

Chapter 4

Finance



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(Left) Silver coin: Konjikido at Chuson-ji, Chuson-ji lotus and Motsuji Pure Land Garden

(Right) Bicolor clad coin: Shin-ooido at Chuson-ji and Gokusui no En Festival at Motsuji

From a series of commemorative coins each featuring a design unique to the 47 respective prefectures, which have been issued in sequence since FY2008 in commemoration of the 60th anniversary of the enactment of the Local Autonomy Law. In 2011, "Hiraizumi - Temples, Gardens and Archaeological Sites Representing the Buddhist Pure Land," with Chuson-ji and Motsuji among them, became inscribed on UNESCO's World Heritage Site List.

1. National and Local Government Finance

(1) National Government Finance

Japan's fiscal year starts in April, and ends in March of the following year. In setting the national budget, the government submits a proposed budget for the upcoming fiscal year to the Ordinary Session of the Diet, which begins in January. The proposal is then discussed, and an initial budget is approved usually before the fiscal year begins in April. In the event that the Diet does not approve the budget by the end of March, an interim budget comes into effect. The interim budget is effective from the beginning of April until such time when the proposed budget is approved. If it becomes necessary to amend the budget in the course of a fiscal year, the government submits a supplementary budget for Diet approval. In May 2011, the government budgeted, in the form of the supplementary budget for fiscal year 2011, part of the expenditures expected to be required within the fiscal year for the purpose of prompt recovery from the Great East Japan Earthquake.

Japan's national budget consists of the general account, special accounts, and the budget for government-affiliated agencies. Using revenues from general sources such as taxes, the general account covers core national expenditures such as social security, public works, culture/education/science and national defense. Special accounts are accounts established for the national government to carry out projects with specific objectives, and are managed and administered independent of the general account. The number and particulars of special accounts change from year to year; for fiscal 2011, a total of 17 special accounts have been established, including the national debt consolidation fund and the grants of allocation tax and transferred tax. Government-affiliated agencies are entities established by special laws and are entirely funded by the government. Currently, the Japan Finance Corporation, the Okinawa Development Finance Corporation, and the Japan International Cooperation Agency (Loan Aid Section) are operated as government-affiliated agencies.

Table 4.1
Revenue and Expenditure of National Government Finance

(Billion yen)				
Fiscal year	General account	Special accounts	Net total ¹⁾	Government-affiliated agencies
Revenue				
1995	80,557	267,814	193,858	7,657
2000	93,361	341,146	234,670	7,019
2005	89,000	452,141	283,202	4,710
2007	84,553	395,920	247,230	2,604
2008	89,208	387,740	235,971	1,825
2009	107,114	377,893	246,280	1,277
2010 ²⁾	100,669	402,426	249,962	a) 2,200
2011 ³⁾	92,412	400,020	232,687	1,843
Expenditure				
1995	75,939	232,466	155,325	7,536
2000	89,321	305,776	199,466	6,988
2005	85,520	401,184	230,183	4,103
2007	81,843	353,283	203,515	2,065
2008	84,697	359,198	204,781	1,785
2009	100,973	348,060	212,710	1,530
2010 ²⁾	100,531	361,591	211,646	a) 3,135
2011 ³⁾	92,412	384,885	220,275	2,613

1) Net total deducting duplications of the general account and special accounts.

2) Final estimates as of the end of December 2010. 3), a) Initial budget.

Source: Ministry of Finance.

The size of the general account budget expenditure expanded to 89.32 trillion yen in fiscal 2000. This expansion was caused by the increasing costs of social security, which have been triggered by the rapidly aging society, and a series of economic measures implemented after the collapse of the bubble economy. Since then, the national government finance has been facing severe difficulties.

The size of the general account budget for fiscal 2011 was 92.41 trillion yen, an increase of 0.11 trillion yen (0.1 percent) from the initial budget of fiscal 2010. This is equivalent to 19.1 percent of the fiscal 2011 GDP, forecasted by the government at 483.8 trillion yen.

Table 4.2
Expenditure of General Account

(Billion yen)

Fiscal year	Total	General expenditures	Social security	Education and science	Pensions	National defense	Public works
	(A)+(B)+(C)	(A)					
1995	75,939	50,816	14,543	6,667	1,707	4,720	12,795
2000	89,321	52,046	17,636	6,872	1,418	4,907	11,910
2005	85,520	49,343	20,603	5,701	1,065	4,878	8,391
2007	81,843	47,621	21,141	5,458	941	4,758	7,257
2008	84,697	49,852	22,562	5,487	856	4,803	6,921
2009	100,973	65,955	28,716	6,158	781	4,811	8,353
2010 ¹⁾	96,728	57,702	28,645	5,833	714	4,800	6,359
2011 ²⁾	92,412	54,078	28,708	5,510	643	4,775	4,974

Fiscal year	Economic cooperation	Small- and medium-sized business promotion	Energy measures	Food stable supply	Others	National debt service	Local allocation tax grants, etc.
						(B)	(C)
1995	1,034	623	708	269	7,751	12,820	12,302
2000	1,012	933	677	247	6,434	21,446	15,829
2005	784	237	493	657	6,536	18,736	17,441
2007	787	418	866	674	5,321	19,290	14,932
2008	800	1,074	868	1,051	5,431	19,166	15,679
2009	801	2,915	994	1,036	11,391	18,445	16,573
2010 ¹⁾	726	774	844	1,194	7,814	20,236	18,790
2011 ²⁾	530	197	856	1,159	6,726	21,549	16,785

