

The Weekly Observer

July 27-31, 2026

The 235th edition of the weekly newsletter aggregating news on Japanese politics. This week focuses on Japan's announcement of participation in the EU's Horizon Europe, Defense Minister Koizumi's scheduled travel to the United Kingdom and Australia, the conclusion of the special Diet session and Takaichi's dwindling public approval, the political decision to move forward with the consumption tax cut, the establishment of a new intelligence apparatus, guidelines for the FY 2027 budget request, the Japan-U.S. "intervention" to tackle the yen's depreciation, the GOJ's new cybersecurity guidelines for critical infrastructure operators, the first round of the GOJ's regional industrial cluster plan, the GOJ's forecasted real GDP growth rate, and more.

By Content

I. News of the Week

Foreign Policy/Security

1. Foreign Policy Developments
2. Security/Defense Developments

Domestic Politics

3. Special Diet Session Concludes as Takaichi's Approval Dwindles
4. Takaichi Decides on Consumption Tax Cut Despite Lingering Opposition
5. Japan Launches the “National Intelligence Council”
6. Key Political Developments

Economics/Finance

7. Japan and the United States Jointly Intervene in the Foreign Exchange Market
8. Economic Security and Tech Developments
9. Key Developments
10. State of the Economy

II. Public Opinion Polls

1. Kyodo News (7/27)

I. News of the Week

1. Foreign Policy Developments

- On Friday, the Ministry of Foreign Affairs (MOFA) [announced](#) that Minister Motegi Toshimitsu will visit Mexico, Panama, and Ecuador — and if circumstances permit, Trinidad and Tobago — from August 2-9. The discussions will [center](#) around trade and economic security.
- The MOFA [announced](#) that Japan has recently confirmed that China has initiated an installation of a new structure on the west side of the geographical equidistance line between Japan and China in the East China Sea. The GOJ strongly urged China for an early resumption of negotiations on the implementation of the “June 2008 Agreement” to cooperate on the development of natural resources in the area.
- On Thursday, Hamada Takashi, Chargé d'Affaires ad interim of the Mission of Japan to the European Union (EU), [signed](#) the agreement for the association of the GOJ to Horizon Europe, the EU's key funding program for R&D in Brussels, Belgium. This will promote the participation of Japanese companies, universities, and research institutions in the international collaborative research networks in Europe.
- On Tuesday, Motegi [held](#) a telephone call with Iranian Foreign Minister Seyyed Abbas Araghchi, expressing deep concern over the expansion of damage, including to neighbouring countries, whereas exchanges of attacks between the United States and Iran have ceased over the past few days, and called on Iran to exercise maximum flexibility for the early de-escalation of the situation.
- Minister of Finance Katayama Satsuki [indicated](#) that the GOJ is contemplating procuring funds for the second round of Japan-U.S. investment projects (natural gas power plant construction) from American banks in addition to Japanese government-affiliated financial institutions.
- On Monday, Prime Minister Takaichi Sanae [stated](#) that she is “looking forward to” a potential summit meeting with Chinese President Xi Jinping on the sidelines of the APEC Leaders' Summit in November in Shenzhen, China. Government dialogue has stalled, with even the reported brief encounter between Motegi and Foreign Minister Wang Yi in Manila on July 22 being [downplayed](#) by Beijing.

2. Security/Defense Developments

- *Asahi* [reported](#) Saturday that Minister of Defense Koizumi Shinjiro is arranging a visit to Australia in mid-August, with plans to potentially discuss defense equipment

exports with Deputy Prime Minister and Defense Minister Richard Marles and New Zealand Defense Minister Chris Penk.

