

Economic and Fiscal Projections for
Medium to Long Term Analysis

July 25th, 2014
Cabinet Office, Japan

Projections are conducted by the Cabinet Office's "Economic and Fiscal Model," incorporating macroeconomy, public finance and social security synthetically. Therefore, the main economic variables such as growth rates, inflation rates, and interest rates are not exogenously assumed, but are endogenously obtained within the model. Considerable leeway should be given when interpreting the projections shown here because of various uncertainty.

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

By the end of 2014, taking economic conditions and other matters into overall consideration, a decision concerning the increase in the consumption tax rate to 10% will be made in accordance with Article 18 of the supplementary provisions of the Act for Partial Revision of the Consumption Tax Act and Others to Implement the Fundamental Reform of the Tax System for Securing Stable Fiscal Resources for the Social Security and Others (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. Macroeconomic Scenario

Under favorable world economic conditions, the following “three arrows” for the revitalization of the Japanese economy are assumed to have sound effects:

i) aggressive monetary policy, ii) flexible fiscal policy, and iii) the growth strategy that promotes private investment (“Japan Revitalization Strategy”¹). 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 rate of change in the consumer price index (excluding the direct effects of the increase in the consumption tax rate) is projected to be stable around 2% over the medium to long term.

For reference, projections on the case that the domestic and world economies are assumed to be on a moderate recovery path are shown. In this case, over the coming decade (from FY2013 through FY2022), the average annual growth rate is projected to be approximately 1% in real and 2% in nominal.

2. Main Assumptions in Public Finances

- In FY2015, it is assumed that the government will make an effort to improve the primary balance on the basis of the “Medium Term Fiscal Plan.”²
- It is assumed that the consumption tax rate (central and local combined) will be raised to 10% in October 2015³ and certain new expenditures will be added along with implementing the reform of the social security system and others, on the basis of legislation related to the Comprehensive Reform of Social Security and Tax and others.
- After FY2016, it is assumed that social security expenditure will increase due to the population aging and the other general expenditures will continue to increase at about the same rate as inflation rate.
- It is assumed that measures for recovery and reconstruction from the Great East Japan Earthquake will be implemented, the special tax for reconstruction will be carried out, and reconstruction bonds will be issued based on the act for securing fiscal resources for reconstruction⁴ and others.

¹ “Japan Revitalization Strategy as revised in 2014” (Cabinet Decision, June 24, 2014)

² “Basic Framework for Fiscal Consolidation: Medium-term Fiscal Plan” (Cabinet Approval, August 8, 2013)

³ Taking economic conditions and other matters into overall consideration, a decision will be made concerning the increase in the consumption tax rate to 10%, which is to be implemented in October 2015 in accordance with Article 18 of the supplementary provisions of the Act for Fundamental Tax Reform.

