

Daiwa's Economic View

Considering increased expenditures in FY26 supplementary budget due to surging crude oil prices

- Geopolitical shocks push up crude oil prices (temporary or persistent?)
- Fiscal expenditures for FY26 if WTI price stabilizes at \$70/bbl
- Fiscal expenditures for FY26 if WTI prices remain elevated at \$100/bbl

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Recent geopolitical shocks have driven up crude oil prices, which has again put the focus on fiscal stimulus measures to address high energy costs. That said, the timing of the FY26 supplementary budget and the scale of expenditures for measures to address high energy prices will differ depending on whether higher crude oil costs are temporary or continue for some time.

Even if WTI prices spike temporarily, they may subsequently stabilize around \$70/bbl. Measures to address high electricity and gas bills, as well as support via local governments in this case, will be covered by contingency reserves for the summer of FY26. We expect the winter portion to involve expenditures of approximately Y1.5tn in the autumn supplementary budget.

Meanwhile, if WTI remains elevated near \$100/bbl, we would expect the government to spend approximately Y1.2tn in the first supplementary budget for FY26 (around May-Jun) and approximately Y3.0tn in the autumn second supplementary budget.

Crude oil price scenarios: Surge is brief and settles down? Or, price remains elevated?

The current concerns over rising crude oil prices stem from geopolitical shocks. Future trends are likely to follow two scenarios: (1) sharp WTI price rise is short-lived and subsequently stabilizes or (2) WTI price remains elevated.

Under a scenario in which energy prices surge is short-lived and subsequently stabilizes, we would anticipate the crude oil price to stabilize at around \$70/bbl. Here, the precondition would be a subsiding of geopolitical risks that last only one to two months at the most, leaving no lasting disruptions to oil production or transportation. Supply and demand conditions would largely return to pre-shock levels, with OPEC+ and the US continuing to provide high levels of supply that put downward pressure on crude oil prices (please refer to [our report from the Equity Research Department](#)).

Under a scenario in which energy prices remain elevated, we would anticipate price movements around the \$100/bbl level. Here, the precondition would be the prolonged nature of the geopolitical shocks. Such issues as closure of the Strait of Hormuz, halted oil production in the Middle East, disrupted transportation, and rising insurance/detour costs could all overlap. In 2022, geopolitical shocks caused WTI to remain at \$100-120/bbl for about six months. This time, we are considering the risk of prices hovering around \$100/bbl.

Previous measures to address energy prices: Electricity, gas, gasoline, and support via local governments

Next, we will review the results of energy price countermeasures implemented since FY22 (Chart 1). This will likely serve as a guide for considering the timing for compilation of the FY26 supplementary budget and the required amount of fiscal stimulus.

Chart 1: Amount of Measures to Address Energy Prices Since FY22, WTI Prices Eight Months Prior to Implementation

FY	Date	WTI prices (8 months ago)		Category	Reduced burden for electricity/gas charges (Y tn)	Reduced burden for fuel oil prices (Y tn)	Support through local governments (Y tn)
FY22	17-May	\$72	Y7,900	First supplementary budget		1.2	
	20-Sep	\$83	Y9,600	Special contingency reserves	0.9	1.4	0.4
	8-Nov	\$108	Y12,900	Second supplementary budget	3.1	3.0	
FY23	10-Nov	\$73	Y9,800	Supplementary budget	0.6	0.2	1.6
	22-Dec	\$79	Y10,600	Special contingency reserves			1.1
FY24	3-Sep	\$74	Y10,800	Special contingency reserves		1.0	
	29-Nov	\$80	Y12,000	Supplementary budget	0.3	1.0	1.1
FY25	27-May	\$70	Y10,000	General contingency reserves	0.3		0.1
	28-Nov	\$68	Y10,100	Supplementary budget	0.5		2.0

Source: MOF, NYMEX, others; compiled by Daiwa.

Note: Special contingency reserves refer to reserves for responding to high crude oil prices and inflation. WTI prices are approximate.

The three pillars of energy price countermeasures are: (1) reducing the burden of electricity and gas bills, (2) measures to mitigate sharp fuel oil price fluctuations (gasoline, diesel fuel, kerosene, etc.), and (3) support via local governments.

Measures to address electricity and gas costs will likely remain the core of fiscal support in FY26 [pillar (1)].

As for reducing the burden of high fuel oil prices [pillar (2)], it is reasonable to conclude that no additional measures are necessary at this time. This is because the old provisional tax rates for gasoline and diesel fuel were permanently abolished starting in January 2026. However, concerns remain that support beyond the abolition of the old provisional tax rate will be necessary.

