

Highlights of the Draft Budget for FY2016

Highlights of the Budget for FY2016

Realization of both Economic Revitalization and Fiscal Consolidation

- Toward realizing “a society in which all citizens are dynamically engaged”, enhancing childcare support and providing nursing services directly linked to the “Desirable birthrate of 1.8” and “No one forced to leave their jobs for nursing care” and also reducing the burden of education costs.
Shifting regional revitalization into high gear.
- To ensure the sustainable social security system, containing the increase in social security related expenditures in line with the benchmark set in the Fiscal Consolidation Plan (increase by 440 billion yen*).
- * Substantial increase is 500 billion yen if excluding the one-off expenditures in FY2015 budget.
- Social security reform includes measures such as optimization of remuneration for medical treatment and formulation of a roadmap which clarifies details and timeline of reform implementation.
- Promoting measures for disaster prevention and mitigation as well as for maintenance of aging infrastructure (building national resilience).
- As the chair of G7 Ise-Shima Summit, increasing foreign affairs budget. Increasing budget for national defense to steadily enhance defense capability.
- Promoting measures toward improving the quality of education and reinforcing scientific and technological capabilities.
- Accelerating the reconstruction from the Great East Japan Earthquake through addressing problems in each stage of reconstruction.

Highlights of the Budget for FY2016 (cont' d)

Fiscal Consolidation

- Containing the increase in general expenditure in line with the benchmark set in the Fiscal Consolidation Plan (increase by 470 billion yen*). * Substantial increase is 530 billion yen if excluding the one-off expenditures in FY2015 budget.
- Reducing the amount of newly issued government bonds by 2.4 trillion yen to 34.4 trillion yen compared with that of FY2015. Restoring 35.6% bond dependency ratio which is the same level before Lehman Shock.

* Central government tax revenue will improve up to 57.6 trillion yen (51.3 trillion yen if excluding the revenue increase due to the consumption tax hike from 5% to 8%), which exceeds the FY2007 tax revenue (FY2007 settlement: 51.0 trillion yen).

* Reflecting the rebound in local tax revenues (41.8 trillion yen), additional grants to local governments will be abolished in FY2016.

Japan's Fiscal Consolidation Targets

"The Plan to Advance Economic and Fiscal Revitalization"(Cabinet Decision on June 30, 2015)"

FY2015
(target)

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

FY2018
(interim benchmark)

- The Government will assess the progress against the following benchmarks.
 - **Primary deficit:** approx. **-1%** of GDP in FY2018
 - **Size of expenditure:** **extending the recent 3-year trajectory of the expenditure** of the central government **towards FY2018**, that is, **the total rise of ¥1.6 trillion for the 3 years.**
- The government will consider **additional measures** in expenditure and revenue, if needed, to achieve the FY2020 target.

FY2020
(target)

- The Government aims to **achieve a primary surplus by FY2020.**

Thereafter

- The Government will seek to **steadily reduce the public debt to GDP ratio.**

Framework of the Budget for FY2016

(Unit: billion yen)

	FY2015 Budget (Initial)	FY2016 Budget	FY2015	Note
			→FY2016	
(Revenues)				
Tax Revenues	54,525.0	57,604.0	3,079.0	
Other Revenues	4,954.0	4,685.8	-268.1	
Government Bond Issues	36,863.0	34,432.0	-2,431.0	- Bond Dependency Ratio: 35.6% (FY2015: 38.3%)
Total	96,342.0	96,721.8	379.9	
(Expenditures)				
National Debt Service	23,450.7	23,612.1	161.4	
Primary Expenses	72,891.2	73,109.7	218.5	
General Expenditure	57,355.5	57,828.6	473.1	
Social Security	31,532.6	31,973.8	441.2	
Except for Social Security	25,822.9	25,854.9	31.9	
Local Allocation Tax Grants, etc.	15,535.7	15,281.1	-254.7	- Reflecting the rebound in local tax revenues. Substantial level of “local general fiscal resources” which include Local Tax and Local Allocation Tax Grants will be maintained.
Total	96,342.0	96,721.8	379.9	

(Note1) If excluding the one-off expenditures in FY2015 budget, substantial increases for general expenditure and social security expenditure are 531.6 billion yen and 499.7 billion yen, respectively.

