

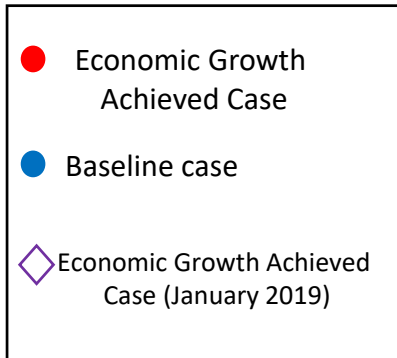
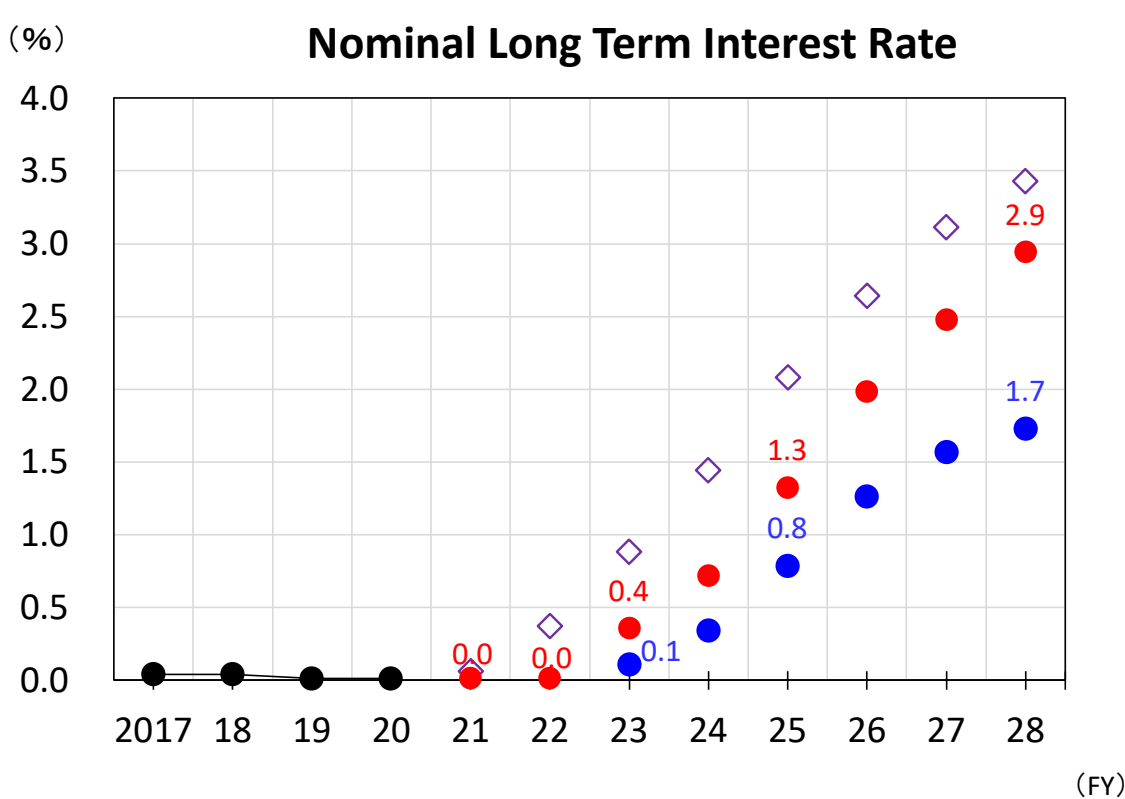
