

*Provisional translation*

***Highlights of the Budget  
for FY2011***

*December 2010  
Ministry of Finance*

# Outline of FY2011 Budget (General Account)

- 1) Steady implementation of the New Growth Strategy with focus on growth and employment
- 2) Steady implementation of policies in the Roadmap of the DPJ Manifesto under the philosophy of “Putting People’s Lives First”
- 3) Maintaining fiscal discipline (Overall Expenditure Limit: approx. ¥71 trillion, Government bond issuance: approx. ¥44 trillion)

(Unit: billion yen)

	FY2010 Initial	FY2011 Budget	FY2010→FY2011	Notes
<b>(Revenues)</b>				
Tax Revenues	37,396.0	40,927.0	3,531.0	
Other Revenues	10,600.2	7,186.6	-3,413.6	
Secured by Special Acts	5,114.6	2,489.7	-2,624.9	○ Other revenues secured by Special Acts are allocated to the financial resources to ensure one-half support for basic pension expense by national government contribution
				(Reference) Other revenues secured by Special Acts: repayment to the national treasury by Japan Railway Construction, Transport and Technology Agency (¥1,200.0 billion), transfer from the Special Account for Fiscal Investment and Loan Program (Fiscal Loan Program Fund Account) (¥1,058.8 billion), transfer from the Special Account for Foreign Exchange Funds (¥230.9 billion) (the expected amount of the surplus estimated in FY2011)
Government Bond Issues	44,303.0	44,298.0	-5.0	○ Bond Dependency Ratio: 47.9% (FY2010: 48.0%)
Construction Bonds	6,353.0	6,090.0	-263.0	
Special Deficit-Financing Bonds	37,950.0	38,208.0	258.0	○ Medium-term Fiscal Framework: “Make every effort to ensure that the amount of new government bonds issuance in FY2011 does not exceed that in FY2010 (approx. ¥44 trillion)”
<b>Total</b>	<b>92,299.2</b>	<b>92,411.6</b>	<b>112.4</b>	
<b>(Expenditures)</b>				
National Debt Service	20,649.1	21,549.1	900.0	
Primary Balance Expenses	70,931.9	70,862.5	-69.4	○ Medium-term Fiscal Framework: “Primary balance expenses will not, in substance, exceed that of the previous fiscal year”
Social Security	27,268.6	28,707.9	1,439.3	○ Includes the amount required to ensure one-half support for basic pension expense by national government contribution (¥2489.7 billion)
Local Allocation Tax Grants, etc.	17,477.7	16,784.5	-693.2	○ Includes the adding of child allowance (¥188.7 billion in first fiscal year, excluding ¥19.7 billion for public servants)
Contingency Reserve for Economic Crisis Response and Regional Revitalization	1,000.0	810.0	-190.0	(Reference) The total amount of local allocation tax in expenditure basis in the Special Account for Local Allocation and Local Transfer Tax (¥17,373.4 billion, up ¥479.8 over FY2010)
others	25,185.7	24,560.1	-625.5	
Refund to the Settlement Adjustment Fund	718.2	—	-718.2	
<b>Total</b>	<b>92,299.2</b>	<b>92,411.6</b>	<b>112.4</b>	

(Note 1) “Other revenues secured by Special acts” means the revenues by Act on Special Provisions concerning Issuance of Government Bonds for Financial Management in FY2010 and Act on Special Provisions concerning Issuance of Government Bonds for Financial Management in FY2011 (tentative name), excluding special deficit-financing bond issues.

(Note 2) Figures may not add up to the totals due to rounding.

