**Provisional Translation** 

Highlights of the Budget for FY2013

## Outline of FY2013 Budget (General Account)

	Outline	OT FY20 I	3 Buaget	(Unit: billion yen)
	FY2012 Budget (Initial)	FY2013 Budget	FY2012 → FY2013	Notes
(Revenues)				
Tax Revenues	42,346.0	43,096.0	7,50.0	
Other Revenues	3,743.9	4,053.5	309.6	Including surplus carried over from FY2011 220.0 billion yen, which is transferred to Special Account for Reconstruction from the Great East Japan Earthquake.
Government Bond Issues	44,244.0	42,851.0	-1,393.0	Bond Dependency Ratio: 46.3%
Construction Bonds	5,909.0	5,775.0	<b>-134.0</b>	(FY2012 : 47.6% * Considering the amounts required to fill the gap between targeted one-half National contribution to basic pension and that of 36.5% in initial budget in FY2012)
Special Deficit-Financing Bonds	38,335.0	37,076.0	-1,259.0	
Pension Related Special Deficit-Financing bonds		2,611.0	2,611.0	
Total	90,333.9	92,611.5	2,277.6	
(Expenditures)				
National Debt Service	21,944.2	22,241.5	297.3	➤ Adding expenses which are increased in FY 2013 budget, securing financial
Primary Balance Expenditures	68,389.7	70,370.0	1,980.3	resources (the amounts which fill the gap between targeted one-half National
Social Security	26,390.1	29,122.4	2,732.3	
Local Allocation Tax Grants, etc	16,594.0	16,392.7	-201.3	> Securing the local general fiscal resources which include Local tax, Local
Contingency Reserve for Economic Crisis Response and Regional Revitalization	910.0	_	-910.0	Allocation Tax Grants, etc. with equivalent level to previous fiscal year.  Primary balance: —23.2 trillion yen  (EV2013: —24.0 trillion yen) * Considering the appoints required to fill the gap between
Total	90,333.9	92,611.5	2,277.6	(FY2012: -24.9 trillion yen * Considering the amounts required to fill the gap between targeted one-half National contribution to basic pension and that of 36.5% in initial budget in FY2012)

## Highlights of the Budget for FY2013

## "Budget for 15 months" coupled with FY 2012 supplementary budget

In FY 2013 Budget,

- ➤ Toward the Revitalization of the Japanese Economy, based on "Emergency Economic Measures for The Revitalization of the Japanese Economy", formulating "Budget for 15 months" along with FY 2012 supplementary budget.
- > In the light of fiscal consolidation targets, formulating prioritized budget from the previous fiscal year.
- As well as FY2012 supplementary budget, giving priority to three areas; "Reconstruction and disaster prevention measures" "Wealth creation through growth", "Security of life and regional activation".

## Giving priority to the projects (example)

- ① In order to respond to urgent issues such as the disaster prevention measures and measures for aging social infrastructure, enhancing the public works on the projects to protect citizen's life and livelihood. In order to address the changes in the security environment and to build effective and efficient defense, enhancing national defense budget for security of life.
- ② Review / Rationalization of Public assistance System and Personnel cost of local public servants etc.
- ③ Not to allocate the Contingency Reserve (Contingency Reserve for Economic Crisis Response and Regional Revitalization) (910 billion yen) because measures to boost the economy have been sufficiently taken by implementing "Budget for 15 months".

### Important first step to fiscal consolidation targets

① In FY 2013 budget, tax revenues exceed government bonds issues, getting away from the three years lasting extraordinary situation where tax revenues were less than government bonds issues.

(FY2012 Tax revenues; 42.3trillion yen < Government bonds issues; 44.2trillion yen

- ⇒ Tax revenues; 43.1trillion yen > Government bonds issues; 42.9trillion yen)
- ② Improving primary balance steadily (In general account, FY2012 initial budget -24.9 trillion yen → FY2013 initial budget -23.2 trillion yen )
- \* Considering the amounts required to fill the gap between targeted one-half National contribution to basic pension and that of 36.5% in initial budget.

## Highlights of the Budget for FY2013 ~individual categories~

Reviewing the allocation of budget boldly, and put stress on "Reconstruction and disaster prevention measures", "Wealth creation through growth" and "Security of life and regional activation".

#### Reconstruction

- O Allocate 4,400 billion yen to the Special Account for Reconstruction from the Great East Japan Earthquake, in order to accelerate the reconstruction and rehabilitation from nuclear damage in Fukushima(ex. reconstruction of the town, assist for early return to Fukushima.)
- O At the same time, Review the outline of financial resources for recovery and reconstruction by FY2015. For the project costs exceeding 19 trillion yen, including those in FY2013, around 6 trillion yen (gains from the sale of JP Holdings shares etc.) will be allocated. These measures will help ensure security of people in the affected area.

