

Highlights of the Draft FY2017 Budget

FY2017 Budget: Highlights

FY2017 marks the second year of the Fiscal Consolidation Plan. In this budget, the government continues to pursue both economic revitalization and fiscal consolidation.

Economic Revitalization

- **Policies to achieve a society in which all citizens are dynamically engaged.** Among others: (i) raise wages for childcare and long-term nursery workers; (ii) expand capacity of childcare facilities, so as to reduce the number of children on the waiting list; (iii) shorten the minimum eligible period for receiving pension from 25 to 10 years; (iv) lengthen the eligible period for maternity leave benefits; (v) reduce the employment insurance payments; and (vi) introduce a new government-sponsored scholarship.
- **Economic revitalization.** Focus on enhancing potential growth through combined efforts by private and public sectors; increase R&D expenditure; support innovation and new cutting-edge technologies (IoT, AI, robotics, etc.); and prioritize public investment in growth-enhancing areas.
- **Working-style reform.** Provide fiscal support for wage increase, introduction of regular intervals, and improvement of working condition of non-regular workers.

Fiscal Consolidation

- **General expenditure.** Meet the benchmark set out in the Fiscal Consolidation Plan in two consecutive years by duly controlling the growth of general expenditure (+ 530 billion yen).
- **Sustainability of social security system.** Control the growth of social security expenditures (+500 billion yen) in line with the Fiscal Consolidation Plan. Undertake various reforms for achieving fair burden sharing and appropriate benefit level. Among others: (i) gradually lift the upper limit for high medical and nursery expenses for 70+ years old; (ii) review the temporary discount rate for 75+ years old on medical insurance premium; and (iii) introduce a new remuneration-based long-term nursery payment system.
- **Bond issues.** The planned bond issuance amount is on a downward trend (34.4 trillion yen).

FY2017 Budget: Framework

(Unit: billion yen)

	FY2016 Budget (Initial)	FY2017 Budget	FY2016	Note
			→FY2017	
Revenues				
Tax Revenues	57,604.0	57,712.0	108.0	
Other Revenues	4,685.8	5,372.9	687.1	
Government Bond Issues	34,432.0	34,369.8	-62.2	Bond Dependency Ratio: 35.3% (FY2016: 35.6%)
Construction Bonds	6,050.0	6,097.0	47.0	
Special Deficit-Financing Bonds	28,382.0	28,272.8	-109.2	
Total	96,721.8	97,454.7	732.9	
Expenditures				
National Debt Service	23,612.1	23,528.5	-83.6	
General Expenditure	57,828.6	58,359.1	530.5	
Local Allocation Tax Grants, etc.	15,281.1	15,567.1	286.0	
Total	96,721.8	97,454.7	732.9	

(Note) General expenditure = Total expenditure in central government's general account – National debt service – Local allocation tax grants.

Economic Indicators

	FY2012 (Actual)	FY2013 (Actual)	FY2014 (Actual)	FY2015 (Actual)	FY2016 (Estimated)	FY2017 (Projected)
Nominal GDP Growth	0.2%	2.6%	2.1%(0.7%)	2.8%	1.5%	2.5%
Nominal GDP (trillion yen)	494.7	507.4	517.9	502.2	540.2	553.5
Real GDP Growth	0.9%	2.6%	-0.4%	1.3%	1.3%	1.5%
Consumer Price Index	-0.3%	0.9%	2.9%(0.9%)	0.2%	0.0%	1.1%
Unemployment Rate	4.3%	3.9%	3.5%	3.3%	3.1%	2.9%

(Note1) Figures are shown on a 2008 SNA basis.

(Note2) FY2016 and FY2017: based on “FY 2017 Economic Outlook and Basic Stance for Economic and Fiscal Management” (Approved by the Cabinet on December 20, 2016).

(Note3) Figures in parentheses in FY2014 exclude the impact of the consumption tax rate hike.

