

## Daiwa's View

### Schedule for supplementary budget, taking into consideration Yokohama mayoral election results

- Cabinet decision and revision to JGB issuance plan are likely in Nov-Dec

FICC Research Dept.

Senior Fiscal Policy and  
Credit Analyst  
**Kouji Hamada**  
(81) 3 5555-8791  
kouji.hamada@daiwa.co.jp



Daiwa Securities Co. Ltd.

#### Cabinet decision and revision to JGB issuance plan are likely in Nov-Dec

#### Schedule for supplementary budget, taking into consideration Yokohama mayoral election results

On 22 August, voting and vote counting for the Yokohama mayoral election were conducted. Mr. Takeharu Yamanaka, backed by the Constitutional Democratic Party of Japan, won by an overwhelming majority against other candidates, including Hachiro Okonogi, a former Cabinet member who served as chairman of the National Public Safety Commission, and also a member of the Liberal Democratic Party of Japan (LDP) until immediately before standing in the election. Mr. Yamanaka's victory was assured as early as 20:00, the deadline for voting. Reflecting these results, there is increasing media speculation that a snap election of the lower house will be held after the LDP presidential election. If that were to happen, it is assumed that the Cabinet decision on the supplementary budget and revisions to the JGB issuance plan will happen around Nov-Dec or possibly as late as January 2022. We can think of various possible outcomes, depending on whether Prime Minister Yoshihide Suga remains in power and the election schedule.

Pieces of the puzzle to consider regarding the upcoming schedule are as follows. (1) The term of the LDP president expires on 30 September. According to news reports, it is highly likely that the presidential election will be announced on the 17<sup>th</sup> and voting and vote counting will take place on the 29<sup>th</sup>. (2) After the general election, as well as in the case that Prime Minister Suga does not run for election or loses the election, an extraordinary session of the Diet is expected to be convened in order to designate the head of the Cabinet (a special session of the Diet in the case of a snap general election). (3) The term of lower house members ends on 21 October. A general election due to the end of their term is conducted within 30 days prior to the end of the term. However, if the period when the election should be held (following the end of the term) coincides with a session of the Diet, the election is conducted within 24-30 days after dissolution of the Diet. A snap general election is called within 40 days after dissolution. (4) Since 1990, it has taken an average of 28 days after dissolution until the general election. That said, the shortest period has been 23 days. Given the current circumstances with the COVID-19 pandemic, we think, this time, it may be close to the shortest number of days. On average, it takes 12 days after the general election until convening a special session of the Diet.

As shown in the chart on next page, cases since 2000 in which the lower house was dissolved during Oct-Nov occurred in 2003, 2012, and 2014. In 2003, the general election was held on 9 November and the Cabinet decision on the regular supplementary budget was made on 20 December, which serves as a reference for this time around. In 2012 and 2014, the general elections were held later, in December, and the Cabinet decisions on the supplementary budgets were moved back to January of the following year.

### Schedule in Cases of Lower House Dissolution in Oct-Nov Since 2000

Dissolution	General election	Dissolution → General election	Special session of Diet	General election → Special session of Diet	Supplementary budget*	Initial budget in following year*
10-Oct-03	<b>09-Nov-03</b>	30 days	19-Nov-03	10 days	<b>20-Dec-03</b>	<b>24-Dec-03</b>
16-Nov-12	<b>16-Dec-12</b>	30 days	26-Dec-12	10 days	<b>15-Jan-13</b>	<b>29-Jan-13</b>
21-Nov-14	<b>14-Dec-14</b>	23 days	24-Dec-14	10 days	<b>09-Jan-15</b>	<b>14-Jan-15</b>

Source: House of Representatives, MOF; compiled by Daiwa Securities.  
\*Date of Cabinet decision.

The chart below shows assumed patterns for the timing of the Cabinet decision on the FY21 supplementary budget and revisions to the JGB issuance plan, as well as for the timing of the Cabinet decision on the FY22 initial budget and formulation of the JGB issuance plan depending on (1) whether Prime Minister Suga is still in power after the LDP presidential election and general election and (2) the date of the general election.

### Assumed Patterns of Snap General Election and Date of Cabinet Decision on FY21 Supplementary Budget/FY22 Initial Budget

