

Economic and Fiscal Projections
for Medium to Long Term Analysis

July 31, 2020

Cabinet Office, Government of Japan

Projections are conducted using the Cabinet Office's "Economic and Fiscal Model," incorporating macroeconomy, public finance and social security synthetically. Therefore, the main economic variables such as growth rates, inflation rates and interest rates are not exogenously assumed, but are endogenously obtained within the model. Considerable leeway should be given when interpreting the projections shown here due to various uncertainties.

1. Introduction

The government decided “the New Plan to Advance Economic and Fiscal Revitalization¹” maintaining the basic policy “without economic revitalization, there can be no fiscal consolidation,” and continuing to accelerate and expand the three pillars of reform: “overcoming deflation and revitalizing the economy,” “expenditure reforms” and “revenue reforms.” As for the fiscal consolidation targets, the government decided to aim for a primary surplus of the central and local governments by FY2025, and at the same time to steadily reduce the public debt to GDP ratio.

This projection is intended to contribute to the discussion of the Council on Economic and Fiscal Policy by checking the progress of the economic revitalization and fiscal consolidation and providing the basic data necessary to consider further efforts, and conducting medium- to long-term analysis, based on the scenarios of economic situations and fiscal assumptions as follows.

2. Scenarios and Assumptions in Macroeconomy²

The projection on macroeconomy until FY2021 is based on the Cabinet Office’s “Mid-Year Economic Projection.”³ From FY2022, based on the past performance and current trend of the Japanese economy, the projection shows medium- to long-term macroeconomic prospects such as GDP and inflation for two different cases.

(1) Economic Growth Achieved Case

The Economic Growth Achieved Case offers a projection in which the policies of Abenomics for overcoming deflation and attaining economic revitalization show solid results at a feasible pace reflecting the past performance.

Specifically, the Economic Growth Achieved Case has the following assumptions:

- The total factor productivity (TFP) growth rate rises from the current level (around 0.4%) to around 1.3%, based on the extent and pace⁴ that the Japanese economy actually experienced before it entered deflation.
- The labor force participation rate shifts based on the estimates of labor supply and demand on the “case in which economic growth and labor participation are achieved” shown by the “Labor Policy Study Group” (2019).
- The number of foreign workers shifts based on the non-Japanese population reported in the “Population Projection for Japan” by the National Institute of Population and Social Security Research and the “Expected Number of Acceptance” of foreign workers related to the status of residence of specified skilled workers.⁵

¹ “Basic Policy on Economic and Fiscal Management and Reform 2018” (June 15, 2018) Chapter 3.

² For further details, see Appendix.

³ The Cabinet Office’s “Mid-Year Economic Projection for FY2020” (July 30, 2020, submitted to the Council on Economic and Fiscal Policy)

⁴ Specifically, the total factor productivity (TFP) growth rate rose around 0.9% in 5 years from FY1982 to FY1987.

⁵ “The Basic Policy on Operation of the System Related to Status of Residence of the Specified Skilled Worker” (Cabinet Decision, December 25, 2018)

(2) Baseline Case

The Baseline Case offers a projection in which the economy will shift approximately at the rate of current potential growth.

Specifically, the main differences from the assumptions of Economic Growth Achieved Case are as follows:

- The total factor productivity (TFP) growth rate moves around 0.7%.⁶
- The labor force participation rate shifts based on the estimates of labor supply and demand on the “case in which economic growth and labor participation are partly achieved” shown by the “Labor Policy Study Group” (2019).

3. Main Assumptions in Public Finances⁷

For Public Finances, based on the following assumptions, the projection shows fiscal prospects which are consistent with the two economic scenarios mentioned in “2.”

- Expenditures in FY2020 reflect the “Supplementary Budget for 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.
- Revenues from FY2020 will increase based on the two economic scenarios and assumptions of macroeconomy.

4. Progress and Future Prospects of Economic Revitalization and Fiscal Consolidation

<Progress>

In FY2020, the Japanese economy has been in an extremely severe condition, especially from April to May this year, due to the impact of the Novel Coronavirus Infectious Disease (hereinafter referred to as “Infectious Disease”). The level of GDP is projected to recover to the level before the spread of the Infectious Disease throughout FY2021, supported by the effects of various policies including prompt implementation of the “Emergency Economic Measures to Cope with COVID-19” (Cabinet Decision, April 20, 2020) and the Second Supplementary Budget for FY2020, and steady implementation of the “Basic Policy on Economic and Fiscal Management and Reform 2020” (Cabinet Decision, July 17, 2020, hereinafter “Basic Policy 2020”). In terms of the growth rate, it is projected to be around -4.5% in real terms and around -4.1% in nominal terms in FY 2020, and around 3.4% in real terms and around 3.5% in nominal terms in FY 2021.

On the fiscal conditions, the primary deficit⁸ is projected to be 2.6% of GDP in FY2019 due to both the decrease in tax revenues from the previous year and the execution of the supplementary budget for FY2019. It is expected to be around 12.8% in FY2020 and around 4.3% in FY2021 due to both the increase in expenditures for the supplementary budgets for dealing with the Infectious Disease

⁶ Average from January 2002. (From the 14th business cycle.)

⁷ For further details, see Appendix.

⁸ Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

and a deceleration in revenues caused by the economic downturn due to the Infectious Disease. As a result, the ratio of outstanding debt to GDP is projected to increase from around 192.5% in FY2019 to around 216.4% in FY2020, then decrease to around 213.0% due to economic recovery in FY2021.

<Future Prospects>

In the Economic Growth Achieved Case, in the medium to long term, the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms in line with the solid productivity growth through the implementation of the “Basic Policy 2020,” while GDP is projected to grow at a higher rate until the demand shortfall originating from the Infectious Disease diminishes. As a result, nominal GDP is projected to achieve 600 trillion yen around FY2023. The rate of change in consumer prices is projected to reach around 2% from FY2024.

On the fiscal conditions, without the expenditure reforms, the primary deficit is projected to be around 1.1% of GDP in FY2025, and turn to surplus in FY2029. In case of continuing the expenditure reform carried out thus far, the primary surplus will be achieved around three years earlier⁹, but in order to achieve the surplus in FY2025, it will be important to realize an economy led not by public expenditures but by private demand, and ensure overcoming deflation and revitalizing the economy as well as continue further improvement both from the expenditure and revenue sides. The ratio of outstanding debt to GDP is projected to steadily decline in the periods of the projection. It should be noted, however, 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.

In the Baseline Case, however, the GDP growth rate is projected to be around 1% in real terms and low 1% in nominal terms in the medium to long term. The rate of change in consumer prices is projected to be around 0.7%.

