

'This newsletter is translated from the Japanese edition distributed on February 27th
Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Challenges Facing Post-deflation Monetary Policies, etc.

Global Risk Watch Vol.23
28 February 2017

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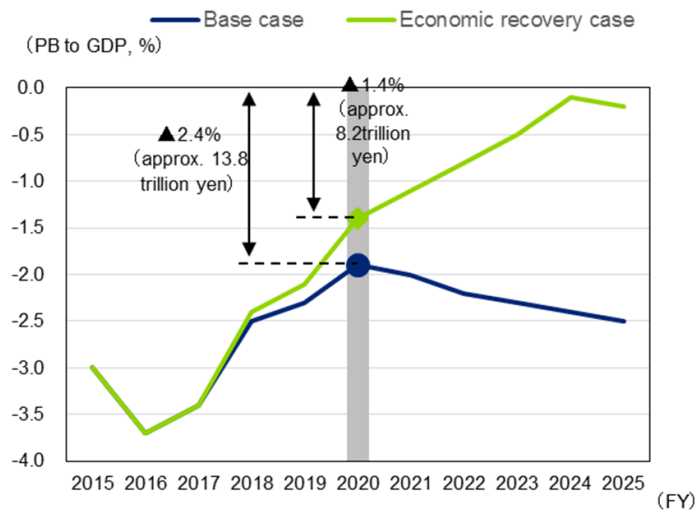
3. Highlight of Indicator for this Month

Reconsideration of Primary Balance Surplus Target (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

At the Council on Economic and Fiscal Policy, the Japanese government released the “Mid- to long-term estimation for economy and fiscal situations.” This document represents the government’s estimation of Japanese GDP and financial conditions based on assumptions. In this, trends in the primary balance (PB) of the central and local governments draw particular interests. Vis-a-vis PB, which is revenue and expenditure of the fiscal year’s state measures excluding interest payments on liabilities etc., the Japanese government aims for primary account surplus in FY 2020. To the contrary, the estimate presented at the Council shows that even if the economy recovers successfully at a high growth rate, the 2020 PB to nominal GDP would be at -1.4% (8.3 trillion JPY), missing the target (Chart 1).

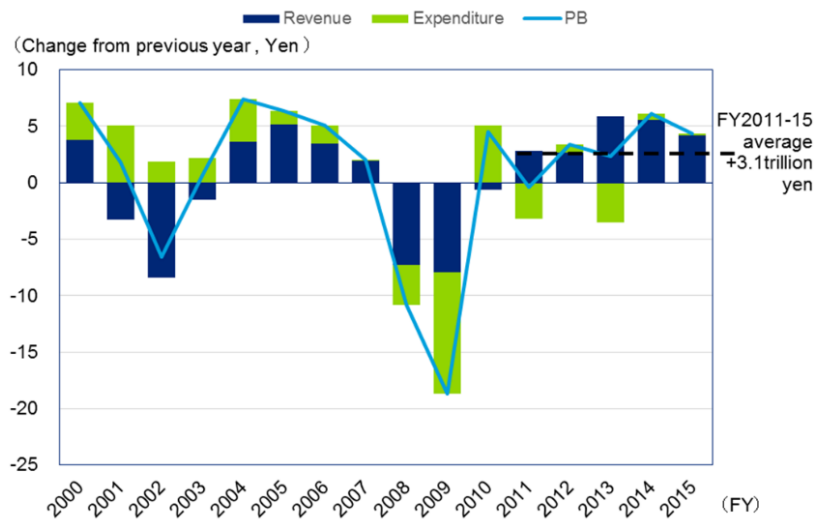
In order to think of the future trend, let’s look at the past trends of revenue and expenditure based on figures from the System of National Accounts. In addition to general accounts, these figures include special accounts as well as balances of local governments, and the national government’s target uses these as a basis. When looking at PB gaps in previous year by revenue and expenditure factors respectively, the past five years have observed over 3 trillion JPY increase on average thanks to growing revenue (Chart 2). However, the pace of growth seems to reach a plateau. Furthermore, the government estimates that FY 2016 will mark lower than the previous year. If FY 2016 is a starting point for the 2020 primary surplus goal, it would require strict fiscal management with an annual average revenues of some 5 billion JPY. While the government sets an ambitious target, some are sceptical of viability of consumption tax hike incorporated into the presumption. While expenditure cut is making little progress, the Japanese government’s arrangement and explanation remain intriguing as to a course to the surplus target as well as sustainability of government finances..

Chart1 : Primary Balance Outlook of the State and Regions



* Excluding the revenue and expenditure with respect to the Tohoku restoration
 * (Source) Cabinet Office "Mid- to long-term estimation for economy and fiscal situations," created by Deloitte Touche Tohmatsu LLC.

Chart2 : Primary Balance Trend of the State and Regions



*(Source) Cabinet Office "System of National Accounts," created by Deloitte Touche Tohmatsu LLC.

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