

Policy Watch Tokyo

Key Measures to COVID-19 Outbreak

17 June 2020 version

A Cushman & Wakefield Research Publication

Overview

Japan drops into a technical recession as its GDP shrinks for a second straight quarter in Q1 2020. After economic activities suspended during the state of emergency, Government proposed a new stimulus package in late May to keep businesses afloat. This extra package includes rent subsidy to affected small and medium-sized enterprises. Bank of Japan (BoJ) also expanded its loan support in May and June.

State of Emergency Lifted

48 days after its declaration, Japan's state of emergency came to an end on 25 May. The measure once extended nationwide as the virus spread. After the lift, major municipalities proposed plan for reopening in phase but remain cautious for a potential second wave outbreak. On 1 June, Tokyo entered phase two of its recovery plan which allow cinemas, gyms and bars to operate. However, on the following day, the Tokyo metropolitan government also issued the "Tokyo Alert" as indicators exceeded standard. Osaka, where most businesses reopened now, also put forward a similar "Osaka model" to relax restrictions and monitor situation.

COVID-19 related stimulus package

Policy Measures	Package Size	Fiscal Exp.
¹ Dec 2019 Economic Measures*	19.8 T	9.8 T
² Feb 2020 1 st Response Package	0.5 T	0.02 T
³ Mar 2020 2 nd Response Package	1.6 T	0.43 T
⁴ Apr 2020 3 rd Response Package	95.2 T	38.1 T
⁵ May 2020 Stimulus Package	116.8 T	72.4 T
Total	JPY 233.9 T	JPY 120.8 T

GFC-related stimulus package

Policy Measures	Package Size	Fiscal Exp.
⁶ Aug 2008 Policy Package	11.5 T	1.8 T
⁷ Oct 2008 Support Measures	26.9 T	5.0 T
⁸ Dec 2008 Policy Package	37.0 T	4.0 T
⁹ Apr 2009 Policy Package	56.8 T	25.4 T
Total	JPY 132.2 T	JPY 36.2 T

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Government Economic Stimulus Package

While Japan is entering recovery from COVID-19, business was hit hard by the suspension of economy in April and May. On top of the response measures announced between February and April, Government of Japan has proposed an extra stimulus package on 27 May, which will double the package size to JPY 233.9 trillion (43.6% of 2019 real GDP) and fiscal expenditure to JPY 120.8 trillion. Both figures largely exceeded the ones in response to Global Financial Crisis (GFC). In addition to the expansion of interest-free loan schemes and subsidies for Small and Medium Enterprises (SMEs), this extra stimulus measure also includes subsidy for rent payments to affected SMEs and individual businesses.

Bank of Japan Monetary Stimulus

Bank of Japan (BoJ) held an unscheduled meeting on 22 May, first time since 2011. Below summarizes BOJ's measures to alleviate funding strains and calm market since March:

- Raised BoJ's ETF-purchasing target from JPY 6 trillion to a maximum of JPY 12 trillion;
- Doubled BoJ's J-REIT-purchasing target from JPY 90 billion to a maximum of JPY 180 billion;
- Expanded BoJ's corporate bond and commercial paper balance to JPY 20 trillion in total;
- As Special Funds-Supplying Operations, introduced a total of JPY 90 trillion loan program (JPY 25T in April, adding JPY 30T to SMEs in May and extra JPY 35T in June)
- Purchased JPY 1.3 trillion of JGB on 19 March and indicated to buy extra necessary amount without an upper limit on 27 April

Rent Payment Subsidy Program

In March, government made public request to landlords to provide flexibility in rent payment. As situation worsened, the government in May proposed a subsidy program to SMEs for their rent payments. Those with sales drop over 50% y-o-y in any 1 month or 30% y-o-y decrease in 3 straight months between May and December 2020 will be entitled for a subsidy up to JPY 6 million, depending on their monthly rent and number of properties rented, etc.

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Subsidy to SMEs for Sustaining Businesses

Government increased the budget for the business sustainment subsidy program announced in April. The subsidy provided a maximum JPY 2 million to SMEs and JPY 1 million to freelancers, income of which reduced more than a half.

Helicopter Money and Subsidy to Students

In addition to the helicopter money of JPY 100,000 to every resident and a bonus of JPY 10,000 per child to families receiving child allowance announced in April, the government decided to cash out at most JPY 200,000 on top to affected tertiary students.

Recap of Major Policies in Mar and April

Property Tax & City Planning Tax Relief

Government announced a relief on FY2021 property tax and city planning tax in April. 100% relief is granted to SMEs, sales of which dropped over 50% in any three months between February and October 2020 (50% relief for sales of those dropped 30-50%).

Moreover, Ministry of Economy, Trade and Industry (METI) has included business-use buildings and structures as subject assets for the special exemption of property tax, provided a one-year grace period for corporate tax, declared income tax etc., and allowed tax exemption for digitalization investment such as teleworking.

Unsecured and Interest Free Loans

Several COVID-19 special programs of unsecured and interest-free loans for SMEs have been established throughout all response packages. Government will give out the loans through Japan Financial Corporation (JFC) and private sector-lenders.

Employment Adjustment Subsidies Relaxation

Employment adjustment subsidies has been opened to all affected business owners since March. Subsidy rate has also increased from 2/3 to 4/5 for SMEs and 1/2 to 2/3 for large enterprises.

Long-term - 'Go To' Travel Campaign

A total of JPY 1.7 trillion from the response packages will be used as 'Go To' travel campaign. The campaign will subsidize travelers 50% of their spending at most JPY 20,000 per night, 20% off on gourmets and entertainment events and support shopping street events. Japan National Tourism Organization (JNTO) will organize large-scale promotions to inbound visitors to help demand recovery.

Long Term - Digital Transformation Support

In addition to tax exemption for digitalization investment such as teleworking, MLIT will promote the use of BIM/CIM in major construction projects by 2023. The ministry will also utilize 3D digital map in infrastructure and urban development as well as adapt ICT in managing private vehicles.

Other Measures

- Support to the financing of restructuring and diversification of supply chains
- Support SMEs to set up Business Continuity Plans
- Several promotion programs on tele-working
- Grace period for social insurances (business owners)
- Open several supporting and promotion programs to a wider range of enterprises
- Provide emergency loan and grace period for land fees etc. to airlines
- Allow delay of annual report submission
- Exempt affected households their National Health Insurance fees
- Extend automobile-related tax reduction for vehicles with high environmental performance
- Provide flexibility to criteria on income tax deduction for home mortgage borrowers
- Support employments of affected foreign workers
- Establish 'JAPAN' brand incubation program

* Included those effects expected in FY2020 (size: JPY 26.0 T, fiscal spending: JPY 13.2 T) ^Policy name: ¹ Comprehensive Economic Measures to Create a Future with Security and Growth; ² First COVID-19 Emergency Response Package; ³ Second COVID-19 Emergency Response Package; ⁴ Third COVID-19 Emergency Response Package; ⁵ Second Supplementary Budget FY2020; ⁶ Comprehensive immediate policy package to ease public anxiety; ⁷ Measures to support people's daily lives; ⁸ Immediate policy package to safeguard people's lives; ⁹ Policy package to address the economic crisis

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