

Economic and Fiscal Projections for
Medium to Long Term Analysis

August 31, 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 “Comprehensive Strategy for Rebirth of Japan”¹ are assumed to be steadily implemented. 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 for 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

- For FY2013–FY2015, these projections take into account “the Medium-term Fiscal Framework (FY2013–FY2015)”².
- Based on the “Comprehensive Reform of Social Security and Tax Act” etc., the consumption tax rate (central and local) is assumed to be raised to 8% in April 2014 and then to 10% in October 2015. (The portion of the increase in consumption tax revenue (central and local) is assumed to be allocated at 346/500 for the central government and 154/500 for local governments.) It is assumed that certain new expenditures will be added along with enforcing the reform of the social security system, etc.
- Based on the amended bill of Law Concerning Special Cases of Issuance of Public Bonds, in FY2012 and FY2013, the difference between 50% (1/2) and 36.5% (1/3 +

¹ Cabinet Decision on July 31, 2012.

² Cabinet Decision on August 31, 2012.

32/1000)³ of the basic pension fund (the state subsidies for the fund)⁴ is assumed to be financed by “special pension-financing bonds.”⁵ The revenue source of these special pension-financing bonds is secured from the Comprehensive Reform of the Tax System.

- 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,”⁶ the laws for securing fiscal resources, etc.

3. Main Results of the Projections

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

- Passing legislation relating to the comprehensive reform of social security and taxation systems, and in line with the Medium-term Fiscal Framework (FY2013 to FY2015), continuing to cap spending for FY2015 (referred to as the “Overall Expenditure Limit”) at the same level in the previous fiscal year are assumed to lead to the following:
 - The combined ratio of primary deficit to GDP (excluding the revenues and expenditures for the recovery and reconstruction projects; the same applies to the rest of the figures) of the central and local governments in FY2015 is projected to be approximately 3.2%. As a result, the target of halving the deficit from that in FY2010 (3.2% of GDP) by FY2015 will be achieved.
 - The primary deficit to GDP ratio of the central government alone is projected to be approximately 3.4%. As a result, the target of halving the deficit from that in FY2010 (3.4% of GDP) by FY2015 will be achieved.
- The combined ratio of primary deficit to GDP of the central and local governments in FY2020 is projected to be approximately 2.8%, while that of the central government alone is to be approximately 2.9%. That is, a further improvement in budget balance is necessary to achieve the target of generating a primary surplus by FY2020.
- The outstanding fiscal debts in FY2020 (excluding the expenditures and fiscal resources for the recovery and reconstruction projects related to the Great East Japan Earthquake) to GDP

³ Both are the government contribution rates to the basic pension fund.

