Provisional Translation

Economic and Fiscal Projections for Medium to Long Term Analysis

(Submitted to the Council on Economic and Fiscal Policy on January 22nd, 2026)

Cabinet Office

Index

1. Introduction

This projection presents the government's economic and fiscal projection over the next decade and is submitted to the Council on Economic and Fiscal Policy (CEFP) as basic information for evaluating the progress of economic revitalization and fiscal consolidation, and for considering medium-to long-term economic and fiscal policies. This projection reflects the data and policies available at the time of the projection and is estimated using the "Economic and Fiscal Model," which presents the macroeconomy, public finance, and social security in an integrated manner.[1]

2. Medium-to long-term economic projection

This projection reflects various economic statistics and incorporates the Cabinet Office's Fiscal Year 2026 Economic Outlook, [2] which incorporates the effects of economic measures, including strategic and growth investments,[3] 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)[4] growth rate is assumed to remain at the same level as the average from the most recent business cycle to present; 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,"[5] where the TFP growth rate is assumed to increase to the average of the period prior to the deflationary situation. The key assumptions are outlined as follows.

[1] Considerable leeway should be given when interpreting the projections due to the various uncertainties involved. The "Economic and Fiscal Model" is available on the Cabinet Office website.

[2] "Fiscal Year 2026 Economic Outlook" (December 24, 2025, approved by the Cabinet).

[3] "Comprehensive Economic Measures to Build a "Strong Japanese Economy" —The Latent Power and Vigor of Japan and the Japanese People: Transforming Anxiety into Confidence—" (November 21, 2025, approved by the Cabinet).

[4] 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.

[5] 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.

Key assumptions for each scenario

	TFP Growth Rate (0.4% in FY2024)	Labor Participation Rate[6] (63.4% in FY2024)
PP Case	Around 0.6%, the average from the most recent business cycle to present[7]	Rising to some extent, especially among women and the elderly (65.7% in FY2035)
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 (66.9% in FY2035)
HG Case	Reaching around 1.4%, the average for the period before the economy entered the deflationary situation[9]	Same as above

(1) Potential growth rate

Japan's potential growth rate was 4.2% in the 1980s and 1.6% in the 1990s and has remained mostly 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 aging 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 the TFP growth rate is the same as in the recent business cycle to present (around 0.6%), the contribution of capital input to the potential growth rate, which is calculated endogenously, will be slightly positive. On the other hand, the negative contribution of the labor input, which is assumed to increase to some extent, will intensify 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 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,

[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 refer to "Achieving Growth and Advancing Labour Participation Scenario."

[7] Average from the16th business cycle to present (October-December 2012 to July-September 2025).

[8] Average from the past to the 16th business cycle (April-June 1980 to April-June 2020).

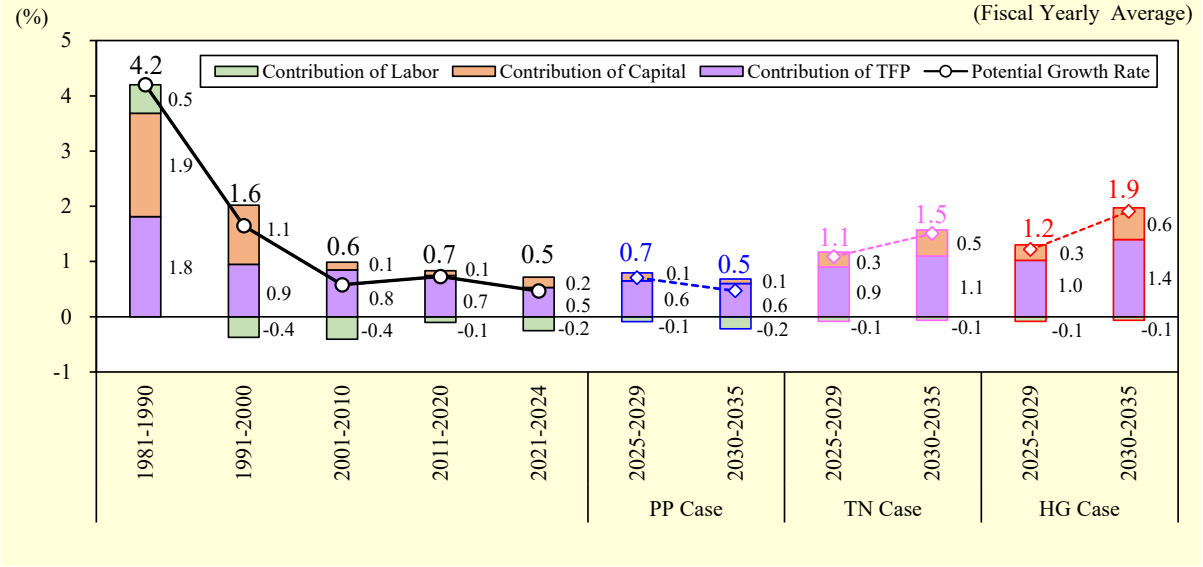
[9] Average from the past to the 12th business cycle (April-June 1980 to January-March 1999).

[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 0.6%), 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).

over the next three years. The accelerations in TFP growths—driven by innovation and enhanced production efficiency—are expected to result from the public-private partnership investment in strategic sectors. Under this assumption, a higher rate of 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 and the promotion of diverse work styles. Nevertheless, this assumption still cannot offset the impact of population decline completely, and the resulting contribution of labor input will be slightly negative. All in all, the potential growth rates are projected to be around mid-1% to 2% in the medium-to long-term.

Figure 1. Decomposition of Potential Growth Rate



(Note) Historical data before FY1994 and after FY1995 are estimates by the Cabinet Office based on the "Quarterly Estimates of GDP for Jul.-Sep.2025 (The First Preliminary Estimates)" and the "Quarterly Estimates of GDP for Jul.-Sep.2025 (The Second Preliminary Estimates)," respectively.

(2) Economic growth rate and wage growth rate

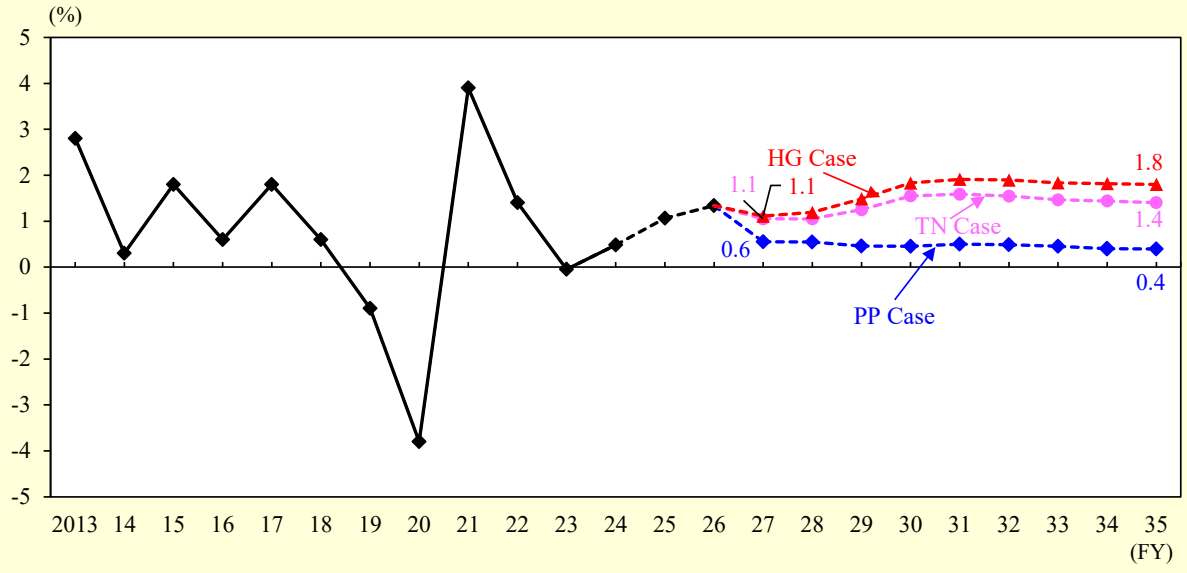
The real GDP growth rate averaged around 1.0% with fluctuations in FY2013-2019, before the COVID-19 pandemic. In FY2020, due to the COVID-19 pandemic, it showed significant negative growth (-3.8%), followed by a rebound to positive growth (3.9%) in FY2021. In FY2022, it was 1.4%, followed by -0.0% in FY2023 and 0.5% 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 4.7% in FY2023 and 3.7% in FY2024.

According to the Fiscal Year 2026 Economic Outlook, the GDP growth rate in FY2025 is projected to be approximately 1.1% in real terms and approximately 4.2% in nominal terms, as the economy is expected to continue its moderate recovery. In FY2026, the growth is projected to be at around 1.3% in real terms and 3.4% in nominal terms, supported by domestic demand.

Thereafter, since supply and demand in the overall economy will be broadly 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 around 1% in the PP Case, around 3% in the TN Case, and around mid-3% in the HG Case.

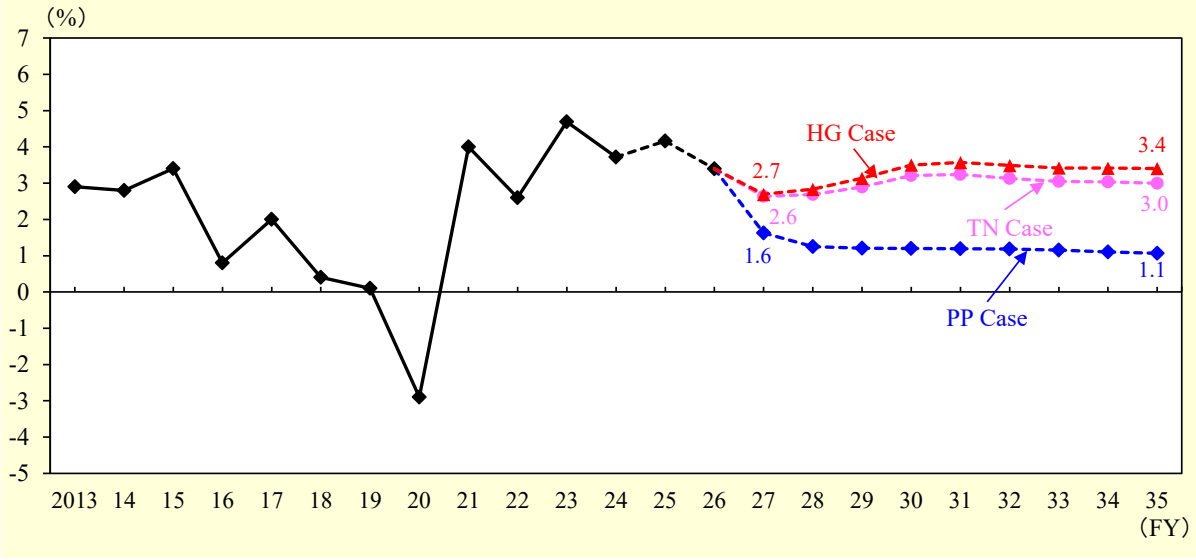
Under these growth rates, nominal GDP in the final year of the projection (FY2035) is projected to reach around 770 trillion yen in the PP Case, around 900 trillion yen in the TN Case, and around 920 trillion yen in the HG Case.[12]

Figure 2. Growth Rate of Real GDP



[12] If the nominal GDP is mechanically extended using the nominal growth rate in the final year of the estimation (FY2035), nominal GDP will exceed 1,000 trillion yen in FY2039 in the TN Case and in FY2038 in the HG Case.

Figure 3. Growth Rate of Nominal GDP



It is also important to consider 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. As for the nominal GDP per capita growth rate, it is projected to be in the upper-1% range in the PP Case, upper-3% range in the TN Case, and around 4% in the HG Case.

Figure 4. Growth Rate of Real GDP per Capita

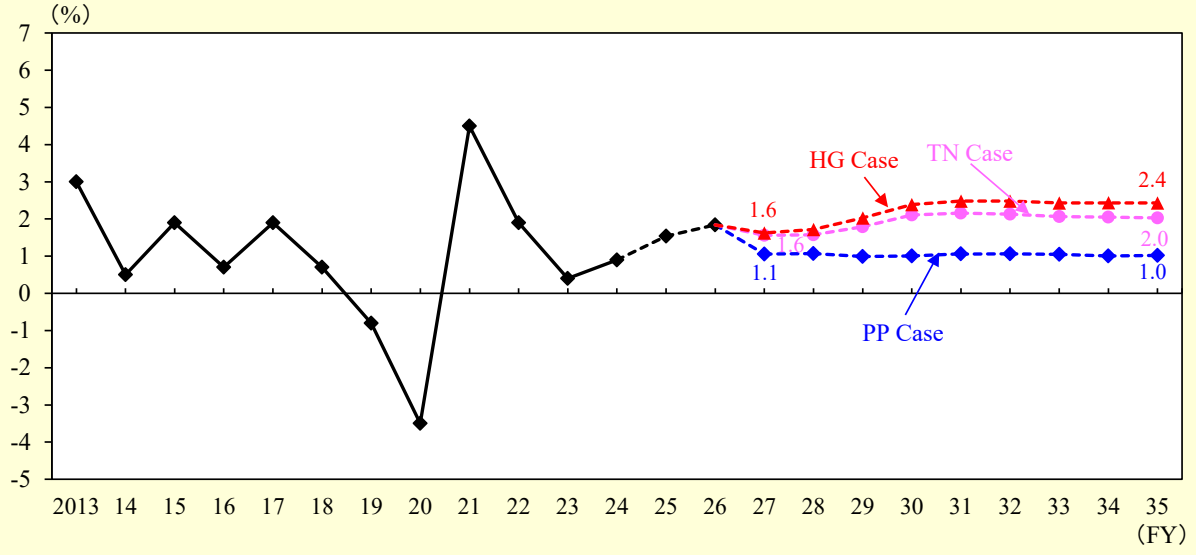
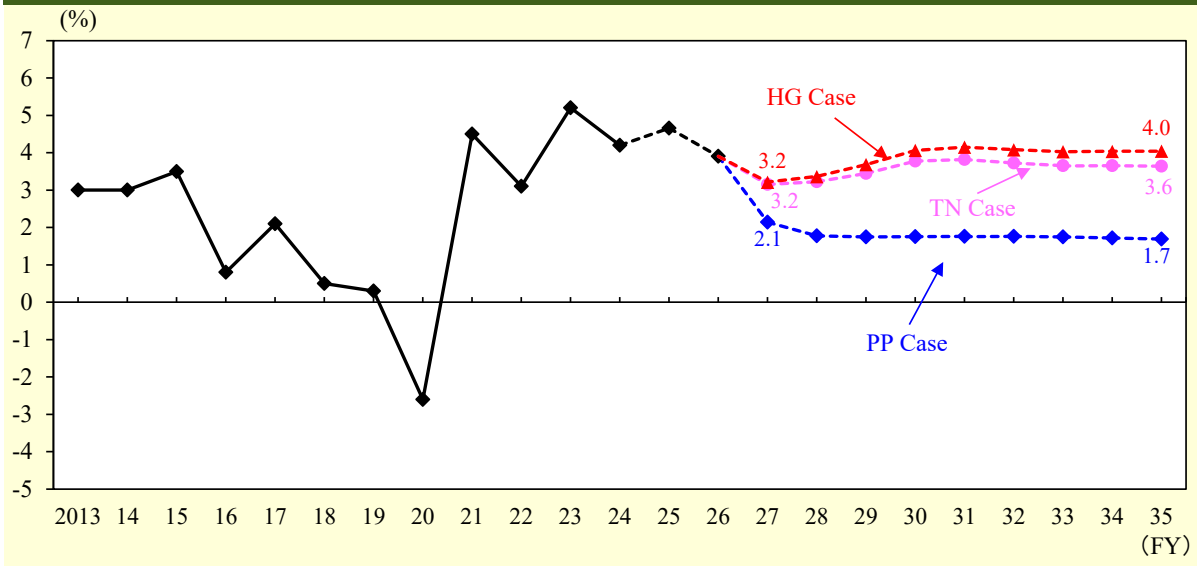


Figure 5. Growth Rate of Nominal GDP per Capita

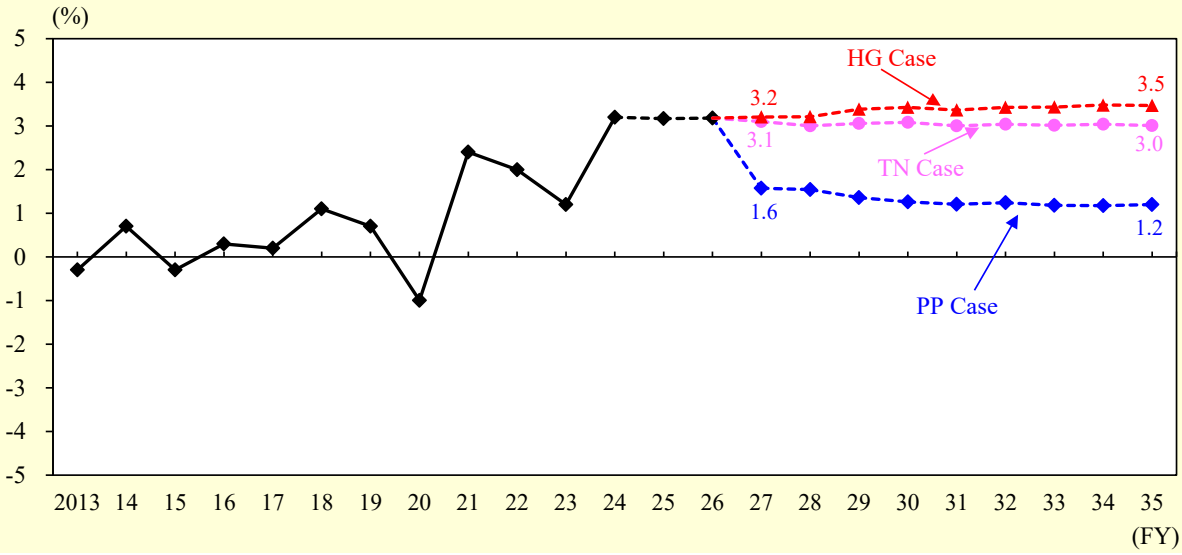


The rate of nominal wage growth[13] is important when it comes to examining the distributional aspects, such as whether the wage successfully increases in line with the economic growth. Since FY2013, the wage growth rate had been suppressed partially due to the increase in the ratio of non-regular employees amid the improvement in the labor participation of women and the elderly. However, factors such as the tightening labor market have pushed it up, resulting in its average growth of approximately 0.6% in FY2013-2023. In FY2024, the wage growth rate is around 3.2% as the spring wage negotiation ("Shunto") resulted in a high level of wage increase. It is expected to be 3.2% in FY2025 and FY2026.[14]

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 the lower-1% range. 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.

