Japanese Public Finance Fact Sheet

April, 2025

Ministry of Finance, JAPAN

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Part 1 Public Finance in Japan

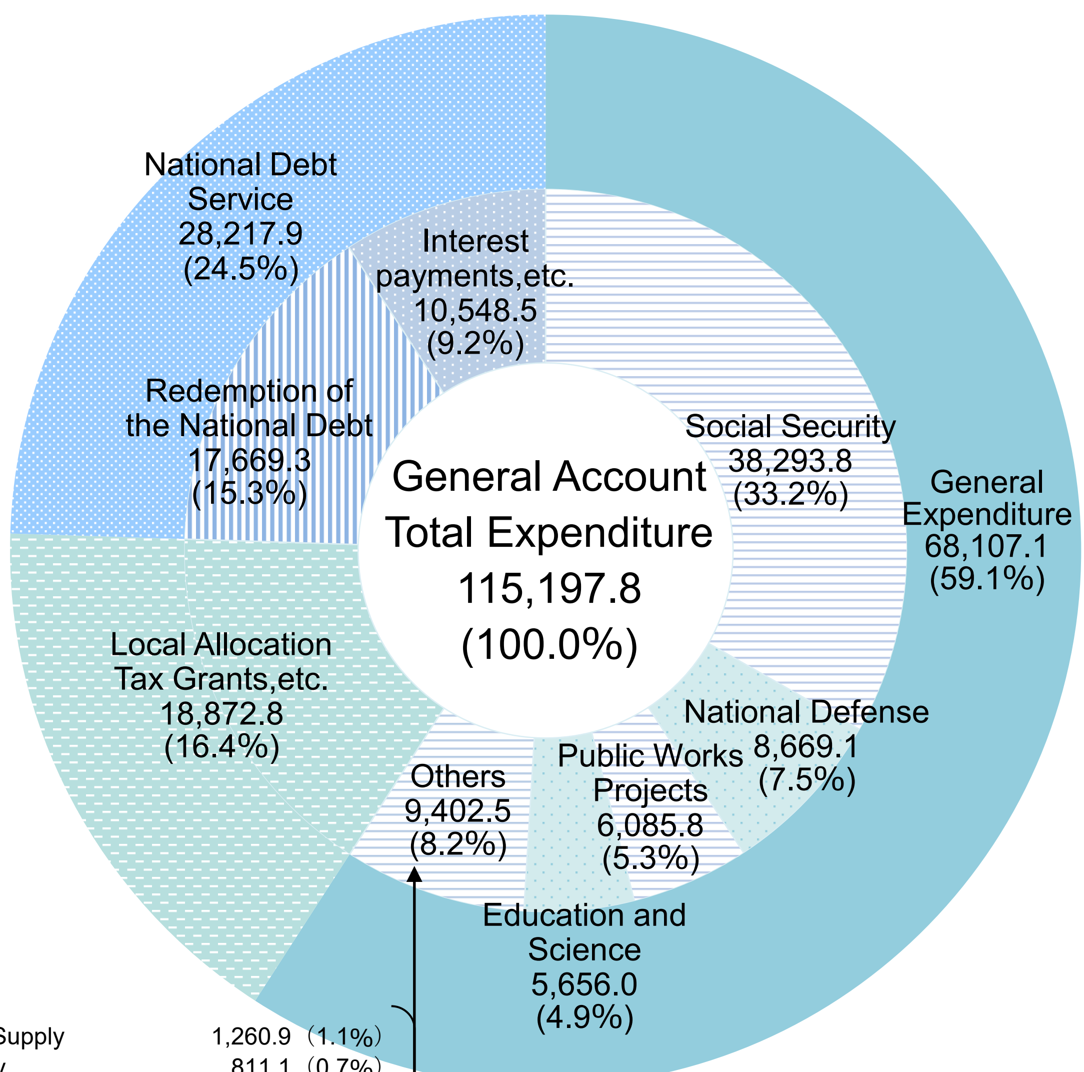
Ⅰ. Current Fiscal Situation

1. General Account Budget for FY2025

（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 .

FY2025 Budget (Unit: billion yen)



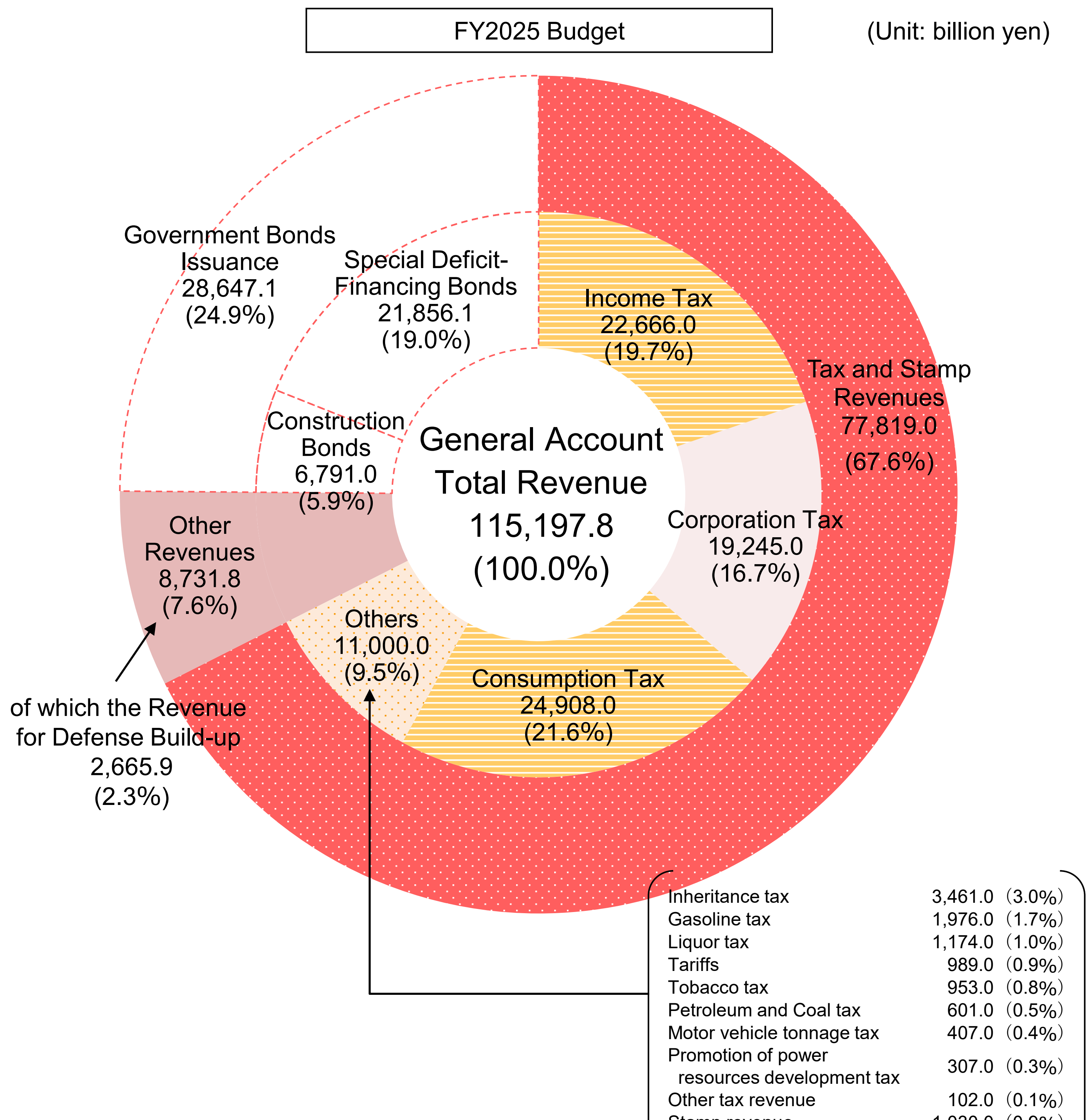
Food Supply	1,260.9	(1.1%)
Energy	811.1	(0.7%)
Economic Assistance	505.0	(0.4%)
Measures for SMEs	169.5	(0.1%)
Former Public Officers Pension	62.3	(0.1%)
Miscellaneous	5,854.3	(5.1%)
Contingency Reserves	739.5	(0.6%)

- 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
  - FY2025 Budget: 87,332.3（75.8%）

(Note 1) Figures may not add up to the totals due to rounding.
(Note 2) The figures based on the revised budget.
(Note 3) The ratio of social security expenditure to general expenditure is 56.2%.

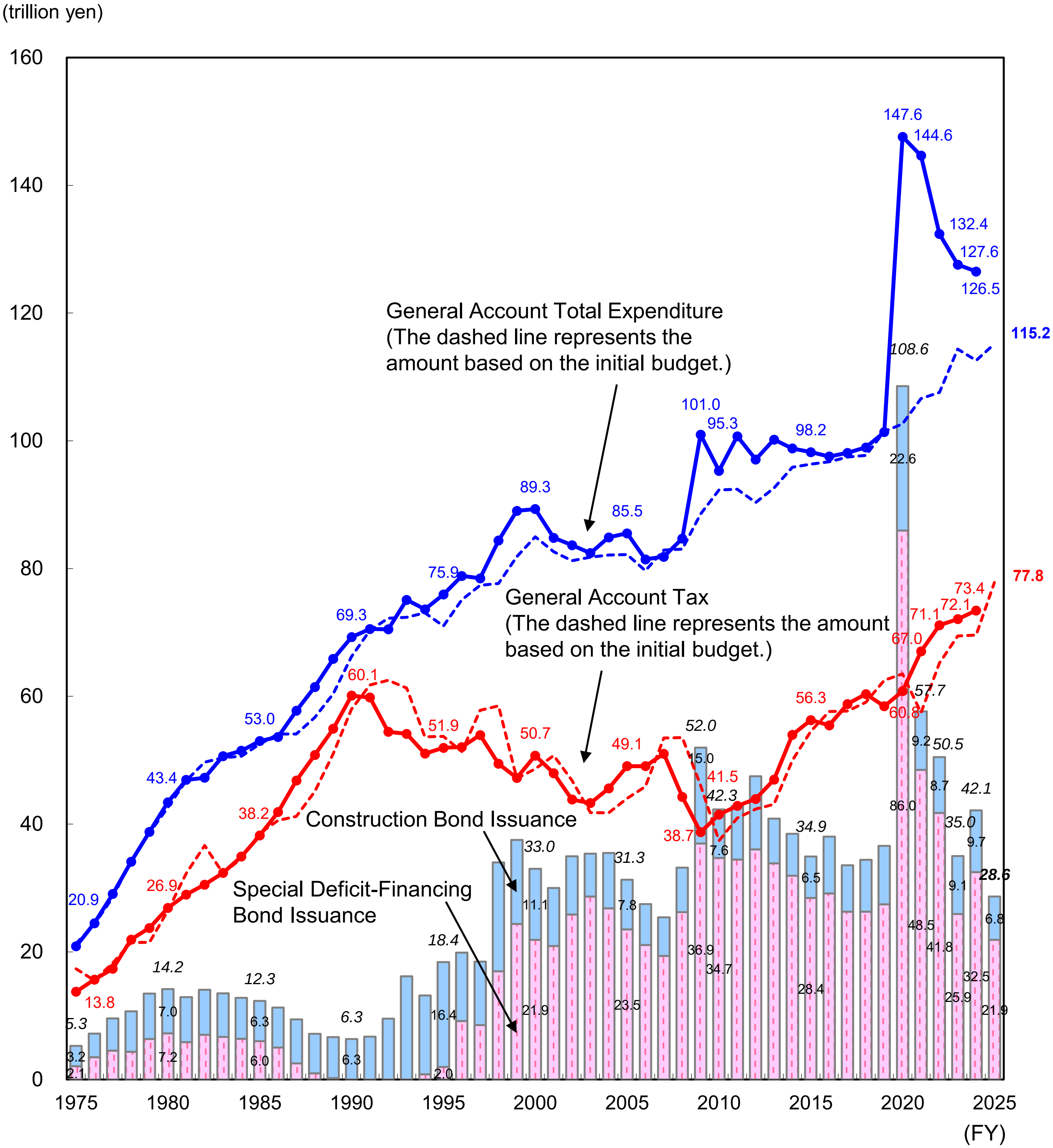
（2）Revenue

Tax revenue is estimated to be around 78 trillion yen in the FY2025 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 three-quarters of the whole expenditure in the FY2025 budget. As a result, about a quarter, the remainder, relies on the revenue from issuing government bonds (i.e. debt), which will be a burden to the future generations.



2. General Account Expenditure and Tax Revenue

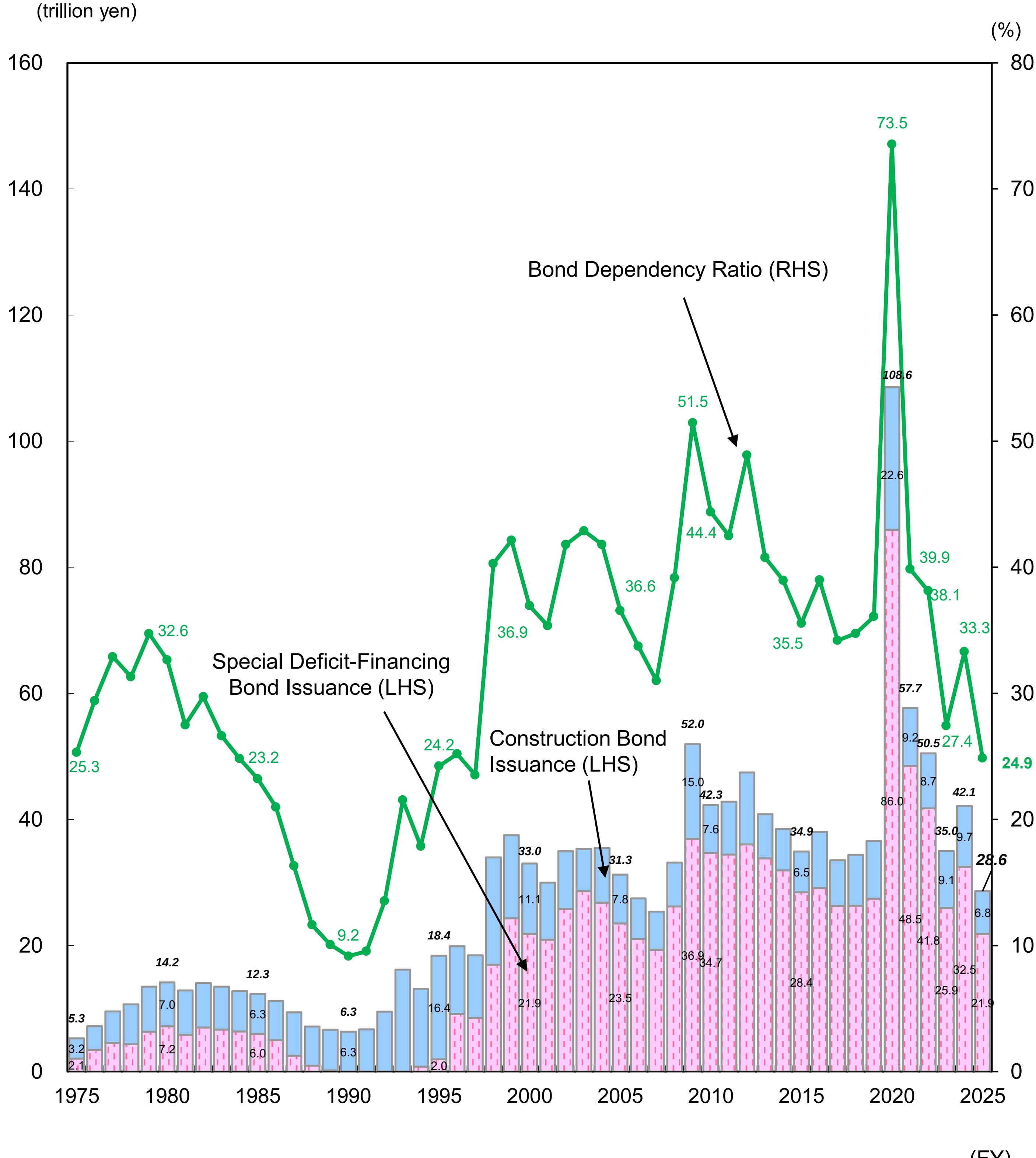
The Japanese Public Finance runs a budget deficit every fiscal year, as an amount of its expenditure exceeds that of revenue. Much of the gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).



(Note 1) FY1975 - FY2023: Settled figures; FY2024: Based on the supplementary budget; FY2025: Based on the budget (after revisions)
(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.

3. Bond Issuance and Bond Dependency Ratio

The bond dependency ratio (bond issuance / general account total expenditure) in FY2025 is projected to be 24.9%.



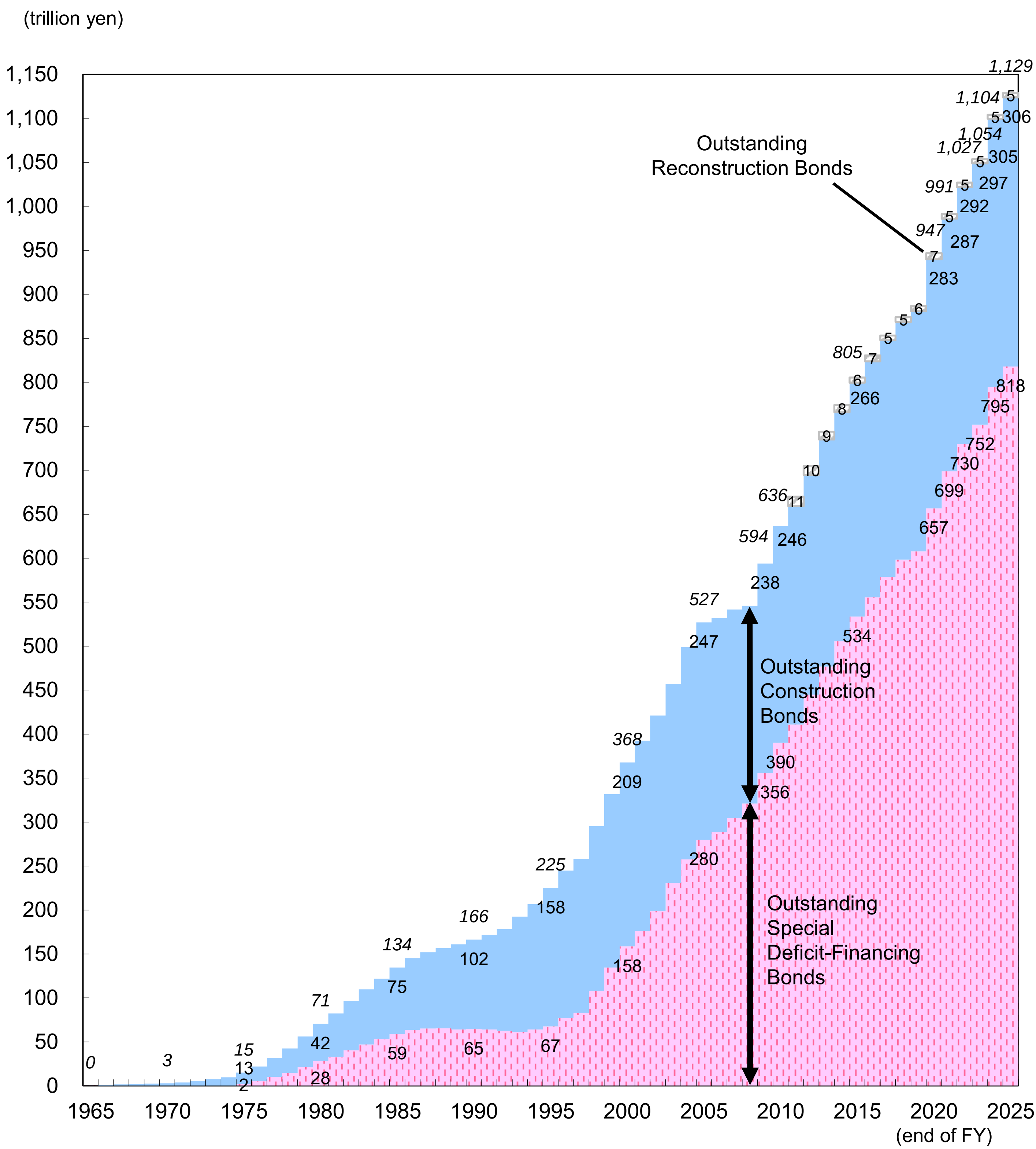
(Note 1) FY1975 - FY2023: Settled figures; FY2024: Based on the supplementary budget; FY2025: Based on the budget (after revisions)

(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 1,129 trillion yen at the end of FY2025.



(Note 1) FY1975 - FY2023: Actual figures; FY2024: Based on the supplementary budget; FY2025: Based on the budget (after revisions)

(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 estimated amount at the end of FY2025, excluding the issuance limit of advance refunding bonds for refinancing in the following fiscal year, is approximately 1,074 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 1,330 trillion yen (211% of GDP) at the end of FY2025.

(Unit: trillion yen)

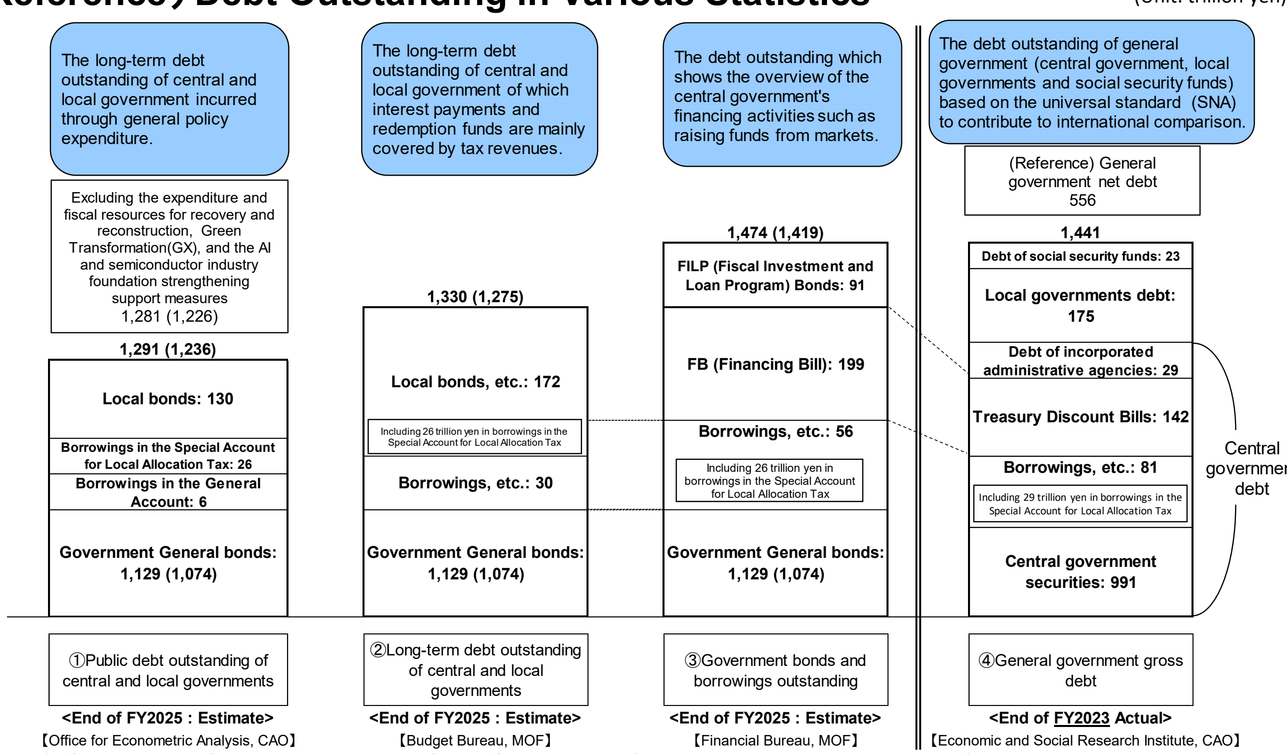
		FY1990 < Actual >	FY1998 < Actual >	FY2003 < Actual >	FY2008 < Actual >	FY2011 < Actual >	FY2012 < Actual >	FY2013 < Actual >	FY2014 < Actual >	FY2015 < Actual >	FY2016 < Actual >	FY2017 < Actual >	FY2018 < Actual >	FY2019 < Actual >	FY2020 < Actual >	FY2021 < Actual >	FY2022 < Actual >	FY2023 < Actual >	FY2024 < Estimated >	FY2025 < Budget >
Central Government		199	390	493	573	694	731	770	800	834	859	881	901	914	973	1,017	1,053	1,080	1,133	1,159
		(197)	(387)	(484)	(568)	(685)	(720)	(747)	(772)	(792)	(815)	(832)	(850)	(870)	(964)	(1,002)	(1,037)	(1,055)	(1,088)	(1,104)
	Government General Bonds	166	295	457	546	670	705	744	774	805	831	853	874	887	947	991	1,027	1,054	1,104	1,129
		(165)	(293)	(448)	(541)	(660)	(694)	(721)	(746)	(764)	(786)	(805)	(823)	(843)	(937)	(976)	(1,012)	(1,029)	(1,060)	(1,074)
	% of GDP	37%	55%	87%	106%	134%	141%	145%	148%	149%	152%	154%	157%	159%	176%	179%	181%	177%	180%	179%
		(37%)	(55%)	(85%)	(105%)	(132%)	(139%)	(141%)	(142%)	(141%)	(144%)	(145%)	(148%)	(151%)	(174%)	(176%)	(178%)	(173%)	(173%)	(171%)
Local Governments		67	163	198	197	200	201	201	201	199	197	196	194	192	192	191	187	183	178	172
	% of GDP	15%	30%	38%	38%	40%	40%	39%	38%	37%	36%	35%	35%	35%	36%	34%	33%	31%	29%	27%
Total		266	553	692	770	895	932	972	1,001	1,033	1,056	1,077	1,095	1,106	1,165	1,208	1,239	1,262	1,311	1,330
		(264)	(550)	(683)	(765)	(885)	(921)	(949)	(972)	(991)	(1,012)	(1,028)	(1,044)	(1,062)	(1,156)	(1,193)	(1,224)	(1,238)	(1,266)	(1,275)
	% of GDP	59%	103%	131%	149%	179%	187%	190%	191%	191%	194%	194%	197%	199%	216%	218%	219%	212%	214%	211%
		(59%)	(103%)	(130%)	(148%)	(177%)	(184%)	(185%)	(186%)	(183%)	(186%)	(185%)	(188%)	(191%)	(215%)	(215%)	(216%)	(208%)	(207%)	(203%)

(end of FY)

(Note 1) GDP for FY1990 - FY2023: actual figures, FY2024 and FY2025: FY2025 Economic Outlook (Cabinet Office).
(Note 2) Central government debt in FY1990 – FY2023: actual figures; FY2024: based on the supplementary budget; FY2025: based on the budget (after revisions). Local governments debt in FY1990 - FY2023: actual figures; FY2024 and FY2025: 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 - FY2023: Figures in parentheses do not include the amount of front-loading issuance of refunding bonds. FY2024 - FY2025: 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 (26 trillion yen at the end of FY2025).
(Note 6) In addition to the above, outstanding government bond in the special account for fiscal investment and loan program at the end of FY2025 is 91 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 (55.0 trillion yen).
(Note 3) Government general bonds at the end of FY2025 includes Reconstruction Bonds (around 4.6 trillion yen).
(Note 4) Borrowings in the Special Account for Local Allocation Tax is partly transferred to general account (the borrowings in the general account in ①).
(Note 5) Local bonds, etc. in ② includes local bonds, borrowings in the Special Account for Local Allocation Tax, and local public corporation bonds (charged to the ordinary account) (around 14 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 26 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 FY2025 (after revisions) and the local government debt plan etc.
(Note 10) "General government net debt" is a figure excluding general government financial asset (around 885 trillion yen) from "General government gross debt".

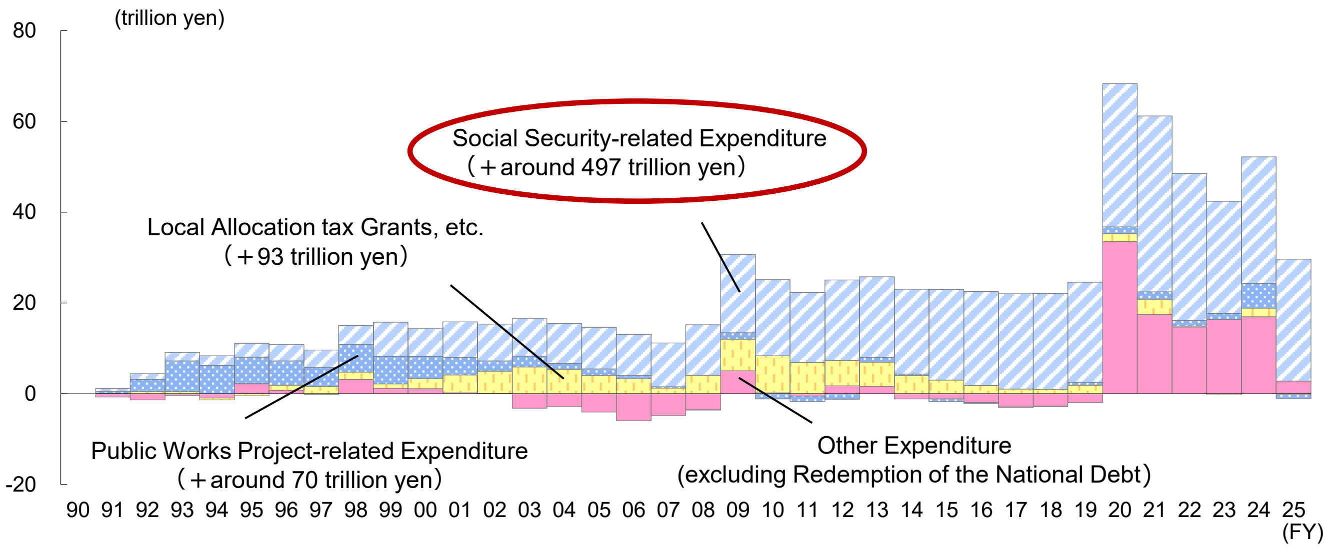
6. Factors for an Increase in Government General Bonds Outstanding

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;

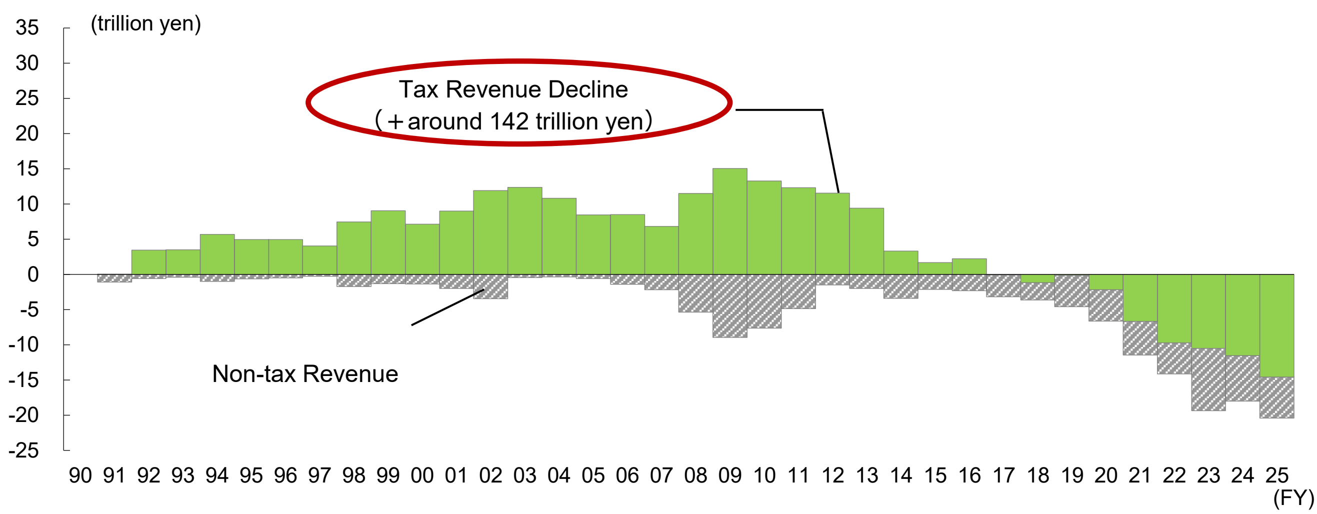
- expenditure side; increase in social security expenditures due to the population aging and local allocation tax grants, etc.
- revenue side; decline in tax revenue due to economic downturns and tax cuts.

