

Economic and Fiscal Projections
for Medium to Long Term Analysis

July 29, 2022

Cabinet Office, Government of Japan

Projections are conducted using the Cabinet Office's "Economic and Fiscal Model," incorporating macroeconomy, public finance and social security synthetically. Therefore, the main economic variables such as growth rates, inflation rates and interest rates are not exogenously assumed, but are endogenously obtained within the model. Considerable leeway should be given when interpreting the projections shown here due to various uncertainties.

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Assumptions of Projection and Future Prospects

1. Introduction

This projection is intended to contribute to the discussion of the Council on Economic and Fiscal Policy by checking the progress of the economic revitalization and fiscal consolidation and providing the basic data necessary to consider further efforts, and conducting medium- to long-term analysis, based on the scenarios of economic situations and fiscal assumptions as follows.

2. Scenarios and Assumptions in Macroeconomy¹

The projection on macroeconomy until FY2023 is based on the Cabinet Office's "Mid-year Economic projection²." From FY2024, based on the past performance and current trend of the Japanese economy, the projection shows medium- to long-term macroeconomic prospects such as GDP and inflation for two different cases.

(1) Economic Growth Achieved Case

The Economic Growth Achieved Case offers a projection in which the government's policy goals of overcoming deflation and economic revitalization show solid results at a feasible pace reflecting the past performance.

Specifically, the Economic Growth Achieved Case includes the following assumptions:

- The total factor productivity (TFP) growth rate rises from the current level (around 0.5%) to around 1.4%, based on the extent and pace³ that the Japanese economy actually experienced before it entered deflation.
- The labor force participation rate shifts based on the estimates of labor supply and demand for the "case in which economic growth and labor participation are achieved" shown by the "Labor Policy Study Group" (2019).
- The number of foreign workers shifts based on the non-Japanese population reported in the "Population Projection for Japan" by the National Institute of Population and Social Security Research and the "Expected Number of Acceptance" of foreign workers related to the status of residence of specified skilled workers.⁴

(2) Baseline Case

The Baseline Case offers a projection in which the economy will shift approximately at the rate of current potential growth.

Specifically, the main differences from the assumptions of the Economic Growth Achieved Case

¹ For further details, see the Appendices.

² The Cabinet Office's "Mid-Year Economic Projection for FY2022" (July 25, 2022, Submitted to the Council on Economic and Fiscal Policy)

³ Specifically, the total factor productivity (TFP) growth rate rose around 0.9% in 5 years from FY1982 to FY1987.

⁴ "The Basic Policy on Operation of the System Related to Status of Residence of the Specified Skilled Worker" (Cabinet Decision, December 25, 2018)

are as follows:

- The total factor productivity (TFP) growth rate moves around 0.6%.⁵
- The labor force participation rate shifts based on the estimates of labor supply and demand for the “case in which economic growth and labor participation are partly achieved” shown by the “Labor Policy Study Group” (2019).

3. Main Assumptions in Public Finance⁶

For Public Finances, based on the following assumptions, the projection shows fiscal prospects which are consistent with the two economic scenarios mentioned in “2.”

- Revenues and expenditures in FY2022 reflect the FY2022 Budget and other factors⁷.
- Expenditures in FY2023 are calculated by taking into account changes in prices and wages, efforts for increasing spending efficiency carried out thus far, and other factors. It is assumed that the expenditure growth excluding the increase due to the aging population and other factors will consequently be curbed by about half of what it would be if the efforts for increasing spending efficiency carried out thus far are continued⁸. In addition, based on the Cabinet Office’s Mid-Year Economic Projection, public fixed capital formation in FY2023 is assumed to be the average amount in the most recent five years at the nominal level. The baseline case assumes that such expenditure will continue moderately through FY2025.
- From FY2024, social security expenditures will increase reflecting the aging of population and price and wage developments, and other expenditures will increase along with the inflation rates.
- Revenues from FY2023 will increase based on the assumptions of macroeconomy.

4. Progress and Future Prospects of Economic Revitalization and Fiscal Consolidation

<Progress>

The GDP growth rate for FY2021 is 2.2% in real terms and 1.2% in nominal terms, as the economy continued to pick up despite the strong downward pressure from COVID-19. GDP for FY2022 is projected to grow approximately 2.0% in real terms and 2.1% in nominal terms, mainly owing to the expected recovery in services consumption from the COVID-19 crisis.

On the fiscal conditions, the primary deficit⁹ is projected to be around 5.3% in FY2021 due to the increase in expenditures for the supplementary budgets for dealing with the Infectious Disease. The primary deficit in FY2022 is projected to be around 7.3% including the impact of the carryover of the supplementary budgets for FY2021. As a result, the ratio of outstanding debt to GDP is projected to be around 215.8% in FY2021 and around 217.6% in FY2022.

⁵ Average from November 2012 to May 2020. (the 16th business cycle.)

⁶ For further details, see the Appendix.

⁷ As for the revenues of the central and local governments, the underlying trend in the settlements for FY2021 based on the economic fundamentals is taken into consideration.

⁸ Based on materials submitted to the Council on Economic and Fiscal Policy by council members from the private sector (May 28, 2018) and those by the Cabinet Office (July 21, 2021), the effect on improvement in the primary balance by efforts for increasing spending efficiency is assumed to be about 1.3 trillion yen per year when its impact on the economy is taken into consideration.

⁹ Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

<Future Prospects>

In the Economic Growth Achieved Case, in order to realize The New Form of Capitalism, the public and private sectors will work together to promote systematic and bold investment in focused investment areas to solve social issues, etc. This will stimulate private investment, with the increase in income leading to consumption, and the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms as the potential growth rate rises. As a result, nominal GDP is projected to achieve 600 trillion yen around FY2025. The rate of change in consumer prices is projected to be around 2% from FY2026.

On the fiscal conditions, without the expenditure reforms, the primary deficit is projected to be around 0.1% of GDP in FY2025, and turn to surplus in FY2026¹⁰. It is important to aim for the economic growth projected in the Economic Growth Achieved Case by reinforcing measures for the “Virtuous Cycle of Growth and Distribution” under the concept of “the economy is the foundation of public finance.” The ratio of outstanding debt to GDP is projected to decline in the periods of the projection, given the economic growth and interest rates for the Economic Growth Achieved Case. It should be noted, however, 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.

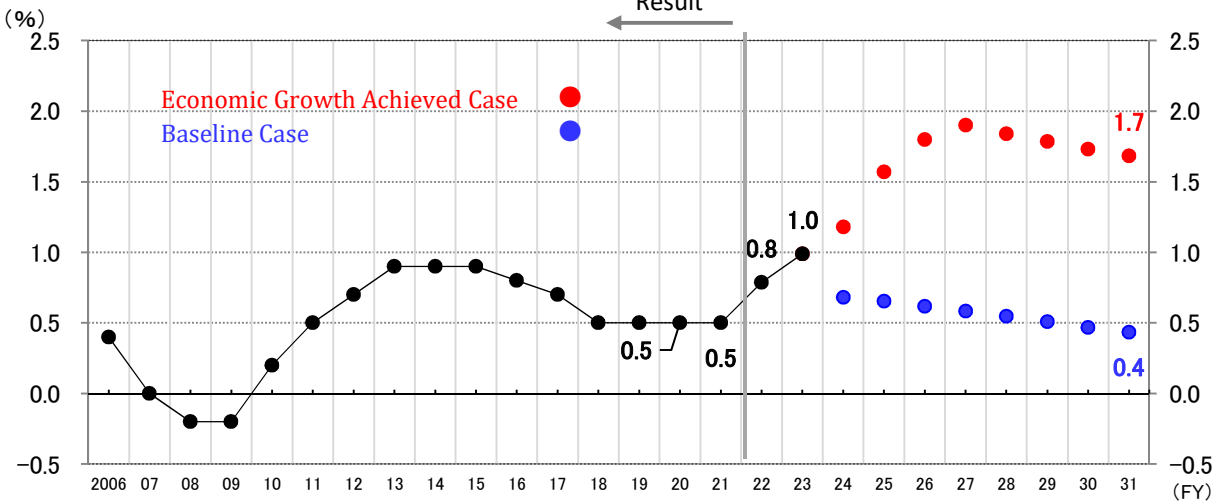
In the Baseline Case, on the other hand, the GDP growth rate is projected to be around the mid-0% range in both real and nominal terms in the medium to long term. The rate of change in consumer prices is projected to be around 0.6%.

On the fiscal conditions, the primary deficit is projected to be around 1.1% of GDP in FY2025, and the primary deficit will increase at a modest pace within the projection period. The ratio of outstanding debt to GDP is projected to increase in the latter half of the projection period.

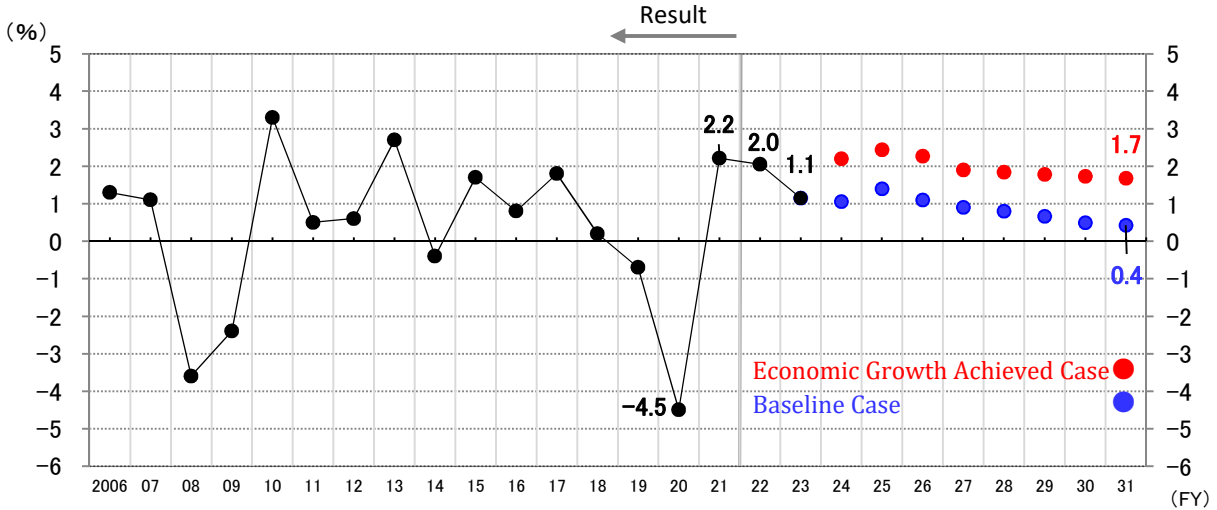
¹⁰ Based on the materials submitted to the Council on Economic and Fiscal Policy by council members from the private sector (May 28, 2018) and those by the Cabinet Office (July 21, 2021), the effect on improvement in the primary balance by efforts for increasing spending efficiency is assumed to be about 1.3 trillion yen per year when the impact on the economy is taken into consideration. Calculating mechanically based on this assumption, if the efforts for increasing spending efficiency carried out thus far are continued, the primary surplus will be achieved in FY2025, around a year earlier.

