Provisional Translation

Economic and Fiscal Projections for Medium to Long Term Analysis

(Submitted to the Council on Economic and Fiscal Policy on January 17th, 2025)

Cabinet Office

Index

1. Introduction

This projection is submitted to the Council on Economic and Fiscal Policy (CEFP) 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 Fiscal 2025 Economic Outlook[2] up to FY2025. For FY2026 onwards, we project 3 scenarios: the first is the "Projection of Past Trend (PP) Case," where the Total Factor Productivity (TFP)[3] growth rate is assumed to remain at the same level as the average of the most recent business cycle; the second is "Transferring to a New Economic Stage (TN) Case," where the TFP growth rate is assumed to increase to the average of the past 40 years; and the third is the "Higher Economic Growth (HG) Case,"[4] in which the TFP growth rate is assumed to increase to the average of the period prior to the deflationary situation. The key assumptions[5] are outlined as follows.

Key assumptions for each scenario

	TFP Growth Rate (0.5% in FY2023)	Labor Participation Rate[6] (62.9% in FY2023)
PP Case	Around 0.5%, the average of the most recent business cycle[7]	Rising to some extent, especially among women and the elderly (65.1% in FY2034)
TN Case	Reaching around 1.1%, the average of the past 40 years[8]	Higher than the PP case, especially among women and the elderly (66.3% in FY2034)
HG Case	Reaching around 1.4%, the average for the period before the economy entered the deflationary situation[9]	Same as above

1 Considerable leeway should be given when interpreting the projections due to the various uncertainties involved. The "Economic and Fiscal Model (FY2018 version)" is available on the Cabinet Office website.
2 "Fiscal 2025 Economic Outlook and Basic Stance for Economic and Fiscal Management" (December 25th, 2024, approved by the Cabinet).
3 TFP represents the increase in value added that is not attributable to an increase in capital and labor, and includes the reflection of technological progress, improved worker skills, and more efficient allocation of resources.
4 Each of the figures in the HG Case is calculated using key multiplier tables from the "Economic and Fiscal Model (FY2018 version)." See Appendix 1 for detailed methods of calculations.
5 See Appendix 1 for detailed assumptions.
6 The PP Case refers to "Baseline Growth Rate and Gradual Labour Participation Scenario" of the JILPT's "Projection of Labour Supply and Demand 2023," and the TN Case and the HG Case refers to "Achieving Growth and Advancing Labour Participation Scenario."
7 The 16th business cycle (October-December 2012 to April-June 2020).
8 Average from the past to the 16th business cycle (April-June 1980 to April-June 2020).
9 Average from the past to the 12th business cycle (April-June 1980 to January-March 1999).

(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 at an accelerating pace due to the declining birthrate and ageing population,[10] the economic growth is expected to decline in the absence of changes in the economic structure and higher productivity growth than before.

In the PP Case, where TFP growth rate is the same 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. On the other hand, labor input, which is assumed to increase to some extent, will intensify its negative contribution due to the decline in the working-age population. Overall, the potential growth rate is projected to remain in the mid-0% range over the medium- to long-term.

In contrast, in the TN Case and the HG Case, where TFP will increase to around 1.1%[11] (TN Case: average TFP growth rate over the past 40 years) and to around 1.4% (HG Case: average TFP growth rate before entering the deflationary situation), respectively, over the next three years through stimulation of innovation, higher production efficiency, and so forth, driven by government's promotions of medium- to long-term planned investment in priority domains, such as minimum wage growth[12], human capital, Green Transformation (GX), Digital Transformation (DX), and Science, Technology and Innovation under public-private partnership. Under this assumption, the higher rate of TFP growth and the improved earnings environment for firms foster capital investments, resulting in a higher contribution of endogenously calculated capital input. This result is consistent with the expectation that private capital formation will increase driven by the promotion of various investments. With regard to labor input, it is assumed that labor demand will increase in response to the economic growth, and the labor participation ― especially among women and the elderly― will be higher than in the PP Case due to the factors such as the increase in the wage including the minimum wage and the promotion of diverse work styles. 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 rates are projected to be around mid-1% to 2% in the medium- to long-term.

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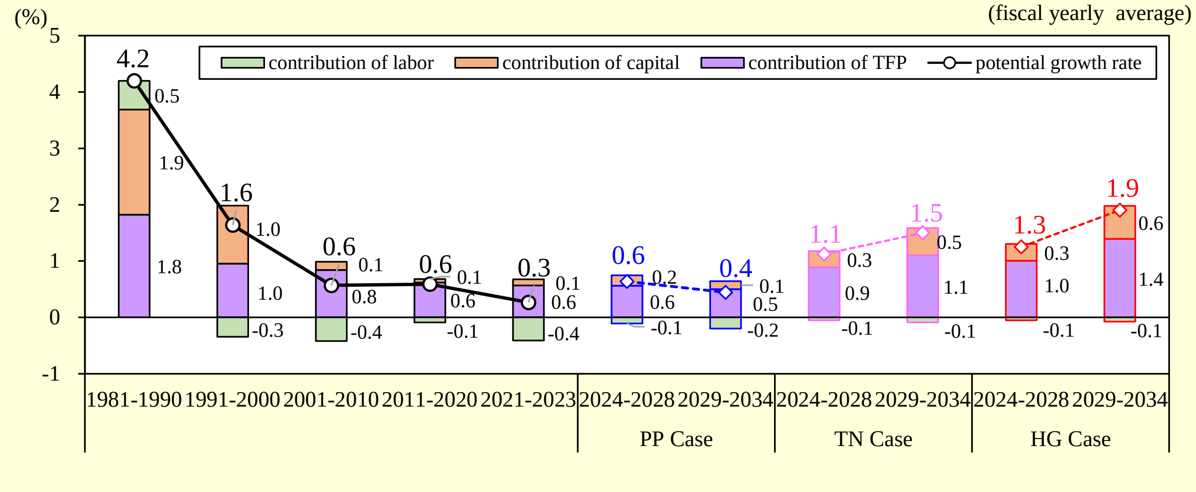
[10] According to the National Institute of Population and Social Security Research's "Population Projections for Japan" (estimated in 2023) with the births (deaths) median estimates, the average change during 2031 and 2035 in the total population is about -0.6%, while that in the working-age population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

[11] The 'BOX 1' in our previous projection report (July 2024) summarized the impacts of the governments' policy implementations on the TFP growth rate, based on some examples of prior research. More specifically, investments in human capital, Science, Technology, and Innovation, start-up promotion, and inward direct investment are estimated to raise the TFP growth rate by around 0.1-0.3%pt, 0.2%pt, 0.0-0.2%pt, and 0.1%pt, respectively. By adding these impacts to the assumed TFP growth rate for the PP Case (about 0.5%), the TFP growth rate can reach around 1.1%, which aligns with its assumption for the TN Case. And it is equivalent to the average rate for the US in the 2024-34 period (nonfarm private sector) by the Congressional Budget Office (CBO).

[12] The government has indicated that it will make continuous effort to raise the national average of minimum wage to 1,500 yen by the end of 2020s.

Figure 1. Decomposition of Potential Growth Rate



(2) Economic growth rate and wage growth rate

The real GDP growth rate averaged around 0.9% with fluctuations 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 (3.0%) in FY2021. In FY2022, growth was 1.4%, followed by 0.7% in FY2023. As for the nominal growth, it averaged around 1% with fluctuations in FY2013-2019. Affected by inflation in recent years, it has recorded higher rates, reaching 4.9% in FY2023 for the first time since FY1991.

According to the Fiscal 2025 Economic Outlook, GDP growth in FY2024 is expected to be around 0.4% in real terms and 2.9% in nominal terms, supported by solid domestic demand but offset by the negative contribution of net exports, due to the deceleration of exports and the expansion of service imports. In FY2025, the growth is expected to continue, at around 1.2% in real terms and 2.7% in nominal terms, supported by the expansion of domestic demand including private consumption, with the progress of disinflation.

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 PP Case, around mid-1% in the TN Case, around 2% in the HG Case). Similarly, in the medium- to long-term, nominal GDP growth is projected to be in the upper-0% range in the PP Case, around upper-2% in the TN Case and around 3% in the HG Case.

Under these growth rates, nominal GDP in the final year of the projection (FY2034) is projected to reach around 680 trillion yen in the PP Case, around 810 trillion yen in the TN Case, and around 830 trillion yen in the HG Case.[13]

[13] If the nominal GDP is mechanically extended using the nominal growth rate in the final year of the estimation (FY2034), nominal GDP will exceed 1,000 trillion yen in FY2042 in the TN Case and in FY2040 in the HG Case.

Figure 2. Growth Rate of Real GDP

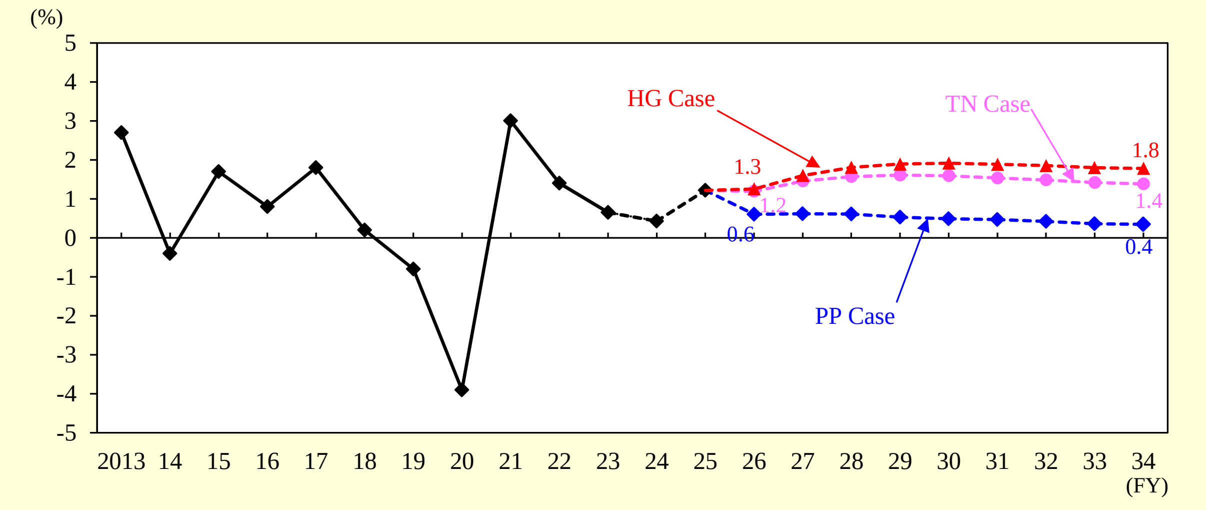
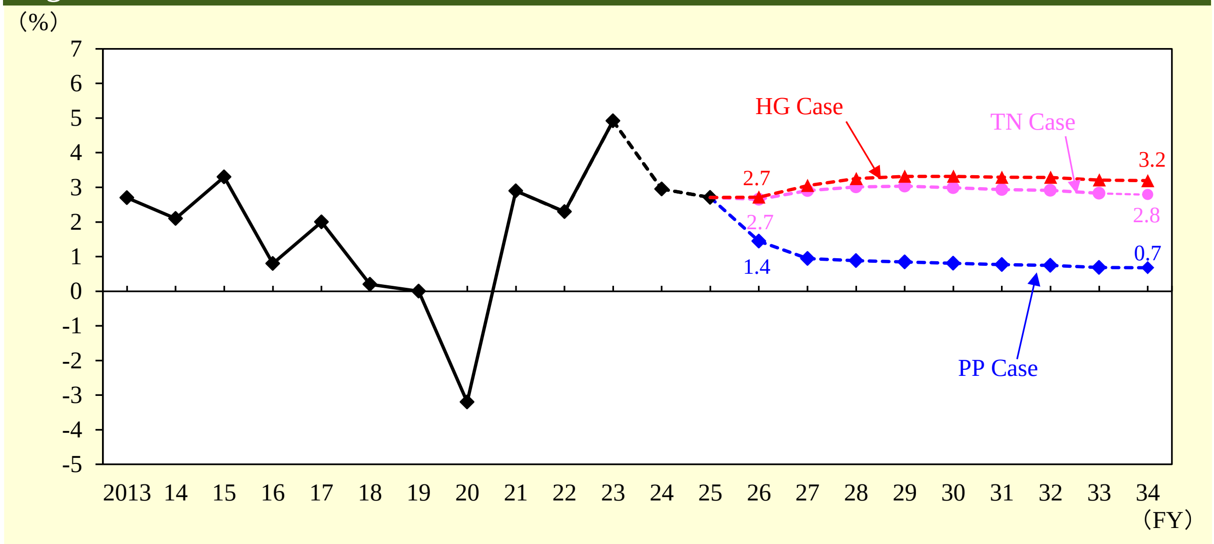
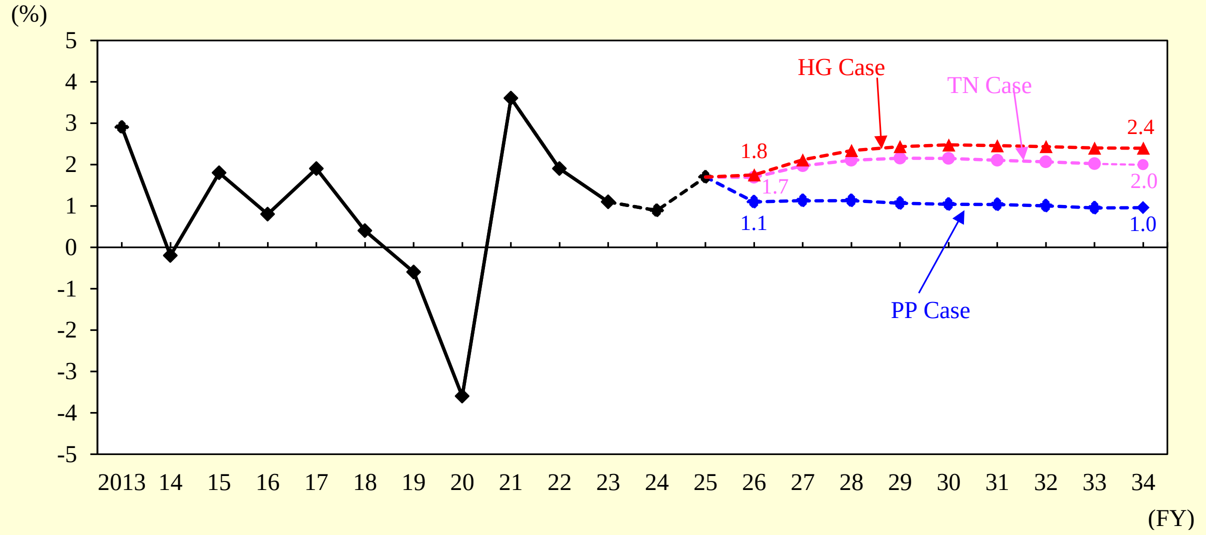


Figure 3. Growth Rate of Nominal GDP



It is also important to consider real GDP per capita growth from the perspective of people's standard of living and productivity, given the prospect of intensifying population decline 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 PP Case, around 2% in the TN Case, and mid-2% in the HG Case.

