

[Provisional Translation]

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

July 30th, 2026
Cabinet Office

Role of the Economic and Fiscal Projections for Medium to Long Term Analysis (July 2026)

- Based on the “Medium- to Long-Term Economic and Fiscal Projections under Japan’s Growth Strategy” (released on June 24, 2026. hereinafter “Growth Strategy projection”), projections for Japan's economic and fiscal developments until FY2040 are made.
- Projections have been prepared for three scenarios—“Growth Strategy Achieved Case I,” “Growth Strategy Achieved Case II,” and “Projection of Current Trend Case”—based on the degree to which the effects of Japan's Growth Strategy materialize.
- The projections assume that this additional government spending includes:
 - Projects other than the separately-managed portion (*1) 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;
 - 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 spending cannot be determined at present (e.g., public/private investment schedule, breakdown of strategic investments, classification relative to the separately-managed portion), the central government’s additional spending is assumed to remain constant at 10 trillion yen in real terms, without any presumption, per fiscal year from FY2027 onwards. (*3) In the lead-up to the end of 2026, the government, now moving forward with budget formulation under a new fiscal framework, will examine the amount of public-private investment and the budget required for it. The debt-to-GDP ratio and other indicators will then be re-assessed, in line with the result of the budget formulation. Because the details of the expenditures have not yet been determined, the projections assume that the spending will be divided equally, with half allocated to public demand and the other half to subsidies to lower companies’ capital costs.
- Changes of economic and fiscal situations reflected from the January projection and the Growth Strategy projection are as follows:

(*2)

	January projection (Growth Strategy projection)	July projection
Economy	The Fiscal Year 2026 Economic Outlook (FY2025-2026: Economic Outlook)	Mid-Year Economic Projection for FY2026 (FY2025: historical, FY2026-2027: Mid-Year Projection)
Public Finance	The Supplementary Budget for FY2025 and Initial Budget for FY2026	The Provisional Settlement for FY2025 and the Supplementary Budget for FY2026 Expenditures and revenues are estimated based on the variances of FY2025 data (expenditure: unused budget and carried-forward funds, revenues: upswing of tax revenue etc.)

(*1) The “Basic Policy on Economic and Fiscal Management and Reform 2026,” proposes that, in the case of programs whose advance funding is made possible through the issuance of bonds issued as bridging finance backed by dedicated redemption sources, both expenditures and financing be excluded and managed separately when considering indicators such as the debt-to-GDP ratio and the primary balance. Accordingly, in these projections, 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.

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

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

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

Scenarios of the Economic and Fiscal Projections for Medium to Long Term Analysis

- Projections have been prepared for three scenarios based on the degree to which the effects of Japan's Growth Strategy materialize.
 - (1) **Growth Strategy Achieved Case I (GA Case I)**
 - In GA Case I, in addition to increased demand from additional government spending, positive effects arise from investments made under the Public-Private Investment Roadmap and so on, with sizeable benefits stemming from investment in R&D and greater efficiency in the allocation of productive resources also materializing. Corporate capital stock increases significantly as the expected rate of return on firms' investments rises over the medium- to long-term through the introduction of AI and the commercialization of state-of-the-art innovative technologies, inducing substantial domestic private investment. The TFP growth rate increases to 1.1% over roughly the next five years and to 1.4% over the roughly five years thereafter. (*1)
 - The labor participation rate is assumed to increase especially among women and the elderly.
 - The CPI growth rate is projected to converge to around 2%.
 - (2) **Growth Strategy Achieved Case II (GA Case II)**
 - In GA Case II, in addition to increased demand from additional government spending, positive effects arise from investments made under the Public-Private Investment Roadmap and so on. The expected rate of return on firms' investments rises over the medium term because of the introduction of AI, leading to greater domestic private investment. However, uncertainties regarding technology and the market result in less growth materializing than in GA Case I above. The TFP growth rate increases to 1.1% over roughly the next five years and then remains flat.
 - The labor participation rate is assumed to increase at the same pace as in GA Case I.
 - The CPI growth rate is projected to converge to around 2%.
 - (3) **Projection of Current Trend Case (PC Case)**
 - In the PC Case, only the increased demand from additional government spending materializes. The expected rate of return on firms' investments does not increase, leading to domestic private investment remaining in line with past trends. The TFP growth rate stays in the mid-0% range, broadly in line with historical levels. (*2)
 - The labor participation rate is assumed to increase more moderately than in GA Cases I and II.
 - The CPI growth rate is projected to converge to around 2%.

