

Financial Investment and Loan Program (FILP)

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

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Framework of the Draft Budget for FY2015

(Unit: billion)

	FY2014 Budget (Initial)	FY2015 Budget	FY2014 →FY2015	Notes
(Revenues)				
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	
Total	95,882.3	96,342.0	459.6	
(Expenditures)				
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.
Total	95,882.3	96,342.0	459.6	

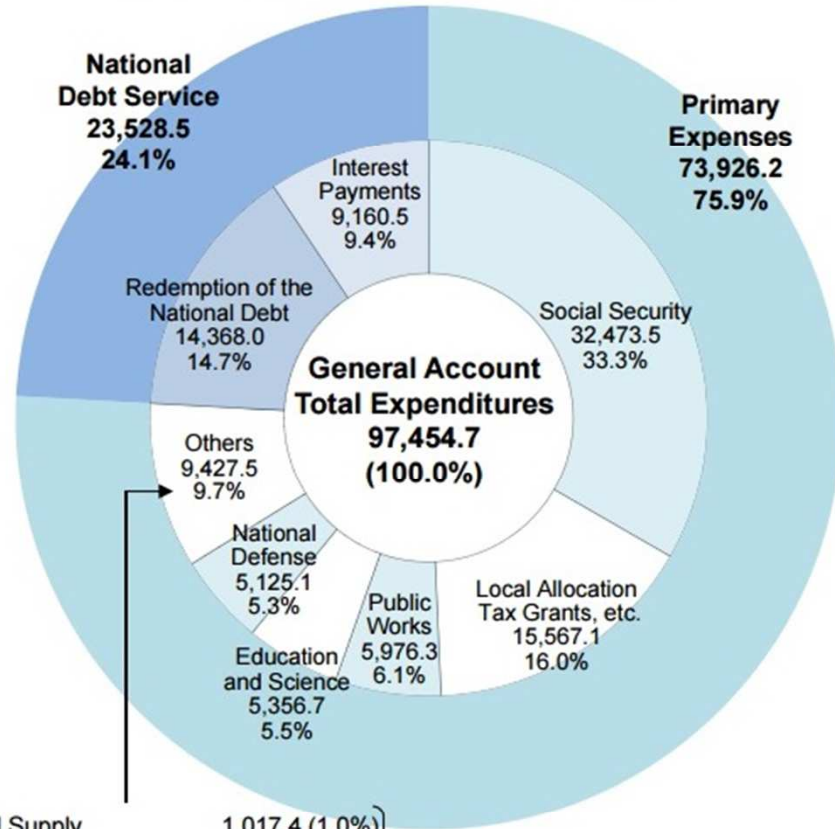
(Note1) Social security expenditure in FY2014 budget is reclassified in order to compare with FY2015 budget.

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

FY2017 Budget: Expenditure and Revenue

(Unit : billion yen)

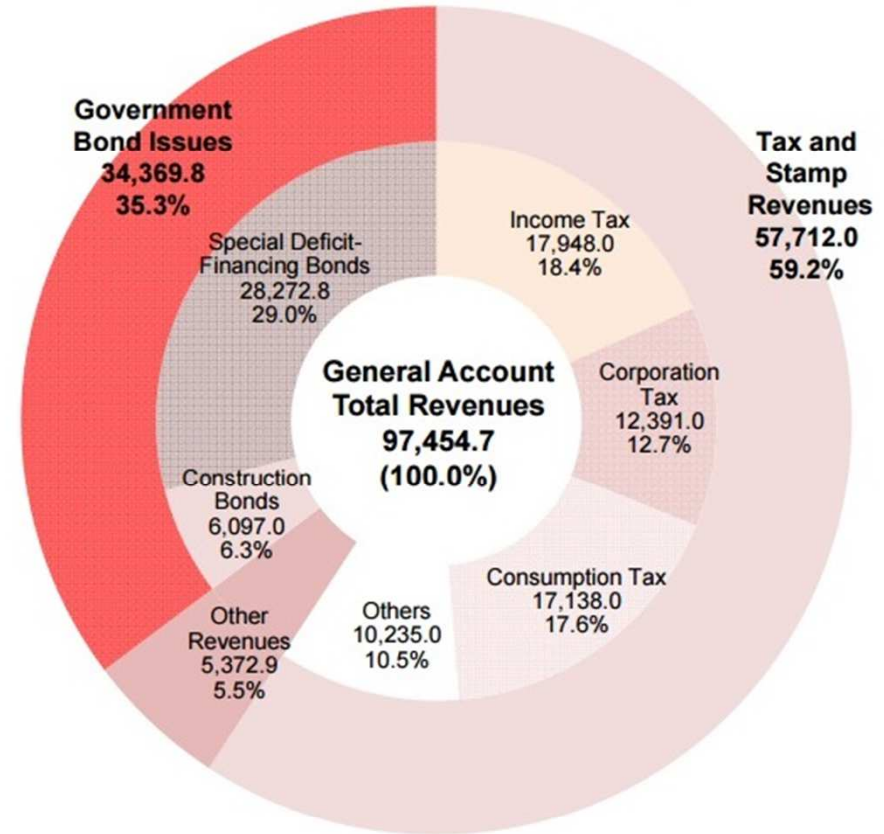
General Account Expenditure



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 Expenditure* : 58,359.1(59.9%)
 (*Primary Expenses –Local Allocation Tax Grants, etc.)

General Account Revenue



(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

Ratio of Russia

RUB 34T (end of FY2015)

19% (FY2015)

What is FILP?

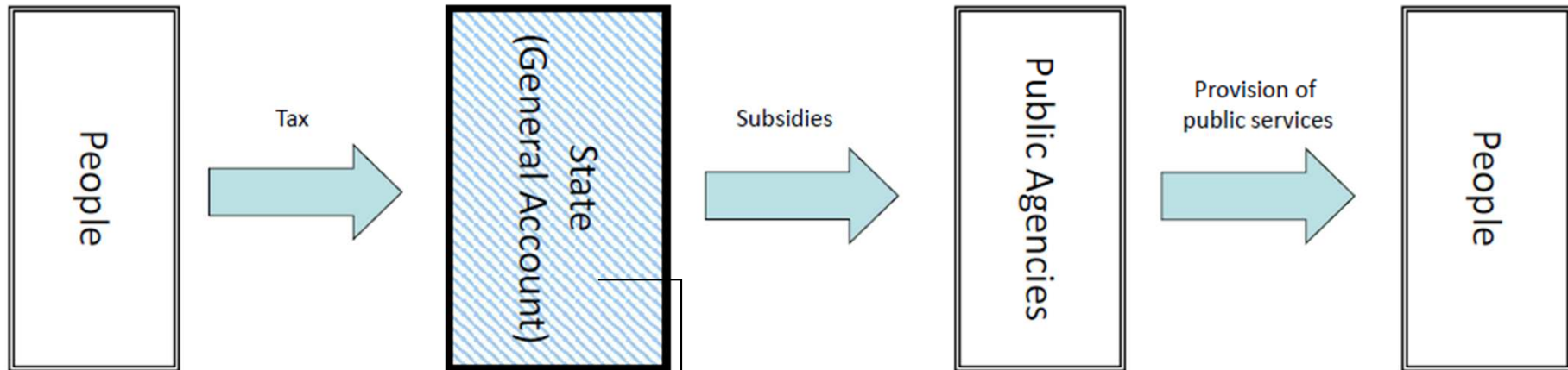
“Fiscal Loan and Investment Program”

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



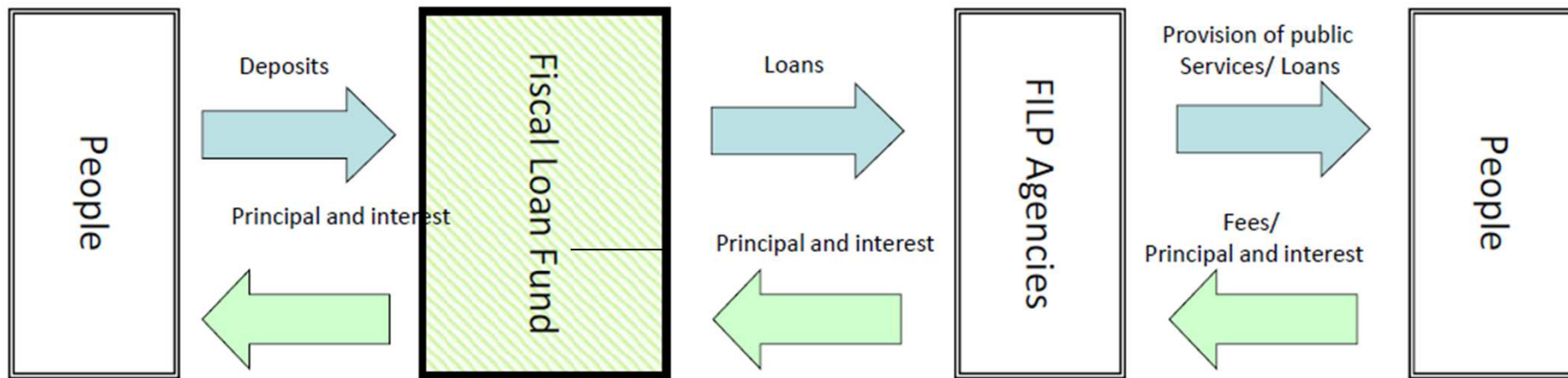
Grant Funds (Tax) and Loan Funds (FILP)

