Economic and Fiscal Projections for Medium to Long Term Analysis

(Submitted to the Council on Economic
and Fiscal Policy on August 7th, 2025)

Cabinet Office

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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 Mid-Year Economic Projection[2] up to FY2026. For FY2027 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] where 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 (0.6% in FY2024)	Labor Participation Rate[6] (63.4% in FY2024)
PP Case	Around 0.5%, the average of the most recent business cycle[7]	Rising to some extent, especially among women and the elderly (65.4% 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 (66.5% in FY2034)
HG Case	Reaching around 1.4%, the average for the period before the economy entered the deflationary situation[9]	Same as above

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[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] "Mid-year Economic Projection for FY2025" (August 7th, 2025, submitted to the CEFP).

[3] TFP represents the increase in value added that is not attributable to an increase in capital and labor, and includes a 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 and HG cases, the total factor productivity (TFP) growth is assumed to reach to around 1.1%[11] (TN Case: the average TFP growth rate over the past 40 years) and 1.4% (HG Case: the average TFP growth rate before entering the deflationary situation), respectively, over the next three years. The accelerations in the TFP growths—driven by innovation and enhanced production efficiency—are expected to result from the government-led medium- to long-term strategic investment in key priority areas—such as human capital, Green Transformation (GX), Digital Transformation (DX), and science, technology and innovation—, the minimum wage growth,[12] and the accumulation of inwards direct investment stock.[13] Under this assumption, a higher rate of the TFP growth and an 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 the 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 such factors as the wage growth including the minimum wage, and the promotion

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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 -1.0%.

[11] The 'BOX 1' in one of our previous projection reports (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 U.S. in the 2025-35 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.

[13] The government has indicated that it aims to increase the stock of inward direct investment to 120 trillion yen by 2030, and 150 trillion yen as early as possible in the first half of the 2030s.

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.

Figure 1. Decomposition of Potential Growth Rate
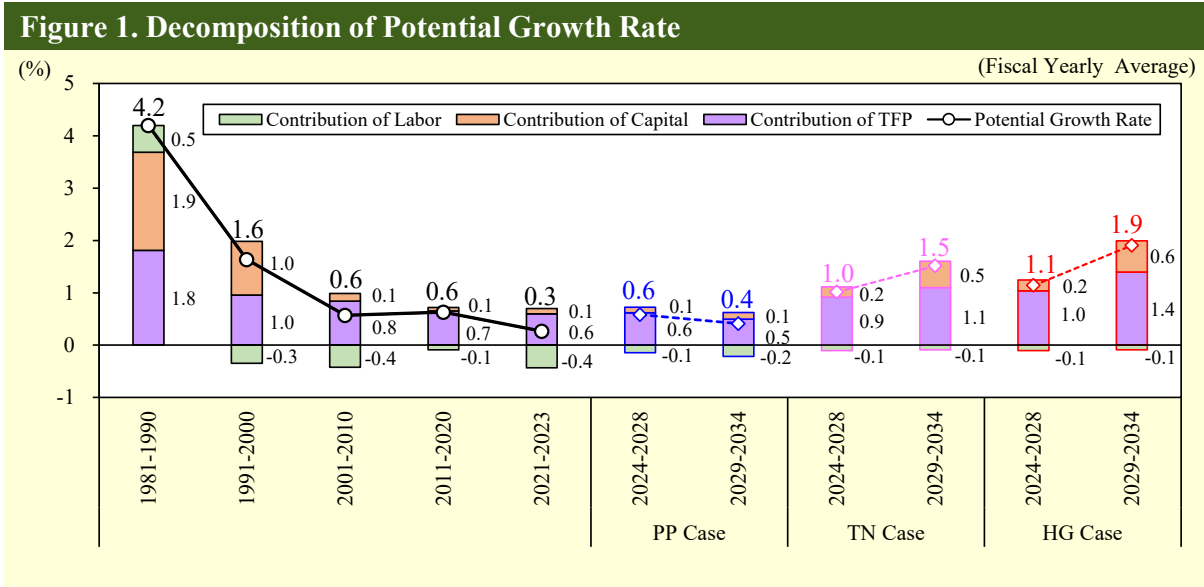
(2) Economic growth rate and wage growth rate

The real GDP growth rate averaged around 0.9% with fluctuations in FY2013-2019, before the COVID-19 pandemic. In FY2020, due to the COVID-19 pandemic, it showed significant negative growth (-3.9%), followed by a rebound to positive growth (3.0%) in FY2021. In FY2022, it was 1.3%, followed by 0.6% in FY2023 and 0.8% in FY2024. As for the nominal growth, it averaged around 1% with fluctuations since FY2013. Affected by inflation in recent years, it has recorded higher rates, reaching 4.9% in FY2023—for the first time since FY1991—and 3.7% in FY2024.
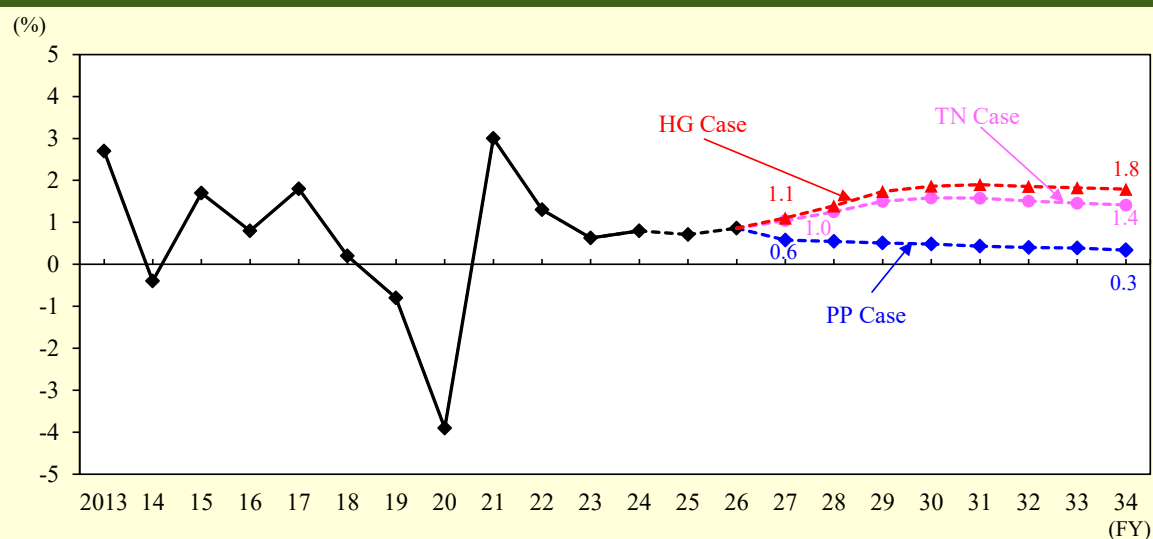
According to the Mid-Year Economic Projection—despite the impact of rising prices, U.S. tariff measures, and the slowdown in global economic growth—, the GDP growth rate is projected to be approximately 0.7% in real terms and approximately 3.3% in nominal terms, supported by increases in income, including wage increases, and the effects of various policy measures. In FY2026, the growth is projected to be at around 0.9% in real terms and 2.7% in nominal terms, supported by domestic demand.

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.
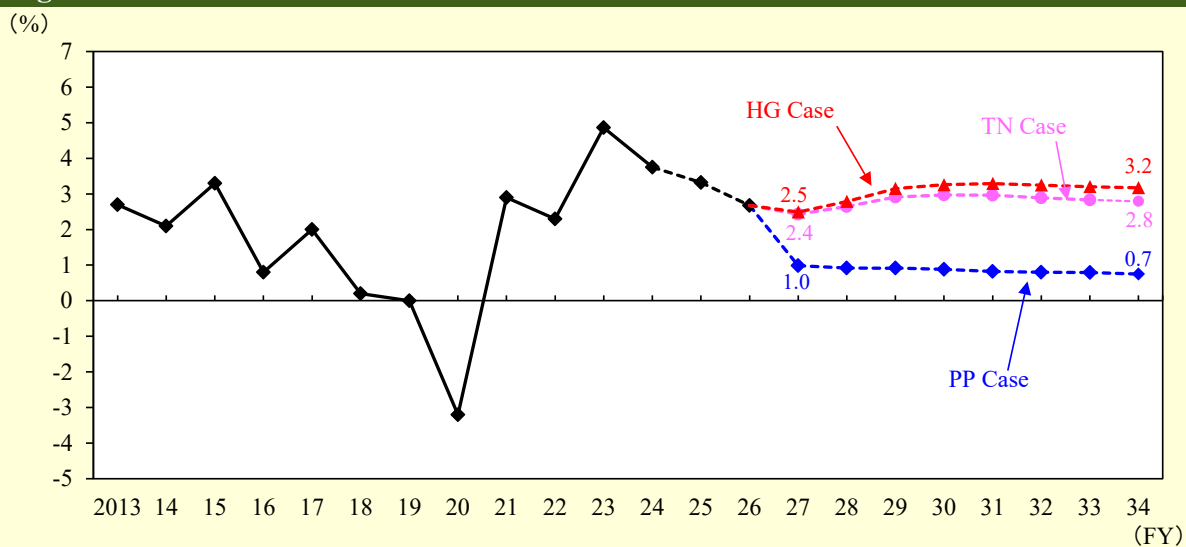
Under these growth rates, nominal GDP in the final year of the projection (FY2034) is projected

to reach around 700 trillion yen in the PP Case, around 820 trillion yen in the TN Case, and around 830 trillion yen in the HG Case.[14]

## Figure 2. Growth Rate of Real GDP

(%)

HG Case

TN Case

1.1
1.0
0.6

PP Case

1.8
1.4
0.3

2013 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34
(FY)

Figure 3. Growth Rate of Nominal GDP

(%)

HG Case

TN Case

2.5
2.4
1.0

PP Case

3.2
2.8
0.7

2013 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34
(FY)

[14] 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.

