Provisional Translation

Economic and Fiscal Projections for Medium to Long Term Analysis

January 24, 2012

Cabinet Office, Japan

Projections are made using the "Economic and Fiscal Model," which takes into account the interactions among the variables in three sections, i.e. macroeconomy, public finance and social security. Therefore, the main economic indicators—e.g. growth rates, inflation rates, and interest rates—are not exogenously assumed, but are endogenously obtained as a result of interactions among the variables.

Considerable leeway should be given when interpreting the projections shown here.

1. Two Economic Scenarios

As for the macro economy, the following two scenarios are considered.

(1) Growth Strategy Scenario

Under favorable domestic and foreign economic conditions, measures presented in "Strategy for Rebirth of Japan" are assumed to be implemented in a decisive manner. As a result, the average annual growth rate for the FY2011–FY2020 period is projected to reach approximately 3% in nominal and 2% in real terms. The rate of change in the Consumer Price Index is projected to turn positive in FY2012, and to stay as high as around 2% over the medium to long term.

(2) Prudent Scenario

Under prudent economic assumptions, the average annual growth rate for the FY2011–FY2020 period is projected to reach mid-1% in nominal and over 1% in real terms. The rate of change in the Consumer Price Index is projected to turn positive in FY2012, and to stay as high as around 1% over the medium to long term.

2. Main Assumptions in Public Finances

- Based on the "Draft Plan for the Comprehensive Reform of Social Security and Tax" (Cabinet Council report on January 6, 2012) etc., the consumption tax rate (central and local) is assumed to be raised by 3% on April 2014 and then by 2% on October 2015. (The portion of the increase in consumption tax revenue (central and local) is assumed to be allocated at 346/500 for central and at 154/500 for local. It is assumed that certain new expenditures are added along with enforcing reform of the social security system, etc.
- It is assumed that recovery and reconstruction measures are implemented, the special tax for reconstruction is carried out, and the reconstruction bonds are issued based on the "Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake" (decided on July 29, 2011, by the Reconstruction Headquarters in response to Great East Japan Earthquake), the laws for securing fiscal resources, etc.
- Expenditure in FY2012 is based on the draft budget. For FY2013–FY2014, these

projections take into account “the Medium-term Fiscal Framework (FY2012–FY2014)” (Cabinet decision on August 12, 2011).

3. Main Results of the Projections

(The result for fiscal consolidation is derived under the Prudent Scenario.)

(Economic conditions before and after a consumption tax hike)

- Under prudent economic assumptions, the average annual growth rate for the FY2013–FY2016 period is projected to reach over 1% in real terms. The average growth rate does not differ much from that for the case in which Comprehensive Reform of Social Security and Tax is not considered or that in the medium to long term (i.e., average growth rate for the FY2011–FY2020 period).
- The average annual price increase rate for the FY2013–FY2016 period is projected to go up due to the impact of a consumption tax hike (the consumer price index would go up approximately a little less than 2% pt., and the GDP deflator would go up approximately 1% pt.). From this, the average annual growth rate for the FY2013–FY2016 period is projected to reach over 2% in nominal terms. The average growth rate is projected to attain mid-1% for the case in which Comprehensive Reform of Social Security and Tax is not considered in nominal terms.

(Fiscal Consolidation)

- As a result of the “Comprehensive Reform of Social Security and Tax,”
  - The combined primary deficit to GDP ratio of the central and local governments in FY2015 is projected to be approximately 3.3%, while the target of halving the deficit from the level in FY2010 is 3.2 % of GDP (excluding the revenues and expenditures for the recovery and reconstruction projects; the same applies to the rest of the figures). However, if we consider a hypothetical case in which the consumption tax is raised to 10% at the beginning of FY2015, it follows that the fiscal structure after the “Comprehensive Reform” can be regarded as one that achieves the deficit-halving target (the combined primary deficit to GDP ratio of the central and local governments in FY2016 is projected to be approximately 3.0%).
  - The primary deficit to GDP ratio of the central government in FY2015 is projected to be approximately 3.6%, while the target of halving the deficit from the level in FY2010 is 3.4 % of GDP. However, if we consider a hypothetical case in which the consumption tax

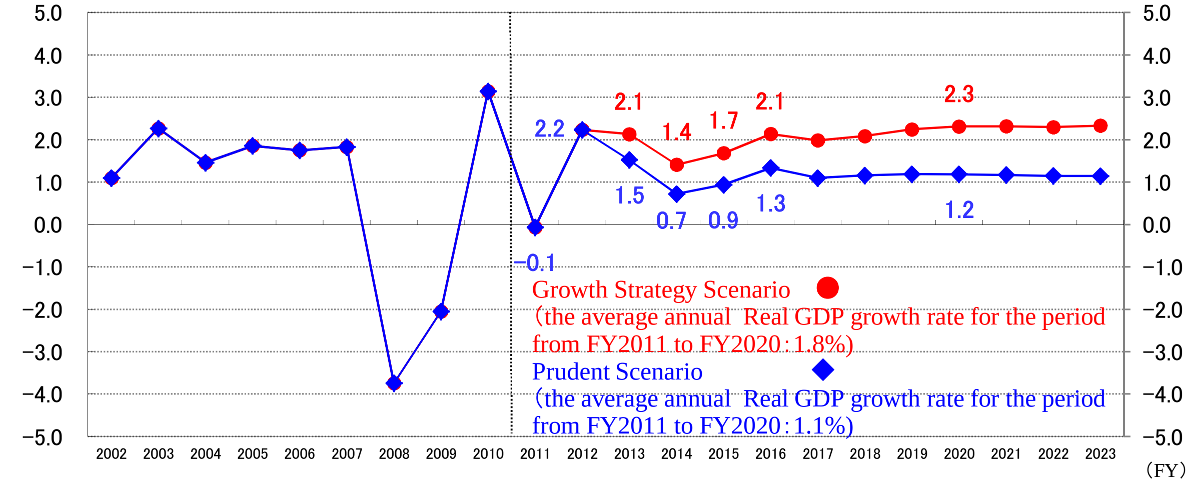
is raised to 10% at the beginning of FY2015, it follows that the fiscal structure after the "Comprehensive Reform" can be regarded as one that achieves the deficit-halving target (the primary deficit to GDP ratio of the central government in FY2016 is projected to be approximately 3.4%).

(Note): If we consider a hypothetical case in which the consumption tax is raised to 10% at the beginning of FY2015, the projected FY2015 primary deficit to GDP ratio of the central and local governments, and that of the central government, would go down to approximately 3.0% and 3.4%, respectively. (Simply calculate the difference in the FY2016 primary deficit to GDP ratios of the two cases, i.e. the case in which the Comprehensive Reform of the Social Security and Tax is taken into consideration and the case in which it is not [approximately 1.5% of GDP for central and local governments, approximately 1.4% of GDP for central government], and add the result to the FY2015 primary deficit to GDP ratio for the case in which the Comprehensive Reform of the Social Security and Tax is not taken into consideration [4.5% for central and local governments, 4.8% for central government]).