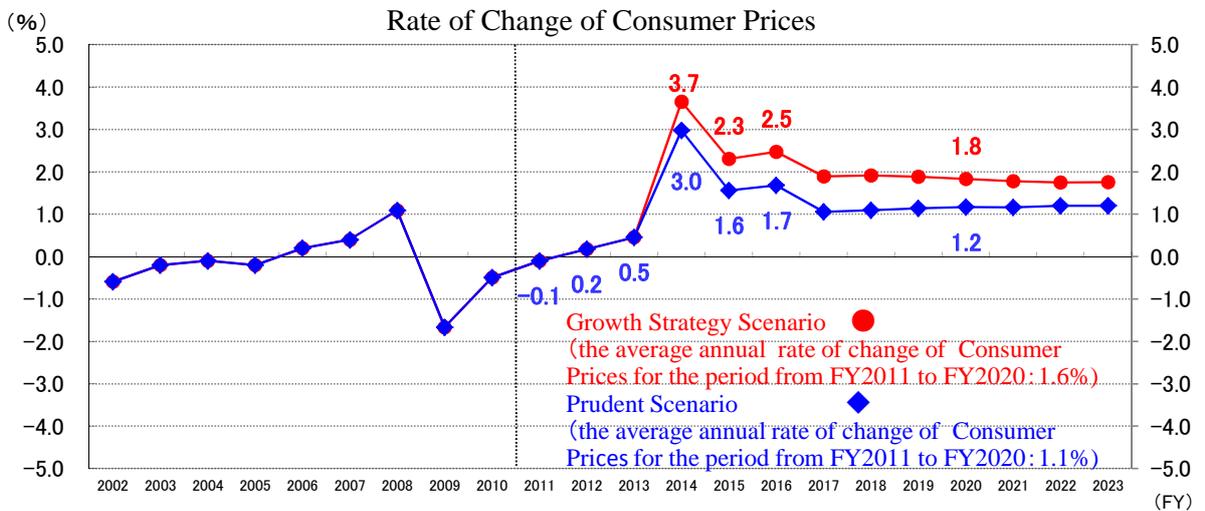
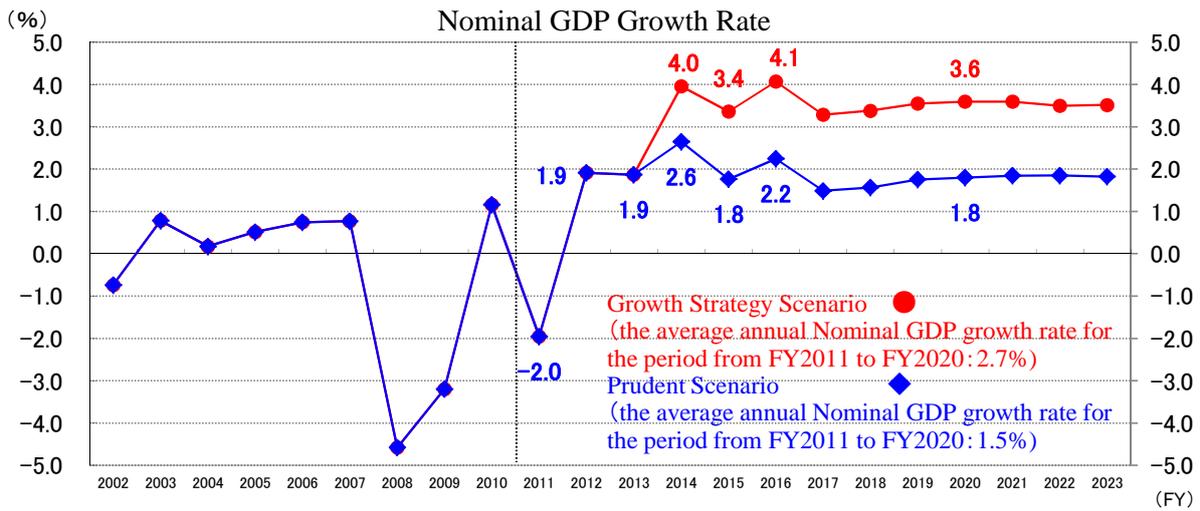
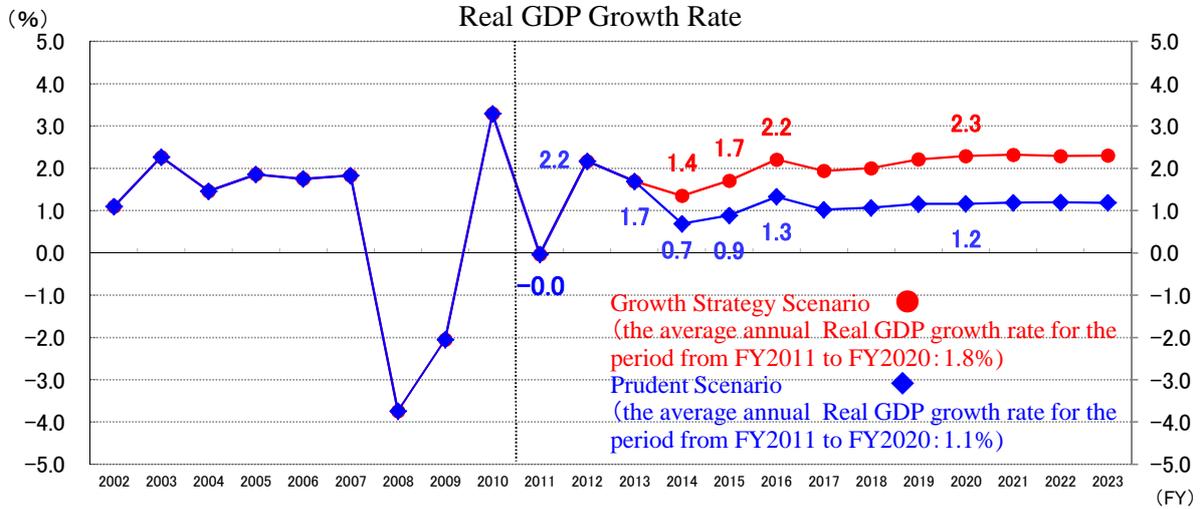
⁴ The difference is referred to as the “pension gap.”

