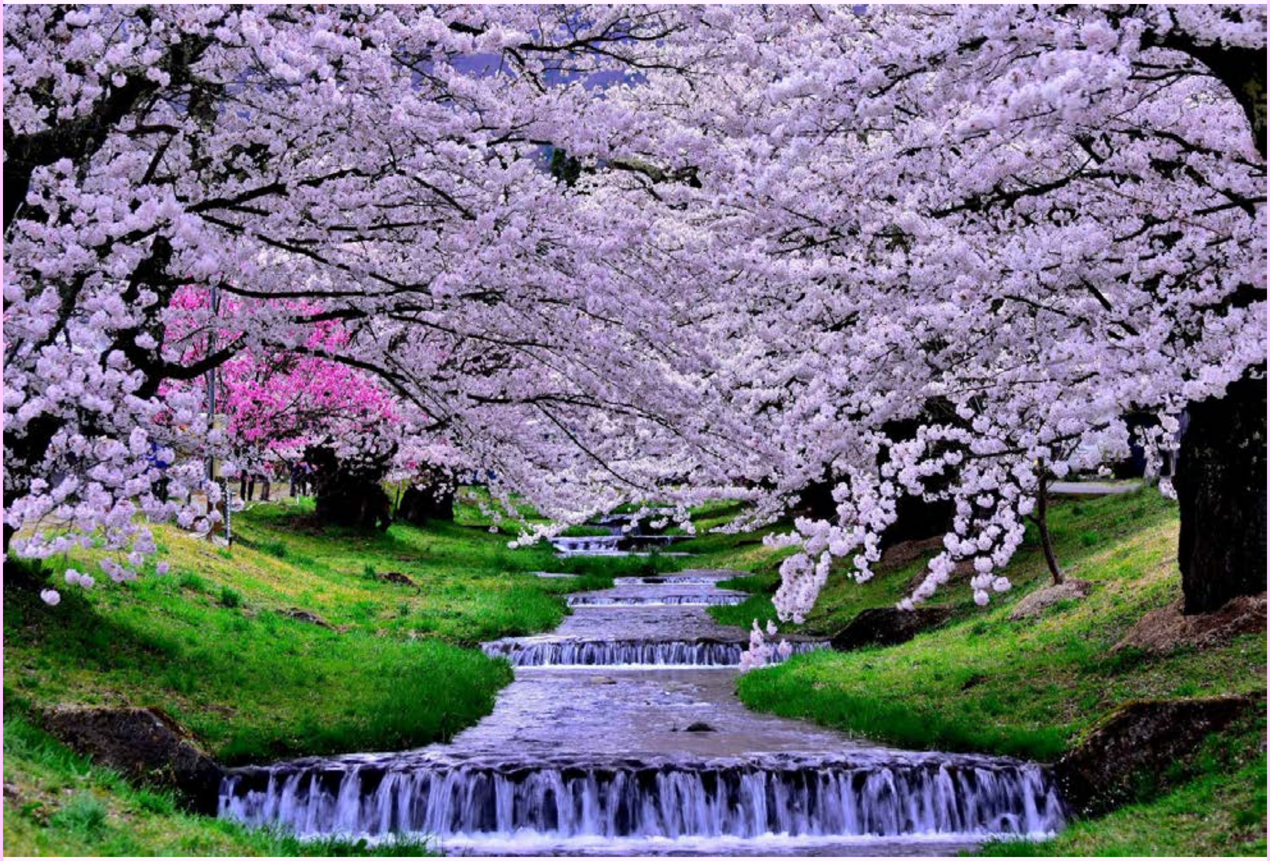


Japanese Public Finance Fact Sheet

April, 2024

Ministry of Finance, JAPAN

Table of Contents

Part 1 Public Finance in Japan

Ⅰ. Current Fiscal Situation

Ⅱ. Necessity and Measures for Fiscal Consolidation

Ⅲ. Issues in Each Policy Area

Part 2 FY2024 Budget

(Reference) Accounting Information and PDCA Cycle

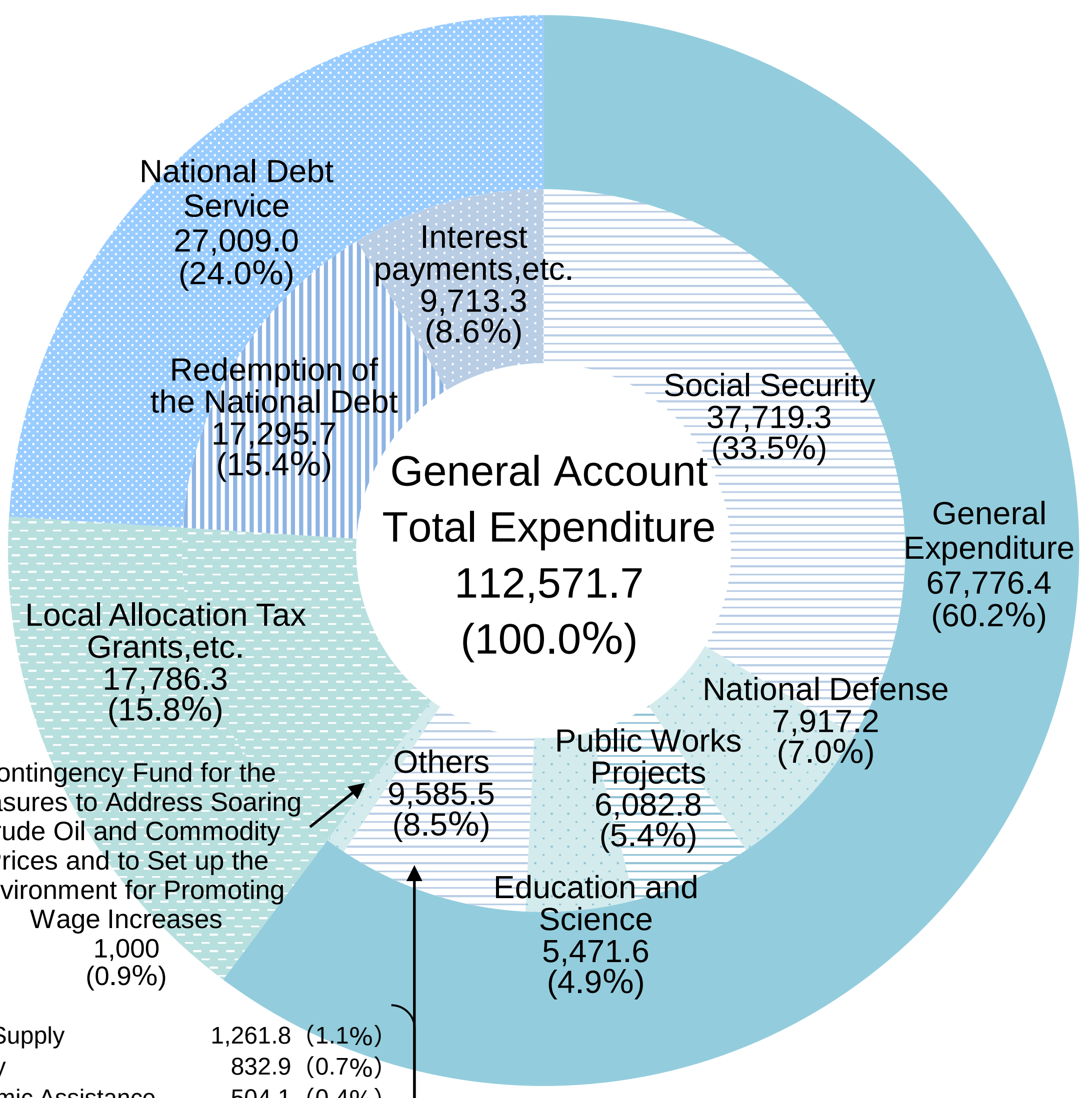
Part 1 Public Finance in Japan

Ⅰ. Current Fiscal Situation

1. General Account Budget for FY2024

（1）Expenditure

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



Food Supply	1,261.8	(1.1%)
Energy	832.9	(0.7%)
Economic Assistance	504.1	(0.4%)
Measures for SMEs	169.3	(0.2%)
Former Public Officers Pension	77.1	(0.1%)
Miscellaneous	5,740.2	(5.1%)
Contingency Reserves	1,000.0	(0.9%)

- 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
  - FY2024 Budget: 85,939.0（76.3%）

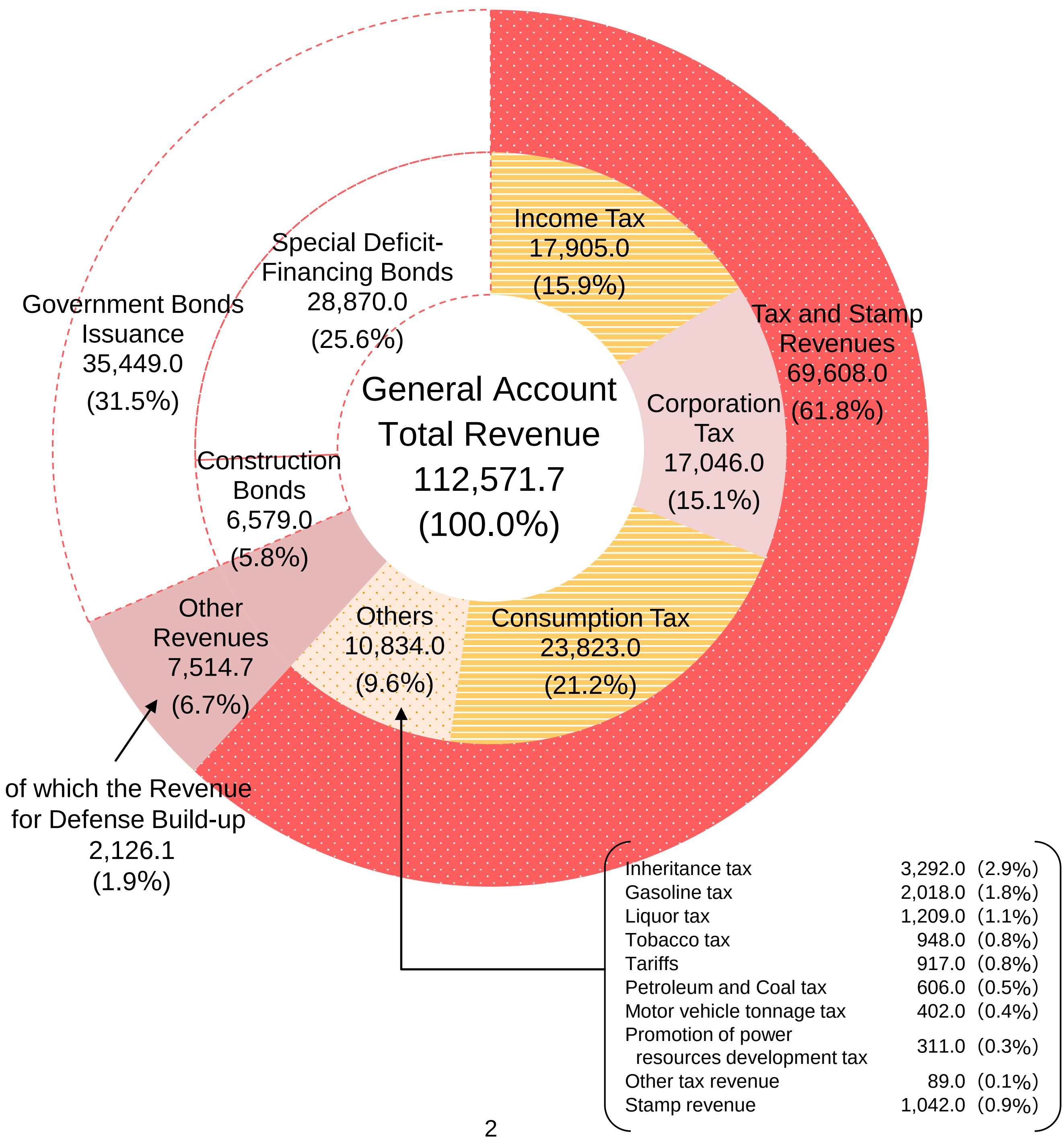
(Note 1) Figures may not add up to the totals due to rounding.
(Note 2) The ratio of social security expenditure to general expenditure is 55.7%.

(2) Revenue

Tax revenue is estimated to be around 70 trillion yen in the FY2024 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 FY2024 budget. As a result, about a third, the remainder, relies on the revenue from issuing government bonds (i.e. debt), which will be a burden to the future generations.

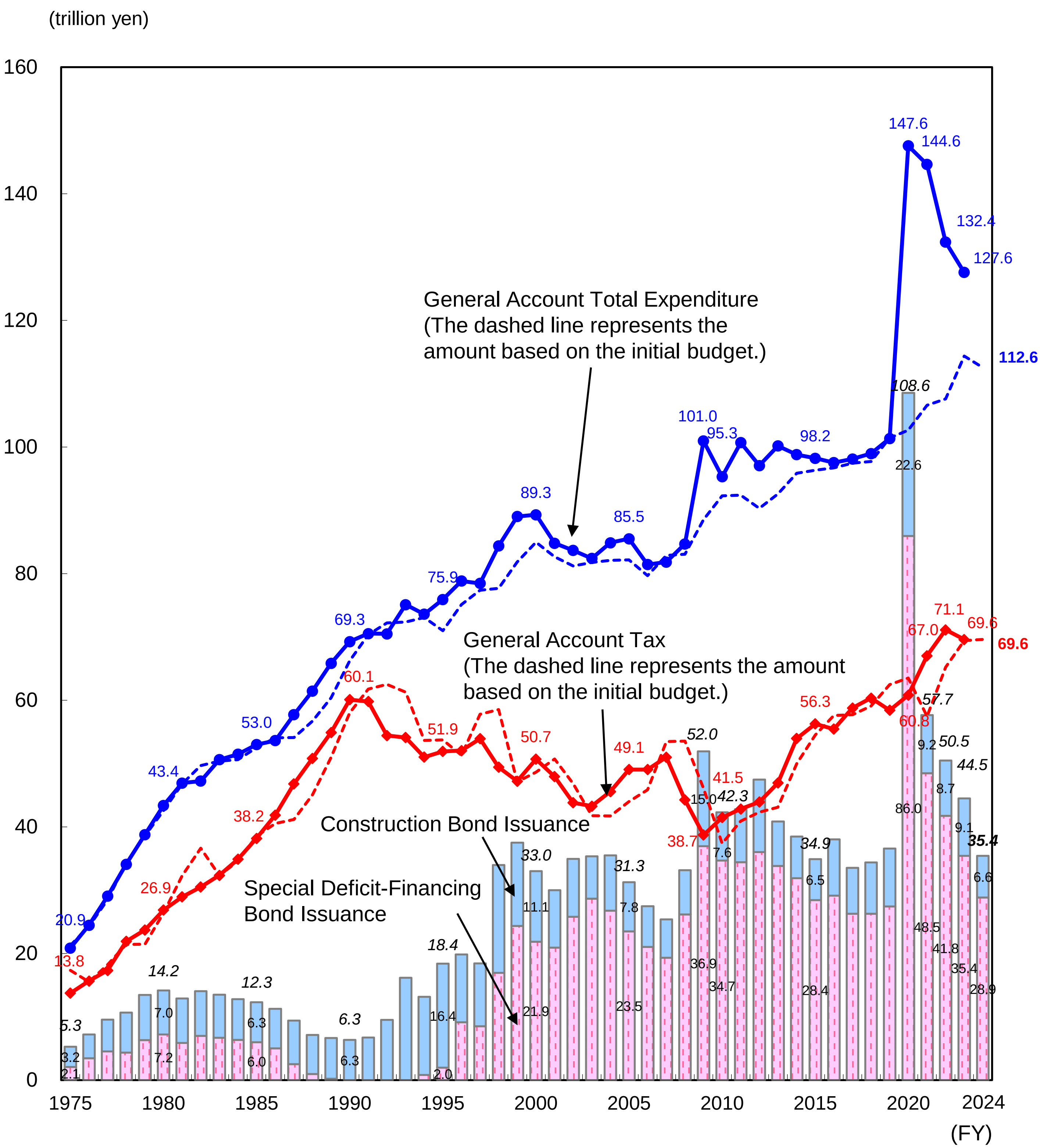
FY2024 Budget

(Unit: billion yen)



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. Much of the gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).



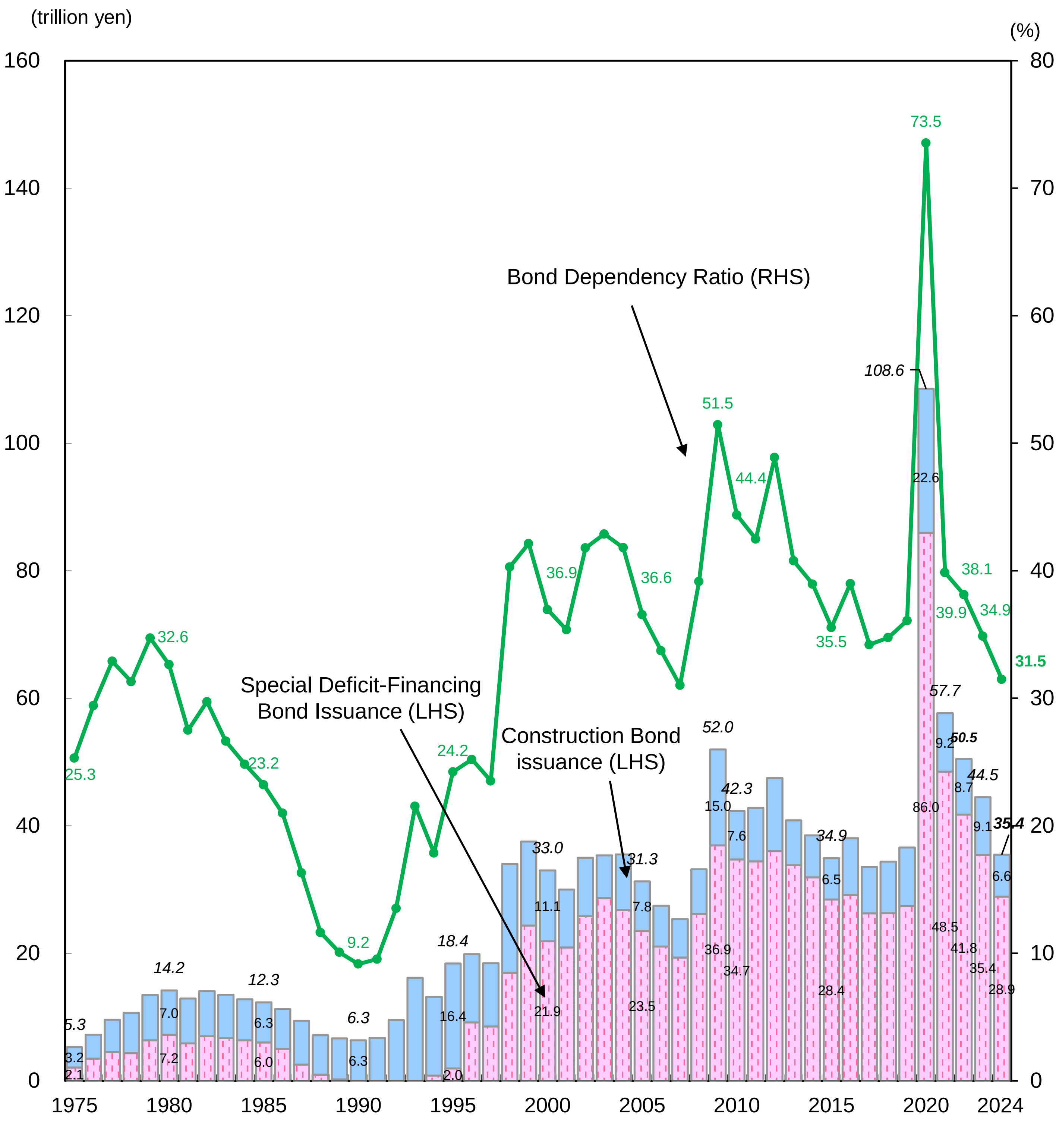
(Note 1) FY1975 - FY2022: settled figures ; FY2023: based on the supplementary budget ; FY2024: based on the budget

(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 (4.4 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

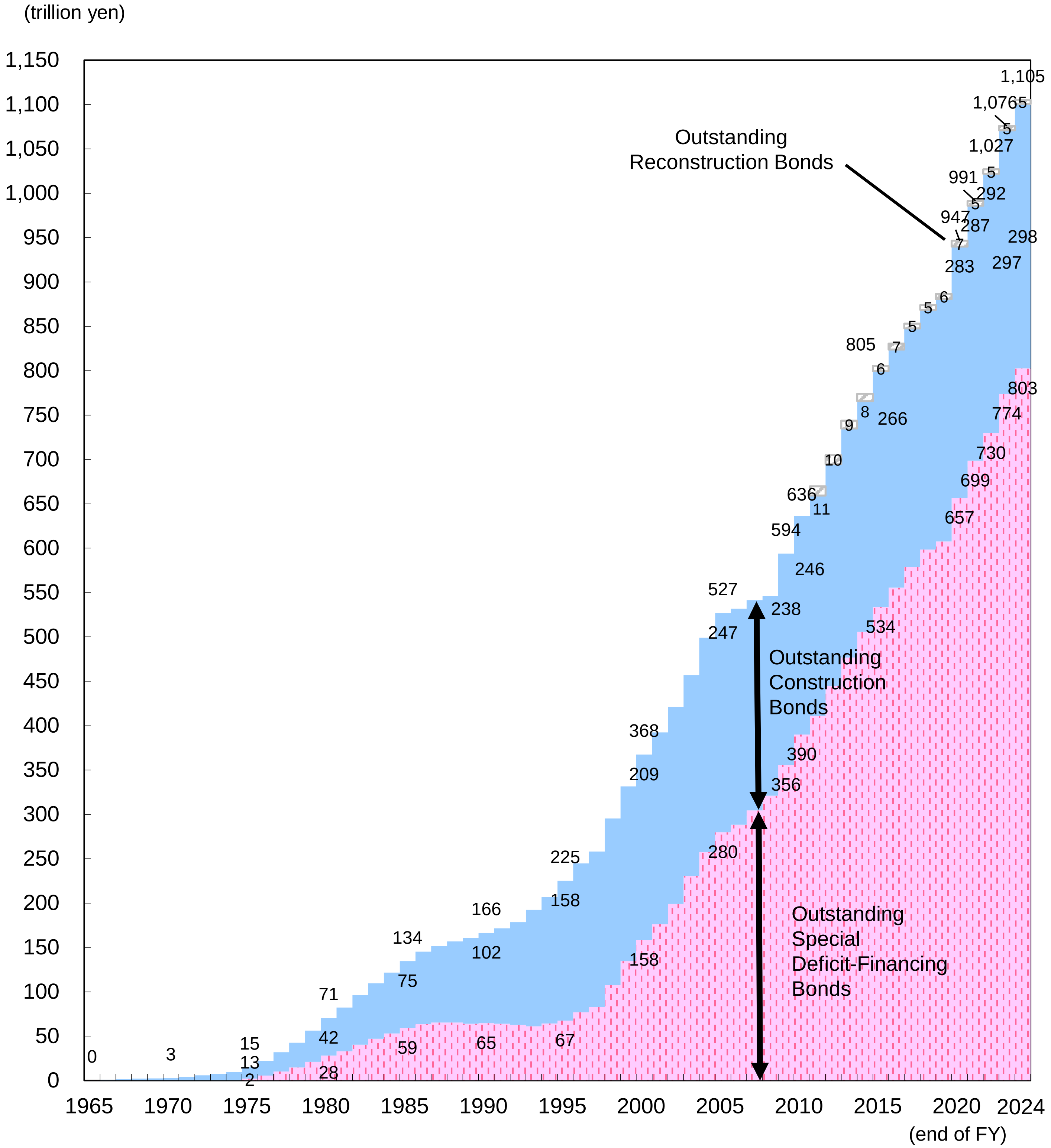
The bond dependency ratio (bond issuance / general account total expenditure) in FY2024 is projected to be 31.5%.



(Note 1) FY1975 - FY2022: settled figures ; FY2023: based on the supplementary budget ; FY2024: 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 1,105 trillion yen at the end of FY2024.



(Note 1) FY1975 - FY2022: actual figures ; FY2023: based on the supplementary budget ; FY2024: 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, GX Economy Transition Bonds and Child Special Bonds.

(Note 3) The estimate of outstanding government general bonds at the end of FY2024 excluding the maximum amount of front-loading issuance of refunding bonds is approximately 1,061 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 1,315 trillion yen (214% of GDP) at the end of FY2024.

(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 < Actual >	FY2023 < Estimated >	FY2024 < Budget >
Central Government		199	390	493	573	731	770	800	834	859	881	901	914	973	1,017	1,053	1,102	1,136
		(197)	(387)	(484)	(568)	(720)	(747)	(772)	(792)	(815)	(832)	(850)	(870)	(964)	(1,002)	(1,037)	(1,067)	(1,092)
	Government General Bonds	166	295	457	546	705	744	774	805	831	853	874	887	947	991	1,027	1,076	1,105
		(165)	(293)	(448)	(541)	(694)	(721)	(746)	(764)	(786)	(805)	(823)	(843)	(937)	(976)	(1,012)	(1,041)	(1,061)
	% of GDP	37%	55%	87%	106%	141%	145%	148%	149%	152%	154%	157%	159%	176%	179%	181%	180%	180%
		(37%)	(55%)	(85%)	(105%)	(139%)	(141%)	(142%)	(141%)	(144%)	(145%)	(148%)	(151%)	(174%)	(176%)	(179%)	(174%)	(172%)
Local Governments		67	163	198	197	201	201	201	199	197	196	194	192	192	191	187	183	179
	% of GDP	15%	30%	38%	38%	40%	39%	38%	37%	36%	35%	35%	35%	36%	34%	33%	31%	29%
Total		266	553	692	770	932	972	1,001	1,033	1,056	1,077	1,095	1,106	1,165	1,208	1,239	1,285	1,315
		(264)	(550)	(683)	(765)	(921)	(949)	(972)	(991)	(1,012)	(1,028)	(1,044)	(1,062)	(1,156)	(1,193)	(1,224)	(1,250)	(1,270)
	% of GDP	59%	103%	131%	149%	187%	190%	191%	191%	194%	194%	197%	199%	216%	218%	219%	215%	214%
		(59%)	(103%)	(130%)	(148%)	(184%)	(185%)	(186%)	(183%)	(186%)	(185%)	(188%)	(191%)	(214%)	(215%)	(216%)	(209%)	(206%)

(end of FY)

(Note 1) GDP for FY1990 - FY2022: actual figures, FY2023 and FY2024: FY2024 Economic Outlook (Cabinet Office)

(Note 2) Central government debt in FY1990 - FY2022: actual figures, FY2023: based on the supplementary budget, FY2024: based on the budget.
Local governments debt in FY1990 - FY2022: actual figures, FY2023 and FY2024: 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 and Child Special Bonds.

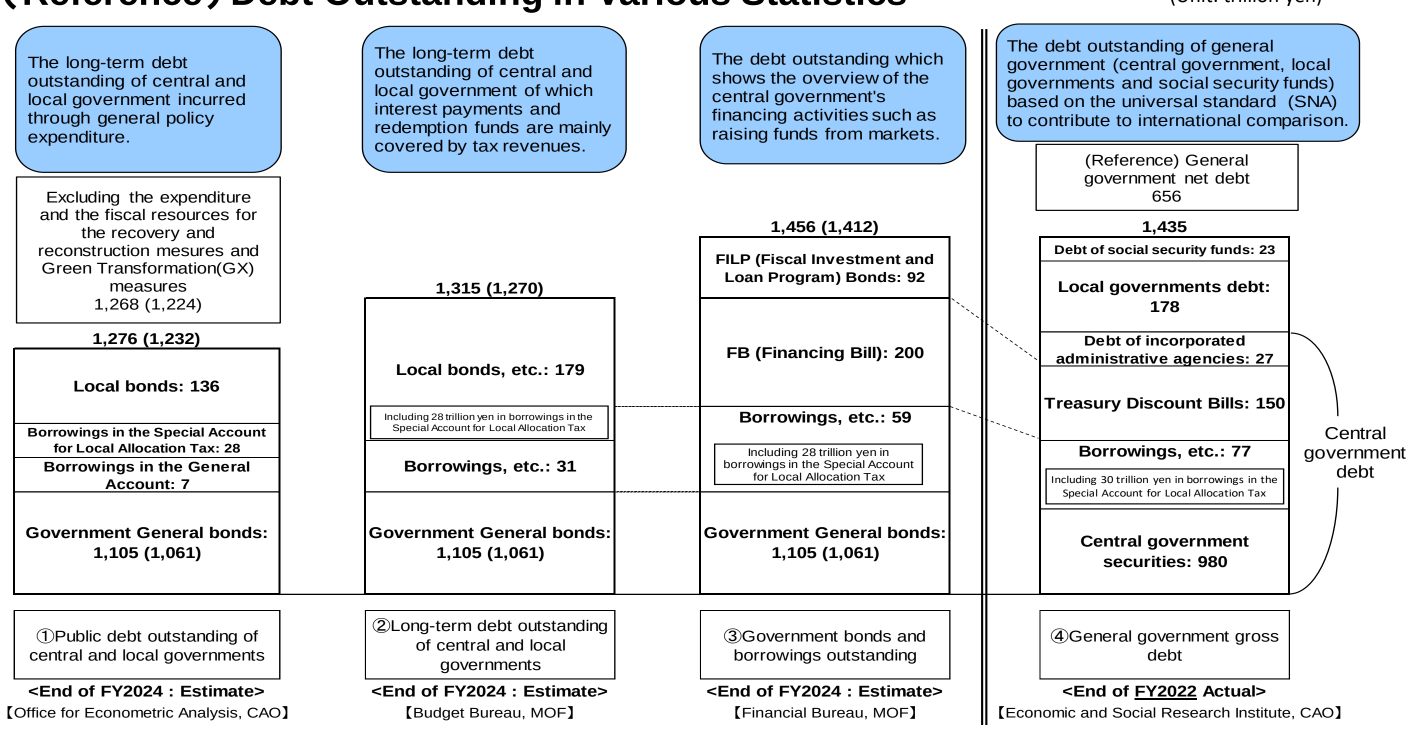
(Note 4) FY1990 - FY2022: Figures in parentheses do not include the amount of front-loading issuance of refunding bonds.
FY2023 - FY2024: Figures in parentheses do not include the maximum amount of front-loading issuance of refunding bonds.

(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 all the outstanding borrowing in the special account since the end of FY2007 is owed by the local governments (28 trillion yen at the end of FY2024).

(Note 6) In addition to the above, outstanding government bond in the special account for fiscal investment and loan program at the end of FY2024 is 92 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 issuance limit of advance refunding bonds for refinancing in the following fiscal year (44.5 trillion yen).

(Note 3) Government general bonds at the end of FY2024 includes Reconstruction Bonds (around 4.7 trillion yen).

(Note 4) Borrowings in the Special Account for Local Allocation Tax is partly transferred to general account (the borrowings in the general account in ①).

(Note 5) Local bonds, etc. in ② includes local bonds, borrowings in the Special Account for Local Allocation Tax, and local public corporation bonds (charged to the ordinary account) (around 15 trillion yen).

(Note 6) Borrowings, etc. in ② and ③ = borrowings + government subscription bonds, etc. Borrowings, etc. in ② do not include the borrowings outstanding in the Special Account for Local Allocation Tax (around 28 trillion yen) which local governments bear the burden for redemption.

(Note 7) Central government securities in ④ include government general bonds, government compensation bonds and government bonds converted. The borrowings, etc. in ④ includes government subscription bonds, etc.

(Note 8) In ④, the central government securities and the local government securities included in the debt of local governments are at current market value.

(Note 9) The figures in ①, ②, and ③ are based on the budget for FY2024 and the local government debt plan etc.

(Note 10) "General government net debt" is a figure excluding general government financial asset (around 779 trillion yen) from "General government gross debt".

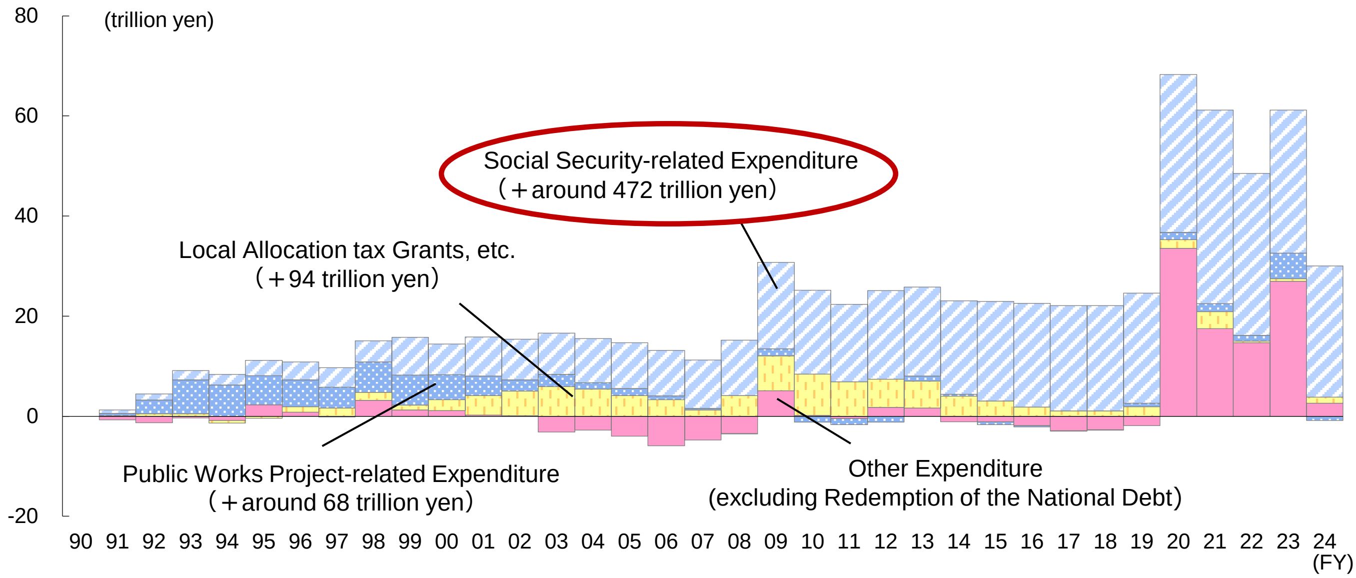
6. Factors for an Increase in Government General Bonds Outstanding

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;

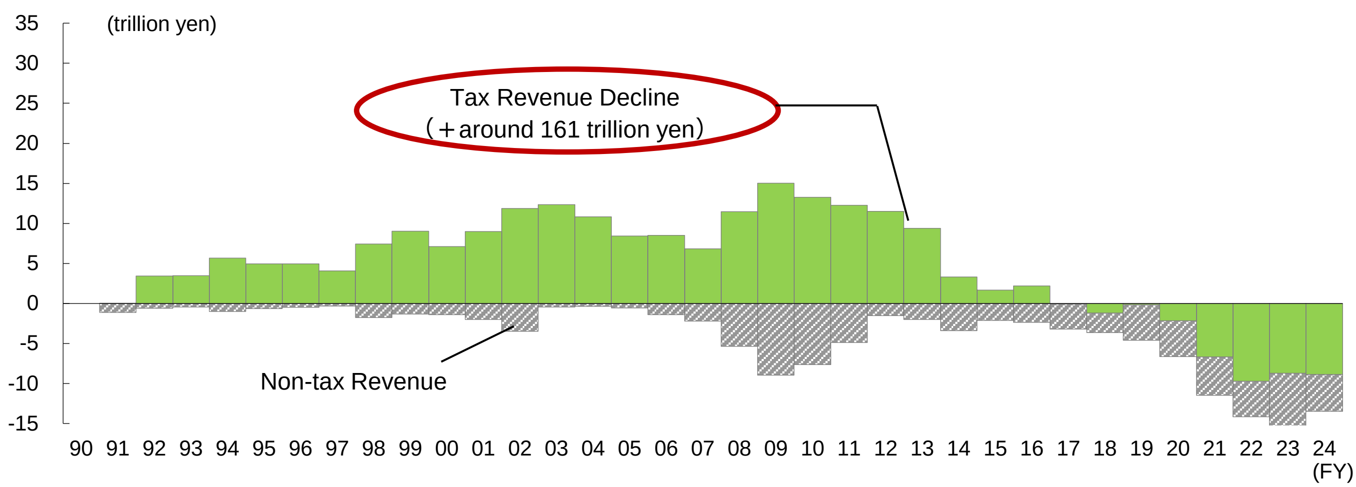
- expenditure side; increase in social security expenditures due to the population aging and local allocation tax grants, etc.
- revenue side; decline in tax revenue due to economic downturns and tax cuts.

