

# Financial Investment and Loan Program (FILP)

- *“A second Budget” of Japanese Government* -

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2018.3.20

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## Framework of the Draft Budget for FY2015

(Unit: billion)

	FY2014 Budget (Initial)	FY2015 Budget	FY2014	Notes
			→FY2015	
<b>(Revenues)</b>				
Tax Revenues	50,001.0	54,525.0	4,524.0	- Including 1,686.0 billion yen due to the annualized increased revenue from consumption tax rate increase to 8% in April 2014
Other Revenues	4,631.3	4,954.0	322.6	
Government Bond Issues	41,250.0	36,863.0	-4,387.0	- Bond Dependency Ratio:38.3% (FY2014: 43.0%)
Construction Bonds	6,002.0	6,003.0	1.0	
Special Deficit-financing Bonds	35,248.0	30,860.0	-4,388.0	
<b>Total</b>	<b>95,882.3</b>	<b>96,342.0</b>	<b>459.6</b>	
<b>(Expenditures)</b>				
National Debt Service	23,270.2	23,450.7	180.5	
Primary Expenses	72,612.1	72,891.2	279.1	
Social Security	30,526.6	31,529.7	1,003.0	- Enhancement of social security and increase in government expenditure due to consumption tax increase: 582.6 billion yen
Local Allocation Tax Grants, etc.	16,142.4	15,535.7	-606.7	- Reflecting the growth in local tax revenues. The local general fiscal resources which include Local Tax, Local Allocation Tax, etc. will be increased for enhancement of social security.
<b>Total</b>	<b>95,882.3</b>	<b>96,342.0</b>	<b>459.6</b>	

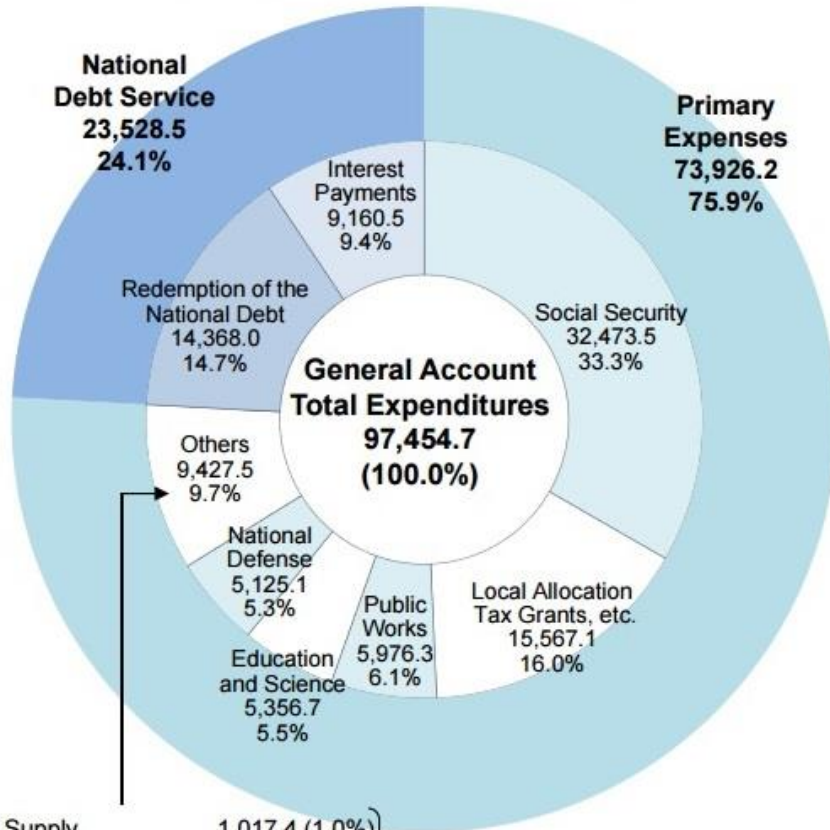
(Note1) Social security expenditure in FY2014 budget is reclassified in order to compare with FY2015 budget.

(Note2) Figures may not add up to the totals due to rounding.

# FY2017 Budget: Expenditure and Revenue

(Unit : billion yen)

## General Account Expenditure



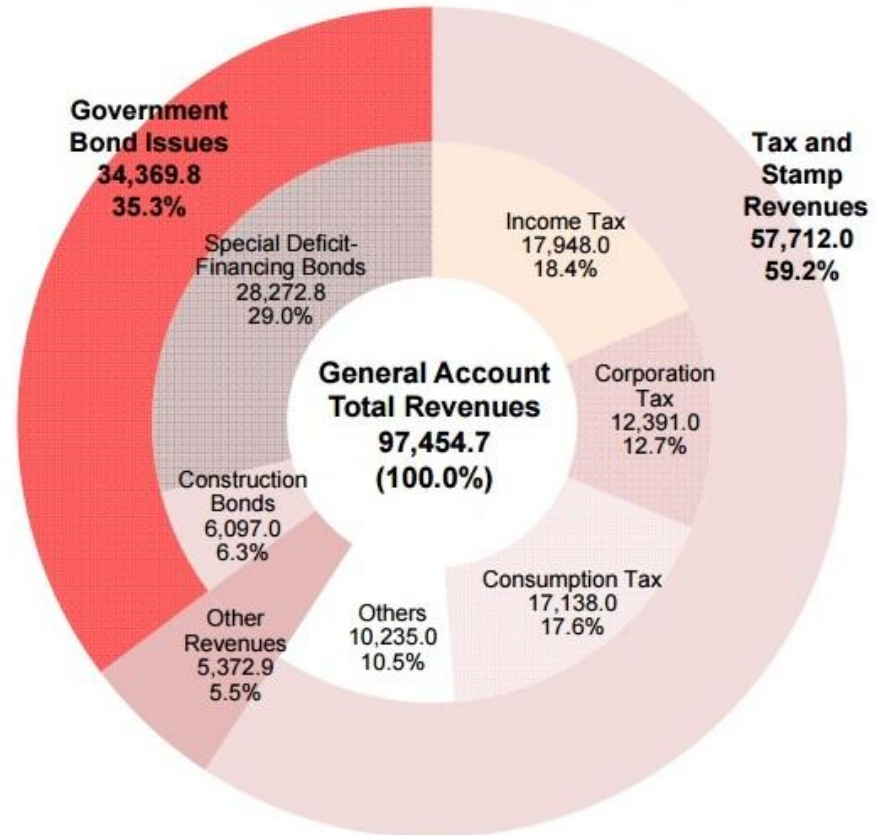
**General Account  
Total Expenditures  
97,454.7  
(100.0%)**

**General Expenditure\* : 58,359.1 (59.9%)**

(\*Primary Expenses – Local Allocation Tax Grants, etc.)