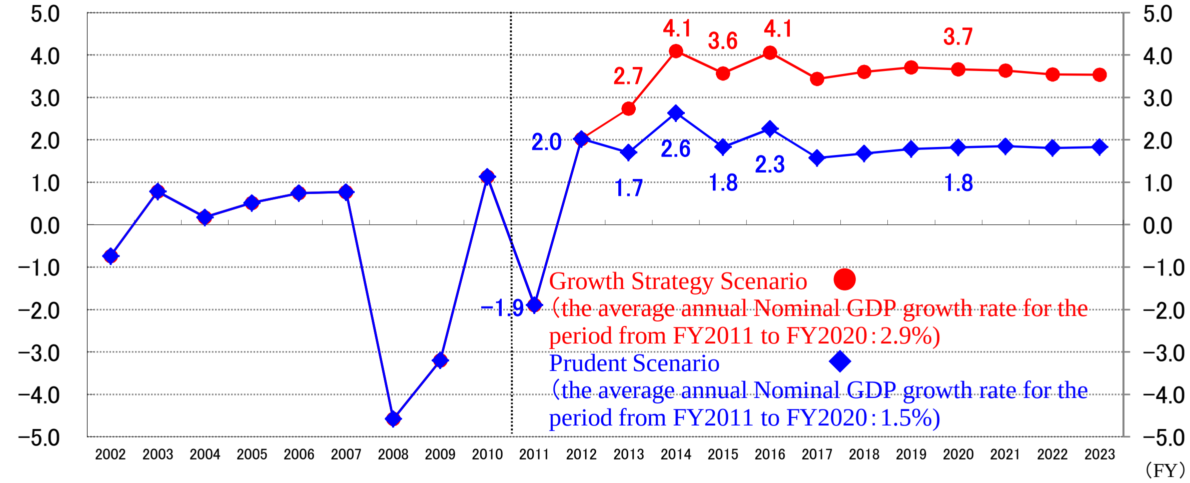
・The combined primary deficit to GDP ratio of the central and local governments in FY2020 is projected to be approximately 3.0%, while that of the central government alone is to be approximately 3.1%. That is, a further improvement in budget balance is necessary to achieve the target of generating a primary surplus by FY2020.

