



**Updates on Japan's fiscal policy
for round-table discussion on the fiscal
framework in Asia**

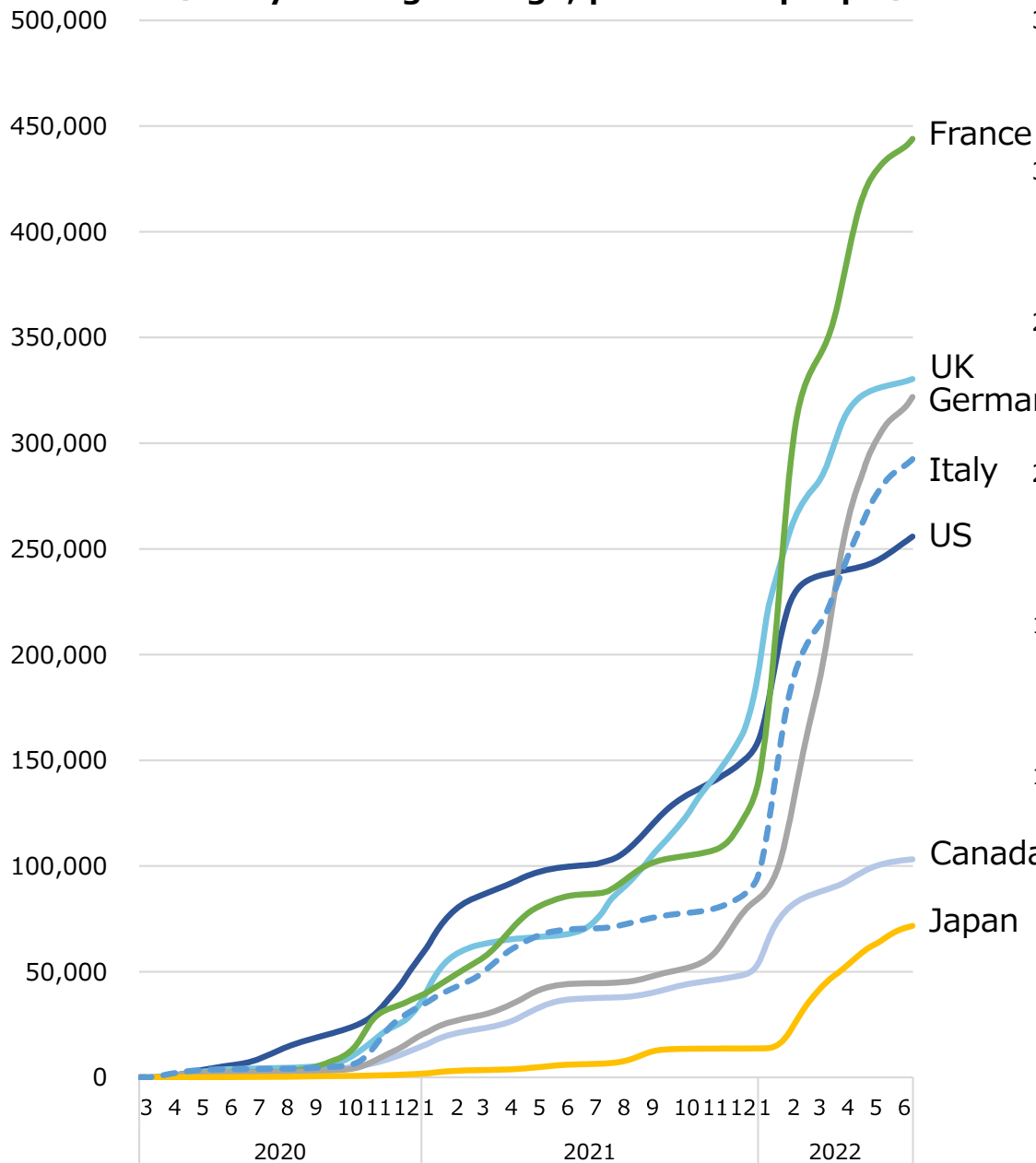
UEDA Junji

June 22, 2022

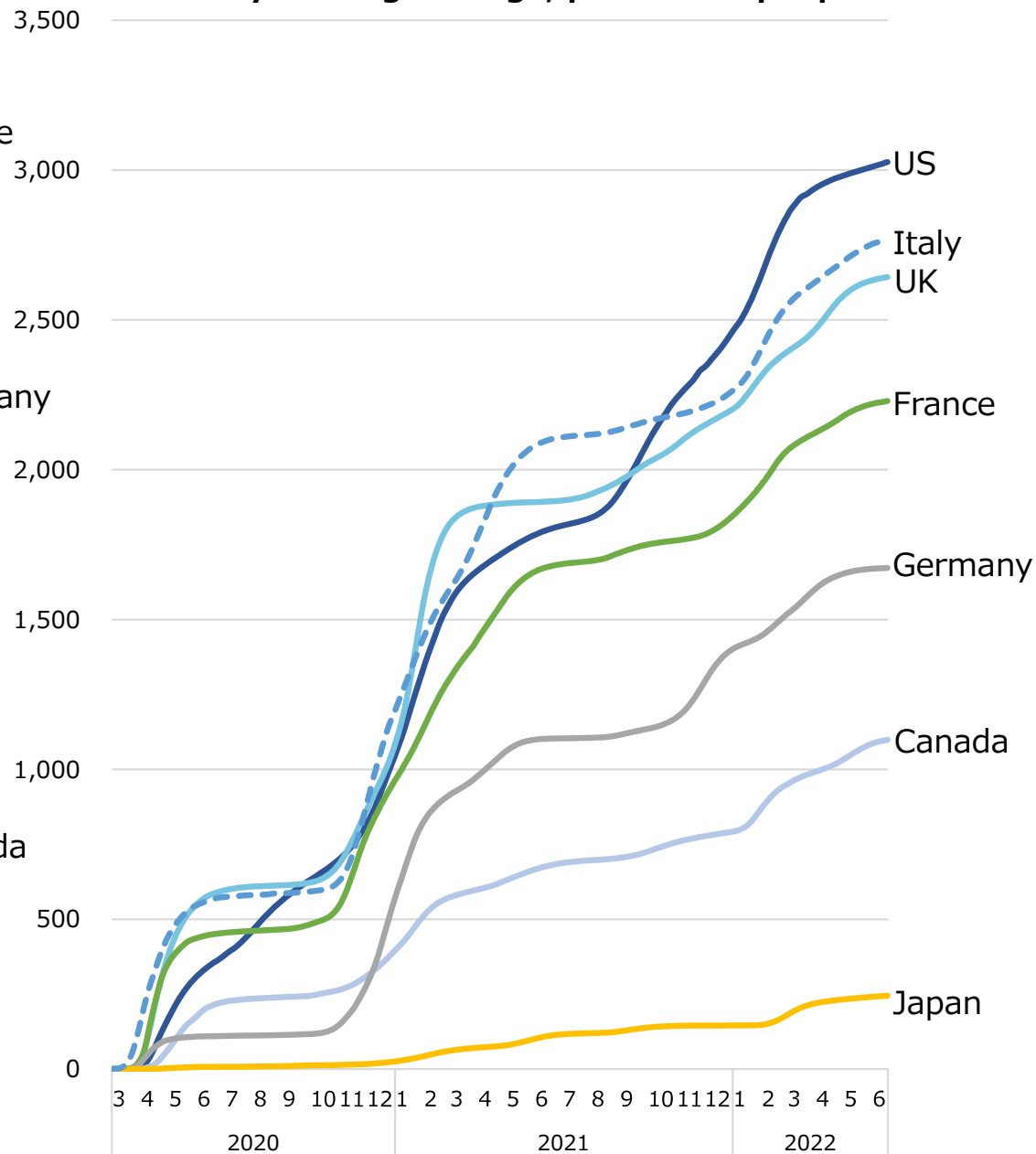
The Seventh Tokyo Fiscal Forum

COVID-19 cases

Cumulative Cases (7-day moving average, per million people)



Cumulative Deaths (7-day moving average, per million people)



(Source) WHO(as of June 20), United Nations

Budgeting for COVID-19

Initial Budget

2020/3/27

FY2020 Budget

2021/3/26

FY2021 Budget

inc. CRF (5.0 trillion yen)

2022/3/22

FY2022 Budget

inc. CRF (5.0 trillion yen)

Supplementary Budget

2020/4/30

1st Supplementary Budget for FY2020

inc. CRF (1.5 trillion yen)

2020/6/12

2nd Supplementary Budget for FY2020

inc. CRF (10.0 trillion yen)

2021/1/28

3rd Supplementary Budget for FY2020

adjustment for CRF (-1.9 trillion yen)

2021/12/20

Supplementary Budget for FY2021

2022/5/31

Supplementary Budget for FY2022

*CRF: Contingency Reserve Funds for COVID-19

Major items of economic measures for COVID-19

1. Support for household and consumption stimulus measures

- ✓ Special cash payments for every individual (100 thousand yen per person): 12.7 trillion yen
- ✓ Special loans of the emergency small amount fund: 1.3 trillion yen
- ✓ Employment adjustment subsidy: 5.3 trillion yen
- ✓ Go To travel: 0.8 trillion yen

2. Support for business and investment promotion measures

- ✓ Subsidy program for sustaining business: 5.5 trillion yen
- ✓ Support for businesses that cooperate in shortening business hours: 5.4 trillion yen
- ✓ Subsidy program for restructuring businesses: 0.7 trillion yen
- ✓ Concessional loans (interest- and collateral-free) etc.: 53.8 trillion yen *1st, 2nd, 3rd supplementary budget for FY2020

3. Infection prevention measures such as strengthening the medical system

- ✓ Emergency comprehensive support grant for the COVID-19 (Medical): 4.0 trillion yen
- ✓ Improvement of vaccination system etc.: 0.7 trillion yen
- ✓ Crisis response loan for medical institution: 1.6 trillion yen *1st, 2nd, 3rd supplementary budget for FY2020