#### **Social Security**

(Public assistance System) Set the livelihood assistance standard reasonable, as (i)adjustment of the difference by age, number of a household and region regarding the verification result of the specialists, (ii)considering the trend of prices. This will be implemented from August 2013 to FY2015 in stage, taking around 3 years to dissemination of information etc.

(Pension) Reflect the increase of adjustment amounts of national contribution to basic pension in FY2011(around 330 billion yen). (Reflect the decrease of the cost for resolving pension records problem by the progress so far.)

#### Local Allocation Tax Grants(Personnel cost of local public servants)

- Reflect the reduction of personnel cost by -7.8%: Implement from July 2013, taking time for preparation (present bylaw to local assembly in June),etc.
- O Due consideration for local government
- (i)Local governments' finance: Securing the local general fiscal resources which include Local tax, Local Allocation Tax Grants, etc. with equivalent level to previous fiscal year (59.8trillion yen,+0.13trillion yen from previous year).
- (ii)Local economy: Allocate to "Emergency disaster prevention/reduction projects" (0.5trillion yen) and "Local activation projects" (0.3trillion yen).
- (iii)Promotion of administrative reform: Reflect the effort of each local government to reduce personnel cost, by allocating resources of "Local activation projects".

#### **Public Works**

- OAllocate 5.29 trillion yen to public works, which means increase by 0.71 trillion yen(+ around 16%) from previous year; financial resources is derived from the abolishment of "Strategic Grants for Regional Autonomy" etc.
  - \*In addition to the abolishment of "Strategic Grants for Regional Autonomy" (around 0.64trillion yen), shift some budget of Ministry of Agriculture, Forestry and Fisheries from non-public works to public works (0.04trillion yen) etc.
- O In the lights of "Budget for 15 months", allocate 7.73 trillion yen to public works.
- O Combined with supplementary budget, focusing the 3 priority areas, allocate to infrastructure obsolescence and disaster prevention projects to protect citizen's lives and livelihoods, considering early expression of the maintenance benefits and inducement of private investment.

#### **National Defense**

- Allocate 4,753.8 billion yen to national defense expenditures (+40billion yen, +0.8% from previous year) (In the lights of "Budget for 15 months", over 4,960 billion yen).
  - → Reinforcement of monitoring/security ability for the southwest area and defense system for the islands area, Promoting procurement reform.

# **Changes in Major Budget Expenditure**

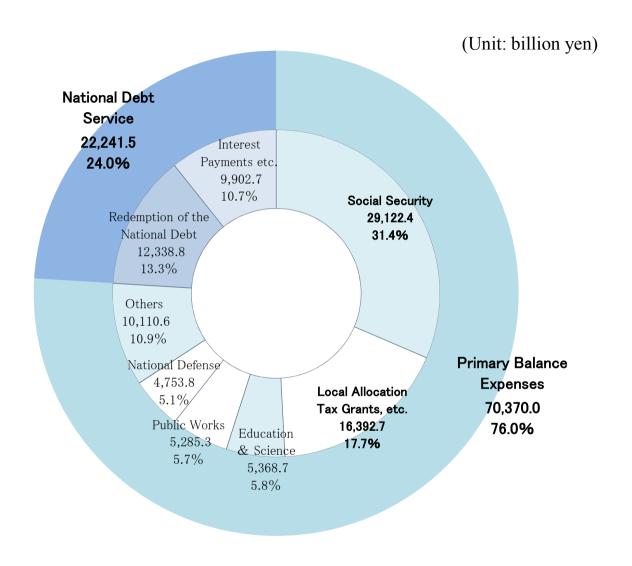
計数精査中

(unit:billion yen)

