

19 May 2026

## Takaichi pivots on extra budget as crisis impact grows

### Key takeaways

- The Takaichi government is now committed to passing a supplemental budget this Diet session as the costs of the Hormuz crisis continue to mount.
- The government faces a debate over how to fund the budget, what should be included, and how big it should be, as it has to balance between the need to provide short-term relief, the prime minister's long-term fiscal goals, and the rise in bond yields.
- The need to pass a budget may also be leading the Liberal Democratic Party (LDP) to renew its push to add a coalition partner that would give it control of the upper house and stabilize the political situation in the midst of the ongoing global crisis.

---

The Takaichi government has signaled that it is preparing to submit a FY2026 supplemental budget to the Diet as soon as early June, cementing a shift that had appeared increasingly inevitable despite Prime Minister Takaichi Sanae's denials.

The government's about-face, however, has sparked a flurry of activity, starting with a debate over the content of the extra budget. The government itself wants a limited budget aimed at bolstering its emergency reserves, funds intended to cover unexpected situations. The government will draw upon these funds to pay for fuel subsidies as well as utility subsidies to be introduced during the summer months. The former are currently being funded through reserve funds remaining from the FY2025 budget, funds that will likely be exhausted in June; the government can also draw on the JPY 1tn in reserve funds in the FY2026 budget, but those funds, if exhausted, would limit the government's capacity for responding to contingencies. The government, one unnamed official told the *Mainichi Shimbun*, does not intend to use the supplemental budget for economic stimulus. This approach may reflect not only Takaichi's determination to rely less on

supplemental budgets but also her awareness of the risk that short-term stimulus could, through its impact on borrowing costs, complicate her plans for long-term strategic investments and defense spending.

However, the government's preferences alone may not be the only deciding factor, given the ruling coalition's lack of a majority in the upper house. Once again, the prime minister will have to negotiate with opposition parties – and perhaps even the Liberal Democratic Party's (LDP) upper house caucus – to move a budget through both houses of the Diet. As a result, all parties are preparing to press the government for concessions. Ishin no Kai, for example, wants a broader stimulus package that includes support for businesses. The Centrist Reform Alliance and its upper house partners, the Constitutional Democratic Party (CDP) and Kōmeitō, want payments to low-income households. Democratic Party for the People (DPFP) leader Tamaki Yūichirō has alluded to a broader supplemental budget but he has also emphasized the importance of avoiding deficit financing to avoid an adverse bond market reaction. On Tuesday, 19 May he proposed using proceeds from recent foreign exchange interventions, housed in the Foreign Exchange Funds Special Account, to fund a supplemental budget of roughly JPY 3tn. The LDP has been generally more cooperative; if anything, the party may be looking for ways to trim spending. For example, Hagiuda Kōichi, LDP deputy secretary-general and an ally of the prime minister's, suggested on Monday that the supplemental budget could be an opportunity to revise fuel subsidies, stating his view that the JPY 170/liter gasoline subsidies are not sustainable as oil prices rise.

Meanwhile, as the debate on the supplemental budget is ramping up, the LDP is once again indicating its desire to bring the DPFP into the ruling coalition to stabilize the government's control of the upper house. While this push predates the government's decision to pursue a supplemental budget, the prospect of another budget vote may give appeals to the DPFP more urgency. Over the past week, both LDP Secretary-General Suzuki Shunichi and LDP upper house leader Matsuyama Masaji have called upon Tamaki to join the coalition. Tamaki has played coy, suggesting that his party is still focused on policy solutions and is willing to cooperate on an issue-by-issue basis, while pointing to the need for greater trust between the DPFP and the LDP. It may be difficult for the LDP to place its hopes in Tamaki, however. His party, now the single largest between both houses due to the fragmentation of the CDP between the CRA and an independent upper house party, may relish this status. Tamaki and the DPFP may prefer playing a role as a constructive opposition party using their leverage to extract concessions from the government while positioning themselves to make gains in the future if the public sours on the LDP. This could be a better position for the long term than acting as a minor player in a three-party coalition dominated by the LDP, while having to bear the blame for the government's conduct in elections.

Ultimately, both Takaichi's pivot on a supplemental budget and the LDP's renewed campaign to cement its control of the upper house are the first indicators that Japan's politics, in a holding pattern during the first months of the Hormuz crisis due to Takaichi's use of strategic reserves and the fuel price cap to contain the macroeconomic impact of the crisis, may be finally affected by the prospect of shortages and

unavoidable price increases. Takaichi not only has to be wary of the impact that the crisis could have on her government's fiscal space but also on her political standing. Polls have consistently shown that the public wants the government to tackle cost-of-living issues above all, and Takaichi's support, particularly from the young, has benefited from the perception that she is determined to tackle it. However, a new poll this week from the *Sankei Shimbun* found that 58.7% of respondents were dissatisfied with her handling of rising prices, 21.1% of whom were strongly dissatisfied. The public also continues to express support for measures to promote energy conservation, a step that Takaichi has been reluctant to take. Even if voters discount Takaichi's responsibility for rising energy costs, she may nevertheless face risks of declining support if the public concludes that she is "behind the curve" in managing the crisis.

---

## **Tobias Harris**

Founder and Principal  
Japan Foresight LLC  
tobias@japanforesight.com  
+1.847.738.4048

---