

Economic and Fiscal Projections for
Medium to Long Term Analysis

August 12, 2011
Cabinet Office, Japan

Projections are made using the "Economic and Fiscal Model (ver.2010)," 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.

1. Two Economic Scenarios

As for the macro economy, the following two scenarios are considered.

(1) Growth Strategy Scenario

In this scenario, under economic circumstances with steady domestic and foreign demand, the targets of approximately 3% growth rate of nominal GDP and 2% growth rate of real GDP on average from FY2011 to FY2020 are attained as long as Japan promptly recovers from the earthquake and advances necessary reforms, which include laying out other foundations for self-sustaining growth, etc. The consumer price index reaches a positive figure in FY 2011, and stably continues to increase to approximately 2% in the medium–long term (although the revision of the Consumer Price Index will be in effect in August 2011, the current standard is adopted).

(2) Prudent Scenario

In this scenario, under economic circumstances with prudent domestic and foreign demand, the targets of mid-to-upper 1% growth rate of nominal GDP and over 1% growth rate of real GDP on average from FY2011 to FY2020 are attained. The consumer price index reaches a positive figure in FY 2011, and stably remains at approximately 1% in the medium–long term.

(Note): It is assumed that the economic impact of electric power supply restrictions is gradually negated by government measures and the efforts made by businesses and households. The Projections do not take into account the uncertain factor of the nuclear power plants restarting or the positive side of the additional expansion effects of demand due to such factors as electricity saving, energy conservation, and new energy investment.

2. Main Assumptions in Public Finances

- It is assumed that recovery and reconstruction measures costing approximately 19 trillion yen are implemented based on the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake”(decided on July 29, 2011, by the Headquarters for the Reconstruction from the Great East Japan Earthquake), and that the corresponding fiscal resources are secured.
- As for the recovery and reconstruction measures, taking into account the experience of the reconstruction process after the Great Hanshin-Awaji Earthquake as a reference, a similar expenditure pattern is assumed. Two cases are assumed for temporary fiscal resource measures: Case 1, in which the measures are implemented for 5 years according to the expenditure pattern, and Case 2, in which the measures are implemented for 10 years, with the resources being equal across each fiscal year.
- Based on the “Definite Plan for the Comprehensive Reform of the Social Security and Tax”(Cabinet Council report on July 1, 2011), the consumption tax rate (central and local) is assumed to be raised in stages to 10% by the middle of the 2010s (in these projections, the consumption tax rate is assumed to be gradually raised by FY2015). With respect to strengthening the functions of the social security system, it is assumed that approximately 0.2% of new expenditure is added with each 1% increase of the consumption tax rate.
- The supplementary budgets in FY 2011 (the first and second supplementary budgets) are incorporated in these projections. For FY2012–FY2014, these projections take into account “the Medium-term Fiscal Framework (FY2012–FY2014)” (Cabinet decision on August 12, 2011).

3. Main Results of the Projections

(The result for public finance is derived under the Prudent Scenario based on the “Fiscal Management Strategy” (Cabinet decision on June 22, 2010).)

(Fiscal Consolidation)

- The primary balance deficit of the central and local governments combined in FY2015 will be at the midway level between 15 and 16 trillion yen, which is approximately 3.0% of GDP (excluding the expenditures and fiscal resources for the recovery and reconstruction measures; the same applies to the rest of the figures). This shows that the target of halving the deficit from the level in FY2010 (3.2 % of GDP) will be achieved.

- The primary balance deficit of the central and local governments combined in FY2020 will be approximately 18 trillion yen, which is 3.1%–3.3% of GDP; further balance improvement is necessary to achieve the target of primary surplus.
- In addition, if the rate hikes of the consumption tax are accomplished in FY2016, it is not expected that the deficit-halving target of the central and local governments will be achieved in FY2015(*).

(*)The projections of the case in which the rate hikes are accomplished in FY2016 estimate the primary balance deficit of the central and local governments in FY2015 to be 3.5% of GDP.

(Note): Regarding tax revenue from the temporary measures for fiscal resources for the expenditures for the recovery and reconstruction measures, costs for social security reform, and revenue from the consumption tax hike, since allocation proportions between the central and local governments are not yet determined, these projections are not shown in the primary balance of the central government.

