

[Provisional Translation]

**Executive Summary:
Economic and Fiscal Projections
for Medium to Long Term Analysis
(January 2024)**

Jan 22, 2024
Cabinet Office

Outline of the Projections

- Cabinet Office releases “**Economic and Fiscal Projections for Medium to Long Term Analysis**” twice a year (January for the Diet deliberations and July for the budget drafting)
 - Provides 10-year projections, such as **GDP, government’s Primary Balance and Outstanding Debt, for two different economic scenarios**, based on “Economic and Fiscal Model”

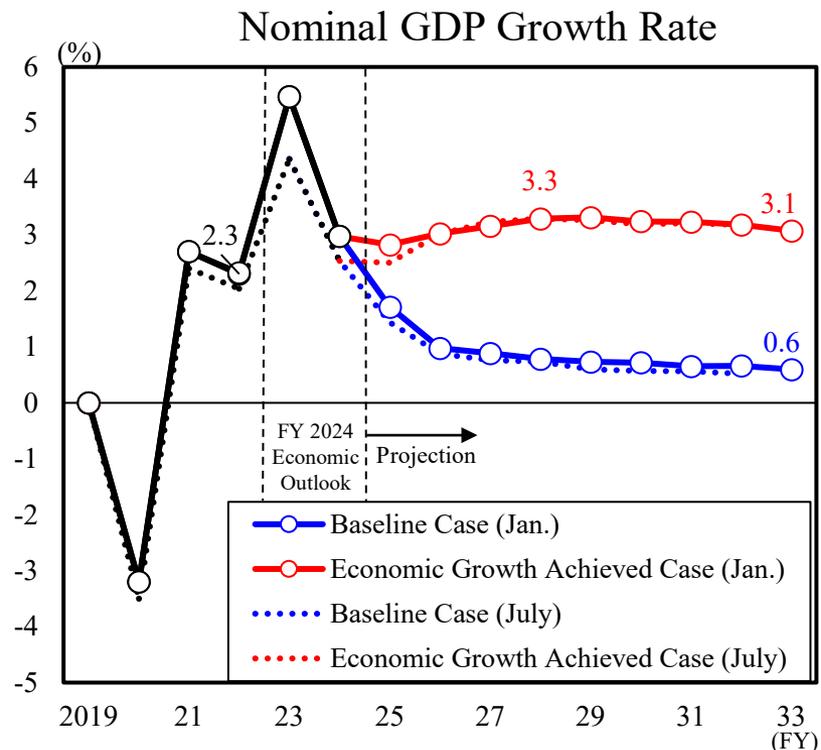
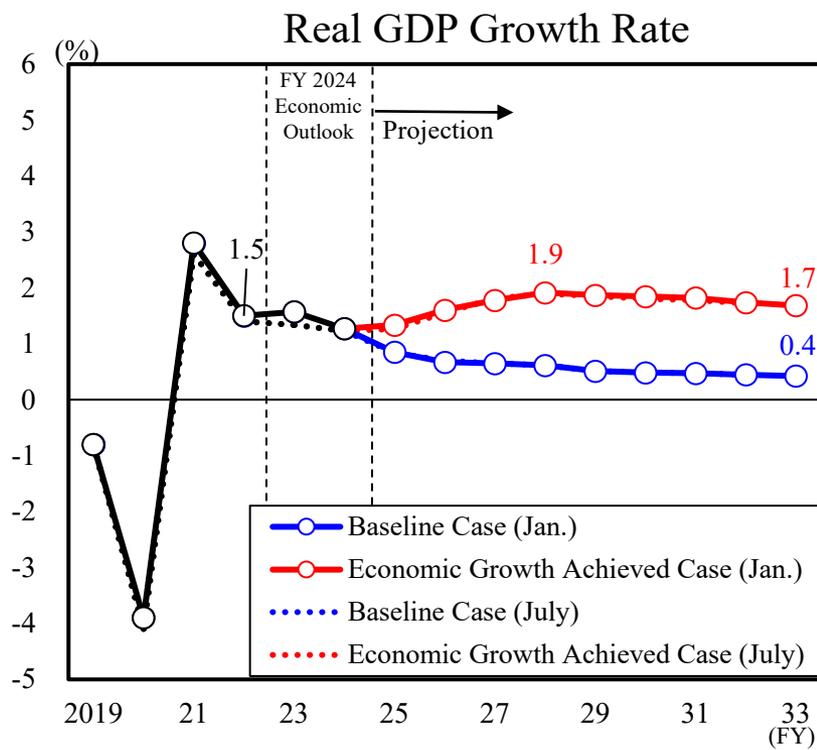
	TFP Growth Rate (0.7% in FY2022)	Labor Participation Rate (62.6% in FY2022)
Baseline	around 0.5%, an average of the most recent business cycle	Rising to some extent, especially among women and the elderly (63.8% in FY2033)
Economic Growth Achieved	reaching around 1.4%, an average for the period before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