				(unit.billion yen)
	FY 2012 initial budget	FY 2013 initial budget	Change (FY2012 to FY2013)	% Change (FY2012 to FY2013)
Social Security	26,390.1		2,732.3	10.4%
Education & Science	5,411.3	5,368.7	-42.6	-0.8%
Science	1,313.5	1,300.7	-12.8	-1.0%
Former Military Personal Pensions	571.2	504.5	-66.8	-11.7%
Local Allocation Tax Grants, etc.	16,594.0	16,392.7	-201.3	-1.2%
National Defense	4,713.8	4,753.8	40.0	0.8%
Public Works	4,573.4	5,285.3	711.9	15.6%
Economic Assistance	521.6	515.0	-6.6	-1.3%
(Reference) ODA	561.2	557.3	-3.9	-0.7%
Measures for SMEs	180.2	181.1	0.9	0.5%
Energy	814.4	849.6	35.2	4.3%
Food Supply	1,104.1	1,053.9	-50.2	-4.5%
Miscellaneous	6,255.6	5,993.1	-262.5	-4.2%
Contingency Reserve for Economic Crisis Response and Regional Revitalization	910.0	0.0	-910.0	-100.0%
General Contingency Reserve	350.0	350.0	0.0	0.0%
Total	68,389.7	70,370.0	1,980.3	2.9%

(Note) In FY2013 Budget, transfer 1,246.2 billion yen (+695.5 billion yen) to Special Account for Reconstruction from the Great East Japan Earthquake.

## Framework of General Account (FY2013)



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

<sup>(</sup>Note2) The ratio of Social Security expenses to General Expenditures\*:54.0% \*General Expenditures equals to the Primary Balance Expenditure minus Local Allocation Tax Grants, etc.

## Special Account for Reconstruction from the Great East Japan Earthquake (FY2013 Budget)

(Unit: billion yen)

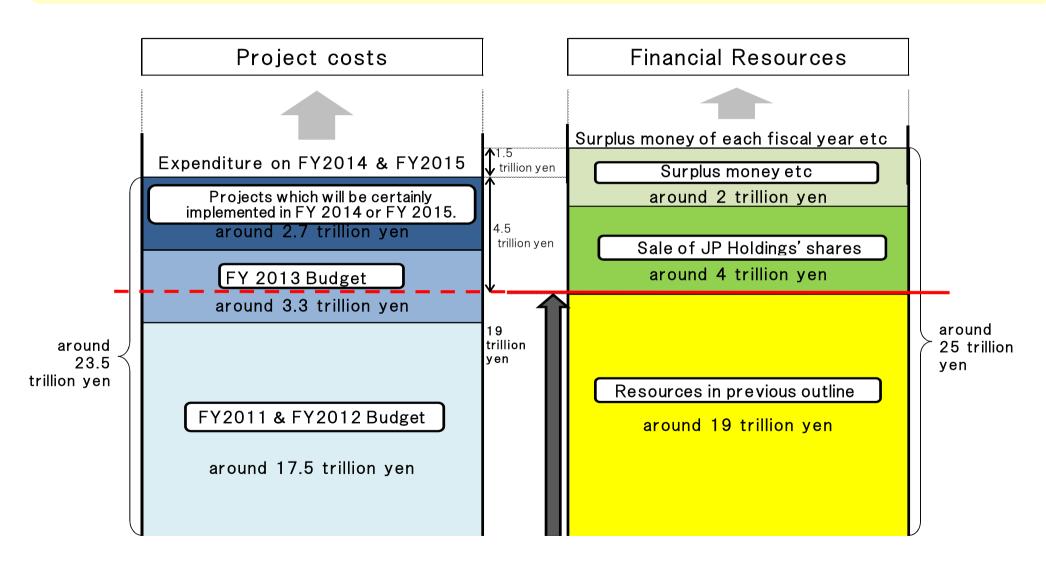
	(OIIII. D
1,224.0	
914.5 309.5	
1,246.2	
449.4 433.0 220.0 120.0 23.7	
11.2	
1,902.6	
4,384.0	
3,717.8	
879.3 709.4 605.3 591.8	
66.2	
600.0	
4,384.0	
	914.5 309.5 1,246.2 449.4 433.0 220.0 120.0 23.7 11.2 1,902.6 4,384.0 3,717.8 879.3 709.4 605.3 591.8 66.2 600.0

## Main Expenses related to the Great East Japan Earthquake of the Budget for FY2013

1. Disaster Relief	83.7 billion yen
2. Disposal of Disaster Waste	126.6 billion yen
3. Public Works related to Reconstruction	879.3 billion yen
4. Disaster-related Public Financing Program	96.3 billion yen
5. Local Allocation Tax Grants	605.3 billion yen
6. The Great East Japan Earthquake Reconstruction Grants	591.8 billion yen
7. Expenses related to Reconstruction from the Nuclear Damages	709.4 billion yen
8. Other Expenses related to the Great East Japan Earthquake	625.5 billion yen
<u>Total</u> 3	3.717.8 billion <u>yen</u>

## Review of the outline of financial resources for recovery and reconstruction

Reviewing the outline of financial resources for recovery and reconstruction by FY2015. For the project costs exceeding 19 trillion yen, including those in FY2013, around 6 trillion yen (gains from the sale of JP Holdings shares etc.) will be allocated. These measures will help ensure security of people in the affected area.



