Fiscal Consolidation and Debt Management in FY 2015 Draft Budget and Japanese Society in the future

（Japan Securities Summit）

Feb 2015

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Fiscal Consolidation and Debt Management in FY 2015 Draft Budget

Highlights of the Draft Budget for FY2015

● *The draft budget for FY2015 aims to realize both economic revitalization and fiscal consolidation with the combination of the economic stimulus package, FY2014 supplementary budget, and FY2015 tax reform.*

○ **Vitalizing local economy** by “ advancing community building, fostering human resources, and job creation”.

○ **Enhancing support for childcare** (AG: up from 0.3 trillion yen to 0.5 trillion yen) to realize a “Society in which All Women can Shine” **as well as medical and long-term cares** (AG: up from0.2 trillion yen to 0.8 trillion yen)

⇒ by utilizing revenues from consumption tax increase: AG total 1.35 trillion yen in FY2015.

○ **Reducing the fees for long-term care suppliers** (revised rate: -2.27%) in order to constrain the rising insurance contributions and to reduce user costs.

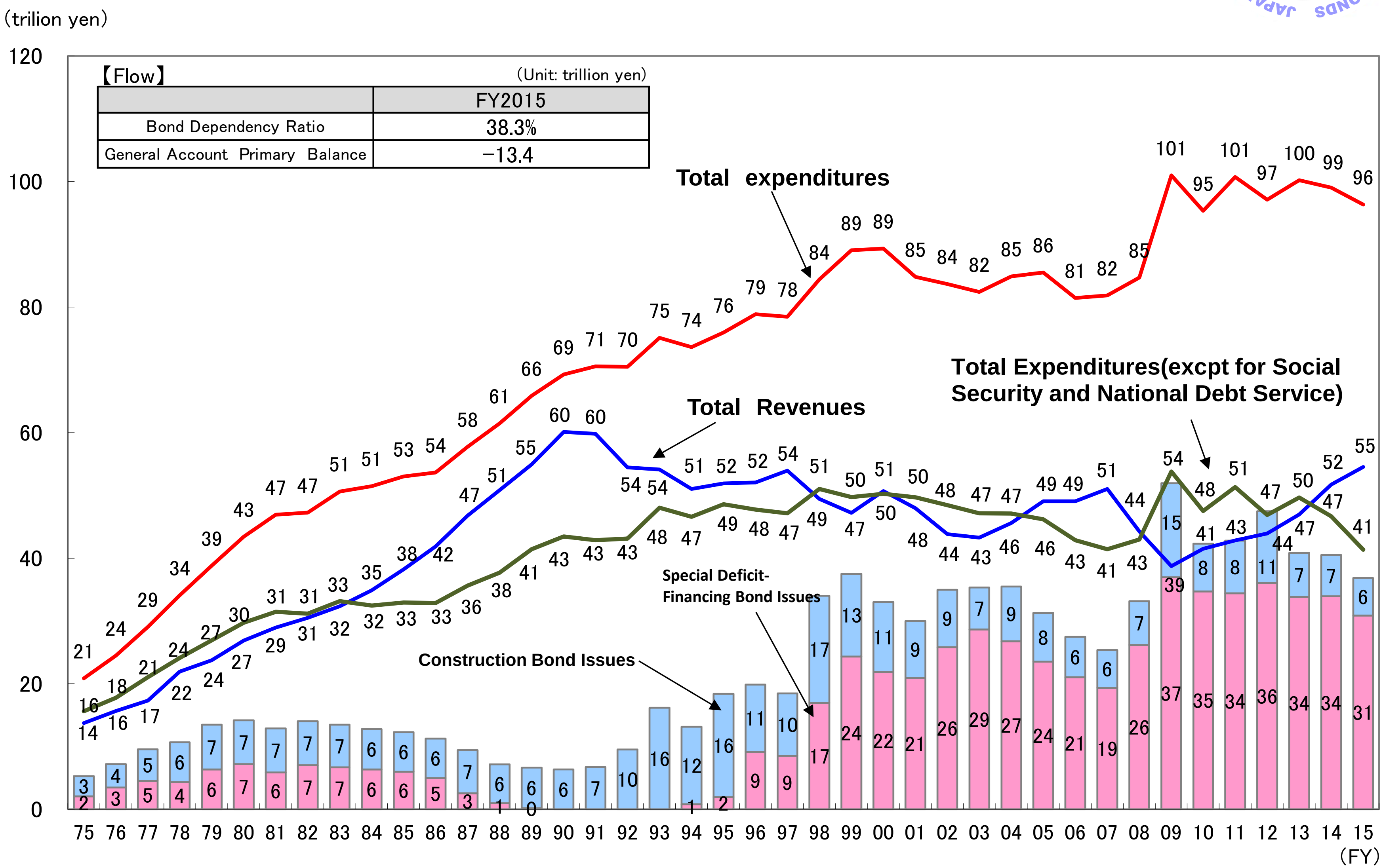
○ Promoting measures for disaster prevention and reduction as well as for aging infrastructure. Accelerating reconstruction from the Great East Japan Earthquake.

○ Rebuilding diplomatic and national security policy.

