

Highlights of the Budget for FY2008

December 2007

Ministry of Finance

General Account Budget (FY2008 Budget)

(unit : billion yen)

	FY2007		FY2008		Note
	(Initial)	FY2006 →FY2007	(Initial)	FY2007 →FY2008	
(Revenues)					
Tax Revenues	53,467.0	7,589.0	53,554.0	87.0	
Non-tax Revenues	4,009.8	174.8	4,159.3	149.5	
Government Bond Issues	25,432.0	-4,541.0	25,348.0	-84.0	Bond dependency ratio: 30.5% (FY2007: 30.7%)
Construction Bonds	5,231.0	-253.0	5,212.0	-19.0	
Special Deficit-financing Bonds	20,201.0	-4,288.0	20,136.0	-65.0	
Total	82,908.8	3,222.8	83,061.3	152.5	
(Expenditure)					
National Debt Service	20,998.8	2,237.2	20,163.2	-835.6	
Local Allocation Tax Grants, etc.	14,931.6	373.2	15,613.6	682.0	
General Expenditures	46,978.4	612.4	47,284.5	306.1	Including increase due to: rise in state contribution of basic pension (135.6), etc.
Social Security	21,140.9	567.0	21,782.4	641.5	
Total	82,908.8	3,222.8	83,061.3	152.5	

Outline of General Expenditures by Major Expenditure Programs
(FY2008 budget)

(Unit : Billion Yen)

	FY2007 Budget			FY2008 Budget		
		FY2006→FY2007	% change		FY2007→FY2008	% change
Social Security	21,140.9	567.0	2.8	21,782.4	641.5	3.0
Education and Science	5,285.6	7.2	0.1	5,312.2	26.6	0.5
(Science only)	1,347.7	15.0	1.1	1,362.8	15.1	1.1
Former Military Personnel Pensions and Others	923.5	-75.4	-7.5	852.2	-71.3	-7.7
National Defense	4,801.3	-12.3	-0.3	4,779.6	-21.7	-0.5
Public Works	6,947.3	-254.2	-3.5	6,735.2	-212.1	-3.1
Economic Assistance	691.3	-30.5	-4.2	666.0	-25.3	-3.7
ODA (reference only)	729.3	-30.4	-4.0	700.2	-29.1	-4.0
Promotion of SMEs	164.0	0.9	0.6	176.1	12.1	7.3
Energy	864.3	393.8	83.6	865.5	1.2	0.1
Food Supply	855.5	-28.7	-4.5	858.2	2.7	0.3
Transfer to the Industrial Investment Special Account	20.3	-27.8	-57.8	—	-20.3	—
Miscellaneous	4,934.4	72.4	1.4	4,907.1	-27.3	-0.6
Contingencies	350.0	0.0	0.0	350.0	0.0	0.0
Total	46,978.4	612.4	1.3	47,284.5	306.1	0.7

(Note) FY2007 budget is recombined to compare to FY2008 budget, but "FY2006→FY2007" and "% change" are the data when FY2007 budget was decided.

Basic Concepts of the FY2008 Budget

◆ **Ensure the implementation** of expenditure reforms as stipulated in the “**Basic Policies 2006**” in its second year.

◆ Although tax revenues have only risen slightly, new bond issuance is reduced **for the fourth straight year** as a result of efforts covering all expenditure and revenue areas.

《Trends of the amount of new government bond issues》

FY2004	→	FY2005	→	FY2006	→	FY2007	→	FY2008
¥36.6 trillion	→	¥34.4 trillion	→	¥30.0 trillion	→	¥25.4 trillion	→	¥25.3 trillion

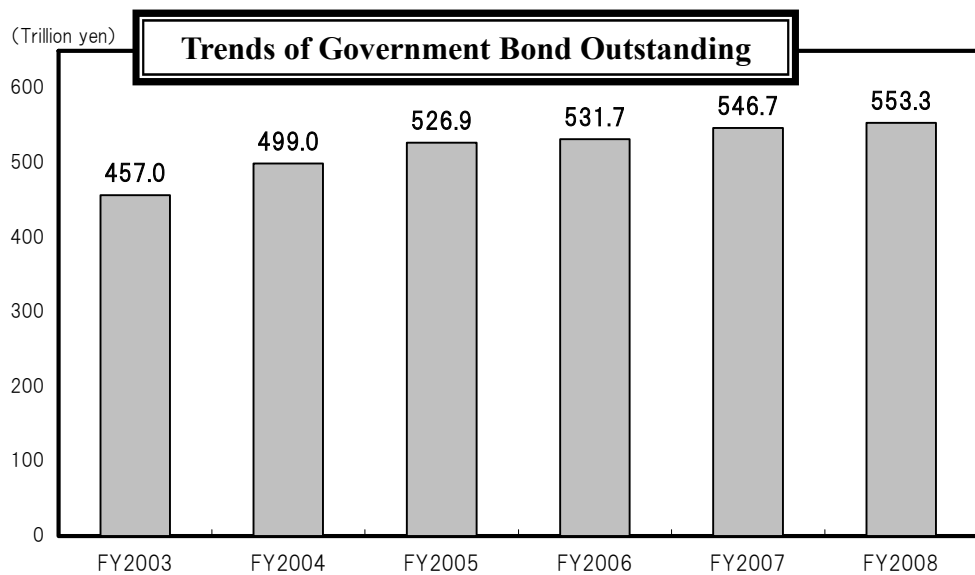
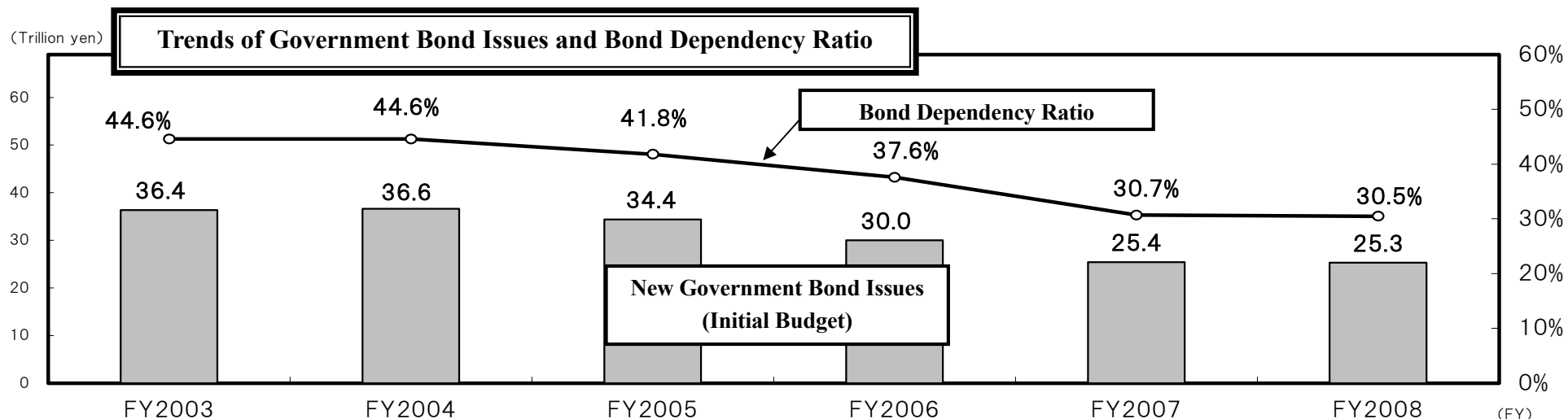
※ In line with the reform of the special accounts, ¥9.8 trillion from the reserve fund of the Special Account for Fiscal Investment and Loan was allotted for the redemption of government bonds in order to **reduce the total amount of outstanding government bonds**.
(**Contributing to fiscal consolidation** due to reduced future interest payments.)

