

**【Fundamentals Navigator】****Japanese economic impact from stripped-back Tokyo Olympics**

(original Japanese report issued on March 11, 2021)

**Potentially minor impact on running costs, maximum JPY160bn negative from having no spectators from overseas**

Changes in the format of the Tokyo Olympics, which are scheduled for a July start, are apparently being studied amid uncertainty over when COVID-19 might be contained. Potential modifications include having no spectators from overseas and placing limits on attendances. Final decisions will be made in April.

Restrictions on spectators imply a loss of demand for travel involved in their movement. We estimate that up to JPY160bn of inbound demand could be lost if there were no overseas spectators. However, there would probably be little reduction in outlays by the government, the city of Tokyo, and the organizing committee for running the Games (we estimate these at about JPY650bn in 2021).

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**Potential changes in format for the Tokyo Olympics**

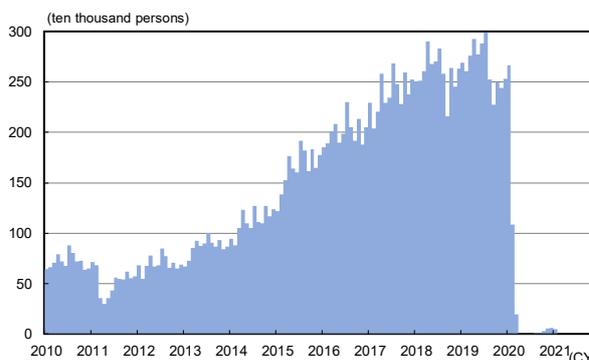
Decisions in the offing: will there be overseas spectators, limits on attendances?

The opening ceremony of the Tokyo Olympics and Paralympics is scheduled for 23 July (some events starting on 21 July), but it seems that the event’s overall format is still the subject of debate due to the uncertain outlook for COVID-19 containment. At a 3 March discussion between five related parties, including Japanese organizing committee president Seiko Hashimoto and IOC president Thomas Bach, agreement was reportedly reached on making a decision on spectators from overseas in March, and a decision on attendance limits in April. Since then, multiple media (including the Mainichi Shimbun on 3 March) have reported a leaning towards a Games without overseas visitors. Ms. Hashimoto does not want a Games with no spectators at all, but people with IOC connections have indicated that this is also a possibility.

Up to JPY160bn of inbound consumption could be lost

Games without spectators from overseas would mean the loss of the expected inbound demand, while limits on attendances—or a no spectators decision—would be negative for domestic spending on entrance tickets and travel to venues. Inclusive of the Paralympics, the organizers are looking to sell 10. 10mn tickets, reportedly with 1mn regular tickets for overseas visitors. If we assume that the number of tickets sold equates to the number of travelers, and add up the average travel spend (foreign travelers in Japan spent JPY159,000 in 2019), we obtain inbound consumption of around JPY160bn. In a simple calculation using average domestic spending on travel (JPY37,000), the negative for domestic travel is JPY330bn (no-spectators scenario). Downside also potentially extends to expected total ticket sales of JPY90bn. In regard to domestic spending, the pandemic has placed considerable constraints on spending on recreation/leisure, including travel and watching sports, and depending on conditions such as the COVID-19 situation, money that could not be spent on watching the Olympics might be channeled into other recreation/leisure, possibly nipping negatives in the bud for domestic spending. Also, given that some spectators (plan to) watch more than one event, we need to discount the values we obtained from the assumption that number of tickets equals number of travelers. That said, there is some loss of demand in all cases.

**Figure 1. Number of foreigners visiting Japan**



Source: MUMSS, from JNTO visitor arrivals data

**Cost outlays likely on plan if Games go ahead**

Total expenses of JPY1.64trn after December 2020 hike for virus measures, others

Even if the Games do not follow the regular format, outlays required for holding the Games will still be incurred. Expenses divide broadly into venues (construction, rental) and events (e.g. security, transportation, publicity) and they are borne by the government, the city of Tokyo, and the organizing committee. They have been disclosed as JPY1.64trn, an upward revision from JPY1.35trn as of end-2019 stemming from the decision to postpone the Games and including virus countermeasures (Figure 2).

Assumed outlays of around JPY650bn in 2021

The disclosed mount of JPY1.64trn is the cumulative cost for the period beginning immediately after the Games were awarded to Tokyo and ending with the Games themselves. Given that items such as venue construction were completed by 2020, when the Games were supposed to be held, outlays during 2021 will be one portion of this sum and will center on Games running costs. We estimate them at around JPY650bn based on recent disclosure from the organizing committee. Of the pre-hike JPY1.35trn budget (which includes the government and Tokyo), outlays amount to JPY1.004trn excluding JPY346bn for permanent facilities (such as the new national stadium). Subtracting JPY461bn that had been spent as of December 2020 leaves JPY543bn, which is the level of spending in 2021 assuming that outlays for permanent facilities have finished. Adding in around JPY100bn for virus countermeasures, the general picture is outlays of JPY650bn in the year the Games are held. Given the likelihood of no spectators from overseas and limits on attendances, costs such as security could change, but we cannot envisage a significant reduction in overall outlays. If there was another postponement, this number could be deemed the hit to 2021 GDP.