Food Supply	1,017.4 (1.0%)
Energy	963.5 (1.0%)
Economic Assistance	511.0 (0.5%)
Former Military Personnel Pensions	294.7 (0.3%)
Promotion of SMEs	181.0 (0.2%)
Miscellaneous	6,109.8 (6.3%)
Contingency Reserves	350.0 (0.4%)

## General Account Revenue



**General Account  
Total Revenues  
97,454.7  
(100.0%)**

(Note1) Figures may not add up to the totals due to rounding.

(Note2) Social security related expenditures account for 55.6% of the general expenditure.

# Japanese Government Bonds

RUB 405 T (end of FY2015)

Highest Debt/GNP Ratio

234% (FY2015)

Problem?

No!

93% held by domestic investors

Plenty of domestic savings

Domestic commercial banks

Ratio of Russia

19% (FY2015)

RUB 34T (end of FY2015)

Problem

Insufficient domestic savings

Dependence on foreign investors

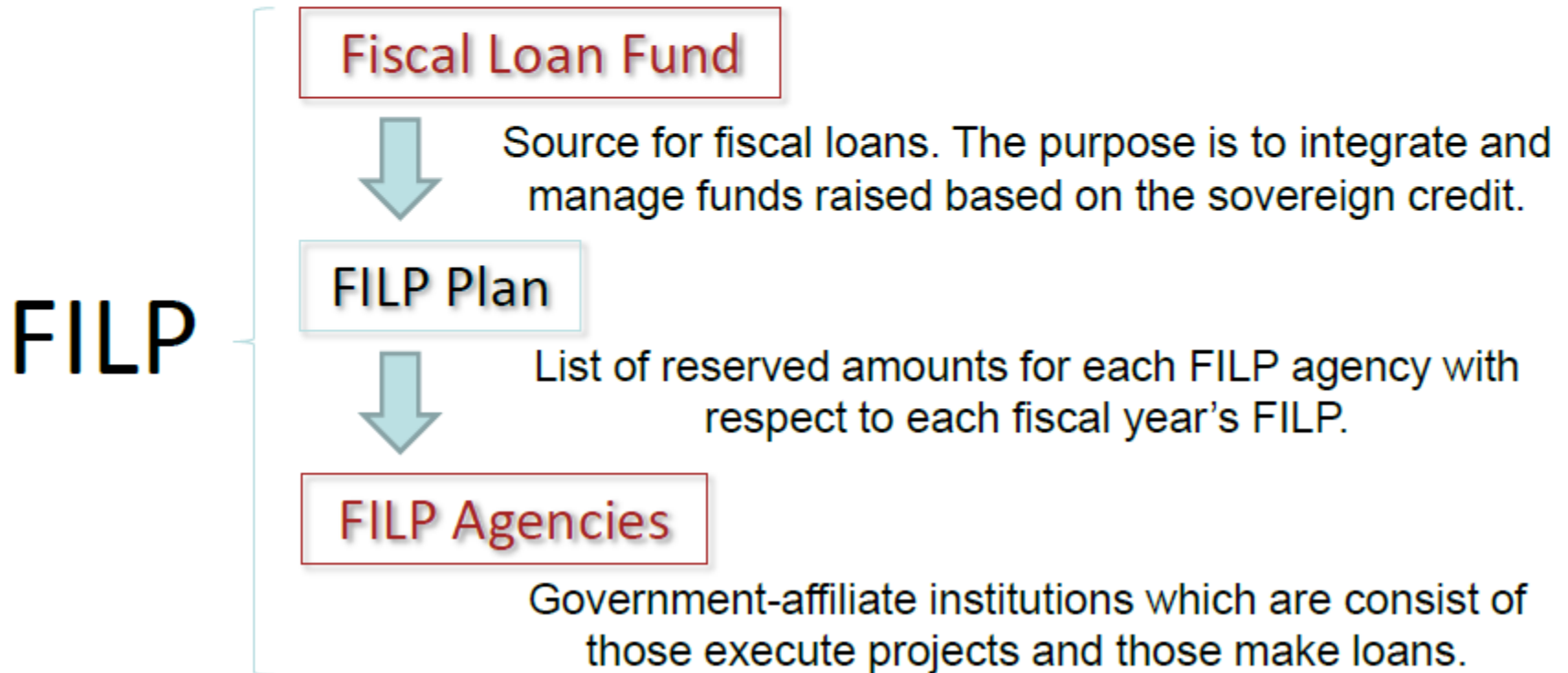
Cautious Fiscal Policy

Inadequate infrastructure

# What is FILP?

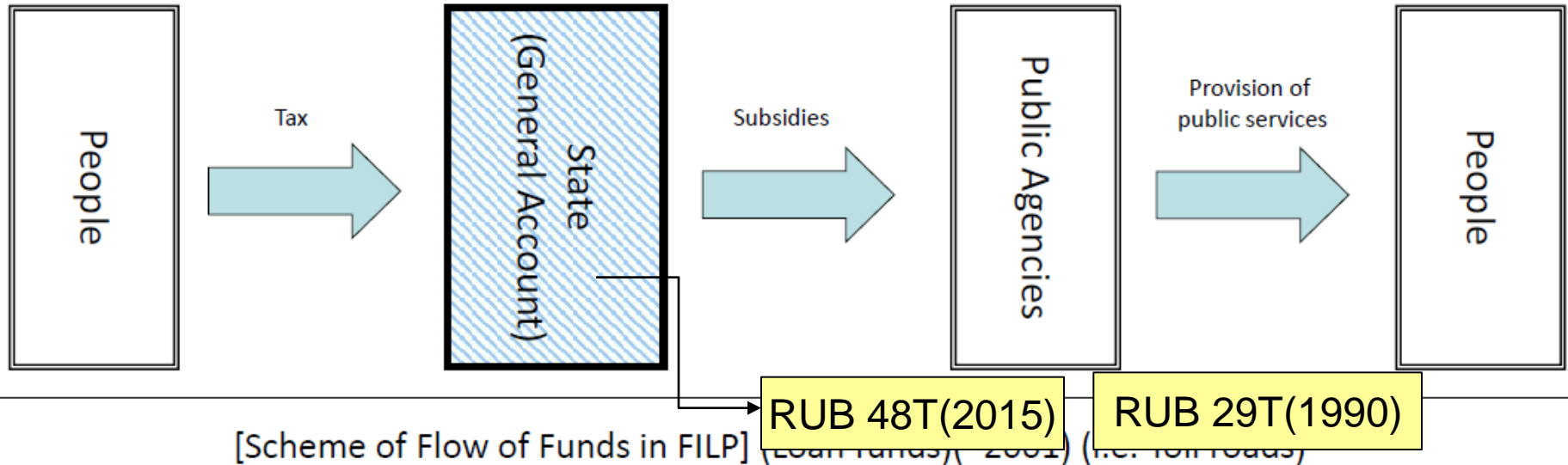
“Fiscal Loan and Investment Program”

- FILP utilizes financial techniques to bring together interest-bearing funds and the FILP agencies in the most effective and efficient way.

