Provisional Translation

Medium- to Long-Term Economic and Fiscal Projections under Japan's Growth Strategy

June 24, 2026
Cabinet Office

The role of Medium- to Long-Term Economic and Fiscal Projections under Japan's Growth Strategy

- Following the instructions from the prime minister at the Council on Economic and Fiscal Policy (CEFP) on May 11, 2026, projections for Japan's economic and fiscal developments until FY2040 (*1) are made to estimate the effects of the government making additional spending each fiscal year in line with Japan's Growth Strategy, which is centered on a comprehensive push to stimulate domestic investment, etc. The projections are based on the Basic Principles for a Fundamental Reform of the Budget Formulation Process (hereinafter, "the Basic Principles") discussed at the CEFP on April 13 (see page 2) and used the "Economic and Fiscal Model." (*2)
- The projections assume that this additional government spending includes: (*4)
  - Projects other than the separately-managed portion (*3) of the 'new investment framework' for funding strategic investments that enhance resilience against potential crises and growth investments for which funding has been secured on a multiple-year basis (see point 3 on the following page);
  - The portion of permanent programs in the supplementary budgets that will be incorporated into the initial budget (see point 4 on the following page)
- Because many of the specifics for additional government spending cannot be determined at present (e.g., public/private investment schedule, breakdown of strategic investments, classification relative to the separately-managed portion), the central government's additional spending is assumed to remain constant at 10 trillion yen in real terms, without any presumption, per fiscal year from FY2027 onwards. (*5) In the lead-up to the end of 2026, the government, now moving forward with budget formulation under a new fiscal framework, will examine the amount of public-private investment and the budget required for it. The debt-to-GDP ratio and other indicators will then be re-assessed, in line with the result of the budget formulation.
- Because the details of the expenditures have not yet been determined, the projections assume that the spending will be divided equally, with half allocated to public demand and the other half to subsidies to lower companies' capital costs.
- Except for the additional government spending, all projections in principle use the same assumptions as the Economic and Fiscal Projections for Medium to Long Term Analysis issued in January 2026.

(*1) GDP, domestic private non-residential investment, debt-to-GDP ratio, and primary balance/fiscal balance, among others. The indicator of the debt-to-GDP ratio uses outstanding debt of central and local government as set out in the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis. In terms of assessing medium- to long-term debt sustainability, the outstanding balance of government bonds, etc. includes ordinary sovereign bonds, local government bonds, and borrowing in the Special Account for the Local Allocation and Local Transfer Tax. It does not include bonds issued as bridging finance for which future funding sources have already been secured such as reconstruction bonds and GX Economy Transition Bonds, Financing Bills, etc.

(*2) The "Economic and Fiscal Model (FY2026 version)" is available on the Cabinet Office website (in Japanese only).

(*3) In the Basic Principles, it has been proposed that, in the case of programs whose advance funding is made possible through the issuance of bonds issued as bridging finance backed by dedicated redemption sources, both expenditures and financing be excluded and managed separately when considering indicators such as the debt-to-GDP ratio and the primary balance. Accordingly, in these projections, even though the economic impacts related to the separately managed portion are reflected in economic indicators such as GDP, fiscal indicators such as outstanding government debt and the primary balance are indicated on a basis that excludes both expenditures and financing related to the separately managed portion.

(*4) This includes expenditures for projects to enhance national resilience (central government spending 2.1 trillion yen) for 2027 and beyond and defense capability buildup (0.5 trillion yen) for FY2027, as indicated in the Medium- to Long-Term Economic and Fiscal Projections (as submitted to the CEFP, January 22, 2026). In addition, local governments are assumed to bear a cost-sharing burden (1.3 trillion yen) associated with national funding for enhancing national resilience.

(*5) The projections assume additional fiscal expenditures of 10 trillion yen in FY2027, with further increases expected thereafter in line with rising prices and higher wages, in the same manner as other non-social security expenses.

Considerable leeway should be given when interpreting these projections because of the various uncertainties involved. In particular, it should be noted that although this projection extends to FY2040, uncertainty increases with the projection horizon.

