



Ministry of Finance, JAPAN

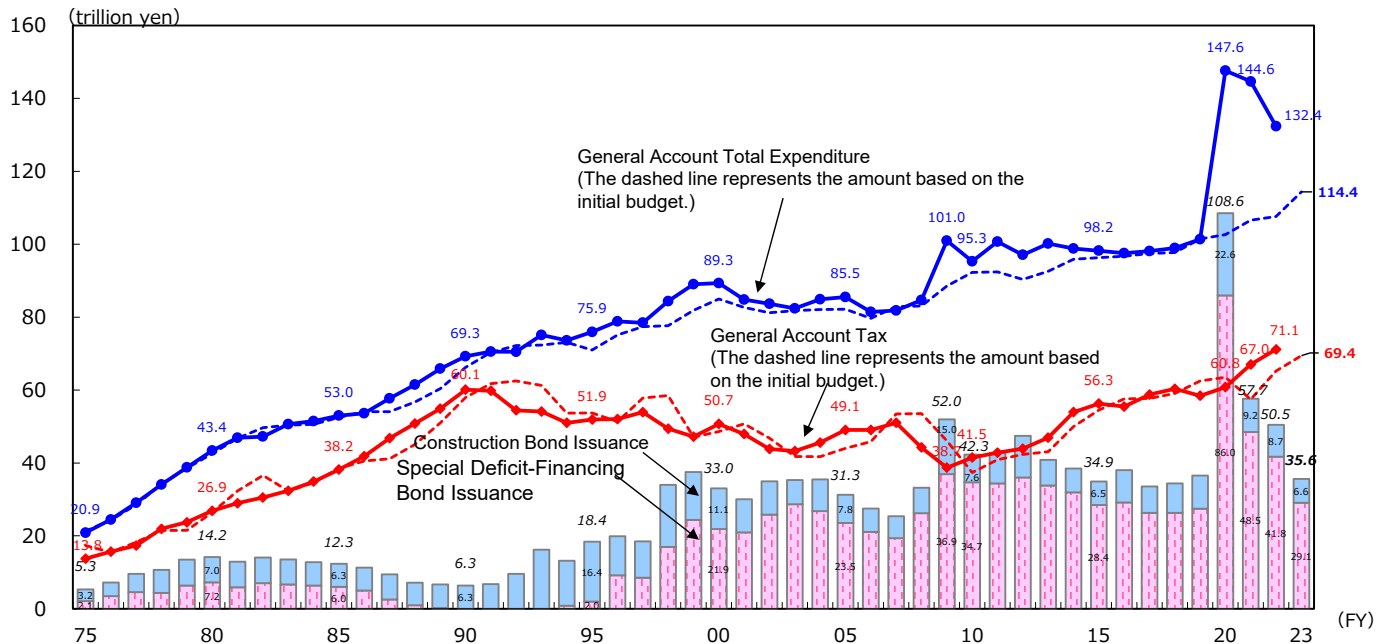
Fiscal Situation in Japan: The Long and Winding Road

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Tax Revenues, Expenditure, and Bond Issuance in General Account

- The Japanese Public Finance runs a budget deficit every fiscal year, as an amount of its expenditure exceeds that of revenue. The gap between them has been financed by issuing national government bonds (construction bonds and special deficit-financing bonds).

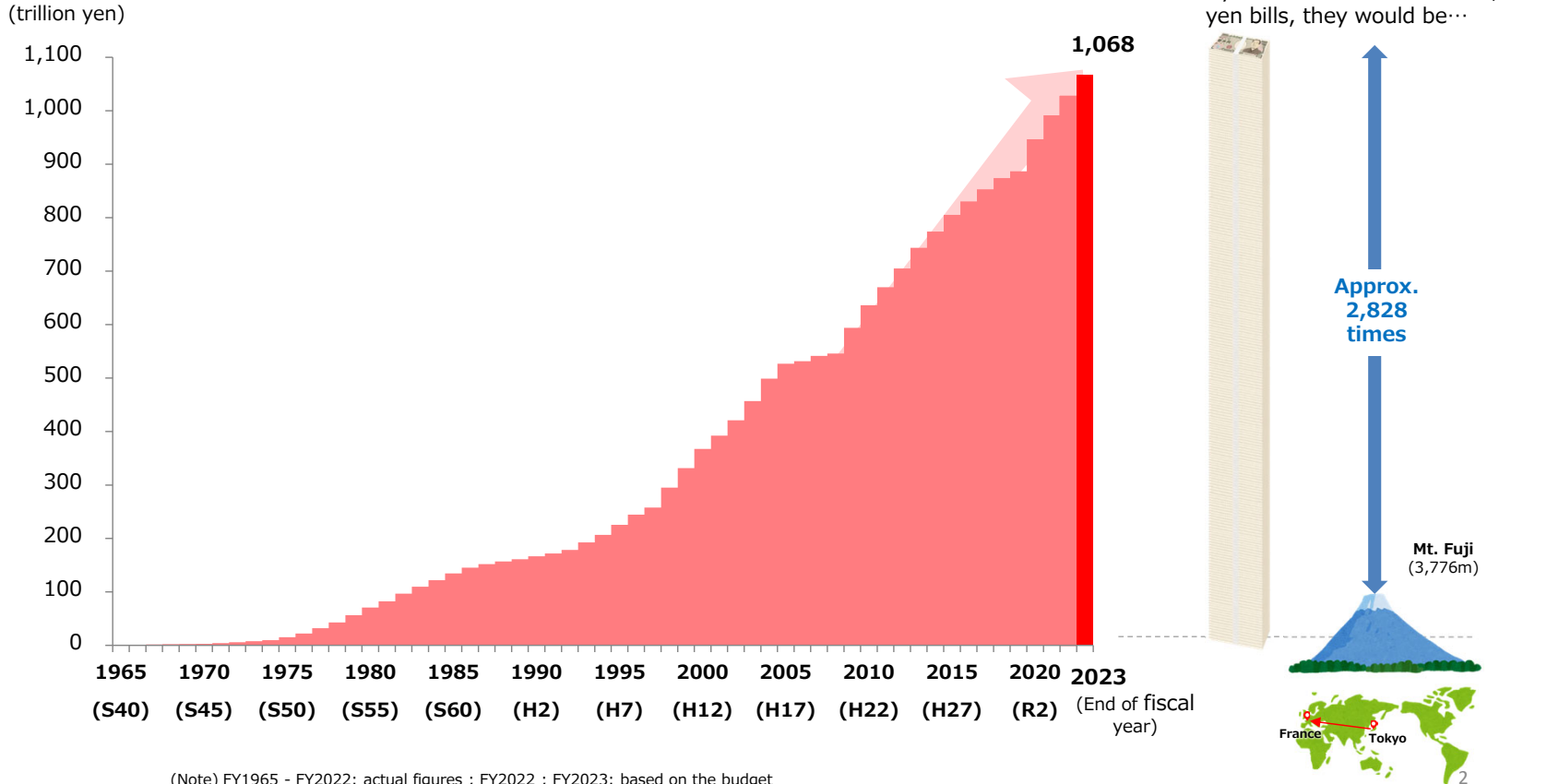


(Note 1) FY1975 - FY2022: settled figures ; FY2023: based on the budget

(Note 2) The following bonds are excluded: Ad-hoc special deficit-financing bonds issued in FY1990 as a source of funds to support peace and reconstruction activities in the Persian Gulf region, Tax reduction-related special deficit-financing bonds issued in FY1994 - FY1996 to make up for decline in tax revenue due to a series of tax cuts preceding consumption tax hike from 3% to 5%, Reconstruction bonds issued in FY2011 as a source of funds to implement measures for the reconstruction from the Great East Japan Earthquake and Pension-related special deficit-financing bonds issued in FY2012 and FY2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

(Note 3) The general account total expenditure of FY2023 includes the carry-over (3.4 trillion yen) to Defense Buildup Funds which is the resource for the national defense expenditure for FY2024 and years after.

