

Executive Summary:

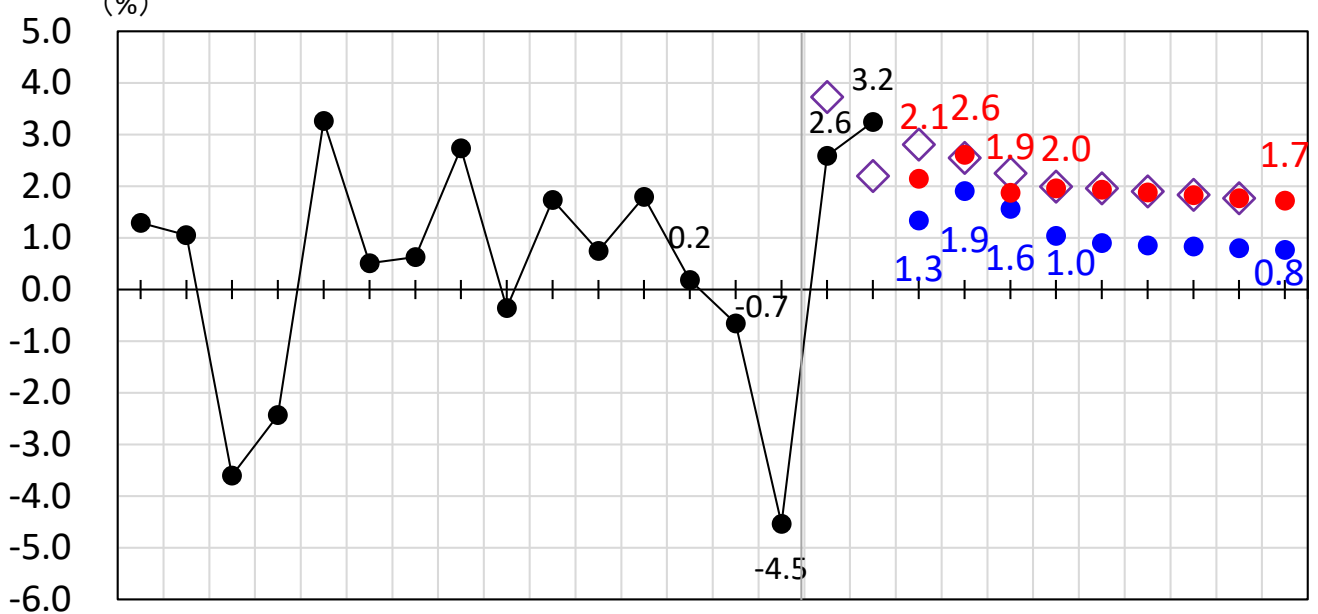
**Economic and Fiscal Projections
for Medium to Long Term Analysis
(January 2022)**