Figure 4. Growth Rate of Per Capita Real GDP



The rate of nominal wage growth[14] is important when it comes to examining the distributional aspects, such as whether the wage successfully increases in line with the economic growth. Since FY2013, the wage growth rate had been suppressed partially due to the increase in the ratio of non-regular employees amid the improvement in the labor participation of women and the elderly. However, factors such as the tightening labor market have pushed it up[15], resulting in its average growth of approximately 0.7% in FY2013-2023. In FY2024, the wage growth rate is expected to be around 2.8% as the spring wage negotiation ("Shunto") resulted in the highest level of wage increase in the last 33 years, leading to a 2.8% growth in FY2025.

Subsequently, in the PP 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 TN Case and HG Case, the wage growth rate in the medium- to long-term is projected to be around 3% to mid-3%, reflecting the higher labor productivity and price inflation fostered by capital formation and demand increase under stronger economic growth, respectively.

With regard to the real wage growth, calculated by subtracting the Consumer Price Index (CPI) growth rate (discussed later) from the wage growth rate, it is around 0% over the medium- to long-term in the PP Case. In contrast, in the TN Case and HG Case, the real wage growth is around 1% to mid-1%, as the nominal wage growth rate is higher than the CPI growth rate.

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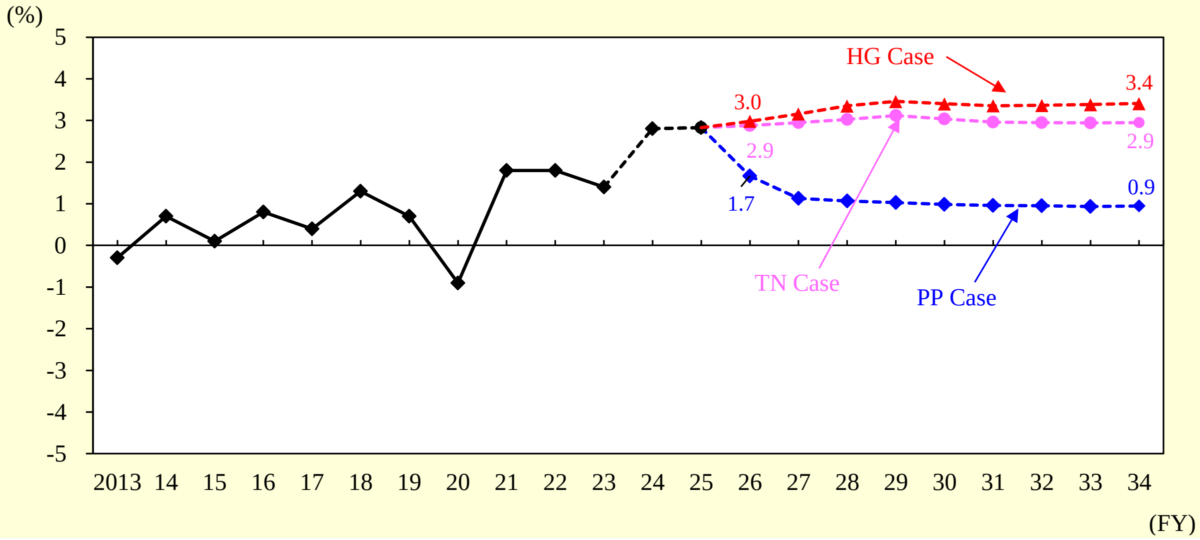
[14] Wage growth per employee (nominal).

[15] See Cabinet Office's "Annual Report on the Japanese Economy and Public Finance 2023", Chapter 2, Section 1.

Figure 5. Growth Rate of Nominal Wage



(3) CPI growth rate and long-term interest rate

Since the end of 2013, amid a non-deflationary situation, the CPI growth rate averaged around 0.8%[16] in FY2013-2019. In FY2020 and FY2021, when the COVID-19 spread, the CPI growth rates were -0.2% and 0.1%, respectively. Due to price increases, mainly in energy and food products, the rate surged to 3.2% in FY2022, followed by 3.0% in FY2023. According to the Fiscal 2025 Economic Outlook, it is expected to be around 2.5% in FY2024 and around 2.0% in FY2025.

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

In the TN Case and HG Case, the CPI growth rate is projected to stay around 2% over the medium- to long-term as the potential growth rate and the wage growth rate increase after FY2026. The nominal long-term interest rate is projected to rise to 3% to mid-3% range in the medium- to long-term in line with economic growth.

[16] The series of Consumer Price Index excluding the impact of the consumption tax rate hike is around 0.5% (the Ministry of Internal Affairs and Communication).

Figure 6. Growth Rate of CPI

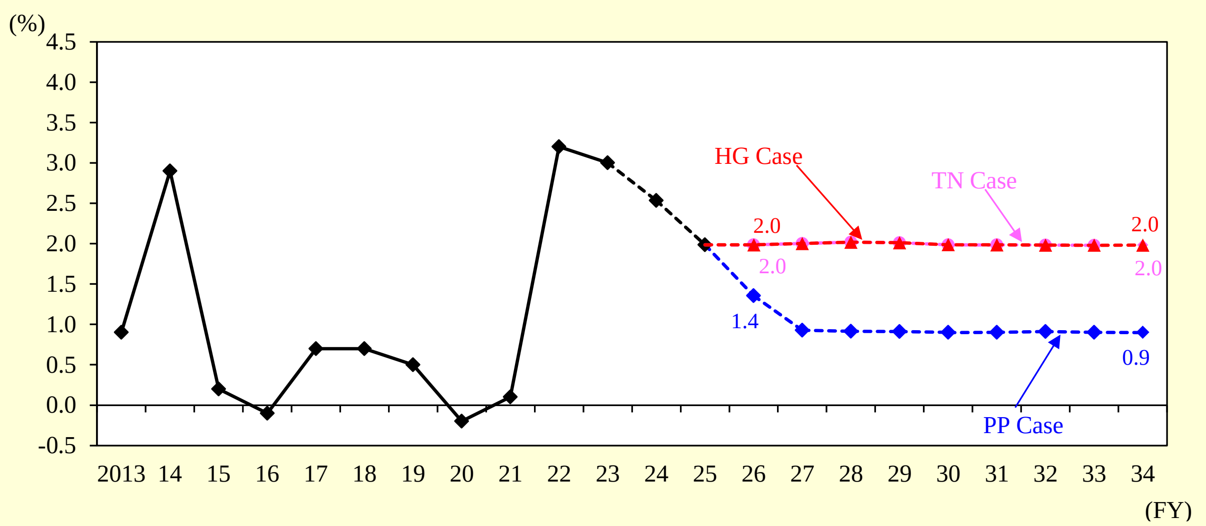
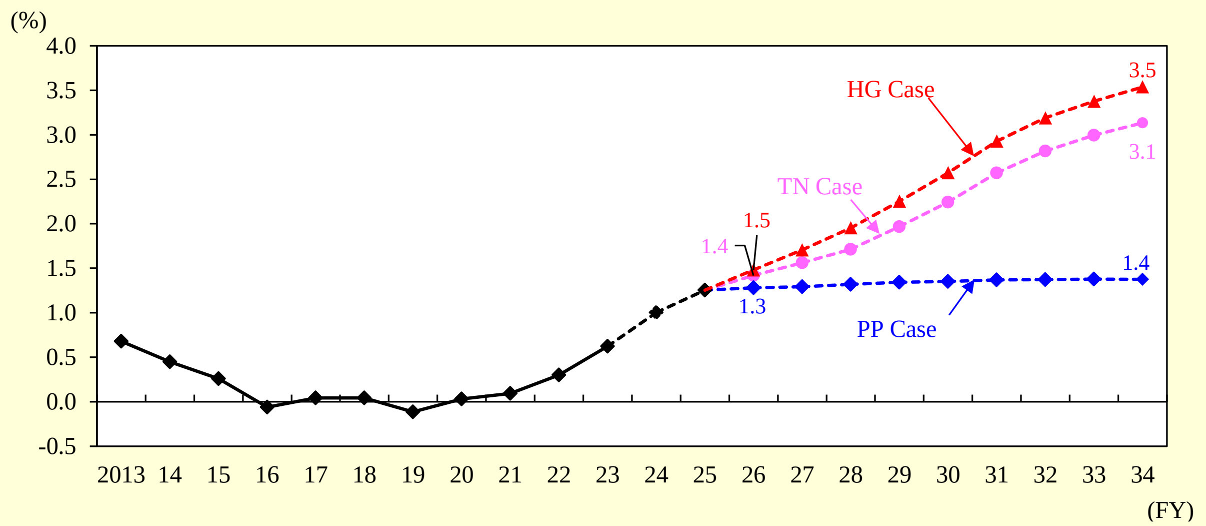


Figure 7. Nominal Long -term Interest Rate



3. Medium- to long-term fiscal projection

On the fiscal side, the projections are consistent with economic scenarios, reflecting the FY2025 Draft Budget and others.[17] With regard to expenditures, social security expenditures are assumed to increase, reflecting factors such as the population ageing and the rate of price and wage increases, while other general expenditures are assumed to increase at the rate of price increases. In addition, the defense capacity buildup —whose specific sizes are already determined over multiple years—, national resilience measures —which have already been legislated to design the Mid-term Plan for the Implementation of National Resilience—, and others are reflected.[18] As for revenues, tax revenues and other revenues are assumed to increase in line with the macroeconomic variables. In this section, the results of the PP Case and the TN Case are described from the perspective of focusing on fiscal sustainability. In the HG Case, the ratio of the primary balance (PB) to GDP of central and local governments is higher than in the TN Case and that of the outstanding debt is lower than in the TN Case.

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

Despite the increase in expenditure due to the population ageing, supplementary budgets and other factors, the ratio of primary balance (PB)[19] to GDP of the central and local governments has steadily improved until the COVID-19 pandemic (around -1.9% in FY2018),[20] as a result of the promotion of the expenditure reforms in the initial budgets, increase in revenues in response to the economic growth and the consumption tax rate hikes, and other factors. Subsequently, due to the increase in expenditures (that mostly contribute to supporting the economy) associated with the successive economic stimulus packages against the spread of COVID-19, and against the increase in oil prices and other prices, etc., the PB-to-GDP ratio became around -9.1% in FY2020, -5.5% in FY2021, -3.6% in FY2022, and -2.1% in FY2023. In FY2024 and FY2025, there are increases in the expenditure based on the economic stimulus packages that include policies to respond to the rising prices and to raise wage and income. Based on this, the PB-to-GDP ratio is projected to continue to be negative, around -2.9% in FY2024 and -0.7% in FY2025.[21]

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17 See Appendix 1 for detailed assumptions.

18 “Defense Buildup Program” and “Children's Future Strategy” are reflected in this projection. The Mid-term Plan for the Implementation of National Resilience is mechanically incorporated into this projection under certain assumptions. The other additional expenditures which cannot be concretely assumed are not incorporated.

19 The primary balance (PB) is an indicator of the extent to which 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 the PB, excluding expenditures and fiscal resources for the recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support measures.

