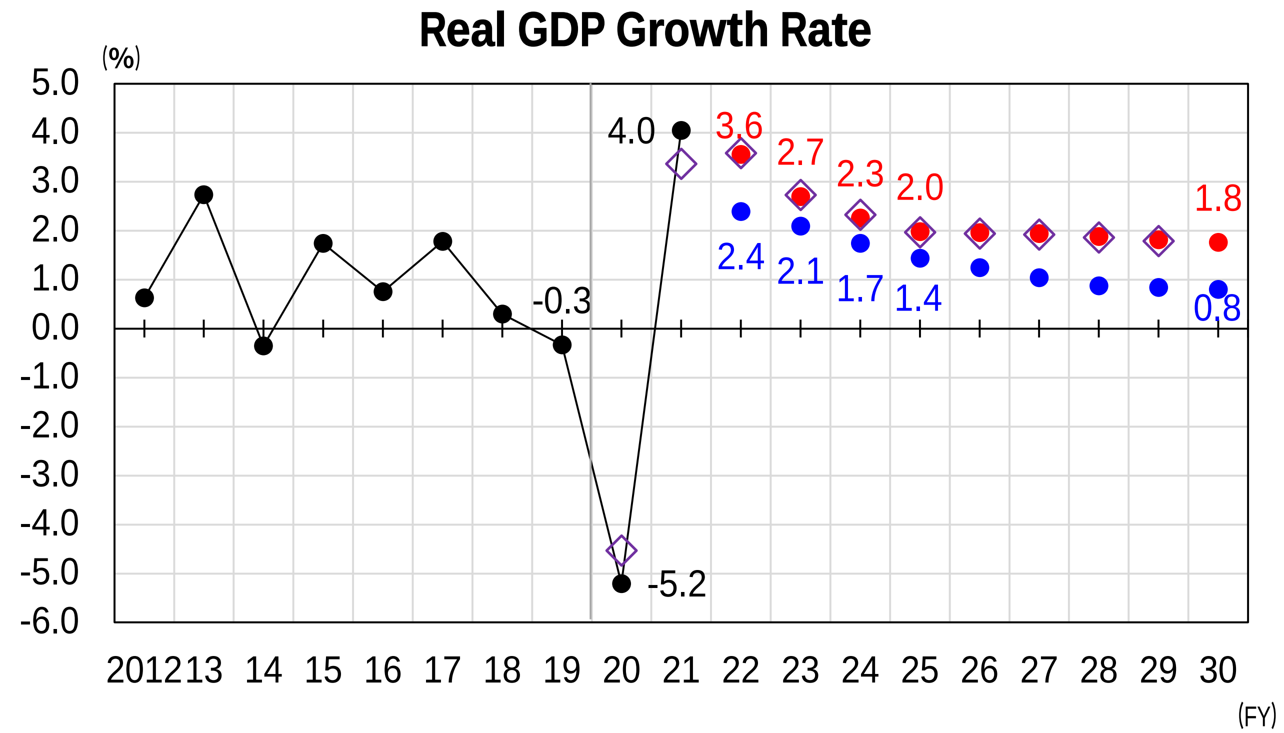
[Provisional Translation]

