Japanese Public Finance Fact Sheet

April, 2023

Ministry of Finance

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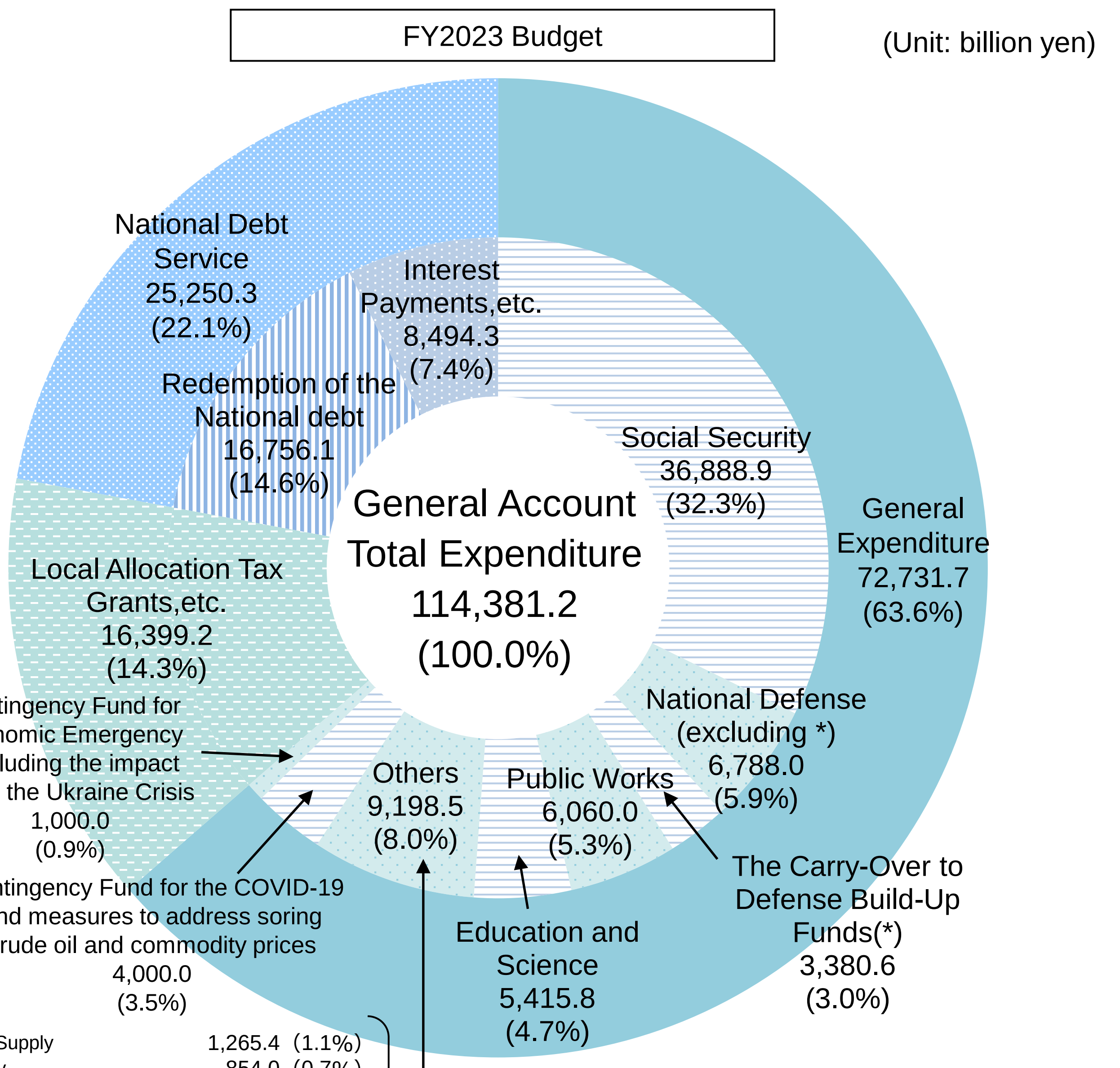
Part 1 Public Finance in Japan

Ⅰ. Current Fiscal Situation

1. General Account Budget for FY2023

（1）Expenditure

As for the total expenditure in the general account, social security expenditures, local allocation tax grants, and national debt services account for more than two-thirds of the total expenditure .



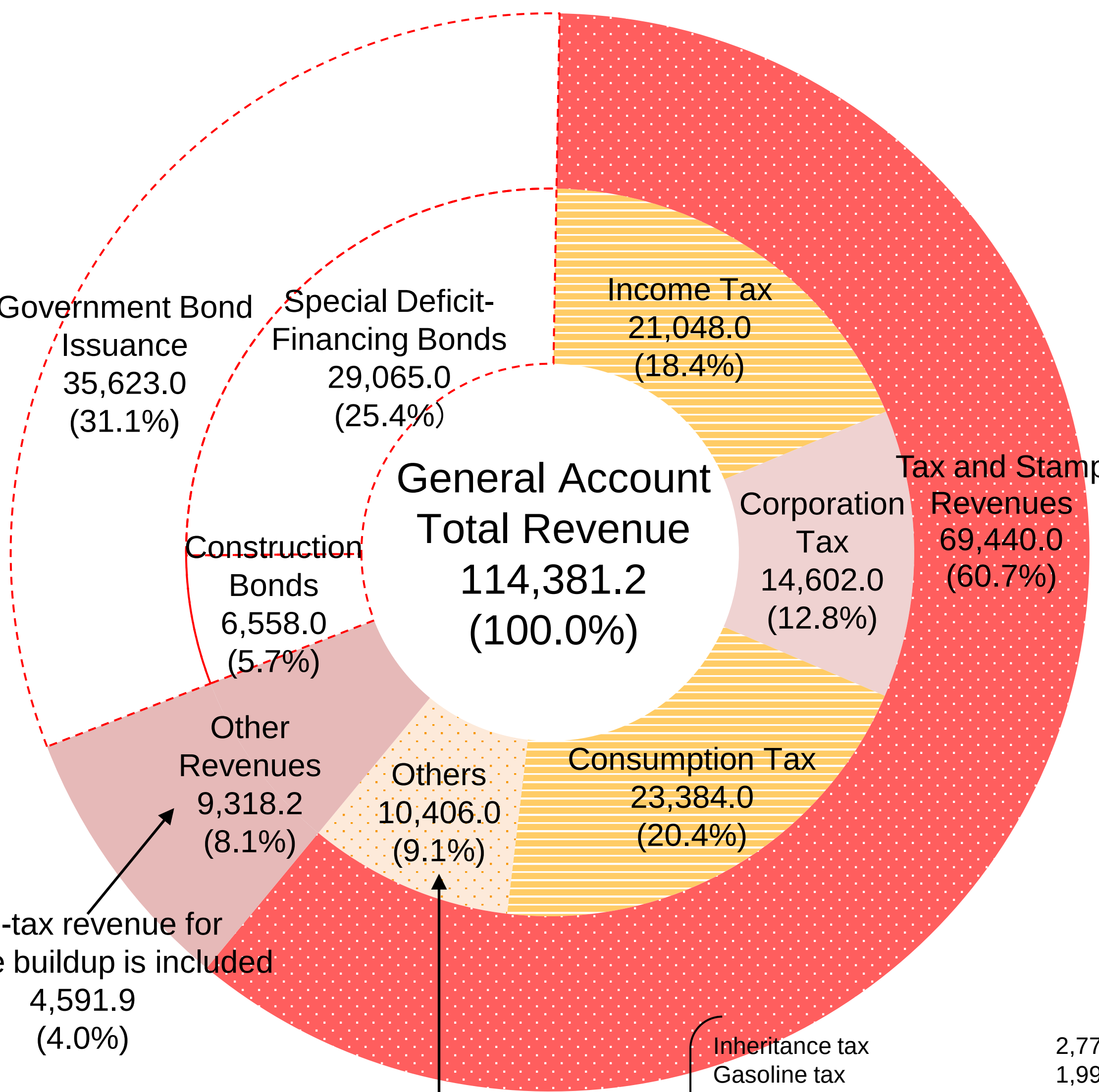
Food Supply	1,265.4	(1.1%)
Energy	854.0	(0.7%)
Economic Assistance	511.4	(0.4%)
Measures for SMEs	170.4	(0.1%)
Former Military Personnel Pensions	97.0	(0.1%)
Miscellaneous	5,800.4	(5.1%)
Contingency Reserves	500.0	(0.4%)

- 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
  - FY2023 Budget: 89,519.5（78.3%）

(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 50.7%.

（2）Revenue

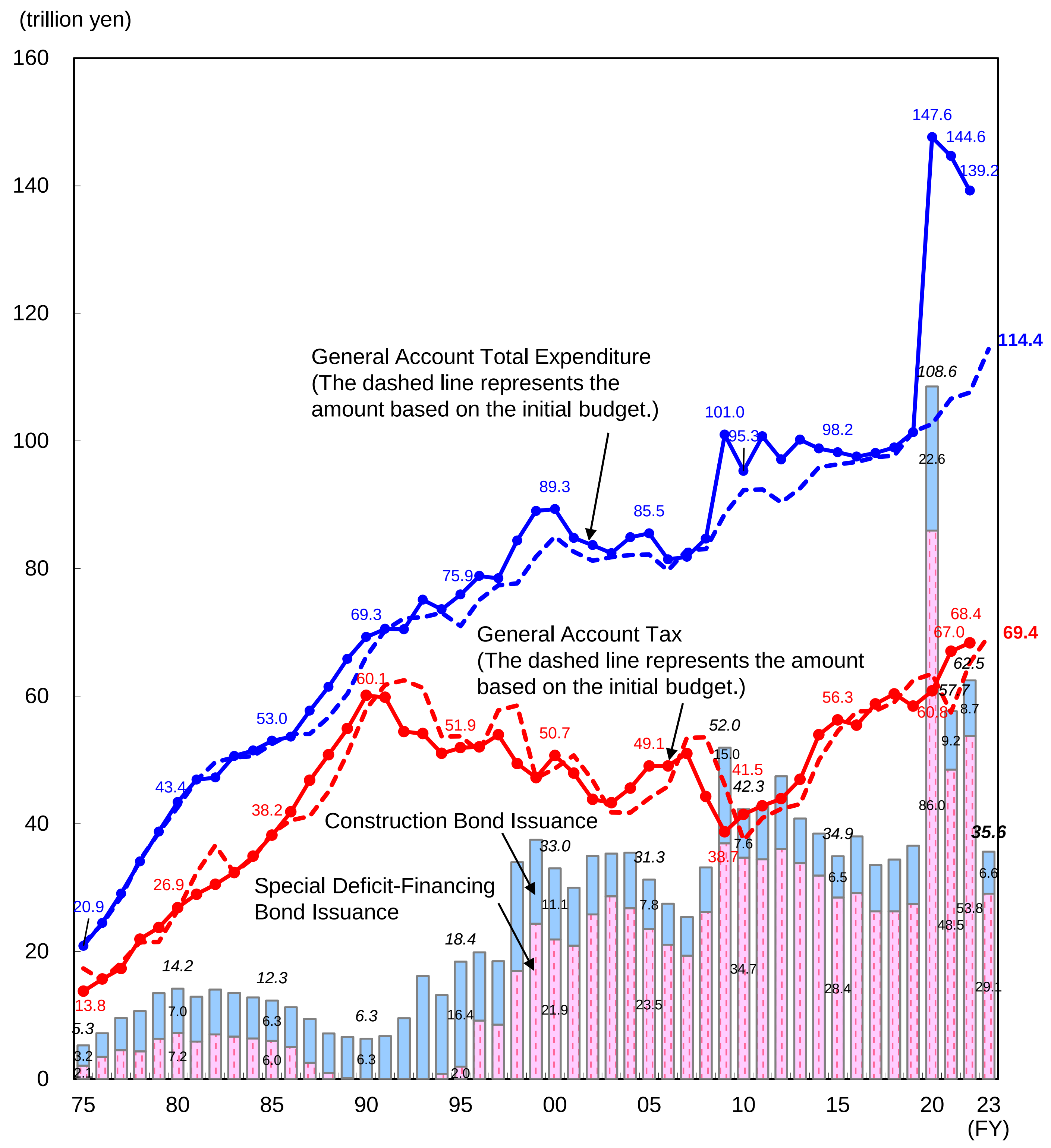
Tax revenue is estimated to be around 69 trillion yen in the FY2023 general account budget. Essentially, the government expenditure should be fully financed by tax and other revenues in the same year, but the current revenue accounts for only about two-thirds of the whole expenditure in the FY2023 budget. 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.



Inheritance tax	2,776.0	(2.4%)
Gasoline tax	1,999.0	(1.7%)
Liquor tax	1,180.0	(1.0%)
Tariffs	1,122.0	(1.0%)
Tobacco tax	935.0	(0.8%)
Petroleum and coal tax	647.0	(0.6%)
Motor vehicle tonnage tax	378.0	(0.3%)
Promotion of power resources development tax	324.0	(0.3%)
Other tax revenues	69.0	(0.1%)
Stamp revenue	976.0	(0.9%)

2. General Account Expenditure and Tax Revenue

The Japanese Public Finance runs a budget deficit every fiscal year, as an amount of its expenditure exceeds that of revenue. The gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).



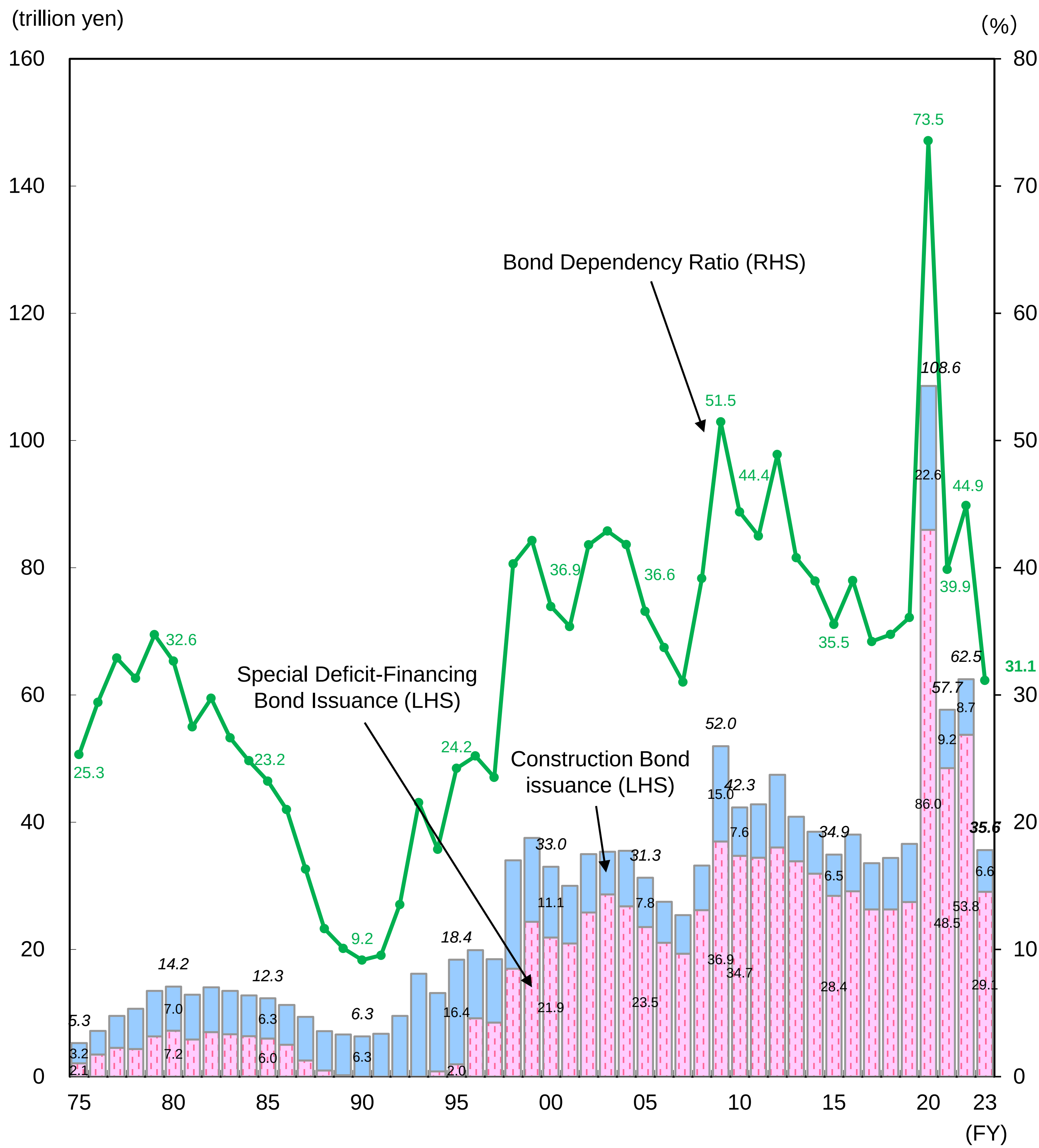
(Note 1) FY1975 - FY2021: settled figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget

(Note 2) The 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) The general account total expenditure of FY2023 includes the carry-over (3.4 trillion yen) to Defense Buildup Funds which is the resource for the national defense expenditure for FY2024 and years after.

3. Bond Issuance and Bond Dependency Ratio

The bond dependency ratio (bond issuance / general account total expenditure) in FY2023 is projected to be 31.1%.



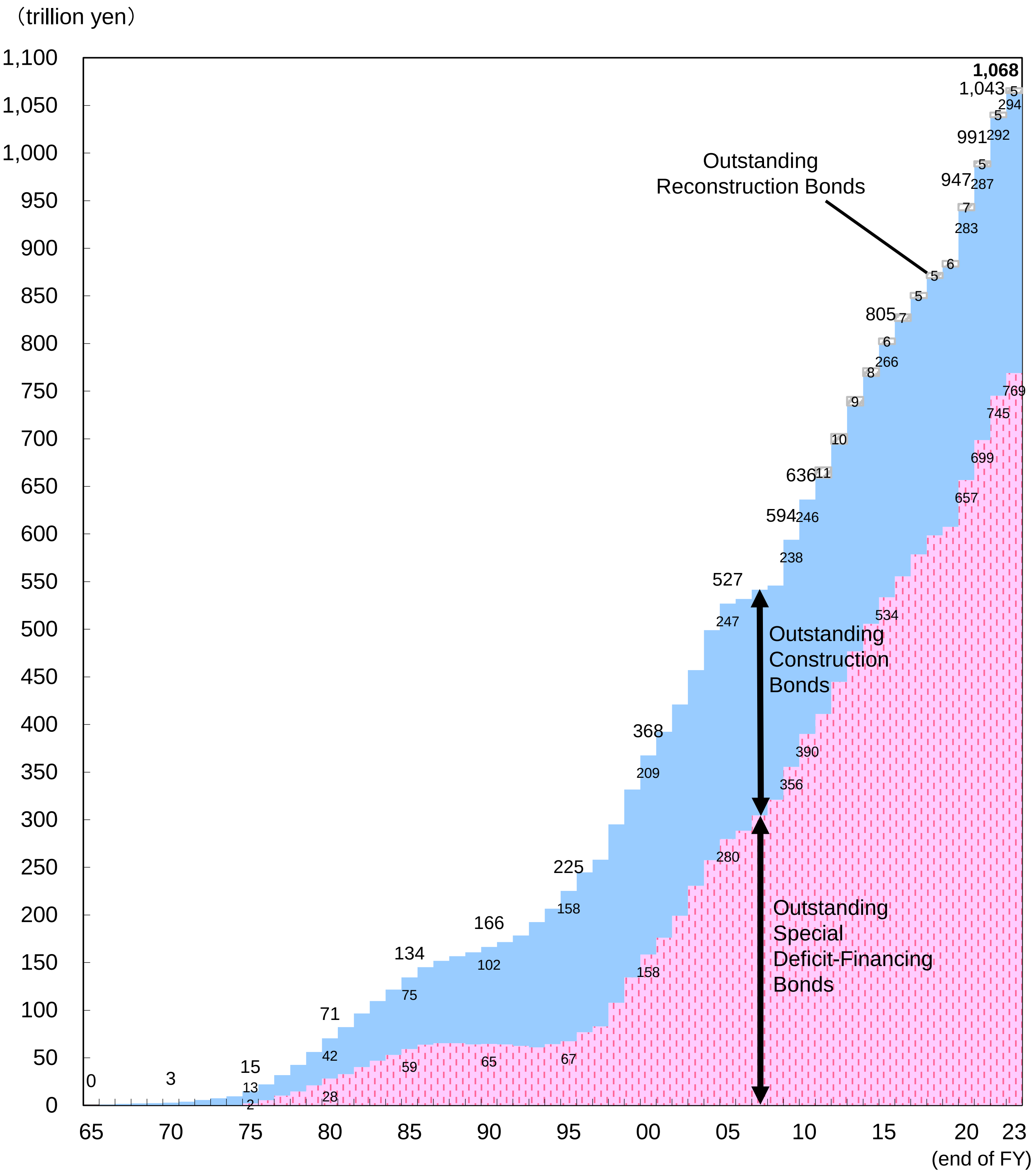
(Note 1) FY1975 - FY2021: settled figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget

(Note 2) The 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 outstanding amount of Japan's government general bonds has been increased year after year. It is projected to reach 1,068 trillion yen at the end of FY2023.



(Note 1) FY1975 - FY2021: actual figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget

(Note 2) Government general bonds includes Construction bonds, Special deficit-financing bonds and Reconstruction bonds. Special deficit-financing bonds includes Deficit- financing bonds issued in FY1965, 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, Pension-related special deficit-financing bonds and GX Economy Transition Bonds.

(Note 3) The estimate of outstanding government general bonds at the end of FY2023 excluding the maximum amount of front-loading issuance of refunding bonds is approximately 1,043 trillion yen.

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

In addition to the government general bonds, there are other long-term debts, such as borrowings and local government bonds. The total outstanding amount of long-term debt of central and local governments is expected to reach 1,280 trillion yen (224% of GDP) at the end of FY2023.

(Unit: trillion yen)

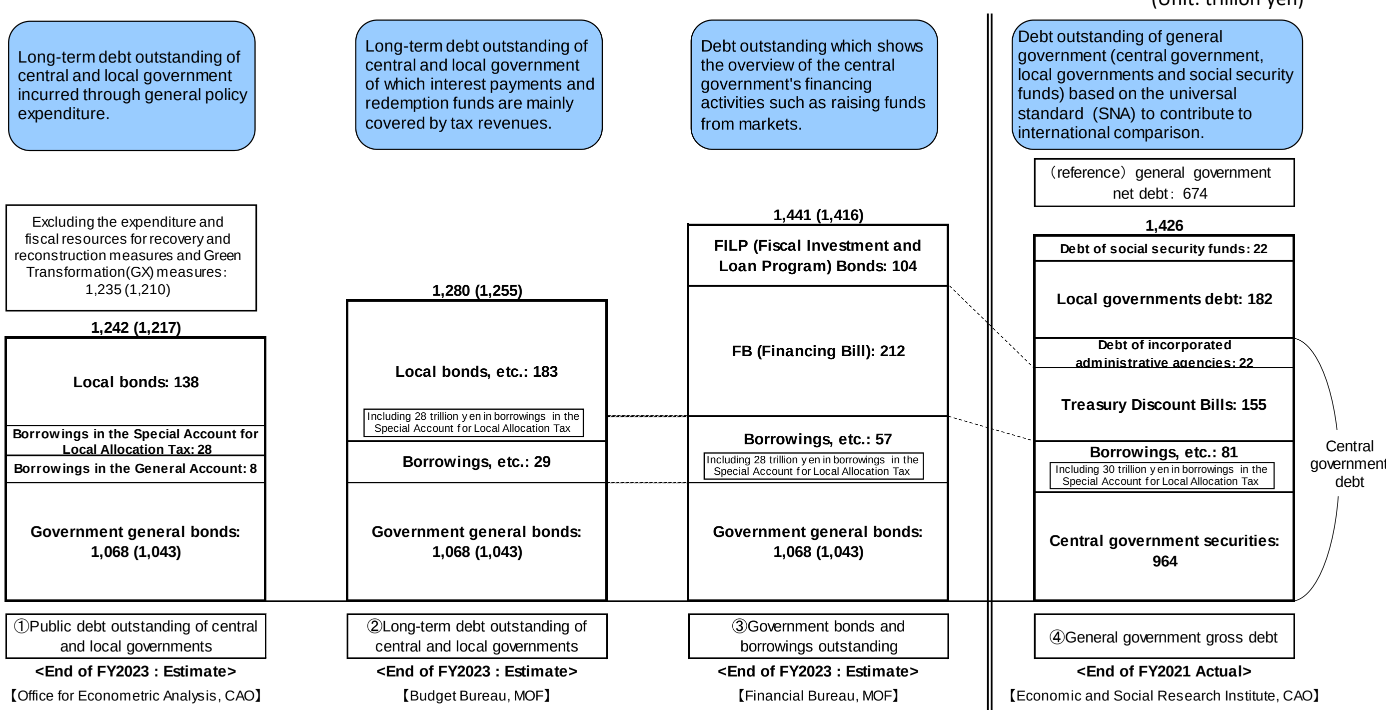
		FY1990 <Actual>	FY1998 <Actual>	FY2003 <Actual>	FY2008 <Actual>	FY2012 <Actual>	FY2013 <Actual>	FY2014 <Actual>	FY2015 <Actual>	FY2016 <Actual>	FY2017 <Actual>	FY2018 <Actual>	FY2019 <Actual>	FY2020 <Actual>	FY2021 <Actual>	FY2022 <Estimated>	FY2023 <Budget>
Central Government		199	390	493	573	731	770	800	834	859	881	901	914	973	1,017	1,068	1,097
		(197)	(387)	(484)	(568)	(720)	(747)	(772)	(792)	(815)	(832)	(850)	(870)	(964)	(1,002)	(1,048)	(1,072)
	Government General Bonds	166	295	457	546	705	744	774	805	831	853	874	887	947	991	1,043	1,068
		(165)	(293)	(448)	(541)	(694)	(721)	(746)	(764)	(786)	(805)	(823)	(843)	(937)	(976)	(1023)	(1043)
	% of GDP	37%	55%	87%	106%	141%	145%	148%	149%	152%	154%	157%	159%	176%	180%	186%	187%
		(37%)	(55%)	(85%)	(105%)	(139%)	(141%)	(142%)	(141%)	(144%)	(145%)	(148%)	(151%)	(174%)	(177%)	(183%)	(182%)
Local Governments		67	163	198	197	201	201	201	199	197	196	194	192	192	191	188	183
	% of GDP	15%	30%	38%	38%	40%	39%	38%	37%	36%	35%	35%	35%	36%	35%	34%	32%
Total		266	553	692	770	932	972	1,001	1,033	1,056	1,077	1,095	1,106	1,165	1,208	1,257	1,280
		(264)	(550)	(683)	(765)	(921)	(949)	(972)	(991)	(1,012)	(1,028)	(1,044)	(1,062)	(1,156)	(1,193)	(1,237)	(1,255)
	% of GDP	59%	103%	131%	149%	187%	190%	191%	191%	194%	194%	197%	199%	217%	219%	224%	224%
		(59%)	(103%)	(130%)	(148%)	(184%)	(185%)	(186%)	(183%)	(186%)	(185%)	(188%)	(191%)	(215%)	(217%)	(221%)	(219%)

(end of FY)

(Note 1) GDP for FY1990 - FY2021: actual figures, FY2022 and FY2023: FY2023 Economic Outlook (Cabinet Office)
(Note 2) Central government debt in FY1990 - FY2021: actual figures, FY2022: based on the second supplementary budget, FY2023: based on the budget.
Local governments debt in FY1990 - FY2021: actual figures, FY2022 and FY2023: Local Government Debt Plan etc.
(Note 3) Government general bonds 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 and GX Economy Transition Bonds.
(Note 4) FY1990 - FY2021: Figures in parentheses do not include the amount of front-loading issuance of refunding bonds.
FY2022 - FY2023: 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 outstanding amount of the borrowing incurred by the central government was transferred to the general account at the beginning of FY2007, so that the outstanding borrowing in the special account since the end of FY2007 is equal to the debt of the local governments (28 trillion yen at the end of FY2023).
(Note 6) In addition to the above, outstanding government bond in the special account for fiscal investment and loan program at the end of FY2023 is 104 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 /the issuance limit of advance refunding bonds for refinancing in the following fiscal year. (25 trillion yen).
(Note 3) "Government general bonds at the end of FY2023" includes Reconstruction bonds (about 4.9 trillion yen).
(Note 4) Borrowings in the Special Account for Local Allocation Tax are 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) (about 16 trillion yen).
(Note 6) "Borrowings, etc." in ② and ③ = borrowings + government subscription bonds, etc. "Borrowings, etc." in ② do not include the outstanding borrowings in the special account for local allocation tax (about 28 trillion yen) for which local governments bear the burden for redemption.
(Note 7) "Central government securities" in ④ include government general bonds, government compensation bonds and government bonds converted. The borrowings, etc. in item ④ includes government subscription bonds, etc.
(Note 8) The central government securities and the local government bonds/securities included in the debt of local governments in ④ are at current market value.
(Note 9) The figures in ①, ②, and ③ are based on the budget for FY2023 and the local government debt plan etc.
(Note 10) "General government net debt" = "General government gross debt" – "Financial assets" (general government) (about 752 trillion yen) .

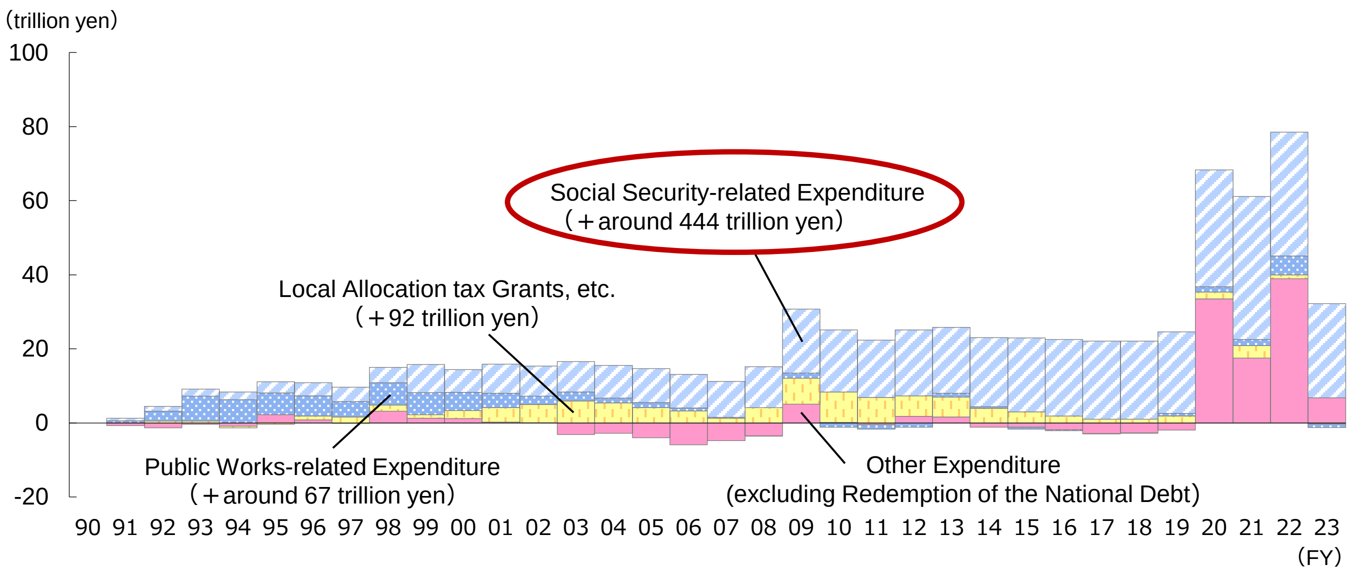
6. Factors for an Increase in Government General Bonds Outstanding

Breaking an accumulated outstanding government general bonds after FY1990 (when Japan was able to temporarily stop the issuance of special deficit-financing bonds) down into factors, main factors are followings;

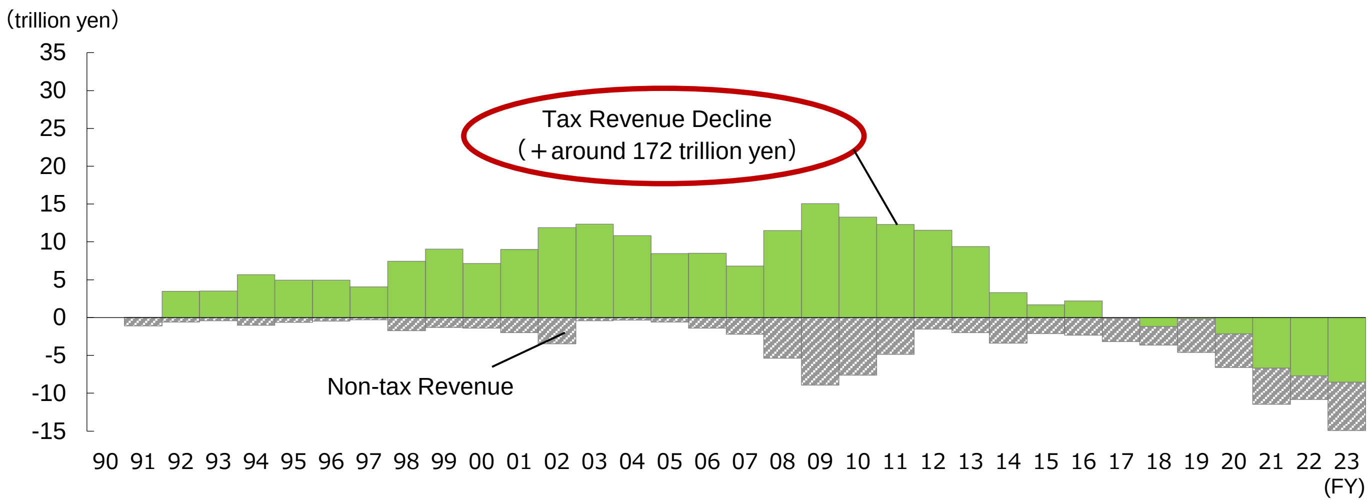
- expenditure side; increase in social security expenditures due to the population aging and local allocation tax grants, etc.
- revenue side; decline in tax revenue due to economic downturns and tax cuts.

Increase in Outstanding Government General Bonds from FY1990 to FY2023: about 897 trillion yen

Expenditure increase factors: + about 678 trillion yen



Revenue decrease factors: + about 85 trillion yen



Approx. 70% of the entire outstanding amount of government general bonds was accumulated by the factors marked with " ".

Impact of balance gap in FY1990: + around 94 trillion yen
(Approx. 2.8 trillion yen (FY1990 balance gap) x 33 years (FY1991-FY2023))

Other factors (long-term debt transferred from Japan National Railway, etc.): + around 40 trillion yen

(Note 1) FY1990 - FY2021: settled figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget
The amount of expenditure for FY2022 includes the carry-over from FY2021 to FY2022.

(Note 2) Reconstruction Bonds (4.9 trillion yen at the end of FY2023) and expenditures in FY2011 financed by the issuance of Reconstruction Bonds (7.6 trillion yen) are excluded from government general bonds above.

