

Scope of governments and budget systems



Public Finance
SPSE, Waseda, Fall 2024

Today's talk

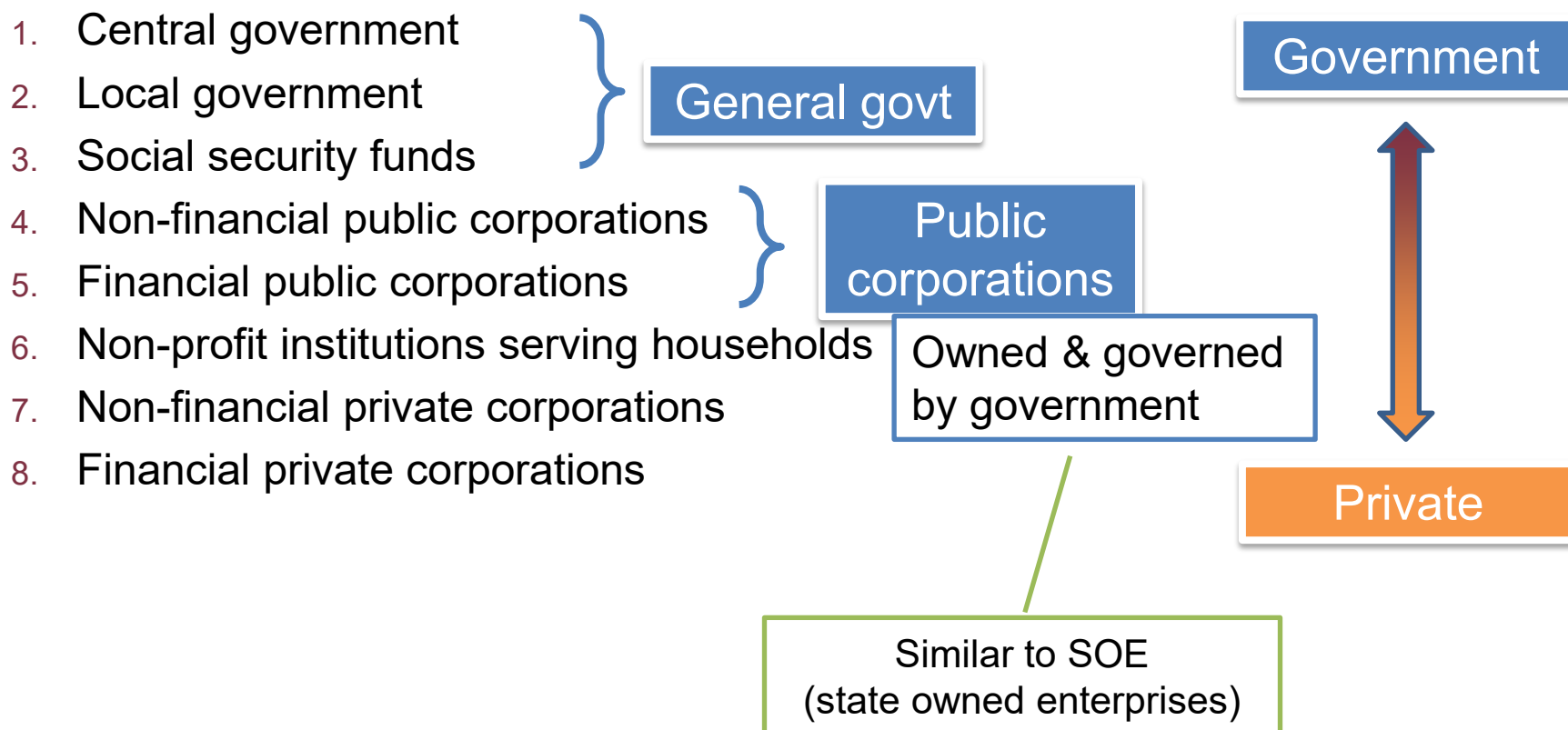
- Scope of Japanese government
 - Classification of government organizations in the SNA
 - Structure of Japan's government and budgets

- Budget system
 - Overview of Japanese budget system
 - International comparison

- FILP: Fiscal Investment and Loan Program

Scope of government

- No single definition of “government”
 - Gray area with private sectors
- SNA (national accounts) classifies organization into 8



Classification of Government Organizations in the SNA



- Social security funds
 - Special accounts of the central & local governments for public pension, health and long-term insurances
- Non-financial public corporations
 - Airports, public housing
 - Local public corporations: water supply, gas, hospital, port, road
 - JT, NTT, JR, NEXCO, Post office,, JRA
- Financial public corporations
 - Bank of Japan
 - Japan Finance Corporation, Japan Bank for International Corporation, Development Bank of Japan
 - Japan Post Bank, Japan Post Insurance
- Non-profit institutions serving households
 - Open University of Japan, OIST
- Private corporations
 - Japan Alcohol Corporation

Classification of Government Organizations in the SNA



■ Incorporated Administrative Agencies

■ General government

- National Archives of Japan, Japan Society for the Promotion of Science, National Museum of Art, JAXA (Japan Aerospace Exploration Agency), JAMSTEC (Japan Agency for Marine-Earth Science and Technology), RIETI. ...



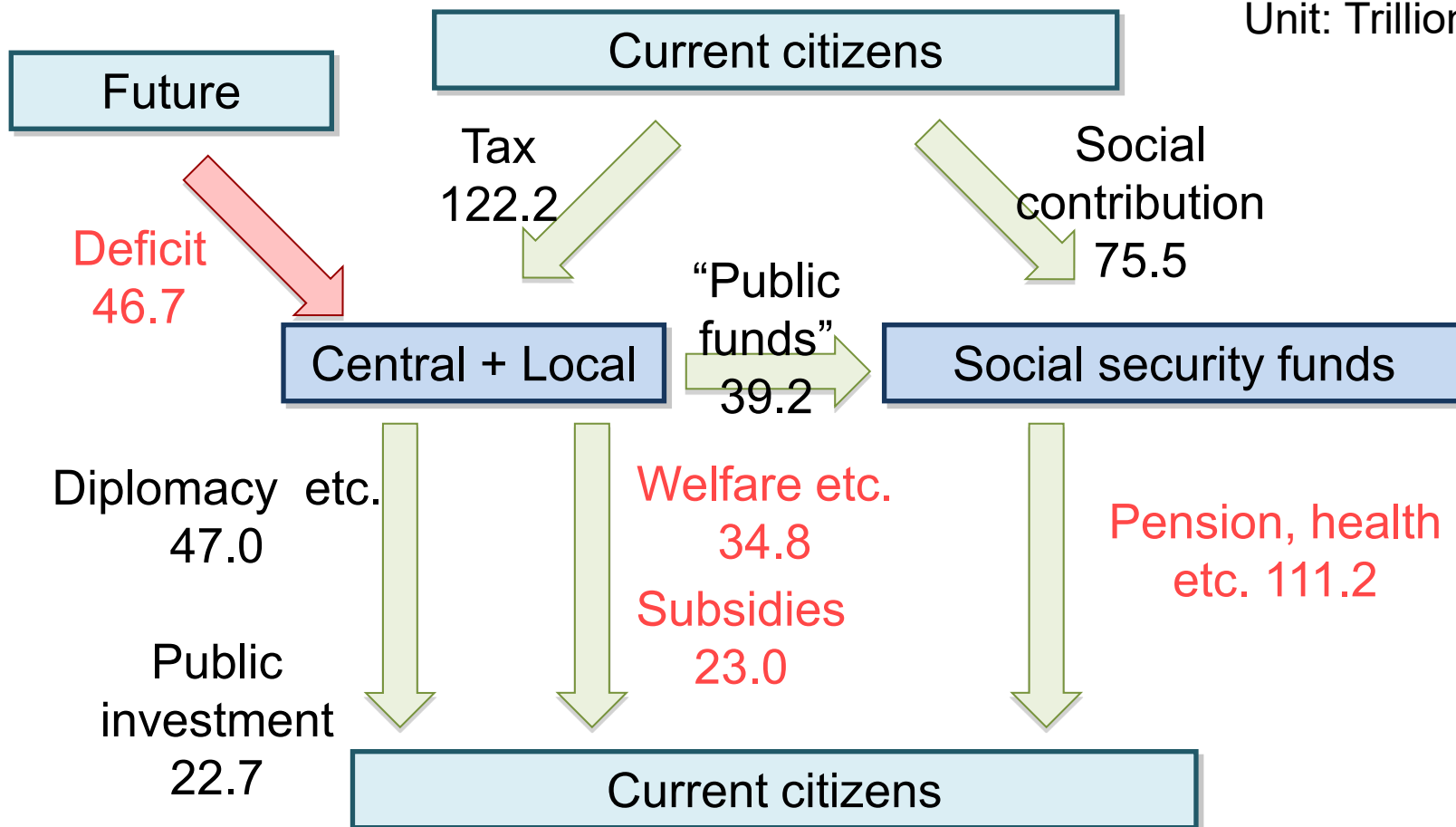
■ Public corporations

- Japan Mint, National Printing Bureau, National Center for University Entrance Examinations, JASSO (Japan Student Services Organization), National Hospital Organization, Urban Renaissance Agency, Japan Housing Finance Agency, ...