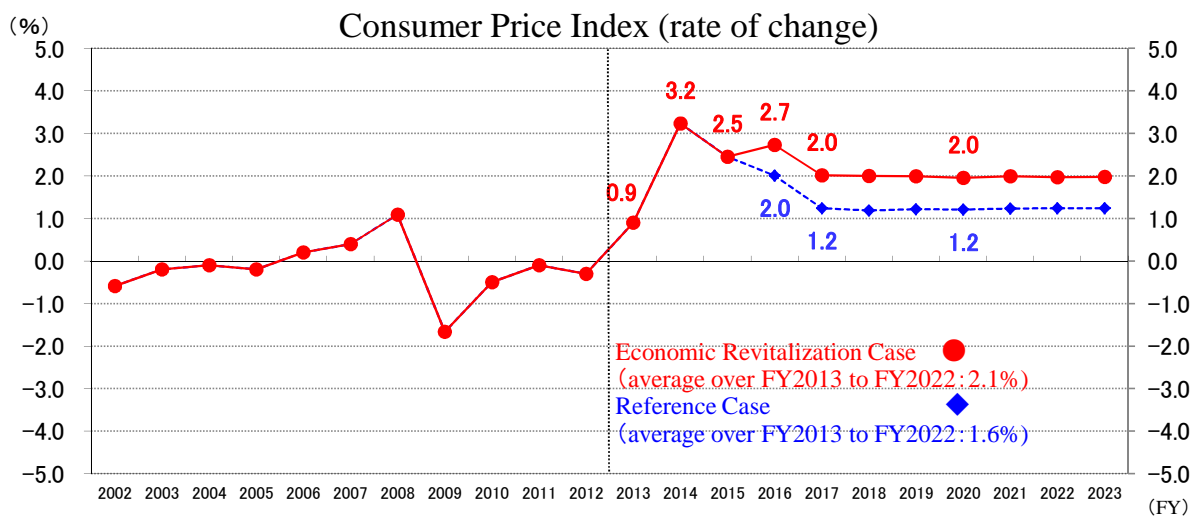
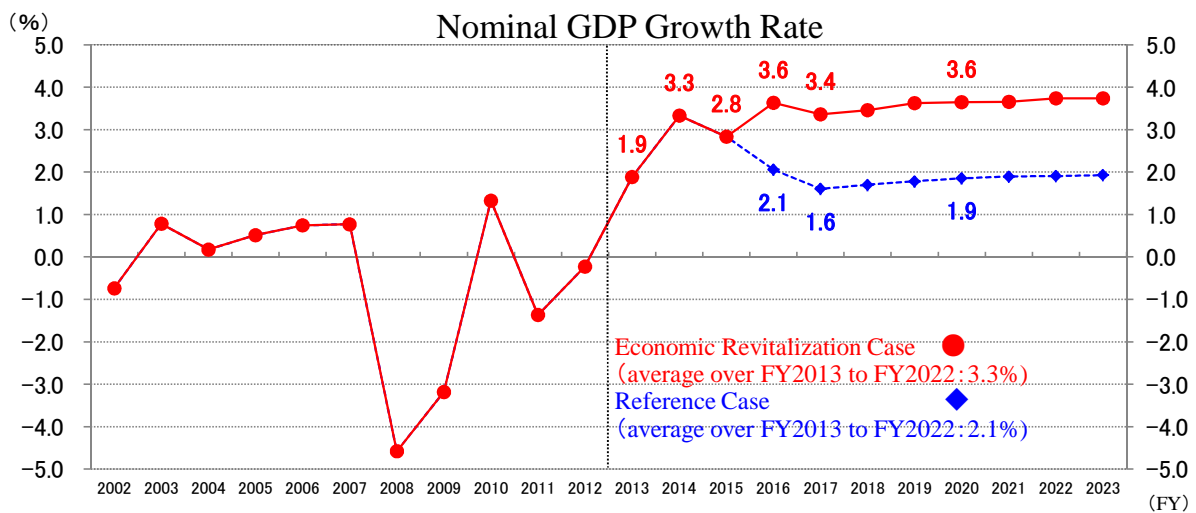
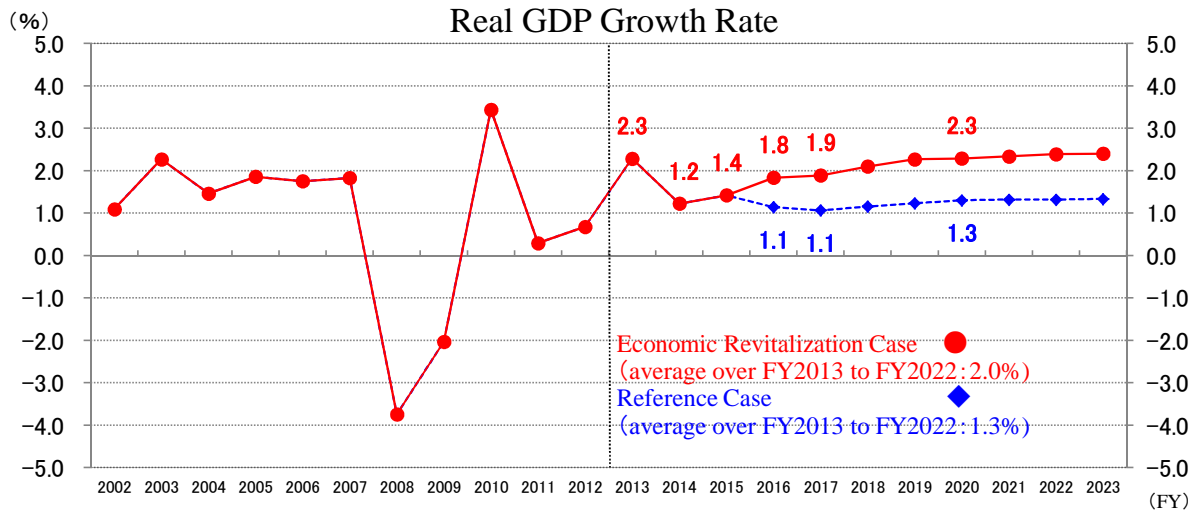
⁴ The Act on Special Measures for Securing Fiscal Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake (date of promulgation and enforcement: December 2, 2011).