Results of Projection

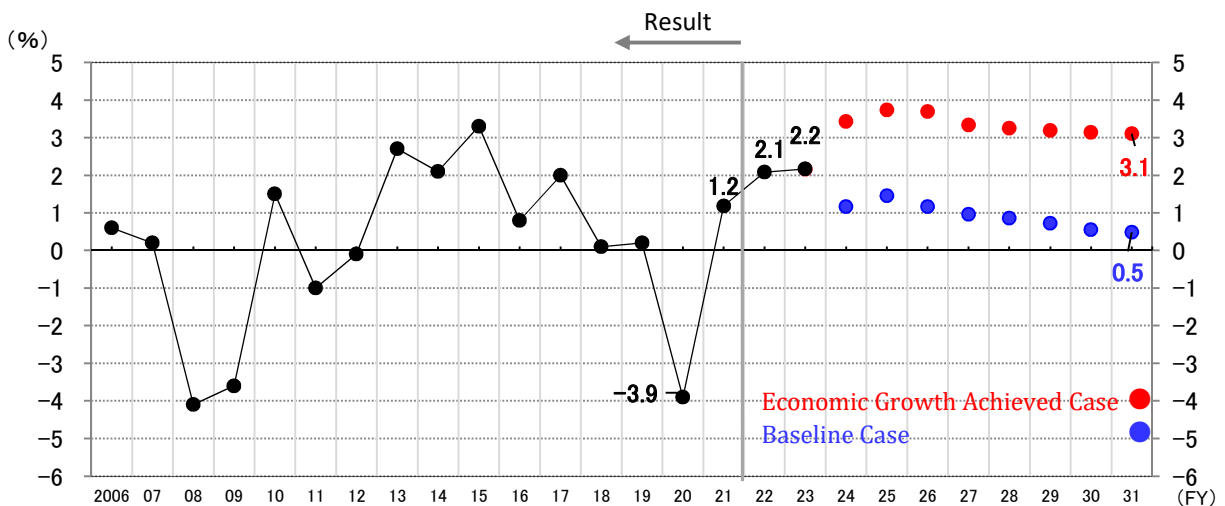
○ Potential GDP Growth



○ Real GDP Growth Rate



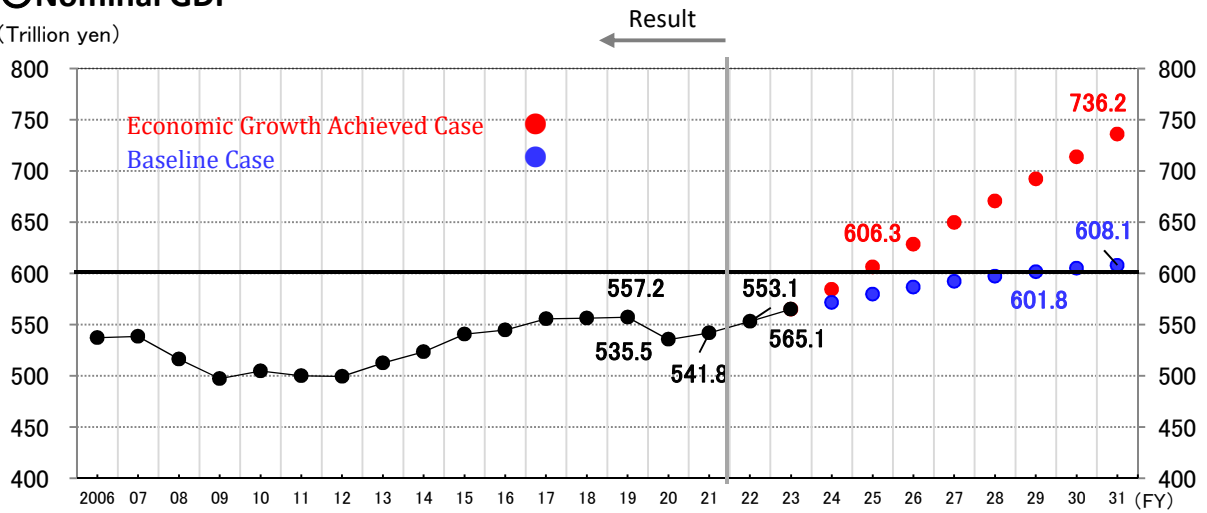
○ Nominal GDP Growth Rate



- In the Economic Growth Achieved Case, in order to realize The New Form of Capitalism, the public and private sectors will work together to promote systematic and bold investment in focused investment areas to solve social issues, etc. This will stimulate private investment, with the increase in income leading to consumption, and the GDP growth rate is projected to achieve around 2% in real terms and over around 3% in nominal terms as the potential growth rate rises.
- In the Baseline Case, the potential growth rate is revised downward based on the recent trend.

○Nominal GDP

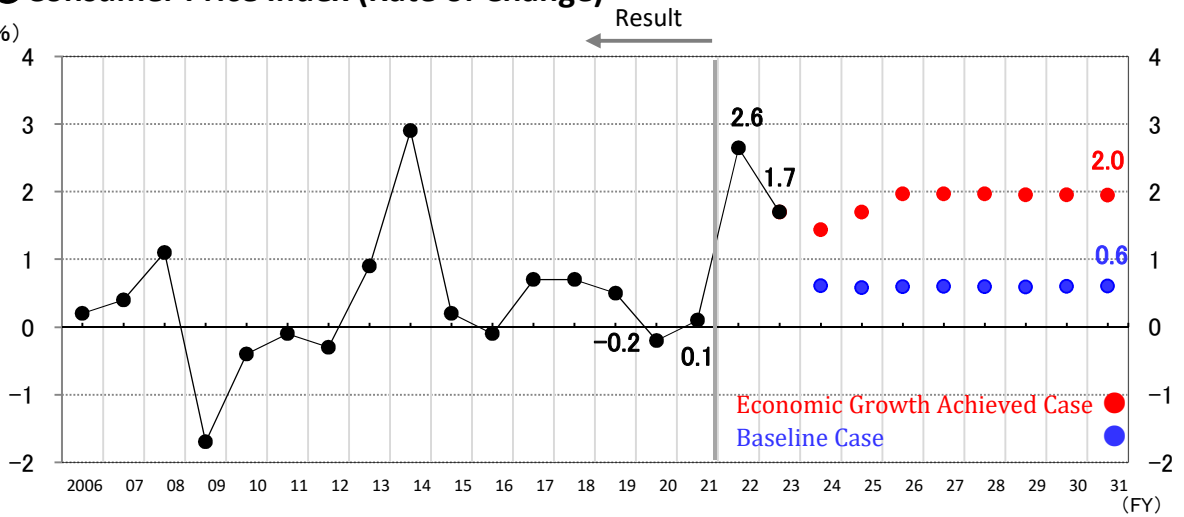
(Trillion yen)



• In the Economic Growth Achieved Case, nominal GDP is projected to achieve 600 trillion yen around FY2025.

○Consumer Price Index (Rate of Change)

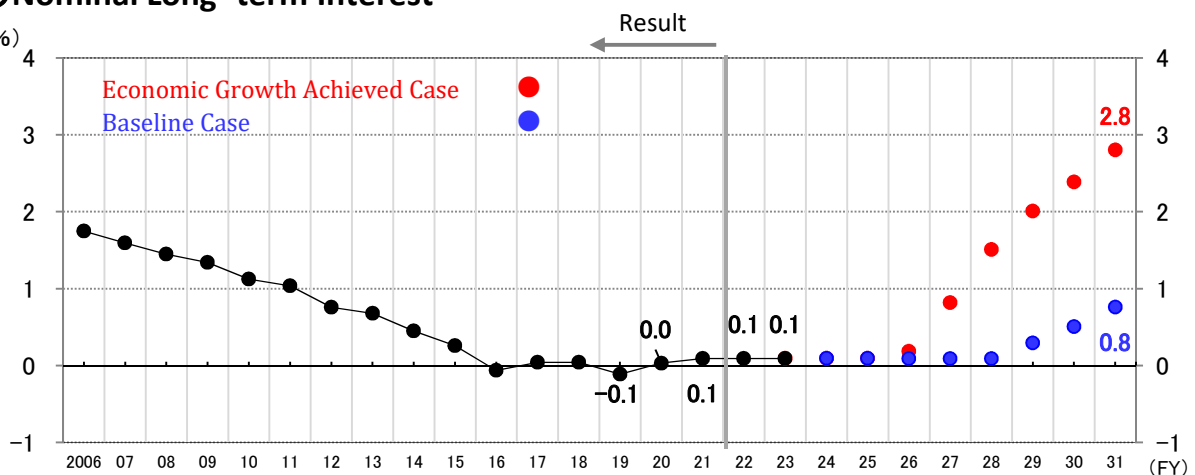
(%)



• In the Economic Growth Achieved Case, the rate of change in consumer prices is projected to be around 2% from FY2026.

