

[Provisional Translation]

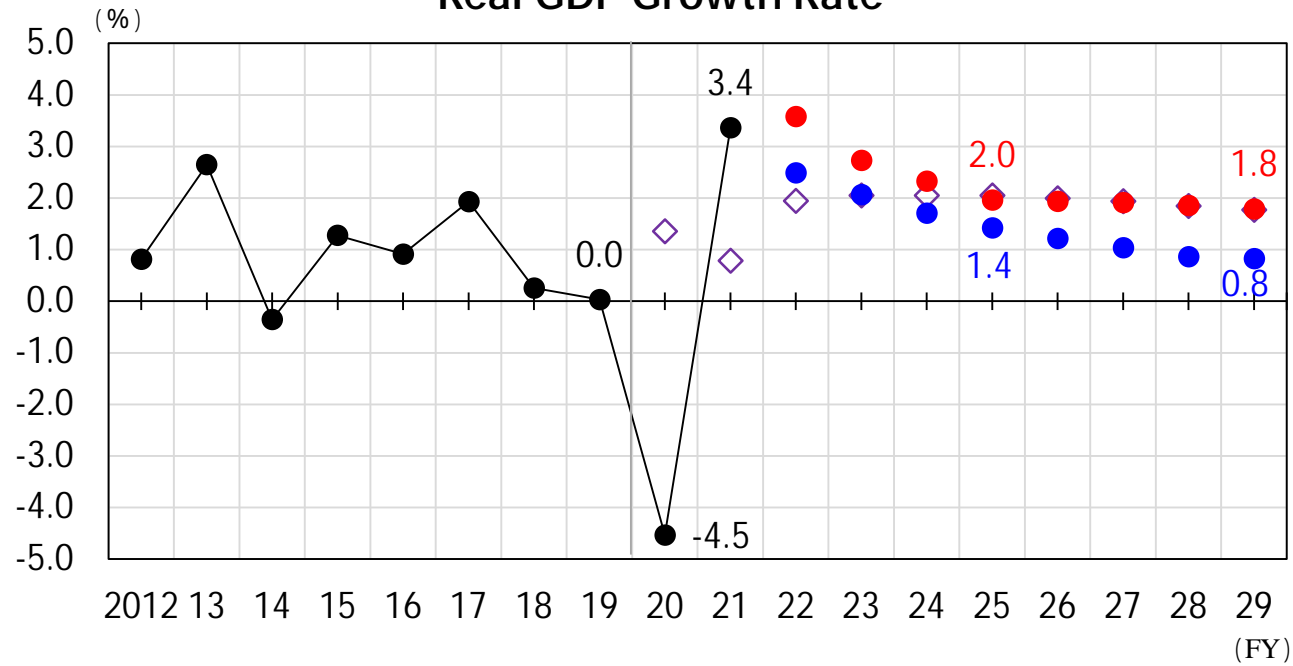
# Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (July 2020)