- Contributes to the **discussion of the Council on Economic and Fiscal Policy (CEFP*)** by assessing **the progress towards targets of economic revitalization and fiscal consolidation**
- Since July 2023 projection, **in light of discussions in the CEFP, new analyses** have been added:
 1. **Reference Case:** Alternative assumption on TFP growth rate
 2. **Evaluation of Uncertainty:** Explanation/evaluation of risks surrounding the projection
 3. **Additional Release of the Series:**
Factor decomposition of potential growth rate, growth rate of wages, etc.
 4. **Analysis of the Government’s Primary Balance:**
Revenue and expenditure decomposition of the primary balance, etc.

(*) The CEFP is a council-based body established in 2001 to ensure that the Prime Minister exercises his/her leadership with regard to economic and fiscal policy. Surveys and discussions on important economic and fiscal policies, including the analysis of medium to long term economic and fiscal projections and fiscal targets, are carried out with the participation of academic experts, business executives, and others with specialized and neutral knowledge.

Macroeconomic Projection

- In the Baseline Case, the growth rate of TFP (total factor productivity) is assumed to stay around 0.5%, which is its average of the most recent business cycle. The GDP growth rate is projected to be around mid-0% in both real and nominal terms in the medium to long term.
- In the Economic Growth Achieved Case, the growth rate of TFP is assumed to steadily go up to around 1.4%, which is the average rate prior to the deflationary period in Japan. The GDP growth rate is projected to be around 2% in real and around 3% in nominal terms in the medium to long term.