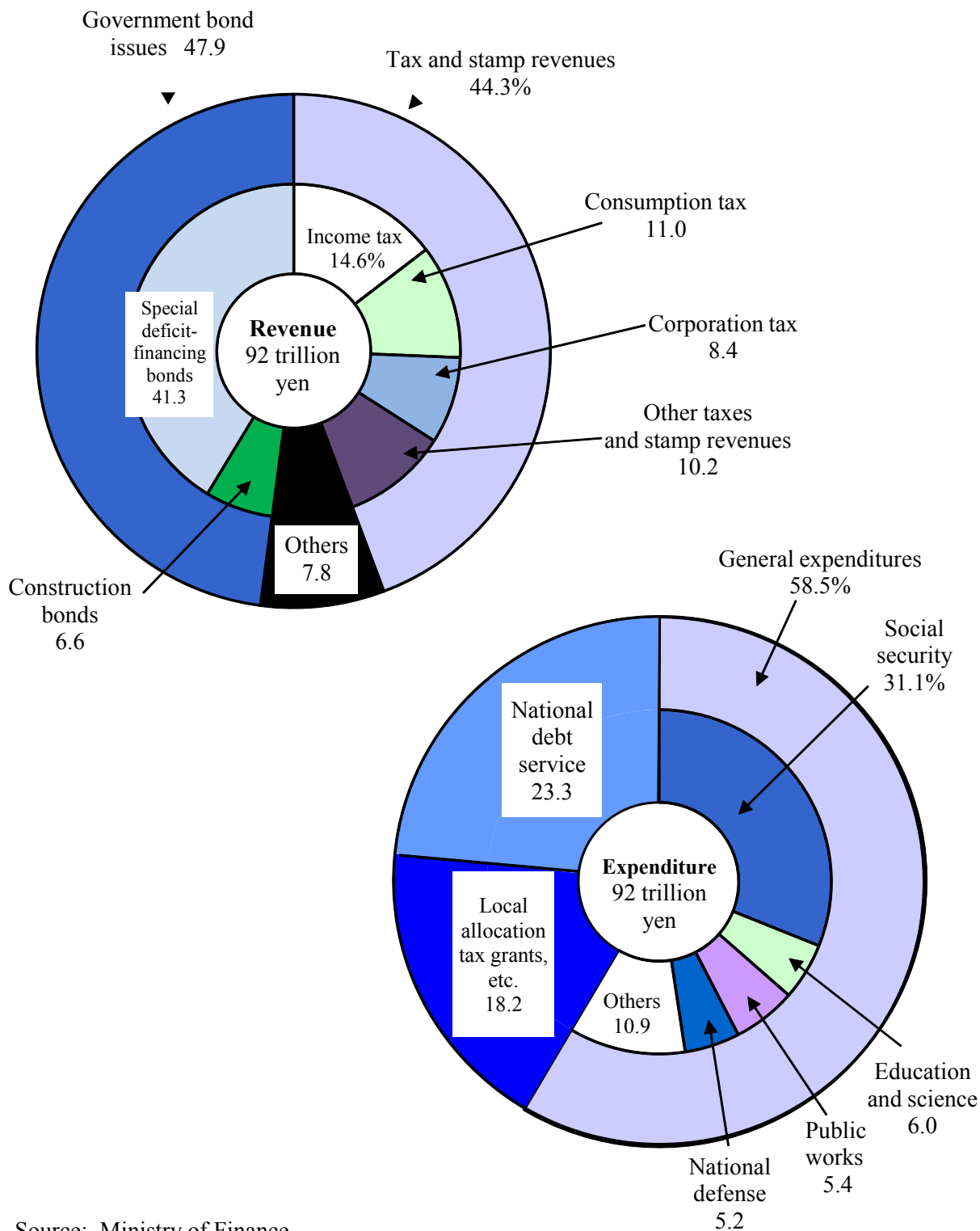
1) Revised budget. 2) Initial budget.

Source: Ministry of Finance.

In fiscal 2011, major expenditures from the initial general account budget include social security (31.1 percent), national debt service (23.3 percent), local allocation tax grants, etc. (18.2 percent), education and science (6.0 percent), and public works (5.4 percent).

With regard to revenue sources for the fiscal 2011 initial general account budget, income tax, consumption tax and corporation tax account for 34.0 percent. Even with the addition of other taxes and stamp revenues, these revenue sources only amount to 44.3 percent of the total revenue.

Figure 4.1
Composition of Revenue and Expenditure of General Account Budget
 (Initial budget, FY2011)



Source: Ministry of Finance.

(2) Local Government Finance

There are two budget categories in the local government finance: the ordinary account and the public business accounts. The former covers all kinds of expenses related to ordinary activities of the prefectural and municipal governments. The latter covers the budgets of independently accounted enterprises such as public enterprises (water supply and sewerage utilities, hospitals, etc.), the national health insurance account and the elderly medical care account.

While expenditures such as national defense are administered solely by the national government, a large portion of expenditures that directly relate to the people's everyday lives are disbursed chiefly through local governments. In particular, a high proportion of the following expenditures are disbursed through local governments: public hygiene and sanitation expenses, which include areas such as medical service and waste disposal; school education expenses; expenses covering judicial, police and fire services; and public welfare expenses, which cover the development and management of welfare facilities for children, the elderly and the mentally and physically challenged.