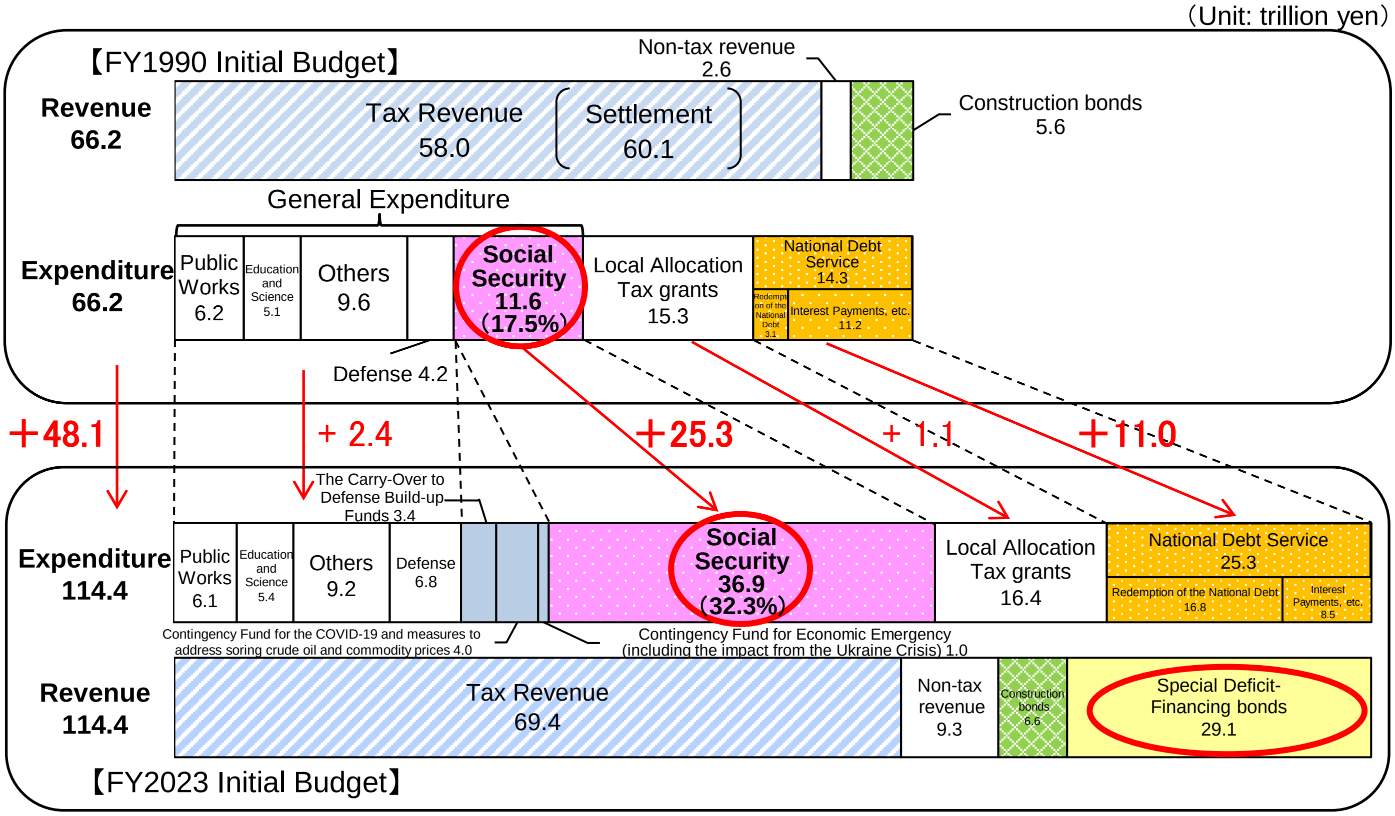
(Note 3) As for the Local Allocation Tax Grants, tax revenues based on the legal rates are excluded from both sides of expenditure and revenue, and the others (to cover expenditure-revenue gap in the local governments, etc.) are counted as an expenditure increase.

(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 FY2023

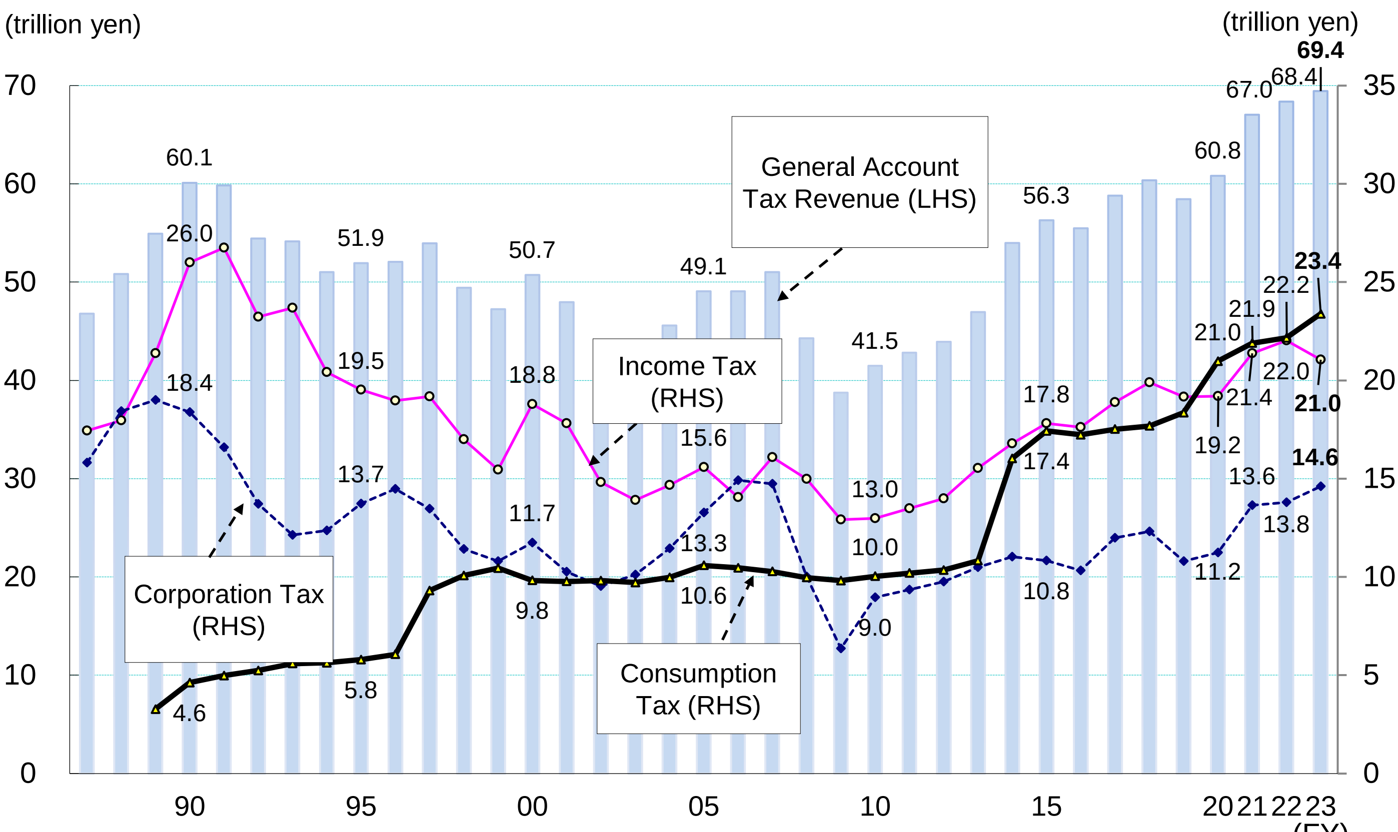
Compared to the FY1990 budget, when the issuance of special deficit-financing bond temporarily stopped, social security-related expenses have significantly increased, and they are covered by special deficit-financing bonds issuance in the FY2023.

(Unit: trillion yen)



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

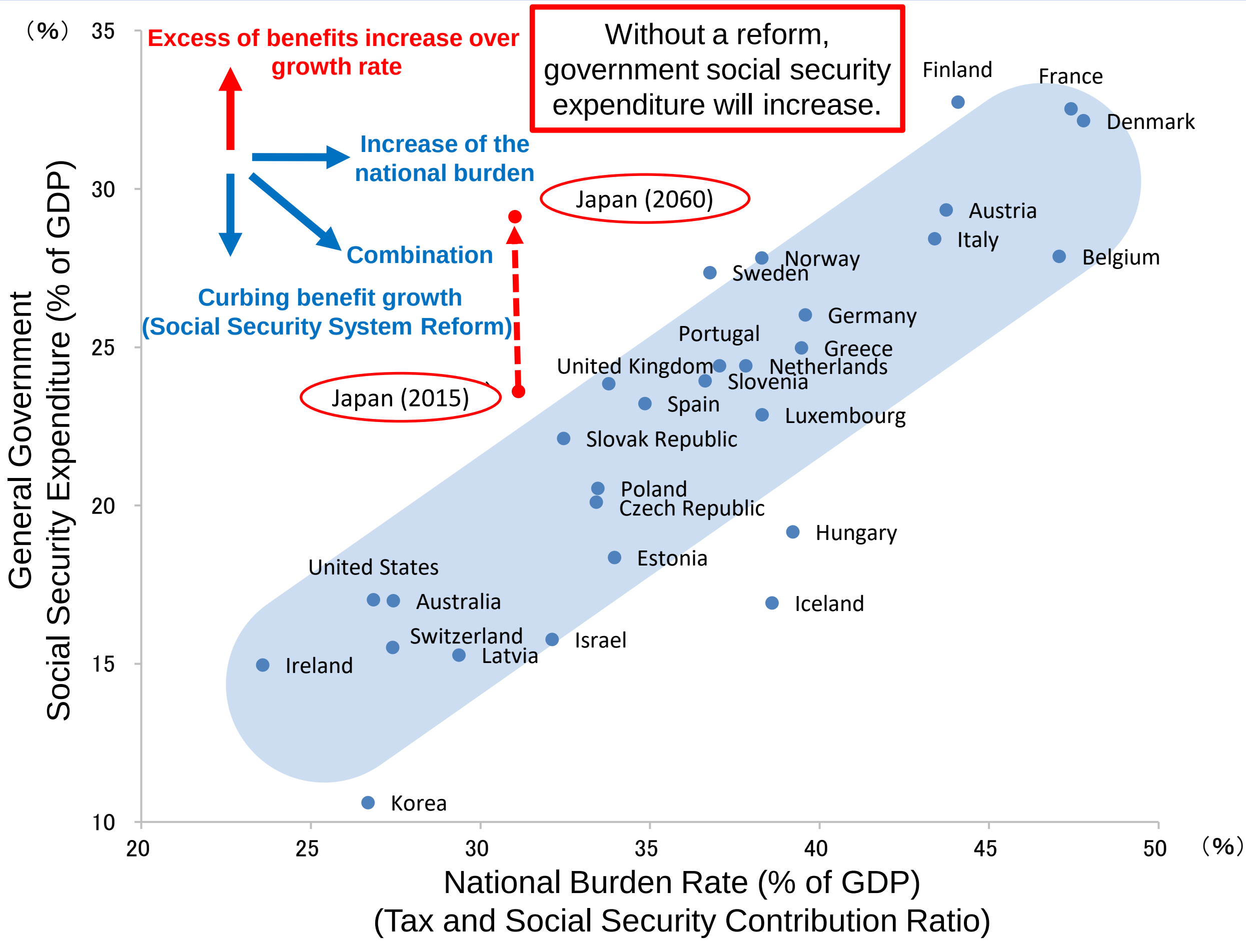
(Reference) Trends of General Account Tax Revenue



(Note) FY1987- FY2021: settled figures, FY2022: based on the supplementary budget, FY2023: 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 that of the other countries. In order to ensure the sustainability, it is urgent to reform the structure of the Japan's social security system.



(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).

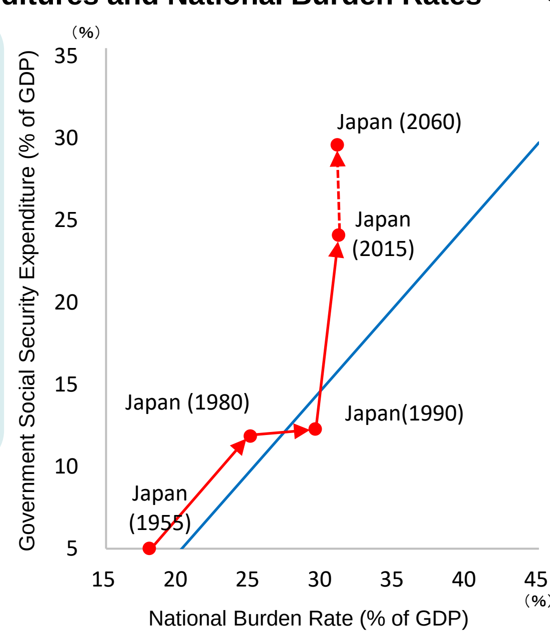
(Note 2) Japan: Actual figures of FY2015, Iceland and Australia: Actual figures of CY2014, the other countries: Actual figures of CY2015

(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 the 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 funded by taxes and social insurance premiums (the national burden).
- In the postwar period, Japan had 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, which indicates -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".

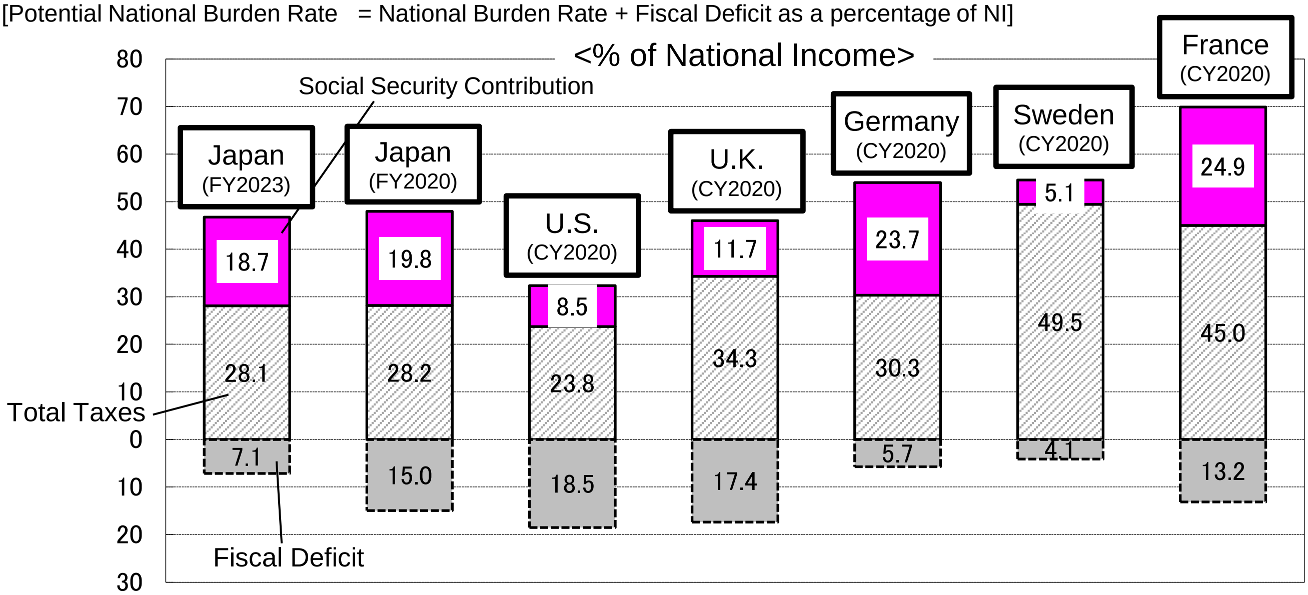
(Note 1) The word "primary balance" here is simply defined as [the national burden ratio - (social security expenditure + non-social security expenditure (excluding interest payments))] (All figures are % of GDP), which is different from the SNA-based primary balance.

(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 at a lower level than that of 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.

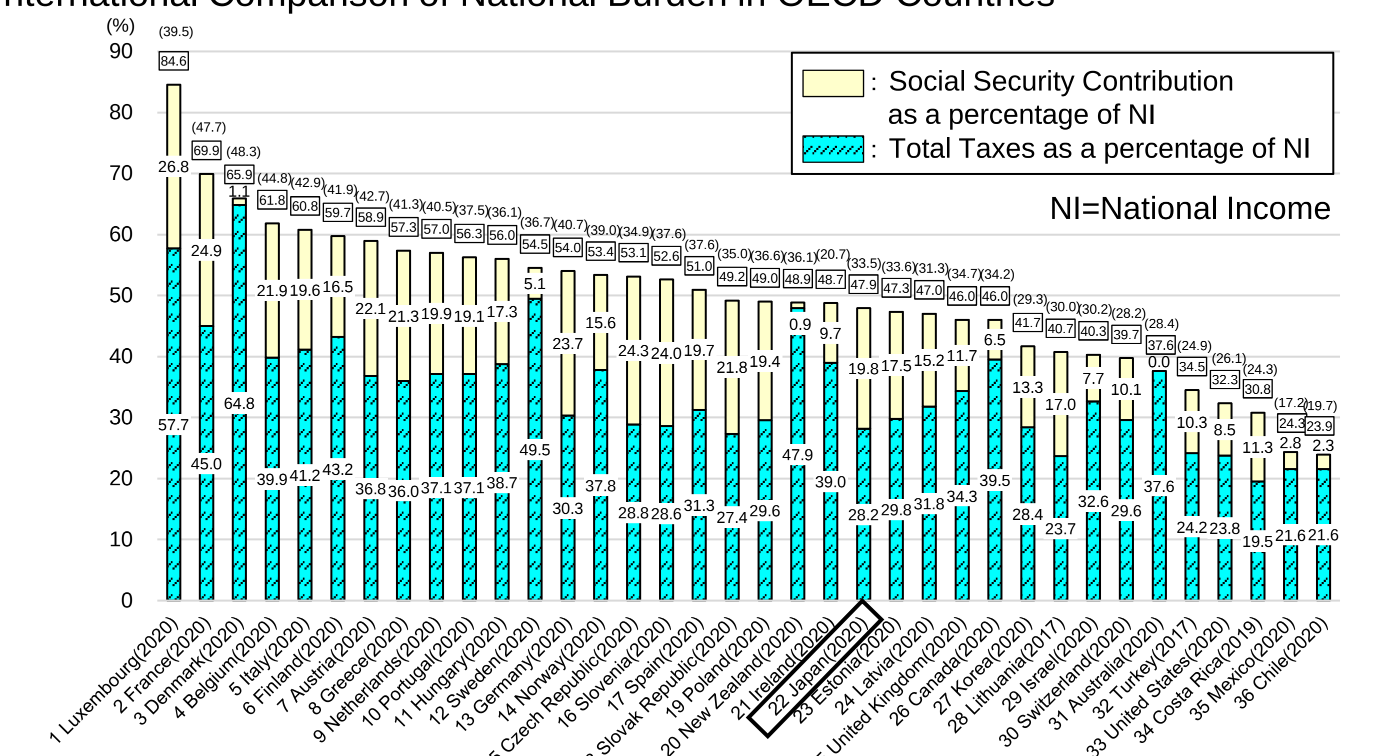
[National Burden Rate = Total Taxes as a percentage of National Income (NI) + Social Security Contribution as a percentage of NI]
[Potential National Burden Rate = National Burden Rate + Fiscal Deficit as a percentage of NI]



National Burden Rate	46.8 (34.5)	47.9 (33.5)	32.3 (26.1)	46.0 (34.7)	54.0 (40.7)	54.5 (36.7)	69.9 (47.7)
Potential National Burden Rate	53.9 (39.7)	62.9 (43.9)	50.8 (41.1)	63.4 (47.8)	59.7 (45.1)	58.6 (39.5)	83.0 (56.7)

(Source) Cabinet Office “National Accounts", etc. OECD “National Accounts”, “Revenue Statistics” and “Economic Outlook 112”(November 2022)
(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 FY2023; actual figures of FY2020. The other countries: provisional figures of CY2020
(Note 3) Fiscal balance is the general-government-based data (central/local governments and the social security funds), except for Japan and U.S., where the figures of the social security funds are excluded.

International Comparison of National Burden in OECD Countries

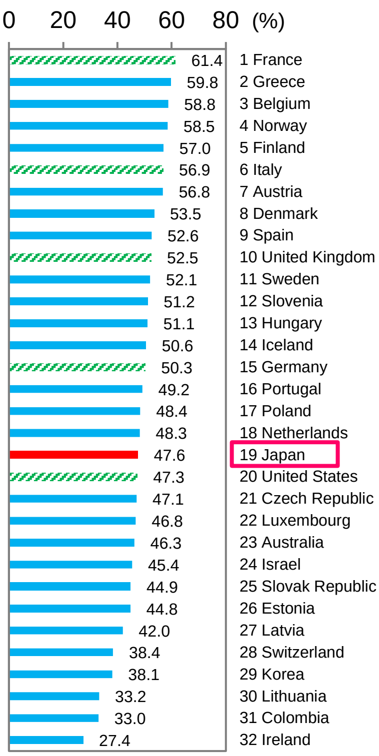


(Sources) Japan: Cabinet Office “National Accounts”, etc. the other countries: OECD “National Accounts” and “Revenue Statistics”.
(Note 1) 36 countries out of 38 OECD countries. Japan, Australia, Ireland, Turkey: actual figures, Colombia and Iceland: no data, the other countries: provisional figures
(Note 2) The figures in parentheses represent National Burden Ratio as % of GDP.
(Note 3) Japan: fiscal year, the other countries: calendar year

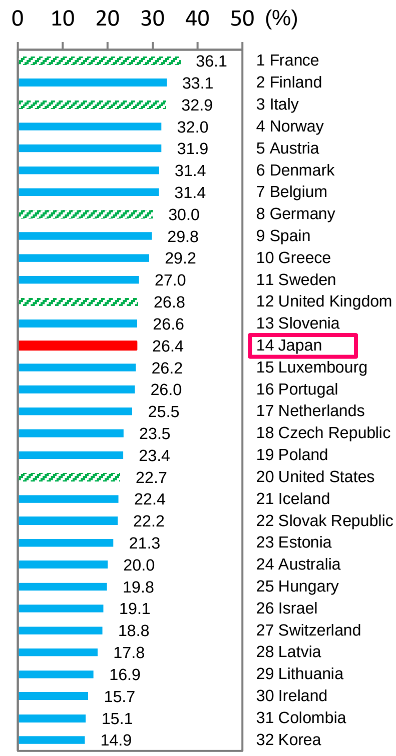
10. Revenues and Expenditures in OECD Countries

Compared to the other OECD countries, Japan's total amount of expenditure is at a slightly low level. Japan's social security expenditure can be classified as a mid-level reflecting the aging population, while the non-social security expenditure is at a low level. On the other hand, the tax revenue stands at a low level and the fiscal balance is worse than the other countries.

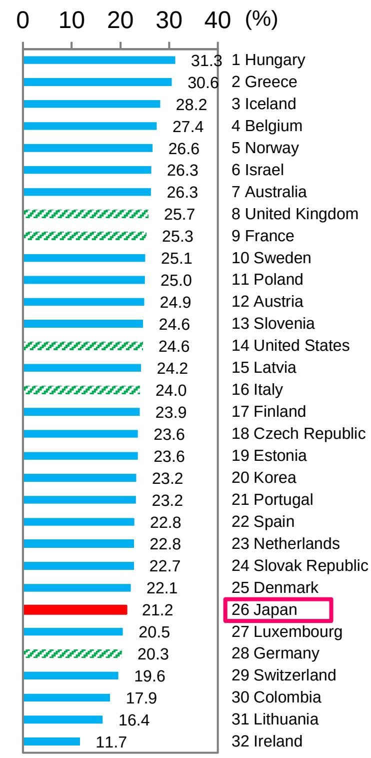
Total Expenditure
(% of GDP)



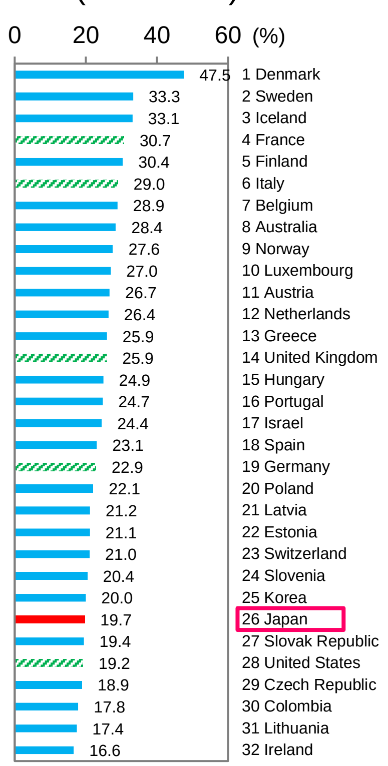
Social Security Expenditure
(% of GDP)



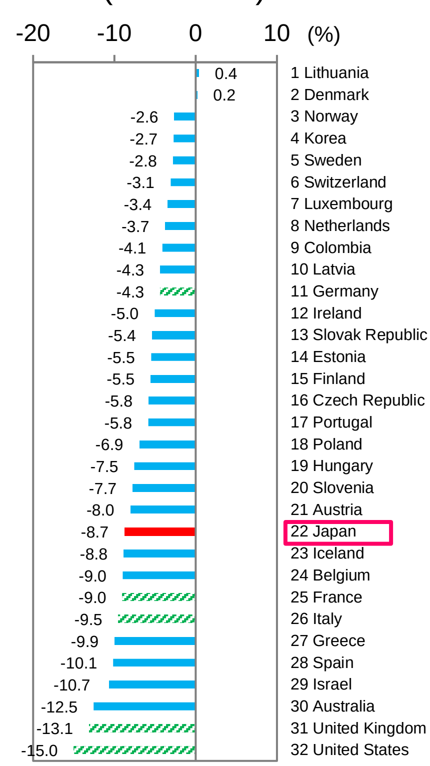
Non-Social Security Expenditure
(% of GDP)

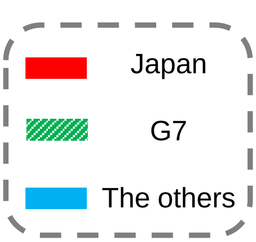


Tax Revenue
(% of GDP)



Fiscal Balance
(% of GDP)





(Source) OECD "National accounts", "Revenue Statistics" and "Economic Outlook 112"(November 2022), Cabinet Office "National Accounts", etc.

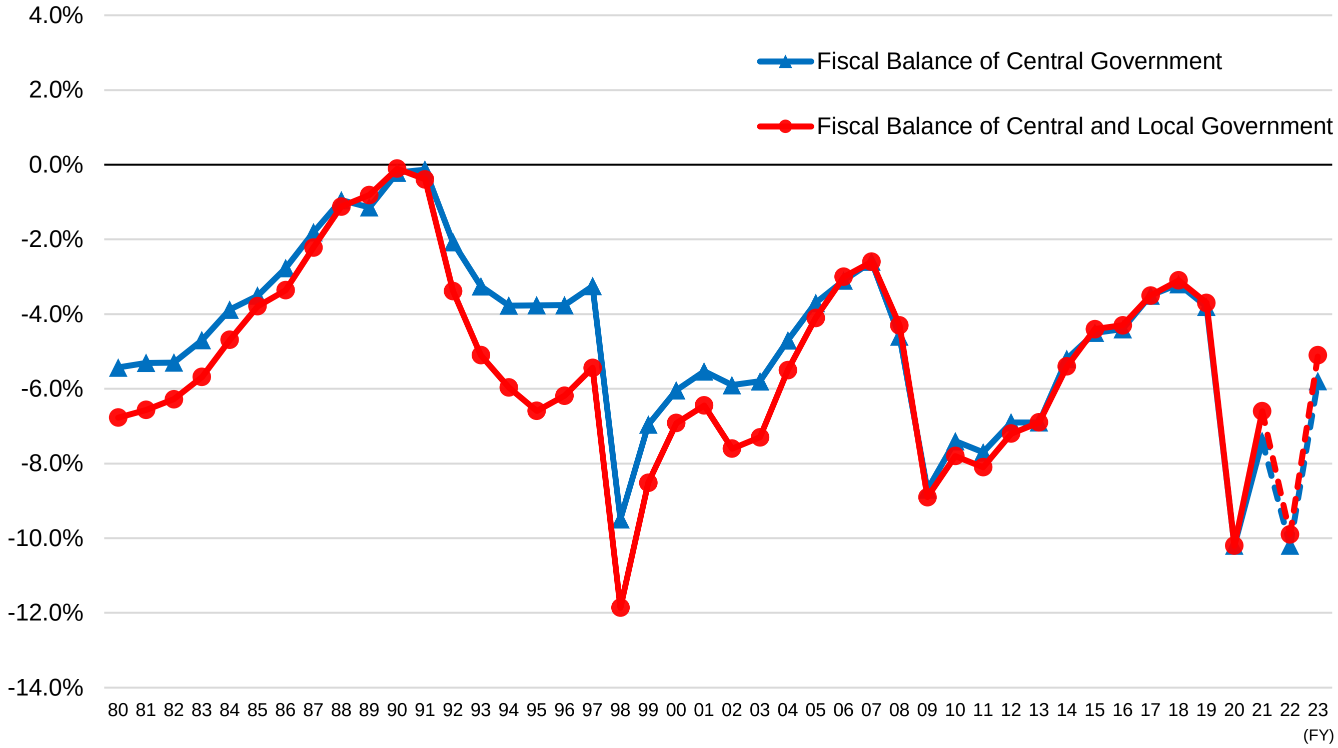
(Note 1) Japan: actual figures of FY2020, Australia, Ireland: actual figures of CY2020, Colombia: actual figures of CY2019, Lithuania: actual figures of CY2017, the other countries: provisional figures of CY2020.

(Note 2) The figures represent the general-government-based data (central / local governments and social security funds), except for "Fiscal Balance" of Japan and U.S., where the figures of the social security funds are excluded.

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

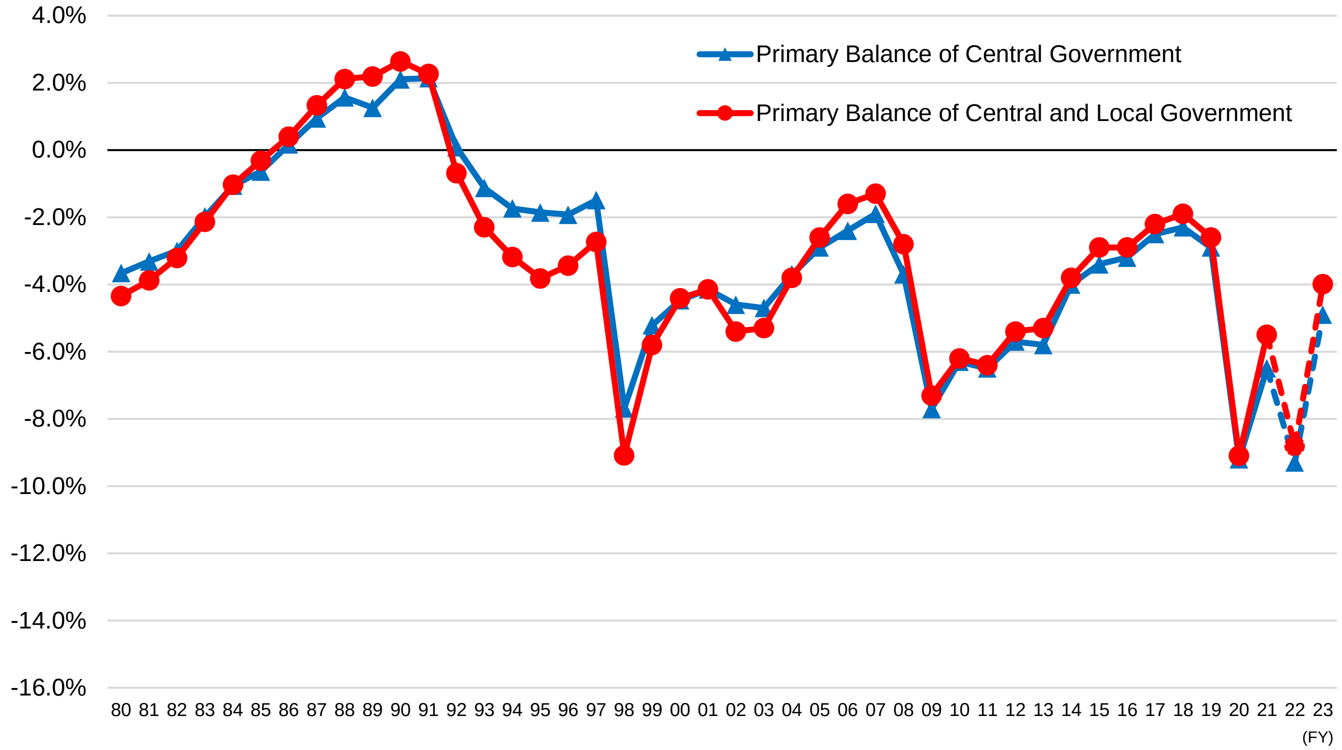
Japan's fiscal and primary balance remain in deficit.

■ Fiscal Balance (% of GDP)



(Note 1) Figures for FY1980-FY1993 are based on 93SNA; Figures for FY1994-FY2023 are based on 08SNA.
(Note 2) Figures for FY1980-FY2001 are simply the sum of net lending(+) and net borrowing(-) on an SNA basis. It should be noted that the figures for FY2002-FY2023 are based on the Cabinet Office's "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 24, 2023) (excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, and GX measures) , and exclude special factors for single fiscal years only.

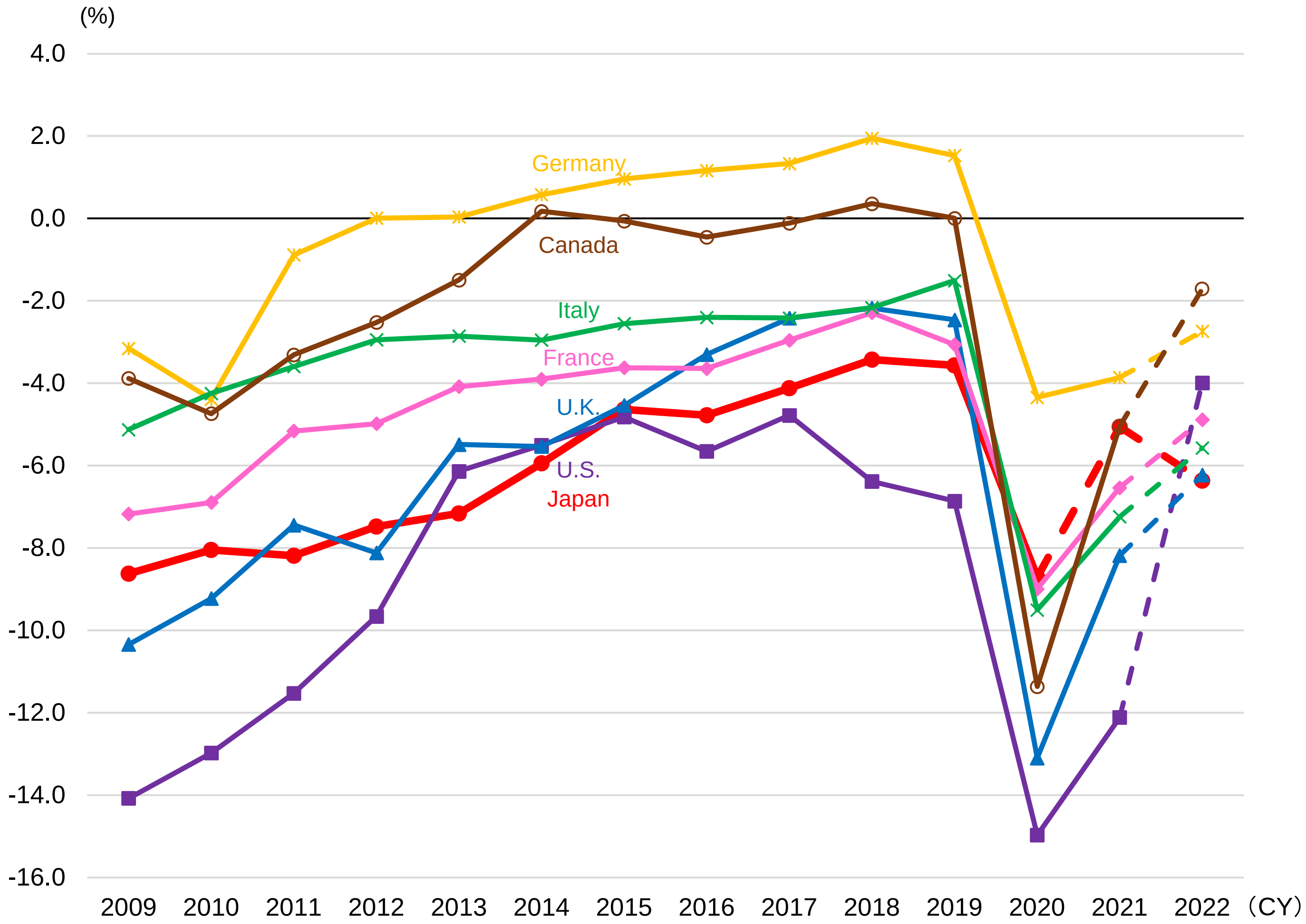
■ Primary Balance (% of GDP)



(Note 1) Figures for FY1980-FY1993 are based on 93SNA; Figures for FY1994-FY2023 are calculated based on 08SNA.
(Note 2) Figures for FY1980-FY2001 are based on SNA. It should be noted that the figures for FY2002-FY2023 are based on the Cabinet Office's "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 24, 2023) (excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, and GX measures), and exclude special factors for single fiscal years only.