(Note2) Social security expenditure in FY2015 budget is reclassified for proper comparison with FY2016 budget. Figures may not add up to the totals due to rounding.

< Economic Indicators >

(Unit: trillion yen)

	FY2012 (Actual)	FY2013 (Actual)	FY2014 (Actual)	FY2015 (Estimate)	FY2016 (Projection)
Nominal GDP Growth	0.0%	1.7%	1.5%(0.1%)	2.7%	3.1%
Nominal GDP	474.4	482.4	489.6	503.1	518.8
Real GDP Growth	0.9%	2.0%	-1.0%	1.2%	1.7%
Consumer Price Index	-0.3%	0.9%	2.9%(0.9%)	0.4%	1.2%
Unemployment Rate	4.3%	3.9%	3.5%	3.3%	3.2%

(Note1) FY2015 and FY2016: based on “Fiscal 2016 Economic Outlook and Basic Stance for Economic and Fiscal Management” (Approved by the Cabinet on December 22, 2015).

(Note2) Figures in parentheses in FY2014 excludes the impact of the consumption tax rate hike.

< Fiscal Indicators (Central Government's General Account) >

(Unit: trillion yen)

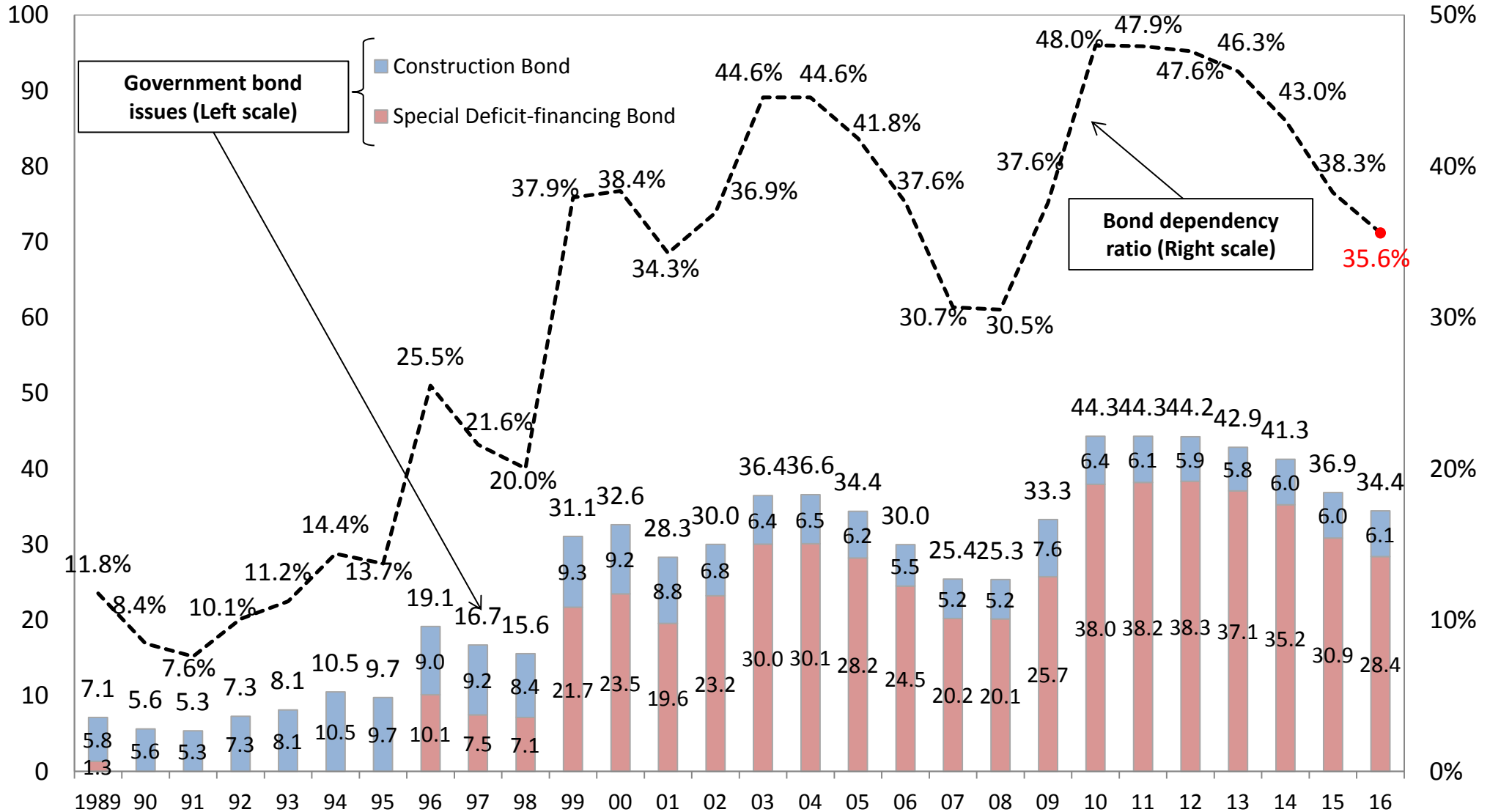
	FY2012 (Initial)	FY2013 (Initial)	FY2014 (Initial)	FY2015 (Initial)	FY2016 (Draft)
Primary Expenses	71.0	70.4	72.6	72.9	73.1
General Expenditure	54.4	54.0	56.5	57.4	57.8
Tax Revenues	42.3	43.1	50.0	54.5	57.6
Government Bond Issues	44.2	42.9	41.3	36.9	34.4
Primary Balance	-24.9	-23.2	-18.0	-13.4	-10.8
Bond Dependency Ratio	47.6%	46.3%	43.0%	38.3%	35.6%