[13] Wage growth per employee (nominal).
[14] See Cabinet Office's "Fiscal Year 2026 Economic Outlook" (December 24, 2025, submitted to the CEFP). Same for the real wage growth rate explained later.

Figure 6. Growth Rate of Nominal Wage



(Note) Wage growth per employee (nominal). FY2025 and FY2026 data are based on the Cabinet Office's "Fiscal Year 2026 Economic Outlook" (December 24th, 2025, submitted to the CEFP).

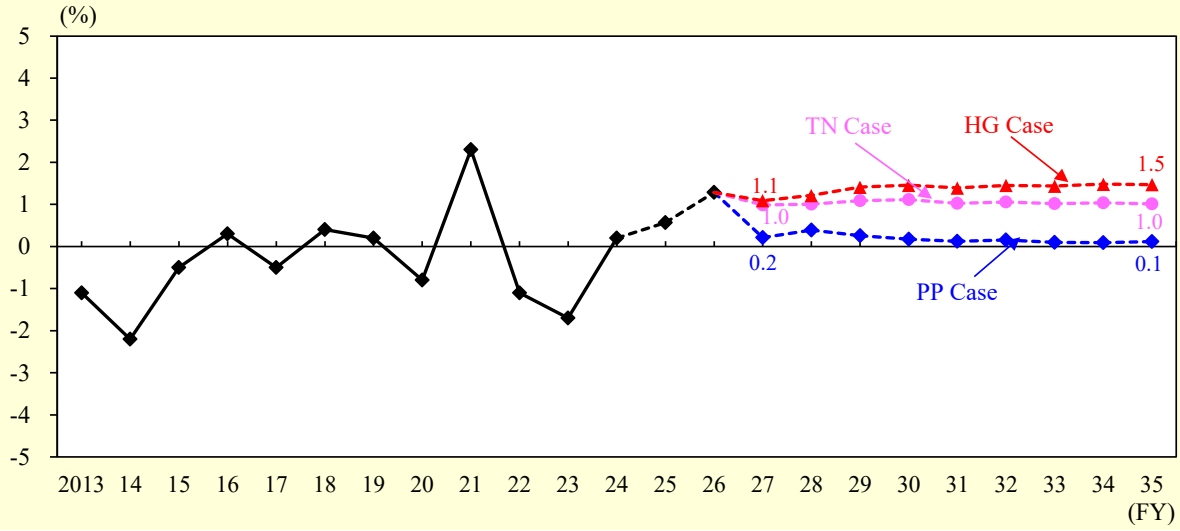
With regard to the real wage growth, calculated by subtracting the Consumer Price Index (CPI)[15] growth rate (discussed later) from the wage growth rate, it is projected to be around 1% through FY2026, following about 0% in FY2024. Subsequently, it is projected to be around 0% over the medium-to long-term in the PP Case. In contrast, in the TN Case and HG Case, the real wage growth is around 1% to mid-1%,[16] as the nominal wage growth rate is higher than the CPI growth rate.[17]

[15] Consumer Price Index (all item).

[16] 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.

[17] The growth rate of real GDP per capita is calculated by dividing real GDP by the total population and is projected to be about 2% in FY2035 under the TN Case. By contrast, real wage growth is based on real labor productivity per employee, which is estimated to be around the mid-1% range in the TN Case. In addition, real wage growth accounts for the negative effects of female and elderly labor force participation, resulting in an overall growth rate of approximately 1% in FY2035 under the TN Case.

Figure 7. Growth Rate of Real 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%[18] 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 Fiscal Year 2026 Economic Outlook, it is projected to be around 2.6% in FY2025 and around 1.9% in FY2026, with the decline in FY2026 attributable to the expected implementation of relevant policies.

Subsequently, in the PP Case, the CPI growth rate is projected to remain around the 1% range in the medium-to long-term.[19] The nominal long-term interest rate is projected to stay around upper-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 lower-3% and upper-3% range in the medium-to long-term in line with economic growth.

[18] The average taken for 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).

[19] 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 average rate observed from November 2012 to November 2025, approximately1.1%.

Figure 8. Growth Rate of CPI

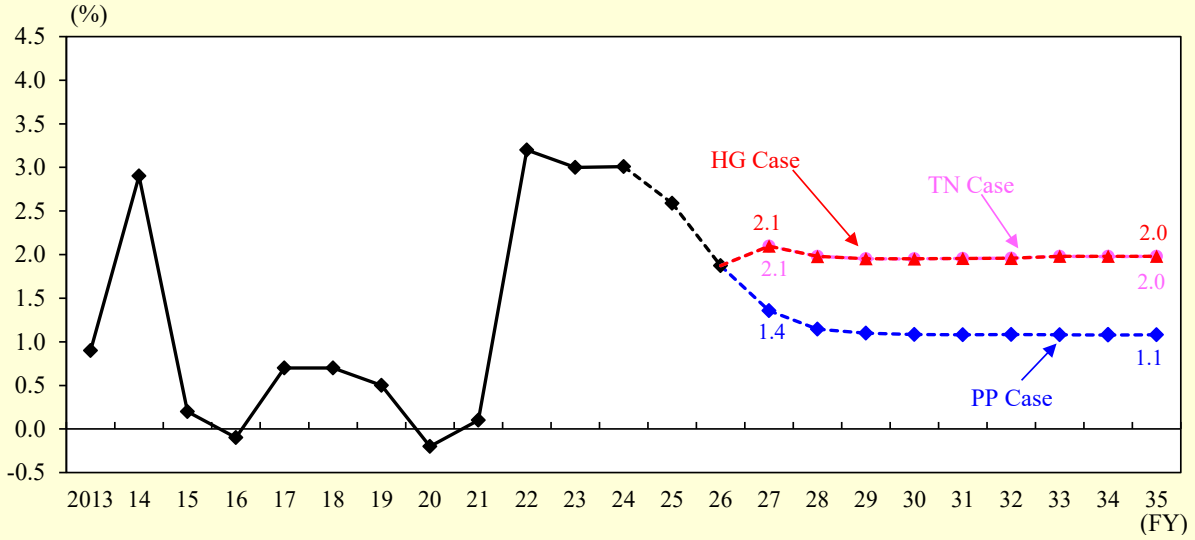
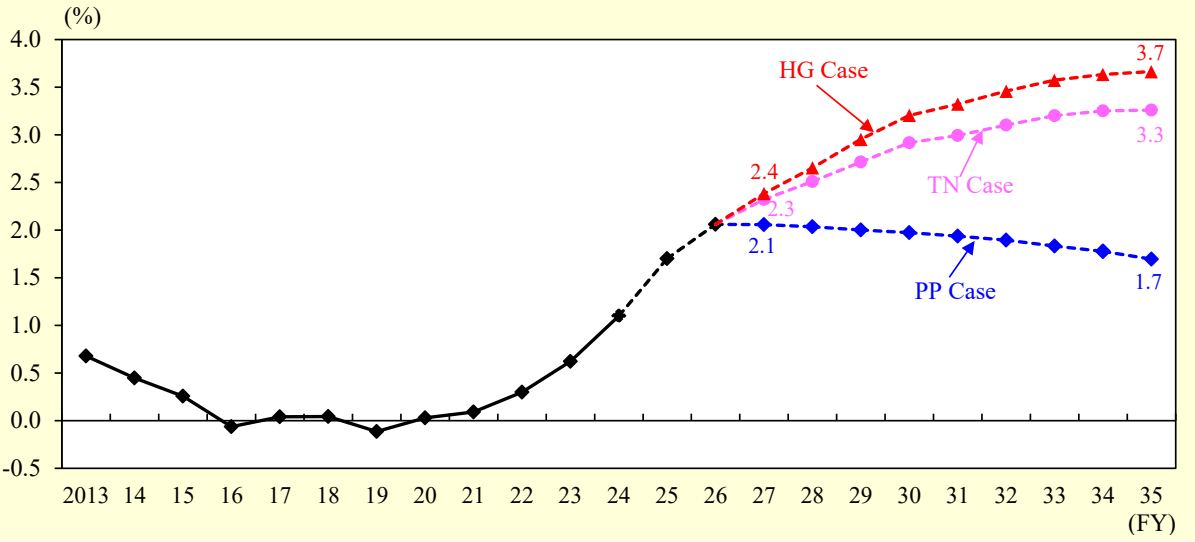


Figure 9. Nominal Long -term Interest Rate

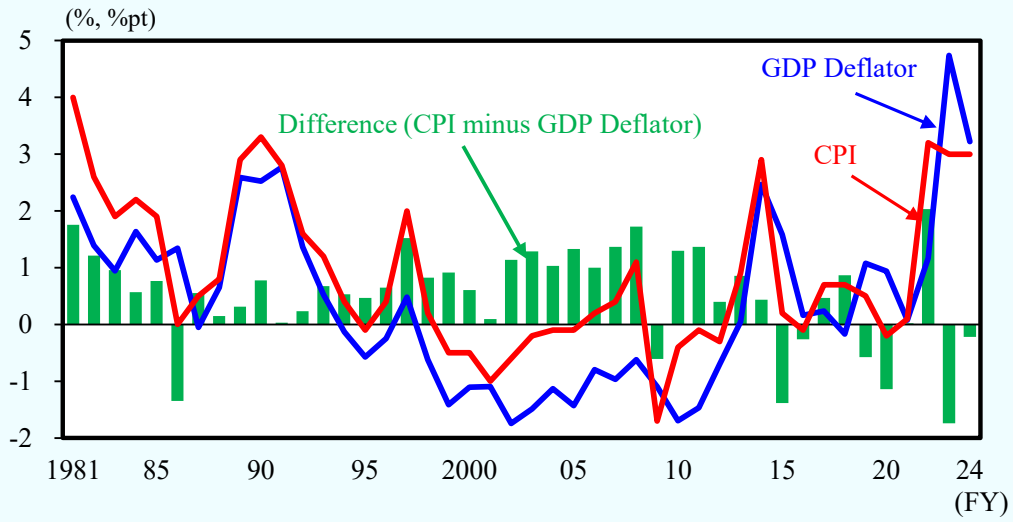


<BOX 1> Consumer Price Index and GDP Deflator

Regarding our projections, GDP statistics underwent a comprehensive revision following the introduction of the Benchmark Year Revision of 2020. As all data, including the GDP deflator, were revised retroactively, we decided to use data up to the current fiscal year when estimating the GDP deflator based on the CPI. As a result, the divergence between the two became smaller. In this BOX, we explain re-estimates for the GDP deflator, reflecting on the GDP deflator and the CPI.

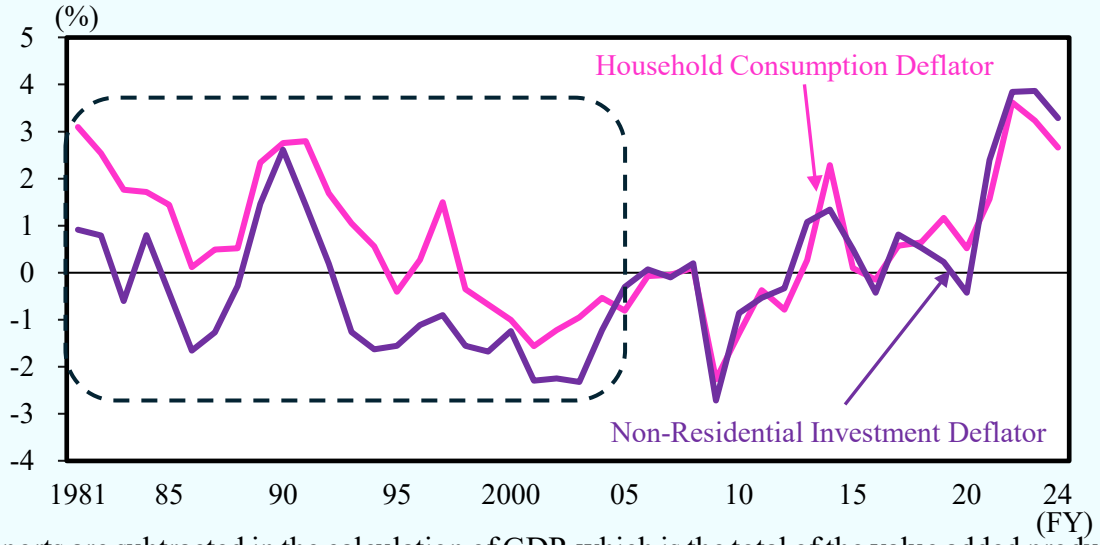
A comparison of the growth rates of the GDP deflator and the CPI indicates that the CPI growth rate had been higher than that of the GDP deflator. However, this trend has become less pronounced since the COVID-19 pandemic (Figure I).

Figure I Historical Trends of the CPI and the GDP Deflator Growth Rates



Aside from differences in their estimation methods, there are many factors contributing to the divergence. While the CPI is estimated primarily based on household consumption—which accounts for approximately more than 50% of GDP—the GDP deflator is calculated using not just household consumption but also non-residential investment, net exports (exports minus imports), and other components. Even if CPI growth aligns with the growth of the household consumption deflator, the growth rates of the CPI and the GDP deflator may still diverge due to other components, such as non-residential investment and net exports. For instance, compared with the household consumption deflator, the non-residential investment—which accounts for slightly less than 20% of GDP—deflator had exhibited a higher growth rate than that of household consumption until the early 2000s, contributing to the divergence. This might be because prices declined for investment-related goods, which tend to experience faster technological progress, such as information-related products. In contrast, the non-residential investment and the household consumption deflators followed similar patterns after the mid-2000s (Figure II).

Figure II Historical Trends of the Household Consumption and the Non-Residential Investment Deflator Growth Rates



Imports are subtracted in the calculation of GDP, which is the total of the value added produced in a given country, because they represent goods and services produced abroad. In the absence of price pass-through, a higher imports deflator can exert downward pressure on the GDP deflator. Conversely, the further import prices pass through to goods prices, the more neutral the effect of the imports deflator on the GDP deflator is. Price hikes resulting from domestic factors, such as wage rises, contribute positively to the GDP deflator. In the mid-2000s and FY2021–FY2022, increases in the imports deflator driven by resource price hikes had different effects on the GDP deflator: it moved in the opposite direction in the mid-2000s, but aligned with the imports deflator in FY2021–FY2022 (Figure III). One possible explanation for this is that, according to the Short-Term Economic Survey of Enterprises in Japan (Tankan Survey) by the Bank of Japan, the recent co-movements of the GDP deflator and CPI growth may result from increased import price pass-through, supported by government–private sector initiatives to promote thorough price pass-through and fair business practices (Figure IV).