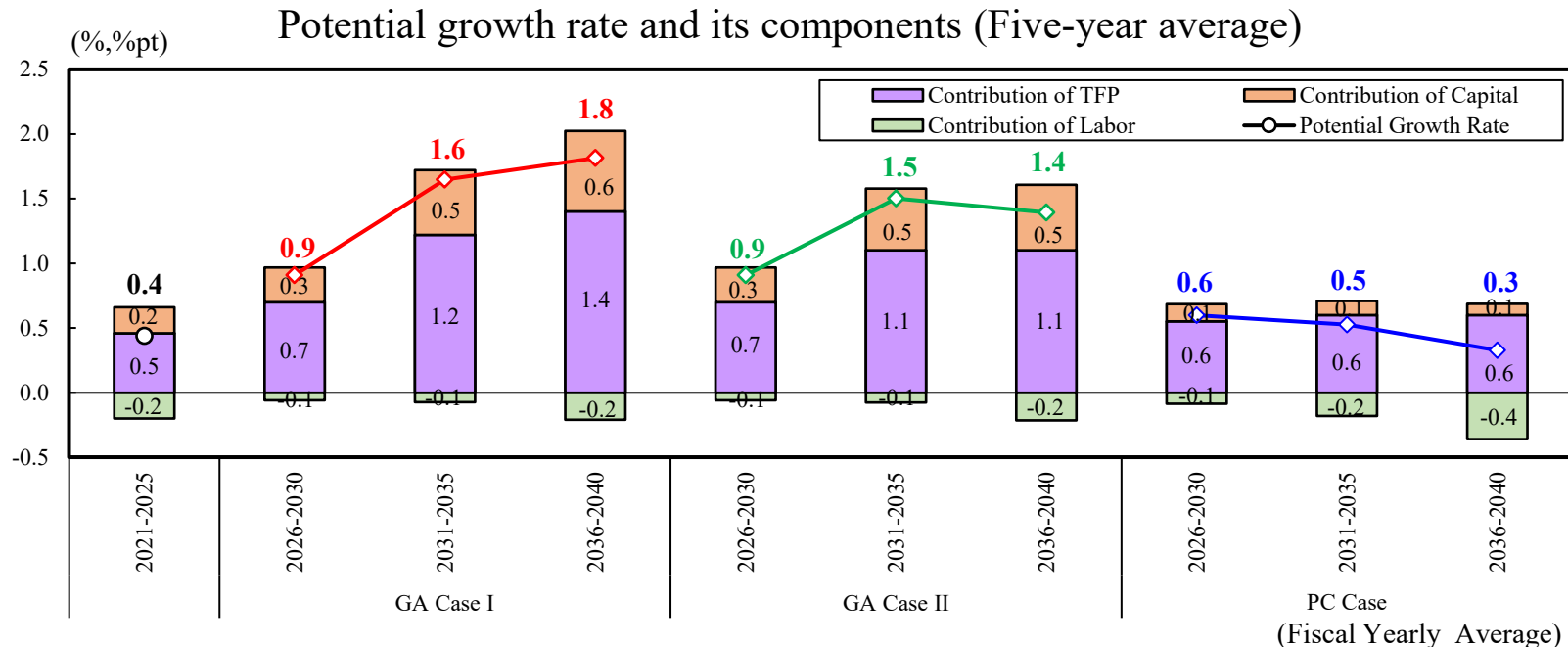
(*1) Total Factor Productivity (TFP) represents the increase in value added that is not attributable to an increase in capital or labor. It includes a reflection of technological progress, improved worker skills, and more efficient allocation of productive resources. For more information on the impact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

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

(*3) It assumes a long-term interest rate of 2.7% for FY2026 (fiscal year average, assuming the average rate of 2.77% for July 1 to July 16 in 2026 continues until the end of FY2026). The June Growth Strategy projection assumed a rate of 2.6%.