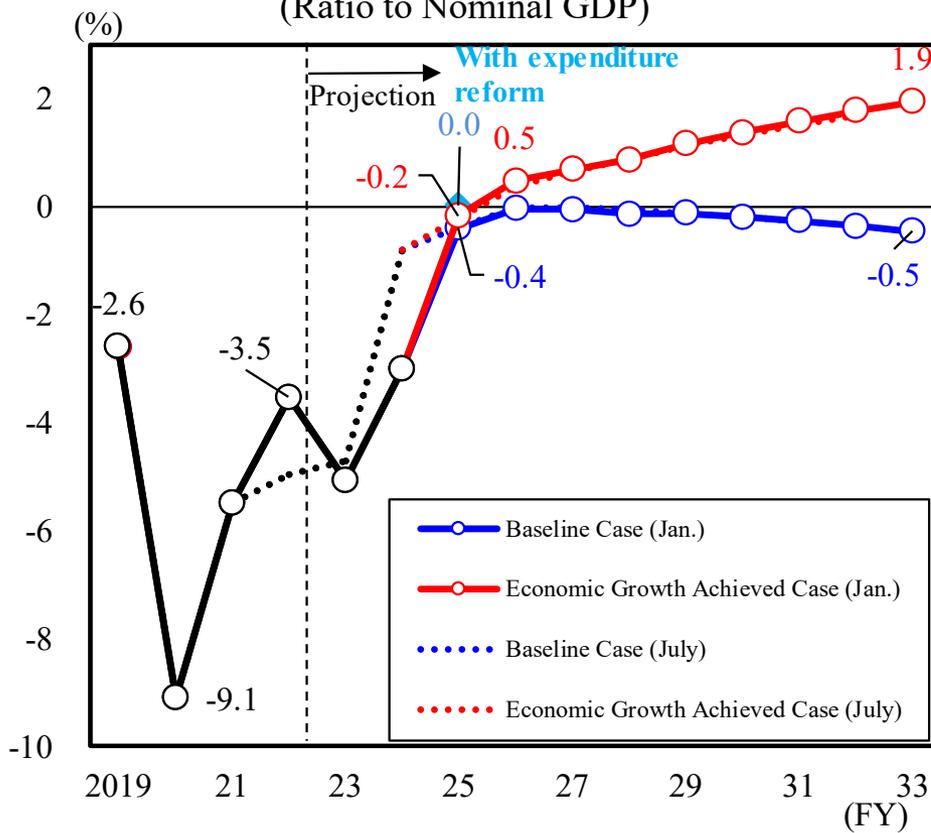


Fiscal Projection 1

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

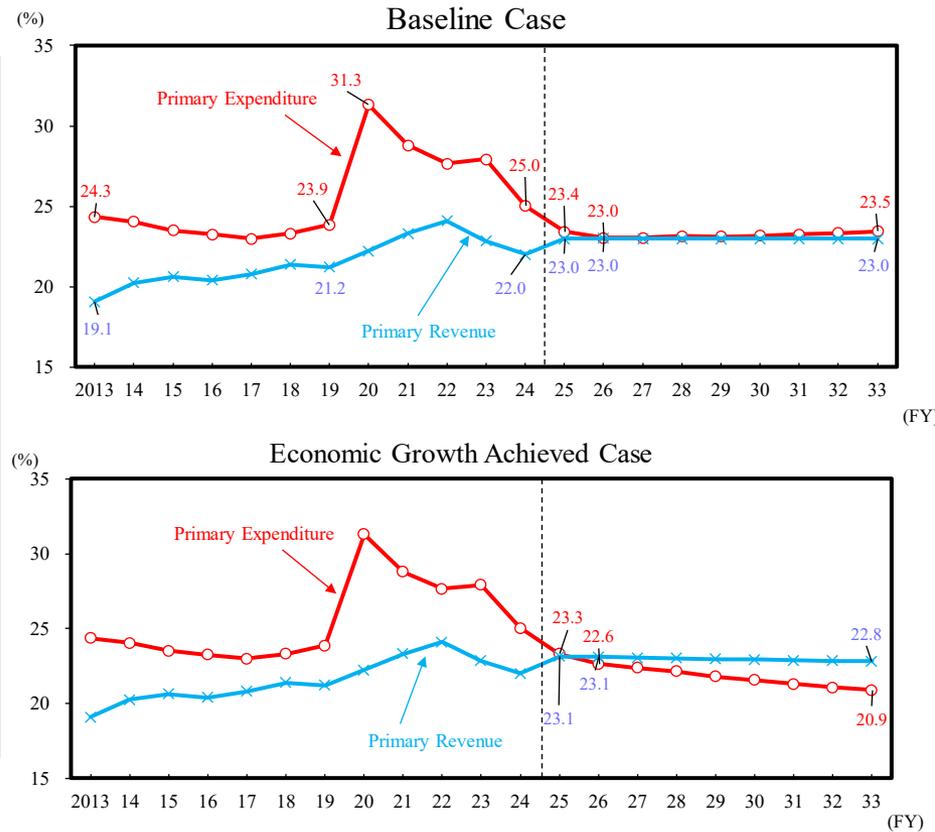
- Although the expenditure has increased due to a series of economic stimulus measures recent years, the primary balance is projected to improve as private demand will expand and most of the expenditure will have been spent by FY2024.
- In both cases, the primary deficit is projected to remain in FY2025. In the Economic Growth Achieved Case, however, with the expenditure reform thus far, the primary surplus will be achieved in FY2025.

