

Daiwa's View

Fiscal policy with Fumio Kishida as the new LDP leader

- Keys will be size of the FY21 supplementary budget and redistribution in the initial FY22 budget

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Fiscal policy with Fumio Kishida as the new LDP leader

On 29 September, the LDP elected Fumio Kishida as its new party leader. Attention will be on the economic package and the size of the FY21 supplementary budget it requires, as well as on the initial FY22 budget, both when it is formed and what permanent redistribution policies it contains. Assuming an economic package of around Y30 trillion that is paid for with a FY21 supplementary budget and FY22 initial budget, total JGB issuance looks likely to remain roughly the same it was for the FY21 initial budget, after the FY21 supplementary budget, and with the FY22 initial budget. The economic package will likely be passed in December, but the question is whether the FY21 supplementary budget and FY22 initial budget will also be formed by December.

Regarding the size of the economic package, when campaigning for LDP president Mr. Kishida repeatedly argued that it should be several tens of trillions of yen and he posited the same number in his acceptance speech and initial press conference as the new LDP leader. After an online interview with young business leaders on 29 August he suggested it should be around Y30 trillion. How big will it ultimately be? When Prime Minister Suga still wanted to run for reelection, the media reported that the outlines of an economic package would be shown prior to the general election. Assuming no change in trajectory, the broad outlines and rough size of the economic package should become clear by end-October.

A FY21 supplementary budget will be formed to accommodate this economic package, but there will also be an upward revision to tax revenue estimates, surplus funds from the FY20 budget, and a reduction in FILP bonds to reflect the unused FILP budget, and this will have a downward impact on the amount of JGB issuance. Additionally, in debates with other candidates for LDP president, Mr. Kishida, while noting that without growth there is no redistribution, and without redistribution there can be no future growth, he proposed support for housing expenses and tuition fees for households with children and raising the wages of doctors, nurses, nursing care workers, kindergarten teachers, and child day care workers. The question is whether these policies will be limited to a single supplementary budget or whether they will be made permanent and thus included in the initial FY22 budget along with tax reforms. Also important is whether the economic package is funded only by the FY21 supplementary budget or will extend into the initial FY22 budget. Spending increases and tax cuts in the initial FY22 budget will likely be covered to some extent by natural increases in tax revenue brought by the economic recovery. Accordingly, although there is uncertainty over the amount of refunding bond issuance, if the total size of the economic package funded by both the FY21 supplementary budget and the FY22 initial budget is about Y30 trillion, total JGB issuance would be about the same in the FY21 initial budget, after the FY21 supplementary budget, and in the FY22 initial budget. Our impression at this point is that if there are changes in calendar-based market issuance, they would mostly be focused on changes in maturity composition. We will update these numbers if any further news comes out.

Media reports on the upcoming calendar suggests the general election is likely to be held on 7 November, with 14 November also a possibility. We expect it will choose the earlier date, while the LDP, still benefiting from the attention cast its way during its leadership election, is maintaining relatively high approval ratings due to celebration for the new prime minister, after the COVID-19 state of emergency is lifted but before the next wave of infections. In his acceptance speech and initial press conference as LDP president, Mr. Kishida commented that an economic package would be crafted by December. It is questionable, however whether the Cabinet can reach a decision on the FY21 supplementary budget and initial FY22 budget by December. Although implementing policy early is preferable, nothing can be done until the Diet passes a budget. During the LDP presidential debates, Ms. Takaichi said she wanted to pass a supplementary budget in December rather than craft a 15-month budget as was done in FY20. It will be interesting to see whether the new prime minister has the same sense of urgency.

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