Japanese Public Finance Fact Sheet

April, 2021

Ministry of Finance

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Ⅰ. Current Fiscal Situation

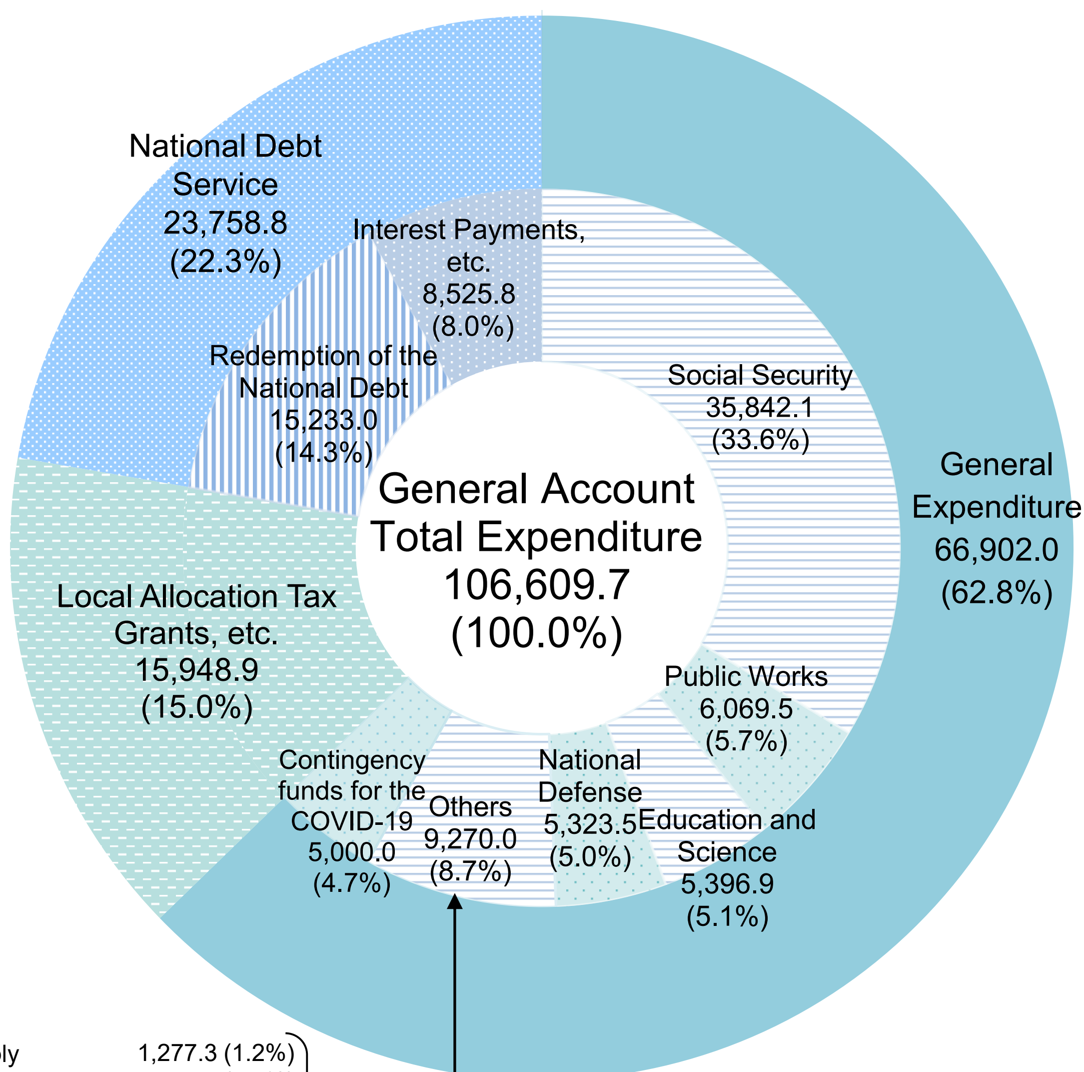
1. General Account Budget for FY2021

(1)Expenditure

As for the total expenditure in the general account, social security expenditures, local allocation tax grants, and national debt services account for approximately three-quarters of the total expenditure .

FY2021 Budget

(Unit: billion yen)



Food Supply	1,277.3 (1.2%)
Energy	889.1 (0.8%)
Economic Assistance	510.8 (0.5%)
Promotion of SMEs	174.5 (0.2%)
Former Military Personnel Pensions	145.1 (0.1%)
Miscellaneous	5,773.2 (5.4%)
Contingency Reserves	500.0 (0.5%)

* General Expenditure = General Account Total Expenditure – National Debt Service – Local Allocation Tax Grants, etc.
* Primary Expenses = General Account Total Expenditure – part of National Debt Service
- FY2021 Budget: 83,374.4 (78.2%)

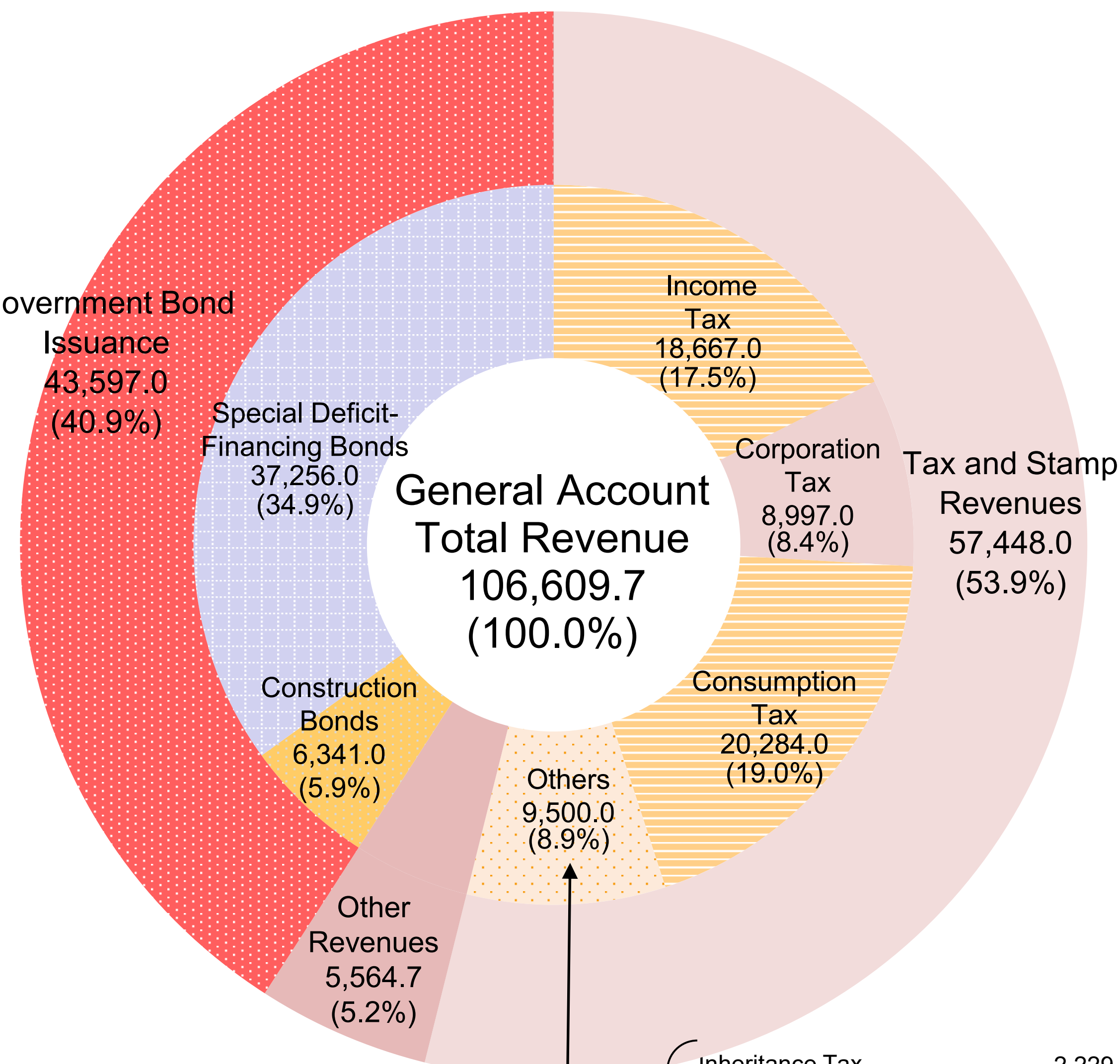
(Note 1) Figures may not add up to the totals due to rounding.
(Note 2) The ratio of social security expenditure to general expenditure is 53.6%.

(2)Revenue

Tax revenue is estimated to be around 57 trillion yen in the FY2021 general account budget. Essentially, the government expenditure should be fully financed by tax and other revenues in the same year, but the current revenue accounts for only about two-thirds of the whole expenditure in the FY2021 budget. As a result, the rest of one-third relies on the revenue from issuing government bonds (i.e. debt), which will be a burden to the future generations.

FY2021 Budget

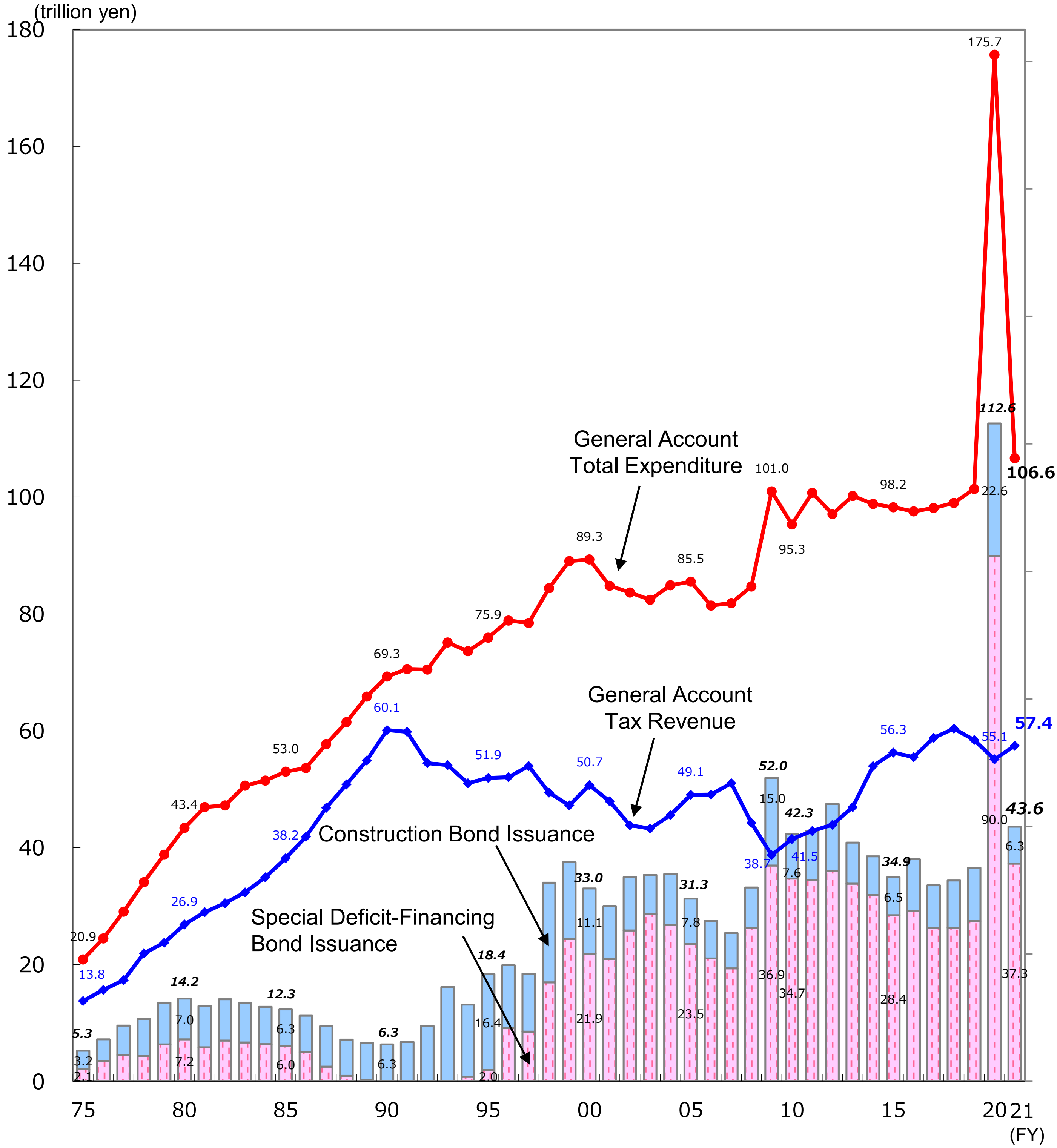
(Unit: billion yen)



Inheritance Tax	2,229.0 (2.1%)
Gasoline Tax	2,070.0 (1.9%)
Liquor Tax	1,176.0 (1.1%)
Tobacco Tax	912.0 (0.9%)
Customs Duties	846.0 (0.8%)
Petroleum and Coal Tax	606.0 (0.6%)
Motor Vehicle Tonnage Tax	382.0 (0.4%)
Power-Resources Development Promotion Tax	305.0 (0.3%)
Other Taxes	80.0 (0.1%)
Stamp Revenues	894.0 (0.8%)

2. General Account Expenditure and Tax Revenue

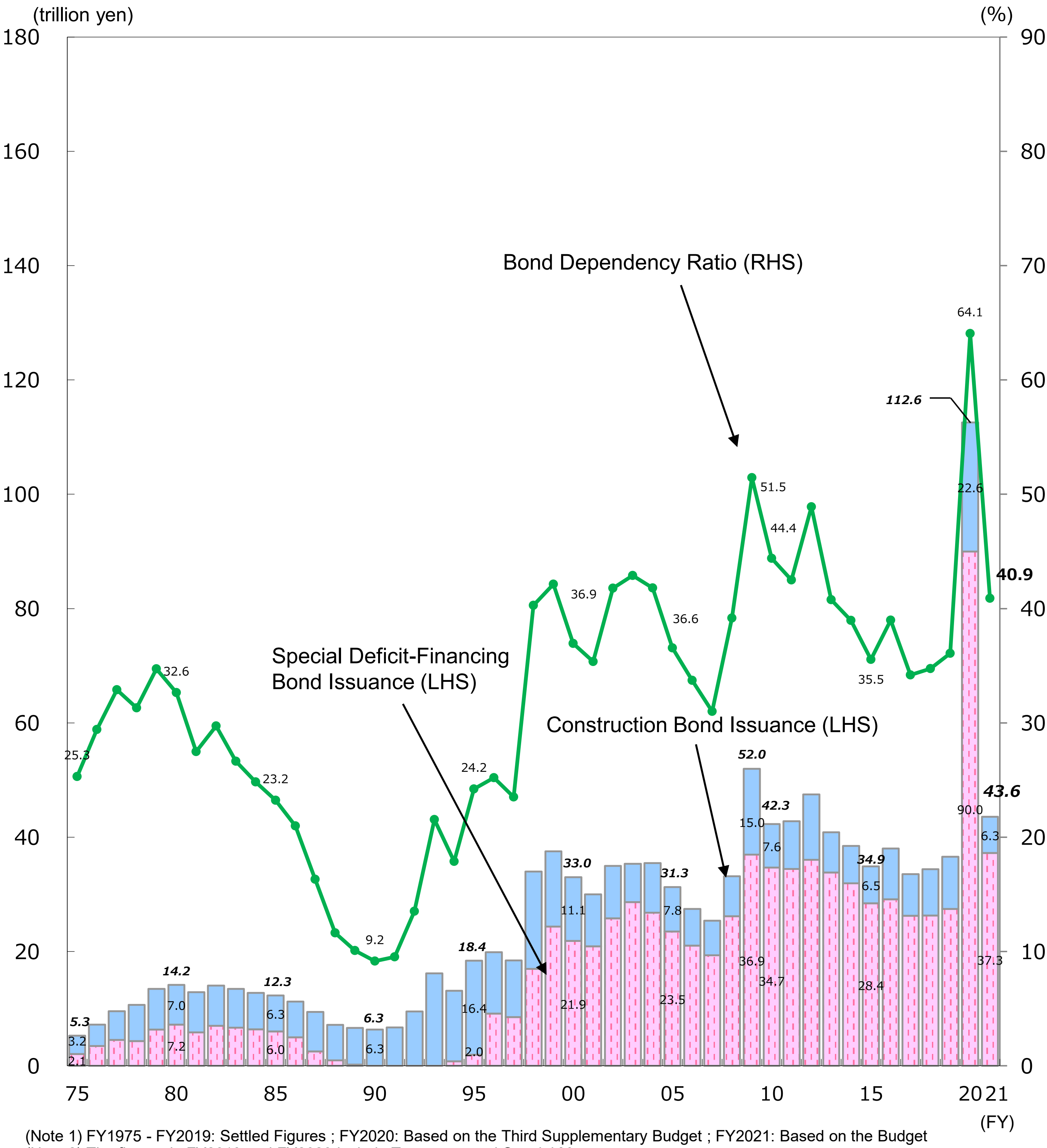
The Japan's fiscal situation has continued to run a budget deficit, as its expenditure exceeds its tax revenue. The gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).



(Note 1) FY1975 - FY2019: Settled Figures ; FY2020: Based on the Third Supplementary Budget ; FY2021: Based on the Budget
(Note 2) The figures in FY2019 and FY2020 include Temporary and Special Measures.
(Note 3) Following 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 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 and 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.

3. Bond Issuance and Bond Dependency Ratio

The bond dependency ratio (bond issuance / general account total expenditure) in FY2021 is projected to be 40.9%.



(Note 1) FY1975 - FY2019: Settled Figures ; FY2020: Based on the Third Supplementary Budget ; FY2021: Based on the Budget

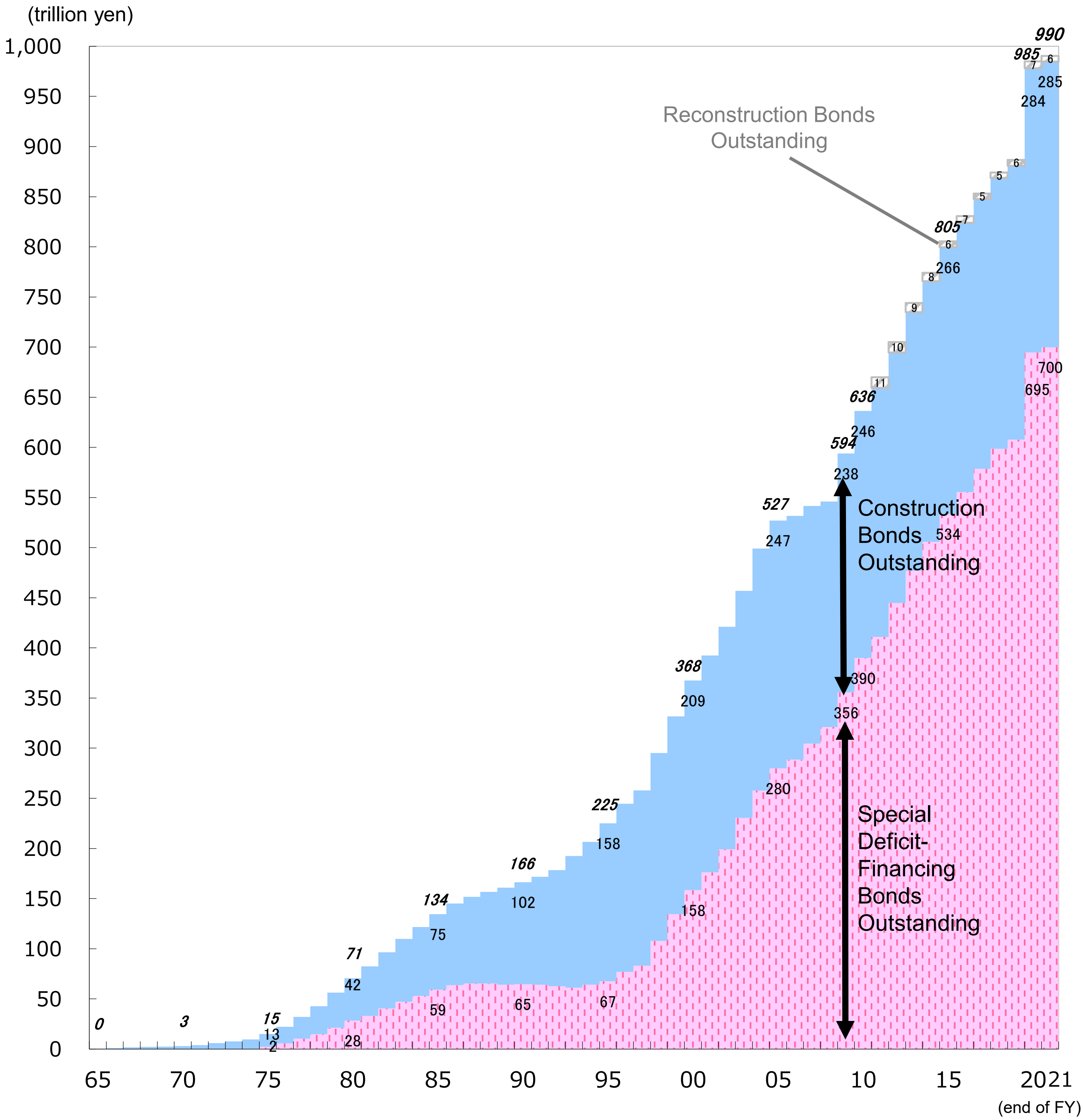
(Note 2) The figures in FY2019 and FY2020 include Temporary and Special Measures.

(Note 3) Following 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 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 and 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.

(Note 4) Bond dependency ratio is calculated as the ratio of bond issuance to general account total expenditures.

4. Accumulated Government General Bonds Outstanding

The amount of Japan's government general bonds outstanding has increased year after year. It is projected to reach 990 trillion yen at the end of FY2021.



(Note 1) FY1975 - FY2019: Actual figures ; FY2020: Based on the Third Budget ; FY2021: Based on the Budget

(Note 2) Government general bonds outstanding includes Construction Bonds, Special Deficit-Financing Bonds and Reconstruction Bonds. Special deficit-financing bonds outstanding includes refunding bonds for long-term debts transferred from JNR Settlement Corporation, the National Forest Service, etc., Ad-hoc Special Deficit-Financing bonds, Tax reduction-related Special deficit-financing bonds and Pension-related special deficit-financing bonds.

(Note 3) The estimate of government general bonds outstanding at the end of FY2021 excluding front-loading issuance of refunding bonds is approximately 970 trillion yen.

5. Long-term Debt Outstanding of Central and Local Governments

In addition to the government general bonds outstanding, there are other long-term debts, such as borrowings and local government bonds. The total amount of long-term debt outstanding of central and local governments is expected to reach 1,212 trillion yen (217% of GDP) at the end of FY2021.

(Unit: trillion yen)

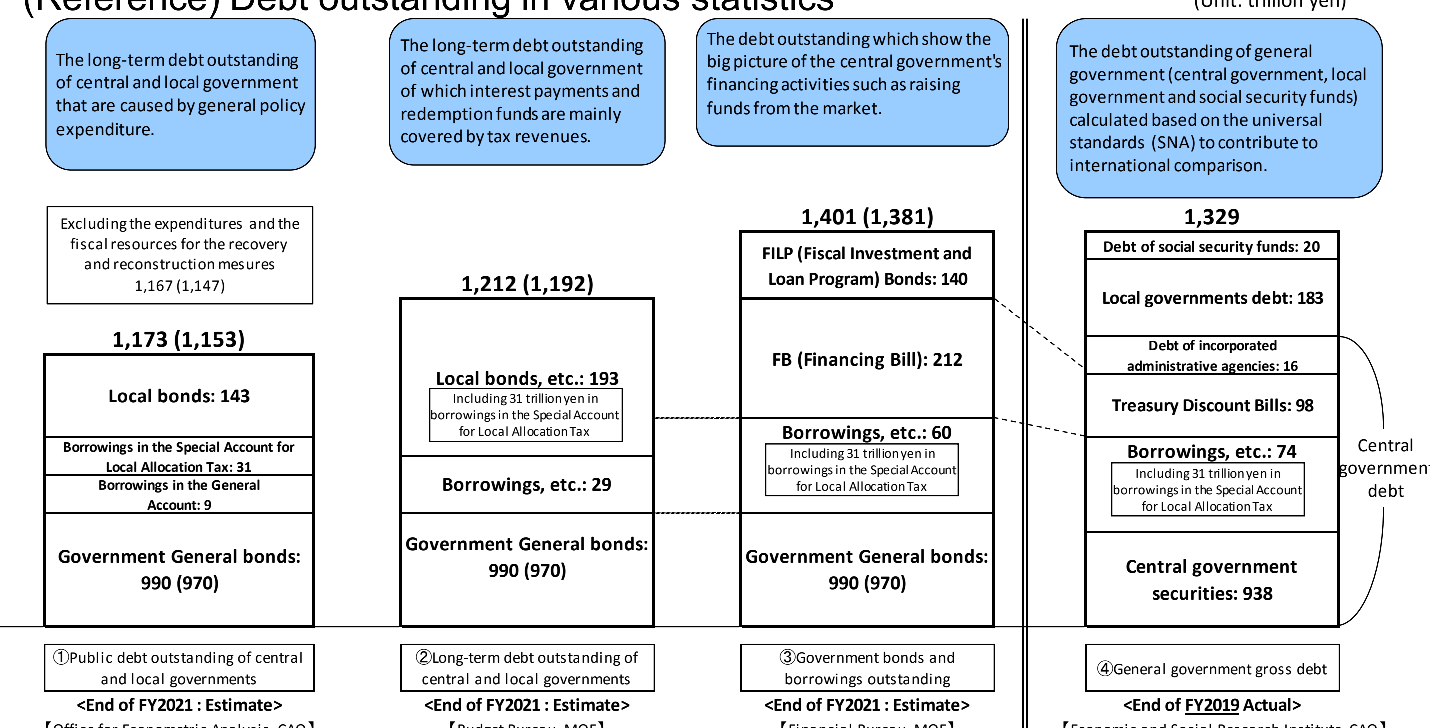
		FY1990 < Actual >	FY1998 < Actual >	FY2003 < Actual >	FY2011 < Actual >	FY2012 < Actual >	FY2013 < Actual >	FY2014 < Actual >	FY2015 < Actual >	FY2016 < Actual >	FY2017 < Actual >	FY2018 < Actual >	FY2019 < Actual >	FY2020 < Budget >	FY2021 < Budget >
Central Government		199	390	493	694	731	770	800	834	859	881	901	914	1010	1019
		(197)	(387)	(484)	(685)	(720)	(747)	(772)	(792)	(815)	(832)	(850)	(870)	(967)	(999)
	Government General Bonds Outstanding	166	295	457	670	705	744	774	805	831	853	874	887	985	990
		(165)	(293)	(448)	(660)	(694)	(721)	(746)	(764)	(786)	(805)	(823)	(843)	(942)	(970)
	% of GDP	37%	55%	87%	134%	141%	145%	148%	149%	152%	154%	157%	158%	184%	177%
		(37%)	(55%)	(85%)	(132%)	(139%)	(141%)	(142%)	(141%)	(144%)	(145%)	(148%)	(151%)	(176%)	(173%)
Local Governments		67	163	198	200	201	201	201	199	197	196	194	192	193	193
	% of GDP	15%	30%	38%	40%	40%	39%	38%	37%	36%	35%	35%	34%	36%	35%
Total		266	553	692	895	932	972	1001	1,033	1,056	1,077	1,095	1106	1204	1212
		(264)	(550)	(683)	(885)	(921)	(949)	(972)	(991)	(1012)	(1028)	(1044)	(1062)	(1161)	(1192)
	% of GDP	59%	103%	131%	179%	187%	190%	191%	191%	194%	194%	197%	198%	225%	217%
		(59%)	(103%)	(130%)	(177%)	(184%)	(185%)	(183%)	(183%)	(186%)	(185%)	(187%)	(190%)	(217%)	(213%)

(end of FY)

(Note 1) GDP in FY1990 - FY2019: Actual figures,FY2020 - FY2021: Based on The Government Economic Outlook
(Note 2) Central Government Debt in FY1990 - FY2019: Actual figures, FY2020: The third supplementary budget, FY2021: The budget
Local Governments Debt in FY1990 - FY2019: Actual figures, FY2020 - FY2021: Local Government Debt Plan etc.
(Note 3) Government general bonds outstanding includes Reconstruction Bonds as a source of funds to implement the measures for the reconstruction from the Great East Japan Earthquake and Pension-related Special Deficit-Financing Bonds as a source of funds to achieve the targeted national contribution to one-half basic pension.
(Note 4) Figures in parentheses until FY2019 do not include front-loading issuance for refunding. Figures in parentheses from FY2020 do not include front-loading limit of bond issuance for refunding.
(Note 5) The borrowings in the Special Account for Local Allocation Tax and Local Transfer Tax are divided and recorded in the central and local governments in accordance with their shares of redemption. The amount of the borrowings outstanding incurred by the central government was transferred to the general account at the beginning of FY2007, so that the borrowings outstanding in the Special Account since the end of FY2007 represents the debt of the local governments (31 trillion yen at the end of FY2021).
(Note 6) Other than the above figures, government bond outstanding in the special account for fiscal investment and loan program at the end of FY2021 is 140 trillion yen.