(Note1) Pension-related special deficit-financing bonds issued in FY2012 and FY2013 are excluded from the figures.

(Note2) “General expenditure” = “Total expenditure in central government’s general account” – “National debt service” – “Local allocation tax grants”

Government Bond Issues and Bond Dependency Ratio

(trillion yen)



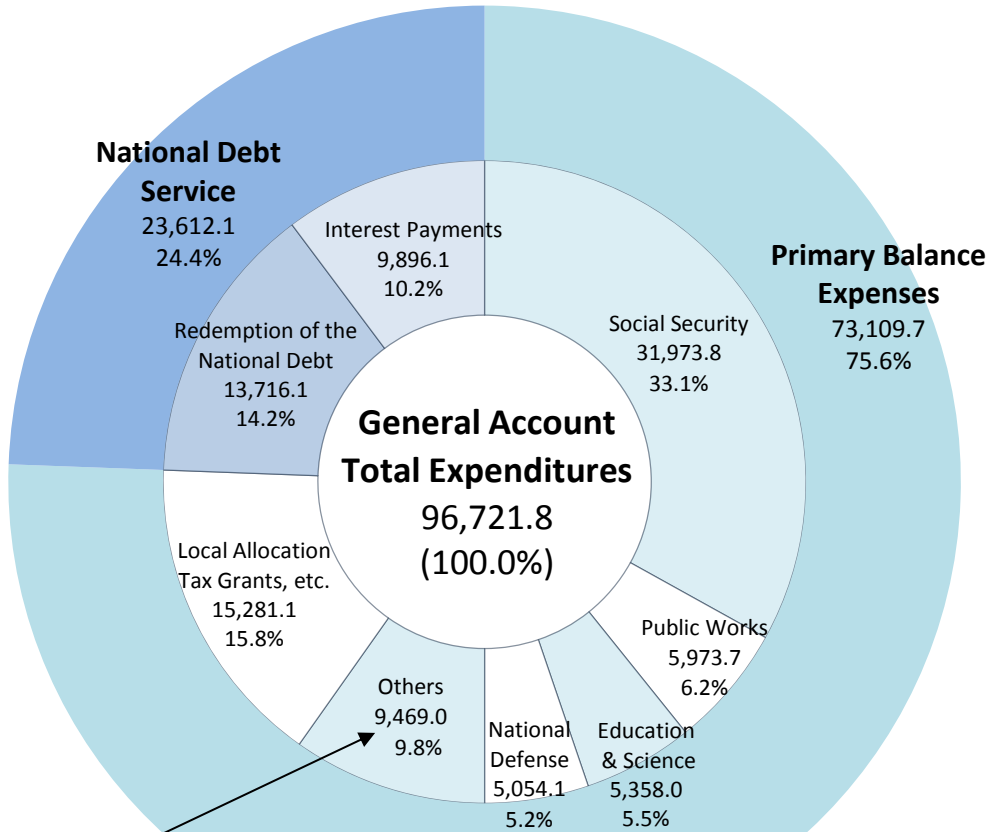
(Note1) Initial budget basis.