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



(Notes) “Defense Buildup Plan”, “The Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience” and “Children’s Future Strategic Policy” are incorporated in this projection.

Primary Revenue and Expenditure
(Central and local government, Ratio to Nominal GDP)



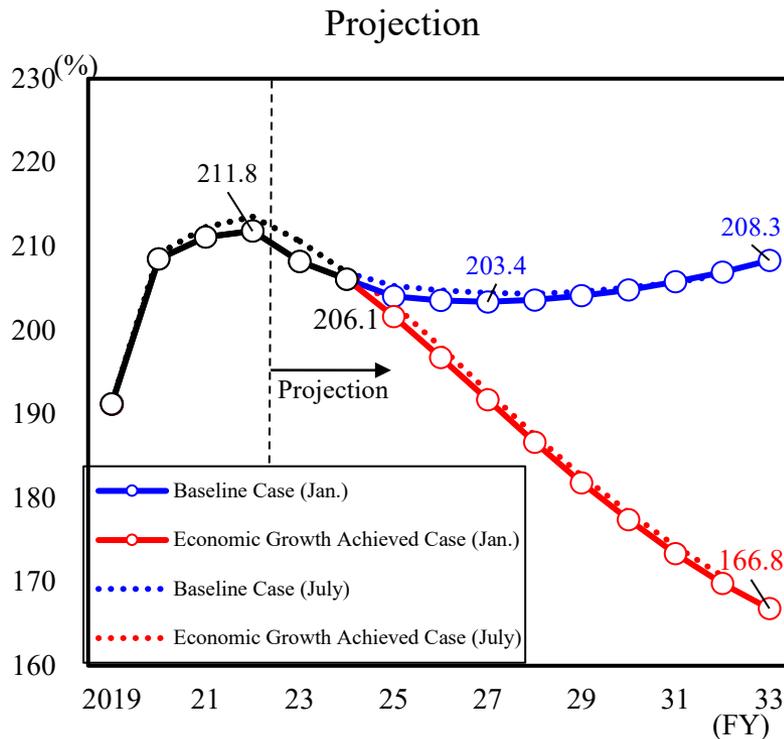
- (Notes) 1. The classification is based on Government Finance Statistics manual 2014.
 2. The primary revenue is “revenue” minus “interest income”.
 3. The primary expenditure is “expenditure” minus “interest payment”.
 4. Excluding revenue and expenditure for recovery and reconstruction measures and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

Fiscal Projection 2

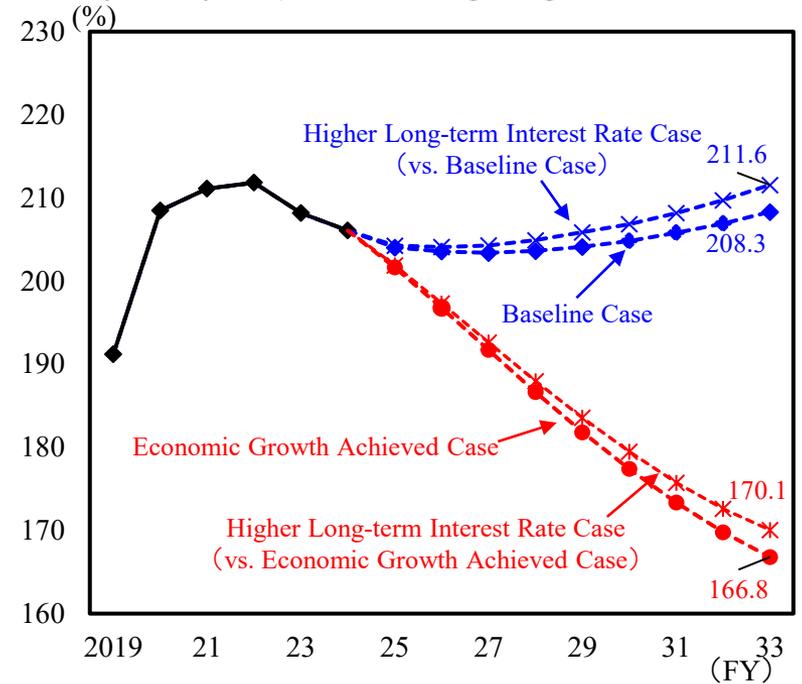
【Outstanding Debt of Central and Local Government (ratio to Nominal GDP)】

