

Economic Research View:

Prime Minister Kishida will not run in the LDP presidential election – A demonstration of the need to show a new LDP

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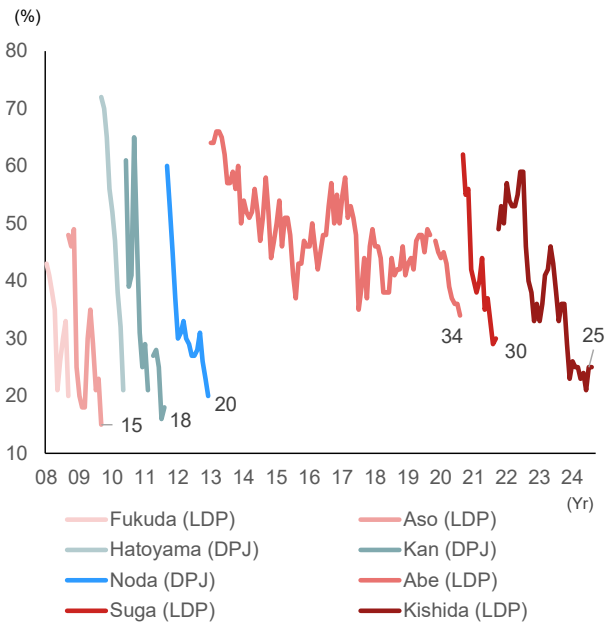
Key Takeaways:

- On August 14, Prime Minister Fumio Kishida held a press conference and announced that he will not run in the Liberal Democratic Party (LDP) presidential election scheduled for September 27. It is expected that prominent members of the party will now come forward to declare their candidacy. With the factions within the LDP largely dissolved, and the possibility of a snap election looming, there is high uncertainty as to whether LDP members will prioritize "public support" or "internal party dynamics" in selecting the new party leader.
- If popularity among the people is prioritized, candidates like Mr. Shigeru Ishiba, former Secretary-General, Mr. Shinjiro Koizumi, former Minister of Environment and the son of former Prime Minister Junichiro Koizumi, may emerge, with the potential for a significant victory in a possible snap election in the House of Representatives this autumn. If former Prime Minister Mr. Yoshihide Suga supports the new leader, there may be a heightened expectation for a reform-minded approach, which could be favorably received by the market.
- It has been reported that current Secretary-General of LDP Mr. Toshimitsu Motegi does not have the full support of the Aso faction, suggesting that the dynamics within the party are changing.
- Regardless of the outcome, there is no change in our view that the political schedule in the autumn could prevent policy rate hikes in September and October by the Bank of Japan.

Prime Minister Kishida announced that he will not run in the LDP presidential election in September

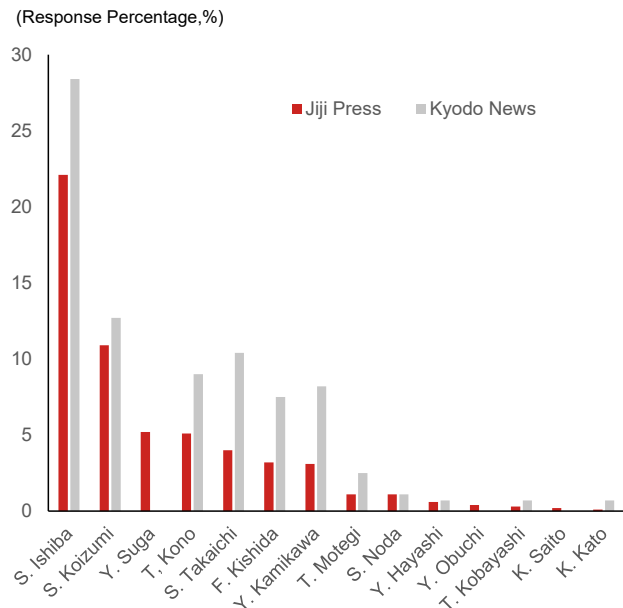
Prime Minister Kishida held a press on August 14 and announced that he will not run in the LDP Presidential election in September. As the summer diplomatic schedule comes to a close and the LDP leadership election intensifies after the Bon holidays (commemoration and remembering deceased ancestors), he stated the importance of showing a new direction for the party in this election, saying that withdrawing himself is the first clear step in showcasing the transformation of the LDP. He expressed his intention to "support the newly elected the LDP president as a rank-and-file member."

