

Public Finance Watch

FICC Research Dept

Noto earthquake to increase contingency reserve funds in FY24 budget bill, but no impact on calendar-based market issuance of JGBs

- FY24 budget bill's general contingency reserve fund increased to support areas hit by Noto Peninsula earthquake; new JGB issuance also increased
- JGB issuance plan to be revised at same time, but calendar-based market issuance likely unchanged owing to use of front-loading issuance of refunding bonds



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In order to support areas hard hit by the 1 January Noto Peninsula earthquake, Prime Minister Fumio Kishida instructed Finance Minister Shunichi Suzuki to increase contingency reserves in the budget bill for FY24. On 5 January, the *Nikkei* reported that the issuance of new JGBs will be increased from the planned amount to cover earthquake recovery costs, with the size of the increase based on the extent of damage. The newspaper also reported that the Cabinet will approve a revised budget bill before the ordinary Diet session convenes later this month. The JGB issuance plan will be revised at that time, but calendar-based market issuance is not expected to change due to the utilization of front-loading issuance of refunding bonds.

Second FY23 supplementary budget will not be compiled

According to Kishida's press conference on 5 January, there is still Y460bn left in the general contingency reserve fund for FY23. This amount is probably sufficient for financing mainly restoration projects until the end of March. So, it is probably safe to assume that there will be no second supplementary budget for the Jan-Mar period.

Increase in initial budget bill's contingency reserve fund, new JGBs in FY24

The need for restoration and reconstruction projects will continue in FY24. However, general contingency reserve funds for FY23 cannot be carried over to FY24. Funding for the FY24 projects will require drawing down Y500bn from the FY24 general contingency reserve fund.

During a 5 January interview, Kishida said that it is difficult to accurately forecast future fiscal demands at this time. Given the current damage situation and the peninsula's geographical constraints, it is necessary to assume fiscal demand exceeding the Y700bn amount that was required for the Kumamoto earthquake (2016). He explained that the general contingency reserve fund to be accumulated in the FY24 budget bill will not be used entirely for the Noto Peninsula earthquake, but will also be used to prepare for other disasters.

A general contingency reserve fund sufficient to cope with the Noto Peninsula earthquake, even if the cost of restoration and reconstruction projects exceeds that of the Kumamoto earthquake, will be prepared in the initial budget bill for FY24. This would eliminate the need to compile a supplementary budget going into FY24, while quickly providing financial resources. If there is a contingency reserve fund surplus, it can be used for other disasters. If there is still a surplus, it can be handled in the settlement of accounts. That would be a reasonable response that provides both mobility and flexibility.

However, disaster recovery projects for returning daily life in the impacted areas to normal must proceed as quickly as possible. The general contingency reserve fund for FY23 could cover a certain amount of the project costs. An increase in the general contingency reserve fund for FY24, even assuming costs greater than those incurred after the Kumamoto earthquake, would fall in the range of Y500bn to a maximum of Y1.0tn. The increase in new JGBs would be the same amount.

No change to calendar-based market issuance in FY24 bond issuance plan?

Even if new JGBs in the initial FY24 budget bill increase by about Y500bn to Y1.0tn, the calendar-based market issuance amount in the JGB issuance plan will probably not change. Due to the utilization of front-loading issuance of refunding bonds, the government will probably respond by increasing the adjustment between fiscal years portion.

The first reason is that there is ample room to increase the adjustment between fiscal years portion. The amount of front-loading issuance of refunding bonds carried over from FY22 to FY23 came to Y15.5tn. Meanwhile, the adjustment between fiscal years portion in the initial FY23 budget was Y3.0tn. After the December change for the revised budget, the total came to Y3.1tn, an increase of only Y0.1tn. The initial budget for FY24 includes an adjustment between fiscal years portion of only Y30.6bn. The additional amount available for the adjustment between fiscal years portion is probably more than Y10tn.

The second reason is that it would be more reasonable to deal with the increase in contingency reserve funds, which may or may not actually be used, through adjustments between fiscal years rather than by increasing the JGB auction amounts.

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