

JGB Insight

A third supplementary budget may not trigger additional JGB issuance

- ✓ The Suga administration has been launched. We expect the new administration to take more of the same economic, fiscal and monetary policy stance with the Abe administration.
- ✓ We see a low probability of additional economic stimulus anytime soon.
- ✓ A third supplementary budget may not trigger additional JGB issuance.
- ✓ The BOJ should adhere strongly to its current monetary policy, even under the new administration.
- ✓ This is an extremely smooth administration shift that is unlikely to have much impact on the JGB market direction or the yield curve shape.

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The Suga administration expected to keep the economic, fiscal and monetary policies having been taken by Mr. Abe mostly unchanged

In a vote to choose Japan's new prime minister at a plenary session of the Diet on September 16, LDP President Yoshihide Suga was elected Japan's 99th prime minister, and a new administration is underway. Former Health Minister Katsunobu Kato was named Chief Cabinet Secretary, and former prime minister Shinzo Abe's younger brother, Nobuo Kishi, was named Minister of Defense. Deputy Prime Minister/Minister of Finance Taro Aso, Foreign Minister Toshimitsu Motegi and Economic Revitalization Minister Yasutoshi Nishimura were all reappointed to their positions. The new cabinet appears to literally succeed the Abe administration. With Prime Minister Suga having expressed his intention to carry on with Abenomics and put together a cabinet of reform-minded, hard-working individuals who will work on behalf of the citizenry, the new government is in place. Because the new cabinet's philosophy is the sustainability of Abenomics, we expect the new administration to take more of the same economic, fiscal and monetary policy stance with the Abe administration.

We see a low probability of additional economic stimulus anytime soon

On the fiscal policy side, with Covid-19 still a big factor, Prime Minister Suga intends to maintain the economic policy having been delivered by Mr. Abe. Mr. Suga reportedly instructed Mr. Aso "to protect employment at SMEs from the pandemic's impacts and provide funding support to ensure businesses remain viable." Japan has spent about Y60 trillion across its first two supplementary budgets for FY2020. The second supplementary budget included about Y11.6 trillion of financing assistance under the general account, Y10 trillion of discretionary reserves, and a fiscal investment and loan framework of over Y39 trillion. Given that there are still about Y7.8 trillion of the reserves remaining, we think another economic package is unlikely to be delivered anytime soon.

Even an expected big shortfall in tax revenue may not trigger additional JGB issuance

We expect a third supplementary budget before end-2020 (regardless of whether an additional economic stimulus package is put together or not), because of the need to offset an expected big tax revenue shortfall. Tax revenue in FY19 totaled Y58.4 trillion, and that was reduced by about Y1.7 trillion from the tax revenues expectation downward revised from the initial budget and set at the supplementary budget. Tax revenue is initially set at about Y63.5 trillion under the FY20 initial budget, up roughly Y1 trillion from the FY19 initial budget. Considering impacts from the economy's pandemic-induced weakening, a significant tax revenue shortfall is likely in FY20 as well. Although the complexity of tax revenue inflows make them difficult to predict, if tax revenues for the two fiscal years combined fall short by at least Y10 trillion, JGB issuance would have to be increased by the same amount. Considering a large decrease in JGB issuance expected to occur in connection with the previously mentioned funding response, discretionary spending, and fiscal investment and loans (all factors reducing the amount of JGBs), however, we think that it is also possible that there will be no further increase in JGB issuance.

The BOJ should adhere to the current monetary policy even under the new administration

The BOJ's policy board decided to keep policy unchanged at its meeting on September 17. At his post-meeting press conference, BOJ Governor Kuroda said that he intends to serve out his term until 2023 and that, as indicated in their joint statement, the government and BOJ recognize their respective roles in cooperating to move policy forward. Regarding the

shape of the yield curve, he said "there has been no fundamental change in the BOJ's thinking since the comprehensive review in 2016. We will purchase assets to ensure the shape of the yield curve is appropriate in light of the economy, prices, and monetary conditions prevailing at the time. As it is, we think the current yield curve is suitable to current conditions." The BOJ will likely continue adhering steadfastly to the current yield curve policy to achieve the 2% price stability target. We expect it to continue leaving the shape of the curve in the superlong zone up to market forces.

Overall, this latest shift of administrations has been extremely smooth from the bond market's perspective. We do not expect it to have much impact on the market's direction or the shape of the yield curve.

Economic Stimulus Packages in FY2020

(Yen trillions)

	Emergency Economic Packages				Second Supplementary Budget	Supplementary Budget Total	TOTAL
	Total	General Economic Measures	Emergency Measures I&II	First Supplementary Budget			
Business Size	117.1	19.8	2.1	95.2	116.9	212.1	233.9
Fiscal Expenditures	48.4	9.8	0.5	38.1	72.5	110.6	120.8
National	33.9	6.4		27.5	32.9	60.4	66.8
FLPs	12.5	2.4		10.1	39.3	49.4	51.9

Source: National Diet Library Research Center

Overview of the Second Supplementary Budget of FY2020

Provisional translation

Expenditures		Revenues	
		(billion yen)	
1. Expenses related to cope with the COVID-19	31,817.1	1. Government bond issuance	31,911.4
(1) Enhancing the Employment Adjustment Subsidy	451.9	(1) Construction Bonds	9,299.0
(2) Enhancing financial support	11,639.0	(2) Special Deficit-Financing Bonds	22,612.4
(3) Establishing a rent support grant for SMEs	2,024.2		
(4) Supporting medical treatment providers	2,989.2		
(5) Other supports	4,712.7		
① Expanding of "Special Allocation for Revitalization to cope with COVID-19"	2,000.0		
② Additional payments to low-income single parent households	136.5		
③ Enhancing the Subsidy Program for Sustaining Businesses	1,940.0		
④ Others	636.3		
(6) Contingency funds for the COVID-19	10,000.0		
2. Transfer to the Special Account for the National Debt Consolidation Fund (interest payment)	96.3		
3. Reduction in previously approved expenses (annual allowance of the members of the Diet)	-2.0		
Total	31,911.4	Total	31,911.4

(Note1) Figures may not add to the totals due to rounding.

(Note2) 1.(2) includes transfer to the Special Account for the National Debt Consolidation Fund (redemption of Subsidy Bonds (443.2 billion yen) held by Development Bank of Japan Inc.)

Source: Daiwa Securities.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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