Figure 1. Changes in the Cabinet Support Rate



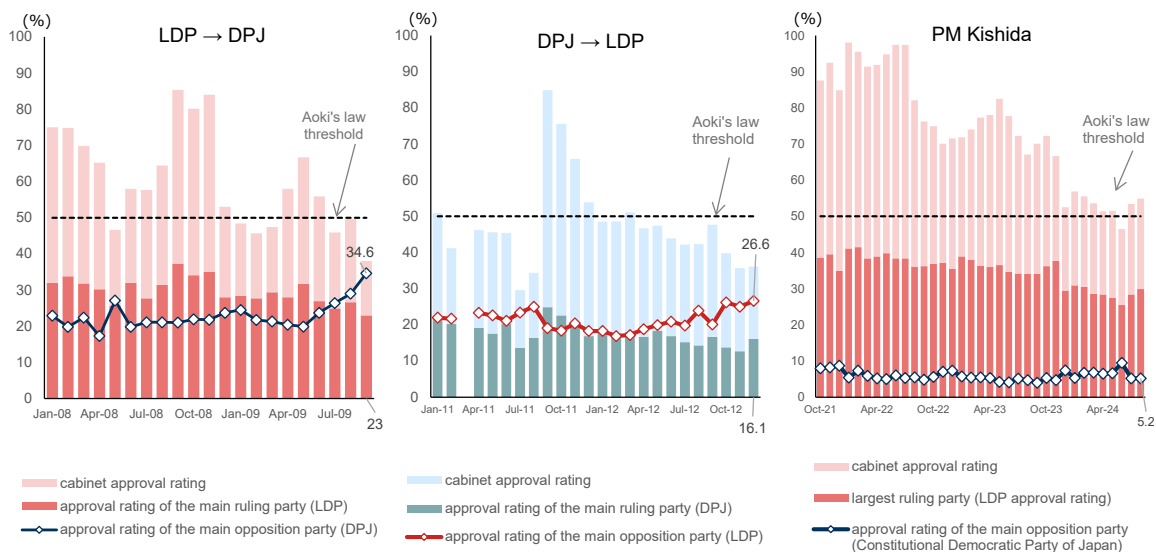
Source: prepared by Nomura Asset Management Co., Ltd., from NHK materials

Figure 2. Poll: Who's Right to Be the Next LDP President



Note: Both surveys were conducted in July 2024.
Source: Nomura Asset Management Co., Ltd. based on Jiji Press and Kyodo News

Figure 3, 4, 5 Trends in Cabinet and Political Party Support Rates during the Recent Change of Administration



Source: Nomura Asset Management Co., Ltd. based on NHK materials

Upcoming Political Schedule:

The Electoral Management Committee responsible for managing the LDP leadership election, headed by Ichiro Aisawa, determined the election schedule at a meeting on August 20, with voting scheduled to take place on September 27. On the other hand, the Constitutional Democratic Party has decided to hold a presidential election to replace President Kenta Izumi, with the announcement on September 7 and voting on the 23. The fact that the leader's election for both the ruling and opposition parties will overlap puts a high likelihood of attention being focused on the LDP leadership election. Should a new leader emerge in the LDP and a new administration take office, there is a high possibility that they will dissolve the Diet and call for a snap election while their approval ratings are high. In that case, a snap election in the autumn would come in sight.

Candidates for the LDP presidential election:

The candidates who have been rumored to run include former Secretary-General Mr. Shigeru Ishiba, Secretary-General Mr. Toshimitsu Motegi, former Chief Cabinet Secretary Katsunobu Kato, Minister of Economy and Security Ms. Sanae Takaichi, Minister for Digital Transformation Mr. Taro Kono, and former Minister of State for Measures for Declining Birthrate Ms. Seiko Noda, in addition to former Minister of Economic Security Takayuki Kobayashi. Former Minister of Environment Shinjiro Koizumi has received advice from his father, former Prime Minister Junichiro Koizumi, to refrain from running until he turns 50 years old, which had been seen as a negative sign. However, on August 9h, Koizumi stated, "I will decide whether to move forward or step back on my own." In a public opinion poll on who is suitable for the next party leader, the so-called "Koishikawa Alliance" which supported Kono in the previous leadership election, ranks high. Some reports suggest that one member of the "Koishikawa Alliance" stated that it was "only once" in the previous election, raising uncertainties about their cooperation once again. To demonstrate a change within the LDP, it seems necessary for either Koizumi or Kobayashi to run regardless of the outcome. It appears that initially many candidates will run and see how general public support trends, and then the next prime minister is likely to be determined in the runoff vote based on whether they prioritize "public support" or "internal party dynamics."