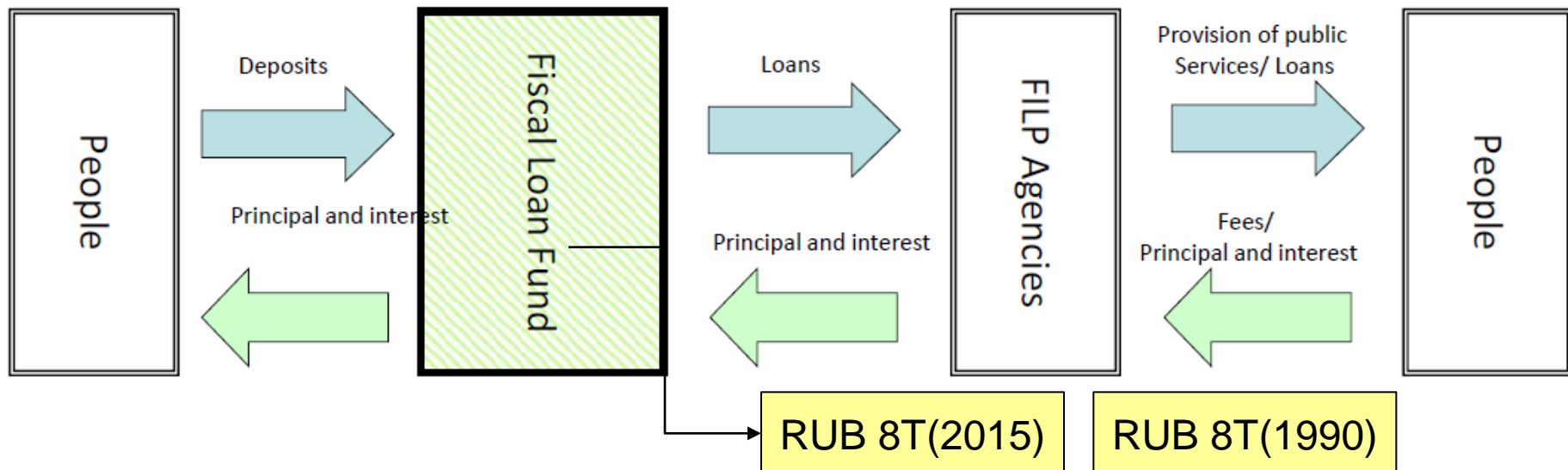


# Grant Funds (Tax) and Loan Funds (FILP)

[Scheme of Flow of Funds in General Account Subsidies] (Grant funds) (i.e. Toll-free roads)

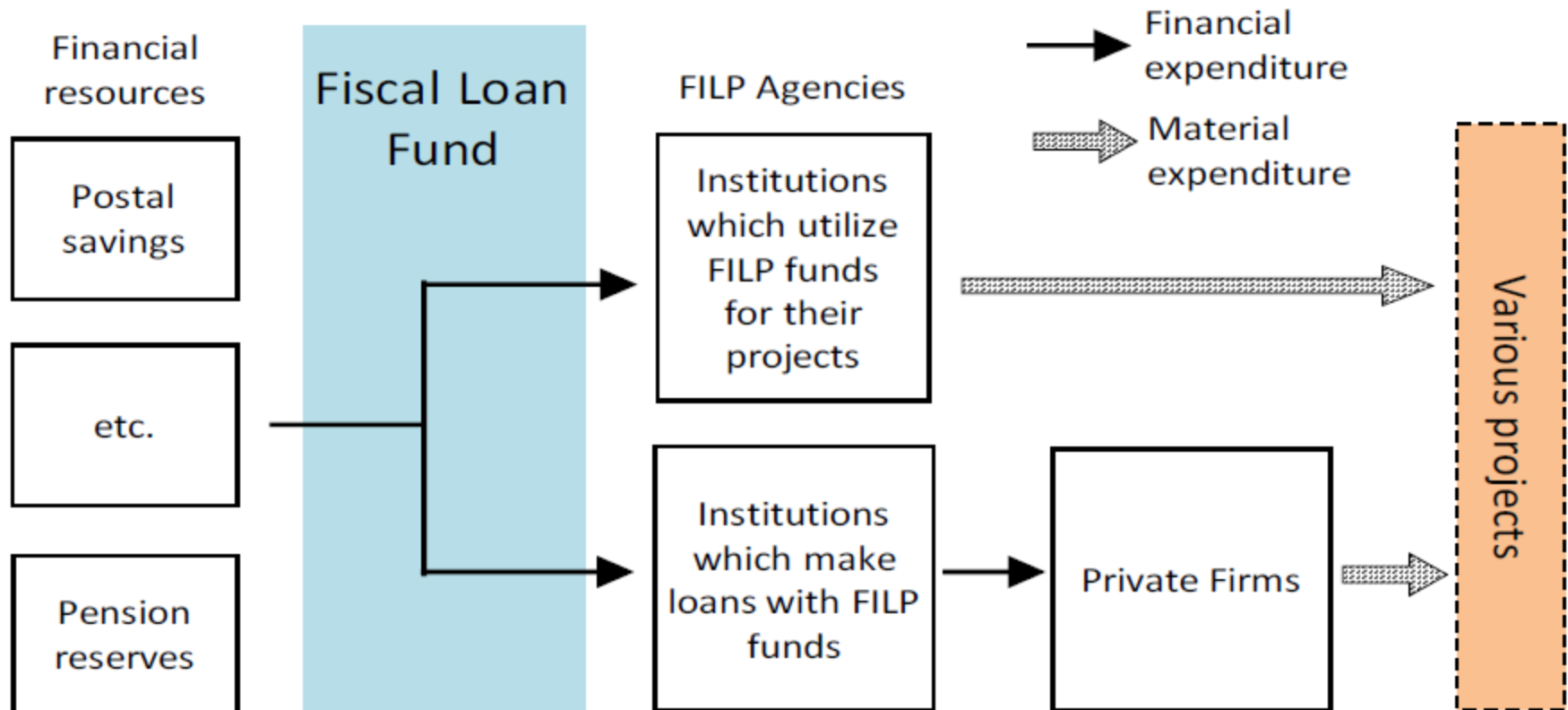


[Scheme of Flow of Funds in FILP] (Loan funds) (i.e. Toll roads)



