

Basic Principles of FY2013 Budget Formulation

(January 24, 2013)
(Cabinet Decision)

I. Further thrust to initiatives for the revitalization of the Japanese economy

Strong economy is a source of national strength. Without revitalizing a strong economy, there will be no reconstruction of public finance and there will be no future for Japan.

Japanese economy continues to remain weak. While it is expected that in FY 2013, along with the improvements in overseas economies, the Japanese economy will also show a modest recovery, there is also a risk that downside of the overseas economies will continue, putting a downward pressure on the Japanese economy.

Considering such circumstances, in order to revitalize the Japanese economy and restore the feeling of “Proud Japan”, apart from making significant and visible progress in recovery from the Great East Japan Earthquake, we will shift the basic philosophy of political measures from the conventional “Measures for distributing the balanced contraction” to “Virtuous cycle of growth and wealth creation”. With this, the economy will break away from the prolonged appreciation of Yen and deflation, and growth potential will be strengthened due to innovation and new business creation. In this way, we aim to build a strong economy with increasing employment and expanding income levels.

For the revitalization of the Japanese economy, we will seamlessly implement the “three-arrows strategy” comprised of aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment.

As the first part of this, we recently formulated “Emergency Economic Measures for The Revitalization of the Japanese Economy” (January 11, 2013 Cabinet Decision. Hereinafter referred to as “Emergency Economic Measures”) and finalized FY2012 additional budget for implementing these measures.

In future as well, with Headquarters for Japan’s Economic Revitalization and Council on Economic and Fiscal Policy as the central agencies, we will vigorously pursue the initiatives for the revitalization of the Japanese Economy in collaboration with Council for Science and Technology Policy, Council for Regulatory Reform, etc.

II. Basic philosophy behind FY 2013 budget formulation

(Integrated formulation with Emergency Economic Measures)

Under the philosophy described in I above, as an integrated budget with the large additional budget based on the Emergency Economic Measures, FY 2013 budget will be formulated as the so-called “15 months budget”.

With this, seamless economic measures will be implemented, which will help in; avoiding downside of the economy, early break away from deflation, and strengthen the growth potential.

(Effective and efficient budget formulation for achieving economic revitalization)

In order to prevent downside of the economy and break away from deflation, it is necessary to quickly formulate FY 2013 budget.

According to the instructions provided by the Prime Minister on December 26 and 27 last year, during the formulation process, focus will be on having a bold budget while minimizing the wasteful expenditure incurred when the Democratic Party of Japan was in power in order to prevent worsening of financial condition.

Apart from accelerating recovery from the Great East Japan Earthquake, focus will be on the areas that would contribute to sustained growth and potential areas that would support Japan in future.

(Building confidence in financial administration)

If fiscal deficit continues to widen and it will increase the outstanding debt, it will have enormous impact on economic, financial administration, and daily lives of citizens because of various factors such as decline in freedom of political measures due to increase in government bonds servicing costs and increasing unfairness among the generations.

Therefore, it is necessary to achieve the fiscal consolidation targets 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.

With regard to FY 2013 budget as well, as per the aforementioned instructions of the Prime Minister, in addition to forming the budget based on the fiscal consolidation target and building confidence in the government bonds, we would aim to minimize the amount of government bond issuance as much as possible, and build sustainable fiscal structure in medium to long term.

The Council on Economic and Fiscal Policy will examine the road toward simultaneous realization of fiscal consolidation and Japan's economic revitalization.

III Basic philosophy behind priority of budget

In FY 2013 budget, we will thoroughly look into the requests made when the Democratic Party of Japan was in power, and based on the policy of prioritizing three areas of “Reconstruction and disaster prevention measures”, “Wealth creation through growth”, and “Security of life and regional activation”, we will focus on allocating budget to the initiatives meant for the

revitalization of the Japanese economy.

Moreover, even for the items accounted for in the past budgets, we will thoroughly look into the details where required without treating them as sacred.

(1) Reconstruction and disaster prevention measures

While placing top most priority on accelerating reconstruction of the disaster-hit areas; in addition to defining the detailed measures for accelerating reconstruction and diligently looking into the requests and criticisms from the disaster-hit areas for various schemes, we would implement precise reconstruction measures and quickly recover from nuclear accident for the revitalization of Fukushima.

Therefore, we would revise the sources of fund and the scale of projects required for reconstruction measures. Along with that, we would also take a relook at the burden to be placed on National Disaster Prevention Project.

With regard to disaster-prevention measures, for protecting important social infrastructure through aging measures, and for strengthening the response system for disasters and national spirit for proactive disaster prevention and risk-reduction measures such as making the schools earthquake-proof, we will wipe off the concerns of citizens by drastically strengthening both hard and soft aspects.

We will strictly control the use of budget so that reconstruction related budget is not subject to criticism that funds are “Misappropriated”, it would be the basic requirement that funds directly contribute to recovery and reconstruction of the disaster-hit areas¹.

(2) Wealth creation through growth

For realizing “Wealth creation through growth”, while bringing out the latent strength of the private sector to the maximum possible extent through regulatory reforms, and financial and tax measures, etc., we will undertake natural resources and marine development, strengthen R&D and innovation foundation, and introduce energy conservation measures and renewable energy that would help in creating a low-carbon society and increasing private sector investments.