Inflow and outflow of funds

Unit: Trillion JPY



(source) SNA2022 (2008SNA, benchmark year = 2015). Debt service, revenues other than tax and social contributions are excluded

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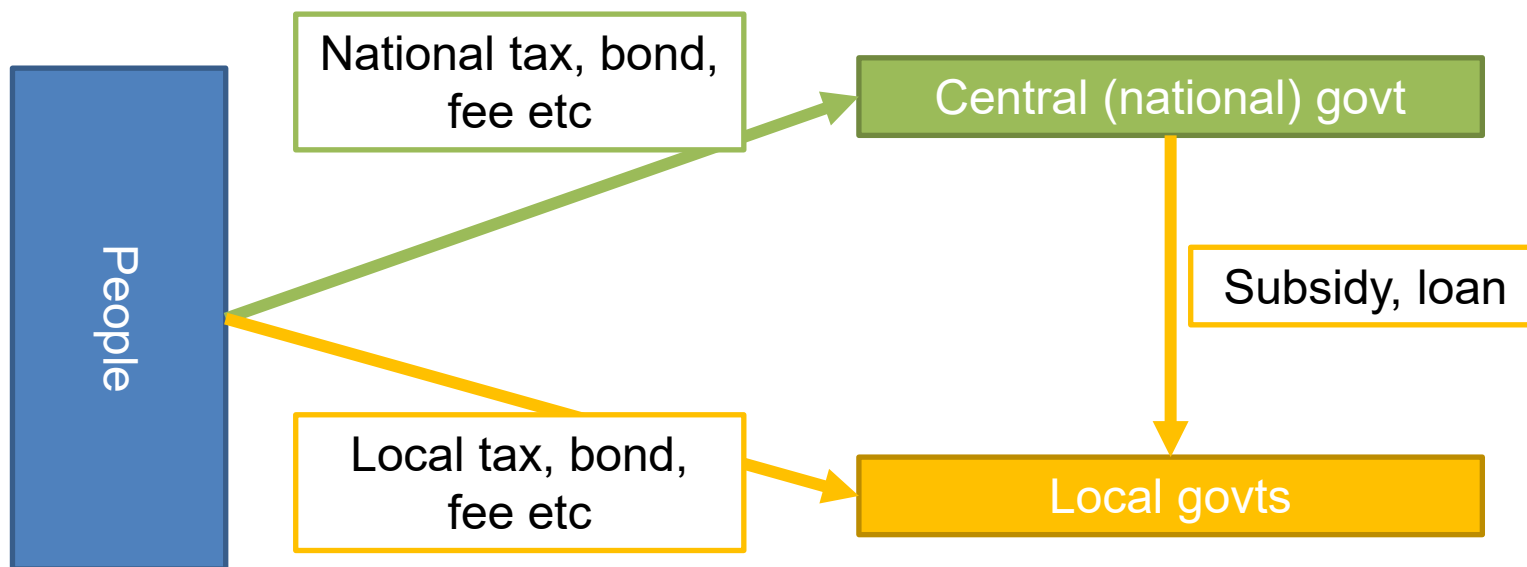
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Structure of Japan's government and budgets

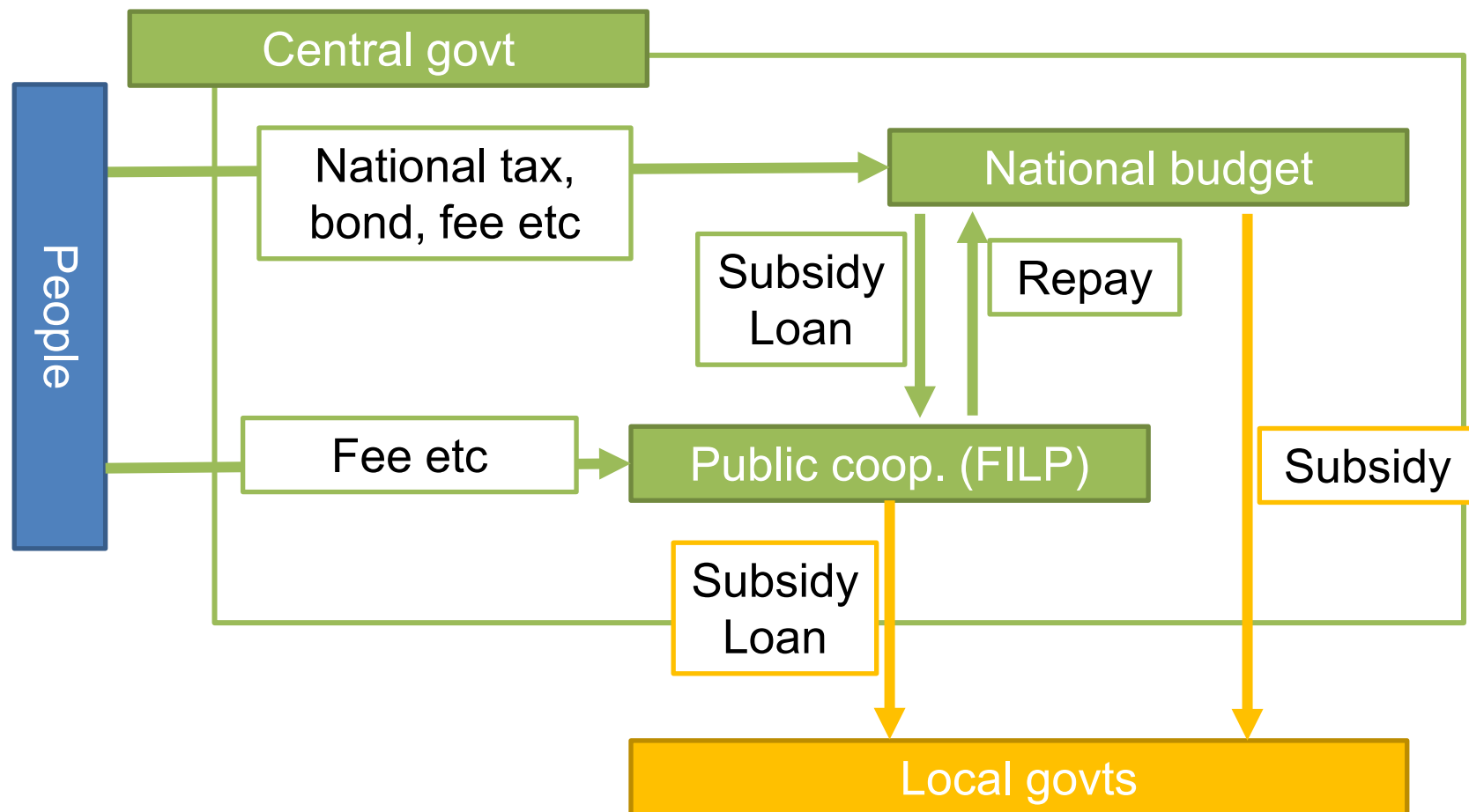
- From the public's viewpoint, the government is divided into the central and local.
 - This classification is different from SNA. Based on budget system
 - Both governments provide public services (omitted in the figure).
 - Benefits are included in “services”



(note) “central” is often referred as “national”