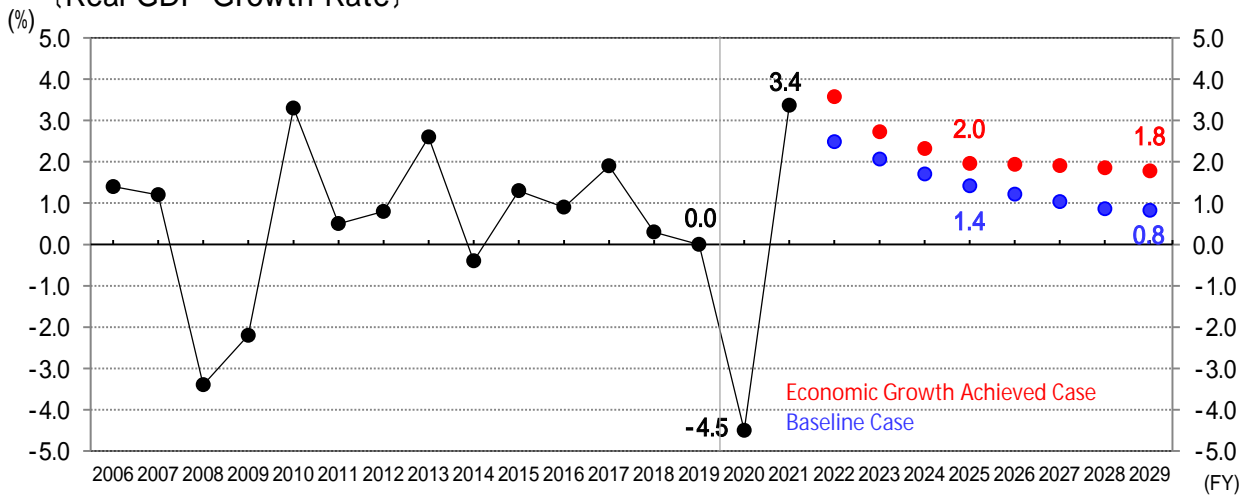
On the fiscal conditions, the primary deficit is projected to be 2.1% of GDP in FY2025, and the primary deficit within the projection period improves at a modest pace. The ratio of outstanding debt to GDP is projected to be almost flat in the periods of projection.

⁹ According to the materials submitted to the Council on Economic and Fiscal Policy (May 28, 2018) by council members from the private sector, the effect on improvement in primary balance by increasing spending efficiency is about 1.3 trillion yen per year when its impact on the economy is taken into consideration. Calculating mechanically based on this value, if the government continues similar expenditure reforms from FY2021, the primary balance could turn to surplus in FY2026 as the primary deficit without the expenditure reforms is about 7.3 trillion yen in FY2025 and 4.8 trillion yen in FY2026.

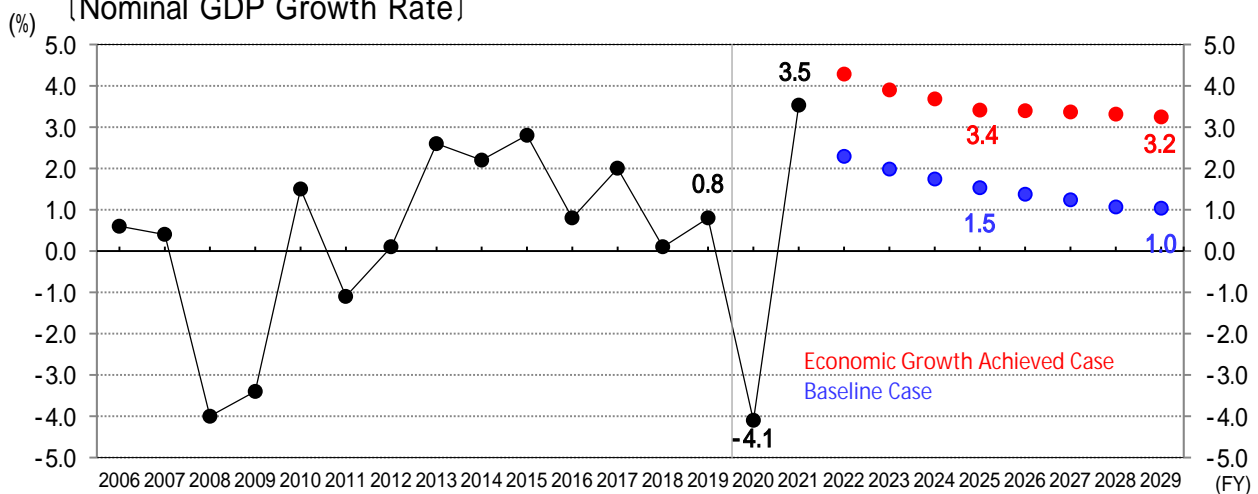
Results of Projection

GDP Growth Rate

[Real GDP Growth Rate]

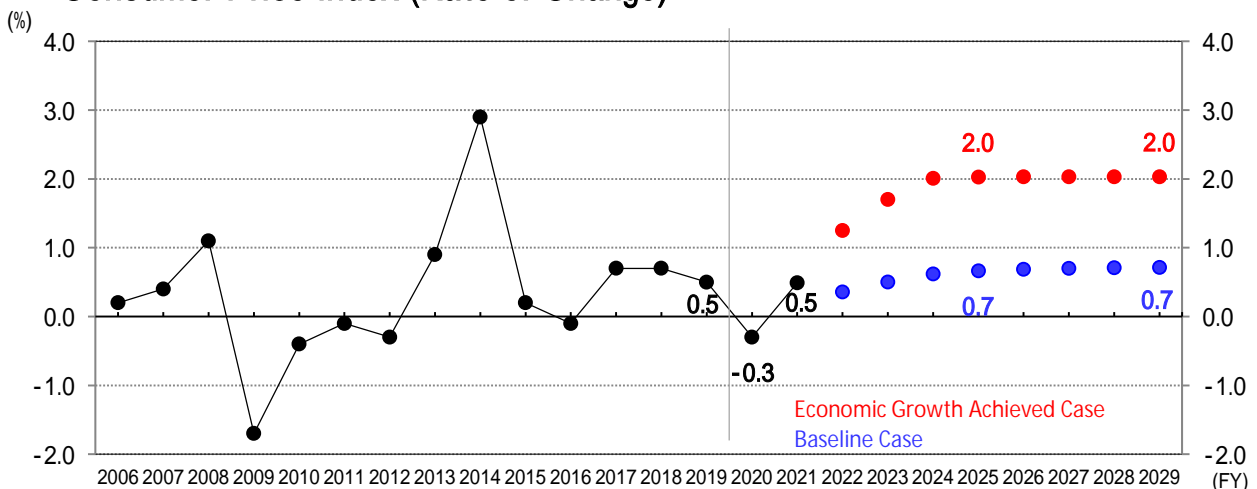


[Nominal GDP Growth Rate]