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 Real GDP per Capita
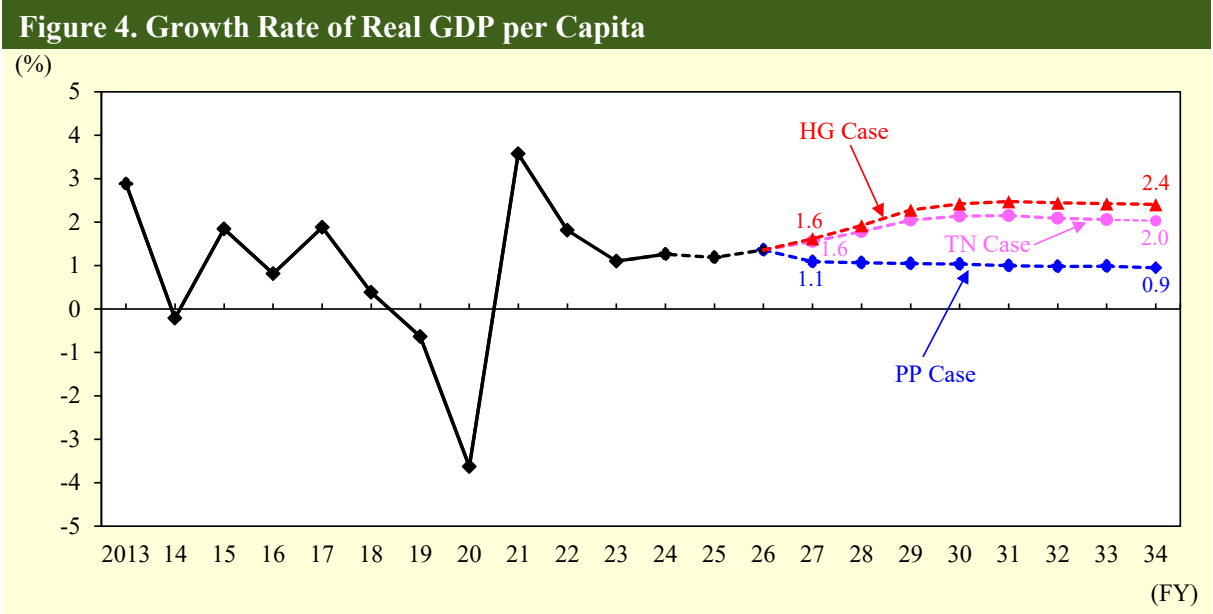
The rate of nominal wage growth[15] is important when it comes to examining the distributional aspects, such as whether the wage successfully increases in line with the economic growth. Since FY2013, the wage growth rate had been suppressed partially due to the increase in the ratio of non-regular employees amid the improvement in the labor participation of women and the elderly. However, factors such as the tightening labor market have pushed it up,[16] resulting in its average growth of approximately 0.7% in FY2013-2023. In FY2024 and FY2025, the wage growth rate is expected to be around 3.0% as the spring wage negotiation ("Shunto") resulted in a high level of wage increase, followed by 2.8% in FY2026.

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, it is projected to be around 3% to mid-3%, respectively, reflecting the higher labor productivity and the inflation fostered by capital formation and demand increase under stronger economic growth.

With regard to the real wage growth, calculated by subtracting the Consumer Price Index (CPI)[17] 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

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[15] Wage growth per employee (nominal).
[16] See Cabinet Office's "Annual Report on the Japanese Economy and Public Finance 2023," Chapter 2, Section 1.
[17] Consumer Price Index (all item).

around 1% to mid-1%,[18] as the nominal wage growth rate is higher than the CPI growth rate.

Figure 5. Growth Rate of Nominal Wage
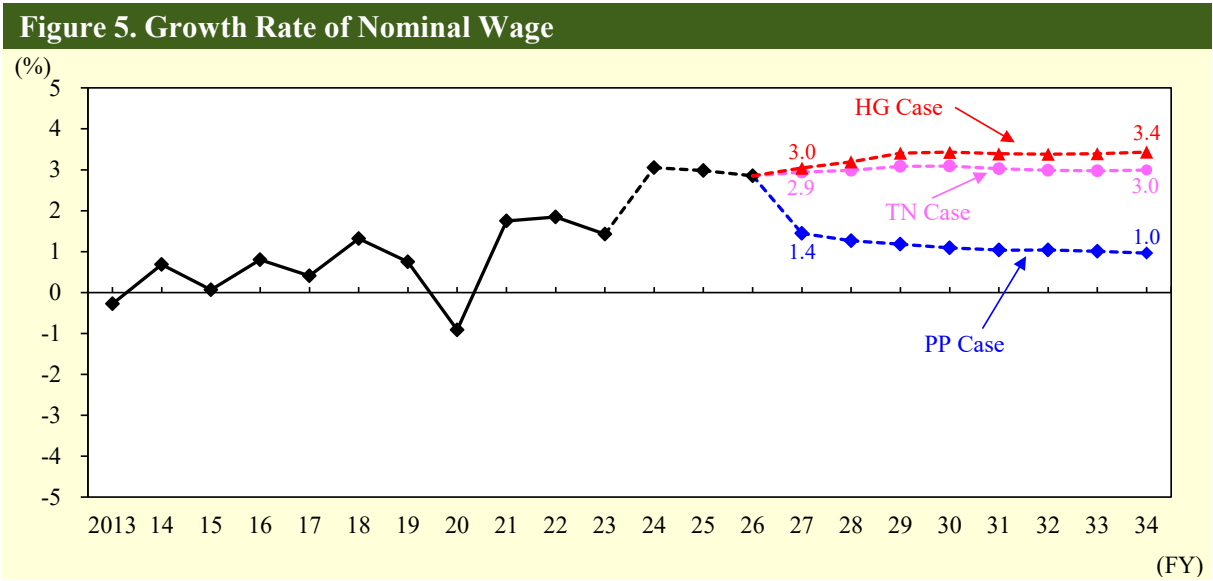
(3) CPI growth rate and long-term interest rate

Since the end of 2013, amid a non-deflationary situation, the CPI growth rate averaged around 0.8%[19] in FY2013-2019. In FY2020 and FY2021, when 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 and FY2024. According to the Mid-Year Economic Projection, it is projected to be around 2.4% in FY2025 and around 1.9% in FY2026.

Subsequently, in the PP Case, the CPI growth rate is projected to remain around the 1% range in the medium- to long-term.[20] The nominal long-term interest rate is projected to stay around mid-1% in the medium- to long-term.
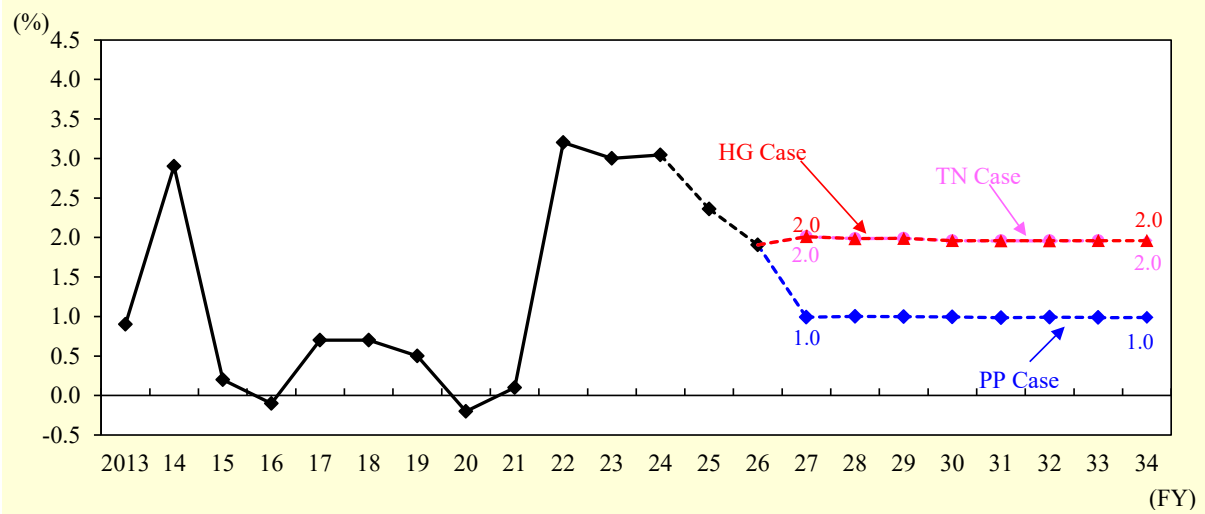
In the TN Case and the HG Case, the CPI growth rate is projected to stay around 2% over the medium- to long-term as the potential growth rate and the wage growth rate increase stably after FY2027. The nominal long-term interest rate is projected to rise to the 3% to mid-3% range in the medium- to long-term in line with economic growth.

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[18] The government has indicated that, under sustainable and stable inflation, the wage growth rate should exceed the CPI growth rate by 1%pt as a norm by FY2029 and remain so thereafter.
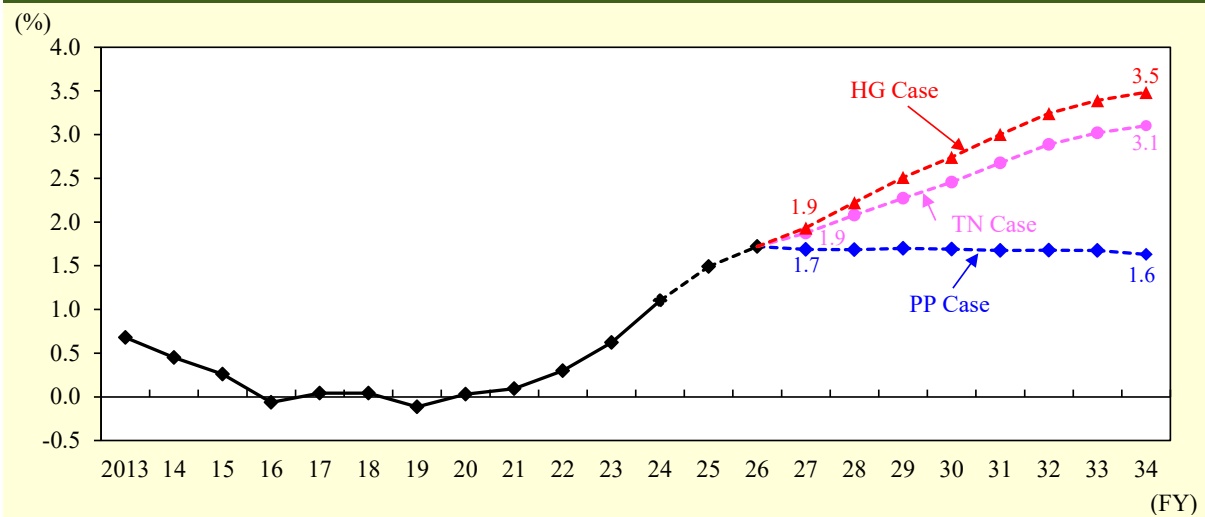
[19] The series of Consumer Price Index excluding the impact of the consumption tax rate hike was around 0.5% (the Ministry of Internal Affairs and Communication).

[20] In the Economic and Fiscal Model, it is assumed that the CPI growth would converge to its expected inflation rate over the middle- to long-term. The expected CPI growth in the PP Case would converge to the averaged rate observed from November 2012 to June 2025, approximately 1.0%.

Figure 6. Growth Rate of CPI

(%)

HG Case

TN Case

2.0
2.0

2.0
2.0

1.0

PP Case

1.0

2013 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34

(FY)

Figure 7. Nominal Long -term Interest Rate

(%)

HG Case

3.5

3.1

1.9

1.9

TN Case

1.7

PP Case

1.6

2013 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31 32 33 34

(FY)

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3. Medium- to long-term fiscal projection

On the fiscal side, the projections are consistent with economic scenarios, reflecting the FY2025 Budget and others.[21] With regard to expenditures, social security expenditures are assumed to increase, reflecting factors such as 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, the implementation of national resilience and others, whose specific sizes are already determined over multiple years, are reflected.[22] 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 population ageing, supplementary budgets and other factors, the ratio of primary balance (PB)[23] to GDP of the central and local governments had steadily improved until the COVID-19 pandemic (around -1.9% in FY2018),[24] 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 measures to respond to the rising prices and to raise wage and income, resulting in -1.2% in FY2024 and -0.5% in FY2025. However, in FY2026, the PB-to-GDP ratio is projected to show

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[21] See Appendix 1 for detailed assumptions.