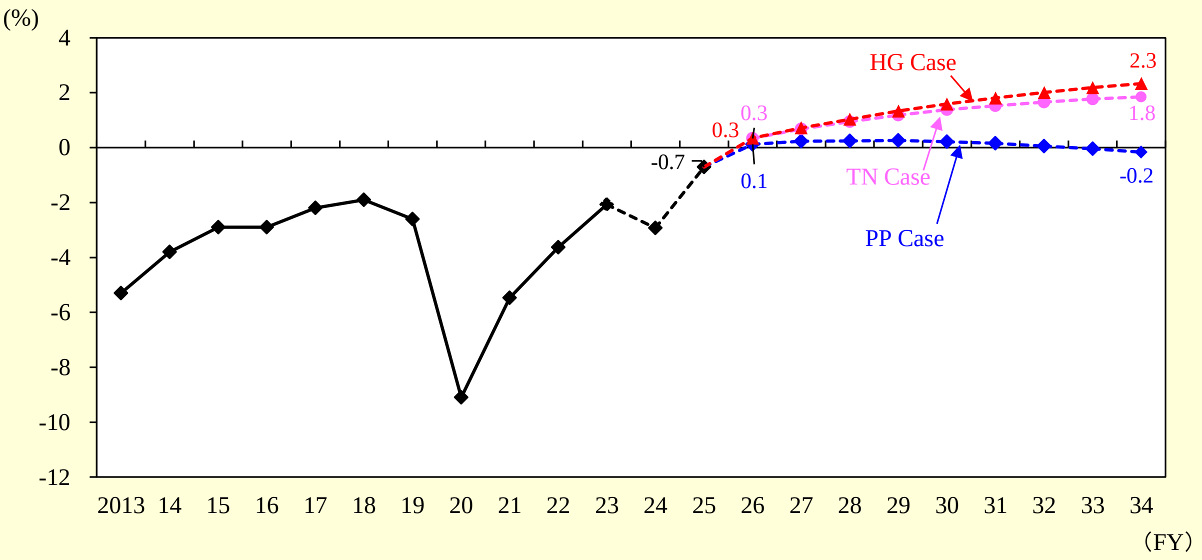
20 As for information on past financial conditions, including the period of the COVID-19 pandemic, see Cabinet Office’s “Annual Report on the Japanese Economy and Public Finance 2022”, Chapter 1, Section 3.

21 The effect on improvement in the PB by efforts for expenditure efficiency by FY2024 is calculated to be around 1.3 trillion yen per year when the impact on the economy is taken into consideration, based on the materials submitted by committee of the integrated economic and fiscal reforms to the CEFP (April 2, 2024). The analysis on the revision of the PB in FY2025 since our last projection (July 2024) is shown in the BOX.

In the PP Case, after the ratio is projected to be positive (0.1%) in FY2026, the surplus is projected to gradually deteriorate, resulting in negative in the last few years in the projection period. This is because the increase in revenue, which grows in line with nominal GDP growth, is projected to be less than the increase in expenditures, which grow in line with the population ageing, price and wage factors, etc.[22] The ratio of fiscal balance to GDP of central and local governments is projected to remain deficit throughout the projection period as interest expenses gradually increase with rising interest rates.

In the TN Case, the PB-to-GDP ratio of central and local governments continue to improve over the projection period. This is because the increase in revenue, which grows in line with nominal GDP growth, is projected to exceed the increase in expenditures, which grows in line with the population ageing, price and wage factors, etc.[23] The fiscal balance-to-GDP ratio of central and local governments is projected to remain in slight deficit throughout the projection period, as 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)**



[22] See BOX.
[23] See BOX.

(2) Outstanding debt of central and local governments

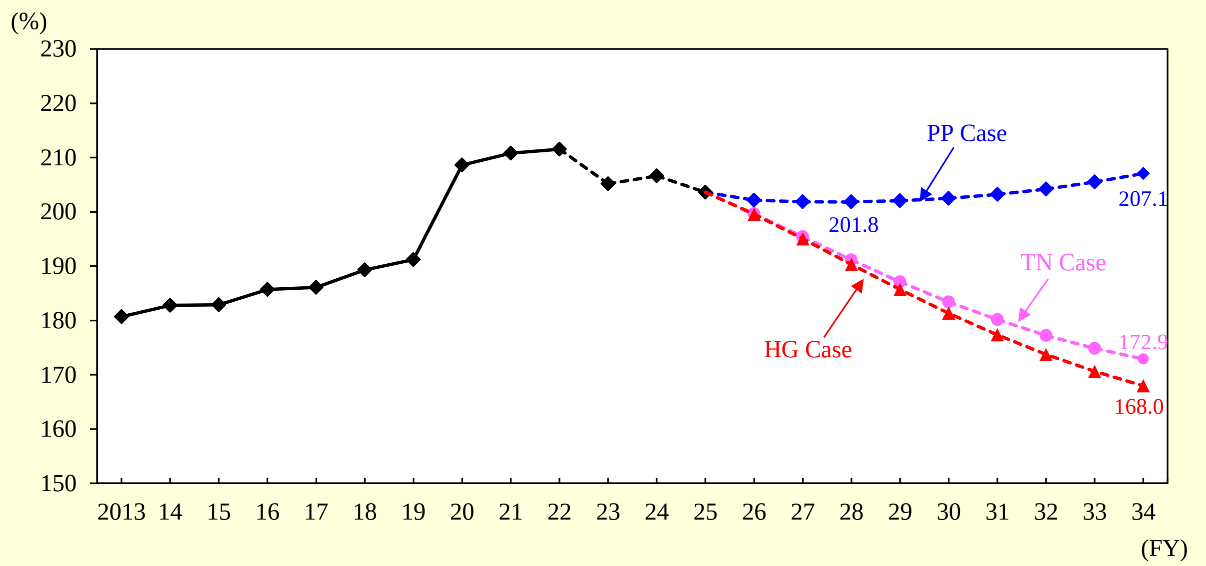
The ratio of outstanding debt to GDP of central and local governments had been on an upward trend in the 2000s reflecting the PB deficits and sluggish nominal GDP growth, and surged during the Great Recession. Since FY2013, the pace of the increase had moderated as the PB-to-GDP ratio improved and nominal GDP expanded. However, due to the impact of the COVID-19 pandemic and the implementation of a supplementary budget to address it, the ratio soared again, reaching around 211.5% in FY2022. In FY2023, the rate turned down to around 205.2%, mainly due to the expansion of nominal GDP. For the time being, it is expected to be on a downward trend to around 206.6% in FY2024, and 203.6% in FY2025.

Then, in the PP Case, the ratio is projected to reverse its downward trend in the latter half of 2020s, as the amount of outstanding debt, the numerator, is projected to increase due to the deterioration of PB, while the nominal GDP, the denominator, is projected to grow only modestly.

In the TN Case, the ratio steadily declines over the projection period, as the increase in the amount of outstanding debt, the numerator, is projected to slow down as a result of the improvement in PB, while the nominal GDP, the denominator, is projected to expand.

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 9. Outstanding Debt of Central and Local Governments Combined (Ratio toNominal GDP)

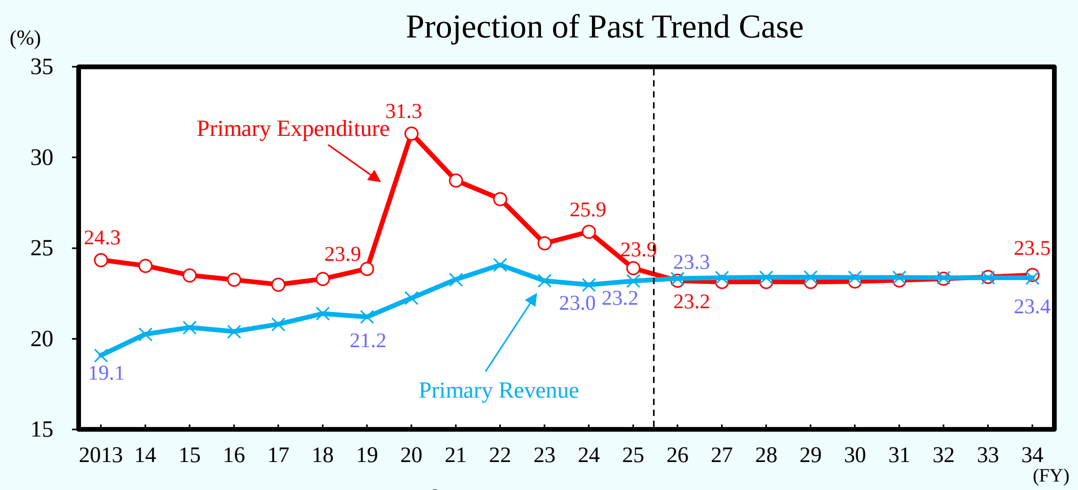


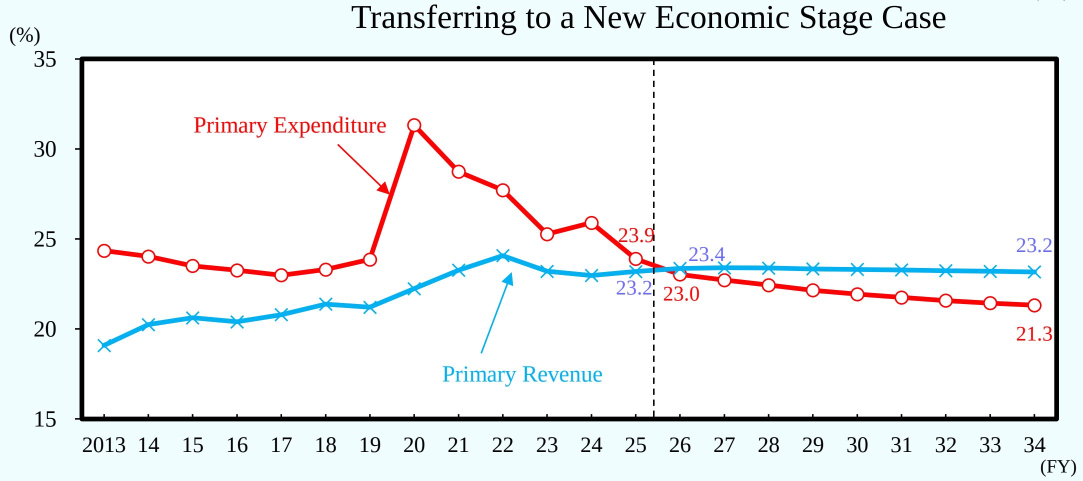
<BOX> Analysis of the PB movements

Since the PB is derived from subtracting primary expenditure from primary revenue, the 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 tended to decline, resulting in the gradual improvement in the PB. From FY2020 to FY2023, although the revenue continued to increase, the expenditures increased significantly due to the large-scale economic measures to tackle the COVID-19 pandemic and oil and price inflation, which contributed to the deterioration of the PB in these periods. In FY2024, the expenditure is projected to increase due to the implementations of economic stimulus package aimed at addressing rising prices and promoting wage and income growth.

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





(Notes) 1. The classification is based on IMF's Government Finance Statistics Manual 2014.
2. The primary revenue is "revenue" minus "interest income." The primary expenditure is "expenditure" minus "interest payment."
3. Excluding expenditures and fiscal resources for recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support measures.
4. These primary revenue and expenditure remove transfers between central and local governments.

The PB of the central and local governments in FY2025 is projected be around -4.5 trillion yen (around -0.7% of GDP) due to the economic stimulus package and other factors. Compared with the previous projection issued in July 2024, while the upswing of the tax revenue and the effect of efforts to improve expenditure efficiency contributes the improvement of the PB, the expenditure for the economic stimulus package decided in the last November, the tax reforms including the increase of the basic exemption of income tax, the impact of financial resources for the defense buildup(*1), and other factors worsen the PB, resulting in the PB deterioration by approximately 5.3 trillion yen in total.

Factors of the PB Revision in FY2025

Appx. trillion Yen

	Contribution to the PB	Primary balance in FY 2025
July 2024 projection		＋ 0.8
Factors on the revenue side		
・The upswing in tax revenue growth	＋ 2.1	
・The impact of financial resources for defense buildup	▲ 1.0	
・Tax reduction in the tax reforms in FY2025	▲ 0.7	
・The downswing in revenue growth other than tax	▲ 0.6	
Factors on the expenditure side		
・The effect of efforts to improve expenditure efficiency in FY2025	＋ 0.7	
・The expenditure of economic stimulus package decided in FY2024	▲ 5.8	
January 2025 projection		▲ 4.5

(Notes) 1. See footnote 21 for the effect of efforts to improve expenditure efficiency.
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.

After FY2026 onward, the PP Case and TN Case have different PB movements reflected by different movements regarding the growth of revenues and expenditures, as follows:

- 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, these variables generally have strong correlations with nominal GDP. In this projection as well, the growth of overall tax revenues is consequently linked to the growth of nominal GDP. For this reason, the ratios of the primary revenue to GDP remain flat in both cases.

- As for the expenditure growth, social security expenditures increase to reflect ageing 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 ageing factor between the two cases, the difference in the expenditure growth is mainly caused by the difference in the rate of price increases. (*2) In the PP 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 TN Case, since the inflation rate is lower than the nominal GDP growth rate, the primary expenditure-to-GDP ratio declines gradually.

(*1) The impact refers to the financial resources for the defense buildup secured from revenue that is not subject to the primary balance calculation and different from tax measures.