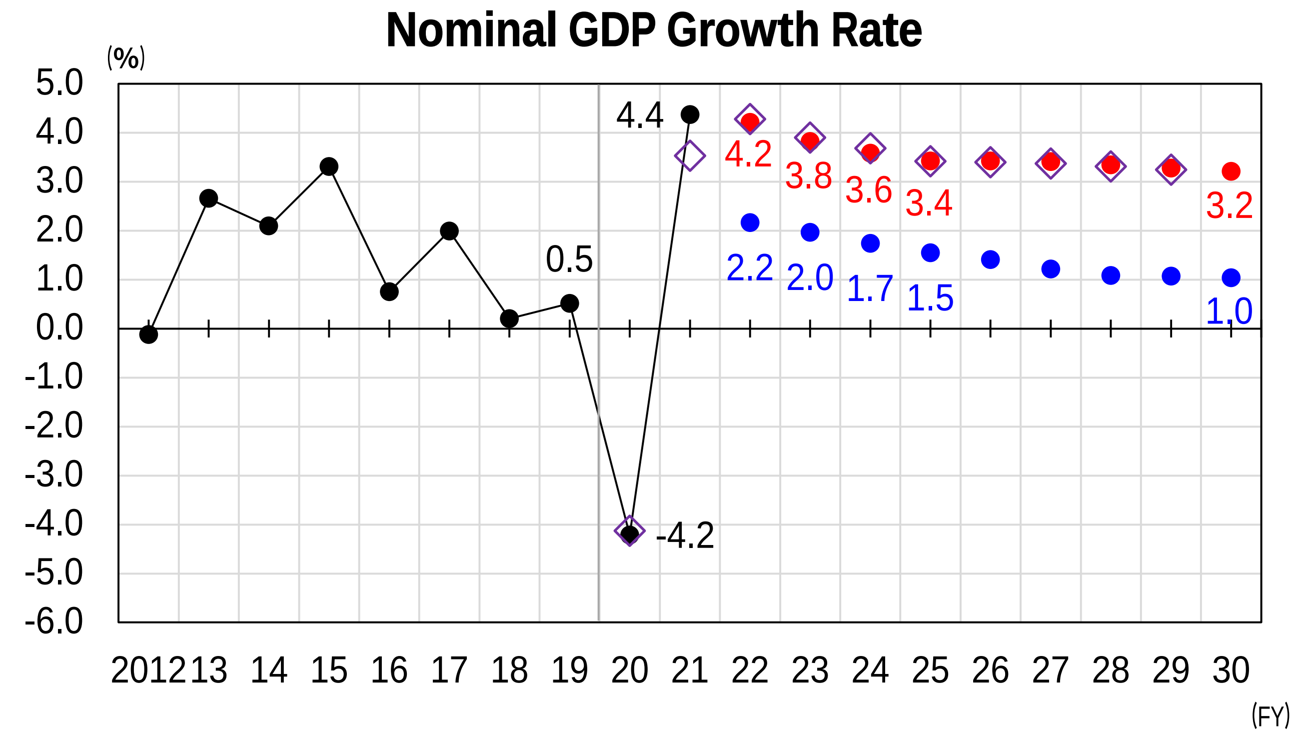
# Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (January 2021)

