Current Japanese Fiscal Conditions and Issues to be Considered

2008
Ministry of Finance
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1. General Account Budget for FY2008

General account expenditures for FY2008 stand at approximately 83 trillion yen, of which the national debt service (expenditures allocated to interest payment and debt redemption for national government bonds), social security-related expenditures, local allocation tax grants, etc. occupy more than two thirds of the total expenditures.

Breakdown of Expenditures

(Unit: billion yen, %)

- General Expenditures: 47,284.5 (56.9)
  - of which, Medical Care: 8,564.4 (10.3)
  - Pension: 7,437.5 (9.0)
  - Log-term Care: 1,906.2 (2.3)
  - Welfare etc.: 3,874.4 (4.7)
- National Debt Service: 20,163.2 (24.3)
- Social Security: 21,782.4 (26.2)
- Public-Works: 6,735.2 (8.1)
- Education & Science: 5,312.2 (6.4)
- National Defense: 4,779.7 (5.8)
- Others: 8,675.1 (10.4)

of which, interest payment expenses: 9,340.6 (11.2)

Energy: 865.5 (1.0)
Food Supply: 858.2 (1.0)
Former Military Personnel Pensions: 852.2 (1.0)
Economic Assistance: 666.0 (0.8)
Promotion of SMEs: 176.1 (0.2)
Miscellaneous: 4,907.1 (5.9)
Contingencies: 350.0 (0.4)
Tax revenues cover only a bit more than 60 percent of total revenues, while the remaining nearly 30 percent depends on government bond issues, which will pose burdens on future generations.

Breakdown of Revenues

Revenues

(Unit: billion yen, %)

- Government Bond Issues 25,348.0 (30.5)
- Income Tax 16,279.0 (19.6)
- Corporation Tax 16,711.0 (20.1)
- Consumption Tax 10,671.0 (12.8)
- Tax and Stamp Revenues 53,554.0 (64.5)
- Other Revenues 4,159.3 (5.0)
- Others 9,893.0 (11.9)
- General Account Total Revenues (Initial budget) 83,061.3 (100.0)

Gasoline Tax 2,086.0 (2.5)
Inheritance Tax 1,550.0 (1.9)
Liquor Tax 1,532.0 (1.8)
Customs Duties 939.0 (1.1)
Tobacco Tax 894.0 (1.1)
Motor Vehicle Tonnage Tax 715.0 (0.9)
Petroleum and Coal Tax 521.0 (0.6)
Other Taxes 461.0 (0.6)
Stamp Revenues 1,195.0 (1.4)
## Comparison of the Government Budget to a Household Budget

### Household Budget for a month
- Household monthly income ¥400 thousand
- Household expenditures ¥330 thousand
  - Monthly Allowance for Children ¥110 thousand
  - Payment on Loans ¥140 thousand
- Shortfall = Borrowing ¥180 thousand

### FY2008 Government Budget
- Tax and Non-tax Revenues ¥57.7 trillion
- General Expenditures ¥47.3 trillion
- Local Allocation Tax, etc. ¥15.6 trillion
- National Debt Service ¥20.2 trillion
- Government Bond Issues ¥25.3 trillion

### Result
- Loan Outstanding ¥46,000 thousand
- Bonds Outstanding ¥553 trillion

**Transportation expenses (public works):** Approximately ¥50,000

**Public order (defense cost):** Approximately ¥30,000

**Heating and lighting expenses (energy policies):** Approximately ¥6,000

**Pension and medical expenses (social security):** Approximately ¥150,000

**Education expenses (education, and S&T (science and technology) promotion):** Approximately ¥40,000

**Food expenses (Food stable supply-related expenses):** Approximately ¥6,000
2. Trends in General Account Expenditures and Tax Revenues

Fiscal deficit (annual spending less annual revenues) has been shrinking due to reduced expenditures and increased tax revenues for these years, but the deficit remains at a high level. It is necessary to further reduce fiscal deficit.
3. Accumulated Government Bonds Outstanding

1) Trends in Government Bonds Outstanding

Japan’s outstanding government bonds have been increasing year after year. The outstanding government bonds are estimated to rise to ¥553 trillion at the end of FY2008, which amounts to 10 times as large as Japan’s annual tax revenues and will surely impose heavy burdens on future generations.

Accumulated outstanding long-term government debts at central and local government levels, which include indebtedness at the local government level, are estimated at ¥778 trillion, or 148% of Japan’s GDP, at the end of FY2008.

Equal to approx 10 year’s General Account tax revenues
Tax Revenues in FY2008 General Account Budget: Approx. ¥54 trillion

For reference
FY2008 Government bonds outstanding:
approx. ¥553 trillion (projection)

Approx. ¥4.33 million per person
Approx. ¥17.32 million per family of 4

Average disposable income of a working family:
approx. ¥5.30 million
Average family size: 3.43

(Note) Disposable income and family size are based on the “FY2006 Survey of Household Economy” by the Ministry of Internal Affairs and Communications

Construction Bonds
Special Deficit-financing Bonds

(FY)
2) Factors for Increase in General Bonds Outstanding

In the 1990s, expenditure growth was mainly attributable to the increase in public works related expenditures. In contrast, expenditures have been recently growing mainly due to increased social security-related expenditures resulting from the aging of Japanese society. Government revenues have been shrinking mainly because tax revenues are falling due to the economic downturn and tax cuts.

Increase in General Bonds Outstanding from FY1990 to FY2008: ¥390 trillion

Contribution of Expenditures: ¥150 trillion

- Social Security related expenditures (¥110 trillion)
- Public works related expenditures (¥60 trillion)
- Other expenditures excluding debt redemption

Effect of tax revenues decline: ¥140 trillion

- Tax revenues
- Non-tax revenues

Balance gap in FY1990: ¥50 trillion

Other factors (long-term debt transferred from Japan National Railway and disposal of nonperforming loans, etc.): ¥50 trillion

(Note) Data up to FY2007 represent settlements data and FY2008 data represent the initial budget-based data.
Japan’s fiscal balance has been improving in recent years, but Japan still suffers significant fiscal deficit.

(Source) OECD Economic Outlook 83 (June 2008)  
(Note) Figures represent the general government-based data (including the central/local governments and the social security funds).
2) General Government Gross Debt (International Comparison)

In the terms of the ratio of general government debt to GDP, some developed countries were steadily implementing fiscal consolidation in the late 1990s. However, Japan's gross debt has rapidly worsened to reach the worst level among developed counties.

(Source) OECD Economic Outlook 83 (June 2008)
(Note) Figures represent the general government-based data (including the central/local governments and the social security funds).

In addition, the debt outstanding data in OECD statistics include the long-term debt outstanding at the central and local government levels (see page 5) as well as financial bills (FBs) and debts of some independent administrative agencies.

(Reference) Percentage of net debt outstanding to GDP

Net debt outstanding means government's gross debt outstanding less government-owned financial assets. Japan's net debt outstanding as a percentage to GDP also stands at the extremely severe level among major developed countries.

(Note) When comparing debts outstanding data with focus on net debt outstanding data, it is necessary to keep in mind that most government-owned financial assets are reserve funds that would cover social security benefits in the future and that it is impossible to immediately draw down these assets for redeeming the current debts or covering interest payment expenses.

(Source) OECD Economic Outlook 83 (June 2008)
(Note) Debt includes Financial Bills (FBs).
(Note) Figures represent the general government-based data (including the central/local governments and the social security funds).
Borrowing at the central and local government levels (long-term debt outstanding) have amounted to approximately half the financial assets in the household sector. In addition, also to be noted is that the savings rate has been taking a downward trend due to the aging population.

6. Declining Birthrate and Aging Population

In Japan, aging is progressing faster than in any other developed country and expected to progress in the further.

1) Ratio of People Aged 65 and over to the Total Population

(Source) 1. Figures for Japan from “National Census” (the Ministry of Internal Affairs and Communications) and “Japanese Future Demographic Projections” (National Institute of Population and Social Security Research, December 2006)
2. Figures for other countries are based on UN projections.

●Changes in the Demographic Pyramid

Ratio of population between the ages 20 and 64 to those aged 65 and over (Total population)

3.6 (126.93 million people)  1.8 (119.27 million people)  1.2 (95.15 million people)

(Source) “National Census” (Ministry of Internal Affairs and Communications) and “Japanese Future Demographic Projections” (National Institute of Population and Social Security Research, December 2006)
7. Problems of Fiscal Deficit

“National burden ratio” (the sum of total tax payments and social security contributions as a percentage of National Income) stands at a lower level in Japan when compared with other major developed countries. Under the current framework, the declining birthrate and aging population will pose a heavier burden on future generations.

1) International Comparison of National Burden Ratio

<table>
<thead>
<tr>
<th>Country</th>
<th>National Burden Ratio (%)</th>
<th>Potential National Burden Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (FY2008)</td>
<td>43.5</td>
<td>52.1</td>
</tr>
<tr>
<td>United States (CY2005)</td>
<td>39.6</td>
<td>51.7</td>
</tr>
<tr>
<td>United Kingdom (CY2005)</td>
<td>10.8</td>
<td>24.6</td>
</tr>
<tr>
<td>Germany (CY2005)</td>
<td>34.5</td>
<td>51.5</td>
</tr>
<tr>
<td>France (CY2005)</td>
<td>25.6</td>
<td>51.5</td>
</tr>
<tr>
<td>Sweden (CY2005)</td>
<td>25.1</td>
<td>51.5</td>
</tr>
</tbody>
</table>

Note: In 2005, Japan saw the national burden ratio of 38.3%, and potential national burden ratio of 44.6%, while the ratio of fiscal deficits to national income stood at 6.3.

2) Lifetime Benefits and Burdens by Generation

Under the current system, younger generations will face an increased excessive net burden.

