

Fiscal Investment and Loan Program

財務省 Ministry of Finance, JAPAN

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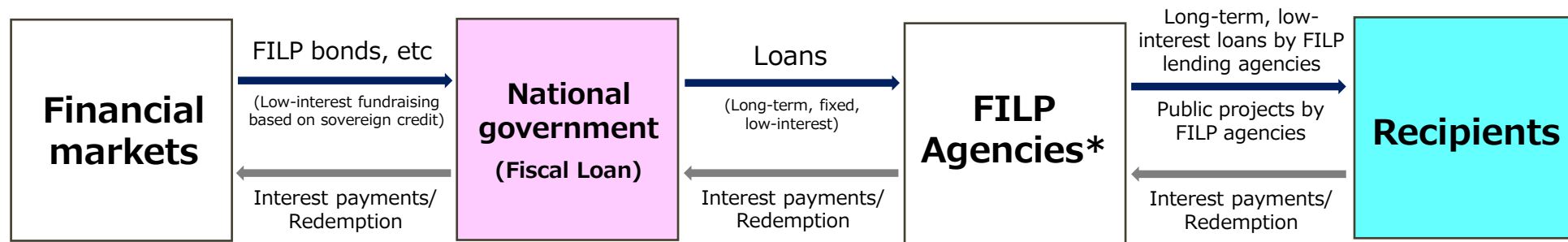
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I Mechanism of FILP

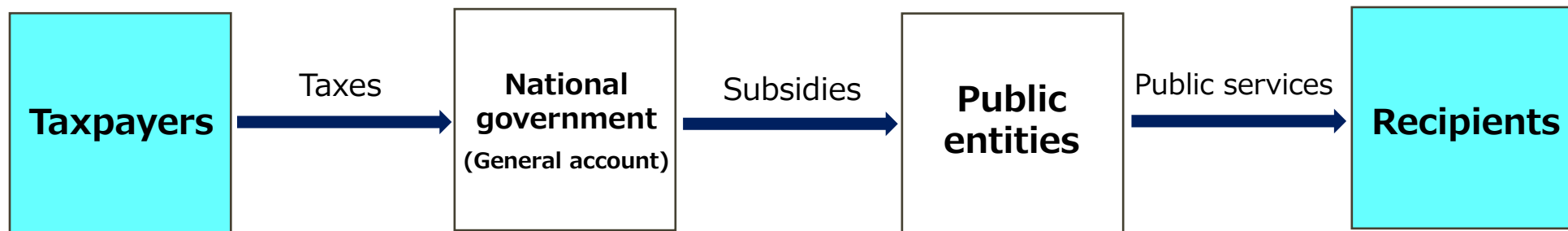
1. Features of FILP

Fiscal Investment and Loan Program (FILP) is an investment and loan activity by the government that does not rely on tax revenue sources. For example, Fiscal Loan is financed from funds raised through the issuance of FILP bonds, a type of government bonds.

Fund flow of Fiscal Loan (illustrative)



Fund flow of subsidies through general budget (illustrative)

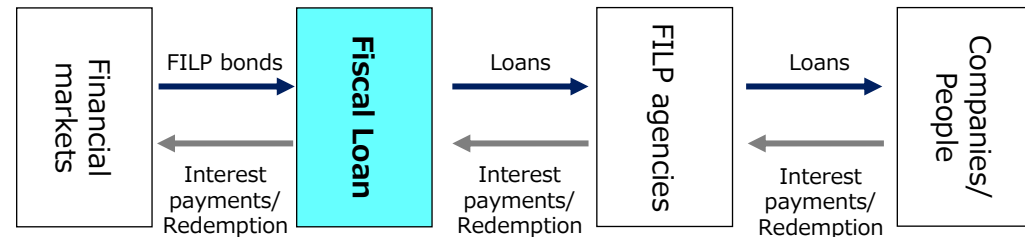


* FILP agencies mean the agencies that utilize FILP, such as governmental financial institutions and independent administrative agencies.

