

Daiwa's View

What does “XX trillion yen” of third extra budget mean?

- Around Y20tn in general account expenditures and Y40tn on all-projects basis appear to be assumed

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What does “XX trillion yen” of third extra budget mean?

Regarding the size of the third supplementary budget, there have been a series of remarks by executive members of the government and ruling parties. However, it is difficult to judge what “XX trillion yen” means. There is one trend—media reports stated in early November that “Y10-15tn” was proposed by the ruling parties, and at a press conference on the 11th by Yuzuru Takeuchi, chair of Komeito’s Policy Research Council, he stated that “Y15-20tn” was the minimum level, and in a TV program on the 26th, chair of the LDP Research Commission on the Tax System Akira Amari said that government expenditures would be around Y20tn. It appears that the figures point to the size of general account expenditures in line with Mr. Amari’s remark. If the expenditures are around Y20tn, we expect the JGB issuance amount to be roughly flat, given FILP bonds that are not issued according to the initial plan (considerable amount of commitment line likely to be unused). (In [our 24 November report](#), we forecast roughly flat JGB issuance amount on premise of Y17.7tn in general account expenditures.)

Meanwhile, on 27 November, Bloomberg reported the Y40tn figure in a remark by Counsellor of the Cabinet Secretariat Yoichi Takahashi, for which the basis is the amount of the output gap. At a press conference after the Cabinet meeting on the 27th, Minister of State for Economic/Fiscal Policy and Economic Revitalization Yasutoshi Nishimura said that the third extra budget needed to be of a size to offset the decline in GDP, after showing an analysis that Jul-Sep GDP was around Y34tn less than the feasible amount (on annualized basis) due to the impact of the COVID-19 pandemic. Both figures are related to the output gap. However, as long as enough output is secured on an all-projects basis (incl. expenditures at municipalities and private-sector spending), there is no need to be confined to general account expenditures in order to fill the gap. The expenditure amount of around Y20tn in the general account is fully compatible with the Y40tn on an all-projects basis.

Another focus of attention is the *Nikkei* article on 28 November—“growing request to increase contingency funds for the COVID-19 pandemic, although Y7tn is unused,” saying that “as around Y7tn in contingency funds is unused, the government planned to return the level of such funds in the FY21 budget to that in usual years. However, requests to increase such funds are growing due to the resurgence of coronavirus infections.” In FY20, both the commitment line under the FILP and contingency reserves in the general account have been partially unused. However, now is not the situation where such funds are no longer necessary. That said, as they are not carried forward to FY21 due to technical issues, we think that a certain amount will be again added to the FY21 budget. As a part of expenses for COVID-19 pandemic response measures will not be carried forward to FY21 either, we would not be surprised if such expenses will be added to the FY21 budget, instead of the FY20 third extra budget. It is difficult to deal with all items by means of the FY20 third extra budget alone. On 27 November, chair of the LDP Policy Research Council Hakubun Shimomura said that “the third extra budget worth above Y20tn needs to be prepared, and the size may be increased to around Y34tn, the output gap in Jul-Sep.” This is also related to the output gap, but we are not uncomfortable if general account expenditures, combined with

the FY21 budget, increase to Y34tn. In our 24 November report, we estimate that (1) the FY21 budget will include Y15tn in expenses for pandemic response measures and contingency funds, and (2) expenditures in the general account, combined with the FY20 third extra budget, will reach Y32.7tn (= Y17.7tn + Y15tn).

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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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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[Fitch]

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Other Disclosures Concerning Individual Issues:

- 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%.
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- 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.
- 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.

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