Increase in Outstanding Government General Bonds from FY1990 to FY2024: about 934 trillion yen

Expenditure increase factors: + about 707 trillion yen



Revenue decrease factors: + about 68 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 96 trillion yen
(Approx. 2.8 trillion yen (FY1990 balance gap) x 34 years (FY1991-FY2024))

Other factors (long-term debt transferred from Japan National Railway, etc.): + around 63 trillion yen

(Note 1) FY1990 - FY2022: settled figures ; FY2023: based on the supplementary budget ; FY2024: based on the budget
The amount of expenditure for FY2023 includes the carry-over from FY2022 to FY2023.

(Note 2) Reconstruction Bonds (issued in General Account in FY2011, and in Special Account for Reconstruction from the Great East Japan Earthquake in FY2012 onwards, 4.7 trillion yen at the end of FY2024) and expenditures in FY2011 financed by the issuance of Reconstruction Bonds (7.6 trillion yen) are excluded from government general bonds above.

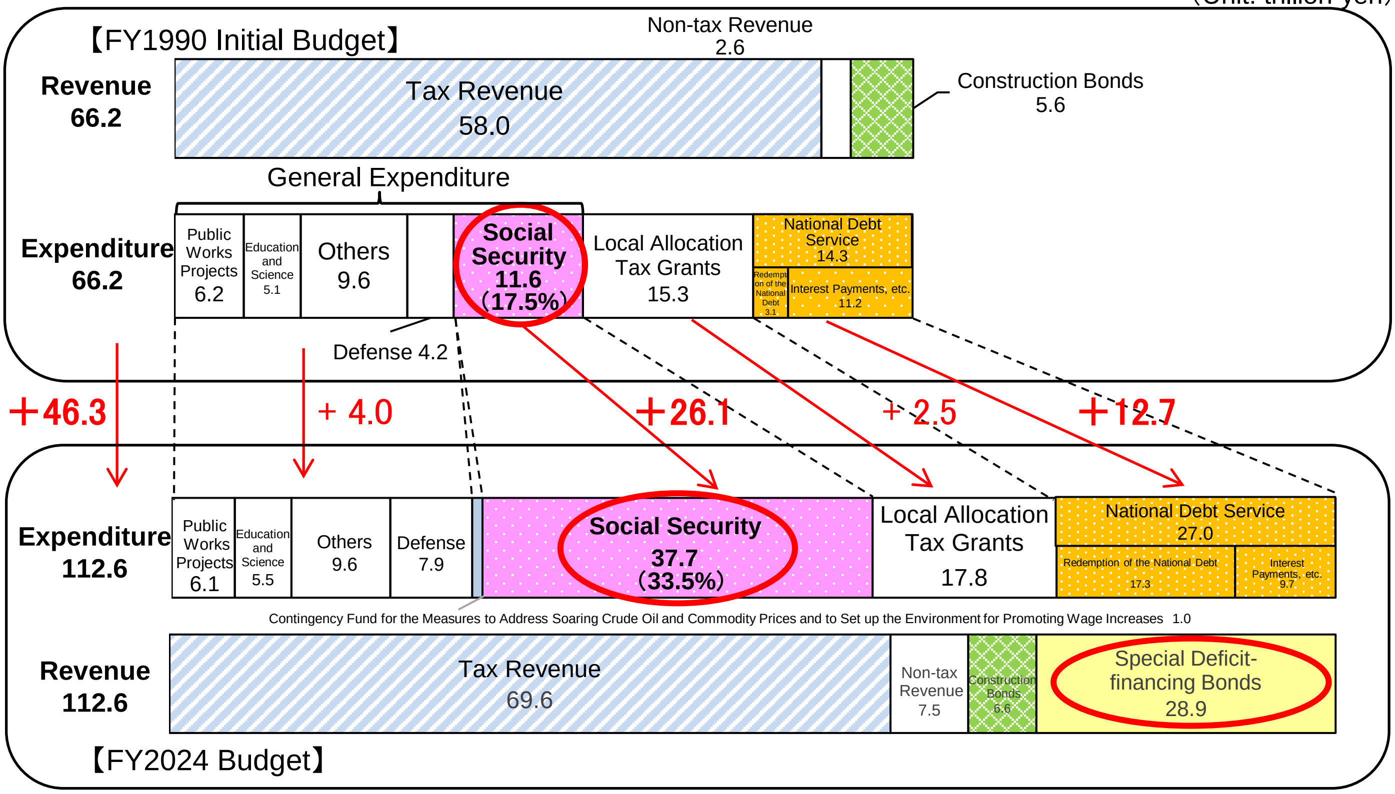
(Note 3) As for the Local Allocation Tax Grants, tax revenues based on the legal rates are excluded from both sides of expenditure and revenue, and the others (to cover expenditure-revenue gap in the local governments, etc.) are counted as an expenditure increase.

(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 FY2024

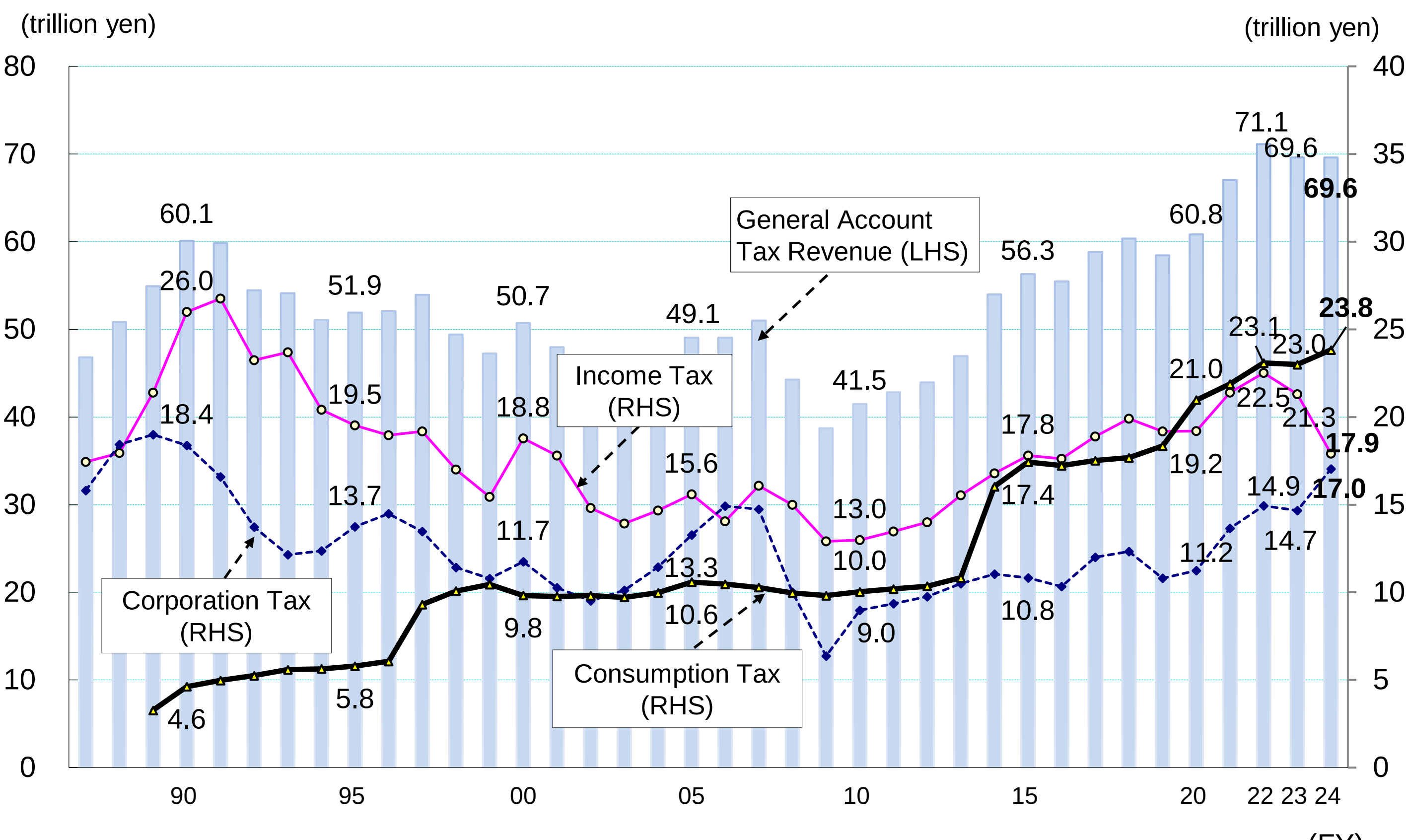
Compared to the FY1990 budget, when the issuance of special deficit-financing bond temporarily stopped, social security-related expenses have significantly increased, and they are covered by special deficit-financing bonds issuance in the FY2024.

(Unit: trillion yen)



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

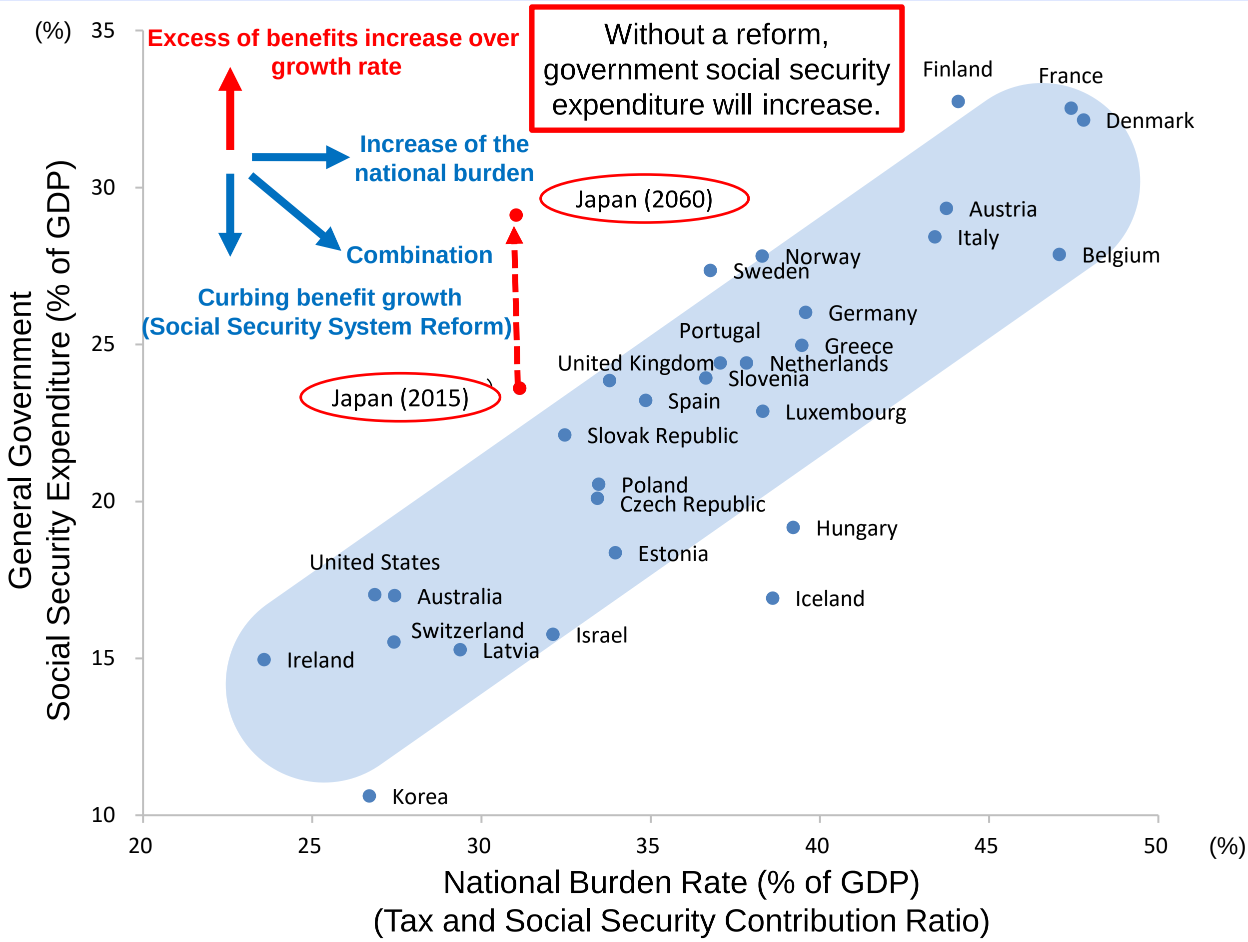
(Reference) Trends of General Account Tax Revenue



(Note) FY1987- FY2022: settled figures, FY2023: based on the supplementary budget, FY2024: 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).

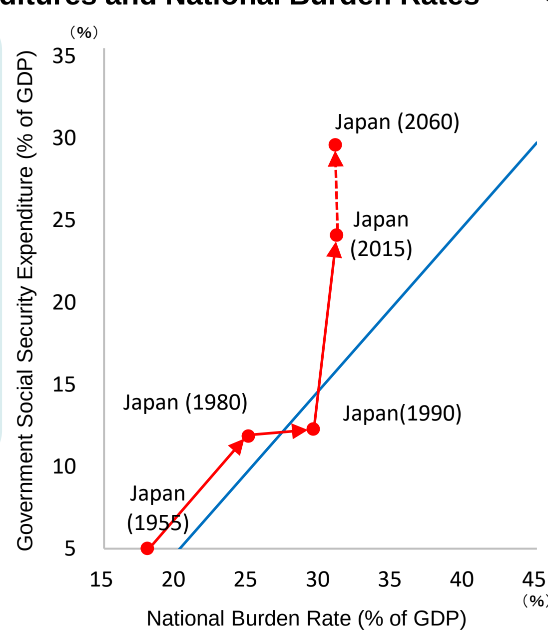
(Note 2) Japan: Actual figures of FY2015, Iceland and Australia: Actual figures of CY2014, the other countries: Actual figures of CY2015

(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".

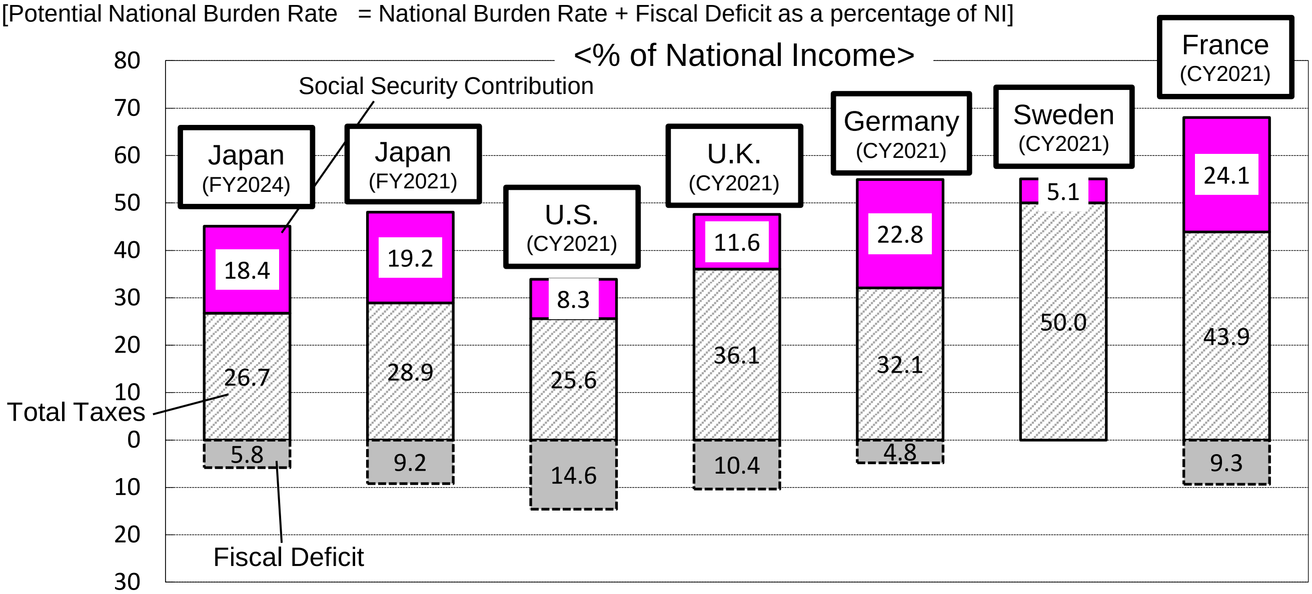
(Note 1) The word "primary balance" here is simply defined as [the national burden ratio - (social security expenditure + non-social security expenditure (excluding interest payments))] (All figures are % of GDP), which is different from the SNA-based primary balance.

(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	45.1 (32.5)	48.1 (34.4)	33.9 (27.1)	47.6 (36.2)	54.9 (42.0)	55.0 (37.1)	68.0 (47.2)
Potential National Burden Rate	50.9 (36.7)	57.3 (41.0)	48.5 (38.7)	58.0 (44.0)	59.8 (45.7)	55.0 (37.1)	77.4 (53.7)

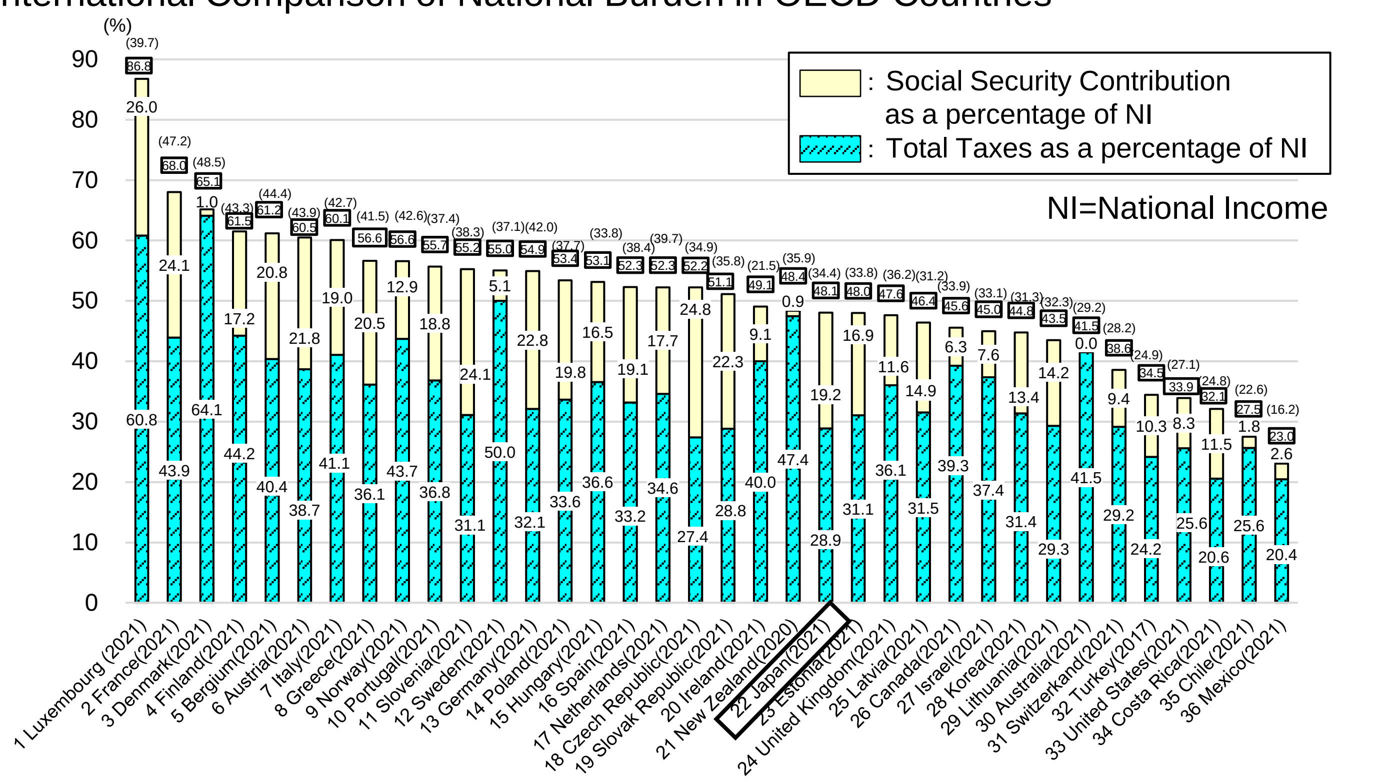
(% of National Income (The figures in parentheses represent ration as % of GDP)

(Note 1) Japan: projected figures of FY2024; actual figures of FY2021. Germany: projected figures of CY2021. The other countries: actual figures of CY2021

(Note 2) 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.

(Source) Cabinet Office "National Accounts", etc. OECD "National Accounts", "Revenue Statistics" and "Economic Outlook 114"(November 2023)

International Comparison of National Burden in OECD Countries

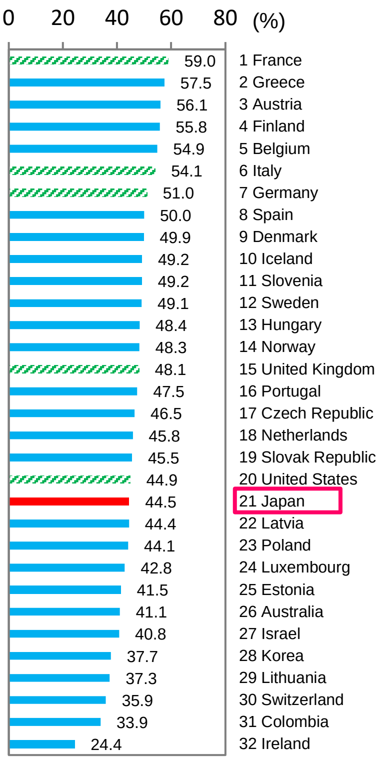


(Note 1) 36 countries out of 38 OECD countries. Australia, Estonia and Germany: provisional figures, the other countries: actual figures, Colombia and Iceland: no data
(Note 2) The figures in parentheses represent National Burden Ratio as % of GDP.
(Source) Japan: Cabinet Office "National Accounts", etc. the other countries: OECD "National Accounts" and "Revenue Statistics".

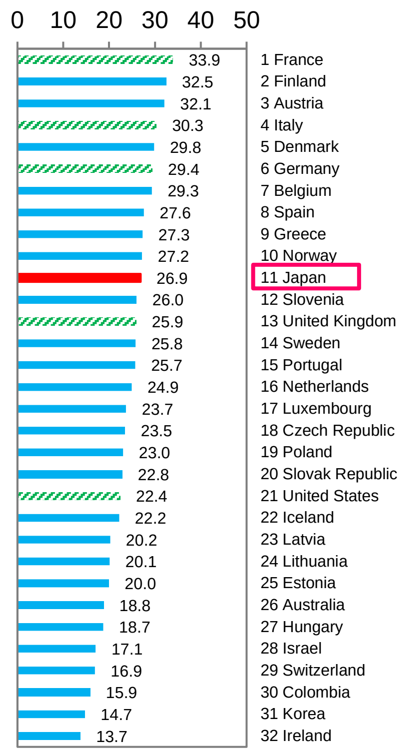
10. Revenues and Expenditures in OECD Countries

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

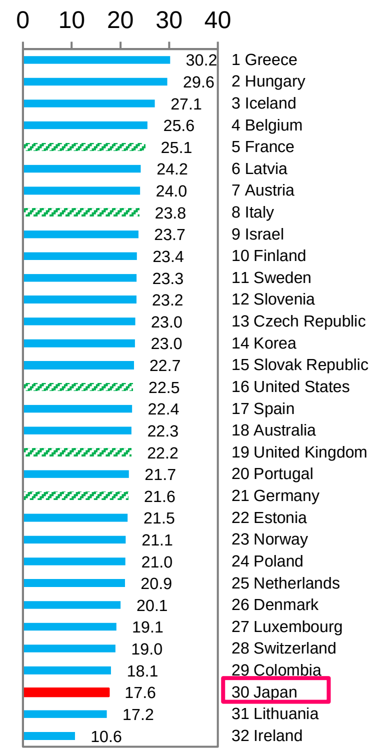
Total Expenditure (2021)



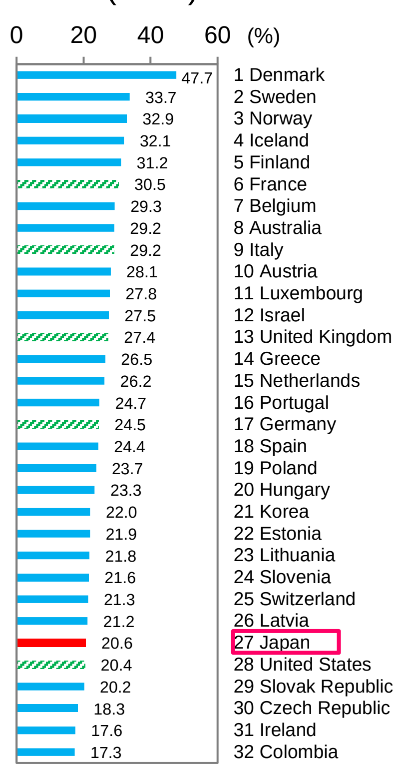
Social Security Expenditure (2021)



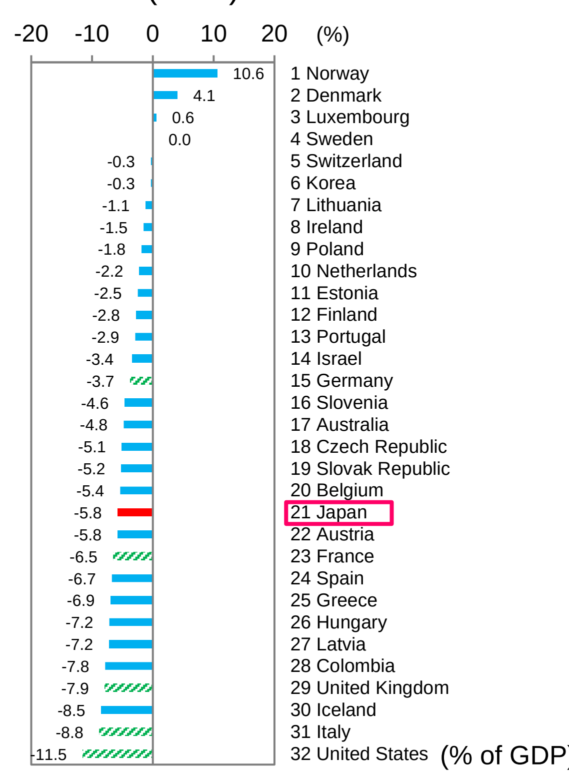
Non-Social Security Expenditure (2021)

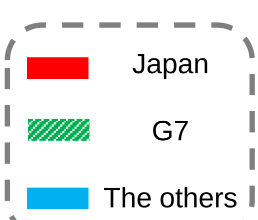


Tax Revenue (2021)



Fiscal Balance (2021)





(Source) Fiscal Balance: OECD "Economic Outlook 114" (November 2023), Others: OECD "National accounts", "Revenue Statistics" and, Cabinet Office "National Accounts", etc.

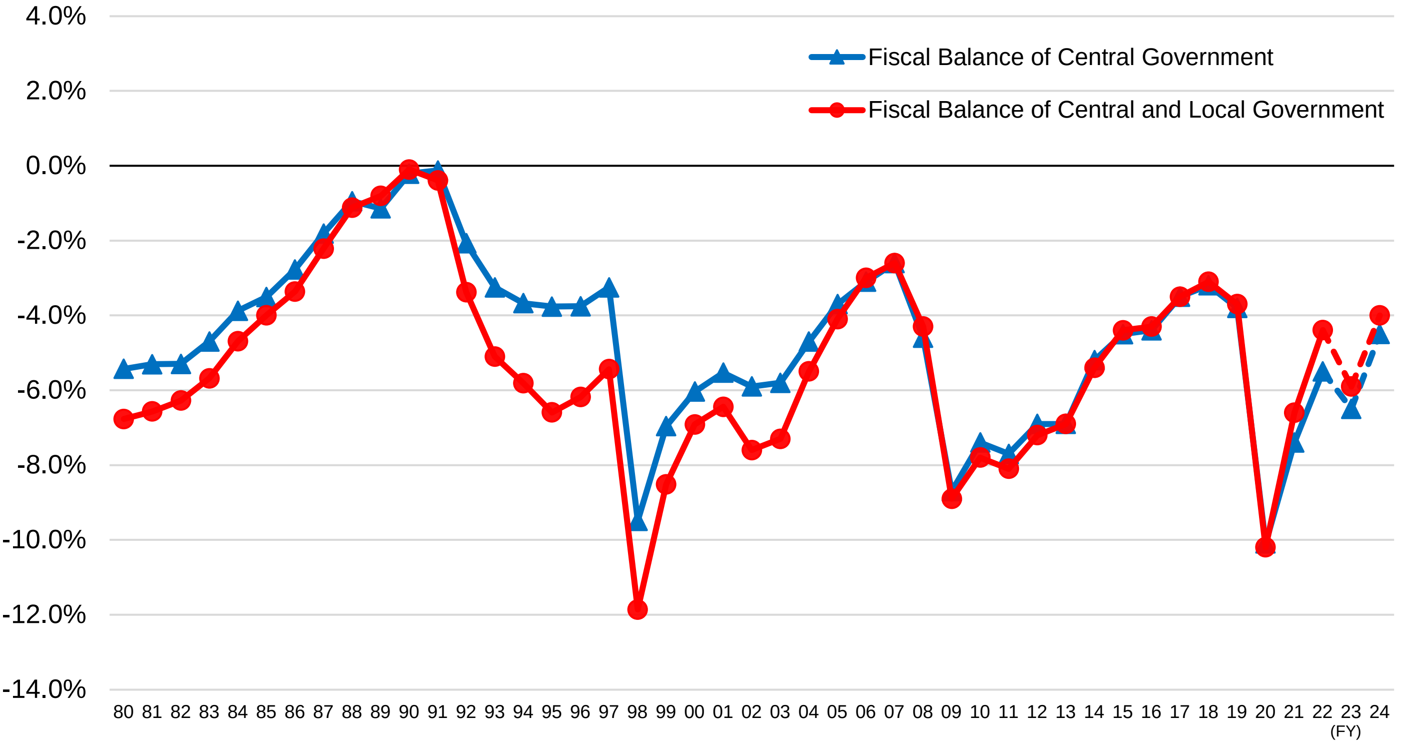
(Note 1) The figures for Australia, Estonia, and Germany are estimated figures. The figures for other countries are actual figures.

(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)

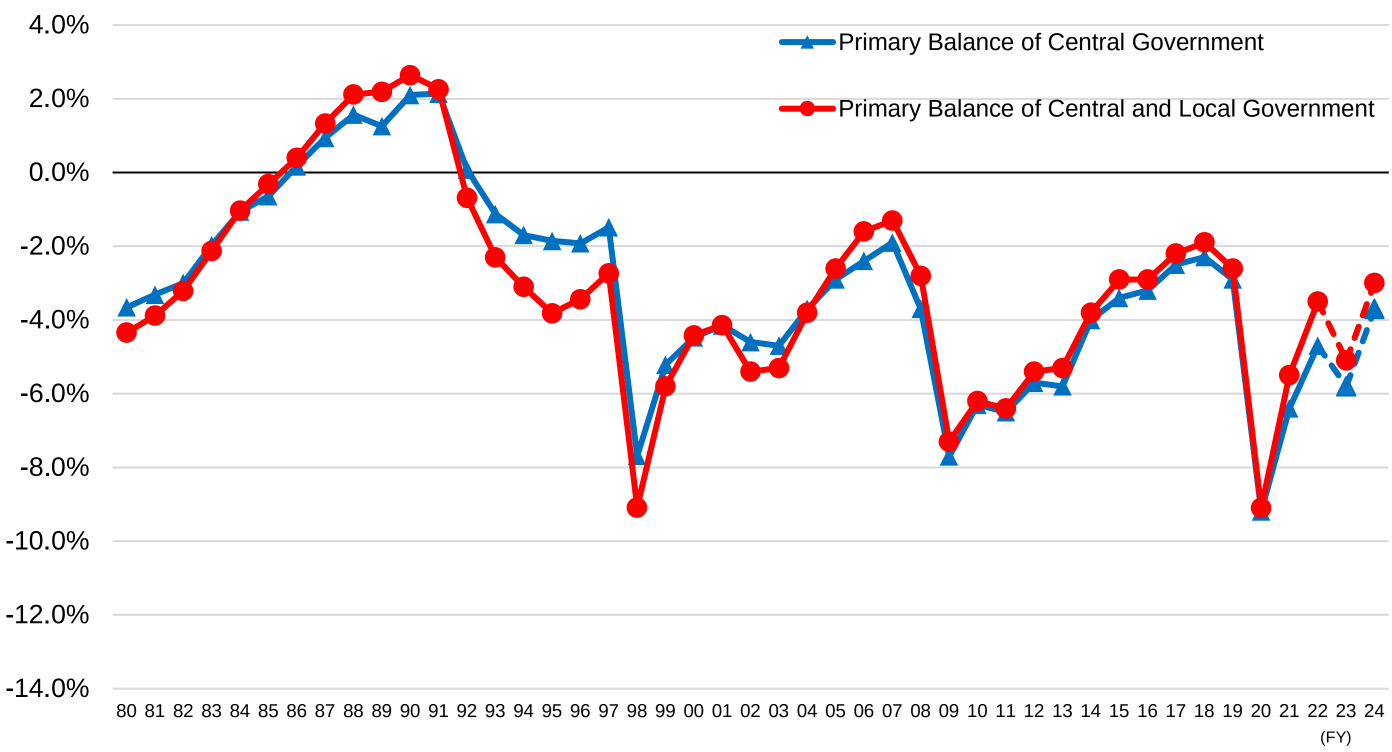
Japan's fiscal and primary balance remain in deficit.