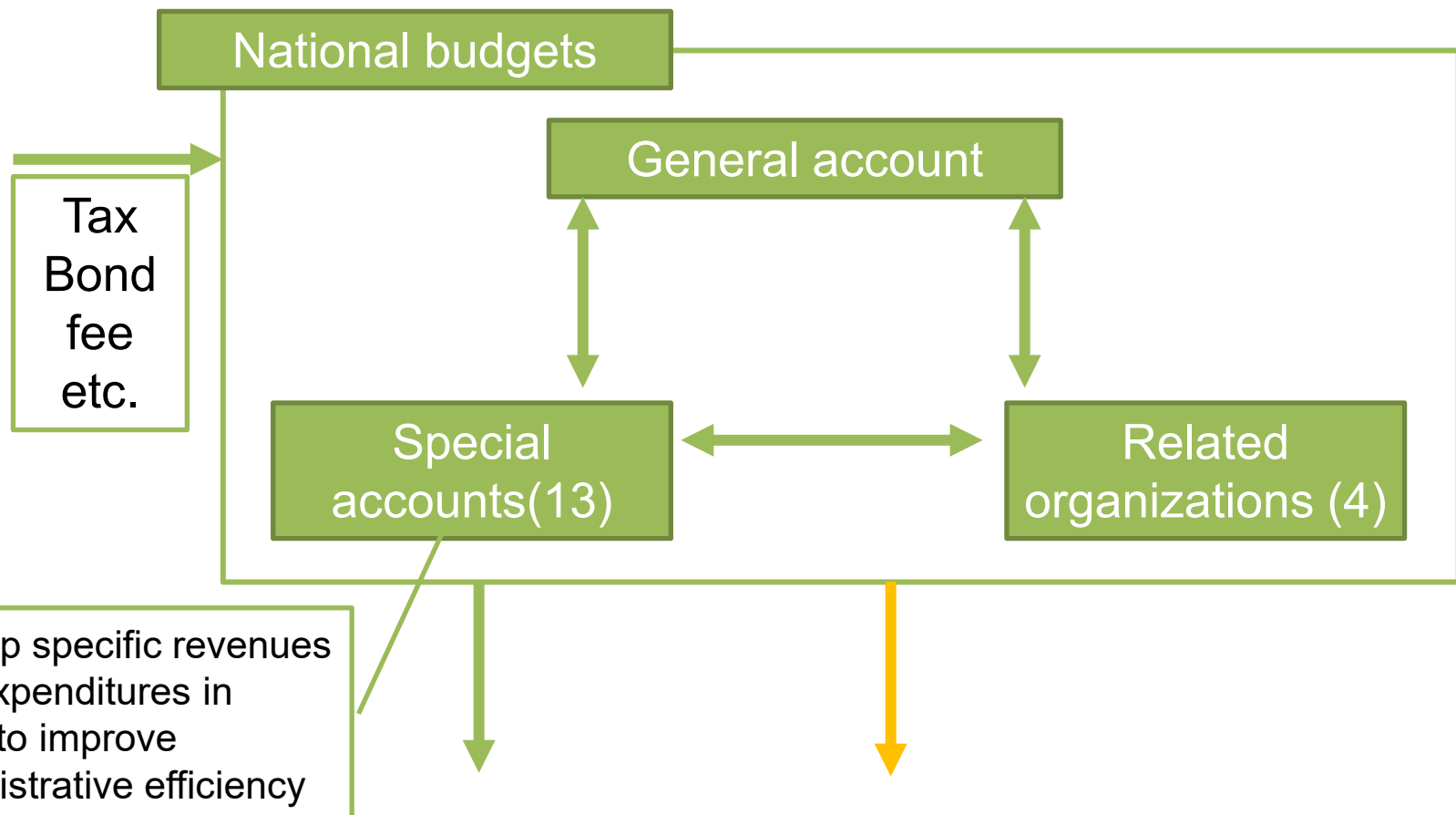
Structure of Japan's government and budgets

- Public corporations are included in the central government
 - E.g.: Incorporated administrative agencies



Structure of Japan's national government and budgets

- “National budgets”
 - General account and special accounts
 - Large transfers among accounts



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Budget

- Estimate the inflow and outflow of funds for a period of time
 - A budget is “executed” and then “settled”
- Some principles
 - Prior resolution: Budget must pass the Diet before execution
 - Total budgeting: All revenues and expenditures must be included
 - Fiscal democracy: Fiscal situation must be reported to the Diet
 - Fiscal year independence
 - Fiscal year starts on April 1 and ends on March 31.
 - Expenditures in a fiscal year should be financed by revenues in that year (including borrowing)
 - Single-year budget
 - Budget must be prepared for each fiscal year and approved by the Diet: Not “Medium-Term Budget Framework”
 - Exceptions: Carry-over etc
- Governments emphasize budget, while settlement is more important in private sectors.

Budget process

1. Previous year: preparation

1. Budget request by line ministries: until August
2. MOF assessment: Budget Bureau, from September
3. MOF draft (late December), Revival negotiations, government draft
4. Discussion by the House of Representatives
 - ▣ Followed by the House of Councilors

2. Current year: execution

3. Next year: settlement

- Inspection by Board of Audit

FY2024 national budget

- General account of national budget: 112 trillion JPY

	2023 (initial)	2024 (initial)	
	(billion JPY)	(billion JPY)	
Revenue			
Tax revenue	69,440.0	69,608.0	168.0
Other revenue	9,318.2	7,514.7	-1,803.5
Bond issuance	35,623.0	35,449.0	-174.0
	114,381.2	112,571.7	-1,809.5
Expenditure			
Debt service	25,250.3	27,009.0	1,758.7
General expenditure	72,731.7	67,776.4	-4,955.4
Local allocation tax grants	16,399.2	17,786.3	1,387.1
	114,381.2	112,571.7	-1,809.5

General and special accounts

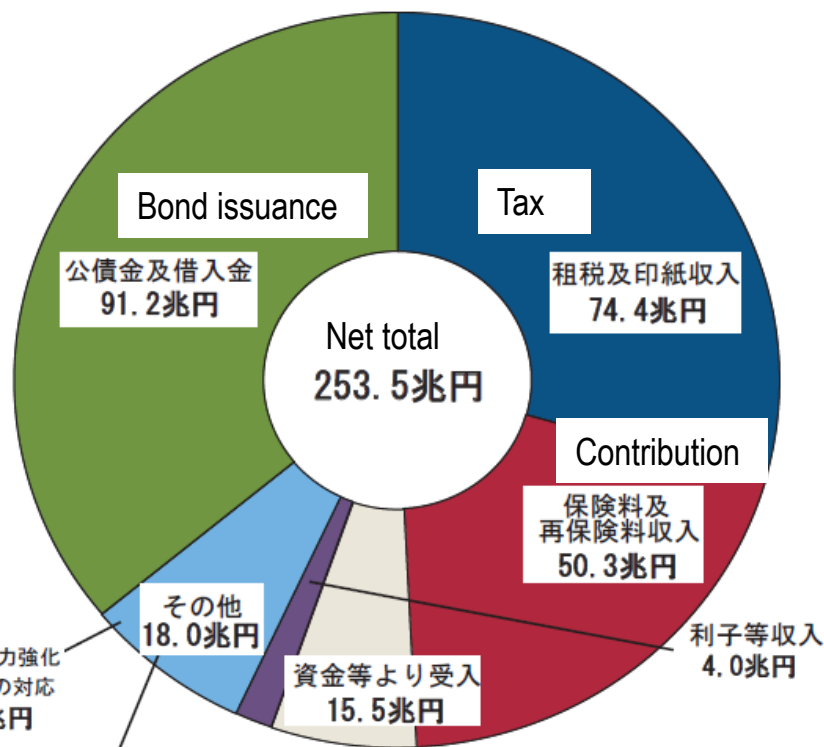
- Special accounts are big
 - Focus on specific revenues and expenditures in order to improve administrative efficiency
 - Debt service, social welfare benefits, local allocation tax grants, ...
 - Transfers among accounts
 - 「[特別会計ハンドブック](#)」

Expenditures	FY 2023 budget (Trillion yen)
General account	114.4
Total of special accounts	441.9
Gross total	556.3
Net of general and special	253.6

FY2023 National budget

【歳入】

Revenue



【その他の内訳】うち書きは防衛力強化のための対応分

雑収入 11.2兆円	国有財産処分収入 0.7兆円
うち 0.4兆円	うち 0.4兆円
前年度剰余金受入 2.9兆円	回収金等収入 0.4兆円
納付金 2.5兆円	国有財産利用収入 0.3兆円
うち 0.1兆円	官業収入 0.1兆円

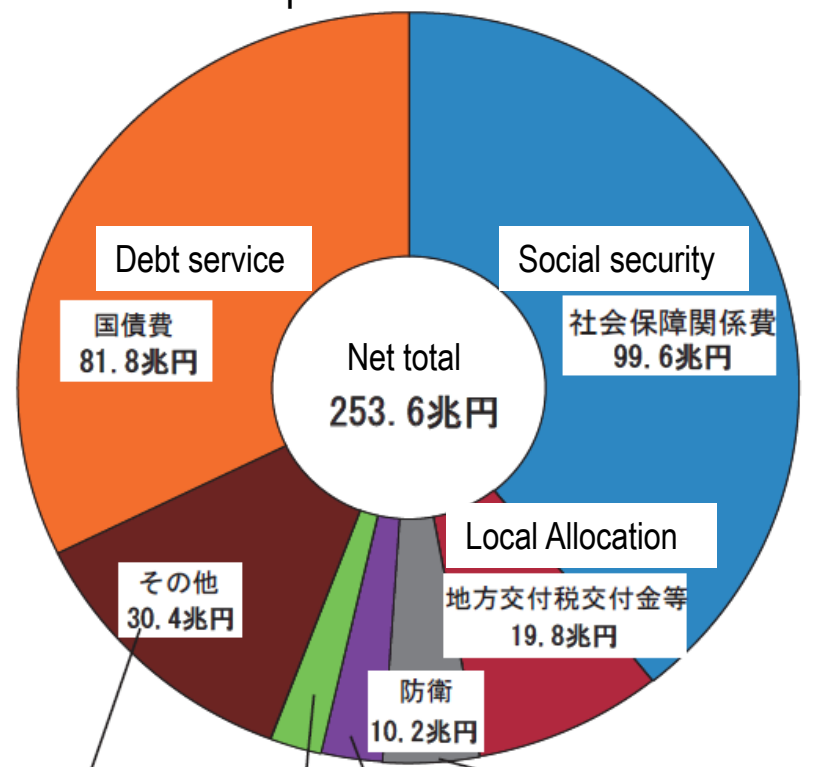
【その他の内訳】

その他の事項経費 19.6兆円
(うち財政投融資特別会計 12.6兆円)
新型コロナウイルス感染症及び
原油価格・物価高騰対策予備費 4.0兆円
食料安定供給関係費 2.0兆円
エネルギー対策費 1.7兆円