◆ The following policy issues were priorities in the budget allocation process and carefully considered:

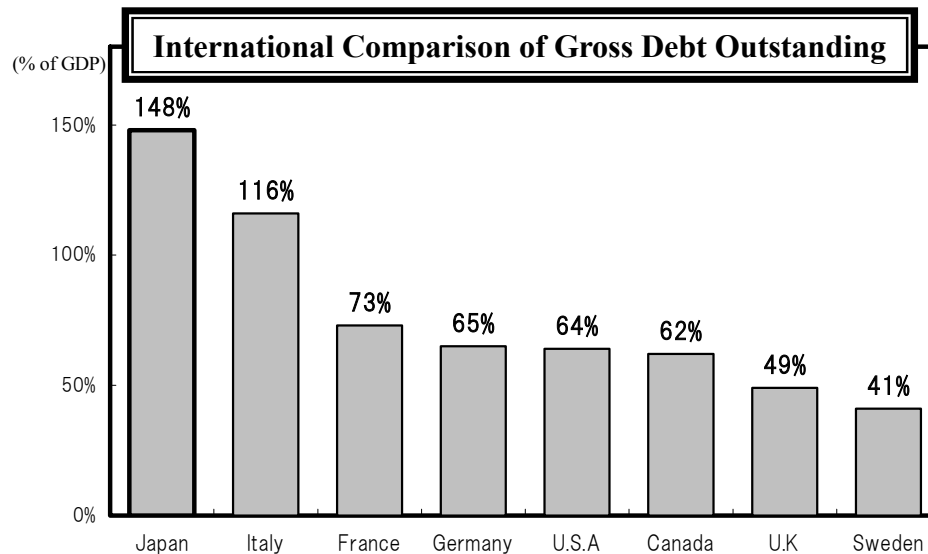
- (1) **enhancement of growth potential**
- (2) **regional vitalization**
- (3) **the security and safety of the people’s life**

Japan's Fiscal Situation - New Government Bond Issues and Debt Outstanding -

The bond dependency ratio is declining steadily, but the overall fiscal situation remains severe.



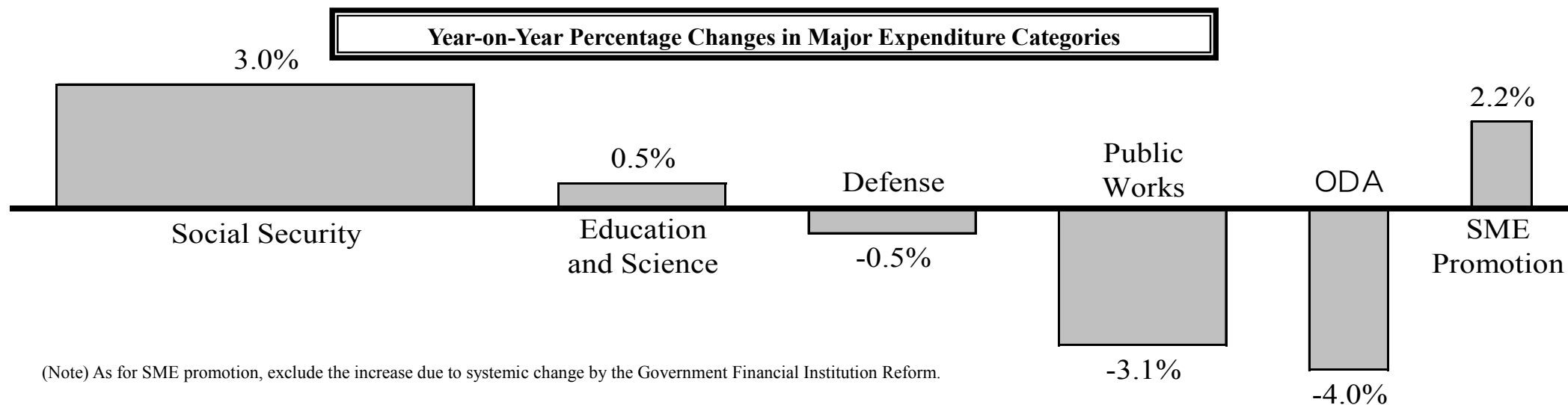
(Note) The Data of each year are at the end of the fiscal year. FY2007 and FY2008: estimates.



(Source) Japan: Long-term Debt Outstanding (FY2008 Budget)
Other Countries (CY2008): OECD Economic Outlook 82

Outline of the Budget for FY2008

- ◆ Ensure the implementation of expenditure reforms as stipulated in the “Basic Policies 2006” in its second year.
 - Social Security: Decrease by ¥220 billion through systemic revision, etc.
 - Public works: year-on-year decrease by 3.1%
- ◆ Prioritize budget allocation to essential expenditures, while implementing thorough expenditure reforms.
 - Science and Technology Promotion: year-on-year increase by 1.1%
 - Measures for Small and Medium-Sized Enterprises: year-on-year increase by 2.2%



- ◆ Through a review of all expenditure items, thoroughly eliminate wasteful expenditures.
 - Thorough implementation and enhancement of the review of single tendering process
 - Thorough incorporation of the items which were indicated by the Board of Audit of Japan
 - Review of expenditures for Incorporated Administrative Agencies

Implementing thorough expenditure reforms in line with “Basic Policies 2006”

Continue to steadily implement expenditure reforms as stipulated in each area of the “Basic Policies 2006.”

Public Works

- ◆ While the 3% reduction continues, prioritize budget allocation to such issues as regional self-reliance and vitalization as well as ensuring security and safety.
- ◆ While implementing thorough reforms of the cost structure and the bid system, promote the efficient use of the existing stock, including lengthening the lifespan of social infrastructure.
- ◆ As for the earmarked revenues for roads, based on the agreement between the government and the ruling parties (December 7), maintain the temporary tax rate, construct essential roads, and secure general revenues of ¥192.7 billion (FY 2007 [¥180.6 billion]).

Local Public Finance

- ◆ Personnel expenses of local governments: decrease by around ¥0.3 trillion
 - net reduction in the number of public employees by 28 thousand people, revision of the salaries of skilled workers, etc.
- ◆ Investment: decrease by around ¥0.3 trillion (down 3%)
- ◆ General administration: decrease by around ¥0.1 trillion
- ◆ Create an earmarked special fund in the local allocation tax by using the revenues gained from correcting the uneven distribution of local tax. (expenditures for local revitalization: ¥400 billion)

* In the first year, since there is still no mechanism to correct the uneven distribution of local taxes, extra fiscal measures bonds will be issued to secure revenue sources.