Potential Growth Rate and Its Components

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

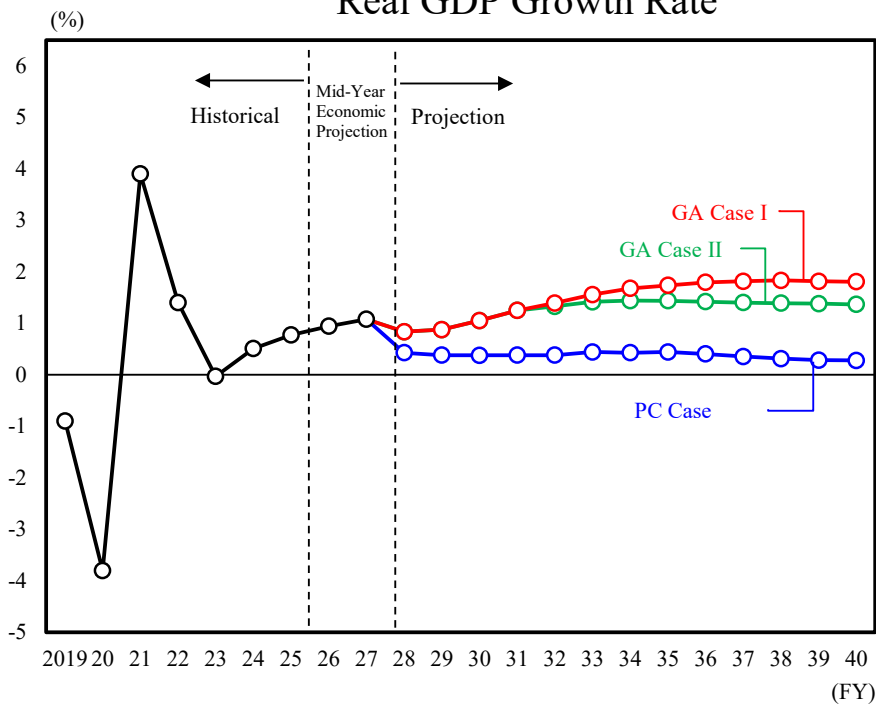


(Note) Historical data are Cabinet Office estimates based on the "Quarterly Estimates of GDP for Jan.–Mar. 2026 (The Second Preliminary Estimates)."