Projection Results

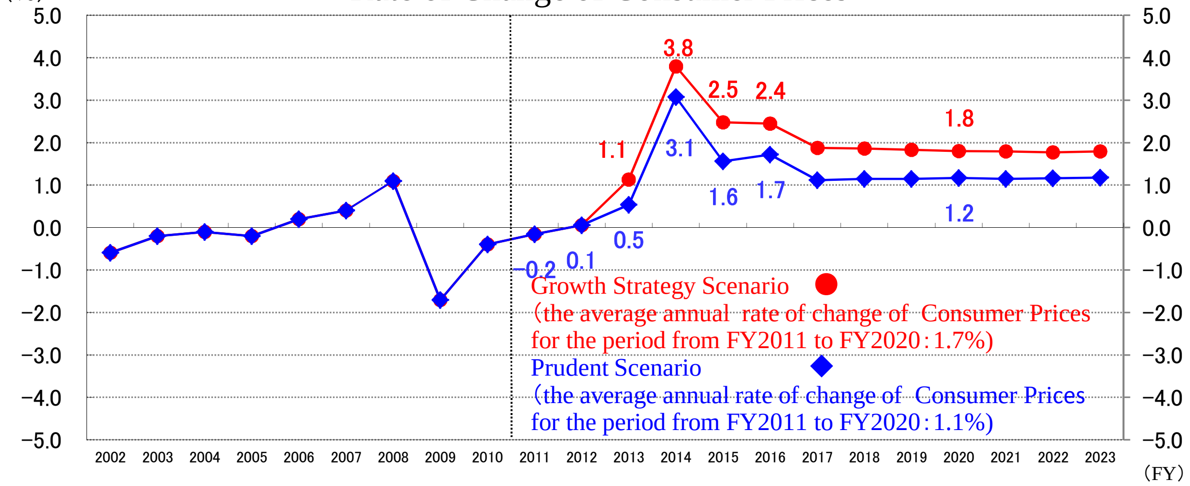
Real GDP Growth Rate



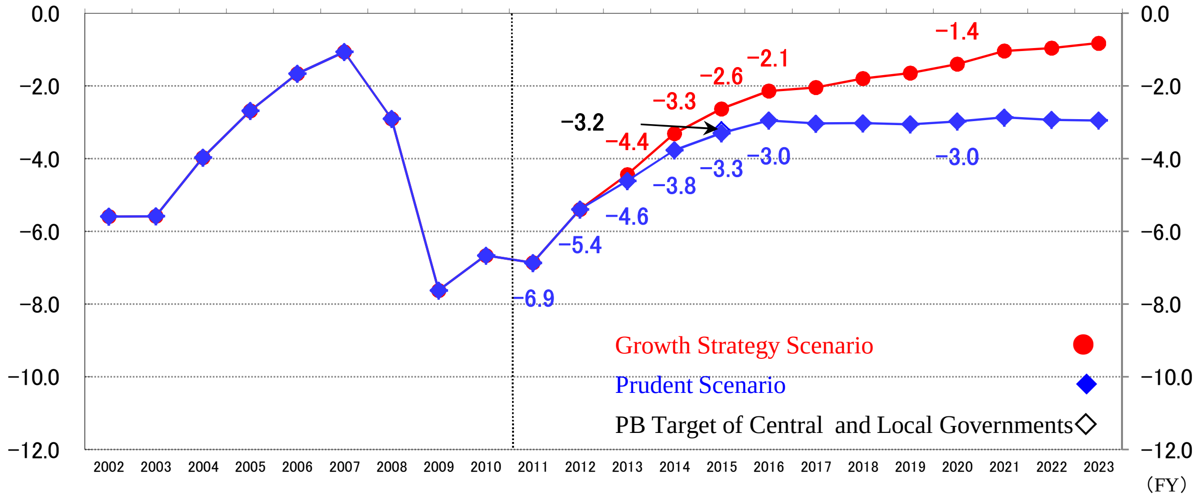
Nominal GDP Growth Rate



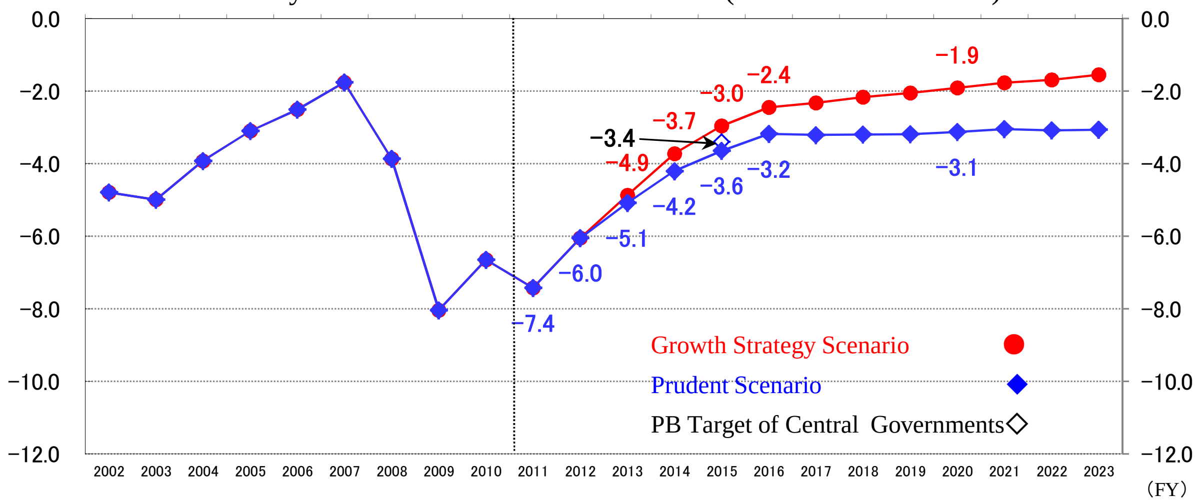
Rate of Change of Consumer Prices



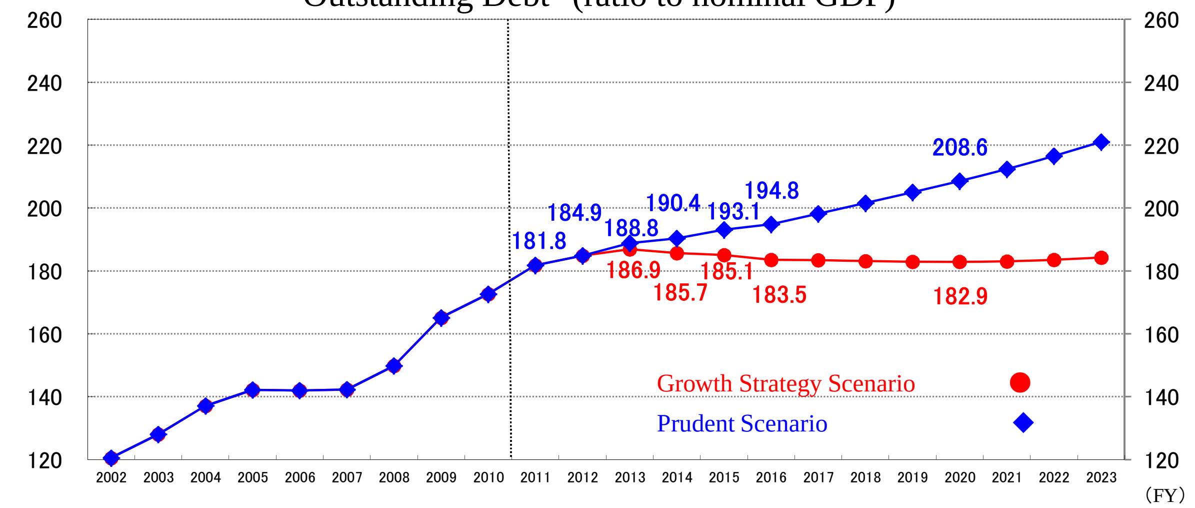
(%) Primary Balance of Central and Local Governments Combined* (ratio to nominal GDP)



(%) Primary Balance of Central Governments* (ratio to nominal GDP)



(%) Outstanding Debt* (ratio to nominal GDP)



* Excluding the expenditures and fiscal resources for the recovery and reconstruction measures.

Projection Results (Tables)

（1）Prudent Scenario

【Macroeconomy】 (%), [ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Real GDP Growth	(▲0.1)	(2.2)	(1.5)	(0.7)	(0.9)	(1.3)	(1.2)	(1.1)
Nominal GDP Growth	(▲1.9)	(2.0)	(1.7)	(2.6)	(1.8)	(2.3)	(1.8)	(1.8)
Nominal GDP	470.1	479.6	487.8	500.6	509.8	521.3	558.0	589.2
Price Change								
Consumer Prices	(▲0.2)	(0.1)	(0.5)	(3.1)	(1.6)	(1.7)	(1.2)	(1.2)
Corporate Goods Prices	(1.9)	(0.7)	(0.6)	(2.8)	(1.6)	(1.7)	(0.4)	(0.7)
GDP Deflator	(▲1.8)	(▲0.2)	(0.2)	(1.9)	(0.9)	(0.9)	(0.6)	(0.7)
Unemployment Rate	(4.5)	(4.3)	(4.0)	(3.8)	(3.7)	(3.6)	(3.4)	(3.4)
Long-tem Interest Rate	(1.1)	(1.3)	(1.6)	(1.9)	(2.1)	(2.4)	(3.0)	(3.5)
Balance by Sector								
General Government*	[▲11.3]	[▲10.0]	[▲8.2]	[▲6.7]	[▲6.5]	[▲6.2]	[▲6.9]	[▲7.7]
Private	[12.8]	[12.4]	[10.6]	[9.2]	[9.2]	[8.9]	[9.6]	[10.0]
Overseas	[▲2.0]	[▲2.4]	[▲2.3]	[▲2.5]	[▲2.7]	[▲2.7]	[▲2.7]	[▲2.3]

【Central and Local Governments' Public Finances】

（Excluding the expenditures and fiscal resources for the recovery and reconstruction measures） [ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Primary Balance	▲ 32.3	▲ 25.9	▲ 22.5	▲ 18.9	▲ 16.8	▲ 15.4	▲ 16.6	▲ 17.4
(ratio to nominal GDP)	[▲6.9]	[▲5.4]	[▲4.6]	[▲3.8]	[▲3.3]	[▲3.0]	[▲3.0]	[▲2.9]
Central Government	▲ 34.9	▲ 29.0	▲ 24.8	▲ 21.0	▲ 18.6	▲ 16.6	▲ 17.4	▲ 18.0
(ratio to nominal GDP)	[▲7.4]	[▲6.0]	[▲5.1]	[▲4.2]	[▲3.6]	[▲3.2]	[▲3.1]	[▲3.1]
Local Government	2.6	3.1	2.3	2.2	1.8	1.2	0.9	0.7
(ratio to nominal GDP)	[0.6]	[0.7]	[0.5]	[0.4]	[0.3]	[0.2]	[0.2]	[0.1]
Fiscal Balance	▲ 41.6	▲ 36.4	▲ 33.5	▲ 30.8	▲ 29.7	▲ 29.8	▲ 38.2	▲ 46.8
(ratio to nominal GDP)	[▲8.8]	[▲7.6]	[▲6.9]	[▲6.2]	[▲5.8]	[▲5.7]	[▲6.8]	[▲7.9]
Central Government	▲ 41.1	▲ 36.6	▲ 32.8	▲ 29.6	▲ 27.9	▲ 26.9	▲ 34.1	▲ 41.3
(ratio to nominal GDP)	[▲8.7]	[▲7.6]	[▲6.7]	[▲5.9]	[▲5.5]	[▲5.2]	[▲6.1]	[▲7.0]
Local Government	▲ 0.5	0.2	▲ 0.7	▲ 1.2	▲ 1.8	▲ 2.9	▲ 4.1	▲ 5.5
(ratio to nominal GDP)	[▲0.1]	[0.0]	[▲0.1]	[▲0.2]	[▲0.4]	[▲0.6]	[▲0.7]	[▲0.9]
Outstanding Debt	854.7	886.6	921.1	953.1	984.4	1015.6	1164.1	1302.2
(ratio to nominal GDP)	[181.8]	[184.9]	[188.8]	[190.4]	[193.1]	[194.8]	[208.6]	[221.0]

【Central Government General Account】 Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Expenditure	107.5	90.3	91.7	97.5	101.2	104.9	119.1	131.6
General Account expenditure excluding debt repayment and interest payment	87.2	68.4	68.4	72.3	74.3	75.7	80.2	83.7
Debt repayment and interest payment	20.3	21.9	23.3	25.2	26.9	29.2	38.9	47.9
Revenues	51.7	46.1	48.0	54.5	57.8	61.0	64.7	67.6
Tax Revenue	42.0	42.3	44.4	51.2	54.4	57.6	61.1	64.0
Other revenues	9.6	3.7	3.5	3.3	3.4	3.4	3.5	3.6
Difference between Expenditure and Revenues	55.8	44.2	43.8	43.0	43.4	44.0	54.4	64.0

Note: The Medium-term Fiscal Framework provides that the government will make every effort to steadily reduce the amount of newly issued government bonds in FY2013 and FY2014. Therefore the Difference between Expenditure and Revenues does not refer to government bond issuance.