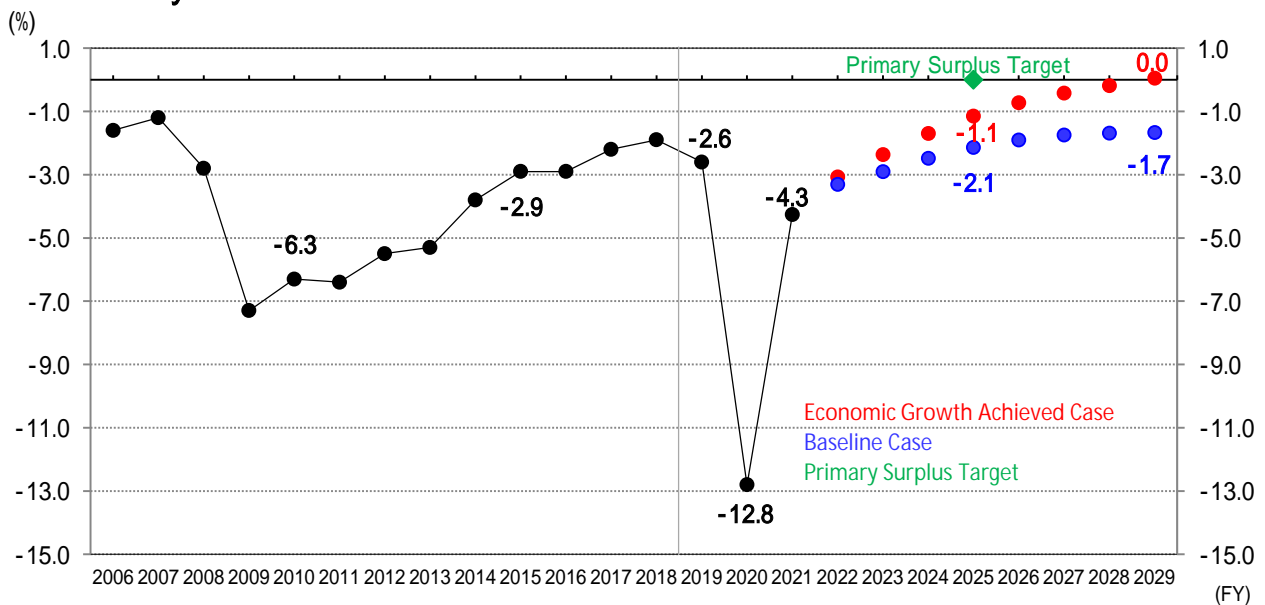
• In the Economic Growth Achieved Case, in the medium to long term, the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms in line with the solid productivity growth through the implementation of the “Basic Policy 2020,” while GDP is projected to grow at a higher rate until the demand shortfall originating from the Infectious Disease diminishes. As a result, nominal GDP is projected to achieve 600 trillion yen in around FY2023.

Consumer Price Index (Rate of Change)



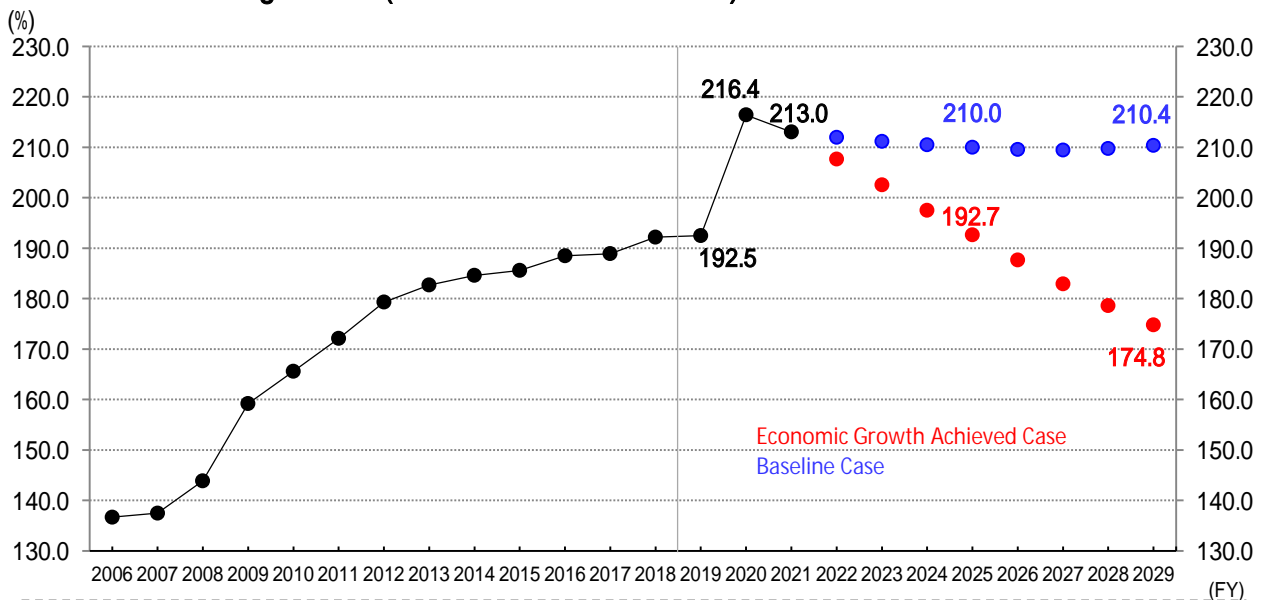
• In the Economic Growth Achieved Case, the rate of change in consumer prices is projected to reach around 2% from FY2024.

Primary Balance of Central and Local Governments Combined*



• In the Economic Growth Achieved Case, without the expenditure reforms, the primary deficit is projected to be around 1.1% of GDP in FY2025, and turn to surplus in FY2029.

Outstanding Debt* (Ratio to Nominal GDP)



- In the Economic Growth Achieved Case, the ratio of outstanding debt to GDP is projected to steadily decline in the periods of projection. It should be noted, however, 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.
- In the Baseline Case, the ratio is projected to be almost flat in the periods of projection.

* Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

* Regarding these projection results, the impact of the Infectious Disease on domestic and foreign economies needs to be carefully examined. Taking into account the reference case of the Cabinet Office's "Mid-Year Economic Projection" which is based on scenarios of international organizations (OECD and World Bank) in which a large second wave of disease infections will occur overseas in the fall of 2020, Nominal GDP will achieve 600 trillion yen in around FY2024 and the primary deficit without expenditure reforms will be around 1.4% of GDP in FY2025.

Result of Projection (Table)

Economic Growth Achieved Case

[Macroeconomy]

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Real GDP Growth	(0.3)	(0.0)	(4.5)	(3.4)	(3.6)	(2.7)	(2.3)	(2.0)	(1.9)	(1.9)	(1.9)	(1.8)
Real GNI Growth	(0.2)	(0.1)	(4.0)	(3.2)	(3.4)	(2.6)	(2.3)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)
Nominal GDP Growth	(0.1)	(0.8)	(4.1)	(3.5)	(4.3)	(3.9)	(3.7)	(3.4)	(3.4)	(3.4)	(3.3)	(3.2)
Nominal GDP	548.1	552.6	529.8	548.5	571.9	594.2	616.1	637.2	658.8	681.0	703.6	726.4
Nominal GNI Per Capita Growth	(0.5)	(0.9)	(3.7)	(3.8)	(4.6)	(4.2)	(4.1)	(3.9)	(3.9)	(3.8)	(3.8)	(3.8)
Nominal GNI Per Capita (Ten thousand yen)	450	454	437	454	474	495	515	535	556	577	599	621
Potential GDP Growth	(0.9)	(0.9)	(0.9)	(1.1)	(1.3)	(1.5)	(1.8)	(2.0)	(1.9)	(1.9)	(1.9)	(1.8)
Change of Price												
Consumer Prices	(0.7)	(0.5)	(0.3)	(0.5)	(1.3)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Corporate Goods Prices	(2.2)	(0.1)	(2.0)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)	(0.9)
GDP Deflator	(0.2)	(0.8)	(0.4)	(0.2)	(0.7)	(1.1)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Unemployment Rate	(2.4)	(2.3)	(3.2)	(2.7)	(2.4)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)
Long-term Interest Rate	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.3)	(0.6)	(1.2)	(1.9)	(2.4)	(2.8)
Balance by Sector												
General Government	[2.2]	[2.4]	[12.7]	[4.3]	[3.1]	[2.2]	[1.4]	[0.7]	[0.2]	[0.3]	[0.5]	[0.7]
Private	[5.7]	[6.0]	[15.1]	[7.4]	[6.5]	[5.6]	[4.7]	[4.0]	[3.5]	[3.0]	[2.8]	[2.5]
Overseas	[3.5]	[3.5]	[2.5]	[3.1]	[3.3]	[3.3]	[3.3]	[3.3]	[3.3]	[3.3]	[3.2]	[3.2]

[Central and Local Governments' Public Finances]

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

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Primary Balance	10.5	14.5	67.5	23.4	17.5	14.0	10.5	7.3	4.8	2.8	1.3	0.3
(ratio to nominal GDP)	[1.9]	[2.6]	[12.8]	[4.3]	[3.1]	[2.4]	[1.7]	[1.1]	[0.7]	[0.4]	[0.2]	[0.0]
Central Government	12.7	17.0	67.6	22.5	17.8	15.3	13.7	12.4	11.4	10.8	10.2	9.6
(ratio to nominal GDP)	[2.3]	[3.1]	[12.8]	[4.1]	[3.1]	[2.6]	[2.2]	[2.0]	[1.7]	[1.6]	[1.5]	[1.3]
Local Government	2.2	2.4	0.0	0.9	0.3	1.3	3.2	5.1	6.6	7.9	8.9	9.9
(ratio to nominal GDP)	[0.4]	[0.4]	[0.0]	[0.2]	[0.1]	[0.2]	[0.5]	[0.8]	[1.0]	[1.2]	[1.3]	[1.4]
Fiscal Balance	17.3	21.4	74.9	29.5	23.3	19.5	15.5	12.2	10.0	9.0	9.2	9.5
(ratio to nominal GDP)	[3.2]	[3.9]	[14.1]	[5.4]	[4.1]	[3.3]	[2.5]	[1.9]	[1.5]	[1.3]	[1.3]	[1.3]
Central Government	18.1	22.2	73.5	27.2	22.4	19.7	17.7	16.5	15.8	16.2	17.3	18.7
(ratio to nominal GDP)	[3.3]	[4.0]	[13.9]	[5.0]	[3.9]	[3.3]	[2.9]	[2.6]	[2.4]	[2.4]	[2.5]	[2.6]
Local Government	0.8	0.8	1.4	2.2	0.9	0.2	2.2	4.2	5.8	7.2	8.1	9.2
(ratio to nominal GDP)	[0.1]	[0.1]	[0.3]	[0.4]	[0.2]	[0.0]	[0.4]	[0.7]	[0.9]	[1.1]	[1.2]	[1.3]
Outstanding Debt	1053.5	1063.6	1146.5	1168.4	1187.7	1203.8	1217.0	1227.7	1236.3	1246.0	1256.9	1269.9
(ratio to nominal GDP)	[192.2]	[192.5]	[216.4]	[213.0]	[207.7]	[202.6]	[197.5]	[192.7]	[187.6]	[183.0]	[178.6]	[174.8]

[General Account of Central Government]

Trillions of Yen

年 度	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Expenditures	99.0	101.4	160.3	99.6	102.2	103.7	106.0	108.5	111.4	115.3	119.7	124.6
General Account Expenditure Excluding Debt Repayment And Interest Repayment	76.4	79.1	136.3	77.4	78.9	80.3	82.4	84.6	86.6	88.7	90.9	93.0
Social Security-related Expenditures	32.6	33.5	40.5	36.4	37.3	38.1	38.9	39.8	40.6	41.6	42.6	43.5
Local Allocation Tax Grants, etc.	16.0	16.0	15.9	15.0	15.3	15.5	16.3	17.1	17.6	18.3	18.9	19.5
Others	27.9	29.5	79.9	26.0	26.3	26.7	27.2	27.8	28.3	28.9	29.4	30.0
Debt Repayment and Interest Payment	22.5	22.3	24.0	22.2	23.3	23.4	23.6	24.0	24.8	26.5	28.8	31.6
Revenues	66.0	65.5	62.7	62.4	65.4	68.9	72.7	76.1	79.1	81.8	84.4	87.2
Tax Revenue	60.4	58.4	56.1	57.0	59.9	63.2	66.9	70.2	73.0	75.5	78.0	80.6
Other Revenues	5.7	7.0	6.6	5.4	5.5	5.7	5.8	6.0	6.1	6.3	6.4	6.6
Difference between Expenditures and Revenues	34.4	36.6	97.6	37.2	36.8	34.8	33.3	32.4	32.3	33.5	35.3	37.5
Primary Balance in General Account of Central Government	10.4	13.6	73.6	15.0	13.5	11.4	9.7	8.5	7.5	7.0	6.4	5.9

