

[Provisional Translation]

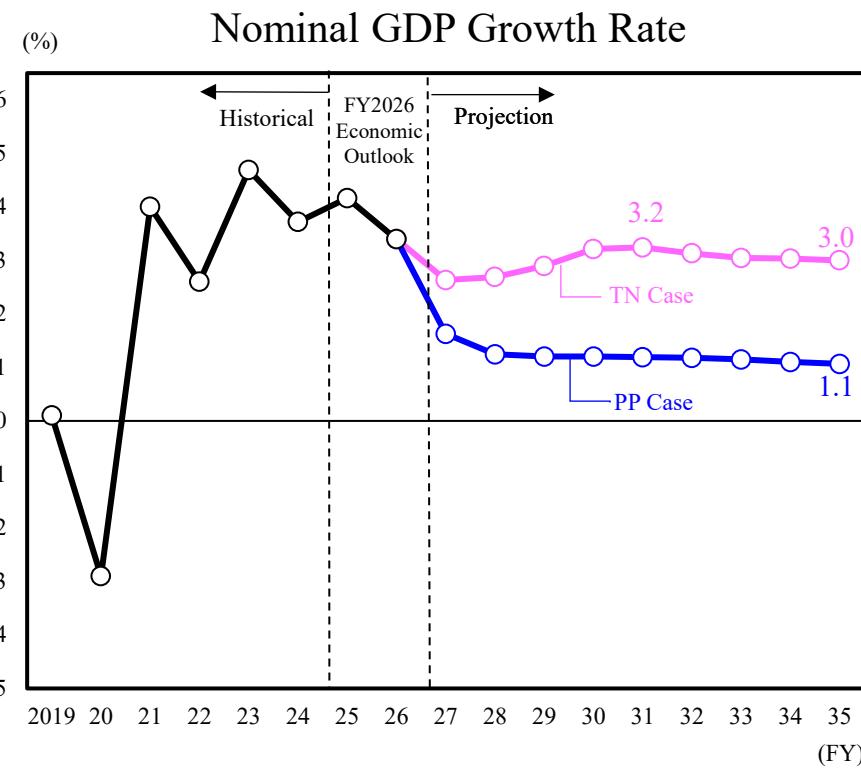
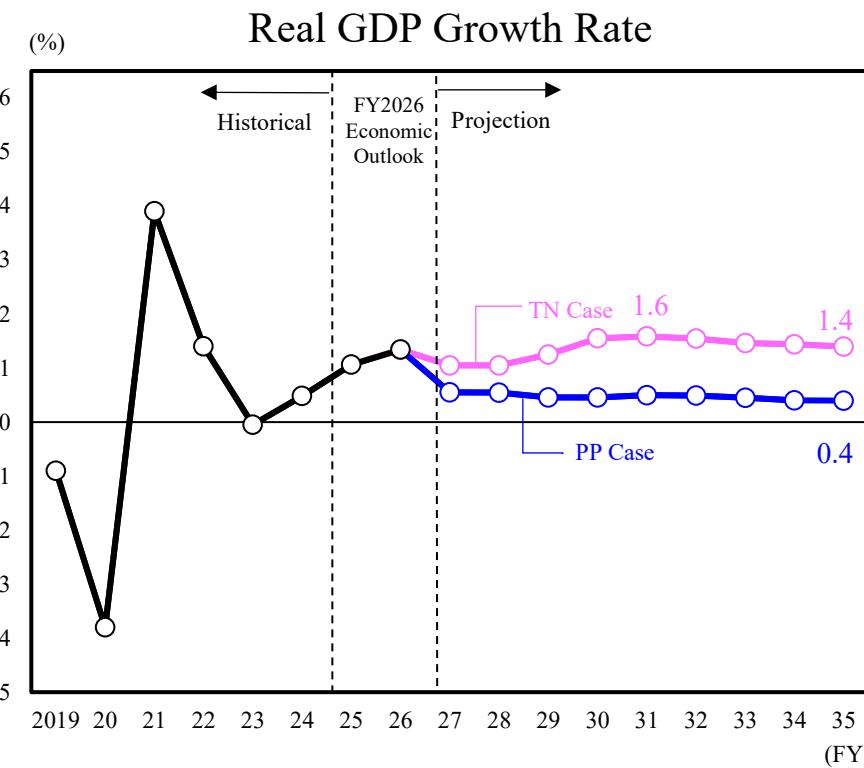


# Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (January 2026)

January 22<sup>nd</sup>, 2026  
Cabinet Office

# Macroeconomic Projection

- In the **Transferring to a New Economic Stage (TN) Case**, the growth rate of TFP (Total Factor Productivity)\* is assumed to steadily go up to around 1.1%, which is the average rate for the last 40 years in Japan. The real and nominal GDP growth rates are projected to be stably above 1% and around 3%, respectively, over the medium- to long-term. It is pivotal to enhance the potential growth rate, transitioning to a growth-oriented economy driven by expansion in investment and productivity improvements.\*\*
- In the **Projection of Past Trend (PP) Case**, the growth rate of TFP is assumed to stay around 0.6%, which is the average from the most recent business cycle to the present. The GDP growth rate is projected to be around mid-0% in real terms and around 1% in nominal terms in the medium- to long-term.



\* Total Factor Productivity (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.

\*\* The government stated that “we need to secure economic growth consistently exceeding 1% in real terms over the medium and long term” in the “Basic Policy on Economic and Fiscal Management and Reform 2025,” (June 13, 2025, Cabinet decision),

# Fiscal Projection

## [Outstanding Debt of Central and Local Governments (Ratio to Nominal GDP)]

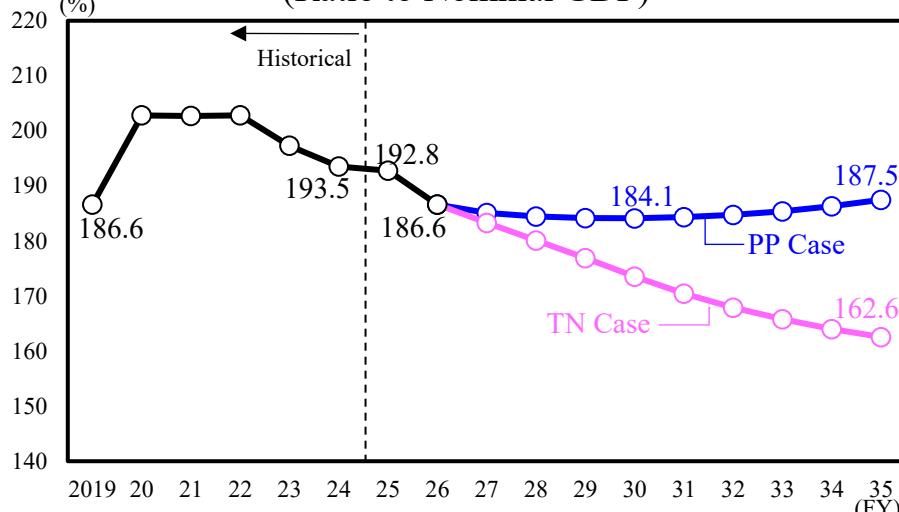
- The ratio of outstanding debt to GDP has declined in FY2024 and is projected to continue decreasing surely through FY2026, as the growth rate of bond issuance is kept below the nominal GDP growth.
- In the TN Case, the ratio of outstanding debt to GDP is projected to decline steadily over the projection 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. In the PP case, on the other hand, as the contribution of economic growth is limited, the ratio is projected to reverse its downward trend in the early 2030s.

