

Daiwa's View

Reasons behind the lack of an increase in JGB issuance despite economic measures worth Y40tn

- Discussion about FY22 COVID-19 contingency reserves has finally begun

FICC Research Dept.

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



Daiwa Securities Co. Ltd.

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On 12 November, *Nikkei* published an article with a headline stating that fiscal expenditures for economic measures would exceed Y40tn. The size of the figure in that headline was Y5tn more than that in a *Sankei Shimbun* article published on 5 November stating that additional economic measures of Y35tn were being considered. There is a possibility that COVID-19 contingency reserves in the FY22 initial budget were added. We think that expenditures related to the FY21 supplementary budget have been largely unchanged from those in the *Sankei Shimbun* article. Prime Minister Fumio Kishida appears to be keeping fiscal discipline in mind while trying to formulate large-scale economic measures. In the revisions to the JGB issuance plan for the FY21 supplementary budget, we thus maintain our view that (1) the aggregate JGB issuance amount will be largely unchanged from the initial plan and (2) the amount of calendar-basis market issuance will remain flat.

Following an article by *Mainichi Newspaper*, we pointed out previously that upcoming economic measures will include COVID-19 contingency reserves in the FY22 initial budget. In the economic measures formulated in December 2020, Y5tn in COVID-19 contingency reserves were included in the FY21 initial budget. While the rate of new COVID-19 infections has now subsided in Japan, continued caution is necessary, as the number of cases is still increasing worldwide. The government needs to prepare for all contingencies in the FY22 initial budget. In the *Nikkei* article, we finally see mention of economic measures including items such as COVID-19 contingency reserves being included in the FY22 initial budget, rather than only programs funded by the FY21 extra budget. The sources for the *Sankei Shimbun* and *Nikkei* articles are not necessarily the same, and we can't do a precise comparison to account for the difference. However, if we postulate that Y5tn in COVID-19 contingency reserves will be added to the FY22 initial budget, the same amount as in the FY21 initial budget, the difference in the figures given in the headlines can be explained. As this amount is included in the FY22 initial budget, this will not lead to an increase in the JGB issuance to fund the FY21 extra budget.

The *Sankei Shimbun* article states that a portion of the budget carried forward from FY20 to FY21 (about Y10-14tn) will be used in the financial resources for the Y35tn. We think that programs that were already booked in FY20 will be rehashed and included once again. If this view is correct, the aggregate JGB issuance amount after the supplementary budget in the FY21 issuance plan will be largely unchanged from that in the initial budget due to an upward revision to FY21 tax revenues, utilization of surplus in the FY20 results, and reduction in the issuance amount of FILP bonds in line with a delay in the FY21 FILP plan. In our view, even if the aggregate issuance amount were increased, the amount of calendar-basis market issuance would remain flat due to the utilization of front-loading issuance of refunding bonds.

We agree with the tone of the *Nikkei* article, namely that it is important to achieve wise spending of economic measures, rather than simply focusing on increasing the scale of the measures. However, the current economic measures are not heading towards focusing on increasing the scale of the measures. During the time between the publication of the *Sankei Shimbun* article and that of the *Nikkei* article, we saw adjustments made among the ruling parties—i.e., the Liberal Democratic Party (LDP) persuaded Komeito, which has an aggressive fiscal stance, to reduce such spending. We do not think that expenditures have ballooned further.

For example, the LDP added an annual income cap of Y9.6mn to the cash handout to people aged 18 or younger (Y100,000 per person), countering Komeito's campaign promise that it would provide an across-the-board handout. Currently, it is to be based on the income of the head of the household, but Chair of the LDP Policy Research Council Sanae Takaichi, who called for an aggressive fiscal stance in the LDP leadership election, is now playing the role of cutting expenditures further, and insists that giving a handout to double-income families in which each annual income is close to Y9.6mn would be unfair. It is possible debate will continue starting the beginning of the week regarding whether or not to base it on the entire household income rather than just the income of the head of the household.

Similarly, through negotiations with the LDP, across-the-board provision of reward points worth Y30,000 to *Individual Number Card* holders, another campaign promise by Komeito, was changed to conditional provision of a maximum of Y20,000. The requirements include procedures to use the card as a health insurance card and/or to link the card to deposit/savings accounts, things cardholders appear to be hesitant to do. We think the estimated amount of expenditures in this program has decreased from around Y3tn to about Y1tn.

Thus far, Prime Minister Kishida has insisted that there will be no redistribution without growth, and that economic measures worth several tens of trillions of yen should be formulated. However, as far as we can see from the process with which economic measures are being formulated, he appears to be keeping the maintenance of fiscal discipline in mind. Concerns about a substantial increase in the JGB issuance amount, such as an increase in the number of auctions, would appear to be unnecessary.

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