

Comprehensive economic package to be formulated in Oct

Considering timing and size of supplementary budget

- Cabinet decisions on supplementary budget and revisions to JGB issuance plan are anticipated around Nov
- While size of expenditures in extra budget related to comprehensive economic package is unlikely to be limited to a mere several trillion yen, it is expected to be lower than extraordinary fiscal expenditures booked in FY20 and FY21, which could create room for calendar-based market issuance to be unchanged or lower than current level

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Timing and size of supplementary budget related to comprehensive economic package

At a press conference in the late afternoon of 8 September, Prime Minister Fumio Kishida announced that he intended to formulate a comprehensive economic package in October. Cabinet decisions on the supplementary budget and revisions to the JGB issuance plan are anticipated around November. It is too early to be able to say anything about the size of expenditures in the supplementary budget related to the comprehensive economic package. However, while it is unlikely to be limited to a mere several trillion yen, it is expected to be lower than the extraordinary fiscal expenditures booked in FY20 and FY21. In the JGB issuance plan, there will likely be leeway for the scale of calendar-based market issuance to be unchanged or lower than the current level.

Economic package will be formulated first, then supplementary budget will be decided on together with revisions to JGB issuance plan

With regard to timing, the economic package is generally formulated first. At the same time or slightly later, the supplementary budget (financial resources for the package) is approved at a Cabinet meeting, together with revisions to the JGB issuance plan.

October will be too early to pass extra budget, but it will have to be passed by end-Dec

Prime Minister Kishida stated that the government would draw up the comprehensive economic package by end-October and then consider compiling the extra budget at an appropriate timing. Usually, that would likely be the final supplementary budget in FY22, so it would necessitate a revision to the estimated amount of tax revenues. However, October is still too early to accurately estimate that. Meanwhile, Prime Minister Kishida stated that the government would withdraw about ¥3.5tn from contingency funds for COVID-19 and measures to address soaring commodity prices in order to extend the schemes to contain the price of gasoline and compound feeds in Oct-Dec. This is expected to reduce the remaining amount of such contingency funds to slightly over ¥1tn. Accordingly, if price containment measures are extended into Jan-Mar 2023, additional financial resources will be needed via the passage of the supplementary budget at the Diet by end-December at the latest.

Last year, Cabinet approved FY21 extra budget in Nov and FY22 initial budget in Dec

Last year, the Cabinet decision on the FY21 supplementary budget was made on 26 November together with revisions to the JGB issuance plan, and its decision on the FY22 initial budget was made on 24 December together with the formulation of the JGB issuance plan. As such, there was an interval of about one month between the two budgets. A similar schedule is expected for 2022, as well.

Kishida administration is steering towards living with COVID-19

Regarding the size of the budget, the next supplementary budget is likely to be based on the idea of a 15- or 16-month budget and include (1) measures to cope with COVID-19 and rising prices, taking into consideration budgets in FY23, as well, and (2) programs to implement a new form of capitalism. The size of expenditures related to the economic package is unlikely to be limited to a mere several trillion yen. Meanwhile, Prime Minister Kishida is steering towards living with COVID-19, without imposing restrictions on daily activities during the seventh wave of COVID-19 infections. Moreover, on 8 September, he announced guidelines for a shorter isolation period for infected people, among other things. Another way of looking at this is that the government will no longer need very large fiscal expenditures, unlike in FY20 and FY21. Therefore, Prime Minister Kishida is likely to strengthen his original stance of focusing on fiscal discipline.

There could be leeway for calendar-based market issuance to be unchanged or lower than current level

Ruling parties often use the output gap in GDP as a point of reference when deciding on the size of economic packages. The output gap in Apr-Jun was Y17tn. If the size of the comprehensive economic package is similar, there will be leeway for the scale of FY22 calendar-based market issuance to be unchanged or lower than the current level due to upward revisions to FY22 tax revenues, appropriation of surplus in FY21 results, and the utilization of front-loading issuance of refunding bonds, etc.

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