Accumulated Government Bonds Outstanding

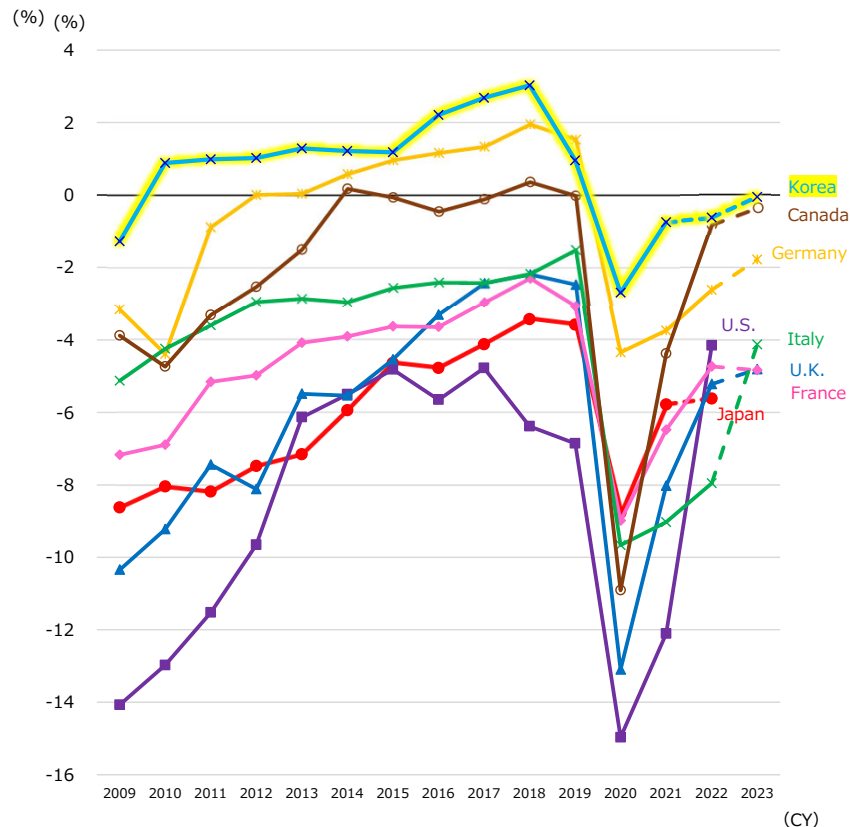


(Note) FY1965 - FY2022: actual figures ; FY2022 ; FY2023: based on the budget

International comparison of general government fiscal balance (% of GDP)

| CY | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------|--------|--------|--------|-------|-------|-------|-------|-------|
| Japan | - 8.6 | - 8.0 | - 8.2 | - 7.5 | - 7.2 | - 5.9 | - 4.6 | - 4.8 |
| U.S. | - 14.1 | - 13.0 | - 11.5 | - 9.7 | - 6.1 | - 5.5 | - 4.8 | - 5.7 |
| U.K. | - 10.3 | - 9.2 | - 7.4 | - 8.1 | - 5.5 | - 5.5 | - 4.5 | - 3.3 |
| Germany | - 3.2 | - 4.4 | - 0.9 | 0.0 | 0.0 | 0.6 | 1.0 | 1.2 |
| France | - 7.2 | - 6.9 | - 5.2 | - 5.0 | - 4.1 | - 3.9 | - 3.6 | - 3.6 |
| Italy | - 5.1 | - 4.2 | - 3.6 | - 2.9 | - 2.9 | - 3.0 | - 2.6 | - 2.4 |
| Canada | - 3.9 | - 4.7 | - 3.3 | - 2.5 | - 1.5 | 0.2 | - 0.1 | - 0.5 |
| Korea | - 1.3 | 0.9 | 1.0 | 1.0 | 1.3 | 1.2 | 1.2 | 2.2 |

| CY | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---------|-------|-------|-------|--------|--------|-------|-------|
| Japan | - 4.1 | - 3.4 | - 3.6 | - 8.8 | - 5.8 | - 5.6 | - |
| U.S. | - 4.8 | - 6.4 | - 6.9 | - 15.0 | - 12.1 | - 4.2 | - |
| U.K. | - 2.4 | - 2.2 | - 2.5 | - 13.1 | - 8.0 | - 5.2 | - 4.8 |
| Germany | 1.3 | 1.9 | 1.5 | - 4.3 | - 3.7 | - 2.6 | - 1.8 |
| France | - 3.0 | - 2.3 | - 3.1 | - 9.0 | - 6.5 | - 4.7 | - 4.8 |
| Italy | - 2.4 | - 2.2 | - 1.5 | - 9.7 | - 9.0 | - 8.0 | - 4.1 |
| Canada | - 0.1 | 0.4 | - 0.0 | - 10.9 | - 4.4 | - 0.8 | - 0.4 |
| Korea | 2.7 | 3.0 | 1.0 | - 2.7 | - 0.8 | - 0.6 | - 0.1 |



(Source) OECD "Economic Outlook 113" (June 7, 2023)

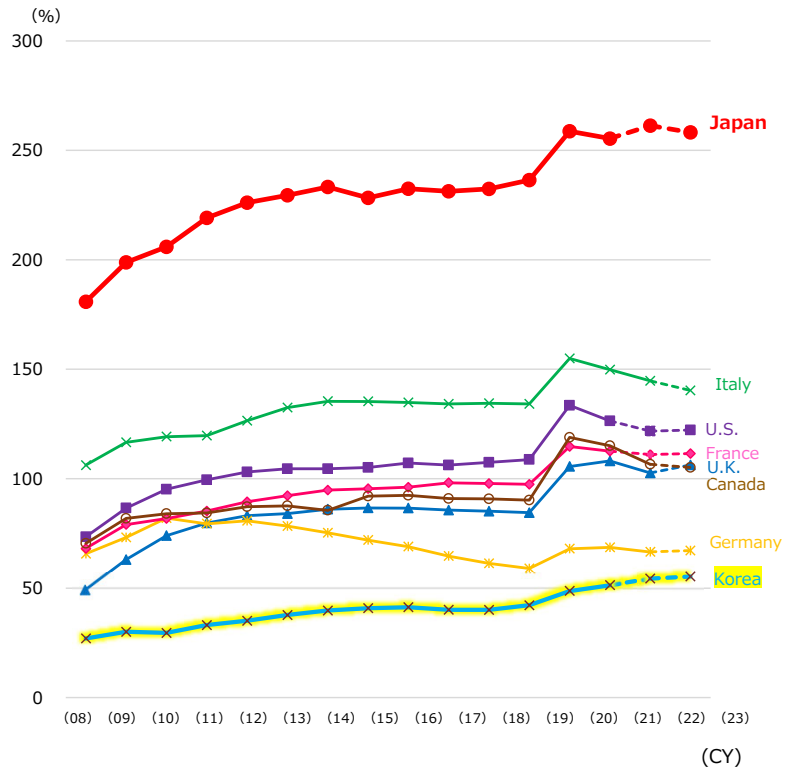
(Note 1) The figures represent the general-government-based data (the central/local governments and social security funds combined), except for Japan and U.S., where the figures of the social security funds are excluded.

(Note 2) The 2022 figures for Japan and Korea and the 2023 figures for other countries are estimated figures. However, the 2023 figures for Japan and U.S. has not been published.

International comparison of general government gross debt (% of GDP)

| | CY | | | | | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
| Japan | 180.9 | 198.8 | 205.9 | 219.2 | 226.1 | 229.5 | 233.3 | 228.3 |
| U.S. | 73.4 | 86.6 | 95.1 | 99.5 | 103.0 | 104.5 | 104.5 | 105.1 |
| U.K. | 49.2 | 63.1 | 74.0 | 79.8 | 83.1 | 84.1 | 86.1 | 86.7 |
| Germany | 65.7 | 73.2 | 82.0 | 79.4 | 80.7 | 78.3 | 75.3 | 71.9 |
| France | 68.1 | 79.0 | 81.8 | 85.2 | 89.4 | 92.2 | 94.8 | 95.4 |
| Italy | 106.2 | 116.6 | 119.2 | 119.7 | 126.5 | 132.5 | 135.4 | 135.3 |
| Canada | 70.4 | 81.9 | 84.0 | 84.3 | 87.2 | 87.6 | 85.5 | 92.0 |
| Korea | 26.9 | 30.0 | 29.5 | 33.1 | 35.0 | 37.7 | 39.7 | 40.8 |

| | CY | | | | | | | |
|---------|-------|-------|-------|-------|-------|-------|-------|-------|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
| Japan | 232.4 | 231.3 | 232.4 | 236.4 | 258.7 | 255.4 | 261.3 | 258.2 |
| U.S. | 107.2 | 106.2 | 107.4 | 108.7 | 133.5 | 126.4 | 121.7 | 122.2 |
| U.K. | 86.6 | 85.6 | 85.2 | 84.5 | 105.6 | 108.1 | 102.6 | 106.2 |
| Germany | 69.0 | 64.6 | 61.3 | 58.9 | 68.0 | 68.6 | 66.5 | 67.2 |
| France | 96.1 | 98.1 | 97.8 | 97.4 | 114.7 | 112.6 | 111.1 | 111.4 |
| Italy | 134.8 | 134.2 | 134.4 | 134.1 | 154.9 | 149.8 | 144.7 | 140.3 |
| Canada | 92.4 | 90.9 | 90.8 | 90.2 | 118.9 | 115.1 | 106.6 | 105.1 |
| Korea | 41.2 | 40.1 | 40.0 | 42.1 | 48.7 | 51.3 | 54.3 | 55.3 |



(Source) IMF "World Economic Outlook" (April 2023).

(Note1) Figures represent the general government-based data (the central/local governments and social security funds combined).