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



RUB 48T(2015) RUB 29T(1990)

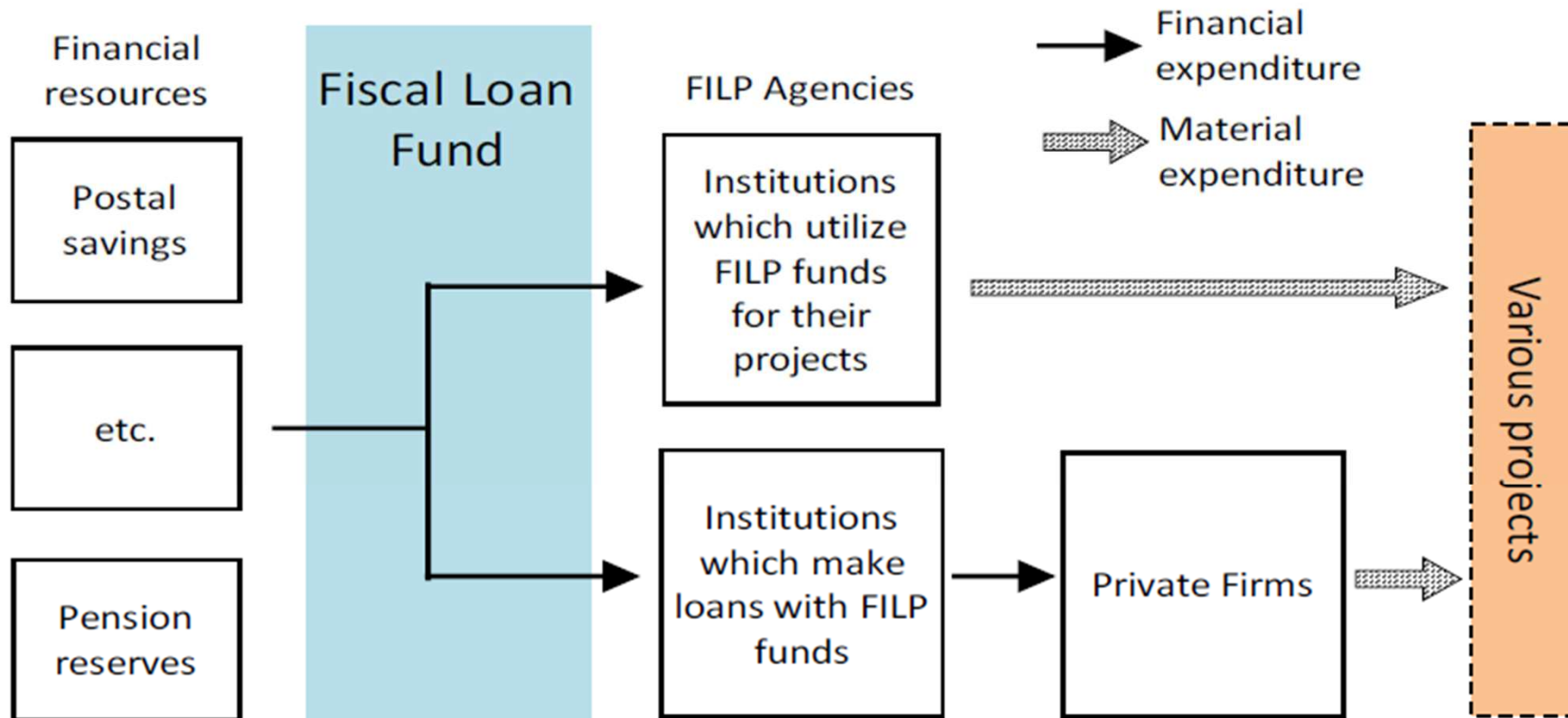
[Scheme of Flow of Funds in FILP] (Loan funds) (i.e. Toll roads)



RUB 8T(2015) RUB 8T(1990)

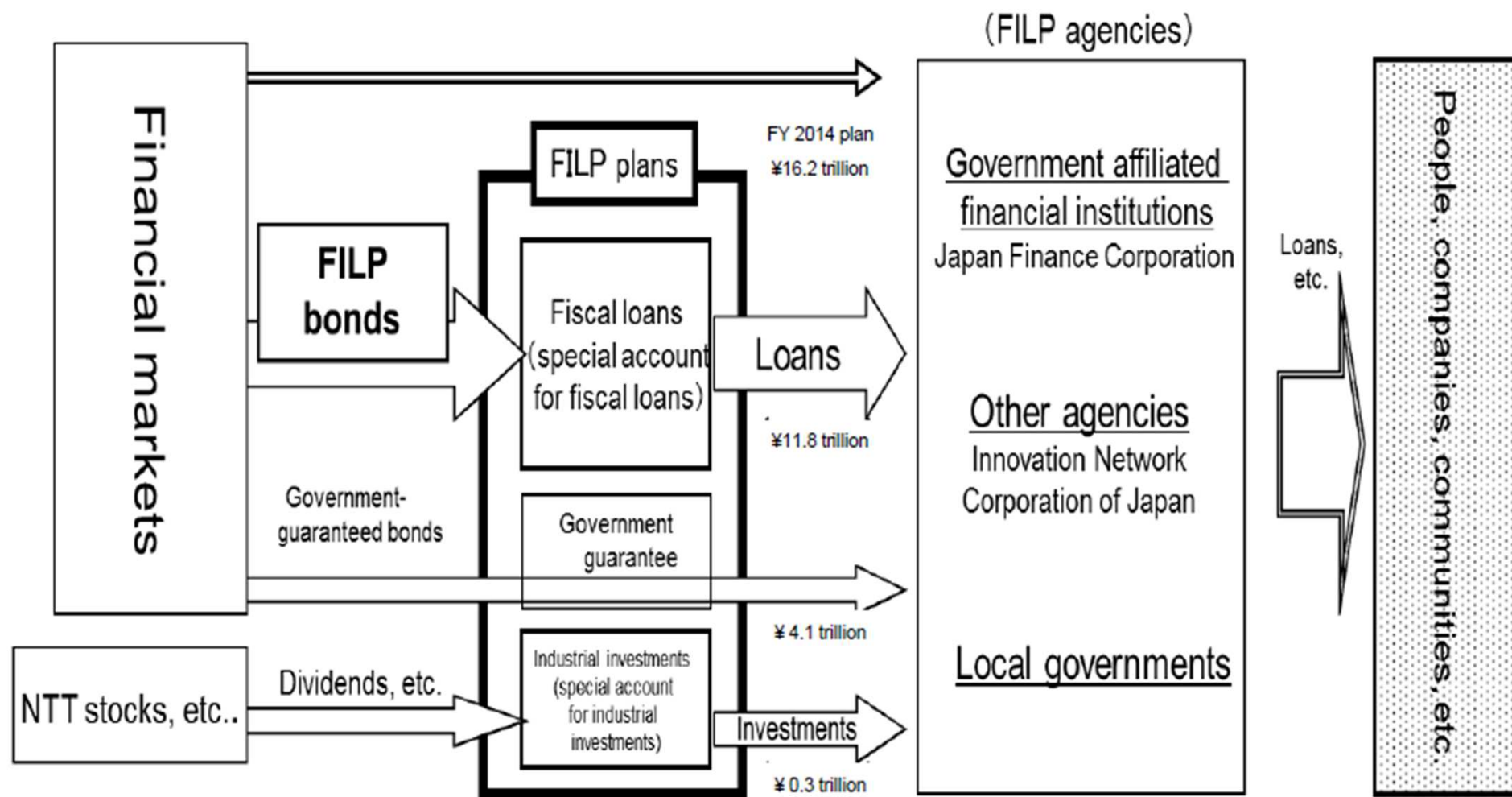
Flow of Funds

Flow of Funds (~2001)

