Provisional Translation

Economic and Fiscal Projections for Medium to Long Term Analysis

(Submitted to the Council on Economic and Fiscal Policy on January 22nd, 2024)

Cabinet Office

Index

1. Introduction

This projection is submitted to the Council on Economic and Fiscal Policy as basic information for evaluating the progress of economic revitalization and fiscal consolidation, and for considering medium- to long-term economic and fiscal policies. This projection reflects the data and policies available at the time of the projection and is estimated using the “Economic and Fiscal Model,” which presents the macroeconomy, public finance, and social security in an integrated manner.[1]

2. Medium to long term economic projection

This projection reflects various economic statistics and incorporates the Cabinet Office’s Economic Outlook[2] up to FY2024. For FY2025 and beyond, we present the "Baseline Case," which assumes that the TFP (Total Factor Productivity) growth rate will remain at the same level as the average of the most recent business cycle, and the "Economic Growth Achieved Case," which assumes that the TFP growth rate will increase to the average of the period before the deflationary situation. The key assumptions for each scenario[3] are as follows.

Key assumptions for each scenario

	TFP Growth Rate (0.7% in FY2022)	Labor Participation Rate[4] (62.6% in FY2022)
Baseline Case	Around 0.5%, the average of the most recent business cycle[5]	Rising to some extent, especially among women and the elderly (63.8% in FY2033)
Economic Growth Achieved Case	Reaching around 1.4%, the average for the period before the economy entered the deflationary situation[6]	Higher than the baseline case, especially among women and the elderly (65.1% in FY2033)

(1) Potential growth rate

Japan's potential growth rate was 4.2% in the 1980s and 1.6% in the 1990s, and has remained below 1% since the beginning of the 2000s. As the working-age population continues to decline

[1] Considerable leeway should be given when interpreting the projections due to the various uncertainties involved.
[2] Fiscal 2024 Economic Outlook and Basic Stance for Economic and Fiscal Management (December 22, 2023, Approved by the Cabinet)
[3] See Appendix 1 for detailed assumptions.
[4] See "Labor Demand and Supply Estimates," Labor Policy Study Group, 2018. The Baseline Case is based on "a case in which economic growth and labor participation advance to some extent" and the Economic Growth Achieved Case is based on "a case in which economic growth and labor participation advance."
[5] 16th business cycle (October-December 2012 to April-June 2020).
[6] Average from the past to the 12th business cycle (April-June 1980 to January-March 1999).

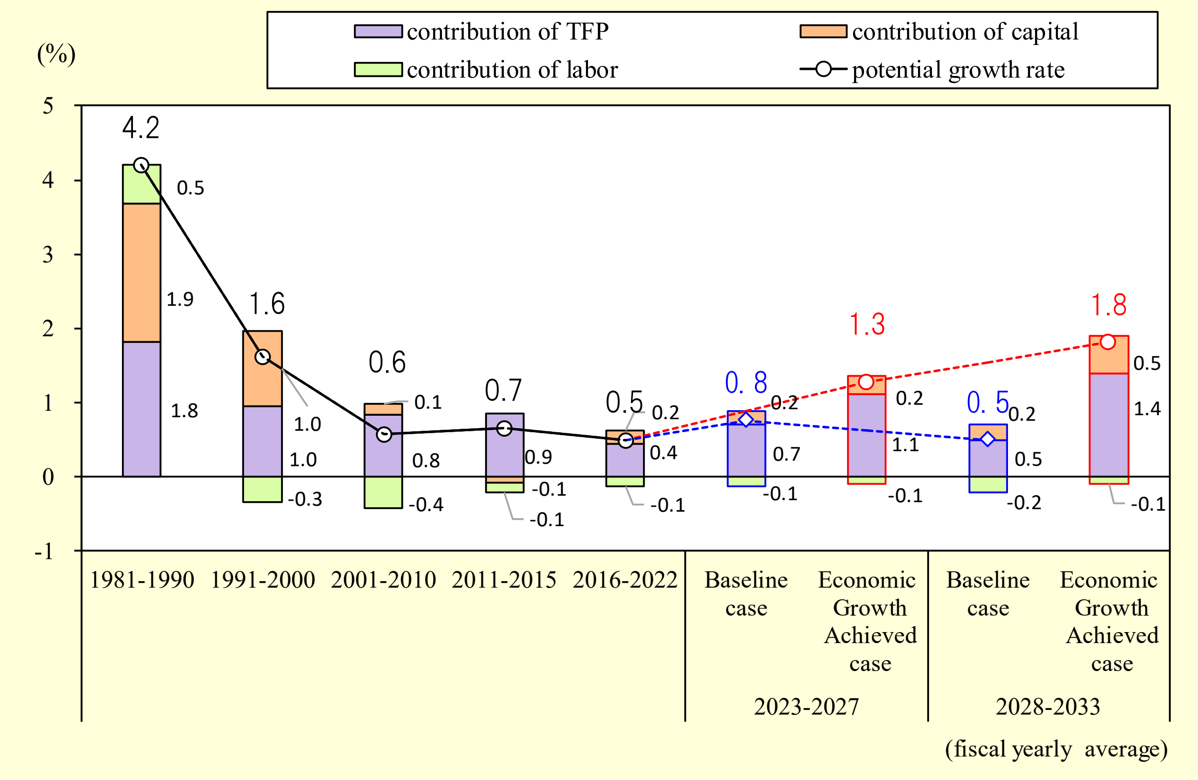
at an accelerating pace due to the declining birthrate and aging population,[7] economic growth is expected to decline in the absence of changes in the economic structure and higher productivity growth than before.

In the Baseline Case, where TFP increases at the same rate as in the recent business cycle (around 0.5%), the contribution of capital input to the potential growth rate, which is calculated endogenously, will be slightly positive, but the negative contribution of labor input will increase due to the decline in the working-age population, although labor participation is assumed to increase to some extent. Overall, the potential growth rate is projected to remain in the mid-0% range over the medium to long term, which presents a continuation of Japan's recent trends.

In contrast, the Economic Growth Achieved Case assumes that the TFP growth rate will reach around 1.4% by FY2027, which is the average of the period before entering the deflation situation, through stimulating innovation and improving production efficiency by promoting investment in the priority areas based on the New Form of Capitalism under public-private partnership (investment in human capital, investment in science, technology and innovation, investment in GX/DX, etc., investment in start-ups). Under this assumption, the higher rate of TFP growth and the improved earnings environment for firms promote capital investment, resulting in a higher contribution of endogenously calculated capital input. This result is also consistent with the expectation of an increase in private capital formation due to the promotion of various investments mentioned above. With regard to labor input, it is assumed that labor demand will increase with economic growth, and the labor participation, especially among women and the elderly, will be higher than in the Baseline Case due to the promotion of diverse work styles, etc. Nevertheless, this assumption still cannot offset the impact of population decline completely, and the resulting contribution of labor input will be slightly negative. All in all, the potential growth rate is projected to be around 2% in the medium to long term.

[7] According to the National Institute of Population and Social Security Research's "Population Projections for Japan" (estimated in 2023) with the births (deaths) median estimates, the average change during year 2031 and 2035 in the total population is about -0.6%, while that in the working-age population (15-64 years old) is about -1%.

Figure 1. Decomposition of Potential Growth Rate



(2) Economic growth rate and wage growth rate

The real GDP growth rate averaged around 0.9% in FY2013-2019, before the COVID-19 pandemic. Subsequently, the economy was strongly affected by the suppression and easing of economic activity due to the pandemic, with significant negative growth (-3.9%) in FY2020 and positive growth (2.8%) in FY2021.

As for the short-term outlook, according to the Cabinet Office's FY2024 Economic Outlook, the GDP growth rate is driven by external demand, including an upswing in exports due to the easing of supply constraints on semiconductors and a resurgence in inbound tourism demand. It is projected to reach about 1.6% in real terms (about 5.5% in nominal terms) in FY2023. In FY 2024, driven by domestic demand, including private consumption and private investment, aligning with the progress of “Comprehensive Economic Measures to Completely Overcoming Deflation: Toward a New Stage of the Japanese Economy,” the GDP growth is projected to be about 1.3% in real terms (about 3.0% in nominal terms).

Thereafter, since supply and demand of the overall economy will be roughly in balance, the real GDP growth rate will converge to the potential growth rate (mid-0% range in the Baseline Case and around 2% in the Economic Growth Achieved Case). Similarly, in the medium to long term, nominal GDP growth will be in the mid-0% range in the Baseline Case, and it will be around 3% in the Economic Growth Achieved Case.

Figure 2. Growth Rate of Real GDP

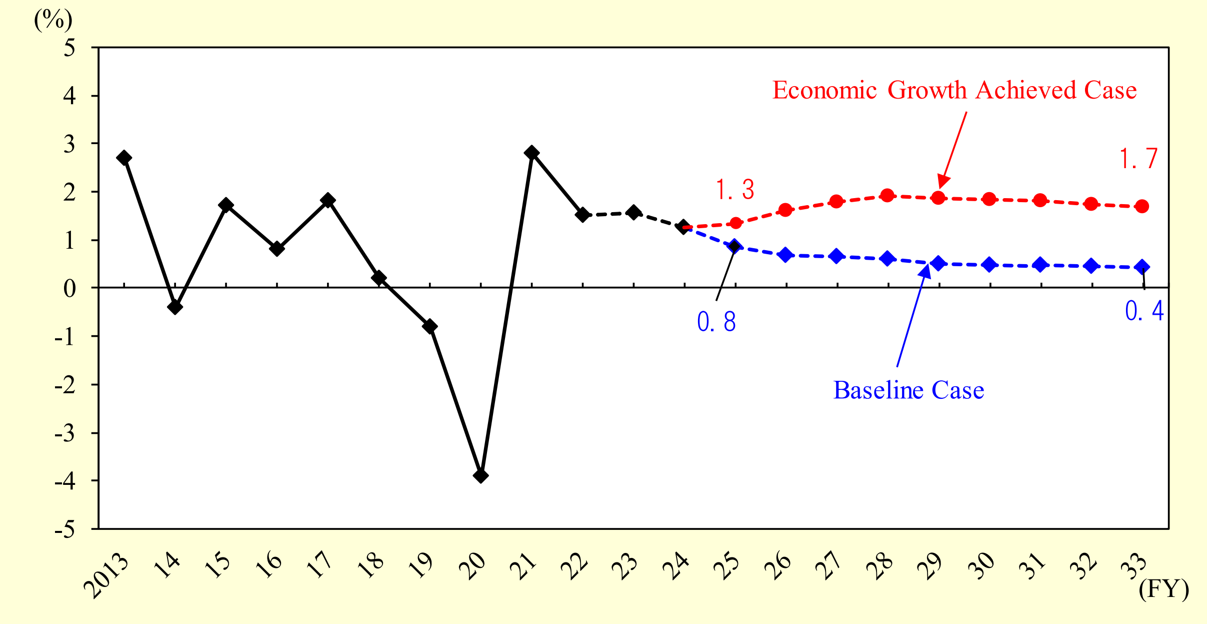
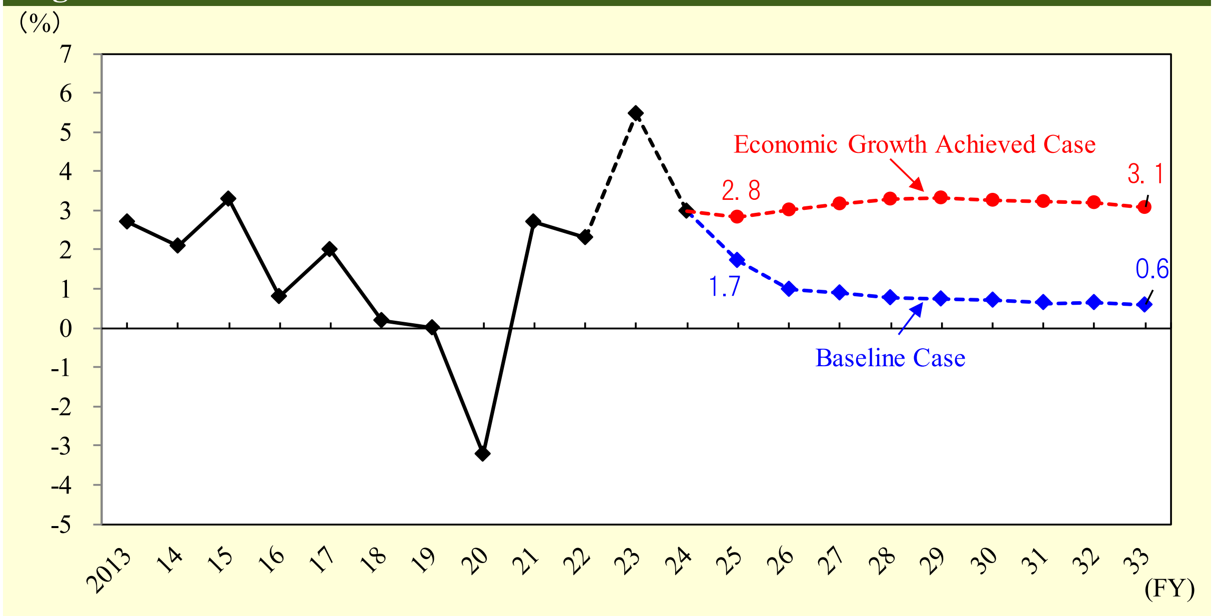
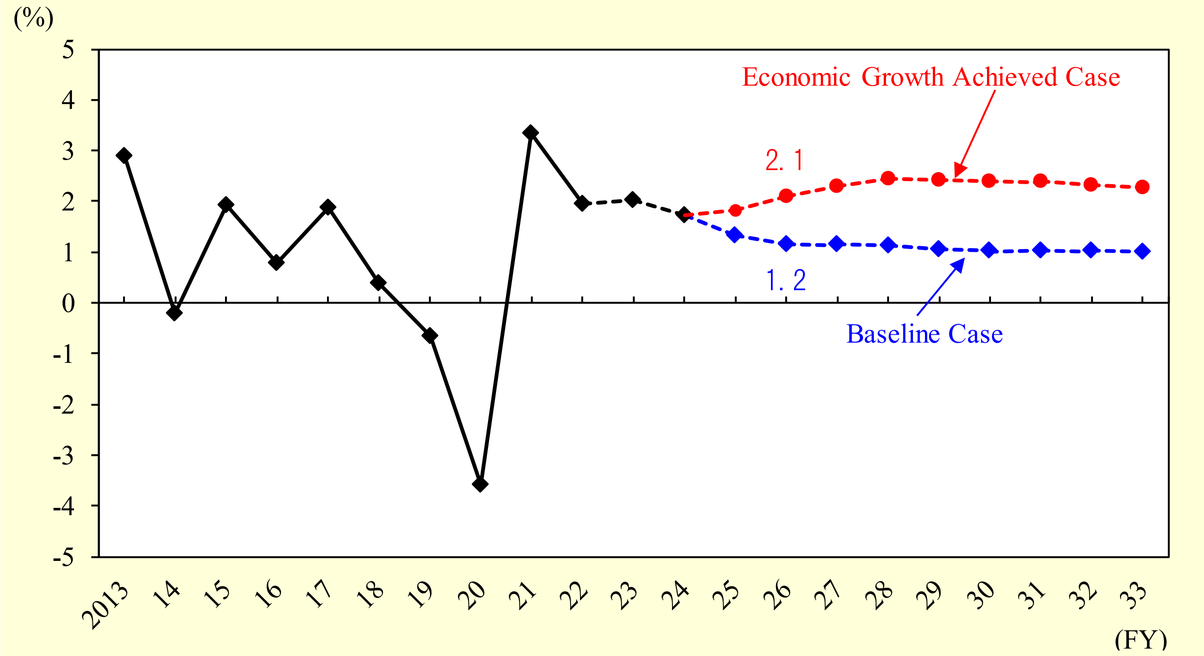


