

# Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (July 2018)

Cabinet Office

# Economic and Fiscal Projections for Medium to Long Term Analysis (July 2018)

This projection reflects the latest data on economic and fiscal conditions after the previous projection, and is intended to check the progress for the fiscal consolidation targets, based on “the New Plan to Advance Economic and Fiscal Revitalization.”

## 【Economic and fiscal conditions】

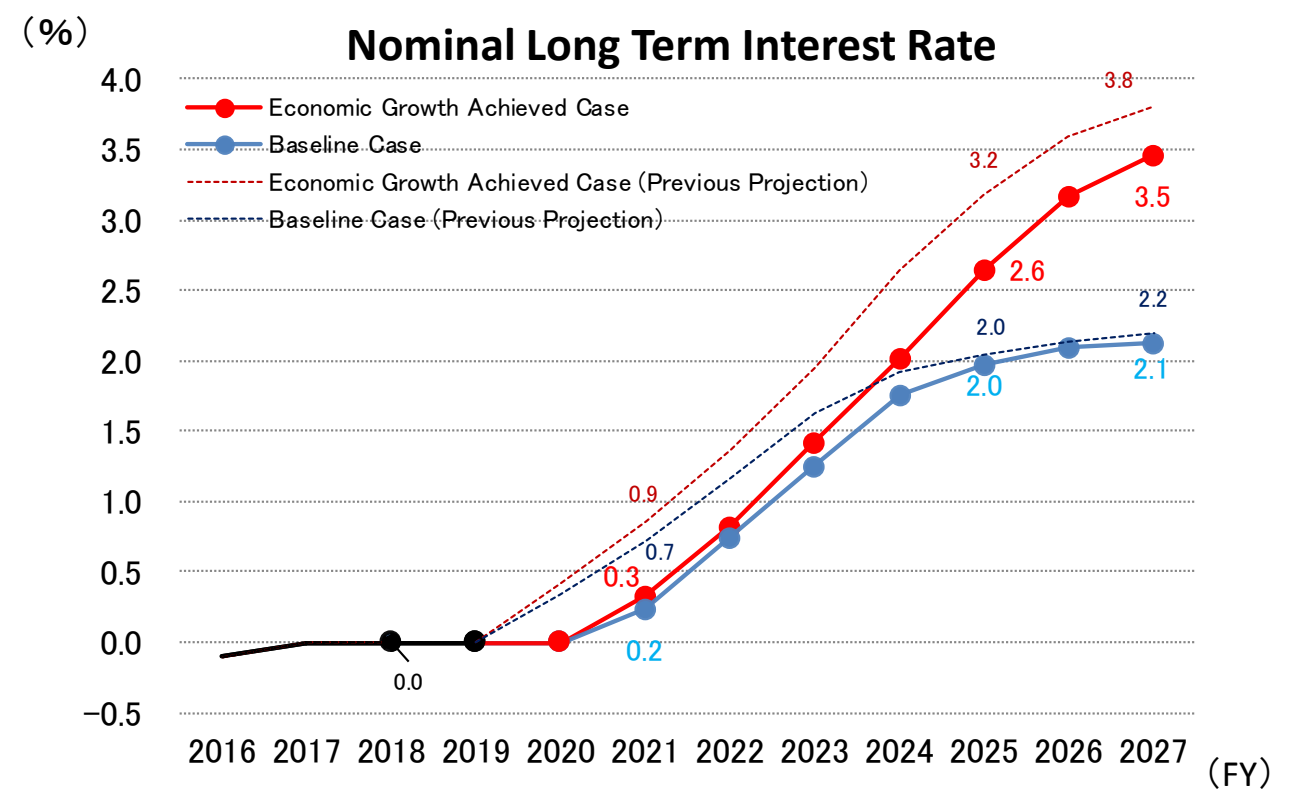