The revenue composition of local governments usually remains almost the same each fiscal year, while their budget scale and structure vary from year to year. The largest portion of fiscal 2008 (net) revenues came from local taxes, accounting for 42.9 percent of the total. The second-largest source, 16.7 percent, was local allocation tax grants, which are allocations from the national government to local governments from national tax revenues, in certain percentages of income tax, corporation tax, liquor tax, consumption tax and tobacco tax revenues, to secure financial resources for standard public services and basic social infrastructure so that they should be available to residents of all regions. Local governments with stable tax revenues do not receive local allocation tax grants, though such comprise a large proportion of revenues in financially-fragile local governments.

Table 4.3
Local Government Finance¹⁾ (Ordinary account)

	(Billion yen)				
Item	FY2004	FY2005	FY2006	FY2007	FY2008
Revenue	93,442	92,936	91,528	91,181	92,213
Local taxes	33,539	34,804	36,506	40,267	39,559
Local allocation tax grants	17,020	16,959	15,995	15,203	15,406
Treasury disbursements	12,350	11,778	10,416	10,222	11,583
Local government bonds	12,375	10,376	9,622	9,584	9,922
Expenditure	91,248	90,697	89,211	89,148	89,691
General administration	8,941	8,737	8,618	8,906	8,920
Public welfare	15,132	15,693	16,259	16,976	17,821
Labor	359	317	296	276	663
Sanitation	5,785	5,707	5,510	5,436	5,390
Civil engineering work	15,235	14,417	13,853	13,391	12,871
Education	16,910	16,578	16,472	16,432	16,147

1) Settled figures of the net total of prefectural and municipal government accounts after deducting duplications.

Source: Ministry of Internal Affairs and Communications.

(3) National and Local Government Finance

The net total indicates the actual amount of governmental expenditures after eliminating duplications such as the transfer of funds between different accounts in the national budget, the local allocation tax grants and other subsidies from the national government to local governments. In the initial budget for fiscal 2010, the gross total of national government expenditure was 463 trillion yen. However, after eliminating duplications, the net total was 218 trillion yen. Furthermore, the local public finance program, which consists of the estimated sum of ordinary accounts for the following fiscal year for all local governments, amounted to 82 trillion yen. Therefore, after eliminating duplications between national and local accounts (32 trillion yen), the net total of both national and local government expenditures combined was 268 trillion yen.

Table 4.4
Expenditures of National and Local Governments (Initial budget)

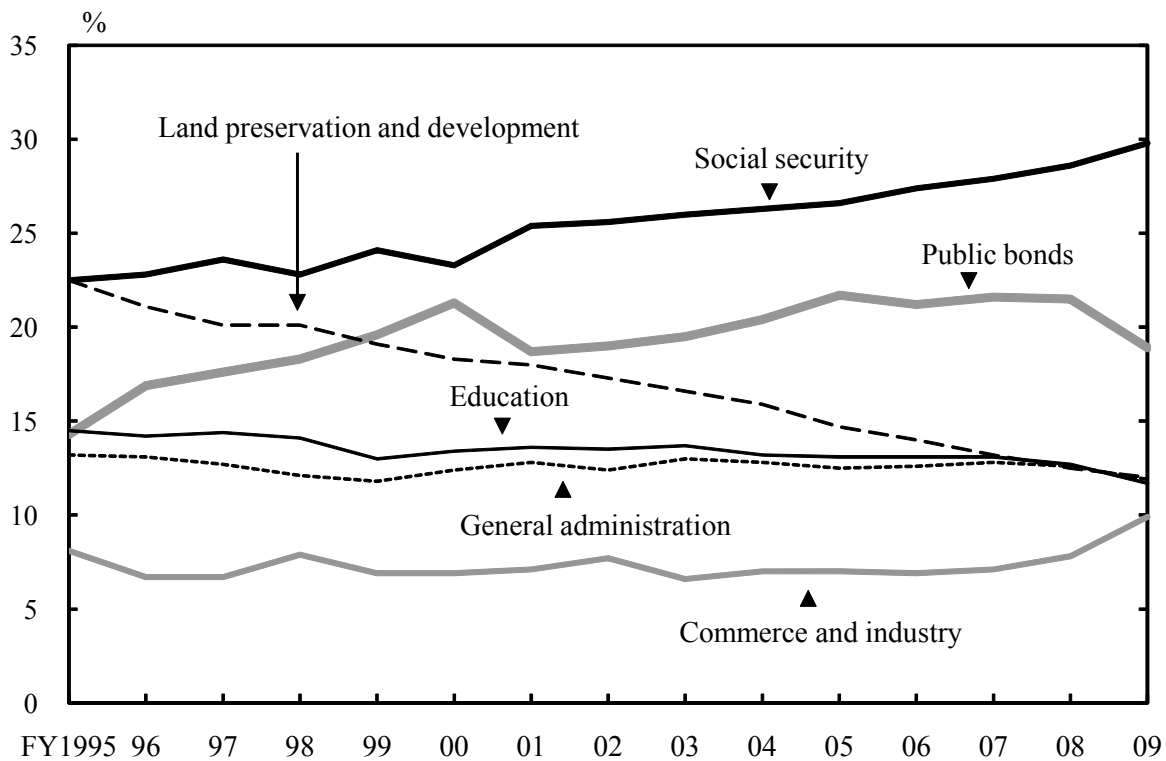
(Billion yen)

Item	Expenditures					
	FY1995	FY2000	FY2005	FY2008	FY2009	FY2010
General account	70,987	84,987	82,183	83,061	88,548	92,299
Special accounts	241,718	318,689	411,944	368,448	354,915	367,074
Government-affiliated agencies	8,086	7,661	4,678	1,956	2,126	3,135
Gross total (national)	320,792	411,337	498,805	453,465	445,589	462,508
Duplications	160,054	200,435	257,490	239,366	237,338	244,744
Net total (national)	160,738	210,902	241,316	214,099	208,251	217,764
Local public finance program	82,509	88,930	83,769	83,401	82,556	82,127
Gross total (national + local)	243,247	299,832	325,084	297,500	290,807	299,891
Duplications	32,035	37,216	32,689	27,871	29,173	31,563
Net total (national + local)	211,213	262,616	292,395	269,629	261,634	268,328

Source: Ministry of Finance.

