

[Provisional Translation]

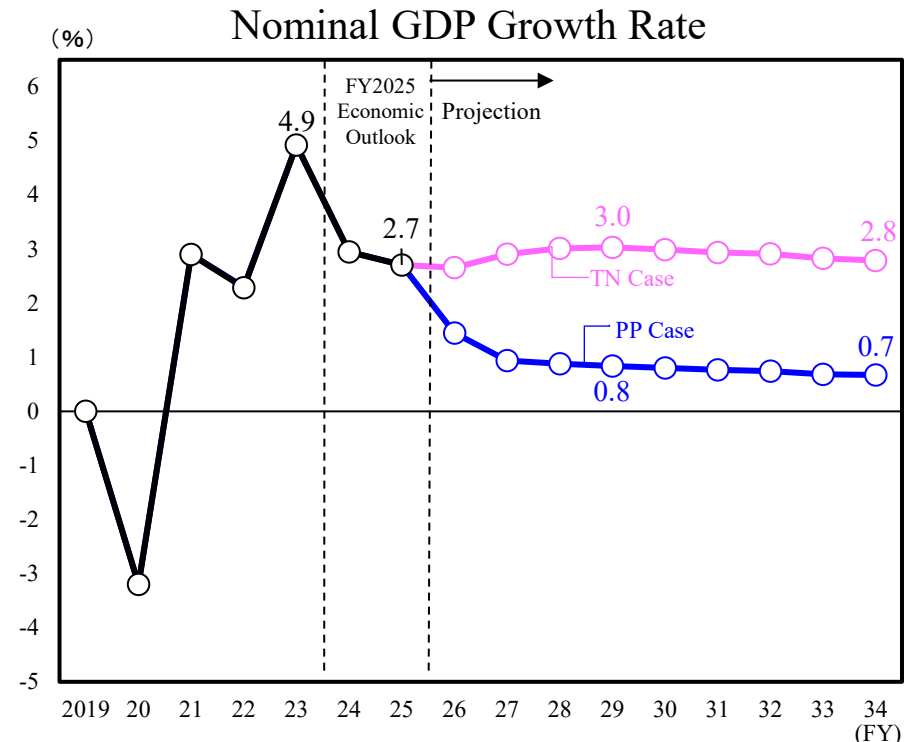
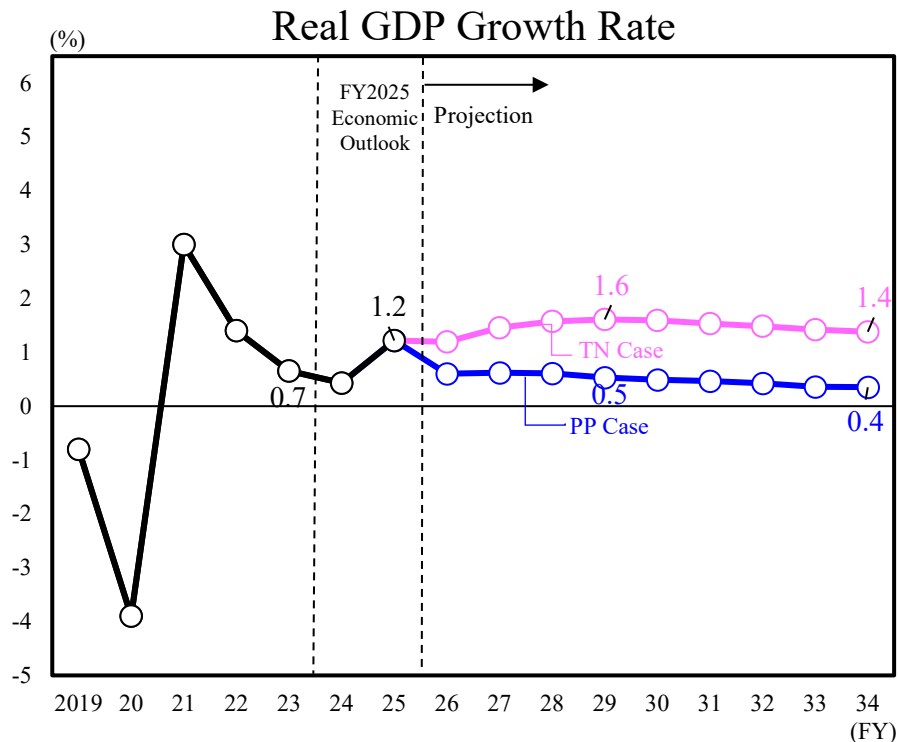
Executive Summary:  
Economic and Fiscal Projections  
for Medium to Long Term Analysis  
(January 2025)