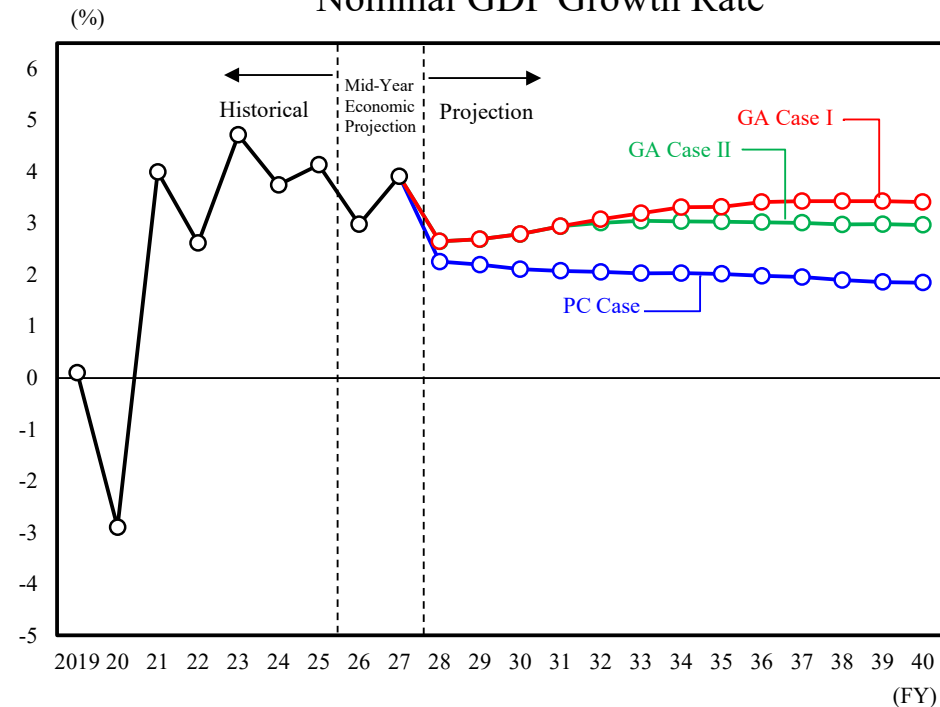
Macroeconomic Projection

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

Real GDP Growth Rate

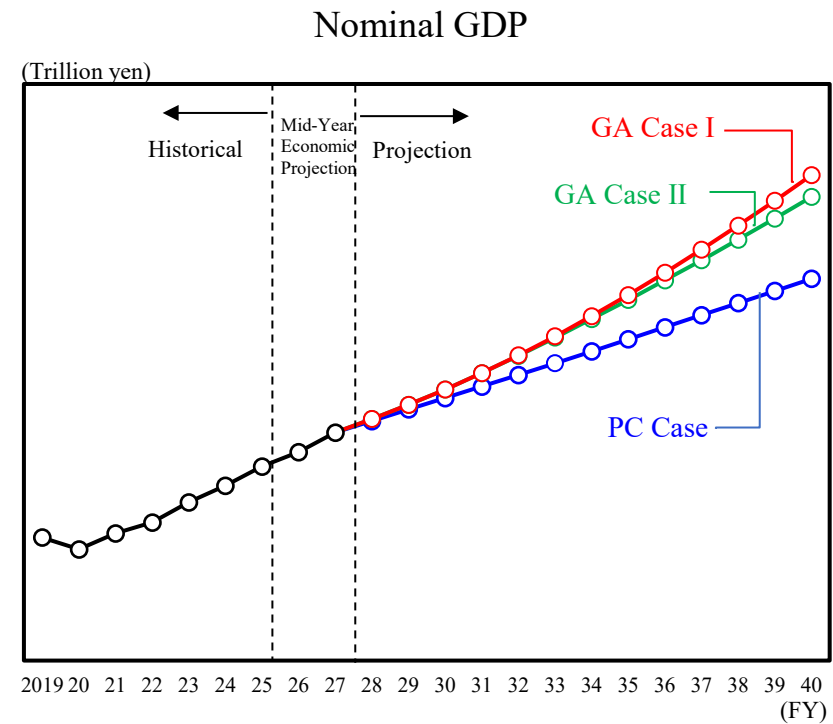
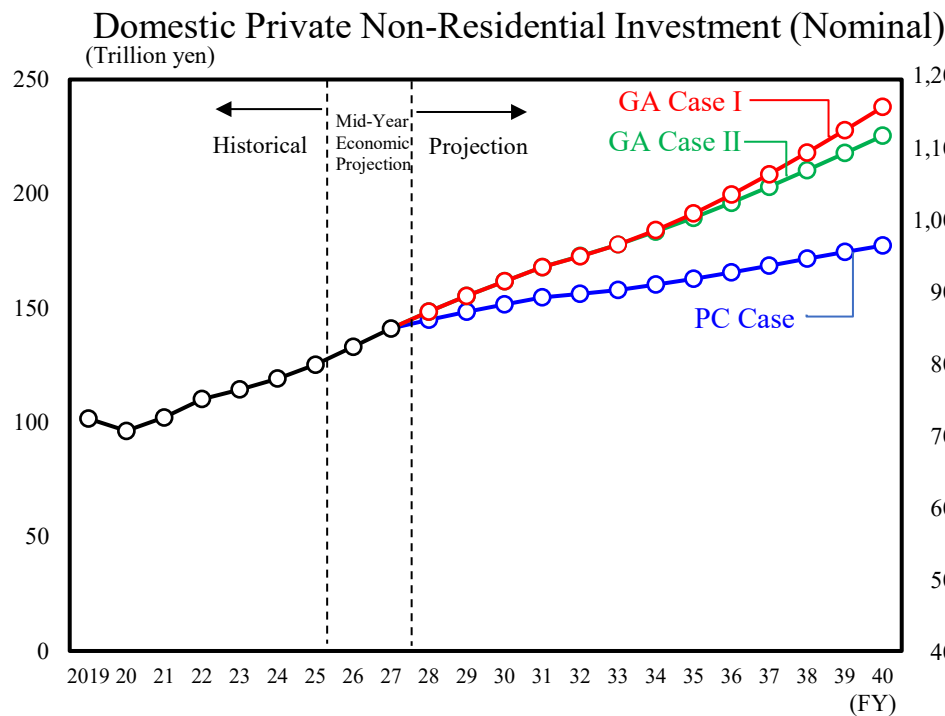