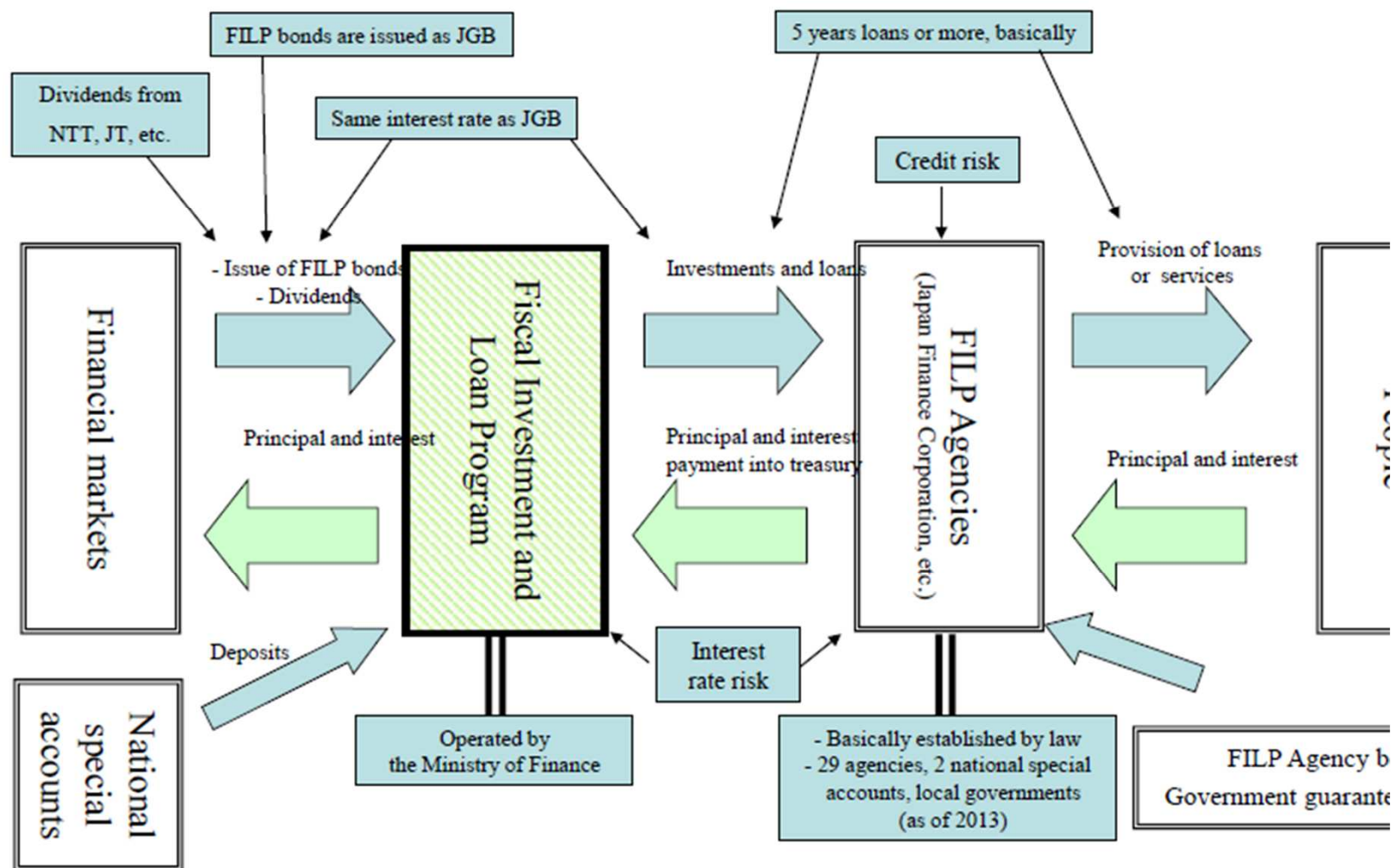


Fiscal Investment and Loan Program

- 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.



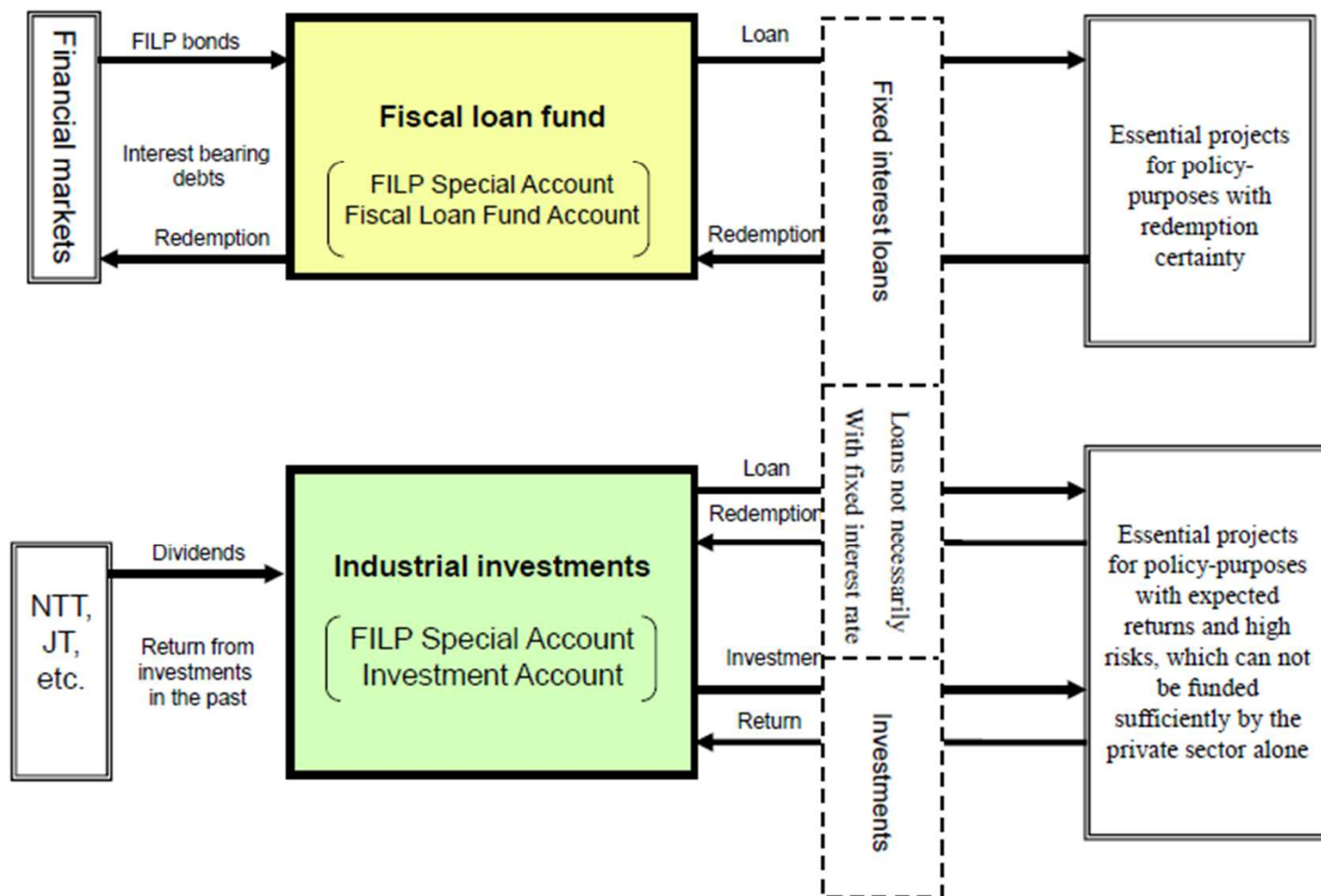
Basic Structure of the Fiscal Investment and Loan



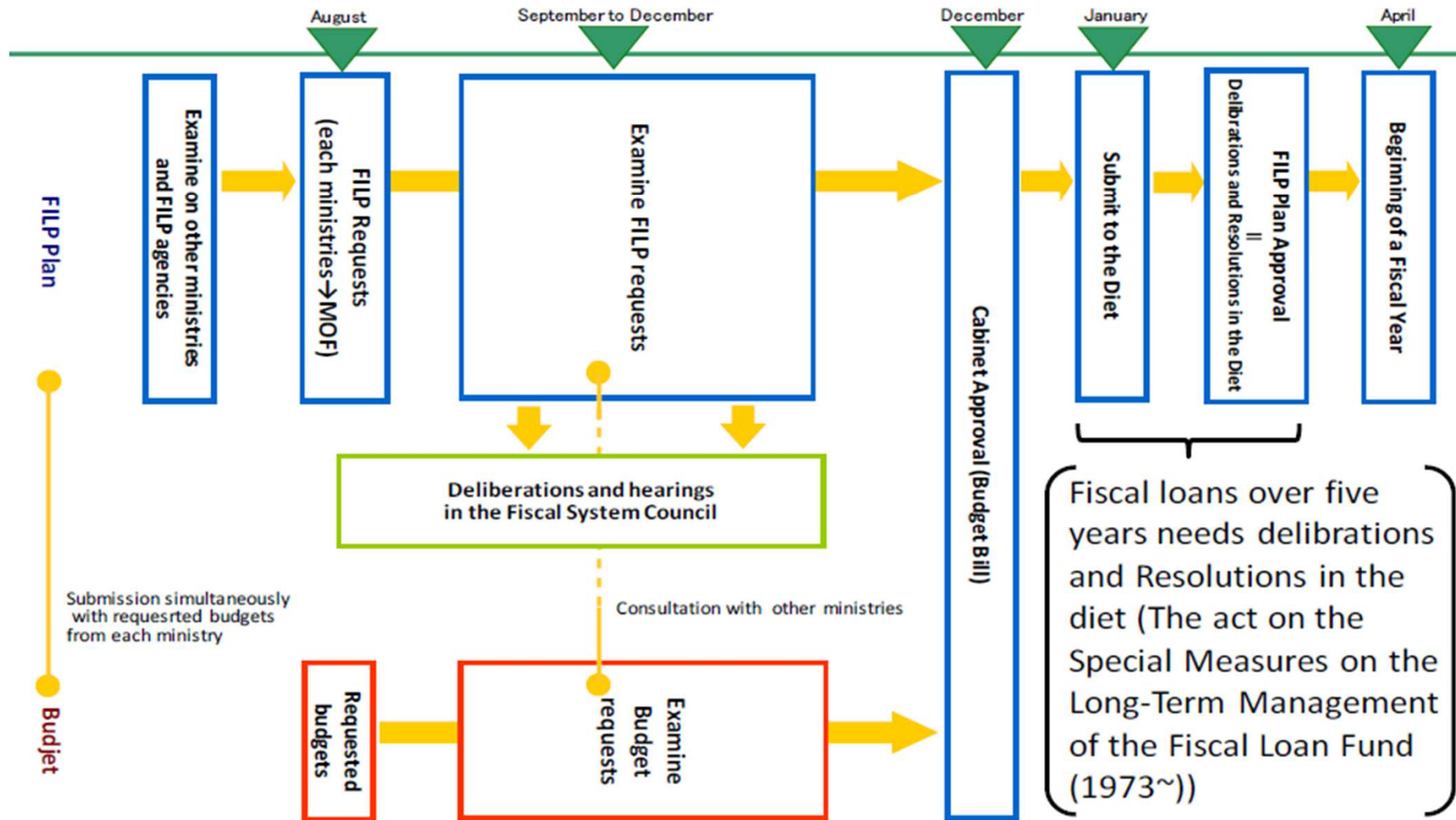
Fiscal Investment and Loan Program

- 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

Fiscal Loan and Industrial Investment



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 (1)

