

Daiwa's View

LDP proposed intensive care for severely affected areas, instead of wide but shallow measures

- Largest-ever support measures to be provided for individuals and business operators first

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Daiwa Securities Co. Ltd.

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Largest-ever support measures to be provided for individuals and business operators first

On March 31, the Liberal Democratic Party's Policy Research Council compiled a "proposal for the third round of an emergency economic package." According to news vendors, it is a "Y60tn economic stimulus package, partly financed by Y20tn of fiscal spending." Here, we introduce the details.

To put the whole picture first, there is no new policy, but we now know what is included and what is not, after various speculative media reports. The basic concept is to firstly provide funds to individuals and business operators facing the most severe impact due to the COVID-19 outbreak, and then spur demand centering on the most severely affected sectors once the outbreak comes under control. The idea of a wide but shallow provision of benefits, such as a consumption tax cut and cash handouts at a flat rate to the whole nation, was not included. If the effects of the new coronavirus spread throughout the economy, it would be necessary to extend the support to other targets. It appears that the government intends to consider additional measures in the case of insufficiency. In fact, additional measures are touched in the proposal.

The proposal first shows the five basic ideas.

- (1) The size amounts to at least a "Y60tn stimulus package, partly financed by Y20tn of fiscal spending" which is higher than that at the time of the global financial crisis. The figure should also be greater than 10% of GDP, and can be added to by any type of financial resource;
- (2) Policies should be effectively combined by being divided into several phases—(i) the phase of containment of the virus, (ii) the recovery phase to conduct proactive measures, and (iii) the medium/long-term phase;
- (3) The size of the benefit measures exceeds Y10tn, equivalent to a cut in the consumption tax to 5%. Centering on cash handouts and the provision of subsidies, the combination of coupon and point issuance is proposed;
- (4) Provision of easy-to-understand information;
- (5) Further economic measures should be formulated if needed because the government had implemented three measures with a total business scale of more than Y100tn since the Lehman crisis.

The proposal purposely touched on the consumption tax cut in the item (3) probably to take into account requests for such a cut.

Next, the ten most important items are listed. (1) to (3) are the policies in the period of the virus containment among the aforementioned three phases.

(1) Ending the spread of COVID-19 is the biggest economic measure. Efforts should be made for the development of a vaccine, an increase in the production capacity for masks and disinfectants, accurate tests, and securing medical specialists, nurses, respirators, and artificial heart-lung machines;

(2) Financing measures to maintain the operations of companies and businesses, for which the proposal requested the amount of ¥40tn, which is comparable to that at the time of the Lehman crisis. Specifically, they include substantial expansion in financing facilities at government-affiliated financial institutions, assistance in reducing/exempting guarantee fees, replenishment of interest on loans under municipal loan systems, expansion of employment adjustment subsidies, and payment postponement/reduction of corporate tax and property tax;

(3) Bold cash handouts: Until the outbreak comes under control, this will be continued for households and individuals who are facing financial trouble in daily life due to a substantial reduction in income. Approximately several trillion yen will be budgeted for fixed-amount cash subsidies without restriction on usage to companies/people who are facing business continuity crises due to a plunge in sales among 2.8mn SMEs and 3.7mn sole proprietors, including freelancers.

(4) and (5) are measures in the recovery phase to be conducted proactively after the pandemic comes under control.

(4) As all citizens have been affected, the council proposed the following demand-stimulating measures that enable a wide range of the nation to participate---raising the premium rate of the My Number point program (gov't-led reward-point program for holders of My Number social security and tax identification cards) scheduled to start in September, cash handouts and digital gift certificates using My Number cards, and other coupon point programs;

(5) is a national campaign for tourism and consumption through discount subsidies, issuance of coupons/points, discounts on transportation in sectors that are especially affected by the pandemic (such as tourism, travel, accommodation, restaurants, events, entertainment). Comprehensive support will be provided for passenger carriers such as airlines, which are indispensable for such a campaign.

(6) and (7) are responses in anticipation of new economic activity/society.

(6) The council promotes teleworking by companies and local governments, online education by schools, and online medical care/prescriptions, taking this opportunity;

(7) It also promoted the return of domestic production bases for important products and products/parts that are highly dependent on specific foreign countries to overcome supply chain vulnerabilities such as the shortage of masks. Investment to diversify production bases should be supported;

(8) It proposed the establishment of a new grant program to enable local governments to implement economic measures in line with the actual situation;

(9) Further expansion of international cooperation is also proposed to secure a voice in the international society;

(10) It proposed a substantial ¥500bn increase in contingency funds or the establishment of an emergency contingency fund.

The impact of items from (6) to (10) on the macro economy is not so large. As mentioned, the concept is to firstly overcome the emergency in the most affected areas and then boost the economy toward a recovery after the situation settles down to some extent. In addition, I wonder whether the amount of the cash handouts is sufficient or whether the government's financing measures are enough for companies damaged by plunging earnings.

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[Standard & Poor's]

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[Moody's]

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