
Mizuho Economic Outlook & Analysis

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The supplementary budget should push up GDP growth by 0.3%

*Method to allocate welfare benefits to low-income pensioners
remains an issue*

< Summary >

- ◆ The supplementary budget approved by the Cabinet on December 18, 2015 is expected to push up Japan's economic growth rate by approximately 0.3% (if we include the cumulative effect after FY2017, the growth rate will rise by about 0.5%).
- ◆ The government's policy stance to stimulate the domestic economy through capital investment support and to improve the social environment for child-rearing and elderly nursing care are worthy of commendation.
- ◆ Concerning the benefits for low-income pensioners (a temporary welfare benefit to support low-income pensioners), its distribution method remains a problem, since (1) the benefits will not be distributed to low-income households with children, and (2) the elderly eligible to receive the benefit will include pensioners with high savings or other financial assets.

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1. Approval of the FY2015 supplementary budget by the Japanese Cabinet, marking the first step toward realizing a society where all citizens are dynamically engaged

The Japanese Cabinet approved the supplementary budget for FY2015 on December 18 last year. In a bid to boost the stagnant economy, realize a society where all citizens are dynamically engaged, and improve the productivity of agriculture, forestry and fishery industries, the size of the supplementary budget reached 3.3 trillion yen. On the basis of adjustments for additional tax resources through the reduction of existing expenditures (around 1.5 trillion yen) and the increase in tax allocations to local governments (around 1.3 trillion yen), the additional government expenditures in real terms would total around 3.5 trillion yen (**Chart 1**).

Chart 1: Outline and size of the FY2015 supplementary budget (additional expenditures)

National expenditure (billion yen)	
I. Urgent policies to realize a society where all citizens are dynamically engaged	1,164.6
Urgent policies directly linked to the targets of achieving the "Desirable birthrate of 1.8" and "No one forced to leave their job for nursing care"	395.1
Driving consumption and ensuring sustainable social security through distribution of the achievements brought about by Abenomics (temporary welfare benefit to support low-income pensioners)	362.4
Promoting investment and realizing a revolution in productivity	240.1
Shifting regional revitalization into high gear, etc.	167.0
II. Measures toward realizing the TPP-related comprehensive policy framework	340.3
Achieving "aggressive agriculture, forestry and fishery industries" (measures to strengthen productivity)	312.2
Promoting the utilization of the TPP / realizing a robust economy through the TPP (foreign direct investments, etc.)	28.0
III. Others	1,998.1
Recovery/prevention/mitigation of natural disasters	516.9
Accelerating reconstruction, etc.	821.5
Addressing other urgent issues (measures against terrorism, etc.)	303.7
Additional other fiscal expenditures	356.0
Total	3.5 trillion yen

Source: Created by MHRI based on the Ministry of Finance.

Details of the additional expenditure include (1) 1.2 trillion yen for “urgent policies to realize a society where all citizens are dynamically engaged,” (2) 0.3 trillion yen for “measures toward realizing the TPP-related comprehensive policy framework,” and (3) other items including 0.5 trillion yen for recovery/prevention/mitigation of natural disasters, 0.8 trillion yen for businesses related to accelerating reconstruction after the Great East Japan Earthquake, and 0.3 trillion yen for addressing other urgent issues, such as strengthening measures against terrorism before the Ise-Shima Summit to be held in May this year.

Of the various initiatives incorporated in the latest supplementary budget, one item attracting particular attention is the “temporary welfare benefit to support low-income pensioners.” Specifically, this measure involves providing a temporary benefit of 30,000 yen to low-income pensioners who receive no gain from wage increases, with a view to stimulating sluggish domestic consumption. Likewise, the supplementary budget for FY2014 also included the issuance of regional merchandise coupons to lift personal spending, which also attracted great interest at the time. The temporary welfare benefit this time differs from the merchandise coupons in 2014 as it limits its target to those aged 65 or older who are exempted from inhabitant tax payments (about 11 million people). In the FY2016 initial budget, the government plans to provide the temporary welfare benefits to recipients of the disability basic pension or the basic pension for bereaved families (about 1.5 million people) even if they are under age 65.

2. Estimation of the economic effect of the FY2015 supplementary budget: GDP growth in 2016 will rise by 0.3%

Based on currently available information, we estimated the economic effect generated by the latest supplementary budget. As a result, economic growth in FY2016 will rise by about 0.3%, and if we include the effect after FY2017, the growth rate will increase further by roughly 0.5% on a cumulative basis (2.5 trillion yen cumulative effect) (**Chart 2**).

