

**5 August 2024**

## **“Black Monday of the Reiwa era” rattles Kishida’s bid for second term**

### **Key takeaways**

- The domestic and global market selloffs – already being called the “Ueda shock” in Japan – could undermine Prime Minister Kishida Fumio as a critical moment.
- Some of the most vocal among the potential challengers for the LDP leadership may also be weakened, suggesting the race is still open.

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The global selloff in the wake of the Bank of Japan’s (BOJ) [decision](#) to raise interest rates on 31 July could have wider political implications domestically, as the Kishida government grapples with what has already been called the “Black Monday of the Reiwa era,” as the Nikkei 225 average closed down 12.4% and the yen briefly reached JPY 141/USD on Monday, 5 August. “We are closely watching the movements of markets at home and abroad with a sense of nervousness,” said Chief Cabinet Secretary Hayashi Yoshimasa on Monday.

While Prime Minister Kishida Fumio has not yet indicated his intentions regarding the Liberal Democratic Party (LDP) [leadership election](#) in September, the market crash could deal a significant blow to Kishida’s prospects and scramble the [debate](#) within the party over the future of macroeconomic policy. In a stroke, the market turbulence could turn what was seen as an asset for Kishida – after all, the prime minister pointed to the BOJ’s decisions last week as a sign that his government’s policies were working – into a major liability for the prime minister, introducing new uncertainty into the leadership race.

### **Kishida exposed**

Kishida is vulnerable in several ways. First, his and his government's approval of the BOJ's decision last week will be closely scrutinized. Constitutional Democratic Party (CDP) leadership Izumi Kenta has already called for a recess meeting of the lower and upper house budget committees in order to question Ueda and senior government officials about the bank's monetary policy decisions and their impact on financial markets. Meanwhile, Democratic Party for the People (DPFP) leader Tamaki Yūichirō, a former finance ministry bureaucrat, described Ueda's decision as "awful" and could second Izumi's proposal.

Second, while the real economic impact of financial market movements may not be apparent in data before the LDP leadership election, the sense of alarm could impact already fragile consumer sentiment and otherwise create headwinds for economic performance heading into the leadership election and the general election that could follow it.

Finally, Kishida's efforts to democratize ownership of financial assets – most notably through the "New Nippon Individual Savings Account" (New NISA) program launched in early 2024 – could magnify the political impact of the market shock, as new investors suffering losses could, fairly or not, hold the government responsible. As recently as Friday, 2 August, Kishida was touting the benefits of reforms to make Japan an "asset management power" at an event to promote financial literacy.

Before "Black Monday," Kishida's prospects had improved slightly. His government's net approval, while still negative, had improved slightly in most polls, possibly due to the impact of the tax cut introduced in June. The most likely challengers for the LDP's leadership have been circumspect about entering the race, pointing to the difficulty of running against an incumbent prime minister. He had another meeting with LDP vice president Asō Tarō, suggesting that Kishida might still be able to count on the support of the leader of the largest surviving faction. Financial turbulence, however, may stall this momentum. These events may not be sufficient to convince Kishida not to seek a second term, but they could lead more LDP lawmakers to accept that it is time for a change of leadership.

## **The race in flux**

It remains to be seen whether any of the LDP's potential contenders can benefit. LDP Secretary-General Motegi Toshimitsu, who generated favorable press last week for a leadership bid during a tour of Southeast Asia that included stops in Indonesia, Singapore, Thailand, and the Philippines, came out strongly in favor of higher interest rates before the BOJ meeting and could be criticized for his position. Digital Affairs Minister Kōno Tarō, who is also weighing a bid, may likewise be criticized for his remarks on the BOJ and the yen before the 30-31 July meeting. Ironically, Ishiba Shigeru, who has the longest track record of being a monetary and fiscal hawk, was quiet ahead of the BOJ meeting and may therefore be relatively unscathed, though he

still has not shown that he can convert his popularity with the broader public into support within the party.

The weaknesses of Ishiba, Motegi, and Kōno – who have been most vocal about their ambitions – leaves room for other contenders. As discussed previously, Katō Katsunobu likely has the best path to gather votes within the parliamentary party and use his strength within the party to try to appeal to the LDP's grassroots supporters and the broader party. He may be uniquely positioned to benefit from the financial turbulence because he is on record of supporting the BOJ's policy normalization but urging it to proceed slowly. Meanwhile, there may still be room in the race for a younger LDP lawmaker to run as a generational change candidate, whether former economic security minister Kobayashi Takayuki or former environment minister Koizumi Shinjirō, whose prospects received a boost when it was reported last week that his father, former prime minister Koizumi Junichirō, changed his tune and said he would not oppose his son's candidacy if he were to run.

The upshot is that financial turbulence will keep the LDP's leadership race unsettled for several more weeks as the would-be contenders weigh the impact that it could have on Japan. The LDP's election administration committee meets on 20 August to finalize the date, the length of the campaign period, and the rules for the leadership election, but, in the meantime, the field could begin to take shape. Ishiba Shigeru, for example, has said he could decide following next week's Obon holidays. Motegi, meanwhile, has said he will decide by the beginning of September.

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