Japanese Public Finance Fact Sheet

April, 2022

Ministry of Finance

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Part 1 Public Finance in Japan

Ⅰ. Current Fiscal Situation

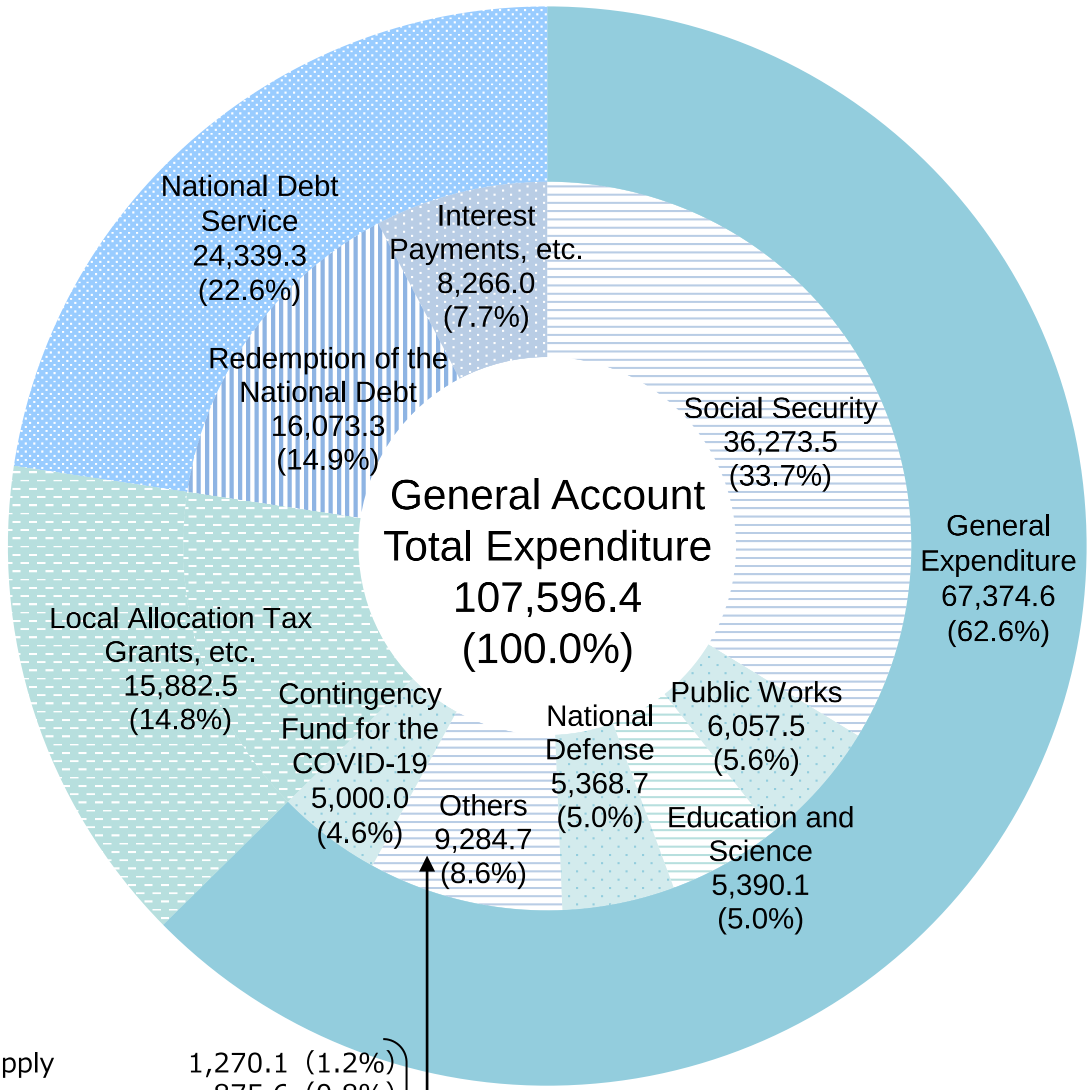
1. General Account Budget for FY2022

(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 .

FY2022 Budget

(Unit: billion yen)



Food Supply	1,270.1	(1.2%)
Energy	875.6	(0.8%)
Economic Assistance	510.5	(0.5%)
Measures for SMEs	171.3	(0.2%)
Former Military Personnel Pensions	122.1	(0.1%)
Miscellaneous	5,835.0	(5.4%)
Contingency Reserves	500.0	(0.5%)

* General Expenditure = General Account Total Expenditure – National Debt Service – Local Allocation Tax Grants, etc.

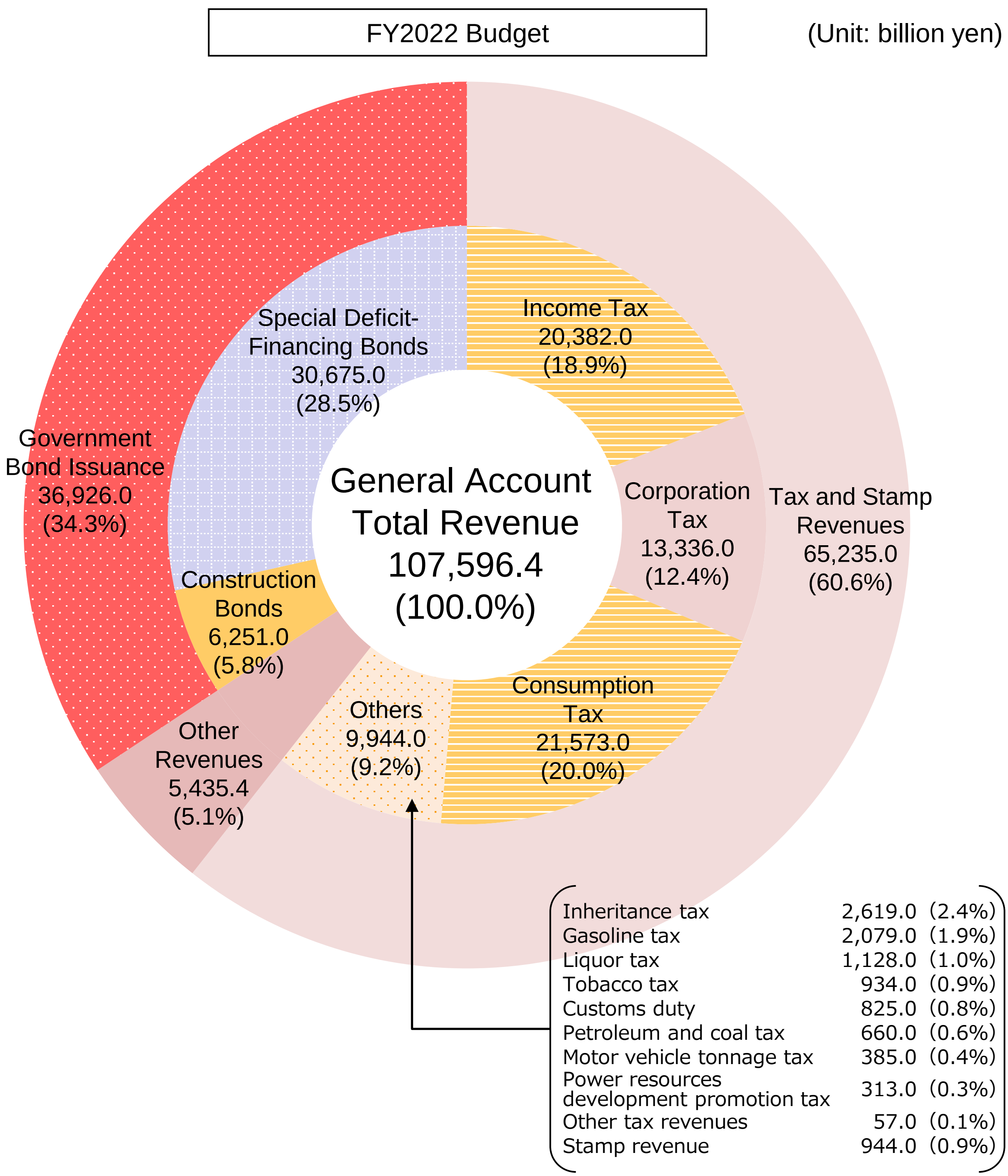
* Primary Expenses = General Account Total Expenditure – part of National Debt Service
- FY2022 Budget: 83,716.6（77.8%）

(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 53.8%.

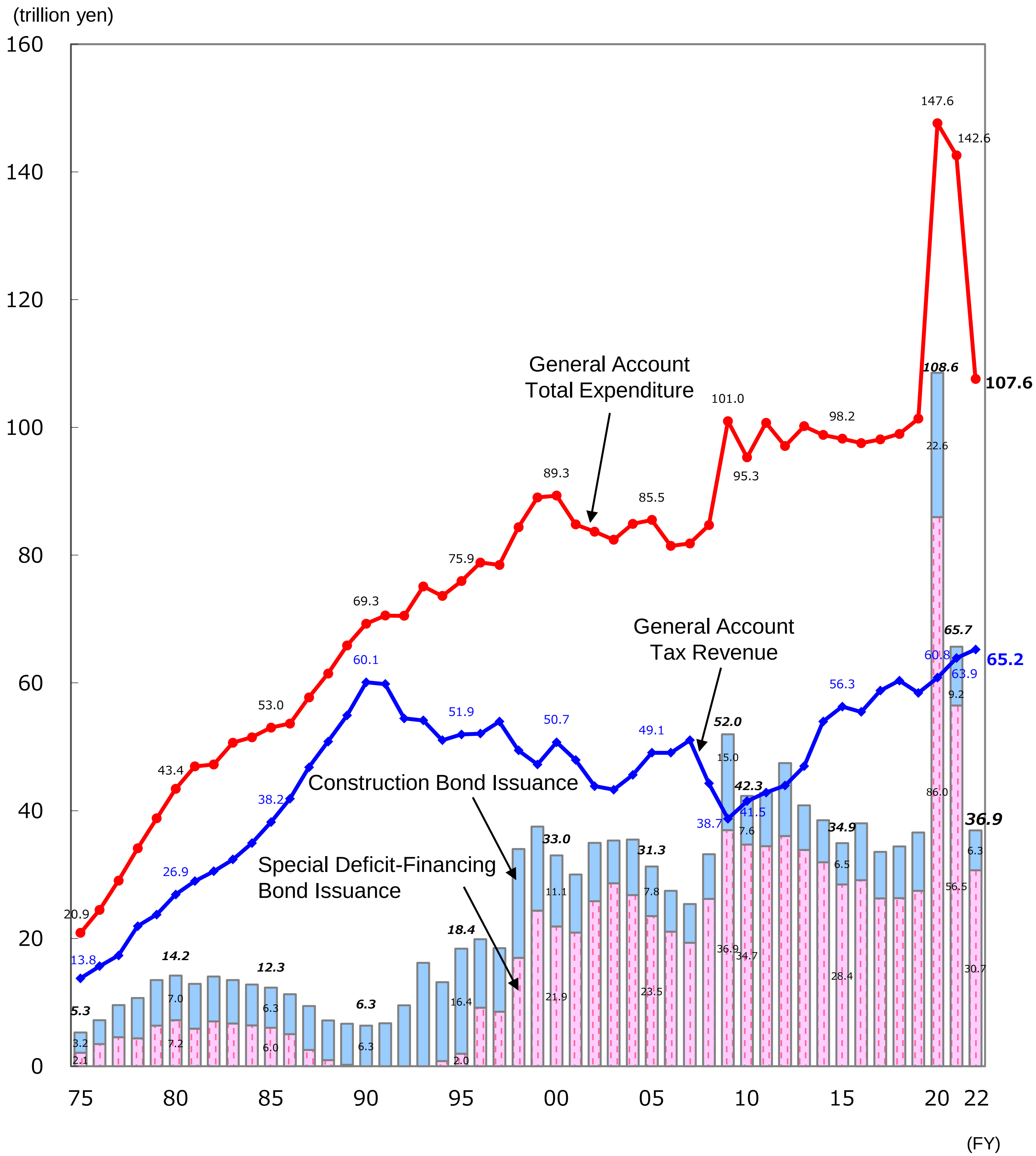
(2)Revenue

Tax revenue is estimated to be around 65 trillion yen in the FY2022 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 FY2022 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.



2. General Account Expenditure and Tax Revenue

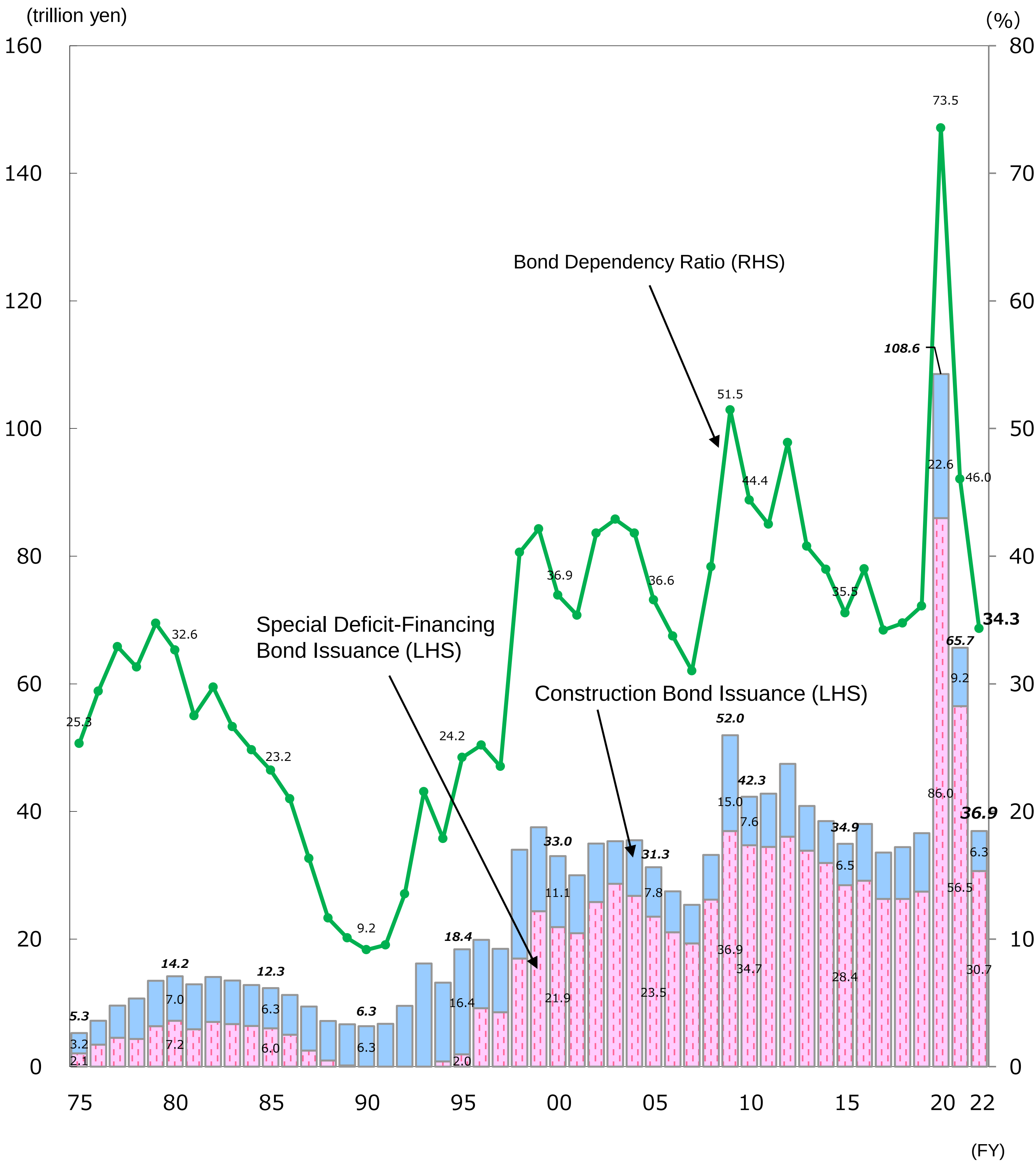
The Japan's fiscal situation has continued to run a budget deficit, as its expenditure exceeds its tax revenue. The gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).



(Note 1) FY1975 - FY2020: settled figures ; FY2021: based on the supplementary budget ; FY2022: based on the budget
(Note 2) 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

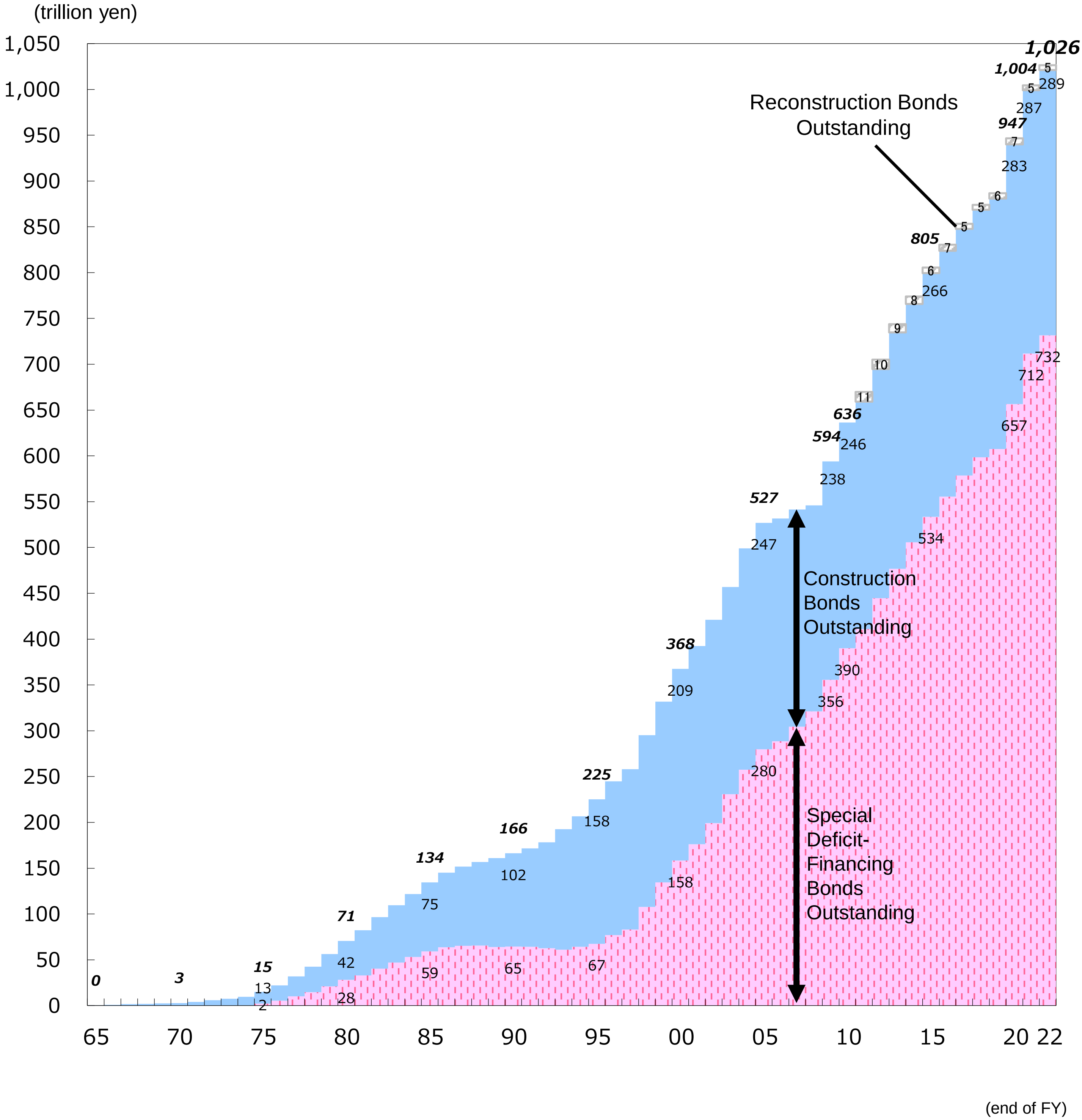
The bond dependency ratio (bond issuance / general account total expenditure) in FY2022 is projected to be 34.3%.



(Note 1) FY1975 - FY2020: settled figures ; FY2021: based on the supplementary budget ; FY2022: based on the budget
(Note 2) 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 3) 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 1,026 trillion yen at the end of FY2022.



(Note 1) FY1975 - FY2020: actual figures ; FY2021: based on the supplementary budget ; FY2022: 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 FY2022 excluding the maximum amount of front-loading issuance of refunding bonds is approximately 1,006 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 1,244 trillion yen (220% of GDP) at the end of FY2022.

(Unit: trillion yen)

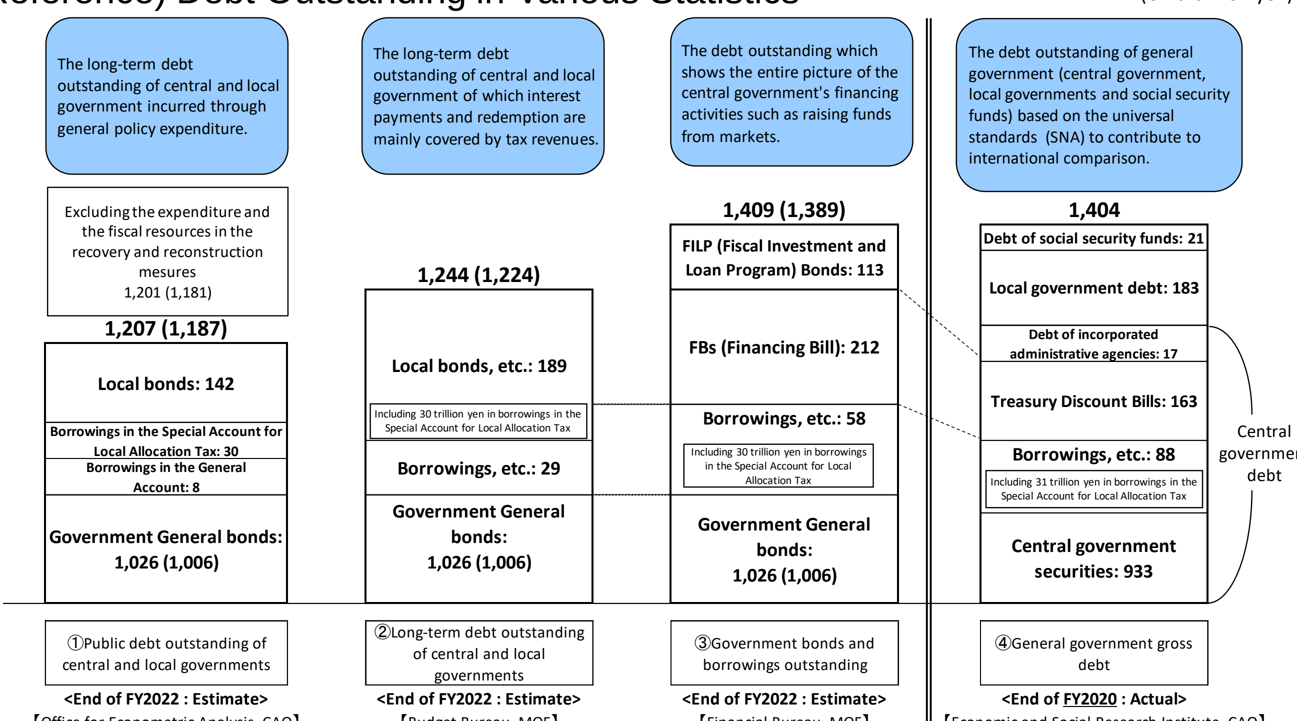
	FY1990 < Actual >	FY1998 < Actual >	FY2003 < Actual >	FY2008 < Actual >	FY2011 < Actual >	FY2012 < Actual >	FY2013 < Actual >	FY2014 < Actual >	FY2015 < Actual >	FY2016 < Actual >	FY2017 < Actual >	FY2018 < Actual >	FY2019 < Actual >	FY2020 < Actual >	FY2021 < Estimated >	FY2022 < Budget >
Central Government	199	390	493	573	694	731	770	800	834	859	881	901	914	973	1,030	1,055
	(197)	(387)	(484)	(568)	(685)	(720)	(747)	(772)	(792)	(815)	(832)	(850)	(870)	(964)	(1,010)	(1,035)
Government General Bonds Outstanding	166	295	457	546	670	705	744	774	805	831	853	874	887	947	1,004	1,026
	(165)	(293)	(448)	(541)	(660)	(694)	(721)	(746)	(764)	(786)	(805)	(823)	(843)	(937)	(984)	(1,006)
% of GDP	37%	55%	87%	106%	134%	141%	145%	148%	149%	152%	154%	157%	159%	177%	184%	182%
	(37%)	(55%)	(85%)	(105%)	(132%)	(139%)	(141%)	(142%)	(141%)	(144%)	(145%)	(148%)	(151%)	(175%)	(181%)	(178%)
Local Governments	67	163	198	197	200	201	201	201	199	197	196	194	192	192	193	189
% of GDP	15%	30%	38%	38%	40%	40%	39%	38%	37%	36%	35%	35%	34%	36%	35%	34%
Total	266	553	692	770	895	932	972	1,001	1,033	1,056	1,077	1,095	1,106	1,165	1,223	1,244
	(264)	(550)	(683)	(765)	(885)	(921)	(949)	(972)	(991)	(1,012)	(1,028)	(1,044)	(1,062)	(1,156)	(1,203)	(1,224)
% of GDP	59%	103%	131%	149%	179%	187%	190%	191%	191%	194%	194%	197%	198%	218%	224%	220%
	(59%)	(103%)	(130%)	(148%)	(177%)	(184%)	(185%)	(186%)	(183%)	(186%)	(185%)	(188%)	(191%)	(216%)	(221%)	(217%)

(end of FY)

(Note 1) GDP for FY1990 - FY2020: actual figures, FY2021 and FY2022: FY2022 Economic Outlook (Cabinet Office)
(Note 2) Central government debt in FY1990 – FY2020: actual figures, FY2021: based on the supplementary budget, FY2022: based on the budget.
Local governments debt in FY1990 - FY2020: actual figures, FY2021and FY2022: 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) FY1990 – FY2020: Figures in parentheses do not include the amount of front-loading issuance of refunding bonds.
FY2021 - FY2022: Figures in parentheses do not include the maximum amount of front-loading issuance of refunding bonds.
(Note 5) The borrowings in the special account for local allocation and local transfer tax are divided into each figure of the central government and local governments in accordance with their shares of redemption. The amount of the borrowing outstanding incurred by the central government was transferred to the general account at the beginning of FY2007, so that the borrowing outstanding in the special account since the end of FY2007 is equal to the debt of the local governments (approx. 30 trillion yen at the end of FY2022).
(Note 6) In addition to the above, Government bond outstanding in the special account for fiscal investment and loan program at the end of FY2022 is approximately 113 trillion yen.