2. Three types of FILP

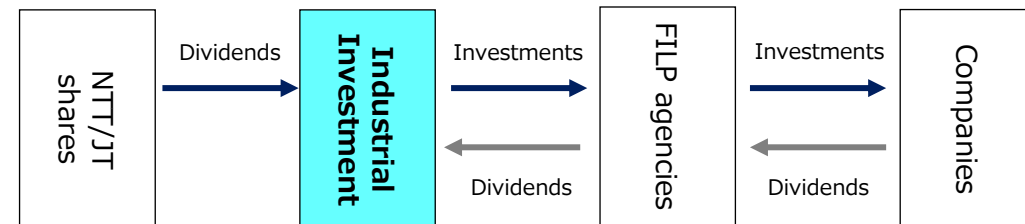
1. Fiscal Loan

Fiscal Loan finances long-term, fixed-rate, low-interest loans for projects. They need to be conducted in line with respective policy objectives and require repayments. It is financed mainly through the issuance of FILP bonds in the financial markets.



2. Industrial Investment

Industrial Investment supplies risk money to mobilize private-sector investment in areas that have policy objectives and high return potential but are too risky to be funded by the private sector alone. Main resources of Industrial Investment are dividends from NTT* and JT* shares held by the government.

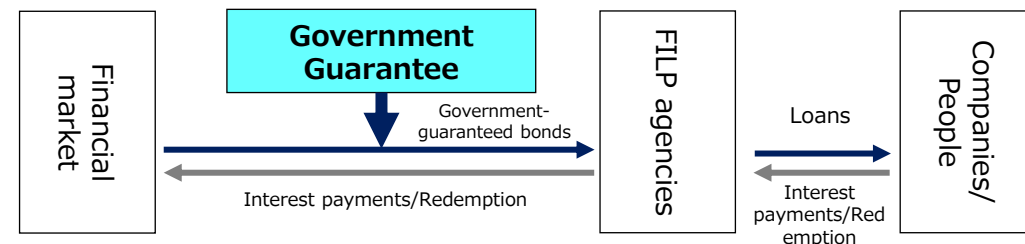


* NTT: Nippon Telegraph and Telephone Corporation

* JT: Japan Tobacco Inc

3. Government Guarantee

The government guarantees the payment of principal and interest on bonds and borrowings issued by FILP agencies. This allows FILP agencies to raise funds more smoothly with better terms.



3. Roles of FILP

Based on the principle that FILP does not intervene what can be done by the private sector, FILP plays important roles both in normal times and in times of crisis as below.

Normal times

▶ Medium-to-long-term fund supply for public projects

FILP supports large-scale and very long-term projects that benefit national and regional economy, such as airports and urban redevelopment.

▶ Supplement for private financial markets

FILP complements the private financial market by providing financing support to the following sectors.

- Small and micro enterprises, agriculture, forestry, and fisheries (They usually do not have sufficient credit and collateral.)
- Environmental sector (This is difficult to be allocated optimally because of external economic effects.)
- Welfare sector (This requires policy guidance.)

▶ Effect of inducement of private funds

By providing financing support for startups and others that create added values, FILP induces the supply of funds from private finance.