Increase in Outstanding Government General Bonds from FY1990 to FY2025: around 958 trillion yen

Expenditure increase factors: + around 740 trillion yen



Revenue decrease factors: + around 39 trillion yen



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

Impact of balance gap in FY1990: + around 99 trillion yen
(around 2.8 trillion yen (FY1990 balance gap) x 35 years (FY1991-FY2025))

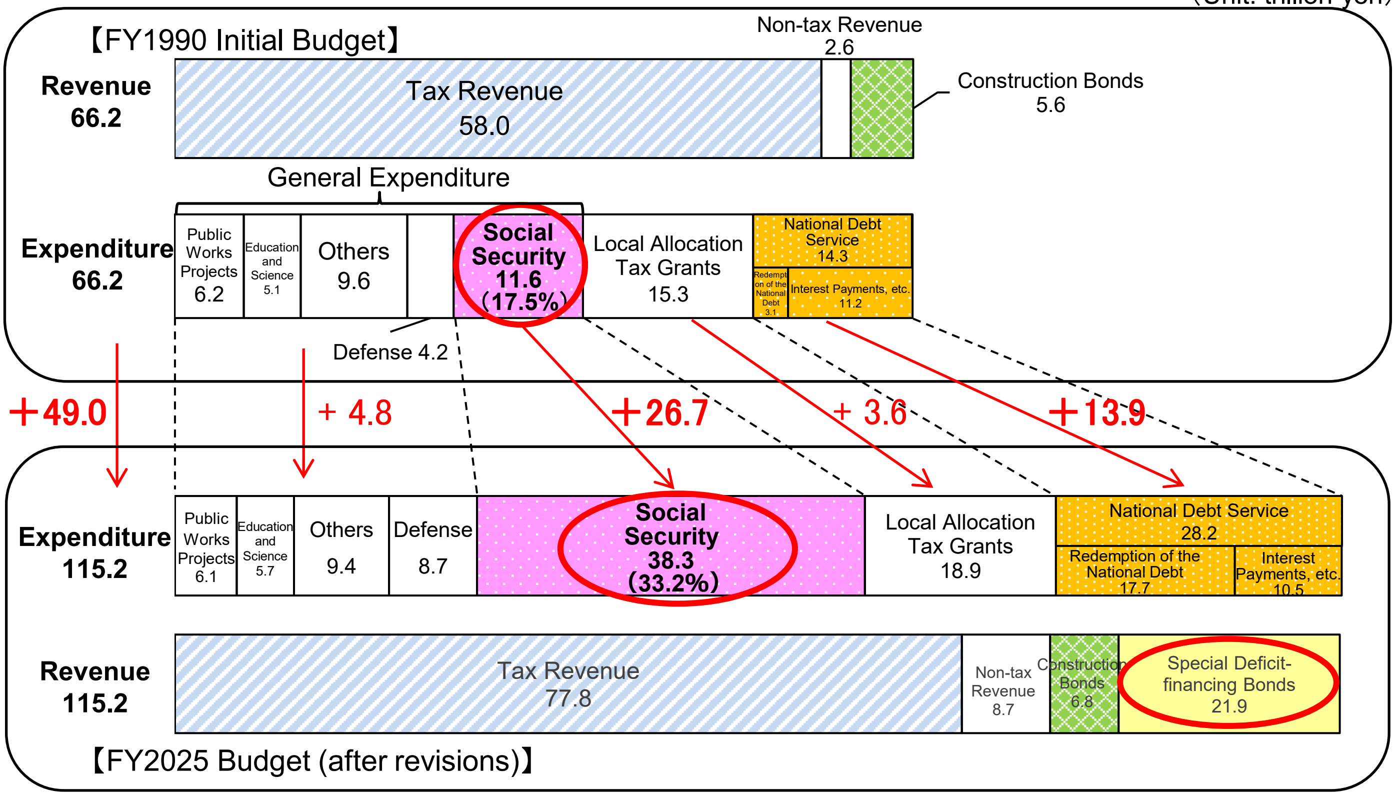
Other factors (long-term debt transferred from Japan National Railway, etc.): + around 79 trillion yen

(Note 1) FY1990 - FY2023: settled figures; FY2024: based on the supplementary budget; FY2025: based on the budget (after revisions). The amount of expenditure for FY2024 includes the carry-over from FY2023 to FY2024.
(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, 4.6 trillion yen at the end of FY2025) 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 FY2025

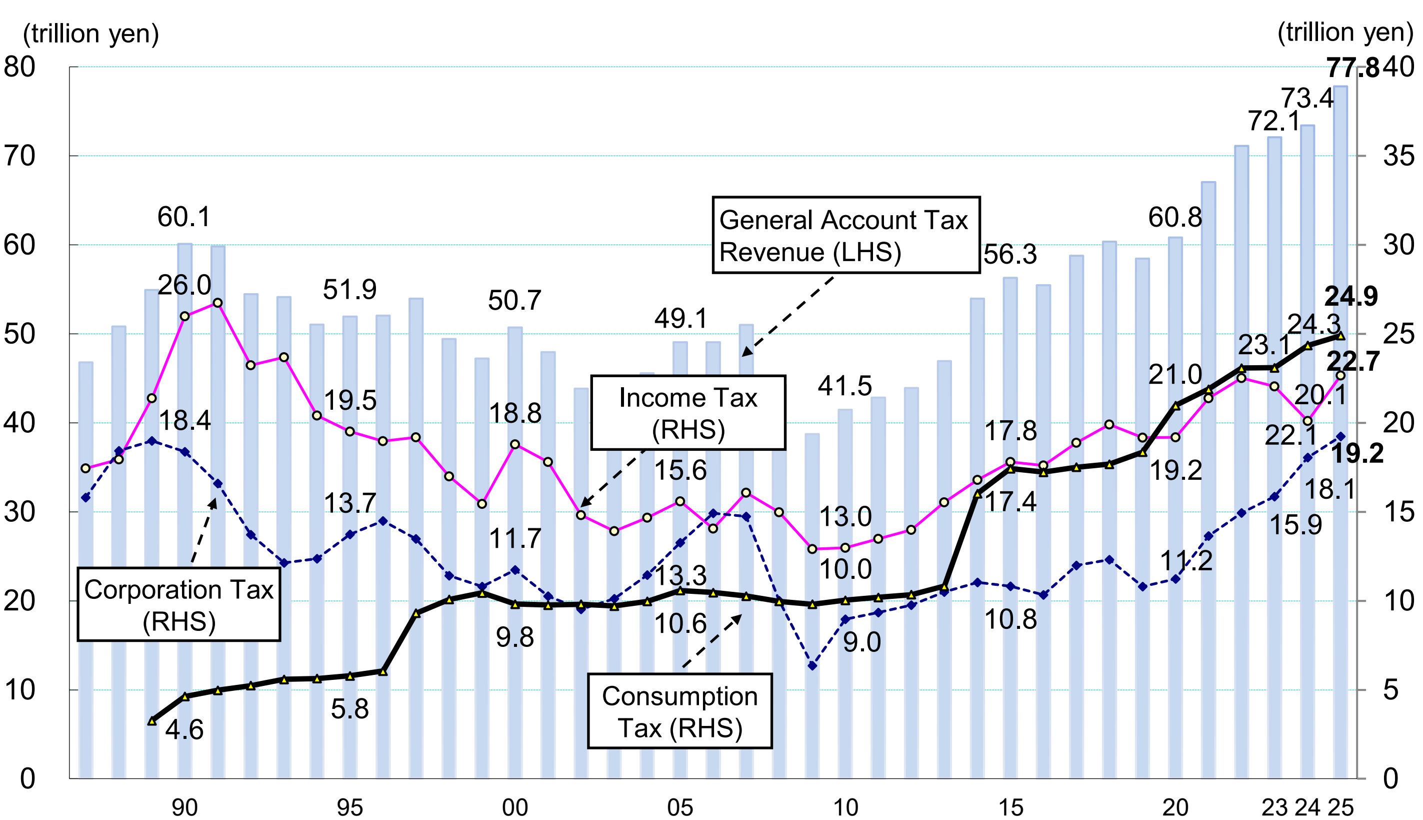
Compared to the FY1990 budget, when the issuance of special deficit-financing bond temporarily stopped, social security-related expenses have significantly increased, and they are covered by special deficit-financing bonds issuance in the FY2025.

(Unit: trillion yen)



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

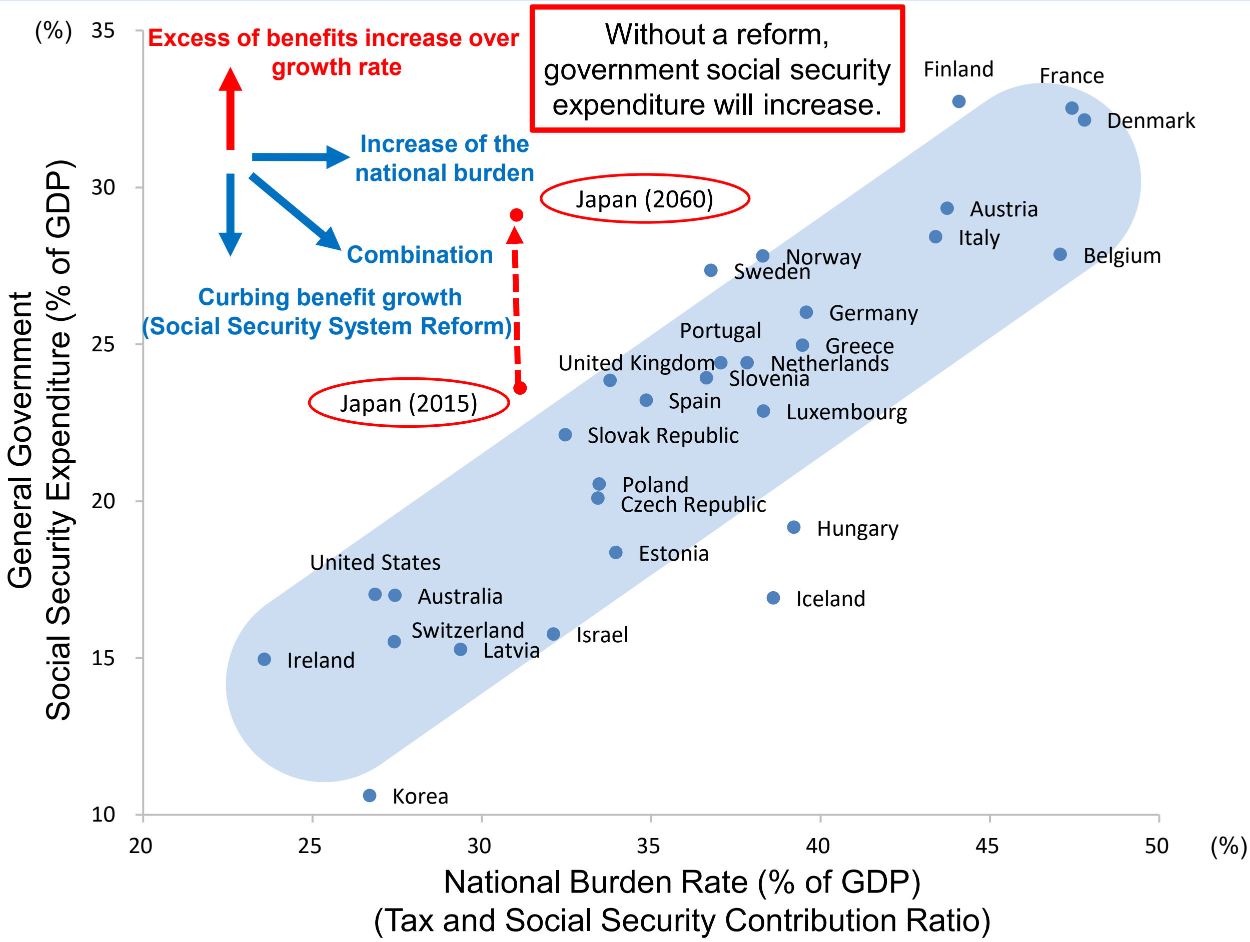
(Reference) Trends of General Account Tax Revenue



(Note) FY1987- FY2023: Settled figures; FY2024: Based on the supplementary budget; FY2025: Based on the budget (after revisions)

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

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



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

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

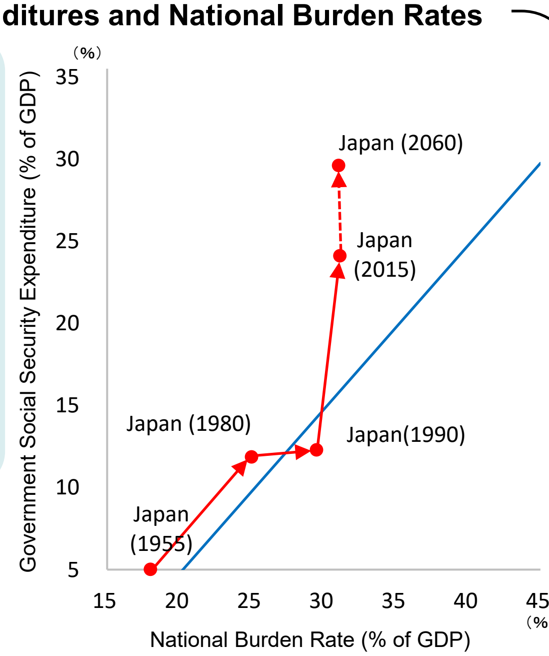
(Note 2) Japan: Actual figures of FY2015, Iceland and Australia: Actual figures of CY2014, the other countries: Actual figures of CY2015

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

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

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

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



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

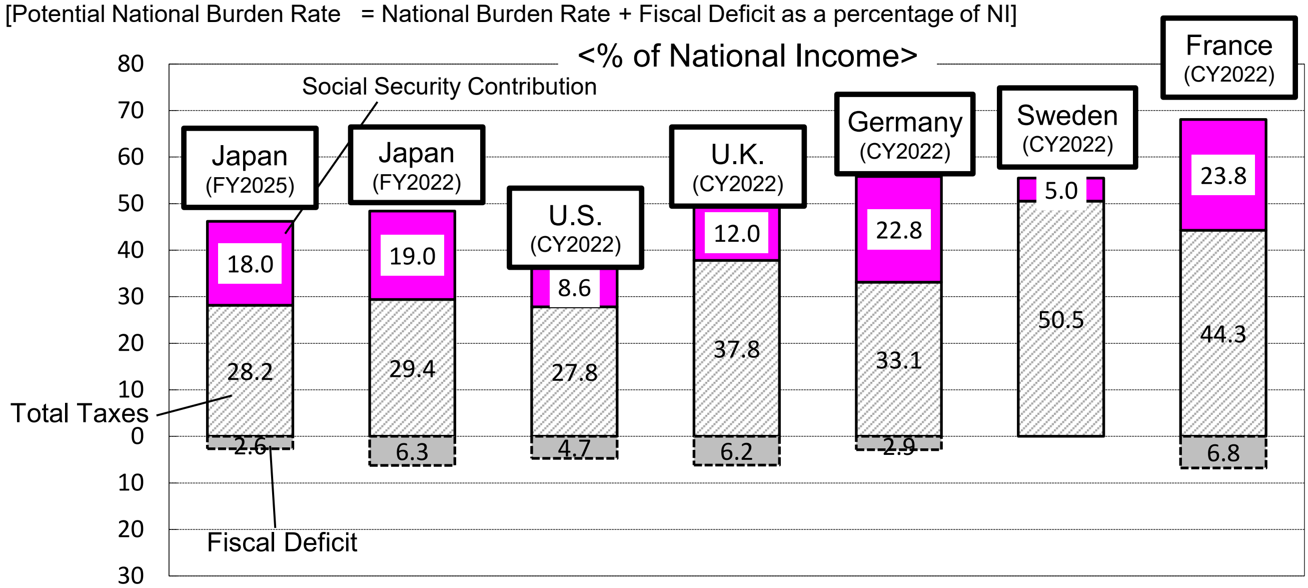
(Note 1) The word "primary balance" here is simply defined as [the national burden ratio - (social security expenditure + non-social security expenditure (excluding interest payments))] (All figures are % of GDP), which is different from the SNA-based primary balance.

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

9. International Comparison of National Burden Rate

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

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

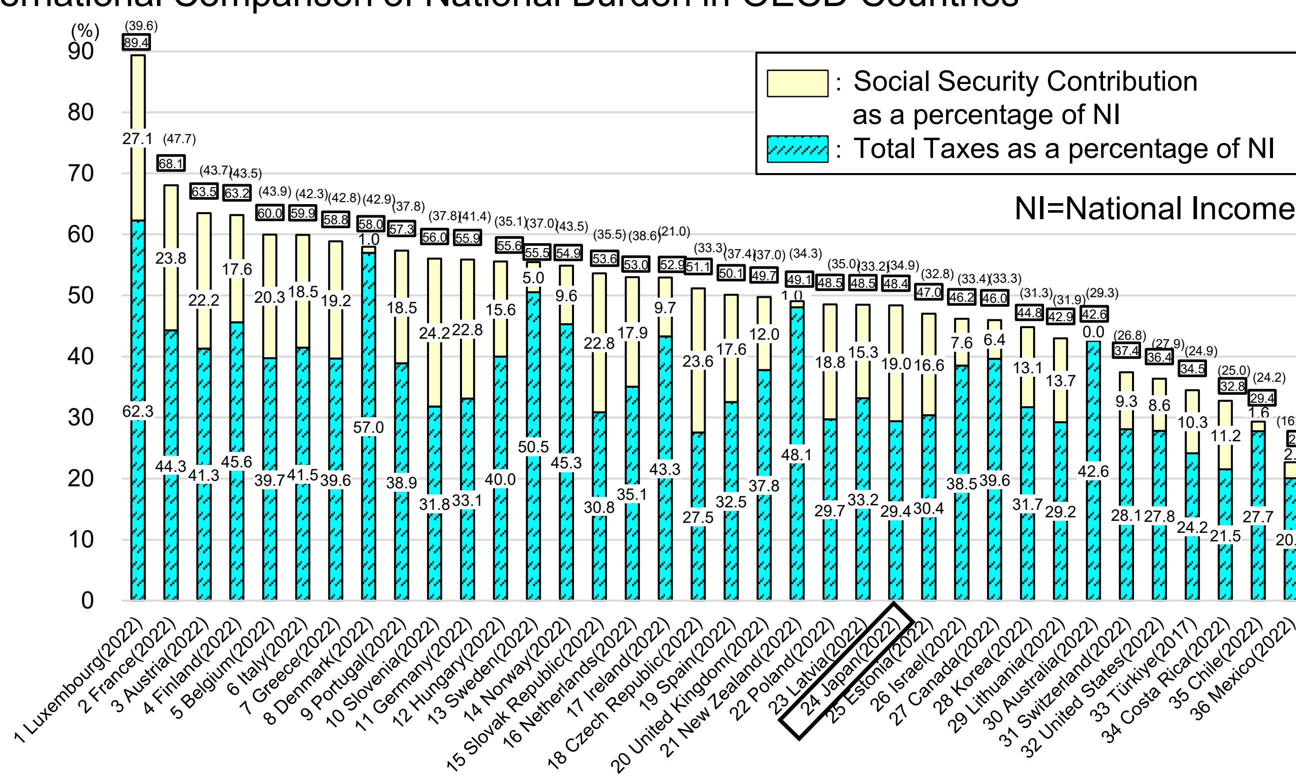


National Burden Rate	46.2 (34.0)	48.4 (34.9)	36.4 (27.9)	49.7 (37.0)	55.9 (41.4)	55.5 (37.0)	68.1 (47.7)
Potential National Burden Rate	48.8 (35.9)	54.6 (39.5)	41.1 (31.5)	55.9 (41.6)	58.8 (43.6)	55.5 (37.0)	74.8 (52.4)

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

(Note 1) Japan: projected figures of FY2025 (based on the revised budget); actual figures of FY2022. The other countries: actual figures of CY2022
(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 116”(December 2024), U.S. Bureau of Economic Analysis.

International Comparison of National Burden in OECD Countries

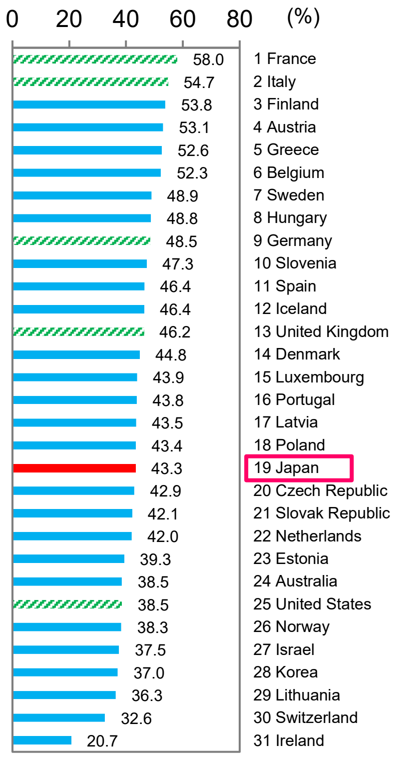


(Note 1) 36 countries out of 38 OECD countries. Australia: provisional figures, the other countries: actual figures, Colombia and Iceland: no data.
(Note 2) The figures in parentheses represent National Burden Ratio as % of GDP.
(Source) Japan: Cabinet Office “National Accounts”, etc. the other countries: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

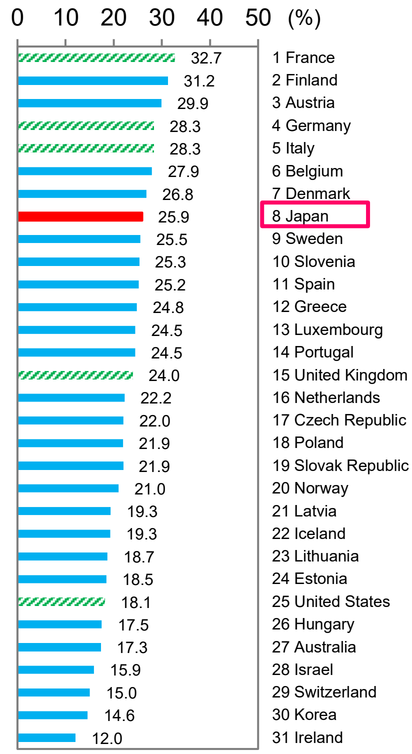
10. Revenues and Expenditures in OECD Countries

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.

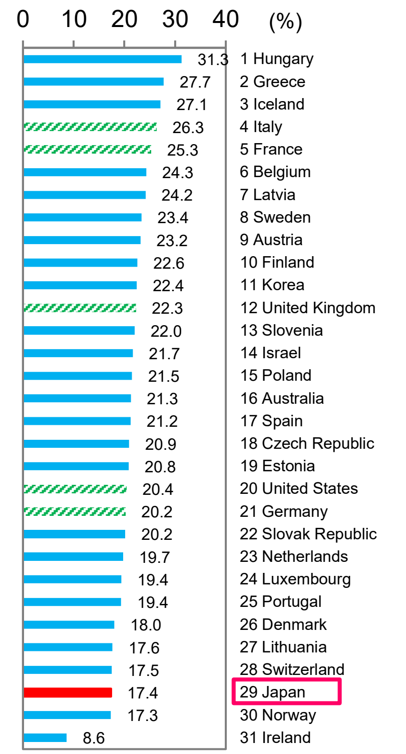
Total Expenditure (2022)



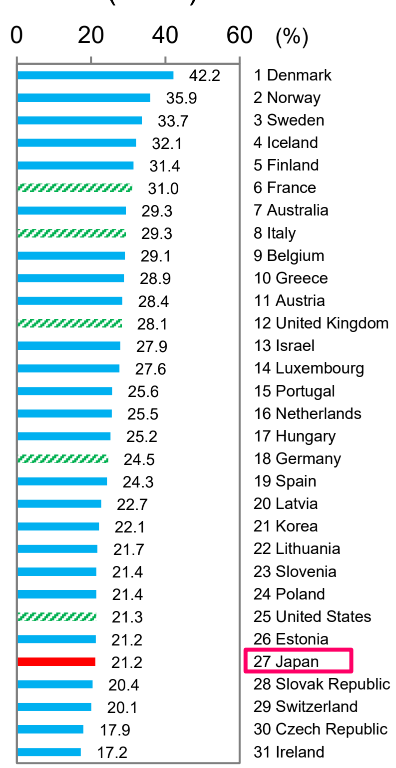
Social Security Expenditure (2022)



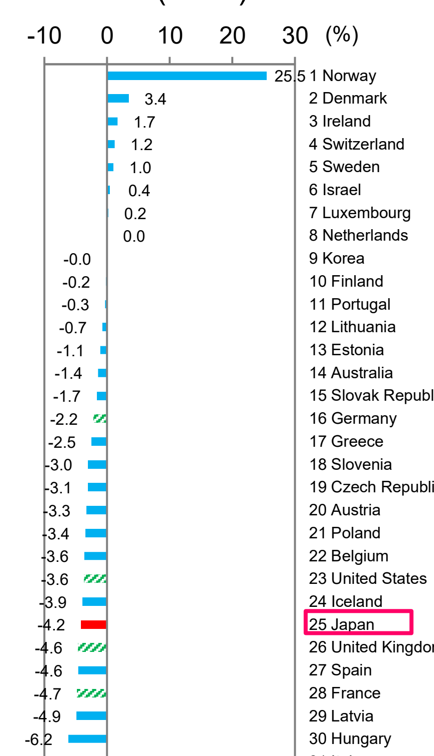
Non-Social Security Expenditure (2022)

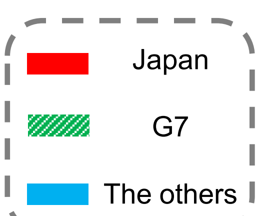


Tax Revenue (2022)



Fiscal Balance (2022)





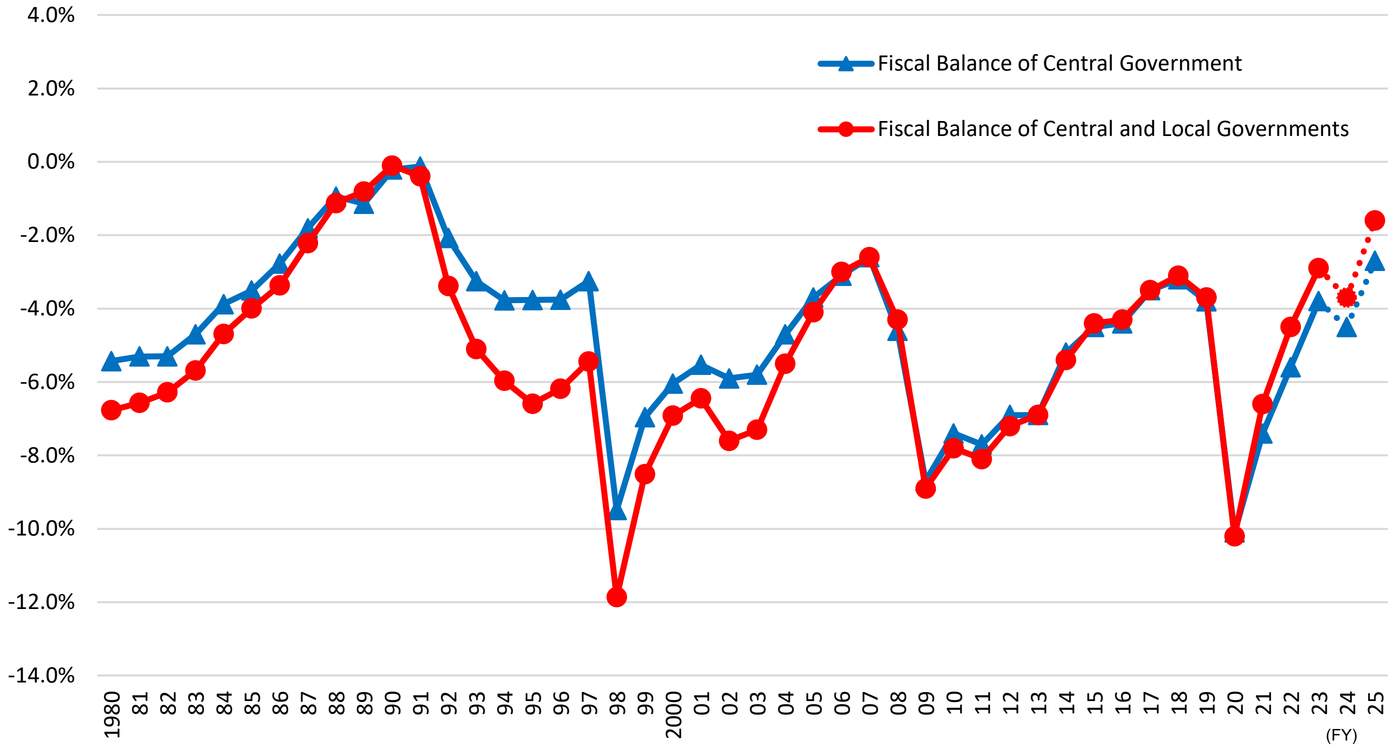
(% of GDP)

(Source) Fiscal Balance: OECD "Economic Outlook 116"(December 2024), Others: OECD "National accounts", "Revenue Statistics" and, Cabinet Office "National Accounts", etc.
(Note 1) The figures for Australia is 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).

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

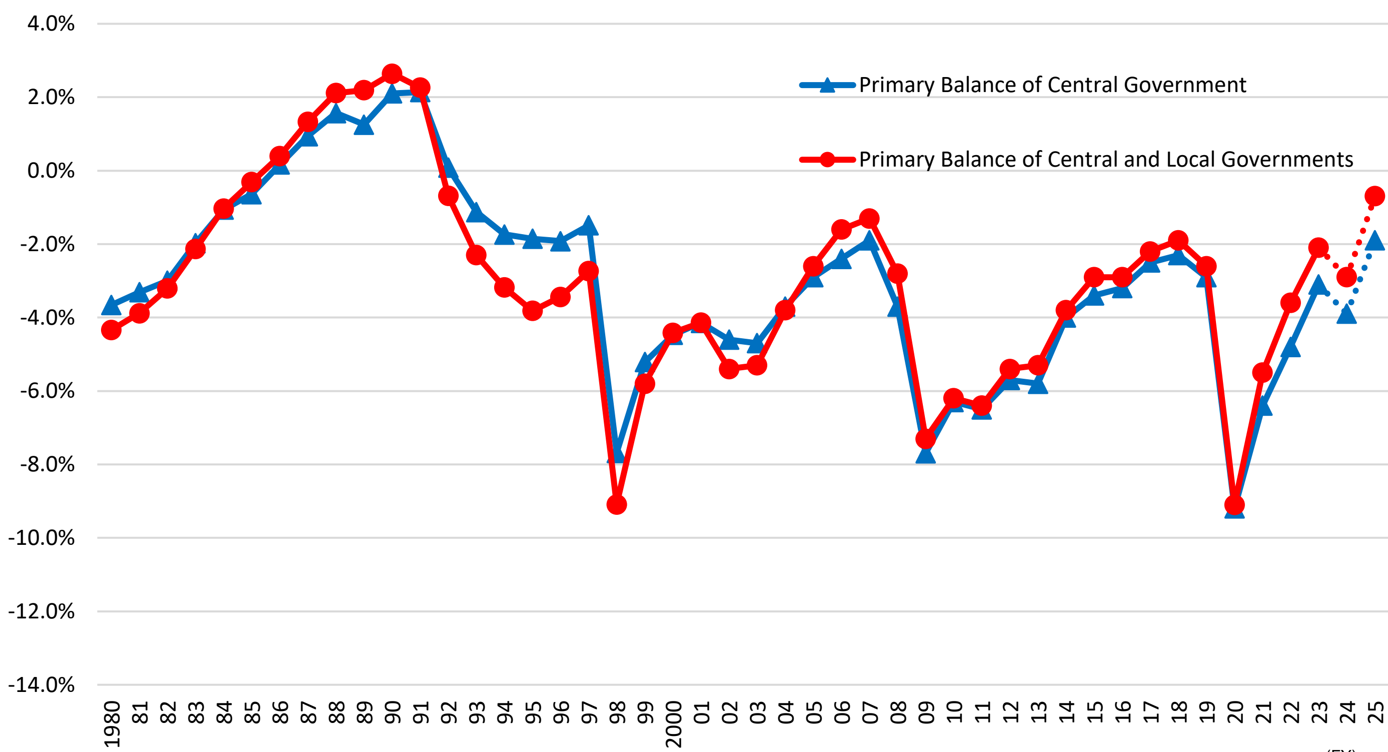
Japan's fiscal and primary balance remain in deficit.

■ Fiscal Balance (% of GDP)



(Source) Cabinet Office "Annual Report on National Accounts", "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 17, 2025)
(Note 1) Figures for FY1980-FY1993 are based on 93SNA; Figures for FY1994-FY2025 are based on 08SNA.
(Note 2) Figures for FY1980-FY2001 are based on the Cabinet Office's "Annual Report on National Accounts". It should be noted that the figures for FY2002-FY2025 are based on the Cabinet Office's "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 17, 2025) (excluding the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support) , and exclude special factors for single fiscal years only.

■ Primary Balance (% of GDP)



(Source) Cabinet Office "Annual Report on National Accounts", "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 17, 2025)
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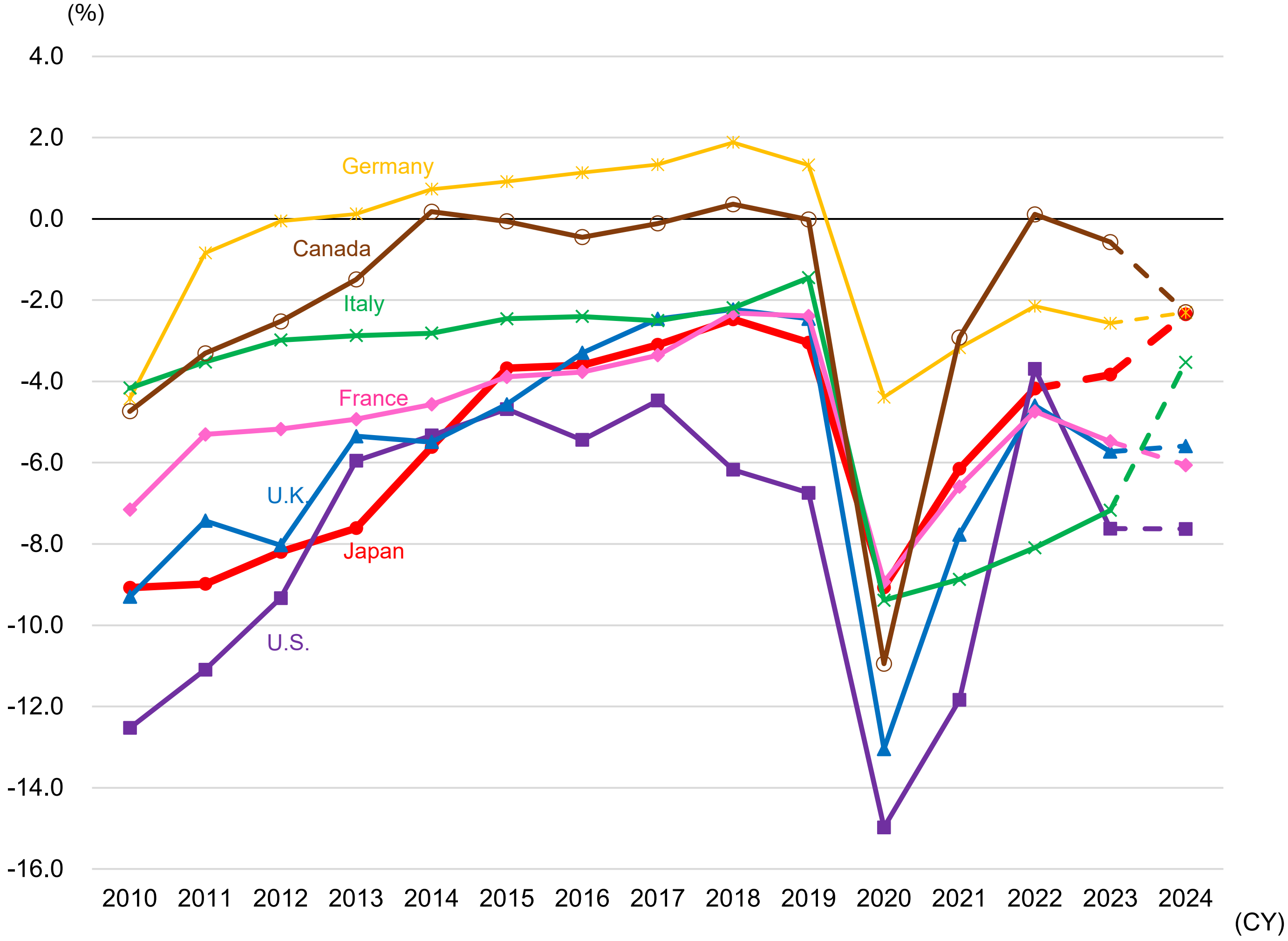
12. International Comparison of General Government Fiscal Balance (% of GDP)

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.