Chart 2: Estimation of the economic effect (GDP growth effect) by demand item

	Amount of national expenditures (trillion yen)	Economic effect		
		Cumulative		Increase in fiscal year 2016
		Amount (trillion yen)	Contribution to GDP (% pt)	Contribution to GDP (% pt)
Total	2.62	2.51	0.49	0.32
Personal consumption + housing investment	0.54	0.14	0.03	0.03
Capital investment	0.70	0.50	0.10	0.05
Public sector demand	1.38	1.87	0.37	0.25
Government consumption	0.66	0.66	0.13	0.13
Public investment	0.72	1.22	0.24	0.12

Notes: 1. Difference in the amount from the supplementary budget expenditure stems from our exclusion of amounts that do not have a direct impact on GDP.

2. Estimation by MHRI based on information available at the time of writing this report. Readers should be aware that the estimate results may vary within a certain range.

3. Some figures rounded off do not coincide with those in the supplementary budget.

Source: Made by MHRI based on materials from various ministries concerning the FY2015 supplementary budget.

The estimated economic effect has turned out to be smaller than the actual additional expenditure in the supplementary budget (around 3.5 trillion yen) since (1) we excluded any amount that does not contribute directly to GDP growth, such as the repayment of reconstruction bonds, and (2) not all national spending related to measures targeted at households and companies will create new demand. (This is because part of the various benefits, including the temporary welfare benefit to support low-income pensioners, will be saved.)

Looking closer at the demand items, public investment accounts for a major part in the total contribution to GDP. This category includes disaster relief following the series of typhoons and heavy rain in 2015, and urgent measures to secure public safety and reassurance in afflicted areas where people's lives and livelihood may be endangered, particularly due to the extensive flooding and landslide damage caused by torrential rainfall as occurred in the Kanto and Tohoku regions last September. In addition, we also assumed that part of the projects registered in the special account for reconstruction after the Great East Japan Earthquake would be included in the expenditures under the public investment category. The size of the GDP-based additional expenditures on public investment – including those under regional government expenditures – would total approximately 1.2 trillion yen.

3. Evaluation and issues of the FY2015 supplementary budget

(1) Expectations toward the realization of a society where all citizens are dynamically engaged

The government's policy stance to stimulate the domestic economy through capital investment support and to improve the social environment for child-rearing and elderly nursing care are worthy of commendation. This is because the recovery of personal consumption through the increase of capital investment and wage hikes is vital to reinvigorate the virtuous economic cycle that is currently losing steam. Furthermore, given Japan's shortage of labor due to its aging society and declining birthrate, a better environment for child-rearing and measures to prevent workers from leaving their jobs to provide nursing care are expected to alleviate labor supply constraints on a macro-basis.

(2) Targets of the temporary welfare benefit to support low-income pensioners need to be reexamined

The temporary welfare benefit for low-income pensioners - one of the key measures in the supplementary budget - may be effective to some extent as it provides financial aid to the elderly who are usually unable to benefit from wage increases. However, the

proposed targets of this measure raise two concerns. Firstly, since the 30,000 yen benefit will only be provided to low-income pensioners aged 65 or older and not to low-income households with children, a degree of unfairness may not be dismissed altogether. Secondly, considering that pensioners eligible to receive the benefits include the elderly with high savings, the policy measure runs the risk of widening the income gap between generations.

Looking at the situation in more detail, around 40% of all low-income pensioners (households receiving public pensions with an annual income under 2 million yen)¹ hold financial assets worth over 9 million yen (**Chart 3**, left hand side). Such households with high savings may not necessarily need government support. In fact, according to the *White Paper on Economic and Fiscal Policy* compiled by the government, given the relatively high average savings in the elderly bracket among low-income households, the recovery in personal consumption from the consumption slump subsequent to the consumption tax hike was more apparent in the elderly bracket compared with other age groups (refer to chart 1-1-7 in the *White Paper on Economic and Fiscal Policy 2015*).²

Having said so, given the difficulty to accurately assess the savings situation of individual households, it might be unrealistic to refrain from providing temporary welfare benefits to low-income pensioners who have high savings. As such, as a means to avoid aggravating the inter-generational income gap, it might be advisable to limit the amount of benefits to elderly households and to allocate a larger portion of the financial resources earmarked to low-income households with children (since the majority of low-income households with children are low savers, the benefits should reach a greater number of households truly in need of financial assistance³) (**Chart 3**, right hand side). On a long-term perspective, it is necessary to accurately assess the savings situation using the national identification number system to prepare for the next round of benefit provision.