[22] "Defense Buildup Program," "Children's Future Strategy," and "1st Mid-term Plan for the Implementation of National Resilience" are reflected in this projection. The expansion in expenditure related to the programs—which includes what are known as tuition-free upper secondary education and free school lunches, and other initiatives—are assumed not to affect the PB, provided that sufficient revenue is secured. The other additional expenditures which cannot be concretely assumed are not incorporated.

[23] 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.

[24] 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.

a surplus of approximately 0.5%.[25][26]

In the PP Case, after the ratio is projected to be positive (0.7%) in FY2027, the surplus is projected to gradually deteriorate. 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 population ageing, price and wage factors, etc.[27] The ratio of fiscal balance to GDP of central and local governments is projected to remain in 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 population ageing, price and wage factors, etc.[28] 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 (Ratio to Nominal GDP)

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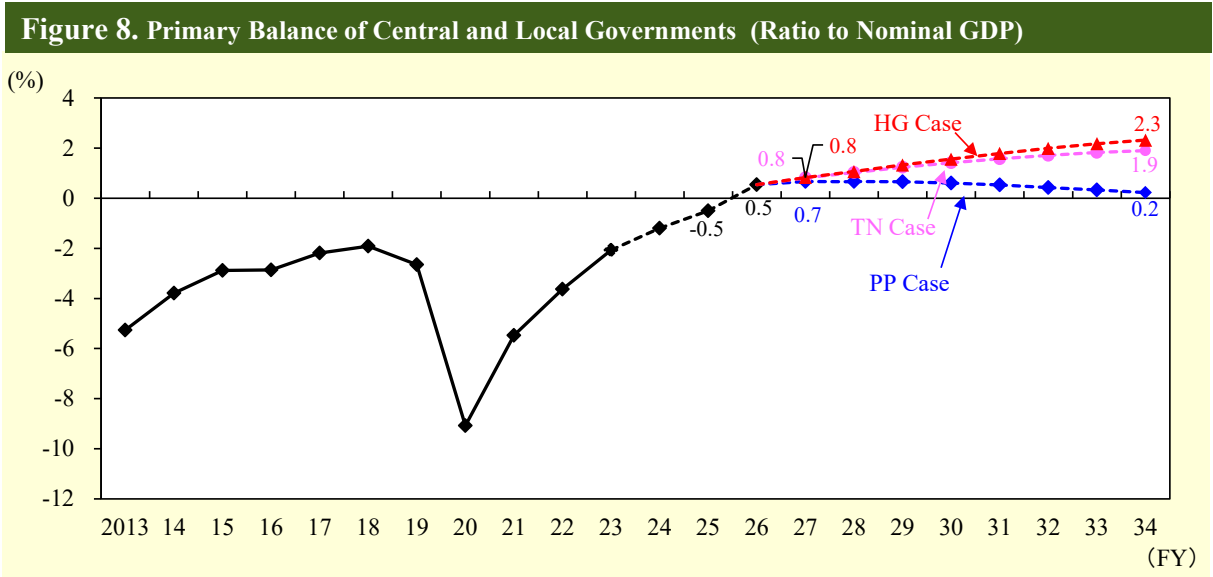
[25] The effect on improvement in the PB by efforts for expenditure efficiency by FY2024 is calculated to be around 1.3 trillion yen per year when the impact on the economy is taken into consideration, based on the materials submitted by the committee of the integrated economic and fiscal reforms to the CEFP (April 2, 2024). For the FY2026 budget, this projection incorporates about half (about 0.7 trillion yen) of the effect of efforts for expenditure efficiency (the same assumption as in the previous projections). The analyses on the revision of the PB in FY2025 and FY2026 since our last projection (January 2025) is shown in the BOX2.

[26] The government has indicated that it aims to achieve a surplus in the PB of central and local governments as early as possible, either in FY2025 or FY2026.

[27] See BOX 1.

[28] See BOX 1.

## (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 211.6% in FY2022. In FY2023, the ratio turned down, to around 205.3%, mainly due to the expansion of nominal GDP. For the time being, it is expected to be on a downward trend to around 201.3% in FY2024, 201.0% in FY2025, and 197.1% in FY2026.

Then, in the PP case, the debt-to-GDP ratio is projected to reverse its downward trend in the latter half of the 2020s. This is due to an increase in outstanding debt—the numerator—driven by a deterioration in the primary balance (PB), and because nominal GDP growth is projected to fall below interest rates after FY2027.

In the TN case, the debt-to-GDP ratio is projected to decline steadily over the projection period, falling below its pre-COVID-19 level (191.2% in FY2019) in FY2028.[29] This reflects a slower increase in outstanding debt—the numerator—driven by improvements in the PB while nominal GDP —the denominator—is expected to continue expanding.

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 (Ratio toNominal GDP)

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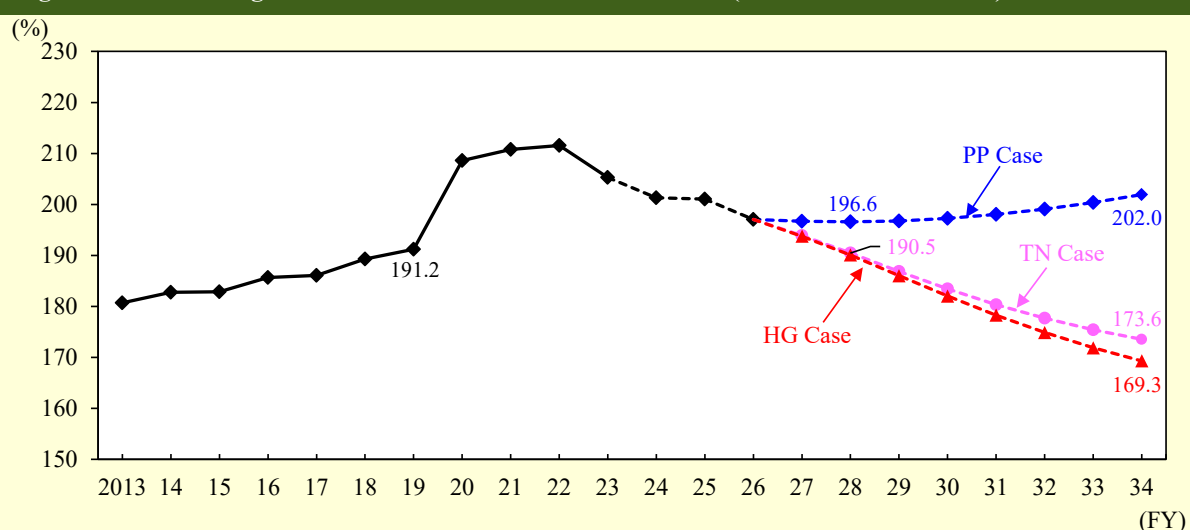
[29] The government has indicated that, throughout the period of the "Economic and Fiscal Plan for New Stage," it aims to steadily reduce the debt-to-GDP ratio to the pre-COVID-19 level, while securing a certain surplus margin of the PB. Furthermore, it would intensify its efforts to advance both economic revival and fiscal consolidation.

<BOX 1> Analysis of the PB movements

The PB is derived from subtracting primary expenditure from primary revenue. Thus, 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 expenditure 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 primary expenditure is projected to increase and exceed the pre-COVID-19 level due to the implementation of economic stimulus packages aimed at addressing rising prices and promoting wage and income growth. In FY2025 and FY2026, the carried-forward funds from the economic measures enacted in FY2024 are assumed to be disbursed. However, this disbursement is assumed to have a limited impact on the level of primary expenditure from FY2027 onwards.

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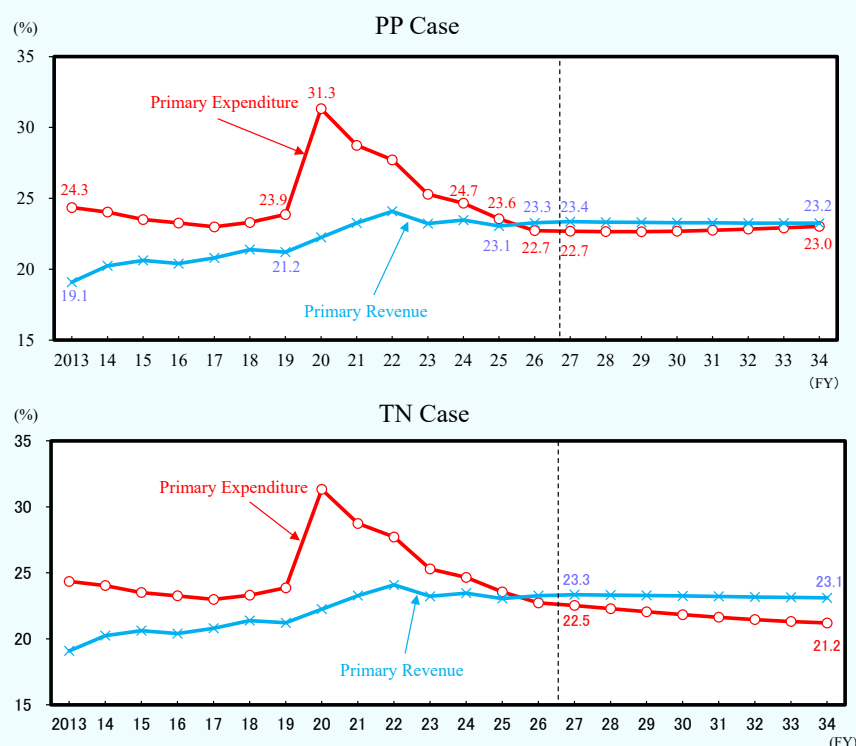
(Notes) 1. The classification is based on IMF's Government Finance Statistics Manual 2014.
2. The primary revenue is "revenue" minus "interest income." The primary expenditure is "expenditure" minus "interest payment."
3. Excluding expenditures and fiscal resources for recovery and reconstruction, GX,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

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From FY2027 onwards, the PB developments differ between the PP Case and TN Case, reflecting different movements regarding the growth of revenue and expenditure, as outlined below:

- 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. 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. [*] 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 much. On the other hand, in the TN Case, since the inflation rate is lower than the nominal GDP growth rate, the primary expenditure-to-GDP ratio declines gradually.

[*] 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 weight of the wage growth on expenditures is relatively small.

<BOX 2> Factors Behind the Revision of the PB Projection

The PB of the central and local governments in FY2025 is projected to be around -3.2 trillion yen (around -0.5% of GDP). Compared with the previous projection issued in January 2025, the assumption on the underlying tax revenue growth contributes to the improvement of the PB, while the reflection of the carried-forward funds of the provisional settlement and others[*1] worsens the PB. As a result, the PB in FY2025 is projected to improve by approximately 1.3 trillion yen.

