

# **Highlights of the Draft FY2018 Budget**

# FY2018 Budget: Highlights

FY2018 budget, the budget for final year of the intensive reform period set in the Fiscal Consolidation Plan, continues to pursue both economic revitalization and fiscal consolidation.

## Human Resource Development Revolution

- In view of the era of one hundred-year lifespans, transfer the social security system to a system oriented to all generations and **expand investments in human capital**.
  - (1) Expand **the capacity of childcare facilities**;
  - (2) **Raise wages for childcare and long-term nurse workers**;
  - (3) Make **preschool education free of charge** in a phased manner;
  - (4) Increase **the allowance provided through scholarships that do not need to be repaid**, among others

## Productivity Revolution

- Implement measures to boost productivity that lead to sustained wage hikes and overcoming deflation.
  - (1) Promote **investments in facilities and human capital** by local core enterprises and SMEs;
  - (2) **Implement tax reforms** for increasing wages and improving productivity;
  - (3) Support **R&D** through industry-government-academia cooperation;
  - (4) Prioritize public investments in **maintaining infrastructures which contribute to enhancing productivity**

## Fiscal Consolidation

- **Fiscal consolidation** has steadily advanced.
  - (1) **Achieved the three-year benchmarks for the general and social security expenditures set out in the Fiscal Consolidation Plan** (+¥1.6tn, +¥1.5tn for FY2016-18, respectively) ;
  - (2) **The amount of planned bond insurance has decreased** in six consecutive years since the start of Abe administration (FY2017: ¥34.4tn ⇒ FY2018: ¥33.7tn);
  - (3) **Primary balance in the general account has improved** (FY2017: -¥10.8tn ⇒ FY2018: -¥10.4tn)

# FY2018 Budget: Framework

(Unit: bn yen)

	FY2017 Budget (Initial)	FY2018 Budget	FY2017	Note
			→FY2018	
<b>Revenues</b>				
Tax Revenues	57,712.0	59,079.0	1,367.0	
Other Revenues	5,372.9	4,941.6	- 431.3	
Government Bond Issues	34,369.8	33,692.2	-677.6	Bond Dependency Ratio: 34.5% (FY2017: 35.3%)
Construction Bonds	6,097.0	6,094.0	-3.0	
Special Deficit-Financing Bonds	28,272.8	27,598.2	-674.6	
Total	97,454.7	97,712.8	258.1	
<b>Expenditures</b>				
National Debt Service	23,528.5	23,302.0	-226.5	
General Expenditure	58,359.1	58,895.8	536.7	
Local Allocation Tax Grants, etc.	15,567.1	15,515.0	-52.1	
Total	97,454.7	97,712.8	258.1	

(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 (Actual)	FY2017 (Estimated)	FY2018 (Projected)
<b>Nominal GDP Growth</b>	0.1%	2.6%	2.2% (0.8%)	3.0%	1.0%	2.0%	2.5%
<b>Nominal GDP (tn yen)</b>	494.5	507.2	518.5	533.9	539.3	550.3	564.3
<b>Real GDP Growth</b>	0.8%	2.6%	- 0.3%	1.4%	1.2%	1.9%	1.8%
<b>Consumer Price Index</b>	- 0.3%	0.9%	2.9% (0.9%)	0.2%	- 0.1%	0.7%	1.1%
<b>Unemployment Rate</b>	4.3%	3.9%	3.5%	3.3%	3.0%	2.8%	2.7%

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

(Note2) FY2017 and FY2018: based on “FY2018 Economic Outlook and Basic Stance for Economic and Fiscal Management” (Approved by the Cabinet on December 19, 2017).