Statements made by Prime Minister Takaichi (at the CEFP, April 13, 2026)

① **As for fiscal management targets, our core target is to steadily lower Japan's ratio of outstanding government debt to GDP.** We will continue to raise the growth rate and make sure to restrain the growth of government debt within the range of nominal economic growth while keeping an eye on interest rates and other market trends. With regard to the primary balance, we will check it as we work to reduce the debt-to-GDP ratio, and will manage it under a steady downward trend over multiple years.

② Regarding the overall budget formulation process, **we will ensure that rising prices and wage increases are properly reflected in the budget**. At the same time, we will shift from the traditional budgeting approach followed during the 'era of deflation and low growth' and revise our approach to one that is suitable for 'enhancing economic growth potential' and 'expanding the nominal size of the economy.'

③ **Regarding strategic investments that enhance resilience against potential crises and investments that promote growth, we will establish a 'new investment framework' that can be implemented with predictability separate from regular expenditures.** As for funding sources, we will carefully assess the fiscal scale that is feasible even while steadily reducing the debt-to-GDP ratio, and manage it flexibly in a manner consistent with the medium-term debt trajectory. Among these, investments in areas of particular importance for economic security will be managed under a separate framework after securing funding over multiple fiscal years.

④ **Supplementary budgets will be limited to items of high urgency. Funds for permanent programs will be allocated in the initial budget in general**, thereby shifting away from our reliance on supplementary budgets.

⑤ In order to help ensure the 'sustainability' of fiscal indicators such as the debt-to-GDP ratio, **we will strengthen our analysis and verification processes** that take into account such uncertainties as growth rates and interest rates. In addition, we will strive to maintain close dialogue with market participants **to secure market confidence**.

The role of Medium- to Long-Term Economic and Fiscal Projections under Japan's Growth Strategy

- Projections have been prepared for three scenarios based on the degree to which the effects of Japan's Growth Strategy materialize.

  (1) Growth Strategy Achieved Case I (GA Case I)
  - In GA Case I, in addition to increased demand from additional government spending, positive effects arise from investments made under the Public-Private Investment Roadmap and so on, with sizeable benefits stemming from investment in R&D and greater efficiency in the allocation of productive resources also materializing. Corporate capital stock increases significantly as the expected rate of return on firms' investments rises over the medium- to long-term through the introduction of AI and the commercialization of state-of-the-art innovative technologies, inducing substantial domestic private investment. The TFP growth rate increases to 1.1% over roughly the next five years and to 1.4% over the roughly five years thereafter. (*1)
  - The labor participation rate is assumed to increase especially among women and the elderly.
  - CPI growth rate is projected to converge to around 2%.

  (2) Growth Strategy Achieved Case II (GA Case II)
  - In GA Case II, in addition to increased demand from additional government spending, positive effects arise from investments made under the Public-Private Investment Roadmap and so on. The expected rate of return on firms' investments rises over the medium term because of the introduction of AI, leading to greater domestic private investment. However, uncertainties regarding technology and the market result in less growth materializing than in GA Case I above. The TFP growth rate increases to 1.1% over roughly the next five years and then remains flat.
  - The labor participation rate is assumed to increase at the same pace as in GA Case I.
  - CPI growth rate is projected to converge to around 2%.

  (3) Projection of Current Trend Case (PC Case)
  - In the PC Case, only the increased demand from additional government spending materializes. The expected rate of return on firms' investments does not increase, leading to domestic private investment remaining in line with past trends. The TFP growth rate stays in the mid-0% range, broadly in line with historical levels. (*2)
  - The labor participation rate is assumed to increase more moderately than in GA Cases I and II.
  - CPI growth rate is projected to converge to around 2%.

(*1) Total Factor Productivity (TFP) represents the increase in value added that is not attributable to an increase in capital or labor. It includes a reflection of technological progress, improved worker skills, and more efficient allocation of productive resources. For more information on the impact of Japan's Growth Strategy on the TFP growth rate, see "(Reference) Impact of Japan's Growth Strategy on the TFP Growth Rate" (June 24, 2026, submitted to the Joint Session of the 8th meeting of the Council on Economic and Fiscal Policy in 2026 and the 5th meeting of the Council for Japan's Growth Strategy).