Early years of post-war recovery (until mid-1950s)

- Focused on fund provision to industrial plant and equipment investment
 - Helped reconstruct four prioritized industries
 - Shipbuilding
 - Coal
 - Steel
 - Maritime
 - Utilized post-war financial aid from the United States
- Established FILP agencies amid the recovery (next slide)
- With World Bank loans, 31 projects of infrastructure development were implemented (1953 – 1966).
 - Bullet Train (“Shinkansen”) - Steel works
 - Highways (“Tomei” and “Meishin”) - Hydroelectric dam (“Kurobe” dam)

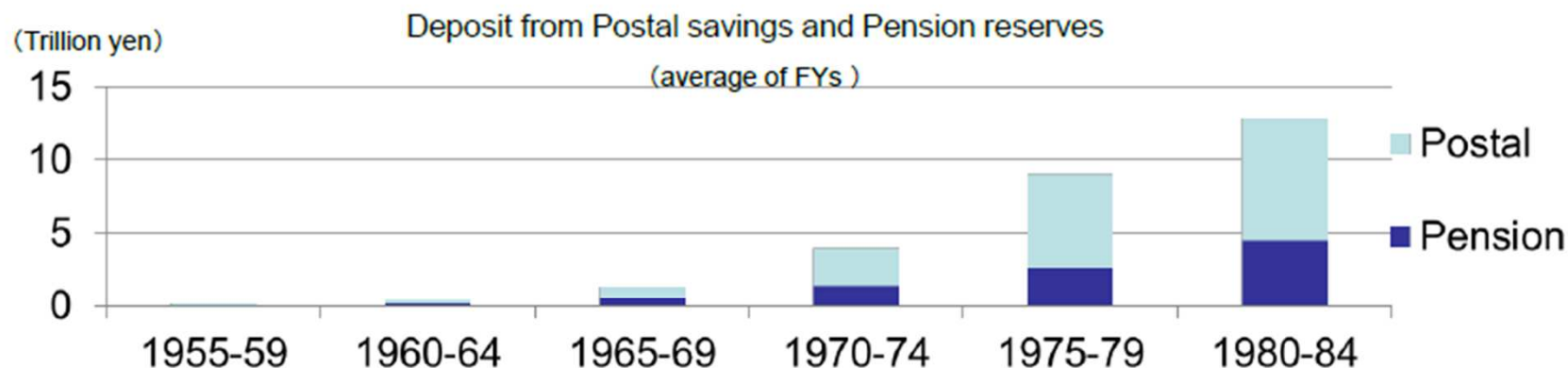
Foundation of major FILP agencies (~1970)

- 1947 Reconstruction Finance-Corporation
- 1949 National Railways(turned to public corporation),
National Finance-Corporation
- 1950 Housing Finance-Corporation, Export(-Import) Bank
- 1951 Development Bank
- 1952 Electric Power Development Co. Ltd.
- 1953 Agriculture Forestry and Fisheries Finance-Corporation,
Finance-Corporation for SMEs
- 1955 Housing Public Corporation
- 1956 Highway Public Corporation
- 1959 Expressway Public Corporation
- 1961 Overseas Economic Cooperation Fund
- 1966 New Tokyo International Airport Authority
- 1967 Petroleum Exploration Public Corporation

FILP's Role in the Growth (2)

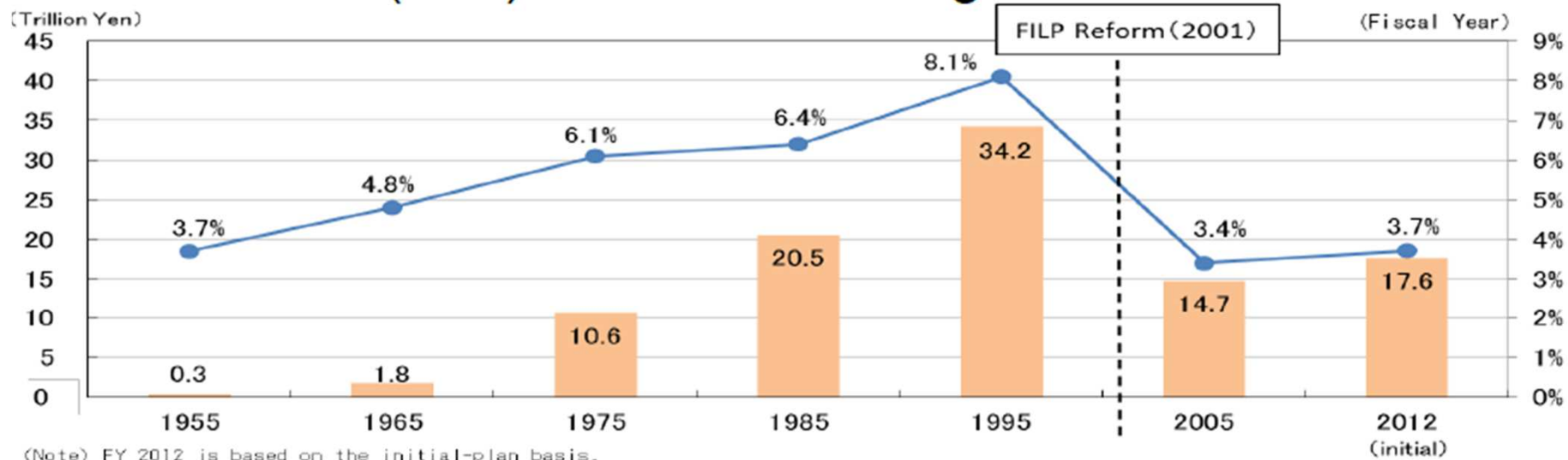
Years of rapid growth (Since late 1950s)

- 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.

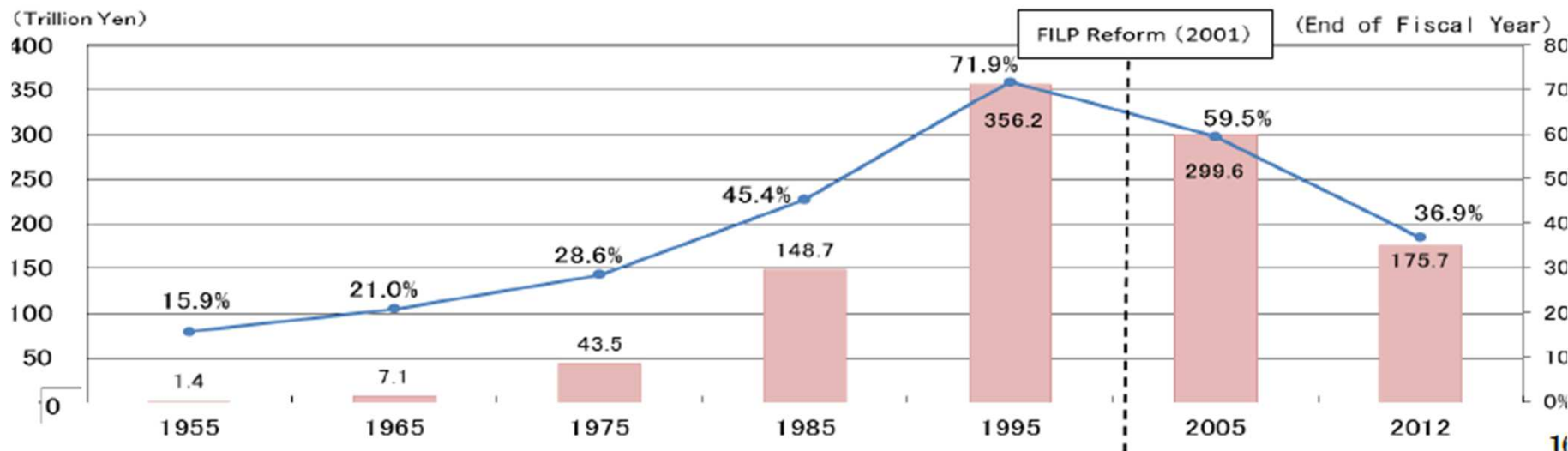


- FILP was used for infrastructure development, i.e. highways, and housing improvement.
 - FILP exploits its features in the areas where the beneficiaries can be specified and government policies are required.