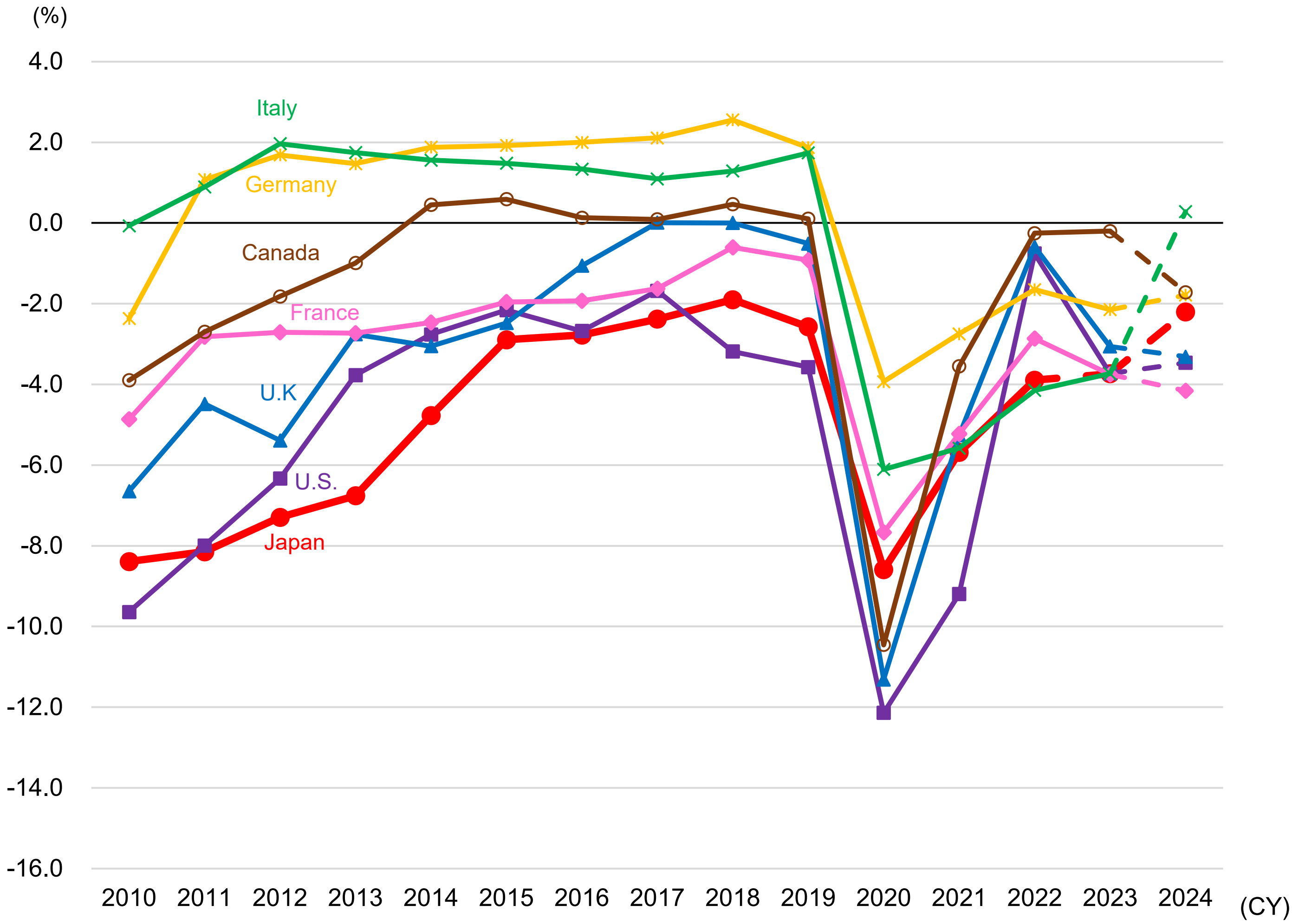


CY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Japan	-9.1	-9.0	-8.2	-7.6	-5.6	-3.7	-3.6	-3.1	-2.5	-3.0	-9.1	-6.2	-4.2	*-3.8*	*-2.3*
U.S.	-12.5	-11.1	-9.3	-6.0	-5.3	-4.7	-5.4	-4.5	-6.2	-6.7	-15.0	-11.8	-3.7	-7.6	*-7.6*
U.K.	-9.3	-7.4	-8.0	-5.3	-5.5	-4.6	-3.3	-2.5	-2.2	-2.5	-13.0	-7.8	-4.6	-5.7	*-5.6*
Germany	-4.4	-0.8	-0.1	0.1	0.7	0.9	1.1	1.3	1.9	1.3	-4.4	-3.2	-2.2	-2.6	*-2.3*
France	-7.2	-5.3	-5.2	-4.9	-4.6	-3.9	-3.8	-3.4	-2.3	-2.4	-8.9	-6.6	-4.7	-5.5	*-6.1*
Italy	-4.2	-3.5	-3.0	-2.9	-2.8	-2.5	-2.4	-2.5	-2.2	-1.4	-9.4	-8.9	-8.1	-7.2	*-3.5*
Canada	-4.7	-3.3	-2.5	-1.5	0.2	-0.1	-0.5	-0.1	0.4	0.0	-10.9	-2.9	0.1	-0.6	*-2.3*

(Source) OECD "Economic Outlook 116" (December 4, 2024)
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2023-2024 figures for Japan and the 2024 figures for other countries are estimated figures.

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

Although Japan is under significant necessity to achieve primary surplus considering highest debt-to-GDP ratio in the world, Japan's fiscal management does not seem tight enough in terms of flow balance. Especially, its primary balance has been 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	2024
Japan	-8.4	-8.1	-7.3	-6.8	-4.8	-2.9	-2.8	-2.4	-1.9	-2.6	-8.6	-5.7	-3.9	*-3.7*	*-2.2*
U.S.	-9.6	-8.0	-6.3	-3.8	-2.8	-2.2	-2.7	-1.7	-3.2	-3.6	-12.1	-9.2	-0.8	-3.7	*-3.5*
U.K.	-6.6	-4.5	-5.4	-2.8	-3.1	-2.5	-1.1	0.0	0.0	-0.5	-11.3	-5.3	-0.6	-3.1	*-3.3*
Germany	-2.4	1.1	1.7	1.5	1.9	1.9	2.0	2.1	2.6	1.9	-3.9	-2.7	-1.7	-2.1	*-1.8*
France	-4.9	-2.8	-2.7	-2.7	-2.5	-2.0	-1.9	-1.6	-0.6	-0.9	-7.7	-5.2	-2.9	-3.8	*-4.2*
Italy	-0.1	0.9	2.0	1.7	1.6	1.5	1.3	1.1	1.3	1.7	-6.1	-5.6	-4.2	-3.7	*0.3*
Canada	-3.9	-2.7	-1.8	-1.0	0.5	0.6	0.1	0.1	0.5	0.1	-10.5	-3.6	-0.3	-0.2	*-1.7*

(Source) OECD "Economic Outlook 116" (December 4, 2024)
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2023-2024 figures for Japan and the 2024 figures for other countries are estimated figures.

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

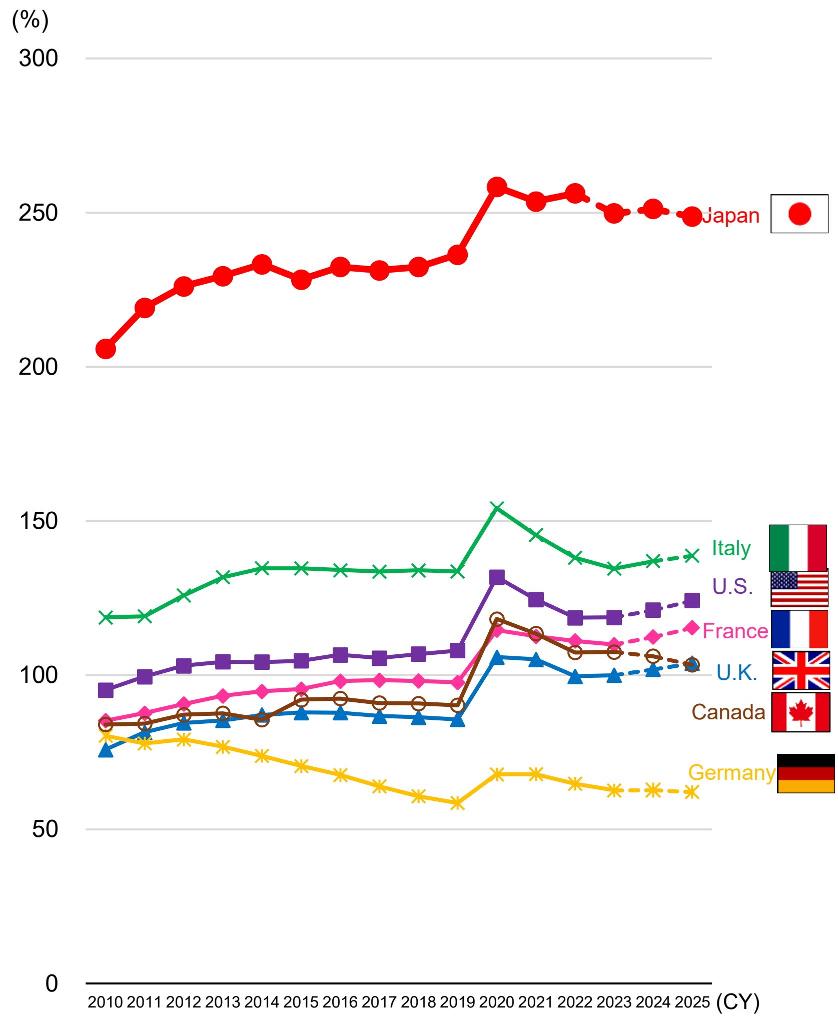
Japan’s general government gross debt-to-GDP ratio stands at the highest level not only among major advanced countries but also among all countries.

<World Ranking (out of 186 countries/regions)>

1	Macau	0.0%
	⋮	
4	Hong Kong	4.3%
	⋮	
81	Korea	49.8%
	⋮	
116	Germany	64.8%
	⋮	
141	China	77.4%
	⋮	
165	U.K.	99.6%
	⋮	
170	Canada	107.4%
	⋮	
172	France	111.1%
	⋮	
179	U.S.	118.6%
	⋮	
183	Italy	138.1%
184	Singapore	158.2%
185	Greece	179.6%
186	Japan	256.3%

* Actual figures in 2022
Excluding countries with estimated or unknown figures in 2022

<Comparison with major advanced countries>



CY	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Japan	205.9	219.2	226.1	229.5	233.3	228.3	232.4	231.3	232.4	236.4	258.4	253.7	256.3	*249.7*	*251.2*	*248.7*
U.S.	95.2	99.5	103.1	104.3	104.2	104.7	106.6	105.5	106.8	108.0	131.8	124.5	118.6	118.7	*121.0*	*124.1*
U.K.	75.9	81.4	84.5	85.3	87.1	87.9	87.8	86.7	86.3	85.7	105.8	105.1	99.6	100.0	*101.8*	*103.8*
Germany	80.4	77.8	79.2	76.8	73.8	70.6	67.6	64.0	60.7	58.6	67.9	67.9	64.8	62.7	*62.7*	*62.1*
France	85.2	87.7	90.6	93.3	94.7	95.5	98.1	98.4	98.1	97.6	114.6	112.6	111.1	109.9	*112.3*	*115.3*
Italy	118.7	119.1	125.8	131.8	134.7	134.7	134.1	133.6	134.0	133.6	154.1	145.5	138.1	134.6	*136.9*	*138.7*
Canada	84.0	84.3	87.2	87.6	85.5	92.0	92.4	90.9	90.8	90.2	118.2	113.5	107.4	107.5	*106.1*	*103.2*

(Source) IMF "World Economic Outlook" (October 2024).
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined).
(Note 2) The 2023-2025 figures for Japan and the 2024-2025 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）

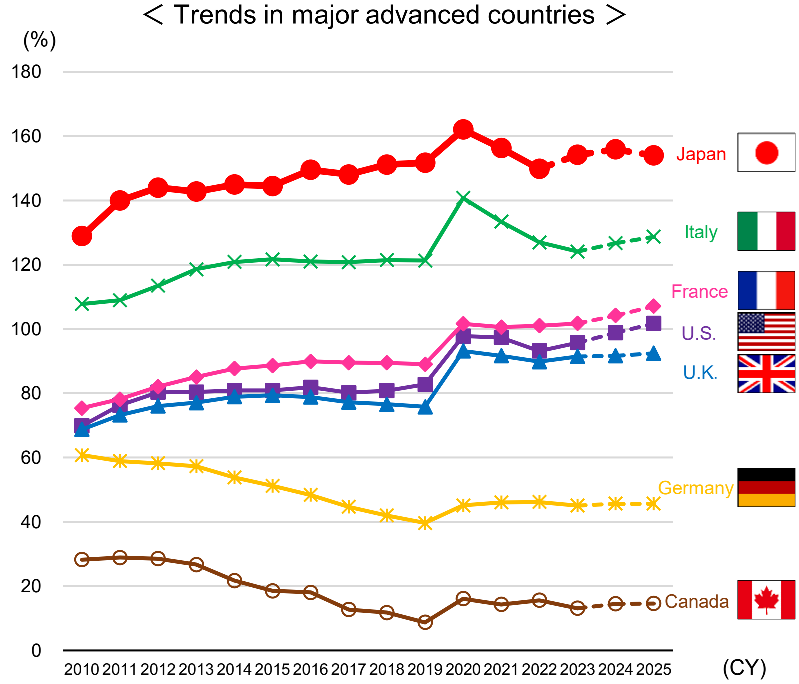
Even in terms of net debt, which means government’s gross debt less government-owned financial assets (such as pension reserve consisting of insurance contribution), net debt-to-GDP ratio stands at the highest level compared to the other countries.

＜ Ranking in 89 countries ＞

1	Norway	-63.9%
2	Luxembourg	-7.8%
3	Kazakhstan	-1.2%
	⋮	
13	Canada	15.6%
	⋮	
19	Korea	21.6%
	⋮	
47	Germany	46.2%
	⋮	
78	U.K.	89.8%
	⋮	
82	U.S.	93.2%
	⋮	
84	France	101.0%
	⋮	
86	Cabo Verde	111.5%
87	Barbados	112.3%
88	Italy	126.9%
89	Japan	149.8%

* Actual figures in 2022
Excluding countries with estimated or unknown figures in 2022

＜ Trends in major advanced countries ＞



(Source) IMF "World Economic Outlook" (October 2024).
(Note 1) The figures represent the general government-based data (the central / local governments and social security funds combined).
(Note 2) The 2023-2025 figures for Japan and the 2024-2025 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. Interest rates are on the rise, and the assumption that interest rates will continue to remain below nominal economic growth rates in the future is too optimistic.
- ✓ Japan has the highest level debt-to-GDP ratio in the world. If interest rates rise and interest payments increase, this could put pressure on policy expenditures.

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.

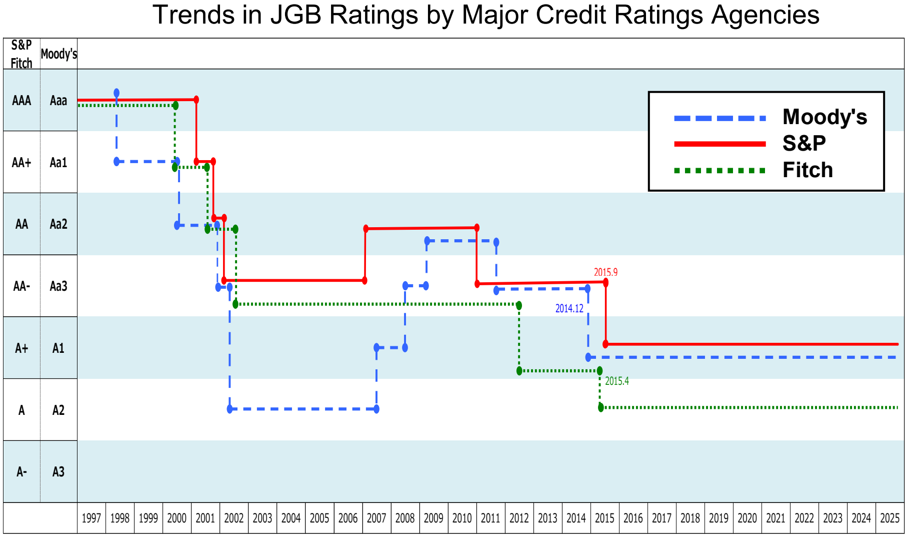
Confidence in Japan’s public finance is a prerequisite for Market’s stable absorption of JGBs

- ✓ 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 March 28, 2025)

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

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. 26 2001	Structural Reform of the Japanese Economy: Basic Policies for Macroeconomic Management (Cabinet Decision)	Primary Surplus of the Central and Local Govern-ments	The goal of policy management will be to turn the primary balance of the budget into a surplus (outlays other than interest payments on and redemption of past borrowings do not depend on any new borrowings).
Jun. 25 2002	Basic Policy for Economic and Fiscal Management and Structural Reform 2002 (Cabinet Decision)		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.
Jun. 21 2024	Basic Policy on Economic and Fiscal Management and Reform 2024 (Cabinet Decision)		The Government aims to achieve a primary balance surplus of the central and local governments in FY 2025 and move further forward with efforts to achieve both economic revival and fiscal consolidation in order to reduce the public debt-to-GDP ratio steadily without reversing the progress or achievement of the commitment throughout the plan period.

Fiscal Consolidation Target

By FY2025	**Achieve a primary surplus of the central and local governments**
Throughout the plan period(by FY2030)	**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.

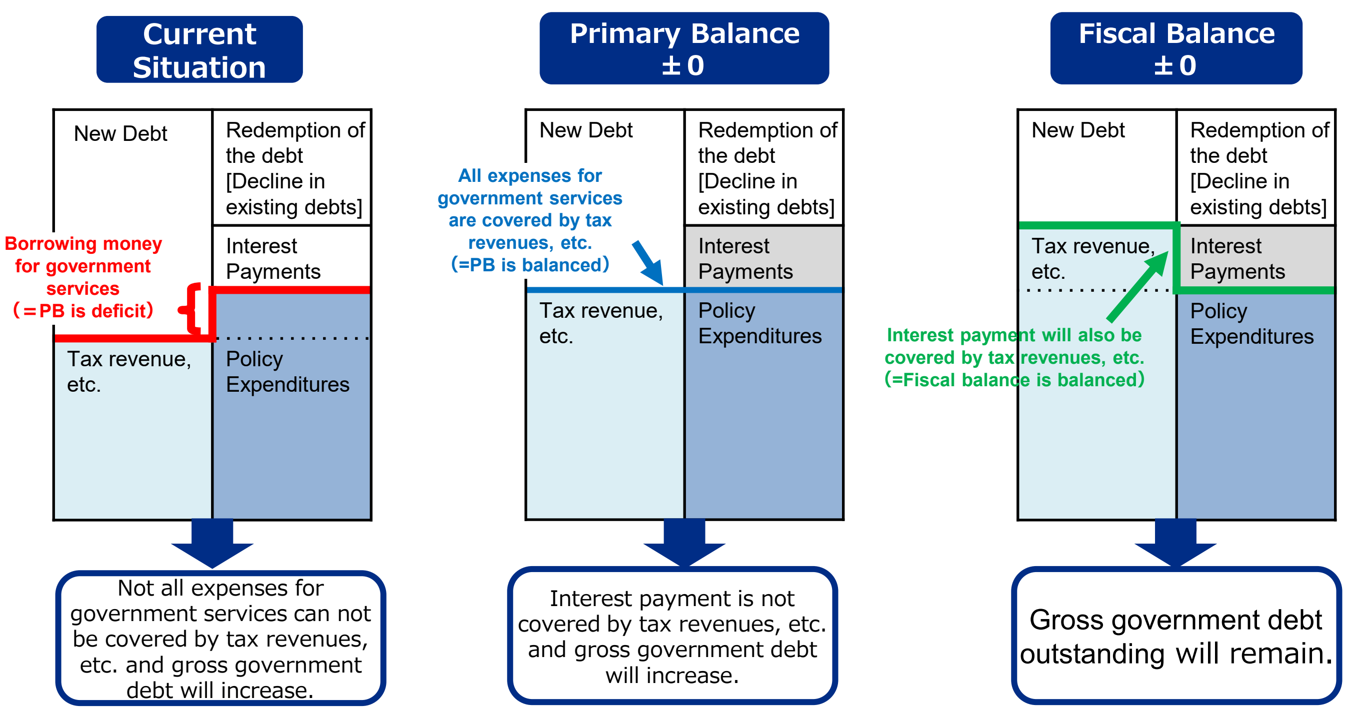
<Flow Indicators (1)> Fiscal Balance (Fiscal balance including interest payments)

"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)

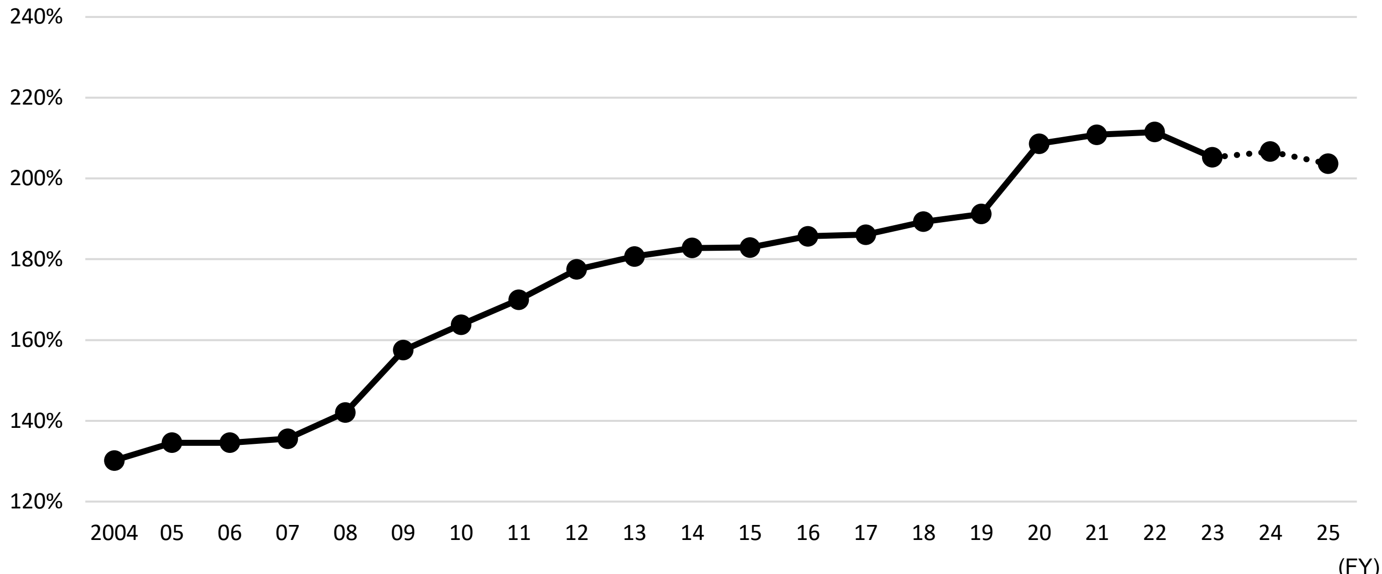
$$= \frac{\text{Accumulated debts (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal interest rate (r))}} + \boxed{\begin{array}{c}\textbf{Primary deficit}\\ \text{(current fiscal year)}\end{array}}}{\text{GDP (previous fiscal year)} \times \boxed{\textbf{(1+ Nominal growth rate (g))}}}$$

In case the primary balance is in balance,

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

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

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

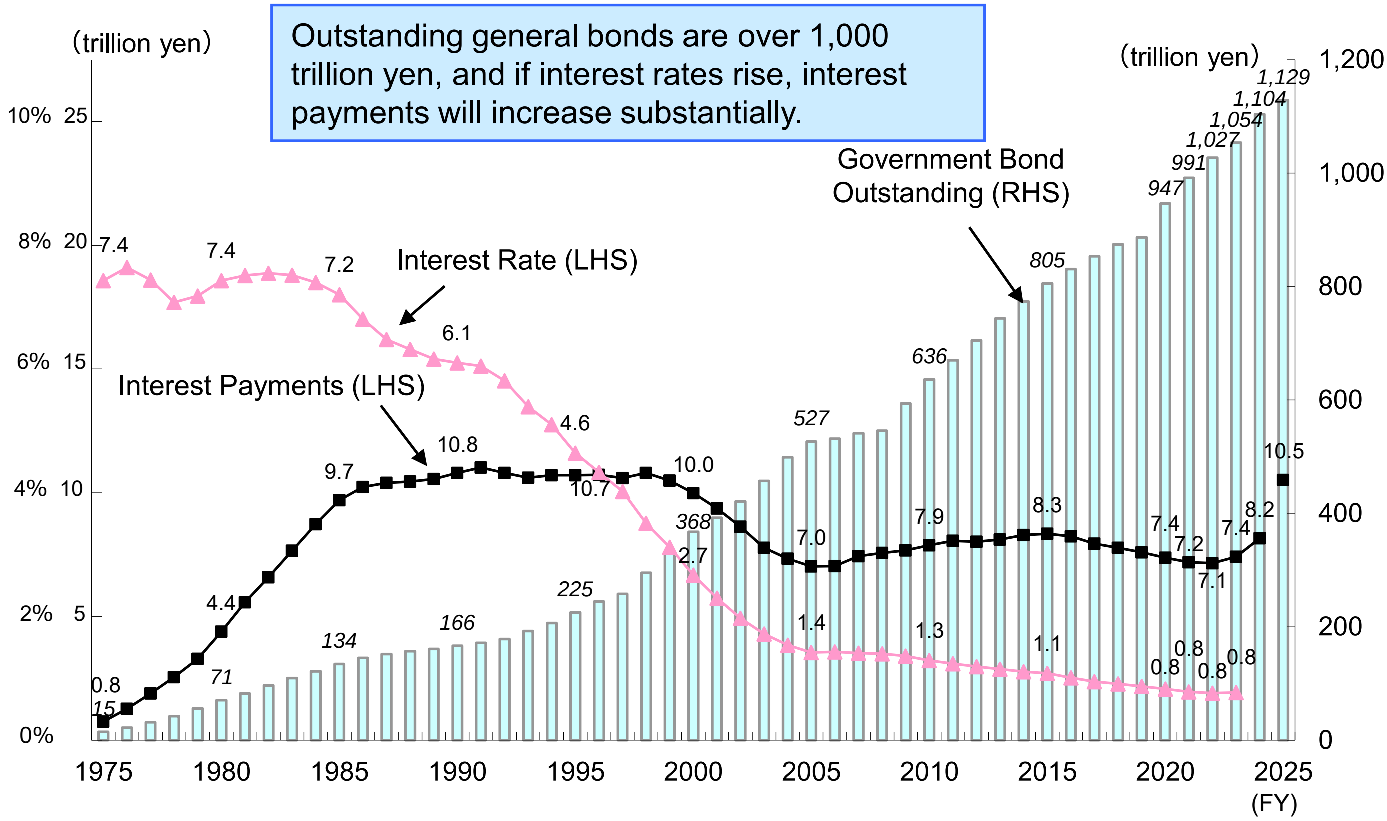


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Actual Figure (trillion yen)	689.9	718.7	723.0	730.2	733.3	783.1	827.2	850.3	886.2	926.6	956.7	988.9	1011.7	1034.1	1053.5	1064.6	1124.1	1168.9	1199.9	1221.1	1266.0	1281.4
ratio to nominal GDP	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%	208.6%	210.8%	211.5%	205.2%	206.6%	203.6%
Nominal GDP (trillion yen)	529.6	534.1	537.3	538.5	516.2	497.4	504.9	500.0	499.4	512.7	523.4	540.7	544.8	555.7	556.6	556.8	538.8	554.6	567.3	595.2	612.7	629.3

(Source) Cabinet Office "Economic and Fiscal Projections for Medium- to Long-term Analysis" (January 17, 2025)
(Note) Excluding the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support.

(Reference) Trends in Interest Payments and Interest Rate

Outstanding general bonds are over 1,000 trillion yen, and if interest rates rise, interest payments will increase substantially.

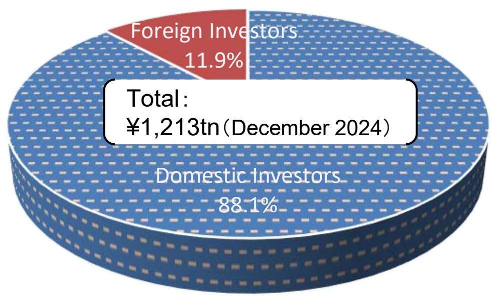


(Note 1) Interest Payments in FY1975 - FY2023: settled figures ; FY2024: based on the supplementary budget ; FY2025: based on the budget (after revisions)
(Note 2) Interest rates are based on the weighted average of interest rates of government general bonds.
(Note 3) Outstanding government general bonds in FY1975 - FY2023: actual figures ; FY2024: based on the supplementary budget ; FY2025: 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.

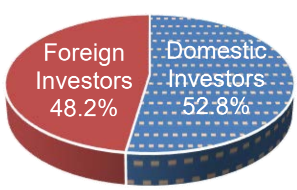
(1) Japanese Government Bonds (JGBs) Holders



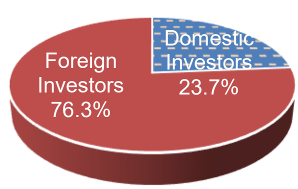
(Source) Bank of Japan "Flow of Funds Accounts Statistics"
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) Percentage as of December 2024.

JGB Transactions in Secondary Market

(2) Spot Market

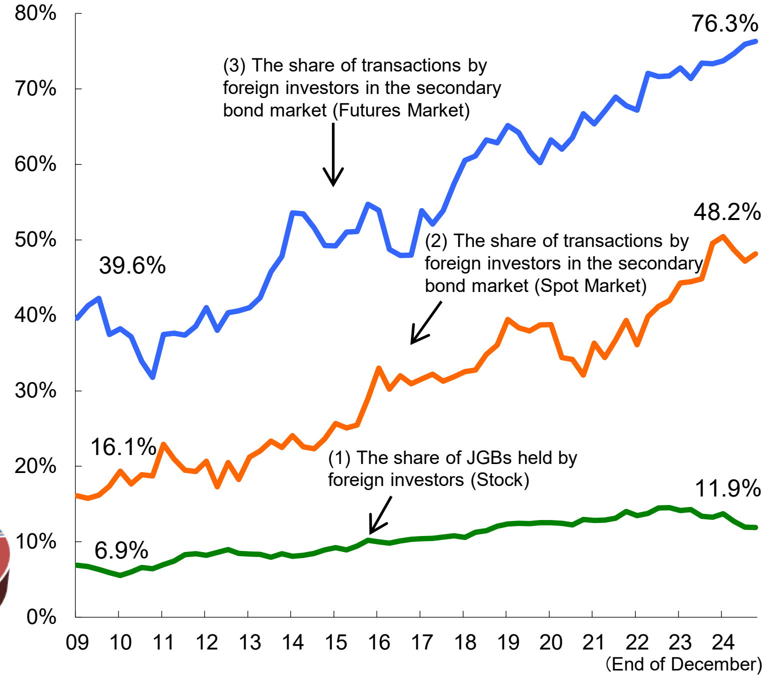


(3) Futures Market



(Source) Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill). Percentage as of the fourth quarter of 2024 (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>

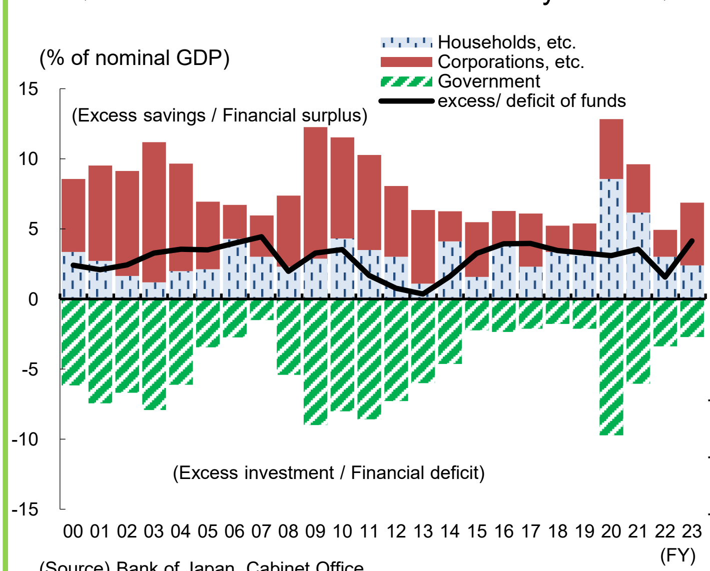


(Source) Bank of Japan, Japan Securities Dealers Association, Japan Exchange Group
(Note 1) Including Treasury Discount Bills (T-Bill).
(Note 2) The figures of Spot market excludes transactions by bond dealers.

