

[Provisional Translation]

Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (January 2019)

Cabinet Office

Purpose to Economic and Fiscal Projections for Medium to Long Term Analysis (January 2019)

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 conditions】

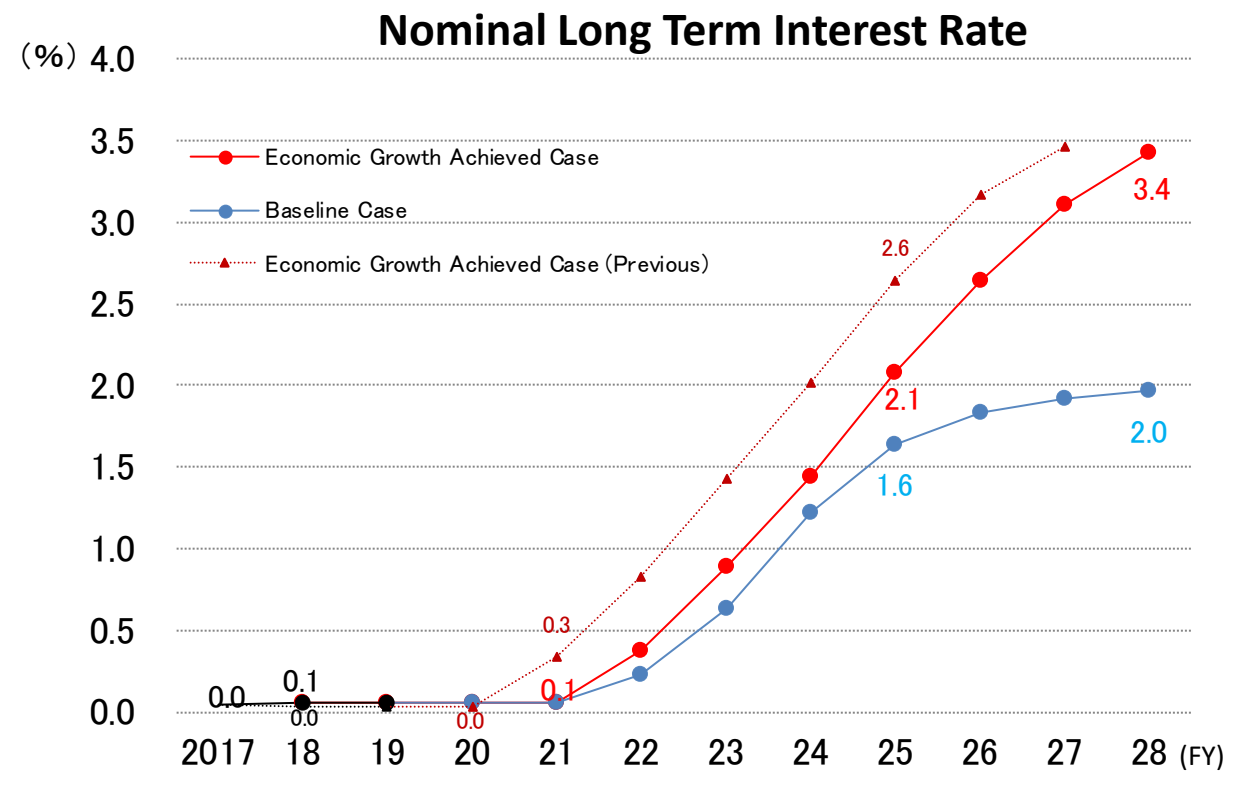
