Current Status of National Finance

Expenditure and revenue (General account budget for FY2012)

1. General account expenditure

   Of the total expenditure, the three budget items of social security (26.4 trillion yen), national debt service (21.9 trillion yen), and local allocation tax grants (16.6 trillion yen) account for approximately 70%.

2. General account revenue

   Tax revenue accounts for only less than 50% of the total revenue, with approximately 50% generated from government bonds (national debt).
Trends in fiscal condition

Looking at Japan’s fiscal condition, expenditure has been in excess of tax revenue. In the past few years, the efforts to achieve economic recovery and fiscal soundness contributed to reducing the shortage in revenue. However, since FY2008, the gap between expenditure and revenue has widened again mainly because of the decrease in tax revenue caused by deteriorating economic conditions.

■ Trends in general account tax revenue, total expenditure, and amount of government bond issues

(Notes) Figures up to FY2010 are settled accounts, those for FY2011 are revised budgeted accounts, and those for FY2012 are budgeted accounts.

Trends in balance of government bonds and international comparison of government debts

The amount of government bonds outstanding at the end of FY2012 is estimated to stand at approximately 709 trillion yen, or approximately 5.54 million yen per capita. This huge debt, which is equivalent to 17 times the amount of tax revenue gained in FY2012, would be left and imposed on future generations. As for a percentage of GDP, Japan’s outstanding debt is at the worst level among the major developed countries.

■ Trends in government bonds outstanding

(Notes) 1. The amount of government bonds outstanding is calculated at the end of each fiscal year, except for FY2011, where it is an estimate based on the revised budget (fourth revision), and FY2012, where it is an estimate based on the budget.
2. Special deficit-financing government bonds outstanding include refinancing government bonds through successive debt refinancing, such as the Japanese National Railway’s debt refinancing bonds and the National Forest Service’s debt refinancing bonds.
3. The outstanding bonds include reconstruction bonds to be issued to secure the necessary funds for the projects to be implemented from FY2011 to FY2015 for the reconstruction from the Great East Japan Earthquake (in the general account in FY2011 and in the Special Account for Reconstruction from the Great East Japan Earthquake in FY2012 (amounting to 12.7 trillion yen at the end of FY2012).
4. The amount estimated by deducting the maximum amount for ahead-of-schedule bonds for refinancing for the following fiscal year at the end of FY2012 is about 877 trillion yen.

■ International comparison of general government gross debt (ratio to GDP)

(Source) The data in the above graph, taken from OECD, “Economic Outlook” (No. 90, December 2011), does not reflect the FY2012 budget. (Note) Figures are on a general government basis (national and local governments, and social insurance funds).
Japan’s national burden ratio, defined below, is at a lower level as compared to other major developed countries.

**International comparison of national burden ratio**

<table>
<thead>
<tr>
<th>Country</th>
<th>2009 National burden ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>39.1</td>
</tr>
<tr>
<td>United States</td>
<td>30.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>21.6</td>
</tr>
<tr>
<td>Germany</td>
<td>10.8</td>
</tr>
<tr>
<td>France</td>
<td>22.9</td>
</tr>
<tr>
<td>Sweden</td>
<td>53.2</td>
</tr>
</tbody>
</table>

**What is national burden ratio?**

The national burden ratio refers to the proportion of tax burden and social security burden (e.g., social security premiums) to national income. When the ratio of fiscal deficit to national income is taken into account, this is termed as potential national burden ratio.

**Lifetime benefits and burdens, by generation**

Looking at the relation between benefits and burdens of public services enjoyed or sustained by each generation throughout their lives, the estimate shows that if the current system is maintained without any modification, younger generations would have to bear a larger burden, due to the declining birthrate and aging of society as well as the existing burdens passed on to future generations.

(Source) OECD, “National Accounts,” “Revenue Statistics,” etc.
(Notes) 1. Data for Japan are estimated figures as of FY2012, and those for other countries are actual figures as of 2009.
2. The ratio of fiscal deficit to national income for Japan and the United States is calculated on a general government basis excluding social security funds, and that for other countries is on a general government basis.

(Note) The data in the above graph are based on a test calculation made by generational accounting, which measures the relation between the total lifetime benefits from the government sector (e.g., social security benefits and public services) and the total lifetime burdens of payments to the government sector (e.g., tax and social security premiums) for each generation.
Comparing the government budget to a household budget

Below is an example case where Japan’s national finance is likened to an ordinary household with a monthly income of 400,000 yen.

**FY2012 government budget**
- **Tax revenue and non-tax revenue**: 46.1 trillion yen
- **Total expenditure**: 90.3 trillion yen
  - Primary balance expenses: 66.4 trillion yen (local allocation tax grants, etc.)
  - National debt service: 21.9 trillion yen
- **Government bond issues (national debt)**: 44.2 trillion yen
- **Government bonds outstanding**: 709 trillion yen

Where compared to an ordinary Japanese household

**Household budget for a month**
- **Household monthly income**: 400,000 yen (4.8 million per annum)
- **Total household expenditure**: 780,000 yen
  - Household expenditure: 590,000 yen (monthly allowance for parents: 140,000 yen)
  - Loan payment: 190,000 yen
- **Shortfall (made up with borrowings)**: 380,000 yen
- **An outstanding loan of**: 73.82 million yen

**Impacts of fiscal deficit**

If the fiscal deficit increases cumulatively, it will have various adverse impacts, such as inflexibility in public finance, a rise in interest rates, and increased inequality among generations, and finally become a major obstacle to realizing a vigorous economy and society.

- Reduced flexibility in policy actions (increase in interest payment)
- Negative impact on economy due to higher interest rates
- Increased inequality among generations

Major obstacle to the realization of a vigorous economy and society