## [Primary Balance (PB) of Central and Local Governments (Ratio to Nominal GDP)]

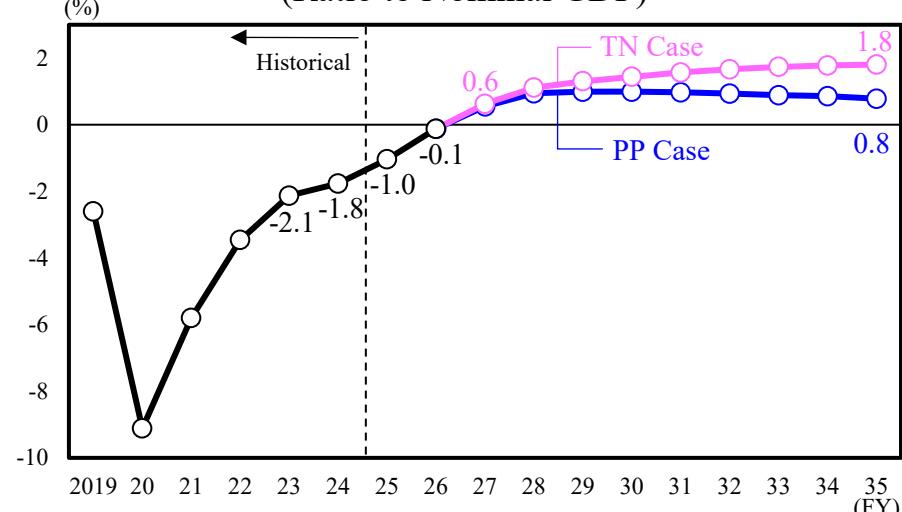
- Following the substantial primary deficit incurred during the COVID-19 pandemic, the deficit is projected to shrink steadily.
- With respect to the PB of the central government's general account based on the Budget Draft, a primary surplus is achieved in FY2026 for the first time in 28 years.
- As a result of the "responsible and proactive public finances" and other factors, the PB of the central and local governments on an SNA basis is projected to be broadly balanced in FY2026, becoming the smallest primary deficit since FY2001, when the government adopted the PB target.
- Thereafter, the primary surplus is projected to be a certain surplus margin in the TN Case. In the PP Case, on the other hand, it is projected to gradually shrink.

\*The expansion in expenditure related to the programs—which includes abolishment of the provisional gasoline tax rate, reduction of education costs and other initiatives—are assumed that sufficient revenue is secured after FY2027.

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



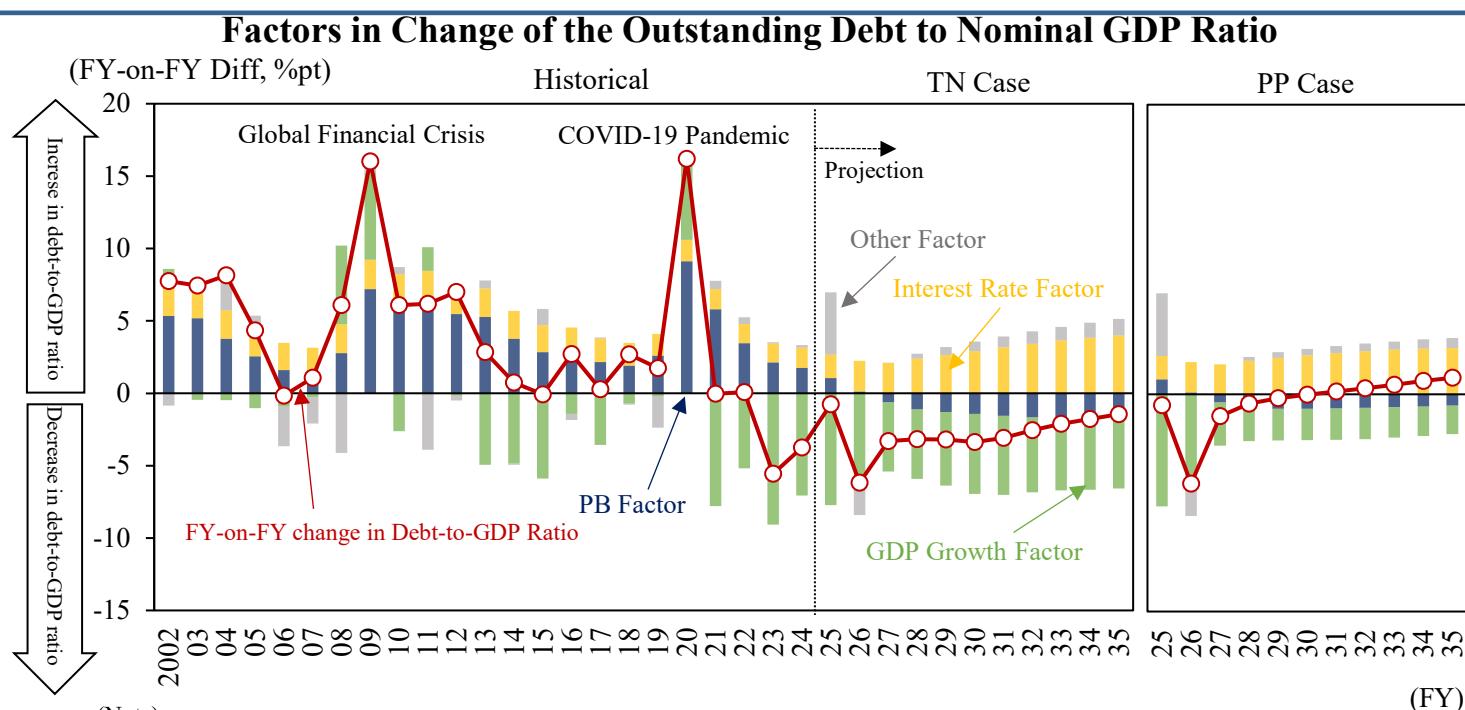
Primary Balance of Central and Local Governments  
(Ratio to Nominal GDP)