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. Despite recovery trend since then, the fiscal deficit has remained significant since 2020 due to the measures to the COVID-19 and price hikes.

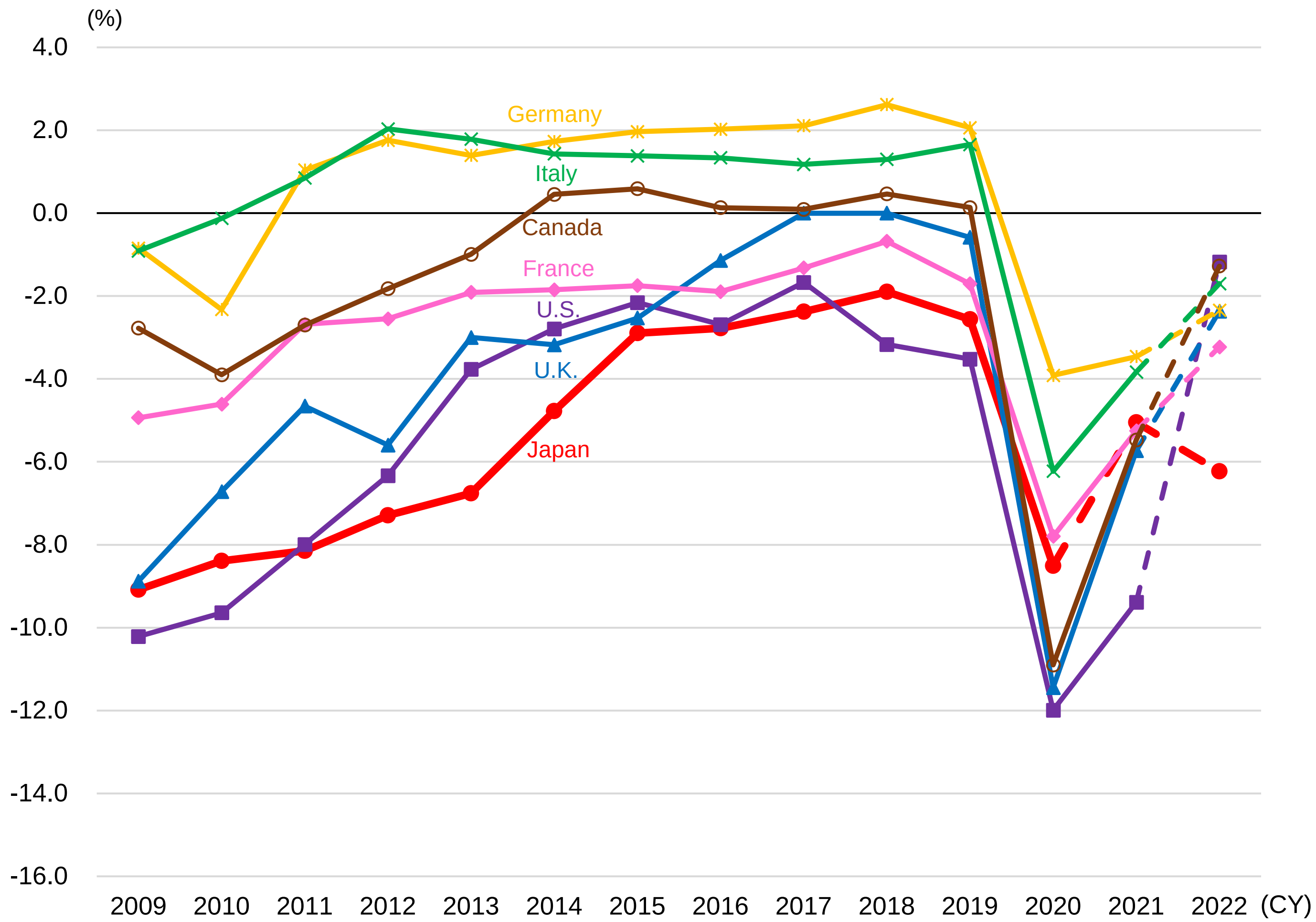


CY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Japan	-8.6	-8.0	-8.2	-7.5	-7.2	-5.9	-4.6	-4.8	-4.1	-3.4	-3.6	-8.7	*-5.1*	*-6.4*
U.S.	-14.1	-13.0	-11.5	-9.7	-6.1	-5.5	-4.8	-5.7	-4.8	-6.4	-6.9	-15.0	-12.1	*-4.0*
U.K.	-10.3	-9.2	-7.4	-8.1	-5.5	-5.5	-4.5	-3.3	-2.4	-2.2	-2.5	-13.1	-8.2	*-6.2*
Germany	-3.2	-4.4	-0.9	0.0	0.0	0.6	1.0	1.2	1.3	1.9	1.5	-4.3	-3.9	*-2.7*
France	-7.2	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.6	-3.0	-2.3	-3.1	-9.0	-6.5	*-4.9*
Italy	-5.1	-4.2	-3.6	-2.9	-2.9	-3.0	-2.6	-2.4	-2.4	-2.2	-1.5	-9.5	-7.2	*-5.6*
Canada	-3.9	-4.7	-3.3	-2.5	-1.5	0.2	-0.1	-0.5	-0.1	0.4	0.0	-11.4	-5.0	*-1.7*

(Source) OECD “Economic Outlook 112” (November 22, 2022)
(Note 1) The figures represent the general-government-based data (the central / local governments and social security funds combined), except for Japan and U.S., where the figures of the social security funds are excluded.
(Note 2) The 2021-2022 figures for Japan and the 2022 figures for the other countries are estimated figures.

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

Although Japan is under significant necessity to achieve primary surplus considering highest debt-to-GDP ratio in the world, Japan's fiscal management does not seem tight enough in terms of flow balance. Especially, its primary balance has been a significant deficit since 2020 due to the responses to the COVID-19 and price hikes.



CY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Japan	-9.1	-8.4	-8.1	-7.3	-6.8	-4.8	-2.9	-2.8	-2.4	-1.9	-2.6	-8.5	*-5.0*	*-6.2*
U.S.	-10.2	-9.6	-8.0	-6.3	-3.8	-2.8	-2.2	-2.7	-1.7	-3.2	-3.5	-12.0	-9.4	*-1.2*
U.K.	-8.9	-6.7	-4.7	-5.6	-3.0	-3.2	-2.5	-1.1	-0.0	-0.0	-0.6	-11.4	-5.7	*-2.4*
Germany	-0.8	-2.3	1.0	1.8	1.4	1.7	2.0	2.0	2.1	2.6	2.1	-3.9	-3.5	*-2.3*
France	-4.9	-4.6	-2.7	-2.5	-1.9	-1.8	-1.7	-1.9	-1.3	-0.7	-1.7	-7.8	-5.2	*-3.2*
Italy	-0.9	-0.1	0.8	2.0	1.8	1.4	1.4	1.3	1.2	1.3	1.7	-6.2	-3.8	*-1.7*
Canada	-2.8	-3.9	-2.7	-1.8	-1.0	0.5	0.6	0.1	0.1	0.5	0.1	-10.9	-5.5	*-1.3*

(Source) OECD "Economic Outlook 112" (November 22, 2022)
(Note 1) The figures represent the general-government-based data (the central / local governments and social security funds combined).
(Note 2) The 2021-2022 figures for Japan and the 2022 figures for the other countries are estimated figures.

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

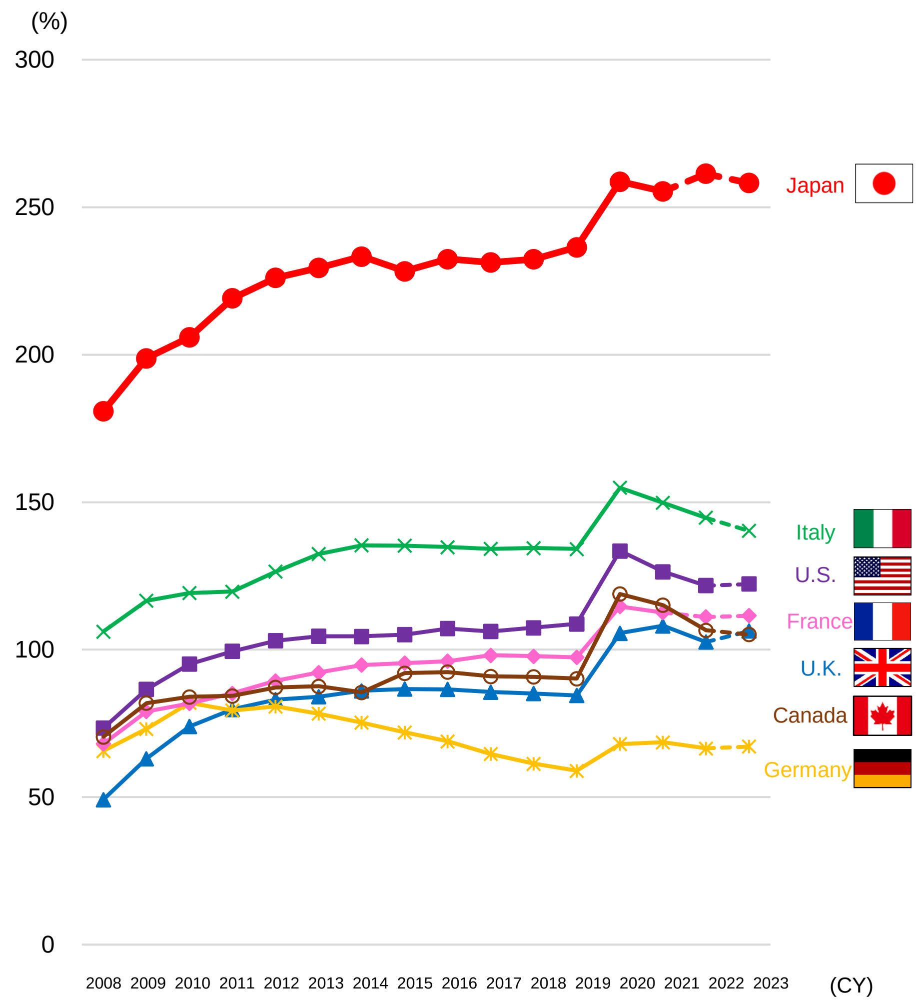
Japan’s general government gross debt-to-GDP ratio stands at the highest level not only among major advanced countries but also among all countries.

<World Ranking (out of 172 countries/regions)>

1	Macau	0.0%
2	Hong Kong	1.9%
	⋮	
108	Germany	68.6%
	⋮	
113	China	71.8%
	⋮	
154	U.K.	108.1%
	⋮	
158	France	112.6%
159	Canada	115.1%
	⋮	
164	U.S.	126.4%
	⋮	
169	Italy	149.8%
170	Sudan	187.9%
171	Greece	200.7%
172	Japan	255.4%

* Actual figures in 2021

<Comparison with Major Advanced Countries>



CY	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Japan	180.9	198.8	205.9	219.2	226.1	229.5	233.3	228.3	232.4	231.3	232.4	236.4	258.7	255.4	*261.3*	*258.2*
U.S.	73.4	86.6	95.1	99.5	103.0	104.5	104.5	105.1	107.2	106.2	107.4	108.7	133.5	126.4	*121.7*	*122.2*
U.K.	49.2	63.1	74.0	79.8	83.1	84.1	86.1	86.7	86.6	85.6	85.2	84.5	105.6	108.1	102.6	*106.2*
Germany	65.7	73.2	82.0	79.4	80.7	78.3	75.3	71.9	69.0	64.6	61.3	58.9	68.0	68.6	66.5	*67.2*
France	68.1	79.0	81.8	85.2	89.4	92.2	94.8	95.4	96.1	98.1	97.8	97.4	114.7	112.6	*111.1*	*111.4*
Italy	106.2	116.6	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.2	134.4	134.1	154.9	149.8	144.7	*140.3*
Canada	70.4	81.9	84.0	84.3	87.2	87.6	85.5	92.0	92.4	90.9	90.8	90.2	118.9	115.1	106.6	*105.1*

(Source) IMF "World Economic Outlook" (April 2023).
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2022-2023 figures for Japan, U.S. and France the 2023 figures for the other countries are estimated figures.

（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）

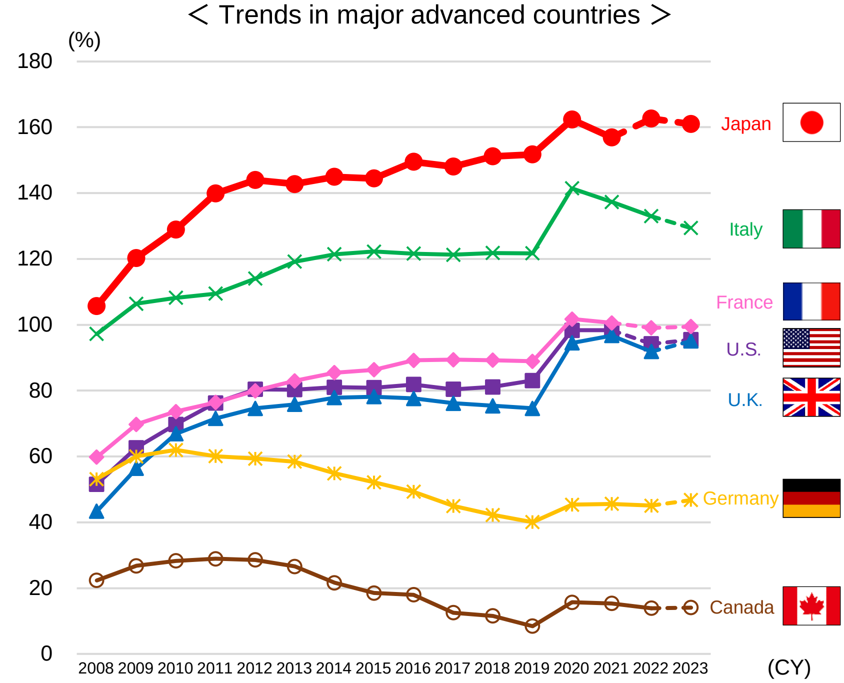
Even in terms of net debt, which means government’s gross debt less government-owned financial assets (such as pension reserve consisting of insurance contribution), net debt-to-GDP ratio stands at the highest level compared to the other countries.

＜ Ranking in 85 countries ＞

1	Norway	-85.3%
2	Luxembourg	-10.9%
3	Kazakhstan	-3.3%
	⋮	
11	Canada	15.4%
	⋮	
44	Germany	45.6%
	⋮	
76	U.K.	96.7%
77	U.S.	98.3%
78	France	100.6%
	⋮	
82	Cabo Verde	130.5%
83	Barbados	134.3%
84	Italy	137.3%
85	Japan	156.9%

* Settled figures in 2021

＜ Trends in major advanced countries ＞



(Source) IMF "World Economic Outlook" (April 2023).
(Note 1) The figures represent the general government-based data (the central / local governments and social security funds combined).
(Note 2) The 2022-2023 figures for Japan, U.S. and France and the 2023 figures for the other countries are estimated figures.
(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 (public services) and burdens (tax and premiums for social security). 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 form of redistribution”, “policy options got limited by the lack of fiscal buffer” and “Increased risk, such as a losing confidence in the government bond and depreciation of the national currency”.

Imbalance between Benefits and Burdens

- ✓ In Japan, there are no assurance of the tax revenue to compensate the increase in social security expenditures, the imbalance between benefits and burdens remains, which undermines the sustainability of the scheme.
- ✓ A loose fiscal discipline that relies on the revenue from the bond issuance makes it difficult to strictly evaluate whether the spending contributes to the medium-to-long-term economic growth and benefits of the future generations.

Undesirable form of 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 forced to bear tax burdens etc., which means undesirable form of redistribution.

limited policy options caused by the lack of fiscal buffer

- ✓ The fiscal buffer for flexible responses will be limited in case economic crisis or large-scale natural disaster occurs.

Increased Risk, such as a losing confidence in the government bond and depreciation of the national currency

16. Fiscal Management in a Low Interest Rate Environment

Even though a interest rate is low, it is important to be independent from public bonds issuance and to promote fiscal consolidation.

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

- ✓ Interest rates had mostly been higher than the nominal growth rates in the past. Assuming that interest rates will continue to be less than the nominal growth rate is too 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 though interest rate is lower than nominal growth rate, the debt-to-GDP ratio is unlikely to decline if the large amount of additional bonds is issued by the primary balance deficit in each year.

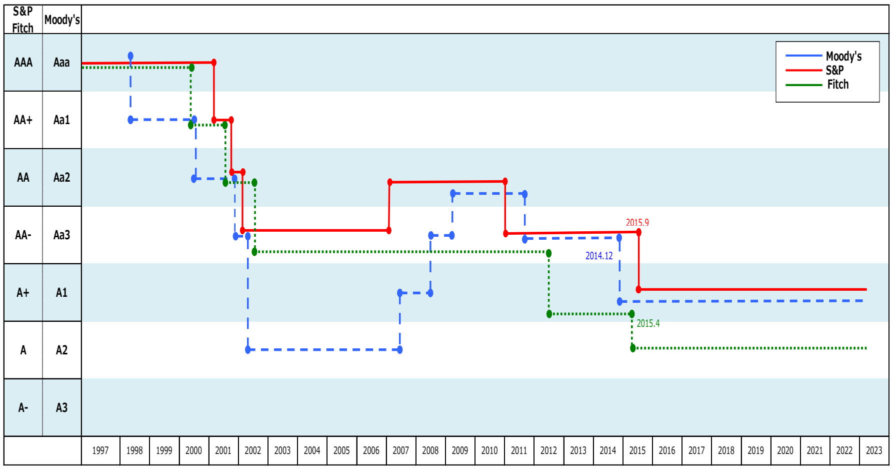
Confidence in Japan's public finance is a prerequisite for taking advantage of low interest rates

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

Japan's fiscal deficit stems from structural factors

- ✓ Japan's fiscal deficit stems from a structural increase in social security expenditures due to 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 April 5, 2023)

	Moody's	S&P	Fitch
Aaa/ AAA	U.S. Germany	Germany	U.S. Germany
Aa1/ AA+		U.S.	
Aa2/ AA	France	France U.K.	France
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 stopped 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.
Jun. 18 2021	Basic Policy on Economic and Fiscal Management and Reform 2021 (Cabinet Decision)		The Governments aim to achieve the fiscal consolidation target (the primary surplus of the central and local governments by FY 2025) set forth in Basic Policy 2018. At the same time, firmly maintain the aim of reducing the public debt-to-GDP ratio steadily

Fiscal Consolidation Target

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

18. Stock and Flow Indicators for the Fiscal Consolidation Target

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

“Gross government debt-to-GDP ratio” is the indicator of the outstanding amount of debt 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.

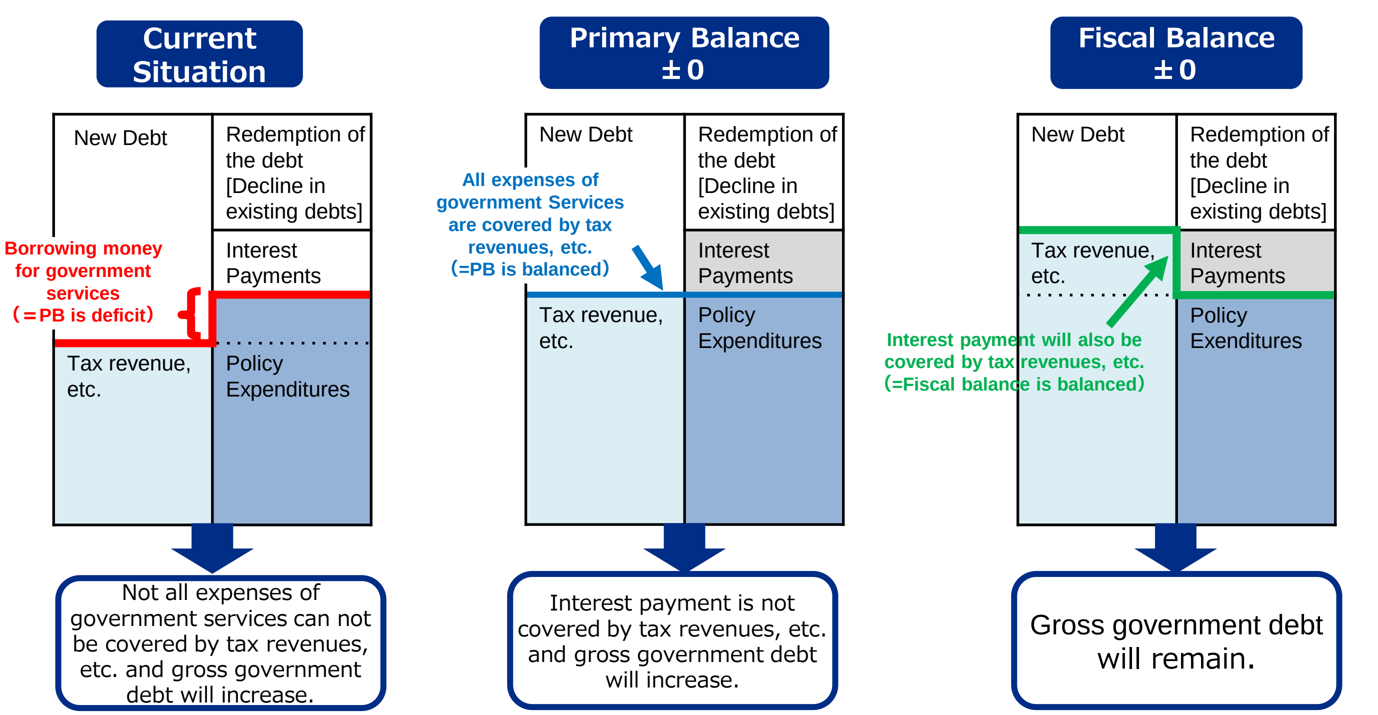
<Flow Indicators (1)> Fiscal Balance (Fiscal balance including interest payments)

“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 bond issuance).
If it is in equilibrium, the newly issued bond just finances existing debt redemption and that the outstanding amount of the debt remains unchanged. To reduce the outstanding amount of the debt, 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 bond and the outstanding debt increased by the amount of the interest payments. In case of primary deficit, it leads to further increase in the outstanding debt.

In relation to the stock indicator (Gross government debt-to-GDP ratio), it would be matter whether the increase in outstanding debt 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 is the key factor , which is explained in the next page.



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.
Interest rates had mostly been higher than the nominal growth rates in the past. Therefore, improvement in the flow balance (primary surplus) is needed to steadily reduce the debt-to-GDP ratio while assuming that interest rates is at least as high as nominal growth rate.

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

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

Debt-to-GDP ratio
(current fiscal year)

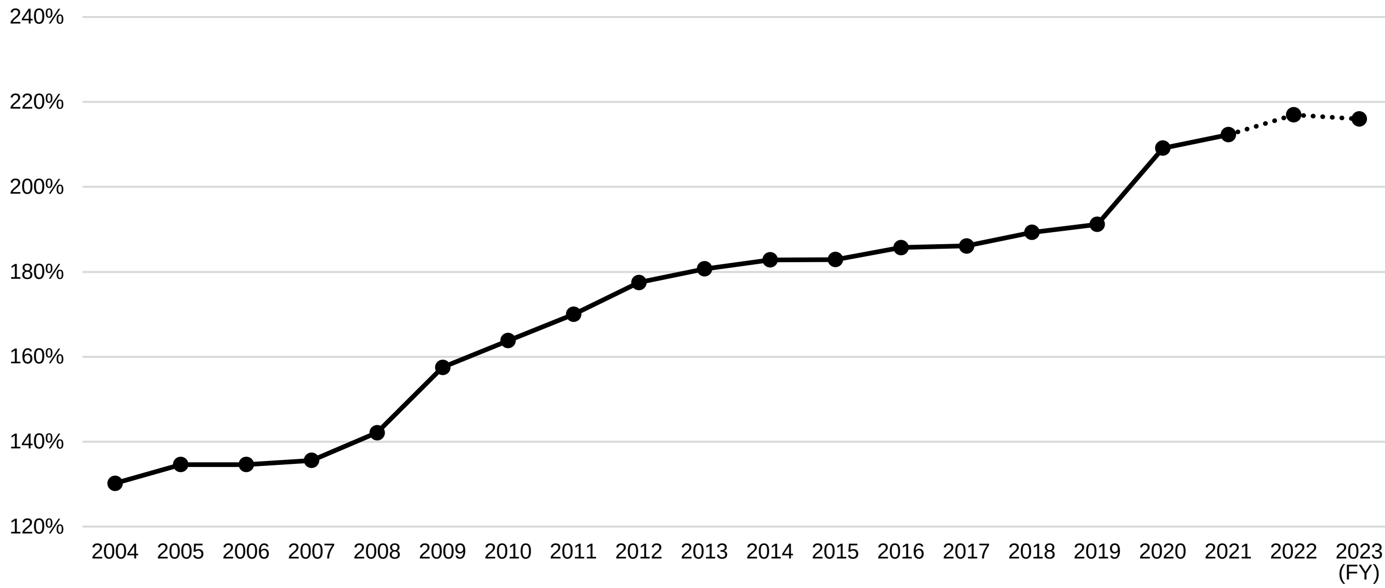
$$= \frac{\text{Accumulated debts (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal interest rate (r))}} + \boxed{\begin{array}{c}\textbf{Primary deficit}\\ \text{(current fiscal year)}\end{array}}}{\text{GDP (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal growth rate (g))}}}$$

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.
- If Nominal interest rates (r) < Nominal growth rates (g), the debt-to-GDP ratio declines.

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

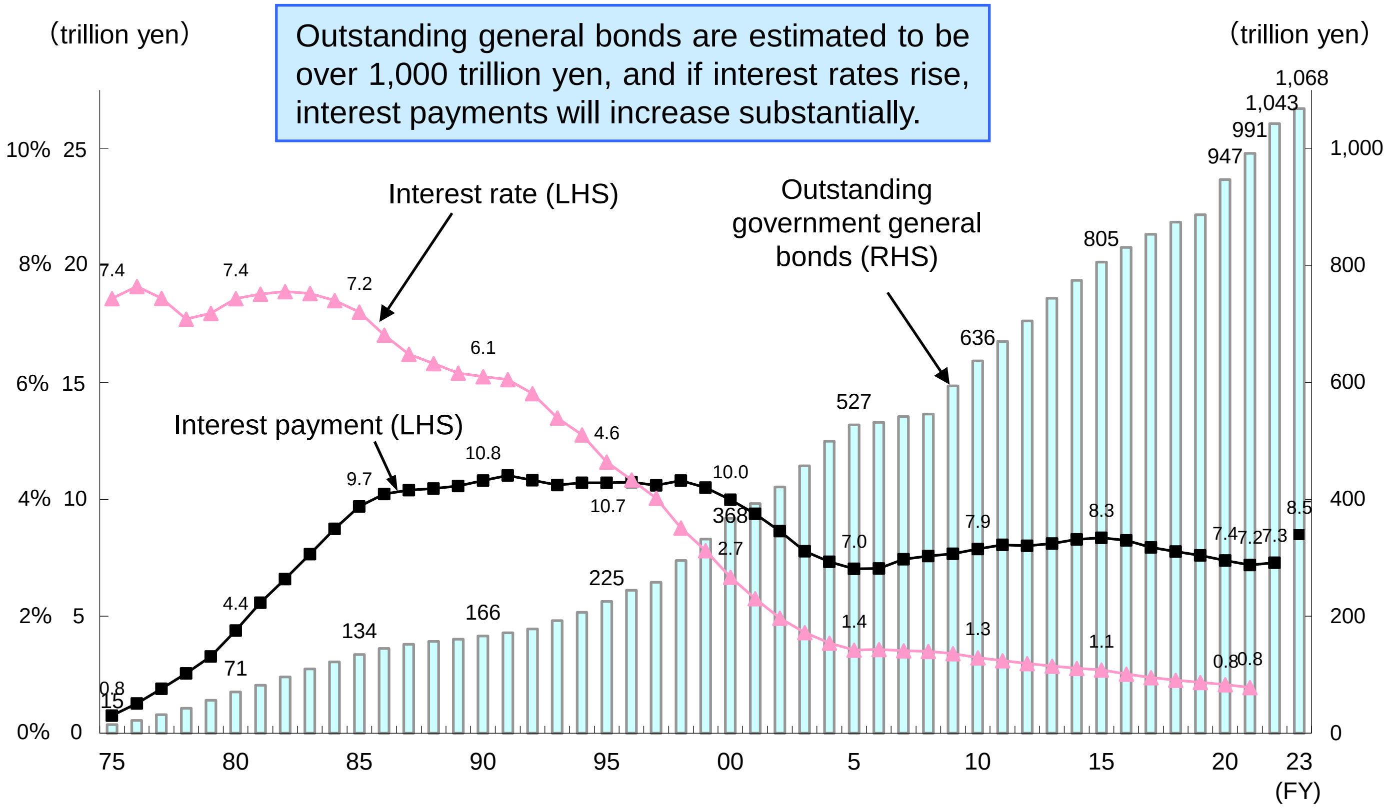
The ratio of central and local government debt to GDP, a stock indicator used for fiscal consolidation target, has been increased cumulatively and is at an extremely high level.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
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	1168.9	1215.4	1235.1
% of GDP	130.2%	134.6%	134.6%	135.6%	142.1%	157.5%	163.8%	170.0%	177.5%	180.7%	182.8%	182.9%	185.7%	186.1%	189.3%	191.2%	209.1%	212.3%	217.0%	216.0%
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	556.6	556.8	537.6	550.5	560.2	571.9

(Source) Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 24, 2023)
(Note) Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures and GX measures.

（Reference）Trends in Interest Payments and Interest Rate

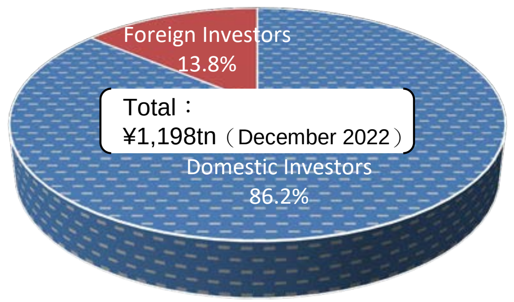


(Note 1) Interest Payments in FY1975 - FY2021: settled figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget
(Note 2) Interest rates are based on the weighted average of interest rates of government general bonds.
(Note 3) Outstanding government general bonds in FY1975 - FY2021: actual figures ; FY2022: based on the second supplementary budget ; FY2023: based on the budget

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

The burden is actually postponed to our future generation as noted on P.17, although some argues that it doesn't happen because domestic citizens are lenders.
As the presence and the share of foreign investors in secondary market has become more significant due to the increase in international financial transactions by the progress of globalization, it is becoming increasingly essential to ensure the confidence in fiscal management from foreign investors.

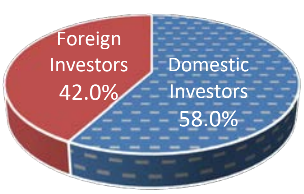
(1) Japanese Government Bonds (JGBs) Holders



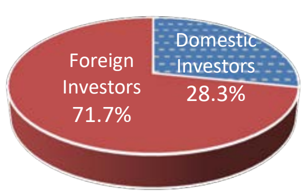
(Source) Bank of Japan "Flow of Funds Accounts Statistics"
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) Percentage as of December 2022.

JGB Transactions in Secondary Market

(2) Spot Market

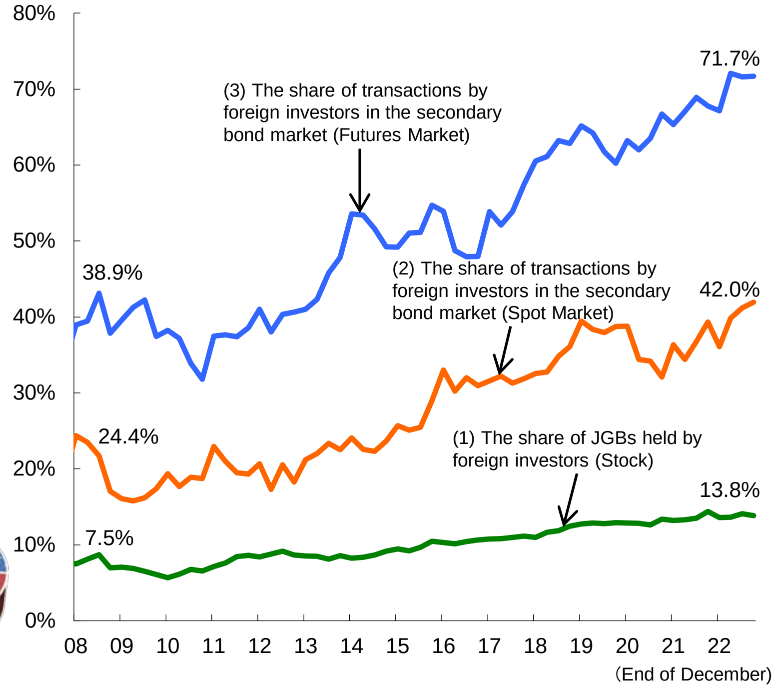


(3) Futures Market



(Source) Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill). Percentage as of the fourth quarter of 2022 (October-December).
(Note 2) The figures of Spot market excludes transactions by bond dealers.

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

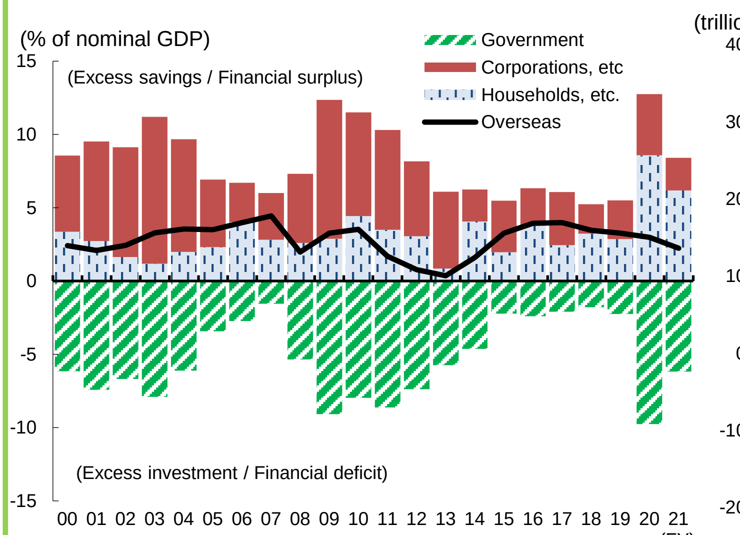


(Source) Bank of Japan, Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) The figures of Spot market excludes transactions by bond dealers.

