

[Provisional Translation]

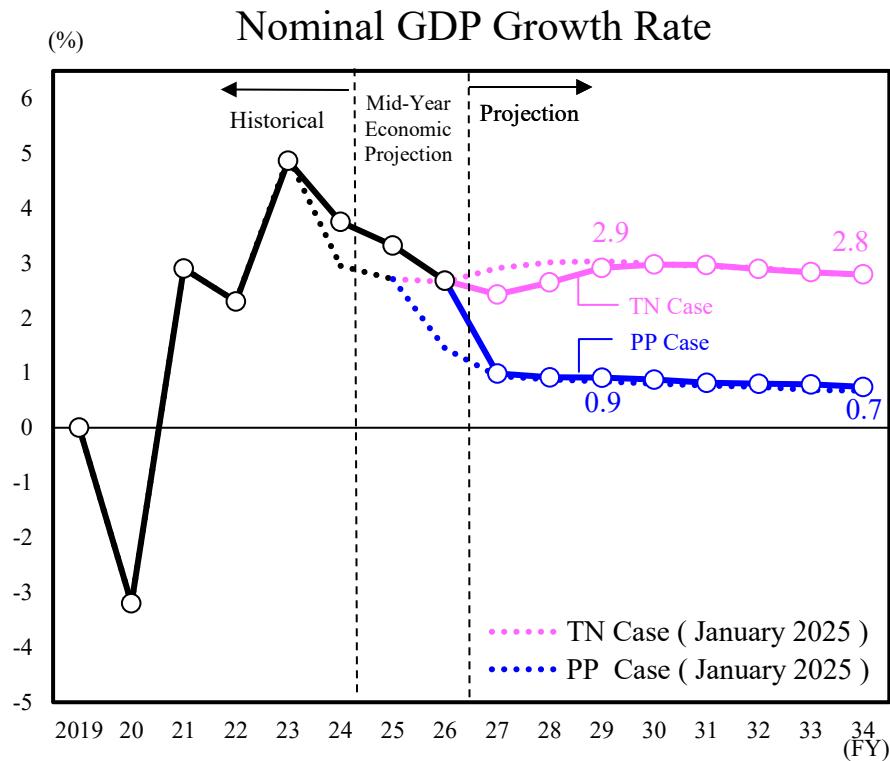
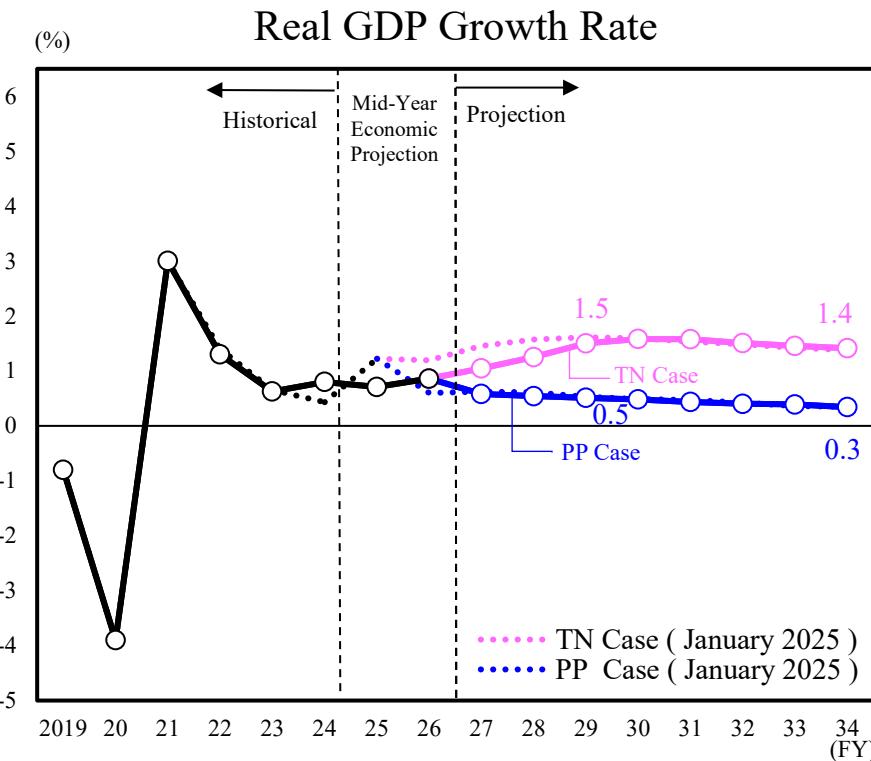


# Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (August 2025)

August 7, 2025  
Cabinet Office

# Macroeconomic Projection

- In the **Transferring to a New Economic Stage (TN) Case**, the growth rate of TFP (Total Factor Productivity) is assumed to steadily go up to around 1.1%, which is the average rate for the last 40 years in Japan. Transitioning to a growth-oriented economy driven by the wage increase and investment, the real GDP growth rate is projected to be around mid-1% in the late 2020s and stably higher than 1% in the 2030s (the nominal growth rate is projected to be in the upper 2% range in the medium- to long-term).
- In the **Projection of Past Trend (PP) Case**, the growth rate of TFP is assumed to stay around 0.5%, which is the average in the most recent business cycle. The GDP growth rate is projected to be around mid-0% in real terms and the upper 0% range in nominal terms in the medium- to long-term.



# Fiscal Projection

## [Primary Balance (PB) of Central and Local Governments (Ratio to Nominal GDP)]

- The FY2024 provisional settlement data, including unused budget, carried-forward funds, and tax revenues, is incorporated into the model.
- The PB is projected to improve steadily during FY2025 and FY2026. Assuming continued steady economic growth and ongoing government efforts to enhance expenditure efficiency, a primary surplus is expected to be achievable in FY2026.
- Thereafter, the primary surplus is projected to expand in the TN Case. In the PP Case, on the other hand, it is projected to gradually shrink.

(\*) 1. "Defense Buildup Plan", "Children's Future Strategic Policy", and "1st Mid-term Plan for the Implementation of National Resilience" are reflected in this projection. The expansion in expenditure related to the programs—which includes what are known as tuition-free upper secondary education and free school lunches, and other initiatives—are assumed not to affect the PB, provided that sufficient revenue is secured.

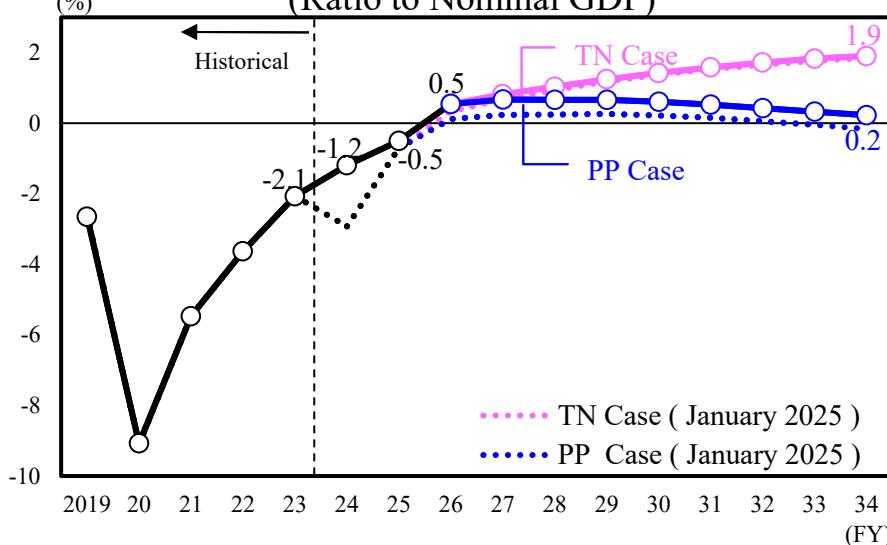
2. The other additional expenditures that cannot be concretely assumed are not incorporated into this projection.

3. For FY2026, the projection incorporates approximately half of the anticipated impact of expenditure efficiency efforts—about 0.7 trillion yen—based on the same assumptions as in previous projections. (See the materials submitted by committee of the integrated economic and fiscal reforms to the CEFP (April 2, 2024).)

