

Daiwa's Economic View

LDP/Komeito may lose Upper House majority; possible upward pressure on JGB yields due to additional coalition partner(s) and DPP's "review of its campaign promises"

- Likely to consider expanded coalition (LDP/Komeito + one) after election
- LDP/Komeito + DPP as one coalition option; expect upward pressure on JGB yields for now
- Focus on (1) whether DPP will reconsider its fiscal stimulus pledge in light of media reports of "Japanese version of Truss shock" and (2) possible LDP/Komeito + Japan Innovation Party coalition

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Preliminary polls for the July Upper House election indicate that it will be difficult for the ruling parties (LDP/Komeito) to secure a majority. After the election, there will likely be discussions about expanding to a three-party coalition (= Liberal Democratic Party [LDP], Komeito, and one other party). A coalition consisting of the current ruling parties and the Democratic Party for the People (DPP) is also one option. In that case, upward pressure on JGB yields would continue for now. Of note, the timing for the next Lower House and Upper House elections could be as far off as three years. Will the DPP reconsider its pledge for large-scale fiscal stimulus in light of media reports of a "Japanese version of the Truss shock"? Or, it might be interesting to see if the Japan Innovation Party (JIP) can become a "plus-one" coalition partner.

Preliminary Upper House election polls: Maintaining majority looking tough for ruling parties

The start of the Upper House election was officially announced on 3 July and media outlets released their preliminary polls on the first weekend following the announcement.

The ruling parties must win at least 50 seats to maintain a majority in the Upper House (see our 1 Jul 2025 report "[Daiwa's Economic View: Upper House election and fiscal policy outlook following Tokyo Assembly election](#)"). The survey results indicate around 50 seats for the ruling parties (Chart 1), but considering trends following the Tokyo Assembly election and the harsh results of Trump's tariffs, the ruling parties may struggle to secure a majority.

Chart 1: Results of Preliminary Media Polls for Upper House Election

Party name	No. of contested seats	No. of seats forecasted to be won		
		<i>Nikkei</i> (Announced on 4 Jul)	<i>Asahi Shimbun</i> (Announced on 4 Jul)	<i>Mainichi Newspapers</i> (Announced on 7 Jul)
Liberal Democratic Party (LDP)	66	More than 50 seats possible	Reaching 50 seats may be tough	55-79 Struggle to maintain 50 seats
Komeito				
Democratic Party for the People (DPP)	4	Growth (+6 or more seats)	Approach target of 16 or more seats	9-17 Significant growth seems likely
Sanseito	1	Growth	Around 10 seats	9-17
Japan Innovation Party (JIP)	5	No significant change	Targeting further gains involving contested seats	5-9 Sluggish growth
Constitutional Democratic Party (CDP)	22	Increase expected (roughly +5 seats)	Targeting further gains involving contested seats	23-33
Japanese Communist Party	7		Could lose contested seats	3-4
Reiwa Shinsengumi	2		Targeting four or more seats	3-5

Source: Various companies; compiled by Daiwa.

The survey results suggest that the LDP/Komeito coalition will lose a significant number of seats, with support shifting toward the DPP, which is more conservative than the LDP and more aggressive in terms of fiscal stimulus. Support is even shifting to the Sanseito. The reform-oriented JIP is struggling to gain traction. The Constitutional Democratic Party of Japan (CDP) and Reiwa Shinsengumi seem likely to increase a few seats, but the Japanese Communist Party is likely to lose seats. It appears that liberal parties are unable to fully capture the support of LDP backers and independent voters.

Post-election government structure: Reorganized coalition (LDP/Komeito + one) if ruling parties lose majority?

If the ruling parties fail to secure a majority in this election, they will become a minority ruling coalition in both the Diet's upper and lower houses. The future for PM Shigeru Ishiba and LDP executives (= stays in power or steps down) could be discussed again.

If the ruling parties hold minorities in both houses of the Diet, it would become increasingly difficult to pass budget proposals and bills. That would make a reshuffle of the current ruling coalition inevitable. The basic scenario is "LDP/Komeito + one," with either the DPP or the JIP joining the current ruling coalition. It is difficult to imagine a coalition involving the current ruling parties and the CDP, or a coalition government made up of opposition parties and led by the CDP.

Once the Upper House election is over, the timing for the next lower and upper house elections could be as far off as three years. If the ruling parties can secure a majority with the support of one additional party, a politician with proven leadership skills within the LDP would likely emerge as a strong candidate to be the next prime minister. The administration will likely focus on measures to address high prices, while negotiating tariffs with the US. Once it has achieved some good results and the approval rating for the administration has improved, the timing for a snap general election may be considered.

LDP/Komeito + DPP: Will DPP really implement election promise for large fiscal stimulus?

From an early stage, the DPP has supported budgets compiled by the LDP/Komeito coalition. The DPP is also in step with the ruling coalition in terms of their security and energy policies. With the DPP likely to gain a significant number of seats in the Upper House election, joining the ruling parties would create the combination of parties that had the highest approval ratings in past opinion polls.

The biggest concern, in that case, would be the scale of fiscal stimulus. If all election promises are fulfilled, more than Y20tn in financial resources would be required each year (Chart 2).