In fiscal 2009, the net total of national and local government expenditures was 262 trillion yen, approximately 60 percent of which, net of overlaps, were expenditures "directly related to people's lives." The national government disbursed 43 percent of this amount, while the local governments disbursed 57 percent.

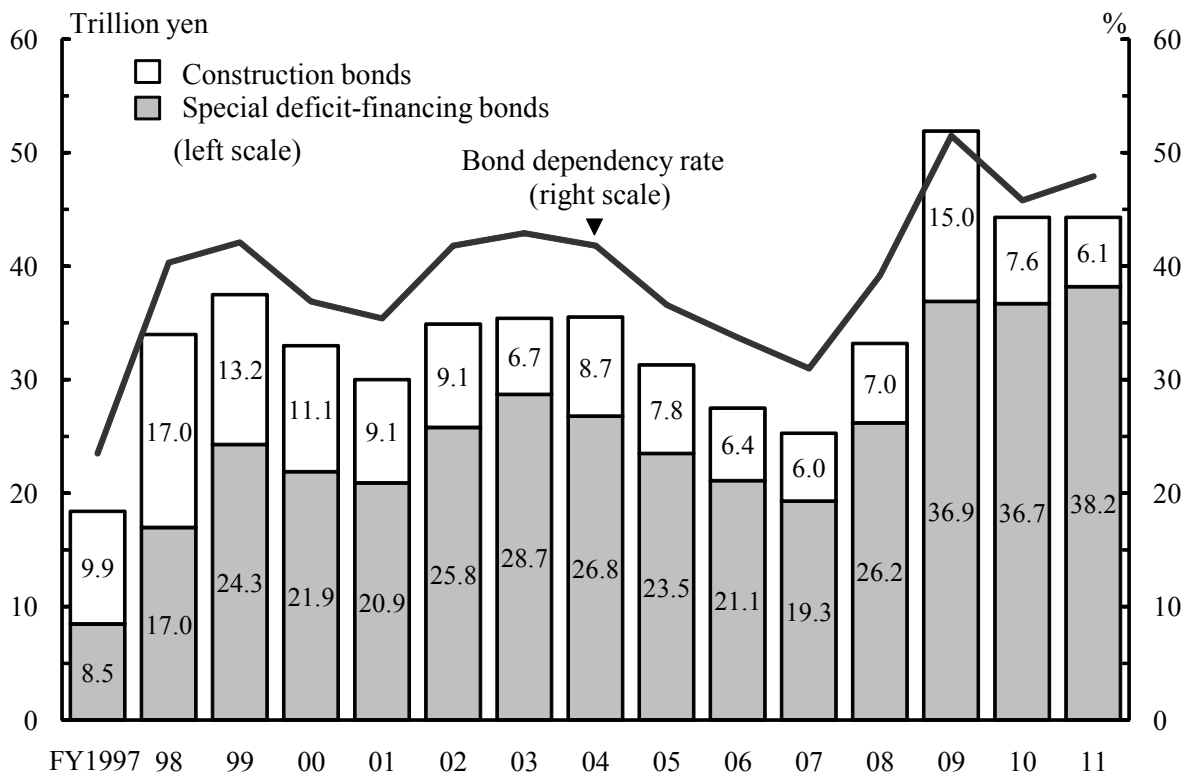
Figure 4.2
Trends in Ratio of Net Total National and Local Expenditures
by Function



Source: Ministry of Internal Affairs and Communications.

A function-by-function breakdown of expenditures "directly related to people's lives" showed that social security expenditure accounted for the largest portion (29.8 percent), followed by public bonds (18.9 percent), land preservation and development (12.0 percent), and then general administration (11.9 percent). Public bonds are issued to compensate for shortages of national and local revenues. Their issue volumes have increased mainly due to, for example, economic stimulus measures and decreasing tax revenues since 1992. A rising amount of public bond redemptions, among other factors, has resulted in public bonds making up a high percentage of government expenditures net of overlaps.

