
The amount of corporate tax reductions under special tax measures in fiscal 2024 is approximately 2 trillion yen, about half of which is attributable to the wage-hike promotion tax scheme. From the perspective of ensuring the appropriateness of special tax measures, reviews have already been undertaken. The wage-hike tax incentive for large enterprises is considered to have largely fulfilled its role and is scheduled to be abolished at the end of March 2026, while the scheme for mid-sized enterprises is set to be abolished at the end of fiscal 2027. Other measures are also being abolished or scaled back.

Major sources of non-tax revenue include transfers of surplus funds from the Foreign Exchange Fund Special Account to the general account, as well as remittances from the Bank of Japan (BoJ) to the national treasury. Surpluses in the Foreign Exchange Fund Special Account have expanded due to yen depreciation and higher U.S. interest rates, with more than half of the surplus transferred to the general account in the following fiscal year (Figure 1). Although there is a rule requiring more than 30 percent of the surplus to be retained in the special account, transferring the entire surplus to the general account could be considered in light of fiscal conditions.

The BoJ remits part of its surplus to the national treasury each year. Major sources of the BoJ's income include interest on Japanese government bonds and distributions from exchange-traded funds (ETFs) with a market value exceeding 80 trillion yen. On the expenditure side, interest payments under the Complementary Deposit Facility have increased since fiscal 2024 due to policy rate hikes (Figure 2). Although the BoJ decided in September 2025 to sell its ETF holdings, the pace of sales is expected to be gradual. Moreover, given that rapid policy rate hikes are unlikely, treasury remittances are expected to remain broadly at current levels for the time being.

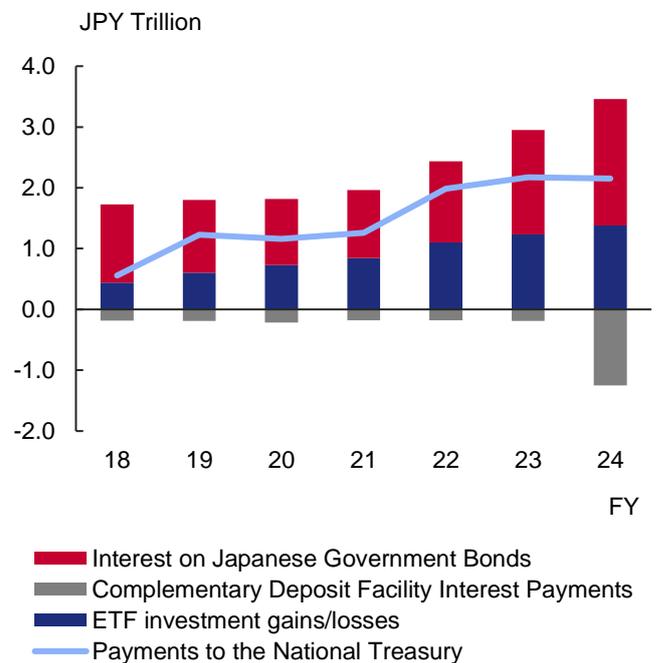
Taking the above into account, we believe that securing funding of around 5 trillion yen per year is feasible.

**Figure 1: Surplus Funds of the Foreign Exchange Special Account and Transfers to the General Account**



Source: Ministry of Finance Japan, Asset Management One Co., Ltd.  
 Note: Annual data from FY2018 to FY2024

**Figure 2: Breakdown of the BoJ's Profit and Loss and Treasury Payments**



Source: BoJ, Asset Management One Co., Ltd.  
 Note: Annual data from FY2018 to FY2024

