

## Japan Economic Flash: PM Takaichi to Notify Lower House Dissolution on January 23

- According to media reports, Prime Minister Sanae Takaichi will notify the ruling Liberal Democratic Party (LDP) executives today of her decision to dissolve the Lower House on January 23. Media also report that, following the dissolution, a Lower House general election will be held with most likely voting day as February 8. A dissolution in January is rare, and this would only be the third such occasion in post-war history, the most recent being in 1990.
- According to opinion polls, Prime Minister Takaichi's approval rating has remained high since she took office, currently standing at just under 70%. Meanwhile, the LDP's approval rating is around 30%. Although this is a 5-point increase since Prime Minister Takaichi took office, it is at the same level as the party's approval rating around the time of the previous Lower House election in October 2024, when the LDP lost its outright majority.
- A January dissolution and mid-February general election would result in a tight schedule for the FY2026 budget approval process. If it looks unlikely the budget bill will be passed by the end of March (before FY2026 starts on April 1), the government will need to formulate a separate provisional budget covering several months (from April) by the end of FY2025.
- The tight schedule could increase fiscal policy uncertainty, depending on the election outcome. If, after the election, LDP needs other opposition parties (than the current partner JIP) to secure a majority, the FY2026 budget plan already approved by the current cabinet could be revised upwards, potentially increasing the deficit. On the other hand, if the ruling coalition (or the LDP) wins a landslide victory, the FY2026 budget plan is likely to be approved as is, limiting the risk of an upswing in fiscal spending in the next few months. That said, the Takaichi administration, with its political base strengthened, could pursue further fiscal expansion after mid 2026 when the cabinet releases the Basic Policy for Economic and Fiscal Management and Reform (Honebuto no Hoshin).
- Meanwhile, the BOJ is gaining confidence that the achievement of its price stability target is steadily drawing near, and is shifting from its previously cautious stance toward steady rate hikes. We believe BOJ's stance is unlikely to be affected by the election outcome. We continue to forecast a rate hike in July 2026, but there remains a possibility that the hike could be brought forward if the yen weakens due to the election result.

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## PM Takaichi to Notify Lower House Dissolution on January 23

Media report that, on January 14, Prime Minister Sanae Takaichi will notify the ruling Liberal Democratic Party (LDP) executives of her decision to dissolve the Lower House on January 23, and call for general election in early to mid-February (likely dates for the general election would be announcement on January 27th and voting on February 8; sources include January 14 reports from Jiji Press and others). A dissolution in January, when budget deliberations begin, is rare. It would be the first such occasion in over a quarter of a century, since 1990, and only the third in the post-war period. In this report, we summarize the key points for financial markets to consider with respect to the snap general election, and discuss implications for fiscal and monetary policy.

### High Approval Rating for Takaichi Cabinet, but LDP Support on Par with Last Lower House Election

According to opinion polls, the cabinet's approval rating surged immediately after Prime Minister Takaichi took office in October 2025, and has remained high, marking an average of 68.9% in December (average of 10 media outlets), almost on par with approval ratings after former Prime Minister Abe's appointment when LDP won more than 60% of the Lower House seats. Various media outlets (January 13; Jiji Press, etc.) have reported that the intention is to hold a snap general election while cabinet approval ratings remain high, increase the number of seats for the ruling coalition, and obtain a mandate for the Takaichi Cabinet<sup>1</sup>.

In the Lower House, the ruling LDP-JIP (Japan Innovation Party) coalition holds a bare majority of 233 seats after an independent group close to the LDP formed a unified parliamentary group with the LDP, but the loss of even one seat would break the majority. In the Upper House, the ruling coalition forms a minority government, 6 seats short of a majority (unless there is a coalition realignment, the ruling coalition's seats will remain largely unchanged until the next Upper House election in July 2028). With the cooperation of opposition parties essential in passing bills under this situation,<sup>2</sup> Diet management has been challenging for LDP.

If the ruling coalition were to secure a majority of seats in a Lower House general election, the legislative process, including budget deliberations, would likely run somewhat smoother.