Figure 4.3
Trends in National Government Bond Issue ¹⁾

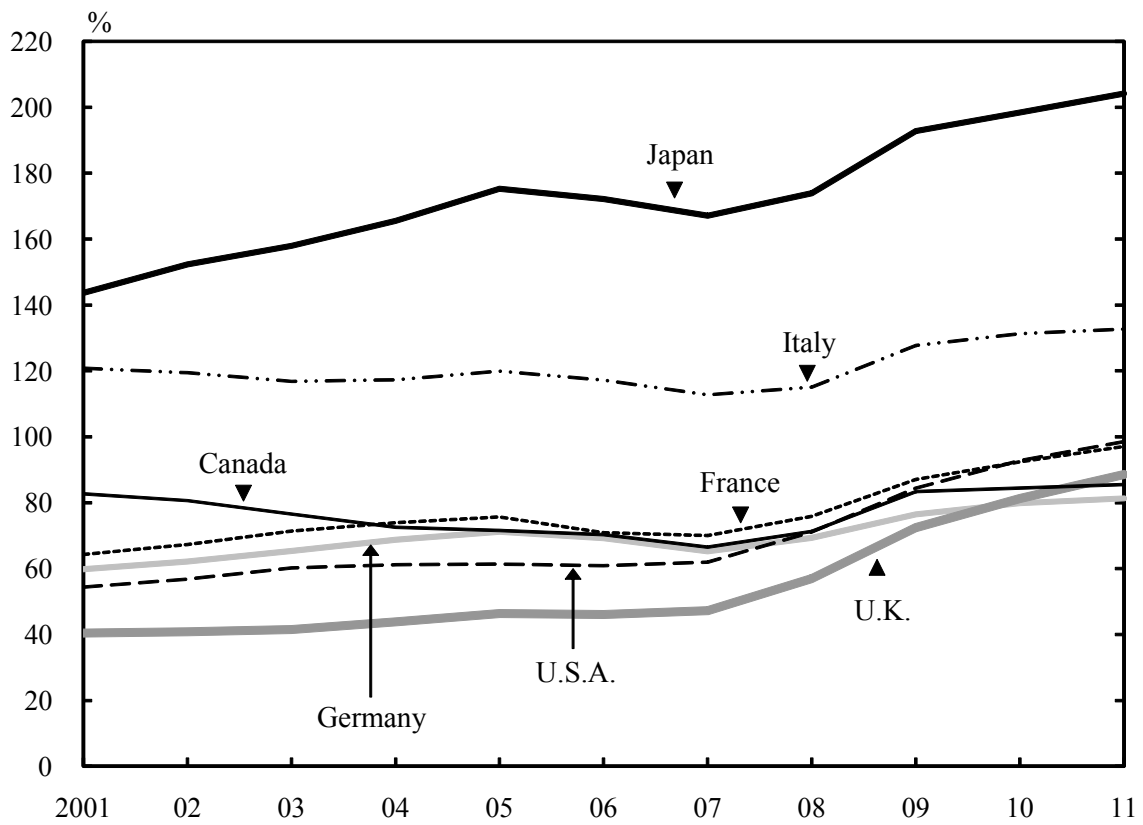


1) Settlement basis. FY2010 figures based on the revised budget. FY2011 figures based on the initial budget.

Source: Ministry of Finance.

Japan's ratio of outstanding general government debt to GDP, a stock measure in a fiscal context, has been deteriorating rapidly due to its public bond issues over a series of years and is now the worst among major industrial countries.

Figure 4.4
Ratio of General Government Gross Debt to GDP

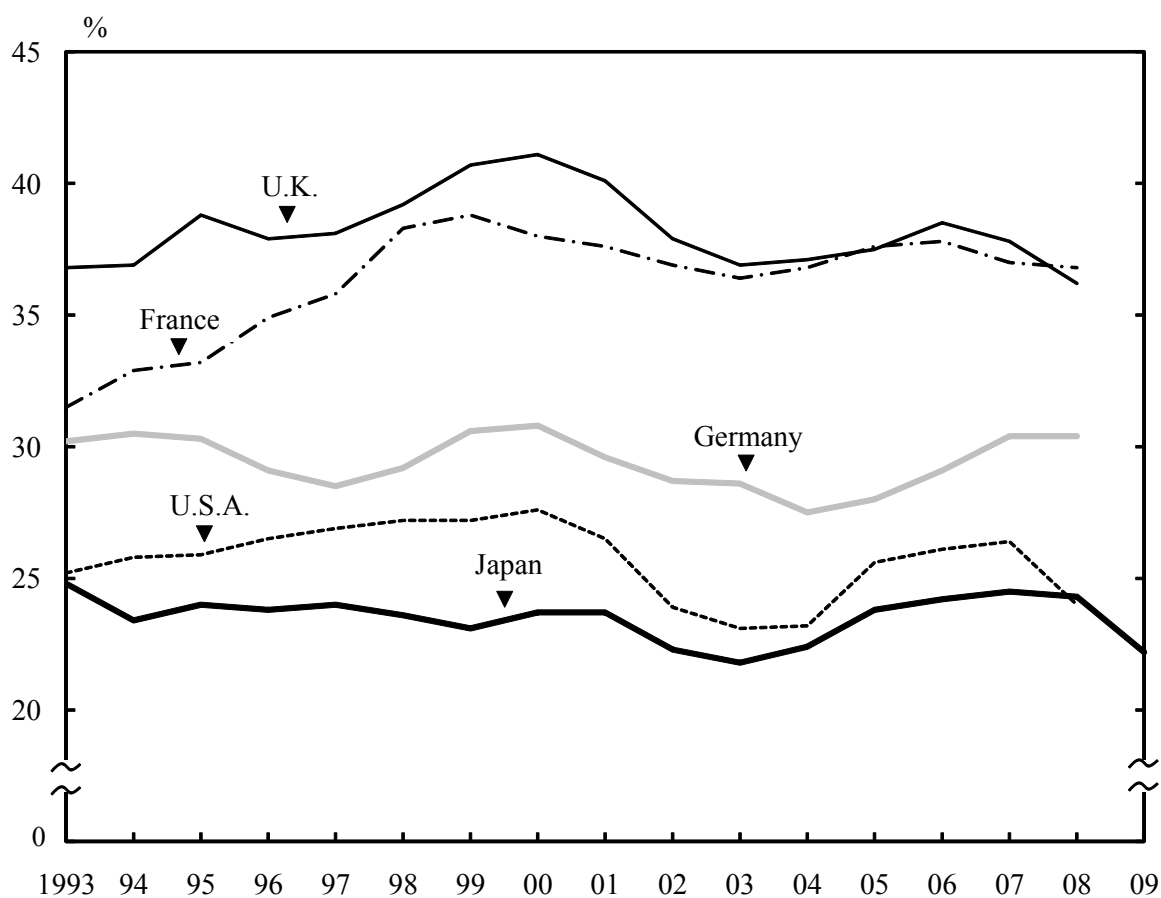


Source: Ministry of Finance.