Cabinet Office

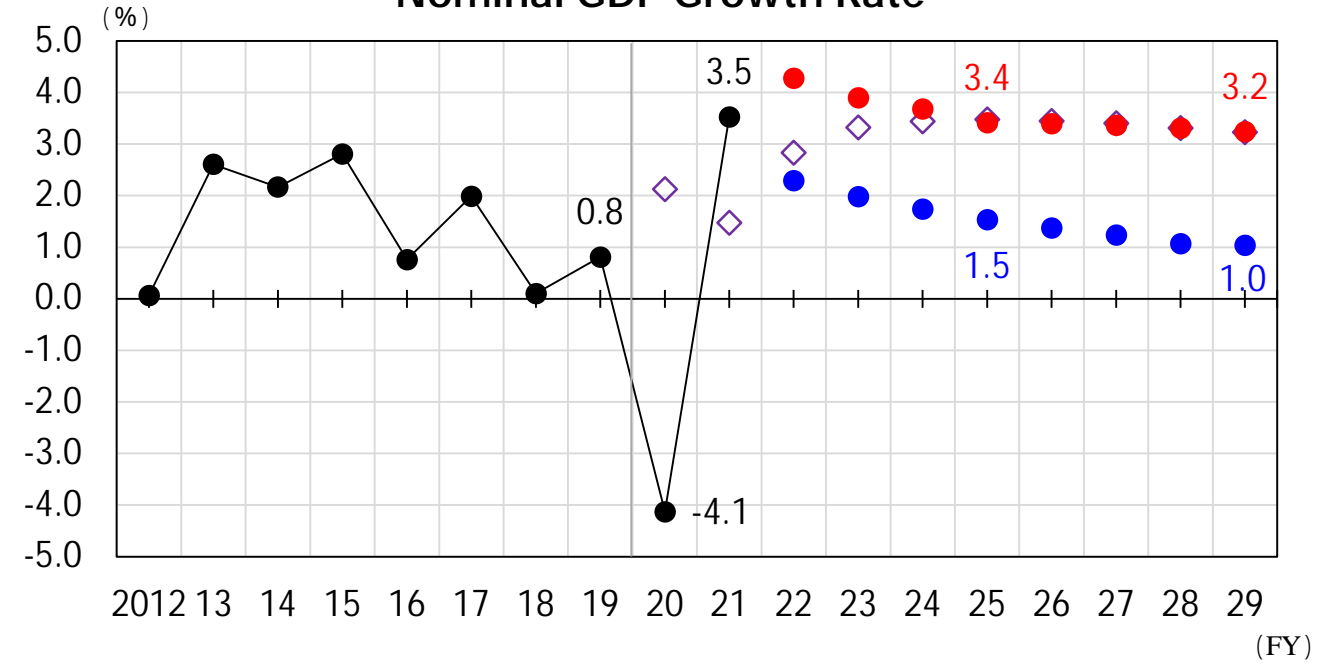
# 1. Projections of the Macro Economy

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 on Economic and Fiscal Management and Reform 2020,” while GDP is projected to grow at a higher rate until the demand shortfall originating from COVID-19 diminishes. Although the impact of the disease on the economy needs to be carefully examined, nominal GDP is projected to achieve 600 trillion yen in around FY2023. In order to overcome deflation and revitalize the economy, it is essential to swiftly return the Japanese economy to a solid growth trajectory as early as possible, and realize “quality” economic society led by establishing the “New Normal.”