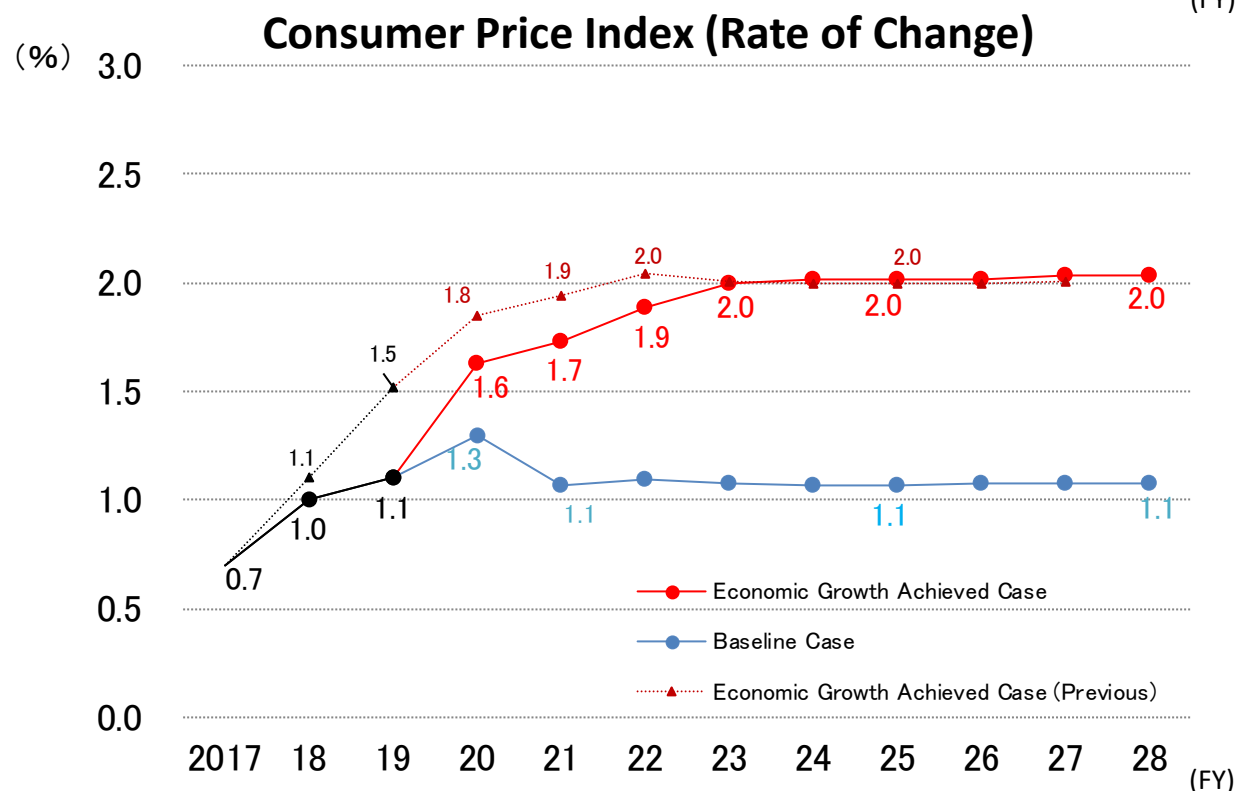
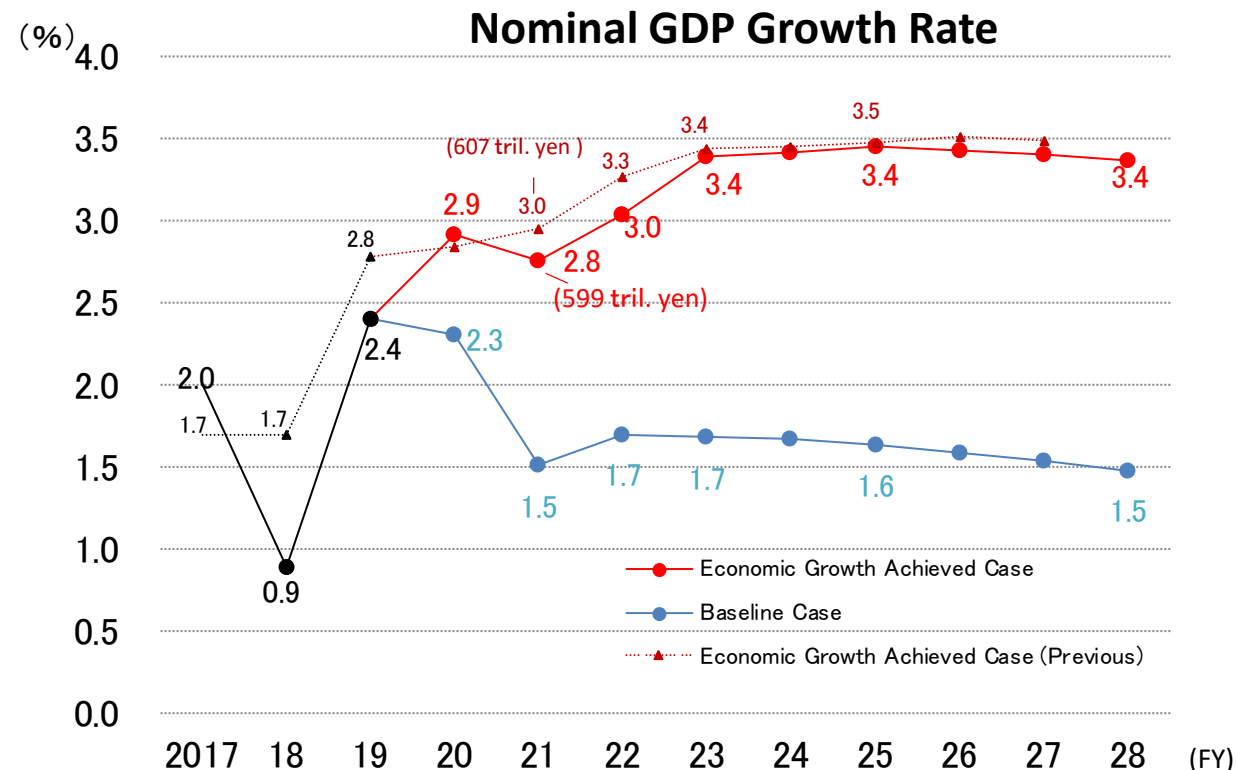
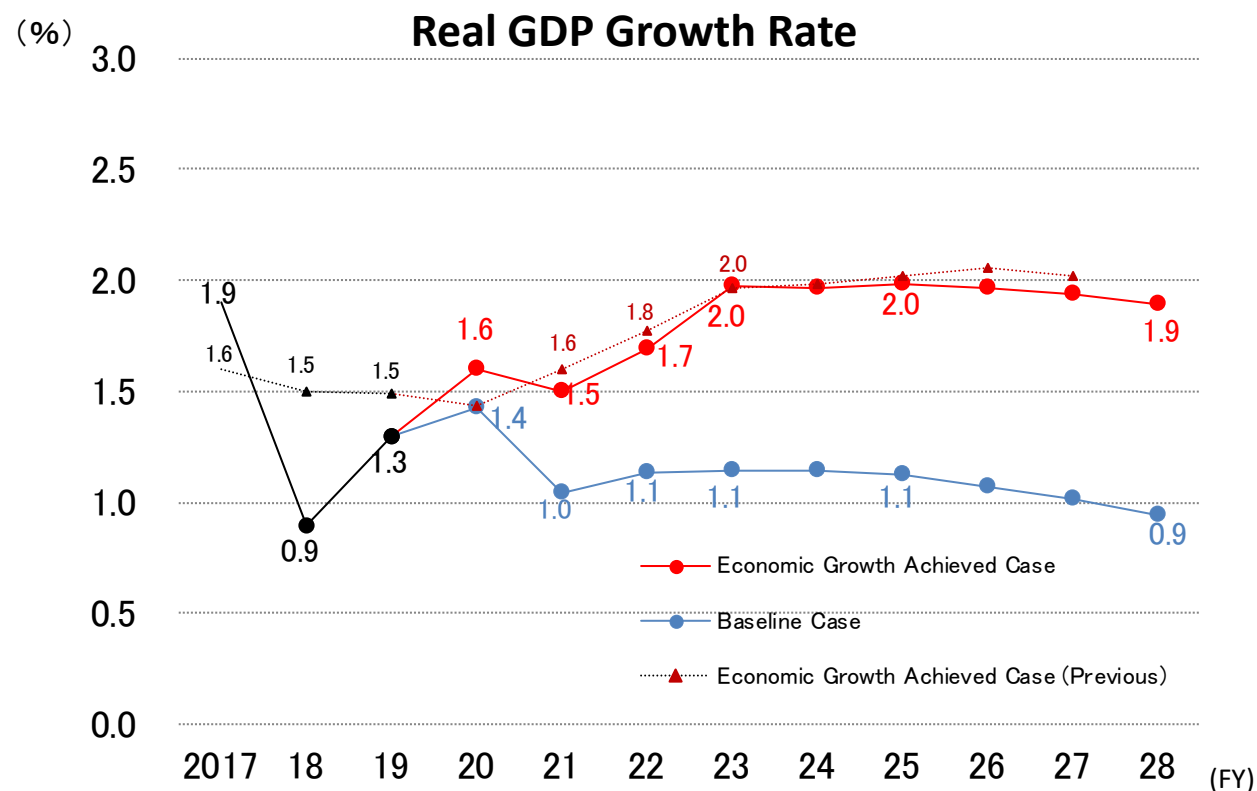
- To reflect the latest data on economic conditions.
 - ⇒ “Revision of Annual Report on National Accounts for 2017,” “Fiscal 2019 Economic Outlook,” etc.
- To revise assumptions related to future potential output.
 - ⇒ To reflect the latest growth rate of TFP (FY2017:0.6%→0.4%)
 - ⇒ To reflect the new estimates of labor supply and demand reported in “Labor Policy Study Group” (2019)(MHLW).
 - ⇒ To reflect acceptance of new human resources from overseas by the new status of residence (around 345 thousand persons in 5 years).