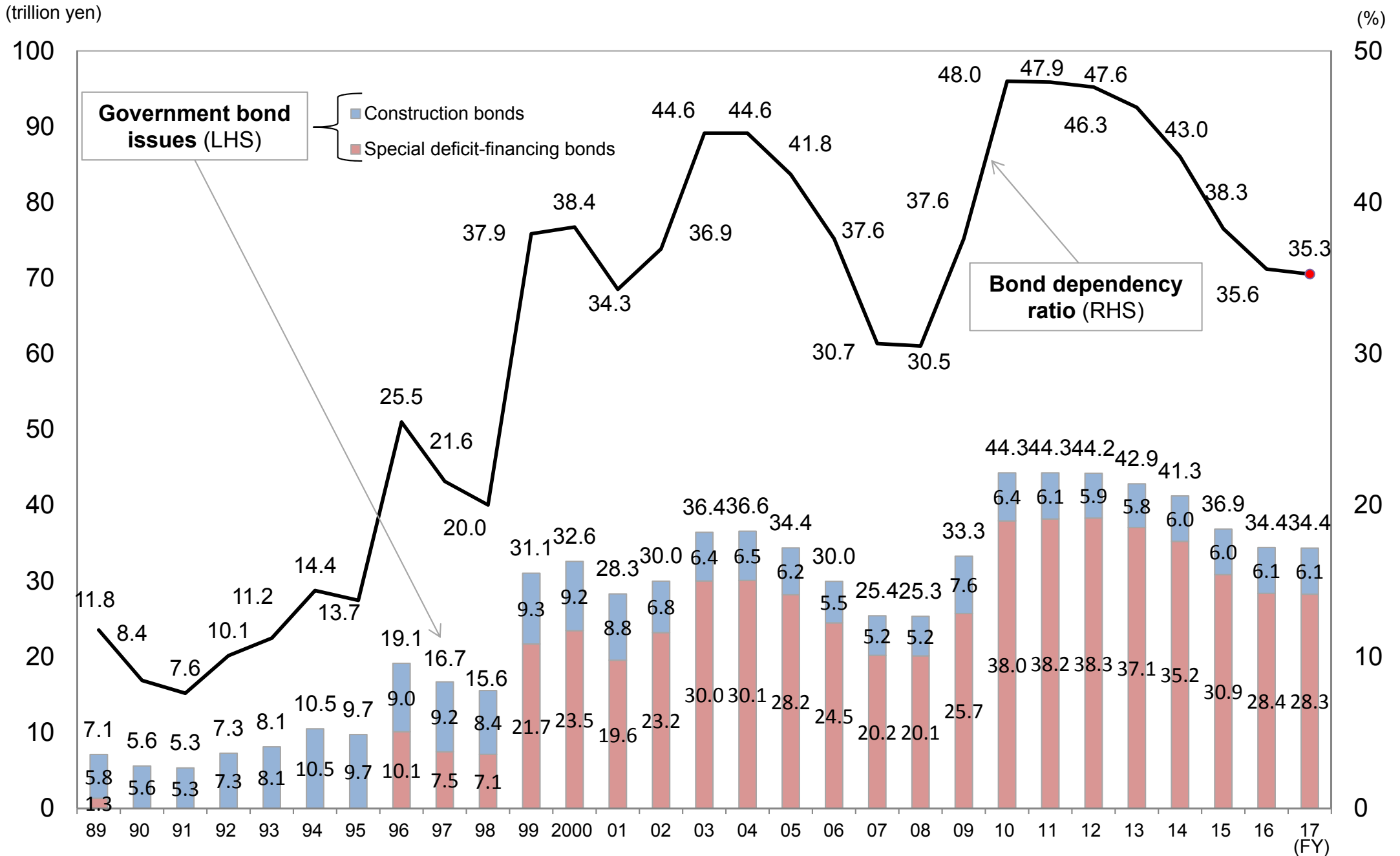
Fiscal Indicators: Central Government's General Account

(Unit: trillion yen, unless otherwise stated)

	FY2012 (Initial)	FY2013 (Initial)	FY2014 (Initial)	FY2015 (Initial)	FY2016 (Initial)	FY2017 (Draft)
General Expenditure	54.4	54.0	56.5	57.4	57.8	58.4
Tax Revenue	42.3	43.1	50.0	54.5	57.6	57.7
Government Bond Issues	44.2	42.9	41.3	36.9	34.4	34.4
Primary Balance	-24.9	-23.2	-18.0	-13.4	-10.8	-10.8
Bond Dependency Ratio	47.6%	46.3%	43.0%	38.3%	35.6%	35.3%

(Note) General expenditure = Total expenditure in central government's general account – National debt service – Local allocation tax grants.

