

What Lies Ahead for Japan's Primary Fiscal Balance?



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While the Cabinet of Prime Minister Sanae Takaichi advocates for a “responsible expansionary fiscal policy”, the fate of Japan’s primary fiscal balance (primary balance) is gaining attention. This is because while the Japanese government had thus far pursued its aim of achieving a primary budget surplus by fiscal 2025, the Takaichi government since its inception has abandoned a single-year target for achieving a primary budget surplus and has instead indicated a policy of seeking a balance over multiple years. For this article, let us view the outlook for Japan’s fiscal situation based on the “Economic and Fiscal Projections for Medium to Long Term Analysis” (Cabinet Office) which was released on Jan. 22, 2026, and others.

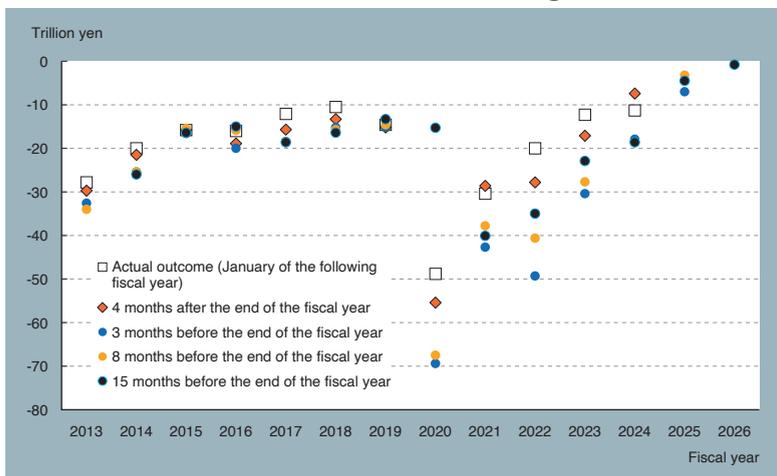
The Economic and Fiscal Projections for Medium to Long Term Analysis gives the economic and fiscal prospects for the next 10 years and is released twice a year. According to the latest projections released in January 2026, even under the “past trend projection scenario”, in which the Japanese economy continues to grow in line with its historical trend, the primary balance is expected to turn into a surplus in fiscal year 2027. In the previous projections published in July 2025, a primary balance surplus had been expected in fiscal year 2026; therefore, the achievement of a surplus has been delayed by one year.

Actual Outcomes Exceeding Projections

What is the reliability of this fiscal projection? *Chart 1* compares the fiscal projections and actual outcomes since 2013. Taking fiscal 2024 as an example, “15 months before the end of the fiscal year” was the projection released on Jan. 22, 2024, which was the period when the initial budget was debated at the Diet, “8 months before the end of the fiscal year” was the projection released on July 29, 2024, “3 months before the end of the fiscal year” was the projection released on Jan. 17, 2025, “4 months after the end of the fiscal year” was the projection released on Aug. 7, 2025, and “actual outcome” is the projection released this time.

Actual outcomes exceeded all projections at each point in time six times, for fiscal 2013, 2014, 2017, 2018, 2022 and 2023 (for fiscal 2013, there is no projection for January 2013 which corresponds to 15 months before the end of the fiscal year). Comparisons for 15 months before the end of the fiscal year showed that fiscal 2021 also exceeded the actual outcome. In contrast, the only year in which the actual outcome was significantly below the 15 months before the end of the fiscal year projection was fiscal year 2020 during the coronavirus pandemic.

CHART 1
Primary balance projections & actual outcomes of the central & local governments



Source: Cabinet Office “Economic and Fiscal Projections for Medium to Long Term Analysis”

Why Higher Than Expected Tax Revenue Exceeded Projections

What is the reason behind this discrepancy between the projections and the actual outcomes? Let us focus on the general account basis which allows for examining the breakdown of the fiscal projections. *Chart 2* compares the tax revenue projections and actual outcomes in the central government’s general account since 2013 (note that figures are actual outcomes as of July after the end of the fiscal year). Actual outcomes exceeded all projections for each point in time eight times for fiscal 2013, 2014, 2017, 2018, 2021, 2022, 2023, and 2024. This coincides with fiscal years when actual outcomes for the basic fiscal balance exceeded projections. This can be considered the primary reason for the increase in tax revenue exceeding projections.

