

2 Borrowings

(1) Diet Approval for Borrowings

The General Account and each special account carry out borrowings within the limit of the amount approved by the Diet pursuant to the Public Finance Act and the Act on Special Accounts. Borrowing includes two categories, one is "borrowing" in a narrow sense and the other is "temporary borrowing". Generally, when the maturity extends across the fiscal year in which the borrowing is made, the term "borrowing" is used.

When the maturity date comes before the end of the fiscal year in which the borrowing is made, the debt is called "temporary borrowing".

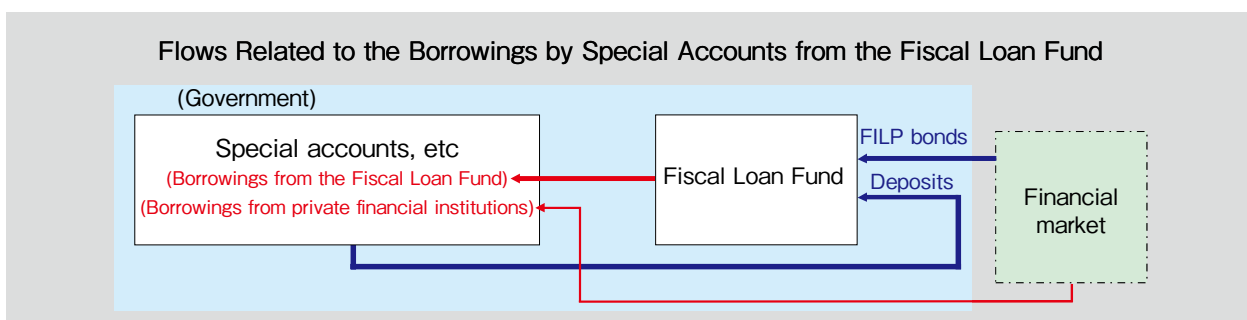
(2) Treatment of Borrowings in the Budget

The maximum amount that each special account can "borrow" or "temporary borrow" for every fiscal year must be provided under the general provisions, which is subject to Diet approval each fiscal year.

(3) Sources of Borrowings

Borrowings of each special account are made from either the Fiscal Loan Fund or private financial institutions. In the budget, there is no distinction between the Fiscal Loan Fund and private financial institutions. At the end of March 2009, the General Account and 8 special accounts had outstanding borrowings from the Fiscal Loan Fund, and 3 special accounts had outstanding borrowings from private financial institutions.

While borrowings from private financial institutions constitute part of the government debts to the private sector, borrowings from the Fiscal Loan Fund are the government debts to the public sector. The Fiscal Loan Fund issues FILP bonds or uses deposits from special accounts, etc, in order to make loans to these special accounts.



(Reference) See Section 2.1. (1) for information on the FILP bonds and see the website of the Ministry of Finance for details on the FILP.

(4) Borrowings from the Private Sector

The Special Account for Allotment of Local Allocation Tax and Local Transfer Tax (the Special Account for Local Allocation Tax), the Special Account for the National Forest Service, and the Special Account for Energy Policy carry out borrowings from private financial institutions by public auctions.

a Special Account for Local Allocation Tax

The Special Account for Local Allocation Tax borrows to cover financial deficits sustained in local public finances and applies the borrowings to cover part of the Local Allocation Tax for the relevant fiscal year.

Since July 2000, the Special Account has been borrowing a portion of such funds from private financial institutions. However, from FY2007, it decided to stop borrowing additional funds. It now borrows only to repay outstanding debt.

b Special Account for National Forest Service

The Special Account for National Forest Service has undergone certain reforms as seen in FY1998 enforcement of the Special Measure Act for the Reform of the National Forest Service. In that Fiscal year, the Special Account switched its borrowing source from the Fiscal Loan Fund to private financial institutions.

To ensure that such borrowings are made in a fair, equitable and transparent manner, in FY2003 the Special Account switched from the previous practice of using syndicated loans to obtaining loans by public auctions. Borrowings of the Special Account for National Forest Service from private financial institutions are intended to be used to repay the outstanding debt. No new additional borrowings are being made.

c Special Account for Energy Policy

Japan National Oil Corporation (JNOC) was abolished in accordance with "Reorganization and Rationalization Plan for Special Public Institutions." The state oil reserves that had until that point been taken care of by JNOC came under the direct control and management of the government in the form of the Special Accounts for Petroleum and the More Sophisticated Structure of Demand and Supply of Energy Policies (the Special Account for Petroleum).

As a result, state petroleum reserves came under direct state supervision in April 2003, and the responsibility for the construction of stockpiling facilities was transferred in February 2004. In line with the transfer, the Special Account for Petroleum began to borrow to finance its costs and expenses related to the construction of stockpiling facilities.

Pursuant to the Act on Special Accounts that took effect in April 2007, the Special Account for Petroleum was abolished, whereupon the rights and obligations attributed to the Account were transferred to the Special Account for Energy Policy. Borrowings of the Special Account for Energy Policy from private financial institutions are intended to be used to repay the outstanding debt. No new additional borrowings are being made.