(Source) Cabinet Office/ Annual Report on The Japanese Economy and Public Finance 2005
3) Interest Payments and Government Bonds Outstanding

If economic recovery sends up interest rates, interest payments will rise sharply due to accumulated outstanding debts.

(Note) Japan’s national government bonds outstanding stands at more than ¥500 trillion. If the interest rate becomes higher by 1% from the current level, interest payment expenses will increase by ¥5 trillion in the middle run.

Impacts of Fiscal Deficit

Accumulation of fiscal deficit

- Policy actions become less flexible (increased interest payments)
- Higher interest rates will pose a negative impact on the Japanese economy
- Increased inequality among generations

Major obstacle to the realization of a vibrant economy and society
8. Efforts to fiscal consolidation in major developed countries

In the 1990s, major developed countries pushed ahead with restoring fiscal balance through raising taxes and reducing social security benefit payments.

<table>
<thead>
<tr>
<th>Country</th>
<th>Efforts on the expenditure side</th>
<th>Efforts on the revenue side</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>• Introducing the cap rule (setting upper limit on expenditures) and the pay-as-you-go rule (no expenditure growth without revenue source).&lt;br&gt;• Putting a curb on defense expenditures and social security expenses.</td>
<td>• Raising individual income tax, corporation income tax and estate tax.&lt;br&gt;• Raising social insurance premiums.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>• Setting an upper limit on public expenditure growth rate for the next 3 years, and reducing expenditures through privatization.&lt;br&gt;• Enhancing fiscal discipline (The government is able to borrow funds only if it has an investment purpose).</td>
<td>• Raising value-added tax and indirect taxes.</td>
</tr>
<tr>
<td>Germany</td>
<td>• Introducing a new rule that a new expenditure would require reducing existing expenditures at almost the same amount.&lt;br&gt;• Reducing expenditures through restraining social security expenses.</td>
<td>• Raising value-added tax, solidarity tax and environment-related taxes.</td>
</tr>
<tr>
<td>France</td>
<td>• Restraining defense expenses and civil servant salaries under the government doctrine that expenditure growth should be restrained at inflation rate or lower.&lt;br&gt;• Restraining social security expenditures.</td>
<td>• Raising general society contributions, value-added tax, corporate tax and surtax.</td>
</tr>
<tr>
<td>Italy</td>
<td>• Strictly applying the rule that a request for new expenditures must accompany financial sources.&lt;br&gt;• Reducing social security expenditures, and cutting down interest payments through improving the fiscal balance.</td>
<td>• Raising value-added tax and corporate tax.&lt;br&gt;• Raising social insurance premiums.&lt;br&gt;• Strictly combating tax evasion.</td>
</tr>
<tr>
<td>Canada</td>
<td>• Reducing and abolishing low-priority programs, and selectively allocating budget fund to policy actions with higher priority.&lt;br&gt;• Reviewing the federal government’s subsidy to provincial governments, and restraining social security expenditures.</td>
<td>• Raising corporate tax.&lt;br&gt;• Raising social security premiums.</td>
</tr>
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</table>
Foreign Country Targets for Fiscal Consolidation

Major developed countries have set their targets to equilibrate fiscal balance (primary balance plus interest payments).

<table>
<thead>
<tr>
<th>Flow</th>
<th>Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td></td>
</tr>
<tr>
<td>• Balancing the budget at the federal government level by FY2012</td>
<td></td>
</tr>
<tr>
<td>(i.e., zero-growth of outstanding US treasury bonds)</td>
<td></td>
</tr>
<tr>
<td>EU</td>
<td></td>
</tr>
<tr>
<td>• Medium-range fiscal administration targets:</td>
<td>• Excessive deficit procedure (EDP):</td>
</tr>
<tr>
<td>Fiscal position (on the SNA basis) should be break even or register</td>
<td>Debts outstanding should be 60% of GDP</td>
</tr>
<tr>
<td>a surplus (Germany, France and Italy aim at achieving this target</td>
<td>(In Japan, outstanding debts at the central and local government</td>
</tr>
<tr>
<td>in FY2010, FY2011-2012 (see the note below) and FY2011,</td>
<td>levels have amounted to 148% of GDP.)</td>
</tr>
<tr>
<td>respectively.)</td>
<td></td>
</tr>
<tr>
<td>Zero-growth for outstanding debts at the central and local</td>
<td></td>
</tr>
<tr>
<td>government levels</td>
<td></td>
</tr>
<tr>
<td>• Excessive deficit procedure (EDP):</td>
<td></td>
</tr>
<tr>
<td>Fiscal deficit (on the SNA basis) should be 3% of GDP or smaller</td>
<td></td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
</tr>
<tr>
<td>• Golden rule:</td>
<td>• Sustainability rule:</td>
</tr>
<tr>
<td>Confining borrowing to investment purpose only</td>
<td>Public sector’s net debts outstanding should be 40% of GDP or</td>
</tr>
<tr>
<td>(Comparable to breaking away from special deficit-financing</td>
<td>smaller.)</td>
</tr>
<tr>
<td>bonds in the Japanese context)</td>
<td></td>
</tr>
</tbody>
</table>

(Note) France prepares two economic growth scenarios. France intends to attain the target in 2011 under the high growth scenario or in 2012 under the low growth scenario.
9. Integrated Reform of Expenditures and Revenues

In accordance with the “Basic Policies for Economic and Fiscal Management and Structural Reform 2006,” the Japanese government has been currently working on integrated reform of expenditures and revenues in order to restore sound fiscal balance.

Roadmap and Targets of Fiscal Consolidation

- **Phase I** (FY2001 – FY2006) : Reforms by the Koizumi Cabinet
- **Phase II** (FY2007 – early 2010s)
  - Achieve surplus in the primary balance as a first step toward fiscal consolidation.
    - Continue fiscal consolidation as in the first period and ensure a surplus in the primary balance of the central and local governments combined by FY2011.
    - Aim to achieve a primary balance for the central government as much as possible and promote fiscal consolidation, ensuring a balance between central and local governments.
- **Phase III** (early 2010s – mid-2010s)
  - Stop the ballooning of the debt-to-GDP ratio and decrease it in a stable manner.
    - Ensure surplus in the primary balance of the central and local governments.
    - Aim to stop the ballooning of central government’s debt-to-GDP ratio and reduce it in a stable manner.

Primary Balance

The situation where expenses, other than public debt expenses (debt servicing costs + redemption costs), are covered by revenues other than proceeds from the issuance of public bonds (mainly tax revenues).

Revenues
- Government Bond Issues (Increase in fresh borrowing)
- Tax Revenue, etc.

Expenditures
- Debt Redemption (Decrease in Debt)
- General Expenditures, etc.

When Primary expenditures and revenues are balanced

- **Ratio of debt outstanding to GDP rises**
  - if nominal interest exceeds nominal GDP growth rate

- **Ratio of debt outstanding to GDP remains constant**
  - if interest rate is equal to nominal GDP growth rate

- **Ratio of debt outstanding to GDP decreases**
  - if nominal GDP growth rate exceeds nominal interest rate
Reforms on the expenditure side from FY2007 to the early 2010s
Target: Achieving a surplus in the primary balance of the combined budget of the central and local governments by FY2011

<table>
<thead>
<tr>
<th></th>
<th>FY2006</th>
<th>FY2011 Baseline</th>
<th>FY2011 Reformed</th>
<th>Reduction</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>31.1</td>
<td>39.9</td>
<td>38.3</td>
<td>-1.6</td>
<td></td>
</tr>
<tr>
<td>Personnel Expense</td>
<td>30.1</td>
<td>35.0</td>
<td>32.4</td>
<td>-2.6</td>
<td></td>
</tr>
<tr>
<td>Public Investment</td>
<td>18.8</td>
<td>21.7</td>
<td>16.1 ~ 17.8</td>
<td>-5.6 ~ -3.9</td>
<td>Public works related expenditure -3% ~ -1% Local government investment -3% ~ -1%</td>
</tr>
<tr>
<td>Other Expenditure</td>
<td>27.3</td>
<td>31.6</td>
<td>27.1 ~ 28.3</td>
<td>-4.5 ~ -3.3</td>
<td>Social and technology expenditure +1.1% ~ economic growth rate ODA -4% ~ -2%</td>
</tr>
<tr>
<td>Total</td>
<td>107.3</td>
<td>128.2</td>
<td>113.9 ~ 116.8</td>
<td>-14.3 ~ -11.4</td>
<td></td>
</tr>
</tbody>
</table>

Fiscal gap to be filled: Approximately ¥16.5 trillion (necessary amount to attain the target), out of which expenditure reduction represents ¥14.3 ~ ¥11.4 trillion.

(\*note\*) 1. The figures shown above represent the data both at the central and local government levels unless otherwise specified (on the SNA base).
2. The data in the “Remarks” column represent nominal growth rate (on a year-on-year basis) as a percentage to overall GDP of major general expenditures that correspond to expenditure reduction as well as nominal-based reduction rate for local government investment (based on local public finance program).

Also aiming to achieve the primary balance for the central government as much as possible.

<Reference>


〇 PB in FY2011

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Revised in July 2008</td>
<td>-1.1%</td>
<td>-0.5%</td>
</tr>
<tr>
<td>(Growth rate of nominal GDP: 0.3%)</td>
<td>(Growth rate of nominal GDP: 2.1%)</td>
<td>(Growth rate of nominal GDP: 2.8%)</td>
</tr>
</tbody>
</table>

[FY2011]

| High growth/ Down  ¥14.3 trillion | -0.7% | -0.1% | 0.2% |
| High growth/ Down  ¥11.4 trillion | -1.1% | -0.5% | -0.1% |
| Low growth/ Down  ¥14.3 trillion | -1.1% | -0.6% | -0.4% |
| Low growth/ Down  ¥11.4 trillion | -1.5% | -1.0% | -0.8% |

(Growth rate of nominal GDP: 3.0%) (Growth rate of nominal GDP: 3.3%) (Growth rate of nominal GDP: 3.9%)
(Growth rate of nominal GDP: 3.3%) (Growth rate of nominal GDP: 3.5%) (Growth rate of nominal GDP: 4.0%)
(Growth rate of nominal GDP: 1.4%) (Growth rate of nominal GDP: 1.6%) (Growth rate of nominal GDP: 2.9%)
(Growth rate of nominal GDP: 1.7%) (Growth rate of nominal GDP: 1.8%) (Growth rate of nominal GDP: 2.2%)

The figures in ( ) are estimated figures of nominal GDP of each estimation.

