Executive Summary: Economic and Fiscal Projections for Medium to long term analysis (January 2018)

Cabinet Office, Japan

1. Scenarios of Economic Situations and Medium to Long Term Economic Projections
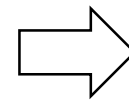
The scenarios of economic situations are revised based on the discussion at the "Council on Economic and Fiscal Policy" in the last year; "for Economic Revitalization case, the scenario should be a practical one, taking the past situations into consideration", and "for Baseline case, the economic growth should reflect the current trend."

① Economic Growth Achieved Case

【Outline for Scenario】

Economic Revitalization case (July 2017)
Japanese economy will return to the performance before deflation at the beginning of 2020s.

※Assumption for TFP growth rate
  TFP growth rate rises from the current level(0.6%) to around 2.2%, the historical average before the Japanese economy entered deflation

⟹

Economic Growth Achieved Case (January 2018)
The policies of Abenomics for overcoming deflation and attaining economic revitalization show solid results at a more feasible pace

※Assumption for TFP growth rate
  TFP growth rate rises from the current level(0.7%) to around 1.5%, based on the extent and pace the Japanese economy had actually experienced before it entered deflation
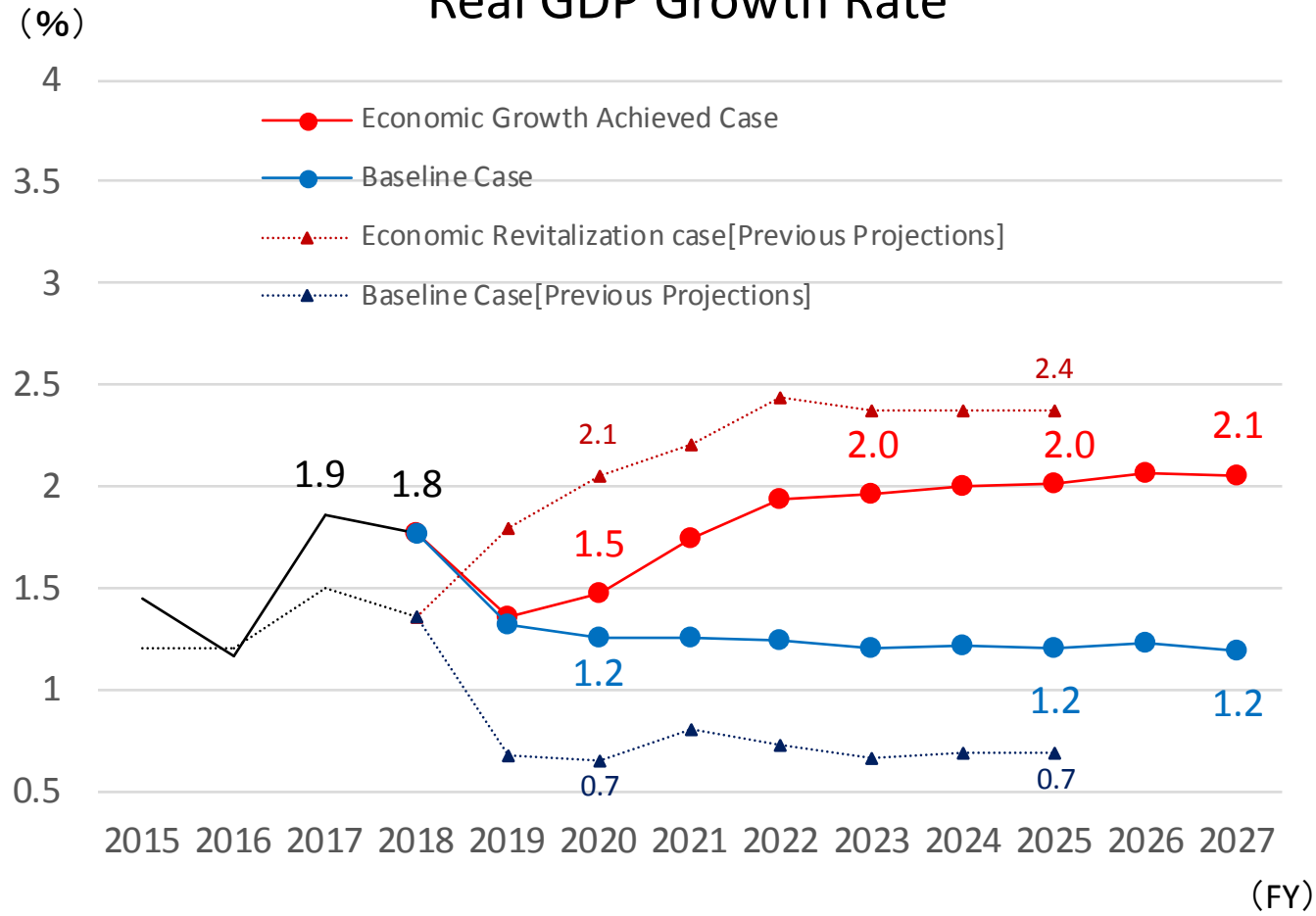
【Medium to Long term Economic Projections】