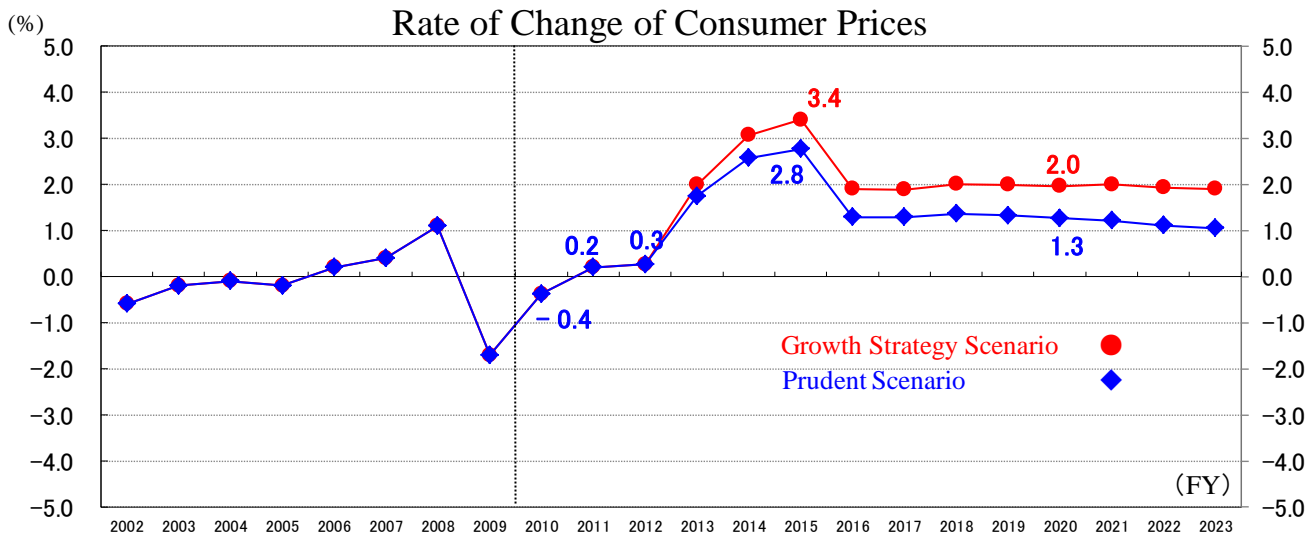
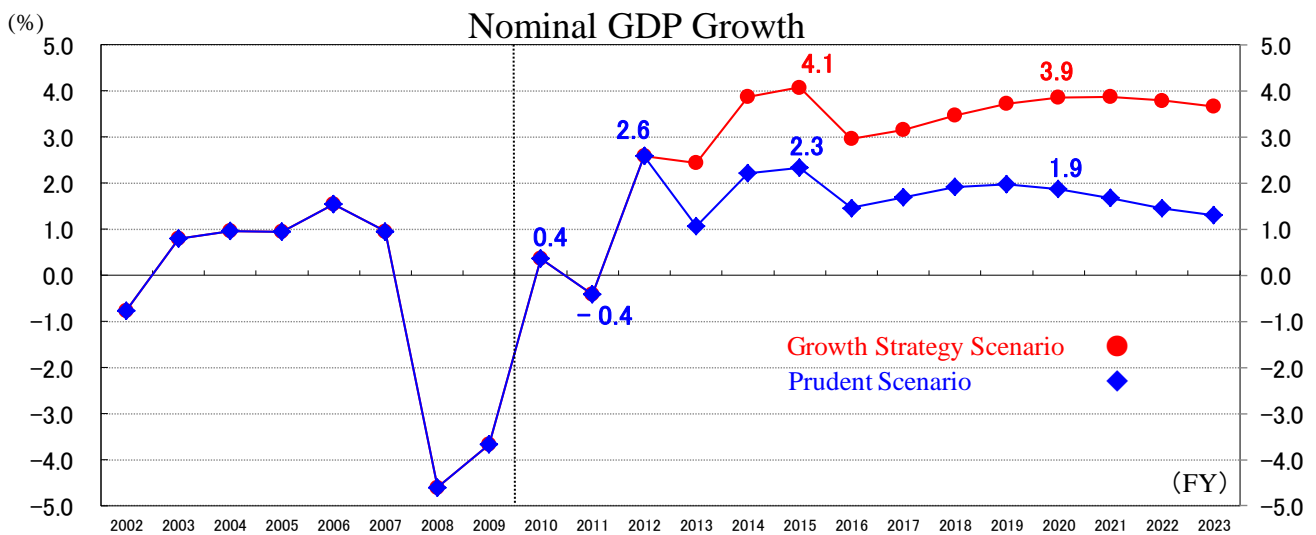
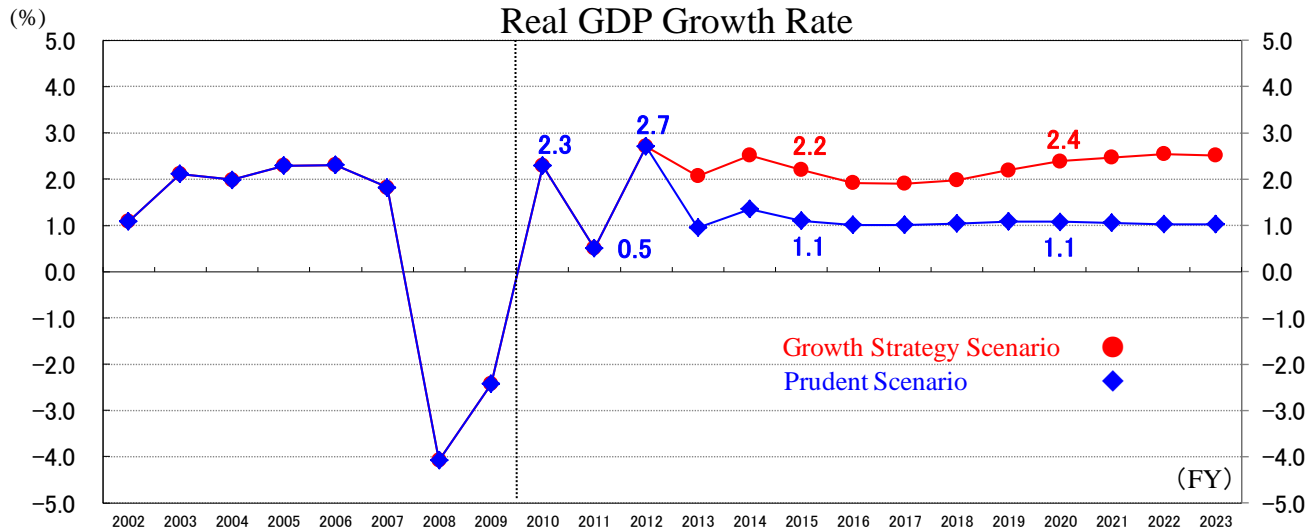
Supposing that the primary balance of the central government is tentatively estimated based on the current situation, not taking into account the recovery and reconstruction measures or the consumption tax rate hike, the primary balance deficit will be approximately 5% of GDP in FY2015, which is lower, by 0.5% pts, than the primary balance deficit of the central and local governments combined (deficit at the mid-4% level) in the same estimation. Given this severe situation, it is necessary for the central government to make further efforts toward balance improvement. Considering that the primary balance deficit of the central and local governments combined will improve up to 3% of GDP, it is expected that the primary balance deficit of the central government will proceed toward the halving target (3.4% of GDP); in the future, it will be necessary to ensure the achievement of the target. Taking this into account, the Medium to Long-term Projections of the next period will review the status of progress toward the fiscal consolidation targets, including the primary balance of the central government.

