[Provisional Translation]

Executive Summary:
Economic and Fiscal Projections for Medium to Long Term Analysis (January 2023)

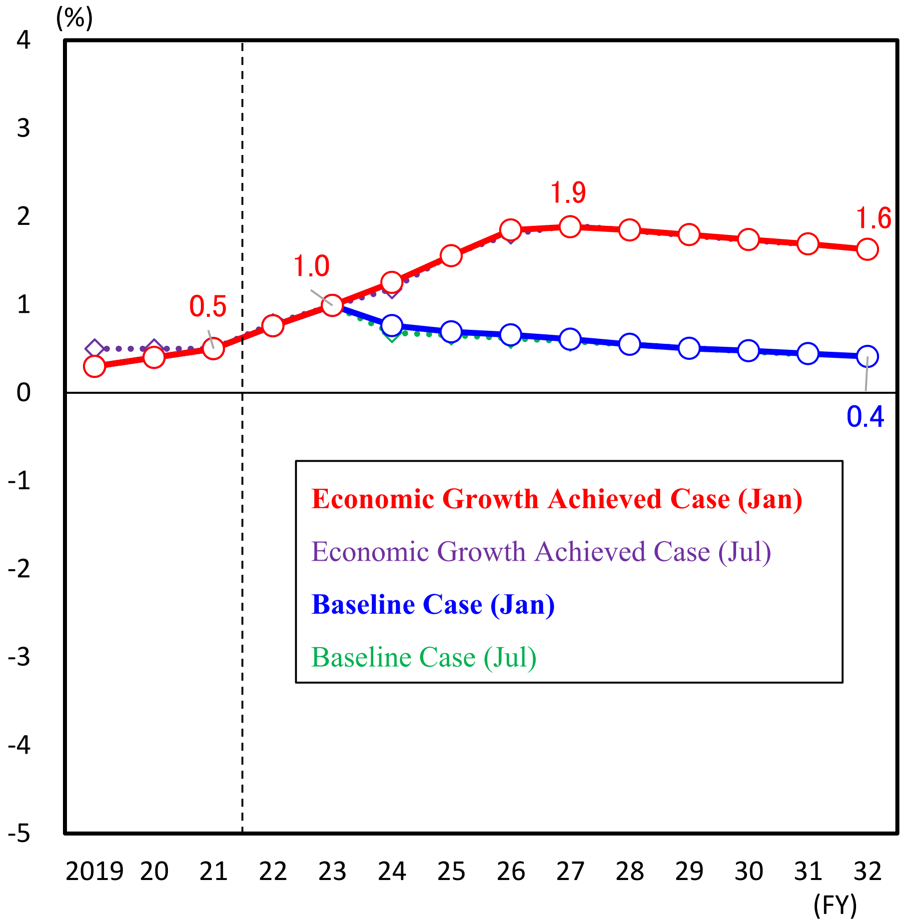
Jan 24, 2023

Cabinet Office

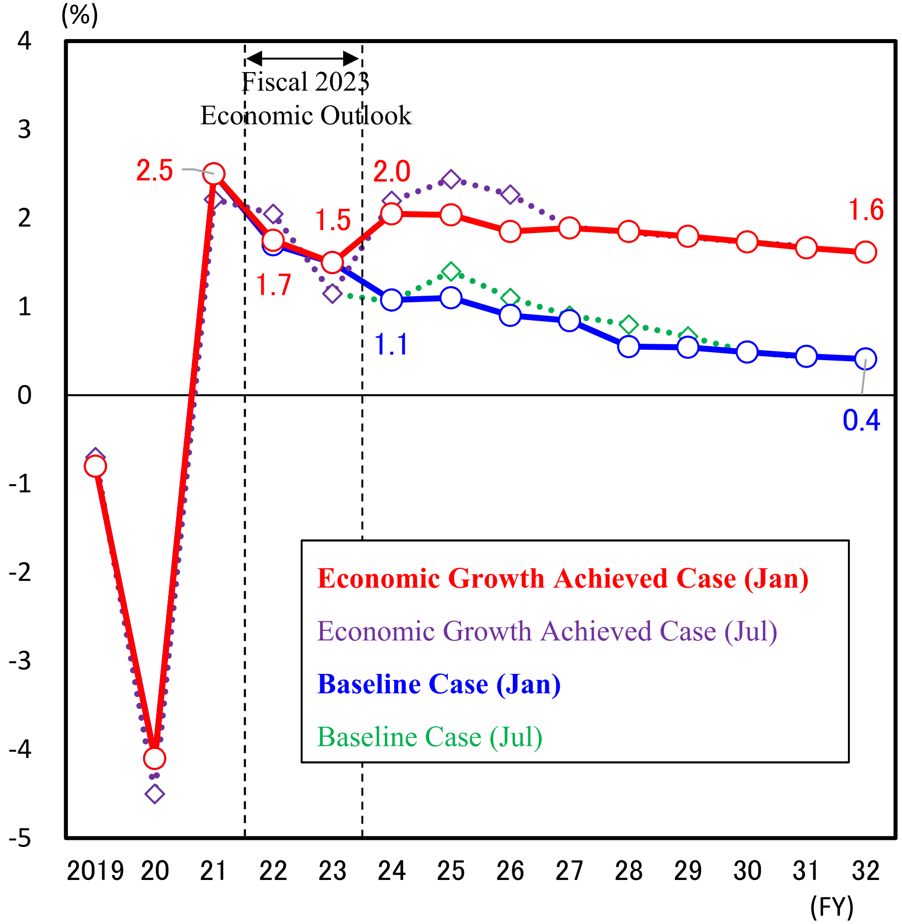
Macroeconomic Projection

- In the Economic Growth Achieved Case, the potential growth rate is projected to steadily rise, and the real GDP growth rate is projected to be around 2%.
- In the Baseline Case, the real GDP growth rate is projected to be around mid-0% in the medium to long term.

Potential Growth Rate



Real GDP Growth Rate



Fiscal Projection

