



Fiscal Strategies for Recovery and Main Challenges in Japan

December 2020

Tokyo Fiscal Forum

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Fiscal Policy Coordination

- Fiscal measures taken for COVID-19 in Japan
 - Achievements
 - Lessons learned
- Challenges for fiscal strategies for the future
 - Japan's fiscal strategy
 - International efforts (DSSI)

COVID-19 infection indicators

		Confirmed Cases	Deaths	Fatality Rate
1	USA	13,234,551	264,808	2.0
2	India	9,462,809	137,621	1.5
3	Brazil	6,314,740	172,833	2.7
4	Russian	2,322,056	40,464	1.7
5	France	2,183,275	52,371	2.4
6	Spain	1,648,187	45,069	2.7
7	UK	1,629,661	58,448	3.6
8	Italy	1,601,554	55,576	3.5
9	Argentina	1,418,807	38,473	2.7
10	Colombia	1,308,376	36,584	2.8
11	Mexico	1,107,071	105,655	9.5
12	Germany	1,067,473	16,636	1.6
13	Poland	990,811	17,150	1.7
14	Peru	962,530	35,923	3.7
15	Iran	962,070	48,246	5.0
16	South Africa	790,004	21,535	2.7
17	Ukraine	745,123	12,548	1.7
18	Belgium	577,249	16,645	2.9
19	Iraq	552,549	12,258	2.2
20	Chile	551,743	15,410	2.8
21	Indonesia	538,883	16,945	3.1
22	Czech	523,298	8,295	1.6
23	Netherlands	522,835	9,363	1.8
24	Turkey	500,865	13,746	2.7
25	Romania	475,362	11,331	2.4
45	Japan	148,694	2,139	1.4
72	China	86,551	4,634	5.4

*Based on information as of December 1.

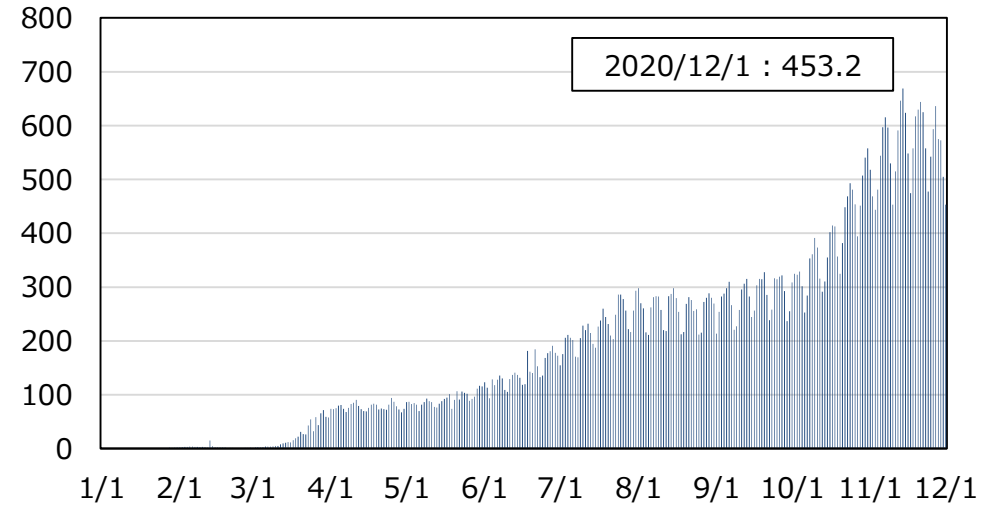
*Data for Japan exclude 712 confirmed cases and 13 deaths infected on the cruise ship "Diamond Princess"

*Data for China exclude Hong Kong.

(Source) WHO, National Health Commission of the People's Republic of China

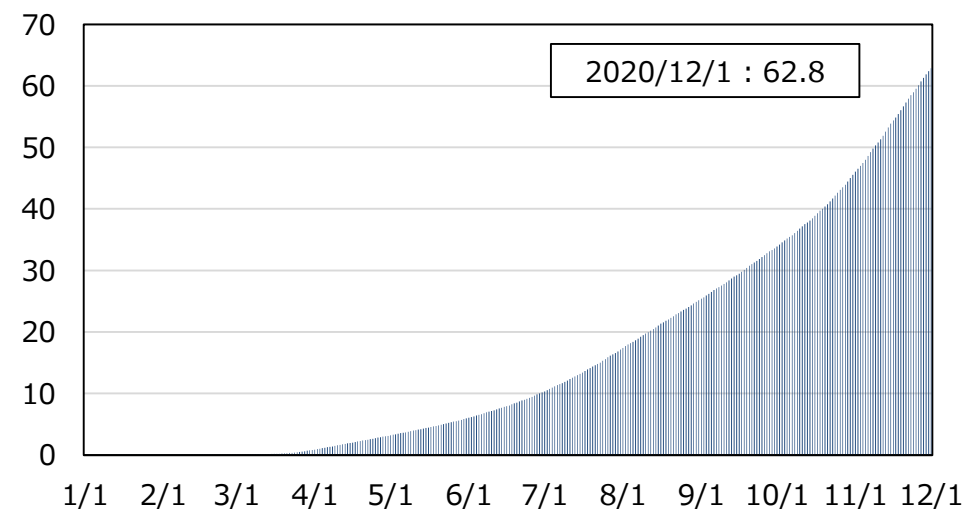
New Cases in World Countries

(thousand people)



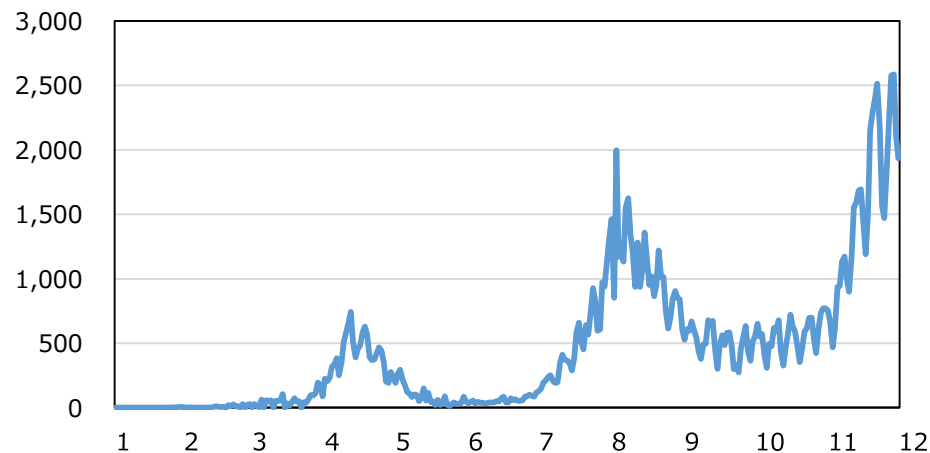
Cumulative Cases in World Countries

(million people)