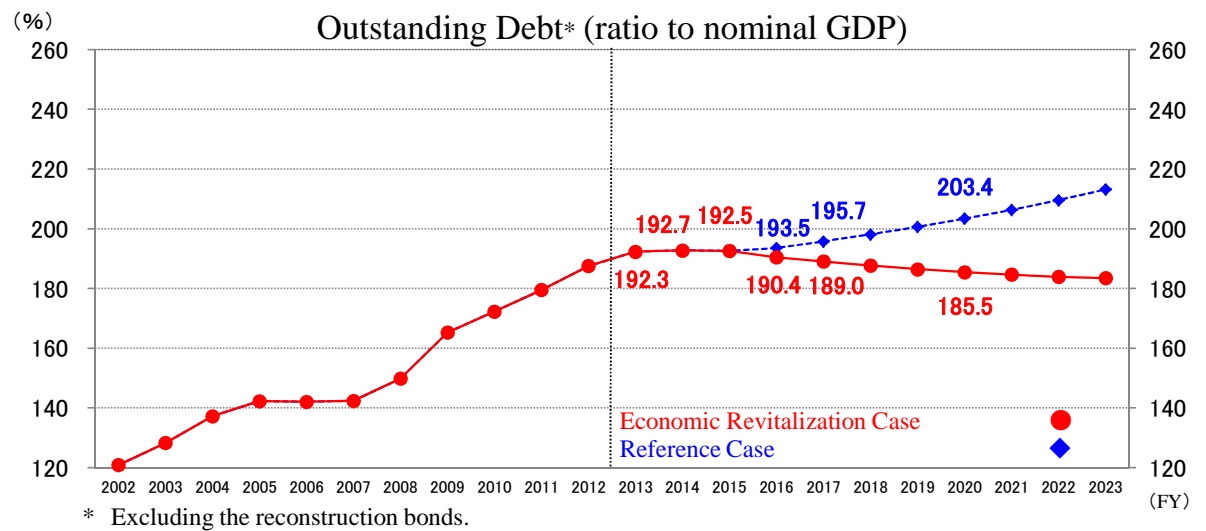
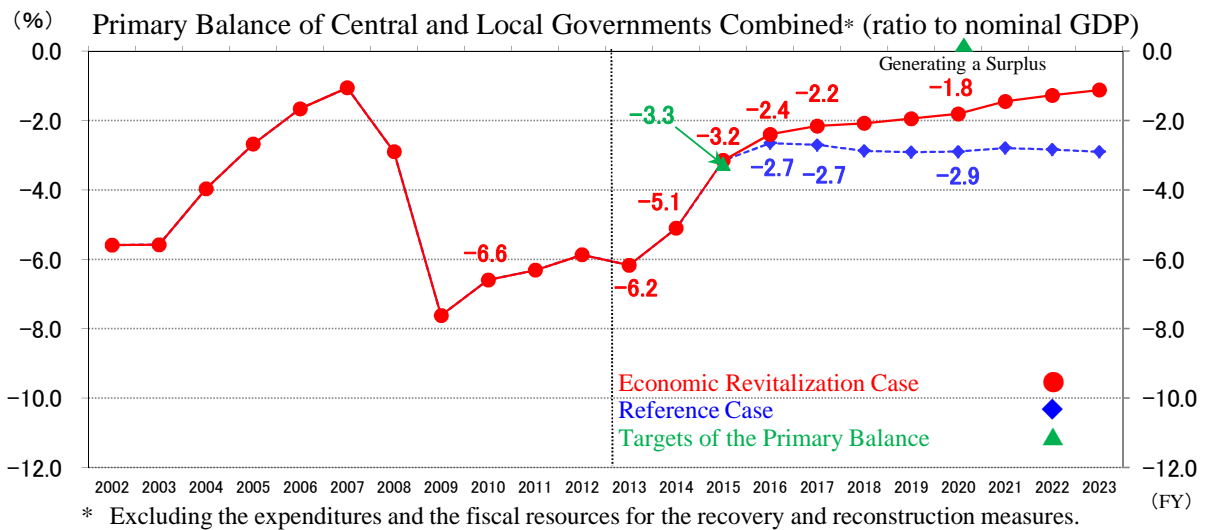
3. Main Results of the Projections⁵

- For the primary balance of central and local governments combined (excluding the expenditures and the fiscal resources for the recovery and reconstruction measures; the same applies to the rest unless otherwise mentioned) in FY2015, the ratio of deficit to GDP is projected to be approximately 3.2% and the target of halving the ratio of deficit to GDP from FY2010 rate by FY2015 (3.3% to GDP) is expected to be achieved.
- For the primary balance of central and local governments combined in FY2020, the ratio of deficit to GDP is projected to be approximately 1.8% and further efforts for improving the primary balance are necessary to achieve the target of generating a primary surplus in FY2020.
- The ratio of outstanding debt to GDP in FY2020 (excluding the reconstruction bonds) is projected to be approximately 185.5% and remain at that level, and further efforts are necessary to steadily reduce the ratio of debt to GDP.

⁵ The results for the “Economic Revitalization Case”

Results of the Projections





Results of the Projections (Tables)

Economic Revitalization Case

【Macroeconomy】

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

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Real GDP Growth	(2.3)	(1.2)	(1.4)	(1.8)	(1.9)	(2.1)	(2.3)	(2.3)	(2.3)	(2.4)	(2.4)
Real GNI Growth	(2.2)	(1.0)	(1.4)	(1.8)	(1.9)	(2.1)	(2.3)	(2.3)	(2.3)	(2.4)	(2.4)
Nominal GDP Growth	(1.9)	(3.3)	(2.8)	(3.6)	(3.4)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)	(3.7)
Nominal GDP	481.5	497.5	511.6	530.2	548.1	567.0	587.6	609.0	631.3	654.9	679.3
Nominal GNI Per Capita Growth	(2.5)	(3.7)	(3.2)	(3.9)	(3.6)	(3.7)	(3.8)	(3.9)	(3.9)	(4.1)	(4.1)
Nominal GNI Per Capita(※Ten thousand yen)	392	407	420	436	451	468	486	505	525	546	569
Potential GDP Growth	(0.7)	(0.8)	(0.9)	(1.3)	(1.6)	(1.9)	(2.2)	(2.5)	(2.5)	(2.5)	(2.5)
Change of Price											
Consumer Prices	(0.9)	(3.2)	(2.5)	(2.7)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Corporate Goods Prices	(1.9)	(4.2)	(1.8)	(1.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)
GDP Deflator	(▲0.4)	(2.1)	(1.4)	(1.8)	(1.4)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)
Unemployment Rate	(3.9)	(3.5)	(3.5)	(3.4)	(3.3)	(3.3)	(3.2)	(3.2)	(3.3)	(3.3)	(3.3)
Long term Interest Rate	(0.7)	(1.0)	(1.6)	(2.3)	(2.7)	(3.1)	(3.5)	(3.9)	(4.2)	(4.5)	(4.7)
Balance by Sector											
General Government	[▲8.3]	[▲7.7]	[▲5.5]	[▲4.3]	[▲4.1]	[▲4.0]	[▲4.0]	[▲4.0]	[▲3.8]	[▲3.7]	[▲3.7]
Private	[8.4]	[7.8]	[5.8]	[4.9]	[5.0]	[5.1]	[5.2]	[5.5]	[5.3]	[5.2]	[5.3]
Overseas	[▲0.1]	[▲0.1]	[▲0.3]	[▲0.6]	[▲0.9]	[▲1.1]	[▲1.3]	[▲1.4]	[▲1.5]	[▲1.6]	[▲1.6]