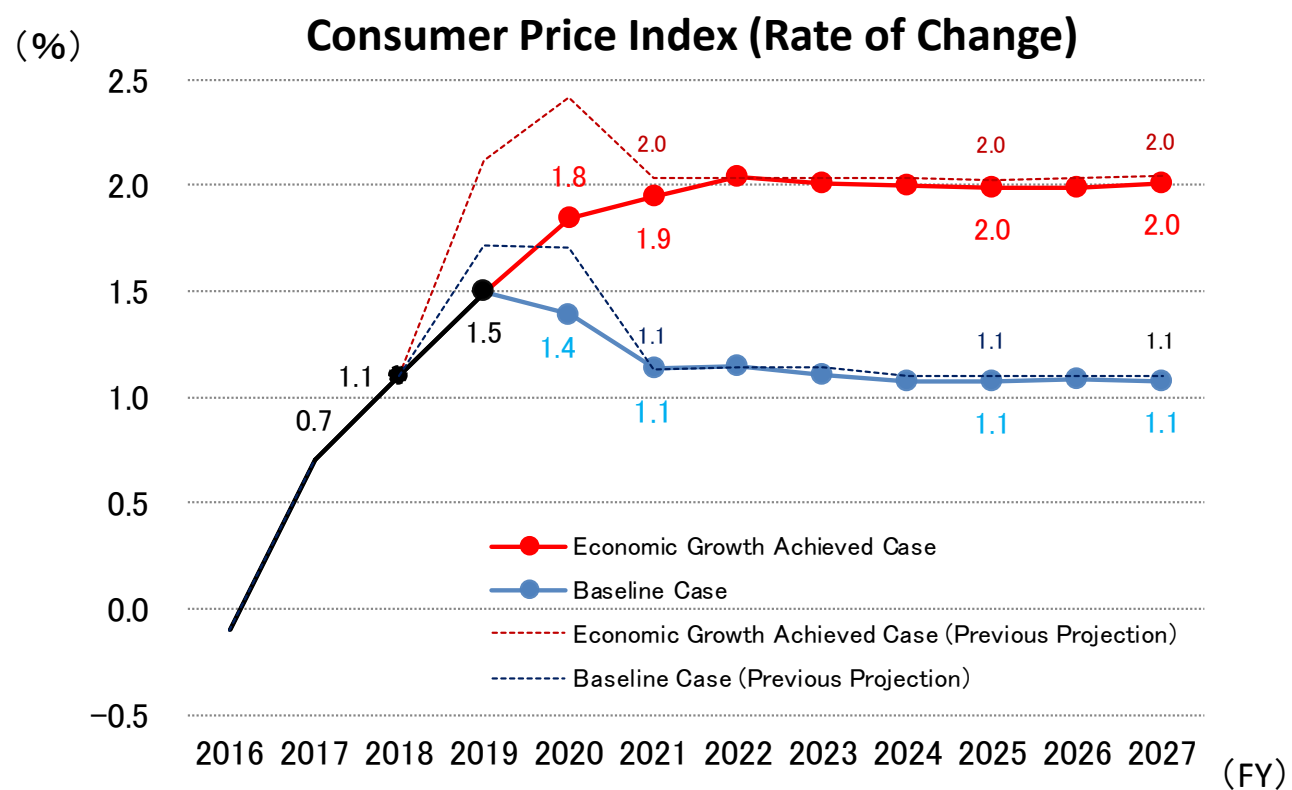
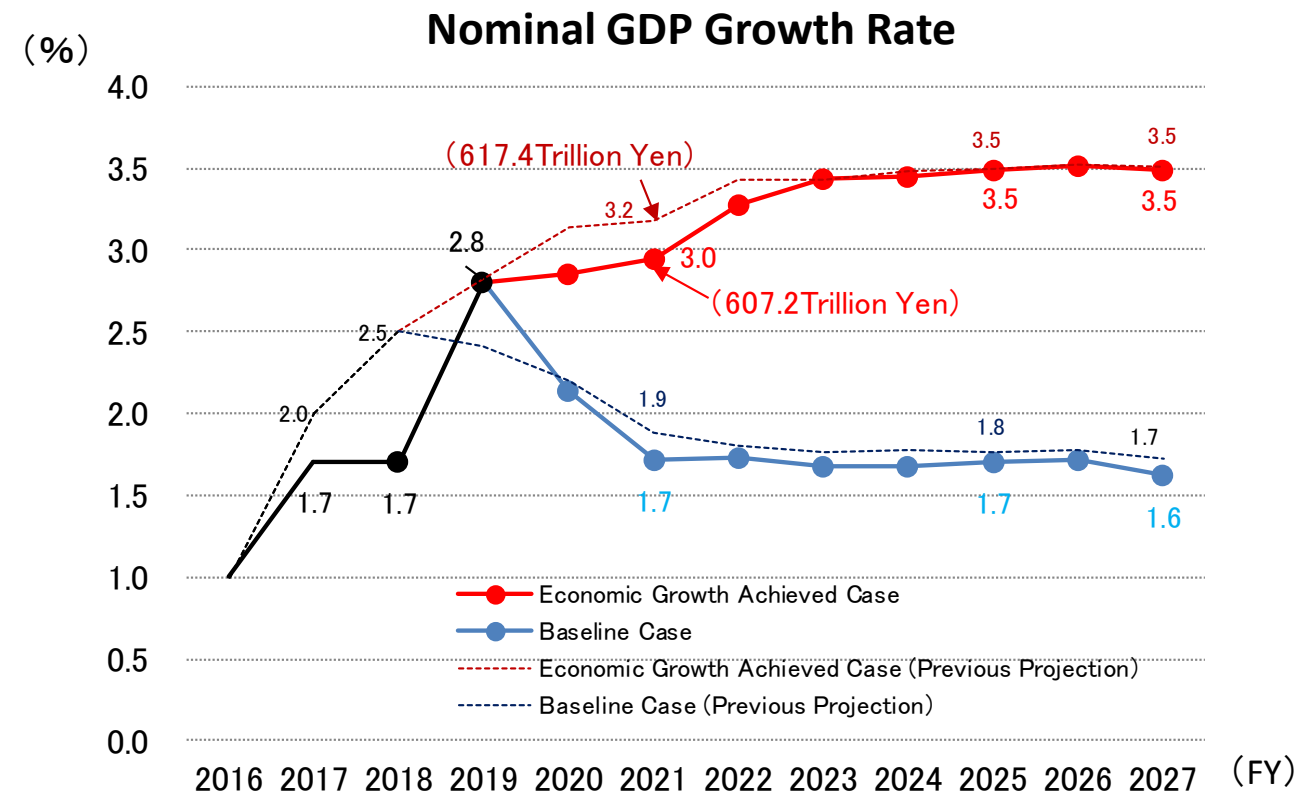
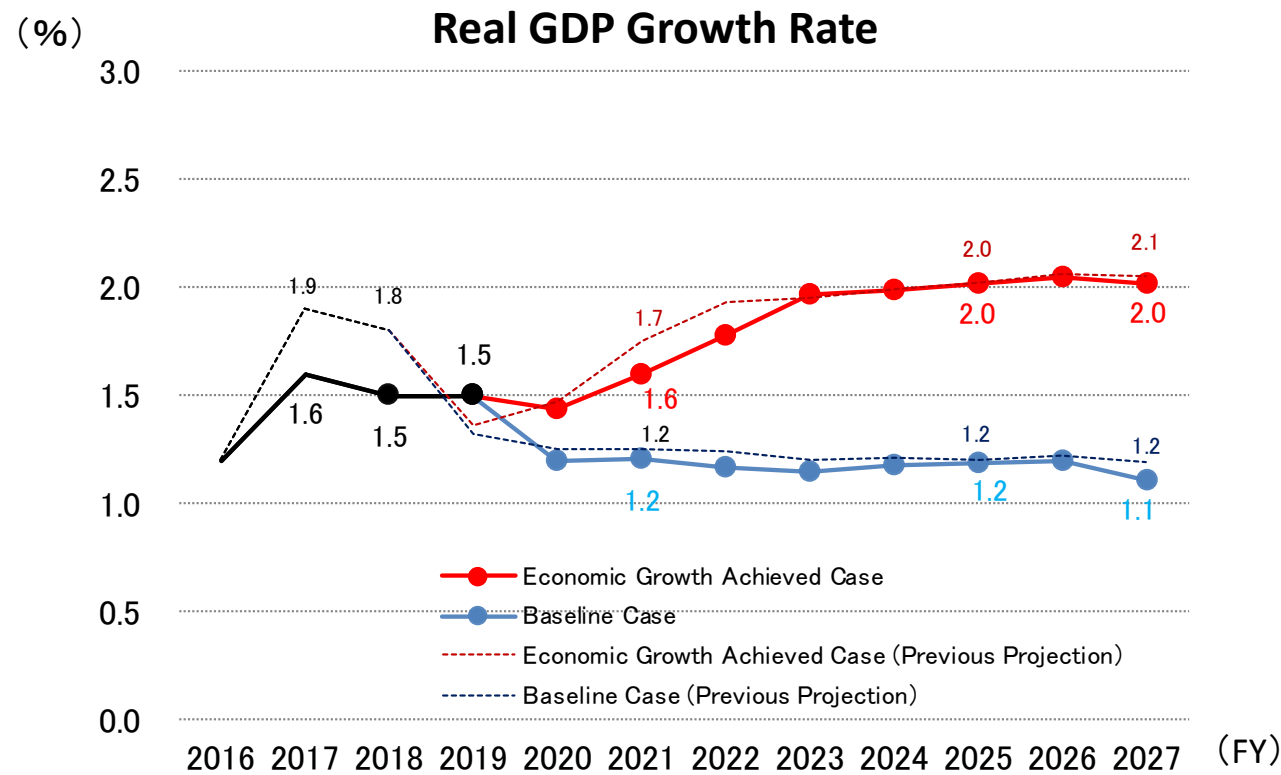
- ✓ The latest data on economic and fiscal conditions after the previous projection  
⇒ “Quarterly Estimates of GDP January-March 2018,” “Cabinet Office’s Mid-Year Economic Projection for FY2018,” etc.
- ⇒ “The FY2017 Settlement highlight,” “The FY2017 local government tax revenue provisional settlement”

