Japan votes in election expected to punish PM Ishiba's coalition

TOKYO, Oct 27 (Reuters) – Japan's voters decide the fate of Prime Minister Shigeru Ishiba's government on Sunday in an election expected to punish his coalition over a funding scandal and inflation, potentially ending a decade of dominance for his Liberal Democratic Party.

The LDP and its longtime partner Komeito will suffer a drubbing from voters, with the coalition possibly losing its parliamentary majority, opinion polls suggest, as Japan struggles with rising costs of living and increasingly tense relations with neighbouring China.

Losing the majority in the lower house would force Ishiba, in office just a month, into power-sharing negotiations with smaller parties, bringing uncertainty in some policy areas, although no polls forecast the LDP being ejected from power.

Political wrangling could roil markets and be a headache for the Bank of Japan, if Ishiba chooses a partner that favours maintaining near-zero interest rates when the central bank wants to gradually raise them.

"He'll be considerably weakened as a leader, his party will be weakened in the policies that it particularly wants to focus on, because bringing in a coalition partner will cause them to have to make certain compromises with that party, whatever party it may be," said Jeffrey Hall, an expert on Japanese politics at the Kanda University of International Studies.

The LDP could lose as many as 50 of its 247 seats in the lower house and Komeito could slip below 30, giving the coalition fewer than the 233 needed for a majority, a survey by the

Asahi newspaper suggested last week.

“That’s basically the scenario for ‘sell Japan’,” as investors ponder how the outcome could affect fiscal and monetary policy, said Naka Matsuzawa, chief macro strategist at Nomura Securities. Japanese shares fell 2.7% last week on the benchmark Nikkei (.N225)

The LDP will remain the biggest force in parliament, polls indicate, but it could lose many votes to the number two party, the opposition Constitutional Democratic Party of Japan, which toppled the LDP in 2009, the Asahi said, estimating the CDPJ could win as many as 140 seats.

COALITION HEADACHES

Nine days before U.S. voters choose a new president, Japan’s general election appears likely to show Ishiba miscalculated in going to the voters for a verdict on the LDP’s scandal over unrecorded donations at fundraisers.

After purging some LDP members, Ishiba says he considers the case closed and has not ruled out giving government posts to disgraced politicians, possibly angering voters, experts say.

Potential coalition partners could be the Democratic Party for the People (DPP) and the Japan Innovation Party, but both propose policies at odds with the LDP line.

The DPP calls for halving Japan’s 10% sales tax until real wages rise, a policy not endorsed by the LDP, while the Innovation Party has pledged tougher donation rules to clean up politics.

The Innovation Party opposes further rate hikes, and the DPP leader has said the central bank may have been hasty in raising rates, while the BOJ wants to gradually wean the world’s fourth-largest economy off decades of monetary stimulus.

“The DPP is focused on ultimately making the country better and ensuring financial resources are allocated more appropriately, so that’s why I decided to vote for them,” Keisuke Yoshitomi, a 39-year-old office worker said after casting his vote at a polling station in central Tokyo on Sunday.

Also voting at the same station on a sunny morning, Takeshi Ito, a 38-year-old manager at an infrastructure company said he would stick with the LDP, which has governed Japan for almost all of the post-war era.

“Even if I were to switch to an opposition party, it’s still unclear whether they could push forward reforms, and I don’t know if I can trust them or not at this point,” Ito said.

“Therefore, I want to see the party that has been in power continue to move forward.”

Almost 40% of voters say their top concern is the economy and cost of living, according to a poll by public broadcaster NHK. It found 28% want a tax cut and 21% hoped to see a continued rise in their wages.

Various parties have pledged to raise wages in a move that may win votes but also threatens smaller businesses that are struggling to keep up with rising costs.