(Note2) “Bond dependency ratio” = “Amount of government bond issues” / “Total revenue in central government’s general account”

General Account Budget for FY2016

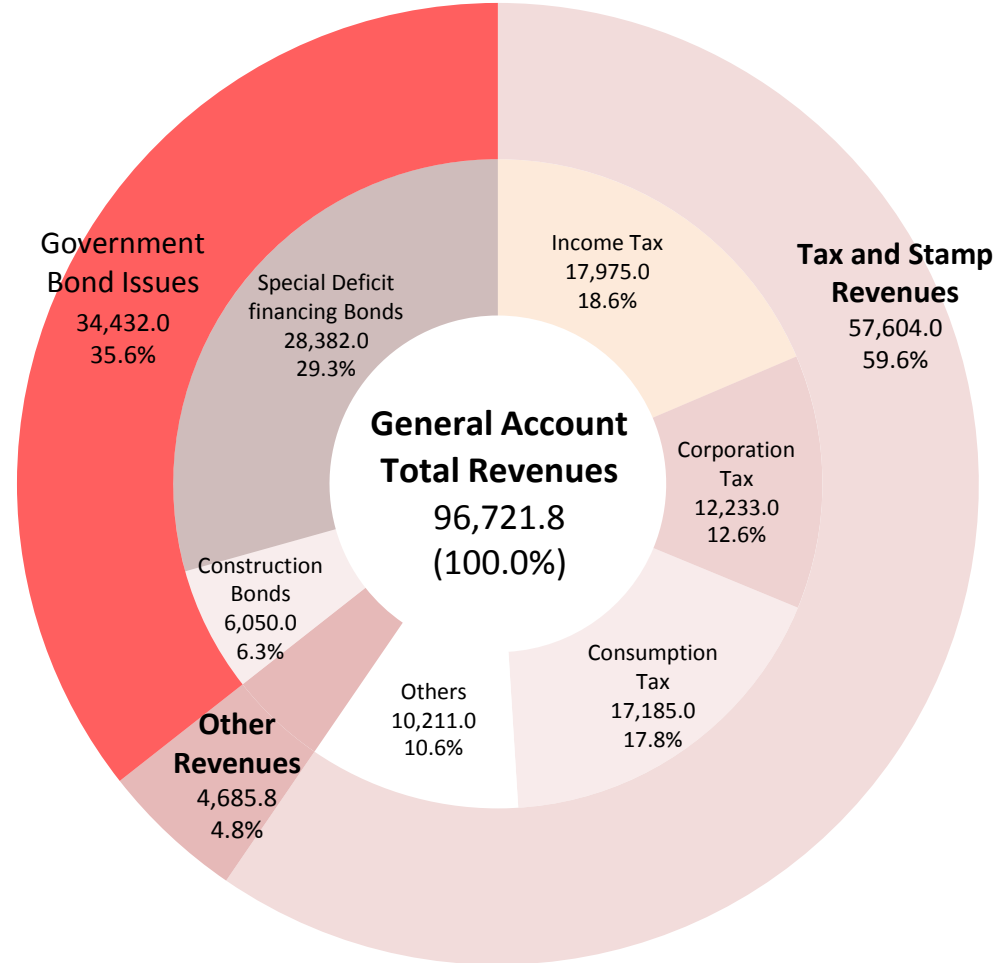
(Unit: billion yen)

Expenditures



Food Supply	1028.2(1.1)
Promotion of SMEs	182.5(0.2)
Energy	930.8(1.0)
Former Military Personnel Pensions	342.1(0.4)
Economic Assistance	516.1(0.5)
Miscellaneous	6,119.3(6.3)
Contingency Reserves	350.0(0.4)

Revenues



(Note1) Figures may not add up to the totals due to rounding.

(Note2) Social security related expenditures account for 55.3% of the general expenditure (57,828.6 trillion yen).