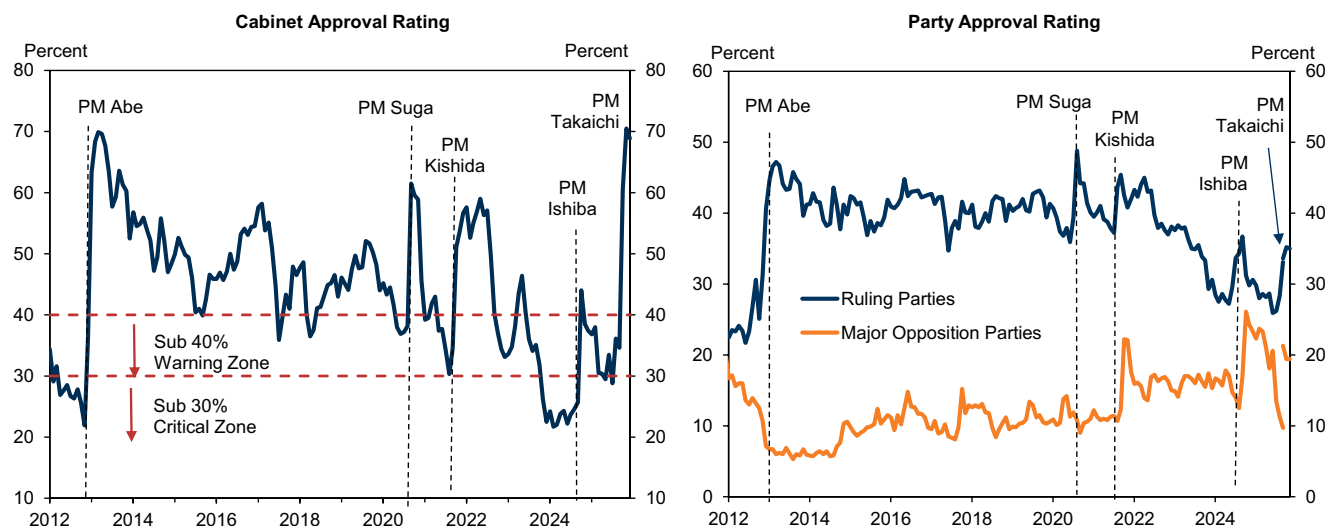
However, in contrast to the high approval rating of the Takaichi cabinet, the LDP's approval rating is 30% (average of December surveys by 10 media outlets). Although this represents a 5-point increase since Prime Minister Takaichi took office, it is on par with the party's approval rating around the time of the previous Lower House election in October 2024, when the LDP lost its outright majority. The JIP's approval rating of around 4% has shown no notable increase even after joining the coalition.

<sup>1</sup> The most recent Lower House and Upper House elections were in October 2024 and July 2025, respectively, and both were held during the previous Ishiba administration under an LDP-Komeito ruling coalition. With Takaichi being appointed prime minister after the Upper House election, the current coalition government of the LDP and its new partner, the Japan Innovation Party, has not yet received a public mandate.

<sup>2</sup> For example, the Lower House Budget Committee chair post, which is important in managing legislative process, is currently held by the largest opposition party, the Constitutional Democratic Party (CDP).

Approval ratings for opposition parties are dispersed, led by the CDP at 6%, followed by the Democratic Party for the People (DPP; just over 5%), Sanseito (4%), and Komeito (3%). If a Lower House election were held soon, it is very likely the LDP would remain the largest party. However, with significant gains made by the DPP and Sanseito in the Upper House election held six months ago still fresh in the memory, it remains uncertain whether the LDP-JIP ruling coalition can win extra seats at this moment.

**Exhibit 1: High Approval Rating for Takaichi Cabinet, but LDP Support on Par with Last Lower House Election**



In the party approval rating chart, the ruling coalition is LDP + Komeito until September 2025, and LDP + Japan Innovation Party from October 2025 onward.

Source: Data compiled by Goldman Sachs Global Investment Research, Real Politics Japan

**Exhibit 2: Ruling Coalition Holds Bare Majority in Lower House, but Situation Not Stable. No Majority in Upper House**  
Parliament Seats

	Lower House Term ends Oct 2028	Total	Upper House	
			Term ends	
			Jul 2028	Jul 2031
<b>Liberal Democratic Party</b>	<b>199</b>	<b>100</b>	61	39
<b>Japan Innovation Party</b>	<b>34</b>	<b>19</b>	12	7
Constitutional Democratic Party	148	42	18	24
Democratic Party for the People	27	25	7	18
Komeito	24	21	13	8
Japanese Communist Party	8	7	4	3
Reiwa Shinsengumi	9	6	3	3
Sanseito	3	15	1	14
Members of Other Parties	7	4	1	3
Independent	6	9	4	5
Vacancies	0	0	0	0
<b>Total</b>	<b>465</b>	<b>248</b>	124	124
<b>Majority Line</b>	<b>233</b>	<b>125</b>		
<b>LDP + JIP</b>	<b>233</b>	<b>119</b>		

Source: House of Representatives (Shugin), House of Councillors (Sangiin)

**Uncertainty over Fiscal Policy to Increase, Including Possible Delays in**

## Budget Passage

If a snap general election is held, the schedule for the FY2026 budget is likely to be tight. Deliberations on the next fiscal year's budget, which normally begin at the end of January, are likely to be delayed by just under a month. If the Diet is unable to approve the budget bill by the end of March, the government will need to formulate a provisional budget<sup>3</sup> covering several months by the end of the fiscal year.

