

## Ruling LDP policy chief suggests supplementary budget exceeding Y30tn needed

### Is political landscape changing?

- Media reporting that LDP policy chief Hagiuda suggests supplementary budget may exceed Y30tn
- Stimulus package deliberations have just started, but Hagiuda seen as influential figure; must carefully monitor talks as supplementary budget over Y30tn could entail increased calendar-based market issuance of JGBs in FY22 JGB issuance plan

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### Media reports that LDP policy chief Hagiuda suggests supplementary budget may exceed Y30tn

Various media outlets have reported that the ruling Liberal Democratic Party's (LDP) policy chief Koichi Hagiuda has suggested that a second supplementary budget exceeding Y30.0tn is needed. Discussions on comprehensive economic stimulus measures, including a second supplementary budget for FY22, have only just started and so probably no concrete decisions have been made at this juncture. However, Hagiuda is seen as an influential figure and so we want to carefully monitor these developments as a supplementary budget surpassing Y30.0tn could entail an increase in calendar-based market issuance of JGBs within the FY22 JGB issuance plan.

### Hagiuda noted that FY21 supplementary budget was in Y30tn range

According to the various media reports, at a meeting of senior LDP policymakers on 15 September, Hagiuda instructed the members to begin internal party deliberations on comprehensive economic stimulus measures. At that time, he also pointed out that the FY21 supplementary budget was in the Y30.0tn range. Hagiuda said, "Considering the current rising prices, weak yen, and other factors, measures more fine-tuned than last year are now necessary." The media seems to have interpreted his comment as an indication that the next supplementary budget will surpass Y30.0tn.

### Government to compile stimulus measures based on LDP recommendations

The LDP will first compile its proposals for comprehensive economic stimulus measures in mid-October. There were reports that Prime Minister Fumio Kishida will on 30 September officially order the government to formulate these measures (14 Sep Jiji Press report), which it will do by-end October (15 Sep NHK report), taking into account the LDP's recommendations. These deliberations just started as of 16 September and we think that at this juncture Hagiuda was simply sharing his personal opinions. Still, he is an influential figure within the party, so we need to carefully monitor any future statements.

### While Kishida is steering towards living with COVID-19 and there will be no national elections in the near term, administration's approval rating plummets

In FY22, the Kishida administration appears to be steering towards living with COVID-19 through the coronavirus outbreak's seventh wave without imposing any restrictions on the movement of people. Following the Upper House election in July 2022, there will be no national elections in the foreseeable future, so we can imagine a scaling back of the extraordinary fiscal stimulus measures. However, the Kishida administration's approval rating has recently plummeted and the political landscape could be changing suddenly.

**Possible increase in calendar-based market issuance of JGBs if supplementary budget on par with that for FY21**

The FY21 supplementary budget included Y31.6tn in spending related to economic stimulus measures, but only Y22.1tn in new JGB issuance, due in part to an upward revision for the FY21 tax revenue estimate and surpluses carried over from FY20. Furthermore, the government's Fiscal Investment and Loan Program (FILP) was still in the coronavirus response mode when drafting the initial plan, but progress has been made returning to normal. As such, FILP bonds were reduced by Y30.0tn from Y45.0tn. Calendar-based market issuance of JGBs also declined Y9.2tn. However, the second supplementary budget for FY22 is not expected to include upward tax revenue revisions or carried-over budget surplus on the same scale as in FY21. Also, FILP at the start of the initial plan had returned to its normal operating mode, so we see almost no room for reducing FILP bond issuance. If the scale of economic stimulus-related spending in the second supplemental budget is on par with that for FY21, an increase in calendar-based market issuance of JGBs could be on the horizon. At this juncture, the government has probably made no decisions regarding the JGB issuance plan. We assume that ultimately it will craft a plan that takes into consideration market demand, while avoiding any measures that could roil the market, but we should remain mindful that the issuance plan could provide some headline risks.

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