

Economic and Fiscal Projections for  
Medium to Long Term Analysis

January 20th, 2014  
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.

Tax revenues for each fiscal year in the projections incorporate the direct effects of the consumption tax rate hikes in line with the current legislation.

The government has confirmed its decision to hike the consumption tax rate (national and local) from 5 to 8 percent on April 1, 2014, in “Regarding the hike in the national and local consumption tax rate and relevant measures” (Cabinet Decision on October 1, 2013).

In the meantime, a decision will be made concerning the increase in the consumption tax rate, taking into overall consideration economic conditions and other matters, in accordance with Supplementary Provision 18 of the Act to Amend the Consumption Tax Act, etc., to Make Fundamental Reform of the Tax System for Securing Revenue to Fund the Increased Cost of Social Security (Act No. 68, 2012; “Act for Fundamental Tax Reform” hereinafter).

If a decision not stipulated in the current legislation is made, the projections will be revised accordingly.

## **1. Economic Scenario**

Under favorable foreign economic conditions, the following “three-arrow” strategy for the revitalization of the Japanese economy is assumed to have sound effects: i) aggressive monetary policy, ii) flexible fiscal policy, and iii) a growth strategy that promotes private investment (“Japan Revitalization Strategy”<sup>1</sup>). Over the coming decade (from FY2013 through FY2022), the average annual growth rate is projected to reach approximately 2% in real and 3% in nominal terms (in the “Economic Revitalization” case).

The year-on-year rate of change in the consumer price index (excluding the direct effects of the increase in the consumption tax rate) is projected to rise by about 2% with a time horizon of about 2 years and maintain that rate over the medium to long term.

For reference, projections on the case that the domestic and overseas economies are assumed to turn to a moderate recovery path are shown. In this case, over the next decade (from FY2013 through FY2022), real and nominal GDP growth rates are projected to be roughly 1% and 2%, respectively.

## **2. Main Assumptions in Public Finances**

- In FY2015, it is assumed that the government will make more effort to improve primary fiscal deficits on the basis of the “Medium-term fiscal reform plan.”<sup>2</sup>
- It is assumed that in line with the current legislation,<sup>3</sup> the consumption tax rate (central and local) will be raised to 8% in April 2014 and then 10% in October 2015, and that certain new expenditures will be added along with enforcing the reform of the social security system, etc.<sup>4</sup> on the basis of legislation relating to the “Comprehensive Reform of Social Security and Tax Act,” etc.
- After FY2016, it is assumed that social security expenditure will increase due to the ageing of the population, and that general expenditures except for social security expenditure will continue to increase at about the same rate as inflation rate.
- It is assumed that recovery and reconstruction measures will be implemented, the special tax for reconstruction will be carried out, and reconstruction bonds will be issued based on the laws for securing fiscal resources, etc.<sup>5</sup>

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<sup>1</sup> June 14, 2013, Cabinet decision

<sup>2</sup> August 8, 2013, approved by the Cabinet

<sup>3</sup> A decision will be made concerning the increase in the consumption tax rate, taking into overall consideration economic conditions and other matters. If the government makes a decision not stipulated in the current legislation, the projections will be revised accordingly.

<sup>4</sup> Regarding the hikes in the consumption tax rate, the Government will make a decision this autumn, giving comprehensive consideration to economic conditions and other factors.

<sup>5</sup> The Special Measures Act for Reconstruction Funding After the Great East Japan Earthquake (date of promulgation and enforcement: December 2, 2011)

