Provisional Translation

Economic and Fiscal Projections for Medium to Long Term Analysis

July 26, 2016

Cabinet Office, Japan

Projections are conducted by the Cabinet Office's "Economic and Fiscal Model," incorporating the 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 uncertainties.

Introduction

The government commits to the basic principle of "Without economic revitalization, there can be no fiscal consolidation" and aims to achieve a primary surplus in FY2020 and a 600 trillion yen economy.

This projection is intended to contribute to the discussion of the Council on Economic and Fiscal Policy by revealing the progress of economic revitalization and fiscal consolidation, and by providing the basic data necessary to consider measures to achieve the targets.

Specifically, based on the past performance of the Japanese economy, the projection shows medium to long term macroeconomic prospects, such as GDP and inflation, in two different cases (Note 1) to enable comparison. For public finance, the projection suggests, by showing fiscal prospects (Note 2) consistent with these economic conditions, the effects of the Integrated Economic and Fiscal Reforms and the extent to which it needs to be accelerated.

(Note 1) The Economic Revitalization Case (the economic and fiscal policies for attaining economic revitalization are assumed to have sound effects) and the Baseline Case (the economy is assumed to grow approximately at the rate of current potential growth).

(Note 2) For expenditure, it is assumed that social security expenditure will increase due to population aging and that other general expenditures will continue to increase at about the same rate as the inflation rate. For revenue, the projection incorporates the growth of tax and other revenues reflecting the economic conditions as well as prospected system reforms, including the consumption tax rate hike in October 2019.

It should be noted that, in this projection, the economic and fiscal effects of the economic measures stated by Prime Minister Abe on July 12 in 2016 are not incorporated. In addition, the benchmark of approximately 1% of the primary deficit to GDP ratio in FY2018 stated in “The Plan to Advance Economic and Fiscal Revitalization” as a means to assess the progress of reform measures during the Intensive Reform Period will be checked and addressed in light of postponing the consumption tax hike to October 2019, while the budget for FY2017 is being examined to ensure that expenditures are not reduced excessively.

1. Macroeconomic Scenario

We conducted projections under two different macroeconomic scenarios.

(1) Economic Revitalization Case

The following economic and fiscal policies are assumed to have sound effects: aggressive monetary policy, flexible fiscal policy, and a growth strategy that promotes private investment ("Japan Revitalization Strategy"[1]). In the medium to long term, the annual economic growth rate is projected to reach more than 2% in real terms and more than 3% in nominal terms. The rate of change in the consumer price (excluding the direct effects of the increase in the consumption tax rate) is projected to be stable, at around 2%, in the medium to long term.

(2) Baseline Case

Over the future, the domestic economy is assumed to grow approximately at the rate of current potential growth. In this case, in the medium to long term, the annual economic growth rate is projected to be less than 1% in real terms and mid 1% in nominal terms.

2. Main Assumptions in Public Finances

(1) Assumptions in FY 2016

Based on the Supplementary Budget (May 17, 2016).

(2) Assumptions for expenditures in FY 2017[2]

Expenditures in FY 2017 are calculated by taking changes in wages, prices, expenditure reform and other factors into consideration, with an assumption that the rate of increase of the expenditure excluding the increase due to population aging and other factors will consequently be half as high as the wage growth and inflation rate.

(3) Assumptions for expenditures after FY 2018

It is assumed that social security expenditure will increase due to population aging and that other general expenditures will continue to increase at about the same rate as the inflation rate.

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[1] "Japan Revitalization Strategy 2016" (Cabinet Decision, June 2, 2016)

[2] In "Budget overview in FY2017" (Council on Economic and Fiscal Policy decision, July 26, 2016), the government undertakes that "in the initial budgeting process of FY2017, the fruits of Abenomics from both income and expenditure reconstructions will be clarified to be used for fiscal resources. So the initial budgetary request on the policies for Society Promoting Dynamic Engagement of All Citizens, such as improving working conditions of nurseries and caregivers, will be discussed in the budgeting process, using the fruits of Abenomics." Therefore, making use of the fruits of Abenomics will be included in the projection based on the initial budget of FY2017.

(4) Assumptions for the consumption tax rate hikes

It is assumed that the consumption tax rate hike to 10% (central and local combined) will be postponed to October 2019[3] along with the introduction of the reduced rate for consumption tax, and certain new expenditures will be added along with implementing the reform of the social security system and other measures.

This projection incorporates the financial sources funded by deferring the introduction of the total aggregate system in social security as a part of the stable and permanent financial sources secured pursuant to the Act for Partial Revision of the Income Tax Act and Other Acts[4] in response to the decline in tax revenue due to introducing the reduced rate for consumption tax. As for the unincorporated remainder of the necessary amounts, the above act provides that it will be secured by taking legislative measures on revenues or expenditures, or other measures.

(5) Assumptions for expenditures and funding sources for recovery and reconstruction

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 Reconstruction, "Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction Period including the Five-Year Period Starting in FY2016," and other sources.