Figure III Historical Trends of the Imports and the GDP Deflator Growth Rates

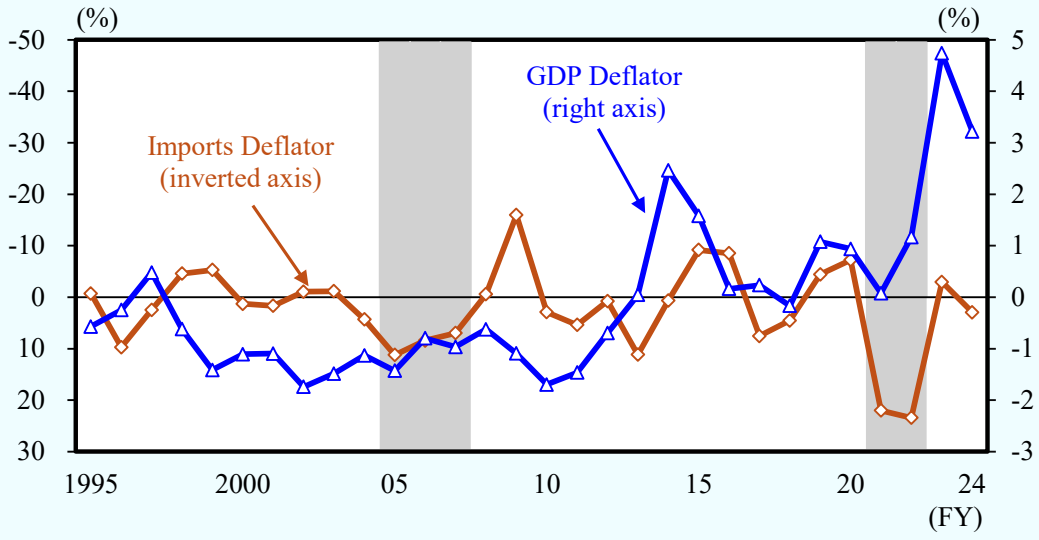
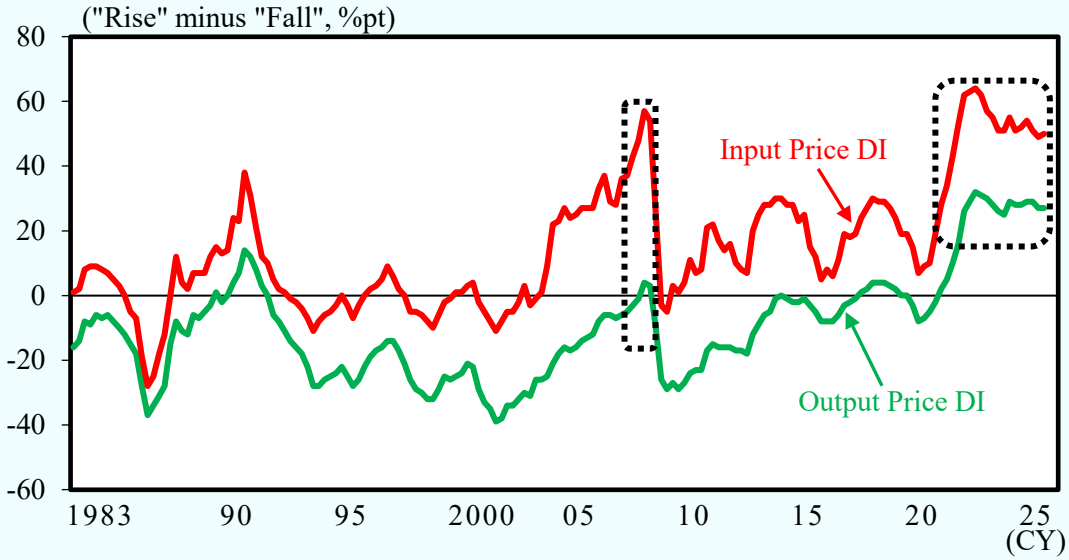


Figure IV Historical Trends of Price DI by the Bank of Japan's Tankan Survey



Using data up to the pre-COVID-19 period, the GDP deflator was projected with the divergence between CPI growth rates converging to 0.6%pt in the long-term.* By contrast, using GDP statistics revised under the Benchmark Year Revision of 2020 through the current fiscal year, the estimation indicates that the divergence would converge to 0.4%pt in the long-term. It should be noted that the GDP deflator growth rate from FY1995 to FY2024 was revised slightly upward under the Benchmark Year Revision of 2020.

* In particular, the regression specification uses the difference between the GDP deflator and CPI growth rates as the dependent variable, with the net exports deflator growth rate, time dummies, and a constant term as explanatory variables.

3. Medium-to long-term fiscal projection

On the fiscal side, the projections are consistent with economic scenarios, reflecting the FY2025 Supplementary Budget, FY2026 Draft Budget, and other factors. With regard to expenditures, social security expenditures are assumed to increase, reflecting factors such as population aging and the rate of price and wage increases, while other general expenditures are assumed to increase in pace with price and wage increases.[20] In addition, the defense capacity buildup, the implementation of national resilience, and other factors, whose specific sizes are already determined over multiple years, are reflected.[21] As for revenues, tax revenues and other revenues are assumed to increase in line with 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)[22] 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) 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,[23] reflecting the PB deficits and sluggish nominal GDP growth, and surged during the Global Financial Crisis. 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 202.8% in FY2022. Since FY2023, the ratio has turned down, mainly due to the expansion of nominal GDP. For the time being, it is expected to be on a gradual downward trend to around 192.8% in FY2025, and 186.6% in FY2026, after 193.5% in FY2024.

Then, in the PP case, the debt-to-GDP ratio is projected to reverse its downward trend in FY2031. This is due to relatively smaller contributions of nominal GDP growth and the primary surplus than the TN Case.

In the TN Case, the debt-to-GDP ratio is projected to decline steadily over the projection period, as the government curbs the rate of growth of Japan's outstanding debt balance so as not to exceed the rate of economic growth.

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[20] The estimation method for non-social security general expenditures has been revised to account for both price and wage increases, rather than price increases alone. See BOX 3 for details.

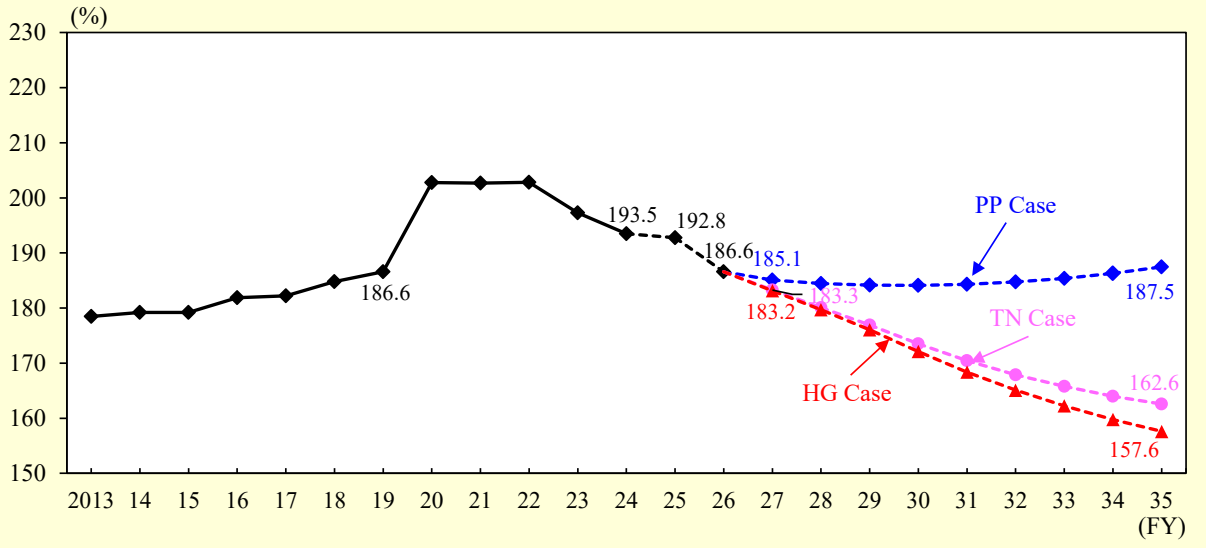
[21] "Defense Buildup Program," "Children's Future Strategy," and "1st Mid-term Plan for the Implementation of National Resilience" are reflected in this projection. Regarding the expansion in expenditure related to the programs—which includes abolishment of the provisional gasoline tax rate, reduction of education costs and other initiatives—it is assumed that sufficient revenue is secured after FY2027. Other additional expenditures that cannot be concretely assumed are not incorporated.

[22] 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.

[23] See Chapter 4 for a factor analysis, which decomposes the debt-to-GDP developments into the contributions of economic growth, interest rates, and the PB, and examines their respective trajectories.

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



(2) Primary balance of central and local governments

Despite the increase in expenditure due to population aging, supplementary budgets, and other factors, the ratio of primary balance (PB) to GDP of central and local governments had steadily improved until the COVID-19 pandemic (around -1.9% in FY2018), 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 associated with the successive economic stimulus packages against the spread of COVID-19 and other factors, the PB-to-GDP ratio became around -9.1% in FY2020. Subsequently, following reforms in terms of both expenditures and revenues, among other factors, the ratio recorded -2.1% in FY2023 and -1.8% in FY2024. As for FY2025 and FY2026, there are increases in the expenditure based on the economic stimulus packages, resulting in -1.0% in FY2025. However, in FY2026, the PB-to-GDP ratio is projected to be broadly balanced, showing the smallest primary deficit since FY2001, when the government adopted the PB target.[24]

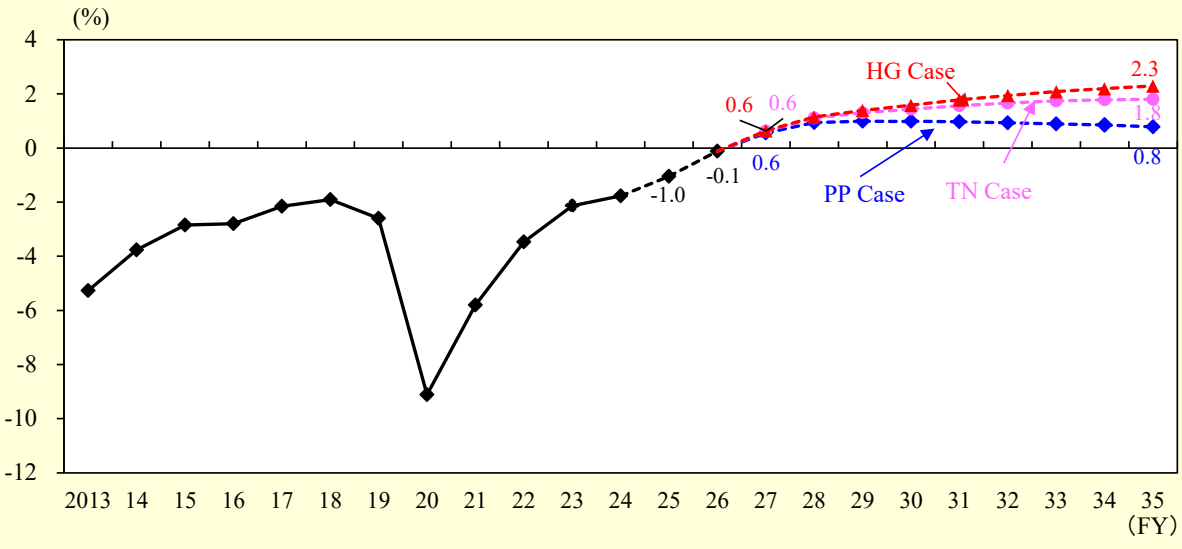
In the PP Case, after the ratio is projected to be positive (0.6%) in FY2027, the surplus is projected to gradually deteriorate. This is because the increase in revenue, which grows in line with nominal GDP growth, is projected to be less than the increase in expenditures, which grows in line with population aging, price and wage factors, etc.

In the TN Case, the PB-to-GDP ratios of central and local governments continue to improve over

[24] The analyses on the revision of the PB in FY2025 and FY2026 since our last projection (August 2025) is shown in BOX 2.

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 aging, price and wage factors, etc.

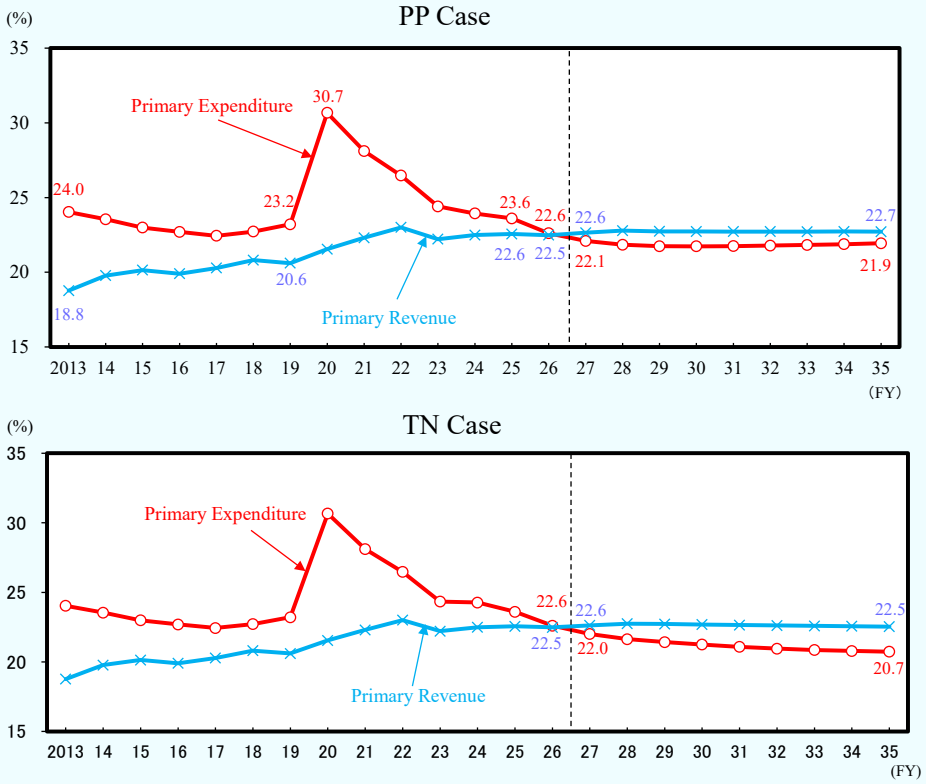
Figure 11. Primary Balance of Central and Local Governments (Ratio to Nominal GDP)



<BOX 2> Analysis of the PB movements

Up to FY2019, primary revenues increased while primary expenditures declined relative to GDP, leading to a gradual improvement in the primary balance (PB). Revenues continued to show a positive trend during FY2020–FY2024. On the other hand, expenditures increased significantly due to large-scale economic measures to address the COVID-19 pandemic and rising inflation, contributing to a deterioration in the PB. Nevertheless, their ratio returned to the pre-COVID-19 level. In FY2025 and FY2026, when expenditures related to the FY2025 Supplementary Budget are disbursed, the trend of gradual improvement in the PB is projected to continue.

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



(Notes) 1. The primary revenue is "revenue" minus "interest income." The primary expenditure is "expenditure" minus "interest payment."
2. Excluding expenditures and fiscal resources for recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support measures.
3. The primary revenue and primary expenditure remove transfers between central and local governments.

Compared with the PB in the previous projection issued in August 2025, which were -3.2 trillion Yen in FY2025 and +3.6 trillion Yen in FY2026, the upswing of the tax revenue and other revenues contributes to the improvement of the PB, while the reflection of the FY2025 Supplementary Budget, the personnel expenditure of the local governments based on the FY2024 settlement and FY2025 supplementary budget, and other factors worsen the PB. As a result, the PB in both FY2025 and FY2026 is projected to deteriorate.

Factors of the PB Revision in FY2025 and FY2026
(Compared with the PB Estimates in August 2025 Projection)

Appx. trillion Yen

	Primary Balance in FY 2025	Primary Balance in FY 2026
August 2025 projection	▲ 3.2	＋ 3.6
Factors on the revenue side		
・The development of FY2025 Supplementary Budget and FY2026 Draft Budget	＋ 3.5	＋ 2.6*
Factors on the expenditure side		
・Additional expenditure due to FY2025 Supplementary Budget	▲ 6.1	▲ 5.2
・Upswing of personnel expenditure of the local governments reflecting FY2024 Settlement, FY2025 Supplementary Budget, etc.	▲ 1.2	▲ 1.2
・The development of FY2026 Draft Budget		▲ 0.6**
January 2026 projection	▲ 7.0	▲ 0.8

* It includes the impact of the basic exemptions and the minimum guaranteed amount of the deduction for employment income and other factors.
** It includes expenditure that the August 2025 projection didn't incorporate into the model, such as reduction of education costs (-0.37 trillion yen) and policies regarding foreign nationals (-0.13 trillion yen). Sufficient revenues for these expenditures are secured.

(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.

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 governments accounts—will be incorporated into the model for the later projection, the results may vary accordingly.(*1) Thus, considerable leeway should be given.

(*1) As for the settlement of the central government's general account in each fiscal year, its provision is released in around July in the next fiscal 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.

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 revenue growth, it is generally defined by 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 mostly flat in both cases.

- As for the expenditure growth, social security expenditures increase to reflect aging factors, the rate of price and wage increases and other factors, while other general expenditures increase in line with the rate of price and wage increases. Since there is no difference in the aging factor between the two cases, the difference in the expenditure growth is mainly caused by the difference in the rate of price and wage increases.(*2) In the PP Case, since the inflation rate and nominal GDP growth rate are similar over the medium- to long-term, the primary expenditure-to-GDP ratio does not change 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.

(*2) Impact of differences in the rate of price growth is larger because the weight of the wage growth on expenditures is relatively small.

<BOX 3> Change in estimation method in non-social security general expenditures

Japan had been stuck in a condition where wage and price had not grown much for the past quarter century. However, in recent years, a virtuous cycle of wages and prices has been gradually becoming firmly established. In the "Basic Policy on Economic and Fiscal Management and Reform 2025" (June 13, 2025, Cabinet decision), it is stated that "with regard to budget formulation, until FY2027, the government will continue expenditure reform efforts set forth in the Basic Policy 2024, and as it is clear that the Japanese economy is entering a new stage, we will adequately reflect the details in the budget formulation process in each fiscal year in light of economic and price trends and other developments." In formulating the FY2026 Draft Budget (December 26, 2025, Cabinet decision), economic and price trends and other developments are taken into account.

