

Daiwa's View

Prime Minister Suga decided not to run in the LDP presidential election

- Post-Suga outlook is still uncertain, but supplementary budget worth around ¥30tn is likely to be formed in Dec

FICC Research Dept.

Senior Fiscal Policy and
Credit Analyst
Kouji Hamada
(81) 3 5555-8791
kouji.hamada@daiwa.co.jp



Daiwa Securities Co. Ltd.

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Prime Minister Suga decided not to run in the LDP presidential election

On 3 September, Prime Minister Yoshihide Suga announced that he would not run in the presidential election of the Liberal Democratic Party of Japan (LDP). Although the post-Suga outlook is still uncertain, it is highly likely that the general election will be held on 7 November and a supplementary budget worth around ¥30tn will be compiled in December.

With it now confirmed that there will be a change in prime minister, events in the near term seem likely to unfold in the following way. After the LDP presidential election, an extraordinary session of the Diet needs to be convened in order to designate a new prime minister. With the convening of the extraordinary session of the Diet, the lower house election will be called either within 24-30 days after closure of the Diet due to the end of the term (without dissolution) or within 40 days after dissolution of the lower house. On the 3rd, *Yomiuri Shimbun* reported that the lower house election would very likely be held on 7 November due to the end of the term or after 7 November due to dissolution of the lower house. On the same day, Jiji Press posted an article saying that opposition parties requested to hold an extraordinary session of the Diet in September, but the ruling parties refused, and insisted that COVID-19 contingency reserves would be left until December, and the government and ruling parties would take quick action to pass a supplementary budget by the end of the year. In order to meet this schedule, voting would have to take place around 7 November. Prime Minister Suga's decision not to run in the election has decreased the need to postpone the general election as long as possible while vaccinations are moving forward. In fact, it may be better to hold the election early while the public has high hopes for a new prime minister. For reference, approval ratings for the Suga administration have dropped despite the fact that ratings for the LDP have not declined. Therefore, the ruling parties are likely to secure enough votes (e.g. majority) to clear the bar for victory in the general election. It would seem that concerns have faded about the new prime minister resigning so soon and another one being elected, and the supplementary budget being further delayed.

The outlook for the LDP presidential election is still uncertain. Opinion polls are very important as front-runners in the general election are being chosen. However, in terms of personality and interpersonal relationships, there don't appear to be any candidates capable of quickly securing the support of a majority. It will likely take a little time before the situation becomes clearer.

The size of the supplementary budget is expected to be around Y30tn, as previously reported. With the general election being held while COVID-19 infections are continuing to spread, it would be difficult even for budget hawks to steer things towards fiscal austerity. Mr. Taro Kono has served as a cabinet member continuously since 2017, during which time he has never touched upon fiscal policies outside his purview. However, his book published on 27 August is mainly about regulatory reform and administrative reform, which is consistent with the fact that he is well known as an advocate of small government. In the upcoming LDP general election, Mr. Fumio Kishida has called for economic measures worth several tens of trillions of yen. He was probably allowing for some wiggle room, but on 29 August it was reported that he mentioned economic measures of about Y30tn to reporters after having held online interviews with young businesspeople. His book *Kishida Vision*, which was published during last year's presidential election, emphasizes the importance of fiscal soundness. In the monthly magazine *Bungeishunju*, Ms. Sanae Takaichi announced her intention to run in the election, and proposed an aggressive fiscal policy in which she would not hesitate to issue JGBs—dubbed “Sanaenomics.” If Ms. Takaichi wins, the size of the supplementary budget may expand. Mr. Shigeru Ishiba, who has not yet made it clear whether he intends to run in the election, is well known as a budget hawk. However, he presented the idea of considering a cut in the consumption tax rate in last year's presidential election.

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