Social Security

- ◆ Curb expenditure growth in line with the aging population by ¥220 billion, through following reviews of the existing system and measures.
 - Reviews of medical fees and drug prices, etc. down by around ¥66 billion
 - Promotion of the use of generic drugs down by around ¥22 billion
 - Supporting Government-managed Health Insurance by employee's health insurance down by around ¥100 billion
 - Other reviews of existing system and measures down by around ¥32 billion

Others

[Education and Science]

- ◆ While fully enforcing the expenditure reduction policy, focus on measures to “establish a reliable public education.”
- ◆ As for expenditures promoting science and technology, increase by 1.1% by, for example, shifting resources to key technologies for the country and curbing and abolishing allocations for low-priority projects.

[ODA]

- ◆ Decrease by 4%, while maintaining the current ODA project volume.

[Personnel Expenses]

- ◆ Personnel cost on national public servants: down ¥45.7 billion
 - Number: Implement net reduction of central government officials by 4,122 workers, almost twice as much as last year (2,129).
 - Salaries: Incorporate structural reform of salaries and encourage restraint in its recommendations on the part of the National Personnel Authority.

Prioritization of Budget Allocation (1) – Prioritize “Hope and Reassurance”-

Enhancement of growth potential

○ Growth field development

- Next-generation super computer development ¥14.5 billion (+ ¥6.8 billion)
- Program for realizing regeneration medicine ¥2.0 billion (+ ¥1.0 billion)
- Infrastructure improvement for promoting the development of rare metals ¥ 1.0 billion (New)
(Including special account: ¥11.2 billion)

○ Improvement of productivity (human resource development, SMEs development)

- Assistance program for those starting a new career ¥2.1billion (New)
- Program for cooperation and creation for regional innovation ¥9.7billion (New)

○ Construction of logistical infrastructure

- Super central harbor development ¥60.1billion (+ ¥7.7 billion)
- Function upgrade program of airports, etc. ¥20.4billion (+ ¥5.6 billion)

Regional vitalization (Promote economic growth of the whole country thorough the revitalization of vitality of local region)

○ Correcting the uneven distribution of revenue sources between local governments

To address this urgent issue, correcting the uneven distribution of revenue sources between local governments, a special local corporate tax and special local corporate transfer tax will be created. (estimated amount of tax revenues to be transferred: around ¥370 billion (normal year basis))

○ Special reserves in local allocation tax (expenditures for local revitalization)

Create an earmarked special fund in the local allocation tax by using the revenues gained from correcting the uneven distribution of local tax. (expenditures for local revitalization: ¥400 billion)
(In the first year, since there is still no mechanism to correct the uneven distribution of local taxes, extra fiscal measures bonds will be issued to secure revenue sources.)

○ Support for local regions through earmarked revenues for roads

Raise the subsidy rate of temporary subsidies for local road construction corresponding to the fiscal situation of each local government (current 55% → max 70%), and create a no-interest loan program. (5 years, around ¥500 billion)

○ Comprehensive efforts for local revitalization

- Regional revival program ¥2.5 billion (New)
- Adjustment expenses for the national land formulation program ¥35.0 billion (New)
- Subsidies for regional self-reliance and vitalization ¥25.0 billion (+ ¥5.0 billion)

○ Ensuring and improving the quality of the life of local residents

- Subsidies for town development and regional revitalization ¥395.6 billion (+ ¥10.8billion)
- Maintenance and revitalization of regional public transportation ¥19.7 billion (+ 3.2 billion)

○ Revitalization of industries that support local regions

- Development of an advanced support system for management skill improvement and business succession, etc. ¥5.2 billion (New)
- Measures for the revitalization of rural regions ¥6.0 billion (New)

Prioritization of Budget Allocation (2)

Security and safety of the people's life

○Secure safe and high-quality medical care

- Measures to address the shortage of doctors ¥16.1 billion (+ ¥6.9 billion)
- Measures for emergency medical care ¥10.0 billion (+ ¥1.0 billion)
- Comprehensive measures against hepatitis ¥20.7 billion (+ ¥13.2 billion)

○Disaster-resistant town development (aiming at “zero victims”)

- Earthquake resistant housing and building program ¥17.0 billion (+ ¥3.3 billion)
- Countermeasures against flood and landslide disasters
in response to increased risk of such disasters ¥185.5 billion (+ ¥25.4 billion)

○Create an environment where people can have children and raise them with a sense of security

- Measures for helping to nurture future generations
¥37.5 billion (+ ¥1.0 billion)
- Comprehensive assistance for maternal and child health care
¥ 4.8 billion (+ ¥0.6 billion)

Shift to a society that is compatible with the global environment

- Kyoto mechanism credit acquisition program ¥3.7 billion (+ ¥1.9 billion)
(Including special account: ¥30.8 billion (+ ¥17.9 billion))
- Support for the prevention of global warming by business enterprises
¥3.1 billion (+ ¥2.1 billion)
- Pioneering model projects for ultra-long-term housing
¥13.0 billion (New)

Establish a reliable public education system

- Increase school personnel by 1,000 people and program utilizing outside
personnel (utilizing 7,000 retired teachers, etc.) ¥5.2 billion (New)
- Program for regional headquarters for school support ¥5.0 billion (New)
- Program utilizing school social workers ¥1.5 billion (New)

Improving Budget Efficiency (1) - thoroughly eliminate wasteful expenditures

Thorough implementation and enhancement of the review of single tendering process

Make efforts to gain an understanding of the cases of reviewing the single tendering process in each ministry, review unit costs and order amounts, abolish projects and cut unnecessary budgetary funds by **¥38.1 billion**. (FY2007 budget: cut by ¥10.6 billion)

Incorporating the results of the Budget Execution Survey

In FY2007, budget examiners visited the 62 locations of budget execution to evaluate the necessity of projects, programs or systems. The survey results are incorporated in the budget, for example, 7 projects are stopped or suspended.

→In FY 2008 budget, cut unnecessary budgetary funds by **¥34.2 billion**. (FY2007 budget: cut by ¥28.8 billion)

Thorough incorporation of the items which were indicated by the Board of Audit of Japan

For the indicated items related to ¥17.2 billion which can be incorporated in the revenue and expenditure budget, out of ¥31.0 billion, which was indicated in FY2006 audit report, **¥15.2 billion** was incorporated in the budget due to thorough implementation and enhancement of incorporation of the audit report. (In addition to this, ¥8.5 billion will be incorporated at the end of FY 2007 budget.)

Improving budget efficiency (2)

Review of expenditures for Incorporated Administrative Agencies

- In line with formulation of the Reorganization and Rationalization Plan for Incorporated Administrative Agencies, strictly review the expenditures, and **realize reductions of ¥156.9 billion (4.2%) [year-on-year basis]**.
- Combined with the payment to the national treasury of ¥27.8 billion by Incorporated Administrative Agencies, **the total financial contribution amounts to ¥184.7 billion**.

Efforts for cost structure reform

(Defense)

- planning to set the target of cost reduction of **around 15% over five years**.
- Enhancing equipment procurement monitoring by third-party institutions and life-cycle cost management.

