Provisional Translation

Highlights of the Budget for FY2015

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● ***The budget for FY2015 aims to realize both economic revitalization and fiscal consolidation*** *with the combination of the economic stimulus package, FY2014 supplementary budget, and FY2015 tax reform.*

Realization of both Economic Revitalization and Fiscal Consolidation

- All budgeted amounts are for the central government, unless otherwise indicated. All changes are YoY (FY2015 over FY2014)
- "AG" stands for "aggregate government" (central and local)

○ **Vitalizing local economy** by " advancing community building, fostering human resources, and job creation".

○ **Enhancing support for childcare** (AG: up from 0.3 trillion yen to 0.5 trillion yen) to realize a "Society in which All Women can Shine".

○ **Enhancing medical and long-term cares** (AG: up from0.2 trillion yen to 0.8 trillion yen)

⇒ Enhancing social security by utilizing revenues from consumption tax increase: AG total **1.35 trillion yen in FY2015**.

○ **Reducing the fees for long-term care suppliers** (revised rate: -2.27%) in order to constrain the rising insurance contributions and to reduce user costs.

○ **Promoting measures for disaster prevention and reduction as well as for aging infrastructure**.

○ **Accelerating reconstruction** from the Great East Japan Earthquake and revitalization of Fukushima.

○ **Rebuilding diplomatic and national security policy**.

⇒ Increasing budget for foreign policy and enhancing defense capability steadily.

Highlights of the Budget for FY2015

Firm Commitment to the Fiscal Consolidation Targets

Progress in FY2015

◯ **FY2015 target expected to be achieved**: Halving primary deficit to GDP ratio.

◯ **Improving the primary balance by 4.6 trillion yen**, more than targeted in the current plan.

◯ **Reducing the amount of newly issued government bonds by 4.4 trillion yen** from FY2014.

Japan's Fiscal Consolidation Targets

"Medium-Term Fiscal Plan (Approved by the Cabinet on August 8, 2013)"

FY2015

- The Government aims to halve the primary deficit of the national and local governments to GDP ratio (-3.3%) by FY2015 from the ratio in FY2010 (-6.6%)
- The Government aims to improve the primary balance of the General Account at least by approximately 4 trillion yen both in FY2014 and 2015

FY2020

- The Government aims to achieve a primary surplus by FY2020

⇒ *Concrete fiscal consolidation plan for achieving the FY2020 target will be prepared by summer*

Thereafter

- The Government will seek to steadily reduce the public debt to GDP ratio

<Fiscal Indicators (Central Government's General Account)>

	FY2013 (Initial)	FY2014 (Initial)	FY2015 (Budget)
Primary Expenditure	70.4 trillion yen	72.6 trillion yen	72.9 trillion yen
Tax Revenues	43.1 trillion yen	50.0 trillion yen	54.5 trillion yen
Government Bond Issues	42.9 trillion yen	41.3 trillion yen	36.9 trillion yen
Primary Balance	-23.2 trillion yen	-18.0 trillion yen	-13.4 trillion yen
Bond Dependency Ratio	46.3%	43.0%	38.3%

(Note) Primary balance and Bond Dependency Ratio are based on an assumption that the government contributes to 50% of Basic Pensions.

<Economic Indicators>

- Nominal GDP growth rate will be 2.7 percent. Economic recovery is expected, supported by steady private demand.

	FY2013 (Actual)	FY2014[1] (Estimate)	FY2015 (Projections)
Nominal GDP Growth	1.8%	1.7%	2.7%
Real GDP Growth	2.1%	-0.5%	1.5%
Consumer Price Index	0.9%	3.2% (1.2%)[2]	1.4%
Unemployment Rate	3.9%	3.6%	3.5%

(Note1) FY2014 and FY2015 are based on "Fiscal 2015 Economic Outlook and Basic Stance for Economic and Fiscal Management"
(Approved by the Cabinet on January 12, 2015)
(Note2) The number of Consumer Price Index in parentheses in FY2014 excludes the impact of the consumption tax rate hike.