(Reference) Debt Outstanding in Various Statistics

(Unit: trillion yen)



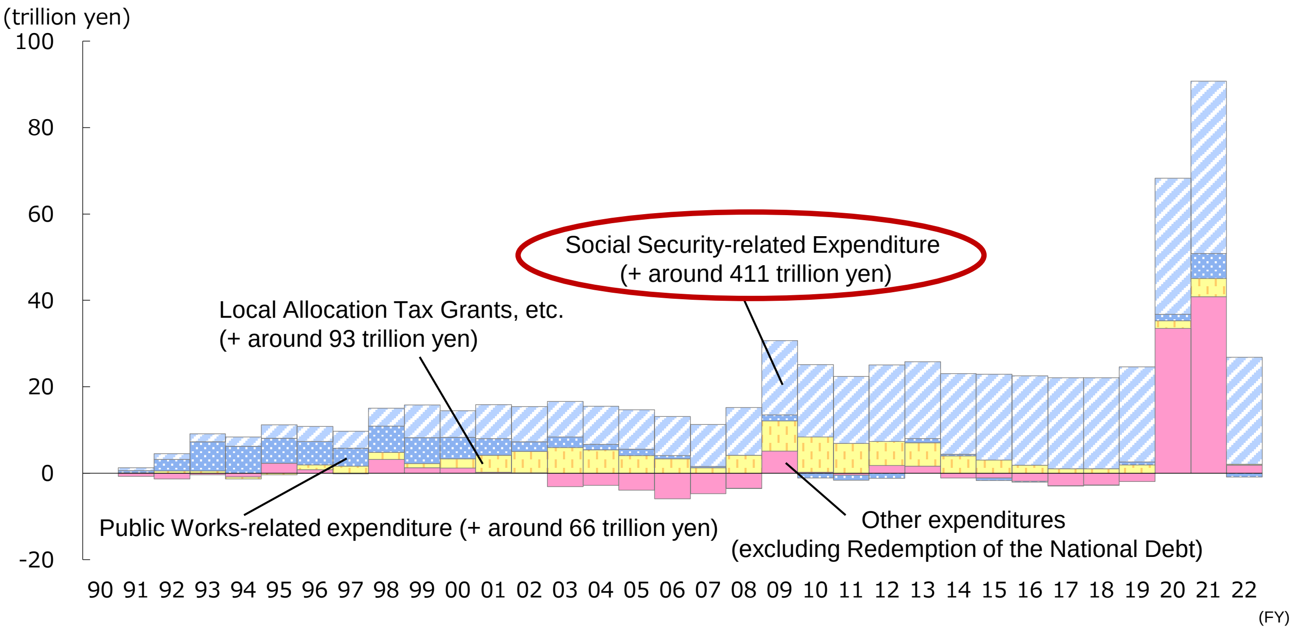
(Note 1) “Special Account for Local Allocation Tax” refers to “Special Account for Local Allocation Tax and Local Transfer Tax”.
(Note 2) The figures in parentheses do not include the maximum amount of front-loading issuance of refunding bonds (20 trillion yen).
(Note 3) Government general bonds at the end of FY2022 includes Reconstruction Bonds (approx. 5.4 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) (16 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. 30 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) Central government securities and local government bonds included in 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 FY2022 and the local government debt plan etc.

6. Factors for an Increase in Government General Bonds Outstanding

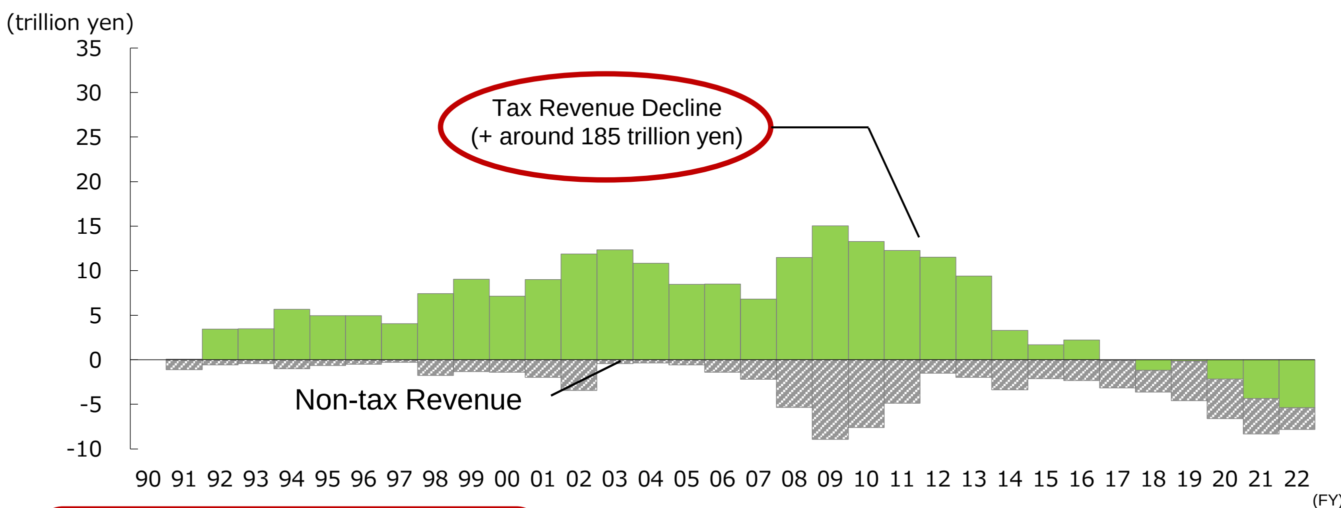
The main causes behind an increase in government general bonds outstanding after FY1990, in which Japan was able to get out of the issuance of special deficit-financing bonds, are followings;
- expenditure side; increase in social security-related expenditures and local allocation tax grants, etc.
-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

Increase in Government General Bonds Outstanding from FY1990 to FY2022: around 855 trillion yen

Expenditure increase causes: + around 624 trillion yen



Revenue decline causes: + around 107 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 91 trillion yen
(Approx. 2.8 trillion yen (FY1990 balance gap) x 32 years (FY1991-FY2022))

Other factors (long-term debt transferred from Japan National Railway, etc.): + around 33 trillion yen

(Note 1) FY1990 - FY2020: settled figures ; FY2021: based on the supplementary budget ; FY2022: based on the budget
The amount of expenditure for FY2021 includes the carry-over from FY2020 to FY2021.

(Note 2) Reconstruction Bonds (5.4 trillion yen at the end of FY2022) and expenditures in FY2011 financed by the issuance of Reconstruction Bonds (7.6 trillion yen) are excluded from government general bonds outstanding above.

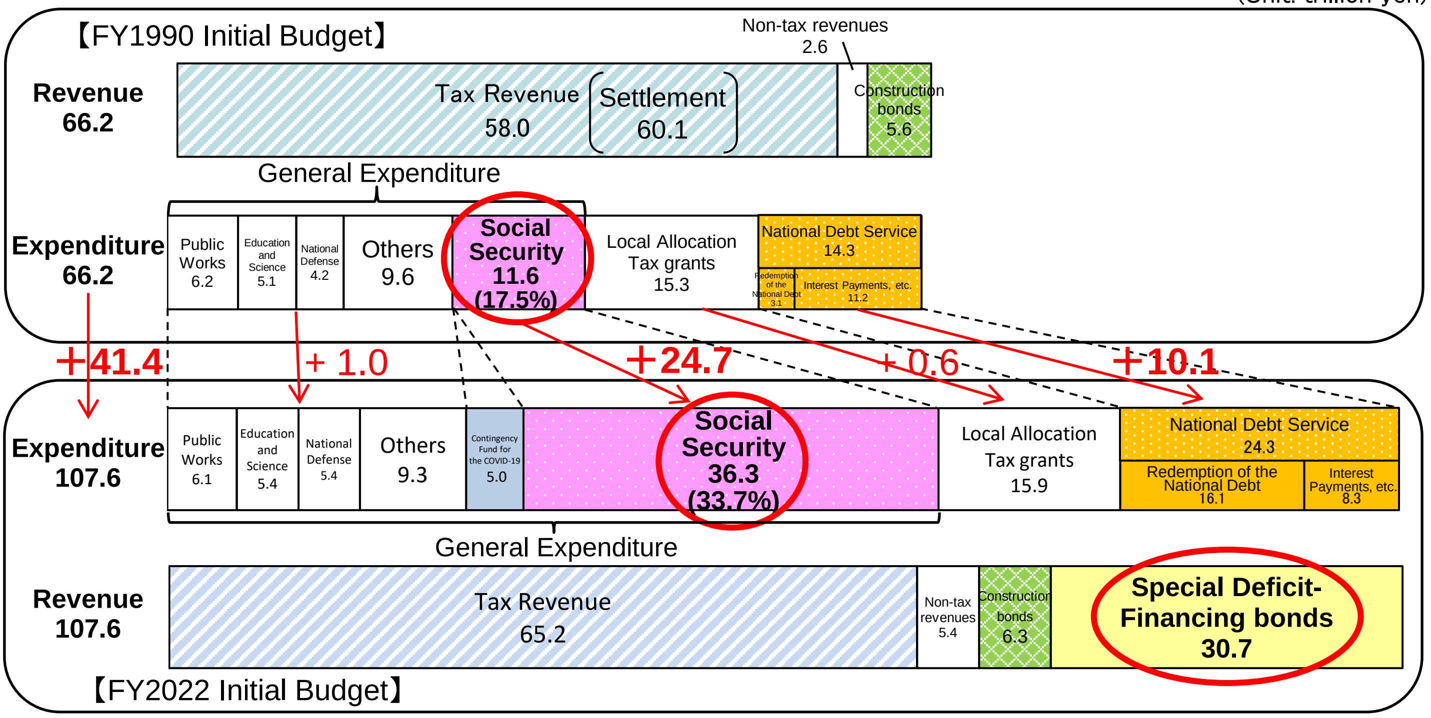
(Note 3) As for the Local Allocation Tax Grants, tax revenues based on the legal rates are excluded from both sides of expenditure and revenue, and the others (to cover expenditure-revenue gap in the local governments, etc.) are counted as an expenditure increase.

(Note 4) The FY1990 balance gap is the difference between expenditures, excluding national debt redemption costs, and revenues other than government bond issuance.

7. Comparison of General Account Revenue and Expenditure between FY1990 and FY2022

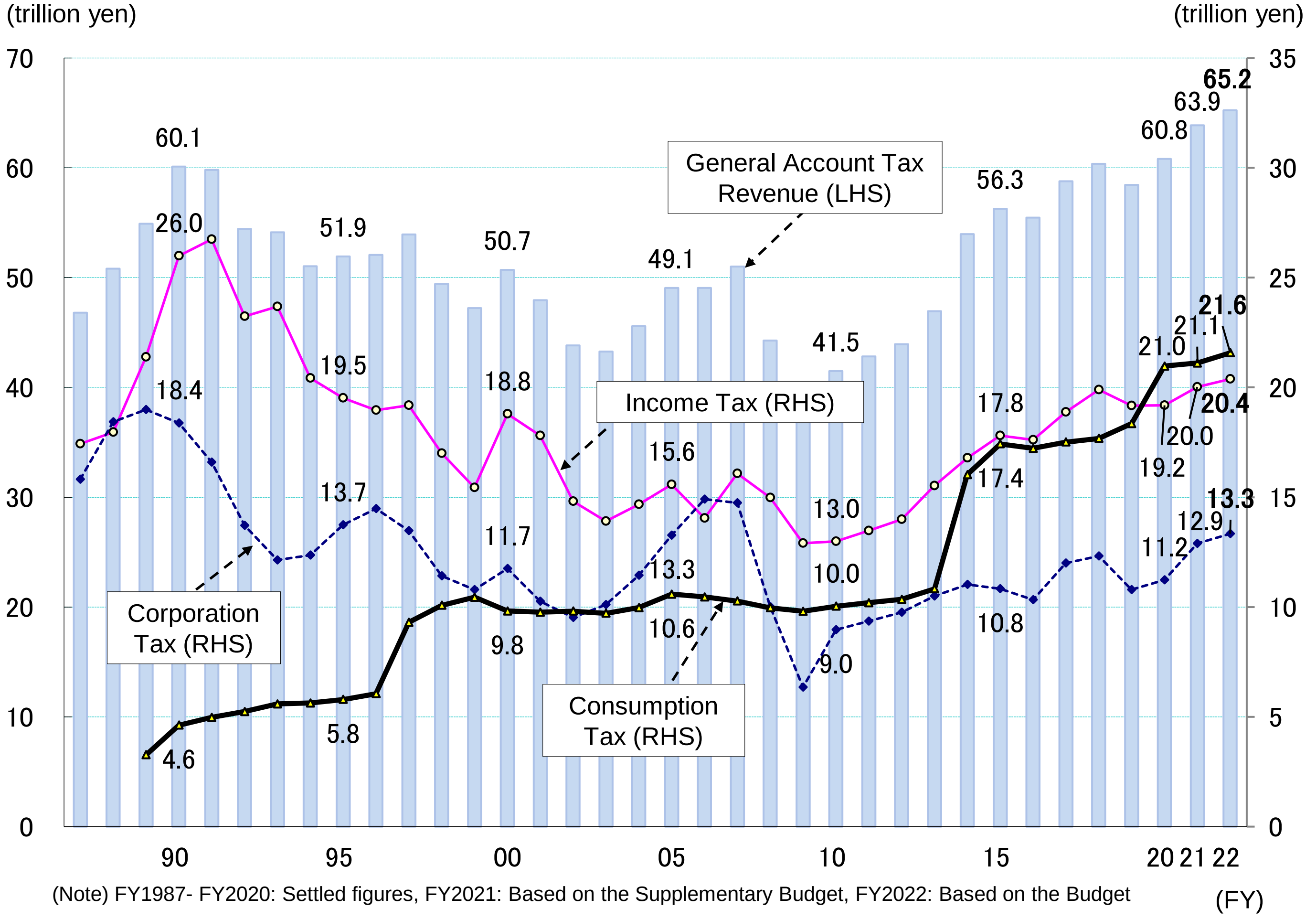
Compared to the FY1990 budget, when the issuance of special deficit-financing bond temporarily ended, social security-related expenses have significantly increased and they are covered by special deficit-financing bonds in the FY2022.

(Unit: trillion yen)



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

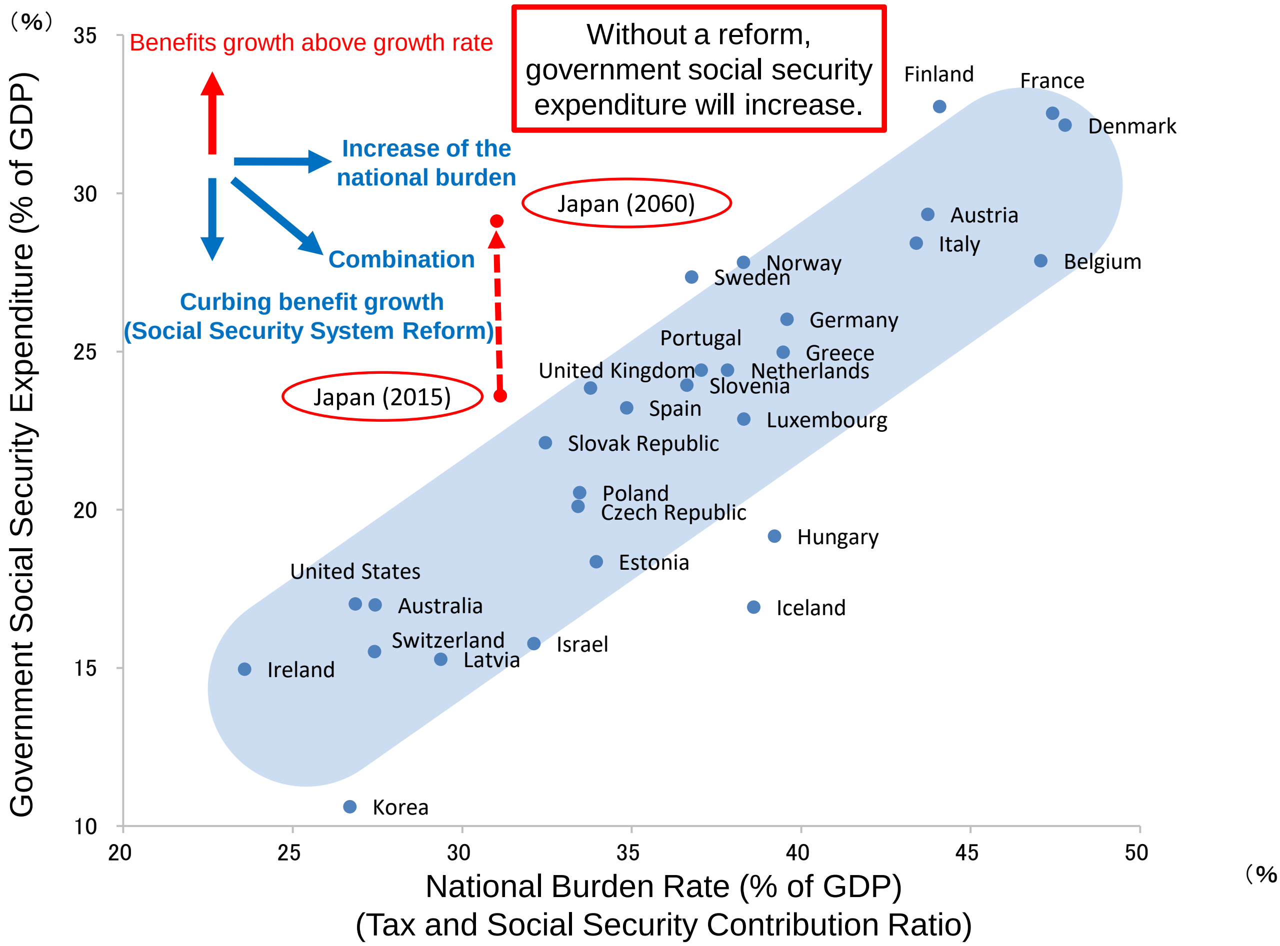
(Reference) Trend of General Account Tax Revenue



(Note) FY1987- FY2020: Settled figures, FY2021: Based on the Supplementary Budget, FY2022: Based on the Budget

8. Relationship between Social Security Expenditure 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 represent the general-government-based data (central/local governments and the social security funds combined).

(Note 2) Japan: Actual figures of FY2015, Iceland 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 the distance between each coordinate and its regression line for Japan and other countries.

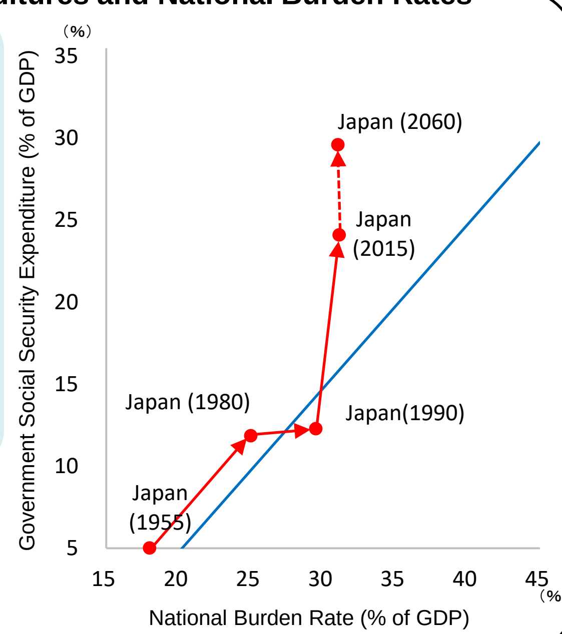
(Reference) Transition of Japan's Social Security Expenditures and National Burden Rates

- 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 deficit-financing bond 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.

(Source) Cabinet Office "National Accounts" ; The FY1955 figure of the social security expenditure: National Institute of Population and Social Security Research "The Financial Statistics of Social Security".

(Note 1) The word "primary balance" here is simply defined as [the national burden ratio - (social security expenditure + non-social security expenditure (excluding interest payments))] (All figures are % of GDP), which is different from the SNA-based primary balance.

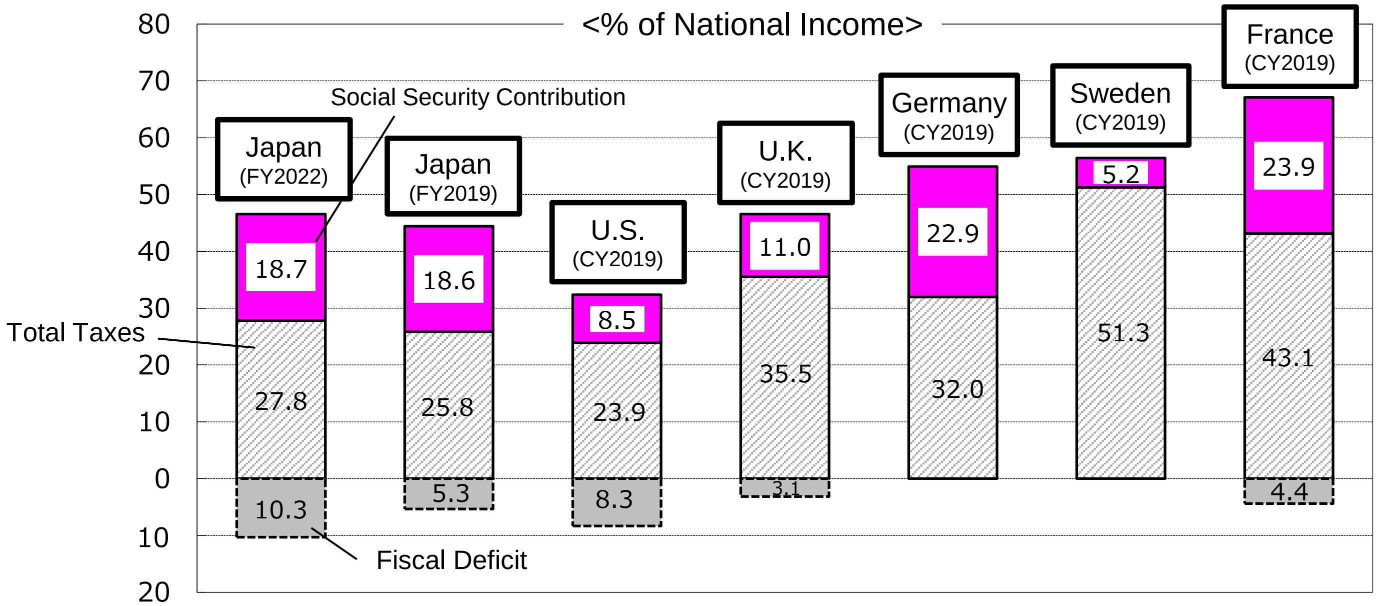
(Note 2) Non-social security expenditure was about 15.8% of GDP in FY1990 and have remained at almost the same level (15% level) since then.



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.