Government Bond Issues and Bond Dependency Ratio



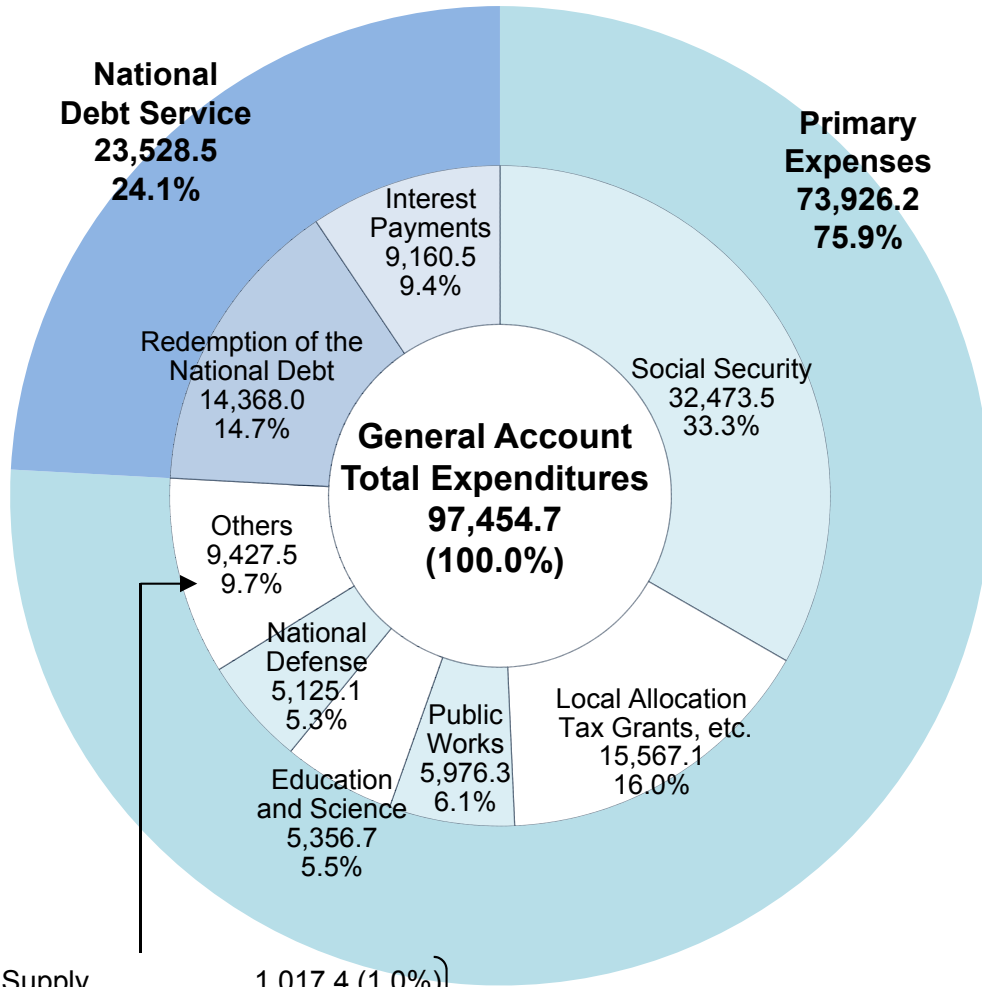
(Note1) Based on figures in initial budget. Bond dependency ratio = Amount of government bond issues / Total expenditure in central government's general account.

(Note2) Pension-related Special Deficit-Financing Bonds issued in FY2012 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