\* "Defense Buildup Plan," "Children's Future Strategic Policy," and "1st Mid-term Plan for the Implementation of National Resilience" are reflected in this projection. Other additional expenditures that cannot be concretely assumed are not incorporated into this projection.

# Factors of Change in the Outstanding Debt to the Nominal GDP

- The fiscal year-on-fiscal year (FY-on-FY) change in the outstanding debt to the nominal GDP ratio is mainly driven by three factors: nominal GDP growth, the interest rate, and the PB.
- As for historical data (until FY2024), the FY-on-FY change increased significantly during crisis periods such as the Global Financial Crisis and COVID-19 pandemic, driven by primary deficit and negative economic growth. After those crises, as the primary deficit gradually declined, the contribution of the PB to raising the outstanding debt to the nominal GDP ratio has diminished. Nominal GDP growth has reduced the ratio, and the historical low-interest-rate environment limited the contribution of the interest factor.
- In the TN Case, the ratio is projected to decline stably over the projection period. This is because the nominal GDP growth factor would outweigh the negative factor of the interest rate and the PB is projected to remain surplus. Note that the FY-on-FY change is expected to narrow as the contribution of the interest rate increases.
- In the PP Case, compared to the TN Case, the downward trend in the FY-on-FY change is projected to reverse after FY2031, as the contributions of the nominal GDP and the PB are insufficient to offset the contribution of the interest rate.



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.

# Details of the PB of the Central and Local Governments

- In the previous projection (issued in August 2025), the PB was projected to be a deficit of 3.2 trillion yen in FY2025 and a surplus of 3.6 trillion yen in FY2026.
- Compared with the previous projection, the PBs in both FY2025 and FY2026 are projected to deteriorate, mainly due to an increased expenditure and other factors related to the economic stimulus package enacted in November 2025.
- With respect to the PB of the central government's general account based on the initial budget, a primary surplus is achieved in FY2026 for the first time in 28 years.
- As a result of the “responsible and proactive public finances” and other factors, the PB of the central and local governments on an SNA basis is projected to be broadly balanced in FY2026, showing the smallest primary deficit since FY2001, when the government adopted the PB target.
- Thereafter, the primary surplus is projected to be a certain surplus margin in the TN Case. In the PP Case, on the other hand, it is projected to gradually shrink.

[Factors of the PB Revision in FY2025 and FY2026]

(Appx. trillion Yen)

	PB in FY2025	PB in FY2026
August 2025 projection	- 3.2	+ 3.6
Factors on the revenue side		
- The development of FY2025 supplementary budget and FY2026 initial budget	+ 3.5	+ 2.6*
Factors on the expenditure side		
- Additional expenditure due to FY2025 economic stimulus package	- 6.1	- 5.2
- Upswing of personnel expenditure of the local government reflecting FY2024 settlement, FY2025 supplementary budget, etc	- 1.2	- 1.2
- The development of FY2026 initial 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 others.