[Ordinary Account of Local Government]

Trillions of Yen

年 度	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Expenditures	96.1	98.1	117.0	96.4	97.8	99.5	101.3	103.4	105.5	108.3	111.0	114.1
Debt Repayment and Interest Payment	12.4	11.9	11.7	11.5	11.4	11.3	11.1	11.1	11.1	11.2	11.3	11.2
Revenues	83.0	85.7	103.5	81.8	83.7	86.4	90.1	93.8	97.3	100.5	103.6	106.7
Tax Revenue	43.3	43.7	42.8	41.8	43.0	44.9	47.0	49.3	51.4	53.3	55.1	56.9
Difference between Expenditures and Revenues	13.0	12.4	13.5	14.6	14.1	13.1	11.3	9.6	8.3	7.8	7.4	7.4
Primary Balance in Ordinary Account of Local Government	1.9	1.6	0.2	1.2	0.7	0.3	2.1	3.9	5.4	6.6	7.6	8.6

Notes 1. In "General Account of Central Government," up to FY2018 is based on the "FY2018 Settlement," FY2019 is based on the "FY2019 Settlement Highlight," and FY2020 is based on the "Supplementary Budget for 2020." In "Ordinary Account of Local Government," FY2018 is based on the "FY2018 Settlement."

2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry-back of settlement deficit compensation.

3. In "General Account of Central Government," "Other Revenues" in both FY2018 and FY2019 consists of non-tax revenues and preceding fiscal year surplus received (excluding the balance of fiscal resources carried forward to the next year (5.1 trillion yen in FY2018, 6.6 trillion yen in FY2019)).

4. In "Ordinary Account of Local Government," "Revenues" excludes local bonds, reduction of reserve, and the balance of fiscal resources carried forward from total revenues. "Tax Revenue" is the total sum of local taxes and local transfer taxes.

Result of Projection (Table)

Baseline Case

[Macroeconomy]

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Real GDP Growth	(0.3)	(0.0)	(4.5)	(3.4)	(2.5)	(2.1)	(1.7)	(1.4)	(1.2)	(1.0)	(0.9)	(0.8)
Real GNI Growth	(0.2)	(0.1)	(4.0)	(3.2)	(2.3)	(1.9)	(1.6)	(1.3)	(1.2)	(0.9)	(0.8)	(0.7)
Nominal GDP Growth	(0.1)	(0.8)	(4.1)	(3.5)	(2.3)	(2.0)	(1.7)	(1.5)	(1.4)	(1.2)	(1.1)	(1.0)
Nominal GDP	548.1	552.6	529.8	548.5	561.0	572.2	582.1	591.1	599.2	606.6	613.1	619.5
Nominal GNI Per Capita Growth	(0.5)	(0.9)	(3.7)	(3.8)	(2.7)	(2.4)	(2.2)	(2.0)	(1.9)	(1.8)	(1.6)	(1.6)
Nominal GNI Per Capita (Ten thousand yen)	450	454	437	454	466	477	487	497	507	516	524	532
Potential GDP Growth	(0.9)	(0.9)	(0.9)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)	(0.8)
Change of Price												
Consumer Prices	(0.7)	(0.5)	(0.3)	(0.5)	(0.4)	(0.5)	(0.6)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Corporate Goods Prices	(2.2)	(0.1)	(2.0)	(0.7)	(0.3)	(0.4)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
GDP Deflator	(0.2)	(0.8)	(0.4)	(0.2)	(0.2)	(0.1)	(0.0)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Unemployment Rate	(2.4)	(2.3)	(3.2)	(2.7)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)	(2.7)
Long-term Interest Rate	(0.0)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)	(0.1)	(0.2)	(0.6)	(1.1)	(1.4)	(1.5)
Balance by Sector												
General Government	[2.2]	[2.4]	[12.7]	[4.3]	[3.3]	[2.8]	[2.5]	[2.0]	[1.7]	[1.4]	[1.4]	[1.5]
Private	[5.7]	[6.0]	[15.1]	[7.4]	[6.6]	[6.1]	[5.7]	[5.2]	[4.8]	[4.4]	[4.2]	[4.3]
Overseas	[3.5]	[3.5]	[2.5]	[3.1]	[3.3]	[3.3]	[3.2]	[3.2]	[3.1]	[3.0]	[2.9]	[2.8]

[Central and Local Governments' Public Finances]

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

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Primary Balance	10.5	14.5	67.5	23.4	18.6	16.6	14.5	12.6	11.4	10.6	10.4	10.3
(ratio to nominal GDP)	[1.9]	[2.6]	[12.8]	[4.3]	[3.3]	[2.9]	[2.5]	[2.1]	[1.9]	[1.7]	[1.7]	[1.7]
Central Government	12.7	17.0	67.6	22.5	18.6	17.1	15.4	14.6	14.1	13.9	13.9	13.9
(ratio to nominal GDP)	[2.3]	[3.1]	[12.8]	[4.1]	[3.3]	[3.0]	[2.6]	[2.5]	[2.3]	[2.3]	[2.3]	[2.2]
Local Government	2.2	2.4	0.0	0.9	0.0	0.5	1.0	2.0	2.6	3.3	3.6	3.6
(ratio to nominal GDP)	[0.4]	[0.4]	[0.0]	[0.2]	[0.0]	[0.1]	[0.2]	[0.3]	[0.4]	[0.5]	[0.6]	[0.6]
Fiscal Balance	17.3	21.4	74.9	29.5	24.3	22.0	19.5	17.3	15.8	15.3	15.8	16.6
(ratio to nominal GDP)	[3.2]	[3.9]	[14.1]	[5.4]	[4.3]	[3.8]	[3.3]	[2.9]	[2.6]	[2.5]	[2.6]	[2.7]
Central Government	18.1	22.2	73.5	27.2	23.1	21.4	19.4	18.3	17.6	17.7	17.7	18.4
(ratio to nominal GDP)	[3.3]	[4.0]	[13.9]	[5.0]	[4.1]	[3.7]	[3.3]	[3.1]	[2.9]	[2.9]	[3.0]	[3.1]
Local Government	0.8	0.8	1.4	2.2	1.2	0.6	0.1	1.0	1.8	2.5	2.7	2.6
(ratio to nominal GDP)	[0.1]	[0.1]	[0.3]	[0.4]	[0.2]	[0.1]	[0.0]	[0.2]	[0.3]	[0.4]	[0.4]	[0.4]
Outstanding Debt	1053.5	1063.6	1146.5	1168.4	1189.1	1208.2	1225.5	1241.3	1255.5	1270.3	1286.1	1303.1
(ratio to nominal GDP)	[192.2]	[192.5]	[216.4]	[213.0]	[212.0]	[211.2]	[210.5]	[210.0]	[209.5]	[209.4]	[209.8]	[210.4]