(Public Works)

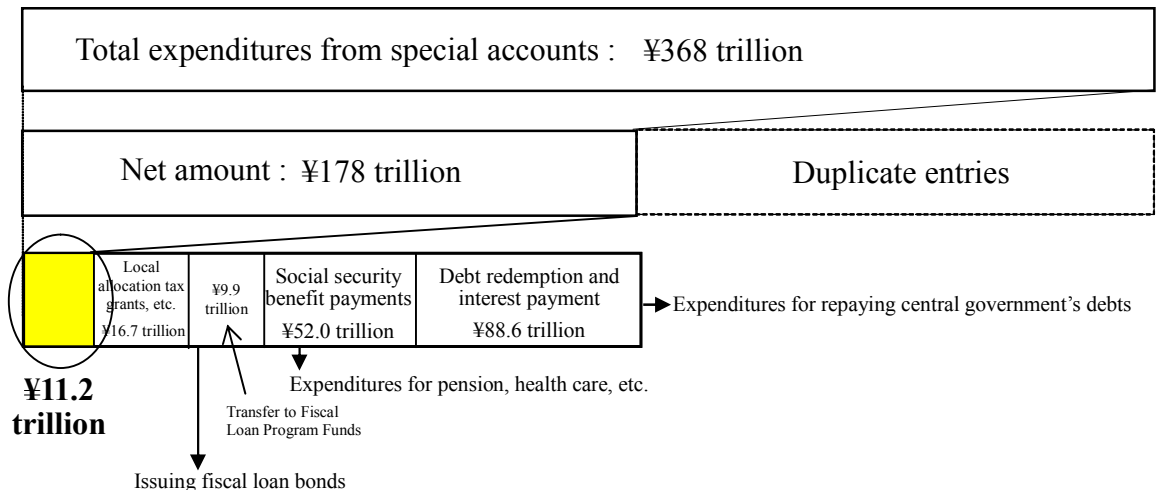
- Planning to draw up a new program toward setting a target of cost structural improvement by **around 15% over five years**.
- Bid system reform such as expanding general competitive bidding, and review of the single tendering process. Promotion of bid system reform in local governments.

Review of the Special Accounts

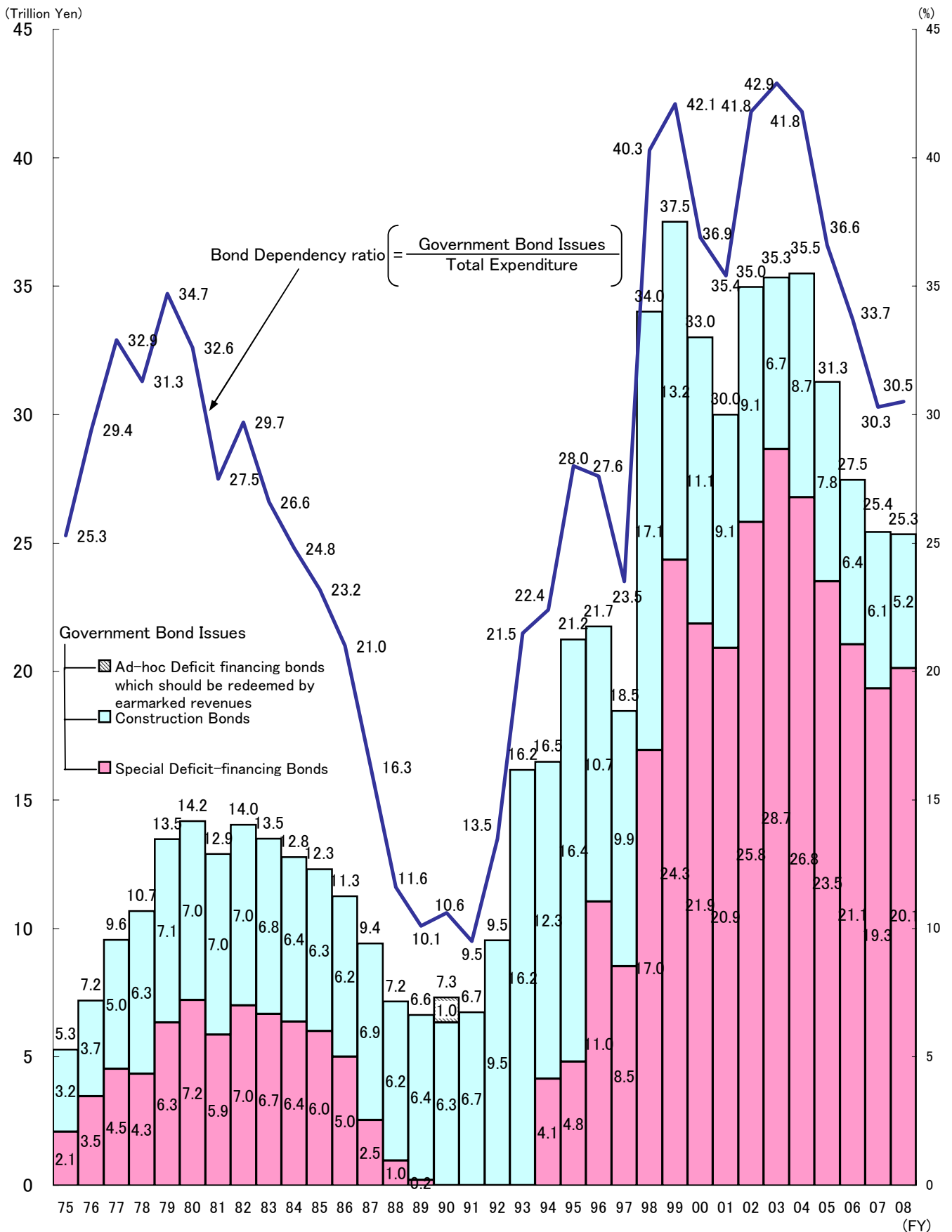
- In FY2008 budget, **¥9.8 trillion** from the reserve fund of **the Special Account for Fiscal Investment and Loan** was **allotted for the redemption of government bonds** in order to contribute to fiscal consolidation.
- **The outlays for programs and projects** excluding debt redemption, interest payments, social security benefits, local allocation tax grants, etc. are **¥11.2 trillion out of ¥368 trillion, which is the gross total outlays of all special accounts**.

→ These amounts are **steadily reduced** in the FY2008 budget.