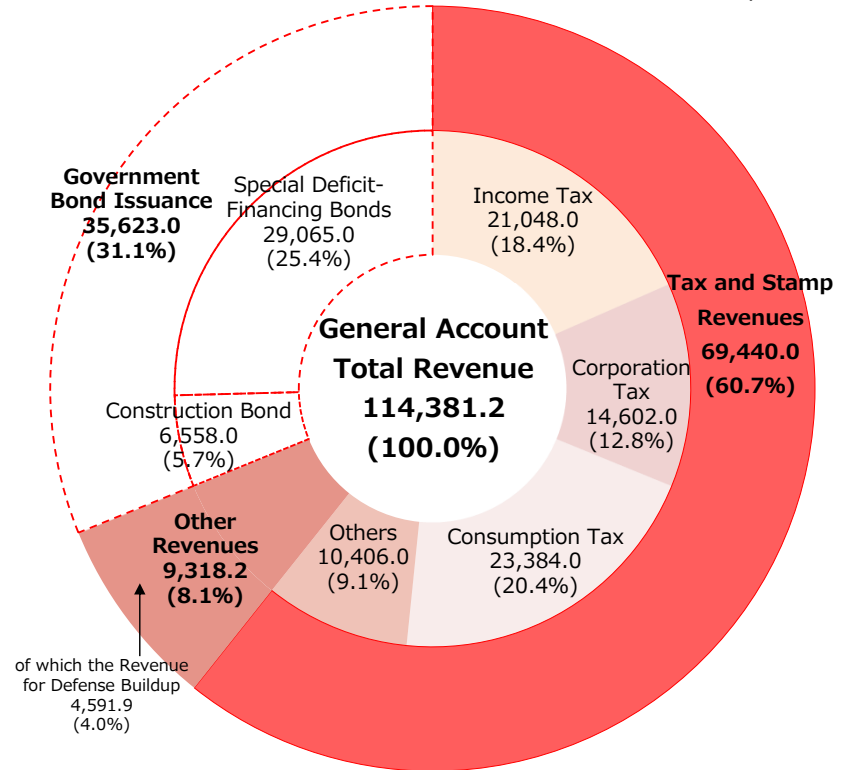
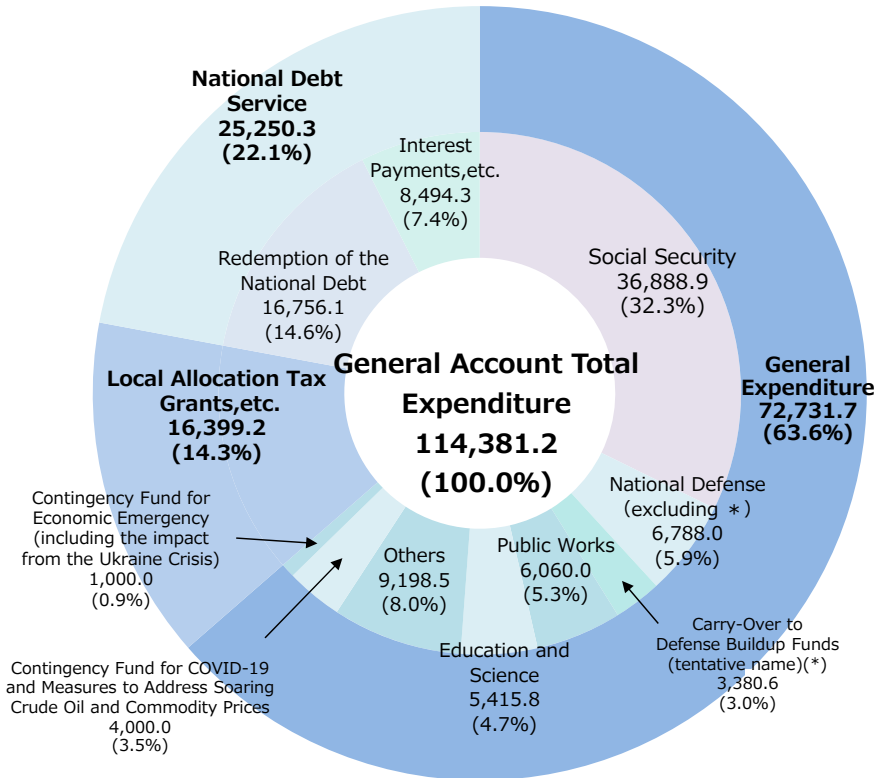
(Note2) 2022-2023 figures for Japan, U.S., France and Korea and 2023 figures for the other countries are estimated figures.

The FY2023 Budget: Expenditure and Revenue

General Account Expenditure

General Account Revenue

(unit : billion yen)



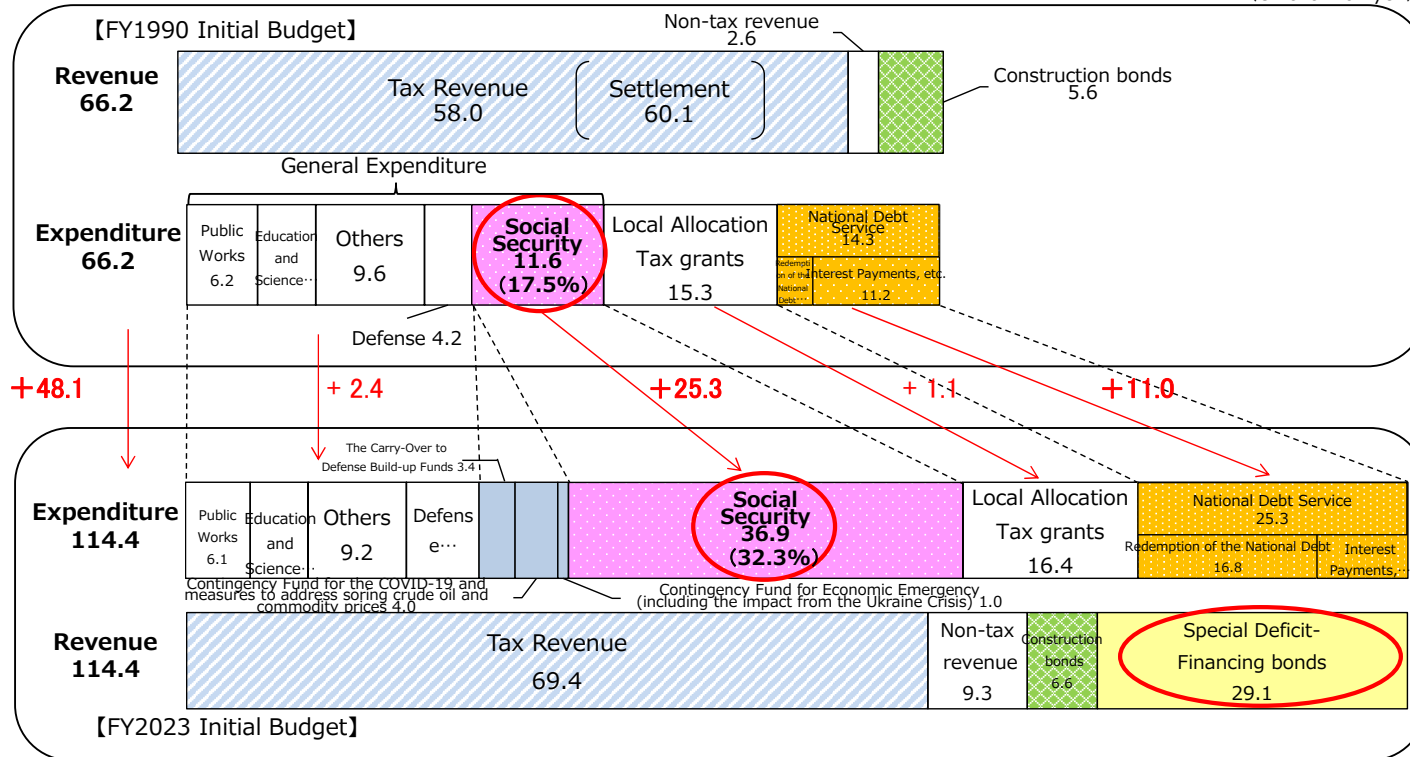
(Note 1) Figures may not add up to the totals due to rounding.

(Note 2) The ratio of social security expenditure to general expenditure is 50.7%.

Increase in Social Security Expenditures and in Debt payments

- Compared to the FY1990 initial budget, when the issuance of special deficit-financing bond temporarily stopped, social security-related expenses have significantly increased, and they are covered by special deficit-financing bond issuance in the FY2023.