### **3. Main Results of the Projections**<sup>6</sup>

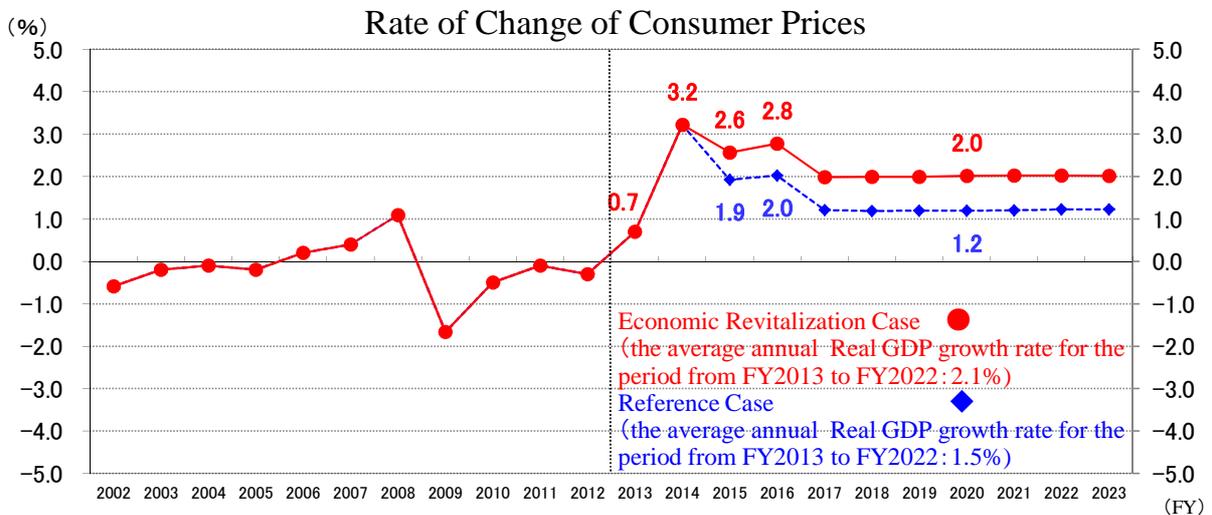
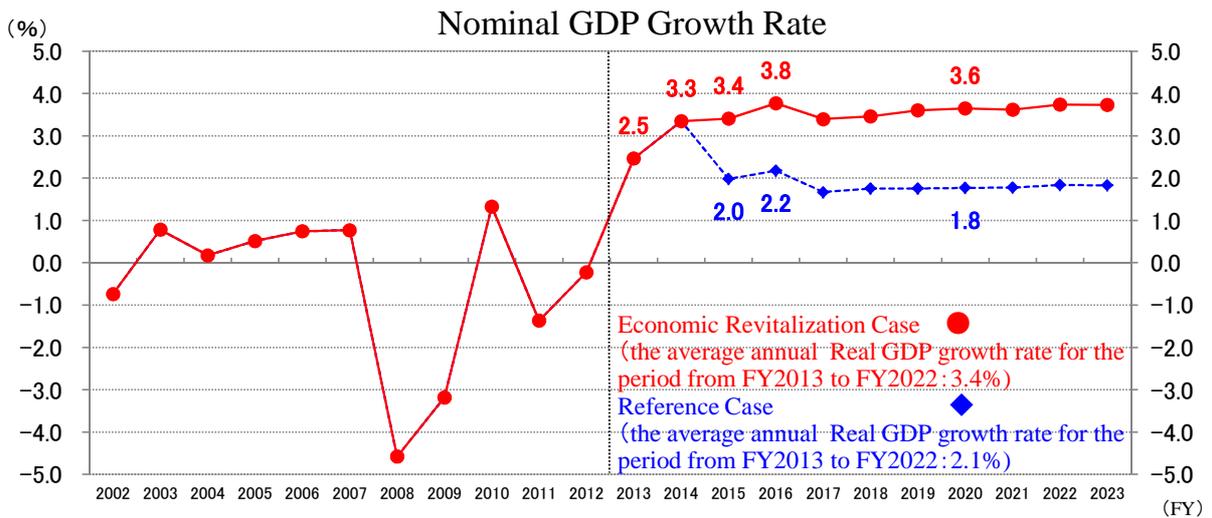
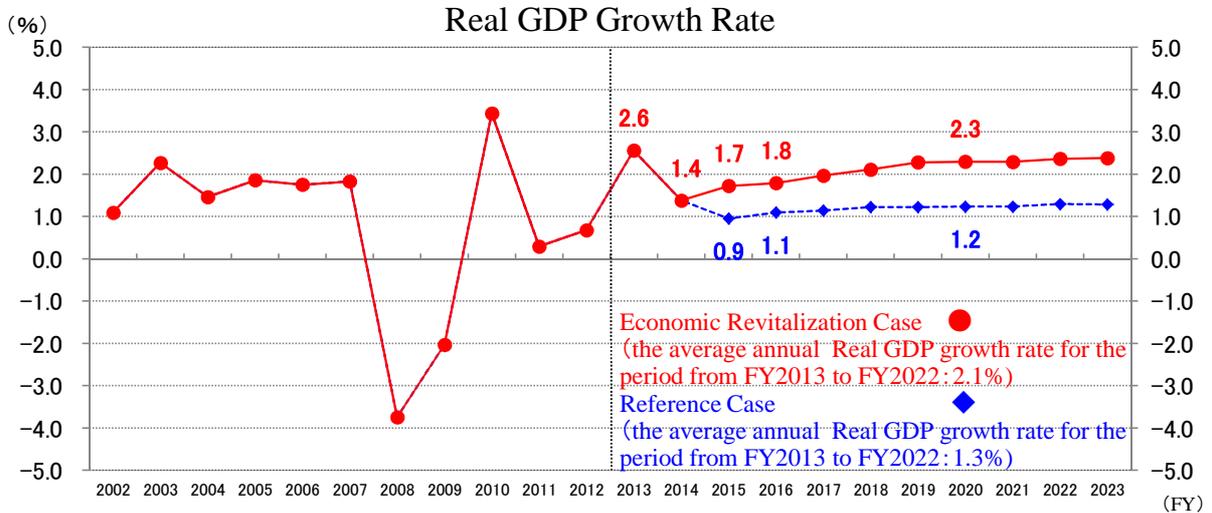
- For the central and local governments' primary balance (excluding the revenues and expenditures for the recovery and reconstruction projects; the same applies to the rest of the figures) in FY2015, the ratio of deficit to GDP is projected to be approximately 3.2%. As a result, the target of halving the deficit ratio to GDP in FY2010 by FY2015 (3.3% to GDP) will be achieved.
- For the central and local governments' primary balance in FY2020, the deficit ratio to GDP is projected to be approximately 1.9%. A further improvement in primary balance is necessary to achieve the target of generating a surplus in FY2020.
- The ratio of outstanding fiscal debts to GDP in FY2020 (excluding the expenditures and fiscal resources for the recovery and reconstruction projects related to the Great East Japan Earthquake) will reach about 185.2% and remain at that level. Further spur efforts are necessary to steadily reduce debt.