【Fiscal conditions】

- To reflect the FY2017 settlements (primary balance based on SNA, the Central Government’s General and Special Accounts and the Local Government’s Ordinary Account.)
- To reflect the Supplementary Budget for FY2018, the Second Supplementary Budget for FY2018, the Draft FY2019 budget, the FY 2019 Tax Reform, and the Local Financial Measures in FY2019.
 - ⇒To reflect effects of expenditure reforms in the compilation of the Draft FY2019 Budget.
- To reflect the Temporal and Special Measures for the consumption tax hike in the initial budget for FY2019, and measures which are assumed to continue into FY2020 (Point Reward for Cashless Payment, Benefits for Housing Purchase and Disaster Prevention, Disaster Mitigation, and Building National Resilience).
- To assume for the expenditure since FY2020 that social security expenditures will increase reflecting the aging of population and price and wage developments, and other expenditures will increase along with the inflation rates.

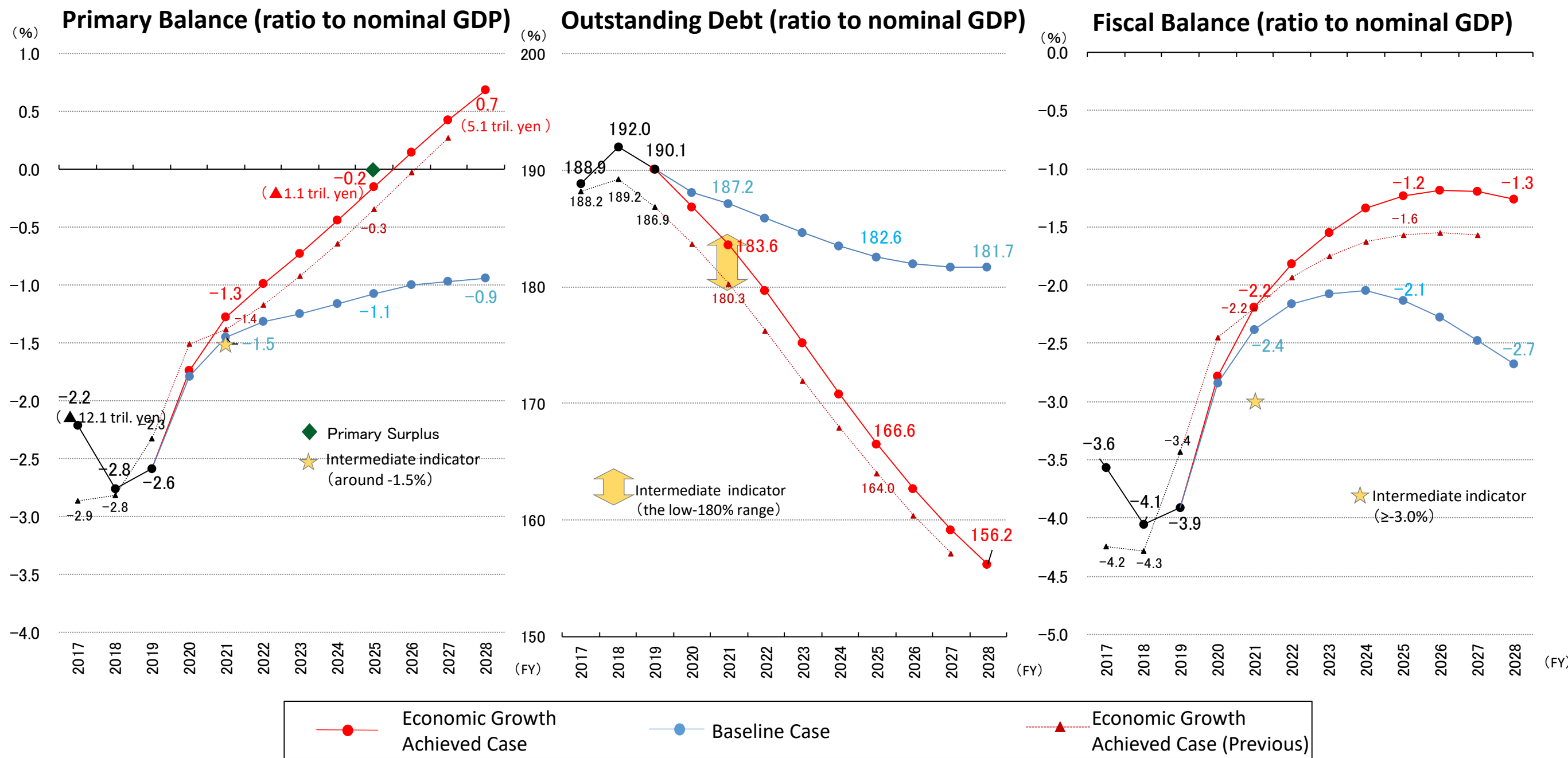
1. Projections of the Macro Economy

- Although the current potential growth rate and the inflation rate are lower than the previous projection, the real GDP growth rate will increase in FY2019 and FY2020 from 0.9% in FY2018 with the gains from the measures for the Consumption Tax Hike. After the growth rate temporarily declines due to the lapse of these measures in FY2021, the growth rate is projected to achieve 2% in real terms and over 3% in nominal terms in the early 2020s in the Economic Growth Achieved Case.
- The rate of change for CPI is projected to achieve around 2% after FY2022. Under this condition, the nominal long term interest rate is assumed to continue at the current level until FY2021. As a result of projection consistent with the growth rate and the inflation rate, the interest rate is projected to be lower than in the previous projection.



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

- To be compared with the previous projection in the Economic Growth Achieved case, the primary deficit to GDP in FY2019 and FY2020 is projected to worsen due to the effects of the FY2018 Supplementary Budget and Temporal and Special Measures in FY2019 and FY2020. After that, the primary deficit is projected to improve due to the effect of the expenditure reform taken place in the initial budget compilation of FY2019. As a result of the projection without the expenditure reform since FY2020, the primary balance is to turn to surplus in FY2026 (one year earlier than the previous projection).
- Although the ratio of outstanding debt to GDP is projected to worsen mainly due to the downward revision of the denominator nominal GDP, it is projected to decline steadily in the periods of the projection(*).
- The fiscal balance to GDP is projected to improve from the previous projection due to the lower interest rate.



(*) 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.