(*2) Differences in the rate of wage growth also have an impact, but the impact of differences in the rate of price growth is 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, slowing down of overseas economies is downside risk of the Japanese economy, including the effects of continued high-interest rate levels in the U.S. and Europe, and the lingering stagnation of the real estate market in China. Also, full attention should be given to price increases, future policy trends in the U.S., the situation in the Middle East and volatilities in the financial and capital markets as well. Furthermore, looking at the medium- to long-term time horizon, the risks and uncertainties include, for example, the following (i) - (iii).[24]

In order to understand the paths 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, etc. 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 2024) highlights several downside risks to global economic growth, including: monetary policy tightening harming economies more than intended; intensifying governments debts stresses in the developing and emerging economies; the deeper-than-expected contraction in China's property sector; rising commodity prices as a result of climate shocks, regional conflicts, or broader geopolitical tensions; and a shift towards protectionist policies by governments.[25] Such a downturn in the global economy puts downward pressure on production and corporate performance through lowering 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 and so forth.

In the current domestic economy, 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. On the other hand, there are 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

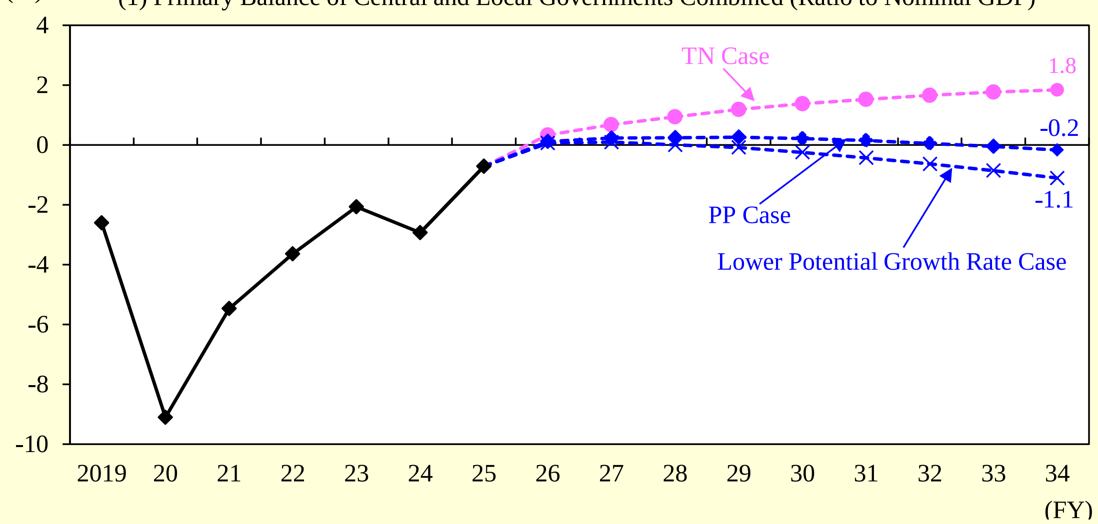
[24] Those listed here are examples. Risks and uncertainties are not limited to these.

[25] IMF (October 2024) cites upside risks as well, including: stronger recovery in investments—particularly in green transition, infrastructure, and Science and Technology— in advanced economies, which could crowd in the private sector; stronger momentum for structural reforms in both advanced and emerging economies; and more. The World Bank's "Commodity Markets Outlook" (October 2024) points out there exist both upside and downside risks to crude oil prices. Upside risks include the intensification of conflicts particularly in the Middle East, stagnation in U.S. shale oil production, and the robust consumption in China. The downside risks include an early withdrawal from reduced production in OPEC+ and lower demand associated with slower global growth.

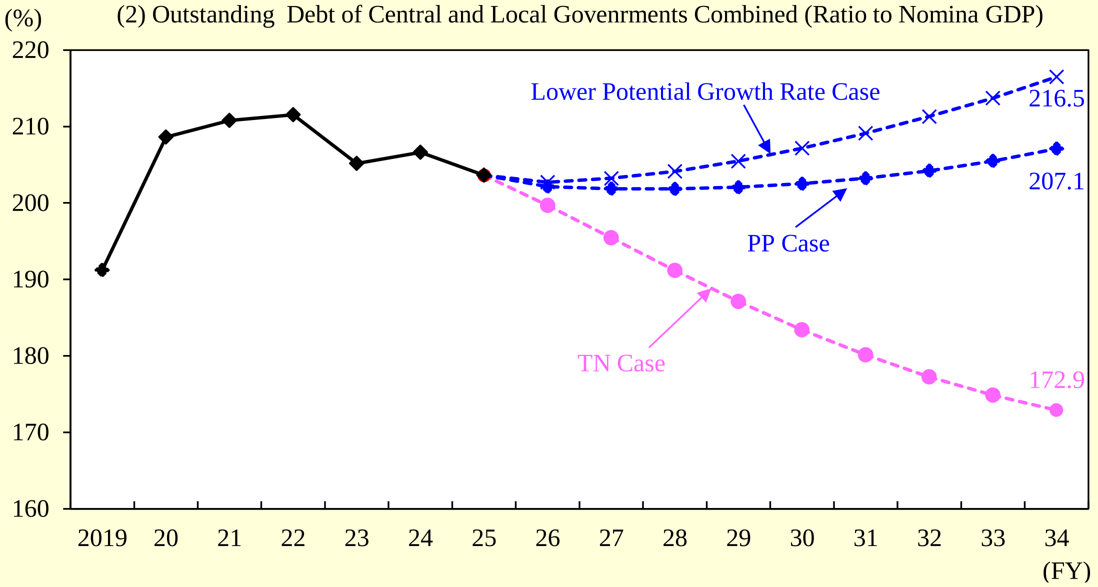
impact of a decline in the potential growth rate. Here, we assume that the rate of increase in TFP was continuously reduced by about 0.5%pt relative to the PP Case. As a result, combined with a decrease in capital input, the potential growth rate declines by about 0.9%pt in the final year of the projection period (FY2034). Due to the revenue decline resulting from the lower growth rate, the PB-to-GDP ratio deteriorates 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 10. Lower Potential Growth Rate Case

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



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



(3) Table

(%), Trillions of Yen

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Potential Growth Rate	(0.3)	(0.5)	(0.8)	(0.1)	(0.1)	(0.0)	(▲0.1)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.4)	(▲0.5)
Nominal GDP	595.2	612.7	629.3	636.6	640.3	643.4	645.8	647.6	649.3	650.8	651.8	652.5
Primary Balance of Central and Local Government Combined (Ratio to Nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.1)	(0.1)	(0.0)	(▲0.1)	(▲0.2)	(▲0.4)	(▲0.6)	(▲0.9)	(▲1.1)
Outstanding Debt (Ratio to Nominal GDP)	(205.2)	(206.6)	(203.6)	(202.7)	(203.2)	(204.1)	(205.5)	(207.2)	(209.1)	(211.3)	(213.7)	(216.5)

(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 Projection of Past Trend Case during the estimation period (FY2026 and beyond), with no change in other exogenous variables.

(ii) Rise in interest rates

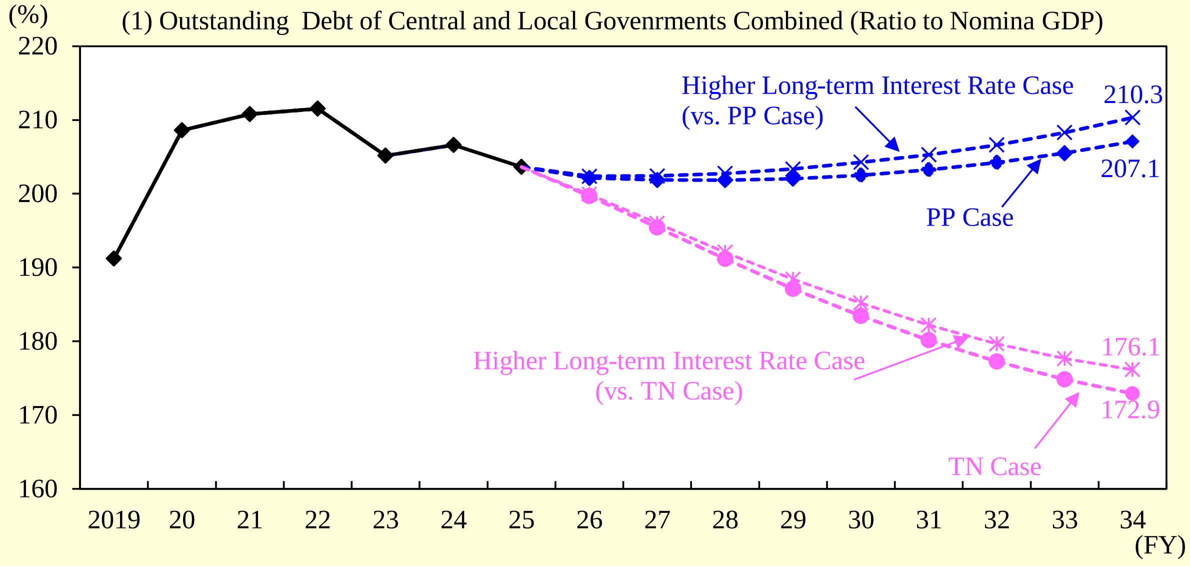
Since the end of 2021, monetary tightening has been implemented in Europe and the U.S., and overseas long-term interest rates have risen, putting upward pressure on interest rates in Japan. The Bank of Japan revised its monetary policy framework in March 2024. Under these circumstances, the nominal long-term interest rate has been on a moderate upward trend.

A rise in long-term interest rates could have several impacts on the economy and public finance through various channels.[26] For example, by restraining investment, and other factors, 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 increase due to the rise in interest rates on newly issued and refinanced bonds, the ratio of the outstanding debt to GDP climbs by about 3.2%pt in the final year of the projection period in both cases.

[26] 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.

Figure11. Higher Long-term Interest Rate Case



(2) Table

＜vs. Projection of Past Trend Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Nominal Long-term Interest Rate	0.6	1.0	1.3	1.8	1.8	1.8	1.8	1.9	1.9	1.9	1.9	1.9
Outstanding Debt (Ratio to Nominal GDP)	205.2	206.6	203.6	202.4	202.4	202.7	203.3	204.3	205.3	206.6	208.3	210.3

＜vs. Transferring a New Economic Stage Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Nominal Long-term Interest Rate	0.6	1.0	1.3	1.9	2.1	2.2	2.5	2.7	3.1	3.3	3.5	3.6
Outstanding Debt (Ratio to Nominal GDP)	205.2	206.6	203.6	199.9	196.0	192.1	188.4	185.2	182.2	179.6	177.6	176.1

(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 (FY2026 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 rose by about 90%pt over the past around 20 years (FY2002-2023), with an increase of about 40%pt[27] in the five years addressing the Great Recession and 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 response to occasional economic conditions —even when the shocks are not as large as the Great Recession or the pandemic.[28]

[27] Changes in the ratio of outstanding debt to GDP in FY2008-2010 and FY2019-2022. The outstanding debt has increased by about 620 trillion yen over the past around 20 years (FY2002-2023), of which about 230 trillion yen —about 40%— has increased over the past five years, periods marked by significant economic shocks.

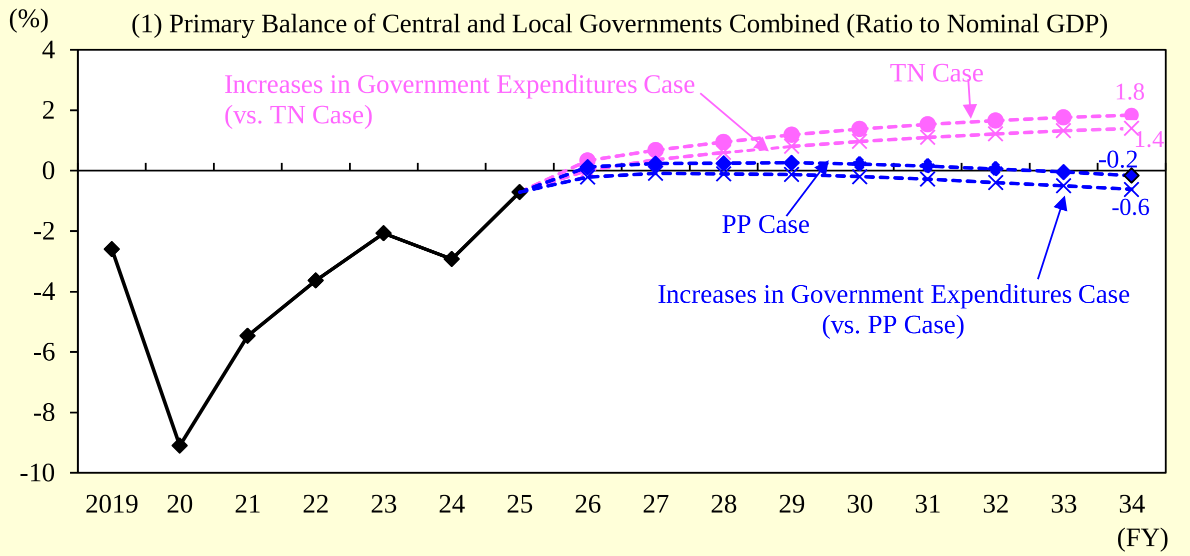
[28] For example, the expenditures in the general account of the central government related to the primary balance tended to swing upward from the initial budgets to the settlement, at an average of about 3 trillion yen per year in FY2013-2019 (the upswings were around 2 trillion yen during the pre-Great Recession period (FY2002-2008) and around 30 trillion yen in FY2020-2023).