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

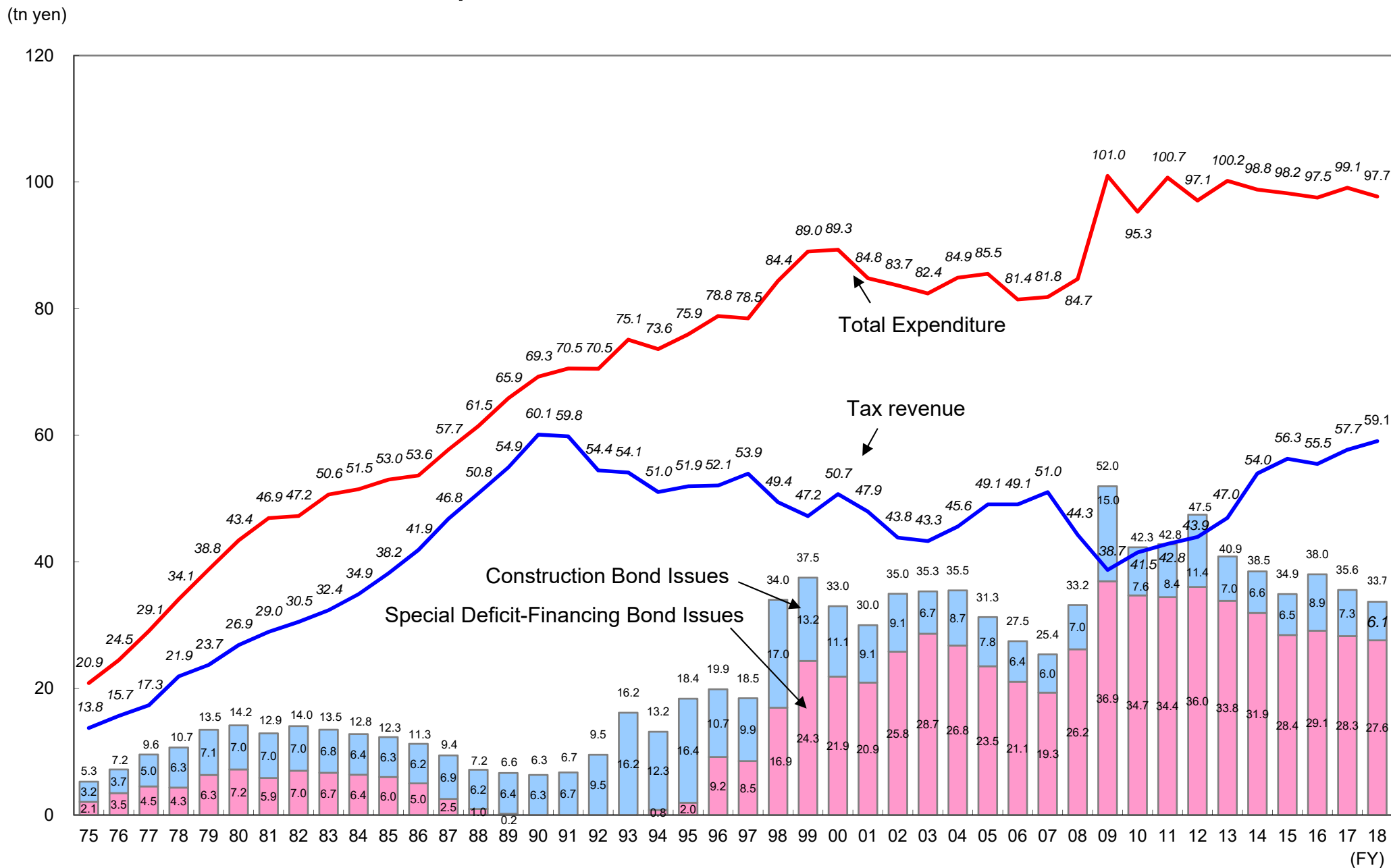
# Fiscal Indicators: Central Government's General Account

(Unit: tn yen, unless otherwise stated)

	FY2012 (Actual)	FY2013 (Initial)	FY2014 (Initial)	FY2015 (Initial)	FY2016 (Initial)	FY2017 (Initial)	FY2018 (Draft)
<b>General Expenditure</b>	54.4	54.0	56.5	57.4	57.8	58.4	58.9
<b>Tax Revenue</b>	42.3	43.1	50.0	54.5	57.6	57.7	59.1
<b>Government Bond Issues</b>	44.2	42.9	41.3	36.9	34.4	34.4	33.7
<b>Primary Balance</b>	- 24.9	- 23.2	- 18.0	- 13.4	- 10.8	- 10.8	- 10.4
<b>Bond Dependency Ratio</b>	47.6%	46.3%	43.0%	38.3%	35.6%	35.3%	34.5%