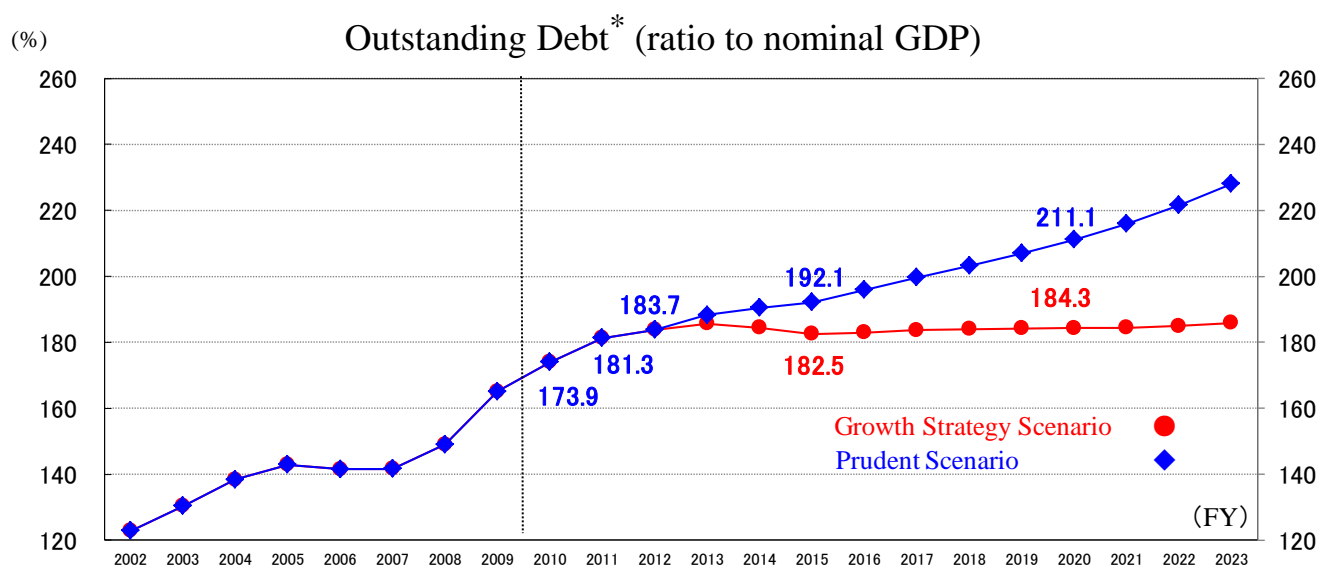
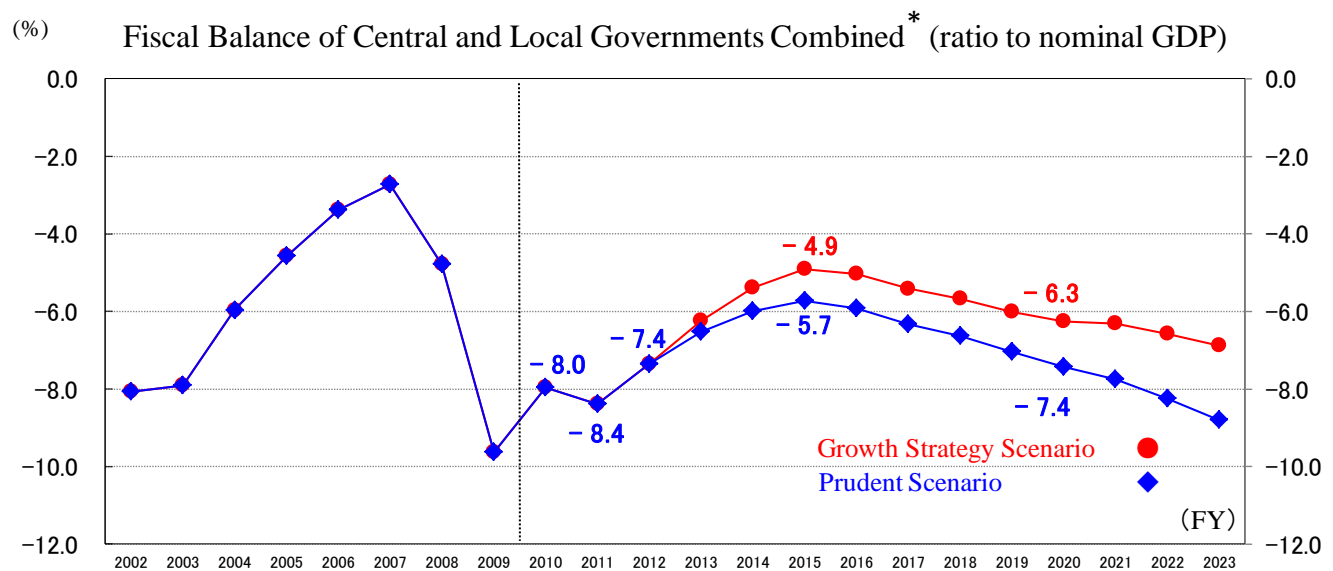
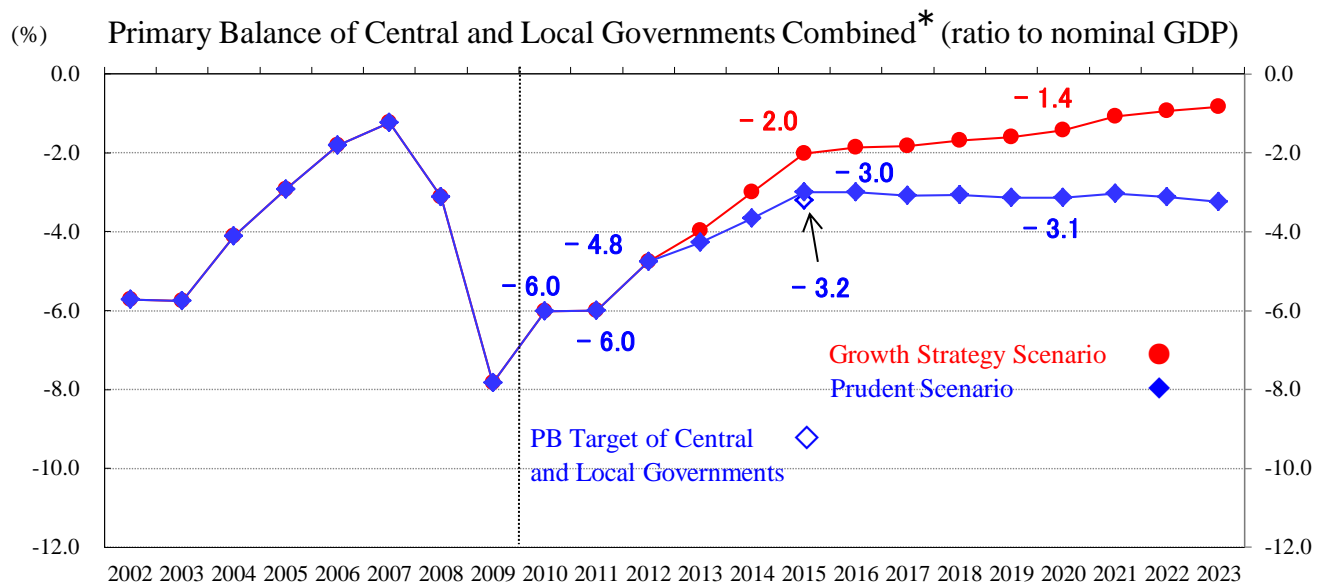
(Impact on the economy of the temporary measures to finance the recovery and reconstruction)

- With respect to the impact of the temporary fiscal resource measures on the economy, compared to the case of equal revenues in each fiscal year for 10 years, the case in which the measures are implemented for 5 years according to the expenditure pattern will result in a smaller decrease in the growth rate until FY2015 (the growth rate is smoothed in the medium–long term), but the growth rate will be suppressed in FY2012, the year in which high growth due to reconstruction demand is expected.

Projection Results

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 5 years)





* Primary Balance excludes the expenditures and fiscal resources for recovery and reconstruction measures. Fiscal balance and outstanding debt include the expenditures and fiscal resources for the abovementioned measures.

