

# Daiwa's Economic View

## Ruling LDP/Komeito could expand coalition after Upper House election

- Expanded coalition possible if LDP/Komeito fail to secure majority in Upper House
- DPP, other parties seen as potential new coalition partners according to media reports, others
- Upward pressure on JGB yields may increase, but focus to then shift to effectiveness of policies vs election pledges

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If the Liberal Democratic Party (LDP)/Komeito coalition fails to secure a majority of seats in the upcoming Upper House election, it could try to expand its coalition to include other parties. Media reports have suggested that the Democratic Party for the People (DPP) could be a good option, among others. In that case, upward pressure could be applied to JGB yields due to concerns about possible large-scale fiscal stimulus. Amid such market conditions, attention will focus on the actual effectiveness of policies compared to election pledges.

### LDP/Komeito may consider expanding coalition if it loses majority

There have been some indications that the ruling LDP/Komeito coalition may look to expand its coalition with the addition of a new partner, if it fails to secure a majority in the Upper House election later this month.

Japan has a parliamentary cabinet system in which the ruling parties form the Cabinet and the Cabinet prepares budget proposals and bills, which are then submitted to the Diet for approval. Of particular note, only the Cabinet has the authority to submit budget proposals. On the other hand, Diet members can also submit bills to the Diet.

When the Cabinet submits a budget proposal, the related legislation must be prepared and amended. For example, a special bill is currently required in order to issue deficit-financing bonds, but the deadline for that will expire in FY25. However, if the LDP/Komeito become a minority ruling coalition in both houses of the Diet, they would be unable to pass not only the budget, but related bills as well in the Diet, without the cooperation of opposition parties. In some cases, budget-related bills with content different from the Cabinet's budget proposal may be submitted by opposition parties and passed. That would entail the risk of the Cabinet's budget compilation process ceasing to function.

Considering the number of seats in the Lower House, it will be difficult for an opposition coalition centered around the Constitutional Democratic Party of Japan (CDP) to take power. There is also speculation that the LDP/Komeito ruling coalition could be joined by either the DPP, Japan Innovation Party (JIP), or CDP to form an expanded ruling coalition. Once the Upper House election is over, there may not be any national elections for some time. We think that opposition parties may find it easier to explore the possibility of joining the ruling coalition (refer to [10 Jul 2025 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"](#)).

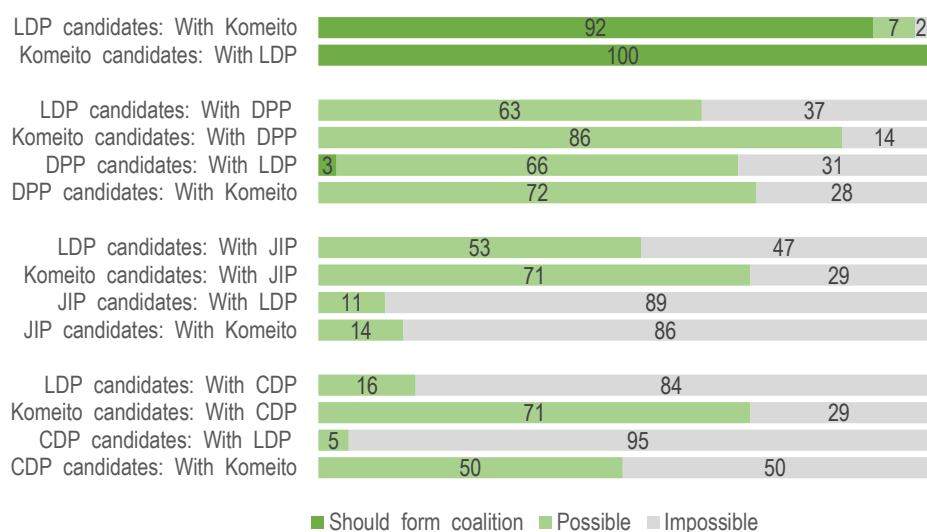
### Based on views of Diet members from each party, one option is LDP/Komeito + DPP

On 9 July 2025, the *Asahi Shimbun* announced the results of its joint survey conducted with the University of Tokyo. Diet members from each party were asked about preferred coalition partners. The results suggest that expanding the ruling LDP/Komeito coalition to include the DPP is one of the leading options.