（Reference）Trends in Current Account

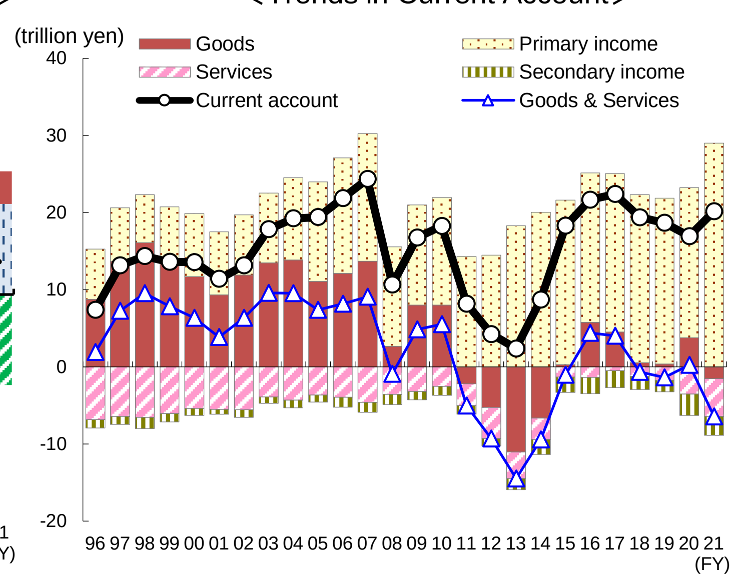
Although the current account surplus has continued in Japan because the private saving surplus has exceeded the deficit in the government sector, Japan will have to depend on foreign capital if the current account balance becomes a deficit. Therefore, continuous efforts toward fiscal consolidation are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

Main Points of Basic Policy on Economic and Fiscal Management and Reform 2022 （Cabinet Decision in June 2022）

Fiscal consolidation target in Basic Policy 2022

The government will resolutely pursue fiscal consolidation and work on achieving the current target. However, the economy is the foundation of public finance, and macroeconomic policy options in line with the circumstances should not be distorted by giving a greater priority to meeting the current target year. Adopting a policy as needed to deal with the circumstances is not traded off against working to achieve the fiscal consolidation target. The government will faithfully rebuild the economy. The government will also work to put public finances on a sound footing. But there is also a need to keep a close eye on economic situations at home and abroad, etc., at all times, such as the impact of the infection and the most recent price hike. The government will therefore **undertake the necessary verification depending on the situations.**

Guiding Principles in Budget Formulation for FY2023

Integrated economic and fiscal reforms will be promoted based on this Basic Policy and the Basic Policy 2021. However, this should not lead to narrowing the range of available options for important policies.

(Reference) Basic Policy 2021

- Firmly maintain the fiscal consolidation target of the Basic Policy 2018 (**To aim to achieve the gross PB surplus of the central and local governments in FY2025 and to reduce the government debt to GDP ratio steadfastly).**

- For three years from FY2022 to FY2024, the Government will continue existing efforts to reform government expenditures 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 reform government expenditures, with consideration of the future economic situation and price fluctuation 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.

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

OECD Economic Surveys: JAPAN (December 3, 2021)

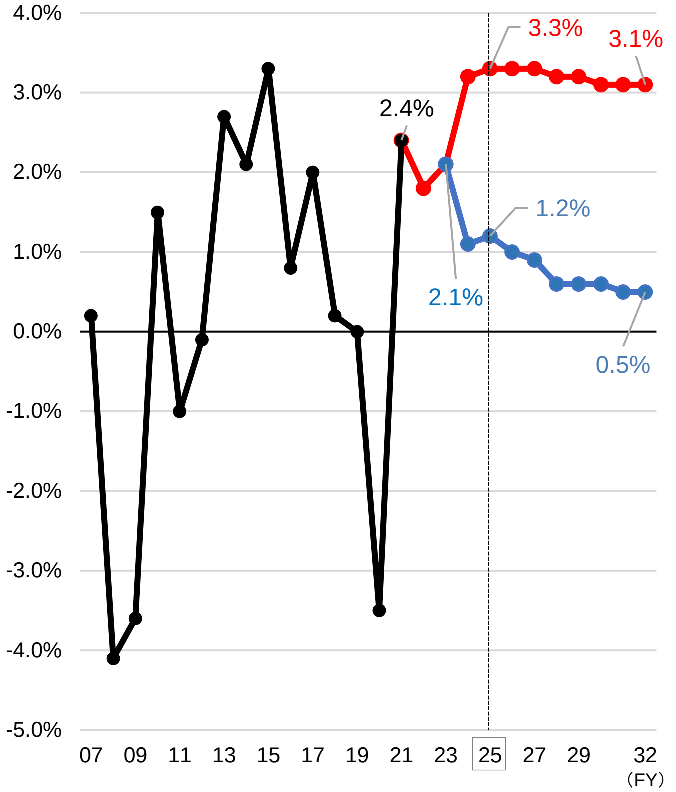
- Fiscal consolidation was knocked off course. The deterioration of the budget comes after a period of sustained reductions in primary deficits. As the economy regains traction, further action will be needed to secure long-term fiscal sustainability.
- Social security spending and ageing-related spending 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 2023 Article IV Consultation (March 30, 2023)

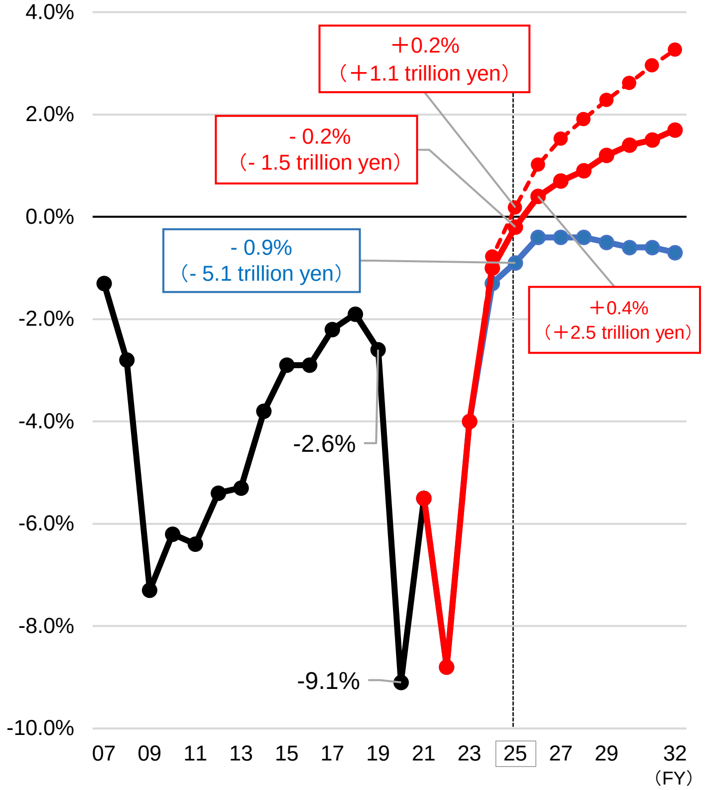
- Amid the ongoing recovery, rising inflation, tighter labor markets, and a closing output gap, fiscal policy support should be withdrawn more quickly.
- Amid resilient private demand and a closing output gap, the projected fiscal support in 2023 will have very limited impact in further raising output and instead would aggravate fiscal vulnerabilities. Moreover, it could add to inflation, which would require a stronger monetary tightening response, increasing the cost of fiscal financing and worsening the debt dynamics.
- As government spending pressures continue to rise in certain policy areas, such as national security, green transformation, and child-related policies, any additional spending measures should be targeted to low-incomes and come hand in hand with revenue raising measures.
- Fiscal consolidation is warranted to rebuild fiscal buffers and ensure debt sustainability over the medium to long term. This should be underpinned by a credible medium-term fiscal framework to reduce the primary deficit and put the debt-to-GDP ratio on a clear downward path.
- Budget expenditures ceilings do not limit actual government expenditures given the established practice of adopting supplementary budgets. This practice breaks the link between the annual budget and medium-term fiscal targets. (…) and supplementary budgets are formulated only when unexpected large shocks occur.

（Reference）Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 24, 2023)

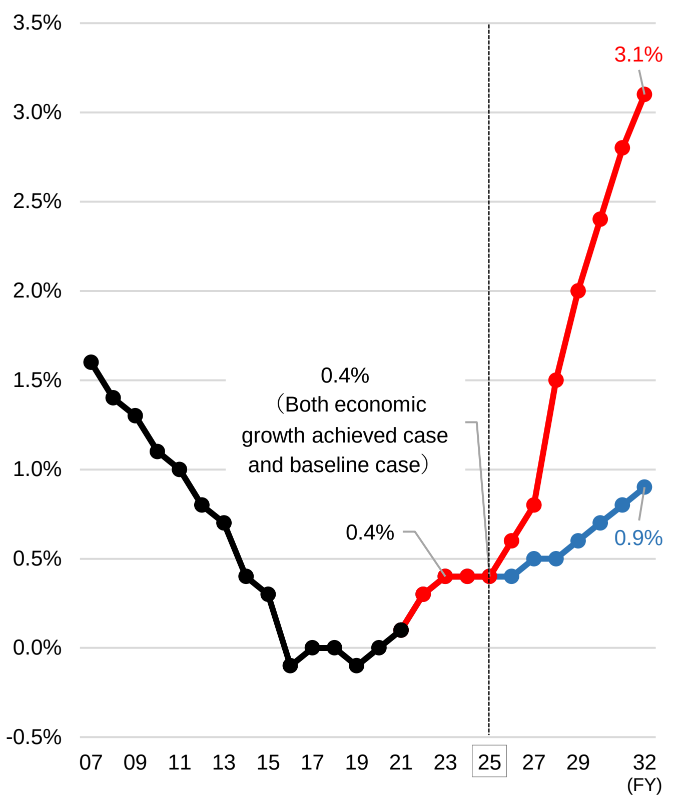
＜ Nominal GDP Growth Rate ＞



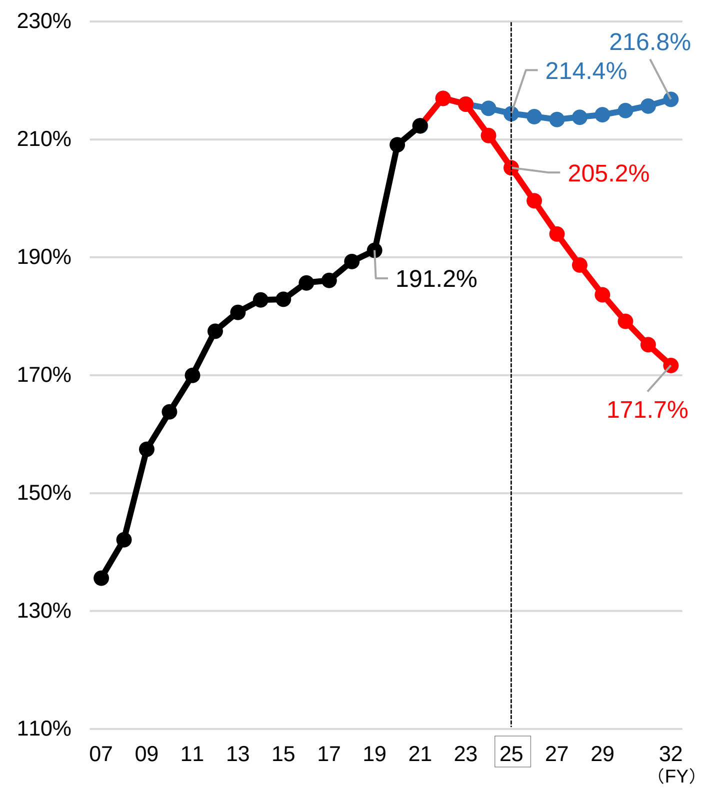
＜ Primary Balance of Central and Local Governments (% of GDP) ＞



＜Nominal Long Term Interest Rate＞



＜Outstanding Debt (% of GDP)＞



Economic Growth Achieved Case
Economic Growth Achieved Case (Continue efforts for increasing spending efficiency)
Baseline Case

* 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.

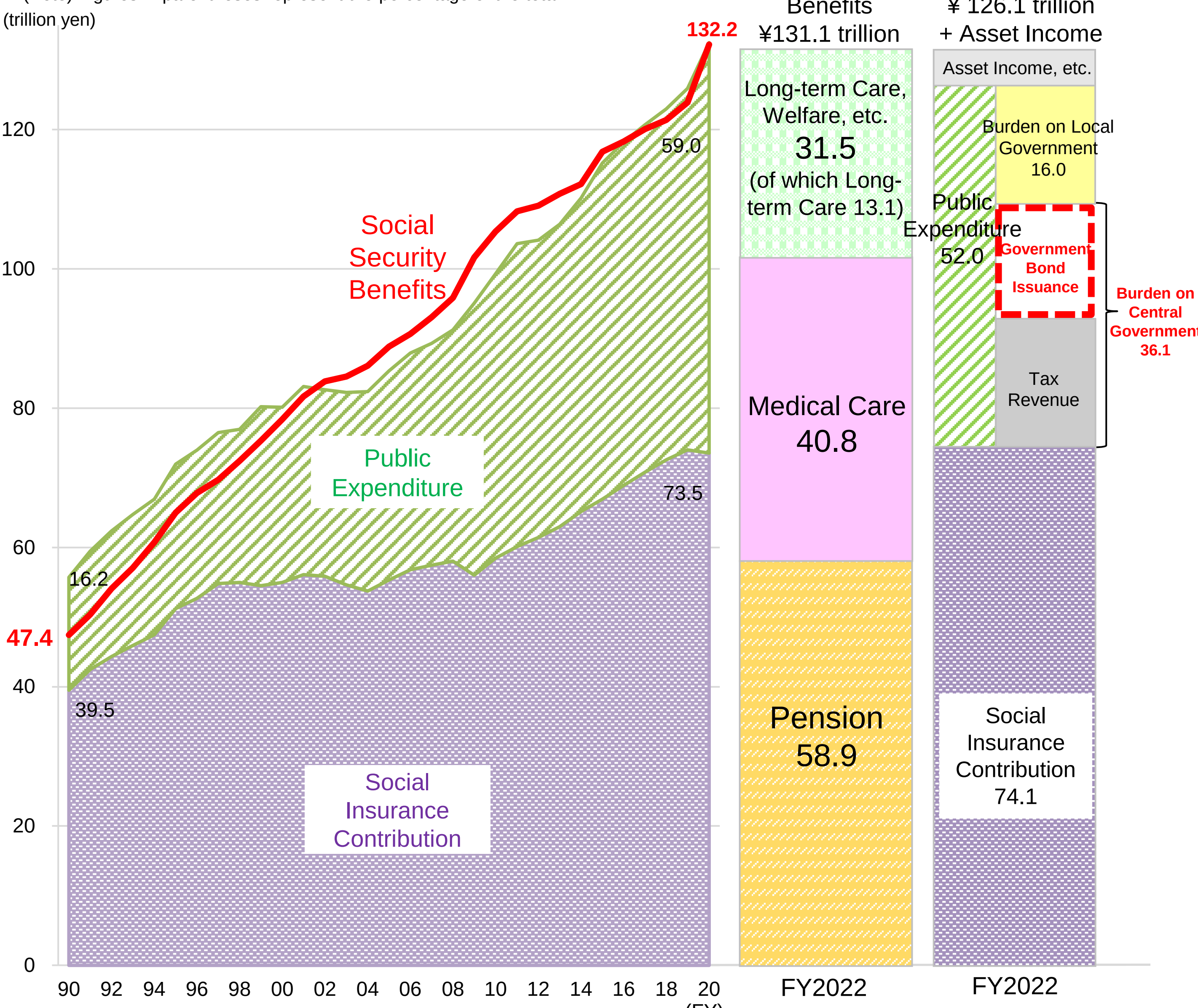
22. Social Security Area

(1) Declining Birthrate, Aging population and Increase in Social Security Benefits

Although insurance premiums should be major financial resource for social security system as a principle of mutual support, its amount is not enough as a single financial resource. Therefore, public expenditures is also used in order to avoid concentration of the burden on the working-age generation. In reality the needed public expenditure is financed by not only tax revenues but also 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.

	FY1990	FY2020
Contribution of Insured Person	¥18.5tn (28%)	¥38.7tn (21%)
Contribution of Employer	¥21.0tn (32%)	¥34.8tn (19%)
Public Expenditure	¥16.2tn (25%)	¥59.0tn (32%)
Social Security Benefits	¥47.4tn	¥132.2tn

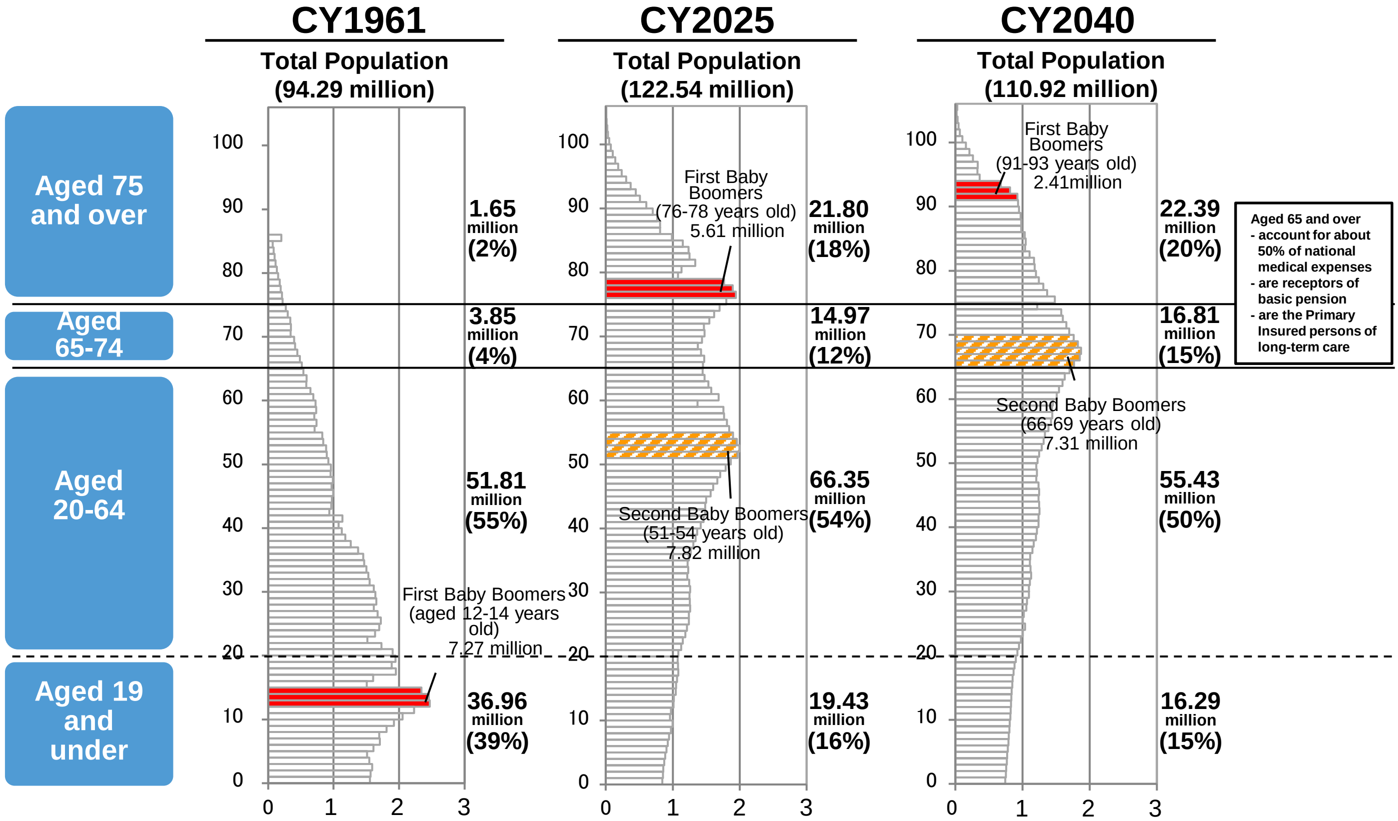
(Note) Figures in parentheses represent the percentage of the total.



(Source) National Institute of Population and Social Security Research "The Financial Statistics of Social Security (FY2020)", FY2022: Ministry of Health, Labour and Welfare (based on the initial budget).
(Note 1) FY1990-FY2020: settled figures ; FY2022: based on the initial budget. It should be noted that the conditions on expenditures for projects related to countermeasures against COVID-19 differs from year to year.
(Note 2) The amount of social security benefits for FY2020 is 125.0 trillion yen when the cost of projects related to countermeasures against COVID-19 is excluded.

The reason why the social security costs has been increased is the population aging at an unparalleled high speed compared to other countries. In particular, the so-called "baby boomers" born immediately after World War II are becoming elderly, and all of them will move into the latter-stages elderly category (75 years old or older) until 2025.
Meanwhile, the birth rate continues to be lower than that in other developed countries, and the population of working generation who supports social security mainly is decreasing in the composition of the entire population.

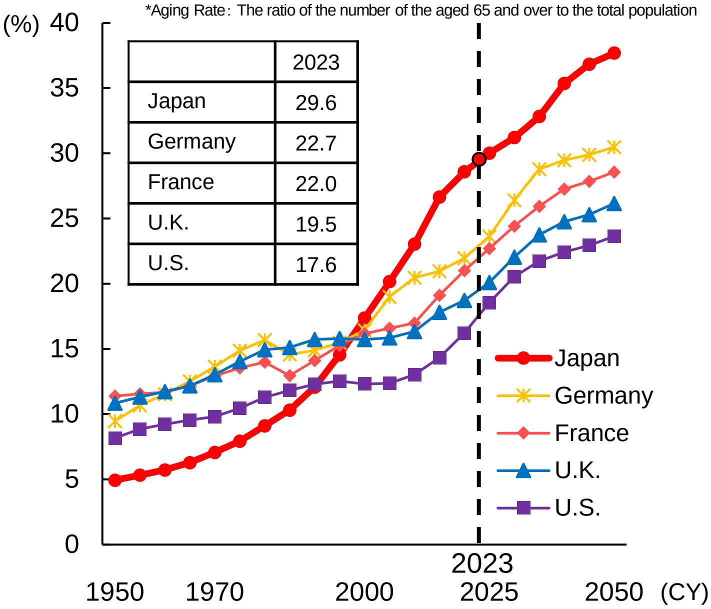
Demographic Changes in Japan



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (April 2017) (medium-fertility and medium-mortality scenario)"
(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.

International Comparison of Population Aging Rate

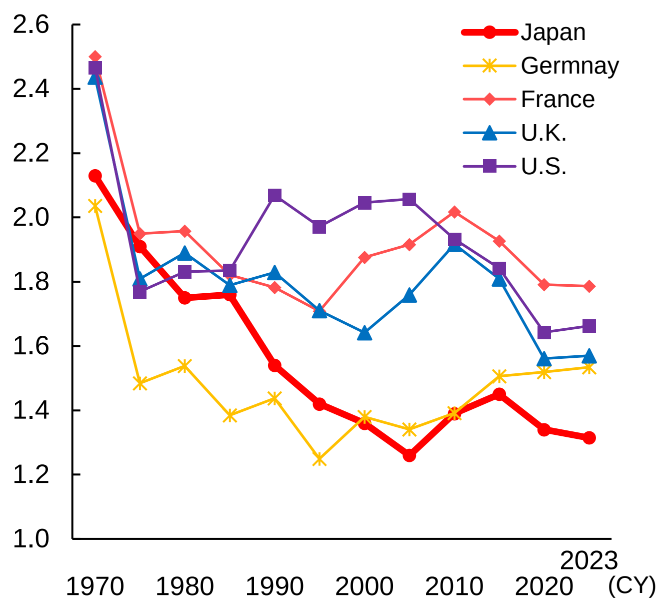
*Aging Rate: The ratio of the number of the aged 65 and over to the total population



	2023
Japan	29.6
Germany	22.7
France	22.0
U.K.	19.5
U.S.	17.6

(Source)
Japan : 1950-2021: Ministry of Internal Affairs and Communications, "Population Estimates"
2022-2050: National Institute of Population and Social Security Research, "Population Projections for Japan (April 2017) (medium-fertility and medium-mortality scenario)"
Other countries: United Nations, "World Population Prospects: the 2022 Revision"

International Comparison of Birth Rate



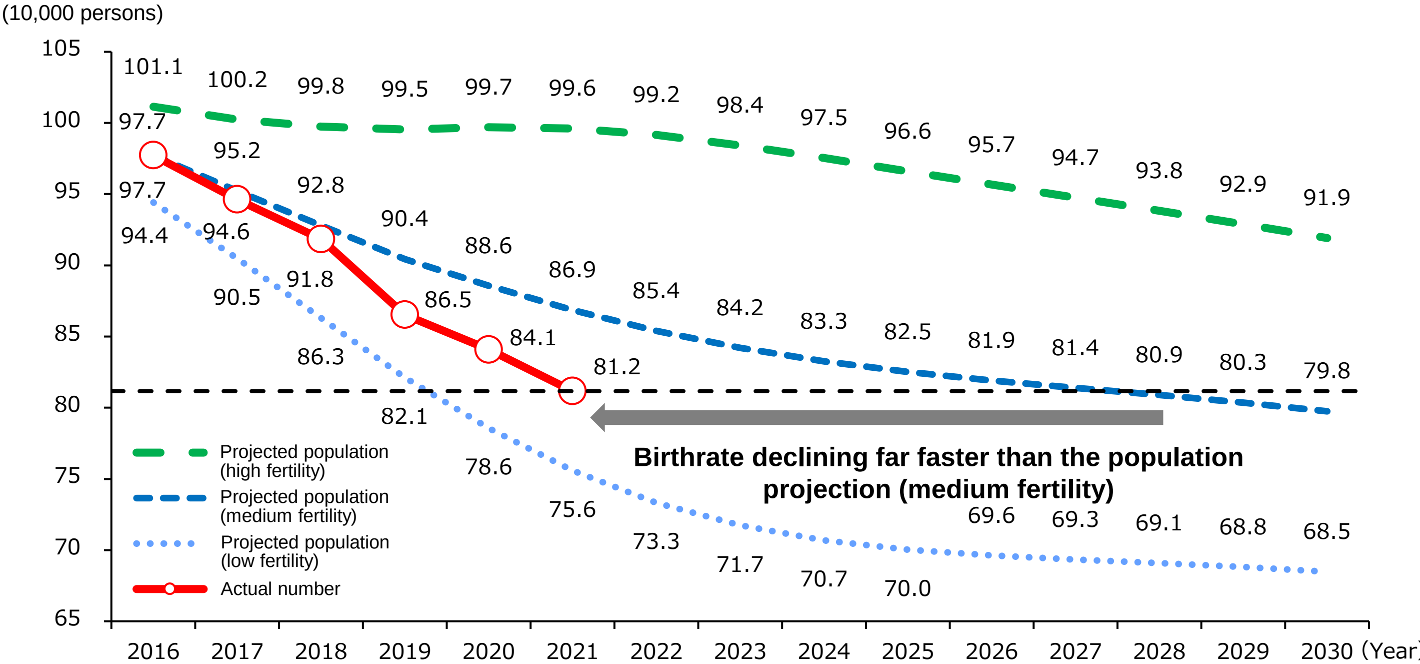
(Source)
Japan : 1970-2020: Ministry of Health, Labour and Welfare, "Vital Statistics"
2023: United Nations "World Population Prospects: the 2022 Revision"
Other countries: United Nations "World Population Prospects: the 2022 Revision"

(2) Issues in social security areas

Measures to address declining birthrate and support for child-rearing

(i) Decline in the number of births

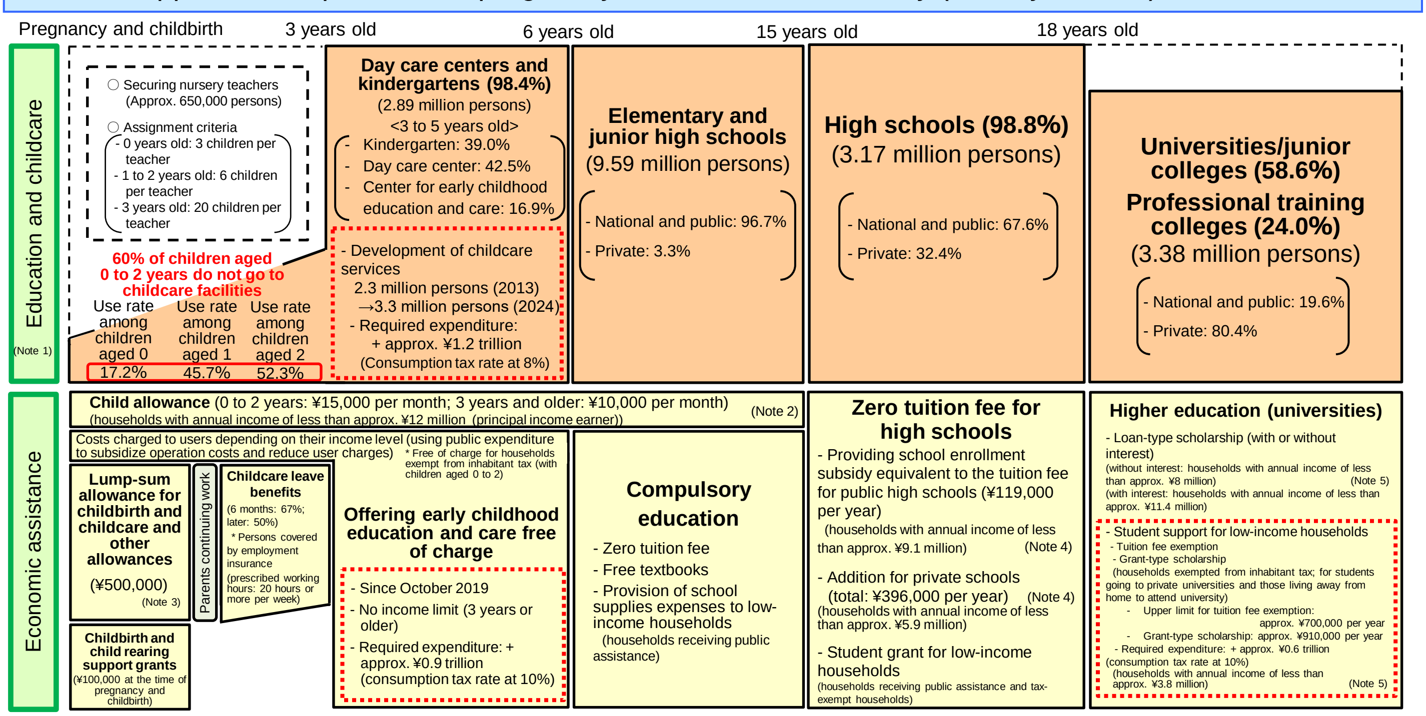
During the COVID-19 pandemic, the annual number of births declined significantly from 865,000 in 2019 to 841,000 in 2020, and 812,000 in 2021. Partly due to the impact of COVID-19, the decline in the number of births has accelerated and the birthrate has been declining far faster than previously projected.



(Source) National Institute of Population and Social Security Research, "Population Projections for Japan (April 2017)(medium-mortality scenario)", Ministry of Health, Labour and Welfare, "Vital Statistics"

(ii) Child education and childcare, and economic assistance

In recent years, with the use of consumption tax revenue and contribution from employers, childcare services have been expanded and early childhood education and care have been offered free of charge. Further support for the period from pregnancy and childbirth to infancy (0 to 2 years old) is a current issue.



(Note 1) Figures for FY2019 were used above. The percentages in parentheses in the sections of high schools, universities/junior colleges, and professional training colleges respectively indicate the percentages of junior high school students going on to high schools and high school students going on to universities or professional training colleges. The numbers of persons indicated for elementary, junior high and high schools and the percentages of national or public institutions and private institutions are based on the numbers of persons enrolled respectively in elementary, junior high and high schools (excluding those enrolled in secondary education schools, etc.). The numbers of persons indicated for universities/junior colleges and professional training colleges and the percentages of national or public institutions and private institutions are based on the number of persons enrolled in undergraduate departments of universities, junior colleges, colleges of technology, and professional training colleges.

(Note 2) The amount of child allowance is 5,000 yen for households with principal income earner's annual income between 9.6 million yen and 12 million yen; no child allowance is paid to households with annual income of 12 million yen or more.

(Note 3) "Lump-sum allowance for childbirth and childcare and other allowances" includes childbirth allowance paid to those covered by employees' insurance (6 weeks before birth and 8 weeks after birth: 67%), in addition to lump-sum allowance for childbirth and childcare.

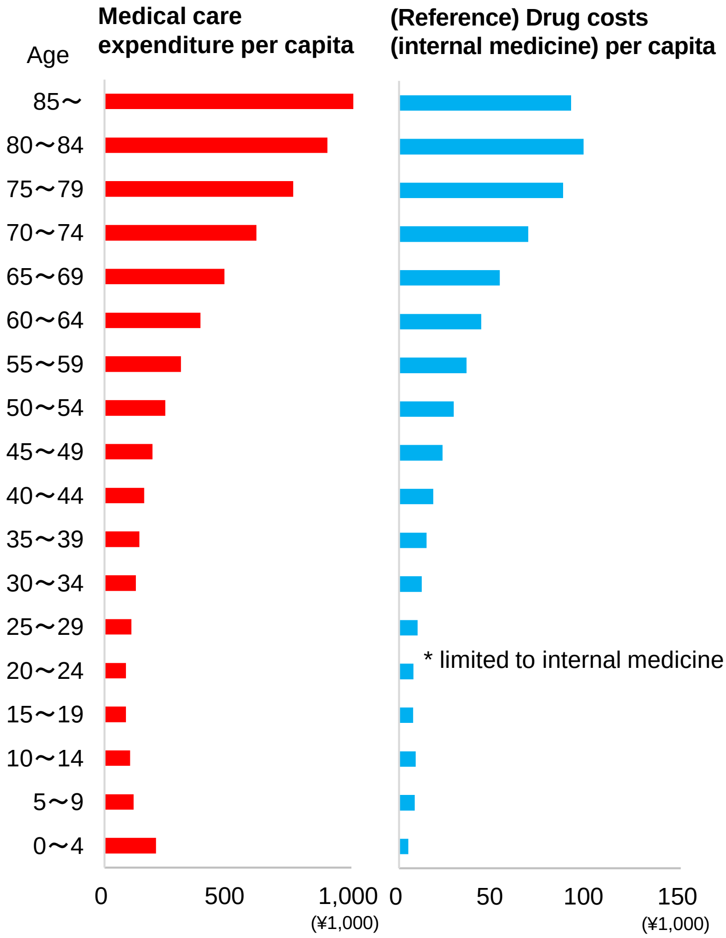
(Note 4) The upper limit for payment to offer tuition at high schools free of charge and the annual income requirements are the standards for a household consisting of parents and a high school student and junior high school student who go to whole-day schools, with one of the parents engaging in work.

(Note 5) The household economy criteria for providing loan-type scholarship are a household of four people, including a student going to private university from home and income earner(s). The required expenditure for student support for low-income households is based on the budget for FY2023 (public expenditure).

Future increase in medical care and long-term care costs

In 2025, all baby boomers will move into the latter-stage elderly category, and the population aged 75 and over will increase rapidly.
The medical care and long-term care costs per capita increase significantly when individuals move into the latter-stage elderly category.
Therefore, it is necessary to prioritize and streamline the medical care costs and long-term care benefits.