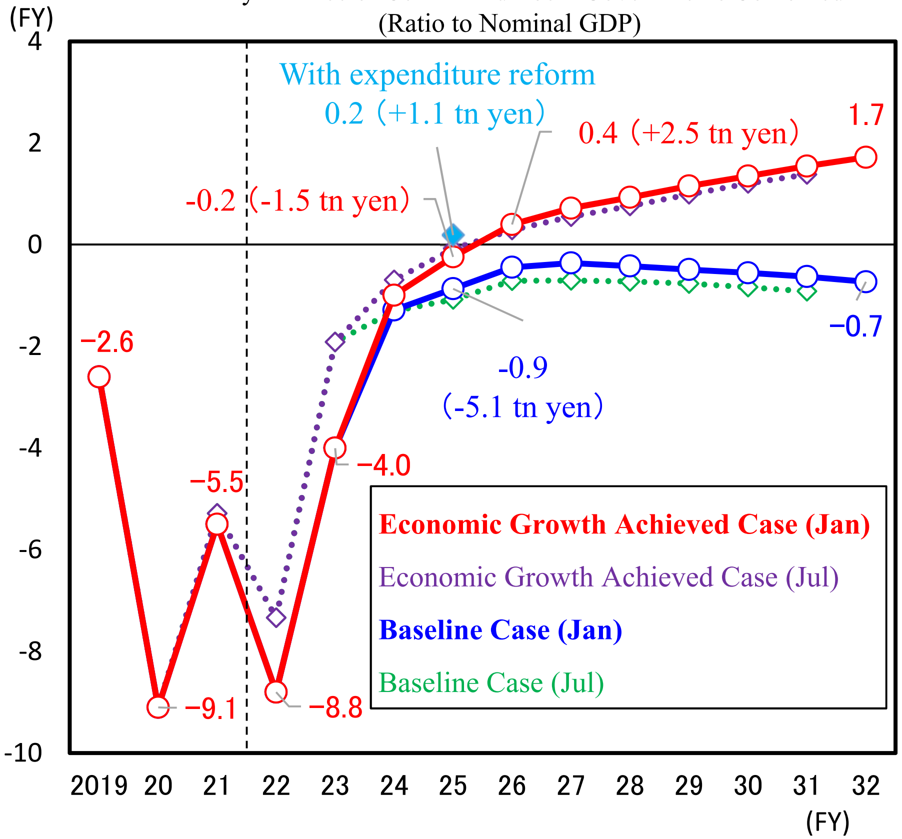
【Primary Balance of Central and Local Government (ratio to Nominal GDP)】

- The primary balance is projected to recover to the pre-COVID level in FY2024 as private demand will expand and thus additional expenditures will be no longer needed.
- In the Economic Growth Achieved Case, without the expenditure reform, the primary deficit is projected to be around 0.2% of GDP in FY2025, and to turn to surplus in FY2026. With the expenditure reform thus far, the primary surplus will be achieved in FY2025.
- In the Baseline Case, the primary deficit remains.