（２）Growth Strategy Scenario

【Macroeconomy】

(%), [ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Real GDP Growth	(▲0.1)	(2.2)	(2.1)	(1.4)	(1.7)	(2.1)	(2.3)	(2.3)
Nominal GDP Growth	(▲1.9)	(2.0)	(2.7)	(4.1)	(3.6)	(4.1)	(3.7)	(3.5)
Nominal GDP	470.1	479.6	492.7	512.9	531.2	552.7	636.8	707.4
Price Change								
Consumer Prices	(▲0.2)	(0.1)	(1.1)	(3.8)	(2.5)	(2.4)	(1.8)	(1.8)
Corporate Goods Prices	(1.9)	(0.7)	(0.8)	(3.6)	(2.7)	(2.7)	(0.9)	(1.1)
GDP Deflator	(▲1.8)	(▲0.2)	(0.6)	(2.6)	(1.9)	(1.9)	(1.3)	(1.2)
Unemployment Rate	(4.5)	(4.3)	(3.9)	(3.7)	(3.6)	(3.5)	(3.4)	(3.4)
Long-tem Interest Rate	(1.1)	(1.3)	(2.0)	(2.4)	(2.8)	(3.1)	(4.3)	(5.0)
Balance by Sector								
General Government*	[▲11.3]	[▲10.0]	[▲8.1]	[▲6.3]	[▲5.8]	[▲5.5]	[▲5.2]	[▲5.4]
Private	[12.8]	[12.4]	[10.0]	[7.8]	[7.1]	[6.5]	[6.4]	[6.2]
Overseas	[▲2.0]	[▲2.4]	[▲1.9]	[▲1.5]	[▲1.3]	[▲1.1]	[▲1.2]	[▲0.8]

【Central and Local Governments' Public Finances】

（Excluding the expenditures and fiscal resources for the recovery and reconstruction measures）

[ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Primary Balance	▲ 32.3	▲ 25.9	▲ 21.9	▲ 17.0	▲ 13.9	▲ 11.8	▲ 8.9	▲ 5.8
(ratio to nominal GDP)	[▲6.9]	[▲5.4]	[▲4.4]	[▲3.3]	[▲2.6]	[▲2.1]	[▲1.4]	[▲0.8]
Central Government	▲ 34.9	▲ 29.0	▲ 24.0	▲ 19.1	▲ 15.7	▲ 13.5	▲ 12.2	▲ 10.9
(ratio to nominal GDP)	[▲7.4]	[▲6.0]	[▲4.9]	[▲3.7]	[▲3.0]	[▲2.4]	[▲1.9]	[▲1.5]
Local Government	2.6	3.1	2.1	2.1	1.8	1.7	3.3	5.1
(ratio to nominal GDP)	[0.6]	[0.7]	[0.4]	[0.4]	[0.3]	[0.3]	[0.5]	[0.7]
Fiscal Balance	▲ 41.6	▲ 36.4	▲ 33.3	▲ 29.9	▲ 28.8	▲ 28.9	▲ 37.2	▲ 45.6
(ratio to nominal GDP)	[▲8.8]	[▲7.6]	[▲6.8]	[▲5.8]	[▲5.4]	[▲5.2]	[▲5.8]	[▲6.4]
Central Government	▲ 41.1	▲ 36.6	▲ 32.4	▲ 28.5	▲ 26.7	▲ 26.2	▲ 34.5	▲ 43.2
(ratio to nominal GDP)	[▲8.7]	[▲7.6]	[▲6.6]	[▲5.6]	[▲5.0]	[▲4.7]	[▲5.4]	[▲6.1]
Local Government	▲ 0.5	0.2	▲ 0.9	▲ 1.5	▲ 2.1	▲ 2.8	▲ 2.6	▲ 2.4
(ratio to nominal GDP)	[▲0.1]	[0.0]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.5]	[▲0.4]	[▲0.3]
Outstanding Debt	854.7	886.6	921.0	952.4	983.0	1014.5	1164.8	1303.8
(ratio to nominal GDP)	[181.8]	[184.9]	[186.9]	[185.7]	[185.1]	[183.5]	[182.9]	[184.3]

【Central Government General Account】

Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Expenditure	107.5	90.3	92.1	98.7	103.7	109.5	131.0	150.0
General Account expenditure excluding debt repayment and interest payment	87.2	68.4	68.4	72.4	74.5	76.9	84.4	90.6
Debt repayment and interest payment	20.3	21.9	23.7	26.3	29.2	32.6	46.6	59.4
Revenues	51.7	46.1	48.8	56.5	60.9	65.2	74.2	81.8
Tax Revenue	42.0	42.3	45.2	53.1	57.5	61.7	70.4	77.7
Other revenues	9.6	3.7	3.6	3.4	3.4	3.5	3.8	4.0
Difference between Expenditure and Revenues	55.8	44.2	43.3	42.2	42.8	44.3	56.7	68.2

Note: The Medium-term Fiscal Framework provides that the government will make every effort to steadily reduce the amount of newly issued government bonds in FY2013 and FY2014. Therefore the Difference between Expenditure and Revenues does not refer to government bond issuance.

【Central and Local Governments' Public Finances】

（Including the expenditures and fiscal resources for the recovery and reconstruction measures）