- The ratio of outstanding debt to GDP is projected to rise in the latter half of 2020's in the Baseline Case. In the Economic Growth Achieved Case, the ratio is projected to steadily decline in the projection periods as the primary balance steadily improves.
- A sensitivity analysis is conducted based on mechanical estimation of the impact of a rise in long-term interest rates. If long-term interest rates were to rise continuously by about 0.5 percentage points, the outstanding debt of central and local governments (as a percentage of GDP) would rise by about 3.3 percentage points in FY2033 in both cases.

Outstanding debt of Central and Local Government (Ratio to Nominal GDP)



Sensitivity Analysis (case of rising long-term interest rates)

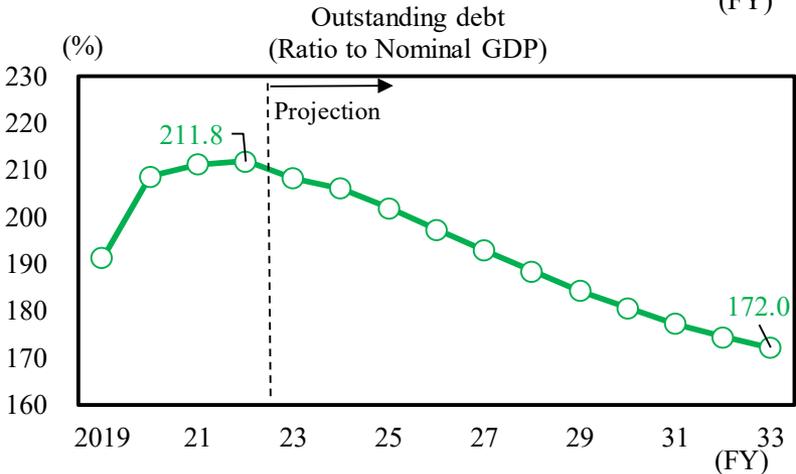
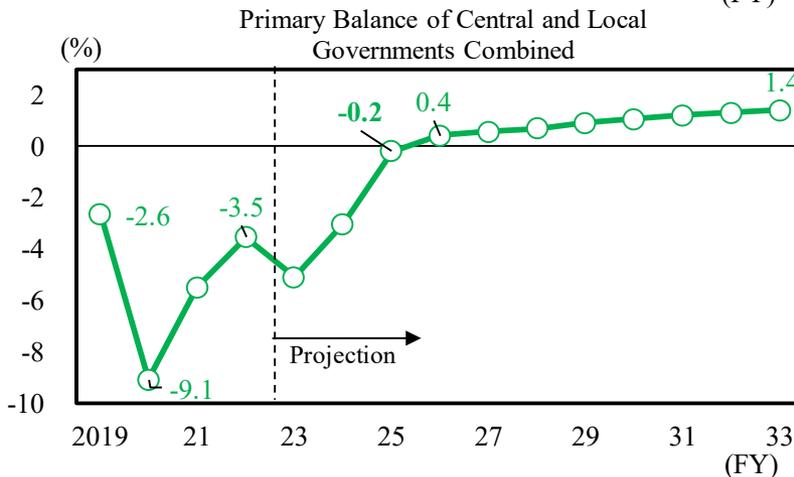
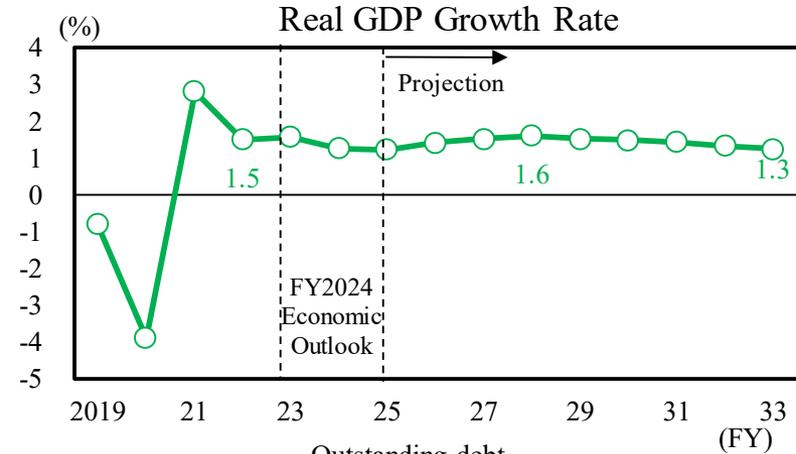
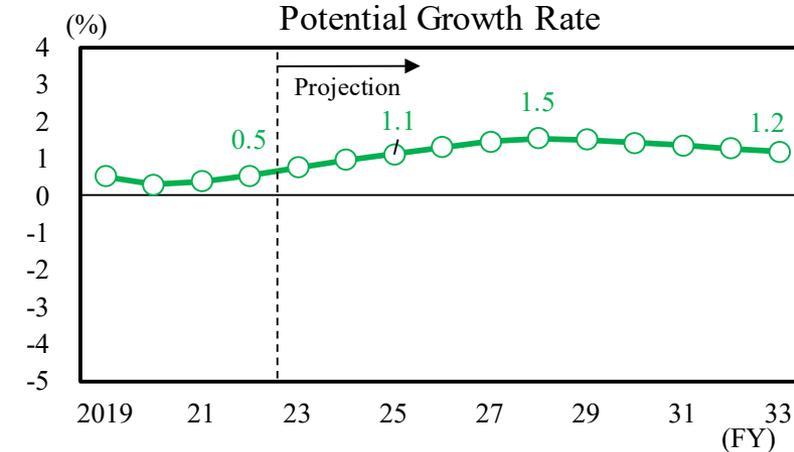


