2 Borrowings

Borrowings include two categories: one is "Borrowings" to meet annual government expenditure demand in a narrow sense, and the other is "Temporary Borrowings" to cover temporary cash shortages. In fiscal-related legislation, the term "Borrowings" refers to the borrowings in a narrow sense, in principle.

Borrowings in a narrow sense basically mature beyond the fiscal year for their issuance, while Temporary Borrowings must be redeemed within the fiscal year for their provision. Temporary Borrowings and borrowings in a narrow sense that are redeemed within one year are called "short-term borrowings," while other borrowings in a narrow sense are referred to as "long-term borrowings."

(1) Legal Grounds of Borrowings

The General Account and each special account can carry out borrowings within the limit of the amount approved by the Diet pursuant to the "Public Finance Act" and the "Act on Special Accounts."

In addition, all borrowings are redeemed through the Government Debt Consolidation Fund (GDCF). Redemption funds are transferred from each account to the GDCF Special Account.

(2) Treatment of Borrowings in the Budget

The maximum amount that each special account can "borrow" or "temporarily borrow" for every fiscal year must be provided under the general budget provisions, which are subject to Diet approval each fiscal year.

(3) Source of Borrowings

Borrowings of each special account are made from the Fiscal Loan Fund and private financial institutions. At the end of March 2026, the General Account and six special accounts had outstanding borrowings from the Fiscal Loan Fund, and four special accounts had outstanding borrowings from private financial institutions (☞①).

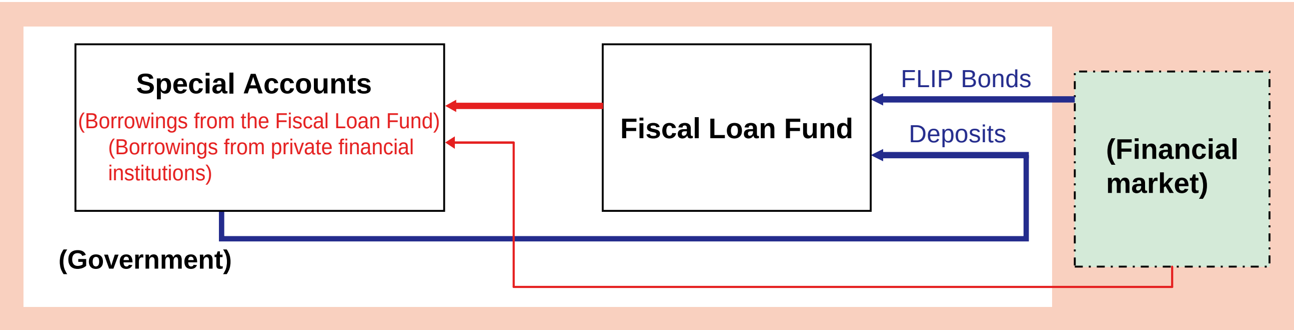
While borrowings from private financial institutions constitute part of the government debt to the private sector, borrowings from the Fiscal Loan Fund are the government debt within the government (☞②).

Ref: Chapter 1, 1 1 (1) B "Fiscal Investment and Loan Program Bonds (FILP Bonds)" (P26) / "FILP"(Explanation of Framework) on the MOF website

☞①For the outstanding amount of borrowings of each special account from the Fiscal Loan Fund and private financial institutions, see Part III, Chapter 1, 2 (2) "Outstanding Amount of Borrowings-Breakdown by the Type of Account (as of the end of FY2025)" (P153)

☞②The Fiscal Loan Fund issues FILP Bonds or uses deposits from special accounts, etc., in order to make loans to these special accounts.

Fig. 1-31 Flow Related to the Borrowings by Special Accounts from the Fiscal Loan Fund



The following part explains four special accounts that have borrowings from private financial institutions.

(4) Background of the Borrowings

The Special Account for Allotment of Local Allocation Tax and Local Transfer Tax (the Special Account for Local Allocation Tax), the Special Account for the National Forest Debt Management, the Special Account for Energy Measures, and the Special Account for Stable Supply of Food carry out borrowings from private financial institutions by public auctions.

A. Special Account for Local Allocation Tax

The Special Account for Local Allocation Tax had borrowed from the Fiscal Loan Fund to finance part of the Local Allocation Tax for the relevant fiscal year in order to finance local government budget deficits. However, in 2000, the Special Account started borrowing from private financial institutions in addition to the Fiscal Loan Fund, and since then has borrowed from the Fiscal Loan Fund only to repay outstanding debt. From FY2007, it also stopped new borrowings from private financial institutions, and now borrows from them only to repay outstanding debt.

Borrowings by the Special Account for Local Allocation Tax had been designed to cover the forest environment transfer tax, which was introduced in FY2019, during a transitional period until the creation of the forest environment transfer tax. In FY2020, however, the government decided to use the reserves for interest rate volatility held by the Japan Finance Organization for Municipalities, instead of the borrowings by the Special Account for Local Allocation Tax, for the coverage and to take in no new borrowings. The borrowings regarding the forest environment transfer tax were repaid in FY2020.