⁵ See the “Bill to Amend the Law Concerning Special Cases of Issuance of Public Bonds,” amended on July 31, 2012.

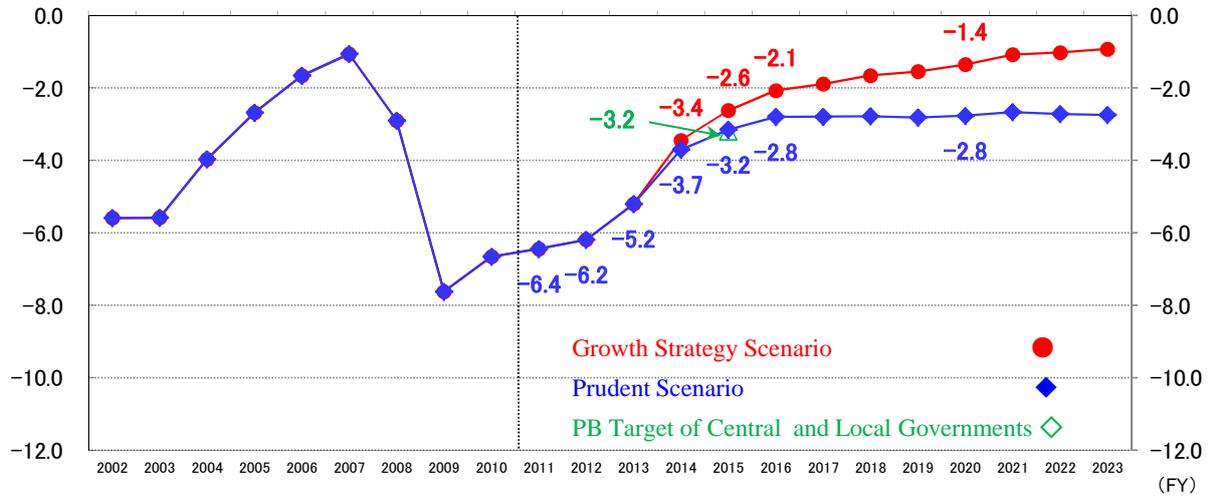
⁶ Decision on July 29, 2011, by the Reconstruction Headquarters in response to the Great East Japan Earthquake.

ratio would reach about 209% and continue to increase. Further spur efforts are necessary to steadily reduce the debts.