(Reference) Debt outstanding in various statistics

(Unit: trillion yen)



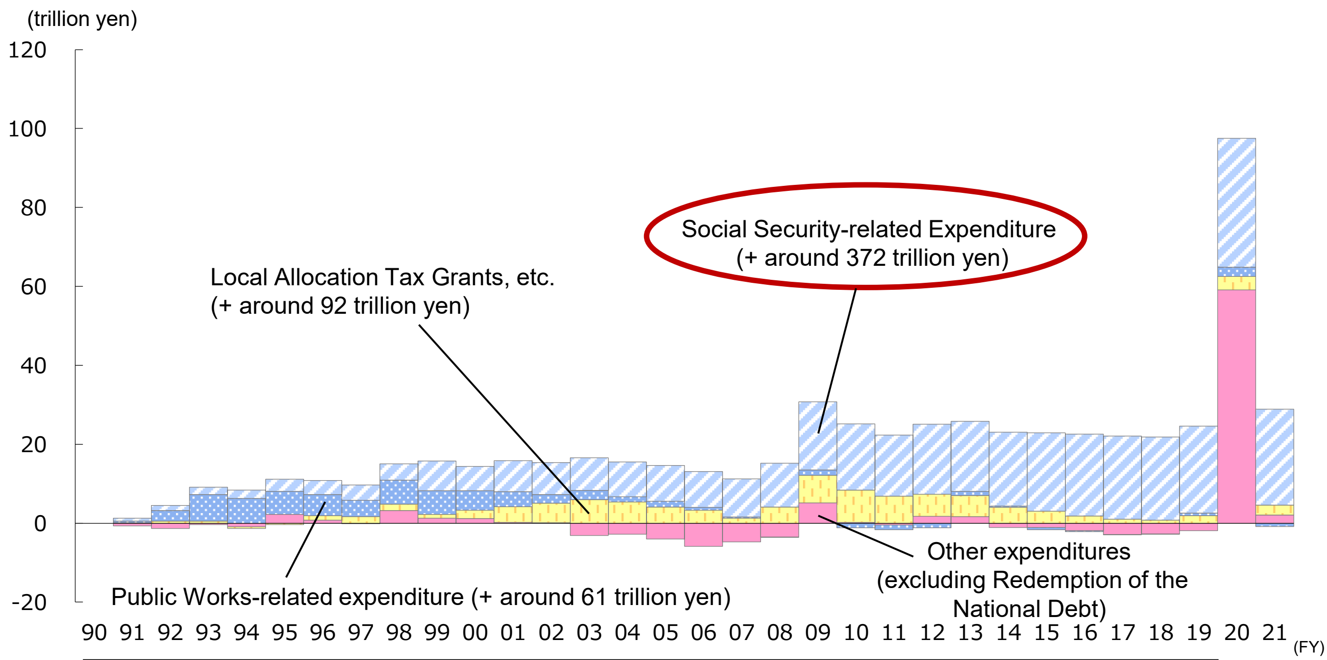
(Note 1) "Special Account for Local Allocation Tax" refers to "Special Account for Local Allocation Tax and Local Transfer Tax".
(Note 2) The figures in parentheses do not include the front-loading limit of bond issuance for refunding (20 trillion yen).
(Note 3) Government general bonds at the end of FY2021 includes Reconstruction Bonds (around 5.6 trillion yen).
(Note 4) Borrowings in the Special Account for Local Allocation Tax is partly transferred to general account (the borrowings in the general account in ①).
(Note 5) Local bonds, etc. in ② includes local bonds, borrowings in the Special Account for Local Allocation Tax, and local public corporation bonds (charged to the ordinary account) (17 trillion yen).
(Note 6) Borrowings, etc. in ② and ③ = borrowings + government subscription bonds, etc. Borrowings, etc. in ② do not include the borrowings outstanding in the Special Account for Local Allocation Tax (approx. 31 trillion yen) which local governments bear the burden for redemption.
(Note 7) Central government securities in ④ include government general bonds, government compensation bonds and government bonds converted. The borrowings, etc. in item ④ includes government subscription bonds, etc.
(Note 8) The local bonds included in central government securities and local government debt in ④ are at current market value.
(Note 9) The figures in ①, ②, and ③ are based on the budget for FY2021 and the local government debt plan etc.

6. Factors for an Increase in Government General Bonds Outstanding

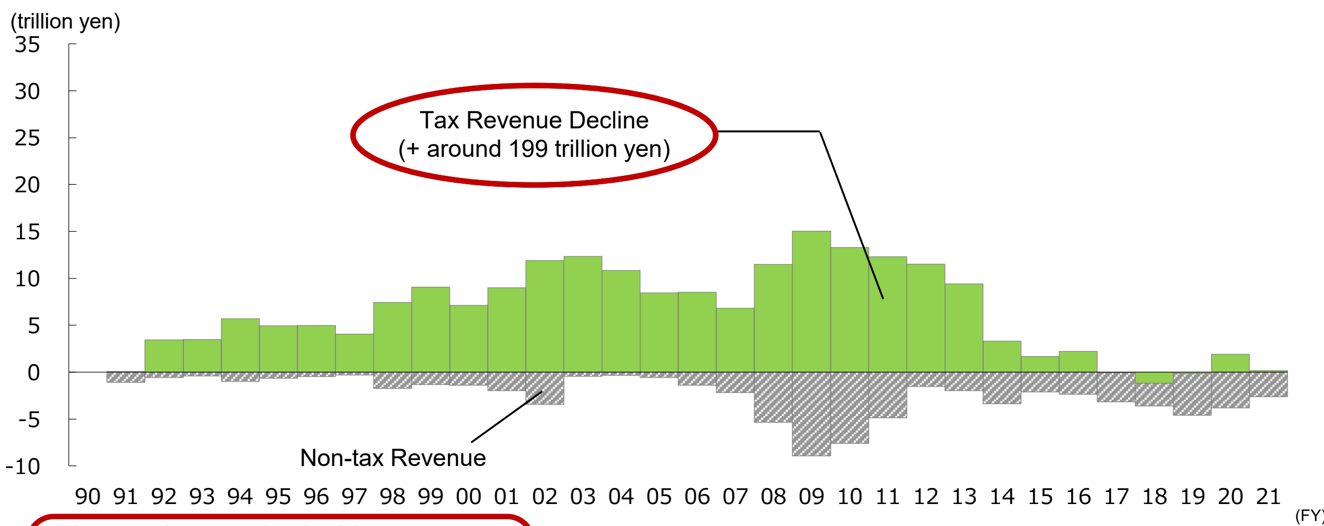
The main causes behind an increase in government general bonds outstanding after FY1990, in which Japan was able to get out of the issuance of special deficit-financing bonds, are followings;
- expenditure side; increase in social security-related expenditures and local allocation tax grants, etc.
- revenue side; decline in tax revenue due to economic downturns and tax cuts.

Increase in Government General Bonds Outstanding from FY1990 to FY2021: around 818 trillion yen

Expenditure increase causes: + around 564 trillion yen



Revenue decline causes: + around 125 trillion yen



The portion marked with “ ” alone accounts for about 70% of the increase in government general bonds outstanding.

Impact of balance gap in FY1990: + around 88 trillion yen

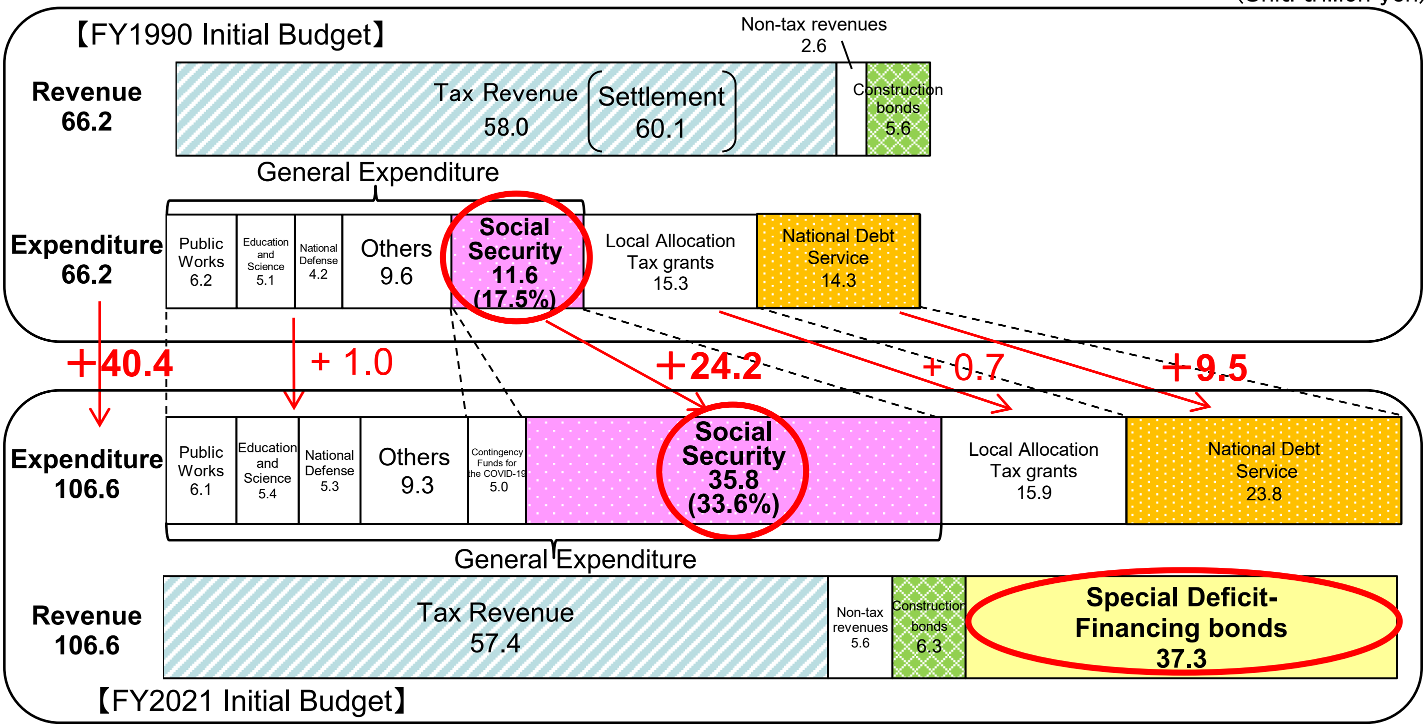
Other factors (long-term debt transferred from Japan National Railway, etc.): + around 41 trillion yen

(Note 1) FY1975 - FY2019: Settled figures ; FY2020: Based on the Third Budget ; FY2021: Based on the Budget
(Note 2) The figures in FY2019 and FY2020 include Temporary and Special Measures.
(Note 3) Reconstruction Bonds (5.6 trillion yen at the end of FY2021) and expenditures in FY2011 financed by the issuance of Reconstruction Bonds (7.6 trillion yen) are excluded from government general bonds outstanding above.
(Note 4) As for the Local Allocation Tax Grants, tax revenues based on the legal rates are excluded from both sides of expenditure and revenue, and the others (to cover expenditure-revenue gap in the local governments, etc.) are counted as an expenditure increase.

7. Comparison of General Account Revenue and Expenditure between FY1990 and FY2021

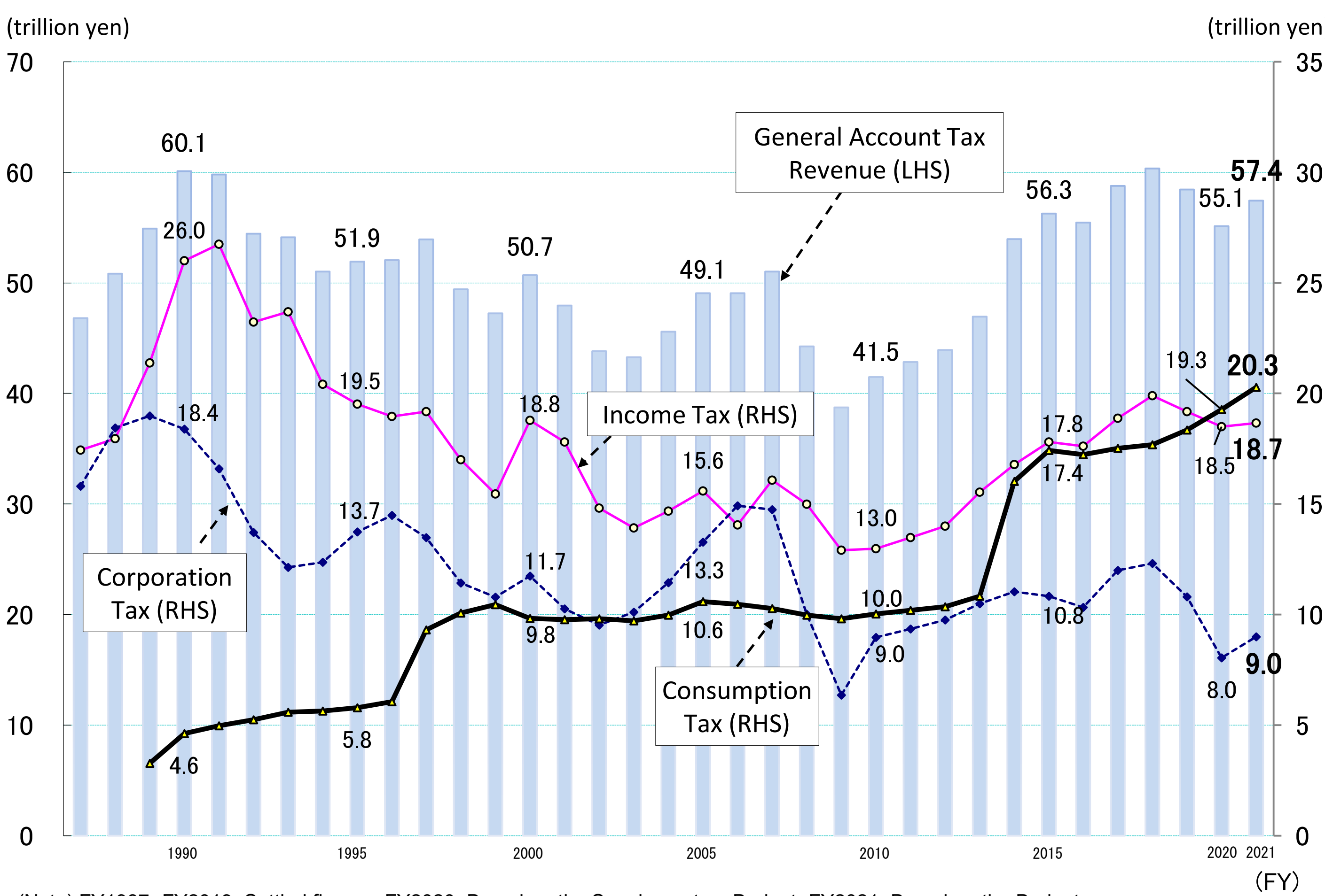
Compared to the FY1990 budget, when the issuance of special deficit-financing bond temporarily ended, social security-related expenses have significantly increased and they are covered by special deficit-financing bonds in the FY2021.

(Unit: trillion yen)



(Note) Figures in parentheses represent the percentage of social security expenditure to general account total expenditure.

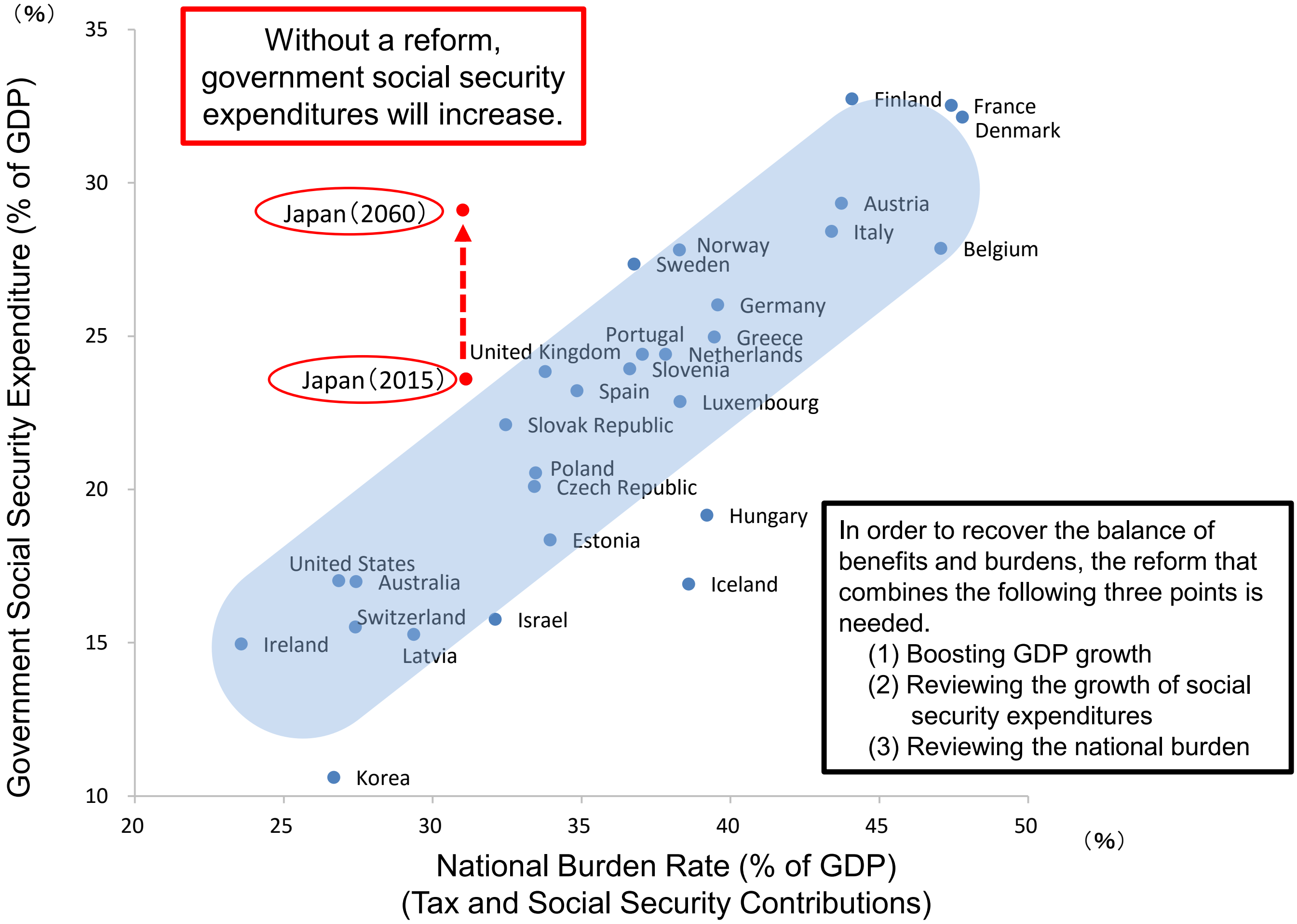
(Reference) Trend of General Account Tax Revenues



(Note) FY1987- FY2019: Settled figures, FY2020: Based on the Supplementary Budget, FY2021: Based on the Budget

8. Relationship between Social Security Expenditures and National Burden Rate in OECD Countries

The relationship between benefits and burdens in Japan is unbalanced compared with other countries. In order to ensure the sustainability of Japan's social security system, it is urgent to work on structural reforms.



(Source) National Burden Rate: OECD "National Accounts", "Revenue Statistics", Cabinet Office "National Accounts" etc.
Social Security Expenditure: OECD "National Accounts", Cabinet Office "National Accounts".

(Note 1) The figures are the general-government-based data (including the central and local governments and the social security funds).

(Note 2) Japan: Actual figures of FY2015, Iceland, New Zealand and Australia: Actual figures of CY2014, Other countries: Actual figures of CY2015

(Note 3) The figure of Japan in FY2060 is calculated based on the Fiscal System Council "Long-term Projections on Japanese Public Finances (revised edition)" (April 6 2018, submitted by Working Group).

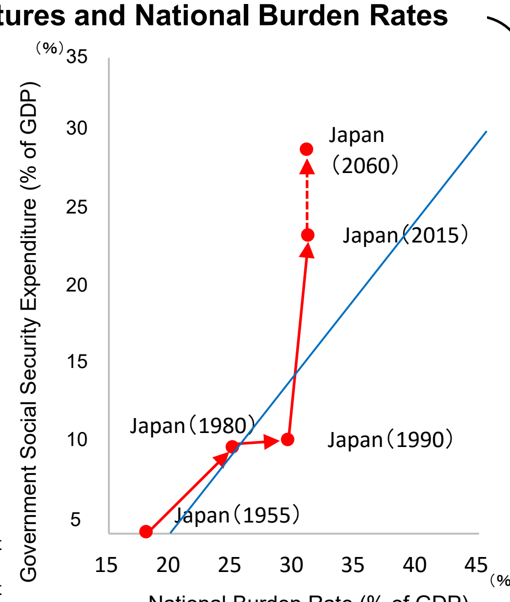
(Note 4) The shaded area represents the 95% confidence interval for each coordinate and its distance from the regression line for Japan and other countries.

(Reference) Transition of Japan's Social Security Expenditures and National Burden Rates

- The blue line in the right graph shows the states that the primary balance is in balance and that social security benefits and burdens are also in balance (based on the ratio of non-social security expenditures to GDP in FY1990, when Japan didn't rely on special public debt issuance). For fiscal years above the blue line, the primary balance is in deficit because social security benefits are not covered by taxes and social insurance premiums (the national burden).
- In the postwar period, Japan increased benefits balancing with burdens in line with its rapid economic growth.
- However, since FY1990, while the cost of social security benefits have increased in line with the declining birthrate and aging population, the corresponding burdens have not been secured, indicating that there are imbalances between benefits and burdens. It is necessary to continue efforts to reform both expenditures and revenues in order to improve the sustainability of social security.

(Note 1) The primary balance here is simply defined as [the national burden ratio - (social security expenditures + non-social security expenditures (excluding interest expenses))], which is different from the SNA-based primary balance.

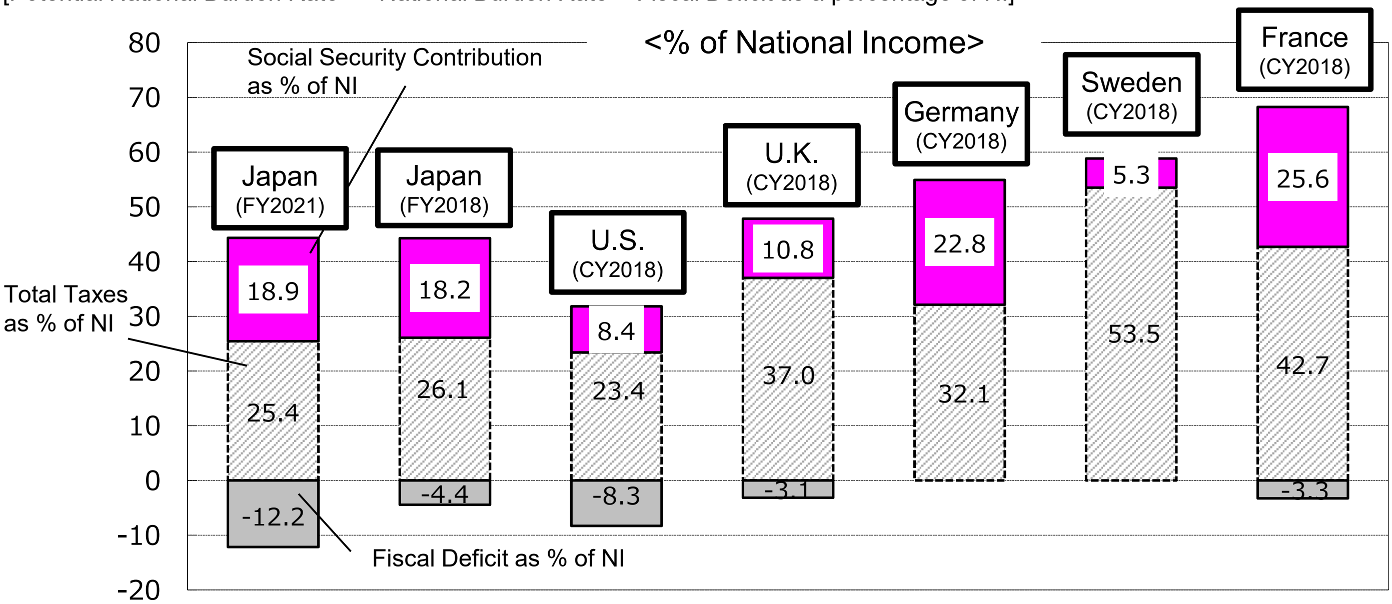
(Note 2) Non-social security expenditures were about 15.8% of GDP in FY1990 and have remained at almost the same level (15% level) since then.



9. International Comparison of National Burden Rate

Japan's national burden rate remains lower than that in other countries. In order to ensure the sustainable public finance and social security system, it is necessary to encourage discussion among the general public on the relationship between the increase in social security benefits due to aging population and the burden owed by citizens.

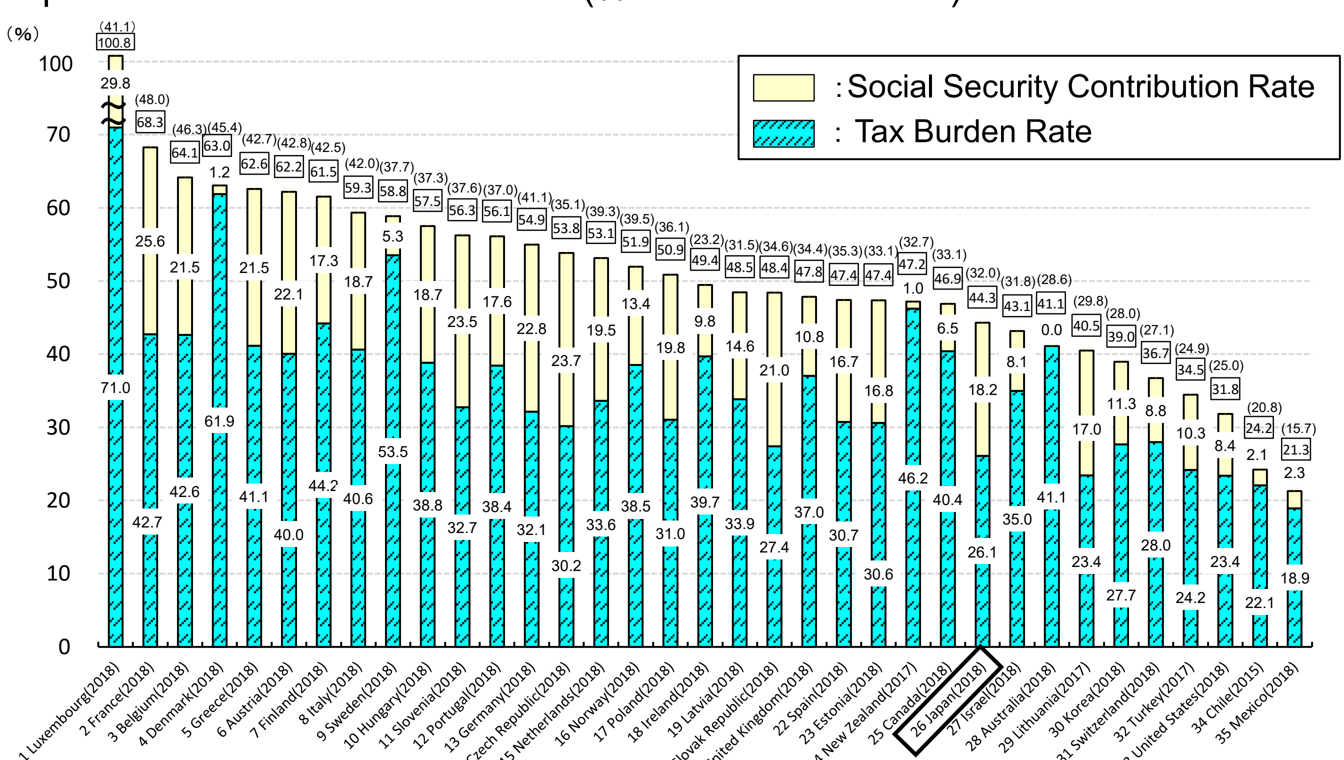
[National Burden Rate = Total Taxes as a percentage of National Income (NI) + Social Security Contribution as a percentage of NI]
[Potential National Burden Rate = National Burden Rate + Fiscal Deficit as a percentage of NI]



	Japan (FY2021)	Japan (FY2018)	U.S. (CY2018)	U.K. (CY2018)	Germany (CY2018)	Sweden (CY2018)	France (CY2018)
National Burden Rate	44.3 (31.2)	44.3 (32.0)	31.8 (25.0)	47.8 (34.4)	54.9 (41.1)	58.8 (37.7)	68.3 (48.0)
Potential National Burden Rate	56.5 (39.7)	48.7 (35.2)	40.1 (31.5)	51.0 (36.6)	54.9 (41.1)	58.8 (37.7)	71.5 (50.3)

(Source) Cabinet Office "National Accounts", OECD "National Accounts", "Revenue Statistics", "Economic Outlook 108" (December 2020)
(Note 1) The figures represent ratio of national income. (The figures in parentheses represent the percentage of GDP.)
(Note 2) Japan: Projected figures of FY2021; Actual figures of FY2018. Other countries: Actual figures of CY2018
(Note 3) The ratios of fiscal balance to NI are the general-government-based data (including the central and local governments and the social security funds), except for Japan and the U.S., where the figures of the social security funds are excluded.

Comparison of National Burden Rate (% of National Income) in OECD Countries

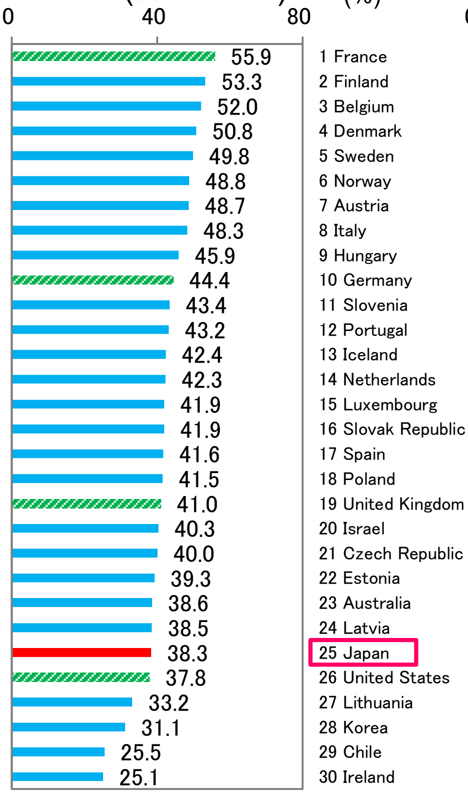


(Sources) Japan: Cabinet Office "National Accounts", Other Countries: "National Accounts"(OECD), "Revenue Statistics" (OECD).
(Note 1) 35 countries out of 37 OECD countries: Actual figures, Colombia and Iceland: no data
(Note 2) The figures in parentheses represent National Burden Ratio as % of GDP.
(Note 3) Japan: fiscal year, other countries: calendar year

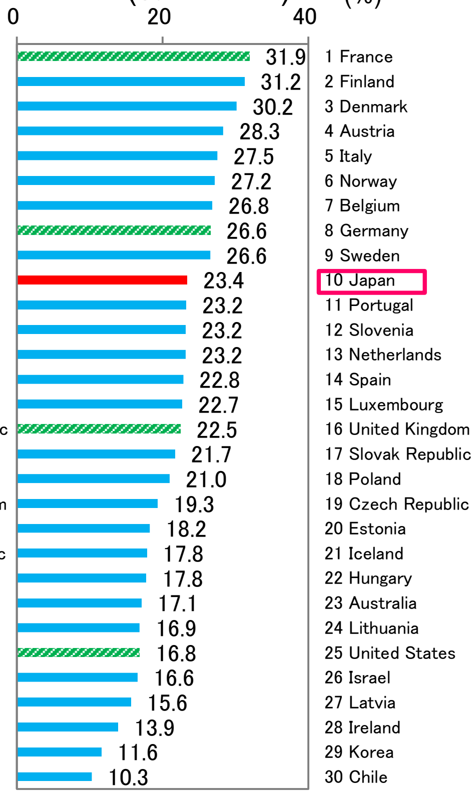
10. Revenues and Expenditures in OECD Countries

Compared to the other OECD countries, Japan's total expenditure is at a lower level. Japan's social security expenditures can be classified as mid-level reflecting the aging population, while the non-social security expenditures are lower. In addition, the tax revenue and the fiscal balance stand at a lower level.