	FY2006		FY2007		FY2008
	¥12.3 trillion	→	¥11.6 trillion	→	¥11.2 trillion
	(down ¥0.5 trillion)		(down ¥0.7 trillion)		(down ¥0.3 trillion)



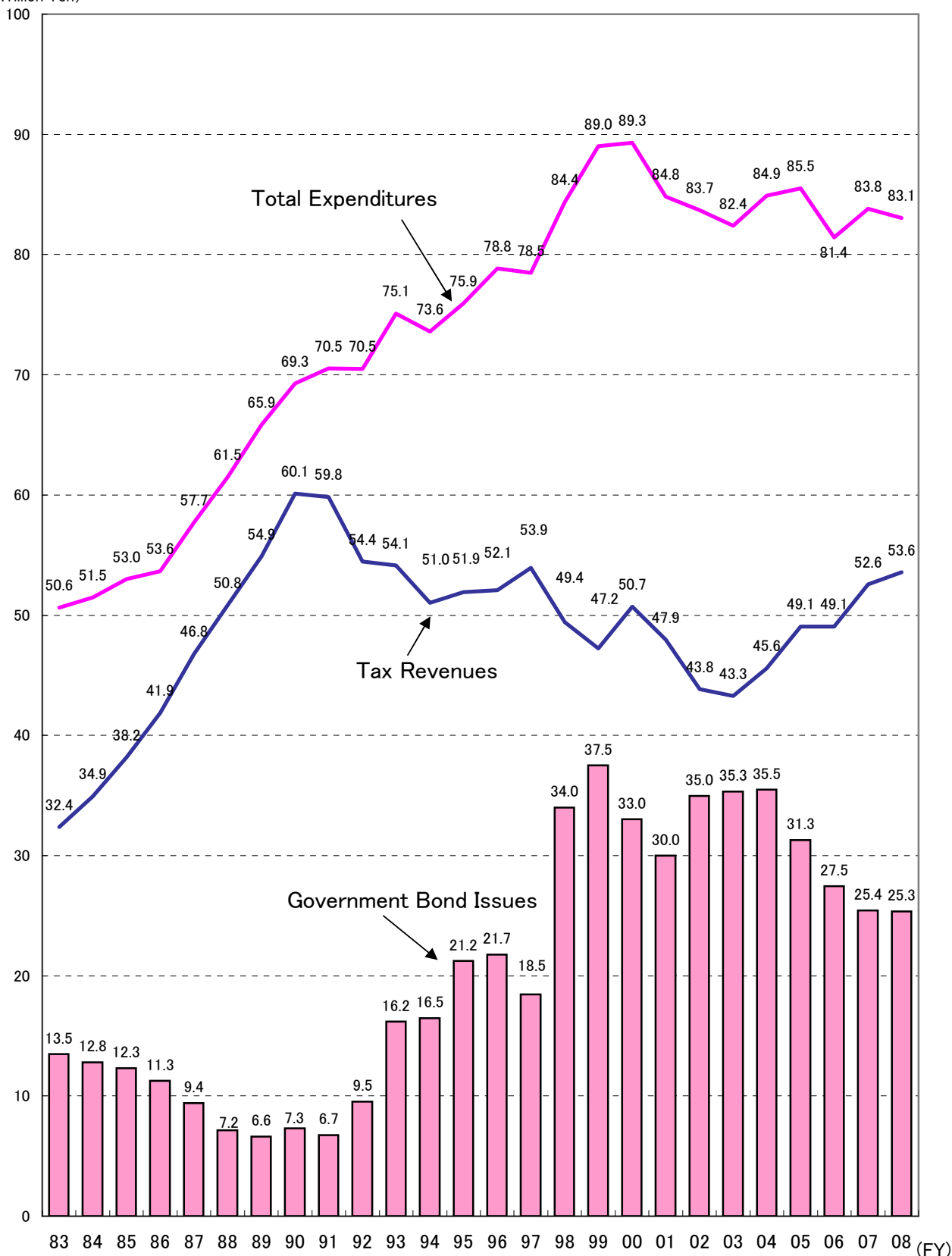
Trends of Government Bond Issues (FY2008 Budget)



(Note) FY1975-2006: settlement, FY2007: revised, FY2008: budget

Trends of General Account Tax Revenues, Total Expenditures, and Government Bond Issues

(Trillion Yen)



Fiscal Year	Nominal GDP (Trillion Yen)
83	286.3
84	
85	
86	
87	
88	386.7
89	
90	
91	
92	
93	480.7
94	
95	
96	
97	
98	503.3
99	
00	
01	
02	
03	493.7
04	
05	
06	
07	
08	526.9

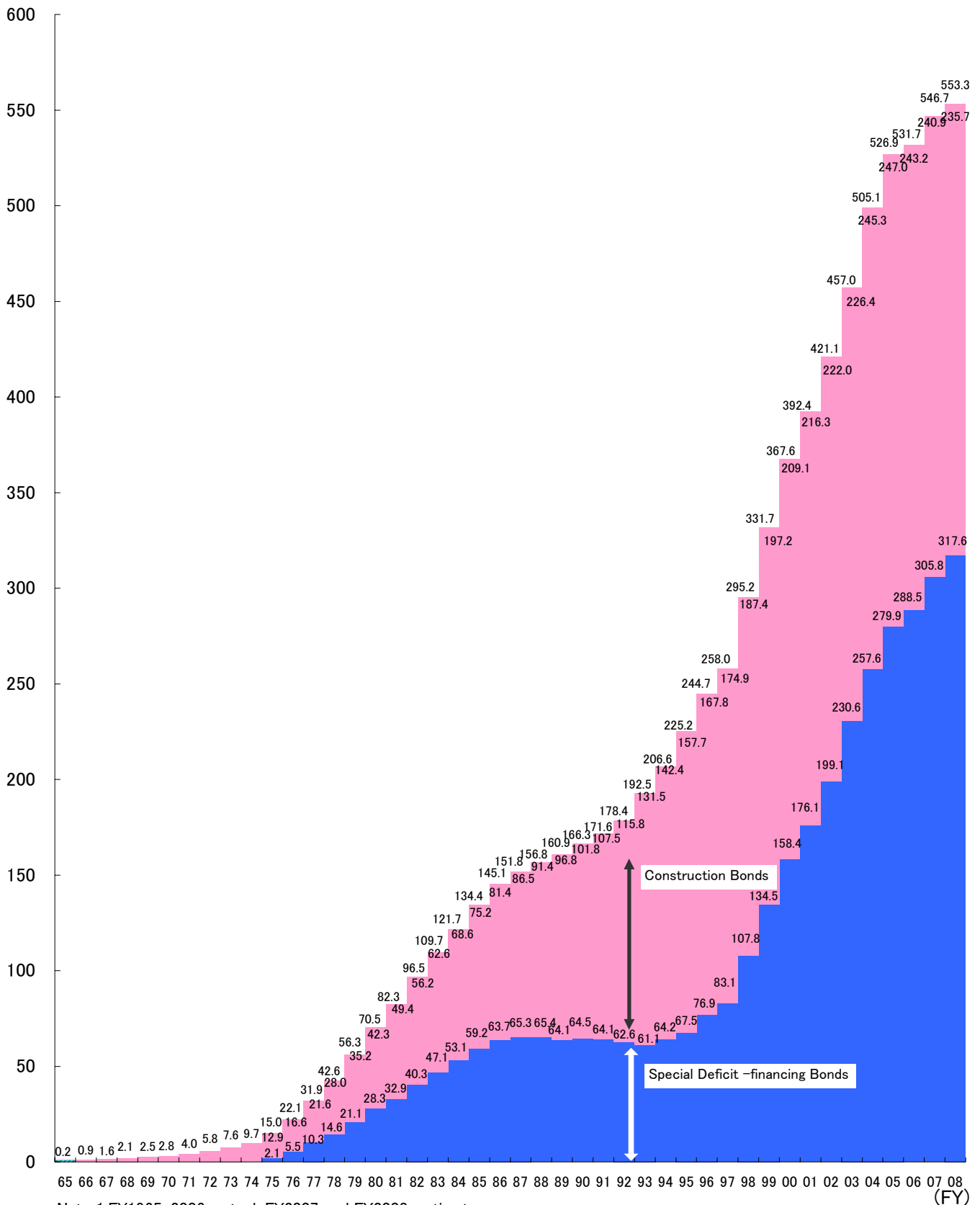
(FY2008: forecast)

(Note) FY1983–2006: settlement, FY2007: revised, and FY2008: budget.