（1）Prudent Scenario

[ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Primary Balance	▲ 41.1	▲ 29.0	▲ 21.5	▲ 17.4	▲ 15.7	▲ 15.0	▲ 16.2	▲ 17.0
（ratio to nominal GDP）	[▲8.7]	[▲6.0]	[▲4.4]	[▲3.5]	[▲3.1]	[▲2.9]	[▲2.9]	[▲2.9]
Central Government	▲ 44.5	▲ 31.5	▲ 23.8	▲ 19.6	▲ 17.5	▲ 16.3	▲ 17.2	▲ 17.8
（ratio to nominal GDP）	[▲9.5]	[▲6.6]	[▲4.9]	[▲3.9]	[▲3.4]	[▲3.1]	[▲3.1]	[▲3.0]
Local Government	3.4	2.5	2.3	2.2	1.8	1.3	0.9	0.7
（ratio to nominal GDP）	[0.7]	[0.5]	[0.5]	[0.4]	[0.4]	[0.2]	[0.2]	[0.1]
Fiscal Balance	▲ 50.4	▲ 39.7	▲ 32.6	▲ 29.5	▲ 28.7	▲ 29.6	▲ 38.0	▲ 46.7
（ratio to nominal GDP）	[▲10.7]	[▲8.3]	[▲6.7]	[▲5.9]	[▲5.6]	[▲5.7]	[▲6.8]	[▲7.9]
Central Government	▲ 50.8	▲ 39.3	▲ 31.9	▲ 28.3	▲ 26.9	▲ 26.7	▲ 34.0	▲ 41.2
（ratio to nominal GDP）	[▲10.8]	[▲8.2]	[▲6.5]	[▲5.7]	[▲5.3]	[▲5.1]	[▲6.1]	[▲7.0]
Local Government	0.3	▲ 0.4	▲ 0.7	▲ 1.2	▲ 1.8	▲ 2.8	▲ 4.0	▲ 5.4
（ratio to nominal GDP）	[0.1]	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.5]	[▲0.7]	[▲0.9]
Outstanding Debt	867.1	900.5	933.4	964.2	994.8	1025.9	1173.0	1310.4
（ratio to nominal GDP）	[184.4]	[187.7]	[191.4]	[192.6]	[195.1]	[196.8]	[210.2]	[222.4]

（2）Growth Strategy Scenario

[ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Primary Balance	▲ 41.1	▲ 29.0	▲ 20.8	▲ 15.5	▲ 12.8	▲ 11.4	▲ 8.5	▲ 5.5
（ratio to nominal GDP）	[▲8.7]	[▲6.0]	[▲4.2]	[▲3.0]	[▲2.4]	[▲2.1]	[▲1.3]	[▲0.8]
Central Government	▲ 44.5	▲ 31.5	▲ 23.0	▲ 17.7	▲ 14.6	▲ 13.2	▲ 11.9	▲ 10.6
（ratio to nominal GDP）	[▲9.5]	[▲6.6]	[▲4.7]	[▲3.4]	[▲2.8]	[▲2.4]	[▲1.9]	[▲1.5]
Local Government	3.4	2.5	2.2	2.2	1.9	1.8	3.3	5.2
（ratio to nominal GDP）	[0.7]	[0.5]	[0.4]	[0.4]	[0.3]	[0.3]	[0.5]	[0.7]
Fiscal Balance	▲ 50.4	▲ 39.7	▲ 32.4	▲ 28.6	▲ 27.8	▲ 28.8	▲ 37.1	▲ 45.6
（ratio to nominal GDP）	[▲10.7]	[▲8.3]	[▲6.6]	[▲5.6]	[▲5.2]	[▲5.2]	[▲5.8]	[▲6.4]
Central Government	▲ 50.8	▲ 39.3	▲ 31.4	▲ 27.2	▲ 25.7	▲ 26.1	▲ 34.5	▲ 43.3
（ratio to nominal GDP）	[▲10.8]	[▲8.2]	[▲6.4]	[▲5.3]	[▲4.8]	[▲4.7]	[▲5.4]	[▲6.1]
Local Government	0.3	▲ 0.4	▲ 0.9	▲ 1.4	▲ 2.0	▲ 2.7	▲ 2.6	▲ 2.3
（ratio to nominal GDP）	[0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.5]	[▲0.4]	[▲0.3]
Outstanding Debt	867.1	900.5	933.3	963.5	993.6	1024.9	1174.2	1313.0
（ratio to nominal GDP）	[184.4]	[187.7]	[189.4]	[187.9]	[187.0]	[185.4]	[184.4]	[185.6]

(Notes)

1. "Consumer Prices" refers to the general index (nationwide).

2. "Balance by Sector" represents "Net lending/net borrowing" in the System of National Accounts (SNA).

3. "Fiscal Balance (FB)" of the central and local governments represents "Net lending/net borrowing" in the SNA. "Primary Balance (PB)" equals FB minus net receivable interest (receivables [FISIM unadjusted] minus payables [FISIM unadjusted]). The PBs of both the central and local governments include some special accounts, as well.
   The debt repayment and interest payment of the Special Account for the Local Allocation and Local Transfer Tax (hereafter referred to as SALALTT) are classified as payments by the central government in SNA, and here they are divided into central and local government in accordance with their contributions.

4. The figures for the fiscal and primary balances in FY2006, FY2008, FY2009, FY2010 and FY2011 exclude the transfer of funds from the Special Account for Fiscal Investment and Loan Program Funds to the Special Account for Government Debt Consolidation Funds and the general account. The same figures in FY2008 exclude the transfer of debts from the Japan Expressway Holding and Debt Repayment Agency to the general account. Furthermore, the same figures in FY2011 exclude the transfer of funds from Japan Railway Construction, Transport and Technology Agency, etc. to the general account.

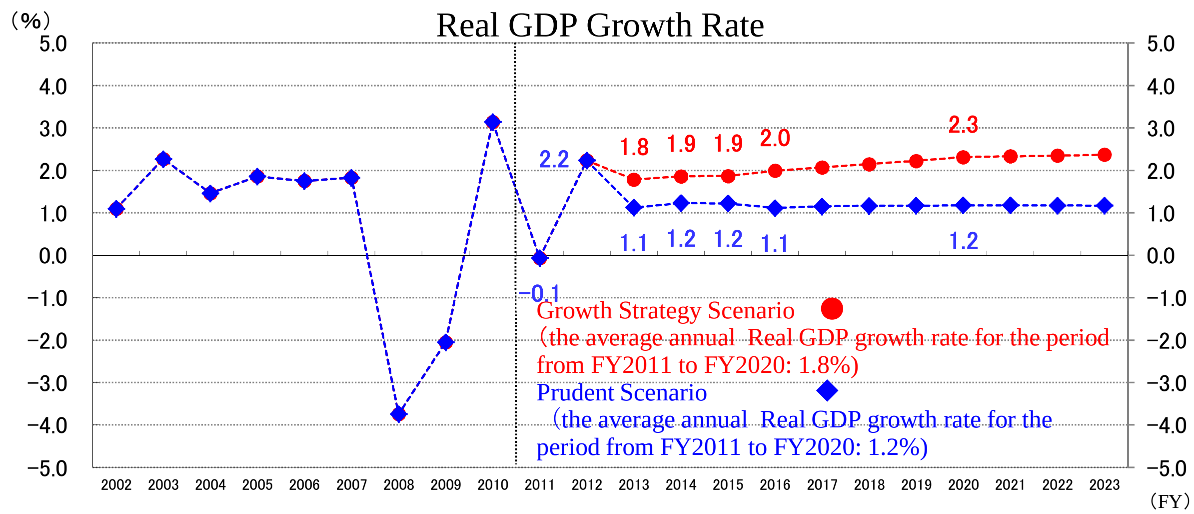
5. "Outstanding Debt" is the sum of general bonds, local government bonds, and borrowing in SALALTT. The borrowing allocated from SALALTT to the general account in FY2007 is included under outstanding debt in order to maintain the continuity of indices.