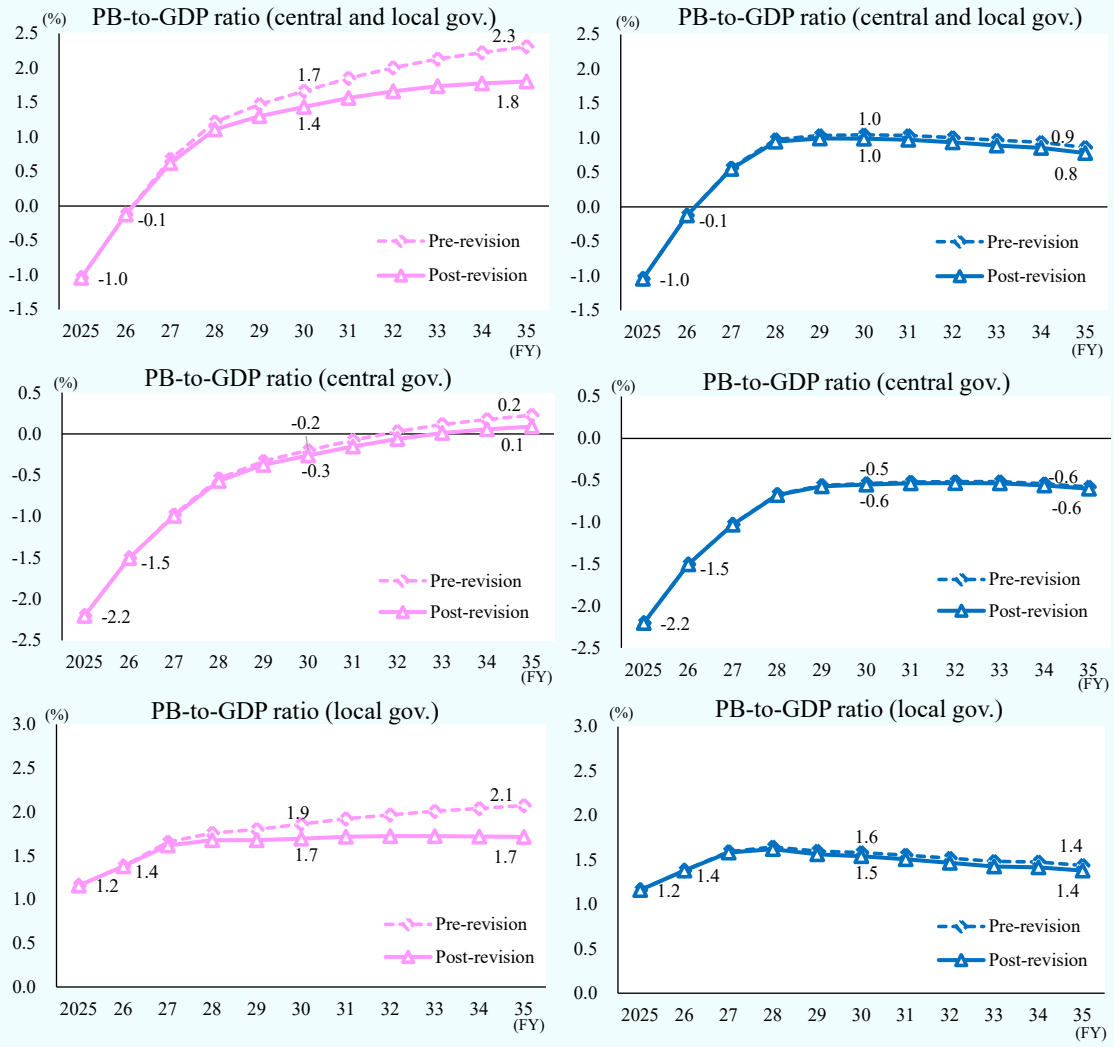
In our projections, social security expenditures were estimated by incorporating aging effects and price and wage increases, whereas other general expenditures—excluding those related to defense capability enhancement, national resilience, and other expenditures − were projected to grow in line with price increases. Given wage and price developments in recent years that differ from historical trends, as discussed above, and based on discussions at the CEFP,[*1] we revise the estimation approach for non-social security general expenditures for central and local governments as follows:

- The 'treasury's share in expenditure for compulsory education' in the central government's general account, the 'compensation of employees' in the budget classification—which includes salaries of ministries and agencies—and the 'personnel expenses' in local governments' ordinary accounts are assumed to grow in line with wage growth.
- The other expenditures are assumed to grow in line with a weighted average of price and wage growth, with weights of 0.6 and 0.4, respectively, reflecting the public sector's expenditure structure as shown in the Input–Output Tables.[*2]

Comparing results before and after the estimation revision, in the TN Case, the PB-to-GDP ratio of the central and local governments deteriorates as the expenditures grow more under the revised estimates—by 0.3%pt in FY2030 and 0.5%pt FY2035. This is because the growth rate of wages exceeds price inflation by about 1%pt to mid-1%pt over the projection periods. Breaking down the PB-to-GDP ratio into the central and local governments, that for the local governments deteriorates more since the personnel expenses of the local governments are relatively larger than those of the central government. In FY2035 the ratio for the central government deteriorates by 0.1%pt, while that for the local governments worsens by 0.4%pt. While the PB-to-GDP ratio showed improvement under the previous method, it remains largely unchanged under the revised estimates.

In the PP Case, because the growth rates of prices and wages follow a similar pattern over the projection period, the PB-to-GDP ratio shows little difference between the pre- and post-revision estimates.

Comparison between pre- and post-revision estimates



*1 In “Macro-Economic and Fiscal Management in Light of the Cabinet Office Projection” (August 7, 2025, submitted to CEFP by expert panel members), it is stated that: “The Cabinet Office should make continuous efforts to revise and expand the projection, reflecting changes in economic and fiscal conditions as well as policy challenges. For instance, it should examine estimation methods for expenditures—not only in line with price increases but also incorporating wage growth, and so forth.”

*2 To be specific, based on the 2020 Input-Output Tables for Japan, the share of compensation of employees attributable to the public sector—defined for each sector as compensation of employees divided by the sum of compensation of employees and intermediate inputs—and weighted by each sector’s share of intermediate inputs, is estimated to be approximately 40%. This implies that roughly 40% of public-sector expenditures are directly affected by wage growth. This is why we reflect this 40% share of the personnel costs on the estimation method of the non-social security general expenditure except the personnel costs.

4. Analysis of changes in outstanding debt to nominal GDP ratio

In The Basic Principles of FY2026 Budget Formulation (December 9, 2025, Cabinet decision), it is stated that: "Japan's ratio of outstanding government debt to GDP can be decreased through a combination of higher tax revenues accompanying economic growth and curbing the rate of growth of Japan's outstanding debt balance so as not to exceed the rate of economic growth. This is expected to achieve fiscal sustainability. By ensuring trust in markets, it is considered feasible to achieve both the realization of a 'strong economy' and fiscal consolidation simultaneously." Based on the discussion at the CEFP[25] as well, this chapter analyzes historical and projected developments in the outstanding debt-to-GDP ratio, as well as the impacts and evolution of factors such as economic growth, interest rates, and the PB.

(1) Factor analysis of FY-on-FY change in outstanding debt to nominal GDP ratio

In general, fiscal year-on-fiscal year (FY-on-FY) change in the ratio of government outstanding debt-to-GDP can be decomposed into three factors: nominal GDP growth (growth factor), where a positive growth has downward pressure; interest rate (interest factor), defined as the effective rate calculated by dividing current interest payments by the outstanding government debt in the previous fiscal year (an increase in the interest rate intensifies its upward pressure); and the PB (PB factor), where a primary deficit deteriorates the debt-to-GDP ratio, while a primary surplus improves it. For instance, under a primary deficit, the debt-to-GDP ratio can decline as long as the growth factor offsets the negative effects of the interest and PB factors. In other words, despite a primary surplus, the debt-to-GDP ratio can increase if the growth factor cannot offset the negative effects of the interest and PB factors.

Historically, the data of the FY-on-FY changes in the debt-to-GDP ratio[26] indicates that the ratio increased due to deterioration in the PB and economic slowdown after FY2008. Since FY2010s, although the primary deficit worsened the ratio, the contribution of the deficit reduction to changes in the ratio has gradually diminished. In addition, after FY2013, as the economy moved out of deflationary situation, the pace of increase in the ratio slowed toward the late 2010s, reflecting the entrenchment of positive nominal growth. In FY2020, however, the economic

[25] In the priority issues for discussion at the CEFP in preparation for the Basic Policy (December 25. 2025, submitted to CEFP by experts panel members), the expert panel members stated that the government should indicate in which scenarios the debt-to-GDP ratio can decline steadily, describing decomposed factors, such as economic growth, interest rate, and the PB. They also emphasized that the government should assess fiscal operations "scientifically, rationally, objectively, and comprehensively," examining a wide range of indicators, including interest payments relative to GDP.

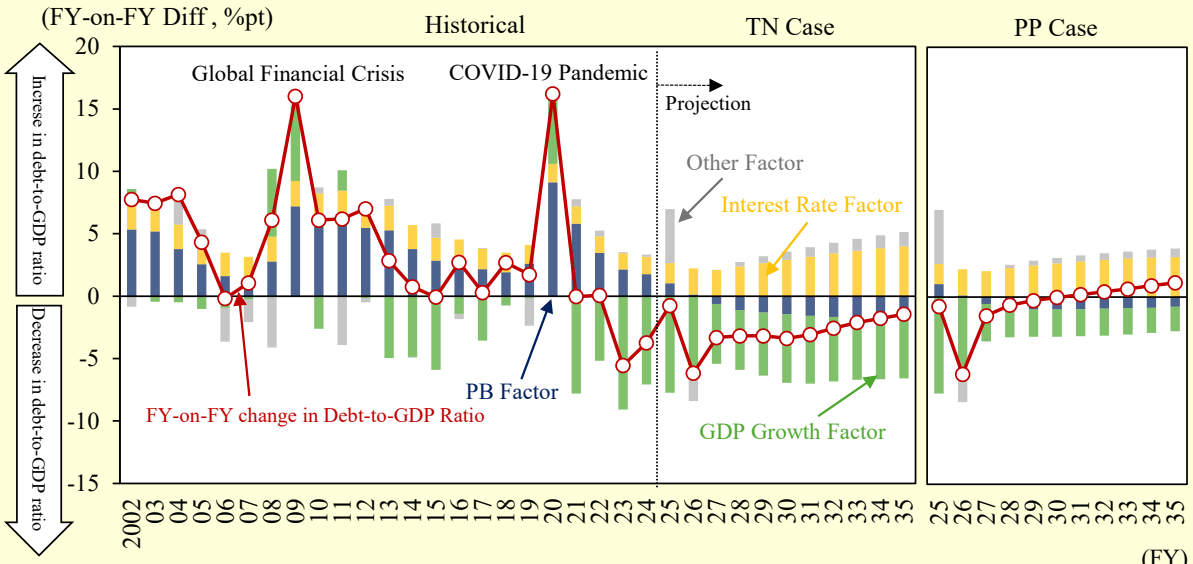
[26] There are some residuals when decomposing the debt-to-GDP ratio into the three factors above. In particular, the outstanding debt reflects government bond issuance based on budget formation and settlement, whereas the PB is recorded on a cash-disbursement basis rather than on a budgetary accounting basis. Furthermore, the primary surplus of local governments does not correspond directly to bond redemption, since redemptions follow a predetermined schedule, and any excess surplus is assumed to be accumulated in a fund for future expenditure. These factors are examples of the residual component. In FY2025, the residual is largely attributable to advance refunding bonds for refinancing in the following fiscal year.

impact of the COVID-19 pandemic and large-scale pandemic-related fiscal spending pushed the ratio up significantly through both the growth and the PB factors. Consequently, the PB factor continued to contribute negatively, its impact diminished over time, and strong nominal growth contributed positively, resulting in a decline in the debt-to-GDP ratio after FY2023. It should be noted that the historical lower interest-rate environment limited the contribution of the interest rate.

From FY2025 onward, in the TN Case, the upward pressures of the interest factor is projected to increase as the interest rate rises. Meanwhile, medium-to long-term real economic growth of around mid-1% and stable inflation are expected to generate nominal GDP growth of approximately 3%. The growth and the PB factors—which contribute to reducing the ratio—is projected to outweigh the interest factor, resulting in a continued gradual decline in the ratio. It should be noted that the contribution of the interest factor is projected to increase, which moderates the FY-on-FY changes in the ratio. It should be noted that, even if the growth and the PB factors contribute to reducing the debt-to-GDP ratio, the interest factor rises due to the reissuance of existing bonds—originally issued at lower interest rates—at higher rates, thereby moderating the FY-on-FY changes in the ratio.

In the PP Case, the growth and the PB factors are projected to contribute to a reduction in the ratio, as nominal GDP expands and the PB remains in surplus. Compared with their counterparts in the TN Case, the contributions of these factors are relatively smaller. The contribution of the interest factor is also projected to increase, as in the TN Case. As a result, the downward trend is projected to reverse after FY2031, as the downward pressures of the growth and the PB factors are insufficient to offset the upward pressure of the interest factor.

FIgure 12. Factors in Change of the Outstanding Debt to Nominal GDP Ratio



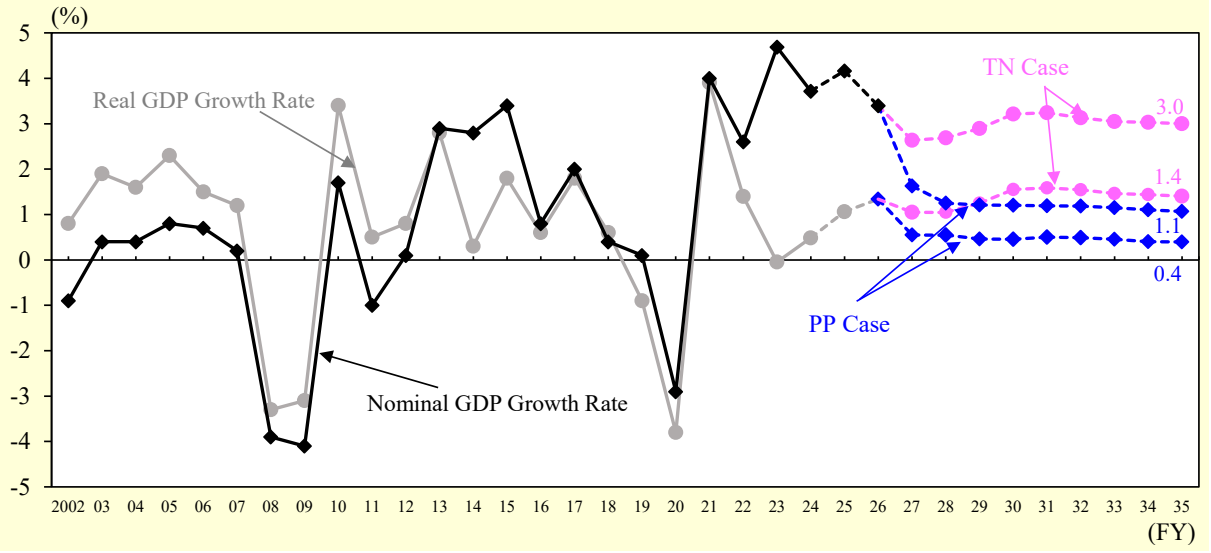
(Note)
The fiscal year-on-fiscal year (FY-on-FY) difference in the outstanding debt-to-nominal GDP ratio can be decomposed into: (i) the current effective interest rate multiplied by the previous year's debt-to-GDP ratio; (ii) the nominal GDP growth rate multiplied by the previous year's debt-to-GDP ratio (a deduction factor); and (iii) the current primary balance (PB) to nominal GDP ratio (a deduction factor). The nominal GDP in the denominators of (i)–(iii) refers to nominal GDP in the current year.

(2) Various indicators affecting outstanding debt to nominal GDP ratio

Based on the preceding discussion, this subsection analyzes key indicators, including economic growth, interest rates, and the PB.

From the early 2000s to the early 2010s, nominal GDP growth remained below real GDP growth, resulting in a limited contribution to reducing the debt-to-GDP ratio—and in some years, even contributing to an increase in the ratio. Consequently, from the early 2010s to late 2010s—amid a non-deflationary situation, nominal GDP growth generally exceeded real GDP growth, contributing to a reduction in the ratio. Due to the effects of the COVID-19 pandemic, both nominal and real GDP contracted in FY2020, followed by a strong rebound in FY2021. After FY2022, real GDP has grown moderately, while nominal GDP has risen at a higher rate—ranging from the mid-2% to upper-4% range—driven by price inflation. High nominal GDP growth in recent years has contributed to reductions in the ratio. As mentioned in Section 2 (2), in the PP and TN Cases, nominal and real GDP growth are projected as follows: in the PP Case, around the 1% and mid-0% range, respectively; and in the TN Case, around 3% and mid-1%, respectively. These differences lead to varying downward pressures of the growth factor between the two scenarios.

Figure 13. GDP Growth Rate



Looking at interest rates, the long-term rate—represented by the 10-year government bond—fluctuated in the mid-1% range in the mid-2000s. Consequently, until the mid-2010s, the interest rate declined to around the lower-0% range under an accommodative monetary environment, following the introduction of Quantitative and Qualitative Monetary Easing (QQE) in FY2013. Then, after FY2016, following the introduction of Yield Curve Control (YCC), the interest rate remained around 0%. As it begun to increase in FY2022, the Bank of Japan allowed greater flexibility in YCC operations and revised its monetary policy framework at the end of FY2023, resulting in rates of around 1% in FY2024, followed by the 2% range in FY2025. Note that the interest rate at a given time refers to the yield on government bonds issued in the same period. The rate that directly affects changes in the debt-to-GDP ratio is not the long-term rate, but the effective rate. As existing bonds, originally issued at lower interest rates, are sequentially reissued at higher rates, the effective rate fluctuates in line with the long-term rate, with some lag. Thus, the effective rate declined to the upper-0% range by the early 2020s, followed by a moderate increase toward FY2024.

Regarding interest payments on central government bonds relative to GDP, the pattern generally followed that of the effective interest rate: it declined to around 1% by the early 2020s, followed by a moderate increase toward FY2024. It can be said that historical low-interest-rate environment, along with the low level of interest payments relative to GDP, limited the contribution of the interest factor.

In the projection periods, on the other hand, the effective rate is projected to increase to the mid-2% range in the TN Case and to the upper-1% range in the PP Case, as the long-term rate—as mentioned in 2. (3)— rises to around 3% in the TN Case and the upper-1% range in the PP Case, respectively.

Interest payment relative to GDP is projected to increase to the mid-3% range in the TN Case and to the upper-2% range in the PP Case, as the effective rate increases.

Differences in these interest rates and interest payment ratio lead to varying upward pressures of the interest factor between the two scenarios.