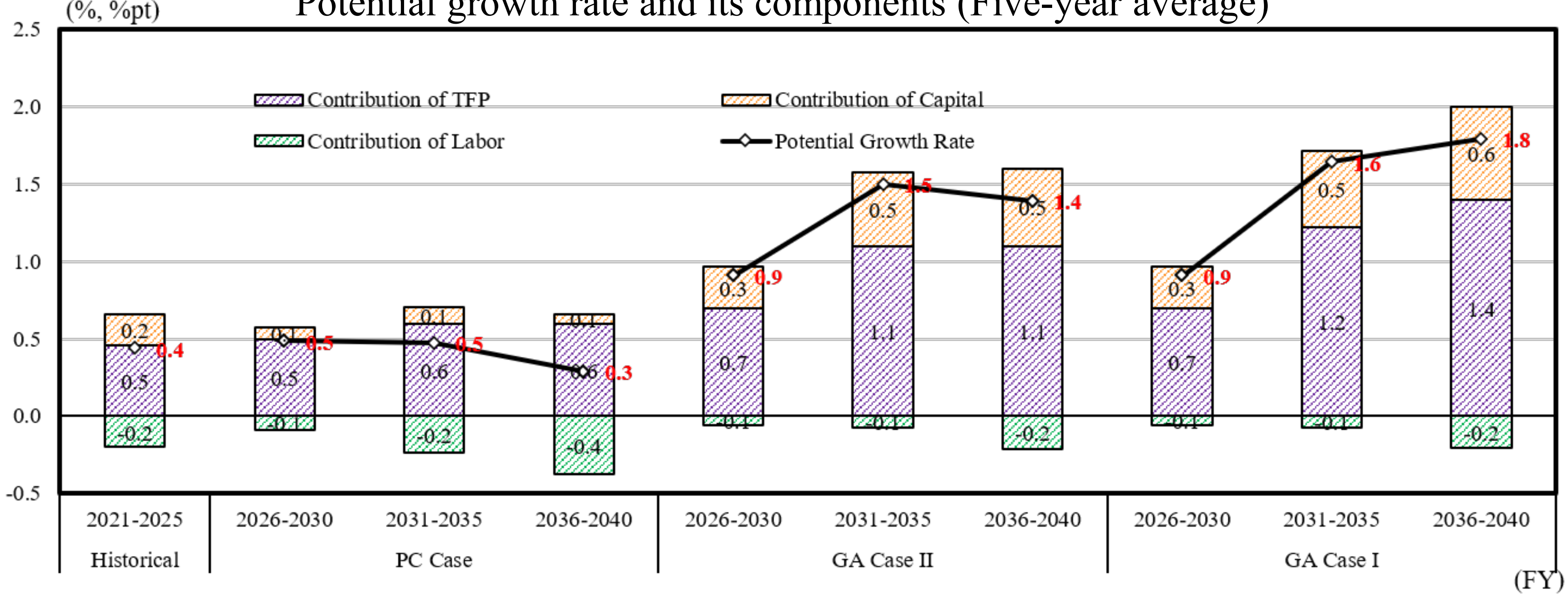
(*2) The TFP growth rate in the PC Case is assumed to stabilize at around 0.6%, which is the average from the recent business cycle to the present (October-December 2012 to January-March 2026).

(*3) As for other current assumptions regarding GDP growth rate and other variables through FY2026, as a general rule, these projections are based on the same assumptions used to prepare the "Fiscal Year 2026 Economic Outlook" and the latest medium- to long-term projection (January 2026). It assumes a long-term interest rate of 2.6% for FY2026 (fiscal year average, assuming the average rate of 2.6% for May 2026 continues until the end of FY2026).

Potential growth rate and its components

- In GA Case I, the effects of R&D investments and greater efficiency in the allocation of productive resources materialize to a sizeable extent, adding to the effects of investments promoted under the Public-Private Investment Roadmap. The contribution from higher capital input stemming from strongly promoting domestic investment results in a potential growth rate roughly six times as large as the rate under the PC Case, the case in which the effects of Japan’s Growth Strategy do not materialize to a sufficient degree. Moreover, a higher TFP growth rate over the medium- to long-term results in the potential growth rate—the productive capacity of the Japanese economy—rising to the upper-1% range over the course of the projection.
- In GA Case II, positive effects emerge from the investments promoted under the Public-Private Investment Roadmap. Here too, the higher capital input that results from strongly promoting domestic investment ultimately yields a potential growth rate roughly five times as large as the rate under the PC Case. Moreover, a higher TFP growth rate leads to the potential growth rate hovering around the mid-1% level.
- In the PC Case, the effects of Japan’s Growth Strategy do not materialize to a sufficient degree. With capital accumulation at a standstill, the TFP growth rate stagnating, and the negative contribution from labor input increasing, the potential growth rate gradually declines to the low-0% range.