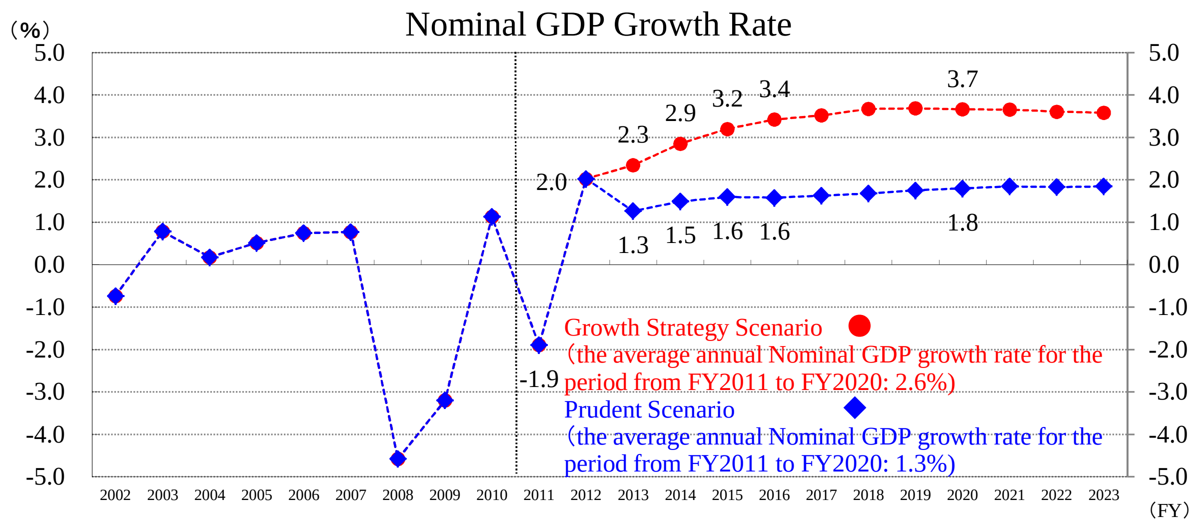
6. The amount of the expenditures and their fiscal resources for the recovery and reconstruction measures is the amount of the expenditures and fiscal resources which are managed separately based on the Medium-term Fiscal Framework (FY2012–FY2014). This amount is equal to the amount of the expenditures for the recovery and reconstruction from the Great East Japan Earthquake that exceed the amount compensated for by the reduction of other existing expenditures and that are financed by the reconstruction bonds, additional non-tax revenues, or temporary taxation, or the amount of relevant fiscal resources.

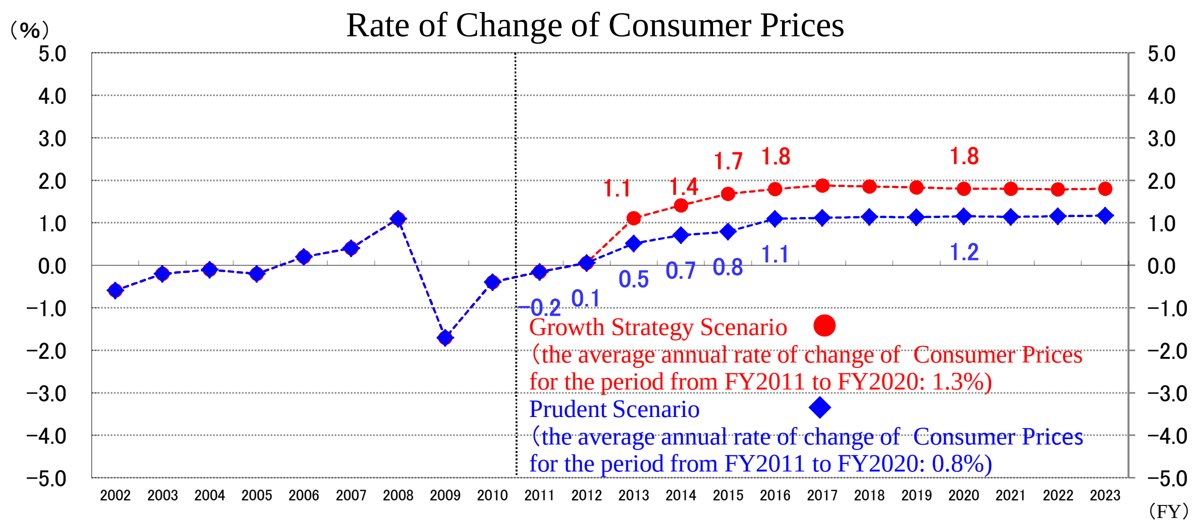
7. The targets of halving the primary balance deficit in FY2015 are 3.2% of GDP for the central and local governments and 3.4% of GDP for the central government according to the “Economic and Fiscal Projections for Medium- to Long-Term Analysis” made when the “Fiscal Management Strategy” was decided by the cabinet.

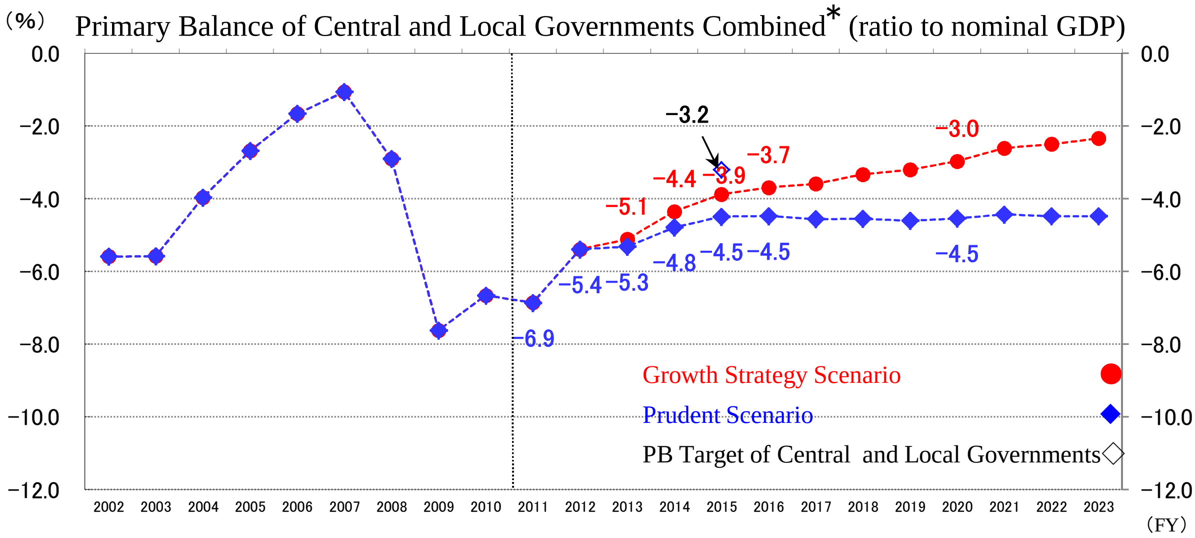
8. The unemployment rate (nationwide) includes that for Iwate, Miyagi, and Fukushima prefectures. The figure in FY2010 was estimated by the Cabinet Office.