(Notes)

1. Sensitivity analysis is calculated based on the multiplier table in the "Economic and Fiscal Model (FY 2018 version)".
2. The case of rising long-term interest rates is the case in which the level of long-term interest rates continuously rises by about 0.5 percentage point in both cases during the projection period (FY2025 and beyond), while other exogenous variables remain unchanged.
3. Note that this sensitivity analysis is not based on specific scenarios or specific policy changes.

Reference Case

- Newly computed is the Reference Case, where the growth rate of TFP is assumed to steadily go up to 1.1% (its average in the past 40 years which include the deflationary period).
- The real GDP growth rate is projected to be around mid-1% in the medium to long term. The primary deficit is projected to be around 0.2% of GDP in FY2025. With the expenditure reform thus far, the primary surplus will be achieved in FY2025, which is the same as the result in the Economic Growth Achieved Case.



(Notes) The 1.1% TFP growth rate corresponds to the rate of the case where 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 Baseline Case rate (appx. 0.5%). In addition, this TFP growth rate is comparable to the one used in the Budget and Economic Outlook of the CBO (Congressional Budget Office, US), which projects from 2023 to 2033.

Other Series

Figure 1. Decomposition of Potential Growth Rate

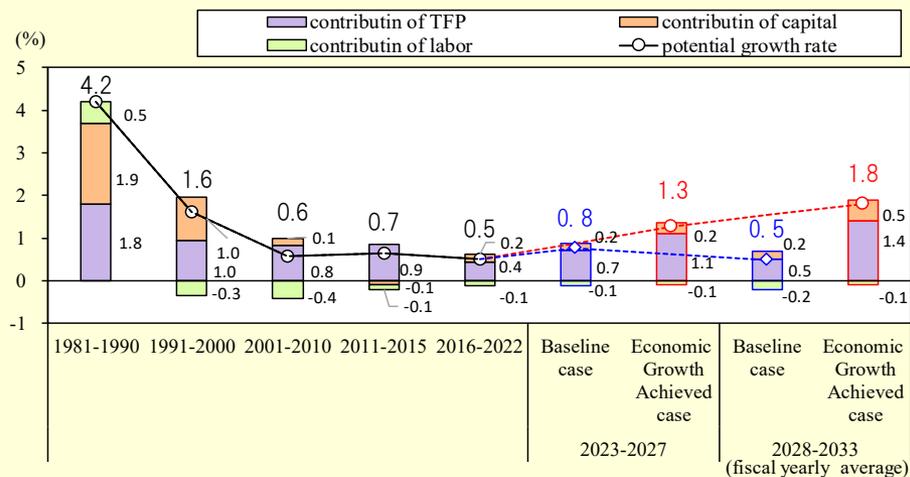


Figure 5. Growth Rate of Nominal Wage

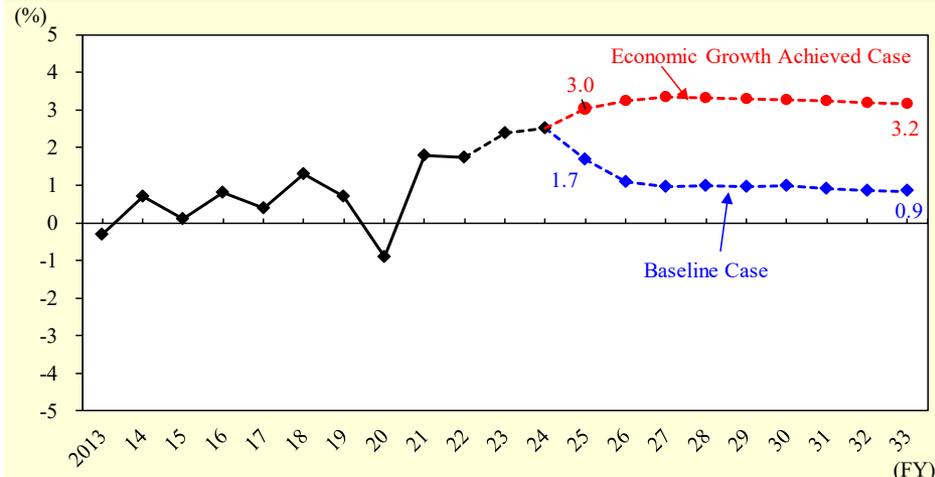


Figure 6. Growth Rate of CPI

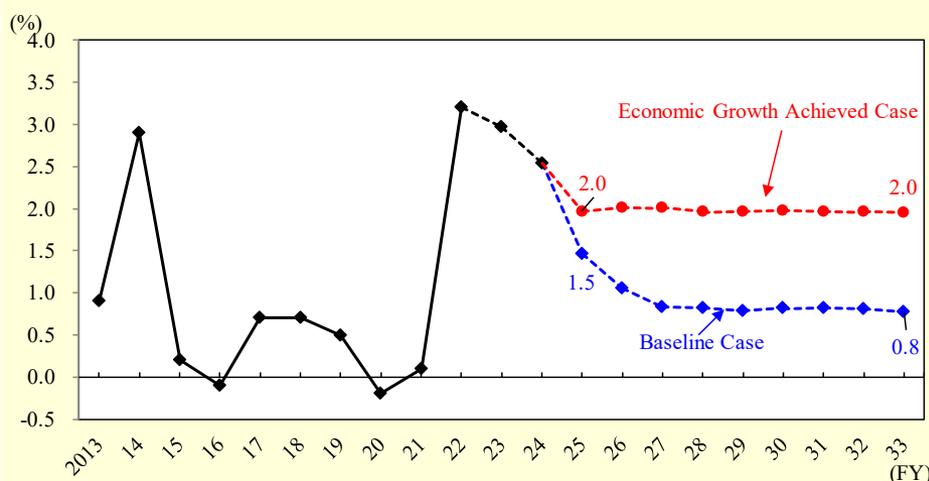


Figure 7. Nominal Long-term Interest Rate

