MACRO PICTURE:

Japan’s “Iron Lady” Moment: Can Sanae Takaichi Deliver Abenomics 2.0?

By

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Nato Balavadze

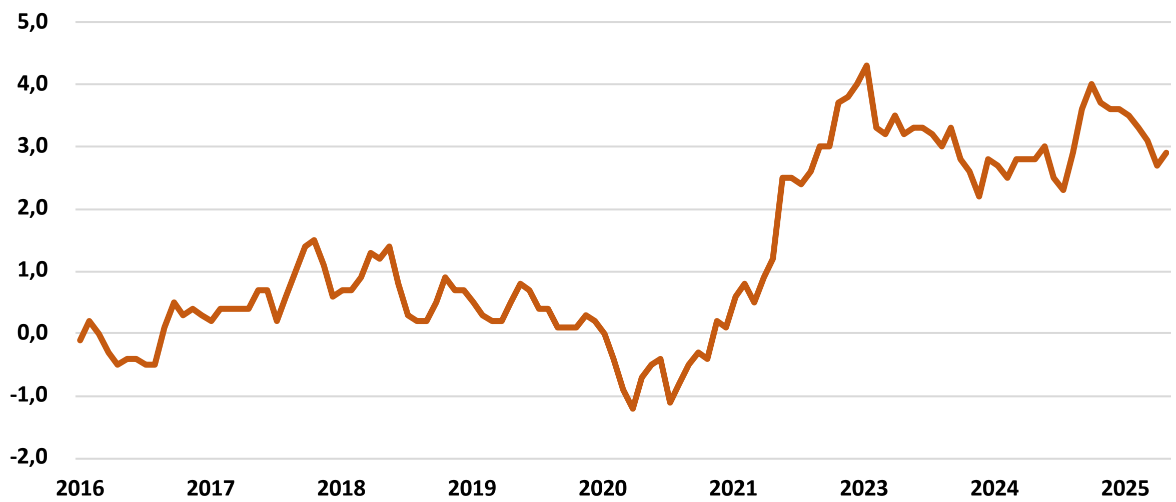
Gold's Record Rally: Drivers, Risks and Market Dynamics

13 October 2025

Executive Summary

- Sanae Takaichi has become Japan's first female prime minister, a historic breakthrough in a political system long dominated by men.
- A staunch conservative and protégé of the late Shinzo Abe, she is known as Japan's "Iron Lady" for her admiration of Margaret Thatcher.
- She faces major challenges ahead — reviving Japan's sluggish economy, managing ties with Washington, and restoring unity within a divided ruling party.
- Takaichi inherits Abe's economic legacy and is expected to launch "Sanaenomics," a renewed version of Abenomics centered on monetary easing, fiscal stimulus, and structural reform.
- Japan's current conditions are tougher: inflation exceeds 2%, debt stands near 250% of GDP, and the workforce is shrinking by roughly 550,000 people annually.
- Despite low unemployment, real wages and productivity have stagnated for decades, with labor's share of income falling and many workers in low-paid, part-time roles.
- Takaichi's fiscal program includes ¥13.9 trillion in stimulus, tax cuts, and investment in strategic sectors such as semiconductors, defense, and energy to strengthen national resilience.
- Her success hinges on achieving structural reform and private-sector confidence; without it, Sanaenomics risks repeating Abenomics' pattern of high debt and limited renewal.
- The Bank of Japan has kept interest rates steady at 0.5%, maintaining ultra-loose policy even as other major central banks tighten, widening rate differentials and putting downward pressure on the yen.
- Markets welcomed Takaichi's election, expecting continued fiscal and monetary stimulus; the Nikkei 225 surged above 49,000, while the yen weakened past ¥150 per dollar, benefiting exporters but raising import costs.
- Prolonged yen weakness and fiscal expansion could heighten inflation risks and test Japan's fiscal credibility, forcing the BoJ to navigate between supporting growth and preventing financial instability.

Key Picture: CPI , Monthly, % Change over the year



Source: [Official Statistics of Japan]

Introduction

Sanae Takaichi has made history as Japan’s first female prime minister, a breakthrough moment in a country long dominated by male political elites. At 64, the staunch conservative, often dubbed Japan’s “Iron Lady” for her admiration of Margaret Thatcher, finally claimed victory after two failed leadership bids. A protégé of the late Shinzo Abe and a leading figure in the Liberal Democratic Party’s hardline wing, Takaichi inherits a turbulent political landscape: she is the fourth leader in five years of a scandal-plagued party.