January 17, 2025  
Cabinet Office

# Macroeconomic Projection

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



# Fiscal Projection

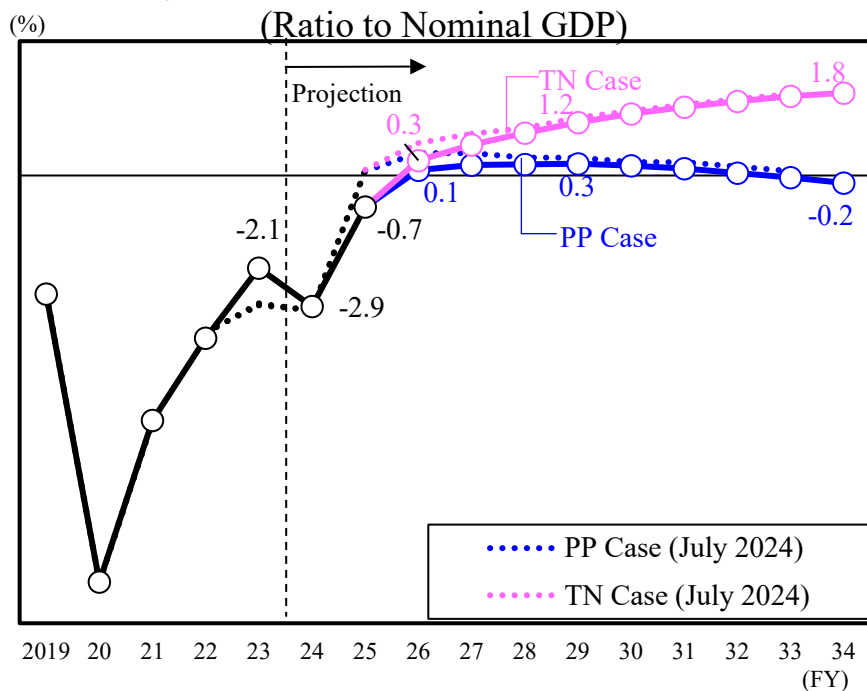
## [Primary Balance (PB) of Central and Local Government (ratio to Nominal GDP)]

- The PB in FY2025 is projected to be deficit due to expenditures for the economic stimulus package decided in the last November and other factors. The PB in FY2026 is projected to be surplus in both cases due to the increase in revenue associated with economic growth and reduction in expenditures for the economic stimulus package. (\*)
- Thereafter, the primary surplus is projected to expand in the TN Case. In PP Case, on the other hand, it is projected to gradually shrink, eventually resulting in deficit.
- (\*) “Defense Buildup Plan” and “Children's Future Strategic Policy” 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 into this projection.