Pursuant to the "Act Partially Amending the Local Allocation Tax Act, etc." that took effect in April 2026, obligations relating to 700 billion yen of borrowings attributed to the Special Account for Local Allocation Tax were transferred to the General Account.

B. Special Account for the National Forest Debt Management

The Special Account for National Forest Service undergone certain reforms in FY1998 enforcing the "Special Measure Act for the Reform of the National Forest Service." In that fiscal year, the Special Account switched its borrowing source from the Fiscal Loan Fund to private financial institutions.

To ensure that such borrowings are made in a fair, equitable, and transparent manner, in FY2003 the Special Account switched from the previous practice of using syndicated loans to obtaining loans by public auctions.

Pursuant to the "Act Partially Amending the Act on Management and Operation of the National Forests to Enhance the Public Interest Functions of National Forests," which came into effect in April 2013, the Special Account for National Forest Service was abolished, whereupon obligations relating to borrowings attributed to the Account were transferred to the Special Account for the National Forest Debt Management.

Borrowings of the Special Account for the National Forest Debt Management from private financial institutions are to be used to repay the outstanding debt. No new additional borrowings are being made.

C. Special Account for Energy Measures

Japan National Oil Corporation (JNOC) was abolished in accordance with the "Reorganization and Rationalization Plan for Special Public Institutions." The national stockpiling program that had until that point been carried out by JNOC came under the direct control and management of the government in the form of the Special Account for Petroleum and the More Sophisticated Structure of Supply and Demand of Energy (the Special Account for

Petroleum) (☞①). In line with the transfer, the Special Account for Petroleum (Account for Petroleum and the More Sophisticated Structure of Supply and Demand of Energy) began to borrow from the private sector and the Fiscal Loan Fund to finance its costs related to the construction of national storage facilities for stockpiling.

Pursuant to the "Act on Special Accounts" that took effect in April 2007, the Special Account for Petroleum was abolished, whereupon the rights and obligations attributed to the Account were transferred to the newly established Special Account for Energy Measures (Account for Supply and Demand of Energy).

Borrowings of the Account for Supply and Demand of Energy from private financial institutions are to be used to repay the outstanding debt. No new borrowings are made. On the other hand, new borrowings continue to be made from the Fiscal Loan Fund at present. (☞②)

The government has borrowed funds from private financial institutions in the Nuclear Damage Liability Facilitation Account since February 2012 to cover the redemption of JGBs granted to the Nuclear Damage Compensation and Decommissioning Facilitation Corporation (☞③).

☞①National oil stockpiling came under direct state supervision in April 2003, and responsibility for the national storage facilities was transferred in February 2004.

☞②The cost required for the improvement and renovation work of national storage facilities for oil and petroleum gas is subject to borrowings from the Fiscal Loan Fund.

☞③The Nuclear Damage Compensation Facilitation Corporation was reorganized into the Nuclear Damage Compensation and Decommissioning Facilitation Corporation in line with the coming to effect of the "Act Partially Amending the Nuclear Damage Compensation Facilitation Corporation Act" in August 2014.

D. Special Account for Stable Supply of Food

The Special Account for Stable Supply of Food (the Fishery Mutual Relief Association Insurance Account) is an account in order to perform separate accounting for the income and expenditures on each fishery mutual relief associations' insurance business. It was formed when the Special Account for Fishing Vessel Reinsurance and Fishery Mutual Relief Association Insurance (the Fishery Mutual Relief Association Insurance Account), which was established under the partial amendment of the "Act on Compensation for Disasters in the Fishing Industry" in August 1967, was integrated with the Special Account for Stable Supply of Food in April 2014. The fishery mutual relief association system aims to contribute to securing fishery reproduction and to the stability of fishery management by compensating small- and medium-sized fishing operators for their losses when their catch amount decreases due to poor catches. It is a mutual relief association that utilizes an insurance framework based on the spirit of mutual relief for small- and medium-sized fishing operators in case of fishing operators' damage, instead of the direct provision of government relief.

In September 2022, the Fishery Mutual Relief Association Insurance Account borrowed from private financial institutions due to a shortage of financial resources to pay for insurance claims that were caused by record poor catches in recent years.

Meanwhile, the Special Account for Stable Supply of Food (the Account for National Land Improvement) also borrows funds from the Fiscal Loan Fund.

(5) Borrowing from the Private Sector Through Public Auctions

Borrowing from the private sector is conducted through competitive interest rate auctions, in which bids are accepted in ascending order of interest rates until the planned borrowing amount is reached, or through non-competitive auctions (applicable only to the Special Account for Local Allocation Tax). Auction participants are private financial institutions, including major city banks and regional banks. A total of 117 private financial institutions participate in the auction program as of March 31, 2026.