Projection Results (Tables)

(1) Prudent Scenario

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 5 years)

[Macroeconomy]

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

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Potential GDP Growth	(-0.0)	(-0.5)	(0.3)	(0.7)	(0.7)	(0.7)	(1.2)	(1.2)
Real GDP Growth	(2.3)	(0.5)	(2.7)	(1.0)	(1.3)	(1.1)	(1.1)	(1.0)
Nominal GDP Growth	(0.4)	(-0.4)	(2.6)	(1.1)	(2.2)	(2.3)	(1.9)	(1.3)
Nominal GDP	475.8	473.8	486.0	491.2	502.1	513.8	561.3	586.5
Price Change								
Consumer Prices	(-0.4)	(0.2)	(0.3)	(1.7)	(2.6)	(2.8)	(1.3)	(1.0)
Corporate Goods Prices	(0.7)	(2.5)	(1.3)	(2.4)	(3.5)	(3.6)	(0.7)	(1.0)
GDP Deflator	(-1.9)	(-0.9)	(-0.1)	(0.1)	(0.9)	(1.2)	(0.8)	(0.3)
Unemployment Rate	(5.0)	(4.7)	(4.5)	(4.3)	(4.1)	(3.9)	(3.5)	(3.4)
Long-term Interest Rate	(1.1)	(1.5)	(1.4)	(1.7)	(1.9)	(2.2)	(3.2)	(3.5)
Balance by Sector								
General Government*	[-9.0]	[-10.2]	[-8.6]	[-7.7]	[-7.3]	[-6.9]	[-7.9]	[-9.2]
Private	[11.2]	[11.7]	[11.2]	[9.9]	[9.3]	[8.9]	[9.2]	[9.9]
Overseas	[-3.2]	[-2.0]	[-2.6]	[-2.2]	[-2.0]	[-2.0]	[-1.3]	[-0.7]

* Including the expenditures and fiscal resources for the recovery and reconstruction measures

[Central and Local Governments' Public Finances]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.4	-23.1	-21.0	-18.4	-15.4	-17.6	-19.1
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-4.8]	[-4.3]	[-3.7]	[-3.0]	[-3.1]	[-3.2]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.3	-24.4	-19.9	-17.1	-15.3	-17.6	-19.1
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-5.0]	[-4.1]	[-3.4]	[-3.0]	[-3.1]	[-3.2]
Fiscal Balance	-37.9	-39.8	-35.8	-32.0	-30.1	-29.4	-41.7	-51.6
(ratio to nominal GDP)	[-8.0]	[-8.4]	[-7.4]	[-6.5]	[-6.0]	[-5.7]	[-7.4]	[-8.8]
Outstanding Debt	827.3	858.7	892.8	924.8	955.8	986.8	1184.8	1336.9
(ratio to nominal GDP)	[173.9]	[181.3]	[183.7]	[188.3]	[190.4]	[192.1]	[211.1]	[227.9]

(2) Growth Strategy Scenario

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 5 years)

[Macroeconomy]

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

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Potential GDP Growth	(-0.0)	(-0.5)	(0.3)	(1.2)	(1.4)	(1.8)	(2.5)	(2.4)
Real GDP Growth	(2.3)	(0.5)	(2.7)	(2.1)	(2.5)	(2.2)	(2.4)	(2.5)
Nominal GDP Growth	(0.4)	(-0.4)	(2.6)	(2.4)	(3.9)	(4.1)	(3.9)	(3.7)
Nominal GDP	475.8	473.8	486.0	497.9	517.1	538.2	637.1	712.0
Price Change								
Consumer Prices	(-0.4)	(0.2)	(0.3)	(2.0)	(3.1)	(3.4)	(2.0)	(1.9)
Corporate Goods Prices	(0.7)	(2.5)	(1.3)	(2.5)	(3.9)	(4.1)	(1.4)	(1.8)
GDP Deflator	(-1.9)	(-0.9)	(-0.1)	(0.4)	(1.3)	(1.8)	(1.4)	(1.1)
Unemployment Rate	(5.0)	(4.7)	(4.5)	(4.2)	(3.9)	(3.6)	(3.4)	(3.3)
Long-term Interest Rate	(1.1)	(1.5)	(1.4)	(2.0)	(2.4)	(2.8)	(4.5)	(5.1)
Balance by Sector								
General Government*	[-9.0]	[-10.2]	[-8.6]	[-7.4]	[-6.5]	[-5.9]	[-5.9]	[-5.9]
Private	[11.2]	[11.7]	[11.2]	[9.4]	[8.2]	[7.2]	[5.2]	[4.4]
Overseas	[-3.2]	[-2.0]	[-2.6]	[-2.1]	[-1.7]	[-1.3]	[0.7]	[1.5]

* Including the expenditures and fiscal resources for the recovery and reconstruction measures

[Central and Local Governments' Public Finances]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.4	-23.1	-19.8	-15.5	-10.9	-9.1	-6.0
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-4.8]	[-4.0]	[-3.0]	[-2.0]	[-1.4]	[-0.8]