(Reference) Trends in Current Account Balance

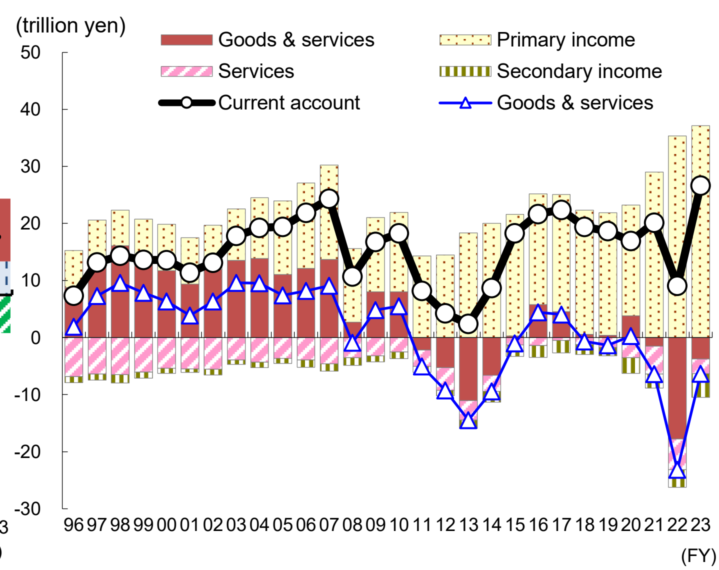
Although the current account surplus has continued in Japan because the private saving surplus has exceeded the deficit in the government sector, Japan will have to depend on foreign capital if the current account balance becomes deficit. Therefore, continuous efforts toward fiscal consolidation are 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 2024 （Cabinet Decision in June 2024）

Fiscal consolidation target in Basic Policy 2024

The government will resolutely pursue fiscal consolidation and work on achieving the current target. In a world with the rise of interest rates, we will also make the fundamentals solid so as to ensure the sustainability of the economy, public finance, and social security in the future, paying attention to international financial markets. To that end, **we aim to achieve a primary balance surplus of the central and local governments in FY2025 and move further forward with efforts to achieve both economic revival and fiscal consolidation in order to reduce the public debt-to-GDP ratio steadily without reversing the progress or achievement of the commitment throughout the plan period**.

Guiding Principles in Budget Formulation for FY2025

With regard to budget formulation, **the government will continue current expenditure reform efforts** (*) during **the three years from FY2025 to FY2027** based on the basic approach described above. **As for the specifics**, we will **determine the details in the budget formulation process in each fiscal year while taking into account economic and price trends and other developments, as the Japanese economy is entering a new stage**. However, **this should not lead to narrowing the range of available options for important policies**.

* Expenditure reform has been ongoing since FY2013. The government will **continue constant efforts for the expenditure reform during the three years from FY2022 to FY2024 based on the Basic Policy on Economic and Fiscal Management and Reform 2021** (Cabinet Decision on June 18, 2021). Defense capabilities as well as child and child-rearing policies, which will be systematically expanded over multiple years, shall be respectively financed by funds to be generated from the expenditure reform until FY2027 or FY2028. (…)

Medium-term economic and fiscal framework

In order to achieve both economic revival and fiscal consolidation, we will focus on raising the potential growth rate and resolving social issues in line with the following basic approaches and will carry out economic and fiscal management with the focus on a medium- to long-term perspective.

・ (…) **the expenditure structure shall be returned to normal**, and the virtuous cycle of growth and distribution shall be expanded. etc.

(Reference) Basic Policy 2021

- 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

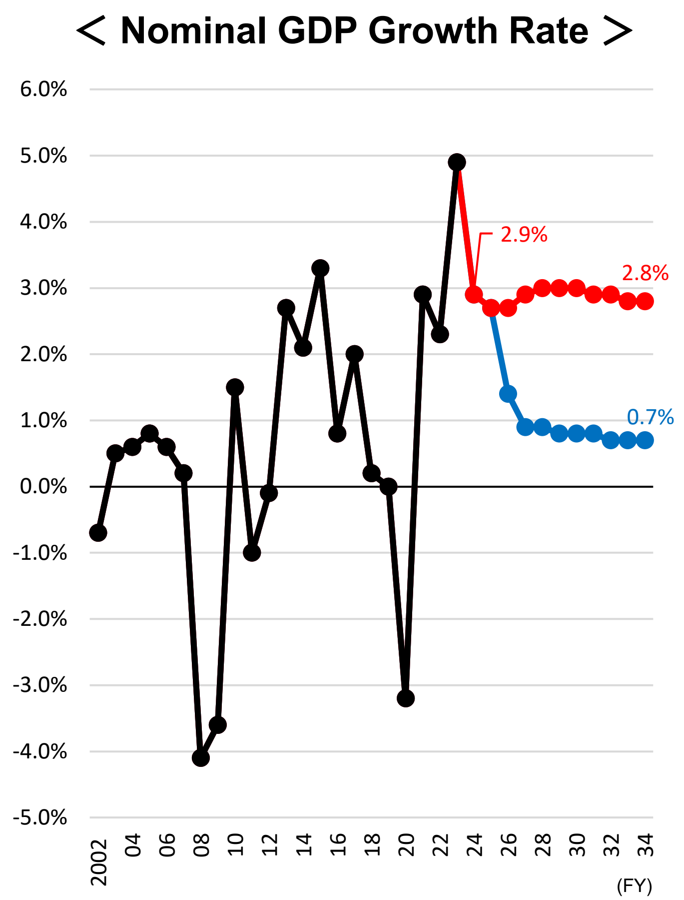
OECD Economic Surveys: JAPAN (January 11, 2024)

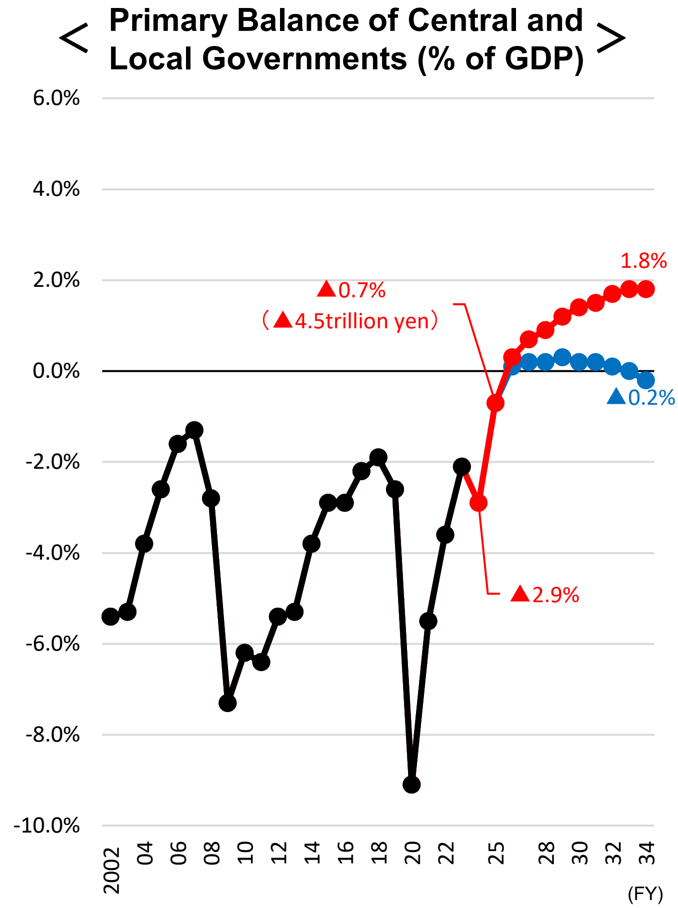
- Securing fiscal sustainability is key. Rebuilding fiscal buffers and ensuring debt sustainability should be prioritised, in a context of increasing debt service risks associated with a possible rise in long-term interest rates. Rapid population ageing is putting pressure on spending, increasing the 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.

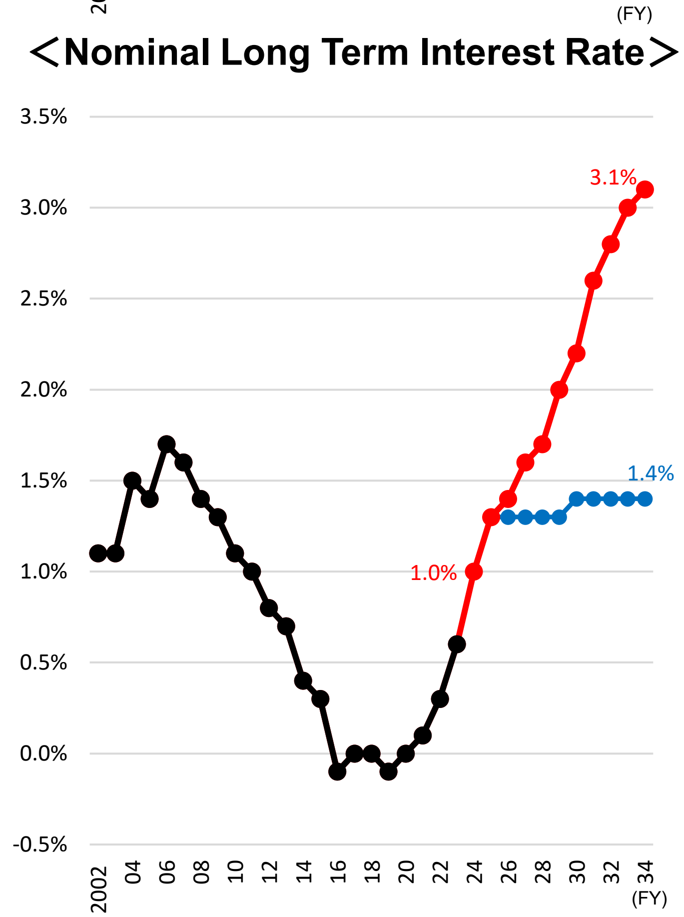
IMF Staff Report for the 2025 Article IV Consultation (April 2, 2025)

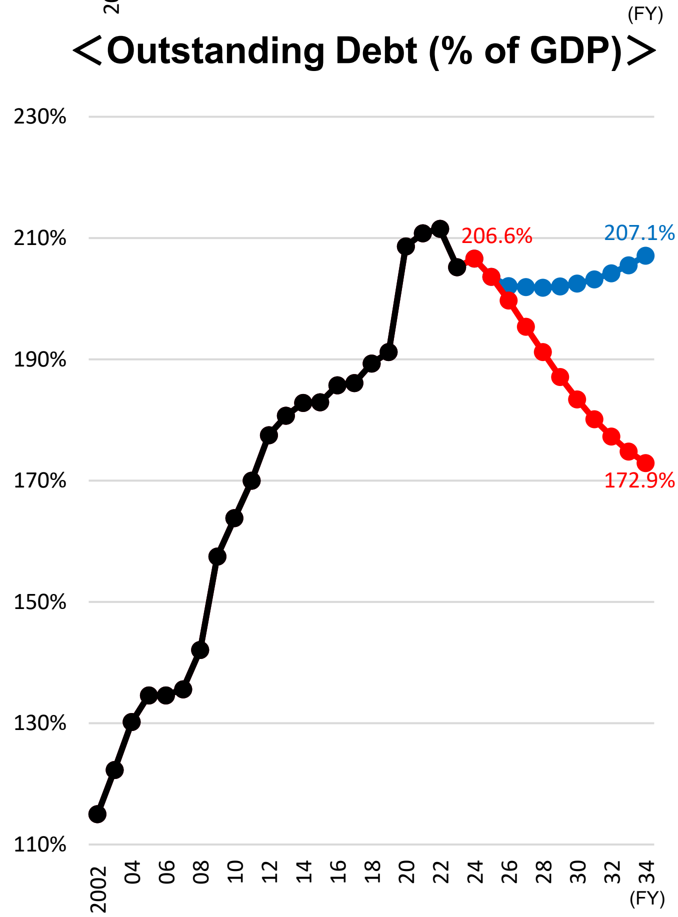
- While Japan has some fiscal space, a clear consolidation plan is needed even in the near term to support debt sustainability. (…) There is a significant risk that the deficit will widen further, given the political demands on the minority government. This should be avoided as fiscal space remains limited to respond to shocks, including from natural disasters. The PIT reform to the income deduction limit and other possible deficit-expanding measures would need to be financed by additional revenues or savings elsewhere in the budget.
- Over the medium term, additional consolidation is required to ensure debt sustainability and increase fiscal space and should be underpinned by a robust fiscal framework. (…) From 2030 onwards, debt is projected to rise, driven by a higher interest bill and spending pressures related to climate, defense, and aging.
- Efforts on expenditure and revenue would be needed to achieve the desired consolidation, while spending should become more growth-friendly. Current spending remains elevated compared to pre-pandemic levels, highlighting the need to eliminate as soon as possible poorly-targeted subsidies, including energy subsidies that can hamper decarbonization efforts.
- The authorities should reserve the use of supplementary budgets for exceptional circumstances. The size of supplementary budgets has been elevated in the post-pandemic period. The repeated use and incomplete execution of supplementary budgets undermines efficient resource allocation, budget transparency, and fiscal discipline, all of which impact market credibility. Their use should be limited to responding to large, unexpected shocks that overwhelm automatic stabilizers, which would also avoid providing unwarranted stimulus in normal times.

（Reference）Cabinet Office “Economic and Fiscal Projections for Medium- to Long-term Analysis” (January 17, 2025)









Transferring to a New Economic Stage Case　　Projection of Past Trend Case

* Economic Scenarios
- “Transferring to a New Economic Stage Case” : the growth rate of TFP (Total Factor Productivity) is assumed to steadily go up to around 1.1%, which is the average rate for the last 40 years in Japan.
- “Projection of Past Trend Case” :the growth rate of TFP is assumed to stay around 0.5%, which is the average in the most recent business cycle..

22. Social Security Area

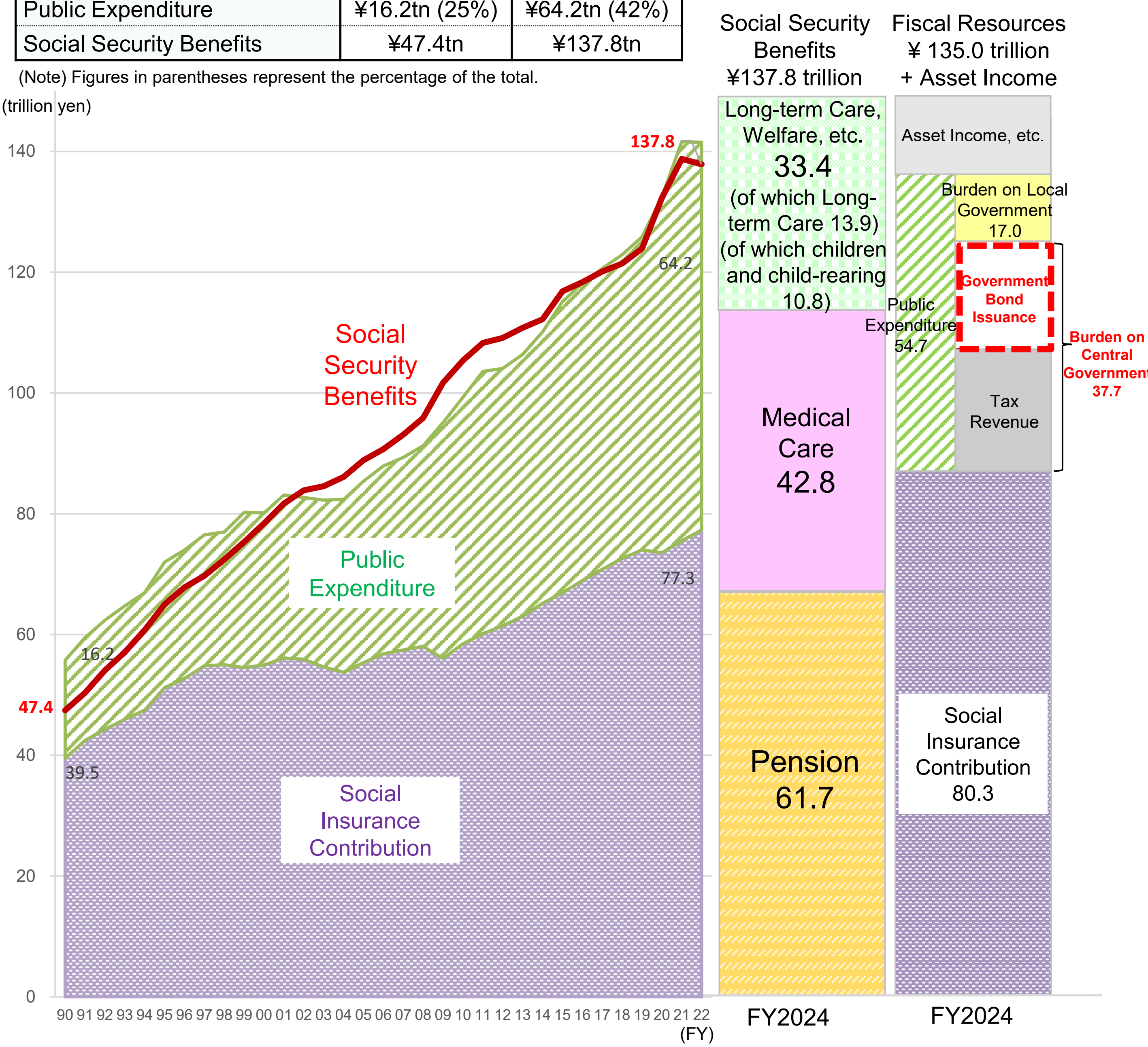
(1) Declining Birthrate, Aging population and Increase in Social Security Benefits

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	FY2022
Contribution of Insured Person	¥18.5tn (28%)	¥40.7tn (27%)
Contribution of Employer	¥21.0tn (32%)	¥36.6tn (24%)
Public Expenditure	¥16.2tn (25%)	¥64.2tn (42%)
Social Security Benefits	¥47.4tn	¥137.8tn

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



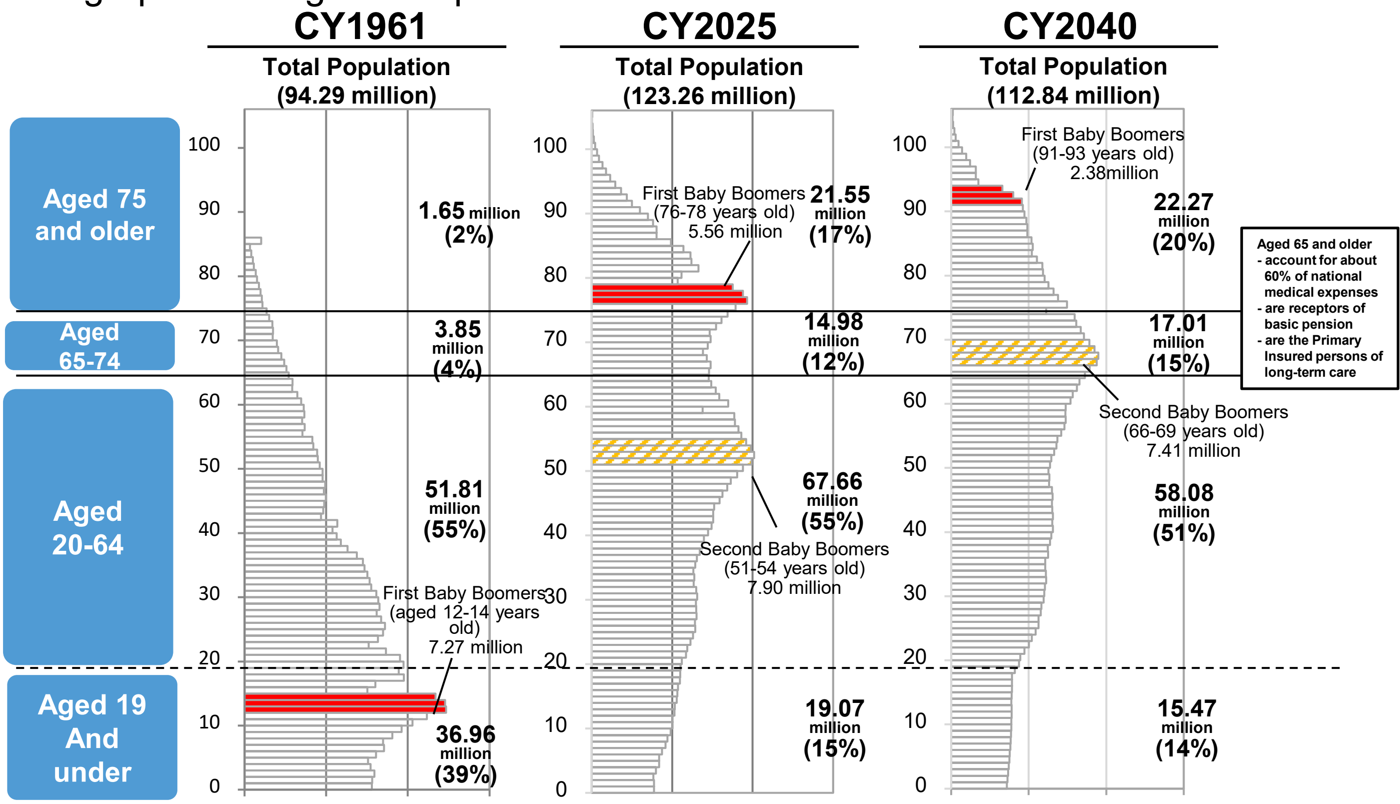
(Source) National Institute of Population and Social Security Research "The Financial Statistics of Social Security (FY2022)", FY2024: Ministry of Health, Labour and Welfare (based on the initial budget).

(Note 1) FY1990-FY2022: settled figures ; FY2024: 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 FY2022 is 129.3 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.

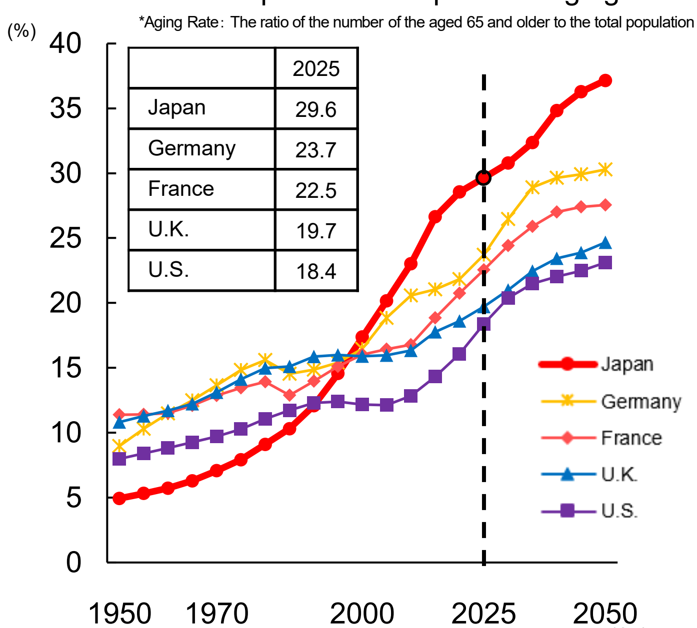
Demographic Changes in Japan



(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

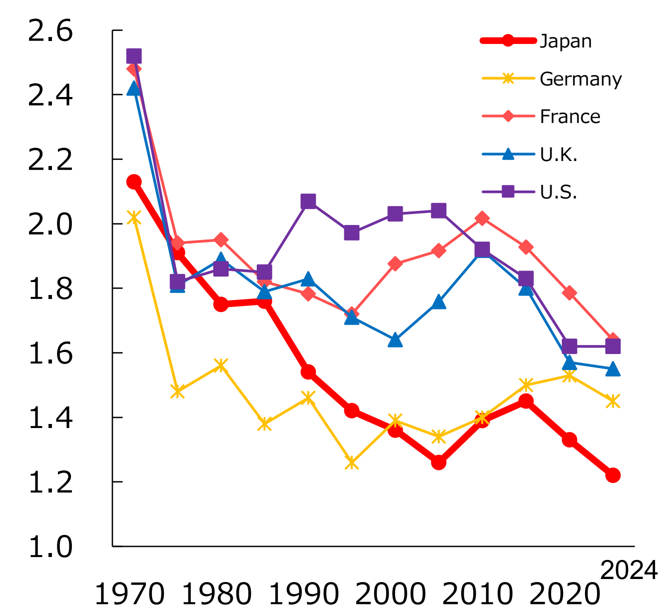
*Aging Rate: The ratio of the number of the aged 65 and older to the total population



	2025
Japan	29.6
Germany	23.7
France	22.5
U.K.	19.7
U.S.	18.4

(Source)
Japan : 1950-2023: Ministry of Internal Affairs and Communications, "Population Estimates"
2024-2050: 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 2024"

International Comparison of Birth Rate



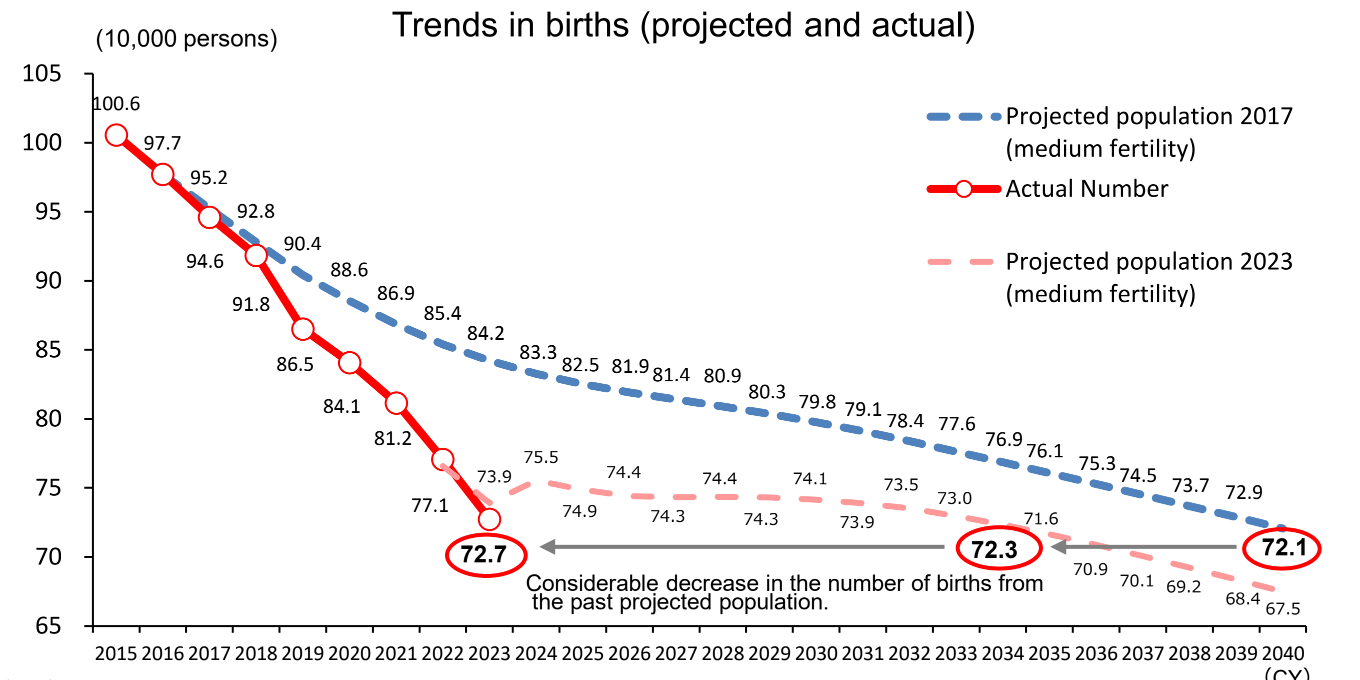
(Source)
Japan : 1970-2020: Ministry of Health, Labour and Welfare, "Vital Statistics"
2024: United Nations "World Population Prospects 2024"
Other countries: United Nations "World Population Prospects 2024"

(2) Issues in each social security area

Measures to address declining birthrate and support for child-rearing

(i) Decline in the number of births

The annual number of births exceeded 1,000,000 in 2015, but has declined significantly to 727,000 in 2023, and the birthrate has been declining far faster than previously projected.

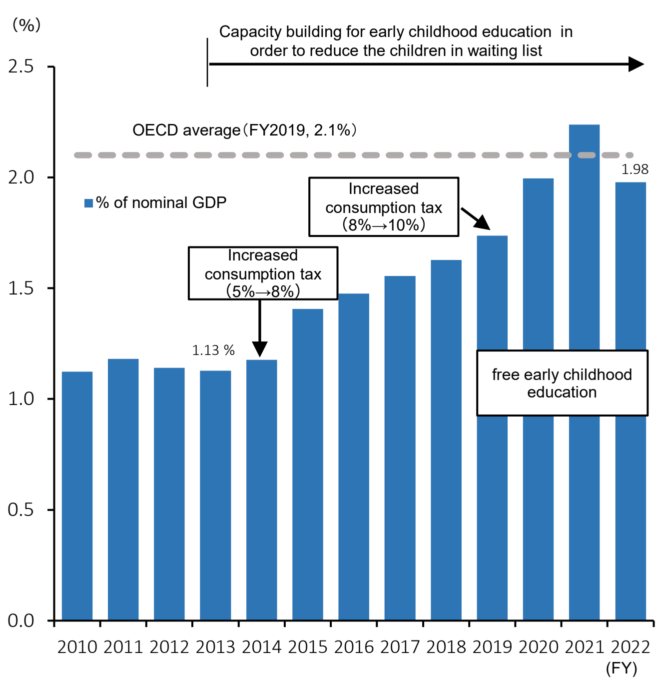


(Note) Projected and actual population above is the Japanese population in Japan.
(Source) National Institute of Population and Social Security Research, "Population Projections for Japan", Ministry of Health, Labour and Welfare, "Vital Statistics"

(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 thereafter 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)

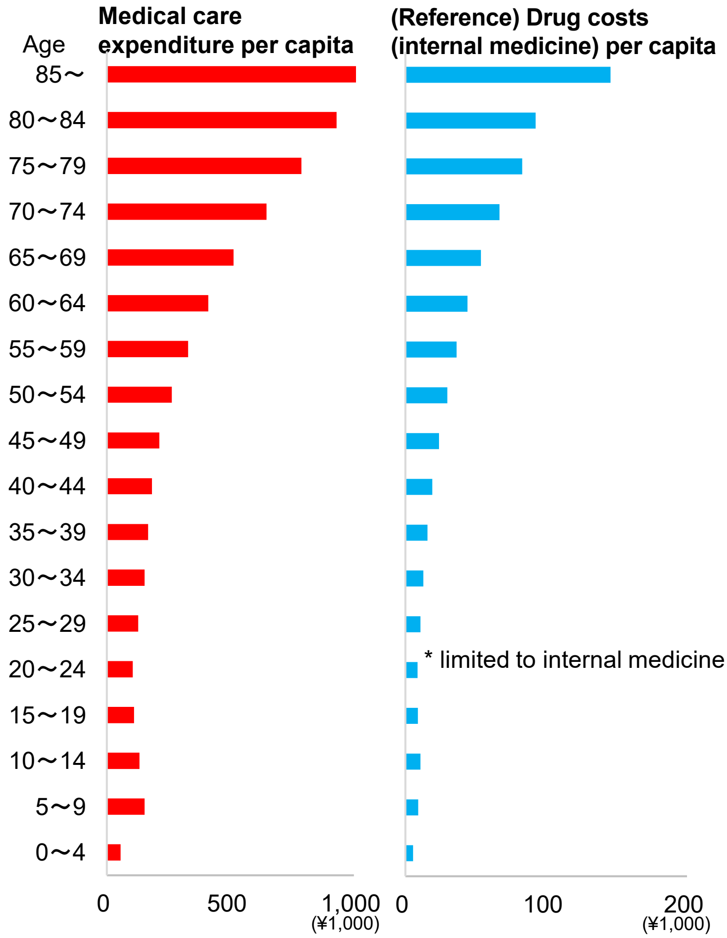
Sweden	15.4 %
Germany	13.9 %
France	11.8 %
Japan	11.0 %
United Kingdom	10.8 %
OECD average	10.1 %
United States	2.6 %

(Source) OECD "Social Expenditure Database"、OECD "Education Database"
(Note) Data of FY and CY2019 (as of August 26 2024)

Future increase in medical care and long-term care costs

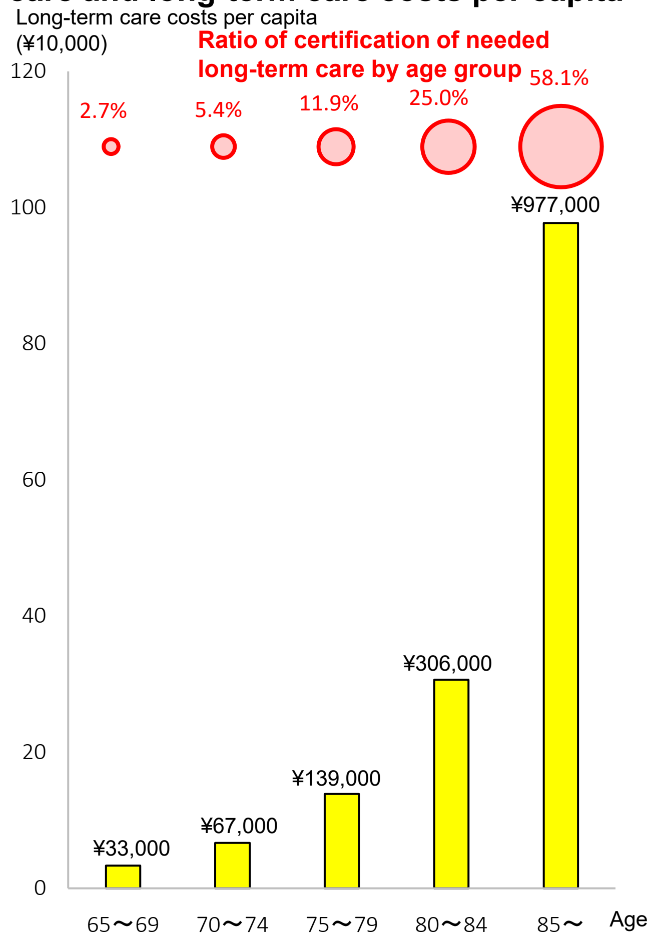
In 2025, all baby boomers will move into the latter-stage of the elderly category, and the population aged 75 and older will increase rapidly.
The medical care and long-term care costs per capita increase significantly for individuals aged 75 and older.
Therefore, it is necessary to prioritize and streamline 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, "FY2022 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 (FY2022)"
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 (FY2022)"
Ministry of Internal Affairs and Communications, "Population Estimates"

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

	Medical care (2022)		Long-term care (2022)		Number and ratio to total population	
	National medical care expenditure per capita (aged 64 and under: ¥209,000)	Public expenditure per capita (aged 64 and under: ¥28,000)	Long-term care expenditure per capita (ratio of certification of needed support/long-term care in parentheses)	Public expenditure per capita	2022	2025
					Approx. -1.89 million persons	
Aged 65-74	¥587,000	¥78,000	¥52,000 (4.2%)	¥14,000	16.87 million persons (13.5%) →	14.98 million persons (12.2%)
		↓ Approx. 4 times		↓ Approx. 9 times	Approx. +2.18 million persons	
Aged 75 and older	¥941,000	¥317,000	¥474,000 (31.5%)	¥126,000	19.36 million persons (15.5%) →	21.55 million persons (17.5%)

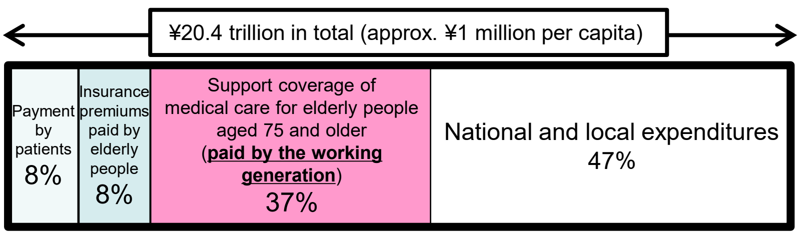
(Source) Population ratio per age group: Ministry of Internal Affairs and Communications, "Population Estimates"; National Institute of Population and Social Security Research, "Population Projections for Japan (2023) " (medium-fertility and medium-mortality scenario)
National medical care expenditure: Ministry of Health, Labour and Welfare, "Overview of National Medical Care Expenditure (FY2022)"
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 (FY2022)" and "Long-term Care Insurance Business Report (FY2022)", 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 2022 in each age group.