# Changes in Major Budget Expenditures

(Unit: billion yen)

Major Expenditures	FY2010 Initial budget	FY2011 Budget	Change (FY2010 to FY2011)	% Change (FY2010 to FY2011)
Social Security	27,268.6	28,707.9	1,439.3	5.3%
Education & Science	5,587.2	5,510.0	-77.2	-1.4%
Science	1,333.4	1,335.2	1.8	0.1%
Former Military Personal Pensions	714.4	643.4	-71.0	-9.9%
Local Allocation Tax Grants, etc.	17,477.7	16,784.5	-693.2	-4.0%
National Defense	4,790.3	4,775.2	-15.1	-0.3%
Public Works	5,773.1	4,974.3	-798.7	-13.8%*
Economic Assistance	582.2	529.8	-52.4	-9.0%
[Reference] ODA (Gov't Expenditure) (ODA Project Volume (gross))	618.7 (1,903.7)	572.7 (approx. 1,930.0)	-46.0 (approx. +26.0)	-7.4% (approx. 1.0%)
Measures for SMEs	191.1	196.9	5.8	3.0%
Energy	842.0	855.9	13.9	1.7%
Food Supply	1,161.2	1,158.7	-2.5	-0.2%
Miscellaneous	5,194.3	5,566.0	371.7	7.2%
Strategic Grant for Regional Autonomy (tentative name)	—	512.0	512.0	—
Contingency Reserve for Economic Crisis Response and Regional Revitalization	1,000.0	810.0	-190.0	-19.0%
General Contingency Reserve	350.0	350.0	—	—
<b>Total</b>	<b>70,931.9</b>	<b>70,862.5</b>	<b>-69.4</b>	<b>-0.1%</b>

\* - 5.1% (excluding an effect of introduction of Strategic Grant for Regional Autonomy)

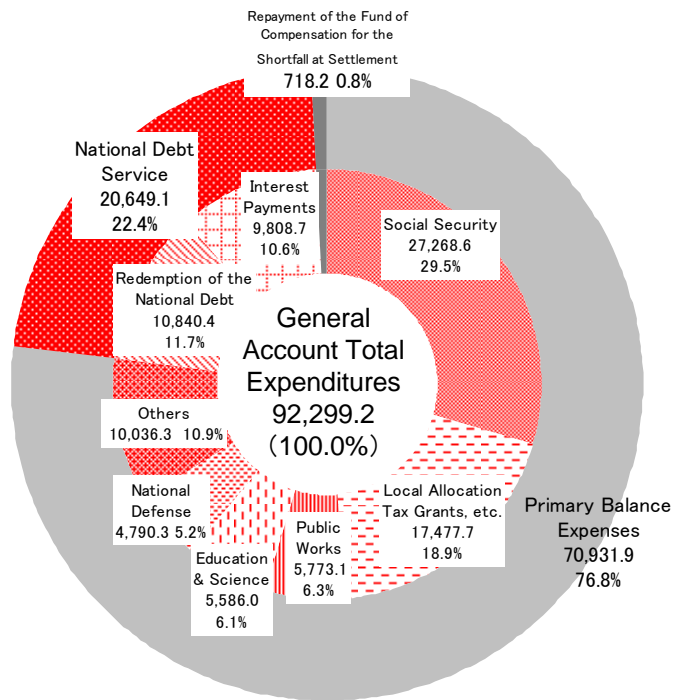
# Framework of FY2011 Budget (General Account)