Cabinet Office

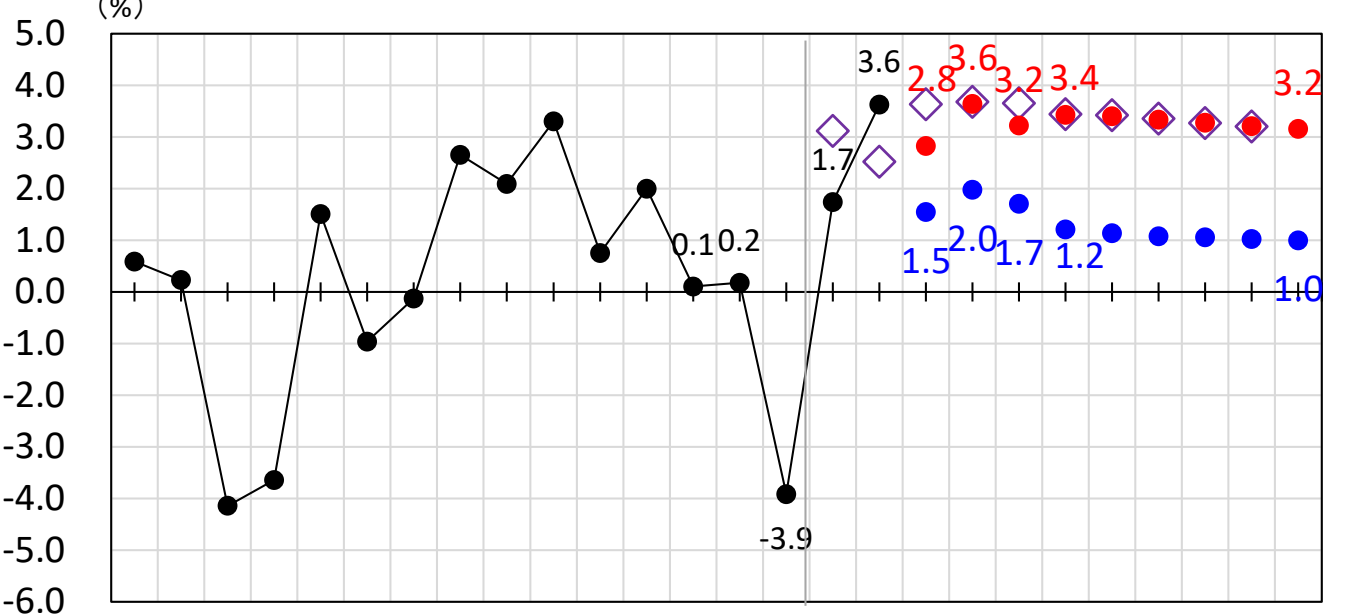
2. Projections of the Macro Economy

In the Economic Growth Achieved Case, the economy returns to the pre-pandemic level by the end of FY2021. In the medium to long term, **GDP growth is projected to achieve around 2% in real terms and over around 3% in nominal terms** as the potential growth rate rises through increase in consumption and private investment backed by policy measures for the “Virtuous Cycle of Growth and Distribution,” such as development of science and technology, local digitalization, economic security, and distribution to workers. **Nominal GDP is projected to achieve 600 trillion yen around FY2024**, although the impact of the disease needs to be carefully examined. The Government will implement FY2021 economic measures and the FY2022 budget to assist private demand recovery with support from public expenditure and realize self-sustaining economic growth.