■ Fiscal Balance (% of GDP)



(Note 1) Figures for FY1980-FY1993 are based on 93SNA; Figures for FY1994-FY2024 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-FY2024 are based on the Cabinet Office's "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 22, 2024) (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.

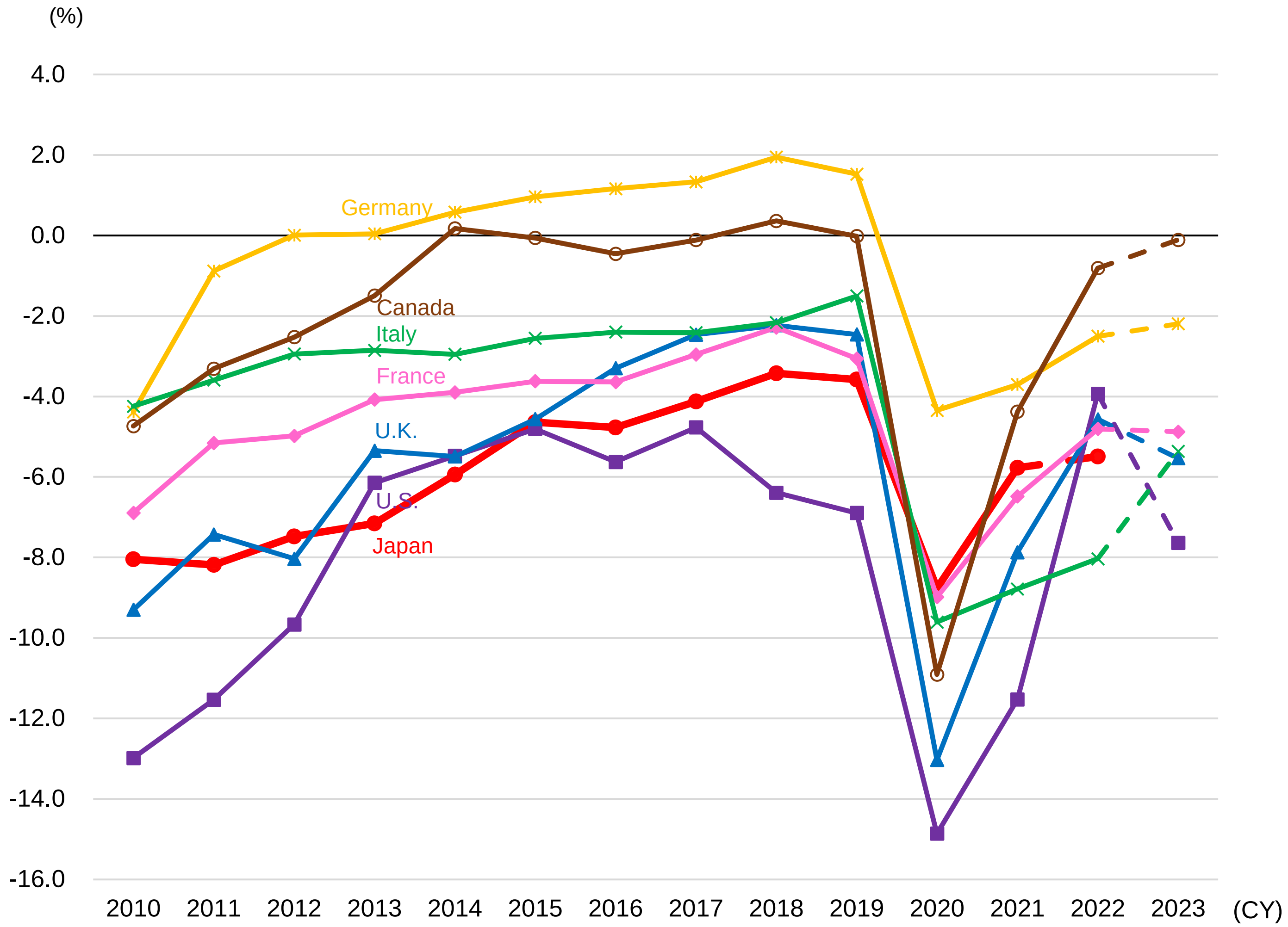
■ Primary Balance (% of GDP)



(Note 1) Figures for FY1980-FY1993 are based on 93SNA; Figures for FY1994-FY2024 are calculated based on 08SNA.
(Note 2) Figures for FY1980-FY2001 are based on SNA. It should be noted that the figures for FY2002-FY2024 are based on the Cabinet Office's "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 22, 2024) (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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Japan	-8.0	-8.2	-7.5	-7.2	-5.9	-4.6	-4.8	-4.1	-3.4	-3.6	-8.8	-5.8	*-5.5*	-
U.S.	-13.0	-11.5	-9.7	-6.1	-5.5	-4.8	-5.6	-4.8	-6.4	-6.9	-14.9	-11.5	-3.9	*-7.6*
U.K.	-9.3	-7.4	-8.0	-5.3	-5.5	-4.6	-3.3	-2.5	-2.2	-2.5	-13.0	-7.9	-4.6	*-5.5*
Germany	-4.4	-0.9	0.0	0.0	0.6	1.0	1.2	1.3	1.9	1.5	-4.3	-3.7	-2.5	*-2.2*
France	-6.9	-5.2	-5.0	-4.1	-3.9	-3.6	-3.6	-3.0	-2.3	-3.1	-9.0	-6.5	-4.8	*-4.9*
Italy	-4.2	-3.6	-2.9	-2.9	-3.0	-2.6	-2.4	-2.4	-2.2	-1.5	-9.6	-8.8	-8.0	*-5.4*
Canada	-4.7	-3.3	-2.5	-1.5	0.2	-0.1	-0.5	-0.1	0.4	0.0	-10.9	-4.4	-0.8	*-0.1*

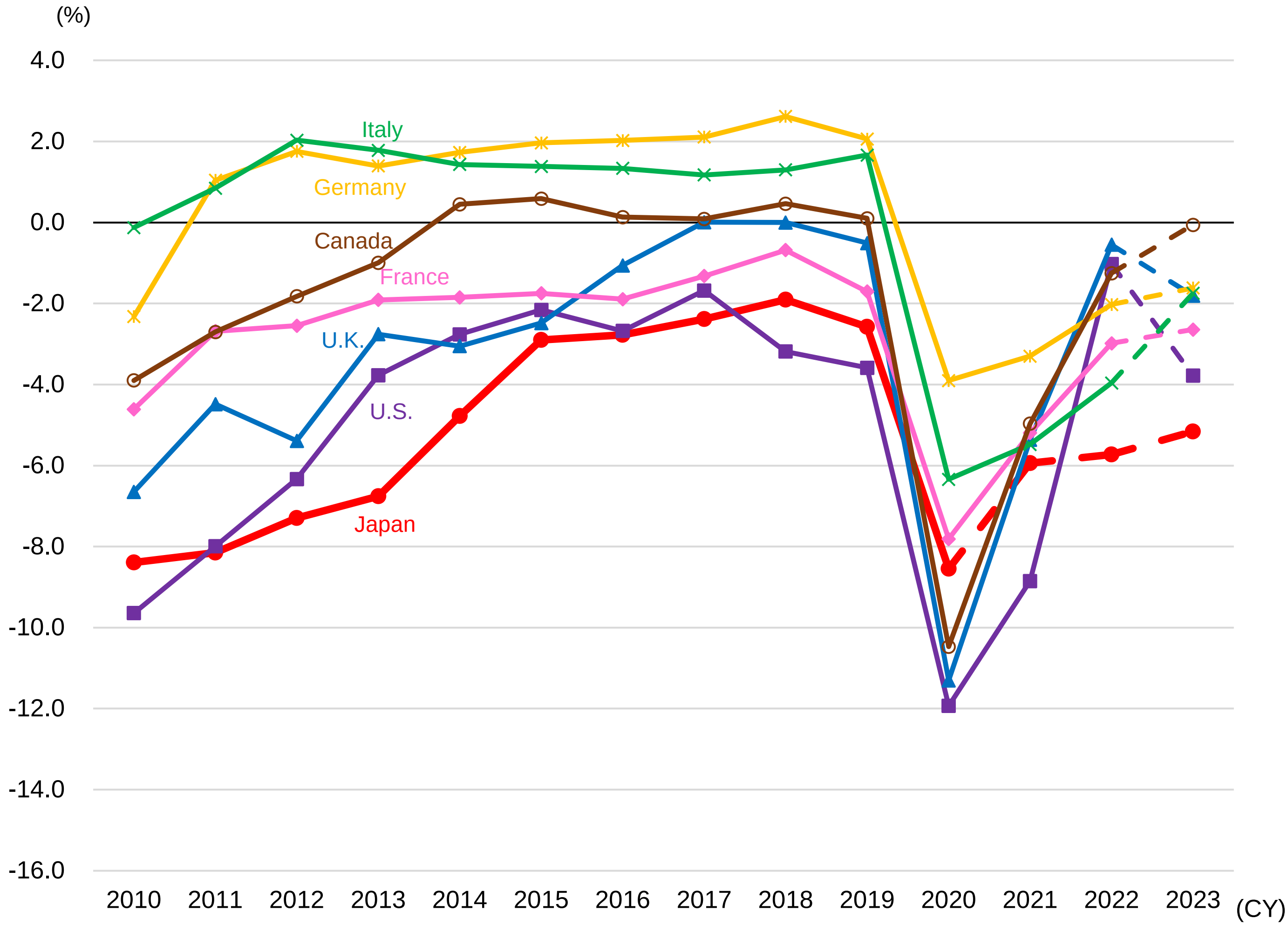
(Source) OECD "Economic Outlook 114" (November 29, 2023)

(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 2022 figure for Japan and the 2023 figures for other countries are estimated figures. However, the 2023 figure for Japan has not been published.

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 significant deficit since 2020 due to the responses to the COVID-19 and price hikes.



CY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Japan	-8.4	-8.1	-7.3	-6.8	-4.8	-2.9	-2.8	-2.4	-1.9	-2.6	-8.5	*-5.9*	*-5.7*	*-5.2*
U.S.	-9.6	-8.0	-6.3	-3.8	-2.8	-2.2	-2.7	-1.7	-3.2	-3.6	-11.9	-8.9	-1.0	*-3.8*
U.K.	-6.6	-4.5	-5.4	-2.8	-3.1	-2.5	-1.1	0.0	0.0	-0.5	-11.3	-5.4	-0.5	*-1.8*
Germany	-2.3	1.0	1.8	1.4	1.7	2.0	2.0	2.1	2.6	2.1	-3.9	-3.3	-2.0	*-1.6*
France	-4.6	-2.7	-2.5	-1.9	-1.8	-1.7	-1.9	-1.3	-0.7	-1.7	-7.8	-5.2	-3.0	*-2.6*
Italy	-0.1	0.8	2.0	1.8	1.4	1.4	1.3	1.2	1.3	1.7	-6.3	-5.5	-4.0	*-1.7*
Canada	-3.9	-2.7	-1.8	-1.0	0.5	0.6	0.1	0.1	0.5	0.1	-10.5	-5.0	-1.3	*-0.1*

(Source) OECD "Economic Outlook 114" (November 29, 2023)
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2021-2023 figures for Japan and the 2023 figures for other countries are estimated figures.

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

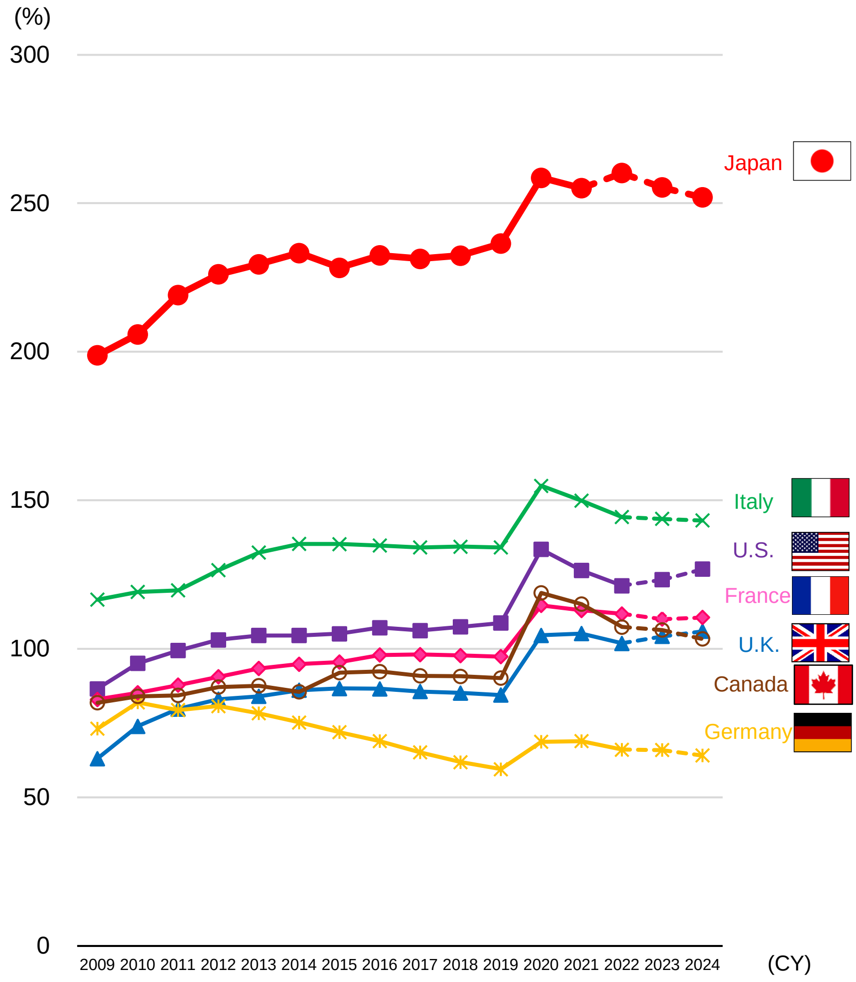
Japan's general government gross debt-to-GDP ratio stands at the highest level not only among major advanced countries but also among all countries.

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

1	Macau	0.0%
2	Hong Kong	1.9%
	⋮	
74	Korea	51.3%
	⋮	
118	Germany	69.0%
	⋮	
126	China	71.8%
	⋮	
167	U.K.	105.2%
	⋮	
171	France	113.0%
172	Canada	115.1%
	⋮	
177	U.S.	126.4%
	⋮	
183	Italy	149.9%
184	Sudan	187.9%
185	Greece	200.7%
186	Japan	255.1%
187	Lebanon	349.9%

* Actual figures in 2021

<Comparison with major advanced countries>



CY	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Japan	198.8	205.9	219.2	226.1	229.5	233.3	228.3	232.4	231.3	232.4	236.4	258.6	255.1	*260.1*	*255.2*	*251.9*
U.S.	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	121.3	*123.3*	*126.9*
U.K.	63.1	74.0	79.8	83.1	84.1	86.1	86.7	86.6	85.6	85.2	84.5	104.6	105.2	101.9	*104.1*	*105.9*
Germany	73.2	82.0	79.4	80.7	78.3	75.3	71.9	69.0	65.2	61.9	59.5	68.7	69.0	66.1	*65.9*	*64.0*
France	83.0	85.3	87.8	90.6	93.4	94.9	95.6	98.0	98.1	97.8	97.4	114.7	113.0	111.8	*110.0*	*110.5*
Italy	116.6	119.2	119.7	126.5	132.5	135.4	135.3	134.8	134.2	134.4	134.2	154.9	149.9	144.4	*143.7*	*143.2*
Canada	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	107.4	*106.4*	*103.3*

(Source) IMF "World Economic Outlook" (October 2023).
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2022-2024 figures for Japan and the 2023-2024 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）

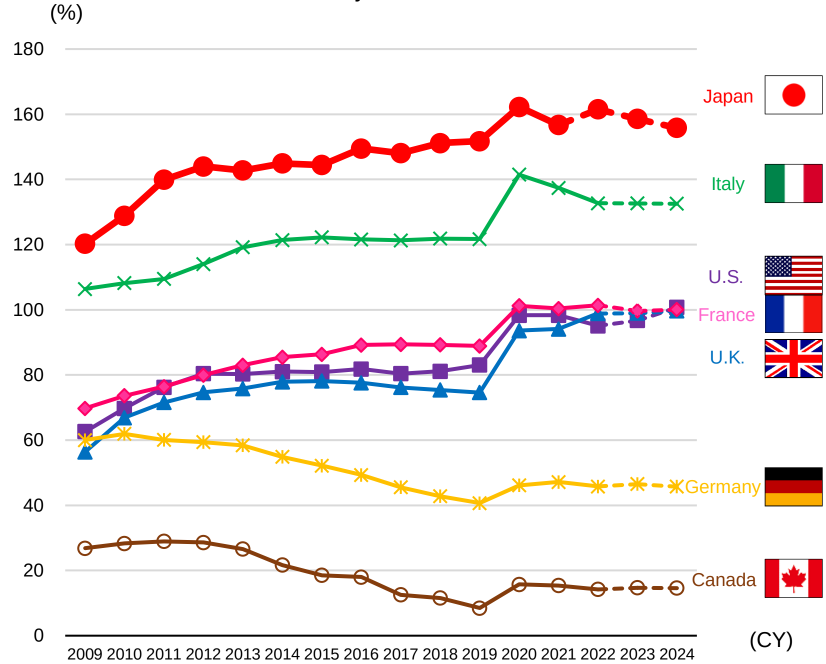
Even in terms of net debt, which means government’s gross debt less government-owned financial assets (such as pension reserve consisting of insurance contribution), net debt-to-GDP ratio stands at the highest level compared to the other countries.

＜ Ranking in 90 countries ＞

1	Norway	-85.3%
2	Luxembourg	-10.9%
3	Kazakhstan	-3.3%
	⋮	
12	Canada	15.4%
	⋮	
17	Korea	20.8%
	⋮	
45	Germany	47.2%
	⋮	
79	U.K.	94.1%
	⋮	
81	U.S.	98.3%
82	France	100.4%
	⋮	
86	Cabo Verde	133.8%
87	Barbados	134.0%
88	Italy	137.4%
89	Japan	156.7%
90	Lebanon	346.4%

＊ Actual figures in 2021

＜ Trends in major advanced countries ＞



(Source) IMF "World Economic Outlook" (October 2023).
(Note 1) The figures represent the general government-based data (the central / local governments and social security funds combined).
(Note 2) The 2022-2024 figures for Japan and the 2023-2024 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 and burdens. If the current generation excessively increases governmental spending for themselves, great amount of burdens will be transferred to the future generations. The dependence on public bonds has problems such as “Imbalance between benefits and burdens”, “Undesirable form of redistribution”, “Limited policy options caused by the lack of fiscal buffer” and “Increased risk, such as a losing confidence in the government bond and the national currency”.

Imbalance between Benefits and Burdens

- ✓ In Japan, tax revenue is not enough 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 Japanese Government Bonds (JGBs) can receive the interest payments and the redemption of bonds, the others will bear a substantial increase in tax 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. Trend of Interest Rate and Fiscal Management

To secure a confidence in the public finance, it is important to promote fiscal consolidation, paying attention to the trend of interest rate.

The 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 deficit in each fiscal year.

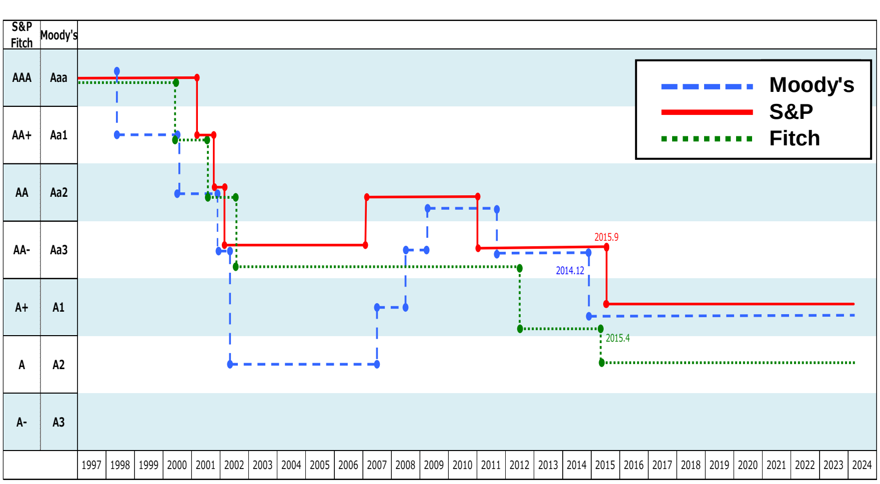
Confidence in Japan’s public finance is a prerequisite for Market’s stable absorption of JGBs

- ✓ Confidence in government bonds and the market’s stable absorption of JGBs 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 JGBs are trusted”.
- ✓ A loss of confidence in JGBs 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 structural increase in social security expenditures due to low birthrate and aging population.
- ✓ The structural challenge of ensuring the sustainability of the social security system should not be left unresolved on the ground of “flexible fiscal responses”.

Trends in JGB Ratings by Major Credit Ratings Agencies



Ratings of Major Advanced Countries
(As of April 7, 2024)

	Moody’s	S&P	Fitch
Aaa/ AAA	U.S. Germany	Germany	Germany
Aa1/ AA+		U.S.	U.S.
Aa2/ AA	France	France U.K.	
Aa3/ AA-	U.K.		France 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 budget, 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.

Date	Document	Target type	Target
May. 14 1976	Economic Plan for the early Showa 50s (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 cease issuance of special deficit-financing bonds in the general account 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 primary surplus in 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 primary surplus of the central and local governments by FY2011. 2) Even after achieving a primary surplus, 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 primary surplus 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 and reducing the public debt-to-GDP ratio steadily) set forth in Basic Policy 2018.

Fiscal Consolidation Target

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

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.

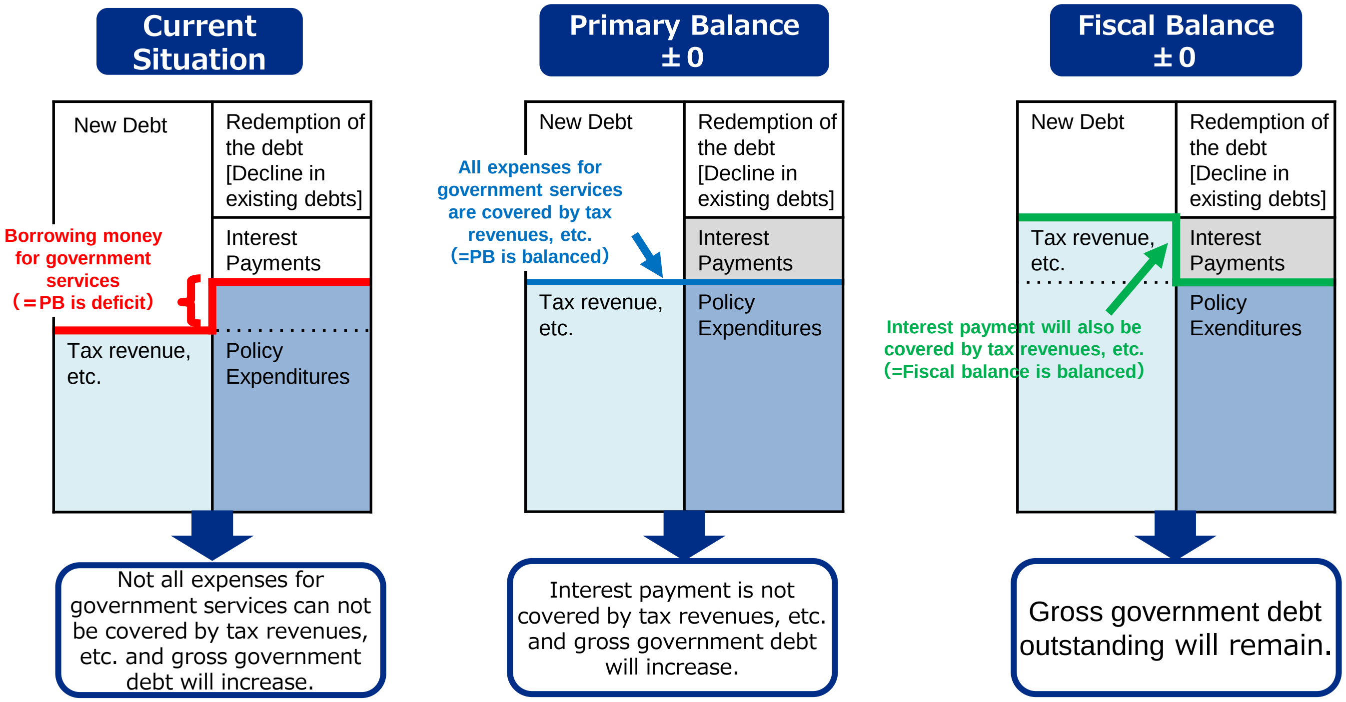
<Flow Indicators (1)> Fiscal Balance (Fiscal balance including interest payments)

"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 changed by 1) difference between nominal growth rate and interest rate, and 2) primary balance.
Interest rates have mostly been higher than the nominal growth rates so far. 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)

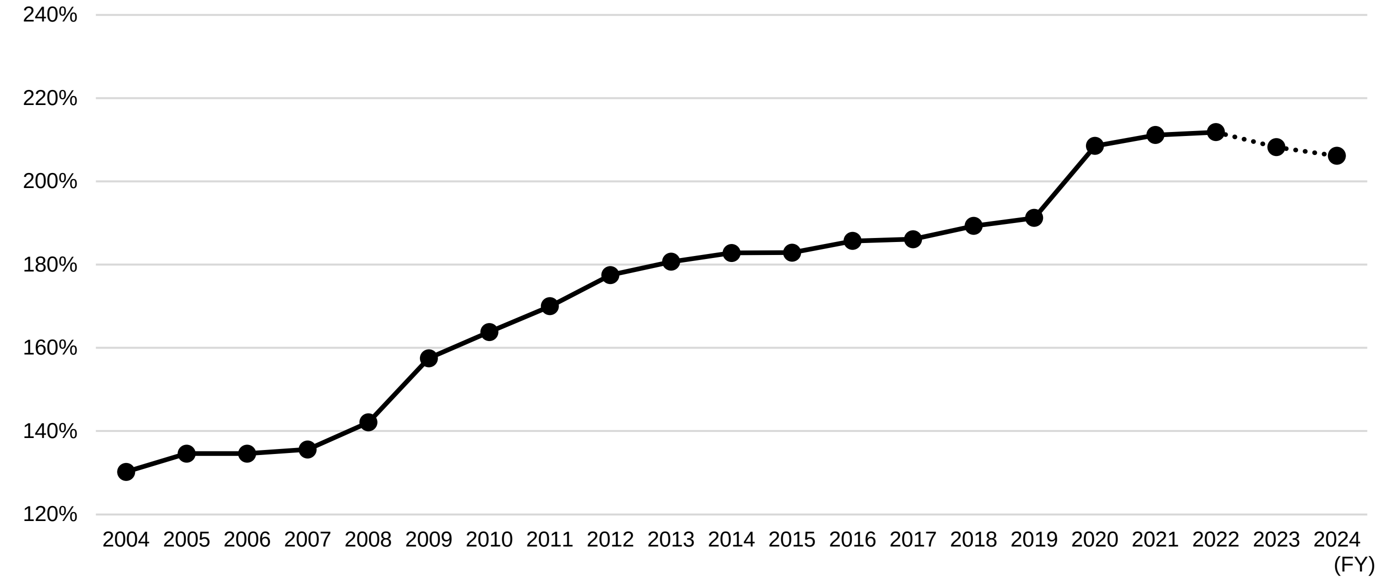
$$= \frac{\text{Accumulated debts (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal interest rate (r))}} + \boxed{\textbf{Primary deficit} \text{ (current fiscal year)}}}{\text{GDP (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal growth rate (g))}}}$$

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)

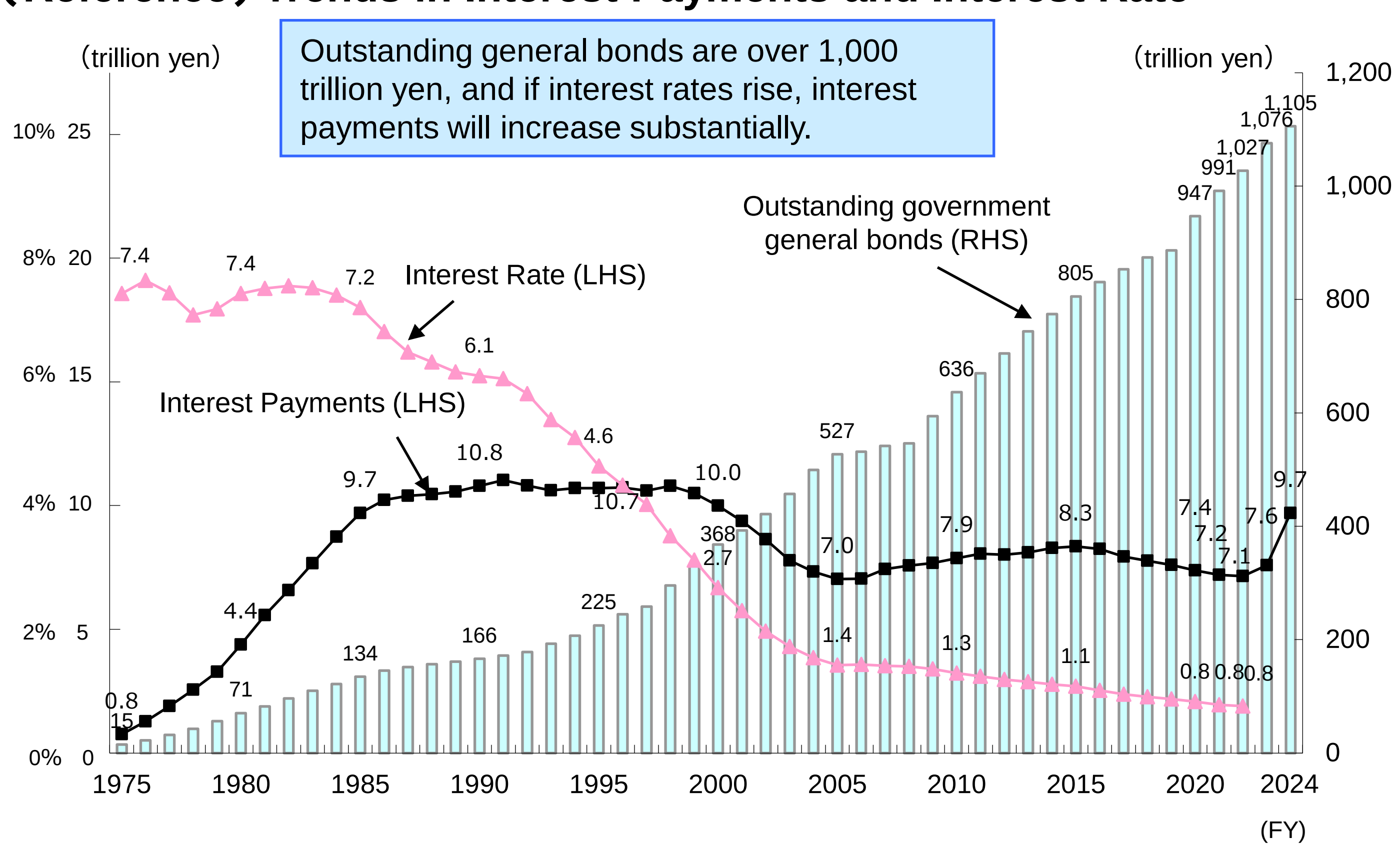
The ratio of central and local government debt to GDP, a stock indicator used for fiscal consolidation target, has been increased cumulatively and is at an extremely high level.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
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	1199.9	1243.9	1268.0
% 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%	208.5%	211.1%	211.8%	208.2%	206.1%
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	539.0	553.6	566.5	597.5	615.3

(Source) Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 22, 2024)
(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

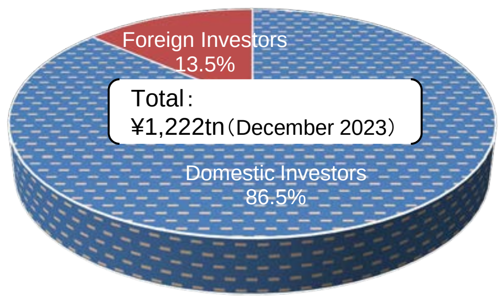


(Note 1) Interest Payments in FY1975 - FY2022: settled figures ; FY2023: based on the supplementary budget ; FY2024: based on the budget
(Note 2) Interest rates are based on the weighted average of interest rates of government general bonds.
(Note 3) Outstanding government general bonds in FY1975 - FY2022: actual figures ; FY2023: based on the supplementary budget ; FY2024: 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



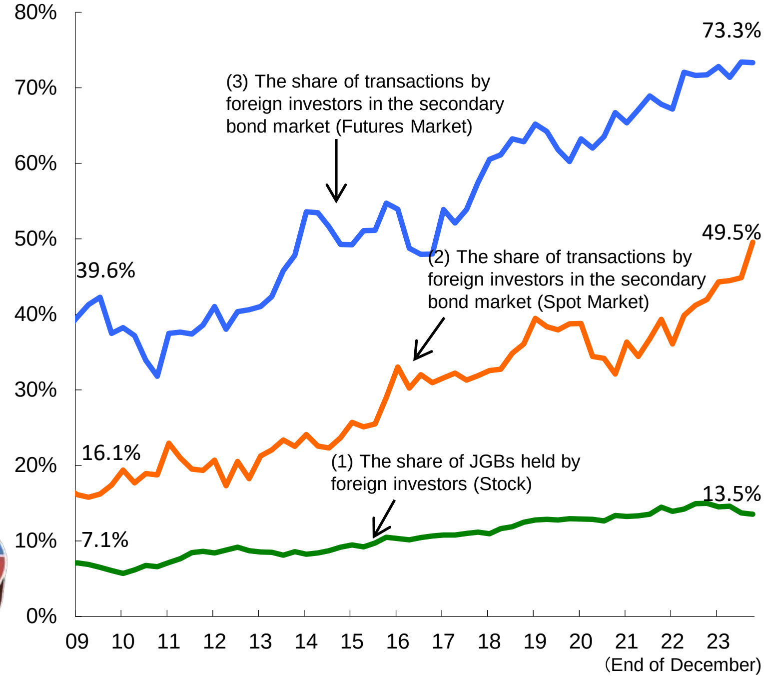
(Source) Bank of Japan "Flow of Funds Accounts Statistics"
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) Percentage as of December 2023.

