

Provisional translation

Highlights of the Budget for FY2012

December 2011
Ministry of Finance

Outline of FY2012 Budget (General Account)

- 1) Allocating budget to the measure for the real revitalization of Japan to recover Japan's economy and society
- 2) Reviewing the existing budget based on the result of evaluation by *the Policy Proposing Type Screening*
- 3) Reducing public sector's waste thoroughly
- 4) Following the supplementary budgets for FY2011, focusing on measures for recovery and reconstruction from the Great East Japan Earthquake
- 5) To maintain confidence of the bond market, maintaining Overall Expenditure Limit (approx. ¥68.4 trillion) and restraining the amount of new government bonds issuance (approx. ¥44 trillion)

Framework of FY2012 Budget

(Unit: billion yen)

	FY2011 Budget	FY2012 Budget	FY2011→FY2012	Notes
(Revenues)				
Tax revenues	40,927.0	42,346.0	1,419.0	
Other Revenues	7,186.6	3,743.9	△3,442.7	Transfer the remaining reserves (¥996.7 billion) from the Special Account for Fiscal Investment and Loan Program to Special Account of Government Debt Consolidation Fund as refunding Reconstruction Bonds Bond Dependency Ratio: 49.0% (FY2011: 47.9%) Medium-term Fiscal Framework: "Make every effort to ensure that the amount of new government bonds issuance in FY2012 does not exceed that in FY2011 (approx. ¥44 trillion)"
Secured by Special Acts	2,489.7	—	△2,489.7	
Government Bond Issues	44,298.0	44,244.0	△54.0	
Construction Bonds	6,090.0	5,909.0	△181.0	
Special Deficit-Financing Bonds	38,208.0	38,335.0	127.0	
Total	92,411.6	90,333.9	△2,077.7	
(Expenditures)				
National Debt Service	21,549.1	21,944.2	395.1	Medium-term Fiscal Framework: "Primary balance expenses will not, in substance, exceed that of the previous fiscal year"
Primary Balance Expenses	70,862.5	68,389.7	△2,472.8	
Social Security	28,707.9	26,390.1	△2,317.7	Excludes the amount required to ensure one-half support for basic pension expense by national government contribution in FY2012 which would be financed by government compensation bond reimbursed by fiscal revenues acquired by drastic reform of the taxation system
Local Allocation Tax Grants, etc.	16,784.5	16,594.0	△190.5	
Crisis Response and Regional Revitalization	810.0	910.0	100.0	
Transfer to Special Account for Reconstruction from the Great East Japan Earthquake	—	550.7	550.7	(Reference) The total amount of local allocation tax in expenditure basis in the Special Account for Local Allocation and Local Transfer Tax (¥17,454.5 billion, up ¥ 81.2 billion over FY2011)
Others	24,560.1	23,944.8	△615.3	
Total	92,411.6	90,333.9	△2,077.7	

(Note 1) Figures may not add up to the totals due to rounding.

(Note 2) Figures of revenues and expenditures above include expenses related to payments to patients of Type-B Hepatitis

(Note 3) Revenues and expenditures for recovery and reconstruction from the Great East Japan Earthquake are allocated to Special Account for Reconstruction from the Great East Japan Earthquake (tentative)

Special Account for Reconstruction from the Great East Japan Earthquake (Tentative)

(Unit: billion yen)

(Revenue)	530.5
Special Taxes for Reconstruction (Special Corporate Tax for Reconstruction Special Income Tax for Reconstruction)	(481.0 49.5)
Transfer from General Account (Review of Child allowance Review of elimination of highway tolls Revenue for stock sales by Special Account for Energy Revenue for Housing for government workers' sales etc.)	550.7 (427.2 120.0 2.0 1.5)
Other Revenues (Revenue of contribution for public works etc.)	11.8
Reconstruction bonds	2,682.3
Total	3,775.4
(Expenditure)	
Expenses related to the Great East Japan Earthquake (Recovery and reconstruction projects Decontamination Projects The Great East Japan Earthquake Reconstruction Special Tax Grants)	3,250.0 (2,249.7 451.3 549.0)
Local allocation tax in expenditure basis in the Special Account for Local Allocation and Local Transfer Tax : 685.5	
Transfer to Special Account for Government Bonds Consolidation Fund (Interest Payments of Reconstruction bonds etc.)	125.3
Contingency Reserve for Recovery and Reconstruction from the Great East Japan Earthquake	400.0
Total	3,775.4