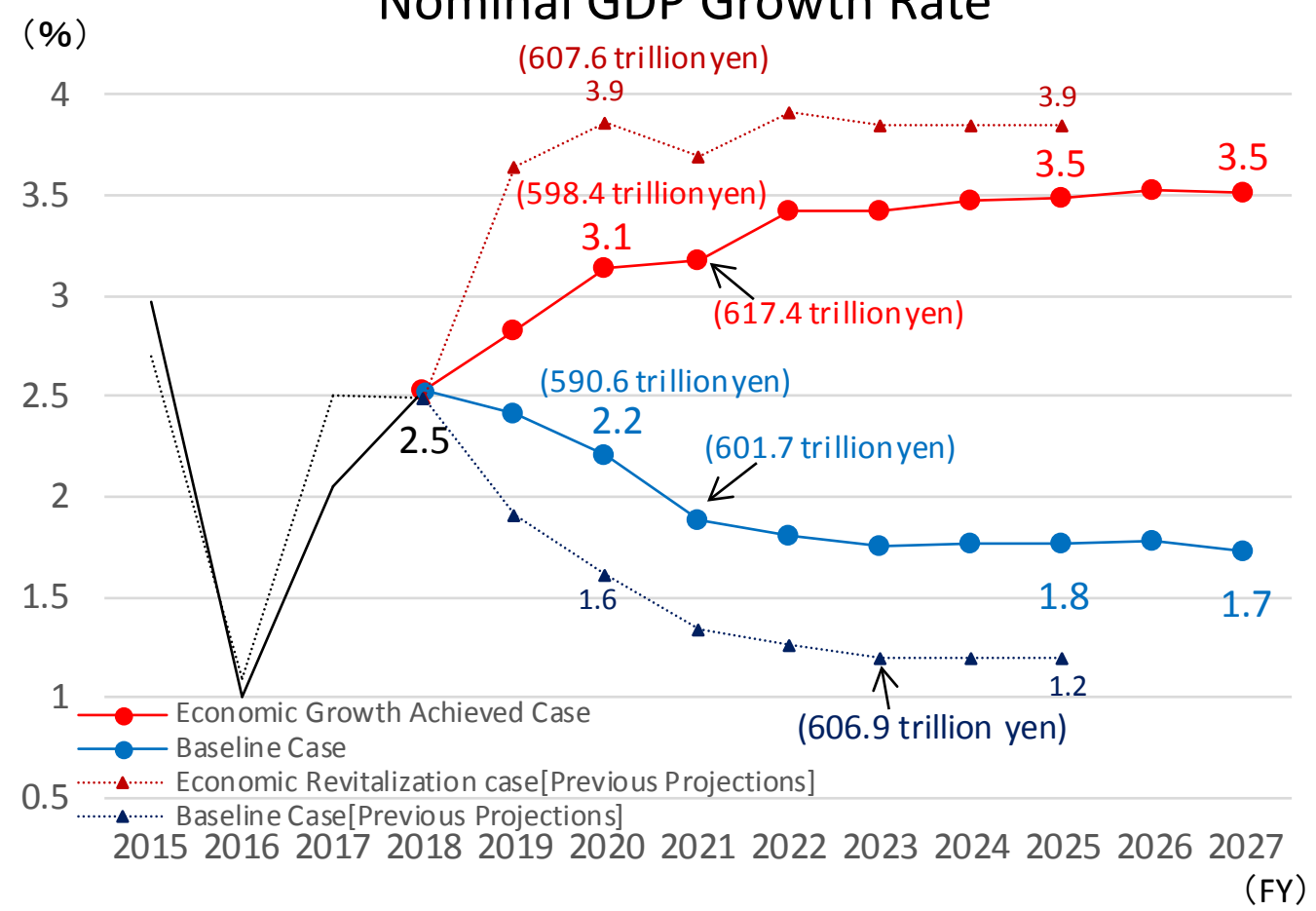|	Economic Revitalization Case	Economic Growth Achieved Case
Real GDP Growth	✓ Over 2% at FY2020 ✓ Achieve 2.4% at the beginning of 2020s	✓ 1.5% at FY2020 ✓ Achieve 2% at the early 2020s
The year when the Nominal GDP reaches 600 trillion yen	FY2020	FY2021
CPI (Rate of Change)	Achieve 2% at FY2020	Achieve 2% at FY2021