[General Account of Central Government]

Trillions of Yen

年 度	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Expenditures	99.0	101.4	160.3	99.6	101.7	102.6	103.2	104.3	105.5	107.3	109.5	111.8
General Account Expenditure Excluding Debt Repayment And Interest Repayment	76.4	79.1	136.3	77.4	78.4	79.2	79.7	80.7	81.5	82.5	83.3	84.2
Social Security-related Expenditures	32.6	33.5	40.5	36.4	37.2	37.8	38.4	38.9	39.3	39.8	40.3	40.8
Local Allocation Tax Grants, etc.	16.0	16.0	15.9	15.0	15.1	15.2	15.0	15.3	15.5	15.8	16.0	16.2
Others	27.9	29.5	79.9	26.0	26.1	26.2	26.3	26.5	26.6	26.8	27.0	27.2
Debt Repayment and Interest Payment	22.5	22.3	24.0	22.2	23.3	23.4	23.5	23.6	24.0	24.8	26.1	27.6
Revenues	66.0	65.5	62.7	62.4	63.7	65.5	67.5	69.3	70.8	71.9	72.8	73.5
Tax Revenue	60.4	58.4	56.1	57.0	58.2	59.9	61.9	63.6	65.1	66.1	67.0	67.7
Other Revenues	5.7	7.0	6.6	5.4	5.5	5.5	5.6	5.7	5.7	5.8	5.8	5.8
Difference between Expenditures and Revenues	34.4	36.6	97.6	37.2	38.0	37.1	35.7	35.0	34.7	35.4	36.7	38.3
Primary Balance in General Account of Central Government	10.4	13.6	73.6	15.0	14.6	13.7	12.2	11.3	10.7	10.6	10.6	10.7

[Ordinary Account of Local Government]

Trillions of Yen

年 度	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Expenditures	96.1	98.1	117.0	96.4	97.1	97.9	98.5	99.4	100.3	101.4	102.4	103.4
Debt Repayment and Interest Payment	12.4	11.9	11.7	11.5	11.4	11.3	11.1	11.1	11.2	11.3	11.6	11.6
Revenues	83.0	85.7	103.5	81.8	82.7	84.0	85.0	86.7	88.2	89.6	90.6	91.5
Tax Revenue	43.3	43.7	42.8	41.8	42.4	43.3	44.3	45.4	46.4	47.2	47.8	48.4
Difference between Expenditures and Revenues	13.0	12.4	13.5	14.6	14.4	13.9	13.5	12.7	12.1	11.8	11.8	11.9
Primary Balance in Ordinary Account of Local Government	1.9	1.6	0.2	1.2	1.0	0.5	0.3	0.5	1.3	1.8	2.0	2.0

Notes 1. In "General Account of Central Government," up to FY2018 is based on the "FY2018 Settlement," FY2019 is based on the "FY2019 Settlement Highlight," and FY2020 is based on the "Supplementary Budget for 2020." In "Ordinary Account of Local Government," FY2018 is based on the "FY2018 Settlement."

2. "General Account Expenditure Excluding Debt Repayment and Interest Payment" excludes carry-back of settlement deficit compensation.

3. In "General Account of Central Government," "Other Revenues" in both FY2018 and FY2019 consists of non-tax revenues and preceding fiscal year surplus received (excluding the balance of fiscal resources carried forward to the next year (5.1 trillion yen in FY2018, 6.6 trillion yen in FY2019)).

4. In "Ordinary Account of Local Government," "Revenues" excludes local bonds, reduction of reserve, and the balance of fiscal resources carried forward from total revenues. "Tax Revenue" is the total sum of local taxes and local transfer taxes.

[Central and Local Governments' Public Finances]

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

Economic Growth Achieved Case

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Primary Balance	10.8	14.5	67.6	23.3	16.8	13.3	9.8	6.9	4.8	2.5	1.0	0.7
(ratio to nominal GDP)	[2.0]	[2.6]	[12.8]	[4.2]	[2.9]	[2.2]	[1.6]	[1.1]	[0.7]	[0.4]	[0.1]	[0.1]
Central Government	12.6	16.9	67.6	22.5	17.2	14.7	13.0	12.0	11.4	10.4	9.9	9.2
(ratio to nominal GDP)	[2.3]	[3.1]	[12.8]	[4.1]	[3.0]	[2.5]	[2.1]	[1.9]	[1.7]	[1.5]	[1.4]	[1.3]
Local Government	1.8	2.4	0.0	0.8	0.4	1.4	3.2	5.1	6.6	7.9	8.9	9.9
(ratio to nominal GDP)	[0.3]	[0.4]	[0.0]	[0.2]	[0.1]	[0.2]	[0.5]	[0.8]	[1.0]	[1.2]	[1.3]	[1.4]
Fiscal Balance	17.6	21.4	75.0	29.4	22.6	18.7	14.8	11.8	10.0	8.7	8.9	9.2
(ratio to nominal GDP)	[3.2]	[3.9]	[14.2]	[5.4]	[3.9]	[3.2]	[2.4]	[1.9]	[1.5]	[1.3]	[1.3]	[1.3]
Central Government	18.0	22.1	73.6	27.2	21.8	19.0	17.1	16.1	15.8	15.9	16.9	18.3
(ratio to nominal GDP)	[3.3]	[4.0]	[13.9]	[5.0]	[3.8]	[3.2]	[2.8]	[2.5]	[2.4]	[2.3]	[2.4]	[2.5]
Local Government	0.4	0.7	1.4	2.1	0.8	0.3	2.2	4.2	5.8	7.2	8.1	9.2
(ratio to nominal GDP)	[0.1]	[0.1]	[0.3]	[0.4]	[0.1]	[0.0]	[0.4]	[0.7]	[0.9]	[1.1]	[1.1]	[1.3]
Outstanding Debt	1059.8	1070.3	1152.8	1174.1	1193.3	1209.2	1222.4	1233.0	1241.3	1250.6	1261.2	1273.9
(ratio to nominal GDP)	[193.4]	[193.7]	[217.6]	[214.1]	[208.6]	[203.5]	[198.4]	[193.5]	[188.4]	[183.6]	[179.3]	[175.4]