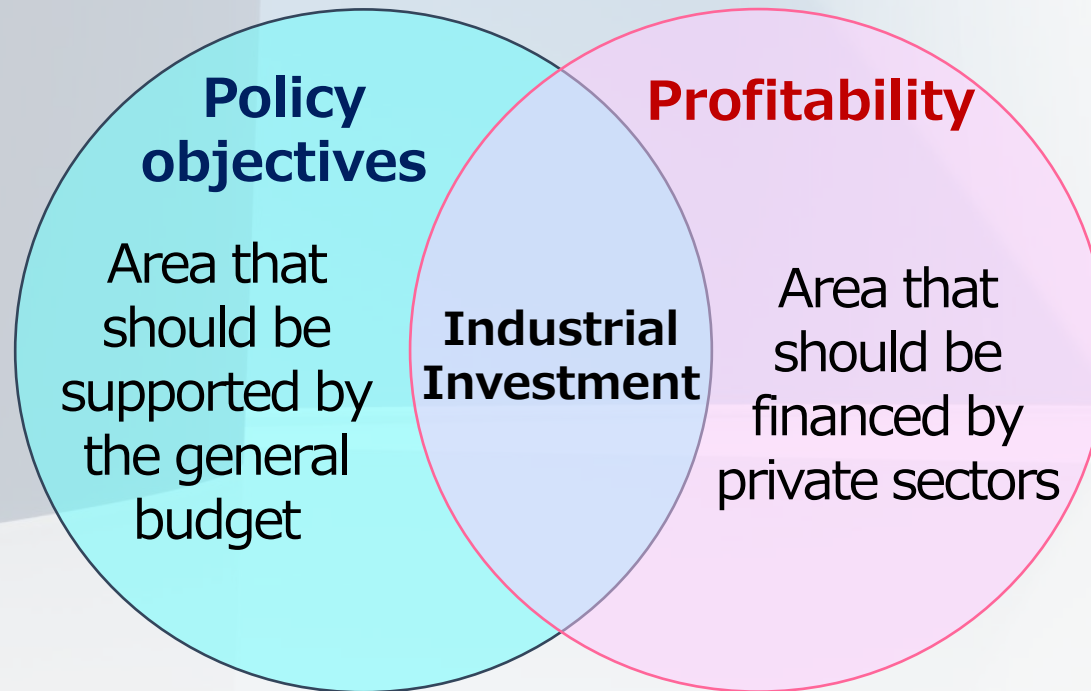
Times of crisis

▶ Quantitative supplement in times of crisis

In times of crisis, such as Global Financial Crisis, Great East Japan Earthquake and COVID-19 pandemic, FILP provides an extraordinary quantitative supplement for private sectors.

4. Features of Industrial Investment

Industrial Investment is required to have **policy objectives** such as strengthening growth of Japanese economy, and a certain degree of **profitability** that ensures financial returns not less than capital costs.



5. Fields where FILP is utilized (1)

FILP is utilized in various fields through projects carried out by FILP agencies, such as governmental financial institutions and independent administrative agencies.

▶ SMEs and micro enterprises

FILP is used to support cash flow, and to supply funds for capital investment to establish new business and reorganize business of SMEs and micro enterprises. They usually have weak financial bases in terms of creditworthiness and collateral.

—Japan Finance Corporation (JFC), The Okinawa Development Finance Corporation.



▶ Overseas investments and loans

FILP is used to secure natural resources and steady energy supply, and to support the expansion of international business of Japanese companies.

—Japan International Cooperation Agency (JICA), Japan Bank for International Cooperation (JBIC), Japan Organization for Metals and Energy Security (JOGMEC), and others.



▶ Public Infrastructure

FILP is used to promote and accelerate large-scale, very long-term projects such as construction and maintenance of airports, railways and highways.

—Japan Railway Construction, Transport and Technology Agency (JRTT), Japan Expressway Holding and Debt Repayment Agency, and others.



5. Fields where FILP is utilized (2)

▶ Industry/Innovation

FILP is used to supply risk money that is necessary to strengthen the competitiveness of industries and to boost innovation.

–Japan Investment Corporation (JIC), Development Bank of Japan Inc. (DBJ), Japan Finance Corporation (JFC), and others.



▶ Education

FILP is used to carry out a loan-type scholarship project for students and to provide financial support to maintain facilities of private schools.

–Japan Student Services Organization (JASSO), Promotion and Mutual Aid Corporation for Private Schools of Japan (PMAC), and others.



▶ Agriculture, forestry and fisheries industries

FILP supplies funds for capital investment, etc. for the agriculture, forestry and fisheries that are vulnerable to natural conditions and have a long production-cycle.

–Japan Finance Corporation (JFC), and others.



5. Fields where FILP is utilized (3)

▶ Housing

FILP is used to promote renovation of aged rental housing and construction of housing to recover from a disaster.

– Urban Renaissance Agency (UR), Japan Housing Finance Agency, and others.



▶ Welfare/Medical care

FILP is used to promote construction and maintenance of facilities for medical institutions and social welfare institutions.

– Welfare and Medical Service Agency (WAM), and others.