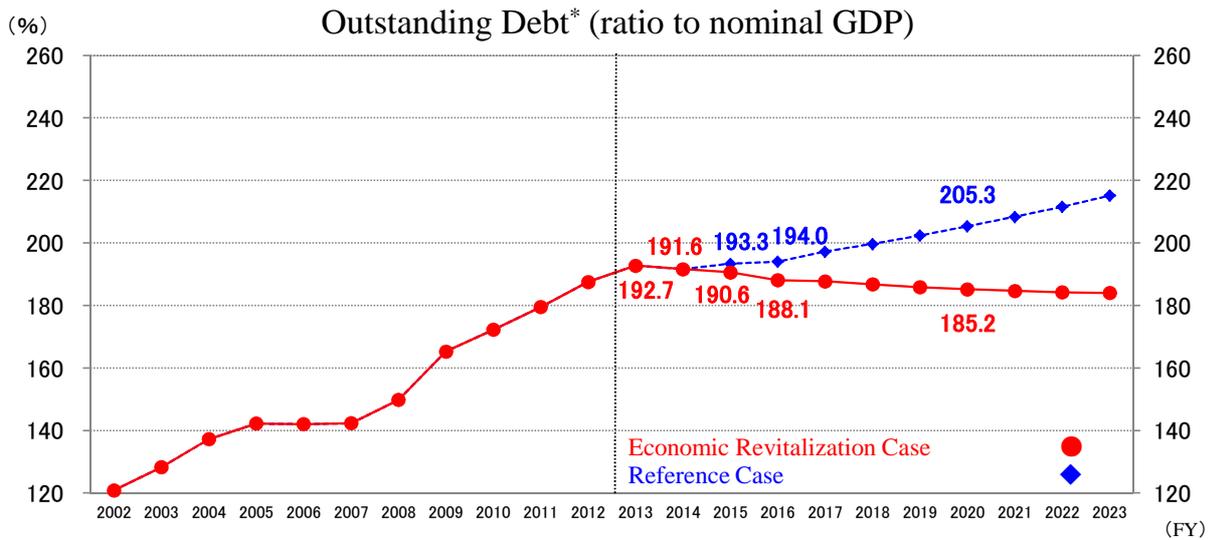
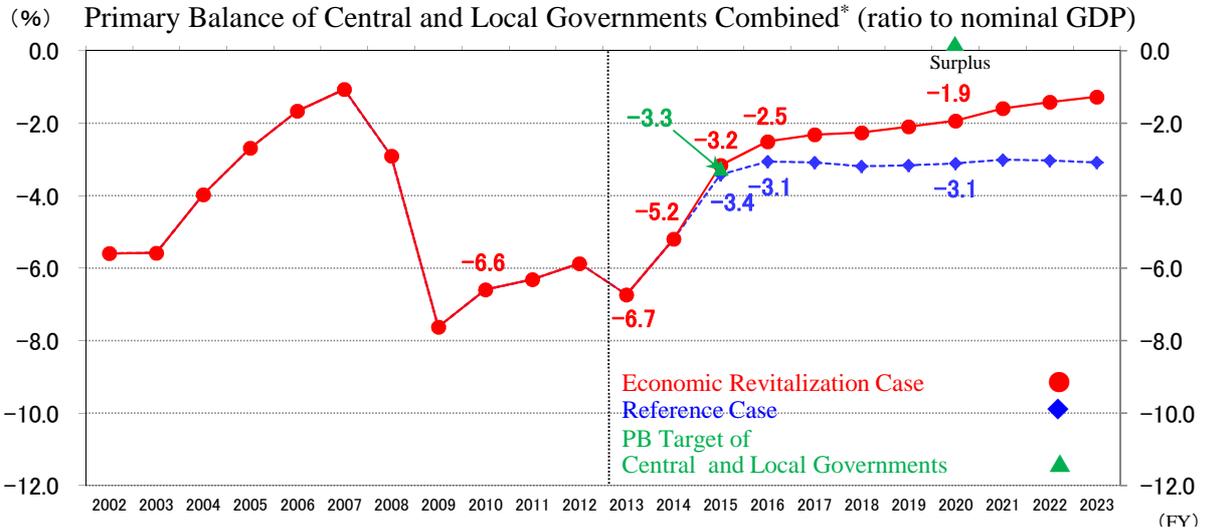
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<sup>6</sup> The results for the "Economic Revitalization case"



