

Economic and Fiscal Projections for Medium to Long Term Analysis
(Submitted to the Council on Economic
and Fiscal Policy on July 30th, 2026)



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1. Introduction

This projection presents the medium- to long-term economic and fiscal projection estimated by Cabinet Office, the government of Japan. It is submitted to the Council on Economic and Fiscal Policy (CEFP) as the foundational information for implementing appropriate macroeconomic and fiscal management and assessing the economic and fiscal trajectories aimed in “Medium-to Long-Term Economic and Fiscal Plan”—spanning from FY2027 to FY2040— of the “Basic Policy on Economic and Fiscal Management and Reform 2026”¹ (hereinafter “Basic Policy 2026”) . It also provides the foundation for demonstrating the presumptions, effects of policies, and risks of “responsible and proactive public finances” to the public and market participants. It reflects the data and policies available by the publication of the projection and is estimated using the “Economic and Fiscal Model,” which integrates macroeconomic, public finance and social security sectors as a system of equations.²

2. Medium-to long-term economic projection

This projection reflects various economic statistics and incorporates the Cabinet Office’s Mid-Year Economic Projection³ as the economic trajectory up to FY2027. Considering the “ ‘Strong and Prosperous Japan’ Investment Framework,” the establishment of which the government advocates in “Basic Policy 2026,” it is assumed that the central government spends additional expenses every year.⁴ The projection assumes that these additional government expenses include: projects other than the separately-managed portion⁵ of the “ ‘Strong and Prosperous Japan’ Investment Framework” for which funding has been secured on a multiple-year basis; and the portion of permanent programs in the supplementary budgets that will be incorporated

¹ July 21, 2026, Cabinet decision.

² The results of this projection should be interpreted with a considerable degree of caution, as they are subject to various sources of uncertainty. In particular, while the projection period extends through FY2040, it should be noted that the degree of uncertainty increases as the projection horizon lengthens. The details of “Economic and Fiscal Model (FY2026 version),” which is used to compile the projection, is available (in Japanese only) on the Cabinet Office website.

³ “Mid-Year Economic Projection for FY2026” (July 30, 2026, submitted to the CEFP).

⁴ The assumptions on the additional government spending and the three scenarios are the same as those in the “Medium- to Long-Term Economic and Fiscal Projections under Japan’s Growth Strategy” (June 24, 2026, hereinafter “June Growth Strategy projection”)

⁵ In “Basic Policy 2026,” it is stated that in the case of programs whose advance funding is made possible through the issuance of bonds as bridging finance backed by dedicated redemption sources, both expenditures and financing are excluded and managed separately when considering indicators such as the debt-to-GDP ratio and the primary balance. Accordingly, 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.

into the initial budget. Details of additional government expenses not being determined at present (e.g., public-private investment schedule, concrete breakdowns of investments that enhance resilience against potential crises and investments that promote growth, demarcation from 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.⁶

For FY2028 onwards, projections have been prepared for three scenarios—"Growth Strategy Achieved (GA) Case I," "Growth Strategy Achieved (GA) Case II," and "Projection of Current Trend (PC) Case"- based on the degree to which the effects of Japan's Growth Strategy⁷ etc. materialize. In GA Case I, in addition to the demand increases by additional government spending, positive effects sufficiently 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. Corporate capital stock significantly increases 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. The labor participation rate is assumed to increase especially among women and the elderly.

In GA Case II, in addition to the demand increases by additional government spending, positive effects arise from investments made under the Public-Private Investment Roadmap and so on as in GA case 1. The expected rate of return on firms' investments rises over the medium term through the introduction of AI, leading to greater domestic private investment. However, uncertainties regarding technology and markets result in weaker growth than in GA Case I. 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.

In the PC Case, only the demand increases by additional government spending materialize. 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. The labor participation rate is assumed to increase more moderately than in GA Cases I and II.

⁶ Because the details of the expenditures have not yet been determined, the projections assume that the spending is divided equally, with half allocated to public demand and the other half to subsidies to lower corporations' capital costs. The central government's additional spending is assumed to be 10 trillion yen in FY2027 and increases along with the CPI and wage growth rate, in line with other non-social security general expenditures. See BOX 3 in the "Economic and Fiscal Projections for Medium to Long Term Analysis" (January 22, 2026, submitted to the CFP, hereinafter "January projection") for the estimation method in non-social security general expenditures.

⁷ July 21, 2026, Cabinet decision

Differences in the TFP growth rate and the Labor Participation Rate across scenarios

	TFP Growth Rate ⁸ (0.3% in FY2025)	Labor Participation Rate ⁹ (63.9% in FY2025)
Growth Strategy Achieved (GA) Case I	Increasing to 1.1% over roughly the next five years and to 1.4% over roughly five years thereafter.	Increasing, especially among women and the elderly (68.3% in FY2040)
Growth Strategy Achieved (GA) Case II	Increasing to 1.1% over roughly the next five years and flat thereafter	Same as above
Projection of Current Trend (PC) Case	Increasing to around 0.6%, the average from the most recent business cycle to present ¹⁰	Rising more moderately than the cases above (66.5% in FY2040)

(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,¹¹ the economic growth is expected to decline in the absence of transformation of the economic structure through promotion of investments that enhance resilience against potential crises and

⁸ TFP growth rates of GA Case I and II reflect the impact of Japan's Growth Strategy compared to the PC Case and degree to which its effects materialize. See BOX 1 for more details. The TFP growth rates of 1.1% and 1.4% are equivalent to averages from the past to the 16th business cycle (April–June 1980 to April–June 2020) and of the period prior to the deflationary situation (April–June 1980 to January–March 1999), respectively.

⁹ “GA Case I and II” refer to “Achieving Growth and Advancing Labour Participation Scenario,” and the PC Case refers to “Baseline Growth Rate and Gradual Labour Participation Scenario” of the JILPT's “Projection of Labour Supply and Demand 2023.”

¹⁰ Average from the 16th business cycle to present (October–December 2012 to January–March 2026).

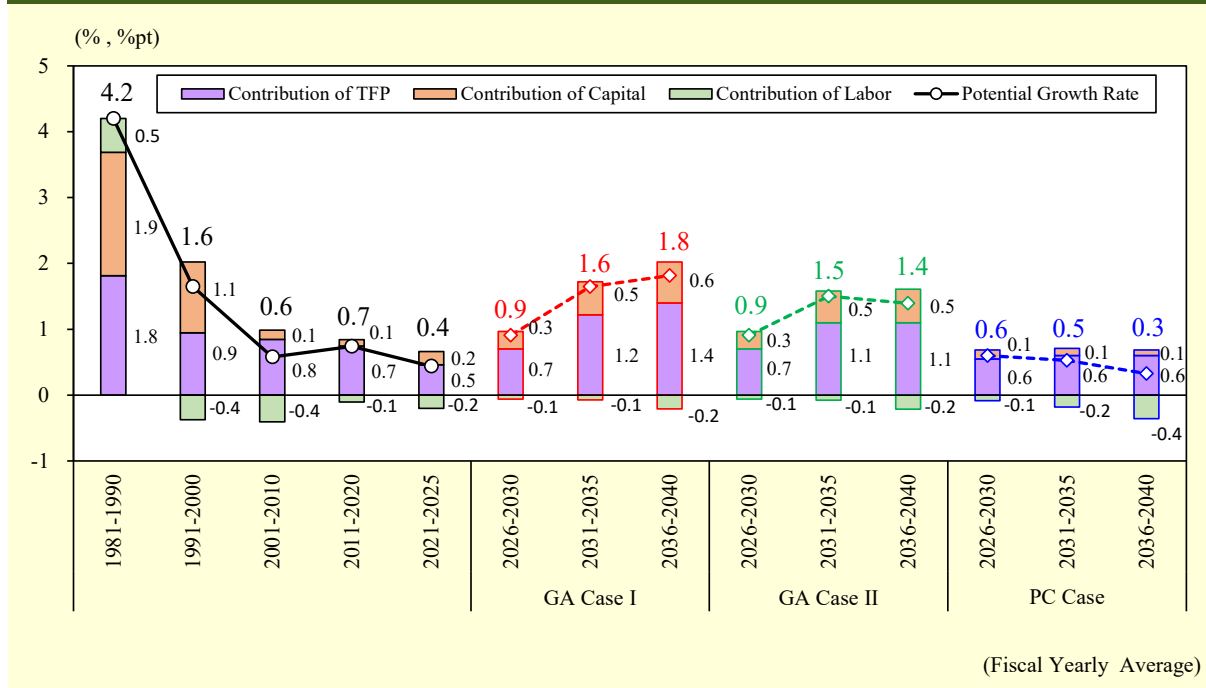
¹¹ According to the National Institute of Population and Social Security Research's “Population Projections for Japan” (estimated in 2023) on the births (deaths) median estimates, the average change during 2031 and 2040 in the total population is about -0.6%, while that in the working-age population (15–64 years old) is about -1.3%.

investments that promote growth, and acceleration in AI transformation, and higher productivity growth than before.

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. A higher TFP growth rate over the medium- to long-term, combined with the stronger contribution from higher capital input stemming from strongly promoted domestic investment, results in the potential growth rate rising to the upper-1% range over the course of the projection. With regard to the labor input, it is assumed that labor demand increases in response to the economic growth, and the labor participation—especially among women and the elderly—progresses due to such factors as the wage growth and the promotion of diverse work styles. Nevertheless, this trend still cannot offset the impact of population decline completely, resulting in the contribution of labor input being slightly negative. In GA Case II, where positive effects emerge from the investments promoted under the Public-Private Investment Roadmap, the higher capital input that results from strongly promoting domestic investment and increase in the TFP growth ultimately yield a potential growth rate of mid-1%. The contribution of labor input is the same as GA Case I.

In the PC Case, on the other hand, only the demand increases by 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. In addition, the negative contribution of labor input expands throughout the projection period largely influenced by the decrease in the working-age population due to a more moderate increase in the labor participation of women and the elderly compared to GA Case I and II. As a result, the potential growth rate gradually declines to the low-0% range 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 Jan. –Mar.2026 (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. After fluctuations during the pandemic, it was 0.8% in FY2025. 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 4.1% in FY2025.

According to the Mid-Year Economic Projection, the GDP growth rate in FY2026 is projected to be approximately 0.9% in real terms and approximately 3.0% in nominal terms, as the economy is expected to continue its moderate recovery. In FY2027, the growth is projected to be approximately 1.1% in real terms and approximately 3.9% in nominal terms, under the growth in domestic demand.¹²

Thereafter, the real GDP growth rate converges to the potential growth rate (upper-1% in GA Case I, mid-1% in GA Case II, and low-0% range in the PC Case). Similarly, in the medium-to long-term, nominal GDP growth is around mid-3% in GA Case I, around 3% in GA Case II, and

¹² As in the June Growth Strategy projection, the Mid-Year Economic Projection for FY2027 assumes the central government’s additional spending of 10 trillion yen, as the essential expenditures for economic growth. The amount excludes the separately managed portion.

2% in the PC Case.¹³

Figure 2. Growth Rate of Real GDP

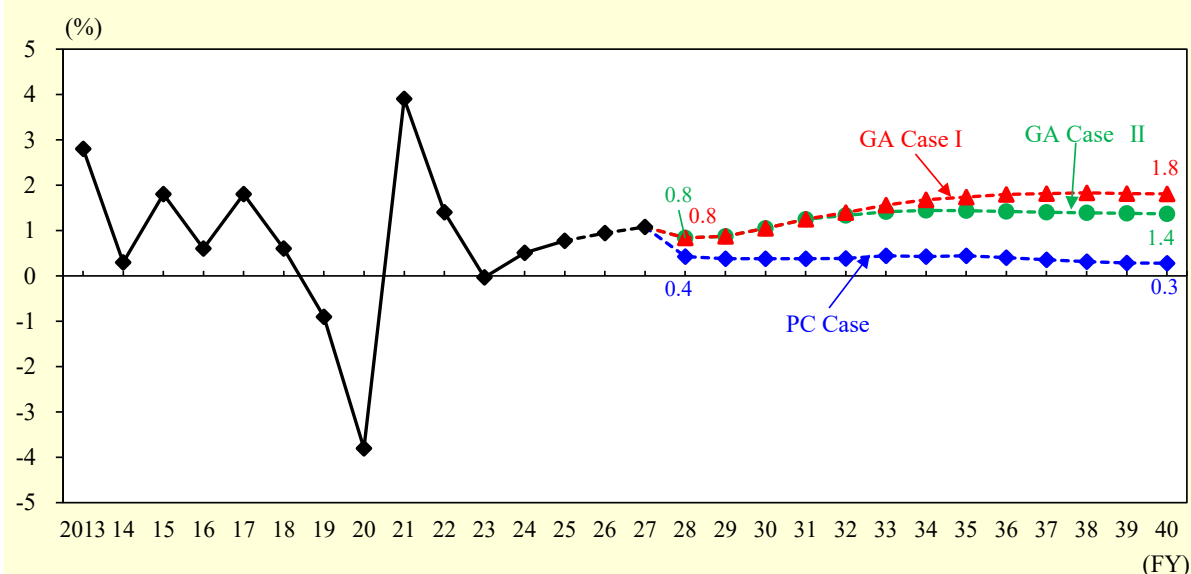
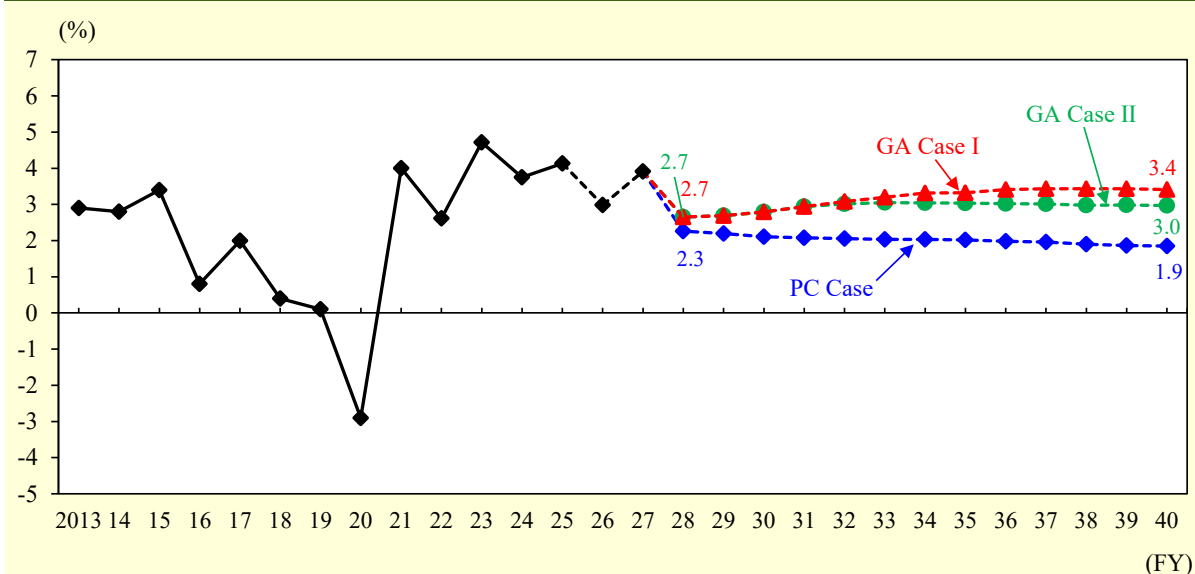


Figure 3. Growth Rate of Nominal GDP



Domestic private non-residential investment, which is essential to enhance domestic supply, becomes around 240 trillion yen in nominal term in FY2040 in GA Case I, which approaches the goal of 250 trillion yen aimed in “Basic Policy 2026.” It increases to around 220 trillion yen in GA Case II, and 180 trillion yen in the PC Case. Under these economic developments, nominal GDP in FY2040 rises towards 1.1 quadrillion yen in GA Case I and reaches around

¹³ The difference between the GDP deflator and CPI growth rates converge to 0.4%pt in the medium- to long-term. Across all cases, the CPI growth rate is projected to converge to around 2%, leading to the GDP deflator converging to around 1.6%. The CPI growth rate will be discussed later. See BOX 1 of the January projection for the relationship between the GDP deflator and the CPI growth rates.

1.04 quadrillion yen in GA Case II and around 0.93 quadrillion yen in the PC Case.

Figure 4. Domestic Private Non-Residential Investment (Nominal)

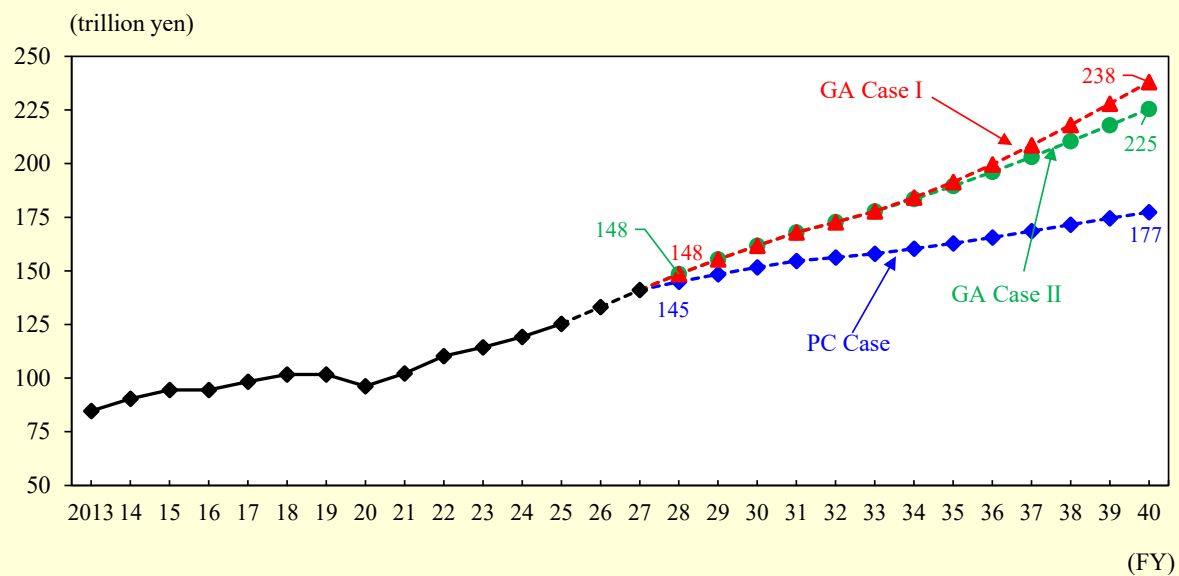
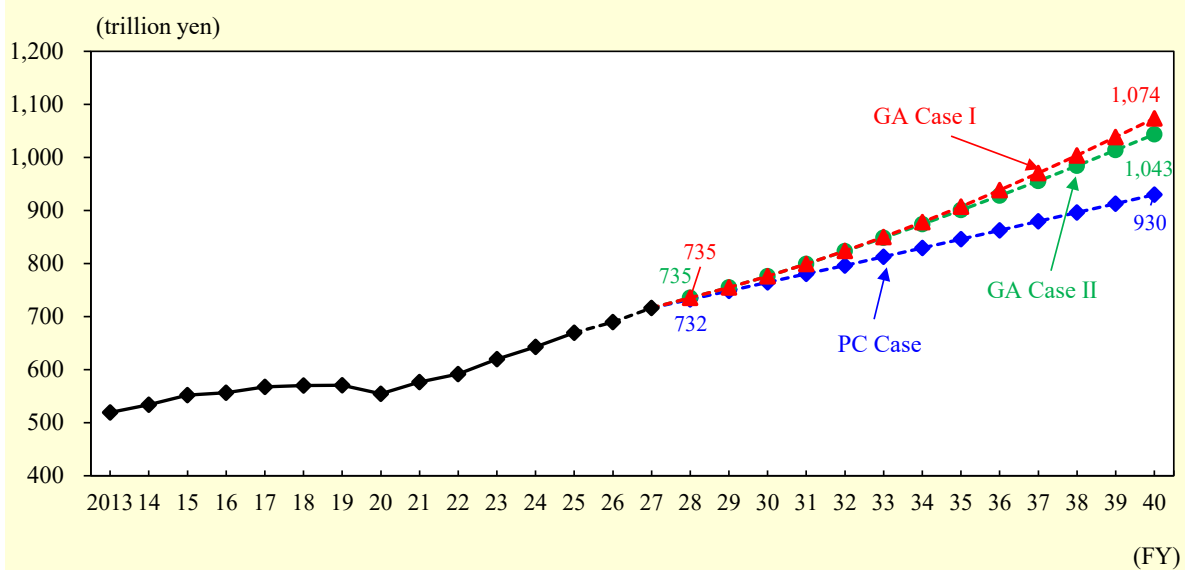


Figure 5. Nominal GDP



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 is higher than the real GDP growth rate due to the impact of population decline and is around mid-2% in GA Case I, around 2% in GA Case II, and around 1% in the PC Case. As for the nominal GDP per capita growth rate, it is around 4% in GA Case I, upper-3% in GA Case II, and mid-2% in the PC Case.