▶ Environment

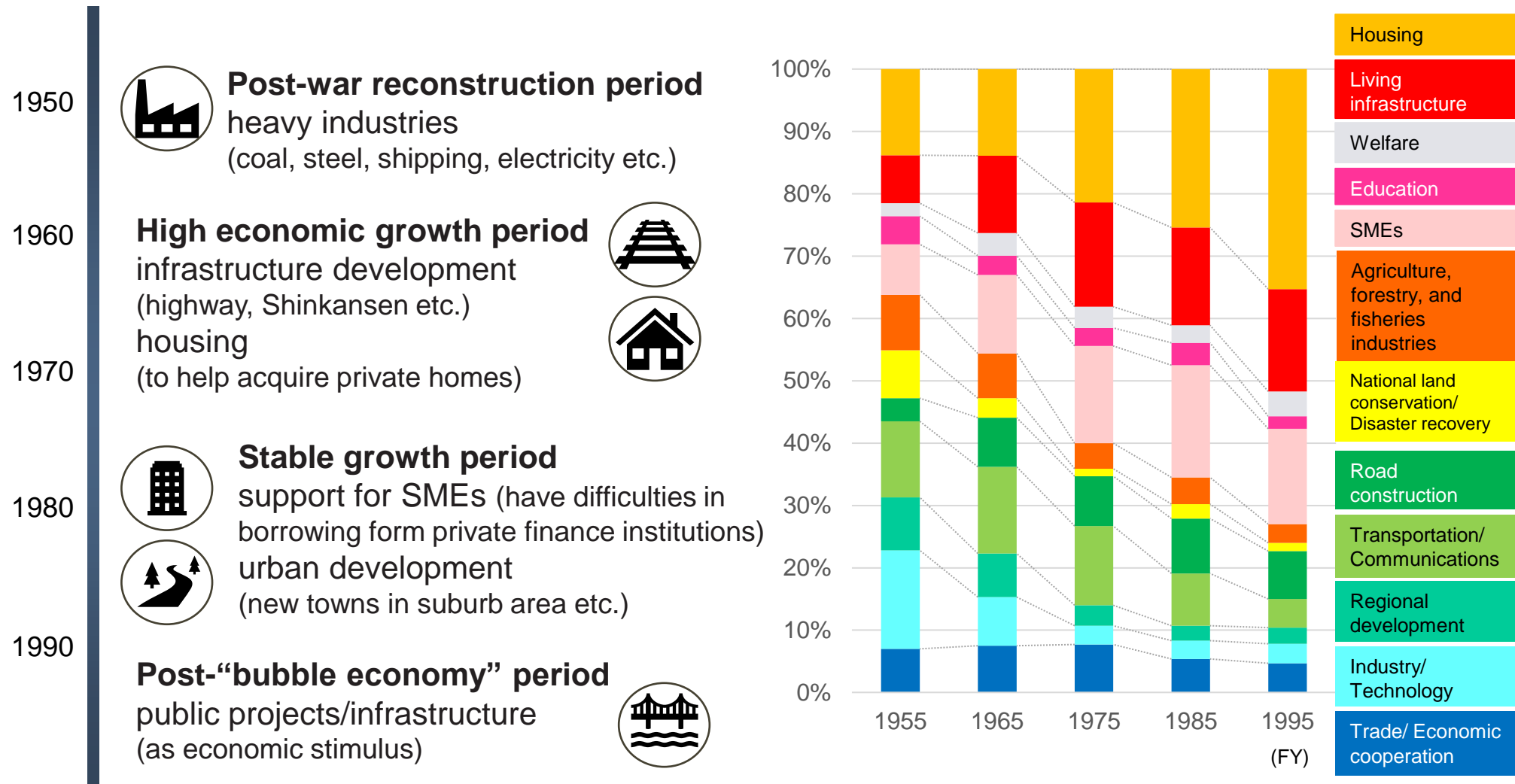
FILP is used to promote decarbonization in order to achieve carbon neutrality by 2050.

– Japan Green Investment Corp. for Carbon Neutrality (JICN), and others.



6. Brief history of FILP (1)

FILP has been used to develop important industries and other purposes according to the economic and social conditions of respective periods.

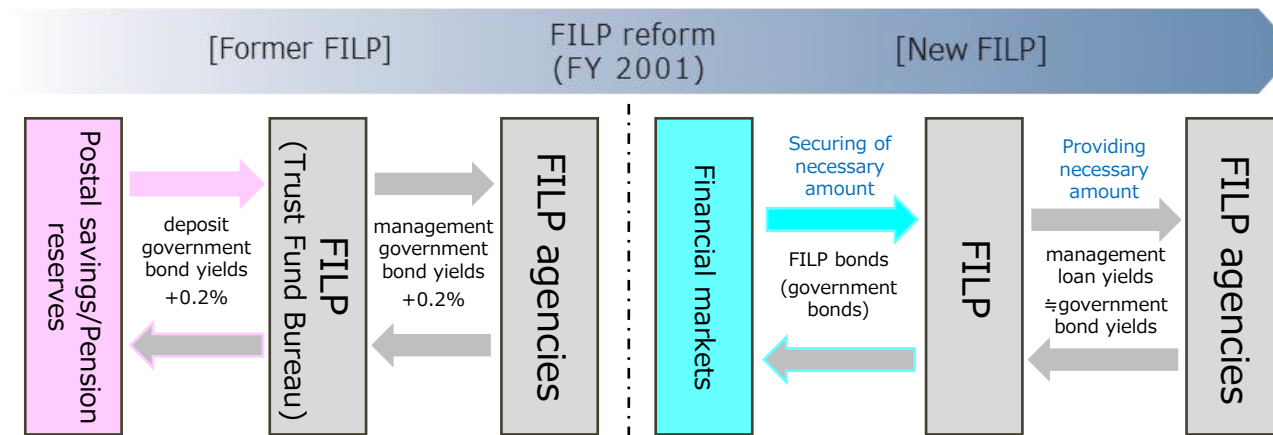


6. Brief history of FILP (2)

2000

FILP reform (in 2001)