Framework of the Budget for FY2015

(Unit: billion)

	FY2014 Budget (Initial)	FY2015 Budget	FY2014 →FY2015	Notes
(Revenues)				
Tax Revenues	50,001.0	54,525.0	4,524.0	- Including 1,686.0 billion yen due to the annualized increased revenue from consumption tax rate increase to 8% in April 2014
Other Revenues	4,631.3	4,954.0	322.6	
Government Bond Issues	41,250.0	36,863.0	-4,387.0	- Bond Dependency Ratio:38.3% (FY2014: 43.0%)
Construction Bonds	6,002.0	6,003.0	1.0	
Special Deficit-financing Bonds	35,248.0	30,860.0	-4,388.0	
Total	95,882.3	96,342.0	459.6	
(Expenditures)				
National Debt Service	23,270.2	23,450.7	180.5	
Primary Expenses	72,612.1	72,891.2	279.1	
Social Security	30,526.6	31,529.7	1,003.0	- Enhancement of social security and increase in government expenditure due to consumption tax increase: 582.6 billion yen
Local Allocation Tax Grants, etc.	16,142.4	15,535.7	-606.7	- Reflecting the growth in local tax revenues. The local general fiscal resources which include Local Tax, Local Allocation Tax, etc. will be increased for enhancement of social security.
Total	95,882.3	96,342.0	459.6	

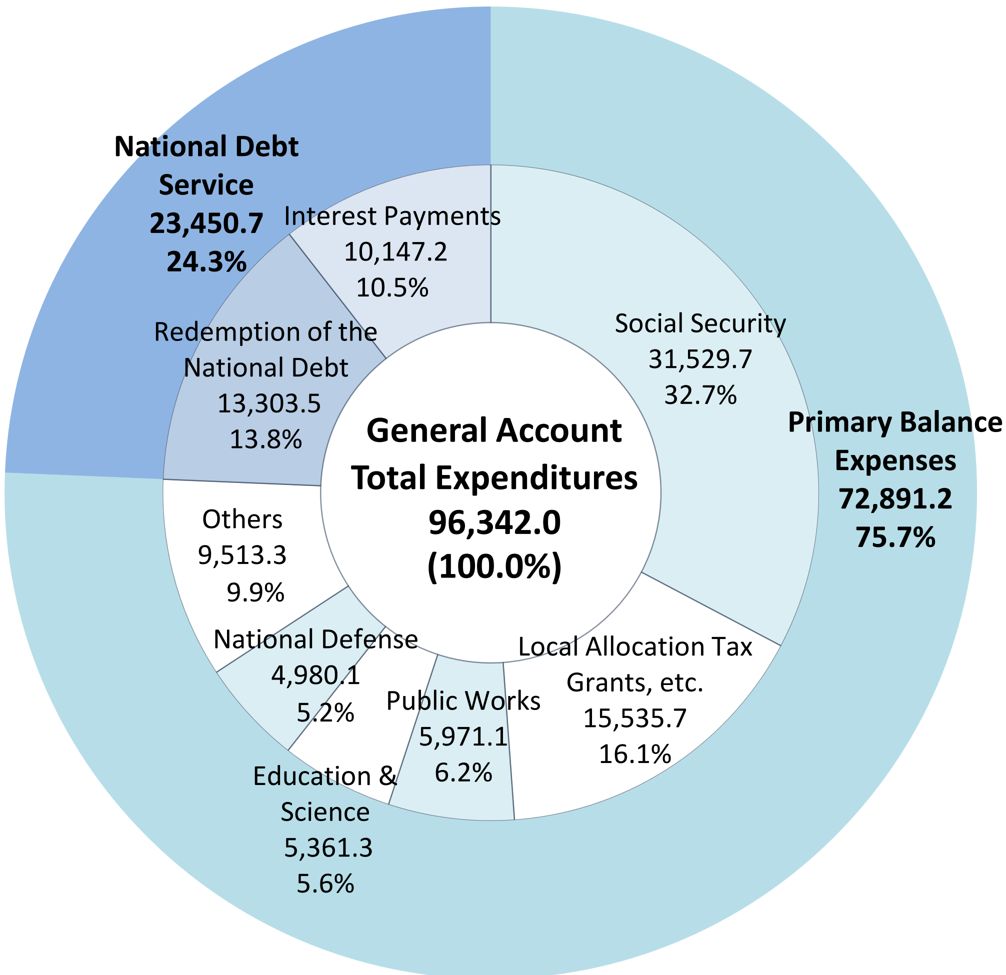
(Note1) Social security expenditure in FY2014 budget is reclassified in order to compare with FY2015 budget.