【Central and Local Governments' Public Finances】

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

[ratio to GDP, %], Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Primary Balance	▲ 29.7	▲ 25.4	▲ 16.1	▲ 12.7	▲ 11.9	▲ 11.8	▲ 11.5	▲ 11.0	▲ 9.2	▲ 8.4	▲ 7.7
(ratio to nominal GDP)	[▲6.2]	[▲5.1]	[▲3.2]	[▲2.4]	[▲2.2]	[▲2.1]	[▲2.0]	[▲1.8]	[▲1.5]	[▲1.3]	[▲1.1]
Central Government	▲ 32.5	▲ 26.9	▲ 18.5	▲ 15.8	▲ 15.3	▲ 15.1	▲ 14.8	▲ 14.9	▲ 14.5	▲ 14.1	▲ 13.4
(ratio to nominal GDP)	[▲6.7]	[▲5.4]	[▲3.6]	[▲3.0]	[▲2.8]	[▲2.7]	[▲2.5]	[▲2.4]	[▲2.3]	[▲2.2]	[▲2.0]
Local Government	2.8	1.5	2.4	3.0	3.5	3.2	3.4	3.8	5.3	5.8	5.8
(ratio to nominal GDP)	[0.6]	[0.3]	[0.5]	[0.6]	[0.6]	[0.6]	[0.6]	[0.6]	[0.8]	[0.9]	[0.9]
Fiscal Balance	▲ 37.9	▲ 34.9	▲ 26.1	▲ 23.5	▲ 23.9	▲ 26.3	▲ 28.7	▲ 31.9	▲ 33.1	▲ 35.9	▲ 39.2
(ratio to nominal GDP)	[▲7.9]	[▲7.0]	[▲5.1]	[▲4.4]	[▲4.4]	[▲4.6]	[▲4.9]	[▲5.2]	[▲5.2]	[▲5.5]	[▲5.8]
Central Government	▲ 38.3	▲ 34.2	▲ 25.7	▲ 23.6	▲ 24.2	▲ 26.0	▲ 28.2	▲ 31.1	▲ 33.8	▲ 36.7	▲ 39.6
(ratio to nominal GDP)	[▲8.0]	[▲6.9]	[▲5.0]	[▲4.4]	[▲4.4]	[▲4.6]	[▲4.8]	[▲5.1]	[▲5.4]	[▲5.6]	[▲5.8]
Local Government	0.4	▲ 0.7	▲ 0.4	0.1	0.3	▲ 0.3	▲ 0.5	▲ 0.8	0.7	0.8	0.5
(ratio to nominal GDP)	[0.1]	[▲0.1]	[▲0.1]	[0.0]	[0.0]	[▲0.0]	[▲0.1]	[▲0.1]	[0.1]	[0.1]	[0.1]
Outstanding Debt	926.0	958.9	985.1	1009.8	1036.0	1064.4	1095.4	1129.5	1165.4	1204.2	1246.4
(ratio to nominal GDP)	[192.3]	[192.7]	[192.5]	[190.4]	[189.0]	[187.7]	[186.4]	[185.5]	[184.6]	[183.9]	[183.5]

【General Account of Central Government】

Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Expenditures	100.2	95.9	98.9	103.7	108.2	112.4	117.9	123.9	130.1	136.7	143.3
General Account Expenditure Excluding Debt Repayment and Interest Payment	78.9	72.6	74.4	77.0	78.8	79.9	81.9	84.0	86.0	88.3	90.1
Debt Repayment and Interest Payment	21.3	23.3	24.4	26.7	29.4	32.5	36.0	39.9	44.1	48.5	53.2
Revenues	62.6	54.6	60.2	65.5	67.6	69.6	72.0	74.5	77.0	79.8	82.6
Tax Revenue	47.0	50.0	55.6	60.7	62.8	64.7	67.0	69.3	71.7	74.4	77.0
Other Revenues	15.6	4.6	4.6	4.7	4.8	4.9	5.1	5.2	5.3	5.5	5.6
Difference between Expenditures and Revenues	40.8	41.3	38.7	38.2	40.5	42.8	45.9	49.4	53.1	56.9	60.7
Primary Balance in the General Account of Central Government	▲ 27.0	▲ 18.0	▲ 14.2	▲ 11.6	▲ 11.2	▲ 10.3	▲ 9.9	▲ 9.5	▲ 8.9	▲ 8.4	▲ 7.5

- Notes
1. In "General Account of Central Government", FY2013 is based on the settlement and FY2014 is based on the original budget.
 2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry back of settlement deficit compensation.
 3. "Difference between Expenditures and Revenues" in FY2013 excludes expenditures related to special bonds for covering pension funding.
 4. "Other Revenues" in FY2013 includes 10.7 trillion yen of the receipt of surplus from the previous fiscal year (including the receipt of carried forward fiscal resources), but "Primary Balance in the General Account of Central Government" excludes the receipt.