FILP was reformed in fiscal year 2001.
The FILP reform is a fundamental overhaul of the way FILP is financed, including a major shift from mandatory deposit of postal savings and pension reserve funds to issuance of FILP bonds (a sort of government bonds).



2010

Response to economic shocks

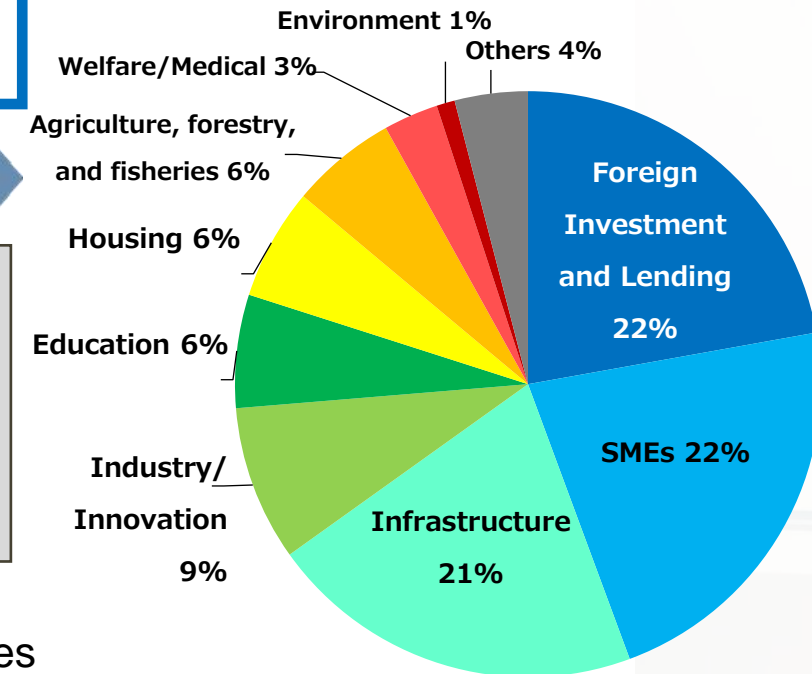
responded flexibly to shocks through financial support for companies

- Global Financial Crisis (2008)
- Great East Japan Earthquake (2011)
- Covid-19 pandemic (2020)

2020

Portfolio of FILP in FY 2024

Total 13.3 trillion yen



II System and initiatives related to FILP

1. Ensuring of financial soundness of FILP (1)

Asset Liability Management (ALM)

Fiscal Loan fund (source of Fiscal Loan) is under an interest rate risk due to the mismatch between asset and liability (e.g. FILP bonds) period. To mitigate this risk, initiatives have been taken to close the gap arising from the cash flows between **assets** such as loans, and **liabilities** such as FILP bonds.

► Risk of interest rate fluctuations materializes because of the mismatch in periods between lending and procurement of funds (FILP bonds).

Lending (**asset** for the national government)

To meet the needs of FILP agencies

→ Redemption period (5-40 years (grace period 0-30 years))

→ Mainly equal redemption of principal and interest

Fundraising (**liability** for the national government)

