

JGB Insight

Supplementary Budget and JGB Issuance II

- ✓ We expect FY19 supplementary budget worth around 3-5tn yen to be compiled in Oct-Dec
- ✓ Possibility appears extremely low that calendar-base market issuance will increase in line with compilation of supplementary budget
- ✓ Meanwhile, there may be adjustments between maturity segments
- ✓ Possibility of increase in calendar-base market issuance appears quite low also in FY20
- ✓ Although we need to closely monitor the Abe administration's commitment to fiscal soundness, it is difficult to expect JGB yields to rise from the viewpoint of fiscal and JGB issuance

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Typhoon No. 19 to be designated "Specified Emergency Disaster"

Ahead of the national ceremony of the accession to the throne scheduled for October 22, Typhoon No. 19 damaged Japan in an overwhelming way on October 12-14. Before the landing of the typhoon, the Japan Meteorological Agency warned that it would cause heavy rainfall equal to that at the time of Kanogawa Typhoon (Sep. 1958), which brought extensive damage to the Kanto area and the Izu Peninsula. On October 17, Prime Minister Shinzo Abe visited disaster areas in Fukushima and Miyagi prefectures and said that he would designate the damage caused by the typhoon as "Specified Emergency Disaster (or SED)." This will be the sixth case of SED designation, following the Great Hanshin-Awaji Earthquake (1995), the Niigata Chuetsu Earthquake (2004), the Great East Japan Earthquake (2011), the Kumamoto Earthquake (2016), and the West Japan Heavy Rain (2018). In recent cases, Japan compiled relatively large supplementary budget worth around 5-6tn yen in FY16 and in FY18, when Japan had severe damages by many typhoons alongside the SED designated disaster (Table 1).

Based on past cases, supplementary budget scale estimated at 3-5tn yen

It is still difficult to gauge the extent of the damage caused by Typhoon No. 19. However, based on past cases, we estimate that the supplementary budget would amount to 3-5tn yen (incl. spending other than disaster related; Table 2-3). In the initial FY19 budget, reserves were increased to 500bn yen from 350bn yen in the initial FY18 budget for disaster countermeasures. This was the first y/y increase in reserves in the initial budget since 1992 (from 150bn yen to 350bn yen) and the level is a record high. On October 16, Prime Minister Abe announced that he would decide, on the same day, to spend 7.1bn yen of the reserves. Combined with the second supplementary budget for FY18, the government booked 2.4tn yen of national expenditures in the FY19 initial budget based on the "three-year emergency measures for disaster prevention and disaster reduction and national resilience." Over the three years through FY20, approximately 7tn yen is slated to be spent on a business scale basis. We think that the government has been preparing for natural disasters we have had and will continue to have in the future (without having to hastily secure financial resources via large supplementary budget).

Possibility of increase in market issuance on calendar base appears extremely low

If the scale of FY19 supplementary budget is within the 3-5tn yen level, the possibility of an increase in the market issuance on calendar base would be extremely low (even if the total JGB issuance amount is increased). This is because the amount of front-loading issuance in FY18 for FY19 refunding bonds (front-loading refunding bonds) reached 52.5tn yen¹.

Possibility is high that issuance amount will be adjusted between maturity segments

On the other hand, even without an increase in calendar-base market issuance, there may be adjustments between maturity segments. Among recent cases, this was seen when the second supplementary budget was formed in FY16. At that time, the amount of market issuance increased by around 5.4tn yen compared to the initial plan, but the calendar-basis market issuance was kept unchanged. By maturity segment, however, the issuance of 40-year JGBs was increased, while that of JGB linkers was reduced by the same amount. Depending on the timing of compilation of supplementary budget, we may see in Jan-Mar

¹ Refer to our July 29, 2019 report: JGB Insight: Supplementary Budget and JGB Issuance (DSTE321).

2020, for example, (1) reduction of the issuance of JGB linkers (by around 100bn yen) and Auction for Enhanced Liquidity (100bn yen of bonds with over 1 year but less than 5 years residual maturity x 2 times) or (2) reduction of 5-year JGBs (300bn yen in total) vs. an increase in 20-year or 30-year JGBs (300bn yen in total). This seems easier than increasing net calendar-base market issuance, although the average issuance maturity becomes somewhat longer.

Calendar-base market issuance is unlikely to increase in FY20, either

Let's have a quick look at the overview of FY20 budget as well. The aggregate amount of FY20 budgetary request reached a record high of around 105tn yen. The initial budget may swell to the 100tn yen level (even excluding budget for temporary/special measures). At the same time, there is a possibility that tax revenues will post relatively high growth due to the consumption tax hike in October. The need is low to substantially increase the issuance of new JGBs vs. the initial FY19 plan. Therefore, the increase in the total JGB issuance amount may be limited. Given the fact that the upper limit for the front-loading issuance in FY19 for FY20 refunding bonds is 53tn yen, we think that the possibility of an increase in calendar-base market issuance in FY20 budget vs. the initial FY19 plan is quite low.

Amid lingering concerns about the global economic outlook, there are signs of fiscal expansion in Europe. While the BOJ's monetary policy appears to be reaching the limitations, some expect fiscal expansion as a "policy mix" also in Japan. However, as we see that the debt-to-GDP ratio in Japan is still markedly high at around 155% (Appendix 2), it seems difficult to easily follow fiscal expansion movements in Europe and the US. In addition, Japan seems to be already on the road toward fiscal expansion, as witnessed by the fact that the total amount of budgetary request has been soaring at the 100tn yen level over the past several years. Although we need to closely monitor the Abe administration's commitment to fiscal soundness, it is difficult to expect yields to rise from the viewpoint of fiscal and JGB issuance.