## 【Considering expenditure reform for FY 2019】

- ✓ The expenditure for FY2019 is calculated by taking a part of past expenditure reform into consideration, which is the same assumption as for the previous projections in summer.  
(the rate of increase of the expenditure excluding the increase due to population aging will consequently be half as high as the inflation rate and wage growth.)
- ✓ Public-fixed capital formation is assumed to be the same amount as in FY2018 at a nominal level. (Reflect the assumption of “Cabinet Office’s Mid-Year Economic Projection”)
- ✕ The expenditures after FY2020 are assumed as follows. The effect of expenditure reform is not included.  
(Social security expenditures are assumed to increase reflecting population aging, inflation rate wage growth and others, and other general expenditures are assumed to continue to increase at about the same rate as the inflation rate.)

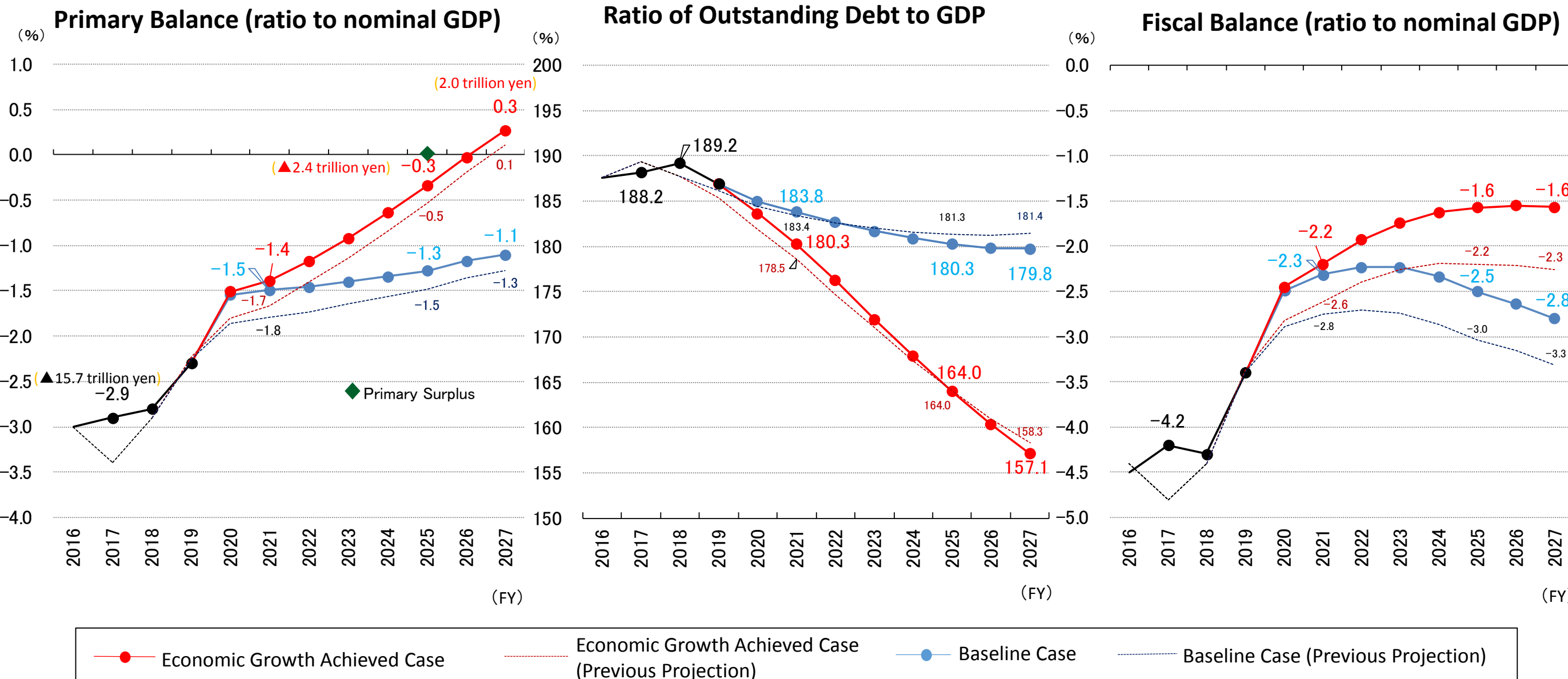
# 1. Projections of the Macro Economy

- ✓ Due to a lower current potential growth rate and inflation rate than in the previous projection, the growth rates until the early 2020s are downwardly revised. The nominal GDP reaches 600 trillion yen in FY2021.
- ✓ The rate of change for CPI achieves around 2% in FY2021. Under this condition, the nominal long term interest rate continues at the current level until FY2020. As a result of projection consistent with the economic growth and the inflation rate, the interest rate is lower than in the previous projection.



## 2. Projections of the Central and Local Governments' Public Finances

- ✓ The primary deficit is projected to improve to 2.4 trillion yen (0.3% per GDP), mainly due to considering a part of expenditure reform for FY2019. However, the primary balance is projected to turn to surplus in FY 2027, the same as in the previous projection.
- ✓ The ratio of outstanding debt to GDP is projected to decline in the Economic Growth Achieved Case<sup>(\*)</sup>. On the contrary, in the Baseline Case, it is projected to stop declining after the mid-2020s.
- ✓ In the Economic Growth Achieved Case, the fiscal balance is projected to improve due to the improvement of the primary balance and the low nominal interest rate, although the pace will slow down as the nominal interest rate rises.



(\*) 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.