Figure 3. Growth Rate of Nominal GDP



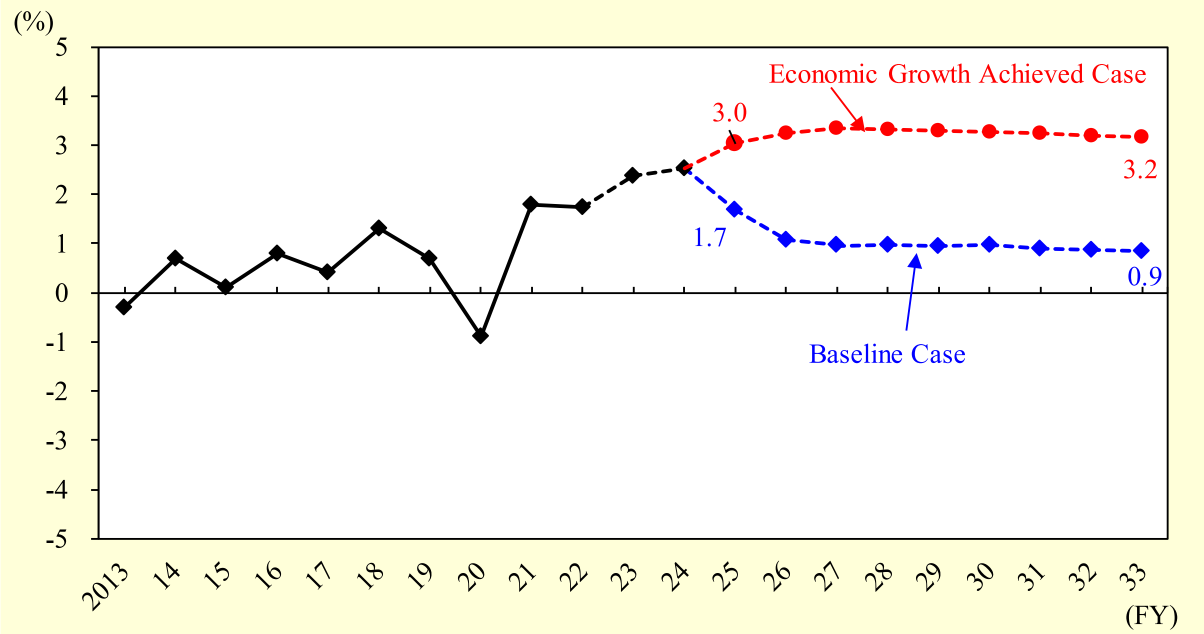
It is also important to look at per capita real GDP growth from the perspective of people's standard of living and productivity, given the prospect that population decline will be intensified in the future. The real GDP per capita growth rate will be higher than the real GDP growth rate due to the impact of population decline and is projected to be around 1% in the Baseline Case and more than 2% in the Economic Growth Achieved Case.

Figure 4. Growth Rate of Per Capita Real GDP



Next, we look at the rate of nominal wage growth[8] to check the distributional aspect, such as whether wage growth has been achieved in line with economic growth.

Figure 5. Growth Rate of Nominal Wage



The wage growth rate averaged around 0.5% over the nine years in FY2013-2021, pushed down due to the increase in the ratio of non-regular employees amid the improvement in the labor participation of women and the elderly, but also raised up by boosting factors such as the

[8] Wage growth per employee (nominal).

tightening of labor supply and demand in recent years.[9] In FY2023, the wage growth rate is expected to be around 2.4% as the spring wage negotiation ("Shunto") resulted in the highest level of wage revision in around 30 years. In FY2024, as the economic growth continues and the labor supply-demand balance tightens, the rate is expected to be around 2.5%.

Subsequently, in the Baseline Case, as the rates of increase in labor productivity and prices remain modest, the wage growth rate in the medium- to long-term stays around 1%. In the Economic Growth Achieved Case, the wage growth rate in the medium- to long-term is projected to be around 3%, as capital formation and labor productivity are more advanced than in the Baseline Case and, under relatively high economic growth rates, prices rise in line with increased demand, etc.

With regard to real wage growth, which is calculated by subtracting the CPI growth rate (discussed below) from the wage growth rate, it is around 0% over the medium to long term in the Baseline Case, and around 1% in the Economic Growth Achieved Case as the wage growth rate is higher than the CPI growth rate.

(3) Consumer price rate and long-term interest rate

Since the end of 2013, amid a non-deflationary situation, the CPI growth rate averaged around 0.8%[10] in FY2013-2019. In FY2020 and FY2021, when COVID-19 spread, the CPI growth rates were -0.2% and 0.1%, respectively. In FY2022, the rate was 3.2% due to price increases, mainly in energy and food products, and is expected to be around 3.0% in FY2023. In FY2024, while the price transfer due to the rise in import costs has completed one cycle and private demand-led growth progresses, due to the rebound from the mitigation measures of the price hikes by the government,[11] the CPI growth rate is projected to be about 2.5%.

In the Baseline Case, the CPI growth rate is projected to remain in the mid-0% range in the medium to long term. The nominal long-term interest rate is projected to rise to around 1% in the medium to long term.

In the Economic Growth Achieved Case, the CPI growth rate is projected to move at about 2% over the medium to long term as the potential growth rate and the wage growth rate increase. Since the CPI growth rate is projected to reach a stable 2% in FY2025, the nominal long-term interest rate is assumed to remain at the current level through FY2024 and then is projected to rise to around 3% in the medium to long term in line with economic growth.

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[9] See Cabinet Office's "Annual Report on the Japanese Economy and Public Finance 2023", Chapter 2, Section 1.
[10] The series of *Consumer Price Index* excluding the impact of the consumption tax rate hike is about 0.5% (the Ministry of Internal Affairs and Communication).
[11] The impacts of the mitigation measures for electricity and gas price hikes are estimated to be around -0.6%pt in FY2023 and around +0.6%pt in FY2024.

Figure 6. Growth Rate of CPI

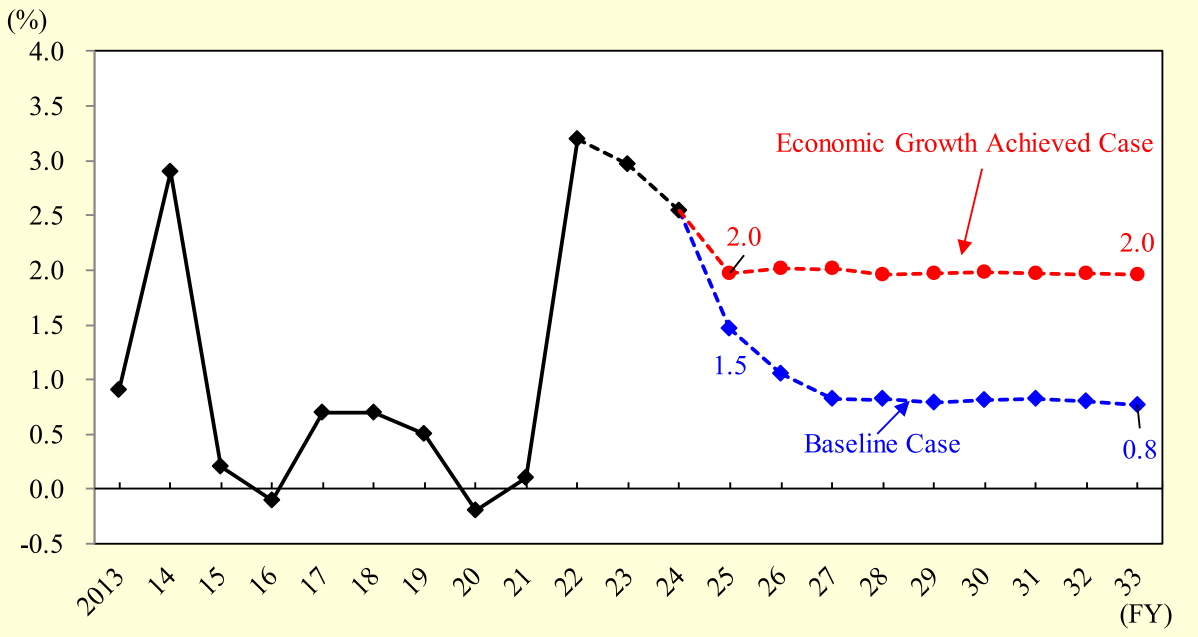
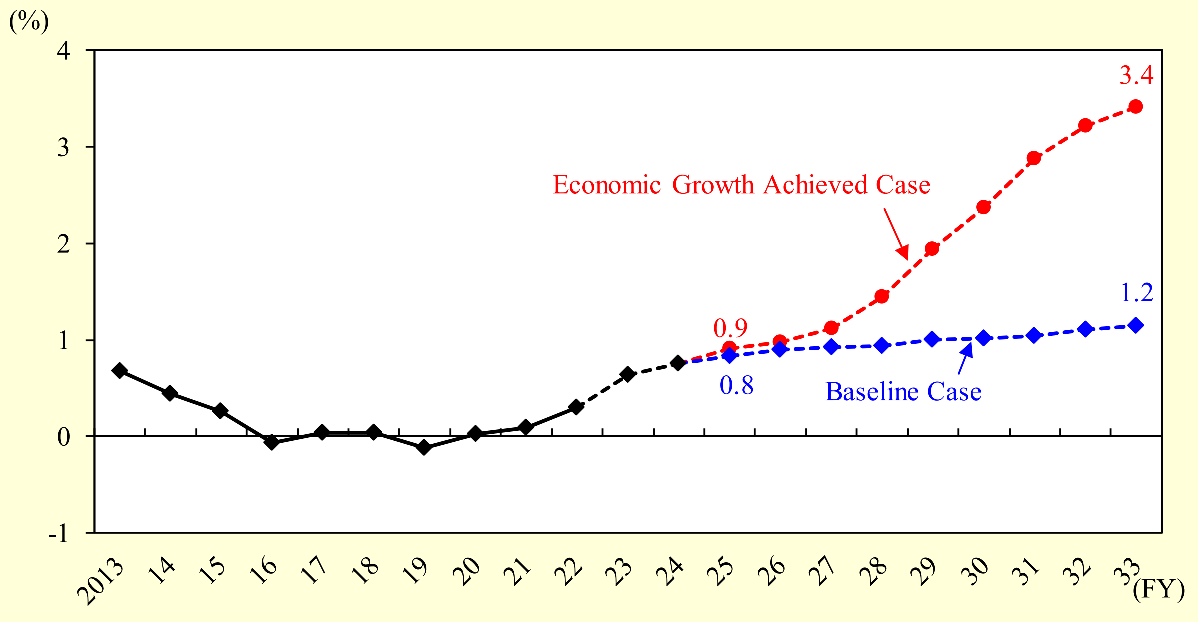


Figure 7. Nominal Long -term Interest Rate



3. Medium to long term fiscal projection

On the fiscal side, reflecting the Draft FY2024 Budget, etc. the fiscal projections that are consistent with two economic scenarios presented in the previous section are shown.[12] With regard to expenditures, the defense capacity buildup, national resilience measures, etc., whose specific sizes are already decided in the multi-year plans, are reflected[13] in the projection. Social security expenditures are assumed to increase, reflecting factors such as the population aging and the rate of price and wage increases, while other general expenditures are assumed to increase at the rate of price increases. As for revenues, tax revenues and other revenues are assumed to increase in line with the macroeconomic variables.

(1) Primary balance and fiscal balance for central and local governments

The ratio of primary balance (PB)[14] to GDP for central and local governments steadily improved since FY2013 until the spread of COVID-19 (around -1.9% in FY2018),[15] because of the promotion of expenditure reforms in the initial budget, nominal GDP expansion, and increased revenue due to the consumption tax rate hike, etc., regardless of the increase in expenditure due to the population aging and supplementary budgets, etc. Subsequently, due to the increase in expenditures (that mostly contribute to supporting the economy) associated with the successive economic measures against the spread of COVID-19, and against the increase in oil prices and other prices, etc., the PB-to-GDP ratio was around -9.1% in FY2020, -5.5% in FY2021, and -3.5% in FY2022. In FY2023 and FY2024, reflecting the expenditure increase based on the economic stimulus measures that include policies to relieve the burden borne by the citizens of higher prices, the PB-to-GDP ratio are projected to be around -5.1% in FY2023 and -3.0% in FY2024. In addition, it is expected that most expenditures for these economic measures will have been implemented by FY2024.

Then, in the Baseline Case, the PB-to-GDP ratio for central and local governments is projected to be around -0.4% in FY2025 and then improve to near zero in FY2026, followed by a gradual deterioration. This is because the increase in revenue, which grows at the same rate as nominal GDP growth, is projected to be less than the increase in expenditures, which grow due to the population aging, price and wage factors, etc.[16] The ratio of fiscal balance to GDP for central and local governments gradually increases, at a faster deterioration pace compared to the PB during the projection period due to interest expenses in response to rising interest rates.

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[12] See Appendix 1 for detailed assumptions.

[13] 'Defense Buildup Plan,' 'The Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience' and 'Children's Future Strategy' are incorporated in this projection.

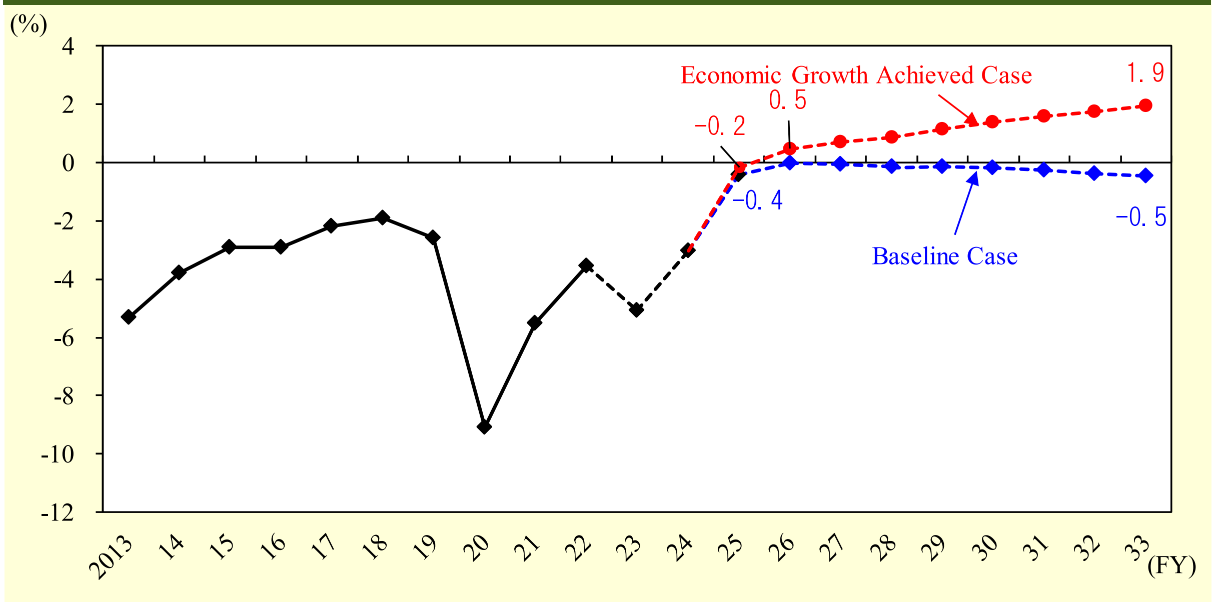
[14] The primary balance (PB) is an indicator of how much of the cost of providing various administrative services, including social security and public works (policy expenses), is covered by tax revenues and other sources. This section discusses trends in PB, excluding expenditures and fiscal resources for the recovery and reconstruction measures and GX measures.