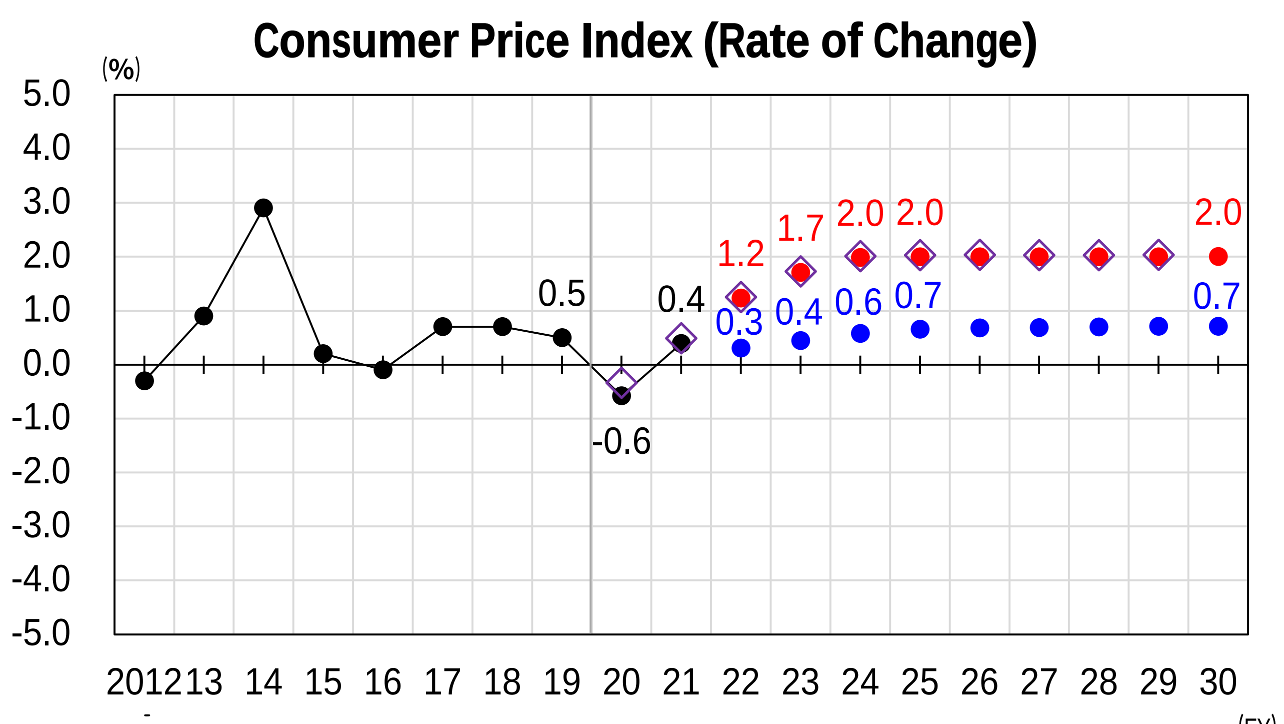
Cabinet Office

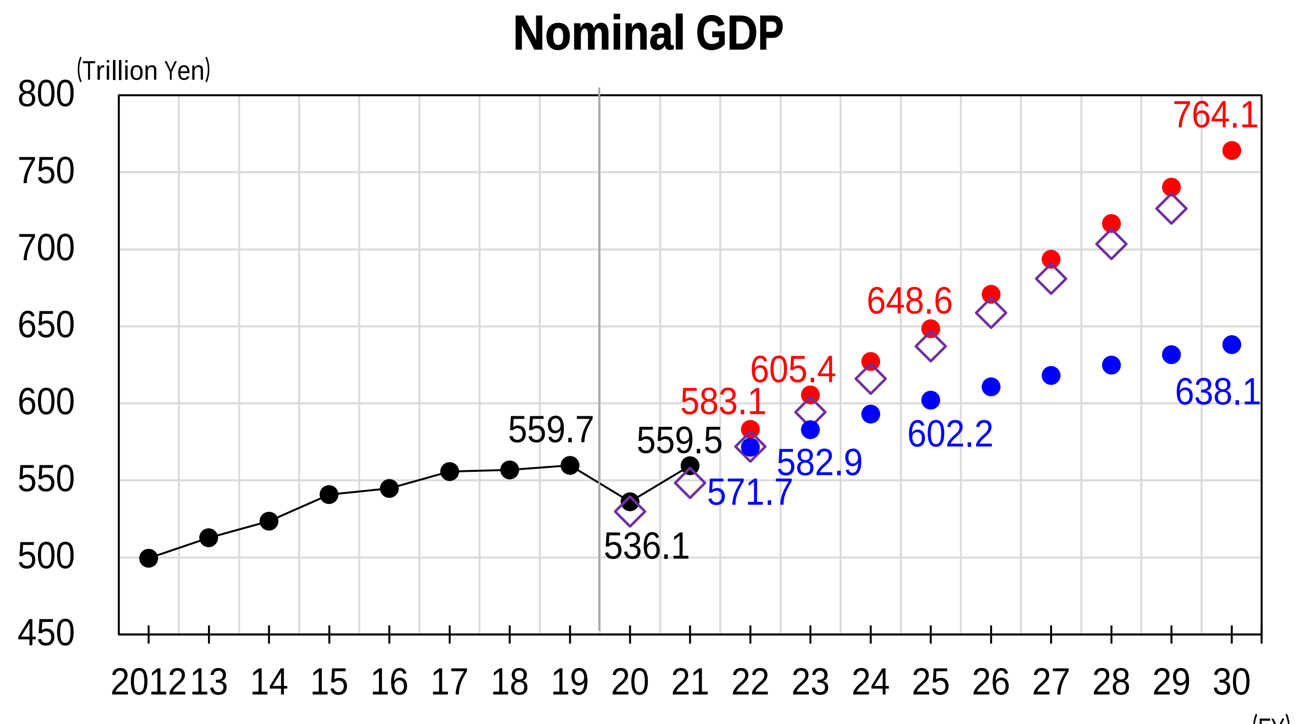
# 1. Projections of the Macro Economy

In the Economic Growth Achieved Case, while GDP is projected to recover steadily with a rebound from the economic slowdown due to the infectious disease and new demands in the post-Corona era, in the medium to long term, the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms with solid productivity growth through promoting digitalization, realizing a green society, developing human resources and re-building businesses