(Note 1) FY2011 1st ~ 3rd supplementary budget : approx. ¥14.5 trillion + FY2012 initial budget : ¥3.4 trillion (excluding Contingency Reserve) – FY2012 initial budget for decontamination : ¥0.5 trillion + local public nonsubsidized expenses for disaster prevention etc. : ¥0.6 trillion ≒ approx. ¥18 trillion

(Note 2) The reserve on Special Account for FILP (¥996.7 billion) would be transferred to Special Account for Government Bonds Consolidation Fund for redemption of Reconstruction Bonds

Main Expenses related to the Great East Japan Earthquake of the Budget for FY2012

※Followings are all allocated on Special Account for Reconstruction from the Great East Japan Earthquake (Tentative)

1. Disaster Relief	76.2 billion
2. Disposal of Disaster Waste	344.2 billion
3. Additional Public Works	509.1 billion
4. Disaster-related Public Financing Programs	121.0 billion
5. Local Allocation Tax Grants	549.0 billion
6. The Great East Japan Earthquake Reconstruction Grants	286.8 billion
7. Expenses related to Reconstruction from the Nuclear Disaster	481.1 billion
8. National Disaster Preventions Measures	482.7 billion
9. Other Expenses related to the Great East Japan Earthquake	399.9 billion
	<u>Total</u> 3,250.0 billion

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

Changes in Major Budget Expenditures (1)

(Note) Figures in the upper line exclude Expenses related to Reconstruction, those in the lower line include them.

(Unit: billion yen)