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

# Tax Revenue, Expenditure and Bond Issues in General Account



(Note1) FY1975 - FY2016: Settled Figures; FY2017: Based on Supplementary Budget, FY2018: Based on Draft Budget

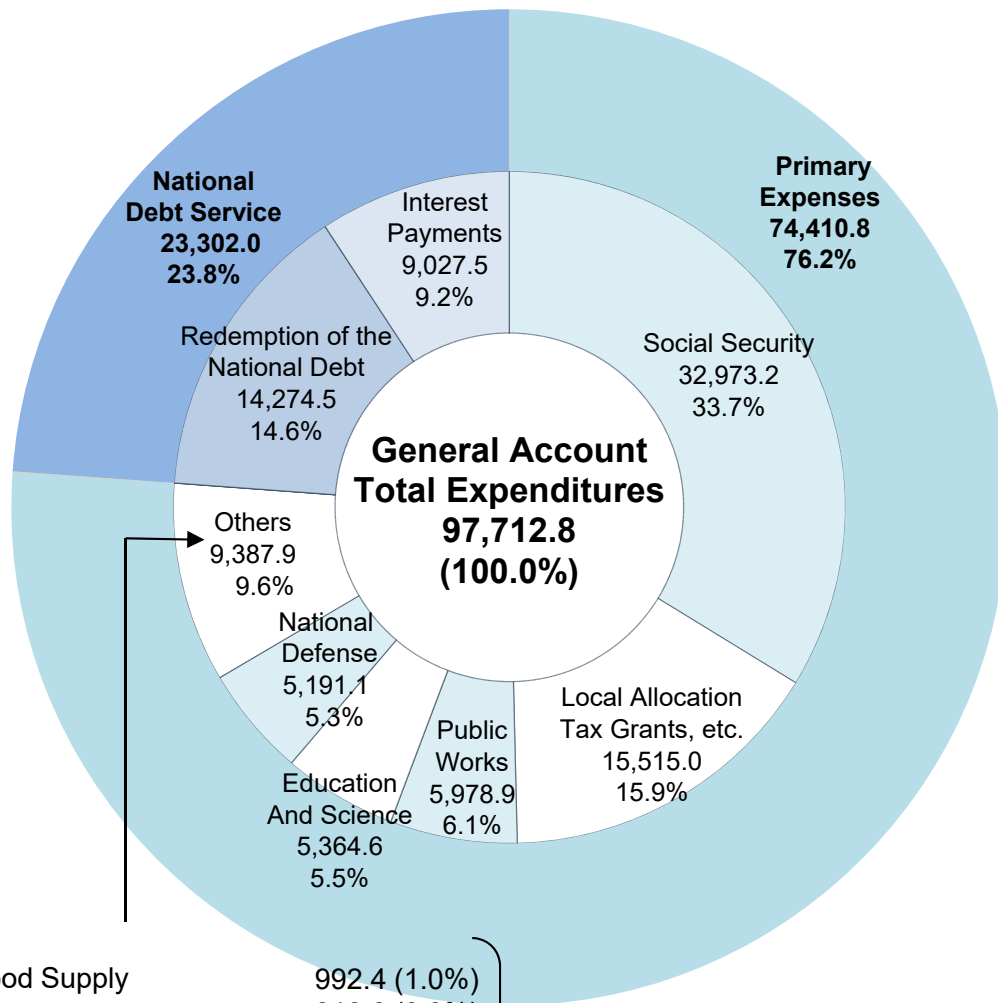
(Note2) Following various bonds are excluded: Ad-hoc Special Deficit-Financing Bonds issued in FY1990 as a source of funds to support peace and reconstruction activities in the Persian Gulf Region, Tax reduction-related Special Deficit-Financing Bonds issued in FY1994 - FY1996 to make up for decline in tax revenue due to a series of income tax cuts preceding consumption tax hike from 3% to 5%, Reconstruction Bonds issued in FY2011 as a source of funds to implement measures for the Reconstruction from the Great East Japan Earthquake, Pension-related Special Deficit-Financing Bonds issued in FY2012 and FY2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

(Note3) General Account Primary Balance is calculated by subtracting Primary Expenditure from the sum of Tax Revenue and Other Revenue : It is different from the Central Government Primary Balance on SNA basis.