of firms including SMEs. Although the impact of the disease on the economy needs to be carefully examined, nominal GDP is projected to achieve 600 trillion yen in around FY2023. The Government will steadily take the economy back to a private demand-led growth path by strengthening growth potential as well as containing the spread of infection through implementation of the FY2021 budget and the Comprehensive Economic Measures.



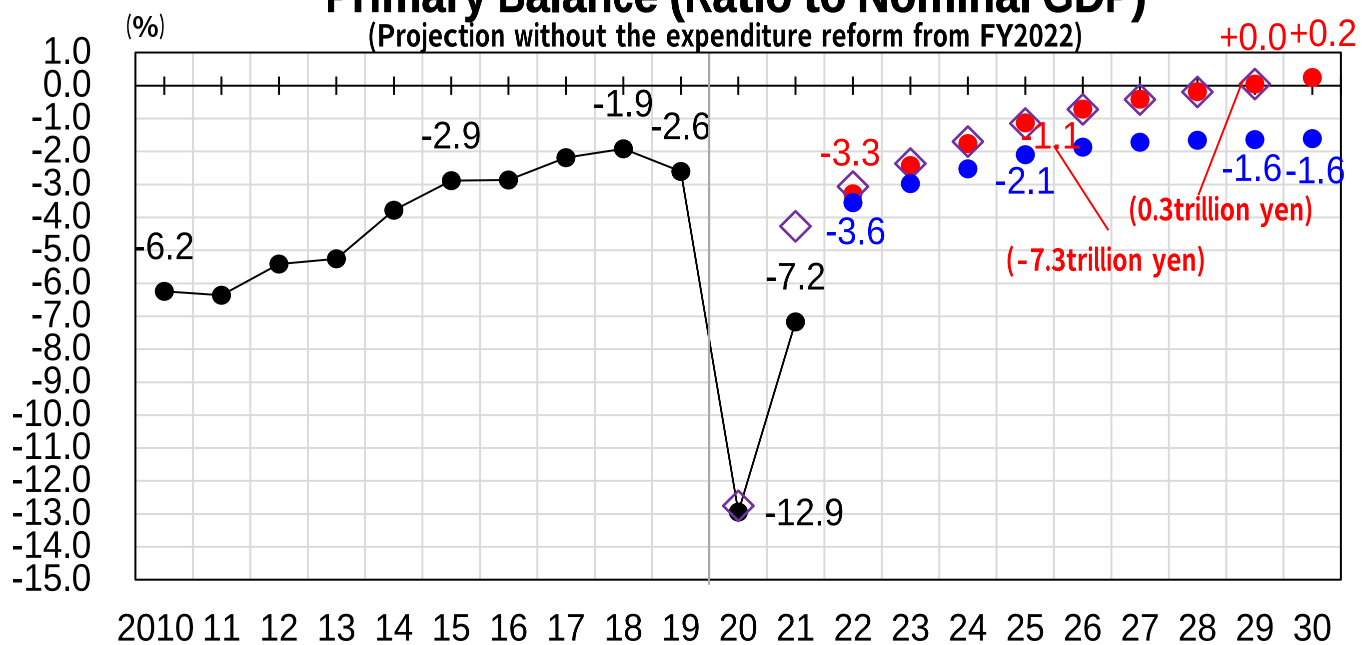




● Economic Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (July 2020)