Supplementary budgets in the general account of the central government are compiled in cases of particular urgency under the Public Finance Act,[29] 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 the following, we conduct a sensitivity analysis based on a mechanical calculation of the impact of the increase in government expenditures from the levels expected in the projection. Specifically, we set the government expenditures to continuously rise by about 0.5% of the nominal GDP relative to each case. As a result, the PB is lower in both cases, and in the PP Case, it remains negative.

Figure12. Increases in Government Expenditures Case

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



(2) Table

＜vs. Projection of Past Trend Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Primary Balance of Central and Local Government Combined (Ratio to Nominal GDP)	▲ 2.1	▲ 2.9	▲ 0.7	▲ 0.2	▲ 0.1	▲ 0.1	▲ 0.1	▲ 0.2	▲ 0.3	▲ 0.4	▲ 0.5	▲ 0.6

＜vs. Transferring a New Economic Stage Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Primary Balance of Central and Local Government Combined (Ratio to Nominal GDP)	▲ 2.1	▲ 2.9	▲ 0.7	0.0	0.4	0.6	0.8	1.0	1.1	1.2	1.3	1.4

(Notes) 1. Sensitivity analysis using multiplier tables from the Economic and Fiscal Model (2018).
2. The "Increases in Government Expenditures Case" is the case in which government expenditures are continuously 0.5%pt (Ratio to Nominal GDP) higher than those in both cases during the estimation period (FY2026 and beyond), with no change in other exogenous variables.

[29] Article 29 of the Public Finance Act.

In addition to the risks and uncertainties mentioned above, various other uncertainties are involved, such as the impact of wage negotiations on wage trends, the price pass-through situation on price and wage trends, the change in the trends in tax revenues and fluctuation in the fiscal balance[30] due to the incorporation of the settlement, etc. Therefore, considerable leeway should be given when interpreting the projections shown here.[31]

It is important that these risks and uncertainties be kept in mind when discussing medium- and long-term economic and fiscal policy. Also, in order to contribute to these discussions, it is useful to show the impact of these risks and uncertainties in the medium- to long-term projections.[32]

[30] The PB of the central and local governments 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 settlements of local government and special accounts, etc.

[31] As for the results about past projections, see Appendix 3.

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

1. Main Results of Projection (Table)

Projection of Past Trend Case

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Potential GDP Growth	(0.3)	(0.5)	(0.8)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
Real GDP Growth	(0.7)	(0.4)	(1.2)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)
Nominal GDP Growth	(4.9)	(2.9)	(2.7)	(1.4)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)	(0.7)	(0.7)	(0.7)
Nominal GDP	595.2	612.7	629.3	638.4	644.4	650.1	655.6	660.8	665.9	670.9	675.5	680.0
Per Capita Real GDP Growth	(1.1)	(0.9)	(1.7)	(1.1)	(1.1)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Nominal Wage Growth	(1.4)	(2.8)	(2.8)	(1.7)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)
CPI growth rate	(3.0)	(2.5)	(2.0)	(1.4)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)
GDP deflator growth rate	(4.2)	(2.5)	(1.5)	(0.8)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Nominal Long-term Interest Rate	(0.6)	(1.0)	(1.3)	(1.3)	(1.3)	(1.3)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)	(▲0.0)	(▲0.2)
Outstanding Debt (ratio to nominal GDP)	(205.2)	(206.6)	(203.6)	(202.1)	(201.9)	(201.8)	(202.0)	(202.5)	(203.2)	(204.2)	(205.5)	(207.1)

Transferring to a New Economic Stage Case

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Potential GDP Growth	(0.3)	(0.5)	(0.8)	(1.2)	(1.5)	(1.6)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.4)
Real GDP Growth	(0.7)	(0.4)	(1.2)	(1.2)	(1.5)	(1.6)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.4)
Nominal GDP Growth	(4.9)	(2.9)	(2.7)	(2.7)	(2.9)	(3.0)	(3.0)	(3.0)	(2.9)	(2.9)	(2.8)	(2.8)
Nominal GDP	595.2	612.7	629.3	646.0	664.8	684.8	705.6	726.7	748.1	769.9	791.6	813.7
Per Capita Real GDP Growth	(1.1)	(0.9)	(1.7)	(1.7)	(2.0)	(2.1)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)	(2.0)
Nominal Wage Growth	(1.4)	(2.8)	(2.8)	(2.9)	(2.9)	(3.0)	(3.1)	(3.0)	(3.0)	(2.9)	(2.9)	(2.9)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)
CPI growth rate	(3.0)	(2.5)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(4.2)	(2.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal Long-term Interest Rate	(0.6)	(1.0)	(1.3)	(1.4)	(1.6)	(1.7)	(2.0)	(2.2)	(2.6)	(2.8)	(3.0)	(3.1)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.3)	(0.7)	(0.9)	(1.2)	(1.4)	(1.5)	(1.7)	(1.8)	(1.8)
Outstanding Debt (ratio to nominal GDP)	(205.2)	(206.6)	(203.6)	(199.7)	(195.4)	(191.2)	(187.1)	(183.4)	(180.1)	(177.3)	(174.8)	(172.9)

Higher Economic Growth Case

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Potential GDP Growth	(0.3)	(0.5)	(0.8)	(1.3)	(1.7)	(1.9)	(2.0)	(2.0)	(1.9)	(1.9)	(1.9)	(1.8)
Real GDP Growth	(0.7)	(0.4)	(1.2)	(1.3)	(1.6)	(1.8)	(1.9)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)
Nominal GDP Growth	(4.9)	(2.9)	(2.7)	(2.7)	(3.1)	(3.3)	(3.3)	(3.3)	(3.3)	(3.3)	(3.2)	(3.2)
Nominal GDP	595.2	612.7	629.3	646.4	666.1	687.8	710.6	734.2	758.4	783.3	808.5	834.3
Per Capita Real GDP Growth	(1.1)	(0.9)	(1.7)	(1.8)	(2.1)	(2.3)	(2.4)	(2.5)	(2.5)	(2.4)	(2.4)	(2.4)
Nominal Wage Growth	(1.4)	(2.8)	(2.8)	(3.0)	(3.2)	(3.4)	(3.5)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)
CPI growth rate	(3.0)	(2.5)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(4.2)	(2.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal Long-term Interest Rate	(0.6)	(1.0)	(1.3)	(1.5)	(1.7)	(2.0)	(2.3)	(2.6)	(2.9)	(3.2)	(3.4)	(3.5)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.3)	(0.7)	(1.0)	(1.3)	(1.6)	(1.8)	(2.0)	(2.2)	(2.3)
Outstanding Debt (ratio to nominal GDP)	(205.2)	(206.6)	(203.6)	(199.6)	(195.0)	(190.3)	(185.7)	(181.3)	(177.3)	(173.7)	(170.6)	(168.0)

Notes 1 “Per Capita Real GDP Growth” and “Nominal Wage Growth” are the rates of changes in the real GDP and the total wages and salaries divided by the total population and employees, respectively. “CPI Growth Rate” refers to the percentage change in Consumer Price Index (all items).

2.The “Primary Balance” (hereinafter “PB”) of the central and local governments is defined as “Fiscal Balance” (“Net lending/net borrowing” in the SNA), subtracted by net interest payments (interest received [excluding FISIM] minus interest paid [excluding FISIM]). The PBs of both the central and local governments include certain special accounts in addition to the general account. The redemption and interest payments of the Special Account for the Local Allocation and Local Transfer Tax (hereinafter SALALTT) are allocated to the central and local governments based on their respective shares, although, according to SNA classification, they are classified under the central government.

3.“Outstanding Debt” refers to the sum of the central government general bonds (excluding the “Children 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 borrowings in SALALTT. In terms of consistency of indices, the borrowings in SALALTT for the central and local governments are accounted for the outstanding of the central and local governments, respectively, as they became classified into its general account in FY2007.

4. The PB and Outstanding Debt shown in the tables above exclude the expenditures and the fiscal resources for the recovery and reconstruction, green transformation (GX), and artificial intelligence (AI) and semiconductor industry foundation strengthening support measures. The expenditures and resources for the recovery and reconstruction are equivalent to the amount of funds — except transfer from the general account resulting from reduction in existing expenditures—, secured by reconstruction bonds, further non-tax revenues, and special taxation for reconstruction. 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” (Act Number 100, August 30, 2011), the expenditures in decontamination and projects for interim storage facility by Tokyo Electric Power Company (hereinafter “TEPCO”) are included since it is deemed to ensure the corresponding resources, considering the progress of payment from TEPCO. That for GX measures consists of expenditures covered by issuing the GX Economy Transition Bonds and the resources for their redemption. That for AI and semiconductor industry foundation strengthening support measures is based on “attachment 1: ‘AI and Semiconductor Industry Foundation Strengthening Framework’ of the ‘Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth’ (November 22, 2024, Cabinet decision).”

2.Detailed Results of Fiscal Projection

Projection of Past Trend Case

【Central and Local Governments' Public Finances】

（Excluding the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support）

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Primary Balance	▲ 12.3	▲ 17.9	▲ 4.5	0.8	1.5	1.6	1.7	1.4	1.0	0.4	▲ 0.3	▲ 1.1
(ratio to nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.1)	(0.2)	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)	(▲0.0)	(▲0.2)
Central Government	▲ 18.5	▲ 23.9	▲ 11.9	▲ 7.4	▲ 7.0	▲ 6.6	▲ 6.4	▲ 6.4	▲ 6.4	▲ 6.6	▲ 6.9	▲ 7.4
(ratio to nominal GDP)	(▲3.1)	(▲3.9)	(▲1.9)	(▲1.2)	(▲1.1)	(▲1.0)	(▲1.0)	(▲1.0)	(▲1.0)	(▲1.0)	(▲1.0)	(▲1.1)
Local Government	6.2	6.0	7.4	8.2	8.5	8.2	8.1	7.8	7.5	7.0	6.6	6.3
(ratio to nominal GDP)	(1.0)	(1.0)	(1.2)	(1.3)	(1.3)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)	(1.0)	(0.9)
Fiscal Balance	▲ 17.0	▲ 22.4	▲ 10.3	▲ 4.5	▲ 4.9	▲ 6.0	▲ 6.7	▲ 7.7	▲ 8.9	▲ 10.3	▲ 11.6	▲ 12.9
(ratio to nominal GDP)	(▲2.9)	(▲3.7)	(▲1.6)	(▲0.7)	(▲0.8)	(▲0.9)	(▲1.0)	(▲1.2)	(▲1.3)	(▲1.5)	(▲1.7)	(▲1.9)
Central Government	▲ 22.5	▲ 27.4	▲ 16.7	▲ 11.8	▲ 12.5	▲ 13.2	▲ 13.8	▲ 14.5	▲ 15.3	▲ 16.1	▲ 17.0	▲ 18.0
(ratio to nominal GDP)	(▲3.8)	(▲4.5)	(▲2.7)	(▲1.8)	(▲1.9)	(▲2.0)	(▲2.1)	(▲2.2)	(▲2.3)	(▲2.4)	(▲2.5)	(▲2.7)
Local Government	5.5	5.0	6.4	7.3	7.5	7.2	7.1	6.8	6.4	5.9	5.4	5.1
(ratio to nominal GDP)	(0.9)	(0.8)	(1.0)	(1.1)	(1.2)	(1.1)	(1.1)	(1.0)	(1.0)	(0.9)	(0.8)	(0.8)
Outstanding Debt	1221.1	1266.0	1281.4	1290.5	1300.9	1312.1	1324.5	1338.3	1353.4	1370.0	1388.0	1408.2
(ratio to nominal GDP)	(205.2)	(206.6)	(203.6)	(202.1)	(201.9)	(201.8)	(202.0)	(202.5)	(203.2)	(204.2)	(205.5)	(207.1)
Central Government	1053.9	1102.2	1124.2	1138.4	1154.1	1170.6	1188.2	1206.8	1226.2	1246.6	1268.1	1290.8
(ratio to nominal GDP)	(177.1)	(179.9)	(178.6)	(178.3)	(179.1)	(180.1)	(181.3)	(182.6)	(184.1)	(185.8)	(187.7)	(189.8)
Local Government	167.1	163.8	157.1	152.1	146.8	141.5	136.3	131.5	127.2	123.4	119.9	117.4
(ratio to nominal GDP)	(28.1)	(26.7)	(25.0)	(23.8)	(22.8)	(21.8)	(20.8)	(19.9)	(19.1)	(18.4)	(17.8)	(17.3)

【General Account of Central Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	127.6	126.5	115.5	120.7	123.5	125.2	127.4	129.3	131.2	133.2	135.2	137.2
（Policy Expenditures）	102.5	101.0	87.7	92.2	93.5	93.9	95.0	95.8	96.6	97.6	98.6	99.7
Social Security-related Expenditures	36.2	38.6	38.3	39.0	39.8	40.4	41.0	41.5	42.0	42.6	43.2	43.9
Local Allocation Tax Grants, etc.	17.2	19.6	19.1	20.2	20.5	20.5	20.7	20.7	20.8	20.9	21.0	21.1
Others	48.7	42.3	30.0	32.6	32.9	32.6	32.9	33.2	33.5	33.8	34.0	34.3
Bond Expenditures	25.5	25.9	28.2	28.9	30.4	31.6	32.8	33.8	34.9	36.0	37.0	37.9
Debt Repayment	17.7	17.4	17.3	18.3	18.8	19.0	19.3	19.6	20.0	20.3	20.6	21.0
Interest Payment	7.4	8.2	10.5	10.2	11.3	12.2	13.1	13.8	14.6	15.3	16.0	16.6
Revenues	94.1	84.4	86.9	88.7	89.6	90.1	90.9	91.6	92.4	93.1	93.8	94.4
Tax Revenue	72.1	73.4	78.4	79.9	80.9	81.2	81.9	82.4	83.1	83.6	84.2	84.7
Other Revenues	22.1	10.9	8.5	8.8	8.7	8.9	9.1	9.2	9.3	9.5	9.6	9.7
Primary Balance in General Account of Central Government	▲ 8.3	▲ 16.6	▲ 0.8	▲ 3.5	▲ 3.9	▲ 3.8	▲ 4.0	▲ 4.2	▲ 4.3	▲ 4.5	▲ 4.8	▲ 5.2