# Projection Results





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

# Projection Results (Tables)

## Economic Revitalization Case

【Macroeconomy】

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Real GDP Growth	( 0.7)	( 2.6)	( 1.4)	( 1.7)	( 1.8)	( 2.0)	( 2.3)	( 2.4)	( 2.4)
Real GNI Growth	( 0.8)	( 2.8)	( 1.1)	( 1.7)	( 1.9)	( 2.0)	( 2.3)	( 2.4)	( 2.4)
Nominal GDP Growth	(▲0.2)	( 2.5)	( 3.3)	( 3.4)	( 3.8)	( 3.4)	( 3.6)	( 3.7)	( 3.7)
Nominal GDP	472.6	484.2	500.4	517.5	537.0	555.2	616.8	663.0	687.8
Nominal GNI per capita Growth	( 0.1)	( 3.2)	( 3.6)	( 3.6)	( 4.0)	( 3.7)	( 3.9)	( 4.1)	( 4.2)
Nominal GNI per capita(*Ten thousand yen)	383	395	409	424	441	457	512	554	577
Potential GDP Growth	( 0.9)	( 0.7)	( 0.9)	( 1.2)	( 1.4)	( 1.7)	( 2.5)	( 2.5)	( 2.5)
Price Change									
Consumer Prices	(▲0.3)	( 0.7)	( 3.2)	( 2.6)	( 2.8)	( 2.0)	( 2.0)	( 2.0)	( 2.0)
Corporate Goods Prices	(▲1.1)	( 1.9)	( 3.9)	( 1.9)	( 1.9)	( 1.0)	( 1.1)	( 1.2)	( 1.3)
GDP Deflator	(▲0.9)	(▲0.1)	( 1.9)	( 1.7)	( 1.9)	( 1.4)	( 1.3)	( 1.3)	( 1.3)
Unemployment Rate	( 4.3)	( 3.9)	( 3.7)	( 3.6)	( 3.5)	( 3.4)	( 3.2)	( 3.3)	( 3.3)
Long-term Interest Rate	( 0.8)	( 0.7)	( 1.0)	( 2.1)	( 2.4)	( 2.8)	( 4.0)	( 4.6)	( 4.8)
Balance by Sector									
General Government	[▲8.7]	[▲9.2]	[▲7.8]	[▲5.8]	[▲4.5]	[▲4.3]	[▲4.1]	[▲3.7]	[▲3.7]
Private	[9.6]	[9.9]	[8.7]	[6.9]	[6.0]	[6.0]	[6.2]	[6.0]	[6.0]
Overseas	[▲0.8]	[▲0.8]	[▲0.9]	[▲1.1]	[▲1.5]	[▲1.7]	[▲2.1]	[▲2.3]	[▲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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Primary Balance	▲ 27.8	▲ 32.6	▲ 26.0	▲ 16.4	▲ 13.4	▲ 12.9	▲ 11.9	▲ 9.4	▲ 8.7
(ratio to nominal GDP)	[▲5.9]	[▲6.7]	[▲5.2]	[▲3.2]	[▲2.5]	[▲2.3]	[▲1.9]	[▲1.4]	[▲1.3]
Central Government	▲ 30.5	▲ 35.0	▲ 27.4	▲ 18.7	▲ 16.3	▲ 16.0	▲ 15.6	▲ 14.9	▲ 14.2
(ratio to nominal GDP)	[▲6.5]	[▲7.2]	[▲5.5]	[▲3.6]	[▲3.0]	[▲2.9]	[▲2.5]	[▲2.3]	[▲2.1]
Local Government	2.8	2.4	1.4	2.4	2.8	3.1	3.7	5.5	5.5
(ratio to nominal GDP)	[0.6]	[0.5]	[0.3]	[0.5]	[0.5]	[0.6]	[0.6]	[0.8]	[0.8]
Fiscal Balance	▲ 36.4	▲ 41.5	▲ 35.8	▲ 26.8	▲ 24.4	▲ 25.4	▲ 33.5	▲ 37.7	▲ 41.0
(ratio to nominal GDP)	[▲7.7]	[▲8.6]	[▲7.1]	[▲5.2]	[▲4.5]	[▲4.6]	[▲5.4]	[▲5.7]	[▲6.0]
Central Government	▲ 36.5	▲ 41.5	▲ 35.0	▲ 26.5	▲ 24.3	▲ 25.4	▲ 32.4	▲ 38.0	▲ 40.7
(ratio to nominal GDP)	[▲7.7]	[▲8.6]	[▲7.0]	[▲5.1]	[▲4.5]	[▲4.6]	[▲5.2]	[▲5.7]	[▲5.9]
Local Government	0.1	0.0	▲ 0.8	▲ 0.4	▲ 0.1	▲ 0.1	▲ 1.1	0.3	▲ 0.2
(ratio to nominal GDP)	[0.0]	[0.0]	[▲0.2]	[▲0.1]	[▲0.0]	[▲0.0]	[▲0.2]	[0.0]	[▲0.0]
Outstanding Debt	886.3	933.2	958.9	986.2	1009.8	1042.2	1142.1	1221.1	1265.4
(ratio to nominal GDP)	[187.5]	[192.7]	[191.6]	[190.6]	[188.1]	[187.7]	[185.2]	[184.2]	[184.0]