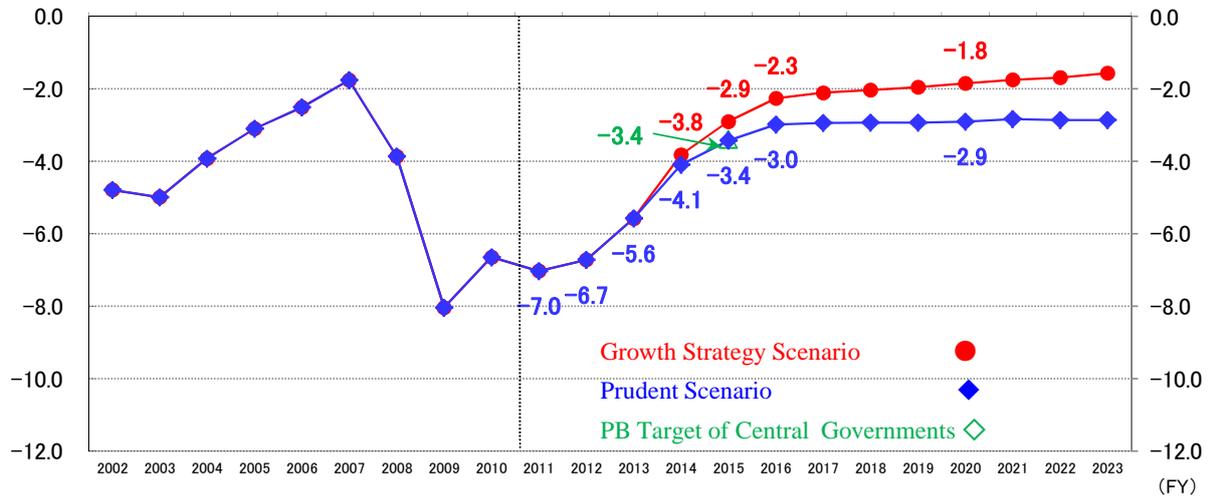
Projection Results



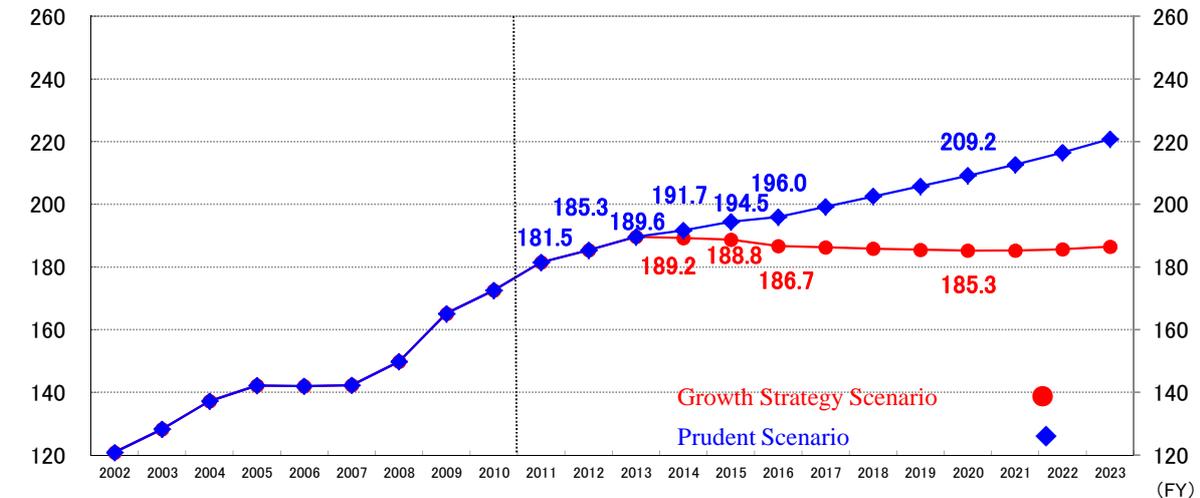
(%) Primary Balance of Central and Local Governments Combined* (ratio to nominal GDP)



(%) 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	(▲0.0)	(2.2)	(1.7)	(0.7)	(0.9)	(1.3)	(1.2)	(1.2)
Nominal GDP Growth	(▲2.0)	(1.9)	(1.9)	(2.6)	(1.8)	(2.2)	(1.8)	(1.8)
Nominal GDP	470.0	479.0	487.9	500.8	509.7	521.1	556.4	587.7
Potential GDP Growth	(0.4)	(0.6)	(0.7)	(0.8)	(0.9)	(0.9)	(1.2)	(1.3)
Price Change								
Consumer Prices	(▲0.1)	(0.2)	(0.5)	(3.0)	(1.6)	(1.7)	(1.2)	(1.2)
Corporate Goods Prices	(1.2)	(▲0.2)	(0.8)	(3.7)	(1.9)	(1.9)	(0.5)	(0.6)
GDP Deflator	(▲1.9)	(▲0.3)	(0.2)	(1.9)	(0.9)	(0.9)	(0.6)	(0.6)
Unemployment Rate	(4.5)	(4.3)	(4.1)	(4.0)	(3.9)	(3.8)	(3.5)	(3.5)
Long-term Interest Rate	(1.0)	(1.1)	(1.5)	(1.9)	(2.1)	(2.3)	(3.0)	(3.5)
Balance by Sector								
General Government	[▲11.0]	[▲10.1]	[▲8.4]	[▲6.8]	[▲6.4]	[▲6.2]	[▲6.8]	[▲7.6]
Private	[12.0]	[11.6]	[10.2]	[9.0]	[8.8]	[8.5]	[9.2]	[9.1]
Overseas	[▲1.5]	[▲1.5]	[▲1.8]	[▲2.2]	[▲2.4]	[▲2.4]	[▲2.4]	[▲1.5]