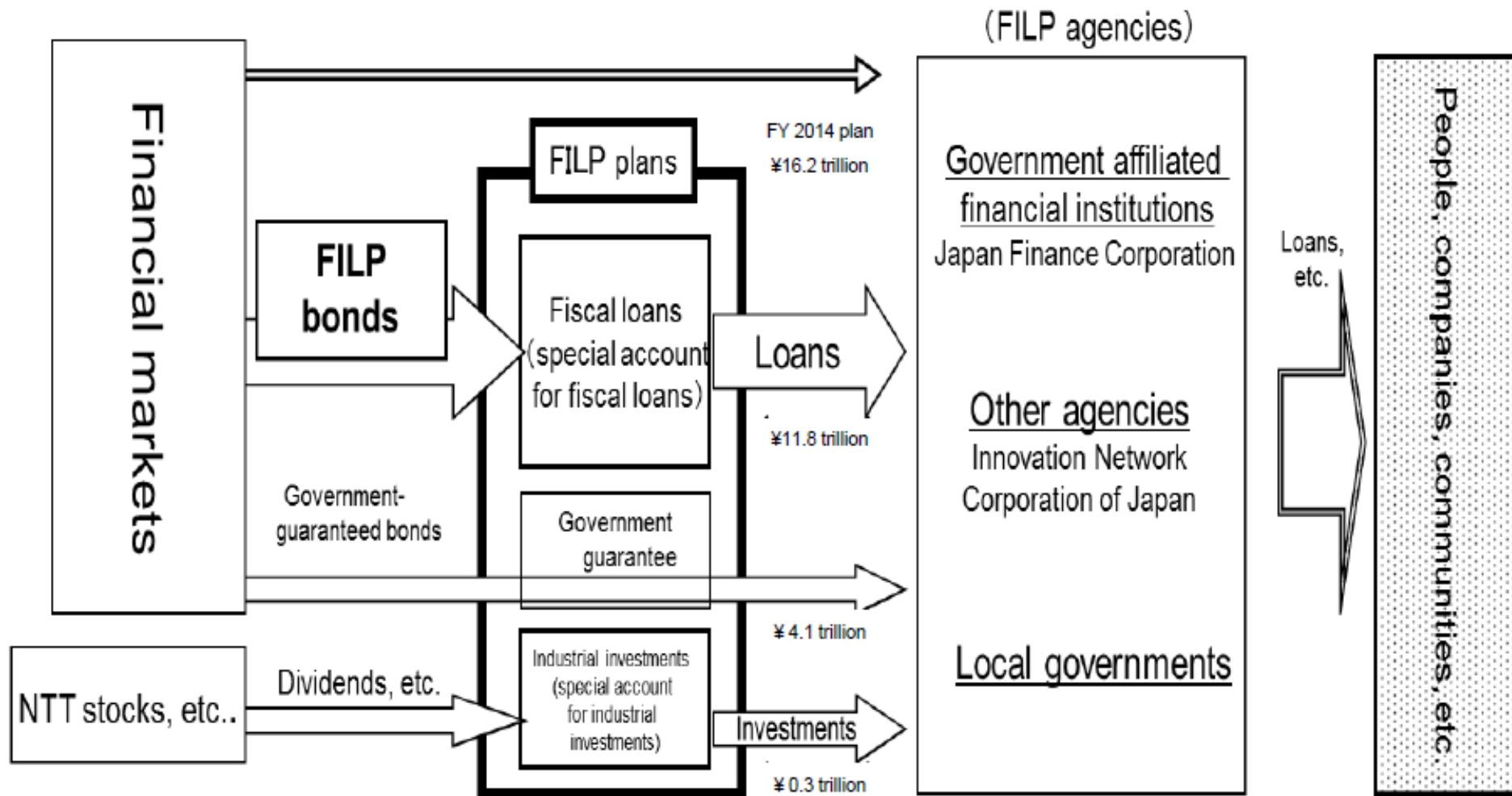
# Flow of Funds

Flow of Funds (~2001)