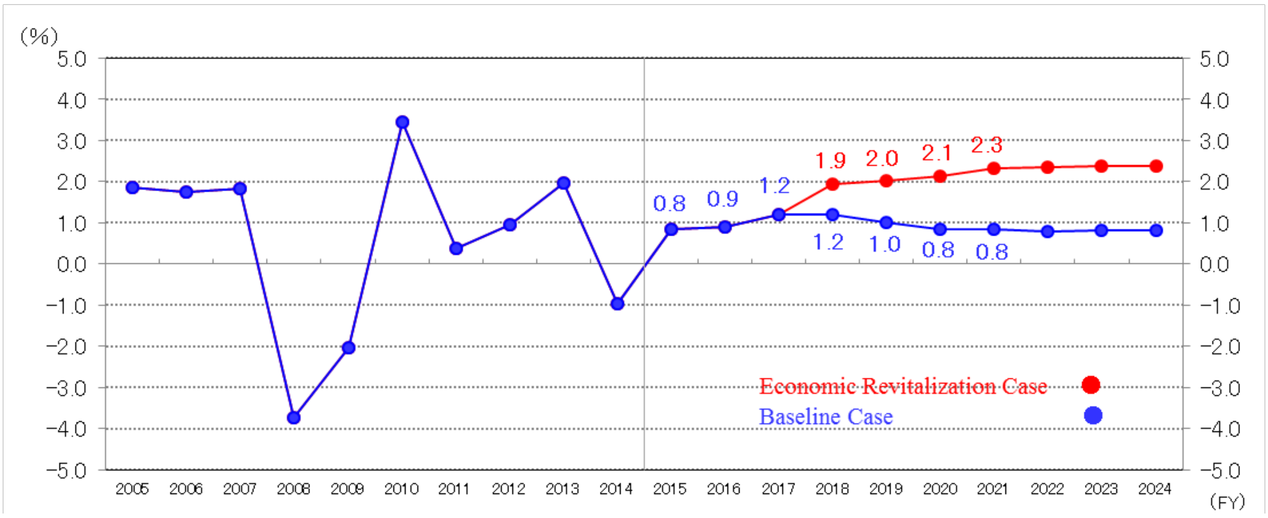
[3] In "Basic Policy on Economic and Fiscal Management and Reform 2016" (Cabinet Decision, June 2, 2016), the government postpones the consumption tax rate hike to 10% by two and a half years to October 2019. In his speech on June 1, 2016, the prime minister showed that the reduced rate for consumption tax will be introduced along with the consumption tax rate hike.

[4] "The Act for Partial Revision of the Income Tax Act and Others" (date of promulgation: March 31, 2016; date of enforcement: April 1, 2016)

