

Daiwa's View

Second supplementary budget in June? Then a third in the fall?

- Tying the previous record of four supplementary budgets in one fiscal year is possible

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Daiwa Securities Co. Ltd.

Tying the previous record of four supplementary budgets in one fiscal year is possible

Second supplementary budget in June? Then a third in the fall?

With the first supplementary budget passed in April, the market is already expecting a second one. Depending on the trajectory of covid-19, additional supplementary budgets are possible. Because of system constraints, however, both the number and timing are limited. The 11 May edition of *Nikkei* reported there will be a second supplementary budget in June, and there may be as many as four total.

As a basic matter, a budget cannot be implemented without being passed by the Diet, such that there cannot be immediate impacts unless a budget is put together while the Diet is in session. The Diet's scheduled routine is set every year. Chart 1 shows the Diet session dates and supplementary budgets since 1999.

Chart 1: Diet Session Dates and Supplementary Budgets

	Convocation in Jan					Convocation in Jul-Aug					Convocation from Sep					After end-year
	Convened on	Ended on	Term (days)	Extension (days)	Remarks	Convened on	Ended on	Term (days)	Extension (days)	Remarks	Convened on	Ended on	Term (days)	Extension (days)	Remarks	
1999	19-Jan	13-Aug	207	57	Jul extra budget ①						29-Oct	15-Dec	48	0	Nov extra budget ②	
2000	20-Jan	2-Jun	135	-15	Lower House dissolved	4-Jul	6-Jul	3	0	Extraordinary Diet appointment of prime minister	21-Sep	1-Dec	72	0	Nov extra budget ①	
2001	31-Jan	29-Jun	150	0		28-Jul	9-Aug	13	0		27-Sep	7-Dec	72	0	Nov extra budget ①	Dec extra budget ②
2002	21-Jan	31-Jul	192	42		7-Aug	10-Aug	4	0	After Upper House election	18-Oct	13-Dec	57	0		Dec extra budget ①
2003	20-Jan	28-Jul	190	40							26-Sep	10-Oct	15	-21	Lower House dissolved	Dec extra budget ①
2004	19-Jan	16-Jun	150	0							19-Nov	27-Nov	9	0	Extraordinary Diet appointment of prime minister	Dec extra budget ①
2005	21-Jan	8-Aug	200	50	Lower House dissolved	30-Jul	6-Aug	8	0	After Upper House election	12-Oct	3-Dec	53	0		Dec extra budget ①
2006	20-Jan	18-Jun	150	0							21-Sep	1-Nov	42	0	Extraordinary Diet appointment of prime minister	Dec extra budget ①
2007	25-Jan	5-Jul	162	12							26-Sep	19-Dec	85	4		Dec extra budget ①
2008	18-Jan	21-Jun	156	6		7-Aug	10-Aug	4	0	After Upper House election	10-Sep	15-Jan	128	66		Dec extra budget ①
2009	5-Jan	21-Jul	198	48	Apr extra budget ①						24-Sep	25-Dec	93	25	Sep extra budget ①	Dec extra budget ②
2010	18-Jan	16-Jun	150	0	Lower House dissolved						16-Sep	19-Sep	4	0	Extraordinary Diet appointment of prime minister	Dec extra budget ②
2011	24-Jan	31-Aug	220	70	Apr extra budget ①	30-Jul	6-Aug	8	0	After Upper House election	26-Oct	4-Dec	40	4		
2012	24-Jan	8-Sep	229	79	Jul extra budget ②						1-Oct	3-Dec	64	0	Oct extra budget ①	
2013	28-Jan	26-Jun	150	0							13-Sep	30-Sep	18	14		Dec extra budget ④
2014	24-Jan	22-Jun	150	0							20-Oct	9-Dec	51	0	Oct extra budget ③	
2015	26-Jan	27-Sep	245	95							29-Oct	16-Nov	19	-14	Lower House dissolved	Jan extra budget ①
2016	4-Jan	1-Jun	150	0	May extra budget ①						26-Dec	28-Dec	3	0	Extraordinary Diet appointment of prime minister	Dec extra budget ①
2017	20-Jan	18-Jun	150	0		2-Aug	7-Aug	6	0	After Upper House election	15-Oct	8-Dec	55	2		Dec extra budget ①
2018	22-Jan	22-Jul	182	32							29-Sep	21-Nov	54	-9	Lower House dissolved	Dec extra budget ①
2019	28-Jan	26-Jun	150	0							24-Dec	26-Dec	3	0	Extraordinary Diet appointment of prime minister	Dec extra budget ①
2020	20-Jan	17-Jun	150	(Expected)	Apr extra budget ①	1-Aug	3-Aug	3	0	After Upper House election	26-Sep	17-Dec	83	17	Aug extra budget ②	Dec extra budget ③
											28-Sep	28-Sep	1	0	Lower House dissolved	Dec extra budget ①
											1-Nov	9-Dec	39	0	Extraordinary Diet appointment of prime minister	Dec extra budget ①
											24-Oct	10-Dec	48	0	Oct extra budget ①	Dec extra budget ②
											4-Oct	9-Dec	67	0		Dec extra budget ①

Source: House of Representatives, MOF; compiled by Daiwa Securities.

The Diet begins a regular session in January every year. The session lasts for 150 days, approximately five months, and ends in June. The Diet is generally not in session in July-August, except for every third year, when an election is held for the Diet's Upper House, the President and Vice President of which are decided in the days following, and/or when the Lower House is dissolved at the end of the regular session and a general election is held, after which an extraordinary session of the Diet is held for several days to select prime minister. An extraordinary Diet session is generally held from September or October until December.

One supplementary budget is always formed every year. Barring special circumstances, in December the government crafts a supplementary budget for that fiscal year to adjust for revenues and spending thus far as well as the following year's initial budget, both of which are debated in the regular session of the Diet which starts in January. The above describes a normal routine.

When a supplementary budget is formed under emergency conditions, it must happen within certain time windows. The first of those is during the regular session of the Diet at the beginning of the fiscal year, in April or May. Since 1999, supplementary budgets have been formed at this stage in 2009 (global financial crisis), 2011 (earthquake and tsunami in Eastern Japan), 2016 (Kumamoto earthquakes), and this time in 2020 (covid-19).

The next possible time window is in July, which is when supplementary budgets were formed in 1999 and 2011. When the end of a Diet session approaches, however, an extension is needed. A regular session of the Diet can only be extended one time. The current session is set to end on 17 June. *Nikkei* reported on 11 May that the Diet aims to pass a second supplementary budget without extending the session. If that report proves true, the current Diet session will end after passing a second supplementary budget, and a third one would have to wait until the next session.

The next time window would come during the extraordinary session scheduled for the fall, which is when supplementary budgets were formed in 2008 (September) and in 2010 and 2011 (October). Although there was an August supplementary budget in 2016, it was not debated until the Diet began its session in September. The Diet could conceivably convene earlier, in August, given the importance of speed in this unprecedented emergency, but we expect a third supplementary budget to be timed for the extraordinary session (which could be extended twice).

There have been several examples recently of three supplementary budgets being formed in a single fiscal year. The most ever was four in the aftermath of the earthquake and tsunami in FY2011, one each in April, July, October, and December. This is probably the limit, given the time that it takes for the ruling party to coordinate and craft a budget, then put it up for debate in the Diet. Although it will depend on the direction that the covid-19 pandemic takes, as occurred in FY2011 the number of supplementary budgets could well reach the upper limit of four, this time in April, June, September, and December.

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[Standard & Poor's]

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