Figure 14. Nominal long-term interest rate and effective interest rate

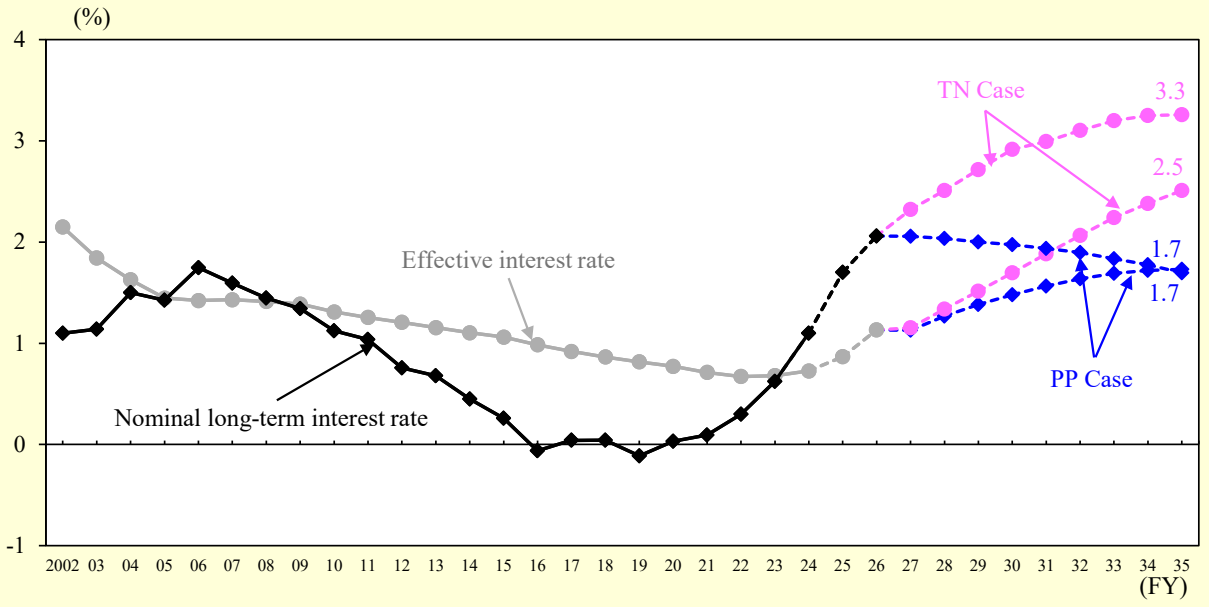
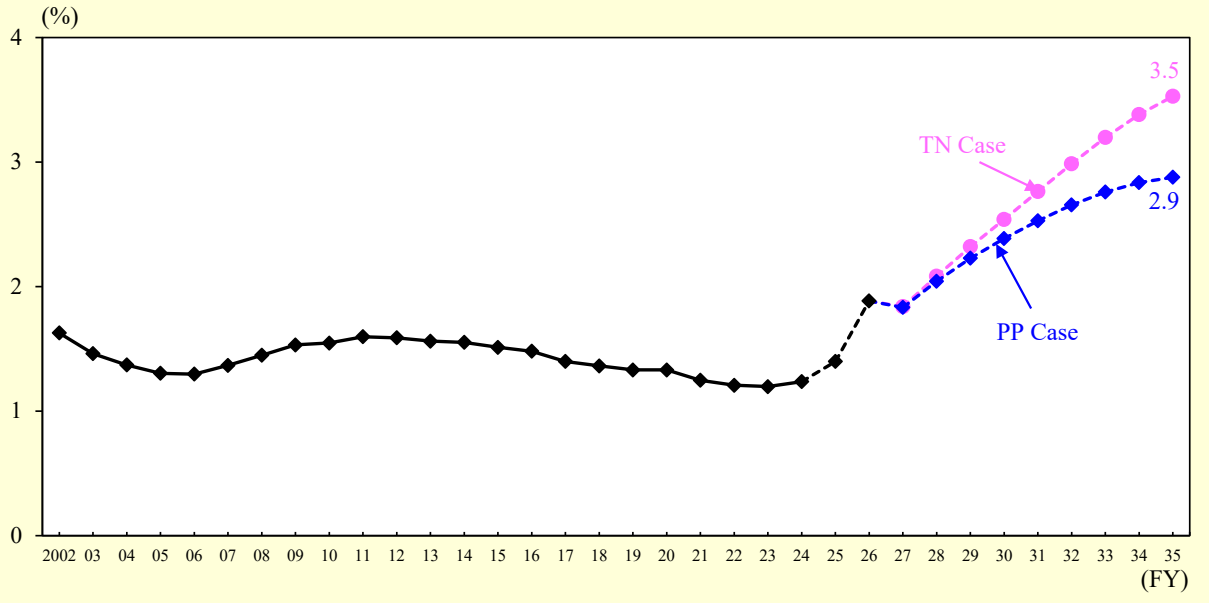


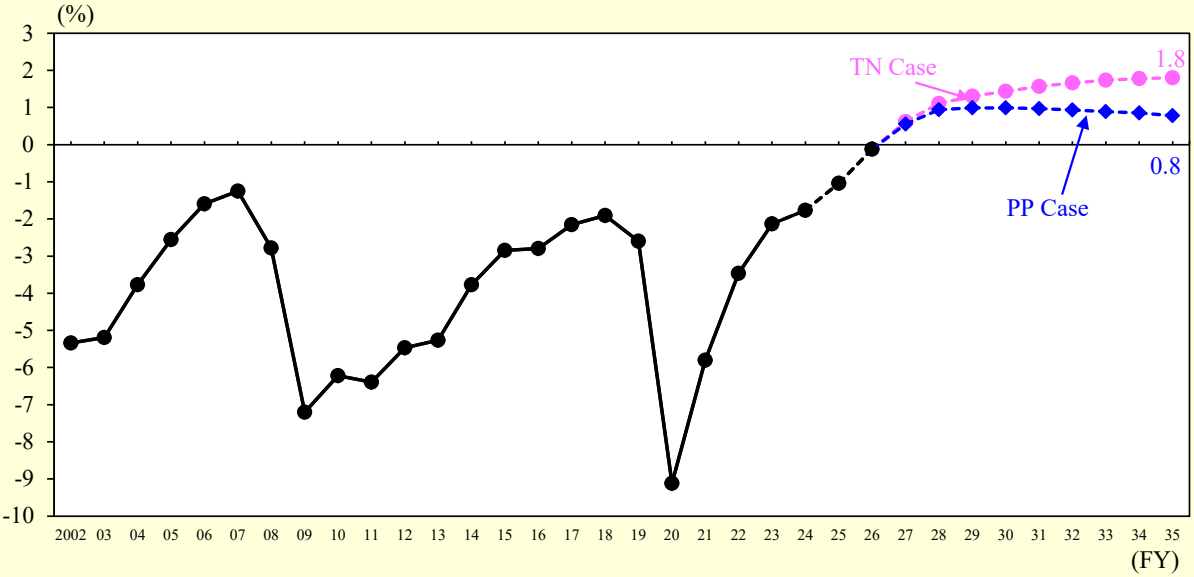
Figure 15. Interest payment of Central Government (Ratio to Nominal GDP)



Regarding fiscal indicators, the PB-to-GDP ratio of central and local governments shows that the primary deficit widened significantly during the Global Financial Crisis and the COVID-19 pandemic, followed by a narrowing of the deficit in the early to late 2010s and again after the early 2020s, respectively. As mentioned earlier, the primary deficit contributes to an increase in the debt-to-GDP ratio; in turn, progress in narrowing the primary deficit functioned to limit the upward pressures of the PB factor. After FY2027, in both the TN Case and the PP Case, the PB-to-GDP ratio is projected to remain in surplus throughout the projection period. However, the primary surplus is projected to gradually diminish in the PP Case, while it is projected to follow

a trend of a certain margin in the TN Case, leading to divergence in the downward pressures of the PB factor between the two scenarios.

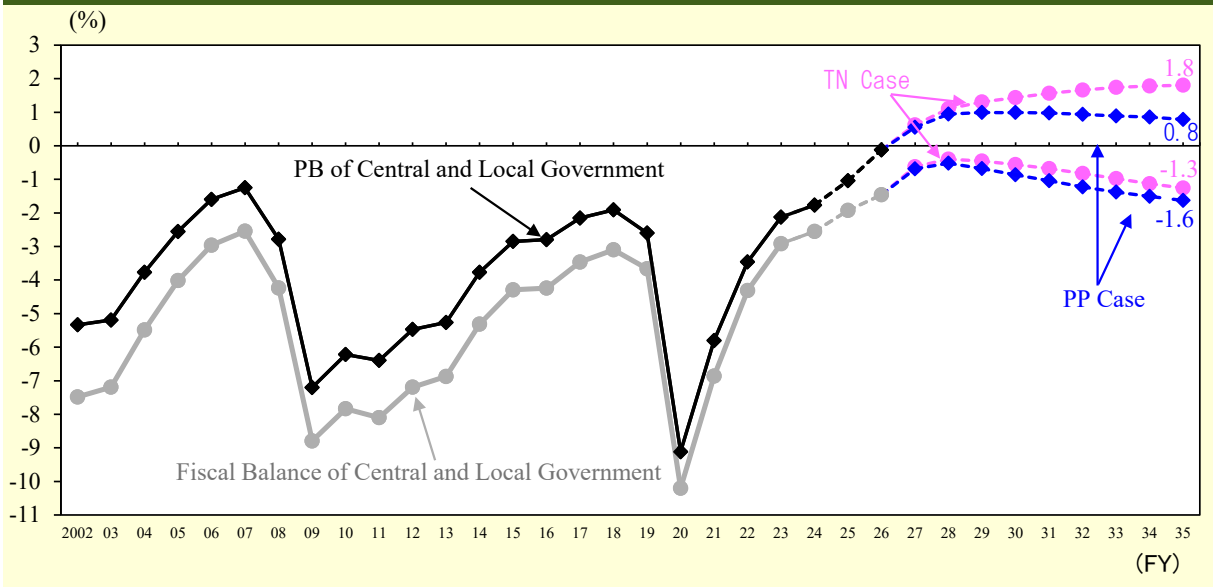
Figure 16. Primary Balance of Central and Local Governments (Ratio to Nominal GDP)



Regarding fiscal balance,[27] which consists of the PB and interest payments, the fiscal balance of central and local governments has tracked the PB-to-GDP ratio through FY2024. While the fiscal balance ratio has consistently been below the PB ratio, the gap has narrowed owing to the aforementioned long-term decline in the effective interest rate and the interest payments-to-GDP ratio. In the TN Case, the fiscal balance ratio is projected to narrow toward FY2028, but to deteriorate thereafter owing to a gradual increase in interest payment ratio, despite a moderate expansion of the PB throughout the projection period. In the PP Case, a moderate increase in the interest payments–to–GDP ratio coincides with a projected deterioration of the PB-to-GDP ratio throughout the projection period, thereby reducing the fiscal balance. In both cases, spillover effects from the gradual rise in the long-term interest rate are expected to moderately widen the gap between the PB and the fiscal balance.

[27] The difference between the PB and the fiscal balance is equivalent to net interest payments, calculated as interest payments minus interest income.

Figure 17. Primary Balance and Fiscal Balance (Ratio to Nominal GDP)



The fiscal balance of central and local governments can be decomposed into the fiscal balance of the central government and that of the local governments. The increases in the fiscal deficit during the Global Financial Crisis and the COVID-19 pandemic, as well as the subsequent recoveries, were driven primarily by the central government. Regarding the local governments' fiscal balance, it was broadly balanced in the 2010s, following a slight fiscal surplus in recent years. On the one hand, the fiscal balance of central government is projected to follow a downward trend in both cases. The fiscal balance of local governments, on the other hand, is projected to remain in surplus throughout the projection period in both cases. Notably, the fiscal balance of local governments is projected to expand in the TN Case, but to decline in the PP Case. Local governments' fiscal balance remains more resilient than that of the central government due to their relatively lower level of debt, reducing the adverse effect of higher interest rates on the fiscal balance.

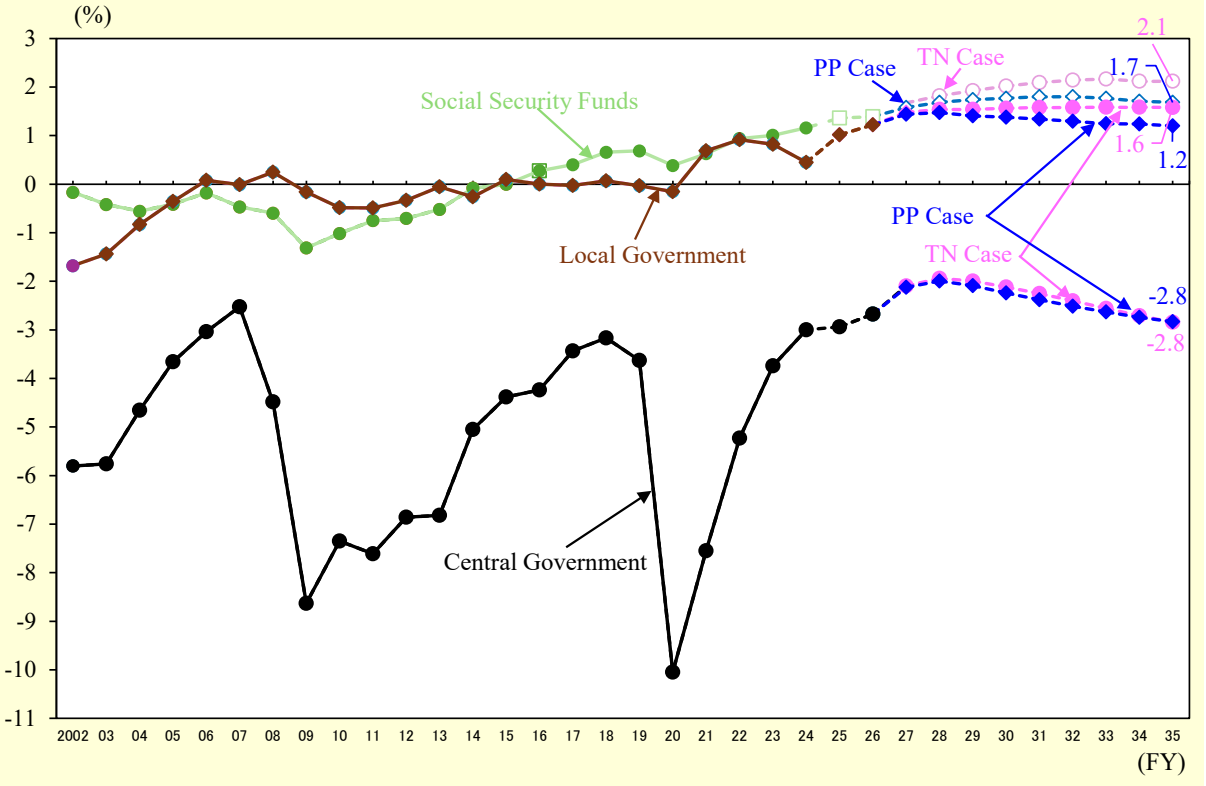
The fiscal balance of Social Security Funds—including the National Pension, National Health Insurance, Long-Term Care Insurance, and other funds—along with those of central and local governments, can be observed, although the funds do not directly affect the debt-to-GDP ratio. The fiscal balance of Social Security Funds to GDP ratio is broadly balanced between revenues in medical and long-term care—such as insurance premiums and governments contributions—and expenditures, including benefits. Thus, the developments in the National Pension account for most of the variation. The National Pension investment return[28] mainly contributed to a slight fiscal surplus in recent years. Throughout the projection period, in the TN Case, investment returns are assumed to grow in line with economic growth,[29] and revenue from

[28] Under the System of National Accounts (SNA), interest and dividend income, which represents returns on investment, is classified as property income.

[29] The methodology for estimating investment returns is consistent with that adopted in "the 2024 Actuarial Valuation" (July 3, 2024, submitted to the Pension Subcommittee of Social Security Council).

insurance premiums is projected to increase as the number of insured people rises, reflecting a higher labor force participation—particularly among women and the elderly. As a result, the fiscal balance of Social Security Funds is projected to gradually expand. Towards the end of the projection period, however, the fiscal balance is projected to reach a ceiling as expenditures rise due to an increasing number of insured people. In the PP Case, the fiscal surplus is projected to be smaller than in the TN Case, reflecting relatively lower economic growth.