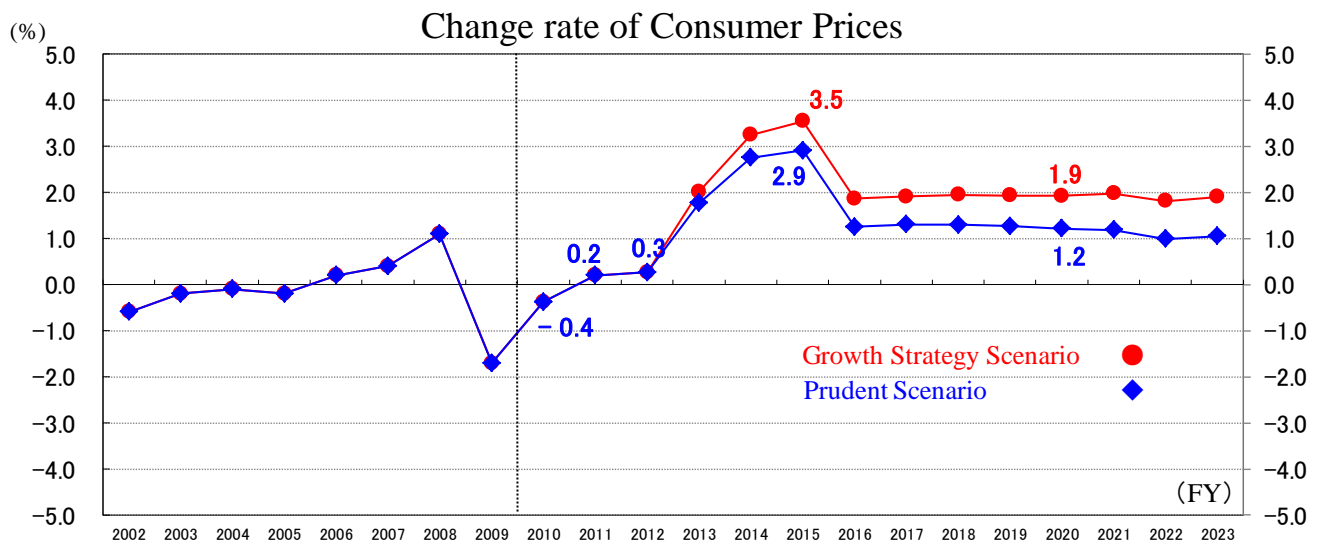
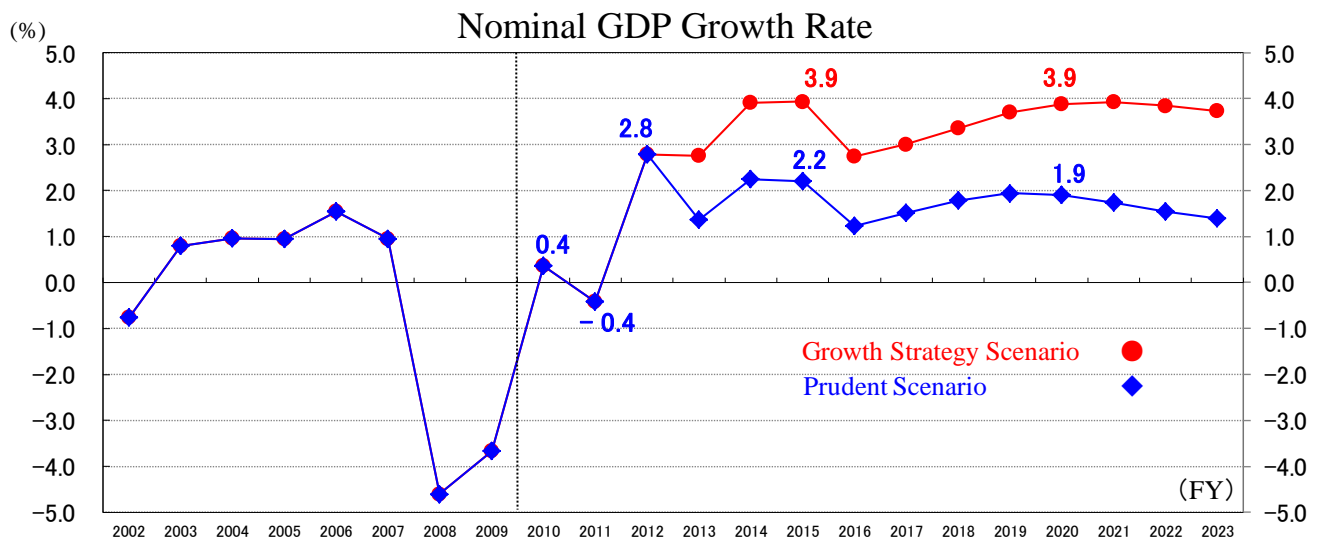
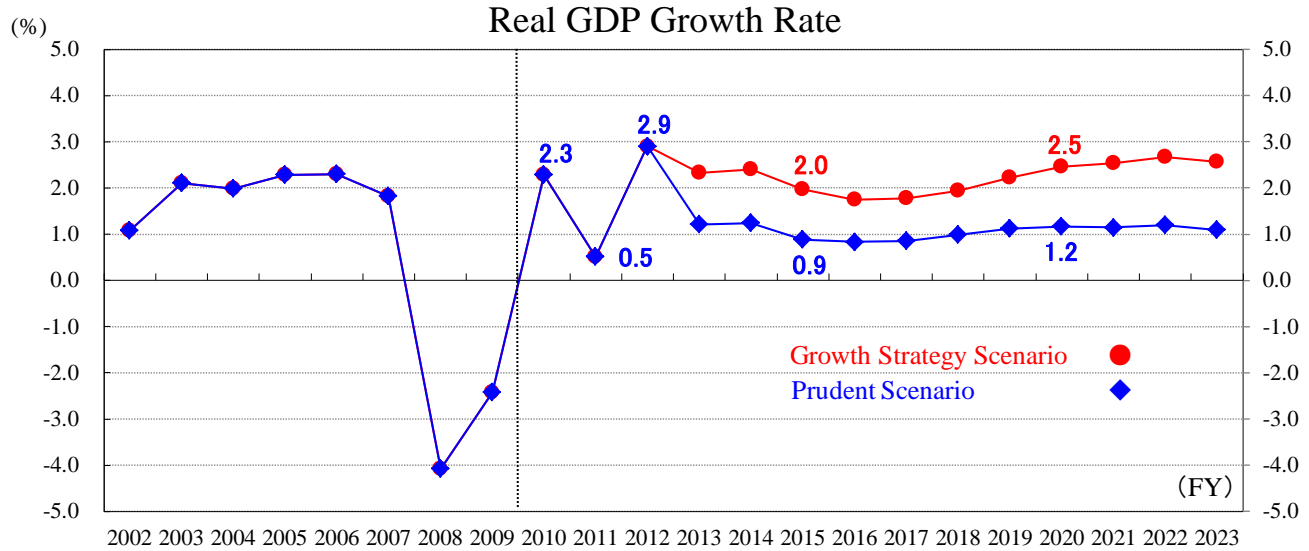
(Including the expenditures and fiscal resources for the recovery and reconstruction measures)