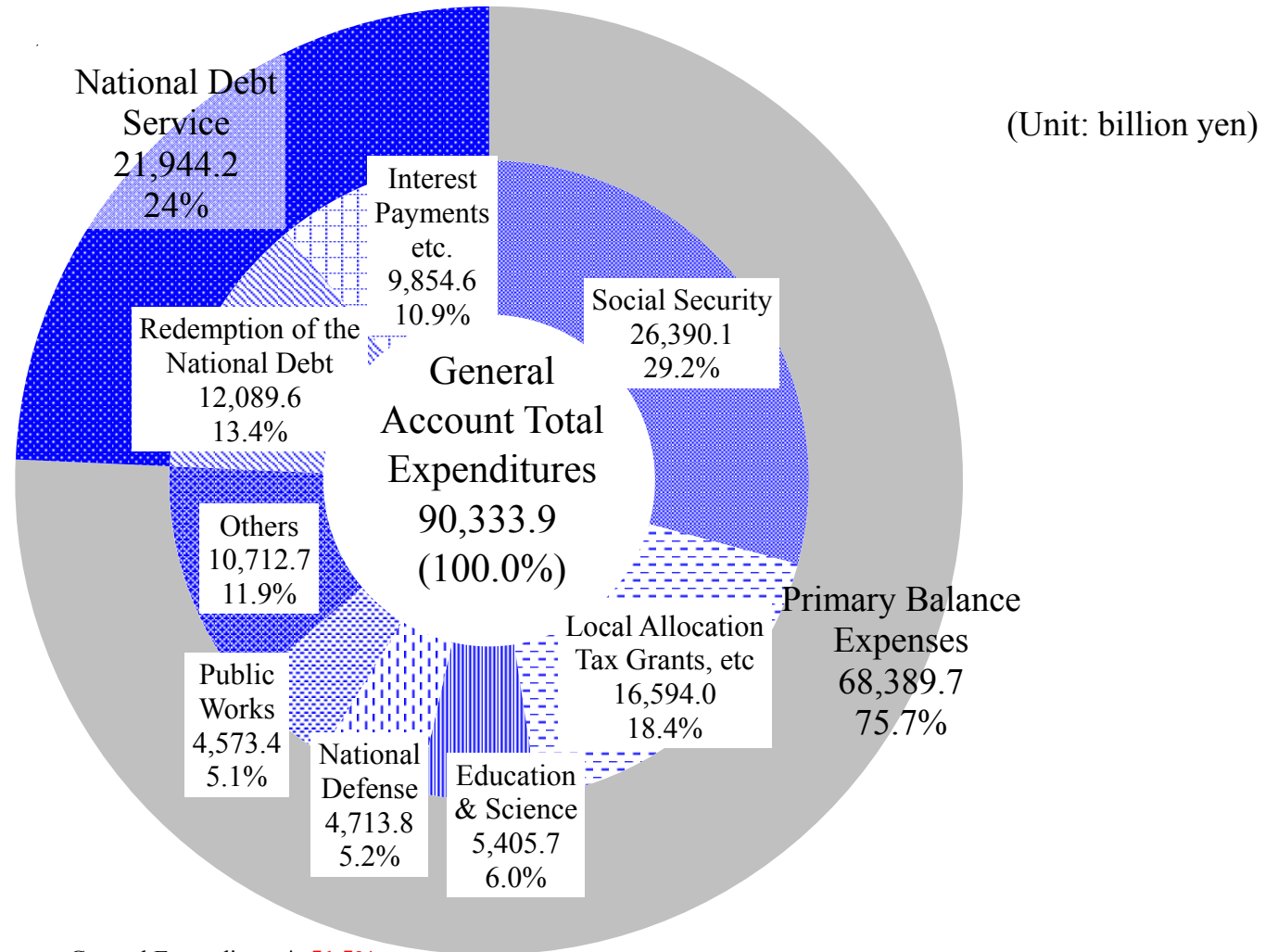
Major Expenditures	FY2011 Initial budget (Change from FY2010)	FY2012 Initial budget	Change (FY2011to FY2012)	% Change (FY2011to FY2012)	Remarks
Social Security	28,707.9 (+5.3%)	26,390.1 26,422.7	-2,317.7 -2,285.2	-8.1% -8.0%	<ul style="list-style-type: none"> • Budget for FY2011 excluding temporary funding for basic pension is ¥26,294.9 billion (FY2011→FY2012(Excluding Reconstruction): +0.4%) • Temporary funding for basic pension (the gap between targeted one-half public contribution and that of 36.5% ongoing budget) in FY2012 would be financed by government compensation bond reimbursed by fiscal revenues acquired by drastic reform of the taxation system
Education & Science	5,510.0 (-1.4%)	5,405.7 5,637.8	-104.3 +127.8	-1.9% +2.3%	
Science	1,335.2 (+0.1%)	1,294.3 1,359.0	-40.9 +23.9	-3.1% +1.8%	
Former Military Personal Pensions	643.4 (-9.9%)	571.2	-72.2	-11.2%	
Local Allocation Tax Grants, etc.	16,784.5 (-4.0%)	16,594.0 17,143.0	-190.5 +358.5	-1.1% +2.1%	(+¥81.2 billion) Local allocation tax in expenditure basis in the Special Account for Local Allocation and Local Transfer Tax (FY2011to FY2012) (+¥766.7 billion)
National Defense	4,775.2 (-0.3%)	4,713.8 4,827.4	-61.4 +52.2	-1.3% +1.1%	
Public Works	4,974.3 (-5.1%)	4,573.4 5,302.2	-400.9 +327.9	-8.1% +6.6%	% change inside boxes indicates the ratio excluding the effect by Local Autonomy Strategy Grants -3.2% +11.4%

Changes in Major Budget Expenditures (2)

(Unit: billion yen)

Major Expenditures	FY2011 Initial budget (Change from FY2010)	FY2012 Initial budget	Change (FY2011to FY2012)	% Change (FY2011to FY2012)	Remarks
Economic Assistance	529.8	521.6	-8.2	-1.6%	(Excluding Reconstruction)
ODA (Gov't Expenditure)	572.7 (-7.4%)	561.2	-11.6	-2.0%	(Excluding Reconstruction)
Measures for SMEs	196.9 (+3.0%)	180.2 335.6	-16.7 +138.8	-8.5% +70.5%	
Energy	855.9 (+1.7%)	820.2 833.6	-35.7 -22.3	-4.2% -2.6%	
Food Supply	1,158.7 (-0.2%)	1,104.1 1,169.4	-54.5 +10.8	-4.7% +0.9%	
Miscellaneous	5,566.0	5,704.7 7,064.3	+138.7 +1,498.4	+2.5% +26.9%	
Local Autonomy Strategy Grants	512.0	832.9	+320.9	+62.7%	
Contingency Reserve for Economic Crisis Response and Regional Revitalization	810.0	910.0	+100.0	+12.3%	
General Contingency Reserve	350.0	350.0	-	-	
Transfer to Special Account for Reconstruction	—	550.7	-	-	
Total	70,862.5	68,389.7	-2,472.8	-3.5%	(Excluding Reconstruction)