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 2023 (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＞

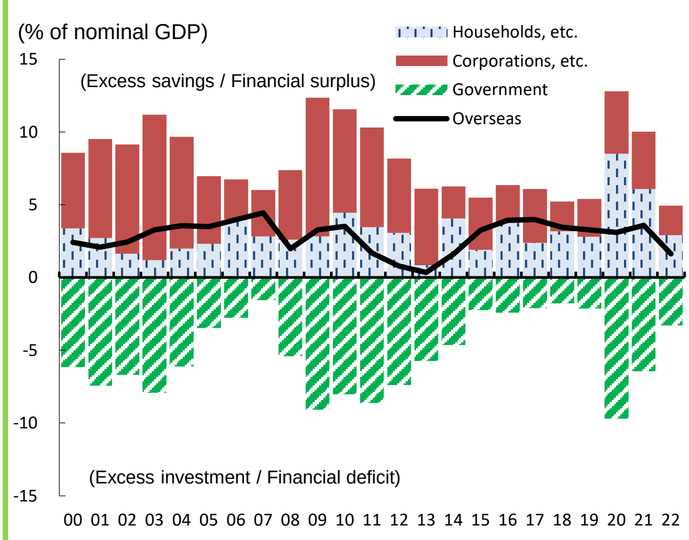


(Source) Bank of Japan, Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) The figures of Spot market excludes transactions by bond dealers.

(Reference) Trends in Current Account Balance

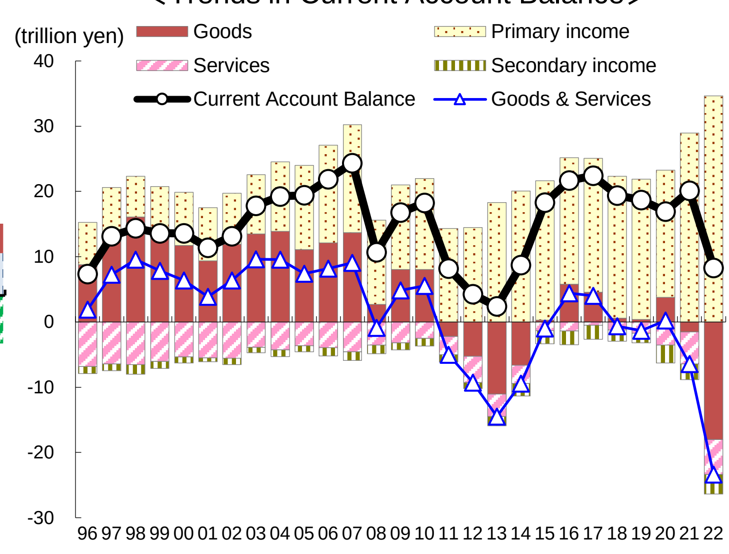
Although the current account surplus has continued in Japan because the private saving surplus has exceeded the deficit in the government sector, Japan will have to depend on foreign capital if the current account balance becomes deficit. Therefore, continuous efforts toward fiscal consolidation are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

＜Trends in excess/ deficit of funds 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 Balance＞



(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 2023 (Cabinet Decision in June 2023)

Fiscal consolidation target in Basic Policy 2023

・ Emerging from the COVID-19 pandemic, with the economy normalizing, we are expanding "the virtuous cycle of growth and distribution". Under this circumstance, we will work to **return the expenditure structure to normal**, while properly taking into account the rising wages and procurement prices.

・ **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, and 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 at all times, such as the impact of the recent price hikes. **The government will therefore undertake the necessary verification depending on the situation.**

Guiding Principles in Budget Formulation for FY2024

We will steadily promote integrated economic and fiscal reforms in the budget for FY2024 based on this Basic Policy, the Basic Policy on Economic and Fiscal Management and Reform 2022, and the Basic Policy on Economic and Fiscal Management and Reform 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 (January 11, 2024)

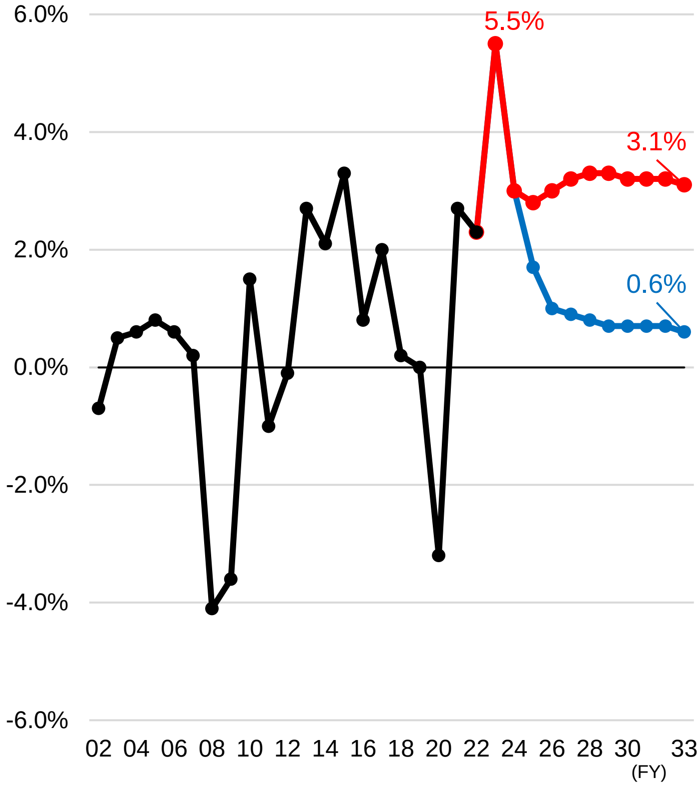
- Securing fiscal sustainability is key. Rebuilding fiscal buffers and ensuring debt sustainability should be prioritised, in a context of increasing debt service risks associated with a possible rise in long-term interest rates. Rapid population ageing is putting pressure on spending, increasing the already large transfers to the elderly.
- Fiscal support to address the pandemic and the energy shock has increased gross public debt to an unprecedented level of almost 245% of GDP in 2022. Remaining measures to provide support against the energy shock should be targeted, with a view to phasing them out. Overreliance on supplementary budgets and contingency reserve funds lowers the transparency of fiscal projections and targets. Announcing concrete revenue and expenditure measures to enable a medium-term fiscal consolidation path would boost the credibility and sustainability of fiscal policy.
- Containing spending growth requires health and long-term care reforms. Lengthy hospital stays and a high number of medical consultations suggest room for efficiency gains in providing high-quality care to Japan’s ageing population. Reform priorities include boosting out-of-pocket payments for the more affluent elderly through means-testing, and shifting long-term care out of hospitals.
- Japan should rely primarily on the consumption (value-added) tax to boost revenues. The current 10% rate is among the lowest in the OECD. In addition, various deductions to personal income taxes erode the tax base. Tax reforms should be accompanied by targeted support measures for low-income households.

IMF Staff Report for the 2023 Article IV Consultation (March 30, 2023)

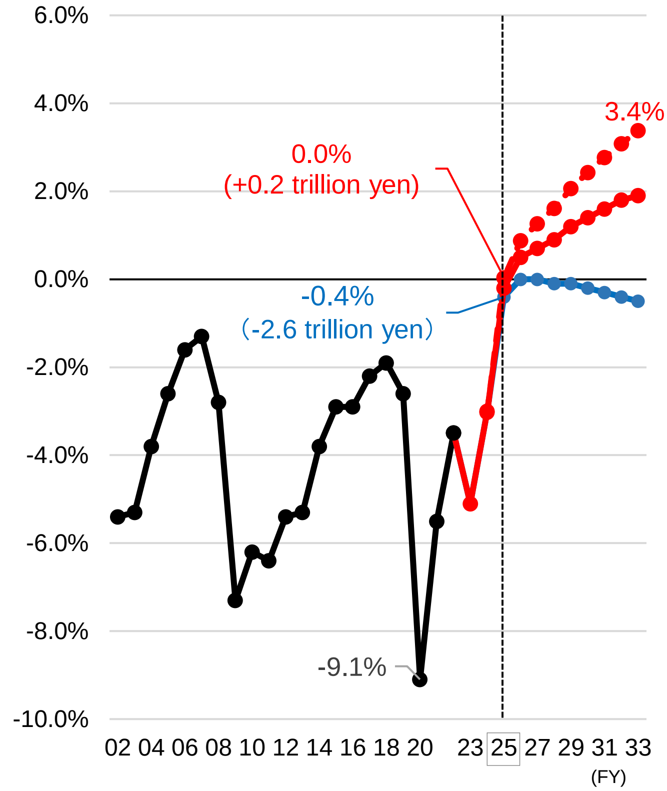
- Amid the ongoing recovery, rising inflation, tighter labor markets, and a closing output gap, fiscal policy support should be withdrawn more quickly.
- Amid resilient private demand and a closing output gap, the projected fiscal support in 2023 will have very limited impact in further raising output 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 22, 2024)

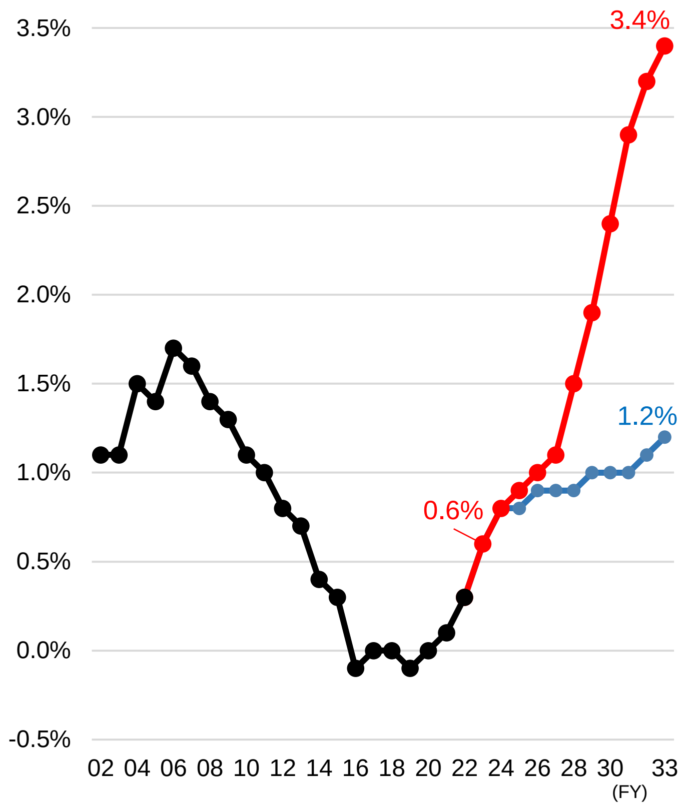
＜ Nominal GDP Growth Rate ＞



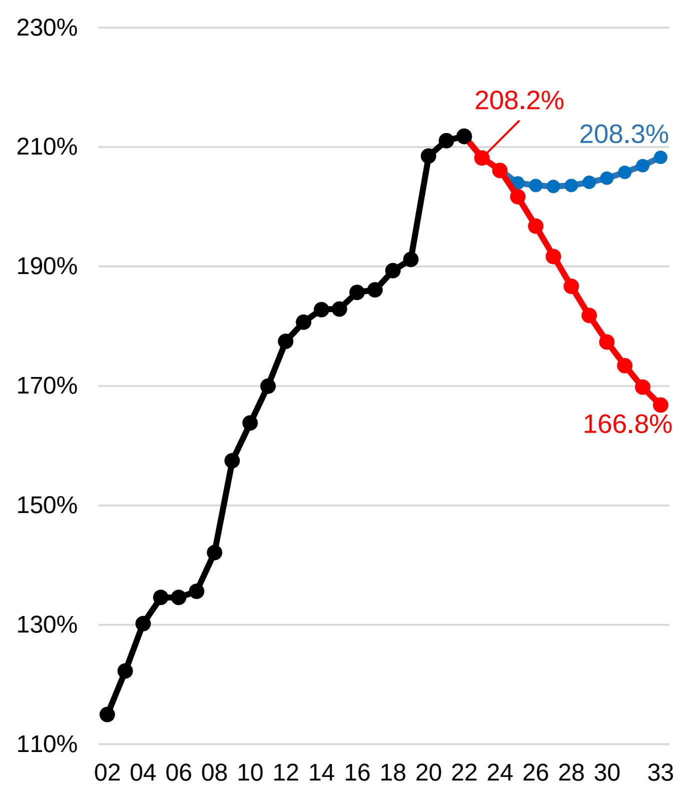
＜ Primary Balance of Central and Local Governments (% of GDP) ＞



＜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.

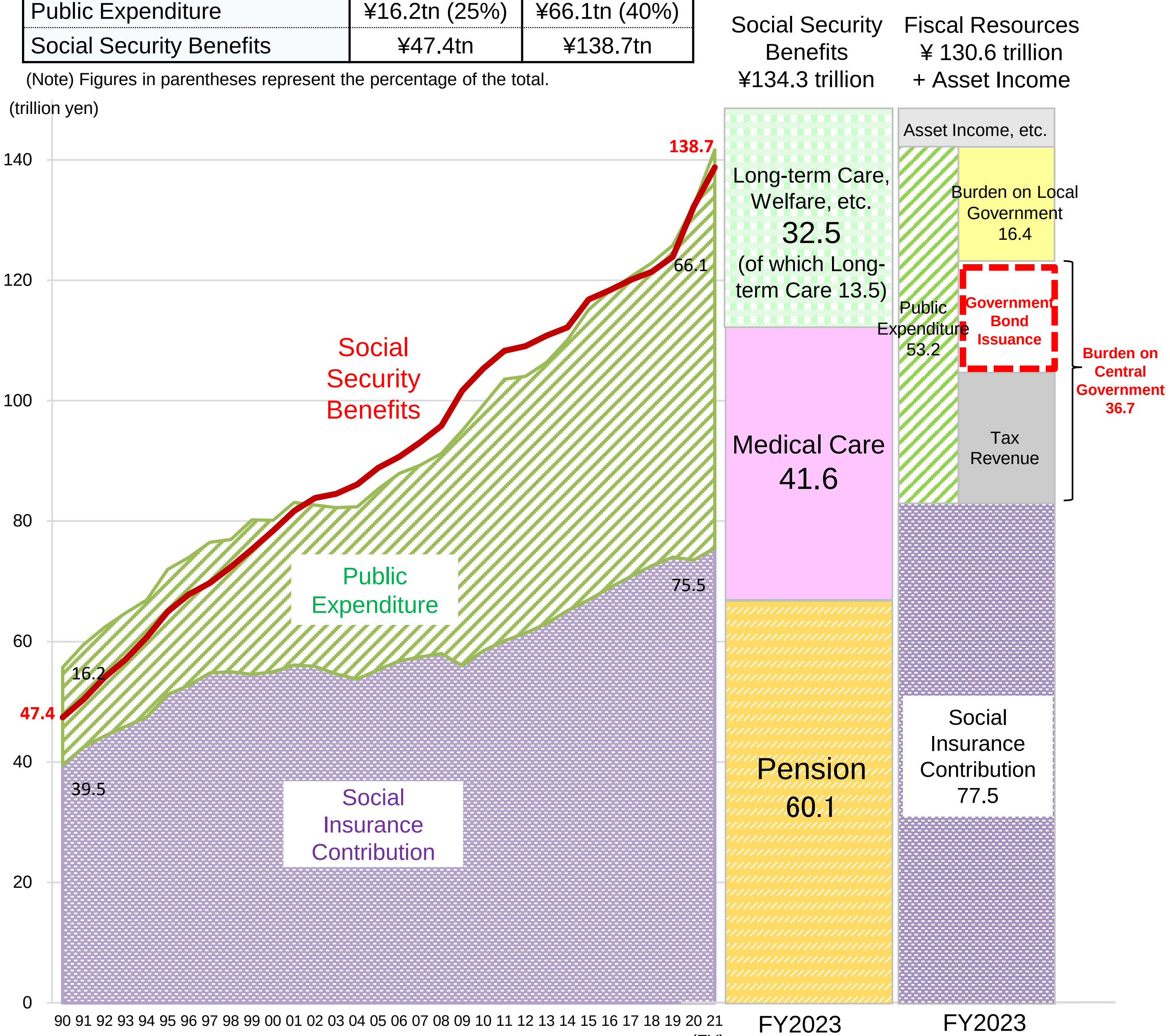
22. Social Security Area

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

While social security system is generally a mutual support by insurance premiums, if only premiums were paid, the burden would be concentrated on the working generation , so public expenditure is also used. 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	FY2021
Contribution of Insured Person	¥18.5tn (28%)	¥39.8tn (24%)
Contribution of Employer	¥21.0tn (32%)	¥35.7tn (22%)
Public Expenditure	¥16.2tn (25%)	¥66.1tn (40%)
Social Security Benefits	¥47.4tn	¥138.7tn

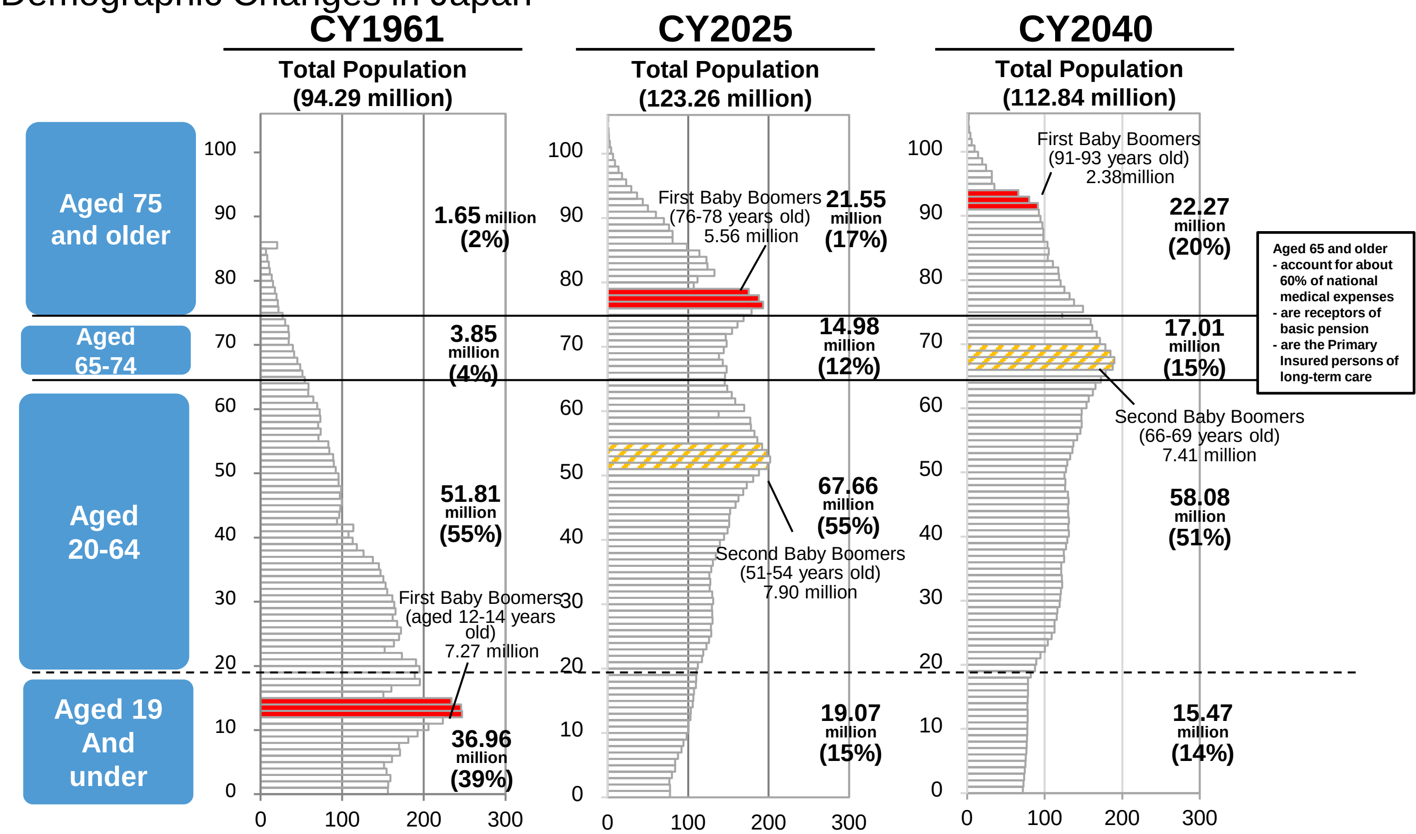
(Note) Figures in parentheses represent the percentage of the total.



(Source) National Institute of Population and Social Security Research "The Financial Statistics of Social Security (FY2021)", FY2023: Ministry of Health, Labour and Welfare (based on the initial budget).
(Note 1) FY1990-FY2021: settled figures ; FY2023: 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 FY2021 is 126.8 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-stage of the elderly category (75 years old or older) by 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.

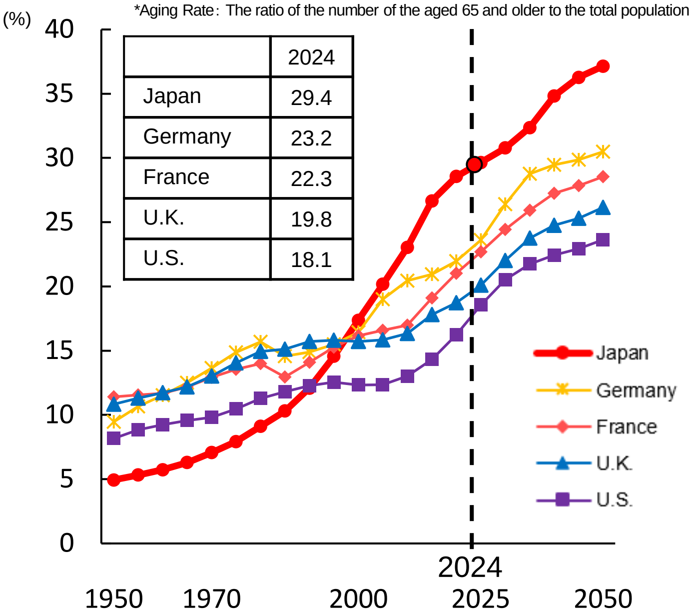
Demographic Changes in Japan



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (2023)" (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 older. The figure of 105 years olds in 2025 and 2040 includes that of aged 105 and older.

International Comparison of Population Aging Rate

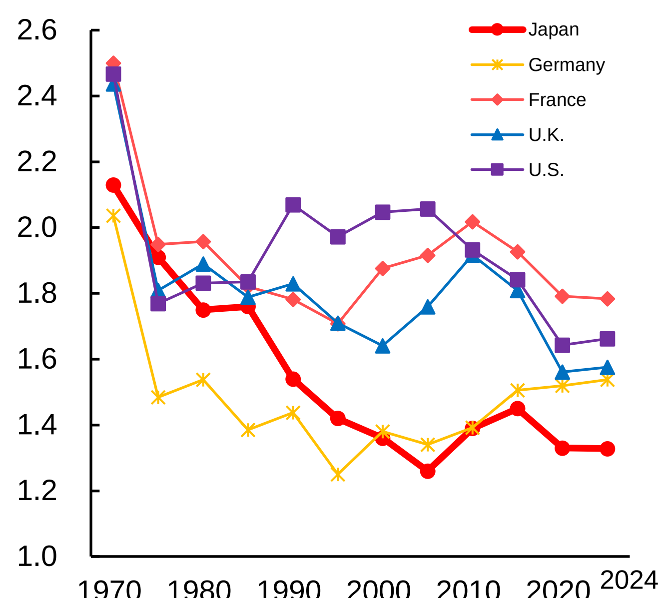
*Aging Rate: The ratio of the number of the aged 65 and older to the total population



	2024
Japan	29.4
Germany	23.2
France	22.3
U.K.	19.8
U.S.	18.1

(Source)
Japan : 1950-2022: Ministry of Internal Affairs and Communications, "Population Estimates"
2023-2050: National Institute of Population and Social Security Research, "Population Projections for Japan (2023)" (medium-fertility and medium-mortality scenario)
Other countries: United Nations, "World Population Prospects 2022"

International Comparison of Birth Rate



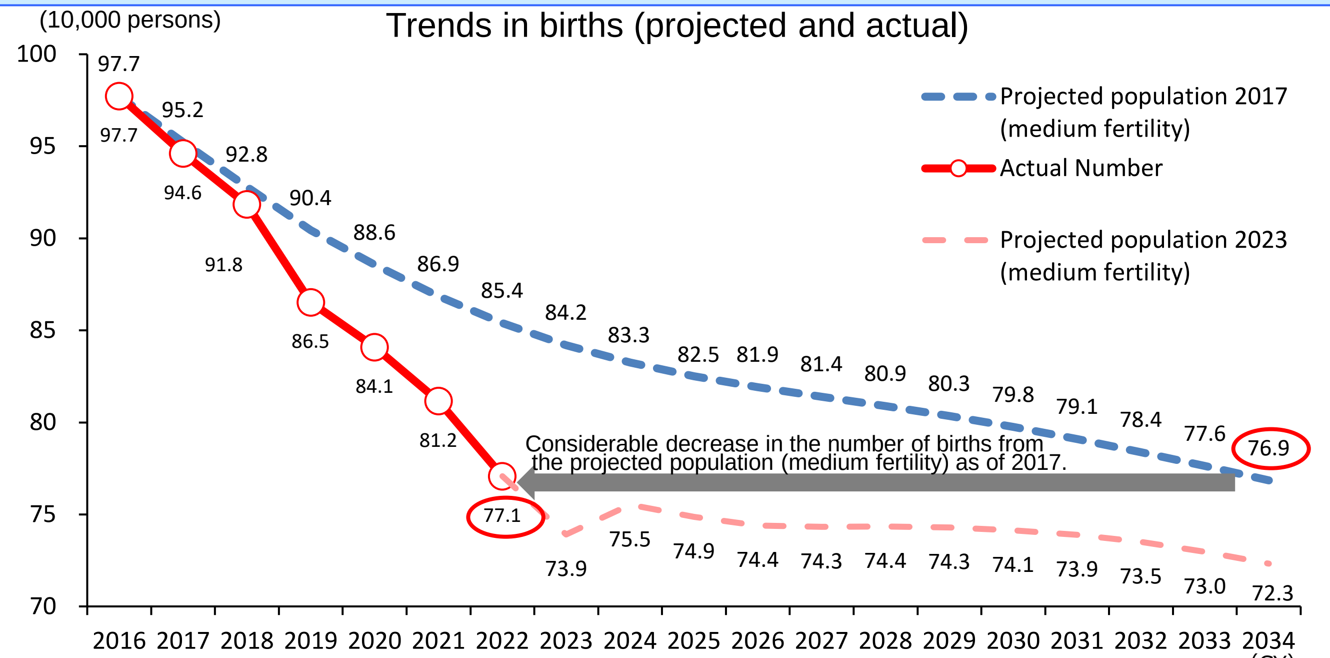
(Source)
Japan : 1970-2020: Ministry of Health, Labour and Welfare, "Vital Statistics"
2024: United Nations "World Population Prospects 2022"
Other countries: United Nations "World Population Prospects 2022"

(2) Issues in each social security area

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, 812,000 in 2021 and 771,000 in 2022. 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.

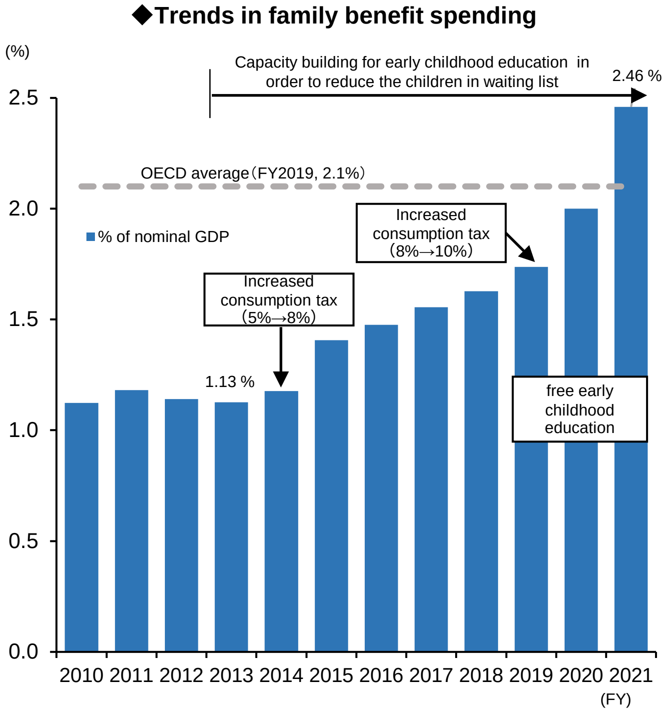


(Note) Projected and actual population above is the Japanese population in Japan.
(Source) National Institute of Population and Social Security Research, "Population Projections for Japan", Ministry of Health, Labour and Welfare, "Vital Statistics"

(ii) Trends in family benefit spending and its international comparisons

Japan's "family benefit spending" (% of GDP) has increased significantly in recent years as a result of the capacity expansion of childcare education and the introduction of free early childhood education and care (for children aged 3-5), using consumption tax revenue, etc. In terms of the spending per child, it is above the OECD average and is expected to reach the Swedish level through the implementation of "Acceleration Plan" in "Children's Future Strategy."

◆Trends in family benefit spending



(Source) National Institute of Population and Social Security Research, "The Financial Statistics of Social Security", OECD "Social Expenditure Database"
(Note) Figures for FY2020 and FY2021 may be higher than actual due to the impact of the spread of Covid-19(e.g. temporary benefits and reduced GDP, etc.)

◆International comparisons in family benefit spending

Family benefit Spending (% of GDP)

Sweden	3.4 %
France	2.7 %
Germany	2.4 %
United Kingdom	2.4 %
OECD average	2.1 %
Japan	1.7 %
United States	0.6 %

Family benefit Spending per capita aged under 18 (% of GDP per capita）

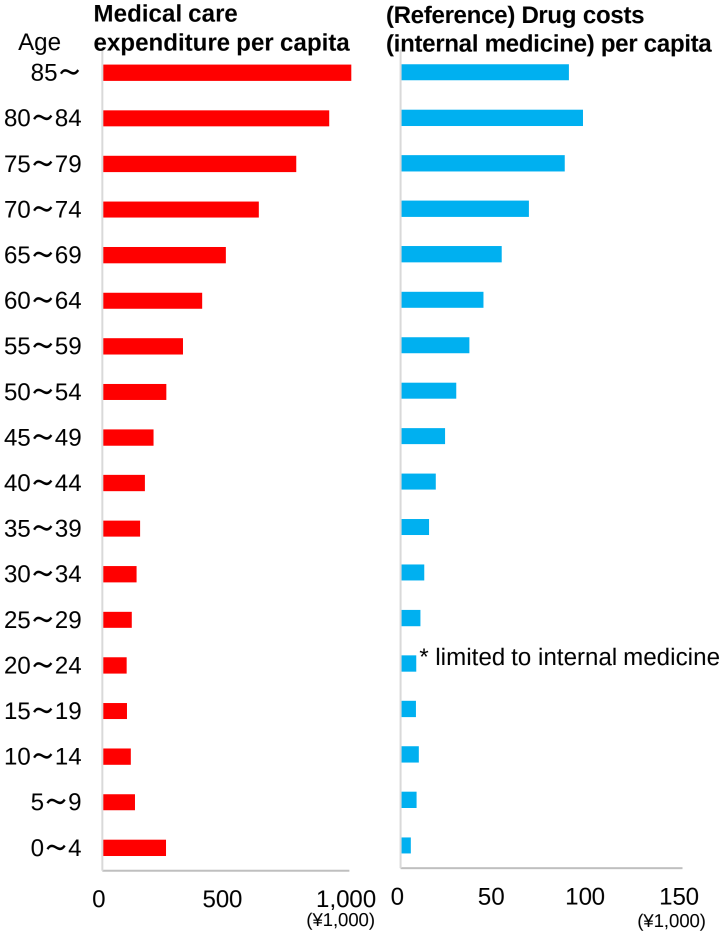
Sweden	15.4 %
Germany	13.9 %
France	11.8 %
Japan	11.0 %
United Kingdom	10.8 %
OECD average	10.1 %
United States	2.6 %

(Source) OECD "Social Expenditure Database"、OECD "Education Database"
(Note) data of FY and CY2019 (as of August 17 2023)

Future increase in medical care and long-term care costs

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

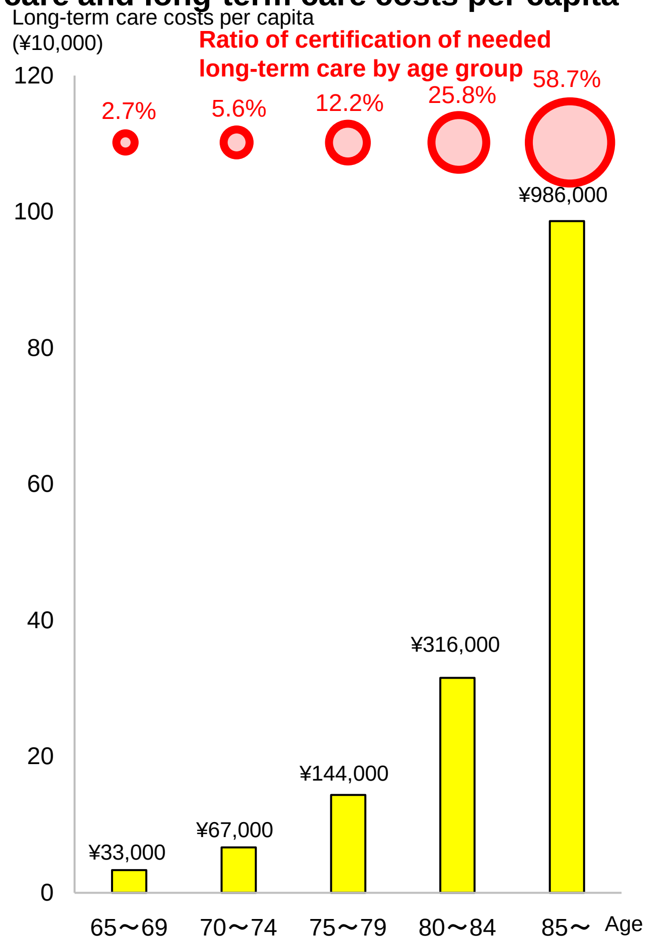
◆ Medical care expenditure and drug costs (internal medicine) per capita



* "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, "FY2021 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 (FY2021)"
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 (FY2021)"
Ministry of Internal Affairs and Communications, "Population Estimates"

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

	Medical care (2021)		Long-term care (2021)		Number and ratio to total population	
	National medical care expenditure per capita (aged 64 and under: ¥199,000)	Public expenditure 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)	Public expenditure per capita	2021	2025
					Approx. -2.56 million persons	
Aged 65-74	¥574,000	¥79,000	¥52,000 (4.3%)	¥14,000	17.54 million persons (14.0%) →	14.98 million persons (12.2%)
		↓ Approx. 4 times		↓ Approx. 9 times	Approx. +2.87 million persons	
Aged 75 and older	¥923,000	¥322,000	¥484,000 (32.2%)	¥128,000	18.67 million persons (14.9%) →	21.55 million persons (17.5%)

(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 (2023) " (medium-fertility and medium-mortality scenario)
National medical care expenditure: Ministry of Health, Labour and Welfare, "Overview of National Medical Care Expenditure (FY2021)"
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 (FY2021)" and "Long-term Care Insurance Business Report (FY2021)", and Ministry of Internal Affairs and Communications, "Population Estimates"

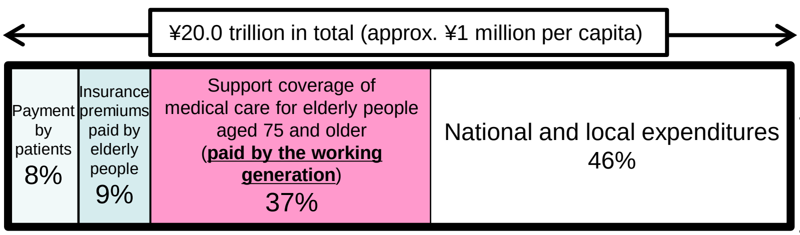
(Notes) National medical care expenditure and long-term care expenditure per capita are calculated by dividing the national medical care expenditure and the long-term care expenditure by the population in each age group. Public expenditure per capita is mechanically calculated by dividing the amount of public expenditure by the population as of 2021 in each age group.