② Baseline Case

The economy will grow approximately at the current potential growth rate. The medium to long term growth rate is projected to be low 1% in real terms and high 1% in nominal terms.
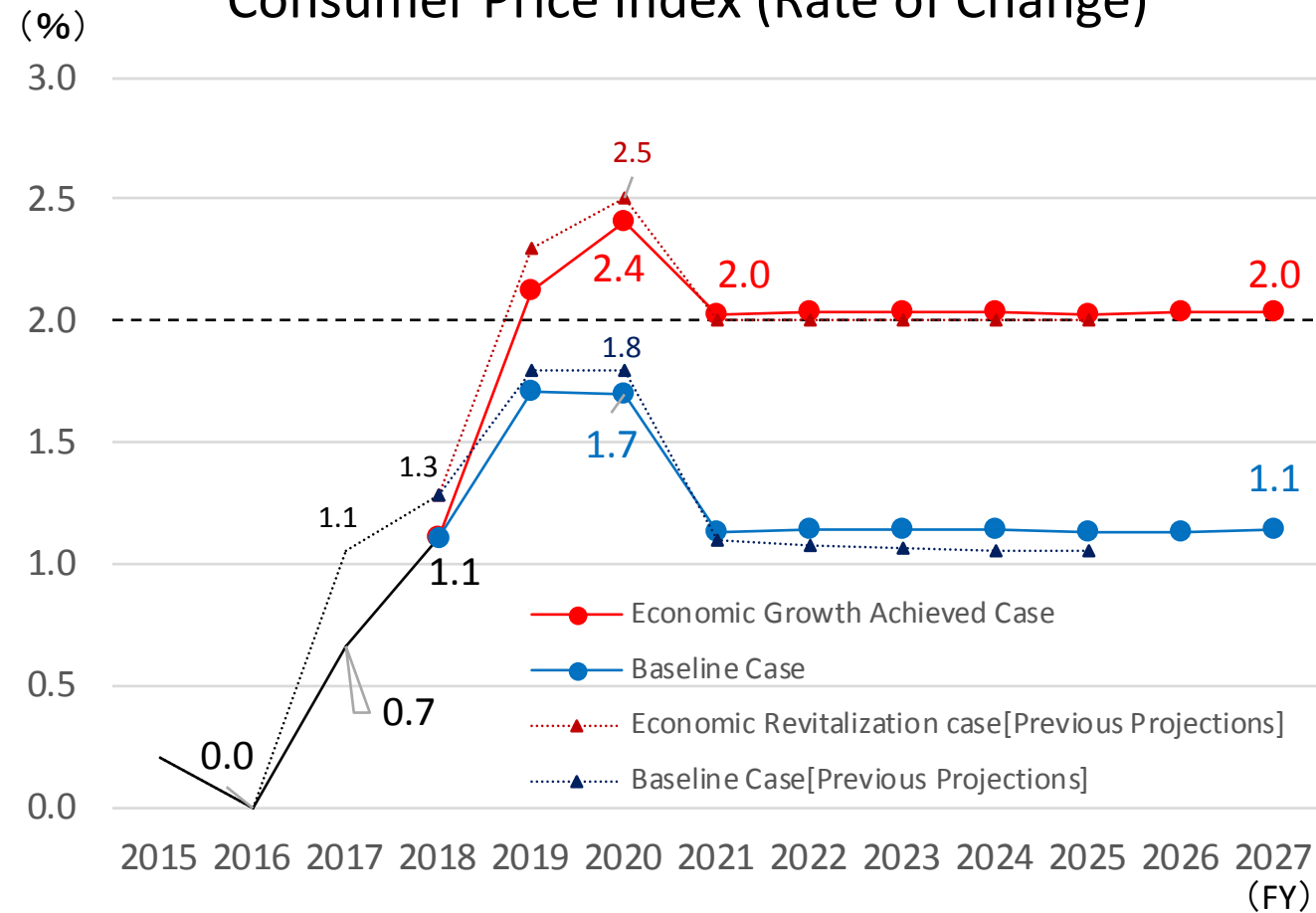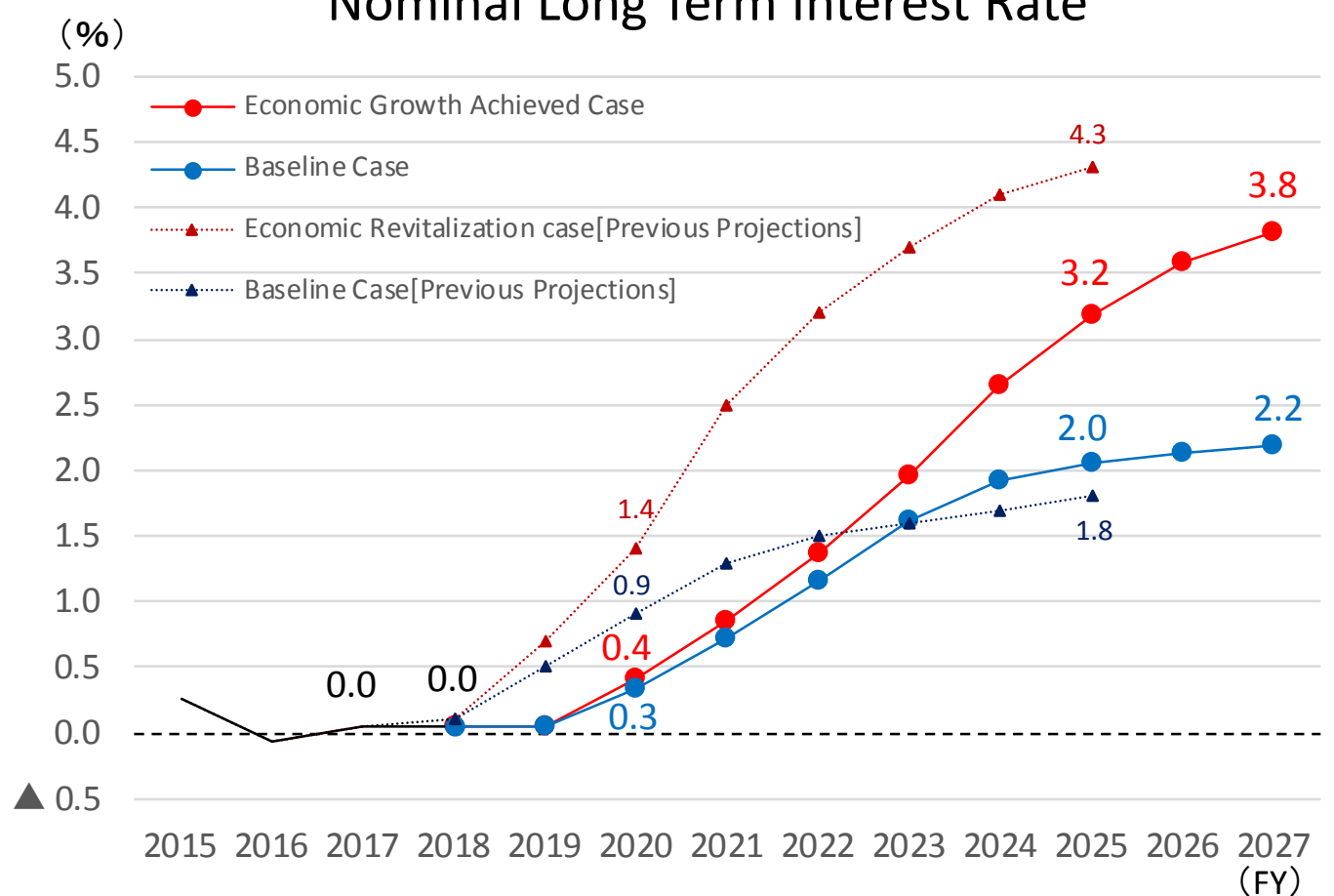
Real GDP Growth Rate