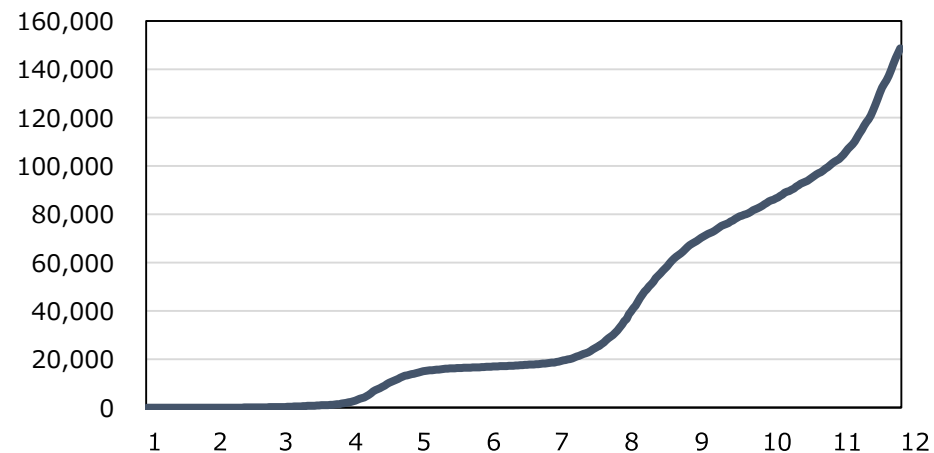


COVID-19 cases in Japan

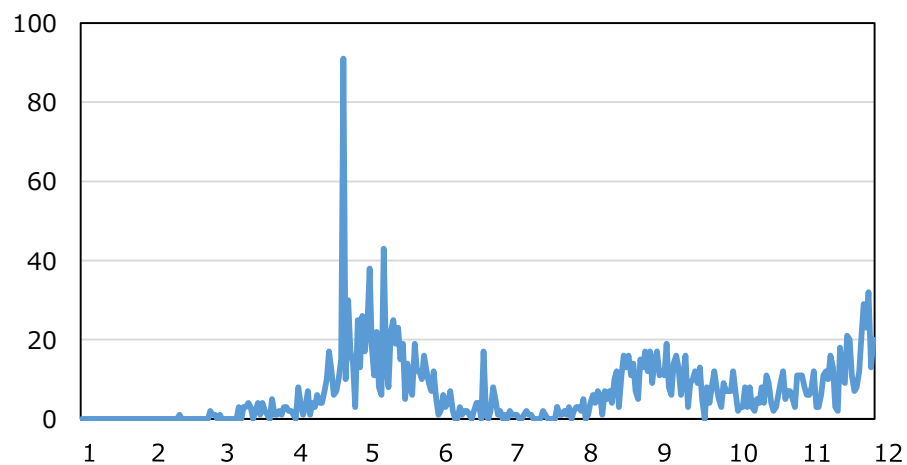
New Cases



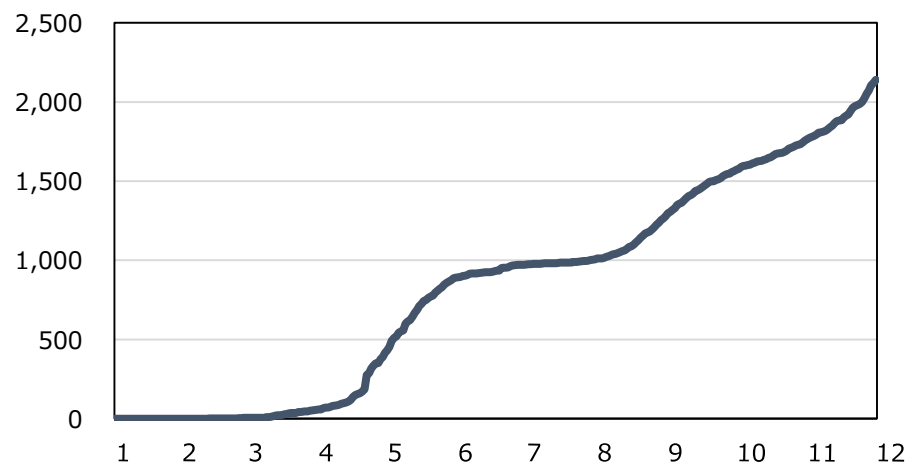
Cumulative Cases



New Deaths



Cumulative Deaths



Avoid the Three Cs

- Closed spaces with poor ventilation
- Crowded places with many people
- Close-contact setting involving close-range conversations

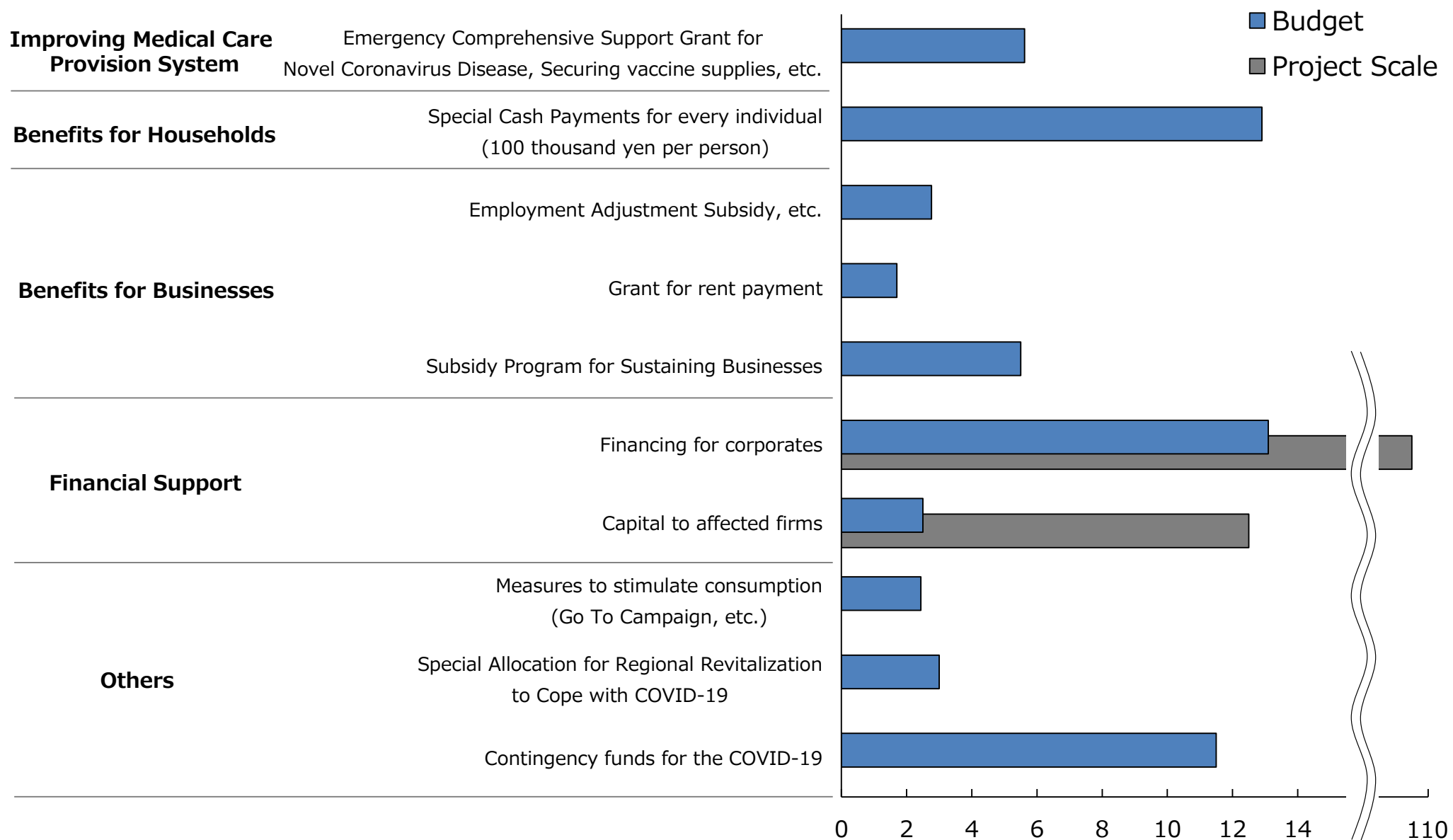
Economic measures for COVID-19 in Japan

	Project Scale	Fiscal Expenditure	Central Gov't Expenses	FILP
First Supplementary Budget, etc. [April 30]	about ¥117.1tn	about ¥48.4tn	about ¥33.9tn (6.1% of GDP) <small>(Of which, the 1st Sup. Budget about ¥27.5tn)</small>	about ¥12.5tn <small>(Of which, the 1st Sup. Budget about ¥10.1tn)</small>
Second Supplementary Budget, etc. [June 12]	about ¥117.1tn	about ¥72.7tn	about ¥33.2tn (6.0% of GDP) (Note 1)	about ¥39.3tn
Total (Note 2)	about ¥233.9tn	about ¥120.8tn	about ¥66.8tn (12.1% of GDP)	about ¥51.9tn

(Note 1) The breakdown of the central government expenses in the second supplementary budget, etc. is 31.8 trillion yen in the general account, 1.1 trillion yen in the special account, and 0.2 trillion yen in the contingency funds for the COVID-19.

(Note 2) The above figure of 0.2 trillion yen in the contingency funds for the COVID-19 is excluded from the total amount because it is duplicated in the central government expenses in the first supplementary budget.