Factors of the PB Revision in FY2025

Appx. trillion Yen

	Contribution to the PB	Primary Balance in FY 2025
January 2025 projection		▲ 4.5
Factors on the revenue side · The assumption on the underlying tax revenue growth	＋ 1.6	
Factors on the expenditure side · The impact of FY2024 provisional settlement, including carried-forward funds	▲ 0.4	
August 2025 projection		▲ 3.2

(Notes) 1. Considerable leeway should be given when interpreting this table, including assumptions on this projection.
2. Figures in this table are rounded, so the sum of factors and the change of the PB do not always match.
3. The "▲" in front of the numbers in the table stands for the negative sign. We use it for negative values hereinafter.

The PB of the central and local governments in FY2026 is projected be a surplus of 3.6 trillion yen (around +0.5% of GDP). Compared with the previous projection (the TN Case), although the expenditure on national resilience is projected to be higher,[*2] factors including the assumption on the underlying tax revenue growth and the effect of efforts to improve expenditure efficiency contribute to an improvement in the primary balance (PB), resulting in a 1.4 trillion yen improvement.

Note that the PBs in FY2025 and FY2026 are projections based on the data and policies available at the time of the projection. Given that settlement data for the central government's general account—reflecting changes in tax revenue and the unused budgets and the carried-forward funds—and the Annual Report on National Accounts—reflecting settlements of special and local government accounts—will be incorporated into the model for the later projection, the results may vary accordingly.[*3] Thus, considerable leeway should be given.

Factors of the PB Revision in FY2026

Appx. trillion Yen

	Contribution to the PB	Primary Balance in FY 2026
January 2025 projection (TN Case)		＋ 2.2
Factors on the revenue side ・The assumption on the underlying tax revenue growth	＋ 1.6	
Factors on the expenditure side ・The further implementation of national resilience ・The decline in expenditure in FY2026 due to lower inflation projection ・The effect of efforts to improve expenditure efficiency in FY2026	▲ 1.0 ＋ 0.1 ＋ 0.7	
August 2025 projection		＋ 3.6

(Notes)　1. See footnote 25 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.

(*1) The sum of impacts of carried-forward funds in FY2024 provisional settlement, revision of the FY2025 budget by the Diet, and others. Regarding the carried-forward funds, as a result of incorporating the data of provisional settlement for FY2024, their impact is turned to be 0.3 trillion yen bigger than the assumption for the previous projection. An upswing of carried-forward funds improves the PB in FY2024. On the other hand, they are assumed to be disbursed in FY2025, deteriorating the PB of the same year.

(*2) Based on "1st Mid-term Plan for the Implementation of National Resilience," the assumption of the expenditure for the national resilience is revised. Compared with the previous projection, the expenditure is assumed to increase by 1 trillion yen each year. See Appendix 1 for detailed assumptions.

(*3) As for the settlement of the central government's general account in each year, its provision is released in around July in the next year. The data is incorporated into the projection in the summer issue of the same year. Subsequently, the Annual Report on National Accounts—reflecting settlements of special and local government accounts as well as the settlement of the central government's general account—is released in December. The data is incorporated into the projection in the winter issue of the following year.

4. Risk and Uncertainty

The medium- to long-term economic and fiscal projections described so far entail various risks and uncertainties. Concerning short-term prospects, attention should be given to downturn risks of the Japanese economy due to the increasing impact of the U.S. trade policies as well as the effects of continued price increases on private consumption through a downturn in consumer sentiment. Also, continued attention should be given to the effects of fluctuations in the financial and capital markets. Furthermore, looking at the medium- to long-term time horizon, the risks and uncertainties include, for example, the following (i) - (iii).[30]

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 policy changes in mind.

(i) Changes in medium- to long-term economic growth

The IMF's "World Economic Outlook" (April 2025) highlights several downside risks to global economic growth, including: escalating trade measures and prolonged trade policy uncertainty; financial market volatility and correction; rising long-term interest rates; and rising social discontent.[31] 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 upwards, 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 downwards, such as an increase in the 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 impact of a decline in the potential growth rate. Here, we assume that the rate of increase in the 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 0.8%pt in the final
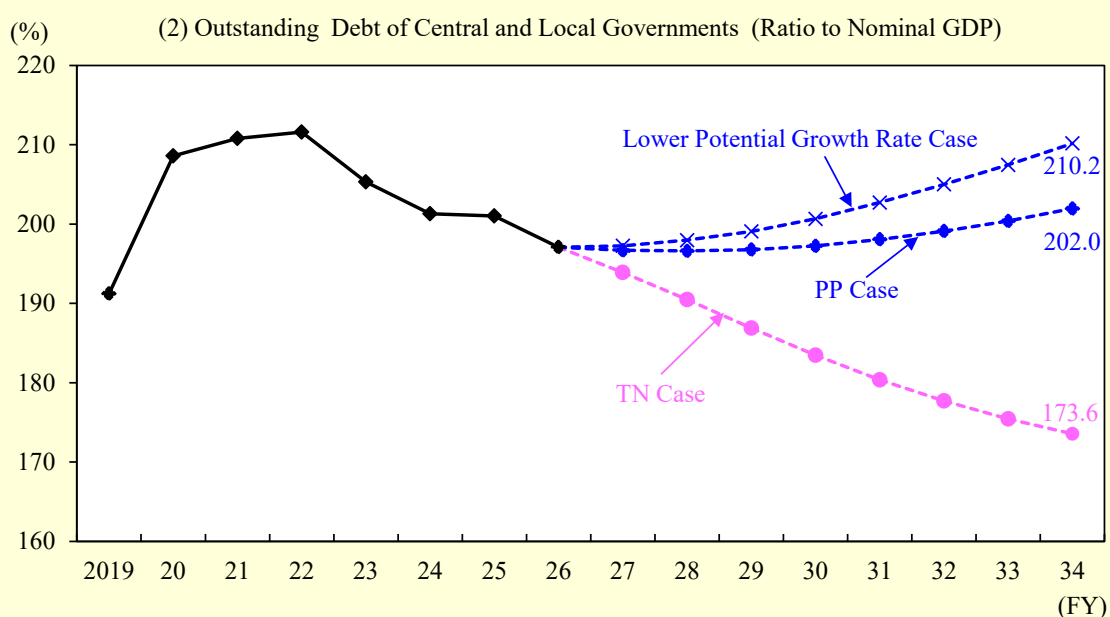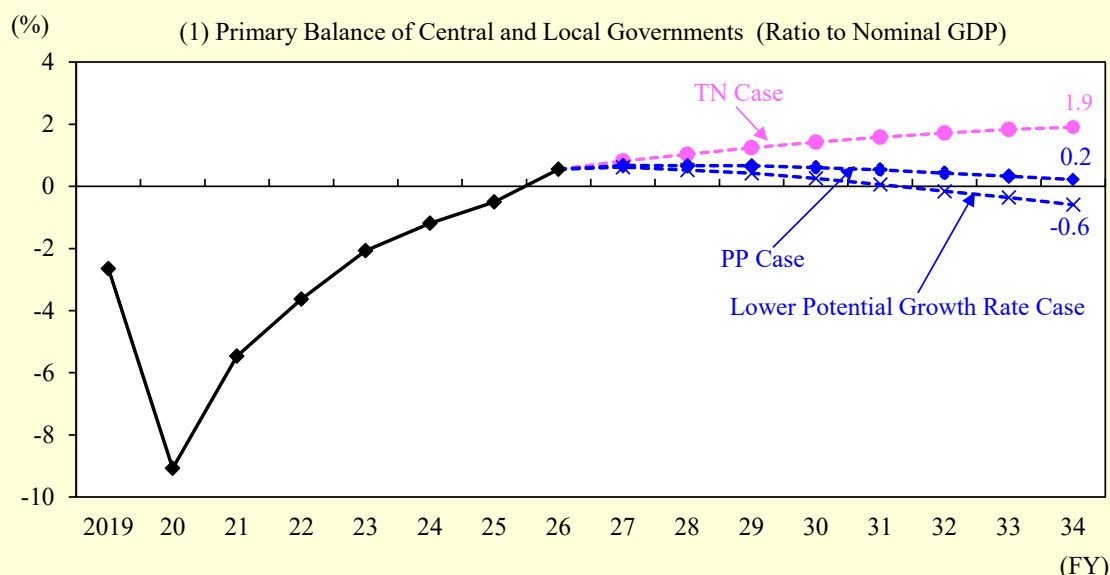
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[30] Those listed here are examples. Risks and uncertainties are not limited to those.

[31] IMF (April 2025) cites upside risks as well, including: next-generation trade agreements; mitigation of conflicts; structural reform momentum; growth engine powered by AI; and other positive developments. The World Bank's "Commodity Markets Outlook" (April 2025) points out there exist both upside and downside risks to crude oil prices. Upside risks include the intensification of geopolitical tensions, as well as mitigation of global trade tensions. The downside risks include weaker-than-expected global economic growth and increased oil supply in OPEC+.

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 0.8%pt and the debt-to-GDP ratio increases by about 8.2%pt in the final year of the projection period.

Figure 10. Lower Potential Growth Rate Case

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

(%)   (2) Outstanding Debt of Central and Local Governments (Ratio to Nominal 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)	(0.6)	(0.7)	(0.1)	(0.0)	(▲0.1)	(▲0.1)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.5)
Nominal GDP	594.7	617.0	637.5	654.6	659.2	662.8	666.2	669.0	671.0	672.9	674.8	676.2
PB of Central and Local Governments (Ratio to Nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.6)	(0.5)	(0.4)	(0.3)	(0.1)	(▲0.2)	(▲0.4)	(▲0.6)
Outstanding Debt (Ratio to Nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(197.3)	(198.0)	(199.1)	(200.7)	(202.7)	(205.0)	(207.5)	(210.2)

(Notes) 1. Sensitivity analysis uses 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 the TFP growth rate is continuously 0.5％pt lower than
          the PP Case during the estimation period (FY2027 and beyond), with no changes 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 rates have been on a moderate upward trend.
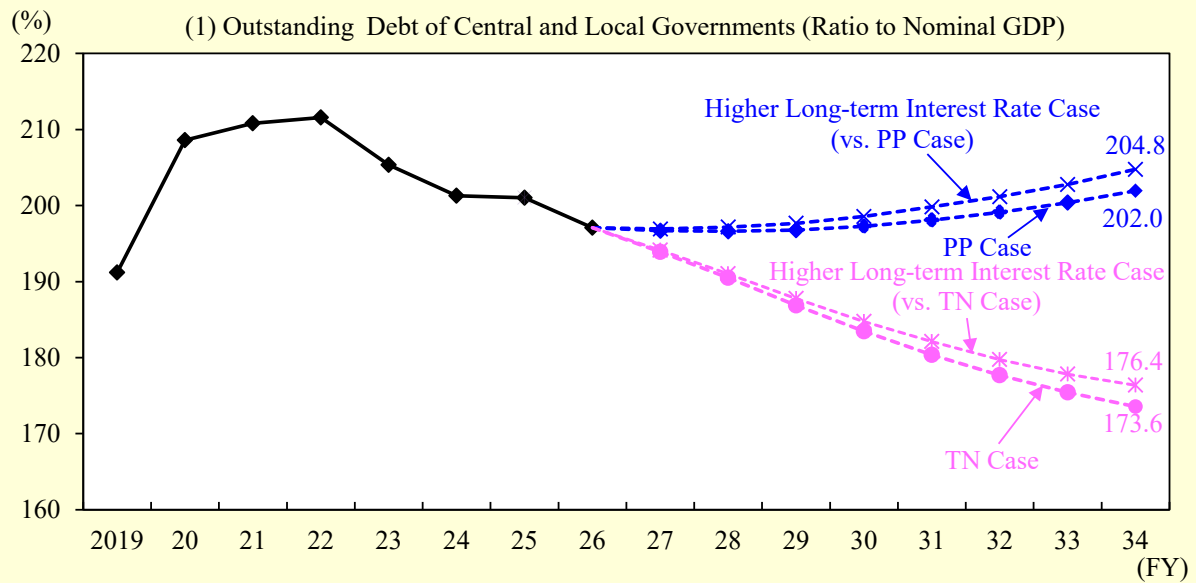
A rise in long-term interest rates could have several impacts on the economy and public finance through various channels.[32] For example, by restraining investment, and other factors, it could have a negative impact on the real economy. If nominal long-term interest rates rise relative to the nominal GDP growth rate, they could deteriorate fiscal sustainability by worsening the fiscal balance and increasing the 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 rates 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 debt-to-GDP climbs by about 2.8%pt in the final year of the projection period in both cases.