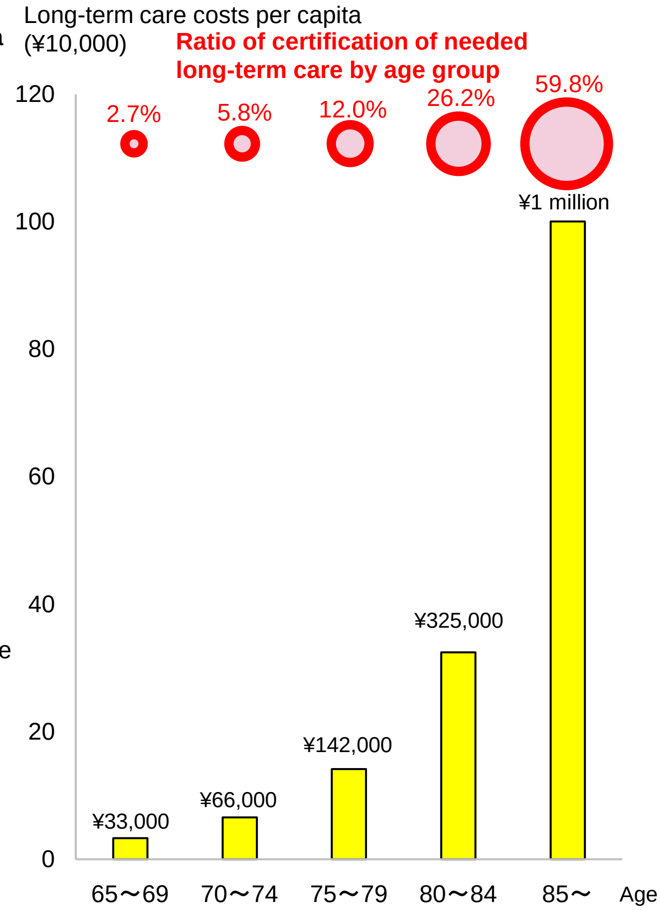
◆ Medical care expenditure and drug costs (internal medicine) per capita



* "Drug cost" refers to the amount calculated for each drug based on the dose recorded in the "prescription" column and the dispensed quantity recorded in the "dispensed quantity" column in the dispensing fee statement, and the price of the drug.

(Source) Medical care expenditure: Ministry of Health, Labour and Welfare, "FY2020 National Medical Care Expenditure"
Drug costs: Ministry of Health, Labour and Welfare, "Recent Trends of Drug Dispensing Costs (processed by computer)" and "Population Estimates"

◆ Ratio of certification of needed long-term care and long-term care costs per capita



(Source)
- Ratio of certification of needed long-term care: Ministry of Health, Labour and Welfare, "Long-term Care Insurance Business Report (FY2020)"
  Ministry of Internal Affairs and Communications, "Population Estimates"
- Long-term care expenditure: Ministry of Health, Labour and Welfare, "Statistics of Long-term Care Benefit Expenditure (FY2020)"
  Ministry of Internal Affairs and Communications, "Population Estimates"

Increase in medical care and long-term care expenditures per capita

	Medical care (2020)		Long-term care (2020)		Number and ratio to total population	
	National medical care expenditure per capita (aged 64 and under: ¥183,000)	State contribution per capita (aged 64 and under: ¥27,000)	Long-term care expenditure per capita (ratio of certification of needed support/long-term care in parentheses)	State contribution per capita	2020	2025
					Approx. -2.5 million persons	
Aged 65-74	¥554,000	¥82,000	¥50,000 (4.3%)	¥13,000	17.47 million persons (13.9%) →	14.97 million persons (12.2%)
		Approx. 4 times		Approx. 10 times	Approx. +3.08 million persons	
Aged 75 and over	¥902,000	¥326,000	¥478,000 (31.9%)	¥127,000	18.72 million persons (14.9%) →	21.8 million persons (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) (medium-fertility and medium-mortality scenario)"
National medical care expenditure: Ministry of Health, Labour and Welfare, "Overview of National Medical Care Expenditure (FY2020)"
Long-term care expenditure and ratio of certification of needed support/long-term care: Ministry of Health, Labour and Welfare, "Statistics of Long-term Care Benefit Expenditure (FY2020)" and "Long-term Care Insurance Business Report (FY2020)", and Ministry of Internal Affairs and Communications, "Population Estimates"

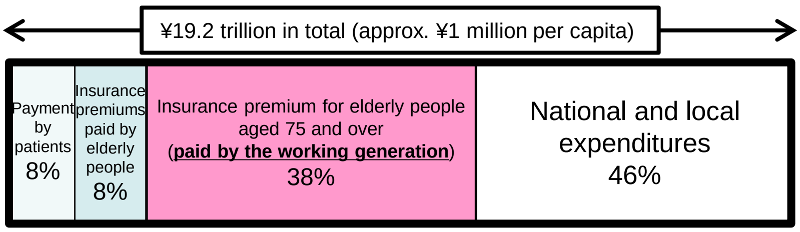
(Notes) National medical care expenditure and long-term care expenditure per capita are calculated by dividing the national medical care expenditure and the long-term care expenditure by the population in each age group. State contribution per capita is calculated by dividing the amount of state contribution by the population as of 2020 in each age group.

(3) Future issues in social security

(i) Payment depending on the ability to pay

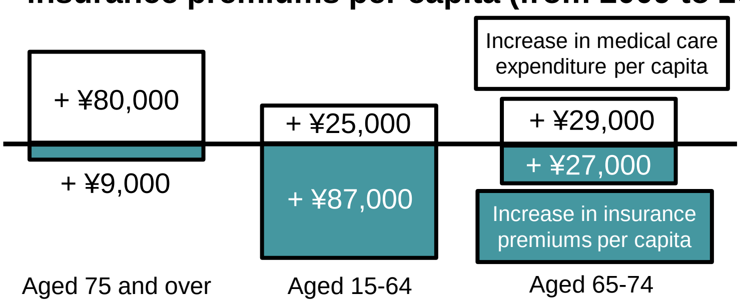
The medical care expenditure per capita among people aged 75 and over is approx. 1 million yen, more than 80% of which is financed by public funds and insurance premiums paid by the working generation. Going forward, along with the decline of population of the working generation who supports the social security system, the burden on the working generation to pay insurance premiums is expected to increase. Therefore, it is necessary to shift to payment depending on the ability to pay, instead of age.
Accordingly, since October 2022, a new system has been introduced for elderly people aged 75 and over whose income exceeds a certain level that will cover 80% of their medical care expenditure, instead of 90% (and require them to pay 20% of the expenditure, instead of 10%). In addition, the system for payment of insurance premiums by those elderly people will be revised so that the rate of increase of the insurance premiums paid by the working generation will be equal to that of the insurance premiums paid by elderly people on a per-capita basis.

◆ Medical care expenditure of elderly people aged 75 and over and financial resources thereof

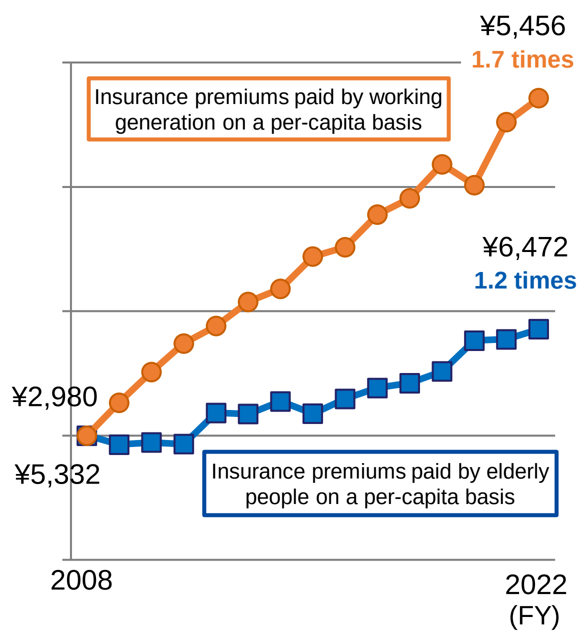


* Based on the FY2023 budget

◆ Increase in medical care expenditure and insurance premiums per capita (from 2009 to 2019)



◆ Changes in insurance premiums per capita (monthly amount)



(ii) Problems in Japan's medical care provision system

The number of hospital beds per population in Japan has become larger than that in other developed countries. As a result, the number of physicians assigned per hospital bed is very small. In anticipation of the changes in quality and quantity of demand for medical care due to the population decline and aging of society, there is a call for sharing of roles and cooperation among medical institutions in each community, for both inpatient and outpatient medical care.

◆ Comparison of medical care provision systems in major developed countries

Country name	Average number of days of hospital stay (acute period)	Total number of hospital beds per 1,000 population	Number of clinicians per 1,000 population	Number of clinicians per 100 hospital beds	Number of clinicians per hospital
Japan	28.3 (16.4)	12.6	2.6	20.5	39.7
Germany	8.7 (7.4)	7.8	4.5	57.1	123.6
France	9.1 (5.5)	5.7	3.2	55.4	71.7
United Kingdom	6.9 * (6.2) *	2.4	3.0	125.1	105.9
United States	6.2 * (5.4) *	2.8 *	2.6 *	94.2 *	142.3 *

(Source) Created based on "OECD Health Statistics 2022" and "OECD.Stat" (data for 2020; * data for 2019)

(4) Comprehensive reform of social security and taxation systems

The aim of the Comprehensive reform of social security and taxation systems is to rectify the current situation where the burden of a substantial portion of social security costs is postponed to future generations, thereby enhancing and stabilizing the social security system while achieving fiscal consolidation.

Ensuring stable fiscal resources by tax reform

Enhancing and stabilizing the social security system

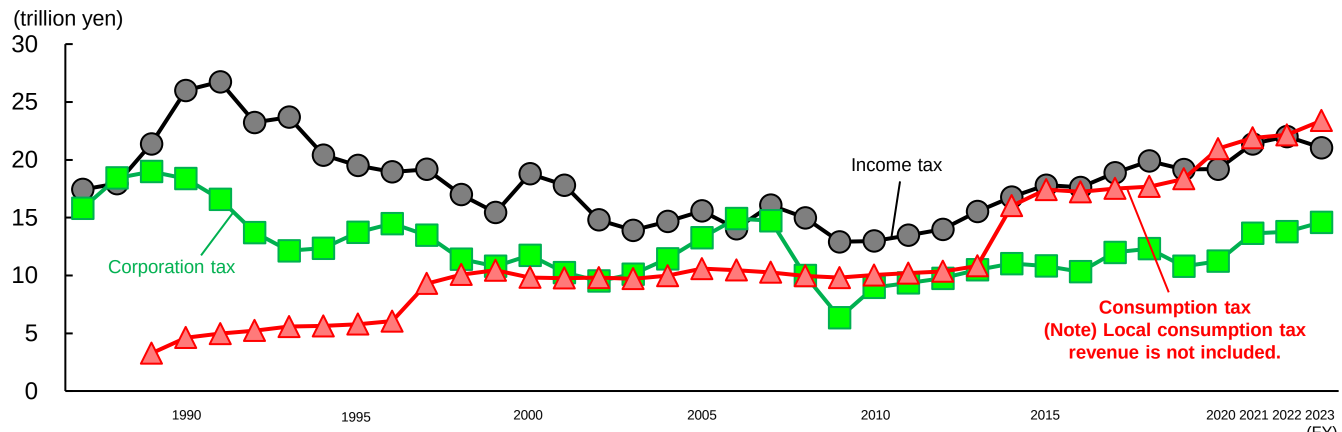
Accomplishing both

Achieving fiscal consolidation goals

Why is consumption tax used for social security?

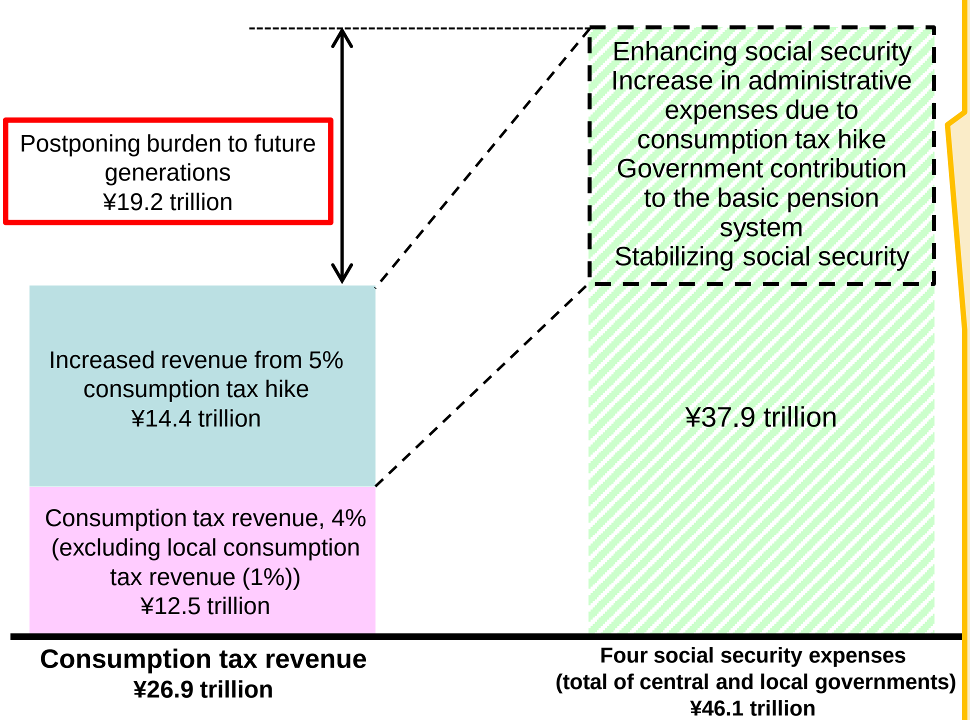
- Its revenue is stable and unlikely to be affected by economic conditions.
- It is neutral in relation to economic activities, and does not concentrate burden on certain people such as the working generation

Consumption tax is an appropriate way of funding financial resources for social security.



(Note) Until FY2021: Settled figures; FY2022: Based on the Supplementary Budget; FY2023: Based on the Budget

Relationship between four social security expenses and consumption tax revenue



(Note 1) For enhancing social security, 4.42 trillion yen has been spent in total; utilizing resources (-0.4 trillion yen) generated by prioritization and streamlining based on the social security reform program law, etc.
(Note 2) Each figure in consumption tax revenue and four social security expenses is based on the FY2023 initial budget of central and local governments, reflecting the effect of implementation of reduced tax rate.
(Note 3) For the introduction of the reduced tax rate, legislative measures have been taken to secure stable permanent financial resources.

Major initiatives to enhance social security

Childcare

- ✓ **Free early childhood education** (Free education for all children from 3 to 5 years old, etc.)
- ✓ **Free higher education** (tuition reductions and exemptions of universities, etc. and expansion of grant-type scholarship for children from families with incomes below a certain level)
- ✓ **Solving the daycare shortage problem**(“Problem on the children on the daycare waiting list”) **and creating an environment that enables women to work if they want to.**

Medical / long-term care

- ✓ **Expanding the eligibility for education of premiums for the national health insurance, etc.**
- ✓ **Enhancing long-term care services** (improving wages and introducing ICT)

Pension

- ✓ **Benefits for low-income senior citizens** (such as 5,000 yen per person per month etc.)
- ✓ **Shortening the required qualifying period to receive a pension** (25 years⇒10 years)

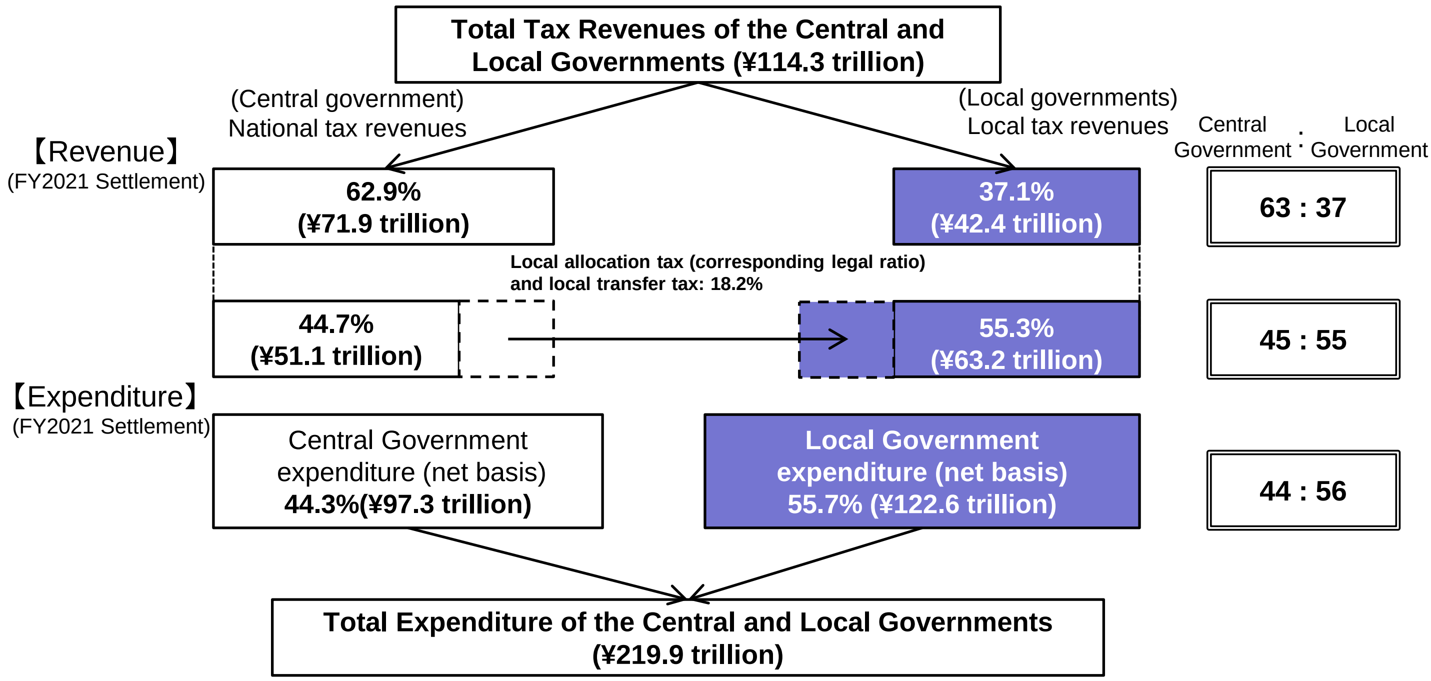
etc

23. Non-Social Security Area

(1) Central and Local Governments

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

The ratio of tax revenue resources between the central and local governments is on the same level of that of expenditure due to the fiscal transfer such as local allocation tax grants, etc. However, there is an imbalance between the total taxes and total expenditures for the central and local governments combined, and it is important to reduce this imbalance.



(Source) "Local public Finance (March 2023)", etc.

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

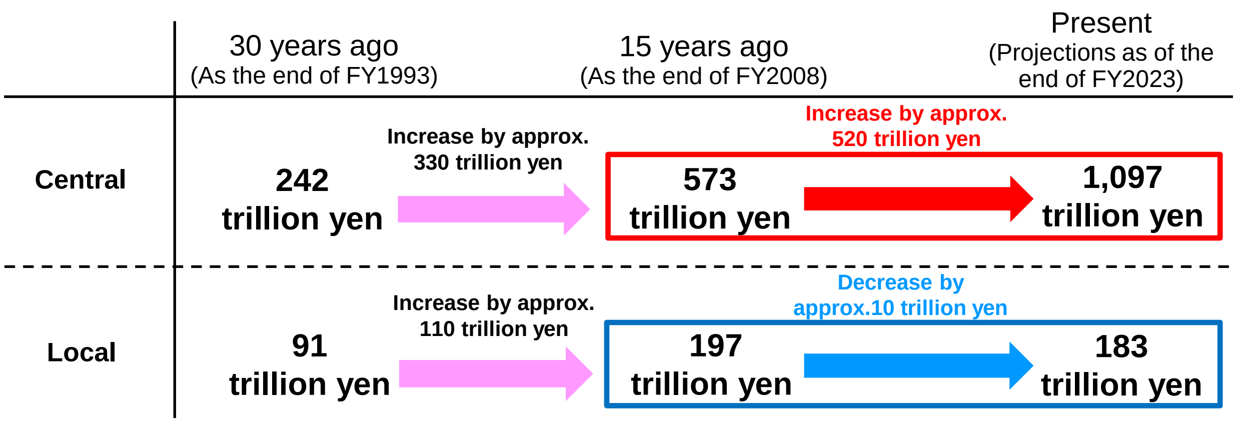
Comparing fiscal situations of central and local governments, the situation of the central government is extremely more severe than that of the local government in terms of both the flow indicators (fiscal and primary balance) and the stock indicators (long-term debt outstanding).

○Primary Balance and Fiscal Balance of the Central and Local Governments (FY2023 projection)

	Primary Balance	Fiscal Balance
Central Government	approx. -28.0 trillion yen	approx. -33.1 trillion yen
Local Government	approx. 5.1 trillion yen	approx. 4.1 trillion yen

(Note) Cabinet Office "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 24, 2023)

○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. 28 trillion yen at the end of FY2023).

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, etc to fill revenue-expenditure gap on the Local Fiscal Plan. In case that the gap is not filled by the statutory rate, etc, the half amount of the rest of the gap is added to the total amount of LAT.

FY2023 Local Fiscal Plan (Unit: trillion yen, figures in parentheses represent the amount of the increase from last year)

【 Expenditure 92.0 (+1.4) 】

Expenses for wages
: 19.9 (-0.1)

Expenses for general administration
: 42.1 (+0.6)

of which
- subsidized project: 24.0 (+0.5)
- unsubsidized project: 15.0 (+0.1)
- expenses on the comprehensive strategies for Vision for a Digital Garden City Nation: 1.25 (new)
- expenses on vitalizing local communities: 0.4 (±0.0)

Expenses for investment
: 12.0 (-0.0)

Debt service : 11.3 (-0.2)

Others : 6.8 (+1.0)

【 Revenue 92.0 (+1.4) 】

Revenue-Expenditure Gap:
18.4 (+0.3)

Special local grants, etc.: 0.2 (-0.0)

Local taxes,
Local transfer taxes:
: 45.5 (+1.6)

National government Disbursements:
: 15.0 (+0.1)

Local government bonds: 6.8 (-0.8)

of which Extraordinary financial measures bonds: 1.0(-0.8)

Others : 6.2 (+0.2)

covered by central and local government

Fiscal resource shortage covered by central and local governments(*)

Extraordinary financial measures

Special additions

(*) None in FY2022,23

The special Account for LAT grants
2.2 (-0.2)

LAT, etc.
(the statutory rate)
16.2
(+0.5)

LAT grants
(exit-based)
18.4 trillion yen

LAT grants
(entrance-based)
16.2 trillion yen

The legal ratio for LAT (FY2023)

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

* 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 16.2 trillion yen.

* "The expenses on "the comprehensive strategies for Vision for a Digital Garden City Nation" was newly made and it is including the expenses for "Promotion to Regional Digital Societies" and the expenses for 'the Promotion to Regional Development', which was renamed in FY2023.

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 FY2023 Local Fiscal Plan is maintained substantially at the same level as the previous year.

FY2023 Local Fiscal Plan (Unit: trillion yen)

【Expenditure: 92.0】

Expenses for wages: 19.9

Expenses for General Administration: 42.1

of which
- subsidized project: 24.0
- unsubsidized project: 15.0
- expenses on the comprehensive strategies for Vision for a Digital Garden City Nation: 1.25
- expenses on regional local society promotion: 0.4

Expenses for investment: 12.0

Debt Service: 11.3

Expenses above the rule: 2.9

Others: 3.9

【Revenue: 92.0】

general revenue resources:

Local Allocation Tax: 18.4

Special local grants, etc.: 0.2

Local taxes and Local transfer taxes: 45.5

Extraordinary financial measures bonds: 1.0

specific revenue resources:

National government disbursements: 15.0

Other local government bonds: 5.8 (excluding financial measures bonds)

Others: 6.2

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) National defense

The National Security Strategy of Japan (Cabinet Decision in December 2022) provides that Japan will take the necessary measures to make the level of its budget, for both the fundamental reinforcement of defense capabilities and complementary initiatives, reach 2% of the current GDP.
To this end, according to the Defense Buildup Program (Cabinet Decision in December 2022), the expenditure aiming for the implementation of defense capability buildup during the five years from FY2023 to FY2027 amount to approx. 43 trillion yen and the annual defense budgets for each fiscal year amount to approx. 40.5 trillion yen (approx. 8.9 trillion yen in FY2027).

Points of the Defense Buildup Program

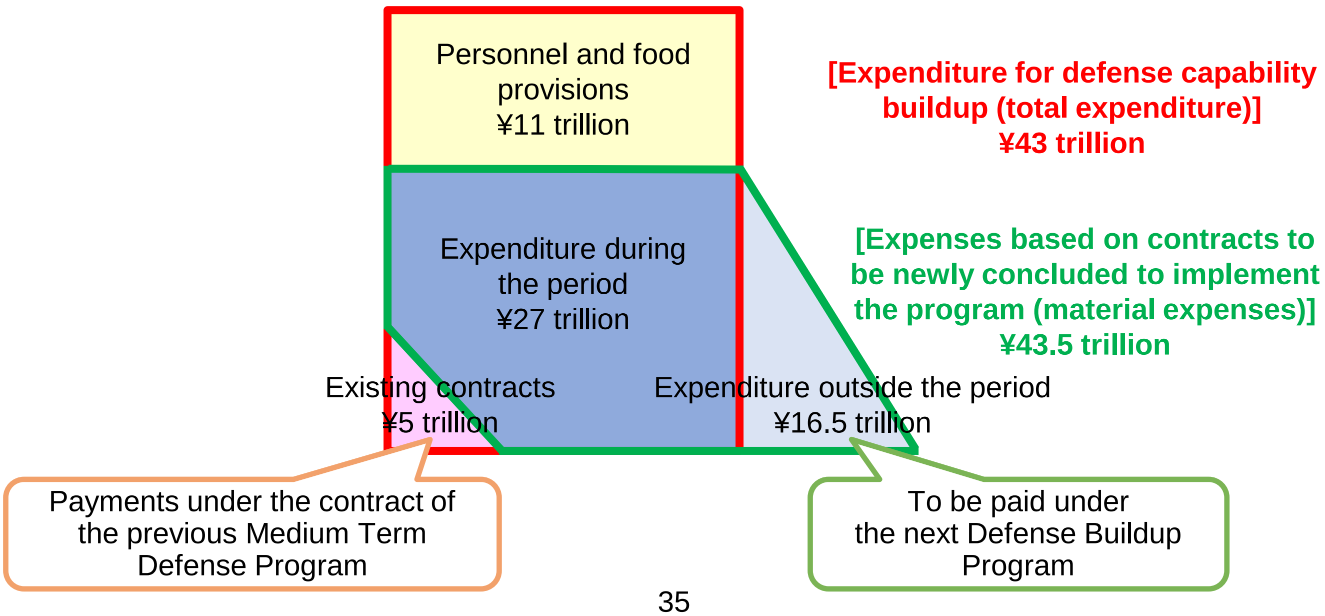
	Defense Buildup Program (FY2023-FY2027)	Medium Term Defense Program (FY2019-FY2023)
Expenditure for defense capability buildup	Approx. ¥43 trillion	Approx. ¥27,470 billion
Annual defense budgets for each fiscal year (Note)	Approx. ¥40,500 billion (approx. ¥8,900 billion for FY2027)	Approx. ¥25,500 billion
Expenses based on contracts to be newly concluded to implement the program (material expenses)	Approx. ¥43,500 billion	Approx. ¥17,170 billion

(Note) The annual defense budget for each fiscal year is determined on the assumption that the following measures will be taken:
- Considering the progress of each project, further accelerate the improvement of SDF facilities in an agile and flexible manner (approximately ¥1,600 billion);
- Utilize settlement surplus in the general account when the surplus is larger than the expected settlement surplus (approximately ¥900 billion); further optimization and rationalization of defense buildup will be thoroughly implemented; if the surplus does not increase to the above-mentioned level, MOD/ SDF will secure financial resources virtually through the initiatives.

Under the Defense Buildup Program, the expenses based on contracts to be newly concluded to implement the program (material expenses) amount to approx. 43.5 trillion yen. The increase in the amount of such expenses from the previous medium term defense program (26.3 trillion yen) is larger than the increase in the expenditure for defense capability buildup (15.5 trillion yen).
Of the amount of these expenses based on contracts, 16.5 trillion yen will be paid under the next defense buildup program expected to be formulated five years later. It is necessary to appropriately manage expenditures in subsequent fiscal years.
According to the Defense Buildup Program, since measures such as those for equipment procurement and maintenance, facility maintenance, R&D, and system development/upgrade will be intensively implemented during the next five years, MOD/SDF will proceed defense buildup in a stable and sustainable manner in the subsequent program based on the FY2027 level in FY2028 and onward.

Cost structure under the Defense Buildup Program

<FY2023-FY2027>



In FY2023, the Defense Buildup Program expenditure amounts to 6.6 trillion yen (up by 1.4 trillion yen year-on-year) on the expenditure basis and 9 trillion yen (up by 5.5 trillion yen year-on-year) on the contract basis, which aims to start as many projects as possible from the first year of the program.

The funds secured have increased significantly not only for procurement of equipment in the conventional area such as aircraft but also for equipment maintenance, ammunition, and facility improvement.

	Expenditure basis		Contract basis		Major items (amounts on contract basis)
	FY2023	Year-on-year	FY2023	Year-on-year	
Equipment procurement	¥1.4 trillion	+¥0.5 trillion (approx. 1.7 times)	¥3.5 trillion	+¥2.6 trillion (approx. 3.9 times)	- Procurement of aircraft (¥1 trillion) - Construction of vessels (¥0.4 trillion) - Tanks and artillery (¥0.2 trillion) - Various ammunitions (¥0.8 trillion)
Maintenance	¥1.9 trillion	+¥0.6 trillion (approx. 1.5 times)	¥3.0 trillion	+¥1.5 trillion (approx. 1.9 times)	- Replenishment of parts and maintenance of existing equipment (¥2.5 trillion) - Education and training (¥0.3 trillion)
Facility improvement	¥0.2 trillion	+¥0.05 trillion (approx. 1.3 times)	¥0.5 trillion	+¥0.3 trillion (approx. 2.5 times)	- Improvement of MOF/SDF buildings and barracks
Research and development	¥0.2 trillion	+¥0.06 trillion (approx. 1.3 times)	¥0.9 trillion	+¥0.6 trillion (approx. 3.1 times)	- Development of approx. ten types of stand-off missiles (¥0.4 trillion) - Reserch on measures against hypersonic glide vehicles (HGV) (¥0.1 trillion) - Development of F-X (¥0.1 trillion)
Personnel and food provisions	¥2.2 trillion	+¥0.02 trillion	¥2.2 trillion	+¥0.02 trillion	- Increase by 1,769 active personnel (2022: increase by 1,014 active personnel)
Base-related measures	¥0.5 trillion	+¥0.02 trillion	¥0.5 trillion	+¥0.02 trillion	- Measures for areas around defense facilities (¥0.1 trillion) - Host Nation Support (¥0.2 trillion)
Others	¥0.2 trillion	+¥0.1 trillion	¥0.4 trillion	+¥0.4 trillion	- Strengthening cyber security of defense industry (¥0.1 trillion) - Fund for transfer of defense equipment (¥0.04 trillion)
Total	¥6.6 trillion	+¥1.4 trillion (approx. 1.3 times)	¥11.1 trillion	+¥5.5 trillion (approx. 2.0 times)	

(Note 1) The amounts indicated in the above table include personnel and food provisions expenses both on the expenditure basis and contract basis.
(Note 2) Defense-related expenditure (expenses under MOF jurisdiction) consisting of the total amount indicated in the above table plus expenses related to SACO and U.S. Forces realignment related expenses minus expenses booked for the Digital Agency amounts to 6,788 billion yen (up by 1,419.2 billion yen year-on-year) on the expenditure basis and 11,724.6 billion yen (up by 5,510 billion yen year-on-year) on the contract basis.
(Note 3) Figures may not add up to the totals due to rounding.

In the Defense Buildup Program, MOD/SDF will secure financial resources virtually through initiatives such as thoroughly implementing further optimization and rationalization of defense buildup. In the FY2023 budget, expenses have been reduced by 257.2 billion yen through optimization and rationalization by taking initiatives such as suspending the use of equipment which has become less important, using long-term contracts and optimizing procurement by scrutinizing costs.

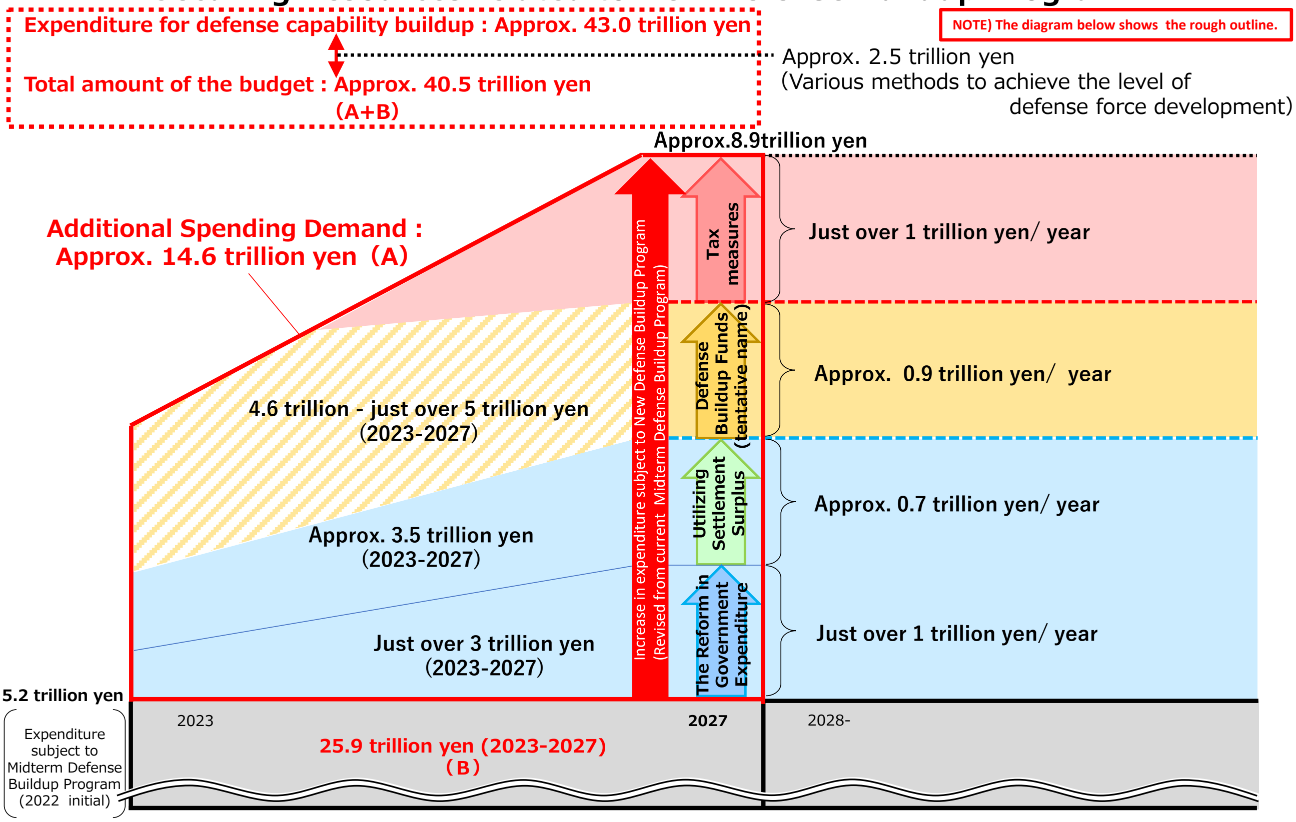
Initiatives	FY2023
Suspension and discontinuation of use of equipment	¥5.2 billion
Planned, stable and efficient acquisition of equipment	¥145.6 billion
Narrowing down SDF-unique specifications	¥21.4 billion
Review of projects	¥84.9 billion
Total	¥257.2 billion

(Note) Figures do not add up to the total due to rounding.