Nominal GDP Growth Rate



Domestic Private Non-Residential Investment and Nominal GDP

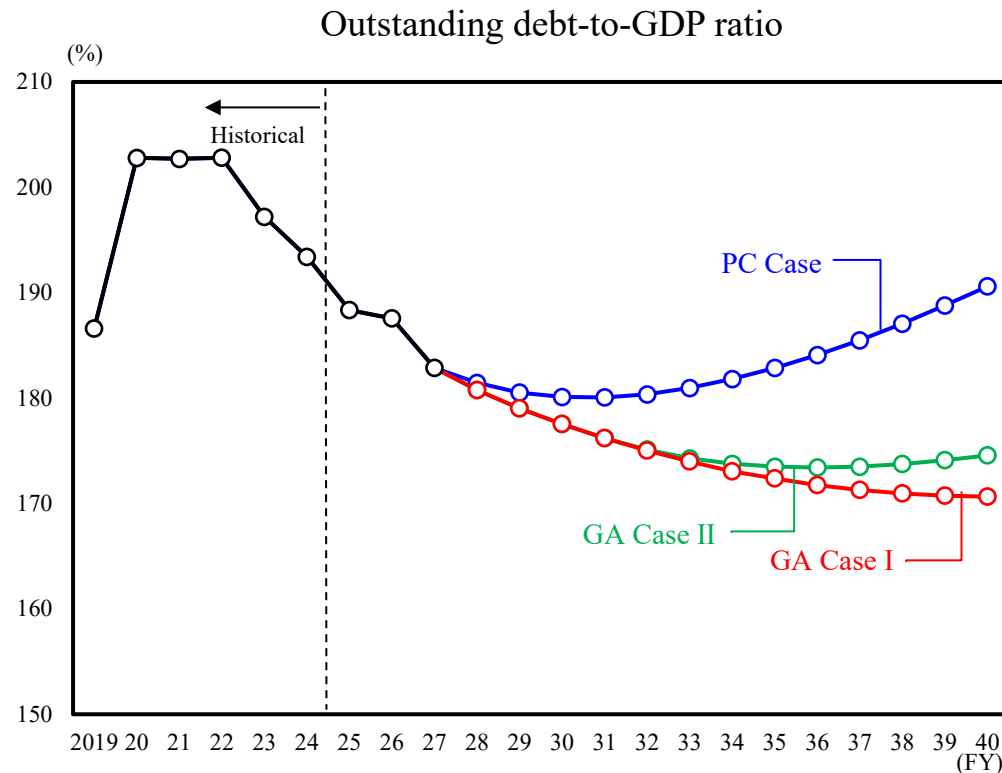
- In GA Case I, corporate capital stock accumulates substantially as the expected rate of return on firms' investments rises over the medium- to long-term. Domestic private non-residential investment increases to about 240 trillion yen, approaching the new target set by Basic Policy 2026 (250 trillion yen in FY2040). Driven by non-residential investment, nominal GDP rises towards 1.1 quadrillion yen in FY2040.
- In GA Case II, domestic private non-residential investment increases to more than 220 trillion yen in FY2040. Nominal GDP in GA Case II rises to more than 1.04 quadrillion yen in FY2040.
- In the PC Case, domestic private non-residential investment and nominal GDP reach approximately 180 trillion yen and 930 trillion yen, respectively.