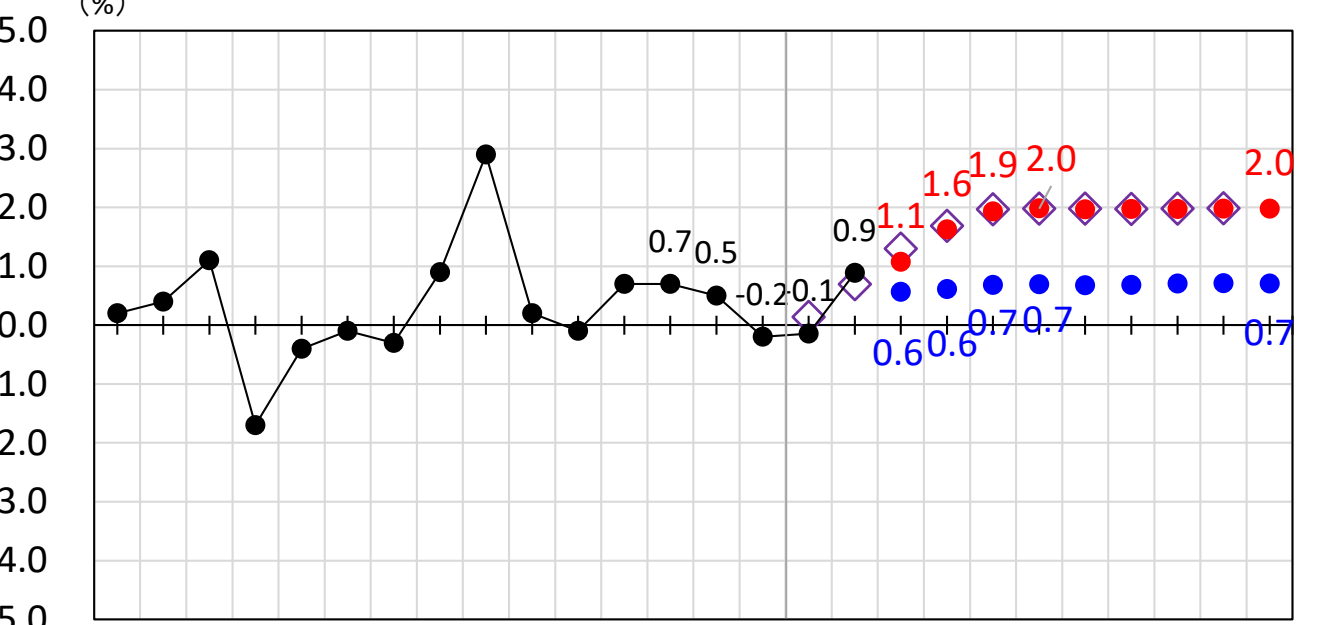
Real GDP Growth Rate



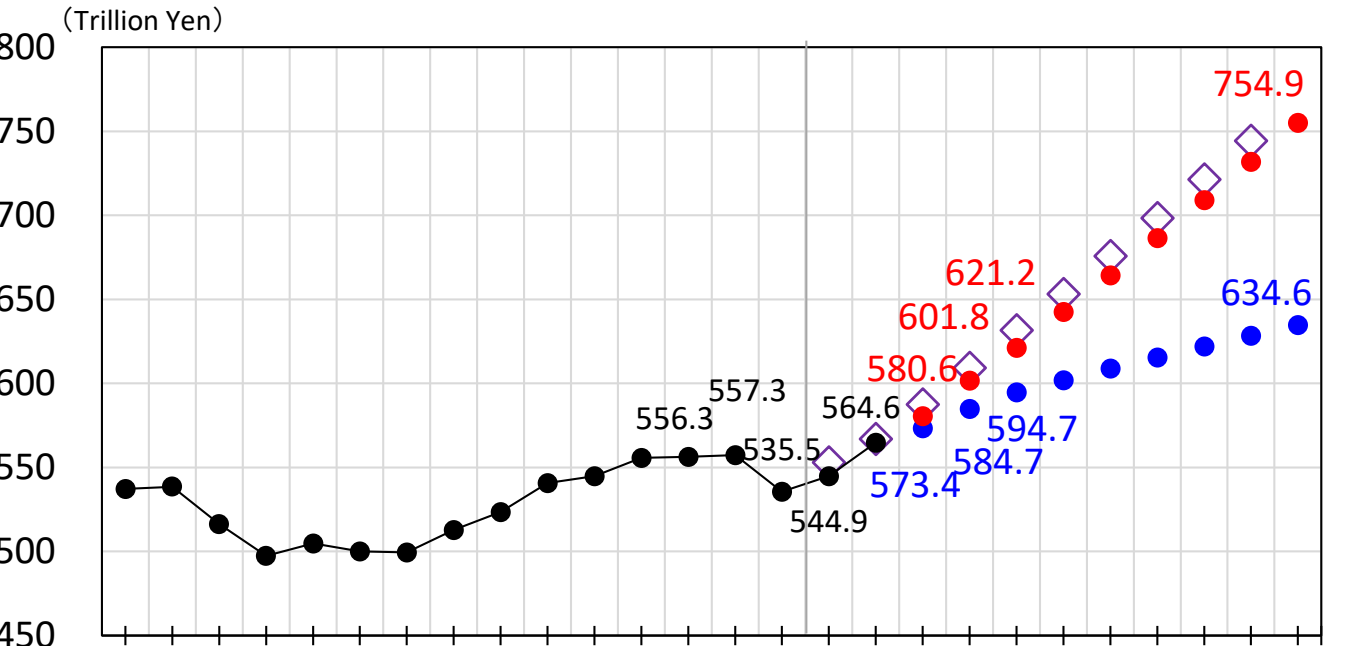
Nominal GDP Growth Rate



Consumer Price Index (Rate of Change)