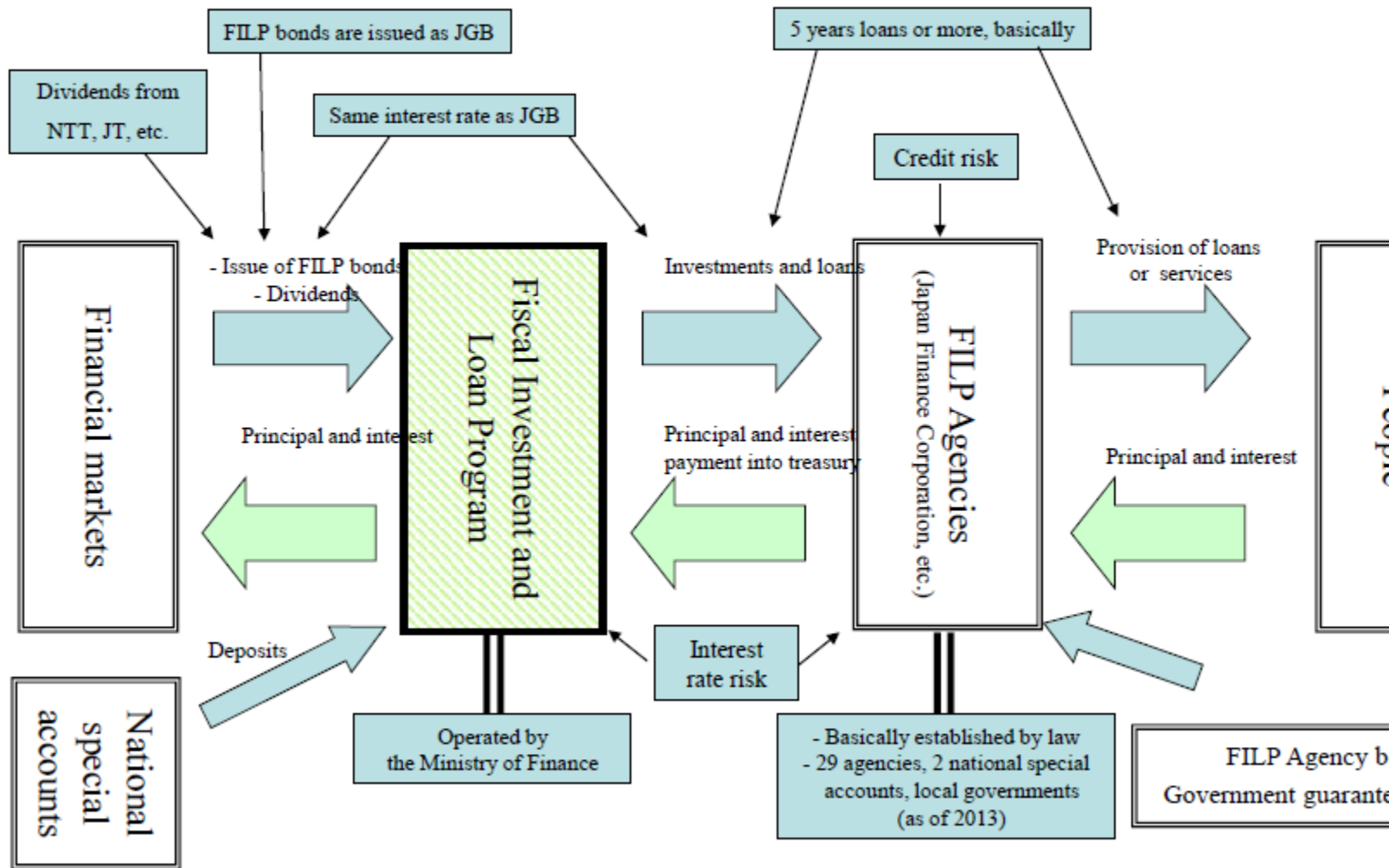
# Fiscal Investment and Loan Program

- FILP is loan and investment activity of the national government using funds procured through issuance of FILP bonds (government bonds, but excluded from long-term debt balance) as the main fiscal source.
- It supports realization of government policies by financing (loan interest rate = same as that of government funds) FILP agencies and other administrative bodies that supply long-term, fixed and low-interest funds that are difficult to be procured in the private sector.





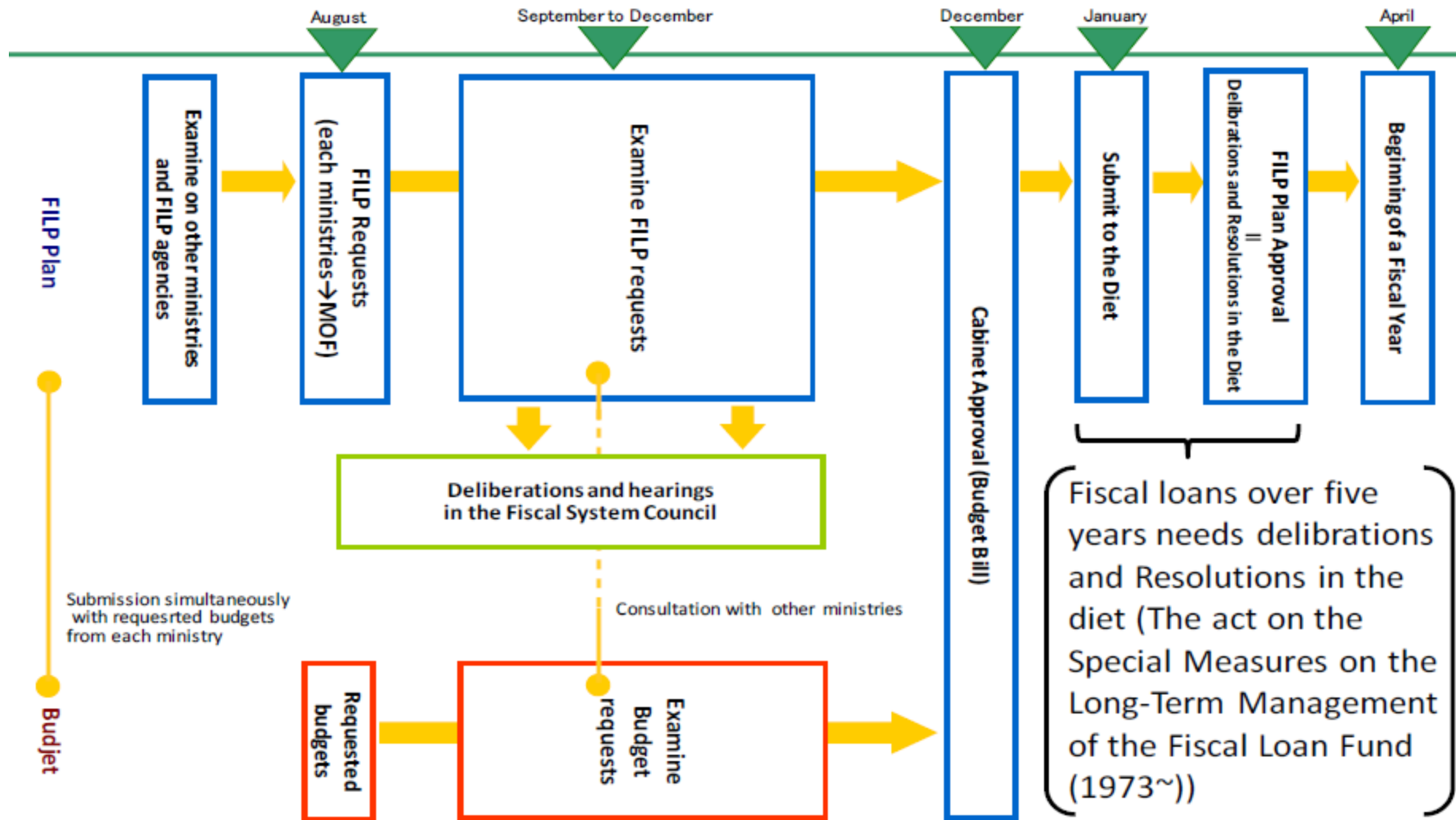
# Basic Structure of the Fiscal Investment and Loan



# Fiscal Investment and Loan Program

- Fiscal Loan Program
  - Long-term: up to 30 years finance
  - Low interest-rate: funded by national government, loan interest rate based on the yields of government bonds
  - Source of funding: FILP bonds, reserve or surplus funds set aside from the special accounts of the government
  - Type: lending to government agencies and local authorities
  - Areas: SMEs, overseas financing, education, welfare, local support
- Industrial Investment Program
  - Source of funding: dividends and treasury payments from NTT, JT and Japan Finance Corporation
  - Type: capital investment through Government Agencies
  - Areas: growth industries, natural resources, R&D

## 2. Drawing up a FILP plan



# Background

## 1. History of FILP before WWII (-1945)

- Concept of Fiscal Loan Fund was created in 1870's, since private financial institutions were not developed.
- The investments resulted in a huge loss when the war was over.