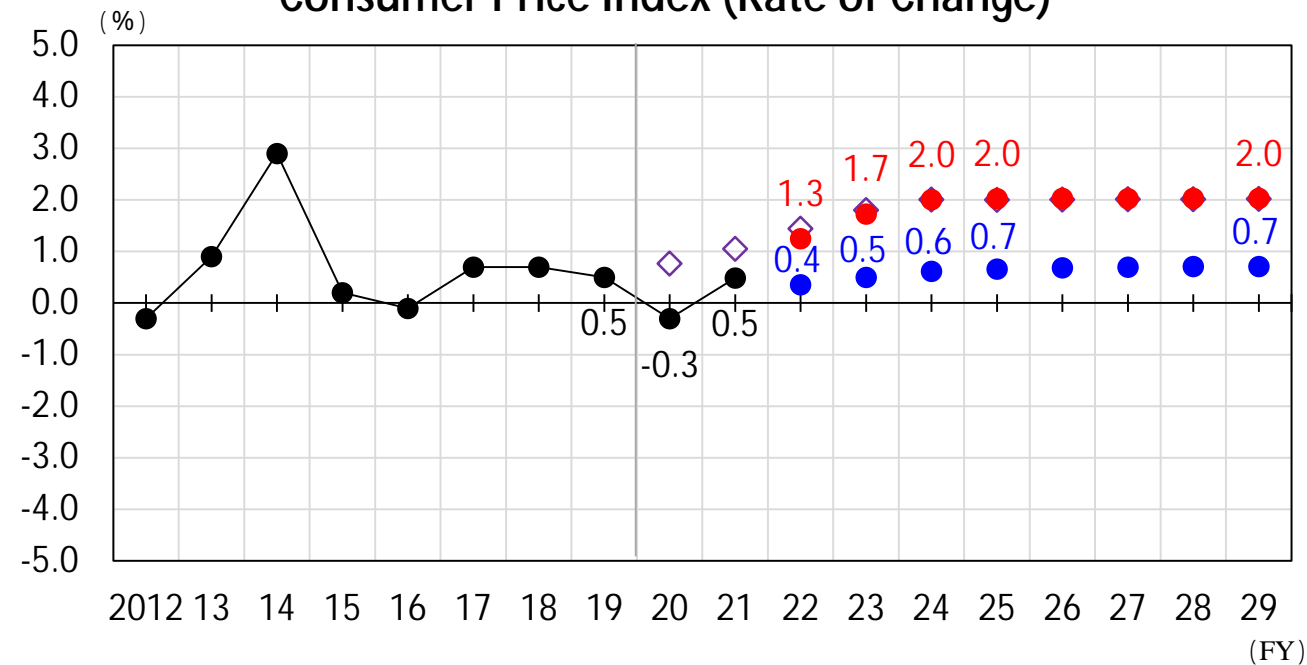
### Real GDP Growth Rate



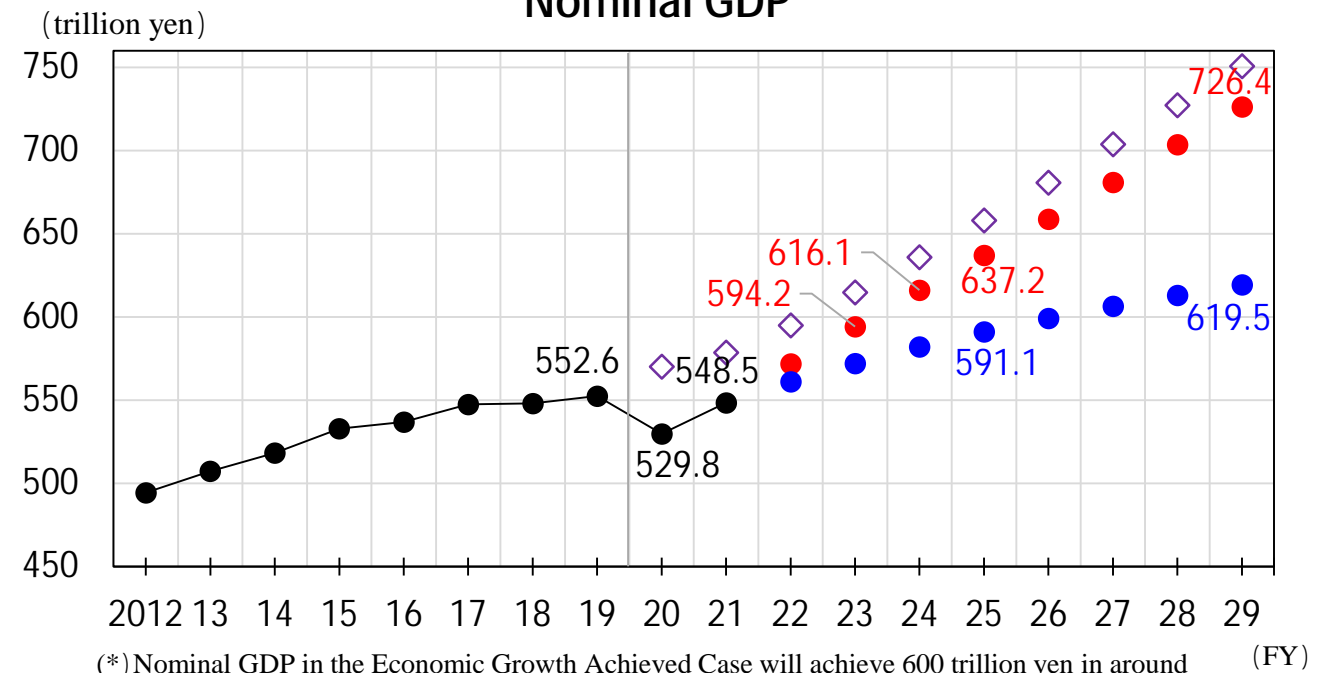
### Nominal GDP Growth Rate



### Consumer Price Index (Rate of Change)



### Nominal GDP



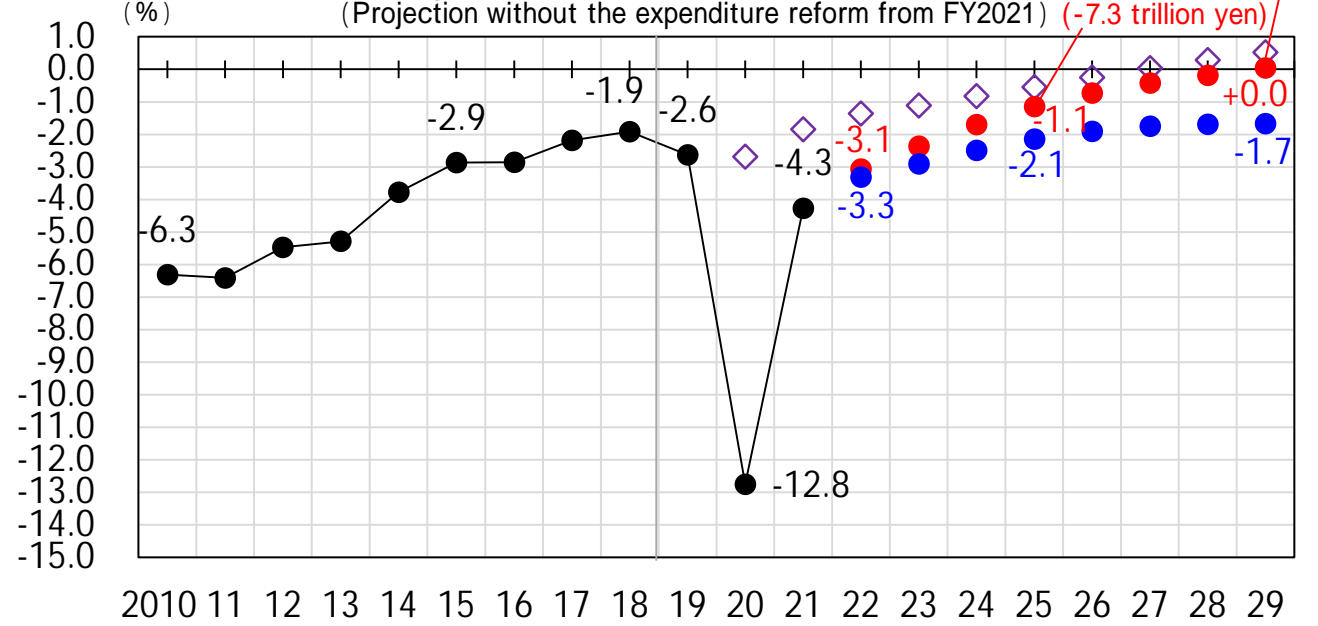
(\*) Nominal GDP in the Economic Growth Achieved Case will achieve 600 trillion yen in around FY2024 taking into account the reference case of “Mid-year Economic Projection (July 2020)” which is based on scenarios of international organizations (OECD and World Bank) in which a large second wave of disease infections will occur overseas in the fall of 2020.

● Economic Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (January 2020)