Figure 6. Growth Rate of Real GDP per Capita

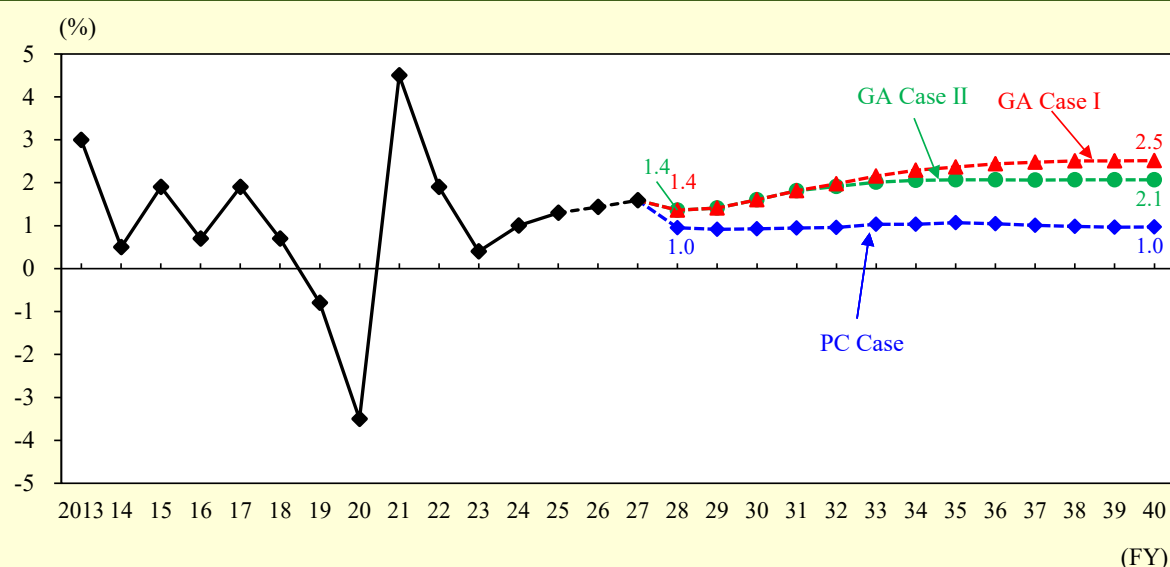
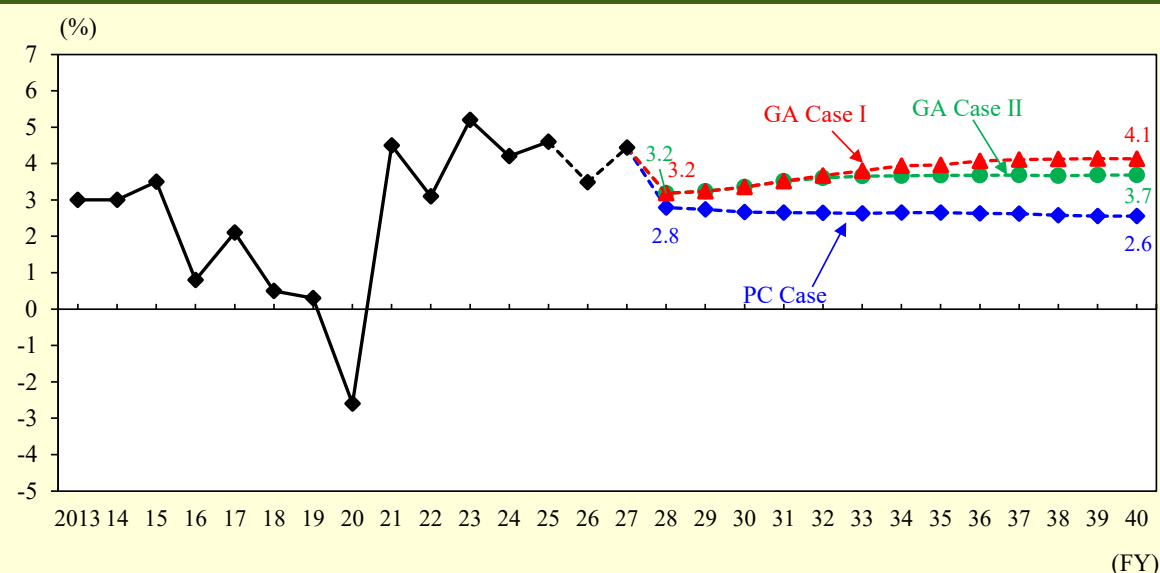


Figure 7. Growth Rate of Nominal GDP per Capita



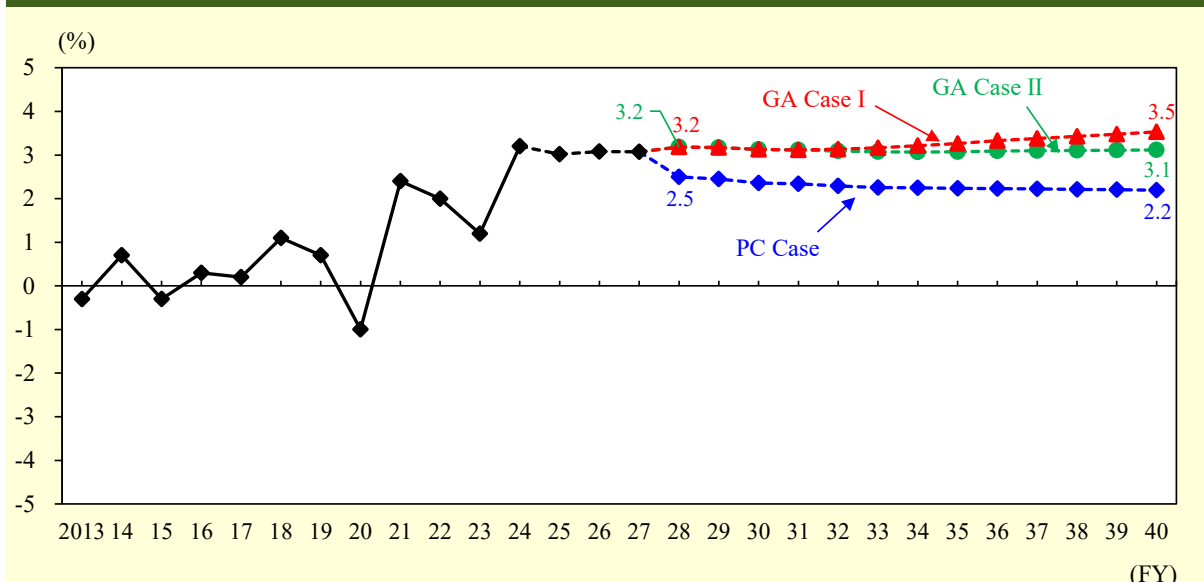
The rate of nominal wage growth¹⁴ is important when it comes to examining the distributional aspects, such as whether the wage successfully increases in line with economic growth. Since FY2013, the wage growth rate had been suppressed partially due to the increase in the ratio of non-regular employees amid the improvement in the labor participation of women and the elderly. However, until the COVID-19 pandemic, upward factors such as the tightening labor market pushed it up, resulting in its average growth of low-0%. In recent years, the spring wage negotiation (“Shunto”) has resulted in a high level of wage increase, leading to 3% growth in

¹⁴ The growth of Wages and Salaries per employee (nominal).

FY2025. It is expected to be 3% in FY2026 and FY2027.¹⁵

Subsequently, in GA Case I and II, nominal wage grows at around mid-3% and 3%, respectively, reflecting the higher labor productivity. In the PC Case, as the rates of increase in labor productivity and prices remain modest, it grows at around the 2% range in the medium-to long-term.

Figure 8. Growth Rate of Nominal Wage



(Note) Wage growth per employee (nominal). FY2026 and FY2027 data are based on the ‘Executive Summary’ of Cabinet Office’s “Mid-Year Economic Projection for FY2026” (July 30, 2026, submitted to the CEFPP).

With regard to the real wage growth, calculated by subtracting the Consumer Price Index (CPI)¹⁶ growth rate (discussed later) from the wage growth rate, it reaches around 1% towards FY2027, following about mid-0% in FY2025. Subsequently, in GA Case I and II, the real wage growth is around 1% to mid-1% over the medium-to long-term,¹⁷ as the nominal wage growth rate is higher than the CPI growth rate.¹⁸ In the PC Case, it becomes around 0% over the medium-to long-term as labor productivity grows more moderately.

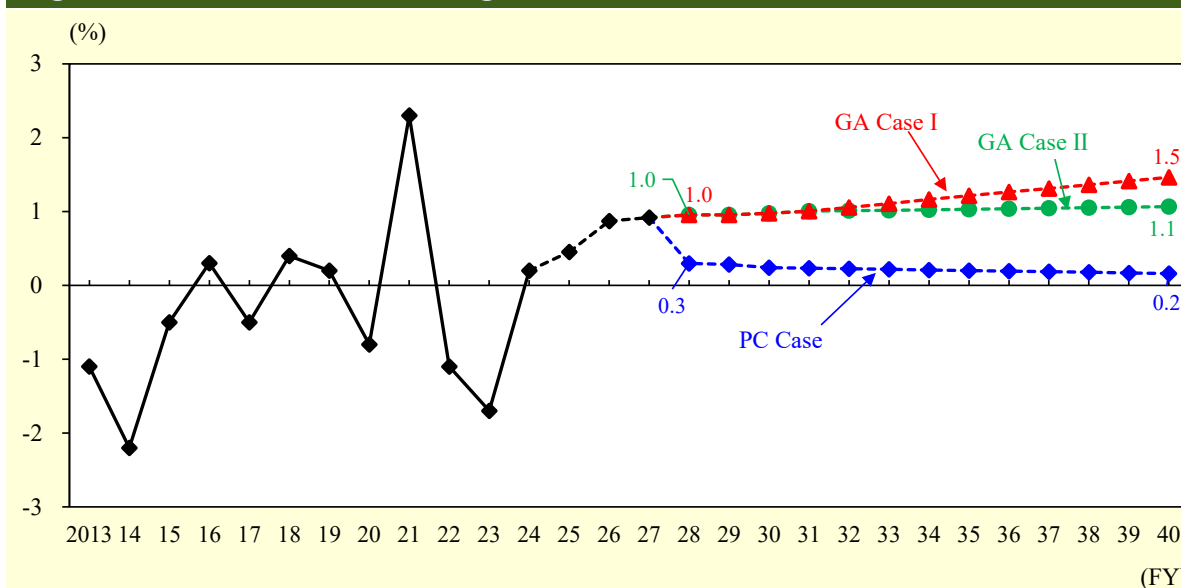
¹⁵ See ‘Executive Summary’ of Cabinet Office’s “Mid-Year Economic Projection for FY2026” (July 30, 2026, submitted to the CEFPP). Same for the real wage growth rate explained later.

¹⁶ Consumer Price Index (all items).

¹⁷ The government has indicated that, under continuous 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.

¹⁸ The growth rate of real GDP per capita is calculated by dividing real GDP by the total population: about mid-2% in FY2040 under GA Case I. By contrast, real wage growth is based on real labor productivity per employee, which is estimated to be around the low-2% range in FY2040 under GA Case I. In addition, real wage growth accounts for the negative effects of elderly labor force participation, resulting in an overall growth rate of approximately mid-1% in FY2040 under GA Case I.

Figure 9. Growth Rate of Real Wage



(Note) Wage growth per employee (nominal) deflated by CPI. FY2026 and FY2027 data are based on the ‘Executive Summary’ of Cabinet Office’s “Mid-Year Economic Projection for FY2026” (July 30, 2026, submitted to the CEF).

(3) CPI growth rate and long-term interest rate

Since the end of 2013, amid a non-deflationary situation, the CPI growth rate averaged around 0.8%¹⁹ in FY2013-2019. Following the COVID-19 pandemic and price increases, mainly in energy and food products, the rate became 2.6% in FY2025. According to the Mid-Year Economic Projection, it is projected to be around 2.2% in FY2026 and around 2.1% in FY2027.

In the Economic and Fiscal Model, it is assumed that the CPI growth would converge to its expected inflation rate over the medium- to long-term. Among all three cases, it converges to 2%.²⁰

Until the mid-2010s, the interest rate declined to around the low-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 began 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%

¹⁹ 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).

²⁰ In the January projection, while the CPI growth rate in the Higher Economic Growth (HG) Case and the Transferring to a New Economic Stage (TN) Case converges to 2%, it converges to 1.1% in the Projection of Past Trend (PP) Case, which is the average from November 2012 to November 2025.

in FY2024 and 2.77% as of July 2026.²¹ Subsequently, in the medium- to long-term, it increases to upper-3% and mid-3% in GA Case I and II, respectively, and stays around the mid-2% range in the PC Case.

Figure 10. Growth Rate of CPI

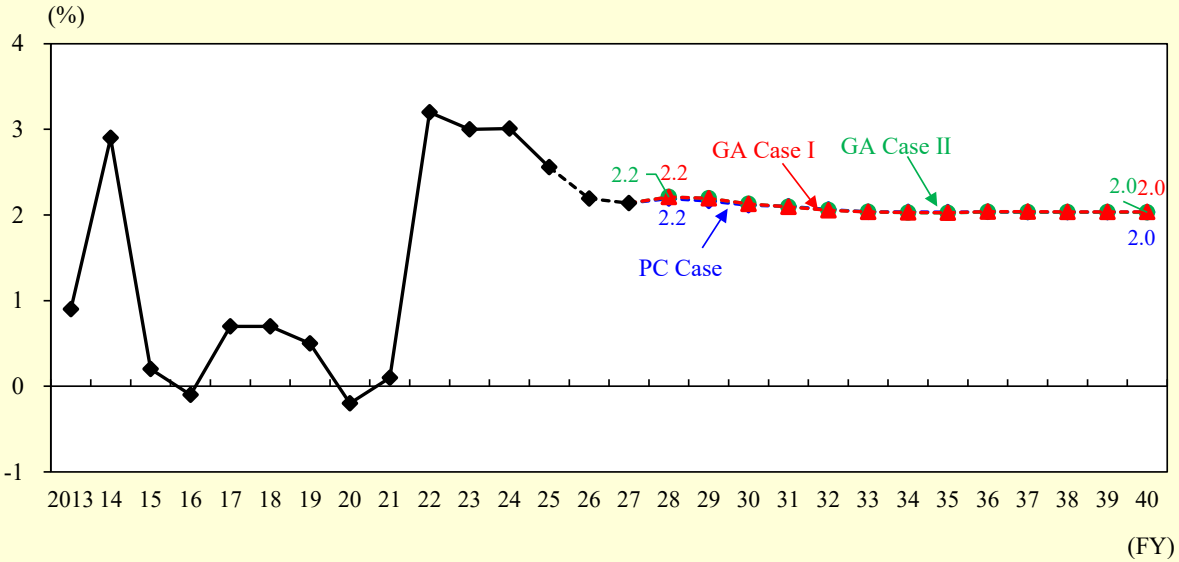
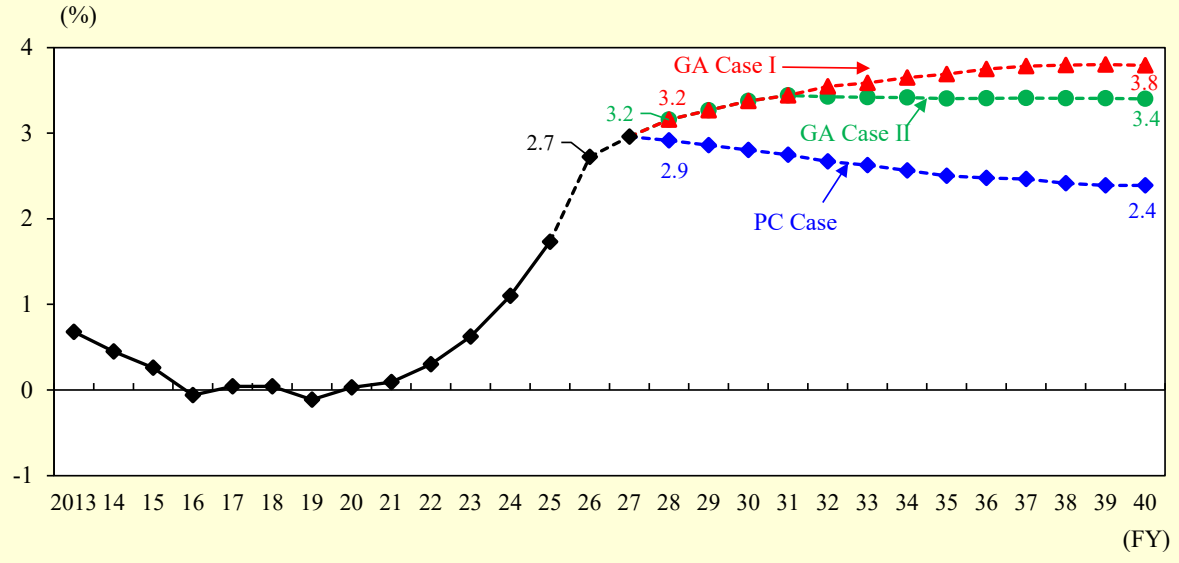


Figure 11. Nominal Long-term Interest Rate



²¹ This projection assumes a long-term interest rate of 2.7% for FY2026 (fiscal year average, assuming the average rate of 2.77% from July 1 to 16 continues until the end of FY2026).

<BOX 1> The impacts of Japan's Growth Strategy on the TFP growth rate

In order to dramatically strengthen domestic investments, Public-Private Investment Roadmap with 62 key products and technologies in 17 strategic fields and 8 cross-cutting issues to be resolved are identified in Japan's Growth Strategy. A projection for medium- to long-term economic and fiscal developments under Japan's Growth Strategy was conducted in June 2026 (hereafter "the June Growth Strategy Projection"). The June Growth Strategy projection provides three scenarios, assuming that the degree to which the effects of Japan's Growth Strategy materialize varied. Under these assumptions, the impacts of Japan's Growth Strategy on the TFP growth rate are calibrated. This projection depends on the same presumptions on the TFP growth rate as the June Growth Strategy projection.

Additional TFP growth in the medium- to long-term is based on the aggregation of the impacts of AI adoption^(*), large-scale capital investment (renewal of capital stock), inward direct investment, human capital investment (education and training), R&D investment, and more efficient allocation of productive resources according to various previous studies (see the following table).

The aggregated impacts on the TFP growth rate are 0.6%pt in the medium-term and 0.9%pt in the long-term. By adding these impacts—considering the overlapped impacts—onto the TFP growth rate of the PC Case (0.6%), it is assumed that the TFP growth rates of 1.1% in the medium-term and 1.4% in the long-term in case of Japan's Growth Strategy materializing. In GA Case I, where the commercialization of state-of-the-art innovative technologies and greater efficiency in the allocation of productive resources materialize, the TFP growth rate is assumed to increase to 1.1% in the medium-term (until FY2031) and to 1.4% in the long-term (until FY2036). On the other hand, in GA Case II, where the impacts of AI and others materialize but the effects of the practical application of cutting-edge innovations are not fully materialized due to uncertainties in technology and markets, the TFP growth rate is assumed to increase to 1.1% over roughly the next five years and then remains flat.

(*) The impact of AI adoption on the TFP growth rate is based on Filippucci et al. (2025). This research accumulates various prior research about the impacts of AI. It estimates impacts on the labor productivity in G7 countries in different scenarios. As for Japan, the impact of AI adoption is estimated to be 0.51%pt in the scenario in which AI adoption progresses at a medium pace, and to be 0.82%pt in the scenario in which AI adoption progresses at a high pace. The medium and high paces of AI adoption are equivalent to the pace at which computers and the Internet and mobile phones, respectively, had prevailed. Since the impacts on the labor productivity are estimated by multiplying the TFP growth rate by 1.5, the impacts of AI adoption on the TFP growth rate is calculated by dividing by 1.5, which are 0.34%pt in the medium pace case and 0.55%pt in the high pace case. Taking the difference between the two scenarios' impacts, assuming that the pace of AI adoption accelerates under the Growth Strategy, the impact of 0.2%pt is derived.