Baseline Case

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

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Primary Balance	10.8	14.5	67.6	23.3	17.8	15.9	13.8	12.2	11.4	10.3	10.0	10.0
(ratio to nominal GDP)	[2.0]	[2.6]	[12.8]	[4.2]	[3.2]	[2.8]	[2.4]	[2.1]	[1.9]	[1.7]	[1.6]	[1.6]
Central Government	12.6	16.9	67.6	22.5	17.9	16.5	14.8	14.2	14.1	13.6	13.6	13.5
(ratio to nominal GDP)	[2.3]	[3.1]	[12.8]	[4.1]	[3.2]	[2.9]	[2.5]	[2.4]	[2.4]	[2.2]	[2.2]	[2.2]
Local Government	1.8	2.4	0.0	0.8	0.1	0.6	1.0	2.0	2.7	3.3	3.6	3.6
(ratio to nominal GDP)	[0.3]	[0.4]	[0.0]	[0.2]	[0.0]	[0.1]	[0.2]	[0.3]	[0.4]	[0.5]	[0.6]	[0.6]
Fiscal Balance	17.6	21.4	75.0	29.4	23.6	21.3	18.8	16.9	15.9	14.9	15.4	16.3
(ratio to nominal GDP)	[3.2]	[3.9]	[14.2]	[5.4]	[4.2]	[3.7]	[3.2]	[2.9]	[2.6]	[2.5]	[2.5]	[2.6]
Central Government	18.0	22.1	73.6	27.2	22.5	20.8	18.8	17.9	17.6	17.4	18.1	18.9
(ratio to nominal GDP)	[3.3]	[4.0]	[13.9]	[5.0]	[4.0]	[3.6]	[3.2]	[3.0]	[2.9]	[2.9]	[2.9]	[3.1]
Local Government	0.4	0.7	1.4	2.1	1.1	0.5	0.1	1.0	1.8	2.5	2.7	2.6
(ratio to nominal GDP)	[0.1]	[0.1]	[0.3]	[0.4]	[0.2]	[0.1]	[0.0]	[0.2]	[0.3]	[0.4]	[0.4]	[0.4]
Outstanding Debt	1059.8	1070.3	1152.8	1174.1	1194.7	1213.6	1230.9	1246.6	1260.5	1275.0	1290.4	1307.0
(ratio to nominal GDP)	[193.4]	[193.7]	[217.6]	[214.1]	[212.9]	[212.1]	[211.4]	[210.9]	[210.4]	[210.2]	[210.5]	[211.0]

(Notes)

1. "Consumer Prices" refers to the general index (nationwide), including the direct effects of the increase in the consumption tax rate.
2. "Balance by Sector" represents "Net lending/net borrowing" in the System of National Accounts (hereinafter SNA).
3. "Fiscal Balance" (hereinafter FB) of the central and local governments represents "Net lending/net borrowing" in the SNA. "Primary Balance" (hereinafter PB) equals FB minus net receivable interest (receivable interest [excluding FISIM] minus payable interest [excluding FISIM]). The PBs of both the central and local governments include some special accounts in addition to the general account. Although the debt repayments and interest payments of the Special Account for the Local Allocation and Local Transfer Tax (hereinafter SALALTT) are classified as "Central Government" in SNA, in accordance with their contributions, here they are divided into central and local governments.

It should be noted that the PB in the "General Account of Central Government" equals the sum of "Tax Revenue" and "Other Revenues" minus "General Account Expenditure Excluding Debt Repayment and Interest Payment." The PB in the "Ordinary Account of Local Government" equals "Revenues" minus "Expenditure" excluding "Debt Repayment and Interest Payment" and "Reserves."

4. The figures for "Balance by Sector" for the general government and "Fiscal Balance" and "Primary Balance" of the central and local governments exclude the transfer of debts from the Japan Expressway Holding and Debt Repayment Agency to the general account in FY2008 and the payment from the Japan Expressway Holding and Debt Repayment Agency to the general account in FY2011 as one-off factors.
5. "Outstanding Debt" is the sum of general bonds, special bonds for covering public pension funding, local government bonds, and borrowing in SALALTT. The central government's share of the borrowing allocated 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 the fiscal resources for the recovery and reconstruction measures" is the amount of expenditures for recovery and reconstruction from the Great East Japan Earthquake that exceeds the transfer from the general account, which is compensated by the reduction of other existing expenditures, and is securely financed by such fiscal resources as reconstruction bonds, securing further non-tax revenues, and special taxation for reconstruction, and the amount of the above fiscal resources.

Based on the "Act on Special Measures Concerning the Handling of Environment Pollution by Radioactive Materials Discharged by the NPS Accident Associated with the Tohoku District – Off the Pacific Ocean Earthquake That Occurred on March 11, 2011" (date of promulgation: August 30, 2011), the expenditure concerning the decontamination and interim storage facility project which has been reimbursed from Tokyo Electric Power Company (hereinafter TEPCO) also includes the expenditures for the recovery and reconstruction measures, deemed to ensure the corresponding resources, considering the progress of payment from TEPCO.

Appendix: Key Assumptions

The GDP growth rate and inflation rate up to FY2018 are from the “Annual Report on National Accounts for 2018” and those for FY2019 are from the “Quarterly Estimates of GDP for January-March 2020 (Second Preliminary)” while those for FY2020 and FY2021 are from the Cabinet Office’s “Mid-Year Economic Projection for 2020” (July 30, 2020, submitted to the Council on Economic and Fiscal Policy) and others.

(1) Assumptions on Macroeconomy

Economic Growth Achieved Case

a) Total Factor Productivity (TFP) Growth Rate

- The TFP growth rate rises from the current level (around 0.4 %) to around 1.3%, based on the extent and pace the Japanese economy actually experienced before it entered deflation. (Specifically, the TFP growth rate rose around 0.9% in 5 years from FY1982 to FY1987.)

b) Labor Force

<Labor Force Participation (LFP) Rate>

- The LFP rate shifts gradually to FY2029 based on the estimates of labor supply and demand on the “case in which economic growth and labor participation are achieved” shown by the “Labor Policy Study Group” (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 80% in FY2019 to 88% in FY2029, the LFP rate among males aged 65-69 gradually rises from around 61% in FY2019 to 68% in FY2029, and the LFP rate among females aged 65-69 gradually rises from around 40% in FY2019 to 48% in FY2029).

