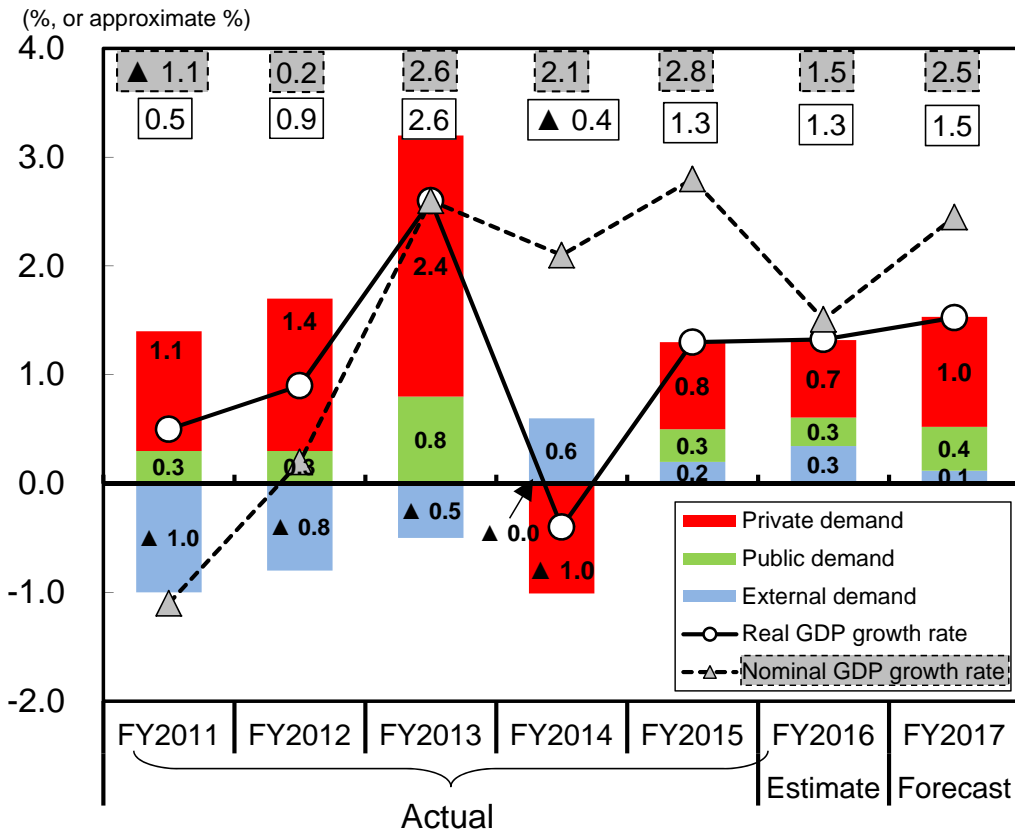


BUDGET 2017: KEY HIGHLIGHTS

MINISTRY OF FINANCE, JAPAN
DECEMBER 22, 2016

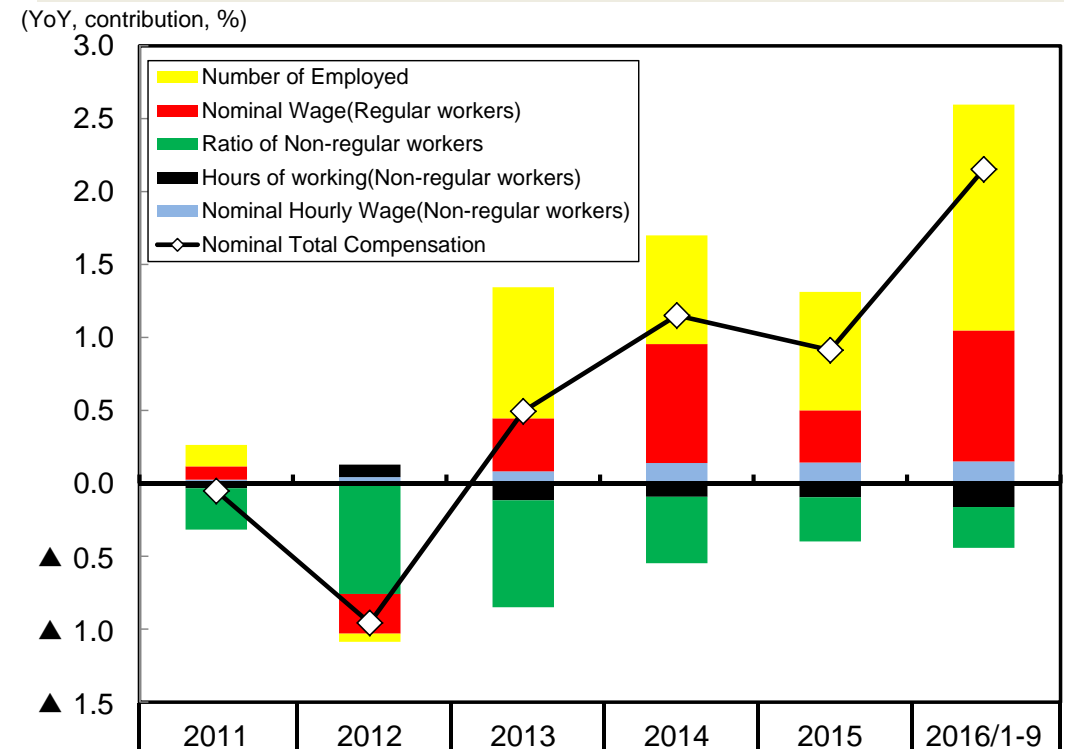
- **Growth.** Japanese economy remains on a moderate recovery path. Private sector activity is solid, and supported by public sector demand including the impact of the latest stimulus package.
- **Price development.** A mild inflation is envisaged in coming years, due to narrowing output gap, wage growth, and gradual recovery of oil price. The projected CPI in FY2017 is 1.1 %. The ongoing working style reform is expected to add momentum to rise in both wage and productivity.
- **Income.** Gross employment income has been steadily increasing over the past four years, paving the way for recovery in household consumption going forward.

Real Growth



※Note: Contribution ratios of private demand, public demand and external demand show their contributions to the real growth rate. Source: Cabinet Office