(3) Future issues in social security

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

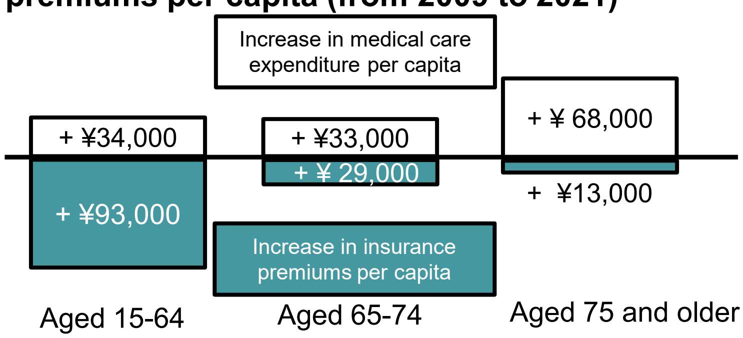
The medical care expenditure per capita among people aged 75 and older is approx. 1 million yen, more than 80% of which is financed by public funds and insurance premiums paid by the working generation. Going forward, along with the decline of population of the working generation who supports the social 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 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

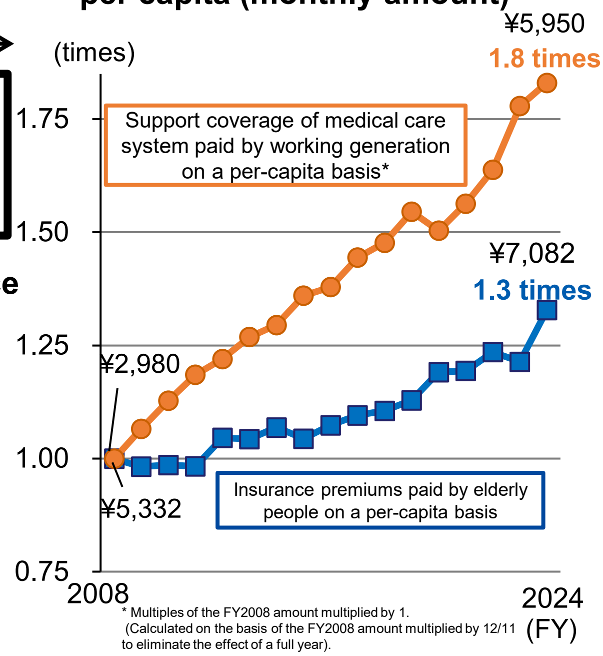


* Based on the FY2025 budget (after revisions)

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



◆ Changes in insurance premiums per capita (monthly amount)



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

The number of hospital beds per population in Japan has become larger than that in other developed countries. As a result, the number of 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.

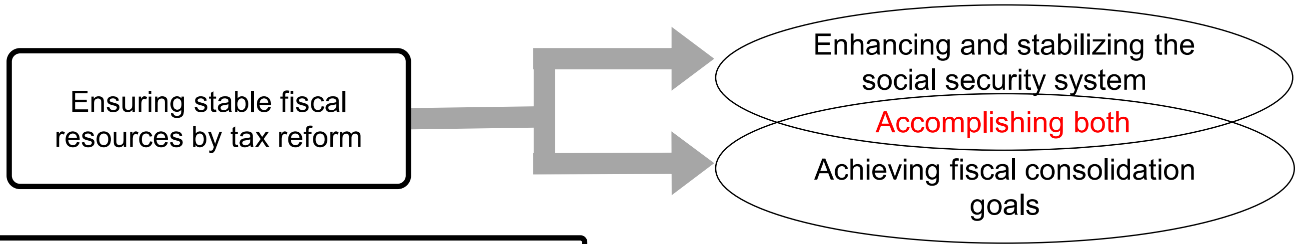
◆ Comparison of medical care provision systems in major developed countries

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	27.3 (16.1)	12.6	2.7	21.0	40.6
Germany	8.9 (7.5)	7.7	4.6	59.4	127.9
France	9.1 (5.6)	5.5	3.2	58.1	73.1
United Kingdom	7.7 (7.5)	2.5	3.2	130.2	107.4
United States	6.6 (6.0)	2.8	2.7	98.9	148.1

(Source) Created based on "OECD Health Statistics 2024" (data for 2022)

(4) Comprehensive reform of social security and taxation systems

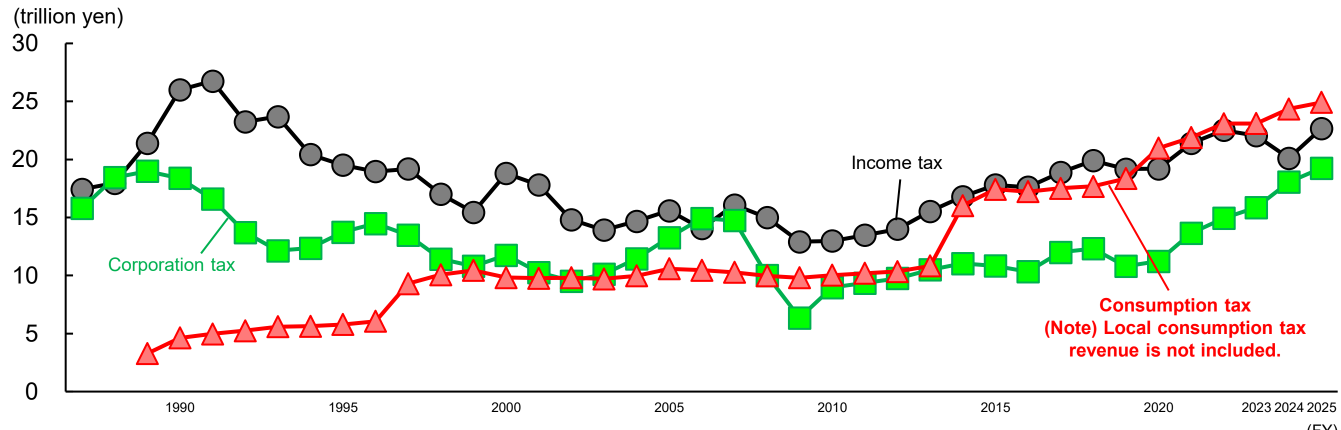
The aim of the Comprehensive reform of social security and taxation systems is to improve the current situation where the burden of a substantial portion of social security costs is postponed to future generations, thereby enhancing and stabilizing the social security system while achieving fiscal consolidation.



Why is consumption tax used for social security?

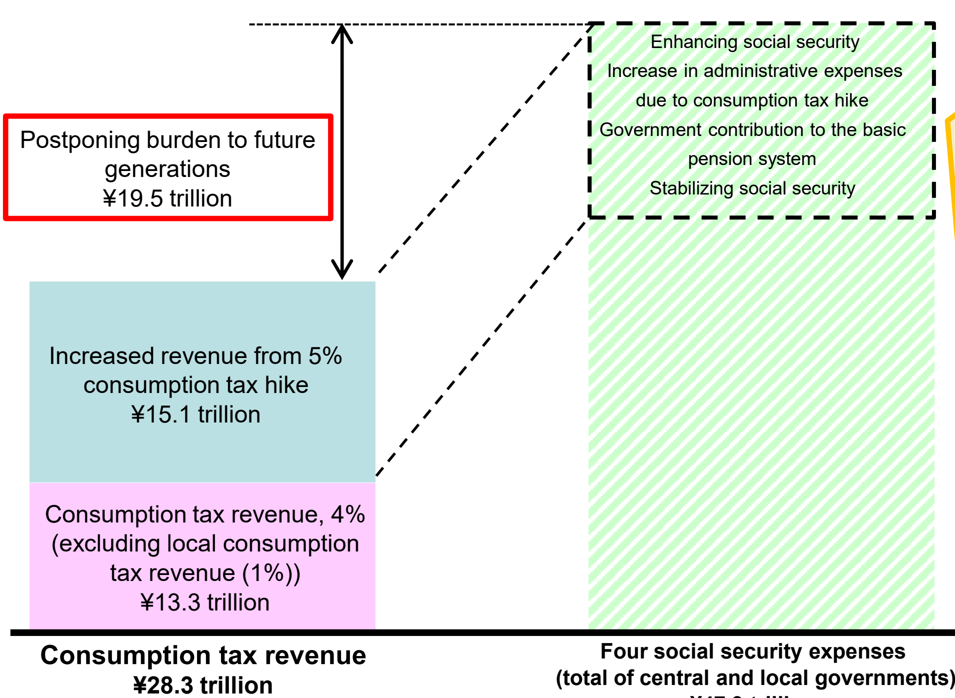
- Its revenue is stable and unlikely to be affected by economic conditions.
- It is neutral in relation to economic activities, and does not concentrate burden on certain people such as the working generation

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



(Note) Until FY2023: Settled figures; FY2024: Based on the Supplementary Budget; FY2025: Based on the Budget (after revisions)

Relationship between four social security expenses and consumption tax revenue



(Note 1) For enhancing social security, 4.5 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 FY2025 initial budget (after revisions) 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.
(Note 4) Figures may not add up to the totals due to rounding.

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)

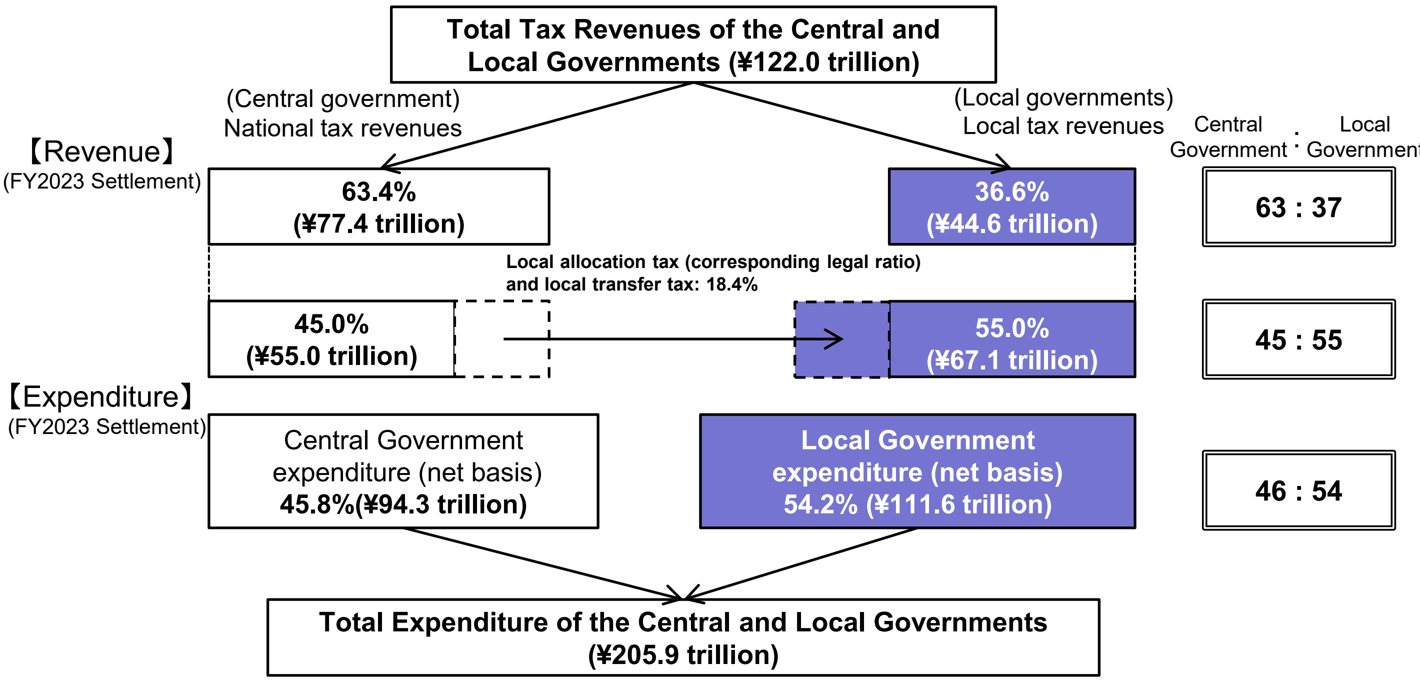
etc.

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 2025)", etc.

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

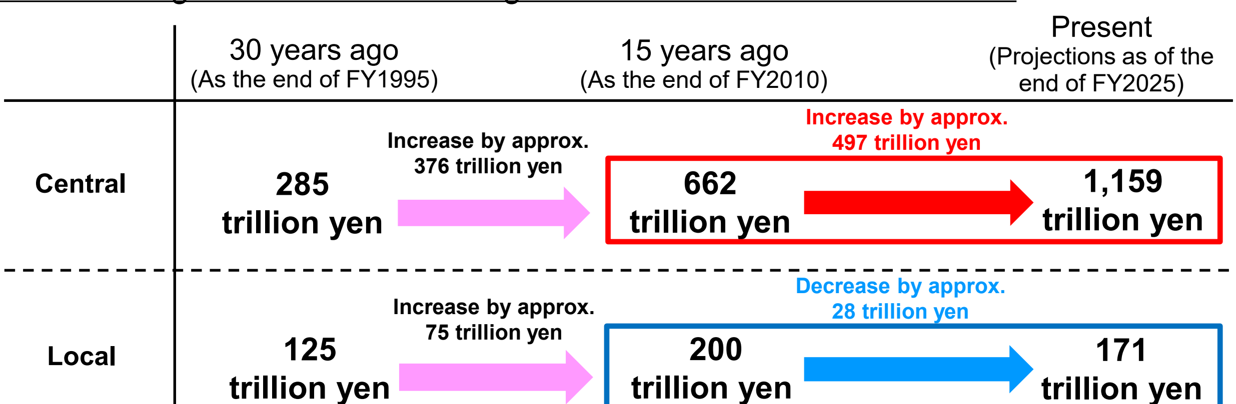
Comparing fiscal situations of central and local governments, the situation of the central government is extremely more severe than that of the local government in terms of both the flow indicators (fiscal and primary balance) and the stock indicators (long-term debt outstanding).

○Primary Balance and Fiscal Balance of the Central and Local Governments (FY2025 projection)

	Primary Balance	Fiscal Balance
Central Government	approx. -11.9 trillion yen	approx. -16.7 trillion yen
Local Government	approx. 7.4 trillion yen	approx. 6.4 trillion yen

(Source) Cabinet Office "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 17, 2025)

○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. 25 trillion yen at the end of FY2025).

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.

FY2025 Local Fiscal Plan (Unit: trillion yen, figures in parentheses represent the amount of the increase from last year)

【 Expenditure 97.1 (+3.4) 】

- Expenses for wages :21.0 (+0.7)
- Expenses for general administration :45.6 (+2.0)
  of which
  - subsidized project: 26.6 (+1.5)
  - unsubsidized project: 15.9 (+0.5)
  - expenses on the comprehensive strategies for the Creation of New Regional Economies and Living Environments: 1.2 (-0.1)
  - expenses on vitalizing local communities: 0.4 (-)
- Expenses for investment :12.1 (+0.1)
- Debt service :10.7 (-0.2)
- Others :7.6 (+0.8)

【 Revenue 97.1 (+3.4) 】

- Revenue-Expenditure Gap: 19.0 (+0.3)
- Special local grants, etc.: 0.2 (-0.9)
- Local taxes, Local transfer taxes: 48.4 (+3.0)
- National government Disbursements: 17.2 (+1.4)
- Local government bonds: 6.0 (-0.3)
  of which Extraordinary financial measures bonds: 0 (-0.5)
- Others :6.3 (+0.1)

covered by central and local government

※After revisions

Fiscal resource shortage covered by central and local governments None in FY2025 → Extraordinary financial measures -(-) / Special additions -(-)

The special Account for LAT grants 0.3（-1.7）

LAT, etc. (the statutory rate) 18.7（+2.0）

LAT grants (exit-based) 19.0 trillion yen

LAT grants (entrance-based) 18.7 trillion yen

The statutory rate for LAT (FY2025)

	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 FY2025 Local Fiscal Plan is maintained substantially at the same level as the previous year.

FY2025 Local Fiscal Plan (Unit: trillion yen)

※After revisions

【Expenditure 97.1】

- Expenses for wages: 21.0
- Expenses for General Administration:45.6
  of which
  - subsidized project: 26.6
  - unsubsidized project: 15.9
  - expensed on the comprehensive strategies for the Creation of New Regional Economies and Living Environments: 1.2
  - expenses on regional local society promotion: 0.4
- Expenses for investment: 12.1
- Debt Service: 10.7
- Expenses above the rule:3.8
- Others: 3.8

【Revenue 97.1】

general revenue resources:
- Local Allocation Tax:19.0
- Special local grants, etc:0.2
- Local taxes and Local transfer taxes: 48.4

specific revenue resources:
- National government disbursements:17.2
- Other local government bonds: 6.0
- Others: 6.3

Basic Policy on Economic and Fiscal Management and Reform 2024
(Cabinet Decision, June 21, 2024))

Chapter 3. 2. Medium-term economic and fiscal framework
With regard to budget formulation, the government will continue current expenditure reform efforts during the three years from FY 2025 to FY 2027 based on the basic approach described above. As for the specifics, we will determine the details in the budget formulation process in each fiscal year while taking into account economic and price trends and other developments, as the Japanese economy is entering a new stage.

Chapter 3. 3. (5) Enhancing fundamentals of local administration and public finance
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 FY 2024 Fiscal Plan of Local Governments, (…)

* 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

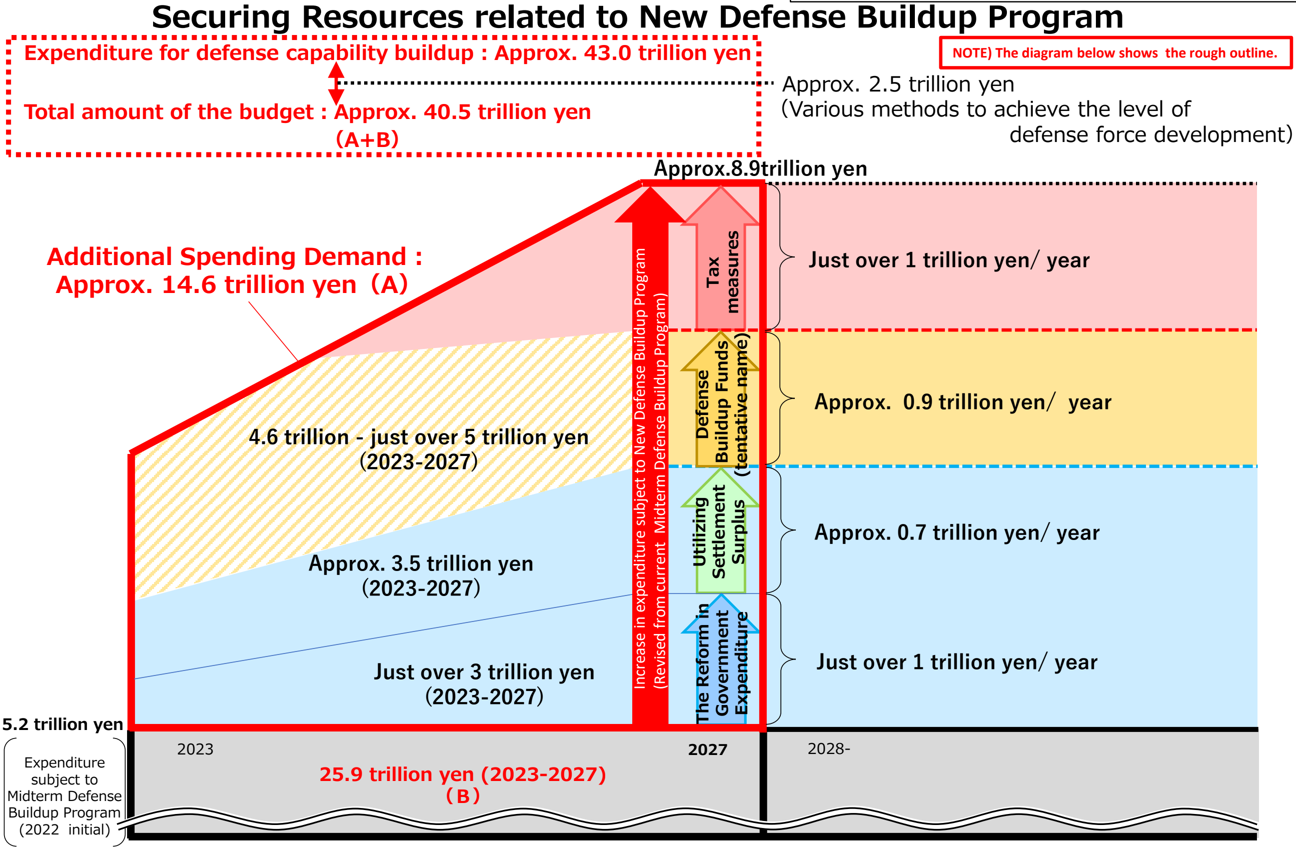
(Note) The annual defense budget for each fiscal year is determined on the assumption that the following measures will be taken separately:

- 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)

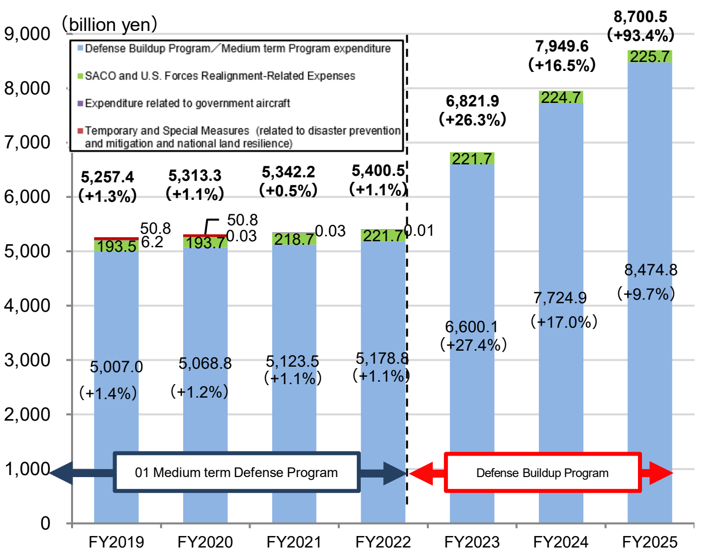
Securing Resources related to New Defense Buildup Program



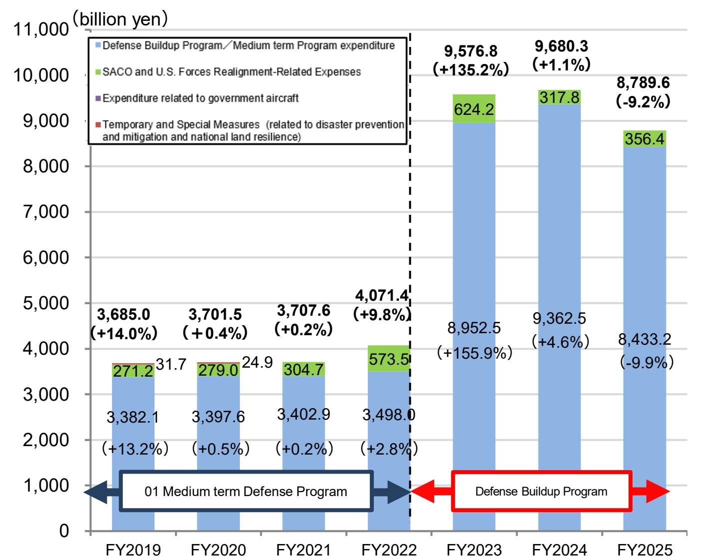
In FY2025 as the third year of the program, the Defense Buildup Program expenditure amounts to 8.5 trillion yen (increase 0.7 trillion yen from the previous year) on the expenditure basis and 8.4 trillion yen (decrease 0.9 trillion yen from the previous year) on the contract basis, which aims to steadily 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 8.7 trillion yen (increase 0.8 trillion yen from the previous year) on the expenditure basis and 8.8 trillion yen (decrease 0.9 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.
(Note 3) 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.
FY2025: 31.4 billion yen on the expenditure basis, 71.4 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 2025 budgeting processes.

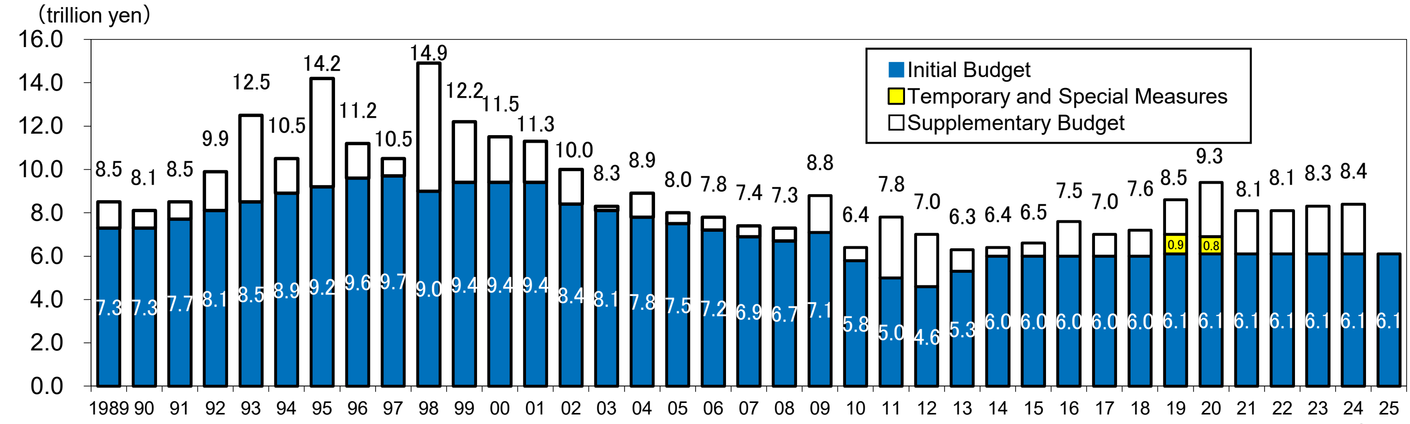
Examples of initiatives	Amount of reduction
Operational Suspension and Disposal of Equipment	- ¥0.7 billion
Systematic, Stable and Efficient Acquisition	- ¥25.9 billion
Narrowing down SDF-unique Specifications	- ¥0.2 billion
Project Review	- ¥95.7 billion
Scrutinizing Man-hour and Production Process	- ¥142.7 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.

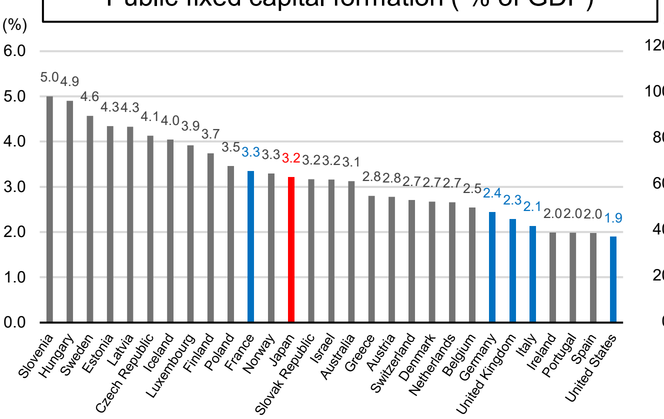
① Trends in Public Works Projects Expenditures



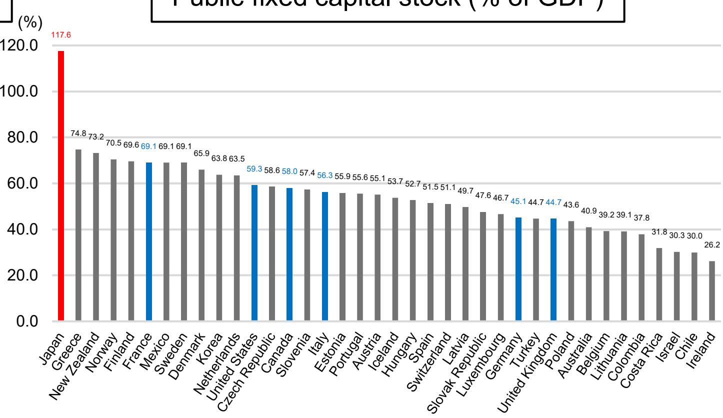
(Note) Excluding NTT-A type.

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

Public fixed capital formation (% of GDP)

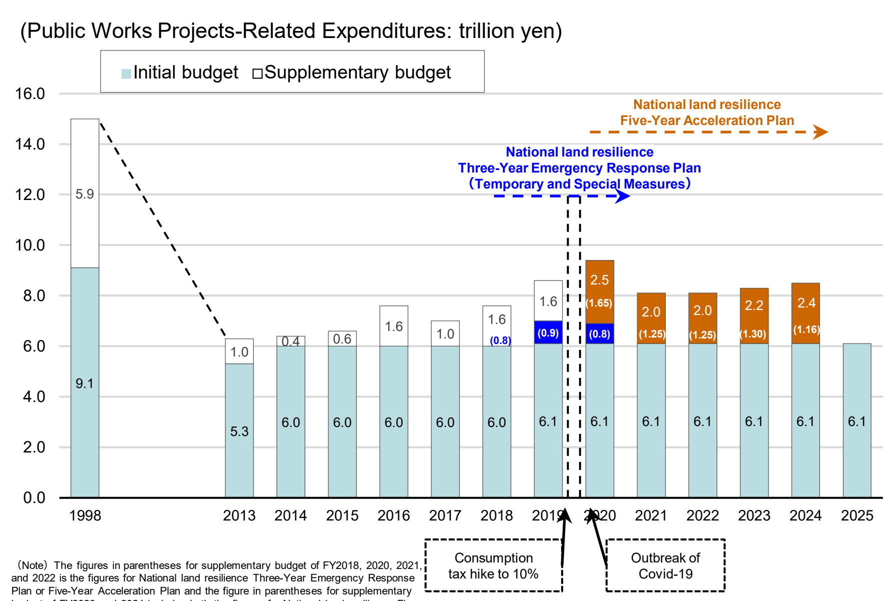


Public fixed capital stock (% of GDP)



(Source) <Public fixed capital formation (2022)> 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 and 2024 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	2023	2024	2025
Budgetary amount	3,949.7 [3,969.8]	4,033.0	4,070.6
Change from previous fiscal year	+76.1 (+2.0%)	+83.3 (+2.1%)	+37.6 (+0.9%)

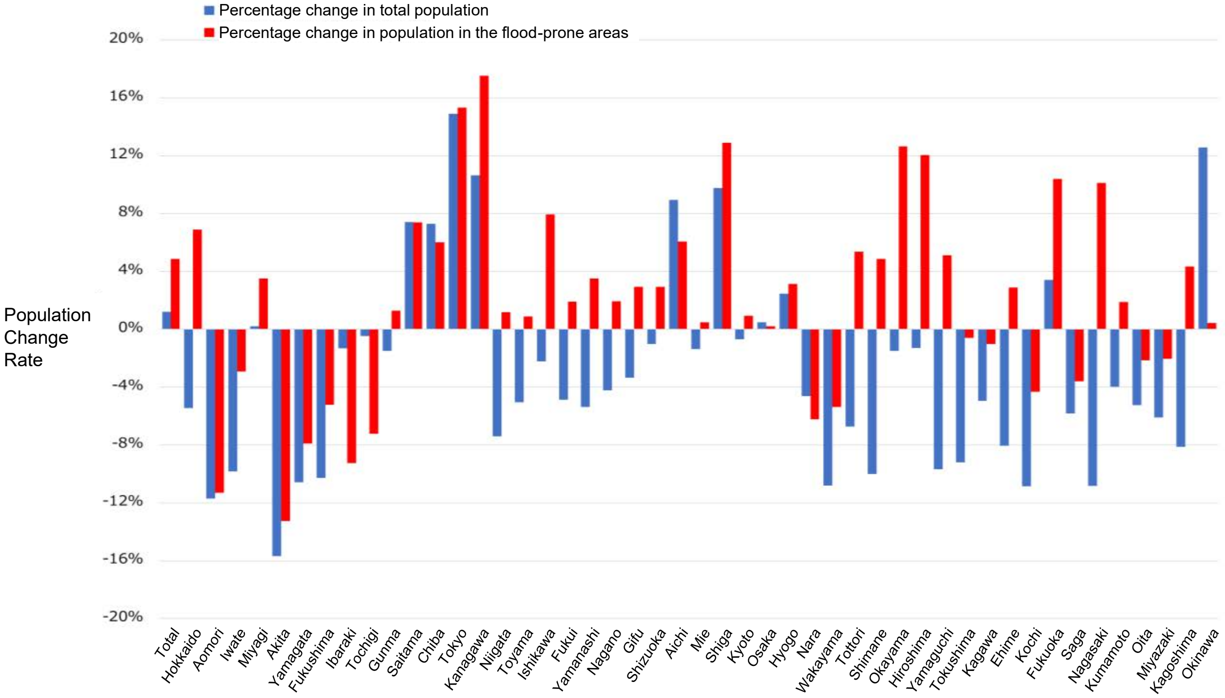
* The figure of FY2023 in parentheses is reclassified budget for a comparison with the figures of FY 2024.