# 2. Projections of the Central and Local Governments' Public Finances

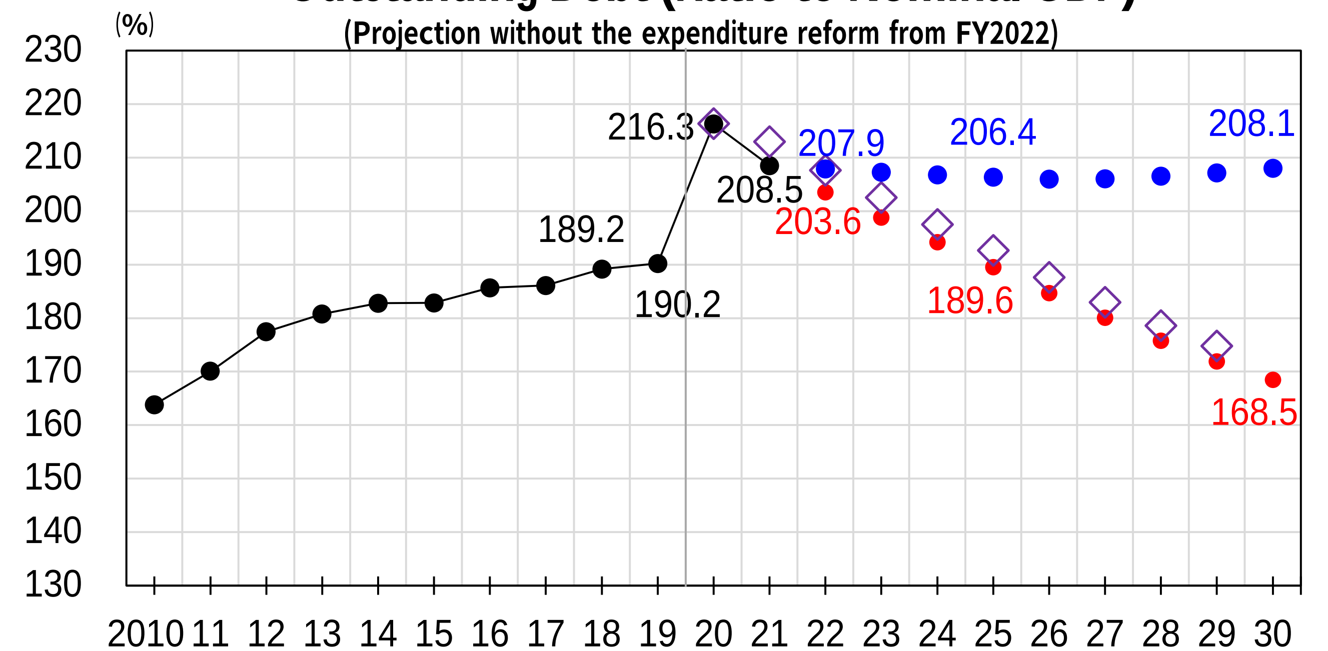
While the primary deficit will temporarily widen due to increases in expenditures of the supplementary budgets and deceleration in revenues caused by the economic slowdown originating from the infectious disease, in the Economic Growth Achieved Case, <u>without the expenditure reforms, it is projected to be around 1.1% in FY2025 and turn to surplus in FY2029, the same as the previous projection</u>. <u>It is important, more than ever before, to realize high quality economic growth led by private demand and continue improvement both from the expenditure and revenue sides</u> as well as ensure overcoming deflation and economic revitalization. <u>Although the outstanding debt to GDP ratio will increase in FY2020, it is projected to decline steadily in the period of the projection</u>.

