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Money for Nothing and Votes for Free: Can Takaichi navigate Japan's Dire Straits?

By

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18 February 2026

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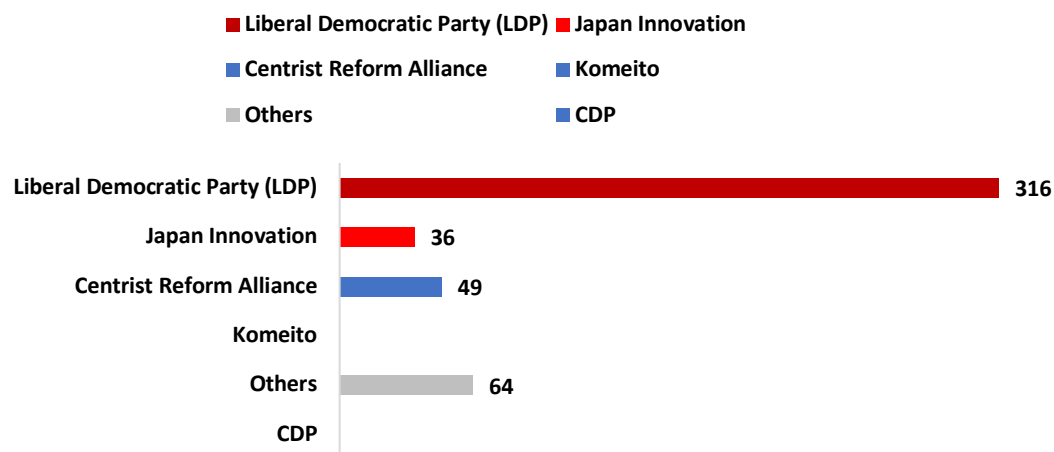
Executive Summary

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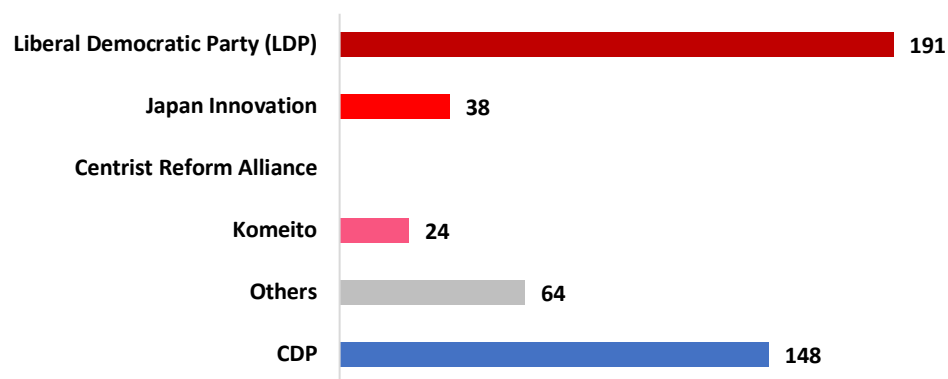
- ✦ PM Sanae Takaichi won a landslide election, securing 316 of 465 seats for the Liberal Democratic Party.
- ✦ She rode a wave of popular approval, which has re-energised her scandal-struck party.
- ✦ An assertive economic agenda has spooked bond markets, though equity markets have reacted favourably.
- ✦ Her hawkish foreign policy vis-a-vis China has deteriorated relations but won her support from the United States.

Key Picture: Japan General Elections Results 2026 and 2024

2026



2024



Source: [Reuters](#); Notes: Japan Innovation Party aligned with the LDP in October 2025; Komeito and the CDP formed a Centrist Reform Alliance in January 2026; Komeito previously aligned with the LDP in 2024.

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Introduction

If you told a Japanese person last year that the Liberal Democratic Party (LDP) would win the largest majority in decades led by the party's first female prime minister, they would rightly assume you are insane. The party was embattled, still reeling from the political fallout of former Prime Minister Shinzo Abe's assassination in 2022 and a corruption scandal involving prominent LDP members.

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Prime Minister Sanae Takaichi has delivered what few predicted by riding her wave of infectious charisma dubbed "Sana-Mania"; she has cemented the dominance of the LDP and stands ready to reshape the trajectory of Japan.¹ With 316 of 465 seats won, well above the 233 required for a majority, Takaichi holds a supermajority in the lower house and the ability to override the upper chamber. However, given many of the underlying problems which plagued the LDP remain, how far can Sana-Mania carry a nation heading down a path no other has ever trodden?

Economic Background

Takaichi's snap election was a fiscal wager. She campaigned on what she called a "proactive" economic agenda, such as suspending the 8% consumption tax on food and non-alcoholic beverages for two years, a move estimated to cost nearly \$60 billion.² Households are grappling with rising living costs, exacerbated by the Bank of Japan beginning tightening in 2024. Bond and equity markets have had opposite reactions to Takaichi's proposals. Japan is the most heavily indebted G7 nation, with a Debt-to-GDP ratio of 236.66%, so investors assumed that the resulting revenue shortfall would be financed through additional debt issuance.³

Bond markets reacted sharply, with Japan's 10-year yields reaching all-time highs in January.⁴ With a quarter of Japan's budget being spent servicing debt, and the Bank of Japan reversing its loose monetary policy, Takaichi's ambitions to alleviate the cost of living will be structurally more expensive.⁵ While the fiscal context is unforgiving, demographics compound the pressure with an aging population which has driven up welfare costs.