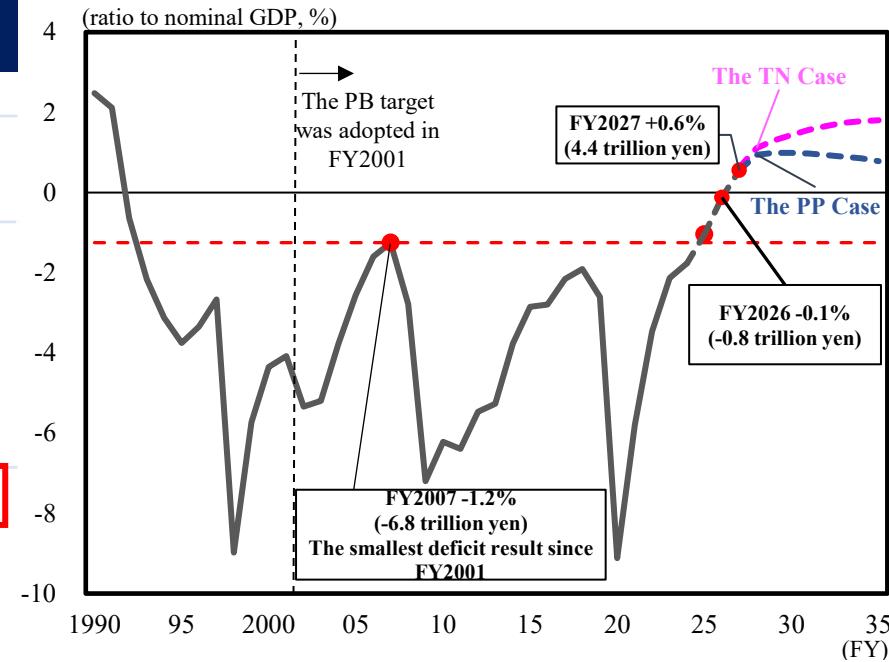
\*\* It includes expenditure that the August 2025 projection didn't incorporate into the model, such as reduction of education costs (-0.37 trillion yen) and policies regarding foreign nationals (-0.13 trillion yen). Sufficient revenues for these expenditures are secured.

(Note) 1. Compiled from “SNA (National Accounts of Japan)” and “Economic and Fiscal Projections for Medium to Long Term Analysis (January 2026)” by Cabinet Office (series excluding the expenditures and the fiscal resources for the recovery and reconstruction measures, GX measures, and the AI and semiconductor industry foundation strengthening measures).

2. Considerable leeway should be given when interpreting the left table, including assumptions on the projection. Figures in the table are rounded, so the sum of factors and the change of PB do not always match.

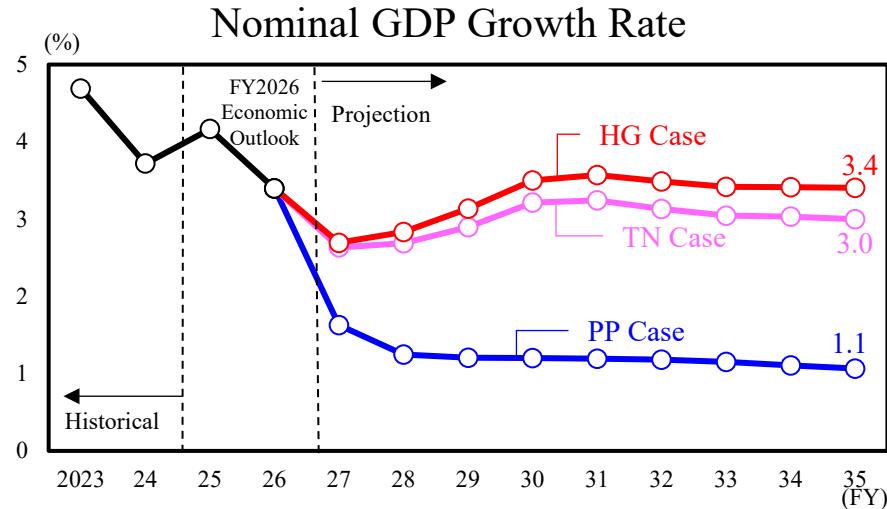
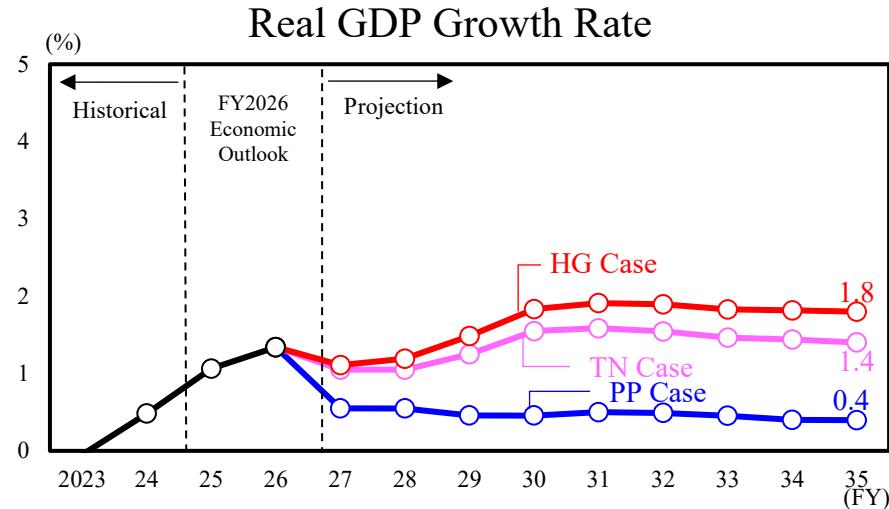
3. PB from FY1990 to FY1993 in the graph are derived from the data of 93SNA. The PB from FY2025 is a projection.