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

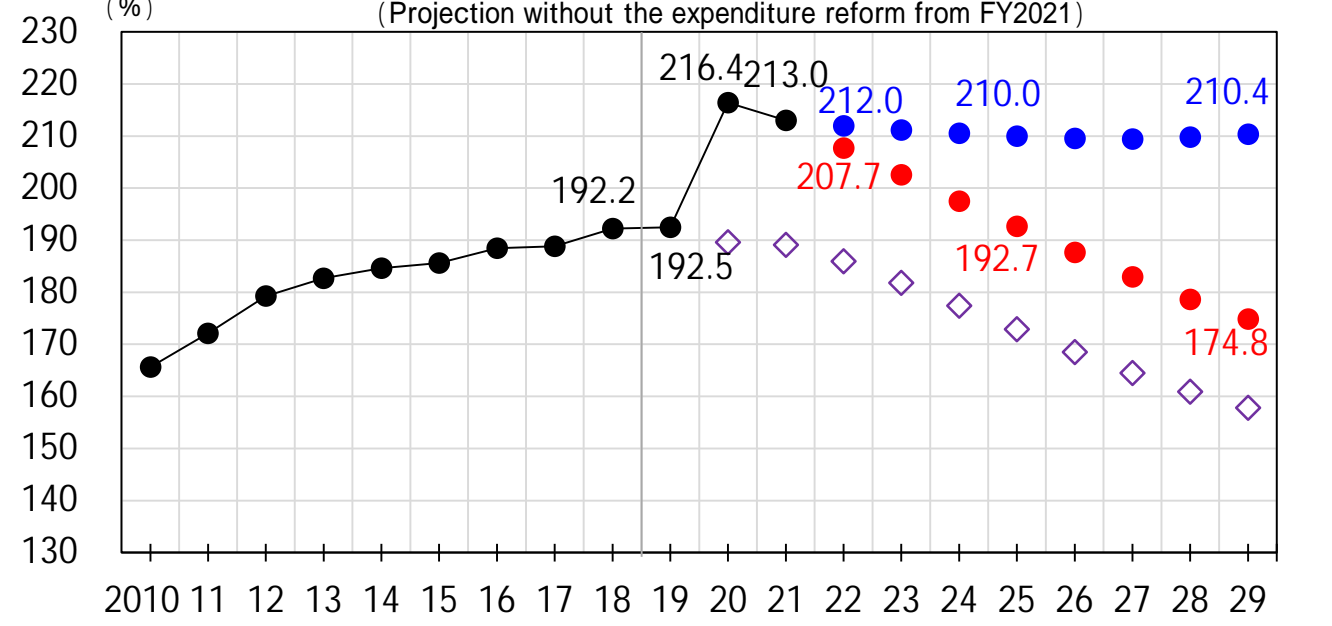
Due to deceleration in revenues caused by the impact of COVID-19 on the economy, without the expenditure reforms, the primary deficit is projected to be around 1.1% in FY2025, and turn to surplus in FY2029. Continuing the expenditure reform carried out thus far, the primary surplus will be achieved around three years earlier, but in order to achieve the surplus in FY 2025, 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. Although the ratio of outstanding debt to GDP will increase in FY 2020 because of the additional expenditures of the supplementary budgets, it is projected to decline steadily in the periods of the projection.