## 2. The Fiscal Loan Fund Act (1951)

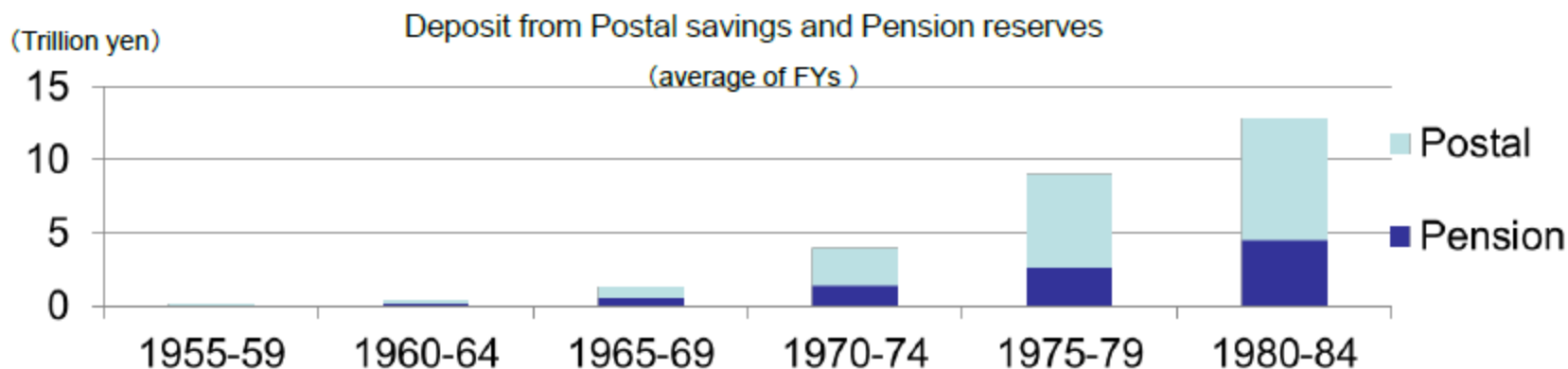
- Respond to demands for long-term funds for post-war reconstruction
- Three objectives are specified:
  - United Management of state funds
    - Postal savings, Pension reserves and etc. were required to deposit the Fiscal Loan Fund
  - Investment of funds in secure and efficient ways
    - The recipients of loans are limited to the government, local governments and government related institutions that are fully owned by the government.
  - Contribution to the promotion of public interest



# FILP's Role in the Growth (2)

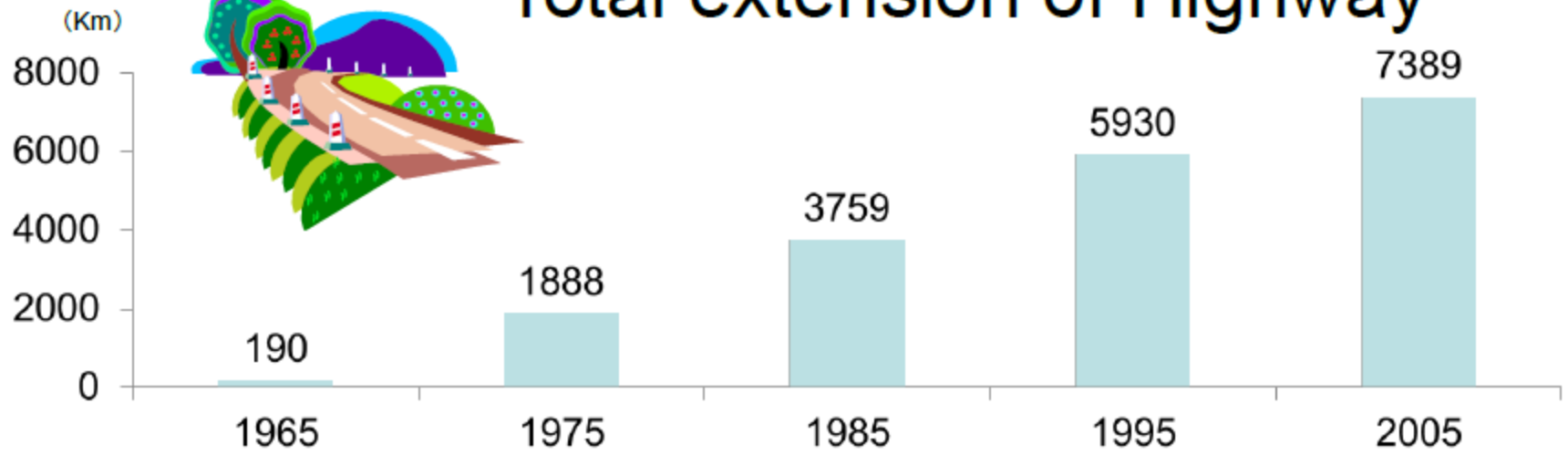
## Years of rapid growth (Since late 1950s)

- Postal savings outstanding were increased since the late 1950s. Also, pension reserve was increased due to the introduction of universal public pension system in 1961.  
→ Fiscal Loan Fund was boosted.