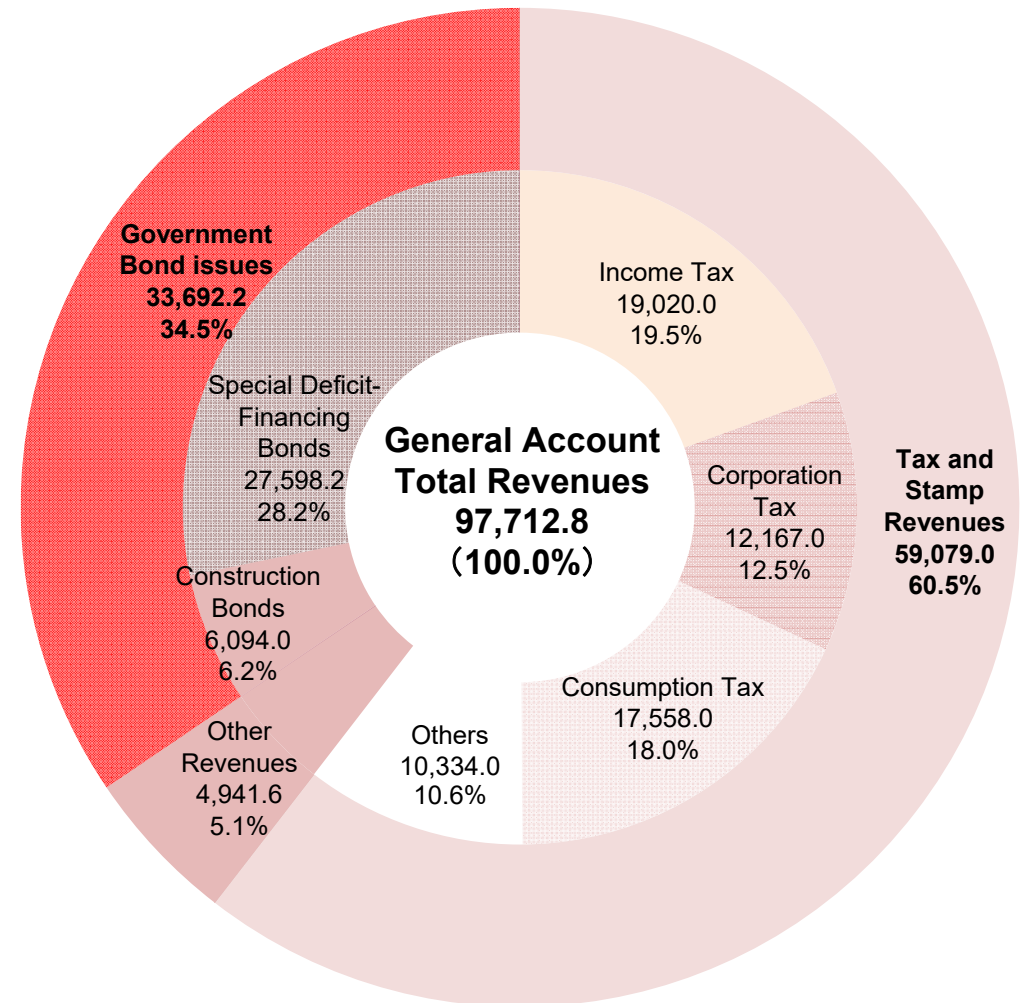
# FY2018 Budget: Expenditure and Revenue

(Unit : bn yen)

## General Account Expenditure



## General Account Revenue



**General Expenditure\* : 58,895.8(60.3%)**  
 (\*Primary Expenses – Local Allocation Tax Grants, etc.)

Food Supply	992.4 (1.0%)
Energy	918.6 (0.9%)
Economic Assistance	508.9 (0.5%)
Former Military Personnel Pensions	250.4 (0.3%)
Promotion of SMEs	177.1 (0.2%)
Miscellaneous	6,190.4 (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 56.0% of the general expenditure.

