Fiscal Policy in Japan
- Issues and Future Directions-

June 10th, 2015
Ministry of Finance
General Government Gross Debt and Financial Balances (International Comparison)

(Source) Based on the data included in “Economic Outlook 96” issued by the OECD in November 2014, and not reflecting the data for the budget for FY2015
(Note) Figures represent the general government-based data (including the central/local governments and the social security funds).
Relationship between Social Security Expenditures and the Tax and Social Security Contributions Ratio in Major Advanced Countries

Social Security Expenditure: OECD “Stat Extracts National Accounts”.

(Note 1) The figures represent the general government-based data (including the central and local governments and the social security funds).
(Note 2) National Burden Ratio: For other countries, the figures are actual for 2011. For Japan, the figure for FY2011 is actual. For New Zealand, the figure for 2005 is actual. For Canada, the figure for 2006 is actual.
(Note 3) Social Security Expenditure: For other countries, the figures for 2011 are actual. For Japan, the figure for FY2011 is actual. For New Zealand, the figure for 2005 is actual. For Canada, the figure for 2006 is actual.
Trends in Japan’s Population Structure

Proportion of working-age population (aged 15-64)

Proportion of population aged 65 and over

Total fertility rate

Aged 15-64

Aged 14 and under

Aged 65 and over

Total fertility rate 1.35

Population (ten thousand)

Demographic Change

<Ratio of People Older than 65 years to the Total Population>

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan (S45)</th>
<th>2015 (H27)</th>
<th>2025 (H37)</th>
<th>2040 (H52)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>7.1</td>
<td>26.8</td>
<td>30.3</td>
<td>36.1</td>
</tr>
<tr>
<td>1980</td>
<td>13.6</td>
<td>21.4</td>
<td>25.1</td>
<td>31.8</td>
</tr>
<tr>
<td>1990</td>
<td>13.0</td>
<td>18.7</td>
<td>21.7</td>
<td>25.4</td>
</tr>
<tr>
<td>2000</td>
<td>13.0</td>
<td>18.1</td>
<td>20.0</td>
<td>24.0</td>
</tr>
<tr>
<td>2010</td>
<td>9.8</td>
<td>14.7</td>
<td>18.6</td>
<td>21.2</td>
</tr>
</tbody>
</table>

Japan: 26.8
France: 18.7
Germany: 21.4
United Kingdom: 18.1
United States: 14.7

<Japan's demographic composition>

<table>
<thead>
<tr>
<th>Year</th>
<th>Total population 1965</th>
<th>Total population 1990</th>
<th>Total population 2000</th>
<th>Total population 2014</th>
<th>Total population 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>9,828</td>
<td>12,361</td>
<td>12,695</td>
<td>12,693</td>
<td>12,066</td>
</tr>
<tr>
<td>1980</td>
<td>14,498</td>
<td>14,893</td>
<td>16,068</td>
<td>16,204</td>
<td>16,078</td>
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<tr>
<td>1990</td>
<td>19,123</td>
<td>22,043</td>
<td>24,219</td>
<td>24,204</td>
<td>24,204</td>
</tr>
<tr>
<td>2010</td>
<td>28,553</td>
<td>33,308</td>
<td>36,183</td>
<td>36,183</td>
<td>36,183</td>
</tr>
</tbody>
</table>

Total population 2015: 37,684
Total population 2025: 36,183
Total population 2050: 36,183

Age 65 and over: 37.8%
Age 20-64: 47.8%
Age 19 and under: 13.8%

Other countries: “World Population Prospects: the 2012 Revision” (United Nations)
<Projection Methodologies and Objectives>

Following the projection methodologies by the European Commission, we analyze i) the impact of demographic changes on ”age-related expenditure”, and ii) the required fiscal adjustment (Sustainability Gap Indicators: S1 and S2) to maintain fiscal sustainability in the long term.

(Note 1) In the “Fiscal Sustainability Report 2012” by the EC, the sustainability gap indicators, S1 and S2, are calculated against the baseline (assuming unchanged policies).

• **S1**: The fiscal adjustment required, in terms of a steady improvement in the structural primary balance, to be made between 2015 and 2020 (six years), to bring the general government debt-to-GDP ratio to 60% in 2030.

• **S2**: The fiscal adjustment required, in terms of a steady improvement in the structural primary balance, to be made in 2015, to stabilize the general government debt-to-GDP ratio over an infinite horizon.

(Note 2) With regard to S1, We calculate the fiscal adjustment required to bring the general government debt-to-GDP ratio to 100% in 2060.

(Note 3) “Age-related expenditure” is expenditure whose levels per capita differ depending on cohort such as social security expenditure of pensions, health care, long-term care, and unemployment benefits, and education expenditure. Projections are made reflecting demographic changes and spending per capita in each cohort based on the current policies.

(Note 4) Macroeconomic assumptions


• FY2024 to FY2060:
  • Economic growth rate (2 cases): (i) real 1.0% • nominal 2.0%, (ii) real 2.0% • nominal 3.0% (based on the government’s Basic Policies for Economic and Fiscal Management and Reform)
  • Nominal long-term interest rate: 3.7% (the assumption used in the 2009 examination of long-term pension financing by the Min. of Health, Labour, and Welfare)
Long-term Projections on Japanese Public Finances (Fiscal System Council, April 28)

Projection Results (1) “Age-related expenditure” --Impact of aging population

＜Pop. aged 65 and over, Age-related expenditure＞

(% of GDP)

2010 2020 2030 2040 2050 2060 (FY)

22.6% 23.0% 29.6% 39.9%

Pop. Aged 65 and over

Age-related expenditure

＜Components of age-related expenditure＞

(% of GDP)

2010 2020 2030 2040 2050 2060 (FY)

Public pensions

6.5% 10.3% 10.2% 9.9%

Health care

5% 4.4% 3.7%

Long-term care

0% 1.5% 5.8%

Education, Unemployment benefits etc.

(Note) Solid lines in the above figures are numbers in the case of economic assumptions after FY2024 of 2.0% real economic growth rate, 3.0% nominal economic growth rate, and 3.7% nominal long-term interest rate.
Fiscal System Council (May 30, 2014) points out “Achievement of a primary surplus in FY2020 is a starting point, not a final goal of fiscal consolidation”.

Long-term Projections on Japanese Public Finances (Fiscal System Council, April 28)  
Projection Results (2) “Required fiscal adjustment”  
(Case of 2.0% real economic growth and 3.0% nominal economic growth)
Fiscal Consolidation Targets

(“Medium-Term Fiscal Plan” (Approved by the Cabinet on August 8, 2013))

By FY2015
The Government aims to halve the primary deficit of the national and local governments to GDP ratio (-3.3%) by FY2015 from the ratio in FY2010 (-6.6%)

By FY2020
The Government aims to achieve a primary surplus

Thereafter
The Government will seek to steadily reduce the public debt to GDP ratio