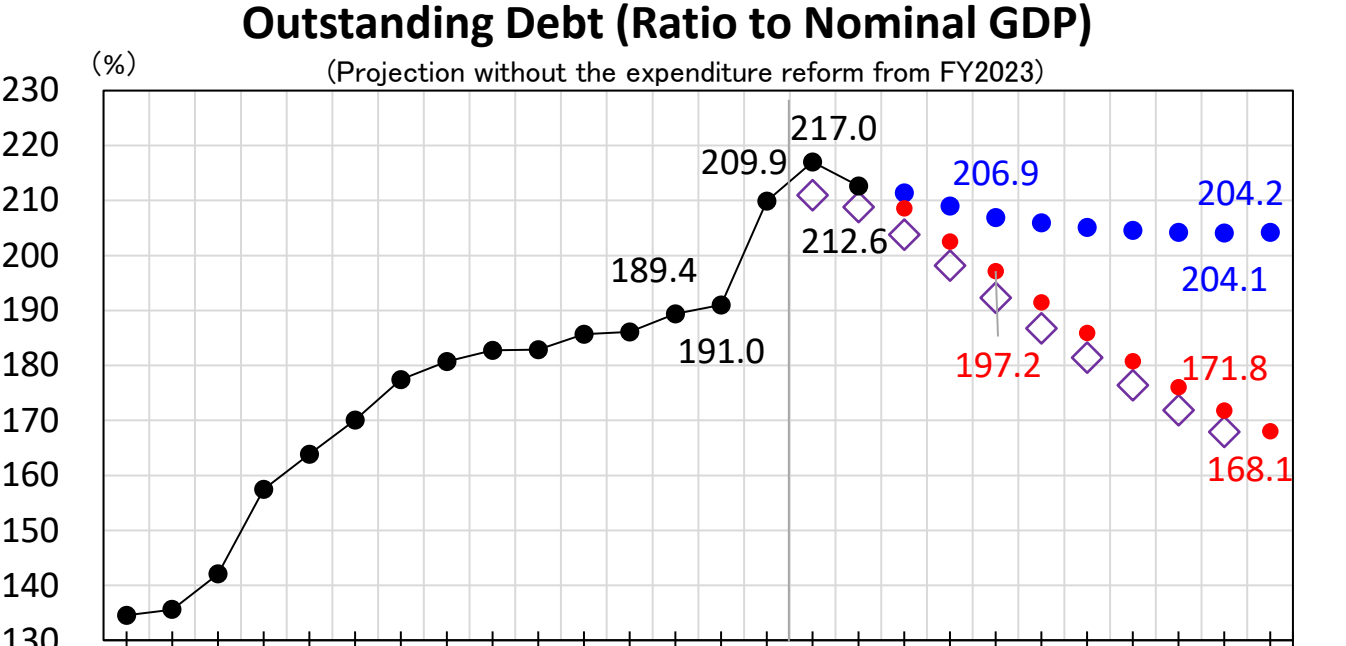
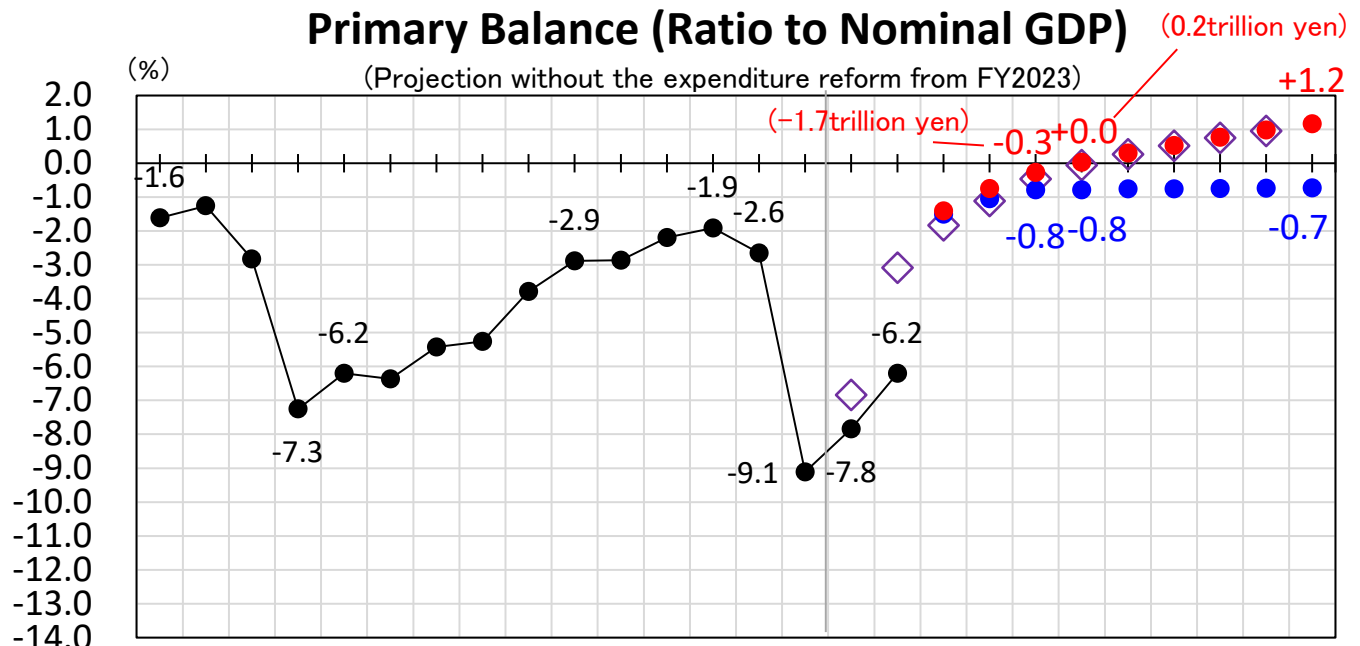
Nominal GDP