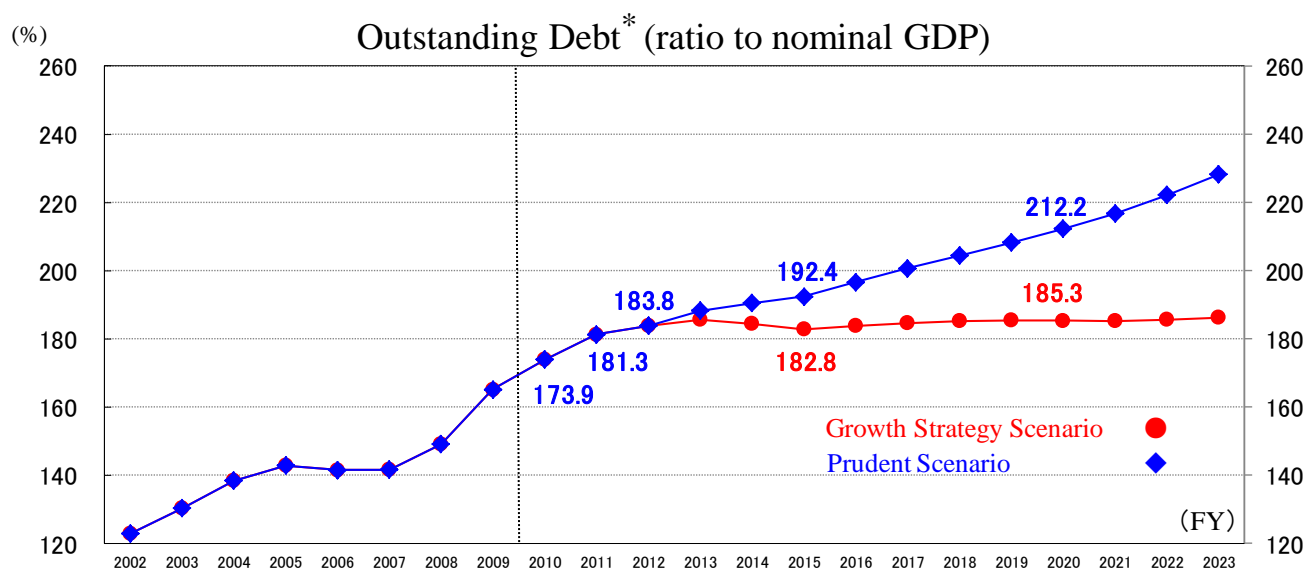
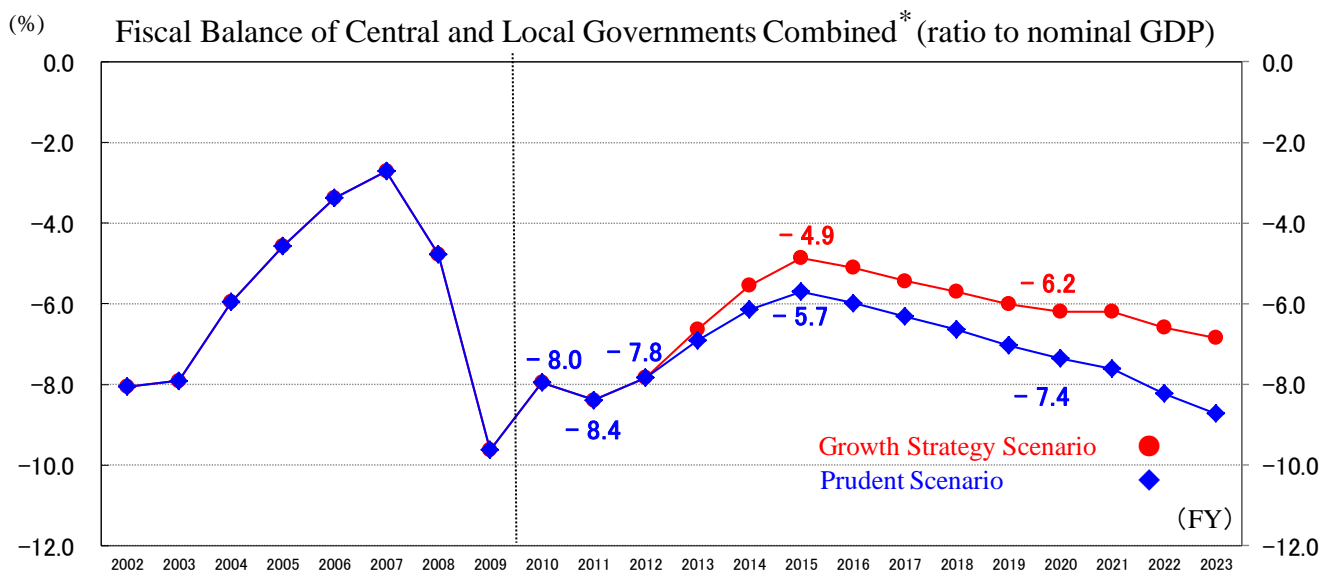
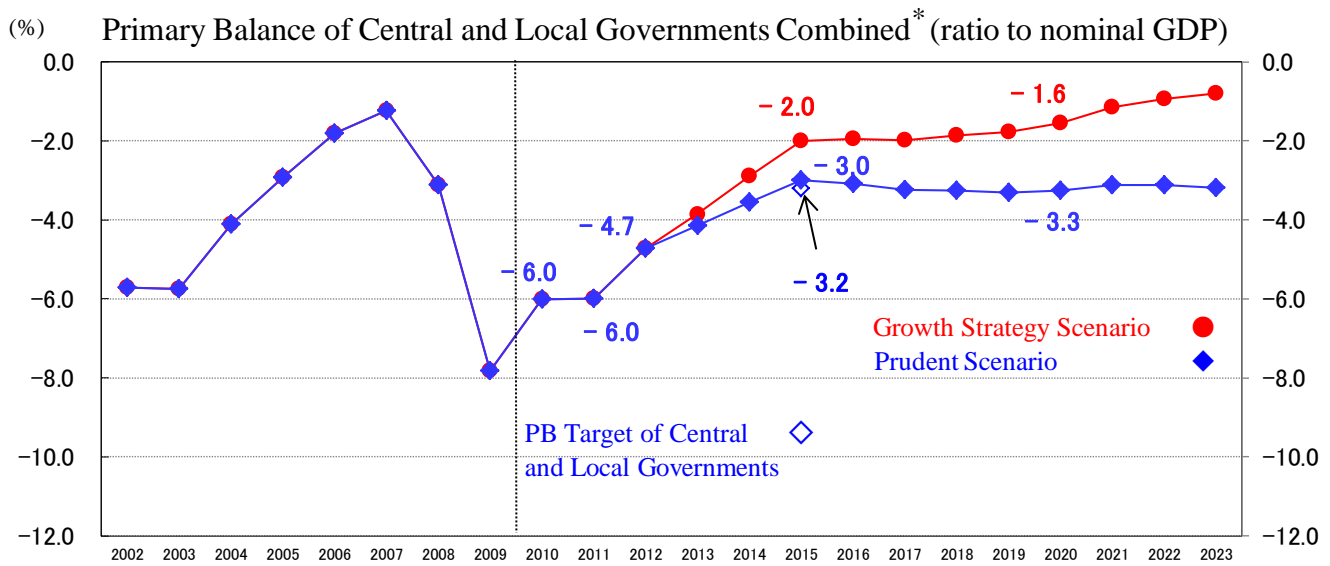
[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.3	-24.4	-18.6	-14.1	-10.8	-9.1	-6.0
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-5.0]	[-3.7]	[-2.7]	[-2.0]	[-1.4]	[-0.8]
Fiscal Balance	-37.9	-39.8	-35.8	-31.0	-27.9	-26.4	-39.8	-49.0
(ratio to nominal GDP)	[-8.0]	[-8.4]	[-7.4]	[-6.2]	[-5.4]	[-4.9]	[-6.3]	[-6.9]
Outstanding Debt	827.3	858.7	892.8	924.0	953.2	982.0	1174.2	1322.9
(ratio to nominal GDP)	[173.9]	[181.3]	[183.7]	[185.6]	[184.3]	[182.5]	[184.3]	[185.8]

Projection Results

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 10 years)





* Primary Balance excludes the expenditures and fiscal resources for recovery and reconstruction measures. Fiscal balance and outstanding debt include the expenditures and fiscal resources for the abovementioned measures.