(Unit: trillion yen)



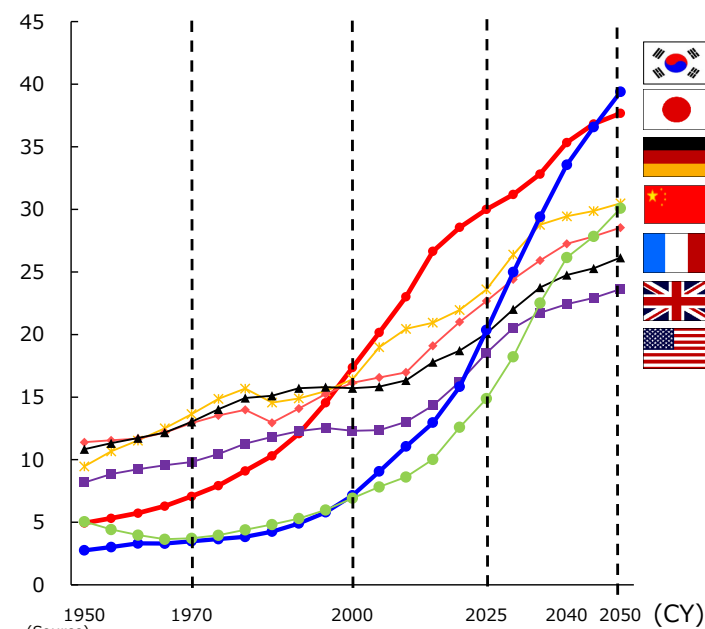
(Note) Figures in parentheses represent the percentage of social security expenditure to general account total expenditure.

International Comparison of Population Aging Rate and Birth Rate

○ Japan's aging population and declining birthrate have accelerated since 2000, making it the most aged country among the developed countries.

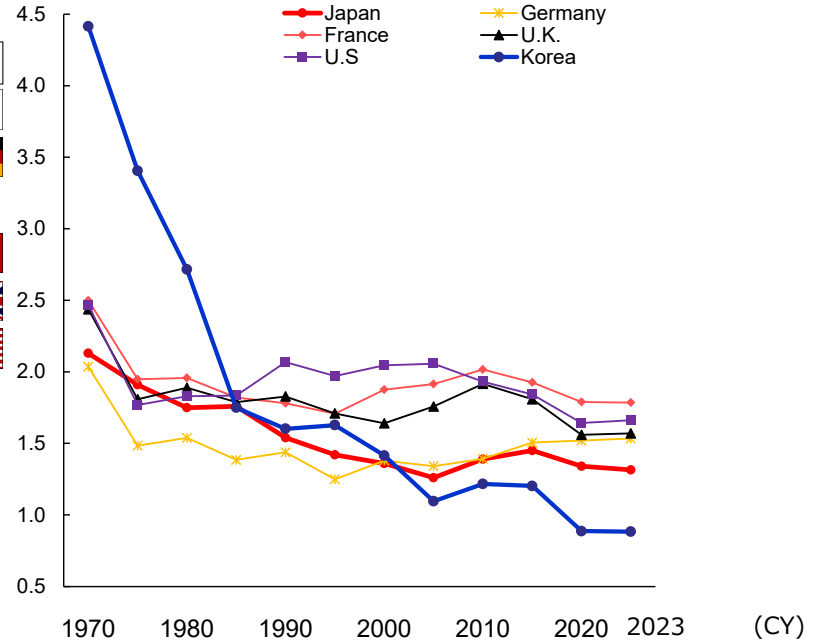
Population Aging Rate

(%) *Aging Rate: The ratio of the number of the aged 65 and over to the total population



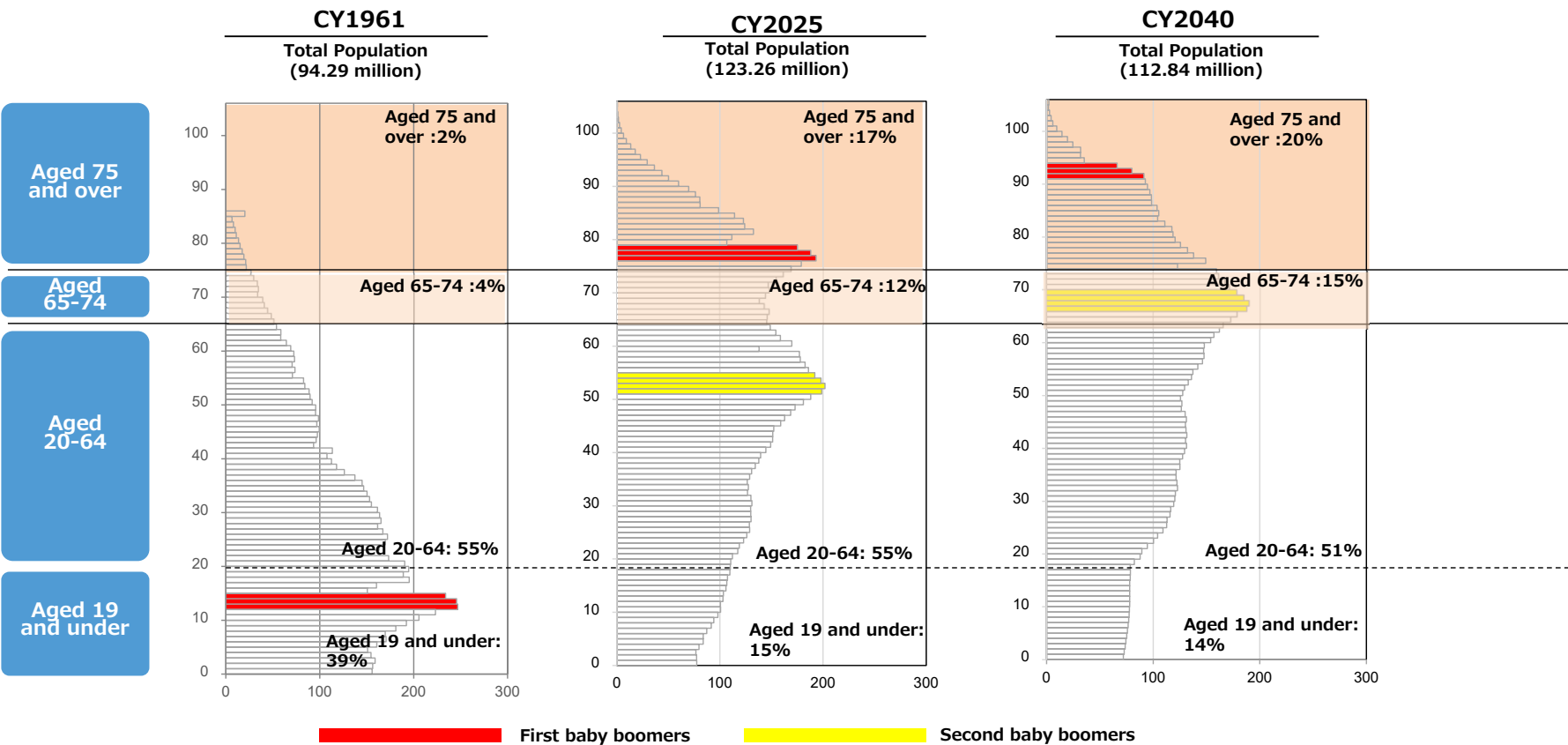
(Source)
 Japan : 1950-2021: Ministry of Internal Affairs and Communications, "Population Estimates"
 2022-2050: National Institute of Population and Social Security Research, "Population Projections for Japan (April 2017) (medium-fertility and medium-mortality scenario)"
 Other countries: United Nations, "World Population Prospects: the 2022 Revision"

Birth Rate



(Source)
 Japan : 1970-2020: Ministry of Health, Labour and Welfare, "Vital Statistics"
 2023: United Nations "World Population Prospects: the 2022 Revision"
 Other countries: United Nations "World Population Prospects: the 2022 Revision"

Demographic Changes in Japan



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (April 2023)"
 (Note) The first baby boomers are those who were born in 1947-49. The second baby boomers are those who were born in 1971-74. Okinawa prefecture is not included in the figure in 1961. The figure of 85 years olds in 1961 includes that of aged 85 and over. The figure of 105 years olds in 2025 and 2040 includes that of aged 105 and over.