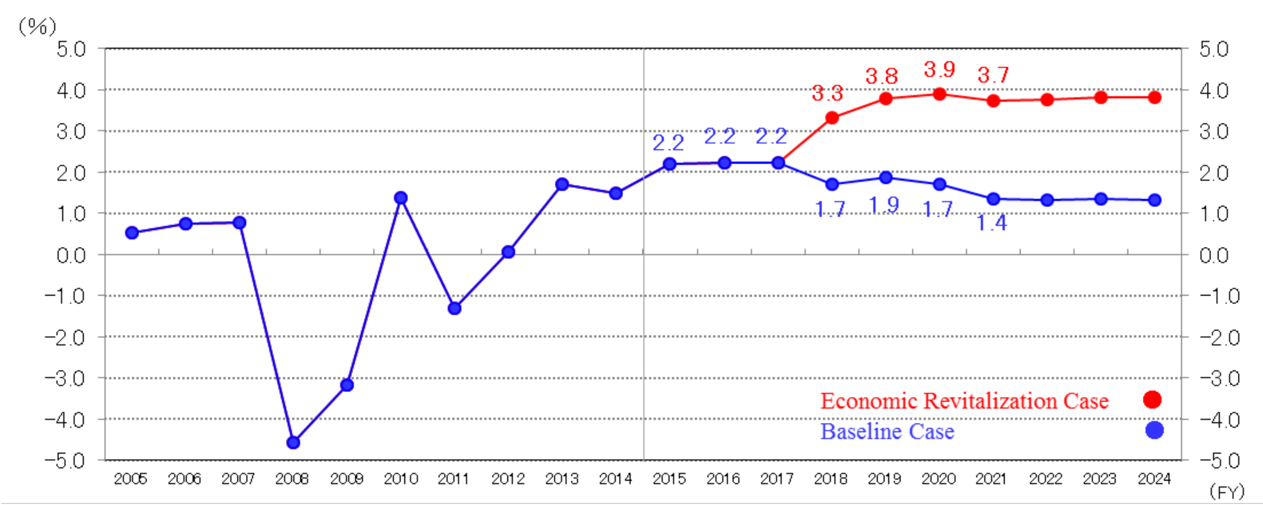
Results of Projections

○GDP Growth Rate

Real GDP Growth Rate

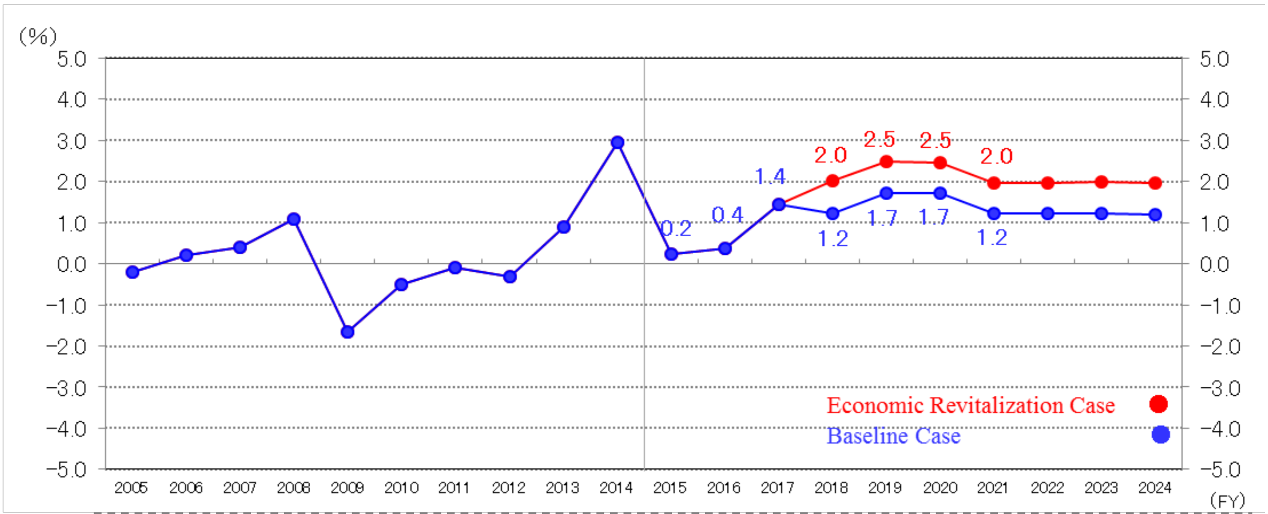


Nominal GDP Growth Rate



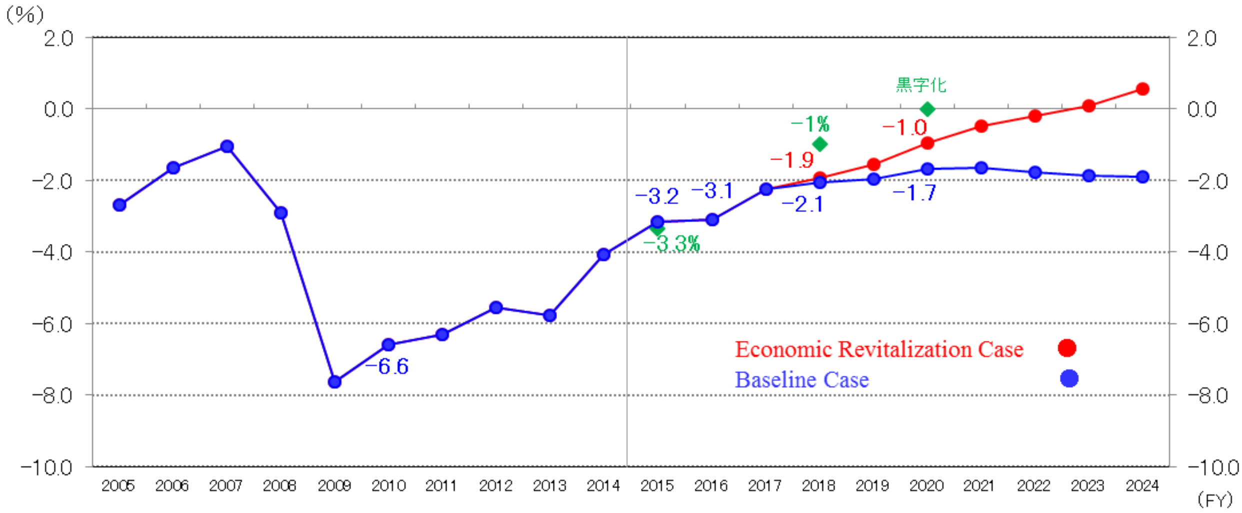
・In the Economic Revitalization Case, the real GDP growth rate is projected to reach more than 2% in the medium to long term, and the nominal GDP growth rate is projected to reach more than 3% in the medium to long term and achieve the 600 trillion yen target around FY2020 (approximately 604.5 trillion yen in FY2021).

Consumer Price Index (Rate of Change)



・In the Economic Revitalization Case, the rate of change in Consumer Price Index is projected to be stable at around 2% in the medium to long term, although it will temporarily increase in FY2019 and FY2020, reacting to the consumption tax rate hike.

〇Primary Balance of Central and Local Governments Combined*
(ratio to nominal GDP)



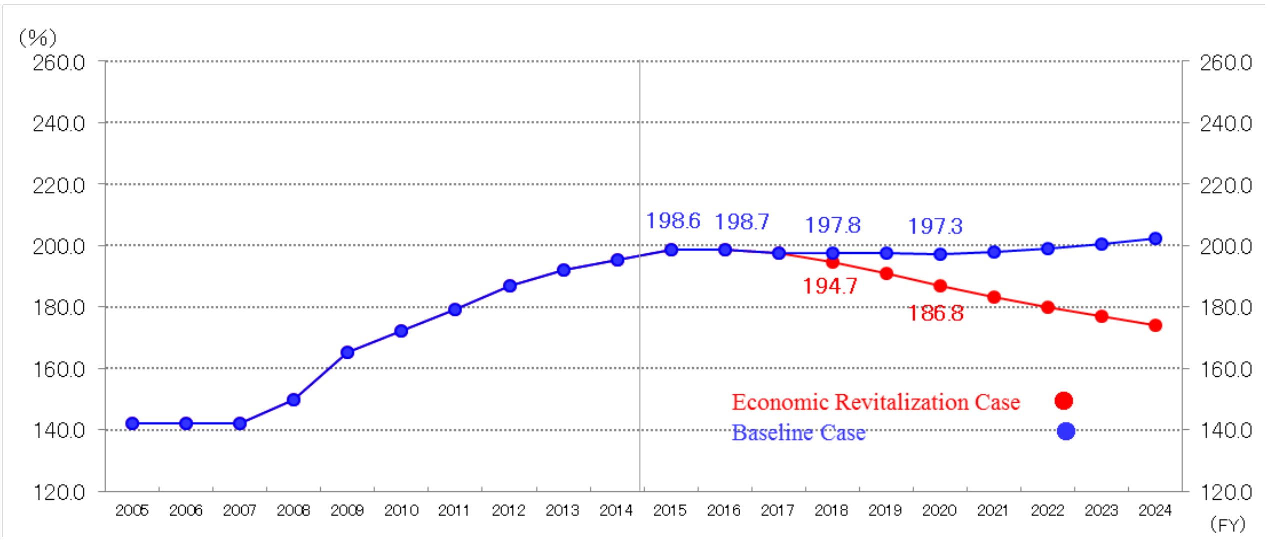
- The primary deficit of central and local governments in FY2015 (approximately 3.2% of GDP) is projected to meet the fiscal target of halving the ratio of deficit to GDP from the FY2010 rate by FY2015 (3.3% of GDP).
- In the Economic Revitalization Case, the primary deficit is projected to remain approximately 10.5 trillion yen (1.9% of GDP) in FY2018, the year to review the progress of reform measures during the Intensive Reform Period (FY2016–2018) by the benchmark of about 1% of GDP, and approximately 5.5 trillion yen (1.0% of GDP) in FY2020, the target year for achieving a primary surplus, and it is important to continue enhancing "Integrated Economic and Fiscal Reforms."

The projection incorporates the financial sources funded by deferring the introduction of the total aggregate system in social security as a part of the stable and permanent financial sources secured pursuant to the Act for Partial Revision of the Income Tax Act and Other Acts in response to the decline in tax revenue due to introducing the reduced rate for consumption tax (the same assumption as the previous projection, January 2016). As for the unincorporated remainder of the necessary amounts, the above act provides that it will be secured by taking legislative measures on revenues or expenditures, or other measures.

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

** The benchmark of approximately 1% of the primary deficit to GDP ratio in FY2018 stated in "The Plan to Advance Economic and Fiscal Revitalization," will be checked and addressed in the light of postponing the consumption tax hike to October 2019 examining the budget for FY2017 without reducing expenditures excessively.