**【FY2010 Initial Budget → FY2011 Budget】**

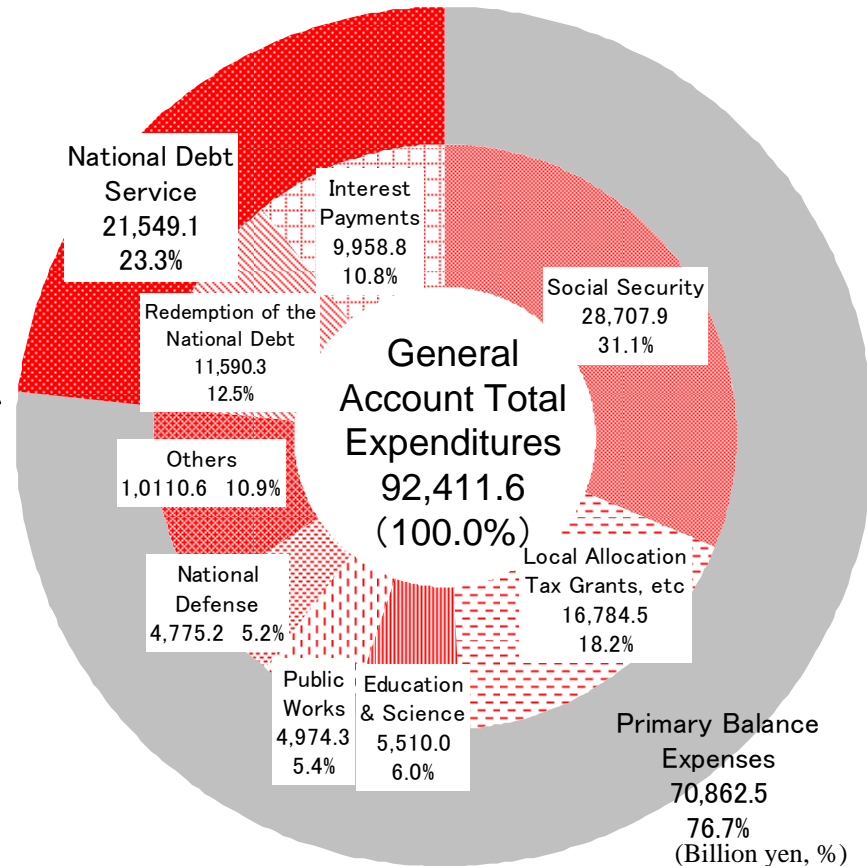
(Unit: Trillion yen)

- Total Expenditures: 92.3 (100%) → 92.4 (100%)
- Primary Balance Expenses: 70.9 (76.8%) → 70.9 (76.7%)
- Social Security: 27.3 (29.5%) → 28.7 (31.1%)
- National Debt Service: 20.6 (22.4%) → 21.5 (23.3%)
- Local Allocation Tax Grants, etc.: 17.5 (18.9%) → 16.8 (18.2%)
- Education & Science: 5.6 (6.1%) → 5.5 (6.0%)
- Public Works: 5.8 (6.3%) → 5.0 (5.4%)
- National Defense: 4.8 (5.2%) → 4.8 (5.2%)