Medical and Long-term Care Expenditure

| | Medical care (2020) | | Long-term care (2020) | | Number and ratio to total population | |
|------------------|--|--|--|-------------------------------|--------------------------------------|-------------------------------|
| | National medical care expenditure per capita (aged 64 and under: ¥183,000) | State contribution per capita (aged 64 and under: ¥27,000) | Long-term care expenditure per capita (ratio of certification of needed support/long-term care in parentheses) | State contribution per capita | 2020 | 2025 |
| Aged 65-74 | ¥554,000 | ¥82,000 | ¥50,000 (4.3%) | ¥13,000 | 17.42 million persons (13.8%) | 14.98 million persons (12.2%) |
| Aged 75 and over | ¥902,000 | ¥326,000 | ¥478,000 (31.9%) | ¥127,000 | 18.6 million persons (14.7%) | 21.6 million persons (17.5%) |

Approx. -2.4 million persons
Approx. 4 times
Approx. 10 times
Approx. +2.94 million persons

(Source) Population ratio per age group: Ministry of Internal Affairs and Communications, "Population Estimates"; National Institute of Population and Social Security Research, "Population Projections for Japan (April 2023) (medium-fertility and medium-mortality scenario)"

National medical care expenditure: Ministry of Health, Labour and Welfare, "Overview of National Medical Care Expenditure (FY2020)"

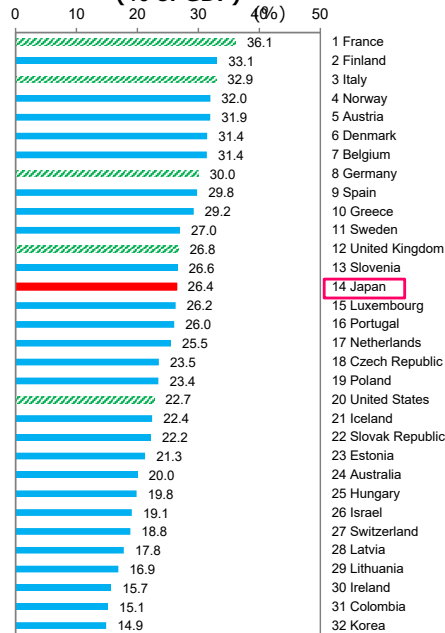
Long-term care expenditure and ratio of certification of needed support/long-term care: Ministry of Health, Labour and Welfare, "Statistics of Long-term Care Benefit Expenditure (FY2020)" and "Long-term Care Insurance Business Report (FY2020)", and Ministry of Internal Affairs and Communications, "Population Estimates"

(Notes) National medical care expenditure and long-term care expenditure per capita are calculated by dividing the national medical care expenditure and the long-term care expenditure by the population in each age group. State contribution per capita is calculated by dividing the amount of state contribution by the population as of 2020 in each age group.

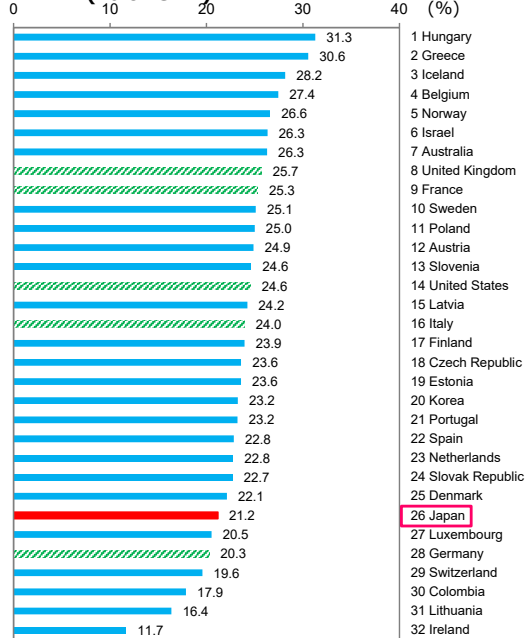
Revenues and Expenditures in OECD Countries

○ Compared to the other OECD countries, Japan's social security expenditure can be classified as a mid-level reflecting the aging population, while the non-social security expenditure is at a relatively low level. The tax revenue stands at a low level in the comparison to other countries.

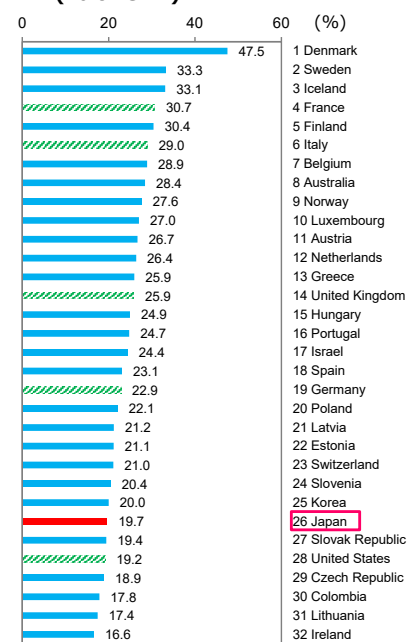
Social Security Expenditure (% of GDP)



Non-Social Security Expenditure (% of GDP)



Tax Revenue (% of GDP)



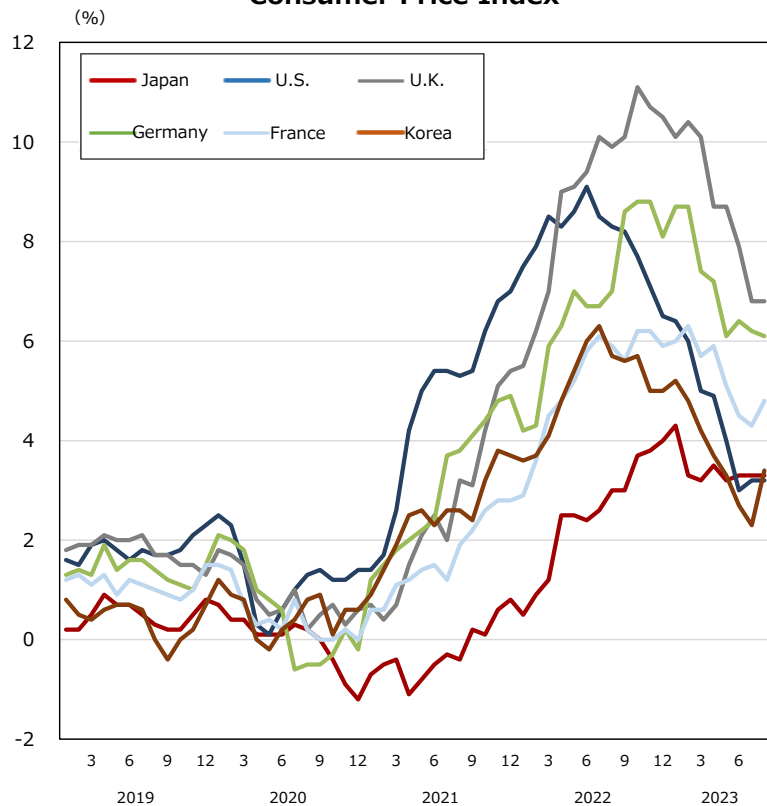
(Source) OECD "National accounts", "Revenue Statistics" and "Economic Outlook 113" (June 2023), Cabinet Office "National Accounts", etc.

(Note 1) Japan: actual figures of FY2020, Australia, Ireland: actual figures of CY2020, Colombia: actual figures of CY2019, Lithuania: actual figures of CY2017, the other countries: provisional figures of CY2020.

(Note 2) The figures represent the general-government-based data (central/local governments and social security funds), except for "Fiscal Balance" of Japan and U.S., where the figures of the social security funds are excluded.

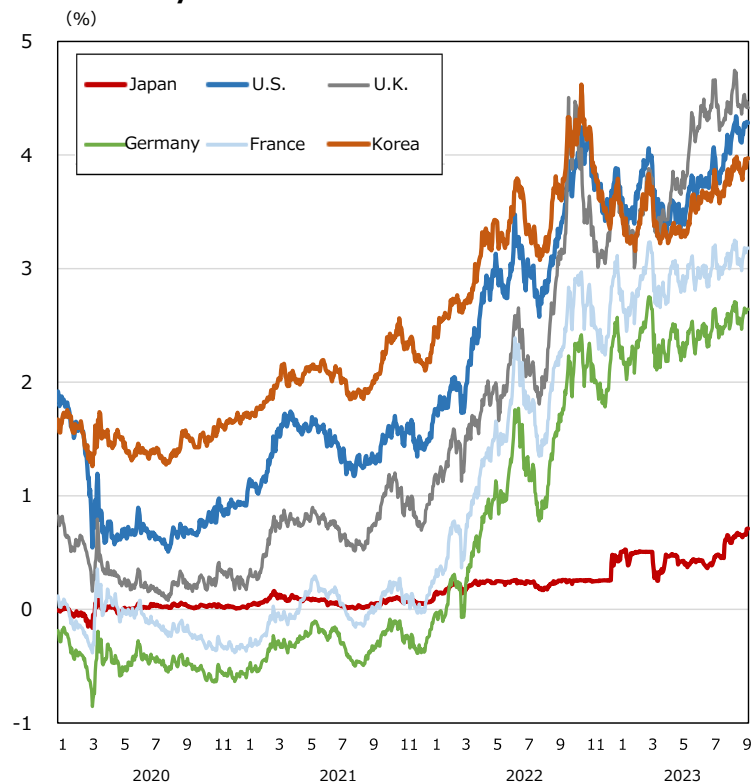
International comparison of price inflation and interest rates