Table: Impact of Japan's Growth Strategy on the TFP Growth Rate

Category	Area	Medium Term (~2031)	Long Term (~2036)	Assumptions on the Projection
Capital Investment	AI Adoption 【NEW】	Appx. 0.2%pt	Appx. 0.2%pt	The pace of AI adoption is expected to accelerate through the Growth Strategy. According to an OECD study by Filippucci et al. (2025), the acceleration of AI adoption can increase Japan's TFP growth rate by 0.2%pt. Given that AI adoption is one of the priority areas of the Growth Strategy, <u>the effect is expected to emerge in the medium term.</u>
	Large-Scale Capital Investment (Renewal of the Capital Stock) 【NEW】	Appx. 0.1%pt	Appx. 0.1%pt	Based on the Public-Private Investment Roadmap under the Growth Strategy, the share of large-scale investment—defined as investment on a scale exceeding 20% of a firm's capital—is expected to rise from 13.5% to 21%, a level comparable to that in the United States and major European economies, then the average age of the capital stock is expected to decline by 2.6 years. Fiori et al. (2025) shows that a one-year decline in the average age of capital raises the TFP growth rate by 0.34%pt. Then, an increase of approximately 0.9%pt (2.6 years * 0.34%pt) is expected to emerge over around a decade. Given that investment based on the “Public-Private Investment Roadmap” is to be implemented sequentially from FY2027 onward as a priority area of the Growth Strategy, <u>the effect is expected to emerge in the medium term.</u>
	Inward Direct Investment	Appx. 0.1%pt	Appx. 0.1%pt	Toward CY2030, the ratio of the stock of inward direct investment to GDP is expected to increase by approximately 0.9%pt per year on average, compared with the past trend. Baltabaev (2014) shows that a 1%pt increase in the ratio of inward direct investment stock to GDP raises the TFP growth rate by approximately 0.17%pt. Given that technology spillovers from inward direct investment are expected to prevail relatively quickly, particularly for technologies that are already at the implementation stage, <u>the effect is expected to emerge in the medium term.</u>
Intangible Asset Investment	Human Capital Investment (Education and Training)	Appx. 0.1%pt	Appx. 0.1%pt	Firms' education and training investment (stock per employee) is assumed to increase by approximately 3.0% per year. Morikawa (2021) estimates that a 1% rise in the investment increases labor productivity by approximately 0.03%. Given that the education and training are expected to relatively quickly boost productivity of the employees, <u>the effect is expected to emerge in the medium term.</u>
	Science, Technology and Innovation (R&D)	Appx. 0.0%pt	Appx. 0.2%pt	Heading to FY2030, public and private investment is expected to raise the ratio of R&D investment to GDP by approximately 0.7%pt per year on average, compared with the past trend. Morikawa (2015) shows that a 1%pt increase in the ratio of R&D investment to GDP raises the TFP growth rate by 0.3–0.4%pt. Given that technologies at the R&D stage are expected to take time to contribute to productivity growth through commercialization and diffusion, <u>the effect is expected to emerge in the long term.</u>
Other	More Efficient Allocation of Productive Resources 【NEW】	Appx. 0.1%pt	Appx. 0.2%pt	The allocation of productive resources is assumed to become more efficient through changes in the employment structure in response to the social implementation of AI, upcoming changes in the industrial structures in the 17 strategic sectors, and the invigoration of corporate rejuvenation by startup companies. According to the OECD study by Filippucci et al. (2025), even if AI adoption accelerates, there remains a 0.2 percentage point gap in the TFP growth rate between Japan and other major advanced economies. Even though, this gap is assumed to be closed through the promotion of Growth Strategy. Given that structural change is expected to take time, <u>approximately half of the effect is expected to emerge in the medium term, with the full effect emerging in the long term.</u>
Total (Compared with the PC Case)		Appx. 0.6%pt	Appx. 0.9%pt	The impacts shown above are added to the TFP growth rate of 0.6% in the PC Case. Considering overlaps among these impacts, the TFP growth rate is expected to be <u>approximately 1.1% in the medium term and approximately 1.4% in the long term.</u>

(Reference) Impact of Japan's Growth Strategy on the TFP Growth Rate by the Cabinet Secretariat and Cabinet Office (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).

(Note) The impacts on the TFP growth listed on the table are annual averages. The approaches used for the inward direct investment, human capital investment, science, technology and innovation, and the startup-related component of more efficient allocation of productive resources are clarified in ESRI Discussion Paper Series No.395, Urasawa et al. (2024). The OECD study cited above for AI adoption and more efficient allocation of productive resources is OECD Artificial Intelligence Papers, No. 41, Filippucci et al. (2025). For large-scale capital investment, the figure of 13.5% for Japan is based on CREPE Discussion Paper No. 159, Nirei (2024). The figure of 21%, representing a level comparable to that in the United States and major European economies, is based on the average for the United States, the United Kingdom, France, and Germany in FEDS Notes 2025-10-15-1, Fiori et al. (2025).

3. Medium-to long-term fiscal projection

On the fiscal side, the projections are consistent with economic scenarios, reflecting the FY2025 Provisional Settlement, the FY2026 Supplementary Budget,²² and other factors. With regard to expenditures, social security expenditures are assumed to increase, reflecting such factors 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. As mentioned in chapter 2, it is assumed that the central government spends additional expenses of 10 trillion yen in real terms every year since FY2027.²³ As for revenues, tax revenues and other revenues are assumed to increase in line with macroeconomic variables.

In “Medium- to Long-Term Economic and Fiscal Plan”, the core target of fiscal management is set to steadily lower outstanding debt to GDP (debt-to-GDP) of central and local governments.²⁴ In this section, the debt-to-GDP ratio and its determinants—economic growth, the primary balance (PB)²⁵, and interest rate— as well as fiscal indicators are described.

(1) Outstanding debt-to-GDP ratio of central and local governments

The debt-to-GDP ratio was on an upward trend in the 2000s, reflecting the PB deficits and sluggish nominal GDP growth and surged during the Global Financial Crisis. Since FY2013, the pace of the increase 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 due to improvement of the PB and the expansion of nominal GDP. For the time being, it is expected to be on a gradual downward trend to around 187.6% in FY2026, and 182.9% in FY2027, after 188.4% in FY2025.

Subsequently, in GA Case I, as high economic growth and surplus in the PB outweigh the interest

²² June 5, 2026.

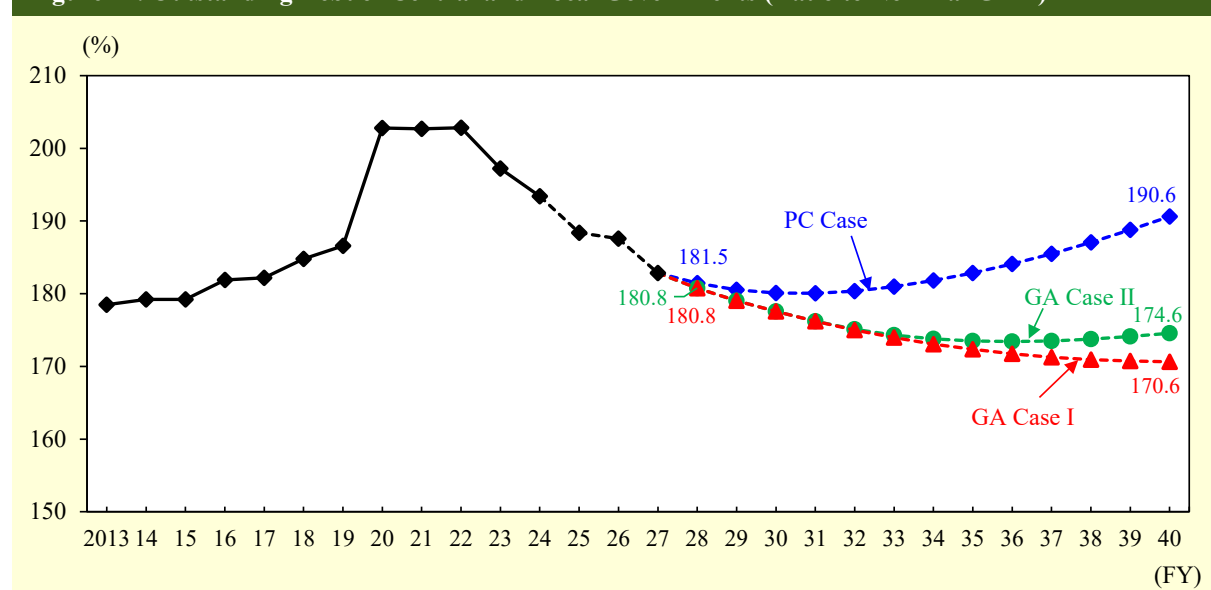
²³ This additional expenses of 10 trillion yen includes expenditures for projects to enhance national resilience (central government spending of 2.1 trillion yen) for 2027 and beyond and defense capability buildup (0.5 trillion yen) for FY2027, as indicated in the January projection. In addition, local governments are assumed to bear a cost-sharing burden (1.3 trillion yen) associated with national funding for enhancing national resilience.

²⁴ “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 the Special Account for the Local Allocation and Local Transfer Tax. It does not include the Fiscal Investment and Loan Program Bonds, Financing Bills, and others. As for the policies for the recovery and reconstruction, green transformation (GX), and artificial intelligence (AI) and semiconductor industry foundation strengthening support measures, these 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. Thus, trends in fiscal developments are discussed based on data, excluding these expenditures and fiscal resources.

²⁵ 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.

rate increase, the ratio declines stably over the projection period. Note that the margin of annual decline narrows as the contribution of the interest rate increases. Thus, the debt to GDP ratio stably declines under a certain amount of additional government spending in case of a sufficient effect of Growth Strategy materializing. In contrast, in GA Case II and the PC Case, the ratio transitions to an upward trajectory in the latter half of the 2030s and around FY2030, respectively. A factor decomposition of FY-on-FY change in outstanding debt to nominal GDP ratio in each case will be discussed at the next section.

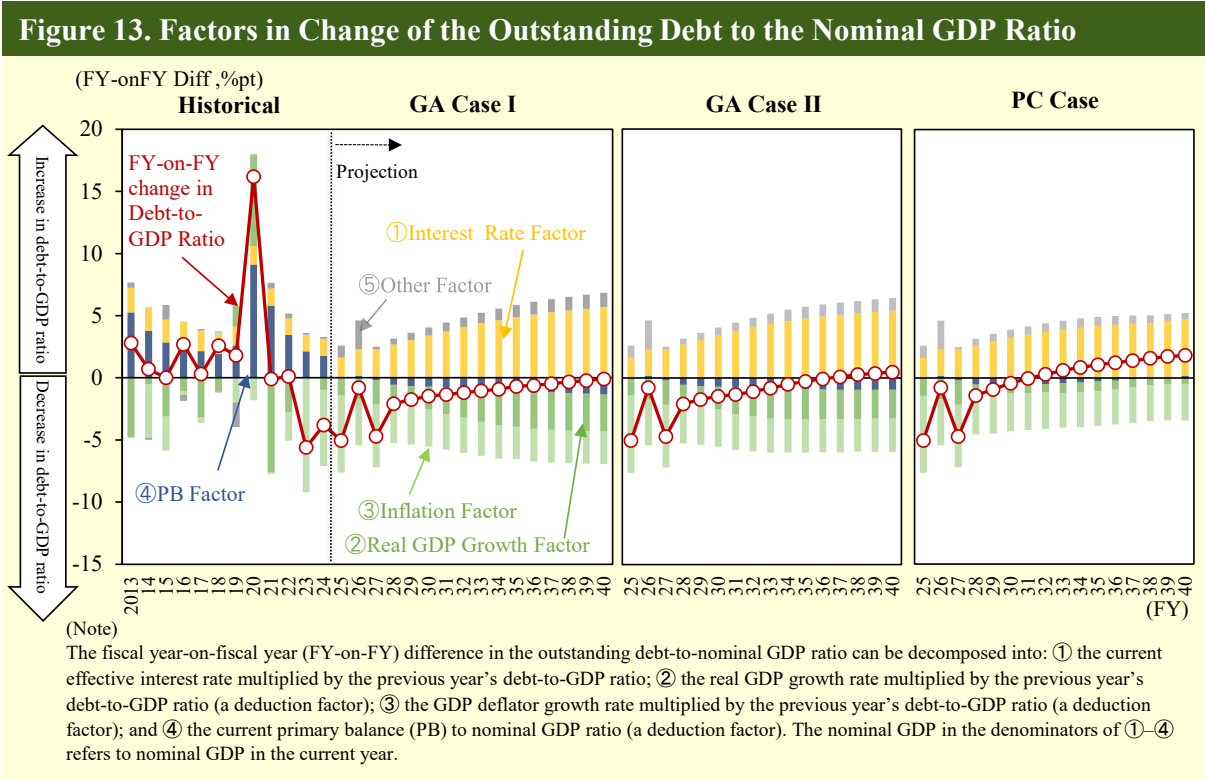
Figure 12. Outstanding Debt of Central and Local Governments (Ratio to Nominal GDP)



(2) Factor decomposition of FY-on-FY change in outstanding debt to nominal GDP ratio

In general, FY-on-FY change in the government outstanding debt-to-GDP ratio can be decomposed into four factors: real GDP growth (growth factor), where positive growth has downward pressure; inflation rate (inflation factor), where positive growth of inflation applies downward pressure; interest rate (interest factor), defined as the effective interest 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 will decline as long as the real growth and the inflation factors offset the negative effects of the interest and PB factors combined, which results in suppressing the increase in the amount of debt within the range of nominal growth. In other words, despite a primary surplus, the debt-to-GDP ratio will increase if the real growth and the inflation factors will not offset the combined effects of the interest and PB factors.

Historically, the data of the FY-on-FY changes in the debt-to-GDP ratio²⁶ indicates that the pace of increase in the ratio had slowed toward the late 2010s, reflecting the retention of positive real growth and inflation as the economy moved out of the deflationary situation since 2013. In FY2020, however, the economic impact of the COVID-19 pandemic and large-scale pandemic-related fiscal spending pushed the ratio up significantly through both the real growth and the PB factors. Consequently, the PB factor continued to contribute negatively, its impact diminished over time, and strong real growth and the inflation contributed positively, resulting in a decline in the debt-to-GDP ratio after FY2023. Meanwhile, the historical lower interest rate environment limited the contribution of the interest payment.



From FY2025 onward, in GA Case I, the upward pressures of the interest factor on the outstanding debt to GDP ratio increase as the interest rate rises. Meanwhile, medium-to long-term real economic growth of around upper-1% and stable inflation generates nominal GDP growth of approximately mid-3%. The nominal growth and the PB factors—which contribute to reducing the ratio—outweigh the interest factor, resulting in a continued gradual decline in the ratio. It should be noted that, even if the nominal growth and the PB factors contribute to

²⁶ There are some residuals when decomposing the debt-to-GDP ratio into the four 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 addition, for FY2026, the residual is largely accounted for by reflecting the ceiling of the front-loaded issuance of government bonds for refinancing in the following fiscal year.

reducing the debt-to-GDP ratio, the interest factor gradually rises due to the reissuance of existing bonds—originally issued at lower interest rates—at higher rates, thereby moderating the pace of decline in the ratio. GA Case II also shows a downward trajectory in the debt-to-GDP ratio towards the latter half of the 2030s. Thereafter, the downward trend in the FY-on-FY change reverses as the real growth, inflation, and the PB factors, which contribute to a reduction in the ratio, do not offset the interest factors and others.

In the PC Case, the real growth, inflation, and the PB factors contribute to a reduction in the debt-to-GDP ratio until around FY2030, as nominal GDP expands and the PB remains in surplus. Compared with their counterparts in GA Case I and II, the contributions of these factors are relatively smaller. Then, the downward trend reverses to upward, as the positive contribution of the interest factor gradually extends and the PB surplus gets reduced and turns to deficit.

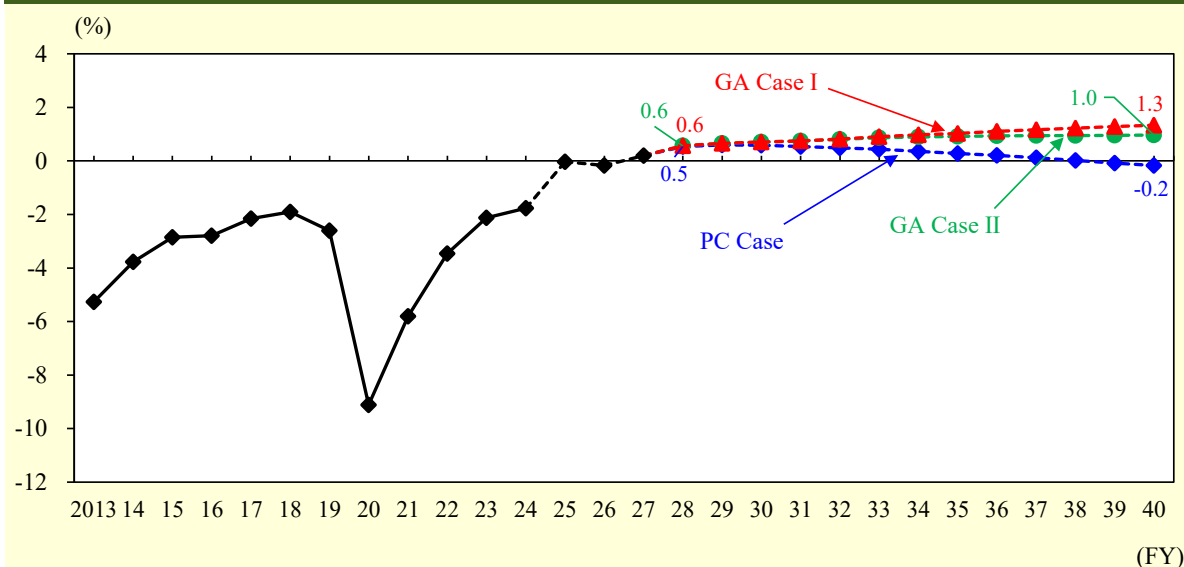
(3) Primary balance, net interest payment, fiscal balance of central and local governments

Despite the increase in expenditure due to population aging, supplementary budgets, and other factors, the ratio of primary balance (PB) of central and local governments to GDP 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 economic growth and consumption tax rate hikes, and other factors. 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 is projected to be broadly balanced at -0.0% in FY2025. In FY2026 and FY2027, the PB-to-GDP ratio is projected to be -0.2% and +0.2%, respectively.²⁷

In GA Case I, the PB-to-GDP ratio of central and local governments continues to improve over the projection period. This is because the increase in revenue, which grows in line with nominal GDP growth, exceeds the increase in expenditures. In GA Case II, the surplus moderately expands until the mid-2030s. Subsequently, the ratio stays at the same level since the growth rate of expenditures—which grows in line with population aging, price and wage factors, etc.—balanced with that of revenue. In the PC Case, after the ratio being positive (0.6%) in FY2029, the surplus gradually deteriorates to a deficit in the late 2030s. This is because the increase in revenue, which grows in line with nominal GDP growth at around 2% in the medium-to long-term, is projected to be less than the increase in expenditures, which grows in line with population aging, price and wage factors, etc.

²⁷ The revision of the PB from FY2025 to FY2027 since the June Growth Strategy projection is analyzed in BOX 2.

Figure 14. Primary Balance of Central and Local Governments (Ratio to Nominal GDP)



Regarding net interest payment—which is defined as the interest payment of central and local governments subtracting interest received—to nominal GDP ratio, the development in interest rates is reviewed. The long-term interest rate (discussed in section 2 (3)), represented by the 10-year government bond interest rate at a given time, refers to the yield on government bonds issued in the same period. However, the rate that directly affects changes in the debt-to-GDP ratio and the net interest payment-to-GDP ratio is the effective interest rate, namely the rate the government actually pays on its outstanding debt. As the existing bonds, originally issued at lower interest rates, are sequentially reissued at higher interest rates at a given time, the effective interest rate develops in line with the long-term interest rate, with some lags. Thus, the effective interest rate declined to the upper-0% range by the early 2020s, followed by a moderate increase toward FY2024. In the projection periods, the effective interest rate increases to mid-3% and low-3% with some lags from the increase in the long-term rate in GA Case I and II, respectively. In the PC Case, the effective interest rate becomes mid-2%, which is the same level as the long-term rate.