# FY2018 Budget: Major Expenditure Items

(Unit: bn yen , unless otherwise stated)

Major Expenditure Items	FY2017 Budget (Initial)	FY2018 Budget	Change (FY2017 to FY2018)	% Change (FY2017 to FY2018)
<b>National Debt Service</b>	23,528.5	23,302.0	- 226.5	- 1.0%
<b>General Expenditure</b>	58,359.1	58,895.8	+ 536.7	+ 0.9%
Social Security	32,473.5	32,973.2	+ 499.7	+ 1.5%
Education and Science	5,356.7	5,364.6	+ 7.9	+ 0.1%
Science	1,304.5	1,315.9	+ 11.4	+ 0.9%
Former Military Personnel Pensions	294.7	250.4	- 44.3	- 15.0%
National Defense	5,125.1	5,191.1	+ 66.0	+ 1.3%
Public Works	5,976.3	5,978.9	+ 2.6	+ 0.0%
Economic Assistance	511.0	508.9	- 2.1	- 0.4%
o/w Official Development Assistance	552.7	553.8	+ 1.1	+ 0.2%
Promotion of SMEs	181.0	177.1	- 3.9	- 2.2%
Energy	963.5	918.6	- 44.8	- 4.7%
Food Supply	1,017.4	992.4	- 25.0	- 2.5%
Miscellaneous	6,109.8	6,190.4	+ 80.6	+ 1.3%
Contingency Reserve	350.0	350.0	-	-
<b>Local Allocation Tax Grants, etc.</b>	15,567.1	15,515.0	- 52.1	- 0.3%
<b>Total</b>	<b>97,454.7</b>	<b>97,712.8</b>	<b>+ 258.1</b>	<b>+ 0.3%</b>

(Note1) FY2017 budget is reclassified for proper comparison with FY2018.

(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.

# FY2018 Budget: Priority Areas

The FY2018 budget focuses on current priority agenda including the Human Resource Development Revolution and the Productivity Revolution, while further advancing expenditure reforms.

## Human Resource Development Revolution

- **Expand capacity of childcare facilities:** Budget for operating childcare facilities for 110,000 children in order to accelerate the Plan for Raising Children, which aims at preparing facilities for 320,000 children by FY2020, by two years in accordance with “New Economic Policy Package” (Amount required: + ¥ 115.2bn, including employer contribution: + ¥ 99.3bn).
  - \* Preparing childcare facilities (including renovation costs): FY2017 Supplementary Budget ¥80.8bn, FY2018 Budget ¥88.8bn.
- **Raise wages for childcare and long-term nurse workers:** raise wages for childcare workers following a recommendation from the National Personnel Authority (+1.1%).
  - \* In addition, following measures will be conducted in accordance with “New Economic Policy Package”.
    - Childcare workers: raise wages by additional 1% (About ¥ 3,000 per month) from April 2019
    - Long-term nurse workers: raise wages using public expenditure (About ¥100.0bn)
- Make **preschool education free of charge** in a phased manner (¥33.0bn).
  - \* Free preschool education in accordance with “New Economic Policy Package” will partly start from April 2019, fully from April 2020.
- **Expand the eligibility for scholarships** that do not need to be repaid for low-income households (FY2019: 3,000 people ⇒ FY2020: 23,000 people, ¥10.5bn). Expand the eligibility for interest-free scholarships for low-income households (+44,000 people, ¥95.8bn).
  - \* Free higher education in accordance with “New Economic Policy Package” will start from April 2020.