Potential growth rate and its components (Five-year average)

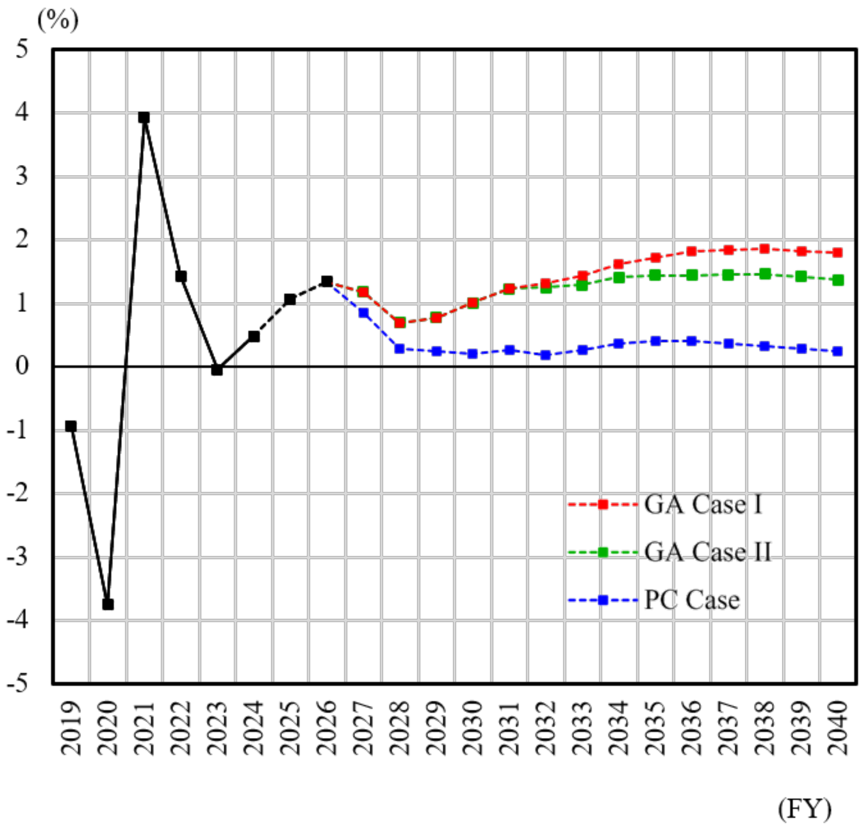


(Note) Historical data are the Cabinet Office estimates based on the "Quarterly Estimates of GDP for Jan.–Mar. 2026 (The Second Preliminary Estimates)."