Table 1: Supplementary Budget in FY2016 and FY2018

(Yen billions)

FY	S/B	Approved	Expenditure adjustment:				Revenue adjustment:			
			Added		Reduced	Net	Added		Reduced	Net
				Disaster Management Exp.				Government bond issues		
2018	I	10/15/18	935.6	727.5	0.0	935.6	935.6	695.0	0.0	935.6
	II	12/21/18	4,000.6	213.6	1,290.9	2,709.7	3,010.7	1,308.2	-301.1	2,709.7
2016	I	5/13/16	778.0	778.0	-778.0	0.0	-	-	-	-
	II	8/24/16	4,114.3	1,438.9	-827.5	3,286.9	3,286.9	2,750.0	0.0	3,286.9
	III	12/22/16	1,166.1	195.5	-952.8	213.3	2,287.5	1,852.6	-2,074.2	213.3

Source: Ministry of Finance, compiled by Daiwa Securities

Table 2: Damages in Kumamoto Earthquake 2016, Heavy Rain 2018 and Typhoon #19 2019

	Kumamoto Earthquake 2016	Heavy Rain 2018	Typhoon #19 2019
Death toll	273	237	65
Number of housing damage			
Full, half and partly	206,886	22,001	1,765
Inundation above the floor		7,173	19,708
Inundation below the floor		21,296	13,908
Number of blackout (max.)	477,000	75,300	8,550
Number of water outage (max.)	445,857	263,593	153,768
Number of sediment disaster	190	2,581	241

Note: As of Oct. 17, 2019 for Typhoon #19 2019

Source: Cabinet Office, compiled by Daiwa Securities

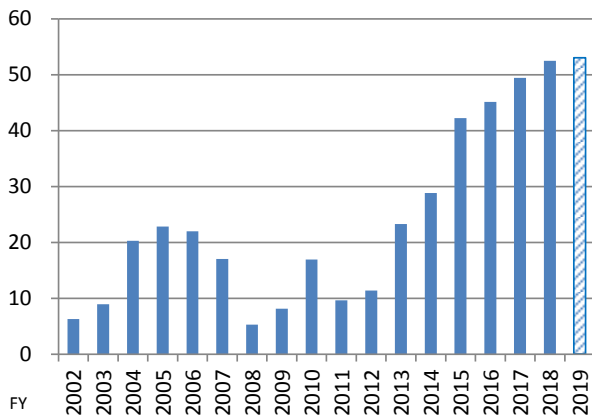
Table 3: Supplementary Budget and JGB Issuance (Yen trillions)

FY	Decided by the Cabinet*	Total JGB Issuance	Financed in the market:			Sub-total	Front-loading Issuance	
			JGB market issuance (calendar base)	Non-price competitive auction II and others	Adjustment between fiscal years			
2012	1/15/13	6.30	-0.30	2.05	5.15	6.90	9.6	
2013	12/12/13	-2.91	-	3.40	-6.72	-3.32	11.4	
2014	1/9/14	-3.88	-0.60	2.41	-5.79	-3.98	23.3	
2015	12/18/15	-3.29	-0.40	3.53	-6.21	-3.07	28.8	
2016	5/13/16 (1st)	-	-	-	-	-	42.3	
	8/24/16 (2nd)	5.93	-	1.28	4.15	5.43		
	12/22/16 (3rd)	7.60	-	3.08	3.32	6.40		
2017	12/22/17	2.16	0.10	1.45	0.61	2.16	45.1	
2018	10/15/18 (1st)	0.70	-	-	0.70	0.70	49.4	
	12/21/18 (2nd)	2.29	-	-0.02	0.90	0.89		
2019							52.5	
	4/27/09 (1st)	16.92	16.90	-	0.02	16.92		5.3
	10/16/09 (1st rev.)	16.92	19.00	-	-	19.02		
12/15/09 (2nd)	26.12	24.20	1.41	2.61	28.22			

* The day submitted to the Diet as for FY2009 1st supplementary budget

Source: Ministry of Finance, compiled by Daiwa Securities

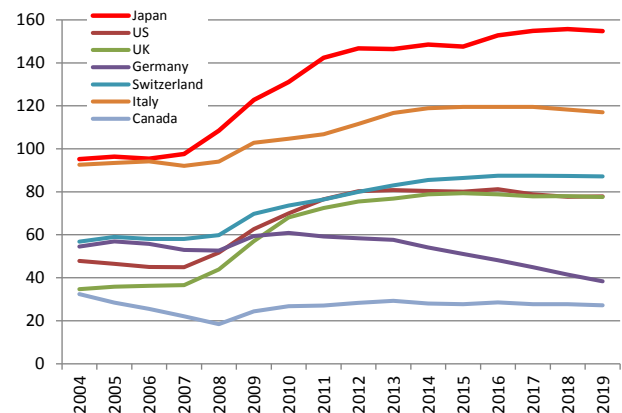
Appendix 1: Front-loading Issuance of Refunding Bonds (Yen trillions)



Note: Revenue basis; maximum allowance for FY2019

Source: Ministry of Finance, compiled by Daiwa Securities

Appendix 2: Net Debt to GDP (%)



Source: Ministry of Finance, compiled by Daiwa Securities

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

The Name of the Credit Rating Agencies Group, etc

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The name and registration number of the Registered Credit Rating Agency in the group: Moody's Japan K.K. (FSA commissioner (Rating) No.2)

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[Fitch]

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