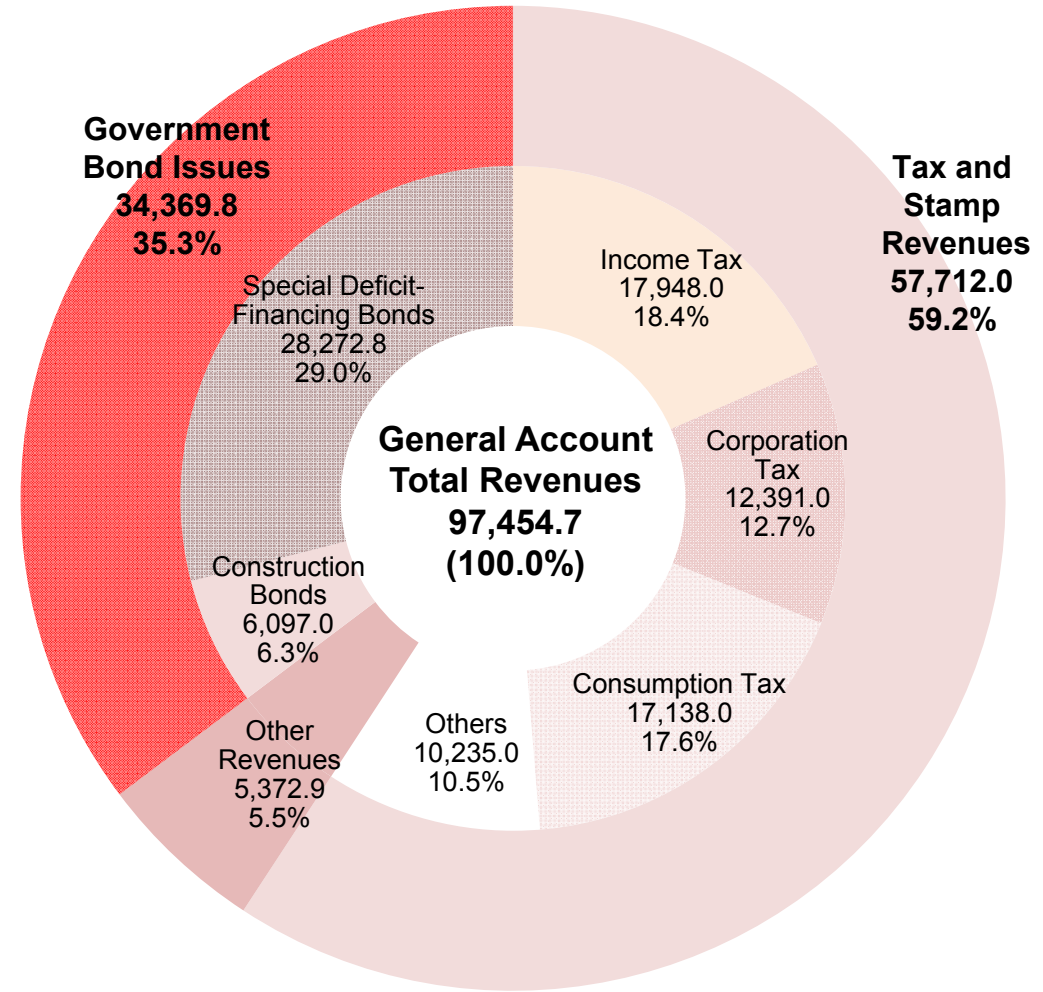
FY2017 Budget: Expenditure and Revenue

(Unit : billion yen)

General Account Expenditure



General Account Revenue



General Expenditure* : 58,359.1 (59.9%)

(*Primary Expenses – Local Allocation Tax Grants, etc.)

Food Supply	1,017.4 (1.0%)
Energy	963.5 (1.0%)
Economic Assistance	511.0 (0.5%)
Former Military Personnel Pensions	294.7 (0.3%)
Promotion of SMEs	181.0 (0.2%)
Miscellaneous	6,109.8 (6.3%)
Contingency Reserves	350.0 (0.4%)

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

(Note2) Social security related expenditures account for 55.6% of the general expenditure.

FY2017 Budget: Major Expenditure Items

(Unit: billion yen , unless otherwise stated)

Major Expenditure Items	FY2016 Budget (Initial)	FY2017 Budget	Change (FY2016 to FY2017)	% Change (FY2016 to FY2017)
National Debt Service	23,612.1	23,528.5	-83.6	-0.4%
General Expenditure	57,828.6	58,359.1	+530.5	+0.9%
Social Security	31,973.8	32,473.5	+499.7	+1.6%
Education and Science	5,358.0	5,356.7	-1.3	-0.0%
Science	1,293.0	1,304.5	+11.6	+0.9%
Former Military Personnel Pensions	342.1	294.7	-47.4	-13.9%
National Defense	5,054.1	5,125.1	+71.0	+1.4%
Public Works	5,973.7	5,976.3	+2.6	+0.0%
Economic Assistance	516.1	511.0	-5.1	-1.0%
o/w Official Development Assistance	551.9	552.7	0.8	+0.1%
Promotion of SMEs	182.5	181.0	-1.4	-0.8%
Energy	930.8	963.5	+32.7	+3.5%
Food Supply	1,028.2	1,017.4	-10.8	-1.0%
Miscellaneous	6,119.3	6,109.8	-9.5	-0.2%
Contingency Reserve	350.0	350.0	-	-
Local Allocation Tax Grants, etc.	15,281.1	15,567.1	+286.0	+1.9%
Total	96,721.8	97,454.7	+732.9	+0.8%

(Note1) FY2016 budget is reclassified for proper comparison with FY2017.