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[32] 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

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

Higher Long-term Interest Rate Case (vs. PP Case) — 204.8

PP Case — 202.0

Higher Long-term Interest Rate Case (vs. TN Case) — 176.4

TN Case — 173.6

(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	1.1	1.5	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.1
Outstanding Debt (Ratio to Nominal GDP)	205.3	201.3	201.0	197.1	196.9	197.2	197.7	198.6	199.8	201.2	202.8	204.8

＜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	1.1	1.5	2.2	2.4	2.6	2.8	3.0	3.2	3.4	3.5	3.6
Outstanding Debt (Ratio to Nominal GDP)	205.3	201.3	201.0	197.1	194.1	191.0	187.8	184.8	182.1	179.7	177.8	176.4

(Notes) 1. Sensitivity analysis uses multiplier tables from the Economic and Fiscal Model (2018).
2. The "Higher Long-term Interest Rate Case" is the case in which the nominal long-term interest rates are continuously 0.5%pt higher than those in both cases during the estimation period (FY2027 and beyond), with no changes in other exogenous variables.

(iii) Response to economic fluctuations, etc.

When various economic shocks have occurred, there has often been additional fiscal spendings to deal with the crises. The debt-to-GDP ratio of central and local governments rose by about 90%pt over the past 2 decades (FY2002-2023), with an increase of about 40%pt[33] during the five years in total, 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 were not as large as the Great Recession or the pandemic.[34]

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[33] Changes in the ratio of the debt-to-GDP in FY2008-2010 and FY2019-2022. The outstanding debt has increased by about 620 trillion yen over the past 2 decades (FY2002-2023), of which about 230 trillion yen —about 40%— has increased over the past five years, periods marked by significant economic shocks.

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

Supplementary budgets in the general account of the central governments are supposed to be compiled in cases of particular urgency under the Public Finance Act,[35] 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 turns to negative.

Figure12. Increases in Government Expenditures Case
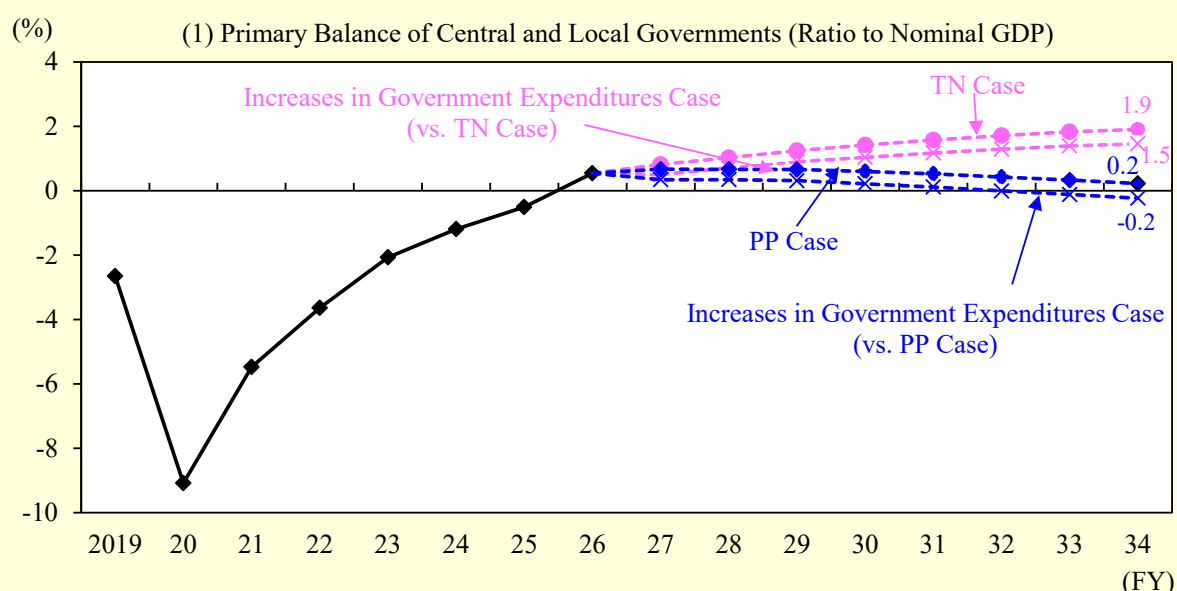
(1) Primary Balance of Central and Local Governments (Ratio to Nominal GDP)

(2) Table

＜vs. Projection of Past Trend Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PB of Central and Local Governments (Ratio to Nominal GDP)	▲ 2.1	▲ 1.2	▲ 0.5	0.5	0.3	0.3	0.3	0.2	0.1	▲ 0.0	▲ 0.1	▲ 0.2

＜vs. Transferring a New Economic Stage Case＞ %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PB of Central and Local Governments (Ratio to Nominal GDP)	▲ 2.1	▲ 1.2	▲ 0.5	0.5	0.5	0.7	0.9	1.0	1.2	1.3	1.4	1.5

(Notes) 1. Sensitivity analysis uses multiplier tables from the Economic and Fiscal Model (2018).
2. The "Increases in Government Expenditures Case" is the case in which the government expenditures are continuously 0.5%pt higher than those in both cases during the estimation period (FY2027 and beyond), with no changes in other exogenous variables.

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[35] 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[36] due to the incorporation of the settlement, etc. Therefore, considerable leeway should be given when interpreting the projections shown here.[37]

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.[38]

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[36] 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 summer projection, resulting in an improvement by about 2 trillion yen compared with FY T+1 winter projection due to the changes in the tax revenue and the unused budget and carried-over funds 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 the FY T+2 winter projection, the FY T PB has tended to improve by about 2 trillion yen compared with that in the FY T+1 summer projection as a result of the reflection of the Annual Estimates of SNA which take into account the settlements of local governments and special accounts, etc.

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

[38] 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)	(0.6)	(0.7)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.3)
Real GDP Growth	(0.6)	(0.8)	(0.7)	(0.9)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.3)
Nominal GDP Growth	(4.9)	(3.7)	(3.3)	(2.7)	(1.0)	(0.9)	(0.9)	(0.9)	(0.8)	(0.8)	(0.8)	(0.7)
Nominal GDP	594.7	617.0	637.5	654.6	661.0	667.1	673.2	679.1	684.7	690.2	695.6	700.8
Real GDP per Capita Growth	(1.1)	(1.3)	(1.2)	(1.4)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(0.9)
Nominal Wage Growth	(1.4)	(3.0)	(3.0)	(2.8)	(1.4)	(1.3)	(1.2)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(3.0)	(2.4)	(1.9)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
GDP deflator growth rate	(4.2)	(2.9)	(2.6)	(1.8)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)
Nominal Long-term Interest Rate	(0.6)	(1.1)	(1.5)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.6)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.7)	(0.7)	(0.7)	(0.6)	(0.5)	(0.4)	(0.3)	(0.2)
Outstanding Debt (ratio to nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(196.7)	(196.6)	(196.8)	(197.3)	(198.1)	(199.1)	(200.4)	(202.0)

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)	(0.6)	(0.7)	(1.0)	(1.3)	(1.5)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)
Real GDP Growth	(0.6)	(0.8)	(0.7)	(0.9)	(1.0)	(1.3)	(1.5)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)
Nominal GDP Growth	(4.9)	(3.7)	(3.3)	(2.7)	(2.4)	(2.6)	(2.9)	(3.0)	(3.0)	(2.9)	(2.8)	(2.8)
Nominal GDP	594.7	617.0	637.5	654.6	670.5	688.2	708.2	729.3	750.9	772.6	794.5	816.6
Real GDP per Capita Growth	(1.1)	(1.3)	(1.2)	(1.4)	(1.6)	(1.8)	(2.0)	(2.1)	(2.1)	(2.1)	(2.1)	(2.0)
Nominal Wage Growth	(1.4)	(3.0)	(3.0)	(2.8)	(2.9)	(3.0)	(3.1)	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(3.0)	(2.4)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(4.2)	(2.9)	(2.6)	(1.8)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal Long-term Interest Rate	(0.6)	(1.1)	(1.5)	(1.7)	(1.9)	(2.1)	(2.3)	(2.5)	(2.7)	(2.9)	(3.0)	(3.1)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.8)	(1.0)	(1.2)	(1.4)	(1.6)	(1.7)	(1.8)	(1.9)
Outstanding Debt (ratio to nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(193.9)	(190.5)	(186.9)	(183.5)	(180.4)	(177.7)	(175.4)	(173.6)

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)	(0.6)	(0.7)	(1.1)	(1.5)	(1.8)	(1.9)	(1.9)	(1.9)	(1.9)	(1.9)
Real GDP Growth	(0.6)	(0.8)	(0.7)	(0.9)	(1.1)	(1.4)	(1.7)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)
Nominal GDP Growth	(4.9)	(3.7)	(3.3)	(2.7)	(2.5)	(2.8)	(3.1)	(3.3)	(3.3)	(3.2)	(3.2)	(3.2)
Nominal GDP	594.7	617.0	637.5	654.6	670.9	689.6	711.3	734.5	758.6	783.3	808.4	834.0
Per Capita Real GDP Growth	(1.1)	(1.3)	(1.2)	(1.4)	(1.6)	(1.9)	(2.3)	(2.4)	(2.5)	(2.4)	(2.4)	(2.4)
Nominal Wage Growth	(1.4)	(3.0)	(3.0)	(2.8)	(3.0)	(3.2)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Unemployment Rate	(2.6)	(2.5)	(2.4)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(3.0)	(2.4)	(1.9)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(4.2)	(2.9)	(2.6)	(1.8)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal Long-term Interest Rate	(0.6)	(1.1)	(1.5)	(1.7)	(1.9)	(2.2)	(2.5)	(2.7)	(3.0)	(3.2)	(3.4)	(3.5)
Primary Balance (ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.8)	(1.1)	(1.3)	(1.6)	(1.8)	(2.0)	(2.2)	(2.3)
Outstanding Debt (ratio to nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(193.8)	(190.1)	(186.0)	(182.0)	(178.3)	(174.9)	(171.9)	(169.3)