[15] As for information on past financial conditions, including the period of the COVID-19 pandemic, see Cabinet Office's "Annual Report on the Japanese Economy and Public Finance 2022", Chapter 1, Section 3.

[16] See BOX 1.

In the Economic Growth Achieved Case, the PB-to-GDP ratio for central and local governments is around -0.2% in FY2025 and turns to attain a surplus in FY2026, followed by a growing surplus during the projection period.[17] This is because the increase in revenue, which grows at the same rate as nominal GDP growth, is projected to exceed the increase in expenditures, which grows due to the population aging, price and wage factors, etc.[18] The fiscal balance-to-GDP ratio for central and local governments, while the PB is projected to remain in surplus after FY2026, is projected to remain near zero during the projection period since interest expenses are projected to expand in response to rising interest rates.

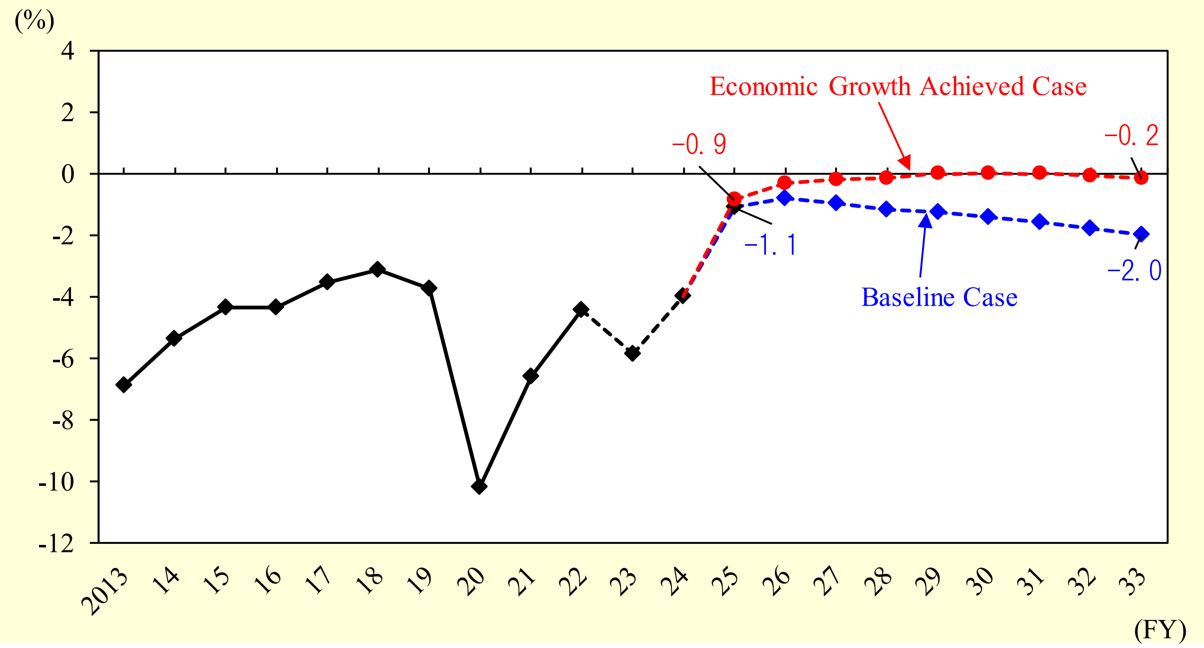
Figure 8. **Primary Balance of Central and Local Governments Combined (Ratio to Nominal GDP)**



[17] The effect on improvement in the primary balance by efforts for expenditure efficiency is assumed to be around 1.3 trillion yen per year in the Economic Growth Achieved Case when the impact on the economy is taken into consideration, based on the materials submitted to the Council on Economic and Fiscal Policy by the members from the private sector (May 28, 2018) and those by the Cabinet Office (July 21, 2021). Calculating mechanically based on this assumption, if the efforts for expenditure efficiency carried out thus far are continued, the primary surplus will come into sight in FY2025, around a year earlier, in the same case. The analysis on the revision of the PB in FY 2025 since our last projection (July 2023) is shown in BOX 1.

[18] See BOX 1.

Figure 9. Fiscal Balance of Central and Local Governments Combined (Ratio to Nominal GDP)



(2) Outstanding debt of central and local governments

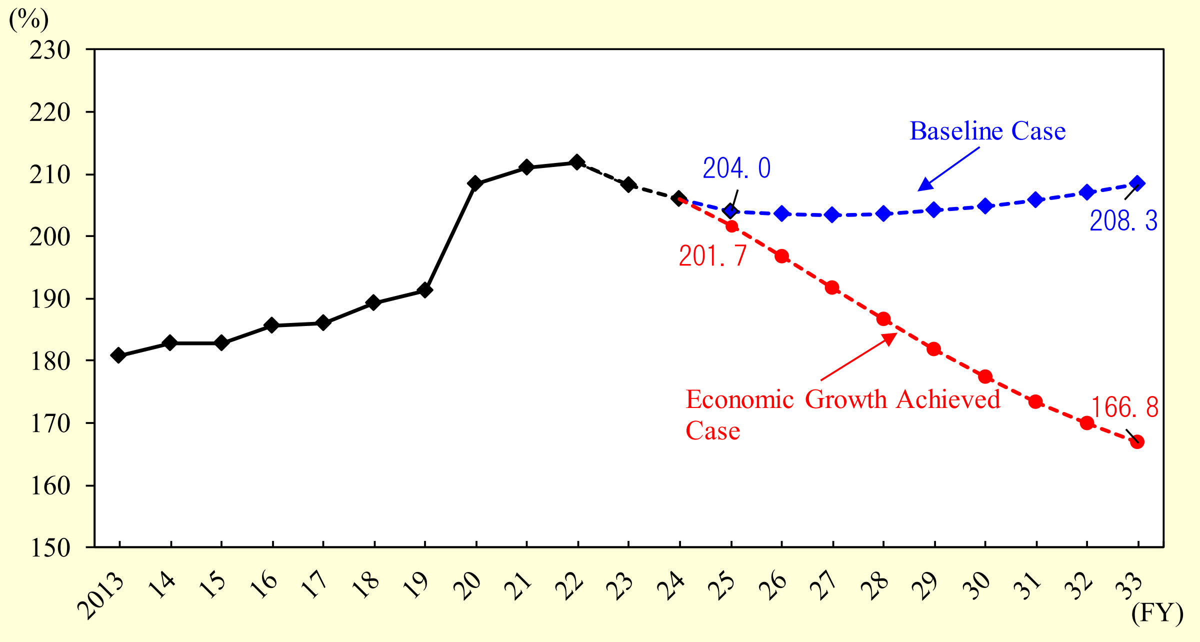
The ratio of outstanding debt of central and local governments to GDP has been on an upward trend in the 2000s against the backdrop of the PB deficits and sluggish nominal GDP growth, and rose sharply during the Great Recession. After FY2013, the pace of increase slowed with the improvement of the PB and the increase in nominal GDP. However, due to the impact of the COVID-19 pandemic and the supplementary budget to deal with it, it rose significantly again, reaching around 211.8% in FY2022. For the time being, due to the expansion of nominal GDP and other factors, it is projected to turn downward to around 208.2% in FY2023 and 206.1% in FY2024.

Then, in the Baseline Case, in the latter half of the 2020s the ratio turns to go up, as the outstanding debt, the numerator, increases due to the effect of the deterioration of the PB and fiscal balance, while the nominal GDP, the denominator, grows only modestly.

In the Economic Growth Achieved Case, the increase in the outstanding debt, the numerator, is projected to decline steadily over the projection period as a result of the improvement in the PB and fiscal balances, while the nominal GDP, the denominator, is projected to expand. Eventually the ratio steadily tends downward in the projection period.

It should be noted that as long-term interest rates rise, existing bonds issued at lower interest rates will be refinanced at higher rates.

Figure 10. Outstanding Debt of Central and Local Govenrments Combined (Ratio to Nomina GDP)



<BOX 1> Analysis of the PB movements

Since PB is the difference between primary revenue and primary expenditure, PB worsens if the revenue growth is less than the expenditure growth, and improves if the revenue growth is greater than the expenditure growth.

Looking at the past movements relative to GDP, until FY2019, the revenue tended to increase, while the expenditure remained flat or declined, and the resulting PB gradually improved. From FY2020 to FY2022, although the revenue continued to increase, the expenditures increased significantly due to the large-scale economic measures to tackle the COVID-19 outbreak, which was a major factor in the deterioration of the PB in this period.

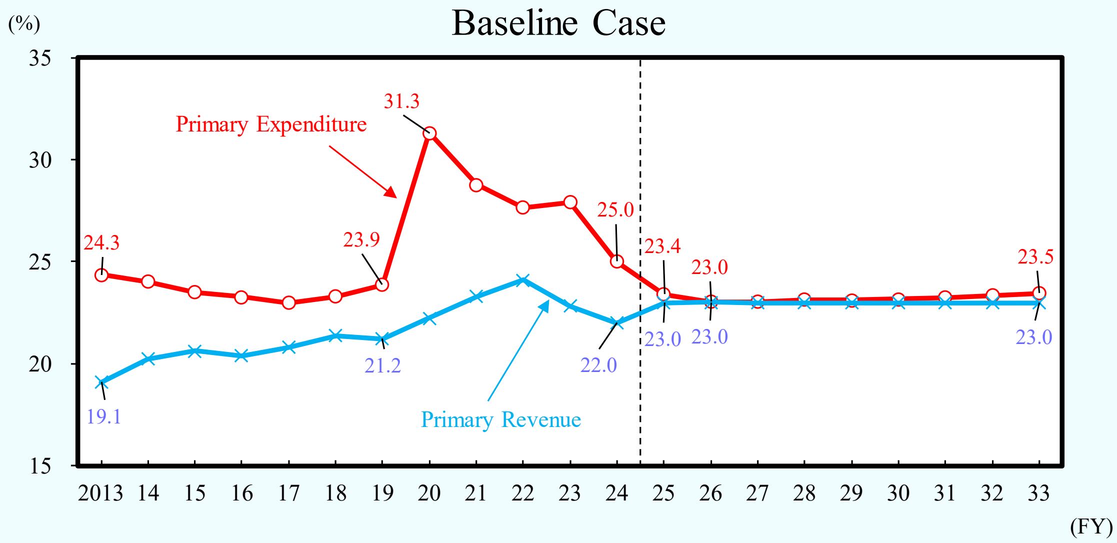
In FY2023, as the economic measures to deal with price hikes and to overcome the deflationary economy are implemented, the expenditure is expected to expand in FY2023 and FY2024. In FY2024, a temporary reduction in the revenue is expected due to the income tax cut etc., but those effects are not assumed from FY2025 onward.

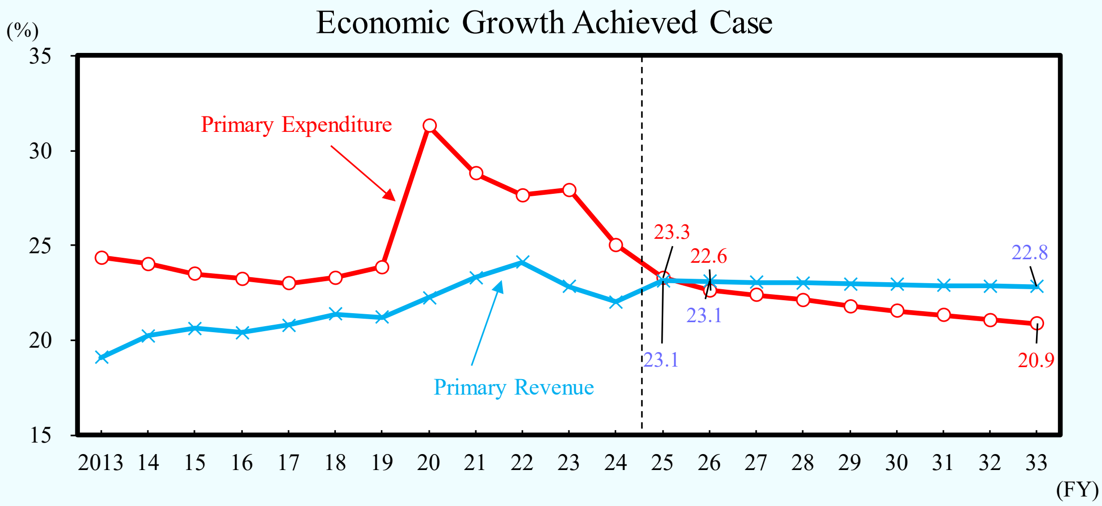
This difference between the Baseline Case and the Economic Growth Achieved Case are caused by the difference in the mechanisms that determine the growth in the expenditure and the revenue, as described below.

- As for the revenue growth, it is generally defined by the trends in tax revenues, which account for most of the primary revenue. Since tax revenues are linked to macroeconomic variables, such as household income, consumption, and corporate earnings, they generally have a strong correlation with nominal GDP. In this projection as well, the growth of overall tax revenues is consequently linked to the growth of nominal GDP [*1]. For this reason, the ratios of the primary revenue to GDP does not differ in the two cases.
- As for the expenditure growth, social security expenditures increase to reflect aging factors and the rate of price and wage increases, while other general expenditures increase in line with the rate of price increases. Since there is no difference in the aging factor between the two cases, the difference in expenditure growth is mainly caused by the difference in the rate of price increases.[*2] In the Baseline Case, since the inflation rate and nominal GDP growth rate are similar over the medium to long term, the primary expenditure to GDP ratio does not change so much, while in the Economic Growth Achieved Case, since the inflation rate is lower than the nominal GDP growth rate, the primary expenditure to GDP ratio declines slowly.

The PB for the central and local governments in FY2025 is projected be around -1.1 trillion yen (-0.2% of GDP) in the Economic Growth Achieved Case, an improvement of about 0.2 trillion yen from the Economic Growth Achieved Case projected in July 2023.

Primary Revenue and Expenditure (Central and local governments, percent of GDP)





(Notes) 1. The classification is based on Government Finance Statistics manual 2014.
2. The primary revenue is "revenue" minus "interest income."
3. The primary expenditure is "expenditure" minus "interest payment."
4. Excluding revenue and expenditure for recovery and reconstruction measures and GX measures.
5. These primary revenue and expenditure remove transfers between central and local governments.

Factors of the PB Revision in FY2025

(Appx. trillion Yen)

	Contribution to the PB	Primary balance in FY 2025
July 2023 projection		▲ 1.3
Factors on the revenue side		
・upswing of the nominal GDP growth rate, etc.	＋ 0.7	
Factors on the expenditure side		
・the expenditure reform efforts in FY2024	＋ 0.7	
・upswing of the price rate in FY2025	▲ 0.2	
・FY2023 economic stimulus measures, etc.	▲ 1.0	
January 2024 projection		▲ 1.1

(Notes) 1. See footnote 17 regarding the expenditure reform.
2. Considerable leeway should be given when interpreting this table, including assumptions on this projection.
3. Figures in this table are rounded, so the sum of factors and the change of PB do not always match.

As for the revenue side, an increase in tax revenues based on factors including an upward revision of the nominal GDP growth rate from the previous projection (while the growth rates were estimated to be 2.5% for FY2024 and 2.5% for FY2025 in the 2023 July projection, they are estimated to be 3.0% for FY2024 and 2.8% for FY2025 in this 2024 January projection) contributes to the improvement of the PB in FY2025. As for the expenditure side, while the growth in expenditures is controlled in the Draft FY2024 Budget by continuing the efforts for expenditure efficiency carried out thus far, compared with the previous projection, an upswing of the price increases (while the CPI growth rate for FY2025 was estimated to be 1.8% in the 2023 July projection, it is estimated to be 2.0% in this 2024 January projection) and an increase in the expenditure due to “Comprehensive Economic Measures to Completely Overcoming from Deflation” (mainly its expenditure for fund projects) contribute to the deterioration of the PB in FY2025. As a result, if the efforts for expenditure efficiency carried out thus far are continued in FY2025, the primary surplus will come into sight in FY2025 in the Economic Growth Achieved Case.