【Ordinary Account of Local Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	112.0	110.2	105.7	111.0	112.2	113.1	114.1	114.9	115.8	116.6	117.5	118.4
Debt Repayment and Interest Payment	12.2	10.9	10.7	11.1	11.3	11.3	11.2	10.9	10.5	10.1	9.8	8.9
Revenues	99.8	100.6	96.6	101.8	103.0	103.8	104.7	105.6	106.4	107.2	108.0	108.8
Tax Revenue	47.3	48.6	49.7	50.6	51.2	51.7	52.1	52.5	52.9	53.2	53.6	53.9
Primary Balance in Ordinary Account of Local Government	4.5	5.9	6.3	7.7	7.7	7.4	7.2	7.0	6.7	6.4	6.1	5.8

（Reference）【Central and Local Governments' Public Finances】

(Including the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support)

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Primary Balance	▲ 12.5	▲ 18.2	▲ 6.3	▲ 2.2	▲ 0.6	▲ 0.4	0.0	▲ 0.2	▲ 0.2	▲ 0.8	0.2	▲ 0.6
(ratio to nominal GDP)	(▲2.1)	(▲3.0)	(▲1.0)	(▲0.3)	(▲0.1)	(▲0.1)	(0.0)	(▲0.0)	(▲0.0)	(▲0.1)	(0.0)	(▲0.1)
Central Government	▲ 18.7	▲ 24.2	▲ 13.7	▲ 10.4	▲ 9.1	▲ 8.6	▲ 8.1	▲ 8.1	▲ 7.7	▲ 7.9	▲ 6.4	▲ 6.9
(ratio to nominal GDP)	(▲3.1)	(▲4.0)	(▲2.2)	(▲1.6)	(▲1.4)	(▲1.3)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.2)	(▲0.9)	(▲1.0)
Local Government	6.2	6.0	7.4	8.2	8.5	8.2	8.1	7.8	7.5	7.0	6.6	6.3
(ratio to nominal GDP)	(1.0)	(1.0)	(1.2)	(1.3)	(1.3)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)	(1.0)	(0.9)
Fiscal Balance	▲ 17.5	▲ 22.8	▲ 12.2	▲ 7.5	▲ 7.2	▲ 8.0	▲ 8.6	▲ 9.6	▲ 10.3	▲ 11.7	▲ 11.3	▲ 12.7
(ratio to nominal GDP)	(▲2.9)	(▲3.7)	(▲1.9)	(▲1.2)	(▲1.1)	(▲1.2)	(▲1.3)	(▲1.5)	(▲1.6)	(▲1.7)	(▲1.7)	(▲1.9)
Central Government	▲ 23.0	▲ 27.7	▲ 18.7	▲ 14.8	▲ 14.7	▲ 15.3	▲ 15.7	▲ 16.4	▲ 16.7	▲ 17.6	▲ 16.8	▲ 17.8
(ratio to nominal GDP)	(▲3.9)	(▲4.5)	(▲3.0)	(▲2.3)	(▲2.3)	(▲2.4)	(▲2.4)	(▲2.5)	(▲2.5)	(▲2.6)	(▲2.5)	(▲2.6)
Local Government	5.5	4.9	6.5	7.3	7.5	7.2	7.1	6.8	6.4	5.9	5.4	5.1
(ratio to nominal GDP)	(0.9)	(0.8)	(1.0)	(1.1)	(1.2)	(1.1)	(1.1)	(1.0)	(1.0)	(0.9)	(0.8)	(0.8)
Outstanding Debt	1228.7	1274.9	1291.0	1302.3	1314.8	1328.2	1342.8	1358.7	1375.5	1393.7	1411.7	1431.9
(ratio to nominal GDP)	(206.4)	(208.1)	(205.1)	(204.0)	(204.0)	(204.3)	(204.8)	(205.6)	(206.6)	(207.8)	(209.0)	(210.6)
Central Government	1061.2	1110.8	1133.6	1149.9	1167.7	1186.4	1206.2	1227.0	1248.1	1270.1	1291.5	1314.2
(ratio to nominal GDP)	(178.3)	(181.3)	(180.1)	(180.1)	(181.2)	(182.5)	(184.0)	(185.7)	(187.4)	(189.3)	(191.2)	(193.3)
Local Government	167.5	164.0	157.4	152.4	147.1	141.7	136.6	131.7	127.4	123.6	120.2	117.7
(ratio to nominal GDP)	(28.1)	(26.8)	(25.0)	(23.9)	(22.8)	(21.8)	(20.8)	(19.9)	(19.1)	(18.4)	(17.8)	(17.3)

Notes

1. In “General Account of Central Government,” FY2023, FY2024, and FY2025 are based on the settlement, supplementary budget, and the budget proposed by the government, respectively. In “Ordinary Account of Local Government,” FY2023 is based on the settlement.
2. In “General Account of Central Government,” “Policy Expenditures” is defined as the expenditures in the general account, excluding interest payments, redemptions (except those for subsidy bonds), and any transfer to the settlement adjustment funds for covering settlement shortfalls from previous periods. The “Primary Balance in General Account of Central Government” consists of “Tax Revenue” and “Other Revenue,” minus “Policy Expenditures.”
3. In “General Account of Central Government,” “Other Revenues” in FY2023 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 33.1 trillion yen, minus carried-forward funds to the next fiscal year (approximately 11.1 trillion yen).
4. In “Ordinary Account of Local Government,” “Revenues” is the sum of local taxes and local transfer taxes, excluding local bonds, reductions in reserve, and carried-forward funds. The “Primary Balance in Ordinary Account of Local Government” consists of “Revenues,” excluding redemptions, interest payments, and reserves.

Transferring to a New Economic Stage Case

【Central and Local Governments' Public Finances】

（Excluding the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support）

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Primary Balance	▲ 12.3	▲ 17.9	▲ 4.5	2.2	4.5	6.5	8.4	10.0	11.4	12.8	14.0	15.0
(ratio to nominal GDP)	(▲2.1)	(▲2.9)	(▲0.7)	(0.3)	(0.7)	(0.9)	(1.2)	(1.4)	(1.5)	(1.7)	(1.8)	(1.8)
Central Government	▲ 18.5	▲ 23.9	▲ 11.9	▲ 6.9	▲ 5.6	▲ 4.4	▲ 3.4	▲ 2.6	▲ 2.0	▲ 1.3	▲ 0.8	▲ 0.4
(ratio to nominal GDP)	(▲3.1)	(▲3.9)	(▲1.9)	(▲1.1)	(▲0.8)	(▲0.6)	(▲0.5)	(▲0.4)	(▲0.3)	(▲0.2)	(▲0.1)	(▲0.1)
Local Government	6.2	6.0	7.4	9.1	10.2	10.9	11.8	12.6	13.4	14.1	14.8	15.4
(ratio to nominal GDP)	(1.0)	(1.0)	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)
Fiscal Balance	▲ 17.0	▲ 22.4	▲ 10.3	▲ 3.1	▲ 2.2	▲ 1.7	▲ 1.3	▲ 1.1	▲ 1.4	▲ 2.1	▲ 2.9	▲ 4.0
(ratio to nominal GDP)	(▲2.9)	(▲3.7)	(▲1.6)	(▲0.5)	(▲0.3)	(▲0.2)	(▲0.2)	(▲0.2)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.5)
Central Government	▲ 22.5	▲ 27.4	▲ 16.7	▲ 11.3	▲ 11.4	▲ 11.6	▲ 12.1	▲ 12.8	▲ 13.9	▲ 15.3	▲ 16.8	▲ 18.6
(ratio to nominal GDP)	(▲3.8)	(▲4.5)	(▲2.7)	(▲1.7)	(▲1.7)	(▲1.7)	(▲1.7)	(▲1.8)	(▲1.9)	(▲2.0)	(▲2.1)	(▲2.3)
Local Government	5.5	5.0	6.4	8.1	9.2	9.9	10.9	11.7	12.5	13.2	14.0	14.6
(ratio to nominal GDP)	(0.9)	(0.8)	(1.0)	(1.3)	(1.4)	(1.5)	(1.5)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Outstanding Debt	1221.1	1266.0	1281.4	1290.0	1299.3	1309.1	1320.2	1332.9	1347.5	1364.6	1384.1	1406.9
(ratio to nominal GDP)	(205.2)	(206.6)	(203.6)	(199.7)	(195.4)	(191.2)	(187.1)	(183.4)	(180.1)	(177.3)	(174.8)	(172.9)
Central Government	1053.9	1102.2	1124.2	1137.8	1152.3	1167.4	1183.4	1200.6	1219.3	1239.7	1262.1	1286.9
(ratio to nominal GDP)	(177.1)	(179.9)	(178.6)	(176.1)	(173.3)	(170.5)	(167.7)	(165.2)	(163.0)	(161.0)	(159.4)	(158.1)
Local Government	167.1	163.8	157.1	152.1	146.9	141.8	136.8	132.2	128.3	124.9	122.0	120.1
(ratio to nominal GDP)	(28.1)	(26.7)	(25.0)	(23.6)	(22.1)	(20.7)	(19.4)	(18.2)	(17.1)	(16.2)	(15.4)	(14.8)

【General Account of Central Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	127.6	126.5	115.5	121.4	125.4	128.8	133.0	137.3	141.9	146.9	152.2	157.6
（Policy Expenditures）	102.5	101.0	87.7	92.8	95.1	96.9	99.2	101.5	103.8	106.2	108.8	111.5
Social Security-related Expenditures	36.2	38.6	38.3	39.2	40.3	41.3	42.4	43.5	44.6	45.8	47.1	48.4
Local Allocation Tax Grants, etc.	17.2	19.6	19.1	20.6	21.2	21.8	22.5	23.0	23.6	24.2	24.8	25.4
Others	48.7	42.3	30.0	32.7	33.2	33.4	34.0	34.6	35.3	35.9	36.6	37.3
Bond Expenditures	25.5	25.9	28.2	29.0	30.7	32.3	34.1	36.1	38.4	41.0	43.8	46.5
Debt Repayment	17.7	17.4	17.3	18.3	18.8	19.1	19.4	19.8	20.2	20.6	21.1	21.5
Interest Payment	7.4	8.2	10.5	10.3	11.6	12.9	14.3	16.0	17.9	20.1	22.3	24.6
Revenues	94.1	84.4	86.9	90.0	92.8	95.4	98.3	101.3	104.2	107.2	110.1	113.1
Tax Revenue	72.1	73.4	78.4	81.2	84.0	86.3	88.9	91.5	94.1	96.8	99.4	102.1
Other Revenues	22.1	10.9	8.5	8.8	8.8	9.1	9.5	9.8	10.1	10.4	10.7	11.1
Primary Balance in General Account of Central Government	▲ 8.3	▲ 16.6	▲ 0.8	▲ 2.8	▲ 2.3	▲ 1.4	▲ 0.9	▲ 0.2	0.4	0.9	1.3	1.7

【Ordinary Account of Local Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	112.0	110.2	105.7	112.2	115.1	118.0	121.1	124.4	127.7	131.1	134.7	138.3
Debt Repayment and Interest Payment	12.2	10.9	10.7	11.1	11.3	11.3	11.2	11.0	10.6	10.3	10.1	9.4
Revenues	99.8	100.6	96.6	103.0	105.9	108.9	112.0	115.3	118.8	122.3	126.0	129.9
Tax Revenue	47.3	48.6	49.7	51.3	52.9	54.5	56.1	57.8	59.4	61.1	62.8	64.4
Primary Balance in Ordinary Account of Local Government	4.5	5.9	6.3	8.5	9.3	10.1	11.1	12.3	13.5	14.7	16.0	17.4

（Reference）【Central and Local Governments' Public Finances】

(Including the expenditures and the fiscal resources for the measures on recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support)