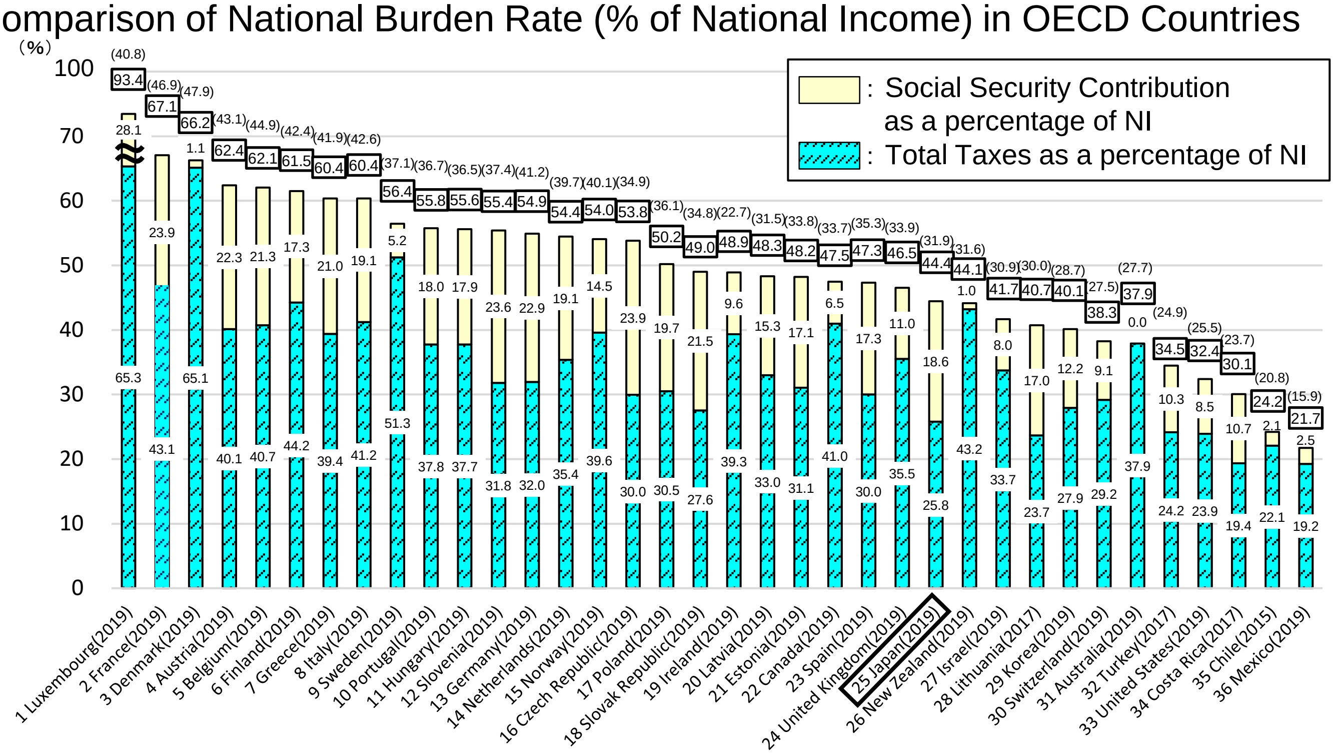
[National Burden Rate = Total Taxes as a percentage of National Income (NI) + Social Security Contribution as a percentage of NI]
[Potential National Burden Rate = National Burden Rate + Fiscal Deficit as a percentage of NI]



National Burden Rate	46.5 (33.3)	44.4 (31.9)	32.4 (25.5)	46.5 (33.9)	54.9 (41.2)	56.4 (37.1)	67.1 (46.9)
Potential National Burden Rate	56.9 (40.7)	49.8 (35.8)	40.7 (32.0)	49.7 (36.1)	54.9 (41.2)	56.4 (37.1)	71.5 (49.9)

(Note 1) The figures represent the percentage of National Income. (The figures in parentheses represent the percentage of GDP.)
(Note 2) Japan: projected figures of FY2022; actual figures of FY2019. Other countries: actual figures of CY2019
(Note 3) Fiscal balance is the general-government-based data (central/local governments and the social security funds), except for Japan and the U.S., where the figures of the social security funds are excluded.
(Source) Cabinet Office "National Accounts", etc. OECD "National Accounts", "Revenue Statistics" and "Economic Outlook 110" (December 2021)

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

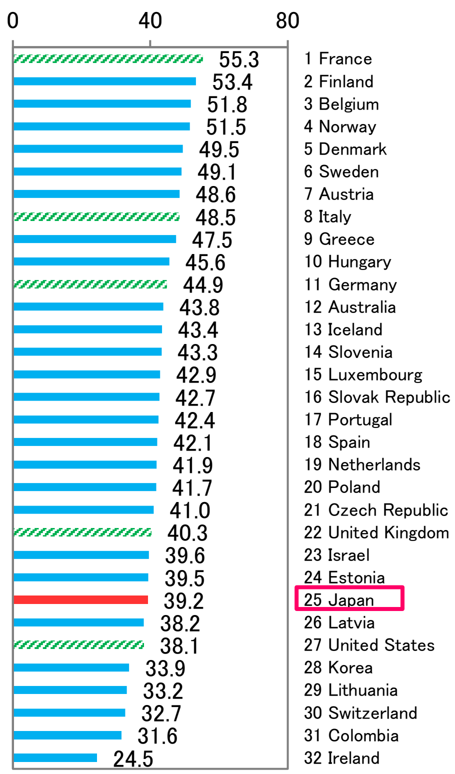


(Sources) Japan: Cabinet Office "National Accounts",etc. Other Countries: OECD "National Accounts" and "Revenue Statistics".
(Note 1) 36 countries out of 38 OECD countries: Actual figures, Colombia and Iceland: no data
(Note 2) The figures in parentheses represent National Burden Ratio as % of GDP.
(Note 3) Japan: fiscal year, other countries: calendar year

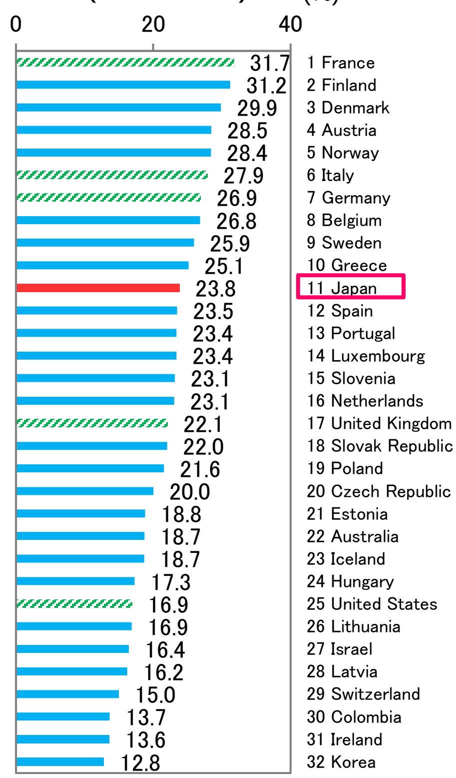
10. Revenues and Expenditures in OECD Countries

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

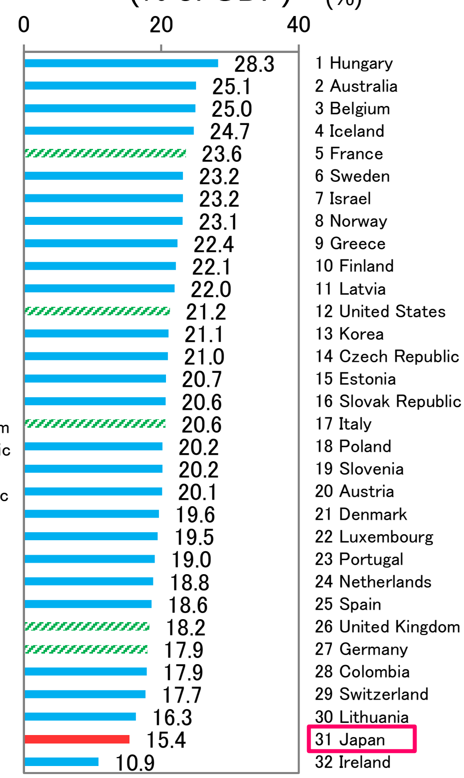
Total Expenditure (% of GDP)



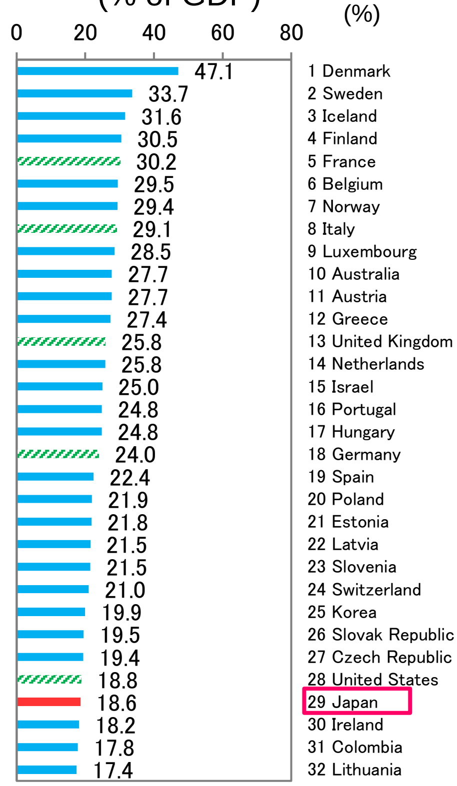
Social Security Expenditure (% of GDP)

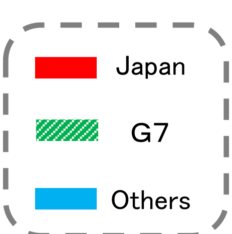


Non-Social Security Expenditure (% of GDP)

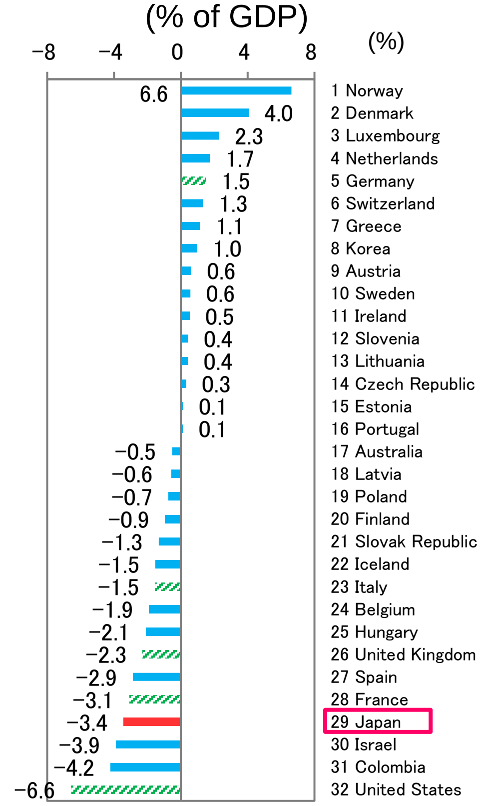


Tax Revenue (% of GDP)





Fiscal Balance (% of GDP)

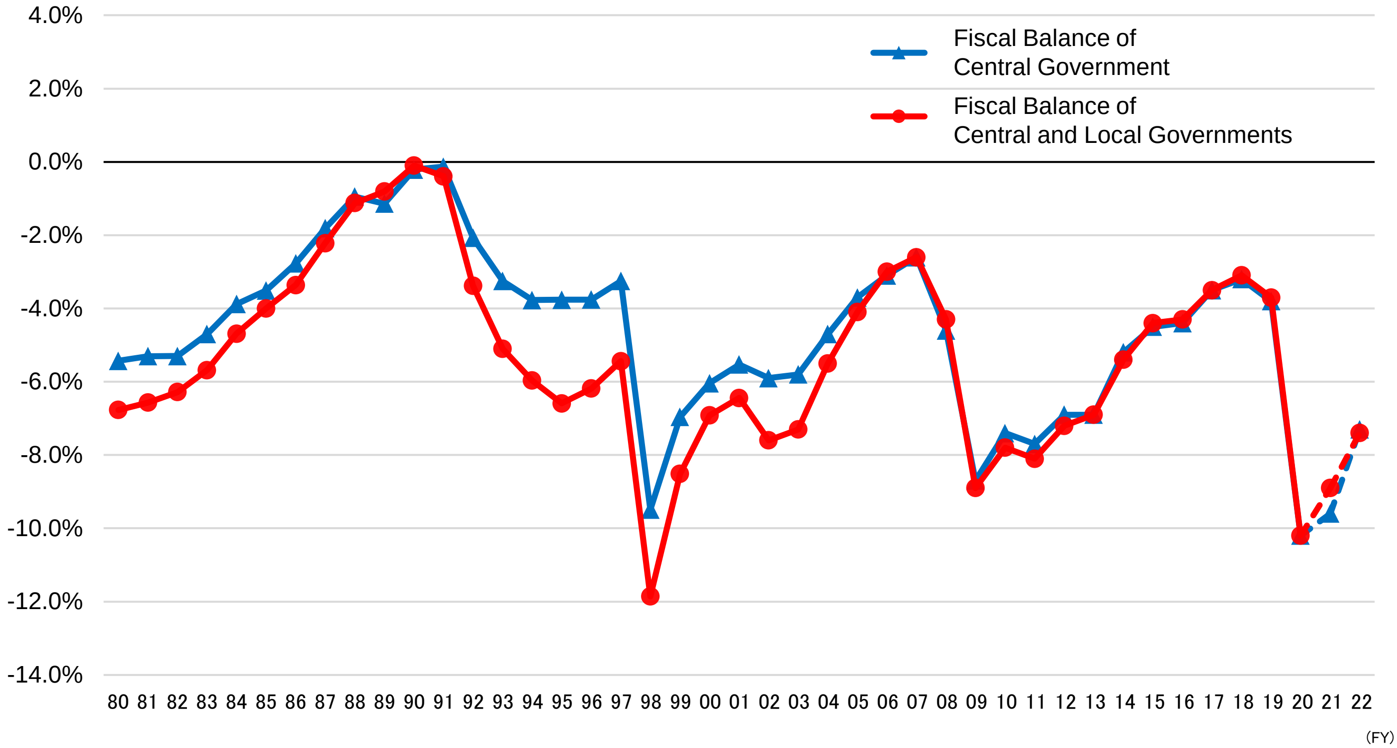


(Source) OECD "National accounts", "Revenue Statistics" and "Economic Outlook 110"(December 2021), Cabinet Office "National Accounts", etc.
(Note 1) Japan: actual figures of FY2019, Lithuania: actual figures of CY2017, Other countries: actual figures of CY2019.
(Note 2) The figures represent the general-government-based data (central/local governments and social security funds), except for "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)

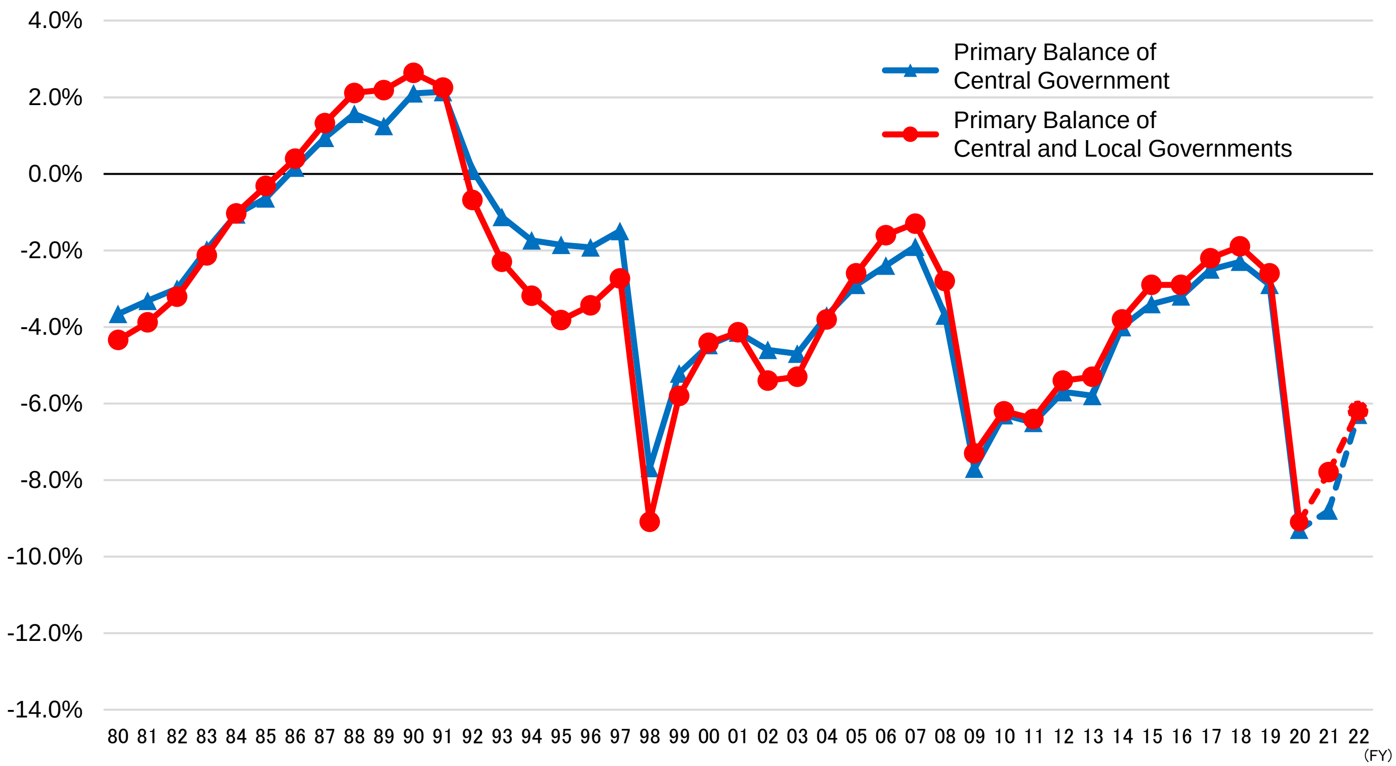
Japan's fiscal and primary balance remain in deficit.

■ Fiscal Balance (% of GDP)



(Note 1) Figures for FY1980 to FY1993 are based on 93SNA; Figures for FY1994 to FY2022 are 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 FY2022 are 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 one-off factors).

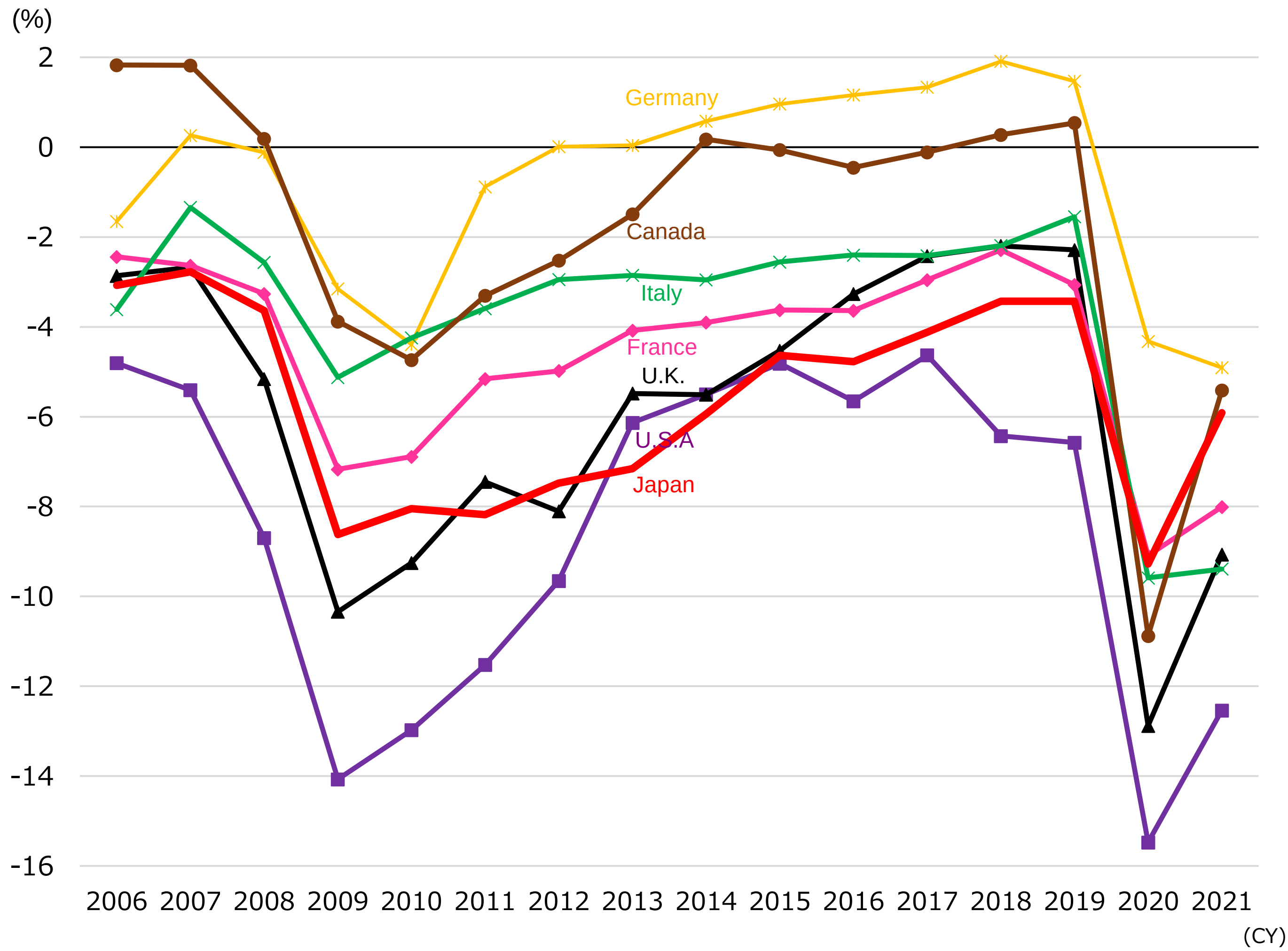
■ Primary Balance (% of GDP)



(Note 1) Figures for FY1980 to FY1993 are based on 93SNA; Figures for FY1994 to FY2022 are calculated based on 08SNA.
(Note 2) Figures for FY1980 to FY2001 are based on SNA. Figures for FY2002 to FY2022 are 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 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 was greater than that in 2009 due to the responses to the COVID-19.



CY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Japan	- 3.1	- 2.8	- 3.6	- 8.6	- 8.0	- 8.2	- 7.5	- 7.2	- 5.9	- 4.6	- 4.8	- 4.1	- 3.4	- 3.4	- 9.3	- 5.9
U.S.A.	- 4.8	- 5.4	- 8.7	- 14.1	- 13.0	- 11.5	- 9.7	- 6.1	- 5.5	- 4.8	- 5.7	- 4.6	- 6.4	- 6.6	- 15.5	- 12.5
U.K.	- 2.9	- 2.7	- 5.2	- 10.3	- 9.3	- 7.5	- 8.1	- 5.5	- 5.5	- 4.5	- 3.3	- 2.4	- 2.2	- 2.3	- 12.9	- 9.1
Germany	- 1.7	0.3	- 0.1	- 3.2	- 4.4	- 0.9	0.0	0.0	0.6	1.0	1.2	1.3	1.9	1.5	- 4.3	- 4.9
France	- 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	- 3.1	- 9.1	- 8.0
Italy	- 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	- 1.5	- 9.6	- 9.4
Canada	1.8	1.8	0.2	- 3.9	- 4.7	- 3.3	- 2.5	- 1.5	0.2	- 0.1	- 0.5	- 0.1	0.3	0.5	- 10.9	- 5.4

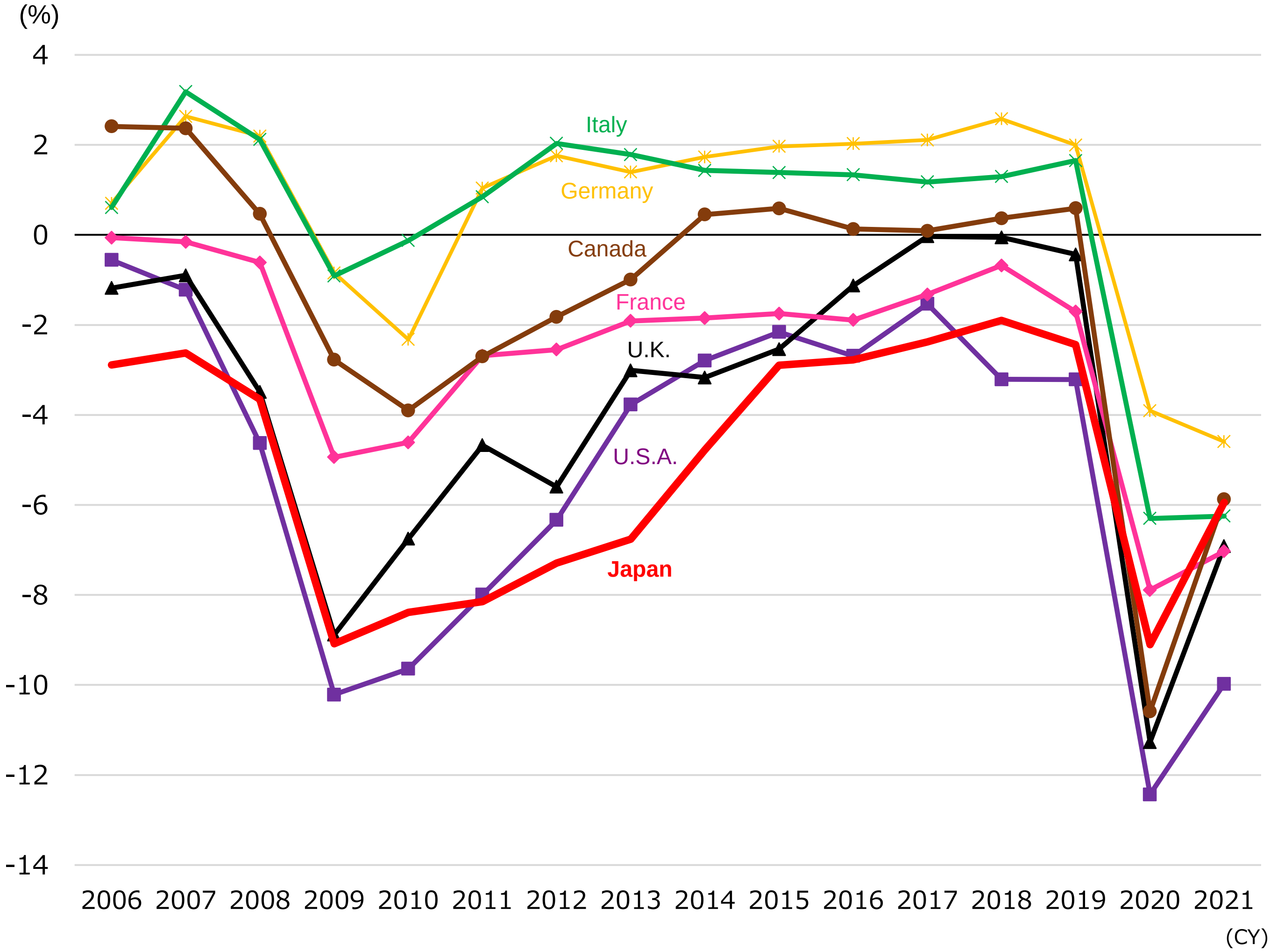
(Source) OECD “Economic Outlook 110” (December 1, 2021)

(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.A., where the figures of the social security funds are excluded.

(Note 2) The 2020-2021 figures for Japan and the 2021 figures for other countries are estimated figures. The fiscal balances for 2022 are estimated as follows; Japan: -6.6%, U.S.A.: -7.1%, U.K.: -5.4%, Germany: -2.3%, France: -4.9%, Italy: -5.9%, and Canada: -1.6%. However, it should be noted that the Japan’s figure does not reflect the fiscal deficit arising from the supplementary budget for FY2021 and the budget for FY2022.

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	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Japan	- 2.9	- 2.6	- 3.7	- 9.1	- 8.4	- 8.1	- 7.3	- 6.8	- 4.8	- 2.9	- 2.8	- 2.4	- 1.9	- 2.4	- 9.1	- 5.9
U.S.A.	- 0.6	- 1.2	- 4.6	- 10.2	- 9.6	- 8.0	- 6.3	- 3.8	- 2.8	- 2.2	- 2.7	- 1.5	- 3.2	- 3.2	- 12.4	- 10.0
U.K.	- 1.2	- 0.9	- 3.5	- 8.9	- 6.8	- 4.7	- 5.6	- 3.0	- 3.2	- 2.5	- 1.1	- 0.0	- 0.1	- 0.4	- 11.3	- 6.9
Germany	0.7	2.6	2.2	- 0.8	- 2.3	1.0	1.8	1.4	1.7	2.0	2.0	2.1	2.6	2.0	- 3.9	- 4.6
France	- 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	- 1.7	- 7.9	- 7.0
Italy	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	1.7	- 6.3	- 6.2
Canada	2.4	2.4	0.5	- 2.8	- 3.9	- 2.7	- 1.8	- 1.0	0.5	0.6	0.1	0.1	0.4	0.6	- 10.6	- 5.9

(Source) OECD "Economic Outlook 110" (December 1, 2021)
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2020-2021 figures for Japan and the 2021 figures for other countries are estimated figures. The primary balances for 2022 are estimated as follows; Japan: -6.5%, U.S.A.: -4.8%, U.K.: -3.2%, Germany: -2.2%, France: -4.1%, Italy: -3.1%, and Canada: -1.9%. However, it should be noted that the Japan's figure does not reflect the primary balance deficit arising from the supplementary budget for FY2021 and the budget for FY2022.