* In the initial budget for FY2025, public works projects-related expenditures are secured stably (6,085.8 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 institutional reforms and system improvements based on lessons learned from the Noto Peninsula earthquake, utilization of regulatory and guidance measures, the development and dissemination of new technologies.
To focus more, 4,070.6 billion yen (up by 37.6 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)

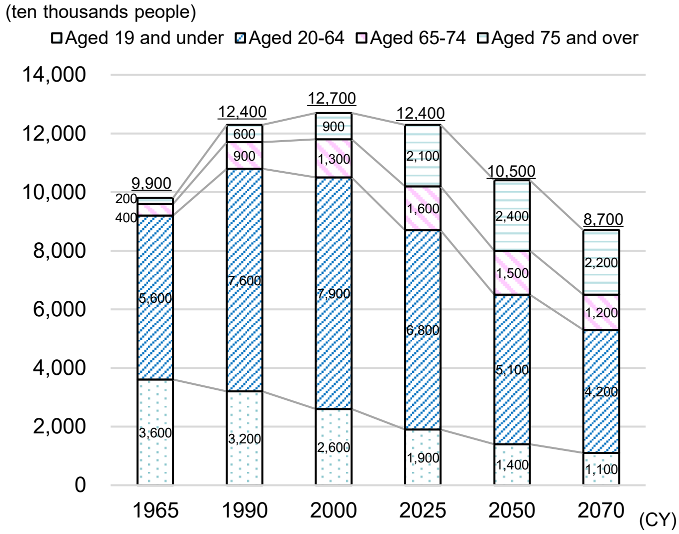
In 32 prefectures, the population within the flood-prone areas increased.
Of which 21 prefectures, the population decreased while the population within the flood-prone areas increased.
In 6 prefectures, the population within the flood-prone areas increased more than the population growth rate.



(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.

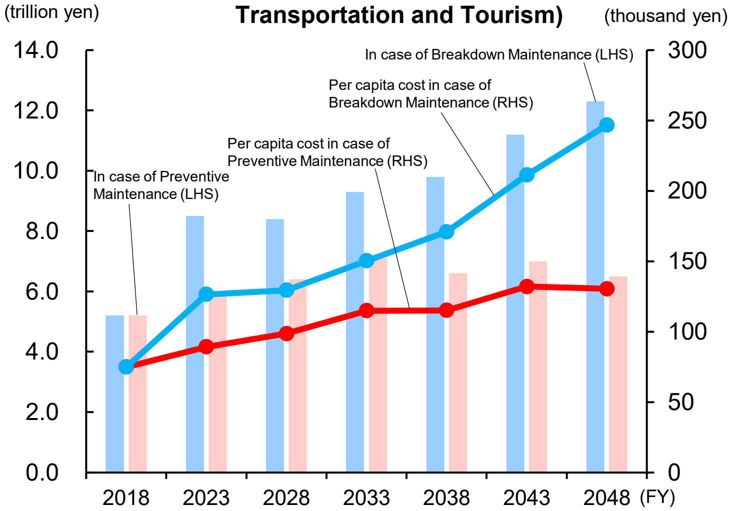
⑤ Demographic Projection



(Source) 1965-2000: Statistic Bureau, Ministry of Internal Affairs and Communications "National Census", 2025: Statistic Bureau, Ministry of Internal Affairs and Communications "Population Estimates (January 2025)", 2050-2070: 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)

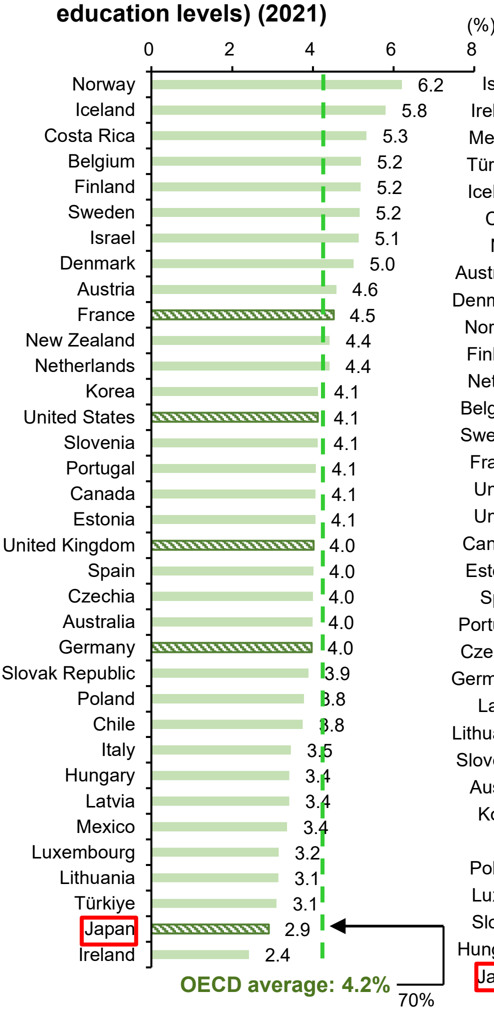


* Preventive Maintenance: Implementing measures such as repairs before a problem occurs in the function or performance of the facility.
Breakdown Maintenance: Implementing measures such as repairs after a problem occurs in the function or performance of the facility.
* The chart uses the maximum of the 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.

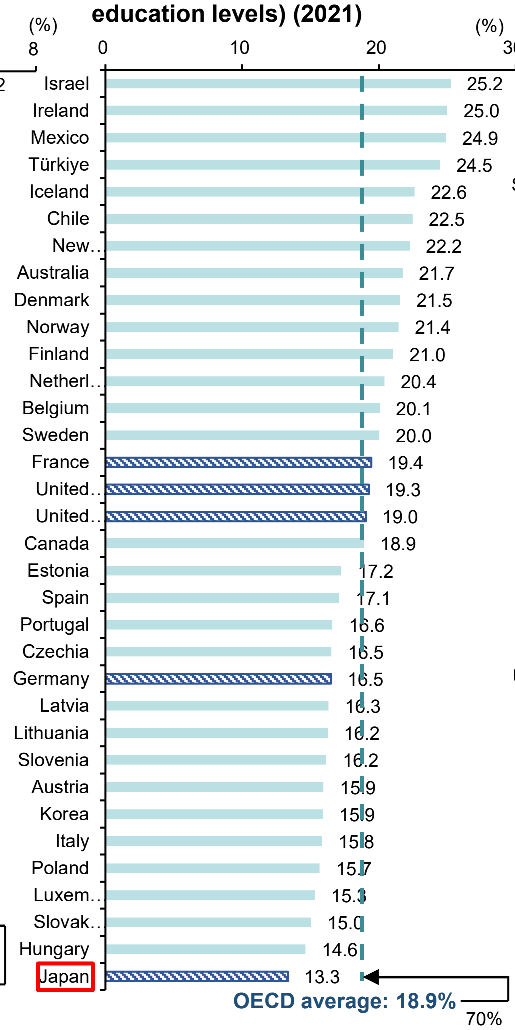
(4) Education and Science

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).

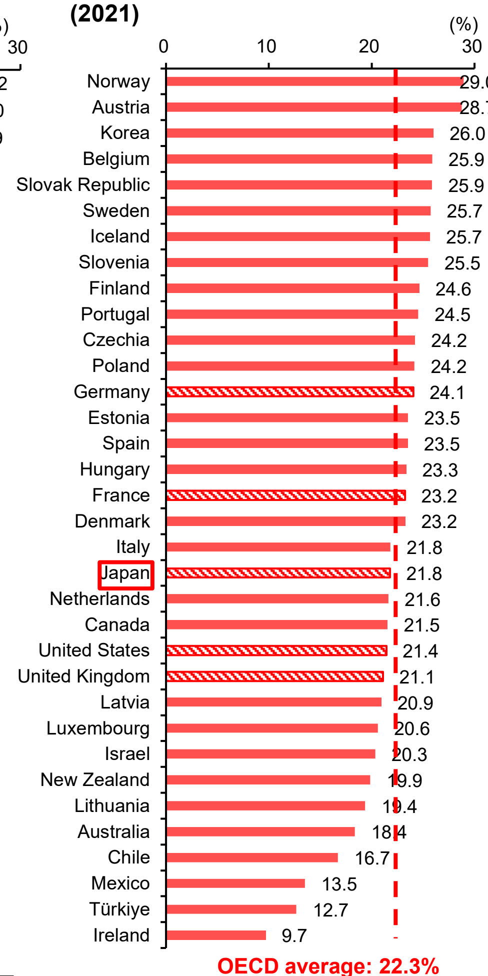
Public expenditure on education as % of GDP (primary to tertiary education levels) (2021)



Students enrollment as % of the total population (primary to tertiary education levels) (2021)

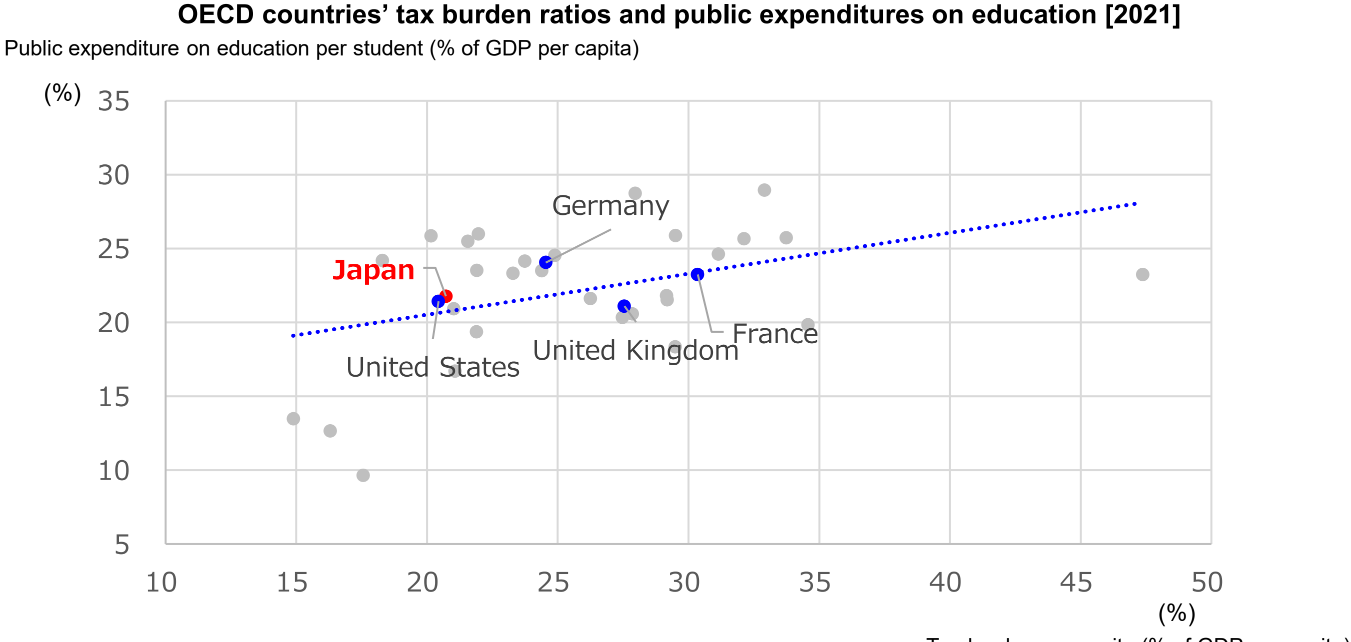


Public expenditure on education per student as % of GDP per capita (2021)



(Source) OECD "Education at a Glance 2024", "OECD stat"

OECD countries' tax burden ratios and public expenditures on education [2021]



(Source) OECD "Education at a Glance 2024", "Revenue Statistics 2023"
(Note) Excluding Colombia, Costa Rica, Greece and Switzerland from the 38 OECD countries.

(i) Education

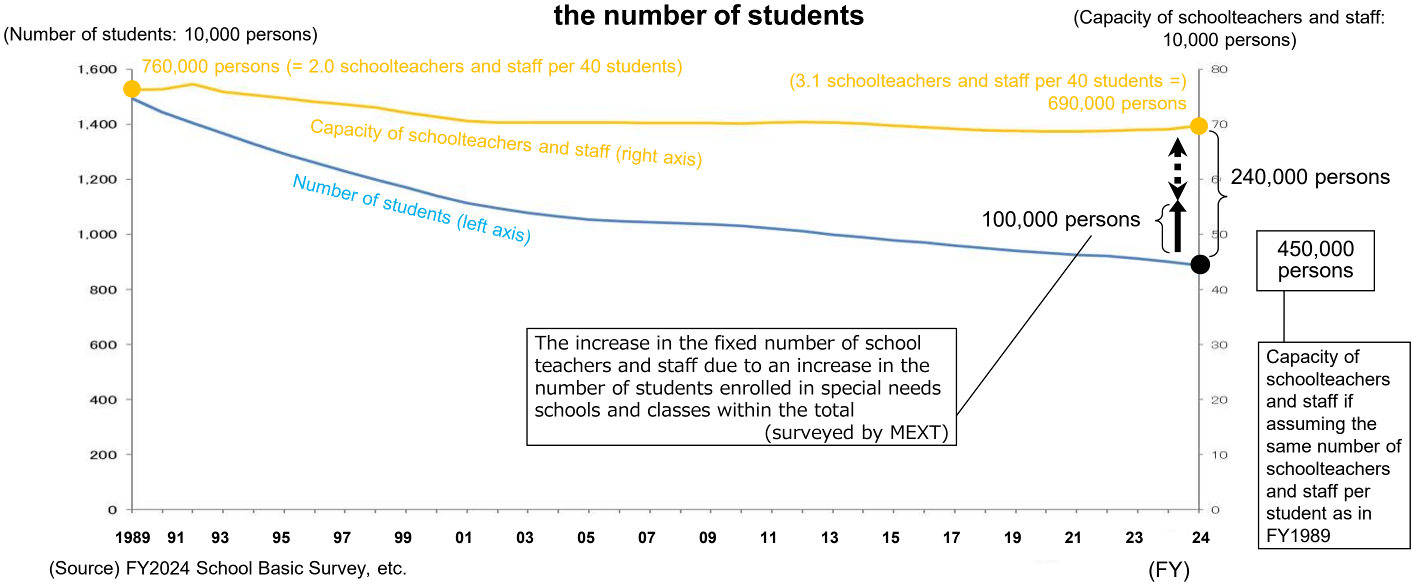
FY2025 budget (after revisions)

National treasury's share of compulsory education expenses: ¥1,621.0 billion
Expenses for school facilities: ¥73.6 billion (after revisions), 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) FY2024 School Basic Survey, etc.

(Note) Excludes increases or decreases in the number of positions subject to special provisions.

Trends in Teachers' hours spent after working time (per month) , etc.

	FY2006	FY2016 survey	FY2022	Change FY2006→FY2022
Number of teachers (per 40 students)	**2.5**	2.8	**2.9**	**＋16%**
Number of personnel outside of the school and national expenditure	9,000 persons ¥4.2 billion	39,000 persons ¥10.2 billion	70,000 persons ¥ 17.4 billion	+62,000 persons +¥13.2 billion

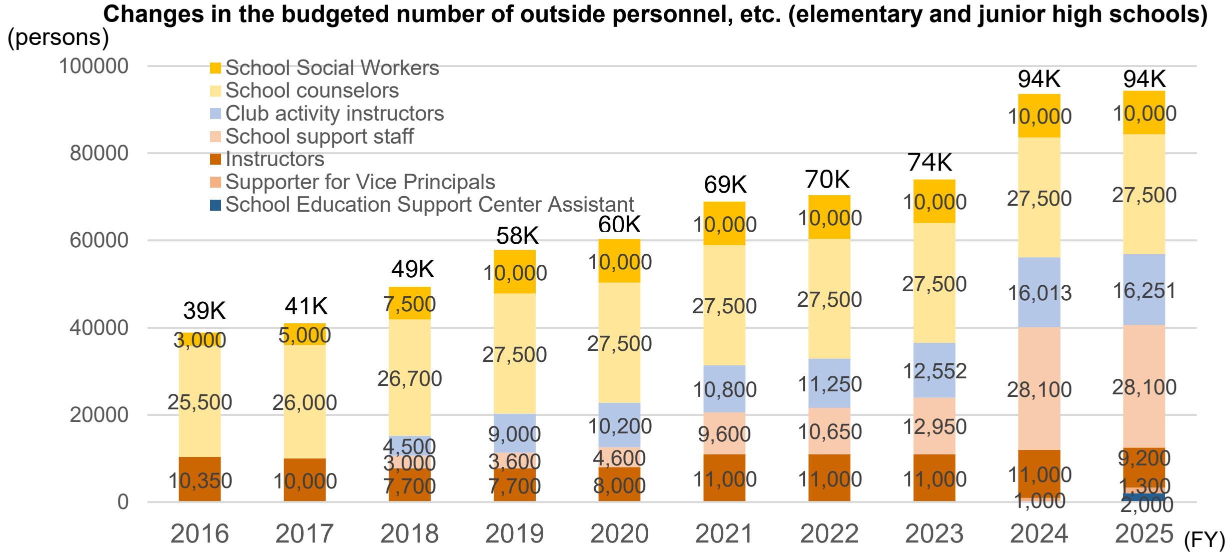
Teachers' hours spent after working time (weekdays, per month)	Elementary school	**29 hours**	55 hours	**37 hours**	**+8 hours**
	Junior high school 【club activities】	**39 hours 【11 hours】**	61 hours 【14 hours】	**42 hours 【12 hours】**	**+3 hours 【+1 hours】**

(Note 1) "Number of teachers (per 40 students)" is calculated based on the Ministry of Education, Culture, Sports, Science and Technology's "Statistical abstract : education, culture, sports, science and technology"

(Note 2) "Personnel outside of the school "refers to "School Counselor", "school social workers", "School support staff", "Instructors" and "Club activity instructors".

(Note 3) "Teachers' hours spent after working time (weekdays, per month)" is calculated based on data from the Ministry of Education, Culture, Sports, Science and Technology.

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

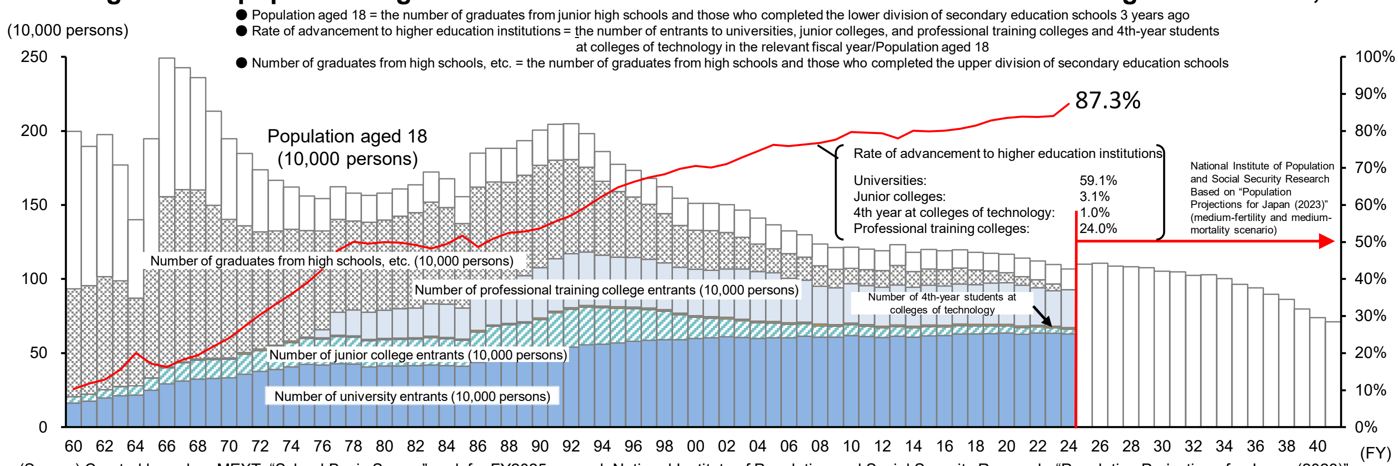


<Higher education>

FY2025 budget Management expense grants for national university corporations: ¥1,078.4 billion
Government subsidies for private universities and colleges: ¥297.9 billion; scholarship fund: ¥116.7 billion, etc.

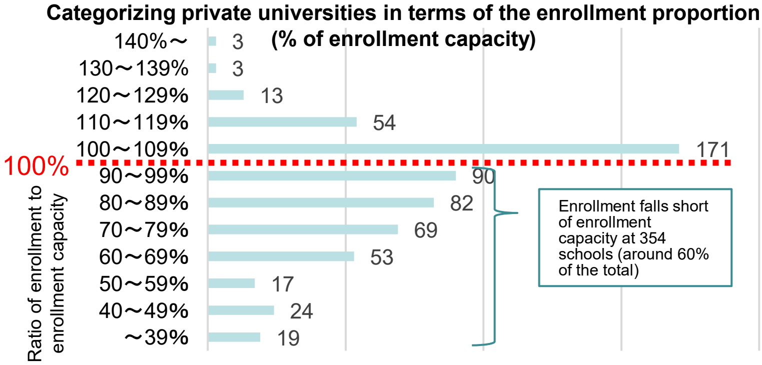
The percentage of students entering institutions for higher education has reached 80% in Japan, which is a top-class rate in the world. While the number of people advancing to higher education is expected to decrease in the future due to a significant decline in the population aged 18, there is an urgent 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.



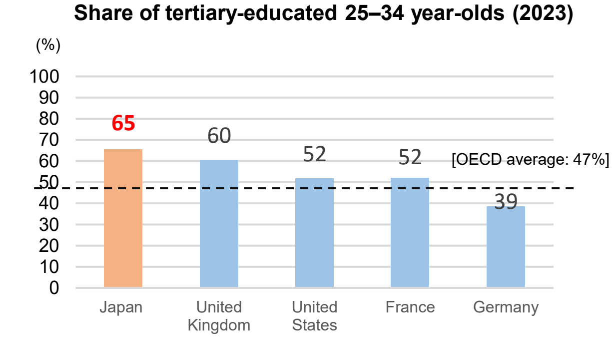
(Source) Created based on MEXT, "School Basic Survey" and, for FY2025 onward, National Institute of Population and Social Security Research, "Population Projections for Japan (2023)" (medium-fertility and medium-mortality scenario).

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



(Source) FY2024 Trends in Applicants for Enrollment in Private Universities, Junior Colleges, etc.

Share of tertiary-educated 25–34 year-olds (2023)



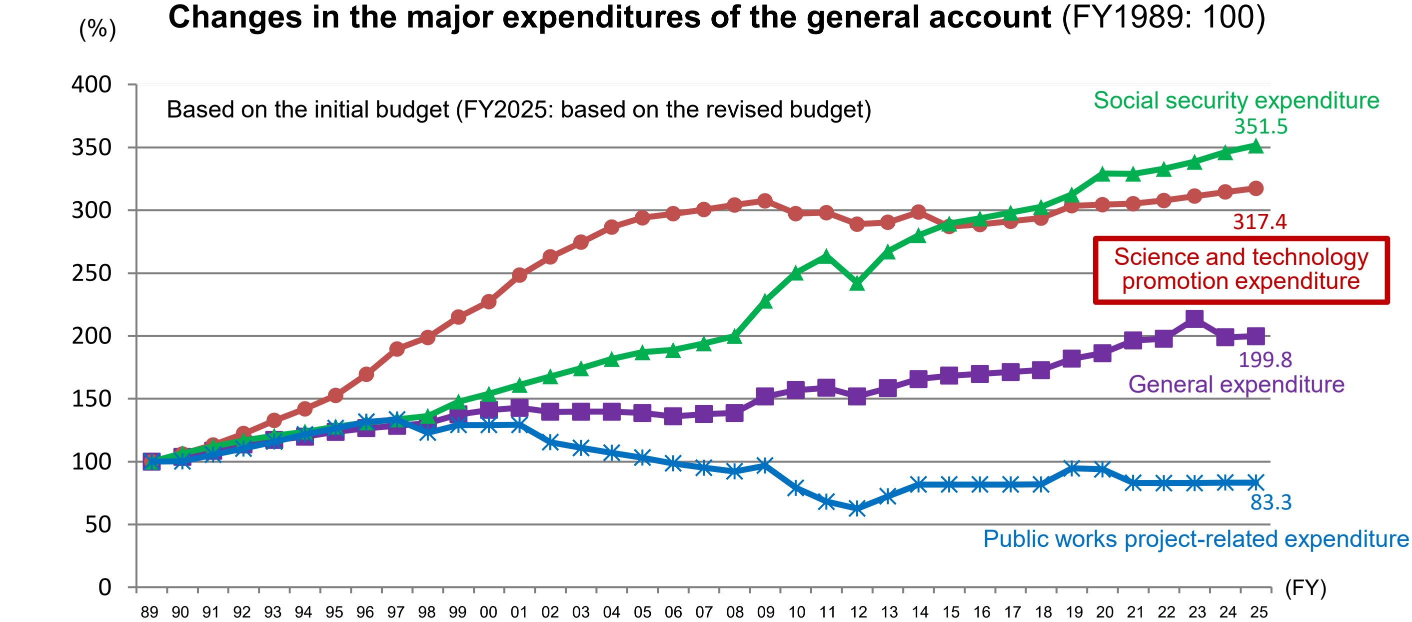
(Source) Education at a Glance 2024 (OECD)
(Note) Japan's data for tertiary education include upper-secondary or post-secondary non-tertiary programs (less than 5% of adults are in this group).

(ii) Science

FY2025 budget Science and technology promotion expenditure: ¥1,422.1 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)

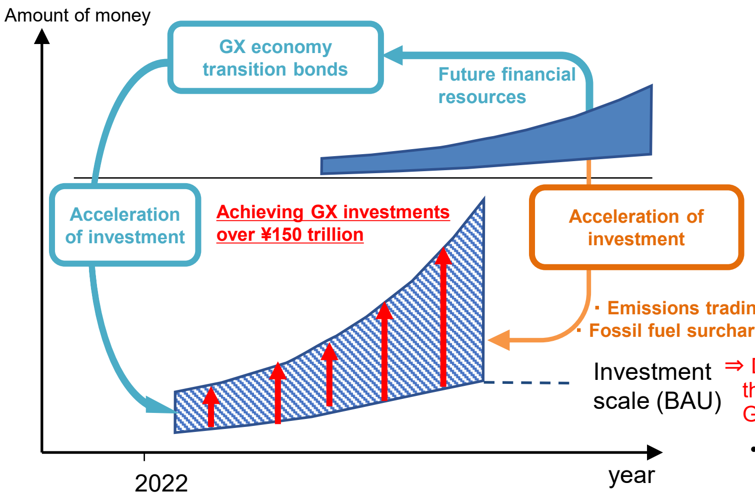


(Note 1) Expenditure for FY2019 and FY2020 includes "temporary and special measures." In the FY2019 budget (¥1,359.7 billion) and the FY2020 budget (¥1,363.9 billion), ¥21.9 billion and ¥7.4 billion were allocated respectively for the science and technology promotion expenditure.
(Note 2) The public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

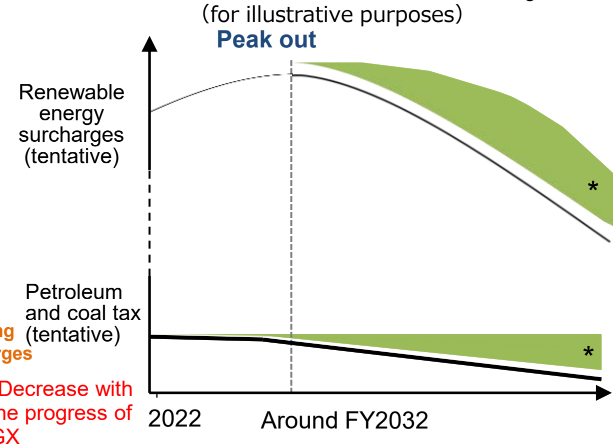
(5) Green Transformation (GX)

In order to achieve carbon neutrality by 2050 and ensure stable energy supply, Green Transformation [GX] is necessary. From the perspective of promoting private GX investment, carbon pricing will be introduced, “GX Economy Transition Bonds” are issued backed by the future financial resources generated by the carbon pricing, and ¥20 trillion-scale support for upfront investments will be implemented in 10 years.

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



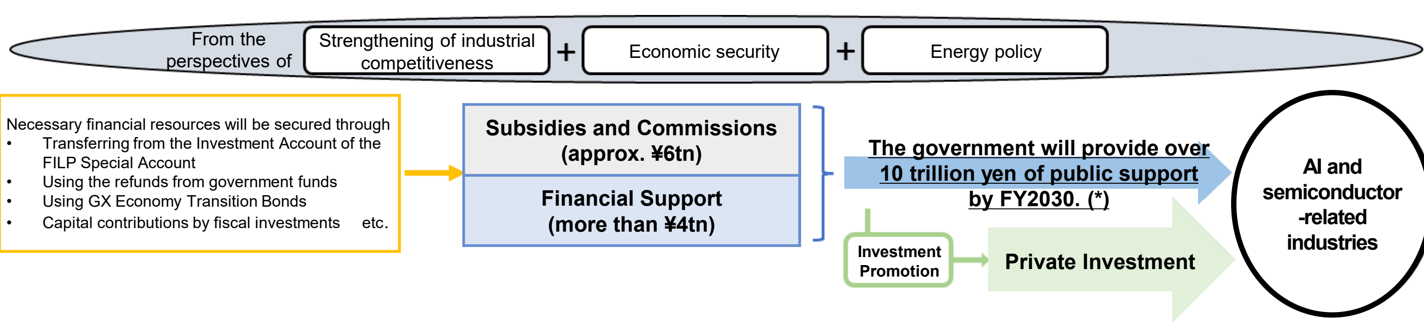
< Trend of financial burden in the medium to long term>
(for illustrative purposes)

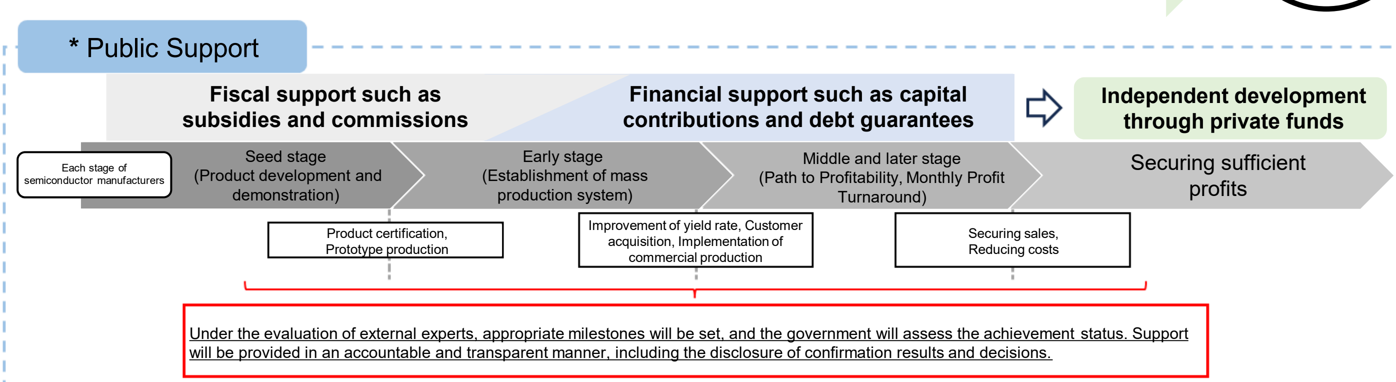


* BAU: Business As Usual

- 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)

From the perspectives of strengthening industrial competitiveness, economic security, and energy policy, in total, over 10 trillion yen of public support will be provided for the AI and semiconductor sectors, ensuring the necessary financial resources. Such systematic support will increase the predictability of private operators and promote private investment.
In addition, under this "AI and Semiconductor Industry Foundation Strengthening Framework", not only fiscal support such as subsidies and commissions will be provided, but also financial support such as capital contributions and debt guarantees will be utilized. In doing so, under the evaluation of external experts, the government will assess the achievement status by setting appropriate milestones and monitoring the process of the milestones. The government will provide supports with transparency and accountability by setting a framework to discuss approvals, revisions, judgements for supports in the future, and so on.





