

Daiwa's View

Net surplus of Y4.5tn appears to have been booked in FY20 general account

- Half of the surplus—Y2.2tn—to become financial resource for FY21 supplementary budget

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Daiwa Securities Co. Ltd.

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Half of the surplus—Y2.2tn—to become financial resource for FY21 supplementary budget

On 5 July, the Ministry of Finance (MOF) announced the overview of the estimated results of the FY20 general account. An unprecedented net surplus of Y4.5tn appears to have been booked due to a large amount of overshoot in tax revenues and expenditures that were not unused. At least half of this needs to be used to redeem JGBs by being carried forward into the Government Debt Consolidation Fund. However, at most Y2.2tn (half of the net surplus) can be allocated to financial resources for a FY21 supplementary budget, which serves as a factor in reducing the issuance amount of new JGBs. The earliest we might see the net surplus being used could be August. In addition, with tax revenues in the FY20 results being greater than expected, we anticipate an upward revision to the estimated revenues for FY21 in the supplementary budget to be compiled in December (refer to Daiwa's View [Introductory guide to fiscal finance and JGB issuance](#)). This is also a factor in reducing the issuance amount of new JGBs. We are now seeing speculation on formulation of an economic package prior to a snap election of the lower house. However, the issuance of new JGBs throughout the fiscal year is expected to be reduced by several trillion yen.

Actual Figures of Overview of Estimated Results During FY00-20 (Y bn)

FY	Announced on	Revenue				Expenditure		Revenue + Expenditure	Change in specific revenue resources, etc.	Net surplus Revenue shortage
		Total	Tax revenues	Non-tax revenues	Government bond issuance	Total	Unused amount			
2000	4-Jul	-249.6	803.9	540.3	-1,594.0	696.3	696.3	446.6	-217.6	228.9
2001	4-Jul	-946.0	-1,681.0	735.0	0	941.2	941.2	-4.7	0	-4.7
2002	4-Jul	-524.2	-452.8	-71.4	0	901.6	901.6	377.3	0	377.3
2003	1-Jul	453.7	1,494.2	59.5	-1,100.0	1,087.4	1,087.4	1,541.1	-490.5	1,050.6
2004	4-Jul	302.6	1,547.6	-145.0	-1,100.0	1,388.8	1,388.8	1,691.4	-494.4	1,196.9
2005	3-Jul	-23.5	2,023.4	153.0	-2,200.0	1,527.5	1,527.5	1,504.0	-603.0	900.9
2006	4-Jul	-973.9	-1,398.9	425.0	0	1,806.0	1,806.0	832.0	-3.4	828.6
2007	1-Jul	-1,389.3	-1,532.7	193.4	-50.0	2,021.2	2,021.2	631.9	0	631.9
2008	1-Jul	-2,535.9	-2,161.5	-374.3	0	1,817.8	1,817.8	-718.0	0	-718.0
2009	29-Jun	45.2	1,872.0	-326.8	-1,500.0	2,155.2	2,155.2	2,200.4	-575.7	1,624.6
2010	1-Jul	-134.1	1,843.7	22.0	-2,000.0	2,144.8	2,144.8	2,010.6	-545.4	1,465.1
2011	1-Jul	-743.9	802.6	253.4	-1,800.0	2,951.2	2,951.2	2,207.2	-977.0	1,230.1
2012	3-Jul	-138.5	1,324.4	53.0	-2,000.0	1,856.2	1,856.2	1,717.6	-422.9	1,294.6
2013	3-Jul	214.4	1,598.9	623.0	-2,007.5	1,663.0	1,663.0	1,877.5	-478.8	1,398.7
2014	3-Jul	801.7	2,244.7	557.0	-2,000.0	1,411.8	1,411.8	2,213.5	-636.4	1,577.0
2015	1-Jul	-1,193.1	-138.5	445.4	-1,500.0	1,445.9	1,445.9	252.7	-0.3	252.4
2016	5-Jul	-1,158.8	-391.3	232.5	-1,000.0	1,533.1	1,533.1	374.3	0	374.3
2017	4-Jul	-270.3	1,075.4	654.1	-2,000.0	1,435.8	1,435.8	1,165.4	-258.6	906.8
2018	2-Jul	-176.1	428.3	395.4	-1,000.0	1,603.7	1,603.7	1,427.5	-99.1	1,328.3
2019	3-Jul	-1,093.4	-1,738.4	1,145.0	-500.0	1,783.8	1,783.8	690.3	-5.1	685.2
2020	5-Jul	2,313.0	5,696.6	616.4	-4,000.0	3,888.0	3,888.0	6,201.0	-1,664.6	4,536.3

Source: MOF; compiled by Daiwa Securities.

Note: Figures in highlighted columns show the maximum actual amount in the period.

The chart on the previous page shows the actual figures of the overview of the estimated results since FY00. In FY20, tax revenues came in at Y60.8tn, exceeding the budget by as much as Y5.7tn. The FY20 tax revenues have already exceeded the estimated tax revenues for FY21 (Y57.4tn) by Y3.4tn. If estimated tax revenues were increased by Y5tn in the FY21 supplementary budget in December, about 30% should be allocated to local allocation tax, with around 70% (about Y3.5tn) serving as a factor in lowering the issuance amount of new JGBs.

Turning to revenue, there was a Y4tn downward revision to government bond issuance. The issuance amount of newly issued JGBs was Y4tn lower than the budget. This serves as a factor in enabling an increase of front-loading issuance of refunding bonds in line with the reduced amount.

The amount of unused expenditures came in at Y3.9tn, which is strikingly large compared to past figures. This indicates that a large amount of the COVID-19-related budget in FY20 cannot be used up. Most of the unused money is expected to be used in FY21 by being carried forward to that fiscal year. However, a decent amount of the money may not be used even in the FY21 results. With extra money apparently secured for the COVID-19-related budget in case of the worst-case scenario, a portion of the budget is expected to be returned as surplus. For example, as we look toward the FY21 extra budget to be compiled in December, we should continue to note the possibility of a reduction in FILP bonds.

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- 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.
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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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[Fitch]

The Name of the Credit Rating Agencies group, etc

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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%.
- 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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- 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.

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