Outstanding Debt to Nominal GDP

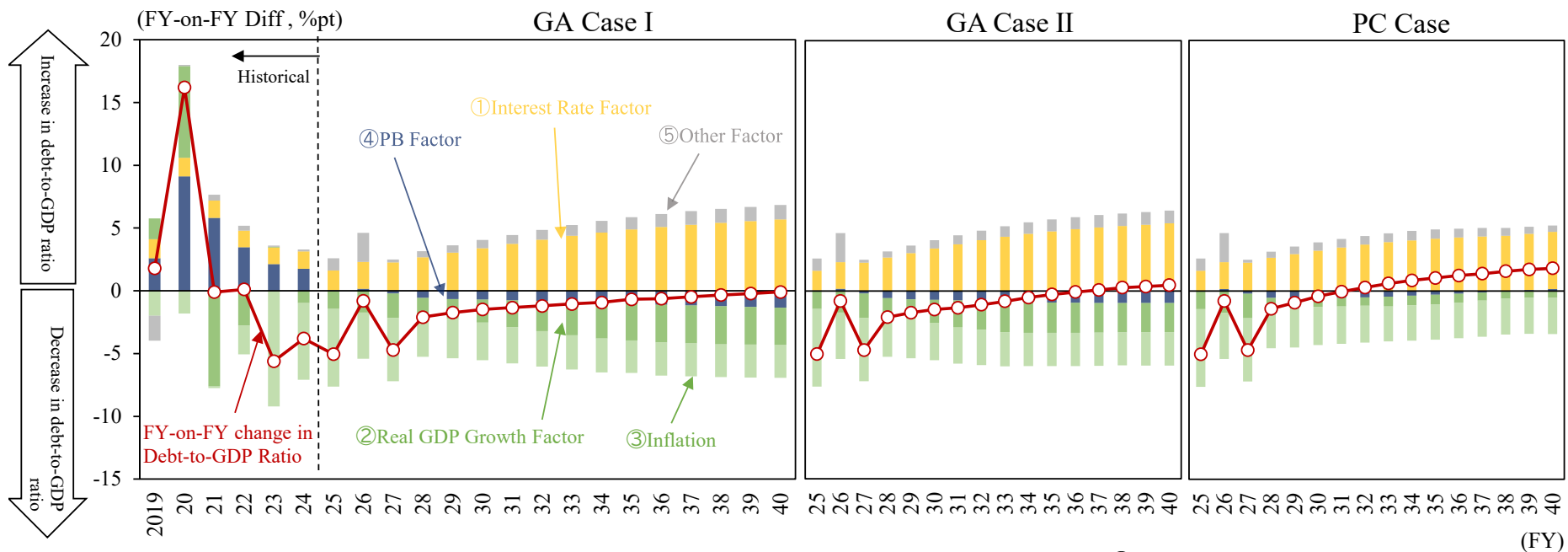
- In GA Case I, the debt-to-GDP ratio of central and local governments demonstrates a declining trend, followed by a smaller rate of decline in the latter half of the 2030s. In contrast, in GA Case II and the PC Case, the ratio transitions to an upward trajectory in the latter half of the 2030s and around FY2030, respectively.
- By incorporating the assumption of an additional 10 trillion yen (*) in government spending annually, the debt-to-GDP ratio declines in a broadly stable manner, contingent on sufficiently robust economic growth.

(*) When formulating the budget, expenditures allocated to the ‘ “Strong and Prosperous Japan” Investment Framework’ will include the separately managed expenditures with financial resources secured over multiple fiscal years.



Factors of Change in the Outstanding Debt to Nominal GDP

- The fiscal year-on-fiscal year (FY-on-FY) change in the outstanding debt to nominal GDP ratio is mainly driven by four factors: real GDP growth, inflation, the interest rate, and the PB.
- In the GA Case I, the ratio declines over the projection period in a broadly stable manner. This is because high real GDP growth, stable inflation, and surplus in the PB outweigh the negative factor of the interest rate. Note that the FY-on-FY change is expected to narrow as the contribution of the interest rate increases. The GA Case II shows similar trajectory until the debt-to-GDP ratio transitions to upwards in the latter half of the 2030s.
- In the PC Case, compared to the GA Case I and II, the contribution of the real GDP and the inflation factors are smaller. Combined with the interest rate factor increasing and the PB becoming in deficit in the latter half of the 2030s, the downward trend in the FY-on-FY change reverses after around FY2030.