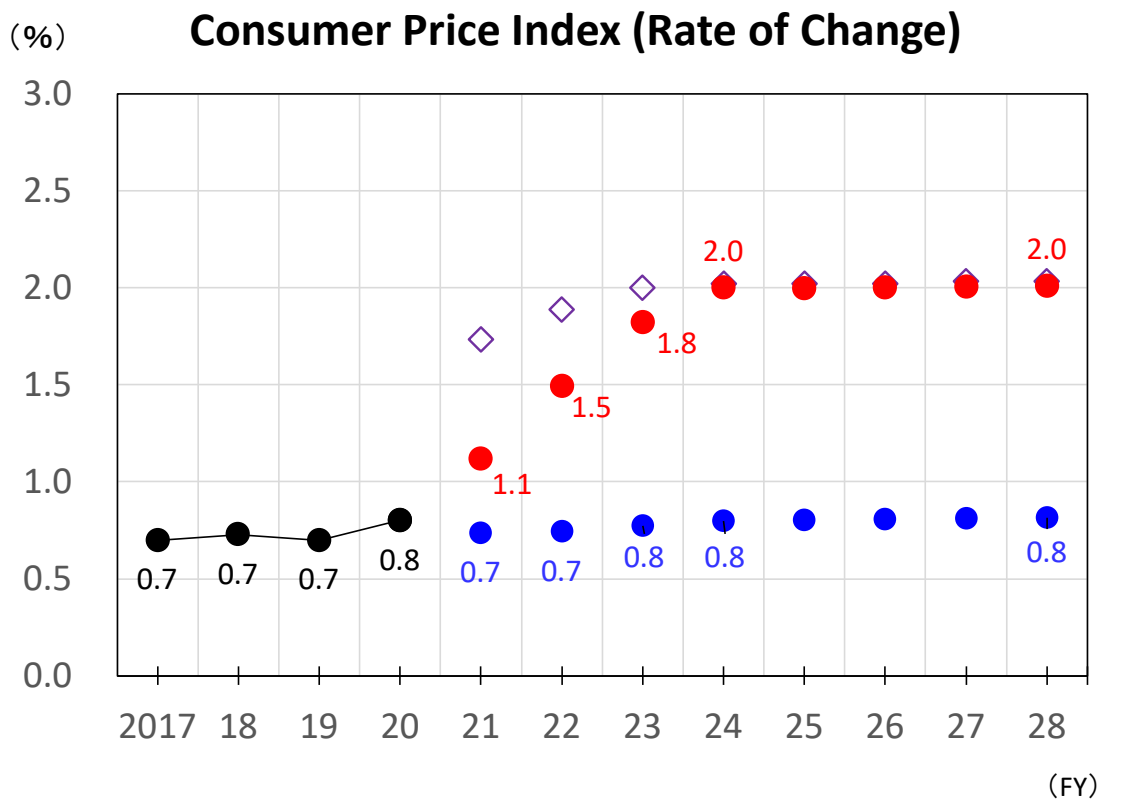
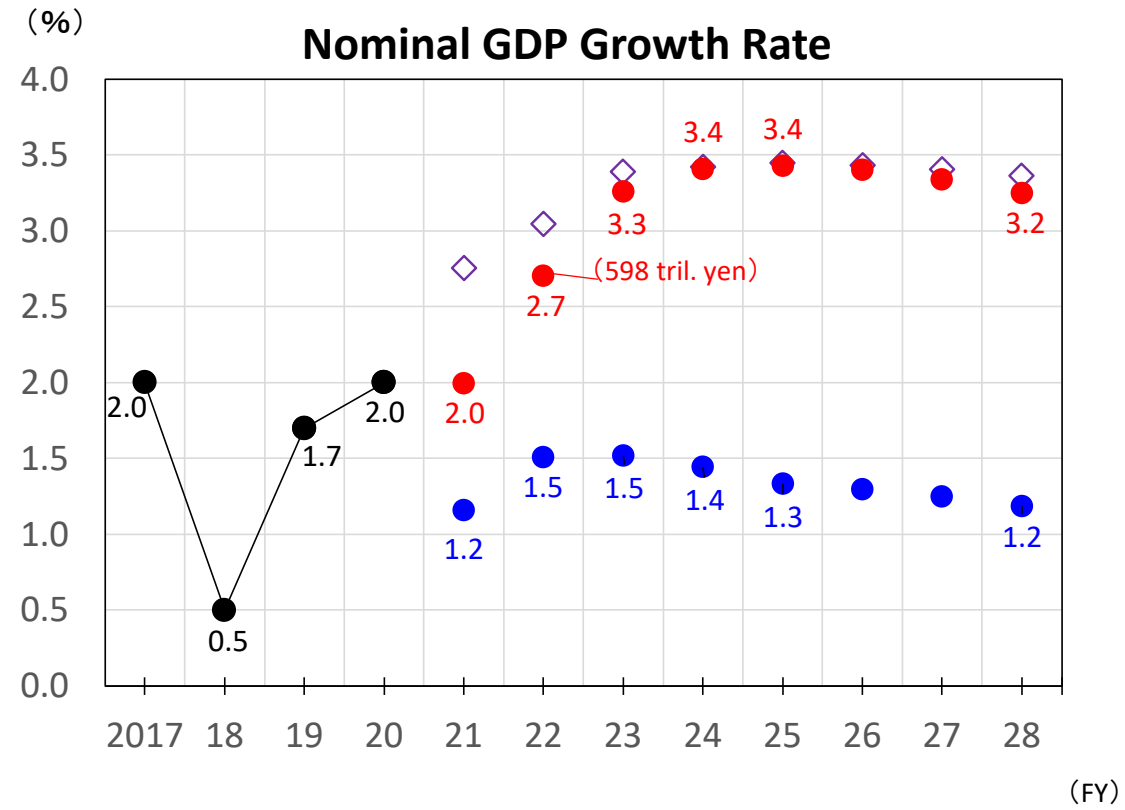