Consumer Price Index



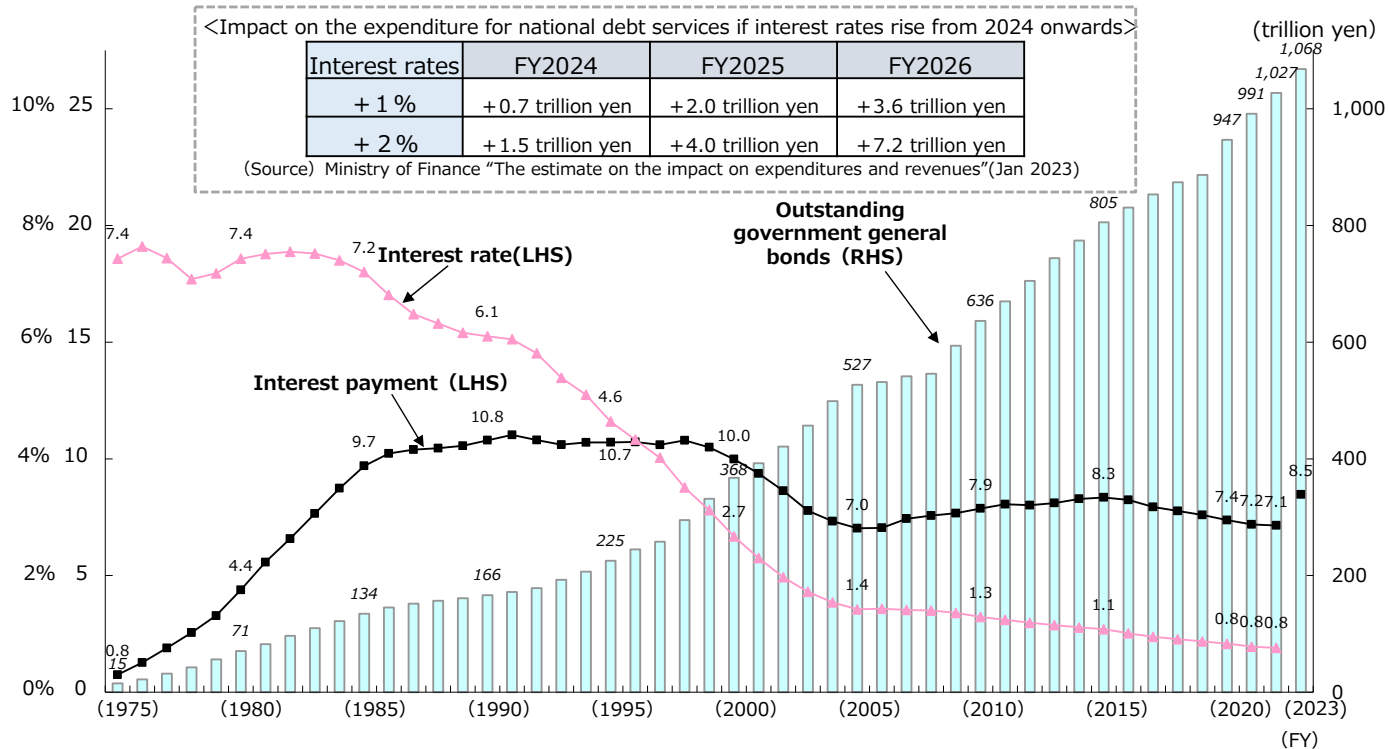
(出所) Bloomberg

10-years Government Bond Interest Rates



Trends in interest payments and interest rate

○ Outstanding general bonds are over 1 Quadrillion yen, and if interest rates rise, interest payments will increase substantially.



(Note 1) Interest payments in FY1975 – FY2022:settled figures; FY2023: based on the budget

(Note 2) Interest rates are based on the weighted average of interest rates of government general bonds.

(Note 3) Outstanding government bonds in FY 1975 – FY2022 :actual figures; FY2023: based on the budget

Establishing a Framework for Further Promoting the Integrated Economic and Fiscal Reforms (Basic Policy on Economic and Fiscal Management and Reform 2021)

Fiscal consolidation target

By FY2025

Achieve a primary surplus of the national and local governments

At the same time

Steadily reduce the public debt-to-GDP ratio

Annual budget formulation for FY2022 to FY2024 in accordance with the following spending guidelines

Social security expenditure

Maintain the policy of keeping the real increase within the levels equivalent to the expected increase due to aging population, based on economic and price trends and other factors

Non-social security expenditure

Continue the efforts of expenditure reform initiatives thus far, based on economic and price trends and other factors

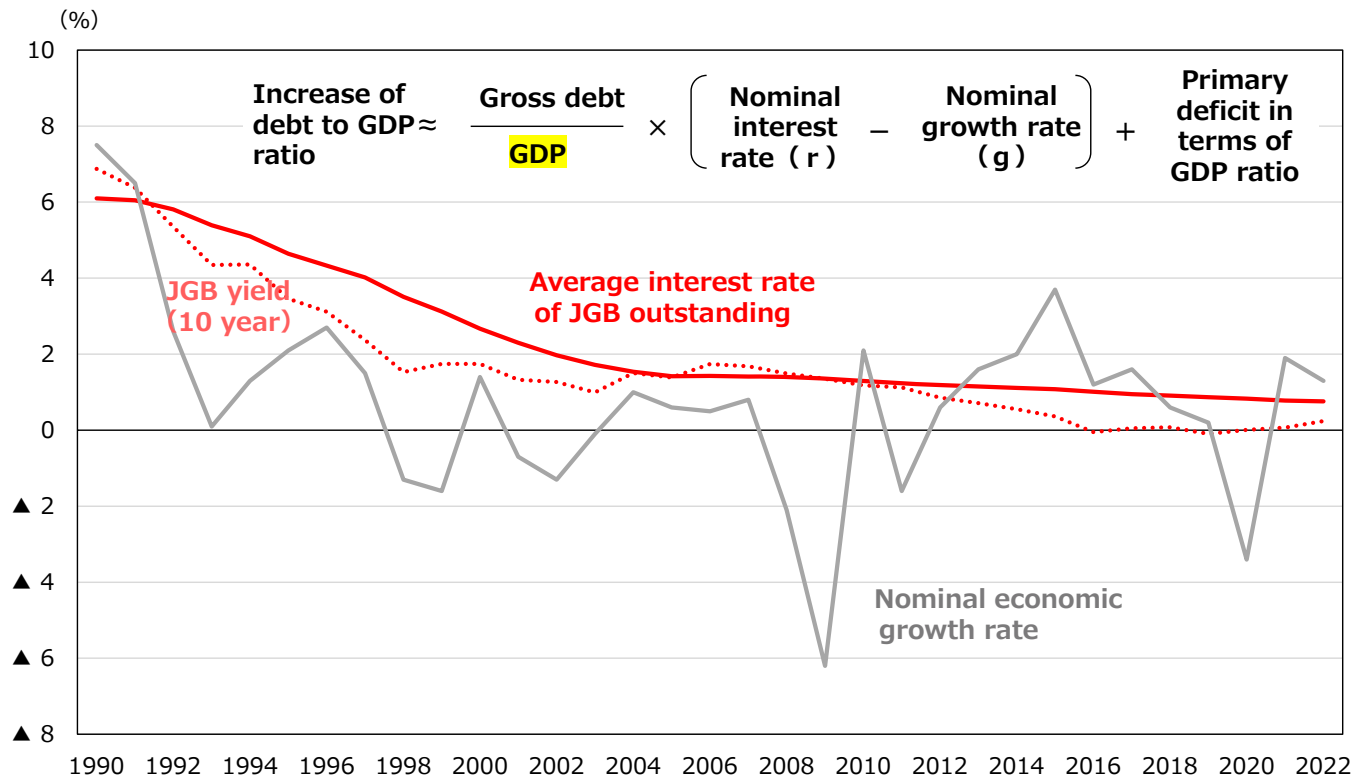
Expenditures of the local government

Ensure the total amount of the general revenue sources substantially at the same level as of the FY2021 Fiscal Plan of Local Governments, and not below, while keeping in line with the national government's general expenditure efforts

Assessment of integrated economic and fiscal reforms

- In light of the still unstable economic and fiscal situation due to infectious diseases, **a verification of the impact of infectious diseases on economic and fiscal conditions will be conducted within this fiscal year**, and **the target fiscal year will be reconfirmed based on its results**.
- **The progress of the Integrated Economic and Fiscal Reforms will be assessed in FY2024, the last fiscal year of compiling budgets in line with spending guidelines**. This will be reflected in subsequent efforts for expenditure and revenue reforms to achieve the fiscal consolidation target.

Trend in Growth Rate and Interest Rate

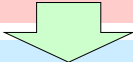


(Source) Cabinet Office, Ministry of Finance

(Note) The average interest rate on outstanding of JGBs is the weighted average of the interest rate at the end of each fiscal year.