*“Revised in July 2008” is the data submitted to the Council on Economic and Fiscal Policy (CEFP) in 22nd July 2008 by private-sector members. (“Estimated in January 2007” and “Estimated in January 2008” are data prepared by Cabinet Office and submitted to CEFP as reference estimate for “Direction and Strategy for the Japanese Economy”.)
## 10. Overall Image of FY2008 Budget

○ Framework of FY2008 budget

(Units: billion yen)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>(Revenues)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax Revenues</td>
<td>53,467.0</td>
<td>7,589.0</td>
<td>53,554.0</td>
<td>87.0</td>
</tr>
<tr>
<td>Non-tax Revenues</td>
<td>4,009.8</td>
<td>174.8</td>
<td>4,159.3</td>
<td>149.5</td>
</tr>
<tr>
<td>Government Bond Issues</td>
<td>25,432.0</td>
<td>–4,541.0</td>
<td>25,348.0</td>
<td>–84.0</td>
</tr>
<tr>
<td>Construction Bonds</td>
<td>5,231.0</td>
<td>–253.0</td>
<td>5,212.0</td>
<td>–19.0</td>
</tr>
<tr>
<td>Special Deficitfinancing Bonds</td>
<td>20,201.0</td>
<td>–4,288.0</td>
<td>20,136.0</td>
<td>–65.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>82,908.8</td>
<td>3,222.8</td>
<td>83,061.3</td>
<td>152.5</td>
</tr>
</tbody>
</table>

| **(Expenditure)**        |               |               |               |               |
| National Debt Service    | 20,998.8      | 2,237.2       | 20,163.2      | –835.6        |
| Local Allocation         | 14,931.6      | 373.2         | 15,613.6      | 682.0         |
| Tax Grants, etc.         |               |               |               |               |
| General Expenditures     | 46,978.4      | 612.4         | 47,284.5      | 306.1         |
| of which Social Security | 21,140.9      | 567.0         | 21,782.4      | 641.5         |
| **Total**                | 82,908.8      | 3,222.8       | 83,061.3      | 152.5         |

(Note 1) Revenues from government bonds occupy 30.5% of the overall government revenues in FY2008 (30.7% in FY2007).
(Note 2) General expenditures in FY2008 include an increased state-contribution portion of basic pension benefits (¥135.6 billion).
Basic Concepts of the FY2008 Budget

◆ **Ensure the implementation** of expenditure reforms as stipulated in the “Basic Policies 2006” in its second year.

◆ Although tax revenues have only risen slightly, new bond issuance is reduced **for the fourth straight year** as a result of efforts covering all expenditure and revenue areas.

   《Trends of the amount of new government bond issues》
   
   ¥36.6 trillion → ¥34.4 trillion → ¥30.0 trillion → ¥25.4 trillion → ¥25.3 trillion

   ※ In line with the reform of the special accounts, ¥9.8 trillion from the reserve fund of the Special Account for Fiscal Investment and Loan was allotted for the redemption of government bonds in order to **reduce the total amount of outstanding government bonds**. (Contribution to fiscal consolidation due to reduced future interest payments.)

◆ The following policy issues were priorities in the budget allocation process and carefully considered:

   (1) **enhancement of growth potential**
   (2) **regional vitalization**
   (3) **the security and safety of the people’s life**

Outline of the Budget for FY2008

◆ **Ensure the implementation** of expenditure reforms as stipulated in the “Basic Policies 2006” in its second year.
   - Social Security: Decrease by ¥220 billion through systemic revision, etc.
   - Public works: year-on-year decrease by 3.1%

◆ **Prioritize budget allocation** to essential expenditures, while implementing thorough expenditure reforms.
   - Science and Technology Promotion: year-on-year increase by 1.1%
   - Measures for Small and Medium-Sized Enterprises: year-on-year increase by 2.2%

![Year-on-Year Percentage Changes in Major Expenditure Categories]

(Note) As for SME promotion, exclude the increase due to systemic change by the Government Financial Institution Reform.

◆ **Through a review of all expenditure items**, thoroughly eliminate wasteful expenditures.
   - Thorough implementation and enhancement of the review of single tendering process
   - Thorough incorporation of the items which were indicated by the Board of Audit of Japan
   - Review of expenditures for Incorporated Administrative Agencies
Implementing thorough expenditure reforms in line with “Basic Policies 2006”

continue to steadily implement expenditure reforms as stipulated in each area of the “Basic Policies 2006.”

Public Works

- While the 3% reduction continues, prioritize budget allocation to such issues as regional self-reliance and vitalization as well as ensuring security and safety.
- While implementing thorough reforms of the cost structure and the bid system, promote the efficient use of the existing stock, including lengthening the lifespan of social infrastructure.

Social Security

- Curb expenditure growth in line with the aging population by ¥220 billion, through following reviews of the existing system and measures.
  - Reviews of medical fees and drug prices, etc.
  - Promotion of the use of generic drugs
  - Supporting Government-managed Health Insurance by employee’s health insurance
  - Other reviews of existing system and measures down by around ¥66 billion, down by around ¥22 billion, down by around ¥100 billion, down by around ¥32 billion

Local Public Finance

- Personnel expenses of local governments: decrease by around ¥0.3 trillion
  - net reduction in the number of public employees by 28 thousand people, revision of the salaries of skilled workers, etc.
- Investment: decrease by around ¥0.3 trillion (down 3%)
- General administration: decrease by around ¥0.1 trillion
- Create an earmarked special fund in the local allocation tax by using the revenues gained from correcting the uneven distribution of local tax. (expenditures for local revitalization: ¥400 billion)
  - In the first year, since there is still no mechanism to correct the uneven distribution of local taxes, extra fiscal measures bonds will be issued to secure revenue sources.

Others

[Education and Science]
- While fully enforcing the expenditure reduction policy, focus on measures to “establish a reliable public education.”
- As for expenditures promoting science and technology, increase by 1.1% by, for example, shifting resources to key technologies for the country and curbing and abolishing allocations for low-priority projects.

[ODA]
- Decrease by 4%, while maintaining the current ODA project volume.

[Personnel Expenses]
- Personnel cost on national public servants: down ¥45.7 billion
  - Number: Implement net reduction of central government officials by 4,122 workers, almost twice as much as last year (2,129).
  - Salaries: Incorporate structural reform of salaries and encourage restraint in its recommendations on the part of the National Personnel Authority.
Prioritization of Budget Allocation – Prioritize “Hope and Reassurance” -

◆ The government selectively allocates its budget fund for enhancement of growth potential, regional vitalization and security and safety of people's lives.

**Enhancement of growth potential**

- **Growth field development**
  - Next-generation super computer development: ¥14.5 billion (+ ¥6.8 billion)
  - Program for realizing regeneration medicine: ¥2.0 billion (+ ¥1.0 billion)
  - Infrastructure improvement for promoting the development of rare metals: ¥1.0 billion (New)
    (Including special account: ¥11.2 billion)

- **Improvement of productivity**
  (human resource development, SMEs development)
  - Assistance program for those starting a new career: ¥2.1 billion (New)
  - Program for cooperation and creation for regional innovation: ¥9.7 billion (New)

- **Construction of logistical infrastructure**
  - Super central harbor development: ¥60.1 billion (+ ¥7.7 billion)
  - Function upgrade program of airports, etc.: ¥20.4 billion (+ ¥5.6 billion)

**Regional vitalization** (Promote economic growth of the whole country through the revitalization of vitality of local region)

- **Correcting the uneven distribution of revenue sources between local governments**
  To address this urgent issue, correcting the uneven distribution of revenue sources between local governments, a special local corporate tax and special local corporate transfer tax will be created. (Estimated amount of tax revenues to be transferred: around ¥370 billion (normal year basis))

- **Special reserves in local allocation tax (expenditures for local revitalization)**
  Create an earmarked special fund in the local allocation tax by using the revenues gained from correcting the uneven distribution of local tax.
  (Expenditures for local revitalization: ¥400 billion)
  (In the first year, since there is still no mechanism to correct the uneven distribution of local taxes, extra fiscal measures bonds will be issued to secure revenue sources.)