Defense Buildup Program shows that necessary measures will be implemented in both expenditure and revenue areas, such as the reform in government expenditure, utilizing settlement surplus, creation of defense buildup funds utilizing non-tax revenues, and tax measures in order to secure financial resources for the stable sustainment of defense capabilities after FY2027 as well as for covering the program from FY2023 to FY2027.

English Translation for “政府与党政策懇談会資料”(Dec 16th 2022)

Securing Resources related to New Defense Buildup Program



Details of Securing Resources related to New Defense Buildup Program

Defense Buildup Funds

○ New fund framework(Defense Buildup Funds) is planned to be established under Securing Financial Resources Act in FY2023 in order to systematically and stably allocate non-tax revenues etc. for defense buildup.

○ Defense Buildup Funds shall belong to the general account, shall be administered by the Minister of Finance, and may only be used in accordance with the budgetary provisions only if they are used to finance costs subject to the Defense Buildup Program.

Non-Tax Revenues

○ Approx. 4.6 trillion yen will be secured from non-tax revenues written below in FY 2023 for defense buildup. Of which the amount(approx. 3.4 trillion yen) in excess of the amount (approx. 1.2trillion yen) required in FY2023 will be transferred to Defense Buildup Funds and will be used as financial resources for FY2024 (Approx. 1.5 trillion yen will be under the Securing Financial Resources Act including approx.1.2 trillion yen from the carry-over transferred from the Foreign Exchange Fund in FY2023, 0.2 trillion yen from carry-over of the deposit of Fiscal Loan Fund Account from carry-over of Special Account for Fiscal Investment and Loan, and 0.1 trillion yen from the return to the national treasury from expectedly unused deposits of National Hospital Organization and Japan Community Health care Organization.).

① Carry-over from Special Accounts
- Carry-over from Foreign Exchange Fund（the estimated surplus for FY2022and the estimated surplus of the progressing FY2023 are included)(approx. 3.1 trillion yen)
- Carry-over from Fiscal Investment and Loan Program Funds（Carry-over from Fiscal Loan Fund and Investment Accounts（approx. 0.6 trillion yen))

② Return to national treasury of unused deposits and funds accumulated as the result of the budgets for the COVID-19.
- Return to national treasury from expectedly unused deposits from National Hospital Organization and Japan Community Health care Organization (approx. 0.1 trillion yen)
- Return to national treasury from expectedly unused funds for Covid-19 by Organization for Small & Medium Enterprises and Regional Innovation (approx. 0.2 trillion yen)
- Return to national treasury from expectedly unused loan resources related to Temporary Loan Emergency Funds(approx. 0.1 trillion yen)

③ Revenues from the sale of government-owned properties
- Proceeds from the sale of government holdings in “Otemachi PLACE” (approx. 0.4 trillion yen)

Utilizing Settlement Surplus

○ The average level of the Settlement Surplus of recent 10 years (2012-2021) is approx. 1.4 trillion yen per year.
(One half of the amount, which is the limit of utilization under the Fiscal Code, is approx. 0.7 trillion yen per year and the cumulative amount from 2023 to 2027 is approximately 3.5 trillion yen.)

The Reform in Government Expenditure

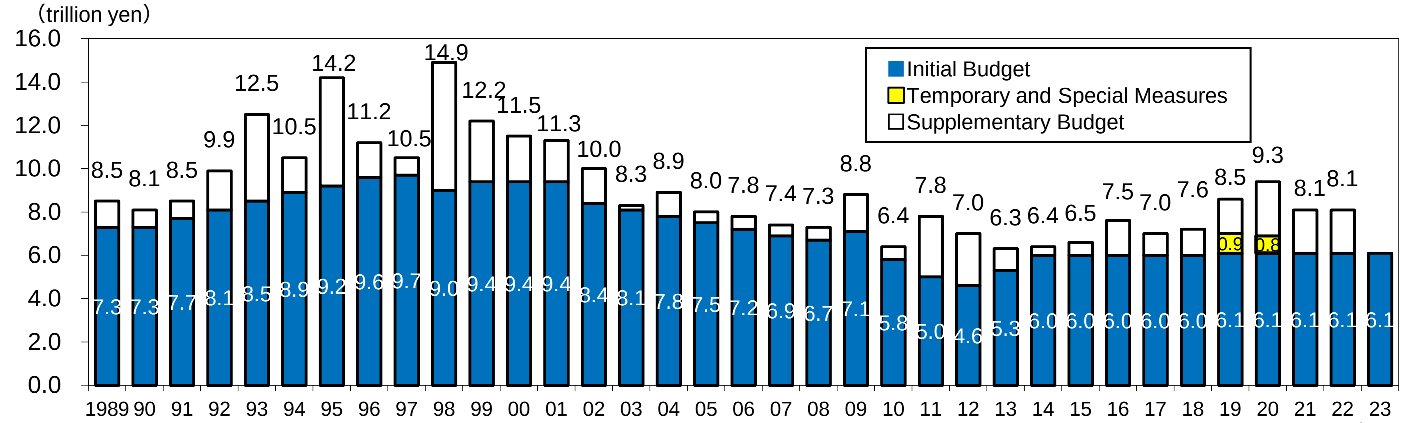
○ With regard to non-social security expenditures, the government will continue existing efforts to improve government expenditures（approx. +150 billion yen) and secure financial resources for approx. 210 billion yen which is a part of the increase in expenditure subject to Defense Buildup Program.

Reference: “Highlights of the FY2023 Draft Budget”

(3) Public Works

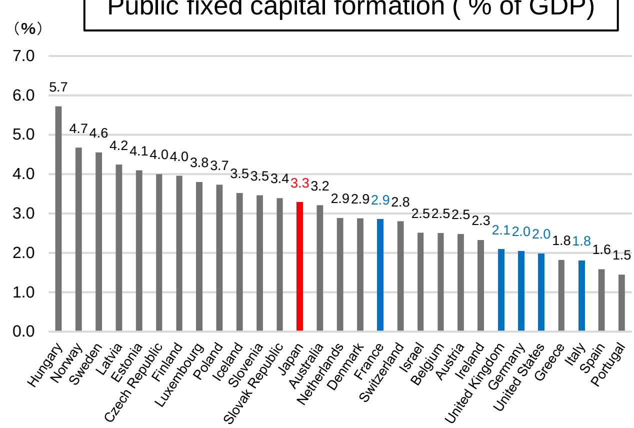
Public works-related expenditures have declined from their peak. However, Japan's public fixed capital stock (% of GDP) is still high compared to other major developed countries. In this context, the budget is focused on disaster prevention/mitigation and national land resilience in order to cope with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

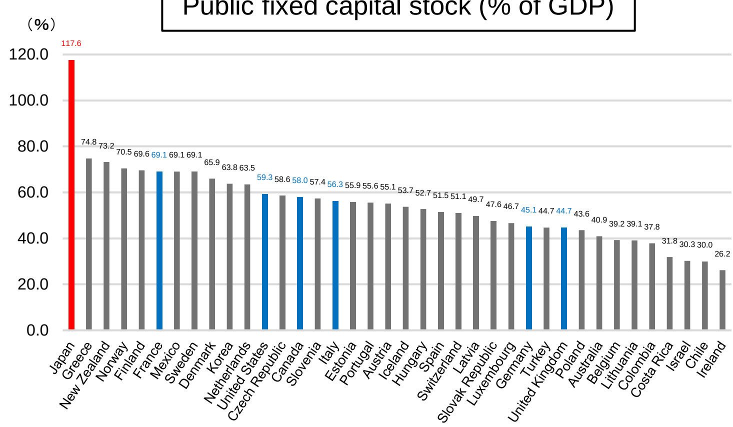
① Trends in Public Work Expenditures



(Note) Excluding NTT-A type.

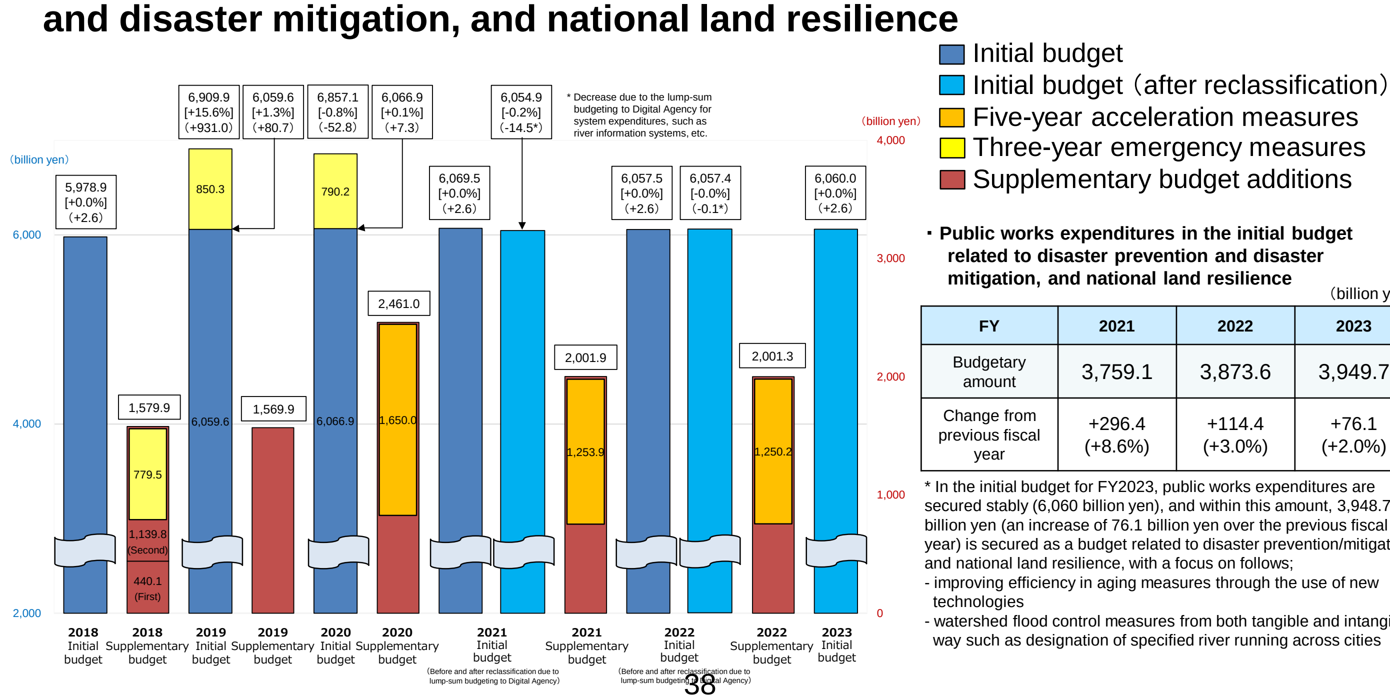
② International Comparison of Public Fixed Capital (% of GDP) (2019)





(Source) <Public fixed capital formation> Japan: Calculated based on Cabinet Office "National Accounts"; the other countries: Calculated based on OECD "National Accounts", etc.
<Public fixed capital stock> Japan: "National Accounts", Cabinet Office; the 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 the 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 Recent Public Work Expenditures and budget related to disaster prevention and disaster mitigation, and national land resilience



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

(billion yen)

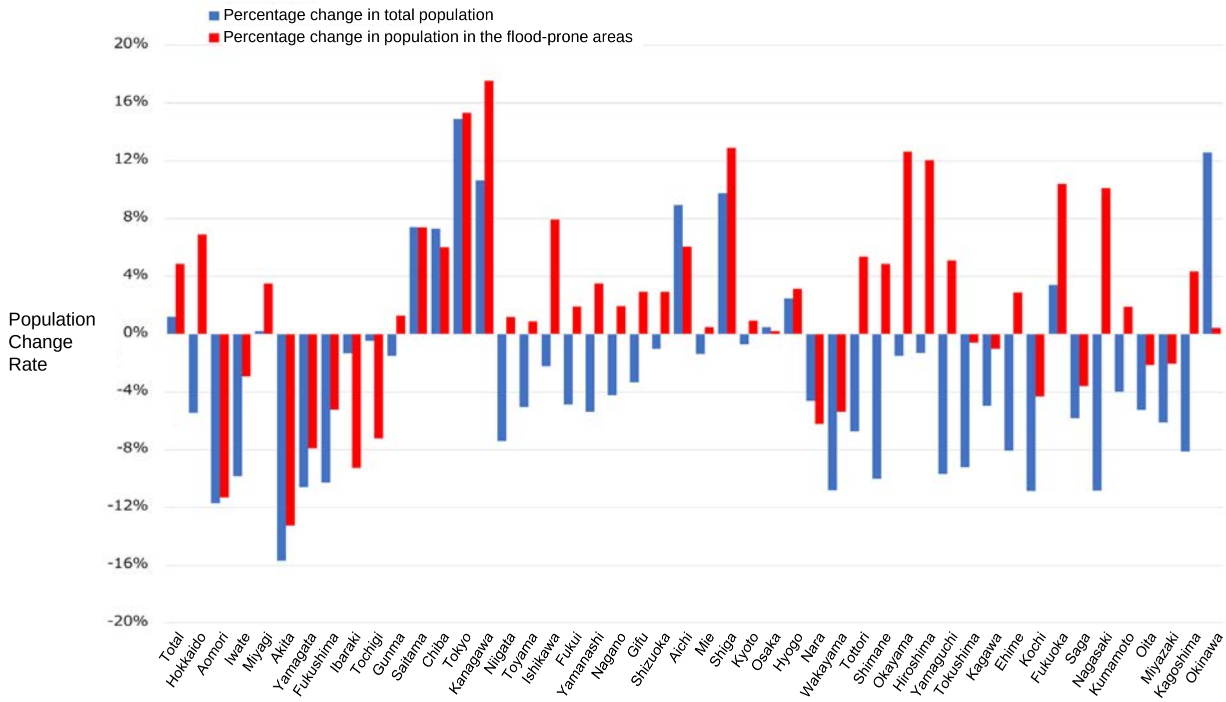
FY	2021	2022	2023
Budgetary amount	3,759.1	3,873.6	3,949.7
Change from previous fiscal year	+296.4 (+8.6%)	+114.4 (+3.0%)	+76.1 (+2.0%)

* In the initial budget for FY2023, public works expenditures are secured stably (6,060 billion yen), and within this amount, 3,948.7 billion yen (an increase of 76.1 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 follows;
- improving efficiency in aging measures through the use of new technologies
- watershed flood control measures from both tangible and intangible way such as designation of specified river running across cities

In more than half of the all prefectures, the population in the flood-prone areas has increased despite a decrease in the entire 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)

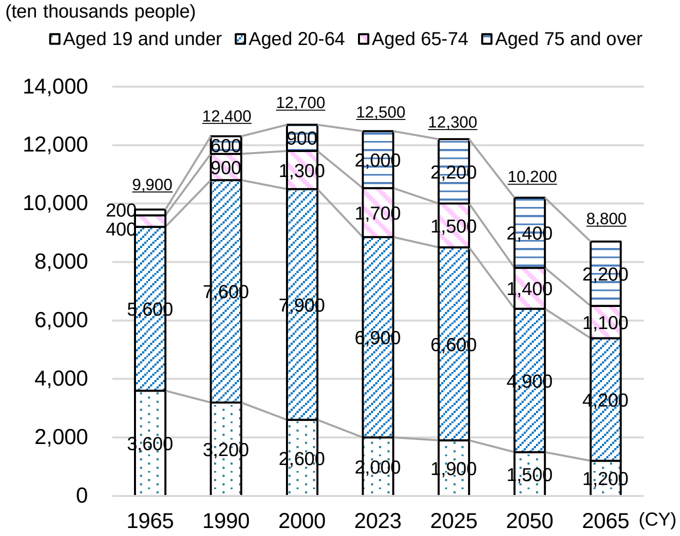
In 32 prefectures, the population within the flood-prone areas increased.
In 21 prefectures, the population decreased while the population within the flood-prone areas increased.
In 6 prefectures, the population within the flood-prone areas increased more than the population growth rate.



(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.

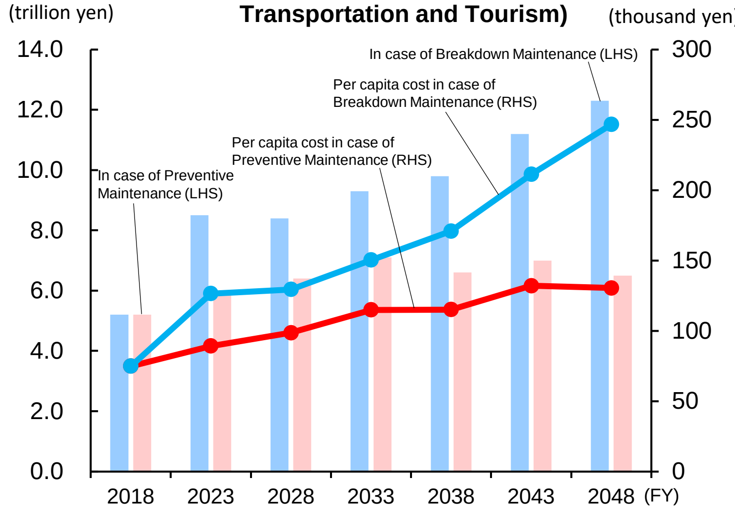
⑤ Demographic Projection



(Source) 1965-2000: Statistic Bureau, Ministry of Internal Affairs and Communications "National Census", 2023: Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (January 2023)", 2025-2065: National Institute of Population and Social Security Research "Population Projections for Japan (April 2017),

⑥ Cost Projection of Maintaining and Replacing

(Areas related to Ministry of Land, Infrastructure, Transportation and Tourism)

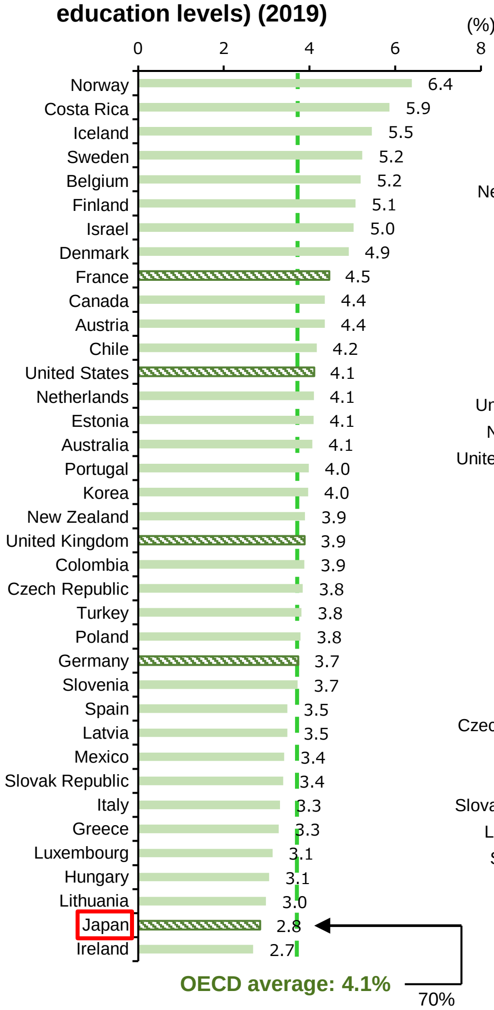


* Preventive Maintenance: Implementing measures such as repairs before a problem occurs in the function or performance of the facility.
Breakdown Maintenance: Implementing measures such as repairs after a problem occurs in the function or performance of the facility.
* The chart uses the maximum of the estimated values.
(Source) Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (April 2019)", National Institute of Population and Social Security Research "Population Projections for Japan (April 2017).

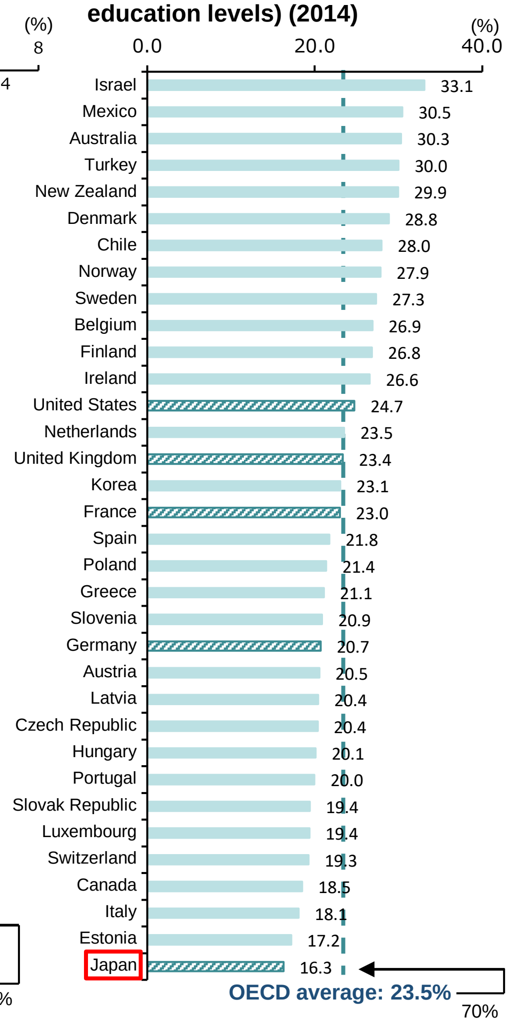
(4) Education and Science

Japan's public expenditure on education (% of GDP) is about 70% of the average of OECD countries (left chart), while the number of children in Japan is also about 70% of its average (center chart). Therefore, Japan's expenditure per student is equivalent to the average of OECD countries (right chart).

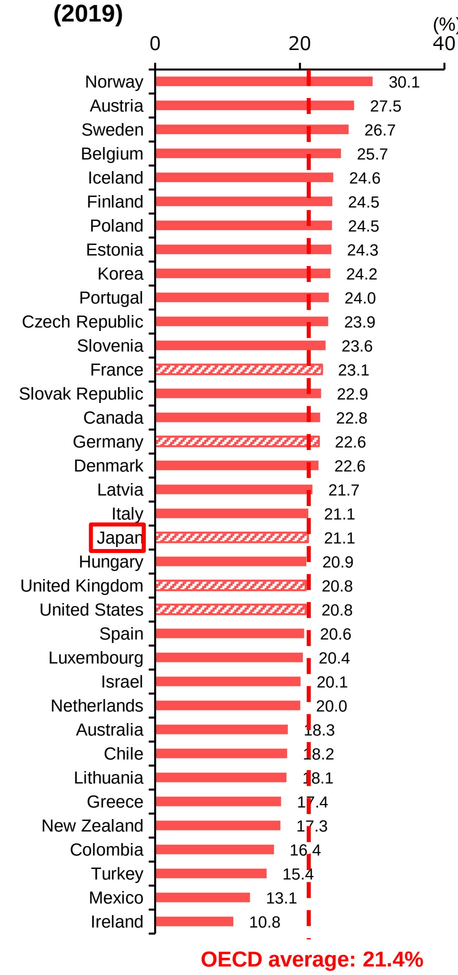
Public expenditure on education as % of GDP (primary to tertiary education levels) (2019)



Students enrollment as % of the total population (primary to tertiary education levels) (2014)



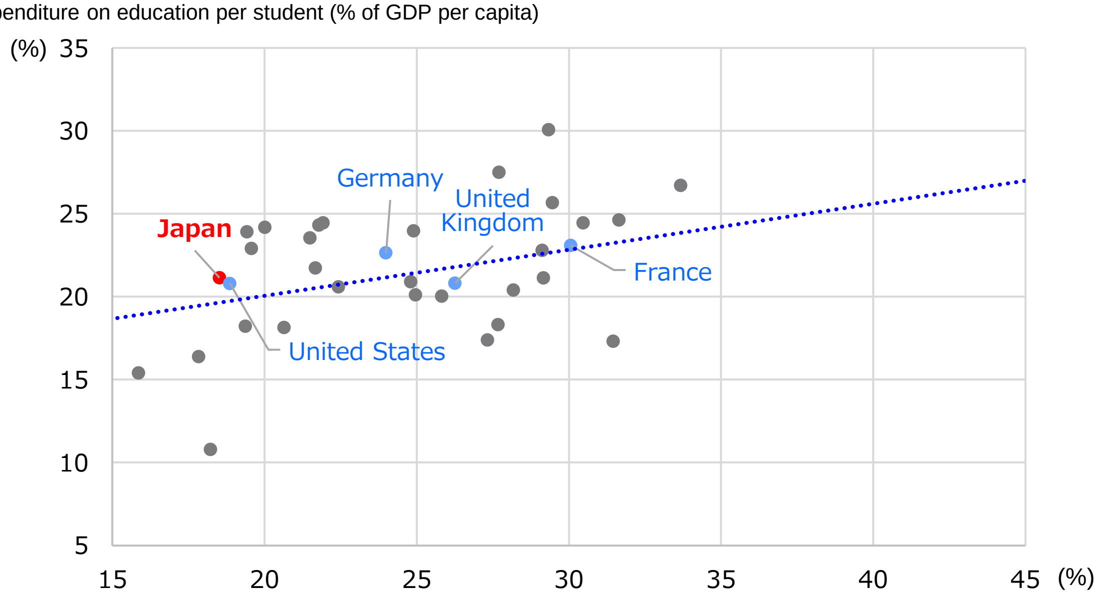
Public expenditure on education per student as % of GDP per capita (2019)



(Source) OECD, "Education at a Glance 2016", "Education at a Glance 2022".
(Note) The OECD average is the average for OECD countries excluding those for which the value cannot be calculated due to a lack of data.

OECD countries' tax burden ratios and public expenditures on education [2019]

Public expenditure on education per student (% of GDP per capita)



Tax burden per capita (% of GDP per capita)

(Source) OECD, "Education at a Glance 2022." "Revenue Statistic".
(Note) Excluding Costa Rica, Switzerland, Denmark, and Mexico from the 38 OECD countries.

(i) Education

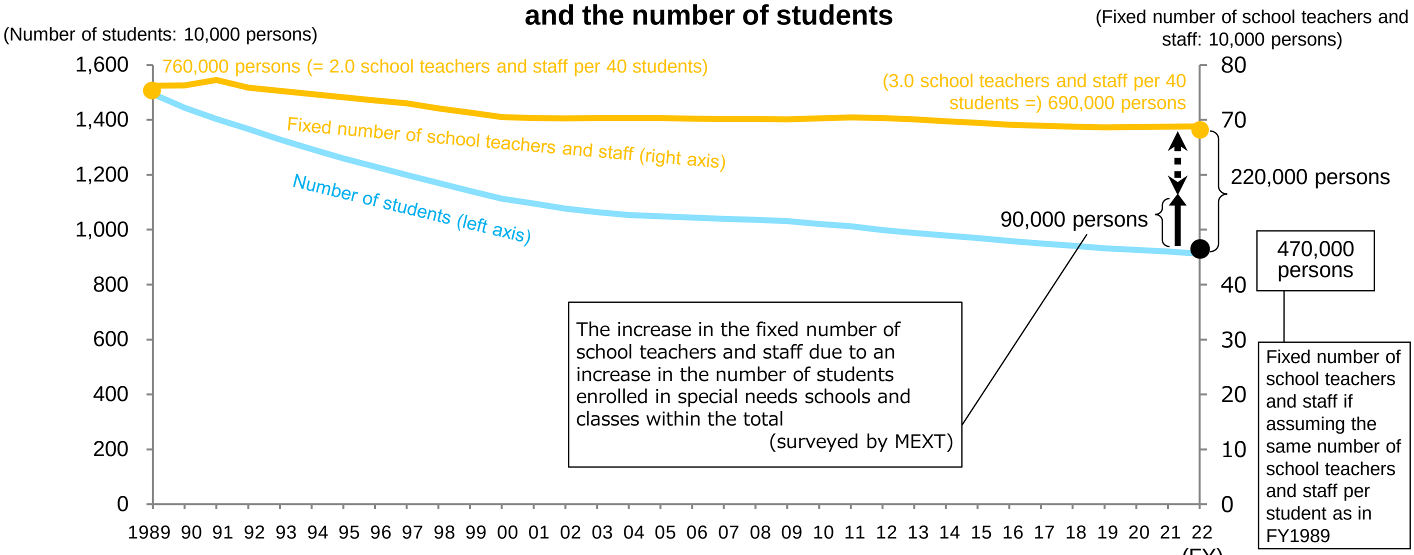
FY2023 budget

National treasury's share of compulsory education expenses: ¥1,521.6 billion
Expenses for public school facilities: ¥74.3 billion, etc.

<Elementary and secondary education>

The number of children decreased to two-thirds over the period of the Heisei era (1989–2019), but the decrease in the number of school teachers and staff remained at the 10–20% level.

Changes in the fixed number of school teachers and staff (public elementary and junior high schools) and the number of students



(Source) FY2022 School Basic Survey, etc.

Non-class hours, such as desk work and responding to various requests, account for a large part of teachers' working hours, which make them feel a sense of burden. Personnel outside of the school should be utilized for dealing with students' mental care and consultations and for supporting events so that working environment is reformed, which enable teachers to focus on teaching. In addition, work on careful selection of school events and digitalization of school affairs are also needed.

Work for which elementary school teachers feel a sense of burden

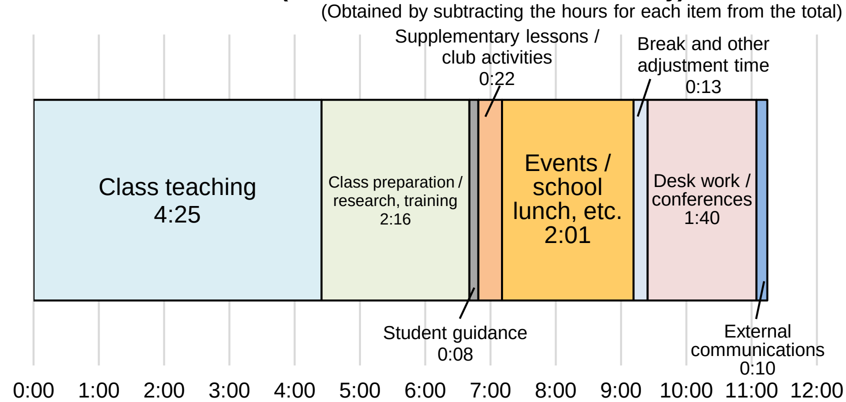
(%)

Top	Response to requests from parents and the local community	84.0
2nd	Response to surveys conducted by the central government or the board of education	82.8
3rd	Preparation of the list of academic records and the school report cards	79.1
4th	Response to students' problematic behaviors	77.9
5th	Processing of term-end academic results, statistics, and grading	75.8

(Source) Let School Teachers and Staff Regain Their Private Time: Study Report on the Actual Status of Working Styles/Hours of School Teachers and Staff in Japan, JTUC Research Institute for Advancement of Living Standards (December 2016)

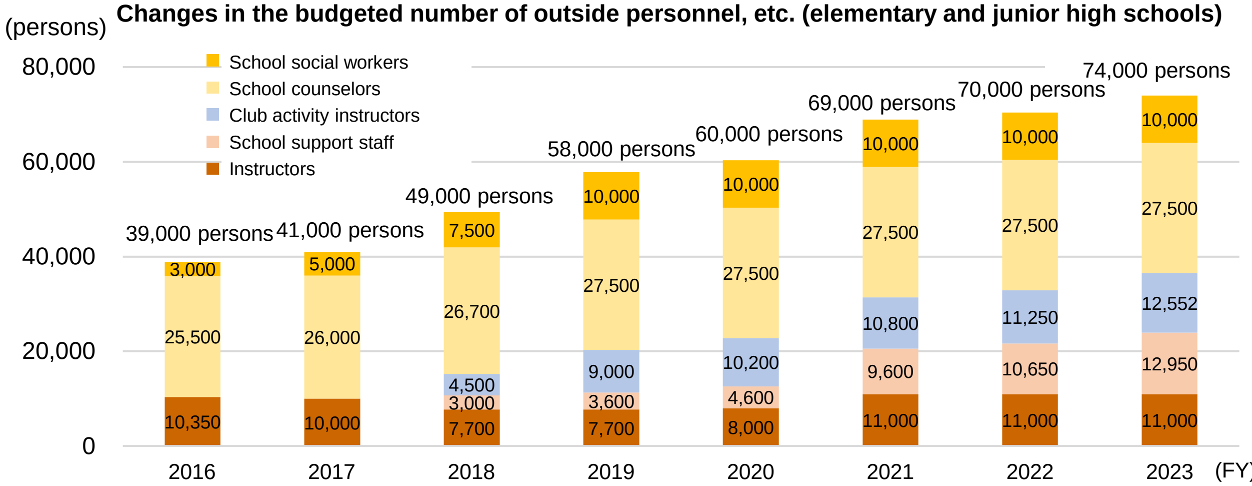
Breakdown of an elementary school teacher's working hours in school (total of 11 hr 15 min on a weekday)

(Obtained by subtracting the hours for each item from the total)



(Source) Created by MOF based on FY2016 Survey on Working Status of Teachers.

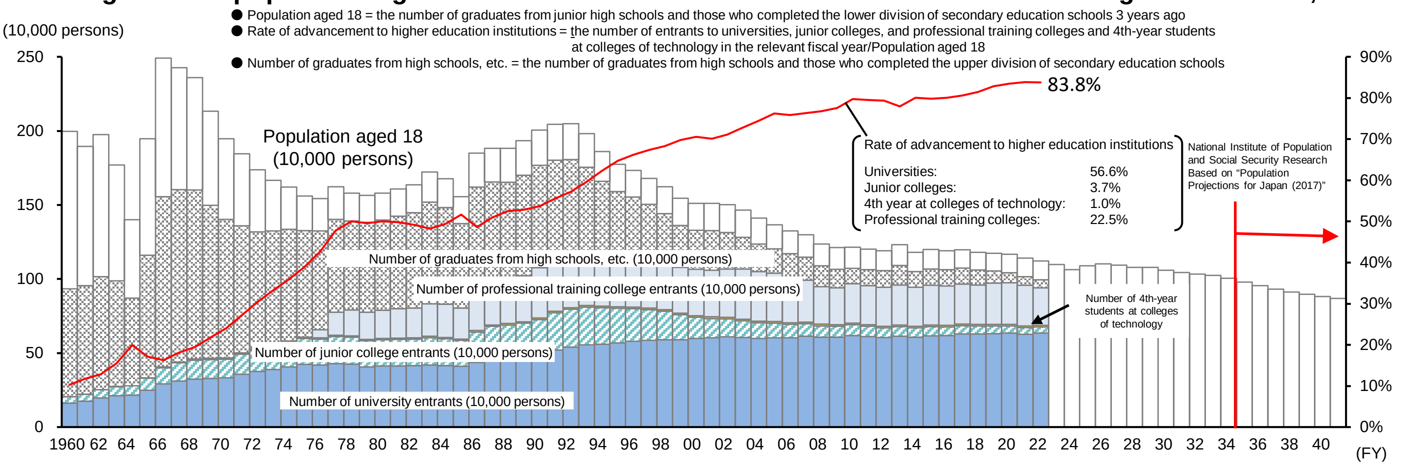
Changes in the budgeted number of outside personnel, etc. (elementary and junior high schools)



<Higher education>

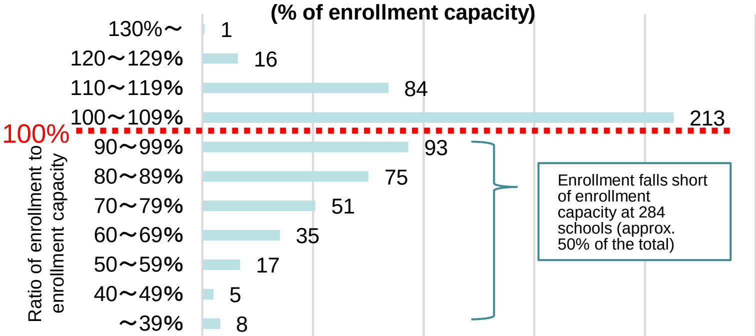
Japan's rate of advancement to institutions for higher education has reached 80%, which is a top-class rate in the world. While the number of people advancing to higher education is expected to decrease in the future due to a drastic decline in the population aged 18, there is an urgent need for university reform, including reorganization of universities and faculties and improvement of their ability to educate and research, to respond to social needs and effectively use the R&D budget for Japan's future growth.

