

Daiwa's View

Details of economic package coming into view

- It appears to still be somewhat less than Y34tn; and short period of measures is also a focus of attention

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Daiwa Securities Co. Ltd.

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Details of economic package coming into view

From the end of last week through to this morning, a series of news reports have appeared about an economic package. At the moment, the total of the FY20 third extra budget and the FY21 initial budget appears to be slightly above Y25tn, but it has not reached Y34tn. However, as we do not think that this is the entire amount, we await additional news reports and the announcement of the package. Meanwhile, the period of the measures is shorter than expected. Therefore, we get the impression that (1) a large amount of budget will not be allocated for the initial FY21 FILP and (2) a first supplementary budget could be compiled during an ordinary Diet session until June if the COVID-19 pandemic is prolonged or becomes more serious.

According to news reports thus far, pandemic response measures include provision of coronavirus vaccinations free of charge to all residents in Japan, a Y1.5tn increase in temporary local revitalization grants, which can be used to pay for compensation for cooperation in situations such as when local governments request restaurants to shorten their operating hours, and an extension of special measures for the employment adjustment subsidy as well as the period for the Go To Travel and Go To Eat campaigns, all of which are in line with our expectations. The package also includes an extension of the effectively interest-free/uncollateralized loan program and an increase in the emergency comprehensive support grants to medical providers that are allocated to prefectures. On the other hand, news articles have not touched on an increase in the subsidy program for business continuation, for which Y5.2tn was secured via the FY20 first and second extra budgets and the transfer from contingency reserves. This should continue to garner attention.

The budgets for disaster restoration and measures for infrastructure reconstruction total Y15tn during FY21-25. Today, the *Nikkan Kensetsu Kogyo Shinbun* reported that the aggregate amount of public work would be around Y2.5tn. This is also in line with our expectations. Regarding economic measures, it is reported that Y4.5tn and Y1tn will be allocated to a fund to support decarbonization and a project to promote digitalization, respectively. However, this alone is not sufficient, neither in terms of scale nor content. The scale of the currently reported economic package appears to still be somewhat less than the Y34tn that was requested by the Liberal Democratic Party on an aggregated basis. We look forward to hearing further news about this.

One concern is that the period for the additional measures is not very long. The government has decided to extend the special measures for the employment adjustment subsidy to February 2021. Reportedly, it would extend the effectively interest-free/uncollateralized loan program to March 2021 and the Go To Travel and Go to Eat campaigns to June, meaning that the period expires by June, soon after the FY21 starts in April. If it remains difficult to see when the pandemic will be brought under control, an option for response measures in FY21 will be (1) to allocate a large amount of money in the initial budget with the understanding that the entire budget may not be used, or (2) to secure a minimal budget, and make additions, if needed. In [our 24 November report](#), we assumed the former option would be chosen, but news reports seem to indicate that the latter option is being chosen. If so, the FY21 FILIP is unlikely to be that big. If it is judged that contingency reserves in the general account and the FILP's elastic clause alone are not enough due to prolongation/deterioration of the pandemic situation, there may be talk of a first supplementary budget during an ordinary Diet session until June. We await additional news and the announcement of the economic package.

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■ Credit Rating Agencies

[Standard & Poor's]

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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>)

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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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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")

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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.

** 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.

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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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