The difference between the nominal GDP factor—sum of real growth and GDP deflator growth factors— and the interest factor in the figure 13 is attributed to the difference between the nominal GDP growth rate and effective interest rate. Comparing the historical data of those two rates, the effective interest rate continues to be lower than the nominal GDP rate since the long-term rate had remained at a low level. As it increases in line with the long-term rate with some lags, it reaches the growth rate of nominal GDP in the beginning of the 2030s in the PC Case, the latter half of the 2030s in GA Case II, and around FY2040 in GA Case I.

Figure 15. Nominal Long-term Interest Rate and Effective Interest Rate

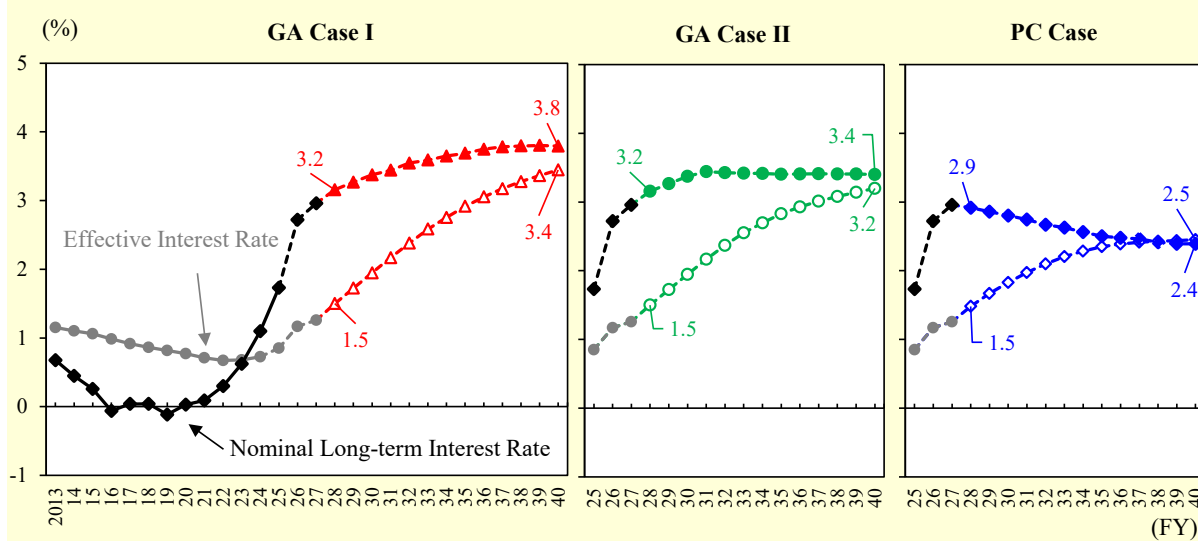
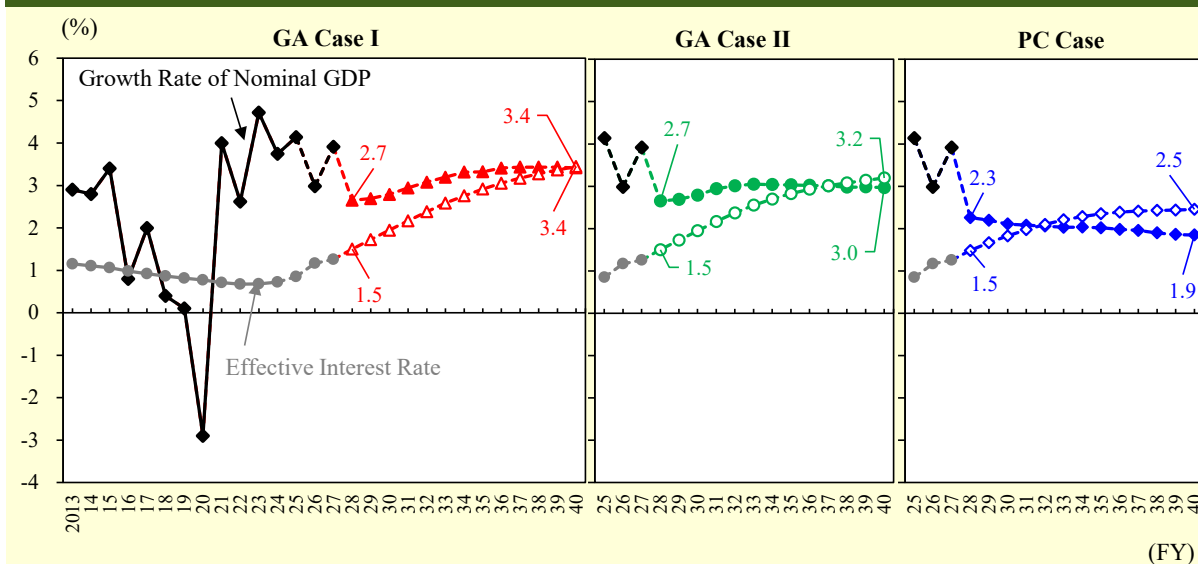
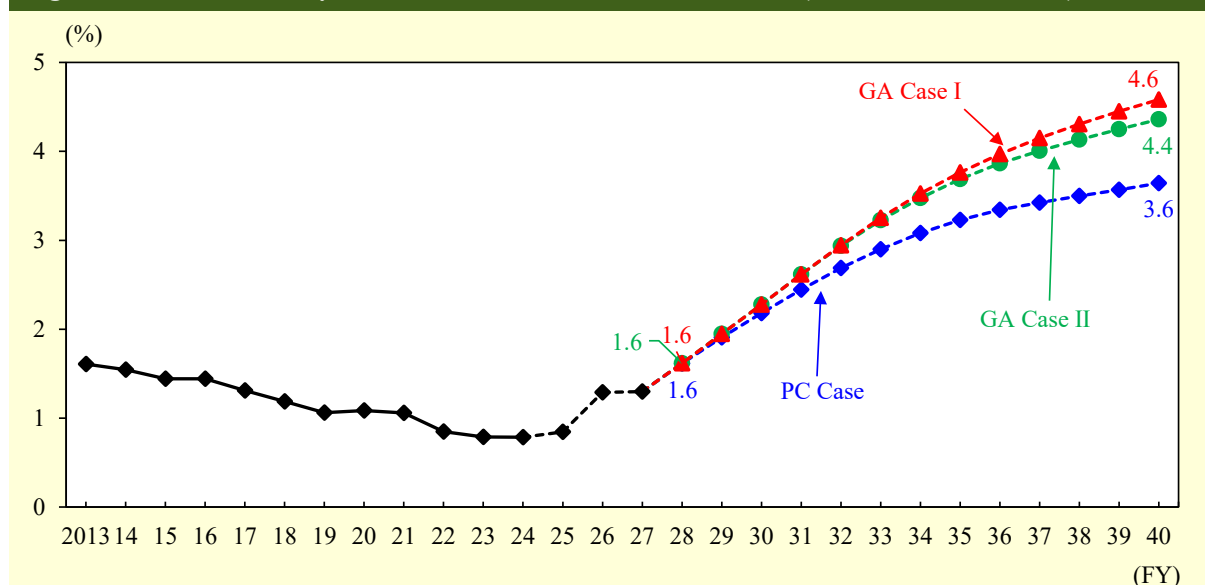


Figure 16. Growth Rate of Nominal GDP and Effective Interest Rate



The trajectory in the ratio of net interest payments of central and local governments to GDP basically followed that of the effective interest rate: it declined to around upper-0% by the early 2020s, followed by a moderate increase in the current situation. In the projection periods, as the effective interest rate increases in all cases, the net interest payments-to-GDP ratio rises to around mid-4% in GA Case I and II, and to mid-3% in the PC Case.

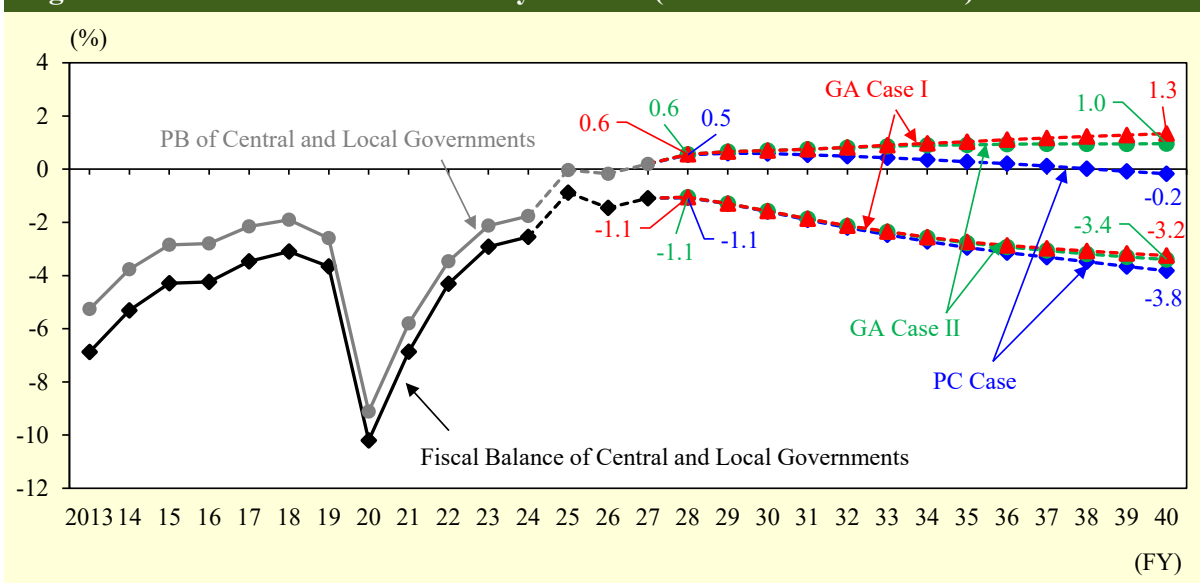
Figure 17. Net Interest Payment of Central and Local Governments (Ratio to Nominal GDP)



Regarding fiscal balance, which consists of the PB and net interest payments, the deficit margin of central and local governments has surpassed that of the PB-to-GDP ratio through FY2024. The gap has narrowed owing to the aforementioned long-term decline in the effective interest rate and the interest payments-to-GDP ratio.

In GA Case I and II, the fiscal balance deficit narrows toward FY2028 but deteriorates thereafter owing to a gradual increase in the net interest payment-to-GDP-ratio, despite a moderate expansion of the PB surplus throughout the projection period. In the PC Case, a moderate increase in the net interest payments-to-GDP ratio coincides with a deterioration of the PB-to-GDP ratio throughout the projection period, thereby worsening the fiscal balance with a steady expansion of the PB deficit. In all cases, spillover effects from the gradual rise in the interest rate are expected to moderately widen the gap between the PB and the fiscal balance.

Figure 18. Fiscal Balance and Primary Balance (Ratio to Nominal GDP)



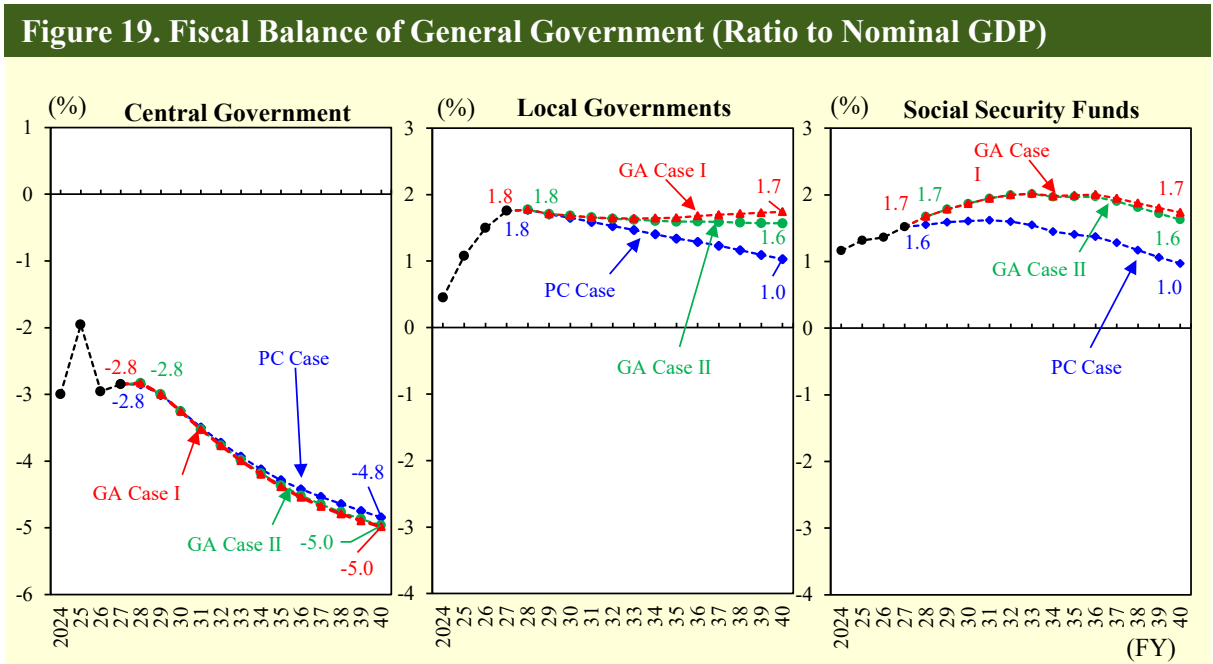
The fiscal balance of central and local governments can be decomposed into the fiscal balance of the central government and that of the local governments. The fluctuations in the fiscal deficit were driven primarily by the central government. Regarding the local governments' fiscal balance, it was broadly balanced in the 2010s, following a slight fiscal surplus in recent years. On the one hand, the deficit margin of the fiscal balance of the central government expands due to the increase in interest payments in all cases. The fiscal balance of local governments, on the other hand, remains in surplus throughout the projection period in all cases. Notably, the fiscal surplus of local governments remains at the same level in GA Case I and II, but shrinks in the PC 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 Public Pension, Medical 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 of the central and local government. The fiscal balance of the Social Security Funds to GDP ratio is mainly influenced by developments in the Public Pension, under the broad balance between revenues and expenditures in medical and long-term care. The Public Pension investment return²⁸ mainly contributed to a slight fiscal surplus in recent years. Throughout the projection periods, in GA Case I and II, investment returns are assumed to grow in line with economic growth,²⁹ and

²⁸ In SNA, interest received and dividend, which are income gains, are included in the Property Income. In FY2024, the net Property Income of Social Security Funds is about 7 trillion yen (1.1% per nominal GDP), while its fiscal balance is about +7.5 trillion yen (1.2% per nominal GDP).

²⁹ The estimation method of investment returns in the projection period is consistent with that in the Ministry of Health, Labour, and Welfare's "Outline of 2024 Actuarial Valuation, Reform Options, and Pension Distribution Projections." (July 3, 2026, submitted to the Pension Committee of the Social Security Council)

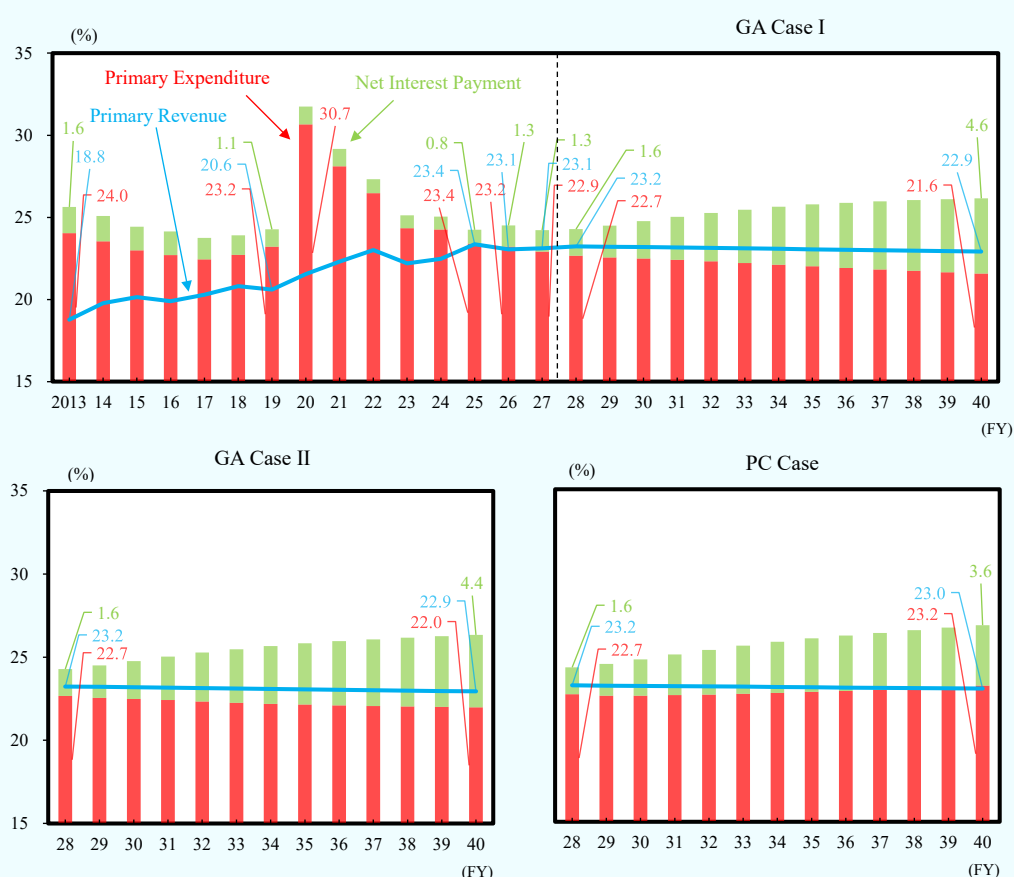
revenue from insurance premiums increases as the number of insured people rises, reflecting a higher labor force participation—particularly among women and the elderly—, which raises revenue immediately while raising the benefit disbursement in the future. As a result, the fiscal surplus of Social Security Funds is projected to gradually expand. Towards the end of the projection period, however, the fiscal balance is projected to reach a plateau as expenditure rises due to the increase in the amount of benefit disbursement due to population aging, etc. In the PC Case, the fiscal surplus becomes smaller than in GA Case I and II towards the end of the projection period.



<BOX 2> Analysis of the revenue and expenditure of central and local governments

In this box, components of the fiscal balance—primary expenditures, primary revenue, and net interest payments—are discussed. Since the early 2010s, primary revenues raised relative to GDP driven by the economic recovery, consumption tax rate hikes, and improvement in corporate profits due to various factors including yen depreciation after the COVID-19 pandemic and others. On the other hand, although primary expenditures had been on a downward trend until the pandemic, they increased significantly due to large-scale measures to address the pandemic. Primary expenditures to GDP have returned toward the pre-COVID-19 level, while additional expenditure has been prepared for rising inflation. As a result, PB deficit shrank until the pandemic and widened during the pandemic, and then has steadily narrowed. This trend of gradual improvement in the PB is projected to continue in FY2025 and 2026. Net interest payments have declined relative to nominal GDP as the effective rate dropped towards the early 2020s, resulting in narrowing the gap between the fiscal balance and the PB.

Figure: 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.” The primary revenue and expenditure remove transfers between central and local governments.
2. Excluding expenditures and fiscal resources for recovery and reconstruction, GX, and the AI and semiconductor industry foundation strengthening support measures.

The following table examines the revision of the PB from the June Growth Strategy projection. (*1)

(*1) The PBs projected in the June Growth Strategy projection for FY2025 and FY2026 are at the same amount respectively as those in the January projection.

Table: Decomposition of the PB Revision in FY2025- FY2027
(Compared with the PB Estimates in June Growth Strategy projection)

Appx. trillion Yen

	Primary Balance in FY 2025	Primary Balance in FY 2026	Primary Balance in FY 2027
June Growth Strategy projection	▲ 7.0	▲ 0.8	▲ 2.1
Factors on the revenue side			
• Upswing of tax revenue in FY2025 provisional settlement etc.	+ 4.9		
• Increase in the underlying tax revenue assumed		+ 3.3	+ 3.4
Factors on the expenditure side			
• The impact of FY2025 provisional settlement, including the unused budget and carried-forward funds	+ 1.9	▲ 0.6	+ 0.1
• The impact of FY2026 Supplementary Budget		▲ 3.1	
July 2026 projection	▲ 0.2	▲ 1.2	+ 1.4

(Notes) 1. Considerable leeway should be given at interpreting this table, including assumptions on this projection.
2. Figures in this table are rounded, and the sum of factors and the change of the PB do not always match.
3. The PB in the FY2027 of the June Growth Strategy projection is based on GA Case I and II.
4. The "▲" in front of the numbers in the table stands for the negative sign. It is used for negative values hereinafter.

