

# Japan's FY22 fiscal surplus reported at Y2.6tn

## JGB market focus on Y12tn reduction in new JGBs rather than fiscal surplus

- Bloomberg reports FY22 general account settlement includes Y12tn reduction in new JGBs; apparently allowed MOF to issue reasonable amount of front-loaded JGBs
- Room for increased utilization of front-loaded JGBs in FY23 supplementary budget expected to curb calendar-based JGB market issuance

Strategic Memorandum DSTE482  
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Bloomberg released a detailed breakdown of Japan's FY22 general account settlement on 29 June, ahead of the government's official announcement slated for early July. The media and others have focused on the large size of the net surplus, which will partially finance plans to increase defense spending. The JGB market, on the other hand, has focused more on the Y12tn reduction in new JGB issuance. The government will compile the FY23 supplementary budget between this fall and before the end of the year. A potential snap election before that could also impact the compilation of that supplementary budget, so it will be interesting to see the extent to which spending will expand. Still, it is assumed that the Y12tn reduction in new JGB issuance in FY22 should allow for a reasonable amount of front-loaded JGB issuance. The FY23 supplementary budget has more room to use front-loaded JGBs, which is expected to be a factor in curbing the amount of calendar-based JGB market issuance.

### FY22 general account settlement focus on Y12tn reduction in new JGBs

Bloomberg's report is probably quite accurate and most of the key figures were included. Here, we filled in the numbers for the FY22 general account settlement, rearranged the items, and compared them to the actual settlement for FY21 (Chart 1). In terms of expenditures, the amount of unused money (amount not spent during fiscal year, not carried over to the next fiscal year, and determined not to be spent) appears to have been quite large at Y11.3tn. This is probably because the government did not use up Y2.8tn in reserves for coronavirus and high-inflation support measures, as well as Y1.0tn in reserves to support Ukraine (A in Chart 1).

Chart 1: FY21 Actual, FY22 Projected Results for General Account Settlement (as reported by Bloomberg)

	(Y tn)	FY21 actual	FY22 projected results	
<b>Lower than expected expenditures (positive factor)</b>		<b>6.3</b>	<b>11.3</b>	<b>A</b>
Unused		6.3	11.3	
Higher-than- (+ factor) / lower-than- (- factor) expected revenue from other than new JGBs		4.0	4.1	B
<b>Tax revenue</b>		<b>3.2</b>	<b>2.8</b>	<b>C</b>
Non-tax revenue		0.8	1.3	
Total for higher/lower-than-expected expenditures and revenue		10.3	15.4	D = A+B
<b>Reduction in new JGB issuance (positive factor)</b>		<b>-8.0</b>	<b>-12.0</b>	<b>E</b>
Total for higher/lower-than-expected expenditures and revenue after new JGB issuance reduction		2.3	3.4	F = D+E
Tax allocated to local governments, others (about 30% of higher-than-expected tax revenue went to tax allocated to local governments)		0.9	0.8	G
<b>Net surplus</b>		<b>1.4</b>	<b>2.6</b>	<b>H = F-G</b>

Source: MOF, Bloomberg; compiled by Daiwa Securities.

Tax revenue was Y2.8tn higher than the estimate in the second supplementary budget (C in Chart 1) and non-tax revenue was Y1.3tn higher than expected. As such, total revenue was apparently Y4.1tn higher than expected (B in Chart 1).

The total for unused expenditures plus higher than expected revenue came to Y15.4tn (D in Chart 1). Since fundraising to this extent is no longer needed, new JGB issuance can be reduced by Y12tn from the initially planned issuance amount (E in Chart 1). It is assumed that the issuance of front-loaded JGBs has increased to roughly the extent that new JGB issuance is no longer needed.

### **Factor reducing calendar-based JGB market issuance in FY23 supplementary budget**

A regular supplementary budget is usually prepared in late December of each fiscal year. However, in the case of FY23, the administration of Fumio Kishida could dissolve the Diet and hold a snap election before the end of this year. The supplementary budget after the coronavirus outbreak was much larger in scale, swelling by units of Y10tn, partly due to strong requests from the ruling Liberal Democratic Party of Japan (LDP) for additional outlays. The FY23 supplementary budget could also be inflated again with awareness of the potential for a snap election. That said, the government has already downgraded the novel coronavirus to Class 5 (common infectious disease such as seasonal flu). The 2023 Basic Policy on Economic and Fiscal Management and Reform (Basic Policy) included the passage, "The government will work to return the expenditure structure to normal and ensure that emergency spending is not prolonged or made permanent more than necessary."

Turning to Nagata-cho (National Diet Building location, synonymous with Japanese politics), Prime Minister Kishida emphasized fiscal discipline when he prepared the FY23 budget at the end of last year. This year, however, he changed his stance. Apparently, there was the view that the 2023 Basic Policy may not specify the sources of funding for increased spending on defense and child care (to reverse falling birthrate). In fact, that is exactly what has happened with the Basic Policy. The exact size of the FY23 supplementary budget is still hard to envision.

Half of the Y2.6tn net surplus for FY22, or Y1.3tn, has so far been available to finance the FY23 supplementary budget. However, going forward, these funds will be transferred to the defense coffers. Meanwhile, as tax revenues for FY22 were revised upward, the tax revenue outlook for FY23 may likewise shift upward. Also, for FY23 there is still a total of Y5.0tn remaining in reserve funds for coronavirus & high-inflation support measures and reserves for emergency response for Ukraine.

Furthermore, even if the FY23 supplementary budget entails increased issuance of JGBs, the extra leeway for utilizing front-loaded JGBs is likely to curb the amount of calendar-based JGB market issuance. In regards to this leeway for utilizing front-loaded JGBs, we note that the Fiscal Investment and Loan Program had also planned Y18.6tn for FY22, but spent only Y12.9tn of that amount, leaving Y5.7tn unspent. With the government not issuing FILP bonds, trillions of yen may have gone to front-loaded JGBs.

### **Net surplus is fraction of budget; want to watch increasing tax revenue trend**

As mentioned above, the total for unused expenditures plus higher than expected revenue in FY22 came to Y15.4tn, but the amount of new JGBs was reduced by Y12tn. Furthermore, it appears that about 30%, or Y0.8tn (G in Chart 1), of the higher-than-expected tax revenue increase went to tax allocated to local governments. The net surplus is only a fraction of the total after subtracting new JGBs and tax allocated to local governments.

The reason for reducing the amount of new JGBs is a provision in the law requiring the issuance of deficit-financing bonds to control the amount of JGBs issued each fiscal year.

In terms of funding increased defense spending, tax revenue increasing steadily to a record high of Y71.1tn would be desirable. The easy way would be to finance this funding through increased tax revenues from economic growth.

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