

[Provisional Translation]

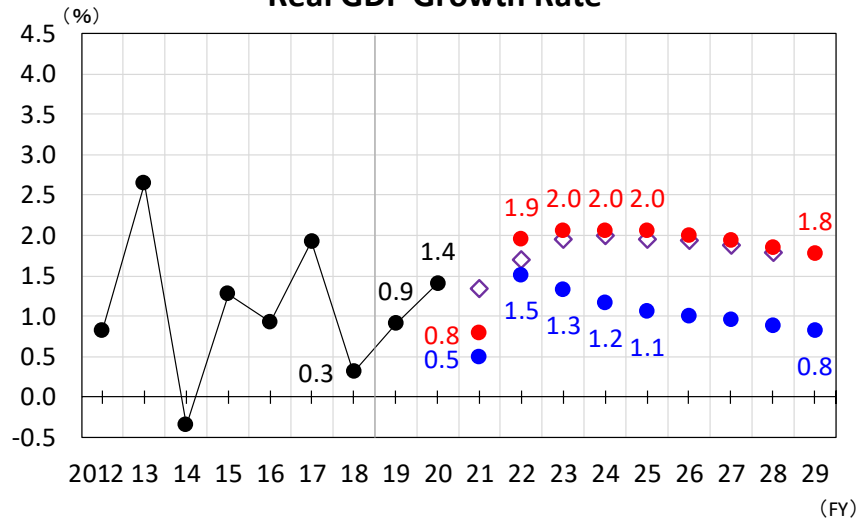
Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (January 2020)

Cabinet Office

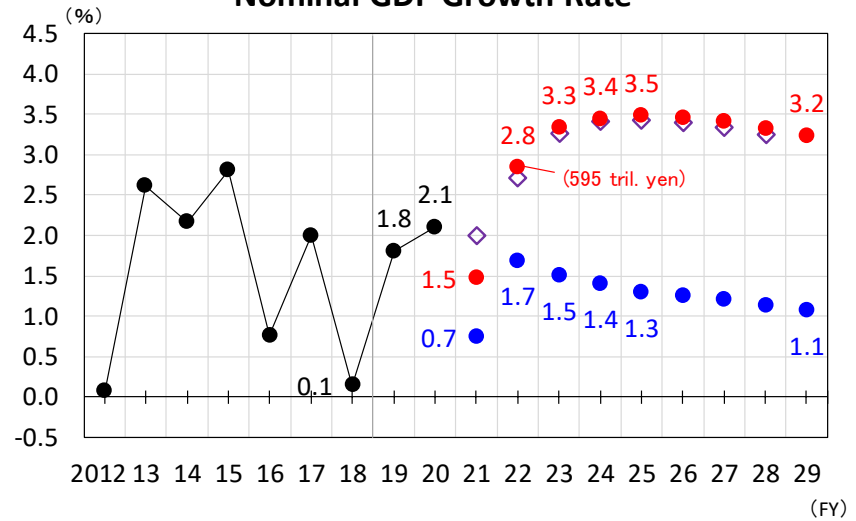
1. Projections of the Macro Economy

While downside risks originating from overseas economies are currently seen, the “Comprehensive Economic Measures to Create a Future with Security and Growth” not only boost demand in the short term but ensure sustainable economic growth mainly led by private demand. As a result, the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms in the early 2020s in the Economic Growth Achieved Case.