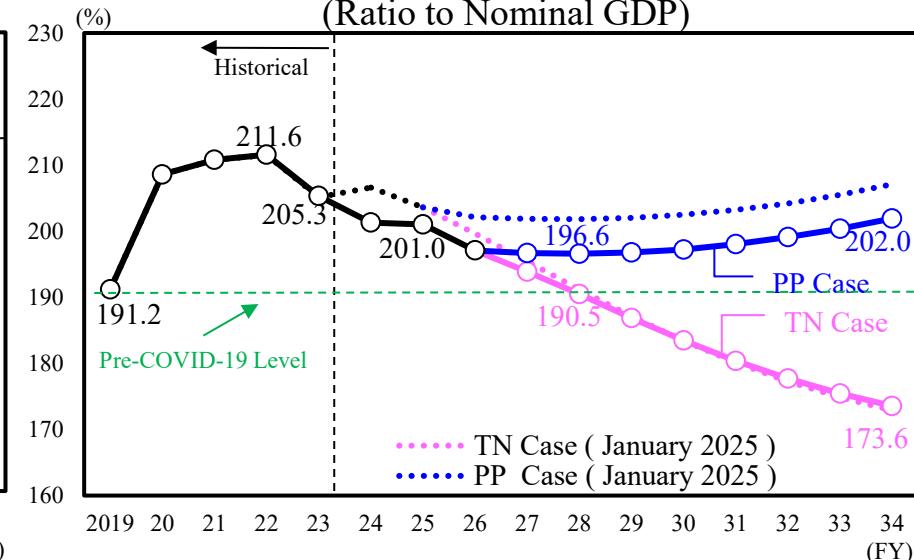
## [Outstanding Debt of Central and Local Governments (Ratio to Nominal GDP)]

- In the TN Case, the ratio of outstanding debt to GDP is projected to decline steadily over the projection period, falling below its pre-COVID-19 level (191.2% in FY2019) by FY2028, as the PB improves. In the PP case, on the other hand, the ratio is projected to reverse its downward trend in the latter half of the 2020s.

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



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



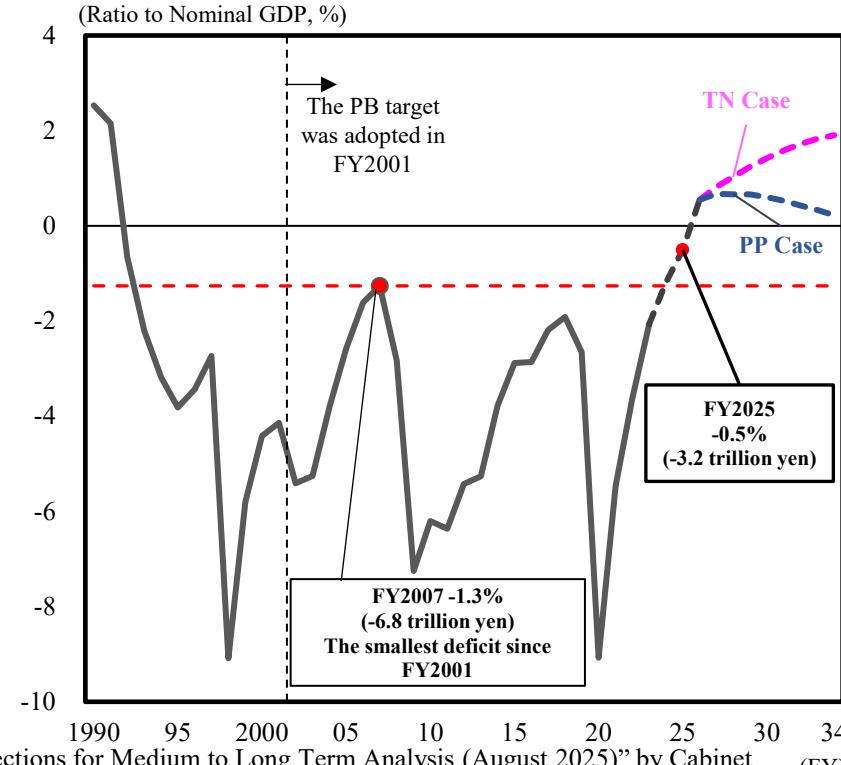
# Details of the PB of the Central and Local Governments