Reference Case

【Macroeconomy】

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

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Real GDP Growth	(2.3)	(1.2)	(1.4)	(1.1)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)
Real GNI Growth	(2.2)	(1.0)	(1.4)	(1.0)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.1)	(1.0)
Nominal GDP Growth	(1.9)	(3.3)	(2.8)	(2.1)	(1.6)	(1.7)	(1.8)	(1.9)	(1.9)	(1.9)	(1.9)
Nominal GDP	481.5	497.5	511.6	522.2	530.5	539.5	549.1	559.3	569.9	580.8	592.0
Nominal GNI Per Capita Growth	(2.5)	(3.7)	(3.2)	(2.5)	(2.1)	(2.2)	(2.2)	(2.2)	(2.3)	(2.3)	(2.4)
Nominal GNI Per Capita(※Ten thousand yen)	392	407	420	430	440	449	459	469	480	491	503
Potential GDP Growth	(0.7)	(0.8)	(0.9)	(1.1)	(1.1)	(1.1)	(1.1)	(1.2)	(1.3)	(1.3)	(1.3)
Change of Price											
Consumer Prices	(0.9)	(3.2)	(2.5)	(2.0)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Corporate Goods Prices	(1.9)	(4.2)	(1.8)	(1.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)	(0.6)	(0.6)
GDP Deflator	(▲0.4)	(2.1)	(1.4)	(0.9)	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Unemployment Rate	(3.9)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)	(3.4)	(3.4)	(3.4)
Long term Interest Rate	(0.7)	(1.0)	(1.6)	(2.0)	(2.2)	(2.4)	(2.6)	(2.7)	(2.9)	(3.0)	(3.1)
Balance by Sector											
General Government	[▲8.3]	[▲7.7]	[▲5.5]	[▲4.7]	[▲4.8]	[▲5.0]	[▲5.2]	[▲5.5]	[▲5.5]	[▲5.8]	[▲6.1]
Private	[8.4]	[7.8]	[5.8]	[5.2]	[5.7]	[6.1]	[6.3]	[6.5]	[6.4]	[6.4]	[6.6]
Overseas	[▲0.1]	[▲0.1]	[▲0.3]	[▲0.6]	[▲0.9]	[▲1.1]	[▲1.1]	[▲1.0]	[▲0.8]	[▲0.6]	[▲0.4]

【Central and Local Governments' Public Finances】

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

[ratio to GDP, %], Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Primary Balance	▲ 29.7	▲ 25.4	▲ 16.1	▲ 13.9	▲ 14.4	▲ 15.5	▲ 16.0	▲ 16.2	▲ 15.9	▲ 16.5	▲ 17.2
(ratio to nominal GDP)	[▲6.2]	[▲5.1]	[▲3.2]	[▲2.7]	[▲2.7]	[▲2.9]	[▲2.9]	[▲2.9]	[▲2.8]	[▲2.8]	[▲2.9]
Central Government	▲ 32.5	▲ 26.9	▲ 18.5	▲ 16.4	▲ 16.7	▲ 17.4	▲ 17.7	▲ 18.0	▲ 17.6	▲ 18.0	▲ 18.1
(ratio to nominal GDP)	[▲6.7]	[▲5.4]	[▲3.6]	[▲3.1]	[▲3.2]	[▲3.2]	[▲3.2]	[▲3.2]	[▲3.1]	[▲3.1]	[▲3.1]
Local Government	2.8	1.5	2.4	2.5	2.4	1.9	1.7	1.8	1.6	1.5	0.9
(ratio to nominal GDP)	[0.6]	[0.3]	[0.5]	[0.5]	[0.4]	[0.3]	[0.3]	[0.3]	[0.3]	[0.3]	[0.2]
Fiscal Balance	▲ 37.9	▲ 34.9	▲ 26.1	▲ 24.3	▲ 25.8	▲ 28.8	▲ 31.4	▲ 34.3	▲ 36.1	▲ 39.2	▲ 42.8
(ratio to nominal GDP)	[▲7.9]	[▲7.0]	[▲5.1]	[▲4.7]	[▲4.9]	[▲5.3]	[▲5.7]	[▲6.1]	[▲6.3]	[▲6.8]	[▲7.2]
Central Government	▲ 38.3	▲ 34.2	▲ 25.7	▲ 23.9	▲ 25.1	▲ 27.4	▲ 29.5	▲ 31.9	▲ 33.6	▲ 36.3	▲ 38.9
(ratio to nominal GDP)	[▲8.0]	[▲6.9]	[▲5.0]	[▲4.6]	[▲4.7]	[▲5.1]	[▲5.4]	[▲5.7]	[▲5.9]	[▲6.2]	[▲6.6]
Local Government	0.4	▲ 0.7	▲ 0.4	▲ 0.4	▲ 0.7	▲ 1.4	▲ 1.8	▲ 2.4	▲ 2.5	▲ 3.0	▲ 3.9
(ratio to nominal GDP)	[0.1]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.3]	[▲0.3]	[▲0.4]	[▲0.4]	[▲0.5]	[▲0.7]
Outstanding Debt	926.0	958.9	985.1	1010.6	1038.5	1068.8	1101.8	1137.8	1175.8	1217.0	1261.9
(ratio to nominal GDP)	[192.3]	[192.7]	[192.5]	[193.5]	[195.7]	[198.1]	[200.6]	[203.4]	[206.3]	[209.6]	[213.2]

