

Daiwa's View

LDP's proposal for economic package

- Is third extra budget alone enough to address COVID-19 pandemic measures?

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LDP's proposal for economic package

On 30 November, the LDP Policy Research Council offered its newly compiled proposal to Prime Minister Yoshihide Suga. Although a concrete amount is not written in the proposal, the media reported that council members orally requested a third supplementary budget worth around Y34tn. The awareness of the problems is unchanged from that in [our 24 November report](#) (major expenditures in general account of FY20 third extra budget is Y17.7tn and COVID-19 pandemic measure-related expenses in FY21 initial budget Y15tn, totaling Y32.7tn). According to the proposal, if the expenditure size is decided at Y34tn, part of expenditures should be included in the FY21 budget, instead of booking the entire amount in the third extra budget.

The most important items in the proposal were summarized as three pillars—(1) measures to prevent the spread of COVID-19 infections, (2) a shift of economic structure/realization of a virtuous cycle toward the post-pandemic era, and (3) securing safety/security via promotion of disaster prevention/mitigation and infrastructure reconstruction. Regarding the many projects among (2) and (3), the implementation can be carried forward to the next fiscal year even if the budget is not fully used by the end of the fiscal year. We thus forecast that they will be basically booked in the third extra budget in FY20. Meanwhile, we are concerned about the possibility that many measures in (1) may not be carried forward to the next fiscal year, given the character of projects. We are unable to assume that no budget will be booked for measures to prevent COVID-19 infections at the beginning of FY21. Even if the first supplementary budget is compiled at the beginning of FY21, we would have a blank period for two to three months. We think that a certain amount of (1) needs to be included in the FY21 initial budget. We need to think of the size of pandemic response measures and economic package under the concept of the “15-month budget” that is reported also by the media.

According to *Bloomberg* on 30 November, director of the LDP Treasury and Finance Division Keisuke Suzuki said that “there is a possibility that fourth supplementary budget for FY20 will be compiled.” However, the formal compilation of the fourth extra budget is likely to start after the third extra budget is passed at the Diet. The passage of the fourth extra budget (after it is compiled) would probably be close to the end of the fiscal year. If the budget includes expenses for pandemic response measures, there would be little time to use it. In order to prepare for any contingency, it would be better to set aside a part of contingency reserves without spending the entire amount.

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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")

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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Assumptions, Significance and Limitations of Credit Ratings

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[Fitch]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: Fitch Ratings ("Fitch")

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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.
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- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
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* 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.

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Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

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