〇Outstanding Debt* (ratio to nominal GDP)



• In the Economic Revitalization Case, the ratio of outstanding debt to GDP (excluding the reconstruction bonds) is projected to decline toward FY2024, although it should be noted that the long term interest rate is projected to be higher than the nominal GDP growth rate after FY2021, as the existing bonds issued at low interest rates will be refinanced sequentially.

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

Results of Projections (Table)

Economic Revitalization Case

【Macroeconomy】

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

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Real GDP Growth	(▲1.0)	(0.8)	(0.9)	(1.2)	(1.9)	(2.0)	(2.1)	(2.3)	(2.3)	(2.4)	(2.4)
Real GNI Growth	(▲0.4)	(2.5)	(1.4)	(1.2)	(2.1)	(2.0)	(2.1)	(2.3)	(2.4)	(2.4)	(2.5)
Nominal GDP Growth	(1.5)	(2.2)	(2.2)	(2.2)	(3.3)	(3.8)	(3.9)	(3.7)	(3.8)	(3.8)	(3.8)
Nominal GDP	489.6	500.4	511.5	523.0	540.3	560.8	582.7	604.5	627.2	651.2	676.0
Nominal GNI Per Capita Growth	(2.2)	(2.9)	(2.2)	(2.5)	(3.7)	(4.0)	(4.1)	(4.0)	(4.1)	(4.2)	(4.2)
Nominal GNI Per Capita (※Ten thousand yen)	402	413	422	433	449	467	486	506	526	549	572
Potential GDP Growth	(0.4)	(0.3)	(0.5)	(0.9)	(1.4)	(1.8)	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)
Change of Price											
Consumer Prices	(2.9)	(0.2)	(0.4)	(1.4)	(2.0)	(2.5)	(2.5)	(2.0)	(2.0)	(2.0)	(2.0)
Corporate Goods Prices	(2.8)	(▲3.2)	(▲0.4)	(1.6)	(1.1)	(2.0)	(2.0)	(1.1)	(1.1)	(1.2)	(1.1)
GDP Deflator	(2.5)	(1.4)	(1.3)	(1.0)	(1.4)	(1.7)	(1.7)	(1.4)	(1.4)	(1.4)	(1.4)
Unemployment Rate	(3.5)	(3.3)	(3.2)	(3.1)	(3.1)	(3.1)	(3.1)	(3.2)	(3.2)	(3.2)	(3.2)
Long Term Interest Rate	(0.4)	(0.3)	(0.3)	(0.8)	(1.7)	(2.7)	(3.4)	(3.8)	(4.1)	(4.2)	(4.4)
Balance by Sector											
General Government	[▲5.2]	[▲4.7]	[▲5.0]	[▲4.0]	[▲3.4]	[▲3.0]	[▲2.4]	[▲2.1]	[▲2.0]	[▲1.8]	[▲1.5]
Private	[6.8]	[8.2]	[9.1]	[8.1]	[7.7]	[7.3]	[6.9]	[6.7]	[6.6]	[6.6]	[6.4]
Overseas	[▲1.6]	[▲3.5]	[▲4.1]	[▲4.1]	[▲4.3]	[▲4.4]	[▲4.4]	[▲4.5]	[▲4.6]	[▲4.8]	[▲4.9]

【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

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Primary Balance	▲ 20.0	▲ 15.8	▲ 15.9	▲ 11.7	▲ 10.5	▲ 8.7	▲ 5.5	▲ 2.8	▲ 1.3	0.6	3.7
(ratio to nominal GDP)	[▲4.1]	[▲3.2]	[▲3.1]	[▲2.2]	[▲1.9]	[▲1.6]	[▲1.0]	[▲0.5]	[▲0.2]	[0.1]	[0.6]
Central Government	▲ 21.5	▲ 19.5	▲ 18.7	▲ 15.2	▲ 14.7	▲ 13.2	▲ 11.4	▲ 10.9	▲ 10.3	▲ 9.1	▲ 8.3
(ratio to nominal GDP)	[▲4.4]	[▲3.9]	[▲3.7]	[▲2.9]	[▲2.7]	[▲2.4]	[▲2.0]	[▲1.8]	[▲1.6]	[▲1.4]	[▲1.2]
Local Government	1.5	3.8	2.8	3.5	4.3	4.5	5.9	8.0	9.0	9.8	12.0
(ratio to nominal GDP)	[0.3]	[0.8]	[0.5]	[0.7]	[0.8]	[0.8]	[1.0]	[1.3]	[1.4]	[1.5]	[1.8]
Fiscal Balance	▲ 28.3	▲ 24.5	▲ 25.5	▲ 20.9	▲ 19.7	▲ 19.2	▲ 18.4	▲ 18.7	▲ 20.6	▲ 22.3	▲ 22.9
(ratio to nominal GDP)	[▲5.8]	[▲4.9]	[▲5.0]	[▲4.0]	[▲3.6]	[▲3.4]	[▲3.2]	[▲3.1]	[▲3.3]	[▲3.4]	[▲3.4]
Central Government	▲ 27.4	▲ 25.8	▲ 25.7	▲ 22.4	▲ 21.9	▲ 21.5	▲ 22.0	▲ 24.4	▲ 27.2	▲ 29.6	▲ 32.4
(ratio to nominal GDP)	[▲5.6]	[▲5.1]	[▲5.0]	[▲4.3]	[▲4.1]	[▲3.8]	[▲3.8]	[▲4.0]	[▲4.3]	[▲4.5]	[▲4.8]
Local Government	▲ 0.9	1.2	0.2	1.5	2.2	2.3	3.6	5.7	6.6	7.3	9.6
(ratio to nominal GDP)	[▲0.2]	[0.2]	[0.0]	[0.3]	[0.4]	[0.4]	[0.6]	[0.9]	[1.0]	[1.1]	[1.4]
Outstanding Debt	956.7	993.5	1016.3	1034.1	1051.8	1069.9	1088.3	1107.6	1129.2	1152.9	1177.6
(ratio to nominal GDP)	[195.4]	[198.6]	[198.7]	[197.7]	[194.7]	[190.8]	[186.8]	[183.2]	[180.0]	[177.0]	[174.2]