- **Support for local regions through earmarked revenues for roads**
  Raise the subsidy rate of temporary subsidies for local road construction corresponding to the fiscal situation of each local government (current 55% → max 70%), and create a no-interest loan program. (5 years, around ¥500 billion)

- **Comprehensive efforts for local revitalization**
  - Regional revival program: ¥2.5 billion (New)
  - Adjustment expenses for the national land formulation program: ¥35.0 billion (New)
  - Subsidies for regional self-reliance and vitalization: ¥25.0 billion (+ ¥5.0 billion)

- **Ensuring and improving the quality of the life of local residents**
  - Subsidies for town development and regional revitalization: ¥395.6 billion (+ ¥10.8 billion)
  - Maintenance and revitalization of regional public transportation: ¥19.7 billion (+ ¥3.2 billion)

- **Revitalization of industries that support local regions**
  - Development of an advanced support system for management skill improvement and business succession, etc.
  - Measures for the revitalization of rural regions: ¥6.0 billion (New)

**Security and safety of the people’s life**

- **Secure and high-quality medical care**
  - Measures to address the shortage of doctors: ¥16.1 billion (+ ¥6.9 billion)
  - Measures for emergency medical care: ¥10.0 billion (+ ¥1.0 billion)
  - Comprehensive measures against hepatitis: ¥20.7 billion (+ ¥13.2 billion)

- **Disaster-resistant town development** (aiming at "zero victims")
  - Earthquake resistant housing and building program: ¥17.0 billion (+ ¥3.3 billion)
  - Countermeasures against flood and landslide disasters in response to increased risk of such disasters: ¥185.5 billion (+ ¥25.4 billion)

- **Create an environment where people can have children and raise them with a sense of security**
  - Measures for helping to nurture future generations: ¥37.5 billion (+ ¥1.0 billion)
  - Comprehensive assistance for maternal and child health care: ¥4.8 billion (+ ¥0.6 billion)

**Shift to a society that is compatible with the global environment**

- Kyoto mechanism credit acquisition program: ¥3.7 billion (+ ¥1.9 billion)
  (Including special account: ¥30.8 billion (+ ¥17.9 billion))
- Support for the prevention of global warming by business enterprises: ¥3.1 billion (+ ¥2.1 billion)
- Pioneering model projects for ultra-long-term housing: ¥13.0 billion (New)

**Establish a reliable public education system**

- Increase school personnel by 1,000 people and program utilizing outside personnel (utilizing 7,000 retired teachers, etc.): ¥5.2 billion (New)
- Program for regional headquarters for school support: ¥5.0 billion (New)
- Program utilizing school social workers: ¥1.5 billion (New)
11. Improving Budget Efficiency (Thoroughly eliminating wasteful expenditures)

The government takes the following policy actions in order to further improve budget efficiency through enhancing the cycle consisting of Plan (formulation the budget), Do (executing the budget), Check (evaluating and verifying the budget) and Action (incorporating the evaluation results) processes for evaluating how budget funds are spent as well as what kind of results the budget has yielded, and then making use of evaluation results for future budgetary planning process.

◆ Reflecting the results of budget execution survey

- The FY2007 budget execution survey covers 62 projects (50 projects surveyed by Ministry of Finance headquarters; and 12 projects surveyed by local finance bureaus).
- By evaluating the necessity for projects/programs and abolishing all or a part of 7 projects, the government reflects the survey results to its budgeting process. (The government has cut down unnecessary budgetary fund of ¥34.2 billion in the FY2008 budget.)

Main examples of reflecting the FY2007 budget execution survey results to the FY2008 budget.

(1) Reexamining projects, such as abolishing projects, because of existence of an alternative approach or poor performance of a project
   - Ministry of Land, Infrastructure, Transport and Tourism: General account Urban renewal projects and landscape-forming facilities upgrading/promoting expenses (cutting down unnecessary budgetary fund of ¥200 million)
   - The government abolishes this project because of its poor performance (budget execution rate for 3 fiscal years: 36.6%).

(2) Reexamining projects, such as integrating/improving efficiency of projects, due to the overlapping of several projects
   - Ministry of Education, Culture, Sports, Science and Technology: General account Home education assistance comprehensive support project (cutting down unnecessary budgetary fund of ¥728 million)
   - The government abolishes a portion of MEXT’s project by designating infant-raise lecture programs as a project of MHLW (Ministry of Health, Labour and Welfare)

(3) Reducing unit prices or procurement costs by encouraging open tendering-based public procurement
   - Ministry of Defense: General account Unit prices of daily commodities, etc. (cutting down unnecessary budgetary fund of ¥177 million)
   - The government conducts open-tendering-based procurement for emergency rations

◆ Intensifying/strengthening efforts to reflect Diet decisions, audit reports, etc.

- The government has been making reform efforts and strictly reexamining its budget in accordance with Diet decisions on settlement.
- In line with Board of Audit’s FY2006 Audit Report, the government evaluates the necessity and efficiency of each project and intensifies/strengthens its efforts to reflect the Audit Report suggestions to the budgeting process from the viewpoint of extensively eliminating wasteful expenditures. (Cutting down unnecessary budget fund of ¥15.2 billion in FY 2008 budget in accordance with revenues/expenses-related suggestions pointed out in Audit Report)

Reflecting Diet decisions and audit reports to budget

(1) Reflecting Diet decisions to budget
   - Reviewing outsourcing contract approaches and projects of independent administrative agencies (cutting down unnecessary budget fund of ¥156.877 million)
   - In the first fiscal year of the independent administrative agency reform, the government takes a strict, comprehensive evaluation approach and appropriately reflects Board of Audit’s suggestions to the budgeting process.
   - Major examples: Japan Housing Finance Agency (cutting down ¥70,000 million), and Employment and Human Resources Development Organization (cutting down ¥5.961 million)
(2) Reflecting Board of Audit’s Audit Report suggestions to budget < MLIT : General account and Special Account for Social Infrastructures Improvement>
- Encouraging use of reconditioned sand for pipe conduit works (cutting down unnecessary budget fund of ¥197 million)
  → Seriously taking their suggestions on the environment and economic efficiency, the government has cut down the budget much more than Board of Audit’s suggestion for single-year-based budget reduction, taking into consideration the feasibility of using reconditioned sand at other project locations.

(3) Reflecting the result of settlement of expenditures and revenues < MOF (Ministry of Finance): General account>
- Government-owned property management/disposal expenses (cutting down unnecessary fund of ¥731 million)
  → In line with the FY2006 settlement, the government has reexamined necessary amount by closely evaluating contract unit prices of most recent business consignment fees, contract unit prices of fees, as well as fee rates.

◆ Intensifying/strengthening efforts for reexamining free contracts
- Each ministry and agency has developed their “Plan for Reexamining Free Contracts” (These plans were developed in June 2006 and revised in January 2007) and makes their efforts for reexamining their free contract approach in accordance with these plans.
- By figuring out ministry- and agency-level efforts, the government has appropriately reflected their efforts to the budgeting process (cutting down unnecessary budget fund of ¥38.5 billion in FY2008 budget).

(Reference) Outline of the revised “Plan for Reexamining Free Contracts”

○ Based on the results in FY2005, the revised plan calls for transferring approximately ¥2.1 trillion-worth noncompetitive free contracts (approximately 60% of the total ¥3.4 trillion) to open tendering, project competition, public solicitation, etc. as soon as possible.

<table>
<thead>
<tr>
<th>Result in FY2005</th>
<th>Revised (FY2005 base)</th>
</tr>
</thead>
<tbody>
<tr>
<td>[free contracts]</td>
<td>3,893.7 billion (101,118 projects)</td>
</tr>
<tr>
<td>¥404.1 billion (14,802 projects)</td>
<td>¥676.1 billion (down 56%)</td>
</tr>
<tr>
<td>Noncompetitive free contracts: ¥1,197.3 billion (54,465 projects)</td>
<td>36,143 projects (down 66%)</td>
</tr>
<tr>
<td>Total ¥3,381.7 billion 84,581 projects</td>
<td>Total ¥2,140.1 billion (down 63%)</td>
</tr>
<tr>
<td>Noncompetitive free contracts: ¥2,184.4 billion (30,113 projects)</td>
<td>59,055 projects (down 70%)</td>
</tr>
<tr>
<td>¥1,464.0 billion (down 67%) 22,912 projects (down 76%)</td>
<td>Competitive tendering, etc. ¥645.1 billion (30,784 projects)</td>
</tr>
<tr>
<td>Project competitions and public solicitations ¥315.1 billion (20,161 projects)</td>
<td>Noncompetitive free contracts: ¥521.2 billion (18,323 projects)</td>
</tr>
<tr>
<td>Noncompetitive free contracts: ¥720.4 billion (7,201 projects)</td>
<td>Project competitions and public solicitations ¥900.6 billion (13,339 projects)</td>
</tr>
<tr>
<td>Competitive tendering, etc. ¥671.2 billion (11,308 projects)</td>
<td></td>
</tr>
</tbody>
</table>

(Reference) Reexamining account titles in budgetary documents
- From the viewpoint of further pushing ahead with selectively allocating and improving efficiency of budget fund through policy evaluation, the government started describing budgetary document’s account title units in line with policy evaluation units in FY2008 budget.
12. Review of Special Accounts

The accounts of the central government consist of general account and special accounts. Special accounts are designed to operate particular projects at the central government level and to manage specific funds. The government has been making reform efforts on special accounts because of recent arguments:
- Existence of special accounts might complicate or obscure overall budget structure; or
- Special accounts might lead to wasteful expenditures.

[Reform efforts in FY2008]

**Abolishing and merging special accounts**

Abolishing and merging special accounts in accordance with Act on Special Accounts
(28 special accounts in FY2007 ⇒ 21 special accounts in FY2008)
(1) Special Account for Fiscal Investment and Loan (integrating the Fiscal Loan Fund and the Industrial Investment (Industrial Investment Account))
(2) Special Account for Social Infrastructures Improvement (integrating the Urban Development Loans, Flood Control, Road Improvement, Port Improvement, and Airport Improvement)
(3) Special Account for Automobile Safety (integrating Motor Vehicle Damage Compensation Promotion and Motor Vehicle Inspection and Registration)
(4) Transferring Special Account for Industrial Investment’s Social Capital Development Account and Special Account for National Land Improvement to the general account

**Making use of reserve funds**

In accordance with Act on Special Accounts, the government has drawn down ¥9.8 trillion from interest-rate fluctuation accumulated fund of Special Account for Fiscal Investment and Loan (Fiscal Loan Program Fund Account) and has transferred it to the Special Account for Government Bond Consolidation Fund in order to reduce debt outstanding.