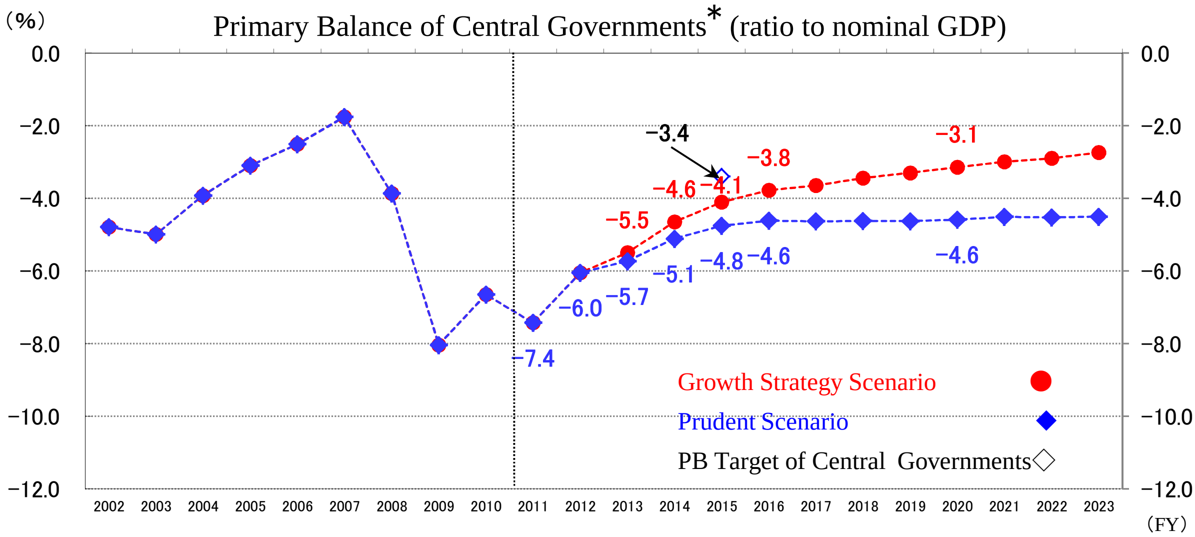
(Case in which the Comprehensive Reform of Social Security and Tax is excluded from consideration.)