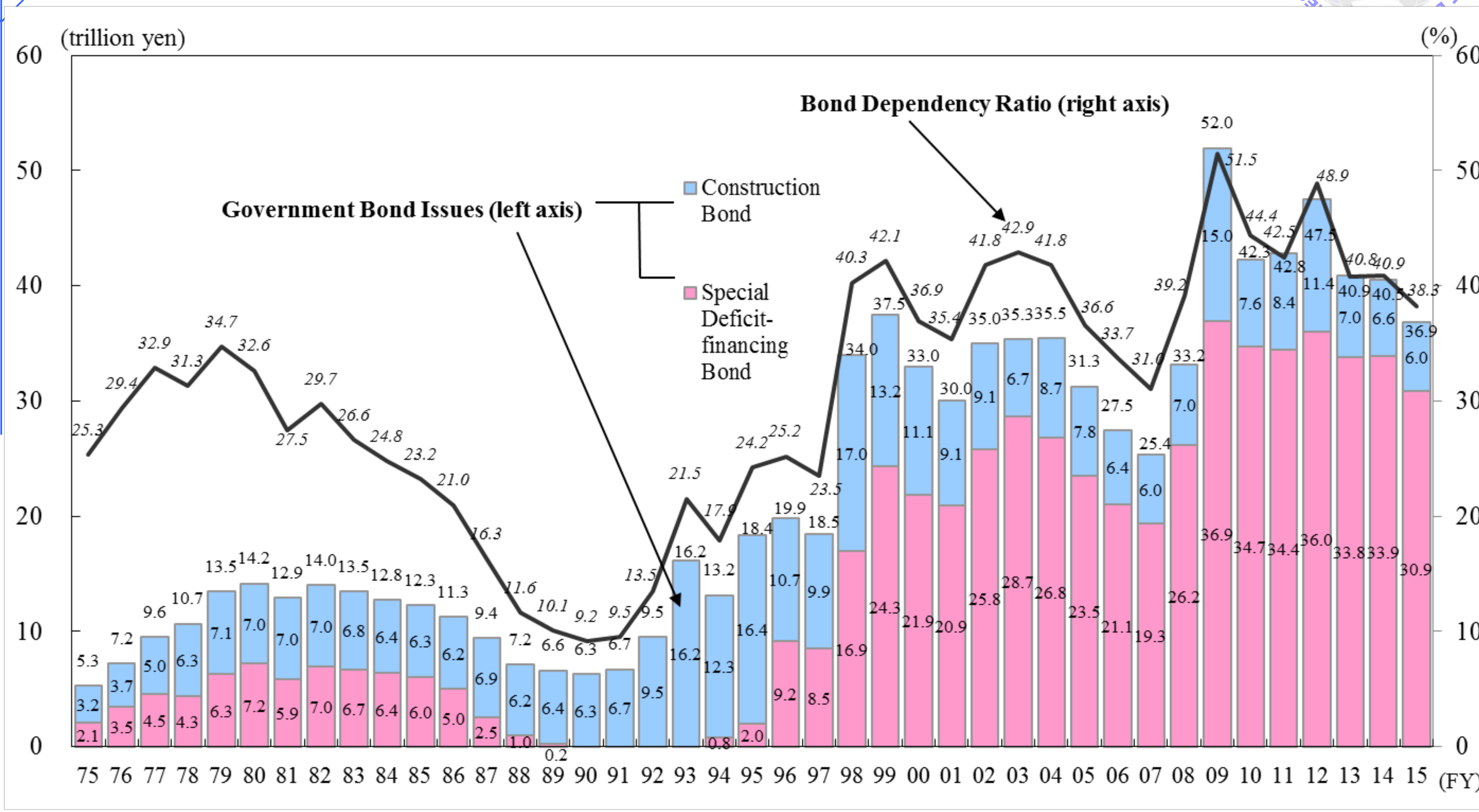
In FY2015 Draft Budget, Total Expenditures will be curbed and Tax Revenue will increase.

【Flow】 (Unit: trillion yen)

	FY2015
Bond Dependency Ratio	38.3%
General Account Primary Balance	−13.4



Bond Issues and its proportion to Total Revenue will be reduced in FY2015.



(Note1) FY1975-2013: Settlement, FY2014: Including draft supplementary budget, FY2015: Draft budget

(Note2) Following various 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 issued in FY1994-1996 to make up for decline in tax revenues due to a series of income 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, Pension-related Special Deficit-Financing bonds issued in FY2012, 2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

(Note3) In calculation of Bond Dependency Ratio, it is defined as dividing Government Bond Issues by Total Expenditures. Furthermore, "Temporary Bond", issued with securing future redemption sources such as creation of special tax, etc. is exc

(Note4) In calculation of Bond Dependency Ratio in FY2011, reconstruction-related expenditures, which are managed in Special Account for Reconstruction from the Great East Japan Earthquake after FY2012 and not included in the General Accou Expenditures, are included. If all reconstruction-related expenditures are excluded from General Account Expenditures, Bond Dependency Ratio in FY2011 is 46.7%.

Fiscal Consolidation Target for FY 2015 expected to be achieved .

Japan's Fiscal Consolidation Targets

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

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%)
- The Government aims to improve the primary balance of the General Account at least by approximately 4 trillion yen both in FY2014 and 2015

FY2020

- The Government aims to achieve a primary surplus by FY2020

Thereafter

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

Firm Commitment to the Fiscal Consolidation Targets

Progress in FY2015 Draft Budget

- **FY2015 target expected to be achieved**: Halving primary deficit to GDP ratio.
- **Improving the primary balance by 4.6 trillion yen**, more than targeted in the current plan.
- **Reducing the amount of newly issued government bonds by 4.4 trillion yen** from FY2014.

Further Concrete Plans for Fiscal Consolidation...

Prime Minister ABE (Nov.18,2014):

"*We will resolutely stay the course towards our goal for fiscal soundness to be achieved by fiscal 2020. By the summer of 2015, we will draw up concrete plans for achieving this goal.*"

Council on Economic and Fiscal Policy (Dec 27, 2014, provisional translation)

- **The approach consists of three pillars; ① ending deflation & revitalizing the economy, ② expenditure reform, and ③ revenue reform. Consumption tax rate is to be raised to 10% in April 2017. Appropriate debt management is to be promoted.**

- **In evaluating the fiscal consolidation, we lay emphasis on stock data** i.e. debt GDP ratio or asset/liability **as well as flow data** i.e. primary balance, in order **to clarify the relationship between economic growth and fiscal consolidation**.

- **Based on a quantitative test calculation, the frame of the plan is examined.**
  A sound route of correction by means of above three pillars will be clarified.

- **Progress should be reviewed every year and necessary action should be taken.**
  Mid-term evaluation is done.

- **The government as a whole push forward this plan. The Council manages progress.**

Debt Management Policy for FY2015: Total JGB Issuance will be reduced, but the amount of Market Issuance will be well maintained.

◈ Issuance size

・ Total JGB issuance is reduced from 182 to 170 trillion yen. However, considering the liquidity, Market Issuance is well maintained from 155 to 153 trillion yen, by adjusting front-loading issuance of Refunding Bonds for FY 2016.

◈ Three main policies

・Extending average maturities from 8.5 to 9 years.