## Examples of rationalization and review of expenditure

#### ◆Salaries for local civil servants

Local governments are required to take necessary measures in FY 2013 regarding personnel cost of local public servants, taking into account salary cut of national civil servants. Following this, local finance plan reduces expenditures for personnel cost (by 0.85 trillion yen) and focuses on dealing with urgent issues such as disaster prevention / reduction, regional revitalization, assuming that personnel cost cut is implemented from July this year in accordance with the central government.

\*Calculating the level of personnel cost by using Laspeyres Index and setting the index for national public servants to 100, the index for local public servants (with general administrative function) is approximately 106.9 for FY 2012.

# ◆Abolishing and reforming system of "Individual (Household) Income Support for Agriculture"

The system is changed to "Management and Income Support Measures" and detailed examinations will be carried out for the necessary amounts to be paid. (Expected saving; -38.5 billion yen)

#### ◆Number of teachers in public schools

Necessary measures will be taken regarding the allocation of teachers in public elementary schools by increasing the capacity by 1,400, while rationalizing the existing additional ration by 600, considering the reduction in the number of students.

#### ◆Grant-In-Aid for Scientific Research

A system of adjustment fund will be introduced enabling the flexible use of Grant-in-Aid over fiscal years. This will help prevent using up or abusing fund for research.

#### ◆Public assistance

Rationalize public assistance while providing job assistance for the poor and needy.

- (1) Rationalization of the livelihood assistance standard
- –The livelihood assistance standard will be rationalized based on the verification result of the specialists and the trend of prices. (Gradually implemented from August 2013 to FY2015 in stage , taking around 3years to dissemination of information etc —Expected amounts of saving: -67 billion yen)
- -Temporary assistance at the end of the year will be reviewed. (Expected amounts of saving: -7 billion yen)
- ②Rationalization of medical assistance
- -The principle of using generic drugs will be implemented.
- -Control over the designated medical care institutions will be enhanced.

# ◆Abolishing and reforming "Strategic Grants for Local Autonomy"

"Strategic Grants for Local Autonomy" (675.4 billion yen in FY 2012 initial budget) is abolished and transformed to grants of individual ministries to deal with important issues (combined with supplementary budget, this amounts to 979.1 billion of budget). At the same time, improvements are made such as simplification of administrative procedures.

#### ◆Interest-free scholarship system

The current system of paying back fixed amount for the scholarship will be reformed to a system of paying back fixed proportion of income gained after graduation (income-indexed payment system) from FY 2017 (total amount of paying back will not change).

# ◆Excess-payment incident regarding procurement of equipment

Based on the amount of excess payment revealed by the special investigation, 3.9 billion yen was reduced from the budget request. In order to prevent similar kind of incident to happen, procurement reform is strongly promoted.

## Public sector reform ~personnel cost and number of civil servant~

Curbing personnel cost and managing staff number, while considering Japanese strict fiscal situation and necessity of addressing the Great East Japan Earthquake disaster, measures for regional disaster prevention and economic revitalization, etc.,

## Curbing personnel cost of public servant (-1.7 trillion yen (Central and Local governments))

 Effects on local governments and incorporated administrative agencies based on the expense under assumption of the measures with relevant to central government

### O Reduction by the Temporary Special Act of Salary Revision, etc.

-1.3 trillion yen (Central -0.3 trillion yen ∕ Local -0.85 trillion yen)

- Implementing the reduction of national public servants' salary. (average: -7.8%)
- Appealing local governments and incorporated administrative agency, etc. to implement the necessary measures in accordance with the central government.
  - X In Local Government Financial Plan, reflecting to the salary since July 2013 with attention to securing enough time to prepare for revising local bylaws.

## O Reduction by decreasing retirement benefits -0.2 trillion yen \* Effect in FY2013

- Gradually decreasing retirement benefits of national public servant since January 2013 to July 2014 (-14.9% from last year)
- Appealing local governments and incorporated administrative agency, etc. to implement the necessary measures with relevant to central government

### ○ Reduction by other measures -0.1 trillion yen

- Implementing National Personnel Authority's salary recommendation of FY2012
- · Managing staff number of civil servant

#### Managing staff number of public servant

○ Implementing the strict review of operations and making more efficient, achieved far larger decrease of staff number than ever. (-2,374 (Last year:-1,300))