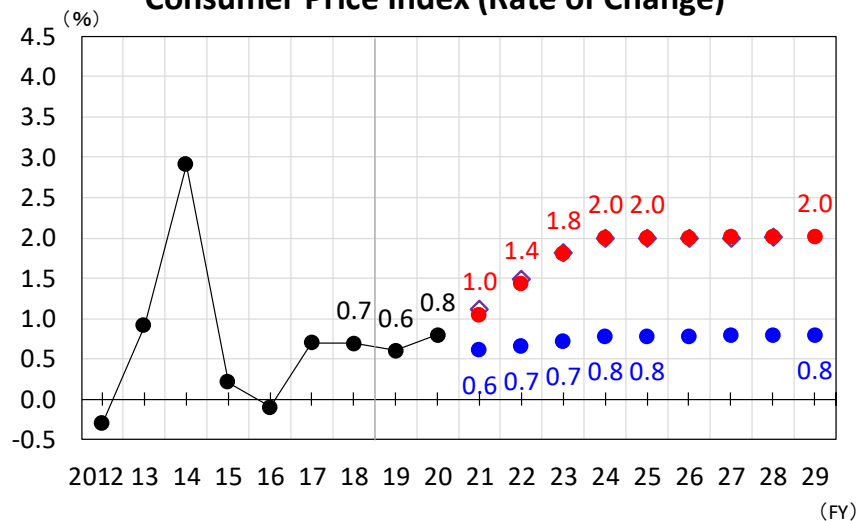
Real GDP Growth Rate



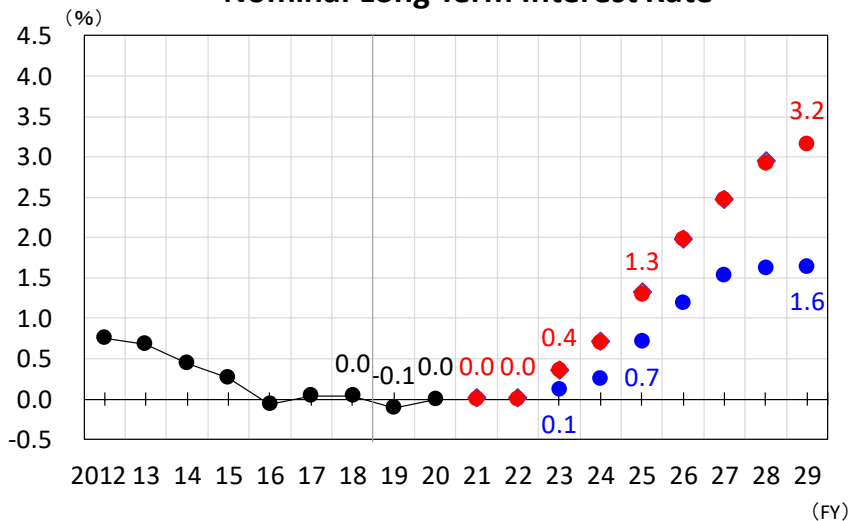
Nominal GDP Growth Rate



Consumer Price Index (Rate of Change)



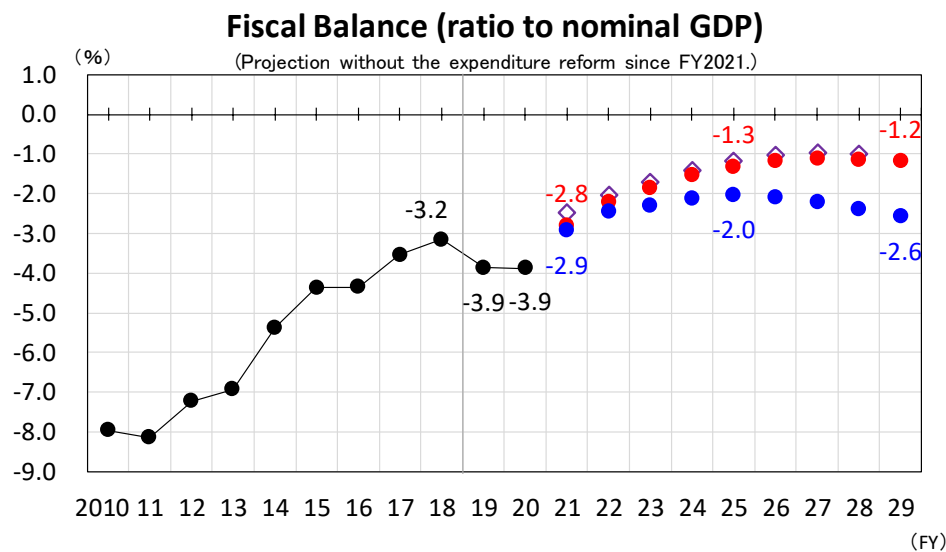
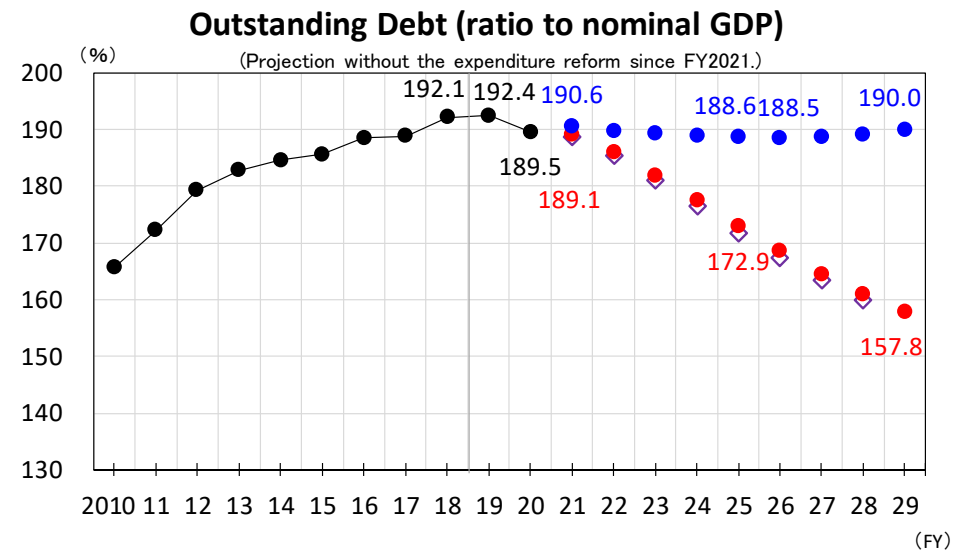
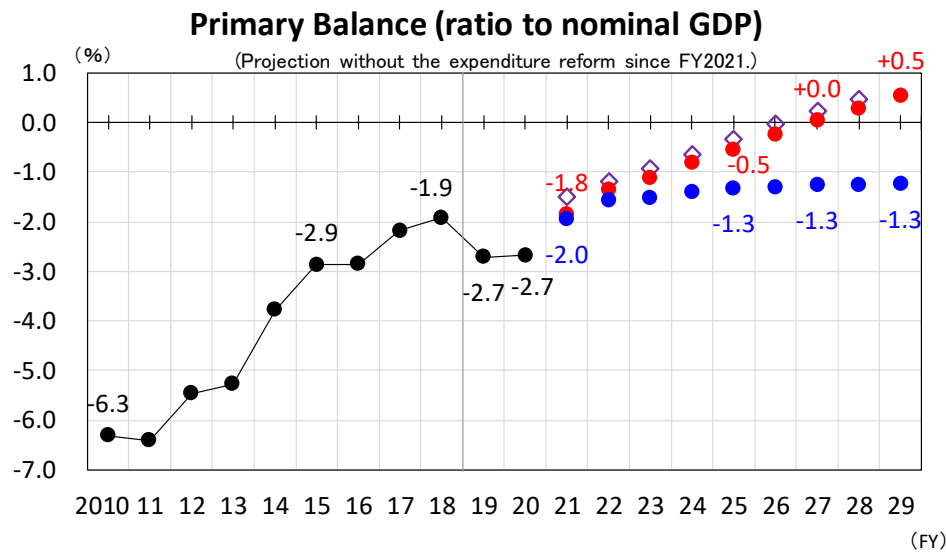
Nominal Long Term Interest Rate