(3) Public and private sectors must unite to create an economic environment able to cope with another consumption tax hike

The second stage of the planned consumption tax hike is scheduled for April 2017. When the consumption tax rate was raised to 8% from 5% in April 2014, it triggered a significant drop of personal consumption due to the decline in real wages, and

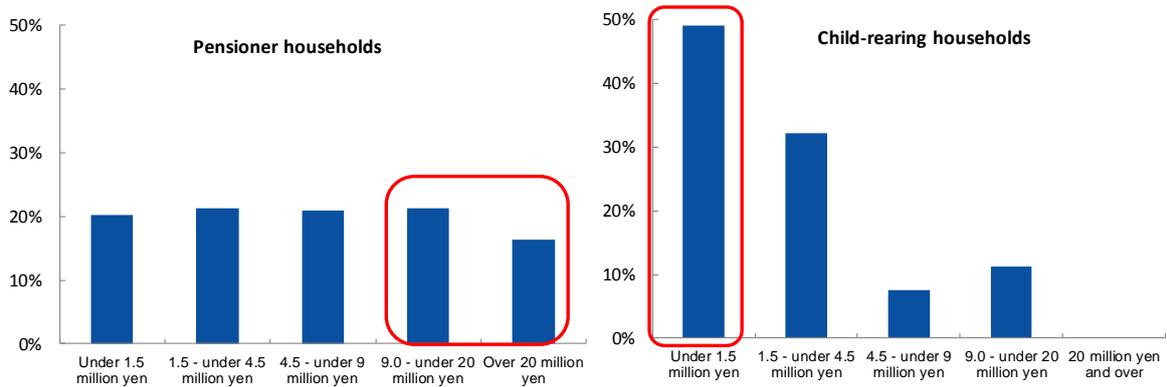
¹ Although the income criterion of households eligible to receive the benefit is roughly 2.11 million yen for households consisting of a married couple, the annual income level is set at “below 2.0 million yen” due to statistical limitations.

² According to the analysis in the *White Paper on Economic and Fiscal Policy*, the low-income bracket is defined as households with annual income of “2.0 million yen to under 4.0 million yen”.

³ The *White Paper on Economic and Fiscal Policy 2015* referred to earlier points out that the recovery in personal consumption after the consumption tax hike has been lagging among low-income households with members under age 60.

consumption has remained sluggish ever since. Hence, in order to implement another consumption tax hike in April 2017, it is imperative to create an economic environment that can withstand the negative impact from a further tax hike. In addition to the steady execution of the FY2015 supplementary budget, we look forward to concerted efforts by the government and private sectors such as deregulation to reinforce the foundation for economic growth and wage hikes by private companies.

Chart 3: Distribution of financial assets of low-income pensioners and households with children (with annual income under 2 million yen)



- Notes: 1. Households with more than two members.
 2. Pensioner households represent households that receive public pensions.
 3. Child-rearing households represent households that consist of a married couple and unmarried children, with the head of the household being the only worker.

Source: Made by MHRI based on the Ministry of Internal Affairs and Communication, *National Survey of Family Income and Expenditure*.

(Supplementary discussion) Estimation method of economic effect by demand item

(1) Personal consumption + housing investment

To calculate the national expenditure in this category, we totaled the temporary welfare benefit to support low-income pensioners (339.0 billion yen), support to single-parent families (11.7 billion yen), and housing subsidies (20.0 billion yen), among others. We then estimated their economic effect using MHRI's macro model multiplier.

(2) Capital investment

This item includes subsidies for firms, such as the project to support innovation in *monozukuri* (manufacturing), commerce, and service businesses (102.1 billion yen), and financial support provided to workers employed in primary industries, including agricultural cluster projects (61.0 billion yen). We then estimated their economic effect using MHRI's macro model multiplier.

(3) Government consumption

This item represents the sum of the administrative costs related to the implementation of the temporary welfare benefit to support low-income pensioners (23.4 billion yen), expenses related to the consulting services on reduced tax rate (17.0 billion yen), and the cost of securing the nation's disaster relief capacity and ensuring the capability of the Self-Defense Force⁴ (97.9 billion yen), among others.

(4) Public investment

To calculate the national expenditure in this category, we added up the disaster prevention and reduction measures to avert the risk of natural disasters, etc. (264.2 billion yen), disaster restoration work on public works facilities, etc. (103.2 billion yen), and part of the public works-related expenditures⁵ under the disaster restoration work whose project values are disclosed (722.9 billion). For other public works-related expenditures and public investment that do not fall under the category of public works-related expenditures (such as public school construction), we assumed that two-thirds of the total project cost is covered by the national government and one-third by local governments in estimating the project value. It should be noted that public works are confronted with a wide variety of problems, such as labor shortages on construction sites and surging

⁴ Projects that the private sector cannot undertake, such as the development of weapons and equipment for the Self-Defense Force, are categorized under government consumption (intermediate input).

⁵ "Public works-related expenditures" are divided into the nine areas of (1) erosion and flood control, (2) road improvement, (3) port, harbor and airport improvement, (4) housing and urban environment development, (5) sewers, environmental sanitation and parks, (6) agriculture-related public works, (7) social infrastructure development, (8) promotion cost, and (9) restoration of public facilities.

material costs, and these factors may delay the progress of such projects.