## Productivity Revolution

- Implement support for SMEs including **promoting capital investment by local core enterprises** (¥16.2bn) and **expanding measures to assist business succession** (¥2.1bn).
- Implement tax reforms, which include **tax credit for companies that achieved sufficient wage hikes and capital investments**, substantial expansion of business succession tax system, and facilitation of M&A using treasury shares.
- Support R&D for **high-efficiency and high-speed AI chips** through industry-government-academia cooperation (¥10.0bn), R&D for **light quantum technology** such as quantum computers (¥2.2bn) and formation of open platform for **nanotechnology and material field** (¥1.9bn), toward achieving Society 5.0.
- Prioritize infrastructure construction projects which boost productivity, such as **the Three Metropolitan Beltways** (¥228.3bn) and **the formation of LNG bunkering** (supply system of LNG fuel to ships) (¥0.7bn).
  - \* Accelerate constructions of the Metropolitan Inter-City Expressway and the Tokai Expressway through the Fiscal Investment Loan Program (¥1.5tn).



# FY2018 Budget: Improvement of Budget Quality

The FY2018 budget implements the following measures to improve quality of budget for realizing more effective policies.

## 1. Procurement Reform

- Realize the **procurement reform** for defense equipment by utilizing consumer products, buying in bulk, reviewing costs (curtailing budget about ¥770.0bn in the next five years), exceeding the amount designated in the “National Defense Program Guidelines” (About ¥700.0bn). 【MOD】

## 2. Infrastructure Maintenance for boosting productivity

- Accelerate **the construction of expressways** by utilizing low interest rate (FILP ¥1.5tn) . 【MILT】
- Promote the formulation of **LNG bunkering** (¥0.7bn). 【MILT】
- Boost productivity through cooperation among roads, ports and others (the budget is included in each area’s maintenance cost). 【MILT】

## 3. Improvement of Quality and Efficiency Utilizing Technology

- Encourage innovation in public works. 【MILT】
  - Support experiments and implementations of new technologies such as Drones (¥1.2bn)
  - Establish **a container terminal with AI** to improve the efficiency of shipping of goods (¥0.5bn)
  - Reduce costs for a sewage system utilizing ICI, AI and IoT (out of ¥3.8bn)
- Fully introduce **face authentication gates** toward efficient and strict immigration inspection (¥1.0bn). 【MOJ】
- Improve the efficiency of **addressing radio shielding** in tunnels, making use of new technology (¥6.7bn). 【MIC】

## 4. Incentive by Reviewing Existing System

- Review the supporting ratio of subsidies for SMEs, with a view to providing incentives to measures that truly serve for policy objectives (out of ¥32.2bn) . 【METI】
- Gradually abolish the framework of the Government-Sponsored Foreign Student that depends on realized enrollments, and introduce a new framework in which students are selected through external exams and committees’ panels across universities (¥18.7bn) . 【MEXT】
- Increase **the subsidies for utilizing paddies** (+¥15.4bn) and establish **new insurance system** (¥26.0bn) for supporting the farmers who actively manage their business taking into account market trends, in tandem with the abolishment of the direct grants for rice. 【MAFF】
- Introduce a new framework of **the subsidy for repairing the Important Cultural Properties**, which properly reflects efforts to increase revenues and the prospect (out of ¥27.8bn) . 【MEXT】

# FY2018 Revision of Medical Service and Long-term Care Fees & Radical Reform of the Drug Pricing System

## (1) Medical Fees

+0.55% (+¥58.8bn)

Medical services	+0.63%
Dental services	+0.69%
Dispensations	+0.19%

※In addition, implement valuation that appropriately reflects functions of hospitals, including the revision of basic hospital charges for acute and long-term care.

## (2) Revision of Drug Price etc.

1. Drug Price Revision: -1.36% (-¥145.6bn)

※An impact including the effect of the Radical Reform of the Drug Pricing System (3): -1.65%

2. Material Price Revision: -0.09% (-¥9.9bn)

## (3) Radical Reform of the Drug Pricing System (-¥31.0bn)

1. Thoroughly review a system for encouraging the creation of new drugs, including the introduction of a system where eligible drugs are selected in terms of their own innovativeness and usefulness.
2. Following FY2018, gradually lower the drug prices of long-term listed items which have passed 10 years after launching, based on the generic drug prices.
3. Adjust drug prices that are subject to the trial implementation of the Health Technology Assessment etc.

## (4) Rationalization of evaluations on large pharmacies in front of hospitals (-¥5.6bn)