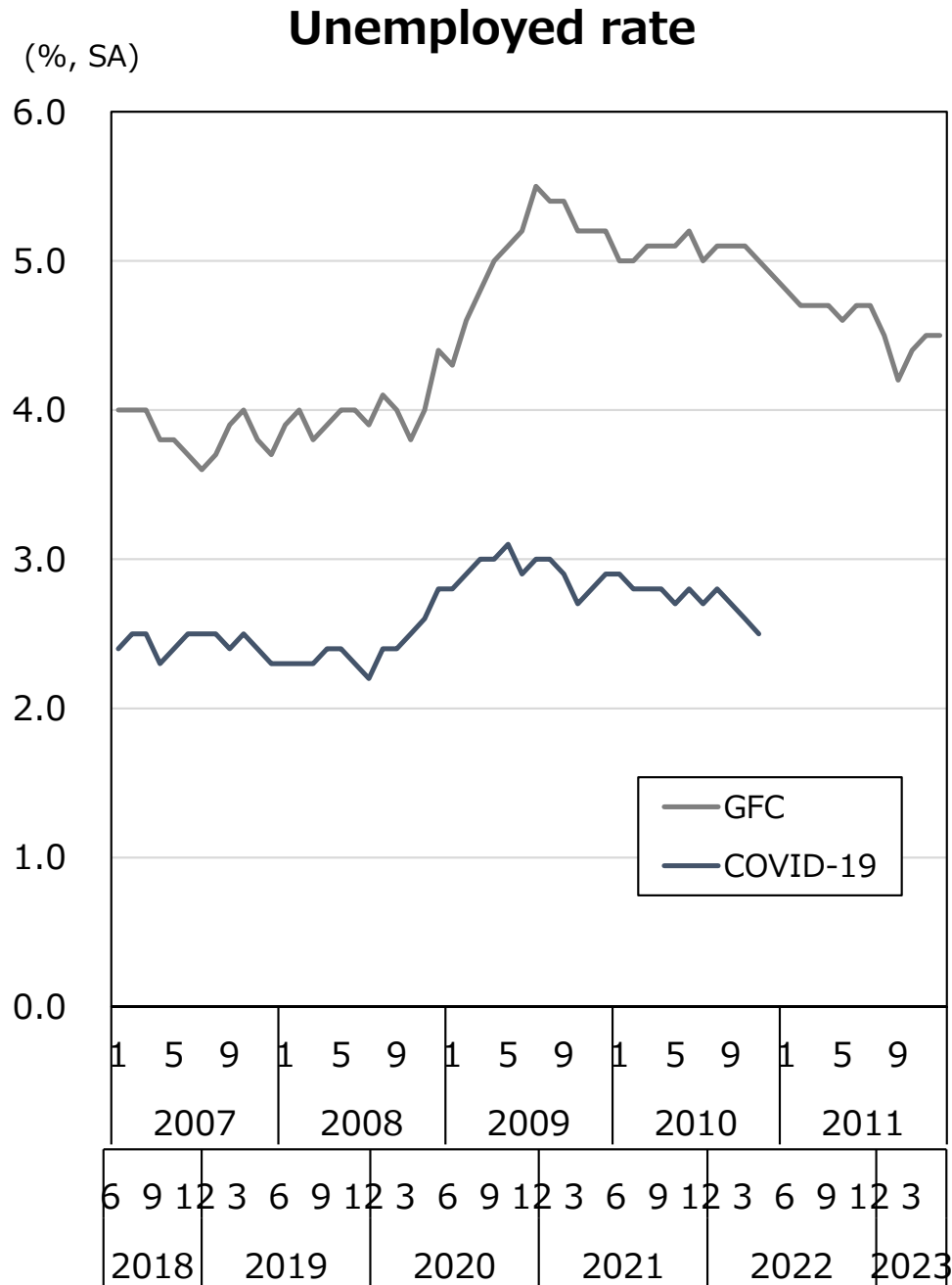
4. Public investment

- ✓ Third supplementary budget for FY2020: 2.6 trillion yen

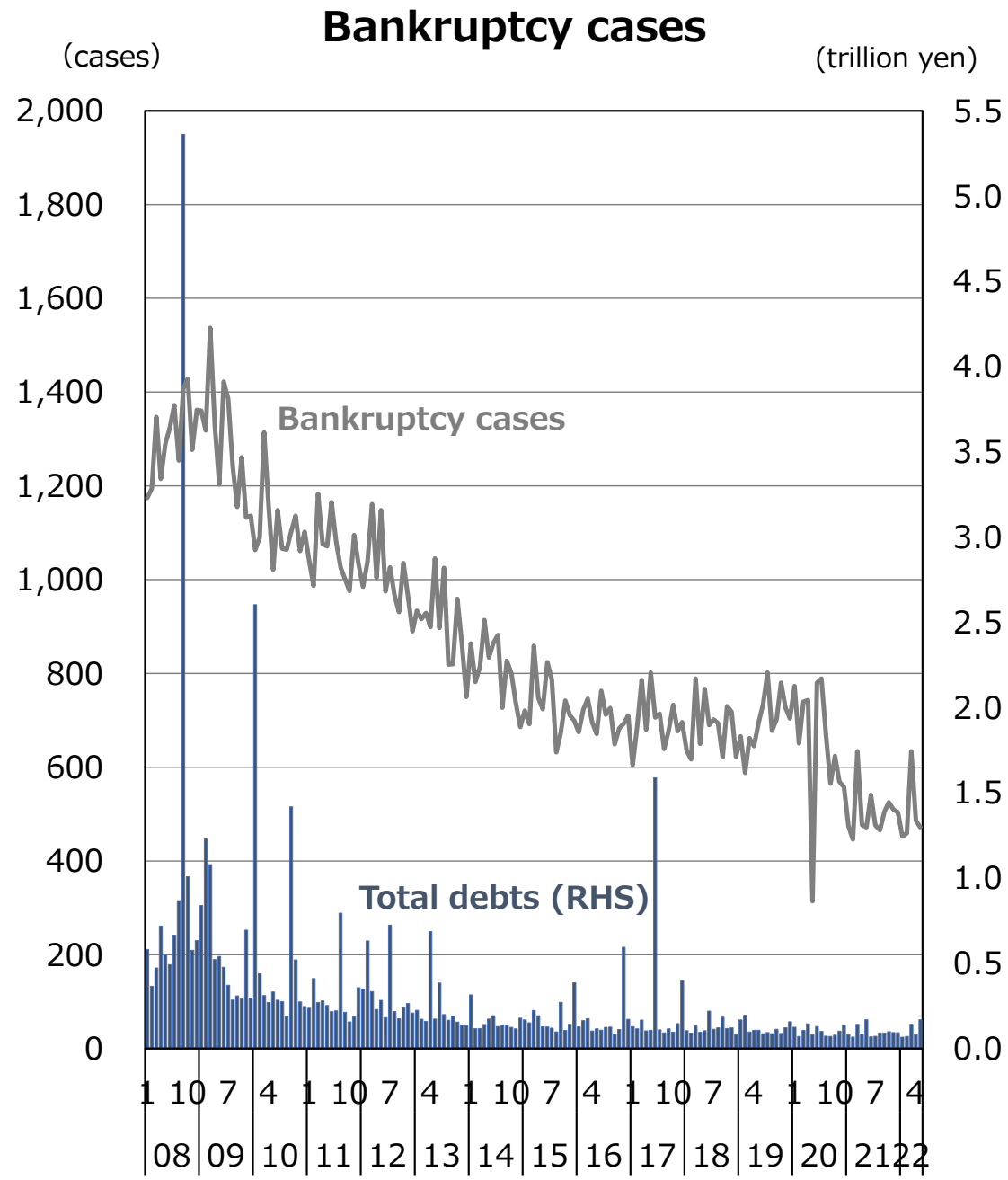
5. Others

- ✓ Special allocation to local governments for revitalization to cope with COVID-19: 4.2 trillion yen