Projection Results (Tables)

(1) Prudent Scenario

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 10 years)

[Macroeconomy]

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

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Potential GDP Growth	(-0.0)	(-0.5)	(0.3)	(0.8)	(0.8)	(0.8)	(1.1)	(1.2)
Real GDP Growth	(2.3)	(0.5)	(2.9)	(1.2)	(1.2)	(0.9)	(1.2)	(1.1)
Nominal GDP Growth	(0.4)	(-0.4)	(2.8)	(1.4)	(2.2)	(2.2)	(1.9)	(1.4)
Nominal GDP	475.8	473.8	487.0	493.6	504.7	515.8	560.5	587.2
Price Change								
Consumer Prices	(-0.4)	(0.2)	(0.3)	(1.8)	(2.8)	(2.9)	(1.2)	(1.0)
Corporate Goods Prices	(0.7)	(2.5)	(1.3)	(2.4)	(3.7)	(3.7)	(0.7)	(1.0)
GDP Deflator	(-1.9)	(-0.9)	(-0.1)	(0.2)	(1.0)	(1.3)	(0.7)	(0.3)
Unemployment Rate	(5.0)	(4.7)	(4.5)	(4.3)	(4.1)	(3.9)	(3.5)	(3.4)
Long-term Interest Rate	(1.1)	(1.5)	(1.5)	(1.8)	(1.9)	(2.2)	(3.1)	(3.5)
Balance by Sector								
General Government*	[-9.0]	[-10.2]	[-9.1]	[-8.1]	[-7.4]	[-6.9]	[-7.9]	[-9.1]
Private	[11.2]	[11.7]	[11.6]	[10.1]	[9.2]	[8.7]	[9.5]	[10.0]
Overseas	[-3.2]	[-2.0]	[-2.6]	[-2.0]	[-1.8]	[-1.8]	[-1.6]	[-0.9]

* Including the expenditures and fiscal resources for the recovery and reconstruction measures

[Central and Local Governments' Public Finances]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.4	-23.0	-20.5	-18.0	-15.5	-18.3	-18.8
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-4.7]	[-4.2]	[-3.6]	[-3.0]	[-3.3]	[-3.2]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.3	-26.7	-21.9	-17.8	-15.0	-17.2	-18.8
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-5.5]	[-4.4]	[-3.5]	[-2.9]	[-3.1]	[-3.2]
Fiscal Balance	-37.9	-39.8	-38.1	-34.1	-31.0	-29.4	-41.3	-51.2
(ratio to nominal GDP)	[-8.0]	[-8.4]	[-7.8]	[-6.9]	[-6.1]	[-5.7]	[-7.4]	[-8.7]
Outstanding Debt	827.3	858.7	895.2	929.4	961.3	992.3	1189.4	1339.9
(ratio to nominal GDP)	[173.9]	[181.3]	[183.8]	[188.3]	[190.5]	[192.4]	[212.2]	[228.2]

(2) Growth Strategy Scenario

(Case in which temporary measures to finance the recovery and reconstruction are assumed to be in effect for 10 years)

[Macroeconomy]

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

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Potential GDP Growth	(-0.0)	(-0.5)	(0.3)	(1.2)	(1.5)	(1.8)	(2.4)	(2.4)
Real GDP Growth	(2.3)	(0.5)	(2.9)	(2.3)	(2.4)	(2.0)	(2.5)	(2.6)
Nominal GDP Growth	(0.4)	(-0.4)	(2.8)	(2.8)	(3.9)	(3.9)	(3.9)	(3.7)
Nominal GDP	475.8	473.8	487.0	500.4	520.0	540.4	636.7	712.7
Price Change								
Consumer Prices	(-0.4)	(0.2)	(0.3)	(2.0)	(3.2)	(3.5)	(1.9)	(1.9)
Corporate Goods Prices	(0.7)	(2.5)	(1.3)	(2.6)	(4.1)	(4.2)	(1.3)	(1.8)
GDP Deflator	(-1.9)	(-0.9)	(-0.1)	(0.4)	(1.5)	(1.9)	(1.4)	(1.1)
Unemployment Rate	(5.0)	(4.7)	(4.5)	(4.2)	(3.9)	(3.6)	(3.5)	(3.3)
Long-term Interest Rate	(1.1)	(1.5)	(1.5)	(2.0)	(2.4)	(2.9)	(4.5)	(5.0)
Balance by Sector								
General Government*	[-9.0]	[-10.2]	[-9.1]	[-7.8]	[-6.6]	[-5.9]	[-5.9]	[-5.9]
Private	[11.2]	[11.7]	[11.6]	[9.7]	[8.1]	[7.0]	[5.4]	[4.5]
Overseas	[-3.2]	[-2.0]	[-2.6]	[-1.9]	[-1.5]	[-1.1]	[0.5]	[1.4]

* Including the expenditures and fiscal resources for the recovery and reconstruction measures

[Central and Local Governments' Public Finances]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.4	-23.0	-19.3	-15.0	-10.9	-9.9	-5.7
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-4.7]	[-3.9]	[-2.9]	[-2.0]	[-1.6]	[-0.8]

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

[ratio to GDP, %], Trillions of Yen

	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2020	FY2023
Primary Balance	-28.6	-28.3	-26.7	-20.7	-14.8	-10.4	-8.7	-5.7
(ratio to nominal GDP)	[-6.0]	[-6.0]	[-5.5]	[-4.1]	[-2.9]	[-1.9]	[-1.4]	[-0.8]
Fiscal Balance	-37.9	-39.8	-38.1	-33.2	-28.8	-26.3	-39.5	-48.8
(ratio to nominal GDP)	[-8.0]	[-8.4]	[-7.8]	[-6.6]	[-5.5]	[-4.9]	[-6.2]	[-6.8]
Outstanding Debt	827.3	858.7	895.2	928.7	958.9	987.7	1180.0	1327.6
(ratio to nominal GDP)	[173.9]	[181.3]	[183.8]	[185.6]	[184.4]	[182.8]	[185.3]	[186.3]

(Note)