Yet equity markets have rallied. The Nikkei 225 has traded at record highs, perhaps reflecting investor hope that Takaichi may be able to turn around Japan's dire economic situation.⁶ However, it is worth noting that the Nikkei is heavily weighted to heavy manufacturing and capital goods firms, which have globally been powered by an AI-fuelled bull market. Furthermore, a weaker yen has flattered export earnings, so this optimism is built on fragile foundations. Japan's economy contracted at an annualised rate of 1.8% recently, and questions linger about how fiscal expansion will be funded.⁷ The parallel with the UK's 2022 mini-budget debacle under Liz Truss has been noted, though Japan's domestic investor base is less leveraged and more institutionally anchored.

Political Context

Going into the election, the LDP still faced reputational damage over a series of corruption scandals, fueling public apathy to their decade long rule. Despite being seen as a protégé of Abe, Takaichi has been largely isolated from the association between him and the controversial Unification Church. Abe's assassin's motivation had been anger at his family's bankruptcy due to his mother's donations to the group, which is widely distrusted in Japan due to their entrenched influence.⁸ Most recently, the LDP was rocked by a slush fund scandal which involved off-the-books political funds and underreported revenues, further reinforcing public suspicions of corruption.⁹

However, the opposition Centrist Reform Alliance was caught off-guard by the sudden announcement of snap elections, followed by Japan's shortest campaign period of only two weeks. Takaichi's support is broad across age groups, though the LDP skews older, while younger voters appear less attached to the main opposition which struggled to attract under-40s.¹⁰ The opposition was fragmented and uninspiring, a structural advantage

that benefitted the LDP. Unable to provide a compelling counter narrative, they were swept aside by Takaichi's assertive but personable campaign.

Takaichi's Appeal

Takaichi has capitalised on everything which was once touted as her weaknesses, an older member of the party, from a more modest background outside the party's usual patronage networks, and a woman within a conservative society. Her soft diplomacy has captured social media, such as her throwing a birthday party for Italian Prime Minister Giorgia Meloni and showing off her drumming skills with South Korean President Lee Jae Myung.¹¹ Her signature \$900 Hamano handbag has surged in sales, reflecting support from liberal career-minded women while also appealing to nationalists, Hamano being known for its associations with the Japanese Imperial family.¹² Commentators have also connected this style choice, broadly shunned by female global leaders, as Takaichi signifying her admiration for British Prime Minister Margaret Thatcher. Similar to Thatcher, another notable difference between Takaichi and opposition candidates has been her hawkish foreign policy.

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From Pacifism to Assertiveness

Takaichi has built momentum around reshaping Japan's global identity, cementing her perception as a staunch nationalist. Article 9 of the constitution renounces war and limits Japan's military to self-defence. Amending it requires a two-thirds majority in both chambers of the Diet and a public referendum. While the LDP now holds a supermajority in the lower house, it does not command the upper house and will not be able to contest this until the 2028 elections. Still, the debate itself matters. Sino-Japanese relations deteriorated after Takaichi suggested that Japan could become militarily involved in the event of a Chinese blockade of Taiwan.¹³

In response, Beijing has halted Japanese seafood imports, restricted tourism, and signalled possible export controls on critical minerals. Such measures could erase projected economic growth. However, Tokyo has refused to back down, leading to a surge of popularity for Takaichi, with an impressive 75% approval rating in December.¹⁴ At the same time, Takaichi's alignment with Washington is clear. She has benefited from her close relationship with Abe, who cultivated close ties with Donald Trump.

Trump announced she would visit the White House before votes were counted, signalling confidence in her victory and continuity in US-Japan relations. Furthermore, her push for a stronger Japanese military aligns with Washington's call for American allies to shoulder more of their security burdens. 50,000 US troops are stationed in Japan, representing America's largest overseas deployment.¹⁵ Trump undoubtedly supports Tokyo's remilitarisation as it allows Washington more strategic room in where it deploys its military.

Looking to the Future

What is undeniable is Takaichi's political acumen. Her choice of holding a sudden snap election was bold, giving LDP candidates little time to prepare, during the middle of a heavy snowstorm and while young voters, projected to turn up in droves for her, were in their exam period. However, she was able to benefit from her wave of public approval and has once again proven conventional wisdom wrong. Turnout held up at 55% under conditions that typically depress participation, and the result suggests genuine mobilisation.¹⁶ However, the issues that plagued her predecessors still remain. The LDP's connections to the Unification Church could resurface, even if they were muted in this campaign.

Takaichi has still not concretely said how she will keep the debt burden from growing while also introducing tax-cuts. However, if inflation continues moderating and wage growth outpaces prices, economic confidence may consolidate her support. If bond markets revolt or growth stalls under Chinese retaliation, her fiscal approach could unravel. Rewriting Article 9 remains popular but politically complex. It energises supporters and signals

resolve to allies but will deepen regional tensions. As for the LDP, it has maintained near-continuous rule for decades not because it is adored, but because of its ability to adapt. Takaichi represents adaptation through identity rather than structural reform. Once Sana-Mania wears off, the real test of the Japanese Iron Lady's metal will be shown.

NOTES

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