予備費 1.2兆円
ウクライナ情勢経済緊急対応予備費 1.0兆円
経済協力費 0.5兆円
中小企業対策費 0.2兆円
復興加速化 福島再生予備費 0.1兆円
恩給関係費 0.1兆円

【歳出】

Expenditure



文教科振費 5.4兆円

公共事業 6.4兆円

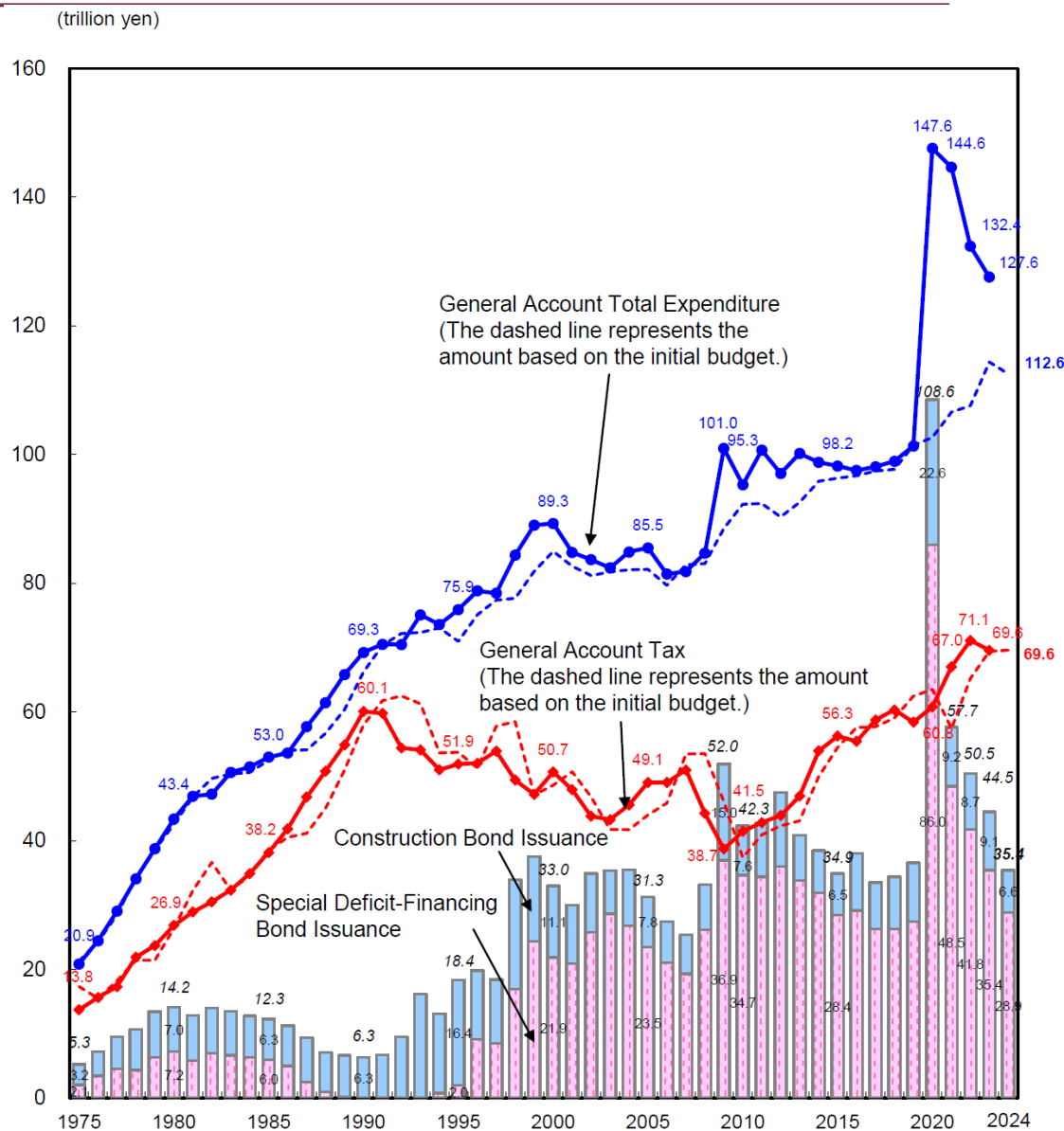
Note: which government?

□ This graph

- General account of national budget
- Excluding special accounts and local government

□ International stats

- “General government” in SNA
- Sometimes “central government”



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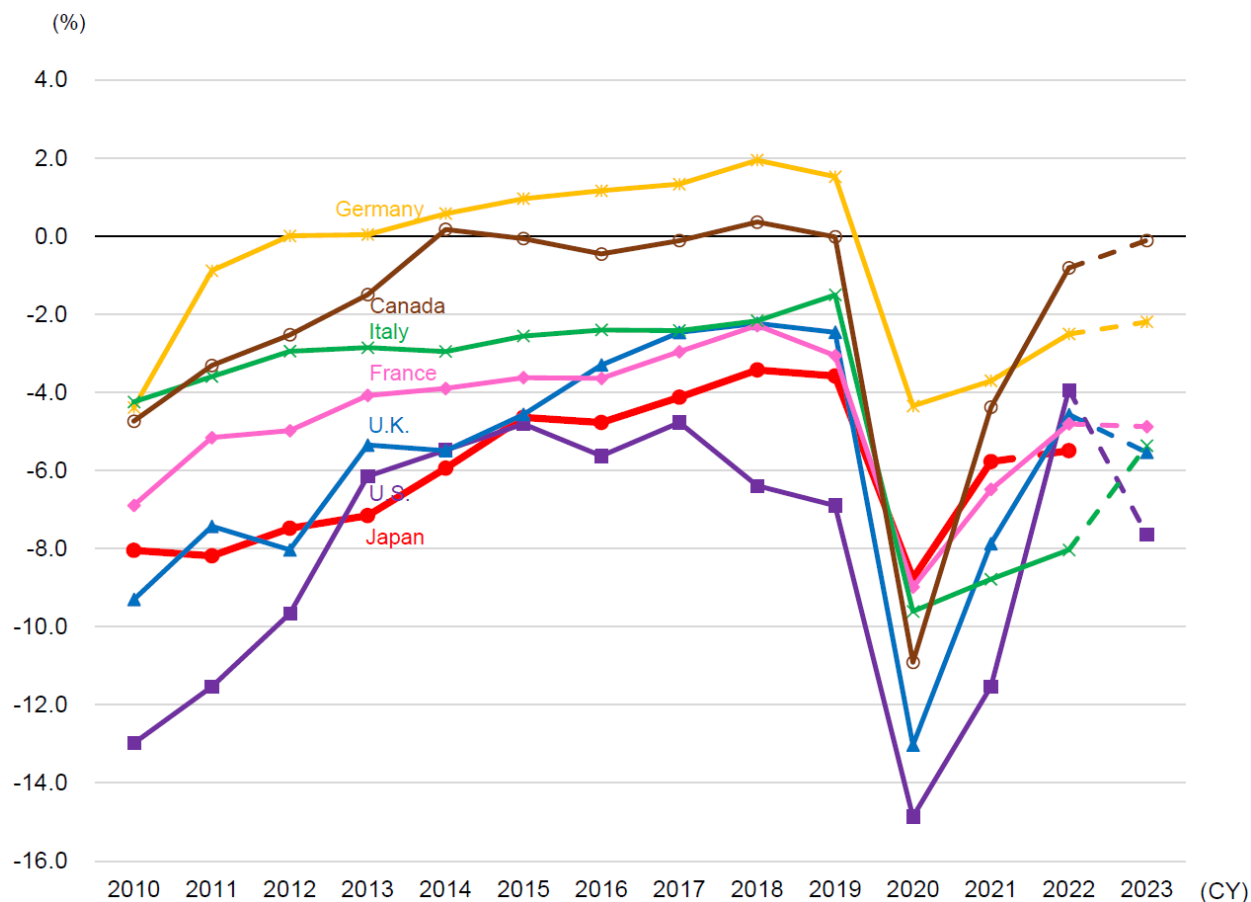
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General govt fiscal balance