・Enhancing the market liquidity

・Encouraging the Inflation- indexed Bonds Market

〈Breakdown by Legal Grounds〉 (trillion yen)

	FY2014 (Initial)	FY2014 (Supplementary Budget)	FY2015 (Initial)
Newly issued National Government Bonds (Construction Bonds and Special Deficit-Financing Bonds)	41.3	40.5	36.9
Reconstruction Bonds	2.1	1.1	2.9
FILP Bonds	16.0	16.0	14.0
Refunding Bonds	122.1	120.1	116.3
Total	181.5	177.7	170.0

〈Breakdown by Financing Methods〉 (trillion yen)

	FY2014 (Initial)	FY2014 (Supplementary Budget)	FY2015 (Initial)
Subtotal Financed in the Market	167.9	164.0	157.3
JGB Market Issuance (Calendar-Base issuance)	155.1	154.5	152.6
Subtotal for Households	2.5	2.6	2.3
BOJ Rollover	11.1	11.1	10.4
Total	181.5	177.7	170.0

Market Issuance Plan for FY2015: Increase 30 and 40years Bonds, Inflation-Indexed Bonds and Auctions for Enhanced-Liquidity.

<Market Issuance Plan by JGB Types>

(Unit: trillion yen)

	FY2014 (Initial) (per time)	(total; a)	FY2014 (Supplementary Budget) (per time)	(total; b)	(b) - (a)	FY2015 (Initial) (per time)	(total; c)	(c) - (a)	(c) - (b)
40-Year	0.4 × 4 times	1.6	0.4 × 4 times	1.6	–	0.4 × 5 times	2.0	0.4	0.4
30-Year	0.6 × 4 times 0.7 × 8 times	8.0	0.6 × 4 times 0.7 × 8 times	8.0	–	0.8 × 12 times	9.6	1.6	1.6
20-Year	1.2 × 12 times	14.4	1.2 × 12 times	14.4	–	1.2 × 12 times	14.4	–	–
10-Year	2.4 × 12 times	28.8	2.4 × 12 times	28.8	–	2.4 × 12 times	28.8	–	–
5-Year	2.7 × 12 times	32.4	2.7 × 12 times	32.4	–	2.5 × 12 times	30.0	▲ 2.4	▲ 2.4
2-Year	2.7 × 12 times	32.4	2.7 × 12 times	32.4	–	2.5 × 12 times	30.0	▲ 2.4	▲ 2.4
TBs (1-Year)	2.2 × 1 time 2.3 × 11 times	27.5	1.9 × 2 times 2.2 × 1 time 2.3 × 9 times	26.7	▲ 0.8	2.1 × 2 times 2.2 × 10 times	26.2	▲ 1.3	▲ 0.5
10-Year Inflation-Indexed	0.4 × 4 times	1.6	0.4 × 2 times 0.5 × 2 times	1.8	0.2	0.5 × 4 times	2.0	0.4	0.2
Auctions for Enhanced-Liquidity	0.7 × 12 months	8.4	0.7 × 12 months	8.4	–	0.8 × 12 months	9.6	1.2	1.2
Total	**155.1**		**154.5**		**▲ 0.6**	**152.6**		**▲ 2.5**	**▲ 1.9**

(Note1) 40-Year Bonds will be issued in April, June, August, October and February.

(Note2) While the issuance amount of Treasury Bills (TB) will be decreased, new 1-Year Financing Bills (FB) compensate the decrease, maintaining the total issuance of T-Bills (TB+FB) at 2.5 trillion yen per issue.

(Note3) 10-Year Inflation-Indexed Bonds will be issued in May, July, November and January. The size of 10-Year Inflation-Indexed Bonds issuance will be made flexibly, based on market conditions and discussion with market participants.

(Note4) Details of Auctions for Enhanced-Liquidity will be determined based on discussion with market participants as well as market conditions.

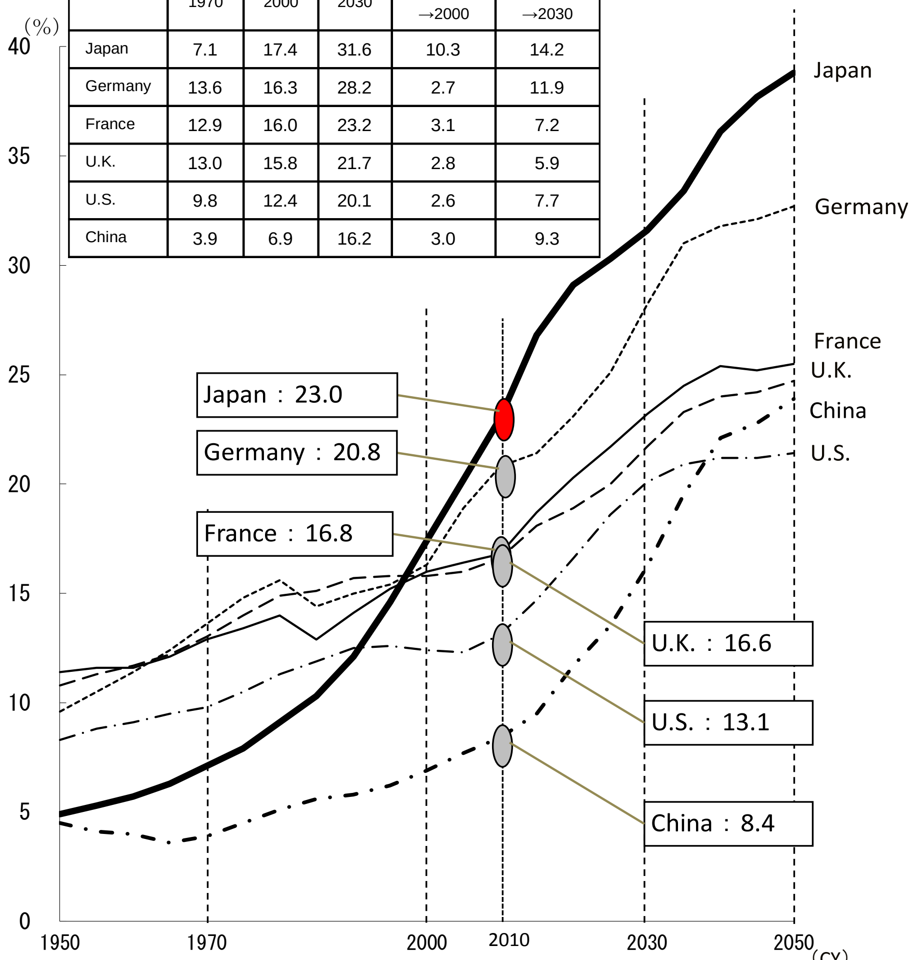
Japanese Society in the medium-long term vision

The views expressed herein are those of the author and do not necessarily reflect the opinions of the organizations to which the author belongs.