Notes 1 "Real GDP per Capita 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 the 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	▲ 7.4	▲ 3.2	3.6	4.4	4.4	4.4	4.1	3.6	2.9	2.3	1.6
(ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.7)	(0.7)	(0.7)	(0.6)	(0.5)	(0.4)	(0.3)	(0.2)
Central Government	▲ 18.5	▲ 14.1	▲ 11.5	▲ 6.2	▲ 5.6	▲ 5.4	▲ 5.2	▲ 5.2	▲ 5.3	▲ 5.5	▲ 5.8	▲ 6.2
(ratio to nominal GDP)	(▲3.1)	(▲2.3)	(▲1.8)	(▲1.0)	(▲0.9)	(▲0.8)	(▲0.8)	(▲0.8)	(▲0.8)	(▲0.8)	(▲0.8)	(▲0.9)
Local Government	6.2	6.7	8.3	9.8	10.1	9.8	9.6	9.3	8.9	8.5	8.1	7.8
(ratio to nominal GDP)	(1.0)	(1.1)	(1.3)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.3)	(1.2)	(1.2)	(1.1)
Fiscal Balance	▲ 17.0	▲ 11.7	▲ 9.0	▲ 2.1	▲ 2.5	▲ 3.8	▲ 5.1	▲ 6.7	▲ 8.3	▲ 10.0	▲ 11.6	▲ 13.2
(ratio to nominal GDP)	(▲2.9)	(▲1.9)	(▲1.4)	(▲0.3)	(▲0.4)	(▲0.6)	(▲0.8)	(▲1.0)	(▲1.2)	(▲1.5)	(▲1.7)	(▲1.9)
Central Government	▲ 22.5	▲ 17.3	▲ 16.3	▲ 11.1	▲ 11.6	▲ 12.7	▲ 13.7	▲ 14.9	▲ 16.2	▲ 17.4	▲ 18.6	▲ 19.8
(ratio to nominal GDP)	(▲3.8)	(▲2.8)	(▲2.6)	(▲1.7)	(▲1.8)	(▲1.9)	(▲2.0)	(▲2.2)	(▲2.4)	(▲2.5)	(▲2.7)	(▲2.8)
Local Government	5.5	5.7	7.4	8.9	9.2	8.8	8.6	8.3	7.9	7.4	6.9	6.6
(ratio to nominal GDP)	(0.9)	(0.9)	(1.2)	(1.4)	(1.4)	(1.3)	(1.3)	(1.2)	(1.1)	(1.1)	(1.0)	(0.9)
Outstanding Debt	1221.1	1242.0	1281.6	1290.1	1300.2	1311.6	1324.7	1339.5	1356.0	1374.2	1393.9	1415.3
(ratio to nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(196.7)	(196.6)	(196.8)	(197.3)	(198.1)	(199.1)	(200.4)	(202.0)
Central Government	1053.9	1078.3	1124.2	1137.5	1152.6	1169.1	1187.1	1206.5	1227.2	1249.1	1272.4	1297.0
(ratio to nominal GDP)	(177.2)	(174.8)	(176.4)	(173.8)	(174.4)	(175.2)	(176.3)	(177.7)	(179.2)	(181.0)	(182.9)	(185.1)
Local Government	167.1	163.8	157.3	152.6	147.5	142.5	137.6	133.1	128.9	125.0	121.5	118.3
(ratio to nominal GDP)	(28.1)	(26.5)	(24.7)	(23.3)	(22.3)	(21.4)	(20.4)	(19.6)	(18.8)	(18.1)	(17.5)	(16.9)

【General Account of Central Government】 Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	127.6	123.0	115.2	121.8	125.6	127.8	130.3	132.8	135.2	137.6	140.0	142.3
（Policy Expenditures）	102.5	97.7	87.3	93.1	94.7	95.2	96.4	97.3	98.3	99.3	100.4	101.5
Social Security-related Expenditures	36.2	35.8	38.3	39.1	39.8	40.5	41.2	41.8	42.4	43.0	43.7	44.3
Local Allocation Tax Grants, etc.	17.2	19.6	18.9	20.6	21.1	21.2	21.3	21.4	21.5	21.5	21.7	21.8
Others	48.7	41.9	29.8	33.1	33.4	33.2	33.5	33.8	34.1	34.4	34.7	35.0
Bond Expenditures	25.5	25.7	28.2	29.0	31.3	32.9	34.3	35.8	37.3	38.7	40.0	41.1
Debt Repayment	17.7	17.4	17.3	17.9	18.8	19.1	19.4	19.7	20.1	20.5	20.8	21.2
Interest Payment	7.4	7.9	10.5	10.7	12.1	13.4	14.6	15.7	16.8	17.9	18.8	19.5
Revenues	94.1	88.6	86.6	91.1	92.3	92.8	93.7	94.4	95.2	96.0	96.8	97.6
Tax Revenue	72.1	75.2	77.8	81.8	83.5	83.8	84.5	85.1	85.8	86.4	87.1	87.7
Other Revenues	22.1	13.4	8.7	9.3	8.8	9.0	9.2	9.3	9.4	9.6	9.7	9.9
Primary Balance in General Account of Central Government	▲ 8.3	▲ 9.1	▲ 0.8	▲ 2.0	▲ 2.4	▲ 2.4	▲ 2.7	▲ 2.9	▲ 3.0	▲ 3.3	▲ 3.6	▲ 4.0

【Ordinary Account of Local Government】 Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	112.0	110.6	105.4	113.0	114.5	115.4	116.4	117.3	118.3	119.2	120.2	121.2
Debt Repayment and Interest Payment	12.2	10.9	10.7	11.0	11.3	11.3	11.2	10.9	10.6	10.4	10.2	10.0
Revenues	99.8	101.1	96.3	103.6	105.0	105.9	106.8	107.7	108.6	109.5	110.4	111.4
Tax Revenue	47.3	49.4	49.7	51.6	52.2	52.8	53.2	53.7	54.1	54.5	54.9	55.3
Primary Balance in Ordinary Account of Local Government	4.5	5.9	6.3	8.9	9.0	8.7	8.5	8.2	7.9	7.6	7.3	7.0

（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	▲ 7.6	▲ 5.1	0.6	2.2	2.3	2.6	2.3	2.5	1.9	3.0	2.2
(ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.8)	(0.1)	(0.3)	(0.3)	(0.4)	(0.3)	(0.4)	(0.3)	(0.4)	(0.3)
Central Government	▲ 18.7	▲ 14.3	▲ 13.4	▲ 9.3	▲ 7.9	▲ 7.5	▲ 7.0	▲ 7.0	▲ 6.5	▲ 6.6	▲ 5.1	▲ 5.5
(ratio to nominal GDP)	(▲3.1)	(▲2.3)	(▲2.1)	(▲1.4)	(▲1.2)	(▲1.1)	(▲1.0)	(▲1.0)	(▲0.9)	(▲1.0)	(▲0.7)	(▲0.8)
Local Government	6.2	6.7	8.3	9.8	10.1	9.8	9.6	9.3	8.9	8.5	8.1	7.8
(ratio to nominal GDP)	(1.0)	(1.1)	(1.3)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.3)	(1.2)	(1.2)	(1.1)
Fiscal Balance	▲ 17.5	▲ 12.0	▲ 10.9	▲ 5.2	▲ 4.8	▲ 6.1	▲ 7.1	▲ 8.7	▲ 9.7	▲ 11.4	▲ 11.3	▲ 12.9
(ratio to nominal GDP)	(▲2.9)	(▲1.9)	(▲1.7)	(▲0.8)	(▲0.7)	(▲0.9)	(▲1.1)	(▲1.3)	(▲1.4)	(▲1.7)	(▲1.6)	(▲1.8)
Central Government	▲ 23.0	▲ 17.7	▲ 18.3	▲ 14.1	▲ 14.0	▲ 14.9	▲ 15.7	▲ 17.0	▲ 17.6	▲ 18.8	▲ 18.3	▲ 19.5
(ratio to nominal GDP)	(▲3.9)	(▲2.9)	(▲2.9)	(▲2.2)	(▲2.1)	(▲2.2)	(▲2.3)	(▲2.5)	(▲2.6)	(▲2.7)	(▲2.6)	(▲2.8)
Local Government	5.5	5.6	7.3	8.9	9.2	8.8	8.6	8.3	7.9	7.4	6.9	6.6
(ratio to nominal GDP)	(0.9)	(0.9)	(1.1)	(1.4)	(1.4)	(1.3)	(1.3)	(1.2)	(1.1)	(1.1)	(1.0)	(0.9)
Outstanding Debt	1228.7	1250.6	1291.2	1302.0	1314.4	1328.1	1343.6	1361.0	1379.0	1398.7	1418.3	1439.6
(ratio to nominal GDP)	(206.6)	(202.7)	(202.5)	(198.9)	(198.8)	(199.1)	(199.6)	(200.4)	(201.4)	(202.7)	(203.9)	(205.4)
Central Government	1061.2	1086.5	1133.6	1149.1	1166.6	1185.4	1205.8	1227.7	1249.9	1273.5	1296.6	1321.0
(ratio to nominal GDP)	(178.4)	(176.1)	(177.8)	(175.6)	(176.5)	(177.7)	(179.1)	(180.8)	(182.6)	(184.5)	(186.4)	(188.5)
Local Government	167.5	164.0	157.6	152.8	147.8	142.8	137.9	133.3	129.1	125.3	121.7	118.5
(ratio to nominal GDP)	(28.2)	(26.6)	(24.7)	(23.4)	(22.4)	(21.4)	(20.5)	(19.6)	(18.9)	(18.2)	(17.5)	(16.9)