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

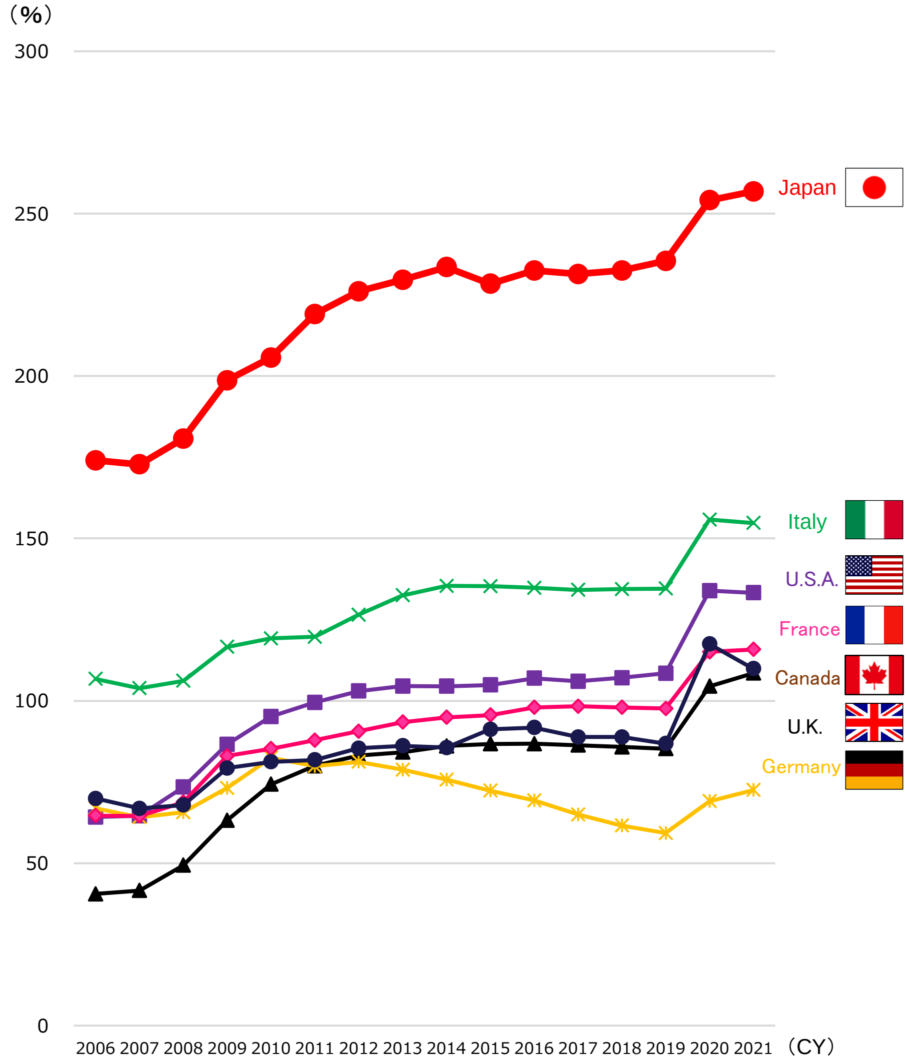
Japan's general government gross debt-to-GDP ratio stands at the highest level not only among major advanced countries but also among all countries.

＜World Ranking (out of 187 countries/regions)＞

1	Macau	0.0%
2	Hong Kong	0.3%
⋮		
72	Korea	42.1%
⋮		
112	China	57.1%
⋮		
118	Germany	59.2%
⋮		
159	U.K.	85.2%
⋮		
162	Canada	86.8%
⋮		
171	France	97.6%
⋮		
176	U.S.A.	108.5%
⋮		
183	Italy	134.6%
184	Lebanon	171.1%
185	Greece	184.9%
186	Sudan	200.3%
187	Japan	235.4%

* Actual figures in 2019

＜Comparison with Major Advanced Countries＞



CY	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Japan	174.0	172.8	180.7	198.7	205.7	219.1	226.1	229.6	233.5	228.4	232.5	231.4	232.5	235.4	254.1	256.9
U.S.A.	64.2	64.6	73.4	86.6	95.1	99.5	103.0	104.5	104.5	104.9	106.9	106.0	107.1	108.5	133.9	133.3
U.K.	40.5	41.5	49.3	63.2	74.3	80.0	83.2	84.2	86.1	86.7	86.8	86.3	85.8	85.2	104.5	108.5
Germany	66.9	64.2	65.7	73.2	82.5	79.9	81.2	78.8	75.7	72.3	69.3	65.0	61.6	59.2	69.1	72.5
France	64.6	64.5	68.8	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.3	98.0	97.6	115.1	115.8
Italy	106.7	103.9	106.2	116.6	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.1	134.4	134.6	155.8	154.8
Canada	69.9	66.9	67.9	79.3	81.2	81.8	85.4	86.1	85.6	91.2	91.7	88.8	88.8	86.8	117.5	109.9

(Source) IMF "World Economic Outlook" (October 2021).
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2020-2021 figures for Japan and the 2021 figures for other countries are estimated figures. The gross debts for 2022 are estimated as follows; Japan: 252.3%, U.S.: 130.7%, U.K.: 107.1%, Germany: 69.8%, France: 113.5%, Italy: 150.4%, and Canada: 103.9%. 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 supplementary budget for FY2021 and the budget for FY2022.

(Column 1) How to View the Assets in Japan

It should be noted that many of the assets the government owns are not marketable, or, if so, their price can sharply drop in the case of fiscal crisis. Therefore, the financial situation should be assessed first by gross debt.
In addition, the assets earmarked with the liabilities (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.

(Reference1) Views of IMF and OECD to 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)

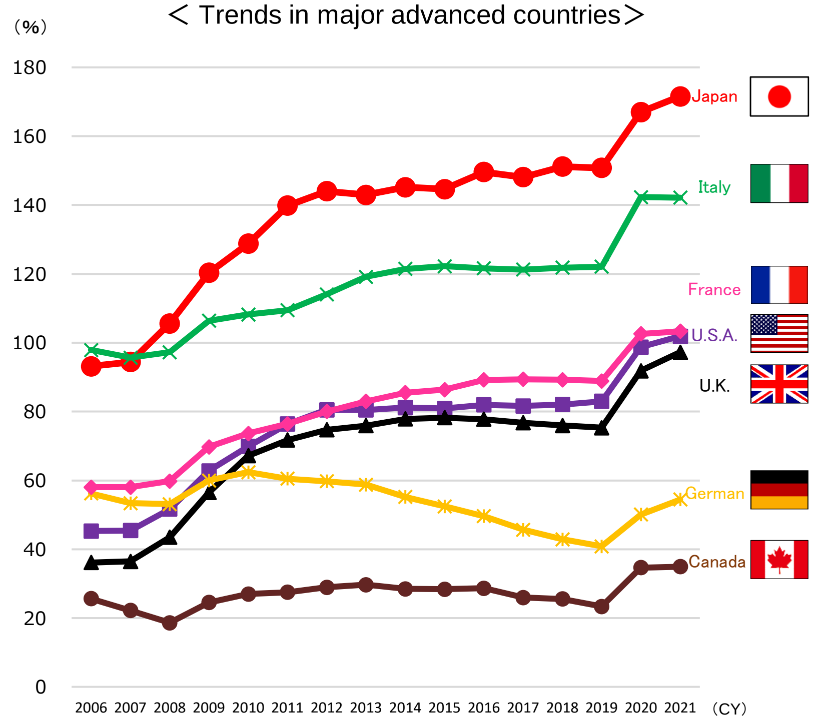
Even in terms of net debt, which means government’s gross debt less government-owned financial assets (such as pension reserve consisting of insurance contribution), net debt-to-GDP ratio stands at the highest level compared to other countries.

＜ Ranking in 88 countries ＞

1	Norway	-101.9%
2	Kazakhstan	-13.9%
3	Luxembourg	-8.4%
	⋮	
15	Korea	11.7%
	⋮	
22	Canada	23.4%
	⋮	
44	Germany	40.8%
	⋮	
74	U.K.	75.3%
	⋮	
79	U.S.A.	83.0%
	⋮	
81	France	88.9%
	⋮	
85	Italy	122.1%
86	Barbados	123.6%
87	Japan	150.8%
88	Lebanon	165.9%

* Settled figures in 2019

＜ Trends in major advanced countries＞



(Source) IMF "World Economic Outlook" (October 2021).
(Note 1) The figures represent the general government-based data (the central/local governments and social security funds combined).
(Note 2) The 2020-2021 figures for Japan and the 2021 figures for other countries are estimated figures. The general government net debts for 2022 are estimated as follows; Japan: 169.2%, U.S.: 100.8%, U.K.: 95.2%, Germany: 52.9%, France: 100.9%, Italy: 138.5%, and Canada: 32.5%. 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 supplementary budget for FY2021 and the budget for FY2022.
(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 secured, the imbalance between benefits and burdens continues, which undermines the sustainability of the scheme.
- ✓ Under a loose fiscal discipline that relies on the debt issuance, confirming whether the spending would contribute to the medium-to-long-term economic growth and benefits of the future generations tend to be loose.

Undesirable Redistribution

- ✓ Among future generations, while those who hold JGBs can receive the interest payments and the redemption of bonds, the others will 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

- ✓ The room for flexible fiscal responses will be limited 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 too optimistic

- ✓ In many cases in the past, interest rates were higher than the nominal growth rates. 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

- ✓ Even if interest rate is lower than nominal growth rate, the debt-to-GDP ratio is unlikely to decline if the additional debt incurred by the primary balance deficit in each year is large.

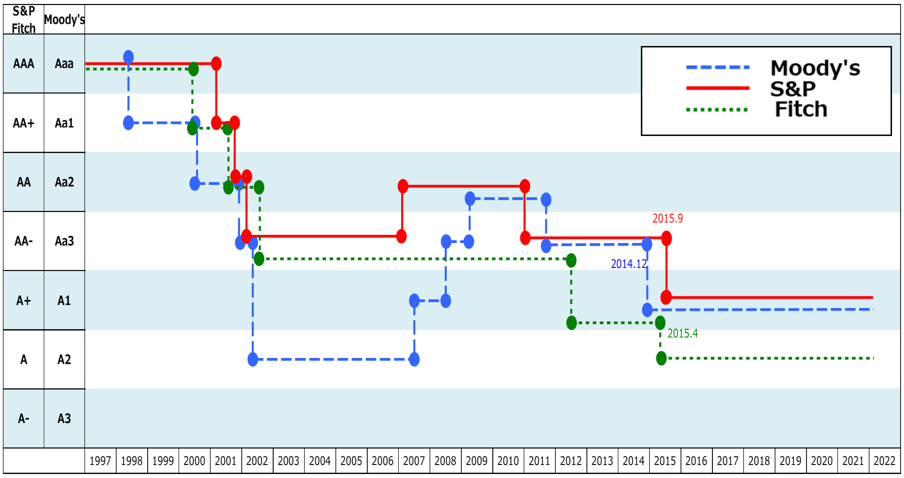
Confidence in Japan's public finance is a prerequisite for taking advantage of low interest rates

- ✓ Confidence in government bonds and the market's stable absorption of the government bonds are the results of efforts of fiscal consolidation. It puts the cart before the horse to argue that "efforts of fiscal consolidation is unnecessary because there is confidence in government bonds".
- ✓ 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



Ratings of Major Advanced Countries

(As of March 9, 2022)

	Moody's	S&P	Fitch
Aaa/ AAA	U.S.A.		U.S.A.
	Germany	Germany	Germany
Aa1/ AA+		U.S.A.	
Aa2/ AA	France	France	France
		U.K.	
Aa3/ AA-	U.K.		U.K.
A1/ A+	Japan	Japan	
A2/ A			Japan
A3/ A-			

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 1975s (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 (after revision: FY2005).
Jun. 25 2002	Basic Policy for Economic and Fiscal Management and Structural Reform 2002 (Cabinet Decision)	Primary Surplus of the Central and Local Govern-ments	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.

Fiscal Consolidation Target in the "Basic Policy on Economic and Fiscal Management and Reform 2021"

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).
If it is balanced, 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, as the tax revenues are used for redemption.

＜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. If it is balanced, the redemption of the existing debt as well as the interest payments are financed by newly issued debt and the debt outstanding increased by the amount of 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 increase in debt outstanding as a numerator is within the range of the increase in GDP as a denominator, and the relationship between the level of primary balance, interest rate and growth rate are the key factors , which is explained in the next page.

Figure A: Current Situation

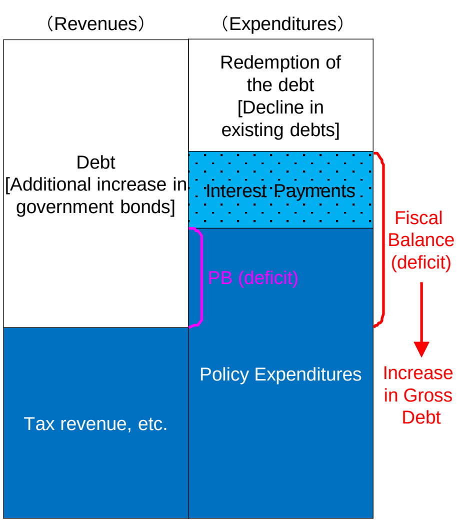


Figure B: Primary balance is balanced

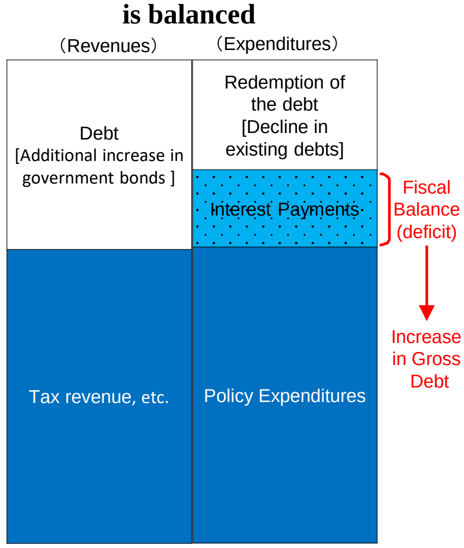
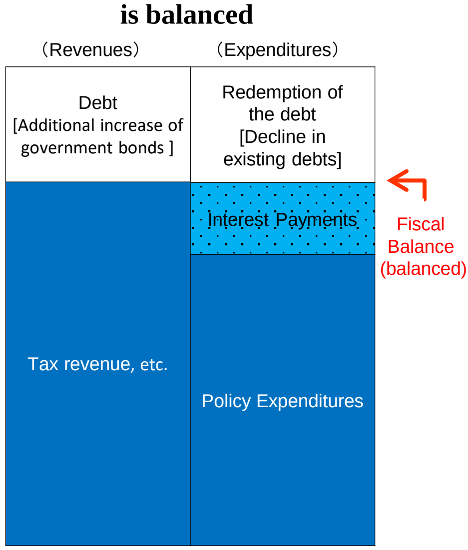


Figure C: Fiscal balance is balanced



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 **<u>Nominal interest rates (r) = Nominal growth rates (g)</u>** and **<u>Primary deficit = 0</u>** are satisfied, the debt-to-GDP ratio remains stable.

  ⇨ **<u>Primary surplus is needed</u>** to steadily reduce the debt-to-GDP ratio

Debt-to-GDP ratio
(current fiscal year)

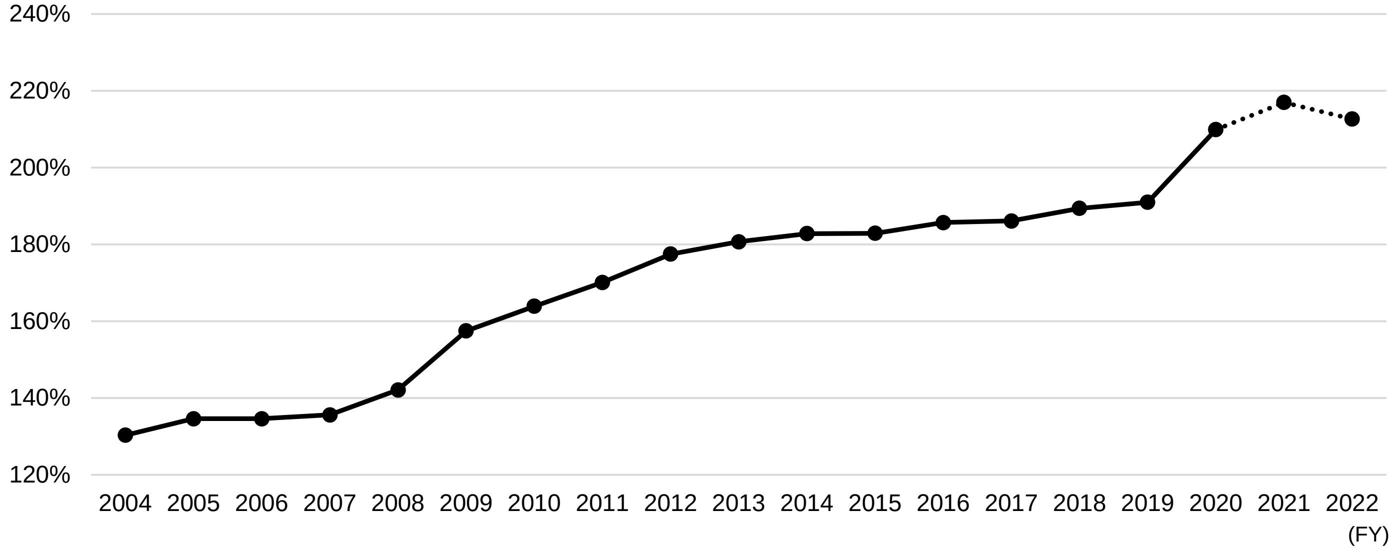
$$= \frac{\text{Accumulated debts (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal interest rate (r))}} + \boxed{\begin{array}{c}\textbf{Primary deficit}\\ \text{(current fiscal year)}\end{array}}}{\text{GDP (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal growth rate (g))}}}$$

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)

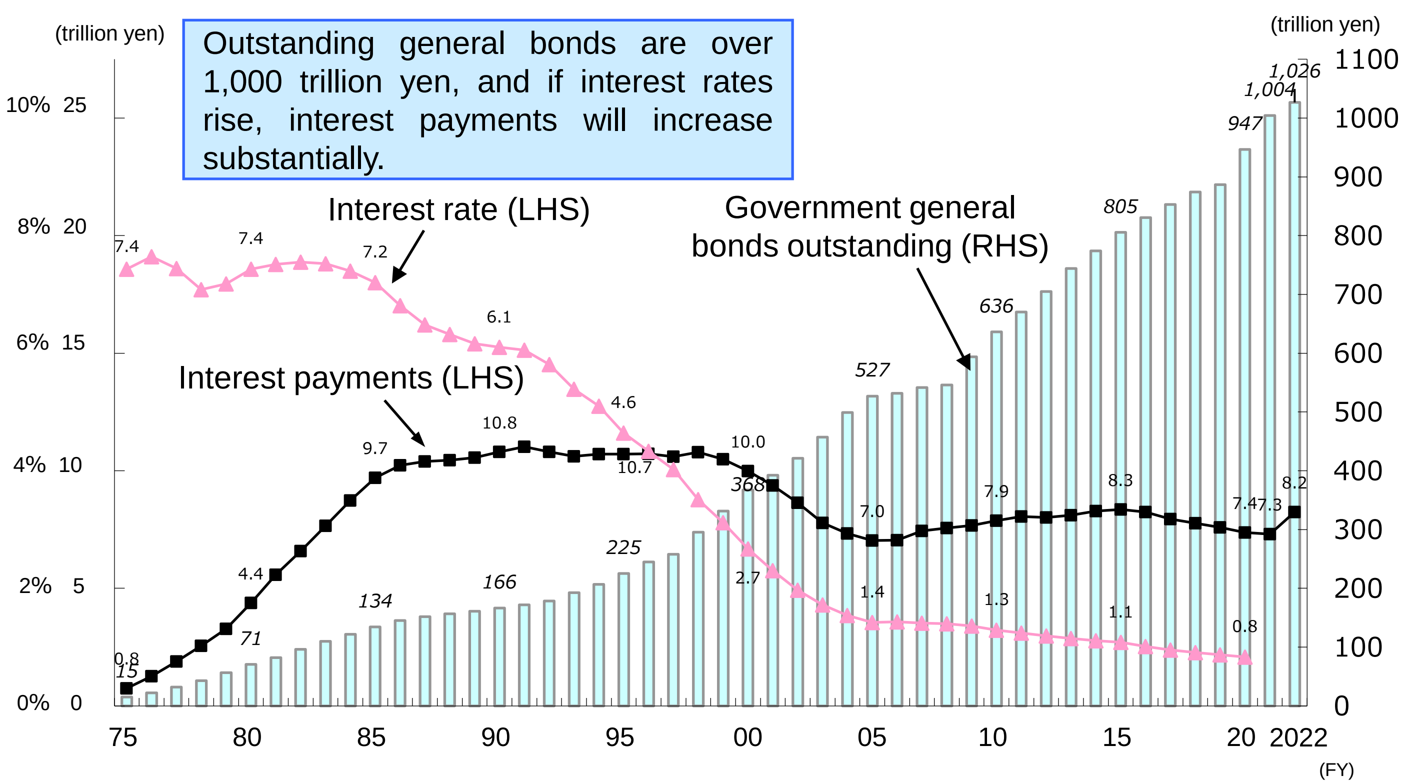
The ratio of central and local government debt to GDP, a stock indicator used for fiscal consolidation target, has been increasing cumulatively and is at an extremely high level.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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	1124.1	1182.5	1200.7
% 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%	189.4%	191.0%	209.9%	217.0%	212.6%
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	556.3	557.3	535.5	544.9	564.6

(Source) Cabinet Office "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 14, 2022)
(Note) Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

(Reference) Trends in Interest Payments and Interest Rate

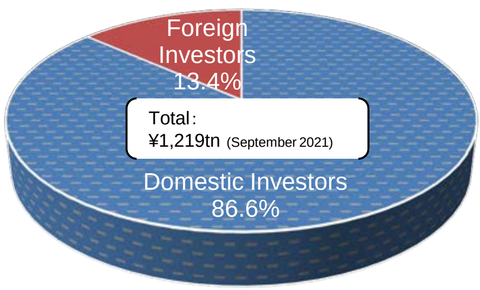


(Note 1) Interest Payments in FY1975 - FY2020: settled figures ; FY2021: based on the supplementary budget ; FY2022: based on the budget
(Note 2) Interest rates are based on the weighted average of interest rates of government general bonds.
(Note 3) Government general bonds outstanding in FY1975 - FY2020: actual figures ; FY2021: based on the supplementary budget ; FY2022: based on the budget

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

The burden is actually postponed to our descendants as noted on P.17, although some argues that it doesn't happen because domestic citizens are lenders.
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, the need to ensure the confidence in fiscal management from foreign investors has further increased.

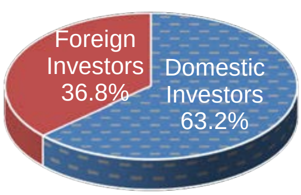
(1) Japan Government Bonds (JGBs) Holders



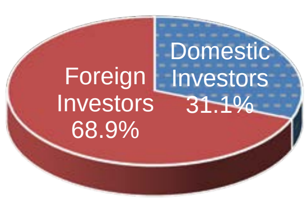
(Source) Bank of Japan "Flow of Funds Accounts Statistics"
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) Percentage as of September 2021.

JGB Transactions in Secondary Market

(2) Spot Market

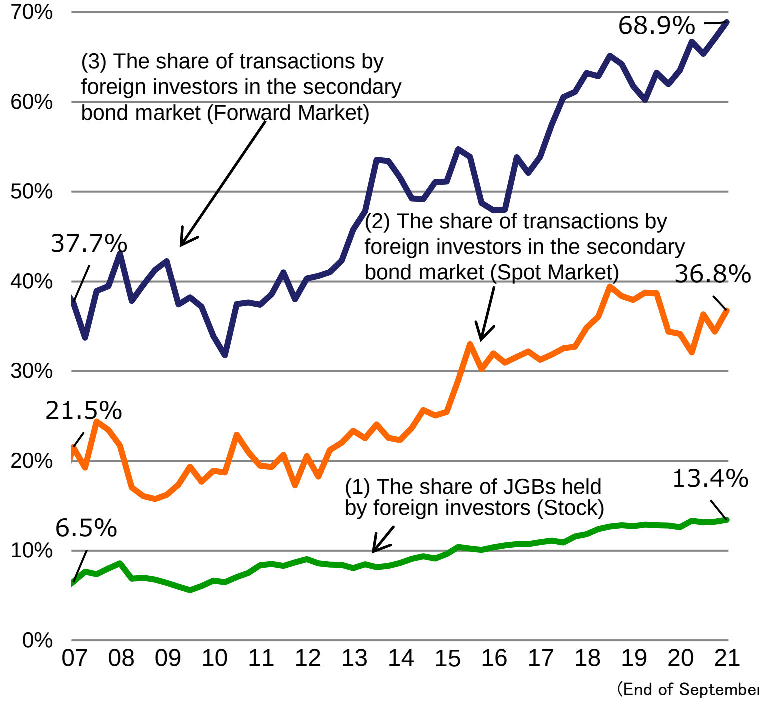


(3) Forward Market



(Source) Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill). Percentage as of the third quarter of 2021 (July-September).
(Note 2) The figures of Spot market excludes transactions by bond dealers

<Trend in the share of JGBs held and transactions by foreign investors>

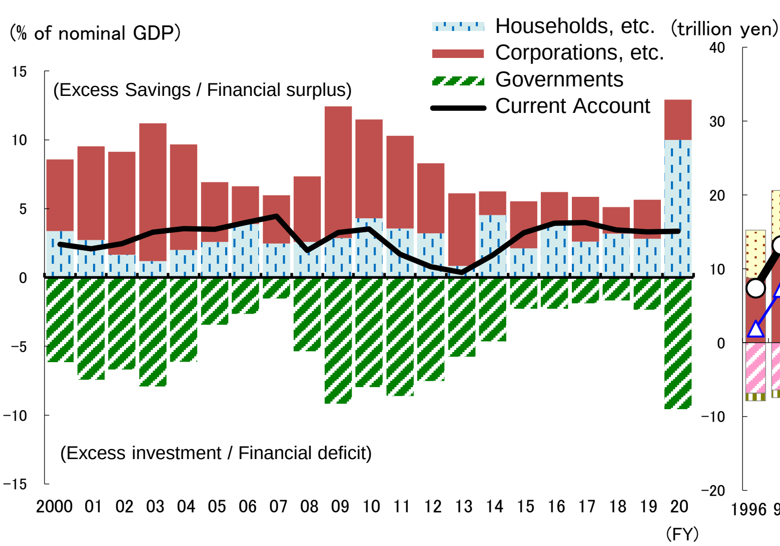


(Source) Bank of Japan, Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) The figures of Spot market excludes transactions by bond dealers

(Reference) Trend in Current Account

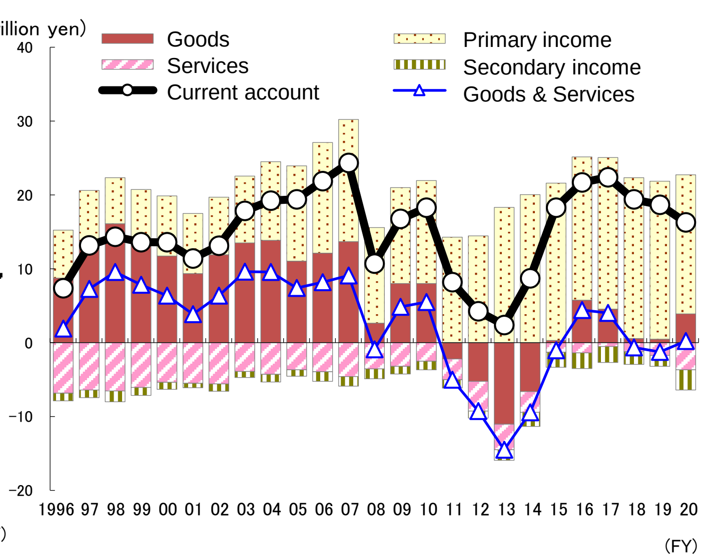
Although the current account surplus has continued in Japan because the private saving surplus has exceeded the deficit in the government sector, Japan will have to depend on foreign capital if the current account balance becomes a deficit. Therefore, continuous efforts toward fiscal consolidation are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

<Trends in net financial transactions by Sectors>



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

<Trends in Current Account>



(Source) Ministry of Finance "Balance of Payments"

21. Efforts to Achieve Fiscal Consolidation

The government has worked hard to overcome deflation and revitalize the economy as well as to achieve fiscal consolidation, under the concept of “the economy is the foundation of public finance”.