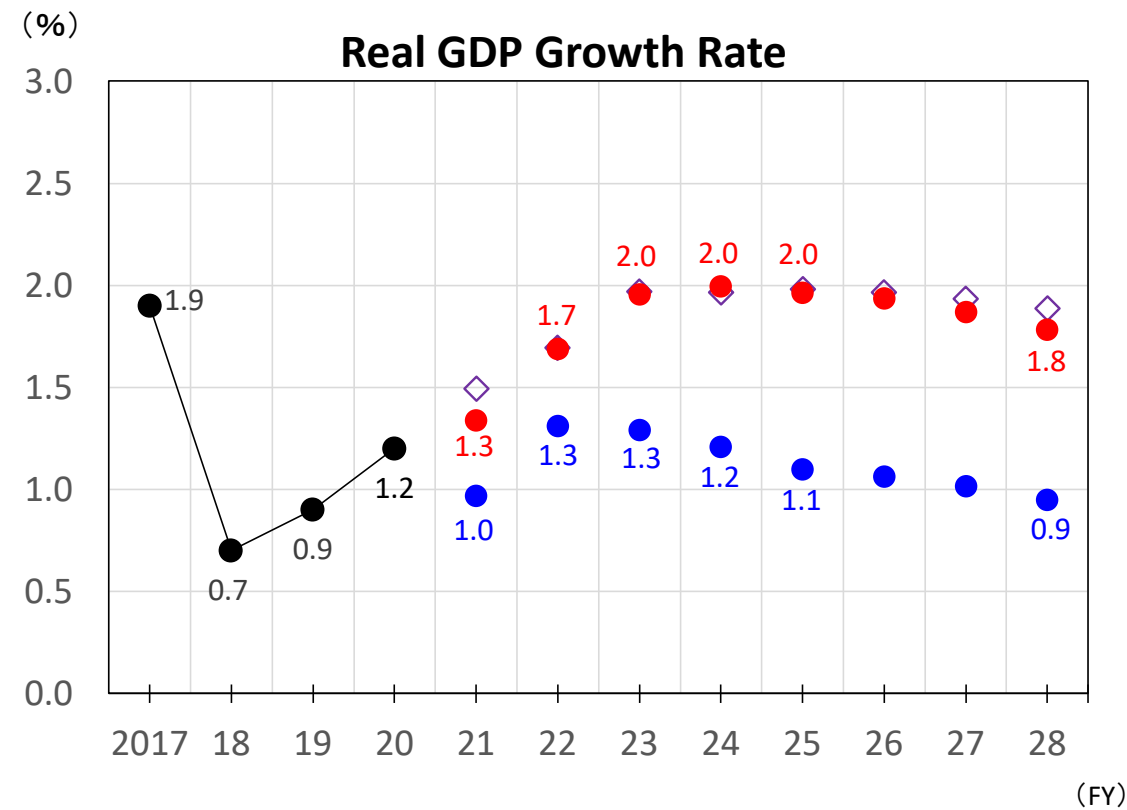
[Provisional Translation]