(6) Personnel expenses for public employees

Japan has about 580,000 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: 585,000 persons
Personnel expenses: ¥5.5 trillion

Administrative organs
Number of personnel: 306,000 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: 2,327,000 persons
Personnel expenses: ¥21.0 trillion

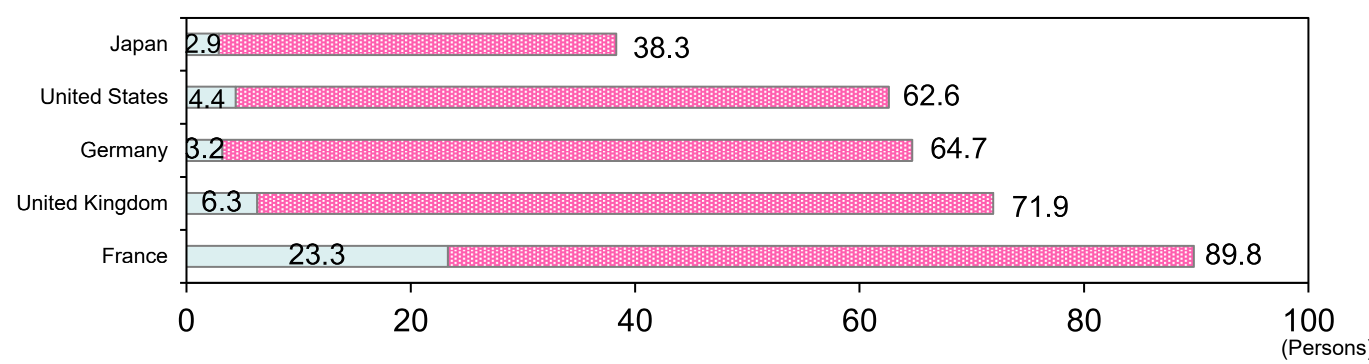
General administration
Number of personnel: 1,003,000 persons

Education (teachers of public schools, etc.)
Number of personnel: 905,000 persons

Police, fire fighting
Number of personnel: 418,000 persons

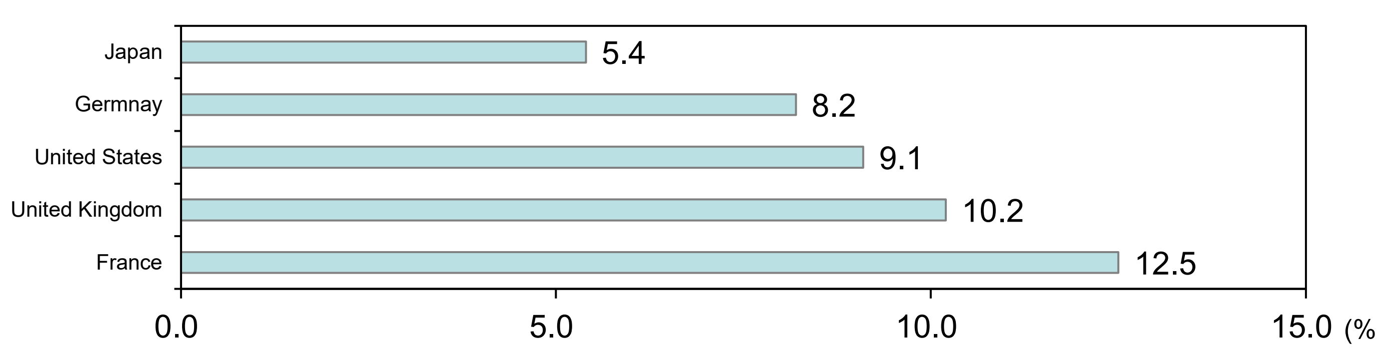
(Note 1) The number of personnel of national administrative organs and special organs is the total number of budgeted capacity of personnel of the general account and special accounts at the end of FY2025, whereas the number of personnel of local public entities is the number of officials under the FY2025 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 (FY2025 budget), and those for local public employees are the personnel expenses under the FY2025 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 FY2022, and data for France is that of FY2021.
(Note 3) ▭ shows the number of officials of the central government (excluding military personnel and national defense personnel).
▭ shows the number of officials in the public sector other than the central government (officials of government enterprises, local government officials, military personnel, and national defense 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 FY2025 Budget

1. Highlights of the FY 2025 Budget

Budget to shift to a “growth-oriented economy driven by wage increases and investment” along with the Economic Measures and Supplementary Budget for FY2024

Responding to Important Policy Issues

○ Steadily promoting **important policy issues tackled strategically within multiple fiscal years while securing the necessary financial resources.**
— **Drastic strengthening of defense capabilities** to respond to the severe security environment
— Full-scale implementation of **support for children and child-rearing** based on the "Children's Future Strategy"
— Promoting **GX investment and AI and Semiconductor Industry Foundation Strengthening** toward the realization of “Stimulating Japan’s Investment Power”

○ Giving priority in budget allocation for important policies, such as **doubling the regional creation grant** and **doubling the budget and personnel of the Cabinet Office in charge of disaster management.**

○ Responding to important issues such as the reform of social security for all generations including the **revision of the drug price** etc., and **the phased increase in the additional adjustments for the teaching profession** and the reform of teachers' working styles.

Achieving both economic revival and fiscal consolidation

○ **Steadily promotion of fiscal consolidation** while responding to important policy issues with consideration to economic and price trends
＊It is the first time in 17 years that the amount of government bonds issued has been less than 30 trillion yen in the initial budget.

○ While securing the total amount of general revenue for local governments, the government will **promote the fiscal consolidation of local governments**, including measures such as reducing the amount of special financial measures bonds issued to zero.

Budgeting that reflects economic and price trends

○ **Improving wages** of civil servants, teachers and childcare workers (recommendations of the National Personnel Agency in 2024)

○ **Raising labor unit prices** in public construction design（Prices for 2025 will be revised in February.）

○ **Raising the unit price of subsidies** for public school facilities

○ **Facilitating the pass-through of prices in public procurement** by local governments（labor costs etc.）
＊Response through “Special Regional Revitalization Grant for Focused Support in Response to Price Rises” (supplementary budget for FY2024)

○ **Promotion of appropriate transactions**（Subcontract G-Men、Truck and Logistics G-Men、Construction G-Men） etc.

Considering economic and price trends in the “Benchmarks for Expenditure”

○ Appropriate securing of policy budgets with the influence of the recommendations of the National Personnel Agency

<**social security expenditure**> The pension slide and the equivalent of the increase in childcare benefits (recommendations of the National Personnel Agency in 2024) will be added to the increment due to changes in the population structure (Approx. +250 billion yen) .

<**non-social security expenditure**> While maintaining the same level as the initial benchmark (+160 billion yen) for FY2024 (initial), which reflected changes in the rate of price increases in recent years, a substantial amount will be added to ensure that there is no real decrease due to increases in civil servant labor costs (Approx. +140 billion yen).

2. The FY2025 Budget Framework (After Revisions)

(Unit : billion yen)

Expenditure	FY2024 (Initial)	FY2025 (Draft)	FY2025 (After Revisions)	Amount of change (Compared to the FY2025 draft)	Amount of change (Compared to the FY2024 initial)
General Expenditure	67,776.4	68,245.2	68,107.1	−138.1	+330.8
Social Security Expenditure	37,719.3	38,277.8	38,293.8	+16.0	+574.5
Non-Social Security Expenditure	29,057.1	29,967.4	29,813.3	−154.1	+756.2
of which Defense Buildup Program Expenditure	7,724.9	8,474.8	8,474.8	―	+749.8
of which General Contingency Reserves	1,000.0	1,000.0	739.5	−260.5	−260.5
Contingency Fund for the Measures to Address Soaring Crude Oil and Commodity Prices and to Set up the Environment for Promoting Wage Increases	1,000.0	―	―	―	−1,000.0
Local Allocation Tax Grants, etc.	17,786.3	19,078.4	18,872.8	−205.6	+1,086.5
National Debt Service	27,009.0	28,217.9	28,217.9	―	+1,208.9
Total	**112,571.7**	**115,541.5**	**115,197.8**	**−343.7**	**+2,626.2**

Revenue	FY2024 (Initial)	FY2025 (Draft)	FY2025 (After Revisions)	Amount of change (Compared to the FY2025 draft)	Amount of change (Compared to the FY2024 initial)
Tax Revenue	69,608.0	78,440.0	77,819.0	−621.0	+8,211.0
Other Revenue	7,514.7	8,452.5	8,731.8	+279.3	+1,217.1
of which the Revenue for Defense Build-up	2,126.1	2,665.9	2,665.9	―	+539.8
Government Bonds Issuance	35,449.0	28,649.0	28,647.1	−1.9	−6,801.9
Construction Bonds	6,579.0	6,791.0	6,791.0	―	+212.0
Special Deficit-Financing Bonds	28,870.0	21,858.0	21,856.1	−1.9	−7,013.9
Total	**112,571.7**	**115,541.5**	**115,197.8**	**−343.7**	**+2,626.2**

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

3. Revised Framework for FY 2025 Budget

(Unit : billion yen)

Expenditure		Revenue	
○**Related to so-called "Free Education at High Schools"** ・Virtual abolition of the income requirement for the provision of benefits to all households etc.	**106.4**	○**Tax Revenue** ・Establishment of special provision for Basic Exemption of Income Tax	**−621.0**
○**Related to "High-cost Medical Expense Benefit"** ・Postponement of overall review	**16.0**	○**Other Revenue** ・Payment from Incorporated Administrative Agencies, Repayment from the Funds etc. (Note 2)	**279.3**
○**Local Allocation Tax Grants** ・Decrease in legal ratio due to decrease in income tax revenue (Note 1)	**−205.6**		
○**Contingency reserves**	**−260.5**	○**Government Bonds Issuance**	**−1.9**
Total	**−343.7**	**Total**	**−343.7**

(Note 1) Local Allocation Tax Grants on exit-based from the Special Account for Local Allocation Tax is not decreased.
(Note 2) Payment from Deposit Insurance Corporation of Japan and Urban Renaissance Agency, Repayment from Emergency Fund for the Development of Vaccine Production Systems, etc.
(Note 3) The budget for the Labor Insurance Special Account has been revised in order to take measures (6.3 billion yen in FY2025) to eliminate the restraint on working caused by the annual income threshold related to social insurance. The Special Account for the Local Allocation Tax and the Special Account for Reconstruction from the Great East Japan Earthquake have also been revised in line with the decrease in income tax revenue.

4. Characteristics of Each Expenditure in the FY2025 Budget

< Social Security >

○ **Social security-related expenses** are around 38.3 trillion yen (+approx. 570 billion yen from FY2024). 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 revision of drug price will be implemented steadily after reviewing its approach, and the **national burden will be reduced (-246.6 billion yen**, **central government expenditure -64.8 billion yen).** From the perspective of **innovation evaluation**, the number of innovative new drugs subject to revision will be limited, and rules for various addition will be applied. From the perspective of prioritization, the price of drugs whose patent has expired will be reduced appropriately. Measures will be supported to **ensure stable supply**.

○ **The Acceleration Plan** for the "Children's Future Strategy" (3.6 trillion yen) will be fully implemented, achieving **over 80% of the plan**. Further enhancement of **the reduction of the burden of higher education**, **improvement of the quality of childcare** such as improving staff allocation for one-year-olds, and **enhancement of childcare leave benefits** such as the creation of benefits for short-time working will be implemented.

○ While continuing with the temporary and special measures that consist of the special additional benefit and the guarantee of the previous amount, **the standard for livelihood assistance in FY2025 and FY2026 will raise the special additional payment to 1,500 yen per person per month.**

* Regarding the "Review of the High-Cost Medical Expense Benefit System" included in the government's draft budget, implementation has been postponed and the budget revised based on deliberations in the Diet. The review will be reconsidered and decided in the autumn of this year.

< Education >

○ In addition to reflecting the recommendations of the National Personnel Agency regarding improvements to the treatment of teachers (+3.7%), additional adjustments for the teaching profession will be gradually increased from 4% to 10% by FY2030 (+1% in FY2025). The interim progress of work style reforms will be verified. In addition, the burden on teachers will be reduced and work style reforms will be promoted by expanding the system of subject teachers in elementary schools and increasing the number of external personnel to support teachers.

< Public Works Project >

○ **Public works project-related expenses** are 6,085.8 billion yen (+3 billion yen compared to the initial budget for FY2024. 2.4 trillion yen in the supplementary budget for FY2024). In addition to infrastructure construction, the government will promote **National Resilience** through **integrated efforts with soft measures** such as the use of regulations and guidance methods in disaster risk areas.

○ Based on the lessons learned from the Noto Peninsula Earthquake, etc., priority support will be provided through individual subsidies for projects such as the **Earthquake-proofing of the vital facilities for water supply and sewage systems** and **slope protection measures** to prevent large-scale collapses of **embankment areas** nationwide.

< Regional Revitalization >

○ In order to **strongly support local governments' initiatives** based on the autonomy and ingenuity of local governments and in line with discussions in the "local industry, government, academia, financial institutions, labor organizations, and public discourse", the initial budget for **local revitalization grants will be doubled** (FY2024: 100 billion yen → FY2025: 200 billion yen).

○ In order to achieve the goal of 15 trillion yen in tourism spending in Japan, the government will promote the **enrichment of tourism content** that utilizes **the natural environment and regional cultural resources**, while also making use of the increased revenue from the international tourist tax (approx. +5 billion yen from FY2024).

< Agriculture, Forestry and Fisheries >

○ In order to steadily promote measures related to the **new basic plan** to be formulated based on the **revised "Basic Act on Food, Agriculture and Rural Areas"**, the "**Intensive Measures for Promoting the New Basic Plan**" (re-editing facilities, development of large-scale farmland parcels, promoting the export of agricultural, forestry and fishery products, development and introduction of smart agriculture technologies, measures for mountainous areas, turning fishing industry into a growth industry, etc.) will be implemented (147 billion yen).

< Local Governments Finance >

○ The amount of local allocation tax grants for local governments is 19.0 trillion yen (+0.3 trillion yen). While **securing the total amount of general revenue for local government** including measures to deal with the increase in personnel expenses, the **amount of special financial measures bonds issued will be reduced to zero** (for the first time since the establishment of the system in 2001), in addition, the **redemption of Borrowings in the Special Account for Local Allocation Tax will be increased** (2.8 trillion yen, significantly exceeding the planned amount of 0.6 trillion yen), **the fiscal consolidation of local governments will be promoted**.

＜ Science and Technology ＞

○ The budget for science and technology promotion is 1,422.1 billion yen (+12.9 billion yen from FY2024). As an investment in science and technology and innovation, in addition to promoting research and development in important fields such as **AI, quantum, health and medical care**, support for **highly international research and young researchers** will be strengthened.

＜ GX・Semiconductor ＞

○ At the GX Implementation Council, the draft “**GX2040 Vision**” will be presented and the investment strategy for each sector will be revised. The “GX Economy Transition Bonds” will continue to provide strong support for GX investment by the public and private sectors (Energy Special Account).

○ Based on the **“AI and Semiconductor Industry Foundation Strengthening Framework”** decided in the Comprehensive Economic Measures, financial support will be provided for the mass production of next-generation semiconductors(100 billion yen), and the development of bases for advanced semiconductor design, etc. (31.8 billion yen) will be implemented (Energy Special Account).Combined with FY2024 supplementary budgets, etc., support of 1.9 trillion yen will be implemented.

＜ Disaster Prevention ＞

○ Strengthening the disaster response capabilities, including establishing a system for registering kitchen cars, mobile homes, etc. that can be used in the event of a disaster. In order to thoroughly implement disaster prevention measures, **the budget and personnel of the Cabinet Office in charge of disaster management will be doubled** (FY2024: 7.3 billion yen, 110 people → FY2025: 14.6 billion yen, 220 people).

○ In order to increase the amount of water released from dams in the future, the budget for research to **improve the accuracy of forecasting stationary linear mesoscale convective systems and typhoons**, etc. will be doubled (+800 million yen from FY2024), and other measures will be taken to **strengthen the functions of the Japan Meteorological Agency**.(The budget for the Japan Meteorological Agency, including the supplementary budget for FY2024, is over 100 billion yen.)

○ The budget and personnel of the Japan Coast Guard will be significantly expanded, including the introduction of **multipurpose patrol vessels that can be used in the event of large-scale disasters** (+18 billion yen from FY2024).

＜ Recovery and Reconstruction ＞

○ With regard to the **recovery from the Great East Japan Earthquake**, the government will respond to the needs of the disaster areas in a detailed manner, including support for returning and relocating, and measures to counter rumors.

○ In order to **recover from the damage caused by the Noto Peninsula earthquake and heavy rainfall,** the government will utilize the supplementary budget for FY2024 and contingency funds to provide seamless support for the reconstruction of the lives and livelihoods of disaster victims and the restoration of infrastructure, etc., in response to the needs of the disaster areas.

＜ Crime Prevention ＞

○ **Measures to combat “Yami Baito”(shady part time job) will be strengthened** by equipping frontline police officers with the necessary equipment and improving investigative support analysis tools, etc. (+1.3 billion yen from FY2024). **The installation of security cameras, the maintenance of vehicles equipped with blue rotating lights (so-called “Ao Pato”)** will be promoted by using regional creation grant.

＜ Diplomacy ＞

○ In the midst of a severe international situation, **security measures** (such as OSA and information warfare) and **diplomatic infrastructure** (such as the protection and security of Japanese nationals) will be strengthened. (+4.7 billion yen from FY2024). While taking priority measures to mobilize private sector financing, etc. for **overall ODA** (+1.4 billion yen from FY2024), sufficient funds that can be practically utilized will be secured by also utilizing JICA's prepayment funds (approx. 5 billion yen in FY2025). The estimated amount of ODA projects, including yen loans, etc., will increase significantly (+432.6 billion yen from FY2024).

＜ Strengthening Defense Capabilities ＞

○ Based on the Defense Buildup Program, the government will continue to promote a **fundamental strengthening of defense capabilities**, including the **enhancement of stand-off defense capabilities**.

○ Based on the content of Ministerial Meeting, the **human resources base of the Self-Defense Forces will be strengthened** by **improving the treatmen**t of Self-Defense Forces personnel, such as by **establishing a new benefit for Self-Defense Forces personnel who live in barracks after joining** (1.2 million yen over six years after joining).

5. Response to important issues of the social security field

◆Drastic strengthening of policies for children and child-rearing

The Acceleration Plan for the “Children's Future Strategy” (3.6 trillion yen) will be fully implemented. It is expected that **over 80% of the plan will be realized** in the FY2025 budget.

① Strengthening of economic support
- Establishment of **support benefits for pregnant women** (50,000 yen each for consultation at the time of pregnancy and childbirth)
- Drastic strengthening of **burden reduction for higher education** (tuition waiver for students from multi-child households)

② Qualitative improvement of child education and care
- **Improvement of treatment** of childcare workers etc. (significant increase of +10.7% based on the recommendations of the National Personnel Agency in 2024)
- **Improvement of the allocation** of one-year-olds (achieving a ratio of 5 to 1 in facilities that are promoting improvements to the workplace environment)
- Institutionalization of the “**a system where anyone can attend a nursery school**”

③ Enhancement of the childcare leave system
- Increase in child-care leave benefits to **100% of salary** for a certain period (currently 80%)
- Establishing **benefits for shorter working hours**

◆The revision of drug price for FY2025

The revision of drug price will be implemented and the **national burden will be reduced** (-246.6 billion yen, national expenditure -64.8 billion yen). Responds to innovation evaluation and ensuring a stable supply.

① Review of target scope

(FY2021, FY2023 revision) Regardless of the nature of the drug, 0.625 times or more of the average deviation rate.
(FY2025 revision) Priority is given to items with a **target scope set according to the nature of each item.**
* Items eligible for additions such as new drug creation, etc.: more than 1.0 times, long-listed products: more than 0.5 times, etc.

② Evaluation of Innovation
- Strengthening the framework for maintaining drug price during the patent period by applying the **revised addition** for the first time.

③ Considerations for ensuring a stable supply
- Temporarily **recalculate unprofitable products** for drugs that require a particularly stable supply to be secured.
- The first **increase in the minimum drug price** since the beginning of deflation

④ Application of the price reduction rule after the expiration of the patent

* Regarding the “Review of the High-Cost Medical Expense Benefit System” included in the government's draft budget, implementation has been postponed and the budget revised based on deliberations in the Diet. The review will be reconsidered and decided in the autumn of this year.

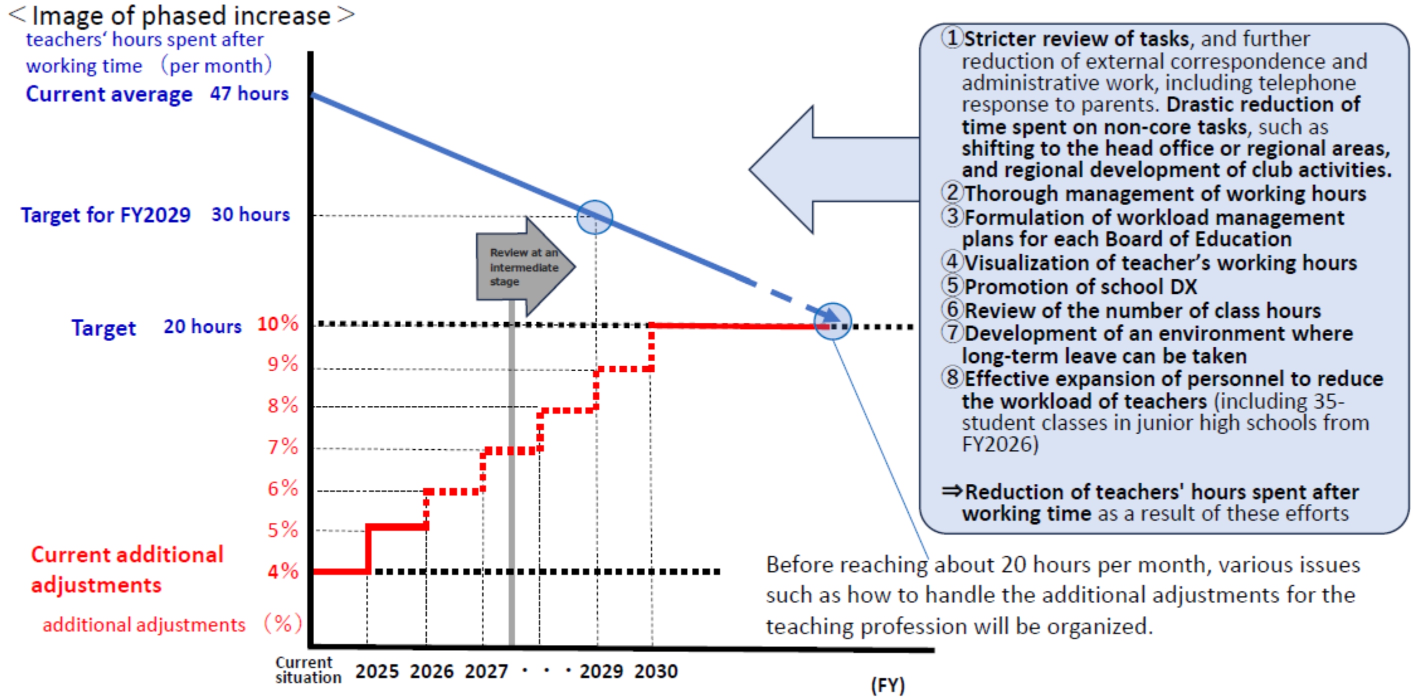
6. Phased increase in additional adjustments for the teaching profession

○ **The rate will be increased to 10% by FY2030, 5% in FY2025,** and will be steadily increased thereafter.

○ **The Ministry of Education, Culture, Sports, Science and Technology and the Ministry of Finance will conduct a review at an intermediate stage** (from FY2027 onwards), and while reviewing the progress of "work-style reforms," and the status of securing financial resources, measures will be considered and taken, including how to increase the amount of subsequent adjustments, how to prioritize, and other more effective measures.

○ The average number of teachers' hours spent after working time **will be reduced to about 30 hours per month by FY2029**, and the goal is to reduce it to **about 20 hours per month in the future.** By then, various issues will have been **organized from a broad perspective regarding the future of the Act on Special Measures Concerning Salaries, etc., and additional adjustments for the teaching profession.**

<Image of phased increase>



7. New Regional Economies and Living Environments Creation Grant

【 The New Grant Scheme 】

- Based on the concept that "Local communities are the main drivers of growth", a grant will be established that will allow local governments to implement projects with a high degree of flexibility, in order to enable local areas to achieve development that matches their individual characteristics.
- In terms of scale, the budget will double from the previous grants, based on the initial budget (100 billion yen → 200 billion yen. 100 billion yen allocated in the FY2024 supplementary budget as well).
- Strong support for local initiatives, from planning to implementation, that contribute to regional revitalization through the participation of various local entities (local industry, government, academia, financial institutions, labor organizations, and public discourse, etc.) based on the autonomy and ingenuity of local governments.

New Regional Economies and Living Environments Creation Grant
(Second Generation Grants) (200 billion yen)

Creating living environments in the local areas where people can live with peace of mind

- Creating attractive work styles, workplaces and human resources development for a "regions chosen by young people and women"
- Maintaining and improving services that are essential to daily life, such as shopping, medical care, and transportation and Urban Development
- Realization of a nation founded on culture and the arts through support for local culture and arts
- Securing regional transportation to eliminate transportation blank
- Safe and secure urban development by strengthening crime prevention measures etc.

Creation of new value-added regional economies

- Revitalization of agriculture, forestry and fisheries and local industries
- Creating high added value in tourism industries
- Creating high added value by using blockchain and generative AI etc.

※ Applications from local governments will be accepted as a single application, and after the content of the project is confirmed by the national government, support will be provided by allocating them to the "Soft Project", "Base Development Project" and "Infrastructure Development Project".

【 Examples of Soft Projects 】

Regional revitalization through sports

Building a delivery model using drones

【 Examples of Base Development Projects 】

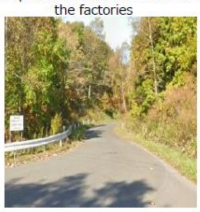
Development of a base for education in state-of-the-art technology

Development of tourist bases next to Roadside Stations

【 Examples of infrastructure Development Projects 】

Development of lively spaces in towns and cities

Development of access roads around the factories



8. Drastic strengthening of disaster prevention systems and measures

Based on the lessons and issues learned from the Noto Peninsula Earthquake, the following measures will be promoted in the FY2025 budget.

1. **Strengthening the system of the Cabinet Office in charge of disaster management and the TEC-FORCE**, etc., in order to improve the ability to respond flexibly in the event of a large-scale disaster and to improve local disaster prevention capabilities.
2. **The budget for disaster prevention at the Cabinet Office will be doubled** in order to **establish a Disaster Management Agency and ensure thorough disaster prevention in advance**. In addition, **the budget for meteorological research to improve the accuracy of forecasts will be doubled**.
3. In order to make **more effective use of the budget for disaster recovery, more precise and flexible management and allocation of the budget will be implemented.** At the same time, **systems will be created and expanded** for various public works projects that **contribute to disaster prevention in advance**.

1. Drastic strengthening of systems

(1) Drastic strengthening of the functions of the Cabinet Office in charge of disaster management
FY2024: 110 people ⇒ FY2025: 220 people (+110 people)

○Thoroughly implementing disaster prevention in advance, strengthening the system for constantly preparing for emergencies in normal times.
- Assignment of personnel in charge of strengthening regional disaster prevention capabilities in prefectures.
- Storage of goods, coordination of procurement and transportation, comprehensive disaster management
- Assignment of staff in charge of information systems, etc.

(2) Drastic strengthening of the roles and functions of TEC-FORCE.
FY2024: 23,858 people⇒FY2025: 23,951 people (+93 people)

○Strengthening the system of the Regional Development Bureau and Hokkaido Regional Development Bureau
- Enhancement and strengthening of "materials and equipment" and systems for collecting information
- Establishment of a private-sector partnership system for TEC-FORCE
- Clarification of the organizational structure of support for disaster-stricken municipalities

▲TEC-FORCE damage assessment

▲Day and night emergency road restoration with lighting vehicles.

2. Increase the budget

(1) The budget for disaster prevention at the Cabinet Office will be doubled (14.6 billion yen (7.3 billion yen))

①Drastic improvement of evacuation shelters' environments
○Budgeting the expenses for push-type support in advance and implementing support quickly and reliably from the day of the disaster (2.7 billion yen (new))
○Establishment of a registration and support system for kitchen cars, mobile homes, etc., that can be used in the event of a disaster.
Scheduled to start in June 2025 (60 million yen* (new))
*including budget for the Ministry of Land, Infrastructure, Transport and Tourism

②Strengthening command function for disaster response
○Establishment of the "Comprehensive Promotion Fund for Disaster Prevention Measures" to promote disaster prevention in advance by related ministries and agencies (1.7 billion yen (new))

③Promotion of public-private partnerships and human resource development
○ Establishment of a registration system for NPOs and other organizations with specialized skills (200 million yen (new))

(2) Doubling the budget of the Meteorological Research Institute (1.6 billion yen (800 million yen))
- Doubling of the budget for research that contributes to improving the accuracy of forecasting stationary linear mesoscale convective systems and typhoons, etc.
- Realization of further sophistication in the operation of dams in the future, based on improvements in observation equipment and the research described above. (The advance start of the pre-release of water from the dam (from 3 to 5 days earlier) is equivalent to the capacity of about 10 Yamba Dams)

Next-generation geostationary meteorological satellite" Himawari" ▶

3. Flexibilization of disaster recovery budgets, creation of systems, etc.

(1) Flexibility in budget for disaster recovery and simplification of procedures.
- In order to make more effective use of the budget for disaster recovery, the management and allocation of the budget will be made more precise and flexible.
- Implementation of simplified disaster assessment procedures, etc.

(Online implementation, paperless procedure, and the omission of some procedures, etc.)

▲ Emergency restoration of roads in cooperation with construction companies.

(2) Establishment and expansion of the system (reflecting the lessons learned from the Noto Peninsula earthquake)

①Expansion of inter-project cooperation in sabo works and other projects.
- To the list of projects to be linked with erosion control projects, projects to reinforce the earthquake resistance of water and sewage facilities in sediment disaster special alert areas will be added.

②Establishment of the Directly Controlled Special Emergency Landslide Countermeasures Project
- A new directly controlled project will be established to prevent further disasters from the devastating landslides.

9. Overview of the Supplementary Budget for FY2024 (enacted on 17th December 2024)

Ⅰ. Growth of the national and local economies ~ Increase current and future wages and incomes of all generations ~ 5,750.5 bn

1. Improvement of the environment for wage increases ~ Toward the current wage increase ~ 912.7 bn

- ○ Support for improving productivity to cope with rising minimum wage〔29.7 bn〕
- ○ Support for large-scale growth investments, capital investment for high added value, IT introduction, etc. for SMEs〔340.0 bn〕
- ○ Support for building new bases and large-scale capital investment to promote labor-saving in LMEs and SMEs〔140.0 bn〕
- ○ Support for improving productivity and the workplace environment, etc. in the fields of medical, long-term care, and disability welfare〔230.4 bn〕
- ○ Support for medical institutions that are facing sudden changes in their current business conditions〔48.3 bn〕 etc.

2. Development of New Local Community Revitalization Measures ("Local Community Revitalization 2.0") ~ Toward an Increase in Wages and Incomes in Every Corner of the Country ~ 1,840.6 bn

- ○ New Regional Economic and Living Environment Creation Grant〔100.0 bn〕
- ○ Strengthening sustainable growth of agriculture, forestry and fisheries and food security〔303.7 bn〕
- ○ Support for measures against the declining birthrate in the community〔9.5 bn〕
- ○ Expansion of inbound tourism by promoting regional tourism, Revitalizing and adding high value to tourist destinations and tourism industry〔53.8 bn〕
- ○ Support for Creator in the field of culture and arts〔19.0 bn〕 ○ Redevelopment of the National Theater〔20.0 bn〕
- ○ Increase of Local Allocation Tax Grants (exit-based (excluding Redemption of the National Debt))〔792.6 bn〕 etc.

3. Realization of an "Investment-Oriented Nation" and an "Asset Management-Oriented Nation" ~ Toward Future Wage and Income Growth ~ 2,997.1 bn

- ○ Quantum computers, quantum cryptography technology etc.〔54.3 bn〕 ○ Support for stable supply of generic drugs〔9.0 bn〕
- ○ Support for drug discovery〔46.2 bn〕 ○ Space Strategy Fund〔300.0 bn〕 ○ Research and Development of "Beyond 5G"〔35.7 bn〕
- ○ Development and upgrading of large research facilities (next flagship system of Fugaku, SPring-8-Ⅱ etc.)〔24.8 bn〕
- ○ Regional Decarbonization Promotion Grant〔36.5 bn〕 ○ Support for diversification of supply sources of minor metals and copper〔92.2 bn〕
- ○ Support based on "AI and Semiconductor Industry Foundation Strengthening Framework"〔1,305.4 bn〕 etc.

Ⅱ. Overcoming High Prices ~ Paving the way for a transition to a growth-oriented economy where no one is left behind ~ 3,389.7 bn

1. Detailed response to the current price hike 3,142.7 bn

- ○ Special Regional Revitalization Grant for Focused Support in Response to Price Increases
  〔Benefits for low-income households : 490.8 bn、recommended project menu : 600.0 bn〕
- ○ Support for electricity and gas bills during the winter period〔319.4 bn〕 ○ Measures to mitigate drastic changes in fuel oil prices〔1,032.4 bn〕
- ○ Benefits based on "the combined measures of benefit payments and Flat-amount Cut of Personal Income Tax (economic measures for FY2023)"〔644.3 bn〕 etc.