- In the previous projection (issued in January 2025, the TN Case), the PB was projected to be a deficit of 4.5 trillion yen in FY2025 and a surplus of 2.2 trillion yen in FY2026.
- Compared with the previous projection, the primary deficit in FY2025 is projected to be 3.2 trillion yen due mainly to an increase in the (assumed) underlying tax revenue growth. The ratio to nominal GDP would mark the smallest deficit since FY2001, when the government adopted the primary surplus target.
- As for the PB in FY2026, the primary surplus is projected to increase to 3.6 trillion yen, basically due to the same factor mentioned above,

[Factors of the PB Revision in FY2025 and FY2026]

	PB in FY2025	PB in FY2026
(Appx. trillion Yen)		
January 2025 projection (TN Case)	- 4.5	+ 2.2
Factors on the revenue side		
- The assumption on the underlying tax revenue growth	+ 1.6	+ 1.6
Factors on the expenditure side		
- The impact of FY2024 provisional settlement, including carried-forward funds	- 0.4	
- The further implementation of national resilience		- 1.0
- The decline in expenditure in FY2026 due to a lower inflation projection		+ 0.1
- The effect of efforts to improve expenditure efficiency in FY2026		+ 0.7
August 2025 projection	-3.2	+ 3.6

[Time Series of the PB of the Central and Local Governments (Ratio to Nominal GDP)]