Economic measures for COVID-19 : examples

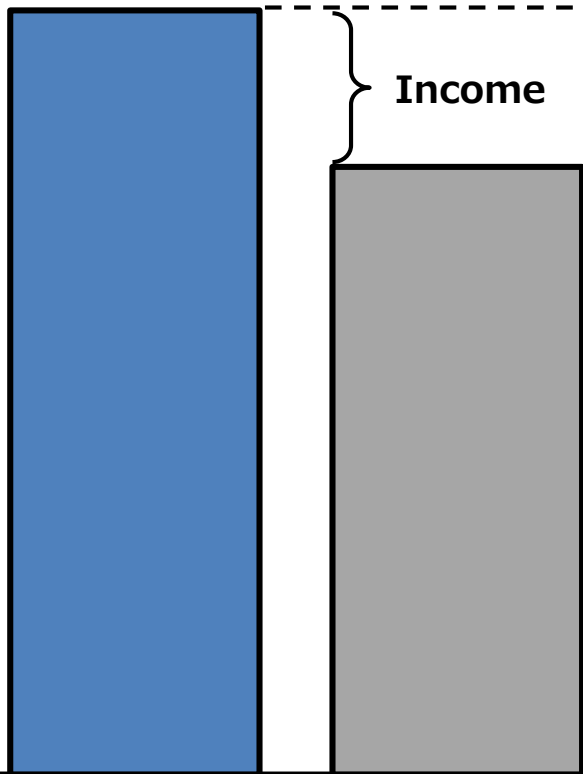


Measures to support firms

Before Covid-19 pandemic

Revenue

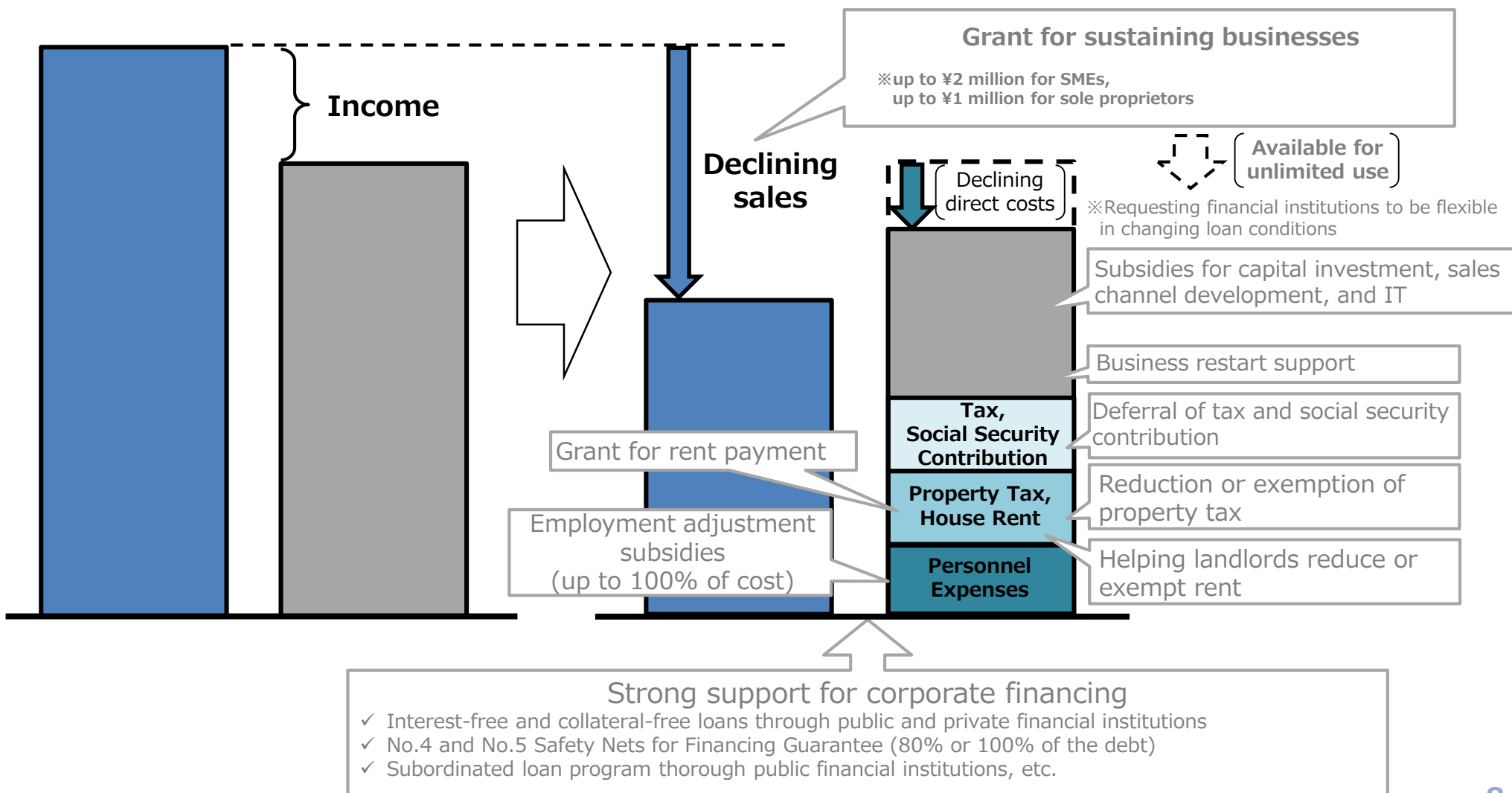
Expense



After Covid-19 pandemic

Revenue

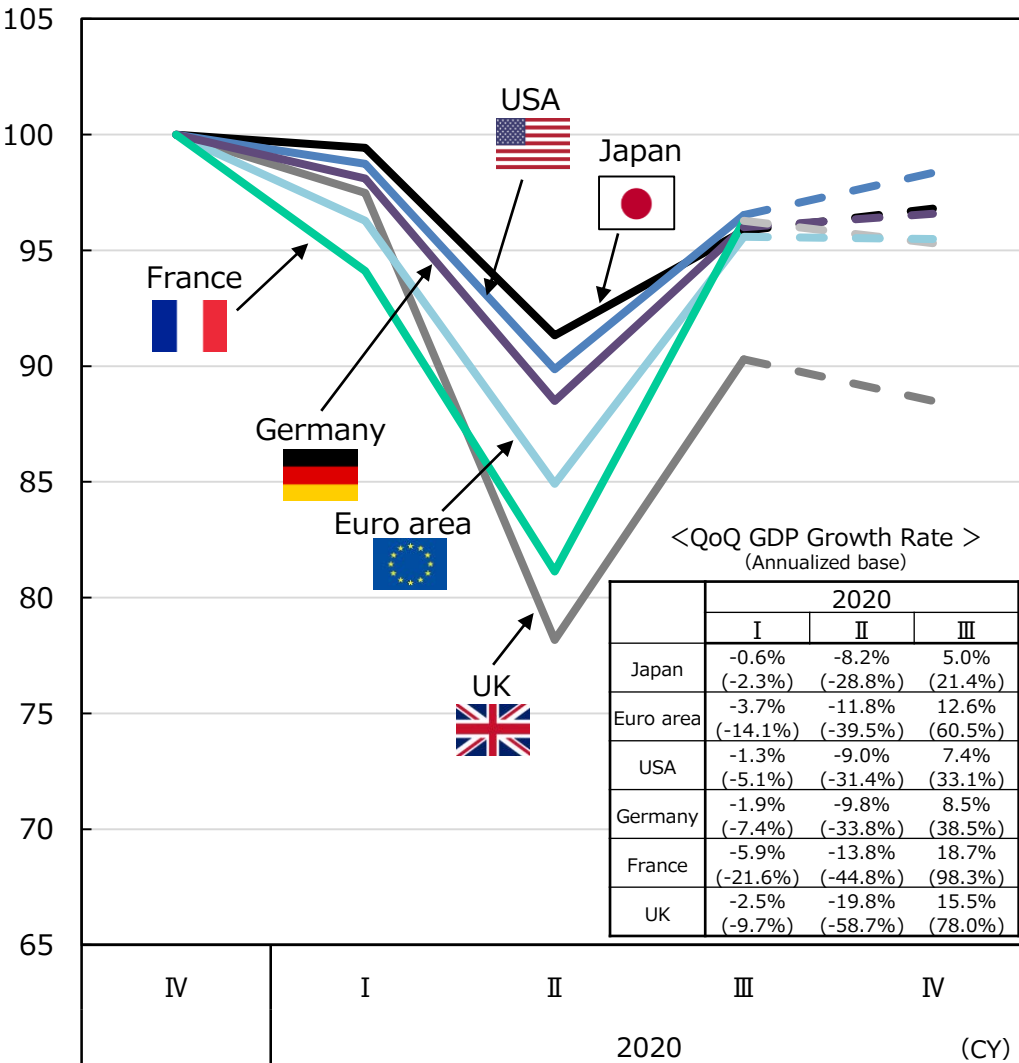
Expense



Real GDP / Mobility

Real GDP

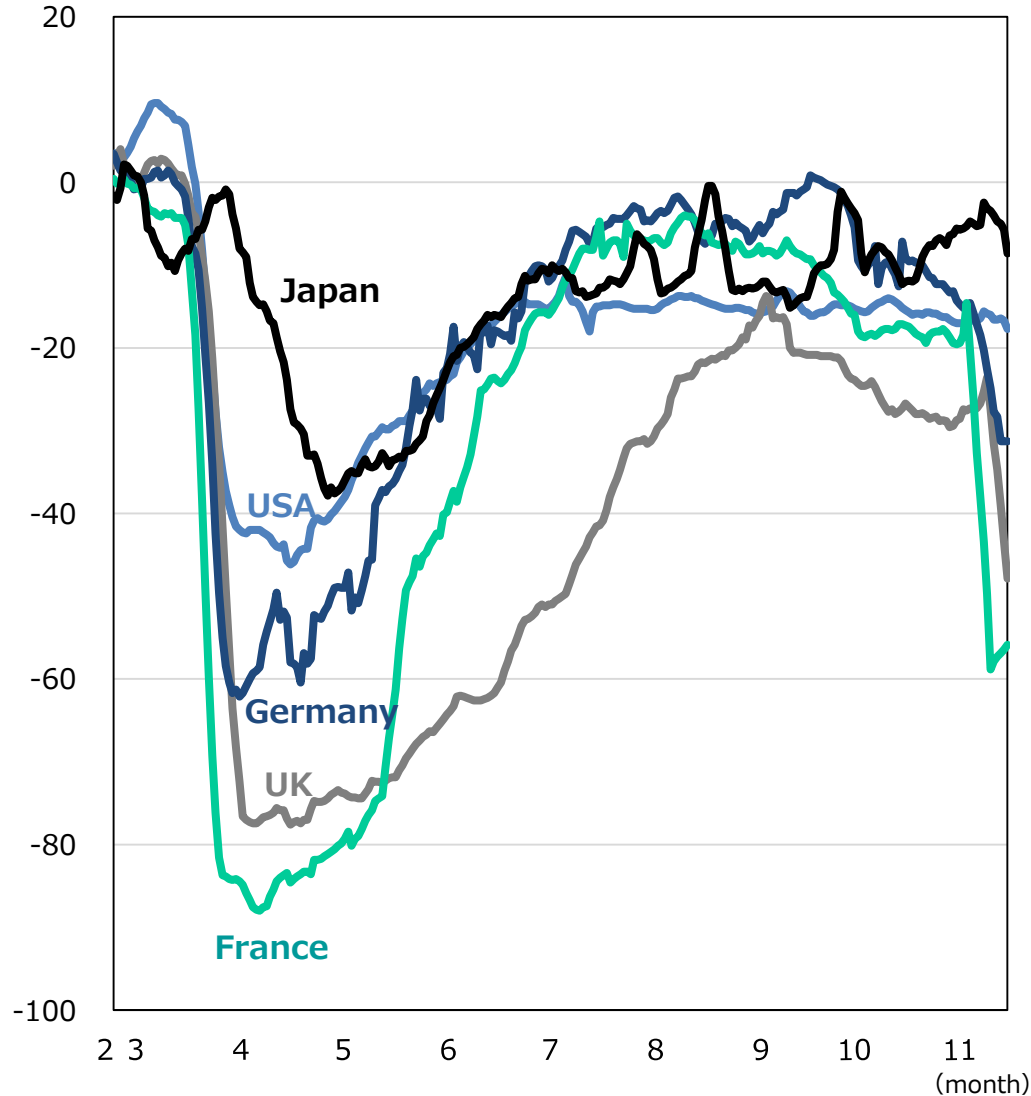
(2019IV = 100)