## Focus on the Scale of the Growth Investment Budget

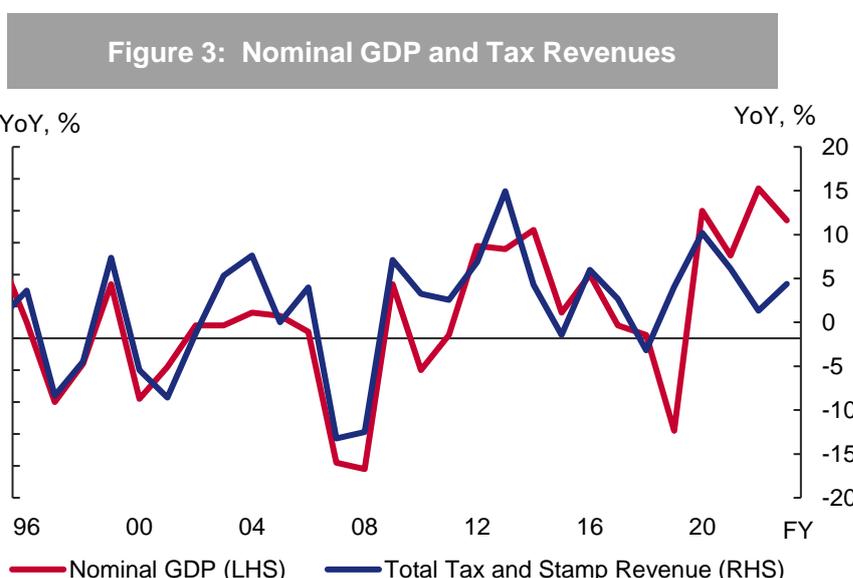
The growth strategy of the Takaichi administration aims to strengthen Japan’s supply capacity while boosting economic growth through proactive corporate investment, supported by crisis management investment and growth investment in strategic sectors through public–private partnerships.

In her policy address, Prime Minister Takaichi stated that, in order to stimulate private investment, the government will enhance budget predictability by presenting a public–private investment roadmap starting in March 2026 and introducing a framework under which such budgets are managed separately on a multi-year basis.

At the third Growth Strategy Council meeting held in March, Prime Minister Takaichi herself demonstrated a clear recognition that Japan has already transitioned to an environment in which prices and interest rates are changing, and that dialogue with markets is essential in a world with positive interest rates.

Ahead of the government’s Basic Policy on Economic and Fiscal Management and Reform (the “Honebuto Policy”) this summer, the administration plans to provide quantitative clarity on the expected increase in domestic investment under the growth strategy. It also intends to reflect related estimates, such as contributions to GDP growth, increases in tax revenue, and the outlook for the government debt-to-GDP ratio, in the Medium- to Long-Term Projections for the Economy and Fiscal Conditions. In addition, Prime Minister Takaichi instructed Finance Minister Katayama to examine, based on the scenarios presented in these projections, the fiscal scale that would be feasible while aiming to lower the government debt-to-GDP ratio, and to consider measures for managing crisis management investment and growth investment under a separate budget framework. As a result, it is expected that the currently unclear size of the budgets for crisis management investment and growth investment will become clearer to some extent this summer.

Assuming (1) nominal economic growth of 3 percent, (2) a tax revenue elasticity of around 1 (a conservative assumption), (3) nominal economic growth exceeding the interest rate (with 10-year JGB yields in the 2 percent range), and (4) a zero primary balance, it is estimated that around 30 trillion yen of additional spending would be possible through natural increases in tax revenue without raising the government debt-to-GDP ratio. In addition to underlying economic conditions, the scale of the budget will remain a key focus (Figure 3).



Source: INDB, Asset Management One Co., Ltd.  
Note: Annual data from FY1996 to FY2024

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## Rising Consumer Growth Expectations under the Takaichi Administration

According to the Bank of Japan’s Survey on Consumer Confidence (December 2025), consumer sentiment has shown signs of improvement. Views on Japan’s economic growth potential have shifted, with an increase in respondents expecting “higher growth” and a decrease in those expecting “lower growth.” As a result, Japanese Economy’s Growth Potential D.I. has seen a sharp narrowing of its negative range.

These results suggest that consumer growth expectations have been strengthening under the Takaichi administration (Figure 4). Whether this trend can be sustained will be an important test around mid-2026.

Figure 4: Consumers’ Expectations for Japan’s Economic Growth



Source: BoJ, Asset Management One Co., Ltd.

Notes:

1. Quarterly data from March 2007 to December 2025
2. Economic Conditions D.I. is defined as the proportion of respondents who answered that economic conditions "have improved/will improve" minus the proportion of those who answered that they "have worsened/will worsen."
3. Japanese Economy’s Growth Potential D.I. is defined as the proportion of respondents who answered that the Japanese economy "has greater potential to grow compared to the current level of growth" minus the proportion of those who answered that it "has less potential to grow compared to the current level of growth."

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