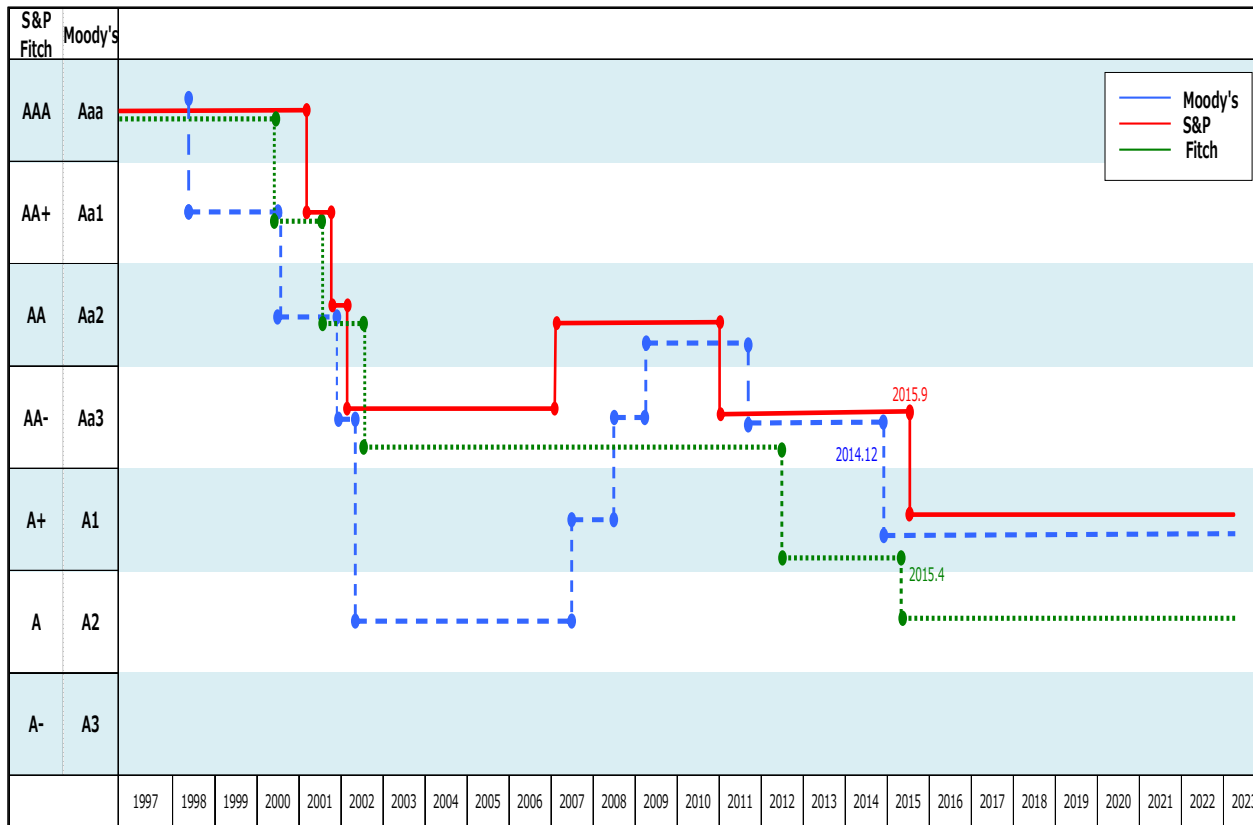
Discounted JGBs is excluded from its calculation. JGB interest rates (10-year) are calendar-year averages. Nominal economic growth rates are calendar-year (year-on-year) rates.

Transition of Japan's Fiscal Consolidation Target

| | | | |
|-----------------|--|---|---|
| May. 14 1976 | Economic Plan for the first half of the 1975s (Cabinet Decision) | Cessation of the Issuance of Special Deficit-financing Bonds | Return to the public finance that does not depend on special deficit-financing bonds as soon as possible by FY1980. |
| Sep. 3 1979 | Policy Speech by Prime Minister Masayoshi Ohira to the 88th Session of the Diet | | Improve the public debt dependency with the basic goal of ceasing the issuance of special deficit-financing bonds by FY1984. |
| Aug. 12 1983 | Outlook and Guidelines for the Economy and society in the 1980s (Cabinet Decision) | | Improve the response capability of the public finance by getting out of special deficit-financing bonds dependence and reducing the Bond Dependency Ratio by FY1990. |
| Dec. 5 1997 | Special measure law on promoting fiscal structural reform (Revised in June 5 1998, Ceased in Dec. 18 1998) |  Primary Surplus of the Central and Local Governments | Reduce the fiscal deficits of the central and local governments to less than 3% of GDP by FY2003 (after revision: FY2005) and reduce bond issuances to zero by FY2003 (after revision: FY2005). |
| Jun. 25 2002 | Basic Policy for Economic and Fiscal Management and Structural Reform 2002 (Cabinet Decision) | | Achieve a surplus in the primary balance of the central and local governments in the early 2010s. |
| Jul. 7 2006 | Basic Policy for Economic and Fiscal Management and Structural Reform 2006 (Cabinet Decision) | | 1) The Government will surely achieve a surplus in the primary balance of the central and local governments by FY2011. 2) Even after achieving a surplus in the primary balance, the central and local governments will ensure the prevention of divergence in the ratio of debts of the central and local governments to GDP and the stable reduction of the ratio. |
| Jun. 23 2009 | Basic Policy for Economic and Fiscal Reform 2009 (Cabinet Decision) | | Achieve a surplus of the primary balance of the central and local governments within the next 10 years. Reduce the primary deficit of central and local governments to GDP ratio, excluding temporary deficits incurred by economic stimulus packages, by at least half within the next 5 years. |
| Jun. 22 2010 | Fiscal Management Strategy (Cabinet Decision) | | 1) For the national government primary balance as well as the national and local governments primary balance, the deficit ratio to GDP shall be halved from the ratio in FY2010 by FY2015 at the latest, and the surplus shall be achieved by FY2020 at the latest. 2) From FY2021, a stable reduction in the ratio of public debt to GDP for national and local governments shall be maintained |
| Jun. 14 2013 | Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan (Approved by the Cabinet) | | The Government aims to halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010 and to achieve a primary surplus by FY2020, thereafter the Government will seek to steadily reduce the public debt-to-GDP ratio. |
| Jun. 30 2015 | Basic Policy on Economic and Fiscal Management and Reform 2015 (Cabinet Decision) | The Government aims to achieve a primary surplus by FY2020, thereafter the Government will seek to steadily reduce the public debt-to-GDP ratio. | |
| Jun. 15 2018 | Basic Policy on Economic and Fiscal Management and Reform 2018 (Cabinet Decision) | Aim for the primary surplus of the central and local governments by FY 2025 by implementing economic revitalization and fiscal consolidation steadily. At the same time, firmly maintain the aim of reducing the public debt-to-GDP ratio steadily. | |
| Jun. 18 2021 | Basic Policy on Economic and Fiscal Management and Reform 2021 (Cabinet Decision) | The Governments aim to achieve the fiscal consolidation target (the primary surplus of the central and local governments by FY 2025) set forth in Basic Policy 2018. At the same time, firmly maintain the aim of reducing the public debt-to-GDP ratio steadily. | |

Trends in JGB rating and International Comparison of Ratings

- Trends in JGB Ratings -



- International Comparison-

(As of September 12, 2023)

| | Moody's | S&P | Fitch |
|-------------|---------|---------|---------|
| Aaa/ AAA | U.S | | |
| | Germany | Germany | Germany |
| Aa1/ AA+ | | U.S. | U.S |
| Aa2/ AA | France | France | |
| | Korea | Korea | |
| | | U.K | |
| Aa3/ AA- | | | France |
| | U.K. | | U.K. |
| | | | Korea |
| A1/ A+ | Japan | Japan | |
| A2/ A | | | Japan |
| A3/ A- | | | |

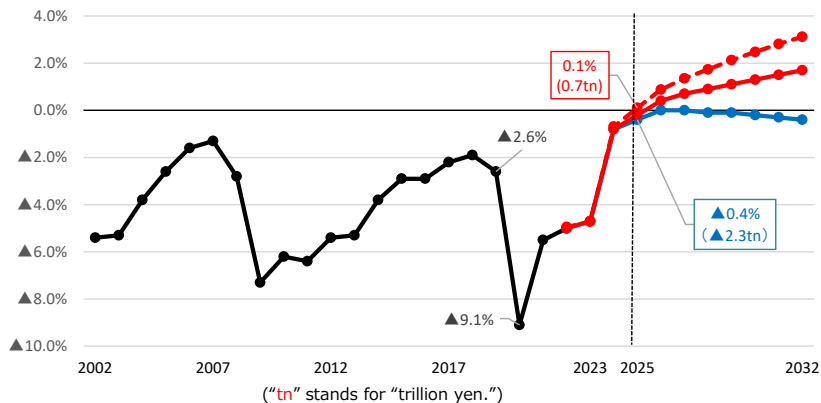
Overview of “Economic and Fiscal Projections for Medium to Long Term Analysis”

* Council on Economic and Fiscal Policy (Cabinet Office, July 25, 2023)

- **The Primary Balance for the central and local governments combined will turn into a surplus in FY2025 by continuing efforts to improve expenditure efficiency in the scenario of Growth Achieved Case.**
- In the Economic Growth Achieved Case, the ratio of outstanding debt to Nominal GDP gradually decline while the Primary Balance for the central and local governments combined will turn into a surplus. It is projected to rise in the latter half of the projecting periods in the Baseline Case.