**Primary Balance (Ratio to Nominal GDP)**
(Projection without the expenditure reform from FY2022)



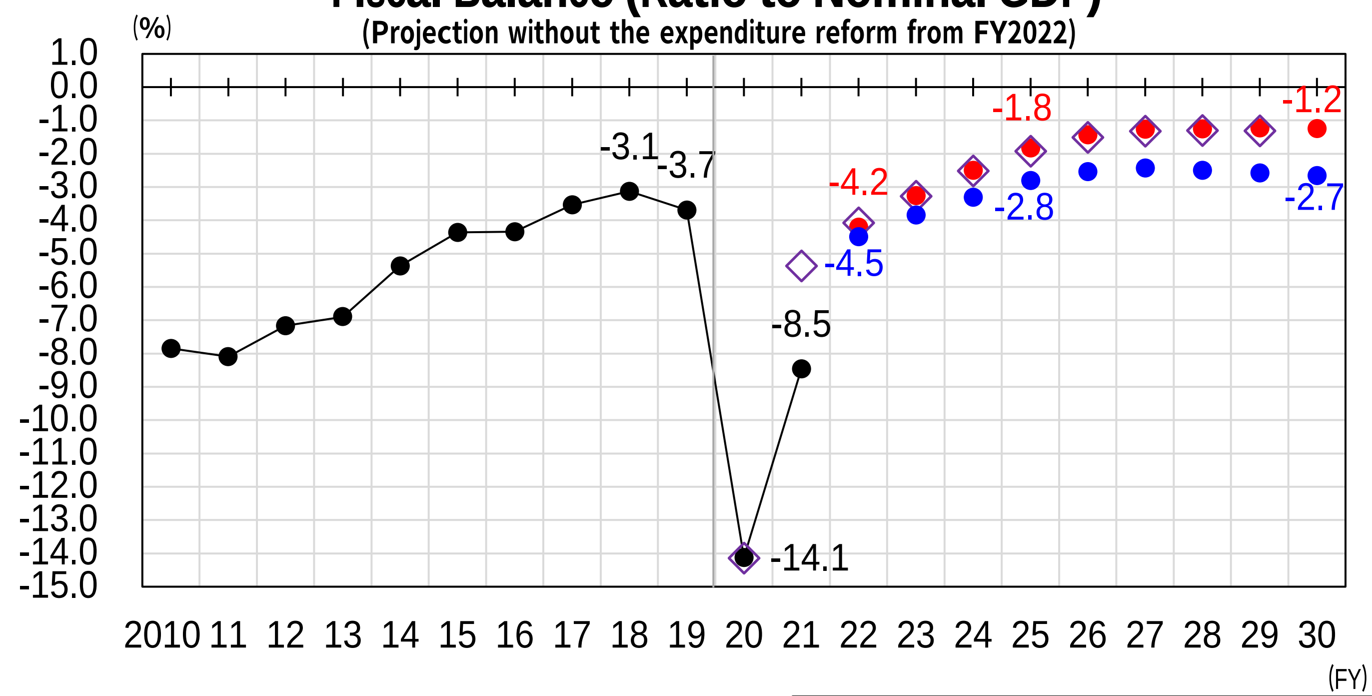

(*) With continuing the expenditure reform carried out thus far, the primary surplus will be achieved around three years earlier.