【General Account of Central Government】

Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Expenditures	100.2	95.9	98.9	103.0	106.7	109.6	113.3	117.4	121.0	125.6	130.2
General Account Expenditure Excluding Debt Repayment and Interest Payment	78.9	72.6	74.4	76.6	78.1	78.7	79.9	81.1	81.8	83.3	84.5
Debt Repayment and Interest Payment	21.3	23.3	24.4	26.4	28.6	30.9	33.4	36.3	39.2	42.3	45.6
Revenues	62.6	54.6	60.2	64.1	64.8	65.6	66.5	67.6	68.8	69.9	71.1
Tax Revenue	47.0	50.0	55.6	59.5	60.1	60.8	61.7	62.7	63.8	64.9	66.0
Other Revenues	15.6	4.6	4.6	4.7	4.7	4.8	4.8	4.9	5.0	5.0	5.1
Difference between Expenditures and Revenues	40.8	41.3	38.7	38.9	41.8	44.0	46.8	49.8	52.2	55.6	59.0
Primary Balance in the General Account of Central Government	▲ 27.0	▲ 18.0	▲ 14.2	▲ 12.5	▲ 13.2	▲ 13.2	▲ 13.3	▲ 13.5	▲ 13.0	▲ 13.4	▲ 13.4

- Notes
1. In "General Account of Central Government", FY2013 is based on the settlement and FY2014 is based on the original budget.
 2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry back of settlement deficit compensation.
 3. "Difference between Expenditures and Revenues" in FY2013 excludes expenditures related to special bonds for covering pension funding.
 4. "Other Revenues" in FY2013 includes 10.7 trillion yen of the receipt of surplus from the previous fiscal year (including the receipt of carried forward fiscal resources), but "Primary Balance in the General Account of Central Government" excludes the receipt.

【Central and Local Governments' Public Finances】

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

Economic Revitalization Case

[ratio to GDP, %], Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Primary Balance	▲ 30.1	▲ 27.7	▲ 18.0	▲ 12.4	▲ 11.5	▲ 11.5	▲ 11.1	▲ 10.7	▲ 8.8	▲ 8.0	▲ 7.3
(ratio to nominal GDP)	[▲6.3]	[▲5.6]	[▲3.5]	[▲2.3]	[▲2.1]	[▲2.0]	[▲1.9]	[▲1.8]	[▲1.4]	[▲1.2]	[▲1.1]
Central Government	▲ 32.8	▲ 29.1	▲ 20.4	▲ 15.5	▲ 15.0	▲ 14.8	▲ 14.5	▲ 14.6	▲ 14.2	▲ 13.9	▲ 13.2
(ratio to nominal GDP)	[▲6.8]	[▲5.9]	[▲4.0]	[▲2.9]	[▲2.7]	[▲2.6]	[▲2.5]	[▲2.4]	[▲2.3]	[▲2.1]	[▲1.9]
Local Government	2.7	1.4	2.4	3.1	3.5	3.3	3.4	3.9	5.4	5.9	5.9
(ratio to nominal GDP)	[0.6]	[0.3]	[0.5]	[0.6]	[0.6]	[0.6]	[0.6]	[0.6]	[0.9]	[0.9]	[0.9]
Fiscal Balance	▲ 38.4	▲ 37.3	▲ 28.1	▲ 23.2	▲ 23.6	▲ 26.0	▲ 28.4	▲ 31.7	▲ 32.9	▲ 35.7	▲ 39.0
(ratio to nominal GDP)	[▲8.0]	[▲7.5]	[▲5.5]	[▲4.4]	[▲4.3]	[▲4.6]	[▲4.8]	[▲5.2]	[▲5.2]	[▲5.5]	[▲5.7]
Central Government	▲ 38.7	▲ 36.5	▲ 27.7	▲ 23.3	▲ 23.9	▲ 25.8	▲ 28.0	▲ 30.9	▲ 33.6	▲ 36.5	▲ 39.5
(ratio to nominal GDP)	[▲8.0]	[▲7.3]	[▲5.4]	[▲4.4]	[▲4.4]	[▲4.5]	[▲4.8]	[▲5.1]	[▲5.3]	[▲5.6]	[▲5.8]
Local Government	0.3	▲ 0.8	▲ 0.4	0.1	0.3	▲ 0.2	▲ 0.4	▲ 0.8	0.7	0.8	0.5
(ratio to nominal GDP)	[0.1]	[▲0.2]	[▲0.1]	[0.0]	[0.1]	[▲0.0]	[▲0.1]	[▲0.1]	[0.1]	[0.1]	[0.1]
Outstanding Debt	935.7	971.1	995.9	1020.1	1045.9	1073.9	1104.5	1138.2	1173.7	1212.3	1254.2
(ratio to nominal GDP)	[194.3]	[195.2]	[194.7]	[192.4]	[190.8]	[189.4]	[188.0]	[186.9]	[185.9]	[185.1]	[184.6]