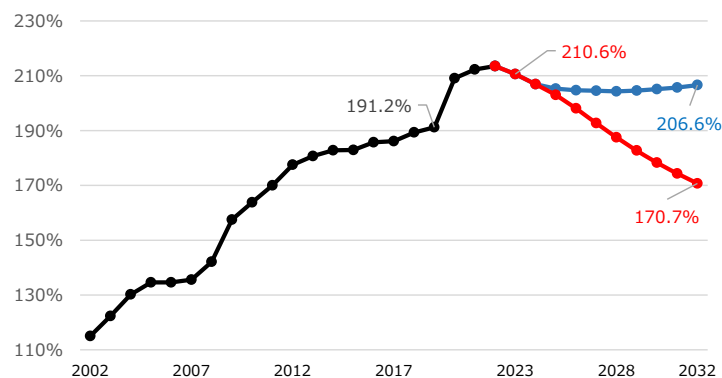
Primary Balance (Ratio to Nominal GDP)

(Sum of the Central and Local Governments)



Outstanding Debt (Ratio to Nominal GDP)

(Sum of the Central and Local Governments, % of GDP)



← Economic Growth Achieved Case:

Assuming that potential growth rate steady rises, achieving around real 2% and nominal 3% GDP growth.

.. Economic Growth Achieved Case (Considering the expenditure reform) :

Assuming that potential growth rate steady rises, achieving around real 2% and nominal 3% GDP growth. Also, assuming the effect on improvement in the primary balance by efforts for increasing spending efficiency to be about 1.3 trillion yen per year when its impact on the economy is taken into consideration.

← Baseline Case :

Growth rates of GDP are assumed to be in the mid-0% range for both real and nominal GDP every year.

An Acceleration New Form of Capitalism in turning points in the times

Expanding Investments for the Future and Realizing Structural Wage Increases



Sustained pay hike at 30-year highs



Quick realization of a record level of domestic investment of 115 trillion yen by priming public investment



Reverse the trend of declining birthrate by drastically strengthening child and childrearing policies.

- An Acceleration New Form of Capitalism -

- Realization of structural wage increases through the trinity labor market reforms, and strengthening investment in people, and creating a substantial middle class
- Expanding investment and implementing economic and social reforms
 - Increasing domestic investment and strengthening supply chains through public private partnerships
 - Acceleration of GX, DX, etc.
 - Driving Startups and Converting to New Industrial Structure Promoting Impact Investment
 - Promoting Science, Technology and Innovation through Public Private Partnerships
 - Developing Inbound Strategies
- Drastic strengthening of measures to cope with the declining birthrate and child policy
- Creation of an inclusive society
- Revitalization of local communities and small businesses

- Responding to the Environment Changes Surrounding Japan -

- Responding to changes in the international environment
 - Strengthening of diplomacy and security
 - Promotion of economic security policies
 - Strengthening of energy security
 - Strengthening of food security and promotion of sustainable growth of agriculture, forestry and fisheries
 - Promotion of international economic partnerships and promotion of overseas business
- Disaster prevention and mitigation. National resilience, reconstruction from the Greatest East Japan Earthquake, etc.
- Disaster prevention and mitigation. National resilience, reconstruction from the Greatest East Japan Earthquake, etc.
- Safety and security of people's lives

For more information:

https://www5.cao.go.jp/keizai-shimon/kaigi/cabinet/honebuto/2023/summary_en.pdf

Basic Philosophy

- (1) Improving financial support to increase earnings of younger generation with structural wage hike
- (2) changing the structure and attitude of the society as a whole
- (3) Supporting all children and childrearing households seamlessly according to their stage of life

Acceleration Plan (FY2024-FY2026)

Over the next three years as a period of concentration, these measures will be implemented.

- ✓ Expansion of child allowance
 - Target age of children will be extended by 3-year to graduation from high school
 - Allowance for third child and after will increase to 30k yen/month
- ✓ Expansion of lump-sum on childbirth from 420k to 500k yen
- ✓ Reduction of burden for higher educations (university and so on) etc.

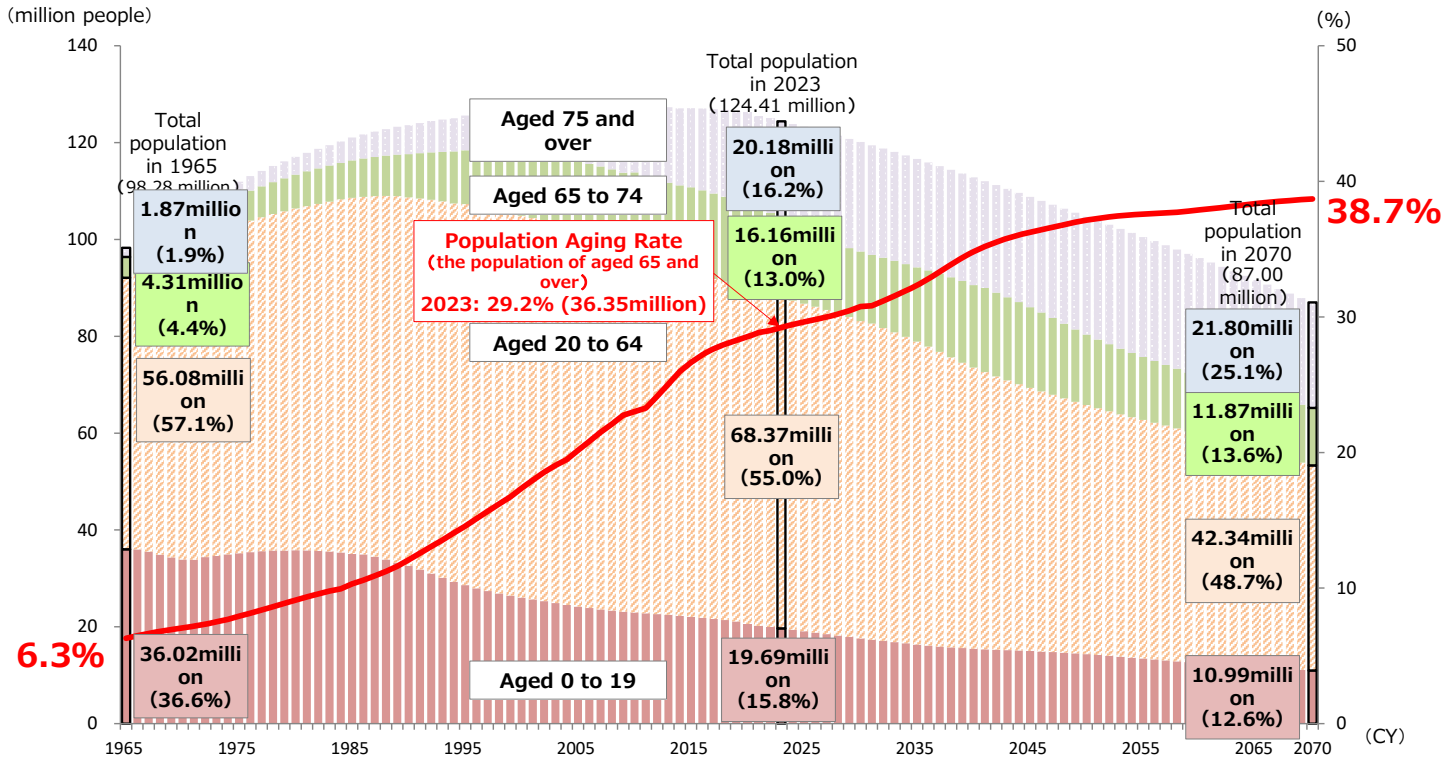
Securing financial resources

Financial resources of “Acceleration Plan” which is estimated approximately 3 trillion yen will be discussed in detail toward the end of the year based on below basic skeletons shown on “Policy on Future Strategy for Children”.

- ① preceding thorough expenditures reform and taking advantages of generated effects such as reduction of public expenses and social insurance burden on the government, aiming at not to generate additional burden on the people substantially
- ② preceding initiatives toward economic stimulation and economic growth
- ③ promoting these two initiatives, creating new support payment system. The detail of financial resources including this new support payment system will be discussed toward the end of the year.

Estimated Demographic Composition (as of April 2023)

○ After 2025, declining birthrate and aging population will also proceed at such a rapid rate that none of other countries have experienced, and the population is expected to decline.



(Source) Ministry of Internal Affairs and Communications "Population Estimates", National Institute of Population and Social Security Research "Population Projections for Japan (April 2023)" (the projection of medium-fertility and medium-mortality).
 (Note) Numbers in parentheses represent the ratio to the total population.