**FY2010 Initial Budget**



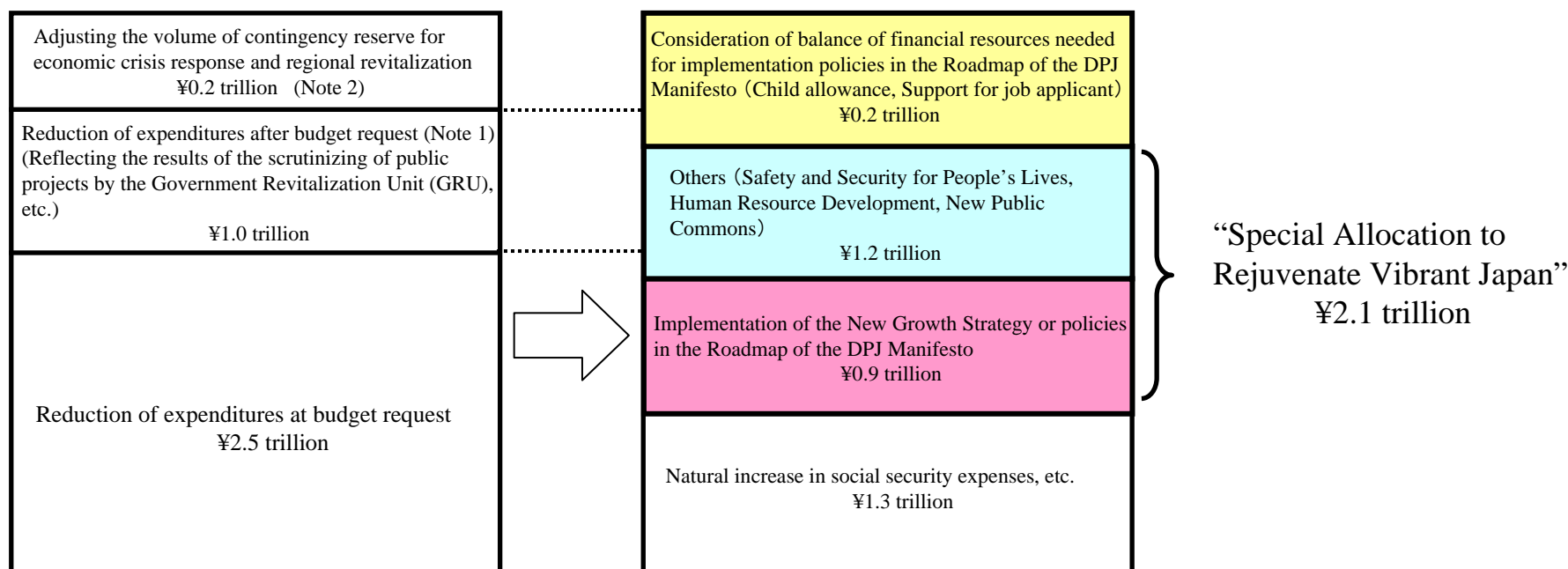
**FY2011 Budget**



(Note) Figures may not add up to the totals due to rounding.

# Overall Budget Composite Change (Use of the “Special Allocation to Rejuvenate Vibrant Japan”)

◆ Maintaining Overall Expenditure Limit (approx. ¥71 trillion), clear emphasis is put on implementation of the New Growth Strategy, etc. as well as a response to natural increase in social security expenses through budget composite change beyond the framework of each ministry by use of the “Special Allocation to Rejuvenate Vibrant Japan”, etc.



(Note 1) Reduction of expenditures by reflecting the results of the scrutinizing of public projects by the GRU is ¥0.3 trillion. Local allocation tax grants, etc. drops by ¥0.7 trillion with securing ¥0.5 trillion increase in total amount of local allocation tax in expenditure basis in the Special Account for Local Allocation and Local Transfer Tax.

(Note 2) To bridge the fund until the full-implementation of tax increase by tax system revision (revision of allowance for adult dependent and allowance for salary income), adjusting the volume of contingency reserve for economic crisis response and regional revitalization. (¥960.0 billion → ¥810.0 billion)

## Major Policies in the Roadmap of the DPJ Manifesto

		Project Expenses (over the previous fiscal year)	General Account Government expenditures (over the previous fiscal year)
Child allowance	} expansion	<b>2.9(+0.7)</b>	<b>2.2(+0.5)</b>
Of which: the amount added to children under 3		<b>0.2</b>	<b>0.2</b>
Individual (household) income support for agriculture		<b>0.9(+0.4)</b>	<b>0.6</b>
Support for job applicant	} established	<b>0.1(+0.1)</b>	<b>0.0 (¥17.3 billion)</b>
Effectively free public high school tuition	} continued	<b>0.4</b>	<b>0.4</b>
Abolition of provisional tax rates (lower tax revenues)		<b>0.2</b>	<b>0.2</b>
Elimination of highway tolls		<b>0.1</b>	<b>0.1</b>
Pension record problems		<b>0.1</b>	<b>0.1</b>
<b>Total</b>		<b>4.7(+1.1)</b>	<b>3.6(+0.6)</b>

(Note 1) Policies in the Roadmap of the DPJ Manifesto is implemented securing their financial resources. The resources needed in FY2010 (¥3.1 trillion) were secured by the reduction of expenditure through the scrutinizing of public projects by the GRU, etc. The resources needed newly in FY2011 (¥0.6 trillion) are secured by the reduction of expenditure (¥0.4 trillion) and tax revision (¥0.2 trillion).

(Note 2) Project expenses of child allowance include contribution of employer (¥0.2 trillion) and local governments (¥0.6 trillion).

(Note 3) Amount required for Individual (household) income support for agriculture includes grants paid directly to Hilly and Mountainous Areas, etc. (Amount required: ¥0.1 trillion). These amounts required include the expenditure in the Special Account for Food Supply, etc.(¥0.3 trillion).

(Note 4) Figures of Abolition of provisional tax rates in FY2011 represent the same amount as that in FY2010.

(Note 5) Project expenses of support for job applicant (¥62.8 billion in first year) include the expenditure in the Special Account for Labor Insurance (¥45.5 billion, employment insurance contributions in equal shares by employer and employed). (enforced in October 2011)

(Note 6) Figures may not add up to the totals due to rounding.