“General expenditure” = “Total expenditure in central government’s general account” – “National debt service” – “Local allocation tax grants”

Changes in Major Budget Expenditures

(Unit: billion yen)

Major Budget Expenditure	FY2015 Budget (Initial)	FY2016 Budget	Change (FY2015 to FY2016)	% Change (FY2015 to FY2016)
Social Security	31,532.6	31,973.8	441.2	+ 1.4%
Education and Science	5,358.4	5,358.0	- 0.4	- 0.0%
Science	1,285.7	1,292.9	7.2	+ 0.6%
Former Military Personnel Pensions	393.2	342.1	- 51.1	- 13.0%
Local Allocation Tax Grants, etc.	15,535.7	15,281.1	- 254.7	- 1.6%
National Defense	4,980.1	5,054.1	74.0	+ 1.5%
Public Works	5,971.1	5,973.7	2.6	+ 0.0%
Economic Assistance	506.4	516.1	9.7	+ 1.9%
(Reference) ODA	542.2	551.9	9.8	+ 1.8%
Measures for SMEs	185.6	182.5	- 3.1	- 1.7%
Energy	898.5	930.8	32.3	+ 3.6%
Food Supply	1,041.7	1,028.2	- 13.5	- 1.3%
Miscellaneous	6,137.9	6,119.3	- 18.5	- 0.3%
General Contingency Reserve	350.0	350.0	-	-
Total	72,891.2	73,109.7	218.5	+ 0.3%

(Note1) FY2015 budget is reclassified for proper comparison with FY2016.

(Note2) Figures may not add up to the totals due to rounding.

Highlights of the Budget for FY2016 (Individual Policy Area (1))

Social Security

- Containing the increase in social security related expenditures in line with the benchmark set in the Fiscal Consolidation Plan (increase by 441.2 billion yen*).
* Substantial increase is 499.7 billion yen if excluding the one-off expenditures in FY2015 budget.
- The FY2016 revision of remuneration for medical treatment includes (i) remuneration for medical treatment itself +0.49% (+49.8 billion yen), (ii) drug prices -1.22% (-124.7 billion yen), and (iii) pharmaceutical material -0.11% (-11.5 billion yen). In addition, institutional reforms such as optimization of drug prices will be implemented (-60.9 billion yen).
- Formulating a roadmap which clarifies the policy and timeline of institutional reforms regarding the items in “Basic Policy on Economic and Fiscal Management and Reform 2015.” Along the roadmap, steadily implementing the reform items.
- In order to realize “a society in which all citizens are dynamically engaged”, enhancing policies related to “Desirable birthrate of 1.8” and “No one forced to leave their jobs for nursing care.”

Public Works

- Securing public works related expenditure (5,973.7 billion yen (+0.0%)) at the same level compared with previous fiscal year, while enhancing measures for disaster prevention and mitigation as well as maintenance of aging infrastructure in a planned manner. In addition, facilitating logistics networks which provoke private investments and activate the economy.

Agriculture

- In addition to measures in FY2015 supplementary budget (312.2 billion yen) based on the TPP-related comprehensive policy framework, enhancing “aggressive agriculture, forestry and fishery industries” through measures such as promotion of exports.
- Enhancing land improvement projects.

Highlights of the Budget for FY2016 (Individual Policy Area (2))

Foreign Diplomacy and National Defense

- Contributing to global issues such as refugees as the chair of G7 Summit. Implementing measures to secure the safety for the Japanese against the risks of terrorism. The total ODA budget in the general account has increased for the first time in 17 years since FY 1999 (+1.8%).
- Strengthening the defense system along with the “Medium Term Defense Program.” Promoting the projects regarding US military realignment in order to reduce the burden on Okinawa. Defense related expenditures will increase to 5054.1 billion yen (+1.5%).

Education and Science

- Education: Increasing the number of teachers necessary to support learning for students in poverty, and conduct special support education. Properly allocating university grants and introducing a redistribution rule in order to strengthen the function of national universities.
- Science and technology: Promoting academic-industrial alliance and support for young researchers.

Re- construction

- Accelerating the reconstruction from the Great East Japan Earthquake through addressing problems in each stage of reconstruction. Promoting support for long-term rescues, community formation, decontamination projects and industrial revival.

Local Government Finance

- Additional grants to local governments (FY2015: 0.2 trillion yen) will be abolished in FY2016, reflecting the rebound in local tax revenues. While local government tax grants will be reduced from 15.5 to 15.3 trillion yen, substantial level of general fiscal sources for local governments will be properly maintained.