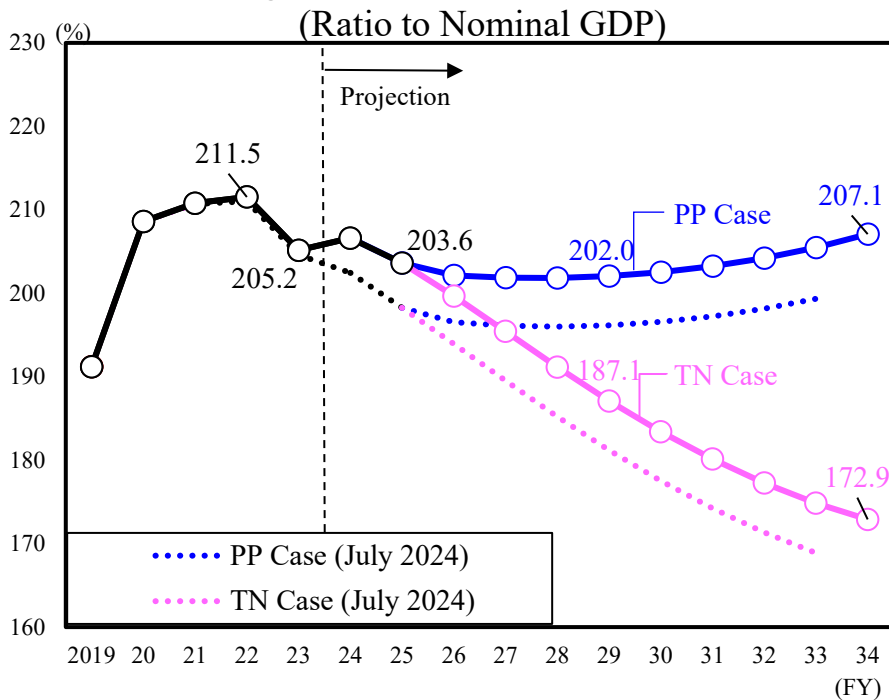
## [Outstanding Debt of Central and Local Government (ratio to Nominal GDP)]

- The ratio of outstanding debt to GDP is projected to steadily decline in the projection periods as the primary balance improves in the TN Case. In PP case, on the other hand, the ratio is projected to rise in the latter half of 2020s.

Primary Balance of Central and Local Government



Outstanding debt of Central and Local Government



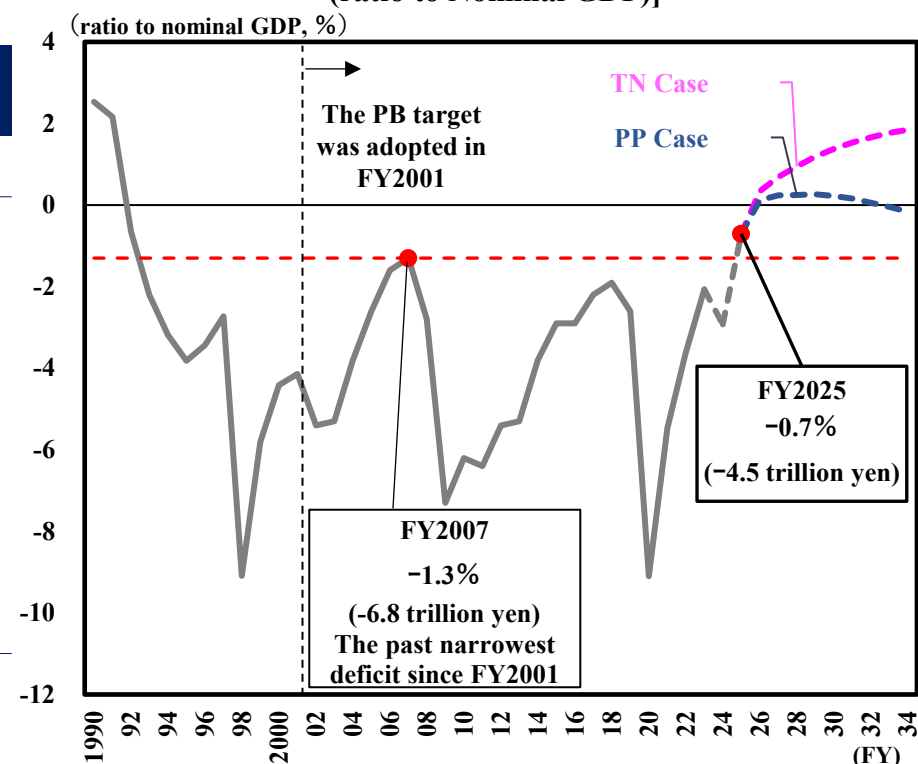
# Details of PB of Central and Local Government