Figure 18. Fiscal Balance of General Government (Ratio to Nominal GDP)



5. 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, such as price movements and situations in U.S. trade policies. 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" (October 2025) highlights several downside risks to global economic growth, including: prolonged trade policy uncertainty and ratcheting up of protectionist trade measures; rising long-term interest rates due to rising fiscal worries in financial markets; and repricing of new technologies.[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 continuously declined by about 0.5%pt relative to the PP Case. As a result, combined with a decrease in capital input, the potential growth rate declines by about 0.9%pt in the final year of

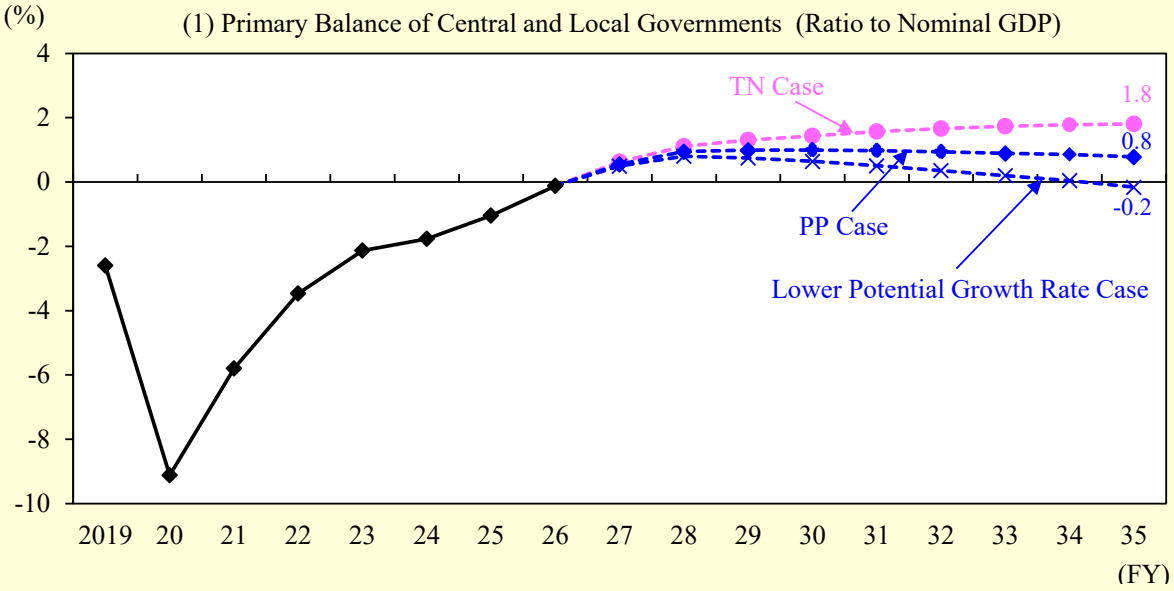
[30] Those listed here are merely examples. Risks and uncertainties are not limited to those.

[31] IMF (October 2025) cites upside risks as well, including: breakthrough in trade negotiations leading to lower tariffs; a faster pace of structural reforms; artificial intelligence reigniting productivity growth and other positive developments. The World Bank's "Commodity Markets Outlook" (October 2025) points out that there are both upside and downside risks to crude oil prices. The downside risks include a decline in demand due to weaker-than-expected global economic growth resulting from trade friction and increasing trade policy uncertainties and an increased oil supply in OPEC+. The upside risks include supply disruptions due to the intensification of geopolitical tension, additional trade and production restrictions, and faster-than-expected expansion in data centers.

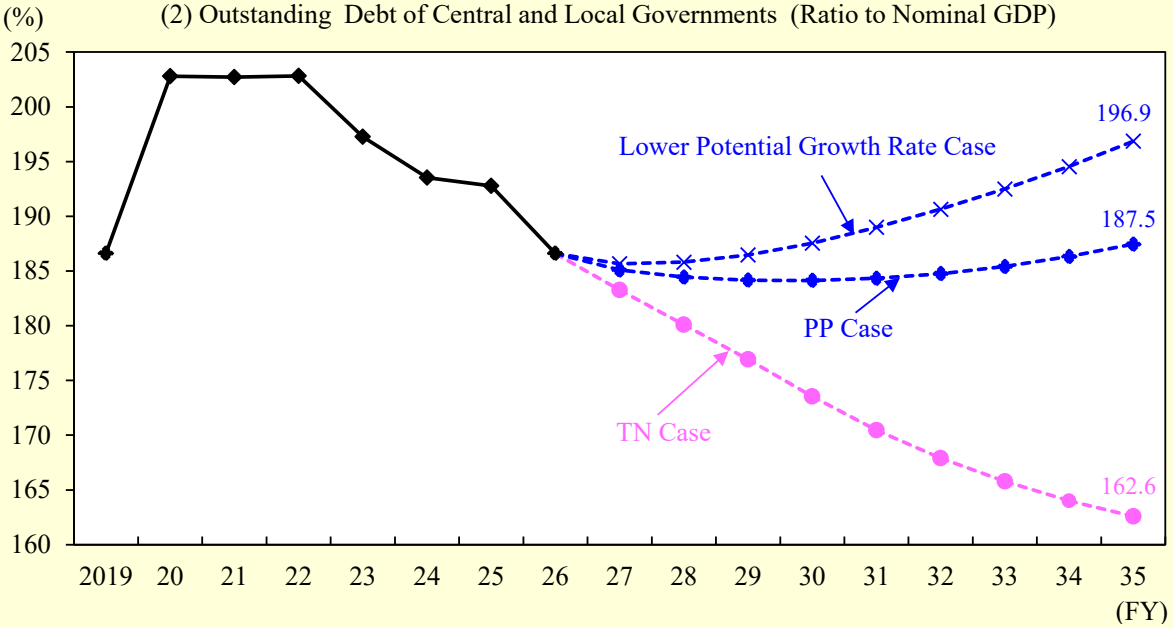
the projection period (FY2035). Due to the revenue decline resulting from the lower growth rate, the PB-to-GDP ratio deteriorates by about 1.0%pt and the debt-to-GDP ratio increases by about 9.4%pt in the final year of the projection period.

Figure 19. 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	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Potential Growth Rate	(0.5)	(0.6)	(0.8)	(0.2)	(0.1)	(0.1)	(▲0.1)	(▲0.2)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.5)
Nominal GDP	642.4	669.2	691.9	701.2	707.4	713.0	718.3	723.1	727.9	732.6	736.7	740.4
PB of Central and Local Governments (Ratio to Nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.5)	(0.8)	(0.8)	(0.6)	(0.5)	(0.4)	(0.2)	(0.0)	(▲0.2)
Outstanding Debt (Ratio to Nominal GDP)	(193.5)	(192.8)	(186.6)	(185.7)	(185.8)	(186.5)	(187.5)	(189.0)	(190.6)	(192.5)	(194.5)	(196.9)

(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.

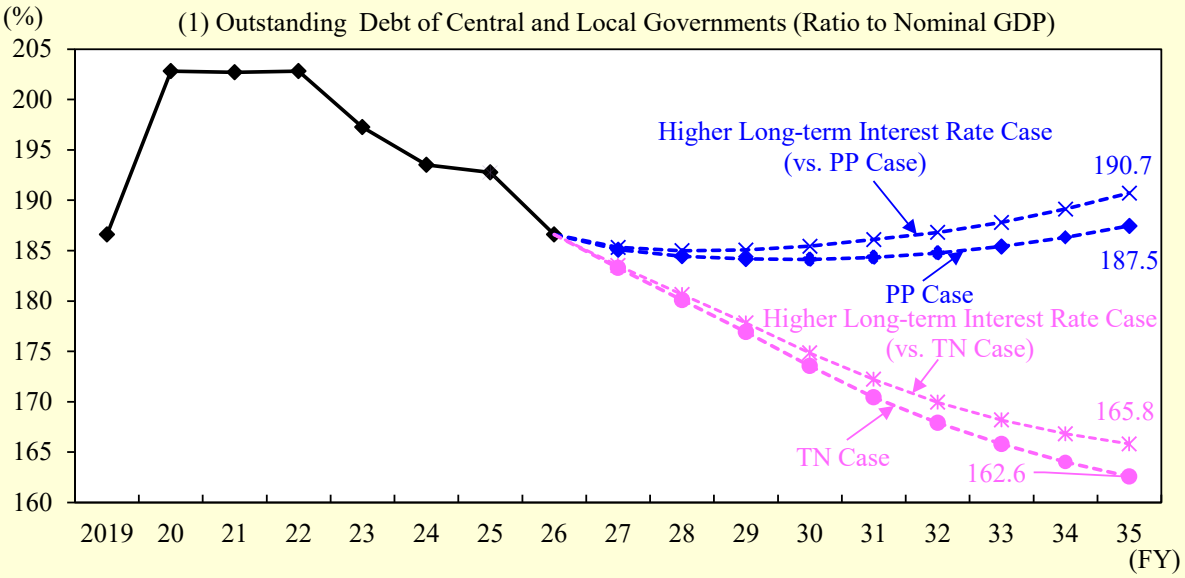
(ii) Rise in interest rates

As mentioned earlier, 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 3.2%pt in the final year of the projection period in both cases.

Figure 20. Higher Long-term Interest Rate Case

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



(2) Table

＜vs. Projection of Past Trend Case＞ %

FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Nominal Long-term Interest Rate	1.1	1.7	2.1	2.6	2.5	2.5	2.5	2.4	2.4	2.3	2.3	2.2
Outstanding Debt (Ratio to Nominal GDP)	193.5	192.8	186.6	185.3	185.0	185.1	185.4	186.1	186.8	187.8	189.1	190.7

＜vs. Transferring a New Economic Stage Case＞ %

FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Nominal Long-term Interest Rate	1.1	1.7	2.1	2.8	3.0	3.2	3.4	3.5	3.6	3.7	3.8	3.8
Outstanding Debt (Ratio to Nominal GDP)	193.5	192.8	186.6	183.5	180.6	177.8	174.8	172.2	169.9	168.2	166.8	165.8

(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.

[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.

(iii) Response to economic fluctuations, etc.

When various economic shocks occurred, there have often been additional fiscal spendings to deal with the crises. The debt-to-GDP ratio of central and local governments rose by about 80%pt over the past 2 decades (FY2002-2024), with an increase of about 38%pt[33] during the five years in total, addressing the Global Financial Crisis 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 Global Financial Crisis or the pandemic.[34]

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 the time. In recognition of the fact that supplementary budgets have recently become the norm and increasingly expansive, the government is working to return the structure of government expenditures to a normal state. 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, the surplus nears to zero.

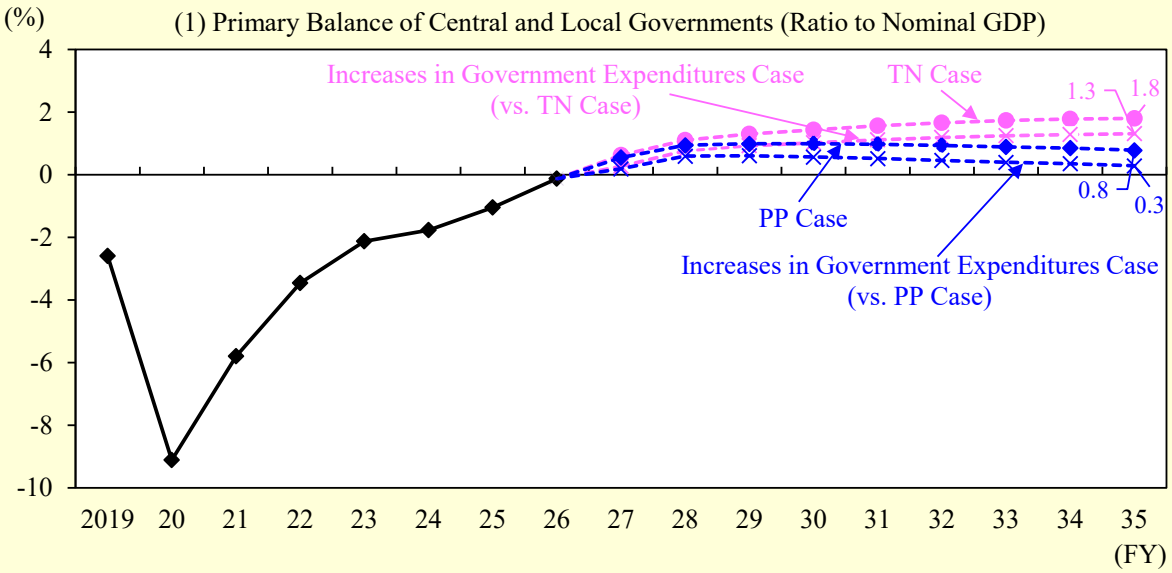
[33] Changes in the ratio of the debt-to-GDP in FY2008-2010 and FY2019-2022. The outstanding debt has increased by about 640 trillion yen over the past 2 decades (FY2002-2024), of which about 230 trillion yen—about 40%—has increased over the past five years, periods marked by significant economic shocks.

[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 Global Financial Crisis (FY2002-2008) and around 27 trillion yen in FY2020-2024).

[35] Article 29 of the Public Finance Act.

Figure 21. 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	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PB of Central and Local Governments (Ratio to Nominal GDP)	▲ 1.8	▲ 1.0	▲ 0.1	0.2	0.6	0.6	0.6	0.5	0.5	0.4	0.4	0.3

＜vs. Transferring a New Economic Stage Case＞ %

FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
PB of Central and Local Governments (Ratio to Nominal GDP)	▲ 1.8	▲ 1.0	▲ 0.1	0.3	0.8	0.9	1.0	1.1	1.2	1.2	1.3	1.3

(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.

1. Main Results of Projection (Table)

Projection of Past Trend Case

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Potential GDP Growth	(0.5)	(0.6)	(0.8)	(0.7)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Real GDP Growth	(0.5)	(1.1)	(1.3)	(0.6)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)	(0.4)	(0.4)
Nominal GDP Growth	(3.7)	(4.2)	(3.4)	(1.6)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.1)	(1.1)
Nominal GDP	642.4	669.2	691.9	703.1	711.9	720.5	729.2	737.9	746.6	755.2	763.5	771.7
Real GDP per Capita Growth	(0.9)	(1.5)	(1.8)	(1.1)	(1.1)	(1.0)	(1.0)	(1.1)	(1.1)	(1.0)	(1.0)	(1.0)
Nominal Wage Growth	(3.2)	(3.2)	(3.2)	(1.6)	(1.5)	(1.4)	(1.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)
Unemployment Rate	(2.5)	(2.5)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(2.6)	(1.9)	(1.4)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
GDP deflator growth rate	(3.2)	(3.1)	(2.0)	(1.1)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)	(0.7)
Nominal Long-term Interest Rate	(1.1)	(1.7)	(2.1)	(2.1)	(2.0)	(2.0)	(2.0)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.6)	(0.9)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)	(0.8)
Outstanding Debt (ratio to nominal GDP)	(193.5)	(192.8)	(186.6)	(185.1)	(184.4)	(184.2)	(184.1)	(184.3)	(184.8)	(185.4)	(186.3)	(187.5)

Transferring to a New Economic Stage Case

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Potential GDP Growth	(0.5)	(0.6)	(0.8)	(1.1)	(1.3)	(1.5)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.4)
Real GDP Growth	(0.5)	(1.1)	(1.3)	(1.1)	(1.1)	(1.3)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.4)
Nominal GDP Growth	(3.7)	(4.2)	(3.4)	(2.6)	(2.7)	(2.9)	(3.2)	(3.2)	(3.1)	(3.0)	(3.0)	(3.0)
Nominal GDP	642.4	669.2	691.9	710.1	729.2	750.3	774.4	799.5	824.6	849.7	875.4	901.7
Real GDP per Capita Growth	(0.9)	(1.5)	(1.8)	(1.6)	(1.6)	(1.8)	(2.1)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)
Nominal Wage Growth	(3.2)	(3.2)	(3.2)	(3.1)	(3.0)	(3.1)	(3.1)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Unemployment Rate	(2.5)	(2.5)	(2.4)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(2.6)	(1.9)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(3.2)	(3.1)	(2.0)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Nominal Long-term Interest Rate	(1.1)	(1.7)	(2.1)	(2.3)	(2.5)	(2.7)	(2.9)	(3.0)	(3.1)	(3.2)	(3.3)	(3.3)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.6)	(1.1)	(1.3)	(1.4)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Outstanding Debt (ratio to nominal GDP)	(193.5)	(192.8)	(186.6)	(183.3)	(180.1)	(176.9)	(173.5)	(170.5)	(167.9)	(165.8)	(164.0)	(162.6)

Higher Economic Growth Case

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Potential GDP Growth	(0.5)	(0.6)	(0.8)	(1.2)	(1.5)	(1.9)	(1.9)	(2.0)	(1.9)	(1.9)	(1.9)	(1.9)
Real GDP Growth	(0.5)	(1.1)	(1.3)	(1.1)	(1.2)	(1.5)	(1.8)	(1.9)	(1.9)	(1.8)	(1.8)	(1.8)
Nominal GDP Growth	(3.7)	(4.2)	(3.4)	(2.7)	(2.8)	(3.1)	(3.5)	(3.6)	(3.5)	(3.4)	(3.4)	(3.4)
Nominal GDP	642.4	669.2	691.9	710.5	730.6	753.6	779.9	807.8	836.0	864.5	894.1	924.5
Per Capita Real GDP Growth	(0.9)	(1.5)	(1.8)	(1.6)	(1.7)	(2.0)	(2.4)	(2.5)	(2.5)	(2.4)	(2.4)	(2.4)
Nominal Wage Growth	(3.2)	(3.2)	(3.2)	(3.2)	(3.2)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.5)	(3.5)
Unemployment Rate	(2.5)	(2.5)	(2.4)	(2.4)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
CPI growth rate	(3.0)	(2.6)	(1.9)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP deflator growth rate	(3.2)	(3.1)	(2.0)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Nominal Long-term Interest Rate	(1.1)	(1.7)	(2.1)	(2.4)	(2.7)	(3.0)	(3.2)	(3.3)	(3.5)	(3.6)	(3.6)	(3.7)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.6)	(1.1)	(1.4)	(1.6)	(1.8)	(1.9)	(2.1)	(2.2)	(2.3)
Outstanding Debt (ratio to nominal GDP)	(193.5)	(192.8)	(186.6)	(183.2)	(179.7)	(176.1)	(172.1)	(168.4)	(165.1)	(162.3)	(159.8)	(157.6)

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 issued from the Social Security Funds 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 central and local governments are accounted for the outstanding debts of the central and local governments, respectively, as they became classified into its general account in FY2007. As a portion of the outstanding borrowings in SALALTT incurred by local governments is scheduled to be transferred to the central government’s General Account in FY2026, the transferred amount is recorded as a liability of the central government from FY2026 onward and is deducted from the outstanding balance attributable to local governments.