【General Account of Central Government】

Trillions of Yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Expenditures	98.8	98.2	96.7	97.6	100.5	104.8	111.1	117.0	123.3	129.2	135.7
General Account Expenditure Excluding Debt Repayment and Interest Payment	76.6	75.8	73.9	74.0	75.9	77.8	80.6	82.7	84.8	86.5	88.7
Social Security related Expenditures	30.2	31.4	32.0	32.6	33.4	34.6	36.1	37.0	38.0	38.9	39.9
Local Allocation Tax Grants, etc.	17.1	16.8	15.3	15.5	16.0	16.6	17.4	18.0	18.6	18.9	19.5
Others	29.4	27.6	26.6	25.9	26.4	26.6	27.2	27.7	28.2	28.7	29.3
Debt Repayment and Interest Payment	22.2	22.5	22.8	23.6	24.6	27.1	30.4	34.3	38.5	42.7	47.0
Revenues	62.6	63.6	62.3	63.7	65.9	69.4	74.0	76.7	79.5	82.6	85.7
Tax Revenue	54.0	56.3	57.6	58.9	61.0	64.5	69.0	71.5	74.2	77.1	80.1
Other Revenues	8.6	7.3	4.7	4.8	4.9	5.0	5.1	5.2	5.3	5.5	5.6
Difference between Expenditures and Revenues	38.5	34.9	34.4	34.0	34.6	35.4	37.0	40.2	43.7	46.7	50.0
Primary Balance in the General Account of Central Government	▲ 14.0	▲ 12.1	▲ 11.6	▲ 10.3	▲ 10.0	▲ 8.3	▲ 6.6	▲ 6.0	▲ 5.3	▲ 4.0	▲ 3.0

【Ordinary Account of Local Government】

Trillions of Yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Expenditures	94.5	96.0	95.2	95.4	96.7	98.7	100.9	102.6	104.3	106.1	107.7
Debt Repayment and Interest Payment	13.3	13.0	12.8	12.2	11.7	11.6	11.6	11.6	11.3	11.2	10.7
Revenues	80.5	83.8	83.1	84.2	86.8	89.1	92.7	96.7	99.5	102.3	106.6
Tax Revenue	39.7	41.7	41.9	43.3	44.7	46.0	48.4	51.1	52.7	54.4	57.2
Difference between Expenditures and Revenues	14.0	12.2	12.1	11.1	9.9	9.6	8.2	6.0	4.7	3.8	1.1
Primary Balance in the Ordinary Account of Local Government	2.3	3.7	3.6	3.9	4.7	4.9	6.3	8.5	9.4	10.2	12.4

Notes
1. In "General Account of Central Government," up to FY2015 is based on the Settlement, and FY2016 is based on the FY2016 Supplementary Budget. In "Ordinary Account of Local Government," FY2014 is based on the Settlement.
2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry back of settlement deficit compensation.
3. In "General Account of Central Government," "Other Revenues" consists of non-tax revenues and preceding fiscal year surplus received (excluding the balance carried forward fiscal resources to the next year (FY2014: 3.6 trillion yen, FY2015: 3.6 trillion yen)).
4. In "General Account of Central Government," "Difference between Expenditures and Revenues" up to FY2016 means public bonds revenue.
5. In "Ordinary Account of Local Government," "Revenues" excludes local bonds, reduction of reserve, and the balance carried forward fiscal resources from total revenues. "Tax Revenue" is the total sum of local taxes and local transfer taxes.

Baseline Case

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

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Real GDP Growth	(▲1.0)	(0.8)	(0.9)	(1.2)	(1.2)	(1.0)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Real GNI Growth	(▲0.4)	(2.5)	(1.4)	(1.2)	(1.2)	(0.9)	(0.7)	(0.7)	(0.6)	(0.6)	(0.7)
Nominal GDP Growth	(1.5)	(2.2)	(2.2)	(2.2)	(1.7)	(1.9)	(1.7)	(1.4)	(1.3)	(1.3)	(1.3)
Nominal GDP	489.6	500.4	511.5	523.0	531.9	541.8	551.0	558.5	565.9	573.5	581.1
Nominal GNI Per Capita Growth	(2.2)	(2.9)	(2.2)	(2.5)	(2.2)	(2.4)	(2.2)	(1.8)	(1.8)	(1.8)	(1.9)
Nominal GNI Per Capita (※Ten thousand ye	402	413	422	433	443	453	463	472	480	489	498
Potential GDP Growth	(0.4)	(0.3)	(0.5)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
Change of Price											
Consumer Prices	(2.9)	(0.2)	(0.4)	(1.4)	(1.2)	(1.7)	(1.7)	(1.2)	(1.2)	(1.2)	(1.2)
Corporate Goods Prices	(2.8)	(▲3.2)	(▲0.4)	(1.6)	(0.4)	(1.3)	(1.3)	(0.5)	(0.5)	(0.5)	(0.5)
GDP Deflator	(2.5)	(1.4)	(1.3)	(1.0)	(0.5)	(0.8)	(0.8)	(0.5)	(0.5)	(0.5)	(0.5)
Unemployment Rate	(3.5)	(3.3)	(3.2)	(3.1)	(3.1)	(3.1)	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)
Long term Interest Rate	(0.4)	(0.3)	(0.3)	(0.8)	(1.1)	(1.2)	(1.5)	(1.6)	(1.7)	(1.8)	(1.9)
Balance by Sector											
General Government	[▲5.2]	[▲4.7]	[▲5.0]	[▲4.0]	[▲3.5]	[▲3.3]	[▲3.0]	[▲3.0]	[▲3.2]	[▲3.4]	[▲3.6]
Private	[6.8]	[8.2]	[9.1]	[8.1]	[7.6]	[7.4]	[6.9]	[6.8]	[6.8]	[6.8]	[6.9]
Overseas	[▲1.6]	[▲3.5]	[▲4.1]	[▲4.1]	[▲4.1]	[▲4.1]	[▲3.9]	[▲3.8]	[▲3.6]	[▲3.4]	[▲3.3]