【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	▲ 30.3	▲ 29.7	▲ 25.4	▲ 18.5	▲ 16.1	▲ 14.6	▲ 15.4	▲ 16.1
(ratio to nominal GDP)	[▲6.4]	[▲6.2]	[▲5.2]	[▲3.7]	[▲3.2]	[▲2.8]	[▲2.8]	[▲2.7]
Central Government	▲ 33.0	▲ 32.2	▲ 27.2	▲ 20.5	▲ 17.4	▲ 15.5	▲ 16.1	▲ 16.8
(ratio to nominal GDP)	[▲7.0]	[▲6.7]	[▲5.6]	[▲4.1]	[▲3.4]	[▲3.0]	[▲2.9]	[▲2.9]
Local Government	2.7	2.5	1.8	1.9	1.4	0.9	0.7	0.7
(ratio to nominal GDP)	[0.6]	[0.5]	[0.4]	[0.4]	[0.3]	[0.2]	[0.1]	[0.1]
Fiscal Balance	▲ 39.4	▲ 40.5	▲ 36.7	▲ 30.8	▲ 29.1	▲ 29.0	▲ 36.7	▲ 45.3
(ratio to nominal GDP)	[▲8.4]	[▲8.5]	[▲7.5]	[▲6.1]	[▲5.7]	[▲5.6]	[▲6.6]	[▲7.7]
Central Government	▲ 39.0	▲ 40.1	▲ 35.6	▲ 29.3	▲ 27.0	▲ 25.9	▲ 32.5	▲ 39.7
(ratio to nominal GDP)	[▲8.3]	[▲8.4]	[▲7.3]	[▲5.9]	[▲5.3]	[▲5.0]	[▲5.8]	[▲6.8]
Local Government	▲ 0.3	▲ 0.4	▲ 1.1	▲ 1.4	▲ 2.2	▲ 3.1	▲ 4.2	▲ 5.6
(ratio to nominal GDP)	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.6]	[▲0.8]	[▲1.0]
Outstanding Debt	853.2	887.7	925.3	960.1	991.1	1021.4	1163.7	1297.8
(ratio to nominal GDP)	[181.5]	[185.3]	[189.6]	[191.7]	[194.5]	[196.0]	[209.2]	[220.8]

【Central Government General Account】

Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Expenditure	100.7	92.9	94.2	97.7	100.3	103.9	117.4	130.2
General Account expenditure excluding debt repayment and interest payment	81.1	71.0	71.0	72.6	73.4	74.9	79.1	82.8
Debt repayment and interest payment	19.6	21.9	23.2	25.1	26.9	29.1	38.3	47.4
Revenues	55.9	46.1	48.3	54.8	57.9	61.2	64.9	67.9
Tax Revenue	42.8	42.3	44.7	51.5	54.5	57.8	61.3	64.3
Other revenues	13.1	3.7	3.5	3.3	3.4	3.4	3.5	3.6
Difference between Expenditure and Revenues	54.0	46.8	46.0	42.8	42.5	42.7	52.5	62.3

(2) Growth Strategy Scenario

【Macroeconomy】

[ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Real GDP Growth	(▲0.0)	(2.2)	(1.7)	(1.4)	(1.7)	(2.2)	(2.3)	(2.3)
Nominal GDP Growth	(▲2.0)	(1.9)	(1.9)	(4.0)	(3.4)	(4.1)	(3.6)	(3.5)
Nominal GDP	470.0	479.0	487.9	507.2	524.3	545.6	625.0	693.7
Potential GDP Growth	(0.4)	(0.6)	(0.7)	(1.1)	(1.4)	(1.7)	(2.4)	(2.5)
Price Change								
Consumer Prices	(▲0.1)	(0.2)	(0.5)	(3.7)	(2.3)	(2.5)	(1.8)	(1.8)
Corporate Goods Prices	(1.2)	(▲0.2)	(0.8)	(4.2)	(2.6)	(2.7)	(1.1)	(1.2)
GDP Deflator	(▲1.9)	(▲0.3)	(0.2)	(2.6)	(1.6)	(1.8)	(1.3)	(1.2)
Unemployment Rate	(4.5)	(4.3)	(4.1)	(3.9)	(3.8)	(3.6)	(3.3)	(3.3)
Long-term Interest Rate	(1.0)	(1.1)	(1.5)	(2.3)	(2.5)	(2.9)	(4.3)	(5.0)
Balance by Sector								
General Government	[▲11.0]	[▲10.1]	[▲8.4]	[▲6.5]	[▲5.8]	[▲5.4]	[▲5.3]	[▲5.6]
Private	[12.0]	[11.6]	[10.2]	[8.5]	[7.8]	[7.4]	[7.4]	[7.2]
Overseas	[▲1.5]	[▲1.5]	[▲1.8]	[▲2.0]	[▲2.0]	[▲2.0]	[▲2.1]	[▲1.6]