(%),Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Primary Balance	▲ 12.5	▲ 18.2	▲ 6.3	▲ 0.8	2.4	4.5	6.6	8.3	10.2	11.5	14.5	15.5
(ratio to nominal GDP)	(▲2.1)	(▲3.0)	(▲1.0)	(▲0.1)	(0.4)	(0.7)	(0.9)	(1.1)	(1.4)	(1.5)	(1.8)	(1.9)
Central Government	▲ 18.7	▲ 24.2	▲ 13.7	▲ 9.9	▲ 7.8	▲ 6.4	▲ 5.1	▲ 4.3	▲ 3.2	▲ 2.5	▲ 0.3	0.1
(ratio to nominal GDP)	(▲3.1)	(▲4.0)	(▲2.2)	(▲1.5)	(▲1.2)	(▲0.9)	(▲0.7)	(▲0.6)	(▲0.4)	(▲0.3)	(▲0.0)	(0.0)
Local Government	6.2	6.0	7.4	9.1	10.2	10.9	11.8	12.6	13.4	14.1	14.8	15.4
(ratio to nominal GDP)	(1.0)	(1.0)	(1.2)	(1.4)	(1.5)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)
Fiscal Balance	▲ 17.5	▲ 22.8	▲ 12.2	▲ 6.1	▲ 4.4	▲ 3.8	▲ 3.2	▲ 3.0	▲ 3.0	▲ 3.7	▲ 2.9	▲ 4.0
(ratio to nominal GDP)	(▲2.9)	(▲3.7)	(▲1.9)	(▲0.9)	(▲0.7)	(▲0.6)	(▲0.4)	(▲0.4)	(▲0.4)	(▲0.5)	(▲0.4)	(▲0.5)
Central Government	▲ 23.0	▲ 27.7	▲ 18.7	▲ 14.3	▲ 13.6	▲ 13.8	▲ 14.0	▲ 14.8	▲ 15.5	▲ 16.9	▲ 16.8	▲ 18.7
(ratio to nominal GDP)	(▲3.9)	(▲4.5)	(▲3.0)	(▲2.2)	(▲2.0)	(▲2.0)	(▲2.0)	(▲2.0)	(▲2.1)	(▲2.2)	(▲2.1)	(▲2.3)
Local Government	5.5	4.9	6.5	8.2	9.2	9.9	10.9	11.7	12.5	13.2	14.0	14.6
(ratio to nominal GDP)	(0.9)	(0.8)	(1.0)	(1.3)	(1.4)	(1.5)	(1.5)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Outstanding Debt	1228.7	1274.9	1291.0	1301.7	1313.2	1325.2	1338.5	1353.5	1369.9	1388.7	1408.3	1431.3
(ratio to nominal GDP)	(206.4)	(208.1)	(205.1)	(201.5)	(197.5)	(193.5)	(189.7)	(186.2)	(183.1)	(180.4)	(177.9)	(175.9)
Central Government	1061.2	1110.8	1133.6	1149.3	1166.0	1183.2	1201.5	1221.0	1241.3	1263.6	1286.1	1311.0
(ratio to nominal GDP)	(178.3)	(181.3)	(180.1)	(177.9)	(175.4)	(172.8)	(170.3)	(168.0)	(165.9)	(164.1)	(162.5)	(161.1)
Local Government	167.5	164.0	157.4	152.4	147.2	142.0	137.0	132.5	128.5	125.1	122.2	120.3
(ratio to nominal GDP)	(28.1)	(26.8)	(25.0)	(23.6)	(22.1)	(20.7)	(19.4)	(18.2)	(17.2)	(16.3)	(15.4)	(14.8)

Notes
1. In "General Account of Central Government," FY2023, FY2024, and FY2025 are based on the settlement, supplementary budget, and the budget proposed by the government, respectively. In "Ordinary Account of Local Government," FY2023 is based on the settlement.
2. In "General Account of Central Government," "Policy Expenditures" is defined as the expenditures in the general account, excluding interest payments, redemptions (except those for subsidy bonds), and any transfer to the settlement adjustment funds for covering settlement shortfalls from previous periods. The "Primary Balance in General Account of Central Government" consists of "Tax Revenue" and "Other Revenue," minus "Policy Expenditures."
3. In "General Account of Central Government," "Other Revenues" in FY2023 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 33.1 trillion yen, minus carried-forward funds to the next fiscal year (approximately 11.1 trillion yen).
4. In "Ordinary Account of Local Government," "Revenues" is the sum of local taxes and local transfer taxes, excluding local bonds, reductions in reserve, and carried-forward funds. The "Primary Balance in Ordinary Account of Local Government" consists of "Revenues," excluding redemptions, interest payments, and reserves.

(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 2023," etc. until FY2023, and the "Fiscal 2025 Economic Outlook," etc. for FY2024 and FY2025.

(1) Macroeconomy

Projection of Past Trend (PP) 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 Participation (LFP) Rate

- The LFP rate shifts referring to the estimates in "Baseline Growth Rate and Gradual Labour Participation Scenario" of the "Projection of Labor Supply and Demand in FY2023" by the Japan Institute for Labour Policy and Training (JILPT) (for example, the LFP rate among females aged 25-44 gradually rises from around 83% in FY2023 to 90% in FY2034, that among males aged 65-69 gradually rises from around 64% in FY2023 to 75% in FY2034, and that among females aged 65-69 gradually rises from around 44% in FY2023 to 53% in FY2034).

c） World Economy, etc.

< Real GDP Growth Rate of World Economy (weighted by the 10 major export destination countries of Japan)>

- The growth rate is around 2.7% annually from FY2026 to FY2029, based on the "World Economic Outlook" (WEO) by the IMF (October, 2024). From FY2030 onwards, it remains constant, at around 2.7%.

<Inflation Rate (weighted by the 10 major export destination countries of Japan)>

- The inflation rate is around 1.9% to 2.0% annually from FY2026 to FY2029, based on the WEO (October, 2024). From FY2030 onwards, it remains constant, at around 1.9%.

<Crude Oil Prices>

- Based on the assumptions of the Cabinet Office's "Fiscal 2025 Economic Outlook" and World Bank's "Commodity Markets Outlook" (October, 2024), the crude oil price is set to $75.2 per barrel in FY2026 (-1.4% compared with the previous year), and remains constant from then onwards.

Transferring to a New Economic Stage (TN) Case and Higher Economic Growth (HG) Case

Differences from the PP Case are as follows:

a) TFP Growth Rate

- In TN Case, the TFP growth rate reaches around 1.1%, the average of the last 40 years including the most recent business cycle (April-June 1980 to April-June 2020).
- In HG Case, the TFP growth rate reaches around 1.4%, the average of the period before the Japanese economy entered the deflationary situation (April-June 1980 to January-March 1999).

b) Labor Force Participation (LFP) Rate

- The LFP rate shifts referring to the estimates in "Achieving Growth and Advancing Labour Participation Scenario" of the "Projection of Labor Supply and Demand in FY2023" by the JILPT (for example, the LFP rate among females aged 25-44 gradually rises from around 83% in FY2023 to 91% in FY2034, that among males aged 65-69 gradually rises from around 64% in FY2023 to 78% in FY2034, and that among females aged 65-69 gradually rises from around 44% in FY2023 to 57% in FY2034).

The variables for the HG Case is derived as follows:

- Potential growth rate, real growth rate, primary balance of central and local governments (ratio to nominal GDP) and outstanding debt of central and local governments (ratio to nominal GDP) are computed by adding the increment associated with the differences in TFP growth rate from the TN Case, using the main multiplier tables listed in "Economic and Fiscal Model (FY2018 version)."
- Unemployment rate, CPI inflation rate and GDP deflator growth rate in the HG Case are the same as those in the TN Case. The nominal growth rate is implicitly derived by the real growth rate and the GDP deflator growth rate.
- Nominal wage growth rate is computed by adding the increment in the labor productivity growth rate —which is equivalent to the increment in the potential growth rate, since the assumption on the LFP and unemployment rate are the same in both cases— to the estimate from the TN Case. Nominal long-term interest rate is calculated by adding the difference in the nominal growth rate to the estimate from the TN Case.

(2) Revenue

- Tax revenues of the general account of the central government in FY2023 reflect the "FY2023 Settlement," those in FY2024 reflect the "FY2024 Supplementary Budget" and those in FY2025 reflect the "FY2025 Draft Budget."
- Based on the "FY2024 Tax Reform" (December 27, 2024, Cabinet decision), 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. 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 and other details are not decided.

(3) Expenditures

- The expenditures of the general account of the central government up to FY2023 reflect the "FY2023 Settlement," those in FY2024 reflect the "FY2024 Supplementary Budget," and those in FY2025 reflect the "FY2025 Draft Budget."

- From FY2026, social security expenditures increase, reflecting the population ageing and price and wage developments, and other expenditures increase in line with the inflation rate (constant in real terms). However, the expenditures for the defense capability buildup, the child and childcare support, and national resilience 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.

- As for the expenditures for national resilience, based on the Mid-term Plan for the Implementation of National Resilience—which have already been legislated to design in “Basic Act for National Resilience Contributing to Preventing and Mitigating Disasters for Developing Resilience in the Lives of the Citizenry” (revised in June 2023)—, the average volume of expenditures implemented so far in “Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience” (December 11 2020, Cabinet decision) for the central and local governments (approximately 2.4 trillion yen per year) is mechanically incorporated in this projection.

- The social security expenditures are endogenously derived within the “Economic and Fiscal Model (FY2018 version)” 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, Cabinet decision) and others, the assumptions are as follows:

- The total expenditures required for the necessary defense capability buildup from FY2023 to FY2027 amount to around 43 trillion yen. The individual year’s expenditures are set at around 7.1 trillion yen in FY2023 and around 8.2 trillion yen in FY2024 by the “FY2023 Supplementary Budget” and the “FY2024 Supplementary Budget,” respectively, and the rest of expenditures is mechanically allocated from FY2025 to FY2027 based on the past budget allocations (as for FY2025, only “Central and Local Governments’ Public Finances” reflects this). From FY2028 onwards, 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, approximately 40.5 trillion yen in total. The measures include expenditure reforms, utilization of settlement surpluses, defense capability reinforcement funds utilizing non-tax revenue, and tax measures (Note that not all the non-tax revenue are included in the calculation of the primary balance of central and local governments). The financial resources in FY2023, FY2024, and FY2025 are set by the “FY2023 Supplementary Budget,” the “FY2024 Supplementary Budget,” and “FY2025 Draft Budget,” respectively. The remaining financial resources are allocated from FY2026 to FY2027, in line with the additional expenditures of the annual defense budgets. All the financial resources, except for corporate tax and cigarette tax measures, are added to the Other Revenues in the General Account of the central government without assuming any breakdown (Note that 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 account). The financial resources are counted as those for the year when they are generated, in accordance with the rules of the SNA. From FY2028 onwards, the necessary measures will be assumed to be taken, as in FY2027.

(5) 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) and others, the assumptions are as follows:

- Regarding the expenditure, around 3.6 trillion yen, which is the budget size of the "Acceleration Plan for Supporting Children and Child-Rearing," is assumed to be implemented by FY2028. The expenditures in FY2023, FY2024, and FY2025 are set by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," and "FY2025 Draft Budget," respectively, and they are mechanically allocated to FY2026-2028, 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 plan, around 3.6 trillion yen is assumed to be secured by FY2028, when the "Child and Child Care Support Acceleration Plan" is scheduled 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, FY2024, and FY2025 are set by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," and the "FY2025 Draft Budget," respectively, and, based on these budgets, in FY2025-2028, the financial resources are assumed to be secured according to the expenditures. Meanwhile, the Children Special Bond, which is issued to bridge finance, is not included in the outstanding debt of the central and local governments because this 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.

(6) Treatment of multi-year framework designed to be balanced by expenditures and financial resources

- As for the policies listed below, since the frameworks are designed to be balanced by expenditures and financial resources on a multi-year basis in the special accounts or others, securing the necessary financial resources over multi-years, the expenditures and financial resources related to these policies are excluded from main series in "Central and Local Governments' Public Finance," and the one that includes these policies is displayed separately as a reference.

① **Recovery and Reconstruction from the Great East Japan Earthquake**

- Expenditures are assumed to be around 31.3 trillion yen until FY2020 and around 1.6 trillion yen over the five years from FY2021, according to the "Recovery and Reconstruction Projects after FY2016" (June 24, 2015, Reconstruction Promotion Conference decision), the "Scale and Financial Resources of Recovery and Reconstruction Projects in the Reconstruction Period, including the 5-year Period Since FY2016" (June 30, 2015, Cabinet decision), the "Reconstruction Efforts from FY2021" (July 17, 2020, decision by the Reconstruction Promotion Council) and others. The expenditures up to FY2023 reflect the Settlement, those in FY2024 reflect the "FY2024 Supplementary Budget," and those in FY2025 reflect the "FY2025 Draft Budget."

- 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” (October 7, 2011, Decision by the Reconstruction Promotion Council), the “Scale and Funding Sources for Future Recovery and Reconstruction Work” (January 29, 2013, Reconstruction Promotion Conference decision), the “Recovery and Reconstruction Projects after FY2016” (June 24, 2015, Reconstruction Promotion Conference decision), the “Scale and Financial Resources of Recovery and Reconstruction Projects in the Reconstruction Period, including the 5-year Period Since FY2016” (June 30, 2015, Cabinet decision), the “Reconstruction Efforts from FY2021” (July 17, 2020, decision by Reconstruction Promotion Council) 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 and other details have not yet been decided.
- The expenditure for the decontamination and interim storage facility-related projects, which will be reimbursed by TEPCO, and the corresponding payments are assumed to be approximately 6.4 trillion yen in total, based on “Towards the Speedy and Secure Implementation of Compensation for Accelerating the Reconstruction of Fukushima” (December 22, 2023, decided by Nuclear Emergency Response Headquarters). The patterns of expenditure and revenue are assumed based on the progress of implementation and payments made to date.