○Nominal Long -term Interest

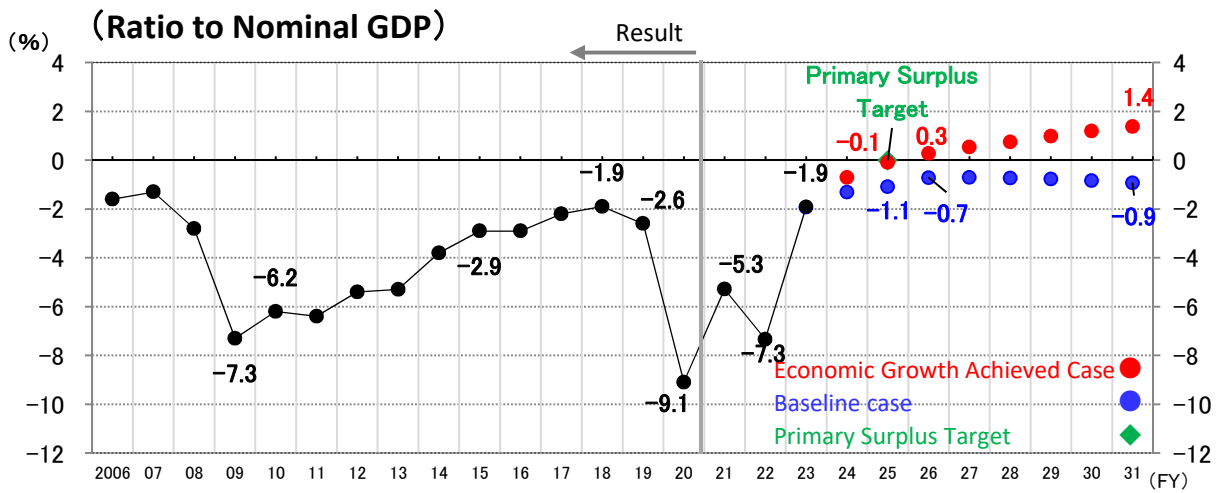
(%)



• In the Economic Growth Achieved Case, the nominal long-term interest rate is assumed to remain at the current level until FY2025, as the rate of change in consumer prices is projected to reach around 2% again in FY2026.

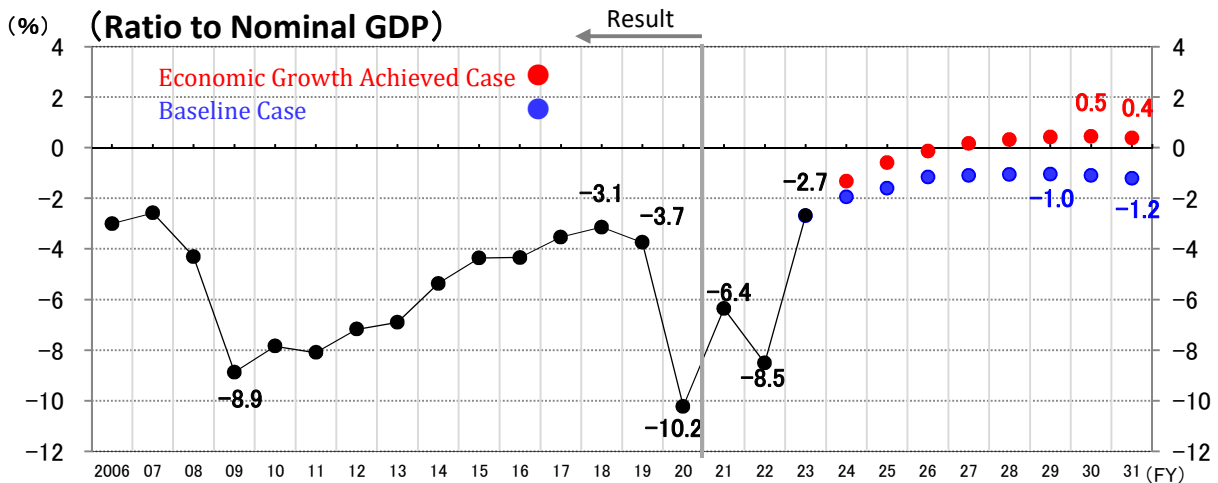
• In the Baseline Case, interest rates are assumed to rise as supply and demand tighten.

○Primary Balance of Central and Local Governments Combined*



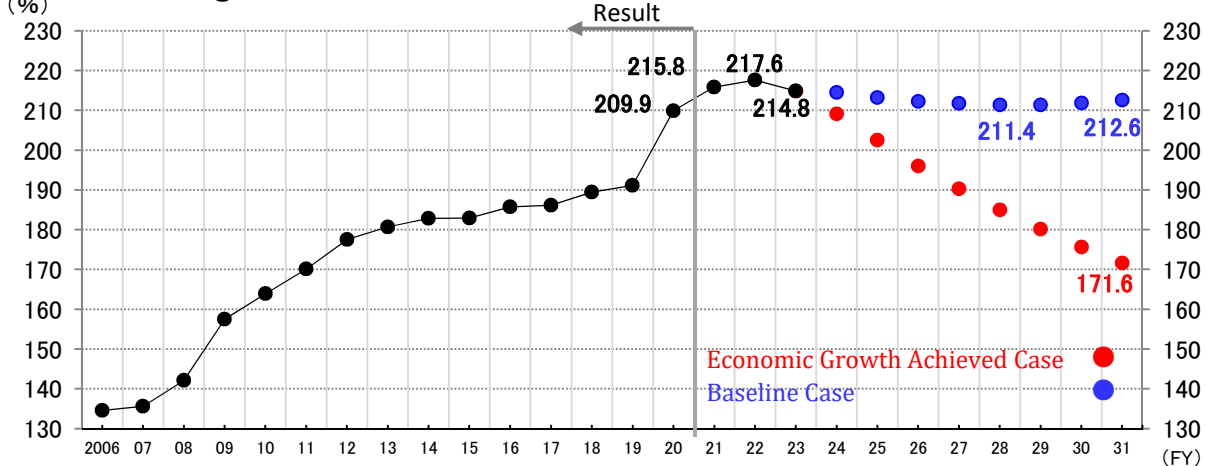
- In the Economic Growth Achieved Case, without the expenditure reforms, the primary deficit is projected to be around 0.1% of GDP in FY2025, and turn to surplus in FY2026.
- In the Baseline Case, the primary deficit is projected to be around 1.1% of GDP in FY2025, and the primary deficit will increase at a modest pace within the projection.

○Fiscal Balance of Central and Local Governments Combined*



- In the Economic Growth Achieved Case, the fiscal balance is projected to improve in line with the improvement of the primary balance.

○Outstanding Debt* (Ratio to Nominal GDP)



- The ratio of outstanding debt to GDP is projected to decline in the periods of the projection, given the economic growth and interest rates for the Economic Growth Achieved Case. 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.
- In the Baseline Case, it is projected to increase in the latter half of the projection period.

* Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures.

Results of Projection

Economic Growth Achieved Case

【Macroeconomy】

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

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Real GDP Growth	(▲4.5)	(2.2)	(2.0)	(1.1)	(2.2)	(2.4)	(2.3)	(1.9)	(1.8)	(1.8)	(1.7)	(1.7)
Real GNI Growth	(▲3.9)	(0.6)	(1.7)	(1.3)	(2.9)	(2.8)	(2.5)	(2.0)	(1.9)	(1.8)	(1.8)	(1.7)
Nominal GDP Growth	(▲3.9)	(1.2)	(2.1)	(2.2)	(3.4)	(3.7)	(3.7)	(3.3)	(3.3)	(3.2)	(3.1)	(3.1)
Nominal GDP	535.5	541.8	553.1	565.1	584.5	606.3	628.7	649.7	670.8	692.2	714.0	736.2
Nominal GNI Per Capita Growth	(▲3.9)	(1.8)	(3.8)	(2.9)	(3.5)	(3.8)	(4.0)	(3.8)	(3.7)	(3.6)	(3.6)	(3.5)
Nominal GNI Per Capita (※Ten thousand yen)	441	449	466	480	497	516	536	556	577	598	619	641
Potential GDP Growth	(0.5)	(0.5)	(0.8)	(1.0)	(1.2)	(1.6)	(1.8)	(1.9)	(1.8)	(1.8)	(1.7)	(1.7)
Change of Price												
Consumer Prices	(▲0.2)	(0.1)	(2.6)	(1.7)	(1.4)	(1.7)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
Corporate Goods Prices	(▲1.4)	(7.0)	(9.8)	(3.9)	(2.1)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)	(0.8)
GDP Deflator	(0.6)	(▲1.0)	(0.0)	(1.0)	(1.2)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Unemployment Rate	(2.9)	(2.8)	(2.4)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)	(2.5)
Long-term Interest Rate	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.2)	(0.8)	(1.5)	(2.0)	(2.4)	(2.8)
Balance by Sector												
General Government	[▲10.0]	[▲4.9]	[▲7.5]	[▲1.5]	[▲0.2]	[0.6]	[1.1]	[1.5]	[1.7]	[1.8]	[1.8]	[1.8]
Private	[13.1]	[7.2]	[8.8]	[3.2]	[2.3]	[2.2]	[2.3]	[1.9]	[1.6]	[1.4]	[1.2]	[1.2]
Overseas	[▲3.0]	[▲2.3]	[▲1.3]	[▲1.7]	[▲2.1]	[▲2.8]	[▲3.4]	[▲3.3]	[▲3.2]	[▲3.2]	[▲3.1]	[▲3.0]

【Central and Local Governments' Public Finances】

(Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures)