【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	▲ 30.3	▲ 29.7	▲ 25.4	▲ 17.5	▲ 13.7	▲ 11.3	▲ 8.5	▲ 6.4
(ratio to nominal GDP)	[▲6.4]	[▲6.2]	[▲5.2]	[▲3.4]	[▲2.6]	[▲2.1]	[▲1.4]	[▲0.9]
Central Government	▲ 33.0	▲ 32.2	▲ 27.2	▲ 19.4	▲ 15.2	▲ 12.3	▲ 11.5	▲ 10.8
(ratio to nominal GDP)	[▲7.0]	[▲6.7]	[▲5.6]	[▲3.8]	[▲2.9]	[▲2.3]	[▲1.8]	[▲1.6]
Local Government	2.7	2.5	1.8	1.9	1.5	1.0	3.0	4.4
(ratio to nominal GDP)	[0.6]	[0.5]	[0.4]	[0.4]	[0.3]	[0.2]	[0.5]	[0.6]
Fiscal Balance	▲ 39.4	▲ 40.5	▲ 36.7	▲ 30.1	▲ 27.8	▲ 27.5	▲ 35.7	▲ 45.3
(ratio to nominal GDP)	[▲8.4]	[▲8.5]	[▲7.5]	[▲5.9]	[▲5.3]	[▲5.0]	[▲5.7]	[▲6.5]
Central Government	▲ 39.0	▲ 40.1	▲ 35.6	▲ 28.6	▲ 25.5	▲ 24.2	▲ 32.9	▲ 42.3
(ratio to nominal GDP)	[▲8.3]	[▲8.4]	[▲7.3]	[▲5.6]	[▲4.9]	[▲4.4]	[▲5.3]	[▲6.1]
Local Government	▲ 0.3	▲ 0.4	▲ 1.1	▲ 1.6	▲ 2.3	▲ 3.3	▲ 2.8	▲ 3.1
(ratio to nominal GDP)	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.6]	[▲0.4]	[▲0.4]
Outstanding Debt	853.2	887.7	925.3	959.7	989.7	1018.6	1158.2	1293.4
(ratio to nominal GDP)	[181.5]	[185.3]	[189.6]	[189.2]	[188.8]	[186.7]	[185.3]	[186.5]

【Central Government General Account】

Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Expenditure	100.7	92.9	94.2	98.1	101.5	106.5	128.2	147.2
General Account expenditure excluding debt repayment and interest payment	81.1	71.0	71.0	72.6	73.5	75.3	83.1	89.2
Debt repayment and interest payment	19.6	21.9	23.2	25.5	28.0	31.2	45.1	58.0
Revenues	55.9	46.1	48.3	56.0	60.2	64.9	73.6	80.5
Tax Revenue	42.8	42.3	44.7	52.6	56.8	61.4	69.8	76.5
Other revenues	13.1	3.7	3.5	3.4	3.4	3.5	3.8	4.0
Difference between Expenditure and Revenues	54.0	46.8	46.0	42.1	41.3	41.6	54.6	66.7

