

# Daiwa's Economic View

## Next major political event on 8 Sep: Will LDP hold party leadership election?

- At the LDP's 2 Sep joint plenary meeting, PM Ishiba announced his intention to remain in office; also indicated his intention to ask Secretary-General Moriyama, who had expressed his intention to resign, to stay in office
- Next focus on whether LDP will hold extraordinary party leadership election (announcement expected on evening of 8 Sep)
- If extraordinary LDP party leadership election shelved, market concerns over fiscal deterioration should ease; Once decision to hold election is made, caution regarding fiscal expansion would persist

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At the Liberal Democratic Party's (LDP) 2 September joint plenary meeting of party members of both houses of the Diet, Prime Minister Shigeru Ishiba announced his intention to remain in office. Ishiba also indicated his intention to ask Secretary-General Hiroshi Moriyama, who had expressed his intention to resign, to remain in office. The focus on political developments will shift to whether an extraordinary LDP party leadership election will be held (announcement expected on evening of 8 Sep). If an extraordinary party leadership election is shelved for the time being, market concerns over fiscal deterioration should ease, making it easier for JGB yields to stabilize. Meanwhile, if there is an extraordinary LDP party leadership election, the risk of higher yields would persist due to concerns about fiscal expansion.

### PM Ishiba, Secretary-General Moriyama (who intended to resign) likely to remain in office

On 2 September, the LDP held a joint plenary meeting to review the outcome of the July Upper House election. The results of that meeting were announced on that day. A key focus of this meeting was on Secretary-General Moriyama's future. There was the belief that if he resigned, functioning of the Ishiba administration could become more difficult. However, Ishiba indicated his intention to remain in power under an Ishiba-Moriyama framework.

Prime Minister Ishiba first apologized for the July Upper House election drubbing, but then outlined policy issues to be addressed going forward and expressed his intention to continue governing.

The four top party officials expressed their intention to resign, but Secretary-General Moriyama left his own future to Ishiba's discretion. Ishiba expressed his intention to retain Moriyama, shifting the political focus to whether an extraordinary LDP party leadership election will be held.

### Possibility of extraordinary party leadership election currently unclear

The possibility of an extraordinary LDP leadership election is unclear at this juncture. Requests for such an election must be submitted by 8 September with the results announced on that day. Opinions are divided at this stage on whether or not such an election will be held. Many LDP lawmakers and prefectural chapter representatives seem to be waiting to see how the joint plenary meeting on 2 September unfolded before making their decisions. So, the situation is likely to become clearer by 8 September (when requests for such an election are submitted).

A combined majority (172 votes) derived from the party's 295 lawmakers and one representative from each prefectural chapter (47 representatives) is needed for an extraordinary leadership race to be held. According to an opinion poll released by the *Yomiuri Shimbun* on 31 August, as of 30 August, 128 respondents were in favor and 33 were opposed to holding an extraordinary LDP leadership election. Those in favor of holding a party leadership election significantly outweigh those opposed to such an election, but the majority threshold of 172 has not yet been reached. Roughly half of those who have not clarified their position (in favor or oppose election) seem likely to make a decision after reviewing the 2 September post-election review of the July Upper House election and statements from Ishiba and others at the joint plenary meeting.

Opinions are currently divided on whether an extraordinary LDP party leadership election will be held.

There are three main reasons why holding an extraordinary LDP party leadership election seems difficult.

First, polls following the July Upper House election show the government's approval rating has risen and more people now favor Ishiba remaining in office.

Second, the voting system entails some disadvantages for lawmakers favoring an extraordinary LDP party leadership election. Specifically, Diet members must sign and affix their seal to the form and personally deliver it to party headquarters between 10:00 AM and 3:00 PM on 8 September. Furthermore, the names of lawmakers and prefectural chapter representatives that make such requests will be made public, raising concerns that they could face disadvantages should the Ishiba administration remain in power.

Third, there are calls for cabinet members holding positions such as ministers, vice ministers, and parliamentary secretaries to resign if they are in favor of an extraordinary party leadership election.

Meanwhile, according to the aforementioned *Yomiuri Shimbun* survey, support for an extraordinary party leadership election is growing, particularly among mid-career and young LDP lawmakers. Current opinion polls include many comments that there is no need for Ishiba to step down. However, the ruling parties do not hold a majority in the Lower House and, if opposition parties submit a motion of no confidence in the cabinet, it is highly likely to pass. If a snap general election is held without any new developments, the LDP would risk losing even more seats to the Democratic Party for the People (DPP) and Sanseito. It would not be surprising if lawmakers with weak electoral bases took steps to replace Ishiba as the "face of the party."

### **Market focused on vote counting results (evening of 8 Sep)**

Financial markets were watching closely for any indication of Secretary-General Moriyama's future at the 2 September joint plenary meeting. However, with his continued tenure now looking likely, attention will probably shift to whether an extraordinary party leadership election will be held, with a decision expected on 8 September.

If the extraordinary party leadership election is shelved for now, the Ishiba administration will remain in place for the time being. The administration will likely consult with the Constitutional Democratic Party of Japan (CDP) and aim to pass the FY25 supplementary budget and the FY26 initial budget. A possible consumption tax cut is concerning. There is the concern that once a tax cut is implemented, even if for just one year, reinstating the former tax rate would become difficult.

However, both the Ishiba administration and the Constitutional Democratic Party of Japan are generally cautious about large-scale fiscal stimulus. In the JGB market, excessive caution over fiscal deterioration will likely ease, leading to more stable JGB yields, particularly for long and super-long maturities.

If an extraordinary LDP party leadership election is held, political uncertainty could surge dramatically. Fiscal policy could change significantly depending on the new LDP party president and the political framework, so caution over worsening finances would likely persist on the JGB market. Once the contents and scopes of budgets and various tax cuts are finalized, JGB yields will begin to reflect those new developments. Compared to maintaining the Ishiba administration, however, decisions on economic measures and the compilation of the supplementary budget would likely to be delayed as a leadership election takes time.

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