Framework of General Account



(※)The ratio of Social Security expenses to General Expenditures*: **51.5%**

*General Expenditures equals to the Primary Balance Expenditure minus Local Allocation Tax Grants, etc and Transfer to Special Account for Reconstruction from the Great East Japan Earthquake (tentative)

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

(Note2) Revenues and expenditures for recovery and reconstruction from the Great East Japan Earthquake are allocated to Special Account for Reconstruction from the Great East Japan Earthquake (tentative)

Measure to Prioritize the Revival of Japan ~Four fields~

- With the fiscal resources secured through the reduction of expenditures, invest primarily in higher effective policies for the revival of Japan.
- In order to revitalize the economy and society of our country and achieve society which enables every citizen to step forward with hope, the budget is prioritized in following four higher priority fields.
- By the further reduction of expenditures on the formulation process of the Budget, the fiscal resources is expanded to ¥1 trillion scale, from ¥700 billion scale at the Guideline for Budget Requests Reformulation

~ Four fields which are the targets of a measure to prioritize the revival of Japan ~

i) **New frontier and New growth strategy**

(Reinforcement of a growth base including infrastructure upgrading, such as technology, energy, ocean and universe)

- (Ex.) Maintenance and operation of Quasi-Zenith Satellite System (Cabinet Office)
Approach for new growth (overseas expansion of packaged infrastructure and promotion of green growth) (Ministry of Foreign Affairs)
Acquisition of resource interests (Ministry of Economy, Trade and Industry)
Overseas expansion and reinforcement of technical strength of small and medium-sized enterprises (Ministry of Economy, Trade and Industry)
The recycling measures which utilized the environmental technology of our country (Ministry of the Environment etc.)

ii) **Human resource development, such as Education(including Sports) and Employment**

- (Ex.) The revival of Japan by the new sports culture creation projects (Ministry of Education, Culture, Sports, Science and Technology)

iii) **Regional vitalization (including the new promotion policy of Okinawa)**

- (Ex.) The budget for promotion of Okinawa (Cabinet Office)
Regional vitalization by a railway operation (Ministry of Land, Infrastructure, Transport and Tourism)

iv) **Implementation of relief and safe society**

- (Ex.) Promotion of the package of measures for the further improvement in a security level (National Police Agency)
The measures against accident by local severe rain fall (Ministry of Agriculture, Forestry, and Fisheries)
The measures against flood damage, landslide disaster, and tsunami (Ministry of Land, Infrastructure, Transport and Tourism)
Improvement in the coping ability to disaster (Ministry of Defense)

Adequately Reflecting the Recommendations by Policy Proposing Type Screening

- Reviewing expenditures of the budget for FY2012 by ultimately considering the proposals by *the Policy Proposing Type Screening*

Social security

Main Points of Proposals

- Adjust pension benefit level to original one calculated in accordance with the automatic balancing mechanism from current one staying higher by special provision since FY2012 to establish the sustainable pension system in the future
- Making the social protection more efficient in every way while keeping the medical service level for true assistance needs, regarding the rapid increase of social protection expense is caused by medical aid



Responses in the Budget for FY2012 etc.

- Adjust pension benefit level in three years since FY2012 and reducing the level by 0.9% in FY2012
- Reducing medical aid through promotion of generic drug prescription for welfare recipients and strengthening the monitor for medical institution via electric health insurance claims etc. (-¥12.4 billion)

Nuclear power & Energy

Main Points of Proposals

- Re-examine the existing system and project for R&D of fast breeder reactor which includes the decision of *Monju* fast breeder reactor R&D's continuation



Responses in the Budget for FY2012 etc.