(*1) Calculating the tax revenue elasticity looking at the relationship between the two, it is about 1 in the medium to long term under both of the two scenarios.
(*2) Differences in the rate of wage growth will also have an impact, but the impact of differences in the rate of price growth will be larger because the expenditure weights involved in wage growth are relatively small.

4. Risk and Uncertainty

The medium to long term economic and fiscal projections described so far entail various risks and uncertainties. In the short term, it is necessary to pay close attention to the risk that a downturn in overseas economies will put downward pressure on the Japanese economy, uncertainty regarding how prices will change in the coming future, effects of the 2024 Noto Peninsula Earthquake, fluctuations in financial and capital markets, etc. Furthermore, looking at the medium to long term time horizon, for example, the risks and uncertainties that follow are included.[19]

In order to understand the path and quantitative effects of the external impacts of these risks and uncertainties on the Japanese economy and public finances, we conduct sensitivity analyses based on mechanical calculations of the impact of a decline in the growth rate and an increase in nominal long-term interest rates. Please note that these sensitivity analyses are conducted mechanically and are not discussed with specific scenarios or specific policy changes in mind.

i) Changes in medium to long term economic growth

The IMF's "World Economic Outlook" (October 2023) points out several downside risks involved in global economic growth due to such factors as a slowdown in the Chinese economy, fluctuations in commodity prices coming from the climate and geopolitical shocks, continued price hikes, destabilization of financial and capital markets, high levels of public and private debts in emerging and developing countries, and geopolitical and geoeconomic fragmentation.[20] Such a downturn in the global economy puts downward pressure on production and corporate performance through lower exports, etc. If this impact is prolonged, it will have a negative impact on Japan's medium to long term economic growth through sluggish investment, etc.

In the current domestic economy, while there are some factors that could move the medium to long term growth path upward, such as the recent trend in the wage increase and continued high investment motivation, there are also factors that could move the path downward, such as an increase in volatility of the economy and a decline in the expected medium to long term growth rate amid the declining birthrate and the reduction in labor force participation.

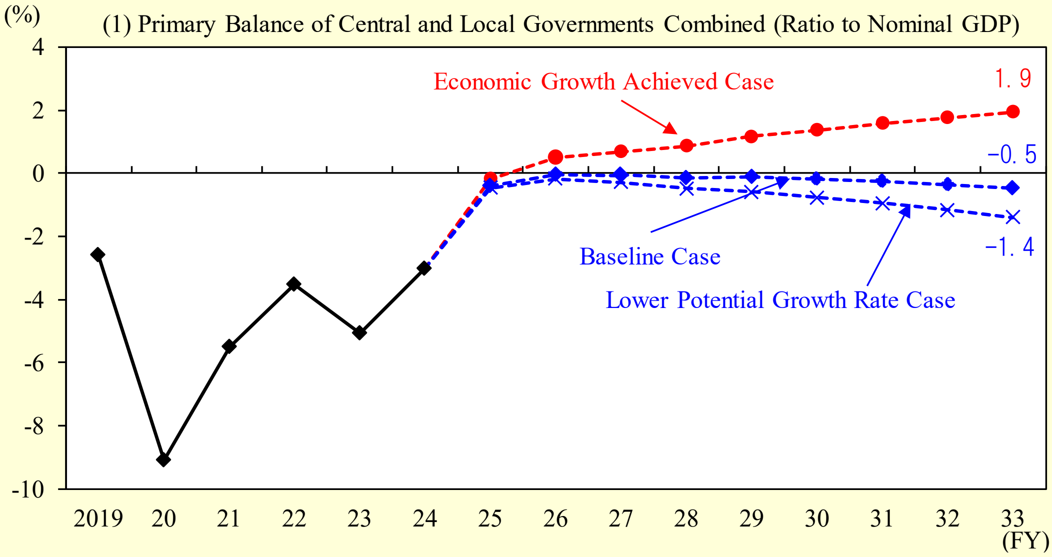
In the following, we conduct a sensitivity analysis based on a mechanical calculation of the impact of a decline in the potential growth rate. Here, we assume that the rate of increase in TFP

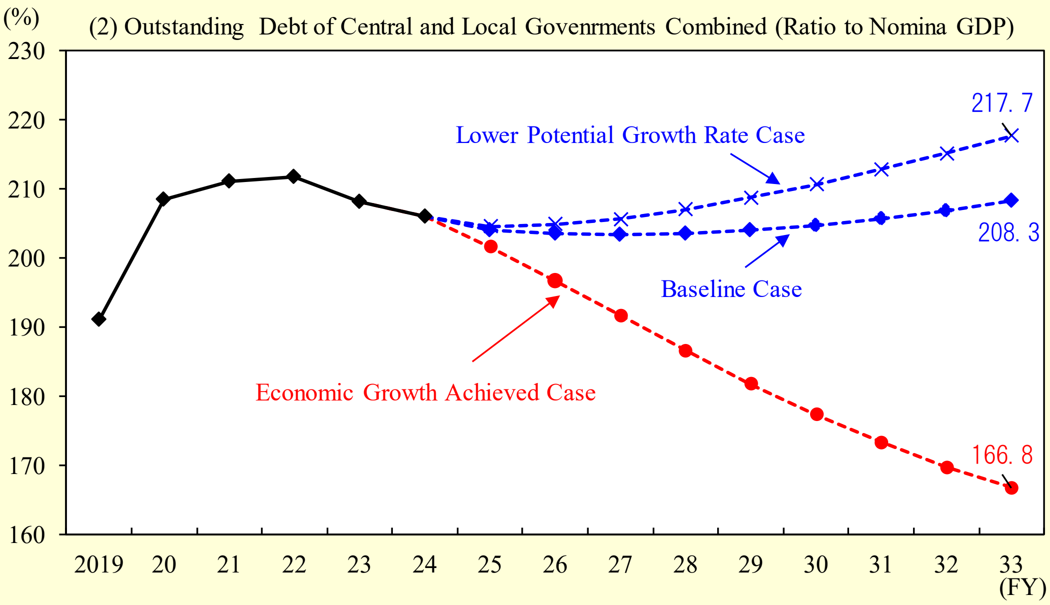
[19] Those listed here are examples. Risks and uncertainties are not limited to these.

[20] IMF (October 2023) cites as upside risks a slowdown of the price hikes due to factors such as the reduction in energy prices, as well as an increase in household consumption against the background of excess savings during the COVID-19 pandemic. However, the downside risks are considered more significant. Moreover, as external risks involved in Japan's economic growth, the IMF's (March 2023) "Article IV Consultation with Japan; Staff Report" cites geoeconomic fragmentation and geopolitical tensions, a sharp slowdown in the global economy, commodity price fluctuations, natural disasters, and cyber threats. Regarding future oil prices, the World Bank's (October 2023) "Commodity Market Outlook" points to the tensions surrounding the Middle East region and risks of higher prices coming from lower production in OPEC+ (plus), the U.S., and other countries, as well as the risks of lower prices due to lower demand accompanying lower growth in the global economy.

was continuously reduced by about 0.5 percentage points relative to the Baseline Case. As a result, combined with a decrease in capital input, the potential growth rate declined by about 0.8% pt in the final year of the projection period (FY2033). Due to the revenue decline resulting from the lower growth rate, the ratio of PB to GDP deteriorated by about 0.9% pt and the ratio of outstanding debt to GDP increased by about 9.4% pt in the final year of the projection period.

Figure 11. Lower Potential Growth Rate Case





(3) Table

(%), [Ratio to Nominal GDP %], Trillions of Yen

FY	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Potential Growth Rate	(0.5)	(0.8)	(1.0)	(0.3)	(0.1)	(0.0)	(▲0.0)	(▲0.1)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.4)
Nominal GDP	566.5	597.5	615.3	624.1	627.9	630.9	633.0	634.3	635.6	636.6	637.4	637.6
Primary Balance of Central and Local Government Combined (Ratio to Nominal GDP)	[▲3.5]	[▲5.1]	[▲3.0]	[▲0.5]	[▲0.2]	[▲0.3]	[▲0.5]	[▲0.6]	[▲0.8]	[▲1.0]	[▲1.2]	[▲1.4]
Outstanding Debt (Ratio to Nominal GDP)	[211.8]	[208.2]	[206.1]	[204.6]	[204.9]	[205.7]	[207.0]	[208.8]	[210.7]	[212.9]	[215.2]	[217.7]

(Notes) 1. Sensitivity analysis using multiplier tables from the Economic and Fiscal Model (2018).
2. The "Lower Potential Growth Rate Case" is the case in which the rate of increase in TFP is continuously 0.5%pt lower than the Baseline Case during the estimation period (FY2025 and beyond), with no change in other exogenous variables.

(ii) Rise in interest rates

Since the end of 2021, monetary tightening has been implemented in Europe and the U.S and overseas long-term interest rates have risen, which put upward pressure on interest rates in Japan. Regarding the recent nominal long-term interest rate in Japan, after it rose to almost 1% at the end of October 2023, the rate has averaged about 0.7% in December 2023.

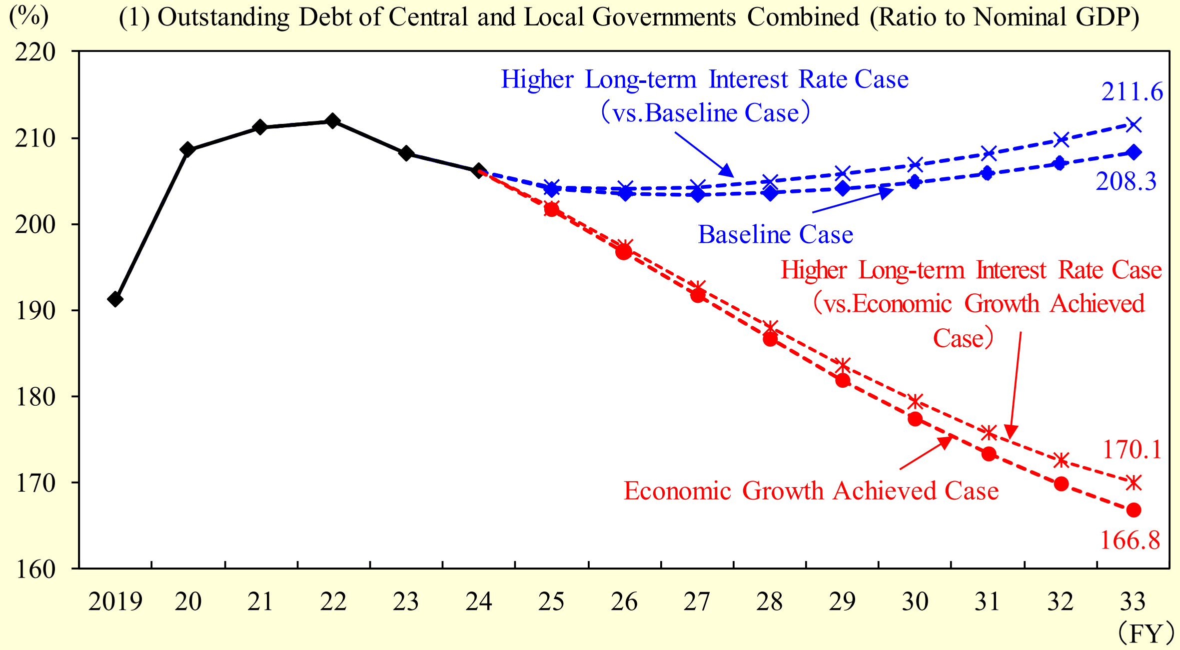
A rise in long-term interest rates could have several impacts on the economy and public finance through various channels.[21] For example, by restraining investment, etc., it could have a negative impact on the real economy. If nominal long-term interest rates rise relative to the nominal GDP growth rate, they could have a negative impact on fiscal sustainability by worsening the fiscal balance and increasing the outstanding debt to GDP ratio.

In the following, we conduct a sensitivity analysis based on a mechanical calculation of the impact of a rise in long-term interest rates. Specifically, we set the long-term interest rate to continuously rise by about 0.5% pt relative to each case. Since interest expenses increased due to the rise in interest rates on newly issued and refinanced bonds, the ratio of the outstanding debt to GDP rose by about 3.3% pt in the final year of the projection period in both cases.

[21] As for the economic impact of a rise in long-term interest rates, for example, see Cabinet Office's "The Japanese Economy 2005", Chapter 2, Section 1.

Figure 12. Highter Long-term Interest Rate Case

(1) Outstanding Debt of Central and Local Governments Combined (Ratio to Nominal GDP)



(2) Table

<vs. Baseline Case>

(%),[Ratio to Nominal GDP%]

FY	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Nominal Long-term Interest Rate	(0.3)	(0.6)	(0.8)	(1.3)	(1.4)	(1.4)	(1.4)	(1.5)	(1.5)	(1.5)	(1.6)	(1.7)
Outstanding Debt (Ratio to Nominal GDP)	[211.8]	[208.2]	[206.1]	[204.3]	[204.1]	[204.3]	[204.9]	[205.9]	[206.9]	[208.2]	[209.7]	[211.6]

<vs. Economic Growth Achieved Case>

(%),[Ratio to Nominal GDP%]

FY	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Nominal Long-term Interest Rate	(0.3)	(0.6)	(0.8)	(1.4)	(1.5)	(1.6)	(2.0)	(2.4)	(2.9)	(3.4)	(3.7)	(3.9)
Outstanding Debt (Ratio to Nominal GDP)	[211.8]	[208.2]	[206.1]	[201.9]	[197.3]	[192.6]	[188.0]	[183.6]	[179.5]	[175.8]	[172.6]	[170.1]

(Notes) 1. Sensitivity analysis using multiplier tables from the Economic and Fiscal Model (2018).
2. The "Higher Long-term Interest Rate Case" is the case in which the nominal rate is continuously 0.5%pt higher than those in both cases during the estimation period (FY2025 and beyond), with no change in other exogenous variables.

(iii) Response to economic fluctuations, etc.

When various economic shocks have occurred, there has often been additional fiscal spending to deal with the crisis. The outstanding debt to GDP of central and local governments combined rose by about 100% pt over the past 20 years (FY2002-2022), but especially by about 40% pt[22] in the five years following the Great Recession and the response to the COVID-19 pandemic.

While it is desirable for the economy to stabilize at an early stage through fiscal adjustment in response to large shocks, supplementary budgets have been compiled in the past as a flexible

22 Changes in the ratio of outstanding debt to GDP in FY2008-2010 and FY2019-2022. The outstanding debt has increased by about 600 trillion yen over the past 20 years, of which about 230 trillion yen, or about 40%, has increased over the past five years.

response to occasional economic conditions, even when the shocks are not as large as the Great Recession or the pandemic. In the past, expenditures in the general account of the central government related to the primary balance[23] have tended to swing upward from the initial budgets to the settlement accounts, at an average of about 3 trillion yen per year[24] from FY2013 to FY2019.

Supplementary budgets in the general account are compiled in cases of particular urgency under the Public Finance Act,[25] and this projection shows figures that do not incorporate such expenditures that are not specifically envisioned at this time. While the government works to prevent emergency fiscal spending from becoming more prolonged and permanent than necessary, at the same time, it is necessary to realize wise spending so that the spending has a high effect on stable economic growth.

In addition to the above, various uncertainties are involved, such as the impact of wage negotiations on wage trends, the impact of the price pass-through situation on price and wage trends, the change in the trends in tax revenues and fluctuation in the fiscal balance[26] due to the incorporation of settlement, etc. Therefore, considerable leeway should be given when interpreting the projections shown here.

