

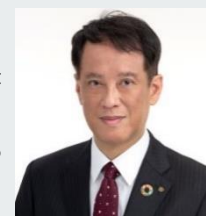
Daiwa's View

Economic measures announced; issuance amount of newly issued JGBs in supplementary budget may exceed market consensus

- Nevertheless, amount of calendar-basis market issuance would remain largely unchanged from initial plan

FICC Research Dept.

Senior Fiscal Policy and
Credit Analyst
Kouji Hamada
(81) 3 5555-8791
kouji.hamada@daiwa.co.jp



Daiwa Securities Co. Ltd.

Nevertheless, amount of calendar-basis market issuance would remain largely unchanged from initial plan

Economic measures announced; issuance amount of newly issued JGBs in supplementary budget may exceed market consensus

The government made a Cabinet decision on economic stimulus measures on 19 November. There are still uncertain factors for a FY21 supplementary budget to realize the economic measures. However, we now need to consider a possibility that the net increase in expenditures related to economic measures has exceeded the market consensus by around Y10tn. Even if that is the case, we can still say that the amount of calendar-basis market issuance will be largely unchanged from the initial plan.

Given a *Sankei Shimbun* article published on 5 November (the size of the economic measures is Y35tn, but they will be partly funded by the portion of the budget carried forward from FY20 to FY21 [about Y10-14tn]), the market (incl. Daiwa) had a consensus that the net increase in expenditures in the FY21 extra budget associated with the economic measures was about Y20-24tn. However, interpreting the papers accompanying the economic measure decision based on the way that past papers have been written and a *Nikkei* article dated 19 November, there is a possibility that the amount carried forward from FY20 to FY21 will be slightly below Y5tn at most and that the net increase in expenditures in the general account will be at Y31.6tn (chart below). However, we would like to scrutinize the materials to understand the figures in the papers and determine whether our way of thinking on the financial resources for the extra budget is correct.

Breakdown of Fiscal Expenditures for Latest Economic Measures (Y tn)

	Fiscal expenditures				Local expenditures	FILP
	National budget		General account	Special account		
Total	55.7	43.7			6.0	6.0
FY21 supplementary budget		32.0	31.6	0.4		0.9
Unused amount of COVID-19 contingency reserves in FY21		1.8	1.8			
COVID-19 contingency reserves in FY22		5.0	5.0			
Amount carried forward from FY20		4.9				5.1
Booking in FY22 budget						

Source: Cabinet Office's materials, Nikkei articles; compiled by Daiwa Securities.

Note: Figures include our estimates.

If we assume that the net increase in expenditures will be Y31.6tn in the general account related to economic measures in the FY21 supplementary budget, we estimate that issuance of new JGBs will be approximately Y23tn as the financial resources are expected to include the following factors—(1) upward revision to tax revenues by approximately Y7tn (of which 70% can be used as financial resources after 30% is allocated to local allocation tax grants), (2) utilization of surplus in FY20 results (half of Y4.5tn is available as financial resources as the remaining half needs to be used for JGB redemption), (3) reduction in stipulated expenses (Y1.2-1.3tn in typical years, but this time the amount may be much larger), and other revenues.

Regarding FILP bonds (JGBs, not FILP agency bonds), the FILP needs an additional amount of around Y1tn associated with the economic measures, as shown in the chart on the previous page, but there would be room to reduce FILP bonds to nearly Y15-20tn due to a delay in implementation vs. the initial plan.

Due to the above-mentioned factors, increase in newly issued JGBs is calculated at around Y23tn, net reduction in FILP bonds at about Y16tn, and increase in the total JGB issuance amount at about Y7tn in the revision of the JGB issuance plan for the FY21 supplementary budget. If up to about Y9tn in front-loading issuance of refunding bonds is implemented, we can still say that the amount of calendar-basis market issuance will be largely unchanged from the initial plan. For reference, if the amount of calendar-basis market issuance is increased by several trillion yen, the issuance amount in JGB auctions will be increased mainly by TB auctions. Therefore, we think that further issuance in auctions to an extent likely to unsettle the JGB market can be avoided.

Regarding the reasons why the size of the economic measures exceeded the market consensus, *Mainichi Newspapers* and *Nikkei* reported that the LDP side (such as ex-Prime Minister Shinzo Abe and Policy Research Council Chair Toshimitsu Motegi) made a strong request for a larger budget immediately before the Cabinet decision. In addition, the *Nikkei* article dated 19 November showed a chart on major expenditures in the economic measures (chart below). Looking at the programs included in prevention of the spread of COVID-19 (I) and launch of a new form of capitalism (III), the difference in the subtotals and the amount of each program is large. With respect to (I), we can think of several programs that were not mentioned in the article. As for (III), however, there should be programs worth about Y10tn in addition to the programs touched on in the article, but very little has been reported in advance. The subtotal is also much larger than the advance estimate. It appears that the accumulation of many programs too small to warrant individual media reports has led to the overshoot vs. the consensus.

Major Fiscal Expenditures in Latest Economic Measures (Y tn, according to Nikkei article)

I Measures to prevent the spread of COVID-19	22.1
Emergency comprehensive support grant to local governments to secure hospital beds, etc.	2.0
Payout to support business operators	3.0
Financing support ※	3.0
Cash handout to residential tax-exempt households (Y100,000/household)	1.5
Programs not mentioned in article (temporary subsidies for local governments to address COVID-19 pandemic, extension of special measures of employment adjustment subsidies, etc.)	12.6
II Preparations for resumption of social/economic activities and next crisis in living with COVID-19	9.2
New GO TO Travel campaigns ※	1.0
COVID-19 contingency reserves (unused amount in FY21, initial budget in FY22)	6.8
Programs not mentioned in article	1.4
III Launch of new form of capitalism toward the future society	19.8
University fund worth Y10tn	5.5
Second round of reward point campaign on national ID number system	2.0
Subsidies for production bases of cutting-edge rechargeable batteries	0.1
Raising wages of nurses, nursing care workers, kindergarten teachers	0.3
Cash handout to people aged 18 or younger (Y100,000 per person)	2.0
Programs not mentioned in article	9.9
IV Addressing security of people, such as promotion of disaster prevention/reduction and infrastructure reconstruction	4.6
Total	55.7
Total: Programs not mentioned in article	23.9

Source: Nikkei; compiled by Daiwa Securities.

Note: "※" indicates utilization of funds carried forward.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities

Please refer to https://lzone.daiwa.co.jp/l-zone/disclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: <https://lzone.daiwa.co.jp/l-zone/disclaimer/creditratings.pdf>

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association