- Eliminating R&D expense for fast breeder reactor nuclear cycle (year-on-year - ¥10.2 billion (-25%))
- Especially for *Monju*, postponing expenses for correspondent adjustments (from budget request -¥2.2 billion), and reducing maintenance and operation cost (from request -¥0.4 billion)

Reduction of Wasteful Expenses for Public Sector

As the first initial budget since the Great East Japan Earthquake and also facing the comprehensive package of social security and tax reform measures, achieved large decrease of staff number by every ministries and agencies' strict management. Trimming down maintenance cost for administrative agency to reduce wasteful expenses

Measures for managing staff number

While considering necessitate increase of human resources for the Earthquake related positions, achieved large decrease of staff number. No increase in any ministries and agencies for the first time since the establishment of Total Staff Number Law (1969) (Except Earthquake related (temporary) and transferred positions)

Measures for controlling maintenance cost

- Controlling the total maintenance cost for administrative agency strictly

FY2012 budget: ¥3,889.8 billion(From FY2011 : - ¥137.6 billion)

- Especially, for back-office expenses in maintenance cost for administrative agency,^(※)cut the budget on a year-on-year basis in every ministry, agency and special account for the first time in 30 years

※ Equipment costs, office supplies expenses, utility charges, equipment rental costs etc.

FY2012 budget: ¥233.8 billion (From FY2011 : -¥7 billion)

※ Excluding Special Account for Reconstruction from the Great East Japan Earthquake (Tentative) established in FY2012

Measures for maintenance cost of ministry building and housing for government workers

○FY 2012 budget estimate

Expense for ministry building maintenance in General Account	<u>¥16.8 billion(From FY2011: -5.3%)</u>
Of which new building construction(all ongoing project)	¥0.6 billion(From FY2011: -77.0%)
Expense for maintenance of housing for government workers in GA	<u>¥6.6 billion(From FY2011: - 26.2%)</u>
Of which construction of housing for government workers	¥0.8 billion(From FY2011: -71.5%)

(Note)No new reconstruction project for joint government building or housing for government workers would be budgeted

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

○Continuously complying budget formulation based on Medium-term Fiscal Framework in the “Fiscal Management Strategy”
 ⇒Maintaining Overall Expenditure Limit (¥68.4 trillion) and restraining the amount of Government Bond Issuance (¥44 trillion)
 { For FY2012 initial budget, Primary Balance Expenses: ¥68.4 trillion, the amount of new government bond issuance ¥44.2 trillion }