- On Friday, the Japan Air Self-Defense Forces (JASDF) [released](#) the results of the investigation into the May 2025 crash of a “T4” trainer aircraft in Aichi Prefecture, explaining that “we were unable to identify the direct cause.” The report pointed out the possibility that the fighter jet’s life-saving equipment brought into the back seat may have interfered with piloting.
- *Sankei* [reported](#) that two Chinese Coast Guard vessels sailed from the Sea of Japan through the Tsugaru Strait into the Pacific Ocean between the evenings of July 30 and the morning of July 31, likely to crack down on illegal fishing activities. Meanwhile, the Joint Staff [announced](#) on Wednesday that four Chinese and Russian naval vessels that had been sailing together in the Pacific Ocean headed for the Sea of Japan on July 27. The vessels were first spotted in the area on July 16.
- On Thursday, the Ministry of Defense (MOD) [announced](#) that the destroyer *Chokai*, currently deployed to the United States, conducted a live-fire test of a Tomahawk missile in the Pacific Ocean on Wednesday, with support from the U.S. Navy. The MOD confirmed operational readiness, including the crew’s proficiency.
- *Asahi* [reported](#) Tuesday that members of the ruling Liberal Democratic Party (LDP) have started to voice opposition to the GOJ’s proposed changes to change the ranks of the JSDF to match international standards, arguing that it would “return (the JSDF) to the days of the old military.” The GOJ aims to submit legislation to the Diet this year.
- *Nikkei* [reported](#) Monday that Koizumi plans to visit the United Kingdom as early as by the end of the month to participate in an international ministerial meeting concerning the Strait of Hormuz. Koizumi took part in the May iteration and agreed to join a joint statement concerning multilateral missions to secure freedom of navigation across the strait.

3. Special Diet Session Concludes as Takaichi's Approval Dwindles

- On Monday, Takaichi [held](#) a press conference to reflect on the conclusion of the special Diet session, which lasted from February 18 to July 25. The 150-day session was extended eight days to enact key legislation.
- Takaichi [indicated](#) that the GOJ aims to swiftly submit legislation to reduce the consumption tax on food and beverages from eight to one percent for two years after the cross-party conference comes to a conclusion on the matter. She admitted that it will be important to signal the right message to financial markets on her economic policies like the growth strategy and the consumption tax cut.

- Takaichi said that she has “no regrets” over how she handled the Diet session, which ended with the GOJ [successfully enacting](#) all sixty-four bills it submitted. At the same time, she was criticized by the opposition for refusing to deliberate in the Diet and forcing legislation through with the “tyranny of the majority.” *Nikkei* [reported](#) that her appearance in the Budget Committee amounted to only half of her predecessors.
- Meanwhile, the Takaichi Cabinet has started to see a dip in approval, with the latest *Nikkei*/TV Tokyo poll [seeing](#) a ten percentage point decline in July. The numbers suggest that the gap in support between younger and older generations is at thirty percentage points, with younger voters more supportive of her Cabinet. *Asahi* [reported](#) that support among conservatives, voters in their thirties/forties, and housewives have started to fall.
- *Mainichi*’s analysis [found](#) that support among women has dropped eleven percentage points (eight points for men) to 36 percent, falling behind the 47 percent disapproval rating. The paper attributes the drop to low approval for the amended Imperial Household Law.
- Takaichi [maintained](#) on Monday that she did “not know” why her government’s approval was on the decline. Opposition Democratic Party for the People (DPFP) President Tamaki Yuichiro [pointed out](#) that her miscommunication created chaos in the Diet. Komeito Chief Representative Takeya Toshiko [added](#) that Takaichi should reflect on why the LDP was forced into an extended Diet session despite holding a supermajority in the Lower House.

4. Takaichi Decides on Consumption Tax Cut Despite Lingering Opposition

- On Thursday, Takaichi [announced](#) her intention to lower the consumption tax on food and beverages from eight to one percent for two years starting April 2027, with benefits equivalent to the one percent tax for low- and middle-income earners in June, effectively bringing the net impact to zero. She did not specify concrete funding measures, merely stating that the GOJ will not rely on deficit bonds.
- Takaichi [stated](#) that the GOJ will work toward submitting tax-related legislation during the fall extraordinary Diet session. She also committed to raising the tax rate back to eight percent at the end of the two-year limit. Critics have pointed out that it may be challenging to raise the tax rate if the economy is not performing well.
- The GOJ [plans to make](#) a Cabinet decision in early August. LDP Policy Research Council Chairperson Kobayashi Takayuki [indicated](#) on Thursday that he aims to forge a consensus within the party on the matter by this time. He stated that the goal is to issue a document outlining the party’s thinking on the matter.