Praised by Donald Trump as “a highly respected person of great wisdom,” she now faces the daunting task of reviving Japan’s sluggish economy, managing an uneasy relationship with Washington, and restoring unity within a divided ruling party.

Who is Sanae Takaichi?

Sanae Takaichi has long been a fixture in Japan’s political establishment. Born in Nara Prefecture in central Japan, she graduated from Kobe University before entering politics in the 1990s. Unlike many of her Liberal Democratic Party (LDP) peers who hail from elite universities such as Tokyo or Harvard’s Kennedy School, Takaichi’s background is comparatively modest, an origin story she has used to project herself as disciplined, self-made, and pragmatic.

Over the decades, she built her career as a close ally and protégé of the late Prime Minister Shinzo Abe, serving in several of his cabinets and in that of his successor, Fumio Kishida. Her admiration for Margaret Thatcher, she often wears blue suits in homage, has cemented her reputation as Japan’s “Iron Lady.” Outside politics, she’s an amateur drummer with a love for heavy-metal bands like Iron Maiden and Deep Purple.

Politically, Takaichi sits firmly on the right. She has vowed to restore Japan’s military strength, tighten immigration controls, and preserve male-only imperial succession. A vocal China hawk, she has cultivated ties with Taiwan’s political elite, provoking protests from Beijing. Domestically, she champions nationalism under the slogan “Japan is back,” while critics accuse her of historical revisionism for downplaying Japan’s wartime atrocities and repeatedly visiting the controversial Yasukuni Shrine.

Her rise thus represents both continuity and disruption—continuity with Abe’s conservative agenda, but disruption in the form of Japan’s first female leader.

Breaking Japan’s Glass Ceiling

Takaichi’s ascent marks a milestone in a country still shaped by patriarchal norms. For many Japanese women, her leadership is a potent symbol, a reminder that power is no longer the exclusive domain of men. Yet the broader implications for gender equality remain uncertain.

Her cabinet is overwhelmingly male, and her policies show little inclination toward feminist reform. In that sense, Takaichi’s rise may signal progress in optics more than in substance. Nonetheless, her very presence at Japan’s political summit subtly challenges societal expectations and could inspire future female leaders to enter public life.

Can She Survive?

The question now is how long she can last. The resignation of Komeito, the LDP’s long-time coalition partner, has left Takaichi navigating a fragile parliamentary arithmetic. Internally, she faces she faces skepticism, also from and veteran Shigeru Ishiba, who are cautious about her nationalist rhetoric and confrontational political style.

While her early approval ratings exceed 50%, Japan’s recent history is littered with short-lived premierships—four leaders in five years. To avoid becoming another casualty of political volatility, Takaichi must deliver visible economic improvements and restore cohesion within her party. Her durability will depend less on symbolism and more on whether she can sustain growth, raise wages, and reassure financial markets.

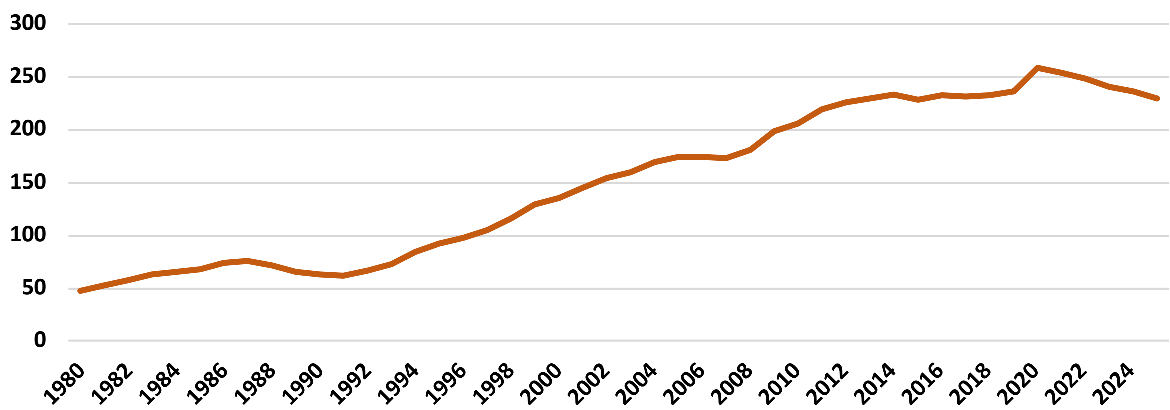
Economic Program: Can She Deliver Abenomics 2.0?