It is important that these risks and uncertainties be kept in mind when discussing medium and long term economic and fiscal policy, and in order to contribute to these discussions, it is useful to show the impact of these risks and uncertainties in the medium- and long-term projections.[27]

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[23] Total expenditures less interest payments and debt redemption costs (excluding subsidy bonds).

[24] Average difference between primary expenditures of the initial budget for the central government and that of the settlement for FY2013-2019. Note that the differences were around 2 trillion yen in the pre-Great Recession period, FY2002-2008, and around 36 trillion yen in FY2020-2022.

[25] Article 29 of the Public Finance Act.

[26] The PB of the central and local governments, which is SNA based, in a given year (say, FY T), reflects the (provisionary) settlement of the general account of the central government in the FY T+1 July projection, resulting in improving by about 2 trillion yen compared with FY T+1 January projection due to the changes in the tax revenue and the redundancy and carry over in the expenditure, etc. (among our projections calculated in the last 10 years, FY2013-2019, which do not include the COVID-19 pandemic periods). Also, in FY T+2 January projection, the FY T PB has tended to improve by about 2 trillion yen compared with that in the FY T+1 July projection as a result of the reflection of the Annual Estimates of SNA which take into account the settlement of local government and special accounts, etc.

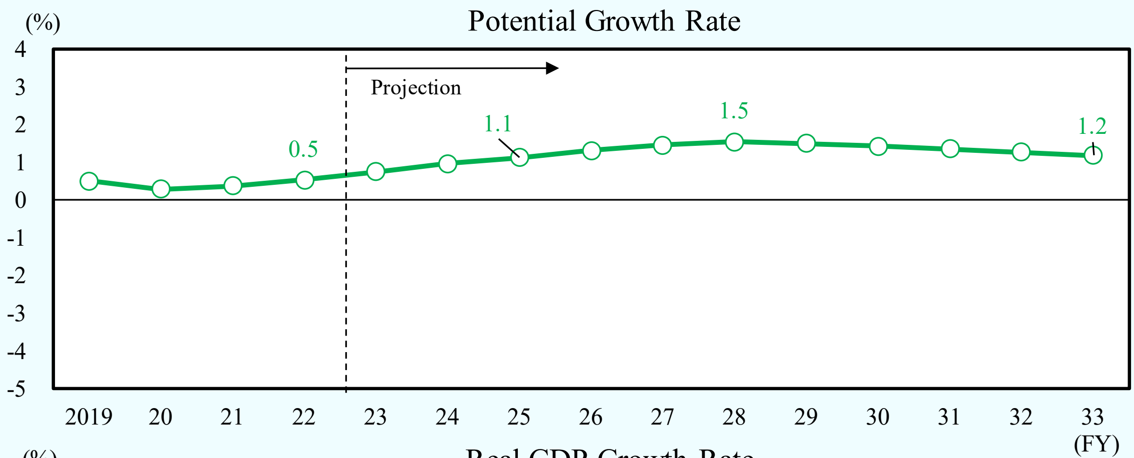
[27] In the previous projection (2023 July), in BOX 3 “Fan chart of real GDP growth,” as an attempt to show the range of uncertainties a fan chart is demonstrated.

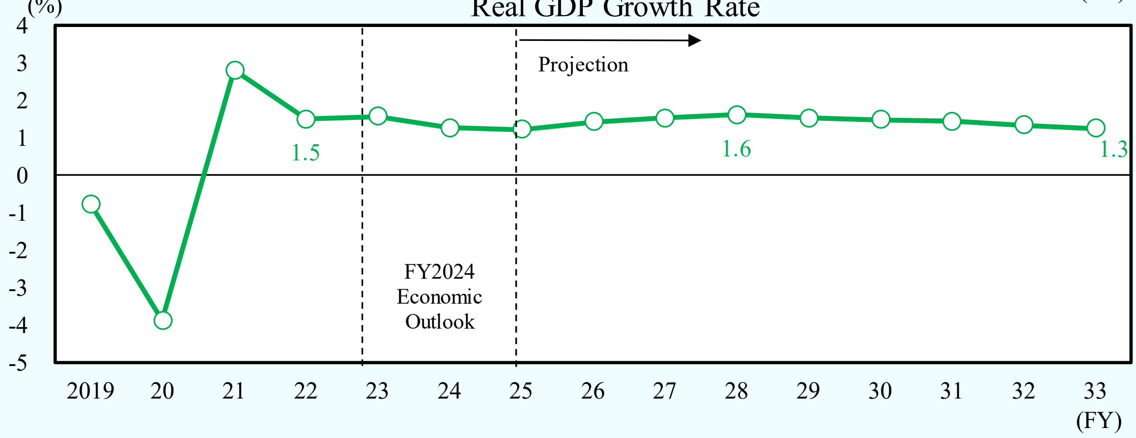
<BOX 2> Analysis of Reference Case

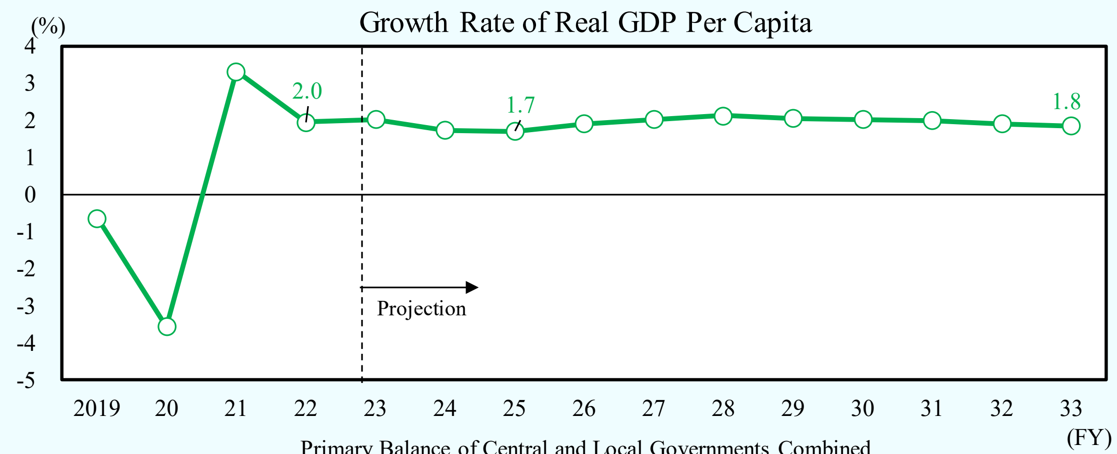
In the Economic Growth Achieved Case, the TFP growth rate is assumed to reach about 1.4%, which is the average TFP growth in the period before entering the deflationary situation. Here an alternative scenario with a different TFP growth rate assumption is studied. In this "Reference Case" the TFP growth rate is assumed to reach about 1.1%, which is the average of the past 40 years, including the most recent business cycle,(*1) and the mechanical estimates of a couple of economic and fiscal variables are conducted. (*2)

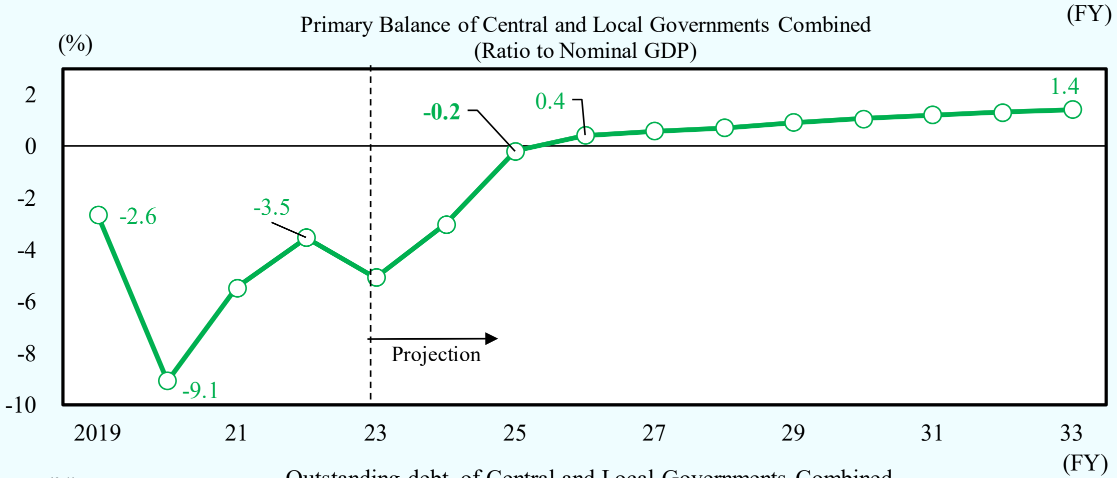
In terms of the economy, both potential growth and real GDP growth are estimated to reach the mid-1% range in the second half of the 2020s. The real GDP per capita growth rate is estimated to be around 2%. In terms of the fiscal situation, although the growth rate is lower than in the Economic Growth Achieved Case, the PB-to-GDP ratio for central and local governments is projected to return to a surplus in FY2026, and if the expenditure efficiency efforts carried out thus far are continued, the primary surplus will come into sight in FY2025, around one year earlier, as in the Economic Growth Achieved Case. Thereafter, since the PB-to-GDP ratio is estimated to continue to improve, the ratio of outstanding debt to GDP is estimated to decline, albeit at a slower pace than in the Economic Growth Achieved Case.

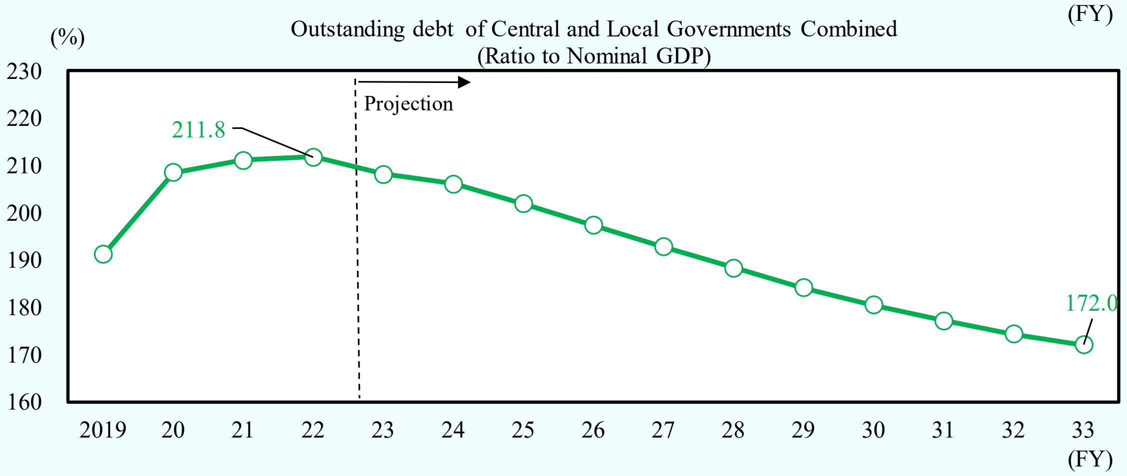
Economic and Fiscal Pictures of the Reference Case











(*1) Regarding the TFP growth rate-enhancing effects, in BOX 5 “The rate of increase in TFP” in the previous projection (2023 July), the effects of policies to realize the “virtuous cycle of growth and distribution” are estimated. Specifically, if the growth enhancing effects studied in the previous research, such as investment in human capital (appx. 0.3%pt; vocational training in companies, conversion of non-regular type to regular type of jobs, etc.), GX and DX related investment (appx. 0.2%pt), and the promotion of startups (appx. 0.2%pt) are added to the TFP growth rate in the Baseline Case (appx. 0.5%), it would be a little over 1%. This is comparable to the average TFP growth rate from Apr-Jun 1980 to Apr-Jun 2020 and the TFP growth rate used in the Budget and Economic Outlook of the CBO (Congressional Budget Office, US), which projects from 2023 to 2033.
(*2) Estimates are made using the multiplier table in the Economic and Fiscal Model (2018 version).

Results of Projection (Table)

Economic Growth Achieved Case

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

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Potential GDP Growth	(0.5)	(0.8)	(1.0)	(1.3)	(1.6)	(1.8)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)	(1.7)
Real GDP Growth	(1.5)	(1.6)	(1.3)	(1.3)	(1.6)	(1.8)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)	(1.7)
Real GNI Growth	(0.4)	(2.9)	(1.4)	(1.6)	(1.6)	(1.6)	(1.7)	(1.8)	(1.7)	(1.7)	(1.6)	(1.6)
Nominal GDP Growth	(2.3)	(5.5)	(3.0)	(2.8)	(3.0)	(3.2)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)	(3.1)
Nominal GDP	566.5	597.5	615.3	632.7	651.8	672.4	694.5	717.5	740.8	764.8	789.1	813.4
Nominal GDP Per Capita Growth	(2.0)	(2.0)	(1.7)	(1.8)	(2.1)	(2.3)	(2.4)	(2.4)	(2.4)	(2.4)	(2.3)	(2.3)
Nominal GNI Per Capita (※Ten thousand yen)	481	509	528	545	563	581	602	624	647	670	695	720
Wage Growth	(1.7)	(2.4)	(2.5)	(3.0)	(3.2)	(3.3)	(3.3)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)
Unemployment Rate	(2.6)	(2.6)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)
Change of Price												
Consumer Prices	(3.2)	(3.0)	(2.5)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP Deflator	(0.8)	(3.8)	(1.7)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal Long-term Interest Rate	(0.3)	(0.6)	(0.8)	(0.9)	(1.0)	(1.1)	(1.5)	(1.9)	(2.4)	(2.9)	(3.2)	(3.4)
Balance by Sector												
General Government	[▲3.6]	[▲4.9]	[▲2.9]	[0.0]	[0.8]	[0.9]	[1.0]	[1.2]	[1.2]	[1.3]	[1.2]	[1.3]
Households	[2.7]	[3.3]	[4.5]	[2.8]	[2.5]	[2.3]	[2.1]	[2.1]	[2.1]	[2.2]	[2.2]	[2.3]
Firms	[2.3]	[5.3]	[2.0]	[0.6]	[0.0]	[▲0.2]	[▲0.2]	[▲0.4]	[▲0.5]	[▲0.7]	[▲0.8]	[▲0.9]
Overseas	[▲1.4]	[▲3.7]	[▲3.7]	[▲3.5]	[▲3.3]	[▲3.0]	[▲2.9]	[▲2.9]	[▲2.8]	[▲2.7]	[▲2.7]	[▲2.7]

【Central and Local Governments' Public Finances】(Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures and GX measures)