Main Points of Basic Policy on Economic and Fiscal Management and Reform 2021 (Cabinet Decision in June 2021)

Fiscal consolidation target in Basic Policy 2021

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

Continuing expenditures reform efforts

The Government will continue the same efforts to reform government expenditures for three years from FY2022 to FY2024 as in the previous period, and will compile a budget in accordance with the following benchmarks※.

① **With regard to social security expenditures**, the policy is to aim to **keep the essential increase within the levels equivalent to the expected increase due to population aging** during the foundation-reinforcement period, and the policy will be continued based on the future economic situation and price movements and the like.

② **With regard to general expenditures other than social security expenditures**, the Government will **continue existing efforts to improve government expenditures**, with consideration of the future economic situation and price movements and other such factors.

③ **With regard to the level of local government expenditures**, while keeping in line with the efforts of the national government’s general expenditures, the Government will ensure that **the total amount of general revenue sources** necessary for stable fiscal management of local governments, including those receiving local allocation tax grants, **shall be maintained substantially at the same level as that of the FY2021 Fiscal Plan of Local Governments**, and not below.

※ In order to respond to the increase in fiscal demand that is truly necessary, the Government will continue to promote the measures stipulated in the New Plan to Advance Economic and Fiscal Revitalization, such as taking the measures for expenditure reform into consideration when permanent revenue increases are secured through institutional reforms. In doing so, the Government will refer to the fact that foreign countries, including the United Kingdom and the United States, are taking measures to finance their resources for fiscal spending.

To achieve the targets

- The Government will continue to promote the integrated economic and fiscal reform **based on the New Plan to Advance Economic and Fiscal Revitalization, etc., implement the reform process by the end of this year**.
- **In line with the Basic Policy 2020 and other policies, the Government will steadily strengthen the infrastructure of the social security system**, establish a social security system that meets the needs of people living 100 years, maintain world-leading universal health insurance and universal pension, and aim to pass on the system to the next generation as a sustainable one.
- **The progress in the integrated economic and fiscal reforms will be examined in FY2024**, which is the final year of budget formulation in line with the benchmarks for expenditures, **and will be reflected in subsequent efforts for expenditure and revenue reforms to achieve the fiscal consolidation target**.

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

OECD Economic Surveys: JAPAN (December 3, 2021)

- Fiscal consolidation was knocked off course. The deterioration of the budget comes after a period of sustained reductions in primary deficits. As the economy regains traction, further action will be needed to secure long-term fiscal sustainability.

- Social security spending and ageing-related spending for health and long-term care are rising. Gross government debt is set to rise to around 260% of GDP by 2050 without corrective action. Consolidation efforts that raise additional revenue by increasing the consumption and carbon tax rates gradually would help stabilise debt in the medium term, but underlying spending pressures would then see debt levels rising once again.

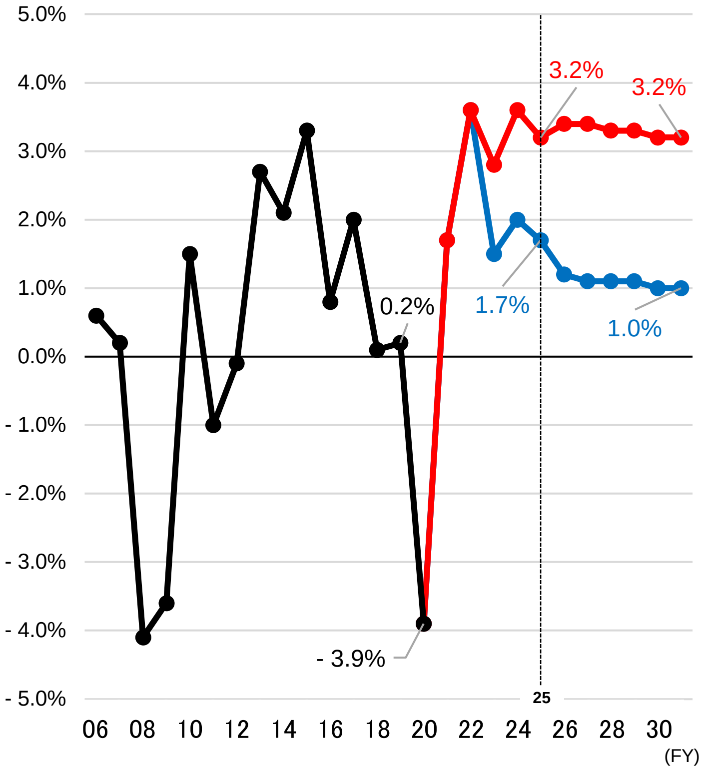
- A combination of fiscal consolidation and structural reforms will be needed to ensure long-run sustainability. Policies that raise productivity growth, boost labour force participation, and allow for gains in public spending efficiency would help bring debt levels down to more manageable levels by mid-century.

IMF Staff Report for the 2022 Article IV Consultation (April 6, 2022)

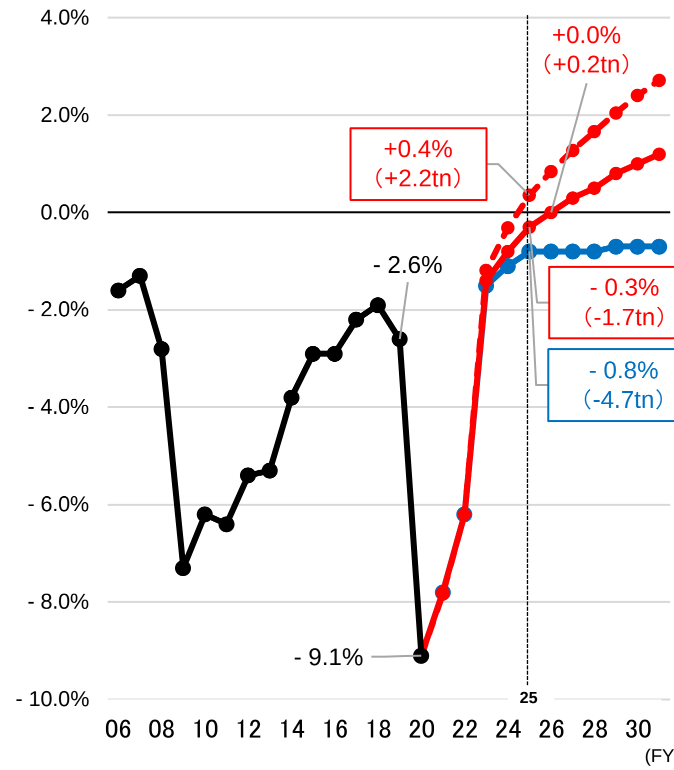
- It will be important, once the recovery is firmly in place, to rebuild fiscal buffers gradually and ensure debt sustainability over the medium to long term. (···) debt sustainability risks will rise as demographic trends weigh in the medium and long term. These risks call for medium-term fiscal consolidation to put public debt on a downward path and strengthen the ability to respond to shocks.
- Fiscal adjustment will require policy initiatives both on the expenditure and revenue sides. On the expenditure side, the focus needs to be on containing age-related spending, given that non-age-related spending in Japan is low compared to peers. On the revenue side, there is room for revenue mobilization, as Japan's tax revenues are relatively low.
    - Containing age-related expenditures. Healthcare and long-term care spending is projected to grow in the long run, driven by ageing and the use of new technology. There is room for efficiency gains by promoting generic drugs, limiting the scope of covered services and drugs, and shortening the duration of in-patient care. Out-of-pocket spending by the non-poor elderly should be raised. (···)
    - Mobilizing revenues. Options for raising tax revenues include: increasing the consumption tax standard rate; (···) ; rationalizing allowances and deductions in personal income taxation; and increasing the capital income tax rate. (···)

(Reference) Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 14, 2022)

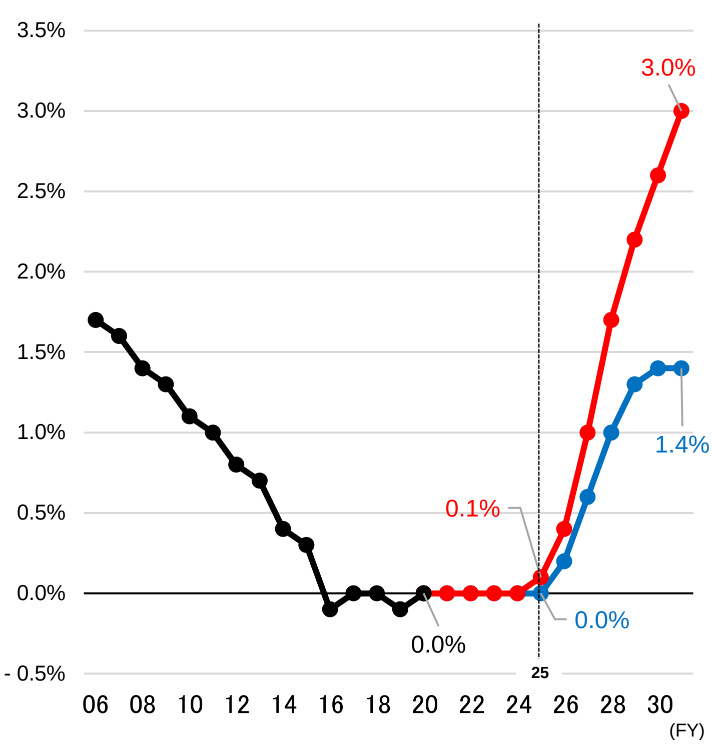
＜Nominal GDP Growth Rate＞



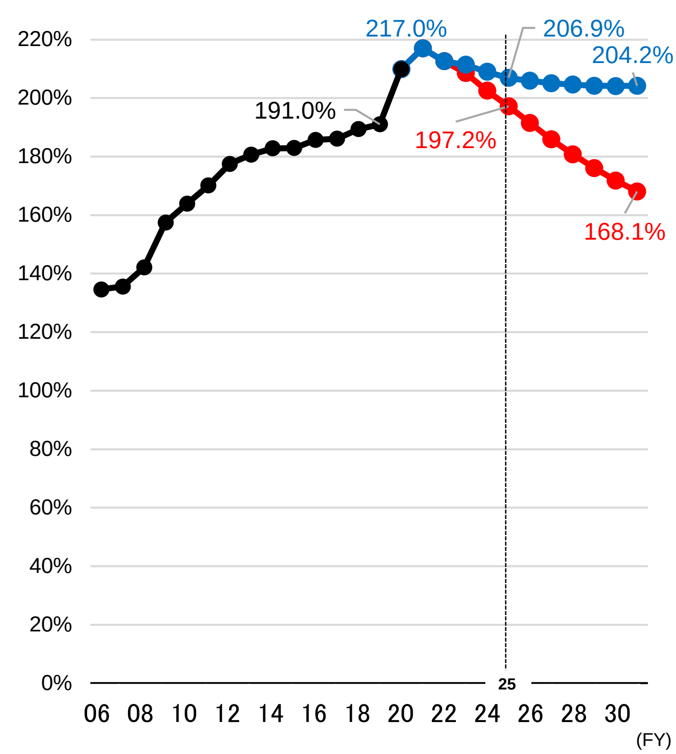
＜ Primary Balance of Central and Local Governments (% of GDP) ＞



＜Nominal Long Term Interest Rate＞



＜Outstanding Debt (% of GDP)＞



Economic Growth Achieved Case　Economic Growth Achieved Case (Continue efforts based on the basic policy)　Baseline Case

* 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
  - FY2021, FY2022 : expenditures and revenues reflect the supplementary budget for FY2021 and the draft budget for FY2022.
  - FY2023 onwards : general expenditures (excluding social security) increase along with CPI inflation.
    Social security expenditures increase along with estimated population aging and CPI/wage inflation.

Ⅲ. Issues in Each Policy Area

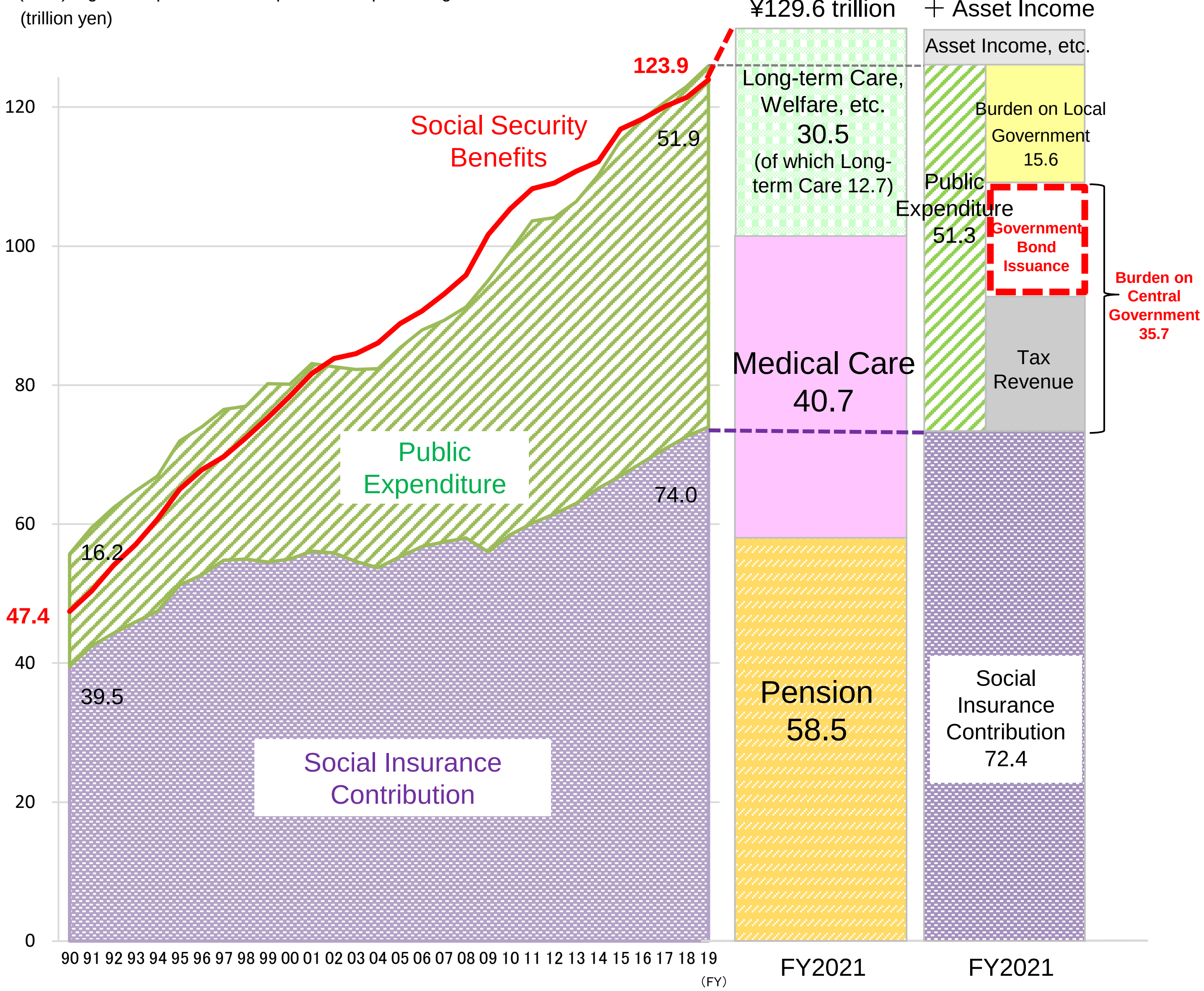
22. Social Security Area

(1) Increase in Social Security Benefits

While the basics of social security system is mutual support financed by insurance premiums, public expenditures is also injected as the burden would be concentrated on the working-age generation if the insurance premiums were the only fiscal resources. In reality, the necessary public expenditure is 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 across the generation. 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	FY2019
Contribution of Insured Person	¥18.5tn (28%)	¥39.0tn (29%)
Contribution of Employer	¥21.0tn (32%)	¥35.0tn (26%)
Public Expenditure	¥16.2tn (25%)	¥51.9tn (39%)
Social Security Benefits	¥47.4tn	¥123.9tn

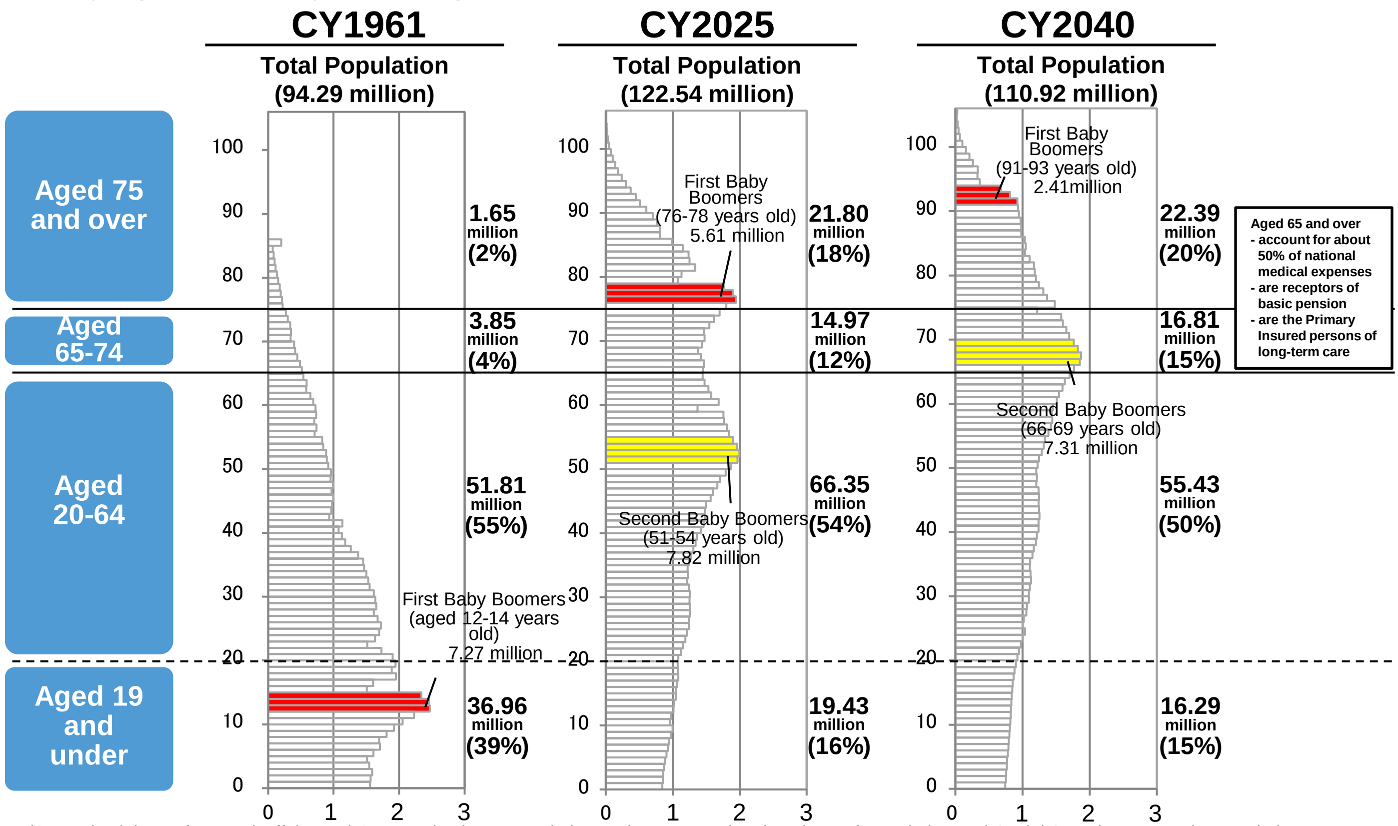
(Note) Figures in parentheses represent the percentage of the total.



(Source) National Institute of Population and Social Security Research “The Financial Statistics of Social Security (FY2019)”,
FY2021: 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 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 "Population Projections for Japan (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.

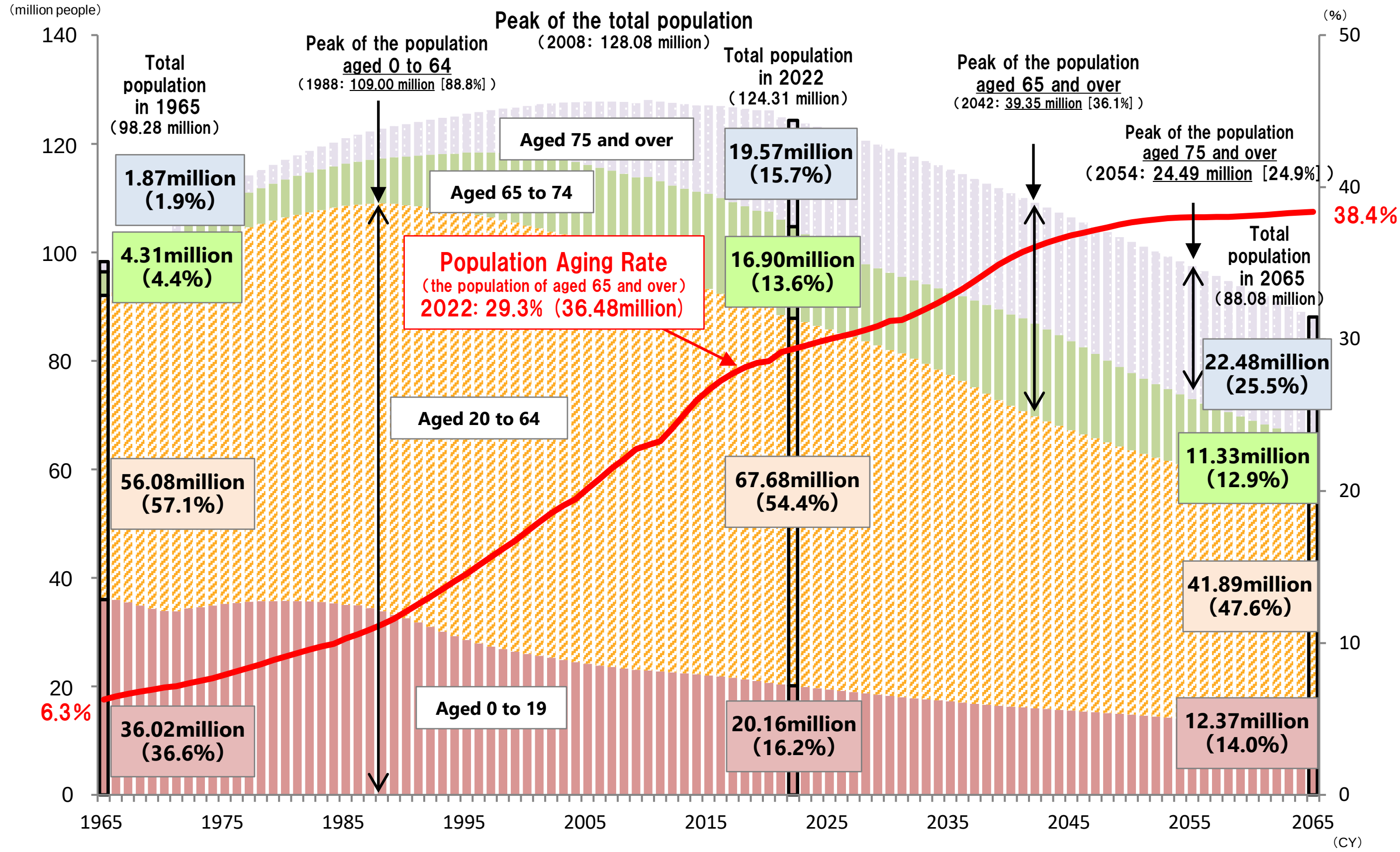
Increase in Medical / Long-term Care Expenditure per capita

	Medical Care (2019) (thousand yen)		Long-term Care (2019) (thousand yen)		Number and Ratio to Total Population (million people)	
	National medical care expenditure per capita (Aged 64 and under: ¥192 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	CY2019	CY2025
					Approx. -2.43 million	
Aged 65-74	567	80	49 (4.2%)	13	17.40 (13.8%)	14.97 (12.2%)
		Approx. 4 times		Approx. 10 times	Approx. +3.31 million	
Aged 75 and over	931	324	474 (31.9%)	127	18.49 (14.7%)	21.80 (17.8%)

(Source) Population ratio per age group: Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (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 (FY2019)",
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 (2019)", 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 2019 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.