Unemployment and bankruptcy cases in Japan



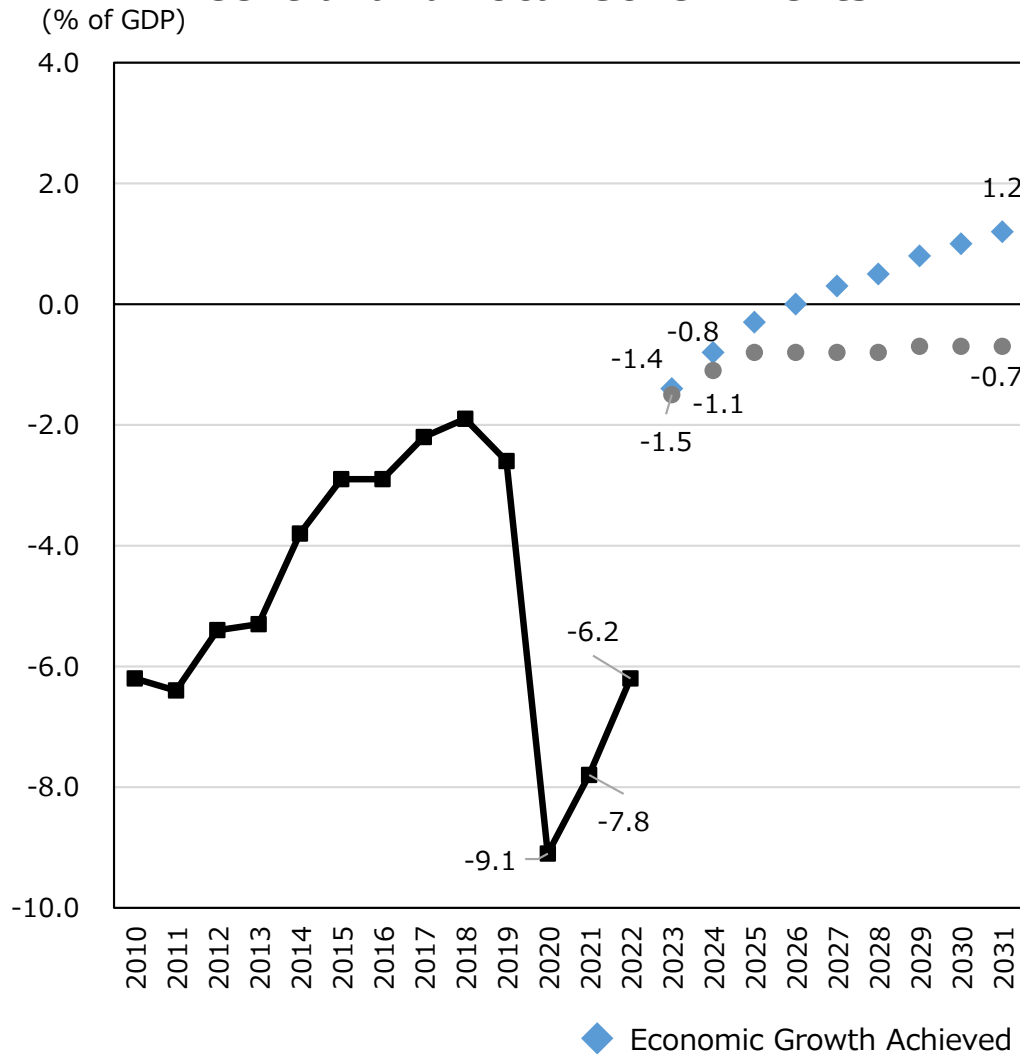
(Source) Ministry of Internal Affairs and Communications