(Note) Figures may be modified upon verification.

## Fiscal discipline (1)

### Budget Formulation based on the “Fiscal Management Strategy”

- ◆ The first case of budget formulation based on Medium-term Fiscal Framework in the “Fiscal Management Strategy”
- ⇒ Maintaining Overall Expenditure Limit (approx. ¥71 trillion) and Restraining the amount of Government Bond Issuance (approx. ¥44 trillion)

(Unit: billion yen)

	FY2010	FY2011
Primary Balance Expenses	70,931.9	70,862.5

(Unit: billion yen)

	FY2010	FY2011
The amount of new government bond issuance	44,303.0	44,298.0

### Medium-term Fiscal Framework (“MTFF”)

1) Restraining the amount of government bond issuance	<ul style="list-style-type: none"> <li>• <u>Make every effort to ensure that the amount of new government bonds issuance in FY2011 does not exceed that in FY2010 (approx. 44 trillion yen).</u></li> <li>• <u>Make every effort to steadily decreases the amount of new government bonds issuance after FY2011.</u></li> </ul>
2) Measures on the revenue side	<ul style="list-style-type: none"> <li>• <u>Determine the details of the comprehensive reform of taxes including personal income tax, corporate tax, consumption tax and tax on assets as soon as possible, so that necessary revenue will be secured towards achievement of fiscal consolidation targets.</u></li> </ul>
3) Measures on the expenditure side (FY2011~FY2013)	<ul style="list-style-type: none"> <li>• <u>During FY2011 and FY2013, “Primary balance expenses” (General Account expenditures minus national debt service and repayment of the fund of compensation for the shortfall at settlement) will not, in substance, exceed that of the previous fiscal year. (“Overall Expenditure Limit”)</u></li> <li>• <u>The total amount of general revenue sources of local governments will be secured at the same level as FY2010 (in substantial terms).</u></li> <li>• <u>When any measure that results in an increase of expenditure is to be implemented or enhanced, the required resources shall be obtained by further and permanent reduction in expenditure so that the amount of “Primary balance expenses” in the initial budget of this fiscal year shall be contained within the “Overall Expenditure Limit” described above.</u></li> </ul>

## Fiscal Discipline (2)

### Reflecting of the Results of the Scrutinizing of Public Projects by the GRU

#### ○Expenditure

Reviewing expenditure to reflect the results of the third scrutinizing of public projects by the GRU

#### **Reduction of expenditure (General Account) approx. ¥0.3 trillion**

##### 【Major examples】

FY2011 requests → FY2011 budget (Unit: billion yen)

- |   |   |
|---|---|
| ▪ Road improvement projects<br>※ Reduction by 10-20%  | 497.2→447.4 (down 49.7 by decreasing the total amount excluding maintenance and management expenses by 10%) |
| ▪ Flood control projects<br>※ Reduction by 10-20%、<br>Abolition of high standard river bank projects  | 226.0→203.4 (down 22.6 by decreasing the total amount excluding maintenance and management expenses by 10%) |
| ▪ Subsidy for running expenses of the Japan Pension Service<br>※ Reduction of budget request  | 230.7→212.5 (down 18.2 through improving efficiency of total projects including pension record problems)    |
| ▪ Subsidy for expenditure to support the introduction of photovoltaic power generation devices in private houses<br>※ Reduction by about 20 % | 42.9→34.9 (down 8.0 by reviewing subsidy unit price)  |

#### ○Revenues

Repayment of funds of independent administrative agencies, etc. to the national treasury on the basis of the results of the scrutinizing of public projects

#### **Ensuring revenues (General Account) approx. ¥1.4 trillion**

(Note) Figures may be modified upon verification.