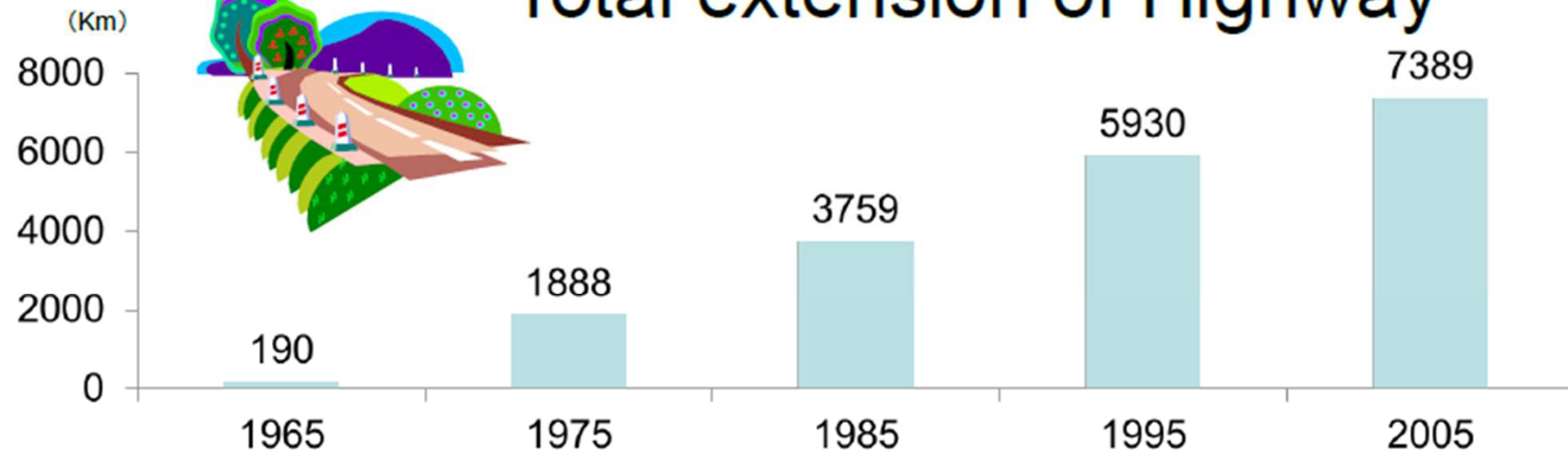
FILP Plan (flow) and its Percentage to Nominal GDP



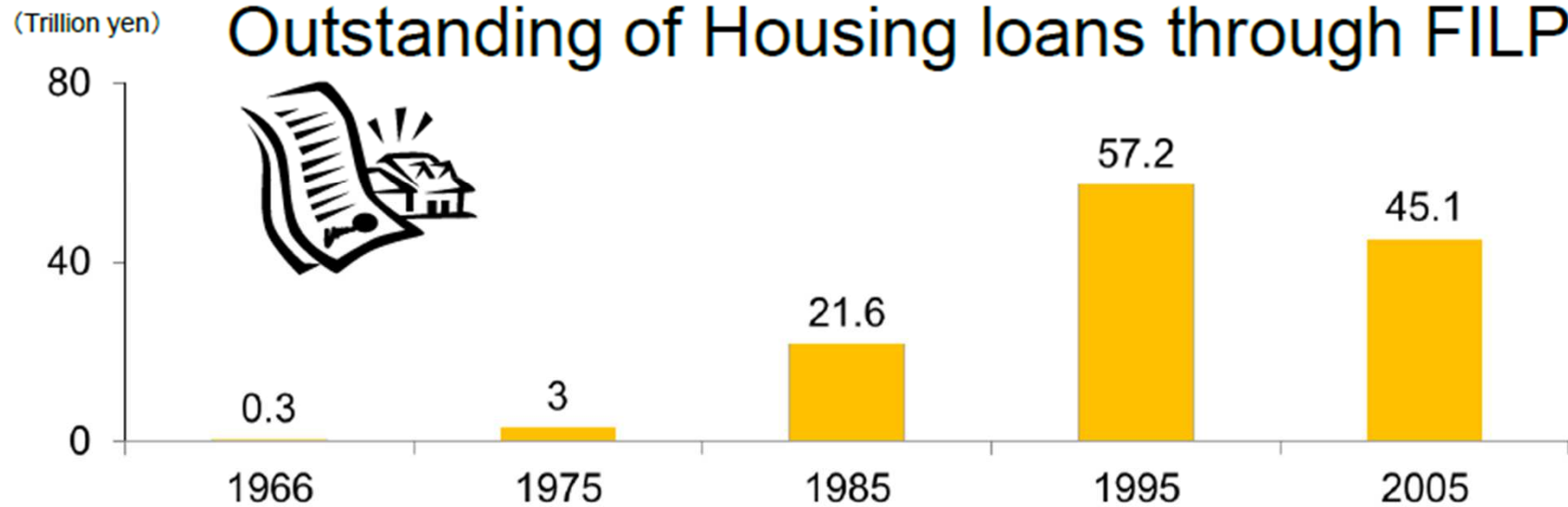
Outstanding of FILP Plan balance(stock) and its Percentage to Nominal GDP