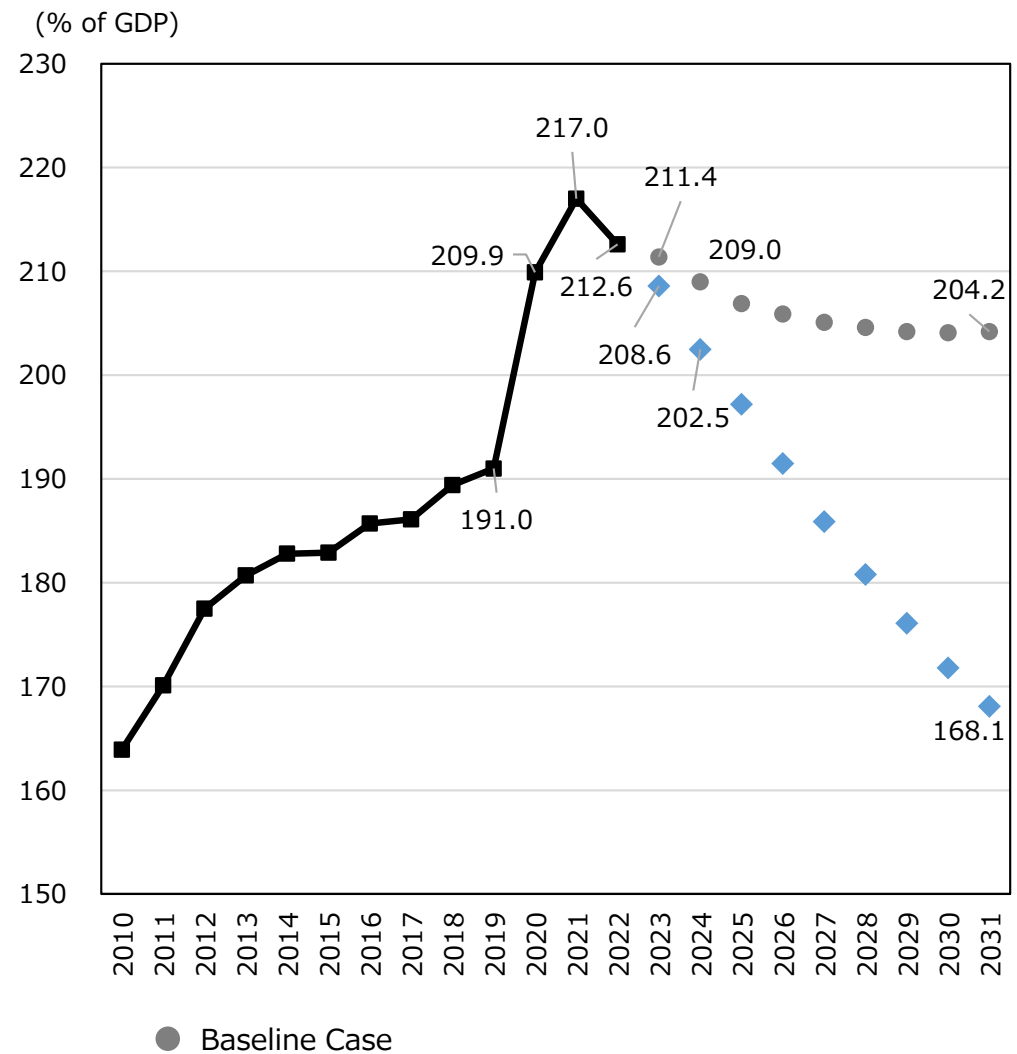
(Source) Tokyo Shoko Research

Economic and fiscal projections (January 2022)

Primary balance of Central and Local Governments



Outstanding Debt of Central and Local Governments

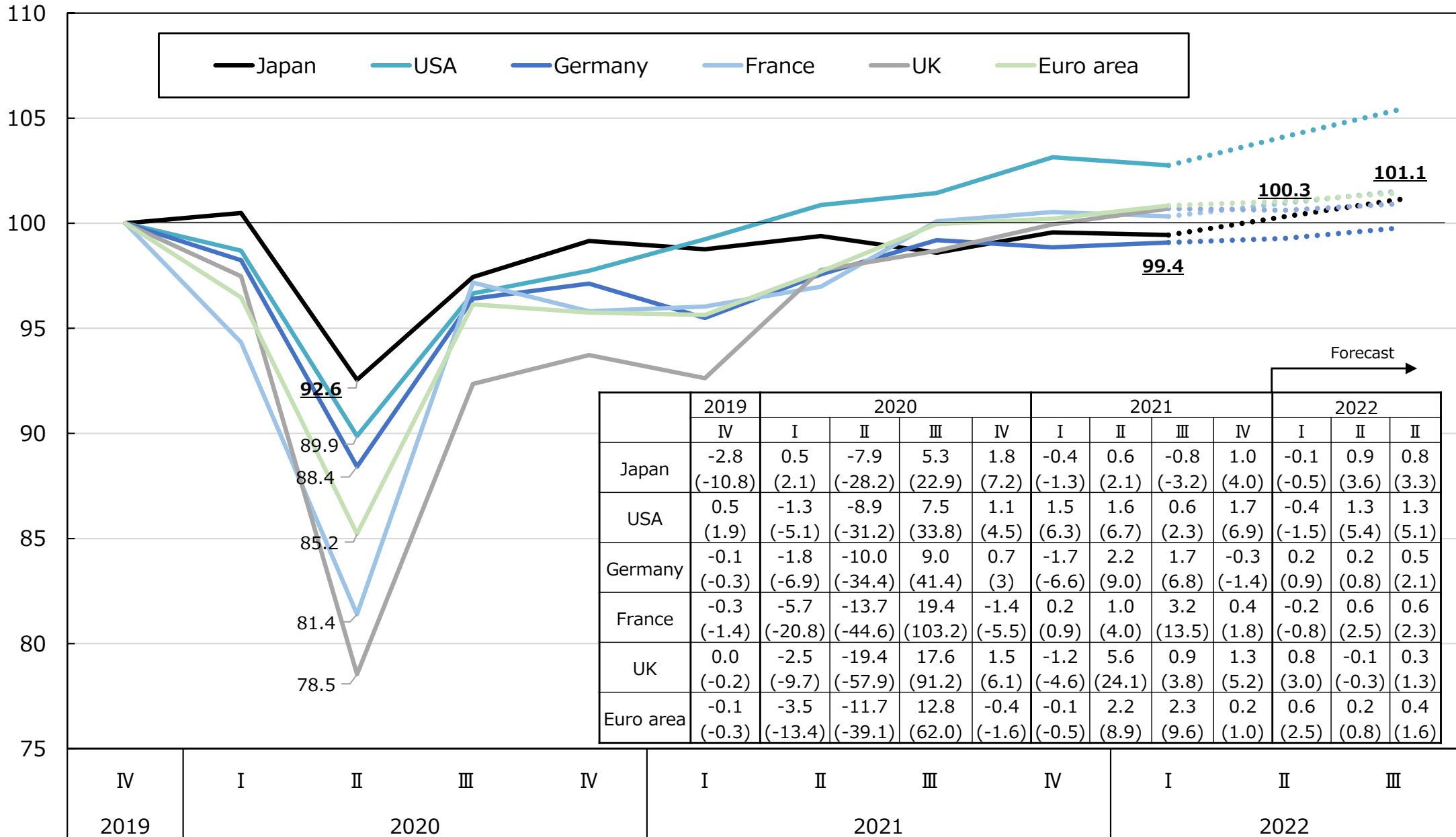


- (Note1) Economic Growth Achieved Case: The policy effects towards overcoming deflation and economic revitalization appear at a pace consistent with past performance.
 Baseline Case: The economy will remain on par with its current growth potential for the future.
- (Note2) Fiscal assumptions; Revenues and expenditures in FY2021 and FY2022 reflect the "Supplementary Budget for FY2021" and the "Draft FY2022 Budget."
 From FY2023, social security expenditures will increase reflecting the aging of population and price and wage developments, and other expenditures will increase along with the inflation rates. Revenues from FY2023 will increase based on the assumption of macroeconomy.

(Source) Cabinet Office

Level of real GDP compared to Pre-COVID19

(2019 IV = 100)



(Note) Projections are calculated using the 2021 Q4 outcomes and growth forecasts by Bloomberg (as of June 20) and ESP forecast for Japan (As of June 15)

(Source) Cabinet Office, Japan Center for Economic Research, Department of Commerce (USA), Congressional Budget Office, Federal Statistical Office

Germany, Institut national de la statistique et des etudes economiques (France), European Commission, Bank of England,

Basic Policy 2022 (June 7, 2022)

Phase 1

The government mitigates any further impact on people's livelihoods and the economy as well as to support people in harsh situations with the utmost effort through **Comprehensive emergency measures**, which have recovery from the COVID-19 pandemic to be ensured.