Due to constraint on the government bond market where FILP bonds are also issued

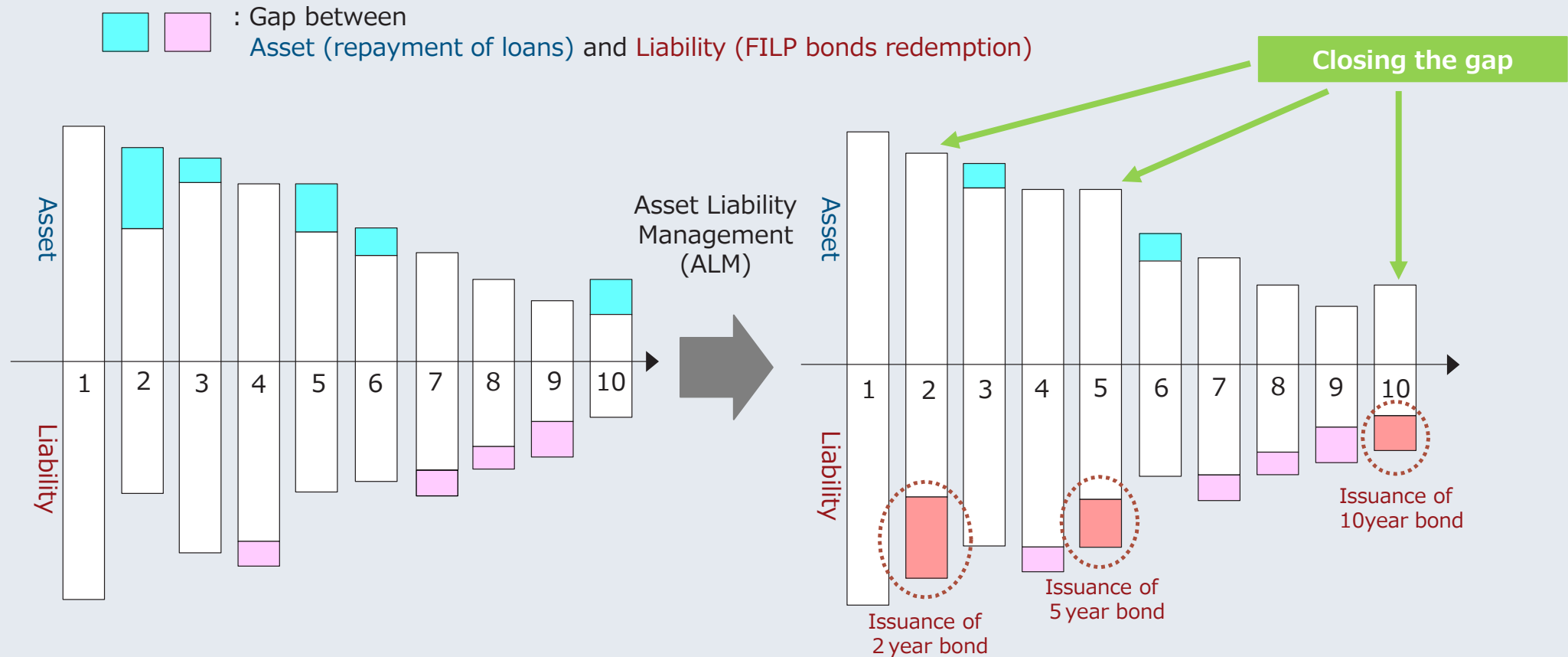
→ Constraints on the period of issuance (6 months, 1,2,5,10,20,30, and 40 years)

→ Lump-sum redemption upon maturity.

1. Ensuring of financial soundness of FILP (2)

- ▶ Asset Liability Management (ALM) is conducted by minimizing the gap through adjustments in the issuance period of FILP bonds.

[Image of Asset Liability Management (ALM)]



2. Monitoring of FILP agencies

In order to ensure that projects are properly managed and finances are sound, Ministry of Finance monitors the financial status of local public entities and conduct on-site audits.

On-site audits

The following points are checked for FILP agencies and local public entities.

- ◆ The appropriate Policy fit-for-purpose as a FILP project
- ◆ Financial status and redemption certainty
- ◆ Project results

Grasping of the financial status of local public entities

Each local public entities that borrows FILP funds is monitored through their financial statement data. Based on the result of this monitoring, interviews are conducted to some local public entities. Depending on the results of the interviews, advice is given with an aim of regaining fiscal soundness.

3. Disclosure (1)

Policy cost analysis

The policy cost is calculated in order to enhance the disclosure of information on future cost of the government related to FILP projects. The policy cost is calculated by estimating the future income and expenditure of each FILP agency based on certain assumptions and using the following formula.

$$\text{Policy cost} = (1) \text{ Subsidy} - (2) \text{ Payment to the national treasury} + (3) \text{ Opportunity cost}$$

(1) Subsidy

Estimated amount to be spent by the government for projects of FILP agencies

(2) Payment to the treasury

Estimated amount to be paid to the government from FILP agencies in the form of dividends.

(3) Opportunity cost (from investment in capital, etc.)

Estimated amount of interest payments due to the issuance of government bond which would not have incurred the burden of government if the investment for FILP agencies had not been made.

3. Disclosure (2)