Reference Case

[ratio to GDP, %], Trillions of Yen

	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Primary Balance	▲ 30.1	▲ 27.7	▲ 18.0	▲ 13.5	▲ 14.0	▲ 15.1	▲ 15.6	▲ 15.9	▲ 15.6	▲ 16.1	▲ 16.8
(ratio to nominal GDP)	[▲6.3]	[▲5.6]	[▲3.5]	[▲2.6]	[▲2.6]	[▲2.8]	[▲2.8]	[▲2.8]	[▲2.7]	[▲2.8]	[▲2.8]
Central Government	▲ 32.8	▲ 29.1	▲ 20.4	▲ 16.1	▲ 16.4	▲ 17.1	▲ 17.4	▲ 17.7	▲ 17.3	▲ 17.7	▲ 17.8
(ratio to nominal GDP)	[▲6.8]	[▲5.9]	[▲4.0]	[▲3.1]	[▲3.1]	[▲3.2]	[▲3.2]	[▲3.2]	[▲3.0]	[▲3.1]	[▲3.0]
Local Government	2.7	1.4	2.4	2.6	2.4	1.9	1.8	1.9	1.7	1.6	1.0
(ratio to nominal GDP)	[0.6]	[0.3]	[0.5]	[0.5]	[0.5]	[0.4]	[0.3]	[0.3]	[0.3]	[0.3]	[0.2]
Fiscal Balance	▲ 38.4	▲ 37.3	▲ 28.1	▲ 24.0	▲ 25.5	▲ 28.5	▲ 31.1	▲ 34.0	▲ 35.8	▲ 39.0	▲ 42.6
(ratio to nominal GDP)	[▲8.0]	[▲7.5]	[▲5.5]	[▲4.6]	[▲4.8]	[▲5.3]	[▲5.7]	[▲6.1]	[▲6.3]	[▲6.7]	[▲7.2]
Central Government	▲ 38.7	▲ 36.5	▲ 27.7	▲ 23.7	▲ 24.9	▲ 27.1	▲ 29.3	▲ 31.7	▲ 33.4	▲ 36.1	▲ 38.7
(ratio to nominal GDP)	[▲8.0]	[▲7.3]	[▲5.4]	[▲4.5]	[▲4.7]	[▲5.0]	[▲5.3]	[▲5.7]	[▲5.9]	[▲6.2]	[▲6.5]
Local Government	0.3	▲ 0.8	▲ 0.4	▲ 0.3	▲ 0.6	▲ 1.4	▲ 1.8	▲ 2.4	▲ 2.4	▲ 2.9	▲ 3.9
(ratio to nominal GDP)	[0.1]	[▲0.2]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.3]	[▲0.3]	[▲0.4]	[▲0.4]	[▲0.5]	[▲0.7]
Outstanding Debt	935.7	971.1	995.9	1020.9	1048.3	1078.2	1110.8	1146.4	1184.0	1224.8	1269.3
(ratio to nominal GDP)	[194.3]	[195.2]	[194.7]	[195.5]	[197.6]	[199.8]	[202.3]	[205.0]	[207.7]	[210.9]	[214.4]

(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 (hereafter SNA).
3. "Fiscal Balance" (hereafter FB) of the central and local governments represents "Net lending/net borrowing" in the SNA. "Primary Balance" (hereafter PB) equals FB minus net receivable interest (receivable interest [excluding FISIM] minus payable interest [excluding FISIM]). The PBs of both the central and local governments include some special accounts in addition to general account. Although the debt repayments and interest payments of the Special Account for the Local Allocation and Local Transfer Tax (hereafter SALALTT) are classified as "Central Government" in SNA, in accordance with their contributions, here they are divided into central and local governments.

It should be noted that the PB in the "General Account of Central Government" equals the sum of "Tax Revenue" and "Other Revenues" minus "General Account Expenditure Excluding Debt Repayment and Interest Payment."

4. The figures for the "Balance by Sector" for general government, the "Fiscal Balance" and "Primary Balance" in FY2006, FY2008, FY2009, FY2010, and FY2011 exclude the transfer of funds from the Special Account for Fiscal Investment and Loan Program Funds (the Special Account for Fiscal Loan Program Funds for FY2006) to the Special Account for Government Debt Consolidation Funds and the general account as one-off factors. The figures in FY2008 also exclude the transfer of debts from the Japan Expressway Holding and Debt Repayment Agency to the general account and the figures in FY2011 exclude the transfer of funds from the Japan Railway Construction, Transport and Technology Agency to the general account and others, as one-off factors.
5. "Outstanding Debt" is the sum of general bonds, special bonds for covering public pension funding, local government bonds, and borrowing in SALALTT. The central government's share of the borrowing allocated to the general account in FY2007 is included under outstanding debt in order to maintain the continuity of indices.
6. The amounts of "the expenditures and the fiscal resources for the recovery and reconstruction measures" are the amount of the expenditures for recovery and reconstruction from the Great East Japan Earthquake that exceeds the amount compensated by the reduction of other existing expenditures and is securely financed by the fiscal resources such as the reconstruction bonds, securing further non-tax revenues, and special taxation for reconstruction, and the amount of the above fiscal resources.
7. The target of halving the ratio of the central and local governments' primary balance deficit to GDP from FY2010 rate by FY2015 is 3.3%, which is calculated on the basis of the actual ratio of deficit in FY2010, that is 6.6%.

Appendix: Key Assumptions

The GDP growth rate and inflation rate for FY2013 are from the Quarterly Estimates of GDP January-March 2014 and others, and those for FY2014 and FY2015 are from the Cabinet Office's Mid-Year Economic Projection for FY2014 (July 22, 2014) and others.