Japan is Front Runner to Aging Society.

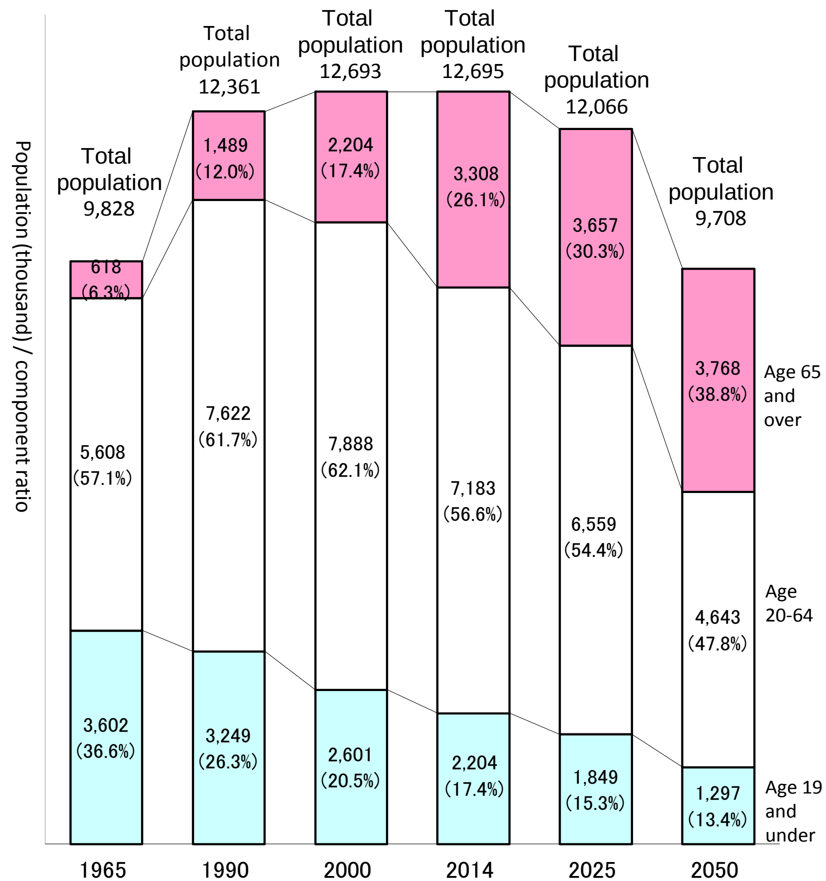
＜Ratio of People Older than 65 years to the Total Population＞

	1970	2000	2030	1970 →2000	2000 →2030
Japan	7.1	17.4	31.6	10.3	14.2
Germany	13.6	16.3	28.2	2.7	11.9
France	12.9	16.0	23.2	3.1	7.2
U.K.	13.0	15.8	21.7	2.8	5.9
U.S.	9.8	12.4	20.1	2.6	7.7
China	3.9	6.9	16.2	3.0	9.3



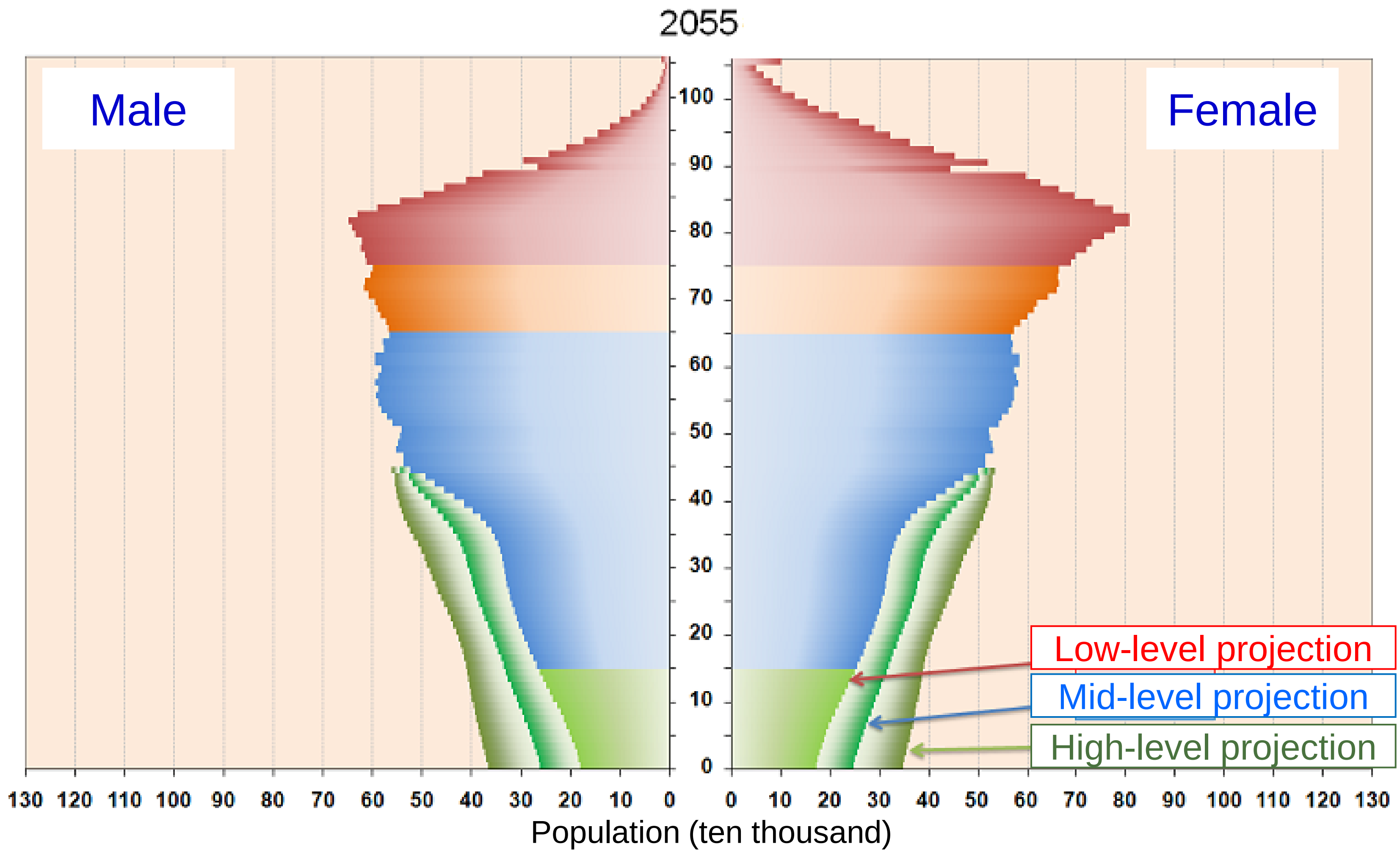
(Source) Japan 1950-2010: "National Census" (Ministry of Internal Affairs and Communications)
2011-2050: "Japanese Future Demographic Projections" (National Institute of Population and Social Security Research) (January, 2012)
Other countries: "World Population Prospects: the 2012 Revision" (United Nations)