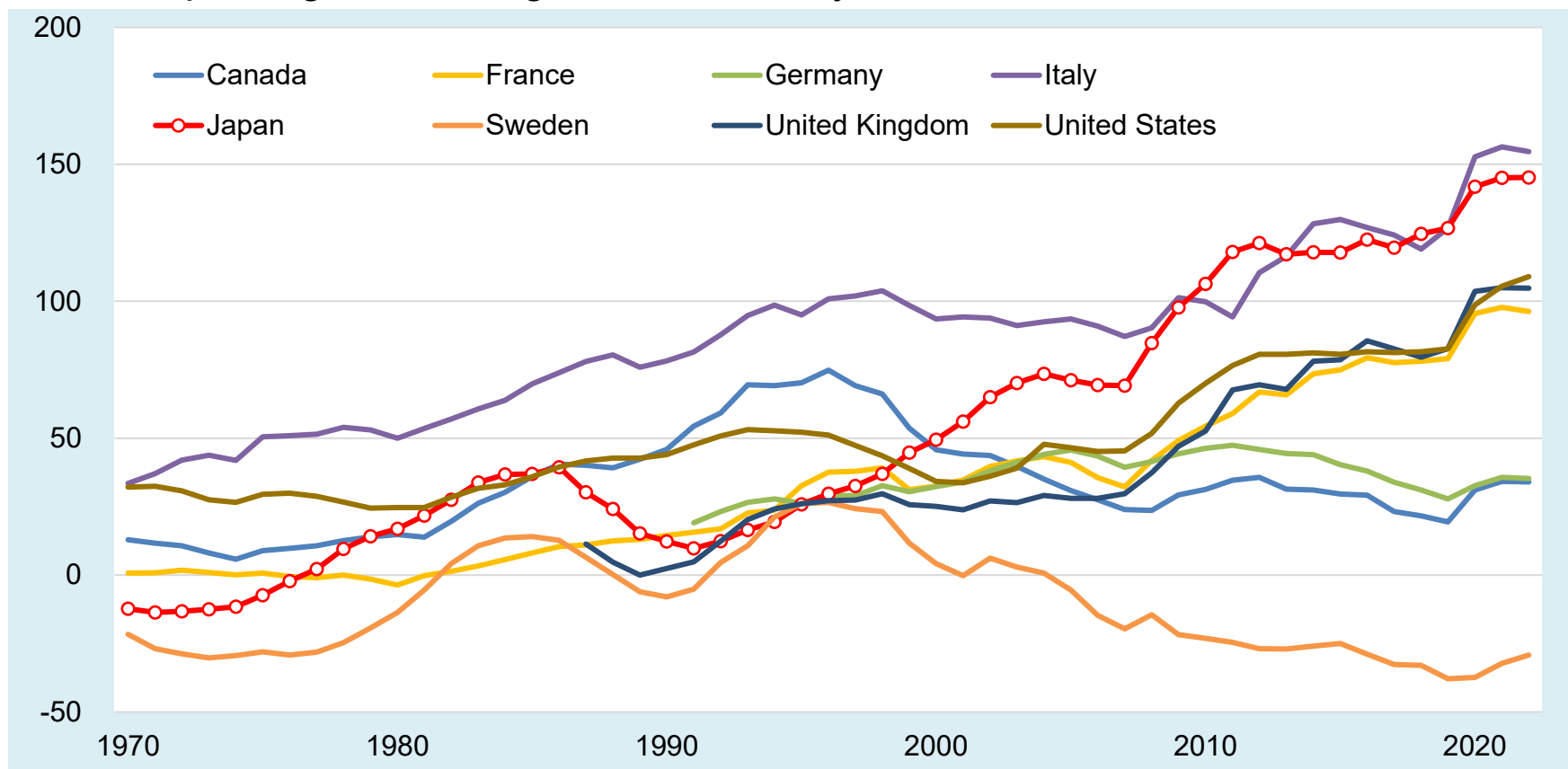
□ General government (SNA)

- Social security funds are excluded for Japan and US



Net financial liability

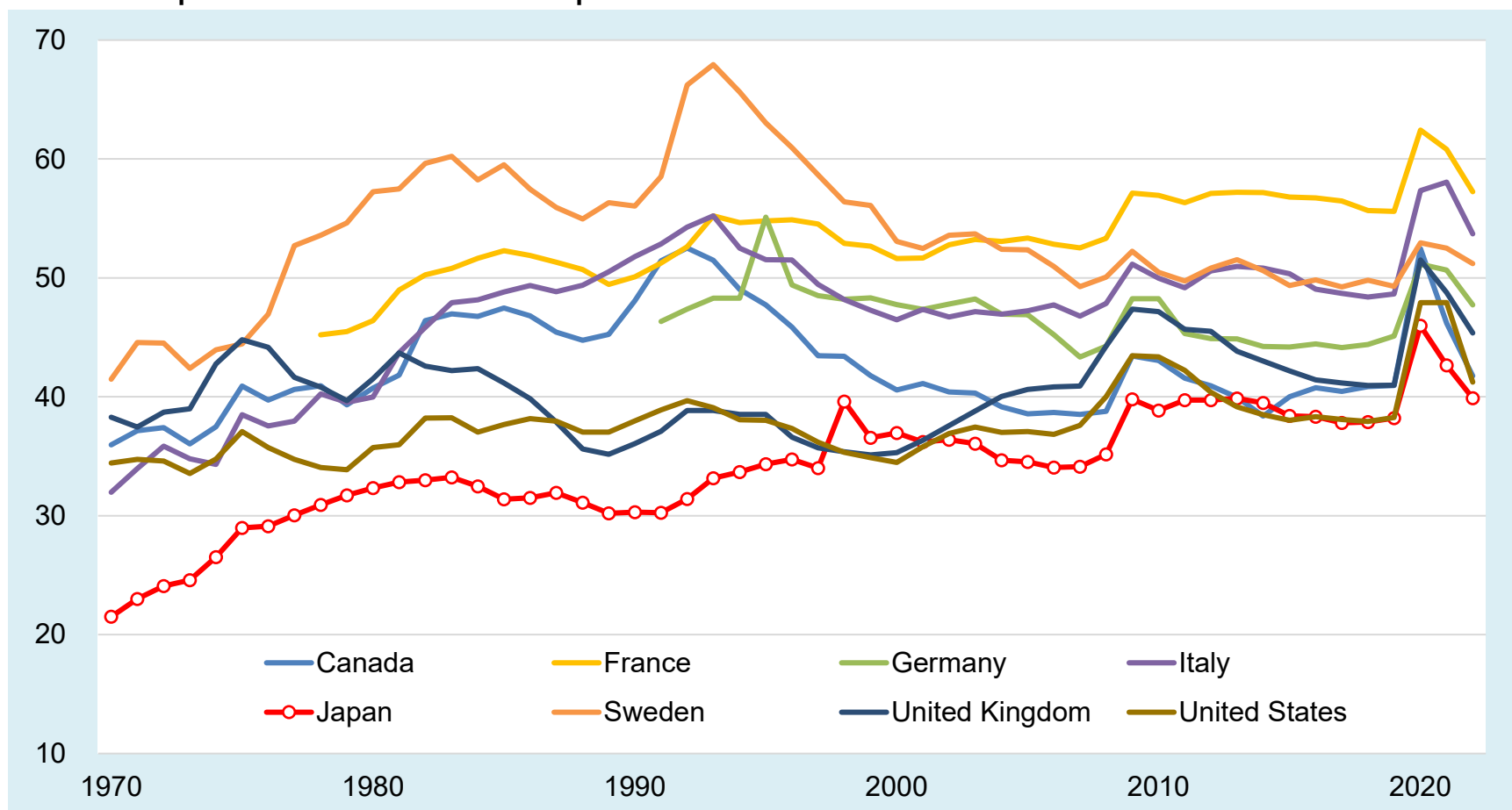
- General government, as % of GDP
 - Gross liability exceeds 250% of GDP
 - Japan's govt has huge social security funds. BOJ holds JGB.



Source: OECD Economic Outlook 109. <https://stats.oecd.org/>
General government net financial liabilities as a percentage of GDP.