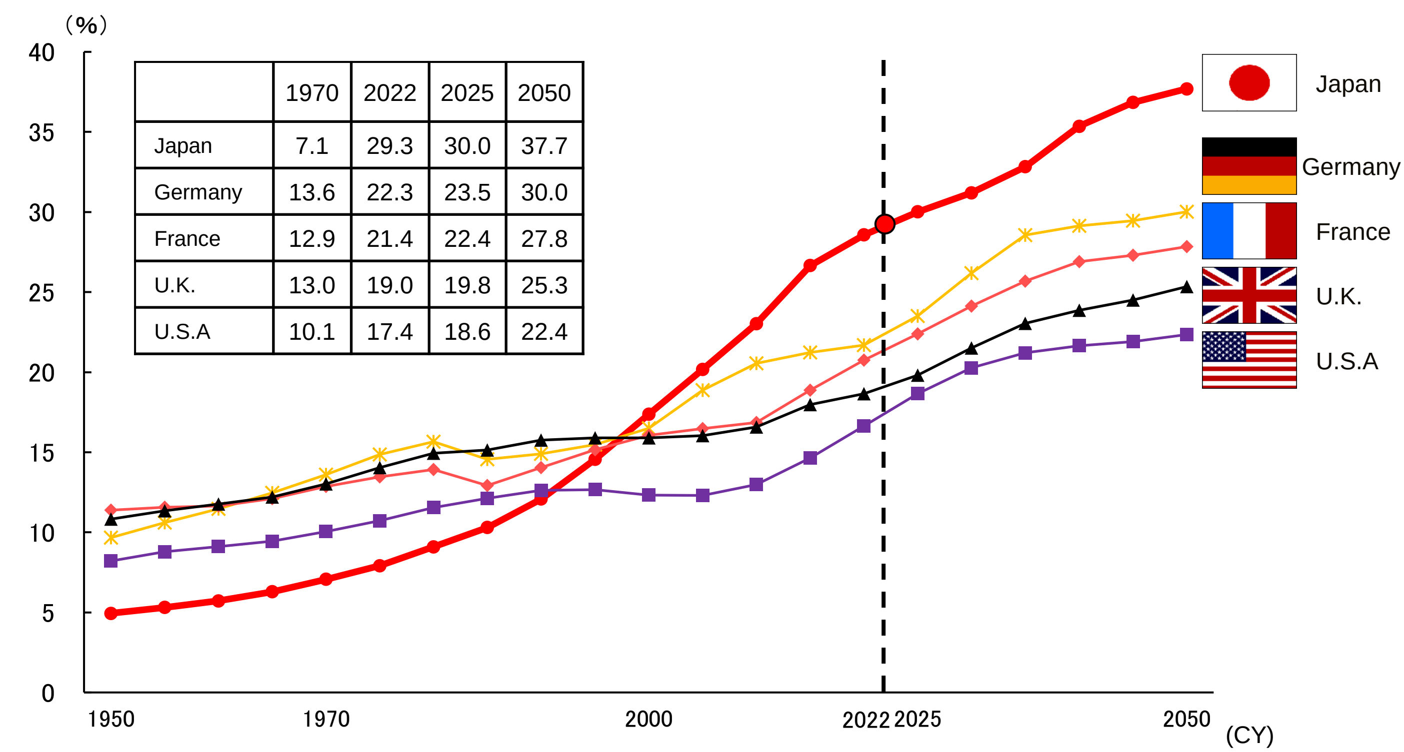
Declining Birthrate and Aging population



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (April 2017)" (the projection of medium-fertility and medium-mortality).
(Note) Numbers in parentheses represent the ratio to the total population.

International Comparison of Population Aging Rate

	1970	2022	2025	2050
Japan	7.1	29.3	30.0	37.7
Germany	13.6	22.3	23.5	30.0
France	12.9	21.4	22.4	27.8
U.K.	13.0	19.0	19.8	25.3
U.S.A	10.1	17.4	18.6	22.4



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

(Source) Japan : 1950-2020: Ministry of Internal Affairs and Communications "Population Estimates"
2021-2050: National Institute of Population and Social Security Research "Population Projections for Japan (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, and long-term care)

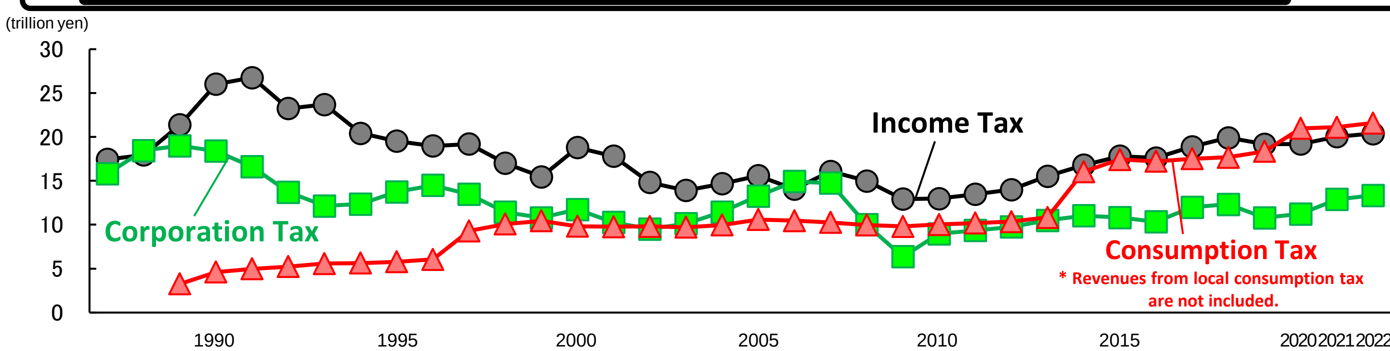
Enhancing Social Security System (After Reform)

Four expenses for social security (childcare, medical/long-term care, and 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 fiscal resource for social security



(Note) FY1987- 2020: settled figures, FY2021: based on the supplementary budget, FY2022: based on the budget

Relation between Social Security Four Expenditures and Consumption Tax Revenue

Postponing Burden to future generation ¥20.6tn

Increased revenue from raising consumption tax rate by 5%

- ¥4.01tn
- ¥0.63tn
- ¥3.5tn
- ¥5.0tn(※3) (Reducing burden to future generation)

The amount equivalent to 4% of Consumption tax revenue (excluding Local consumption tax revenue (1%)) ¥11.5tn

All revenues are used as resources for social security expenditure

Enhancing social security, etc. ¥4.01tn (Note 1)

Increase in administrative expenses due to consumption tax hike ¥0.63tn

Government contribution for supporting the basic pension system, etc. ¥3.5tn

¥37.1tn

Consumption Tax Revenue ¥24.7tn

Four Social Security Expenses ¥45.3tn
(Total of Central and Local governments, of which Central government ¥32.2tn)

(Note 1) For enhancing social security, ¥4.42tn has been spent in total combined with 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 FY2022 initial budget of central and local governments, reflecting the effect of implementation of reduced tax rate.

(Note 3) In introducing the reduced tax rate, legislative and other measures are being taken to ensure a stable and permanent source of revenue. The amount of reduction in the burden to be postponed to future generations without taking into account the amount of revenue reduction due to the introduction of the reduced tax rate is ¥5.8tn.

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 all children will be free.

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

Free Higher Education

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

Maximum amount of the exemption fee (per year)
National Univ. ¥0.54 million, Private Univ. ¥0.7 million

Amount of grant-type scholarship (per year)
【Students living with their parents】
National Univ. ¥0.35 million, Private Univ. ¥0.46 million
【Students not living with their parents】
National Univ. ¥0.8 million, Private Univ. ¥0.91 million

*In case of households exempted from inhabitant tax

Supporting Lives of Low Income Elderly People

Establishing the scheme of providing up to ¥60 thousand per year 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 the low-income eldery, have been implemented.

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

Childcare

Improving the environment where women who are willing to work can do by eliminating child on a waiting list

- Offering additional 0.5 million childcare places by the end of FY2017
- Increasing the capacity in After School Children's Club by 0.3 million students 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

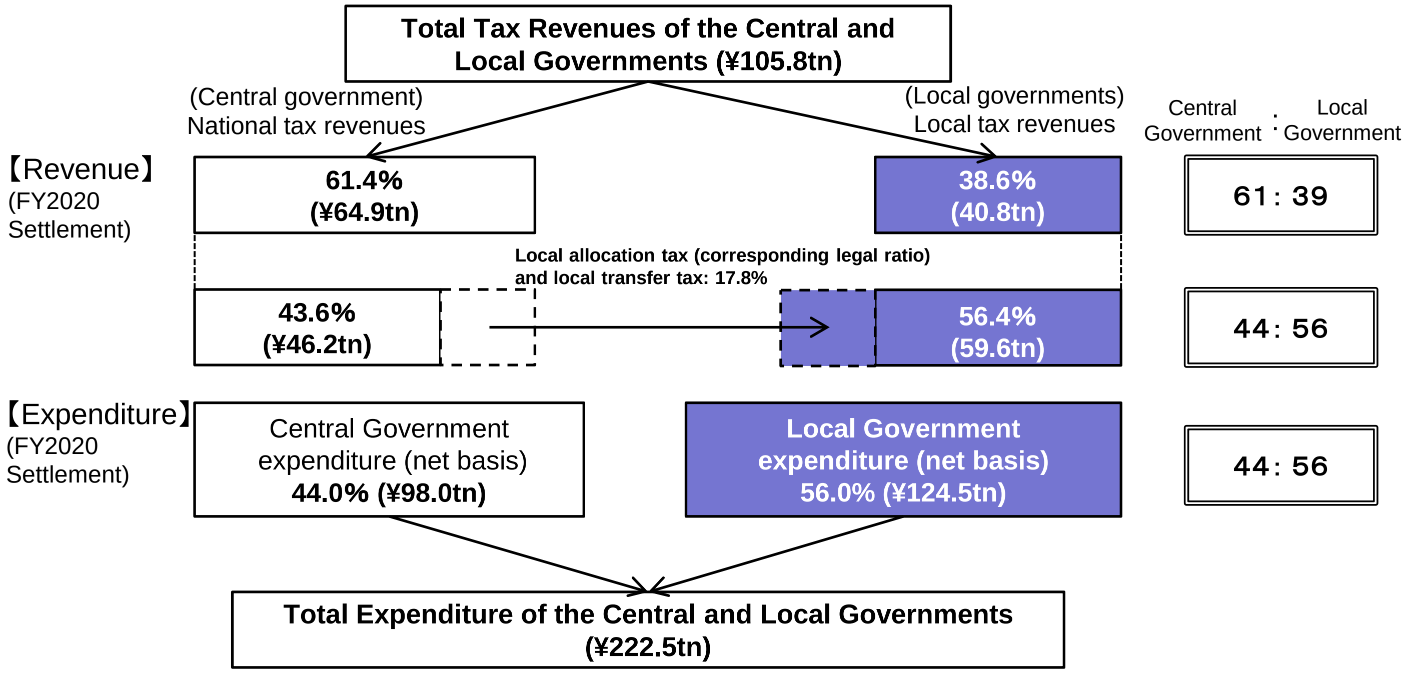
Shortening the required qualifying period to receive a pension(25 years⇒10 years)

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 expenditure between central government and local government 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 2022)", etc.

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

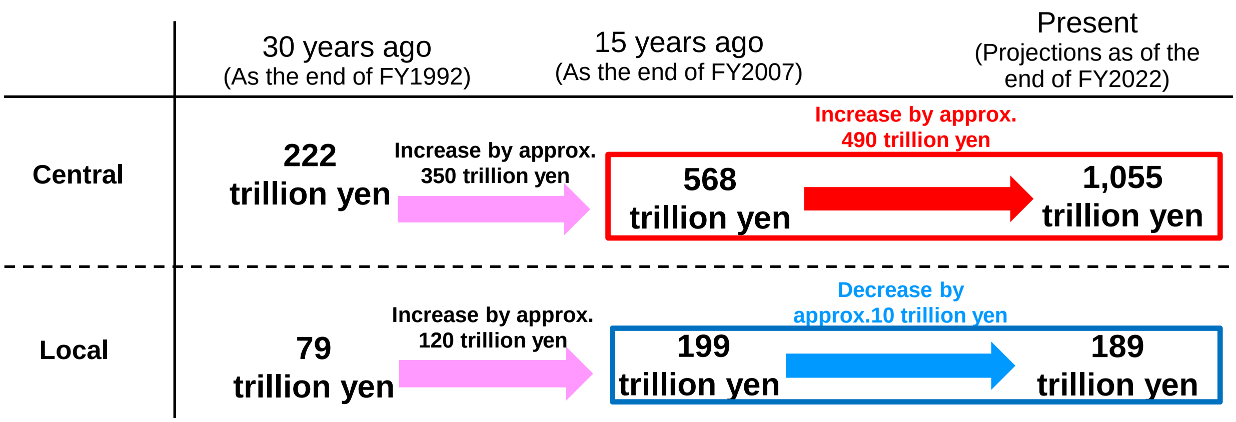
Comparing fiscal situations of central and local governments, the situation of the central government is extremely more severe than that of the local government in terms of both the flow indicators (fiscal and primary balance) and the stock indicators (long-term debt outstanding).

○Primary Balance and Fiscal Balance of the Central and Local Governments (FY2022 projection)

	Primary Balance	Fiscal Balance
Central Government	approx. -35.5 trillion yen	approx. -40.9 trillion yen
Local Government	approx. 0.5 trillion yen	approx. -0.7 trillion yen

(Note) Cabinet Office "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 14, 2022)

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



(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. 30 trillion yen at the end of FY2022).

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 a certain portion (the statutory rate) of the national tax, plus 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.

FY2022 Local Fiscal Plan (Unit: trillion yen, figures in parentheses represent the amount of the increase from last year)

【 Expenditure 90.6 (+1.0)】

- Expenses for wages :20.0 (-0.2)
- Expenses for general administration :41.4 (+0.6)
  of which
  - subsidized project: 23.5 (+0.5)
  - unsubsidized project: 14.9 (+0.0)
  - 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 :12.0 (+0.1)
- Debt service :11.4 (-0.1)
- Others :5.8 (+0.7)

【 Revenue 90.6 (+1.0)】

- Revenue-Expenditure Gap: 18.1 (-1.1)
- Special local grants, etc.: 0.2 (-0.1)
- Local taxes, Local transfer taxes: :43.8 (+3.9)
- National government Disbursements: :14.9 (+0.1)
- Local government bonds: 7.6 (-1.9)
  of which Extraordinary financial measures bonds: 1.8(-2.0)
- Others :6.0 (+0.1)

covered by central and local government

Fiscal resource shortage covered by central and local governments **None in FY2022**

Extraordinary financial measures －(-1.7)

Special additions －(-1.7)

The special Account for LAT grants 2.4（+0.6）

LAT, etc. (the statutory rate) 15.7（+1.8 ）

LAT grants (exit base) 18.1 trillion yen

LAT grants (entrance base) 15.7 trillion yen

The legal ratio for LAT (FY2022)

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

* The figures for FY2021 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 15.7 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 maintaining the total amount of local governments' general revenue resources substantially at the same level 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 FY2022 Local Fiscal Plan is maintained substantially at the same level as the previous year.

FY2022 Local Fiscal Plan (Unit: trillion yen)

【Expenditure: 90.6】

- Expenses for wages: 20.0
- Expenses for General Administration: 41.4
  of which
  - subsidized project: 23.5
  - unsubsidized project: 14.9
  - 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: 12.0
- Debt service: 11.4
- Expenses above the rule: 1.9
- Others: 3.9

【Revenue: 90.6】

general revenue resources
- Local Allocation Tax: 18.1
- Special local grants, etc.: 0.2
- Local taxes and Local transfer taxes: 43.8
- Extraordinary financial measures bonds: 1.8

specific revenue resources
- National government disbursements: 14.9
- Other local government bonds: 5.8 (excluding financial measures bonds)
- Others: 6.0

Basic Policy on Economic and Fiscal Management and Reform 2021
(Cabinet Decision, June 18, 2021))

3) With regard to the level of local government expenditures, while keeping in line with the efforts of the national government's general expenditures, the Government will ensure that the total amount of general revenue sources necessary for stable fiscal management of local governments, including those receiving local allocation tax grants, shall be maintained substantially at the same level as that of the FY2021 Fiscal Plan of Local Governments, and not below.

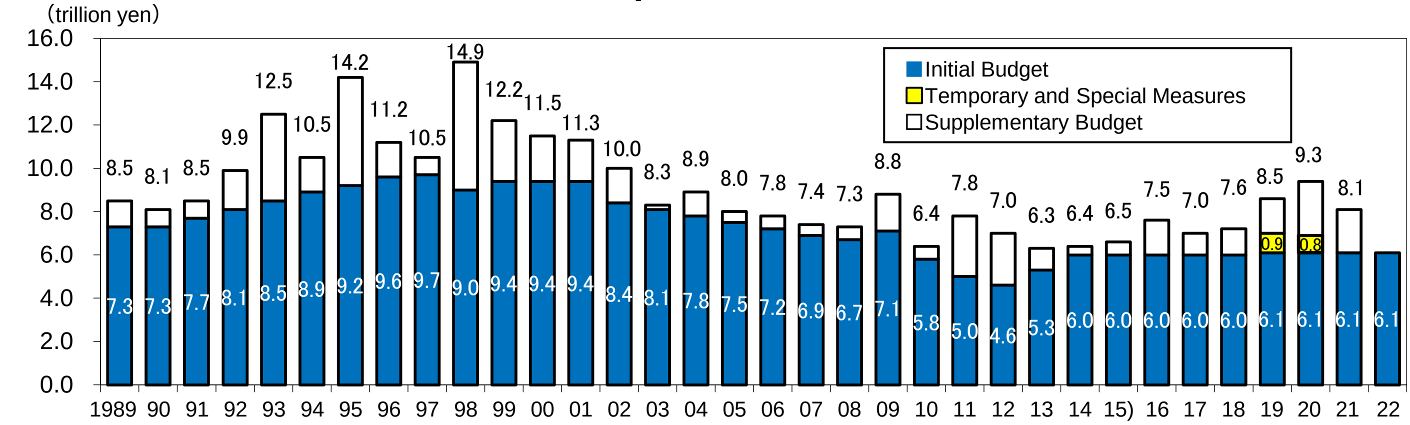
* general revenue resources

- 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.

(2) Public Works

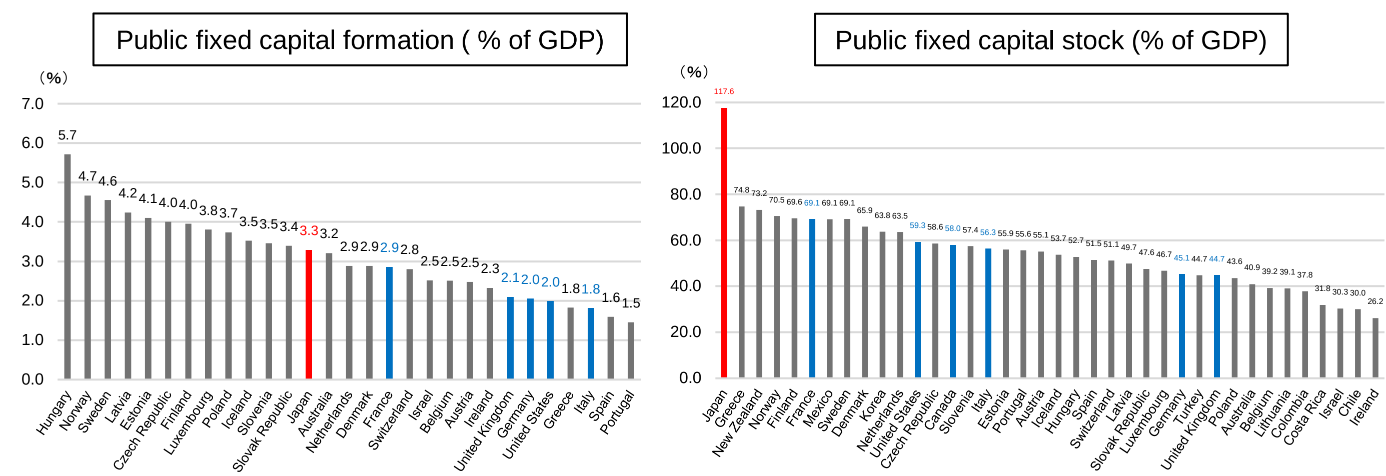
Public works-related expenditures have declined from their peak. However, Japan's public fixed capital stock (% of GDP) is still high compared to other major developed countries. In this context, the budget is focused on disaster prevention/mitigation and land resilience in order to cope with the recent severe water-related and other disasters.

① Trends in Public Work-related Expenditures



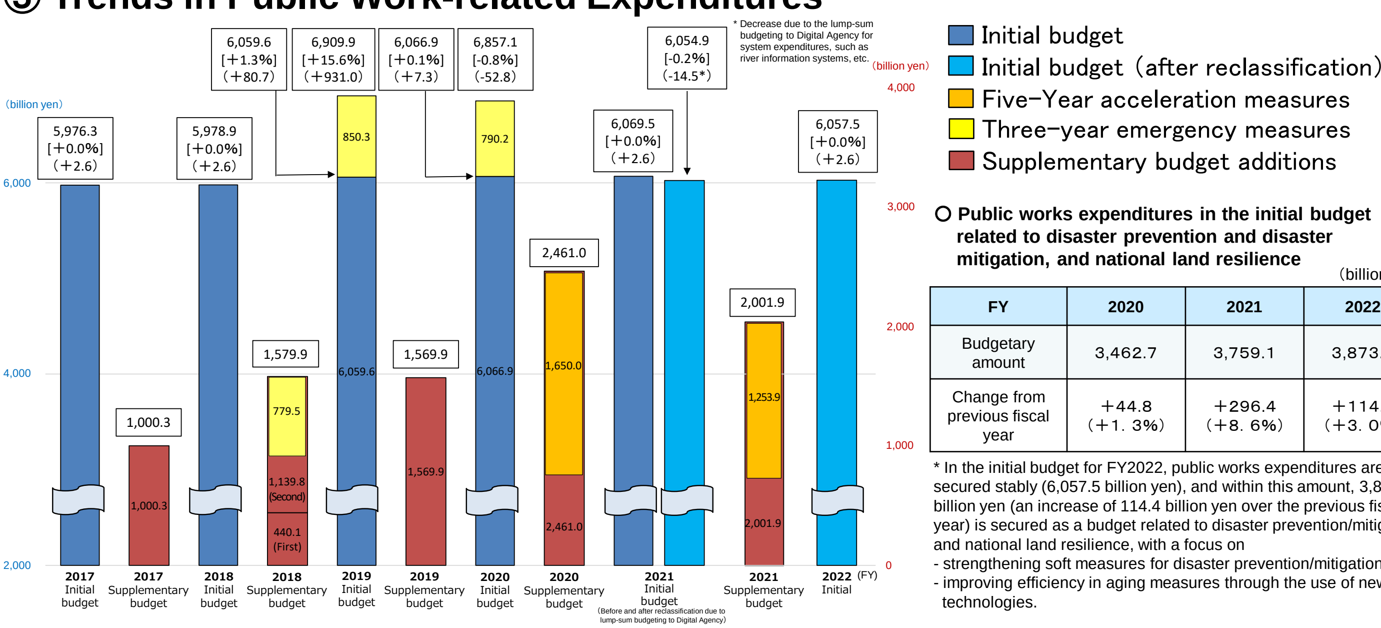
(Note) Excluding NTT-A type.

② International Comparison of Public Fixed Capital (% of GDP) (2019)



(Source) 〈Public fixed capital formation〉 Japan: Calculated based on Cabinet Office "National Accounts"; Other countries: Calculated based on OECD "National Accounts", etc.
〈Public fixed capital stock〉 Japan: "National Accounts", Cabinet Office; other countries: "Investment and Capital Stock Dataset", IMF
(Note 1) Public fixed capital formation is on an annual basis for Japan and on a calendar year basis for other countries. R&D investment and defense-related investment are excluded from gross fixed capital formation.
(Note 2) The figures are general-government-base data (central government, local government, and social security funds combined).

③ Trends in Public Work-related Expenditures



○ Public works expenditures in the initial budget related to disaster prevention and disaster mitigation, and national land resilience

(billion yen)

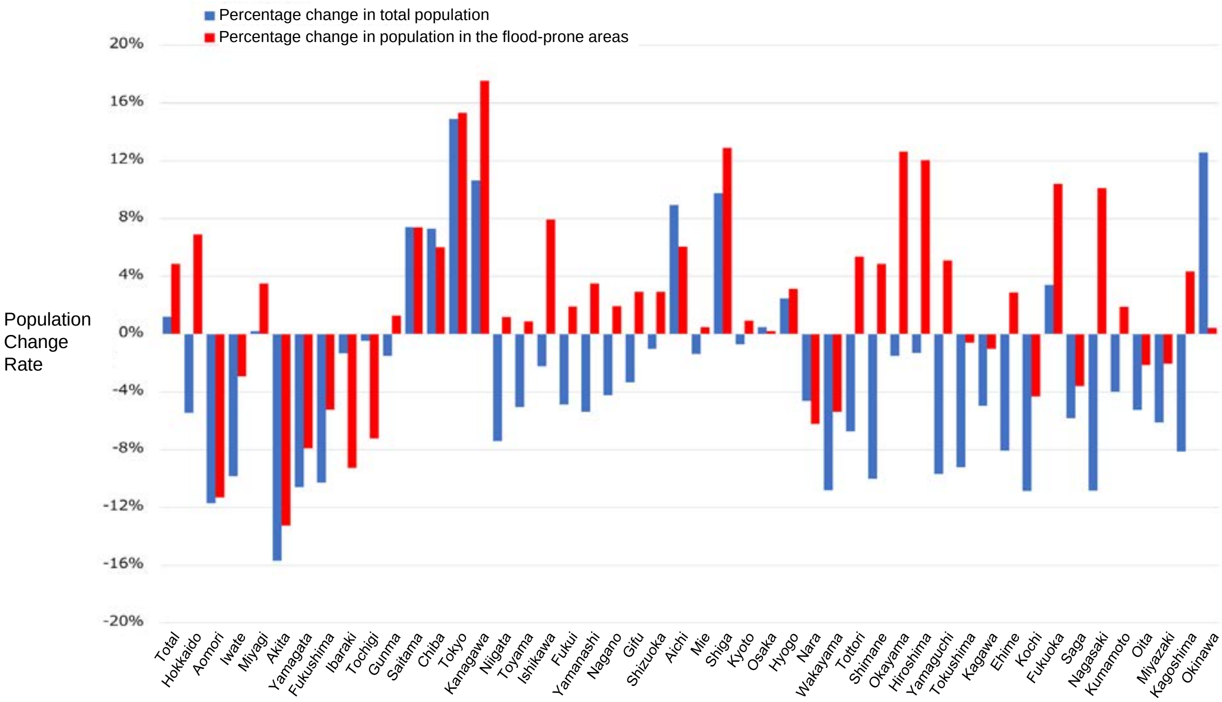
FY	2020	2021	2022
Budgetary amount	3,462.7	3,759.1	3,873.6
Change from previous fiscal year	+44.8 (+1. 3%)	+296.4 (+8. 6%)	+114.4 (+3. 0%)

* In the initial budget for FY2022, public works expenditures are secured stably (6,057.5 billion yen), and within this amount, 3,873.6 billion yen (an increase of 114.4 billion yen over the previous fiscal year) is secured as a budget related to disaster prevention/mitigation and national land resilience, with a focus on
- strengthening soft measures for disaster prevention/mitigation and
- improving efficiency in aging measures through the use of new technologies.

In the majority of prefectures, the population in the flood-prone areas has increased despite a decrease in population. Therefore, it is necessary to establish a process to evaluate and improve each disaster prevention and mitigation measure based on the overall policy objective of "more people living in land with lower disaster risk," by using the population of land with higher disaster risks.