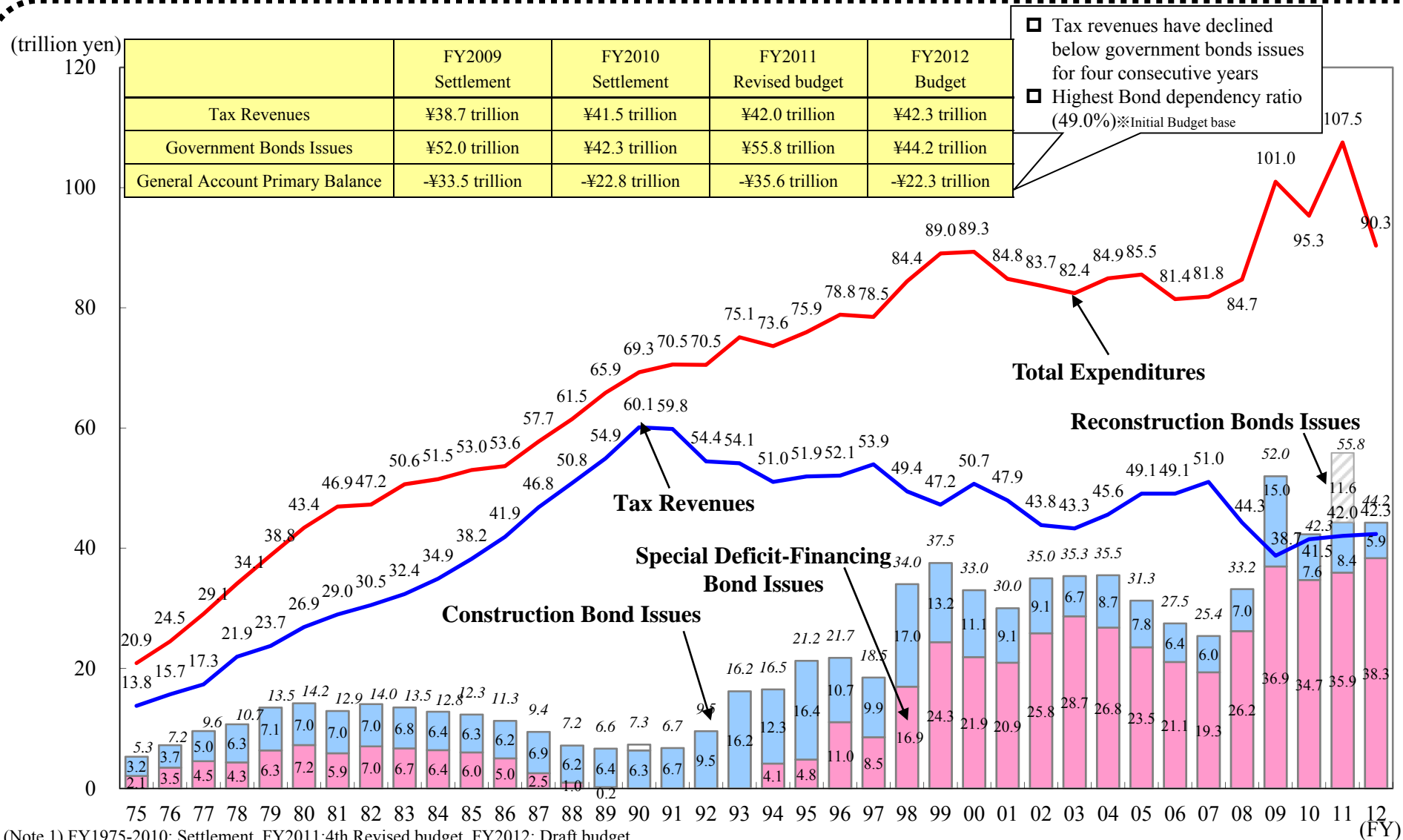
Medium-term Fiscal Framework

1) Government bond issuance	<ul style="list-style-type: none"> Make every effort to ensure that the amount of government bonds newly issued in FY 2012 (except for Reconstruction Bonds) <u>does not exceed the level in the FY 2011 initial budget (about ¥44 trillion).</u>
2) Measures on the revenue side	<ul style="list-style-type: none"> As for the Comprehensive Reform of the Tax System, further deepen the deliberations <u>in line with the FY2010 and FY2011 Tax Reform Outlines and “Definite Plan for the Comprehensive Reform of Social Security and Tax”</u>, and take the <u>necessary legislative measures by the end of FY2011</u> in accordance with the roadmap as described in Article 104 of the supplementary provisions of the Tax Reform Act 2009
3) Measures on the expenditure side (FY2012~FY2014)	<ul style="list-style-type: none"> Primary balance expenses <u>shall not, in substance, exceed the level in the initial budget for the previous fiscal year</u> (this amount is referred to as the “Overall Expenditure Limit”) Notwithstanding above, with regard to the <u>expenditures for recovery/reconstruction from the Great East Japan Earthquake</u> that exceeds the amount compensated for by the reduction of other existing expenditures, and are financed by Reconstruction Bonds, additional non-tax revenues, or temporary taxation, the amount of such expenditures <u>shall be managed separately with their revenue sources</u> and shall be added to the “Overall Expenditure Limit.” <u>Benefits or other payments to type-B hepatitis patients</u>, and are financed by temporary taxation, the amount of such expenditures shall be <u>managed separately with their revenue sources</u> and shall be added to the “Overall Expenditure Limit.” <p>(Note) Continuously adopting following discipline</p> <ul style="list-style-type: none"> The total amount of general revenue sources of local governments will be secured at virtually the same level as FY2011 Whenever policies that increase expenditure or reduce revenue are introduced, stable revenue sources must be secured by permanent reductions in expenditures or revenue-raising measures