Notes 1. In "General Account of Central Government," FY2023, FY2024, and FY2025 are based on the settlement, provisional settlement, and the budget, 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 and FY2024 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 33.1 trillion yen and 23.6 trillion yen, respectively, minus carried-forward funds to the next fiscal year (approximately 11.1 trillion yen and 10.2 trillion yen, respectively).
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	▲ 7.4	▲ 3.2	3.6	5.5	7.1	8.8	10.4	11.9	13.3	14.5	15.5
(ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.5)	(0.5)	(0.8)	(1.0)	(1.2)	(1.4)	(1.6)	(1.7)	(1.8)	(1.9)
Central Government	▲ 18.5	▲ 14.1	▲ 11.5	▲ 6.2	▲ 5.3	▲ 4.2	▲ 3.2	▲ 2.5	▲ 1.8	▲ 1.1	▲ 0.6	▲ 0.3
(ratio to nominal GDP)	(▲3.1)	(▲2.3)	(▲1.8)	(▲1.0)	(▲0.8)	(▲0.6)	(▲0.5)	(▲0.3)	(▲0.2)	(▲0.1)	(▲0.1)	(▲0.0)
Local Government	6.2	6.7	8.3	9.8	10.7	11.3	12.0	12.8	13.7	14.4	15.1	15.8
(ratio to nominal GDP)	(1.0)	(1.1)	(1.3)	(1.5)	(1.6)	(1.6)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(1.9)
Fiscal Balance	▲ 17.0	▲ 11.7	▲ 9.0	▲ 2.1	▲ 1.6	▲ 1.7	▲ 1.7	▲ 2.0	▲ 2.5	▲ 3.3	▲ 4.2	▲ 5.3
(ratio to nominal GDP)	(▲2.9)	(▲1.9)	(▲1.4)	(▲0.3)	(▲0.2)	(▲0.2)	(▲0.2)	(▲0.3)	(▲0.3)	(▲0.4)	(▲0.5)	(▲0.7)
Central Government	▲ 22.5	▲ 17.3	▲ 16.3	▲ 11.1	▲ 11.4	▲ 12.1	▲ 12.8	▲ 13.9	▲ 15.2	▲ 16.7	▲ 18.4	▲ 20.3
(ratio to nominal GDP)	(▲3.8)	(▲2.8)	(▲2.6)	(▲1.7)	(▲1.7)	(▲1.8)	(▲1.8)	(▲1.9)	(▲2.0)	(▲2.2)	(▲2.3)	(▲2.5)
Local Government	5.5	5.7	7.4	8.9	9.8	10.4	11.1	11.9	12.7	13.5	14.2	14.9
(ratio to nominal GDP)	(0.9)	(0.9)	(1.2)	(1.4)	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Outstanding Debt	1221.1	1242.0	1281.6	1290.1	1300.0	1310.9	1323.5	1337.9	1354.3	1372.8	1393.7	1417.4
(ratio to nominal GDP)	(205.3)	(201.3)	(201.0)	(197.1)	(193.9)	(190.5)	(186.9)	(183.5)	(180.4)	(177.7)	(175.4)	(173.6)
Central Government	1053.9	1078.3	1124.2	1137.5	1152.3	1168.2	1185.5	1204.3	1224.5	1246.6	1270.6	1297.0
(ratio to nominal GDP)	(177.2)	(174.8)	(176.4)	(173.8)	(171.9)	(169.8)	(167.4)	(165.1)	(163.1)	(161.4)	(159.9)	(158.8)
Local Government	167.1	163.8	157.3	152.6	147.6	142.7	137.9	133.6	129.7	126.2	123.1	120.4
(ratio to nominal GDP)	(28.1)	(26.5)	(24.7)	(23.3)	(22.0)	(20.7)	(19.5)	(18.3)	(17.3)	(16.3)	(15.5)	(14.7)

【General Account of Central Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	127.6	123.0	115.2	121.8	126.5	130.2	134.7	139.2	144.0	149.1	154.4	160.0
(Policy Expenditures)	102.5	97.7	87.3	93.1	95.5	97.1	99.5	101.8	104.0	106.5	109.0	111.8
Social Security-related Expenditures	36.2	35.8	38.3	39.1	40.1	41.1	42.2	43.3	44.4	45.6	46.8	48.3
Local Allocation Tax Grants, etc.	17.2	19.6	18.9	20.6	21.4	22.0	22.6	23.1	23.7	24.3	24.9	25.6
Others	48.7	41.9	29.8	33.1	33.6	33.7	34.3	35.0	35.6	36.2	36.9	37.6
Bond Expenditures	25.5	25.7	28.2	29.0	31.4	33.4	35.6	37.8	40.3	43.0	45.8	48.5
Debt Repayment	17.7	17.4	17.3	17.9	18.8	19.1	19.5	19.9	20.3	20.8	21.3	21.8
Interest Payment	7.4	7.9	10.5	10.7	12.3	14.0	15.7	17.5	19.6	21.8	24.1	26.4
Revenues	94.1	88.6	86.6	91.1	93.6	96.0	98.9	101.7	104.7	107.7	110.7	113.7
Tax Revenue	72.1	75.2	77.8	81.8	84.8	86.9	89.4	92.0	94.6	97.3	100.0	102.7
Other Revenues	22.1	13.4	8.7	9.3	8.8	9.1	9.5	9.8	10.1	10.4	10.7	11.0
Primary Balance in General Account of Central Government	▲ 8.3	▲ 9.1	▲ 0.8	▲ 2.0	▲ 1.9	▲ 1.1	▲ 0.6	▲0.0	0.7	1.2	1.7	1.9

【Ordinary Account of Local Government】

Trillions of Yen

	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034
Expenditures	112.0	110.6	105.4	113.0	115.8	118.5	121.4	124.5	127.8	131.1	134.5	138.1
Debt Repayment and Interest Payment	12.2	10.9	10.7	11.0	11.3	11.3	11.2	11.0	10.8	10.6	10.5	10.4
Revenues	99.8	101.1	96.3	103.6	106.4	109.0	112.0	115.1	118.4	121.8	125.3	128.9
Tax Revenue	47.3	49.4	49.7	51.6	53.0	54.5	56.0	57.7	59.3	61.0	62.7	64.4
Primary Balance in Ordinary Account of Local Government	4.5	5.9	6.3	8.9	9.6	10.2	11.0	12.1	13.2	14.3	15.4	16.6

（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	▲ 7.6	▲ 5.1	0.6	3.2	5.0	7.0	8.6	10.7	12.2	15.2	16.2
(ratio to nominal GDP)	(▲2.1)	(▲1.2)	(▲0.8)	(0.1)	(0.5)	(0.7)	(1.0)	(1.2)	(1.4)	(1.6)	(1.9)	(2.0)
Central Government	▲ 18.7	▲ 14.3	▲ 13.4	▲ 9.3	▲ 7.5	▲ 6.3	▲ 5.1	▲ 4.3	▲ 2.9	▲ 2.2	0.1	0.4
(ratio to nominal GDP)	(▲3.1)	(▲2.3)	(▲2.1)	(▲1.4)	(▲1.1)	(▲0.9)	(▲0.7)	(▲0.6)	(▲0.4)	(▲0.3)	(0.0)	(0.0)
Local Government	6.2	6.7	8.3	9.8	10.7	11.3	12.1	12.9	13.7	14.4	15.1	15.8
(ratio to nominal GDP)	(1.0)	(1.1)	(1.3)	(1.5)	(1.6)	(1.6)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)	(1.9)
Fiscal Balance	▲ 17.5	▲ 12.0	▲ 10.9	▲ 5.2	▲ 3.9	▲ 3.9	▲ 3.8	▲ 4.1	▲ 4.0	▲ 4.8	▲ 4.0	▲ 5.2
(ratio to nominal GDP)	(▲2.9)	(▲1.9)	(▲1.7)	(▲0.8)	(▲0.6)	(▲0.6)	(▲0.5)	(▲0.6)	(▲0.5)	(▲0.6)	(▲0.5)	(▲0.6)
Central Government	▲ 23.0	▲ 17.7	▲ 18.3	▲ 14.1	▲ 13.8	▲ 14.3	▲ 14.9	▲ 16.0	▲ 16.7	▲ 18.3	▲ 18.2	▲ 20.2
(ratio to nominal GDP)	(▲3.9)	(▲2.9)	(▲2.9)	(▲2.2)	(▲2.1)	(▲2.1)	(▲2.1)	(▲2.2)	(▲2.2)	(▲2.4)	(▲2.3)	(▲2.5)
Local Government	5.5	5.6	7.3	8.9	9.8	10.4	11.1	11.9	12.8	13.5	14.2	14.9
(ratio to nominal GDP)	(0.9)	(0.9)	(1.1)	(1.4)	(1.5)	(1.5)	(1.6)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Outstanding Debt	1228.7	1250.6	1291.2	1302.0	1314.2	1327.5	1342.5	1359.4	1377.4	1397.7	1418.6	1442.3
(ratio to nominal GDP)	(206.6)	(202.7)	(202.5)	(198.9)	(196.0)	(192.9)	(189.6)	(186.4)	(183.4)	(180.9)	(178.6)	(176.6)
Central Government	1061.2	1086.5	1133.6	1149.1	1166.3	1184.6	1204.3	1225.6	1247.5	1271.2	1295.3	1321.7
(ratio to nominal GDP)	(178.4)	(176.1)	(177.8)	(175.6)	(174.0)	(172.1)	(170.0)	(168.1)	(166.1)	(164.5)	(163.0)	(161.8)
Local Government	167.5	164.0	157.6	152.8	147.9	142.9	138.2	133.9	130.0	126.5	123.4	120.6
(ratio to nominal GDP)	(28.2)	(26.6)	(24.7)	(23.4)	(22.1)	(20.8)	(19.5)	(18.4)	(17.3)	(16.4)	(15.5)	(14.8)

Notes 1. In "General Account of Central Government," FY2023, FY2024, and FY2025 are based on the settlement, provisional settlement, and the budget, 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 and FY2024 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 33.1 trillion yen and 23.6 trillion yen, respectively, minus carried-forward funds to the next fiscal year (approximately 11.1 trillion yen and 10.2 trillion yen, respectively).

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, "Quarterly Estimates of GDP for Jan.-Mar.2025 (The Second Preliminary Estimates)" etc. for FY2024, and the "Mid-Year Economic Projection for FY 2025," etc. for FY2025 and FY2026.

(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 Labour 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 85% in FY2024 to 90% in FY2034, that among males aged 65-69 gradually rises from around 65% in FY2024 to 74% in FY2034, and that among females aged 65-69 gradually rises from around 46% in FY2024 to 56% 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 2.8% annually from FY2027 to FY2030, based on the "World Economic Outlook" (WEO) by the IMF (April 2025). From FY2031 onwards, it remains constant, at around 2.6%.

<CPI Growth Rate (weighted by the 10 major export destination countries of Japan)>
- The CPI growth rate is around 1.7% to 1.9% annually from FY2027 to FY2030, based on the WEO (April 2025). From FY2031 onwards, it remains constant, at around 1.9%.

<Crude Oil Prices>
- Based on the assumptions of the Cabinet Office's "Mid-Year Economic Projection for FY 2025," the crude oil price is set to $73.7 per barrel in FY2026 (-0.4% 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 the 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 the 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 Labour Supply and Demand in FY2023" by the JILPT. For example, the LFP rate among females aged 25-44 gradually rises from around 85% in FY2024 to 91% in FY2034, that among males aged 65-69 gradually rises from around 65% in FY2024 to 77% in FY2034, and that among females aged 65-69 gradually rises from around 46% in FY2024 to 59% in FY2034.

The variables for the HG Case are derived as follows:
- The potential growth rate, the real growth rate, the primary balance of central and local governments (ratio to nominal GDP) and the outstanding debt of central and local governments (ratio to nominal GDP) are computed by adding the increment associated with the differences in the TFP growth rate from the TN Case, using the main multiplier tables listed in the "Economic and Fiscal Model (FY2018 version)."

- The unemployment rate, the CPI growth rate and the 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.

- The 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 the unemployment rate are the same in both cases—to the estimate from the TN Case. The 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 governments in FY2023 reflect the "FY2023 Settlement," those in FY2024 reflect the "FY2024 Provisional Settlement" and those in FY2025 reflect the "FY2025 Budget."

- Based on the "Act for Partial Amendment of the Income Tax Act, Etc." (Act Number 13, 2025), the legislated tax system is assumed to continue. The special exemption for employment income, enacted as a temporary measure, is expected to be applicable only for 2025 and 2026.