- The LDP [convened](#) a joint session of taxation-related groups on Thursday in an attempt to form a consensus on the matter. Lawmakers were split, with some praising Takaichi for making a political decision despite opposition to the proposal, while others criticized the lack of explanation on funding sources to cover for the revenue shortfall and questioned whether a consumption tax cut was the most appropriate inflation relief measure as opposed to something like a cash handout.
- There have been a [few high-profile statements](#) of opposition to the plan. Former Foreign Minister Kono Taro posted on X that he opposes the plan, arguing that the move would lead to a loss in confidence in Japan's fiscal health and exacerbate the yen's depreciation and worsen interest rates. Obuchi Yuko, a member of the LDP's Tax Research Commission's "inner" executive board, formally stepped down in opposition to a tax cut without a clear funding source. Takaichi [made efforts](#) to gain understanding from top executives like Aso Taro, who is reportedly not a strong advocate for the tax cut.
- The cross-party National Conference on Social Security [finalized](#) its interim report on Wednesday, [proposing](#) the implementation of an income-tied cash handout in FY 2029 and including both a cash handout and consumption tax cut to reflect the disagreements between the ruling and opposition parties. Five opposition parties [formally opposed](#) the plan and proposed a cash handout, while the Japan Conservative Party expressed "reluctant support" for the tax cut.

5. Japan Launches the "National Intelligence Council"

- On Friday, the GOJ [launched](#) the National Intelligence Council (NIC) and National Intelligence Secretariat (NIS), tasked with coordinating intelligence functions across government. The NIS will be staffed by approximately 730 government officials.
- The new intelligence apparatus was set up as part of the legislation enacted in May. It brings together the various intelligence bodies housed under the MOFA, MOD, National Police Agency, and the Public Security Intelligence Agency. The inaugural secretary general will be Cabinet Information Officer Hara Kazuya, a senior police official who served as the director of the Cabinet Intelligence and Research Office.
- The new intelligence apparatus is [part one](#) of a series of intelligence reforms, which will include the crafting of a national intelligence strategy by the end of the year, as well as the creation of a Foreign Intelligence Agency and anti-espionage and anti-foreign interference legislation scheduled for next year.
- The LDP's Headquarters for Intelligence Strategy [compiled](#) policy recommendations on Tuesday, centered around "strengthening deterrence" to prevent intelligence

activities by foreign powers, strengthening intelligence-gathering capabilities, and strengthening oversight of intelligence activities by the Diet and other bodies.

- The LDP [proposes](#) placing the new Foreign Intelligence Agency under the jurisdiction of the foreign minister, similar to the United Kingdom's Secret Intelligence Service (MI6) and Australia's Secret Intelligence Service, as opposed to the United States's Central Intelligence Agency (CIA), which would require enormous staffing and budget to operate.