(4) Tax

Taxes consist of national tax (income tax, corporation tax, etc.), which is paid to the national government, and local tax, which is paid to the local government of the place of residence. The ratio of taxation burden, which is the ratio of national and local taxes to national income, was 18.3 percent in fiscal 1975. This ratio gradually increased thereafter, reaching 27.7 percent in fiscal 1990. Since then, however, the ratio has decreased due to the decline in tax revenue arising from the recession that ensued after the bubble economy ended, showing 21.8 percent in fiscal 2003. In fiscal 2011, it was 22.0 percent in terms of national and local taxes combined (12.3 percent for national tax and 9.7 percent for local tax). Japan's ratio is lower in comparison with other major industrial countries. Nevertheless, there is a possibility that the taxation burden will become heavier due to an increase in welfare and pension-related spending as the population ages.

Figure 4.5
Ratio of Taxation Burden to National Income by Country ¹⁾



1) Actual basis.

Source: Ministry of Finance.

2. Bank of Japan and Money Stock

As the central bank, the Bank of Japan (i) issues Bank of Japan notes, or the currency of Japan; (ii) manages and stores treasury funds and provide loans to the government; (iii) provides deposit and loan services to general financial institutions; and (iv) implements monetary policies by adjusting the level of money stock to promote sound development of the economy.

At the end of 2010, currency in circulation totaled 86.86 trillion yen (82.31 trillion yen in Bank of Japan notes and 4.54 trillion yen in coins), up 1.6 percent from the year before.

Table 4.5
Currency in Circulation (Outstanding at year-end)

				(Billion yen)
Year	Bank of Japan notes	Coins	Total	
2006	79,837	4,529	84,365	
2007	81,278	4,577	85,855	
2008	81,478	4,590	86,069	
2009	80,954	4,556	85,511	
2010	82,314	4,541	86,856	

Source: Bank of Japan.

Table 4.6
Money Stock^{1) 2)}

							(Billion yen)
Year	M2	M3				Broadly-defined liquidity	
			M1	Quasi-money	CDs		
2006	713,793	1,026,270	484,241	519,139	22,890	1,395,605	
2007	728,538	1,033,127	486,783	523,921	22,423	1,433,201	
2008	741,707	1,040,618	481,754	536,254	22,610	1,425,441	
2009	764,385	1,063,751	486,937	551,176	25,637	1,443,624	
2010	782,287	1,082,940	501,468	550,545	30,928	1,442,874	

1) Average outstanding. December of each year. 2) "Money stock" indicates the balance of currency held by corporations, individuals, local governments, etc.

Source: Bank of Japan.

The Bank of Japan compiles and publishes statistics on the following indicators: (i) M1, or cash currency in circulation plus deposit money; (ii) M2, or cash currency in circulation plus deposits in banks, etc. in Japan; (iii) M3, or M1 plus quasi-money plus CDs (certificates of deposit); and (iv) broadly-defined liquidity, which covers a broad range of liquidity, including government securities. The average outstanding money stock as of December 2010 was 501 trillion yen in M1 and 782 trillion yen in M2.

The basic discount rate and basic loan rate (formerly referred to as the "official discount rate") is the interest rate on loans charged by the Bank of Japan to financial institutions. The rate was frozen at 0.50 percent for the period from September 1995 to February 2001. However, it was subsequently lowered gradually, reaching 0.10 percent in September 2001, and this extremely low interest rate level was maintained for several years. In view of Japan's economic recovery that followed, the rate was raised in stages, up to 0.40 percent in July 2006, and 0.75 percent in February 2007. However, the rate was cut in stages to address the rapidly deteriorating economy in the wake of the Lehman shock, down to 0.50 percent in October 2008 and then to 0.30 percent in December of the same year.

Table 4.7
Financial Markets (Interest rates, etc.)

End of year	(% per annum)					
	Basic discount rate and basic loan rate	Call rates ¹⁾	Prime lending rates ²⁾	Loan contract rates ³⁾	10 years' Govt. bonds yields to subscribers	
2001	0.10	0.002	1.375	1.569	1.311	
2002	0.10	0.002	1.375	1.525	1.007	
2003	0.10	0.001	1.375	1.464	1.380	
2004	0.10	0.002	1.375	1.399	1.445	
2005	0.10	0.004	1.375	1.270	1.456	
2006	0.40	0.275	1.625	1.450	1.634	
2007	0.75	0.459	1.875	1.673	1.478	
2008	0.30	0.103	1.675	1.494	1.382	
2009	0.30	0.094	1.475	1.256	1.246	
2010	0.30	0.079	1.475	1.187	1.189	

1) Uncollateralized overnight. 2) Short-term loans.

3) Average of short-term loan contracts of domestically licensed banks.

Source: Bank of Japan.

3. Financial Institutions

In addition to the Bank of Japan, Japan's financial system is comprised of private and public financial institutions. Private financial institutions include those that accept deposits (banks, credit depositories, agricultural cooperatives, etc.) and those that do not (securities companies, insurance companies, etc.).