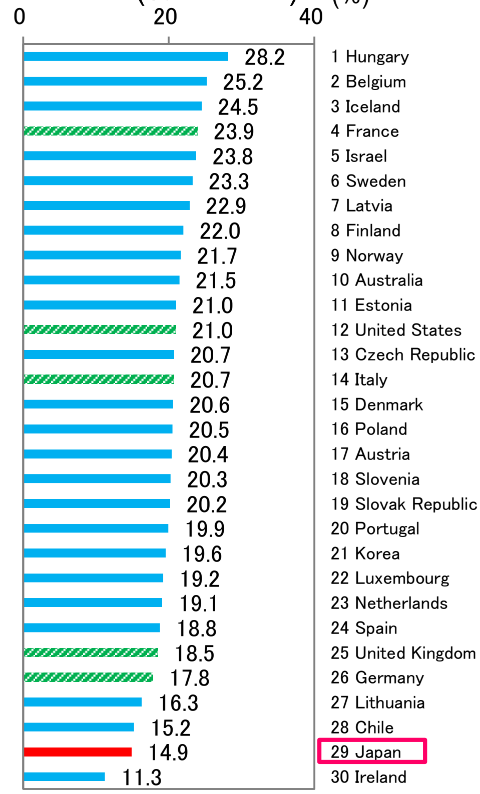
Total Expenditure (% of GDP) (%)



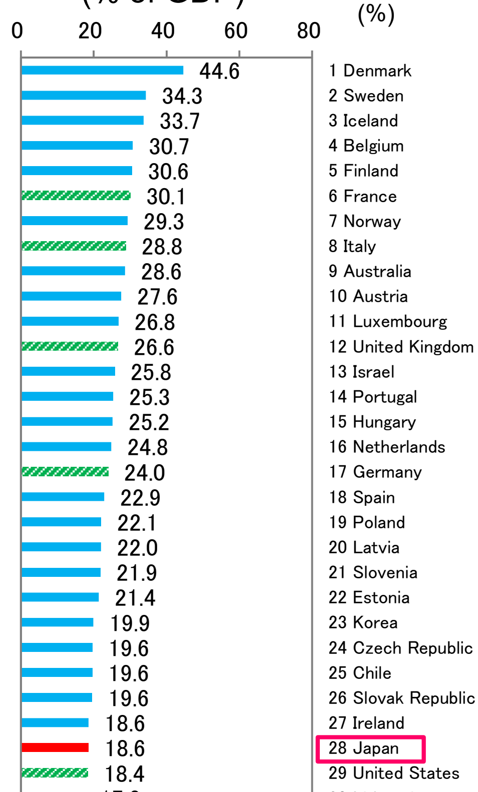
Social Security Expenditures (% of GDP) (%)

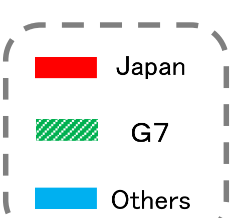


Non-Social Security Expenditures (% of GDP) (%)

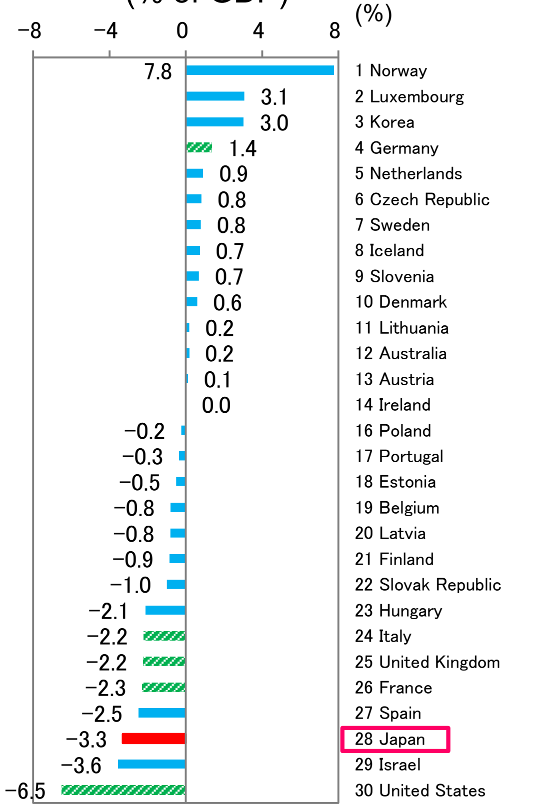


General Government Tax Revenue (% of GDP) (%)





General Government Fiscal Balance (% of GDP) (%)

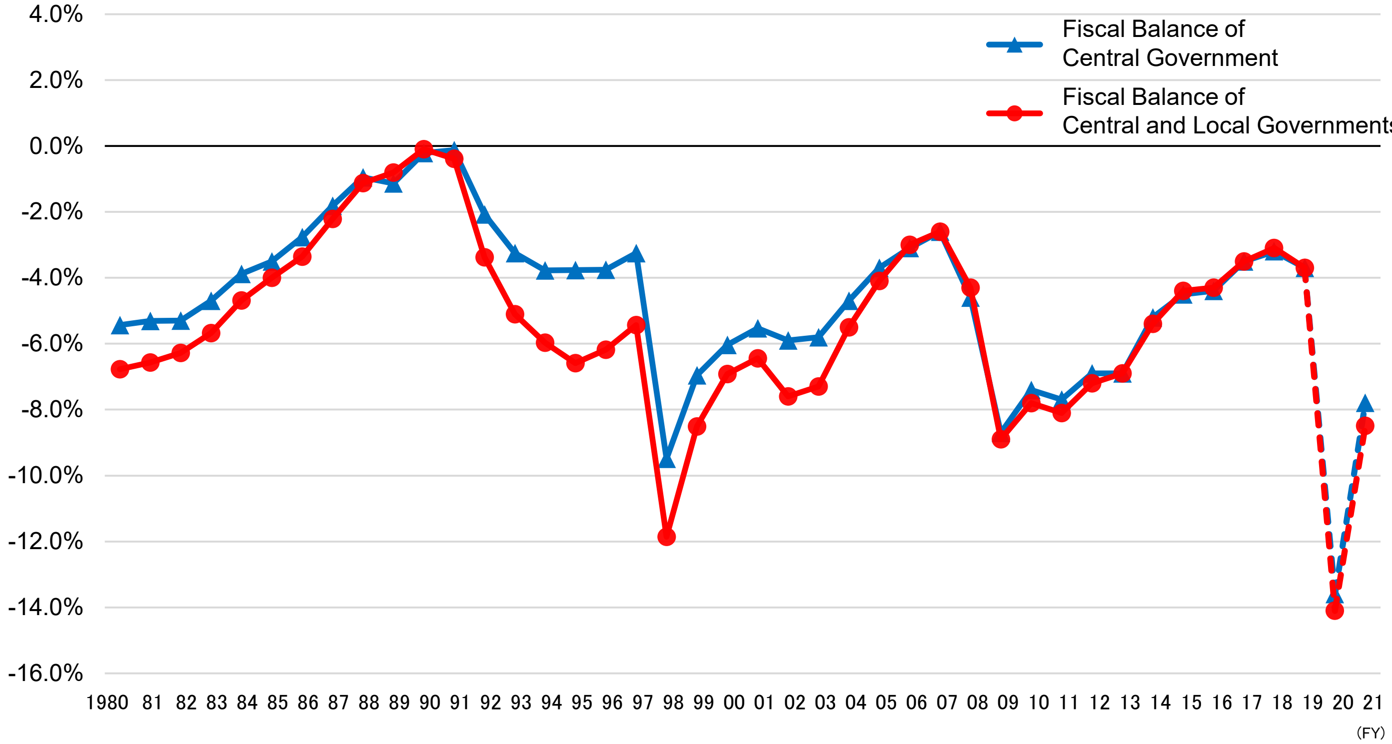


(Source) OECD "National accounts" and "Revenue Statistics", "Economic Outlook 108"(December 2020), Cabinet Office "National Accounts", etc.
(Note 1) Japan: Actual Figures of FY2018, Lithuania, Luxembourg: Actual Figures of CY2017, Other countries: Actual Figures of CY2018.
(Note 2) Figures are based on general government data except for "General Government Fiscal Balance" of Japan and the U.S., where the figures of the social security funds are excluded.

11. Fiscal Balance and Primary Balance (% of GDP)

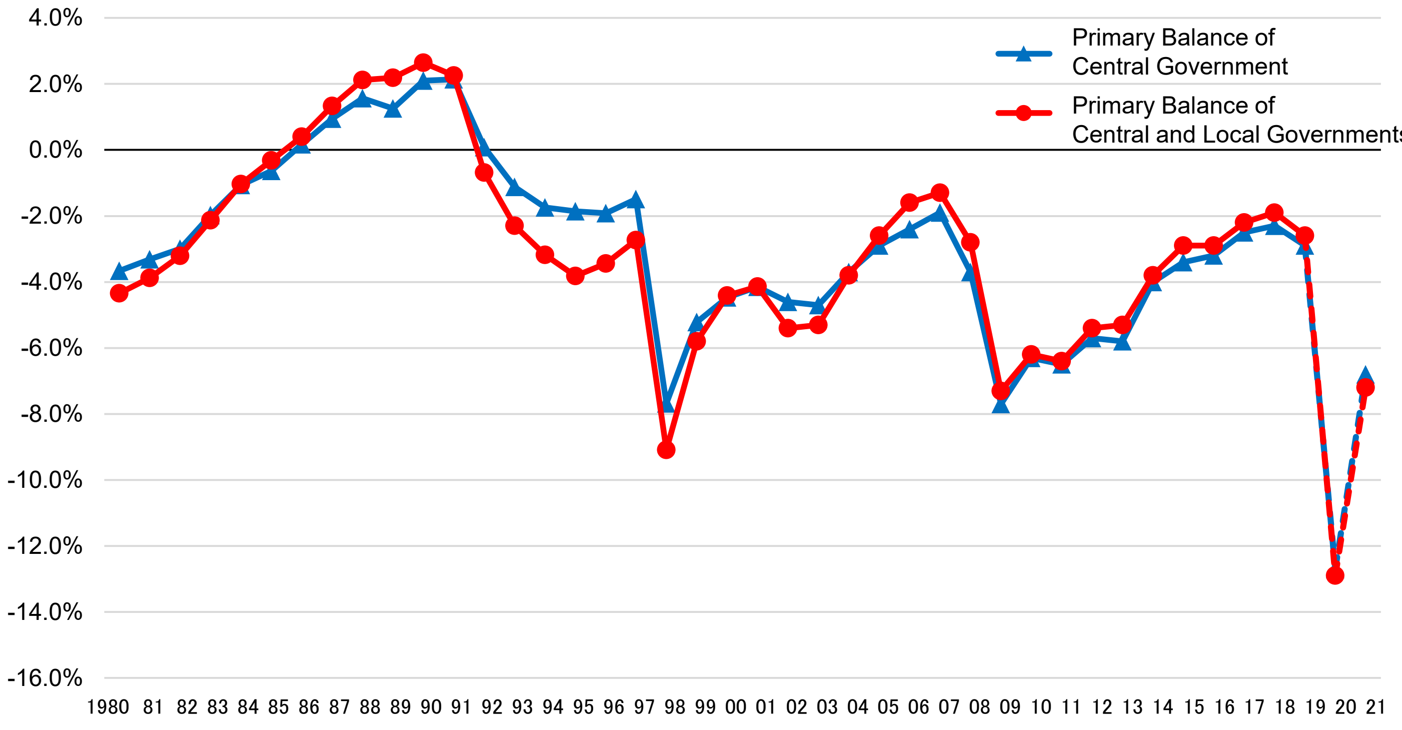
Japan's fiscal and primary balance remain in deficit.

■ Fiscal balance (% of GDP)



(Note 1) Figures for FY1980 to FY1993 are calculated based on 93SNA; Figures for FY1994 to FY2021 are calculated based on 08SNA.
(Note 2) Figures for FY1980 to FY2001 are calculated by simply adding up SNA-based net lending(+) and net borrowing(-).
Figures for FY2002 to FY2021 are calculated based on the Economic and Fiscal Projections for Medium to Long Term Analysis (Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, and excluding one-off factors).

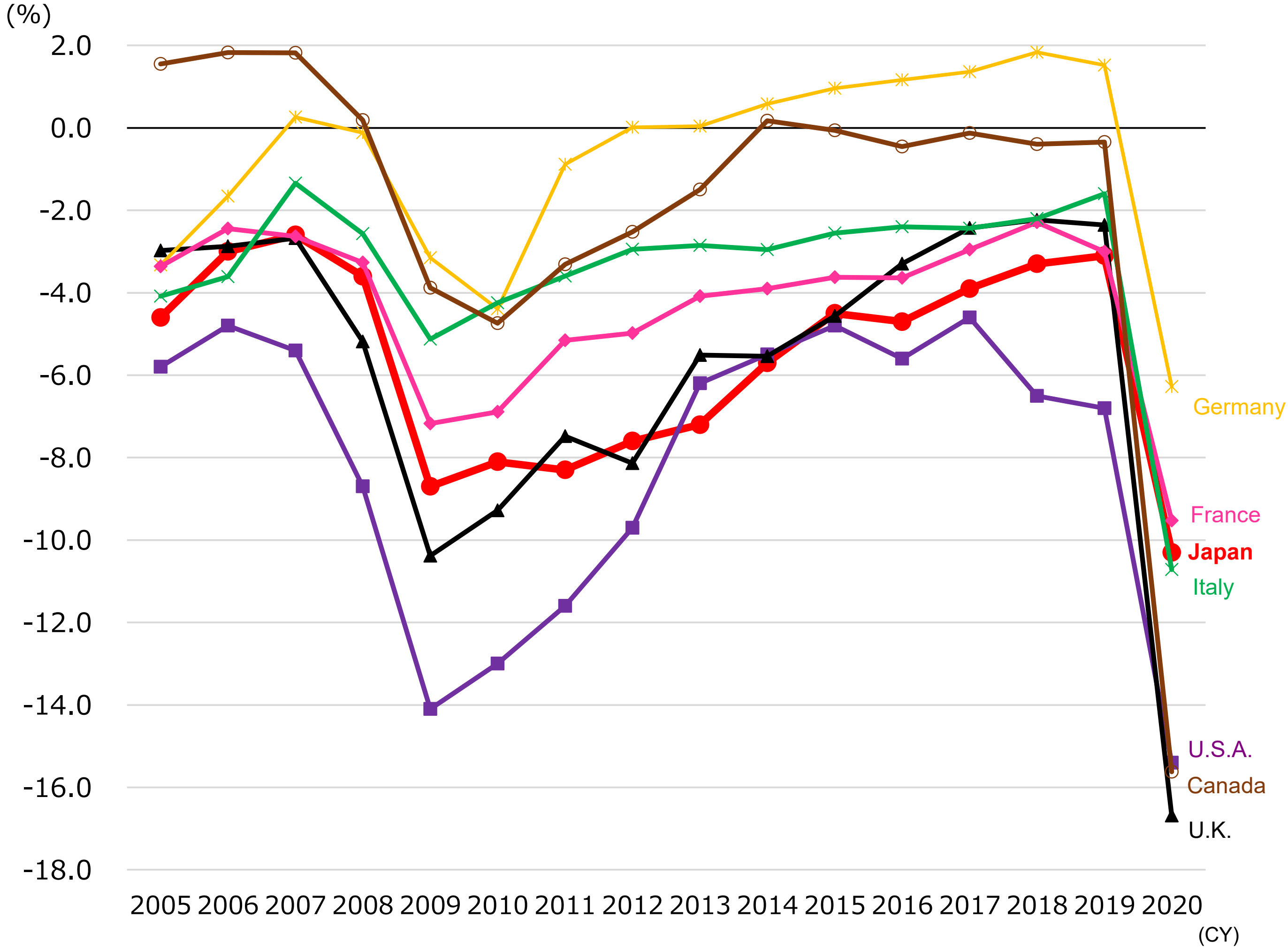
■ Primary balance (% of GDP)



(Note 1) Figures for FY1980 to FY1993 are calculated based on 93SNA; Figures for FY1994 to FY2021 are calculated based on 08SNA.
(Note 2) Figures for FY1980 to FY2001 are calculated based on SNA.
Figures for FY2002 to FY2021 are calculated based on the Economic and Fiscal Projections for Medium to Long Term Analysis (Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, and excluding one-off factors).

12. International Comparison of General Government Fiscal Balance (% of GDP)

Japan’s fiscal balance deteriorated due to the impact of the global financial crisis in autumn 2008, as other major countries experienced the same situation as well. Although Japan’s fiscal balance has been in recovery trends since then, the fiscal deficit in 2020 is greater than that in 2009 due to the responses to the COVID-19.



CY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Japan	- 4.6	- 3.0	- 2.6	- 3.6	- 8.7	- 8.1	- 8.3	- 7.6	- 7.2	- 5.7	- 4.5	- 4.7	- 3.9	- 3.3	- 3.1	- 10.3
U.S.A.	- 5.8	- 4.8	- 5.4	- 8.7	- 14.1	- 13.0	- 11.6	- 9.7	- 6.2	- 5.5	- 4.8	- 5.6	- 4.6	- 6.5	- 6.8	- 15.4
U.K.	- 3.0	- 2.9	- 2.7	- 5.2	- 10.4	- 9.3	- 7.5	- 8.1	- 5.5	- 5.5	- 4.6	- 3.3	- 2.4	- 2.2	- 2.4	- 16.7
Germany	- 3.3	- 1.7	0.3	- 0.1	- 3.2	- 4.4	- 0.9	0.0	0.0	0.6	1.0	1.2	1.4	1.8	1.5	- 6.3
France	- 3.4	- 2.4	- 2.6	- 3.3	- 7.2	- 6.9	- 5.2	- 5.0	- 4.1	- 3.9	- 3.6	- 3.6	- 3.0	- 2.3	- 3.0	- 9.5
Italy	- 4.1	- 3.6	- 1.3	- 2.6	- 5.1	- 4.2	- 3.6	- 2.9	- 2.9	- 3.0	- 2.6	- 2.4	- 2.4	- 2.2	- 1.6	- 10.7
Canada	1.6	1.8	1.8	0.2	- 3.9	- 4.7	- 3.3	- 2.5	- 1.5	0.2	- 0.1	- 0.5	- 0.1	- 0.4	- 0.3	- 15.6

(Source) OECD “Economic Outlook 108” (December 1, 2020)

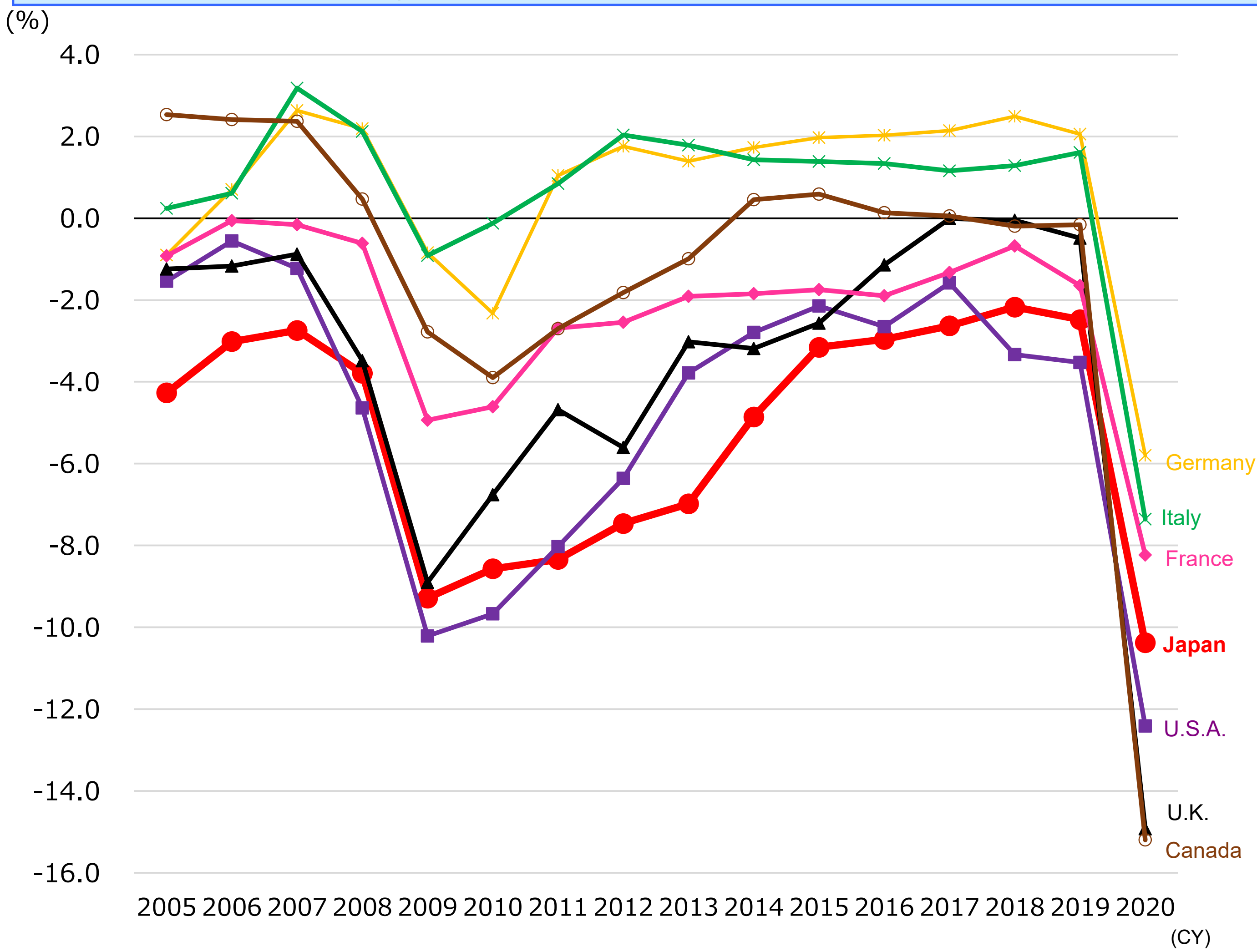
(Note 1) The figures represent the general government-based data (the central/local governments and social security funds combined), except for Japan and the U.S., where the figures of the social security funds are excluded.

(Note 2) The 2019-2021 figures for Japan and the 2020 figures for other countries are estimated figures.

(Note 3) The fiscal balances for 2021 are estimated as follows; Japan: -5.1%, U.S.A.: -11.6%, U.K.: -13.3%, Germany: -4.4%, France: -7.4%, Italy: -6.9%, and Canada: -11.3%. However, it should be noted that the Japan’s figure does not reflect the fiscal deficit arising from the third supplementary budget for FY2020 and the budget for FY2021.

13. International Comparison of General Government Primary Balance (% of GDP)

It is highly necessary for Japan to achieve primary surplus, given the country's highest debt-to-GDP ratio in the world. However, in terms of flow balance, Japan's fiscal management is not necessarily tight. In addition, the primary balance of each country in 2020 became a significant deficit in 2020 due to the responses to the COVID-19.



CY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Japan	- 4.3	- 3.0	- 2.7	- 3.8	- 9.3	- 8.6	- 8.3	- 7.5	- 7.0	- 4.9	- 3.2	- 3.0	- 2.6	- 2.2	- 2.5	- 10.4
U.S.A.	- 1.5	- 0.6	- 1.2	- 4.6	- 10.2	- 9.7	- 8.0	- 6.4	- 3.8	- 2.8	- 2.1	- 2.7	- 1.6	- 3.3	- 3.5	- 12.4
U.K.	- 1.2	- 1.2	- 0.9	- 3.5	- 8.9	- 6.8	- 4.7	- 5.6	- 3.0	- 3.2	- 2.6	- 1.1	- 0.0	- 0.1	- 0.5	- 14.9
Germany	- 0.9	0.7	2.6	2.2	- 0.8	- 2.3	1.0	1.8	1.4	1.7	2.0	2.0	2.1	2.5	2.1	- 5.8
France	- 0.9	- 0.1	- 0.2	- 0.6	- 4.9	- 4.6	- 2.7	- 2.5	- 1.9	- 1.8	- 1.8	- 1.9	- 1.3	- 0.7	- 1.6	- 8.2
Italy	0.2	0.6	3.2	2.1	- 0.9	- 0.1	0.8	2.0	1.8	1.4	1.4	1.3	1.2	1.3	1.6	- 7.4
Canada	2.5	2.4	2.4	0.5	- 2.8	- 3.9	- 2.7	- 1.8	- 1.0	0.5	0.6	0.1	0.1	- 0.2	- 0.2	- 15.2

(Source) OECD "Economic Outlook 108" (December 2020)
(Note 1) The figures represent the general government-based data (the central/local governments and social security funds combined).
(Note 2) The 2019-2021 figures for Japan and the 2020 figures for other countries are estimated figures.
(Note 3) The primary balances for 2021 are estimated as follows; Japan: -5.3%, U.S.A.: -9.6%, U.K.: -11.5%, Germany: -4.0%, France: -6.4%, Italy: -3.7%, and Canada: -11.2%. However, it should be noted that the Japan's figure does not reflect the fiscal deficit arising from the third supplementary budget for FY2020 and the budget for FY2021.

14. International Comparison of General Government Gross Debt (% of GDP)

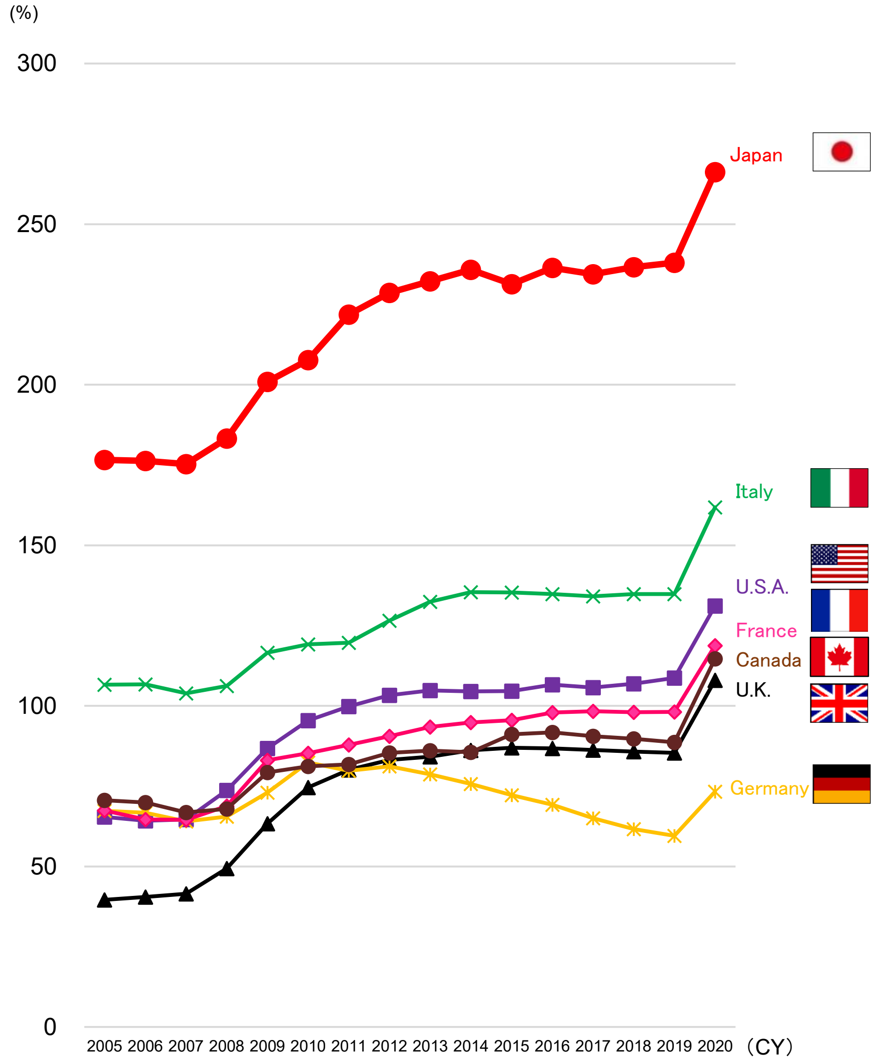
Japan’s general government gross debt-to-GDP ratio stands at the highest level not only among major advanced countries but also among all countries.

＜World Ranking (out of 184 countries/regions)＞

1	Macau	0.0%
2	Hong Kong	0.1%
	⋮	
66	Korea	40.0%
	⋮	
90	China	48.8%
	⋮	
124	Germany	61.6%
	⋮	
158	U.K.	85.7%
	⋮	
162	Canada	89.7%
	⋮	
168	France	98.1%
	⋮	
173	U.S.A.	106.9%
	⋮	
179	Italy	134.8%
	⋮	
184	Japan	236.6%

* Settled figures in 2018

＜Comparison with Major Advanced Countries＞



CY	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Japan	176.6	176.3	175.3	183.3	200.9	207.7	221.9	228.7	232.2	235.8	231.3	236.4	234.5	236.6	238.0	266.2
U.S.A.	65.5	64.2	64.7	73.7	86.8	95.5	99.8	103.3	104.9	104.5	104.6	106.6	105.7	106.9	108.7	131.2
U.K.	39.6	40.5	41.5	49.4	63.3	74.6	80.1	83.2	84.2	86.2	86.9	86.8	86.2	85.7	85.4	108.0
Germany	67.3	66.7	64.0	65.5	73.0	82.4	79.8	81.1	78.7	75.7	72.2	69.2	65.0	61.6	59.5	73.3
France	67.4	64.6	64.5	68.8	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.3	98.1	98.1	118.7
Italy	106.6	106.7	103.9	106.2	116.6	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.1	134.8	134.8	161.8
Canada	70.6	69.9	66.9	67.9	79.3	81.2	81.8	85.4	86.1	85.6	91.2	91.7	90.5	89.7	88.6	114.6

(Source) IMF "World Economic Outlook" (October 2020).
(Note 1) The figures represent the general government-based data (the central/local governments and social security funds combined).
(Note 2) The 2019-2020 figures for Japan and the 2020 figures for other countries are estimated figures.
(Note 3) The gross debts for 2021 are estimated as follows; Japan: 264.0%, U.S.: 133.6%, U.K.: 111.5%, Germany: 72.2%, France: 118.6%, Italy: 158.3%, and Canada: 115.0%. However, it should be noted that the Japan’s figure does not reflect the expected increase in outstanding gross debt as a result of the third supplementary budget for FY2020 and the budget for FY2021.