④ Change in Population within the Flood-prone Area (Comparison between 1995 and 2015)

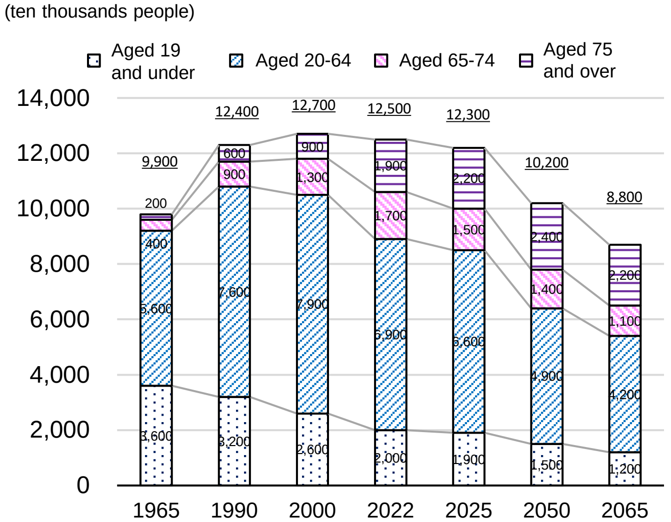
In 32 prefectures, the population within the flood-prone areas increased.
In 21 prefectures, the population decreased while the population within the flood-prone areas increased.
In 6 prefectures, the population within the flood-prone areas increased more than the population growth rate.



(Note) Percentage change in population within the flood-prone areas is calculated by comparing the population in the flood-prone areas between 1995 and 2015 as of 2012.

As the population continues to decline, maintenance and management costs per capita for social capital stock are expected to increase further, and the number of its users and those responsible for its maintenance and upkeep are also expected to decrease. Therefore, it is necessary to thoroughly conduct the integration and life extension of social capital stock and focus on new projects.

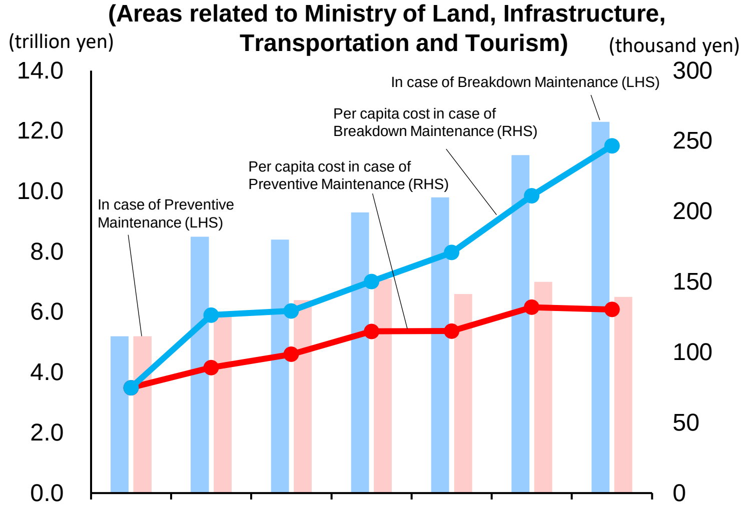
⑤ Demographic Projection



(Source) 1965-2000: Statistic Bureau, Ministry of Internal Affairs and Communications "National Census", 2022: Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (January 2022)", 2025-2065: National Institute Population and Social Security Research "Japanese Future Demographic Projection (April 2017)" (the projection of medium-fertility and medium-mortality)

⑥ 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 uses the maximum of the estimated values.
(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 FY2022 Budget

1. Highlights of the FY2022 Budget

Together with the supplementary budget for FY2021, the budget will take;

- **all possible measures to contain the spread of the infection**
- **measures for realizing a "New Form of Capitalism" through a virtuous cycle of growth and distribution**

Containment measures for COVID-19

○ In the supplementary budget for FY2021, measures are taken to secure the medical care delivery system, improve the vaccination system, and secure therapeutic drugs, etc. In order to prepare for unexpected changes in the situation such as the spread of infection by mutant strains, 5 trillion yen for contingency fund for the COVID-19 will be set aside in the FY2022 budget.

Realizing a "New Form of Capitalism" through a virtuous cycle of growth and distribution

Growth strategies

○ From the perspective of creating a “Science and Technology Nation,” a record amount of funding (1,378.8 billion yen) for the promotion of science and technology will be secured to promote R&D in digital, green, quantum, AI, space, advanced semiconductors, etc., and to enhance support for doctoral students.

○ In order to realize the “Vision for a Digital Garden City Nation,” the Digital Agency will promote lump-sum budgeting for information system (472 billion yen). Supporting the creative implementation of digital technology by local governments through grants (166 billion yen (including the supplementary budget for FY2021)). Deploying digital transformation facilitators nationwide.

○ With regard to “economic security”, the government will promoting R&D on quantum cryptography and strengthen the management system for key technologies, etc.

Distribution strategies

○ Raising the income of those working at facilities providing medical nursing for the COVID-19, long-term care, child care, and early childhood education by 3% through medical fees and other measures.

○ Promoting investment in human resources for a policy package worth 400 billion yen over three years, including human resource development to support growth fields such as digital, stepping up of non-regular workers, and support for smooth labor mobility. (The Labor Insurance Special Account 101.9 billion yen)

○ In order to achieve “zero bullying of subcontractors,” etc., the number of supervisors will be doubled (Increase from 120 to 248), and the supervision system will be strengthened by hearing from small and medium-sized subcontractors nationwide.

Wise spending

○ The government continues to implement the expenditure reforms set forth in the “Basic Policy on Economic and Fiscal Management and Reform 2021”. The quality of the budget was also improved through correcting the harmful effects resulting from deciding public finances on a single fiscal year basis, etc.

・ Social security expenditure +About 440 billion yen (Increase due to aging of population (Excluding the amount of the pension slide))

・ Non-social security expenditure +33 billion yen (Continue efforts of expenditure reforms thus far)

○ Reduce the amount of new government bond issuance (FY2021 (Initial)：43.6 trillion yen ⇒FY2022：36.9 trillion yen)

2.The FY2022 Budget: Framework

Expenditure

(Unit : billion yen)

	FY2021 budget (initial)	FY2022 budget	Amount of change
General Expenditure	66,902.3	67,374.6	+472.3
Social Security Expenditure	35, 834. 3	36, 273. 5	+439. 3
Non-Social Security Expenditure	26, 068. 1	26, 101. 1	+33. 0
Contingency Fund for the COVID-19	5, 000. 0	5, 000. 0	—
Local Allocation Tax Grants, etc.	15,948.9	15,882.5	−66.4
National Debt Service	23,758.5	24,339.3	+580.8
Total	**106,609.7**	**107,596.4**	**+986.7**

Revenue

(Unit : billion yen)

	FY2021 budget (initial)	FY2022 budget	Amount of change
Tax Revenue	57,448.0	65,235.0	+7,787.0
Other Revenue	5,564.7	5,435.4	−129.3
Government Bond Issuance	43,597.0	36,926.0	−6,671.0
Construction Bonds	6, 341. 0	6, 251. 0	−90. 0
Special Deficit-financing Bonds	37, 256. 0	30, 675. 0	−6, 581. 0
Total	**106,609.7**	**107,596.4**	**+986.7**

(Note 1)The FY2021 budget is reclassified for a comparison with the FY2022 budget.
(Note 2)Figures may not add up to the totals due to rounding.
(Note 3)"Tax Revenue" includes stamp revenue.
(Note 4)Bond Dependency Ratio for FY2022 Budget is 34.3%.

3.Economic and Fiscal Indicators

＜ Economic Indicators ＞

	FY2020 (Actual)	FY2021 (Estimated)	FY2022 (Projected)
Nominal GDP growth	−3. 9%	1. 7%	3. 6%
Nominal GDP (tn yen)	535. 5	544. 9	564. 6
Real GDP growth	−4. 5%	2. 6%	3. 2%
Consumer Price Index	−0. 2%	−0. 1%	0. 9%
Unemployment rate	2. 9%	2. 8%	2. 4%

(Note1) Figures are shown on a 2008 SNA basis.
(Note2) FY2021 and FY2022: based on "FY2022 Economic Outlook and Basic Stance for Economic and Fiscal Management" (Approved by the Cabinet on December 23, 2021).

＜ Fiscal Indicators: Central Government's General Account ＞

	FY2020	FY2021	FY2022（Draft）
General expenditure (tn yen)	63. 5	66. 9	67. 4
Tax revenue (tn yen) (Note3)	63. 5 (10. 2)	57. 4 (9. 5)	65. 2 (10. 0)
Government bond issuance (tn yen)	32. 6	43. 6	36. 9
Primary balance (tn yen)	9. 6	20. 4	13. 0
Bond dependency ratio	31. 7%	40. 9%	34. 3%

(Note1) 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.
(Note2) General expenditure is the total amount of general account expenditures, excluding government bond expenditures and local allocation tax grants, etc.
(Note3) Figures in parentheses represent the increased revenue associated with consumption tax rate hike from 5% to 10%.
(Note4) Figures in FY2019 and 2020 include the figures of temporary and special measures.
(Note5) Figures in FY2020 are retroactively revised based on the concept of the primary balance in the FY2021 budget.

4. Characteristics of Each Expenditure in the FY2022 Budget (1)

【Social Security】

○ Steadily implementing the system reforms decided so far (Revision of copayment rates for medical care for elderly aged 75 and over, Expansion of Employees Insurance coverage, etc.), while continuing to promote measures for the COVID-19. 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. (+About ¥440bn (Excluding the amount of the pension slide)).

○ In the revision of medical fees, insurance burden on the public will be curbed through vigorous revisions such as improving the working conditions of nurses, achieving insurance coverage for infertility treatment, and introducing refillable prescription to reduce the burden of hospital visits. In addition, improving the working conditions of long-term care, welfare for people with disabilities, and child care will be promoted.

＊ Medical fees：0.43%　Drug price：-1.35%　Material price：-0.02%

○ With regard to the national treasury impositions to employment insurance, while maintaining the current share of contribution for benefits of unemployment, the share of contribution will be raised in accordance with the employment situation and the financial status of employment insurance, and the scheme provides for voluntary transfers from the general account. In addition, the share of contribution for the support system for job seekers will be raised from the perspective of strengthening the safety net function for those who are not insured (5%→27.5%).

【Science and Education】

○ From the perspective of becoming a “science and technology nation,” the government secured the highest ever amount of funds (¥1,378.8bn) for the promotion of science and technology. Promote R&D in digital, green, quantum, AI, space, and advanced semiconductors. Enhancing support for doctoral students to improve their treatment.

○ Promoting the introduction of a “subject-based teacher system” for science, math, and other subjects in the upper grades of elementary school, and create an environment in which teachers can focus on teaching by utilizing outside personnel (¥17.4bn).

【Digital and Regional Revitalization (Vision for a Digital Garden City Nation)】

○ The Digital Agency will strengthen its function as a commander for the formation of a digital society by allocating a lump-sum budget for information systems (¥472bn).

○ Promoting local revitalization promotion subsidies of 100 billion yen to focus on digital and together with the supplementary budgeted subsidies for the promotion of the Vision for Digital Garden City Nation, etc., supporting the implementation of digital technology and the solving of local issues based on the creativity of local governments.

○ Developing digital infrastructure in local areas, such as optical fiber and 5G base stations. Under the concept of "people-friendly digitalization, that leaves no one behind," digital transformation facilitators will be deployed to hold seminars for the elderly etc. on how to use smartphones and online public services.

【Economic Security】

○ From the perspective of economic security, R&D on quantum cryptographic communications, management systems for key technologies, and cyber security protection will be strengthened, and promote the establishment of a think tank function for safety and security.

○ The supplementary budget for FY2021 also includes measures to secure domestic production bases for advanced semiconductors and a program to foster key technologies for economic security.

【Public Works】

○ Securing public work projects stably (¥6.575tn). In this context, focusing on disaster prevention and mitigation and national land resilience will be promoted, including measures to prevent aging by using drone inspections, and to control floods and earthquakes by strengthening soft measures such as land use regulations and evacuation plans.

○ In order to correct the harmful effects resulting from deciding public finances on a single year basis, about 2.1 trillion yen will be newly set as an action for bearing deficit in the treasury to equalize the construction period and facilitate the systematic construction of infrastructure over multiple years.

【Agriculture, Forestry and Fisheries】

○ In order to achieve the target of 5 trillion yen in exports of agricultural, forestry and fishery products and foodstuffs, support for the organization of export promotion organizations by product category, fostering of export production areas and businesses, and compliance with overseas food regulations will be comprehensively promoted, focusing on priority commodities. Promoting production of rice to meet the demand for 2022, including shifting crops to highly profitable crops such as export rice and vegetables.

【Energy and Environment】

○ In order to achieve the 2050 carbon neutrality target and other plans, introduce renewable energies such as solar power, offshore wind power, and geothermal power, and clean energy vehicles, and accelerate R&D for the practical use and diffusion of hydrogen, ammonia, etc. (about ¥100bn). Establishing a grant to provide continuous and comprehensive support for local governments that are making efforts to decarbonize (¥20bn).

【Diplomacy and National Defense】

○ Strengthening diplomatic and consular implementation systems and external communications to promote strategic diplomacy. ODA will focus on cooperation to contribute to the international containment of the COVID-19 and development and humanitarian assistance needs, including climate change countermeasures. Contributing to a one-year-advance capital increase of IDA (International Development Association) to support the response to the COVID-19, including vaccination and medical delivery systems for low-income countries.

○ With regard to defense, a total of 5.4 trillion yen is secured for the first time in view of the increasingly tense international situation. Together with the supplementary budget for FY2021, strengthening capabilities in new areas such as missile defense, defense of islands in the southwest region, and space, cyber, and electromagnetic waves will be promoted.

【Reconstruction】

○ Providing a meticulous support to meet the needs of the affected areas in accordance with the stage of reconstruction. Promoting initiatives for full-scale reconstruction and revitalization, such as promoting the return and migration of affected areas and removing harmful rumors, through support for victims such as mental health care and the development of interim storage facilities in nuclear-affected areas. In order to achieve "creative reconstruction," promoting initiatives such as the development of international education and research centers.

【Local Government Finance】

○ The amount of local allocation tax grants for local governments is 18.1 trillion yen (+0.6 trillion yen). Due to the recovery of tax revenue in both the national and local governments, the issuance of extraordinary financial countermeasures bonds is largely reduced (-¥3.7tn), and the total amount of general revenue is secured appropriately.

5. Major Expenditure Items

(unit: billion yen)

	FY2021 Budget (initial)	FY2022 Budget	Amount of change	Ratio of change	Note
General Expenditure	66,902.3	67,374.6	+472.3	+0.7%	
Social Security	35,834.3	36,273.5	+439.3	+1.2%	
Education and Science	5,392.5	5,390.1	−2.4	−0.0%	Decrease in the national treasury contribution for compulsory education due to reflection of the recommendation of the National Personnel Authority: −¥23.9bn, etc.
of which Science	1,363.8	1,378.8	+15.0	+1.1%	
Former Military Personnel Pensions	145.0	122.1	−22.8	−15.7%	
National Defense	5,314.5	5,368.7	+54.2	+1.0%	Expenses on medium-term defense capability: +1.1% (including miscellaneous expenses)
Public works	6,054.9	6,057.5	+2.6	+0.0%	
Economic Assistance	510.8	510.5	−0.3	−0.1%	Decrease due to expiration of payment for contributions promised internationally: −¥0.6bn, etc.
cf) Official Development Assistance	559.9	561.2	+1.2	+0.2%	
Measures for SMEs	172.6	171.3	−1.3	−0.8%	Decrease in the credit guarantee related budget based on lending trends: −¥2.1bn , etc.
Energy	889.1	875.6	−13.5	−1.5%	Decrease in transfer to Energy Measures Special Account based on the progress of projects of the investees due to the impact of infection: −¥12.5bn , etc.
Food Supply	1,272.3	1,270.1	−2.1	−0.2%	Decrease in the national treasury 's contribution due to the revision of premium rates for agricultural mutual aid: −¥1.3bn ,etc.
Miscellaneous	5,816.4	5,835.0	+18.6	+0.3%	
Contingency reserve	500.0	500.0	−	−	
Contingency Funds for the COVID-19	5,000.0	5,000.0	−	−	
Local Allocation Tax Grants, etc.	15,948.9	15,882.5	−66.4	−0.4%	Securing the same level of total general funds as the previous fiscal year.
National Debt Service	23,758.5	24,339.3	+580.8	+2.4%	Increase in redemption of the National Debt.
Total	106,609.7	107,596.4	+986.7	+0.9%	

(Note1) FY2021 budget is reclassified for a comparison with the FY2022 budget. The figures in the "FY2021 Budget (Initial)" of "cf) ODA" exclude the effect of ¥8bn in expenses that will not be covered by ODA from FY2022.
(Note2) Figures may not add up to the total due to rounding.
(Note3) General Expenditure is defined as General Account Total Expenditure minus National Debt Service and Local Allocation Tax Grants, etc.

6. The FY2022 Revision of Medical Fees and Drug Price, etc.

Medical Fees

＋0.43% (Central government expenditure: ＋29.2bn※)
※FY2022 budget amount, same as below

① **Improvement of working conditions for nurses** (Using the increase in consumption tax revenue) **＋0.20%**
Achieving 3% salary increase for nurses at medical institutions that respond to the COVID-19 medical treatment, etc. (Until September, 1% increase will be subsidized.)

② **Introduce refill prescriptions** **−0.10%**
Establishing an effective measure that differs from split dispensing, that will reduce the burden on patients by allowing them to use their prescriptions repeatedly within a certain period without going to a medical institutions.

③ **Insurance Coverage for Fertility Treatment** (Using the increase in consumption tax revenue) **＋0.20%**
Ensuring the safety and security of infertility treatment for those who want to have children through the evaluation of appropriate medical care by insurance coverage.

④ **Expiration of additional measures to prevent infection in children (medical treatment)** **−0.10%**
The dental and dispensing portions continue to be allocated to infection prevention and other measures.

⑤ **Other main revisions rate** **＋0.23%**
Revision rate for each department
- Medical ＋0.26%
- Dental ＋0.29%
- Dispensing ＋0.08%

Drug Price, etc.

① **Drug price** **−1.35%**
(Central government expenditure: −155.3bn)
※ Of which, Insurance coverage for infertility treatment (using the increase in consumption tax revenue)
＋0.09% (Central government expenditure: ＋¥4.5bn)

② **Material Price** **−0.02%**
(Central government expenditure: −1.7bn)

Institutional Reform Items
(Establishing an efficient medical care delivery system, etc.)

In order to deal with the issues revealed in the spread of the COVID-19, the following reforms will be steadily promoted in terms of the efficient provision of high-quality medical care in relation to medical fees, etc. (Ministerial agreement).

① Appropriate evaluation of inpatient care, including basic inpatient rates for 7:1 nursing care
② Promoting further comprehensive payment such as reviewing the calculation method of the DPC system that contributes to standardization including hospital stay
③ Improve the effectiveness of the additional payment related to the reform of working styles of doctors.
④ Appropriate review of measures related to the function of primary care doctors in line with actual conditions to ensure functional differentiation of outpatient services.
⑤ Review of dispensing system premiums for generic drugs based on cost-effectiveness.
⑥ Appropriate evaluation of pharmacies with multiple stores.
⑦ Appropriate prescriptions for poultice to ensure appropriate drug benefit.

◆Changes in past revision rates

	2014	2016	2018	2020	2022
Revision rate of Medical Fees	＋0.1%	＋0.49%	＋0.55%	＋0.55%	＋0.43%
Revision rate of Drug Price, etc.	-1.36%	-1.33%[-1.82%]	-1.45%[-1.74%]	-1.00%[-1.01%]	-1.46%[-1.37%]

*Excludes revisions associated with the consumption tax hike. Excludes drug price revisions for FY2019 and FY2021.
(Note) The figures in [ ] for FY2016, FY2018, FY2020, and FY2022 include the impact of newly implemented system reforms such as market expansion recalculation (e.g., insurance coverage for infertility treatment in FY2022).

7. “Improvement of the Quality" of the Budget

Correcting the harmful effects resulting from deciding public finances on a single fiscal year basis

○ With regard to public works, about 2.1 trillion yen will be newly set as an action for bearing deficit in the treasury to equalize the construction period and facilitate the systematic construction of infrastructure over multiple years.

With regard to the infrastructure development project to promote the development of data centers in local areas, the necessary scale of the project will be secured in advance by utilizing the action for bearing deficit in the treasury in order to stably implement the project over multiple fiscal years. (Total 45.5 billion yen for four years from FY2022 to FY2025)

○ With regard to the fields of science and technology and economic security, support will be provided over multiple fiscal years, including the use of funds, while taking into account the type of project. (Establishment of a new fund for fostering key technologies for economic security (about 250 billion yen), establishment of a new fund for the development of production infrastructure for advanced semiconductors (about 620 billion yen), and use of a fund for strengthening vaccine development and production (about 740 billion yen) * FY2021 supplementary budget)

Improving efficiency by promoting digitalization

○ The LAN and network environment of each ministry and agency will be sequentially switched to a new inter-ministerial network (GSS: Government Solution Service) to realize a high-speed, large-capacity, and low-cost network environment.

○ Consolidate the database locations for registration information from the current four to one. Improve efficiency of equipment rental and maintenance costs, operation support costs, and application maintenance costs. (Reduction of 2.4 billion yen over five years from FY2025)

Introduction of incentive mechanisms based on policy objectives

○ Deregulating the requirements of relocation support for housing, etc., when disaster prevention projects are carried out at a lower cost than the original restoration of damaged infrastructure, based on a reconstruction and urban planning plan that assumes relocation from the affected area. Supporting rapid and flexible reconstruction by local governments while reducing the fiscal cost.

○ With regard to the operating subsidies for the four culture-related independent administrative agencies*, a competitive fund frame (about 300 million yen in total, about 1% of the total subsidies) will be established, and the subsidies will be redistributed in accordance with the rate of increase in self-income (Actual amount), thereby promoting the securing of various sources of income such as private funds.

* National Museum of Nature and Science, National Museum of Art, National Institutes for Cultural Heritage, Japan Arts Council

Efficiency and rationalization of defense force development

○ Achieved efficiency and rationalization effects of -439 billion yen by suspending operations of equipment of decreasing importance and optimizing procurement through the use of long-term contracts and close examination of costs, etc. across the entire range of defense equipment.

9. Overview of the Supplementary Budget for FY2021

(Approved on December 20, 2021)

Ⅰ. Containment measures for the COVID-19　18,605.9bn

1. Securing the medical treatment system, etc.　4,478.3bn

○ Emergency comprehensive support grant for the COVID-19 (securing beds, etc.)〔2,031.4bn〕
○ Development of new coronavirus vaccine inoculation system and implementation of inoculation 〔1,295.4bn〕
○ Securing therapeutic drugs〔601.9bn〕, etc.

2. Support for business, daily life, and livelihood　14,127.6bn

（1）Support for businesses

○ Support for reviving business〔2,803.2bn〕
○ Funding support〔140.3bn〕 (3,024.5bn if previously approved expenses are included.)
○ Support for restaurants etc. cooperating on shortening business hours, etc. (Local Revitalization Grant)〔6,476.9bn〕, etc.

（2）Support for daily life and livelihood

○ Benefit for households exempt from resident tax 〔1,432.3bn〕
○ Special lending for emergency small loans, etc. 〔458.1bn〕
○ COVID-19 payment for self-reliance support for those in need 〔93.7bn〕
○ Emergency benefits for supporting students〔67.5bn〕
○ Housing security benefit〔10.0bn〕
○ Special measures for Employment Adjustment Subsidies, etc.〔654.7bn〕
○ Financial stability of employment insurance〔1,742.2bn〕 etc.

（3）Measures against soaring energy prices

○ Reduction in burden of transportation fuel, etc. [80.0bn] (89.3 bn if previously approved expenses are included), etc.

Ⅱ. Resumption of socioeconomic activities in the "Live-with-Corona" environment and preparation for the next crisis　1,768.7bn

1. Resumption of socioeconomic activities with ensured safety and relief　833.6bn

○ "New Go To Travel campaign"〔268.5bn〕 (1,323.9bn if previously approved expenses (including support for regional tourism projects) are included.)
○ Expansion of free inspection without reservation (Local Revitalization Grant) 〔320.0bn〕, etc.

2. Fundamentally strengthening contingency plans for infectious diseases　935.1bn

○ Establishment of R&D and production systems for vaccines and therapeutic drugs 〔735.5bn〕, etc.

Ⅲ. Launching a “New Form of Capitalism" to carve out a future society　8,253.2bn

1. Growth strategy　6,257.9bn

(1) Realization of a science and technology nation

○ University fund〔611.1bn〕　○ Moonshot-type R&D〔80.0bn〕
○ R&D project for enhancing post-5G information and communication system infrastructure (development of cutting-edge semiconductor and other technologies)〔110.0bn〕
○ R&D promotion in space field, etc.〔93.3bn〕
○ Securing domestic production base for storage batteries〔100.0bn〕 etc.

(2) "Vision for a Digital Garden City Nation" to revitalize local areas and connect them to the world

○ Development of digital infrastructure in local areas〔57.1bn〕
○ Second launch of the My Number Point system (tentative name)〔1,813.4bn〕
○ Local Revitalization Grant related to the Vision for a Digital Garden City Nation (tentative name)〔66.0bn〕
○ Subsidy for restructuring SME businesses〔612.3bn〕
○ SME productivity revolution promotion project〔2,00.1bn〕
○ Strengthening the export and growth potential in agriculture, forestry and fisheries industries〔320.0bn〕 etc.

(3) Economic security

○ Securing domestic production bases for advanced semiconductors〔617.0bn〕
○ Program for fostering key technologies for economic security (vision realization type)〔250.0bn〕　etc.

2. Distribution strategy ~Strengthening human resource investment that will bring relief and growth~ 1,995.2bn

○ Benefits for households raising children〔1,216.2bn〕
(1,947.3bn if the use of Covid-19 contingency fund on November 26 is included.)
○ Strong promotion of the facilitation of labor mobility and human resource development〔64.0bn＊〕 (about 0.1tn if special accounts are included.)
○ Raising the income of employees in medical nursing, elderly care, childcare services, child education, etc.〔260.0bn〕
○ Improving the capacity of childcare and after-school clubs〔61.8bn〕 etc.

Ⅳ. Securing safety and relief with respect to disaster management　2,934.9bn

○ Five-year acceleration measures for disaster prevention, disaster mitigation, and national resilience (public works)〔1,253.9bn＊〕
○ Disaster recovery〔487.0bn〕
○ Immediate response of the Self-Defense Forces to the changing international situation, etc.〔735.4bn〕, etc.

■ Total additional spending of the supplementary budget　31,562.7bn

＊ The amount includes projects in other pillars.
(Reference 1) The supplementary budget in FY2021 includes additional financial needs (213.5bn) such as special local grants and international contributions as well as the expenditure for implementing the above “Economic measures to overcome new coronavirus infections and to carve out a new era.”
(Reference 2) In addition to the above, 384.1bn of additional expenditure is recorded in the Labor Insurance Special Account.