【Central Government General Account】

Trillions of Yen

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Expenditure	97.1	98.1	95.9	99.3	104.4	109.5	124.9	137.8	144.2
General Account expenditure excluding debt repayment and interest payment	76.1	76.3	72.6	74.4	77.1	79.0	84.0	88.3	90.2
Debt repayment and interest payment	21.0	21.8	23.3	24.9	27.3	30.5	40.9	49.5	54.0
Revenues	57.7	52.6	54.6	59.9	65.2	67.2	73.9	79.2	82.1
Tax Revenue	43.9	45.4	50.0	55.3	60.5	62.3	68.6	73.7	76.3
Other revenues	13.8	7.3	4.6	4.6	4.7	4.9	5.3	5.6	5.8
Difference between Expenditure and Revenues	47.5	42.9	41.3	39.4	39.2	42.3	51.0	58.5	62.2
Primary Balance in the Central Government General Account	▲ 27.6	▲ 23.7	▲ 18.0	▲ 14.5	▲ 11.9	▲ 11.8	▲ 10.1	▲ 9.1	▲ 8.2

# Reference Case

【Macroeconomy】

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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Real GDP Growth	( 0.7)	( 2.6)	( 1.4)	( 0.9)	( 1.1)	( 1.1)	( 1.2)	( 1.3)	( 1.3)
Real GNI Growth	( 0.8)	( 2.8)	( 1.1)	( 0.9)	( 1.1)	( 1.2)	( 1.1)	( 1.1)	( 1.0)
Nominal GDP Growth	(▲0.2)	( 2.5)	( 3.3)	( 2.0)	( 2.2)	( 1.7)	( 1.8)	( 1.8)	( 1.8)
Nominal GDP	472.6	484.2	500.4	510.3	521.5	530.2	558.6	579.0	589.6
Nominal GNI per capita Growth	( 0.1)	( 3.2)	( 3.6)	( 2.4)	( 2.7)	( 2.3)	( 2.2)	( 2.3)	( 2.3)
Nominal GNI per capita(*Ten thousand yen)	383	395	409	419	430	440	470	492	503
Potential GDP Growth	( 0.9)	( 0.7)	( 0.9)	( 1.0)	( 1.0)	( 1.0)	( 1.2)	( 1.3)	( 1.3)
Price Change									
Consumer Prices	(▲0.3)	( 0.7)	( 3.2)	( 1.9)	( 2.0)	( 1.2)	( 1.2)	( 1.2)	( 1.2)
Corporate Goods Prices	(▲1.1)	( 1.9)	( 3.9)	( 1.3)	( 1.3)	( 0.2)	( 0.4)	( 0.5)	( 0.6)
GDP Deflator	(▲0.9)	(▲0.1)	( 1.9)	( 1.0)	( 1.1)	( 0.5)	( 0.5)	( 0.5)	( 0.5)
Unemployment Rate	( 4.3)	( 3.9)	( 3.7)	( 3.7)	( 3.7)	( 3.6)	( 3.5)	( 3.4)	( 3.4)
Long-term Interest Rate	( 0.8)	( 0.7)	( 1.0)	( 1.5)	( 1.9)	( 2.1)	( 2.7)	( 3.0)	( 3.1)
Balance by Sector									
General Government	[▲8.7]	[▲9.2]	[▲7.8]	[▲6.1]	[▲5.1]	[▲5.1]	[▲5.4]	[▲5.5]	[▲5.8]
Private	[9.6]	[9.9]	[8.7]	[7.3]	[6.8]	[7.1]	[7.5]	[7.3]	[7.4]
Overseas	[▲0.8]	[▲0.8]	[▲0.9]	[▲1.2]	[▲1.6]	[▲2.0]	[▲2.1]	[▲1.8]	[▲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