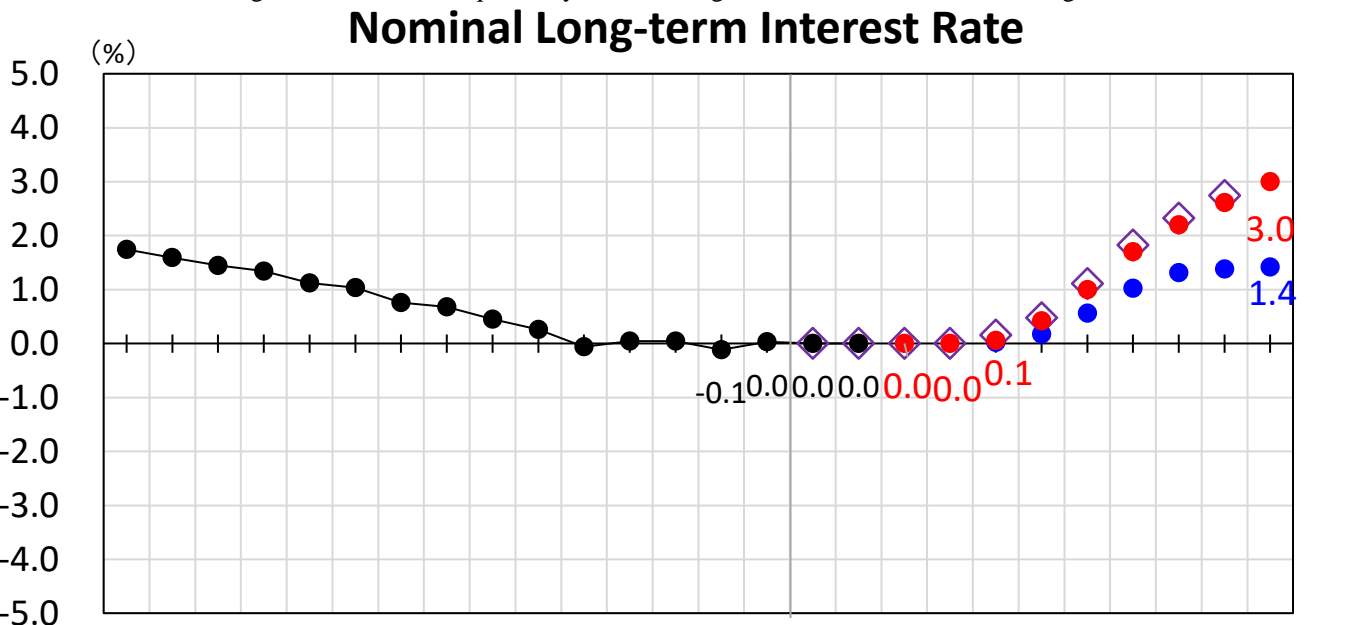
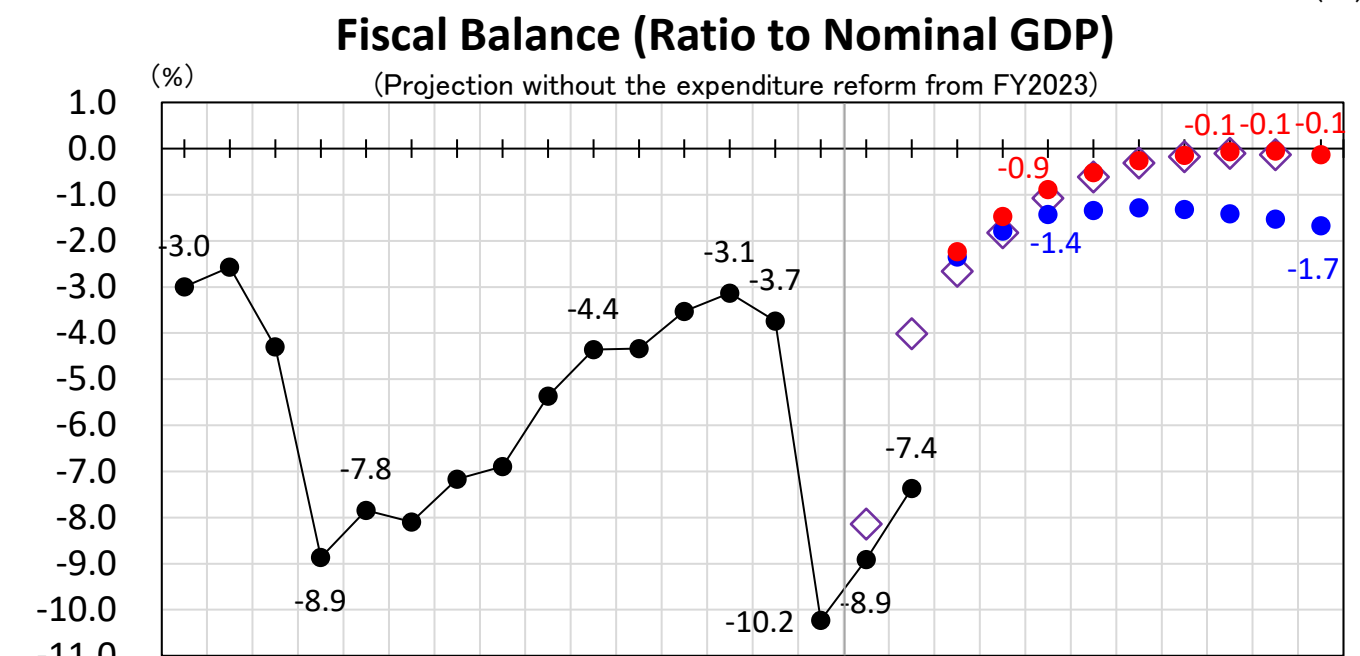
● Economic Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (July 2021)