(1) Assumptions on the Macroeconomy

Economic Revitalization Case

a) Total Factor Productivity (TFP) Growth Rate

* The TFP growth rate remains as low as the current level (around 0.6% in FY2013) until FY2015, then it rises to around 1.8% (the historical average from February 1983 to October 1993) to the beginning of the 2020s.

b) Labor Force

* Based on the estimates of labor supply and demand for the “case in which desirable economic growth and labor force participation (LFP) are achieved” in “Report of Labor Policy Study Group” (February 6, 2014), the LFP rate of each gender and age group gradually rises, chiefly among females and the elderly (for example, the LFP rate among females age 30-34 gradually rises from around 70% in FY2013 to 81% in FY2023, the LFP rate among males age 65-69 gradually rises from around 51% in FY2013 to 61% in FY2023, and the LFP rate among females age 65-69 gradually rises from around 30% in FY2013 to 31% in FY2023).

c) World Economy

<Real GDP Growth Rate of World Economy (considering the export shares from Japan [10 major destination countries])>

The growth rate moves at around 4.3% to 4.5% annually from FY2016 to FY2019, based on the World Economic Outlook (WEO) by the IMF (April 2014). From FY2020 onward, the growth rate remains constant, at around 4.3%.

<Inflation Rate (considering the export shares from Japan [10 major destination countries])>

The inflation rate moves at around 1.9% to 2.1% annually from FY2016 to FY2019, based on the WEO (April 2014). From FY2020 onward, the inflation rate remains constant, at around 2.1%.

<Crude Oil Prices>

From FY2016 onward, the price moves based on the rate of the World Energy Outlook by the IEA (November 2013), at around 3.5%.

<Nominal Exchange Rate>

From FY2016 onward, although the rate is influenced by the spread between domestic and overseas in the short term, it is assumed to maintain the real exchange rate constant in the long term (the nominal exchange rate changes to offset the difference in the inflation rates between Japan and the rest of the world).

Reference Case

Differences from the above “Economic Revitalization Case” are as follows:

a) TFP Growth Rate

* The TFP growth rate remains as low as the current level (around 0.6% in FY2013) until FY2015, then it rises to around 1.0% (the historical average from February 1983 to March 2009) to the beginning of the 2020s.

b) Labor Force

* The LFP rate for each gender and age group remains constant, at the current level.

c) World Economy

<Real GDP Growth Rate of World Economy (considering the export shares from Japan [10 major destination countries])>

The growth rate moves at about 0.6 percentage points* lower than the rate based on the WEO (April 2014) from FY2016 to FY2019 (from around 3.7% to 3.9% annually). From FY2020 onward, the world economy growth rate remains constant, at around 3.7%.

* Difference between the baseline projection and the lower bound of the 50% confidence interval in the WEO (April 2014).

(2) Tax System

* Tax revenues of the general account of central government in FY2013 are based on the FY2013 Settlement, and in FY2014 are based on the FY2014 Original Budget.

* Based on the Act for Partial Revision of the Income Tax Act and Others (date of promulgation: March 31, 2014; date of enforcement: April 1, 2014), the Act for Partial Revision of the Local Tax Act (date of promulgation: March 31, 2014; date of enforcement: April 1, 2014) and others, the legislated tax system is assumed to continue.

* Based on the Act on Special Measures for Securing Fiscal Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake (date of promulgation and enforcement: December 2, 2011) and the Temporary Special Provision on Local Tax to Secure Necessary Fiscal Resources for Local Governments to Implement Policies for Disaster Prevention Related to Recovery from the Great East Japan Earthquake (date 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 per capita basis.

* The increase in the consumption tax rate (central and local combined) by 3% in April 2014 has been reflected, and based on the Act for Fundamental Tax Reform, the consumption tax rate (central and local combined) is assumed to be raised by 2% in October 2015. The distribution of the increase in consumption tax revenue (central and local combined) is assumed to be 346/500 for central and 154/500 for local. It is assumed that the increase in the revenue of the government from the consumption tax hikes will be gradually realized by 2017 due to the gap between the time of the hikes (April 2014 and October 2015) and the taxable period of enterprises, interim measures concerning long term contracts and the amount of time until the local consumption tax is delivered to the local government.

(3) Expenditures

* Expenditures in FY2013 are based on the FY2013 Settlement and others.

* Expenditures in FY2014 are based on the FY2014 Original Budget and others.

* Based on the “Medium Term Fiscal Plan”, a certain effort for reducing expenditures is incorporated in FY2015.

- * From FY2016 onward, it is assumed that social security expenditure will increase due to the aging of the population and general expenditures other than social security expenditure will continue to increase at about the same rate as the inflation rate (constant in real).
- * It is assumed that after the hikes of the consumption tax rate, legislation related to the Comprehensive Reform of Social Security and Tax will enable the gradual addition of certain new expenditures related to the implementation of social security reform and others, along with the increase in the revenue from the consumption tax and under the consideration on enhancement of stabilization of social security and fiscal consolidation in each fiscal year.

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

- * The projections incorporate about 23.5 trillion yen (public expenditures of the central and local governments) for the recovery and reconstruction measures (including the measures previously implemented) expected to be implemented during the 5 years till the end of FY2015, which is termed the “intensive reconstruction period.” In addition, certain additional expenditures are assumed up to about 25 trillion yen which is the amount of the secured resources. From FY2013 to FY2015, an expenditure pattern is assumed considering the implementation so far.
- * In the projections, it is assumed that 25 trillion yen is secured by the special tax for reconstruction, a reduction of expenditures, non-tax revenues and others based on the “Basic Guidelines for the Third Supplementary Budget in FY2011 and the Fiscal Resources for Reconstruction” (Cabinet decision on October 7, 2011).
- * It should be noted that there is a possibility of worsening of the primary balance and others if additional expenditures for recovery and reconstruction are needed after FY2016.