


Daiwa's Economic View

FICC Research Dept

Prospects for general election, budget compilation after LDP presidential election and implications for monetary policy

- Significant possibility of dissolving Lower House for snap election immediately after LDP presidential election; economic measures this fall, budget decision for FY25 in Dec also possible; still, realization difficult if there are increased calls to first address political/financial issues
- Election in Oct or Dec could make it harder for BOJ to act at Dec meeting



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The ruling Liberal Democratic Party (LDP) will hold its presidential election on 27 September. There is a strong possibility that speculation about dissolving the Lower House for a general election soon after the LDP presidential election will become a reality. If the schedule is the similar to that adopted by the new administration of Fumio Kishida three years ago, we can expect new economic measures and a supplementary budget this fall. The FY25 budget will be decided after 20 December, as usual.

That said, there are concerns that dissolving the Lower House for a snap general election will not be possible without first resolving the issue of politics and money. In that case, the Diet would hold an extraordinary session this fall to address economic measures, a supplementary budget, and further revisions for the Political Funds Control Act. Then the Diet could be dissolved in December for a general election. The FY25 budget would likely be set in January 2025.

The BOJ will likely find it hard to take any new actions at its December Monetary Policy Board meeting, regardless of whether a general election is slated for October or December. A snap election in October would be close to when the Cabinet will approve the FY25 budget proposal. Market interest rate instability would not be welcomed when trying to set JGB debt servicing costs based on assumed interest rates. In the case of the December election, the voting date would be close to the BOJ's meeting. As such, the meeting would be held against a backdrop of political turmoil. It would be hard for the BOJ to gain understanding from the political side to raise rates at that time.

General election soon after LDP presidential election seems quite possible

Dissolving the Lower House for a snap general election soon after the LDP presidential election is a real possibility. **When the new Kishida administration came to power three years ago after the LDP presidential election, it held a general election in October, adopted economic measures in November, and made a Cabinet decision on the budget for the following fiscal year in December.** An economic stimulus package was announced in November as Kishida had instructed the government to formulate economic measures before the Diet dissolution.

Chart 1: Schedule from LDP Presidential Election in 2021 to Budget Decision for Next FY

29-Sep	Casting and counting votes for LDP presidential election
4-Oct	Convening of extraordinary Diet session, nominating leader, formation of Cabinet
8-Oct	PM Kishida instructs government to formulate new economic measures
14-Oct	Lower House dissolved
19-Oct	Date of public announcement for Lower House election
31-Oct	Voting for Lower House election
10-Nov	Convening of special Diet session, nominating leader, formation of Cabinet
19-Nov	Announcement of economic measures
26-Nov	Cabinet approval of FY21 supplemental budget proposal
6-Dec	Convening of extraordinary Diet session, submission of supplementary budget proposal to Diet
20-Dec	Approval of supplementary budget
24-Dec	Cabinet approval of initial budget proposal for FY22

Source: House of Representatives, MOF, Prime Minister's Office, compiled by Daiwa.

There are several reasons why a snap election could be held immediately after the LDP presidential election.

First, approval ratings tend to be at their highest points immediately after the inauguration of a new administration and then they steadily decline. Former Prime Minister Yoshihide Suga was encouraged to call for a general election immediately after taking office, but he decided not to in order to prioritize coronavirus measures and avoid creating a vacuum in the national government. However, he failed to seize an opportunity to hold a snap election due to declining approval ratings. Ultimately, he decided not to run for the LDP presidency.

Second, there are concerns that postponing a snap election until FY25 could be problematic for ruling coalition partner Komeito, which wants to avoid as much as possible a series of elections over a short period of time, as it would struggle to conduct sufficient campaigning. The Upper House and Tokyo Metropolitan Assembly elections are scheduled for July 2025. The Lower House election will take place around the Upper House election, whether it is held in April, right after the budget for the next fiscal year is passed, or before October 2025, when the term of office for Diet members expires.

Third, the longer the snap election is postponed, the greater the concern that a possible US economic downturn could spill over into the Japanese economy. Worsening business sentiment in Japan would be detrimental to the ruling party's election prospects.

Snap election in Dec if Political Funds Control Act again revised?

Whether a snap election can be held immediately after the LDP presidential election will be determined to some extent by any further revisions to the Political Funds Control Act.

Perhaps, even after further discussion, the LDP may still struggle to come up with revisions that would be acceptable to the public. Unconditionally introducing a guilt-by-association system would force politicians to check the movement of money throughout the year. Prohibiting corporate group donations would require reducing the number of private secretaries and staff at political offices. It seems as if hindered political activity could become the reality.

That said, the LDP will still need to provide some response. There are hopes that the public will be swayed by the direction presented in policy debates ahead of the LDP presidential election. However, if there are growing demands to again discuss the Political Funds Control Act during an extraordinary Diet session, a snap election might not be held until after that act is further revised.

There is also the need to compile economic measures and pass a supplementary budget during an autumn extraordinary Diet session. Otherwise, there will not be enough funds to continue subsidizing the high costs for gasoline, electricity, and gas.

As such, if the Diet cannot be dissolved immediately after the LDP presidential election, a general election will be held in December after the Political Funds Control Act is again revised and a supplementary budget is passed during the autumn extraordinary Diet session. The Cabinet will probably approve the FY25 budget in January, making it difficult to pass the budget before the end of FY24.

Chart 2: Recent December Lower House Elections and Budget Schedules

	2012	2014
Dissolution	16-Nov	21-Nov
General election	16-Dec	14-Dec
Convening of special Diet session	26-Dec	24-Dec
Supplementary budget proposal for current FY, Cabinet decision	15-Jan	9-Jan
Diet enactment of budget bill	26-Feb	3-Feb
Initial budget proposal for following FY, Cabinet decision	29-Jan	14-Jan
Diet enactment of budget bill	15-May	9-Apr

Source: House of Representatives, MOF, compiled by Daiwa.

Possibly harder for BOJ to act if general election held before end of this year

Under the circumstances, if a snap election is held before the end of the year, whether in October or December, it may be harder for the BOJ to take any new actions during that time frame.

In the case of an October election, a Cabinet decision regarding the FY25 draft budget is likely sometime after 20 December, as usual. Assumed interest rates for debt servicing are determined by adding a buffer to the most recent results to account for a potential sharp yield rise. There is concern that if an interest rate hike is announced just before the budget is approved by the Cabinet, the assumed interest rates for debt servicing could also be impacted¹.

In the case of a December election, the likely voting date would be around 15 December, which is just before the BOJ's December meeting (18-19 Dec). If no changes are made, the LDP could lose a good number of seats in the next election. As such, this would be a period of political turmoil.

According to the latest Reuters survey (13-19 Aug survey period), 60% of respondents expected an additional BOJ rate hike within this year. The sense that a major action is possible remains particularly strong with the largest number of respondents expecting a hike at the December meeting. Naturally, the BOJ's path to monetary normalization will depend on future economic, price, and financial conditions. Still, when the BOJ conducted a rate hike in July, it said that the government expects the Bank to "Carefully explain its policy intention in case of a policy interest rate hike, so that it does not have unexpected effects on financial and capital markets and the real economy."

In this regard, the future political (election) schedule and budgeting process (schedule) will also need to be closely watched as factors that could impact the timing for BOJ policy decisions.

¹ Already at the budget request stage, MOF plans to raise the assumed interest rate for JGB expenses by 0.2%pt to 2.1%. See Koji Hamada's (2023/08/25) report "[Framework regarding assumed interest rates for JGBs and interest payments](#)" for further information about assumed interest rates on JGBs.

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