On the other hand, while projections and actual outcomes were aligned until fiscal 2019 for expenditures, the primary fiscal balance for fiscal 2020

worsened significantly compared to actual outcomes (Chart 3). This can be understood to be because tax revenue dropped compared to projections and expenditures hugely increased compared to projections, due to measures against the coronavirus pandemic and other measures.

However, the degree to which it exceeds has been gradually decreasing since fiscal 2021. Takaichi has explained that the necessary budget was included in the initial budget, and thus if taken at face value, it can be expected that the gap between the projections 15 months before the end of the fiscal year and actual outcomes may narrow to levels prior to fiscal 2019.

Can Tax Revenue Projections Exceed Outcomes for Fiscal 2025 & 2026?

The tax revenue outlook for fiscal 2025 was 78.4 trillion yen, according to the projection released on Jan. 17, 2025 (15 months before the end of the fiscal year), but according to the projection which was released on Aug. 7, 2025 (eight months before the end of the fiscal year), it was revised downward to 77.8 trillion yen. According to the projection which was released this time at 80.7 trillion yen, it is an increase by 7.3% compared to fiscal 2024. The projection for fiscal 2026 is 83.7 trillion yen, up 3.7% compared to the fiscal 2025 this time.

Government tax revenue from fiscal 2021 to 2024 continued to exceed “15 months before the end of the fiscal year”. During this time, the actual outcome for the nominal GDP growth rate in the government’s economic outlook, which is said to form the basis for tax revenue projections, was below projections for fiscal 2021 and 2022. It can be interpreted as actual outcomes exceeding cautious tax revenue projections. On the other hand, actual outcomes exceeded government projections for fiscal 2023 and 2024, and it can be interpreted as tax revenue also exceeding projections due to growth surpassing the outlook.

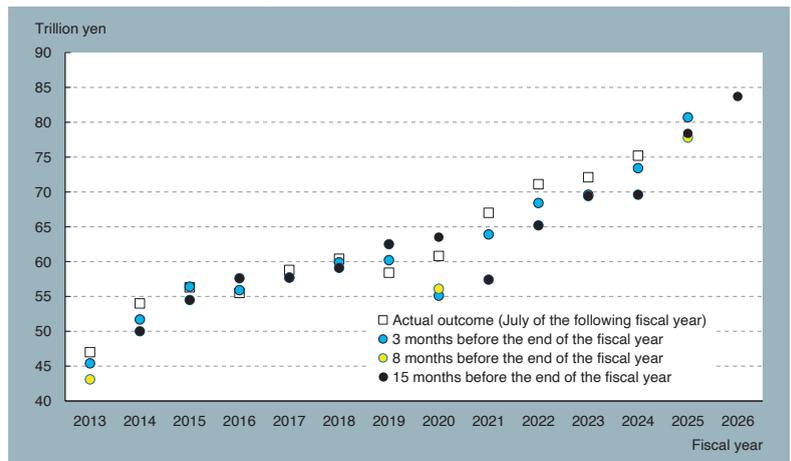
According to the government’s economic outlook approved by the Cabinet on Jan. 23, the projected actual nominal GDP growth rate for fiscal 2025 is 4.2%. In contrast, according to the “ESP Forecast” which was released on Jan. 15, the average forecast by private research institutions is 3.98% and the government outlook exceeds that of the private sector.

It is the same for fiscal 2026. While the initial outlook for the nominal GDP growth rate in the government economic outlook is 3.4%, the average forecast by private research institutions in the “ESP Forecast” is 2.79% and the government outlook is again exceeding the private sector.

Will actual outcomes also exceed outlooks for fiscal 2025 and 2026? We must first wait for the actual outcomes for the growth rate and tax revenue for fiscal 2025.