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 110, 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

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Primary Balance	▲ 11.3	▲ 7.0	▲ 0.8	3.9	6.7	7.1	7.2	7.2	7.0	6.7	6.5	6.0
(ratio to nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.6)	(0.9)	(1.0)	(1.0)	(1.0)	(0.9)	(0.9)	(0.9)	(0.8)
Central Government	▲ 15.0	▲ 14.7	▲ 10.4	▲ 7.3	▲ 4.8	▲ 4.1	▲ 4.0	▲ 4.0	▲ 4.0	▲ 4.0	▲ 4.3	▲ 4.6
(ratio to nominal GDP)	(▲2.3)	(▲2.2)	(▲1.5)	(▲1.0)	(▲0.7)	(▲0.6)	(▲0.6)	(▲0.5)	(▲0.5)	(▲0.5)	(▲0.6)	(▲0.6)
Local Government	3.6	7.8	9.5	11.1	11.6	11.3	11.2	11.1	11.0	10.8	10.8	10.7
(ratio to nominal GDP)	(0.6)	(1.2)	(1.4)	(1.6)	(1.6)	(1.6)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)
Fiscal Balance	▲ 16.4	▲ 12.9	▲ 10.1	▲ 4.8	▲ 3.7	▲ 4.9	▲ 6.3	▲ 7.7	▲ 9.1	▲ 10.4	▲ 11.5	▲ 12.6
(ratio to nominal GDP)	(▲2.6)	(▲1.9)	(▲1.5)	(▲0.7)	(▲0.5)	(▲0.7)	(▲0.9)	(▲1.0)	(▲1.2)	(▲1.4)	(▲1.5)	(▲1.6)
Central Government	▲ 19.3	▲ 19.7	▲ 18.5	▲ 14.9	▲ 14.2	▲ 15.1	▲ 16.3	▲ 17.6	▲ 18.8	▲ 19.9	▲ 20.9	▲ 21.9
(ratio to nominal GDP)	(▲3.0)	(▲2.9)	(▲2.7)	(▲2.1)	(▲2.0)	(▲2.1)	(▲2.2)	(▲2.4)	(▲2.5)	(▲2.6)	(▲2.7)	(▲2.8)
Local Government	2.9	6.8	8.5	10.1	10.5	10.1	10.1	9.9	9.6	9.4	9.4	9.3
(ratio to nominal GDP)	(0.4)	(1.0)	(1.2)	(1.4)	(1.5)	(1.4)	(1.4)	(1.3)	(1.3)	(1.2)	(1.2)	(1.2)
Outstanding Debt	1243.2	1289.9	1291.0	1301.5	1313.1	1326.9	1342.6	1360.1	1379.4	1400.1	1422.6	1446.5
(ratio to nominal GDP)	(193.5)	(192.8)	(186.6)	(185.1)	(184.4)	(184.2)	(184.1)	(184.3)	(184.8)	(185.4)	(186.3)	(187.5)
Central Government	1078.3	1131.4	1139.0	1154.5	1171.0	1189.4	1209.3	1230.4	1252.7	1276.2	1300.9	1326.2
(ratio to nominal GDP)	(167.8)	(169.1)	(164.6)	(164.2)	(164.5)	(165.1)	(165.8)	(166.7)	(167.8)	(169.0)	(170.4)	(171.9)
Local Government	164.9	158.5	152.0	146.9	142.1	137.5	133.3	129.7	126.7	123.9	121.7	120.3
(ratio to nominal GDP)	(25.7)	(23.7)	(22.0)	(20.9)	(20.0)	(19.1)	(18.3)	(17.6)	(17.0)	(16.4)	(15.9)	(15.6)

【General Account of Central Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Expenditures	123.0	133.5	122.3	128.1	131.0	134.1	137.1	139.8	142.7	145.4	147.9	150.1
（Policy Expenditures）	97.7	105.7	91.4	96.3	97.4	98.7	99.9	101.0	102.3	103.6	104.9	106.2
Social Security-related Expenditures	35.8	41.0	39.1	39.8	40.4	41.1	41.7	42.3	43.0	43.8	44.5	45.2
Local Allocation Tax Grants, etc.	19.6	20.2	20.9	22.2	22.7	22.9	23.1	23.3	23.5	23.7	23.9	24.1
Others	41.9	44.2	31.1	34.0	33.9	34.3	34.7	35.0	35.4	35.8	36.2	36.6
Bond Expenditures	25.7	28.2	31.3	32.2	34.0	35.8	37.6	39.2	40.7	42.1	43.3	44.2
Debt Repayment	17.4	18.5	17.9	18.9	19.1	19.4	19.8	20.2	20.6	21.0	21.3	21.7
Interest Payment	7.9	9.4	13.0	12.9	14.5	16.1	17.4	18.7	19.8	20.8	21.6	22.2
Revenues	88.6	93.2	92.7	94.2	96.1	97.1	98.2	99.4	100.6	101.8	103.0	104.1
Tax Revenue	75.2	80.7	83.7	86.0	87.9	88.7	89.7	90.7	91.8	92.8	93.8	94.8
Other Revenues	13.4	12.5	9.0	8.2	8.2	8.3	8.5	8.7	8.8	9.0	9.2	9.3
Primary Balance in General Account of Central Government	▲ 9.1	▲ 12.5	1.3	▲ 2.1	▲ 1.3	▲ 1.6	▲ 1.6	▲ 1.6	▲ 1.6	▲ 1.8	▲ 2.0	▲ 2.1

【Ordinary Account of Local Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Expenditures	115.5	119.2	113.2	120.4	122.1	123.3	124.7	126.0	127.5	128.9	130.5	131.8
Debt Repayment and Interest Payment	12.1	10.7	10.8	11.3	11.1	10.8	10.5	10.2	9.8	9.6	9.2	8.5
Revenues	102.7	108.1	103.5	110.4	112.1	113.2	114.6	115.9	117.4	118.7	120.3	121.5
Tax Revenue	49.4	51.5	52.2	52.8	53.5	54.1	54.8	55.4	56.1	56.7	57.5	58.0
Primary Balance in Ordinary Account of Local Government	4.0	3.4	7.1	9.7	9.9	9.5	9.6	9.6	9.6	9.5	9.6	9.4

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

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

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Primary Balance	▲ 11.3	▲ 8.4	▲ 4.0	1.2	4.3	4.9	5.2	5.8	5.6	7.1	6.9	6.4
(ratio to nominal GDP)	(▲1.8)	(▲1.3)	(▲0.6)	(0.2)	(0.6)	(0.7)	(0.7)	(0.8)	(0.8)	(0.9)	(0.9)	(0.8)
Central Government	▲ 14.9	▲ 16.1	▲ 13.6	▲ 9.9	▲ 7.3	▲ 6.3	▲ 6.1	▲ 5.4	▲ 5.3	▲ 3.7	▲ 3.9	▲ 4.2
(ratio to nominal GDP)	(▲2.3)	(▲2.4)	(▲2.0)	(▲1.4)	(▲1.0)	(▲0.9)	(▲0.8)	(▲0.7)	(▲0.7)	(▲0.5)	(▲0.5)	(▲0.6)
Local Government	3.6	7.7	9.5	11.1	11.6	11.3	11.2	11.1	11.0	10.8	10.8	10.7
(ratio to nominal GDP)	(0.6)	(1.2)	(1.4)	(1.6)	(1.6)	(1.6)	(1.5)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)
Fiscal Balance	▲ 16.4	▲ 14.4	▲ 13.4	▲ 7.6	▲ 6.3	▲ 7.4	▲ 8.6	▲ 9.5	▲ 10.9	▲ 10.5	▲ 11.5	▲ 12.6
(ratio to nominal GDP)	(▲2.6)	(▲2.1)	(▲1.9)	(▲1.1)	(▲0.9)	(▲1.0)	(▲1.2)	(▲1.3)	(▲1.5)	(▲1.4)	(▲1.5)	(▲1.6)
Central Government	▲ 19.3	▲ 21.1	▲ 21.8	▲ 17.7	▲ 16.8	▲ 17.5	▲ 18.7	▲ 19.3	▲ 20.5	▲ 19.9	▲ 21.0	▲ 21.9
(ratio to nominal GDP)	(▲3.0)	(▲3.2)	(▲3.2)	(▲2.5)	(▲2.4)	(▲2.4)	(▲2.6)	(▲2.6)	(▲2.8)	(▲2.6)	(▲2.7)	(▲2.8)
Local Government	2.9	6.8	8.4	10.1	10.5	10.1	10.1	9.9	9.6	9.4	9.4	9.3
(ratio to nominal GDP)	(0.4)	(1.0)	(1.2)	(1.4)	(1.5)	(1.4)	(1.4)	(1.3)	(1.3)	(1.2)	(1.2)	(1.2)
Outstanding Debt	1251.8	1299.5	1302.3	1315.7	1330.4	1347.3	1366.2	1385.5	1406.5	1427.4	1449.9	1474.0
(ratio to nominal GDP)	(194.9)	(194.2)	(188.2)	(187.1)	(186.9)	(187.0)	(187.4)	(187.8)	(188.4)	(189.0)	(189.9)	(191.0)
Central Government	1086.5	1140.7	1150.1	1168.6	1188.1	1209.6	1232.6	1255.5	1279.6	1303.2	1328.0	1353.5
(ratio to nominal GDP)	(169.1)	(170.5)	(166.2)	(166.2)	(166.9)	(167.9)	(169.0)	(170.1)	(171.4)	(172.6)	(173.9)	(175.4)
Local Government	165.2	158.8	152.3	147.2	142.3	137.8	133.6	130.0	126.9	124.2	122.0	120.5
(ratio to nominal GDP)	(25.7)	(23.7)	(22.0)	(20.9)	(20.0)	(19.1)	(18.3)	(17.6)	(17.0)	(16.4)	(16.0)	(15.6)

Notes 1. In “General Account of Central Government,” FY2024, FY2025, and FY2026 are based on the settlement, supplementary budget, and the draft budget, respectively. In “Ordinary Account of Local Government,” FY2024 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 FY2024 consists of non-tax revenues and surplus of the preceding fiscal year, totaling approximately 23.6 trillion yen, minus carried-forward funds to the next fiscal year (approximately 10.2 trillion yen).

4. In “Ordinary Account of Local Government,” “Revenues” is the sum of local taxes and local transfer taxes, excluding local bonds, reductions in reserve, and carried-forward funds. The “Primary Balance in Ordinary Account of Local Government” consists of “Revenues,” excluding redemptions, interest payments, and reserves.

Transferring to a New Economic Stage Case

【Central and Local Governments' Public Finances】

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

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Primary Balance	▲ 11.3	▲ 7.0	▲ 0.8	4.4	8.1	9.8	11.1	12.5	13.7	14.8	15.6	16.3
(ratio to nominal GDP)	(▲1.8)	(▲1.0)	(▲0.1)	(0.6)	(1.1)	(1.3)	(1.4)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)
Central Government	▲ 15.0	▲ 14.7	▲ 10.4	▲ 7.0	▲ 4.2	▲ 2.8	▲ 2.0	▲ 1.2	▲ 0.5	0.1	0.5	0.8
(ratio to nominal GDP)	(▲2.3)	(▲2.2)	(▲1.5)	(▲1.0)	(▲0.6)	(▲0.4)	(▲0.3)	(▲0.2)	(▲0.1)	(0.0)	(0.1)	(0.1)
Local Government	3.6	7.8	9.5	11.5	12.2	12.6	13.1	13.7	14.2	14.7	15.1	15.4
(ratio to nominal GDP)	(0.6)	(1.2)	(1.4)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Fiscal Balance	▲ 16.4	▲ 12.9	▲ 10.1	▲ 4.4	▲ 2.9	▲ 3.4	▲ 4.3	▲ 5.4	▲ 6.8	▲ 8.3	▲ 9.9	▲ 11.4
(ratio to nominal GDP)	(▲2.6)	(▲1.9)	(▲1.5)	(▲0.6)	(▲0.4)	(▲0.5)	(▲0.6)	(▲0.7)	(▲0.8)	(▲1.0)	(▲1.1)	(▲1.3)
Central Government	▲ 19.3	▲ 19.7	▲ 18.5	▲ 14.9	▲ 14.2	▲ 15.0	▲ 16.4	▲ 18.0	▲ 19.8	▲ 21.7	▲ 23.7	▲ 25.6
(ratio to nominal GDP)	(▲3.0)	(▲2.9)	(▲2.7)	(▲2.1)	(▲1.9)	(▲2.0)	(▲2.1)	(▲2.3)	(▲2.4)	(▲2.6)	(▲2.7)	(▲2.8)
Local Government	2.9	6.8	8.5	10.5	11.2	11.6	12.1	12.6	13.0	13.4	13.9	14.3
(ratio to nominal GDP)	(0.4)	(1.0)	(1.2)	(1.5)	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Outstanding Debt	1243.2	1289.9	1291.0	1301.5	1313.3	1327.4	1343.9	1362.8	1384.4	1408.7	1435.9	1465.9
(ratio to nominal GDP)	(193.5)	(192.8)	(186.6)	(183.3)	(180.1)	(176.9)	(173.5)	(170.5)	(167.9)	(165.8)	(164.0)	(162.6)
Central Government	1078.3	1131.4	1139.0	1154.5	1171.0	1189.5	1209.9	1232.0	1256.3	1282.7	1311.4	1342.2
(ratio to nominal GDP)	(167.8)	(169.1)	(164.6)	(162.6)	(160.6)	(158.5)	(156.2)	(154.1)	(152.4)	(151.0)	(149.8)	(148.8)
Local Government	164.9	158.5	152.0	147.0	142.2	137.9	134.0	130.8	128.1	126.0	124.4	123.7
(ratio to nominal GDP)	(25.7)	(23.7)	(22.0)	(20.7)	(19.5)	(18.4)	(17.3)	(16.4)	(15.5)	(14.8)	(14.2)	(13.7)

【General Account of Central Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Expenditures	123.0	133.5	122.3	129.0	133.5	138.8	144.1	149.6	155.4	161.5	167.6	173.6
（Policy Expenditures）	97.7	105.7	91.4	97.1	99.2	101.8	104.4	107.0	109.8	112.8	116.0	119.2
Social Security-related Expenditures	35.8	41.0	39.1	40.0	40.9	42.0	43.1	44.1	45.3	46.6	48.0	49.5
Local Allocation Tax Grants, etc.	19.6	20.2	20.9	22.5	23.4	24.1	24.8	25.5	26.2	27.0	27.8	28.6
Others	41.9	44.2	31.1	34.3	34.6	35.4	36.2	37.1	38.0	38.9	39.8	40.8
Bond Expenditures	25.7	28.2	31.3	32.3	34.6	37.3	40.0	42.9	46.0	49.0	52.0	54.8
Debt Repayment	17.4	18.5	17.9	18.9	19.1	19.5	20.0	20.4	21.0	21.5	22.0	22.6
Interest Payment	7.9	9.4	13.0	13.1	15.2	17.4	19.7	22.1	24.6	27.2	29.6	31.8
Revenues	88.6	93.2	92.7	95.3	98.8	101.7	105.0	108.4	111.8	115.2	118.8	122.4
Tax Revenue	75.2	80.7	83.7	87.1	90.5	93.1	96.0	99.1	102.1	105.2	108.3	111.6
Other Revenues	13.4	12.5	9.0	8.2	8.3	8.6	9.0	9.3	9.7	10.1	10.4	10.8
Primary Balance in General Account of Central Government	▲ 9.1	▲ 12.5	1.3	▲ 1.8	▲ 0.4	▲ 0.1	0.5	1.4	1.9	2.4	2.8	3.2

【Ordinary Account of Local Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Expenditures	115.5	119.2	113.2	121.6	124.8	128.0	131.4	135.0	138.8	142.6	146.6	150.7
Debt Repayment and Interest Payment	12.1	10.7	10.8	11.3	11.1	10.9	10.6	10.3	10.0	9.9	9.6	9.0
Revenues	102.7	108.1	103.5	111.6	114.8	117.9	121.4	125.0	128.7	132.5	136.5	140.6
Tax Revenue	49.4	51.5	52.2	53.5	54.9	56.5	58.2	60.0	61.8	63.5	65.4	67.2
Primary Balance in Ordinary Account of Local Government	4.0	3.4	7.1	10.0	10.6	11.0	11.7	12.6	13.4	14.2	15.0	15.8

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

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

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035
Primary Balance	▲ 11.3	▲ 8.4	▲ 4.0	1.8	5.6	7.6	9.1	11.1	12.4	15.1	16.0	16.7
(ratio to nominal GDP)	(▲1.8)	(▲1.3)	(▲0.6)	(0.3)	(0.8)	(1.0)	(1.2)	(1.4)	(1.5)	(1.8)	(1.8)	(1.8)
Central Government	▲ 14.9	▲ 16.1	▲ 13.6	▲ 9.7	▲ 6.6	▲ 5.0	▲ 4.1	▲ 2.6	▲ 1.9	0.5	0.9	1.2
(ratio to nominal GDP)	(▲2.3)	(▲2.4)	(▲2.0)	(▲1.4)	(▲0.9)	(▲0.7)	(▲0.5)	(▲0.3)	(▲0.2)	(0.1)	(0.1)	(0.1)
Local Government	3.6	7.7	9.5	11.5	12.2	12.6	13.1	13.7	14.2	14.7	15.1	15.4
(ratio to nominal GDP)	(0.6)	(1.2)	(1.4)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Fiscal Balance	▲ 16.4	▲ 14.4	▲ 13.4	▲ 7.2	▲ 5.6	▲ 5.9	▲ 6.8	▲ 7.3	▲ 8.7	▲ 8.5	▲ 10.2	▲ 11.7
(ratio to nominal GDP)	(▲2.6)	(▲2.1)	(▲1.9)	(▲1.0)	(▲0.8)	(▲0.8)	(▲0.9)	(▲0.9)	(▲1.1)	(▲1.0)	(▲1.2)	(▲1.3)
Central Government	▲ 19.3	▲ 21.1	▲ 21.8	▲ 17.7	▲ 16.8	▲ 17.5	▲ 18.8	▲ 19.9	▲ 21.7	▲ 22.0	▲ 24.1	▲ 26.0
(ratio to nominal GDP)	(▲3.0)	(▲3.2)	(▲3.2)	(▲2.5)	(▲2.3)	(▲2.3)	(▲2.4)	(▲2.5)	(▲2.6)	(▲2.6)	(▲2.7)	(▲2.9)
Local Government	2.9	6.8	8.4	10.5	11.2	11.6	12.1	12.6	13.0	13.4	13.9	14.3
(ratio to nominal GDP)	(0.4)	(1.0)	(1.2)	(1.5)	(1.5)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)
Outstanding Debt	1251.8	1299.5	1302.3	1315.7	1330.6	1347.9	1367.6	1388.4	1412.0	1436.5	1464.0	1494.5
(ratio to nominal GDP)	(194.9)	(194.2)	(188.2)	(185.3)	(182.5)	(179.6)	(176.6)	(173.7)	(171.2)	(169.1)	(167.2)	(165.7)
Central Government	1086.5	1140.7	1150.1	1168.5	1188.1	1209.7	1233.3	1257.4	1283.6	1310.3	1339.4	1370.5
(ratio to nominal GDP)	(169.1)	(170.5)	(166.2)	(164.6)	(162.9)	(161.2)	(159.3)	(157.3)	(155.7)	(154.2)	(153.0)	(152.0)
Local Government	165.2	158.8	152.3	147.2	142.5	138.1	134.3	131.0	128.4	126.2	124.7	124.0
(ratio to nominal GDP)	(25.7)	(23.7)	(22.0)	(20.7)	(19.5)	(18.4)	(17.3)	(16.4)	(15.6)	(14.9)	(14.2)	(13.7)

Notes 1. In “General Account of Central Government,” FY2024, FY2025, and FY2026 are based on the settlement, supplementary budget, and the draft budget, respectively. In “Ordinary Account of Local Government,” FY2024 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 FY2024 consists of non-tax revenues and surplus of the preceding fiscal year, totaling approximately 23.6 trillion yen, minus carried-forward funds to the next fiscal year (approximately 10.2 trillion yen).