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Primary Balance	▲ 27.8	▲ 32.6	▲ 26.0	▲ 17.4	▲ 15.9	▲ 16.3	▲ 17.4	▲ 17.5	▲ 18.2
(ratio to nominal GDP)	[▲5.9]	[▲6.7]	[▲5.2]	[▲3.4]	[▲3.1]	[▲3.1]	[▲3.1]	[▲3.0]	[▲3.1]
Central Government	▲ 30.5	▲ 35.0	▲ 27.4	▲ 19.7	▲ 18.0	▲ 18.4	▲ 19.2	▲ 19.1	▲ 19.1
(ratio to nominal GDP)	[▲6.5]	[▲7.2]	[▲5.5]	[▲3.9]	[▲3.5]	[▲3.5]	[▲3.4]	[▲3.3]	[▲3.2]
Local Government	2.8	2.4	1.4	2.2	2.1	2.0	1.8	1.5	1.0
(ratio to nominal GDP)	[0.6]	[0.5]	[0.3]	[0.4]	[0.4]	[0.4]	[0.3]	[0.3]	[0.2]
Fiscal Balance	▲ 36.4	▲ 41.5	▲ 35.8	▲ 27.4	▲ 26.2	▲ 27.4	▲ 34.2	▲ 38.3	▲ 41.3
(ratio to nominal GDP)	[▲7.7]	[▲8.6]	[▲7.1]	[▲5.4]	[▲5.0]	[▲5.2]	[▲6.1]	[▲6.6]	[▲7.0]
Central Government	▲ 36.5	▲ 41.5	▲ 35.0	▲ 27.0	▲ 25.5	▲ 26.5	▲ 31.9	▲ 35.4	▲ 37.6
(ratio to nominal GDP)	[▲7.7]	[▲8.6]	[▲7.0]	[▲5.3]	[▲4.9]	[▲5.0]	[▲5.7]	[▲6.1]	[▲6.4]
Local Government	0.1	0.0	▲ 0.8	▲ 0.4	▲ 0.7	▲ 0.9	▲ 2.3	▲ 2.8	▲ 3.7
(ratio to nominal GDP)	[0.0]	[0.0]	[▲0.2]	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.4]	[▲0.5]	[▲0.6]
Outstanding Debt	886.3	933.2	958.9	986.6	1011.6	1045.5	1146.9	1225.0	1268.5
(ratio to nominal GDP)	[187.5]	[192.7]	[191.6]	[193.3]	[194.0]	[197.2]	[205.3]	[211.6]	[215.1]

【Central Government General Account】

Trillions of Yen

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Expenditure	97.1	98.1	95.9	98.9	103.3	107.1	116.8	124.0	128.1
General Account expenditure excluding debt repayment and interest payment	76.1	76.3	72.6	74.4	77.1	78.6	81.5	83.5	84.6
Debt repayment and interest payment	21.0	21.8	23.3	24.5	26.2	28.5	35.2	40.5	43.5
Revenues	57.7	52.6	54.6	58.7	62.9	63.8	66.7	69.0	70.1
Tax Revenue	43.9	45.4	50.0	54.1	58.2	59.0	61.8	63.9	64.9
Other revenues	13.8	7.3	4.6	4.6	4.7	4.8	4.9	5.1	5.2
Difference between Expenditure and Revenues	47.5	42.9	41.3	40.2	40.4	43.3	50.0	55.0	58.0
Primary Balance in the Central Government General Account	▲ 27.6	▲ 23.7	▲ 18.0	▲ 15.7	▲ 14.2	▲ 14.8	▲ 14.8	▲ 14.5	▲ 14.5

