

# Daiwa's Economic View

## Snap election at start of Diet session report, direction for expansionary fiscal policy

- Feasibility of surprise media report suggesting snap election at start of regular Diet session
- Market impacts in event of snap general election
- Need to consider timing, constraints for executing expansionary fiscal policies

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The *Yomiuri Shimbun* reported on the evening of 9 January that Prime Minister Sanae Takaichi is considering dissolving the Lower House at the start of the regular Diet session to call for a snap general election, with voting likely to take place in the first half of February. We do not know whether or not this report is true, but there is some conjecture that a snap election could be held on the date cited in the *Yomiuri Shimbun* report.

If there is a snap general election, the ruling Liberal Democratic Party (LDP) would likely gain more seats. Here, the base for Takaichi's party would strengthen, but the ruling parties would remain minority parties in the Upper House. The view that this will spur on expansionary fiscal policies is likely to gain traction in the market.

However, the next budget compilation will be the FY26 supplementary budget, which will be compiled this fall at the earliest. We should note that the Takaichi administration's fiscal policies can no longer afford to ignore the markets.

### Will Lower House really be dissolved for snap election at start of Diet session?

The *Yomiuri Shimbun* report on a possible snap election came as a complete surprise, but no additional information has since emerged. This could simply end up being nothing more than a "trial balloon." However, election momentum has already started to strengthen and halting such momentum could be difficult. Takaichi is expected to formally announce the dissolution of the Diet on the evening of 17 January.

Japanese society was surprised by the sudden announcement that the regular Diet session will convene on 23 January. If Takaichi's intention is to dissolve the Lower House, she must convene a Diet session sooner, or it will be difficult to pass the FY26 budget by the end of March.

That schedule also leaves only about one month until election day. Both Diet members and local governments responsible for election administration will need to scramble to make preparations. Even within the LDP, there have been reports of surprise, frustration, and opposition.

Takaichi herself has remained silent during the three-day weekend. As such a decision rests with the Prime Minister, it is still unclear what will happen. If public backlash is strong, postponement could be a possibility. However, faced with this sudden news and with little time to prepare, lawmakers appear to have immediately shifted into election mode. It has been said that once election campaigning starts, it cannot be easily stopped. If all-out campaigning efforts prove fruitless, there would be concerns about diminished political clout for Takaichi.

For the Takaichi administration, too, this is a favorable time to seek the people's trust. Indeed, her public approval ratings remain quite high. Although criticized for lacking a valid reason, the government is now compiling the FY25 supplementary budget and the FY26 initial budget based on the so-called "responsible expansionary fiscal policies." The LDP has also established new relationships with the Japan Innovation Party (JIP) and the Democratic Party for the People (DPP). There has been a major policy shift from the Ishiba administration and so there is sufficient reason to now question the pros and cons of Takaichi's approach.

If this opportunity to hold a snap election at start of the regular Diet session is missed, the next opportunity would be at the end of the June Diet session. This is because dissolving the Diet in April is rare due to passing of the budget and deliberating on budget-related bills during that month. There is no way of knowing what will happen to Takaichi's high approval ratings, if there is an extension until June. The decline in real wages, a source of public discontent, remains unresolved. The world's political situation is also becoming increasingly unstable.

The report suggested that Takaichi will announce a dissolution of the Lower House for a snap general election on the evening of 17 January or later. This is because South Korean President Lee Jae Myung will visit Japan on the 13-14 January, while Italian Prime Minister Giorgia Meloni will visit on 15-17 January. That said, as both Diet members and local governments must prepare for a snap election, the sooner the announcement is made, the better. As such, the evening of 17 January could be the best option.

There are two proposals in terms of timing, specifically (1) 27 January announcement date and 8 February vote casting/counting date and (2) 3 February announcement date and 15 February vote casting/counting date. The earlier option seems more likely in order to pass the FY26 budget as soon as possible.

### **Market impacts in event of snap general election?**

If a Lower House snap general election were to be held, the market would likely become even more wary of fiscal expansion.

First, the LDP would likely increase its number of seats as compared to the previous general election in October 2024. Public opinion polls confirm that conservative voters who shifted from the LDP to the DPP and Sanseito in the July 2025 Upper House election support Takaichi. The Constitutional Democratic Party of Japan (CDP), which failed to increase its seats in the Upper House election, has not been able to recover its party strength. The opposition parties overall are not ready for an election. The election situation remains to be seen, but the initial focus will likely be on whether the LDP can secure a single-party majority.

If the LDP secures a majority on its own, the party would regain control of the Lower House. Takaichi's party base would strengthen, while the influence of LDP Vice President Taro Aso and Secretary-General Shunichi Suzuki would weaken. In that case, "responsible expansionary fiscal policies" should become easier to advance.

Meanwhile, the next Upper House election will be held in July 2028. Moreover, since the LDP faces a larger number of contested seats as compared to July 2025, the hurdle for regaining a single-party majority is high. In any case, since the Upper House cannot be dissolved, passing bills requires cooperation from various other parties, such as the JIP and the DPP. A situation in which the LDP must accept many demands from other parties, causing budgets to balloon, will most likely continue.

It should be easier for Takaichi's influence to be felt within the LDP, while requests for cooperation from multiple opposition parties remain unchanged. Caution among market participants regarding fiscal expansion is likely to further strengthen.

### **Timing for next budget compilation?**

That said, the next budget compilation is still far away and there are some constraints.

First, the main focus will likely be on the "Basic Policies for Economic and Fiscal Management and Structural Reform" for the FY27 budget, which will be determined in June. However, the budget compilation itself will begin with the FY26 supplementary budget in autumn 2026 at the earliest, followed by the FY27 initial budget in December. If the Diet is dissolved for a snap election in February, the scale of the supplementary budget would be less likely to balloon due to election considerations.

The weak yen and high JGB yields curtailing the issuance of new JGBs in the FY26 initial budget is still fresh in our minds. This situation in which financial markets act as a fiscal expansion constraint is unlikely to change.

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