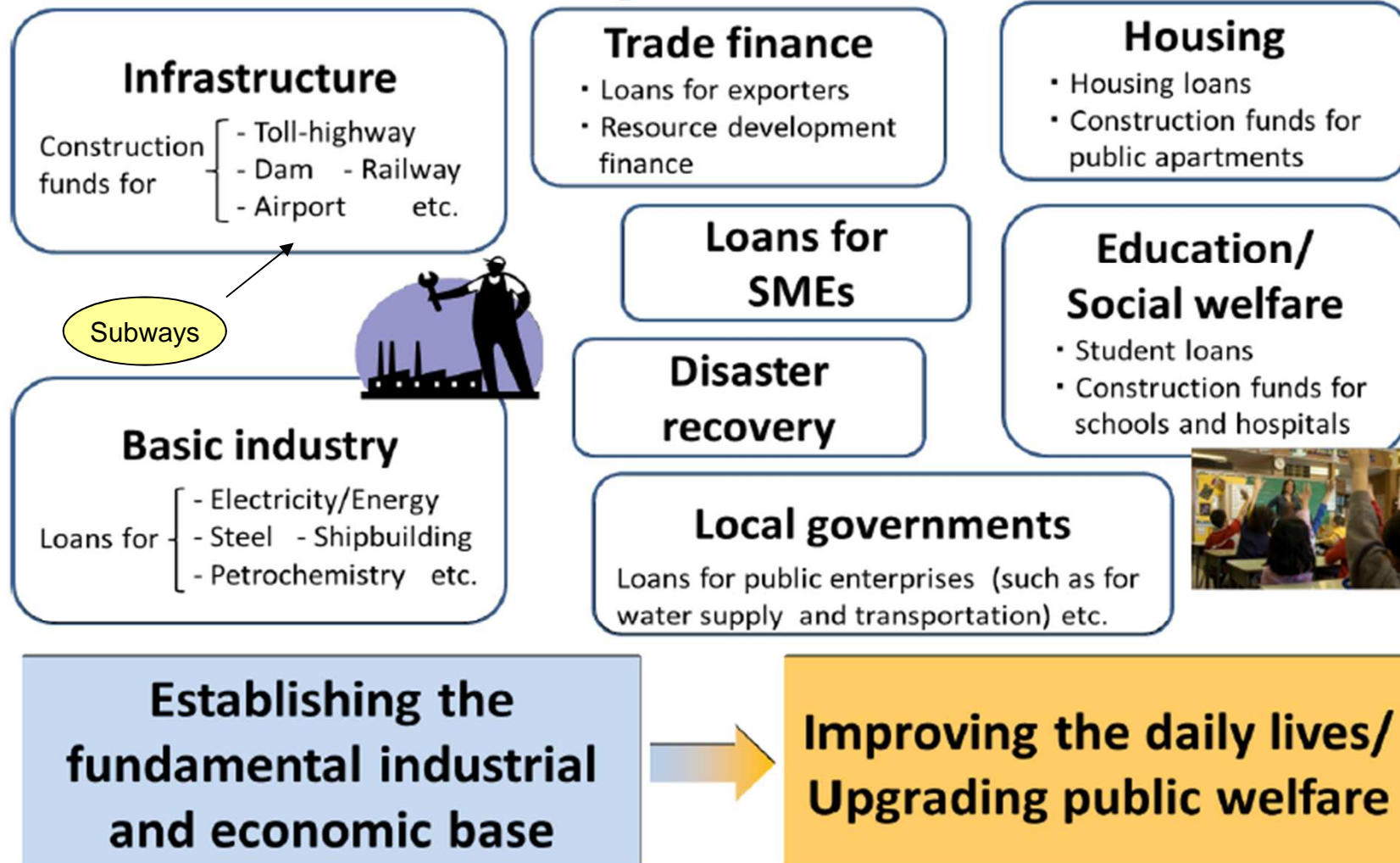
Total extension of Highway



Outstanding of Housing loans through FILP



Target Fields



FILP Application Areas

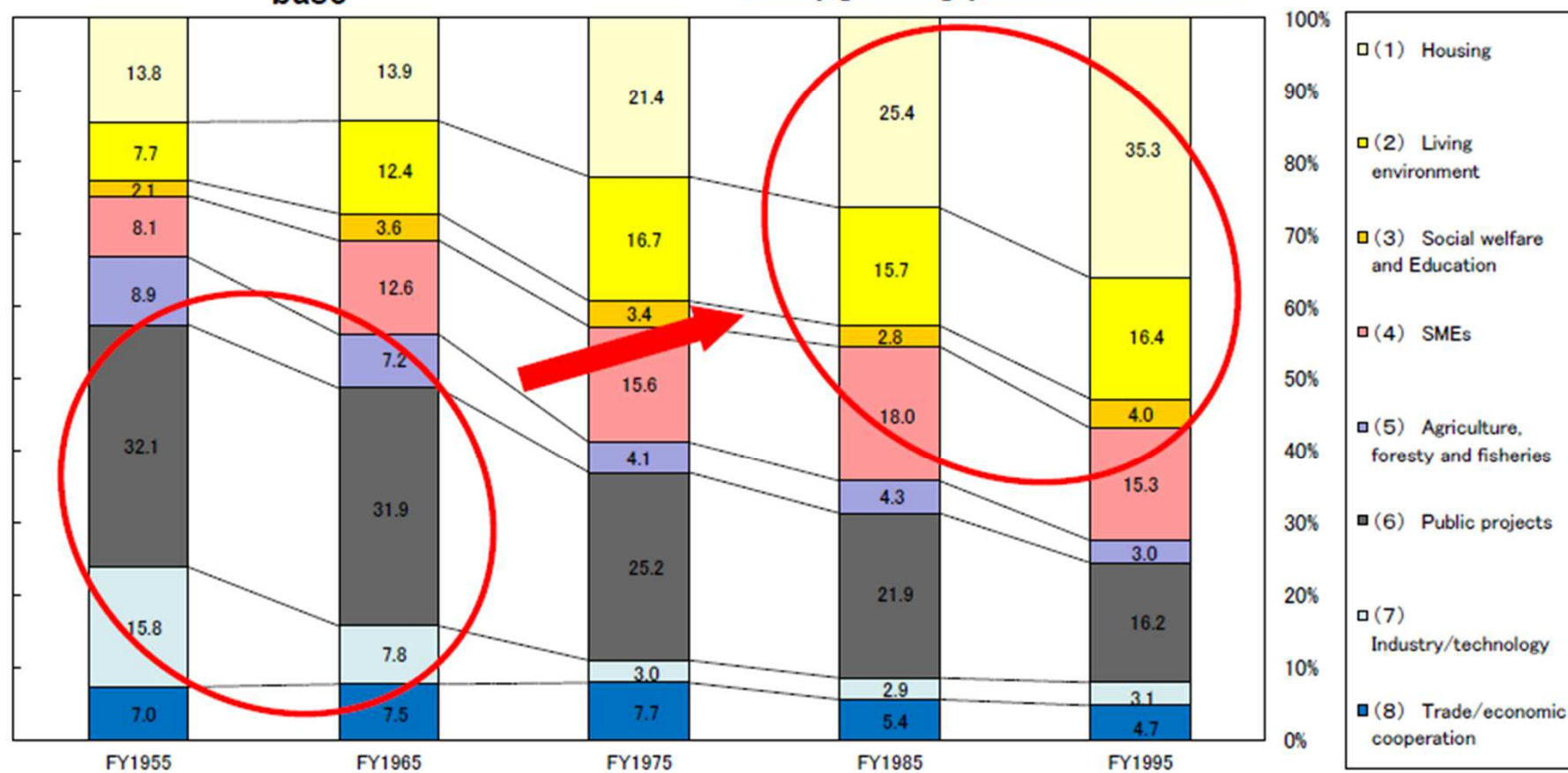
Housing	With respect to housing construction , although it is primarily private capital formation, including that of individuals, there has been recent recognition of the appropriateness of certain policy involvement from the perspective of the national economy. It would be considered appropriate in 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.

Trends in classification

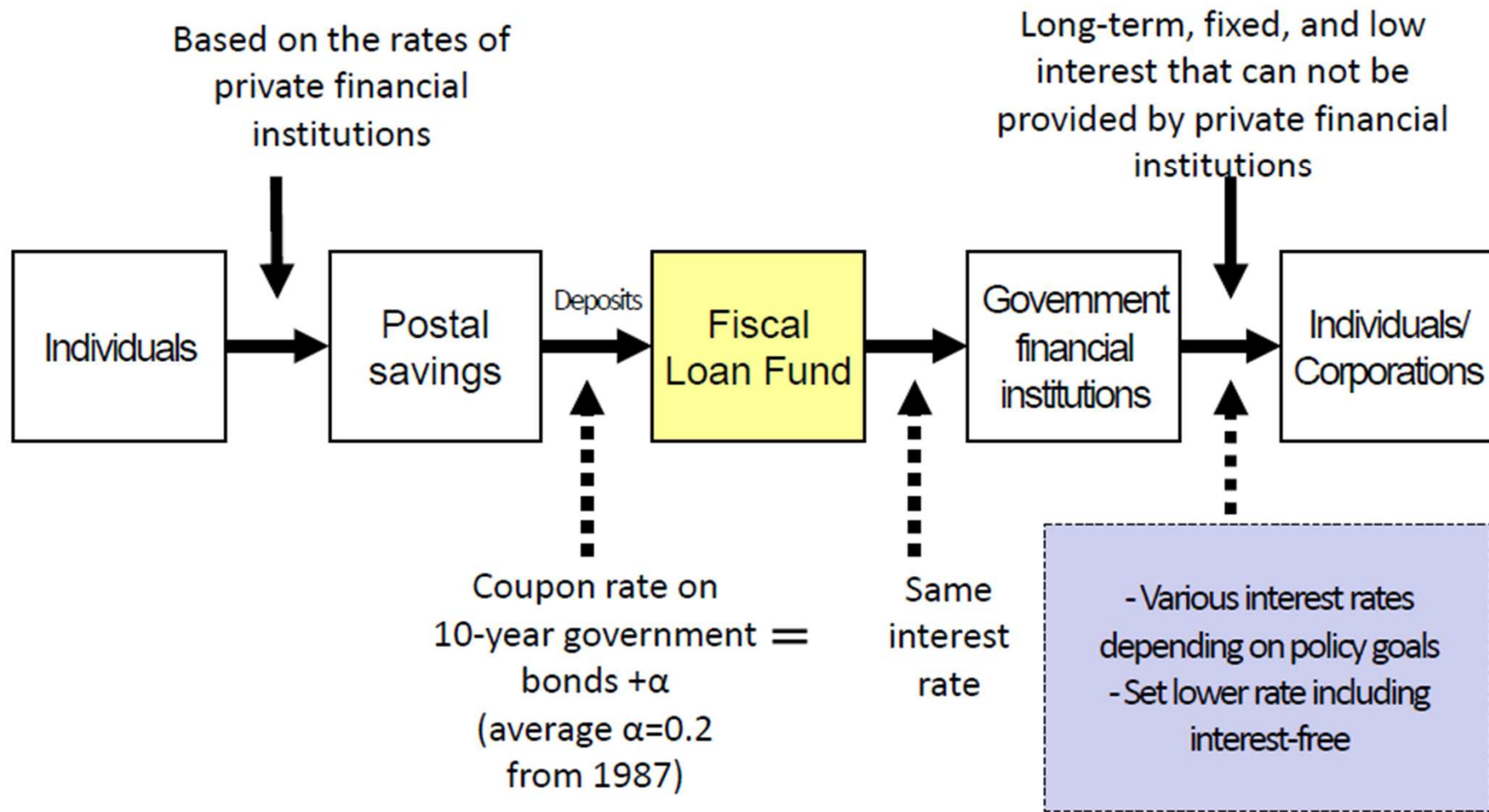
Establishing the fundamental industrial and economic base