[ratio to GDP, %], Trillions of Yen

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Primary Balance	▲ 48.8	▲ 28.6	▲ 40.6	▲ 10.8	▲ 4.1	▲ 0.5	1.8	3.6	5.1	6.9	8.6	10.2
(ratio to nominal GDP)	[▲9.1]	[▲5.3]	[▲7.3]	[▲1.9]	[▲0.7]	[▲0.1]	[0.3]	[0.6]	[0.8]	[1.0]	[1.2]	[1.4]
Central Government	▲ 49.8	▲ 34.4	▲ 42.2	▲ 12.4	▲ 10.0	▲ 8.2	▲ 7.2	▲ 6.3	▲ 5.4	▲ 4.8	▲ 4.2	▲ 3.9
(ratio to nominal GDP)	[▲9.3]	[▲6.4]	[▲7.6]	[▲2.2]	[▲1.7]	[▲1.3]	[▲1.1]	[▲1.0]	[▲0.8]	[▲0.7]	[▲0.6]	[▲0.5]
Local Government	1.0	5.8	1.6	1.6	5.9	7.7	9.0	9.9	10.5	11.6	12.8	14.1
(ratio to nominal GDP)	[0.2]	[1.1]	[0.3]	[0.3]	[1.0]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]	[1.9]
Fiscal Balance	▲ 54.8	▲ 34.4	▲ 47.1	▲ 15.1	▲ 7.6	▲ 3.5	▲ 0.8	1.2	2.2	3.0	3.3	2.9
(ratio to nominal GDP)	[▲10.2]	[▲6.4]	[▲8.5]	[▲2.7]	[▲1.3]	[▲0.6]	[▲0.1]	[0.2]	[0.3]	[0.4]	[0.5]	[0.4]
Central Government	▲ 54.8	▲ 39.0	▲ 47.6	▲ 15.6	▲ 12.5	▲ 10.2	▲ 8.9	▲ 8.0	▲ 7.7	▲ 8.1	▲ 8.9	▲ 10.6
(ratio to nominal GDP)	[▲10.2]	[▲7.2]	[▲8.6]	[▲2.8]	[▲2.1]	[▲1.7]	[▲1.4]	[▲1.2]	[▲1.1]	[▲1.2]	[▲1.2]	[▲1.4]
Local Government	0.1	4.5	0.5	0.5	4.9	6.7	8.1	9.1	9.9	11.0	12.2	13.5
(ratio to nominal GDP)	[0.0]	[0.8]	[0.1]	[0.1]	[0.8]	[1.1]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]
Outstanding Debt	1124.1	1169.5	1203.4	1214.1	1222.2	1227.7	1232.3	1236.5	1241.0	1246.8	1254.2	1263.6
(ratio to nominal GDP)	[209.9]	[215.8]	[217.6]	[214.8]	[209.1]	[202.5]	[196.0]	[190.3]	[185.0]	[180.1]	[175.7]	[171.6]

【General Account of Central Government】

Trillions of Yen

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Expenditures	147.6	144.6	110.3	103.4	105.4	107.5	109.5	111.8	114.7	118.3	122.4	127.1
(Policy Expenditures)	125.7	120.5	86.4	80.2	82.0	84.0	86.0	87.8	89.7	91.8	93.8	96.0
Social Security-related Expenditures	43.0	50.2	36.3	36.9	37.8	38.5	39.2	40.1	41.0	41.9	42.7	43.6
Local Allocation Tax Grants, etc.	16.3	19.6	15.9	16.6	17.2	18.1	18.8	19.2	19.6	20.3	20.9	21.7
Others	66.0	50.3	33.8	26.2	26.6	27.0	27.5	28.1	28.6	29.2	29.7	30.3
Debt Repayment and Interest Payment	22.3	24.6	24.3	23.6	23.9	23.9	24.0	24.4	25.5	27.1	29.1	31.5
Revenues	45.2	89.3	70.7	72.3	74.9	78.2	81.1	83.7	86.4	89.0	91.8	94.5
Tax Revenue	60.8	67.0	65.2	66.8	69.3	72.5	75.1	77.6	80.1	82.7	85.2	87.8
Other Revenues	▲ 15.6	22.2	5.4	5.5	5.6	5.8	5.9	6.1	6.2	6.4	6.5	6.7
Difference between Expenditures and Revenues	108.6	57.7	39.6	31.1	30.6	29.3	28.5	28.1	28.3	29.3	30.7	32.6
Primary Balance in General Account of Central Government	▲ 80.4	▲ 31.2	▲ 15.7	▲ 7.9	▲ 7.1	▲ 5.8	▲ 4.9	▲ 4.2	▲ 3.3	▲ 2.7	▲ 2.1	▲ 1.5

【Ordinary Account of Local Government】

Trillions of Yen

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Expenditures	123.9	116.3	98.0	98.8	100.5	102.7	105.3	108.0	110.8	113.9	117.1	120.4
Debt Repayment and Interest Payment	12.0	11.8	11.4	11.8	11.9	11.9	11.8	11.7	11.5	11.2	11.0	10.9
Revenues	109.8	103.9	87.0	88.1	91.2	94.4	97.4	100.0	102.9	106.0	109.3	112.4
Tax Revenue	43.0	44.8	44.7	46.0	47.8	49.6	51.3	52.8	54.6	56.4	58.1	60.0
Difference between Expenditures and Revenues	14.1	12.3	11.0	10.7	9.4	8.3	8.0	8.0	7.9	7.9	7.8	8.0
Primary Balance in Ordinary Account of Local Government	0.8	4.1	2.8	3.5	5.2	6.9	8.1	8.9	9.8	11.0	12.4	13.5

- Notes
1. In "General Account of Central Government", up to FY2020 is based on the Settlement, FY2021 is based on the Settlement Highlight, and FY2022 is based on the Supplementary Budget for FY2022. In "Ordinary Account of Local Government," FY2020 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. In "General Account of Central Government," "Other Revenues" in FY2020 and FY2021 consists of non-tax revenues and preceding fiscal year surplus received (FY2020: around 15.2 trillion yen, FY2021: around 44.7 trillion yen) excluding the balance of fiscal resources carried forward to the next year (FY2020: around 30.8 trillion yen, FY2021: around 22.4 trillion yen).
 4. 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

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Real GDP Growth	(▲4.5)	(2.2)	(2.0)	(1.1)	(1.1)	(1.4)	(1.1)	(0.9)	(0.8)	(0.7)	(0.5)	(0.4)
Real GNI Growth	(▲3.9)	(0.6)	(1.7)	(1.3)	(1.3)	(1.5)	(1.1)	(0.9)	(0.8)	(0.7)	(0.5)	(0.4)
Nominal GDP Growth	(▲3.9)	(1.2)	(2.1)	(2.2)	(1.2)	(1.5)	(1.2)	(1.0)	(0.9)	(0.7)	(0.6)	(0.5)
Nominal GDP	535.5	541.8	553.1	565.1	571.7	580.0	586.7	592.4	597.5	601.8	605.1	608.1
Nominal GNI Per Capita Growth	(▲3.9)	(1.8)	(3.8)	(2.9)	(1.3)	(1.6)	(1.5)	(1.4)	(1.3)	(1.2)	(1.1)	(1.1)
Nominal GNI Per Capita (※Ten thousand yen)	441	449	466	480	486	494	501	509	515	521	527	533
Potential GDP Growth	(0.5)	(0.5)	(0.8)	(1.0)	(0.7)	(0.7)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)
Change of Price												
Consumer Prices	(▲0.2)	(0.1)	(2.6)	(1.7)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)
Corporate Goods Prices	(▲1.4)	(7.0)	(9.8)	(3.9)	(1.3)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
GDP Deflator	(0.6)	(▲1.0)	(0.0)	(1.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Unemployment Rate	(2.9)	(2.8)	(2.4)	(2.3)	(2.4)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)
Long-term Interest Rate	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	(0.5)	(0.8)
Balance by Sector												
General Government	[▲10.0]	[▲4.9]	[▲7.5]	[▲1.5]	[▲1.0]	[▲0.6]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.1]	[▲0.2]	[▲0.2]
Private	[13.1]	[7.2]	[8.8]	[3.2]	[3.1]	[3.5]	[3.1]	[3.1]	[3.1]	[2.9]	[3.0]	[2.9]
Overseas	[▲3.0]	[▲2.3]	[▲1.3]	[▲1.7]	[▲2.1]	[▲2.9]	[▲3.0]	[▲3.0]	[▲3.0]	[▲2.8]	[▲2.8]	[▲2.7]

【Central and Local Governments' Public Finances】

(Excluding the expenditures and the fiscal resources for the recovery and reconstruction measures)

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Primary Balance	▲ 48.8	▲ 28.6	▲ 40.6	▲ 10.8	▲ 7.5	▲ 6.2	▲ 4.2	▲ 4.2	▲ 4.3	▲ 4.6	▲ 5.0	▲ 5.6
(ratio to nominal GDP)	[▲9.1]	[▲5.3]	[▲7.3]	[▲1.9]	[▲1.3]	[▲1.1]	[▲0.7]	[▲0.7]	[▲0.7]	[▲0.8]	[▲0.8]	[▲0.9]
Central Government	▲ 49.8	▲ 34.4	▲ 42.2	▲ 12.4	▲ 11.8	▲ 11.1	▲ 9.7	▲ 9.5	▲ 9.4	▲ 9.4	▲ 9.7	▲ 10.1
(ratio to nominal GDP)	[▲9.3]	[▲6.4]	[▲7.6]	[▲2.2]	[▲2.1]	[▲1.9]	[▲1.6]	[▲1.6]	[▲1.6]	[▲1.6]	[▲1.6]	[▲1.7]
Local Government	1.0	5.8	1.6	1.6	4.3	4.9	5.5	5.3	5.0	4.8	4.6	4.5
(ratio to nominal GDP)	[0.2]	[1.1]	[0.3]	[0.3]	[0.8]	[0.8]	[0.9]	[0.9]	[0.8]	[0.8]	[0.8]	[0.7]
Fiscal Balance	▲ 54.8	▲ 34.4	▲ 47.1	▲ 15.1	▲ 11.0	▲ 9.3	▲ 6.7	▲ 6.4	▲ 6.3	▲ 6.2	▲ 6.6	▲ 7.3
(ratio to nominal GDP)	[▲10.2]	[▲6.4]	[▲8.5]	[▲2.7]	[▲1.9]	[▲1.6]	[▲1.1]	[▲1.1]	[▲1.0]	[▲1.0]	[▲1.1]	[▲1.2]
Central Government	▲ 54.8	▲ 39.0	▲ 47.6	▲ 15.6	▲ 14.3	▲ 13.1	▲ 11.3	▲ 10.9	▲ 10.5	▲ 10.3	▲ 10.5	▲ 11.1
(ratio to nominal GDP)	[▲10.2]	[▲7.2]	[▲8.6]	[▲2.8]	[▲2.5]	[▲2.3]	[▲1.9]	[▲1.8]	[▲1.8]	[▲1.7]	[▲1.7]	[▲1.8]
Local Government	0.1	4.5	0.5	0.5	3.3	3.9	4.6	4.5	4.2	4.0	3.9	3.8
(ratio to nominal GDP)	[0.0]	[0.8]	[0.1]	[0.1]	[0.6]	[0.7]	[0.8]	[0.8]	[0.7]	[0.7]	[0.6]	[0.6]
Outstanding Debt	1124.1	1169.5	1203.4	1214.1	1226.1	1236.7	1245.4	1254.2	1262.9	1272.2	1281.9	1292.6
(ratio to nominal GDP)	[209.9]	[215.8]	[217.6]	[214.8]	[214.5]	[213.2]	[212.3]	[211.7]	[211.4]	[211.4]	[211.8]	[212.6]