Compared with the June Growth Strategy projection, the PB in FY2025 is projected to improve, mainly due to an upswing in tax revenue, reflections of unused budget and carried-forward funds, reflecting the Provisional Settlement. The PB in FY2026 improves as a result of reflecting the assumption on underlying tax revenue growth but deteriorates due to an increase in expenditures from the Supplementary Budget and others, resulting in a slight increase from -0.8 trillion yen (-0.1% per GDP) in the June Growth Strategy projection to -1.2 trillion yen (-0.2% per GDP). While the PB in FY2027 in the June Growth Strategy projection becomes a deficit under assumed additional government spending of 10 trillion yen, it improves to +1.4 trillion yen (+0.2% per GDP) with the additional government spending of 10 trillion yen assumed, as a result of reflecting the assumption on the underlying tax revenue growth in this projection

Note that the PBs from FY2025 to FY2027 are projected based on the data and policies available at the time of the projection. Settlement data for the central government's general account and the Annual Report on National Accounts—reflecting settlements of special and local governments accounts—being incorporated into the model for the later projection, the results may vary accordingly. ^{(*)2} Thus, the estimates should be interpreted with considerable margin of uncertainty.

(*)2) The settlement of the central government's general account in each fiscal year almost released in July in the next fiscal year, the settlement data is incorporated into the projection in the summer in 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 in the next fiscal year. The data is incorporated into the projection in winter in the following year.

From FY2028 onwards, the PB trajectories differ among the three cases, reflecting different mechanisms regarding the growth of revenue, expenditure, and net interest payments, as outlined below:

- The growth of primary revenue is basically determined by trends in tax revenues, which account for most of the revenue. Since tax revenues are projected to grow in line with nominal GDP, the ratios of the primary revenue to GDP remain mostly flat in all cases.
- As for the expenditure growth, social security expenditures increase, reflecting aging factors, the rate of price and wage increases and other factors, while other general expenditures—including the additional government spending— increase in line with the rate of price and wage increases. In GA Case I, since the nominal GDP growth rate is roughly at the same level as wage growth but the inflation rate is lower, the primary expenditure-to-GDP ratio declines gradually. In GA Case II, while the same trajectory is projected until the mid-2030s, the expenditure-to-GDP ratio remains generally flat due to the increase in social security expenditures caused by the aging factors and others. In the PC Case, the inflation and wage growth rates and nominal GDP growth rate being almost close over the medium- to long-term, the primary expenditure-to-GDP ratio increases as social security expenditures expand due to the aging factor and others toward the late 2030s.
- The growth rate of net interest payments reflects the increase in effective interest rate. In all cases, net interest payment relative to nominal GDP increases towards FY2040. In GA Case I and II, where the effective interest rate rises throughout the projection periods, the increase in the net interest payment-to-GDP ratio is larger than that of the PC Case, where the effective interest rate becomes almost flat after the latter half of the 2030s. As a result, the deficit margin in the fiscal balance, which is sum of the PB and net interest payment, widens more moderately even in GA Case I and II.

4. Risk and Uncertainty

The medium-to long-term economic and fiscal projections described so far entail various risks and uncertainties. Concerning short-term prospects, attention should be given to the downturn risks of the Japanese economy, such as the effects of geopolitical tension in the Middle East and 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) -(ii).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. Please note that these sensitivity analyses are conducted mechanically and are not discussed with specific scenarios or policy changes in mind.

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

The IMF's "World Economic Outlook" (April 2026) highlights several downside risks to global economic growth, including the further intensification of conflicts and eruption of political tensions in the Middle East, reevaluation of productivity gains from new technology, disruption of the fragile balance of current trade policies, repricing of borrowing costs triggered by fiscal vulnerabilities, and erosion of confidence in economic institutions.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 domestic economy, there are some factors that could move the medium-to long-term growth path upwards, such as the recent trend in 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.

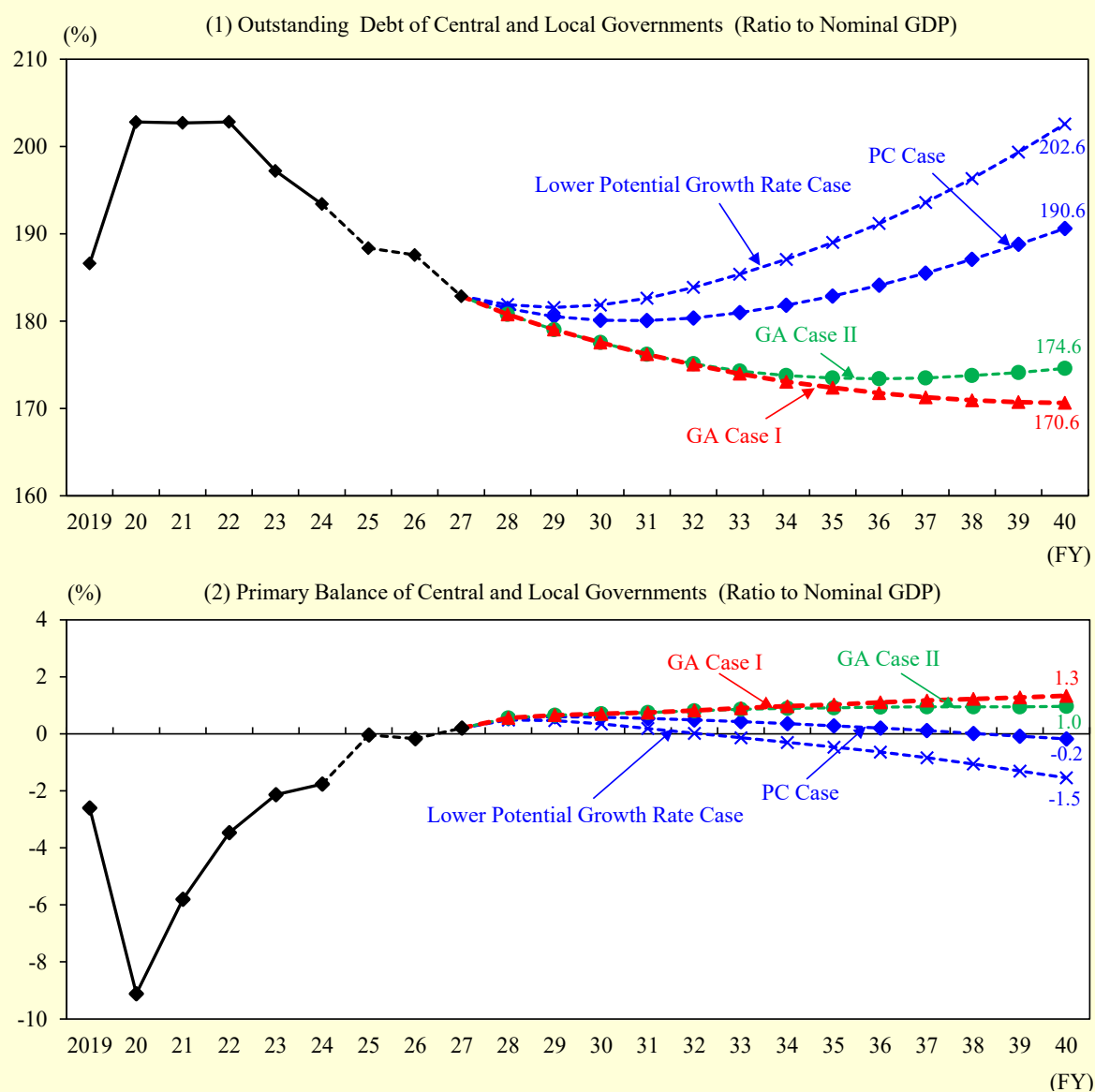
In the following, we conduct a sensitivity analysis based on a mechanical calculation of the impact of a decline in the potential growth rate. Here, we assume that the growth rate of the TFP continuously declined by about 0.5%pt relative to the PC Case. As a result, combined with a decrease in capital input, the potential growth rate declines by about 1.1%pt in the final year of the projection period (FY2040). Due to the revenue decline resulting from the lower growth rate,

³⁰ Risks and uncertainties listed here are examples, and others could be considered.

³¹ IMF (April 2026) cites upside risks as well, including a sooner than expected materialization of productivity gains from artificial intelligence, structural reforms as countries seize the moment, and progress in trade talks and enhanced policy predictability. The World Bank's "Commodity Markets Outlook" (April 2026) points out that there are downside risks to crude oil prices, including higher-than-expected oil supply, faster-than-expected electric vehicle adoption, and weaker global economic growth.

the PB-to-GDP ratio deteriorates by about 1.4%pt and the debt-to-GDP ratio increases by about 12.0%pt in the final year of the projection period.

Figure 20. Lower Potential Growth Rate Case



(3) Table

(%), Trillions of Yen													
FY	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Potential Growth Rate	(0.1)	(0.1)	(0.0)	(▲0.0)	(▲0.1)	(▲0.2)	(▲0.3)	(▲0.4)	(▲0.5)	(▲0.6)	(▲0.7)	(▲0.8)	(▲0.8)
Nominal GDP	730.8	744.6	757.6	770.1	782.2	794.6	807.7	821.0	834.3	847.4	860.1	872.3	884.4
Outstanding Debt (Ratio to Nominal GDP)	(181.9)	(181.6)	(181.8)	(182.6)	(183.9)	(185.4)	(187.1)	(189.0)	(191.2)	(193.6)	(196.3)	(199.3)	(202.6)
PB of Central and Local Governments (Ratio to Nominal GDP)	(0.5)	(0.5)	(0.3)	(0.2)	(0.0)	(▲0.1)	(▲0.3)	(▲0.5)	(▲0.6)	(▲0.8)	(▲1.1)	(▲1.3)	(▲1.5)

(Notes) 1. Sensitivity analysis uses multiplier tables from the Economic and Fiscal Model (2026).

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 PC Case during the estimation period (FY2028 and beyond), with no changes in other exogenous variables.

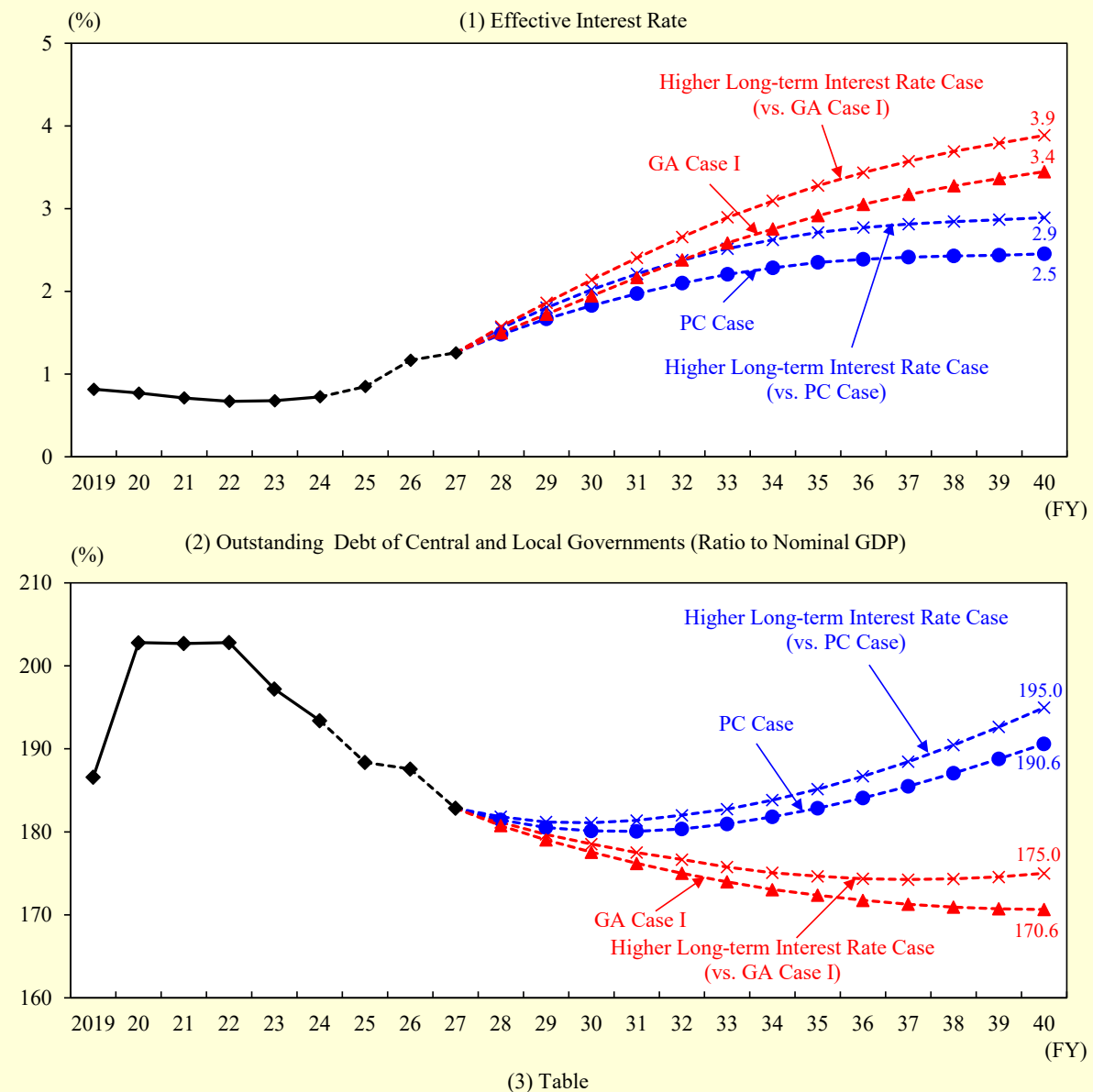
(ii) Rise in interest rates

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 As downside risks, restrained investment and other factors could have a negative impact on the real economy, and an increase in nominal long-term interest rates 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, the long-term interest rates are set to continuously rise by about 0.5%pt relative to each case. In this case, the effective interest rate increases by around 0.4%pt reflecting the increase in long-term interest rates by the end of the projection period. Such increase in the effective interest rate widens the fiscal deficit and raises the debt-to-GDP ratio through an increase in interest payments. Specifically, the debt-to-GDP ratio rises by about 4.4%pt in the final year of the projection period in all cases.

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.

Figure 21. Higher Long-term Interest Rate Case



< vs. Growth Strategy Achieved Case I >														%
FY	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Effective Interest Rate	1.6	1.9	2.1	2.4	2.7	2.9	3.1	3.3	3.4	3.6	3.7	3.8	3.9	
Outstanding Debt (Ratio to Nominal GDP)	181.1	179.7	178.5	177.5	176.7	175.8	175.1	174.7	174.4	174.3	174.3	174.6	175.0	
< vs. Growth Strategy Achieved Case II >														%
FY	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Effective Interest Rate	1.6	1.9	2.1	2.4	2.6	2.9	3.0	3.2	3.3	3.4	3.5	3.6	3.6	
Outstanding Debt (Ratio to Nominal GDP)	181.1	179.7	178.5	177.5	176.8	176.1	175.8	175.8	176.0	176.5	177.2	178.0	178.9	
< vs. Projection of Current Trend Case >														%
FY	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	
Effective Interest Rate	1.6	1.8	2.0	2.2	2.4	2.5	2.6	2.7	2.8	2.8	2.8	2.9	2.9	
Outstanding Debt (Ratio to Nominal GDP)	181.8	181.2	181.1	181.4	182.0	182.7	183.8	185.1	186.7	188.5	190.5	192.6	195.0	

(Notes) 1. For the effective interest rate, it is assumed that a certain proportion of outstanding debt is replaced by newly issued bonds each fiscal year, taking into account the average remaining maturity. The impact of higher long-term interest rates is analyzed by partially incorporating the long-term interest rate for a given fiscal year into the previous period's effective interest rate. Sensitivity analysis uses multiplier tables from the Economic and Fiscal Model (2026).

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 (FY2028 and beyond), with no changes in other exogenous variables.

1. Main Results of Projection (Table)

Growth Strategy Achieved Case I

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Potential GDP Growth	(0.4)	(0.4)	(0.5)	(0.7)	(0.9)	(1.1)	(1.4)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Real GDP Growth	(0.5)	(0.8)	(0.9)	(1.1)	(0.8)	(0.9)	(1.1)	(1.2)	(1.4)	(1.6)	(1.7)	(1.7)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)
Nominal GDP Growth	(3.7)	(4.1)	(3.0)	(3.9)	(2.7)	(2.7)	(2.8)	(2.9)	(3.1)	(3.2)	(3.3)	(3.3)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Nominal GDP	642.8	669.4	689.3	716.3	735.3	755.1	776.1	799.0	823.6	849.9	878.1	907.2	938.2	970.4	1003.7	1038.1	1073.6
Per Capita Real GDP Growth	(1.0)	(1.3)	(1.4)	(1.6)	(1.4)	(1.4)	(1.6)	(1.8)	(2.0)	(2.2)	(2.3)	(2.4)	(2.4)	(2.5)	(2.5)	(2.5)	(2.5)
Nominal Wage Growth	(3.2)	(3.0)	(3.1)	(3.1)	(3.2)	(3.2)	(3.1)	(3.1)	(3.1)	(3.2)	(3.2)	(3.3)	(3.3)	(3.4)	(3.4)	(3.5)	(3.5)
Unemployment Rate	(2.5)	(2.6)	(2.6)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
CPI growth Rate	(3.0)	(2.6)	(2.2)	(2.1)	(2.2)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP Deflator Growth Rate	(3.2)	(3.3)	(2.0)	(2.8)	(1.8)	(1.8)	(1.7)	(1.7)	(1.7)	(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)	(2.7)	(3.0)	(3.2)	(3.3)	(3.4)	(3.4)	(3.5)	(3.6)	(3.6)	(3.7)	(3.7)	(3.8)	(3.8)	(3.8)	(3.8)
Effective Rate	(0.7)	(0.9)	(1.2)	(1.3)	(1.5)	(1.7)	(1.9)	(2.2)	(2.4)	(2.6)	(2.8)	(2.9)	(3.1)	(3.2)	(3.3)	(3.4)	(3.4)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲0.0)	(▲0.2)	(0.2)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)	(1.0)	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)
Net Interest Payment (ratio to nominal GDP)	(0.8)	(0.8)	(1.3)	(1.3)	(1.6)	(1.9)	(2.3)	(2.6)	(2.9)	(3.3)	(3.5)	(3.8)	(4.0)	(4.1)	(4.3)	(4.4)	(4.6)
Fiscal Balance (ratio to nominal GDP)	(▲2.5)	(▲0.9)	(▲1.5)	(▲1.1)	(▲1.1)	(▲1.3)	(▲1.6)	(▲1.9)	(▲2.1)	(▲2.4)	(▲2.6)	(▲2.7)	(▲2.9)	(▲3.0)	(▲3.1)	(▲3.2)	(▲3.2)
Outstanding Debt (ratio to nominal GDP)	(193.4)	(188.4)	(187.6)	(182.9)	(180.8)	(179.0)	(177.6)	(176.2)	(175.0)	(174.0)	(173.1)	(172.4)	(171.8)	(171.3)	(170.9)	(170.7)	(170.6)

Growth Strategy Achieved Case II

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Potential GDP Growth	(0.4)	(0.4)	(0.5)	(0.7)	(0.9)	(1.1)	(1.4)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Real GDP Growth	(0.5)	(0.8)	(0.9)	(1.1)	(0.8)	(0.9)	(1.1)	(1.2)	(1.3)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)	(1.4)
Nominal GDP Growth	(3.7)	(4.1)	(3.0)	(3.9)	(2.7)	(2.7)	(2.8)	(2.9)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)	(3.0)
Nominal GDP	642.8	669.4	689.3	716.3	735.3	755.1	776.1	799.0	823.0	848.1	873.9	900.4	927.6	955.6	984.0	1013.4	1043.5
Per Capita Real GDP Growth	(1.0)	(1.3)	(1.4)	(1.6)	(1.4)	(1.4)	(1.6)	(1.8)	(1.9)	(2.0)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)	(2.1)
Nominal Wage Growth	(3.2)	(3.0)	(3.1)	(3.1)	(3.2)	(3.2)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)	(3.1)
Unemployment Rate	(2.5)	(2.6)	(2.6)	(2.5)	(2.5)	(2.6)	(2.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
CPI growth Rate	(3.0)	(2.6)	(2.2)	(2.1)	(2.2)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP Deflator Growth Rate	(3.2)	(3.3)	(2.0)	(2.8)	(1.8)	(1.8)	(1.7)	(1.7)	(1.7)	(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)	(2.7)	(3.0)	(3.2)	(3.3)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)	(3.4)
Effective Rate	(0.7)	(0.9)	(1.2)	(1.3)	(1.5)	(1.7)	(1.9)	(2.2)	(2.4)	(2.6)	(2.7)	(2.8)	(2.9)	(3.0)	(3.1)	(3.1)	(3.2)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲0.0)	(▲0.2)	(0.2)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)
Net Interest Payment (ratio to nominal GDP)	(0.8)	(0.8)	(1.3)	(1.3)	(1.6)	(1.9)	(2.3)	(2.6)	(2.9)	(3.2)	(3.5)	(3.7)	(3.9)	(4.0)	(4.1)	(4.2)	(4.4)
Fiscal Balance (ratio to nominal GDP)	(▲2.5)	(▲0.9)	(▲1.5)	(▲1.1)	(▲1.1)	(▲1.3)	(▲1.6)	(▲1.9)	(▲2.1)	(▲2.4)	(▲2.6)	(▲2.8)	(▲2.9)	(▲3.1)	(▲3.2)	(▲3.3)	(▲3.4)
Outstanding Debt (ratio to nominal GDP)	(193.4)	(188.4)	(187.6)	(182.9)	(180.8)	(179.0)	(177.6)	(176.2)	(175.1)	(174.3)	(173.8)	(173.5)	(173.4)	(173.5)	(173.8)	(174.1)	(174.6)