Takaichi enters office with the promise, and the burden, of reviving Japan's economic dynamism. As Abe's protégé, she inherits not only his political mantle but also his economic legacy. Many expect her to launch "Sanaenomics," an updated version of Abenomics' three-arrow strategy of monetary easing, fiscal stimulus, and structural reform.

Japan's Economic Developments

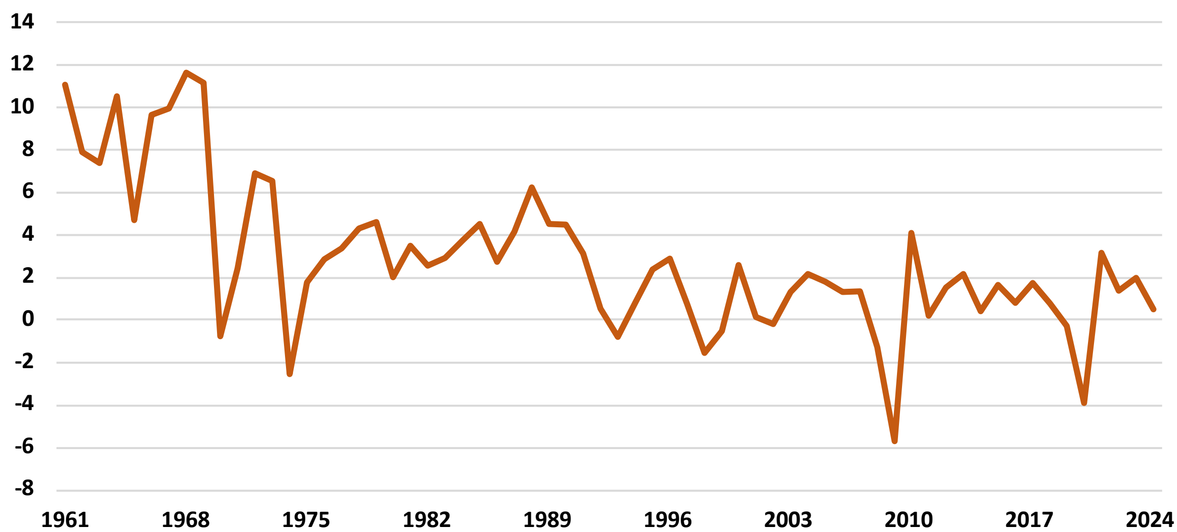
But today's conditions are very different. Inflation has stayed above the Bank of Japan's 2% target for over three years; public debt is around 250% of GDP; and the population continues to shrink. Loose monetary policy, once essential to end deflation, is now riskier amid rising import costs and a weak yen.

Figure 1: General Government Gross Debt (Percent of GDP)



Source: IMF WEO

Figure 2: Annual Real GDP Per Capita Growth (%)



Japan's economy has been stagnant for decades, hovering near recession as both investment and consumer demand remain weak. Real wages have barely grown for 25 years even as corporate profits rose. Despite a record-low unemployment rate of 2.5-2.6%, significant slack persists in the labor market. Total hours worked remain nearly 3% below pre-pandemic levels, and many firms rely on part-time, lower-paid workers. The headline jobless rate masks a deeper structural issue: Japan's shrinking workforce, which is declining by roughly 550,000 people a year. Rising female participation has partly offset labor shortages, but women are concentrated in lower-paid sectors, further depressing the overall wage share. Labor's share of national income has fallen from 60% in the 1980s to about 55% today. Median full-time pay is unchanged since 1993, and real hourly wages have dropped roughly 10% since their 1997 peak.

Japan's deeper challenge lies in demographics. A falling and aging population means per capita GDP growth now outpaces total output, but both are slowin, highlighting the economy's long-term structural malaise.

Takaichi's Approach

Takaichi's approach tilts toward fiscal activism. She has pledged "responsible but proactive" spending focused on crisis management, large-scale public investment in food, energy, defense, and strategic technologies like semiconductors, AI, and electric-vehicle batteries. The goal is to reduce foreign dependence and enhance national security.

In her first policy speech to the Diet on October 24, Japan's new prime minister, Sanae Takaichi, unveiled an ambitious vision combining aggressive fiscal expansion with a comprehensive security buildup. Pledging to "turn people's anxieties into hope," she placed economic revitalization at the heart of her agenda, repeating the phrase "strong economy" six times and positioning it as the foundation for national resilience.
Over half of her 20-page address focused on the economy. Takaichi promised a stimulus package exceeding ¥13.9 trillion to counter rising living costs and support household income. Key measures include abolishing the long-standing provisional gasoline tax, raising the income tax exemption threshold from ¥1.03 million to ¥1.6 million, and introducing a new hybrid system of income deductions and cash benefits. Takaichi also announced the creation of a Growth Strategy Council to spearhead innovation, industrial renewal, and "crisis management investments" in sectors like food security, echoing elements of Kishida Fumio's "new capitalism."