After LDP presidential election	After lower house election	Economic measures	Extraordinary session of Diet after LDP presidential election	General election	Extraordinary or special session of Diet after general election	FY21 supplementary budget*	FY22 initial budget*	
①	PM Suga stays in office	After general election or no measures	Not be convened	End of term	Around 17 Oct	Around 27 Oct	Late Nov	Late Dec
②	PM Suga stays in office	Around 20 Oct	Around 17~21 Oct	End of term	Around 14 Nov	Around 24 Nov	Late Dec	Late Dec
③				Dissolution	Around 21 or 28 Nov	Around 1 or 8 Dec	Early Jan	Mid-Jan
④	PM Suga stays in office	After general election or no measures	Not be convened	End of term	Around 17 Oct	Around 10 Nov	Early Dec	Late Dec
⑤	Resignation of PM Suga/Election of new PM	Around 20 Oct	Around 17~21 Oct	End of term	Around 14 Nov	Around 8 Dec	Early Jan	Mid-Jan
⑥				Dissolution	Around 21 or 28 Nov	Around 15 or 22 Dec	Mid/late Jan	Late Jan-Early Feb
⑦	Appearance of new PM	After general election or no measures	Around 12~14 Oct	End of term	Around 7 Nov	Around 17 Nov	Mid-Dec	Late Dec
⑧				Dissolution	Around 14 or 21 Nov	Around 24 Nov or 1 Dec	Late Dec-Early Jan	Early/mid-Jan
⑨	Appearance of new PM	After general election or no measures	Around 12~14 Oct	End of term	Around 7 Nov	Around 1 Dec	Early Jan	Mid-Jan
⑩	Resignation of new PM/Election of another new PM			Dissolution	Around 14 or 21 Nov	Around 8 or 15 Dec	Early/mid-Jan	Mid/late Jan

Source: Compiled by Daiwa Securities.

\*Date of Cabinet decision, when JGB issuance plan is simultaneously revised/formulated.

In patterns 1-3, we assume that Prime Minister Suga wins in the LDP presidential election, continuing to receive support from major factions, and stays in office after the general election by securing enough votes to clear the bar for victory. Although the probability for this is decreasing day by day, this is still one of the main scenarios. In pattern 1, a general election due to the end of the term is held before the day of the end of the term on 21 October, without convening an extraordinary session of the Diet. In late November, the Cabinet decision can be made on the supplementary budget. There doesn't appear to be time to dissolve the lower house after the LDP presidential election or to implement a general election before the end of the term. In patterns 2 and 3, an extraordinary session of the Diet is held for about five days until 21 October, the day of the end of the term. In pattern 2, a general election due to the end of the term is held on 14 November. The supplementary budget is compiled in late December, as usual. In pattern 3, the lower house is dissolved on 21 October, unlike pattern 2. Here, the election date can be postponed by two weeks at most. However, dissolution during the pandemic and the length of the period after dissolution until the general election are worrisome factors.

Patterns 4-6 are based on patterns 1-3. However, here we assume that the number of seats won for the ruling parties in the general election falls short of what is needed to secure victory, and Prime Minister Suga resigns to take responsibility. In order to elect a new prime minister, the schedule for all procedures after the general election is postponed about two weeks later than in patterns 1-3. The Cabinet decision on the supplementary budget is particularly likely to be made in January in patterns 5 and 6.

In patterns 7 and 8, we assume that Prime Minister Suga doesn't run for the LDP presidential election or loses the election—i.e., a new LDP president emerges. We assume he or she is Prime Minister after the general election. Unlike patterns 1–6, the Suga Cabinet resigns en masse promptly and an extraordinary session of the Diet to designate the head of the Cabinet is likely convened by mid-October. In pattern 7, the general election due to the end of the term is held 24-30 days after dissolution of the extraordinary session of the Diet. The Cabinet decision on the supplementary budget is presumed to be made around mid-December. In pattern 8, the extraordinary session of the Diet is dissolved on the final day. However, we are uncomfortable with this scenario, with dissolution of the Diet occurring immediately after a new prime minister is designated by the Diet.

In patterns 9 and 10, we assume that the new prime minister leaves office early, having failed to clear the bar for victory in the general election. With another new prime minister needing to be elected, the schedule for all procedures after the general election is postponed about two weeks later than in patterns 7 and 8.

If COVID-19 infections come under control, a 17 October general election due to the end of the term may still be possible (pattern 1). However, if this is difficult, the election could be conducted after the end of the original term (pattern 2), as has been discussed in news reports. Depending on Cabinet approval ratings and circumstances surrounding infections, there is likely to be an increased chance of pattern 7—a general election due to the end of the term under a new prime minister. The Cabinet decision on the supplementary budget is anticipated around Nov-Dec, or possibly as late as January. In any case, [the supplementary budget for economic and COVID-19 measures and the regular supplementary budget will be unified, as explained in our 2 August report](#). Therefore, factors that increase the JGB issuance amount and those that decrease it are likely to cancel each other out.

## **IMPORTANT**

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

### **Ratings**

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

### **Target Prices**

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

### **Disclosures related to Daiwa Securities**

Please refer to [https://lzone.daiwa.co.jp/l-zone/disclaimer/e\\_disclaimer.pdf](https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf) for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

### **Explanatory Document of Unregistered Credit Ratings**

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

### **Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law**

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* 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.

\*\* The ratio of margin requirements etc. to the amount of the transaction 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association