Changes in the population aged 18 and their rate of advancement to institutions for higher education, etc.



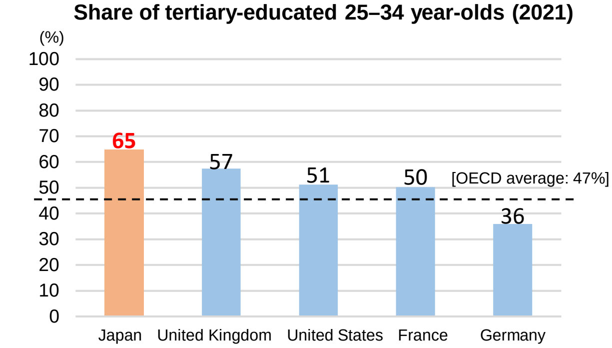
(Source) Created based on MEXT, "School Basic Survey" and, for FY2005 onward, National Institute of Population and Social Security Research, "Population Projections for Japan (2017)".

categorizing private universities in terms of the enrollment proportion (% of enrollment capacity)



(Source) FY2022 Trends in Applicants for Enrollment in Private Universities, Junior Colleges, etc.

Share of tertiary-educated 25–34 year-olds (2021)



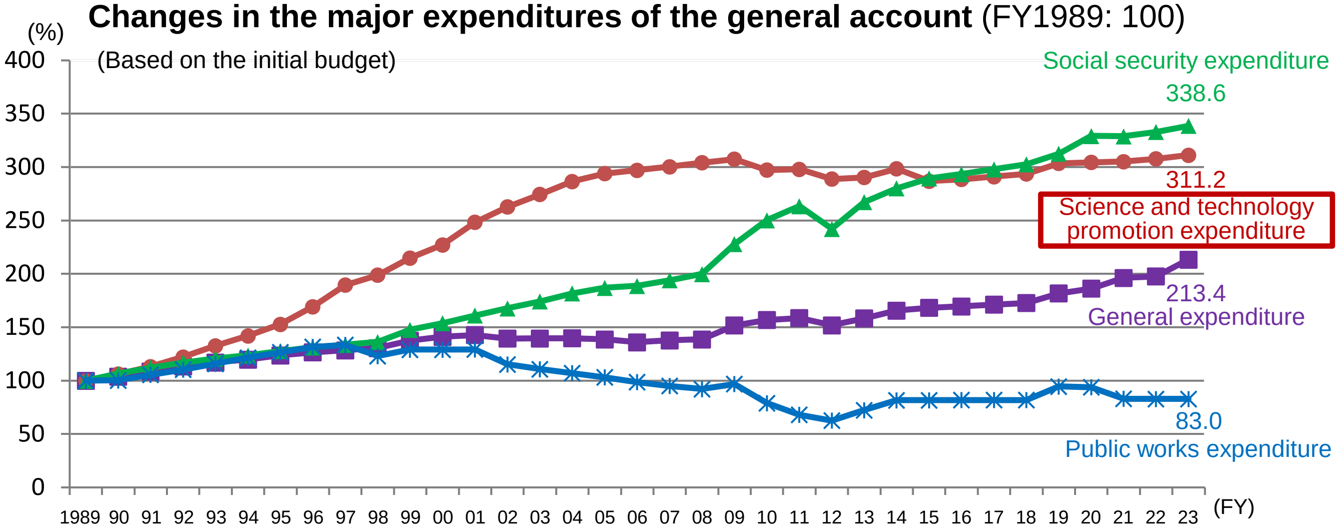
(Source) Education at a Glance 2022 (OECD)
(Note) Japan's data for tertiary education include upper-secondary or post-secondary non-tertiary programs (less than 5% of adults are in this group).

(ii) Science

FY2023 budget Science and technology promotion expenditure: ¥1,394.2 billion

The budget for promoting science and technology has secured and increased significantly compared to other expenses, even under a severe fiscal situation.
In order to ensure that investments in science and technology lead to improvement of productivity of R&D, the "quality" of science and technology policy needs to be improved. For promoting innovations, investments by the private sector will be enhanced through the joint initiatives and an appropriate role-sharing between public and private sectors .

Changes in the major expenditures of the general account (FY1989: 100)

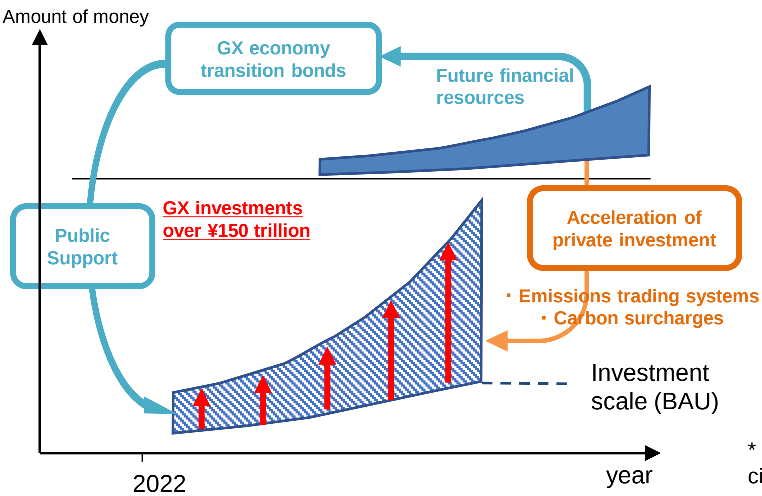


(Note 1) Expenditures for FY2019 and FY2020 include "temporary and special measures"; for the science and technology promotion expenditure, ¥21.9 billion was allocated under the FY2019 budget (¥1,359.7 billion), and ¥7.4 billion under the FY2020 budget (¥1,363.9 billion).
(Note 2) The public works expenditure excludes NTT-A.

(5) Green Transformation (GX)

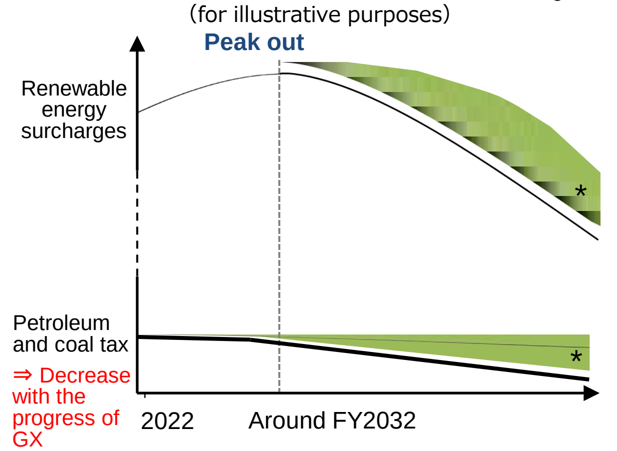
Given that achieving carbon neutrality by 2050 has become an international commitment while extreme weather events occurring around the world, and the energy price hike triggered by the Ukraine invasion has become an issue, not only being independent on fossil fuels, but also making such shift to decarbonization (Green Transformation [GX]) lead to economic growth is needed.
In order to create a system for supporting private GX investments, “GX economy transition bonds” will be issued. Moreover, carbon pricing will be introduced for the sake of financial resources in future.

Embodiment of the vision of “Pro-Growth Carbon Pricing”



* BAU: Business As Usual

< Trend of citizens’ financial burden in the medium to long term>
(for illustrative purposes)



* Introducing the following within the extent of the future decrease of citizens’ energy-related financial burden (renewable energy surcharges / petroleum and coal tax)
(i) Requiring electricity generation utilities to pay for emissions quotas (starting FY2033)
(ii) Carbon surcharges (starting FY2028)

¥20 trillion-scale support for up-front investments will be provided over the next 10 years funded by the issuance of “GX economy transition bonds.” This support will target investments, etc. in fields for which investment decisions are inevitably difficult only by the private sector and which contribute to strengthen industrial competitiveness and to achieve economic growth as well as to CO2 emissions reduction.

	The amounts of government support over the next 10 years (tentative) **Approx. ¥20 trillion scale**			Total amount of public and private investments over the next 10 years **Over ¥150 trillion**	
Promotion of non-fossil energy	**Approx. ¥6–8 trillion**	contents Support for expanding the demand for hydrogen/ammonia, R&D of renewable energy and other new technologies, etc.	These supports and regulations, etc. promote investments.	**Approx. ¥60 trillion –**	Large-scale introduction of renewable energy, nuclear power (R&D of innovative reactors, etc.), hydrogen/ammonia, etc.
Promotion of industrial structural reform and fundamental energy saving on both the supply and demand sides	**Approx. ¥9–12 trillion**	contents Energy saving and fuel conversion that bring profitability and structural reform to the manufacturing industry, nationwide measures for rationalizing demand in order to realize fundamental energy saving, R&D of new technologies, etc.		**Approx. ¥80 trillion –**	Energy saving / fuel conversion in the manufacturing industry (e.g., iron and steel, chemical, cement, paper, and automobiles), digital investments for decarbonization, establishment of the storage battery industry, structural changes of the ship and aircraft industries, next-generation automobiles, residential and other buildings, etc.
Resource recycling / carbon dioxide capture and storage(CCS), etc.	**Approx. ¥2–4 trillion**	contents R&D / social implementation of new technologies, etc.		**Approx. ¥10 trillion –**	Resource recycling industry, bio-manufacturing, CCS, etc.

(6) Personnel expenses for public employees

Japan has about 580,000 national public employees and about 2,320,000 local public employees. The total personnel expenses for the national and local public employees combined are approximately ¥25 trillion which is the lowest level among the developed countries.

Personnel expenses and number of public employees

National public employees

Number of personnel: 583,000 persons
Personnel expenses: ¥5.3 trillion

Administrative organs

Number of personnel: 305,000 persons

Self-Defense Forces personnel, special organs, etc.

Number of personnel: 279,000 persons

* Including the special service of ministers, etc.

Local public employees

Number of personnel: 2,317,000 persons
Personnel expenses: ¥19.9 trillion

General administration

Number of personnel: 992,000 persons

Education (teachers of public schools, etc.)

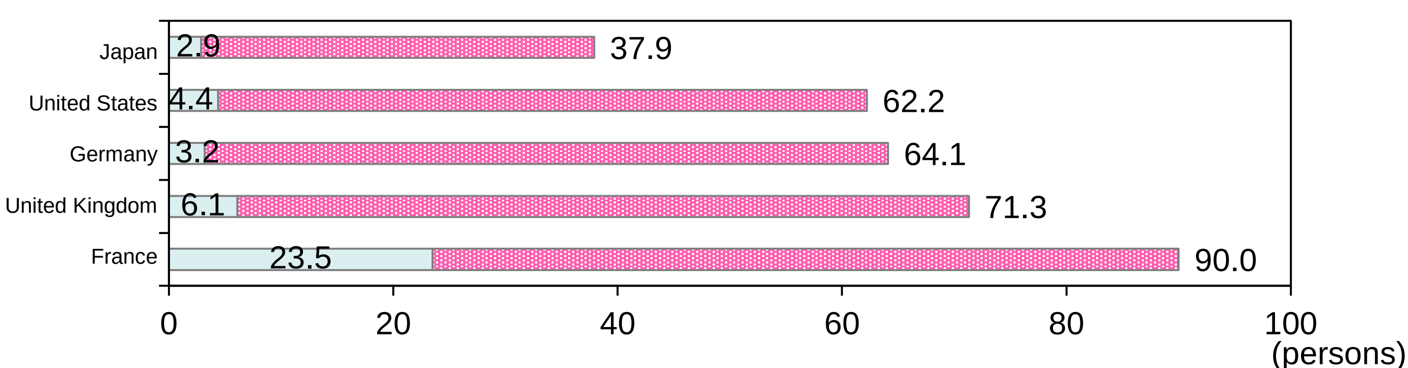
Number of personnel: 909,000 persons

Police, fire fighting

Number of personnel: 417,000 persons

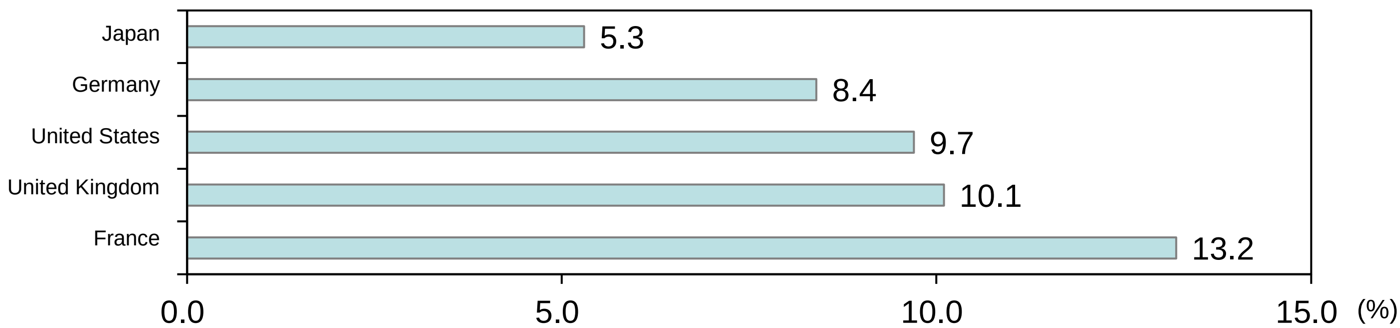
(Note 1) The number of personnel of national administrative organs and special organs is the total number of budgeted personnel of the general account and special accounts at the end of FY2023, whereas the number of personnel of local public entities is the number of officials under the FY2023 Local Finance Plan (for ordinary account).
(Note 2) The national administrative organs and special organs refer to the Diet, courts, Board of Audit, and National Personnel Authority.
(Note 3) The personnel expenses for national public employees are the net total of the general account and special accounts (FY2023 budget), and those for local public employees are the personnel expenses under the FY2023 Local Finance Plan (for ordinary account).

International comparison of the number of officials in the public sector per 1,000 population



(Note 1) Created based on published materials of the Cabinet Bureau of Personnel Affairs, Cabinet Secretariat.
(Note 2) Data for Japan, United States, Germany, and United Kingdom are those of FY2021, and data for France is that of FY2020.
(Note 3) ▭ shows the number of officials of the central government (excluding national defense personnel).
▭ shows the number of officials in the public sector other than the central government (officials of government enterprises, local government officials, military personnel, and national defense officials).

International comparison of salaries of general government employees as % of GDP



(Note) Created by MOF based on OECD, “National Accounts of OECD countries, General Government Accounts 2021”.

1. Highlights of the FY 2023 Budget

* You can find more information about securing resources for new defense buildup program on the page 37.

FY2023 Budget: Setting a course for dealing with the domestically and internationally important challenges facing Japan and opening the way for the future at the historical turning point

Responding to Domestically and Internationally Important Issues Facing Japan

Security and Diplomacy

○ New National Security Strategies will be formulated based on the national security environment surrounding Japan. The defense buildup program of 43 trillion yen will be made in order to reinforce defense capabilities dramatically within five years. The Revenue will be secured for maintaining stable defense capabilities.

○ The budget is secured to develop the adaptive and powerful "realism diplomacy for a new age" for the G7 summit in Hiroshima and the 50th Year of ASEAN-Japan Friendship and Cooperation. (Budget for MOFA*:756 billion yen in FY2023 (+48.5 billion yen), 1.0233 trillion yen if combined with the supplementary budget of FY2022 (+169.4 billion yen)). *including the budget appropriated by the Digital Agency.

Local Government Finance and Vision for a Digital Garden City Nation

○ The amount of local allocation tax grants for local governments is 18.4 trillion yen, which is the largest amount since the global financial crisis of 2007–2008.

○ Based on the formulation of "The comprehensive strategies for Vision for a Digital Garden City Nation," subsidies for the promotion of the Vision for a Digital Garden City Nation is used (100 billion yen in FY2023+80 billion yen of the 2nd supplementary budget of FY2022). The government will support measures such as promotion of tourism or agriculture, forestry and fisheries industries by acceleration of digitalization of local governments and utilization of the digital technology in order to revitalize local economies.

Policies related to Children

○ "The Children and Family Agency" will be established in April 2023, and support for children and child-rearing will be enhanced.

○ The amount of the lump sum allowance for childbirth and childcare will be increased from 420,000 yen to 500,000 yen. (The markup is the biggest ever.)

○The package including the support written below will be continued.
-Providing easier access to consultation about pregnancy, childbirth and child-rearing consistently
-Providing financial support to the families who have submitted pregnancy or childbirth notification (approx. 100,000 yen)

G X

○ The Government will create a system to support private GX investment by issuing "GX Economy Transition Bonds" funded by future financial resources through embodying the vision of "Pro-Growth Carbon Pricing."

○ The support for development for innovative technologies or introduction of clean energy vehicles for the achievement of the 2050 Carbon Neutral Goal will be started.(0.5 trillion yen is appropriated to Special Account for energy measures. 1.6 trillion support if added with the 1.1 trillion yen of the supplementary budget of FY2022).

Wise spending

○ The government will continue existing efforts to reform government expenditures based on the "Basic Policy on Economic and Fiscal Management and Reform."
- Social security expenditure: approx. +410 billion yen (increase due to the aging population (excluding the amount of the pension slide: +approx. 220 billion yen))
- Non-social security expenditure: approx. +4,741.7 billion yen (approx. +150 billion yen excluding the expenditure for building up defense, which is non-tax revenue (4,591.9 billion yen))

(While achieving the increased budget for national defense, the government continues the existing measures by flexibly responding based on economic and price trends)

*Average increasing of CPI between 2013 to 2021 is approx. 0.38%. The average increased amount of the expenditure for non-social security(initial) is approx. 33 billion yen. The increased rate of CPI is estimated to be +1.7% in 2023.

○ Reducing the amount of new government bond issuance (FY2022(Initial): 36.9 trillion yen ⇒ FY2023: 35.6 trillion yen)

2. The FY2023 Budget Framework

Expenditure

(Unit : billion yen)

			FY2022 budget (initial)	FY2023 budget	Amount of change
General Expenditure			67,374.6	72,731.7	5,357.1
	Social Security Expenditure		36,273.5	36,888.9	615.4
	Non-Social Security Expenditure		26,101.1	30,842.8	4,741.7
		National Defense Expenditure excluding (*)	5,368.7	6,788.0	1,419.2
		The Carry-Over to Defense Buildup Funds (*) ※Funds will be established under the Securing Financial Resources Act	–	3,380.6	3,380.6
	Contingency Fund for COVID-19 and Measures to Address Soaring Crude Oil and Commodity Prices		5,000.0	4,000.0	-1,000.0
	Contingency Fund for Economic Emergency (including the impact from the Ukraine Crisis)		–	1,000.0	1,000.0
Local Allocation Tax Grants, etc.			15,882.5	16,399.2	516.6
National Debt Service			24,339.3	25,250.3	911.1
Total			**107,596.4**	**114,381.2**	**6,784.8**

Revenue

			FY2022 budget (initial)	FY2023 budget	Amount of change
Tax Revenue			65,235.0	69,440.0	4,205.0
Other Revenue			5,435.4	9,318.2	3,882.8
	Of which the Revenue is for Defense Buildup		–	4,591.9	4,591.9
		of which is by the Securing Financial Resources Act	–	1,475.0	1,475.0
Government Bond Issuance			36,926.0	35,623.0	-1,303.0
	Construction Bonds		6,251.0	6,558.0	307.0
	Special Deficit-Financing Bonds		30,675.0	29,065.0	-1,610.0
Total			**107,596.4**	**114,381.2**	**6,784.8**

（Note 1） The FY2022 budget is reclassified for a comparison with the FY2023 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 FY2023 Budget is 31.1%.

3. Major Expenditure Items

(Unit : billion yen)

	FY2022 Budget (initial)	FY2023 Budget	Amount of change	Ratio of change	Note
General Expenditure	67,374.6	72,731.7	5,357.1	8.00%	
Social Security	36,273.5	36,888.9	615.4	1.70%	
Education and Science	5,390.1	5,415.8	25.7	0.50%	
of which Science	1,378.7	1,394.2	15.4	1.10%	
Former Military Personnel Pensions	122.1	97.0	-25.2	-20.60%	
Natinal Defense	5,368.7	10,168.6	4,799.9	89.40%	
excluding *	5,368.7	6,788.0	1,419.2	26.40%	As the first year of the Defense Buildup Program, expenditures for the plan is increased by + 1.4 trillion yen (+27.4%)
The Carry-Over to Defense Buildup Funds (*)	-	3,380.6	3,380.6	-	
Public Works	6,057.4	6,060.0	2.6	0.00%	
Economic Assistance	510.5	511.4	0.8	0.20%	
cf)Official Development Assistance	561.2	570.9	9.8	1.70%	Largest increase since FY1997 when the level peaked
Measures for SMEs	171.3	170.4	-0.9	-0.50%	Decrease in the credit guarantee related budget based on lending trends
Energy	875.6	854.0	-21.7	-2.50%	Decrease in the carry-over based on the increase of in the surplus of Special Account for energy measures
Food Supply	1,269.9	1,265.4	-4.6	-0.40%	Decrease based on the review of rice policy-related measures : -11 billion yen
Miscellaneous	5,835.4	5,800.4	-35.0	-0.60%	
Contigency reserve	500.0	500.0	-	-	
Contingency Fund for COVID-19 and Measures to Address Soaring Crude Oil and Commodity Prices	5,000.0	4,000.0	-1000.0	-20.00%	
Contingency Fund forEconomic Emergency (including the impact from the Ukraine Crisis)	-	1,000	1,000	-	
Local Allocation Tax Grants,etc,	15,882.5	16,399.2	516.6	3.30%	Securing the same level of total general funds as the previous fiscal year
National Debt Services	24,339.3	25,250.3	911.1	3.70%	Increase in redemption of the National Debt.
Total	107,596.4	114,381.2	6,784.8	6.30%	

(Note1) FY2022 budget is reclassified for a comparison with the FY2023 budget.
(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.

4. Characteristics of Each Expenditure in the FY2023 Budget

【Social Security】

○ The burden of citizen is lessened by revision of drug price (NHI) considering the drop of the market price. (-310 billion yen, -72.2 billion yen in Central government expenditure). In here, the promotion of innovation and the sharp price hike of the ingredients are considered. Through these measures, the policy to reduce the real growth of social security expenditure (+approx. 410 billion yen) within the increase due to the aging of the population (+approx. 560 billion yen) will be achieved (Excluding the amount of the pension slide).

○ Through the reform of the social security system for all generations, not only the reform of the Advanced Elderly Medical Service System from perspective of the burden based on the affluence, but also an increase of the lump sum allowance for Childbirth and Childcare to 500,000 yen (+80,000 yen).

○ The package including the support written below will be continued.
-Providing easier access to consultation about pregnancy, childbirth and child-rearing consistently
-Providing financial support to the families who have submitted pregnancy or childbirth notification (approx. 100,000 yen)

○ Regarding Public Assistance, basically, the result of the inspection by the experts should be reflected. Meanwhile, special premium (1,000 yen per month) is distributed based on the current macroeconomic situation. Only household who faces a decrease as a result of above changes is ensured for present amount of allowance.

【National Defense】

○ Defense expenditure (*) will be secured 6.8 trillion yen which is far beyond the levels until the previous year (+ 1.4 trillion yen), based on the New National Security Strategy and others. As the first year of the Defense Buildup Program, defense forces, especially the prioritized sectors such as Stand-Off capability, Integrated Air and Missile Defense (IAMD) and basic facility is radically reinforced.
*carry-over to the Defense Buildup Fund is excluded.

【Diplomacy】

○ While international situation, including the Russian Invasion to Ukraine, is changing rapidly, for the G7 summit in Hiroshima and the 50th Year of ASEAN-Japan Friendship and Cooperation, the adaptive and powerful "realism diplomacy for a new age" is needed. Therefore, based on the extraordinary yen depreciation and price hike, ODA (Official Development Assistance) and expenditure for regular diplomatic activity (fundamental cost), including personnel expenses in Overseas Diplomatic Establishments will be secured in priority (the Budget of Ministry of Foreign Affairs in FY2023 is 756 billion yen (+ 48.5 billion yen). Combined with the 2nd Supplementary Budget in FY2022, 1.0233 trillion yen (+ 169.4 billion yen).).

【Coast Guard】

○ Based on the policy of reinforcement of the coast guard capability, Japan Coast Guard is reinforced, including utilization of the new technologies such as pilotless aircrafts(243.1 billion yen(+20 billion yen).

【Police Facilities】

○ For the safety holding of the G7 Summit in Hiroshima and ensuring the safety of high officials, and prevention of the terrorism and the violation against law, adopting all possible measures and promoting the securing of safety in Cyber space

【Local Governments Finance】

○ The amount of local allocation tax grants for local governments is 18.4 trillion yen (+0.3 trillion yen). Due to the recovery of tax revenue in both the national and local governments, the issuance of extraordinary financial countermeasures bonds is reduced (-0.8 trillion yen), whereas the borrowing borne by the Special Accounts for Local allocation tax is redeemed (1.3 trillion yen). The total amount of general revenue is secured appropriately.

【DX and Regional Revitalization】

○ The realization of a digital society by transition to the shared cloud services and expanding the structure of the Digital Agency will be accelerated.

○ Based on the formulation of "The comprehensive strategies for Vision for a Digital Garden City Nation," subsidies for the promotion of the Vision for a Digital Garden City Nation is used (100 billion yen in FY2023+80 billion yen of the 2nd supplementary budget of FY2022). The government will support measures such as promotion of tourism or agriculture, forestry and fisheries industries by acceleration of digitalization of local governments and utilization of the digital technology in order to revitalize local economies. Local digital infrastructures such as optical fibers and 5G base stations will be developed.

【Reconstruction】

○ A meticulous support will be provided to meet the needs of the affected areas in accordance with the stage of reconstruction. The government will promote initiatives for full-scale reconstruction and revitalization, such as promoting the return and migration of affected areas, dispelling rumors, through support for victims such as mental health care and the development of interim storage facilities in nuclear-affected areas, and measures for handling ALPS Treated Water. The measures such as the establishment of "Fukushima Institute for Research, Education and Innovation" which will be core center for creative reconstruction will be promoted.

【GX, Energy and Environment】

○ The government will use Special Account for energy measures and create a system to support private GX investment by issuing "GX Economy Transition Bonds" backed by future financial resources through Carbon Pricing. The expenditure of the Special Account for energy measures will be increased by 0.5 trillion yen including the innovative technical development (456.4 billion yen), the introduction of clean energy vehicles (33.6 billion yen) and R&D for next-generation nuclear reactors (12.3 billion yen) for the achievement of the 2050 Carbon Neutral Goal will be started. The government will start the support of 1.6 trillion yen when combined with 1.1 trillion yen of the supplementary budget of FY2022 under the frame of GX investment by new "Pro- Growth Carbon Pricing(*)."
*Its bill is submitted to the ordinary session of the Diet in 2023.

【Science and Education】

○ As an investment for science technology and innovation, not only promoting R&D of essential cutting-edge technology such as quantum, AI, strategically but also extending support for basic research and young researchers.
(the promotion of science and technology 1.4 trillion yen (+15.4 billion yen))

○ Promoting the introduction of a "subject-based teacher system" for science, math, and other subjects in the upper grades of elementary school and creating an environment in which teachers can concentrate on teaching by utilizing outside personnel and proving easier access to consultation for students with difficulties such as bullying or school refusal.

【Public Works】

○ Securing the budget for public work projects stably (6.06 trillion yen(+2.6 billion yen)). In this context, disaster prevention and mitigation and national land resilience will be promoted, including measures to efficiently prevent aging deterioration by using cutting-edge technology, control floods by taking both hard and soft measures and acceleration of development of capability for anticipating flood by advanced digital technologies.

○ Rebuilding Local Public Transportation Package is established in General Social Infrastructures Development Subsidies. Rebuilding local public transportation network is promoted by the complete reform linked with the planning for compact city by the local government by reforming the public infrastructure including railroads. Subsidies will be distributed by larger amount if the plan is worked out for tackling the key policies such as utilizing cutting-edge technology and rebuilding local public transportation.

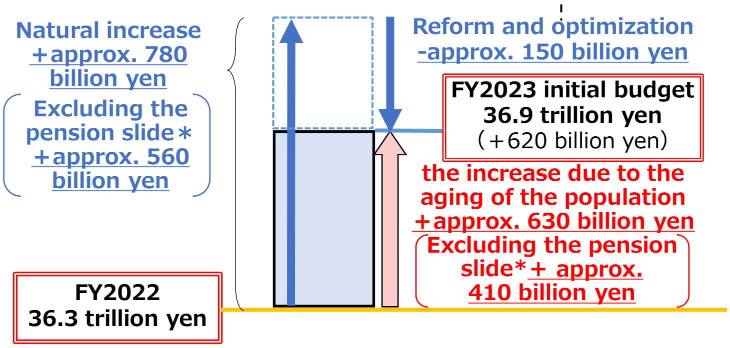
【Agriculture, Forestry and Fisheries】

○ For Strengthening food security, combining stable import and appropriate storage and promoting production of field crops such as vegetables, wheat and beans by the support for transition from rice-specialized-field to field for general crops. Furthermore, as a reform of feed rice production, the amount of subsidy for general breed is going to be gradually decreased from 2024.

5.The Overview of Budget related to Social Security in FY2023

○ The budget in FY2023 related to social security is 36.9 trillion yen(+620 billion yen from previous year(36.3 trillion yen)). Considering the Economic and price trends, 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. (the increase due to the aging is approx. 410 billion yen besides of the pension slide approx. 220 billion yen).

Revision of Drug Price	-70 billion yen
Raising payments for Advanced Elderly Medical Service System	-40 billion yen
Abolishing the special treatment of Employment Adjustment Subsidy	-30 billion yen
Revision of the Subsidy for local governments supporting measures of long-term care insurance system	-10 billion yen
Revision of Livelihood assistance Standard	+10 billion yen
	etc.



* The changing rate for the pension has changed in FY2023 is +1.9% for continuous pensioners and +2.2% for new pensioners (given the current expectation of the price increase rate (+approx. 220 billion yen)).
Cf. the latest plus revision was +0.2% in FY2020.

(FY2023 Revision of Drug Price)

○ This is the 2nd time as Revision of Drug Price without Revision of Medical Fee Point. Same as the 1st time, based on the perspective of lessening burden of citizens, Drug price whose deviation is more than 4.375%(*) is revised

* multiplied **average Deviation (7.0%) by 0.625**

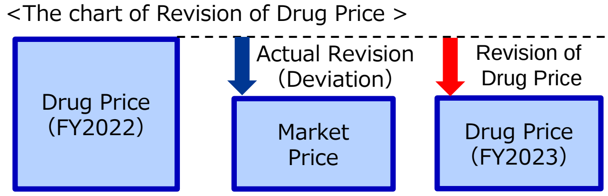
○ These reforms are going to follow the below as an extraordinary operation.

・For dealing with the sharp price hike of the ingredients, **recalculation rule for unused items is extraordinarily adopted to all drugs**.

・From perspective of the promotion of innovation、**Innovativeness Premium is increased in order to keep drug price level same as previous price.**

→ Realizing the lessening burden of citizens by 310 billion yen (-72.2 billion yen in central government)

<The chart of Revision of Drug Price >



6. “Improvement of the Quality” of the Budget

Reflection of Budget Execution Survey and the Administration Expenditure Review

○ **The Subsidy for local governments supporting measures of long-term care insurance system** is revised because it played a similar role with the Subsidy for local governments supporting recipients' effort in long-term care insurance system based on **the result of the Budget Execution Survey and what is pointed out in the Administration Expenditure Review in the Budget in FY2023(- 5 billion yen).**

Improving efficiency by promoting digitalization

○ **Information System** is optimized by the transition to **the shared foundation such as shared cloud service and GSS** (Government Solution Service).
(GSS is expected to decrease the running cost by approx. 10 billion yen by FY2027 by the integration of the LAN in each ministry)

○ **Basic statistics conducted by the Ministry of Internal Affairs** is digitalized based on the final report of the Committee of Statistics. Office expenses is decreased, and the quality of statistics is improved by revision of electronic questionnaire which increases the rate of online response and reduces human errors.

○ **Japan Coast Guard** is going to revise the responsibilities of aircrafts and helicopter by **intensively deploying the pilotless aircrafts** with cutting-edge technology in order to **both reinforce and optimize the capability of surveillance the wide ocean**.

Efficiency and rationalization of defense force development

○ Achieved **efficiency and rationalization effects** of -257.2 billion yen by suspending operations of less important equipment and optimizing procurement through the use of long-term contracts and close examination of costs, etc. across the entire range of **defense equipment**.

Introduction of incentive function for each objective of policies

○ Regarding the collaborative activities between school and local community which support the educational activity by the involvement of the various actors in the local community, **new allocation system is introduced to distribute budget intensively to effective measures for tackling the major issues in school such as reforming teachers' work style**.

○ As a reform of **feed rice production**, considering the fact that farmers earn more profit than cooking rice and the data showing that both the planted acreage and production amount exceed the that of objective in 2030 respectively, **the amount of subsidy for general breed is going to be gradually decreased from 2024** in order to enhance the productivity by the promoting the mass product breed and **premium** for 3 years contract **is abolished** because planting based on 3 years contract is prevailed (-11 billion yen in FY2023) .

Fiscal consolidation of the local governments

○ **Redemption of Borrowing borne by the special accounts for local allocation tax is accelerated** (1.3 trillion yen which is far beyond 0.5 trillion yen in the previous plan) and issuance of **local government bonds for the extraordinary financial measures is decreased to 1.0 trillion yen which is lowest level ever.**

7.Overview of the First Supplementary Budget for FY2022 (enacted on 31st May 2022)

Ⅰ. Expenditures related to "Comprehensive Emergency Measures to address Soaring Crude Oil and Commodity Prices and related matters" under the COVID-19 2,693.9bn

1. Measures to address soaring crude oil prices 1,173.9bn

○ Mitigation measures against sudden fluctuations of fuel oil prices〔1,165.5bn〕
○ Mitigation measures against sudden fluctuations of fuel oil prices for taxi service providers〔8.4bn〕

2. Preparation for the future 1,520.0bn

（1） General contingency reserves〔400.0bn〕
（2） Contingency fund for the COVID-19 and measures to address soaring crude oil and commodity prices〔1,120.0bn〕

Ⅱ. Transfer to the Special Account of the Government Debt Consolidation Fund 7.0bn

■ Total additional spending of the supplementary budget 2,700.9bn

8.Overview of the Second Supplementary Budget for FY2022 (enacted on 2nd December 2022)

Ⅰ. Countermeasures against price hikes and efforts for wage increases 7,817bn

1. Support for households and businesses in the difficulties caused by energy and food price hikes 6,316.8bn

○Measures against electricity charge hikes〔2,487bn〕 ○Measures against city gas charge hikes 〔620.3bn〕
○Mitigation measures against sudden fluctuations of fuel oil prices 〔3,027.2bn〕
○Fishery Management Safety Net Construction Project〔33bn〕 etc.