**Figure 2. Tokyo 2020 Olympic and Paralympic Games cost**

	(JPY bn)			Total
	Olympic Committee	Tokyo Gov	National Gov	
Venues	231	547	150	928
Permanent facilities	0	226	120	346
Temporary facilities, rental	231	321	30	582
Events	490	105	15	610
Transportation	48	35	-	-
Security	34	55	-	-
Games running costs	168	15	-	-
General affairs/publicity	84	0	-	-
Marketing	136	0	-	-
COVID-19 countermeasures and others	0	50	56	106
<b>Total</b>	<b>721</b>	<b>702</b>	<b>236</b>	<b>1,644</b>

Note: The v5 budget resulting from December 2020 revisions  
 Source: MUMSS, from The Tokyo Organising Committee of the Olympic and Paralympic Games

**Figure 3. Cost budget implementation as of end-December 2020**

	(JPY bn)		
	Budget	Expenditure amount	Deduction balance
Venues	368	170	198
Temporary facilities	316	138	178
Energy infrastructure	52	32	20
Events	616	291	325
Transportation	72	12	60
Security	88	21	67
Technology	109	48	61
Operation	139	34	105
General affairs/publicity	65	49	16
Marketing	125	113	12
<b>Total (incl. others)</b>	<b>1,004</b>	<b>461</b>	<b>543</b>

Note: Implementation of the JPY1.004trn budget (i.e., the JPY1.35trn budget prior to the December 2020 hike less the portion for permanent facilities)  
 Source: MUMSS, from The Tokyo Organising Committee of the Olympic and Paralympic Games

Olympics expenses in addition to the JPY1.64trn

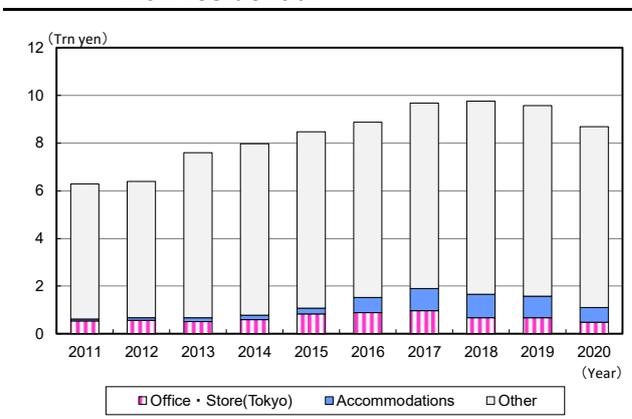
The government has other outlays besides those shown in Figures 2 and 3. According to a December 2019 report from the Board of Audit concerning the results of its examination of initiatives targeted at the Olympics and Paralympics, there are costs of around JPY1trn besides those in Figures 2 and 3. These cover FY13-19 and divide into JPY810bn for the city of Tokyo and JPY219.7bn for the government. Tokyo's large sum includes preparing the ground for the athletes' village, barrier-free measures, removing utility poles, and coating roads with heat-shielding material. As there seems to be a large element of investment in Olympics legacy, we assume that outlays are largely complete, the same as for facilities. The Board of Audit report also assumed that a majority of the budget would have been spent by FY19. We note that the barrier-free and utility-pole initiatives could continue in some form after the Games.

**Pullback from private-sector investment induced by the Olympics**

Pullback in accommodation construction accelerating in pandemic, but no major impact on overall investment in construction

The decision to award the Olympics to Tokyo boosted private-sector investment in some areas. Among these, accommodation facilities are clearly related to the Olympics and the anticipated increase in inbound demand. Others, like redevelopment projects in the Tokyo area, bear little direct relation but gained impetus. Concerns of a post-Olympics pullback from this investment were voiced at the time. Figure 4 shows private-sector, non-residential construction starts on a calendar year basis. Using Tokyo stores and offices as a proxy for Tokyo-area redevelopment, we find a gradual decline since 2017. Hotel sector starts peaked out in 2018 and seem to have been constrained further by the pandemic and its dampener on the demand outlook. On a monthly basis, decline in construction starts as a whole is coming to a halt and there are glimpses of recovery. Decline seems likely to continue for accommodation, but we see little likelihood of a marked correction in overall construction investment.

**Figure 4. Construction starts: Private-sector, non-residential**



Source: MUMSS, from Ministry of Land, Infrastructure, Transport and Tourism "Construction Statistics" data

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## Appendix A

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