Structure of the LDP Presidential Election:

Candidates must be endorsed by 20 members of the Diet. In the election, each member of the Diet has one vote, and the same number of party member votes will decide the outcome. If a majority of votes is not achieved in the initial ballot, a runoff vote between the top two candidates will be conducted to determine the winner. The results of the previous 2021 presidential election were as follows:

1st round of voting: Mr. Fumio Kishida (146 Diet votes + 110 party member votes = 256 votes), Mr. Taro Kono (86 Diet votes + 169 party member votes = 255 votes), Ms. Sanae Takaichi (114 Diet votes + 74 party member votes = 188 votes), and Ms. Seiko Noda (34 Diet votes + 29 party member votes = 63 votes)

Runoff vote: Mr. Fumio Kishida (249 Diet votes + 8 prefectural votes = 257 votes), Mr. Taro Kono (131 Diet votes + 39 prefectural votes = 170 votes)

Possible future snap election of the House of Representatives:

If a new leader is elected in the LDP and a new administration is established, there is a high likelihood of dissolving the House of Representatives and calling for a snap election while their approval ratings are high. Once a new leader is selected, the Kishida administration will resign, and a Prime Minister nomination election will be held in the Diet, leading to the establishment of a new administration. Subsequently, the new Prime Minister may dissolve the House of Representatives relatively early. In the previous term, the Kishida administration was inaugurated on October 5, 2021, dissolved the House of Representatives on October 14, and held a general election on October 31 (with the House of Representatives members' term expiring on October 21). This time, the term of office for the members of the House of Representatives expires on October 30, 2025. While there is some leeway, given the trend of high approval ratings for a new administration, it is more likely that they will call for a snap election sooner rather than later to capture public support.

Possibility of a change of government:

In the recent two instances of a change in the government, there was a reversal in the approval ratings of the ruling and opposition parties alongside a decline in Cabinet support. While there were times when they followed Aoki's Law (an assumption rule stating that government operations become difficult when the combined approval ratings of the Cabinet and ruling party fall below 50%), unlike in the past, the ruling party's support remains significantly higher than that of the opposition party. Even if the LDP and Komeito fall short of a majority, there is a possibility of seeking cooperation with parties such as the National Democratic Party and Japan Innovation Party. Considering these points, it is more likely that a coalition government centered on the LDP will be maintained rather than a government led by the Constitutional Democratic Party.

Election Schedule and BOJ Monetary Policy Meetings:

The Bank of Japan's monetary policy meetings are scheduled for September 19-20, October 30-31, and December 18-19. Following the volatility in the financial markets after the rate hike in July, and subsequent communication from Deputy Governor Uchida, there is a consensus that there will likely be no additional rate hikes in September and October. With the political schedule, there is a possibility of overlap: the LDP presidential election in September and a snap election schedule for the House of Representatives similar to the previous one in October may coincide with BOJ monetary policy meeting, further reducing the risk of an unexpected rate hike by the Bank of Japan. The only exception could be if the Fed significantly shifts towards a hawkish stance, leading to a rapid acceleration of yen depreciation and heightened concerns about higher costs. However, the probability of this scenario materializing is not high.

Economic Policies of the New Prime Minister:

The broad direction of economic policy is expected to continue. On the other hand, if a new party leader with the support of former Prime Minister Suga emerges, there may be a slight shift towards regulatory reform. For example, regarding ride-sharing services, Koizumi, Kono, and Suga have taken a clear stance in favor of promoting it. Regarding the impact on monetary policy, it is generally believed that politicians share a common stance of concerns over excessive yen depreciation and stock market declines. If there are measures to curb these trends, they may be willing to tolerate some increase in interest rates. A somewhat concerning point is the inclination towards Abenomics among some members. For example, Takaichi, who has been rumored to run, mentioned the benefits of yen depreciation during her tenure as the chairman of the LDP's Policy Research Council.

Scenario Favorable to the Market:

This time around, factions other than the former Prime Minister Taro Aso's have largely dissolved, and it is uncertain whether the former Abe faction will be unanimous. As the general election approaches, members who are vulnerable in the election may prioritize voting based on "public support." Considering these factors, it is quite difficult to predict the voting patterns. There is a possibility of popular candidates like Ishiba or Koizumi being elected based on such support from the general public. If the scenario takes shape where "under the leadership of Prime Minister Koizumi and Vice Prime Minister Suga, many young and competent members are appointed to the Cabinet," it could paint a picture of a "major victory" for the LDP in the dissolution election. Additionally, the "resurgence of a reform-minded approach" may be recognized, which could be well-received by the market.

*This commentary is based on personal views of the author and does not necessarily represent Nomura Asset Management house view.

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