**【Central and Local Governments' Public Finances】**

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

**Economic Revitalization Case**

[ratio to GDP, %], Trillions of Yen

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Primary Balance	▲ 29.3	▲ 33.1	▲ 28.3	▲ 18.3	▲ 13.1	▲ 12.5	▲ 11.5	▲ 9.0	▲ 8.4
(ratio to nominal GDP)	[▲6.2]	[▲6.8]	[▲5.7]	[▲3.5]	[▲2.4]	[▲2.3]	[▲1.9]	[▲1.4]	[▲1.2]
Central Government	▲ 31.9	▲ 35.5	▲ 29.7	▲ 20.7	▲ 16.0	▲ 15.7	▲ 15.3	▲ 14.6	▲ 13.9
(ratio to nominal GDP)	[▲6.8]	[▲7.3]	[▲5.9]	[▲4.0]	[▲3.0]	[▲2.8]	[▲2.5]	[▲2.2]	[▲2.0]
Local Government	2.6	2.3	1.4	2.4	2.9	3.2	3.7	5.6	5.5
(ratio to nominal GDP)	[0.6]	[0.5]	[0.3]	[0.5]	[0.5]	[0.6]	[0.6]	[0.8]	[0.8]
Fiscal Balance	▲ 38.0	▲ 42.1	▲ 38.2	▲ 28.8	▲ 24.1	▲ 25.2	▲ 33.2	▲ 37.5	▲ 40.8
(ratio to nominal GDP)	[▲8.0]	[▲8.7]	[▲7.6]	[▲5.6]	[▲4.5]	[▲4.5]	[▲5.4]	[▲5.7]	[▲5.9]
Central Government	▲ 38.0	▲ 42.0	▲ 37.3	▲ 28.4	▲ 24.1	▲ 25.2	▲ 32.2	▲ 37.8	▲ 40.6
(ratio to nominal GDP)	[▲8.0]	[▲8.7]	[▲7.5]	[▲5.5]	[▲4.5]	[▲4.5]	[▲5.2]	[▲5.7]	[▲5.9]
Local Government	▲ 0.1	▲ 0.1	▲ 0.9	▲ 0.4	▲ 0.0	0.0	▲ 1.0	0.4	▲ 0.2
(ratio to nominal GDP)	[▲0.0]	[▲0.0]	[▲0.2]	[▲0.1]	[▲0.0]	[0.0]	[▲0.2]	[0.1]	[▲0.0]
Outstanding Debt	897.2	943.3	971.1	997.0	1020.2	1052.1	1150.9	1229.3	1273.3
(ratio to nominal GDP)	[189.8]	[194.8]	[194.0]	[192.7]	[190.0]	[189.5]	[186.6]	[185.4]	[185.1]

**Reference Case**

[ratio to GDP, %], Trillions of Yen

	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2020	FY2022	FY2023
Primary Balance	▲ 29.3	▲ 33.1	▲ 28.3	▲ 19.4	▲ 15.6	▲ 16.0	▲ 17.0	▲ 17.2	▲ 17.8
(ratio to nominal GDP)	[▲6.2]	[▲6.8]	[▲5.7]	[▲3.8]	[▲3.0]	[▲3.0]	[▲3.0]	[▲3.0]	[▲3.0]
Central Government	▲ 31.9	▲ 35.5	▲ 29.7	▲ 21.6	▲ 17.7	▲ 18.1	▲ 18.9	▲ 18.8	▲ 18.8
(ratio to nominal GDP)	[▲6.8]	[▲7.3]	[▲5.9]	[▲4.2]	[▲3.4]	[▲3.4]	[▲3.4]	[▲3.2]	[▲3.2]
Local Government	2.6	2.3	1.4	2.3	2.2	2.1	1.9	1.6	1.0
(ratio to nominal GDP)	[0.6]	[0.5]	[0.3]	[0.4]	[0.4]	[0.4]	[0.3]	[0.3]	[0.2]
Fiscal Balance	▲ 38.0	▲ 42.1	▲ 38.2	▲ 29.4	▲ 25.9	▲ 27.1	▲ 33.9	▲ 38.0	▲ 41.1
(ratio to nominal GDP)	[▲8.0]	[▲8.7]	[▲7.6]	[▲5.8]	[▲5.0]	[▲5.1]	[▲6.1]	[▲6.6]	[▲7.0]
Central Government	▲ 38.0	▲ 42.0	▲ 37.3	▲ 29.0	▲ 25.2	▲ 26.3	▲ 31.7	▲ 35.2	▲ 37.4
(ratio to nominal GDP)	[▲8.0]	[▲8.7]	[▲7.5]	[▲5.7]	[▲4.8]	[▲5.0]	[▲5.7]	[▲6.1]	[▲6.3]
Local Government	▲ 0.1	▲ 0.1	▲ 0.9	▲ 0.4	▲ 0.6	▲ 0.9	▲ 2.3	▲ 2.7	▲ 3.7
(ratio to nominal GDP)	[▲0.0]	[▲0.0]	[▲0.2]	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.4]	[▲0.5]	[▲0.6]
Outstanding Debt	897.2	943.3	971.1	997.4	1022.0	1055.4	1155.5	1232.7	1275.8
(ratio to nominal GDP)	[189.8]	[194.8]	[194.0]	[195.4]	[196.0]	[199.1]	[206.8]	[212.9]	[216.4]

(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 repayments and interest payments 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 government" and "local government" in accordance with their contributions.  
It should be noted that the PB in the "Central Government General Account" equals the sum of tax revenue and other revenues minus "General Account expenditure excluding debt repayment and interest payment."
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 also 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 the 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 for recovery and reconstruction from the Great East Japan Earthquake that exceed the amount compensated for by the reduction of other existing expenditures and are financed by the reconstruction bonds, additional non-tax revenues, or temporary taxation, or the amount of relevant fiscal resources.
7. The target of halving the central and local governments' primary balance deficit ratio to GDP for FY2015 is 3.3%, which is calculated on the basis of the result value of the deficit ratio in FY2010, 6.6%.