(Note2) Figures may not add up to the totals due to rounding.

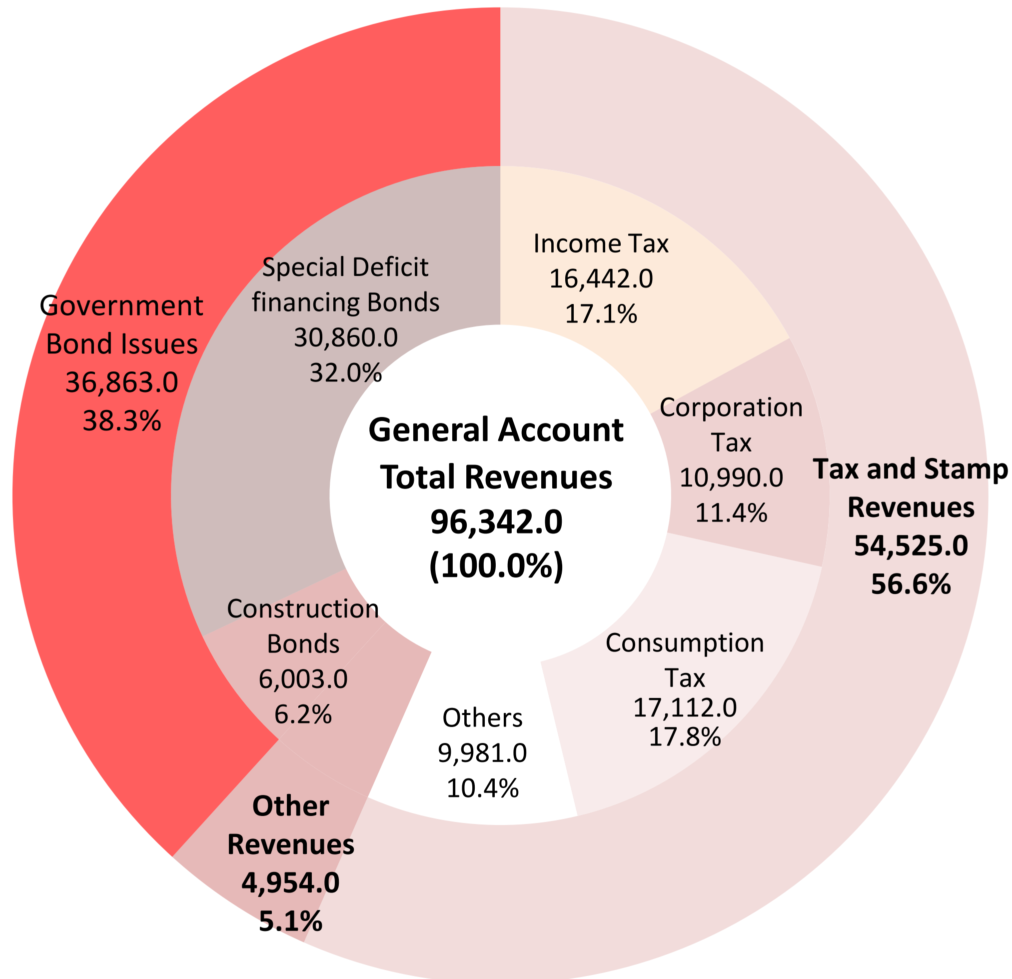
General Account Budget for FY2015

(Unit: billion yen)

Expenditures



Revenues



(Note1) Figures may not add up to the totals due to rounding.

(Note2) The ratio of Social Security expenses to General Expenditures*：55.0%

*General Expenditures equals to the Primary Balance Expenditure minus Local Allocation Tax Grants, etc.

Highlights of Individual Policy Areas（1）

Vitalizing Local Economy	● **Securing 0.7 trillion yen** (total above 1 trillion yen: FY2015 budget and FY2014 supplementary budget). ● **Securing 1 trillion yen** as the amount of expenditures in the **FY2015 Fiscal Plan of Local Governments**.
Social Security	● **Launching a new child and child-rearing support system in April 2015** by utilizing revenues from consumption tax increase (1.35 trillion yen). ⇒ Promoting the "Plan to Accelerate the Elimination of Childcare Waiting Lists". ● **Reducing the fees for long-term care suppliers (revised rate: -2.27%)** in order to constrain the rising insurance contributions and to reduce user costs. ● **Reviewing "natural increase" thoroughly** in social security.
Recon- -struction	● **Securing the same level of expenditures for the reconstruction** from the Great East Japan Earthquake as that of FY2014 (**total 4.2 trillion yen**: FY2015 budget and FY2014 supplementary budget). ● Accelerating the restoration and reconstruction in the disaster areas.