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

(Note3) General expenditure = Total expenditure in central government's general account – National debt service – Local allocation tax grants.

FY2017 Budget: Priority Areas

The FY 2017 budget focuses on priority agenda for the purpose of establishing a virtuous cycle of growth and distribution, such as (i) realization of a society in which all citizens are dynamically engaged and (ii) economic revitalization.

Realization of a society in which all citizens are dynamically engaged

Social Security

- Raise wages for childcare workers: (i) increase salaries for all workers by 2% (i.e., 10%, on an accumulated basis from FY2013) ; and (ii) increase by 40,000 yen monthly for deputy chiefs and 5,000 yen monthly for leaders in specific area (54.4 billion yen).
- Improve wages for long-term nursery workers: increase monthly salaries by around 10,000 yen on average, by conducting special increase in remuneration in FY2017, that is, providing additional support for long-term nursery providers who establish promotion system in accordance with experience, qualification or evaluation, to assist career development (40.8 billion yen).
- Expand capacity of childcare facilities in line with the “Plan for Accelerating the Elimination of Children Wait-listed for Childcare” (increase in public expenses by 95.3 billion yen).
- Shorten the minimum eligible period for receiving pension from 25 to 10 years, and secure a necessary budget, which is equivalent to expenses for 5 months from September 2017 to January 2018 (25.6 billion yen (public expenses)).
- Lengthen the eligible period for maternity leave benefits from 18 to 24 months in case it is difficult to find a childcare center.
- Reduce the employment insurance payments: temporarily reduce the payment by 0.2% for three years, shared equally by employers and employees (reduction of 350.0 billion yen revenues).
e.g., reduction of 4,200 yen per year for an average office worker with earnings of 4.2 million yen.

Education

- Introduce a new government-sponsored scholarship in FY2018. For students of private schools who live away from their parents, the scholarship will be introduced in FY2017 (7.0 billion yen).
- Effectively remove academic requirements for interest-free scholarships with regard to children from low-income families (88.5 billion yen).

FY2017 Budget: Priority Areas (continued)

Economic Revitalization

- Prioritize R&D expenditure for the purposes of catalyzing private investment and enhancing potential growth, while securing steady growth of the Science and Technology Promotion expenditure (FY2015 +0.2% → FY2016 +0.6% → FY2017 +0.9%).
- Increase the budget for Japan Tourism Agency in order to promote “Tourism-Oriented Country” (21.0 billion yen). Promote utilization of cultural resources and national parks (22.0 billion yen and 10.0 billion yen, respectively).
- Promote the Fourth Industrial Revolution in various areas including artificial intelligence (AI), robotics, Internet of Things (IoT), automated driving and cyber security, etc.

Working-style Reform

- Support companies in introducing merit-based wage system, which does not depend on the seniority, so as to help build the enabling environment for wage increase (3.9 billion yen).
- Support SMEs which voluntarily introduce regular intervals, with a view to addressing long working hours (0.4 billion yen).
- Support companies which shift non-regular workers to regular ones and improve working conditions for non-regular workers, including through realization of “equal pay for equal work” (67.0 billion yen).

Spending Review

- Reflect the results of the Autumn public review (e.g., support for venture companies, limit the accumulation of various funds, etc.).

(Note1) The amount of budget about “realizing a society in which all citizens are dynamically engaged” increases by (i) 0.5 trillion yen compared to the previous year (FY2016 2.4 trillion yen → FY2017 2.9 trillion yen) on a central government basis and (ii) 0.8 trillion yen (FY2016 4.4 trillion yen → FY2017 5.2 trillion yen) in terms of public expenditure.

(Note2) All figures are subject to changes due to further examinations.