## (Appendix) Key Assumptions

The GDP growth rate and inflation rate for FY2014 are from National Accounts for 2012 (the 2005 benchmark revision), Fiscal 2014 Economic Outlook, etc.

### **(1) Assumptions on the Macro economy**

#### **Economic Revitalization Case**

##### a) Total Factor Productivity (TFP) Growth

\* The TFP growth rate remains as low as the current level (around 0.5% in the third quarter of FY2013), 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 March 2009]) during the period from FY2012 to the beginning of the 2020s.

##### b) Labor Force

\* Through the implementation of the measures in the “Japan Revitalization Strategy,” the Labor Force Participation (LFP in abbreviation) rate for chiefly females and elderly rises.

##### 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 4.8% to 5.0% from 2015 to 2018, based on the IMF’s WEO (Autumn 2013). From FY2019 onward, the world economy growth rate remains constant, at around 4.9%.

\* Inflation Rate (the rate considering the export shares from Japan [10 major destination countries]) The inflation rate moves at around 2.4% to 2.6% from FY2015 to FY2018, based on the IMF’s WEO (Autumn 2013). From FY2019 onward, the inflation rate remains constant, at around 2.4%.

##### \* Crude Oil Prices

From FY2015 onward, the price moves based on the rate of the IEA’s World Energy Outlook (November 2013).

##### \* Nominal Exchange Rate

The real exchange rate is assumed to be constant in the long term from FY2015 onward, i.e. the nominal exchange rate changes to offset the difference in the inflation rate, although it is influenced by international interest spread in the short term.

#### **Reference Case**

Differences from the Economic Revitalization Scenario are as follows:

##### a) Total Factor Productivity (TFP) Growth

\* The TFP growth rate remains as low as the current level (around 0.5% in the third quarter FY2013) until FY2014, 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 October 1993]) during the period from FY2013 to the beginning of the 2020s.

##### b) Labor Force

\* The 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 0.7 percentage points, based on the IMF's WEO (Autumn 2013) from FY2015 to FY2018 (from around 4.1% to 4.3%). From FY2019 onward, the world economy growth rate remains constant, at around 4.2 %.

**(2) Tax Policy**

\* "The FY2014 Tax Reform" (Cabinet decision on December 24, 2013) is reflected, and 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: December 2, 2011) and the Temporary Special Provision on Local Tax—the purpose of which is to secure necessary fiscal resources for local governments to implement policies for disaster prevention relating to "Recovery from the Great East Japan Earthquake" (dates of promulgation and enforcement: December 2, 2011)—, 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 the Consumption Tax Act, the purpose of which is to implement a fundamental reform of the taxation system and thereby 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 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 national and at 154/500 for local. It is noted that the effect of such a consumption tax hike on the government's revenue will be gradually accomplished by 2017 due to interim measures, the gap between the time of paying tax and the taxable period, the amount of time it takes until the local consumption tax is delivered to the local government, etc.

**(3) Expenditures**

\* Expenditures in FY2013 are based on the FY2013 Supplementary Budget (Draft Approved by the Cabinet).

\* Expenditures in FY2014 are based on the FY2014 Draft Budget (Draft Approved by the Cabinet).

\* The medium-term fiscal reform programs are incorporated into expenditures in FY2015.

\* After FY2016, it is assumed that social security expenditure will increase due to the ageing of the population and that general expenditures except for social security expenditure will continue to increase at about the same rate as inflation rate.

\* It is assumed that legislation relating to the comprehensive reform of social security and taxation systems will enable the addition of certain new expenditures relating to the implementation of social security reform, etc. along with the increase of the consumption tax rate.

#### **(4) Assumptions on Expenditures and the Financial Resources for 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) with a total value of 23.5 trillion yen (public expenditures of the central and local governments) expected to be implemented during the 5 years till the end of FY2015, which is termed the “intensive reconstruction period.”
- \* In the projections, it is assumed that 25 trillion yen is secured by the special tax for reconstruction, 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), etc.
- \* It is necessary to take note that there is a possibility of deterioration of the primary balance if additional expenditures for recovery and reconstruction are needed after FY2016.