10. The Framework of the Supplementary Budget for FY2021

Expenditures		Revenues	
1．Containment measures for the COVID-19	18,605.9	1．Tax revenues	6,432.0
2．Resumption of socioeconomic activities in the "Live-with-Corona" environment and preparation for the next crisis	1,768.7		
3．Launching a "New Form of Capitalism" to carve out a future society	8,253.2	2．Non-tax revenues	1,351.6
4．Securing safety and relief with respect to disaster management	2,934.9		
Subtotal (expenses related to the economic stimulus measures)	31,562.7		
5. Other expenses	213.5	3．Surplus from the previous fiscal year	6,147.9
6. Transfer to the Special Account for the National Debt Consolidation Fund	2,268.2		
7. Local allocation tax grants	3,511.7		
8. Reduction in previously approved expenses	-1,566.5	4．Government bond issuance	22,058.0
		（1）Construction bonds	2,827.0
		（2）Special deficit-financing bonds	19,231.0
Total	35,989.5	Total	35,989.5

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

11. The FY2021 Budget Framework after Supplementary Budget

(Unit: billion yen)

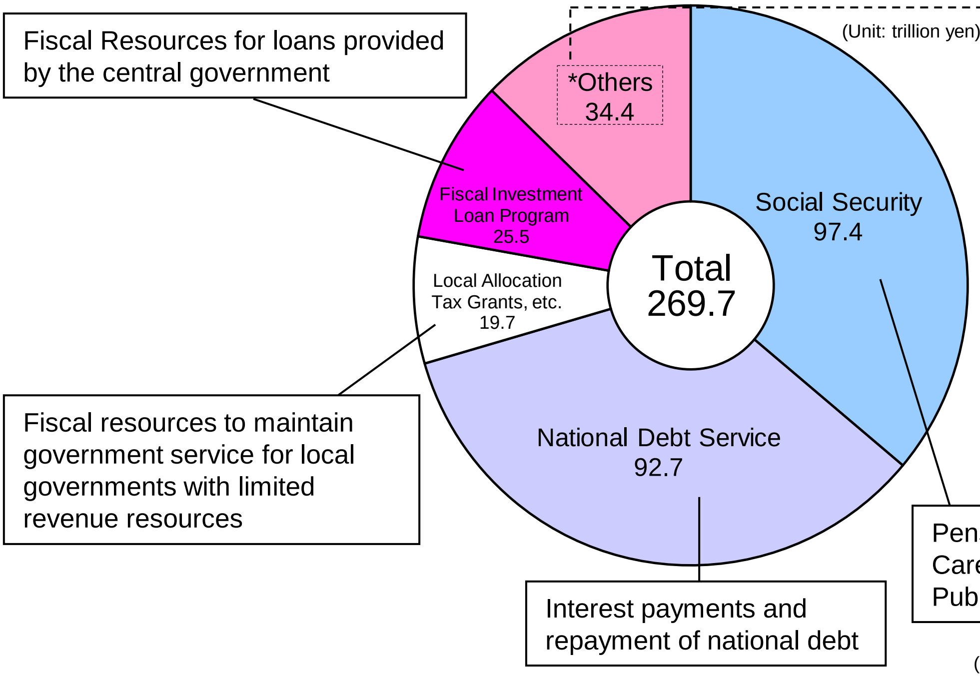
	FY2021 Budget (initial)	FY2021 budget (after supplementary budget revision)	FY2021 budget initial → after supplementary budget revision	Notes
(Expenditure)				
General Expenditure	66,902.0	98,336.5	31,434.5	- The Balance of the Contingency Funds for the COVID-19 as of the decision on the supplementary budget estimate: 1,834.3bn
Local Allocation Tax Grants, etc.	15,948.9	19,557.6	3,608.7	
National Debt Services	23,758.8	24,705.1	946.4	
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	14,731.7	16,999.9	2,268.2	
o/w Interest Payment	8,503.6	7,302.4	-1,201.1	
Total	106,609.7	142,599.2	35,989.5	
(Revenue)				- Bond Dependency Ratio: 46%
Tax Revenue	57,448.0	63,880.0	6,432.0	- Construction Bond Issuance initial: 6.3tn → after supplementary budget revision: 9.2tn
Other Revenue	5,564.7	13,064.2	7,499.5	
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	43,597.0	65,655.0	22,058.0	- Special Deficit-Financing Bond Issuance initial: 37.3tn → after supplementary budget revision: 56.5tn
Amount Equivalent to Redemption of National Debt (Excluding Subsidy Bonds)	14,731.7	16,999.9	2,268.2	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) after supplementary budget revision is 48.7tn
Amount Equivalent to Interest Payments	8,503.6	7,302.4	-1,201.1	
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	20,361.7	41,352.6	20,990.9	
Total	106,609.7	142,599.2	35,989.5	

(Note 1) Figures may not add 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.

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 (FY2022: 107.6 trillion yen) and the Special Account gross expenditures (FY2022: 467.3 trillion yen) minus inter-account transfers), sorted by each policy field. It shows an overall picture of the central government's expenditures.



*Others

Public Works	6.4
Education and Science	5.4
National Defense	5.4
Food Supply	1.9
Energy	1.1
Economic Assistance	0.5
Promotion of SMEs	0.2
Former Military Personnel Pensions	0.1
Miscellaneous	7.0
Contingency funds for the COVID-19	5.0
Industrial Investment	0.1
Acceleration of Reconstruction and Revitalization of Fukushima	0.2
General Contingency Reserve	1.2

(Note) Based on the FY2022 initial budget

○ Trends in the Net Expenditure Budget of the General Account and the Special Accounts

(Unit: trillion yen)

Item	FY2020 Settlement	FY2021 Settlement (estimate)	FY2022 Initial Budget
Total Expenditure in the General Account (A)	147.6	172.6	107.6
Total Expenditure in the Special Accounts (B)	404.5	460.1	467.3
Total (C = A + B)	552.1	632.6	574.9
of which, the amount overlapped (D)	137.8	161.2	152.2
Difference (E = C – D)	414.4	471.5	422.6
of which, the amount deducted (F)	108.5	143.7	152.9
Net Total (= E – F)	305.8	327.8	269.7

○ Lists of Special Accounts in the FY2022

- 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 FY2020, the assets amounted to ¥720.8 trillion, but most of those cannot be converted into cash to make up fiscal resources for other policies. (Please refer to the figure below.)

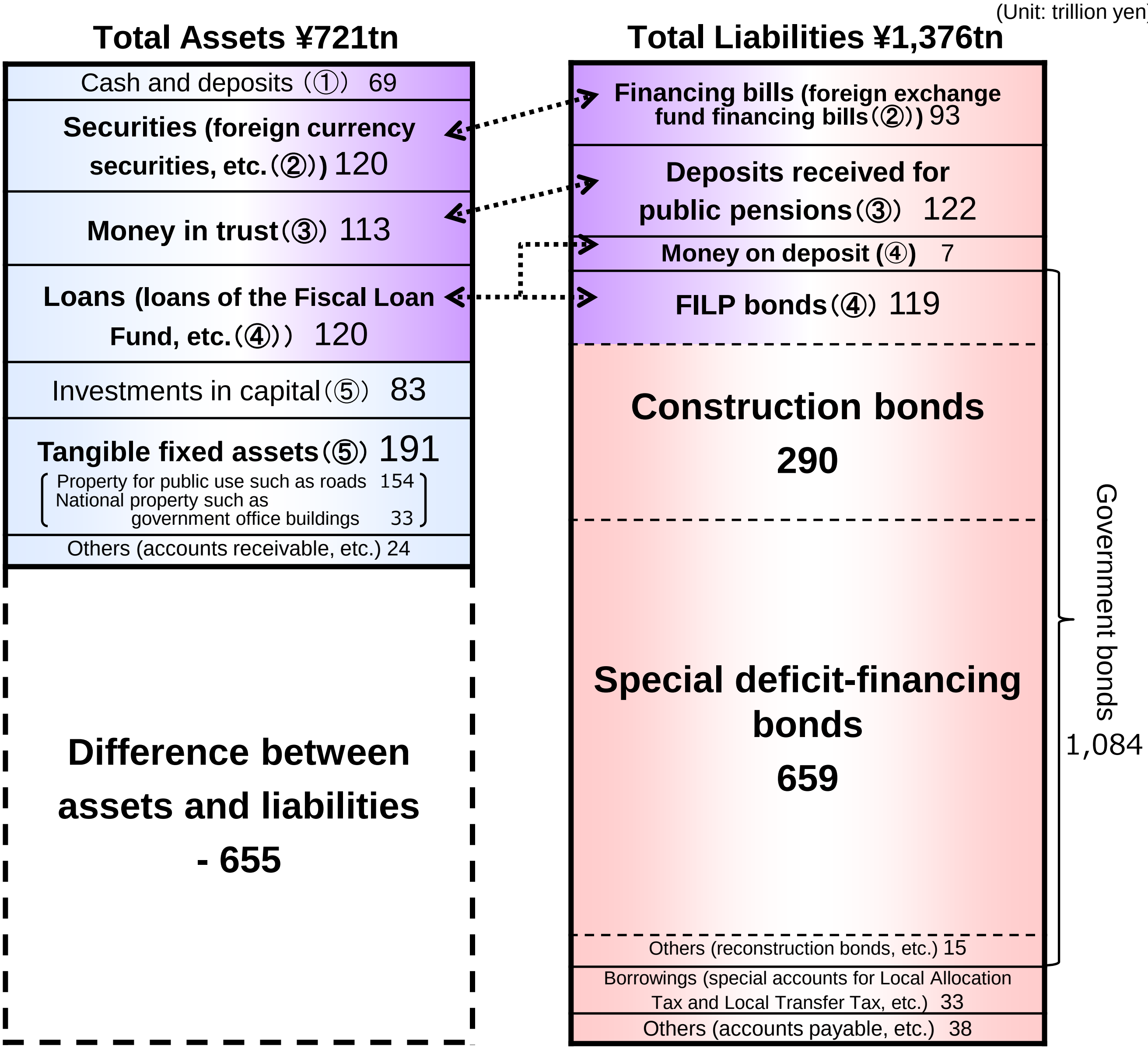
◆ Among account titles of the assets and the liabilities, some financial assets and liabilities are earmarked to each other.

- Foreign currency securities (¥117.9 trillion (part of the securities)): Financial sources for purchasing these securities are provided by issuing foreign exchange fund financing bills (¥91.5 trillion (part of the financing bills)).
- Loans of the Fiscal Loan Fund (¥113.3 trillion (part of the loans)): Financial sources for these loans consists of funds provided by issuing FILP bonds (¥118.9 trillion) and money on deposit (¥7.1 trillion).
- Money in trust (¥112.6 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 (¥121.8 trillion).

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

- Tangible fixed assets (¥191.3 trillion): property for public use, etc. such as roads and rivers.
- Investments in capital (¥83.4 trillion): Investments in capital 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, 2021)

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 FY2021, the Ministry of Finance conducted 39 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)

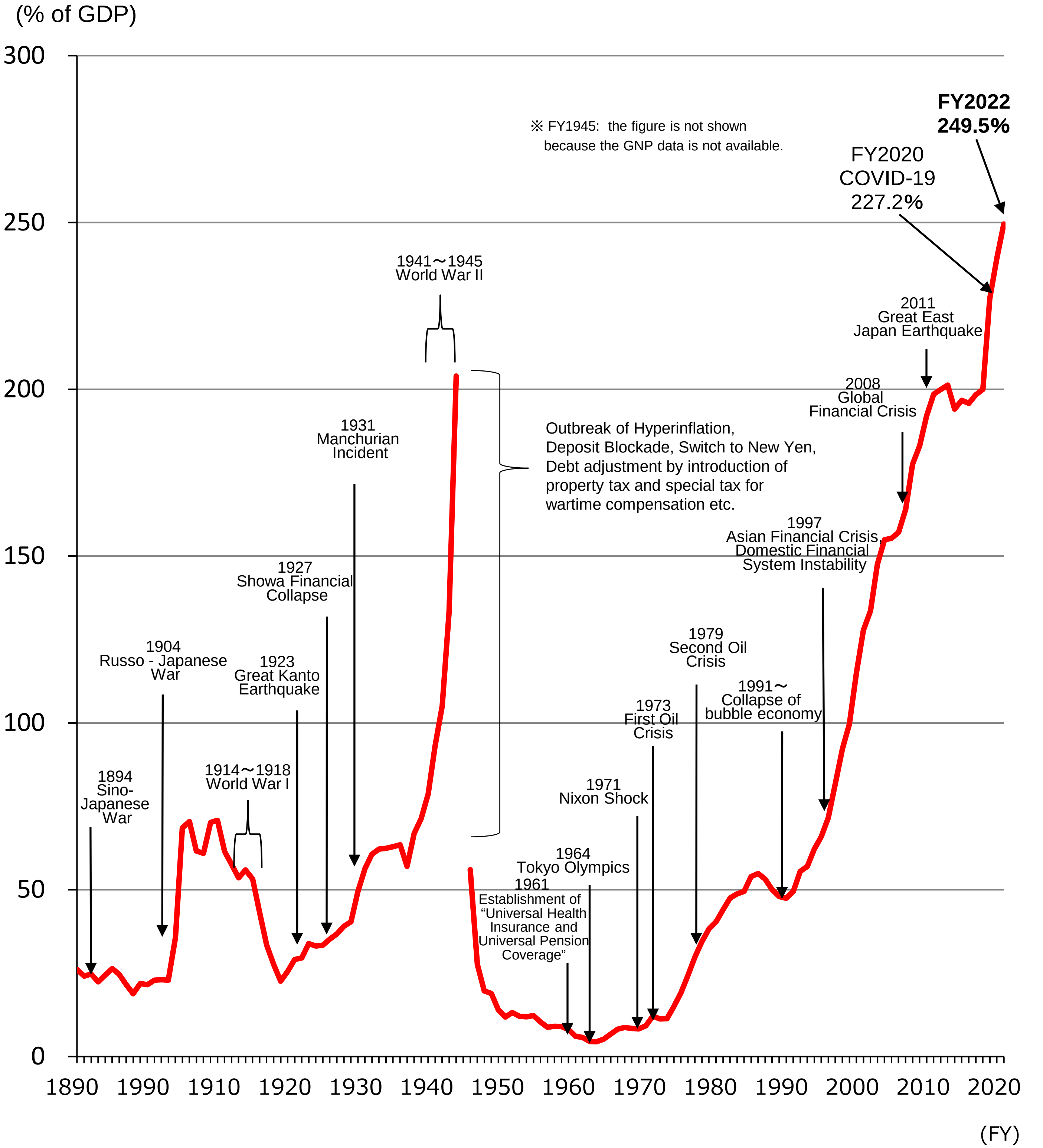
Check
(Evaluating and examining the budget)
- Resolutions of the Diet
- Budget execution survey
- Audit reports
- Policy evaluation
- Administrative Programs Review and other measures, etc.

Action
(Reflecting the evaluation results, etc.)

Plan
(Planning the budget)

(Reference)

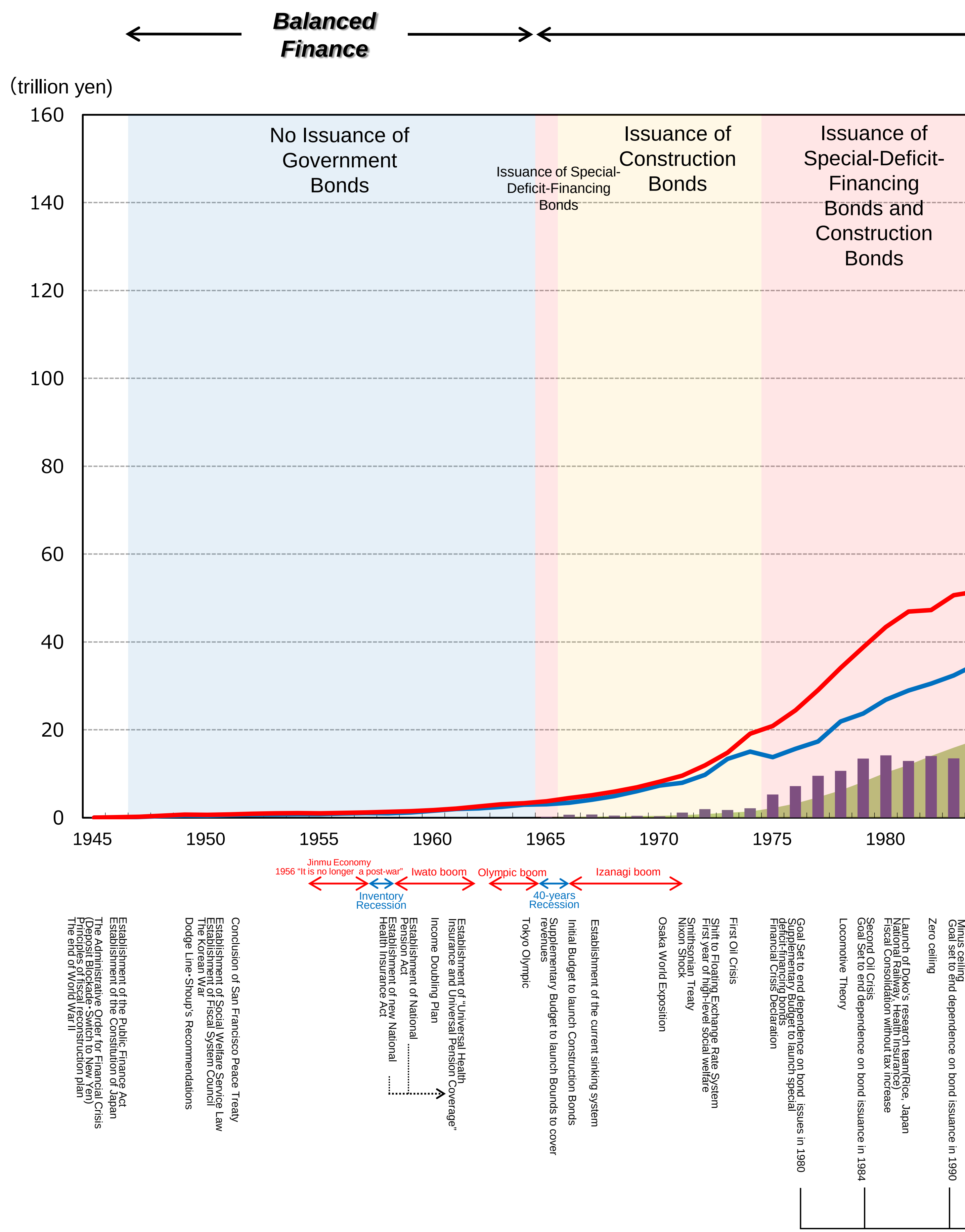
Trend in Accumulated Government Bonds Outstanding from the Prewar years



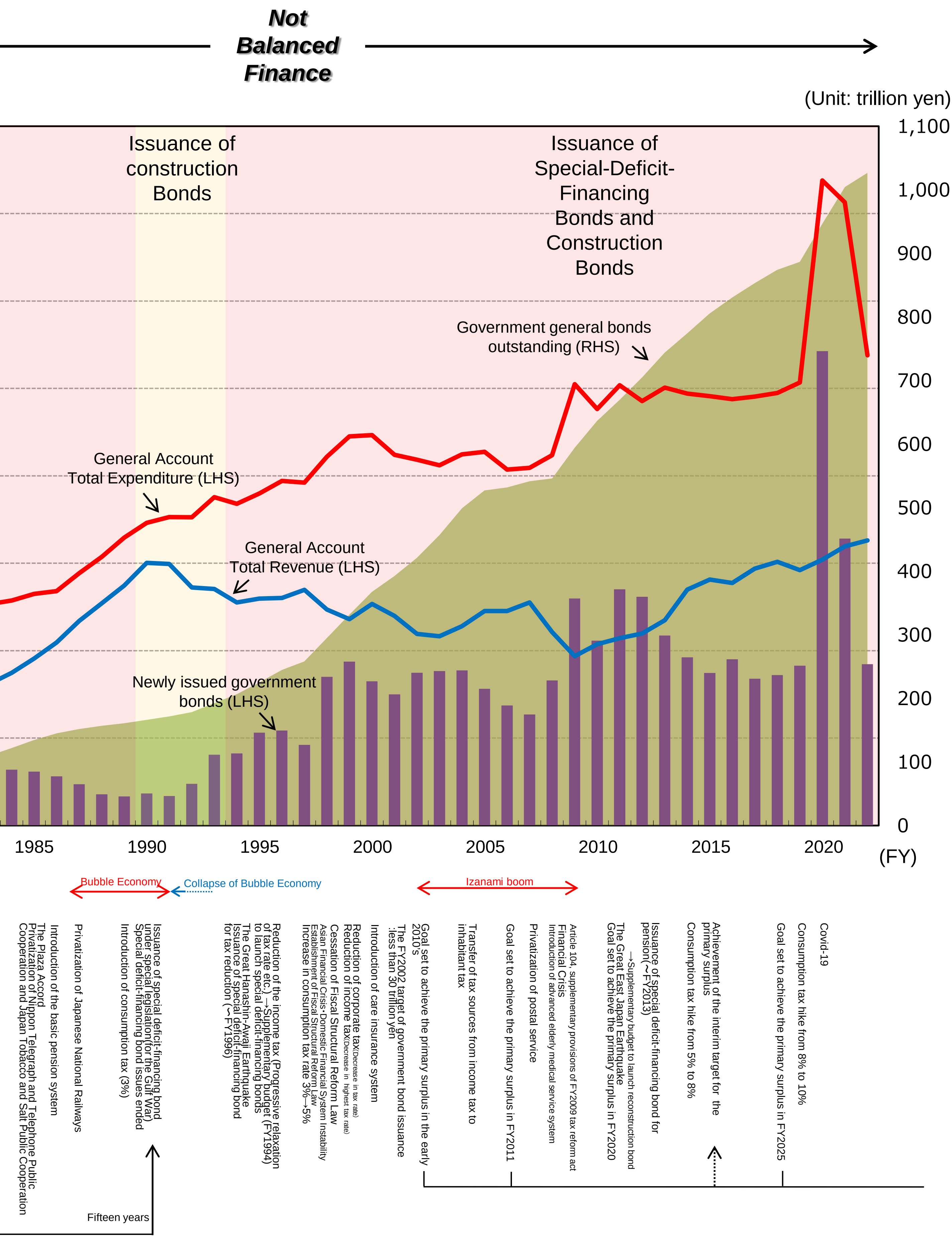
(Note 1) Government Bonds Outstanding: The figures at the end of "government bonds and borrowing outstanding" (Annual report on government bonds statistics). FY1890-2020: Actual ; FY2021: Based on the Supplementary Budget; FY2022 Based on the Budget. Outstanding of Fiscal Loan Fund Financing Bills, Foreign 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, FY1994-2020: based on SNA 2008)); FY2021-FY2022: Based on Cabinet Office "Fiscal 2022 Economic Outlook and Basic Stance for Economic and Fiscal Management" (January 17, 2022))

(Reference) Changes in the Fiscal Situation after World War Ⅱ

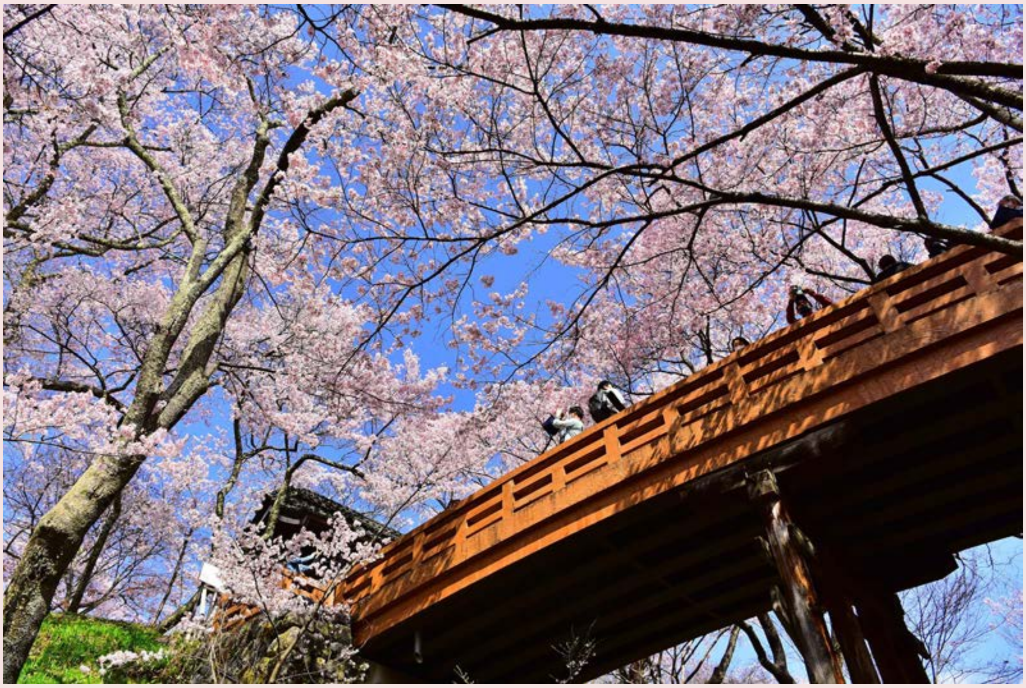


(Note 1) Total revenues and expenditures of general account: Settled Figures in FY1945-FY2020, Based on the Supplementary Budget in FY2021, Based on the Budget in FY2022
(Note 2) Government general bonds outstanding: Actual figures in FY1945-FY2020, Based on the Supplementary budget in FY2021, Based on the Budget in FY2022



Not Balanced Finance
(Unit: trillion yen)
Issuance of construction Bonds
Issuance of Special-Deficit-Financing Bonds and Construction Bonds
Government general bonds outstanding (RHS)
General Account Total Expenditure (LHS)
General Account Total Revenue (LHS)
Newly issued government bonds (LHS)
1,100
1,000
900
800
700
600
500
400
300
200
100
0
1985
1990
1995
2000
2005
2010
2015
2020
(FY)
Bubble Economy
Collapse of Bubble Economy
Izanami boom
Introduction of the basic pension system
The Plaza Accord
Privatization of Nippon Telegraph and Telephone Public Cooperation and Japan Tobacco and Salt Public Cooperation
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)
Reduction of corporate tax(Decrease in tax rate)
Reduction of income tax(Decrease in highest tax rate)
Cessation of Fiscal Structural Reform Law
Asian Financial Crisis·Domestic Financial System Instability
Establishment of Fiscal Structural Reform Law
Increase in consumption tax rate 3%→5%
Introduction of care insurance system
The FY2002 target of government bond issuance :less than 30 trillion yen
Goal set to achieve the primary surplus in the early 2010's
Transfer of tax sources from income tax to inhabitant tax
Goal set to achieve the primary surplus in FY2011
Privatization of postal service
Article 104, supplementary provisions of FY2009 tax reform act
Financial Crisis
Introduction of advanced elderly medical service system
Issuance of special deficit-financing bond for pension(~FY2013)
→Supplementary budget to launch reconstruction bond
The Great East Japan Earthquake
Goal set to achieve the primary surplus in FY2020
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

MEMO



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