

FY22 supplementary budget to be drafted

Longer-term focus is on the timing and size of the next supplementary budgets during 2022

- LDP and Komeito agreed to form a supplementary budget of ¥2.5-2.7tn in May
- Will the JGB issuance plan be revised to avoid impacting the JGB market?
- Longer term, the focus will likely shift to the timing and size of an additional supplementary budgets during 2022
- With the passage of the upcoming supplementary budget, there is probably ample time before a second one is needed

Supplementary budget of ¥2.5-2.7tn to be formed in May

Although the LDP and Komeito are divided on how best to fund emergency measures to deal with sharply rising prices for oil and other goods, they agreed on 21 April to form a supplementary budget of ¥2.5-2.7tn in May and get the budget passed during the regular session of the Diet. We expect the JGB issuance plan to be revised to avoid affecting the JGB market. Although it is important to watch whether this supplementary budget is made larger, longer-term the focus will likely shift to the timing and size of additional supplementary budgets during 2022. The formation of the upcoming supplementary budget should create some leeway before a second one is needed.

Will the JGB issuance plan be revised to avoid impacting the JGB market?

Because Prime Minister Kishida instructed that discretionary reserves be used for emergency measures, we expect the government to begin serious discussion soon about the supplementary budget and JGB issuance plan. Without any specific sources of funding at this time, the budget will likely require a ¥2.5-2.7tn increase in financial resource JGB issuance. Given the instability of the JGB market, however, we think the government will be cautious about reflecting what the market wants and utilizing front-loaded issuance of refunding bonds, when revising the JGB issuance plan. At this point, the issuance increase does not look likely to be very large, and that is reassuring.

The focus now is on the timing, size, and funding source for one or two additional supplementary budgets by end-2022

If the supplementary budget is formed prior to the upper house elections, watch for whether some within the LDP start asking for other policies to be incorporated. However, given that the thinking that it would be disadvantageous to craft the supplementary budget prior to the election appears to be well entrenched within the LDP, and given also the little time left before the end of the regular Diet session, the LDP will probably go with the budget size currently envisioned. In the upper house elections, the ruling parties will probably hold up various campaign promises apart from this, however, and if the pandemic does not come to an end, a budget to deal with it in FY23 will be necessary. After the upcoming supplementary budget there are likely to be one or two more sizable supplementary budgets crafted by December, and this makes it likely that the longer-term focus will be on their timing and size as well as the source of funds to pay for them.

After the upcoming supplementary budget is passed, there will probably be ample time before a second one is needed

The Komeito Party is generally in favor of expansionary fiscal policy, and the LDP has often been reluctant to agree to such proposals, as happened this time, although there are some advantages to increasing discretionary reserves in this supplementary budget. It was reported that funding for subsidies to offset the sharp rise in gasoline prices may run out in April, and if subsidies of up to ¥25 per liter are kept in place it will cost ¥250bn per month. If the next supplementary budget is formed in December and passed by the Diet in January, the 9-month period from May to January would require ¥2.25tn. If other policies are added to this and the funding comes from ¥5.5tn of discretionary reserves, it will create concerns over the amount of discretionary reserves that remain. Because the upcoming supplementary budget would create financial leeway, the second supplementary budget can probably be completed without any pressing matters. Depending on circumstances, a single supplementary budget in November may be enough for both fulfilling campaign pledges made in the upper house election and funding FY23 pandemic measures. According to the *Mainichi Newspapers*, the ¥5tn of discretionary reserves initially earmarked for the pandemic will be relabeled as discretionary reserves for both the pandemic and dealing with sharply rising oil and other prices, and this should eliminate the problem that it does not make sense to spend discretionary reserves earmarked for the pandemic on measures to deal with rising prices.

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