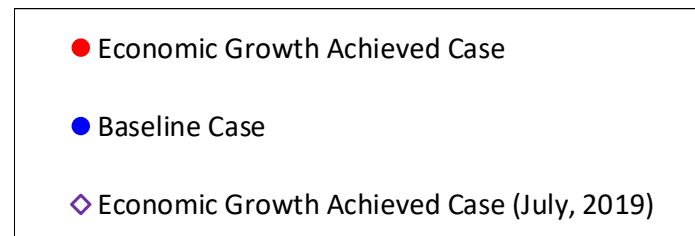
● Economic Growth Achieved Case ● Baseline Case ◆ Economic Growth Achieved Case (July, 2019)

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

The primary deficit to nominal GDP improved to 1.9% in FY2018. In FY2019 and FY2020, the deficit makes a downturn while the deceleration in tax revenues stemming from a slowdown of the world economy comes up. After then, it is projected to improve with the sustainable economic growth in the Economic Growth Achieved Case. Without the expenditure reforms from FY2021, the primary balance is projected to turn to surplus in FY2027. By implementing the expenditure reforms soundly, achieving the target of the primary surplus by FY2025 will come into view. 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.



Economic and fiscal conditions

【Economic conditions】

- To reflect the “Annual Report on National Accounts for 2018” and the “Fiscal 2020 Economic Outlook”.
- As for assumptions related to future potential output, in the Economic Growth Achieved Case, the TFP growth rate rises from current level (0.4%) to around 1.3% in FY2024 in five years. In the Baseline Case, to keep around 0.8%.
- In the Economic Growth Achieved Case, the rate of change for CPI is projected to achieve around 2% from FY2023. Under this condition, the nominal long term interest rate is assumed to continue at the zero-interest rate until FY2022.

【Fiscal conditions】

- To reflect the latest data on fiscal conditions of the Central and Local Governments.
 - To reflect the primary balance reported in the “Annual Report on National Accounts for 2018”. To reflect the “FY2018 settlements” of the Central Government’s General Accounts and the Local Government’s Ordinary Account.
 - To reflect the “Supplementary Budget for FY2019”, the “Draft FY2020 budget”, the “FY 2020 Tax Reform”, and the “Local Financial Measures in FY2020”.
- From 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.