Total disbursements (expenditures)

- Japan's expenditure is not so large
 - Compared to other developed countries

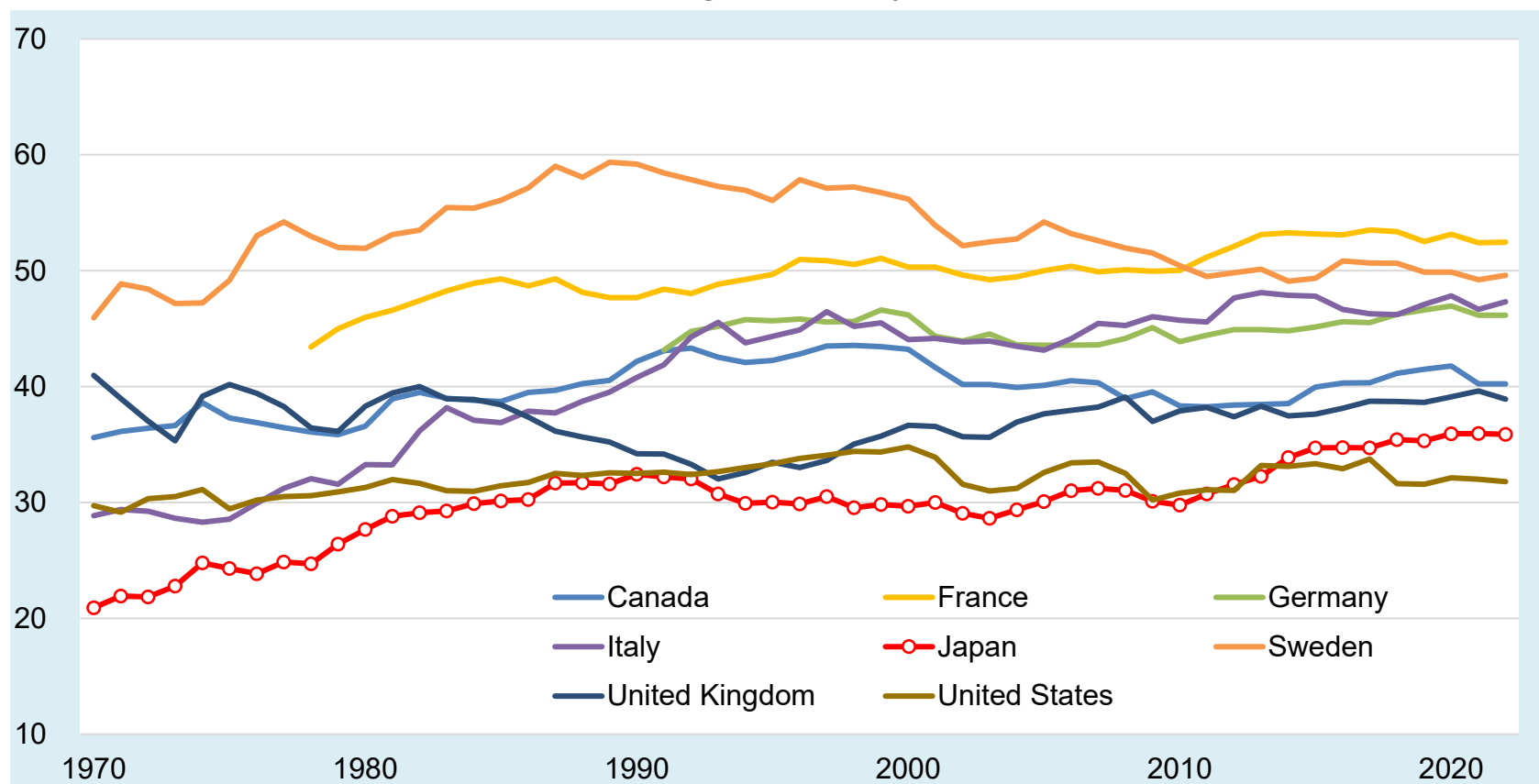


Source: OECD Economic Outlook 109. <https://stats.oecd.org/>
Total disbursements of general governments as a percentage of GDP.

Total receipts (revenues)

□ Japan's revenue is small

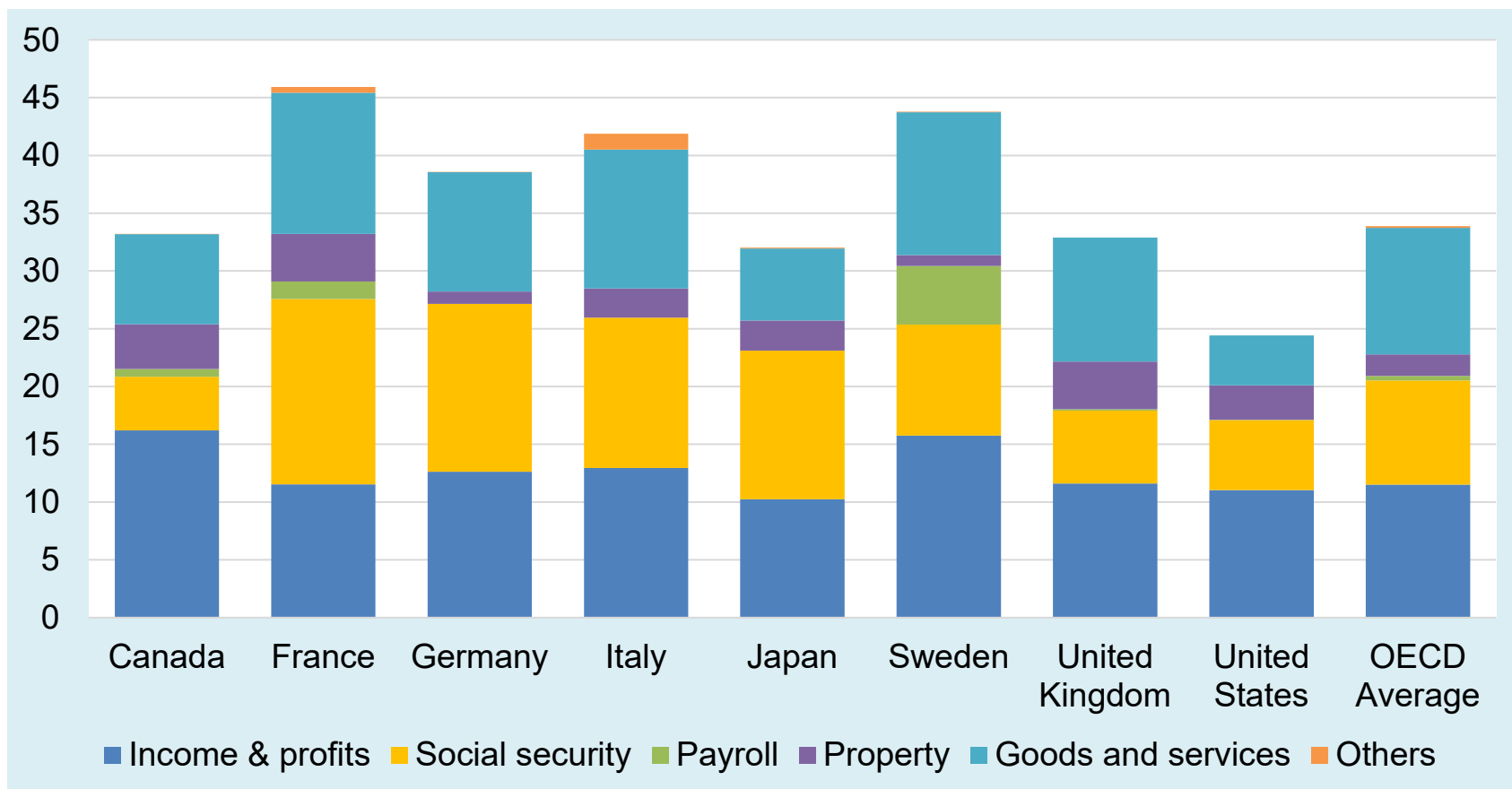
- Increasing trends until 1990, because of economic growth
- 1990-2005: tax cuts for boosting economy



Source: OECD Economic Outlook 109. <https://stats.oecd.org/>
Total receipts of general governments as a percentage of GDP.

Breakdown of tax revenues (2018)

- Large reliance on social security contributions
 - Personal income tax, corporate income tax are not very large
 - VAT is included in “goods and services”