**Primary Balance (Ratio to Nominal GDP)** (0.3 trillion yen) / (-7.3 trillion yen)  
 (Projection without the expenditure reform from FY2021)



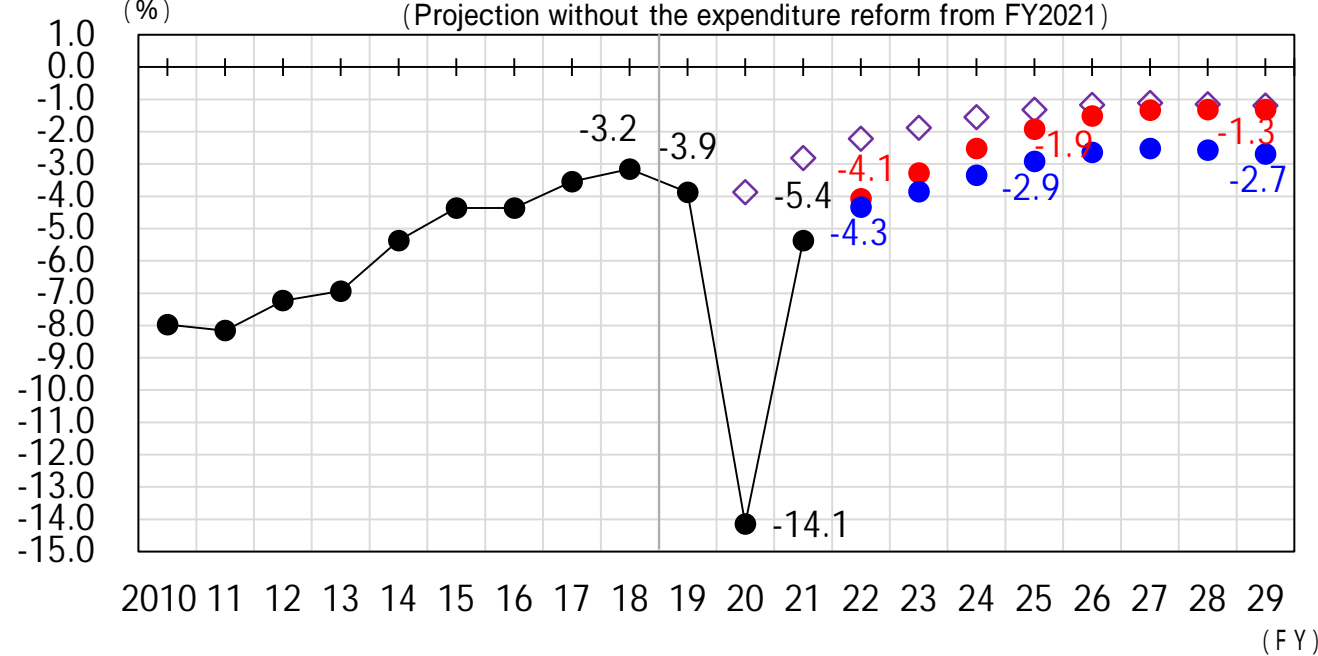
(\*) In the Economic Growth Achieved Case, the primary deficit will be around 1.4% in FY2025 taking into account the reference case of "Mid-year Economic Projection (July, 2020)" which is based on scenarios of international organizations (OECD and World Bank) in which a large second wave of disease infections will occur overseas in the fall of 2020.