Improving the daily lives/
Upgrading public welfare

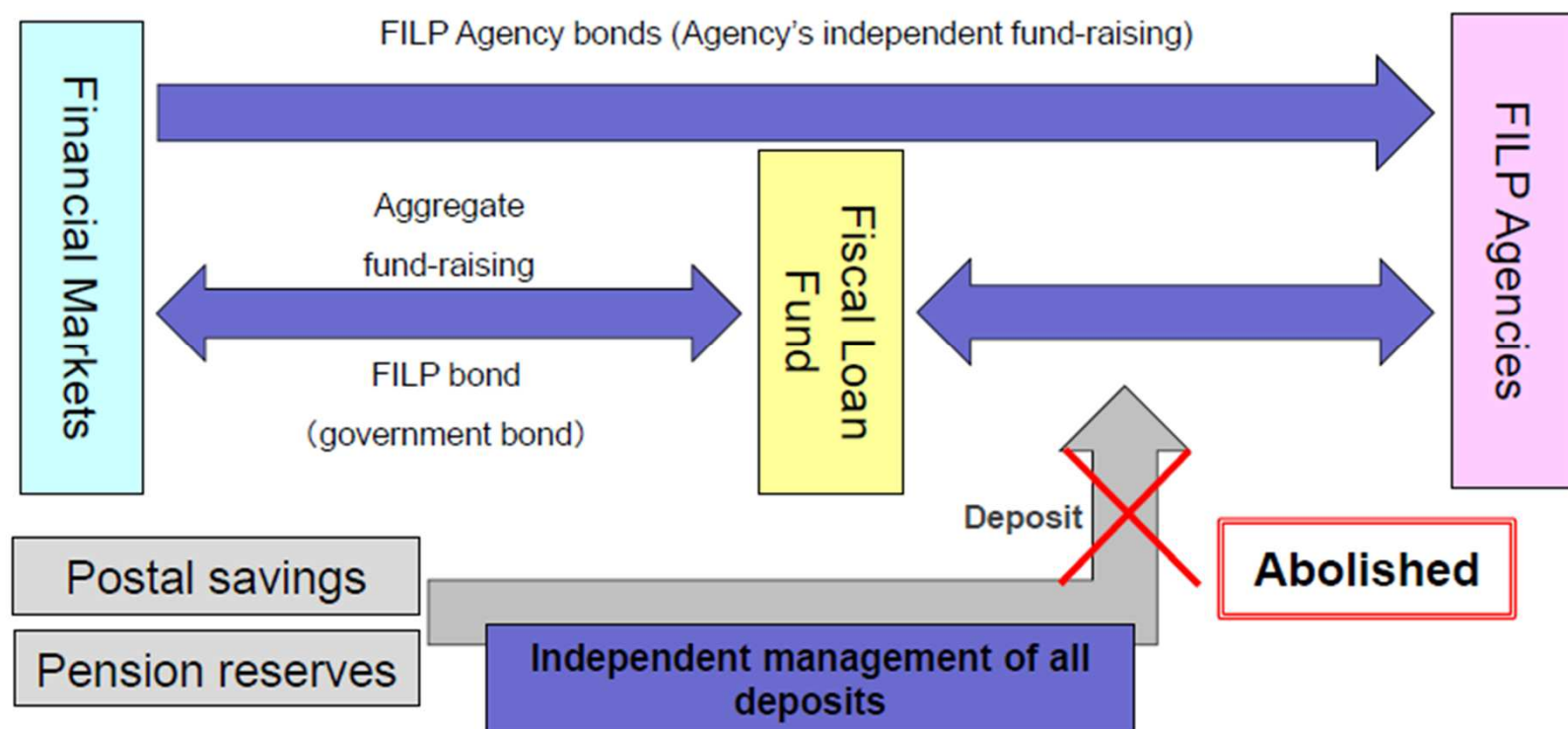


Interest Rate Structure



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.



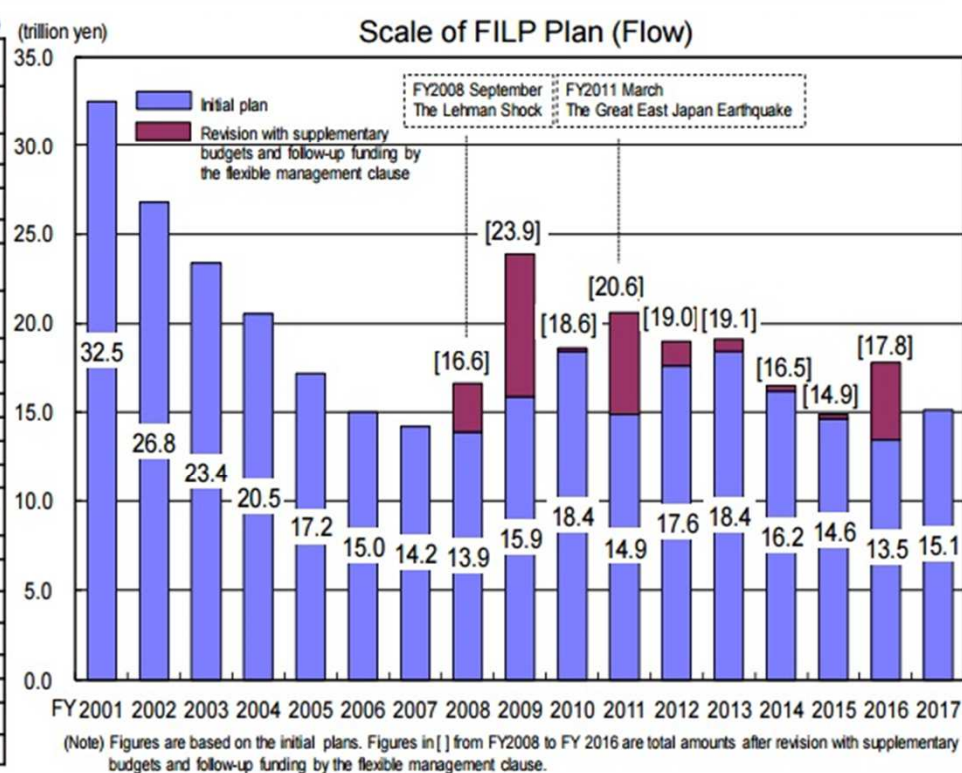
Outline of FILP Plan for FY2017

December 22, 2016
Ministry of Finance

- FILP (Fiscal Investment and Loan Program) for FY2017, from the viewpoint of raising growth potential of Japanese economy further, is planned;
 - (i) to take advantage of the current low-interest situation, thereby bringing forward the opening of the entire Superconductive Maglev (Linear Chuo Shinkansen), and
 - (ii) to actively provide long-term risk money to steadily implement the growth strategy, e.g., support overseas expansion of infrastructure business, and achieve regional revitalization.
- (Amount of "Industrial Investment" : 379.2 billion yen (the largest-ever amount in the initial plan) [the amount in the FY2016 initial plan was 297.3 billion yen])
- The program reduces the funding volume related to recovery from the Great East Japan Earthquake based on examination of its performance over the last years, which facilitate proper response to the crucial financial needs.

Total Amount of FILP Plan for FY2016: 13,481.1 billion yen → for FY2017: 15,128.2 billion yen

	(Unit: billion yen)	
	FY2016 (Initial Plan)	FY2017 (Initial Plan)
1. Bringing forward the opening of the entire Superconductive Maglev (Linear Chuo Shinkansen), etc.		1,529.4
Japan Railway Construction, Transport and Technology Agency	44.2	1,529.4
2. Promoting strategy of global outreach	1,988.0	2,444.0
Japan Bank for International Cooperation	1,300.0	1,666.0
Japan International Cooperation Agency	468.0	548.7
Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development	90.0	113.7
Fund Cooperation for the Overseas Development of Japan's ICT and Postal Services Inc.	56.1	41.6
Cool Japan Fund Inc.	17.0	21.0
Japan Oil, Gas and Metals National Corporation	56.9	53.0
3. Support for regional revitalization	5,443.5	4,920.7
Japan Finance Corporation	4,170.0	3,614.0
Development Bank of Japan Inc.	700.0	700.0
The Shoko Chukin Bank, Ltd.	23.0	24.0
Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion Japan	5.0	13.0
4. Education, welfare and medical services	1,438.9	1,219.7
Japan Student Services Organization	794.4	700.3
Welfare and Medical Service Agency	467.4	353.1
5. Local governments	3,393.5	3,473.0
Local governments	2,833.5	2,868.0
6. Other institution	1,173.0	1,541.4
Japan Expressway Holding and Debt Repayment Agency	956.0	1,385.0
FILP plan	13,481.1	15,128.2



Point of FILP Plan for FY2017

1. Bring forward the opening of the entire Superconductive Maglev (Linear Chuo Shinkansen), etc.: 1,529.4 billion yen

Japan Railway Construction, Transport and Technology Agency: 1,529.4 billion yen

- Provide funds for the rest amount of loan (1.5 trillion yen) for bringing forward the opening of the entire Superconductive Maglev (Linear Chuo Shinkansen) by up to eight years (total amount of 3 trillion yen), which was added in the economic package (August 2016).

2. Promoting strategy of global outreach: 2,444.0 billion yen (including "Industrial Investment" of 241.9 billion yen)

- (1) Japan Bank for International Cooperation (JBIC): 1,666.0 billion yen (including "Industrial Investment" of 85.0 billion yen)**
 - Expand the amount of investments and loans in order to further support for overseas expansion of infrastructure businesses by Japanese companies' (e.g. highly efficient thermal power generation projects).
- (2) Japan International Cooperation Agency (JICA): 548.7 billion yen**
 - Expand the amount of Yen Loans in order to further support for overseas expansion of infrastructure businesses which take advantage of Japan's advanced technology (e.g. construction of airport terminals of international airports).
- (3) Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN): 113.7 billion yen (including "Industrial Investment" of 64.9 billion yen)**
 - Provide the necessary funds for supporting the overseas expansion of Japanese companies which engage in transportation and urban development projects (e.g. construction and operation of high-speed railways).
- (4) Fund Cooperation for the Overseas Development of Japan's ICT and Postal Services Inc. (JICT): 41.6 billion yen (including "Industrial Investment" of 19.0 billion yen)**
 - Provide the necessary funds for supporting the overseas expansion of Japanese companies which engage in communication, broadcasting and postal service businesses (e.g. development and operation of information and communication networks).
- (5) Cool Japan Fund Inc. (CJ): 21.0 billion yen (Industrial Investment)**
 - Provide the necessary funds for promoting the Cool Japan initiative, including supports for the overseas expansion of attractive Japanese contents and acquisition of in-bound tourists' demand through the capital subscription to regional funds for promoting tourism.
- (6) Japan Oil, Gas and Metals National Corporation (JOGMEC): 53.0 billion yen (including "Industrial Investment" of 52.0 billion yen)**
 - Secure the necessary amount of investments, etc. for exploration and development of natural resources in order to promote investments in resource development (e.g. development of natural gas, capital subscription to liquefied project and metals project) from the view point of stable securement of resources.