(%)

- ● Economic Growth Achieved Case
- ● Baseline Case
- ▲ Economic Revitalization case[Previous Projections]
- ▲ Baseline Case[Previous Projections]

1.9 1.8

2.1 2.4

1.5 2.0 2.0 2.1

1.2 1.2 1.2

0.7 0.7

2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027
（FY）

Nominal GDP Growth Rate

(%)

(607.6 trillion yen)
3.9   3.9

(598.4 trillion yen)
3.9

3.1 3.5 3.5

(617.4 trillion yen)

(590.6 trillion yen)

2.5

2.2

(601.7 trillion yen)

1.6

1.8 1.7

1.2

(606.9 trillion yen)

- ● Economic Growth Achieved Case
- ● Baseline Case
- ▲ Economic Revitalization case[Previous Projections]
- ▲ Baseline Case[Previous Projections]

2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027
（FY）

Consumer Price Index (Rate of Change)

(%)

2.5

2.4 2.0 2.0

2.1

1.3 1.8 1.7

1.1 1.1 1.1 1.1

0.7

0.0

- ● Economic Growth Achieved Case
- ● Baseline Case
- ▲ Economic Revitalization case[Previous Projections]
- ▲ Baseline Case[Previous Projections]

2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027
（FY）

Nominal Long Term Interest Rate

(%)

- ● Economic Growth Achieved Case
- ● Baseline Case
- ▲ Economic Revitalization case[Previous Projections]
- ▲ Baseline Case[Previous Projections]

4.3

3.2 3.8

2.0 2.2

1.4

0.9 1.8

0.4

0.0 0.0 0.3

▲ 0.5

2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027
（FY）

## 2. Fiscal Assumptions and Medium to Long Term Central and Local Governments' Public Finances

・ Expenditures after FY2019 have the following assumptions; Social security expenditures are assumed to increase reflecting population aging, wage growth, inflation rate and others, and other general expenditures to continue to increase at about the same rate as the inflation rate. So the effect of expenditure reform is not included (so called "natural future path for expenditure"). The expenditure for "New Economic Policy Package" by using the revenue from consumption tax hike in 2019 is also included.

・ In the Economic Growth Achieved Case, primary balance (ratio to nominal GDP) is projected to be -1.8% (10.8 tri yen) in 2020, and achieve primary surplus in 2027, two years behind the last projection (2017 Jul).