(Column 1) How to View the Assets in Japan

The assets earmarked with the debts (such as pension reserves and FILP loans) are not directly related to fiscal consolidation because they are not included in “Bonds outstanding of central and local governments”, which is the benchmark of fiscal consolidation target.
In addition, it should be noted that tangible fixed assets the government owns are not marketable, or, if so, their price can sharply drop in the case of fiscal crisis.

(Reference1) Views of IMF and OECD to Japan’s Assets

■ IMF “Fiscal Monitor” (October 2018)

- **Recognizing assets on the balance sheet does not negate the vulnerabilities associated with high public debt**. **Many assets are illiquid or not marketable and would not be available to meet rollover or deficit financing needs in the short term.** Asset valuations are also more volatile than debt and can be highly correlated with the economic cycle — meaning **their values can be at their nadir when financing needs are most pressing.** Therefore, **the assessments of gross debt, deficits, and financing needs remain important for fiscal policy.**

- Nonfinancial assets include buildings, infrastructure, and land. Many of these assets comprise the public capital stock and play an integral role in delivering economic and social outcomes; they are typically illiquid and nonmarketable, or marketable only over the medium to long term (for example, privatizations).

- Financial assets are often marketable and relatively liquid, with the exception of direct loans and nonlisted equity holdings in public corporations, which may be less reliably valued.

■ OECD “Economic Surveys: JAPAN” (April 15, 2015)

- In sum, while the large stock of government assets needs to be borne in mind, **gross government debt appears to be the best summary measure of the public-sector position**.

- (…) **tangible fixed assets, such as roads and public buildings**, account for more than a quarter of central government assets, and these **cannot be easily turned into cash in case of emergency**.

(Reference2) International Comparison of General Government Net Debt (% of GDP)

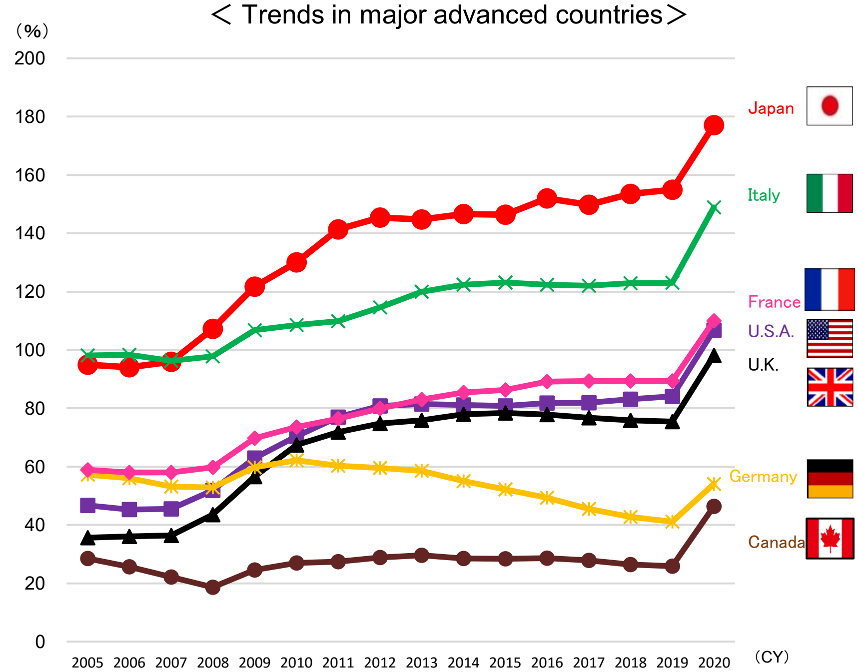
Even in terms of net debt, which means government’s gross debt less government-owned financial assets (such as pension reserves consisting of pension premiums), net debt-to-GDP ratio stands at the highest level not only among G7 countries but also other countries.

＜ Ranking in 88 countries ＞

1	Norway	-71.8%
2	Kazakhstan	-15.8%
3	Luxembourg	-10.7%
⋮		
14	Korea	9.6%
⋮		
28	Canada	26.5%
⋮		
47	Germany	42.7%
⋮		
77	U.K.	75.9%
⋮		
80	U.S.A.	83.2%
⋮		
82	France	89.3%
⋮		
85	Italy	122.9%
⋮		
88	Japan	153.5%

＊ Settled figures in 2018

＜ Trends in major advanced countries＞



(Source) IMF "World Economic Outlook" (October 2020).
(Note 1) The figures represent the general government-based data (the central/local governments and social security funds combined).
(Note 2) The 2019-2020 figures for Japan and the 2020 figures for other countries are estimated figures. The general government net debts for 2021 are estimated as follows; Japan: 178.9%, U.S.: 107.3%, U.K.: 101.6%, Germany: 54.2%, France: 109.8%, Italy: 146.1%, and Canada: 48.4%. However, it should be noted that the Japan’s figure does not reflect the expected increase in outstanding net debt as a result of the third supplementary budget for FY2020 and the budget for FY2021.
(Note 3) General government net debt is calculated as gross debt minus financial assets corresponding to debt instruments such as currency and deposits, and debt securities.

15. Problems of Dependence on Public Bonds

In Japan, there is an imbalance between benefits and burdens. If the current generation excessively increases governmental spending for themselves, great amount of burdens will be transferred to the future generations. The dependence on public bonds has problems such as “Imbalance between benefits and burdens”, “Undesirable redistribution”, “Narrowed policy options caused by fiscal rigidity” and “Increased risk, such as a deterioration of confidence in the government bond and the national currency”.

Imbalance between benefits and burdens

- ✓ In Japan, as the tax revenue to compensate for the increase in social security expenditures is not be secured, the imbalance between benefits and burdens continue, which undermine the sustainability of the scheme.
- ✓ Under a loose fiscal discipline that relies on the debt issuance, examinations whether the spending would contribute to the medium-to-long-term economic growth and benefits of the future generations tend to be looser.

Undesirable redistribution

- ✓ Among future generations, while those who hold JGBs can receive the interest payments and the redemption of bonds, those who have not bear a substantial increase in burdens. (e.g., a restraint in social security-related expenditures and tax hike.)
- ✓ Although future generations are not involved in the decision-making, they will be required to bear tax burdens etc., which causes undesirable redistribution.

Narrowed policy options caused by fiscal rigidity

- ✓ There will be limited room for flexible fiscal responses when economic crises and large-scale natural disasters occur.

Increased risk, such as a deterioration of confidence in the government bond and the national currency

16. Fiscal Management in a Low Interest Rate Environment

Even in a low interest rate environment, it is important to promote fiscal consolidation without depending on public bonds issuance.

"Assumption that r<g lasts forever" is overly optimistic

- ✓ In many cases in the past, interest rates were higher than the nominal growth rate. Assuming that interest rates will continue to be less than the nominal growth rate is overly optimistic.
- ✓ Therefore, it is necessary to assume that interest rates is at least as high as the nominal growth rate.

Primary surplus is needed to steadily reduce the debt-to-GDP ratio

- ✓ In case interest rates are lower than nominal growth rate, the debt-to-GDP ratio is unlikely to decline if the new debt added by the primary balance deficit in each year is large.

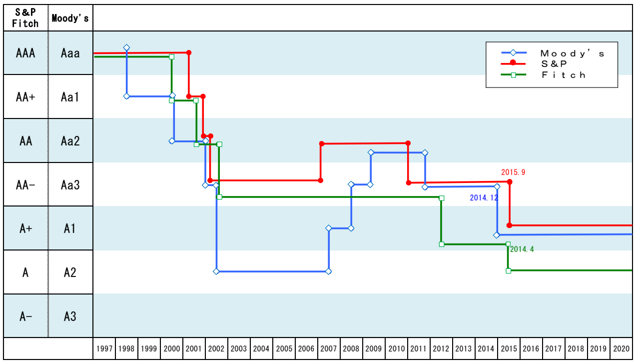
Confidence in Japan's public finance is a prerequisite for taking advantage of low interest rates

- ✓ Confidence in government bonds and the market's stable absorption of the government bonds are the results of efforts of fiscal consolidation. Arguing that "efforts of fiscal consolidation is unnecessary because there is confidence in government bonds" is like putting the cart before the horse.
- ✓ A loss of confidence in government bonds will have a negative impact on confidence in the currency and financial conditions of financial institutions. Even if debt is denominated in its own currency, the risk of capital flight exists.

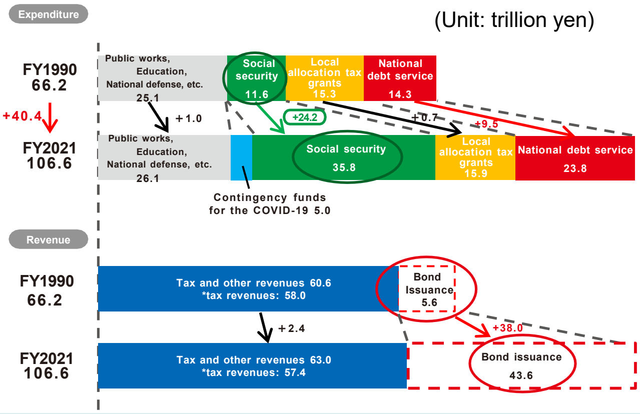
Japan's fiscal deficit stems from structural factors

- ✓ Japan's fiscal deficit is due to structural factors including an increase in social security expenditures reflecting a low birthrate and aging population.
- ✓ The structural challenge of ensuring the sustainability of the social security system should not be left unresolved in the name of "flexible fiscal responses".

Trends in JGB ratings by major credit ratings agencies



Change in fiscal structure (FY1990→FY2021)



17. Transition of Japan's Fiscal Consolidation Target

The issuance of special deficit-financing bonds was temporarily ended in FY1990, but it resumed in FY1994 to cope with the Great Hanshin-Awaji Earthquake etc., and has continued until now. Then, the fiscal consolidation flow target was converted from "cessation of the issuance of special deficit-financing bonds" to "primary surplus of the central and local governments", and the governments has made effort to achieve primary surplus.

May. 14 1976	Economic Plan for the first half of the 1970s (Cabinet Decision)	Cessation of the issuance of special deficit-financing bonds	Return to the public finance that does not depend on special deficit-financing bonds as soon as possible by FY1980.
Sep. 3 1979	Policy Speech by Prime Minister Masayoshi Ohira to the 88th Session of the Diet		Improve the public debt dependency with the basic goal of ceasing the issuance of special deficit-financing bonds by FY1984.
Aug. 12 1983	Outlook and Guidelines for the Economy and society in the 1980s (Cabinet Decision)		Improve the response capability of the public finance by getting out of special deficit-financing bonds dependence and reducing the Bond Dependency Ratio by FY1990.
Dec. 5 1997	Special measure law on promoting fiscal structural reform (Revised in June 5 1998, Ceased in Dec. 18 1998)		Reduce the fiscal deficits of the central and local governments to less than 3% of GDP by FY2003 (after revision: FY2005) and reduce bond issuances to zero by FY2003.
Jun. 25 2002	Basic Policy for Economic and Fiscal Management and Structural Reform 2002 (Cabinet Decision)	Primary Surplus of the central and local governments	Achieve a surplus in the primary balance of the central and local governments in the early 2010s.
Jul. 7 2006	Basic Policy for Economic and Fiscal Management and Structural Reform 2006 (Cabinet Decision)		1) The Government will surely achieve a surplus in the primary balance of the central and local governments by FY2011. 2) Even after achieving a surplus in the primary balance, the central and local governments will ensure the prevention of divergence in the ratio of debts of the central and local governments to GDP and the stable reduction of the ratio.
Jun. 23 2009	Basic Policy for Economic and Fiscal Reform 2009 (Cabinet Decision)		Achieve a surplus of the primary balance of the central and local governments within the next 10 years. Reduce the primary deficit of central and local governments to GDP ratio, excluding temporary deficits incurred by economic stimulus packages, by at least half within the next 5 years.
Jun. 22 2010	Fiscal Management Strategy (Cabinet Decision)		1) For the national government primary balance as well as the national and local governments primary balance, the deficit ratio to GDP shall be halved from the ratio in FY2010 by FY2015 at the latest, and the surplus shall be achieved by FY2020 at the latest. 2) From FY2021, a stable reduction in the ratio of public debt to GDP for national and local governments shall be maintained
Jun. 14 2013	Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan (Approved by the Cabinet)		The Government aims to halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010 and to achieve a primary surplus by FY2020, thereafter the Government will seek to steadily reduce the public debt-to-GDP ratio.
Jun. 30 2015	Basic Policy on Economic and Fiscal Management and Reform 2015 (Cabinet Decision)		The Government aims to achieve a primary surplus by FY2020, thereafter the Government will seek to steadily reduce the public debt-to-GDP ratio.
Jun. 15 2018	Basic Policy on Economic and Fiscal Management and Reform 2018 (Cabinet Decision)		Aim for the primary surplus of the central and local governments by FY 2025 by implementing economic revitalization and fiscal consolidation steadily. At the same time, firmly maintain the aim of reducing the public debt-to-GDP ratio steadily.

Current fiscal consolidation target

By FY2025	**Achieve a primary surplus of the national and local governments**
At the same time	**Steadily reduce the public debt-to-GDP ratio**

18. Stock and Flow Indicators for the Fiscal Consolidation Target

<Stock Indicator> Gross Government Debt-to-GDP Ratio

"Gross government debt-to-GDP ratio" is the indicator of the amount of debt outstanding owed by the central and local governments as a percentage of GDP. It is a key indicator for the soundness of the public finance as it measures the ratio of debt owed by the central and local governments to the economic scale.

<Flow Indicators (1)> Fiscal Balance (Fiscal balance including interest payments)

"Fiscal balance" is the indicator to which extent the policy expenditures and the interest payments can be financed by the tax revenues, etc. (without additional debt issuance).
The fiscal balance equilibrium means that the newly issued debt just finances existing debt redemption and that the amount of the debt outstanding remains unchanged. To reduce the amount of the debt outstanding, it is necessary to achieve a fiscal surplus, which means that some of the existing debt can be redeemed by the tax revenues.

＜Flow Indicators (2)＞ Primary Balance （Fiscal balance excluding interest payments）

"Primary balance" is the indicator to which extent the expenditures for policies can be financed by the tax revenues. It is a looser fiscal target than fiscal balance because interest payments are excluded. Primary balance equilibrium means that the redemption of the existing debt as well as the interest payments are financed by newly issued debt, which will increase the debt outstanding by the interest payments. In case of primary deficit, it leads to further increase in the debt outstanding.

In relation to the stock indicator (Gross government debt-to-GDP ratio), it would be matter whether the amount of increase in debt outstanding as a numerator become smaller than that of GDP as a denominator, and relationships among level of primary balance, interest rate and growth rate are the key factors , which is explained in the next page.

Figure A: Current Situation

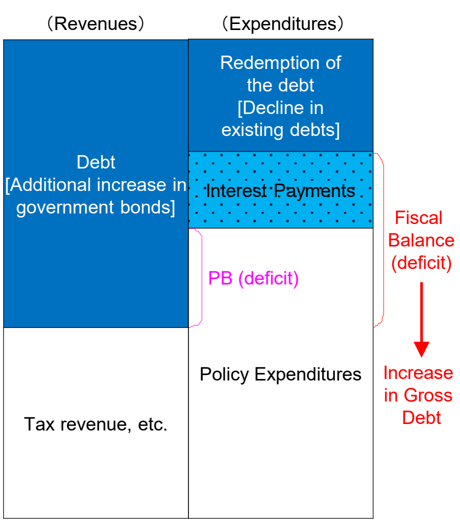


Figure B: Primary Balance Equilibrium

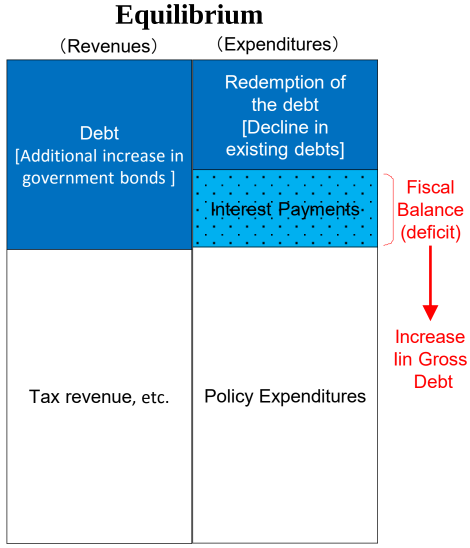
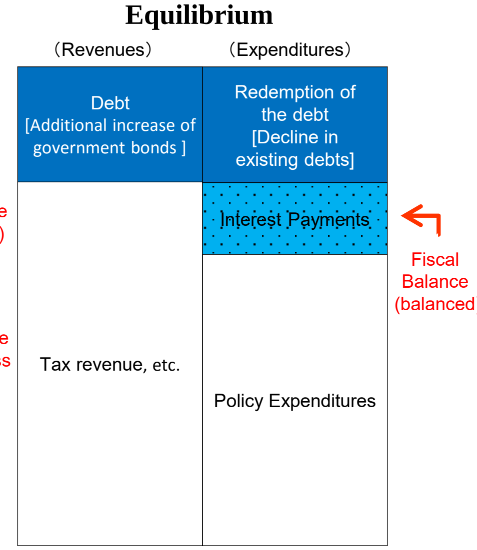


Figure C: Fiscal Balance Equilibrium



(Note) Interest income needs to be excluded from revenues when calculating the primary balance, but this process is omitted in these simplified figures.

19. Relationship between Stable Reduction in the Debt-to-GDP Ratio and Improvements in the Flow Balance

Gross debt-to-GDP ratio is determined by 1) nominal growth rate and interest rate differentials and 2) primary balance. In many cases in the past, interest rates were higher than nominal growth rate. Therefore, improvement in the flow balance (primary surplus) is needed to steadily reduce the debt-to-GDP ratio while assuming that interest rates is at least as high as nominal growth rate.

- In case the both conditions of **Nominal interest rates (r) = Nominal growth rates (g)** and **Primary deficit = 0** are satisfied, the debt-to-GDP ratio remains stable.

⇨ **Primary surplus is needed** to steadily reduce the debt-to-GDP ratio

Debt-to-GDP ratio (current fiscal year)

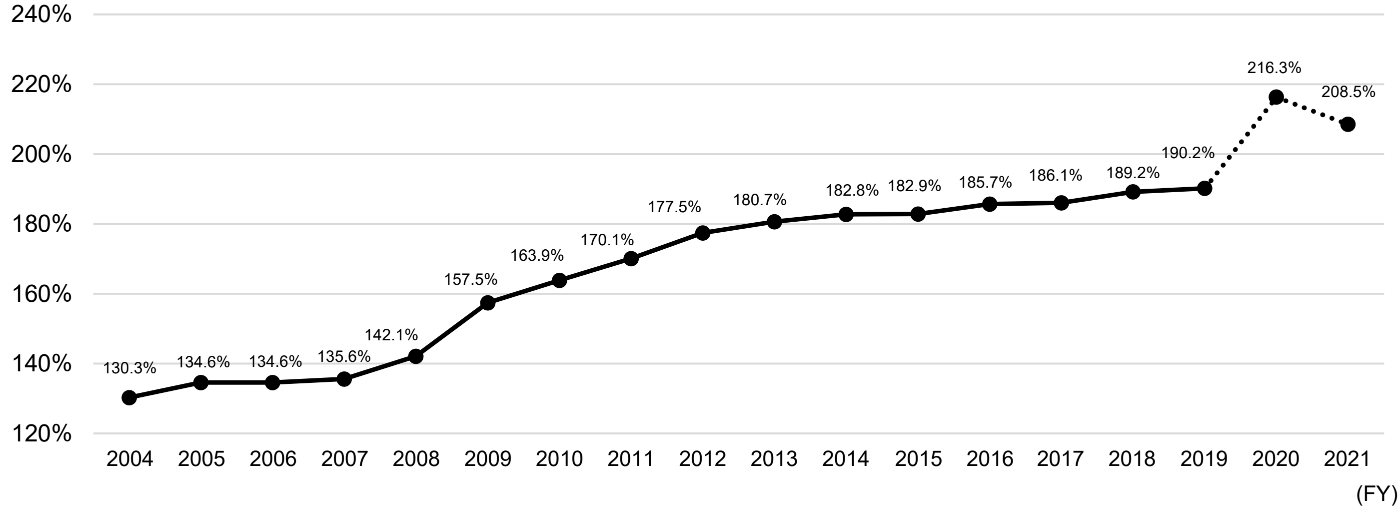
$$= \frac{\text{Accumulated debts (previous fiscal year)} \times (1 + \textbf{Nominal interest rate (r)}) + \textbf{Primary deficit} \text{ (current fiscal year)}}{\text{GDP (previous fiscal year)} \times (1 + \textbf{Nominal growth rate (g)})}$$

In case the primary balance is in balance,

- If Nominal interest rates (r) > Nominal growth rates (g), the debt-to-GDP ratio rises.
- If Nominal interest rates (r) = Nominal growth rates (g), the debt-to-GDP ratio remains unchanged.
- If Nominal interest rates (r) < Nominal growth rates (g), the debt-to-GDP ratio declines.

20. Trends in Bonds Outstanding of Central and Local Governments (% of GDP)

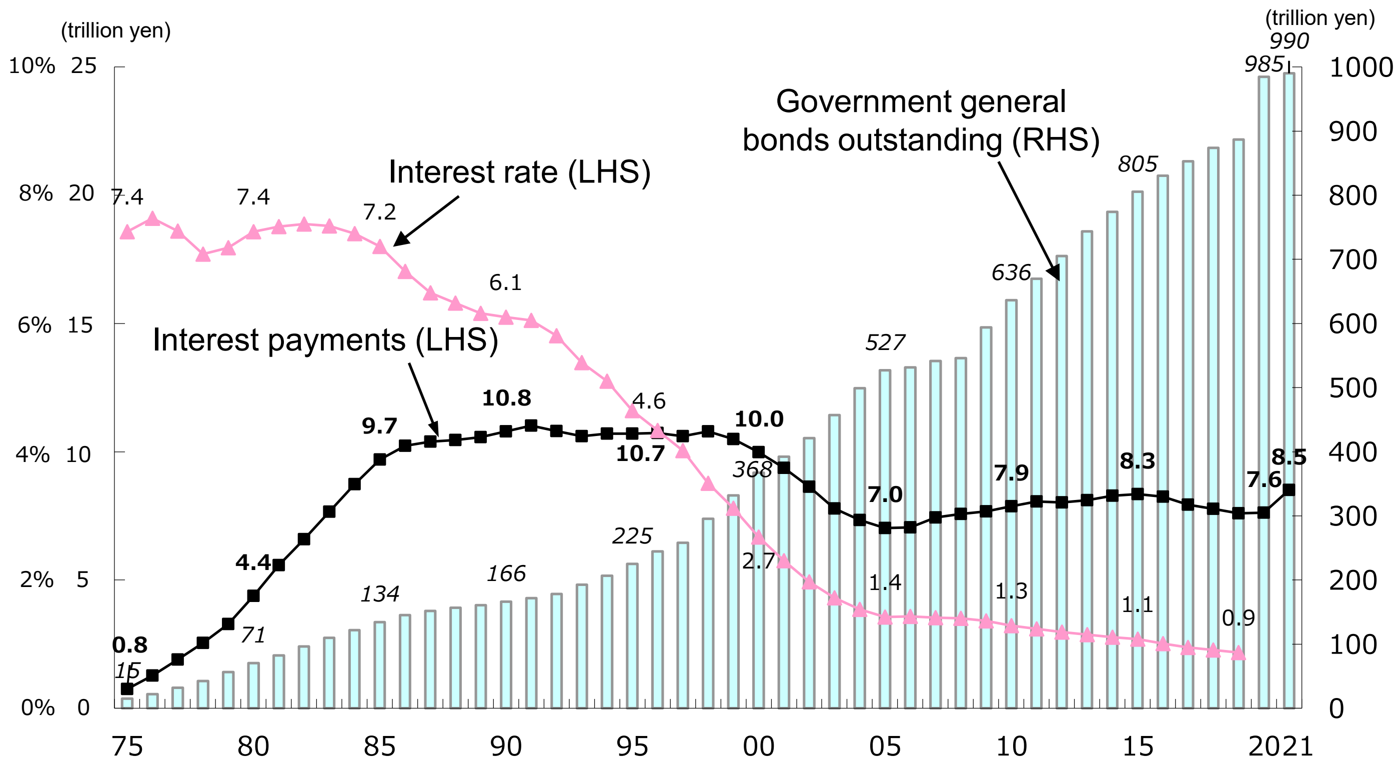
The public debt outstanding of central and local governments to GDP ratio, a stock indicator used as a fiscal consolidation target, still remains high.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Actual Figure (trillion yen)	689.9	718.7	723.0	730.2	733.3	783.1	827.2	850.3	886.2	926.6	956.7	988.9	1011.7	1034.1	1053.5	1064.6	1159.8	1166.7
% of GDP	130.3%	134.6%	134.6%	135.6%	142.1%	157.5%	163.9%	170.1%	177.5%	180.7%	182.8%	182.9%	185.7%	186.1%	189.2%	190.2%	216.3%	208.5%
Nominal GDP (trillion yen)	529.6	534.1	537.3	538.5	516.2	497.4	504.9	500.0	499.4	512.7	523.4	540.7	544.8	555.7	556.8	559.7	536.1	559.5

(Source) Cabinet Office "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 21, 2021)
(Note) Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

(Reference) Trends in Interest Payments and Interest Rate

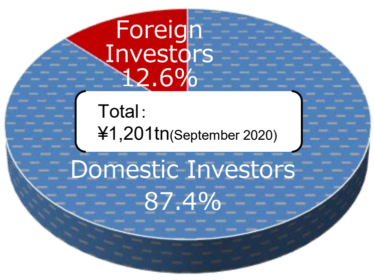


(Note 1) Interest Payments in FY1975 - FY2019: Settled Figures ; FY2020: Based on the Third Supplementary Budget ; FY2021: Based on the Budget
(Note 2) FY2019 and FY2020 : Including Temporary and Special Measures
(Note 3) Interest rates are based on the weighted average of interest rates of government general bonds.
(Note 4) Government general bonds outstanding in FY1975 - FY2019: Actual figures ; FY2020: Based on the Third Budget ; FY2021: Based on the Budget

(Column 2) Share of JGB Holders and Transaction in Secondary Market

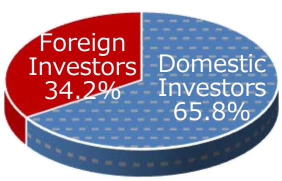
It is sometimes argued that there is no transfer of burden to the future generations because domestic citizens are lenders, but the burden is actually postponed to our descendants as noted on P.17.
As the presence of foreign investors and the share of them in secondary market has become more significant due to the progress of globalization and the increase in international financial transactions, it is becoming more necessary to ensure the confidence in fiscal management from foreign investors.

(1) Japan Government Bonds (JGBs) Holders

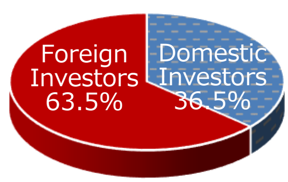


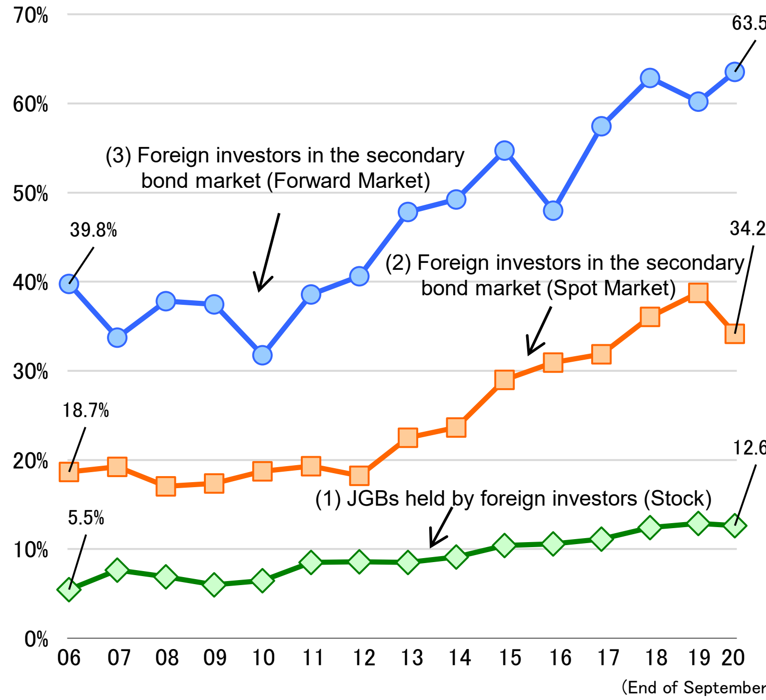
JGB Transactions in Secondary Market

(2) Spot Market



(3) Forward Market



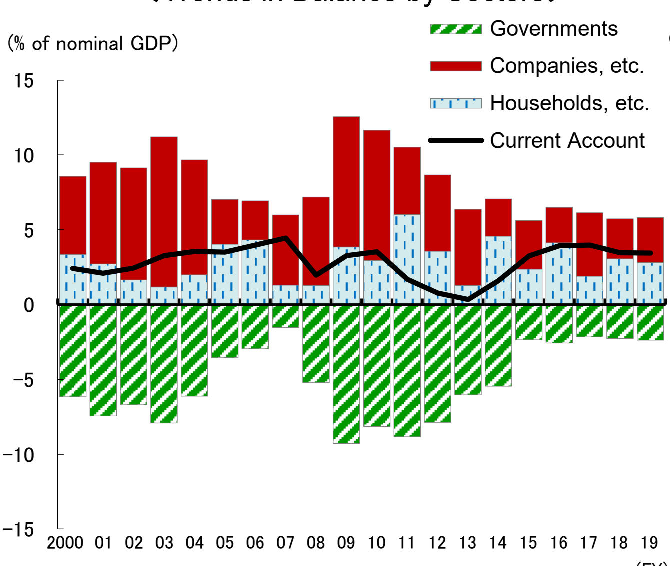


(Source) Bank of Japan, Japan Securities Dealers Association, Tokyo Stock Exchange, Inc. and Osaka Exchange, Inc.
(Note 1) Including Treasury Bills (T-Bills). The figures of Spot market excludes transactions by bond dealers.
(Note 2) The percentage of government bonds held by foreign investors (the left chart) is as of September 2020.
The share of foreign investors in the secondary bond market (the right graph) is as of the third quarter of 2020 (July-September).