**Making use of surplus**

The total ¥1.9 trillion funds are transferred to the general account in accordance with Act on Special Accounts.
(1) Special Account for Foreign Exchange Funds: ¥1.8 trillion
(2) Special Account for Fiscal Investment and Loan Development Fund (Investment Account): ¥51.6 billion
(3) Special Account for Trade Reinsurance: ¥49.2 billion
(4) Special Account for Patent Registration: ¥4.3 billion
(5) Special Account for Social Infrastructures Improvement (Duty Account): ¥3.3 billion

[Reference: Planned abolishing and merging of special accounts in accordance with Act on Special Accounts]

In accordance with Act on Special Accounts, the government intends to reduce the number of special accounts to 17 at latest in FY2011. In FY2008, the Japanese government has 21 special accounts.
In the FY2008 budget, the simple sum of the 21 special accounts stands at approximately ¥368 trillion. However, since this total includes transferring in and out among accounts, the net total of special account expenditures, which excludes such transferring in and out, amounts to approximately ¥178 trillion. The ¥178 trillion expenditures consist of national government bond redemption/interest payment expenses, social security benefit payments, transfer to fiscal loan funds, local allocation tax grants, etc. The sum of special accounts expenditures, which excludes expenditures separately discussed, amounts to ¥11.2 trillion.

In accordance with the administrative reform promotion law, the government has started to describe the net total of general and special accounts for each major expenditure in FY2008 budget in order to indicate Japan’s overall fiscal condition in an easily understandable manner.

The net total for each major expenditure represents the net sum (i.e., the sum of expenditures from general and special accounts less transferring in and out among accounts) for each policy field. In other words, it refers to the overall picture of the central government’s expenditures.
Assets and Liabilities of Special Accounts

[Accumulated fund of special accounts, etc.]

- Some special accounts have accumulated funds in order to prepare for possible payments in the future.
- The accumulated funds of special accounts amount to approximately ¥205 trillion as of the settlement of FY2007. However, approximately 80% of this total is related to insurance services, such as national pension and welfare insurance programs, and is reserved to cover benefit payments in the future.

![Diagram showing the breakdown of special account funds]

Out of this total, Pension ¥138.1 trillion
N (National Pension ¥8.3 trillion
W (Welfare Pension ¥127.1 trillion
I (Industrial Injury ¥7.9 trillion
E (Employment ¥6.0 trillion
E (Earthquake Reinsurance ¥1.1 trillion

Fund of Special Account for Government Debt Consolidation Fund ¥11.1 trillion (for preparing for future government bond redemption)

Total ¥205 trillion

Accumulated fund of Special Account for Foreign Exchange Funds: ¥19.6 trillion
- This accumulated fund will finance possible finance loss resulting from fluctuation of foreign exchange rate or interest rate.
- This will be actually zero under the foreign exchange rate of ¥99/$1.
- ¥15.8 trillion has been transferred to the general account for these 10 years.

Accumulated fund of Special Account for Fiscal Loan Program Funds: ¥19.7 trillion
- This accumulated fund would finance possible financial loss resulting from fluctuations of foreign exchange rate or interest rates.
- Amount in excess of a certain level will be provided for debt redemption. In the FY2008 budget, the government has also transferred ¥9.8 trillion to Special Account for Government Bond Consolidation Fund in order to reduce debt outstanding.

[Balance Sheet of General and Special Accounts]

- As mentioned earlier, some special accounts have their accumulated funds. However, the Japanese government’s overall balance sheet tells us that “Difference between assets and liabilities” stands at negative ¥277.3 trillion.
- In addition, assets of special accounts include a lot of unsellable assets, such as forests, dams, airport sites.

Balance Sheet of Japan’s Central Government
(General Account + Special Accounts (as of the end of FY2006))
(Unit: trillion yen)

<table>
<thead>
<tr>
<th>&lt;Assets&gt;</th>
<th>&lt;Liabilities&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposit</td>
<td>37.5</td>
</tr>
<tr>
<td>Securities</td>
<td>91.2</td>
</tr>
<tr>
<td>Accounts receivables</td>
<td>15.3</td>
</tr>
<tr>
<td>Loans</td>
<td>217.2</td>
</tr>
<tr>
<td>Money in trust</td>
<td>96.6</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>-1.9</td>
</tr>
<tr>
<td>Tangible assets</td>
<td>178.2</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>0.3</td>
</tr>
<tr>
<td>Investments</td>
<td>65.6</td>
</tr>
<tr>
<td>Other assets</td>
<td>4.0</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>703.9</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>&lt;Liabilities&gt;</th>
<th>&lt;Difference between assets and liabilities&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial bills (FBs)</td>
<td>65.5</td>
</tr>
<tr>
<td>Government bonds</td>
<td>651.5</td>
</tr>
<tr>
<td>Borrowings</td>
<td>23.1</td>
</tr>
<tr>
<td>Deposits payable</td>
<td>58.3</td>
</tr>
<tr>
<td>Deposits received of public pensions</td>
<td>144.8</td>
</tr>
<tr>
<td>Reserves for retirement benefits, etc.</td>
<td>14.9</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>23.1</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>981.2</strong></td>
</tr>
</tbody>
</table>

- Difference between assets and liabilities = -277.3

- Total difference between assets and liabilities = 703.9
13. Independent Administrative Agencies

Independent administrative agencies are conducting tasks/projects that are certainly necessary from public interest perspectives but might not necessarily be conducted by a private enterprise.

- Providing technical assistance to developing countries in order to contribute to stability and development of the world (Japan International Cooperation Agency)
- Providing pension benefits to farmers (Farmers’ Pension Fund)
- Providing assistance related with occupational training programs or job card programs (Employment and Human Resources Development Organization of Japan)
- Working on respiratory diseases (National Hospital Organization)
- Developing energy-saving technologies and obtaining greenhouse effect gas emission quotas for addressing global warming (New Energy and Industrial Technology Development Organization)
- Securing petroleum, natural gas, uranium ore, etc. (Japan Oil, Gas and Metals National Corporation)
- Encouraging science and technology that would generate growth (Japan Aerospace Exploration Agency, RIKEN, etc.)
- Providing scholarships at a low or no interest rate (Japan Student Services Organization)
- Upgrading/constructing new Shinkansen routes or underground rapid transit railways (Japan Railway Construction, Transport and Technology Agency)
- Providing stable rental housing for low-income and elderly citizens (Urban Renaissance Agency)

- Assets and liabilities of Independent Administrative Agencies

A gap between assets and liabilities of all independent administrative agencies amounts to slightly less than ¥32 trillion (according to the FY2006 settlement), but most of these assets are expressways, research facilities, etc. and are currently used for their projects or research programs. “Independent Administrative Agency Rationalization Plan” (December 2007) calls for selling approximately ¥600 billion-worth of land and buildings that are unnecessary due to review of projects/programs.

- Gap between independent administrative agencies’ assets and liabilities

For example:
- Government Pension Investment Fund (resources for benefit of National Pension and Welfare Pension) ¥10,269.8 billion
- Japan Expressway Holding and Debt Repayment Agency (land, structures, etc. underneath expressways) ¥5,881.6 billion
- Welfare and Medical Service Agency (loan receivable) ¥4,105.4 billion
- Japan Railway Construction, Transport and Technology Agency (railway facilities, etc.) ¥1,863.9 billion
14. Asset and Liability Reform

To achieve small, efficient government and put a curb on debt growth, the government will reduce state assets by approximately ¥140 trillion in order to halve state assets as a percentage to GDP for 10 years until the end of FY2015. In addition, the government will seek out an appropriate asset/liability management approach by actively employing private sector’s expertise.

Major actions in FY2008 budget

**Fiscal Investment and Loan Program**
(Reducing loan outstanding by more than ¥130 trillion)

*Scaling down Fiscal Investment and Loan Program (FILP) through selectively allocating funds to high priority programs and improving project efficiency*

- FY2007 estimate: ¥14,162.2 billion
- → FY2008 estimate: ¥13,868.9 billion (down ¥293.3 billion)

*Preparing for securitization of the FILP Loan*

According to "Basic Policies 2006," the government securitizes FILP loans as a part of the assets/liabilities reform.
- February 2008: First issue (¥100 billion)
- August 2008: Second issue (¥100 billion)
- FY2008: ¥500 billion at maximum

**Government-owned assets**
(Estimated gains on sale: Approximately ¥12 trillion)

- Housing for national public servant, Government office buildings and Unused state-owned land:
  - Housing for national public servant: Planning to abolish 183 apartments in FY2008 (planning to abolish 985* apartment by FY2015 [Estimated gains on sale: Approximately ¥1.1 trillion])
  - Government office building: Planning to abolish 21* buildings in FY2008 (planning to abolish 174* buildings by FY2015) [Approximately ¥0.6 trillion]
  - Unused state-owned land: The FY 2008 budget estimates revenues of ¥217.3 billion (up ¥0.8 billion from FY2007 budget)

*Include 114 reconstruction land

**Shares in privatized enterprises**
(Estimated gains on sale: Approximately ¥8.4 trillion)

- ¥31 billion gain on sale of shares transferred from Japan National Oil Corporation. (July 2008)

Image of reducing the FILP Loan outstanding in line with the aforementioned framework

- Outcome of Fiscal loan: ¥10 trillion
- More than ¥130 trillion
- Approximately ¥20 trillion
- Additional efforts

1. Selectively allocating funds to high priority projects and improving project efficiency
2. Selling and securitizing existing loans and securities holding to turn them into off-balance positions
3. Further making use of government guarantees

*Japanese government balance sheet basis* *The figures shown above are calculated in accordance with certain assumptions. It should be noted that future examinations and actual loan terms and conditions might lead to different figures from those shown above.
In accordance with “Basic Policies 2006,” the central and local governments have been pushing ahead with reforms on personnel cost on civil servants in terms of the number and salary of civil servants.