(3) Future issues in social security

(i) Shift to burden based on the ability to pay

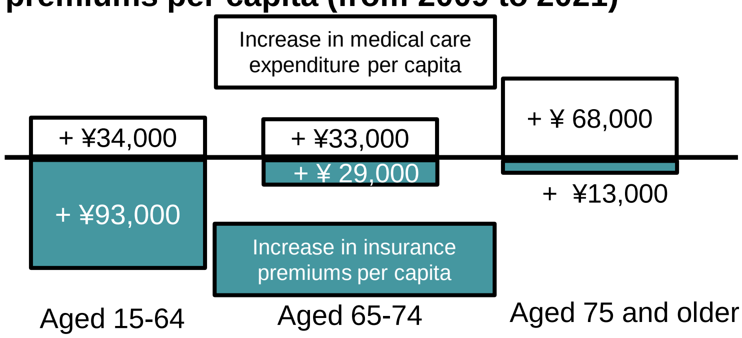
The medical care expenditure per capita among people aged 75 and older is approx. 1 million yen, more than 80% of which is financed by public funds and insurance premiums paid by the working generation. Going forward, along with the decline of population of the working generation who supports the social security system, the burden on the working generation to pay support coverage of medical care system is estimated to increase. Therefore, it is necessary to shift to burden based on the ability to pay, instead of age.
Accordingly, since October 2022, a new system has been introduced for elderly people aged 75 and older whose income exceeds a certain level that will cover 80% of their medical care expenditure, instead of 90% (and burden ratio has changed from 10% to 20%). In addition, the system for payment of insurance premiums by those elderly people has been revised since FY2024 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 older and financial resources thereof**

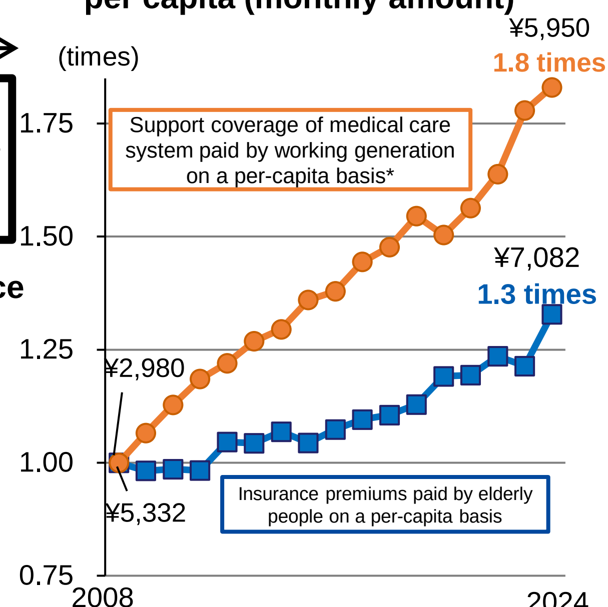


* Based on the FY2023 budget

◆ **Increase in medical care expenditure and insurance premiums per capita (from 2009 to 2021)**



◆ **Changes in insurance premiums per capita (monthly amount)**



* Multiples of the FY2008 amount multiplied by 1.
(Calculated on the basis of the FY2008 amount multiplied by 12/11 to eliminate the effect of a full year).

(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 doctors 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, it is required to share the roles and cooperate 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 doctors per 1,000 population	Number of doctors per 100 hospital beds	Number of doctors per hospital
Japan	27.5 (16.0)	12.6	2.6 *	20.5 *	39.7 *
Germany	8.8 (7.4)	7.8	4.5	58.4	126.5
France	9.1 (5.6)	5.7	3.2	56.4	72.2
United Kingdom	6.9 (7.1)	2.4	3.2	131.2	107.1
United States	6.5 (5.9)	2.8	2.7	96.3	144.5

(Source) Created based on "OECD Health Statistics 2023" and "OECD.Stat" (data for 2021; * data for 2020)

(4) Comprehensive reform of social security and taxation systems

The aim of the Comprehensive reform of social security and taxation systems is to improve 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

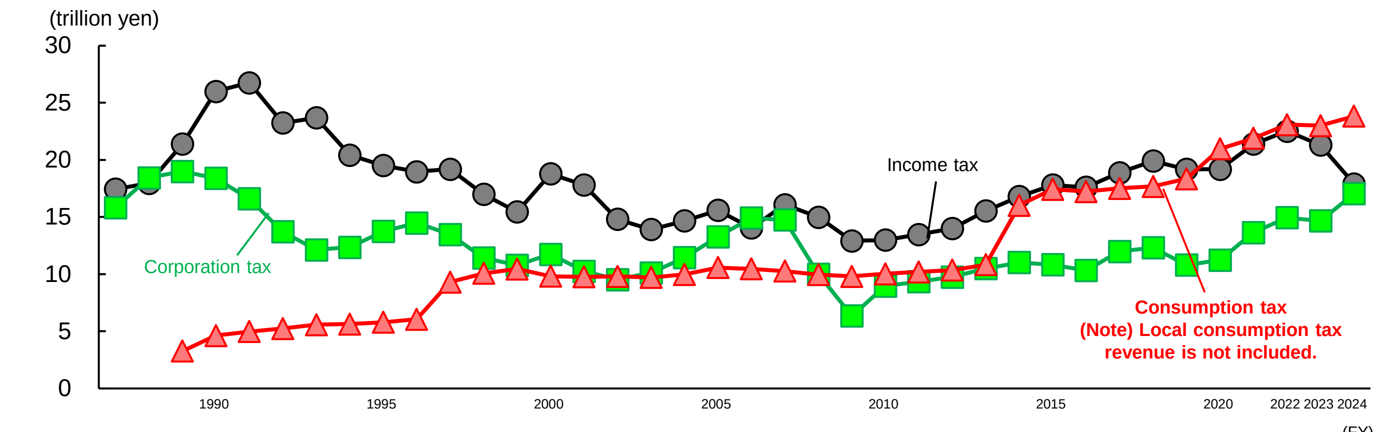
Accomplishing both

Achieving fiscal consolidation goals

Why is consumption tax used for social security?

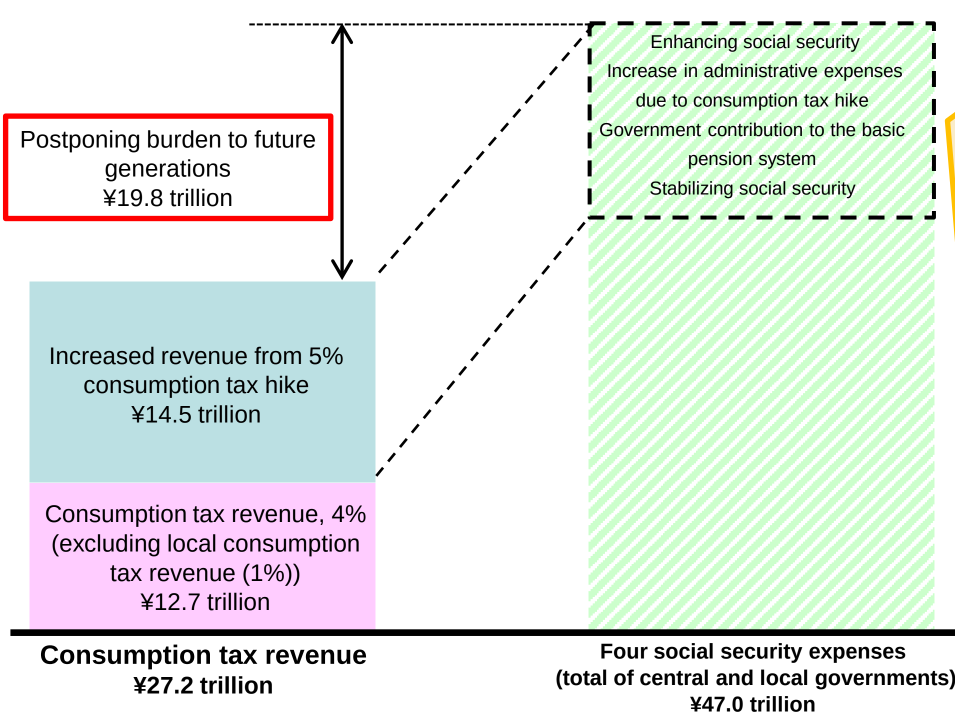
- Its revenue is stable and unlikely to be affected by economic conditions.
- It is neutral in relation to economic activities, and does not concentrate burden on certain people such as the working generation

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



(Note) Until FY2022: Settled figures; FY2023: Based on the Supplementary Budget; FY2024: Based on the Budget

Relationship between four social security expenses and consumption tax revenue



(Note 1) For enhancing social security, 4.45 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 FY2024 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 reduction 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)

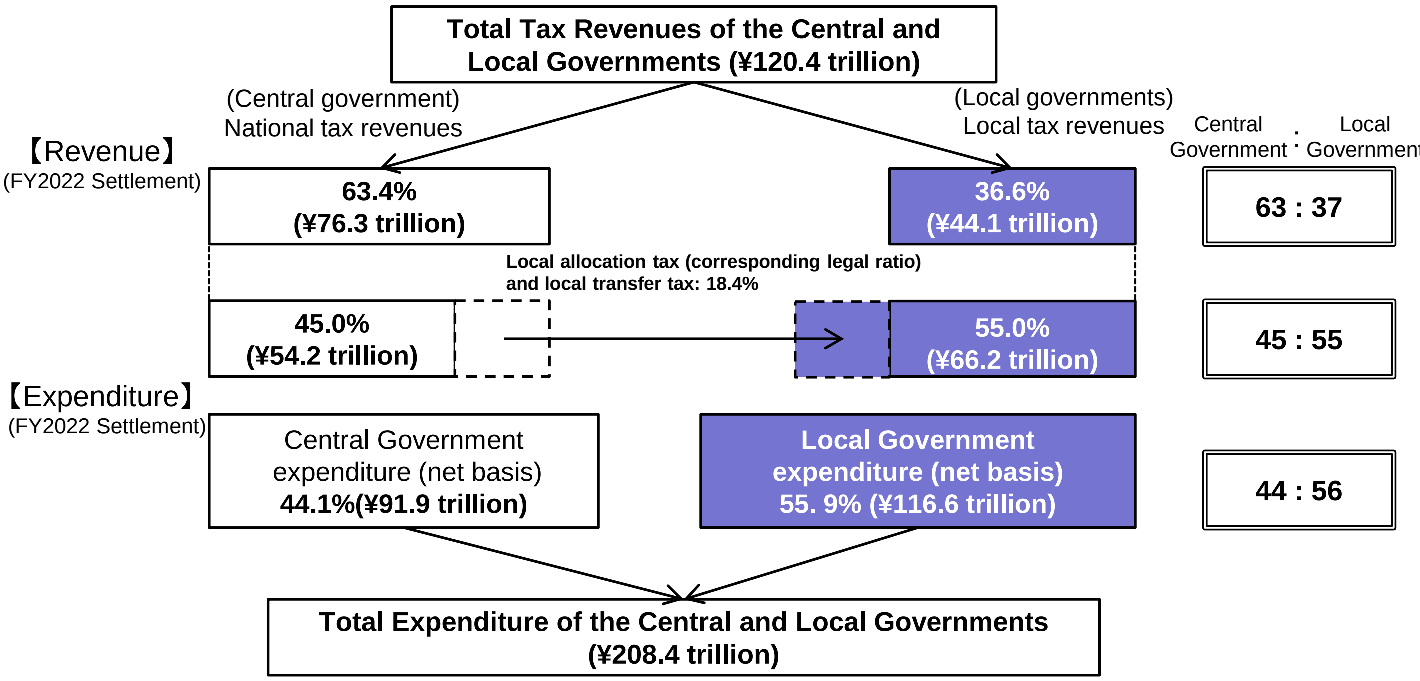
etc

23. Non-Social Security Area

(1) Central and Local Governments

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

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



(Source) “Local public Finance (March 2024)”, etc.

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

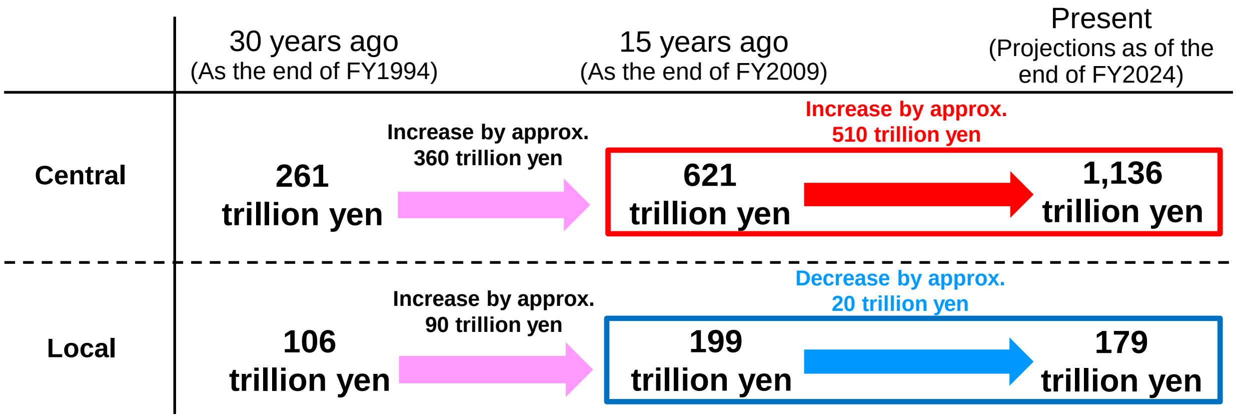
Comparing fiscal situations of central and local governments, the situation of the central government is extremely more severe than that of the local government in terms of both the flow indicators (fiscal and primary balance) and the stock indicators (long-term debt outstanding).

○Primary Balance and Fiscal Balance of the Central and Local Governments (FY2024 projection)

	Primary Balance	Fiscal Balance
Central Government	approx. -22.6 trillion yen	approx. -27.6 trillion yen
Local Government	approx. 4.1 trillion yen	approx. 3.0 trillion yen

(Source) Cabinet Office “Economic and Fiscal Projections for Medium to Long Term Analysis” (January 22, 2024)

○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 from the end of FY2007 represents the debt of the local governments (approx. 28 trillion yen at the end of FY2024).

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 gap is added to the total amount of LAT by special additions.

FY2024 Local Fiscal Plan (Unit: trillion yen, figures in parentheses represent the amount of the increase from last year)

【 Expenditure 93.6 (+1.6) 】

Expenses for wages :20.2 (+0.3)

Expenses for general administration :43.7 (+1.6)

of which
- •subsidized project: 25.1 (+1.2)
- •unsubsidized project: 15.4 (+0.4)
- •expenses on the comprehensive strategies for Vision for a Digital Garden City Nation: 1.25 ((±0.0)
- •expenses on vitalizing local communities: 0.4 (±0.0)

Expenses for investment :12.0 (+0.0)

Debt service :10.9 (-0.4)

Others :6.8 (+0.0)

【 Revenue 93.6 (+1.6) 】

Revenue-Expenditure Gap: 18.7 (+0.3)

Special local grants, etc.: 1.1 (+0.9)

Local taxes, Local transfer taxes: :45.5 (-0.0)

National government Disbursements: :15.8 (+0.8)

Local government bonds: 6.3 (-0.5)
of which Extraordinary financial measures bonds: 0.5 (-0.5)

Others :6.3 (+0.1)

Fiscal resource shortage covered by central and local governments None in FY2024

covered by central and local government

Extraordinary financial measures

Special additions

The special Account for LAT grants 2.0（-0.2）

LAT, etc. (the statutory rate) 16.7 （+0.5）

LAT grants (exit-based) 18.7 trillion yen

LAT grants (entrance-based) 16.7 trillion yen

The statutory rate 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%

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 FY2024 Local Fiscal Plan is maintained substantially at the same level as the previous year.

FY2024 Local Fiscal Plan (Unit: trillion yen)

【Expenditure 93.6】

Expenses for wages: 20.2

Expenses for General Administration:43.7

of which
- subsidized project: 25.1
- unsubsidized project: 15.4
- expensed 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: 10.9

Expenses above the rule:3.0

Others: 3.9

【Revenue 93.6】

general revenue resources:
- Local Allocation Tax:18.7:
- Special local grants, etc:1.1
- Local taxes and Local transfer taxes: 45.5
- Extraordinary financial measures bonds:0.5

specific revenue resources:
- National government disbursements:15.8
- Other local government bonds: 5.9 (excluding financial measures bonds)
- Others: 6.3

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 GDP as of the strategy formulated.
To this end, unlike Medium-Term Defense Program, the Defense Buildup Program (Cabinet Decision in December 2022) sets the nominal expenditure for the implementation of defense capability buildup over the five years from FY2023 to FY2027 at approx. 43 trillion yen and the annual defense budgets for each fiscal year approx. 40.5 trillion yen (approx. 8.9 trillion yen in FY2027).

Points of the Defense Buildup Program

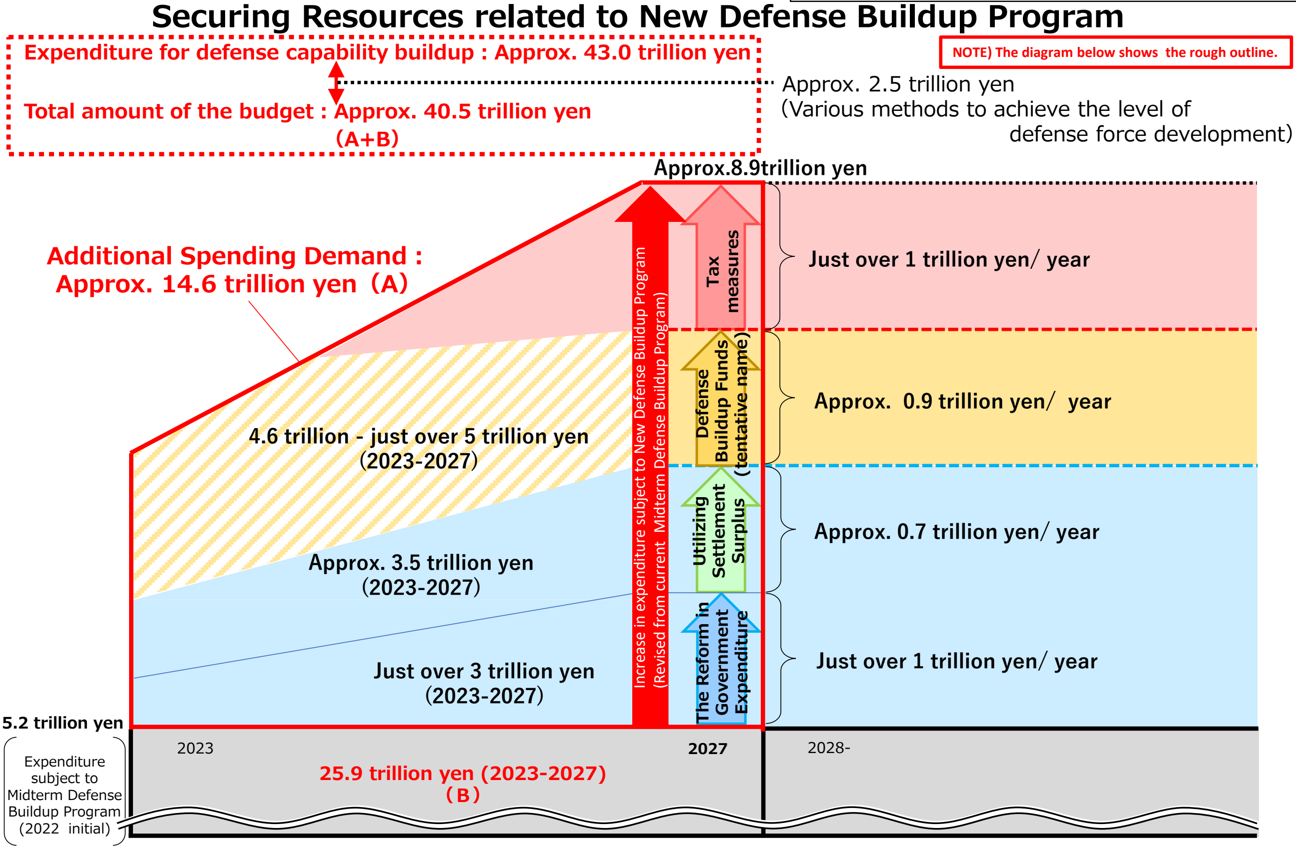
	Defense Buildup Program (FY2023-FY2027)	Medium Term Defense Program (FY2019-FY2023) (Based on the prices of FY2018)
Expenditure for defense capability buildup	Approx. ¥43 trillion	Approx. ¥27,470 billion
Annual defense budgets for each fiscal year (Note)	Approx. ¥40,500 billion (approx. ¥8,900 billion 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 separately:
- 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.

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 stably maintaining 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)

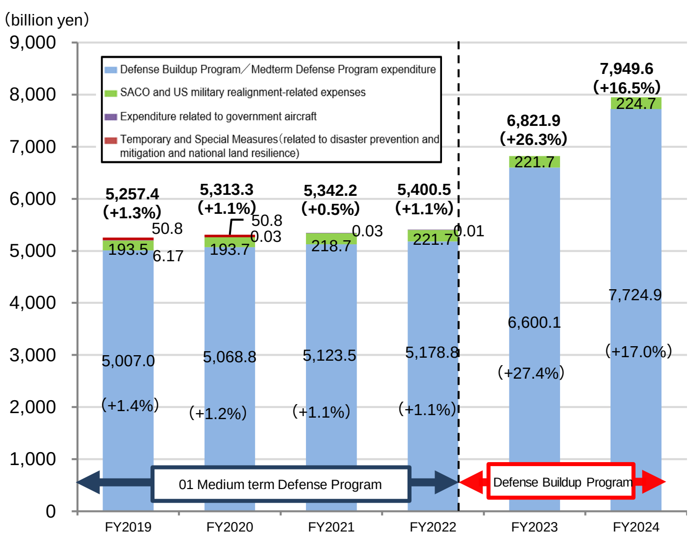
Securing Resources related to New Defense Buildup Program



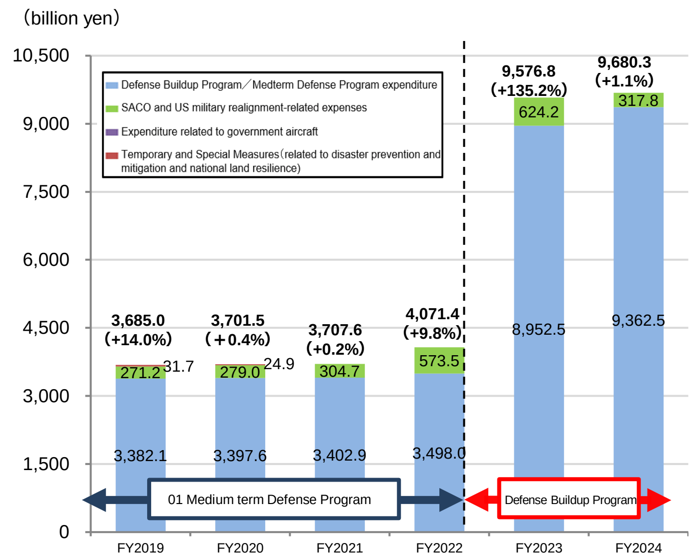
In FY2024 as the second year of the program, the Defense Buildup Program expenditure amounts to 7.7 trillion yen (up by 1.1 trillion yen from the previous year) on the expenditure basis and 9.4 trillion yen (up by 0.4 trillion yen from the previous year) on the contract basis, which aims to steadily implement buildup of the defense capability.

The defense-related budget including expenses related to SACO and the U.S. Forces realignment-related expenses amounts to 7.9 trillion yen (up by 1.1 trillion yen from the previous year) on the expenditure basis and 9.7 trillion yen (up by 0.1 trillion yen from the previous year) on the contract basis.

≪Trends in defense-related budget≫



≪ Trends in new contract value≫



(Note 1) Based on the initial budgets. The figures in parentheses represent year-on-year comparisons.
(Note 2) The figures in FY2019 and 2020 of "Trends in defense-related budget include the impact of the consumption tax hike.
(Note3) The figures includes the budget for Digital Agency. The amounts for each year are as follows.
FY2021: 18.7 billion yen on the expenditure basis, 26.6 billion yen on the contract basis.
FY2022: 31.8 billion yen on the expenditure basis, 30.8 billion yen on the contract basis.
FY2023: 33.9 billion yen on the expenditure basis, 49.1 billion yen on the contract basis.
FY2024: 32.4 billion yen on the expenditure basis, 36.5 billion yen on the contract basis.

While unit costs for equipment and other items are rising due to price hikes in Japan and abroad as well as currency depreciation, it is necessary to ensure the necessary defense capability by effectively and efficiently utilizing "approx. 43 trillion yen" or "approx. 43.5 trillion yen" set out in the Defense Buildup Program. To this end, we are taking measures such as reducing expenses in the 2024 budgeting processes.

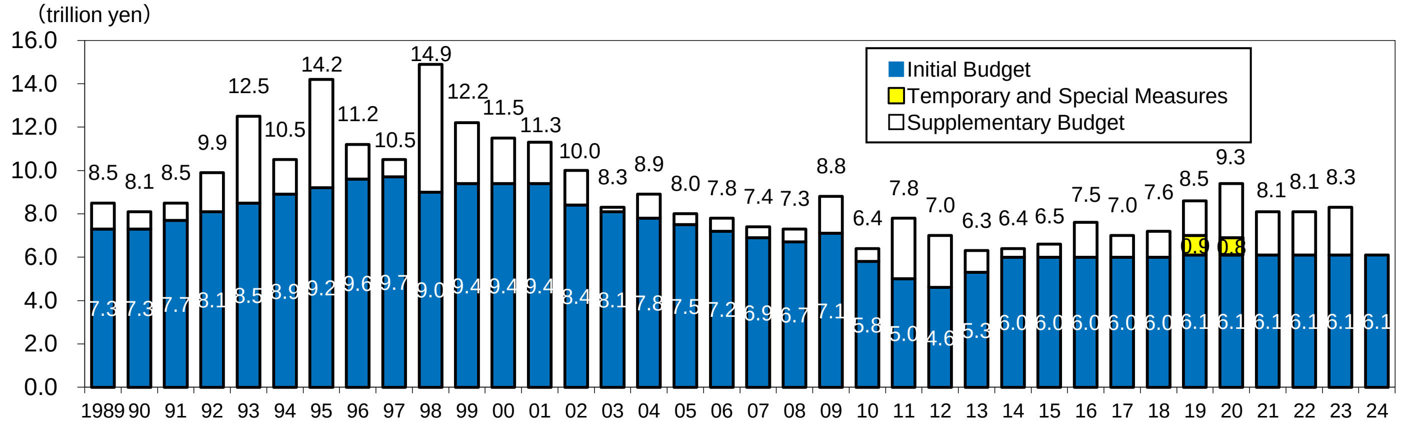
Examples of initiatives	Amount of reduction
Reducing the expenses by utilizing government-supplied equipment and reusing used parts, etc for the transport helicopters CH-47 (Chinook)	- ¥21.3 billion
Reducing the expenses through rationalization of construction costs of the system and equipment for Aegis system equipped vessels	-¥6.6 billion
Reducing price of imported components required for PAC-3 reassurance	- ¥3.2 billion
Reduction through rationalization of service content in the testing and management services of the X-band-equipped communications satellite (Kirameki 3)	- ¥3.0 billion
Reducing the expenses of the aircraft repair and other costs in maintenance and servicing of V-22 (Osprey)	- ¥4.5 billion

(Note) The figures are based on the new contract value.

(3) Public Works Projects

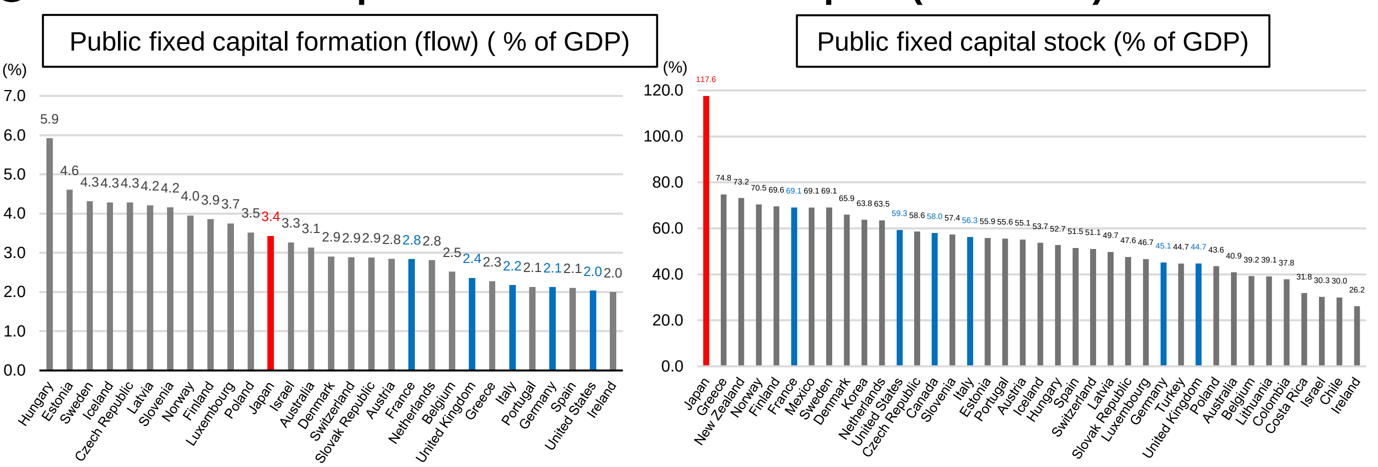
Public works projects-related expenditures have declined from their peak. However, Japan's public fixed capital stock (% of GDP) is still high compared to other major developed countries. In this context, the budget is focused on disaster prevention/mitigation and national land resilience in order to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

① Trends in Public Works Projects Expenditures



(Note) Excluding NTT-A type.

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

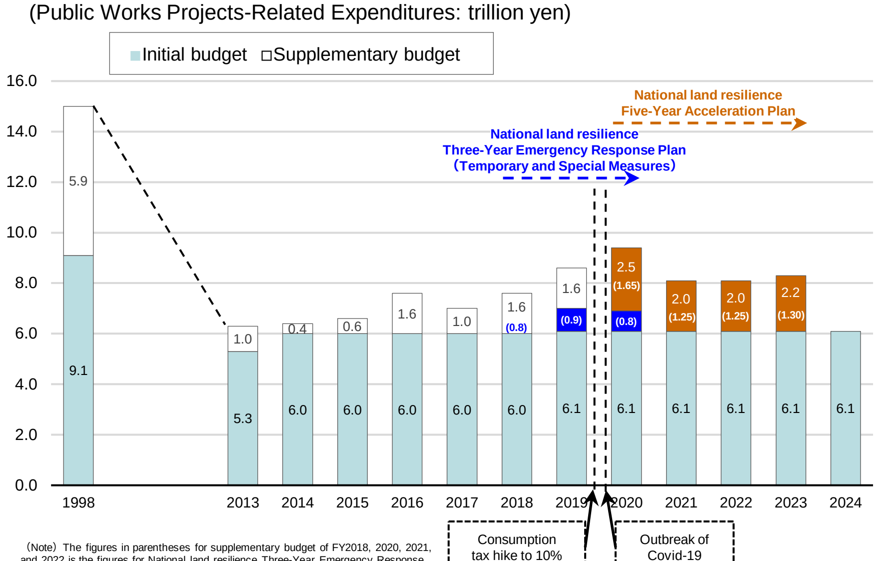


(Source) <Public fixed capital formation (2021)> Japan: Calculated based on Cabinet Office "National Accounts"; the other countries: Calculated based on OECD "National Accounts", etc.
<Public fixed capital stock (2019)> Japan: Cabinet Office "National Accounts"; the other countries: IMF "Investment and Capital Stock Dataset"

(Note 1) Public fixed capital formation is on Fiscal Year 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 Works Projects-Related Expenditures and budget related to disaster prevention/mitigation, and national land resilience



(Note) The figures in parentheses for supplementary budget of FY2018, 2020, 2021, and 2022 is the figures for National land resilience Three-Year Emergency Response Plan or Five-Year Acceleration Plan and the figure in parentheses for supplementary budget of FY2023 includes both the figures for National land resilience Five-Year Acceleration Plan and National land resilience emergency responses expenses (300 billion yen).