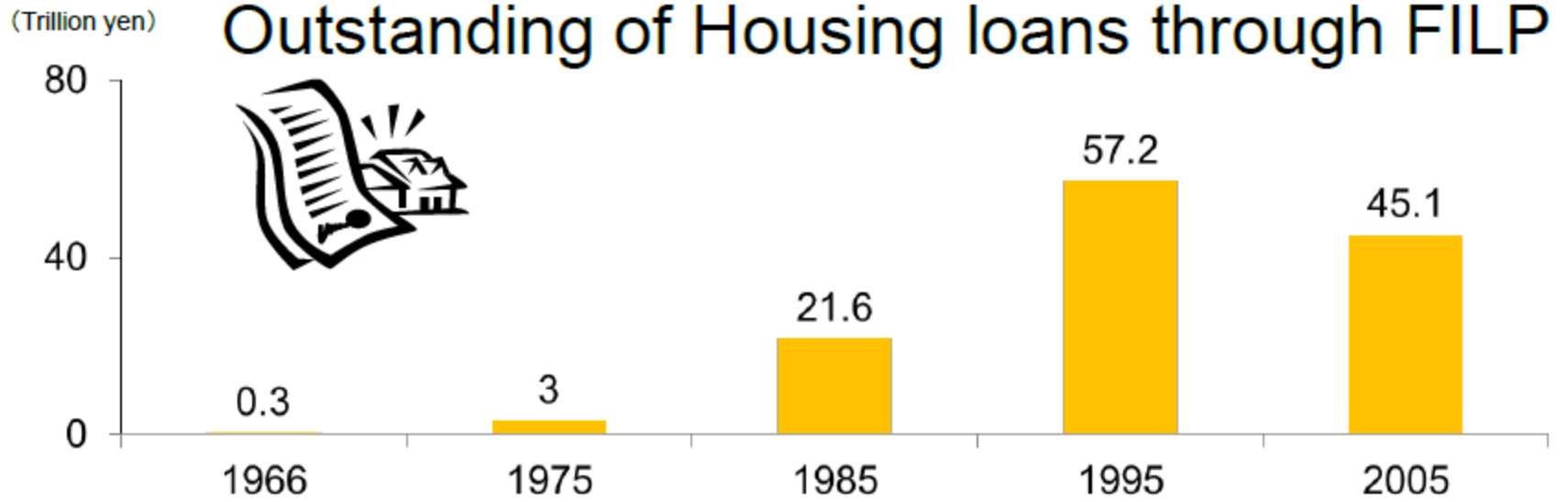


- FILP was used for infrastructure development, i.e. highways, and housing improvement.
  - FILP exploits its features in the areas where the beneficiaries can be specified and government policies are required.