【General Account of Central Government】

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Expenditures	147.6	144.6	110.3	103.4	105.6	106.8	106.5	107.3	107.9	108.7	109.6	110.9
(Policy Expenditures)	125.7	120.5	86.4	80.2	82.2	83.3	83.0	83.6	84.2	84.9	85.6	86.3
Social Security-related Expenditures	43.0	50.2	36.3	36.9	37.6	38.1	38.5	39.0	39.4	39.9	40.3	40.7
Local Allocation Tax Grants, etc.	16.3	19.6	15.9	16.6	16.6	17.2	17.4	17.4	17.3	17.4	17.5	17.7
Others	66.0	50.3	33.8	26.2	27.5	27.6	26.7	26.8	27.0	27.1	27.3	27.4
Debt Repayment and Interest Payment	22.3	24.6	24.3	23.6	23.9	23.9	24.0	24.1	24.1	24.2	24.5	25.0
Revenues	45.2	89.3	70.7	72.3	72.7	74.5	75.3	76.0	76.7	77.2	77.6	77.9
Tax Revenue	60.8	67.0	65.2	66.8	67.1	68.9	69.7	70.4	71.0	71.5	71.8	72.1
Other Revenues	▲ 15.6	22.2	5.4	5.5	5.5	5.6	5.6	5.7	5.7	5.7	5.8	5.8
Difference between Expenditures and Revenues	108.6	57.7	39.6	31.1	33.0	32.3	31.2	31.3	31.2	31.5	32.0	33.0
Primary Balance in General Account of Central Government	▲ 80.4	▲ 31.2	▲ 15.7	▲ 7.9	▲ 9.5	▲ 8.8	▲ 7.7	▲ 7.6	▲ 7.5	▲ 7.7	▲ 8.0	▲ 8.4

【Ordinary Account of Local Government】

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Expenditures	123.9	116.3	98.0	98.8	101.8	102.5	101.1	101.8	102.4	102.8	103.3	103.9
Debt Repayment and Interest Payment	12.0	11.8	11.4	11.8	11.9	11.9	11.8	11.8	11.7	11.3	11.1	11.1
Revenues	109.8	103.9	87.0	88.1	90.8	92.0	91.1	91.5	91.8	92.4	92.9	93.2
Tax Revenue	43.0	44.8	44.7	46.0	47.2	47.6	47.7	48.0	48.4	48.7	49.0	49.2
Difference between Expenditures and Revenues	14.1	12.3	11.0	10.7	11.0	10.6	10.0	10.3	10.6	10.5	10.5	10.7
Primary Balance in Ordinary Account of Local Government	0.8	4.1	2.8	3.5	3.5	3.9	4.5	4.1	3.7	3.5	3.3	2.9

- Notes
1. In "General Account of Central Government", up to FY2020 is based on the Settlement, FY2021 is based on the Settlement Highlight, and FY2022 is based on the Supplementary Budget for FY2022. In "Ordinary Account of Local Government," FY2020 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. In "General Account of Central Government," "Other Revenues" in FY2020 and FY2021 consists of non-tax revenues and preceding fiscal year surplus received (FY2020: around 15.2 trillion yen, FY2021: around 44.7 trillion yen) excluding the balance of fiscal resources carried forward to the next year (FY2020: around 30.8 trillion yen, FY2021: around 22.4 trillion yen).
 4. 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)

Economic Growth Achieved Case

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

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Primary Balance	▲ 50.0	▲ 28.7	▲ 40.6	▲ 10.5	▲ 3.6	0.0	2.4	4.2	5.7	7.4	9.2	10.8
(ratio to nominal GDP)	[▲9.3]	[▲5.3]	[▲7.3]	[▲1.9]	[▲0.6]	[0.0]	[0.4]	[0.6]	[0.8]	[1.1]	[1.3]	[1.5]
Central Government	▲ 50.7	▲ 34.6	▲ 42.3	▲ 12.2	▲ 9.6	▲ 7.7	▲ 6.6	▲ 5.7	▲ 4.9	▲ 4.2	▲ 3.6	▲ 3.4
(ratio to nominal GDP)	[▲9.5]	[▲6.4]	[▲7.6]	[▲2.2]	[▲1.6]	[▲1.3]	[▲1.1]	[▲0.9]	[▲0.7]	[▲0.6]	[▲0.5]	[▲0.5]
Local Government	0.7	5.8	1.7	1.7	6.0	7.7	9.0	9.9	10.5	11.6	12.8	14.1
(ratio to nominal GDP)	[0.1]	[1.1]	[0.3]	[0.3]	[1.0]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]	[1.9]
Fiscal Balance	▲ 56.0	▲ 34.5	▲ 47.1	▲ 14.8	▲ 7.2	▲ 3.0	▲ 0.2	1.7	2.8	3.5	3.9	3.5
(ratio to nominal GDP)	[▲10.5]	[▲6.4]	[▲8.5]	[▲2.6]	[▲1.2]	[▲0.5]	[▲0.0]	[0.3]	[0.4]	[0.5]	[0.5]	[0.5]
Central Government	▲ 55.8	▲ 39.1	▲ 47.6	▲ 15.3	▲ 12.1	▲ 9.7	▲ 8.4	▲ 7.4	▲ 7.1	▲ 7.5	▲ 8.4	▲ 10.0
(ratio to nominal GDP)	[▲10.4]	[▲7.2]	[▲8.6]	[▲2.7]	[▲2.1]	[▲1.6]	[▲1.3]	[▲1.1]	[▲1.1]	[▲1.1]	[▲1.2]	[▲1.4]
Local Government	▲ 0.2	4.6	0.5	0.5	4.9	6.7	8.2	9.1	9.9	11.0	12.2	13.5
(ratio to nominal GDP)	[▲0.0]	[0.8]	[0.1]	[0.1]	[0.8]	[1.1]	[1.3]	[1.4]	[1.5]	[1.6]	[1.7]	[1.8]
Outstanding Debt	1131.5	1175.5	1209.3	1218.6	1226.5	1231.8	1236.1	1239.9	1244.1	1249.5	1256.5	1265.6
(ratio to nominal GDP)	[211.3]	[216.9]	[218.6]	[215.7]	[209.9]	[203.2]	[196.6]	[190.8]	[185.5]	[180.5]	[176.0]	[171.9]

Baseline Case

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
Primary Balance	▲ 50.0	▲ 28.7	▲ 40.6	▲ 10.5	▲ 7.1	▲ 5.7	▲ 3.6	▲ 3.6	▲ 3.7	▲ 4.0	▲ 4.5	▲ 5.0
(ratio to nominal GDP)	[▲9.3]	[▲5.3]	[▲7.3]	[▲1.9]	[▲1.2]	[▲1.0]	[▲0.6]	[▲0.6]	[▲0.6]	[▲0.7]	[▲0.7]	[▲0.8]
Central Government	▲ 50.7	▲ 34.6	▲ 42.3	▲ 12.2	▲ 11.4	▲ 10.6	▲ 9.1	▲ 8.9	▲ 8.8	▲ 8.8	▲ 9.1	▲ 9.5
(ratio to nominal GDP)	[▲9.5]	[▲6.4]	[▲7.6]	[▲2.2]	[▲2.0]	[▲1.8]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.5]	[▲1.6]
Local Government	0.7	5.8	1.7	1.7	4.3	4.9	5.5	5.3	5.0	4.8	4.6	4.5
(ratio to nominal GDP)	[0.1]	[1.1]	[0.3]	[0.3]	[0.8]	[0.8]	[0.9]	[0.9]	[0.8]	[0.8]	[0.8]	[0.7]
Fiscal Balance	▲ 56.0	▲ 34.5	▲ 47.1	▲ 14.8	▲ 10.6	▲ 8.7	▲ 6.2	▲ 5.8	▲ 5.7	▲ 5.7	▲ 6.0	▲ 6.7
(ratio to nominal GDP)	[▲10.5]	[▲6.4]	[▲8.5]	[▲2.6]	[▲1.9]	[▲1.5]	[▲1.0]	[▲1.0]	[▲1.0]	[▲0.9]	[▲1.0]	[▲1.1]
Central Government	▲ 55.8	▲ 39.1	▲ 47.6	▲ 15.3	▲ 13.9	▲ 12.6	▲ 10.8	▲ 10.3	▲ 9.9	▲ 9.7	▲ 9.9	▲ 10.5
(ratio to nominal GDP)	[▲10.4]	[▲7.2]	[▲8.6]	[▲2.7]	[▲2.4]	[▲2.2]	[▲1.8]	[▲1.7]	[▲1.7]	[▲1.6]	[▲1.6]	[▲1.7]
Local Government	▲ 0.2	4.6	0.5	0.5	3.3	3.9	4.6	4.5	4.2	4.0	3.9	3.8
(ratio to nominal GDP)	[▲0.0]	[0.8]	[0.1]	[0.1]	[0.6]	[0.7]	[0.8]	[0.8]	[0.7]	[0.7]	[0.6]	[0.6]
Outstanding Debt	1131.5	1175.5	1209.3	1218.6	1230.4	1240.8	1249.2	1257.6	1266.0	1274.8	1284.2	1294.5
(ratio to nominal GDP)	[211.3]	[216.9]	[218.6]	[215.7]	[215.2]	[213.9]	[212.9]	[212.3]	[211.9]	[211.8]	[212.2]	[212.9]

(Notes)

1. "Consumer Prices" refers to the general index (nationwide).
2. "Balance by Sector" represents "Net lending/net borrowing" in the System of National Accounts (hereinafter "SNA").
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 "Fiscal Balance" and "Primary Balance" 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" is the sum of general bonds, 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.
6. 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 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 which 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.