Highlights of Individual Policy Areas （2）

Public Works	● **Securing the same level of expenditures for public works** as that of FY2014 **(5971.1 billion yen** (+0.0%)**)**. ● Promoting the measures for **disaster prevention and reduction** as well as for the **aging infrastructure**. ● Strengthening **international competitiveness** through developing effective logistics network systems. ● Construction of new Shinkansen lines will be decided ahead of the planed schedule while constraining the increase in the government’s expenditure (from Shinhakodatehokuto to Sapporo: 5 years, from Kanazawa to Tsuruga: 3 years).
Education, Sports, Science and Technology	● **Education**: Prioritizing to the measures for the **“Education Rebuilding”**, including the development of global human resources, promoting the national university reform, and the expansion of interest-free student loan and benefit for entering kindergarten. ● **Science and Technology**: Promoting the system reform, including the establishment of international hub of industry–academic–government joint research ● **Sports**: Towards the 2020 Tokyo Olympic and Paralympic Games, Expanding the programs for strengthening athletes, while enhancing the PDCA cycle.

Highlights of Individual Policy Areas (3)

Foreign Diplomacy and National Defense	● **Foreign diplomacy**: **Strengthening the strategic public relations for overseas** through supporting for the study of Japan. Opening a new diplomatic office etc.. ● **National defense**: **Enhancing patrol and monitoring ability** and **reinforcing the defense for islands** through establishing the coastal monitoring system (the expenditures of the Mid-Term Defense Program: +0.8%).
Agriculture	● **Advancing the structural reforms** such as consolidating farmlands for leading farmers by utilizing the Public Intermediate Organization for Farmland Consolidation. ● **Strengthening competitiveness** of agriculture, forestry and fishery by promoting exports through establishing the “Japan Brand”.
Local Government Finance	● Ensuring the total amount of general finances of local governments. ⇐ **Reducing the amount of the local allocation tax grants etc.** (16.1 → 15.5 trillion yen), reflecting the increase of local tax revenue. ● Promoting the measures to vitalize local economy (Ensuring 1 trillion yen). ● **Reducing the amount of “Additionally Reserved Position of Grants”** established for addressing the Lehman Shock (0.6 → 0.2 trillion yen) .