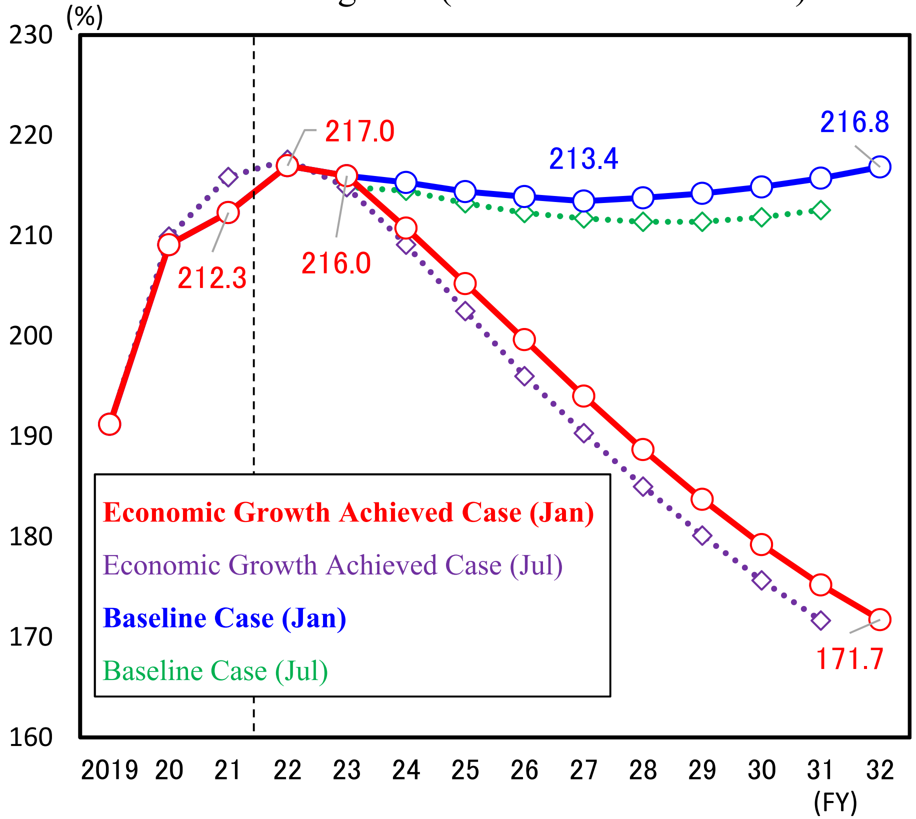
【Outstanding Debt (ratio to Nominal GDP)】

- The ratio of outstanding debt to GDP is projected to steadily decline in the projection periods in the Economic Growth Achieved Case. The ratio is projected to rise in the latter half of the projection periods in the Baseline Case.

Primary Balance of Central and Local Governments Combined (Ratio to Nominal GDP)



Outstanding debt (Ratio to Nominal GDP)