6. Key Political Developments

- On Friday, the Immigration Services Agency [released](#) the "Second Basic Plan for Immigration and Residence Management," which outlines the basic direction of future policies regarding foreign nationals. The permanent residency permit system will be [strictly enforced](#), stipulating that permits will be granted only to those who meet a certain level of language proficiency and who enroll in programs designed to teach them about Japan's systems and other relevant topics.
- On Thursday, the GOJ [adopted](#) the guidelines for preliminary budget requests for FY 2027, which removes the "ceiling" on the maximum amount that can be requested for growth and crisis management investments to encourage bold investment. It also approved a natural ¥390 billion increase in social security expenditures and a 20 percent increase in discretionary spending limits.
- *Yomiuri* [reported](#) that the Centrist Reform Alliance (CRA), Constitutional Democratic Party (CDP), and Komeito will prioritize merging the parties under the CRA though splitting the party or leaving the existing parties over forming a new party for efficiency. The interim report to be finalized soon commits to concluding the merger discussions by the end of August.
- On Tuesday, the cross-party Lower House Election System Council [organized](#) its discussion points concerning electoral system reform, indicating that a conclusion on reform measures including the contentious issue of reducing the number of Lower House seats will be reached around the time the finalized census results are released at the end of September. Chairperson Suzuki Keisuke (LDP) [indicated](#) that he will present a proposal for reform measures next month.
- The GOJ [adopted](#) revised ordinances related to the Industrial Competitiveness Enhancement Act, which implements integrated support measures to promote the creation of high value-added businesses through the promotion of domestic investment, strengthening the resilience of supply chains by developing overseas markets and securing a stable supply of raw materials, and maintaining living

infrastructure necessary to support the development of industrial land and the recruitment of workers.

7. Japan and the United States Jointly Intervene in the Foreign Exchange Market

- *Nikkei* [reported](#) Saturday that the GOJ, Bank of Japan (BOJ), and U.S. authorities acted in unison to prevent further depreciation of the yen. The GOJ/BOJ sold the dollar and bought the yen, while U.S. authorities sold the euro and bought the yen.
- A “joint intervention” is rare, seen only in extreme cases like the 1998 financial crisis and the 2011 Great East Japan Earthquake. Although there are differences between selling the dollar and the euro, if multiple currency authorities consult with one another and coordinate the timing of buying and selling, this could constitute “coordinated intervention.” Such intervention has a greater impact on financial markets and is more effective than unilateral intervention.
- On Friday, the yen abruptly appreciated to ¥157 to the dollar, reaching levels last seen in mid-May. The GOJ and BOJ intervened for two consecutive business days, pushing the yen from ¥162 to the dollar before the intervention to ¥157. A *Reuters* article [showed](#) a photo of a note on U.S. Secretary of the Treasury Scott Bessent’s desk, which indicated a \$5-10 billion purchase of the yen on a “To Do” list.
- The intervention [coincided](#) with the BOJ’s monetary policy meeting from July 30-31. The unprecedented timing suggests that the GOJ (decision) and BOJ (implementation) are “pursuing policies in a concerted manner.” The BOJ’s Outlook for Economic Activity and Prices [released](#) on Friday included “impact of exchange rate fluctuations” to the list of factors to be considered for issues like determining interest rate hikes.
- The BOJ [decided to maintain](#) the target range for the unsecured overnight call rate, the policy interest rate, at one percent, seeking to assess the impact of its rate hike in June on the economy and prices. The Outlook report raised the projected real GDP growth rate for 2026 upward by 0.1 percentage points to 0.6 percent, while the consumption price index growth rate was lowered 0.3 percentage points to 2.5 percent and up 0.1 percentage points to 2.4 percent in FY 2027. Governor Ueda Kazuo [highlighted](#) three risk factors that could lead to accelerating inflation: rising crude oil prices due to the situation in the Middle East, growing AI demand, and the weak yen.
- Meanwhile, *Nikkei* [reported](#) that the Nikkei Stock Average (Nikkei 225) fell ¥5,700 (8 percent) in July, marking its first monthly decline in four months. There has been a widespread global trend to reduce holdings of AI and semiconductor-related stocks, driven by caution over the rapid rise seen so far and concerns about intensifying competition in the AI field.