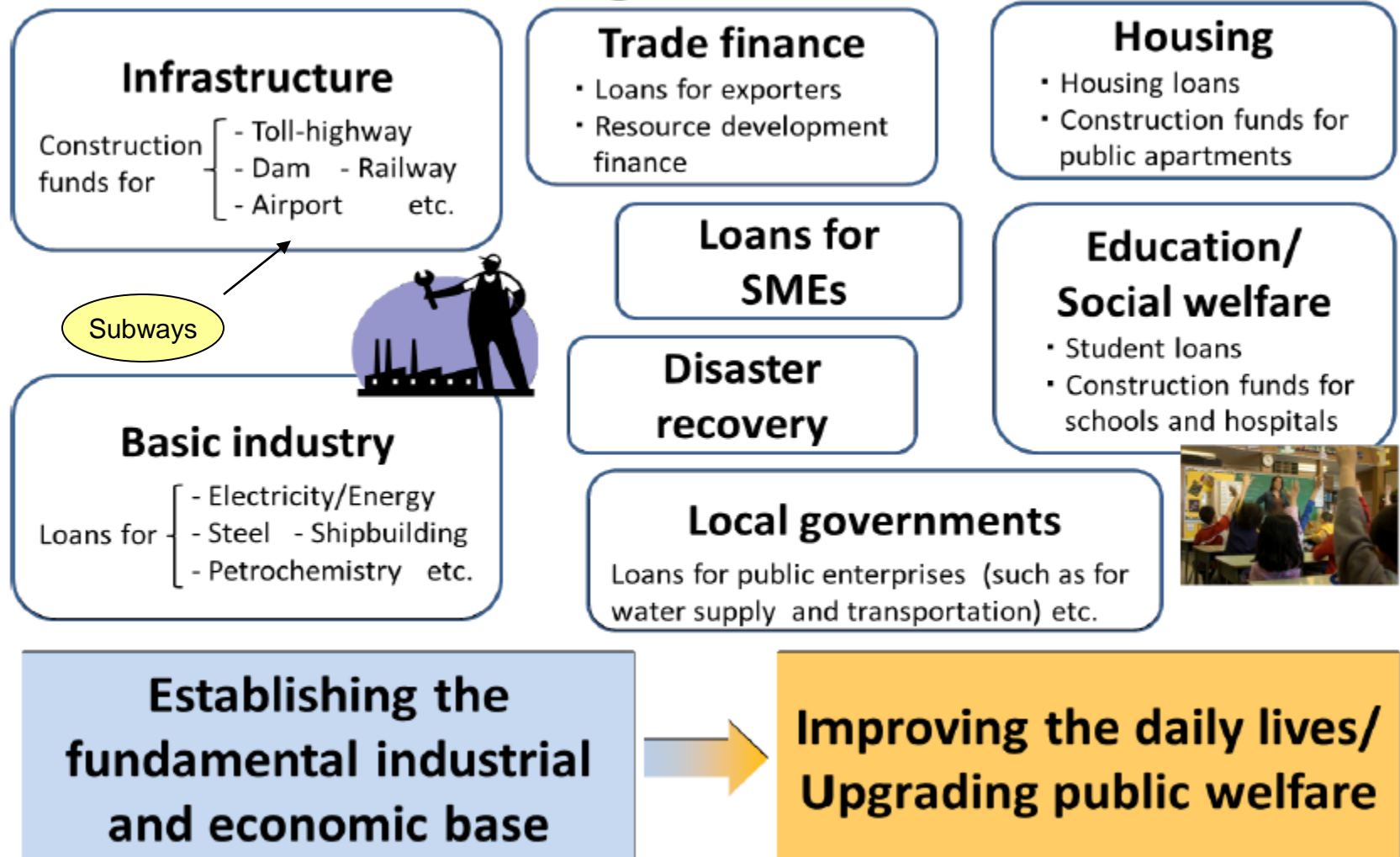
# Total extension of Highway



# Outstanding of Housing loans through FILP



# Target Fields

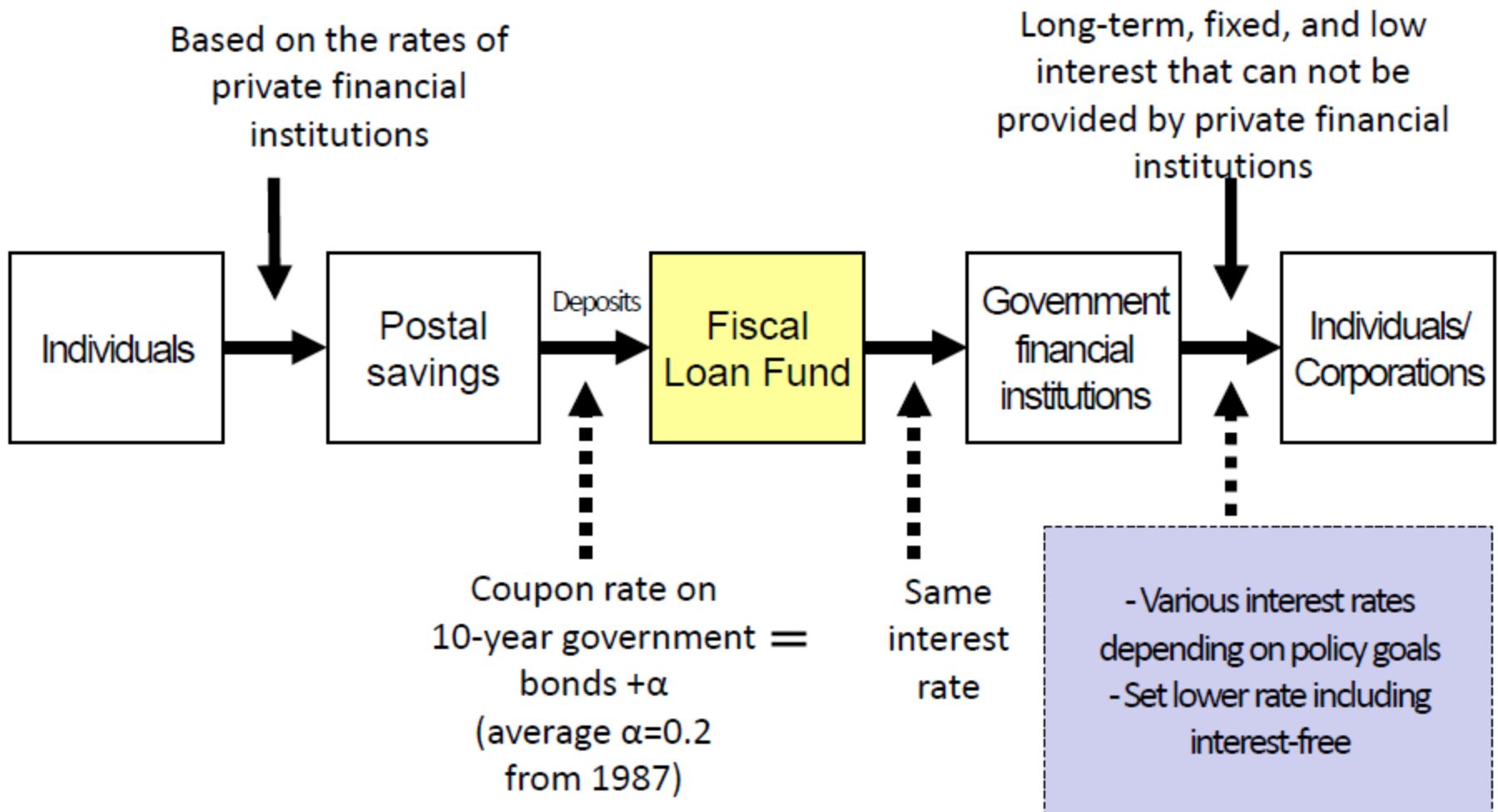


## FILP Application Areas

Housing	With respect to housing construction , although it is primarily private capital formation, including that of individuals, there has been recent recognition of the appropriateness of certain policy involvement from the perspective of the national economy. It would be considered appropriate in the future, based on the principle of it being a supplement to the private sector activities, to utilize fiscal investments in a form of promoting private sector provision of long term funds.
Small and medium size enterprises / agriculture, forestry and fisheries	With respect to small and medium size enterprises and agriculture/forestry/fisheries, although these are in the private sector, certain appropriateness of promoting their viability in terms of policy is recognized from the perspective of the national economy and as adequate financing is not available to the sector due to their lack of credit strength and collateral, would be considered to possess the requirements to receive support using fiscal investments.
Education, social welfare, medical care	In regards to education/social welfare/medical care, from their nature of public interest, these areas are considered to be those for which a certain level of government involvement is appropriate. Private activities in these areas are not necessarily profitable and when funds cannot be adequately provided by solely private sector financing, support by fiscal investment is considered to be appropriate.
Social capital	Of the investments into social capital such as those for airports, those that require ultra-long term funds due to the size of the project, and if the beneficiary of the investments can be identified, the burden to be borne by the current users and future users can be leveled out by exacting from users a burden commensurate with the benefit, and applying the funds thus obtained to repayment of principal and interest would have the appropriateness of such projects being promoted using repayable funds (FILP).
Environment	With respect to private sector projects that contribute to the improvements of the environmental problems (e.g.: corporate investments into environmental measures equipment), notwithstanding its public significance, as the project effects are not directly measurable or attributable (i.e. external economic effects) it is possible that leaving it up purely to the market mechanism will not bring about an appropriate resource allocation and it would be considered that inducing and promoting implementation of such project through the use of fiscal investment has certain appropriateness.
Industry / Research and development	This is an area that, in principle, is voluntarily undertaken by the private sector; however, with respect to businesses that carry with them high degrees of risk and to which private funds are not being adequately provided yet have certain profit potential and the promotion of such has economic significance from a macro perspective (for example, certain research and development businesses or venture businesses), it would be considered to have certain appropriateness to promote such businesses by fiscal investments providing low interest loans and investments.
International cooperation	With respect to projects that are supported by policy investments from the viewpoint of international cooperation such as large scale projects in developing countries, and from the perspective of supporting the ability of self-help on the part of the developing countries, it would be considered that support by fiscal investment of ultra long term and low interest rate funds would be appropriate. In addition, with respect to projects for the maintenance and enhancement of overseas resources and international competitiveness that cannot be responded to by the private sector, support using fiscal investments would be considered appropriate.



# Interest Rate Structure



# FILP Reform in FY2001

- Elimination of the mandatory deposit from postal savings and pension reserves.
- Introduction of market-based funding
- Loan interest rates based on market rates.