CHART 2

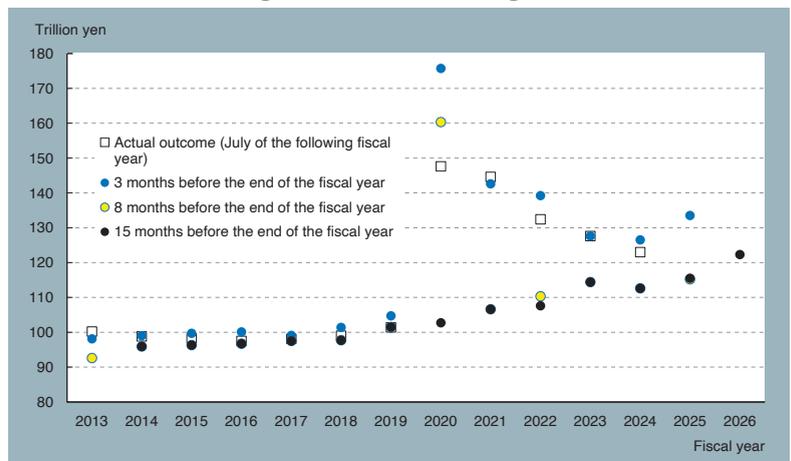
Tax revenue projections & actual outcomes in the central government’s general account



Source: Cabinet Office “Economic and Fiscal Projections for Medium to Long Term Analysis”

CHART 3

Expenditure projections & actual outcomes in the central government’s general account



Source: Cabinet Office “Economic and Fiscal Projections for Medium to Long Term Analysis”

The Takaichi administration has dissolved the House of Representatives, and a general election will be held on Feb. 8. By the time this *Japan SPOTLIGHT* March/April 2026 issue is published, the political situation may have changed, and the outlook for the fiscal balance could also be affected.

NOTE: This article was based on available information as of Jan. 26, 2026.

