

Daiwa's View

Greatly expanded second extra budget buys time until third extra budget, and acts as deterrent for additional issuance of JGBs

- Next budget may be compiled at extraordinary Diet in autumn; unprecedented amount of discretionary reserves and policy-based loan facility secured

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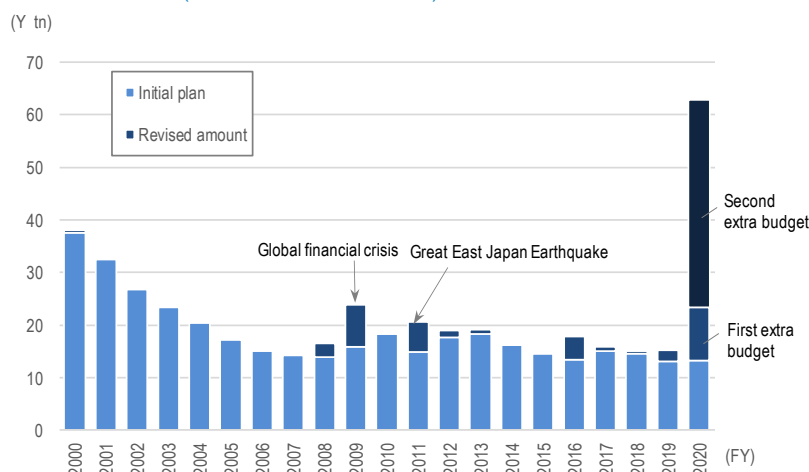


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Greatly expanded second extra budget buys time until third extra budget, and acts as deterrent for additional issuance of JGBs

Following the Cabinet approval of the FY20 second supplementary budget on 27 May, the Fiscal Investment and Loan Program (FILP) and JGB issuance plan were also revised. The media initially reported that the budget would amount to several trillion yen, but the sentiment emerged that the figure would exceed ¥10tn at the beginning of last week. And, indeed, the amount of newly-issued bonds eventually exceeded the first extra budget of ¥25.7tn, reaching ¥31.9tn. The amount of FILP bonds of ¥32.8tn also substantially topped the ¥9.4tn in the first extra budget. Although the amount ballooned surprisingly, by front-loading large-scale programs in the second extra budget, the government reduced the need to (1) immediately compile a third extra budget and (2) pack the maximum number of programs into it.

As of the beginning of last week, the items under consideration for the second supplementary budget were (1) rent support for business operators, (2) support for students, (3) enhancement of employment adjustment subsidies, (4) capital injections for major companies, (5) an increase in temporary subsidies for local governments to address the COVID-19 pandemic, and (6) an addition to discretionary reserves. There were no major changes from expectations with regard to items (1) to (5). The first major factor for the significant increase in the amount of additional JGBs to be issued was the addition to discretionary reserves for the COVID-19 pandemic on a level that defied conventional wisdom. Combined with the reserve in the first supplementary budget, the government can make flexible use of ¥11.5tn based on its judgement.

Chart: FILP Plan (initial and revised amount)

Source: MOF; compiled by Daiwa Securities.

The second major factor for the significant increase in additional JGB issuance was enhanced support for corporate financing to an unprecedented level. In the general account, ¥9.3tn was earmarked for loans to SMEs and major companies. The flipside of the ¥32.8tn increase in FILP bonds was the addition of ¥39.4tn to the FILP, including ¥36.7tn for crisis-response loans by the Japan Finance Corporation.

The chart on the previous page shows trends in the FILP (both initial plans and revised amounts). The ¥10.2tn addition to the FY20 first extra budget was roughly equal to the amount in FY09 after the global financial crisis. However, it is quite obvious that the ¥39.4tn addition to the second extra budget is an unprecedented amount. Of the ¥59.5tn addition to JGB market issuance on a calendar basis associated with the second extra budget, ¥45.5tn is to be raised by Treasury Bills. The authorities appear to be planning to redeem unused cash by stopping refinancing/rollovers after preparing for funds for now by expanding the policy-based loan facility.

The second extra budget has satisfied the requests for needs made thus far—discretionary reserves for the COVID-19 pandemic of ¥11.5tn, an unprecedented level of policy-based loan facility, an increase in the upper limit of rent support in response to criticism that previous support was not close to being enough in the Tokyo metropolitan area, an additional ¥2tn for temporary subsidies for local governments to address the pandemic, on top of the ¥1tn in the first extra budget to meet requests from local public bodies, and an additional ¥1.9tn in benefits for business operators to sustain operations, on top of the ¥2.3tn in the first extra budget. Looking to the future, we think there will be at least some time until the next, third supplementary budget. Even if the budget is compiled in the extraordinary Diet in autumn, that would not be late. Although there will probably be continuous requests for measures to maintain employment and stimulate the economy, the extent of the front-loaded inclusion of a large amount of discretionary reserves and policy-based loan facility in the second extra budget will help to suppress pressure for additional issuance of JGBs in the third extra budget.

If the FY19 general account incurs a revenue shortage due to a drop in tax revenues, the shortage needs to be covered by the FY20 supplementary budget at the earliest, or during FY21 at the latest. Also, the estimated tax revenue in the FY20 general account budget will be revised when corporate earnings become clear to some extent. So, the supplementary budget to revise the estimate could be compiled as early as November (but is usually compiled in December).

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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

The name of the Credit Rating Agencies group: Moody's Investors Service ("MIS")

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[Fitch]

The Name of the Credit Rating Agencies group, etc

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1) As of 26 April 2016, Daiwa Securities Co. Ltd., its parent company Daiwa Securities Group Inc., GMO Financial Holdings, Inc., and its subsidiary GMO CLICK Securities, Inc. concluded a basic agreement for the establishment of a business alliance between the four companies.

As of end-December 2017, Daiwa Securities Group Inc. owned shares in GMO Financial Holdings, Inc. equivalent to approximately 9.3% of the latter's outstanding shares. Given future developments in and benefits from the prospective business alliance, Daiwa Securities Group Inc. could boost its stake in GMO Financial Holdings, Inc. to up to 20% of outstanding shares.

2) Daiwa Real Estate Asset Management is a subsidiary of Daiwa Securities Group Inc. and serves as the asset management company for the following J-REITS: Daiwa Office Investment Corporation (8976), Daiwa Securities Living Investment Corporation (8986).

3) Samty Residential Investment became a consolidated subsidiary of Daiwa Securities Group Inc. effective 10 September 2019.

4) On 30 May 2019, Daiwa Securities Group Inc. formalized an equity/business alliance with Samty, and as of 14 June 2019 it owned 16.95% of shares outstanding in Samty along with convertible bonds with a par value of ¥10bn. Conversion of all of said convertible bonds into common shares would bring the stake of Daiwa Securities Group Inc. in Samty to 27.28%.

5) Daiwa Securities Group Inc. and Credit Saison Co., Ltd. entered into a capital and business alliance, effective 5 September 2019. In line with this alliance, Daiwa Securities Group Inc. is to acquire up to 5.01% of Credit Saison's total common shares outstanding (excl. treasury shares; as of 31 Jul 2019).

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- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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Corporate Name: Daiwa Securities Co. Ltd.

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