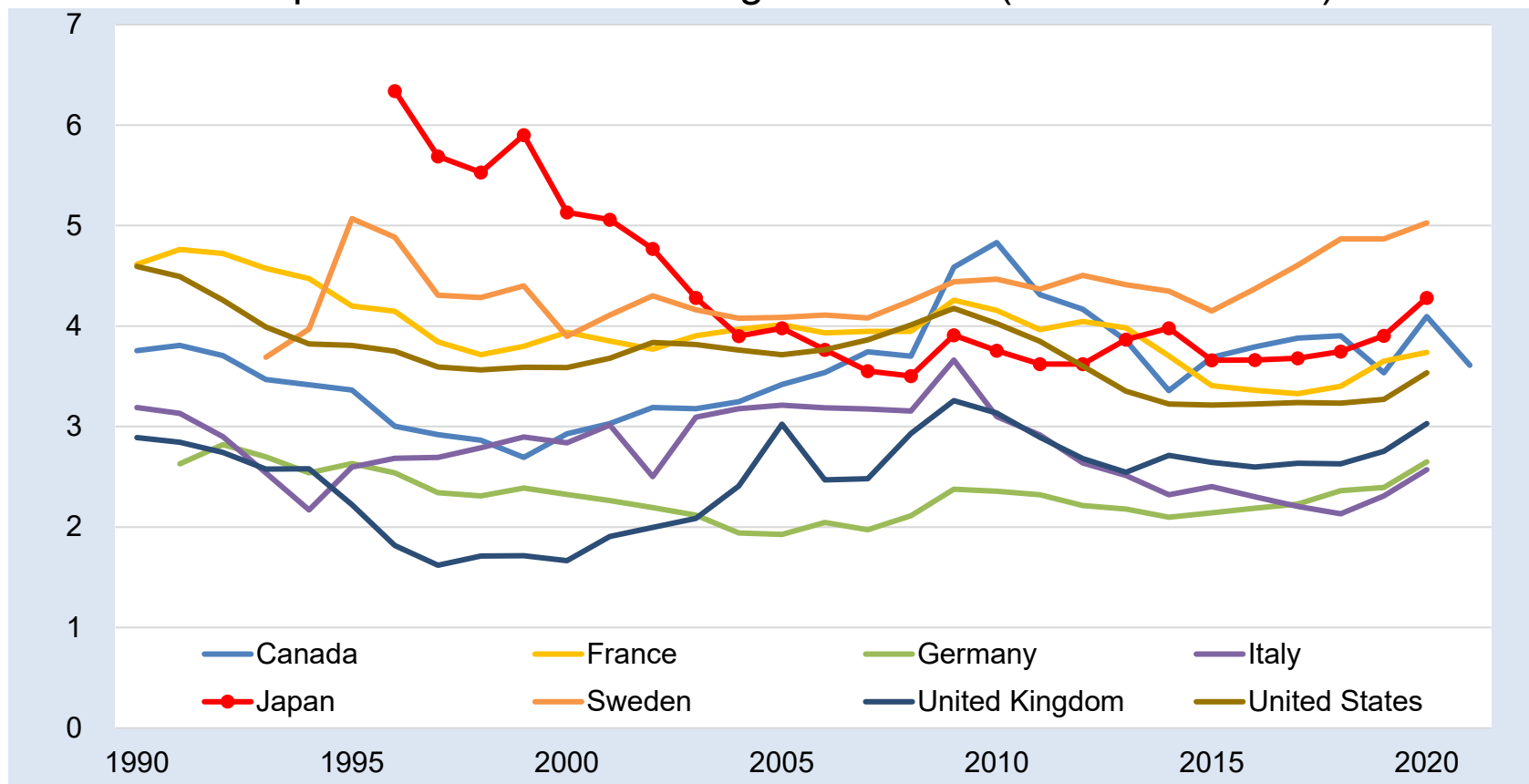


Source: OECD Revenue statistics 2020, Table 3.3. <https://doi.org/10.1787/888934209894>

Public investments

□ After the bubble burst in 1990

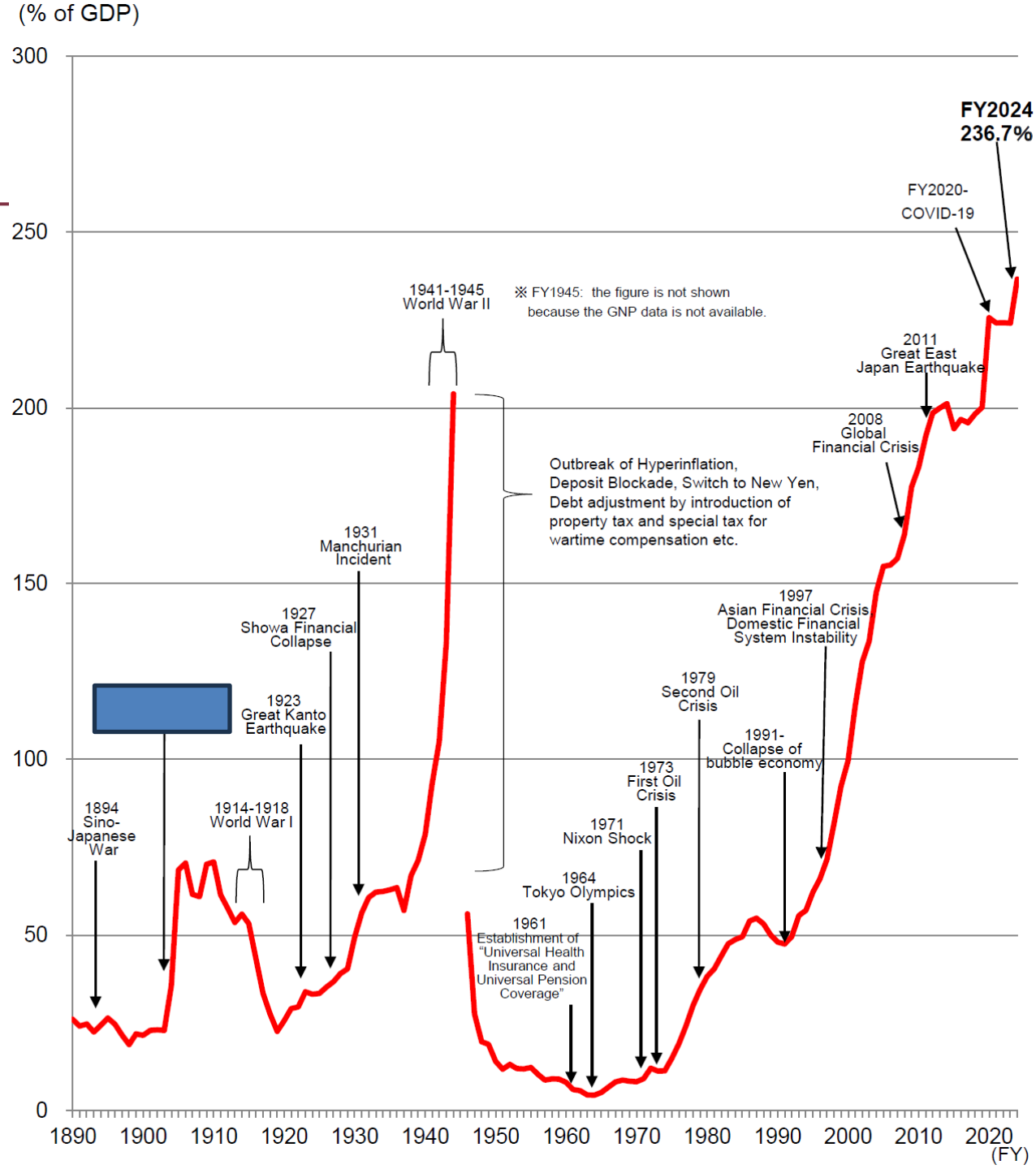
- Japan's govt depended on public works to stimulate economy
- Cut down public investment during 2001-2006 (Koizumi cabinet)



Source: OECD National Accounts at a Glance. <https://stats.oecd.org/>
Gross fixed capital formation, percentage of GDP

Debt

Japanese Public
Finance Fact
Sheet (April, 2024)



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FILP

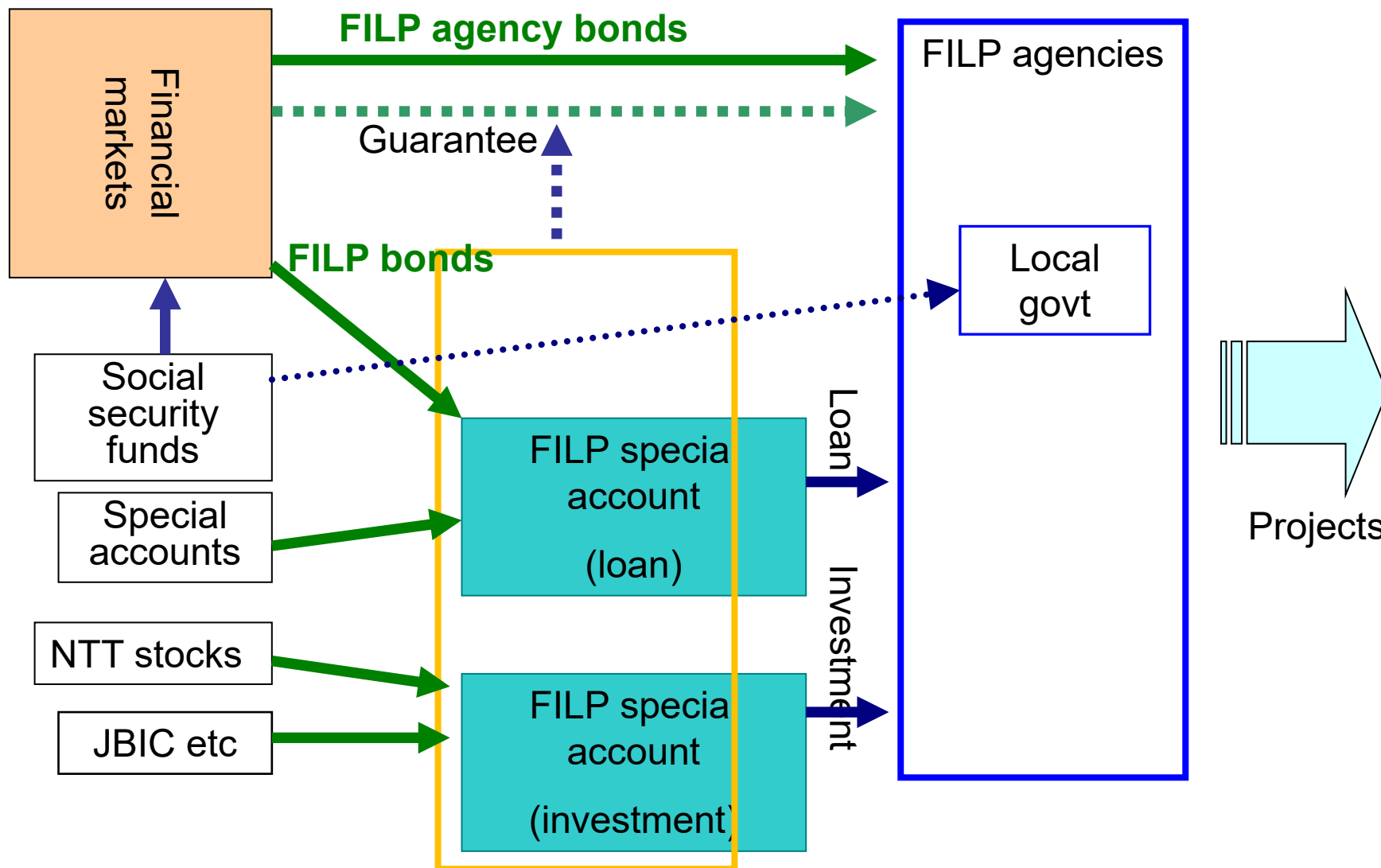
□ FILP: Fiscal Investment and Loan Program