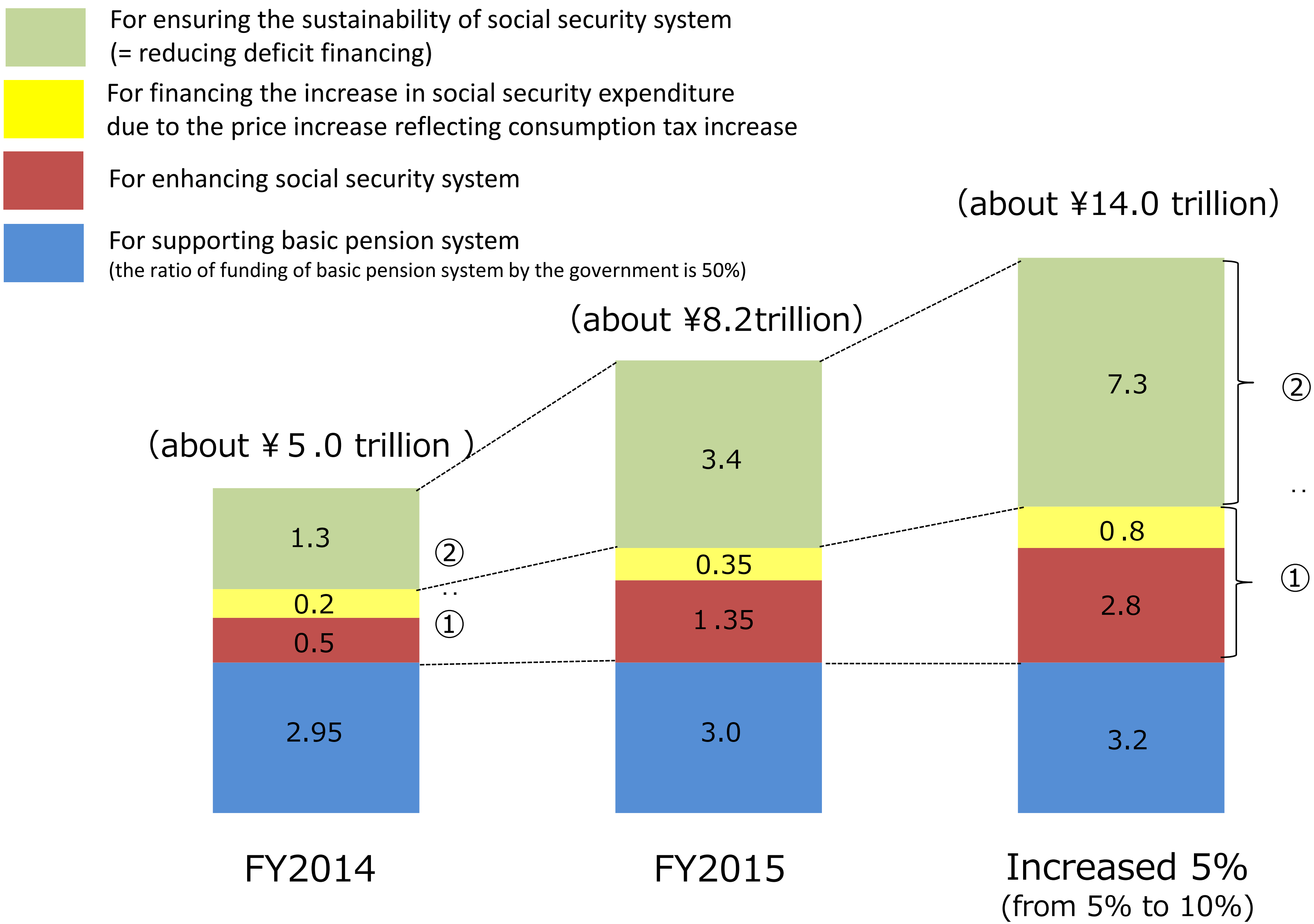
Changes in Major Budget Expenditures

(unit: billion yen)