**15. Reform of Personnel Cost on National Public Servants**

### Trends in personnel costs and number of civil servants

1) Central government officials

<table>
<thead>
<tr>
<th>Year</th>
<th>Personnel Cost</th>
<th>Number of People</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2006</td>
<td>5.41 trillion yen</td>
<td>599 thousand</td>
</tr>
<tr>
<td>FY2007</td>
<td>5.37 trillion yen</td>
<td>596 thousand</td>
</tr>
<tr>
<td>FY2008</td>
<td>5.33 trillion yen</td>
<td>591 thousand</td>
</tr>
</tbody>
</table>

2) Local government officials

<table>
<thead>
<tr>
<th>Year</th>
<th>Personnel Cost</th>
<th>Number of People</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2006</td>
<td>22.6 trillion yen</td>
<td>2,908 thousand</td>
</tr>
<tr>
<td>FY2007</td>
<td>22.5 trillion yen</td>
<td>2,951 thousand</td>
</tr>
<tr>
<td>FY2008</td>
<td>22.2 trillion yen</td>
<td>2,995 thousand</td>
</tr>
</tbody>
</table>

(Note 1) At the central government level, the personnel cost data represent the sum of the general and special accounts. At the local government level, the data refer to salary-related expenses in the local finance plan.

(Note 2) Central government officials’ data represent the sum of 324,000 administrative agencies officials, 235,000 self-defense officials (actual number of officials), 32,000 Diet and court staff, and 178 special government services (FY2008). Local government officials’ data refer to the number of civil servants as of April 1 of each year (Ministry of Internal Affairs and Communications is currently calculating the FY2008 data.)

### Efforts in FY2008 (Budget and Local Finance Plan)

1) **Central government officials** (cutting down national government officials’ personnel costs by ¥45.7 billion from the FY2007 level through the following efforts)

- The government has achieved net reduction of 4,122 (1.26%) national public servants, almost twice as many as the FY2007 net reduction level (down 2,129 public servants), intending to attain the net reduction target of 5.7% (18,936) or more of national public servants in the 5-year period from FY2006 to FY2010.
- The government has reflected the salary structure reform and partial freeze of National Personnel Authority’s recommendation to the budget.

2) **Local government officials** (cutting down salary-related expenses by ¥304 billion through the following efforts)

- Pushing ahead with reform efforts, such as civil servants net reduction and salary structure reform, in accordance with “Basic Policies 2006”
- Correcting technical staff salaries in accordance with “Basic Policies 2007”

### Reference: Number of Civil Servants per 1,000 People

<table>
<thead>
<tr>
<th>Country</th>
<th>Number of Civil Servants per 1,000 People</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>7.6</td>
</tr>
<tr>
<td>France</td>
<td>20.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>7.6</td>
</tr>
<tr>
<td>United States</td>
<td>4.0</td>
</tr>
<tr>
<td>Germany</td>
<td>2.2</td>
</tr>
</tbody>
</table>

Note 1: Data prepared by Ministry of Internal Affairs and Communications
Note 2: The figures represent the FY2007 data for Japan, the FY2006 data for the UK and US and Germany, and the FY2005 data for France.
Note 3: Indicates the number of civil servants at the central government level (excluding defense).
(Reference) Trends in Fiscal Conditions


Bond dependency ratio (ratio of bond issues to total expenditures)

Tax Revenues Settlement minus Initial Budget

-29-
Discussion 1 Social Security

In Japan, social security benefits and contributions are increasing in line with the rapid aging of the population. To provide a stable and efficient social security system that will be sustainable in the future, Japan must eliminate intergenerational inequality and secure a balance between social security benefits and contributions.

1) Trends in Social Security Benefits

![Trends in Social Security Benefits](chart)

<table>
<thead>
<tr>
<th>Year</th>
<th>Social Security Benefits</th>
<th>National Income</th>
<th>Ratio of Social Security Benefits to NI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(A)</td>
<td>(B)</td>
<td></td>
</tr>
<tr>
<td>1970</td>
<td>4</td>
<td>61</td>
<td>5.8%</td>
</tr>
<tr>
<td>1980</td>
<td>25</td>
<td>203</td>
<td>12.2%</td>
</tr>
<tr>
<td>1990</td>
<td>47</td>
<td>348</td>
<td>13.6%</td>
</tr>
<tr>
<td>2000</td>
<td>78</td>
<td>372</td>
<td>21.0%</td>
</tr>
<tr>
<td>2006</td>
<td>90</td>
<td>376</td>
<td>23.9%</td>
</tr>
<tr>
<td>2015</td>
<td>116</td>
<td>461</td>
<td>25.3%</td>
</tr>
<tr>
<td>2025</td>
<td>141</td>
<td>540</td>
<td>26.1%</td>
</tr>
</tbody>
</table>

1. Social security benefits mean the total amount of public social security benefits.
3. According to the Case B scenario (a lower economic growth scenario), social security benefits payments in FY2025 are estimated at ¥136 trillion (27.7% of the national income).
On average, elderly households do not face severer economic conditions than other age groups. Rather, their personal savings and assets substantially exceed those of other age groups.

2) Economic Conditions Surrounding the Elderly

The average income at elderly households is not so much less than at other households

Average income per household member (excluding three-generation households)

(Source) Ministry of Health, Labor and Welfare

Elderly households outperform working households in terms of assets including savings, holding about twice the level of saving on average

(Source) "Family Income and Spending Survey (2007 average)", Ministry of Internal Affairs and Communications
"National Consumption Survey (2004)", Ministry of Internal Affairs and Communications
With the aging of the Japanese population, medical care expenditures financed with premiums and taxes have been increasing faster than the economic growth rate. To provide sustainable universal health care insurance system under such conditions, it is necessary to restrain medical care expenditures by reducing and streamlining medical service delivery costs, selectively allocating funds to high-priority programs and improving efficiency in medical care benefits.

1) Breakdown of National Health Care Expenditures (¥33.1 trillion in FY2006)

- Age bracket analysis: Citizens aged 65 or older (20% of overall population) occupy approximately 50%, and those aged 75 or older (10% of overall population) occupy approximately 30%

<table>
<thead>
<tr>
<th>National health care expenditures (33.1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Citizens younger than 65 years old: 48% (16.0)</td>
</tr>
<tr>
<td>Citizens aged 65 or older: 52% (17.1)</td>
</tr>
<tr>
<td>[Citizens aged 70 or older: 41% (13.6); those aged 75 or older: 29% (9.7)]</td>
</tr>
</tbody>
</table>

- Revenue source analysis: Patients are paying 14% of overall expenditures while the remaining 86% are financed with the public funds, such as taxes and premiums.

| Personnel costs for doctors, etc: 50% (16.5) |
| Drugs and medicines: 21% (7.1) |
| Healthcare materials: 6% (2.0) |
| Commission expenditures, Heating and lighting expenses: 22.9% (7.6) |

Note: The figures represent the FY2006 data. (The figures in parenthesis represent the data in ¥1 trillion yen.)

2) Regional Gaps in Medical Care Costs

There is a strong correlation between the number of sickbeds and in-patient medical expenses.

Correlation between per capita in-patient medical expenses for elderly people and number of sickbeds per 100,000 people

1. In-patient medical expenses include meal costs during hospitalization (actual data for FY2006).
2. The number of sickbeds per 100,000 people is calculated as the sum of hospital sickbeds and medical clinic sickbeds less the number of sickbeds at nursing care-type medical facilities as of October 1, then divided by the estimated population data of Statistics Bureau, Ministry of Internal Affairs and Communications as of October 1.
3) Medical Care Gap with Foreign Countries

Japan shows significant gaps with countries, particularly in terms of medical care expenditures for elderly citizens.

- “Medical expenditures per elderly citizen” stands at a significantly higher level than those for younger generations (approximately 5 times as large as medical expenditures for younger generations in Japan, while 2 to 4 times in foreign countries)
- Japanese elderly citizens occupy a greater number of hospital beds and tend to stay in hospitals for a longer period than elderly people in foreign countries (Number of hospital beds: 2 to 4 times as large as foreign countries’ level; number of days in the hospital: 3 to 5 times as long as foreign countries’ level)
- Japanese citizens visit hospitals more frequently (the highest level among OECD member countries; 2 to 5 times as frequent as foreign countries’ level)
- Japan has a greater number of advanced medical equipment types (CT: 6 to 12 times as many as countries countries’ level; MRI: 5 to 9 times as many as foreign countries’ level)

4) Share of Generic Drugs, and Gaps with Foreign Countries

In Japan, use of generic drugs stands at a much lower level from international comparison perspectives.

<table>
<thead>
<tr>
<th>Country name</th>
<th>Share of generic drugs (FY 2006)</th>
<th>(Unit: %)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Volume</td>
<td>Monetary Amount</td>
</tr>
<tr>
<td>Japan</td>
<td>16.9</td>
<td>5.7</td>
</tr>
<tr>
<td>United States</td>
<td>63</td>
<td>13</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>59</td>
<td>26</td>
</tr>
<tr>
<td>Germany</td>
<td>56</td>
<td>23</td>
</tr>
<tr>
<td>France</td>
<td>39</td>
<td>16</td>
</tr>
</tbody>
</table>

(Source) Japan : Japan Generic Medicines Association
United States, United Kingdom, Germany and France : IMS Health, MIDAS New Market Segmentation RX only MAT Dec 2006, IMS Strategic Management Review 2006 PERSPECTIVES ON THE GLOBAL PHARMACEUTICAL MARKET
(Note) • It is necessary to keep in mind that data from other nations are not simply comparable because their sources and definitions are different from one another.
• For example, the share of generic drugs published by France government (AFSSAPS) are 18% (volume) and 9% (monetary amount).
Public Pension System

Paying attention to long-term population and economic trends, Japan needs to provide stable and equal public pension system.