- Governments' financial intermediation activities that collect funds through government programs (that require repayments) and allocate the funds to loans and investments
- One of governments' policy tools, along with regulation, taxation, debt and fiscal spending
- Direct lending, public guarantees, interest subsidies
- Correcting market failures
 - Credit quotas, underprovision of long-term funds
 - Projects with positive externalities
 - Infrastructure, SMEs, agriculture, ODA, local bonds, innovation, education, housing, welfare, medical care, environment...
- Raising borrowers' bargaining power as potential lenders

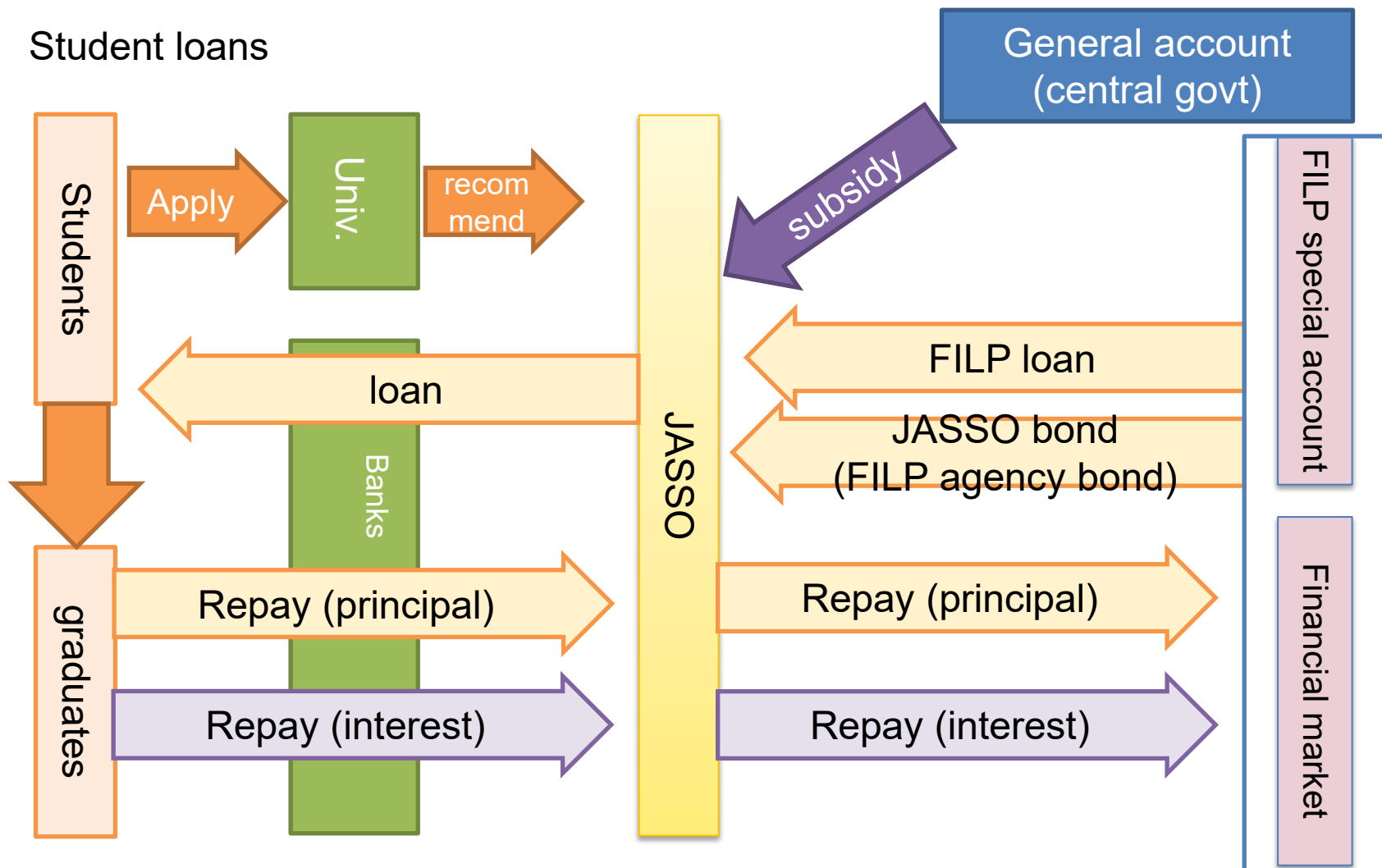
□ FILP agencies

- Clear relationship between benefits and burdens
- Direct subsidies are also used for some projects

FILP



Case of JASSO



Relationship with budgets

- FILP plan must be submitted to the Diet
- Parts of FILP must be approved by the Diet
 - FILP special account
 - Subsidies from general/special accounts
 - **“the second budget”**
 - FILP agency bonds are not included FILP plan
- FILP bonds are the same financial product as JGB in financial markets
 - Not included in debt of general government in SNA.
 - Included as debt of public corporations
- FILP plays a major role in local public finance
 - FILP lend funds to local governments
 - Local public corporations borrow FILP funds

History

	1953	1973	1987	2000	2014
Housing	5.2	18.1	26.7	34.1	5.8
Living infrastructure	7.8	16.4	16.9	17.8	14.2
Welfare	1.6	2.9	2.6	4.2	5.7
Education	4.5	2.0	3.3	2.3	7.9
SMEs	7.9	14.8	16.8	16.7	23.9
Agri, forest, fishery	11.2	4.6	3.8	2.4	2.9
Land, disaster	14.0	2.3	2.1	1.9	3.0
Road	3.7	9.4	9.9	9.3	14.0
Transportation	11.3	13.1	9.5	1.8	3.9
Regional development	3.7	3.9	2.8	2.9	1.6
Industry, tech	29.1	3.6	2.7	1.8	8.9
Trade, corporation		8.9	2.9	4.9	8.1

FILP has been used to develop important industries and other purposes according to the economic and social conditions of respective periods.

	2014	2017	2020
SMEs	23.2	19.6	22.0
Agri, forest, fishery	2.0	2.1	4.5
Education	7.0	6.2	6.8
Welfare, medical	4.8	4.4	3.6
Environment	0.3	0.4	0.4
Industry, innovation	5.2	5.4	8.8
Housing	5.2	3.6	3.9
Infrastructure	27.6	33.8	28.4
Foreign investment	9.6	16.2	15.4
Other	15.2	8.2	6.2

Issues of FILP

- Bad loans of FILP agencies
 - Not necessarily “bad” loans just because they receive subsidies
 - Subsidies are used to carry out projects that are necessary for policy reasons and cannot be carried out by for-profit private companies, and if subsidies are not needed, then FILP should not be used.
- Lack of fiscal discipline by underwriting JGBs and municipal bonds
 - Postponement of burden through easy long-term borrowing
- Inefficient management
 - More “government failure”
 - Expected “implicit government guarantee”
- Unclear positioning of FILP bonds
 - Not evaluated on project-by-project basis
 - What a difference from JGBs?

Expenditure breakdown

- Share of central government is not very large

Revenue	Central	Local	Social security
Tax	64,166.6	40,997.6	0.0
Contribution	421.8	1,775.6	71,566.5
Intergov Transfer	389.6	50,325.9	41,327.3
Total	64,588.4	42,773.2	71,566.5
Share	36%	24%	40%
Expenditure	Central	Local	Social security
Collective consumption	15,807.2	28,587.9	22.7
Transfer in kind	1,864.9	19,341.1	48,082.1
Transfer in cash	1,032.5	8,811.1	59,569.6
Intergov transfer	78,094.9	12,172.9	1,775.0
Gross capital formation	7,826.7	15,541.7	62.8
Land purchase	400.6	779.9	-0.6
Total	26,931.9	73,061.7	107,736.6
Share	13%	35%	52%