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Primary Balance	▲ 20.0	▲ 30.4	▲ 18.6	▲ 1.1	3.1	4.6	6.0	8.3	10.2	12.1	13.9	15.8
(ratio to nominal GDP)	[▲3.5]	[▲5.1]	[▲3.0]	[▲0.2]	[0.5]	[0.7]	[0.9]	[1.2]	[1.4]	[1.6]	[1.8]	[1.9]
Central Government	▲ 26.8	▲ 34.9	▲ 22.6	▲ 9.0	▲ 6.7	▲ 5.9	▲ 5.3	▲ 4.1	▲ 3.2	▲ 2.5	▲ 1.8	▲ 1.1
(ratio to nominal GDP)	[▲4.7]	[▲5.8]	[▲3.7]	[▲1.4]	[▲1.0]	[▲0.9]	[▲0.8]	[▲0.6]	[▲0.4]	[▲0.3]	[▲0.2]	[▲0.1]
Local Government	6.7	4.5	4.1	7.9	9.8	10.5	11.3	12.4	13.4	14.6	15.7	16.8
(ratio to nominal GDP)	[1.2]	[0.8]	[0.7]	[1.2]	[1.5]	[1.6]	[1.6]	[1.7]	[1.8]	[1.9]	[2.0]	[2.1]
Fiscal Balance	▲ 25.1	▲ 35.0	▲ 24.6	▲ 5.4	▲ 1.9	▲ 1.4	▲ 1.0	▲0.0	0.2	▲0.0	▲ 0.5	▲ 1.3
(ratio to nominal GDP)	[▲4.4]	[▲5.9]	[▲4.0]	[▲0.9]	[▲0.3]	[▲0.2]	[▲0.1]	[▲0.0]	[0.0]	[▲0.0]	[▲0.1]	[▲0.2]
Central Government	▲ 31.0	▲ 38.6	▲ 27.6	▲ 12.3	▲ 10.7	▲ 10.8	▲ 11.4	▲ 11.6	▲ 12.4	▲ 13.8	▲ 15.5	▲ 17.5
(ratio to nominal GDP)	[▲5.5]	[▲6.5]	[▲4.5]	[▲1.9]	[▲1.6]	[▲1.6]	[▲1.6]	[▲1.6]	[▲1.7]	[▲1.8]	[▲2.0]	[▲2.1]
Local Government	5.9	3.6	3.0	6.8	8.7	9.5	10.4	11.6	12.6	13.8	15.0	16.2
(ratio to nominal GDP)	[1.0]	[0.6]	[0.5]	[1.1]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]	[1.9]	[2.0]
Outstanding Debt	1199.9	1243.9	1268.0	1275.8	1282.5	1289.1	1296.3	1304.6	1314.3	1325.8	1339.9	1356.8
(ratio to nominal GDP)	[211.8]	[208.2]	[206.1]	[201.7]	[196.8]	[191.7]	[186.7]	[181.8]	[177.4]	[173.4]	[169.8]	[166.8]
Central Government	1029.0	1075.9	1104.1	1117.7	1130.3	1143.0	1156.3	1170.5	1185.8	1202.7	1221.6	1242.9
(ratio to nominal GDP)	[181.6]	[180.1]	[179.5]	[176.7]	[173.4]	[170.0]	[166.5]	[163.1]	[160.1]	[157.3]	[154.8]	[152.8]
Local Government	171.0	168.0	163.9	158.0	152.2	146.1	140.0	134.1	128.6	123.1	118.3	113.9
(ratio to nominal GDP)	[30.2]	[28.1]	[26.6]	[25.0]	[23.4]	[21.7]	[20.2]	[18.7]	[17.4]	[16.1]	[15.0]	[14.0]

【General Account of Central Government】

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Expenditures	132.4	127.6	112.6	116.0	117.8	121.0	124.5	128.6	132.9	137.9	143.3	149.0
(Policy Expenditures)	108.9	102.3	85.9	89.5	90.1	92.1	94.3	96.6	98.7	101.0	103.4	105.9
Social Security-related Expenditures	43.9	38.2	37.7	38.8	39.7	40.6	41.7	42.6	43.6	44.5	45.6	46.7
Local Allocation Tax Grants, etc.	17.5	17.2	17.8	18.9	19.4	20.0	20.7	21.4	21.9	22.6	23.3	24.0
Others	47.1	46.5	30.1	31.5	30.6	31.0	31.6	32.3	32.9	33.5	34.2	34.8
Bond Expenditures	23.9	25.7	27.0	26.8	28.2	29.3	30.6	32.3	34.5	37.2	40.3	43.5
Debt Repayment	16.3	17.7	16.9	17.8	18.2	18.5	18.7	19.0	19.3	19.7	20.1	20.6
Interest Payment	7.1	7.6	9.7	8.7	9.6	10.4	11.5	13.0	14.8	17.2	19.8	22.6
Revenues	85.3	83.1	77.1	84.8	87.3	90.1	93.0	96.0	99.0	102.1	105.3	108.5
Tax Revenue	71.1	69.6	69.6	75.7	78.0	80.5	83.0	85.6	88.4	91.2	94.0	96.9
Other Revenues	14.2	13.5	7.5	9.1	9.3	9.6	10.0	10.3	10.6	10.9	11.3	11.6
Primary Balance in General Account of Central Government	▲ 23.6	▲ 19.2	▲ 8.8	▲ 4.7	▲ 2.8	▲ 2.0	▲ 1.3	▲ 0.7	0.3	1.1	1.9	2.6

【Ordinary Account of Local Government】

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Expenditures	116.9	107.0	100.2	106.3	107.3	109.8	112.7	116.0	119.3	122.8	126.4	130.2
Debt Repayment and Interest Paymen	12.5	11.3	10.9	11.5	11.7	11.7	11.6	11.5	11.4	11.5	11.1	11.0
Revenues	104.5	96.1	90.6	97.2	98.7	101.6	104.6	107.9	111.3	114.9	118.5	122.2
Tax Revenue	46.7	46.7	46.5	49.7	51.2	52.8	54.4	56.2	57.9	59.7	61.5	63.5
Primary Balance in Ordinary Account of Local Government	5.2	4.8	6.3	7.8	9.4	10.1	11.1	12.4	13.8	15.3	16.8	18.3

Notes 1. In "General Account of Central Government," FY2022 is based on the Settlement, FY2023 is based on the FY2023 Supplementary Budget, and FY2024 is based on the Draft FY2024 Budget. In "Ordinary Account of Local Government," FY2022 is based on the Settlement.

2. "Policy Expenditures" is General Account Expenditures excluding interest payments, redemption of the national debt (excluding subsidy bonds) and carry-back of settlement deficit compensation.

3. Debt Repayment in Bond Expenditures excludes the subsidy bond.

4. In "General Account of Central Government," "Other Revenues" in FY2022 consists of non-tax revenues and preceding fiscal year surplus received (around 32.1 trillion yen) excluding the balance of fiscal resources carried forward to the next year (around 18.0 trillion yen).

5. 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.

Baseline Case

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

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Potential GDP Growth	(0.5)	(0.8)	(1.0)	(0.8)	(0.7)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Real GDP Growth	(1.5)	(1.6)	(1.3)	(0.8)	(0.7)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Real GNI Growth	(0.4)	(2.9)	(1.4)	(0.9)	(0.7)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.4)
Nominal GDP Growth	(2.3)	(5.5)	(3.0)	(1.7)	(1.0)	(0.9)	(0.8)	(0.7)	(0.7)	(0.7)	(0.7)	(0.6)
Nominal GDP	566.5	597.5	615.3	625.8	631.9	637.5	642.6	647.3	651.9	656.2	660.5	664.5
Nominal GDP Per Capita Growth	(2.0)	(2.0)	(1.7)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Nominal GNI Per Capita (※Ten thousand yen)	481	509	528	540	546	552	558	564	571	577	584	591
Wage Growth	(1.7)	(2.4)	(2.5)	(1.7)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)
Unemployment Rate	(2.6)	(2.6)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)
Change of Price												
Consumer Prices	(3.2)	(3.0)	(2.5)	(1.5)	(1.1)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
GDP Deflator	(0.8)	(3.8)	(1.7)	(0.9)	(0.3)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Nominal Long-term Interest Rate	(0.3)	(0.6)	(0.8)	(0.8)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.2)
Balance by Sector												
General Government	[▲3.6]	[▲4.9]	[▲2.9]	[▲0.4]	[▲0.1]	[▲0.2]	[▲0.4]	[▲0.6]	[▲0.8]	[▲1.0]	[▲1.2]	[▲1.2]
Households	[2.7]	[3.3]	[4.5]	[2.4]	[2.5]	[2.4]	[1.9]	[1.8]	[1.7]	[1.6]	[1.6]	[1.6]
Firms	[2.3]	[5.3]	[2.0]	[1.6]	[1.3]	[1.3]	[1.5]	[1.7]	[1.7]	[1.8]	[2.0]	[1.8]
Overseas	[▲1.4]	[▲3.7]	[▲3.7]	[▲3.6]	[▲3.7]	[▲3.4]	[▲3.0]	[▲2.9]	[▲2.5]	[▲2.4]	[▲2.3]	[▲2.3]

【Central and Local Governments' Public Finances】(Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures and GX measures)

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Primary Balance	▲ 20.0	▲ 30.4	▲ 18.6	▲ 2.6	▲ 0.2	▲ 0.3	▲ 0.9	▲ 0.9	▲ 1.3	▲ 1.7	▲ 2.4	▲ 3.1
(ratio to nominal GDP)	[▲3.5]	[▲5.1]	[▲3.0]	[▲0.4]	[▲0.0]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.3]	[▲0.4]	[▲0.5]
Central Government	▲ 26.8	▲ 34.9	▲ 22.6	▲ 9.5	▲ 8.0	▲ 7.9	▲ 8.2	▲ 8.0	▲ 8.1	▲ 8.3	▲ 8.6	▲ 8.9
(ratio to nominal GDP)	[▲4.7]	[▲5.8]	[▲3.7]	[▲1.5]	[▲1.3]	[▲1.2]	[▲1.3]	[▲1.2]	[▲1.2]	[▲1.3]	[▲1.3]	[▲1.3]
Local Government	6.7	4.5	4.1	6.9	7.7	7.6	7.3	7.1	6.8	6.5	6.2	5.9
(ratio to nominal GDP)	[1.2]	[0.8]	[0.7]	[1.1]	[1.2]	[1.2]	[1.1]	[1.1]	[1.0]	[1.0]	[0.9]	[0.9]
Fiscal Balance	▲ 25.1	▲ 35.0	▲ 24.6	▲ 6.9	▲ 5.2	▲ 6.1	▲ 7.4	▲ 8.1	▲ 9.2	▲ 10.4	▲ 11.8	▲ 13.2
(ratio to nominal GDP)	[▲4.4]	[▲5.9]	[▲4.0]	[▲1.1]	[▲0.8]	[▲1.0]	[▲1.2]	[▲1.3]	[▲1.4]	[▲1.6]	[▲1.8]	[▲2.0]
Central Government	▲ 31.0	▲ 38.6	▲ 27.6	▲ 12.8	▲ 11.9	▲ 12.6	▲ 13.7	▲ 14.2	▲ 14.9	▲ 15.8	▲ 16.8	▲ 17.8
(ratio to nominal GDP)	[▲5.5]	[▲6.5]	[▲4.5]	[▲2.0]	[▲1.9]	[▲2.0]	[▲2.1]	[▲2.2]	[▲2.3]	[▲2.4]	[▲2.5]	[▲2.7]
Local Government	5.9	3.6	3.0	5.9	6.7	6.5	6.3	6.1	5.7	5.3	5.0	4.6
(ratio to nominal GDP)	[1.0]	[0.6]	[0.5]	[0.9]	[1.1]	[1.0]	[1.0]	[0.9]	[0.9]	[0.8]	[0.8]	[0.7]
Outstanding Debt	1199.9	1243.9	1268.0	1276.9	1286.4	1296.7	1308.4	1321.2	1335.2	1350.4	1366.9	1384.3
(ratio to nominal GDP)	[211.8]	[208.2]	[206.1]	[204.0]	[203.6]	[203.4]	[203.6]	[204.1]	[204.8]	[205.8]	[206.9]	[208.3]
Central Government	1029.0	1075.9	1104.1	1118.5	1132.6	1147.4	1163.2	1180.0	1197.7	1216.3	1235.9	1256.6
(ratio to nominal GDP)	[181.6]	[180.1]	[179.5]	[178.7]	[179.2]	[180.0]	[181.0]	[182.3]	[183.7]	[185.4]	[187.1]	[189.1]
Local Government	171.0	168.0	163.9	158.4	153.8	149.3	145.2	141.1	137.5	134.1	131.0	127.6
(ratio to nominal GDP)	[30.2]	[28.1]	[26.6]	[25.3]	[24.3]	[23.4]	[22.6]	[21.8]	[21.1]	[20.4]	[19.8]	[19.2]

【General Account of Central Government】

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Expenditures	132.4	127.6	112.6	115.4	116.3	118.3	120.2	122.0	123.6	125.5	127.4	129.3
(Policy Expenditures)	108.9	102.3	85.9	89.0	88.7	89.6	90.6	91.5	92.1	93.0	93.8	94.7
Social Security-related Expenditures	43.9	38.2	37.7	38.8	39.3	39.9	40.6	41.0	41.5	41.9	42.4	43.0
Local Allocation Tax Grants, etc.	17.5	17.2	17.8	18.5	18.7	18.8	18.9	19.1	19.0	19.2	19.3	19.4
Others	47.1	46.5	30.1	31.3	30.3	30.5	30.7	31.0	31.2	31.5	31.7	31.9
Bond Expenditures	23.9	25.7	27.0	26.8	28.0	29.0	29.9	30.9	31.9	32.9	33.9	34.9
Debt Repayment	16.3	17.7	16.9	17.8	18.2	18.4	18.7	18.9	19.2	19.5	19.9	20.2
Interest Payment	7.1	7.6	9.7	8.7	9.4	10.2	10.9	11.6	12.3	13.0	13.7	14.3
Revenues	85.3	83.1	77.1	83.4	84.2	85.2	85.9	86.5	87.1	87.7	88.3	88.9
Tax Revenue	71.1	69.6	69.6	74.3	75.0	75.7	76.1	76.6	77.1	77.6	78.1	78.6
Other Revenues	14.2	13.5	7.5	9.1	9.2	9.5	9.8	9.9	10.0	10.1	10.1	10.2
Primary Balance in General Account of Central Government	▲ 23.6	▲ 19.2	▲ 8.8	▲ 5.6	▲ 4.5	▲ 4.4	▲ 4.7	▲ 5.0	▲ 5.1	▲ 5.3	▲ 5.5	▲ 5.9

【Ordinary Account of Local Government】

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Expenditures	116.9	107.0	100.2	105.4	105.5	106.6	107.6	108.4	109.3	110.4	111.0	111.8
Debt Repayment and Interest Paymen	12.5	11.3	10.9	11.5	11.7	11.7	11.7	11.5	11.5	11.7	11.3	11.2
Revenues	104.5	96.1	90.6	95.8	95.6	96.4	97.0	97.8	98.4	99.2	100.0	100.9
Tax Revenue	46.7	46.7	46.5	48.9	49.4	49.8	50.1	50.5	50.8	51.1	51.5	51.8
Primary Balance in Ordinary Account of Local Government	5.2	4.8	6.3	6.8	7.4	7.2	6.9	6.7	6.4	6.2	6.1	6.0

Notes 1. In "General Account of Central Government," FY2022 is based on the Settlement, FY2023 is based on the FY2023 Supplementary Budget, and FY2024 is based on the Draft FY2024 Budget. In "Ordinary Account of Local Government," FY2022 is based on the Settlement.

2. "Policy Expenditures" is General Account Expenditures excluding interest payments, redemption of the national debt (excluding subsidy bonds) and carry-back of settlement deficit compensation.

3. Debt Repayment in Bond Expenditures excludes the subsidy bond.

4. In "General Account of Central Government," "Other Revenues" in FY2022 consists of non-tax revenues and preceding fiscal year surplus received (around 32.1 trillion yen) excluding the balance of fiscal resources carried forward to the next year (around 18.0 trillion yen).

