



J A P A N

F O R E S I G H T

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Government already looking to stimulus as crisis continues

Key takeaways

- With the 2026 general budget still not passed, the Takaichi government and ruling coalition may nevertheless already be looking at passing an early supplemental budget as it manages the consequences of the Hormuz crisis.
- The government faces the risk of exhausting emergency funds if crude oil prices stay high; in a prolonged crisis it may also have to subsidize electricity costs and stimulate a slowing economy.
- The crisis could be exacerbating existing concerns about Prime Minister Takaichi Sanae's spending plans, friction between the government and the Bank of Japan (BOJ), and public frustration with cost-of-living issues predating the Hormuz crisis.

The Diet moved quickly to pass the JPY 8.6tn provisional budget that the Takaichi government eventually [accepted](#) that it would need to introduce to cover funding at the start of the fiscal year. Both houses passed it on 30 March.

Now, even with the 2026 budget still held up in the House of Councillors though certain to pass no later than 11 April, the Liberal Democratic Party (LDP) and the Takaichi government may already be considering a supplemental budget for 2026 as the government grapples with the still-uncertain impact of the Hormuz crisis on Japan's economy.

With the government introducing retail price caps for gasoline and other fuels – and the price of Arabian light crude, the key benchmark for Japan, climbing 80% in March – ruling party lawmakers are anxious that if oil prices remain elevated, Japan could quickly spend the remainder of the JPY 1.1tn in the FY2025 reserve fund, perhaps as early as June if higher oil prices continue. The government will also be able to draw

upon the 2026 budget's JPY 1tn reserve fund, but these funds are also intended to cover disaster response and other emergencies over the next year. The yen's continuing weakness could further strain the government's ability to deliver relief to consumers and wholesalers. Perhaps not surprisingly, Akazawa Ryōsei, minister of economy, trade, and industry and increasingly Takaichi's point man in managing the supply shock, spoke earlier this week about the possible need for measures to restrain oil demand in addition to managing Japan's existing stockpiles and seeking new sources of crude oil.

Of course, the government's role in managing this crisis may not be limited to fuel subsidies. There may already be pressure to subsidize electricity and other utility costs, particularly as temperatures climb. At the same time, the risk of a broader energy-induced economic shock – the Bank of Japan's (BOJ) quarterly Tankan survey, released on 1 April, showed significant drops in business confidence for the next three months among firms of all sizes in both manufacturing and non-manufacturing sectors, though sentiment about current circumstances was resilient – could lead to additional pressure for near-term fiscal stimulus.

Accordingly, there may be little opposition within the LDP to preparing a supplemental budget during the current legislative session, particularly if there are no tangible signs that the conflict is concluding or that maritime traffic in the Strait of Hormuz could return to pre-war levels. However, while the short-term political and economic logic of an early stimulus package is sound, it could nevertheless be a fraught issue for Takaichi. In the coming months, she will be looking to lay the groundwork for a more expansionary budget for 2027 that includes her major policy priorities – new investments in priority industrial sectors and higher defense spending – even as she manages the crisis. A large stimulus package that increased debt issuance could not only shake market confidence in Japanese government debt – ten-year government bond yields having resumed their climb after stabilizing in the wake of the general election – but could also add further downward pressure to the yen, contributing to further inflation.

As the latter suggests, a rapid move by the ruling coalition to introduce fiscal stimulus could increase pressure on the BOJ to raise interest rates sooner, notwithstanding the bank's instinctive [cautiousness](#) during uncertainty. If the government's fiscal policies contribute to further yen weakness – former BOJ governor Kuroda Haruhiko, who has emerged as a vocal critic of Takaichi's fiscal dovishness, made this argument in an interview last week – it could goad the BOJ to hike faster so as not to “fall behind the curve.”

The Hormuz crisis, in short, could exacerbate already existing strains in the political system, heightening concerns about Takaichi's “responsible fiscal expansion,” spurring greater conflict between the government and BOJ, and fueling the public's frustrations with higher inflation and the government's handling of cost-of-living issues.

Tobias Harris

Founder and Principal

Japan Foresight LLC

tobias@japanforesight.com

+1.847.738.4048