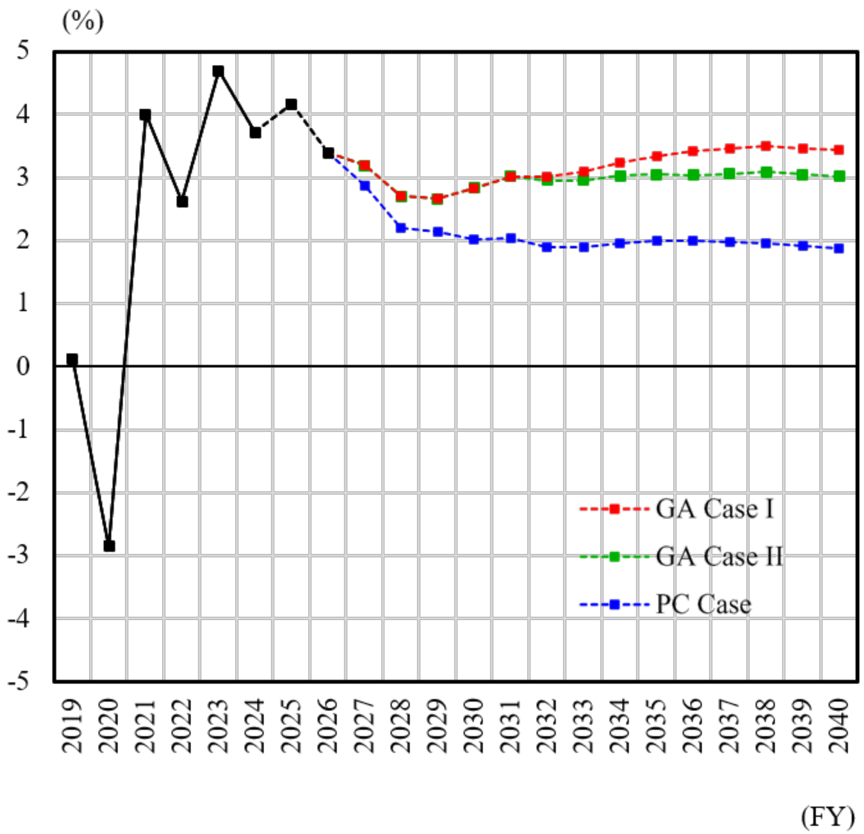
GDP growth rate

- Real GDP growth reaches the upper-1% range in GA Case I and the mid-1% range in GA Case II. By contrast, the growth rate remains in the low-0% range in the PC Case. Note that the negative contribution of labor input to the potential growth rate will increase over the years through to FY2040 as Japan's aging society and falling birthrate intensify, thereby lowering the potential growth rate of the PC Case in particular.
- Over the medium to long term, nominal GDP growth reaches the mid-3% range in GA Case I and roughly 3% in GA Case II. Conversely, it remains in the 2% range in the PC Case.