(Reference) Trend in Current Account

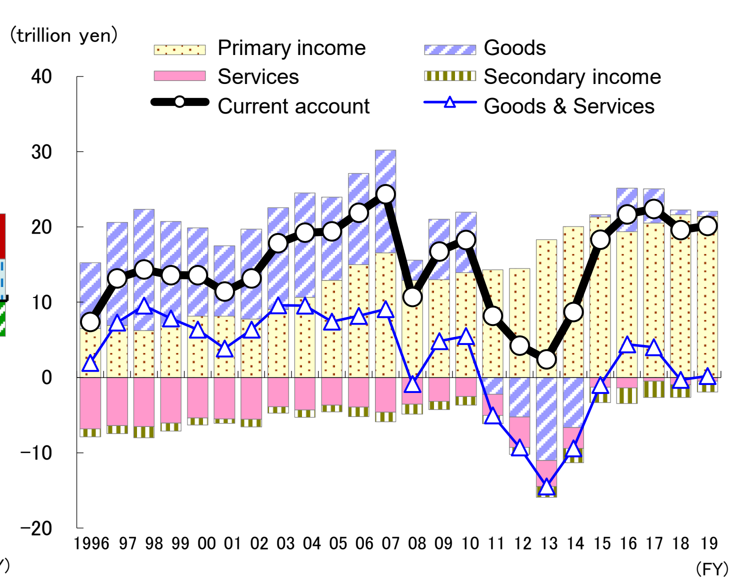
Although the current account in Japan has been a surplus so far because the private saving surplus has exceeded the deficit in the government sector, Japan will has to depend on foreign capital if the current account balance becomes a deficit. Therefore, continuous efforts toward fiscal consolidation are necessary.

＜Trends in Balance by Sectors＞



(Source) Bank of Japan, Cabinet Office
(Note) Households etc. : household＋private nonprofit institutions serving households
Companies etc. : non-finance corporation＋financial institution

＜Trends in Current Account＞



(Source) Ministry of Finance “Balance of Payments”

21. Efforts to Achieve Fiscal Consolidation

Based on the "New Plan to Advance Economic and Fiscal Revitalization", the government is working on expenditure reforms etc., under the basic policy of "Without economic revitalization, there can be no fiscal consolidation.".

Main points of the New Plan to Advance Economic and Fiscal Revitalization (Cabinet Decision in June 15, 2018)

Fiscal consolidation target

By FY2025	**Achieve a primary surplus of the national and local governments**
At the same time	**Steadily reduce the public debt-to-GDP ratio**

Policy on expenditure reform in annual budget formulation for FY 2019 to FY2021

Social security expenditure	**Keep the real increase within the levels equivalent to the expected increase due to aging population during FY2019-2021, based on economic and price trends**
Non-social security expenditure	**Continue the efforts of expenditure reform initiatives thus far, such as reviewing the priorities of policies, eliminating waste, and prioritizing budget, based on economic and price trends and other factors**
Expenditures of the local government	**Ensure the total amount of the general revenue sources in real terms, not less than the level of the FY2018 Fiscal Plan of Local Governments**

Measures to realize the target

- **"Based on the Basic Policy 2018 and 2019, etc. ... the government can integrally promote economic and fiscal reforms.** " (Basic Policy 2020)
- **"In accordance with the Basic Policy 2018 and 2019,** the government will steadily bolster the foundation of the social security system, build a social security system that will be able to function in an era when people live to be 100, maintain world-class universal health insurance and pension coverage, and strive to hand them down to the next generation as sustainable systems. "(Basic Policy 2020)
- **"The progress of the Integrated Economic and Fiscal Reforms will be assessed at the midpoint of the new plan (FY 2021). This will be reflected in subsequent efforts for expenditure and revenue reforms to achieve the primary surplus by FY 2025."** (Basic Policy 2018)

(Reference) Views of International Organizations to Japan's Fiscal Policy

OECD Economic Surveys: JAPAN (April 15, 2019)

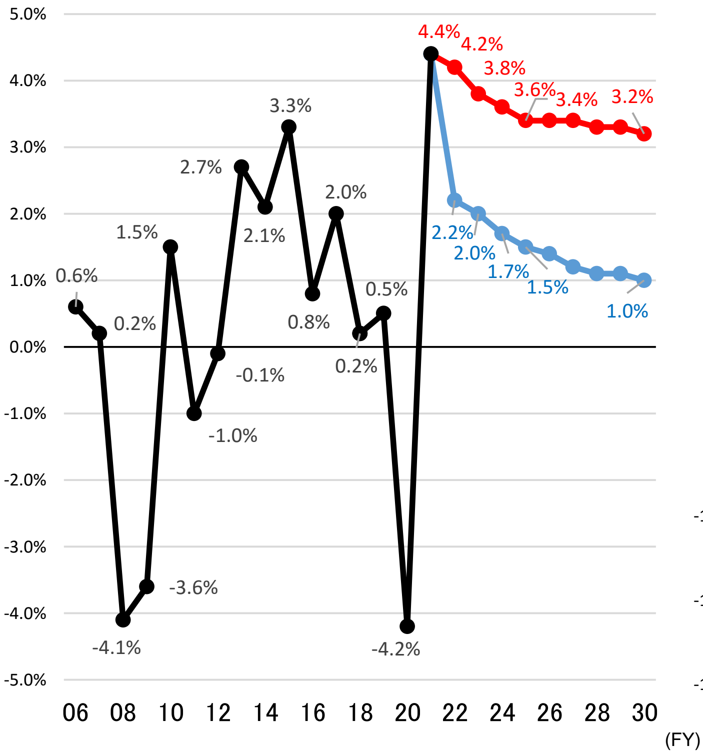
- Japan needs a comprehensive fiscal consolidation plan including specific spending cuts and tax increases, as well as an improved fiscal framework to ensure implementation of the plan. To reduce the government debt ratio to 150% of GDP by 2060, OECD estimates suggest a sustained primary surplus of 5% to 8% of GDP would be required.
- Containing spending growth requires focusing on health and long-term care by making more efficient use of healthcare resources while providing high-quality care. Priorities for reform include taking long-term care out of hospitals and shifting its focus to home-based care, promoting greater use of generic drugs and improving preventive care.
- Japan should rely primarily on the consumption tax to boost revenue（…） Achieving a sufficient primary surplus through the consumption tax alone would require raising the rate to between 20% and 26%, above the 19% OECD average.

IMF Staff Report for the 2019 Article IV Consultation (February 10, 2020)

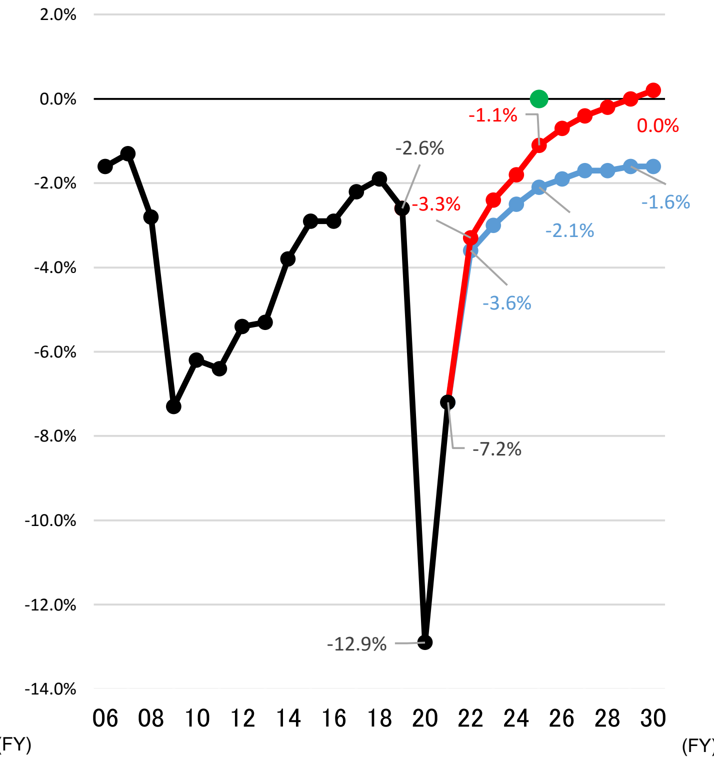
- A well-specified framework is needed to ensure fiscal sustainability and reduce debt, lower uncertainty, and support reflation and growth. While the government has set a primary balance target for FY2025, credibility would benefit from realism of assumptions and specificity of measures to achieve the target. [...].
  - *Factor in aging costs.* It is important to continuously assess and incorporate aging costs in macro-fiscal projections. Staff scenarios suggest that to finance aging costs, the consumption tax rate would need to increase gradually to 15 percent by 2030 and to 20 percent by 2050. [...]. The cost of postponing adjustment is substantial and would benefit the current elderly to the detriment of future generations.
- Reform of public social security programs is the essential second leg of fiscal consolidation. Without meaningful change to pension, health, and long-term care spending, fiscal sustainability may remain out of reach. [...]. The authorities' plan to draw up a comprehensive reform package by mid-2020 is welcome, and should involve the following:
  - *Healthcare and long-term care.* The prospect of continually rising healthcare expenditures, driven by population aging and use of advanced and expensive health-technology, present a sizeable challenge to Japan's fiscal sustainability. [...]. On long-term care, the authorities should explore measures to contain costs, including rationalizing services to those with lower-care needs.

(Reference) Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 21, 2021)

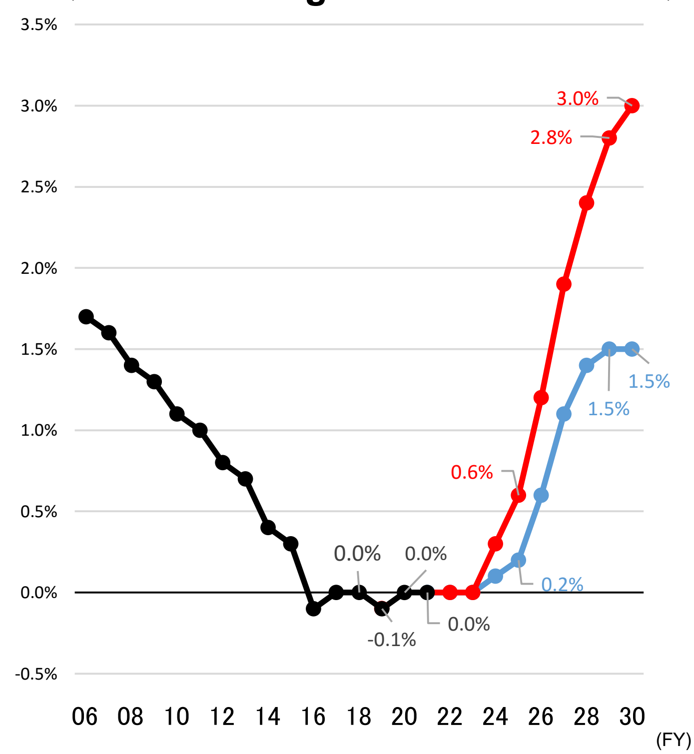
＜Nominal GDP Growth Rate＞



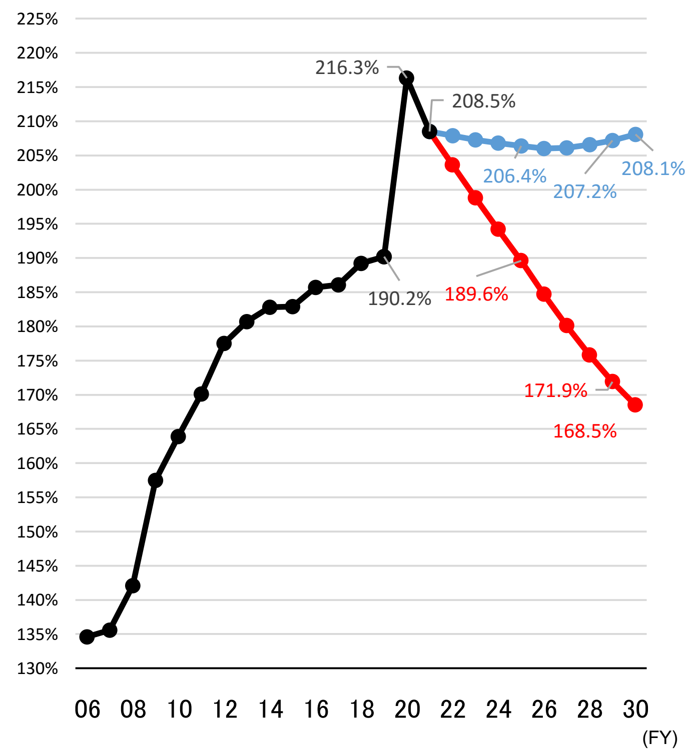
＜Primary Balance of Central and Local Governments (% of GDP)＞



＜Nominal Long Term Interest Rate＞



＜Outstanding Debt (% of GDP)＞



Economic Growth Achieved Case　　Baseline Case　　Target: Primary Surplus

* Economic Scenarios and Basic Assumptions on Public Finance

- Economic Scenarios
  - “Growth Achieved Case” : The policies for overcoming deflation and attaining economic revitalization will show solid results at a feasible pace.
  - “Baseline Case” : The economy will grow approximately at the rate of current potential growth.
- Main Assumptions in Public Finance
  - FY2020, FY2021 : Reflecting the draft third supplementary budget for FY2020 and draft FY2020 budget.
  - FY2022 onwards : General expenditures (excluding social security) increase along with CPI inflation. Social security expenditures increase along with estimated population aging and CPI/wage inflation.

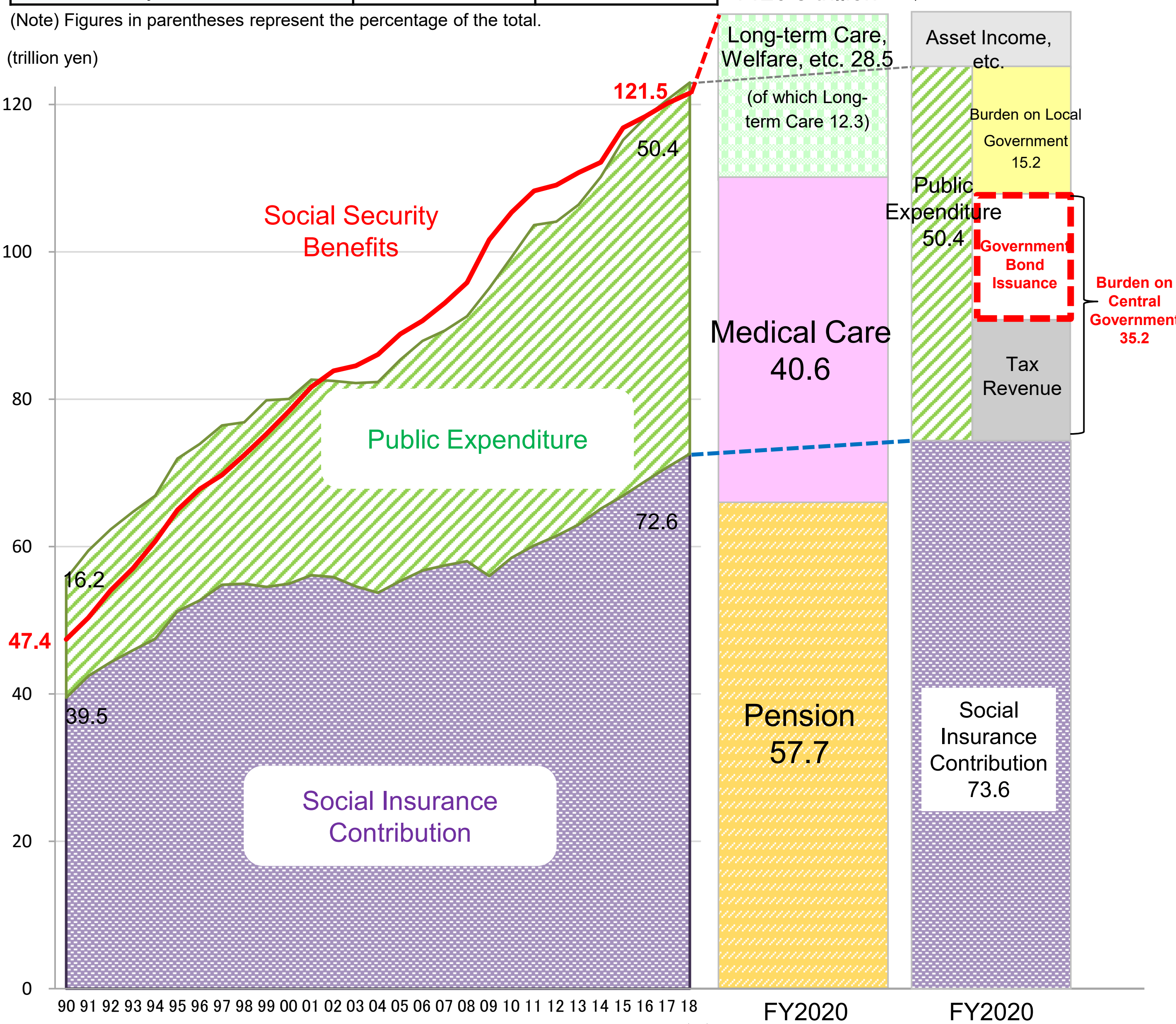
22. Social Security Area

(1) Increase in Social Security Benefits

While the basics of social security system is mutual aid financed by insurance premiums, public expenses are also injected as the burden will be concentrated on the working-age generation if the insurance premiums are the only fiscal resources. However, the necessary public expenses are financed by tax revenues as well as by bond issuance, which leads to the postponement of the burden to the future generation.
We have to share and cover the burden of social security which benefits us. Also, in order to confront the biggest obstacle of declining birthrates and aging population, the social security system must be converted to an all-generational system.

	FY1990	FY2018
Contribution of Insured Person	¥18.5tn (28%)	¥38.3tn (29%)
Contribution of Employer	¥21.0tn (32%)	¥34.3tn (26%)
Public Expenditure	¥16.2tn (25%)	¥50.4tn (38%)
Social Security Benefits	¥47.4tn	¥121.5tn

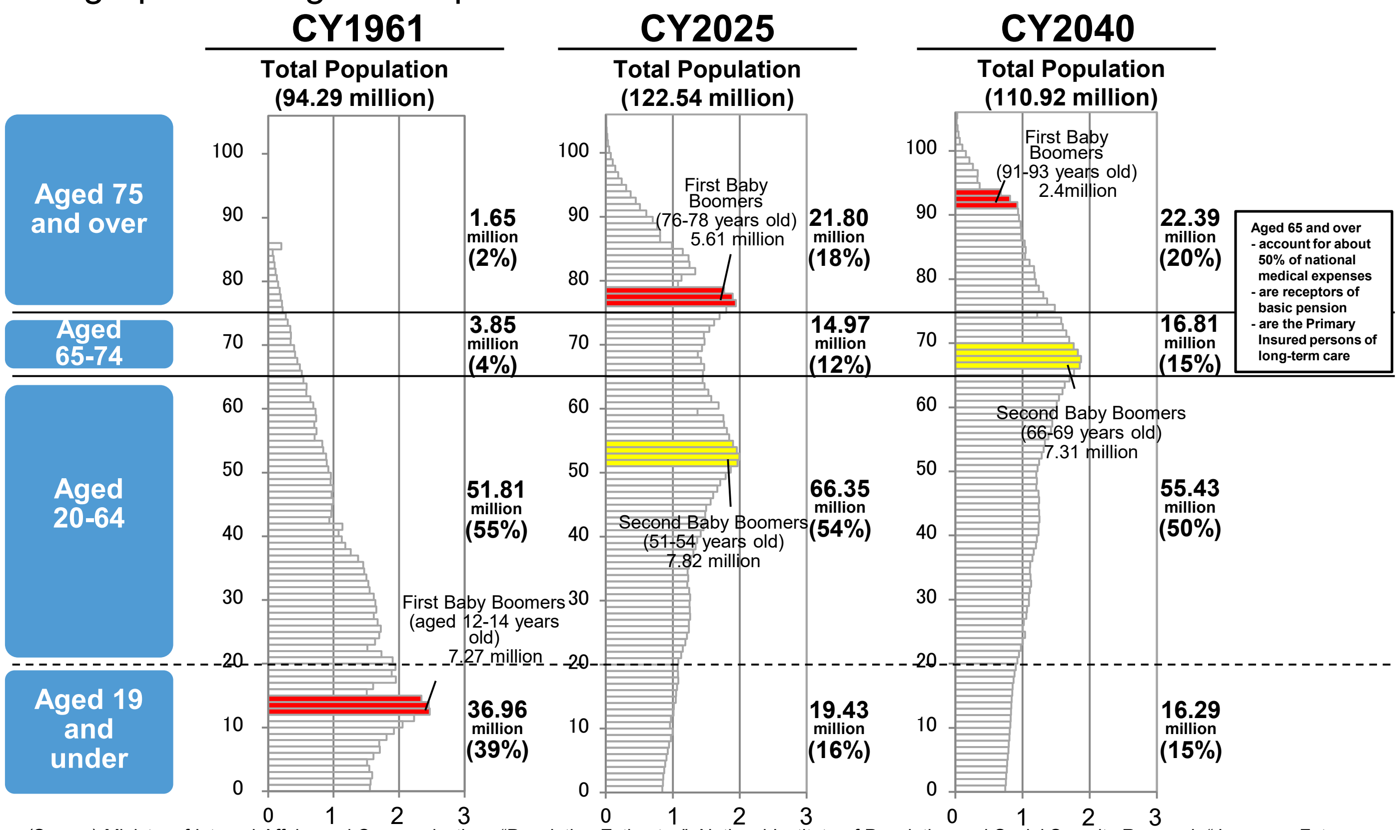
(Note) Figures in parentheses represent the percentage of the total.



(Source) National Institute of Population and Social Security Research "The cost of Social Security Benefits (FY2018)",
FY2020: Ministry of Health, Labour and Welfare (based on the initial budget).

In 2025, all baby boomers (born in 1947-49) will be the latter-stage elderly (aged 75 and over), and the population ratio of aged 75 and over will increase. For the age of 75 and over, medical expenses and long-term care costs per capita will increase significantly. Furthermore, in 2040, all second baby boomers (born in1971-74) will be aged 65 and over.
On the other hand, it is expected that the population aged 20 to 64 will rapidly decline during the same period, and will continue to decline after 2040. Therefore, it is necessary to prioritize and streamline the medical and long-term care benefits.

Demographic Changes in Japan



(Source) Ministry of Internal Affairs and Communications “Population Estimates”, National Institute of Population and Social Security Research “Japanese Future Demographic Projection (April 2017)”
(Note) The first baby boomers are those who were born in 1947-49. The second baby boomers are those who were born in 1971-74. Okinawa prefecture is not included in the figure in 1961. The figure of 85 years olds in 1961 includes that of aged 85 and over. The figure of 105 years olds in 2025 and 2040 includes that of aged 105 and over.

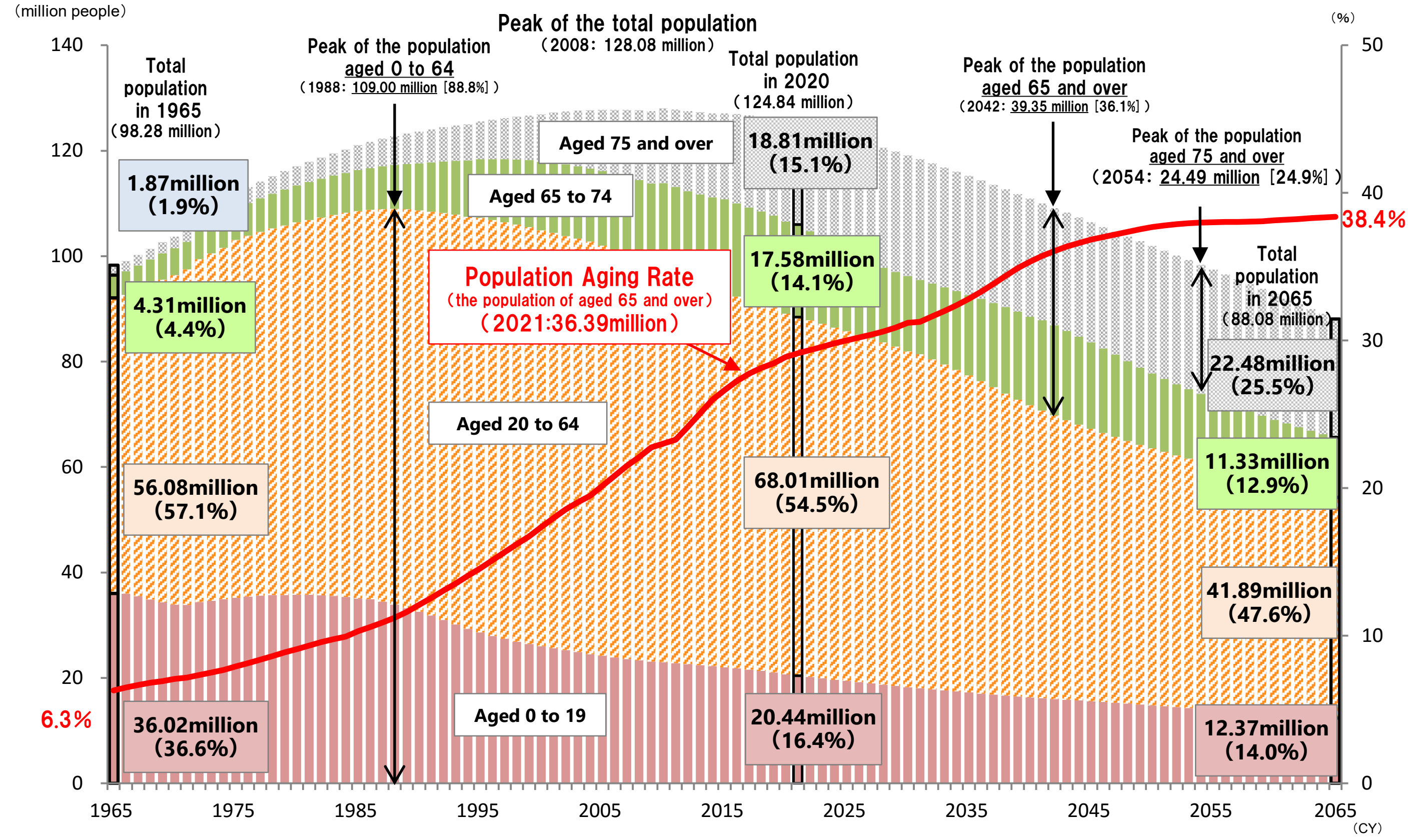
Increase in Medical / Long-term care expenditure per capita

	Medical Care (2018) (thousand yen)		Long-term Care (2018) (thousand yen)		Number and ratio to total population	
	National medical care expenditure per capita (Aged 64 and under: ¥188 thousand)	Public burden per capita (Aged 64 and under: ¥27 thousand)	Long-term care expenditure per capita (Ratio of certification of long-term care in parentheses)	Public burden per capita	CY2018	CY2025
Aged 65-74	555	80	49 (4.2%)	13	Approx. -2.63 million 17.60 million people (13.9%)	14.97 million people (12.2%)
		Approx. 4 times		Approx. 10 times		
Aged 75 and over	919	328	470 (31.9%)	128	Approx. +3.82 million 17.98 million people (14.2%)	21.80 million people (17.8%)

(Source) Population ratio per age group: Ministry of Internal Affairs and Communications “Population Estimates”, National Institute of Population and Social Security Research “Japanese Future Demographic Projection (April, 2017)” (the projection of medium-fertility and medium-mortality)
Medical care expenditure: Ministry of Health, Labour and Welfare, “Overview of National Medical Care Expenditure (FY2018)”,
Long-term care benefits and ratio of certification of long-term care: Ministry of Health, Labour and Welfare “Survey of Long-term Care Benefit Expenditures (2018)”, Statistic Bureau, Ministry of Internal Affairs and Communications “Population Estimates”
(Note) National medical care expenditures per capita are calculated by dividing the national medical care expenditures by the population in each age group. Public aids per capita are calculated by dividing public aid by the population as of 2018 in each age group.