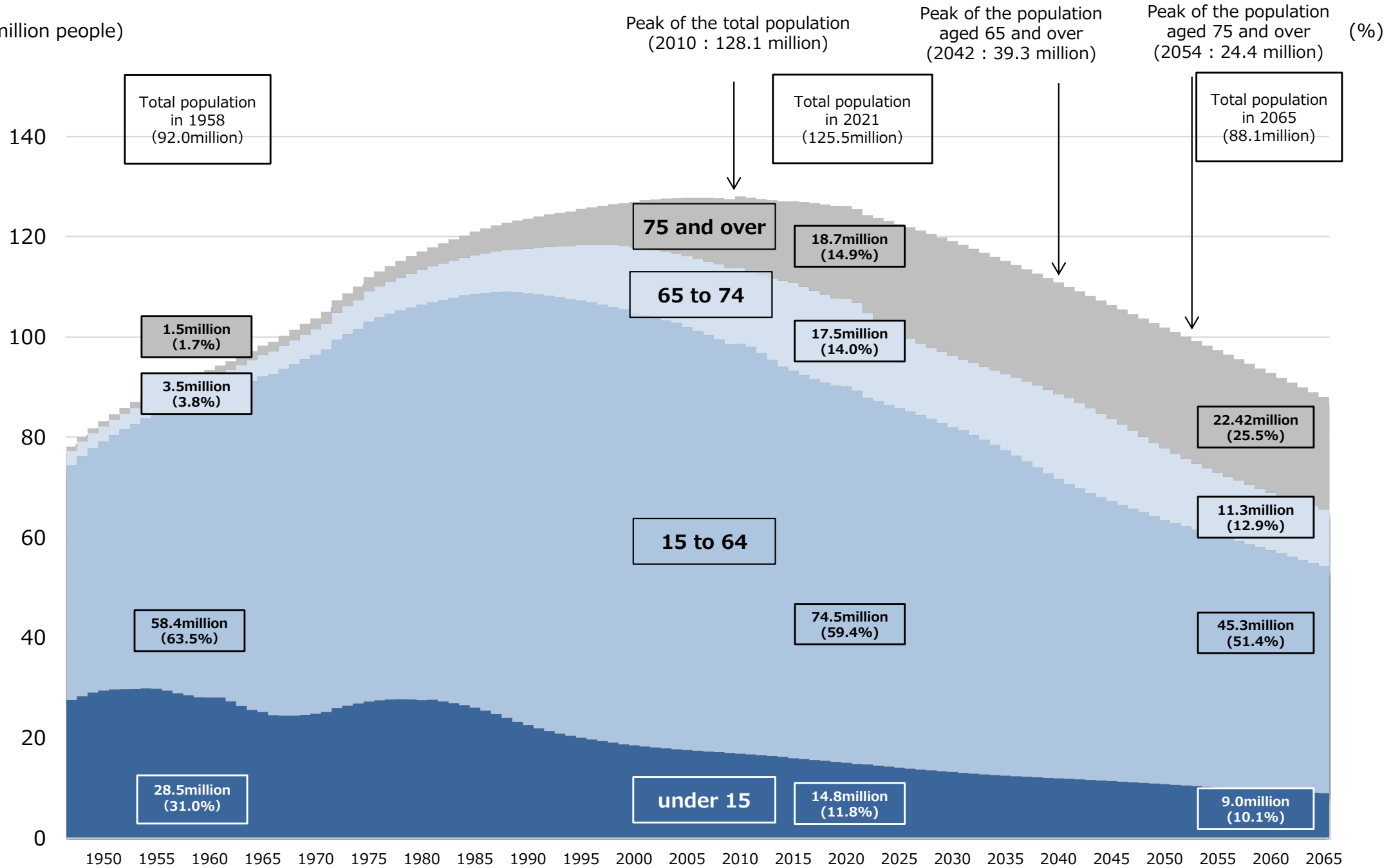
In addition to the above, it provides reassurance to people to meet unexpected fiscal demands swiftly through the use of the reserve fund.

Phase 2

The government will formulate immediately and put into practice Comprehensive Measures to jump-start according to the Basic Policy 2022 and the grand design and action plan for a new form of capitalism.

Demographic structure

(million people)



(Note) Numbers in parentheses represent the percentage to the total population.

(Source) National Institute of Population and Social Security Research

Economic and fiscal management

Fiscal consolidation target set in Basic Policy 2018

Achieve a primary surplus of the national and local governments By FY2025

At the same time, steadily reduce the public debt-to-GDP ratio

Basic Policy 2022 (June 7, 2022)

- **The government will resolutely pursue fiscal consolidation and work on achieving the current target.**
- However, the economy is the foundation of public finance, and **macroeconomic policy options in line with the circumstances should not be distorted** by giving a greater priority to meeting the current target year.
- Adopting a policy as needed to deal with the circumstances is not traded off against working to achieve the fiscal consolidation target.
- The government will faithfully rebuild the economy.
- The government will also work to put public finances on a sound footing.
- But **there is also a need to keep a close eye on economic situations at home and abroad, etc., at all times**, such as the impact of the infection and the most recent price hike.
- The government will therefore **undertake the necessary verification depending on the situations.**