In 1990, when the Diet was dissolved in late January and an election was held in mid-February, the LDP failed to pass the main FY1990 budget by the end of March 1990 despite winning an outright majority in the election. Passage of the provisional budget was delayed until April 3, 1990, and the main budget was not passed until June 7<sup>4</sup>.

The tight schedule for budget deliberations in the wake of a snap general election, and the possibility of changes in the cooperative relationship between ruling and opposition parties after the election<sup>5</sup>, are likely to raise uncertainty over fiscal policy. While the election outcome is difficult to predict at this point, below we outline risks to fiscal policy based on several potential scenarios. We conclude that while fiscal risks are generally biased to the upside, the risk of a significant increase in the deficit in the next few months appears minor.

Firstly, if the ruling coalition maintains its majority in the Lower House (or if the LDP alone secures an outright majority), it is unlikely that the level of spending will be significantly revised versus the draft budget approved by the Takaichi cabinet in December 2025. We believe the FY2026 budget, although higher than the previous fiscal year, is relatively conservative in scale.<sup>6</sup> As such, we expect fiscal risks to be limited in the next few months. That said, the Takaichi administration, with its political base strengthened, could pursue further fiscal expansion after mid 2026, although this is not our base case scenario. We also highlight the possibility that an expanded growth strategy may be announced within the Basic Policy for Economic and Fiscal Management and Reform (Honebuto no Hoshin), which may be formulated as early as this June.

The second scenario is the possibility that, after the election, LDP needs other opposition parties (than the current partner JIP) to secure a majority and the opposition parties advocate for proactive fiscal spending. In this case, the FY2026 budget bill that already received cabinet approval may be revised upward to some extent to ensure swift passage of the provisional budget (or the main budget), potentially increasing the fiscal deficit.

Thirdly, if the ruling coalition is defeated and a government is formed from the opposition, uncertainty in the medium- to long-term outlook will rise significantly. However, the new administration is unlikely to have enough time to drastically restructure the budget, so the impact on the FY2026 budget is likely to be limited to a

<sup>3</sup> Generally, a provisional budget is designed to cover only the minimum level of expenses necessary for the administration to operate.

<sup>4</sup> In Japan, if a budget bill is not passed, budget spending, is in principle suspended, including on mandatory expenses. Therefore, approval of a provisional budget is essential. In 1990, the provisional budget was not passed by the end of March, creating a "budget vacuum" until April 3.

<sup>5</sup> DPP (Democratic Party for the People) leader Yuichiro Tamaki stated that he cannot guarantee to support the budget bill in the event of a snap general election (Nikkei, January 12).

<sup>6</sup> The majority of the increase is due to rising interest payments and the defense spending increase already decided in last year's supplementary budget, among other factors, while new fiscal expansion policies introduced in the FY2026 main budget remain small in scale.

certain degree of higher spending, similar to the second scenario. But a supplementary budget would be more likely to be formed in coming autumn.

In addition to the budget bill, parliamentary approval is also required this year for the Special Deficit-Financing Bond Act, the legal basis for the issuance of deficit-covering bonds, a process which comes up once every five years. The Special Deficit-Financing Bond Act does not necessarily need to be passed by the end of March, but swift passage of the act would be desired. Without the approval of this legislation, the government would be unable to issue the approximately ¥23 tn in deficit-financing bonds planned for FY2026, which could lead to a partial suspension in government spending, leading to Japan's own version of a 'fiscal cliff'. Unlike the budget bill, this act requires approval in both the Lower and Upper Houses. Regardless of the Lower House election results, the ruling coalition would need the cooperation of the opposition parties for the vote in the Upper House. Therefore, if the political situation becomes more unstable after the election, passing the act may prove more difficult<sup>7</sup>.

### **Still Expecting Next Rate Hike in July, with Possibility of Earlier Hike Depending on Yen Depreciation**

With greater confidence that the achievement of its price stability target is steadily drawing near, we believe the BOJ is now more conscious than before of the risk of delaying rate hikes. It therefore appears the BOJ is shifting from its previous cautious stance toward favoring steady rate hikes. Given that changes in the BOJ's stance stem from a virtuous cycle emerging in economic and price trends, driven by wage increases linked to structural labor shortages, we think the Bank is unlikely to change its approach as a result of the election outcome.

Against this backdrop, we expect the frequency of rate hikes by the BOJ to return to one every six months from once a year, and we expect the next hike in July. However, if the yen depreciates due to the election outcome, we see a possibility that the BOJ will bring the rate hike forward to counter the yen weakness.

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<sup>7</sup> In 2012, the approval of the Special Deficit-Financing Bond Act was delayed until November, prompting discussions on a partial suspension in spending.



## Disclosure Appendix

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