As to the latest number of offices, including the branches of financial institutions operated domestically, post offices handling postal savings had the largest network with 24,137 offices. This was followed by domestically licensed banks, including city banks and regional banks, with a combined total of 13,405 offices and branches. Securities companies operated at 2,218 offices including branches. In the course of the financial system reform, mergers and restructuring progressed among major banks, resulting in their being reorganized into three major financial groups. Recently, regional banks and credit depositories operating in their respective regions have been continuing their efforts to expand operations base through corporate mergers.

Table 4.8
Number of Financial Institutions

Institutions	Reference date	Total	Head offices	Branches	Overseas offices
Domestically licensed banks					
City banks	Sep. 2010	2,481	6	2,358	117
Regional banks	Sep. 2010	7,515	63	7,437	15
Regional banks II	Sep. 2010	3,134	42	3,092	-
Trust banks	Sep. 2010	275	6	260	9
Financial institutions for small business					
Credit depositories	Feb. 2011	7,585	271	7,314	-
Credit cooperatives	Feb. 2011	1,756	158	1,598	-
Securities companies ¹⁾	Feb. 2011	2,218	294	1,924	-
Agricultural cooperatives	Mar. 2010	8,795	-	-	-
Post offices	Mar. 2011	24,137	-	-	-

1) Excluding branch offices of foreign securities firms in Japan.

Source: Japanese Bankers Association; Shinkin Central Bank Research Institute; Community Bank Shinyo Kumiai; Japan Securities Dealers Association; The Norinchukin Bank; Japan Post Net Work Co., Ltd.

For a long time, the business role of each type of financial institution had been clearly divided and regulated by specialized systems. However, the deregulation and reform of financial systems --known as the Big Bang-- produced dramatic changes overseas, eventually causing significant alterations in the Japanese financial system. A rapid surge in asset prices from the mid-1980s and the following correction of asset prices in the 1990s created a massive expansion of loans and huge bad debts in their wake. In the financial crisis between 1997 and 1998, several large financial institutions went bankrupt. This prompted legislative enactments in 1998 that were intended to stabilize the financial system, which accelerated the implementation of measures to deal with bankrupt financial institutions, including temporary nationalization. As a result, the overdue task of addressing bad debts was finally laid to rest.

In order to lead a revival of the nation's economy by solving the bad debt problems of major banks, the government launched the Program for Financial Revival in October 2002, demanding that major banks reduce their ratio of bad debts from 8.4 percent in March 2002 to approximately half that level by March 2005. As a result, the ratio of the major banks' bad debts decreased to 2.9 percent in March 2005, meeting the government's target, and the bad debt problems have thus been settled. The ratio recorded in March 2011 was 1.8 percent.

4. Financial Assets

The Flow of Funds Accounts Statistics, which is a comprehensive set of records of financial transactions, assets and liabilities, indicates that financial assets in the domestic sectors totaled 5,656 trillion yen according to preliminary figures at the end of March 2011. Of these assets, those of the domestic nonfinancial sector were 2,842 trillion yen. The household sector (including the business funds of individual proprietorships) had assets of 1,476 trillion yen, in the forms of deposits, stocks and other financial assets. In Japan, the household sector holds more than 50 percent of its financial assets in cash or relatively secure forms of assets.

Table 4.9
Financial Assets and Liabilities of Japan

(Trillion yen)			
Sectors	March 2010	March 2011 *	Annual growth (%)
Financial assets			
Domestic sectors	5,632	5,656	0.4
Financial institutions	2,785	2,814	1.0
Domestic nonfinancial sector	2,847	2,842	-0.2
Nonfinancial corporations	823	827	0.5
General government	486	485	-0.1
Households (incl. individual proprietorships)	1,485	1,476	-0.5
Private nonprofit institutions serving households	54	54	-0.4
Overseas	318	346	9.0
Financial liabilities			
Domestic sectors	5,364	5,391	0.5
Financial institutions	2,767	2,801	1.2
Domestic nonfinancial sector	2,597	2,590	-0.3
Nonfinancial corporations	1,208	1,160	-4.0
General government	1,001	1,045	4.4
Households (incl. individual proprietorships)	369	366	-0.8
Private nonprofit institutions serving households	19	18	-3.5
Overseas	581	605	4.2