[Time Series of the PB of the Central and Local Governments (Ratio to Nominal GDP)]

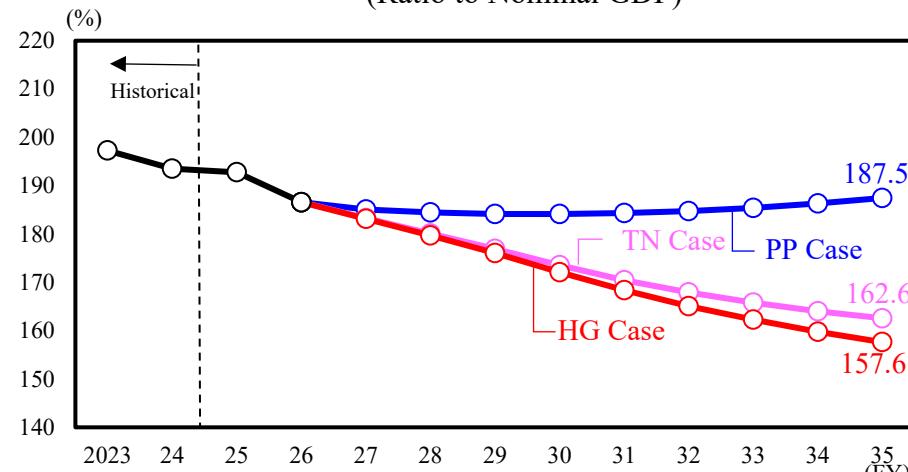


# (Reference) The Higher Economic Growth Case

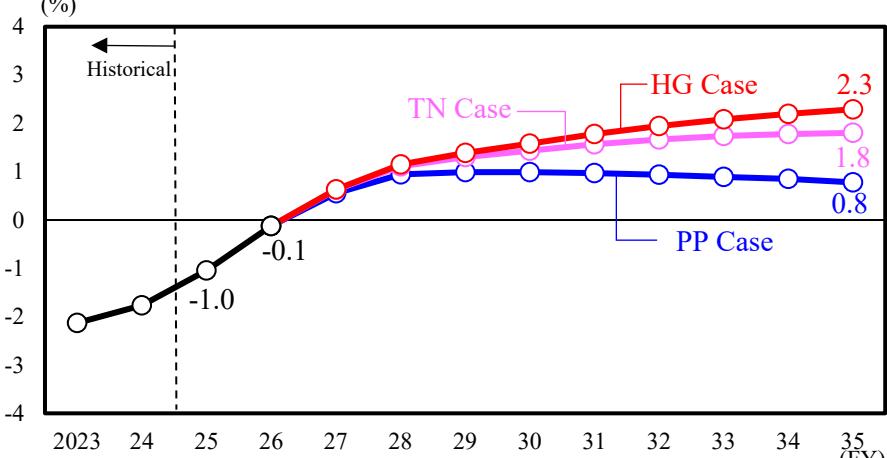
- In the **Higher Economic Growth (HG) Case**, the growth rate of TFP is assumed to steadily go up to around 1.4%, which is the average rate prior to the deflationary period in Japan (i.e. the 1980s and 1990s).
- The HG Case is projected to achieve higher nominal and real GDP growth rates than in the TN Case. The PB to GDP and the outstanding debt to GDP are both projected to improve further than in the TN Case.



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



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



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