- The projection of the PB in FY 2025 results in deficit by around 4.5 trillion yen because of the following factors. The upswing of the tax revenue and the effect of efforts to improve expenditure efficiency contribute to the improvement of the projection of the PB in FY2025 compared with that in the last projection (issued in July 2024). However, it worsens against a backdrop of the following factors: 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; and more.
- The level of the PB in FY2025 is projected to be the narrowest deficit since FY2001, when the PB target was set for the first time. The PB in FY 2026 is projected to be surplus because of the increase in revenue supported by economic growth and reduction in the expenditure for the economic stimulus package.

## [Factors of the PB Revision in FY2025]

	(appx. trillion yen)	
	Contribution to the PB	PB 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

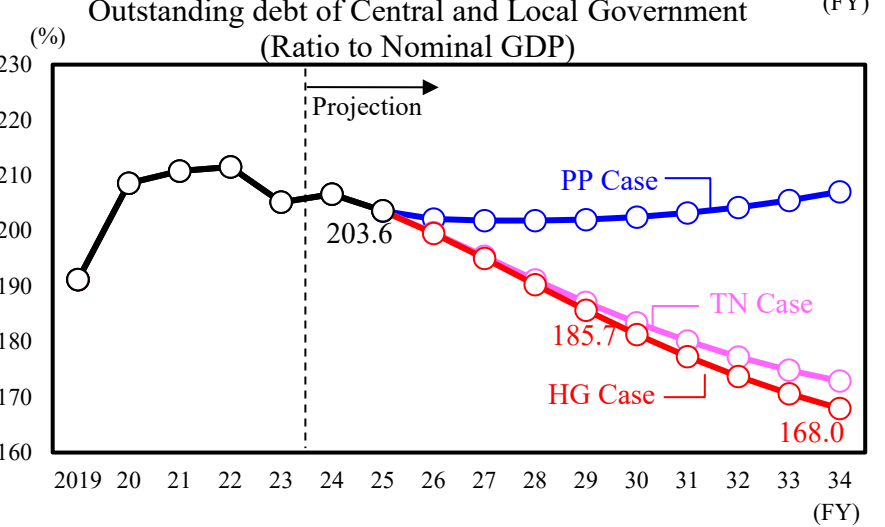
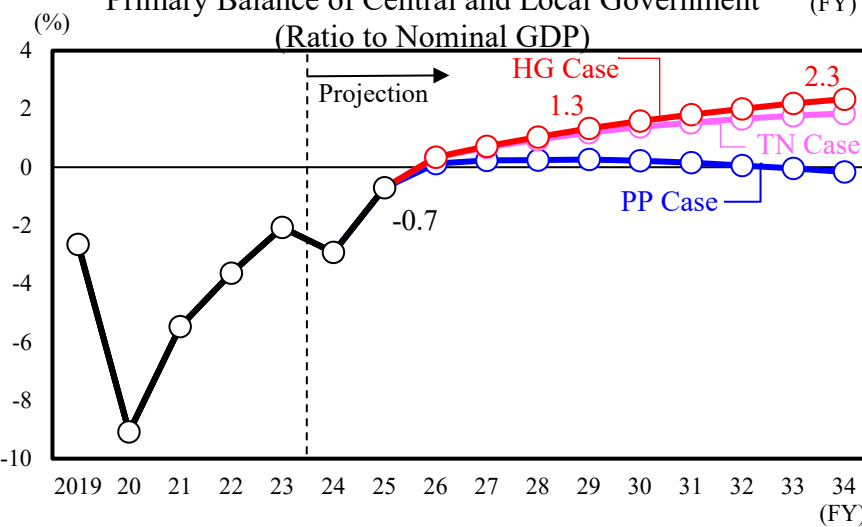
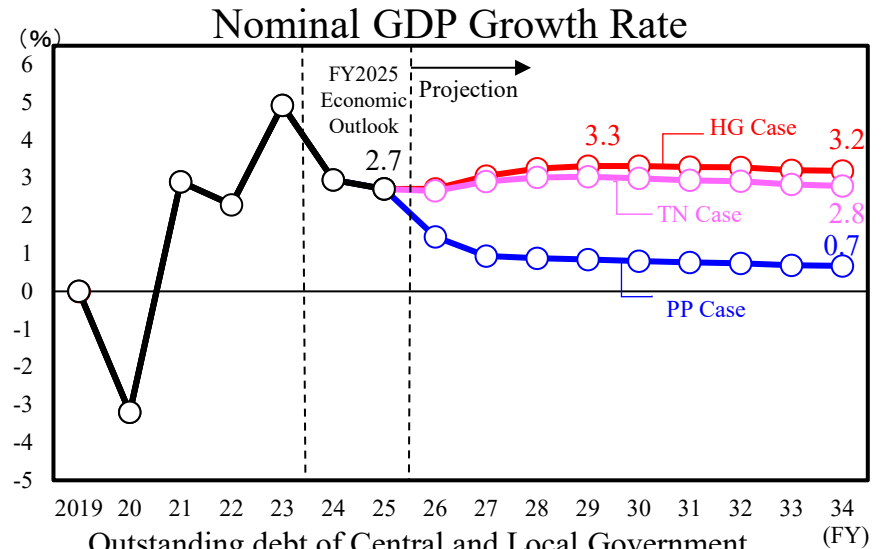
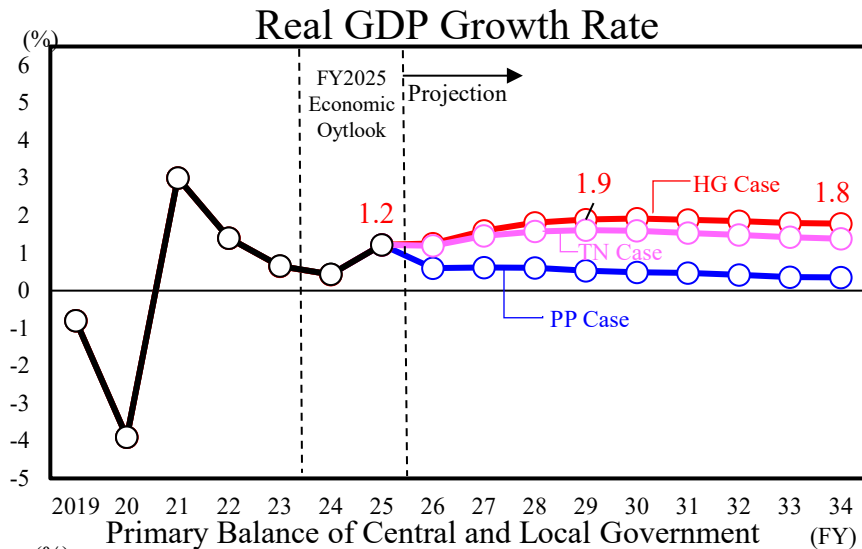
## [Time Series of the PB of Central and Local Government (ratio to Nominal GDP)]



(Note) Compiled from “SNA (National Accounts of Japan)” and “Economic and Fiscal Projections for Medium to Long Term Analysis (January 2025)” by Cabinet Office (series excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, GX measures, and the AI and semiconductor industry foundation strengthening measures). Considerable leeway should be given when interpreting the left table, including assumptions on the projection. Figures in the table are rounded, so the sum of factors and the change of PB do not always match. PB data after FY2024 in the graph are projections.

# (Reference) The Higher Economic Growth Case

- In the **Higher Economic Growth (HG) Case**, the growth rate of TFP is assumed to steadily go up to around 1.4%, which is the average rate prior to the deflationary period in Japan.
- The HG Case is projected to achieve higher nominal and real GDP growth rates than in the TN Case. The PB to GDP and the outstanding debt to GDP are both projected to improve further than in the TN Case.



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