② **GX Measures**

- Based on the “GX Promotion Strategy” (July 28, 2023, Cabinet decision), the “GX Promotion Act“ (Act Number 32, 2023) and others, the assumptions are as follows:
- The total expenditures of around 20 trillion yen are assumed to be budgeted in the Special Account for Energy Measures (hereinafter, SAEM) for the 10 years from FY2023 to FY2032. As for the allocation for each year, the expenditures, based on the 4.8 trillion yen already allocated by FY2025, are mechanically allocated across FY2026 to 2032.
- The total expenditures of around 20 trillion yen are assumed to be financed by the GX Economy Transition Bonds, which are to be redeemed by FY2050 with the future financial resources secured from carbon pricing. Note that “GX-Surcharge” and the GX-ETS (Emissions Trading Systems) Auction are expected to begin in FY2028 and FY2033, respectively; however, they are not incorporated into the projections, as there are no details available yet.

③ **AI and Semiconductor Industry Foundation Strengthening Support**

- Based on the “Attachment 1: ‘AI and Semiconductor Industry Foundation Strengthening Framework’ of the ‘Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth’ (November 22, 2024, Cabinet decision),” the assumptions are as follows:
- The expenditures regarding public support are assumed to total approximately 10 trillion yen over the 7 years from FY2024 to FY2030. Since about 1.9 trillion yen has already been allocated by FY2025, the remaining amount is mechanically allocated from FY2026 to FY2030.

- As for the financial resources, approximately 2.2 trillion yen of the total expenditures is to be financed through a transfer from the Special Account for the Fiscal Investment and Loan Program (SAFILP) to the SAEM over multiple years. To cover earlier expenses on the projects that have not yet been financed by this transfer, the SAEM are supposed to issue special account bonds for bridging the financial resouces. The remaining expenditures are expected to be financed through reimbursements from Funds to the National Treasury, utilization of residual Funds balances, and revenues from selling government-owned shares of The Shoko Chukin Bank, Ltd (approximately 1.6 trillion yen); the utilization of reimbursements to the National Treasury through review and reassessment of the Funds and the use of GX Economy Transition Bonds (around 2.2 trillion yen); as well as investments from the SAFILP and the utilization of GX Economy Transition Bonds (over 4 trillion yen for financial support). Regarding the year-by-year allocation, the financial resources are mechanically distributed over the projection periods, based on the budgets already secured for FY2024 to FY2025 (about 1.9 trillion yen in total). As for the special account bonds, they are not included in the projections due to the lack of available details at this projection.

- Note that they are not included in the "General Account of Central Government", as detailed future annual figures and their breakdowns are not available.

(Appendix 2) Sectoral balances and Gross National Income

[Sectoral balances (ratio to nominal GDP)]

PP Case — Projection from 2024 (%)

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
General Government	-1.9	-2.2	-0.6	0.3	0.4	0.3	0.2	0.0	0.0	-0.3	-0.3	-0.6
Households	2.3	3.6	2.9	2.6	2.4	2.2	2.0	1.9	1.8	1.7	1.7	1.6
Firms	3.9	3.6	2.6	1.7	1.3	1.2	1.1	1.1	1.1	1.2	1.1	1.3
Overseas	-4.4	-5.0	-4.9	-4.6	-4.2	-3.7	-3.3	-3.0	-2.9	-2.7	-2.5	-2.3

TN Case (%)

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
General Government	-1.9	-2.2	-0.6	0.7	1.0	1.2	1.4	1.5	1.6	1.5	1.6	1.5
Households	2.3	3.6	2.9	2.9	2.7	2.4	2.3	2.2	2.1	2.0	2.0	2.0
Firms	3.9	3.6	2.6	1.0	0.2	-0.1	-0.3	-0.3	-0.4	-0.4	-0.5	-0.4
Overseas	-4.4	-5.0	-4.9	-4.5	-3.9	-3.6	-3.4	-3.4	-3.3	-3.2	-3.1	-3.0

(Note) The balance of the households sector includes private non-profit organizations serving households. The balance of the firms sector includes statistical discrepancies.

[GNI]

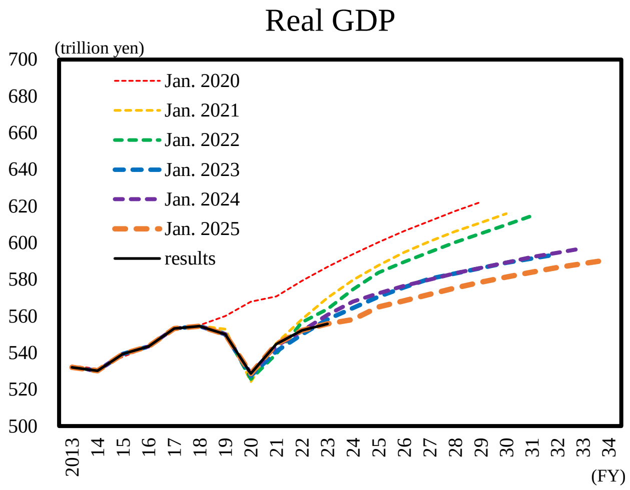
PP Case — Projection from 2024 ((%), ten thousand yen)

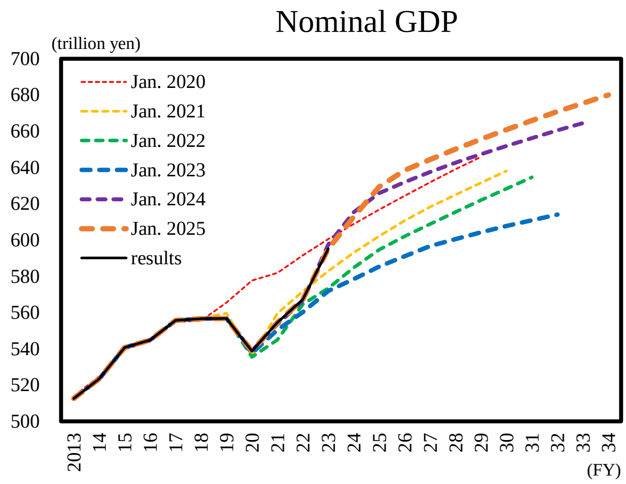
FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Nominal GNI per Capita	507.7	528.3	544.3	553.3	559.4	566.1	572.9	580.1	587.3	594.3	601.7	609.0
Real GNI Growth Rate	(2.0)	(1.2)	(1.1)	(0.6)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)

TN Case ((%), ten thousand yen)

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Nominal GNI per Capita	507.7	528.3	544.3	559.4	575.4	594.5	615.0	636.0	657.6	680.2	703.0	726.3
Real GNI Growth Rate	(2.0)	(1.2)	(1.1)	(1.1)	(1.1)	(1.3)	(1.5)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)

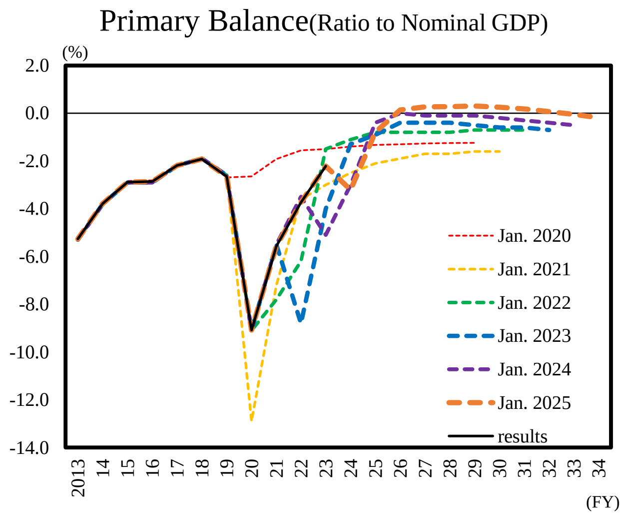
(Appendix 3) Time series comparisons of the previous projection results

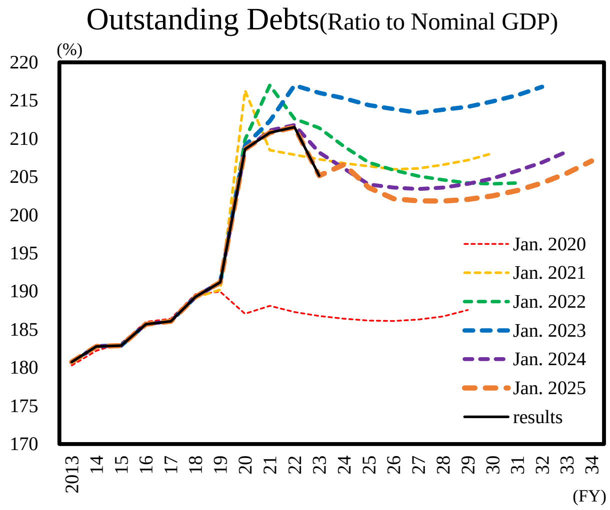




(Notes) 1. "Economic and Fiscal Projections for Medium to Long Term Analysis" (Projections made in January 2020 to 2025 for the Baseline Case and the PP Case), etc.

2. The "Jan. 2020" on this graph takes into account the impact of the SNA standard revision in December 2020.





(Notes) 1. "Economic and Fiscal Projections for Medium to Long Term Analysis" (Projections made in January 2020 to 2025 for the Baseline Case and the PP Case).

2. The nominal GDP of "Jan. 2020" takes into account the impact of the SNA standard revision in December 2020.

(Appendix 4) Comparison with private sector forecasts

Below is a comparison of this projection with the average of domestic economists' forecasts. As for real GDP growth after FY2026, average of the estimates in the PP Case is slightly lower than the "Average" in the private sector forecasts, while those in the TN Case and the HG Case are higher than the "Higher Average" in the private sector forecasts.

As for the CPI inflation rate after FY2026, average of the estimates in the PP Case is almost the same as the "Lower Average" in the private sector forecasts, while those in the TN Case and the HG Case are almost same as that of the "Higher Average" in the private sector forecasts.

Real GDP Growth Rate

(FY, Appx%)

		2024	25	26-30 average	31-35 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2034	PP Case	0.4	1.2	0.6	0.4
	TN Case	0.4	1.2	1.5	1.5
	HG Case	0.4	1.2	1.7	1.8
Private Sector Forecasts (ESP Forecast)	Lower Average	0.3	0.8	0.5	0.2
	Average	0.4	1.1	0.8	0.6
	Higher Average	0.5	1.4	1.1	1.0

Consumer Price Index Growth Rate

(FY, Appx%)

		2024	25	26-30 average	31-35 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2034	PP Case	2.5	2.0	1.0	0.9
	TN Case	2.5	2.0	2.0	2.0
	HG Case	2.5	2.0	2.0	2.0
Private Sector Forecasts (ESP Forecast)	Lower Average	2.4	1.8	1.2	0.9
	Average	2.6	2.1	1.7	1.6
	Higher Average	2.6	2.4	2.1	2.0

(Notes) FY2024 and FY2025 private-sector forecasts are based on the Japan Center for Economic Research's "ESP Forecast Survey" (January 2025); FY2026-30 and FY2031-35 are based on long-term forecasts from the same survey (December 2024). 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 an all items, less fresh food.

(Appendix 5) A virtuous cycle of growth and distribution

Here, this projection's estimates for "Per Capita Real GDP Growth" as an indicator of growth and "Nominal Wage Growth" as an indicator of distribution are compared with the averages from CY2012 to 2019 in the other G7 countries.

The average per capita real GDP growth rate for Japan between CY2012 and 2019 is about 1%, which is on par with the average of the other G7 countries. During the projection periods, it is projected to remain at 1% in the PP Case, while it is projected to rise up to about 2% in the TN Case and HG Case.

The average wage growth rate for Japan between CY2012 and 2019 is about 0.6%, which is lower than those in the other G7 countries, excluding Italy. In the projection periods, it is projected to be only in the mid-1% range in the PP Case — higher than the past average—, while it is projected to rise up to about 3% in the TN Case and HG Case, comparable to the historical figures in the U.S. and Germany.

<table>
<tr><th colspan="2"></th><th>Per Capita Real GDP Growth (%)</th><th>Nominal Wage Growth (%)</th></tr>
<tr><td rowspan="7">Averages of Results
between CY2012 and 2019</td><td>U.S.</td><td>1.7</td><td>2.8</td></tr>
<tr><td>U.K.</td><td>1.4</td><td>1.5</td></tr>
<tr><td>Germany</td><td>1.0</td><td>2.7</td></tr>
<tr><td>Canada</td><td>0.9</td><td>2.1</td></tr>
<tr><td>France</td><td>0.8</td><td>1.5</td></tr>
<tr><td>Italy</td><td>0.1</td><td>0.5</td></tr>
<tr><td>Japan</td><td>1.1</td><td>0.6</td></tr>
<tr><td rowspan="3">Cabinet Office
"Medium to Long Term Analysis"
Averages between FY2024 and 2034</td><td>PP Case</td><td>1.1</td><td>1.4</td></tr>
<tr><td>TN Case</td><td>1.9</td><td>2.9</td></tr>
<tr><td>HG Case</td><td>2.1</td><td>3.2</td></tr>
</table>

(Notes) Results from CY2012 to CY2019 are obtained from "OECD Data Explorer" for countries other than Japan, and from "System of National Accounts" by Cabinet Office and "Population Estimates" by Ministry of Internal Affairs and Communications for Japan. "Per Capita Real GDP Growth" is the rate of change in the real GDP divided by the total population. "Nominal Wage Growth" is the rate of change in the total wages and salaries divided by the total employees. The number of employees for countries other than Japan is based on "Annual Labour Force Survey, summary tables, Employment (excluding self-employed)." Arithmetic averages are used.