Mobility changes in advanced countries

(Median between 1/3 and 2/6 = 0, 7MA, %)

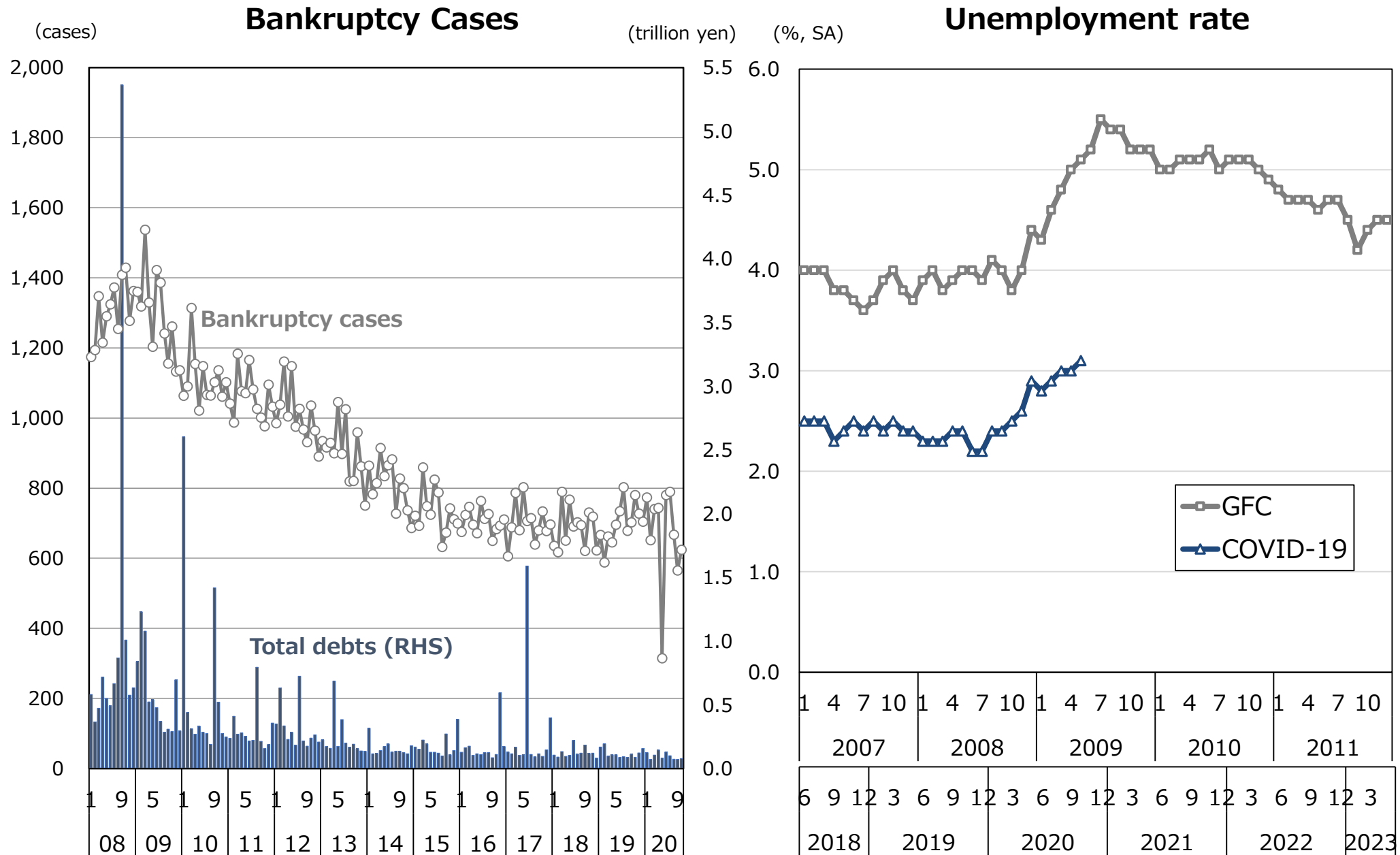
(To retail and recreation)



(Note) Projections are calculated using the 2020Q3 outcomes and growth forecasts by the Congressional Budget Office for USA (as of July); the European Commission for Euro area, Germany and France (as of November); the Bank of England for UK (as of November); and ESP forecast for Japan (as of November).

(Sources) Cabinet Office, Japan Center for Economic Research, Department of Commerce (USA), Congressional Budget Office, Federal Statistical Office Germany, Institut national de la statistique et des etudes economiques (France), European Commission, Bank of England, Google "Community Mobility Report"