- **Public works projects expenditures in the initial budget related to disaster prevention/mitigation, and national land resilience**

(billion yen)

FY	2022	2023	2024
Budgetary amount	3,873.6	3,949.7 [3,969.8]	4,033.0
Change from previous fiscal year	+114.4 (+3.0%)	+76.1 (+2.0%)	+83.3 (+2.1%)

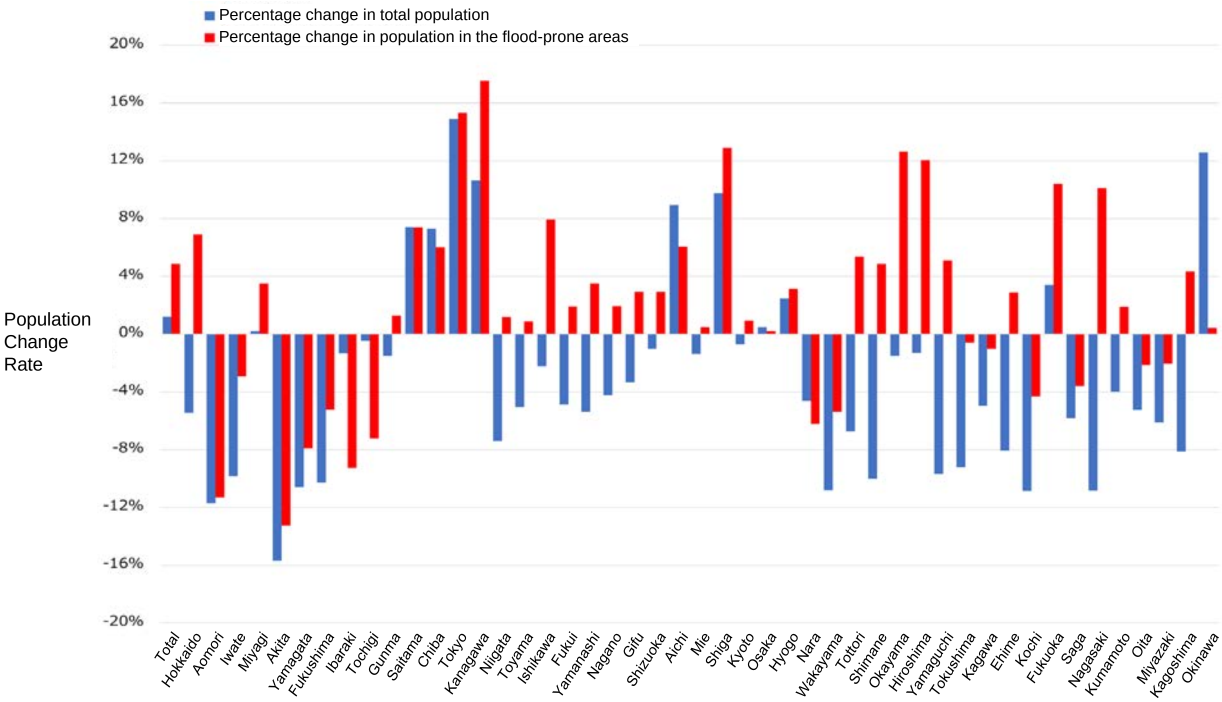
* The figure of FY2023 in parentheses is reclassified budget for a comparison with the figures of FY 2024.

* In the initial budget for FY2024, public works projects-related expenditures are secured stably (6,082.8 billion yen), disaster prevention and disaster mitigation, and national land resilience are promoted through integrated efforts of structural development and non-structural measures such as enhanced forecasting of linear precipitation zones by using new technologies.
To focus more, 4,033.0 billion yen (up by 63.2 billion yen year-on-year) is secured as the budget related to disaster prevention/mitigation, and national land resilience.

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 by using the population of land with higher disaster risks, with based on the overall policy objective of "more people living in land with lower disaster risk."

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

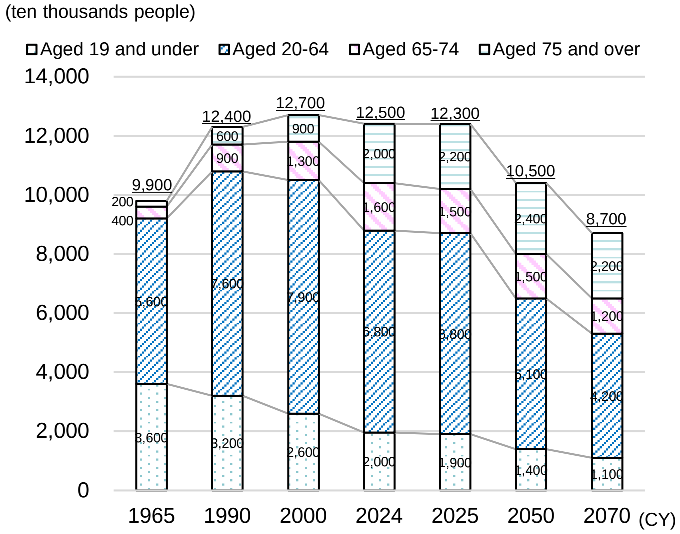
In 32 prefectures, the population within the flood-prone areas increased.
Of which 21 prefectures, the population decreased while the population within the flood-prone areas increased.
In 6 prefectures, the population within the flood-prone areas increased more than the population growth rate.



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

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 is also expected to decrease. Therefore, it is necessary to thoroughly conduct the integration and life extension of social capital stock and more focused new projects.

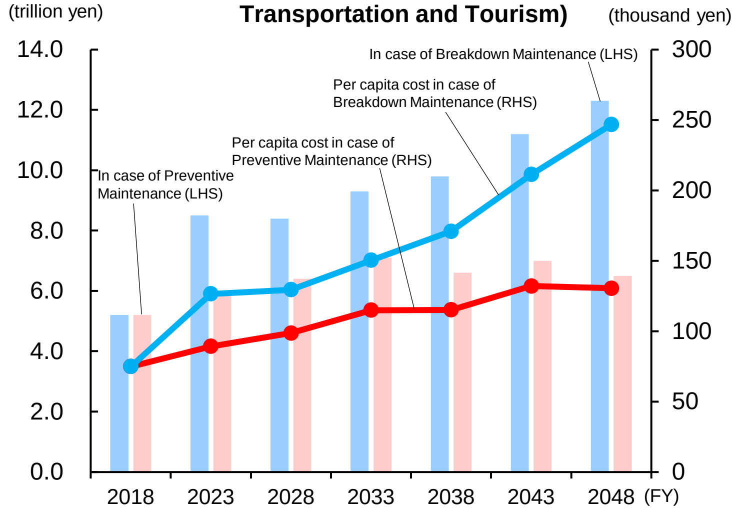
⑤ Demographic Projection



(Source) 1965-2000: Statistic Bureau, Ministry of Internal Affairs and Communications "National Census", 2024: Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (January 2024)", 2025-2070: National Institute of Population and Social Security Research "Population Projections for Japan (2023)" (medium-fertility and medium-mortality scenario).

⑥ Cost Projection of Maintaining and Replacing

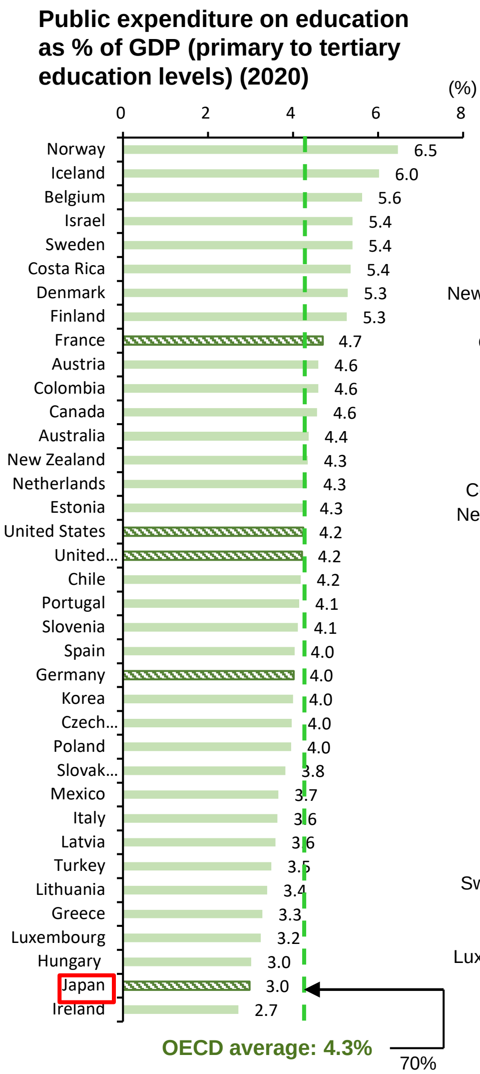
(Areas related to Ministry of Land, Infrastructure, Transportation and Tourism)

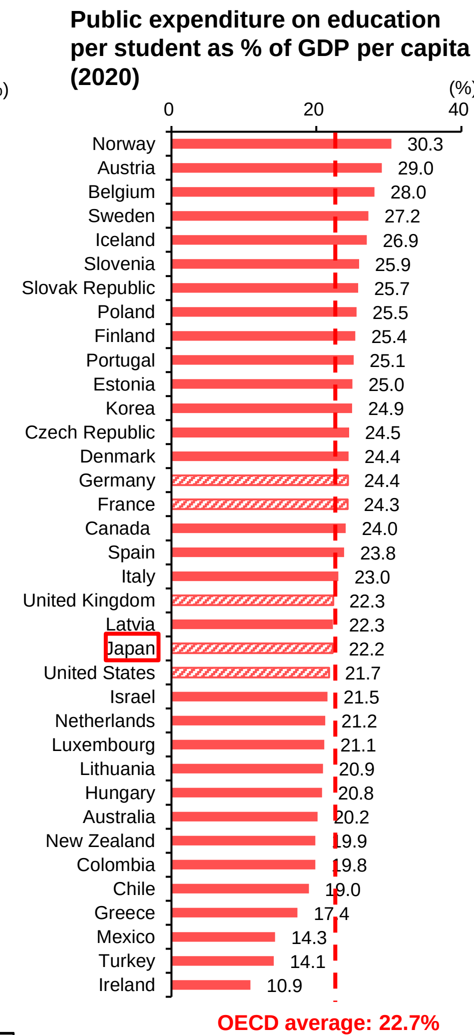


* Preventive Maintenance: Implementing measures such as repairs before a problem occurs in the function or performance of the facility.
Breakdown Maintenance: Implementing measures such as repairs after a problem occurs in the function or performance of the facility.
* The chart uses the maximum of the 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 (2017)" and the material from MLIT.

(4) Education and Science

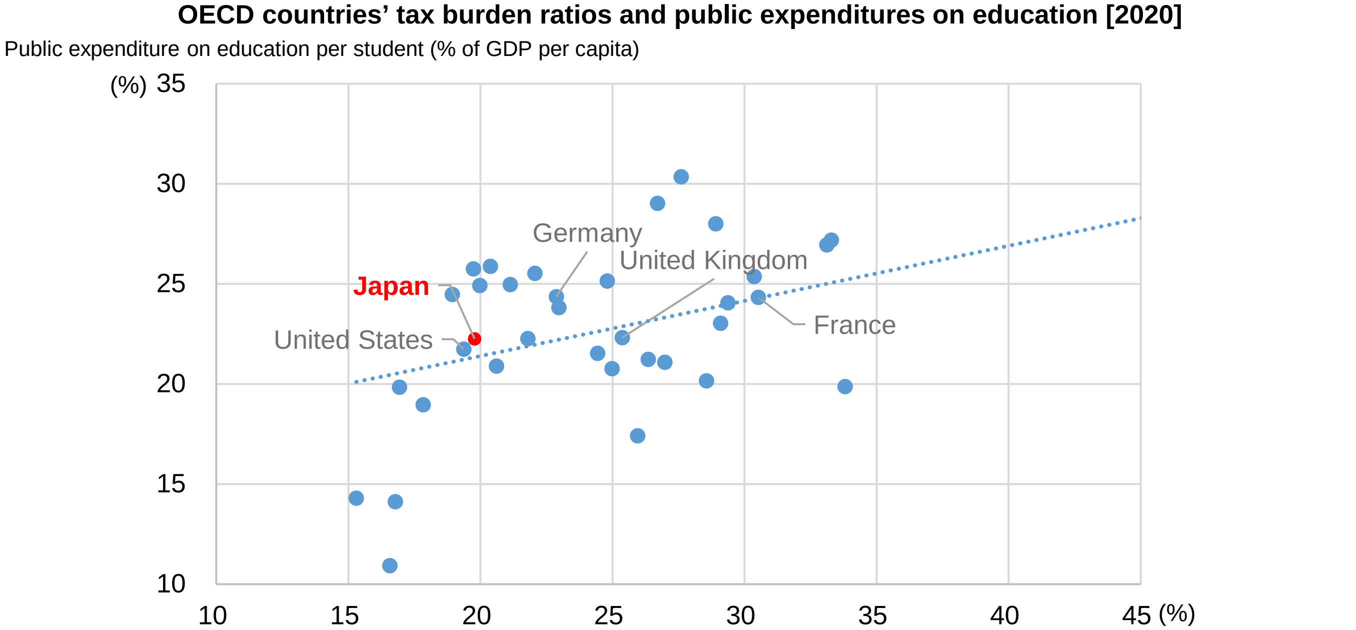
Japan's public expenditure on education (% of GDP) is about 70% of the average of OECD countries (left chart), while the percentage of the students in total population in Japan is also about 70% of its average (center chart). Therefore, Japan's expenditure per student is equivalent to the average of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





(Source) OECD "Education at a Glance 2023"."OECD stat"

OECD countries' tax burden ratios and public expenditures on education [2020]



(Source) OECD, "Education at a Glance 2023." "Revenue Statistic".
(Note) Excluding Costa Rica, Switzerland and Denmark from the 38 OECD countries.

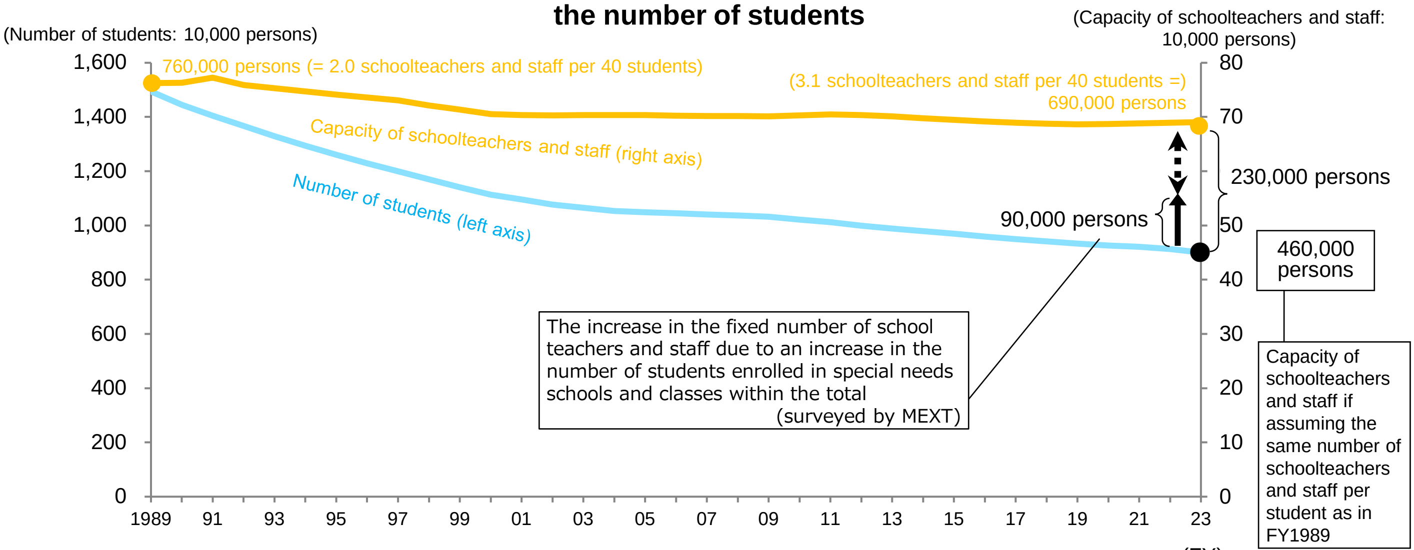
(i) Education

FY2024 budget **National treasury's share of compulsory education expenses: ¥1,562.7 billion**
Expenses for public school facilities: ¥73.2 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 number of schoolteachers and staff has decreased only by 10–20%.

Changes in the capacity of schoolteachers and staff (public elementary and junior high schools) and the number of students



(Source) FY2023 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 improved, which enable teachers to focus on teaching. In addition, it is also needed to carefully select school events and digitalize school.

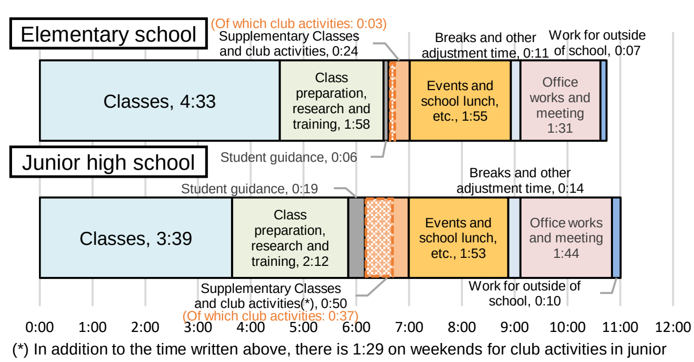
Burden, satisfaction and importance by work

The following scores are calculated mechanically at the Ministry of Finance based on the average of the aggregate results of the following four responses based on the following four methods among teachers (including supervisory and lead teachers) [red: bigger than 3. blue: smaller than 3].(1: not at all , 2: a little, 3:quite a lot, 4: very much)

Classification	Elementary school			Junior high school		
	Burden	Satisfaction	Importance	Burden	Satisfaction	Importance
Classes	2.43	3.29	3.61	2.36	3.16	3.47
Class preparation, research and training	3.23	2.87	3.29	3.19	2.77	3.25
Student guidance	3.12	2.83	3.24	3.06	2.96	3.35
Supplementary classes and club activities	3.28	2.57	2.70	3.18	2.86	2.93
Events and school lunch, etc.	2.97	2.77	3.30	2.91	2.80	3.34
Office works and meeting	3.35	2.18	2.67	3.29	2.20	2.67
Work for outside of school	3.42	2.16	2.67	3.39	2.09	2.58

(Source) Created by MOF based on FY2023 Survey on Working Status of Teachers.

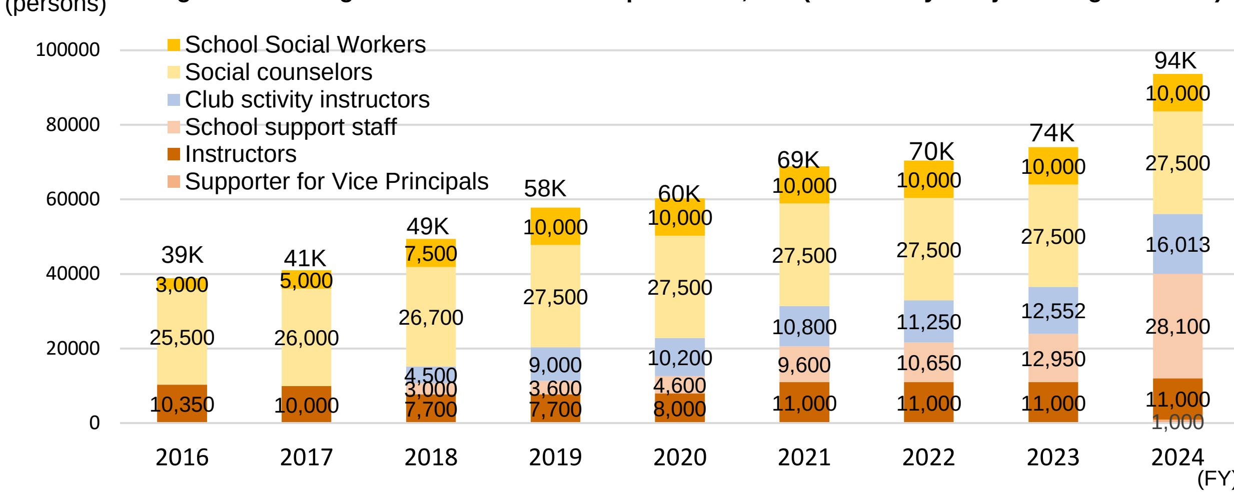
Breakdown of an elementary and junior high school teacher's working hours in school, etc. (on a weekday)



(*) In addition to the time written above, there is 1:29 on weekends for club activities in junior high schools.

(Source) Created by MOF based on FY2023 Survey on Working Status of Teachers.

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

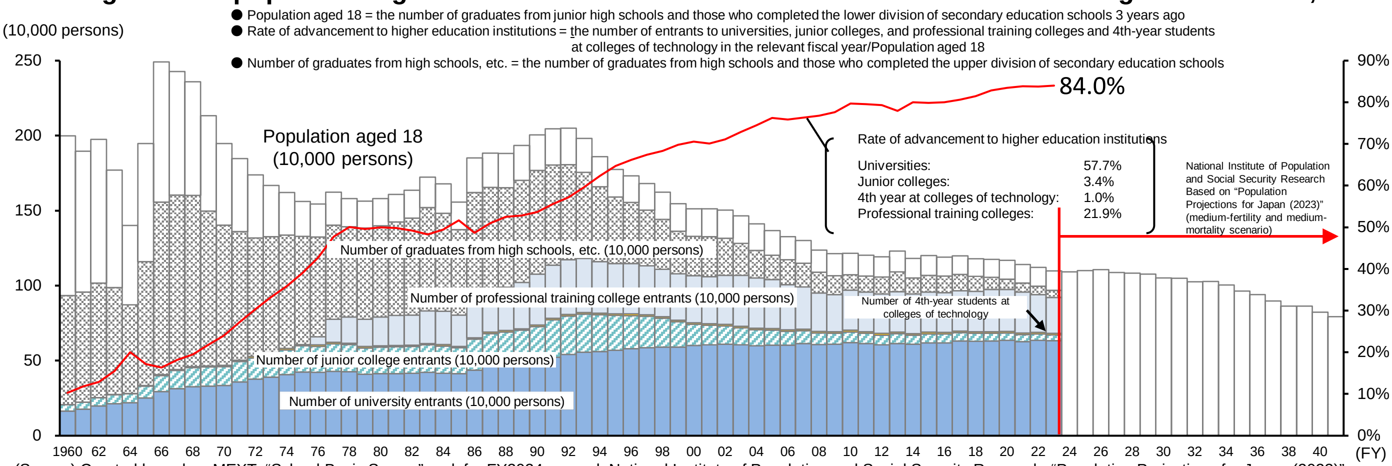


FY2024 budget **Management expense grants for national university corporations: ¥1,078.4 billion**
Government subsidies for private universities and colleges: ¥297.8 billion; scholarship fund: ¥117.8 billion, etc.

<Higher education>

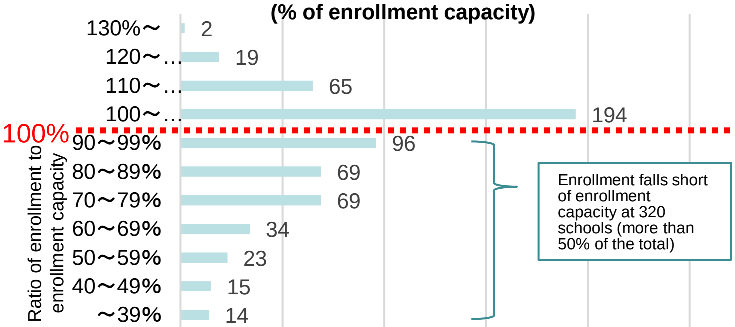
The percentage of students entering institutions for higher education has reached 80% in Japan, which is a top-class rate in the world. While the number of people advancing to higher education is expected to decrease in the future due to a significant decline in the population aged 18, there is an urgent need for university reform, including reorganization of universities and faculties and improvement of their ability to educate and research, in order 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 FY2024 onward, National Institute of Population and Social Security Research, "Population Projections for Japan (2023)" (medium-fertility and medium-mortality scenario).

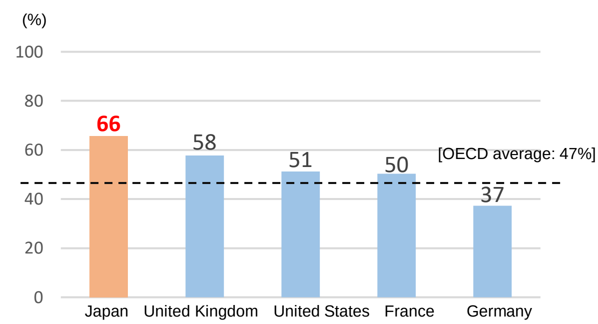
Categorizing private universities in terms of the enrollment proportion (% of enrollment capacity)



(Source) FY2023 Trends in Applicants for Enrollment in Private Universities, Junior Colleges, etc.

Number of universities

Share of tertiary-educated 25–34 year-olds (2022)



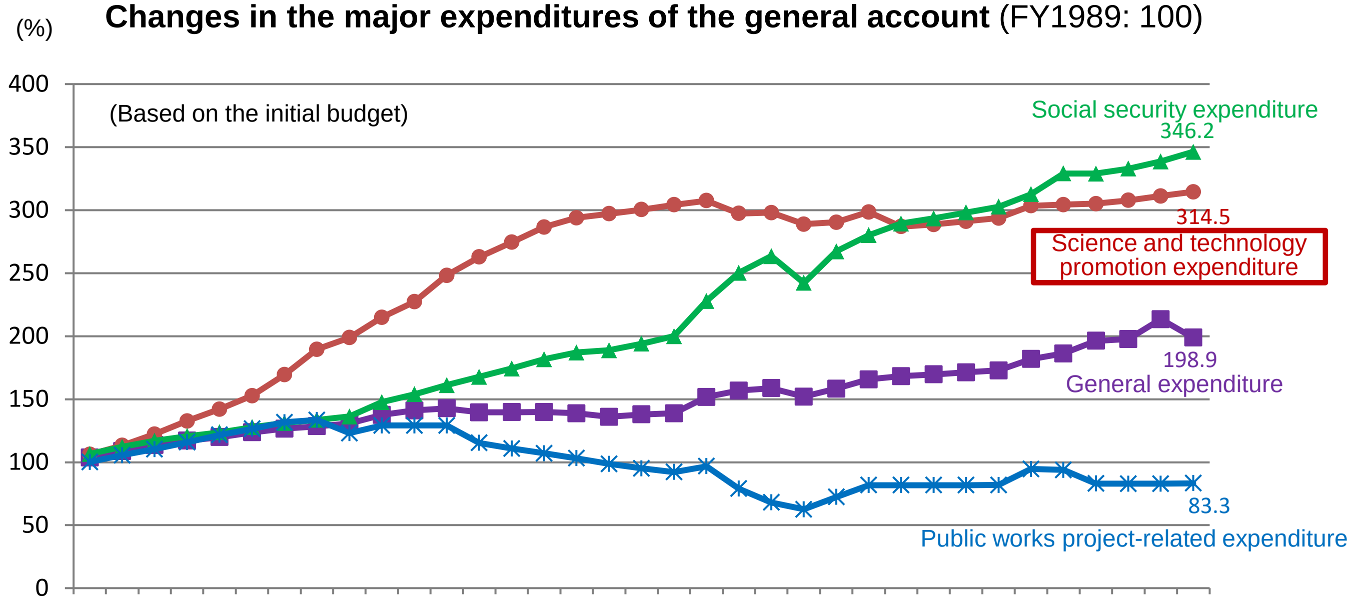
(Source) Education at a Glance 2023 (OECD)
(Note) Japan's data for tertiary education include upper-secondary or post-secondary non-tertiary programs (less than 5% of adults are in this group).

(ii) Science

FY2024 budget **Science and technology promotion expenditure: ¥1,409.2 billion**

The budget for science and technology has been secured and increased significantly even under a severe fiscal situation along with social security spending. The government will secure necessary budget to promote science and technology.

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



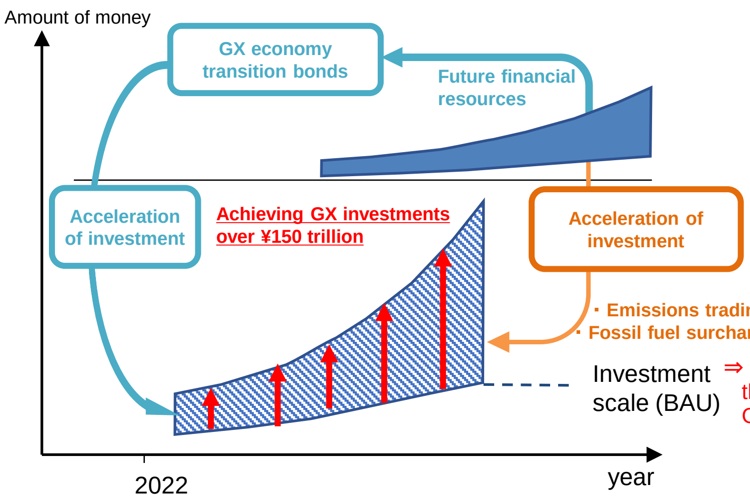
(Note 1) Expenditure for FY2019 and FY2020 includes "temporary and special measures." In the FY2019 budget (¥1,359.7 billion) and the FY2020 budget (¥1,363.9 billion), ¥21.9 billion and ¥7.4 billion were allocated respectively for the science and technology promotion expenditure.
(Note 2) The public works project-related expenditure excludes NTT-A type.

(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, there is a need not only to be independent on fossil fuels, but also to make such shift to decarbonization (Green Transformation [GX]) lead to economic growth.

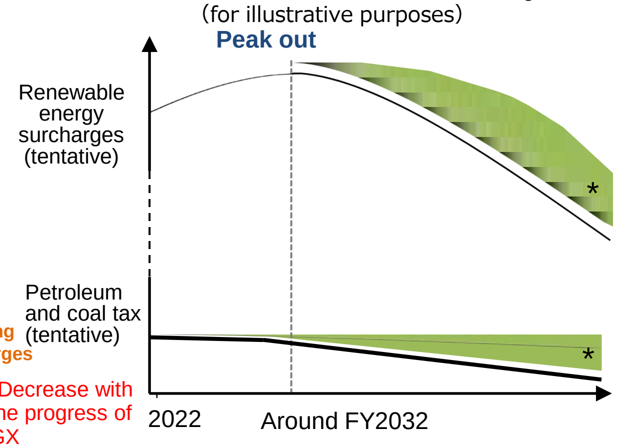
In order to promote private GX investments, carbon pricing will be introduced in the future, and "GX economy transition bonds" are issued backed by the future financial resources generated by the carbon pricing.

Embodiment of the vision of "Pro-Growth Carbon Pricing"



* BAU: Business As Usual

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



- Introducing the following within the extent of the future decrease of energy-related financial burden
  (i) Requiring electricity generation utilities to pay for emissions quotas (starting from FY2033)
  (ii) Carbon surcharges (starting from 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 strengthening industrial competitiveness and to achieving 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**	Image 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**	Image 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**	Image 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 590,000 national public employees and about 2,330,000 local public employees and the total personnel expenses for the national and local public employees combined are approximately ¥26 trillion, which are the lowest level among the major developed countries in terms of population and GDP.

Personnel expenses and number of public employees

National public employees

Number of personnel: 586,000 persons
Personnel expenses: ¥5.4 trillion

Administrative organs

Number of personnel: 307,000 persons

Self-Defense Forces personnel, special organs, etc.

Number of personnel: 279,000 persons
* Including the special service positions such as ministers, etc.

Local public employees

Number of personnel: 2,332,000 persons
Personnel expenses: ¥20.2 trillion

General administration

Number of personnel: 1,000,000 persons

Education (teachers of public schools, etc.)

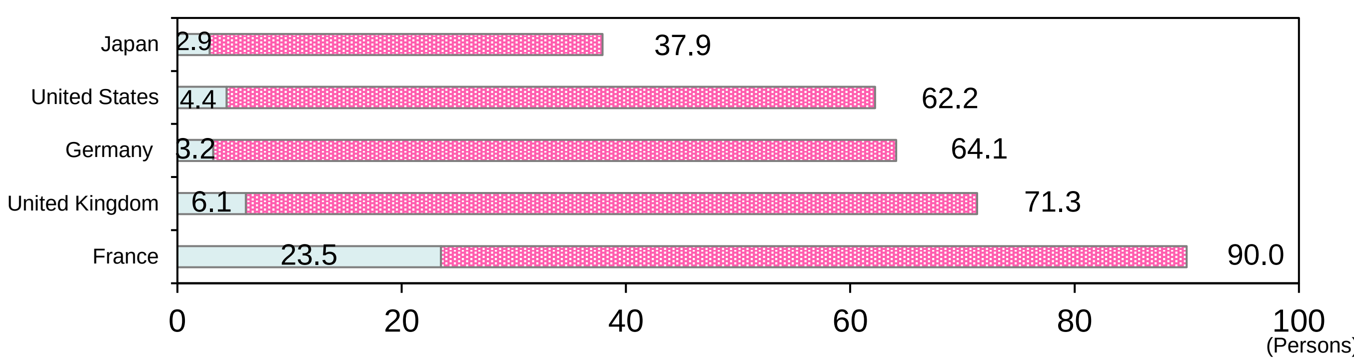
Number of personnel: 914,000 persons

Police, fire fighting

Number of personnel: 418,000 persons

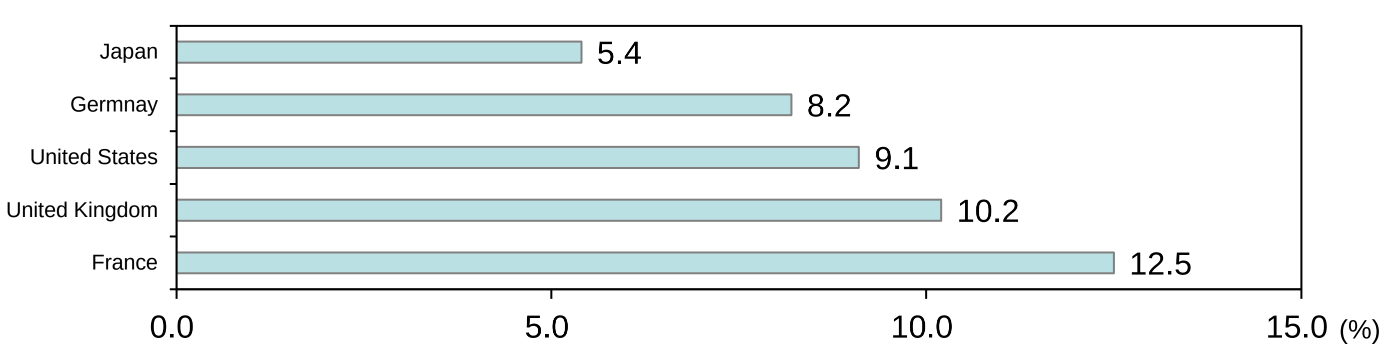
(Note 1) The number of personnel of national administrative organs and special organs is the total number of budgeted capacity of personnel of the general account and special accounts at the end of FY2024, whereas the number of personnel of local public entities is the number of officials under the FY2024 Local Finance Plan (for ordinary account).
(Note 2) The national 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 (FY2024 budget), and those for local public employees are the personnel expenses under the FY2024 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) [light box] shows the number of officials of the central government (excluding national defense personnel).
[pink box] 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 personnel).

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 2022”.