Total Compensation: Breakdown

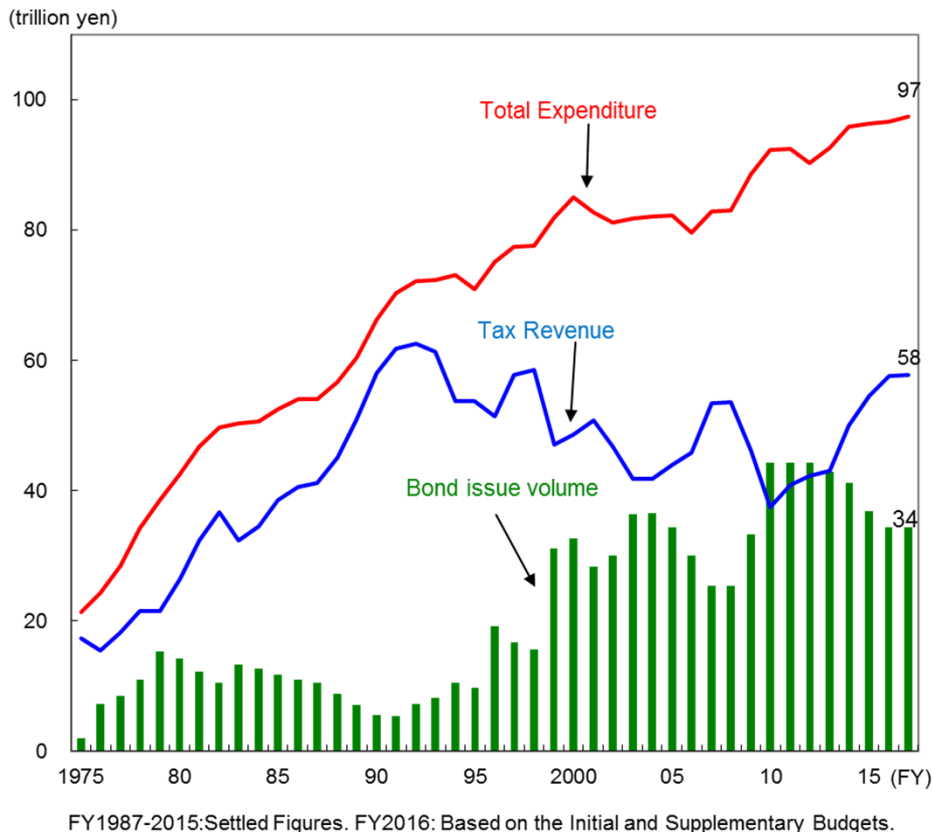


Source: Ministry of Health, Labor and Welfare, Ministry of Internal Affairs and Communications, Cabinet office

- **Principles.** We continue to pursue both economic revitalization and fiscal consolidation. Restoring sustainability of public finance, as well as social security system, will help mitigate private sector's anxiety for the future, thus encouraging more consumption and investment.
- **Overview.** The government continues to prioritize its spending in a growth-friendly manner, while meeting the benchmark set out in the fiscal consolidation plan in two consecutive years by duly controlling the growth of general expenditure (+ 530billion yen).

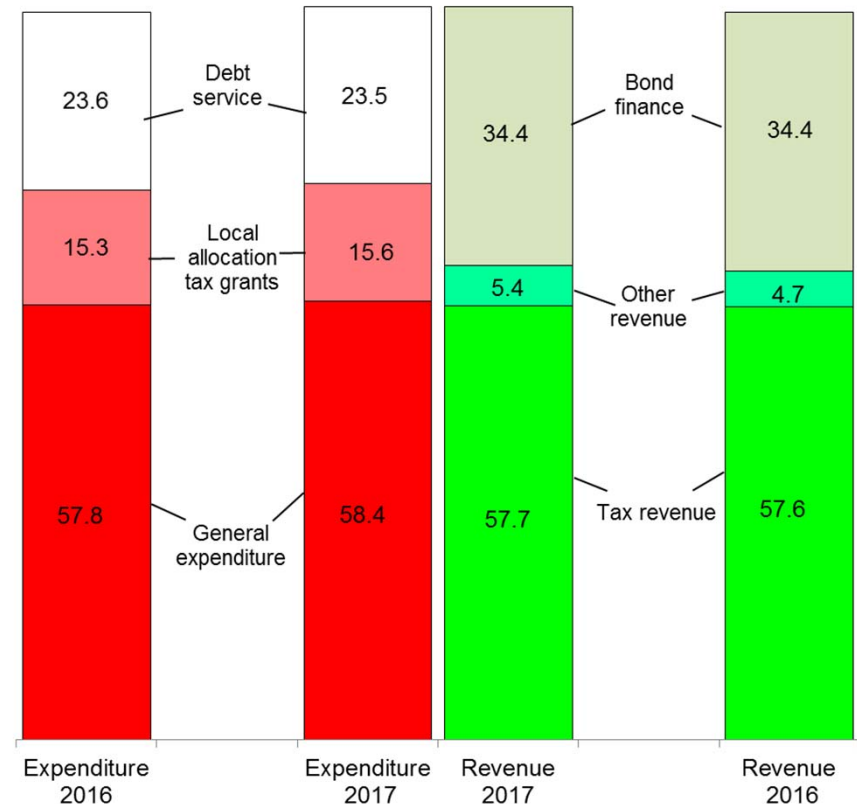
Expenditure and Revenue, by year

(based on initial budgets)