Appendices: Key Assumptions

The GDP growth rate and inflation rate up to FY2020 are from the “Annual Report on National Accounts for 2020” and those for FY2021 are from the “Quarterly Estimates of GDP for January-March 2022 (Second Preliminary)” while those for FY2022 and FY2023 are from the Cabinet Office’s “Mid-Year Economic Projection for 2022” (July 25, 2022, submitted to the Council on Economic and Fiscal Policy) and others.

(1) Assumptions on Macroeconomy

Economic Growth Achieved Case

a) Total Factor Productivity (TFP) Growth Rate

- The TFP growth rate rises from the current level (around 0.5 %) to around 1.4%, based on the extent and pace the Japanese economy actually experienced before it entered deflation. (Specifically, the TFP growth rate rose around 0.9% in 5 years from FY1982 to FY1987.)

b) Labor Force

<Labor Force Participation (LFP) Rate>

- The LFP rate shifts gradually to FY2030 based on the estimates of labor supply and demand for the “case in which economic growth and labor participation are achieved” shown by the “Labor Policy Study Group” (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 81% in FY2021 to 91% in FY2031, the LFP rate among males aged 65-69 gradually rises from around 63% in FY2021 to 68% in FY2031, and the LFP rate among females aged 65-69 gradually rises from around 42% in FY2021 to 49% in FY2031).

<Foreign Workers>

- Based on the “Population Projection for Japan” by the National Institute of Population and Social Security Research, the non-Japanese population will increase (from 2.7 million in 2021 to 3.4 million in 2031). In addition, in accordance with the “Expected Number of Acceptance” shown in the “Basic Policy on Operation of the System Related to the Status of Residence of the Specified Skilled Worker” (Cabinet Decision, December 25, 2018), the labor force increases with an expansion of acceptance of foreign workers of around 345 thousand persons.

c) World Economy

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

- The growth rate moves at around 3.2% to 3.3% annually from FY2024 to FY2027, based on the “World Economic Outlook” (WEO) by the IMF (April 2022). From FY2028 onward, the growth rate remains constant at around 3.2%.

<Inflation Rate (considering the export shares from Japan [10 major destination countries])>

- The inflation rate moves at around 2.1% to 2.3% annually from FY2024 to FY2027, based on the WEO (April 2022). From FY2028 onward, the inflation rate remains constant at around 2.1%.

<Crude Oil Prices>

- Based on the assumption of “Commodity Markets Outlook” by the World Bank (April 2022) and the Cabinet Office’s “Mid-Year Economic Projection for 2022”(July 2022), the crude oil price increase rate is -24.0% in FY2024 and constant at that level thereafter.

Baseline Case

Differences from the above “Economic Growth Achieved Case” are as follows:

a) TFP Growth Rate

- The TFP growth rate stays around 0.6 %. (Average from November 2012 to May 2020. (the 16th business cycle.))

b) Labor Force

<Labor Force Participation (LFP) Rate>

- Based on the estimates of labor supply and demand for the “case in which economic growth and labor participation are partly achieved” shown by the “Labor Policy Study Group” (January 15, 2019) (for example, the LFP rate among females aged 25-44 gradually rises from around 81% in FY2021 to 90% in FY2031, the LFP rate among males aged 65-69 remains generally flat at around 63% from FY2021 to FY 2031, and the LFP rate among females aged 65-69 gradually rises from around 42% in FY2021 to 45% in FY2031).

c) World Economy

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

- The growth rate moves at around 2.4% to 2.5% annually from FY2024, which is about 0.8 percentage points* lower than the rate based on the WEO (April 2022) (around 3.2% to 3.3%).

* The 50% confidence interval of the projection in the WEO is taken into account.

(2) Tax System

- Tax revenues of the general account of the central government in FY2020 are based on the “FY2020 Settlement,” those in FY2021 are based on the “FY2021 Settlement Highlight” and those in FY2022 are based on the “FY2022 Budget.”
- Based on the “FY2022 Tax Reform” (Cabinet Decision, December 24, 2021) and other sources, the legislated tax system is assumed to continue.
- 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.

(3) Expenditures

- The expenditures of the general account of the central government in FY2020 are based on the “FY2020 Settlement,” those in FY2021 are based on the “FY2021 Settlement Highlight” and those in FY2022 are based on the “Supplementary Budget for FY2022.”
- Expenditures in FY2023 are calculated by taking changes in prices and wages, efforts for increasing spending efficiency and other factors into consideration, with an assumption that the expenditure growth excluding the increase due to population aging and other factors will consequently be curbed by about half of what it would be if the efforts for increasing spending efficiency carried out thus far are continued. In addition, public fixed capital formation in FY2023 is assumed to be the average amount in the most recent five years at the nominal level based on the Cabinet Office’s “Mid-Year Economic Projection.”
- In addition, the baseline case mechanically assumes an additional expenditure of about 2 trillion yen per year from the central and local governments in FY2024 and FY2025 respectively.
- From FY2024 onward, it is assumed that social security expenditures will increase reflecting the population aging, price and wage developments, while other general expenditures will continue to increase at about the same rate as the inflation rate (constant in real terms).

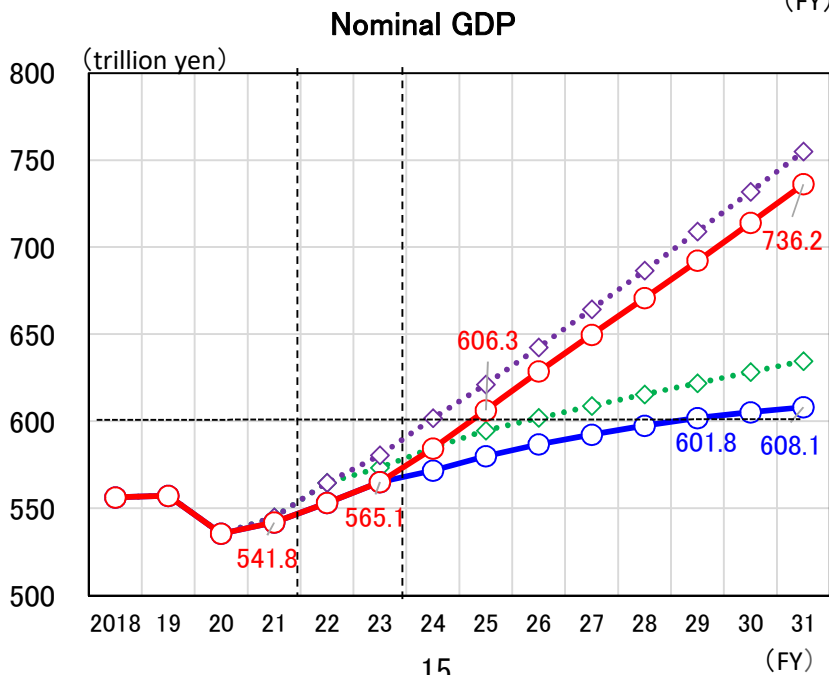
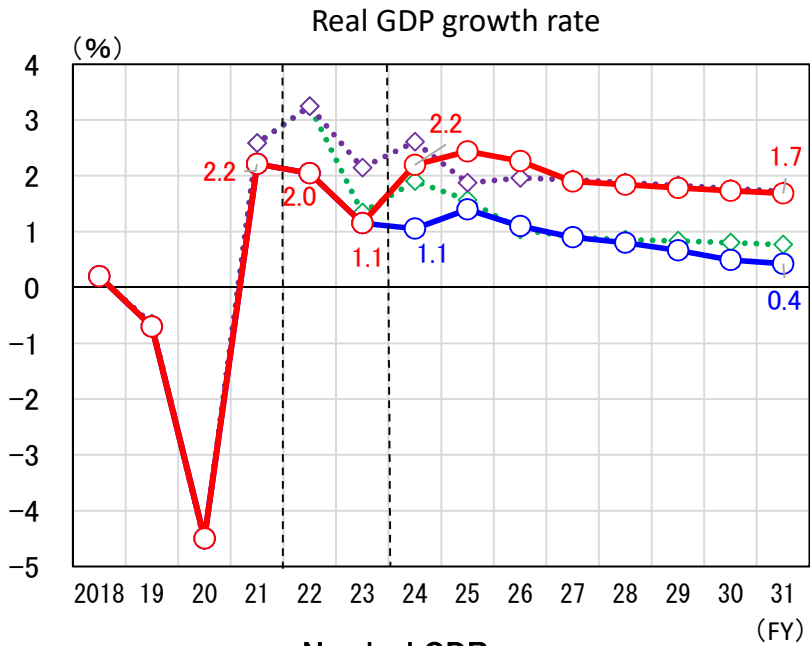
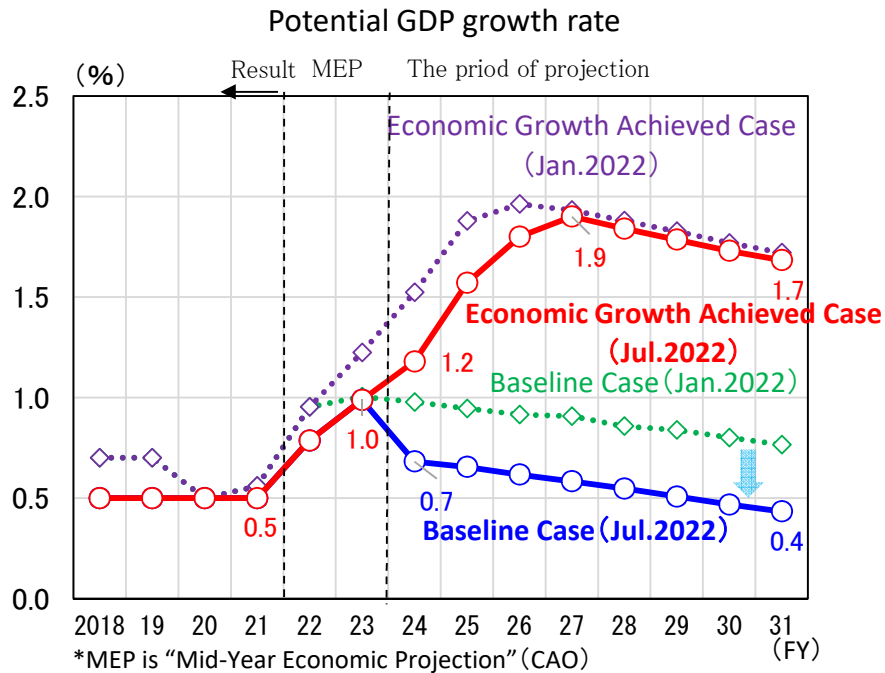
- Social security expenditures reflects the “Act to Partially Amend the Health Insurance Act and Others to Build Social Security System Oriented to All Generations” (Act Number 66, 2021) and the “Act to Partially Amend the National Pension Act and Others to Enhance National Pension System” (Act Number 40, 2020).
- 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.
- Other expenditure increases (e.g., defense force enhancements included in the “Basic Policy on Economic and Fiscal Management and Reform 2022” (Cabinet Decision, June 7, 2022)) are not reflected.