【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	▲ 37.5	▲ 32.0	▲ 24.7	▲ 17.4	▲ 15.2	▲ 14.2	▲ 15.0	▲ 15.8
(ratio to nominal GDP)	[▲8.0]	[▲6.7]	[▲5.1]	[▲3.5]	[▲3.0]	[▲2.7]	[▲2.7]	[▲2.7]
Central Government	▲ 40.8	▲ 34.5	▲ 26.5	▲ 19.4	▲ 16.6	▲ 15.2	▲ 15.8	▲ 16.5
(ratio to nominal GDP)	[▲8.7]	[▲7.2]	[▲5.4]	[▲3.9]	[▲3.3]	[▲2.9]	[▲2.8]	[▲2.8]
Local Government	3.3	2.5	1.8	2.0	1.4	1.0	0.8	0.7
(ratio to nominal GDP)	[0.7]	[0.5]	[0.4]	[0.4]	[0.3]	[0.2]	[0.1]	[0.1]
Fiscal Balance	▲ 46.6	▲ 43.0	▲ 36.1	▲ 29.8	▲ 28.4	▲ 28.8	▲ 36.5	▲ 45.2
(ratio to nominal GDP)	[▲9.9]	[▲9.0]	[▲7.4]	[▲5.9]	[▲5.6]	[▲5.5]	[▲6.6]	[▲7.7]
Central Government	▲ 46.9	▲ 42.6	▲ 35.0	▲ 28.4	▲ 26.3	▲ 25.7	▲ 32.4	▲ 39.7
(ratio to nominal GDP)	[▲10.0]	[▲8.9]	[▲7.2]	[▲5.7]	[▲5.2]	[▲4.9]	[▲5.8]	[▲6.7]
Local Government	0.3	▲ 0.4	▲ 1.1	▲ 1.4	▲ 2.2	▲ 3.1	▲ 4.1	▲ 5.6
(ratio to nominal GDP)	[0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.6]	[▲0.7]	[▲0.9]
Outstanding Debt	865.3	900.5	932.3	966.3	996.7	1027.0	1169.3	1303.6
(ratio to nominal GDP)	[184.1]	[188.0]	[191.1]	[192.9]	[195.6]	[197.1]	[210.1]	[221.8]

(2) Growth Strategy Scenario

[ratio to GDP, %], Trillions of Yen

	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2020	FY2023
Primary Balance	▲ 37.5	▲ 32.0	▲ 24.7	▲ 16.4	▲ 12.9	▲ 11.0	▲ 8.1	▲ 6.1
(ratio to nominal GDP)	[▲8.0]	[▲6.7]	[▲5.1]	[▲3.2]	[▲2.5]	[▲2.0]	[▲1.3]	[▲0.9]
Central Government	▲ 40.8	▲ 34.5	▲ 26.5	▲ 18.3	▲ 14.4	▲ 12.1	▲ 11.2	▲ 10.6
(ratio to nominal GDP)	[▲8.7]	[▲7.2]	[▲5.4]	[▲3.6]	[▲2.7]	[▲2.2]	[▲1.8]	[▲1.5]
Local Government	3.3	2.5	1.8	1.9	1.5	1.1	3.1	4.5
(ratio to nominal GDP)	[0.7]	[0.5]	[0.4]	[0.4]	[0.3]	[0.2]	[0.5]	[0.6]
Fiscal Balance	▲ 46.6	▲ 43.0	▲ 36.1	▲ 29.1	▲ 27.1	▲ 27.3	▲ 35.6	▲ 45.3
(ratio to nominal GDP)	[▲9.9]	[▲9.0]	[▲7.4]	[▲5.7]	[▲5.2]	[▲5.0]	[▲5.7]	[▲6.5]
Central Government	▲ 46.9	▲ 42.6	▲ 35.0	▲ 27.6	▲ 24.8	▲ 24.0	▲ 32.9	▲ 42.3
(ratio to nominal GDP)	[▲10.0]	[▲8.9]	[▲7.2]	[▲5.4]	[▲4.7]	[▲4.4]	[▲5.3]	[▲6.1]
Local Government	0.3	▲ 0.4	▲ 1.1	▲ 1.5	▲ 2.2	▲ 3.2	▲ 2.7	▲ 3.0
(ratio to nominal GDP)	[0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.6]	[▲0.4]	[▲0.4]
Outstanding Debt	865.3	900.5	932.3	965.9	995.3	1024.2	1163.9	1299.6
(ratio to nominal GDP)	[184.1]	[188.0]	[191.1]	[190.4]	[189.8]	[187.7]	[186.2]	[187.3]

(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 central government in SNA, and here they are divided into central and local governments 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 the 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 is estimated by the Cabinet Office.

(Appendix) Key Assumptions

The GDP growth rate, price change, etc. for the period from FY2011 to FY2013 are from the Mid-year Economic Projections for FY2012, the Quarterly Estimates of GDP: April–June 2012, etc.