5. 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 and GX measures）

Economic Growth Achieved Case

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

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Primary Balance	▲ 20.5	▲ 31.9	▲ 19.7	▲ 3.0	1.3	2.9	4.4	6.7	8.5	10.4	12.3	16.2
(ratio to nominal GDP)	[▲3.6]	[▲5.3]	[▲3.2]	[▲0.5]	[0.2]	[0.4]	[0.6]	[0.9]	[1.2]	[1.4]	[1.6]	[2.0]
Central Government	▲ 27.2	▲ 36.4	▲ 23.8	▲ 10.9	▲ 8.5	▲ 7.6	▲ 6.9	▲ 5.7	▲ 4.9	▲ 4.1	▲ 3.4	▲ 0.6
(ratio to nominal GDP)	[▲4.8]	[▲6.1]	[▲3.9]	[▲1.7]	[▲1.3]	[▲1.1]	[▲1.0]	[▲0.8]	[▲0.7]	[▲0.5]	[▲0.4]	[▲0.1]
Local Government	6.7	4.6	4.1	7.9	9.8	10.5	11.3	12.4	13.4	14.6	15.7	16.8
(ratio to nominal GDP)	[1.2]	[0.8]	[0.7]	[1.2]	[1.5]	[1.6]	[1.6]	[1.7]	[1.8]	[1.9]	[2.0]	[2.1]
Fiscal Balance	▲ 25.6	▲ 36.5	▲ 25.8	▲ 7.4	▲ 3.8	▲ 3.2	▲ 2.8	▲ 1.8	▲ 1.7	▲ 2.0	▲ 2.6	▲ 1.3
(ratio to nominal GDP)	[▲4.5]	[▲6.1]	[▲4.2]	[▲1.2]	[▲0.6]	[▲0.5]	[▲0.4]	[▲0.3]	[▲0.2]	[▲0.3]	[▲0.3]	[▲0.2]
Central Government	▲ 31.4	▲ 40.2	▲ 28.9	▲ 14.2	▲ 12.6	▲ 12.7	▲ 13.2	▲ 13.4	▲ 14.3	▲ 15.8	▲ 17.6	▲ 17.5
(ratio to nominal GDP)	[▲5.5]	[▲6.7]	[▲4.7]	[▲2.2]	[▲1.9]	[▲1.9]	[▲1.9]	[▲1.9]	[▲1.9]	[▲2.1]	[▲2.2]	[▲2.2]
Local Government	5.8	3.6	3.1	6.8	8.8	9.5	10.4	11.6	12.6	13.8	15.0	16.2
(ratio to nominal GDP)	[1.0]	[0.6]	[0.5]	[1.1]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]	[1.9]	[2.0]
Outstanding Debt	1206.6	1251.6	1276.3	1286.3	1294.9	1303.4	1312.5	1322.7	1334.4	1347.9	1364.1	1381.1
(ratio to nominal GDP)	[213.0]	[209.5]	[207.4]	[203.3]	[198.7]	[193.8]	[189.0]	[184.3]	[180.1]	[176.2]	[172.9]	[169.8]
Central Government	1035.3	1083.3	1112.1	1128.0	1142.4	1157.0	1172.2	1188.3	1205.5	1224.5	1245.6	1267.0
(ratio to nominal GDP)	[182.8]	[181.3]	[180.8]	[178.3]	[175.3]	[172.1]	[168.8]	[165.6]	[162.7]	[160.1]	[157.8]	[155.8]
Local Government	171.4	168.3	164.2	158.3	152.5	146.4	140.3	134.4	128.9	123.4	118.6	114.1
(ratio to nominal GDP)	[30.2]	[28.2]	[26.7]	[25.0]	[23.4]	[21.8]	[20.2]	[18.7]	[17.4]	[16.1]	[15.0]	[14.0]

Baseline Case

	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033
Primary Balance	▲ 20.5	▲ 31.9	▲ 19.7	▲ 4.5	▲ 2.1	▲ 2.1	▲ 2.5	▲ 2.5	▲ 2.9	▲ 3.4	▲ 4.0	▲ 2.6
(ratio to nominal GDP)	[▲3.6]	[▲5.3]	[▲3.2]	[▲0.7]	[▲0.3]	[▲0.3]	[▲0.4]	[▲0.4]	[▲0.4]	[▲0.5]	[▲0.6]	[▲0.4]
Central Government	▲ 27.2	▲ 36.4	▲ 23.8	▲ 11.4	▲ 9.8	▲ 9.7	▲ 9.8	▲ 9.6	▲ 9.7	▲ 9.9	▲ 10.2	▲ 8.5
(ratio to nominal GDP)	[▲4.8]	[▲6.1]	[▲3.9]	[▲1.8]	[▲1.6]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.3]
Local Government	6.7	4.6	4.1	7.0	7.7	7.6	7.3	7.1	6.8	6.5	6.2	5.9
(ratio to nominal GDP)	[1.2]	[0.8]	[0.7]	[1.1]	[1.2]	[1.2]	[1.1]	[1.1]	[1.0]	[1.0]	[0.9]	[0.9]
Fiscal Balance	▲ 25.6	▲ 36.5	▲ 25.8	▲ 8.8	▲ 7.1	▲ 7.9	▲ 9.2	▲ 9.9	▲ 11.0	▲ 12.3	▲ 13.7	▲ 13.0
(ratio to nominal GDP)	[▲4.5]	[▲6.1]	[▲4.2]	[▲1.4]	[▲1.1]	[▲1.2]	[▲1.4]	[▲1.5]	[▲1.7]	[▲1.9]	[▲2.1]	[▲2.0]
Central Government	▲ 31.4	▲ 40.2	▲ 28.9	▲ 14.7	▲ 13.8	▲ 14.5	▲ 15.4	▲ 15.9	▲ 16.7	▲ 17.6	▲ 18.6	▲ 17.6
(ratio to nominal GDP)	[▲5.5]	[▲6.7]	[▲4.7]	[▲2.3]	[▲2.2]	[▲2.3]	[▲2.4]	[▲2.5]	[▲2.6]	[▲2.7]	[▲2.8]	[▲2.6]
Local Government	5.8	3.6	3.1	5.9	6.7	6.5	6.3	6.1	5.7	5.3	5.0	4.6
(ratio to nominal GDP)	[1.0]	[0.6]	[0.5]	[0.9]	[1.1]	[1.0]	[1.0]	[0.9]	[0.9]	[0.8]	[0.8]	[0.7]
Outstanding Debt	1206.6	1251.6	1276.3	1287.5	1298.8	1311.0	1324.5	1339.1	1355.0	1372.2	1390.6	1407.9
(ratio to nominal GDP)	[213.0]	[209.5]	[207.4]	[205.7]	[205.5]	[205.6]	[206.1]	[206.9]	[207.9]	[209.1]	[210.5]	[211.9]
Central Government	1035.3	1083.3	1112.1	1128.7	1144.7	1161.3	1179.0	1197.7	1217.2	1237.8	1259.3	1280.0
(ratio to nominal GDP)	[182.8]	[181.3]	[180.8]	[180.4]	[181.1]	[182.2]	[183.5]	[185.0]	[186.7]	[188.6]	[190.7]	[192.6]
Local Government	171.4	168.3	164.2	158.7	154.1	149.6	145.5	141.4	137.8	134.4	131.3	127.9
(ratio to nominal GDP)	[30.2]	[28.2]	[26.7]	[25.4]	[24.4]	[23.5]	[22.6]	[21.9]	[21.1]	[20.5]	[19.9]	[19.2]

(Notes)

1. "Per Capita Real GDP Growth" is the change rate of the real GDP divided by the total population. "Per Employee Wage Growth" is the change rate of the total wages and salaries divided by the total employees. "Consumer Price" refers to the general index (nationwide).

2. "Balance by Sector" represents "Net lending/net borrowing" in the System of National Accounts (hereinafter "SNA"). Balance by Sector of Households includes NPISHs (non-profit institutions serving households). Balance by Sector of Corporations includes statistical discrepancies.

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 the FB and the PB 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” of central and local governments is the sum of general bonds (excluding the “Child and Child Care Support Special Bond,” which is expected to be issued from the Social Security Fund in the classification of government organizations in the SNA), 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. Borrowing in SALALTT is included in the outstanding debt of the local government.

6. The amount of "the expenditures and the fiscal resources for GX measures" refers to the expenditures eligible for the issuance of "Decarbonized Growth-Oriented Economic Structure Transition Bonds," which are funded by future financial resources obtained through carbon pricing, and the fiscal resources for its reimbursement.

7. 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 for 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 that 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 1) Detailed Assumptions

The future population is based on the National Institute of Population and Social Security Research's "Population Projections for Japan" (estimated in 2023) with the births (deaths) median estimates of total population (including foreign nationals in Japan). The economic variables are based on the "Annual Report on National Accounts for 2022," etc. until FY2022, and the "Fiscal 2024 Economic Outlook and Basic Stance for Economic and Fiscal Management (December 22, 2023, Approved by the Cabinet)," etc. for FY2023 and FY2024.

(1) Macroeconomy

Baseline Case

a) Total Factor Productivity (TFP) Growth Rate

-The TFP growth rate stays around 0.5%. (Average from Oct-Dec 2012 to Apr-Jun 2020 (16th business cycle)).

b) Labor Force

<Labor Force Participation (LFP) Rate>

- The LFP rate shifts gradually based on the estimates of labor supply and demand for the "case in which economic growth and labor participation advance to some extent" shown by the "Labor Policy Study Group" (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 82 % in FY2022 to 90% in FY2033, the LFP rate among males aged 65-69 gradually rises from around 63% in FY2022 to 66% in FY 2033, and the LFP rate among females aged 65-69 gradually rises from around 42% in FY2022 to 50% in FY2033).

c） World Economy, etc.

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

-The growth rate moves at around 2.8% to 3.1% annually from FY2025 to FY2028, based on the "World Economic Outlook" (WEO) by the IMF (2023 October). From FY2029 onward, it remains constant, at around 2.8%.

< 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 FY2025 to FY2028, based on the WEO (2023 October). From FY2029 onward, it remains constant, at around 2.1%.

<Crude Oil Prices>

-Based on the assumptions of the Cabinet Office's "FY2024 Economic Outlook" and the World Bank's "Commodity Price Outlook" (2023 October), the crude oil price is set $88 per barrel in FY2025 (-1.2% compared with the previous year), and remains constant from then onward.

Economic Growth Achieved Case

Differences from the "Baseline Case" are as follows:

a) TFP Growth Rate

-The TFP growth rate reaches around 1.4 %, the average for the period before the Japanese economy entered the deflationary situation (April-June 1980 to January-March 1999).

b) Labor Force

< Labor Force Participation (LFP) Rate >

-The LFP rate shifts gradually based on the estimates of labor supply and demand for the "case in which economic growth and labor participation advance to some extent" shown by the "Labor Policy Study Group" (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 82% in FY2022 to 91% in FY2033, the LFP rate among males aged 65-69 gradually rises from around 63% in FY2022 to 71% in FY2033, and the LFP rate among females aged 65-69 gradually rises from around 42% in FY2022 to 54% in FY2033).

(2) Revenue

- Tax revenues of the general account of the central government in FY2022 reflect the "FY2022 Settlement," those in FY2023 reflect the "FY2023 Supplementary Budget" and those in FY2024 reflect the "Draft FY2024 Budget".
- The tax system reflects the reform items shown by “FY2024 Tax Reform” (December 22, 2023, decided by the Cabinet) and the reformed system is assumed to continue.
- Based on the "Act to Partially Amend the Income Tax Act and Others" (Act Number 3, 2023), and other sources, the legislated tax system is assumed to continue (a flat cut in the income tax and the individual inhabitant tax is assumed to take place only in FY2024).
- Based on the "Act on Special Measures for Securing Fiscal Resources Necessary to Implement Measures for Reconstruction Following the Great East Japan Earthquake" (Act Number 117, 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" (Act Number 118, 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 tax rate cut in the special income tax for reconstruction and the extension of its taxable period along with securing fiscal resources for the implementation of defense capability buildup are not assumed, as its implementation period etc. are not decided.

(3) Expenditures

- The expenditures of the general account of the central government in FY2022 reflect the "FY2022 Settlement," those in FY2023 reflect the "FY2023 Supplementary Budget," and those in FY2024 reflect the "Draft FY2024 Budget."
- From FY2025, social security expenditures increase, reflecting the population aging and price and wage developments, and other expenditures increase along with the inflation rate (constant in real terms). However, the expenditures of the national resilience, the defense capability buildup, and the child and childcare support in a specific period reflect the expenditure amount as assumed below, and there is no specified-purpose reserve fund, etc. assumed in the projection period.
- An additional expenditure of two trillion yen is assumed in FY2025, based on "Five-Year Acceleration Measures for Disaster Risk Reduction, and National Resilience" (December 11, 2020, decided by the Cabinet) and the implementation progress of its budgets in the past.
- Social security expenditures reflect the "Act to Partially Amend the National Pension Act and Others to Enhance National Pension System" (Act Number 40, 2020), the "Act to Partially Amend the Health Insurance Act and Others to Build a Social Security System Oriented to All Generations" (Act Number 66, 2021), and the "Act Partially Amending the Health Insurance Act and Other Acts in Order to Establish a Sustainable Social Security System That Covers All Generations" (Act Number 31, 2023).

- 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.

(4) Assumptions on the Expenditures and Financial Resources for the Implementation of Defense Capability Buildup

- Based on the "Defense Buildup Program" (December 16, 2022, Decided by the Cabinet) etc., the assumptions are as follows:
- The total expenditures for the necessary level of defense capability buildup from FY2023 to FY2027 amount to around 43 trillion yen. The expenditures in FY2023 reflect around 7.1 trillion yen of the “FY2023 Supplementary Budget,” the rest of expenditures is allocated equally from FY2024 to FY2027 (for FY2024, only “Central and Local Governments’ Public Finances” reflects this). From FY2028 onward, the expenditures increase along with the inflation rate, in line with other general expenditures.
- For financial resources related to the program, the necessary measures will be taken to secure financial resources for the additional expenditures of the annual defense budgets from FY2023 to FY 2027 (around 40.5 trillion yen in total). The measures include reform of expenditures, utilization of settlement surplus, defense capability reinforcement funds utilizing non-tax revenue, and tax measures (not all of the non-tax revenue, including the new funds, are included in the calculation of the primary balance of central and local governments). The financial resources in FY2023 reflect the “FY2023 Supplementary Budget,” and those in FY2024 reflect “Draft FY2024 Budget.” The rest of the financial resources is allocated from FY2025 to FY2027, linking to the additional expenditures of the annual defense budgets. All of the financial resources are added to the Other Revenues in the General Account of the central government without assuming any breakdown (in the "Central and Local Governments’ Public Finance," the ratio of the financial resources that are not included in the calculation of the primary balance is taken into consideration). The financial resources are counted as those for the year in which they are generated, based on the rule of the SNA. From FY2028 onward, the necessary measures will be assumed to be taken, as in FY2027.

(5) Assumptions on the Expenditures and Financial Resources for the Implementation of GX

- Based on the "Strategy for the Promotion of Transition to a Decarbonized Growth-Oriented Economic Structure" (July 28, 2023, Decided by the Cabinet) and the "Law on Promotion of Smooth Transition to a Decarbonized Growth-Oriented Economic Structure" (Law No. 32, 2023), the assumptions are as follows:
- The total expenditures of around 20 trillion yen will be budgeted in the Special Account for Energy Measures for the 10 years from FY2023 to FY2032. As for the allocation to each year, the expenditures excluding 3.3 trillion yen, which are already reflected in FY2022, 2023 and 2024, are equally allocated to each of the remaining years.
- The expenditure that amounts to around 20 trillion yen is assumed to be financed by issuing "Decarbonized Growth-Oriented Economic Structure Transition Bonds" funded by future financial resources through carbon pricing. Regarding the carbon pricing, although the GX-surcharge is expected to be introduced from FY2028 and the paid auctioning under the emission trading system is from FY2033, this projection does not incorporate such revenues since specific volumes of these are yet to be clear.
- The "Decarbonized Growth-Oriented Economic Structure Transition Bonds" are to be redeemed by FY2050 with the future financial resources secured from carbon pricing. Since this framework is designed to be balanced by expenditures and financial resources neutrally on a multi-year basis, the figures in the "Central and Local Governments'

Public Finances" exclude the expenditures and the fiscal resources for GX measures (specifically, the figures exclude the expenditures and the fiscal resources for both recovery and reconstruction measures and GX measures; the figures including the amount of these expenditures and financial resources are also shown separately).