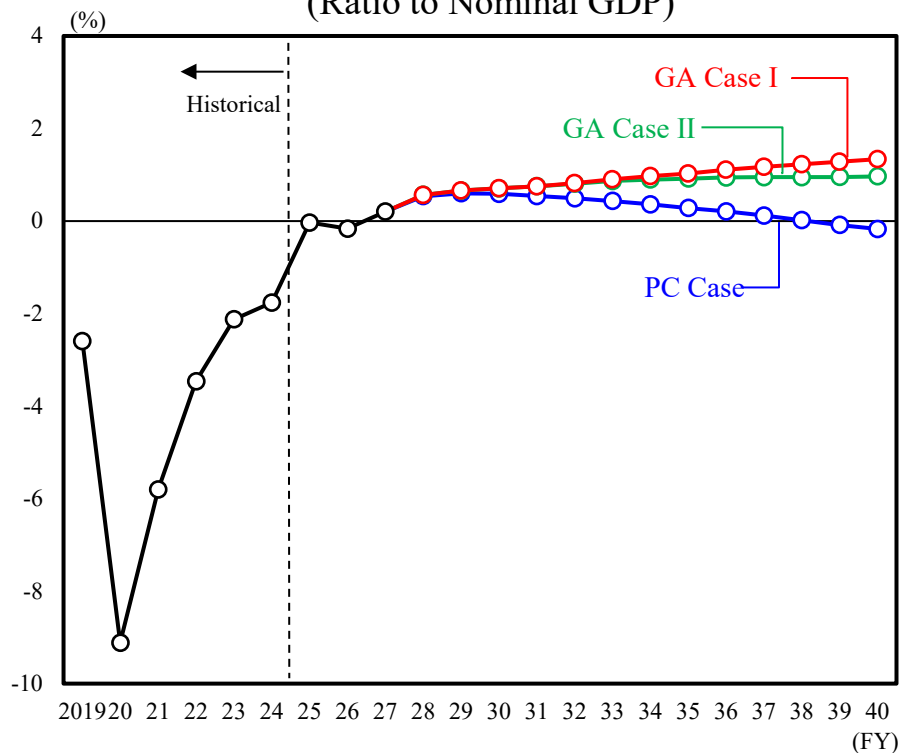


(Note) The fiscal year-on-fiscal year (FY-on-FY) difference in the outstanding debt-to-nominal GDP ratio can be decomposed into: ① the current effective interest rate multiplied by the previous year's debt-to-GDP ratio; ② the real GDP growth rate multiplied by the previous year's debt-to-GDP ratio (a deduction factor); ③ the GDP deflator growth rate multiplied by the previous year's debt-to-GDP ratio (a deduction factor); and ④ the current primary balance (PB) to nominal GDP ratio (a deduction factor). The nominal GDP in the denominators of ①–④ refers to nominal GDP in the current year. There are some ⑤ 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 FY2026, the residual is largely attributable to advance refunding bonds for refinancing in the following fiscal year.

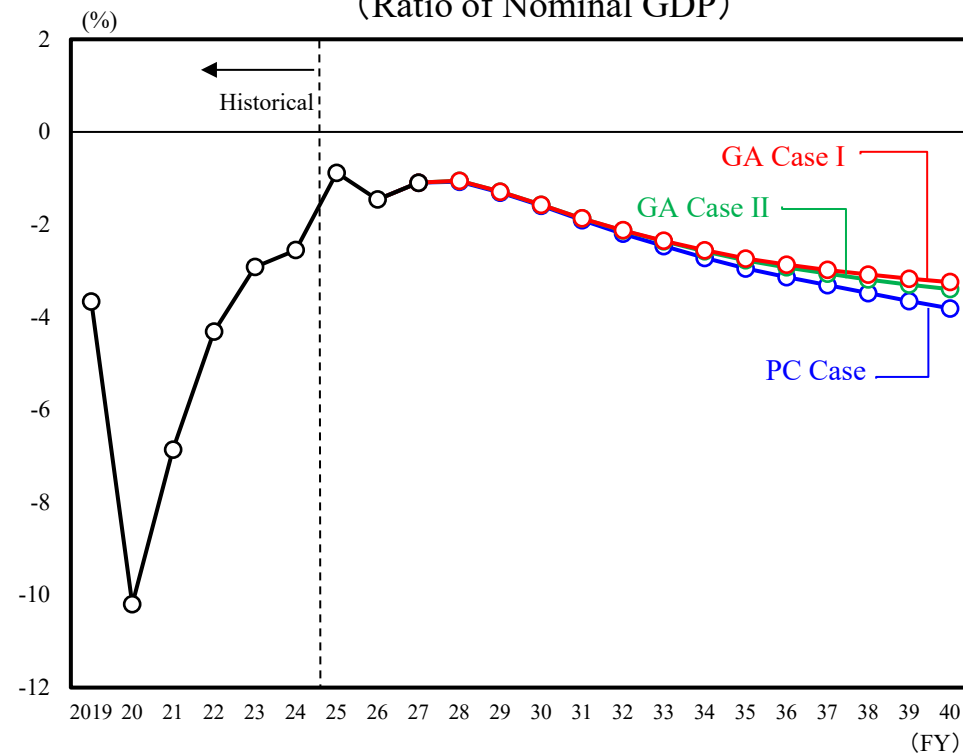
Primary Balance and Fiscal Balance to Nominal GDP

- After the PB of central and local governments becoming broadly balanced in the FY2025, it stays in surplus FY2027 onwards, continuing to improve over the projection period in the GA Case I and remaining at the same level in the GA Case II. In the PC Case, on the other hand, the PB gradually deteriorates, becoming in deficit around the latter half of 2030s.
- The fiscal balance of central and local governments moderately deteriorates towards FY2040 in the GA Case I and II, while steadily deteriorates in the PC Case.