A survey asked candidates from each party to name which parties they would prefer to invite to form a coalition. The three options were “Coalition should be formed regardless of election results,” “Coalition possible depending on election results,” and “Coalition impossible regardless of election results.”

The only case in which both sides are open to forming a new coalition is the LDP/Komeito and DPP. According to the survey, a large percentage of LDP candidates and Komeito candidates are open to forming a coalition with JIP but only a small percentage of JIP candidates are open to forming a coalition with LDP/Komeito. Meanwhile, the LDP and the CDP seem to have no intention of forming a coalition with each other (Chart 1).

**Chart 1: Views on Formulating Coalition After Upper House Election Held by Candidates in Each Party (composition ratio, %)**



Source: Asahi Shimbun; compiled by Daiwa.

Note: Should form coalition (= Coalition should be formed regardless of election results), Possible (= Coalition possible depending on election results), and Impossible (= Coalition impossible regardless of election results).

### If PM Ishiba resigns, distance between LDP/Komeito and JIP, CDP could widen

Furthermore, based on a special series in the *Nikkei* (8-10 Jul), if PM Ishiba and his administration were to step down based on the results of the Upper House election, it is possible that the distance between LDP/Komeito and the opposition parties JIP and CDP could widen. Conversely, depending on the next prime minister after Ishiba steps down, it is possible that the distance between the LDP/Komeito and the DPP could narrow.

According to the *Nikkei's* special series, there are close ties between PM Ishiba, Yoshihiko Noda (CDP representative), and Seiji Maehara (JIP co-representative). Meanwhile, Ishiba seems to have very little connection with DPP leader Yuichiro Tamaki. Within the LDP, former party Secretary-General Toshimitsu Motegi and Senior Advisor Taro Aso appear to have connections with the DPP.

Why the *Nikkei* decided to publish this special series at this particular time is unknown. However, Motegi is likely to be one of the leading candidates to succeed Ishiba. He has served as Minister of Economy, Trade and Industry, Minister of Economic and Fiscal Policy, and Chairman of the LDP Policy Research Council, and is strongly committed to economic growth. In terms of diplomacy, Motegi was instrumental in realizing the Trans-Pacific Partnership (TPP 11) agreement, which had been widely considered impossible. US President Donald Trump also called Motegi a “tough negotiator” during those Japan-US trade negotiations.

The LDP appears to be focusing all of its efforts on the Upper House election. Any discussions about Ishiba's future and his successor are likely to begin in earnest after the election. Depending

on the situation, it is possible that the distance between the LDP and DPP (which has close ties with the LDP's Motegi and Aso) could narrow.

**In case of LDP/Komeito/DPP coalition, DPP's stance on its election pledges key**

If the LDP/Komeito ruling coalition expands to include the DPP, fiscal policy trends are likely to capture even more attention on the JGB market. However, after that, the market response will likely depend on the parties' stances regarding their election pledges.

Under the coalition government (LDP + Japan Socialist Party + New Party Sakigake) formed in 1994, the Japan Socialist Party (currently the Social Democratic Party), which was the leading opposition party at the time, changed its position on the constitutionality of the Japan Self-Defense Forces from unconstitutional to constitutional. The Democratic Party of Japan, which came to power in 2009, was unable to fully implement policies such as free expressways and expanded child allowances due to a lack of financial resources.

The sharp rise in JGB yields is also now attracting attention in political circles. It will be interesting to see the degree to which election promises regarding fiscal policy are actually implemented.

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