- Outline of FY2004 Pension System Reform
  [Automatic adjustment of benefits based on fixed premium contributions and macroeconomic indexation]
  ○ Introducing the new framework that sets out final pension premium levels and automatically adjusts pension benefit levels within a premium revenue level (i.e., macroeconomic-indexed framework that takes into considerations the lower premium revenues resulting from decreased labor population in the future).
  Welfare pension: Raising the pension premium by 0.354% every year since October 2004 (15.350% since September 2008) 18.30% from September 2017 onward
  National pension: Raising the monthly pension premium by ¥280 every year since April 2005 (based on the FY2004 price level) [¥14,410 from April 2008 onward] ¥16,900 from September 2017 onward (based on the FY2004 price level)

- [State Contribution’s Share of Basic Pension Benefits]
  ○ After fundamental tax reform to provide stable and necessary revenue sources, the government intends to raise the state-contribution portion of basic pension benefits to half of the overall basic pension benefits at the latest in FY2009.

Long-term Care

As nursing-care insurance benefits are estimated to increase more than economic growth rate, it is necessary to restrain benefit expenditures by reducing/streamlining medical service delivery costs, selectively allocating funds to high-priority programs and improving efficiency in nursing-care insurance benefits.

1) Trends in Long-term Care Insurance Benefits and Premiums

Nursing care insurance premiums have been increasing as nursing care insurance benefits have been rising substantially

[Benefits]

(Note) Data from FY2000 to FY2006 represent settlement data. FY 2007 data refer to the supplementary budget, and FY2008 data represent the initial budget.

2) Premiums paid by over 65 years old [national average (monthly, weighted average)]


¥2,911 ¥3,293 ( +13%) ¥4,090 ( +24%)
Public Assistance

As public assistance recipients has been increasing, it is necessary to carefully review the current framework from the viewpoints of providing an equal program and promoting self-help for public assistance recipients.

Trend in Number of Public Assistance Recipients and the Central Government Contributions

In line with an increase in the number of public assistance recipients, the central government contributions in the budget have been rising.
Discussion 2 Central and Local Governments

The central government has deficits both in the primary and fiscal balances while local governments enjoy surplus in the primary and fiscal balances. Outstanding debts at the central government level have been increasing because the central government has a fiscal deficit, while local governments will see decreased outstanding debts in the future, helped by their fiscal surplus.

Central government’s budget and local public finance program (based on the FY2008 data)

Outstanding long-term debt of the central government is about three times as large as that of local governments. The ratio of outstanding long-term debt to tax revenues (after adjusted for local allocation tax grants and other transfers) is 15.4 for the central government against 3.5 for local government.

Ratio of tax revenues to outstanding central and local government debt (estimated for the end of FY2008)

(Notes) 1. Central government revenues include special account taxes.
2. Local tax revenues = Estimates in local public finance program + Estimates outside the program
3. Tax revenues after local allocation tax and other transfers are those after the local allocation tax and the local transfer tax are transferred to local governments.
There is a significant gap in financial capabilities among local governments. In the future, it is necessary to think about such financial capability gap among local governments.

**Financial capability gap among prefectural governments (FY2007)**

1. Local government with sufficient revenue sources
   - 2 local governments

   - Tokyo Metropolitan Government: ¥1.621.6 billion
   - Aichi Prefecture: ¥119.4 billion

2. Local government with insufficient revenue sources
   - 45 local governments

   8 prefectures with lowest financial capability index
   - Shimane Prefecture: ¥182.1 billion
   - Kochi Prefecture: ¥168.6 billion
   - Tottori Prefecture: ¥128.8 billion
   - Akita Prefecture: ¥202.0 billion
   - Nagasaki Prefecture: ¥228.2 billion
   - Miyazaki Prefecture: ¥186.9 billion
   - Okinawa Prefecture: ¥195.7 billion
   - Kagoshima Prefecture: ¥278.1 billion

There is a fiscal capability gap among local governments because Tokyo and some other major cities have abundant local tax revenue sources, inter alia, two local corporate taxes (corporate enterprise tax and corporate inhabitant tax). Local consumption tax significantly mitigates local government’s financial capability gap through the inter-regional adjustment system.

**Indexes of local tax revenues per resident (100 = national average)**

- Individual inhabitant tax
- Two corporate taxes
- Property tax
- Local consumption tax before adjustments
- Total local taxes

Note 1: Tax revenues of individual inhabitants tax include Stock Divided Rate, Capital Gain Rate and Interest Rate.
Note 2: Tax revenues of Fixed Asset taxes include property taxes levied by prefectures.
Note 3: Population data come from the Basic Resident Register data as of March 2007.
Remarks: The data come from the FY2006 settlement (excluding excessive taxation).

Introduction of the inter-regional adjustment system mitigates a significant gap of tax revenue sources.

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To address this situation, the government plans to rename half of the unevenly distributed corporate enterprise tax (¥2.6 trillion) “Local Corporate Special Tax (a national tax)” and redistribute it among prefectures as a local corporate special transfer tax, according to their populations and number of employees.

In the FY2008 Local Finance Countermeasures, the government has set up ¥400 billion “Expenditures for Local Revitalization” as a special quota by making use of the local tax revenue gap mitigation effect as stated above.* Through this approach, the government intends to strictly keep fiscal discipline and provide tax revenues necessary for revitalizing local communities.

In the first year, since there is still no mechanism to correct the uneven distribution of local taxes, extra fiscal measures bond were issued to secure revenue sources.
The FY2008 Local Public Finance Program calls for reducing total expenditures for seven consecutive years* by putting a curb on local government servants’ personnel costs and local government’s projects in accordance with “Basic Policies 2006,” etc. It is necessary to make further efforts in putting a curb on expenditures by avoiding loosening up fiscal discipline.
* Except for special quotas (temporary fiscal countermeasure bonds)

Growth of general expenditures at the central and local government levels (100 = the FY1975 level)

If supposing the FY1975 level as 100, general expenditures had been following the same trends both at the central and local government levels until FY1984. Since then, local governments’ expenditures have been sharply expanding. Since FY1996, the central and local governments are covering a revenue shortage on a 50:50 basis. There has been no 50:50-based revenue shortage since 2007, but it is important to avoid loosening fiscal discipline.

While the government has been pushing ahead with streamlining subsidies for local governments, social security-related subsidies have been rising due to the declining birthrate and aging population. In FY2008, social security-related subsidies occupy approximately two thirds of the overall subsidies from the central government.

Overall picture of subsidies from the central to local governments

FY1998

<table>
<thead>
<tr>
<th>Social security</th>
<th>Education and science</th>
<th>Public work</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.6 (45%)</td>
<td>3.4 (18%)</td>
<td>6.0 (31%)</td>
<td>1.3 (7%)</td>
</tr>
</tbody>
</table>

FY2008

<table>
<thead>
<tr>
<th>Social Security</th>
<th>Education and science</th>
<th>Public works</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.4 (65%)</td>
<td>2.0 (11%)</td>
<td>3.9 (21%)</td>
<td>0.7 (4%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Medical care for elderly people</th>
<th>National health insurance managed by municipalities</th>
<th>Public assistance</th>
<th>Long-term care</th>
<th>Compulsory education</th>
<th>State subsidies (service, disaster recovery, etc)</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>2.1</td>
<td>2.0</td>
<td>1.9</td>
<td>1.7</td>
<td>2.8</td>
</tr>
</tbody>
</table>
Social infrastructures have been improving in Japan. However, as Japan will see a decreasing population in the future, the government needs to selectively allocate budgetary funds to high-priority public works and further streamline public works.

1) Trends for public works-related budgets
Public works-related expenditures in FY2008 stand at ¥6,735.2 billion (down ¥212.1 billion, or 3.1%, on a year-on-year basis).

2) Breakdown for public works-related budgets

3) Trends for Japan’s social infrastructure level

- Flood-hazard areas (ha) 53,558 ⇒ 30,859 (−42%)
  (Average dimension of flooded areas in the past 10 years)

- Total road length (km) 5,281 ⇒ 9,332 (+77%)
  (High-standard roads)

- Number of quays at major ports 7 ⇒ 64 (+814%)
  (Number of locations)

- Water depth of 14m or deeper

- Number of airports (number of locations) 82 ⇒ 97 (+18%)

- Sewage diffusion rate (%) 62 ⇒ 84 (+22 point)

- Urban parks (number of locations) 57,139 ⇒ 95,232 (+67%)
4) **Trend of the general government (the central and local governments, etc.) in (government fixed capital formation) as a percentage of GDP**

Japan has been taking a sharp downward trend, but still keeps a higher level than Western nations.

![Graph showing trend in government fixed capital formation as a percentage of GDP](image)

Sources: The data on Japan come from Cabinet Office, "National Accounts" (fiscal year basis), while those on foreign nations are cited from OECD, "National Accounts 2007" (calendar year basis).

5) **Efforts for cost reduction and bid-process reform**

For the five years since FY2003, the government has been working on cost structure reforms to achieve 15% overall cost reduction rate. Up until FY2006, Japan has attained 11.5% cost cut. By deciding on “Public Works Cost Structure Improvement Program” (May 2008, meeting of relevant ministries on improving efficiency of public administration) for FY2008 onward, the government also aims at improving the overall cost rate by 15% in 5 years.

Also necessary is to strictly eliminate bid-rigging and provide further competitive, transparent and fair bidding and contract processes through expanding open tendering plans.

6) **Reviewing the earmarked revenues for road construction**

The government will review the earmarked revenues for road construction in accordance with “Basic Policy on Earmarked Revenues for Road Construction” approved by the cabinet on May 13, 2008. (Outline of “Basic Policy on Earmarked Revenues for Road Construction” (cabinet decision on May 13, 2008))

- Thoroughly eliminating wasteful expenditures of road-related public corporations or special accounts related with road improvement projects.
- The earmarked revenues for road construction will be abolished in 2008 when the fundamental reform of the taxation system is implemented and shifted into general revenues in FY2009. In this process, the government will pay due attention to avert negative impact on local finance. In addition, the government will steadily improve necessary roads.
- The government will examine the applicable tax rate, including the provisional tax rate, in 2008 when the fundamental reform of the taxation system is implemented, paying due attention to international efforts on environmental problems, necessity of road improvement in local areas, and severe fiscal conditions at the central and local government levels.
- The medium-term plan will cover a 5-year period. The government will develop a new road improving plan based on the latest demand estimate. The government will execute the FY2008 budget strictly in line with this new plan.