【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

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Primary Balance	▲ 20.0	▲ 15.8	▲ 15.9	▲ 11.7	▲ 11.0	▲ 10.6	▲ 9.2	▲ 9.1	▲ 10.0	▲ 10.7	▲ 11.1
(ratio to nominal GDP)	[▲4.1]	[▲3.2]	[▲3.1]	[▲2.2]	[▲2.1]	[▲2.0]	[▲1.7]	[▲1.6]	[▲1.8]	[▲1.9]	[▲1.9]
Central Government	▲ 21.5	▲ 19.5	▲ 18.7	▲ 15.2	▲ 14.8	▲ 13.8	▲ 12.9	▲ 13.3	▲ 13.7	▲ 13.7	▲ 13.9
(ratio to nominal GDP)	[▲4.4]	[▲3.9]	[▲3.7]	[▲2.9]	[▲2.8]	[▲2.6]	[▲2.3]	[▲2.4]	[▲2.4]	[▲2.4]	[▲2.4]
Local Government	1.5	3.8	2.8	3.5	3.8	3.3	3.7	4.1	3.7	3.0	2.7
(ratio to nominal GDP)	[0.3]	[0.8]	[0.5]	[0.7]	[0.7]	[0.6]	[0.7]	[0.7]	[0.7]	[0.5]	[0.5]
Fiscal Balance	▲ 28.3	▲ 24.5	▲ 25.5	▲ 20.9	▲ 19.4	▲ 19.3	▲ 18.6	▲ 19.6	▲ 21.8	▲ 24.1	▲ 26.2
(ratio to nominal GDP)	[▲5.8]	[▲4.9]	[▲5.0]	[▲4.0]	[▲3.7]	[▲3.6]	[▲3.4]	[▲3.5]	[▲3.9]	[▲4.2]	[▲4.5]
Central Government	▲ 27.4	▲ 25.8	▲ 25.7	▲ 22.4	▲ 21.4	▲ 20.7	▲ 20.5	▲ 21.9	▲ 23.6	▲ 25.1	▲ 26.9
(ratio to nominal GDP)	[▲5.6]	[▲5.1]	[▲5.0]	[▲4.3]	[▲4.0]	[▲3.8]	[▲3.7]	[▲3.9]	[▲4.2]	[▲4.4]	[▲4.6]
Local Government	▲ 0.9	1.2	0.2	1.5	1.9	1.4	1.9	2.3	1.8	1.0	0.7
(ratio to nominal GDP)	[▲0.2]	[0.2]	[0.0]	[0.3]	[0.4]	[0.3]	[0.3]	[0.4]	[0.3]	[0.2]	[0.1]
Outstanding Debt	956.7	993.5	1016.3	1034.1	1051.9	1069.8	1087.3	1106.0	1127.0	1150.2	1175.5
(ratio to nominal GDP)	[195.4]	[198.6]	[198.7]	[197.7]	[197.8]	[197.4]	[197.3]	[198.0]	[199.1]	[200.6]	[202.3]

【General Account of Central Government】 Trillions of Yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Expenditures	98.8	98.2	96.7	97.6	99.6	102.0	105.4	108.2	111.3	114.0	117.3
General Account Expenditure Excluding Debt Repayment and Interest Payment	76.6	75.8	73.9	74.0	75.3	76.5	78.5	79.7	81.0	81.7	82.9
Social Security related Expenditures	30.2	31.4	32.0	32.6	33.3	34.3	35.6	36.3	37.0	37.7	38.5
Local Allocation Tax Grants, etc.	17.1	16.8	15.3	15.5	15.8	16.0	16.4	16.6	16.8	16.5	16.6
Others	29.4	27.6	26.6	25.9	26.2	26.2	26.6	26.9	27.2	27.5	27.8
Debt Repayment and Interest Payment	22.2	22.5	22.8	23.6	24.3	25.5	26.9	28.5	30.3	32.3	34.4
Revenues	62.6	63.6	62.3	63.7	64.8	67.0	69.9	70.8	71.7	72.6	73.5
Tax Revenue	54.0	56.3	57.6	58.9	60.0	62.1	65.0	65.9	66.7	67.6	68.5
Other Revenues	8.6	7.3	4.7	4.8	4.8	4.9	4.9	4.9	5.0	5.0	5.1
Difference between Expenditures and Revenues	38.5	34.9	34.4	34.0	34.8	35.0	35.4	37.4	39.6	41.4	43.7
Primary Balance in the General Account of Central Government	▲ 14.0	▲ 12.1	▲ 11.6	▲ 10.3	▲ 10.5	▲ 9.5	▲ 8.6	▲ 8.9	▲ 9.2	▲ 9.1	▲ 9.3

【Ordinary Account of Local Government】 Trillions of Yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Expenditures	94.5	96.0	95.2	95.4	96.1	97.4	99.0	100.0	101.0	102.3	103.4
Debt Repayment and Interest Payment	13.3	13.0	12.8	12.2	11.7	11.6	11.5	11.3	11.1	11.0	10.8
Revenues	80.5	83.8	83.1	84.2	85.9	86.8	88.9	90.4	91.4	91.9	93.2
Tax Revenue	39.7	41.7	41.9	43.3	44.3	44.8	46.2	47.4	47.9	48.4	49.2
Difference between Expenditures and Revenues	14.0	12.2	12.1	11.1	10.1	10.6	10.1	9.6	9.7	10.4	10.2
Primary Balance in the Ordinary Account of Local Government	2.3	3.7	3.6	3.9	4.4	3.8	4.3	4.7	4.3	3.5	3.4

Notes
1. In "General Account of Central Government," up to FY2015 is based on the Settlement, and FY2016 is based on the FY2016 Supplementary Budget. In "Ordinary Account of Local Government," FY2014 is based on the Settlement.
2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry back of settlement deficit compensation.
3. In "General Account of Central Government," "Other Revenues" consists of non-tax revenues and preceding fiscal year surplus received (excluding the balance carried forward fiscal resources to the next year (FY2014: 3.6 trillion yen, FY2015: 3.6 trillion yen)).
4. In "General Account of Central Government," "Difference between Expenditures and Revenues" up to FY2016 means public bonds revenue.
5. In "Ordinary Account of Local Government," "Revenues" excludes local bonds, reduction of reserve, and the balance carried forward fiscal resources from total revenues. "Tax Revenue" is the total sum of local taxes and local transfer taxes.