＜Japan's demographic composition＞



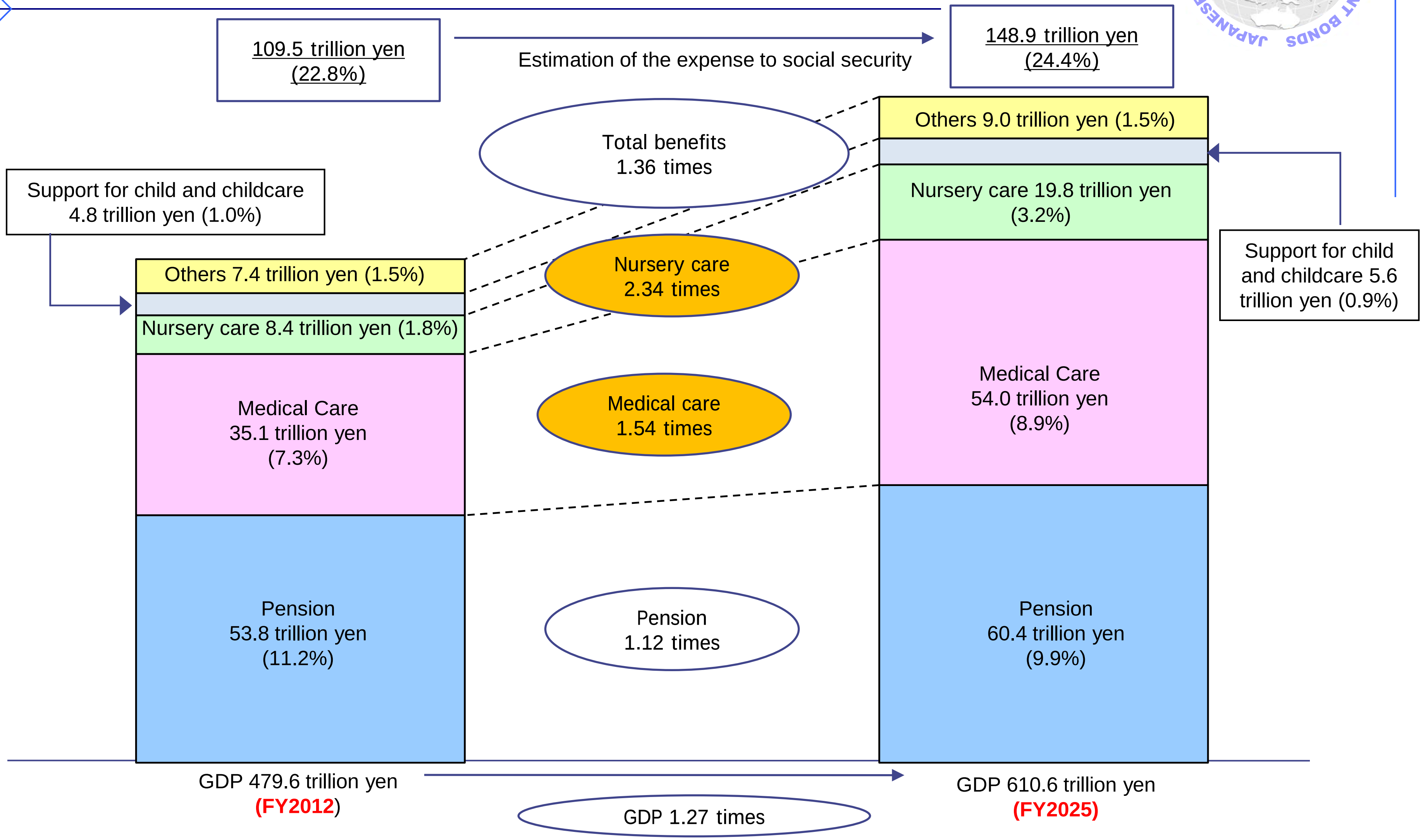
(Source) Demographic composition from 1965 to 1990 according to the "National population census" conducted by the Ministry of Internal Affairs and Communications, and data for 2014 onwards according to "Japan's demographic composition in the future (estimation as of January 2012)" issued by the National Institute of Population and Social Security Research.

In 2055, most populous age is 81 years old.



(Source) 1920-2010: Ministry of Internal Affairs and Communications "National population census" 2011-: National Institute of Population and Social Security Research "Japanese Future Demographic Projection(Jan. 2012)"

Social Security Expenditures will increase more rapidly than GDP growth.