Bankruptcy / Employment

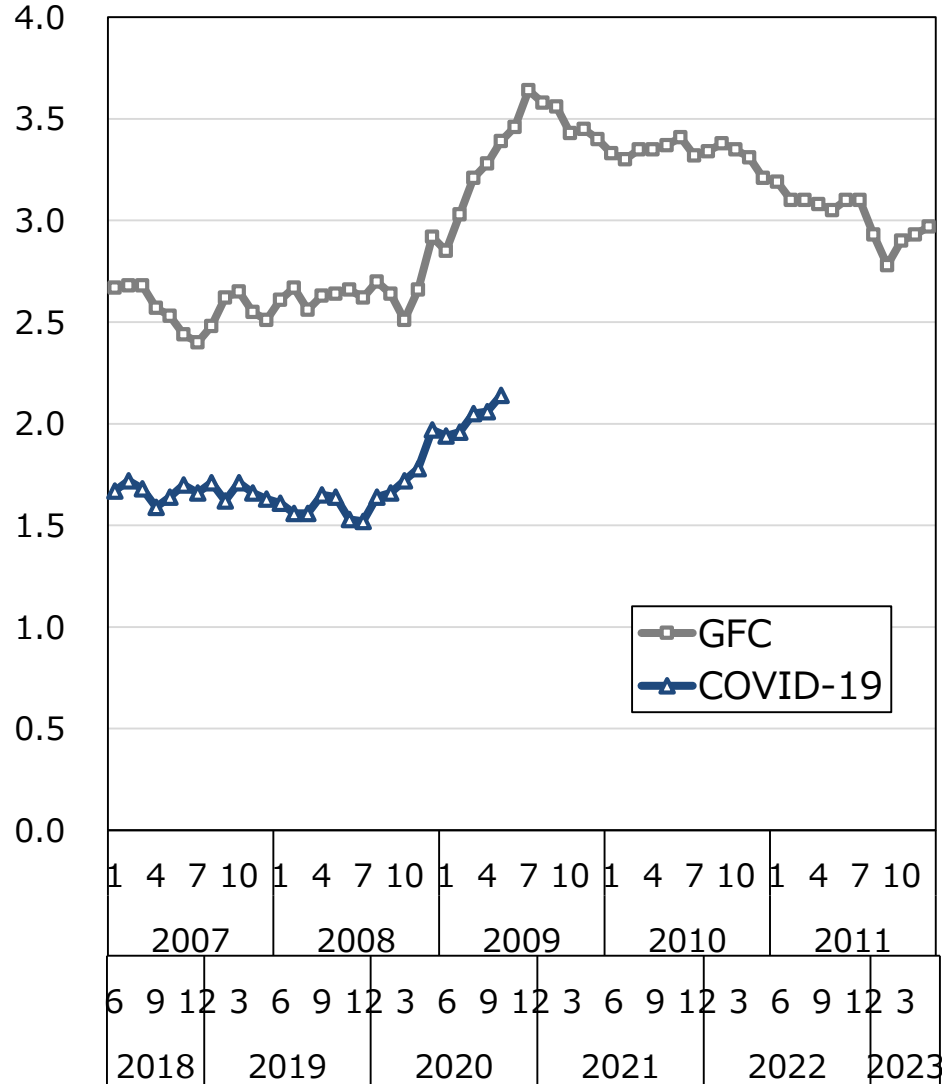


(source) Tokyo Shoko Research, Ministry of Internal Affairs and Communications

Employment

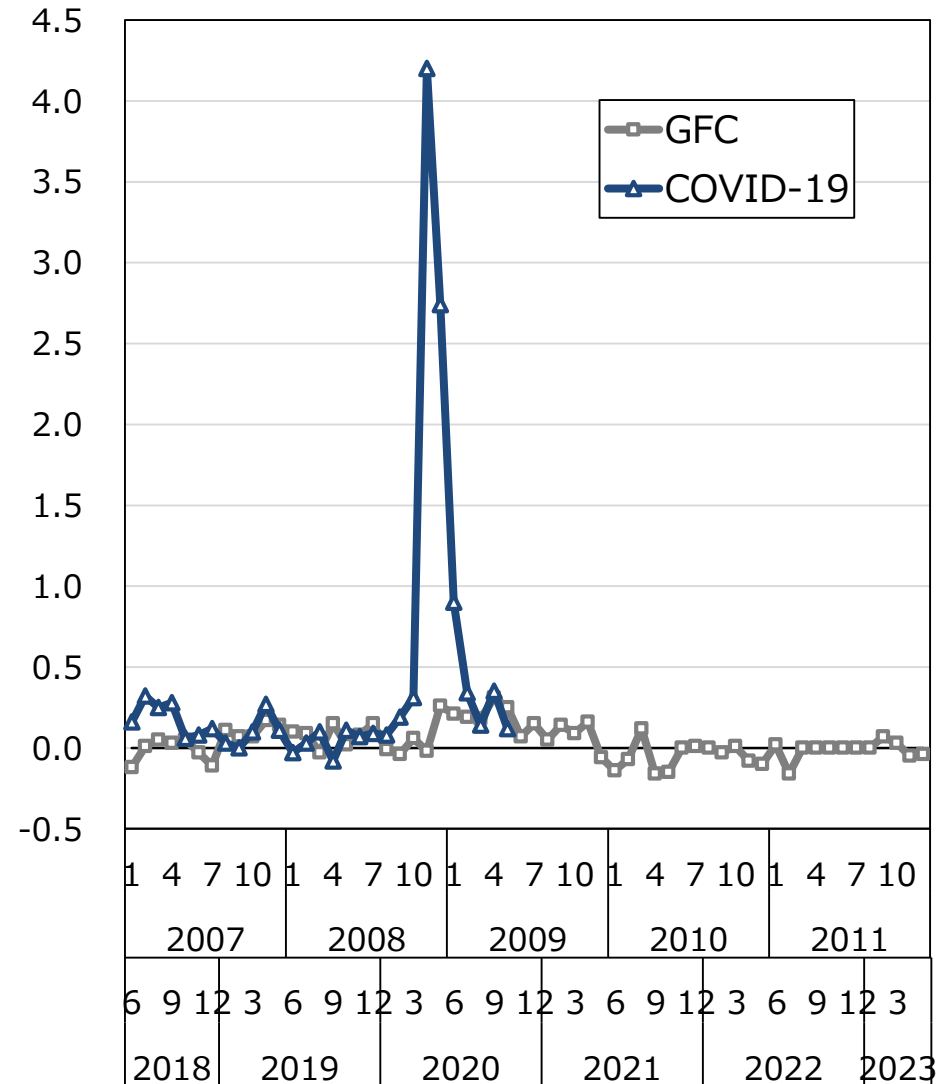
Unemployed person

(million people, SA)



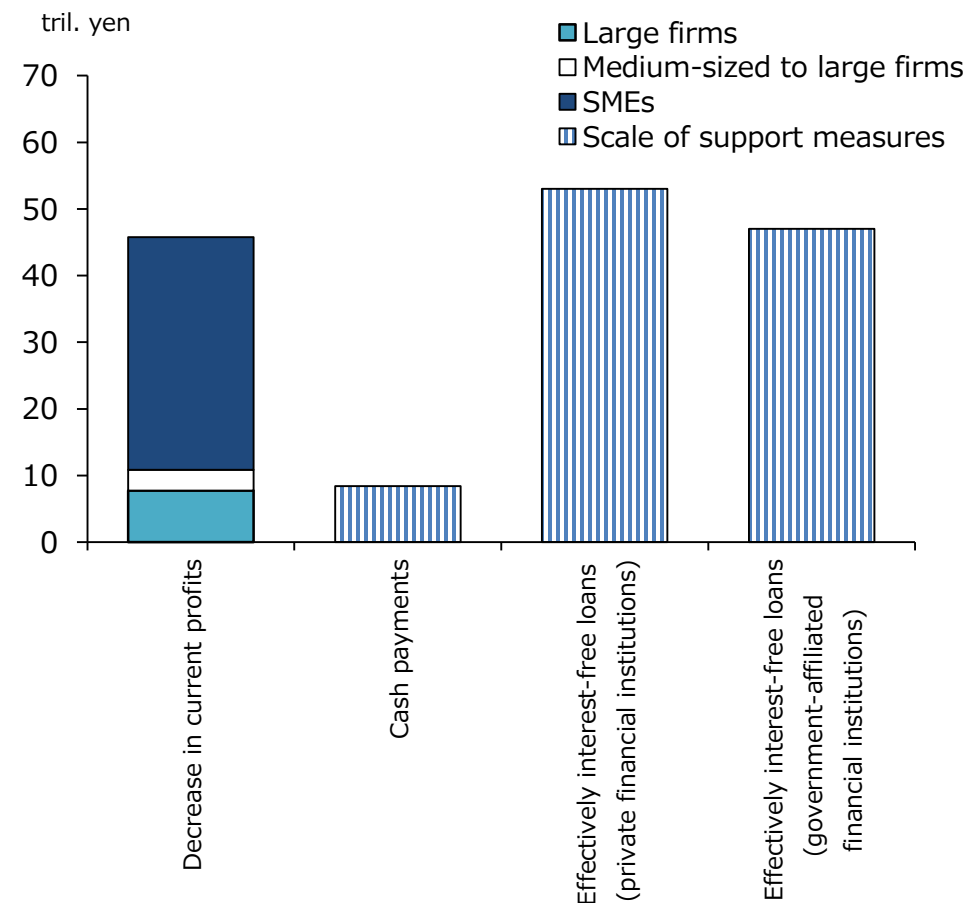
Employed person not at work

(YoY, million people)



Impacts of supporting measures to firms

Firms' profit decrease and scale of support measures



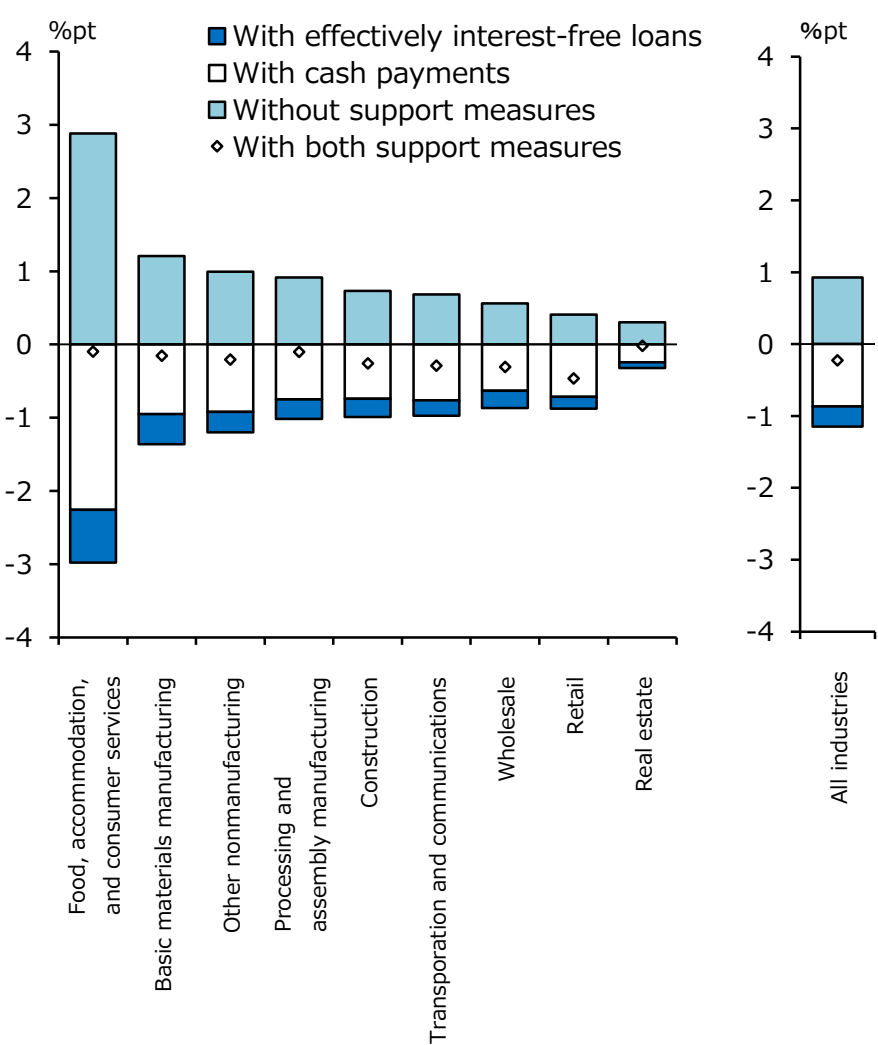
Note: 1. "Decrease in current profits" indicates simulation results for fiscal 2020, which are estimated by multiplying the simulated result to total asset ratios (by firm size and industry) by the amount of total assets stated in the Financial Statements Statistics of Corporations by Industry (the same applies to the left panel in Chart IV-1-22). The sales changes for medium-sized to large firms are assumed to be the same as the aggregated figures for large firms by industry.

2. "Scale of support measures" is the amount of fiscal expenses and total size of measures (see Chart IV- 1-19).

Source: Cabinet Office; Ministry of Finance.