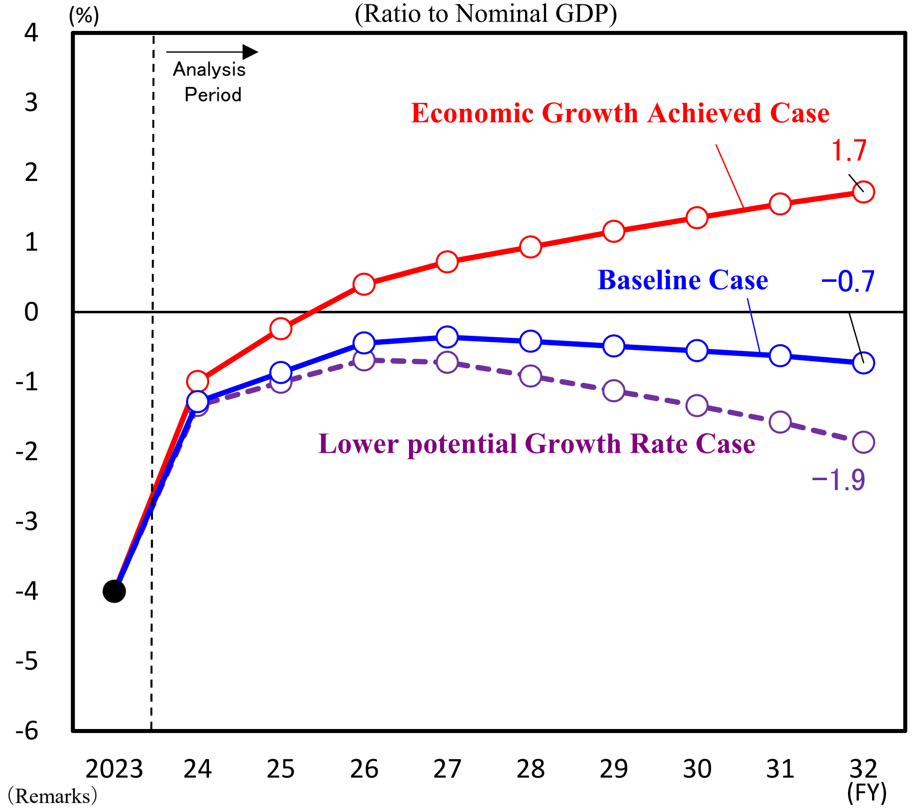


*The effect on improvement in the primary balance by efforts for increasing spending efficiency is assumed to be about 1.3 trillion yen per year when its impact on the economy is taken into consideration.

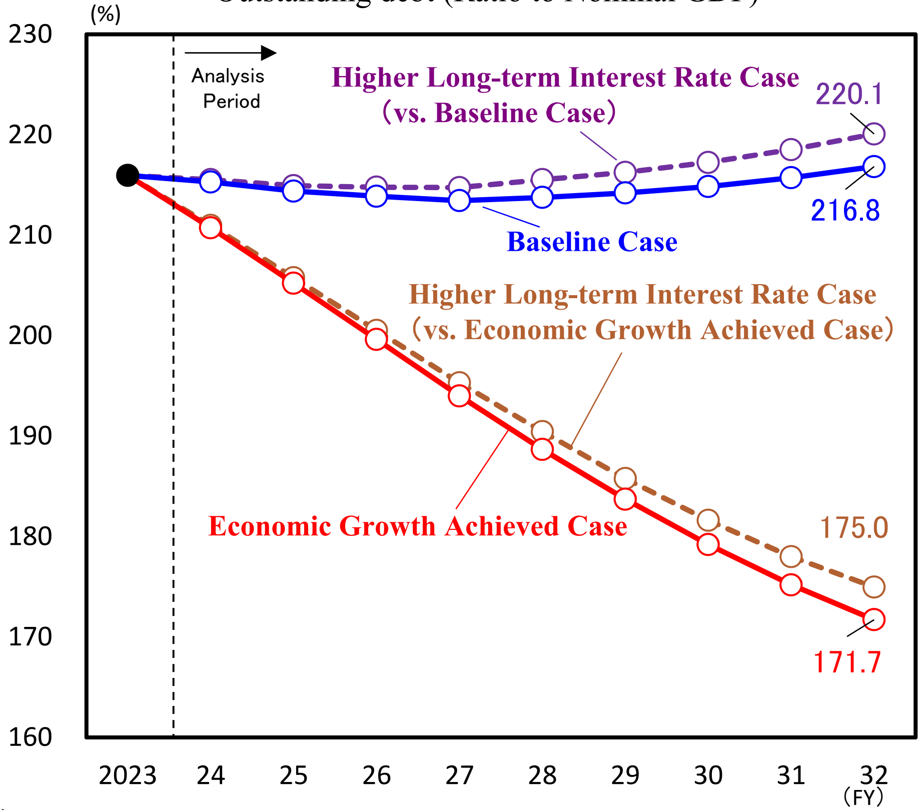
(Supplementary) Analysis of Sensitivity to Economic Fluctuations

- If TFP growth rate were continuously 0.5 percentage points lower than the rate in the baseline case (lower potential growth rate case), the primary balance (ratio to GDP) would be 1.2% points lower in FY2032 as the revenue would decrease due to the lower growth rate, etc. The outstanding debt to GDP ratio would be higher by 9.4% points in FY2032.
- If the long-term interest rate were continuously 0.5 percentage points higher than it is in each case, the outstanding debt to GDP ratios would be 3.3% points higher than those in both cases. It should be noted that the impact might be larger if the interest-growth differential were small earlier or turned positive, or if the maturity structure of outstanding debt were shortened, etc.

【Lower Potential Growth Rate】
Primary Balance of Central and Local Governments Combined
(Ratio to Nominal GDP)



【Higher Long-term Interest Rate】
Outstanding debt (Ratio to Nominal GDP)



(Remarks)
1 .This sensitivity analysis is based on the multiplier table in "Economic and Fiscal Model (FY2018 version)".
2 . The lower potential growth rate case refers to a case in which the TFP growth rate were 0.5 percentage points lower than the rate in the baseline case continuously during the projection period (after FY2024) under conditions in which other exogenous variables remain unchanged.
3 .The higher long-term interest rate case refers to a case in which long-term interest rates were 0.5 percentage points higher than those in both cases continuously during the projection period (after FY2024) under conditions in which other exogenous variables remain unchanged.