

Daiwa's View

Economic package announced, our forecast for JGB issuance amount largely unchanged

- Compared to JGB issuance amount after FY20 second extra budget, amount after FY20 third extra budget estimated to remain roughly flat and FY21 amount to decline by around Y30tn

FICC Research Dept.

Senior Fiscal Policy and
Credit Analyst
Kouji Hamada
(81) 3 5555-8791
kouji.hamada@daiwa.co.jp



Daiwa Securities Co. Ltd.

Compared to JGB issuance amount after FY20 second extra budget, amount after FY20 third extra budget estimated to remain roughly flat and FY21 amount to decline by around Y30tn

Economic package announced, our forecast for JGB issuance amount largely unchanged

On 8 December, the government decided on a “comprehensive economic package to secure people’s lives and livelihood for security and hope” at a Cabinet meeting. The three main pillars are in line with media reports—(1) measures to prevent the spread of COVID-19 infections, (2) a shift of the economic structure toward the post-pandemic era and the realization of a virtuous cycle, and (3) securing safety/security via promotion of disaster prevention/mitigation and infrastructure reconstruction. These will be booked both in the FY20 third supplementary budget and the FY21 initial budget, which is also in line with expectations. Reflecting this, there is no change to our forecast that (1) the JGB issuance amount after the FY20 third extra budget will remain roughly flat in real terms vs. the figure after the FY20 second supplementary budget, and (2) the amount in FY21 will decline by around Y30tn vs. the figure after the FY20 second supplementary budget.

Expenditures in the general account, which lead to the JGB issuance, amount to Y29.6tn, including the amount (Y5tn) set aside from unused contingency funds to cope with the COVID-19 pandemic in FY20. The FILP stands at Y7.7tn. Expenditures at local public bodies are Y1.7tn, for which there is a possibility that municipal bonds will be issued and underwriting by the FILP will increase. The total comes to Y39tn. In addition, the 9 December *Nikkei* reported that the downward revision to tax revenues in the FY20 third extra budget would be Y8tn. Given these, we think that around Y21tn in additional JGBs may be issued in the FY20 third extra budget by legal grounds. However, as such an amount can be offset by the unissued FILP bonds vs. the plan, there would be room for the calendar-base issuance amount to roughly remain flat. We forecast that the aggregate JGB issuance in FY21 will decline by around Y28tn vs. the figure after the FY20 second supplementary budget.

While the economic package’s expenditures in the general account are Y4.1tn less than our estimate in [our 24 November report](#), the FILP is Y9.4tn more, resulting in a total overshoot of Y5.3tn. Regarding the allocation of money to the FY20 third extra budget and the FY21 initial budget, more money was allocated to the former than expected. In addition, the downward revision to tax revenues in the FY20 third extra budget is likely to be Y2tn larger than our estimate. This led to an upward revision to our estimate for the issuance amount of additional JGBs in the FY20 third extra budget by nearly Y6tn, but we still think that this can be absorbed by the unissued FILP bonds. We now estimate that the total JGB issuance amount in FY21 will decline by Y28.2tn (revised from Y31.8tn) vs. the figure after the FY20 second extra budget, but the decrease is still around Y30tn. Please see new estimates in the charts below.

JGB Issuance Plan by Legal Grounds (actual and estimate)

	Initial	After first extra budget		After second extra budget		After third extra budget (estimate)		Initial (estimate)		
	Amount	Amount	Initial → First	Amount	First → Second	Amount	Second → Third	Amount	Second → Initial	Third → Initial
Newly-issued bonds	32.6	58.2	25.7	90.2	31.9	107.8	17.6	52.3	-37.9	-55.5
Reconstruction bonds	0.9	0.9	0.0	0.9	0.0	0.9	0.0	0.0	-0.9	-0.9
FILP bonds	12.0	21.4	9.4	54.2	32.8	57.3	3.1	36.3	-17.9	-21.0
Refunding bonds	108.0	108.0	0.0	108.0	0.0	108.0	0.0	136.5	28.5	28.5
Total	153.5	188.5	35.1	253.3	64.7	274.0	20.7	225.1	-28.2	-48.9

Actual issuance amount in line with progress is minus ¥20.7tn from here

Source: MOF; compiled by Daiwa Securities.

Year-end Extra Budget in General Account (actual and estimate)

(Y bn)	2017	2018		2019	2020 (estimate)
	First Dec	First Oct	Second Dec	First Dec	Third Dec
Expenditures	1,654.7	935.6	2,709.7	3,194.5	10,500.0
Restoration from natural disasters, etc.	343.6	727.5	213.6	690.7	700.0
Disaster prevention/mitigation project	913.1		1,072.3	855.7	2,300.0
Transfer to Government Debt Consolidation Fund	189.1		454.7		
Local allocation tax grants			510.8	-734.9	-2,300.0
Compensation for local allocation tax grants				748.1	2,300.0
Reduction in stipulated expenses	-1,191.6		-1,290.9	-1,290.8	-1,300.0
Contingency reserves	-50.0	100.0			-2,400.0
Economic measures/other policy costs	1,450.5	108.1	1,749.2	2,925.7	10,700.0
COVID-19 pandemic response measures					500.0
Revenues	1,654.8	935.6	2,709.6	3,194.6	10,500.0
Tax revenues			849.0	-2,315.0	-8,000.0
Other revenues	95.7	4.2	139.3	188.1	200.0
Transfer from surplus in previous fiscal year	374.3	236.4	713.1	900.1	700.0
Government bond issuance	1,184.8	695.0	1,008.2	4,421.4	17,600.0

Source: MOF; compiled by Daiwa Securities.