Chart 2: Fiscal Stimulus as Main Political Parties' Upper House Election Pledges

LDP Y3.5tn	Komeito Y3.5tn	CDP Y9tn	JIP Y7tn	DPP Y24tn
(Y tn)	(Y tn)	(Y tn)	(Y tn)	(Y tn)
Cash handouts (Y20,000 per person + α) 3.5	Cash handouts (Y20,000 per person + α) 3.5	Cash handouts (Y20,000 per person) 2	Consumption tax: 0% only for food 5	Consumption tax cut to 5% 10
		Consumption tax: 0% only for food 5	Provisional gasoline tax rate: Abolish 2	Provisional gasoline tax rate: Abolish 2
		Provisional gasoline tax rate: Abolish 2		Annual income tax threshold of Y1,730,000 7
				Education government bonds 5

Source: Media reports, ministry/agency materials; compiled by Daiwa.

Note: Scale of fiscal stimulus measures estimated by Daiwa.

Even in the world of politics, it is well known that Japan's fiscal risks are apparently being recognized in the JGB market, causing JGB yields to rise significantly. However, the DPP may find it difficult to change its pledges before the election, given the high public expectations for large-scale fiscal stimulus.

As the DPP's entry into the ruling coalition becomes more realistic, further upward pressure will be exerted on JGB yields. The focus is on whether the scale of fiscal stimulus will be reviewed, following increased media reports on the possibility of a "Japanese-version of the Truss shock." If the scale of fiscal stimulus is not revised, it will depend on whether the LDP/Komeito coalition chooses to add another partner. The next national election will be held in three years at the latest, so even if the campaign promises are revised to a more realistic scale, it could be argued that the impact on the number of seats will be limited over the short term.

LDP/Komeito + JIP: Large-scale fiscal stimulus is avoidable

JIP approved the FY24 supplementary budget and the FY25 initial budget proposed by the LDP/Komeito coalition government. JIP is also in step with the LDP/Komeito in terms of security and energy policies. JIP prioritizes administrative and fiscal reform over fiscal stimulus, so a sharp rise in JGB yields would be unlikely.

That said, it seems unlikely that JIP will gain many seats in the upcoming Upper House election. Furthermore, both JIP and Komeito are competing against each other for seats in Osaka, which is an important electoral base for both parties. In addition, co-representative Seiji Maehara left the DPP and joined the JIP in order to form a non-LDP opposition government.

LDP/Komeito + CDP: Difficult to form coalition, minority ruling parties cannot be dissolved

CDP is quite similar to the LDP/Komeito coalition in terms of fiscal policy. If the Ishiba administration remains in place, there may be partial cooperation for the FY25 supplementary budget and the initial budget for FY26. However, it is unclear whether or not the Ishiba administration will continue to stress fiscal discipline after the Upper House election.

Furthermore, given the significant differences between CDP and LDP/Komeito regarding energy and national security policies, it is unlikely that they will form a coalition. Indeed, the CDP would not approve the construction of new nuclear power plants and would push for their rapid decommissioning. In terms of national security policy, the CDP has pledged to abolish the unconstitutional parts of the Japan/US Security Treaty in its platform for the Upper House election. This seems to suggest that the CDP will not exercise the right of collective self-defense. Meanwhile, the Japanese Communist Party has withdrawn its candidates in Fukushima and Kagoshima prefectures for the Upper House election to avoid competition with the CDP candidates. There were media reports that this election cooperation was conditional on the withdrawal of collective self-defense (1 Jul *Nikkei*).

If forming a coalition is too difficult, the LDP and Komeito will remain a minority ruling coalition, and there will be no fundamental solution.

Regime change led by CDP: Unlikely

The likelihood of a coalition government consisting of opposition parties and led by CDP emerging after the Upper House election seems small. Such a coalition would need to bring together a core group consisting of the CDP, DPP, and JIP. However, there are significant policy differences among these parties. There has been no real progress in coordinating policy agreements for the formation of such a coalition.

Yoshihiko Noda, head of the CDP, has repeatedly stated that his aim is to form a single-party government consisting of the CDP. However, results of the June Tokyo Metropolitan Assembly election and the opinion polls conducted for the upcoming Upper House election suggest that any increase in seats for the CDP will be limited.

Fiscal policy after Upper House election: Steps to address high prices somewhat inevitable

If the LDP/Komeito coalition lose a significant number of seats in the upcoming Upper House election, it will likely be because rising prices are outpacing income growth, making life difficult for the general public. Even if the DPP does not join the ruling parties, some measures to address

high prices will be unavoidable. Stressing the fiscal discipline of the Ishiba administration could be difficult.

The key point when assessing fiscal discipline is whether it is possible to continue price measures centered on subsidies, which can be flexibly adjusted in terms of scale, while minimizing permanent tax cuts.

As for permanent tax cuts, the provisional gasoline tax rate will likely be abolished from FY26. Once consumption taxes are lowered, it is difficult to raise them again. Reducing the practical burdens placed on businesses is also necessary. If the consumption tax on food prices is reduced from 8% to 5%, the necessary financial resources will come to only Y1.5tn. At that level, it seems that the current JGB issuance plan will be sufficient to absorb that amount.

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