Trends of Accumulated Government Bonds Outstanding

(Trillion Yen)

(FY2008 Budget)



Note 1. FY1965–2006: actual, FY2007 and FY2008: estimates.

2. The special deficit-financing bonds outstanding includes refunding bonds for long term debts transferred from JNR Corp. settlement and National Forest Service, etc.

3. The estimates of FY2007 and FY2008 excluding front-loading issuance of refunding bonds is approximately 527 trillion yen, 533 trillion yen, respectively.

Long-term Debt Outstanding (FY2008 Budget)

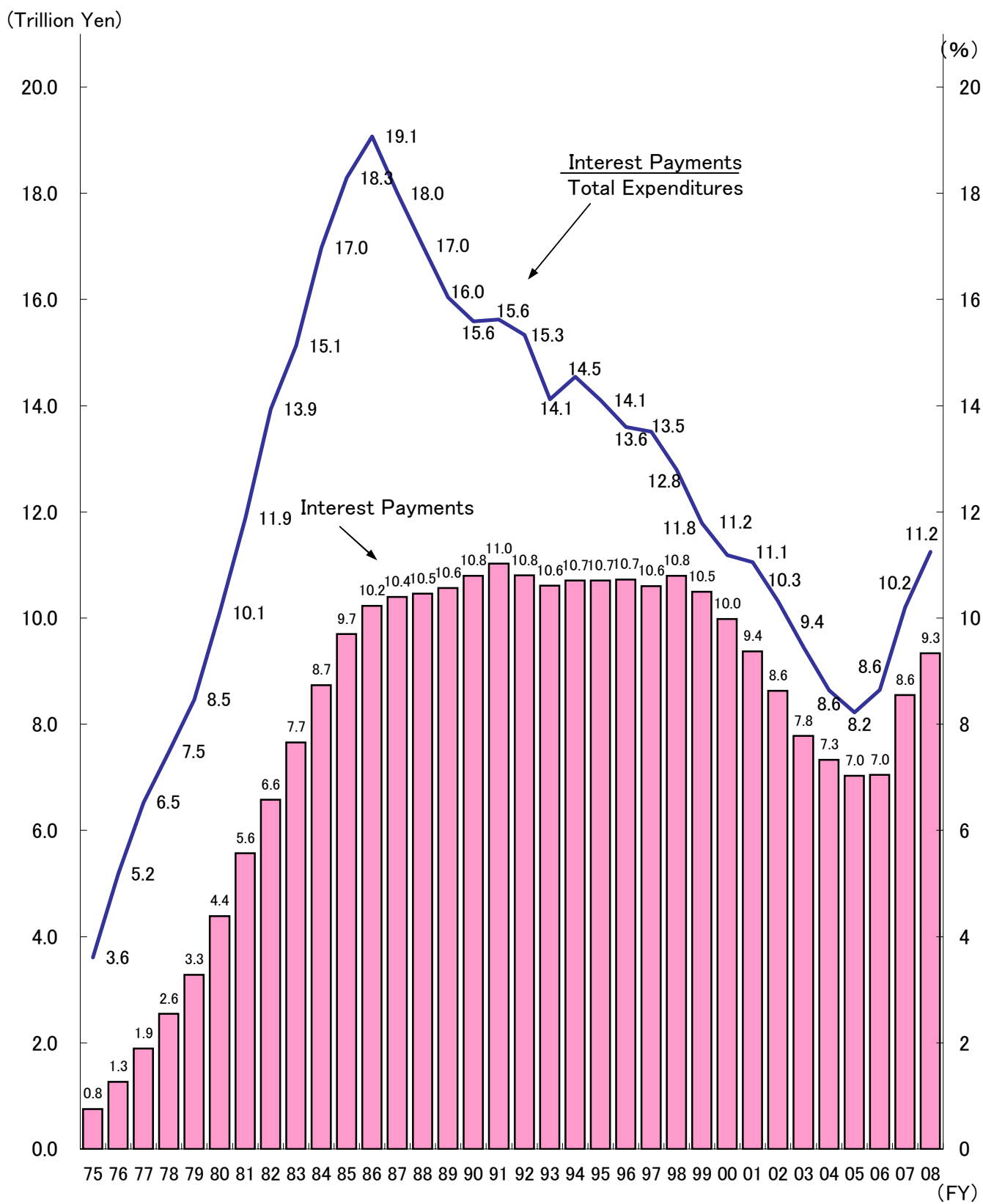
(Unit : Trillion Yen)

	FY1995 <Settlement>	FY2000 <Settlement>	FY2006 <Settlement>	FY2007 <Revised>	FY2008 < Budget >
Central Gov.	297	491	594 (573)	607 (587)	615 (595)
General Bonds	225	368	532 (510)	547 (527)	553 (533)
Percentage of GDP	45.4%	72.9%	103.9% (99.6%)	105.9% (102.1%)	105.0% (101.2%)
Local Gov.	125	181	200	199	197
Percentage of GDP	25.1%	36.0%	39.1%	38.5%	37.4%
Duplication	-12	-26	-34	-34	-34
Total	410	646	761 (739)	772 (752)	778 (758)
Percentage of GDP	82.6%	128.1%	148.7% (144.4%)	149.6% (145.8%)	147.6% (143.8%)

(Note)

1. GDP for FY2007: estimates, FY2008 forecast
2. Figures in parentheses exclude front-loading issuance of refunding bonds.
3. Outstanding Account of FILP Bond is around 133 trillion yen as of the end of FY2008.

Trends of Interest Payment of Government Bonds (FY2008 Budget)