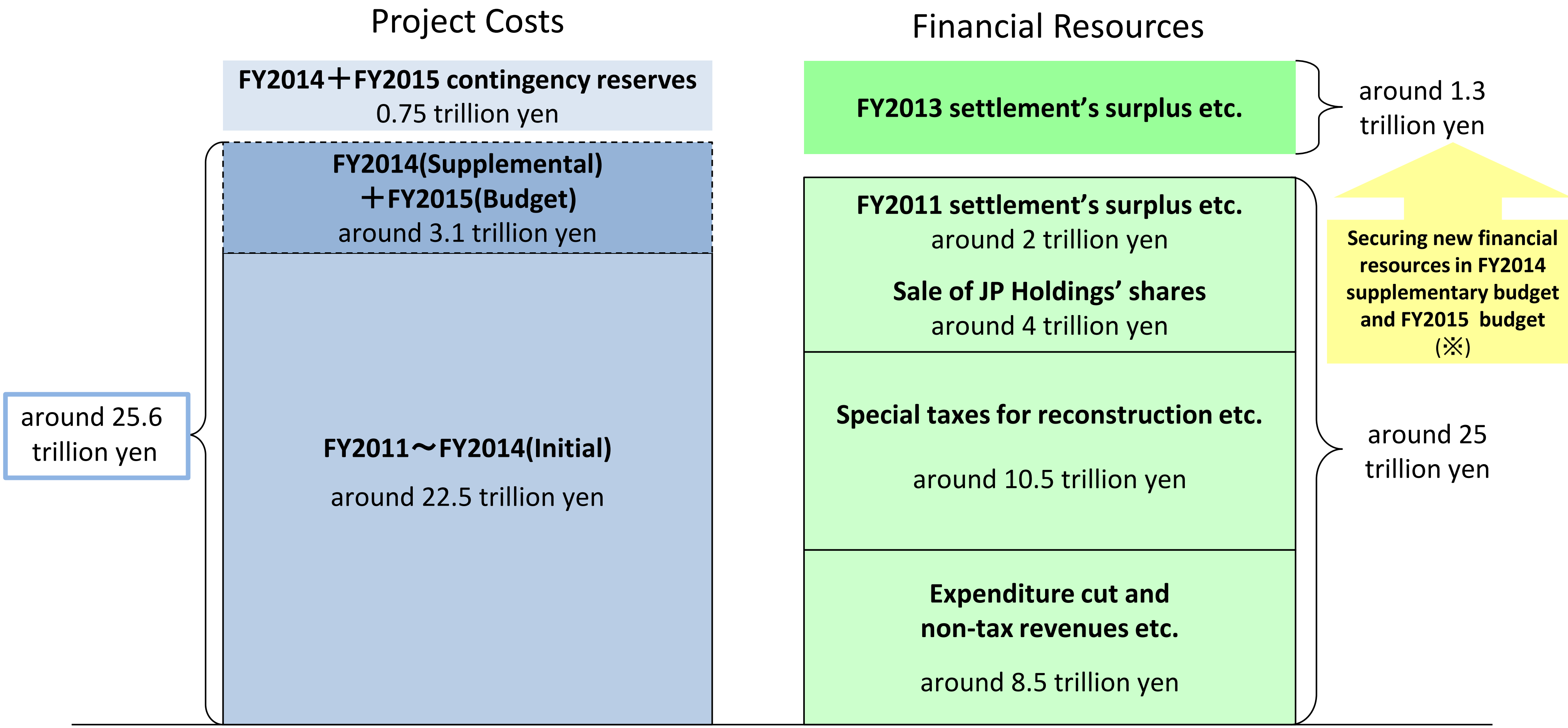
Major Budget Expenditure	FY2014 Budget (Initial)	FY2015 Budget	Change (FY2014 to FY2015)	% Change (FY2014 to FY2015)
Social Security	30,526.6	31,529.7	1,003.0	3.3%
Education and Science	5,433.0	5,361.3	-71.7	- 1.3%
Science	1,337.2	1,285.7	-51.5	- 3.9%
Former Military Personnel Pensions	444.3	393.2	-51.1	- 11.5%
Local Allocation Tax Grants, etc.	16,142.4	15,535.7	-606.7	- 3.8%
National Defense	4,884.8	4,980.1	95.3	2.0%
Public Works	5,968.5	5,971.1	2.6	0.0%
Economic Assistance	509.8	506.4	-3.4	- 0.7%
(Reference) ODA	550.2	542.2	-8.0	- 1.5%
Measures for SMEs	185.3	185.6	0.3	0.2%
Energy	964.2	898.5	-65.7	- 6.8%
Food Supply	1,050.7	1,041.7	-9.0	- 0.9%
Miscellaneous	6,152.6	6,137.9	-14.7	- 0.2%
General Contingency Reserve	350.0	350.0	―	―
Total	72,612.1	72,891.2	279.1	0.4%

(Note) In order to compare with FY2015 budget, FY2014 budget is reclassified.

Change of revenues and expenditures by consumption tax increase
(Central and local governments)



Framework of Financial Resources for Reconstruction against the Great East Japan Earthquake



(Note1) The project costs above do not include the one which TEPCO should bear under the Act on Compensation for Nuclear Damage and the Act on Special Measures concerning the Handling of Radioactive Pollution.

(Note2) Contingency reserves are secured in order to address the shortage of unpredictable expenditures. The project costs are increased in association with using contingency reserves.

(Note3) The project costs above is based on the FY2015 budget. The project costs in this framework will be finalized after FY2015 settlement.

(※) Securing new financial resources as follows:

FY2014 supplementary budget: FY2013 settlement's surplus → around 0.8 trillion yen

FY2015 budget: Funds in special account of Government Investment and Loan Fund → around 0.6 trillion yen

(Reference) What is "Primary Balance"?

As an indicator for fiscal consolidation, Japan uses "primary balance equilibrium", while "Fiscal balance equilibrium" is used in other countries.

- ***Primary Balance***

- ◆ The Primary Balance (PB) is an indicator to show how much of the expenditure is covered by tax revenues in a certain time frame.
- ◆ Currently, PB is in deficit in Japan, meaning expenditures for policy measures exceed tax revenues (See Fig. A).
- ◆ Note that even if PB is net zero, the actual amount of debt outstanding will increase owing to interest payments (See Fig. B).