1. "Consumer Prices" refers to the general index (nationwide) (although the revision of the Consumer Price Index will be in effect in August 2011, the current standard is adopted).
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 minus payables). The PBs of both the central and local governments include some special accounts, as well.
The debt repayment and interest payment 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 and local government in accordance with their contributions.
4. The figures for the fiscal and primary balances in FY2005 exclude transfers of assets and liabilities from the former Japan Highway Public Corporation and the other three highway-related public corporations to the Japan Expressway Holding and Debt Repayment Agency, which took place during the privatization of these public corporations. The same figures 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. Furthermore, the same figures in FY2011 exclude the transfer of funds from 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 which are managed separately based on the Medium-term Fiscal Framework (FY2012–FY2014). This amount is equal to (1) the amount of the expenditures for recovery/reconstruction from the Great East Japan Earthquake that exceed the amount compensated for by the reduction of other existing expenditures and that are financed by Reconstruction Bonds, additional non-tax revenues, or temporary taxation, or the amount of relevant fiscal resources, and (2) in accordance with the "Basic Policy on Framework for Overall Settlement of Type-B Hepatitis Lawsuits" (Cabinet Decision dated July 29, 2011), the amount of the expenditures related to benefits or other payments to type-B hepatitis patients that are financed by temporary taxation, or the amount of relevant fiscal resources.
7. In the calculation of the target of halving the primary balance deficit of the central and local governments combined in FY2015, similar to primary balance deficit shown in the Economic and Fiscal Projections for Medium to Long term Analysis as of June 2010, the primary balance deficit in FY2010 is 6.4% of GDP for the central and local governments combined and 6.8% of GDP for the central government. Thus, the targets of halving the primary balance deficit are 3.2% of GDP for the central and local governments and 3.4% of GDP for the central government only.
8. The unemployment rate between FY2010 and FY2012 excludes that for Iwate, Miyagi and Fukushima prefectures.

(Appendix) Key Assumptions

The GDP growth rate and price change, etc. for the period from FY2010 to FY2012 are from the Mid-year Economic Projections for FY2011, the Quarterly Estimates of GDP: January–March 2011, etc.

(1) Assumptions on the Macro economy

1) Prudent Scenario

a) Total Factor Productivity (TFP) Growth

- * The TFP growth rate remains as low as the current level (around 0.1% in FY 2010), then it gradually recovers to the historical average of around 1.1% (the historical average taking into account the economic cycles [from February 1983 to March 2009]) during the period from FY2012 to FY2023, and thereafter the rate remains constant.

b) Labor Force

- * The Labor Force Participation (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 0.9 percentage points based on the IMF's WEO (Spring 2011), from FY2012 onward (to around 3.5% to 4.2%).

- * Inflation Rate (the rate considering the export shares from Japan [10 major destination countries])

The inflation rate moves at around 1.2% to 1.8% from FY2012 onward, based on the IMF's WEO (Spring 2011).

- * Crude Oil Prices

From FY2013 onward, the price moves based on the rate of the EIA's Energy Outlook (April 2011).

- * Nominal Exchange Rate

The real exchange rate is assumed to be constant in the long term from FY2013 onward, i.e. the nominal exchange rate changes to offset the difference in the inflation rate, although influenced by international interest spread in the short term.

2) Growth Strategy Scenario

Differences from 1) Prudent Scenario are as follows:

a) Total Factor Productivity (TFP) Growth

- * The TFP growth rate gradually increases to around 1.9% (on average taking into account the economic cycles [from February 1983 to October 1993]) from FY2012 to FY2023, and thereafter remains constant.

b) Labor Force

- * Considering the labor market reforms, the LFP rate of each sex and age group gradually rises, chiefly among females and the elderly. (e.g., the LFP rate among females aged 30 – 34 gradually rises from around 67% in FY2009 to 75% in FY2023)

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 4.4% to 5.1% from 2013 onward, based on the IMF's WEO (Spring 2011).

(2) Tax Policy

- * “FY2011 Tax Reform” (Cabinet Decision, December 16, 2010) and other information are reflected.
- * Based on the “Definite Plan for the Comprehensive Reform of Social Security and Tax,” the consumption tax rate (central and local) is assumed to be raised in stages to 10% by the middle of the 2010s (in these projections, the consumption tax rate is assumed to be gradually raised from the latter half of FY2013 to FY2015).
- * It is assumed that there will be a surge in consumer spending just before the consumption tax hike and then a slump, based on experience (adding an amount generated by a surge in consumer spending of about 0.2% to GDP per 1% of tax rate at the time prior to the tax hike, and subtracting the same amount in preparation for a slump at the starting time of tax hike).
- * As the purpose of the consumption tax hikes based on the Comprehensive Reform of Social Security and Tax is proclaimed as being to secure stable financial resources for the social security system, and the benefits are widely accepted by the nation, it is assumed that the impact of the tax hikes on the economy will be limited.

(3) Expenditures

- * As for FY2011, the supplementary budgets in FY 2011 (the First and Second Supplementary Budget) are reflected in these projections. For FY2012–FY2014, projections are based on “the Medium-term Fiscal Framework (FY2012–FY2014).” In periods after FY2014, the social security expenditure is assumed to increase due to the aging population, etc, and other expenditures are assumed to increase in line with the CPI.
- * However, with respect to strengthening the functions of the social security system as shown in the “Definite Plan for the Comprehensive Reform of Social Security and Tax,” it is automatically assumed that approximately 0.2% of new expenditure will be added with each 1% increase of the consumption tax rate.
- * The projections assume that the state subsidy for the pension funds remains at 50% from FY2012 onward.

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

- * Regarding expenditures and the fiscal resources, the same expenditure pattern as that shown in the “Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake” is reflected, based on certain assumptions, taking into account the experience of the reconstruction process of the Great Hanshin-Awaji Earthquake as reference.
- * As the measures (including the first and second supplementary budget in FY2011) are expected to be implemented during 5 years till the end of FY2015, the “intensive reconstruction period,” the recovery and reconstruction measures of 19 trillion yen (public expenditures of the central and local governments) are reflected. For the abovementioned 5-year measures, taking into account the experience in the reconstruction process of the Great Hanshin-Awaji Earthquake as reference, the same expenditure pattern is assumed.
- * In the projections, 13 trillion yen is reflected as the fiscal resources for the recovery and reconstruction measures. The funds are collected by, in addition to the fiscal resources for the first and second supplementary budgets in FY2011, a reduction of public expenditures, the sale of government-owned properties, a review of the special accounts and personnel expenses of public officers, further securing of non-tax revenues, and temporary tax measures.
- * As for the temporary fiscal resources for the recovery and reconstruction measures, two cases are assumed in these projections: Case 1, in which the measures for fiscal resources are taken for 5 years based on the expenditure pattern, and Case 2, in which the measures for fiscal resources are equally implemented in each fiscal year for 10 years.