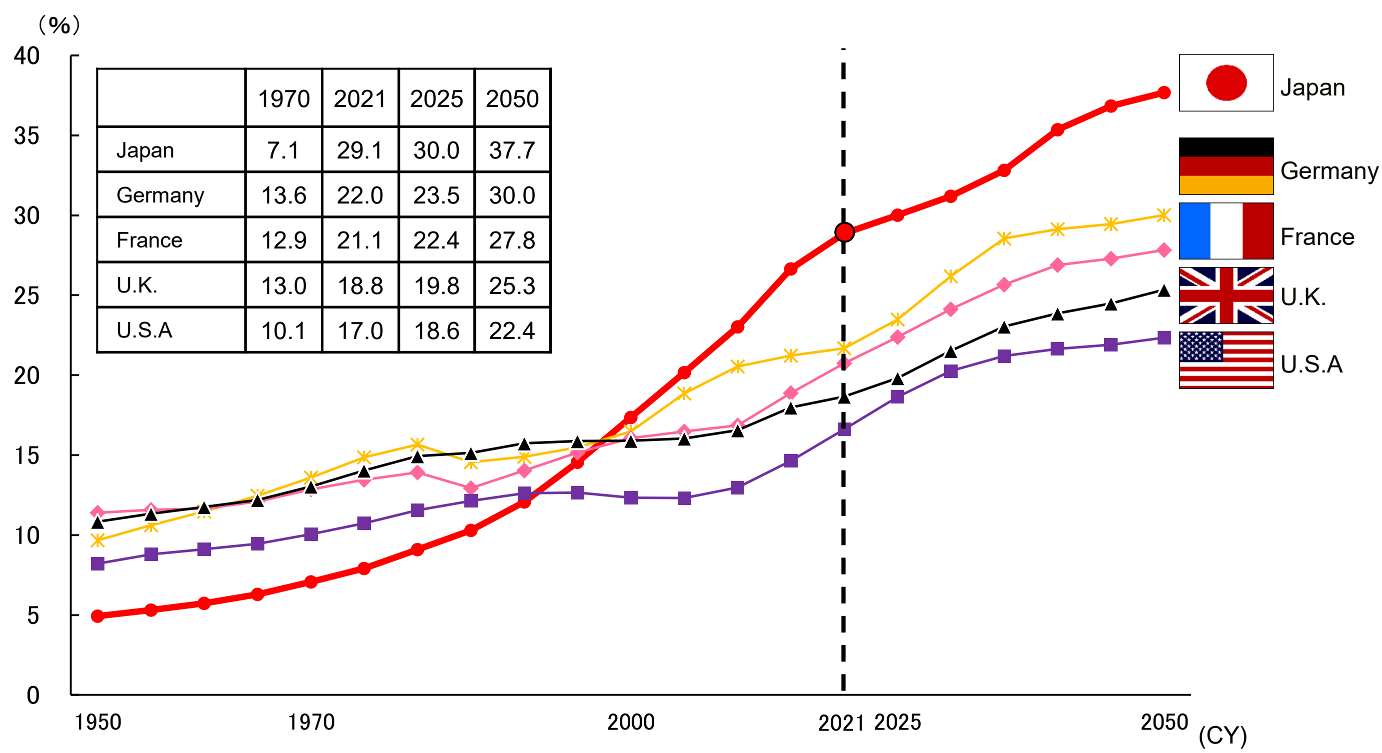
After 2025, declining birthrate and aging population will also proceed at such a rapid rate that none of other countries have experienced, and the population is expected to decline.

Declining Birthrate and Aging population



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Japanese Future Demographic Projection (April 2017)" (the projection of medium-fertility and medium-mortality).
(Note) Numbers in parentheses represent the percentage to the total population.

International comparison of Population Aging Rate



	1970	2021	2025	2050
Japan	7.1	29.1	30.0	37.7
Germany	13.6	22.0	23.5	30.0
France	12.9	21.1	22.4	27.8
U.K.	13.0	18.8	19.8	25.3
U.S.A	10.1	17.0	18.6	22.4

*Aging Rate: The ratio of the number of the aged 65 and over to the total population

(Source) Japan : 1950-2019: Ministry of Internal Affairs and Communications "Population Estimates"
2020-2050: National Institute of Population and Social Security Research "Japanese Future Demographic Projections" (April, 2017)
Other countries: "World Population Prospects: the 2019 Revision" (United Nations).

(2) Comprehensive Reform of Social Security and Tax

The government has been implementing "the Comprehensive Reform of Social Security and Tax" in order to improve the current situation where substantial portion of the social security cost is passed onto future generations.

Ensuring stable fiscal resources by tax reform

→ Enhancing and stabilizing social security system

accomplishing the both

→ Achieving the fiscal consolidation targets

Targeted areas for social security enhancement

Establishing a social security system for all generations, where people of all generations can live with peace of mind and being in content.

Use of the increased revenue from consumption tax hike (Before the Reform)

Three expenses for elderly people (basic pension, elderly healthcare, long-term care)

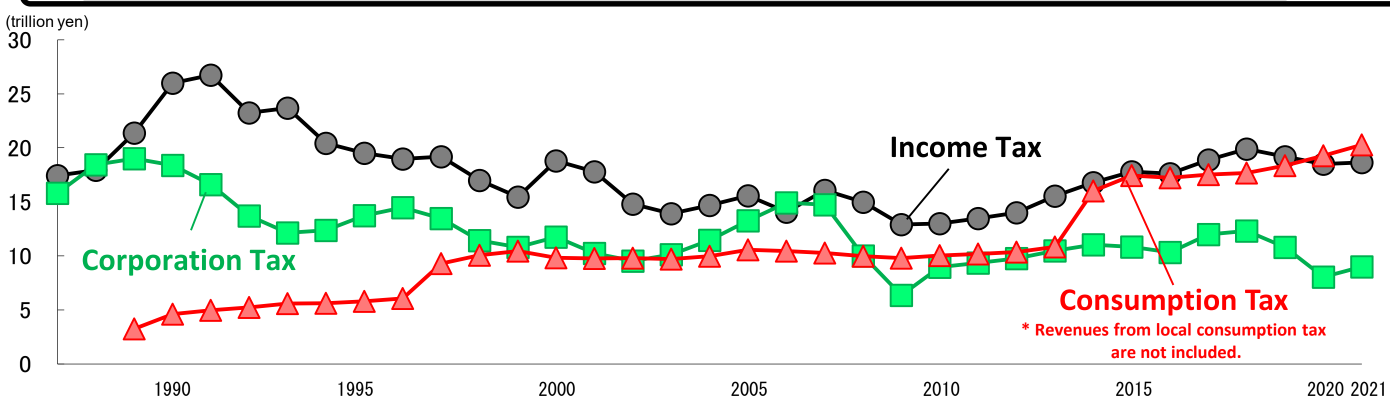
Enhancing social security system (After Reform)

Four expenses for social security (childcare, medical/long-term care, pension)

Why is consumption tax utilized for social security?

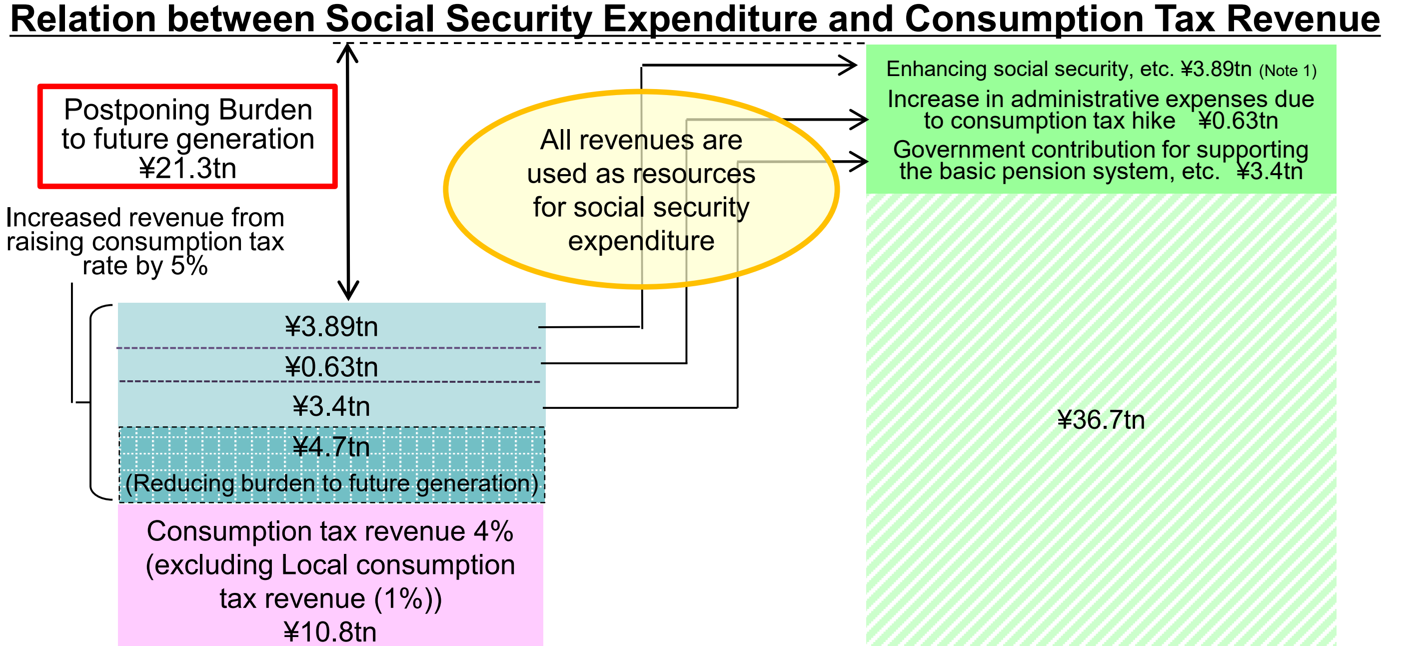
- Its revenue is stable which is unlikely to be affected by economic conditions
- It is neutral to economic activities without concentration of burden on certain people such as the working generations

Consumption tax is appropriate way of funding financial resource for social security



(Note) FY1987- 2019: Settled figures, FY2020: Based on the Supplementary Budget, FY2021: Based on the Budget

Relation between Social Security Expenditure and Consumption Tax Revenue



Consumption Tax Revenue ¥23.4tn

Four Social Security Expenses ¥44.8tn
(Total of Central and Local governments, of which Central government ¥31.8tn)

(Note 1) For enhancing social security, ¥4.29tn has been spent in total; utilizing resources (¥0.4tn) generated by prioritization and streamlining based on the social security reform program law, etc.
(Note 2) Each figure in Revenue from Consumption tax and Four social security expenses is based on FY2021 initial budget of central and local governments, reflecting the effect of implementation of reduced tax rate.

The Enhancement of Social Security financed by the consumption tax hike, etc.

Measures financed by the increased revenues from the consumption tax hike from 8% to 10%

Free Early Childhood Education

Children ages 3 to 5 years old:
The cost of kindergartens, day nurseries, and licensed centers for early childhood education and care of the all children will be free.

Children ages 0 to 2 years old:
The cost of nursing will be free for the children of households exempted from inhabitant tax.

Free Higher Education

Expanding the scheme to exempt tuition fee and grant-type scholarship for students of households with lower income who are willing to study.

Maximum amount of the exemption fee (per year)
National Univ. ¥540 thousand, Private Univ. ¥700 thousand

Amount of grant-type scholarship (per year)
【Students living with their parents】
National Univ. ¥350 thousand, Private Univ. ¥460 thousand
【Students not living with their parents】
National Univ. ¥800 thousand, Private Univ. ¥910 thousand

*In case of households exempted from inhabitant tax

Supporting Lives of low income Elderly People

Establishing the scheme of providing ¥60 thousand per year (max.) to low income pensioners.

* Additionally, elimination of children on a waiting list, improvement of working conditions of long-term care workers, and reduction of contribution on long-term care insurance fee for low-income, have been implemented.

Measures financed by the increased revenues from the consumption tax hike from 5% to 8%

Childcare

Preparing enabling environment where women can work by eliminating child on a waiting list

- Offering additional 500 thousand childcare places by the end of FY2017
- Increasing the student capacity in After School Children's Club by 300 thousand by the end of FY 2019

Enhancing the child-rearing facilities where parents can leave children with security

- Securing childcare workers and improving their working conditions
- More sufficient allocation of childcare workers etc.

Supporting children with no guardians or battered children

- Securing workers in child and family services and improving their working conditions
- More sufficient allocation of workers in child and family services

Medical / long-term care

Providing medical treatment appropriate for patients' conditions in the areas where they have lived long

- Securing medical workers such as doctors and nurses
- Preparing hospital beds appropriate for patients' conditions

Enhancing long-term care service in the areas where they have lived long or at their home

- Securing long-term care workers and improving their working conditions
- Promoting countermeasures against dementia

Expanding those who are applied to reduced insurance premiums (the National Health Insurance)

- Expanding those who are applied to reduced insurance premiums (20% and 50%), increasing by 5 million people

Expanding scope of medical fee supports to help more people who suffers from intractable diseases

- Increasing the number of targeted diseases of medical fee supports

Enhancing financial support to the National Health Insurance, a safety net of universal coverage

Pension

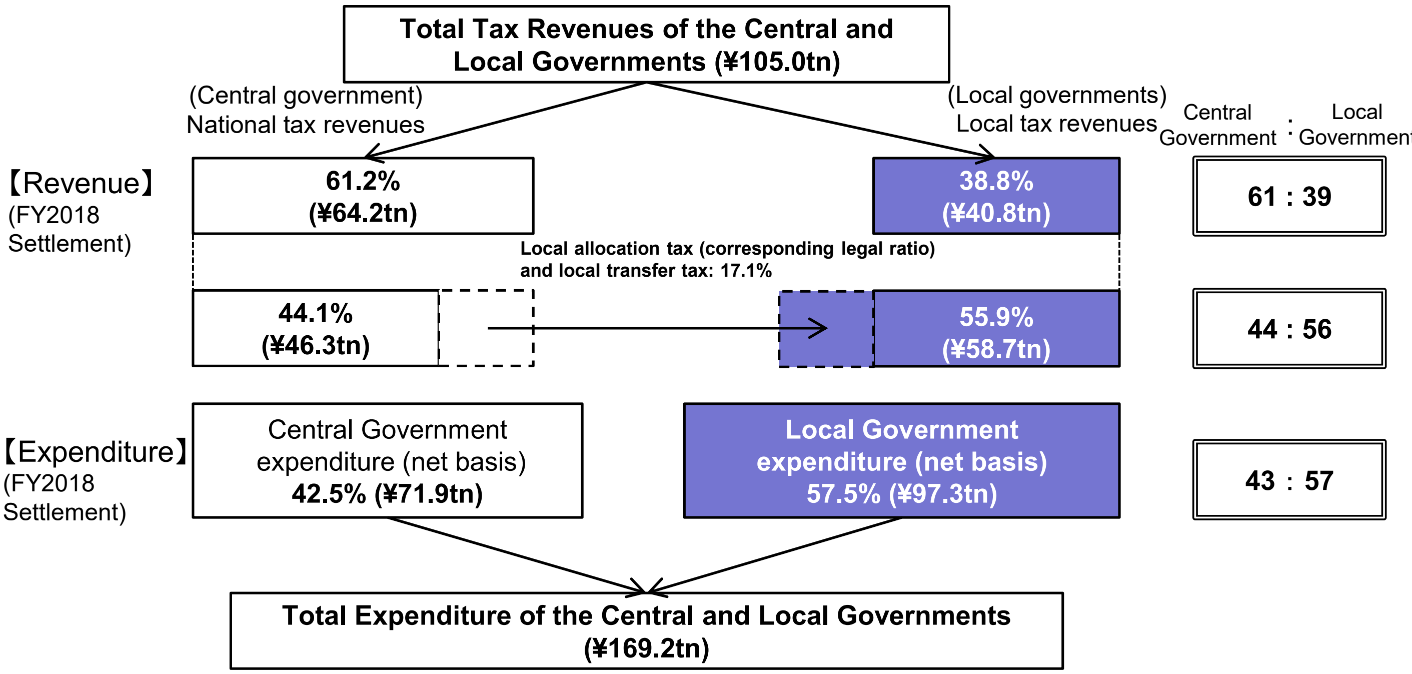
Shortening the required qualifying period to receive a pension(25years⇒10years）

23. Non-Social Security Area

(1) Central and Local Governments

① Distribution of Tax Revenue and Expenditure of the Central and Local Governments

While the ratio of central government expenditures to local government expenditures is approximately 4:6, that of tax revenue resources is also approximately 4:6 due to the fiscal transfer such as local allocation tax grants, etc.



(Source) "States of Local Government (March 2020)", etc.

② Comparison of the Fiscal Conditions in the Central and Local Governments

Comparing fiscal situations of central and local governments, the situation of the central government is extremely more severe than that of the local government in terms of both the flow indicators (fiscal and primary balance) and the stock indicators (debt-to-GDP ratio).

○Primary Balance and Fiscal Balance of the Central and Local Governments (FY2021 projection)

	Primary Balance	Fiscal Balance
Central Government	approx. -37.8 trillion yen	approx. -43.7 trillion yen
Local Government	approx. -2.3 trillion yen	approx. -3.6 trillion yen

(Note) Cabinet Office "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 21, 2021)

○Trends in Long-term Debt Outstanding of Central and Local Governments

	30 years ago (As the end of FY1991)		15 years ago (As the end of FY2006)		Present (Projections as of the end of FY2021)
Central	208 trillion yen	Increase by approx. 350 trillion yen	561 trillion yen	Increase by approx. 460 trillion yen	1,019 trillion yen
Local	70 trillion yen	Increase by approx. 130 trillion yen	200 trillion yen	Decrease by approx.10 trillion yen	193 trillion yen

(Note) The borrowings in the Special Account for Local Allocation Tax and Local Transfer Tax are divided into the figures of the central and local governments in accordance with their shares of redemption. The amount of the borrowings outstanding incurred by the central government was transferred to the general account at the beginning of FY2007, so that the borrowings outstanding in the Special Account since the end of FY2007 represents the debt of the local governments (approx. 31 trillion yen at the end of FY2021).

③ The Calculation System of the Total Amount of Local Allocation Tax (LAT)

The total amount of the local allocation tax (LAT) is determined by adding to a certain percentage (the statutory rate) of the national tax half of financial shortfalls, which still exists even after the statutory portion is used to fill a revenue-expenditure gap in the Local Fiscal Plan.

FY2021 Local Fiscal Plan (Unit: trillion yen, figures in parentheses represent the amount of the increase from last year)

【 Expenditure 89.6 (-1.1) 】

- Expenses for wages : 20.2 (-0.1)
- Expenses for general administration : 40.9 (+0.5)
  of which
  •subsidized project: 22.9 (+0.2)
  •unsubsidized project: 14.8 (+0.1)
  •expenses on vitalizing local economies: 1.0 (-)
  •expenses on vitalizing local communities: 0.4 (-)
  •expenses on regional local society promotion: 0.2 (+0.2)
- Expenses for investment : 11.9 (-0.8)
- Debt service : 11.6 (-0.1)
- Others : 5.1 (-0.6)

【 Revenue 89.6 (-1.1) 】

- Revenue-Expenditure Gap: 19.2 (+2.6)
  - covered by central and local government: Fiscal resource shortage covered by central and local governments 3.4 (+3.4) → Extraordinary financial measures bonds 1.7 (+1.7); Special additions 1.7 (+1.7)
  - The special Account for LAT grants 1.8 (+0.9)
  - LAT, etc. (the statutory rate) 13.9 (-1.7)
- Special local grants, etc.: 0.4 (+0.2)
- Local taxes, Local transfer taxes: 39.9 (-3.6)
- National government Disbursements: 14.8 (-0.5)
- Local government bonds: 9.5 (+0.2)
  of which Extraordinary financial measures bonds: 3.8 (+0.6) (excluding bonds covered by central and local governments)
- Others: 5.9 (-0.0)

LAT grants (exit base) 17.4 trillion yen

LAT grants (entrance base) 15.6 trillion yen

The legal ratio for LAT (FY2021)

	rate
Income tax	33.1%
Corporate tax	33.1%
Liquor tax	50.0%
Consumption tax	19.5%
Local corporate tax	100.0%

* The amount excludes the amount of special deferral of tax collection in FY2020 (0.2 trillion yen).
* The LAT grants (entrance base), which is transferred from the general account to the Special Account for Local Allocation Tax and Local Transfer Tax, is 15.6 trillion yen.

④ The Rule for Substantially Same Level of the Total Amount of Local General Revenue Resources

"The rule for substantially same level of the total amount of local general revenue resources" is aimed at maintaining substantially the same level of total amount of local governments' general revenue resources as that of the previous year's Local Fiscal Plan.
Under the rule, the total amount of the local governments' general revenue resources in the FY2021 Local Fiscal Plan is maintained substantially at the same level as the previous year.

FY2021 Local Fiscal Plan (Unit: trillion yen)

【Expenditure: 89.6】

- Expenses for wages: 20.2
- Expenses for General Administration: 40.9
  of which
  •subsidized project: 22.9
  •unsubsidized project: 14.8
  •expenses on Vitalizing local economies: 1.0
  •expenses on Vitalizing local communities: 0.4
  •expenses on regional local society promotion: 0.2
- Expenses for investment: 11.9
- Debt service: 11.6
- Expenses above the rule: 1.2
- Others: 3.9

【Revenue: 89.6】

general revenue resources:
- Local Allocation Tax: 17.4
- Special local grants, etc.: 0.4
- Local taxes and Local transfer taxes: 39.9
- Extraordinary financial measures bonds: 5.5

specific revenue resources:
- National government disbursements: 14.8
- Other local government bonds: 5.8 (excluding financial measures bonds)
- Others: 5.9

New Plan to Advance Economic and Fiscal Revitalization
(Basic Policy on Economic and Fiscal Management and Reform 2018 (Cabinet Decision, June 15, 2018))

3) Regarding local government expenditures which will be controlled in line with the efforts of the central government, the total amount of general revenue resources which would be necessary for stable fiscal management of local governments including those receiving local allocation tax grants, shall be maintained substantially at the same level as in the FY 2018 Fiscal Plan of Local Governments, and not below.

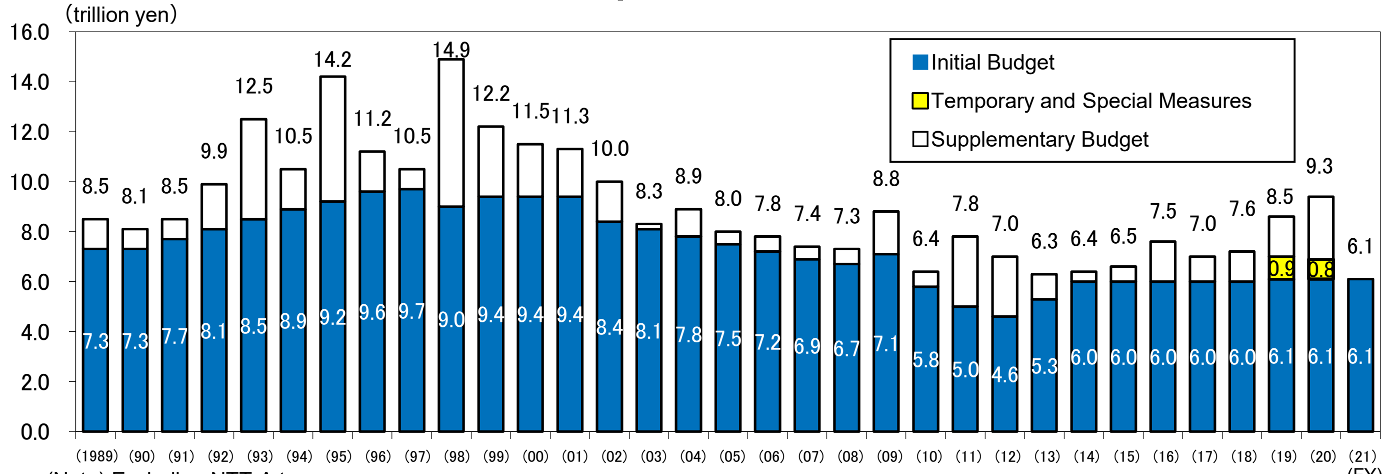
* general revenue resources
• Local taxes, Local transfer taxes, Local allocation tax, Special local grants and Extraordinary financial measures bonds are included.
• They are not for specified purposes. Local governments can use them for any purposes.

* The amount excludes the amount of special deferral of tax collection in FY2020 (0.2 trillion yen).

(2) Public Works

The public work-related expenditures has been decreasing. However, compared with other major countries, the level of the general government fixed capital formation (% of GDP) still remains high. As the population decreases, the cost of maintenance and replacement of public infrastructure stocks per capita will increase, while the number of users of stocks and human resources for maintenance and development are projected to decrease. Therefore, it is necessary for future development of social infrastructure to consolidate the stock and extend its lifetime .

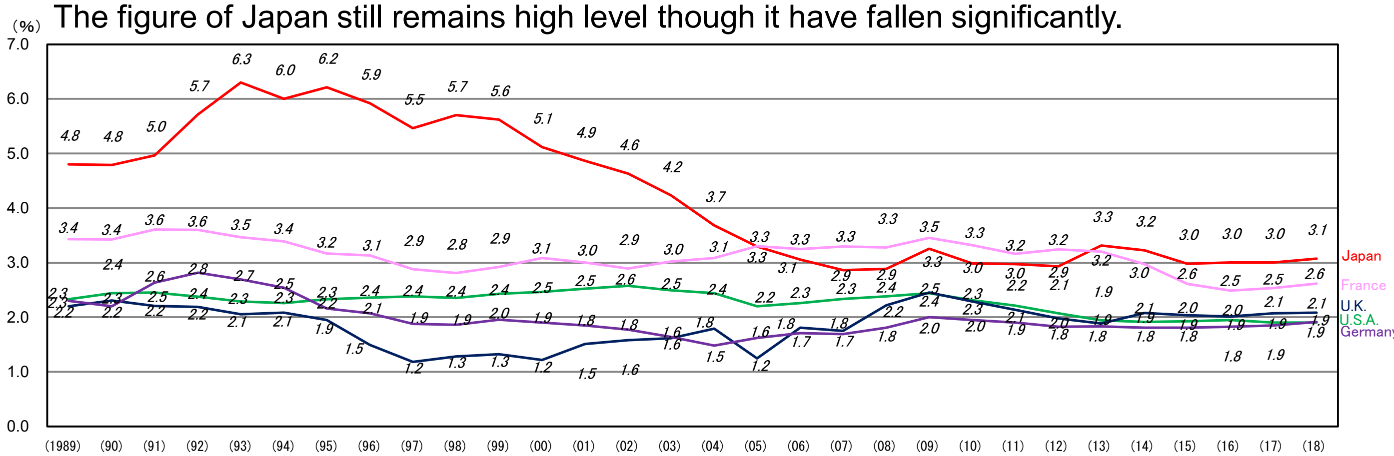
① Trends in Public Work-related Expenditures



(Note) Excluding NTT-A type.

② Trend in General Government Fixed Capital Formation (% of GDP)

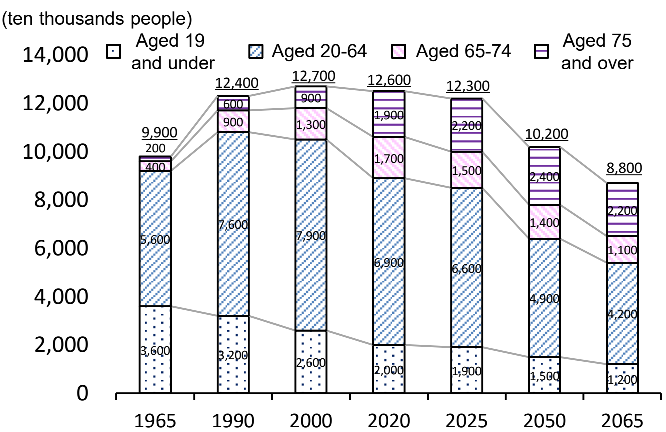
The figure of Japan still remains high level though it have fallen significantly.



(Source) Japan: Cabinet Office "National Accounting" (fiscal year basis)
Other Countries: OECD "National Accounts"(OECD Stat Extracts) etc. (calendar year basis)

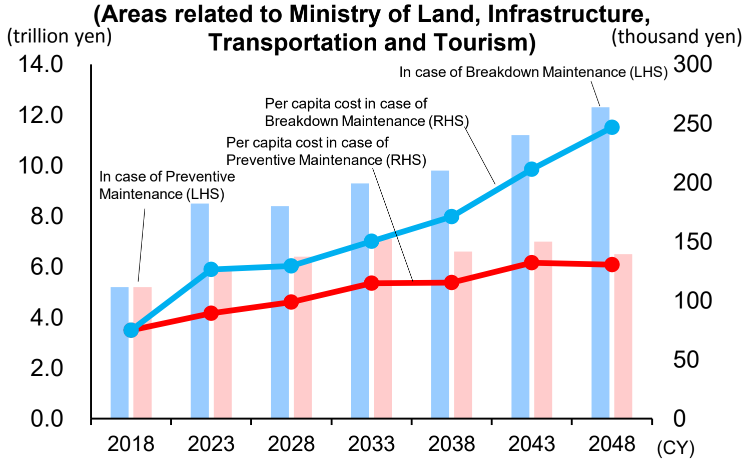
(Note) Until 2004: Calculated based on old standards (93SNA)
After 2004: Calculated by deducting R & D investment and defense related expenditures from IG of current standards (08SNA)

③ Demographic Projection



(Source) 1965-2000: Statistic Bureau, Ministry of Internal Affairs and Communications "National Census", 2020: Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (September 2020)", 2025-2065: National Institute Population and Social Security Research "Japanese Future Demographic Projection (April 2017)" (the projection of medium-fertility and medium-mortality)

④ Cost Projection of Maintaining and Replacing
(Areas related to Ministry of Land, Infrastructure, Transportation and Tourism)



* Preventive Maintenance: Implementing measures such as repairs before a problem occurs in the function or performance of the facility.
Breakdown Maintenance: Implementing measures such as repairs after a problem occurs in the function or performance of the facility.
* The chart is drawn up by using global maximum.
(Source) Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (April 2019)", National Institute Population and Social Security Research "Japanese Future Demographic Projection (April 2017)" (the projection of medium-fertility and medium-mortality), Documents by Ministry of Land, Infrastructure, Transportation and Tourism.

Part 2 FY2021 Budget

1. Highlights of the FY2021 Budget

Together with the third supplementary budget, the budget will take;
- all possible measures to contain the spread of the infection
- measures for medium- and long-term issues (digital and green society, vibrant local communities, all-generation social security system including measures to prevent birthrate decline, etc.).

Containment measures for COVID-19

- In order to prepare for unexpected changes in the situation, 5 trillion yen are secured for the contingency fund for the COVID-19 in the FY2020 budget, and **another 5 trillion yen of the fund** will be set aside in the FY2021 budget.
- In the 3rd supplementary budget, measures will be taken to **secure hospital beds and accommodations**, and to **develop the COVID-19 vaccination system and inoculations**. In addition, the following measures will be taken to prevent the spread of the infection.
  - Development of an infectious crisis management system and public health center system
  - Temporary measures for medical fees to combat infectious diseases
  - Enhancement of domestic production capacity of medical equipment, etc.

Realizing Digital and Green Society

- In September 2021, **the Digital Agency** with strong overall coordination functions **will be established.** About 500 highly-specialized personnel will be gathered from both of the public and private sectors. 300 billion yen has been set aside through **consolidating information system budgets** to centrally manage the government's entire information system. In addition, **the acquisition of “My Number Card”** by providing system supports to municipalities will be promoted. The integration of driver's licenses and My Number Card will be promoted.
- In order to realize green society, **low-interest loan system linked to outcome for companies that ambitiously reduce CO_2 emissions will be established** (1 trillion yen in loans over the next three years) and the attraction support of ESG investments will be implemented. R&D and introduction of renewable energy and energy saving will be supported. Through the 3rd supplementary budget, **the development of innovative technologies** for carbon neutrality will also be supported.