Projection of Current Trend case

(%),Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Potential GDP Growth	(0.4)	(0.4)	(0.5)	(0.7)	(0.6)	(0.6)	(0.6)	(0.6)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)
Real GDP Growth	(0.5)	(0.8)	(0.9)	(1.1)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)	(0.3)	(0.3)
Nominal GDP Growth	(3.7)	(4.1)	(3.0)	(3.9)	(2.3)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(1.9)	(1.9)	(1.9)
Nominal GDP	642.8	669.4	689.3	716.3	732.5	748.6	764.4	780.3	796.3	812.5	829.0	845.7	862.5	879.4	896.1	912.7	929.6
Per Capita Real GDP Growth	(1.0)	(1.3)	(1.4)	(1.6)	(1.0)	(0.9)	(0.9)	(0.9)	(1.0)	(1.0)	(1.0)	(1.1)	(1.0)	(1.0)	(1.0)	(1.0)	(1.0)
Nominal Wage Growth	(3.2)	(3.0)	(3.1)	(3.1)	(2.5)	(2.5)	(2.4)	(2.3)	(2.3)	(2.3)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Unemployment Rate	(2.5)	(2.6)	(2.6)	(2.5)	(2.6)	(2.6)	(2.6)	(2.6)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)	(2.7)
CPI growth Rate	(3.0)	(2.6)	(2.2)	(2.1)	(2.2)	(2.2)	(2.1)	(2.1)	(2.1)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)	(2.0)
GDP Deflator Growth Rate	(3.2)	(3.3)	(2.0)	(2.8)	(1.8)	(1.8)	(1.7)	(1.7)	(1.7)	(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)	(2.7)	(3.0)	(2.9)	(2.9)	(2.8)	(2.7)	(2.7)	(2.6)	(2.6)	(2.5)	(2.5)	(2.5)	(2.4)	(2.4)	(2.4)
Effective Rate	(0.7)	(0.9)	(1.2)	(1.3)	(1.5)	(1.7)	(1.8)	(2.0)	(2.1)	(2.2)	(2.3)	(2.3)	(2.4)	(2.4)	(2.4)	(2.4)	(2.5)
Primary Balance (ratio to nominal GDP)	(▲1.8)	(▲0.0)	(▲0.2)	(0.2)	(0.5)	(0.6)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.3)	(0.2)	(0.1)	(0.0)	(▲0.1)	(▲0.2)
Net Interest Payment (ratio to nominal GDP)	(0.8)	(0.8)	(1.3)	(1.3)	(1.6)	(1.9)	(2.2)	(2.4)	(2.7)	(2.9)	(3.1)	(3.2)	(3.3)	(3.4)	(3.5)	(3.6)	(3.6)
Fiscal Balance (ratio to nominal GDP)	(▲2.5)	(▲0.9)	(▲1.5)	(▲1.1)	(▲1.1)	(▲1.3)	(▲1.6)	(▲1.9)	(▲2.2)	(▲2.5)	(▲2.7)	(▲2.9)	(▲3.1)	(▲3.3)	(▲3.5)	(▲3.7)	(▲3.8)
Outstanding Debt (ratio to nominal GDP)	(193.4)	(188.4)	(187.6)	(182.9)	(181.5)	(180.5)	(180.1)	(180.1)	(180.4)	(181.0)	(181.8)	(182.9)	(184.1)	(185.5)	(187.1)	(188.8)	(190.6)

- 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 account 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 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 100, August 30, 2011), the expenditures in decontamination and projects for interim storage facility by Tokyo Electric Power Company (hereinafter “TEPCO”) are included since it is deemed to ensure the corresponding resources, considering the progress of payment from TEPCO. That for GX measures consists of expenditures covered by issuing the GX Economy Transition Bonds and the resources for their redemption. That for AI and semiconductor industry foundation strengthening support measures is based on “Attachment 1: ‘AI and Semiconductor Industry Foundation Strengthening Framework’ of the ‘Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth’ (November 22, 2024, Cabinet decision).”

2.Detailed Results of Fiscal Projection

Growth Strategy Achieved Case Ⅰ

【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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲ 11.3	▲ 0.2	▲ 1.2	1.4	4.1	5.0	5.5	6.0	6.8	7.7	8.5	9.3	10.4	11.3	12.3	13.3	14.4
(ratio to nominal GDP)	(▲ 1.8)	(▲ 0.0)	(▲ 0.2)	(0.2)	(0.6)	(0.7)	(0.7)	(0.7)	(0.8)	(0.9)	(1.0)	(1.0)	(1.1)	(1.2)	(1.2)	(1.3)	(1.3)
Central Government	▲ 15.0	▲ 8.4	▲ 12.5	▲ 12.1	▲ 9.9	▲ 9.0	▲ 8.7	▲ 8.5	▲ 8.1	▲ 7.6	▲ 7.3	▲ 7.0	▲ 6.7	▲ 6.5	▲ 6.2	▲ 5.9	▲ 5.5
(ratio to nominal GDP)	(▲ 2.3)	(▲ 1.3)	(▲ 1.8)	(▲ 1.7)	(▲ 1.3)	(▲ 1.2)	(▲ 1.1)	(▲ 1.1)	(▲ 1.0)	(▲ 0.9)	(▲ 0.8)	(▲ 0.8)	(▲ 0.7)	(▲ 0.7)	(▲ 0.6)	(▲ 0.6)	(▲ 0.5)
Local Government	3.6	8.2	11.3	13.5	14.0	14.0	14.2	14.5	14.8	15.3	15.8	16.3	17.1	17.8	18.5	19.2	19.9
(ratio to nominal GDP)	(0.6)	(1.2)	(1.6)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.9)
Fiscal Balance	▲ 16.4	▲ 5.9	▲ 10.0	▲ 7.9	▲ 7.8	▲ 9.7	▲ 12.2	▲ 14.9	▲ 17.5	▲ 20.0	▲ 22.4	▲ 24.8	▲ 26.9	▲ 28.9	▲ 30.9	▲ 32.9	▲ 34.8
(ratio to nominal GDP)	(▲ 2.5)	(▲ 0.9)	(▲ 1.5)	(▲ 1.1)	(▲ 1.1)	(▲ 1.3)	(▲ 1.6)	(▲ 1.9)	(▲ 2.1)	(▲ 2.4)	(▲ 2.6)	(▲ 2.7)	(▲ 2.9)	(▲ 3.0)	(▲ 3.1)	(▲ 3.2)	(▲ 3.2)
Central Government	▲ 19.3	▲ 13.1	▲ 20.4	▲ 20.4	▲ 20.8	▲ 22.6	▲ 25.3	▲ 28.2	▲ 31.0	▲ 33.9	▲ 36.9	▲ 39.8	▲ 42.6	▲ 45.4	▲ 48.1	▲ 50.8	▲ 53.5
(ratio to nominal GDP)	(▲ 3.0)	(▲ 2.0)	(▲ 3.0)	(▲ 2.8)	(▲ 2.8)	(▲ 3.0)	(▲ 3.3)	(▲ 3.5)	(▲ 3.8)	(▲ 4.0)	(▲ 4.2)	(▲ 4.4)	(▲ 4.5)	(▲ 4.7)	(▲ 4.8)	(▲ 4.9)	(▲ 5.0)
Local Government	2.9	7.2	10.3	12.6	13.0	12.9	13.1	13.2	13.5	14.0	14.4	15.0	15.7	16.5	17.2	17.9	18.7
(ratio to nominal GDP)	(0.4)	(1.1)	(1.5)	(1.8)	(1.8)	(1.7)	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Outstanding Debt	1243.2	1260.9	1293.0	1309.8	1329.1	1351.8	1378.1	1407.9	1441.4	1478.6	1519.5	1563.9	1611.4	1662.0	1715.8	1772.4	1832.0
(ratio to nominal GDP)	(193.4)	(188.4)	(187.6)	(182.9)	(180.8)	(179.0)	(177.6)	(176.2)	(175.0)	(174.0)	(173.1)	(172.4)	(171.8)	(171.3)	(170.9)	(170.7)	(170.6)
Central Government	1078.3	1100.4	1139.0	1160.7	1185.0	1212.5	1243.0	1276.6	1313.4	1353.5	1396.8	1443.1	1492.3	1544.3	1599.2	1656.8	1717.2
(ratio to nominal GDP)	(167.8)	(164.4)	(165.2)	(162.0)	(161.2)	(160.6)	(160.1)	(159.8)	(159.5)	(159.3)	(159.1)	(159.1)	(159.1)	(159.1)	(159.3)	(159.6)	(159.9)
Local Government	164.9	160.5	154.0	149.1	144.1	139.4	135.1	131.3	128.0	125.1	122.8	120.8	119.1	117.7	116.6	115.7	114.9
(ratio to nominal GDP)	(25.7)	(24.0)	(22.3)	(20.8)	(19.6)	(18.5)	(17.4)	(16.4)	(15.5)	(14.7)	(14.0)	(13.3)	(12.7)	(12.1)	(11.6)	(11.1)	(10.7)

【General Account of Central Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	123.0	129.5	125.4	138.1	144.9	151.4	157.9	164.6	171.8	179.4	187.1	194.9	202.7	210.9	219.2	227.8	236.5
(Policy Expenditures)	97.7	101.9	94.5	105.5	108.6	111.6	114.6	117.5	120.8	124.2	127.9	131.7	135.6	139.9	144.3	148.8	153.5
Social Security-related Expenditures	35.8	39.5	39.1	40.0	41.0	42.2	43.3	44.5	45.8	47.1	48.6	50.1	51.7	53.4	55.3	57.1	59.0
Local Allocation Tax Grants, etc.	19.6	20.2	20.9	23.5	24.4	25.1	25.7	26.4	27.2	28.0	28.9	29.9	30.9	32.0	33.1	34.2	35.4
Others	41.9	41.9	34.2	34.2	34.6	35.6	36.5	37.5	38.4	39.4	40.5	41.6	42.7	43.9	45.1	46.4	47.7
Bond Expenditures	25.7	27.9	31.3	32.9	36.6	40.1	43.7	47.4	51.4	55.5	59.6	63.6	67.5	71.3	75.3	79.3	83.4
Debt Repayment	17.4	18.5	17.9	18.4	19.2	19.8	20.4	20.9	21.7	22.4	23.2	24.1	24.8	25.6	26.5	27.5	28.5
Interest Payment	7.9	9.1	13.0	14.1	17.1	20.0	23.0	26.1	29.4	32.7	36.0	39.2	42.3	45.4	48.4	51.5	54.5
Revenues	88.6	95.7	92.7	98.8	102.4	105.4	108.4	111.7	115.2	118.9	122.9	127.1	131.5	136.0	140.8	145.7	150.7
Tax Revenue	75.2	84.2	83.7	90.5	94.0	96.6	99.3	102.2	105.3	108.7	112.3	116.0	119.9	124.0	128.3	132.7	137.2
Other Revenues	13.4	11.5	9.0	8.3	8.4	8.7	9.1	9.5	9.9	10.3	10.7	11.1	11.6	12.0	12.5	13.0	13.5
Primary Balance in General Account of Central Government	▲ 9.1	▲ 6.2	▲ 1.8	▲ 6.8	▲ 6.2	▲ 6.3	▲ 6.2	▲ 5.9	▲ 5.6	▲ 5.3	▲ 4.9	▲ 4.6	▲ 4.2	▲ 3.9	▲ 3.5	▲ 3.1	▲ 2.7

【Ordinary Account of Local Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	115.5	119.4	112.9	124.0	127.3	130.5	133.9	137.5	141.5	145.6	150.1	154.7	159.7	164.8	170.1	175.6	181.3
Debt Repayment and Interest Payment	12.1	10.7	10.8	11.2	11.5	11.5	11.4	11.2	11.1	11.0	10.9	10.9	11.0	11.1	11.3	11.5	11.8
Revenues	102.7	108.6	103.7	114.1	117.4	120.5	123.8	127.3	131.2	135.3	139.8	144.4	149.3	154.4	159.7	165.2	170.9
Tax Revenue	49.4	51.9	52.2	54.8	56.1	57.5	59.0	60.6	62.3	64.1	66.0	68.0	70.2	72.4	74.6	77.0	79.4
Primary Balance in Ordinary Account of Local Government	4.0	3.8	7.3	12.3	12.7	12.7	13.2	13.7	14.4	15.3	16.2	17.2	18.5	19.8	21.1	22.4	23.8

(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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲ 11.3	▲ 1.7	▲ 4.4	▲ 1.2	1.7	2.8	3.4	4.6	5.4	8.0	8.9	9.7	10.8	11.7	12.7	13.7	14.7
(ratio to nominal GDP)	(▲ 1.8)	(▲ 0.2)	(▲ 0.6)	(▲ 0.2)	(0.2)	(0.4)	(0.4)	(0.6)	(0.7)	(0.9)	(1.0)	(1.1)	(1.1)	(1.2)	(1.3)	(1.3)	(1.4)
Central Government	▲ 14.9	▲ 9.8	▲ 15.6	▲ 14.7	▲ 11.2	▲ 10.8	▲ 9.9	▲ 9.4	▲ 7.2	▲ 6.9	▲ 6.6	▲ 6.3	▲ 6.1	▲ 6.1	▲ 5.8	▲ 5.5	▲ 5.1
(ratio to nominal GDP)	(▲ 2.3)	(▲ 1.5)	(▲ 2.3)	(▲ 2.1)	(▲ 1.7)	(▲ 1.5)	(▲ 1.4)	(▲ 1.2)	(▲ 1.1)	(▲ 0.9)	(▲ 0.8)	(▲ 0.7)	(▲ 0.7)	(▲ 0.6)	(▲ 0.6)	(▲ 0.5)	(▲ 0.5)
Local Government	3.6	8.1	11.3	13.5	14.0	14.0	14.2	14.5	14.8	15.3	15.8	16.3	17.1	17.8	18.5	19.2	19.9
(ratio to nominal GDP)	(0.6)	(1.2)	(1.6)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.8)	(1.9)
Fiscal Balance	▲ 16.4	▲ 7.4	▲ 13.4	▲ 10.6	▲ 10.5	▲ 12.3	▲ 14.7	▲ 16.9	▲ 19.5	▲ 20.3	▲ 22.9	▲ 25.3	▲ 27.4	▲ 29.5	▲ 31.5	▲ 33.5	▲ 35.5
(ratio to nominal GDP)	(▲ 2.5)	(▲ 1.1)	(▲ 1.9)	(▲ 1.5)	(▲ 1.4)	(▲ 1.6)	(▲ 1.9)	(▲ 2.1)	(▲ 2.4)	(▲ 2.4)	(▲ 2.6)	(▲ 2.8)	(▲ 2.9)	(▲ 3.0)	(▲ 3.1)	(▲ 3.2)	(▲ 3.3)
Central Government	▲ 19.3	▲ 14.6	▲ 23.7	▲ 23.2	▲ 23.5	▲ 25.2	▲ 27.8	▲ 30.1	▲ 33.1	▲ 34.3	▲ 37.3	▲ 40.3	▲ 43.1	▲ 46.0	▲ 48.7	▲ 51.5	▲ 54.2
(ratio to nominal GDP)	(▲ 3.0)	(▲ 2.2)	(▲ 3.4)	(▲ 3.2)	(▲ 3.2)	(▲ 3.3)	(▲ 3.6)	(▲ 3.8)	(▲ 4.0)	(▲ 4.0)	(▲ 4.2)	(▲ 4.4)	(▲ 4.6)	(▲ 4.7)	(▲ 4.9)	(▲ 5.0)	(▲ 5.0)
Local Government	2.9	7.2	10.3	12.6	13.0	12.9	13.1	13.2	13.5	14.0	14.4	15.0	15.7	16.5	17.2	17.9	18.7
(ratio to nominal GDP)	(0.4)	(1.1)	(1.5)	(1.8)	(1.8)	(1.7)	(1.7)	(1.7)	(1.6)	(1.6)	(1.6)	(1.6)	(1.7)	(1.7)	(1.7)	(1.7)	(1.7)
Outstanding Debt	1251.8	1270.2	1304.3	1324.1	1346.5	1372.4	1401.9	1433.8	1469.3	1506.9	1548.3	1593.1	1641.2	1692.4	1746.8	1804.1	1864.4
(ratio to nominal GDP)	(194.7)	(189.8)	(189.2)	(184.9)	(183.1)	(181.8)	(180.6)	(179.5)	(178.4)	(177.3)	(176.3)	(175.6)	(174.9)	(174.4)	(174.0)	(173.8)	(173.7)
Central Government	1086.5	1109.5	1150.1	1174.7	1202.1	1232.8	1266.6	1302.3	1341.1	1381.5	1425.3	1472.1	1521.8	1574.5	1630.0	1688.2	1749.3
(ratio to nominal GDP)	(169.0)	(165.7)	(166.8)	(164.0)	(163.5)	(163.3)	(163.2)	(163.0)	(162.8)	(162.6)	(162.3)	(162.3)	(162.2)	(162.3)	(162.4)	(162.6)	(162.9)
Local Government	165.2	160.8	154.3	149.4	144.4	139.6	135.3	131.5	128.2	125.4	123.0	121.0	119.3	118.0	116.8	115.9	115.1
(ratio to nominal GDP)	(25.7)	(24.0)	(22.4)	(20.9)	(19.6)	(18.5)	(17.4)	(16.5)	(15.6)	(14.8)	(14.0)	(13.3)	(12.7)	(12.2)	(11.6)	(11.2)	(10.7)

- Notes
- In "General Account of Central Government," FY2024, FY2025, and FY2026 are based on the settlement, provisional settlement, and the supplementary budget, respectively. In "Ordinary Account of Local Government," FY2024 is based on the settlement.
 - 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."
 - In "General Account of Central Government," "Other Revenues" in FY2024 and FY2025 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 23.6 trillion yen and 23.7 trillion yen, respectively, minus carried-forward funds to the next fiscal year (approximately 10.2 trillion yen and 12.2 trillion yen, respectively).
 - In "General Account of Central Government," the additional central government spending assumed FY2027 onwards is included in the volume of "Expenditures" and "Policy Expenditures." However, as the additional spending is not included in "Social Security-related Expenditures," "Local Allocation Tax Grants, etc.," and "Others," the sum of those expenditures does not match the "Policy Expenditures." Note that expenditures regarding defence capacity buildup in FY2027 and national resilience FY2027 onwards are included in "Others."
 - 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.