8. Economic Security and Tech Developments

- On Friday, the GOJ [convened](#) a meeting of the Cybersecurity Strategic Headquarters. It adopted a basic policy to promote “threat hunting,” which involves proactively searching for cyber threats targeting government ministries and agencies and critical infrastructure operators. Takaichi [stated](#) that, “cyberattacks, which are growing at an accelerating pace, won’t wait for us to be ready.”
- Major Japanese machine tool manufacturer Makino Milling Machine Co. [announced](#) that it will reject the acquisition proposal from the investment fund Japan Industrial Promotion Organization (NSSK). The company determined that the proposal, which envisages foreign investors as co-investors, would pose an obstacle to obtaining government approval under the Foreign Exchange and Foreign Trade Act (FEFTA).
- On Thursday, the Children and Families Agency [finalized](#) its draft interim report on measures to protect children from social media. The report [expressed](#) the view that “infinite scrolling,” where short videos are displayed endlessly, is a potentially harmful feature. It states that the GOJ will continue discussing age restrictions on social media use, which have been expanding across the world as of late.
- The METI [released](#) a new document concerning corporate mergers and acquisitions (M&As), which stated that factors other than price can be taken into account when evaluating an acquisition proposal. A [key condition](#) is whether the impact on corporate value can be explained in concrete terms to shareholders. It also explicitly stated that price is an important factor.
- On Monday, Minister of State for Science and Technology Policy Onoda Kimi [signed](#) a memorandum of cooperation with Australian Minister for Industry and Innovation Tim Ayres in the field of quantum technology. The agreement covers cooperation to ensure a stable supply of materials and components needed for quantum computers, as well as support for startups in both countries.
- *Nikkei* [reported](#) Sunday that Bain Capital’s gain on selling Kioxia Holdings’ shares following the increase in share prices will reach approximately ¥2.5 trillion, the largest-ever return on a domestic investment by a private equity fund. Bain started selling shares in summer 2025 as share prices were projected to increase following the initial public offering (IPO) in December 2024.

9. Key Economic/Financial Developments

- On Friday, the GOJ [convened](#) the Regional Future Strategy ministerial meeting, releasing the public-private investment plan to create regional industrial clusters. The

GOJ [presented](#) thirteen projects in the seventeen key strategic growth sectors as the first round under the “Strategic Industrial Cluster Plan.” For instance, Hokkaido, Tohoku, Kyushu, and Hiroshima were selected as semiconductor clusters.

- The GOJ [convened](#) a ministerial meeting concerning nuclear policy and presented the direction of policy going forward, formally adopting the plan to replace up to five nuclear power plants by the 2040s and up to fourteen by the 2050s. It also [touches](#) on the commercialization of next-generation reactors and fundamental reform of R&D and regulatory measures to reorganize the industry facing significant recruitment challenges. Japan requires nuclear power to meet AI-induced electricity demand.
- On Wednesday, the National Institute of Population and Social Security Research [announced](#) that social security benefit expenditures for FY 2024 amounted to ¥138.3 trillion, growing two percent from FY 2023 and for the first time in three years as pensions and child allowances increased. The amount of cash handouts [hit](#) the second highest level in history. The GDP ratio fell 0.37 percentage points to 21.53 percent.
- On Tuesday, the Ministry of Health, Labor and Welfare’s (MHLW) Central Minimum Wages Council [decided to raise](#) the national weighted average minimum wage for FY 2026 by ¥55 (4.9 percent) to ¥1,176. The gap between the highest and lowest minimum wage — which labor unions required be redressed — shrank from ¥203 in FY 2025 to a projected ¥201 in FY 2026 (Tokyo vs Kochi, Miyazaki, and Okinawa).
- A METI expert panel [indicated](#) a policy regarding public financing for the construction of large-scale nuclear power plants included in the amended Electricity Business Act, targeting those with a capacity of 500,000 kilowatts or more. The GOJ aims to disburse the first loan in March 2027. The amended law allows for public financing through the Fiscal Investment and Loan Program, with a view to the replacement of existing nuclear power plants.

10. State of the Economy

- On Friday, the MHLW [announced](#) that the seasonally adjusted jobs-to-applicants ratio in June rose 0.01 points to 1.18 times from May, the first increase in four months, [owing to increased demand](#) in the semiconductor sector resulting in more staffing requirements in the electrical machinery manufacturing and temporary staffing industries. Meanwhile, the Ministry of Internal Affairs and Communications (MIC) [announced](#) that the unemployment rate remained the same at 2.5 percent.
- On Thursday, the Cabinet Office (CAO) [announced](#) that the forecasted real GDP growth rate for FY 2026 is expected to be 0.9 percent, lowering the forecast made in December 2025 by 0.4 percentage points to reflect the impact of higher crude oil prices resulting from the deteriorating situation in the Middle East.