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

The primary deficit will temporarily widen due to the increase in expenditures of the supplementary budgets for dealing with the Infectious Disease. Afterwards, **it is projected to be around 0.3% in FY2025, and turn to surplus in FY2026** in the Economic Growth Achieved Case. **If the Government continues to implement the measures based on the Basic Policy on Economic and Fiscal Management and Reform, the primary surplus will be achieved in FY2025, around a year earlier.** It is important to aim for around 2% growth in real terms and over around 3% in nominal terms by reinforcing measures for the “Virtuous Cycle of Growth and Distribution” under the concept of “the economy is the foundation of public finance.” **The outstanding debt to GDP ratio will increase in FY2020 and 2021 and then decline in the period of the projection,** given the economic growth and interest rates for the Economic Growth Achieved Case.



(*) 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 Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (July 2021)

(Reference) Economic and Fiscal Assumptions

【Economic assumptions】

- Economic conditions reflect the “Annual Report on National Accounts for 2020” and the “Fiscal 2022 Economic Outlook and Basic Stance for Economic and Fiscal Management.”
- 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 FY2026 in five years. In the Baseline Case, the TFP growth rate moves at around 0.7%.
- In the Economic Growth Achieved Case, the rate of change for CPI is projected to achieve around 2% from FY2025. Under this condition, the nominal long-term interest rate is assumed to continue at the zero-interest rate level until FY2024.

【Fiscal assumptions】

- Fiscal conditions for the Central and Local Governments reflect the latest data such as:
 - the primary balance reported in the “Annual Report on National Accounts for 2020,”
 - the “FY2020 settlements” of the Central Government’s General Account and the Local Government’s Ordinary Account,
 - the “Supplementary Budget for FY2021,” the “Draft FY2022 Budget,” the “FY2022 Tax Reform,” the “Local Finance Measures in FY2022,” etc.
- From FY2023 onward, social security expenditures will increase reflecting the aging of population and price and wage developments while other expenditures will increase along with inflation rates.