(source) Bank of Japan, 2020, Financial System Report, October 2020

Impact on PD by industry (SMEs)

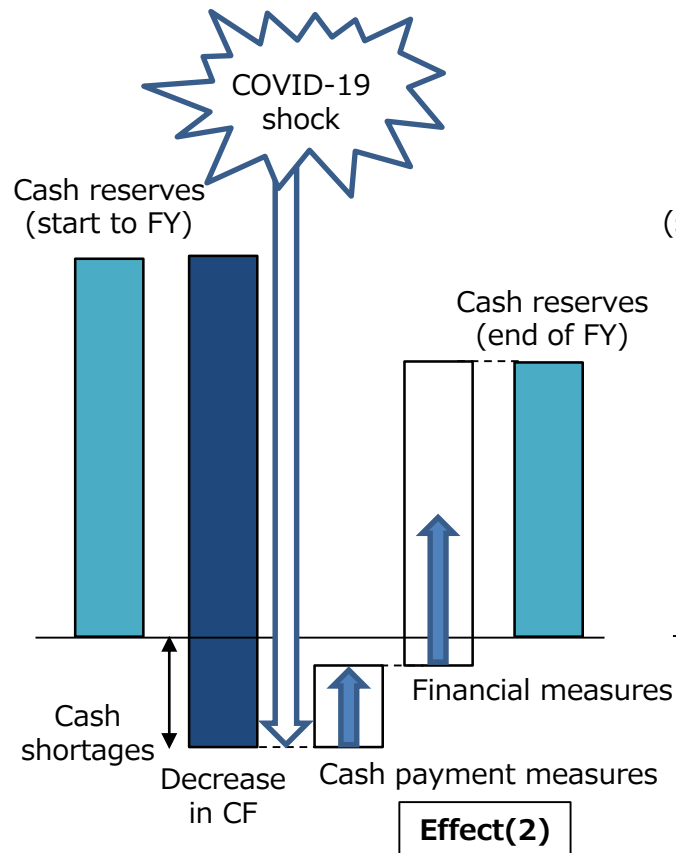


Note: "With both support measures" indicates the deviation of PD from the baseline (without shock) simulation. "With effectively interest-free loans" takes into consideration additional loans (up to a maximum total of 40 million yen) for firms facing cash shortages even if they receive cash payments. Borrowings that exceed the cash shortage are not taken into account.

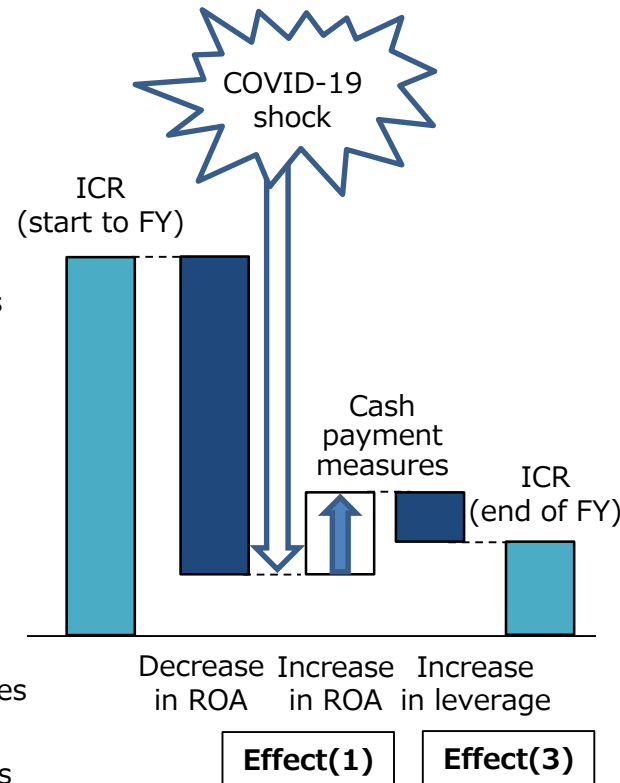
Impacts of supporting measures to firms

Incorporating the effects of measures to support corporate financing

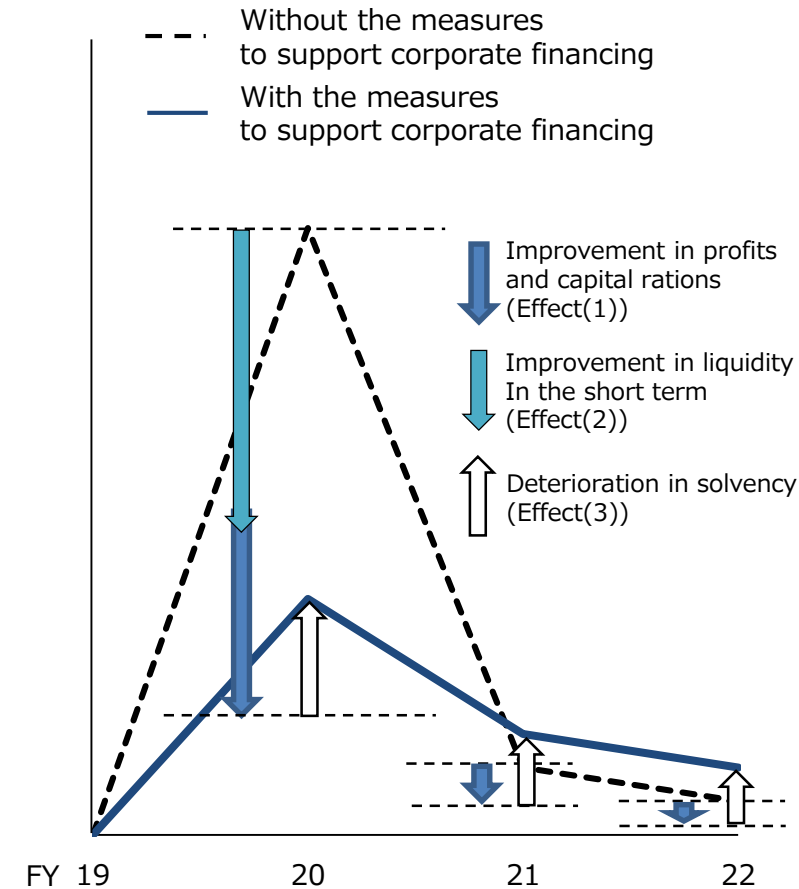
Liquidity



Solvency



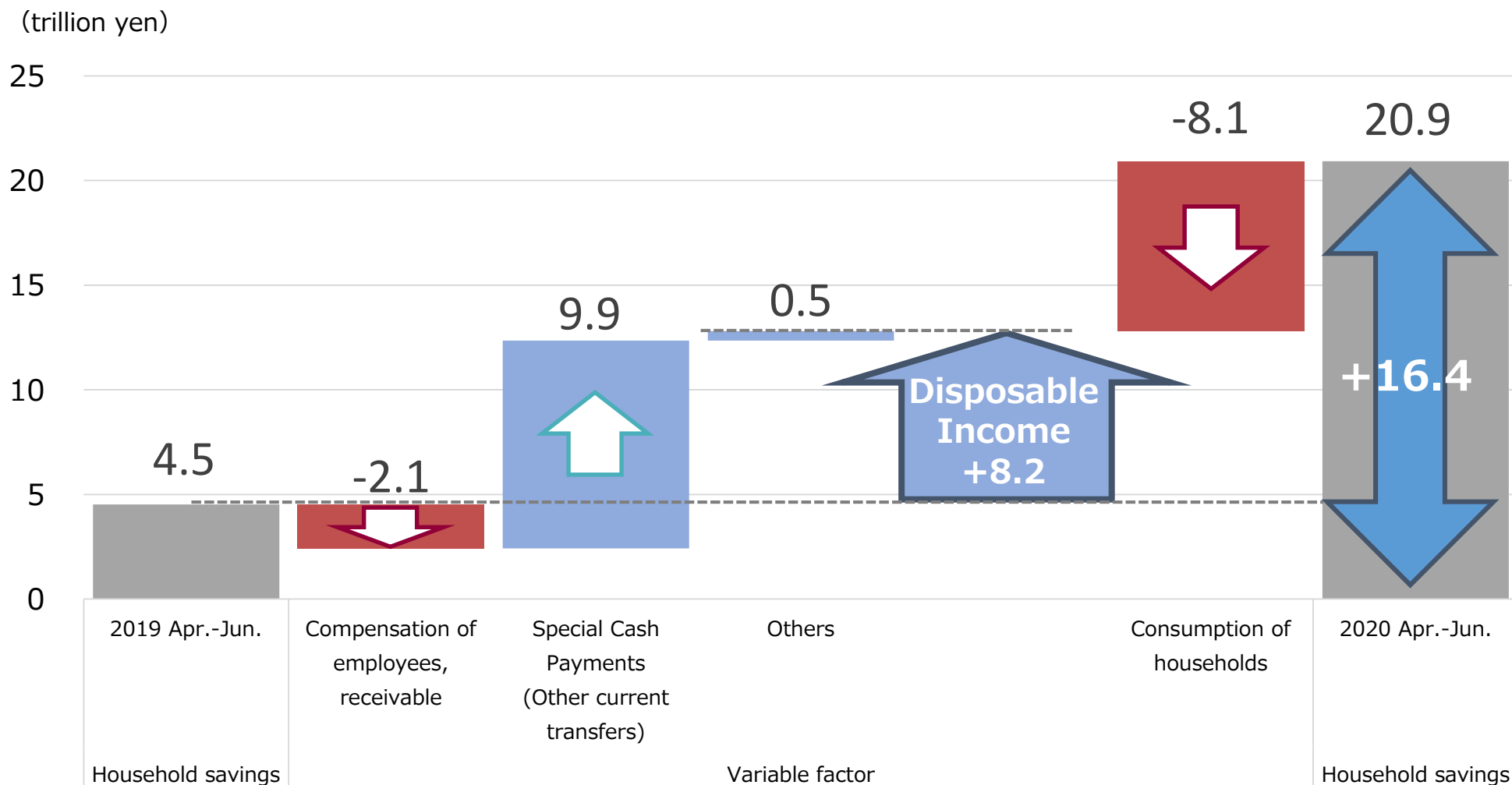
Impact of measures to support corporate financing



