

Daiwa's View

Due to general election on 31 Oct, supplementary budget likely to be passed by end of year

- Size of economic package remains unclear

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Daiwa Securities Co. Ltd.

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On 4 October, Fumio Kishida was elected as the new prime minister of Japan. In his nighttime press conference, he announced that he would hold a general election of the House of Representatives on 31 October. The FY21 supplementary budget is expected to be passed by the end of the year. The size of the economic package remains unclear, but our forecast is still about Y30tn.

The general election on 31 October is in line with our estimates in terms of the early timing, but it is still a surprise. In his press conference, the new prime minister Fumio Kishida explained that he would hold the election early in order to eliminate the risk of a political vacuum after the Oct. 21 end of the current term of lower house members as soon as possible. We had anticipated that, in order to implement an advantageous campaign in the general election, the prime minister would choose the earliest possible date to hold the election while (1) the LDP was still benefiting from the attention cast its way during its leadership election, and (2) it was maintaining high approval ratings thanks to celebrations over the start of a new cabinet, and (3) the number of new infections was declining, the state of emergency was lifted, and the next wave of COVID-19 infections had yet to come. That said, the media consensus that there was no chance of voting taking place on 31 October, when the G20 Summit is to be held, made sense.

The fact that the general election will be held on 31 October has bought time for the new government to formulate an economic package and compile the FY21 supplementary budget. The economic package is to be crafted after the general election. As Jiji Press reported on 1 October, the Cabinet decision on the FY21 supplementary budget and its passage in the Diet are likely to take place by December. The Cabinet decision will be made earlier than when it usually is around 20 December, and the budget is likely to reflect revisions to estimated tax revenues and reductions in existing expenditures, both of which are regular procedures every December, as well as cuts in FILP bonds. The Cabinet decision on the FY22 initial budget is anticipated around 20 December as usual, with changes to the amount and number of JGB auctions expected to be made around January and April.

The size of the economic package remains unclear. On 3 October, LDP Secretary General Akira Amari said that a sizable package would be compiled. Sanae Takaichi became Chair of the Policy Research Council, which could serve as a factor in expanding the size of the economic package. However, in the policy debates during the leadership election, Taro Kono repeatedly stated that the GDP gap was Y22tn, which could serve as a factor in decreasing the size of the package. As it would seem appropriate for some of the policies of the new prime minister to be included in the initial budget, we think that the FY21 supplementary budget and the FY22 initial budget will amount to around Y30tn (total of general accounts, special accounts, and fiscal investment and loan programs). If the package were around that amount, our forecasts would not change—i.e., there would be little change to the total JGB issuance to fund the FY21 initial budget, the total of the FY21 initial budget and supplementary budget, and the FY22 initial budget, and the amount of the calendar-based market issuance would be mostly focused on changes in maturity composition.

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