Growth Strategy Achieved Case II

【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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲ 11.3 (▲ 1.8)	▲ 0.2 (▲ 0.0)	▲ 1.2 (▲ 0.2)	1.4 (0.2)	4.1 (0.6)	5.0 (0.7)	5.5 (0.7)	6.0 (0.7)	6.6 (0.8)	7.3 (0.9)	7.8 (0.9)	8.2 (0.9)	8.7 (0.9)	9.0 (0.9)	9.3 (0.9)	9.6 (1.0)	10.1 (1.0)
(ratio to nominal GDP)																	
Central Government	▲ 15.0 (▲ 2.3)	▲ 8.4 (▲ 1.3)	▲ 12.5 (▲ 1.8)	▲ 12.1 (▲ 1.7)	▲ 9.9 (▲ 1.3)	▲ 9.0 (▲ 1.2)	▲ 8.7 (▲ 1.1)	▲ 8.5 (▲ 1.1)	▲ 8.1 (▲ 1.0)	▲ 7.8 (▲ 0.9)	▲ 7.6 (▲ 0.9)	▲ 7.6 (▲ 0.8)	▲ 7.5 (▲ 0.8)	▲ 7.6 (▲ 0.8)	▲ 7.7 (▲ 0.8)	▲ 7.7 (▲ 0.8)	▲ 7.7 (▲ 0.7)
(ratio to nominal GDP)																	
Local Government	3.6 (0.6)	8.2 (1.2)	11.3 (1.6)	13.5 (1.9)	14.0 (1.9)	14.0 (1.9)	14.2 (1.8)	14.5 (1.8)	14.8 (1.8)	15.1 (1.8)	15.4 (1.8)	15.8 (1.8)	16.3 (1.8)	16.7 (1.7)	17.0 (1.7)	17.4 (1.7)	17.8 (1.7)
(ratio to nominal GDP)																	
Fiscal Balance	▲ 16.4 (▲ 2.5)	▲ 5.9 (▲ 0.9)	▲ 10.0 (▲ 1.5)	▲ 7.9 (▲ 1.1)	▲ 7.8 (▲ 1.1)	▲ 9.7 (▲ 1.3)	▲ 12.2 (▲ 1.6)	▲ 14.9 (▲ 1.9)	▲ 17.5 (▲ 2.1)	▲ 20.0 (▲ 2.4)	▲ 22.5 (▲ 2.6)	▲ 25.0 (▲ 2.8)	▲ 27.1 (▲ 2.9)	▲ 29.2 (▲ 3.1)	▲ 31.4 (▲ 3.2)	▲ 33.4 (▲ 3.3)	▲ 35.4 (▲ 3.4)
(ratio to nominal GDP)																	
Central Government	▲ 19.3 (▲ 3.0)	▲ 13.1 (▲ 2.0)	▲ 20.4 (▲ 3.0)	▲ 20.4 (▲ 2.8)	▲ 20.8 (▲ 2.8)	▲ 22.6 (▲ 3.0)	▲ 25.3 (▲ 3.3)	▲ 28.2 (▲ 3.5)	▲ 31.0 (▲ 3.8)	▲ 33.8 (▲ 4.0)	▲ 36.6 (▲ 4.2)	▲ 39.3 (▲ 4.4)	▲ 41.9 (▲ 4.5)	▲ 44.4 (▲ 4.6)	▲ 46.9 (▲ 4.8)	▲ 49.3 (▲ 4.9)	▲ 51.8 (▲ 5.0)
(ratio to nominal GDP)																	
Local Government	2.9 (0.4)	7.2 (1.1)	10.3 (1.5)	12.6 (1.8)	13.0 (1.8)	12.9 (1.7)	13.1 (1.7)	13.2 (1.7)	13.5 (1.6)	13.8 (1.6)	14.0 (1.6)	14.3 (1.6)	14.8 (1.6)	15.2 (1.6)	15.5 (1.6)	15.9 (1.6)	16.4 (1.6)
(ratio to nominal GDP)																	
Outstanding Debt	1243.2 (193.4)	1260.9 (188.4)	1293.0 (187.6)	1309.8 (182.9)	1329.1 (180.8)	1351.8 (179.0)	1378.1 (177.6)	1407.9 (176.2)	1441.3 (175.1)	1478.2 (174.3)	1518.6 (173.8)	1562.2 (173.5)	1608.6 (173.4)	1657.9 (173.5)	1709.8 (173.8)	1764.5 (174.1)	1821.7 (174.6)
(ratio to nominal GDP)																	
Central Government	1078.3 (167.8)	1100.4 (164.4)	1139.0 (165.2)	1160.7 (162.0)	1185.0 (161.2)	1212.5 (160.6)	1243.0 (160.1)	1276.6 (159.8)	1313.3 (159.6)	1353.1 (159.5)	1395.9 (159.7)	1441.5 (160.1)	1489.6 (160.6)	1540.2 (161.2)	1593.4 (161.9)	1649.0 (162.7)	1707.2 (163.6)
(ratio to nominal GDP)																	
Local Government	164.9 (25.7)	160.5 (24.0)	154.0 (22.3)	149.1 (20.8)	144.1 (19.6)	139.4 (18.5)	135.1 (17.4)	131.3 (16.4)	128.0 (15.5)	125.1 (14.8)	122.7 (14.0)	120.7 (13.4)	119.0 (12.8)	117.6 (12.3)	116.4 (11.8)	115.4 (11.4)	114.5 (11.0)
(ratio to nominal GDP)																	

【General Account of Central Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	123.0	129.5	125.4	138.1	144.9	151.4	157.9	164.6	171.7	178.9	186.1	193.3	200.3	207.5	214.9	222.4	230.0
(Policy Expenditures)	97.7	101.9	94.5	105.5	108.6	111.6	114.6	117.5	120.7	124.1	127.6	131.3	135.0	139.0	143.1	147.3	151.5
Social Security-related Expenditures	35.8	39.5	39.1	40.0	41.0	42.2	43.3	44.5	45.7	47.1	48.6	50.1	51.6	53.3	55.1	56.9	58.7
Local Allocation Tax Grants, etc.	19.6	20.2	20.9	23.5	24.4	25.1	25.7	26.4	27.1	27.9	28.8	29.6	30.5	31.5	32.4	33.4	34.4
Others	41.9	41.9	34.2	34.2	34.6	35.6	36.5	37.5	38.4	39.4	40.4	41.5	42.5	43.7	44.8	45.9	47.1
Bond Expenditures	25.7	27.9	31.3	32.9	36.6	40.1	43.7	47.4	51.3	55.2	58.8	62.4	65.7	68.9	72.1	75.4	78.8
Debt Repayment	17.4	18.5	17.9	18.4	19.2	19.8	20.4	20.9	21.7	22.4	23.2	24.0	24.7	25.4	26.2	27.1	28.1
Interest Payment	7.9	9.1	13.0	14.1	17.1	20.0	23.0	26.1	29.3	32.4	35.3	38.1	40.7	43.1	45.5	48.0	50.4
Revenues	88.6	95.7	92.7	98.8	102.4	105.4	108.4	111.7	115.1	118.7	122.4	126.1	130.0	134.0	138.1	142.3	146.6
Tax Revenue	75.2	84.2	83.7	90.5	94.0	96.6	99.3	102.2	105.2	108.4	111.7	115.1	118.5	122.1	125.7	129.5	133.3
Other Revenues	13.4	11.5	9.0	8.3	8.4	8.7	9.1	9.5	9.9	10.3	10.7	11.1	11.5	11.9	12.4	12.8	13.3
Primary Balance in General Account of Central Government	▲ 9.1	▲ 6.2	▲ 1.8	▲ 6.8	▲ 6.2	▲ 6.3	▲ 6.2	▲ 5.9	▲ 5.6	▲ 5.4	▲ 5.3	▲ 5.1	▲ 5.0	▲ 5.0	▲ 5.0	▲ 5.0	▲ 4.9

【Ordinary Account of Local Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	115.5	119.4	112.9	124.0	127.3	130.5	133.9	137.5	141.3	145.3	149.4	153.7	158.1	162.6	167.2	172.0	176.9
Debt Repayment and Interest Payment	12.1	10.7	10.8	11.2	11.5	11.5	11.4	11.2	11.1	11.0	10.9	10.9	10.9	11.0	11.2	11.4	11.6
Revenues	102.7	108.6	103.7	114.1	117.4	120.5	123.8	127.3	131.0	135.0	139.0	143.2	147.5	152.0	156.6	161.3	166.1
Tax Revenue	49.4	51.9	52.2	54.8	56.1	57.5	59.0	60.6	62.2	64.0	65.7	67.5	69.4	71.3	73.2	75.2	77.2
Primary Balance in Ordinary Account of Local Government	4.0	3.8	7.3	12.3	12.7	12.7	13.2	13.7	14.3	15.0	15.6	16.4	17.3	18.1	18.9	19.8	20.8

(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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲ 11.3 (▲ 1.8)	▲ 1.7 (▲ 0.2)	▲ 4.4 (▲ 0.6)	▲ 1.2 (▲ 0.2)	1.7 (0.2)	2.8 (0.4)	3.4 (0.4)	4.6 (0.6)	5.3 (0.6)	7.7 (0.9)	8.2 (0.9)	8.6 (1.0)	9.1 (1.0)	9.4 (1.0)	9.7 (1.0)	10.0 (1.0)	10.5 (1.0)
(ratio to nominal GDP)																	
Central Government	▲ 14.9 (▲ 2.3)	▲ 9.8 (▲ 1.5)	▲ 15.6 (▲ 2.3)	▲ 14.7 (▲ 2.1)	▲ 12.4 (▲ 1.7)	▲ 11.2 (▲ 1.5)	▲ 10.8 (▲ 1.4)	▲ 9.9 (▲ 1.2)	▲ 9.5 (▲ 1.2)	▲ 7.4 (▲ 0.9)	▲ 7.2 (▲ 0.8)	▲ 7.2 (▲ 0.8)	▲ 7.2 (▲ 0.8)	▲ 7.2 (▲ 0.8)	▲ 7.3 (▲ 0.7)	▲ 7.3 (▲ 0.7)	▲ 7.3 (▲ 0.7)
(ratio to nominal GDP)																	
Local Government	3.6 (0.6)	8.1 (1.2)	11.3 (1.6)	13.5 (1.9)	14.0 (1.9)	14.0 (1.9)	14.2 (1.8)	14.5 (1.8)	14.8 (1.8)	15.1 (1.8)	15.4 (1.8)	15.8 (1.8)	16.3 (1.8)	16.7 (1.7)	17.0 (1.7)	17.4 (1.7)	17.8 (1.7)
(ratio to nominal GDP)																	
Fiscal Balance	▲ 16.4 (▲ 2.5)	▲ 7.4 (▲ 1.1)	▲ 13.4 (▲ 1.9)	▲ 10.6 (▲ 1.5)	▲ 10.5 (▲ 1.4)	▲ 12.3 (▲ 1.6)	▲ 14.7 (▲ 1.9)	▲ 16.9 (▲ 2.1)	▲ 19.6 (▲ 2.4)	▲ 20.4 (▲ 2.4)	▲ 23.0 (▲ 2.6)	▲ 25.4 (▲ 2.8)	▲ 27.6 (▲ 3.0)	▲ 29.8 (▲ 3.1)	▲ 31.9 (▲ 3.2)	▲ 34.0 (▲ 3.4)	▲ 36.0 (▲ 3.5)
(ratio to nominal GDP)																	
Central Government	▲ 19.3 (▲ 3.0)	▲ 14.6 (▲ 2.2)	▲ 23.7 (▲ 3.4)	▲ 23.2 (▲ 3.2)	▲ 23.5 (▲ 3.2)	▲ 25.2 (▲ 3.3)	▲ 27.8 (▲ 3.6)	▲ 30.1 (▲ 3.8)	▲ 33.0 (▲ 4.0)	▲ 34.1 (▲ 4.0)	▲ 37.0 (▲ 4.2)	▲ 39.8 (▲ 4.4)	▲ 42.4 (▲ 4.6)	▲ 44.9 (▲ 4.7)	▲ 47.4 (▲ 4.8)	▲ 49.9 (▲ 4.9)	▲ 52.4 (▲ 5.0)
(ratio to nominal GDP)																	
Local Government	2.9 (0.4)	7.2 (1.1)	10.3 (1.5)	12.6 (1.8)	13.0 (1.8)	12.9 (1.7)	13.1 (1.7)	13.2 (1.6)	13.5 (1.6)	13.8 (1.6)	14.0 (1.6)	14.3 (1.6)	14.8 (1.6)	15.2 (1.6)	15.5 (1.6)	15.9 (1.6)	16.4 (1.6)
(ratio to nominal GDP)																	
Outstanding Debt	1251.8 (194.7)	1270.2 (189.8)	1304.3 (189.2)	1324.1 (184.9)	1346.5 (183.1)	1372.4 (181.8)	1401.9 (180.6)	1433.8 (179.5)	1469.2 (178.5)	1506.5 (177.6)	1547.4 (177.1)	1591.4 (176.7)	1638.3 (176.6)	1688.1 (176.7)	1740.7 (176.9)	1795.8 (177.2)	1853.7 (177.6)
(ratio to nominal GDP)																	
Central Government	1086.5 (169.0)	1109.5 (165.7)	1150.1 (166.8)	1174.7 (164.0)	1202.1 (163.5)	1232.8 (163.3)	1266.6 (163.2)	1302.3 (163.0)	1341.0 (162.9)	1381.1 (162.8)	1424.4 (163.0)	1470.4 (163.3)	1519.1 (163.8)	1570.3 (164.3)	1624.0 (165.0)	1680.2 (165.8)	1738.9 (166.6)
(ratio to nominal GDP)																	
Local Government	165.2 (25.7)	160.8 (24.0)	154.3 (22.4)	149.4 (20.9)	144.4 (19.6)	139.6 (18.5)	135.3 (17.4)	131.5 (16.5)	128.2 (15.6)	125.4 (14.8)	123.0 (14.1)	121.0 (13.4)	119.3 (12.9)	117.9 (12.3)	116.7 (11.9)	115.7 (11.4)	114.8 (11.0)
(ratio to nominal GDP)																	

- Notes
- In “General Account of Central Government,” FY2024, FY2025, and FY2026 are based on the settlement, provisional settlement, and the supplementary budget, respectively. In “Ordinary Account of Local Government,” FY2024 is based on the settlement.
 - 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.”
 - In “General Account of Central Government,” “Other Revenues” in FY2024 and FY2025 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 23.6 trillion yen and 23.7 trillion yen, respectively, minus carried-forward funds to the next fiscal year (approximately 10.2 trillion yen and 12.2 trillion yen, respectively).
 - In “General Account of Central Government,” the additional central government spending assumed FY2027 onwards is included in the volume of “Expenditures” and “Policy Expenditures.” However, as the additional spending is not included in “Social Security-related Expenditures,” “Local Allocation Tax Grants, etc.,” and “Others,” the sum of those expenditures does not match the “Policy Expenditures.” Note that expenditures regarding defence capacity buildup in FY2027 and national resilience FY2027 onwards are included in “Others.”
 - 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.

Projection of Current 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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲11.3	▲0.2	▲1.2	1.4	3.9	4.5	4.5	4.2	3.9	3.5	3.0	2.4	1.8	1.0	0.2	▲0.8	▲1.6
(ratio to nominal GDP)	(▲1.8)	(▲0.0)	(▲0.2)	(0.2)	(0.5)	(0.6)	(0.6)	(0.5)	(0.5)	(0.4)	(0.4)	(0.3)	(0.2)	(0.1)	(0.0)	(▲0.1)	(▲0.2)
Central Government	▲15.0	▲8.4	▲12.5	▲12.1	▲10.1	▲9.4	▲9.4	▲9.5	▲9.6	▲9.9	▲10.2	▲10.5	▲10.9	▲11.4	▲11.9	▲12.5	▲12.9
(ratio to nominal GDP)	(▲2.3)	(▲1.3)	(▲1.8)	(▲1.7)	(▲1.4)	(▲1.3)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.3)	(▲1.3)	(▲1.3)	(▲1.4)	(▲1.4)
Local Government	3.6	8.2	11.3	13.5	14.0	13.9	13.9	13.7	13.6	13.4	13.1	12.9	12.7	12.5	12.1	11.7	11.3
(ratio to nominal GDP)	(0.6)	(1.2)	(1.6)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.3)	(1.3)	(1.2)
Fiscal Balance	▲16.4	▲5.9	▲10.0	▲7.9	▲7.9	▲9.8	▲12.2	▲14.9	▲17.5	▲20.0	▲22.6	▲24.9	▲27.0	▲29.1	▲31.2	▲33.4	▲35.5
(ratio to nominal GDP)	(▲2.5)	(▲0.9)	(▲1.5)	(▲1.1)	(▲1.1)	(▲1.3)	(▲1.6)	(▲1.9)	(▲2.2)	(▲2.5)	(▲2.7)	(▲2.9)	(▲3.1)	(▲3.3)	(▲3.5)	(▲3.7)	(▲3.8)
Central Government	▲19.3	▲13.1	▲20.4	▲20.4	▲20.9	▲22.5	▲24.8	▲27.3	▲29.7	▲32.0	▲34.2	▲36.3	▲38.1	▲39.9	▲41.6	▲43.3	▲45.0
(ratio to nominal GDP)	(▲3.0)	(▲2.0)	(▲3.0)	(▲2.8)	(▲2.8)	(▲3.0)	(▲3.2)	(▲3.5)	(▲3.7)	(▲3.9)	(▲4.1)	(▲4.3)	(▲4.4)	(▲4.5)	(▲4.6)	(▲4.7)	(▲4.8)
Local Government	2.9	7.2	10.3	12.6	13.0	12.7	12.6	12.4	12.2	11.9	11.6	11.3	11.1	10.8	10.4	10.0	9.6
(ratio to nominal GDP)	(0.4)	(1.1)	(1.5)	(1.8)	(1.8)	(1.7)	(1.7)	(1.6)	(1.5)	(1.5)	(1.4)	(1.3)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)
Outstanding Debt	1243.2	1260.9	1293.0	1309.8	1329.1	1351.4	1376.7	1405.0	1436.2	1470.3	1507.2	1546.5	1587.8	1631.1	1676.3	1723.2	1772.0
(ratio to nominal GDP)	(193.4)	(188.4)	(187.6)	(182.9)	(181.5)	(180.5)	(180.1)	(180.1)	(180.4)	(181.0)	(181.8)	(182.9)	(184.1)	(185.5)	(187.1)	(188.8)	(190.6)
Central Government	1078.3	1100.4	1139.0	1160.7	1185.0	1212.0	1241.7	1273.9	1308.5	1345.6	1385.1	1426.6	1469.9	1514.9	1561.6	1610.0	1660.1
(ratio to nominal GDP)	(167.8)	(164.4)	(165.2)	(162.0)	(161.8)	(161.9)	(162.5)	(163.3)	(164.3)	(165.6)	(167.1)	(168.7)	(170.4)	(172.3)	(174.3)	(176.4)	(178.6)
Local Government	164.9	160.5	154.0	149.1	144.1	139.3	135.0	131.1	127.7	124.7	122.1	119.9	117.9	116.2	114.6	113.2	111.9
(ratio to nominal GDP)	(25.7)	(24.0)	(22.3)	(20.8)	(19.7)	(18.6)	(17.7)	(16.8)	(16.0)	(15.3)	(14.7)	(14.2)	(13.7)	(13.2)	(12.8)	(12.4)	(12.0)

【General Account of Central Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	123.0	129.5	125.4	138.1	144.3	150.0	155.3	160.4	165.8	171.1	176.3	181.4	186.1	190.9	195.7	200.6	205.5
(Policy Expenditures)	97.7	101.9	94.5	105.5	108.2	110.8	113.2	115.7	118.3	120.9	123.7	126.4	129.1	132.0	134.9	137.8	140.7
Social Security-related Expenditures	35.8	39.5	39.1	40.0	40.9	42.0	43.0	44.0	45.2	46.4	47.6	48.8	49.9	51.1	52.4	53.7	54.8
Local Allocation Tax Grants, etc.	19.6	20.2	20.9	23.5	24.3	24.8	25.3	25.7	26.1	26.6	27.1	27.7	28.2	28.8	29.3	29.8	30.4
Others	41.9	41.9	34.2	34.2	34.5	35.3	36.1	36.9	37.7	38.5	39.3	40.2	41.0	41.9	42.8	43.7	44.6
Bond Expenditures	25.7	27.9	31.3	32.9	36.5	39.6	42.4	45.1	47.8	50.5	53.0	55.3	57.3	59.2	61.1	63.1	65.1
Debt Repayment	17.4	18.5	17.9	18.4	19.2	19.8	20.3	20.8	21.4	22.0	22.6	23.3	23.9	24.5	25.2	26.0	26.8
Interest Payment	7.9	9.1	13.0	14.1	16.9	19.4	21.7	24.0	26.1	28.1	30.0	31.6	33.1	34.3	35.5	36.7	38.0
Revenues	88.6	95.7	92.7	98.8	101.8	104.1	106.4	108.7	111.0	113.4	115.8	118.2	120.7	123.1	125.6	128.0	130.5
Tax Revenue	75.2	84.2	83.7	90.5	93.5	95.5	97.5	99.5	101.5	103.5	105.6	107.7	109.8	112.0	114.1	116.2	118.3
Other Revenues	13.4	11.5	9.0	8.3	8.4	8.6	8.9	9.3	9.6	9.9	10.2	10.5	10.8	11.2	11.5	11.8	12.2
Primary Balance in General Account of Central Government	▲9.1	▲6.2	▲1.8	▲6.8	▲6.4	▲6.6	▲6.8	▲6.9	▲7.2	▲7.5	▲7.9	▲8.2	▲8.5	▲8.9	▲9.4	▲9.8	▲10.2