**Outstanding Debt (Ratio to Nominal GDP)**
(Projection without the expenditure reform from FY2022)

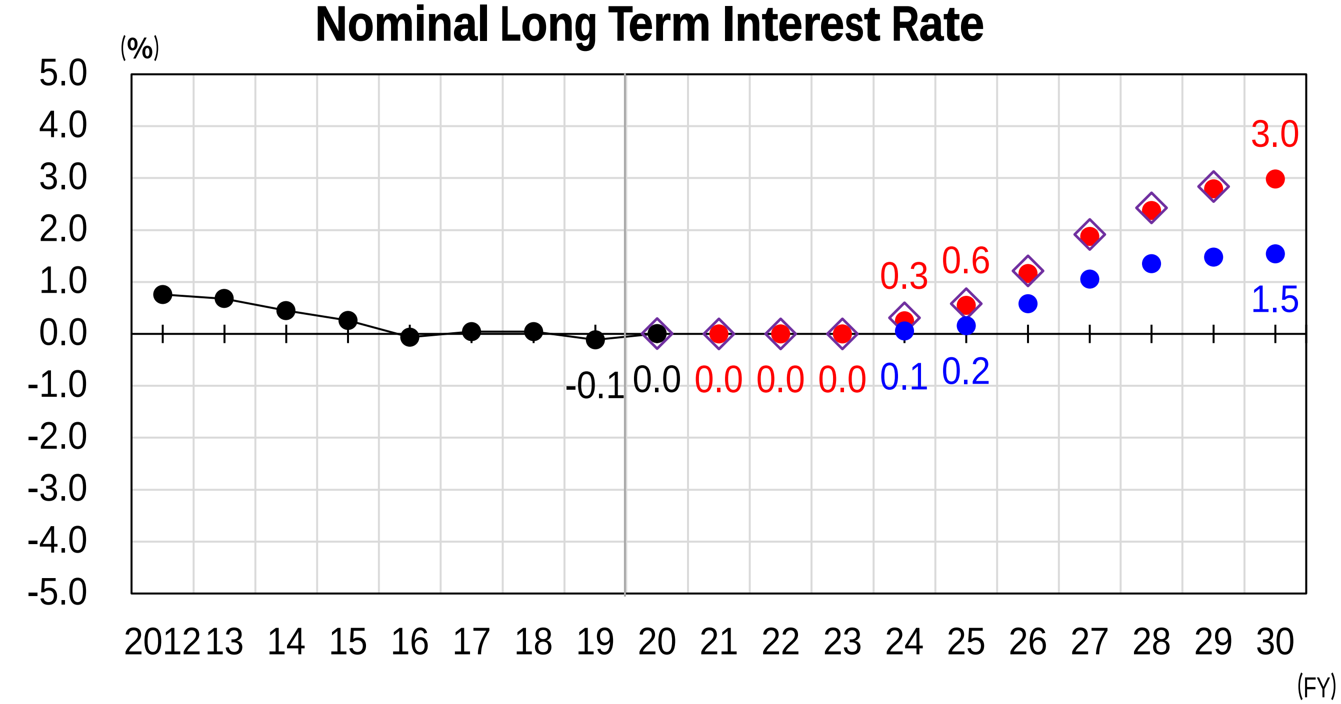



(*) It should be noted that the existing bonds issued at lower interest rates will be refinanced at higher interest rates sequentially with the long term nominal interest rate rising.

**Fiscal Balance (Ratio to Nominal GDP)**
(Projection without the expenditure reform from FY2022)




**Nominal Long Term Interest Rate**




● Economic Growth Achieved Case ● Baseline Case ◇ Economic Growth Achieved Case (July 2020)

# (Reference) Economic and Fiscal Assumptions

## 【Economic assumptions】

- ◯Economic conditions reflect the "Annual Report on National Accounts for 2019" and the "Fiscal 2021 Economic Outlook and Basic Stance for Economic and Fiscal Management."
- ◯As for assumptions related to the potential growth rate, in the Economic Growth Achieved Case, the TFP growth rate rises from the current level (0.4%) to around 1.3% in FY2025 in five years. In the Baseline Case, the TFP growth rate moves at around 0.7%.
- ◯In the Economic Growth Achieved Case, the rate of change for CPI is projected to achieve around 2% from FY2024. Under this condition, the nominal long-term interest rate is assumed to continue at the zero-interest rate level until FY2023.

## 【Fiscal assumptions】

- ◯Fiscal conditions for the Central and Local Governments reflect the latest data such as:
  - the primary balance reported in the "Annual Report on National Accounts for 2019,"
  - the "FY2019 settlements" of the Central Government's General Account and the Local Government's Ordinary Account,
  - the "Draft Third Supplementary Budget for FY2020," the "Draft FY2021 Budget," the "FY2021 Tax Reform," the "Local Finance Measures in FY2021," etc.
- ◯From FY2022 onward, social security expenditures will increase reflecting the population aging, price and wage developments and the "Plan on the Social Security System Oriented to All Generations" decided by the Cabinet, while other expenditures will increase along with the inflation rate.