Expenditure and Revenue, FY2017

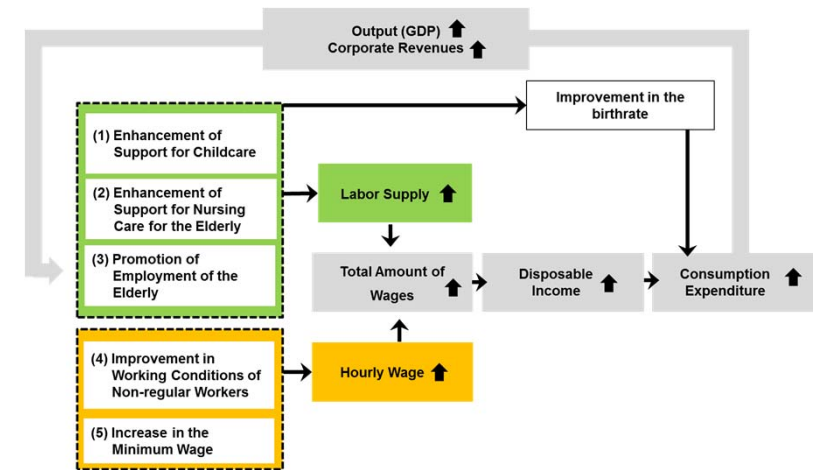
(in trillion yen)



- **Policies to achieve a society where all citizens are dynamically engaged.** Among others: (i) raise wages for childcare and long-term nursery workers; (ii) expand capacity of childcare facilities, so as to reduce the number of children on the waiting list; (iii) shorten the minimum eligible period for receiving pension from 25 to 10 years; (iv) lengthen the eligible period for maternity leave benefits; (v) reduce the employment insurance payments; and (vi) introduce a new government-sponsored scholarship.
- **Economic revitalization.** Increase R&D expenditure; prioritize public investment in growth-enhancing areas; and support innovation and new cutting-edge technologies (IoT, AI, robotics. etc.).
- **Working-style reforms.** Provide fiscal support for wage increase; introduction of regular intervals; and improvement of working condition of non-regular workers.
- **Sustainability of social security system.** Control the growth of social security expenditures (**+500 billion yen**), in line with the fiscal consolidation plan. Undertake various reforms for achieving fair burden sharing and appropriate benefit level.

Dynamic engagement of all citizens

An illustrative model



Selected Social Security Reforms

	Estimated Impact (billion yen)
Introduce remuneration-based long-term nursery payment system	-44.3
Lift the upper limit on high medical expense for 70+ years old	-23.7
Reduce the price of Nivolumab	-19.6
Review the temporary discount rate for 75+ years old on medical insurance premium	-18.7
Review utility costs for hospitalized patients	-1.7

- *Spurring innovation and investment*

- Reward higher R&D investment by providing more tax deduction (up to 14% of total R&D expenses).
- Extend the deadline for corporate tax filing by three months to help companies better prepare for dialogue with investors; and expand deductible management remuneration to include a salary that is linked to share price.
- Create a new 20-year tax-exempt Nippon Individual Savings Account (NISA) scheme to offer more safe investment opportunities.

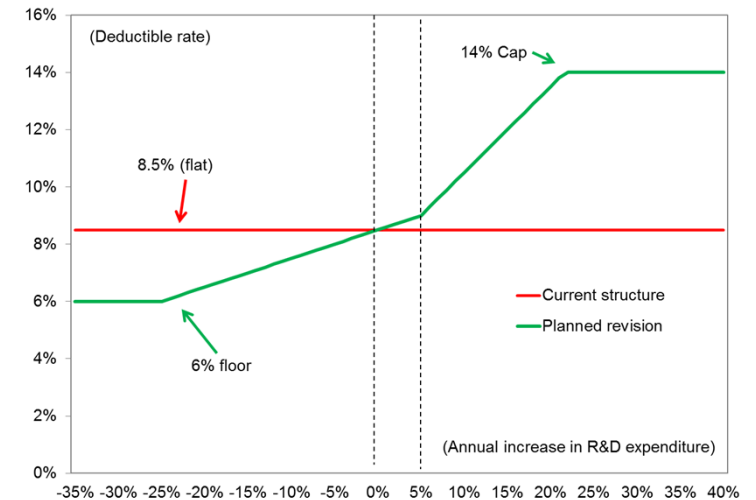
- *Boosting wages and encouraging women to work more*

- Expand the tax incentive for an increase in salary expense (from 10 to 12% of the increase).
- Raise the income limit for the spousal tax deduction from 1.03 million to 1.5 million.