Real GDP growth rate



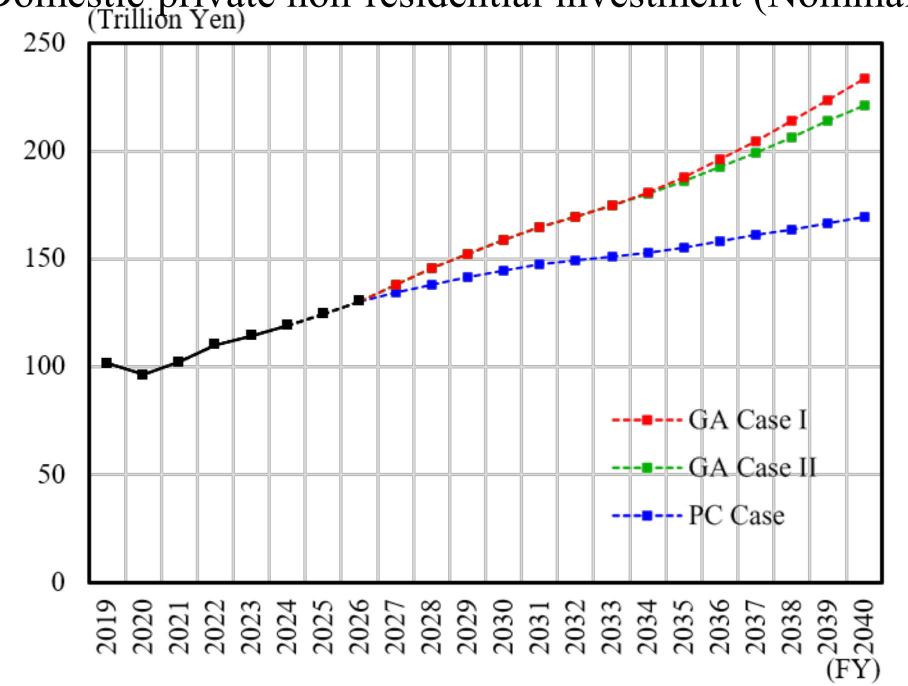
Nominal GDP growth rate



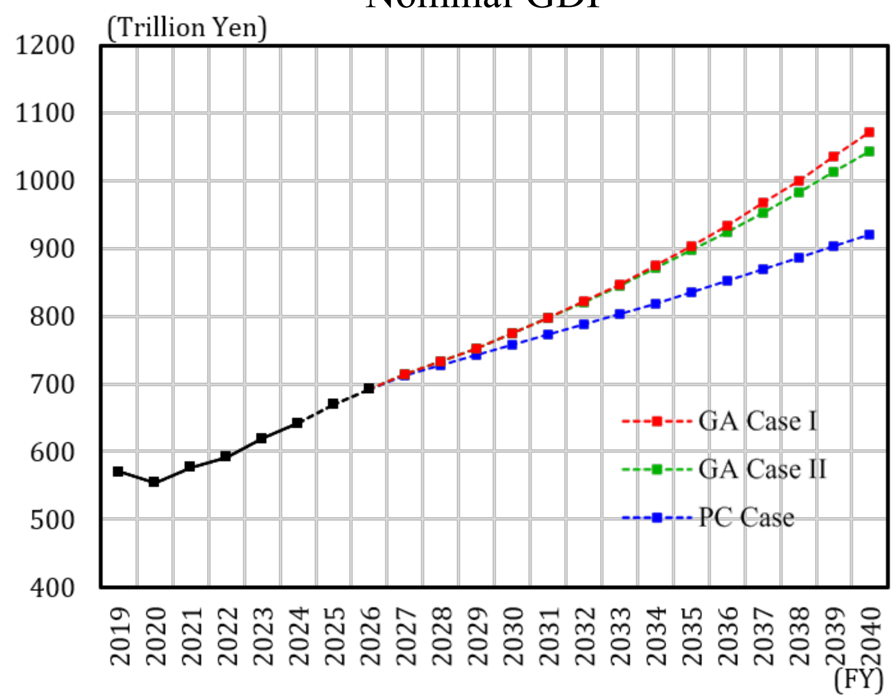
Domestic private non-residential investment and nominal GDP

- In GA Case I, corporate capital stock accumulates substantially as the expected rate of return on firms' investments rises over the medium- to long-term and domestic private non-residential investment increases to more than 230 trillion yen, significantly surpassing the current target (200 trillion yen in FY2040). A total of roughly 410 trillion yen in domestic private non-residential investment alone will be induced, compared with the case in which the Growth Strategy does not fully take effect. This amount surpasses the cumulative public-private investment goal under the Public-Private Investment Roadmap (over 370 trillion yen). Driven by non-residential investment, nominal GDP rises toward 1.10 quadrillion yen in FY2040.
- In GA Case II, domestic private non-residential investment increases to about 220 trillion yen in FY2040. Compared with the case in which the Growth Strategy does not fully take effect, a total of roughly 370 trillion yen in domestic private non-residential investment alone will be induced, reaching the amount set as the cumulative public-private investment goal under the Public-Private Investment Roadmap (over 370 trillion yen). Nominal GDP in GA Case II rises to 1.04 quadrillion yen in FY2040.
- In the PC Case, domestic private non-residential investment and nominal GDP reach approximately 170 trillion yen and 900 trillion yen, respectively.

Domestic private non-residential investment (Nominal)