(6) Assumptions on the Expenditures and Financial Resources for the Implementation of the Child and Child Care Support Policy

- Based on the "Children's Future Strategy" (December 22, 2023, Cabinet decision) etc., the assumptions are as follows:
- Regarding the expenditure, around 3.6 trillion yen, which is the budget size of the "Child and Child Care Support Acceleration Plan," is assumed to be added by FY2028. The expenditures in FY2023 reflect the "FY2023 Supplementary Budget," those in FY2024 reflect "Draft FY2024 Budget," and those in FY2025 reflect around three quarters of the additional spending. Those in FY2026-2028 are mechanically assumed reflecting each institutional factor. From FY2029, the expenditures increase along with the inflation rate, in line with other general expenditures.
- Regarding the financial resources related to the program, around 3.6 trillion yen is assumed to be secured by FY2028 when the "Child and Child Care Support Acceleration Plan" is planned to be completed, through the utilization of the existing budget (around 1.5 trillion yen), reform of expenditures (around 1.1 trillion yen) and the establishment of the support fund system (around 1.0 trillion yen). The financial resources in FY2023 reflect the "FY2023 Supplementary Budget," and those in FY2024 reflect "Draft FY2024 Budget." Based on these settings, in FY2025-2028, the financial resources are assumed to be secured according to the expenditures. Meanwhile, the Child and Child Care Support Special Bond, which is issued to bridge finance, is not included in the outstanding debt of the central and local governments because the bond is expected to be issued from the Social Security Fund in the classification of government organizations in SNA (i.e. the amount financed through the bond does not affect the PB of the central and local governments). From FY2029, the necessary measures will be assumed to be taken, as in FY2028.

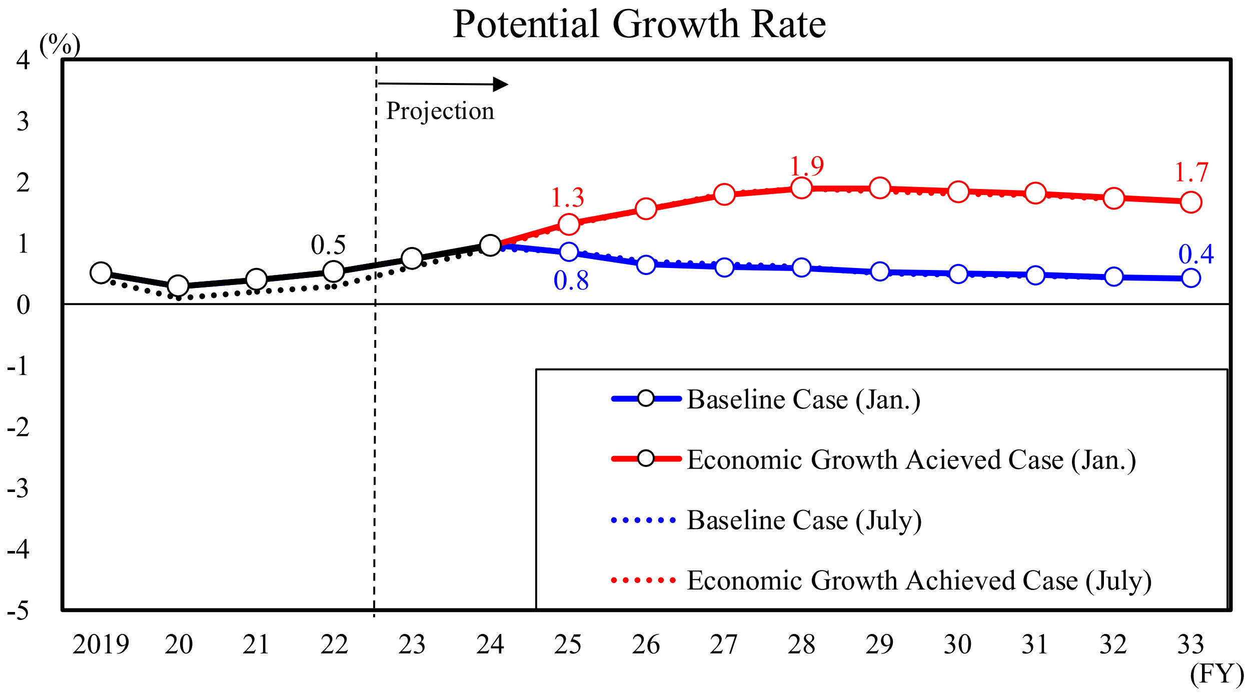
(7) Assumptions on the Expenditures and Financial Resources for Recovery and Reconstruction from the Great East Japan Earthquake

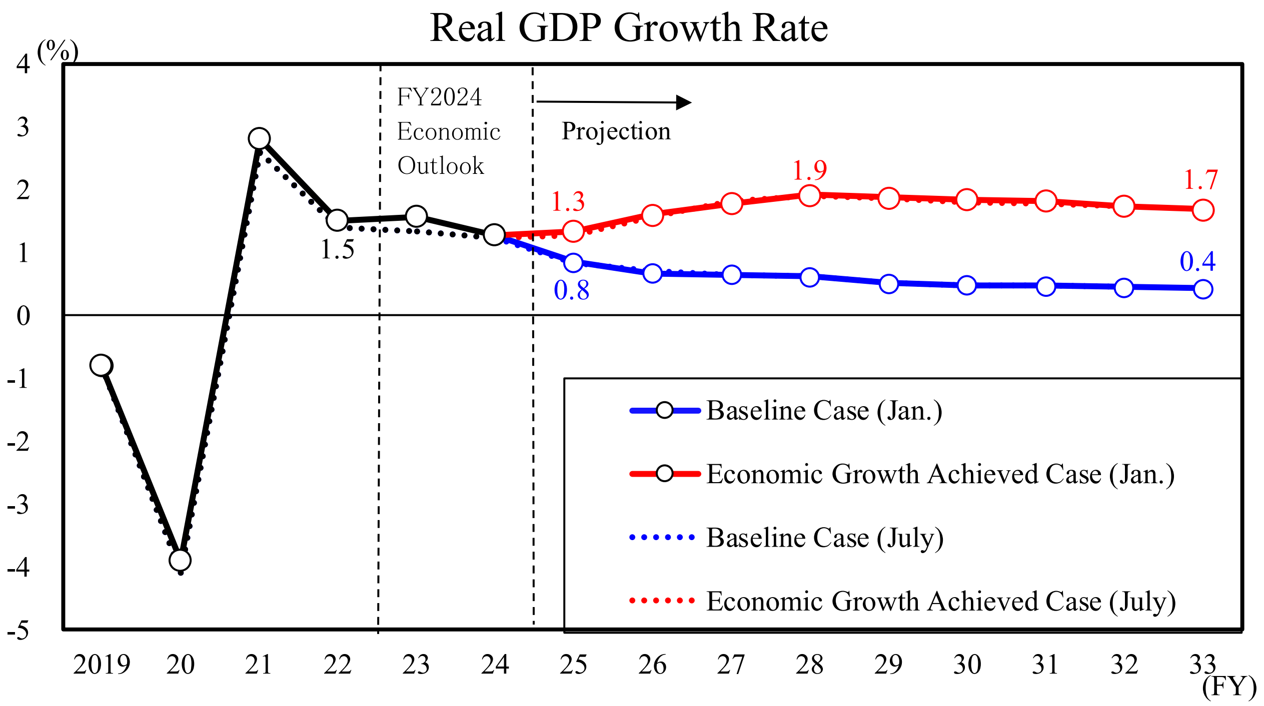
- Expenditures are assumed at around 31.3 trillion yen until FY2020 and around 1.6 trillion yen in five years from FY2021, based on the "Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016" (Reconstruction Promotion Conference Decision, June 24, 2015), the "Scale and Funding 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 the Reconstruction Promotion Council, July 17, 2020) and others.
- In the projections, it is assumed that around 32.9 trillion yen of revenue resources will be 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 tax rate cut in the special income tax for reconstruction and the extension of its taxable period along with securing fiscal resources for the implementation of defense capability buildup are not assumed, as its implementation period etc. are not decided.

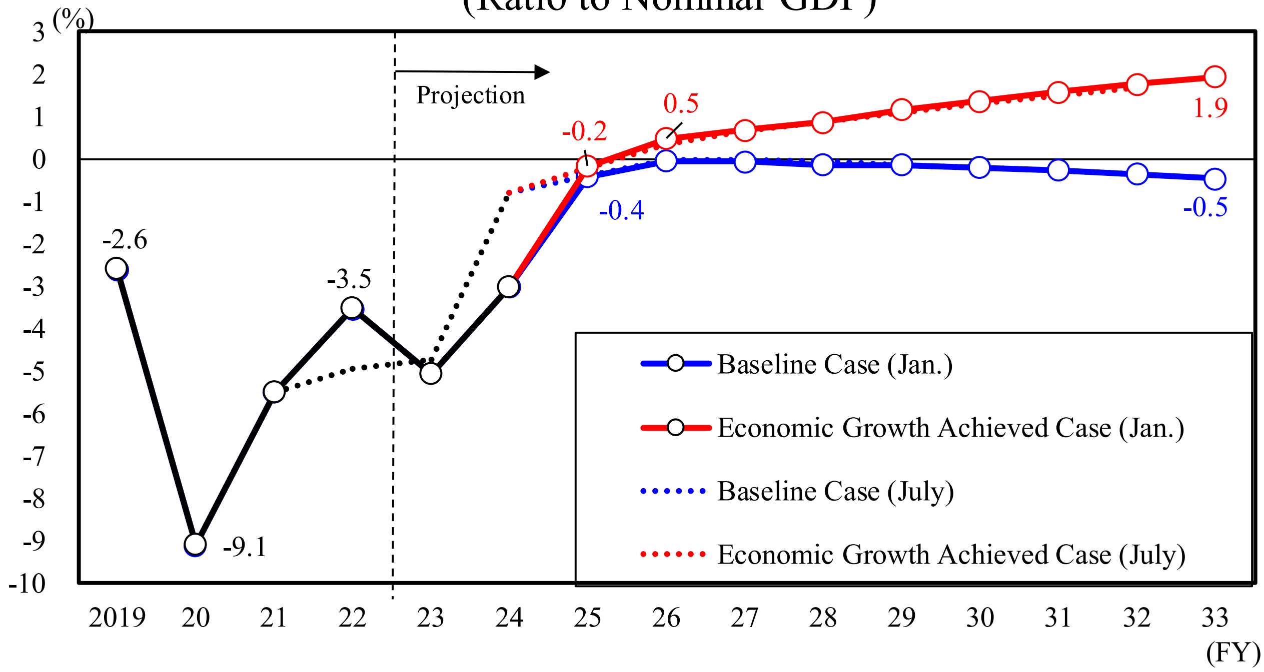
- The expenditure concerning the decontamination and interim storage project facility, which will be reimbursed from TEPCO, and the actual payment corresponding to it are assumed to be approximately 5.8 trillion yen in total, based on "Toward the Speedy and Secure Implementation of Compensation for Accelerating the Reconstruction of Fukushima" (December 22, 2023, Decided by Nuclear Emergency Response Headquarters), and the pattern of expenditure and revenue is assumed based on the progress of implementation and payment to date.

(Appendix 2) Comparison with the Previous Projection (July 2023)

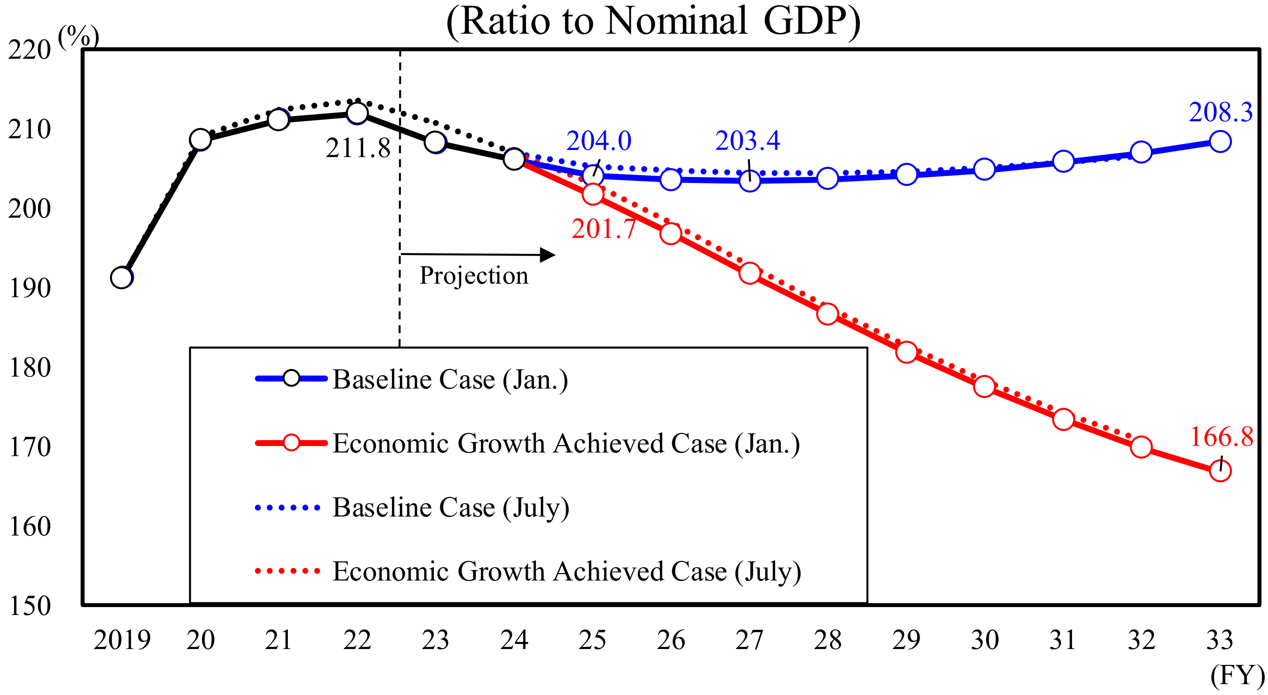




Primary Balance of Central and Local Governments Combined
(Ratio to Nominal GDP)



Outstanding Debt of Central and Local Govenrments Combined
(Ratio to Nominal GDP)



(Appendix 3) Comparison with private sector forecasts

Below is the comparison of this projection with the average of domestic economists' forecasts. As for real GDP growth after FY2025, the Baseline Case is about the same as the average, while the Economic Growth Achieved Case is higher than the higher average.

As for the consumer price rate after FY2025, the Baseline Case is the same as the lower average, while the Economic Growth Achieved Case is the same as the higher average.

Real GDP Growth Rate

(FY, app%)

		2023	24	25-29 average	30-34 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2033	Baseline Case	1.6	1.3	0.7	0.5
	Economic Growth Achieved Case	1.6	1.3	1.7	1.8
Private Sector Forecasts (ESP Forecast)	Lower Average	1.4	0.6	0.5	0.2
	Average	1.5	0.9	0.8	0.6
	Higher Average	1.6	1.2	1.1	1.0

Change of Consumer Price

(FY, app%)

		2023	24	25-29 average	30-34 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2033	Baseline Case	3.0	2.5	1.0	0.8
	Economic Growth Achieved Case	3.0	2.5	2.0	2.0
Private Sector Forecasts (ESP Forecast)	Lower Average	2.7	1.7	0.9	0.7
	Average	2.8	2.2	1.5	1.4
	Higher Average	3.0	2.7	2.0	2.0

(Notes) FY2023 and FY2024 private-sector forecasts are based on the Japan Center for Economic Research's "ESP Forecast Survey" (January 2024); FY2025-29 and FY2030-34 are based on long-term forecasts from the survey (December 2023). Lower and higher averages are averages of the lowest 8 forecasters and those of the highest 8 forecasters of about 40 forecasters, respectively. Consumer Price of ESP Forecast Survey is a composite series excluding fresh food.