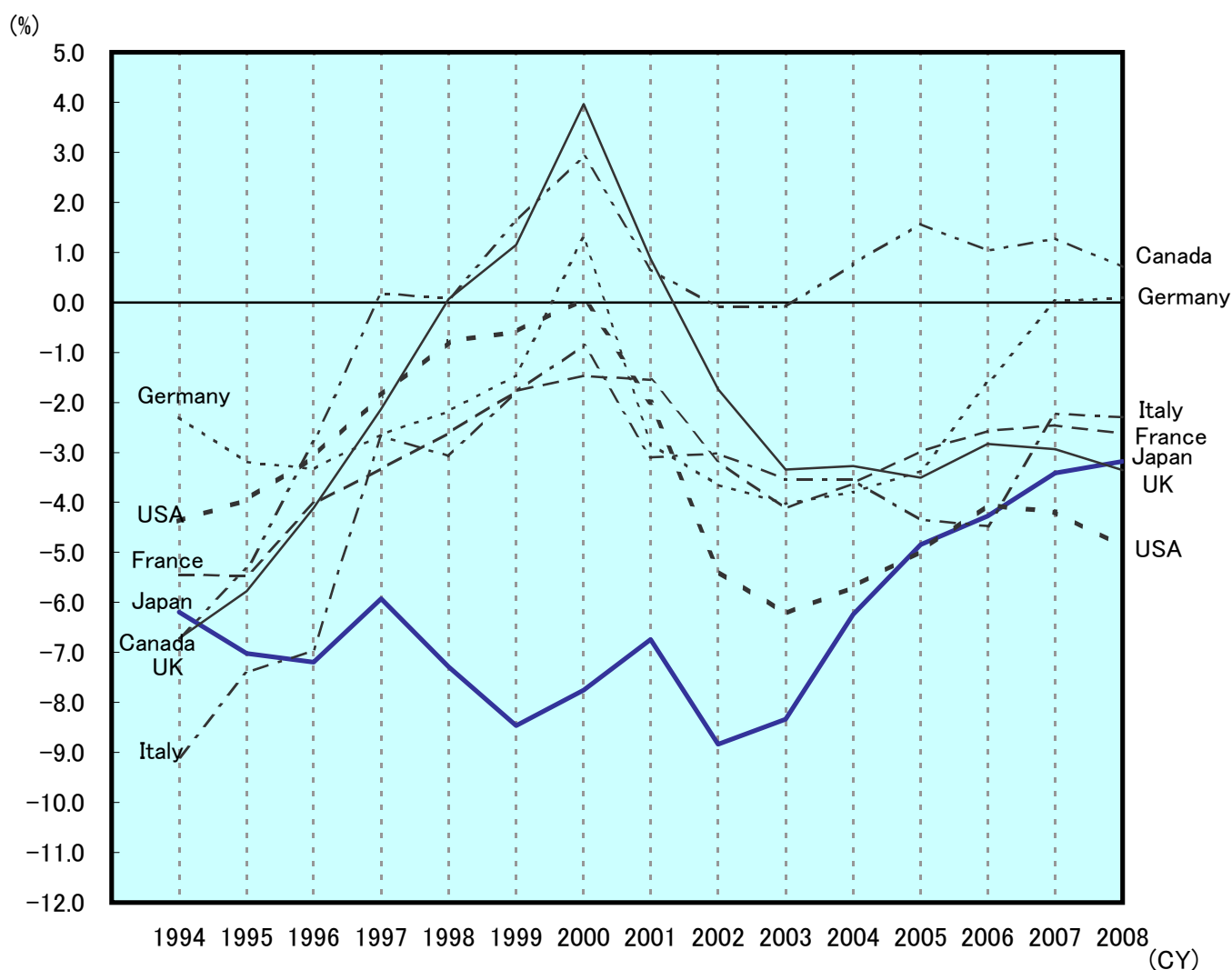
(Note) FY1975–2006: settlement, FY2007: revised, FY2008: budget

General Government Financial Balances (International Comparison)

(As a percentage of GDP)

(CY)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Japan	-6.2	-7.0	-7.2	-5.9	-7.3	-8.5	-7.8	-6.7	-8.8	-8.3	-6.2	-4.8	-4.3	-3.4	-3.2
United States	-4.4	-3.9	-3.1	-1.9	-0.8	-0.6	0.1	-2.0	-5.4	-6.2	-5.7	-5.0	-4.0	-4.2	-4.9
United Kingdom	-6.7	-5.8	-4.1	-2.1	0.1	1.1	4.0	0.9	-1.7	-3.3	-3.3	-3.5	-2.8	-2.9	-3.4
Germany	-2.3	-3.2	-3.3	-2.6	-2.2	-1.5	1.3	-2.8	-3.6	-4.0	-3.8	-3.4	-1.6	0.0	0.1
France	-5.4	-5.5	-4.0	-3.3	-2.6	-1.8	-1.5	-1.6	-3.2	-4.1	-3.6	-3.0	-2.6	-2.5	-2.6
Italy	-9.1	-7.4	-7.0	-2.7	-3.1	-1.8	-0.9	-3.1	-3.0	-3.5	-3.5	-4.3	-4.5	-2.2	-2.3
Canada	-6.7	-5.3	-2.8	0.2	0.1	1.6	2.9	0.7	-0.1	-0.1	0.8	1.6	1.0	1.3	0.7

※ Source: OECD Economic Outlook 82 (December 2007). Figures are calculated on an SNA basis.
Japan and United States: General government financial balance excluding social security.



(Note1) FY2008 budget is not reflected in the above data.

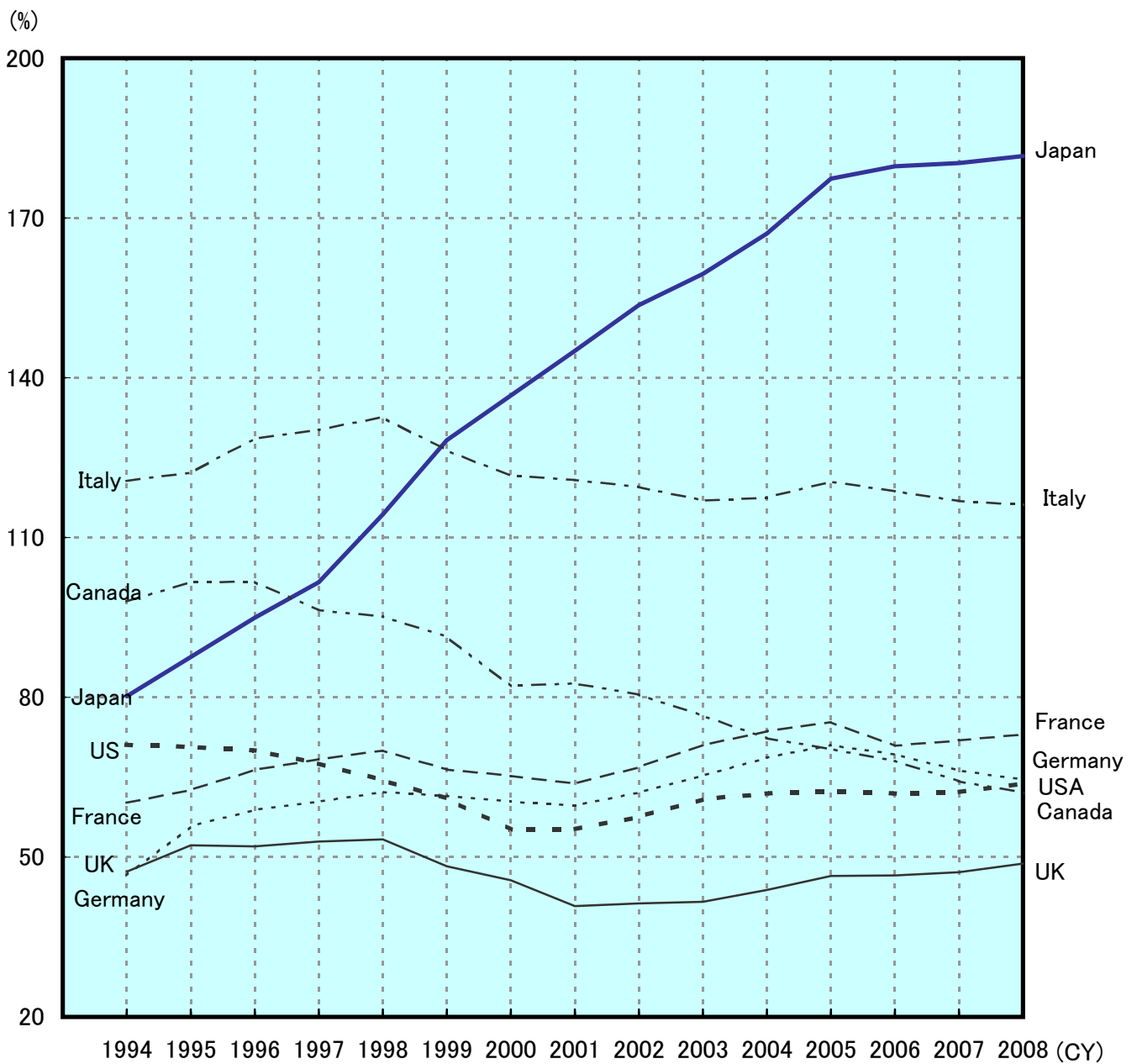
(Note2) Japanese figures in CY2005-CY2007 are adjusted in order to exclude special factors; transfer of debt and asset accompanying the privatization of Public Road Administration in CY2005, and transfer of the surplus funds of Special Account for Fiscal Loan Program Funds to the Special Account of Government Debt Consolidation Fund in CY2006 and CY2007.