Nominal GDP



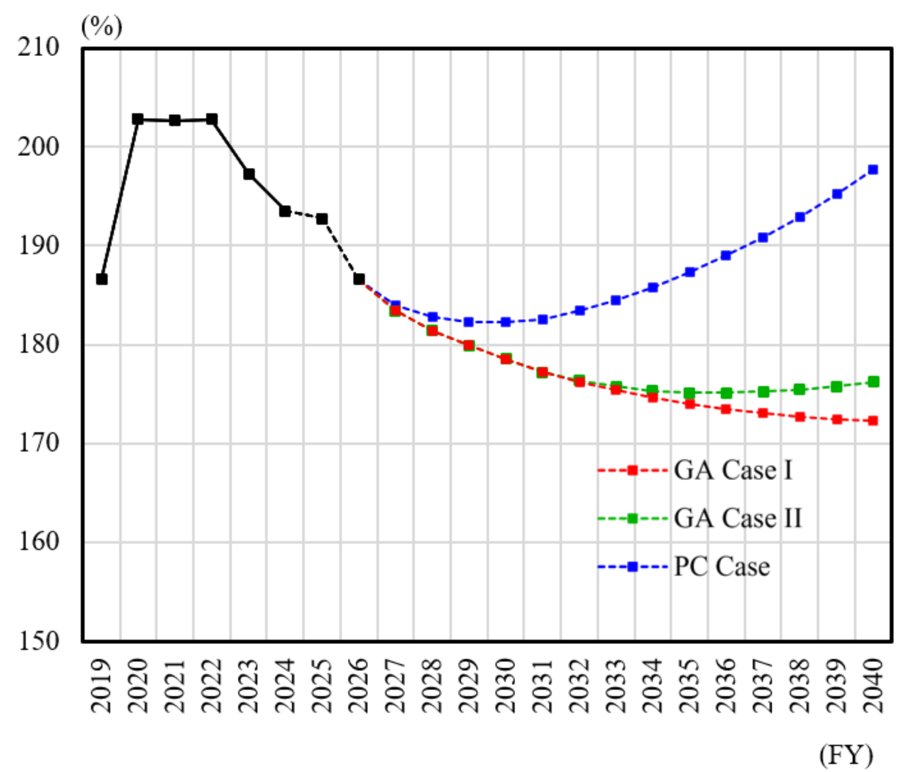
Outstanding debt-to-GDP ratio

- In GA Case I, the debt-to-GDP ratio of central and local governments demonstrates a declining trend, followed by a smaller rate of decline in the latter half of the 2030s. In contrast, in GA Case II and the PC Case, the ratio transitions to an upward trajectory in the mid-2030s and FY2030, respectively.

⇒ By incorporating the assumption of an additional 10 trillion yen (*) in government spending annually, the debt-to-GDP ratio declines in a broadly stable manner, contingent on sufficiently robust economic growth.

(*) When formulating the budget, expenditures allocated to the new investment framework will include the separately managed expenditures with financial resources secured over multiple fiscal years.

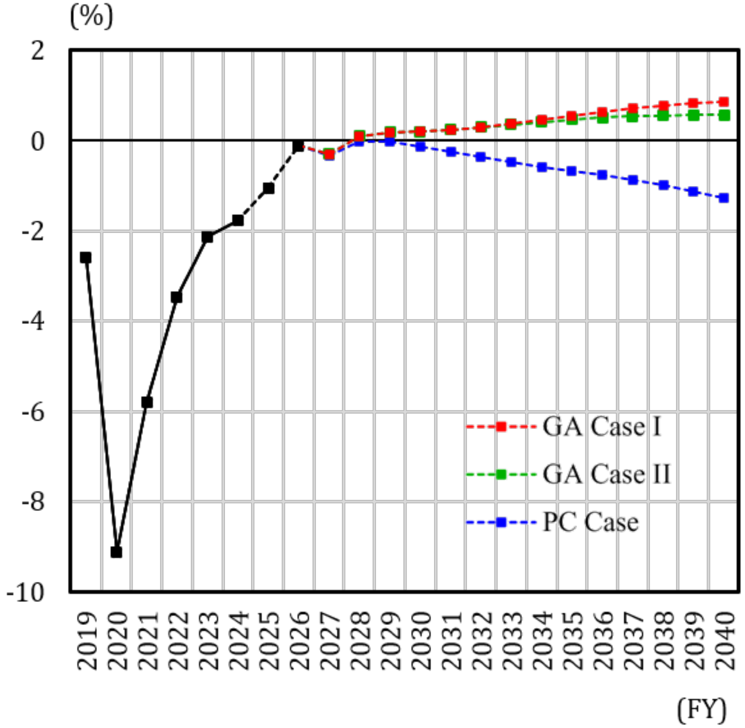
Outstanding debt-to-GDP ratio



Primary balance- and fiscal balance-to-GDP ratios

- In GA Cases I and II, the primary balance of central and local governments-to-GDP ratio is in the red for a short while. The ratio then enters the black from FY2028 onward and the size of the primary surplus increases until the mid-2030s. Thereafter, the surplus continues to expand in GA Case I, while it remains at roughly the same level in GA Case II. In the PC Case, the primary deficit expands throughout the projection period.
- In GA Cases I and II, the fiscal balance of central and local governments-to-GDP ratio deteriorates moderately through to FY2040, while in the PC Case, the ratio deteriorates steadily through to FY2040.

Primary balance-to-GDP ratio



Fiscal balance-to-GDP ratio