- 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) Expenditure
- The expenditures of the general account of the central government in FY2023 reflect the "FY2023 Settlement," those in FY2024 reflect the "FY2024 Provisional Settlement," and those in FY2025

reflect the "FY2025 Budget."

- From FY2026, the social security expenditures increase, reflecting the population ageing and price and wage developments, while other expenditures increase in line with the CPI growth rate (constant in real terms). Note that 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 "1st Mid-term Plan for the Implementation of National Resilience" (June 6, 2025, Cabinet decision), the annual average volume of expenditures for the central and local governments is mechanically assumed to be approximately 3.4 trillion yen. (In the previous projection (January 2025), it was assumed to be approximately 2.4 trillion yen per year.)

- 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 the 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. The rest of expenditures is mechanically allocated from FY2025 to FY2027 based on the past budget allocations (as for FY2025, only the "Central and Local Governments' Public Finances" reflects this). From FY2028 onwards, the expenditures increase along with the CPI growth rate, in line with other general expenditures.

- For the 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 is 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 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 the 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 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 Budget," respectively, and, based on these budgets, in FY2026-2028, 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) Assumptions on the Expenditures and the Financial Resources for the Programs—which includes what are known as tuition-free upper secondary education and free school lunches, and other initiatives

- Based on "Basic Policy on Economic and Fiscal Management and Reform 2025," (June 13, 2025, Cabinet decision), the expansion in expenditure related to the programs—which includes what are known as the tuition-free upper secondary education and the free school lunches, and other initiatives—are assumed not to affect the PB, provided that sufficient revenue is secured.

(7) Treatment of Multi-Year Framework Designed to Be Balanced by Expenditures and Financial Resources

- As for the policies listed below, the frameworks are designed to be balanced by expenditures and financial resources on a multiple year basis in the special accounts or others, securing the necessary financial resources over multiple years. Hence, the expenditures and the financial resources related to these policies are excluded from the main series in the "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 33 trillion yen until FY2025 and around 1.9 trillion yen over the five years from FY2026, according to the "Recovery and Reconstruction Projects after FY2016" (June 24, 2015, Reconstruction Promotion Conference decision), the "Scale and Financial Resources of Recovery and

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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), "Basic Guidelines for Reconstruction in Response to the Great East Japan Earthquake after the "Second Reconstruction and Revitalization Period" (June 20, 2025, Cabinet decision) and others. The expenditures up to FY2023 reflect the Settlement, those in FY2024 reflect the "FY2024 Supplemental Budget," and those in FY2025 reflect the "FY2025 Budget."

- In the projections, it is assumed that around 34.9 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), "Basic Guidelines for Reconstruction in Response to the Great East Japan Earthquake after the "Second Reconstruction and Revitalization Period" (June 20, 2025, Cabinet decision) 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 (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 the 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 Semiconductors and AI Bonds for bridging the financial resources. 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 Semiconductors and AI Bonds, they are not included in the projections due to the lack of available details at this projection.

- Note that although some portions of the measures are to be disbursed by the general account of the central government, 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   %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
General Government	-1.9	-0.7	-0.2	0.9	1.1	1.0	0.9	0.7	0.6	0.4	0.4	0.1
Households	2.3	2.7	2.7	2.4	2.0	1.7	1.5	1.4	1.3	1.3	1.3	1.3
Firms	3.9	3.0	2.6	1.3	1.2	1.0	1.0	1.0	1.0	1.0	0.9	1.1
Overseas	-4.4	-5.1	-5.0	-4.6	-4.3	-3.8	-3.5	-3.2	-3.0	-2.7	-2.6	-2.5

TN Case   %

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
General Government	-1.9	-0.7	-0.2	0.9	1.3	1.5	1.6	1.7	1.8	1.8	1.9	1.8
Households	2.3	2.7	2.7	2.4	2.3	2.3	2.0	1.8	1.7	1.6	1.5	1.5
Firms	3.9	3.0	2.6	1.3	0.6	-0.1	-0.3	-0.4	-0.6	-0.6	-0.8	-0.8
Overseas	-4.4	-5.1	-5.0	-4.6	-4.2	-3.7	-3.3	-3.1	-3.0	-2.8	-2.7	-2.5

(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   (%), ten thousand Yen

FY	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Nominal GNI per Capita	507.5	531.5	549.5	566.2	574.4	581.6	589.2	596.7	604.2	611.6	619.7	627.7
Real GNI Growth Rate	(2.0)	(1.7)	(0.7)	(0.7)	(0.6)	(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	507.5	531.5	549.5	566.2	582.0	599.1	618.4	638.8	660.0	681.9	704.5	727.8
Real GNI Growth Rate	(2.0)	(1.7)	(0.7)	(0.7)	(1.0)	(1.1)	(1.4)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)
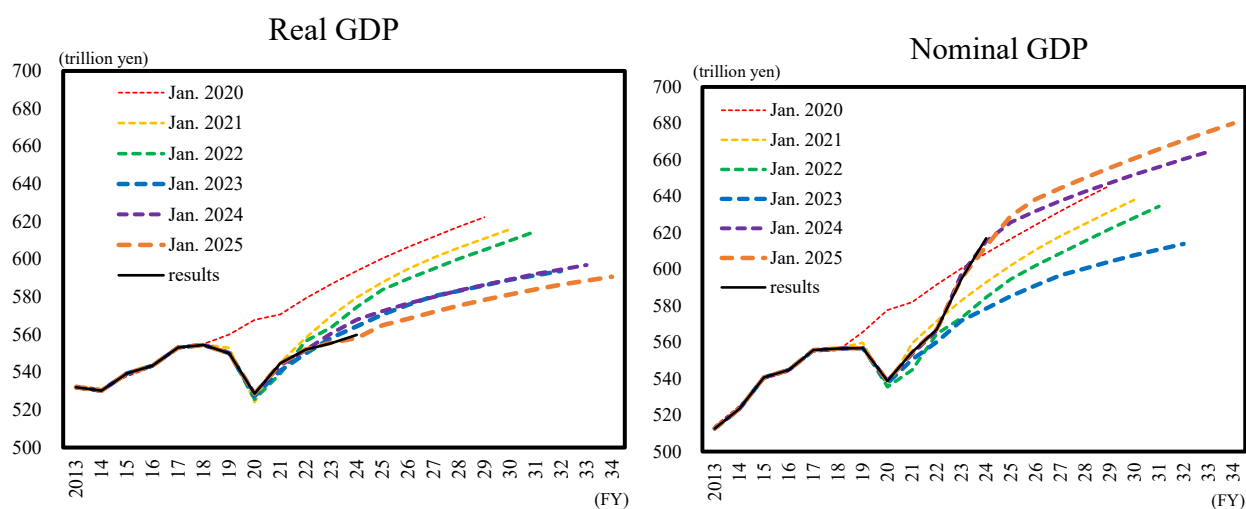
Real GDP

Nominal GDP

(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.
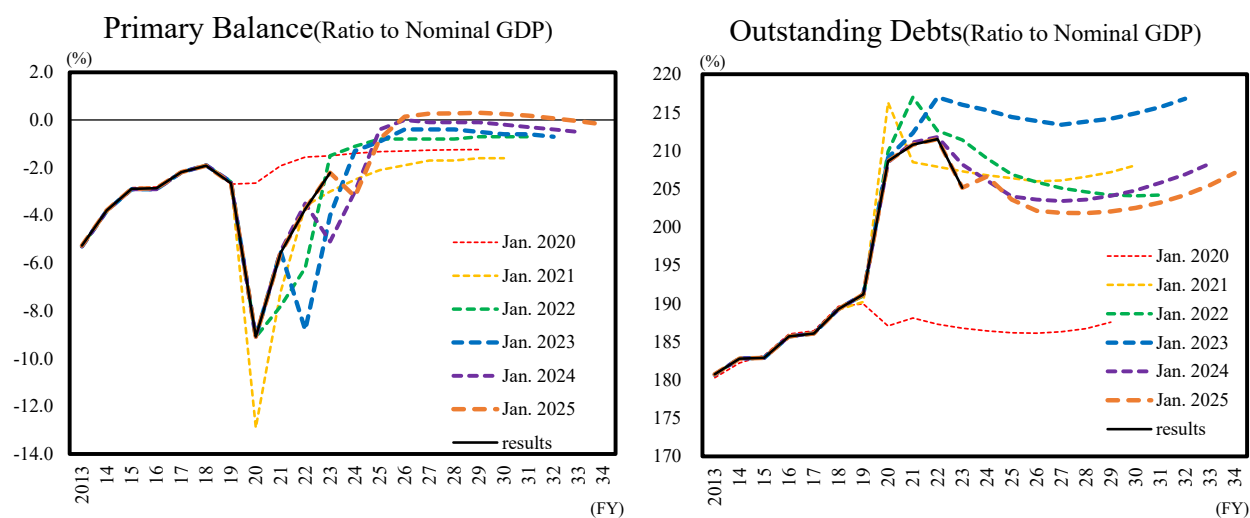
Primary Balance(Ratio to Nominal GDP)

Outstanding Debts(Ratio to Nominal GDP)

(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.

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(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 FY2027, 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 growth rate after FY2027, the 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 the same as that of the "Higher Average" in the private sector forecasts.

Real GDP Growth Rate

(FY, Appx%)

		2024	25	27-31 average	32-36 average
Cabinet office "Medium to Long Term Analysis" ※ until 2034	PP Case	0.7	0.9	0.5	0.4
	TN Case	0.7	0.9	1.4	1.5
	HG Case	0.7	0.9	1.6	1.8
Private Sector Forecasts (ESP Forecast)	Lower Average	0.3	0.5	0.4	0.3
	Average	0.5	0.7	0.7	0.6
	Higher Average	0.7	1.0	1.1	1.0

Consumer Price Index Growth Rate

(FY, Appx%)

		2024	25	27-31 average	32-36 average
Cabinet office "Medium to Long Term Analysis" ※ until 2034	PP Case	2.4	1.9	1.0	1.0
	TN Case	2.4	1.9	2.0	2.0
	HG Case	2.4	1.9	2.0	2.0
Private Sector Forecasts (ESP Forecast)	Lower Average	2.2	1.4	1.2	0.8
	Average	2.5	1.7	1.7	1.6
	Higher Average	2.9	2.2	2.1	2.1

(Notes) FY2025 and FY2026 private-sector forecasts are based on the Japan Center for Economic Research's "ESP Forecast Survey" (July 2025); FY2027-31 and FY2032-36 are based on long-term forecasts from the same survey (January 2025). 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 "Real GDP per Capita 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 real GDP per capita 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.

		Real GDP per Capita Growth (%)	Nominal Wage Growth (%)
Averages of Results between CY2012 and 2019	U.S.	1.7	2.7
	U.K.	1.4	2.1
	Germany	1.0	2.8
	Canada	0.9	2.1
	France	0.8	1.5
	Italy	0.1	0.6
	Japan	1.1	0.6
Cabinet Office "Medium to Long Term Analysis" Averages between FY2025 and 2034	PP Case	1.1	1.5
	TN Case	1.8	3.0
	HG Case	2.1	3.3

(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. "Real GDP per Capita 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.