Creating Vibrant Local Communities (see page 37)

Construction of all-generation social security system including measures to prevent birthrate decline (see page 37)

Continue Efforts for Expenditure Reforms

- The government **continues to implement the expenditure reforms** set forth in the “Basic Policy on Economic and Fiscal Management and Reform” and **achieved the benchmark**. The quality of the budget was also improved.
  - Social security expenditure: about ＋¥150.7bn (Real growth from the previous year's base based on medical cost trends is about +350 billion yen)
  - Non-social security expenditure: about ＋¥33bn（Continue efforts of expenditure reforms thus far）

2.The FY2021 Budget: Framework

【Expenditure and Revenue】

(Unit: billion yen)

	FY2020 budget (initial)	FY2021 budget	FY2020 → FY2021	Notes
(Expenditure)				
General Expenditure	61,718.4	66,902.0	5,183.7	
Social Security Expenditure	35,691.4	35,842.1	150.7	- Real growth from the previous year base based on medical cost trends is +0.35 trillion yen.
Non-Social Security Expenditure	26,026.9	26,059.9	33.0	
Contingency Fund for the COVID-19	-	5,000.0	5,000.0	
Local Allocation Tax Grants, etc.	15,809.3	15,948.9	139.6	
National Debt Services	23,351.5	23,758.8	407.2	
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	14,539.4	14,731.7	192.3	
o/w Interest Payments	8,390.4	8,503.6	113.2	
Subtotal	100,879.1	106,609.7	5,730.6	
Temporary and Special Measures	1,778.8	–	-1,778.8	
Total	102,658.0	106,609.7	3,951.7	
(Revenue)				- Bond Dependency Ratio: 40.9%
Tax Revenue	63,513.0	57,448.0	-6,065.0	- Construction Bond Issuance
Other Revenue	6,588.8	5,564.7	-1,024.1	FY2020: 7,110 bn yen → FY2021: 6,341 bn yen
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	32,556.2	43,597.0	11,040.8	- Special Deficit-Financing Bond Issuance FY2020: 25,446.2 bn yen → FY2021: 37,256.0 bn yen
Amount Equivalent to Redemption of the National Debt (Excluding Subsidy Bonds)	14,539.4	14,731.7	192.3	
Amount Equivalent to Interest Payments	8,390.4	8,503.6	113.2	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) is 28.9 trillion yen.
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	9,626.4	20,361.7	10,735.3	
Total	102,658.0	106,609.7	3,951.7	

(Note 1) "Social Security Expenditure" and "Non-Social Security Expenditure" in the FY2020 budget are reclassified for a comparison with the FY2021 budget.
(Note 2) Figures may not add up to the totals due to rounding.
(Note 3) "Tax Revenue" includes stamp revenues.
(Note 4) The classification of "Government Bond Issuance" is made from the perspective of the primary balance and fiscal balance, and the term "Amount Equivalent to" is used because the revenue of government bond issuance will not be immediately appropriated to the redemption of the national debt and interest payments.
(Note 5) The current Special Deficit-Financing Bond Law, which will be expired at the end of FY2020, stipulates a five-year basis for issuing special deficit-financing bonds. Therefore, the government is considering submitting a bill to establish a basis for issuing special deficit-financing bonds for another five years.

【Government Bond Outstanding, etc.】

(Unit: trillion yen)

	Estimate at the end of FY2020 (FY2020 initial budget)	Estimate at the end of FY2021 (FY2021 budget)	FY2020 → FY2021	Notes
Government Bond Outstandings	906.0	990.3	84.3	- Fiscal Balance Deficit about 28.9tn yen
Nominal GDP	570.2	559.5	-10.7	Additional Debt in the FY2020 Supplementary Budget about 80.0tn yen
Government Bond Outstanding / GDP ratio	158.9%	177.0%	18.1%	Decrease in Advance Refunding Bonds about -23.0tn yen
(Reference) Planned Government Bond Issuance	141.5	191.0	49.5	Reflection of actual issuance results, etc. about -1.5tn yen
o/w Amount in General Account	32.6	43.6	11.0	Total about 84.3tn yen
o/w Amount in Special Account for the Government Debt Consolidation Fund	108.0	147.2	39.2	

(Note) Nominal GDP is the annual figure based on the government's economic forecast for the relevant fiscal year.

3.Economic and Fiscal Indicators

＜Economic indicators＞

	FY2019 (Actual)	FY2020 (Estimated)	FY2021 (Projected)
Nominal GDP growth	0.5% (0.1%)	-4.2% (-4.6%)	4.4%
Nominal GDP (tn yen)	559.7	536.1	559.5
Real GDP growth	-0.3%	-5.2%	4.0%
Consumer Price Index	0.5% (0.3%)	-0.6% (-0.4%)	0.4% (0.2%)
Unemployment rate	2.3%	3.1%	2.7%

(Note 1) Figures are shown on a 2008 SNA basis.
(Note 2) FY2020 and FY2021: based on "FY2021 Economic Outlook and Basic Stance for Economic and Fiscal Management" (Approved by the Cabinet on December 18, 2020).
(Note 3) Figures in parentheses in FY2019 and FY2020 for nominal GDP growth and consumer price index mechanically exclude the impact of the consumption tax rate hikes. Figures in parentheses in FY2021 for consumer price index mechanically exclude the impact of the Go To Campaign project.

＜Fiscal indicators: Central government's general account＞

	FY2019	FY2020	FY2021 (Draft)
General expenditure	62.0	63.5	66.9
Tax revenue (Note3)	62.5 (7.9)	63.5 (10.2)	57.4 (9.5)
Government bond issuance	32.7	32.6	43.6
Primary balance	-9.5	-9.6	-20.4
Bond dependency ratio	32.2%	31.7%	40.9%

(Note 1) Figures are based on the initial budgets. Bond dependency ratio is calculated by dividing government bond issuance by the total amount of general account expenditure.
(Note 2) General expenditure is the total amount of general account expenditures, excluding government bond expenditures and local allocation tax grants, etc.
(Note 3) Figures in parentheses represent the increased revenue associated with consumption tax rate hike (FY2019 and FY2020: Increase by raising from 5% to 10%).
(Note 4) Figures in FY2019 and 2020 include the figures of temporary and special measures.
(Note 5) Figures are retroactively revised based on the concept of the primary balance in the FY2021 budget.

4. Characteristics of Each Expenditure in the FY2021 Budget

【Social Security】

- ✓ Continuing to promote measures for the COVID-19. Implementing expenditure reforms based on the “Basic Policy on Economic and Fiscal Management and Reform” while reflecting current trends in medical expenses. While securing the necessary expenses for **the revision of nursing care fee** (+0.70%, ¥19.6bn) and **disabled welfare services fee** (+0.56%, ¥8.6bn) for the improvement of the treatment of employees, the burden on the public was reduced (-¥100.1bn) by reflecting the decline in actual prices through **realization of annual drug price revisions**, and **the policy to reduce the real growth of social security-related expenses within the increase due to the aging of the population has been achieved**.
- ✓ Together with system reforms such as the review of the payment ratio of latter-stage elderly healthcare, promoting measures to increase the birthrate in order to realize the hopes of the child-rearing generation, etc. (e.g. **improvement of child-care services** based on the "New Child-rearing Security Plan“(¥60.2bn), and support for infertility examinations and infertility associated with cancer treatment (¥2.3bn), etc.). In the 3rd supplementary budget, **subsidies for infertility treatment** will be greatly expanded.

【Education and Science】

- ✓ From the perspective of **“Digitization of Education“**, measures such as the spread of digital textbooks (¥2.2bn) and nationwide deployment of online learning systems (¥700mn) will be promoted. **A class with 35 students or less in elementary schools** will be realized within five years from FY2021.
- ✓ Supporting young researchers who will conduct future academic research, through **establishing the University Fellowship Program** (¥2.3bn), which will support universities that improve the treatment of doctoral students and secure their career paths in an integrated manner.

【Creating Vibrant Local Communities】

- ✓ Expanding the flow of people and jobs to regional areas through **the expansion of migration support projects** under the "Grants for the Promotion of Regional Development (¥100bn)“ which supports independent and leading efforts for regional revitalization and through the "Telework Promotion Project for Regional Development (¥120mn)" which **supports matching between companies and local governments**.
- ✓ Accelerating **the creation of high-value-added content** that takes advantage of local nature and culture and **the improvement of services at hotels** by utilizing the international tourist tax revenue (¥30bn) to achieve the “¥15tn Goal of Inbound Consumption by 2030”. Promoting **"Tourism DX"** such as the use of facial recognition for payment, and workcations.
- ✓ The amount of local allocation tax grants for local governments is ¥17.4tn (+¥0.9tn). While both national and local tax revenues are expected to decrease, **the total amount of general revenue sources will be secured appropriately**.

【Public Works】

- ✓ **Securing public work projects stably** (¥6,069.5bn). In these projects, the prevention and mitigation of disaster risk and national resilience will be promoted, such as flood control measures for the entire basin and measures against aging using new technologies.
- ✓ Further equalizing the construction period of public work projects by expanding the use of multi-year debt obligations (two-year and zero). In principle, 3D digitization of designs for large-scale civil engineering works under the direct control will be implemented to **promote improvement of productivity in the construction industry**.

【Agriculture, Forestry and Fisheries】

- ✓ In order to **achieve the ¥5tn target in exports of agriculture, forestry, fishery, and food products**, the development of production areas, the elimination of export barriers, and the development of overseas sales channels for priority export items will be promoted in an integrated manner based on the "Strategy for Expanding Exports of Agriculture, Forestry, Fishery, and Food Products”.
- ✓ Promoting **digital transformation in agriculture, forestry, and fisheries administration**, including the digitization of administrative procedures such as subsidy applications and the integration of local information on farmland. In addition, to realize a green society, **the appropriate management of forest resources** which serve as sinks for greenhouse gases, and **the expansion of the use of wood products** will be promoted.

【Reconstruction】

- ✓ FY2021 is the first year of the "Second Recovery and Creation Period". **Supporting for disaster victims such as psychological care** in the areas affected by the earthquake and tsunami. In the areas affected by the nuclear disaster, in addition to the development of interim storage facilities, initiatives for full-scale reconstruction and revitalization such as **the promotion of return and migration** will be promoted. Responding to the needs of the affected areas according to the stage of reconstruction.

【Diplomacy and National Defense】

- ✓ **Expanding ODA in the health sector** to achieve international containment of the COVID-19. Strengthening the diplomatic and consular system, including **the promotion of digitalization** for electronic passport applications.
- ✓ Securing 1.1% increase in medium-term national defense expenditures based on the **“Medium-Term Defense Force Improvement Plan”**. The establishment of a system that enables cross-domain operations, including **strengthening capabilities in new areas** such as space, cyber, and electromagnetic waves will be promoted.

5. Major Expenditure Items

(unit: billion yen)

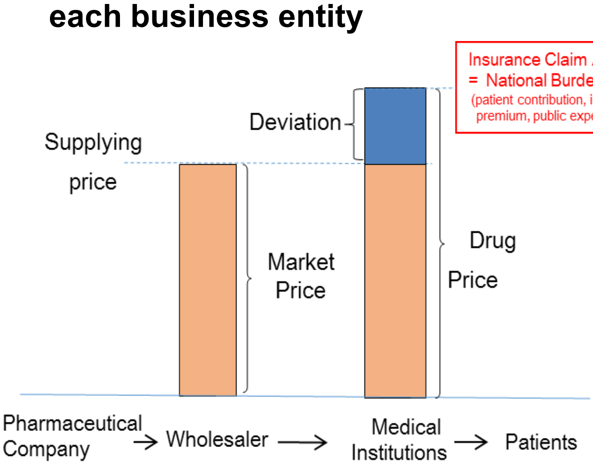
	FY2020 Budget (Initial)	FY2021 Budget	Amount of change	Ratio of change	Note
General Expenditure	61,718.4	66,902.0	+5,183.7	+8.4%	
Social Security	35,691.4	35,842.1	+150.7	+0.4%	
Education and Science	5,391.2	5,396.9	+5.7	+0.1%	
of which Science	1,356.5	1,367.3	+10.8	+0.8%	
Former Military Personnel Pensions	175.0	145.1	-29.9	-17.1%	
National Defense	5,262.5	5,323.5	+61.0	+1.2%	Expenses on medium-term defense capability: +1.1% (including miscellaneous expenses.)
Public Works	6,066.9	6,069.5	+2.6	+0.0%	
Economic Assistance	511.6	510.8	-0.8	-0.2%	Support Program for Overseas Study Due to Infectious Disease -¥0.6bn, etc.
cf) Official Development Assistance	561.0	568.0	+6.9	+1.2%	Overall ODA budget in general account have increased for consecutive six years.
Measures for SMEs	172.3	174.5	+2.2	+1.3%	
Energy	900.8	889.1	-11.6	-1.3%	Decrease in transferred budget due to increase in surplus of energy special account: -¥11.6bn, etc.
Food Supply	1,286.2	1,277.3	-9.0	-0.7%	Statistical system maintenance cost, etc. : -¥2.1bn, etc.
Miscellaneous	5,760.5	5,773.2	+12.7	+0.2%	
Contingency reserve	500.0	500.0	-	-	
Contingency Funds for the COVID-19	-	5,000.0	+5,000.0	+100.0%	
National Debt Service	23,351.5	23,758.8	+407.2	+1.7%	Increase in fixed-rate transfers and interest payment expenses due to increase in outstanding bonds, etc.
Local Allocation Tax Grants, etc.	15,809.3	15,948.9	+139.6	+0.9%	Securing the same level of total general funds as the previous fiscal year.
Total	100,879.1	106,609.7	+5,730.6	+5.7%	

(Note 1) The FY2020 budget does not include the figures of temporary and special measures. In addition, the FY2020 budget is reclassified for a comparison with the FY2021 budget.
(Note 2) Figures may not add up to the totals due to rounding.
(Note 3) General Expenditure is defined as General Account Total Expenditure minus National Debt Service and Local Allocation Tax Grants, etc.

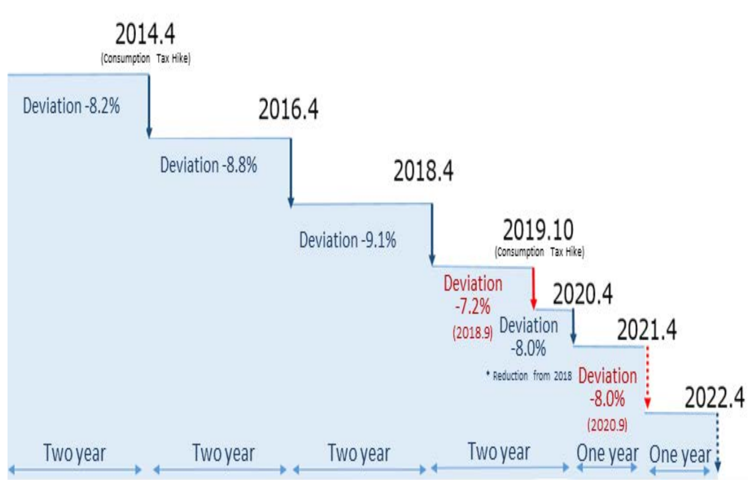
6. Realization of the Annual Drug Price Revisions

- ✓ Even though the transaction price of pharmaceuticals (prevailing market price) declines, the burden on patients, insurance premiums, and public expenditure will remain high, if the reimbursement price from insurance is kept unchanged to a certain extent,.
- ✓ Therefore, the government decided to revise drug prices (which have been revised every two years thus far) every year from the FY2021, so that market prices will be appropriately reflected in drug prices.
- ✓ As for the first annual price revisions, the FY2021 revision will cover items with a deviation rate of more than 5%.
- ✓ In addition, taking into account the fact that as a result of the impact of the COVID-19 the average deviation rate of 8.0% in the drug price survey 2020 was 0.8% higher than that of the survey 2018 which was similarly conducted six months after the revision, the drug price reduction will be eased by 0.8% as a “Special Exception for the COVID-19”.
- ✓ Through these measures, the drug costs will be reduced by -431.5 billion yen (-100.1 billion yen in national costs) [about 70% of items], leading to a reduction of the burden on the public.

◆ Relationship between drug prices and each business entity



◆ Results of drug price survey



7. “Improvement of the Quality" of the Budget

Breaking Down the Vertically Segmented Administration and Interagency Cooperation

✓ **Watershed Flood Control Measures** (by utilizing the MILT's disaster prevention and safety grant (¥854bn) as well as related projects of the MAFF, the MEXT, and the MHLW, etc.)

- Promoting Watershed Flood Control Projects (comprehensive flood control measures including land use and urban development) conducted jointly by river administrators, prefectures, municipalities, and other related actors. Projects under the direct control of the national government as well as grants and subsidies for local governments and private companies will preferentially be allocated to **programs that promote functional coordination** of facilities (such as levees, sewerage systems, agricultural water utilization facilities, rice paddies, school facilities, welfare facilities, and state-owned lands, etc.).

✓ **Construction of a stable and efficient supply/utilization system for woody biomass fuel, etc.** (the METI and the MAFF: ¥1.25bn)

- The METI and the MAFF have established a study group to identify issues related to woody biomass power generation. **The two ministries will work together to establish a demonstration project** for the establishment of a stable and efficient system for the production and transportation of biomass fuels.

Efficiency and Rationalization of Defense Force Development

✓ Achieving efficiency and rationalization effects of -416.8 billion yen through measures such as suspending operations of unimportant equipment, utilizing long-term contracts, and **optimizing procurement by examining costs** across the entire range of defense equipment.

Suppressing the Increase in Infrastructure Maintenance and Renewal Costs Per Capita

✓ With regard to subsidies and grants to local governments for measures to deal with aging infrastructure, new requirements to present specific policies to **reduce costs of the consolidation and removal of facilities, etc.** will be established, and priority will be given to projects with **high cost reduction through the use of new technologies, etc.** Through these measures, government expenses are focused on projects with high policy effectiveness.

* These measures cover various subsidies (Road: ¥222.3bn, River: ¥1.5bn, Port: ¥1.2bn) as well as disaster prevention and safety subsidies.

Focused Support for SMEs

✓ In order to focus support on small and medium-sized enterprises (SMEs), SMEs which are subsidiaries of large enterprises or whose taxable income is above a certain level are excluded from subsidies or applied subsidy rates for large enterprises.

Improving the Efficiency of Applications and Screening by Revamping the Scholarship Operation System, etc.

✓ With regard to grants for the Japan Student Services Organization (JASSO), the application process was simplified and the screening process will be accelerated by revamping the scholarship operation system. In addition, the costs of system maintenance and screening are also reduced (¥2.8bn over the 10 years from FY2021).

8. Overview of the Third Supplementary Budget for FY2020

(Approved on January 28, 2020)

Ⅰ. Containment measures for the COVID-19 4,358.1bn

1. Securing the medical treatment system & Supporting medical institutions 1,644.7bn

- ○ Emergency comprehensive support grant for the COVID-19 (securing beds, accommodation facilities, etc.) [1,301.1bn]
- ○ Support for preventing infection spread at medical institutions such as medical and inspection institutions [107.1bn]
- ○ Financial support for medical institutions [103.7bn]
- ○ Support for medical institutions such as pediatrics through payments for medical services [7.1bn], etc.

2. Enhancing the testing system & Developing vaccine distribution system 820.4bn

- ○ Development of new coronavirus vaccine inoculation system and implementation of inoculation [573.6bn]
- ○ Implementation of PCR test, antigen test, etc. [67.2bn], etc.

3. Containment measures based on data and technology 1,748.7bn

- ○ Local Revitalization Grant for the COVID-19 [1,500bn]
- ○ Infectious disease control projects due to the postponement of the Tokyo Olympic and Paralympic Games [95.9bn], etc.

4. International cooperation for containing the COVID-19 144.4bn

- ○ Support through international organizations to Africa, the Middle East, Asia and Oceania [79.2bn], etc.

Ⅱ. Promoting structural change & positive economic cycles for Post-Corona era 11,676.6bn

1. Realizing digitalization and green society 2,825.6bn

- ○ Support for digital infrastructure reform of local organizations [178.8bn]
- ○ Promotion of the spread of My Number Card [133.6bn] ○ Support for R&D on post 5G / beyond 5G (6G) [140bn]
- ○ Establishment of a fund to support innovative technology developments toward carbon neutrality [2,000bn]
- ○ Establishment of green housing point system [109.4bn], etc.

2. Enhancing productivity through structural changes and innovation 2,395.9bn

- ○ Support for management conversion in SMEs (Subsidy for Restructuring Businesses) [1,148.5bn]
- ○ University fund [500bn] ○ Subsidy program for sustaining businesses, etc. [230bn]
- ○ Support for making domestic and overseas supply chains resilient [222.5bn]
- ○ Priority support for maintenance and revitalization of local public transportation [15bn], etc.

3. Realizing positive economic cycles in regions & employment led by private demand 6,455.1bn

- ○ Funding support for SMEs [3,204.9bn] ○ Local Revitalization Grant for the COVID-19 (repost)
- ○ Go To Travel [1,031.1bn], Go To Eat [51.5bn] ○ Special measures for Employment Adjustment Subsidies [543bn]
- ○ Special measures for emergency small loans, etc. [419.9bn]
- ○ Tourism (improvement of infrastructure for inbound revival) [65bn]
- ○ Expansion of subsidy measures for infertility treatment [37bn]
- ○ Promotion of high profitability by converting paddy fields into farmlands, generalization, and large plots [70bn]
- ○ Safety Net Strengthening Grant for the COVID-19 (support for people in need, suicide measures, etc.) [14bn], etc.

Ⅲ. Securing safety and relief with respect to disaster management 3,141.4bn

1. Promoting national resilience with respect to disaster management 2,093.6bn

- ○ Promoting national resilience with respect to disaster management (public works) [1,653.2bn], etc.

2. Recovery from aftermaths of natural disasters 633.7bn

- ○ Disaster recovery project costs [605.7bn] ○ Disaster waste treatment [10.6bn], etc.

3. Securing people's safety and relief 414.1bn

- ○ Ensuring a stable operation system of the Self-Defense Forces [301.7bn], etc.

■ Total additional spending of the supplementary budget 19,176.1bn

(Reference 1) In the third supplementary budget for FY2020, in addition to the national expenses related to the implementation of the above "economic measures", additional financial demand such as international contributions [25.2 billion yen] is recorded.

(Reference 2) In addition to the above, additional expenditures of ¥932bn are recorded in the Labor Insurance Special Account and ¥16.9bn in the Energy Measures Special Account.

9. The Framework of the Third Supplementary Budget for FY2020

(billion yen)

Expenditures		Revenues	
1．Containment measures for the COVID-19	4,358.1	1．Tax revenues	-8,388.0
2．Promoting structural change and positive economic cycles for Post-Corona era	11,676.6		
3．Securing safety and relief with respect to disaster management	3,141.4	2．Non-tax revenues	729.7
Subtotal (expenses related to the economic stimulus measures)	19,176.1		
4．Other expenses	25.2	3．Surplus from the previous fiscal year	690.4
5．Local allocation tax grants	422.1		
（1）Reduction in the local allocation tax grants due to a decline in tax revenues	-2,211.8		
（2）Compensation for the reduction in the local allocation tax grants due to a decline in tax revenues	2,211.8		
（3）Compensation for the reduction in financial resources for local allocation tax due to a decline in the local corporation tax revenues	422.1		
6．Reduction in previously approved expenses	-4,196.3	4．Government bond issuance	22,395.0
（1）Contingency funds for the COVID-19	-1,850.0	（1）Construction bonds	3,858.0
（2）Others	-2,346.3	（2）Special deficit-financing bonds	18,537.0
Total	15,427.1	Total	15,427.1

10. The FY2020 Budget Framework after Third Supplementary Budget

(Unit: billion yen)

	FY2020 budget (initial)	**FY2020 budget (after third supplementary budget revisions)**	FY2020 budget initial → after third supplementary budget revisions	Notes
(Expenditure)				
General Expenditure	61,718.4	**134,642.0**	72,923.6	- The Balance of the Contingency Funds for the COVID-19 as of December 20: 5,042.4 billion yen
Local Allocation Tax Grants, etc.	15,809.3	**16,256.2**	447.0	
National Debt Services	23,351.5	**23,024.6**	-326.9	
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	14,539.4	**14,539.4**	-	
o/w Interest Payments	8,390.4	**7,620.0**	-770.4	
Subtotal	100,879.1	**173,922.8**	73,043.7	
Temporary and Special Measures	1,778.8	**1,764.9**	-13.9	
Total	102,658.0	**175,687.8**	73,029.8	
(Revenue)				- Bond Dependency Ratio: 64.1%
Tax Revenue	63,513.0	**55,125.0**	-8,388.0	- Construction Bond Issuance initial: 7.1 tn yen → after third supplementary budget revisions: 22.6 tn yen
Other Revenue	6,588.8	**8,008.8**	1,420.1	
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	32,556.2	**112,553.9**	79,997.7	- Special Deficit-Financing Bond Issuance initial: 25.4 tn yen → after third supplementary budget revisions: 90.0 tn yen
Amount Equivalent to Redemption of the National Debt (Excluding Subsidy Bonds)	14,539.4	**14,539.4**	-	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) after third supplementary budget revisions is 98.0 tn yen.
Amount Equivalent to Interest Payments	8,390.4	**7,620.0**	-770.4	
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	9,626.4	**90,394.5**	80,768.1	
Total	102,658.0	**175,687.8**	73,029.8	

(Note 1) Figures may not add up to the totals due to rounding.
(Note 2) "Tax Revenue" includes stamp revenues.
(Note 3) The classification of "Government Bond Issuance" is made from the perspective of the primary balance and fiscal balance, and the term "Amount Equivalent to" is used because the revenue of government bond issuance will not be immediately appropriated to the redemption of the national debt and interest payments.

11. Overview of the First Supplementary Budget for FY2020

(Approved on April 30, 2020)

Ⅰ Expenses related to Emergency Economic Package against the COVID-19 ¥25,565.5bn

1. Develop preventive measures against the spread of infection and medical treatment structures, as well as pharmaceuticals ¥1,809.7bn

- "The urgent comprehensive grants to cope with the COVID-19 (provisional name)" [¥149.0bn] (Equipping PCR screening devices, Securing hospital beds and facilities for patients with slight symptoms, Securing medical equipment such as respirators, Assisting dispatchment of supporting doctors, etc.)
- Prioritizing distribution of masks to medical institutions and other facilities in need [¥95.3bn], Supporting production of respirators, masks, etc. [¥11.7bn]
- Preventive measures against the spread of infection (such as distributing masks to kindergartens, elementary schools, nursing homes, and other facilities) [¥79.2bn], Distributing fabric masks to all households [¥23.3bn]
- Securing Avigan [¥13.9bn], Enhancing research and development of medicine through industry-academia-government collaboration [¥20.0bn], Supporting the development of vaccines in Japan [¥10.0bn],
Supporting research and development of vaccines internationally [¥21.6bn]
- "The temporal grants to help regions cope with COVID-19 (provisional name)" [¥1,000.0bn]
  * To be allocated for measures implemented by local governments regarding Emergency Economic Package, depending on circumstances

2. Protect employment and sustain business continuity 19,490.5bn

- Expanding special measures on the Employment Adjustment Subsidies [¥69.0bn*]
  * Budgeted in the General Account, to support employees who work less than 20 hours per week. ¥764.0bn is accounted in the Special Account for Employment Insurance for employees who work 20 hours per week and more.
- Liquidity supports to micro, small and medium-sized business operators and others [¥3,831.6bn]
- A new subsidy for micro, small and medium-sized business operators and others [¥2,317.6bn]
- A new subsidy for every individual [¥12,880.3bn]
- A temporal and special subsidy for households with children [¥165.4bn]

3. Recover economic activities through public-private efforts, as the next phase ¥1,848.2bn

- "Go To campaign (provisional name)" , supporting affected industries by initiating public-private joint campaigns (tourism; transportation; restaurant; and entertainment) [¥1,679.4bn]
- Establishing "the Fund for strengthening growth fundamentals in revival phase from the COVID-19 (provisional name)" [¥100.0bn]

4. Develop a resilient economic structure ¥917.2bn

- Subsidy to promote domestic investment for support of supply chain [¥220.0bn]
- Supporting diversification of global supply chain [¥23.5bn]
- Strengthening export capacity and domestic supply capacity of agriculture-forestry-fisheries and food products [¥198.4bn]
- Ensuring opportunities of education through acceleration of the GIGA school plan [¥229.2bn]
- Promoting digital infrastructure for early implementation of public investment [¥17.8bn]
- Encouraging digitalization of SMEs [¥10.0bn]

5. Prepare for the future ¥1,500.0bn

- Contingency funds for the COVID-19 [¥1,500.0bn]

Ⅱ Transfer to the special account for national debt consolidation funds ¥125.9bn

Additional spending of the supplementary budget ¥25,691.4bn

12. Overview of the Second Supplementary Budget for FY2020

(Approved on June 12, 2020)

Ⅰ Expenses related to cope with the COVID-19 — 31,817.1bn

1. Enhancing the Employment Adjustment Subsidy — 451.9bn

*Budgeted in the General Account, including transfer to the Special Account for Employment Insurance and financial support for employees who work less than 20 hours per week. In addition, ¥857.6bn is budgeted in the Special Account for Employment Insurance.