	Overall Expenditure Limit		
	FY2012	FY2013	FY2014
Primary balance expenses	71 _(Note)	71 _(Note)	71 _(Note)
Excluding the gap between the basic pension’s government contribution rate (1/2) and 36.5%	68.4	68.4	68.4
Contingency Reserve for Economic Crisis Response and Regional Revitalization (FY2011 ¥0.8 trillion)	1	1	1

(Note)Overall Expenditure Limit since FY2012 includes the pension gap financed by revenue sources secured from the comprehensive reform of the tax system

Fiscal Discipline ~General Account Tax Revenues and Government Bond Issues~



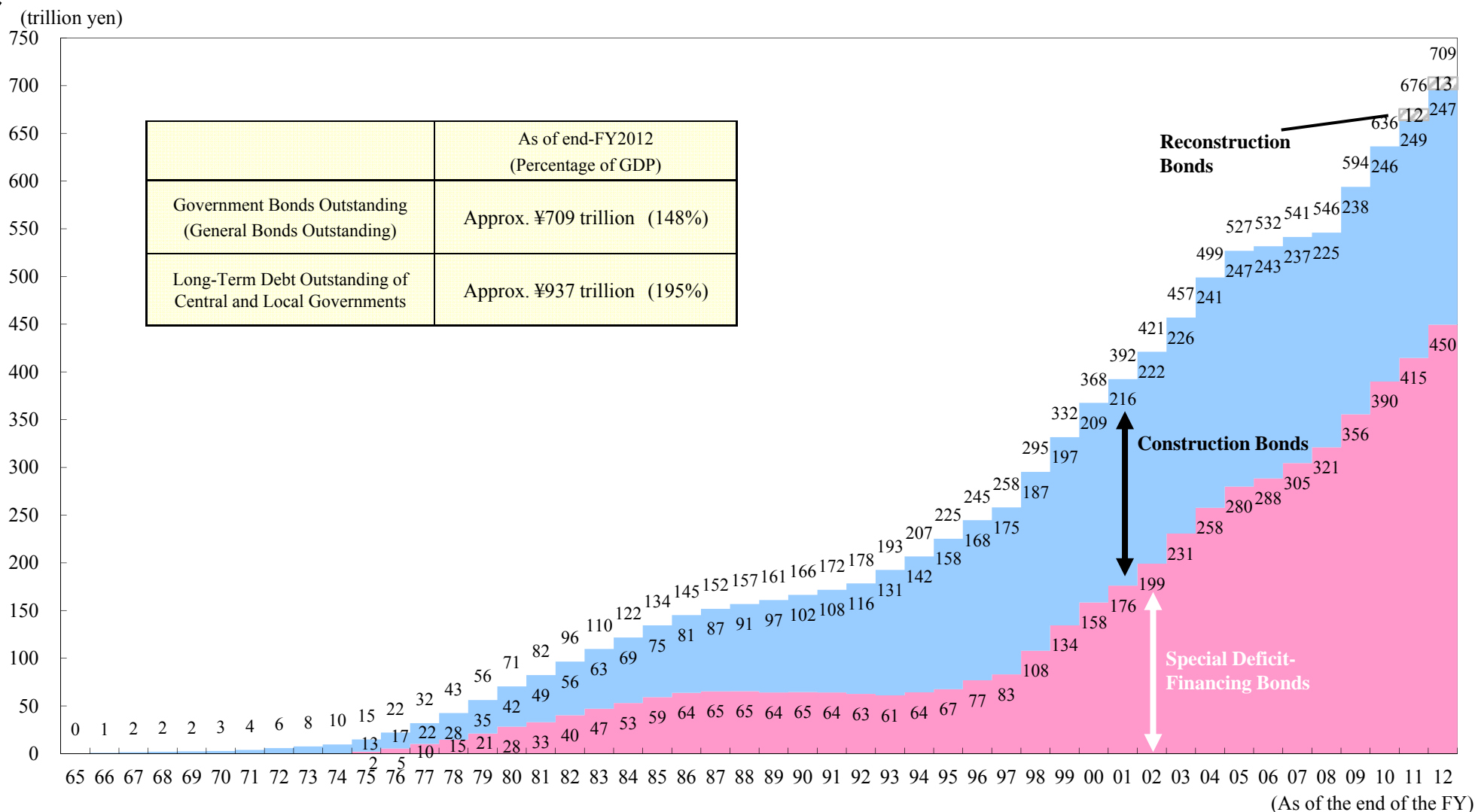
(Note 1) FY1975-2010: Settlement, FY2011:4th Revised budget, FY2012: Draft budget

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

(Note 3) Reconstruction bonds(approx.11.6)trillion yen are issued in FY2011, which are used as a temporary means until when the financial resources are secured by the revenues including the special tax for reconstruction. Measures and projects for reconstruction from the Great East Japan Earthquake, expected to be implemented within the first five years (FY2011-FY2015), would be financed by reconstruction bonds issuance.