## Fiscal discipline (3) Non-Tax Revenue

~Acquiring non-tax revenues including temporary funding for one-half contribution of basic pension~

- 1) Temporary funding: ¥2.5 trillion; under special acts to ensure one-half support for basic pension expense by national government contribution (FY2011 only)

repayment to the national treasury by Japan Railway Construction, Transport and Technology Agency (¥1.2 trillion), transfer of the surplus etc in Special Account for Fiscal Investment and Loan Program (FILP) (¥1.1 trillion), transfer of the surplus (ongoing fiscal year) in Special Account for Foreign Exchange Funds (¥0.2 trillion)

- 2) Other non-tax revenue: ¥4.7 trillion

Total ¥7.2 trillion

### The reserves (stock) and the surpluses (flow) in the Special Accounts

- Special Account for FILP (Fiscal Loan Program Fund Account): ¥1.1 trillion
  - ◆ Transfer all of the remaining reserves (stock) and all of the surplus (flow) to the General Account as an exceptional measure (see 1) above)
- Special Account for Foreign Exchange Funds: ¥2.9 trillion
  - ◆ Transfer all of the surplus (flow) to the General Account: ¥2.7 trillion
  - ◆ Transfer ongoing surplus (FY2011) to the General Account as an exceptional measure (see 1) above): ¥0.2 trillion
- Special Account for FILP (Investment Account): ¥0.2 trillion

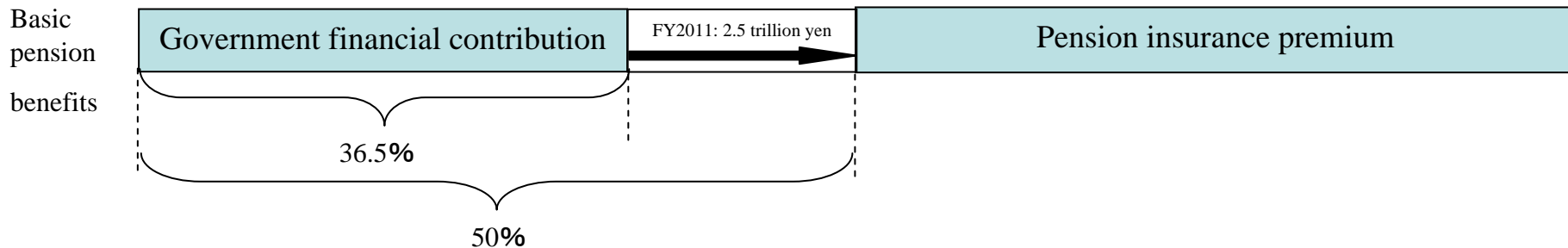
### Repayment of funds by independent administrative agencies etc to the national treasury

- Japan Railway Construction, Transport and Technology Agency: ¥1.2 trillion (see 1) above)
- Others: ¥0.2 trillion
  - ◆ Organization for Small & Medium Enterprises and Regional Innovation ¥50 billion
  - ◆ Japan Housing Finance Agency ¥41.3 billion
  - ◆ The Salt Industry Center of Japan ¥40.4 billion
  - ◆ Agriculture, Forestry and Fisheries Credit Foundations ¥27.8 billion

## Fiscal discipline(4)

### Government Financial Contribution for Basic Pension since FY2011

- (1) For government financial contribution for basic pension, government needs to establish a permanent contribution equivalent for one-half of total cost for basic pension with stable resource of revenue by drastic reform of the taxation system.



- (2) Maintaining one-half contribution in FY2011 by temporary funding which needs legislative action