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

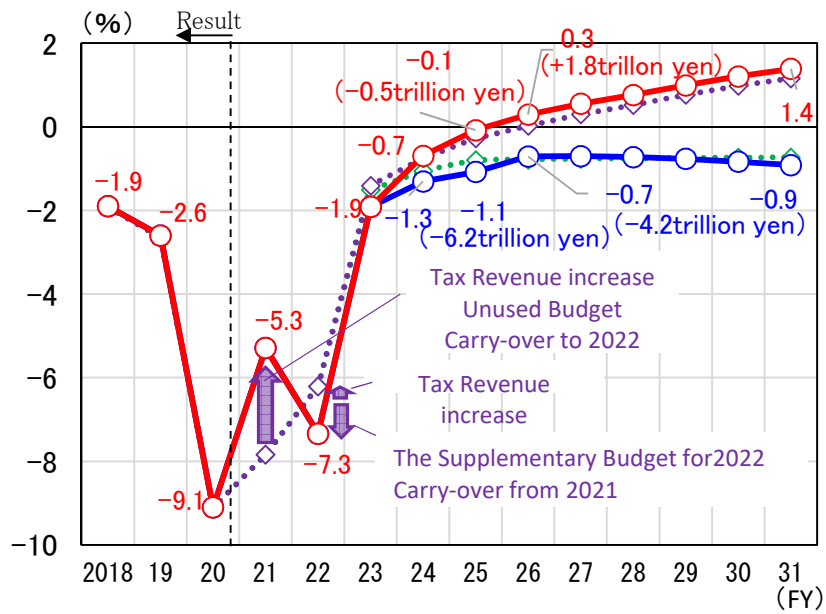
- Expenditures are assumed at around 31.3 trillion yen until FY2020 and around 1.6 trillion yen in five years from FY2021, based on the “Recovery and Reconstruction Work for the Five-Year Period Starting in FY2016” (Reconstruction Promotion Conference Decision, June 24, 2015), the “Scale and Funding 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 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 the “Basic Guideline for Accelerating the Reconstruction of Fukushima from the Nuclear Disaster” (Cabinet Decision, December 20, 2016), and the pattern of expenditure and revenue is assumed based on the progress of implementation and payment to date.

Appendices

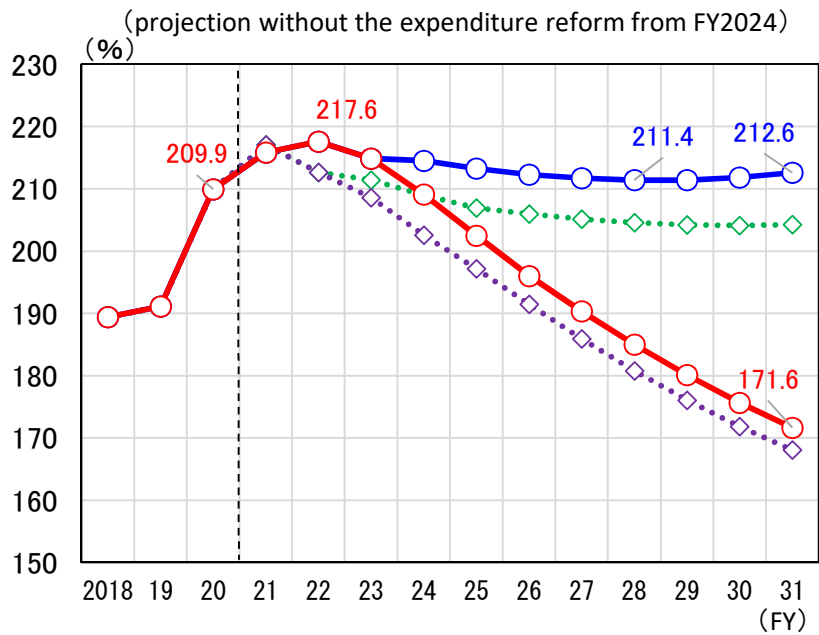
(Appendix 1) Comparison with previous



Primary Balance of Central and Local Governments Combined (Ratio to Nominal GDP)
 (projection without the expenditure reform from FY2024)

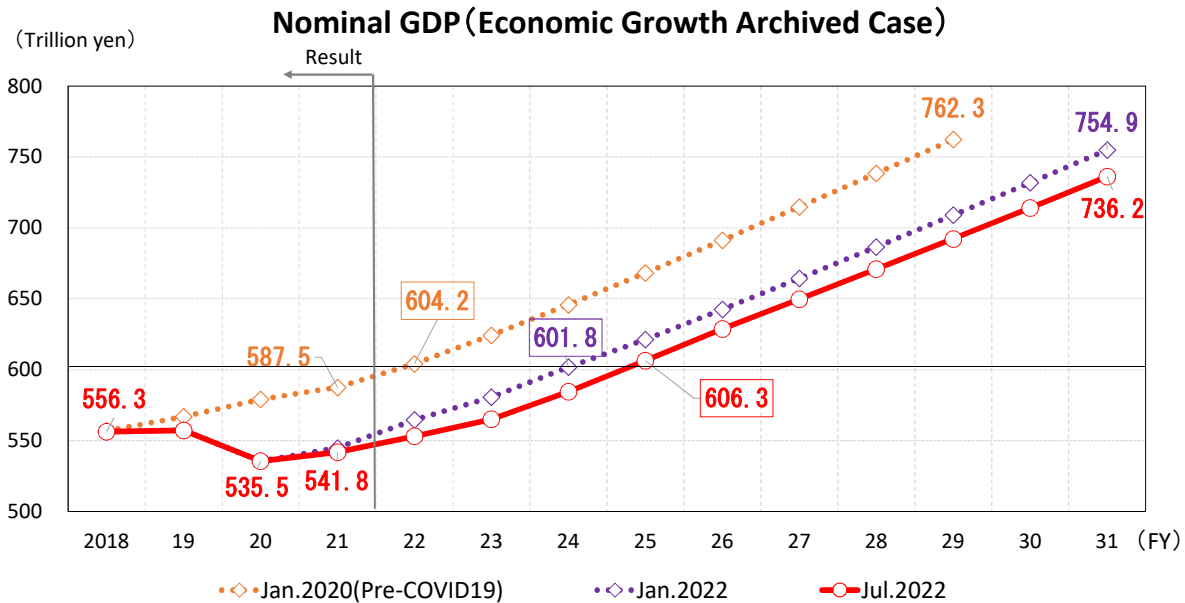


Outstanding debt (Ratio to Nominal GDP)