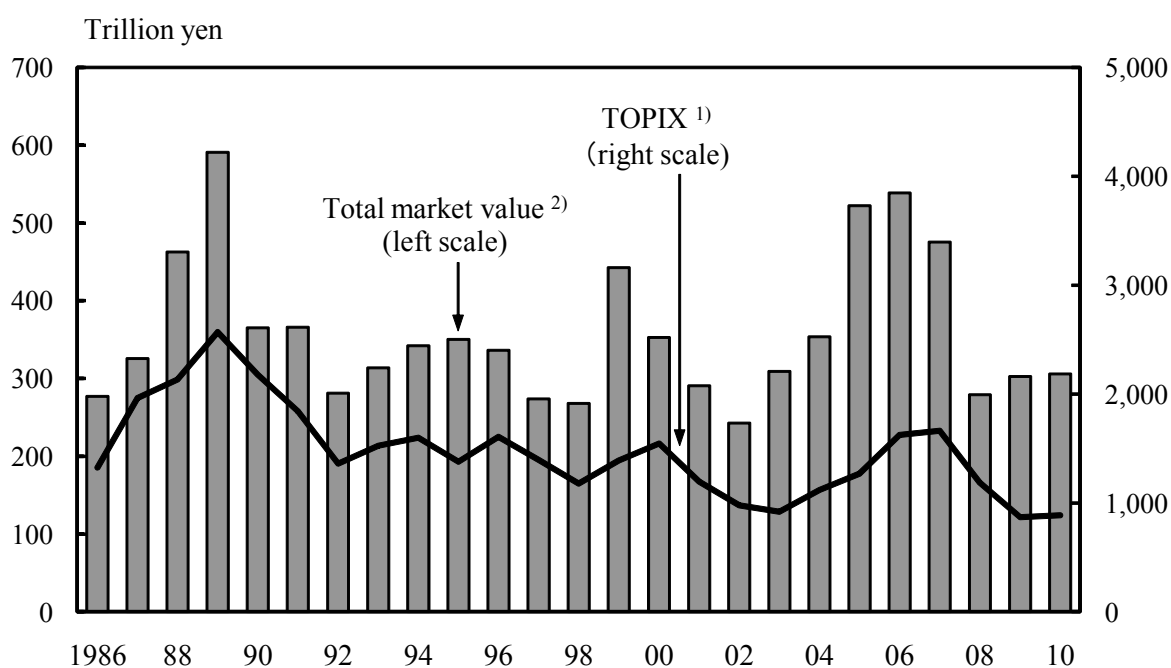
Source: Bank of Japan.

5. Stock Market

Stock prices in Japan rose sharply in the second half of the 1980s, spearheading the bubble economy. However, the stock market started to fall in 1990 ahead of land prices. At the end of 1989, the total market value of the first section of the Tokyo Stock Exchange was 591 trillion yen, but only three years later, at the end of 1992, it dropped by more than 50 percent to 281 trillion yen. The market recovered to reach 442 trillion yen at the end of 1999, but dipped again in 2000. Then in 2003, stock prices recovered reflecting improved corporate earnings and a positive turnaround in plant and equipment investment. At the end of 2006, the total market value of the first section of the Tokyo Stock Exchange reached 539 trillion yen. Since the subprime mortgage problem surfaced in August 2007, however, stock prices followed a downward path on account of growing anxiety over financial markets on a global scale. Although there was, subsequently, a sign of recovery in stock prices at one point, another

downward trend set in and then the September 2008 Lehman shock led to considerable falls in stock prices, followed by, once again, a sustained period of descent. However, the financial results of U.S. financial institutions announced in March 2009 eased apprehensions about their business, and this gave rise to signs of turnaround. At the end of 2010, the total market value amounted to 306 trillion yen.

Figure 4.6
Trends in Stock Price Index and Total Market Value
 (Tokyo Stock Exchange, first section)



1) TOPIX: Index of the total market value of all stocks listed on the first section of the Tokyo Stock Exchange against a base value of 100 as of January 4, 1968. 2) End of year.
 Source: Tokyo Stock Exchange.

At the end of March 2011, the total number of individual stockholders (individuals of Japanese nationality and domestic groups without corporate status) in possession of stocks listed on the Tokyo/Osaka/Nagoya/Fukuoka/Sapporo Stock Exchanges totaled 45.9 million. In value terms, the ratio of stocks they possessed was 20.3 percent. The ratio of Japanese stocks held by foreign investors (total of corporations and individuals) was 26.7 percent in value terms, marking the second consecutive year of increase. Records also show that Internet trading remained on a strong growth path.

A survey conducted of 290 securities firms by the Japan Securities Dealers Association (JSDA) showed that 17.9 percent of those companies offered Internet trading at the end of March 2011. Internet trading thus accounted for 20.3 percent of the total value of stock brokerage transactions from the period of October 2010 to March 2011.

Table 4.10
Stock Prices (Tokyo Stock Exchange, first section)

Year	Number of listed companies ¹⁾	Total market value ¹⁾ (billion yen)	Total trading value (billion yen)	TOPIX ²⁾ Tokyo stock price index, average	Nikkei stock average (225 issues) ¹⁾ (yen)
1997	1,327	273,908	106,427	1,397.37	15,258.74
1998	1,340	267,784	96,001	1,178.14	13,842.17
1999	1,364	442,443	178,041	1,388.63	18,934.34
2000	1,447	352,785	242,632	1,545.22	13,785.69
2001	1,491	290,669	199,844	1,195.10	10,542.62
2002	1,495	242,939	190,870	979.49	8,578.95
2003	1,533	309,290	237,906	918.86	10,676.64
2004	1,595	353,558	323,918	1,120.07	11,488.76
2005	1,667	522,068	459,136	1,270.09	16,111.43
2006	1,715	538,630	644,309	1,625.92	17,225.83
2007	1,727	475,629	735,334	1,663.69	15,307.78
2008	1,715	278,989	568,539	1,187.82	8,859.56
2009	1,684	302,712	368,680	869.33	10,546.44
2010	1,670	305,693	354,599	885.43	10,228.92
2011 Jan.	1,669	309,780	29,981	924.36	10,237.92
Feb.	1,673	324,193	33,693	948.61	10,624.09
Mar.	1,676	296,474	46,315	883.59	9,755.10
Apr.	1,675	290,751	28,864	843.89	9,849.74

1) End of year or month. 2) TOPIX: Index of the total market value of all stocks listed on the first section of the Tokyo Stock Exchange against a base value of 100 as of January 4, 1968.

Source: Nihon Keizai Shimbun, Inc.; Tokyo Stock Exchange.