【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

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Primary Balance	▲ 20.0	▲ 15.3	▲ 17.0	▲ 12.7	▲ 10.9	▲ 9.2	▲ 5.8	▲ 2.7	▲ 0.8	1.0	4.1
(ratio to nominal GDP)	[▲4.1]	[▲3.1]	[▲3.3]	[▲2.4]	[▲2.0]	[▲1.6]	[▲1.0]	[▲0.4]	[▲0.1]	[0.2]	[0.6]
Central Government	▲ 21.2	▲ 18.9	▲ 19.7	▲ 16.2	▲ 15.3	▲ 13.8	▲ 11.7	▲ 10.8	▲ 9.9	▲ 8.8	▲ 7.9
(ratio to nominal GDP)	[▲4.3]	[▲3.8]	[▲3.9]	[▲3.1]	[▲2.8]	[▲2.5]	[▲2.0]	[▲1.8]	[▲1.6]	[▲1.3]	[▲1.2]
Local Government	1.2	3.6	2.7	3.5	4.4	4.6	6.0	8.1	9.1	9.8	12.0
(ratio to nominal GDP)	[0.3]	[0.7]	[0.5]	[0.7]	[0.8]	[0.8]	[1.0]	[1.3]	[1.4]	[1.5]	[1.8]
Fiscal Balance	▲ 28.2	▲ 24.1	▲ 26.6	▲ 21.9	▲ 20.2	▲ 19.8	▲ 18.7	▲ 18.8	▲ 20.4	▲ 22.2	▲ 22.8
(ratio to nominal GDP)	[▲5.8]	[▲4.8]	[▲5.2]	[▲4.2]	[▲3.7]	[▲3.5]	[▲3.2]	[▲3.1]	[▲3.3]	[▲3.4]	[▲3.4]
Central Government	▲ 27.2	▲ 25.2	▲ 26.7	▲ 23.4	▲ 22.5	▲ 22.2	▲ 22.4	▲ 24.5	▲ 27.0	▲ 29.5	▲ 32.4
(ratio to nominal GDP)	[▲5.5]	[▲5.0]	[▲5.2]	[▲4.5]	[▲4.2]	[▲4.0]	[▲3.8]	[▲4.1]	[▲4.3]	[▲4.5]	[▲4.8]
Local Government	▲ 1.1	1.0	0.1	1.5	2.3	2.4	3.7	5.8	6.7	7.4	9.6
(ratio to nominal GDP)	[▲0.2]	[0.2]	[0.0]	[0.3]	[0.4]	[0.4]	[0.6]	[1.0]	[1.1]	[1.1]	[1.4]
Outstanding Debt	966.0	1002.3	1024.9	1042.4	1060.2	1078.5	1096.7	1115.7	1136.9	1160.4	1185.1
(ratio to nominal GDP)	[197.3]	[200.3]	[200.3]	[199.3]	[196.2]	[192.3]	[188.2]	[184.6]	[181.2]	[178.2]	[175.3]

Baseline Case

[ratio to GDP, %], Trillions of Yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
Primary Balance	▲ 20.0	▲ 15.3	▲ 17.0	▲ 12.7	▲ 11.4	▲ 11.1	▲ 9.4	▲ 9.0	▲ 9.6	▲ 10.3	▲ 10.8
(ratio to nominal GDP)	[▲4.1]	[▲3.1]	[▲3.3]	[▲2.4]	[▲2.1]	[▲2.0]	[▲1.7]	[▲1.6]	[▲1.7]	[▲1.8]	[▲1.9]
Central Government	▲ 21.2	▲ 18.9	▲ 19.7	▲ 16.2	▲ 15.3	▲ 14.4	▲ 13.2	▲ 13.2	▲ 13.4	▲ 13.3	▲ 13.5
(ratio to nominal GDP)	[▲4.3]	[▲3.8]	[▲3.9]	[▲3.1]	[▲2.9]	[▲2.7]	[▲2.4]	[▲2.4]	[▲2.4]	[▲2.3]	[▲2.3]
Local Government	1.2	3.6	2.7	3.5	3.9	3.4	3.8	4.2	3.8	3.0	2.8
(ratio to nominal GDP)	[0.3]	[0.7]	[0.5]	[0.7]	[0.7]	[0.6]	[0.7]	[0.8]	[0.7]	[0.5]	[0.5]
Fiscal Balance	▲ 28.2	▲ 24.1	▲ 26.6	▲ 21.9	▲ 19.9	▲ 19.8	▲ 18.9	▲ 19.6	▲ 21.5	▲ 23.8	▲ 25.9
(ratio to nominal GDP)	[▲5.8]	[▲4.8]	[▲5.2]	[▲4.2]	[▲3.7]	[▲3.7]	[▲3.4]	[▲3.5]	[▲3.8]	[▲4.1]	[▲4.5]
Central Government	▲ 27.2	▲ 25.2	▲ 26.7	▲ 23.4	▲ 21.9	▲ 21.4	▲ 20.9	▲ 21.9	▲ 23.4	▲ 24.8	▲ 26.6
(ratio to nominal GDP)	[▲5.5]	[▲5.0]	[▲5.2]	[▲4.5]	[▲4.1]	[▲3.9]	[▲3.8]	[▲3.9]	[▲4.1]	[▲4.3]	[▲4.6]
Local Government	▲ 1.1	1.0	0.1	1.5	2.0	1.5	2.0	2.3	1.9	1.0	0.7
(ratio to nominal GDP)	[▲0.2]	[0.2]	[0.0]	[0.3]	[0.4]	[0.3]	[0.4]	[0.4]	[0.3]	[0.2]	[0.1]
Outstanding Debt	966.0	1002.3	1024.9	1042.4	1060.2	1078.3	1095.7	1113.9	1134.3	1157.2	1182.2
(ratio to nominal GDP)	[197.3]	[200.3]	[200.3]	[199.3]	[199.3]	[199.0]	[198.8]	[199.4]	[200.4]	[201.8]	[203.4]

(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 the 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." The PB in the "Ordinary Account of Local Government" equals the "Revenues" minus "Expenditure" excluding "Debt Repayment and Interest Payment" and "Reserves."