(Note 4) General Account Primary Balance is calculated based on the easy-to-use method of National Debt Service minus Government Bond Issues, and is different from the Central Government Primary Balance on an SNA basis.

Fiscal Discipline ~Accumulated Government Bonds Outstanding~



(Note 1) FY1965-2010: Actual, FY2011: Estimates, FY2012: Draft budget

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

(Note 3) "Government Bonds Outstanding" includes reconstruction bonds issued in FY2011 and FY2012 (FY2011; 11.6 trillion yen, FY2012; 12.7 trillion yen).

Measures and projects for reconstruction from the Great East Japan Earthquake, expected to be implemented between FY2011 and FY2015, would be financed by reconstruction bonds, which are used as a temporary means until when the financial resources are secured by the revenues including the special tax for reconstruction.

(Note 4) The estimate of FY2012 excluding front-loading issuance of refunding bonds is approximately 697 trillion yen.

(Reference) Highlights of the Social Security related Expenditure

◆ Revision of reimbursement of medical and Long-term care fees , etc.

- ✓ Revise Medical Fee(itself)+1.38% and Drug Price etc. -1.38%. ※Total Revised Percentage +0.00%
- ✓ Review the allocation of medical fees , as prioritizing improvement of treatment on hospital doctor of acute care and enhancement of residential medical care , etc.
- ✓ Revise Long-term Care Fees +1.2% (Facility service:+0.2% , Residential care service:+1.0%).

◆ Allowance for Children

- ✓ Transfer to “Allowance for Children” based on the “Memorandum of Understanding”(signed by the secretary generals of three parties on August 4 , 2011).
(General Account Expenditure : 1,328.3 billion yen)

◆ Basic pension expense by national government contribution

- ✓ Ensure 50% support for basic pension expense by national government contribution.
 - 36.5% : general account expenditure
 - the rest: “Pension Subsidy Bonds(tentative)” repaid by the financial resources secured by the Comprehensive Reform of the Tax System.

◆ Others

- ✓ Make adjustment of pension benefit level to original one calculated in accordance with the automatic balancing mechanism from current one staying higher by special provision.
- ✓ Lower the Employment Insurance rate .

(Reference)Introducing the process to improve transparency and allocate budget

○Medium-term Fiscal Framework (August 12, 2011, Cabinet Decision)

- ✓ Make every effort to ensure that the amount of government bonds newly issued in FY 2012 (except for reconstruction bonds) does not exceed about ¥44 trillion.
- ✓ Primary balance expenses shall not, in substance, exceed the level in the initial budget for the previous fiscal year

○Guideline for Budget Requests Reformulation for FY2012 Budget (September 20, Cabinet Decision)

- ✓ Establishing new process of budget allocation through *the Measure to Prioritize the Revival of Japan* etc.

○Decision process of budget allocation for *the Measure to Prioritize the Revival of Japan* by government and the ruling parties' meeting (October to December)

- ✓ Hearings open to the public by working-level meeting to reveal the each ministries' budget request (November 16)

○Policy Proposing Type Screening by Government Revitalization Unit (November 20 to 23)

- ✓ In a public place, carried out in-depth discussions of policy and institutional problem behind wasteful projects and inefficiencies to propose policy issues

○ Basic Principles of Budget Formulation (December 16, Cabinet Decision)

- ✓ By fully utilizing *the Measure to Prioritize the Revival of Japan*, invest effectively and overcome the sectionalism between ministries and agencies
- ✓ By proceeding consideration of concrete reform for policies and measures, reflect the evaluation result of *the Policy Proposing Type Screening* to the Budget for FY2012