Note: The size of the effectively interest-free loan program is assumed to be identical to the net increase in outstanding loans by regional FIs since the start of fiscal 2020 for all scenarios.

$$\text{ICR} = \left(\frac{\text{Profit}}{\text{Interest payment}} \right) = \left(\frac{\text{Profit}}{\text{Asset}} \right) \times \left(\frac{\text{Asset}}{\text{Interest-bearing debt}} \right) \times \left(\frac{1}{\text{Interest rate}} \right)$$

Household income, consumption and savings in 2020 2Q



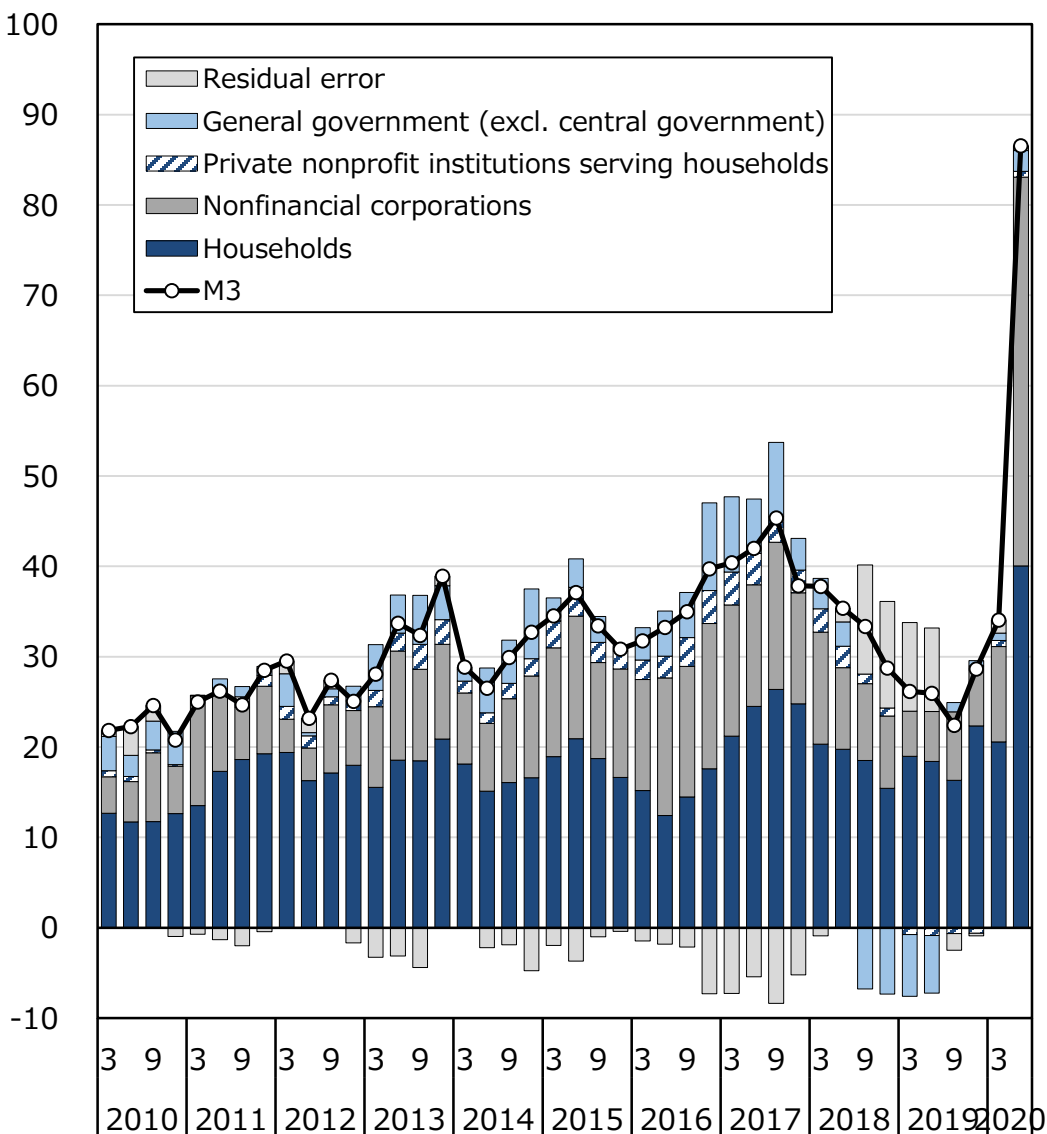
(Note) "Others" include "social contribution, payable", "Current taxes on income, wealth, etc., payable" and "Social benefits, receivable"

(Source) Cabinet Office

Cash and deposits, Financial surplus / deficit by institutional sectors

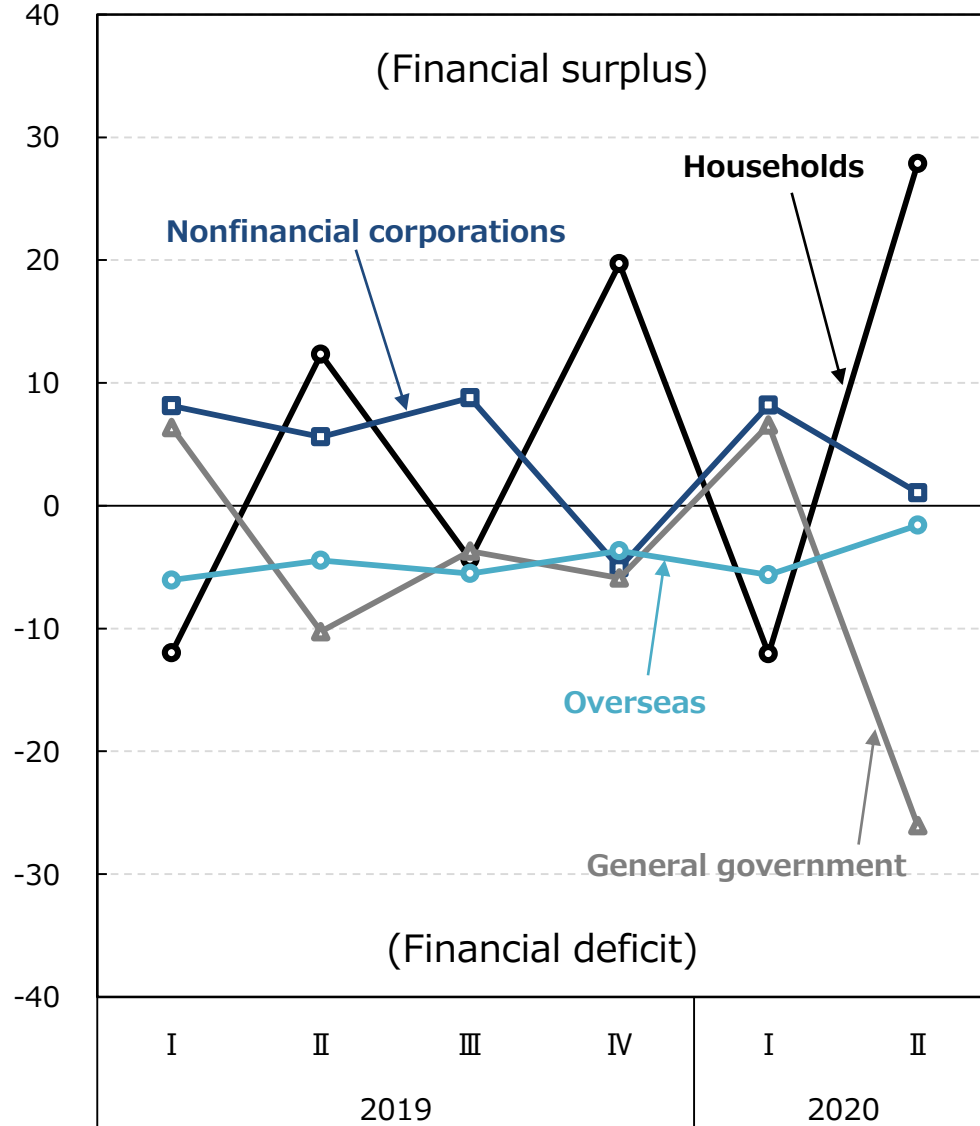
Cash and deposits by sectors

(YoY, trillion yen)