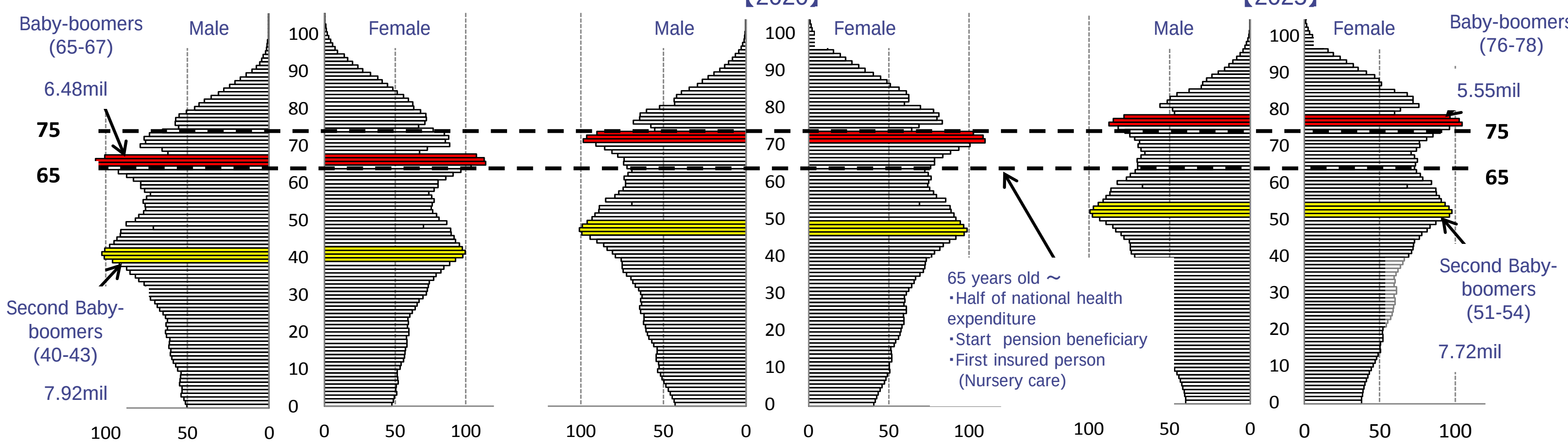


(Source) Ministry of Health, Labour and Welfare
(Note 1) Figures are real-amount and to GDP
(Note 2) Figures reflected the effect of enhancement, prioritization and rationalization of social security system

Change of Demographic Composition will increase Medical and Nursery Care Cost.

○ In 2025, All of baby-boomers will be 75 years old or above
○ Moving towards an aging society will cause continual increase of medical and nursing care costs.

【Change of demographic composition】

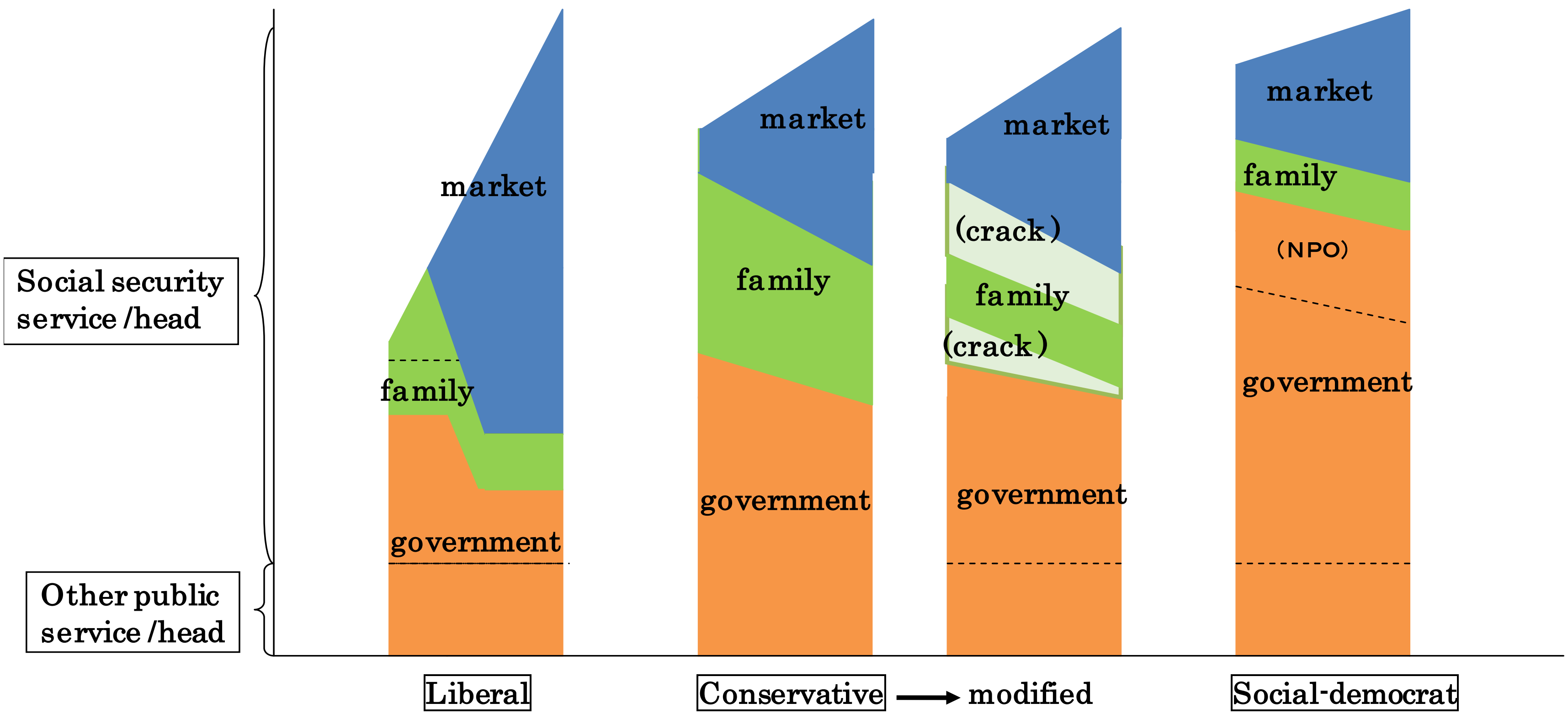


【Medical care cost per person】

Age	Medical care cost per person (thousand yen)	Government contribution to Medical care cost per person (thousand yen)
75 or above	892	326
65-74	553	85
64 or below	175	27