2. Enhancing financial support — 11,639.0bn

- Loan to micro, small- and medium-sized businesses〔8,817.4bn〕
- Loan to major corporations〔452.1bn〕
- Providing capitals〔2,369.2bn〕

Strengthening financial functions

Extend the period of capital participation and expand the framework under the Act on Special Measures for Strengthening Financial Functions (to ¥15tn)

3. Establishing a rent support grant for SMEs — 2,024.2bn

4. Supporting medical treatment providers — 2,989.2bn

- Emergency Comprehensive Support Grant For Novel Coronavirus Disease〔2,237.0bn〕
  ＊ of which medical care〔1,627.9bn〕, long-term care〔609.1bn〕
- Distribution of medical masks to medical institutions〔437.9bn〕
- Development of medicine and vaccines〔205.5bn〕

5. Other supports — 4,712.7bn

①	Expanding of "Special Allocation for Revitalization to Cope with COVID-19"	2,000.0bn
②	Additional payments to low-income single parent households	136.5bn
③	Enhancing the Subsidy Program for Sustaining Businesses	1,940.0bn
④	Others	636.3bn

- Enhancing the grants for micro, small- and medium- sized business operators〔100.0bn〕
- Emergency comprehensive support package for art and cultural activities〔56.0bn〕
- Measures to prevent the spread of infection in local public transportations〔13.8bn〕
- Additional placement of teachers and assistant teachers〔31.8bn〕
- Educational support and preventive measures against infection to reopen school〔42.1bn〕
- AI simulation to realize "a Smart Life"〔1.4bn〕
- Establishing a grant to sustain businesses for agriculture, forestry and fisheries〔20.0bn〕
- Enhancing capacity of Self-Defense Forces to prevent and respond to infectious disease〔6.3bn〕
- Special loans to individuals from the emergency small amount fund〔204.8bn〕
- Deploying optical fibers for educational ICT platform〔50.2bn〕

6. Contingency funds for the COVID-19 — 10,000.0bn

Ⅱ Transfer to the Special Account for the National Debt Consolidation Fund (interest payment) — 96.3bn

Ⅲ Reduction in previously approved expenses (annual allowance of the members of the Diet) — -2.0bn

Total spending of the supplementary budget — 31,911.4bn

(Note) The Emergency Support for Students〔¥53.1bn〕 (May 19, 2020, cabinet decision), distribution of medical masks to medical institutions〔¥168.0bn〕 and special allocation on health care fee〔¥15.9bn, borne by the central government (May 26, 2020, cabinet decision)〕 are allocated from the Contingency funds for the COVID-19 in the first Supplementary Budget for FY2020.

13. The Framework of the First Supplementary Budget for FY2020

(billion yen)

Expenditures		Revenues	
1. Expenses related to Emergency Economic Package against the COVID-19	25,565.5	1. Government bond issuance	25,691.4
(1) Develop preventive measures against the spread of infection and medical treatment structures, as well as pharmaceuticals	1,809.7	(1) Construction Bonds	2,329.0
(2) Protect employment and sustain business continuity	19,490.5	(2) Special Deficit-Financing Bonds	23,362.4
(3) Recover economic activities through public- private efforts, as the next phase	1,848.2		
(4) Develop a resilient economic structure	917.2		
(5) Prepare for the future	1,500.0		
2. Transfer to the special account for national debt consolidation funds	125.9		
Total	25,691.4	Total	25,691.4

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

14. The Framework of the Second Supplementary Budget for FY2020

(billion yen)

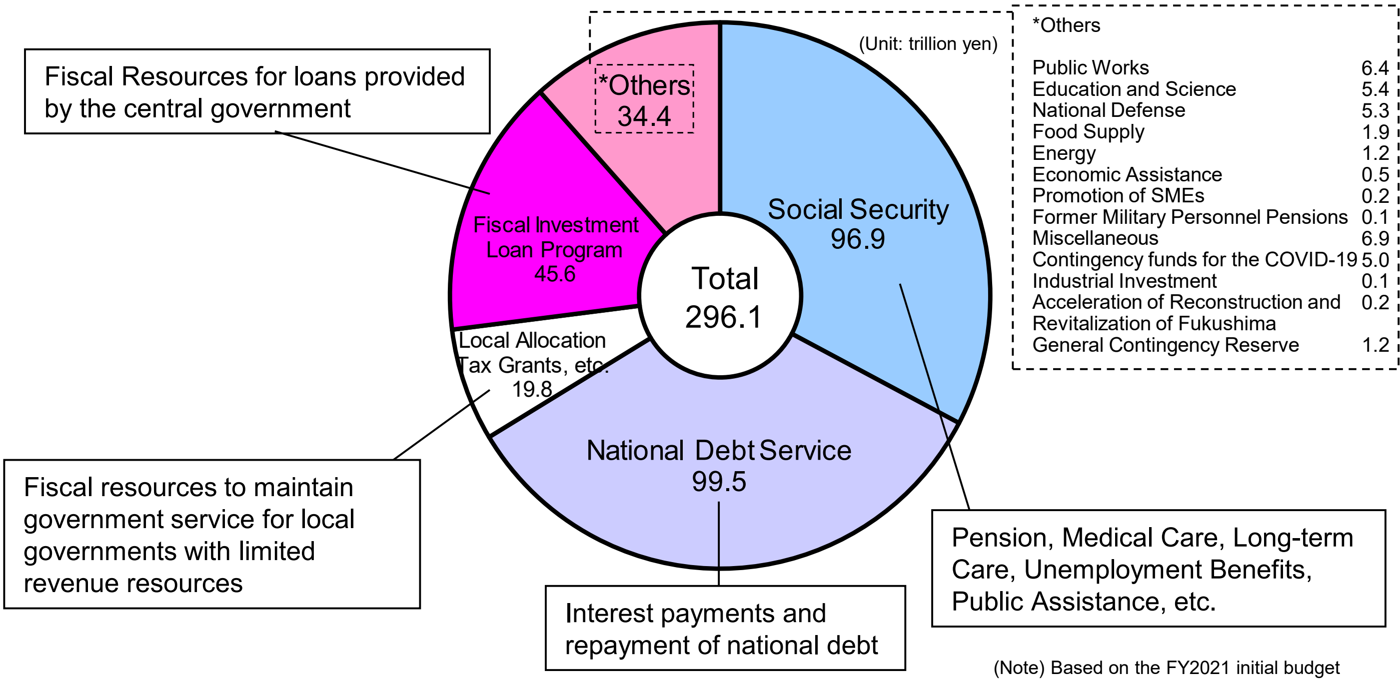
Expenditures		Revenues	
1. Expenses related to cope with the COVID-19	31,817.1	1. Government bond issuance	31,911.4
(1) Enhancing the Employment Adjustment Subsidy	451.9	(1) Construction Bonds	9,299.0
(2) Enhancing financial support	11,639.0	(2) Special Deficit-Financing Bonds	22,612.4
(3) Establishing a rent support grant for SMEs	2,024.2		
(4) Supporting medical treatment providers	2,989.2		
(5) Other supports	4,712.7		
① Expanding of “Special Allocation for Revitalization to cope with COVID-19”	2,000.0		
② Additional payments to low-income single parent households	136.5		
③ Enhancing the Subsidy Program for Sustaining Businesses	1,940.0		
④ Others	636.3		
(6) Contingency funds for the COVID-19	10,000.0		
2. Transfer to the Special Account for the National Debt Consolidation Fund (interest payment)	96.3		
3. Reduction in previously approved expenses (annual allowance of the members of the Diet)	-2.0		
Total	31,911.4	Total	31,911.4

(Note 1) Figures may not add to the totals due to rounding.
(Note 2) 1.(2) includes transfer to the Special Account for the National Debt Consolidation Fund. (redemption of Subsidy Bonds〔443.2 billion yen〕held by Development Bank of Japan Inc.)

Ⅰ. General and Special Accounts

○ Net Total Amount of the General and Special Accounts by Major Expenditures

The net total amount of the General and Special Accounts by major expenditures represents the net sum of the all accounts (i.e. the sum of the General Account gross expenditures (FY2021: 106.6 trillion yen) and the Special Account gross expenditures (FY2021: 493.7 trillion yen) minus inter-account transfers), sorted by each policy field. It shows an overall picture of the central government's expenditures.



(Note) Based on the FY2021 initial budget

○ Trends in the net expenditure budget of the General Account and the Special Accounts

(Unit: trillion yen)

Item	FY2019 Settlement	FY2020 Settlement (estimate)	FY2021 Initial Budget
Total Expenditure in the General Account (A)	101.4	181.4	106.6
Total Expenditure in the Special Accounts (B)	374.2	422.8	493.7
Total (C = A + B)	475.5	604.2	600.3
of which, the amount overlapped (D)	138.4	143.2	157.0
Difference (E = C – D)	337.1	461.0	443.3
of which, the amount deducted (F)	104.2	109.0	147.2
Net Total (= E – F)	232.9	352.0	296.1

○ Lists of Special Accounts in the FY2021

- Local allocation tax and local transfer tax
- Earthquake reinsurance
- National debt consolidation fund
- Foreign exchange fund
- Government investment and loan fund
- Measures for energy
- Worker's insurance
- Pension
- Stable supply of food
- Debt management of National forest and field service * transitional account
- Patents
- Motor vehicles safety
- Reconstruction from the Great East Japan Earthquake

Ⅱ. Balance Sheet of the Central Government

In order to clearly disclose the status of stock such as assets and liabilities held or owed by the central government, the Ministry of Finance annually publishes “Government Balance Sheet” by referring to corporate accounting methodologies (e.g. accrual accounting and double bookkeeping).

◆ As of the end of FY2019, the assets amounted to ¥681.3 trillion, but most of those cannot be converted into cash to make up fiscal resources for other policies. (Please refer to the figure below.)

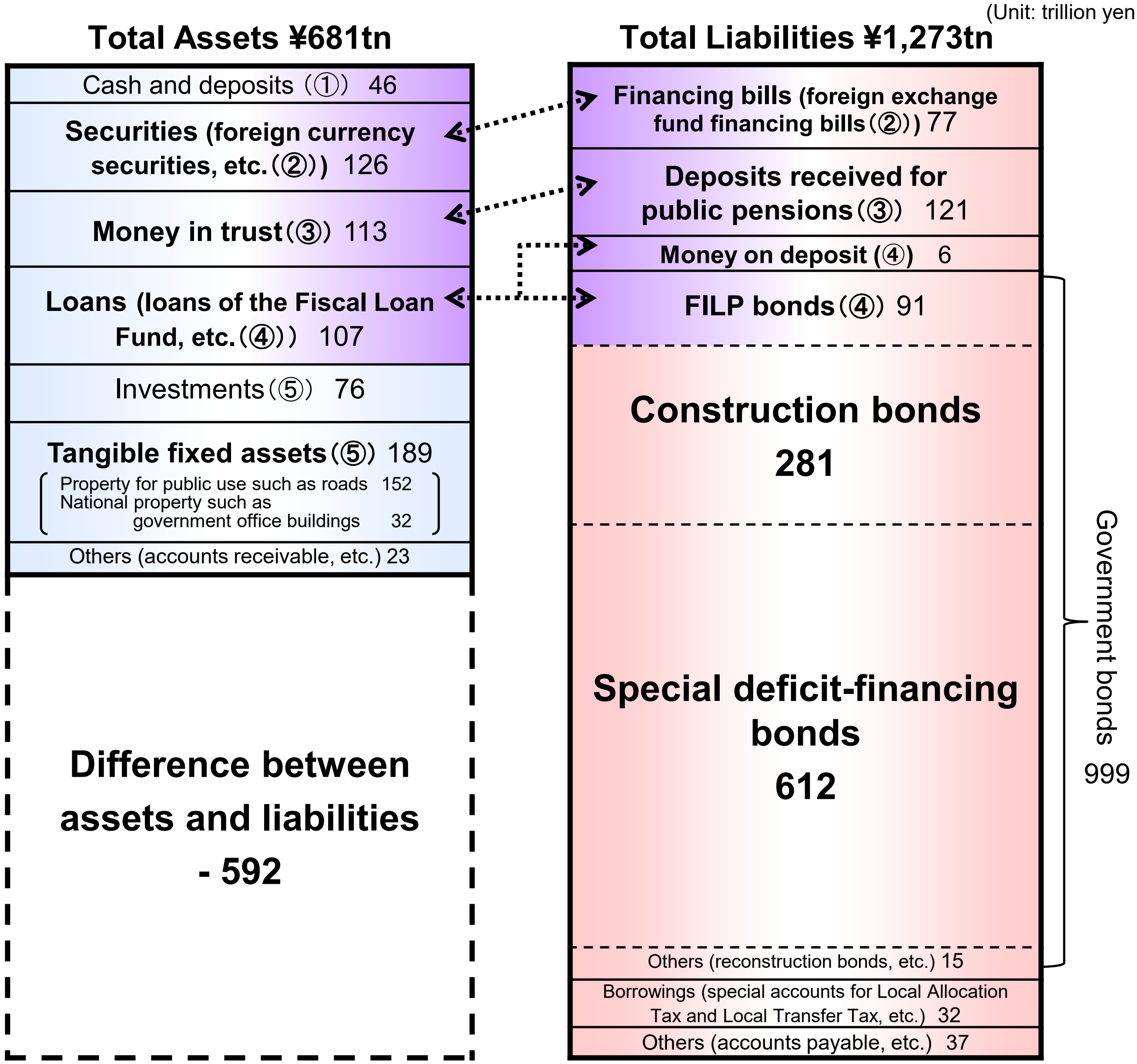
◆ Among account titles of the assets and the liabilities, some financial assets and liabilities are earmarked to each other.

- Foreign currency securities (¥124.6 trillion (part of the securities)): Financial sources for purchasing these securities are provided by issuing foreign exchange fund financing bills (¥76.2 trillion (part of the financing bills)).
- Loans of the Fiscal Loan Fund (¥97.8 trillion (part of the loans)): Financial sources for these loans consists of funds provided by issuing FILP bonds (¥91.2 trillion) and money on deposit (¥5.9 trillion).
- Money in trust (¥113.2 trillion): It is a part of funds accumulating social security contribution etc., saved for future benefit disbursement and the corresponding amount is also listed on the liability side as the deposits for public pensions (¥121.2 trillion).

◆ There are also a considerable amount of assets which are not expected to be converted into cash.

- Tangible fixed assets (¥188.7 trillion): public properties, etc. such as roads and rivers.
- Investments (¥76.3 trillion): investments in incorporated administrative agencies, stocks of incorporated companies which the government is obligated to hold as a matter of policy etc.

(Unit: trillion yen)



(Note) Special deficit-financing bonds includes tax reduction-related special deficit-financing bonds, pension-related special deficit-financing bonds, and refunding bonds for debts transferred from JNR Settlement Corporation, the National Forest Service, and special account for local allocation and local transfer tax.

(as of March 31, 2020)

Ⅲ. PDCA Cycle

The government attempts to continuously improve its budget efficiency by enhancing the PDCA cycle: evaluating how budget funds are spent and what results have been achieved, and then reflecting these evaluation results in future budgetary planning processes.

■ Resolutions of the Diet and the Reports on Inspection of the Settlement of Accounts, etc.

- The resolutions concerning the settlement adopted by the Diet are properly reflected in the budgets based on the deliberations in the Diet.
- In line with the report by the Board of Audit, necessity and efficiency of individual administrative tasks and projects are fully re-examined.
- The details of each budget are closely reviewed if a large amount of allocated budget remains unused based on the financial result.

■ Budget Execution Surveys

- In FY2020, the Ministry of Finance conducted 37 budget execution surveys.
- Based on the results of these surveys, the necessity, effectiveness and efficiency of projects are reviewed. These results are properly reflected in the budget and budget execution.

* The budget execution surveys are measures conducted by officials of the Budget Bureau of the Ministry of Finance, or those of Local Financial Bureaus, who are regularly involved with budget execution. They point out room for improvement, which can lead to reviews of the budget and efficient budget execution.

■ Policy Evaluation

- Based on the results of policy evaluation conducted by government ministries and agencies, the necessity, effectiveness and efficiency of each project are reviewed. These results are properly reflected in the budget.

■ Administrative Programs Review

- Points raised by the annual public review in autumn (Autumn Review), etc. under the Administrative Reform Promotion Council are properly reflected in budget formulation.

Plan
(Planning the budget)

Do
(Executing the budget)

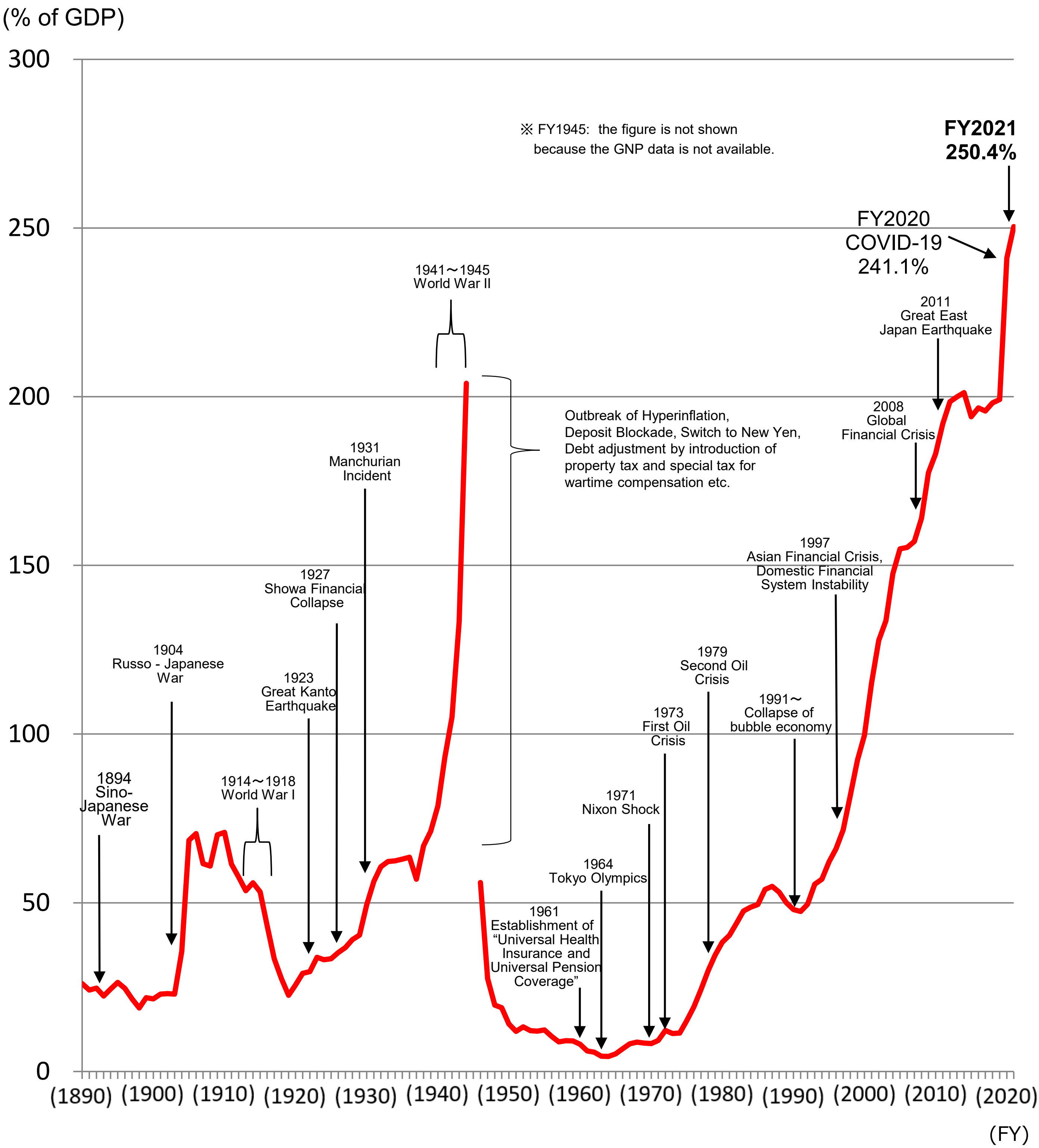
Check
(Evaluating and examining the budget)
- Resolutions of the Diet
- Budget execution survey
- Audit reports
- Policy evaluation
- Administrative Programs Review and other measures, etc.

Action
(Reflecting the evaluation results, etc.)

Plan
(Planning the budget)

(Reference)

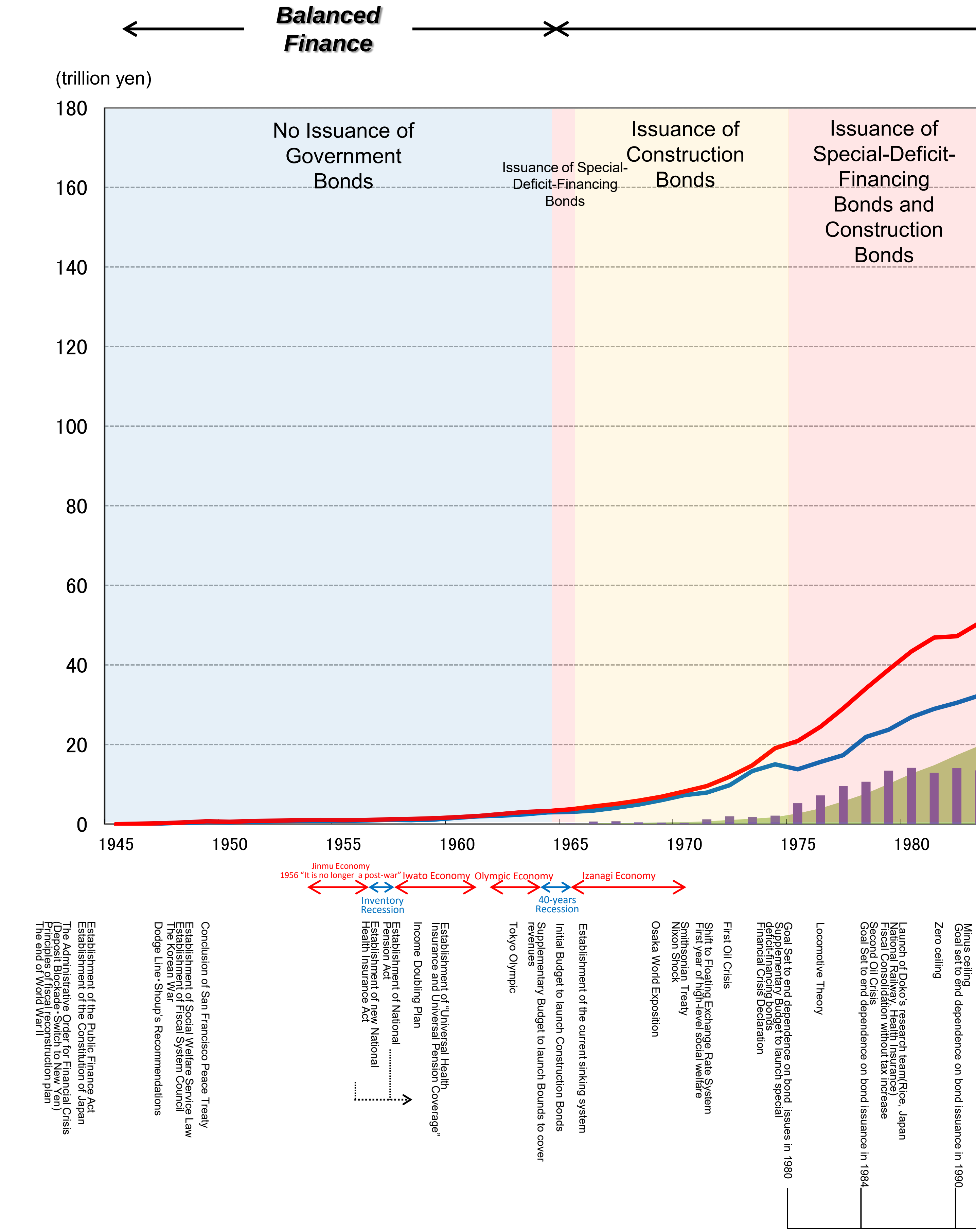
Trend in Accumulated Government Bonds Outstanding from the Prewar years



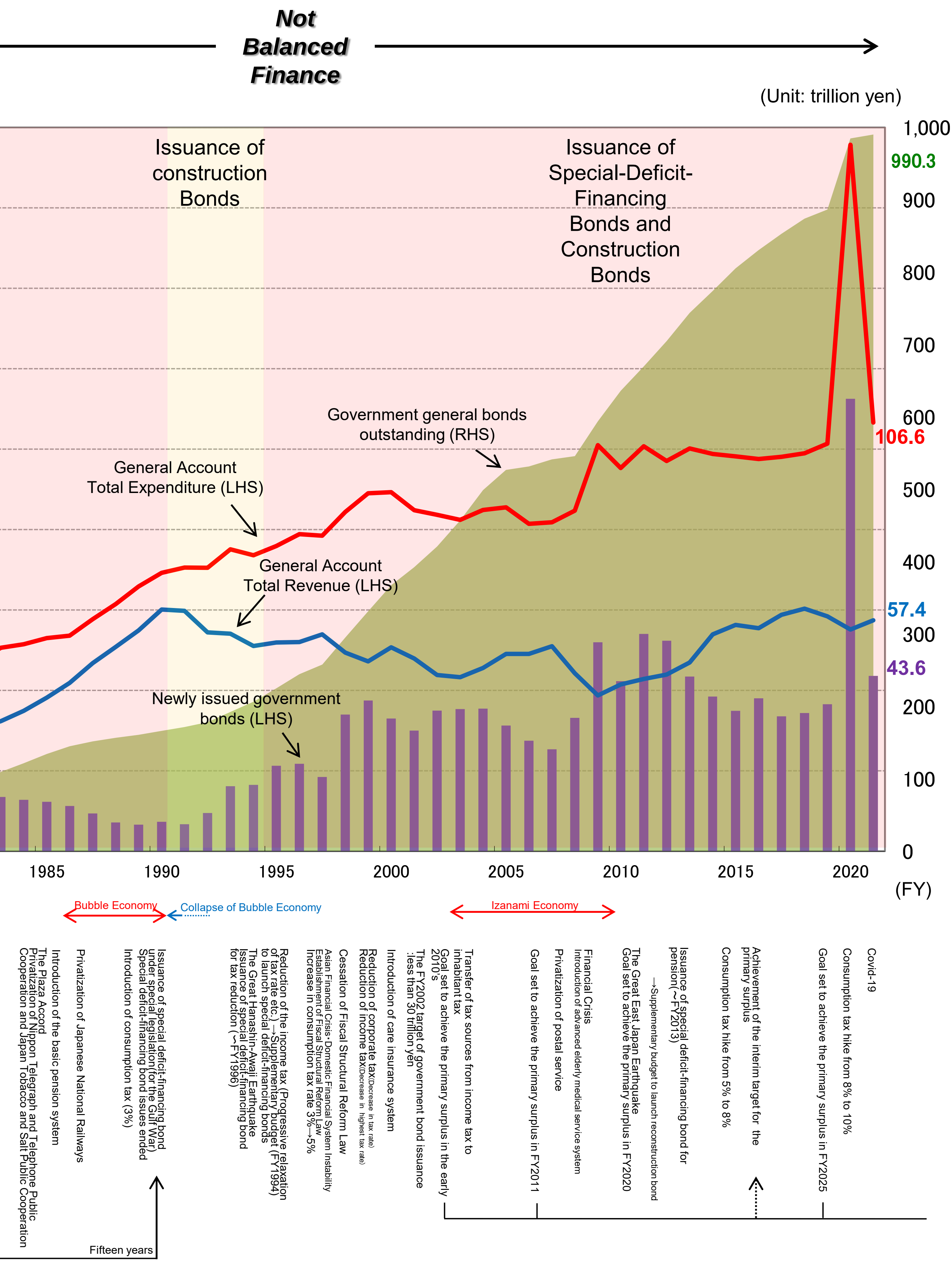
(Note 1) Government Bonds Outstanding: FY1890-2019: Annual report on government bonds statistics (Ministry of Finance); FY2020: Based on the Third Supplementary Budget; FY2021 Based on the Budget. Outstanding of Fiscal Loan Fund Financing Bills, Foreign Exchange Fund Financing Bills and Food Financing Bills out of Financing bills have reached the issuance limit (total: 210 trillion yen).

(Note 2) GDP: FY1890-FY1929: Gross National Expenditure (Based on Statistics by Ohkawa, Takamatsu and Yamamoto); FY1930-FY1954: Nominal GNP (Based on Japan Statistical Association "Historical Statistics of Japan"); FY1955-FY2019: Nominal GDP (Based on National Accounts (FY1955-1979: based on SNA 1968, FY1980-1993: based on SNA 1993, FY1994-2019: based on SNA 2008)); FY2020-FY2021: Based on Cabinet Office "Fiscal 2021 Economic Outlook and Basic Stance for Economic and Fiscal Management" (January 18, 2021))

(Reference) Changes in the fiscal situation after World War Ⅱ



(Note 1) Total revenues and expenditures of general account: Settled Figures in FY1945-FY2019, Based on the Third Supplementary Budget in FY2020, Based on the Budget in FY2021
(Note 2) FY2019 and FY2020: Including Temporary and Special Measures
(Note 3) Government general bonds outstanding: Actual figures in FY1945-FY2019, Based on the Third Supplementary budget in FY2020, Based on the Budget in FY2021



Not Balanced Finance
(Unit: trillion yen)
Issuance of construction Bonds
Issuance of Special-Deficit-Financing Bonds and Construction Bonds
1,000
990.3
900
800
700
600
106.6
500
400
57.4
300
43.6
200
100
0
Government general bonds outstanding (RHS)
General Account Total Expenditure (LHS)
General Account Total Revenue (LHS)
Newly issued government bonds (LHS)
1985
1990
1995
2000
2005
2010
2015
2020
(FY)
Bubble Economy
Collapse of Bubble Economy
Izanami Economy
The Plaza Accord
Privatization of Nippon Telegraph and Telephone Public
Cooperation and Japan Tobacco and Salt Public Cooperation
Introduction of the basic pension system
Privatization of Japanese National Railways
Issuance of special deficit-financing bond
under special legislation(for the Gulf War)
Special deficit-financing bond issues ended
Introduction of consumption tax (3%)
Fifteen years
Reduction of the income tax (Progressive relaxation
of tax rate etc.)→Supplementary budget (FY1994)
to launch special deficit-financing bonds
The Great Hanashin-Awaji Earthquake
Issuance of special deficit-financing bond
for tax reduction (~FY1996)
Asian Financial Crisis･Domestic Financial System Instability
Establishment of Fiscal Structural Reform Law
Increase in consumption tax rate 3%→5%
Cessation of Fiscal Structural Reform Law
Reduction of corporate tax(Decrease in tax rate)
Reduction of income tax(Decrease in highest tax rate)
Introduction of care insurance system
The FY2002 target of government bond issuance
:less than 30 trillion yen
Transfer of tax sources from income tax to
inhabitant tax
Goal set to achieve the primary surplus in the early
2010's
Goal set to achieve the primary surplus in FY2011
Privatization of postal service
Financial Crisis
Introduction of advanced elderly medical service system
The Great East Japan Earthquake
Goal set to achieve the primary surplus in FY2020
→Supplementary budget to launch reconstruction bond
Issuance of special deficit-financing bond for
pension(~FY2013)
Consumption tax hike from 5% to 8%
Achievement of the interim target for the
primary surplus
Goal set to achieve the primary surplus in FY2025
Consumption tax hike from 8% to 10%
Covid-19

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