Fiscal management under uncertainties

Optimal fiscal policy path

Output stabilization



Debt sustainability

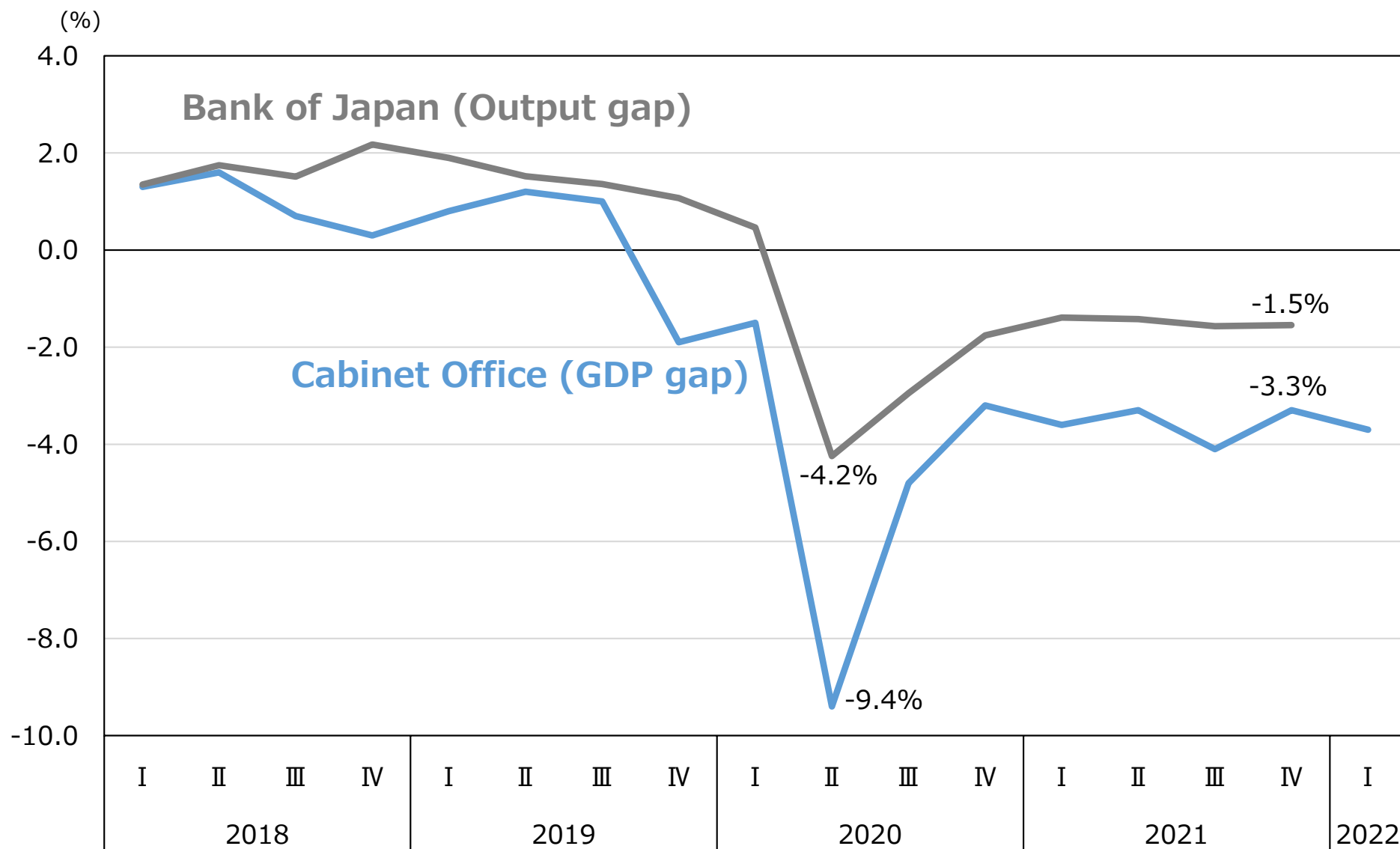
Key questions

- ✓ What is the size of the current output-gap?
- ✓ How much will the current output-gap reduce potential output in future through hysteresis?
- ✓ How much can future deterioration of productivity be mitigated by increasing additional fiscal deficits?
- ✓ How much is the medium- and long-term cost of losing debt sustainability?

Further granular questions to be asked

- There can be different types of fiscal instruments, such as spending and tax measures.
- How can they affect real expenditures of households and firms, external balance, and different types of price and wage under specific contexts?