3. Support for regional revitalization: 4,920.7 billion yen (including "Industrial Investment" of 136.1 billion yen)

- (1) Japan Finance Corporation: 3,614.0 billion yen (including "Industrial Investment" of 44.0 billion yen)**
 - Consider the fund-raising by small and medium-sized enterprises (SMEs) and micro enterprises and secure the necessary amount of loan in order to support activities such as business startups and business revitalization, and acquisition of in-bound tourists' demand (for Micro Business and Individual Unit and SME Unit).
 - In addition to the loan program for activities to promote sustainable and sound development of agriculture, forestry and fisheries, establish a loan program for activities by providers of agricultural equipment and materials to enhance productivity through business restructuring based on the Act on "Support for Enhancement of Competitiveness of Agriculture (tentative name)" (for Agriculture, Forestry, Fisheries and Food Business Unit).
- (2) Development Bank of Japan Inc.: 700.0 billion yen (including "Industrial Investment" of 50.0 billion yen)**
 - Secure the necessary amount of investments and loans in order to provide long-term funds and capital funds as growth funds from the viewpoint of enhancing companies' competitiveness and regional revitalization.
- (3) The Shoko Chukin Bank, Ltd.: 24.0 billion yen (Industrial Investment)**
 - Secure the necessary amount of loans to support initiatives of associations and consortiums which exploit regional resources, including local products.
- (4) Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion Japan (A-FIVE): 13.0 billion yen (Industrial Investment)**
 - In addition to promotion of collaboration among the primary, secondary and tertiary industries by people engaging in agriculture, forestry and fisheries, secure the necessary amount of investments and loans for initiative to support business restructuring and new entry based on the Act on "Support for Enhancement of Competitiveness of Agriculture (tentative name)".

4. Education, welfare and medical services: 1,219.7 billion yen

Japan Student Services Organization: 700.3 billion yen

- Secure the necessary amount of loans for interest-bearing scholarship in order to support students' university advancement.

5. Local governments : 3,473.0 billion yen

Local governments: 2,868.0 billion yen

- Provide long-term, low-interest funds to help local governments to finance the budget deficit based on the municipal bond plan, while taking into account their fund-raising capacity and purposes.

Overview of the Public and Private Funds (in which the industrial investment is made)

Name of Institution	Date established (Duration)	Purpose of Establishment	Decided to support (as of the end of March FY2016)	Industrial Investment (as of the end of March FY2016)	FY2016 Initial Plan
Innovation Network Corporation of Japan (INCJ)	July, 2009 (15years)	Invest in the innovative projects that are aiming at developing the next generation industries through promotion of open innovation	101 cases 830.5 billion Yen	286 billion Yen (Capital Contribution)	—
Regional Economy Vitalization Corporation of Japan (REVIC) *Contributed through Deposit Insurance Corporation of Japan	March, 2013 (10 years)	Support the project recovery activities in the light of selection and concentration of the projects as well as restructure of the projects, or support establishment of new projects, transformation of business and local revitalization projects	106 cases 73.5 billion Yen	13 billion Yen (Capital Contribution) *General Account Contribution: 3 billion Yen	—
Agriculture, forestry and fisheries Fund corporation for Innovation, Value-chain and Expansion Japan (A-FIVE)	January 2013 (20 years)	In order to operate "the aggressive agricultural, forestry and fishery industries", support the joint ventures of agricultural, forestry, and fishery businesses and other businesses that are working on development of the 6th industry.	Direct Capital Contribution: 2 cases, 1.5 billion Yen Indirect Capital Contribution: 86cases, 2.9billion Yen Sub funds established: 53 cases	30 billion Yen (Capital Contribution)	Industrial Investment: 5 billion Yen (Loans)
Private Finance Initiative Promotion Corporation of Japan (PFI Promotion Corporation of Japan)	October 2013 (15 years)	For the PFI projects collecting the funds from the usage fees, promote introduction of the private funds and develop the infrastructure investment market	14 cases 28.1 billion Yen	10 billion Yen (Capital Contribution)	Industrial Investment: 3 billion Yen (Capital Contribution) Government Guarantee: 13.8 billion Yen
Cool Japan Fund Inc.	November 2013 (20 years)	In order to promote the overseas operations of Cool Japan, provide funds for and participate in the projects aiming at making "Japan's Beauty" to industry, such as Japan Mall.	15 cases 38.7 billion Yen	41.6 billion Yen (Capital Contribution)	Industrial Investment: 17 billion Yen (Capital Contribution)
Fund for Japanese Industrial Competitiveness (Development Bank of Japan Inc., DBJ)	March 2013 (about 10 years)	Promote creation of new projects through cross-industrial collaboration and new projects by taking advantage of internally hidden excellent technologies	12 cases 129 billion Yen	100 billion Yen (Loans)	—
Specific Investment Activities (Development Bank of Japan, DBJ)	June 2015 (10 years)	Support active initiatives aiming at developing companies while providing the funds from the private financial institutions, from the viewpoint of strengthening the corporate competitiveness and the regional revitalization	19 cases 103.9 billion Yen	65 billion Yen (Capital Contribution)	Industrial Investment: 50 billion Yen (Capital Contribution)
Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN)	October 2014 (-)	In order to promote export of the traffic and metropolitan infrastructure, contribute funds to and participate in the overseas projects such as high-speed train project	3 cases 11.7billion Yen	15 billion Yen (Capital Contribution)	Industrial Investment: 38 billion Yen (Capital Contribution) Government Guarantee: 52 billion Yen
Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc. (JICT)	November 2015 (20 years)	In order to promote the overseas operations of telecommunication, broadcasting and postal projects, contribute funds to and participate in the overseas projects such as project to organize digital terrestrial broadcast network.	—	1.9 billion Yen (Capital Contribution)	Industrial Investment: 20 billion Yen (Capital Contribution) Government Guarantee: 36.1 billion Yen

Institute which supports overseas transport and urban development projects

- Found an institute which participates and invests in overseas transportation infrastructures such as railways, and in overseas urban development projects in order to promote “Infrastructure Export Strategy.” 【Industrial investment: 58.5 billion yen Government guarantee 51.0 billion yen】

Need for this institute

《Background》

- PFI is frequently used in many countries because it attracts private participation in projects and private funds.

《Characteristics of transportation infrastructure》

- Though consistent profit is expected for long term, there are large early-stage investment, long warm-up period and demand risk.



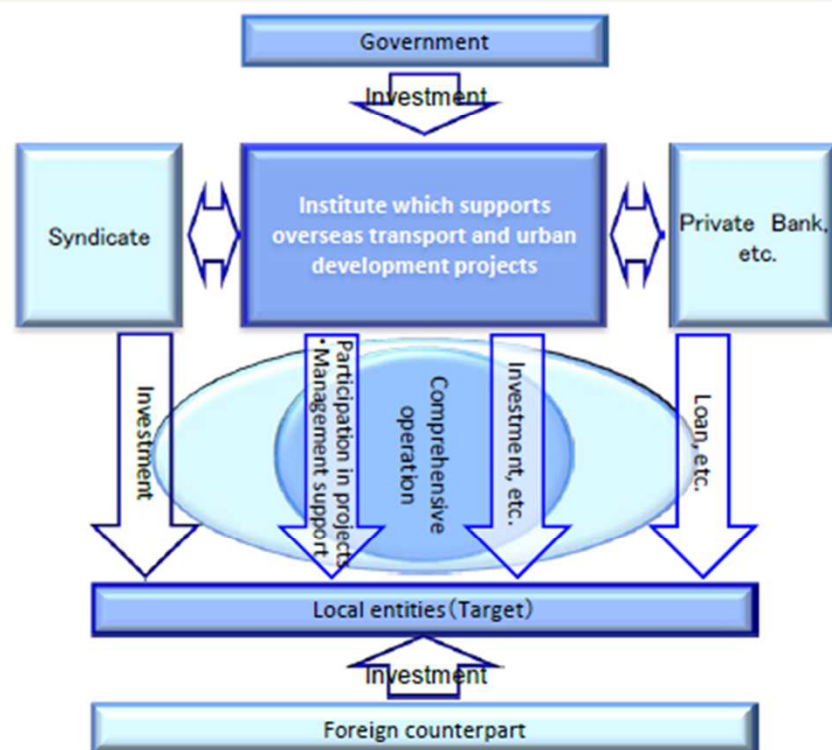
《Participation in projects • Management support》

- It is essential to participate in projects and support local entities such as management know-how, operation and maintenance technology in order to appropriately manage transportation and urban development projects.

《Investment》

- It is essential to promote business through investment in good overseas transportation and urban development projects.

Project scheme



《Target area》

High-speed rail, Urban rail, Port terminal, Urban development projects, etc.