

Daiwa's Economic View

Results of the Lower House election and schedule for fiscal events

- Significance of the LDP winning more than two-thirds of the seats on its own
- Major fiscal policy-related events anticipated by end-2026

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In the 8 February Lower House election, the Liberal Democratic Party (LDP) won more than two-thirds of the seats on its own. While the ruling coalition remains a minority in the House of Councillors (Upper House), the range of institutional options regarding major legislation has broadened. One factor behind the victory was capturing the support of unaffiliated voters on the back of Prime Minister Sanae Takaichi's popularity. PM Takaichi's governing base within the LDP is likely to strengthen dramatically.

There are various fiscal policy-related events through the end of the year. In the near term, attention will focus on the establishment of the national council, which is expected to determine the specific design of a consumption tax cut, as well as the announcement of the Basic Policy on Economic and Fiscal Management and Reform, which is anticipated for June.

Significance of the LDP winning more than two-thirds of the seats on its own

In the Lower House election, the LDP alone won 316 seats, exceeding two-thirds of the seats (310 seats). A key factor was that PM Takaichi framed the election as one to choose the governing administration, significantly moving unaffiliated voters.

The market's greatest focus will be on how far the government can push expansionary fiscal policy, including a consumption tax cut. In the Lower House, the LDP's seat count far exceeds the absolute stable majority threshold of 261 seats. This allows the party to secure the chair and a majority of members in all standing committees. They can lead committee operations, and they can control the deliberation schedules and voting. Bills related to the budget and economic policy can be passed with an extremely high degree of freedom.

In the Upper House, the ruling parties do not even have a simple majority, and this situation is likely to continue for several years. Coordination with other parties, mainly the Democratic Party for the People (DPP), will be necessary. However, because the LDP has secured a two-thirds majority in the Lower House, any bill rejected by the Upper House can still be passed by a two-thirds re-vote in the Lower House, although this takes time. When coordinating policies with the DPP, the LDP will be able to negotiate from a stronger position than before.

The LDP's cooperative relationship with the Japan Innovation Party (JIP) is unlikely to change for the time being. The media reported that PM Takaichi is keen for the JIP to have a presence in the cabinet. However, due to the LDP's reduced dependence on other parties, the JIP's standing may change in the medium to long term, and its policy demands will not necessarily be fully reflected.

Major fiscal policy-related events expected by end-2026

The market's focus will be on how far an active fiscal policy, including a consumption tax cut, can be advanced now that the LDP has regained control of Diet operations.

Summarizing the main fiscal events until the end of the year (Chart 1), the immediate focus will be on the national council's discussions on the consumption tax cut and the Basic Policy on Economic and Fiscal Management and Reform, which is usually announced in June.

Chart 1: Major Fiscal Policy-Related Events Anticipated by end-2026

Schedule	Fiscal event	
8-Feb	Lower House	General election polling and vote counting
18-Feb	(based on media reports)	Lower House
From Feb onward	(tentative)	National council (tentative)
Around May	(current target)	Japan Growth Strategy Headquarters
Jun		Cabinet decision on the Basic Policy on Economic and Fiscal Management 2026
Autumn - Dec	(if following the usual schedule)	Council on Economic and Fiscal Policy
by Dec	(if following the usual schedule)	Government
by Dec	(based on media reports)	Government expert council:
After 20 Dec	(if following the usual schedule)	Government

Source: Government materials, media reports; compiled by Daiwa.

National council: Deliberations on consumption tax cut

- Design the specific system for the consumption tax cut
- Planned as a body to consider reforming tax and social security
 - The refundable tax credit program will be a major theme
 - May be considered alongside the consumption tax cut
- The timing of the council's establishment, organizational form, and deliberation process are to be considered going forward
 - May become a consultative body between political parties rather than a government council
- Following the results of this Lower House election, there is uncertainty regarding the responses of opposition parties

Japan Growth Strategy Headquarters: Examination of 17 fields x 8 issues

- Working groups in each field are currently examining concrete measures for the 17 strategic fields and 8 crosscutting issues that will form the core of crisis management investment and growth investment
- A draft for the public-private investment roadmap is to be presented around May
 - The plan is to be compiled by the summer

Council on Economic and Fiscal Policy: Basic Policy on Economic and Fiscal Management 2026

- Every June, the basic policy for the next fiscal year's budget is decided
- The Ishiba Cabinet formulated the "Economic and Fiscal Plan for New Stage" in the Basic Policy 2025
 - It set out a policy to ensure the sustainability of public finances, including achieving a primary balance (PB) surplus
 - However, the Takaichi Cabinet may launch a new policy to realize "responsible proactive fiscal policy"
- A key point of interest is the presentation of a new target to achieve fiscal soundness
 - Budgeting for crisis management investment and growth investment, etc.

Supplementary budget

- While there is a policy to include necessary measures in the initial budget, the question is whether a large-scale supplementary budget will be formulated in the fall to implement economic measures, or whether the administration will stick to a minimal, administrative supplementary budget in December
- The size of the supplementary budget could be a major factor causing significant revisions to the JGB issuance plan

Government expert council: Revision of the three defense documents

- These are the three top-level strategies and plans for Japan's security policy: the National Security Strategy (NSS), National Defense Strategy (NDS), and Defense Buildup Program. The Kishida Cabinet made a cabinet decision on them in December 2022. The period for the NSS and NDS is about 10 years, and for the Defense Buildup Program is the five years from FY23 to FY27.
- The Takaichi administration plans to revise the three documents by end-2026. The defense budget for FY27 may reflect the new Defense Buildup Program.
- While the ratio of defense spending to GDP is to some extent a symbolic figure that includes items other than direct defense costs, what directly affects the budget is the Defense Buildup Program.

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