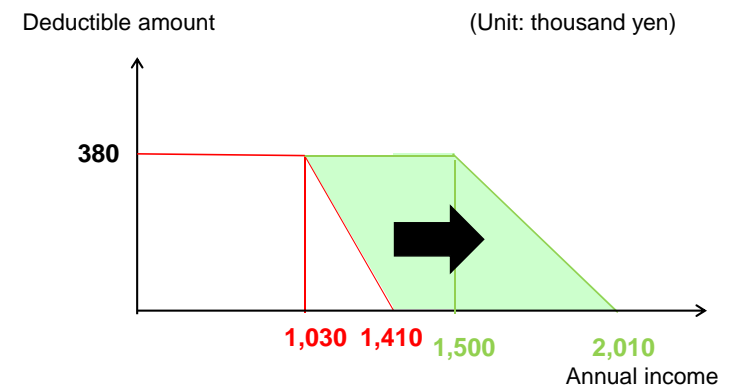
- *Others*

- Ensure a level playing field between beer and quasi-beer for liquor tax; and provide tax exemption when foreign visitors purchase sake at local breweries.
- Review applicability of inheritance tax for foreign residents to attract highly-skilled foreign workers.

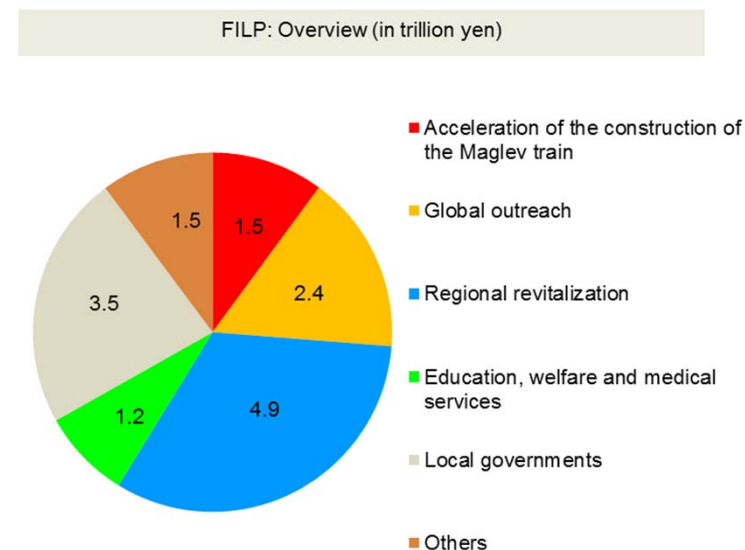
R&D Tax Deduction



Spousal Tax Deduction



- Fiscal Investment Loan Program (FILP) is a government-run investment and lending program for public agencies, funded primarily by bond issuance.
- The total size of FILP amounts to 15.1 trillion yen in FY2017 (+ 1.6 trillion yen compared to FY2016)
- The current low interest rate environment facilitates loan provision by the FILP, which will accelerate construction of the Superconductive Maglev Railway.
- The FILP plan also aims to support the national growth strategy, e.g., promotion of overseas infrastructure investment, by increasing capital of relevant public agencies.



Debt Management Policy: Annual JGB Issuance Plan

- The total issuance volume amounts to 154 trillion yen.
- Maturity structure is designed to appropriately reflect investor demand and take advantage of the current low interest rate environment.
- Compared to FY2016, we will increase the issuance of super long-term bonds (i.e., longer than 10 years), through *Auctions for Enhanced-Liquidity* as well as normal auctions. The issuance of the other zones will be decreased across different maturities.

(Unit: trillion yen)

	FY2017	Changes from FY2016
Total issuance	154.0	-8.2
o/w Market issuance	141.2	-5.8
40-year	3.0	+0.6
30-year	9.6	0.0
20-year	12.0	-1.2
10-year	27.6	-1.2
5-year	26.4	-2.4
2-year	26.4	-1.2
TBs (1-year)	23.8	-1.2
10-year inflation-indexed	1.6	-0.4
Auctions for Enhanced Liquidity	10.8	+1.2
o/w 15.5-39 year zone	3.0	+0.6
5-15.5 year zone	6.6	+0.6