Politically, the speech sought to consolidate her fragile ruling coalition. After the LDP's loss of majority and the departure of its longtime partner Komeito, Takaichi forged a new alliance with Nippon Ishin no Kai. Yet the coalition still lacks control of either chamber, forcing her to seek bipartisan support for budgets and reforms. Emphasizing stability as a precondition for reform, she vowed to consider opposition proposals "flexibly and sincerely" while defending the government's core principles.

However, with roughly a quarter of Japan's budget already financed through bond issuance, such expansionary spending risks worsening fiscal fragility. Comparisons with Liz Truss's brief, market-roiling premiership in the UK are unavoidable: bold stimulus without credibility could provoke a "Truss shock" in Tokyo.

The greater challenge lies in structural reform. Abenomics' first two arrows—monetary and fiscal stimulus—worked temporarily; the third arrow of structural change never truly landed. Reviving public-private partnerships to mobilize Japan's massive corporate cash reserves toward domestic investment could reinvigorate innovation and productivity. But corporate risk aversion, demographic decline, and labor rigidities persist.

Success for Sanaenomics will depend on whether she can convert fiscal activism into private-sector confidence, otherwise Japan risks repeating Abenomics' shortcomings: rising debt without deeper renewal.

Monetary Policy: A Delicate Balancing Act

The monetary landscape presents an equally complex dilemma. The Bank of Japan kept interest rates steady at 0.5% in its first meeting under Takaichi, signaling continuity amid global tightening. Meanwhile, U.S. Treasury Secretary Scott Bessent, after meeting Japan's new finance minister Satsuki Katayama, subtly warned Tokyo against "excess exchange-rate volatility." The yen's weakness remains a point of friction with Washington; President Trump has accused Japan of keeping its currency artificially low to boost exports.

Takaichi, who once slammed rate hikes as "stupid," now adopts a more cautious stance. She argues that Japan has not yet achieved "sustainable inflation accompanied by wage growth" and urges the BOJ to move slowly. Her comments suggest a preference for policy coordination and a bias toward easy financial conditions—even as the weak yen pushes up import prices and household costs. The government's emphasis on fiscal expansion and the BOJ's cautious approach place Japan at odds with the tightening paths of the Federal Reserve and the ECB. That divergence has widened interest-rate differentials, putting persistent downward pressure on the yen.

All eyes will now turn to BOJ Governor Kazuo Ueda's speech in early December, where markets expect clues on whether the central bank will resume rate hikes. Any sign of policy divergence could heighten volatility across currencies, JGBs, and equities.

Market Implications

Financial markets initially greeted Takaichi's victory with enthusiasm. The yen has fallen sharply since Sanae Takaichi's election, with the dollar up more than 2% and Japanese equities gaining nearly 5%. Markets are pricing in expectations of looser fiscal and monetary policy under the new prime minister, a staunch supporter of Abenomics. The Nikkei 225 surged past the 49,000 mark for the first time, driven by gains in real estate, technology, and heavy-industry sectors as investors bet on fiscal stimulus and accommodative policy.

However, in the beginning of October, the yen slid more than 1.5%, hovering near the symbolic ¥150 per dollar level and hitting record lows against the euro. The currency's fall underscores expectations that the new government will prioritize growth and domestic demand over exchange-rate stability. In the short term, continued yen weakness benefits Japan's export-heavy corporates, inflating earnings for automakers and electronics giants. But prolonged depreciation risks fueling imported inflation, particularly in food and energy, eroding real incomes and consumer confidence.

Japanese government bonds (JGBs) remain relatively stable under BoJ yield-curve control, but further fiscal expansion could test investor appetite. Should yields climb beyond the BoJ's tolerance band, the central bank may face renewed pressure to intervene, complicating its gradual exit from ultra-easy policy.

Equity markets could remain buoyant in the near term, supported by corporate earnings and global investors' renewed interest in Japan's restructuring story. Yet stretched valuations and policy uncertainty suggest volatility ahead. Markets will look for credible signals that Takaichi's administration can balance stimulus with fiscal discipline and prevent the yen's slide from undermining financial stability.