Besides, we will support manufacturing and financing for small and medium enterprises and small business operators, who are the real force of Japanese economy, promote science and technology including fundamental science in public and private sectors, and we will take initiatives for building “Aggressive agriculture, forestry, and fisheries industry” and ensuring food security.

Furthermore, in addition to embedding the growth potential of global economy in Japan by supporting and developing environment for overseas expansion of Japanese companies, we will

¹ With regard to the nationwide budget, expenditure incurred on some of the new public projects considered necessary for Tsunami disaster and very urgent earthquake-proofing projects of schools for ensuring safety of children, and debt burden on national treasury under existing contracts shall be recorded in special account for reconstruction as an exception.

work on strengthening growth potential and stabilizing employment environment through activation of financial and capital markets, and employment measures including promoting employment of young people and women. For restoring education, we will undertake activities that would lead to improvement of academic achievements and normative consciousness.

(3) Security of life and regional activation

Along with building safe and secure living space and environment, we will strengthen our capabilities for protecting citizens' livelihood and their lives, and thereby ensure security. In addition, we will recover from natural disasters such as typhoon.

Apart from ensuring the sustainability of the social security systems, we will build environment so that people who are in a socially weaker position can contribute actively to the society.

Moreover, considering that the level of tension is rising around Japan's safety and security environment, we will focus on improving our capabilities for safety assurance, warning and surveillance in nearby air and sea space including strengthening our coast guard system. In addition, we will reform and streamline our procurement system, and prepare efficiently for building effective defense capabilities.

Furthermore, we will pursue regional activation measures where the respective regions will fully leverage their economic and cultural characteristics and engage in organic exchange and collaboration. In this manner, we will overcome the crisis faced by local regions including the regions placed in adverse conditions, and we will aim to revitalize the economy of local regions. Moreover, we will also pursue measures and policies for consumers.

(4) Main points to consider in the areas of annual government expenditure

(Main points to consider in the areas of annual government expenditure)

With regard to the respective area of annual government expenditure, we will place a very high priority on budget. Especially, with regard to social security, in order to build sustainable social security systems amidst declining birth rate and a growing population of elderly people, in addition to securing stable source of funds for social security, we will work on priority from the standpoint of minimizing any additional burden on citizens. For that, we will accelerate debate in the National Council on Social Security System Reform according to Law for Promoting Social Security System Reform. Besides, with regard to public livelihood assistances, in addition to taking measures for preventing dishonest receipt of benefits, we will take support measures for self-reliance and employment, and rationalize livelihood assistance standards and medical assistance.

Moreover, with regard to investment in public sector, we will line up essential projects from the standpoint of realizing investment effects or inducing investments from the private sector, and in

budget allocation, we will give priority to the current burning issues such as disaster-prevention measures and aging measures for maintaining the safety of citizens and “Investment in future” that would lead to strengthening of international competitiveness and activation of regional economy.

Further, with regard to local government finance, we will align initiatives and pace of the country, and in addition to revising and minimizing annual expenditure in local government fiscal plan such as salary related costs, we will secure the total amount of general financial resources such as local tax and central government tax revenues allocated to local governments required for stable administration of public finance.

(Administrative and financial reform²)

By effectively using the limited personnel and material resources, we will undertake administrative and financial reforms that would truly help the citizens and improve administrative functions and policy effects to the maximum extent.

With regard to the authorized strength of government officials, while appropriately handling the current important issues, we will strictly work on revising and streamlining the activities, and reduce the authorized strength as much as possible. Amidst that, we will achieve meaningful and clear allocation of the authorized strength. With regard to the allocation of local government employees also, where the allocation criteria is determined by the national government through laws and regulations, we will deal with it after considering administrative and financial reform initiatives.

Moreover, as for the salary of government employees, we will change the handling of the Recommendations of National Personnel Authority for 2012³ made during the former administration, and implement them from FY 2013.

With regard to the salary of local government employees, in addition to asking the local governments to take the required measures in line with the reductions measures of average 7.8% reduction from the salary of national government employees, we will reflect it and calculate central government tax revenues allocated to local governments and government’s financial contribution to the management of compulsory education. Moreover, we will also keep in mind activation of regional economies and administrative reform initiatives taken by the respective local government.

Under the responsibility of each ministry, we will take initiatives for establishing highly effective PDCA cycle, and fully utilize its outcome in FY 2014 budget formulation.

² With regard to revising special account and independent administrative agencies, “Basic Policy for Special Account Reform” (January 24, 2012, Cabinet Decision) and “Basic Policy for Reviewing the Systems and Organizations of Independent Administrative Agencies” (January 20, 2012, Cabinet Decision) froze all matters for the time being except the matters already decided before that. FY 2013 budget will be formulated based on the current system and organization. With regard to special account and independent administrative agencies, we will continue to study and undertake reforms.

³ With regard to revising the pay scale of elderly staff members, we will arrive at a conclusion during 2013, while implementing it from April 2014 (November 16, 2012, Cabinet Decision).