

Daiwa's View

Two supplementary budgets—one for economic/COVID-19 measures and one for the regular budget in Dec—may be unified in Nov?

- If compiled in Nov, only one supplementary budget may be formed in which factors that increase and decrease JGB issuance cancel each other out

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Daiwa Securities Co. Ltd.

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Two supplementary budgets—one for economic/COVID-19 measures and one for the regular budget in Dec—may be unified in Nov?

Two supplementary budgets are expected to be compiled in FY21. The first one is an extra budget for economic and COVID-19 measures, which may lead to a nearly Y30tn increase in issuance of JGBs. The second one is [a regular supplementary budget, which is usually compiled in December](#). In FY21, JGB issuance may be decreased by more than Y20tn due to [a substantial cut in FILP bonds](#) (about Y20tn?) and an upward revision to tax revenues (around Y4tn on a net basis?). During the fiscal year, after the JGB issuance amount has been increased substantially, it is greatly decreased several months later. Therefore, it is hard to imagine that the issuance amount of coupon-bearing bonds in influential maturities in the market will be increased substantially, and then decreased immediately thereafter. It would be preferable to revise the JGB issuance plan in consideration of the two rounds of supplementary budgets and the FY22 budget, as well.

Also, if the first supplementary budget is moved back to November, it is highly possible that the second supplementary budget, which is usually compiled in December, will be moved forward to November and both budgets will be unified and compiled as one supplementary budget. We envisage a scenario in which the total amount of the JGB issuance plan will not be increased much because factors that substantially increase the JGB issuance amount and those that decrease it considerably will be included in the same supplementary budget, canceling each other out. While the total amount will be largely unchanged, of key importance will be how the MOF lengthens the maturity via a shift among maturities in light of the FY22 budget, as well.

According to recent media reports, the scale of the supplementary budget for economic and COVID-19 measures is estimated at around Y30tn. Reportedly, it is highly likely that the budget will be compiled after a snap election. Passage of an extra budget before a snap election would require deliberations in the Diet, which could easily lead to opposition parties going on the offensive. Also, on 30 July, the government decided to extend the length of the state of emergency and expand targeted areas. At a press conference, Prime Minister Yoshihide Suga continued to view vaccinations as being the key to dealing with the coronavirus. Therefore, he has the option of delaying the election and proceeding with inoculations, raising his approval ratings by associating that with the sense of peace of mind held by the electorate once it has been vaccinated and with containment of the virus. The government appears to be in a hurry to supply vaccines so that 80% of the population can be vaccinated with two shots by end-September.

The situation is still fluid and uncertain. However, if the snap election is delayed slightly, with voting and vote counting taking place in late October and the supplementary budget compiled in November after designation of the head of the cabinet, the regular supplementary budget in December may be moved forward to November and unified with the extra budget for economic and COVID-19 measures. As indicated by cases in FY99 (when the Cabinet decision was made on 25 Nov), FY00 (10 Nov), FY01 (7 Nov), and FY10 (26 Oct), there have been many cases in which a regular supplementary budget and a budget for economic measures were unified into one. The scale of factors that increase the JGB issuance amount and those that decrease it are estimated as being almost the same at around ¥20tn each, or, possibly, the factors that increase it may be slightly higher. As they are expected to offset each other, we are unlikely to see a 'tricky' situation regarding the JGB issuance plan with a substantial decrease in the total amount immediately after a considerable increase. The change in the amount of calendar-based JGB issuance is likely to occur around early next year.

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