Part 2 FY2024 Budget

1. Highlights of the FY 2024 Budget

Budget to tackle challenges that reflect the changing times and cannot be shelved and to catch up with changes amidst a historical turning point

Economy (Realizing wage increases to trigger a virtuous economic cycle)

○ "**Wage increases that overcome price hikes"** should be realized to lead the brightest economic signs in three decades to bring about a virtuous economic cycle. To **demonstrate the attitude of leading wage increases in the healthcare and welfare area**, **fees for medical care, long-term care, and welfare services for persons with disabilities, etc. will be revised to realize a pay-scale increase of 2.5%** (For medical workers, it is **4.0% including an annual pay hike**) **in FY2024** and **a pay-scale increase of 2.0% (**For medical workers, it is **3.5% including an annual pay**) **in FY2025** to i**mprove the treatment of a wide range of frontline workers** in the area. **A mechanism to structurally improve the treatment of frontline workers will be developed** through the revision of official prices and the expansion of the treatment improvement system, in addition to the enhancement of the wage increase promotion tax system(other relevant measures are on the next page).

Society (Responding to structural changes and social challenges)

【Children policy, etc.】

○ Under the recognition that the declining birthrate represents Japan's biggest crisis, the government will implement the **"acceleration plan"** under the **Children's Future Strategy** with a sense of urgency. The government will tackle relevant **economic support enhancement,** such as **the drastic expansion of child allowances** and **the reduction of advanced education costs**, as well as **the qualitative improvement of child education and care**, and expand initiatives to respond to various needs, including **the prevention of child poverty and abuse and support for children with disabilities**. Financial resources will be expanded for childcare leave benefits, which are expected to increase in the future. (Of 3.6 trillion yen for the "acceleration plan," about three quarters are assumed to be disbursed by FY2025. Based on that assumption, more than 30% of the total is budgeted for FY2024.) In efforts to secure financial resources, the government will realize the well-balanced revision of medical care fees and drug prices and long-term care insurance reform.

【Digital and green transformation】

○ In order to utilize digitalization for regional revitalization and the improvement of public service efficiency, etc., the government will provide **subsidies for the promotion of the Vision for a Digital Garden City Nation** (100 billion yen plus 73.5 billion yen in the FY2023 supplementary budget) to support model initiatives for **the digital administrative and fiscal reform** and **the promotion of tourism, agriculture, forestry, and fisheries industries, etc.**

○ Towards carbon neutrality in 2050, government and private **green transformation (GX) investment** will be promoted (1.7 trillion yen from the Special Account for Energy Measures and the FY2023 supplementary budget).

Diplomacy and Security

○ In response to not only **the severe security environment** surrounding Japan but also **the fast-changing diplomatic environment** as indicated by Russia's aggression against Ukraine and the Middle East situation, etc., the government will significantly strengthen the foundation of national security, **the protection of Japanese civils, and crisis management** in the diplomacy area (307.3 billion yen, +29.8 billion from the previous fiscal year) and steadily build up defense power, including Integrated Air and **Missile Defense and mobile deployment capabilities** (+1.1 trillion yen from the previous fiscal year).

Responding to the 2024 Noto Peninsula earthquake

○ The General Contingency reserves in the FY2024 budget is increased by 500 billion yen (a total of 1 trillion yen is allocated as the General Contingency reserves) to protect lives of those affected by the Noto Peninsula earthquake on 1 January 2024 and to enable a seamless initiative towards the recovery and reconstruction of the affected areas, including the rebuilding of lives and livelihoods.

Improving spending efficiency

○ Based on **the Basic Policy on Economic and Fiscal Management and Reform**, the government will **reduce new government bond issuance while sustaining expenditure reform initiatives and normalizing expenditures structurally.**

(35.6 trillion in FY2023 (initial) ⇒ 35.4 trillion yen in FY2024)

(*Out of expenditures subject to the reform, social security expenditures will increase by 370 billion yen and non-social security expenditures by 160 billion yen.)

2. Measures for budget to realize "wage increases that overcome price hikes"

Public sector, etc.

【Healthcare, long-term care, welfare services for persons with disabilities】

○ To **demonstrate the attitude of leading wage increases in the healthcare and welfare area**, **fees for medical care, long-term care, and welfare services for persons with disabilities, etc. will be revised to realize a pay-scale increase of 2.5%** (For medical workers, it is **4.0% including an annual pay hike**) **in FY2024** and **a pay-scale increase of 2.0% (**For medical workers, it is **3.5% including an annual pay**) **in FY2025** to i**mprove the treatment of a wide range of frontline workers** in the area. **A mechanism to structurally improve the treatment of frontline workers will be developed** through the revision of official prices and the expansion of the treatment improvement system, in addition to the enhancement of the wage increase promotion tax system **(Cited again).**

【Nursery Teachers, etc.】

○ To further improve the treatment of nursery teachers, etc. in light of private sector wage trends based on the **"acceleration plan," official prices will be raised** as recommended by the National Personnel Authority (personnel cost hike at 5.2%).

【Teachers】

○ Compulsory education disbursements from national treasury will be increased significantly (by 41.2 billion yen from the previous year to 1,562.7 billion yen) to **raise wages for teachers at public elementary and junior high schools, etc.** (**a 5.9% initial wage hik**e, etc.) as recommended by the National Personnel Authority.

【Public Works project】

○ **Labor unit price for design works in Public Works Project has been raised for the 11th straight year of increase, raised by 5.2% in FY2023** and is planned to be **revised upward February 2024 for FY2024 to reflect actual wage trends. Legislation is planned to be submitted to the National Diet during its next ordinary session** to secure **appropriate labor cost payments to subcontractors** for public and private sector projects.

【Logistics】

○ The government plans to **raise the statutory "standard fare" by 8%** towards **a wage increase for truck drivers** and **enhance surveillance of shippers and contractors by government investigators for trucking** in order to spread the fare hike. Furthermore, **legislation is planned to be submitted to the National Diet during its next ordinary session** to secure financial resources for wage hikes and improve logistic productivity.

Small and medium enterprises, etc.

○ To appropriately pass cost hikes on to product prices, the number of subcontractor government investigators will be increased to 330 to enhance investigations into transactions and relevant instructions (2.8 billion yen in FY2024). To allow SMEs, etc. to secure profits and raise wages even amid labor shortages, a 500 billion yen **labor-saving investment support** program (using FY2023 supplementary budget and existing funds) will be implemented.

○ Towards **minimum wage increases** at small, medium, and micro enterprises, a **business improvement cost support** program, etc. (800 million yen in FY2024 budget and 18 billion yen in FY2023 supplementary budget) will be implemented for business operators who conduct capital investment in productivity improvement to increase minimum wages in their workplaces.

Others

○ In conjunction with the **fixed-amount tax cut** that will be implemented to achieve a synergistic effect along with wage increases to achieve faster disposable income growth than price hikes, the government will **provide 0.7 trillion yen in benefits** to **those who fail to fully benefit from the fixed-amount tax cut** (1.1 trillion yen including related benefits, a contingency fund for FY2023).

○ The **"Contingency Fund for Measures to Address Soaring Prices and Promote Wage Increases,"** the use of which was clarified and focused to realize the "virtuous cycle of price and wage increases" in FY2023 supplementary budget, will be implemented in FY2024 as well at the size of **1 trillion yen.**

3. The FY2024 Budget Framework

（Unit：billion yen）

Expenditure	FY2023 budget (initial)	FY2024 budget	Amount of change
General Expenditure	72,731.7	67,776.4	-4,955.4
Social Security Expenditure	36,868.7	37,719.3	850.6
Non-Social Security Expenditure（Note3, 4)	30,863.0	29,057.1	-1,806.0
Contingency Fund for the Measures to Address Soring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage Increases（Note5)	5,000.0	1,000.0	-4,000.0
Local Allocation Tax Grants, etc.	16,399.2	17,786.3	1,387.1
National Debt Service	25,250.3	27,009.0	1,758.7
Total	**114,381.2**	**112,571.7**	**-1,809.5**

Revenue	FY2023 budget (initial)	FY2024 budget	Amount of change
Tax Revenue	69,440.0	69,608.0	168.0
Other Revenue	9,318.2	7,514.7	-1,803.5
Government Bonds Issuance	35,623.0	35,449.0	-174.0
Construction Bonds	6,558.0	6,579.0	21.0
Special Deficit-Financing Bonds	29,065.0	28,870.0	-195.0
Total	**114,381.2**	**112,571.7**	**-1,809.5**

(Note1) The FY2023 budget is reclassified for a comparison with the FY2024 budget.
(Note2) Figures may not add up to the total due to rounding.
(Note3) FY2023 initial budget includes the Carry-Over to Defense Build-Up Fund: 3,380.6bn yen.
(Note4) The General Contingency reserves in the FY2024 budget is increased by 500bn yen from the FY2023 Budget to 1,000bn yen to enable a seamless and flexible initiative depending on the recovery and reconstruction phase, etc. of the 2024 Noto Peninsula earthquake.
(Note5) The figure of "Contingency Fund for the Measures to Address Soaring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage Increases" for FY2023 initial budget is sum of "Contingency Fund for the COVID-19 and Measures to Address Soaring Crude Oil and Commodity Prices" and "Contingency Fund for Economic Emergency (including the impact from the Ukraine Crisis)".
(Note6) "Tax Revenue" includes stamp revenue.
(Note7) Bond Dependency Ratio for FY2024 Budget is 31.5%.

4. Major Expenditure Items

（Unit：billion yen)

	FY2023 budget (initial)	FY2024 budget	Amount of change	Ratio of change	Notes
General Expenditure	72,731.7	67,776.4	-4,955.4	-6.8%	
Social Security	36,868.7	37,719.3	850.6	2.3%	
Education and Science	5,415.8	5,471.6	55.8	1.0%	Increase in National Treasury expenses for compulsory education reflecting the recommendation of the National Personnel Authority, etc.
of which Science	1,394.2	1,409.2	15.0	1.1%	
Former Public Officers Pension	97.0	77.1	-19.8	-20.5%	
National Defense	10,168.6	7,917.2	-2,251.4	-22.1%	
excluding *	6,788.0	7,917.2	1,129.2	16.6%	
*The Carry-Over to Defense Build-Up Funds	3,380.6	-	-3,380.6	-	
Public Works Projects	6,080.1	6,082.8	2.6	0.0%	
Economic Assistance	511.4	504.1	-7.3	-1.4%	Focusing on effective projects, utilizing funds from private sector and emergency humanitarian aids ,etc. Securing enough amounts of resources along with 328.4 billion yen of ODA included in FY2023 supplementary budget.
cf) Official Development Assistance	570.9	565.0	-6.0	-1.0%	
Measures for SMEs	170.4	169.3	-1.1	-0.6%	Decrease in budget related to credit guarantee program based on lending trends, etc.
Energy	854.0	832.9	-21.0	-2.5%	Decrease in transfer to Energy Policy Special Account in light of the increase in surplus in the Special Account, etc.
Food Supply	1,265.4	1,261.8	-3.6	-0.3%	Decrease accompanied by reviewing rice policy.
Miscellaneous	5,800.4	5,740.2	-60.2	-1.0%	
Contingency reserves	500.0	1,000.0	500.0	100.0%	Increased to enable a seamless and flexible initiative depending on the recovery and reconstruction phase, etc. of the 2024 Noto Peninsula earthquake
Contingency Fund for the Measures to Address Soaring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage	4,000.0	1,000.0	-3,000.0	-75.0%	
Contingency Fund for Economic Emergency (including the impact from the Ukraine Crisis)	1,000.0	-	-1,000.0	-	
Local Allocation Tax Grants, etc.	16,399.2	17,786.3	1,387.1	8.5%	
National Debt Service	25,250.3	27,009.0	1,758.7	7.0%	
Total	114,381.2	112,571.7	-1,809.5	-1.6%	

(Note1) FY2023 budget is reclassified for a comparison with the FY2024 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.

5. Characteristics of Each Expenditure in the FY2024 Budget

Social Security

○ The government will implement policies based on **the Children's Future Strategy** with a sense of urgency. The budget for the Children and Families Agency will increase by 0.5 trillion yen from the previous year to **5.3 trillion yen** (4.8 trillion yen in FY2023, 4.7 trillion yen in 2022). The government will tackle **the drastic expansion of child allowances** (the first expanded payments scheduled for December 2024), **the reduction of higher education costs**, **the qualitative improvement of child education and care** (improvement of standards for the distribution of relevant facilities and the treatment of relevant workers, etc.), and initiatives to respond to **various needs**, including the prevention of child poverty and abuse and support for children with disabilities and those needing constant medical care. Expecting **childcare leave benefits to increase** by 93.1 billion yen due to an increase in male workers taking childcare leave, the government **will raise its share** of the employee insurance premium rate (financial resources for childcare leave benefits) **to one-eighth** (from one-80th at present).

○ In **revising fees for medical care, long-term care, and welfare services for persons with disabilities,** the government will **reform official prices to develop a mechanism to structurally improve the treatment of frontline workers**. **The revision will be implemented in a well-balanced manner,** including the realignment of management, prescription, and other fees to make them effective and reasonable mainly for clinics. With regard to **drug prices,** the government will reform insurance benefits for long-listed products and implement appropriate evaluation measures for innovation. The government will also recalculate prices of unprofitable products to ensure **a stable supply of generic drugs, etc.**

Diplomacy and Security

○ In light of the severe international situation, the government will **enhance national security responses and arrangements for the protection and security of Japanese civils** (by increasing relevant expenditure by 29.8 billion yen from the previous year). **More than 1 trillion yen** (including 270.1 billion yen in FY2023 supplementary budget) will be set aside for official development assistance, with priority given to effective projects using private sector money.

○ As the national security environment grows severe, the government will promote the **drastic enhancement of defense power** (+1.1 trillion yen) by **improving stand-off defense**, Integrated Air and **Missile Defense, and mobile deployment capabilities** and stepping up the maintenance of defense equipment, the acquisition of ammunition, and the development of facilities.

Police Facilities and Coast Guard

○ The government will strengthen capabilities to deal with serious **cyberspace threats**, such as the record number of cybercrime cases, as well as **terrorism** and **large-scale disasters, etc.**

○ The budget and number of personnel for the Japan Coast Guard will be expanded substantially (by 18 billion yen from the previous year to 261.1 billion yen) to develop **large patrol ships, etc.** for enhancing **security operations for the territorial waters around the Senkaku Islands**.

Education and Science

○ The qualitative improvement of education and the workstyle reform for teachers will be accelerated through the assignment of **teacher work support staff** to all elementary and junior high schools and the advanced introduction of **subject-based teacher assignments** for the upper grades of elementary school.

○ Investment in science, technology, and innovation will include the promotion of research and development in **artificial intelligence, quantum**, and other important fields and the expansion of support for **basic research and young researchers** (1,409.2 billion yen for science and technology promotion, +15 billion yen from the previous year).

GX, Energy and Environment

○ The government will issue "GX Economy Transition Bonds" under the Energy Policy Special Account to support public and private sector GX investment, including 230 billion yen for enhancing domestic **storage battery** production infrastructure, 54.8 billion yen for developing supply chains for **next-generation solar batteries**, etc. and 32.7 billion yen for **steel, chemical, and other manufacturers'** transition to new processes.

DX and Regional Revitalization

○ Subsidies for the promotion of the Vision for a Digital Garden City Nation (100 billion yen plus 73.5 billion yen in FY2023 supplementary budget) will support **regional revitalization** initiatives, such as the promotion of tourism, agriculture, forestry, and fisheries industries. In addition, 6.8 billion yen will be used for developing **regional digital infrastructure**, such as fiber-optic networks and 5G base stations.

Reconstruction

○ The government will respond in a fine-tuned manner to the needs of disaster-affected areas in line with progress in reconstruction, such as **measures against groundless rumors** and the dissemination of information based on scientific evidence related to the disposal of **ALPS treated water**, and initiatives for **people's relocations to and from the nuclear disaster-affected areas**.

Tourism

○ In order to achieve the target of 5 trillion yen in foreign tourists' consumption in Japan, the government will utilize the international tourist tax (44 billion yen, +24 billion yen from the previous year) to promote **experience-based activities in national parks,** and to utilize **cultural buildings attracting tourists and increase the added value of accommodation.**

Public Works Project

○ **Public works project-related expenses will be stably secured** at 6,082.8 billion yen (+2.6 billion yen from the previous year) **(**2,200.9 billion yen in FY2023 supplementary budget, +199.6 billion yen from the previous year). Hardware development will be **combined with software** such as forecasting linear precipitation belts using new technologies, to **promote national resilience.**

○ In the wake of the transfer of the water supply program to the Ministry of Land, Infrastructure, Transport and Tourism, a new subsidy will be established to support **the efficient implementation of projects, etc. through the integration of water supply and sewerage services.**

Agriculture, Forestry and Fisheries

○ While stepping up the production of dry-field crops, such as vegetables, wheat, and soybeans, by **supporting the conversion of paddy fields into upland fields**, the government will promote **the reduction of imported chemical fertilizer consumption** and **the expansion of domestic feed production** (28.7 billion yen).

○ The government will promote the **development of sales channels, the establishment of overseas commercial channels,** and the standardization of packaging materials by product-based groups **to diversify export destination countries** (10.2 billion yen).

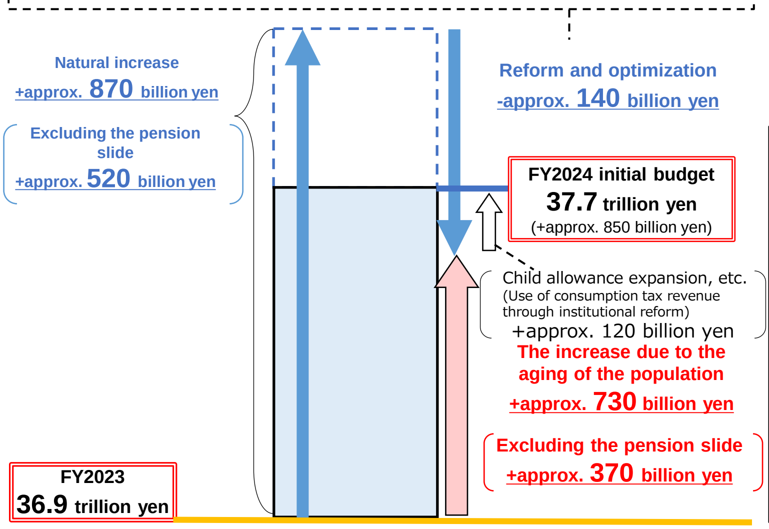
Local Governments Finance

○ The amount of local allocation tax grants for local governments is **18.7 trillion yen (+0.3 trillion yen)**. **The total amount of general revenue will be increased** by 0.6 trillion yen, with the issuance of **extraordinary financial measures bonds** being halved to **a record low** of 0.5 trillion yen (down 0.5 trillion yen), to consolidate **local governments finance.**

6. Social Security

○ The budget in FY2024 related to social security is 37.7 trillion yen (+approx. 850 billion yen from previous year (36.9 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. 370 billion yen besides of the pension slide approx. 350 billion yen).

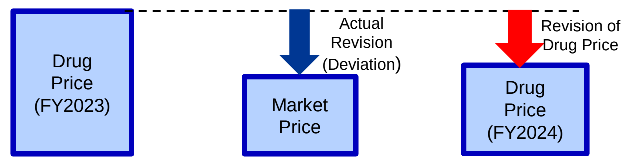
Revision of drug prices, etc. and drug price system reform: -approx. 130 billion yen
Young-old payments adjustment by disbursement per capita: -approx. 130 billion yen
Expansion of employee health insurance coverage -approx. 10 billion yen
Fee revision for medical care: +approx. 60 billion yen(approx. 80 billion yen*)
Fee revision for long-term care: +approx. 20 billion yen (approx. 40 billion yen*)
Fee revision for welfare services for persons with disabilities, etc.:+ approx. 20 billion yen
Support for health insurance society +approx. 20 billion yen (approx. 40 billion yen*), etc.
*Including consumption tax revenue



(FY2024 Drug price revision and drug price system reform)

Drug and materials price revision rate -1.00%

○The government will reflect market prices, implement appropriate evaluation measures for innovation, ensure a stable supply of generic drugs, etc. , and reform insurance benefits for long-listed products.



(FY2024 fee revision for medical care)

Revision rate 0.88%

Of which wage increase for medical-related professionals incl. nurses and rehabilitation professionals, etc. +0.61%

*Wage hikes for those other than the above (+approx. 0.28%) are separated.

Of which streamlining/optimization (realignment of management, prescription, and other fees, etc.) -0.25%

(FY2024 fee revision for long-term care)

Revision rate 1.59%

Of which wage increase for long-term care workers +0.98%

*Wage hikes for other workers such as clerical workers is separated.

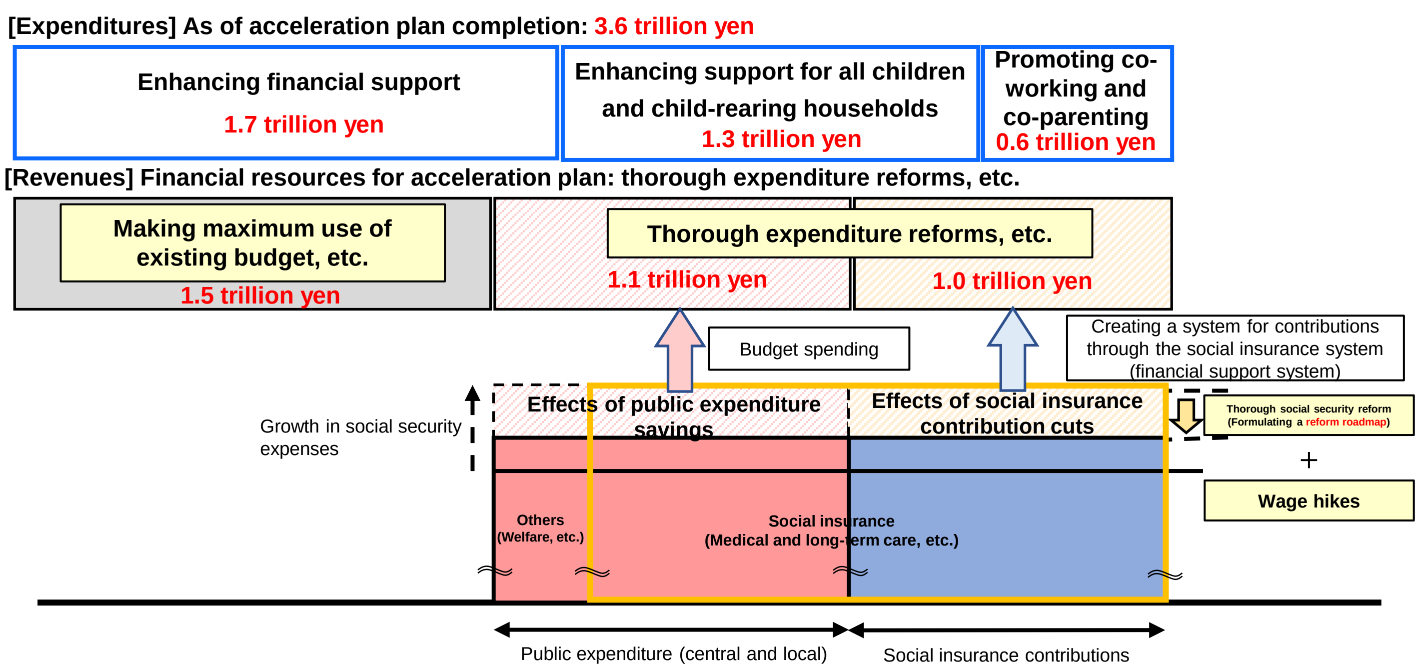
(FY2024 fee revision for welfare services for persons with disabilities)
Revision rate +1.12%

7. Basic framework of financial resources for strengthening children and child-rearing policies (acceleration plan) (Rough Outline)

Reference in the 9th meeting of the Children's Future Strategy Council (Dec 22nd 2023)
(By the secretariat of Headquarters for Social Security System Oriented to All Generations)

○ While making the maximum use of existing budget, the government will carry out thorough expenditure reforms by FY2028 and utilize the effects of public expenditure savings and social insurance contribution cuts through the reforms.

○ Expenditure reforms and wage increases are designed to bring about substantial social insurance contribution cuts and within that range the government will develop a financial support system without any substantial contribution hike.



8. Enhancing children and child-rearing policies

○ The "**Children's Future Strategy"** provides **a framework for enhanced measures worth** "**3.6 trillion yen** (central and local government combined)" and securing stable financial resources up to FY2028.

✓ In FY2024, the government will **implement more than 30%** of the planned funding totaling "3.6 trillion yen". (By FY2025, the government will **implement approx. three quarters** of the total due to the enforcement and annualization of relevant measures.)

✓ The government will secure financial resources by **expenditure reforms** and **making maximum use of existing budget**. (**Child Special Bond will be issued under a special account to** cover a revenue shortage of approx. 0.2 trillion yen in FY2024.)

○ **Steady increase in a national budget related to children and child-rearing** (general and special accounts).

✓ **Children and Families Agency budget:** 4.7 trillion yen in FY2022 → 4.8 trillion yen in FY2023 → **5.3 trillion yen in FY2024**

*Children and Families Agency FY2024 budget: 5.2832 trillion yen (+472.8 billion yen, of which general account +176.6 billion yen)

✓ A combination of the Children and Families Agency budget and childcare leave benefits will **rise by 0.7 trillion yen or 15%** from FY2022 to FY2024.

Expansion of child allowance

First expanded allowance payments start in December 2024.

✓ **Removing income caps**

✓ **Expanding coverage to cover senior high school students**

1,524.6 billion yen (including 355.8 billion yen for the coverage expansion)

✓ **30,000 yen for the third or later child**

Allowance amount	Aged 0 to 3	Aged 3 to senior high school ages
First or second child	15,000 yen/month	10,000 yen/month
Third or later child	30,000 yen/month	

*Revising the counting method for multi-child households

Enhancing support from pregnancy and childbirth stages

Under implementation

✓ **Subsidies to support childbirth and child-rearing**

- Financial support equivalent to 100,000 yen per child

56.9 billion yen (+ 27.4 billion yen)

✓ **Accompanied consultation support**

- Respond to various difficulties and worries and connect them to support according to needs.

5.6 billion yen (+ 0.5 billion yen)

*The figures represent national budget amounts for FY2024 (totals of general and special accounts)

Higher education (universities, etc.)

✓ **Enhancing the reduction of higher education's burden**

543.8 billion yen (+ 12.7 billion yen)

- Expanding support coverage to include middle-class households with multiple children or students in science, engineering, and agriculture (household income of up to about 6 million yen)

*From FY2025, tuition and admission fees will be waived for students from multi-child households.

(Multi-child households are those with three or more dependent children. The support limit will remain unchanged from the current system.)

Seamless support for all child-rearing households

✓ **Childcare centers: From quantitative expansion to qualitative improvement**

118.7 billion yen* (+ 88.2 billion yen)

- **First improvement in distribution of nursery teachers in 76 years**: [Children aged 4-5] 30 per nursery teachers → 25 per nursery teachers
- **Wage increases for nursery teachers, etc.** based on FY2023 National Personnel Authority recommendations

✓ **Responding to diverse support needs**

86.7 billion yen* (+ 52.6 billion yen)

[Including a part of the Ministry of Health, Labor and Welfare budget]

- Enhancing support for **the prevention of child poverty and abuse, and for children with disabilities and those needing constant medical care.**
- Expansion of **childcare allowances**, removing income caps on **assistive medical device benefits**

*Increase from FY2022 to FY2024

Creating a workplace where it is easy for workers to take childcare leave

✓ **Childcare leave benefit increase accompanying an increase in male workers taking childcare leave**

855.5 billion yen (+ 93.1 billion yen)

- **Raising the government's share of the employee insurance premium rate (financial resources for childcare leave benefits)** to one-eighth to enhance the resources

*While keeping the employee insurance premium rate at 0.4% for the time being, the government will raise the rate to 0.5% from FY2025 and introduce a mechanism to flexibly adjust the rate according to financial conditions for the employee insurance system.

*Childcare leave benefits are recorded in the employment account of the labor insurance special account (in the budget for the Ministry of Health, Labor and Welfare). From FY2025, the benefits will be included in the **special account for child and child-rearing support**.

9. "Improvement of the Quality" of the Budget

Reflection of Budget Execution Survey and the Administration Expenditure Review

○ Through **a flexible survey utilizing Local Finance Bureaus, etc.**, the government obtained and aggregated business reports from 22,000 medical corporations nationwide. Analysis of business reports, etc. revealed that the clinic business situation was extremely good (ordinary profit margin at 8.8% in FY2022). In the **revision of medical care fees**, the government implemented a downward revision of 0.25% (a decline of about 120 billion yen in annual healthcare expenditure (full fiscal year-scale)) to streamline and optimize healthcare mainly for clinics.

○ Based on the **findings of the Administrative Expenditure Review,** the government flexibly eased the staffing standard (revised the ratio of users to long-term care staff from 3:1 to 3:0.9) through its long-term care fee revision for fee-based long-term care homes for the elderly where information and communication technology equipment is used to secure long-term care quality and reduce long-term care staff's burden.

○ Utilizing **budget execution surveys** for private universities, the government **gave funding priority** to model universities that were tackling management reform and collaboration (2 billion yen). From FY2026, universities that fail to meet the standards regarding the ratio of enrollment to intake quota and business conditions will be required to formulate management reform plans so that **private university subsidies will be optimized**.

Improving efficiency by promoting digitalization

○ The government will **eliminate overlapping investment** in information systems through its **transition to common information infrastructure** such as the **government cloud** (a common cloud service for the government) and the **government solution service** (an inter-ministry network for the government) (cutting expenses by about 2 billion yen for system infrastructure planned to transition to the government cloud by FY2024).

Efficiency and rationalization of defense force development

○ The government will achieve efficiency and rationalization effects of -276.4 billion yen by **streamlining procedures for the acquisition of** aircraft and other **defense equipment** using **long-term contracts** and by **terminating the operation of outdated equipment, etc.**

Introduction of incentive function for each objective of policies

○ To efficiently increase the effects of disaster prevention and reduction measures, the government will promote **flood, tsunami, and storm surge control measures** combined with **land use regulations**, while reducing housing support* in areas vulnerable to disasters and **reforming support** for areas for which no location normalization plans have been prepared.

*Programs subject to the reform include a child-rearing eco-home support program (40 billion yen in FY2024).

Fiscal consolidation of the local governments

○ While local allocation tax grants and other financial resources for local governments are secured appropriately, the issuance of **extraordinary financial measures bonds** will be **cut** to **a record low** of **0.5 trillion ye**n (down 0.5 trillion yen) to **steadily consolidate** local governments finance.

10.Overview of the Supplementary Budget for FY2023 (enacted on 29th November 2022)

I. Protecting people's lives from price hikes **2,736.3 bn**

1. Support for households and businesses in the difficulties caused by price hikes **2,480.7 bn**

○ Focused support grant for local governments [support for low-income households: 1,059.2 bn; support for encouraged projects: 500.0 bn]

○ Mitigation measures against sudden fluctuations in the price of electricity, gas, and fuel oil [794.8 bn] (about 3.9 tn including the previously approved expenses) etc.

2. Improving the resilience of the economy and society against energy cost hikes **255.6 bn**

○ Promotion of energy efficiency and renewable energy for households and housing [239.9 bn*] (432.9 bn including the special account*) etc.

II. Achieving sustainable wage increases and income increase, including in local firms and SMEs, and growth in regional economies **1,330.3 bn**

1. Creating an environment for wage hikes among SMEs, addressing labor shortages, supporting for further wage hikes through improvement of productivity **599.1 bn**

○ SME labor-saving investment subsidy program [100.0 bn] (formerly SME business reconstruction promotion project; 500.0 bn including the existing fund)

○ SME large-scale investment subsidy [100.0 bn] ○ Wage increase for long-term care workers [58.1 bn] etc.

2. Promotion of the trinity labor market reforms to achieve structural wage increases **13.1 bn**

○ Career development support through upskilling and reskilling [9.7 bn] etc.

3. Spreading of the recovery trend to regional economies and expansion of economic interaction **718.1 bn**

○ Production of dry-field crops as main crops through the conversion of paddy fields into dry fields [75.0 bn]

○ Expansion of exports of agricultural, forestry and fishery products and food products [36.0 bn*]

○ Expand inbound tourism through the promotion of measures to attract visitors to local areas, the revitalization and creation of high added value in tourist sites and the tourism industry, etc. [68.9 bn] etc.

III. Promoting domestic investment that contributes to strengthening and upgrading growth potential **3,437.5 bn**

1. Further expansion of domestic investment to raise the potential growth rate by improving productivity and strengthening supply capacity **2,930.8 bn**

○ Moonshot R&D Program [214.4 bn] ○ Specified Semiconductor Fund (advanced semiconductors) [632.2 bn]

○ Post-5G ICT System Infrastructure Reinforcement R&D Fund (next-generation semiconductors) [617.5 bn] (645.6 bn including the special account)

○ Support fund for ensuring stable supply (conventional semiconductors, etc.) [294.8 bn] (575.4 bn including the special account)

* As support measures related to semiconductors, 2 trillion yen including the special account and the existing fund

○ Promotion of energy efficiency and renewable energy for factories, offices, and buildings, etc. [48.8 bn*] (150.9 bn including the special account*)

○ Development of computational resources for generative AI, etc. [69.0 bn] (185.6 bn including the Support fund for ensuring stable supply (cloud programs))

○Promotion of the "GIGA School Program" (renewal of terminal units, etc.) [276.1 bn] etc.

2. Support for startups that lead innovation **506.8 bn**

○ Space Strategy Fund [300.0 bn] ○ Promotion of the Global Startup Campus Initiative [58.1 bn] etc.

IV. Overcoming population decline and launching and driving social transformation that turns changes into power **1,340.3 bn**

○ Vision for a Digital Garden City Nation promoting Grant [73.5 bn*]

○ Maintenance and revitalization of regional public transportation services [27.9 bn]

○ Standardization and unification of local government information systems [516.3 bn]

○ Promotion of use of and improvement of the environment for "My Number Cards" as health insurance certificates [88.7 bn]

○ Improvement of the environment for acquisition of "My Number Cards", etc. [89.9 bn]

○ Promotion of use of and improvement of the environment for electronic prescriptions [25.1 bn]

○ Measures to achieve innovation in logistics [15.9 bn] ○ Measures related to dementia [40.9 bn*]

○ Trial program for the full-fledged implementation of the program for all child-rearing households to use daycare centers [9.1 bn] etc.

V. Ensuring People's Safety and Security (building national resilience and disaster prevention and mitigation) **4,282.7 bn**

○ Recovery from disasters [425.9 bn] ○ Appropriate response to a changing security environment by JSDF, etc. [808.0 bn]

○ Measures for disaster prevention and mitigation and national resilience (public work expenses) [1,302.2 bn] (2.2 tn for the total public work expenses*)

○ Urgent comprehensive grants to cope with COVID-19 (securing hospital beds, etc.) [614.3 bn]

○ Measures against pollen allergy [6.0 bn]

○ Aid for and cooperation with Global South countries (Asia (ASEAN, etc.), island countries, Middle East, Africa) [318.2 bn]

○ Support for Ukraine and countries around Ukraine [148.1 bn]

○ Strengthening support for victims of sexual crime and sexual violence [2.9 bn] etc.