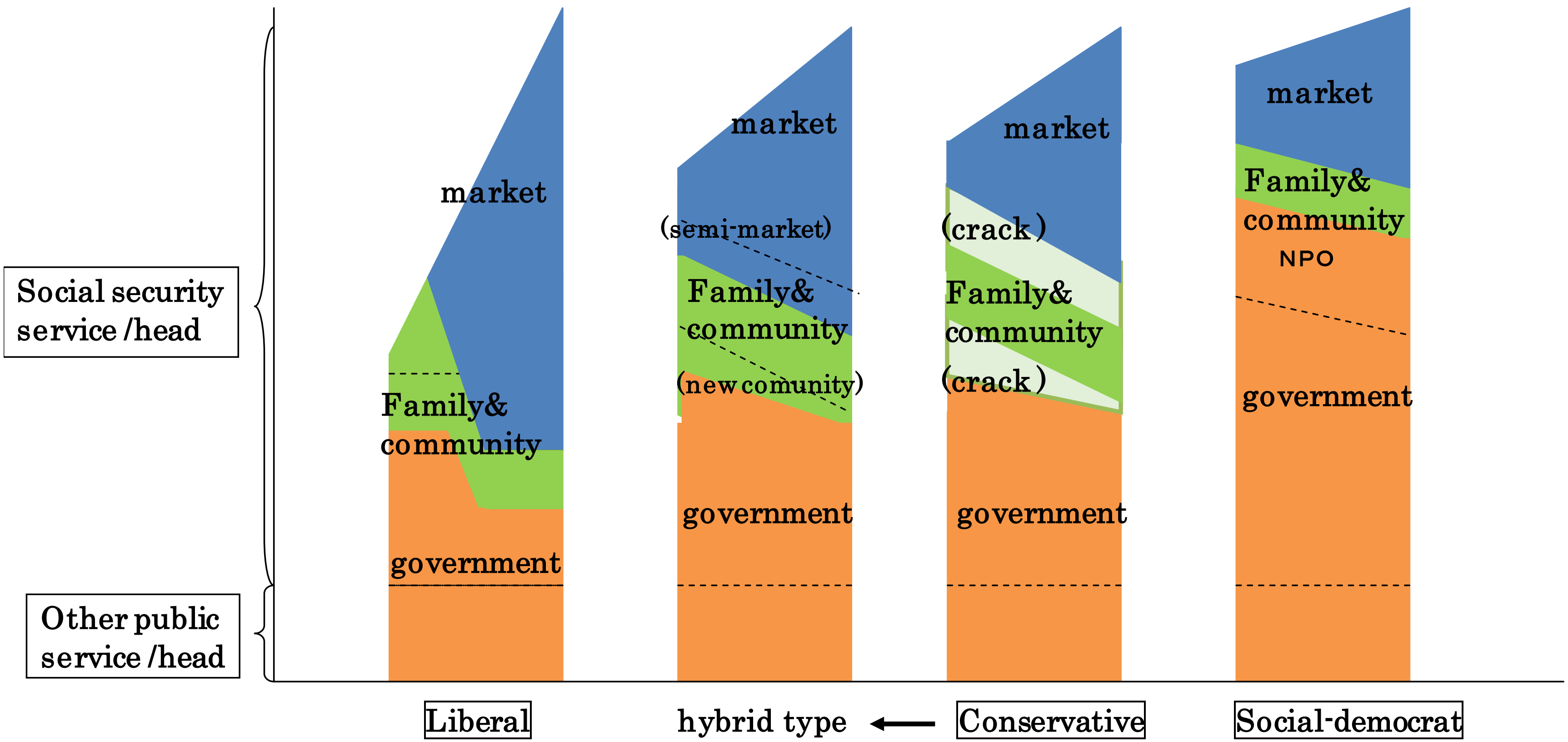
Age	Rate of patients requiring intensive nursing care
75 or above	31.3%
65-74	4.4%

Image of three welfare regime models



(note) Three regime models are indicated, pointing out the difference of proportion among market, family and government as a supplier of social securities. Each bar chart shows; left end shows lowest-income level and right end shows highest income level. Its gradient means the different level of beneficiary. Responsibility of this chart is Fujishiro, who interpreted and applied the idea of Dr. Andersen to this image.

Participation society could be the solution? (hybrid type)



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Roundtable conference on the nation and the administration (2013-2014), Cabinet Secretariat

<Some pictures in the conference>

Participants exchange their opinions frankly.

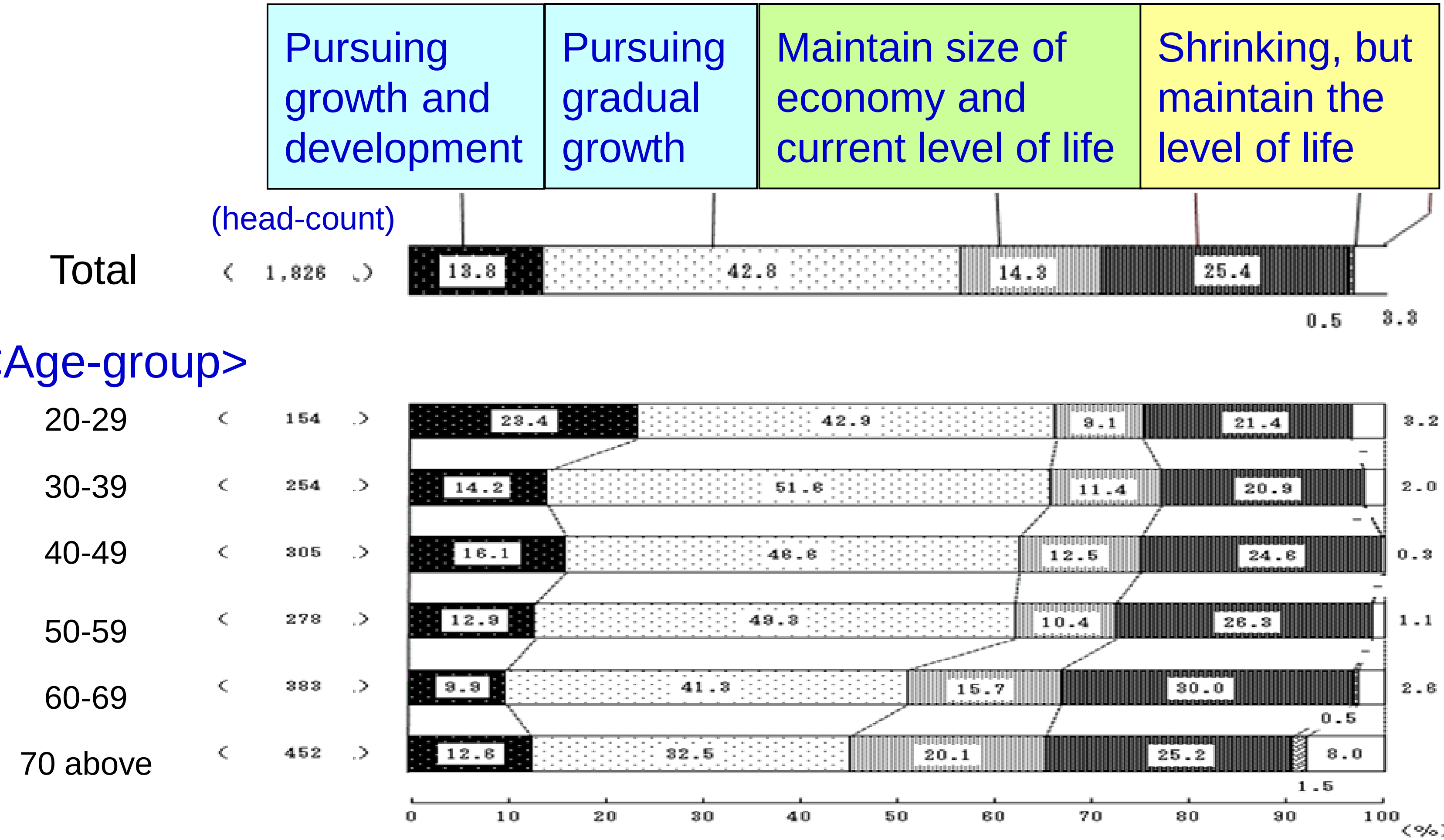
Women and the junior state their opinions actively.