4. In “Ordinary Account of Local Government,” “Revenues” is the sum of local taxes and local transfer taxes, excluding local bonds, reductions in reserve, and carried-forward funds. The “Primary Balance in Ordinary Account of Local Government” consists of “Revenues,” excluding redemptions, interest payments, and reserves.

(Appendix 1) Detailed Assumptions

The future population is based on the National Institute of Population and Social Security Research's "Population Projections for Japan" (estimated in 2023) with the births (deaths) median estimates for total population (including foreign nationals in Japan). The economic variables are based on the "Annual Report on National Accounts for 2024," etc. until FY2024, and the "Fiscal Year 2026 Economic Outlook," 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 0.6% (Average from Oct-Dec 2012 to Jul-Sep 2025).

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 91% in FY2035, that among males aged 65-69 gradually rises from around 65% in FY2024 to 75% in FY2035, and that among females aged 65-69 gradually rises from around 46% in FY2024 to 57% in FY2035.

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 2.5 to 2.8% annually from FY2027 to FY2030, based on the "World Economic Outlook" (WEO) by the IMF (October 2025). From FY2031 onwards, it remains constant, at around 2.5%.

<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 (October 2025). From FY2031 onwards, it remains constant, at around 1.9%.

<Crude Oil Prices>

- Based on the assumptions of the Cabinet Office's "Fiscal Year 2026 Economic Outlook," the crude oil price is set to $73.7 per barrel in FY2027 (8.3% 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 92% in FY2035, that among males aged 65-69 gradually rises from around 65% in FY2024 to 78% in FY2035, and that among females aged 65-69 gradually rises from around 46% in FY2024 to 60% in FY2035.

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 FY2024 reflect the "FY2024 Settlement," those in FY2025 reflect the "FY2025 Supplementary Budget" and those in FY2026 reflect the "FY2026 Draft Budget."

- Based on the "FY2026 Tax Reform" (December 26, 2025, Cabinet decision), 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 2026 and 2027).

- Based on the "Act on Special Measures for Securing Fiscal Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act Number 117, 2011) and the "Act on Temporary Special Provision on Local Tax to Secure Necessary Fiscal Resources for Local Governments to Implement Policies for Disaster Prevention Related to Recovery from the Great East Japan Earthquake" (Act Number 118, 2011), the projections reflect the implementation of the special tax for reconstruction and the rise in the individual inhabitant tax on a per capita basis.

(3) Expenditure

- The expenditures of the general account of the central government in FY2024 reflect the "FY2024 Settlement," those in FY2025 reflect the "FY2025 Supplementary Budget," and those in FY2026 reflect the "FY2026 Draft 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 and wage growth rate. Note that the expenditures for the defense capability buildup, 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.

- 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, around 8.2 trillion yen in FY2024, and around 9.0 trillion yen in FY2025 by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," and the "FY2025 Supplementary Budget," respectively. The rest of expenditures is mechanically allocated from FY2026 to FY2027 based on the past budget allocations (as for FY2026, only the "Central and Local Governments' Public Finances" reflects this). From FY2028 onwards, the expenditures increase along with the CPI and wage growth rate, in line with other general expenditures.

- For the financial resources related to the program, 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, FY2025, and FY2026 are set by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," "FY2025 Supplementary Budget," "FY2026 Draft Budget" respectively. The remaining financial resources are allocated from FY2026 to FY2027, in line with the additional expenditures of the annual defense budgets. All the financial resources, except for corporate tax and cigarette tax measures, are added to the Other Revenues in the General Account of the central government without assuming any breakdown. Note that, in the "Central and Local Governments' Public Finance," the ratio of the financial resources that are not included in the calculation of the primary balance is taken into account. The financial resources are counted as those for the year when they are generated, in accordance with the rules of the SNA. From FY2028 onwards, the necessary measures will be assumed to be taken, as in FY2027.

(5) Assumptions on the Expenditures and 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, FY2025, and FY2026 are set by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," the "FY2025 Supplementary Budget," and "FY2026 Draft Budget," respectively, and they are mechanically allocated to FY2027-2028, reflecting each institutional factor. From FY2029, the expenditures increase along with the inflation and wage growth 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, FY2025, and FY2026 are set by the "FY2023 Supplementary Budget," the "FY2024 Supplementary Budget," the "FY2025 Supplementary Budget," and the "FY2026 Draft Budget," respectively, and, based on these budgets, in FY2027-2028, 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 issued from the Social Security Funds 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 Resources Regarding the Abolishment of the Provisional Gasoline Tax Rate and the Reduction of Education Costs

- Based on the "Basic Policy on Economic and Fiscal Management and Reform 2025," (June 13, 2025, Cabinet decision), the "FY2026 Tax Reform" (December 26, 2025, Cabinet decision), tax reform proposals by the ruling parties, inter-party agreements, and others, it is assumed that sufficient revenue will be secured to finance the abolishment of the provisional gasoline tax rate and the reduction of education costs besides the revenue already secured through the FY2026 Draft Budget and the FY2026 Tax Reform. The resources are added to the Other Revenues in the General Account of the central government and the Revenues outside the Tax Revenue in the Ordinary Account of the local governments without imposing specific assumptions regarding their sources.

(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 a series 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 five years beginning in 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

Reconstruction Projects in the Reconstruction Period, including a 5-year Period from 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 FY2024 reflect the settlement, those in FY2025 reflect the "FY2025 Supplemental Budget," and those in FY2026 reflect the "FY2026 Draft 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 other measures 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 a 5-year Period from 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 the implementation period and other details have not yet been decided.

- The expenditure for 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 6.5 trillion yen already allocated by FY2026, are mechanically allocated across FY2027 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 "Attachment 1: 'AI and Semiconductor Industry Foundation Strengthening Framework' of the 'Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth' (November 22, 2024, Cabinet decision)," the assumptions are as follows:

- The expenditures regarding public support are assumed to total approximately 10 trillion yen over the 7 years from FY2024 to FY2030. Since about 3.4 trillion yen has already been allocated by FY2026, the remaining amount is mechanically allocated from FY2027 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 issues Semiconductors and AI Bonds for bridging the financial resources. Semiconductors and AI Bonds are to be redeemed by FY2050. The remaining expenditures are expected to be financed through reimbursements from Funds to the National Treasury, utilization of residual fund 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 FY2026 (about 3.4 trillion yen in total).

- 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	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
General Government	-1.4	-0.8	-0.5	0.5	0.8	0.7	0.6	0.5	0.3	0.4	0.2	0.0
Households	2.0	2.2	2.3	1.5	1.4	1.3	1.2	1.2	1.1	1.0	1.0	1.0
Firms	4.0	3.9	3.7	3.4	2.6	2.3	2.2	2.1	2.1	2.0	1.9	1.8
Overseas	-4.6	-5.3	-5.5	-5.3	-4.7	-4.3	-4.0	-3.8	-3.5	-3.4	-3.1	-2.9

TN Case %

FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
General Government	-1.4	-0.8	-0.5	0.7	1.1	1.1	1.1	1.2	1.1	1.2	1.0	0.8
Households	2.0	2.2	2.3	2.2	2.2	2.1	2.1	2.1	2.1	2.0	2.0	2.0
Firms	4.0	3.9	3.7	2.4	1.6	1.1	0.6	0.2	-0.1	-0.3	-0.3	-0.4
Overseas	-4.6	-5.3	-5.5	-5.3	-4.8	-4.3	-3.8	-3.5	-3.1	-2.9	-2.6	-2.4

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

[GNI]

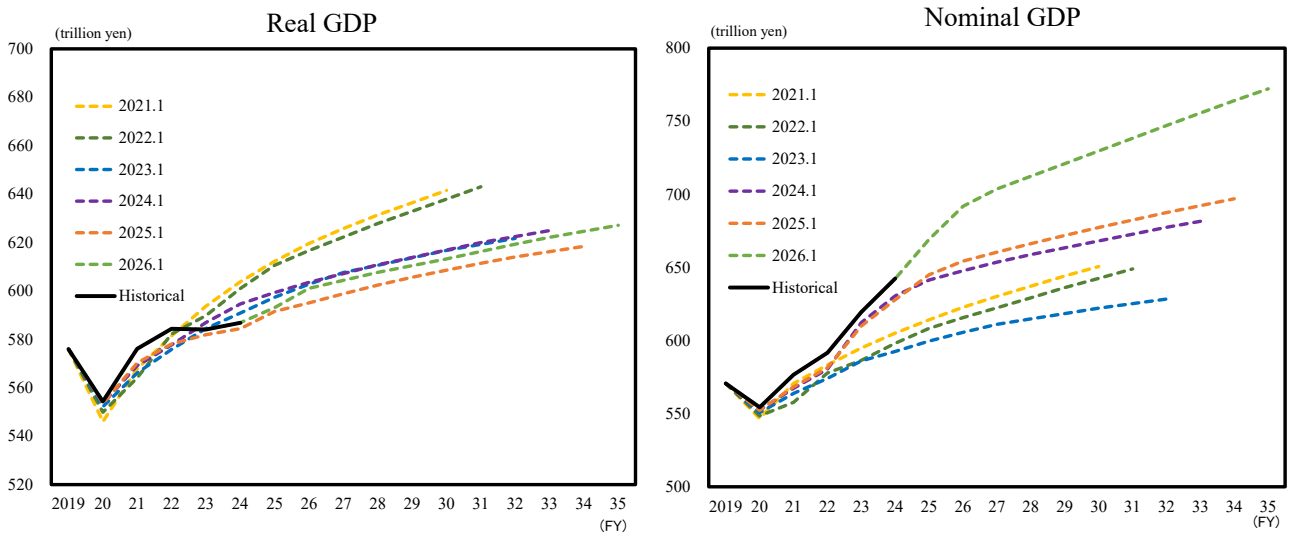
PP Case (Projection →) (%), ten thousand Yen

FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Nominal GNI per Capita	551.1	577.1	601.4	613.4	623.5	633.7	644.1	654.7	665.4	677.0	688.7	700.3
Real GNI Growth Rate	(1.1)	(1.7)	(1.7)	(0.6)	(0.3)	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)

TN Case (%), ten thousand Yen

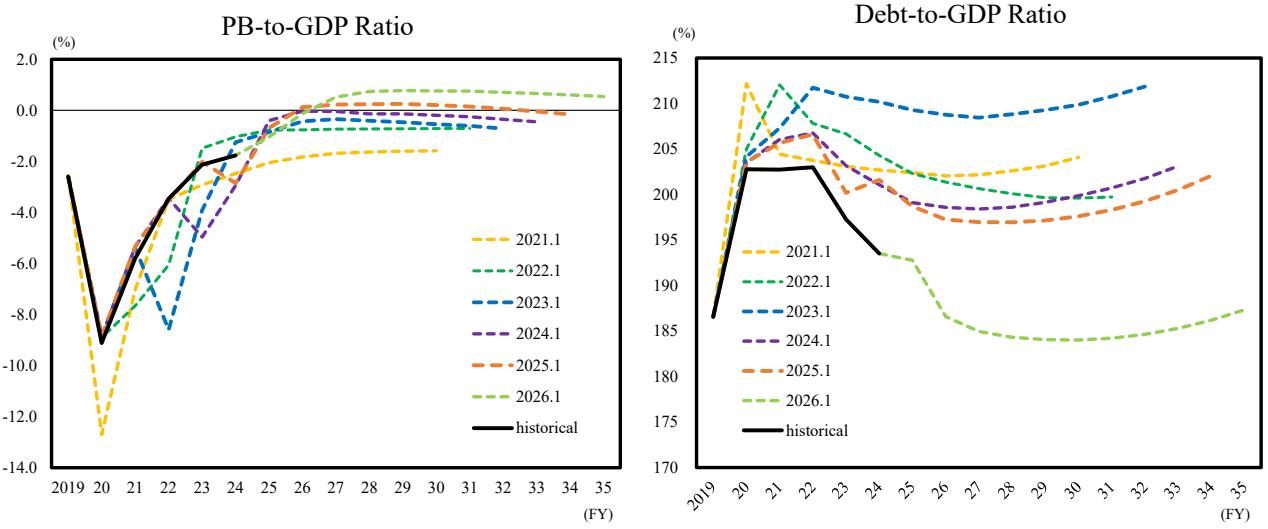
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Nominal GNI per Capita	551.1	577.1	601.4	619.3	637.7	658.1	681.2	705.3	730.2	755.9	782.3	809.9
Real GNI Growth Rate	(1.1)	(1.7)	(1.7)	(1.5)	(0.9)	(1.2)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)

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



(Notes) 1. "Economic and Fiscal Projections for Medium to Long Term Analysis" (Projections made in January 2021 to 2026 for the Baseline Case and the PP Case), etc.

2. Taking into account the GDP statistics benchmark revision, GDP projections prior to January 2026 are constructed by extrapolating from the revised FY2019 GDP using projected growth rates.



(Notes) 1. "Economic and Fiscal Projections for Medium to Long Term Analysis" (Projections made in January 2021 to 2026 for the Baseline Case and the PP Case), etc.

2. Taking into account the GDP statistics benchmark revision, GDP projections prior to January 2026 are constructed by extrapolating from the revised FY2019 GDP using projected growth rates.

(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%)

		2025	26	27-31 average	32-36 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2035	PP Case	1.1	1.3	0.5	0.4
	TN Case	1.1	1.3	1.3	1.5
	HG Case	1.1	1.3	1.5	1.8
Private Sector Forecasts (ESP Forecast)	Lower Average	0.8	0.6	0.5	0.3
	Average	0.9	0.8	0.8	0.7
	Higher Average	1.1	1.0	1.1	1.0

Consumer Price Index Growth Rate (FY, Appx%)

		2025	26	27-31 average	32-36 average
Cabinet office ″Medium to Long Term Analysis″ ※ until 2035	PP Case	2.6	1.9	1.2	1.1
	TN Case	2.6	1.9	2.0	2.0
	HG Case	2.6	1.9	2.0	2.0
Private Sector Forecasts (ESP Forecast)	Lower Average	2.7	1.6	1.3	1.1
	Average	2.8	1.9	1.8	1.7
	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" (January 2026); FY2027-31 and FY2032-36 are based on long-term forecasts from the same survey (December 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" and "Nominal 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 lower-1%, which is on par with the average of the other G7 countries. During the projection periods, it is projected to remain at lower-1% in the PP Case, while it is projected to rise to about 2% in the TN Case and HG Case.

The average nominal GDP per capita growth rate for Japan between CY2012 and 2019 is approximately in the upper-1% range, which is relatively lower than the average of the other G7 countries. During the projection periods, it is projected to remain at lower-2% in the PP Case, while it is projected to rise to about upper-3% in the TN Case and HG Case.

The average wage growth rate for Japan between CY2012 and 2019 is about 0.5%, which is lower than those in the other G7 countries. 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 to about lower-3% in the TN Case and HG Case, comparable to the historical figures in the U.S. and Germany.

		GDP per Capita Growth (%)		Nominal Wage Growth (%)
		Real	Nominal	
Averages of Results between CY2012 and 2019	U.S.	1.8	3.4	2.7
	U.K.	1.4	3.1	2.1
	Germany	1.0	2.8	2.8
	Canada	0.9	2.2	2.1
	France	0.8	1.7	1.5
	Italy	0.1	1.1	0.6
	Japan	1.3	1.8	0.5
Cabinet Office "Medium to Long Term Analysis" Averages between FY2025 and 2035	PP Case	1.2	2.2	1.6
	TN Case	1.9	3.7	3.1
	HG Case	2.1	3.9	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. "GDP per Capita Growth" is the rate of change in the 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.