General Government Gross Debt (International Comparison)

(As a percentage of GDP)

(CY)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Japan	80.2	87.6	95.0	101.6	114.3	128.3	136.7	145.1	153.6	159.5	167.1	177.3	179.7	180.3	181.6
United States	71.1	70.7	70.0	67.6	64.5	61.0	55.2	55.2	57.6	60.9	62.0	62.4	61.9	62.2	63.8
United Kingdom	47.3	52.2	52.0	52.9	53.3	48.3	45.6	40.8	41.3	41.7	43.8	46.5	46.6	47.2	48.8
Germany	46.6	55.7	58.9	60.4	62.2	61.5	60.4	59.7	62.1	65.3	68.7	71.1	69.3	66.2	64.6
France	60.2	62.6	66.3	68.4	70.0	66.5	65.2	63.8	66.8	71.0	73.6	75.4	70.9	71.9	73.0
Italy	120.6	122.2	128.6	130.2	132.6	126.4	121.6	120.8	119.5	117.0	117.5	120.5	118.7	116.9	116.1
Canada	98.0	101.6	101.7	96.3	95.2	91.4	82.1	82.7	80.6	76.6	72.4	70.3	68.1	64.2	62.2

※ Source: OECD Economic Outlook 82 (December 2007). Figures are calculated on an SNA basis.



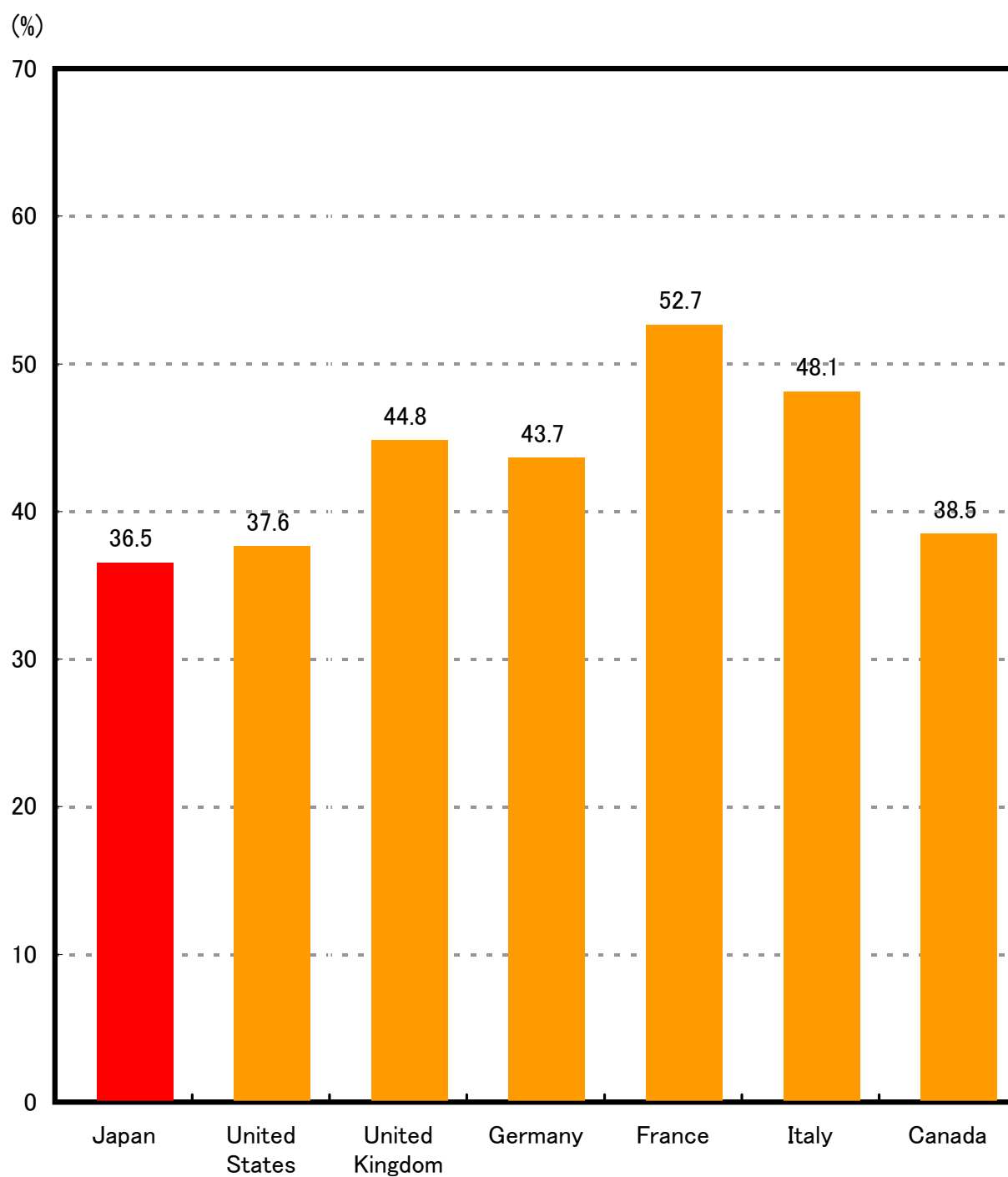
((Note) FY2008 budget is not reflected in the above data.

General Government Total Outlays (International Comparison)

(As a percentage of GDP)

(CY)	Japan	United States	United Kingdom	Germany	France	Italy	Canada
2008	36.5	37.6	44.8	43.7	52.7	48.1	38.5

※ Source: OECD Economic Outlook 82 (December 2007). Figures are calculated on an SNA basis.



(Note) FY2008 budget is not reflected in the above data.