**Outstanding Debt (Ratio to Nominal GDP)**  
 (Projection without the expenditure reform from FY2021)

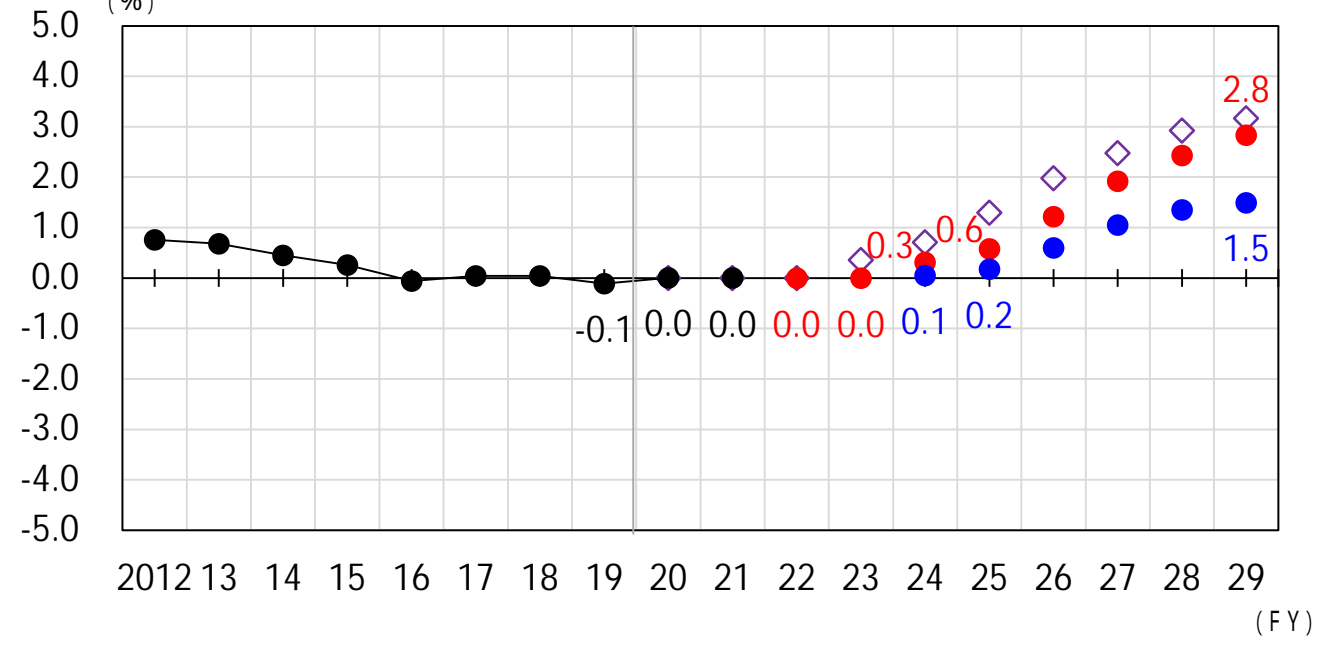


(\*) It should be noted that the existing bonds issued at lower interest rates will be refinanced at higher interest rates sequentially with the long-term nominal interest rate rising.

**Fiscal Balance (Ratio to Nominal GDP)**  
 (Projection without the expenditure reform from FY2021)



**Nominal Long Term Interest Rate**



● Economic Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (January 2020)

# Economic and fiscal assumptions

## **【Economic assumptions】**

Economic conditions reflect the “Quarterly Estimates of GDP for January – March 2020 (Second Preliminary Estimates)” and the “Mid-year Economic Projection for FY 2020.”

As for assumptions related to the potential growth rate, in the Economic Growth Achieved Case, the TFP growth rate rises from the current level (0.4%) to around 1.3% in FY2025 in five years. In the Baseline Case, the TFP growth rate moves around at 0.7%.

In the Economic Growth Achieved Case, the rate of change for CPI is projected to achieve around 2% from FY2024. Under this condition, the nominal long term interest rate is assumed to continue at the zero-interest rate until FY2023.

## **【Fiscal assumptions】**

Fiscal conditions for the Central and Local Governments reflect the “Financial Highlights of General Account of Central Government for FY2019,” the “Provisional Settlement Results of Local Tax Revenue for FY2019,” the “Supplementary Budgets for FY2020,” etc.

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.