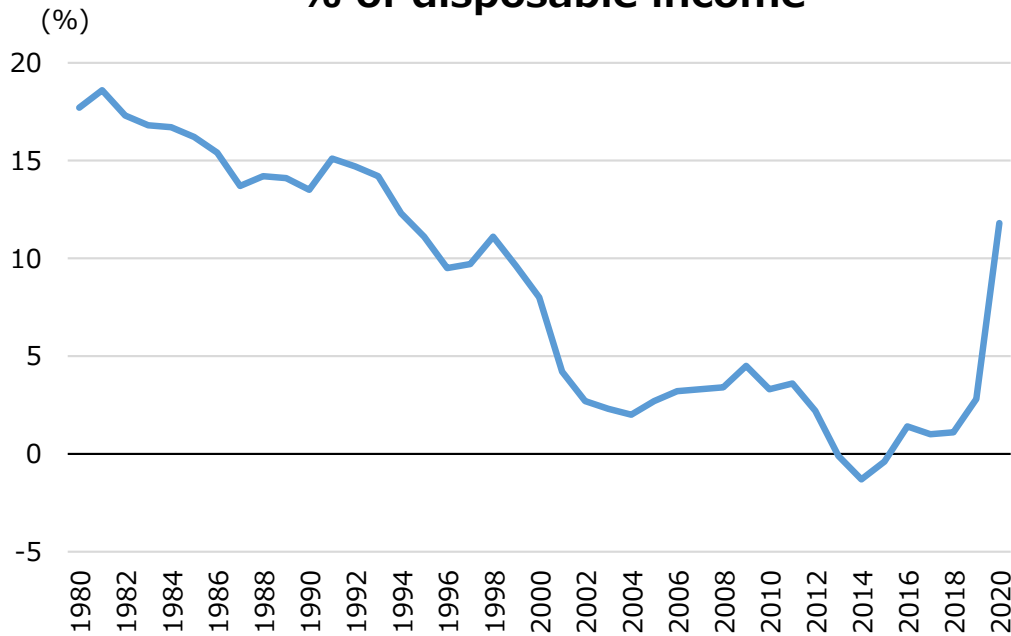
Measuring output gap



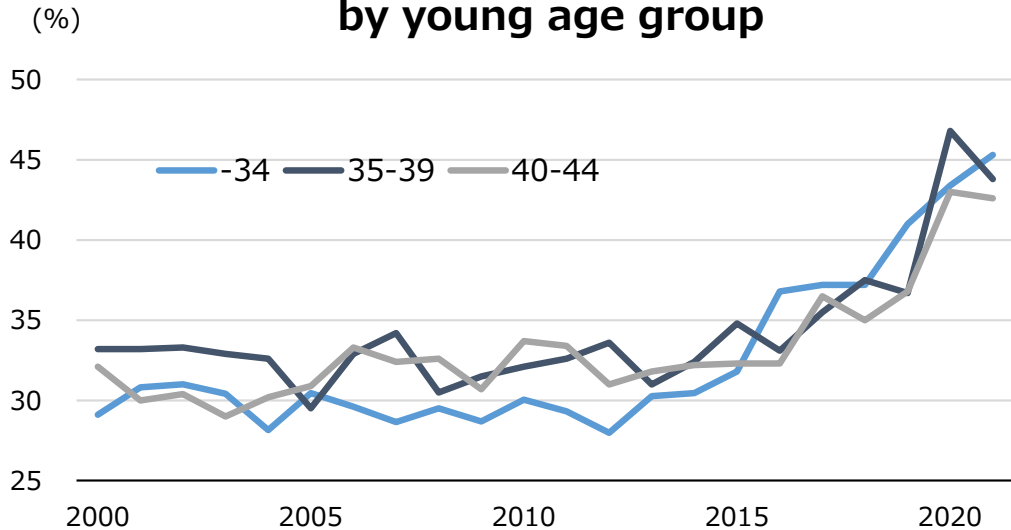
(Source) Cabinet Office, Bank of Japan

Household income and saving

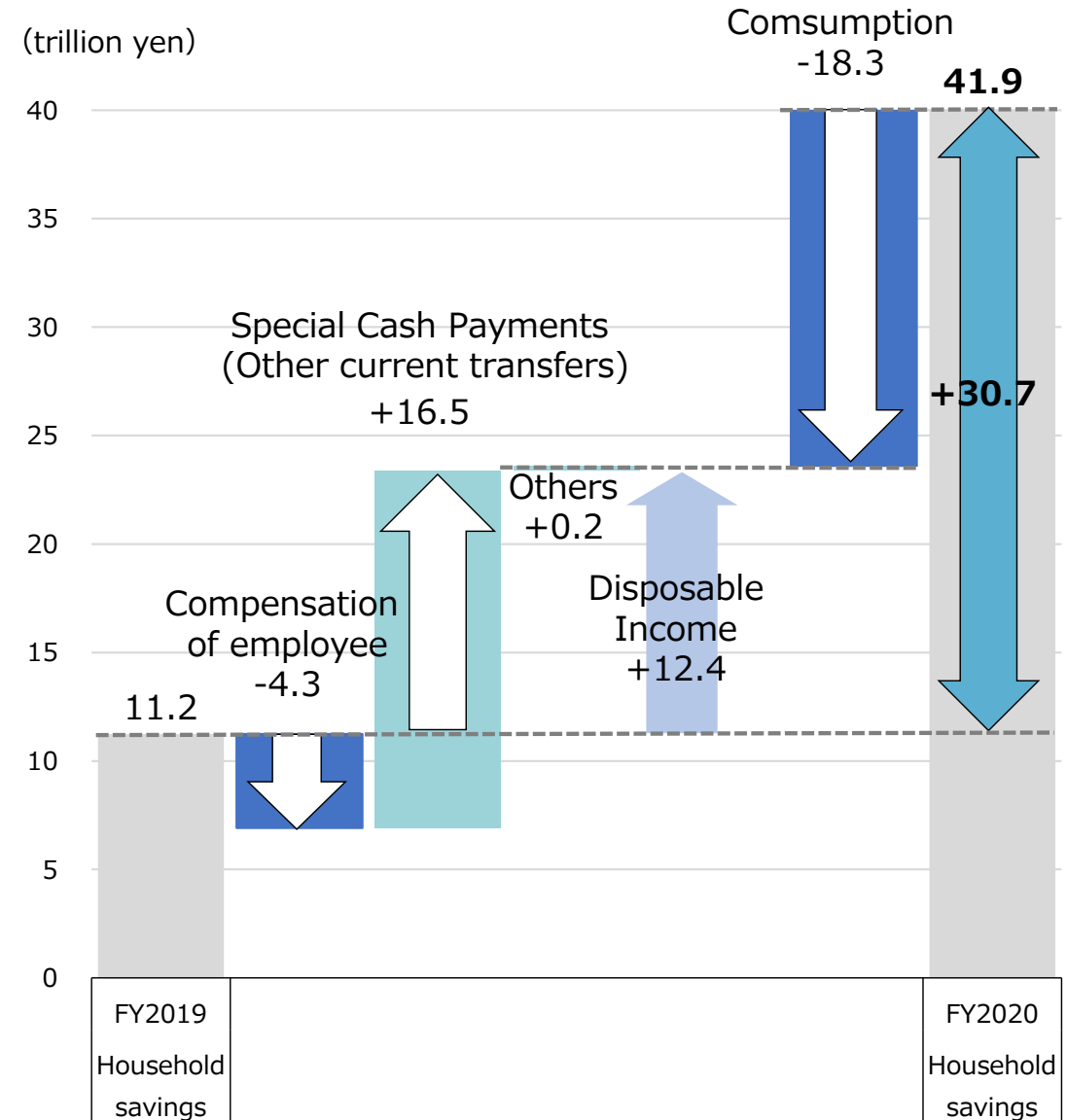
Saving rate of households, % of disposable income



Saving rate of households by young age group



Changes in household savings (FY2020)



(Note) "Others" include "social contribution, payable", "Current taxes on income, wealth, etc., payable" and "Social benefits, receivable"
 (Source) Cabinet Office, "National Accounts", MIC "Family Income and Expenditure Survey"