【Ordinary Account of Local Government】

Trillions of Yen

	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031	FY2032	FY2033	FY2034	FY2035	FY2036	FY2037	FY2038	FY2039	FY2040
Expenditures	115.5	119.4	112.9	124.0	126.8	129.4	132.0	134.7	137.5	140.3	143.1	146.0	148.9	151.8	154.8	157.7	160.7
Debt Repayment and Interest Payment	12.1	10.7	10.8	11.2	11.5	11.5	11.4	11.1	11.0	10.8	10.7	10.6	10.6	10.6	10.7	10.9	11.0
Revenues	102.7	108.6	103.7	114.1	116.9	119.4	121.9	124.4	127.0	129.7	132.4	135.1	137.9	140.7	143.5	146.2	149.1
Tax Revenue	49.4	51.9	52.2	54.8	56.0	57.1	58.1	59.2	60.3	61.4	62.5	63.6	64.7	65.8	66.9	67.9	69.0
Primary Balance in Ordinary Account of Local Government	4.0	3.8	7.3	12.3	12.6	12.5	12.6	12.7	12.7	12.8	12.7	12.7	12.7	12.7	12.5	12.3	12.1

(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	FY2036	FY2037	FY2038	FY2039	FY2040
Primary Balance	▲11.3	▲1.7	▲4.4	▲1.2	1.5	2.3	2.4	2.8	2.6	3.9	3.4	2.7	2.2	1.4	0.5	▲0.4	▲1.2
(ratio to nominal GDP)	(▲1.8)	(▲0.2)	(▲0.6)	(▲0.2)	(0.2)	(0.3)	(0.3)	(0.4)	(0.3)	(0.5)	(0.4)	(0.3)	(0.3)	(0.2)	(0.1)	(▲0.0)	(▲0.1)
Central Government	▲14.9	▲9.8	▲15.6	▲14.7	▲12.5	▲11.6	▲11.4	▲10.9	▲11.0	▲9.5	▲9.8	▲10.1	▲10.6	▲11.0	▲11.5	▲12.1	▲12.5
(ratio to nominal GDP)	(▲2.3)	(▲1.5)	(▲2.3)	(▲2.1)	(▲1.7)	(▲1.5)	(▲1.5)	(▲1.4)	(▲1.4)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.2)	(▲1.3)	(▲1.3)	(▲1.3)	(▲1.3)
Local Government	3.6	8.1	11.3	13.5	14.0	13.9	13.9	13.7	13.6	13.4	13.1	12.9	12.7	12.5	12.1	11.7	11.3
(ratio to nominal GDP)	(0.6)	(1.2)	(1.6)	(1.9)	(1.9)	(1.9)	(1.8)	(1.8)	(1.7)	(1.6)	(1.6)	(1.5)	(1.5)	(1.4)	(1.3)	(1.3)	(1.2)
Fiscal Balance	▲16.4	▲7.4	▲13.4	▲10.6	▲10.6	▲12.3	▲14.7	▲16.8	▲19.4	▲20.3	▲22.8	▲25.2	▲27.3	▲29.4	▲31.5	▲33.6	▲35.7
(ratio to nominal GDP)	(▲2.5)	(▲1.1)	(▲1.9)	(▲1.5)	(▲1.4)	(▲1.6)	(▲1.9)	(▲2.2)	(▲2.4)	(▲2.5)	(▲2.8)	(▲3.0)	(▲3.2)	(▲3.3)	(▲3.5)	(▲3.7)	(▲3.8)
Central Government	▲19.3	▲14.6	▲23.7	▲23.2	▲23.5	▲25.1	▲27.3	▲29.2	▲31.6	▲32.2	▲34.4	▲36.5	▲38.4	▲40.2	▲41.9	▲43.6	▲45.3
(ratio to nominal GDP)	(▲3.0)	(▲2.2)	(▲3.4)	(▲3.2)	(▲3.2)	(▲3.3)	(▲3.6)	(▲3.7)	(▲4.0)	(▲4.0)	(▲4.2)	(▲4.3)	(▲4.5)	(▲4.6)	(▲4.7)	(▲4.8)	(▲4.9)
Local Government	2.9	7.2	10.3	12.6	13.0	12.7	12.6	12.4	12.2	11.9	11.6	11.3	11.1	10.8	10.4	10.0	9.6
(ratio to nominal GDP)	(0.4)	(1.1)	(1.5)	(1.8)	(1.8)	(1.7)	(1.7)	(1.6)	(1.5)	(1.5)	(1.4)	(1.3)	(1.3)	(1.2)	(1.2)	(1.1)	(1.0)
Outstanding Debt	1251.8	1270.2	1304.3	1324.1	1346.4	1371.9	1400.5	1430.7	1463.9	1498.3	1535.5	1575.1	1616.7	1660.3	1705.8	1753.0	1802.1
(ratio to nominal GDP)	(194.7)	(189.8)	(189.2)	(184.9)	(183.8)	(183.3)	(183.2)	(183.4)	(183.8)	(184.4)	(185.2)	(186.2)	(187.4)	(188.8)	(190.4)	(192.1)	(193.9)
Central Government	1086.5	1109.5	1150.1	1174.7	1202.1	1232.3	1265.3	1299.4	1336.0	1373.3	1413.1	1455.0	1498.6	1543.9	1590.9	1639.6	1690.0
(ratio to nominal GDP)	(169.0)	(165.7)	(166.8)	(164.0)	(164.1)	(164.6)	(165.5)	(166.5)	(167.8)	(169.0)	(170.5)	(172.0)	(173.7)	(175.6)	(177.5)	(179.6)	(181.8)
Local Government	165.2	160.8	154.3	149.4	144.4	139.6	135.2	131.4	127.9	124.9	122.3	120.1	118.1	116.4	114.9	113.5	112.1
(ratio to nominal GDP)	(25.7)	(24.0)	(22.4)	(20.9)	(19.7)	(18.6)	(17.7)	(16.8)	(16.1)	(15.4)	(14.8)	(14.2)	(13.7)	(13.2)	(12.8)	(12.4)	(12.1)

- Notes
- In “General Account of Central Government,” FY2024, FY2025, and FY2026 are based on the settlement, provisional settlement, and the supplementary budget, respectively. In “Ordinary Account of Local Government,” FY2024 is based on the settlement.
 - 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.”
 - In “General Account of Central Government,” “Other Revenues” in FY2024 and FY2025 consists of non-tax revenues and surplus of preceding fiscal year, totaling approximately 23.6 trillion yen and 23.7 trillion yen, respectively, minus carried-forward funds to the next fiscal year (approximately 10.2 trillion yen and 12.2 trillion yen, respectively).
 - In “General Account of Central Government,” the additional central government spending assumed FY2027 onwards is included in the volume of “Expenditures” and “Policy Expenditures.” However, as the additional spending is not included in “Social Security-related Expenditures,” “Local Allocation Tax Grants, etc.,” and “Others,” the sum of those expenditures does not match the “Policy Expenditures.” Note that expenditures regarding defence capacity buildup in FY2027 and national resilience FY2027 onwards are included in “Others.”
 - 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 growth rate, the CPI growth rate, and others are based on the "Annual Report on National Accounts for 2024," etc. until FY2024, "Quarterly Estimates of GDP for Jan. –Mar. 2026 (The Second Preliminary Estimates)" etc. for FY2025, and the "Mid-Year Economic Projection for FY 2026," etc. for FY2026 and FY2027.

(1) Macroeconomy

Growth Strategy Achieved (GA) Case I

a) Total Factor Productivity (TFP) Growth Rate

- The TFP growth rate increases to 1.1% over roughly the next five years and to 1.4% over roughly five years thereafter.

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 86% in FY2025 to 95% in FY2040, that among males aged 65-69 gradually rises from around 66% in FY2025 to 85% in FY2040, and that among females aged 65-69 gradually rises from around 47% in FY2025 to 66% in FY2040.

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 2.9% annually from FY2028 to FY2030, based on the "World Economic Outlook" (WEO) by the IMF (April 2026). 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 (April 2026). From FY2031 onwards, it remains constant, at around 1.9%.

<Crude Oil Prices>

Based on the assumptions of the Cabinet Office's "Mid-Year Economic Projection for FY 2026," the crude oil price is set to \$85.4 per barrel in FY2027 (-7.7% compared with the previous year) and remains constant from then onwards.

Growth Strategy Achieved (GA) Case II

Differences from GA Case I are as follows:

a) Total Factor Productivity (TFP) Growth Rate

- The TFP growth rate increases to 1.1% over roughly the next five years and then remains flat.

Projection of Current Trend (PC) Case

Differences from GA Case I are as follows:

a) Total Factor Productivity (TFP) Growth Rate

- The TFP growth rate stays around 0.6% (Average from Oct-Dec 2012 to Jan-Mar 2026).

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 86% in FY2025 to 94% in FY2040, that among males aged 65–69 gradually rises from around 66% in FY2025 to 80% in FY2040, and that among females aged 65–69 gradually rises from around 47% in FY2025 to 62% in FY2035.

(2) Revenue

- Tax revenues of the general account of the central government in FY2024 reflect the “FY2024 Settlement,” those in FY2025 reflect the “FY2025 Provisional Settlement” and those in FY2026 reflect the “FY2026 Supplementary Budget.”
- Based on the “Act for Partial Amendment of the Income Tax Act, etc.” (Act Number 12, 2026), 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 Provisional Settlement” and those in FY2026 reflect the “FY2026 Supplementary Budget.”
- From FY2027, the social security expenditures increase, reflecting the population aging 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.
- Considering the “‘Strong and Prosperous Japan’ Investment Framework” that the government indicates to establish in the “Basic Policy 2026,” it is assumed that the central government spends additional expenses every year. The projections assume that this additional government spending includes: Projects other than the separately-managed portion of the “‘Strong and Prosperous Japan’ 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; and the portion of permanent programs in the supplementary budgets that will be incorporated into the initial budget. Because many of the specifics for additional government expenses not being determined at present (e.g., public/private investment schedule, breakdowns of strategic investments, demarcation from the separately-managed portion), the central government's additional spending is assumed to remain constant at 10 trillion yen in real terms, per fiscal year from FY2027 onwards. More precisely, the central government additional spending is assumed to

be 10 trillion yen in FY2027, which includes expenditures for projects to enhance national resilience (central government spending 2.1 trillion yen), and increase along with the CPI and wage growth rate, in line with other general expenditures. 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.

- 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, increasing along with the CPI and wage growth rate after the plan. A part of the expenditure disbursed from the general account of the central government is assumed to be included in the additional government spending.

(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 years' 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 the expenditures is mechanically allocated from FY2026 to FY2027 based on past budget allocations (Note that the expenditures of general account of the central government in FY2026 reflect 2026 budget.). 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,” “FY2024 Supplementary Budget,” “FY2025 Supplementary Budget,” and “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 income tax, 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 expenditure increases 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,” “FY2024 Supplementary Budget,” “FY2025 Supplementary Budget,” and “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. The separately-managed portion of the “Strong and Prosperous Japan Investment Framework,” indicated in the “Basic Policy 2026,” whose advance funding is made possible through the issuance of bonds issued as bridging finance and whose financial resources are secured on a multiple-year basis, are not included in this projection.

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 Supplementary 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 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 expenditure 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)]

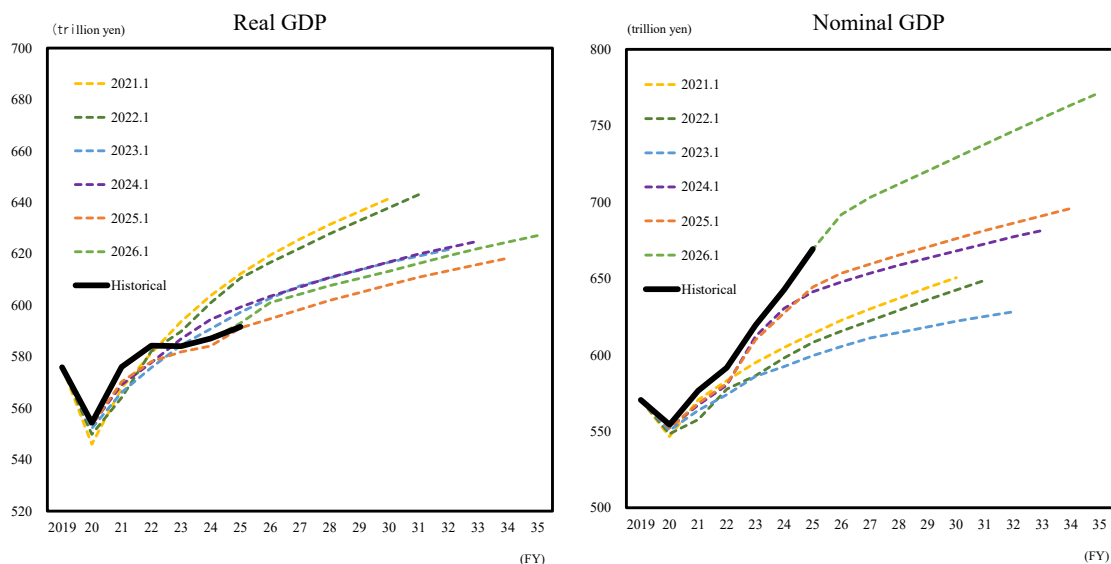
GA Case I		Projection																	%
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
General Government	-1.4	0.2	-0.6	0.0	0.3	0.2	0.0	-0.2	-0.4	-0.4	-0.6	-0.8	-0.9	-1.1	-1.3	-1.4	-1.6		
Households	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0		
Firms	4.0	2.7	2.8	2.3	1.9	1.6	1.3	1.1	0.9	0.7	0.6	0.5	0.3	0.1	0.0	-0.1	-0.3		
Overseas	-4.5	-5.1	-4.4	-4.5	-4.4	-3.9	-3.5	-3.1	-2.7	-2.4	-2.0	-1.8	-1.4	-1.1	-0.8	-0.4	-0.1		
GA Case II																			%
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
General Government	-1.4	0.2	-0.6	0.0	0.3	0.2	0.0	-0.2	-0.4	-0.4	-0.7	-0.9	-1.0	-1.2	-1.4	-1.6	-1.8		
Households	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0	2.0	2.0		
Firms	4.0	2.7	2.8	2.3	1.9	1.6	1.3	1.1	1.0	0.7	0.6	0.5	0.4	0.3	0.2	0.1	-0.1		
Overseas	-4.5	-5.1	-4.4	-4.5	-4.4	-3.9	-3.5	-3.1	-2.7	-2.4	-2.0	-1.8	-1.5	-1.1	-0.8	-0.5	-0.1		
PC Case																			%
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
General Government	-1.4	0.2	-0.6	0.0	0.1	-0.1	-0.3	-0.5	-0.8	-0.9	-1.3	-1.6	-1.8	-2.1	-2.3	-2.6	-2.9		
Households	2.0	2.2	2.2	2.2	2.2	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.0		
Firms	4.0	2.7	2.8	2.3	2.3	2.2	2.1	2.0	1.9	1.8	1.7	1.6	1.6	1.6	1.6	1.6	1.6		
Overseas	-4.5	-5.1	-4.4	-4.5	-4.6	-4.3	-3.9	-3.6	-3.2	-3.0	-2.5	-2.2	-1.9	-1.6	-1.3	-1.0	-0.7		

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

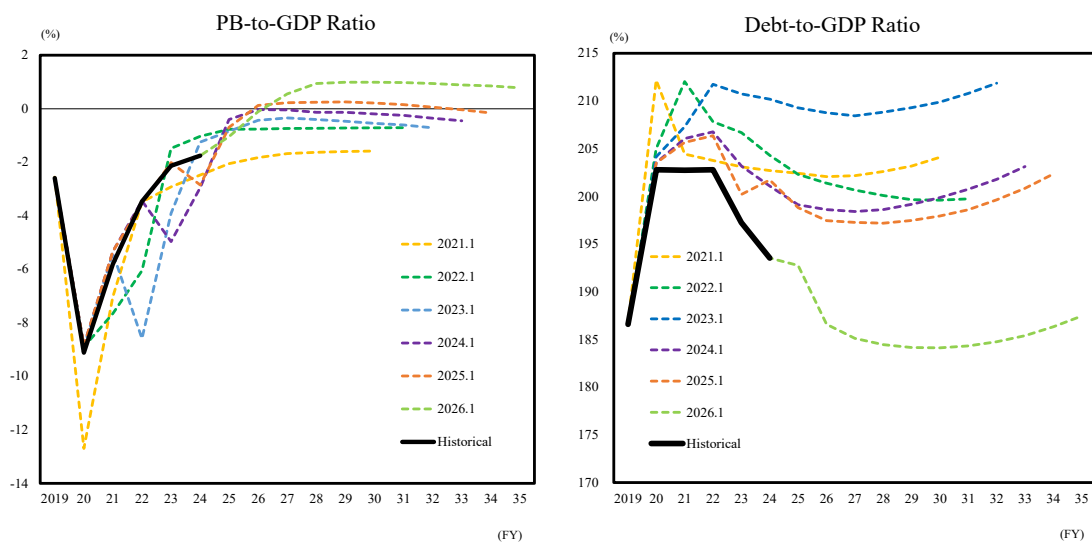
[GNI]

GA Case I			Projection															(%), ten thousand Yen	
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
Nominal GNI per Capita	551.4	576.7	599.4	626.1	645.6	665.2	686.1	708.8	733.6	760.8	789.7	819.1	850.5	883.5	917.7	953.4	990.3		
Real GNI Growth Rate	(1.1)	(1.3)	(0.6)	(1.3)	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.5)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)	(1.6)		
GA Case II			Projection															(%), ten thousand Yen	
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
Nominal GNI per Capita	551.4	576.7	599.4	626.1	645.6	665.2	686.1	708.8	733.3	759.6	786.6	814.0	842.2	871.6	901.6	932.8	964.8		
Real GNI Growth Rate	(1.1)	(1.3)	(0.6)	(1.3)	(0.7)	(0.7)	(0.9)	(1.1)	(1.2)	(1.4)	(1.4)	(1.3)	(1.2)	(1.2)	(1.2)	(1.1)	(1.1)		
PC Case			Projection															(%), ten thousand Yen	
FY	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040		
Nominal GNI per Capita	551.4	576.7	599.4	626.1	642.7	659.7	676.8	694.2	711.7	730.0	748.6	766.8	786.0	804.8	823.5	842.4	861.5		
Real GNI Growth Rate	(1.1)	(1.3)	(0.6)	(1.3)	(0.4)	(0.4)	(0.4)	(0.4)	(0.3)	(0.5)	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)		

(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 FY2028, the average of the estimates in the PC Case is the same as the “Lower Average” in the private sector forecasts, while those of the average in FY2033-FY2037 in GA Case I and II are higher than the “Higher Average” in the private sector forecasts.

As for the CPI growth rate after FY2028, the averages of all cases are almost the same as that of the “Higher Average” in the private sector forecasts.

Real GDP Growth Rate (FY, Appx%)

		2026	27	28-32 average	33-37 average
Cabinet office “Medium to Long Term Analysis”	GA Case I	0.9	1.1	1.1	1.7
	GA Case II	0.9	1.1	1.1	1.4
	PC Case	0.9	1.1	0.4	0.4
Private Sector Forecasts (ESP Forecast)	Higher Average	0.9	1.2	1.1	1.1
	Average	0.7	0.9	0.8	0.7
	Lower Average	0.5	0.7	0.5	0.3

Consumer Price Index Growth Rate (FY, Appx%)

		2026	27	28-32 average	33-37 average
Cabinet office “Medium to Long Term Analysis”	GA Case I	2.2	2.1	2.1	2.0
	GA Case II	2.2	2.1	2.1	2.0
	PC Case	2.2	2.1	2.1	2.0
Private Sector Forecasts (ESP Forecast)	Higher Average	2.6	2.6	2.2	2.2
	Average	2.3	2.3	1.9	1.8
	Lower Average	1.9	2.1	1.5	1.3

(Notes) FY2026 and FY2026 private-sector forecasts are based on the Japan Center for Economic Research's “ESP Forecast Survey” (July 2026); FY2028–2032 and FY2033–2037 are based on long-term forecasts from the same survey (June 2026). 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.