・ In the Economic Growth Achieved Case, fiscal balance is projected to improve by improvement of the primary balance and low nominal interest rate, although the pace will slow down as the nominal interest rate rises.

・ The ratio of outstanding debt to GDP is projected to decline afterward in the Economic Growth Achieved Case*. On the contrary, in the Baseline Case, it is projected to decline at a slower pace over the period towards mid-2020s and then turn to increase after 2027.

Primary Balance(ratio to nominal GDP)　Fiscal Balance(ratio to nominal GDP)　The Ratio of Outstanding debt to GDP
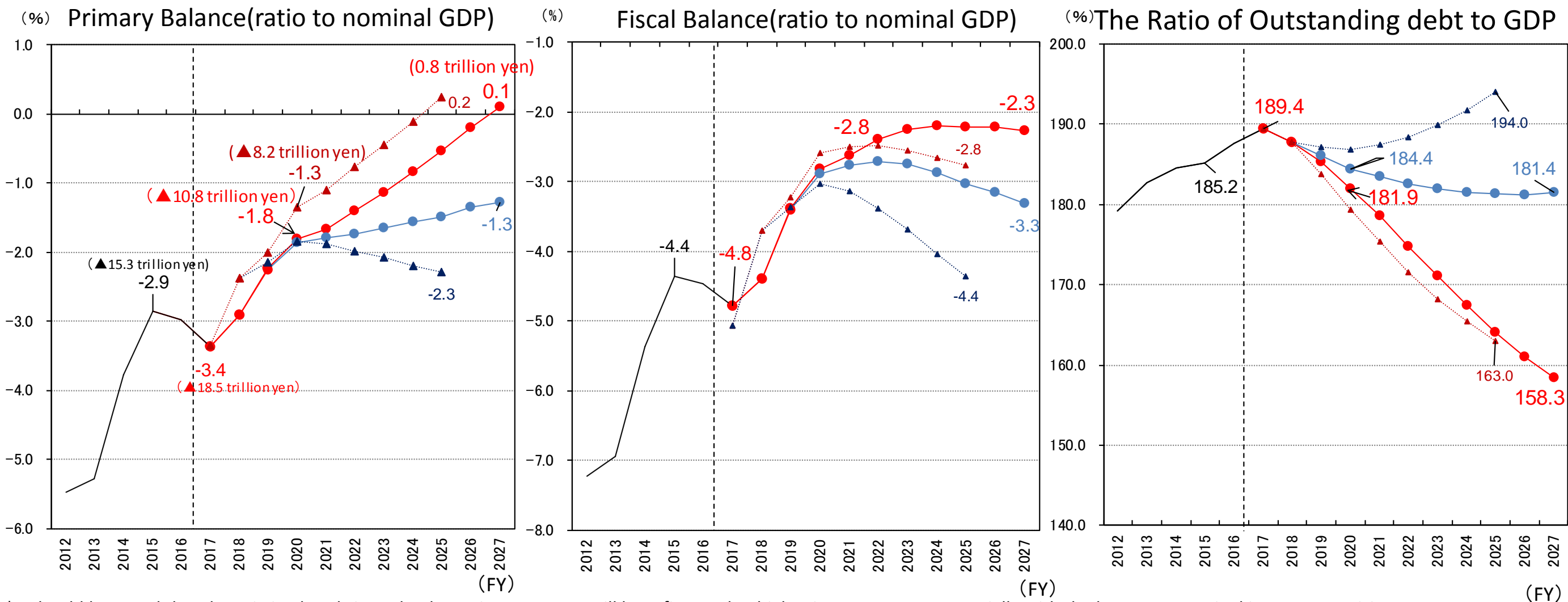
*It should be noted that the existing bonds issued at lower interest rates will be refinanced at higher interest rates sequentially with the long term nominal interest rate rising.

—●— Economic Growth Achieved Case　　—●— Baseline Case　　⋯▲⋯ Economic Revitalization case[Previous Projection]　　⋯▲⋯ Baseline Case[Previous Projection]