Highlights of the Budget for FY2016

(Related to “Urgent policies to realize a society in which all citizens are dynamically engaged” (1))

◀ “Desirable birthrate of 1.8” ▶

(Unit: billion yen)

Main Policies	Outline	Amount
Expanding the capacity for childcare	Enhancing the quantity of childcare service under the new childcare support system (+450 thousand people).	+ 35.6
	Developing new childcare facilities led by private companies (+ 50 thousand people).	+ 83.5
Securing human resources in childcare area	Supporting fees required to allocate persons supporting childcare and reducing the burdens for nurses.	+ 11.8
	Improving working conditions for nurses.	+ 17.7
Supporting single-parent families and families with lots of children	Enhancing the function of childcare allowance.	+ 2.8
	Reducing childcare fees for low income single-parent families and families with lots of children.	+ 12.6
Reducing the burdens of educational costs	Enhancing interest-free scholarships for university students.	+ 19.7

◀ “No one forced to leave their jobs for nursing care” ▶

(Unit: billion yen)

Main Policies	Outline	Amount
Securing the basis for nursing services	Accelerating the maintenance of nursing facilities and homecare services (more than 500 thousand people until the beginning of 2020s).	+ 42.3
Securing human resources in nursing area	Supporting business owners who improve the wage system.	+ 1.2
	Reducing childcare service fees for people in nursing area who frequently work the night.	+ 2.0
Supporting workers caring their family member	Revising the system to make possible partial acquisition of family-care leave and raising the nursing leave pay (40%→67%).	+ 2.3

Highlights of the Budget for FY2016

(Related to “Urgent policies to realize a society in which all citizens are dynamically engaged” (2))

◀Promoting investments and realizing revolution in productivity▶

(Unit: billion yen)

Main Policies	Outline	Amount
Support for developing technologies and demonstration of “IoT” (Internet of Things), robots and artificial intelligence	Newly demonstrating various business models utilizing “IoT.”	+ 2.0
	Newly demonstrating the introduction of robots by SMEs. etc.	+ 2.3
Support for introducing leading-edge energy-saving equipment and energy-saving houses, etc.	Strengthening support for introducing leading-edge energy-saving equipment in industries and workplaces.	+ 10.5
	Proliferating energy-saving houses and promoting development of energy-saving buildings.	+ 10.2

◀ Shifting regional revitalization into high gear, etc. ▶

(Unit: billion yen)

Main Policies	Outline	Amount
Grants to advance regional reinvigoration	Creating a new type of grants to support voluntary and pioneering local projects.	+ 100.0
Promotion of “Tourism-Oriented Country”	Doubling the budget for Japan Tourism Agency in order to further increase the number of foreigners visiting Japan through improving the environment for accepting foreigners and encouraging tourists to travel local areas.	+ 10.1

* In addition to the above listed, total 1 trillion yen is allocated to local governments for “Projects for advancing community building, fostering human resources, and job creation.”

Measures to streamline expenditures in each expenditure area

(Summary of the roadmap for realizing “The Plan to Advance Economic and Fiscal Revitalization”)

Clarifying the details and timeline of reform items specified in “The Plan to Advance Economic and Fiscal Revitalization” during the intensive reform period (FY2016 - FY2020).

Expenditure items	Main contents
Social Security	<ul style="list-style-type: none">➤ Promoting reforms toward optimization of the healthcare delivery system, such as (i) front-loaded formulation of each prefecture’s regional healthcare vision by the end of FY2016 and (ii) early formulation of each prefecture’s medical cost optimization plan including inpatient and outpatient medical cost targets.➤ Clarifying the policy and timeline of institutional reform items toward achieving fairness in insurance contribution based on ability to pay and achieving appropriate benefits.➤ Clarifying reform details relating to the FY2016 revision of remuneration for medical treatment, including drug prices, dispensing fees and generic drug utilization.
Local Government Finance	<ul style="list-style-type: none">➤ Introducing “Top Runner program”: the cost reduction attained by advanced local governments will be reflected to other local governments in the calculation of standard financial requirements. From FY2016, the program will be applied to 16 services such as operation of information system.
Public Works	<ul style="list-style-type: none">➤ In order to aggregate city functions and residency, promoting the formulation of “optimal site location plans” by municipalities through financial support.
Education	<ul style="list-style-type: none">➤ Starting empirical educational researches toward proposing medium-term projections of teaching staff quota, based on declining birth rate and scientific evidence.