(1) Assumptions on the Macro economy

1) Prudent Scenario

a) Total Factor Productivity (TFP) Growth

- * The TFP growth rate remains as low as the current level (around 0.4% in FY2011), then it gradually recovers to the historical average of around 1.0% (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 0.8 percentage points based on the IMF's WEO (Spring 2012), from FY2014 to FY2017 (to around 3.3% to 3.8%), and from FY2018 onward, the world economy growth rate remains constant at around 3.8%.

- * Inflation Rate (the rate considering the export shares from Japan [10 major destination countries])

The inflation rate moves at around 1.4% to 1.6% from FY2014 to FY2017, based on the IMF's WEO (Spring 2012). And from FY2018 onward, the inflation rate remains constant at around 1.6%.

- * Crude Oil Prices

Based on the rate of the IEA's World Energy Outlook (November 2011), from FY2014 to FY2015 the price increase rate remains at around 8.8%, from FY2016 to FY2020 the price increase rate remains at around 4.5%, and from FY2021 onward the price increase rate remains at around 3.9%.

- * Nominal Exchange Rate

The real exchange rate is assumed to be constant in the long term from FY2014 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

Differences from 1) Prudent Scenario are as follows:

a) Total Factor Productivity (TFP) Growth

- * The TFP growth rate remains as low as the current level (around 0.4% in FY2011), then it gradually recovers to the historical average of around 1.8% (the historical average taking into account the economic cycles [from February 1983 to October 1993]) during the period from FY2013 to the

beginning of the 2020s.

b) Labor Force

- * Based on labor supply and demand estimation in the case of LFP rate rises in Report of Labor Policy Study Group (August 2012), 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 68% in FY2010 to 77% in FY2023, the LFP rate among males aged 65–69 gradually rises from around 49% in FY2010 to 59% in FY2023, and the LFP rate among females aged 65–69 gradually rises from around 27% in FY2010 to 34% 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 4.1% to 4.6% from 2014 to 2017, based on the IMF's WEO (Spring 2012), and from FY2018 onward, it remains constant, at around 4.6%.

(2) Tax Policy

- * Based on the Act for Partial Revision of the Act on Special Measures Concerning Taxation, the Act for Partial Revision of the Local Tax Act, and the Act on Grants Distributed to Municipalities where National Assets, etc. are Located (date of promulgation: March 31, 2012; date of enforcement: April 1, 2012), the revised tax system is assumed to remain in use.
- * Based on the Special Measures Act for Reconstruction Funding After the Great East Japan Earthquake (date of promulgation and enforcement: February 2, 2012) and Temporary Special Provision on Local Tax in order to secure necessary fiscal resources for local governments to implement policies for disaster prevention related to “Recovery from Great East Japan Earthquake” (date of promulgation and enforcement: December 2, 2012), the projections reflect the implementation of the special tax for reconstruction and the rise in the individual inhabitant tax on a per capita basis.
- * Based on the Act for Partial Revision of Consumption Tax Act in order to implement fundamental reform of the taxation system to secure stable fiscal resources for social security, the consumption tax rate (central and local) is assumed to be raised by 3% in April 2014 and then by a further 2% in October 2015. The portion of the increase in consumption tax revenue (central and local) is assumed to be allocated at 346/500 for the central government and 154/500 for local governments.
- * 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 the tax rate before the tax hike, and subtracting the same amount in preparation for a slump after the tax hike).

(3) Expenditures

- * Based on the Bill to Amend the Law Concerning Special Cases of Issuance of Public Bonds, in FY2012 and FY2013, the pension gap between the 50% (1/2) and 36.5% (1/3 + 32/1000) of the basic pension fund (the government's contribution rates for the pension fund) is assumed to be financed by special pension-financing bonds.

- * The Medium-term Fiscal Frameworks are incorporated into expenditures for the period from FY2013 to FY2015.
- * After FY2015, it is assumed that the social security expenditure will increase due to the ageing of the population and that general expenditures except for the social security expenditure remain in use in real terms.
- * It is assumed that by legislation relating to the comprehensive reform of social security and taxation systems, certain new expenditures related to the implementation of social security reform, etc. will be added along with the increase of the consumption tax rate.

(4) Assumptions on Expenditures and the 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 FY2015, known as the “intensive reconstruction period.” The expenditure pattern from FY2013 to FY2015 is assumed taking into account the experience of the reconstruction process of the Great Hanshin-Awaji Earthquake as reference.
- * 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 through 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 of October 7, 2011).