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Discussion 4 Education and Science & Technology

1) Education

Japan sees decreased numbers of students due to lower birthrate while public educational expenses have remained almost flat, leading to a sharp rise in budgetary funds and number of teachers per student. In the future, it is necessary to selectively allocate budgetary funds to high-priority projects and improve education quality.

- Public education costs per student
  - FY1989: ¥578 thousand
  - FY2005: ¥870 thousand ( Increase: +51% )

- Number of teachers per 40 students
  - FY1989: 2.05 people
  - FY2005: 2.70 people ( Increase: +32% )

(Sources: Ministry of Education, Culture, Sports, Science and Technology (MEXT), Survey Report on Local Education Costs, School Basic Survey, and other data from MEXT.)

It is pointed out that schools in Japan have more students in a class. However, the number of students per teacher stands at almost the same level as the major developed countries (G5 countries). Japan does not have a smaller number of school teachers than other developed nations.

- Number of students per class (2006)
  - Japan: 26.2
  - U.S.: 24.9
  - U.K.: 25.9
  - Germany: 22.7
  - France: 24.1
  - Average: 24.4

- Number of students per teacher (2006)
  - Japan: 17.2
  - U.S.: 14.6
  - U.K.: 14.7
  - Germany: 18.4
  - France: 15.5
  - Average: 15.8

(Sources: OECD "Education at a Glance 2008")

School teachers in Japan earn higher salaries than the average salary for school teachers in major developed nations (G5).

- Salary for a school teacher who serves for 15 years (as a percentage to per-capita GDP, 2006)
  - Japan: 1.54 (Unit: times)
  - U.S.: 0.97 (Unit: times)
  - U.K.: 1.31 (Unit: times)
  - Germany: 1.34 (Unit: times)
  - France: 1.09 (Unit: times)
  - Average: 1.24 (Unit: times)

- Salary for a school teacher who serves for 15 years (US dollar equivalent based on the purchasing power parity, 2006)
  - Japan: 41,107 (Unit: dollar)
  - U.S.: 37,200 (Unit: dollar)
  - U.K.: 32,556 (Unit: dollar)
  - Germany: 37,035 (Unit: dollar)
  - France: 38,360 (Unit: dollar)
  - Average: 37,457 (Unit: dollar)
It is pointed out that Japan’s education-related fiscal expenditures have a lower percentage to GDP. However, when taking into consideration the number of children and the size of the government (national burden ratio and general government total expenditures), Japan’s education-related fiscal expenditures stand at almost the same level as other major developed countries.

**Percentage of children in Japan is low.**

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>OECD average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public education expenditure / GDP</td>
<td>3.4%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Number of children / population</td>
<td>16.3%</td>
<td>22.3%</td>
</tr>
</tbody>
</table>

(Source) OECD "Education at a Glance 2008"

**2) Science & Technology**

To maximize the outcome of science and technology-related investments, it is necessary to selectively allocate budget funds to high-priority projects.

- The government have expanded its science and technology-related budget even under recent severe fiscal conditions.

**Comparison of science and technology expenditures with general expenditures**

(Note) Changes in indexes of science and technology expenditures and general expenditures (100 for FY1996)

- The government will strategically push ahead with major technologies, such as R&D on next-generation super computers (¥14.5 billion) and space transportation systems (¥40.5 billion) and important research projects where Japan has a competitive edge, such as regeneration medical research projects that make use of iPS cells (¥2 billion).

- The government provides generous supportive measures on basic research projects through expanding Grant-in-Aid for Scientific Research (¥193.2 billion), a typical competitive research fund.
While modernizing defense capabilities, Japan needs to further improve defense budget efficiency, such as cutting down equipment procurement costs and making the procurement process more transparent.

**Trends in national defense expenditures**

(Unit: billion yen)

**Breakdown of National Defense Expenditures**

- There are three types of national defense expenditures: (1) Personnel and provisions expenses (expenditures for self-defense personnel’s salaries and meals), (2) obligatory outlay expenses (ex-post payments of past contracts) and (3) general material expenses (material expenses payable in the present fiscal year based on the present fiscal year’s new contracts). National defense expenditures are rather rigid because (1) and (2) occupy approximately 80% of the total. It is important to put a curb on personnel costs and new contracts that would bring about ex-post payments.

**Efforts to reduce equipment procurement costs**

- The government aims at achieving 15% cost reduction in FY2011 at latest through various efforts to improve efficiency with focus on projects for equipment lifecycle.
Discussion 6 Official Development Assistance

It is necessary to intend to restrain ODA (official development assistance) budgets through reducing costs, carefully identifying high-priority projects and selectively allocating budgetary funds to these high-priority projects with due considerations to keeping ODA project volume. Also it is necessary to continue improving the quality of ODA projects.

- ODA (official development assistance) consists of bilateral grants, loans (yen-denominated loans) and financial contributions to international organizations. ODA is financed with the general account budget as well as fiscal loan funds.

- The government continues its reform efforts on general account-based ODA budget in accordance with "Basic Policies 2006."

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>ODA budget</td>
<td>857.8</td>
<td>816.9</td>
<td>786.2</td>
<td>759.7</td>
<td>729.3</td>
</tr>
<tr>
<td>Increase/decrease from the preceding year</td>
<td>-5.8</td>
<td>-4.8</td>
<td>-3.8</td>
<td>-3.4</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

- All ODA expenditures including the general account-based ODA budget, special accounts, yen-denominated loans, contributions to international organizations and the preceding fiscal year's supplementary budget are as follows.

(Reference) ODA extended by major countries in 2007 (provisional)

- When comparing ODA budget data on an international basis, the net ODA expenditures (i.e., gross ODA expenditures less revised/adjusted amount of government loans) are usually used. Due to steady debt repayment from aid-receiving nations, peak-out of debt waiver, and FY2006's front-loaded investments in the international organizations, Japan's ODA expenditures are ranked 3rd in the world on a gross basis and 5th on the net expenditure basis.
In the agriculture, forestry and fishery fields, it is essential to reduce production costs and enhance agricultural practices to avoid excessive dependence on government subsidies.

**Breakdown of agriculture, forestry and fisheries expenditures**

(Unit: billion yen, %)

- General agricultural policy expenditures: 671.4 (25.5)
- Public works expenditures: 1,107.4 (42.0)
- Stable food supply expenditures: 858.2 (32.5)
- FY2008 agriculture, forestry and fisheries expenditures: 2,637.0 (100.0)

The agriculture, forestry and fisheries budget includes expenditures on public works for farmland development, on stable supply of food to the public and on promotion of forestry.

**Trend for agriculture-forestry-fishery-related budget**

(On an initial budget basis)
Discussion 8  Measures for Small- and Medium-Sized Enterprises (SMEs)

To revitalize local communities and economies by utilizing expertise and willingness and enhancing vitalities of small- and medium-sized enterprises (SMEs), the government puts a priority on taking supportive measures, such as strengthening foundation of SME, pushing ahead with appropriate subcontracting practices, supporting business succession, and promoting collaboration between SMEs and agricultural/forestry/fishery enterprises.

Breakdown of SMEs expenditure measures (FY2008 budget)

(Unit: billion yen, %)

- Subsidies to governmental financial institutions (e.g. Japan Finance Corporation for Small Business), etc. 21.0 (11.9%)
- Subsidies to Credit Guarantee Association, etc. 5.4 (3.1%)
- Operation of Organization for SMEs and Regional Innovation, Japan, etc. 21.6 (12.3%)
- Investment in credit insurance 40.0 (22.7%)
- Creating SME-based local industries 7.3 (4.1%)
- Promoting innovation and business start-up of SMEs 39.8 (22.6%)
- Promoting community revitalization 6.6 (3.8%)
- Fostering human resources for SMEs 4.6 (2.6%)
- Others 29.7 (16.9%)

Expenditure on SMEs measures 176.1 (100.0%)

Discussion 9  Measures for Environment and Energy

The government has been strengthening its efforts on global warming in order to steadily achieve the target of 6% cut of greenhouse effect gas emissions in accordance with the Kyoto Protocol and to actualize “Cool Earth Promotion Programme,” which calls for halving global greenhouse effect gas emissions in 2050 at latest.

[ FY2008 budget (FY2007 budget) ]
(Unit: billion yen)

Budget for achieving the targets of the Kyoto Protocol

[1,216.6 (1,204.4) ]

Out of this total:

- R&D on innovative energy technologies [62.9 (44.3) ]
  Necessary expenditures for promoting R&D on innovative energy technologies in order to halve global greenhouse effect gas emissions in 2050 at latest

- Expenditures for obtaining Kyoto Mechanism credits [30.8 (12.9) ]
  Necessary expenditures for obtaining credits that would emerge from other nation’s emission cuts in order to achieve country-specific greenhouse effect gas emission reduction target in accordance with the Kyoto Protocol
Conclusion

Currently, Japan sees lower government expenditures (benefits) but has much lower government revenues. This gap will impose burdens on future generations. It is necessary to keep a balance between benefits and payments so that we will not put off our current problems that will pose economic burdens on our children and grandchildren.

General government total outlays of OECD member countries (as a percentage of GDP)

Tax burden ratio of OECD member countries (as a percentage of national income)

General government fiscal balances of OECD member countries (as a percentage of GDP)

(Source) Data on other countries come from OECD data.
(Note) Figures represent the general government-based data (including the central and local governments and the social security funds).