(Appendix 2) Comparison with projection before COVID-19

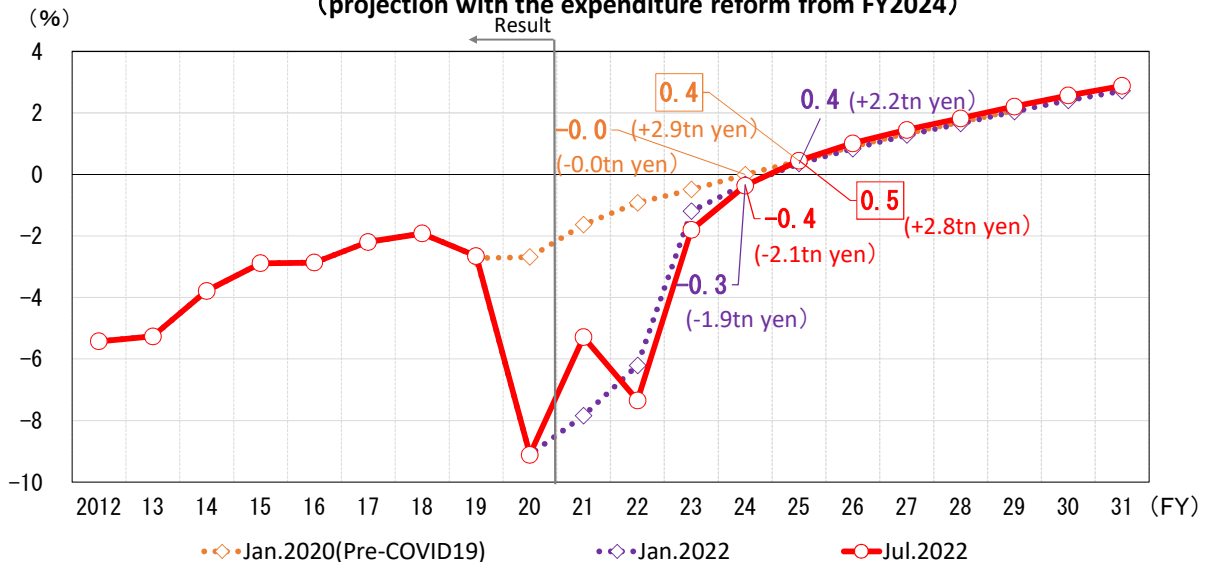
○ Macroeconomic Projection



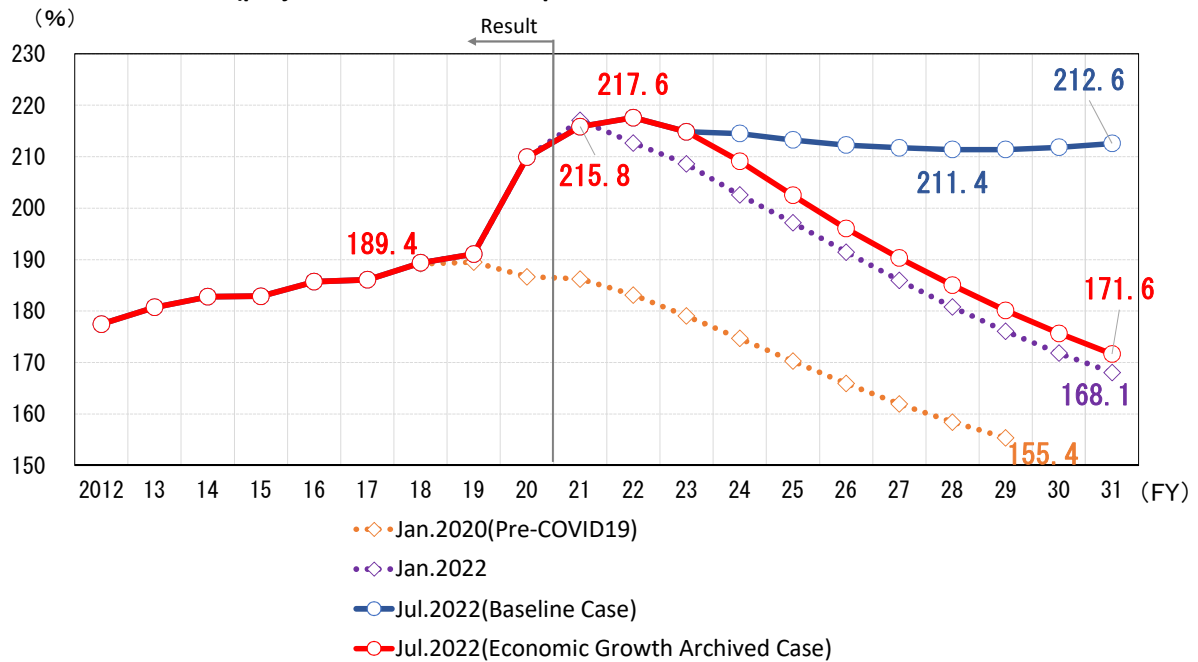
(Remarks) Compiled from "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 2020, January 2022, and July 2022). Nominal GDP in the Jan. 2020 projection is adjusted for the impact of the Dec. 2020 revision of the Nominal GDP level in the System of National Accounts.

○ Fiscal Projection

Primary Balance of Central and Local Governments Combined (Ratio to Nominal GDP)
 (Economic Growth Achieved Case)
 (projection with the expenditure reform from FY2024)



Outstanding Debt (Ratio to Nominal GDP) (projection without the expenditure reform from FY2024)

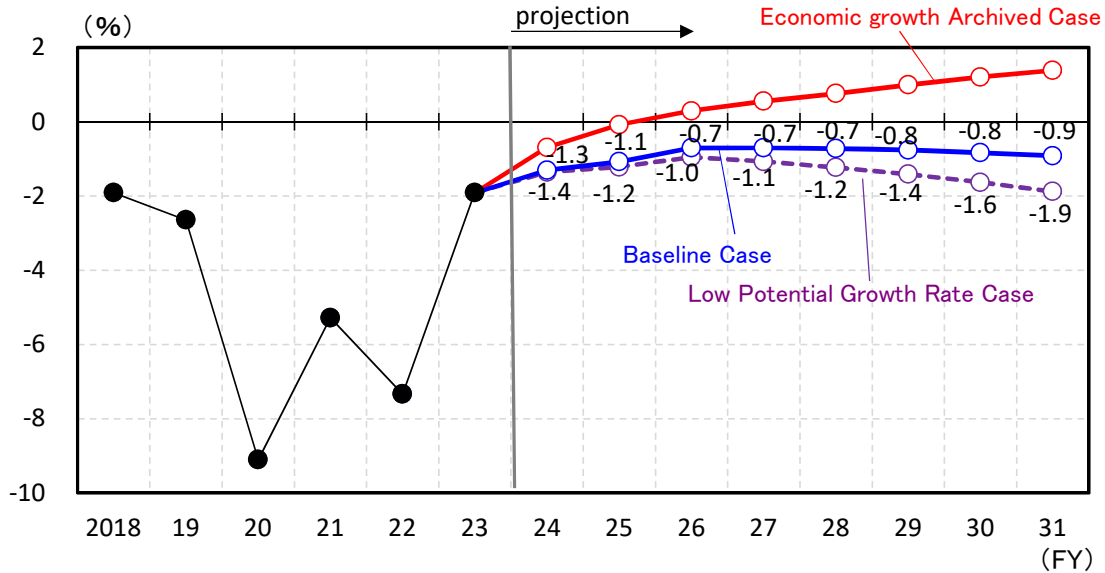


(Remarks)

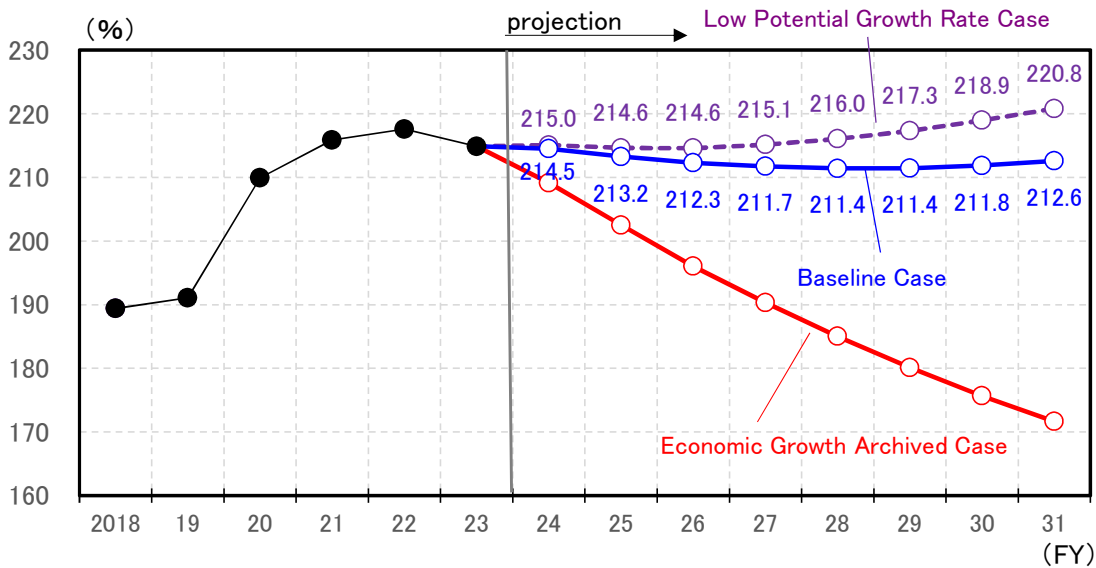
1. Compiled from "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 2020, January 2022, and July 2022). Nominal GDP in the Jan. 2020 projection is adjusted for the impact of the Dec.2020 revision of the Nominal GDP level in the System of National Accounts.
2. The effect on improvement in the primary balance(PB) by efforts for increasing spending efficiency is assumed to be about 1.3 trillion yen per year when the impact on the economy is taken into consideration. The PB projection with the expenditure reform is based on the assumption that an additional PB improvement of about 1.3 trillion yen per year would occur in the fiscal years following the budget year. However, this projection reflects in advance about half of that PB improvement in FY2023. Therefore, the range of the PB improvement with the expenditure reform would be about 3.3 trillion yen in FY2025 (1.3 trillion yen times 2.5 years).

(Appendix3) Analysis of sensitivity to economic fluctuations

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



Outstanding Debt (Ratio to Nominal GDP)



(%)、[ratio to GDP, %], Trillions of yen

Fiscal Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Potential Growth Rate	(0.5)	(0.5)	(0.8)	(1.0)	(0.2)	(0.1)	(0.0)	(▲0.0)	(▲0.1)	(▲0.2)	(▲0.3)	(▲0.4)
Nominal GDP	535.5	541.8	553.1	565.1	570.1	576.3	580.6	583.6	585.5	586.8	587.0	586.7
Primary Balance of Central and Local Governments Combined (Ratio to Nominal GDP)	[▲9.1]	[▲5.3]	[▲7.3]	[▲1.9]	[▲1.4]	[▲1.2]	[▲1.0]	[▲1.1]	[▲1.2]	[▲1.4]	[▲1.6]	[▲1.9]
Outstanding Debt (Ratio to Nominal GDP)	[209.9]	[215.8]	[217.6]	[214.8]	[215.0]	[214.6]	[214.6]	[215.1]	[216.0]	[217.3]	[218.9]	[220.8]

(Remarks)

1. This sensitivity analysis is based on the multiplier table in "Economic and Fiscal Model (FY 2018 version) "
2. The low potential growth rate case refers to a case in which TFP growth rate is 0.5 percentage points lower than the baseline case continuously during the projection period (after FY2024) under conditions in which other exogenous variables remain unchanged.