

19 October 2022 (No. of pages:1)

Japanese report: 14 Oct 2022

Impact of Electricity Rate Support Measures on Households and Corporations

Total support for households and corporations is expected to be in the range of 4-9 tril yen per year

Economic Research Dept.
Wakaba Kobayashi
Kanako Nakamura

Summary

- The Fumio Kishida administration intends to incorporate the reduction of electricity rates into its comprehensive economic measures. The details have not been disclosed as of the time of this writing, but if the average unit price of electricity, which rose +20-30% Y/Y in June 2022, is lowered to a level of +10% over June 2021 for one year in 2023, the total amount of support is estimated to be around 4.2 tril yen (around 1.0 tril yen for households, around 3.2 tril yen for corporations). If the average unit price of electricity increases further by 20% from this scenario, for instance such as an increase in regulatory charges, the total amount of support will greatly expand to about 8.8 tril yen.
- Looking at the reduction in the burden on households relative to disposable income, we see that it is high in low-income worker's households and unemployed households, which include many pensioners. With price rises spreading, particularly for necessities, the reduction in electricity rates will somewhat alleviate the deterioration in consumer sentiment particularly in low-income households. The reduction of the burden on corporations relative to sales is relatively high in the iron and steel industry and miscellaneous transportation equipment, as well as interpersonal contact services. The effects of lowering electricity rates are likely to be significant in these industries.
- Profits of electric power companies are squeezed because those companies are unable to sufficiently pass on rising fuel costs. In order to reduce electricity charges, it is possible that subsidies will significantly exceed the estimate in the main scenario of around 4.2 tril yen, and there are concerns about its impact on public finances. There will also be the need for a mechanism to confirm that electricity rates are sufficiently reduced in response to the subsidies.

Attention

This report is a summary translation. The official document is only in Japanese.