

27 May 2026

## With new budget coming, Takaichi faces fuel subsidy fight

### Key takeaways

- Prime Minister Takaichi Sanae has outlined a relatively minimalistic supplemental budget to ensure adequate funding for fuel and utility subsidies.
- However, lawmakers and business leaders are pressing for the prime minister to offer a plan for scaling back subsidies that have kept Japan's gasoline prices at the "lowest level among the G7 countries," warning of the risk of the open-ended spending commitment.
- The prime minister cannot easily reduce these subsidies, as doing so would contribute to higher inflation and could therefore be politically costly.

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Prime Minister Takaichi Sanae used a Monday, 25 May press conference to outline the next phase in her government's response to the ongoing Hormuz crisis. But rather than announcing a new direction for her government, she indicated that for the time being the main tool will remain subsidies to limit the impact on consumers, particularly the price impact, instead of measures to conserve energy while stabilizing demand. However, the prime minister faces increasing pressure to outline a "exit strategy" for fuel subsidies – which have served to contain inflation – as their impact on the government's finances grows. The implication is that despite pivoting toward introducing a supplemental budget during the current Diet session, this shift is unlikely to be the last adjustment that the prime minister will have to make to her program.

In the 25 May press conference, Takaichi made two major announcements. First, she announced that her government would again be subsidizing gas and electricity rates from July to September, though at a higher rate per kilowatt hour, saving the average household an estimated JPY 5000 over the three months. The expectation is that these subsidies will cost roughly JPY 500bn, funded out of the FY2026 reserve funds.

Second, as expected, her government will submit a supplemental budget to the Diet next week that will provide JPY 3-3.5tn in funding aimed at establishing a “Reserve Fund for Response to the Middle East situation” that will support ongoing subsidies for gasoline, diesel, heavy oil, kerosene, and other refined products, including the JPY 170/liter subsidy for gasoline, which Takaichi boasted is the “lowest level among the G7 countries.” The supplemental budget will be split between this fund and replenishing emergency reserve funds with an additional JPY 1tn, replacing the funds that will be spent on utility subsidies and adding more for additional emergencies. Takaichi sought to reassure markets that although the budget would be funded by new deficit bonds, the overall amount of issuance will be unchanged since the government issued less than expected in FY2025 due to higher tax revenues. In general, Takaichi emphasized that although the government is moving to secure these funds, its efforts to secure crude oil from alternative suppliers have succeeded and the government’s efforts to find alternative sources of naphtha are also succeeding, with the biggest challenges being addressing bottlenecks in distribution. The overall impression she has sought to convey is that her government is in control of the situation and more drastic steps will not be required.

Having announced the budget, the prime minister and her Liberal Democratic Party (LDP) still need to clear the way for its passage by the Diet. The budget’s passage seems assured – the votes should be available in the upper house, as during the debate over the FY2026 budget. However, opposition parties are once again demanding more time for debate than the government would prefer, two days per chamber instead of the half day per chamber desired by the ruling coalition. The government’s lack of a majority in the upper house could once again force it to accede to opposition demands due to the balance of power on the upper chamber’s committees. That said, extra days of debate would give opposition lawmakers more opportunities to question the prime minister about her handling of the crisis – as well as a potential scandal involving her staff’s involvement in the distribution of videos attacking her political rivals – that Takaichi may prefer to avoid. Ultimately, it may not matter in practical terms if the Diet takes slightly longer to pass the supplemental budget, though it once again shows the government’s discomfort from its lack of control of the House of Councillors.

The bigger problem for the prime minister is that senior ruling party lawmakers, opposition lawmakers, and the business establishment have all stepped up demands (previously noted [here](#)) for the government to provide details about adjusting or phasing out the fuel subsidies. Since LDP Deputy Secretary-General Hagiuda Kōichi referred to the JPY 170/liter price cap (a roughly JPY 41.8/liter subsidy for the current week) as “unsustainable,” his position has been echoed by LDP policy chief Kobayashi Takayuki and Secretary-General Suzuki Shunichi, Ishin no Kai co-leader Fujita Fumitake, and Keidanren head Tsutsui Yoshinobu, all of whom have suggested that the open-ended commitment to this subsidy sends mixed signals to markets when the prime minister is attempting to show her government’s commitment to “responsible fiscal expansion.” Asked about this issue in a parliamentary debate last week, she acknowledged that it was a problem but avoided a concrete answer. Politically, she cannot easily withdraw a

subsidy that has polled favorably and suppressed inflation, but she may not be able to easily ignore senior political allies either. While the decline in oil prices amidst signs of progress in US-Iran negotiations may buy Takaichi some time, the prospect of continuing disruptions and uncertainty around the resolution of the conflict could make it difficult for the prime minister to dodge this issue for long.

Essentially, Takaichi conceded the need for a supplemental budget in light of the current “burn rate” for reserve funds in support of fuel subsidies but will now face another fight over the sustainability of the subsidies in the first place. Meanwhile, the government will continue to face calls to encourage greater energy conservation to ensure that fuel supplies are sustainable in the event that the conflict continues, prolonging the return to the status quo ante bellum. Nevertheless, in the face of uncertainty, the prime minister will continue to resist dramatic policy changes, following an incremental approach that seeks to limit the economic and domestic political impact of the Hormuz crisis, preserving the flexibility to make adjustments only when conditions leave her with no alternatives.

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