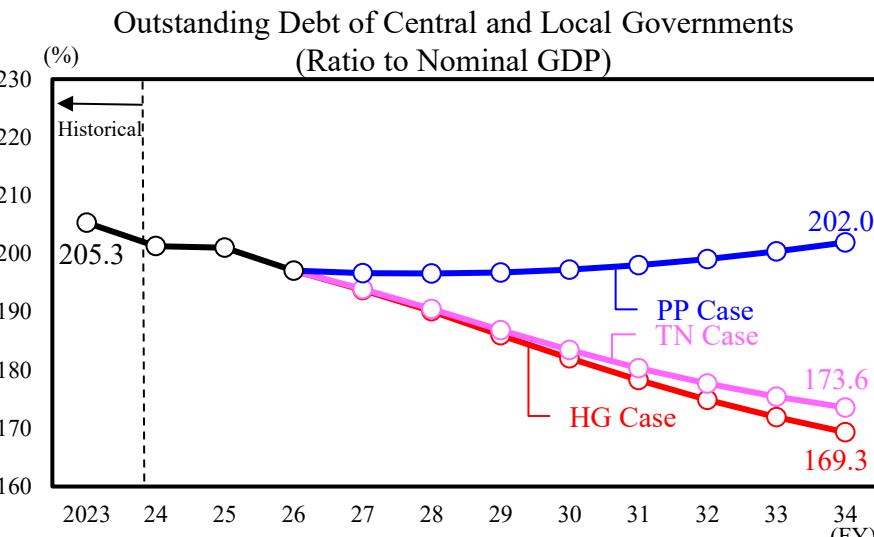
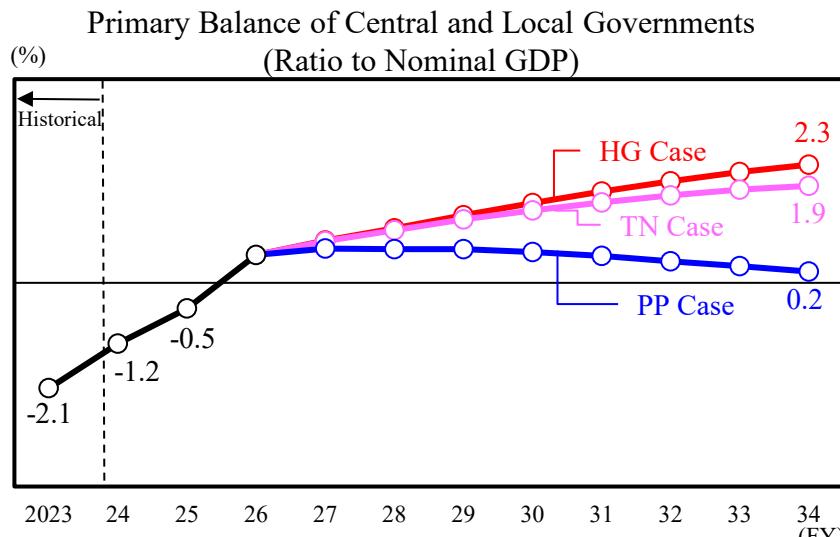
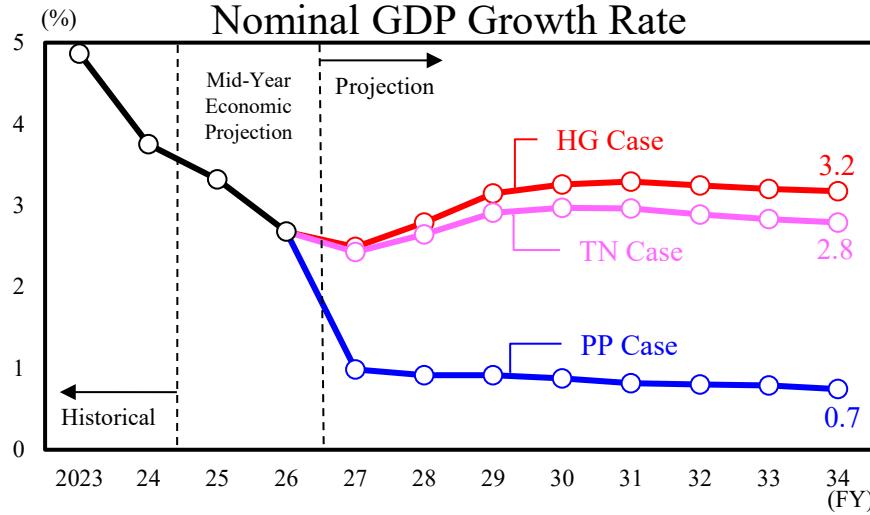
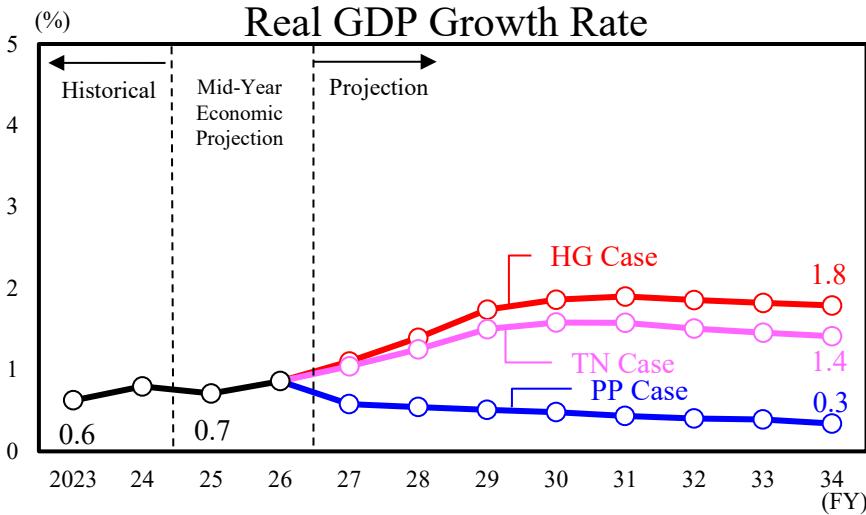
(Note) 1. Compiled from "SNA (National Accounts of Japan)" and "Economic and Fiscal Projections for Medium to Long Term Analysis (August 2025)" by Cabinet Office (series excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, GX measures, and the AI and semiconductor industry foundation strengthening measures).

2. Considerable leeway should be given when interpreting the left table, including assumptions on the projection. Figures in the table are rounded, so the sum of factors and the change of PB do not always match.

3. PB from FY1990 to FY1993 in the graph are derived from the data of 93SNA. The PB from FY2024 is a projection.

# (Reference) The Higher Economic Growth Case

- In the **Higher Economic Growth (HG) 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 (i.e. the 1980s and 1990s).
- The HG Case is projected to achieve higher nominal and real GDP growth rates than in the TN Case. The PB to GDP and the outstanding debt to GDP are both projected to improve further than in the TN Case.



(Note) HG Case is mechanically calculated based on the main multiplier tables listed in “Economic and Fiscal Model (FY2018 version)”.