■ **Total additional spending of the Supplementary Budget (General Account)** **13,127.2 bn**

■ **+ Expenses for a fixed amount of income tax cut + Related expenses** **Between 17 and 17.5 tn**

* The amount includes projects organized under other pillars.

(Reference 1) As part of the financial sources for the additional spending, a total of 2.5 trillion yen obtained by reducing the contingency fund for COVID-19 and measures to address soaring crude oil and commodity prices and the contingency fund for economic emergency (including the impact from the Ukraine Crisis) will be used.

(Reference 2) In the supplementary budget for FY2023, additional financial demand, such as fuel purchase expenses [446.0 bn], is recorded in addition to the expenses related to the economic stimulus measures mentioned above.

(Reference 3) Additional spending of 1,165.2 billion yen is also recorded in the Special Account for Energy Measures.

11. The Framework of the First Supplementary Budget for FY2023

(billion yen)

Expenditures		Revenues	
1. Protecting people's lives from price hikes	2,736.3	1 . Tax revenues	171.0
2. Achieving sustainable wage increases and income increase, including in local firms and SMEs, and growth in regional economies	1,330.3		
3. Promoting domestic investment that contributes to strengthening and upgrading growth potential	3,437.5		
4. Overcoming population decline and launching and driving social transformation that turns changes into power	1,340.3	2. Non-tax revenues	762.1
		(1) Revenue for building up defense capability	222.2
		(2) Others	539.9
5. Ensuring People's Safety and Security (building national resilience and disaster prevention and mitigation)	4,282.7		
Subtotal (expenses related to the economic stimulus measures) (Note 2)	13,127.2		
6. Other expenses	1,485.1	3. Surplus from the previous fiscal year	3,391.1
(1) Transfer to the funds for building up defense capability	1,039.0		
(2) Others	446.0		
7. Transfer to the Special Account for the National Debt Consolidation Fund	1,314.7		
8. Local allocation tax grants	782.0	4. Government bond issuance	8,875.0
		(1) Construction bonds	2,510.0
9. Reduction in previously approved expenses	-3,509.8	(2) Special deficit-financing bonds	6,365.0
(1) Contingency fund for COVID-19 and measures to address soaring crude oil and commodity prices (Note 3)	-2,000.0		
(2) Contingency fund for Economic Emergency (including the impact from the Ukraine Crisis)	-500.0		
(3) Others	-1,009.8		
Total	13,199.2	Total	13,199.2

(Note 1) Figures may not add to the totals due to rounding.
(Note 2) The total of the expenses related to the economic stimulant measures, the expenses for a fixed amount of income tax cut, and related expenses is expected to be between 17 and 17.5 trillion yen.
(Note 3) The "contingency fund for COVID-19 and measures to address soaring crude oil and commodity prices" is changed to the "contingency fund for measures to address soaring crude oil and commodity prices and for measures to develop an environment for promotion of wage hikes."

12. The FY2023 Budget Framework after the First Supplementary Budget

(billion yen)

	FY2023 Budget (initial)	FY2023 budget (after the supplementary budget revision)	FY2023 budget after the Initial →supplementary budget revision	Notes
(Expenditure)				
General Expenditure	72,731.7	84,724.5	11,992.8	
Local Allocation Tax Grants, etc.	16,399.2	17,181.2	782.0	
National Debt Services	25,250.3	25,674.8	424.4	
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	16,389.5	17,704.2	1,314.7	
o/w Interest Payment	8,472.3	7,582.0	-890.3	
Total	114,381.2	127,580.4	13,199.2	
(Revenue)				- Bond Dependency Ratio: 34.9%
Tax Revenue	69,440.0	69,611.0	171.0	- Construction Bond Issuance initial: 6.6tn → after the supplementary budget revision: 9.1tn
Other Revenue	9,318.2	13,471.4	4,153.2	
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	35,623.0	44,498.0	8,875.0	- Special Deficit-Financing Bond Issuance initial: 29.1tn → after the supplementary budget revision: 35.4tn
Amount Equivalent to Redemption of National Debt (Excluding Subsidy Bonds)	16,389.5	17,704.2	1,314.7	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) after the supplementary budget revision is 26.8tn
Amount Equivalent to Interest Payments	8,472.3	7,582.0	-890.3	
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	10,761.3	19,211.8	8,450.6	
Total	114,381.2	127,580.4	13,199.2	

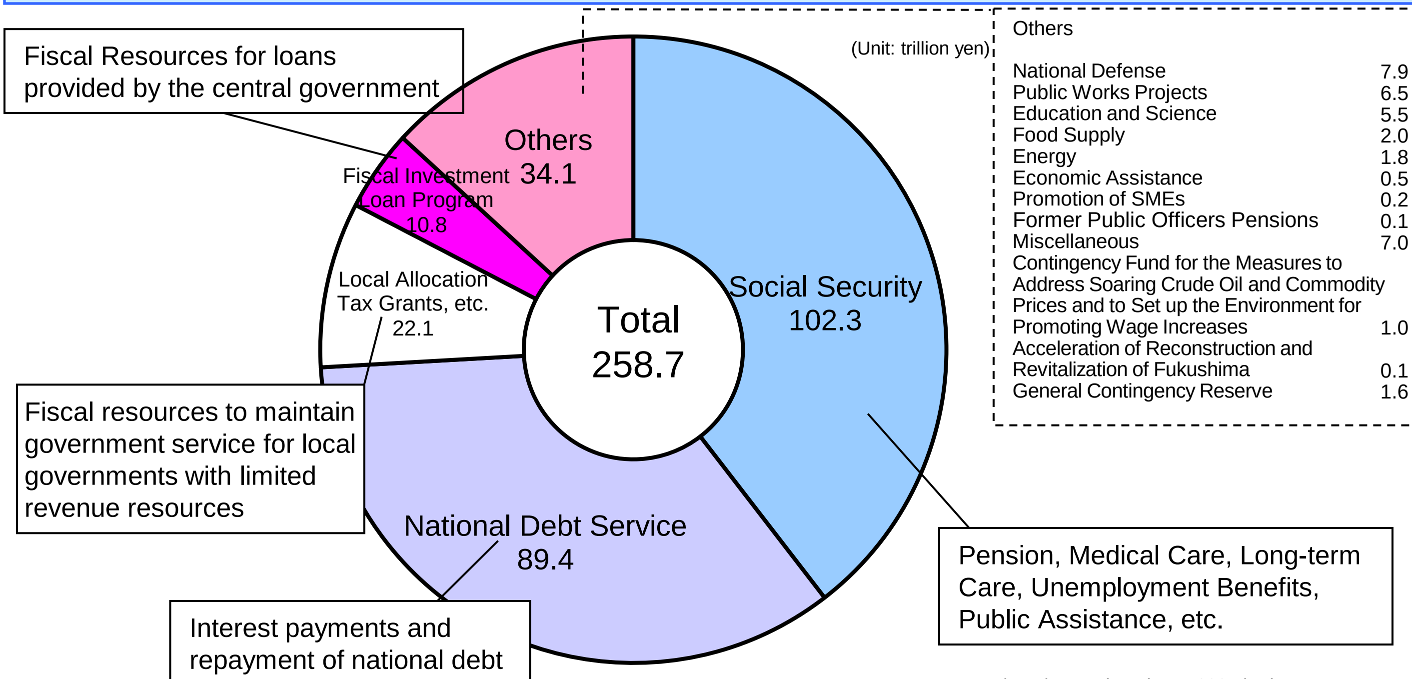
(Note 1) Figures may not add to the totals due to rounding.
(Note 2) "Tax Revenue" includes stamp revenues.
(Note 3) The classification of "Government Bond Issuance" is made from the perspective of the primary balance and fiscal balance, and the term "Amount Equivalent to" is used because the revenue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

(Reference) Accounting Information and PDCA Cycle

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 (FY2024: 112.6 trillion yen) and the Special Account gross expenditures (FY2024: 436.0 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 FY2024 budget

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

(Unit: trillion yen)

Item	FY2022 Settlement	FY2023 Settlement (estimate)	FY2024 Budget
Total Expenditure in the General Account (A)	132.4	144.3	112.6
Total Expenditure in the Special Accounts (B)	432.4	432.7	436.0
Total (C = A + B)	564.7	576.9	548.6
of which, the amount overlapped (D)	147.2	144.6	154.4
Difference (E = C – D)	417.5	432.4	394.2
of which, the amount deducted (F*)	147.7	155.1	135.5
Net Total (= E – F)	269.8	277.3	258.7

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

○ Lists of Special Accounts in the FY2024

- 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 National 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” with reference to corporate accounting concepts and methodologies (e.g. accrual accounting and double bookkeeping).

◆ As of the end of FY2022, the assets amounted to ¥740.7 trillion, but most of those cannot be sold to make up fiscal resources for other policies. (Please refer to the figure below.)

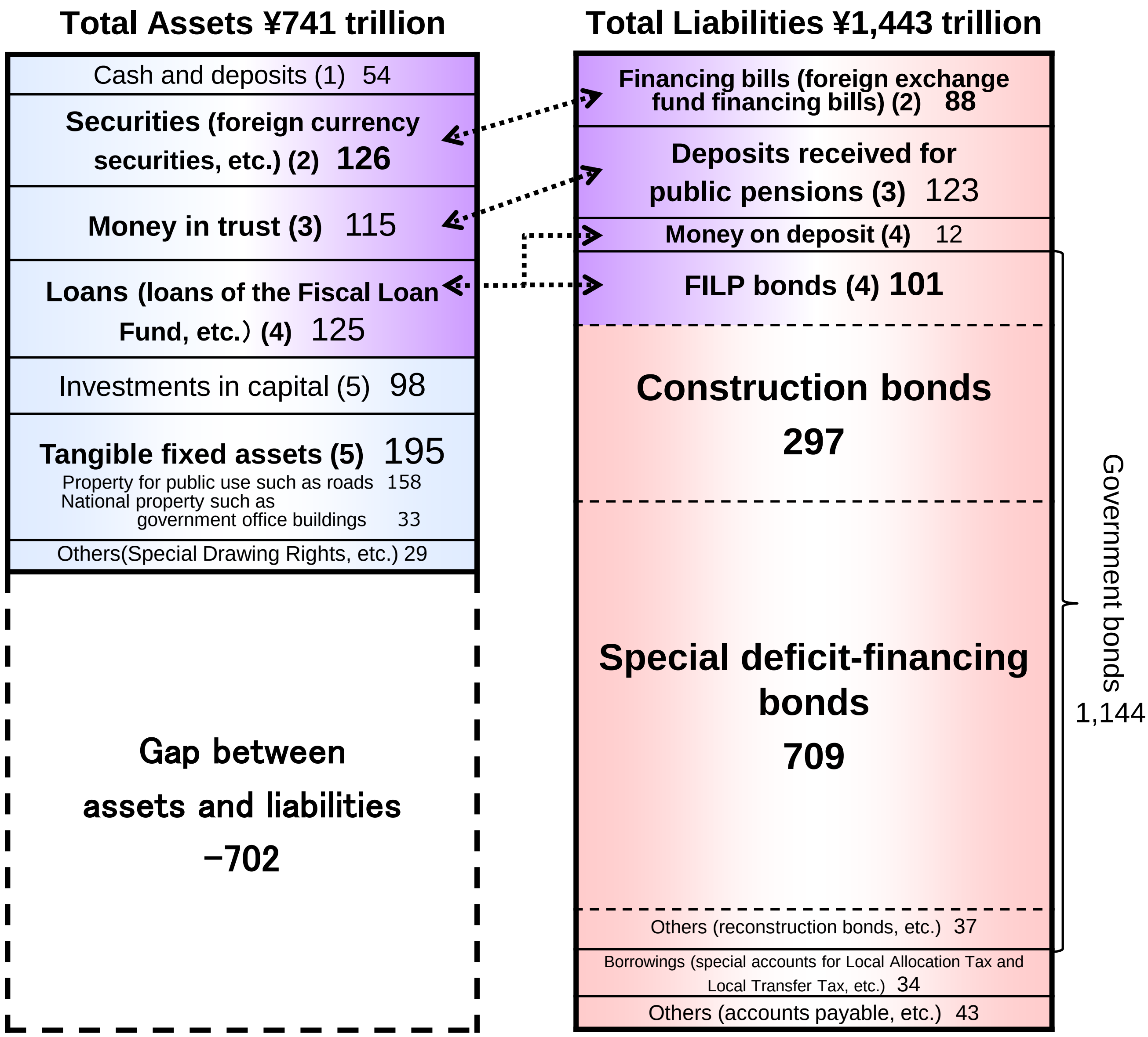
◆ Some financial assets and liabilities are earmarked to each other.

- Foreign currency securities (¥124.6 trillion (part of the securities)): Financial sources for purchasing these securities are provided by issuing foreign exchange fund financing bills (¥86.3 trillion (part of the financing bills)).
- Loans of the Fiscal Loan Fund (¥115.1 trillion (part of the loans)): Financial sources for these loans consists of funds provided by issuing FILP bonds (¥100.9 trillion) and money on deposit (¥11.6 trillion).
- Money in trust (¥114.7 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 (¥123.0 trillion).

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

- Tangible fixed assets (¥194.6 trillion): property for public use, etc. such as roads and rivers.
- Investments in capital (¥97.6 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)



(FY2022 Points of “National Financial Documents” (March 2024)

(Note) (1)-(5) correspond to the item numbers on the following page.

Characteristics and Points to Note for Each Item

While “Balance Sheet of the National Government” is prepared with reference to the concepts and methods of corporate accounting, some of the items presented in each statement are organized in a way that takes into account the characteristics of the government’s financial activities under the national financial and accounting system.

The assets shown on the balance sheet include a considerable amount of assets with earmarked liabilities and assets that cannot be expected to be sold or disposed of for cash, and these should be taken into account when comparing the national assets with national liability and financial situation of other countries.

The following section explains the characteristics of the main items recorded in the balance sheet and points to note in order to gain a more accurate understanding of “Balance Sheet of the National Government”. Please also refer to the diagram on the previous page.

(1) The cash and deposits at the end of FY2022 (53.8 trillion yen) do not show the actual balance held at the end of the financial year.

In the national accounts, there is a period during which revenue and expenditure for the fiscal year are sorted out (Period of clearance for receipts and disbursements), and the amount of cash and deposits recorded in the balance sheet reflects the cash receipts and disbursements during the “Period of clearance for receipts and disbursements” after the end of the fiscal year. The actual balance of government deposits in the treasury at the end of FY2022 was 15.6 trillion yen (excluding foreign currency deposits), while the balance of cash and deposits was 53.8 trillion yen (cash and deposits excluding foreign currency deposits was 38.9 trillion yen) due to the receipt of a large amount of tax revenue and other payments during the clearing period.

(2) Foreign currency securities (124.6 trillion yen) and Foreign exchange fund financing bills (86.3 trillion yen)

With regard to foreign currency securities (124.6 trillion yen), which account for the majority of securities, the financial resources required for their acquisition are raised mainly through the issuance of foreign exchange fund financing bills. Therefore, the proceeds from the sale of such foreign currency securities recorded as assets through foreign exchange intervention (selling foreign currency and buying yen) are, in principle, used to redeem the foreign exchange fund financing bills recorded as liabilities. In 2022, the difference between foreign currency securities and foreign exchange fund financing bills was 38.3 trillion yen, of which 22.6 trillion yen was due to a reduction in the outstanding balance of foreign exchange fund financing bills issued through the transfer of the surplus in the treasury, and the difference is not a liability-free asset.

(3) Money in trust (114.7 trillion yen) and Deposits received for public pensions (123.0 trillion yen)

Money in trust is a part of the accumulated funds of insurance premiums held to finance future pension benefits (employees' pensions and national pensions), and liabilities corresponding to money in trust are recorded as deposits received for public pensions.

(4) Loans of Fiscal Loan Fund (115.1 trillion yen) and FILP bonds (100.9 trillion yen) etc.

The loans of Fiscal Loan Fund (115.1 trillion yen), which account for the majority of loans, are financed by funds raised and deposited through the issue of FILP bonds. Therefore, in principle, the proceeds from the recovery of the loans of Fiscal Loan Fund recorded as assets are used to redeem FILP bonds recorded as liabilities, etc.

(5) Amounts recorded for tangible fixed assets (194.6 trillion yen), Investment in capital (97.6 trillion yen), etc.

Tangible fixed assets and investment in capital include a considerable amount of fixed assets such as roads and rivers (public property) and capital contributions to independent administrative institutions, which are held for policy purposes and cannot be expected to be sold or disposed of for cash. The recorded value of public property is calculated by deducting the amount equivalent to depreciation from the estimated acquisition cost by accumulating past land and project costs, and does not represent the amount that can be recovered in cash.

***Gap between assets and liabilities (-702.0 trillion yen)**

The gap between assets and liabilities (-702.0 trillion yen) is conceptually similar to the balance of special government bonds that postpone the burden to the future, as the majority of this is the accumulation of excess costs in the past.

Ⅲ. PDCA Cycle

The government implements the PDCA cycle in budget formulation: evaluating how budget funds are spent and what results have been achieved, and then reflecting these evaluation results in future budget. The following reflections have been made in the FY2024 budget formulation.

◆ 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> With regard to the reception of the evacuees from Ukraine, Settlement Support Program, which is a system for recognizing eligibility for complementary protection has been expanded to include support for living expenses without a guarantor. [MOJ] [Reflected amount: ¥1,200 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> With regard to eligible paddy fields for direct payment grants for paddy utilization, the expected reduction was appropriately reflected in the budget by excluding farmland that is practically difficult to plant with paddy rice from the grant scope.

  [MAFF] [Reflected amount: -¥300 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 was revised by closely examining the estimated number of projects based on the execution of the project to promote the comprehensive utilization of regional cultural heritage (regional cultural heritage, regional planning, etc.).

  [MEXT] [Reflected amount: -¥200 million]

◆ Budget Execution Surveys

- In FY2023, the Ministry of Finance conducted 30 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> With regard to counselling services to promote needy person's independence, etc. , the subsidy system was revised by re-setting the standard amount based on the standard number of cases of support in relation to the size of the population, and by taking measures such as an additional amount based on actual results when the number of cases of support exceeds the standard number.

  [MHLW] [Reflected amount: -¥700 million]

- In addition, efficiency and appropriateness were improved in the revision of medical fees, particularly in clinics, based on the flexible survey using Local Finance Bureaus, etc .

◆ 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> The budget for the Project to promote the sophistication of resource management agreements was reduced by prioritizing to provide support for the costs required to realize the sophistication of the resource management system, by terminating the fixed subsidy for the costs required for the transition to a resource management agreement and by setting the subsidy rate at 1/2 for the costs required to formulate a new resource management agreement in the future.

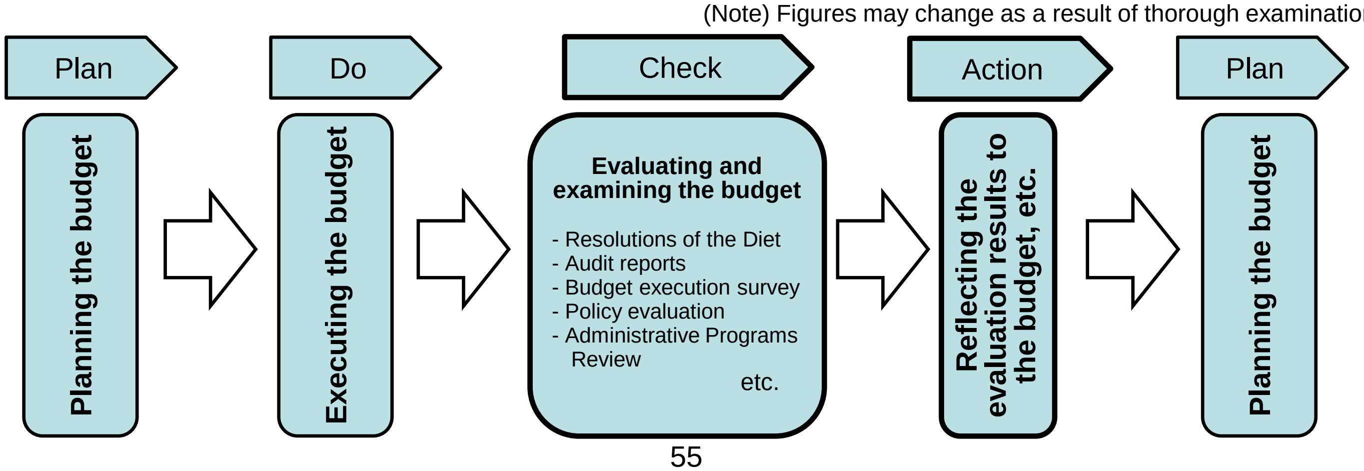
  [MAFF] [Reflected amount: -¥100 million]

◆ Administrative Programs Review

- Positive use of Administrative Program Review sheets, introducing the concept of Evidence Based Policy Making.
- 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.

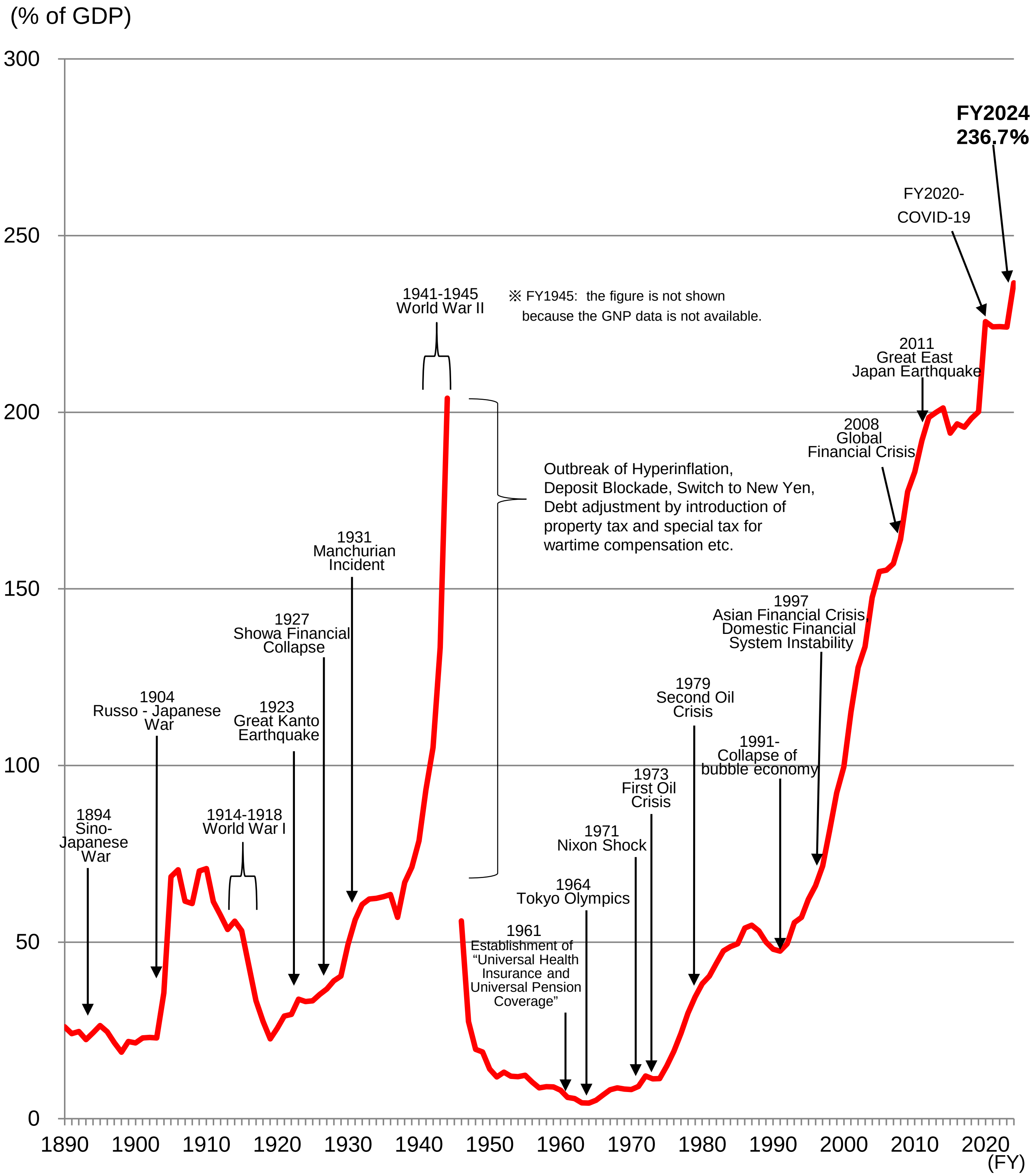
  <Example> With regard to 'Accelerating the use of digital technology in education', it was decided to set up a meeting body for joint procurement in prefectures and municipalities in the region in order to reduce costs through wide-area procurement of terminals, and to state that, in principle, terminals should be procured through joint procurement in the subsidy guidelines. In addition, in order to make the evidence showing the effects of the policy clear, the setting of detailed KPIs was considered, dividing into hardware (e.g. terminal maintenance) and software (e.g. use of digital textbooks). [MEXT]

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



(Reference)

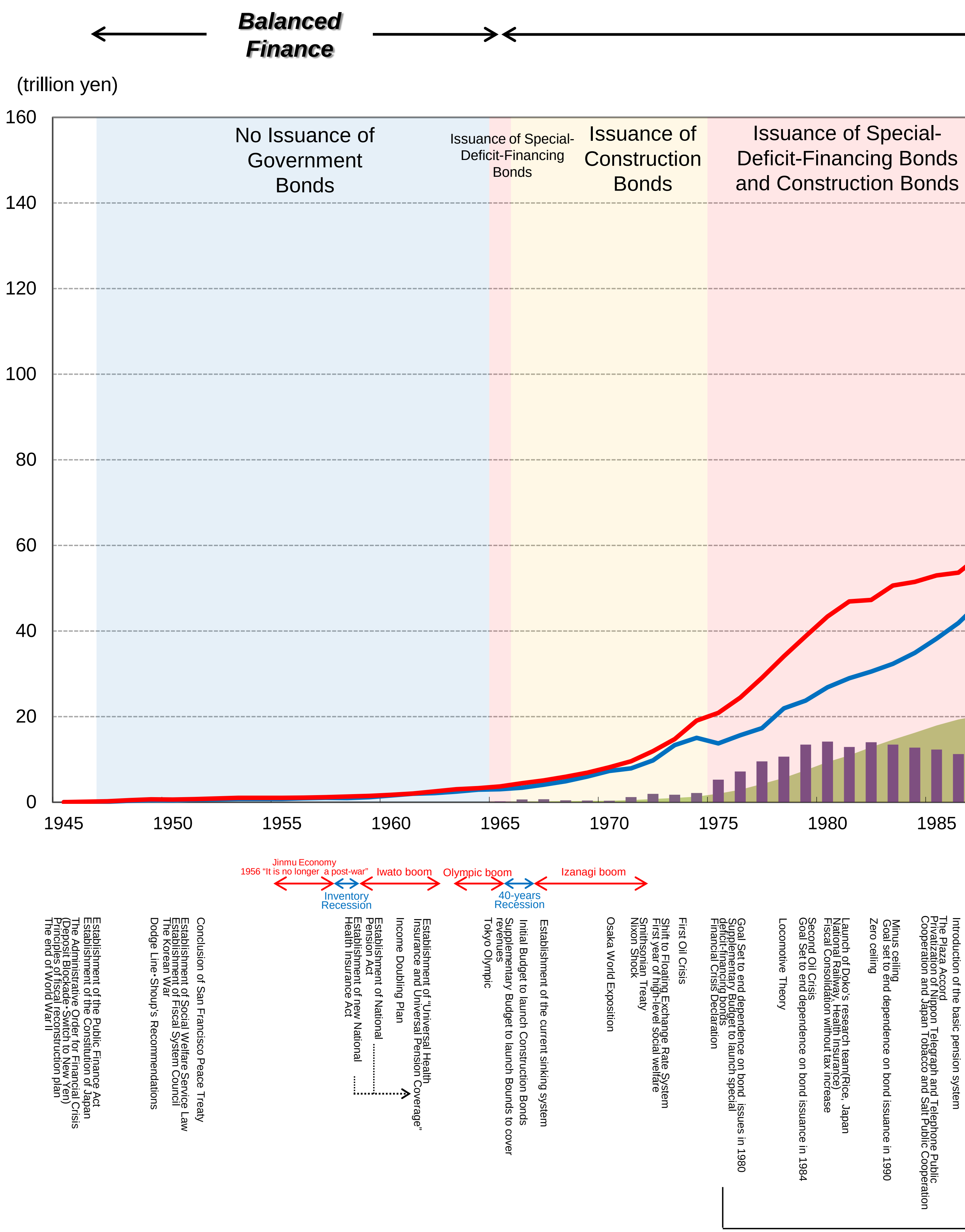
Transition of debt to GDP ratio since Prewar period



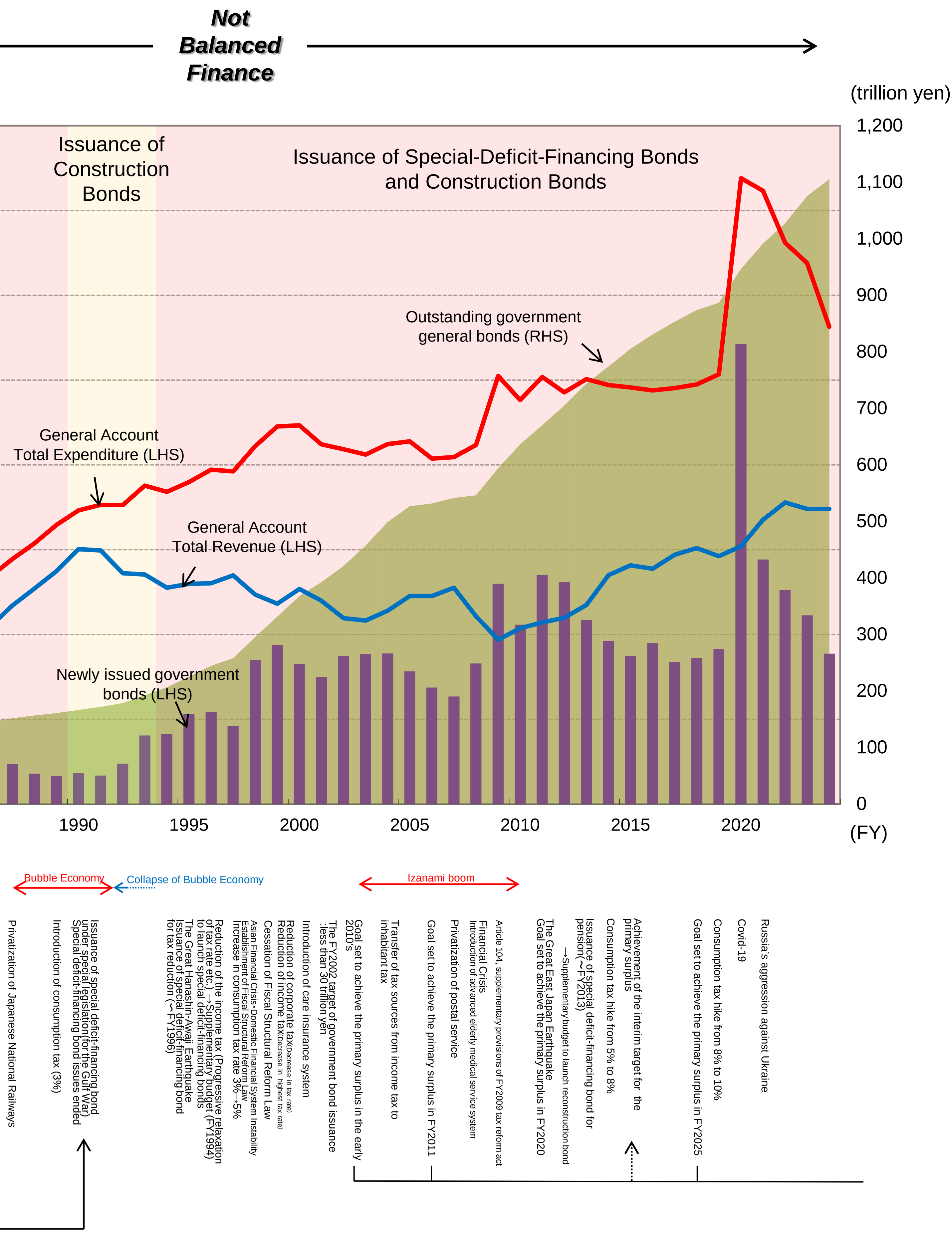
(Note 1) The Outstanding Accumulated Government Bonds：The figures at the end of “government bonds and borrowing outstanding” (Annual report on government bonds statistics). FY1890-2022: Actual ; FY2023: Based on the Supplementary Budget; FY2024 Based on the Budget. Outstanding of Fiscal Loan Fund Financing 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, FY1994-2022: based on SNA 2008)); FY2023-FY2024: Based on Cabinet Office “Fiscal 2024 Economic Outlook and Basic Stance for Economic and Fiscal Management” (January 26, 2024)

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



(Note 1) Total revenues and expenditures of general account: Settled Figures in FY1945-FY2022, Based on the Supplementary Budget in FY2023, Based on the Budget in FY2024
(Note 2) Outstanding government general bonds: Actual figures in FY1945-FY2022, Based on the Supplementary Budget in FY2023, Based on the Budget in FY2024



Not Balanced Finance
(trillion yen)
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
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)
1990
1995
2000
2005
2010
2015
2020
(FY)
Bubble Economy
Collapse of Bubble Economy
Izanami boom
Privatization of Japanese National Railways
Introduction of consumption tax (3%)
Issuance of special deficit-financing bond under special legislation(for the Gulf War)
Special deficit-financing bond issues ended
Issuance of special deficit-financing bond for tax reduction (~FY1996)
The Great Hanashin-Awaji Earthquake
Reduction of the income tax (Progressive relaxation of tax rate etc.)→Supplementary budget (FY1994) to launch special deficit-financing bonds
Increase in consumption tax rate 3%→5%
Establishment of Fiscal Structural Reform Law
Asian Financial Crisis･Domestic Financial System Instability
Cessation of Fiscal Structural Reform Law
Reduction of income tax(Decrease in highest tax rate)
Reduction of corporate tax(Decrease in tax rate)
Introduction of care insurance system
The FY2002 target of government bond issuance :less than 30 trillion yen
Goal set to achieve the primary surplus in the early 2010's
Transfer of tax sources from income tax to inhabitant tax
Goal set to achieve the primary surplus in FY2011
Privatization of postal service
Financial Crisis
Introduction of advanced elderly medical service system
Article 104, supplementary provisions of FY2009 tax reform act
The Great East Japan Earthquake
Goal set to achieve the primary surplus in FY2020
→Supplementary budget to launch reconstruction bond
Issuance of special deficit-financing bond for pension(~FY2013)
Consumption tax hike from 5% to 8%
Achievement of the interim target for the primary surplus
Goal set to achieve the primary surplus in FY2025
Consumption tax hike from 8% to 10%
Covid-19
Russia's aggression against Ukraine

MEMO

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