The government provides grants and other funds to local governments [pillar (3)], which then support residents and businesses according to the local conditions. That said, not all of the funds are being used for energy price countermeasures. Measures to address high energy prices also include reducing the burden of propane gas fees.

Past countermeasures have been implemented not only through the compilation of supplementary budgets, but also by utilizing contingency reserves as funding sources. In particular, up until FY24, special contingency reserves were secured. Their usage was restricted to covering surging crude oil prices, inflation, and COVID-19 countermeasures. However, starting in FY25, these were reverted to only general contingency reserves with no restrictions on their usage. The contingency reserves for the FY26 budget are Y1.0tn. Significant additional expenditures necessitate the formulation of a supplementary budget.

The WTI price eight months prior to the implementation of the energy price countermeasures is shown in both dollar and yen terms (third and fourth columns from left in Chart 1).

Generally, it takes four to six months for higher crude oil prices to be passed on to electricity and gas rates. In addition to that, taking into account the time required for policy decisions and system design, we used prices eight months prior to the implementation of the energy price countermeasures. We can confirm that the US dollar-denominated WTI price, in particular, has some influence on the timing and amount of energy price countermeasures.

FY26 energy price countermeasure scenario (1): WTI stabilizes around \$70/bbl

In this scenario, the contingency reserves alone would be sufficient for the support needed over the summer. We expect support over the winter to require approximately Y1.5tn in expenditures under the autumn supplementary budget. We also assume the amount to be roughly equivalent to that for FY25. For FY25, WTI was around \$70/bbl eight months prior to the implementation of the energy price countermeasures, so that should serve as a useful guide.

In FY25, nearly Y300bn was allocated from the general contingency reserves in May as a measure to address high electricity and gas charges. Y100bn was also allocated as support via local governments. The issuance of JGBs did not increase. Measures to address high electricity and gas bills reduced the burden by approximately Y3,000 to Y4,000 for standard households during the three peak summer months of July to September. Support via local governments targets individuals and businesses impacted by the surge in energy and food prices.

Next, in the November supplementary budget, approximately Y530bn was allocated for electricity and gas bill relief and Y2.0tn was earmarked for support via local governments. That said, the latter also includes measures to address rising food prices and wage increases for small and medium-sized enterprises (SMEs). Measures to address high energy prices will likely come to around Y1.0tn at the most. The Y0.5tn in electricity and gas bill relief will reduce the burden for standard households by approximately Y7,000 during the three coldest months of January to March.

FY26 energy price countermeasure scenario (2): WTI remains elevated at around \$100/bbl

In this scenario, we expect spending of approximately Y1.2tn from the first supplementary budget around May-Jun, and approximately Y3.0tn in the second supplementary budget in autumn. A comparison of fiscal stimulus measures for FY22 and the recent FY25 could be a helpful reference point. This is because, in the case of FY22, WTI exceeded \$100/bbl at one point eight months prior to the implementation of the energy price countermeasures.

In FY22, the first supplementary budget in May included Y1.2tn for measures to address high fuel oil prices. At that time, there was still no support system for high electricity and gas bills. That said, the compilation of a supplementary budget in May, when soaring crude oil prices became a social issue, stands as a significant achievement.

November's second supplementary budget allocated Y3.1tn to address rising electricity and gas fees. This amounted to approximately Y3,700 in relief per month for standard households, covering the nine months from January to September. The amount for three months was $Y3,700 \times 3 =$ approximately Y11,100. Compared to the FY25 supplementary budget (approximately Y7,000 over three months), the amount is 1.6 times higher.

Based on these points, we want to consider the amount of fiscal stimulus for FY26.

We assume that the estimated expenditure for the first supplementary budget is about Y1.2tn (Y0.8tn for electricity and gas bills, Y0.4tn via local governments). Support for electricity and gas bills came to just under Y300bn for the Jul-Sep quarter of FY25, or approximately Y100bn per month. For FY26, the Jul-Sep period will reach roughly Y500bn, which is 1.6 times the previous year's figure of just under Y300bn. Furthermore, we think support of roughly Y100bn per month will continue through the Oct-Dec period.

We assume that expenditures for the second supplementary budget will come to approximately Y3.0tn (Y2.1tn for measures to address high electricity and gas bills, Y0.9tn via local governments). Measures to address high electricity and gas bills during the peak winter months of Jan-Mar will be approximately Y1.0tn, the same as in FY22 (Y3.1tn for 9 months \div 3). Furthermore, we assume that support will continue from April through December. Specifically, about Y100bn per month for the Apr-Jun and Oct-Dec quarters. For the peak summer months of Jul-Sep, the amount is assumed at approximately Y500bn, the same as for FY26.

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