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

Cabinet Office

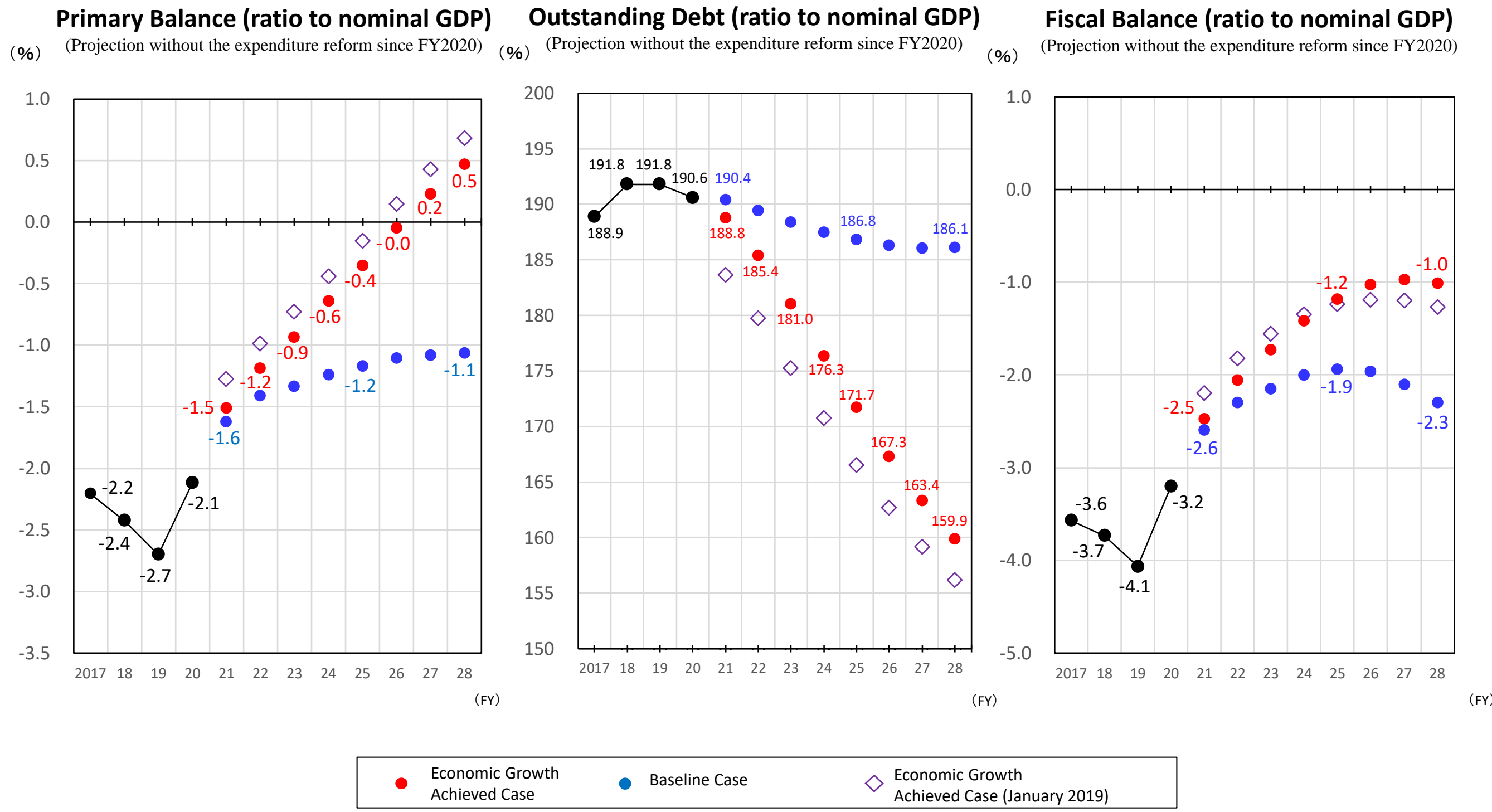
1. Projections of the Macro Economy

- Although the current GDP growth rate is lower than the previous projection due to slowdown of the world economy, in the Economic Growth Achieved Case, the growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms in the early 2020s along with the increase in the potential growth rate, and the inflation and interest rates will increase gradually.
- This projection does not reflect flexible macro-economic policies which will be implemented in the case where the downside risks originating from the overseas economies materialize.



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

• This projection reflects the current fiscal conditions of the Central and Local Governments (the FY2018 Settlement Highlight, etc.) and the medium to long term macroeconomic conditions, while the projection does not reflect specific expenditure reforms since FY2020. As a result, in the Economic Growth Achieved Case, the primary balance to nominal GDP is projected to improve due to increases in tax revenues, and to be mostly balanced in FY2026. The ratio of outstanding debt to GDP is projected to decline steadily in the periods of the projection.



(*) 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.

Assumptions on Economic and Fiscal Projections for Medium to Long Term Analysis (July 2019)

【 Economic conditions 】

○ To reflect the latest data on economic conditions and projections.

- To reflect “The Quarterly Estimates of GDP for January-March 2019 (Second Preliminary Estimates)” and “The Mid-Year Economic Projection for FY2019.”
- In the Economic Growth Achieved Case, the rate of change for CPI is projected to achieve around 2% since FY2023. Under this condition, the nominal long term interest rate is assumed to continue at the current level until FY2022.

○ Assumptions on the future potential growth rate.

- In the Economic Growth Achieved Case, the TFP growth rate rises from the current level (0.3%) to around 1.2% in FY2024 in five years.
- In the Baseline Case, to keep around 0.8%.

【 Fiscal conditions 】

○ To reflect the latest data on the fiscal conditions of Central and Local Governments.

- To reflect “The FY2018 Settlement Highlight” and “The FY2018 Local Government Tax Revenue Provisional Settlement.”

○ From FY2020 Onward

- The expenditures in FY2020 reflect “The Mid-Year Economic Projection for FY2019.”
- Since FY2021, 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.