

Daiwa's Economic View

Upper House election results and future framework for administration, fiscal policy

- Ruling parties lost their Upper House majority, but PM Ishiba announced he will remain in office; uncertainty surrounding future political framework, fiscal policy
- Ishiba may resign by September following US/Japan tariff talks or due to pressure from within his party
- Scale of future fiscal stimulus to unfold in economic measures and scale of budget compilation due out between this fall and end of year

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Even though the ruling parties lost their majority in the Upper House election, Prime Minister Shigeru Ishiba announced that he will remain in office. Meanwhile, uncertainty surrounding the political framework and fiscal policy is growing. That said, Ishiba may step down by September following US/Japan tariff negotiations or due to demands from within his own party. With Ishiba's future still uncertain, the post-election administrative framework remains unclear. The scale of fiscal stimulus will become clear in the economic measures and budget compilation process due out between this autumn and the end of the year.

Ruling parties lose majority in Upper House race; criticized for high prices

As predicted, the ruling parties lost a significant number of seats in the 20 July Upper House election. Specifically, the Liberal Democratic Party (LDP) lost 13 seats and its coalition partner Komeito lost 6 seats. As a result, the ruling parties won only 47 seats, falling short of the 50 seats needed to lock up a majority (Chart 1).

Chart 1: Upper House Seats up for Re-election and Election Results by Party

	No. of contested seats	Election results	Change
Liberal Democratic Party (LDP)	52	39	-13
Komeito	14	8	-6
Constitutional Democratic Party (CDP)	22	22	0
Japan Innovation Party (JIP)	6	7	1
Democratic Party for the People (DPP)	4	17	13
Japanese Communist Party	7	3	-4
Sanseito	1	14	13
Reiwa Shinsengumi	2	3	1
Social Democratic Party	1	1	0
NHK Party	1	0	-1
Conservative Party of Japan	0	2	2
Team Mirai	0	1	1
Independents	7	8	1
Total	117	125	8

Source: Compiled by Daiwa.

In opinion polls conducted by various media outlets, the percentage of respondents who wanted the government to address high prices was consistently high. Apparently, price increases exceeding income growth led to criticism of the administration. The LDP's political funding scandals and its policy of distributing cash handouts to the public just before the election may have contributed to criticism of the administration.

Such criticism of administration boon for DPP and Sanseito

The opposition parties that significantly increased their number of seats were the DPP (+13 seats) and Sanseito (+13 seats). The number of seats was unchanged for the Constitutional Democratic Party of Japan (CDP), up only one seat for the Japan Innovation Party (JIP), and down four seats for the Japanese Communist Party. Criticism of the ruling parties mainly benefited the DPP and Sanseito, which like the LDP, are very conservative (Chart 1).

The DPP and the Sanseito lack experienced Diet members and their organizational bases across the country are still weak. However, with favorable tailwinds this time, these parties rapidly increased their clout. Still, it will probably take some time before they can run the government.

Meanwhile, there are now questions about how the LDP will respond going forward. High prices, social security burdens, Trump tariffs, and the virtuous cycle of higher wages leading to higher prices are all major challenges. If this situation is not handled properly, political instability will continue due to multi-polarization involving minority parties. Pressure for fiscal expansion, such as demands for tax cuts from the public, is also likely to continue.

Ishiba will not resign even after ruling parties lose their majority

Even though the LDP and Komeito fell short of the 50 seats needed to secure a majority, Ishiba did not announce his intention to resign. Likewise, in the Lower House election last October, the ruling parties lost their majority, but Ishiba did not resign. The LDP also lost a significant number of seats in the Tokyo Metropolitan Assembly election in June of this year. There seems to be considerable criticism within the party regarding Ishiba's decision to remain in office despite these three consecutive defeats in important elections.

We see two possible scenarios for the future. First, Ishiba announces his resignation after wrapping up US/Japan tariff negotiations. The deadline for negotiating tariffs with the US is 1 August. If Ishiba announces his resignation now, there is a possibility that US President Donald Trump will not agree to negotiate before the deadline. Therefore, he is not mentioning his resignation at this time. It is possible that he will announce his resignation after negotiations are implemented, or in conjunction with the expiration of the terms for three top LDP officials in September.

Second, it is also possible that Ishiba has no intention of resigning. In that case, we think there will be a serious movement within the LDP to remove him from power.

There were also reports that certain LDP candidates did not want Ishiba to join them on the campaign trail ahead of the Upper House election. The government's approval rating in opinion polls fell again just before the Upper House election. If the opposition parties prepare for a Lower House election, a Cabinet no-confidence motion would likely pass. If Ishiba remains in office and fails to achieve any notable results before a general election is called, there would be concerns that the LDP could lose even more seats.

Article 6, Paragraph 4 of the LDP's party rules stipulates provisions for special party presidential elections. If a majority of the party's Diet members and representatives of prefectural branches request such a party presidential election, it would be held even before the end of the term. That would essentially be a recall. If Ishiba has no intention of resigning, it is highly likely that the LDP will aim to hold a party presidential election before the end of Ishiba's term.

Scale of future fiscal stimulus to be clarified between autumn and end of this year

The CDP, the Democratic Party for the People (DPP), and JIP have so far denied any intentions to join the coalition. This is a natural reaction given that it is immediately after the election and Ishiba's future is uncertain.

In an interview during the vote counting, Ishiba hinted at his intention to cooperate with the CDP to pass future budgets. However, it is still unclear how long Ishiba can remain in power. Before the Upper House election, we had assumed that an LDP party presidential election would take place in August. However, considering the tariff negotiations with the US, the terms of office for three LDP party leaders, and the procedures for holding a presidential election mid-term, there is a possibility that such a move could be pushed back to September.

Before confirming Ishiba's future and his successor, it would be difficult for opposition parties to decide whether (1) some parties will join the ruling coalition or (2) they will cooperate with the ruling coalition on individual policies.

Considering the results of the Upper House election, pressure for fiscal expansion is likely to intensify going forward. However, there is no change to our view that the scale of the measures will only become clear with the economic measures due out this fall, the FY25 supplementary budget, and the initial budget for FY26 in December. Concerns over fiscal expansion are likely to continue to smolder as a factor pushing up JGB yields from this autumn through the end of the year.

For further information on the frameworks for ruling and opposition parties' administration and the outlook for fiscal policy, please see our 15 July 2025 *Daiwa's Economic View* entitled "[Points regarding Upper House election and subsequent fiscal policy](#)."

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