2. Realization of an economy and society that is resilient to rising energy costs 246.9 bn

- ○ Promotion of energy conservation and renewable energy for households and homes〔180.9 bn〕 (423.9 bn including the special account)
- ○ Support for the introduction of clean energy vehicles〔36.0 bn〕 (186.0 bn including the special account) etc.

Ⅲ. Ensuring the safety and security of the public ~ Laying the Foundations for a Transition to a Growth-Oriented Economy ~ 4,790.9 bn

1. Recovery and Reconstruction from Natural Disasters 667.7 bn

- ○ Recovery and Reconstruction of the Noto Peninsula(Support for rebuilding the livelihoods of disaster-stricken businesses, accelerating disaster waste treatment etc.)〔268.4 bn〕
- ○ Recovery of public facilities etc.〔462.8 bn〕 (Including Recovery and Reconstruction of the Noto Peninsula) etc.

2. Promotion of Disaster Prevention and Mitigation and National Resilience 1,958.4 bn

- ○ Drastic strengthening of disaster-resistant system (Use of New Regional Economic and Living Environment Creation Grant)
- ○ Improving the accuracy of forecasting stationary linear mesoscale convective systems and typhoons (enhancement of the functions of the Japan Meteorological Agency)〔45.1 bn〕
- ○ Maintenance of public school facilities (Including installation of air conditioning in school gymnasiums nationwide (77.9 bn))〔207.6 bn〕
- ○ Measures of disaster prevention and mitigation, strengthening national infrastructure (Public work expenses)〔1,406.3 bn〕 (2.4 tn for the total public work expenses(including special account)*) etc.

3. Responding to Changes in the Diplomatic and Security Environment 1,409.0 bn

- ○ Strengthening cooperation with countries in the Global South〔265.0 bn〕
- ○ Responding to the emergency needs of Ukraine and neighboring countries〔26.9 bn〕
- ○ Strengthening the response capabilities in the field of cybersecurity in the public and private sectors〔39.5 bn〕
- ○ Strengthening the Coast Guard Capability〔91.2 bn*〕 ○ Responding appropriately to changes in the security environment of the Self-Defense Forces〔826.8 bn〕 etc.

4. Realization of a society in which no one is left behind 755.8 bn

- ○ Strengthening crime prevention measures〔1.9 bn〕 (In addition, use of New Regional Economic and Living Environment Creation Grant)
- ○ Support for children and child-rearing (Improvement of the treatment of childcare workers, prevention of child poverty etc.)〔220.6 bn〕 (318.5 bn including the special account)
- ○ Payment of compensation related to now-defunct eugenic protection law〔87.8 bn〕 etc.

■ Total additional spending of the Supplementary Budget (General Account) 13,931.0 bn

(Special Account 886.1 bn)

* The amount includes projects organized under other pillars.

10. The Framework of the First Supplementary Budget for FY2024

(billion yen)

Expenditures		Revenues	
1．Growth of the national and local economies ~ Increase current and future wages and incomes of all generations ~	5,750.5	1．Tax revenues	3,827.0
2．Overcoming High Prices ~ Paving the way for a transition to a growth-oriented economy where no one is left behind ~	3,389.7	2．Non-tax revenues (note 3)	1,866.8
3．Ensuring the safety and security of the public ~ Laying the Foundations for a Transition to a Growth-Oriented Economy ~	4,790.9		
Subtotal (expenses related to the economic stimulus measures)	13,931.0	3．Surplus from the previous fiscal year	1,559.5
4．Other expenses	176.8		
5．Transfer to the Special Account for the National Debt Consolidation Fund	425.9	4．Government bond issuance	6,690.0
6．Local allocation tax grants (Note 2)	1,039.8	(1) Construction bonds	3,080.0
		(2) Special deficit-financing bonds	3,610.0
7．Reduction in previously approved expenses	-1,630.3		
Total	13,943.3	Total	13,943.3

(Note 1) Figures may not add to the totals due to rounding.
(Note 2) The total amount of Local allocation tax grants is 1,832.4 billion yen, including the amount allocated for the economic stimulus measures (792.6 billion yen).
(Note 3) This includes 1,305.4 billion yen for the "AI and Semiconductor Industry Foundation Strengthening Framework".

11. The FY2024 Budget Framework after the First Supplementary Budget

(billion yen)

	FY2024 Budget (initial)	**FY2024 budget (after the supplementary budget revision)**	FY2024 budget Initial → after the supplementary budget revision	Notes
(Expenditure)				
General Expenditure	67,776.4	**80,986.8**	13,210.5	
Local Allocation Tax Grants, etc.	17,786.3	**19,620.0**	1,833.7	
National Debt Services	27,009.0	**25,908.1**	- 1,100.9	
o/w Redemption of the National Debt (Excluding Subsidy Bonds)	16,941.7	**17,367.6**	425.9	
o/w Interest Payment	9,691.0	**8,164.2**	- 1,526.8	
Total	112,571.7	**126,515.0**	13,943.3	
(Revenue)				- Bond Dependency Ratio : 33.3%
Tax Revenue	69,608.0	**73,435.0**	3,827.0	- Construction Bond Issuance initial: 6.6tn → after the supplementary budget revision: 9.7tn
Other Revenue	7,514.7	**10,941.0**	3,426.3	
Government Bond Issuance (Difference between Expenditure and Tax Revenue, etc.)	35,449.0	**42,139.0**	6,690.0	- Special Deficit-Financing Bond Issuance initial: 28.9tn → after the supplementary budget revision: 32.5tn
Amount Equivalent to Redemption of National Debt (Excluding Subsidy Bonds)	16,941.7	**17,367.6**	425.9	- Fiscal Balance Deficit (total amount equivalent to interest payments and deficit from policy expenditure) after the supplementary budget revision is 24.8tn
Amount Equivalent to Interest Payments	9,691.0	**8,164.2**	- 1,526.8	
Amount Equivalent to Deficit from Policy Expenditure (Primary Deficit)	8,816.3	**16,607.2**	7,790.9	
Total	112,571.7	**126,515.0**	13,943.3	

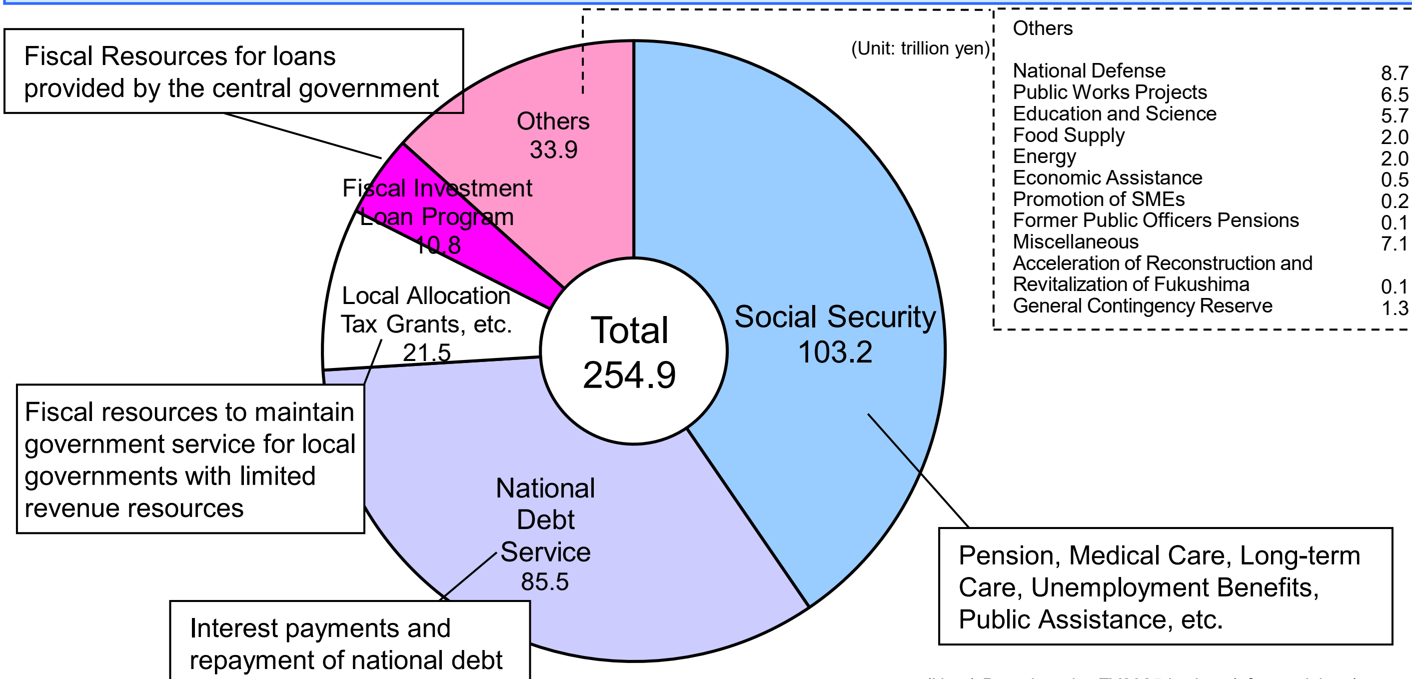
(Note 1) Figures may not add to the totals due to rounding.
(Note 2) "Tax Revenue" includes stamp revenues.
(Note 3) The classification of "Government Bond Issuance" is made from the perspective of the primary balance and fiscal balance, and the term "Amount Equivalent to" is used because the revenue 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 (FY2025: 115.2 trillion yen) and the Special Account gross expenditures (FY2025: 429.5 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 FY2025 budget (after revisions)

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

(Unit: trillion yen)

Item	FY2023 Settlement	FY2024 Settlement (estimate)	FY2025 Budget
Total Expenditure in the General Account (A)	127.6	136.9	115.2
Total Expenditure in the Special Accounts (B)	412.5	431.5	429.5
Total (C = A + B)	540.1	568.4	544.7
of which, the amount overlapped (D)	137.4	152.5	153.5
Difference (E = C – D)	402.7	416.0	391.1
of which, the amount deducted (F*)	153.9	134.2	136.2
Net Total (= E – F)	248.8	281.8	254.9

(Note 1) "(F)" means the amount of redemption by the refunding in the National debt consolidation fund special account.
(Note 2) Based on the FY2025 budget (after revisions)

○ Lists of Special Accounts in the FY2025

- 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
- Children
- 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 FY2023, the assets amounted to ¥778.1 trillion, but most of those cannot be sold to make up fiscal resources for other policies. (Please refer to the figure below.)

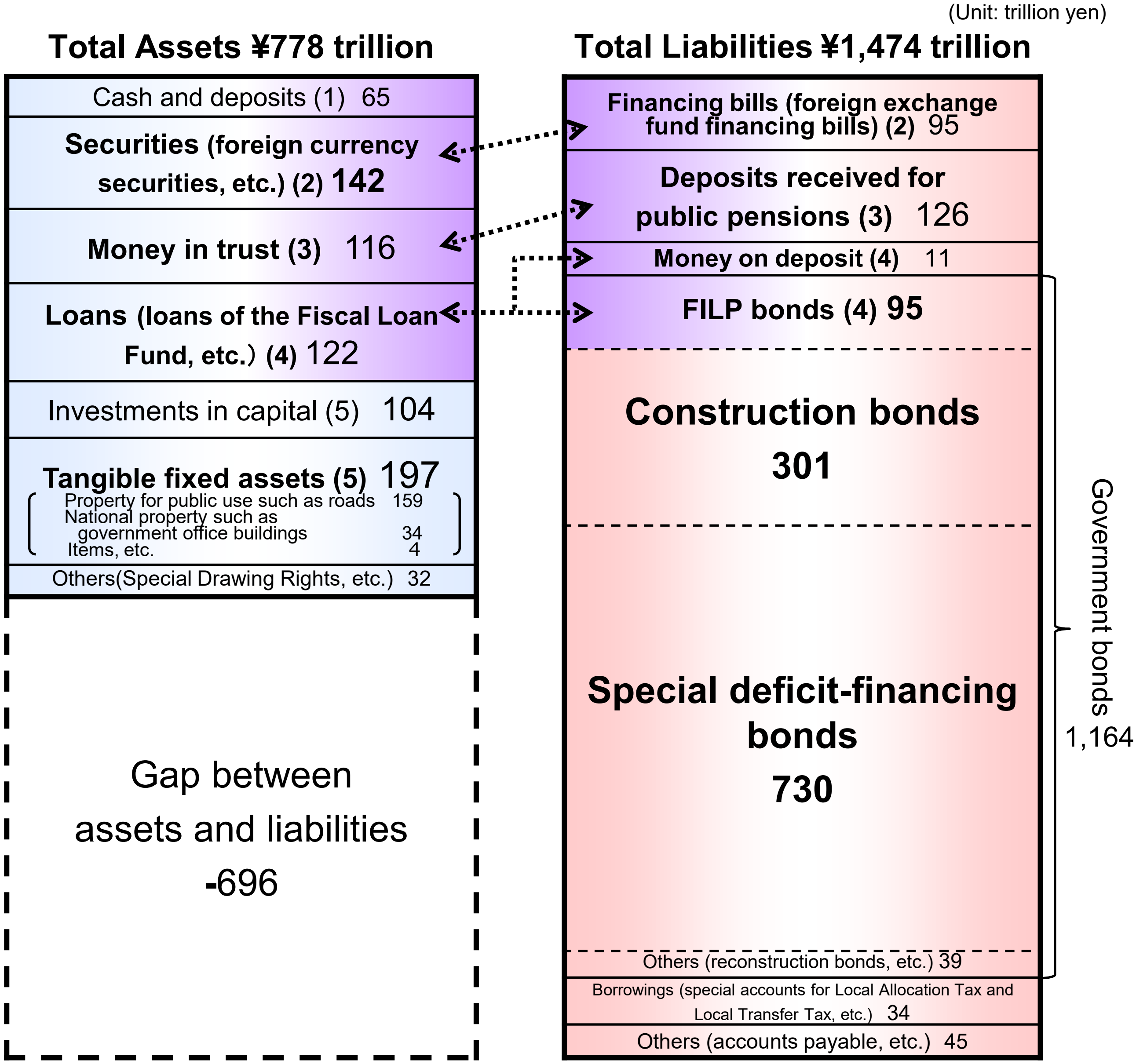
◆ Some financial assets and liabilities are earmarked to each other.

- Foreign currency securities (¥141.0 trillion (part of the securities)): Financial sources for purchasing these securities are provided by issuing foreign exchange fund financing bills (¥93.4 trillion (part of the financing bills)).
- Loans of the Fiscal Loan Fund (¥112.3 trillion (part of the loans)): Financial sources for these loans consists of funds provided by issuing FILP bonds (¥94.5 trillion) and money on deposit (¥10.5 trillion).
- Money in trust (¥115.6 trillion): It is a part of funds accumulating social security contribution etc., saved for future benefit disbursement and the corresponding amount is also listed on the liability side as the deposits for public pensions (¥125.5 trillion).

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

- Tangible fixed assets (¥196.7 trillion): property for public use, etc. such as roads and rivers.
- Investments in capital (¥103.7 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)



(FY2023 Points of “National Financial Documents” (January 2025)

(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 FY2023 (65.4 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 FY2023 was 15.7 trillion yen (excluding foreign currency deposits), while the balance of cash and deposits was 65.4 trillion yen (cash and deposits excluding foreign currency deposits was 45.8 trillion yen) due to the receipt of a large amount of tax revenue and other payments during the clearing period.

(2) Foreign currency securities (141.0 trillion yen) and Foreign exchange fund financing bills (93.4 trillion yen)

With regard to foreign currency securities (141.0 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.

* Most of the 47.6 trillion yen difference between foreign currency securities and foreign exchange fund financing bills is attributable to an increase in value converted according to exchange rates of foreign currency securities whose value has a fluctuating nature by fluctuations in exchange rates, and a reduction in the outstanding balance of foreign exchange fund financing bills issued through the transfer of the temporary surplus in the treasury.

(3) Money in trust (115.6 trillion yen) and Deposits received for public pensions (125.5 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 (112.3 trillion yen) and FILP bonds (94.5 trillion yen) etc.

The loans of Fiscal Loan Fund (112.3 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 (196.7 trillion yen), Investment in capital (103.7 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 (-695.7 trillion yen)**

The gap between assets and liabilities (-695.7 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 FY2025 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> To enhance the warning system for runway incursions and strengthen the monitoring system for aircraft takeoffs and landings, human resources for air traffic controllers are to be strengthened and expanded by establishing a new takeoff and landing coordination position. [MLIT] [Reflected amount: ¥4.6 billion (of which ¥ 2.7 billion for the supplementary budget for FY2024)]
- In line with the report by the Board of Audit, necessity and efficiency of individual administrative tasks and projects are fully re-examined.
  <Example> The scale of loans provided by the Agriculture, Forestry and Fisheries Credit Foundations will be reviewed, and government capital contributions equivalent to excessive loans are scheduled to be paid into the Treasury. [MAFF] [Reflected amount: ¥10.9 billion (revenue)]
- The details of each budget are closely reviewed if a large amount of allocated budget remains unused based on the financial result.
  <Example> Based on the implementation status of the Energy Conservation Investment Promotion Support Project for Integrated Supply and Demand of Housing and Buildings, the required amount has been revised by appropriately reflecting the actual unit prices, etc. in the budget estimate.[METI] [Reflected amount: -¥300 million]

◆ Budget Execution Surveys

- In FY2024, the Ministry of Finance conducted 31 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 the Smart Cities Promotion Project for Solving Regional Issues, in many cases, data integration has not progressed, resulting in insufficient services, which in turn has led to low utilization by citizens and a lack of understanding among stakeholders. Based on this situation, it was considered that continuing this project would not lead to the realization of the “Smart City” and therefore, budget allocation for this project was ended in FY2024.
  [MIC] [Reflected amount: -¥300 million]

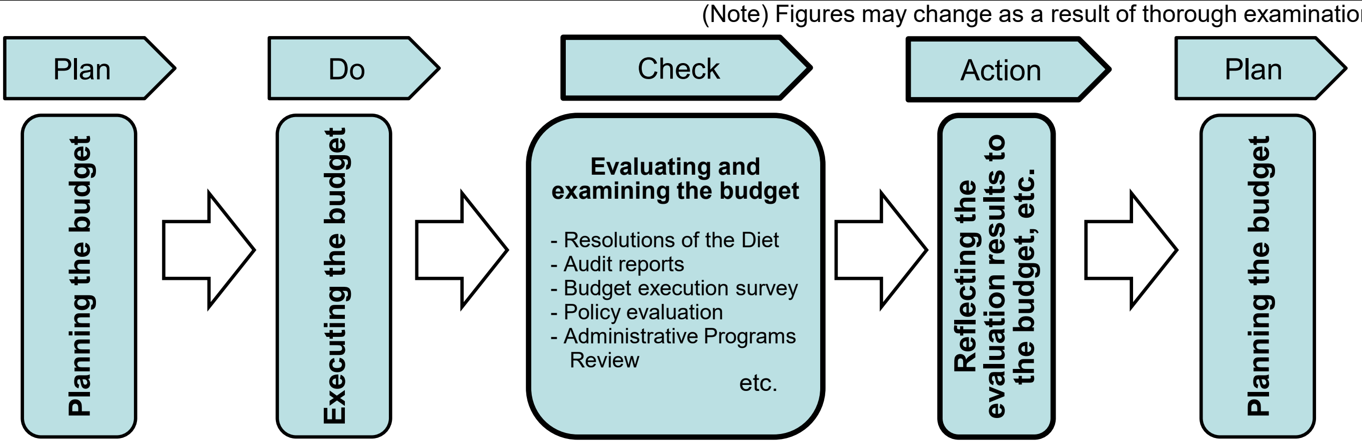
◆ Policy Evaluation

- 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 Regional Revitalization Type of the Innovation Promotion Project for Farming, Mountain and Fishing Villages provides support for the formulation of regional activity plans and the utilization of external human resources with specialized skills. However, due to the low utilization of external human resources, the budget has been reduced by reexamining the number of newly approved cases.
  [MAFF] [Reflected amount: -¥50 million]

◆ Administrative Programs Review

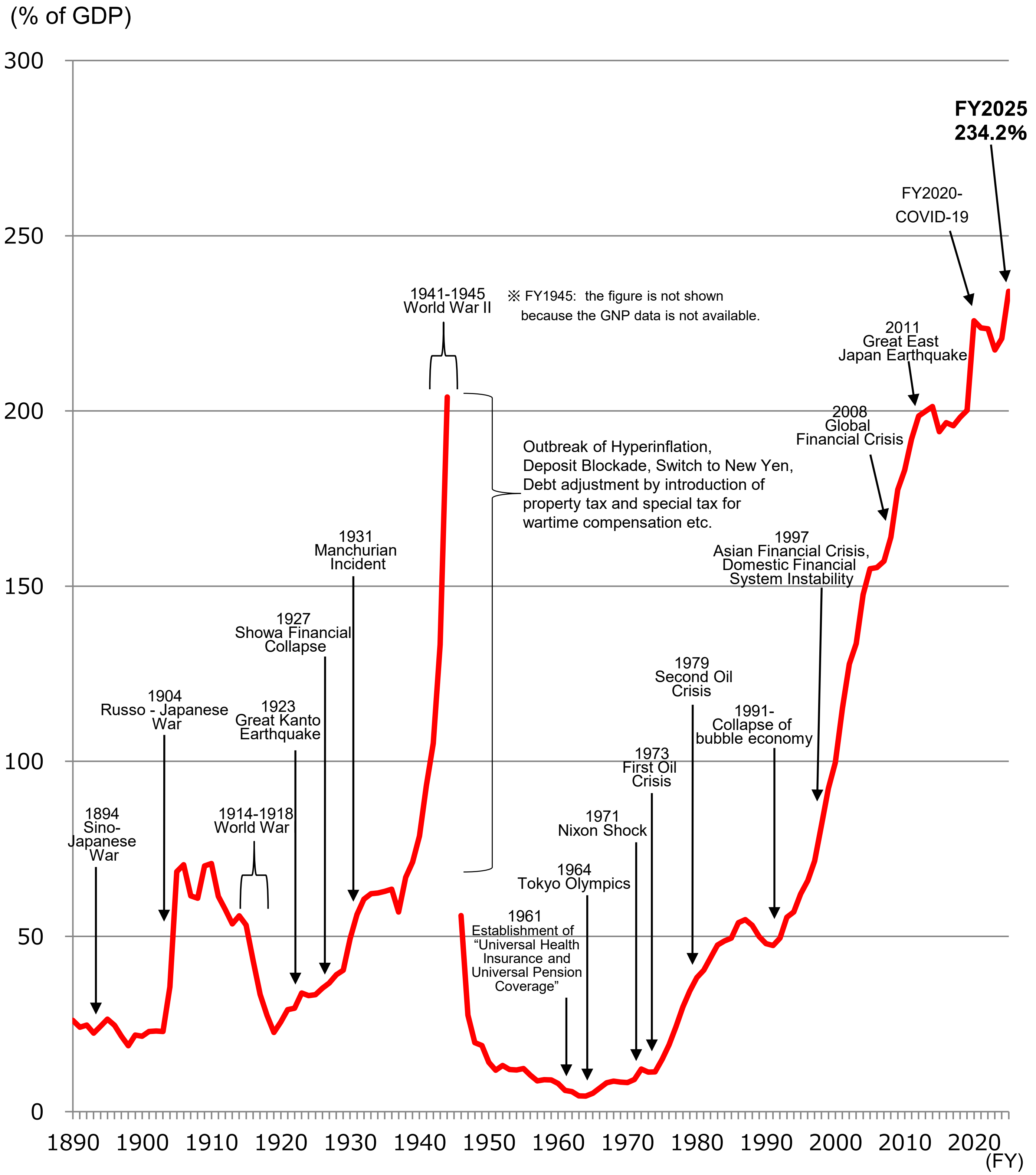
- Positive use of Administrative Program Review sheets, introducing the concept of Evidence Based Policy Making.
- Points raised by the annual public review in autumn (Autumn Review), etc. under the Administrative Reform Promotion Council are properly reflected in budget formulation, so as to improve the budget quality.
  <Example> With regard to “Ministry of Agriculture, Forestry and Fisheries Common Application Service (eMAFF)”, the government has decided to review operations based on the number of online applications and consider setting KPIs that enable monitoring of performance targets and achievement status. In doing so, quantitative performance targets for administrative efficiency have also been set, and the Digital Agency has decided to check their achievements. In addition, the Digital Agency has decided to manage the progress of costs and effects of each ministry's systems and to instruct revisions, including the reduction or suspension of systems that are not progressing sufficiently. [MAFF, Digital Agency]

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



(Reference)

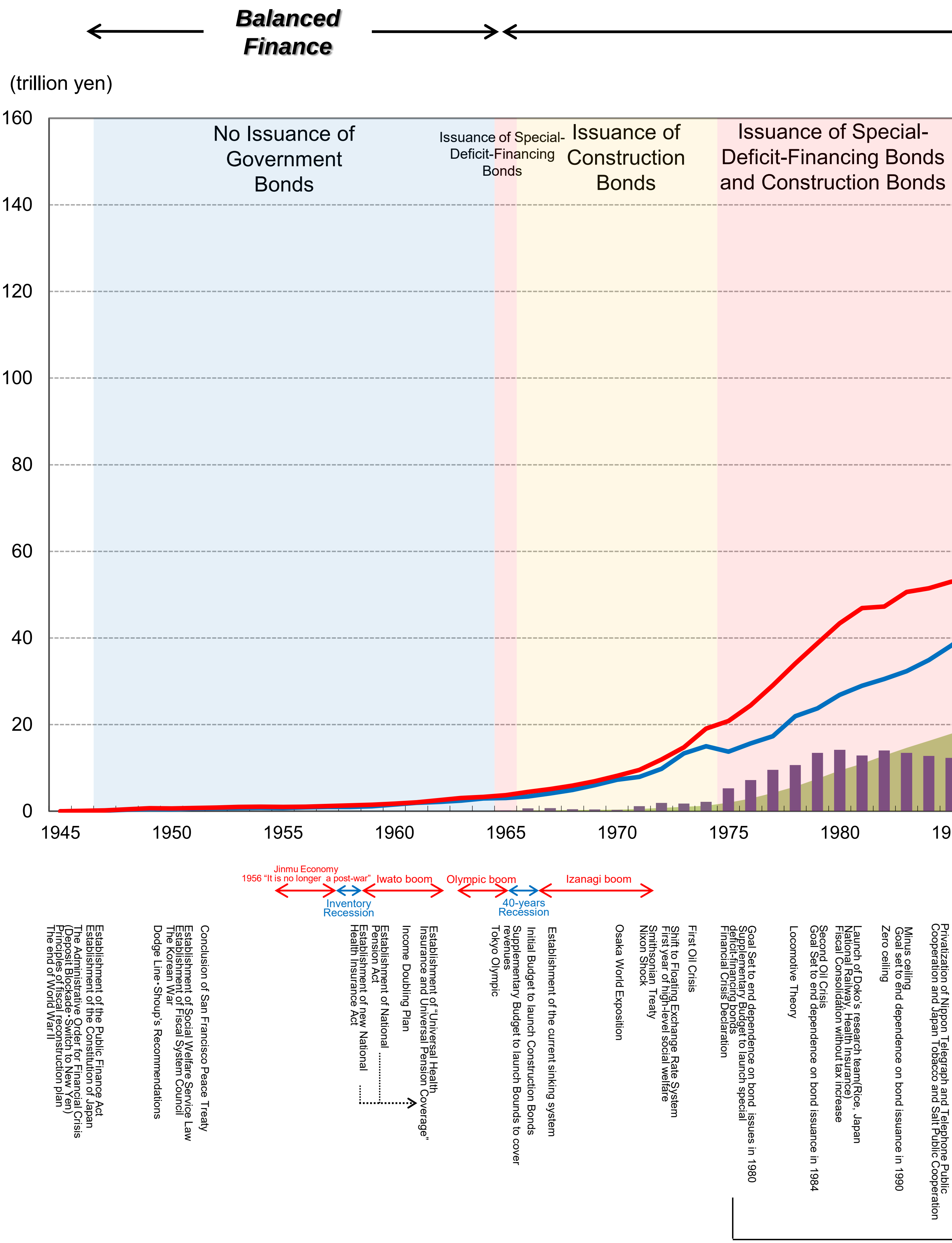
Transition of debt to GDP ratio since Prewar period



(Note 1) The Outstanding Accumulated Government Bonds：The figures at the end of "government bonds and borrowing outstanding" (Annual report on government bonds statistics). FY1890-2023: Actual ; FY2024: Based on the Supplementary Budget; FY2025 Based on the Budget (After Revisions). 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).

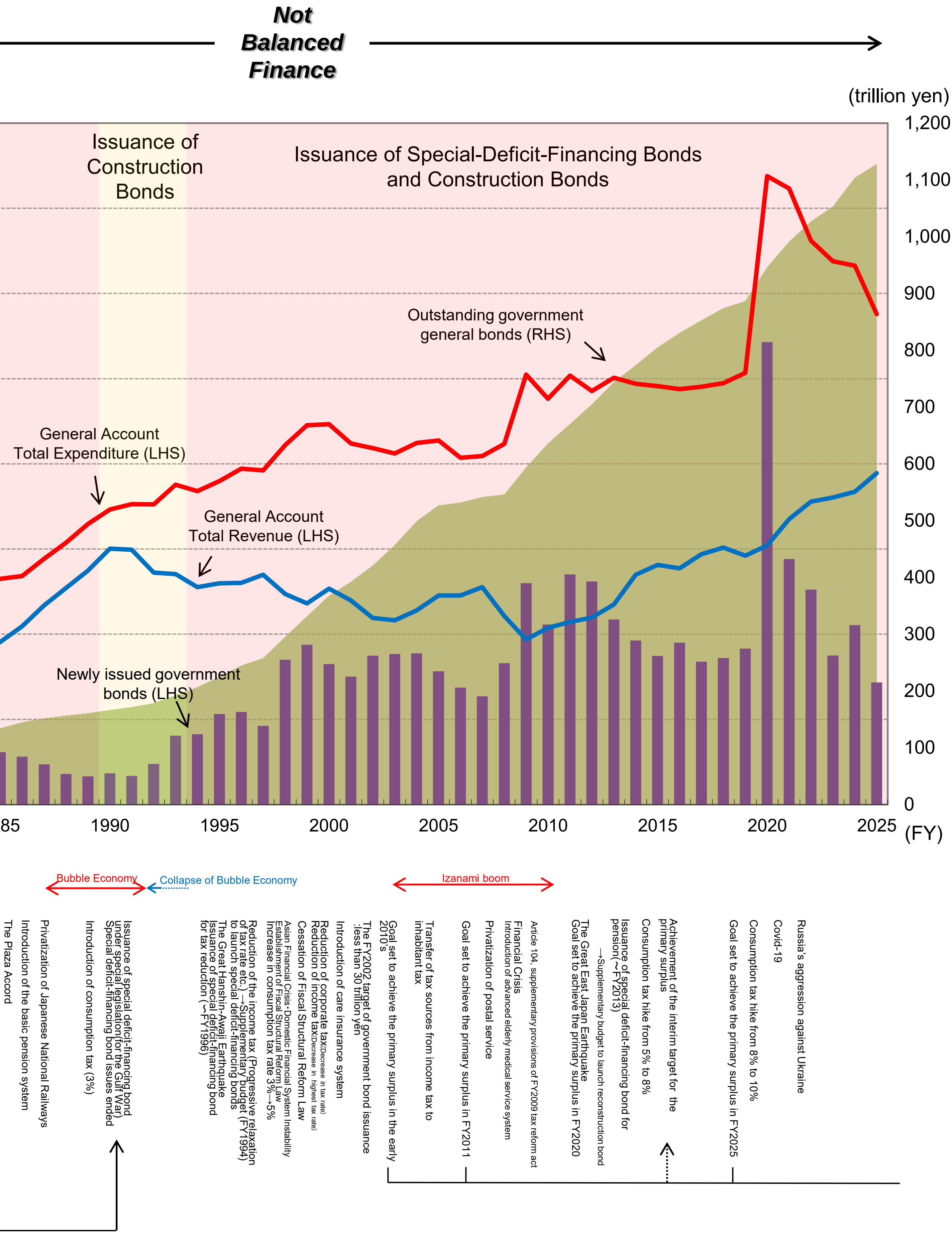
(Note 2) GDP: FY1890-FY1929: Gross National Expenditure (Based on Statistics by Ohkawa, Takamatsu and Yamamoto); FY1930-FY1954: Nominal GNP (Based on Japan Statistical Association "Historical Statistics of Japan"); FY1955-FY2019: Nominal GDP（Based on National Accounts (FY1955-1979: based on SNA 1968, FY1980-1993: based on SNA 1993, FY1994-2023: based on SNA 2008)); FY2024-FY2025: Based on Cabinet Office "Fiscal 2025 Economic Outlook and Basic Stance for Economic and Fiscal Management" (January 24, 2025)

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



(Note 1) Total revenues and expenditures of general account: Settled Figures in FY1945-FY2023, Based on the Supplementary Budget in FY2024, Based on the Budget in FY2025 (after revisions)

(Note 2) Outstanding government general bonds: Actual figures in FY1945-FY2023, Based on the Supplementary Budget in FY2024, Based on the Budget in FY2025 (after revisions)


Not Balanced Finance
(trillion yen)
Issuance of Construction Bonds
Issuance of Special-Deficit-Financing Bonds and Construction Bonds
Outstanding government general bonds (RHS)
General Account Total Expenditure (LHS)
General Account Total Revenue (LHS)
Newly issued government bonds (LHS)
1,200
1,100
1,000
900
800
700
600
500
400
300
200
100
0
85
1990
1995
2000
2005
2010
2015
2020
2025
(FY)
Bubble Economy
Collapse of Bubble Economy
Izanami boom
The Plaza Accord
Introduction of the basic pension system
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 Hanshin-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%
Asian Financial Crisis・Domestic Financial System Instability
Establishment of Fiscal Structural Reform Law
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
Introduction of advanced elderly medical service system
Financial Crisis
Article 104, supplementary provisions of FY2009 tax reform act
Goal set to achieve the primary surplus in FY2020
The Great East Japan Earthquake
→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

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