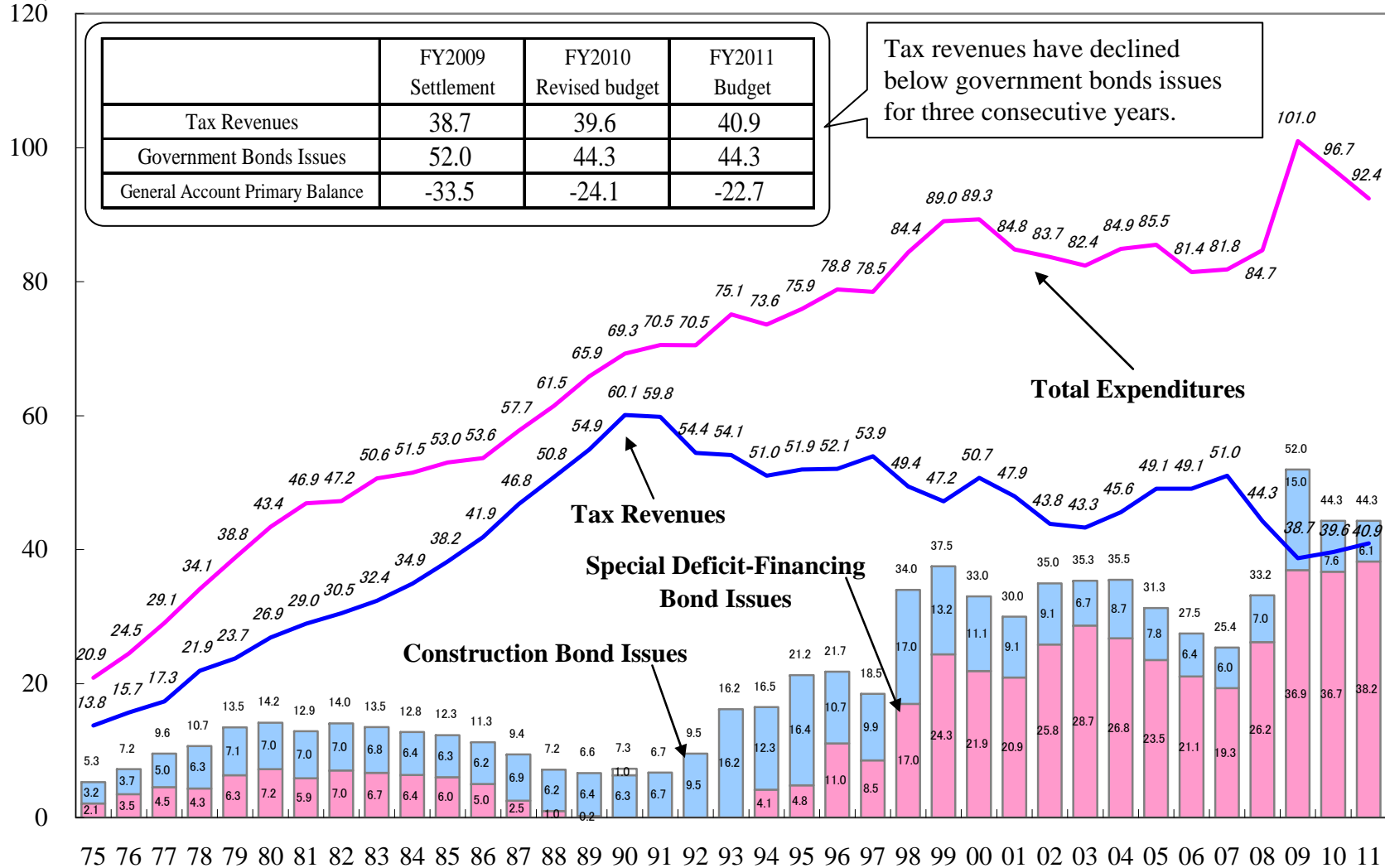
- (3) Although the government barely maintains its contribution in FY2011, it is difficult to repeat the dependence on temporary funding after FY2012.

⇒ Clarifying the discipline to use fiscal revenues acquired by drastic reform of the taxation system

# Fiscal Discipline (5)

## General Account Tax Revenues and Government Bond Issues

(Trillion yen)



Tax revenues have declined below government bonds issues for three consecutive years.