- The forecast anticipated a real growth rate of 1.1 percent in FY 2027 and raised crude oil prices from \$68 per barrel to \$92.5 per barrel. It [revised](#) the global growth rate from 2.8 percent to 2.7 percent; individual consumption from 1.3 percent to 0.9 percent; and a capital investment rate of 2.3 percent. The forecasted primary balance in FY 2027 was changed from a ¥2.1 trillion deficit in the June forecast to a ¥1.4 trillion surplus due to an increase in tax revenue.
- On Wednesday, the GOJ [released](#) the Monthly Economic Report for July, which [maintained](#) the assessment for the fifth consecutive month that the economy is “recovering at a moderate pace, while attention should be given to the effects caused from the situation in the Middle East.” The GOJ stated that it will ensure the “transition to a growth-oriented economy by not returning to deflation, while responding flexibly to various risks.”
- The MIC [announced](#) that the number of Japanese residents in the country at the beginning of the year decreased 916,744 from the previous year to 119.73 million, [falling below](#) the 120 million threshold for the first time in forty-two years. Meanwhile, the number of foreign residents increased 353,696 to a record high of 4.03 million. The total population fell by 563,048 to 123.76 million.

II. Public Opinion Poll

- A *Kyodo* poll [released](#) on Monday found that the Takaichi Cabinet’s approval rating was 54 percent, down two points from June, while disapproval was at 34 percent, up six points.
 - 33 percent of respondents said that, if anything, the Takaichi Administration’s management of the Diet session was forceful; 28 percent said that, if anything, it was careful; 25 percent said that it was forceful; and 7 percent said that it was careful.
 - 75 percent of respondents said that they support the proposal to enable female members of the Imperial Household to maintain their status after marriage, while 18 percent said they oppose it.
 - 51 percent of respondents said that they support the proposal to adopt male-lineage descendants from former imperial families back into the Imperial Household, while 39 percent said they oppose it.
 - 81 percent of respondents said that they support the idea of a female emperor, while 16 percent said they oppose it.
 - 50 percent of respondents said that they do not believe the amended Imperial Household Law will gain public understanding, while 44 percent said they believe it will gain public understanding.

- 67 percent of respondents said that they believe the Diet discussions on the “second capital” bill was inadequate, while 24 percent said they believe it was adequate.
 - 47 percent of respondents said that they believe the consumption tax on food and beverages can be one percent if the time until implementation is shortened; 26 percent said there is no need for a tax cut; and 25 percent said they believe it should be zero percent even if it takes more time.
 - 59 percent of respondents said that they do not believe the prime minister adequately explained the alleged scandal involving videos slandering rival LDP presidential candidates, while 33 percent said they believe she adequately explained the matter.
 - 56 percent of respondents said that they approve of the law criminalizing desecration of the national flag, while 39 percent said they oppose it.
- The survey also collected data on the latest approval ratings of political parties.

Political Party	Approval Rating (%)
Liberal Democratic Party	35.9 (-2.8)
Centrist Reform Alliance	4.6 (-1.5)
Japan Innovation Party	5.8 (+1)
Democratic Party for the People	7.2 (+0.6)
Suffrage Party (Sanseitō)	6.3 (+0.3)
Team Mirai	6.5 (+2.2)
Japan Communist Party	4 (+2)
Reiwa Shinsengumi	1.6 (+0.2)
Japan Conservative Party	1.4 (+0.4)
Socialist Democratic Party	0.4 (-0.1)
Constitutional Democratic Party	3.8 (+0.3)
Komeito	1.7 (+0.6)
Independent (No Party)	18.9 (-2.2)