Article translated from the original Japanese by Mio Uchida

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2018	580.9	0.8	569.2	0.7	0.6	0.9
2019	579.1	-0.3	571.8	0.5	-2.6	0.6
2020	554.3	-4.3	554.1	-3.1	-10.4	-0.2
2021	574.0	3.6	573.6	3.5	5.4	-0.2
2022	581.7	1.3	584.9	2.0	-0.1	2.3
2023	585.9	0.7	616.0	5.3	-1.3	3.1
2024	584.5	-0.2	634.2	3.0	-2.6	2.5
2025	590.7	1.1	662.8	4.5	0.8	3.1
2025/1st Qtr.	590.3	0.3	651.8	0.9	-0.3	3.1
2nd Qtr.	593.3	0.5	665.3	2.1	0.4	3.5
3rd Qtr.	589.4	-0.7	665.1	0.0	0.1	2.9
4th Qtr.	589.7	0.1	668.9	0.6	0.8	2.8
2025/May	—	—	—	—	-0.1	3.7
June	—	—	—	—	2.1	3.3
July	—	—	—	—	-1.2	3.1
Aug.	—	—	—	—	-1.5	2.7
Sept.	—	—	—	—	2.6	2.9
Oct.	—	—	—	—	1.5	3.0
Nov.	—	—	—	—	-2.7	3.0
Dec	—	—	—	—	-0.1	2.4
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.5	39.6	18.3	23.1	11.8	31.9	9.4	22.0
2023	100.9	2.7	110.4	-6.8	20.3	11.0	11.6	-1.7	10.4	10.9
2024	107.1	6.2	112.7	2.1	21.3	5.1	12.7	9.8	10.0	-3.9
2025	110.4	3.1	113.1	0.3	20.4	-4.1	12.9	1.6	10.1	1.3
2025/1st Qtr.	26.9	7.4	28.5	5.8	5.3	7.1	3.1	-0.9	2.4	-7.6
2nd Qtr.	26.5	-0.0	27.1	-3.3	5.0	-8.1	3.1	-9.2	2.4	0.7
3rd Qtr.	27.2	0.4	27.8	-3.4	4.7	-12.3	3.3	5.4	2.5	2.1
4th Qtr.	29.9	4.9	29.7	2.4	5.4	-2.5	3.4	12.2	2.8	9.8
2025/May	8.1	-1.7	8.8	-7.7	1.5	-11.0	1.1	-13.5	0.8	4.9
June	9.2	-0.5	9.0	0.2	1.7	-11.4	1.0	-2.2	0.8	3.6
July	9.4	-2.6	9.5	-7.5	1.7	-10.1	1.1	-0.9	0.9	-3.4
Aug.	8.4	-0.1	8.7	-5.5	1.4	-13.7	1.1	11.6	0.8	5.6
Sept.	9.4	4.2	9.7	3.0	1.6	-13.3	1.1	6.8	0.9	5.0
Oct.	9.8	3.6	10.0	0.7	1.8	-3.1	1.2	21.0	0.9	9.2
Nov.	9.7	6.1	9.4	1.4	1.8	8.8	1.1	7.2	0.9	19.5
Dec	10.4	5.1	10.3	5.2	1.8	-11.1	1.1	8.5	1.0	2.5
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.5	11.4	131.4
2023	1.2	1.31	2.6	2.5	-6.6	22.3	140.5
2024	2.8	1.25	2.5	1.7	-3.7	28.7	151.5
2025	2.3	1.22	2.5	1.2	-0.8	31.9	149.6
2025/1st Qtr.	2.2	1.25	2.5	1.1	-1.7	7.3	152.5
2nd Qtr.	2.4	1.24	2.5	0.7	-0.1	6.7	144.5
3rd Qtr.	2.4	1.21	2.5	1.3	0.1	10.6	147.5
4th Qtr.	2.2	1.18	2.6	1.7	0.9	7.2	154.1
2025/May	1.4	1.24	2.5	0.6	-0.5	3.3	144.8
June	3.1	1.22	2.5	0.8	0.5	1.3	144.5
July	3.4	1.22	2.3	1.0	-0.2	2.6	146.9
Aug.	1.3	1.20	2.6	1.3	0.1	3.6	147.6
Sept.	2.1	1.20	2.6	1.5	0.2	4.4	147.9
Oct.	2.5	1.18	2.6	1.6	0.1	2.8	151.3
Nov.	1.7	1.18	2.6	1.7	0.6	3.7	155.1
Dec.	2.4	1.19	2.6	1.7	0.1	0.7	155.9
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	21.1	36.4	20.6	28.6	37.8	19.0	5.7	24.8	21.9
2023	11.4	-0.2	34.7	-4.6	27.6	-3.4	17.8	-6.5	24.4	-1.7
2024	12.0	4.7	38.0	9.4	28.6	3.7	18.9	6.2	25.3	3.6
2025	12.7	6.4	41.1	8.2	29.0	1.5	18.8	-0.4	26.7	5.5
2025/1st Qtr.	3.1	15.9	9.9	13.2	7.5	9.4	4.4	0.7	6.5	10.9
2nd Qtr.	3.2	7.0	9.8	6.6	6.8	-2.7	4.6	-4.7	6.4	3.2
3rd Qtr.	3.2	-1.6	10.3	4.9	7.2	-3.5	4.7	0.5	6.5	2.5
4th Qtr.	3.3	5.9	11.1	8.6	7.6	3.2	5.1	1.8	7.3	5.6
2025/May	1.1	7.3	3.0	5.5	2.1	-9.4	1.4	-8.8	2.1	-2.3
June	1.1	14.6	3.4	4.9	2.4	3.7	1.6	-4.7	2.1	5.3
July	1.1	5.7	3.5	1.4	2.4	-10.0	1.6	-3.5	2.2	-3.9
Aug.	0.9	-20.1	3.2	2.7	2.3	-2.9	1.5	-0.5	1.9	2.1
Sept.	1.1	11.1	3.6	10.7	2.6	2.8	1.6	5.8	2.4	9.8
Oct.	1.0	-9.0	3.5	5.3	2.6	0.3	1.7	2.1	2.5	0.8
Nov.	1.0	6.8	3.6	7.9	2.4	4.2	1.6	-2.5	2.4	2.4
Dec.	1.2	21.2	3.9	12.5	2.6	5.3	1.8	5.5	2.5	14.7
Sources	"Trade Statistics of Japan", Ministry of Finance									