4. The figures for "Balance by Sector" for general government, "Fiscal Balance" and "Primary Balance" of central and local governments 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 other tranfers, 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 amount of "the expenditures and the fiscal resources for the recovery and reconstruction measures" is the amount of the expenditures for recovery and reconstruction from the Great East Japan Earthquake that exceeds the transfer from the general account, which is compensated by the reduction of other existing expenditures, and is securely financed by such fiscal resources 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 the FY2010 rate by FY2015 is 3.3%, which is calculated on the basis of the ratio of deficit in FY2010, which is 6.6%.

Appendix: Key Assumptions

The GDP growth rate and inflation rate upto FY2014 are from the Annual Report on National Accounts for FY2014 and other sources, those for FY2015 are from the Quarterly Estimates of GDP January-March 2016, and those for FY2016 and FY2017 are from the Cabinet Office's Mid-Year Economic Projection for FY2015 (July 13, 2016) and other sources.

(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 0.4% in FY2015) until FY2016, and then it rises to around 2.2% (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" (December 1, 2015), the LFP rate of each gender and age group gradually rises, chiefly among females and the elderly (for example, the LFP rate among females aged 30-34 gradually rises from around 72% in FY2015 to 80% in FY2024, the LFP rate among males aged 65-69 gradually rises from around 54% in FY2015 to 63% in FY2024, and the LFP rate among females aged 65-69 gradually rises from around 32% in FY2015 to 36% in FY2024).

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 3.5% to 3.6% annually from FY2018 to FY2021, based on the World Economic Outlook (WEO) by the IMF (April 2016). From FY2022 onward, the growth rate remains constant, at around 3.6%.

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

The inflation rate moves at around 1.6% to 2.0% annually from FY2018 to FY2021, based on the WEO (April 2016). From FY2022 onward, the inflation rate remains constant, at around 2.0%.

<Crude Oil Prices>

From FY2018 onward, the price moves based on the rate of the World Energy Outlook by the IEA (November 2015), at around 3.8%.

<Nominal Exchange Rate>

From FY2018 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).

Baseline 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 0.4% in FY2015) until FY2016, and then it rises to around 1.0% 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 around 2.6% to 2.7% annually, about 0.9 percentage points* lower than the rate based on the WEO (April 2016) from FY2018 to FY2021 (from around 3.5% to 3.6% annually). From FY2022 onward, the world economy growth rate remains constant, at around 2.7%.
* Difference between the baseline projection and the lower bound of the 50% confidence interval in the WEO (April 2016).

(2) <u>Tax System</u>
* Tax revenues of the general account of central government in FY2014 are based on the FY2014 Settlement, in FY2015 are based on the FY2015 Settlement highlight, and in FY2016 are based on the FY2016 Supplementary Budget (May 17, 2016).

* Based on the Act for Partial Revision of the Income Tax Act and Others (date of promulgation: March 31, 2016; date of enforcement: April 1, 2016), and other sources, and 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 a per capita basis.

* It is assumed that the consumption tax rate hike to 10% (central and local combined) will be postponed to October 2019 along with the introduction of the reduced rate for consumption tax. The projection incorporates the financial sources funded by deferring the introduction of the total aggregate system in social security as a part of the stable and permanent financial sources secured pursuant to the Act for Partial Revision of the Income Tax Act and Other Acts in response to the decline in tax revenue due to introducing the reduced rate for consumption tax. As for the unincorporated remainder of the necessary amounts, the above act provides that it will be secured by taking legislative measures on revenues or expenditures, or other measures.
The distribution of the increase in consumption tax revenue from 5% to 10% (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 FY 2021 due to the gap between the time of the hikes (October 2019) 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 of the general account of central government in FY2014 are based on the FY2014 Settlement, in FY2015 are based on the FY2015 Settlement highlight, and in FY2016 are based on the FY2016 Supplementary Budget (May 17, 2016).

* Expenditures in FY 2017 are calculated by taking changes in wages, prices, expenditure reform and other factors into consideration, with an assumption that the rate of increase of the expenditure excluding the increase due to population aging and other factors will consequently be half as high as the wage growth and inflation rates.
  In “Basic Policy on Economic and Fiscal Management and Reform 2015” (Cabinet Decision July 30, 2015), regarding general expenditures of the central government, the government is making efforts for expenditure reform in line with the past achievements of the Abe Cabinet, without presupposing an increase except in social security expenditure due to population aging, while taking into account a decline in total population and changes in wages and prices. The reflection of the Basic Policy in the Draft Budget of FY2017 will be embodied in the process of the budget formulation for FY2017.

* From FY2018 onward, it is assumed that social security expenditure will increase due to the aging of the population and that general expenditures other than social security expenditure will continue to increase at about the same rate as the inflation rate (constant in real terms).

* 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 other factors, under the consideration on enhancement of stabilization of social security and fiscal consolidation in each fiscal year.

* The series of “Social Security Related Expenditures” is endogenously obtained within the Economic and Fiscal Model based on future demographics and macroeconomic dynamics, and considerable leeway should be given when interpreting the projection since the series is significantly affected by policy and other external factors.

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

* From FY2017 onward, an expenditure pattern is assumed based on “Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016” (Reconstruction Promotion Conference Decision, June 24, 2015), “Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction including the Five-Year Period Starting in FY2016” (Cabinet Decision, June 30, 2015) and other sources, such as the implementation so far.

* In the projections, it is assumed that 32 trillion yen is secured by the special tax for reconstruction, a reduction of expenditures, non-tax revenues and other factors based on the “Basic Guidelines for the Third Supplementary Budget in FY2011 and the Fiscal

Resources for Reconstruction" (Cabinet decision on October 7, 2011), "Scale and Funding Sources for Recovery and Reconstruction Work from Now On" (Reconstruction Promotion Conference Decision, January 29, 2013), "Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016" (Reconstruction Promotion Conference Decision, June 24, 2015), "Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction including the Five-Year Period Starting in FY2016" (Cabinet Decision, June 30, 2015), and other sources.