2. Transition to a resilient economy against energy and food crises 425.7bn

○Measures to strengthen a stable LNG supply system〔23.6bn〕
○Promotion of energy efficiency and renewable energies 〔384.9bn*〕
○Subsidies for streamlining the delivery of oil and gas sales operations, etc. 〔15.3bn〕
○Expanding domestic production of fertilizers 〔11bn〕
○Promoting feed crops to be produced domestically〔10bn*〕 etc.

3. Promotion of continuous wage increases and support for SMEs 1,074.5bn

○SME Business Reconstruction Promotion＆ SME Productivity Revolution Promotion Project〔780bn〕
○Financial support〔260.9bn〕 etc.

Ⅱ. Recovery and Reinforcement of Local "Profitability" Utilizing the Depreciation of Yen 3,486.3bn

1. Recovery of demand from COVID-19 and local revitalization 2,405.5bn

○Restoration of inbound tourism, revitalizing and creating high added value to tourist sites and the tourism industry, etc.〔150bn〕
○Securing quarantine systems 〔59.2bn〕 etc.

2. Reinforcement of economic resilience by utilizing the depreciation of Yen 1,080.9bn

○Fund for the development of foundation for advanced semiconductor production systems〔450bn〕
○Expanding export of agricultural, forestry and fisheries products 〔44bn*〕
○Provision for supply chain (important mineral 〔215.8bn 〕, machine tools 〔41.6bn 〕, aircraft materials 〔41.7bn〕 etc.) etc.

Ⅲ. Acceleration of a "New Form of Capitalism" 5,495.6bn

1. Drastic reinforcement of "investment in human capital" and labor reallocation to growing sectors: Integrated reform for structural wage increases 1,131.3bn

○Expanding investment in human capital "1tn yen in five years" 〔83.2bn〕 (300bn incl. budgets for FY2022&2023)
○Stabilization of employment insurance finances〔727.6bn〕
○Strengthening the functions of universities (support for establishing scientific faculties) 〔300.2bn〕 etc.

2. Promotion of large investment in growing sectors 4,055.2bn

*Approx. 6tn yen including the projects organized under other pillars

(1)Science, technology and innovation
○Promotion project for advanced international joint research 〔50.1bn〕
○Project for the promotion of a revolution of the manufacture utilizing biotechnology〔300bn〕 ○Space 〔63.9bn〕
○Project for the promotion of strengthening regionally central universities with distinctive research〔200bn〕
○Program for Developing Important Economic Security Technologies〔250bn〕 etc.

(2) Acceleration of Startup enterprise *Approx. 1tn yen including the projects organized under other pillars
○Promotion of the construction of a startup ecosystem (centered on universities) 〔150bn*〕
○Expansion of the SBIR system〔206bn〕 ○Project to support Deep-tech startups〔100bn〕 etc.

(3)GX

○Green Innovation Fund〔300bn〕 ○Promoting the introduction of clean energy vehicles〔70bn〕

○Project to enhance resilience of the manufacturing supply chain for storage batteries (essential for a green society)〔331.6bn〕

(4)DX

○Post-5G ICT System Infrastructure Reinforcement R&D Project〔485bn*〕

○Beyond 5G (6G) (Creation of a permanent fund to promote R&D of innovative information and communication technologies)〔66.2bn〕

○Vision for a Digital Garden City Nation Grant〔80bn〕

○Promotion of the use of Individual Number Cards ("My Number Card")〔63bn〕 etc.

3. Realization of an inclusive society 309.1bn

○Subsidies to support childbirth and child-rearing〔126.7bn〕

○Developing childcare facilities based on the "New Child Care Security Plan"〔34.9bn〕 etc.

Ⅳ. Ensuring People's Safety and Security 7,547.2bn

○The urgent comprehensive grants to cope with COVID-19 (Securing hospital beds etc.)〔1,518.9bn〕

○Vaccination (securing a supply, ensuring system and conducting)〔1,207.2bn〕

○Special Allocation for Regional Revitalization to cope with COVID-19 (financial resources of local governments for state-subsidized projects, and inspection promotion)〔750bn〕

○Five-Year Acceleration Plan for disaster risk deduction and national resilience (public work)〔1,250.2bn〕

○Recovery from disasters〔514.4bn〕 ○Self-Defense Force's response to a changing security environment〔324.8bn〕

○Support for Ukraine and countries around Ukraine〔114bn〕

○Aid for developing countries including Asia (ASEAN & Southeast Asia), island countries, Middle East and Africa (Global South)〔102.2bn〕

○Package for supporting security and safety of children (support for improving safety devices of school buses, etc.)〔23.4bn〕 etc.

Ⅴ. Preparation for Future Shocks 4,740bn

○Contingency fund for COVID-19 and measures to address soaring crude oil and commodity prices〔3,740bn〕

○Contingency fund for Economic Emergency (including the impact from the Ukraine Crisis)〔1,000bn〕

■ Total additional spending of the Supplementary Budget (General Account) 29,086.1bn

■ Total additional spending of the Supplementary Budget (incl. Supplementary Budget of Special Accounts for national expenditure on countermeasures) 29,633.2bn

*The Amount is including the projects organized under other pillars

(Reference 1) In the Second Supplementary Budget (General Budget) for FY2022, in addition to the national expenses related to the implementation of the above "economic measures", additional financial demand for utility costs (¥222.9bn) is recorded.

(Reference 2) Total additional spending of the Supplementary Budget (incl. Supplementary Budget of Special Accounts for national expenditure on countermeasures) (¥29,633.2bn) includes additional expenditures of ¥286.3bn in the Local Allocation Tax and Local Transfer Tax Special Account and ¥172.1bn in the Labor Insurance Special Account in addition to Total additional spending of the Supplementary Budget (General Account) (¥29,086.1bn).

9. Overview of the First Supplementary budget

(billion yen)

Expenditures		Revenues	
1. Expenditures related to "Comprehensive Emergency Measures to address Soaring Crude Oil and Commodity Prices and related matters" under the COVID-19	2,693.9	1. Government bond issuance (Special deficit-financing bonds)	2,700.9
(1) Measures to address soaring crude oil prices	1,173.9		
(2) Preparation for the future	1,520.0		
① General contingency reserves	400.0		
② Contingency fund for the COVID-19 and measures to address soaring crude oil and commodity prices	1,120.0		
2. Transfer to the Special Account of the Government Debt Consolidation Fund	7.0		
Total	2,700.9	Total	2,700.9

(Note 1) Figures may not add to the totals due to rounding.

10. The Framework of the Second Supplementary Budget for FY2022

(billion yen)

Expenditures		Revenues	
1. Countermeasures against price hikes and efforts for wage increases	7,817.0	1. Tax revenues	3,124.0
2. Recovery and Reinforcement of Local "Profitability" Utilizing the Depreciation of Yen	3,486.3		
3. Acceleration of a "New Form of Capitalism"	5,495.6		
4. Ensuring People's Safety and Security	7,547.2	2. Non-tax revenues	673.1
5. Preparation for Future Shocks	4,740.0		
(1) Contingency fund for COVID-19 and measures to address soaring crude oil and commodity prices	3,740.0		
(2) Contingency fund for Economic Emergency (including the impact from the Ukraine Crisis)	1,000.0	3. Surplus from the previous fiscal year	2,273.2
Subtotal (expenses related to the economic stimulus measures) (*Note 2)	29,086.1		
6. Other expenses	222.9		
7. Transfer to the Special Account for the National Debt Consolidation Fund	690.6		
8. Reduction in previously approved expenses	-1,077.4	4. Government bond issuance	22,852.0
		(1) Construction bonds	2,476.0
		(2) Special deficit-financing bonds	20,376.0
Total	28,922.2	Total	28,922.2

(Note 1) Figures may not add to the totals due to rounding.
(Note 2) Among central government expenditure for economic measures (cabinet decision on Oct.28, 2022), the total amount is 29, 633.2 billion yen including the Supplementary Budget of Special Accounts.

11. The FY2022 Budget Framework after the Second Supplementary Budget

(billion yen)

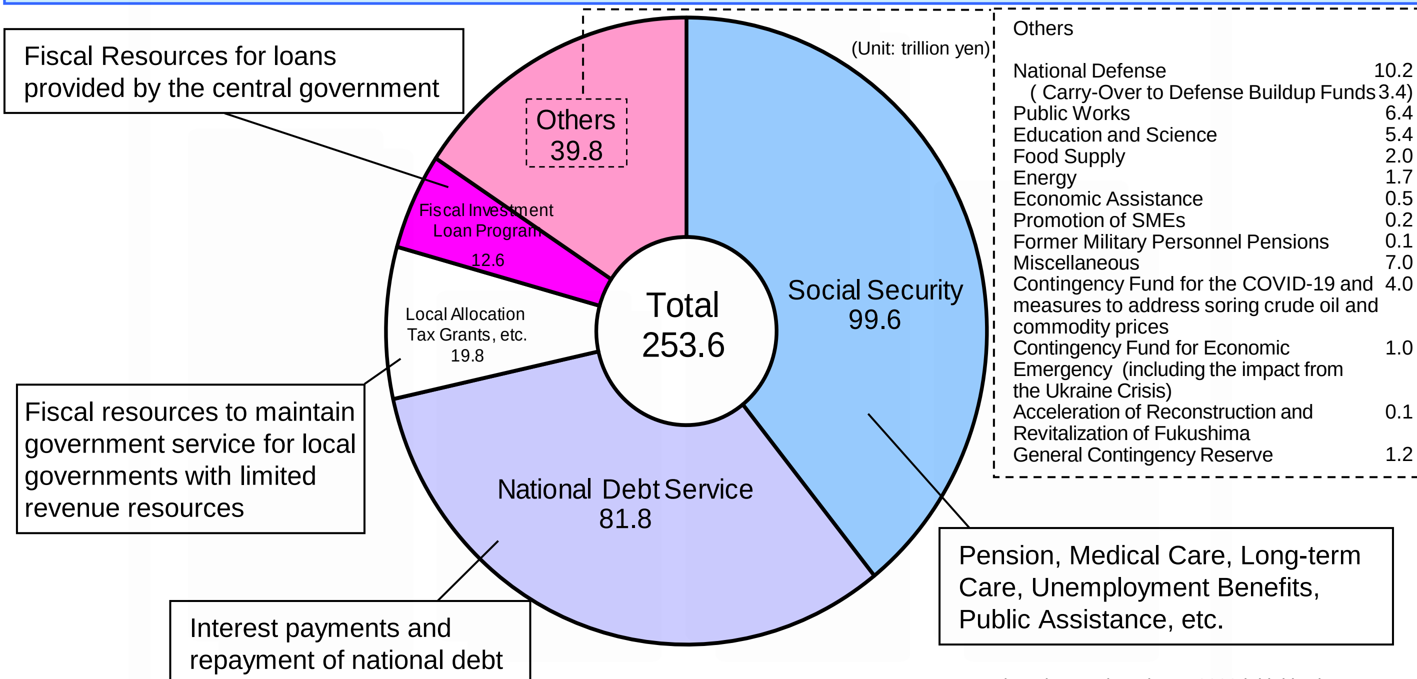
	FY2022 Budget (initial)	FY2022 budget (after the second supplementary budget revision)	FY2022 budget Initial → after the second supplementary budget revision	Notes
(Expenditure)				
General Expenditure	67,374.6	97,634.5	30,259.9	- The Balance of Contingency Fund for the COVID-19 and measures to address soring crude oil and commodity prices as of the decision on the second supplementary budget estimate: 5,001.1bn
Local Allocation Tax Grants, etc.	15,882.5	17,513.4	1,630.8	
National Debt Services	24,339.3	24,071.7	-267.6	- The Balance of Contingency Fund for Economic Emergency (including the impact from the Ukraine Crisis) as of the decision on the second supplementary budget estimate: 1,000.0bn
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	15,632.5	16,323.1	690.6	
o/w Interest Payment	8,247.2	7,288.0	-959.3	
Total	107,596.4	139,219.6	31,623.1	
(Revenue)				- Bond Dependency Ratio: 44.9%
Tax Revenue	65,235.0	68,359.0	3,124.0	- Construction Bond Issuance initial: 6.3tn → after the second supplementary budget revision: 8.7tn
Other Revenue	5,435.4	8,381.7	2,946.2	
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	36,926.0	62,478.9	25,552.9	- Special Deficit-Financing Bond Issuance initial: 30.7tn → after the second supplementary budget revision: 53.8tn
Amount Equivalent to Redemption of National Debt (Excluding Subsidy Bonds)	15,632.5	16,323.1	690.6	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) after the second supplementary budget revision is 46.2tn
Amount Equivalent to Interest Payments	8,247.2	7,288.0	-959.3	
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	13,046.2	38,867.8	25,821.6	
Total	107,596.4	139,219.6	31,623.1	

(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 (FY2023: 114.4 trillion yen) and the Special Account gross expenditures (FY2023: 441.9 trillion yen) minus inter-account transfers), sorted by each policy field. It shows an overall picture of the central government's expenditures.



(Note) Based on the FY2023 initial budget

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

(Unit: trillion yen)

Item	FY2021 Settlement	FY2022 Settlement (estimate)	FY2023 Initial Budget
Total Expenditure in the General Account (A)	144.6	160.5	114.4
Total Expenditure in the Special Accounts (B)	441.1	448.4	441.9
Total (C = A + B)	585.7	608.9	556.3
of which, the amount overlapped (D)	157.5	150.4	145.1
Difference (E = C – D)	428.2	458.5	411.2
of which, the amount deducted (F*)	142.9	148.5	157.6
Net Total (= E – F)	285.3	310.1	253.6

(Note) "(F)" means the amount of redemption by the refunding in the National debt consolidation fund special account.

○ Lists of Special Accounts in the FY2023

- 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 FY2021, the assets amounted to ¥723.9 trillion, but most of those cannot be sold to make up fiscal resources for other policies. (Please refer to the figure below.)

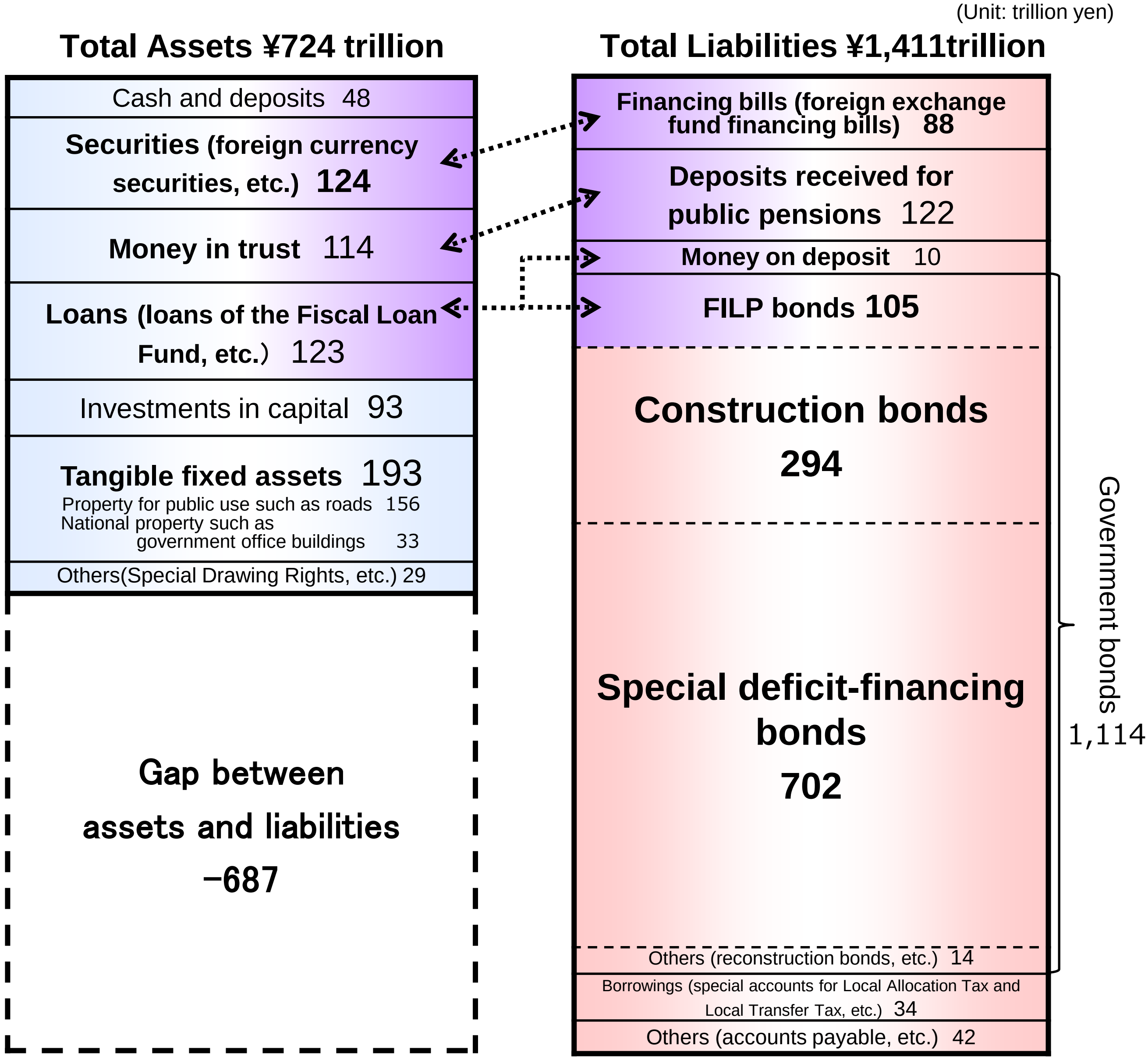
◆ Some financial assets and liabilities are earmarked to each other.

- Foreign currency securities (¥122.7 trillion (part of the securities)): Financial sources for purchasing these securities are provided by issuing foreign exchange fund financing bills (¥87.0 trillion (part of the financing bills)).
- Loans of the Fiscal Loan Fund (¥113.5 trillion (part of the loans)): Financial sources for these loans consists of funds provided by issuing FILP bonds (¥104.7 trillion) and money on deposit (¥10.4 trillion).
- Money in trust (¥113.7 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 (¥122.3 trillion).

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

- Tangible fixed assets (¥193.4 trillion): property for public use, etc. such as roads and rivers.
- Investments in capital (¥93.3 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, 2022)

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.

  <Example> In response to the inappropriate incident of the Current Survey of Orders Received for Construction, etc., a decision was made to take measures including reinforcement of the system, so as to secure the trust in government statistics as a whole.
  [MIC, MLIT] [Reflected amount: ¥800 million]

- In line with the report by the Board of Audit, necessity and efficiency of individual administrative tasks and projects are fully re-examined.

  <Example> Excavation expenses, etc. for river channel excavation were expected to be reduced by appropriately deducting the volume of stumps, etc. present in soil in the calculation of the amount of soil to be excavated. This was appropriately reflected in the budget.
  [MLIT] [Reflected amount: -¥10 million]

- The details of each budget are closely reviewed if a large amount of allocated budget remains unused based on the financial result.

  <Example> The amount required for the subsidy for accelerating introduction of hydropower generation was reviewed by thoroughly examining the expected number of projects based on the execution status of the subsidy.
  [METI] [Reflected amount: -¥400 million]

◆ Budget Execution Surveys

- In FY2022, 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.

  <Example> Regarding the dairy management support for reducing the environmental load, the project contents were reviewed to focus on initiatives with high effectiveness in reducing greenhouse gas emissions, and by examining the status of dissemination of the respective initiatives, less-implemented initiatives were abolished.
  [MAFF] [Reflected amount: -¥800 million]

* 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 survey the actual status of budget execution and 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 the respective administrative organs, individual work and projects are reviewed. These results are properly reflected in the budget.

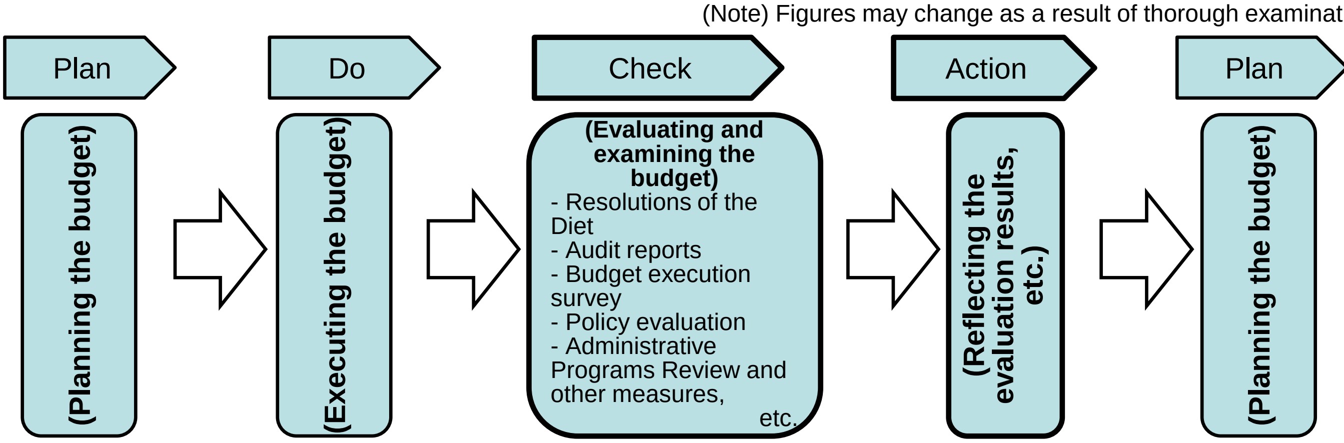
  <Example> Regarding the subsidy for expenses of projects for comprehensive support of occupational health activities, with an aim to promote initiatives including mental health measures at small-scale workplaces (less than 50 workers), subsidy recipients were changed from conventional individual workplaces to organizations that support small enterprises, such as commercial and industrial associations, and the required amounts were thoroughly examined based on the progress status of projects. As a result, the amount of budget was reduced.
  [MHLW] [Reflected amount: -¥200 million]

◆ Administrative Programs Review

- Administrative programs review sheets are reviewed in sequence and are used as platforms in the budget formulation process.
- Points raised by the annual public review in autumn (Autumn Review), etc. under the Administrative Reform Promotion Council are properly reflected in budget formulation, so as to improve the budget quality.

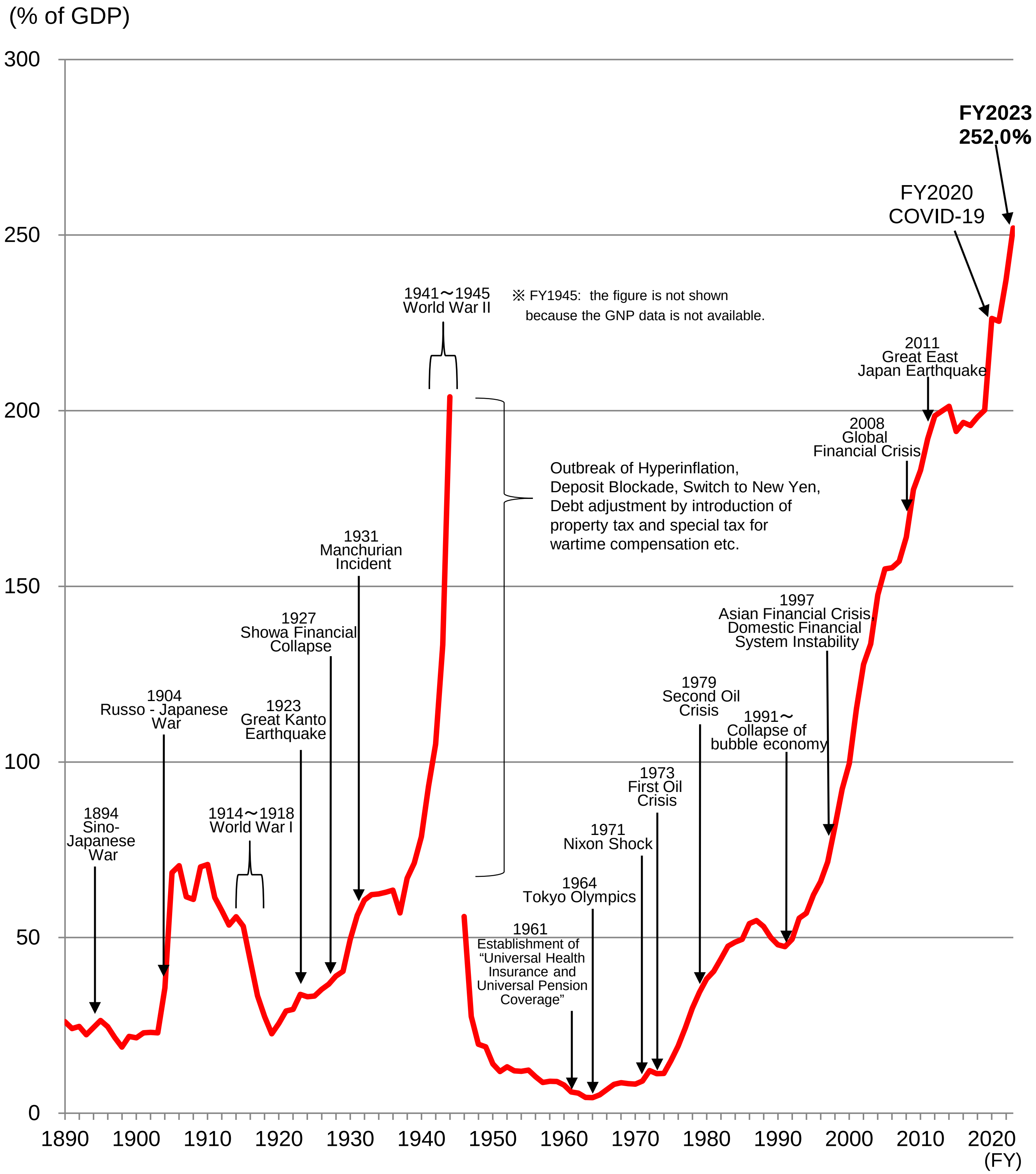
<Example> Regarding "farmland accumulation and consolidation for business farmers (grant for optimization of farmland use, etc.)," it was decided to first sort out the processes in which effects are realized for the respective activities (e.g., understanding the intentions of providers and recipients in the community; preparing and renewing target maps; and leasing farmland to the farmland banks), then set midway outcome indexes according to those processes, and reflect them in future review sheets. [MAFF]

(Note) Figures may change as a result of thorough examination.



(Reference)

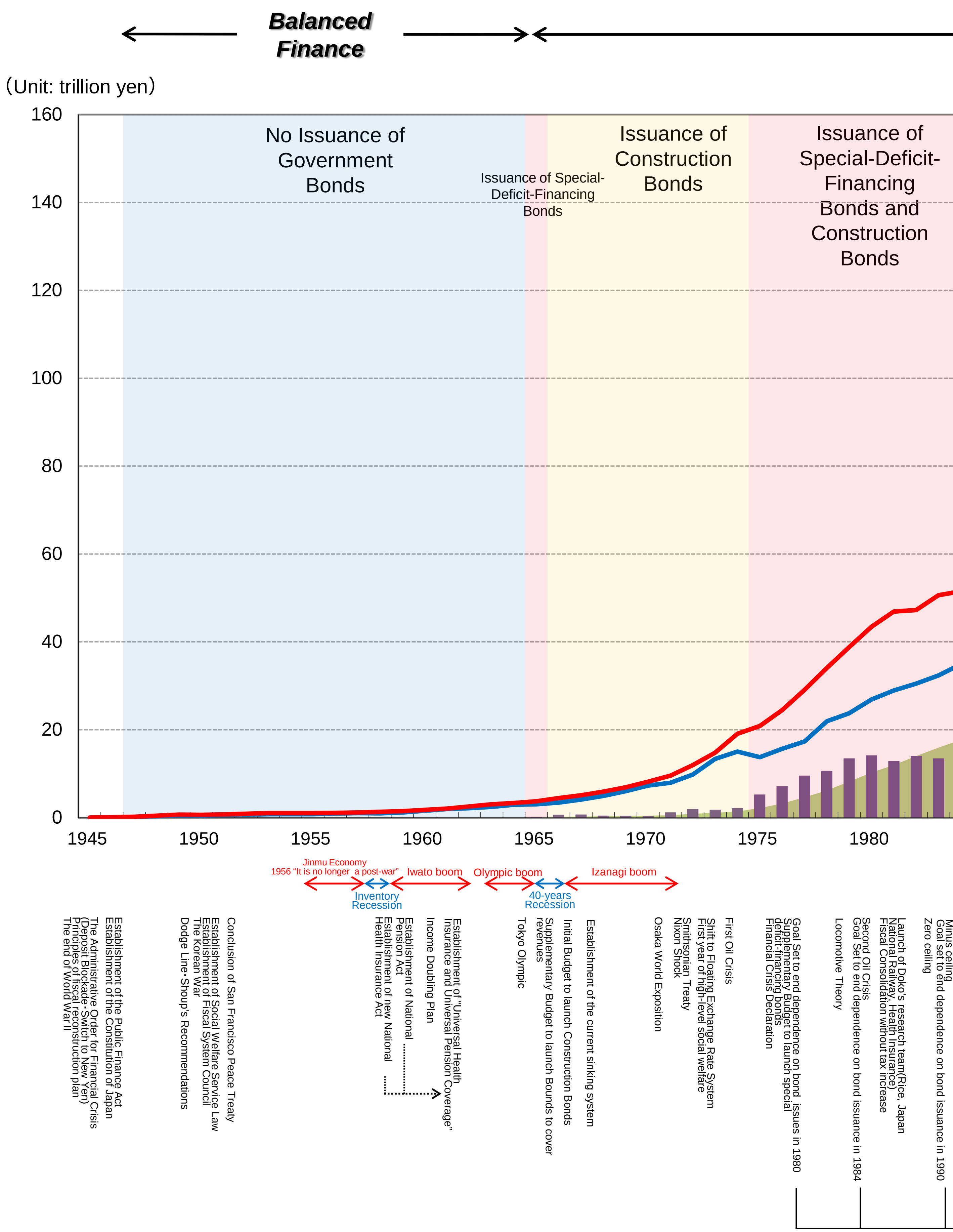
How the Outstanding Government Bonds has been accumulated since Prewar period



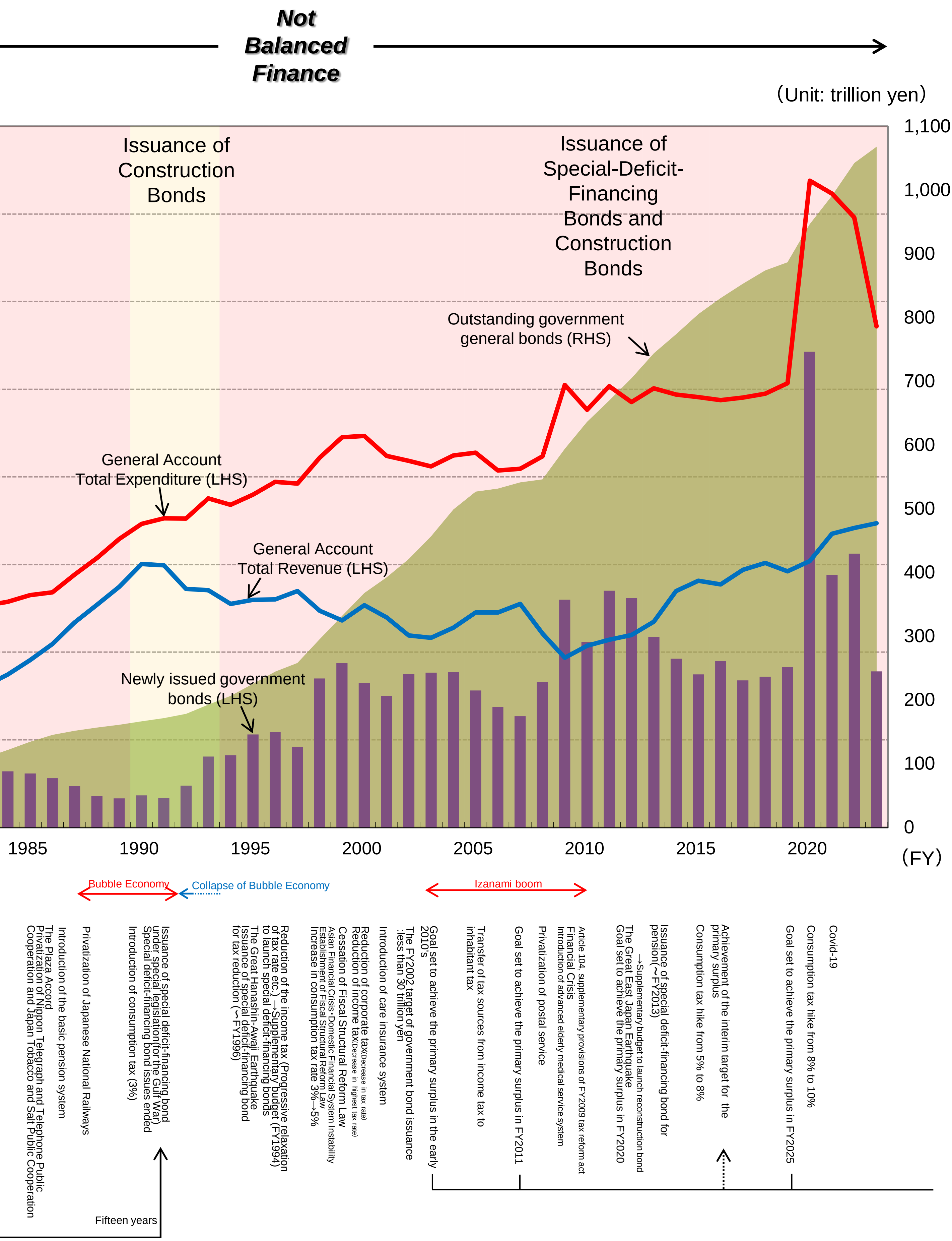
(Note 1) The Outstanding Accumulated Government Bonds : The figures at the end of "government bonds and borrowing outstanding" (Annual report on government bonds statistics). FY1890-2021: Actual ; FY2022: Based on the second Supplementary Budget; FY2023 Based on the Budget. Outstanding of Fiscal Loan 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, FY1994-2021: based on SNA 2008)); FY2022-FY2023: Based on Cabinet Office "Fiscal 2023 Economic Outlook and Basic Stance for Economic and Fiscal Management" (January 23, 2023)

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



(Note 1) Total revenues and expenditures of general account: Settled Figures in FY1945-FY2021, Based on the Second Supplementary Budget in FY2022, Based on the Budget in FY2023
(Note 2) Outstanding government general bonds: Actual figures in FY1945-FY2021, Based on the Second Supplementary Budget in FY2022, Based on the Budget in FY2023


Not Balanced Finance
(Unit: trillion yen)
Issuance of Construction Bonds
Issuance of Special-Deficit-Financing Bonds and Construction Bonds
Outstanding government general bonds (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
The Plaza Accord
Privatization of Nippon Telegraph and Telephone Public Cooperation and Japan Tobacco and Salt Public Cooperation
Introduction of the basic pension system
Privatization of Japanese National Railways
Issuance of special deficit-financing bond under special legislation(for the Gulf War)
Special deficit-financing bond issues ended
Introduction of consumption tax (3%)
Fifteen years
Reduction of the income tax (Progressive relaxation of tax rate etc.)→Supplementary budget (FY1994) to launch special deficit-financing bonds
The Great Hanashin-Awaji Earthquake
Issuance of special deficit-financing bond for tax reduction (~FY1996)
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
Goal set to achieve the primary surplus in the early 2010's
The FY2002 target of government bond issuance :less than 30 trillion yen
Transfer of tax sources from income tax to inhabitant tax
Goal set to achieve the primary surplus in 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

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