

## Daiwa's View

### Fiscal spending in second extra budget may exceed Y10tn

- Total may come to more than expected once everything tallied up

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### Fiscal spending in second extra budget may exceed Y10tn

Following Prime Minister Shinzo Abe's instructions to compile a second supplementary budget, the government and the ruling parties are in the midst of full-scale coordination, eyeing the Cabinet decision on 27 May and passage of the budget during the current Diet session that will continue until 17 June. Items under consideration are (1) rent support for business operators, (2) support for economically struggling students, (3) enhancement of employment adjustment subsidies, (4) capital injections for major companies, (5) an increase in temporary subsidies for local governments to address the COVID-19 pandemic, and (6) an addition to discretionary reserves. At the moment, the accumulation of these items may lead to fiscal spending of more than Y10tn.

Regarding rent support for business operators, the Liberal Democratic Party (LDP) and Komeito forged a brief overview and made an overture to Prime Minister Abe on 8 May. The rent support is for SMEs and sole proprietors suffering from a plunge in sales, with six months' rent being granted to these SMEs, up to Y500,000/month, and to sole proprietors, up to Y250,000/month. The maximum amount is calculated to be Y7.8tn (=Y500,000 x 6 months x 4.8mn SMEs + Y250,000 x 6 months x 2.97mn sole proprietors). However, the actual figure for rent support will probably not come to that much. The first supplementary budget included Y2.3tn for payout to support business operators (with an upper limit of Y2mn for SMEs and Y1mn for sole proprietors). This time, the upper limit will be raised by 1.5 times (Y3mn for SMEs and Y1.5mn for sole proprietors), alongside easing of application requirements. We thus estimate that rent support will amount to around Y5tn, slightly more than double the budget for payout to support business operators in the first extra budget.

With regard to student support, it has been reported that Y100,000 will be provided for 400,000 university/graduate students with lower part-time income (Y200,000 for those at residential tax-exempt households). Even if the grant for every student is Y200,000, the total amount will come to Y80bn. Since the media reported this figure as Y50bn and this support will be funded by discretionary reserves, this is unlikely to lead to new fiscal spending.

The source of funds for employment adjustment subsidies is insurance premiums paid by business operators (0.3% of wages). The scheme is designed under the assumption that there will be no state contribution. When a surplus is booked in the income statement, it is accumulated in the employment stability fund under the employment account of labor insurance special accounting. Meanwhile, when resources are short, the shortfall is covered by the fund. The balance at end-FY18 was Y1,330.5bn. After the global financial crisis, the balance was short, but the shortage was covered by borrowing reserves, which save money for unemployment benefits in the same employment account. Even if the upper limit of grants (per person/day) in the second extra budget is raised, this will not entail fiscal spending if the system is unchanged. If the national coffers shoulder part of the burden, the amount is estimated at roughly Y730bn, which was the maximum borrowing amount from the reserve after the global financial crisis (per borrowing instance).

Regarding capital injections for major firms, we think there could be cases requiring funding of over Y100bn per company, although not as much as Y1tn. At Innovation Network Corporation of Japan, which was utilized for the supply of risk money after the global financial crisis, support capacity of more than Y2tn was secured. The same amount, Y2tn, may be earmarked this time around. Or, the amount could be increased if the current crisis is judged to be worse than the global financial crisis. If the government invests in the Development Bank of Japan (DBJ) as a resource of risk money, that will lead to the issuance of deficit financing bonds. If fiscal loans are used, that will lead to the issuance of FILP bonds (= government bond  $\neq$  FILP agency bonds).

With respect to temporary subsidies for local governments, Y1tn was secured in the first extra budget and provided to each local government. The subsidies have been used effectively as a resource for payout for stores which suspended operations in line with the government's request. On 15 May, the National Governors' Association requested Yasutoshi Nishimura, the Minister of State for Economic and Fiscal Policy/Economic Revitalization, to increase these subsidies. Members in the LDP's Headquarters for Overcoming Population Decline and Regional Revitalization reportedly also requested Prime Minister Abe to increase these subsidies to around Y3tn. If the request for the entire amount is accepted, this will lead to fiscal spending of Y2tn.

Next, we look at the addition to discretionary reserves. There has been criticism that the Japanese government has been late in dealing with the pandemic in various respects, but once the ordinary Diet session ends, lawmakers will be unable to deliberate about a new supplementary budget until the next Diet session. The larger the discretionary reserves, the more leeway the government will have to maneuver regarding policies, even while the Diet is not in session. On the other hand, how the discretionary reserves are used is not decided at the time they are fixed in the Diet, which represents the people. It is necessary to get the approval of the Diet after the fact, but even if the Diet were to not give its approval, ex post facto disapproval would not be legally effective. Therefore, some argue that a cautious stance is required regarding the use of discretionary reserves. Such reserves of Y1.5tn for coping with the COVID-19 pandemic were already secured in the first extra budget. Since the first wave of infections is coming under control, the addition is estimated to be Y1-2tn at most.

Due to the above, total fiscal spending is estimated at around Y9-13tn. This includes Y5tn for rent support, no spending for student support, Y0-1tn for an increase in employment adjustment subsidies, Y2-3tn for capital injections for major firms, Y1-2tn for an increase in temporary subsidies for local governments, and Y1-2tn for an increase in discretionary reserves. Although the figure was initially reported as several trillion yen, it could increase more than expected once everything is tallied up.

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#### [Standard & Poor's]

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