Initial Budget in General Account (actual and estimate)

(Y bn)	2017	2018	2019	2020	2021 (estimate)
Expenditures	97,454.7	97,712.8	101,457.1	102,658.0	114,900.0
Social security expenditure	32,473.5	32,973.2	34,059.3	35,860.8	37,000.0
Public works	5,976.3	5,978.9	6,909.9	6,857.1	7,000.0
Other general expenditures	19,559.2	19,593.5	20,494.6	20,279.4	20,500.0
COVID-19 pandemic response measures, etc.					5,400.0
National debt service	23,528.5	23,302.0	23,508.2	23,351.5	23,500.0
Local allocation tax grants, etc.	15,567.1	15,515.0	15,985.0	15,809.3	16,000.0
Contingency funds for COVID-19					5,000.0
Contingency reserves	350.0	350.0	500.0	500.0	500.0
Revenues	97,454.7	97,712.8	101,457.1	102,658.0	114,900.0
Tax and stamp revenues	57,712.0	59,079.0	62,495.0	63,513.0	56,100.0
Other revenues	5,372.9	4,941.6	6,301.6	6,588.8	6,500.0
Government bond issuance	34,369.8	33,692.2	32,660.5	32,556.2	52,300.0

Source: MOF; compiled by Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

In order to ensure the fairness and transparency in the markets, Credit Rating Agencies became subject to the Credit Rating Agencies' registration system based on the Financial Instruments and Exchange Act. In accordance with this Act, in soliciting customers, Financial Instruments Business Operators, etc. shall not use the credit ratings provided by unregistered Credit Rating Agencies without informing customers of the fact that those Credit Rating Agencies are not registered, and shall also inform customers of the significance and limitations of credit ratings, etc.

■ The Significance of Registration

Registered Credit Rating Agencies are subject to the following regulations:

- 1) Duty of good faith.
- 2) Establishment of control systems (fairness of the rating process, and prevention of conflicts of interest, etc.).
- 3) Prohibition of the ratings in cases where Credit Rating Agencies have a close relationship with the issuers of the financial instruments to be rated, etc.
- 4) Duty to disclose information (preparation and publication of rating policies, etc. and public disclosure of explanatory documents).

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■ Credit Rating Agencies

[Standard & Poor's]

The Name of the Credit Rating Agencies group, etc

The name of the Credit Rating Agencies group: S&P Global Ratings ("Standard & Poor's")

The name and registration number of the Registered Credit Rating Agency in the group: S&P Global Ratings Japan Inc. (FSA commissioner (Rating) No.5)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating Information" (<http://www.standardandpoors.co.jp/unregistered>) in the "Library and Regulations" section on the website of S&P Global Ratings Japan Inc. (<http://www.standardandpoors.co.jp>)

Assumptions, Significance and Limitations of Credit Ratings

Credit ratings assigned by Standard & Poor's are statements of opinion on the future credit quality of specific issuers or issues as of the date they are expressed and they are not indexes which show the probability of the occurrence of the failure to pay by the issuer or a specific debt and do not guarantee creditworthiness. Credit ratings are not a recommendation to purchase, sell or hold any securities, or a statement of market liquidity or prices in the secondary market of any issues.

Credit ratings may change depending on various factors, including issuers' performance, changes in external environment, performance of underlying assets, creditworthiness of counterparties and others. Standard & Poor's conducts rating analysis based on information it believes to be provided by the reliable source and assigns credit ratings only when it believes there is enough information in terms of quality and quantity to make a conclusion. However, Standard & Poor's does not perform an audit, due diligence or independent verification of any information it receives from the issuer or a third party, or guarantee its accuracy, completeness or timeliness of the results by using the information. Moreover, it needs to be noted that it may incur a potential risk due to the limitation of the historical data that are available for use depending on the rating.

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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)

How to acquire information related to an outline of the rating policies and methods adopted by the person who determines Credit Ratings

The information is posted under "Unregistered Rating explanation" in the section on "The use of Ratings of Unregistered Agencies" on the website of Moody's Japan K.K. (The website can be viewed after clicking on "Credit Rating Business" on the Japanese version of Moody's website (https://www.moody.com/pages/default_ja.aspx))

Assumptions, Significance and Limitations of Credit Ratings

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Based on the information received from issuers or from public sources, the credit risks of the issuers or obligations are assessed. MIS adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MIS considers to be reliable. However, MIS is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

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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")

The name and registration number of the Registered Credit Rating Agency in the group: Fitch Ratings Japan Limited (FSA commissioner (Rating) No.7)

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Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.: Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.

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%.
- 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).

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

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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.
- 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

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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