<Foreign Workers>

- Based on the “Population Projection for Japan” by the National Institute of Population and Social Security Research, the non-Japanese population increases (from 2.44 million in 2019 to 3.08 million in 2029). In addition, in accordance with the “Expected Number of Acceptance” shown in the “Basic Policy on Operation of the System Related to the Status of Residence of the Specified Skilled Worker” (Cabinet Decision, December 25, 2018), the labor force increases with an expansion of acceptance of foreign workers of around 345 thousand persons.

c) World Economy

<Real GDP Growth Rate of World Economy (considering the export shares from Japan [10 major destination countries])>

- The growth rate moves at around 3.4% annually from FY2022 to FY2024, based on the “World Economic Outlook” (WEO) by the IMF (October 2019). From FY2025 onward, the growth rate remains constant at around 3.4%.

<Inflation Rate (considering the export shares from Japan [10 major destination countries])>

- The inflation rate moves at around 2.0% to 2.1% annually from FY2022 to FY2024, based on the WEO (October 2019). From FY2025 onward, the inflation rate remains constant at around 2.1%.

<Crude Oil Prices>

- From FY2022 onward, the price moves based on the rate of the “Commodity Markets Outlook” by the World Bank (April 2020), at around 5.8%.

Baseline Case

Differences from the above “Economic Growth Achieved Case” are as follows:

a) TFP Growth Rate

- The TFP growth rate stays around 0.7 %. (Average from January 2002. (From the 14th business cycle.))

b) Labor Force

<Labor Force Participation (LFP) Rate>

- Based on the estimates of labor supply and demand on the “case in which economic growth and labor participation are partly achieved” shown by the “Labor Policy Study Group” (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 80% in FY2019 to 87% in FY2029, the LFP rate among males aged 65-69 gradually rises from around 61% in FY2019 to 63% in FY2029, and the LFP rate among females aged 65-69 gradually rises from around 40% in FY2019 to 44% in FY2029).

c) World Economy

<Real GDP Growth Rate of World Economy (considering the export shares from Japan [10 major destination countries])>

- The growth rate moves at around 2.6% annually from FY2022, which is about 0.8 percentage points* lower than the rate based on the WEO (October 2019) (around 3.4%).

* The 50% confidence interval of the projection in the WEO is taken into account.

(2) Tax System

- Tax revenues of the general account of the central government in FY2018 are based on the “FY2018 Settlement” and those in FY2019 are based on the “FY2019 Settlement Highlight.”
- Based on the “FY2020 Tax Reform” (Cabinet Decision, December 20, 2019) and other sources, the legislated tax system is assumed to continue. Also, the projection reflects the corporate tax refund system by carrying back the deficit and property tax reduction measures among tax measures in the “Emergency Economic Measures to Cope with COVID-19” (Cabinet Decision, April 20, 2020).
- Based on the “Act on Special Measures for Securing Fiscal Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake” (date of promulgation and enforcement: December 2, 2011) and the “Act on Temporary Special Provision on Local Tax to Secure Necessary Fiscal Resources for Local Governments to Implement Policies for Disaster Prevention Related to Recovery from the Great East Japan Earthquake” (date of promulgation and enforcement: December 2, 2011), the projections reflect the implementation of the special tax for reconstruction and the rise in the individual inhabitant tax on a per capita basis.
- The distribution of the increase in consumption tax revenue from 5% to 10% (central and local combined) is 346/500 for central and 154/500 for local. It is assumed that the increase in revenue of the government from the consumption tax hikes will be gradually realized by FY2021 due to the gap between the time of the hikes (October 2019) and the taxable period of enterprises, interim measures concerning long-term contracts and the amount of time until the local consumption tax is delivered to local governments.

(3) Expenditures

- The expenditures of the general account of the central government in FY2018 are based on the “FY2018 Settlement” and those in FY2019 are based on the “FY2019 Settlement Highlight” while those in FY2020 are based on the “Supplementary Budget for FY2020.”
- From FY2021 onward, it is assumed that social security expenditures will increase reflecting the aging of population and price and wage developments, and that other general expenditures will continue to increase at about the same rate as the inflation rate (constant in real terms). It is assumed that after the hikes of the consumption tax rate, legislation related to the Comprehensive Reform of Social Security and Tax will enable the gradual addition of certain new expenditures related to the implementation of social security reform and others, under the consideration on enhancement of stabilization of social security and fiscal consolidation in each fiscal year.

- The series of social security related expenditures is endogenously obtained within the Economic and Fiscal Model based on future demographics and macroeconomic dynamics. Considerable leeway should be given when interpreting the projections since the series is significantly affected by policies and other external factors.
- The supplementary budgets of Tokyo and Osaka are counted in the expenditures of the Ordinary Account of Local Government for FY2020.

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

- Expenditures are assumed at around 31.3 trillion yen until FY2020 and around 1.6 trillion yen in five years from FY 2021, based on the “Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016” (Reconstruction Promotion Conference Decision, June 24, 2015), the “Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction including the Five-Year Period Starting in FY2016” (Cabinet Decision, June 30, 2015), the “Reconstruction Efforts from FY2021” (Decision by Reconstruction Promotion Council, July 17, 2020) and others.
- In the projections, it is assumed that around 32.9 trillion yen of revenue resources are secured by the special tax for reconstruction, a reduction of expenditures, non-tax revenues and others based on the “Basic Guidelines for the Third Supplementary Budget in FY2011 and the Fiscal Resources for Reconstruction” (Cabinet decision, October 7, 2011), the “Scale and Funding Sources for Recovery and Reconstruction Work from Now On” (Reconstruction Promotion Conference Decision, January 29, 2013), the “Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016” (Reconstruction Promotion Conference Decision, June 24, 2015), the “Scale and Funding Sources for Recovery and Reconstruction Work during the Reconstruction including the Five-Year Period Starting in FY2016” (Cabinet Decision, June 30, 2015), the “Reconstruction Efforts from FY2021” (Decision by Reconstruction Promotion Council, July 17, 2020) and others.
- The expenditure concerning the decontamination and interim storage project facility which will be reimbursed from TEPCO and the actual payment corresponding to it are assumed to be approximately 5.8 trillion yen in total, based on the “Basic Guideline for Accelerating the Reconstruction of Fukushima from the Nuclear Disaster” (Cabinet Decision, December 20, 2016), and the pattern of expenditure and revenue is assumed based on the progress of implementation and payment to date.