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



Fiscal Balance of Central and Local Governments
(Ratio of Nominal GDP)



Details of the PB of Central and Local Governments

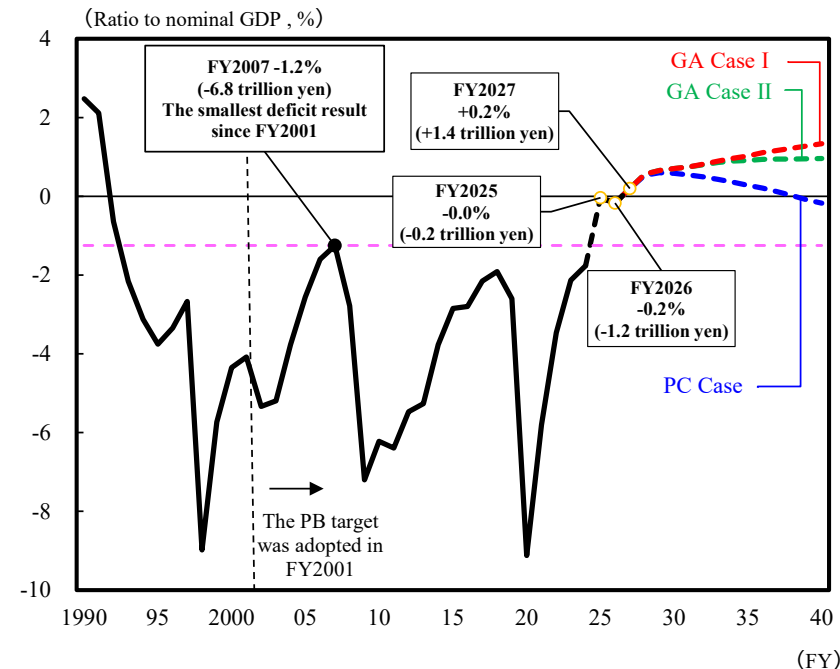
- In the Growth Strategy projection in June, the PB was projected to be a deficit of 7.0 trillion yen in FY2025, 0.8 trillion yen in FY2026, and 2.1 trillion yen in FY2027.
- Compared with the Growth Strategy projection, the PB in FY2025 is projected to improve, mainly due to an upswing of tax revenue, reflections of unused budget and carried-forward funds, and others, reflecting the Provisional Settlement. The PB in FY2026 slightly deteriorates due to an increase in expenditures from the Supplementary Budget and others, despite the improvement brought about by reflecting the assumption of underlying tax revenue growth. The PB in FY2027 also improves as a result of reflecting the assumption on the underlying tax revenue growth.
- The PB is projected to be broadly balanced in FY2025. It is projected to become surplus in the FY2027 contingent on the economic growth projected by the Cabinet Office's Mid-Year Economic Projection, even if the additional government spending of 10 trillion yen is assumed.
- Thereafter, the primary surplus becomes a certain surplus margin in the GA Case I and II. In the PC Case, on the other hand, it gradually shrinks, resulting in deficit in the latter half of the 2030s.

[Factors of the PB Revision in FY2025, FY2026, and FY2027]

(Appx. trillion Yen)

	PB in FY2025	PB in FY2026	PB in FY2027
Growth Strategy projection in June 2026	- 7.0	- 0.8	- 2.1
Factors on the revenue side			
- Upswing of tax revenue in FY2025 Settlement etc.	+ 4.9		
- Increase in the underlying tax revenue assumed		+ 3.3	+3.4
Factors on the expenditure side			
- The impact of FY2025 Settlement, including 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

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



- (Note) 1. Considerable leeway should be given when interpreting the left table, including assumptions on the projection. Figures in the table are rounded, so the sum of factors and the change of PB do not always match. The PB in the FY2027 of the June Growth Strategy projection is based on the GA Case I and II.
2. PB from FY1990 to FY1993 in the graph is derived from the data of 93SNA. The PB from FY2025 is a projection.