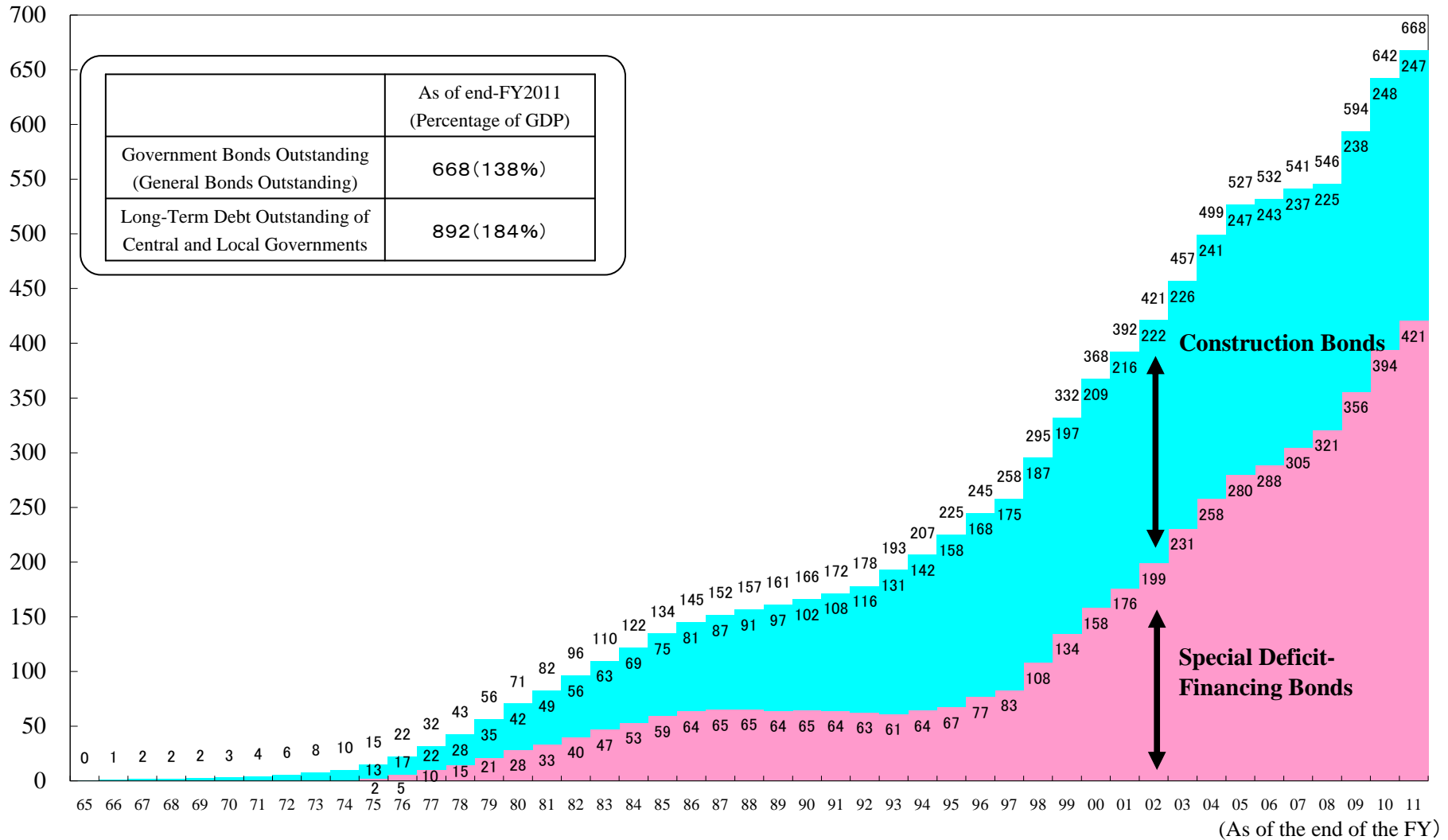
(Note 1) FY1975-2009: Settlement, FY2010: Revised budget, FY2011: Budget

(Note 2) Ad-hoc deficit-financing bonds (approx. 1 trillion yen) were issued in FY1990 as a source of funds to support peace and reconstruction efforts in the Persian Gulf Region.

(Note 3) General Account Primary Balance is calculated based on the easy-to-use method of National Debt Service minus Government Bond Issues, and is different from the Central Government Primary Balance on an SNA basis.

# Fiscal Discipline (6) Accumulated Government Bonds Outstanding

(Trillion yen)



(Note 1) FY1965-2009: Actual, FY2010: Estimates, FY2011: Budget

(Note 2) Special deficit-financing bonds outstanding include refunding bonds for long-term debts transferred from JNR Settlement Corporation, the National Forest Service, etc.

(Note 3) The estimate of FY2011 excluding front-loading issuance of refunding bonds is approximately 656 trillion yen.