Send messages or opinions through iPad

Student volunteers help conducting the conference.

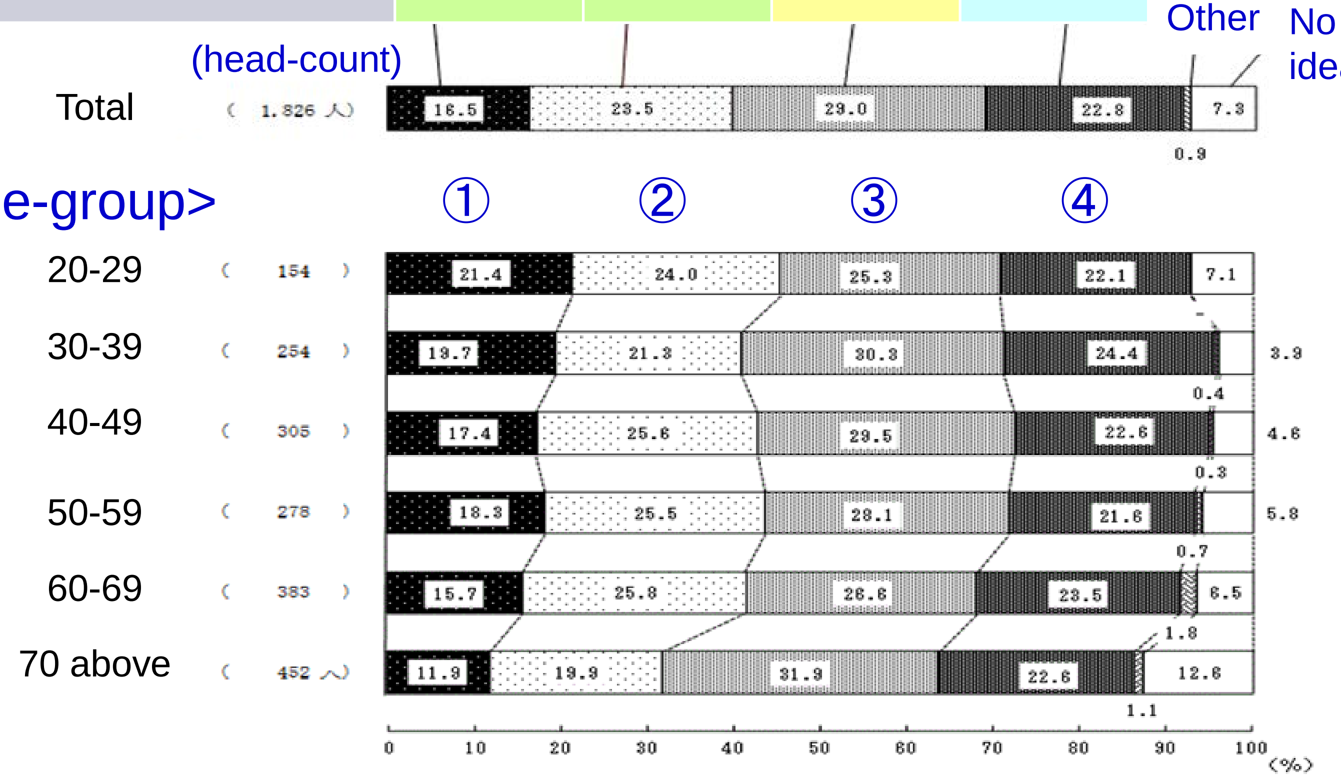
- Good management of aging society is common subject to be tackled among developed countries.
- National debates on how to support and prioritize social security is not easy, but inevitable for the future.
- This debates and that of fiscal consolidation are two sides of a coin.

What is our ideal Society ?
(opinion survey as of 08/2014, Cabinet Office)



Priority and Tax Burden (opinion survey as of 08/2014, Cabinet Office)

	①	②	③	④
Benefit for elderly	+	−	+	−
Benefit for youth	−	+	+	−
Tax burden	−	−	+	−



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

	FY2013 (Initial)	FY2014 (Initial)	FY2015 (Draft)
Primary Expenditure	70.4 trillion yen	72.6 trillion yen	72.9 trillion yen
Tax Revenues	43.1 trillion yen	50.0 trillion yen	54.5 trillion yen
Government Bond Issues	42.9 trillion yen	41.3 trillion yen	36.9 trillion yen
Primary Balance	-23.2 trillion yen	-18.0 trillion yen	-13.4 trillion yen
Bond Dependency Ratio	46.3%	43.0%	38.3%

(Note) Primary balance and Bond Dependency Ratio are based on an assumption that the government contributes to 50% of Basic Pensions.

<Economic Indicators>

- Nominal GDP growth rate will be 2.7 percent. Economic recovery is expected, supported by steady private demand.

	FY2013 (Actual)	FY2014[1] (Estimate)	FY2015 (Projections)
Nominal GDP Growth	1.8%	1.7%	2.7%
Real GDP Growth	2.1%	-0.5%	1.5%
Consumer Price Index	0.9%	3.2% (1.2%)[2]	1.4%
Unemployment Rate	3.9%	3.6%	3.5%

(Note1) FY2014 and FY2015 are based on "Fiscal 2015 Economic Outlook and Basic Stance for Economic and Fiscal Management" (Approved by the Cabinet on January 12, 2015)

(Note2) The number of Consumer Price Index in parentheses in FY2014 excludes the impact of the consumption tax rate hike.