Financial surplus / deficit by sectors

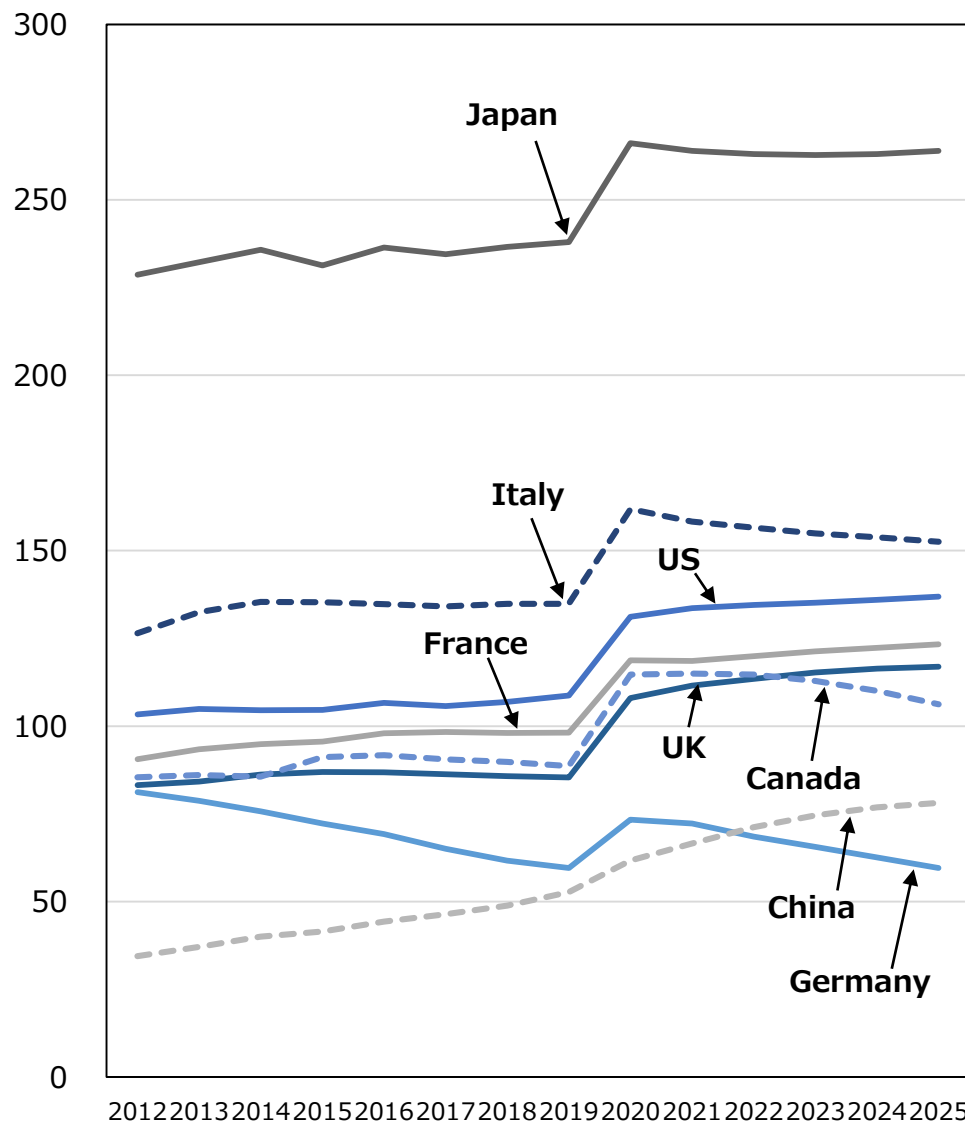
(trillion yen)



General government debt and fiscal balance projection by IMF

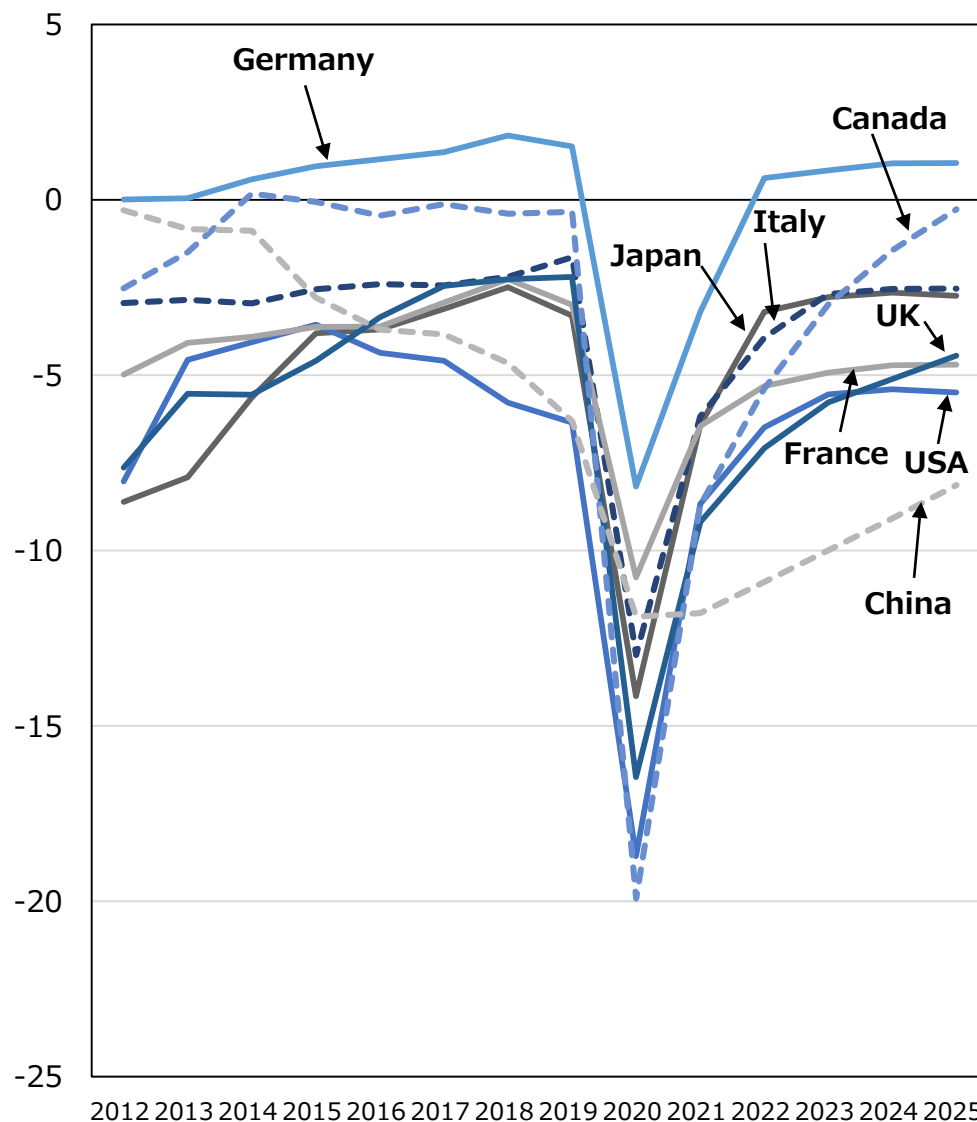
General government debt

(percent of GDP)



General Government Fiscal Balance

(percent of GDP)



■ Capacity

- Need to maintain fiscal capacity to cope with future potential shocks, such as pandemics and natural disasters...

■ Channels

- Need to identify those who really need assistance, have appropriate channels to deliver assistance through digitalization...

■ Communication

- Well-organized communication strategy based on accurate information is imperative to ensure public confidence in actions taken by the government...

Debt Service Suspension Initiative (DSSI)

- In April 2020, to address the negative impact of the COVID-19 pandemic on developing countries, **G20 FMCBGs agreed on the DSSI.**

“We support on a time-bound suspension of debt service payments We agreed on a coordinated approach with a common term sheet” (excerpt from April G20 FMCBG Communiqué)

- In October 2020, **G20 FMCBGs also agreed on the extension of the DSSI.**

“In light of the continued liquidity pressure, while progressively addressing debt vulnerabilities, we agreed to extend the DSSI by 6 months” (excerpt from October G20 FMCBG Communiqué)

- Key features of the DSSI are as follows:

- **Scope of beneficiary countries:**

- 77 countries (All IDA countries + All least developed countries defined by the UN)

- **Duration of the DSSI:**

- From May 1st, 2020 to June 30th, 2021

- (Necessity of further extension by another 6 months is to be examined by the G20)

- **Perimeter of maturities:**

- Both principal and interest due during the above-mentioned period will be suspended.

Common Framework for Debt Treatments beyond the DSSI

- In November 2020, **G20 FMCBGs endorsed the “Common Framework for Debt Treatments beyond the DSSI”**.

“Given the scale of the COVID-19 crisis, the significant debt vulnerabilities and deteriorating outlook in many low-income countries, we recognize that debt treatments beyond the ... DSSI ... may be required on a case-by-case basis. In this context, we endorse the “Common Framework for Debt Treatments beyond the DSSI” ...” (excerpt from November G20 FMCBG Statement)

- Highlights of the Common Framework are as follows:

- The process will be initiated at the request of a debtor country.
- **All G20 and Paris Club creditors** with claims on the debtor country will **finalize jointly the key parameters of the debt treatment**.
- The key parameters will be established so as to **ensure fair burden sharing among all official bilateral creditors** and recorded in a “Memorandum of Understanding” (MoU).
- A debtor country will be required to seek from **all its other official bilateral creditors and private creditors** a treatment **at least as favorable as** the one agreed in the MoU.