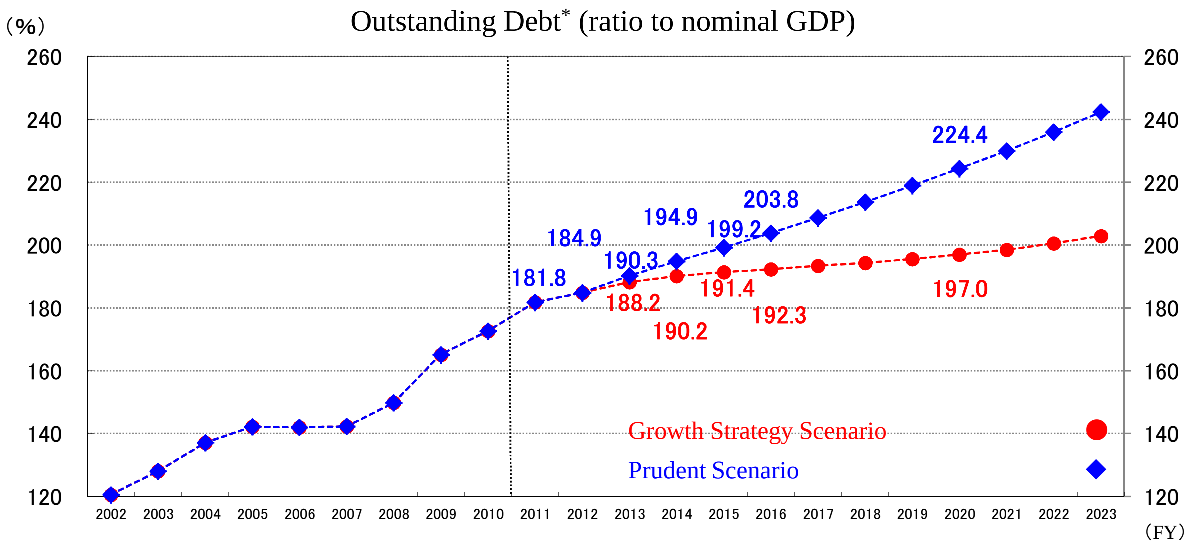








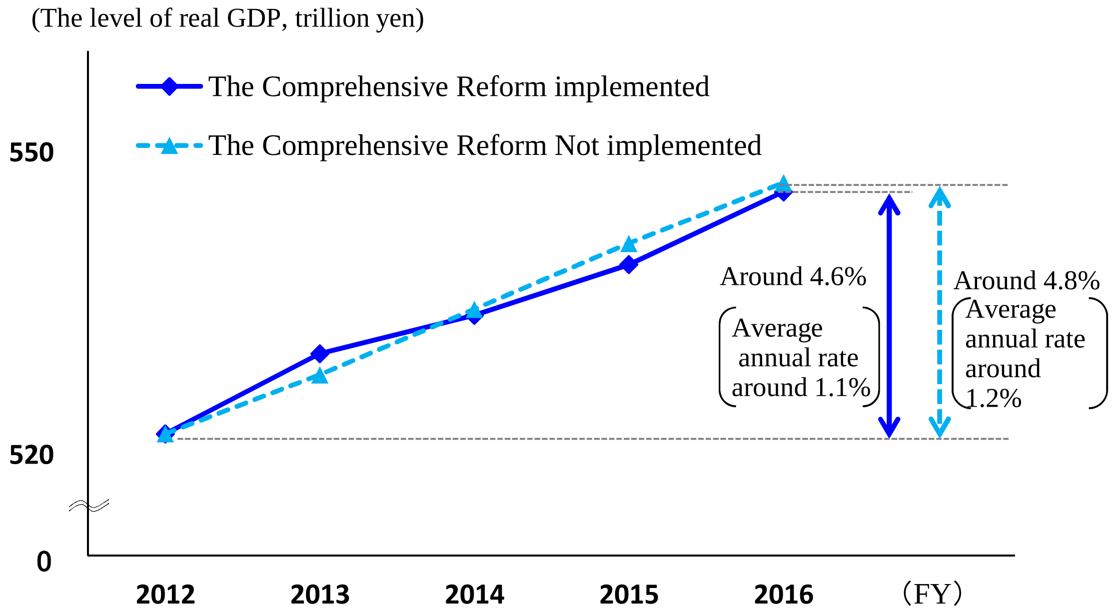




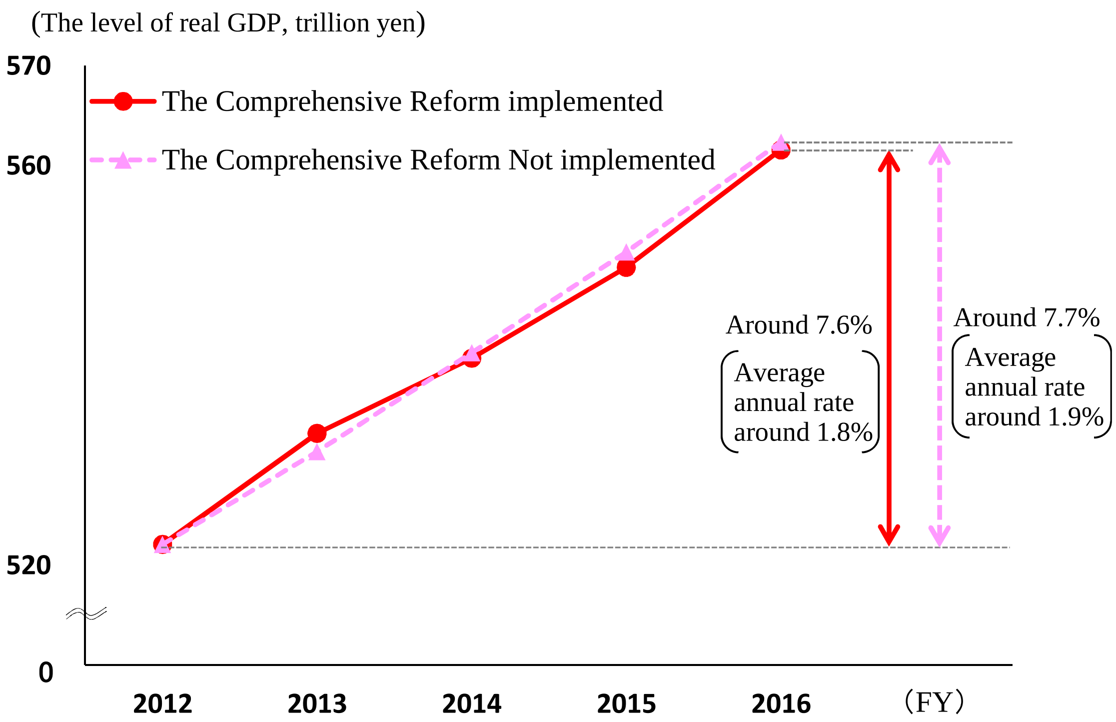
* Excluding the expenditures and fiscal resources for the recovery and reconstruction measures.

(Reference) Real GDP in FY2013 - FY2016

（１）Prudent Scenario



（２）Growth Strategy Scenario



(Appendix) Key Assumptions

The GDP growth rate and price change, etc. for the period from FY2011 to FY2012 are from the Fiscal 2012 Economic Outlook and Basic Stance for Economic and Fiscal Management, National Account for 2010 (the 2005 benchmark revision), etc.

(1) <u>Assumptions on the Macro economy</u>

1) Prudent Scenario

a) Total Factor Productivity (TFP) Growth

* The TFP growth rate remains as low as the current level (around 0.2% in FY 2010), then it recovers to the historical average of around 1.1% (the historical average taking into account the economic cycles [from February 1983 to March 2009]) during the period from FY2012 to the beginning of the 2020s.

b) Labor Force

* The Labor Force Participation (LFP) rate for each sex and age group remains constant at the current level.

c) World Economy

* GDP Growth Rate of World Economy (Real GDP growth rate considering the export shares from Japan [10 major destination countries]).
  The world economy growth rate increases at a rate below about 1.1 percentage points based on the IMF's WEO (Autumn 2011), from FY2013 onward (around 3.2% to 4.2%).

* Inflation Rate (the rate considering the export shares from Japan [10 major destination countries])
  The inflation rate moves at around 0.6% to 1.4% from FY2012 onward, based on the IMF's WEO (Autumn 2011).

* Crude Oil Prices
  From FY2013 onward, the price moves based on the rate of the IEA's World Energy Outlook (November 2011).

* Nominal Exchange Rate
  The real exchange rate is assumed to be constant in the long term from FY2013 onward, i.e. the nominal exchange rate changes to offset the difference in the inflation rate, although influenced by international interest spread in the short term.

2) Growth Strategy Scenario

The differences from 1) Prudent Scenario are as follows:

a) Total Factor Productivity (TFP) Growth

* The TFP growth rate gradually increases to around 1.9% (on average taking into account the economic cycles [from February 1983 to October 1993]) from FY2012 to the beginning of the 2020s.

b) Labor Force

* Considering the labor market reforms, the LFP rate of each sex and age group gradually rises, chiefly among females and the elderly (e.g., the LFP rate among females aged 30 – 34 gradually rises from around 67% in FY2009 to 75% in FY2023).

c) World Economy

* GDP Growth Rate of World Economy (Real GDP growth rate considering the export shares from Japan [10 major destination countries]).
The world economy growth rate moves at around 4.3% to 5.3% from 2013 onward, based on the IMF's WEO (Autumn 2011).

(2) Tax Policy

* "The FY2012 Tax Reform" (Cabinet decision on December 10, 2011) is reflected, and the revised tax system is assumed to remain in use.

* The projections reflect the special tax for reconstruction and the rise in the individual inhabitant tax on a per capita basis based on the lows for securing fiscal resources.

* Based on the "Draft Plan for the Comprehensive Reform of Social Security and Tax," the consumption tax rate (central and local) is assumed to be raised by 3% on April 2014 and then by 2% on October 2015. The portion of the increase in consumption tax revenue (central and local) is assumed to be allocated at 346/500 for national and at 154/500 for local.

* It is assumed that there will be a surge in consumer spending just before the consumption tax hike and then a slump, based on experience (adding an amount generated by a surge in consumer spending of about 0.2% to GDP per 1% of tax rate before the tax hike, and subtracting the same amount in preparation for a slump after the tax hike).

* As the purpose of the consumption tax hikes based on the Comprehensive Reform of Social Security and Tax is proclaimed as being to secure stable financial resources for the social security system, and the benefits are widely accepted by the nation, it is assumed that the impact of the tax hikes on the economy will be limited.

(3) Expenditures

* Expenditure in FY 2012 is based on the draft budget. Expenditure in FY 2013 and FY 2014 are based on the Medium-term Fiscal Framework in the Medium-term Fiscal Framework (FY2012–FY2014)."

* Through the reforming of the social security system as shown in the "Draft Plan for the Comprehensive Reform of Social Security and Tax," it is assumed that certain new expenditures will be added along with an increase of the consumption tax rate. It is assumed that the government compensation bond funding for basic pension would be redeemed by the increase in consumption tax revenue. (In the "Case in which the Comprehensive Reform of Social Security and Tax is excluded from consideration," the projections assume that the state subsidy for pension funds remains at 50% from FY2012 onward after FY2013.)

(4) Assumptions on Expenditures and Financial Resources for the Recovery and Reconstruction from the Great East Japan Earthquake

* The projections reflect the recovery and reconstruction measures (including the measures in supplementary budgets in FY2011) of 19 trillion yen (public expenditures of the central and local governments) expected to be implemented during 5 years till the end of FY 2015, the “intensive reconstruction period.” From FY2013 to FY2015, taking into account the experience in the reconstruction process of the Great Hanshin-Awaji Earthquake as reference, the expenditure pattern is assumed.

* In the projections, in addition to the fiscal resources in supplementary budgets in FY2011, it is assumed that 10.5 trillion yen is secured by the special tax for reconstruction, etc. Furthermore, it is assumed that 5 trillion yen, including fiscal resources in the third supplementary budget in FY2011, is secured by a reduction of public expenditures and non-tax revenues based on the “Basic Guidelines for the third supplementary budget in FY2011 and the fiscal resources for reconstruction (Cabinet decision on October 7, 2011).