

Daiwa's View

Three points in announced FY20 third extra budget

- How to count contingency funds for COVID-19, unissued FILP bonds, and budgetary request for FY21 FILP

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Daiwa Securities Co. Ltd.

How to count contingency funds for COVID-19, unissued FILP bonds, and budgetary request for FY21 FILP

Three points in announced FY20 third extra budget

On 15 December, the government approved a third supplementary budget at a Cabinet meeting. Although there were no factors that reversed market projections, we can still note three important factors—(1) how to count contingency funds for COVID-19, (2) unissued FILP bonds, and (3) an increase in the budgetary request for FILP in FY21.

The first factor is how to count contingency funds for COVID-19, which was included in the comprehensive economic package announced on 8 December. Given the details of the economic package, we recalculated our forecasts for the new JGB issuance amount in the third extra budget, factoring in media reports on the Y8tn downward revision to tax revenues. However, the issuance amount in subsequently announced media reports was somehow Y5tn higher than our estimate. The reason was shown in the details of the third extra budget. In the comprehensive economic package, we can see that expenditures in the general account of the third extra budget are at Y19.2tn, including Y5tn in unused contingency funds for COVID-19. In fact, however, Y19.2tn was earmarked just for expenditures, separately from the unused contingency funds. Regarding the FY21 initial budget, we can also see that expenditures related to the comprehensive economic package in the general account are Y10.4tn, including contingency funds for COVID-19. However, if the contingency funds are separately booked as in the third extra budget, this would serve as a factor to raise the issuance amount of new JGBs by Y5tn from the figure in [our 9 December report](#).

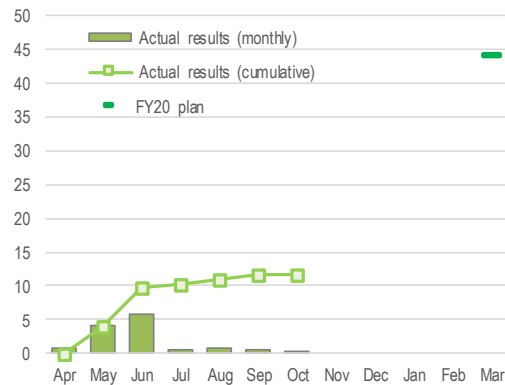
The second factor is unissued FILP bonds. The FY20 third extra budget has resulted in the issuance of additional JGBs worth Y22.4tn. However, the amount of calendar-based market issuance was unchanged due to a Y13.5tn reduction in FILP bonds and a Y13.7tn increase in adjustments between fiscal years via front-loading issuance of refunding bonds. This is in line with our forecast.

In FY20, the FILP's commitment line at the Japan Finance Corporation was substantially raised via the second and third supplementary budgets. In the plan, the Y44.1tn was thus secured for fiscal loans, the financial resource of the commitment line. However, the actual result up to October was Y11.7tn on a cumulative basis. If the current pace continues, fiscal loans would undershoot the plan by nearly Y30tn, which would eliminate the need for the issuance of a similar amount of FILP bonds (Chart 1). Of course, as the need for fiscal loans worth several trillions of yen may appear due to the resurgence of COVID-19 infections, the reduction in FILP bonds was likely to be reined in to Y13.5tn in the JGB issuance plan. However, if the amount of unissued FILP bonds increases further from the Y13.5tn, the MOF may not need to increase adjustments between fiscal years via front-loading issuance of refunding bonds by the corresponding amount.

In line with the announcement of the third extra budget, materials at the FILP subcommittee of the Fiscal System Council (held 10 Dec) were disclosed. We thus learned how the budgetary request for the FY21 FILP was revised, which is the third factor. It is calculated that fiscal loans will total Y38.7tn due to a Y27.1tn increase (consisting of Y22.4tn mainly for COVID-19 response measures and Y4.7tn mainly for economic package; Chart 2). Therefore, FILP bonds worth around Y38.7tn are expected to be booked in the JGB issuance plan. The figure is largely in line with our estimate in [our 9 December report](#).

Chart 1: FY20 Fiscal Loan Plan and Actual Results at Japan Finance Corporation

(Y tn)



Source: MOF; compiled by Daiwa Securities.

Chart 2: Revision to Budgetary Request for FILP in FY21 (Y bn)

		Initial request	Revised request	Change
COVID-19 response measures, etc.	JFC*: Micro Business and Individual Unit	2,245.0	9,050.0	6,805.0
	JFC: Small and Medium Enterprise Unit	1,092.0	4,683.0	3,591.0
	JFC: Operations to facilitate crisis responses	99.0	10,099.0	10,000.0
	JFC: Agriculture, Forestry, Fisheries and Food Business Unit	540.0	725.0	185.0
	The Okinawa Development Finance Corporation	117.8	513.4	395.6
	Welfare and Medical Service Agency	287.2	1,689.8	1,402.6
	Subtotal	4,381.0	26,760.2	22,379.2
Economic measures, etc.	JFC: Operations to facilitate specific business promotion	70.0	195.0	125.0
	Japan Expressway Holding and Debt Repayment Agency	0	500.0	500.0
	Automobile safety special account: Airport maintenance account	0	117.8	117.8
	Japan Science and Technology Agency	0	4,000.0	4,000.0
	Subtotal	70.0	4,812.8	4,742.8
Others		7,085.7	7,085.7	0
Total		11,536.7	38,658.7	27,122.0

Source: MOF; compiled by Daiwa Securities.

*Japan Finance Corporation.

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■ Credit Rating Agencies

[Standard & Poor's]

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[Moody's]

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[Fitch]

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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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- 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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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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