

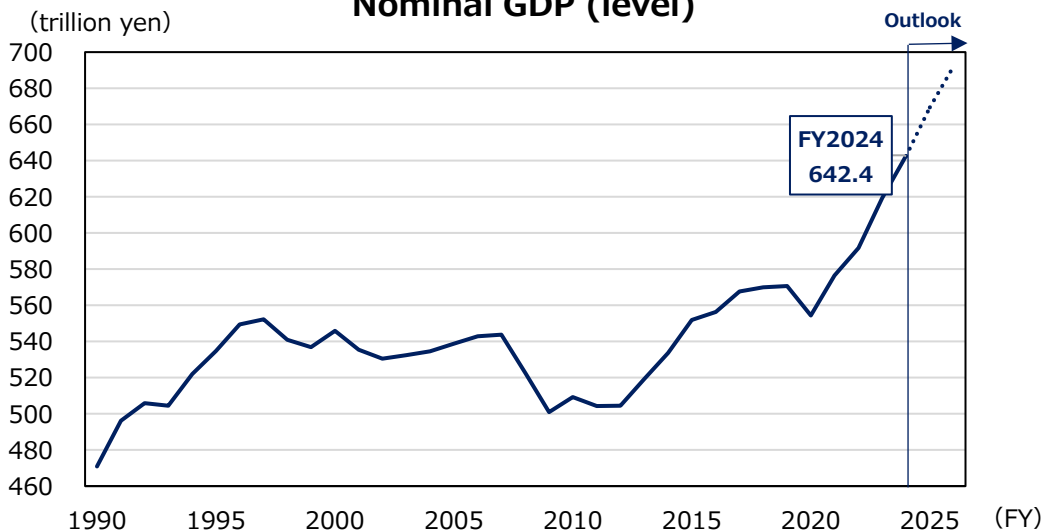


Japan's economic outlook and policies

January 15, 2026

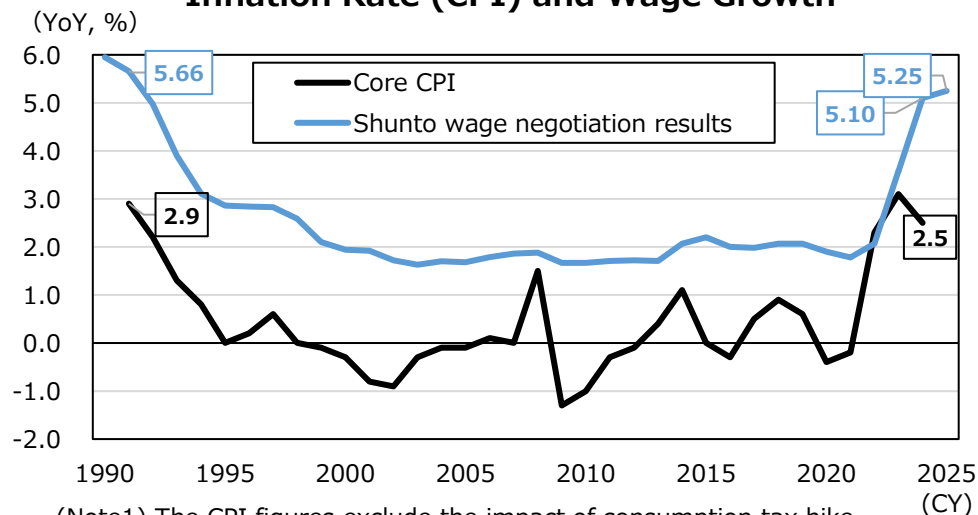
Major economic indicators: long-term trends

Nominal GDP (level)



(Note) Figures for FY2025 and FY2026 are from "Fiscal Year 2026 Economic Outlook".

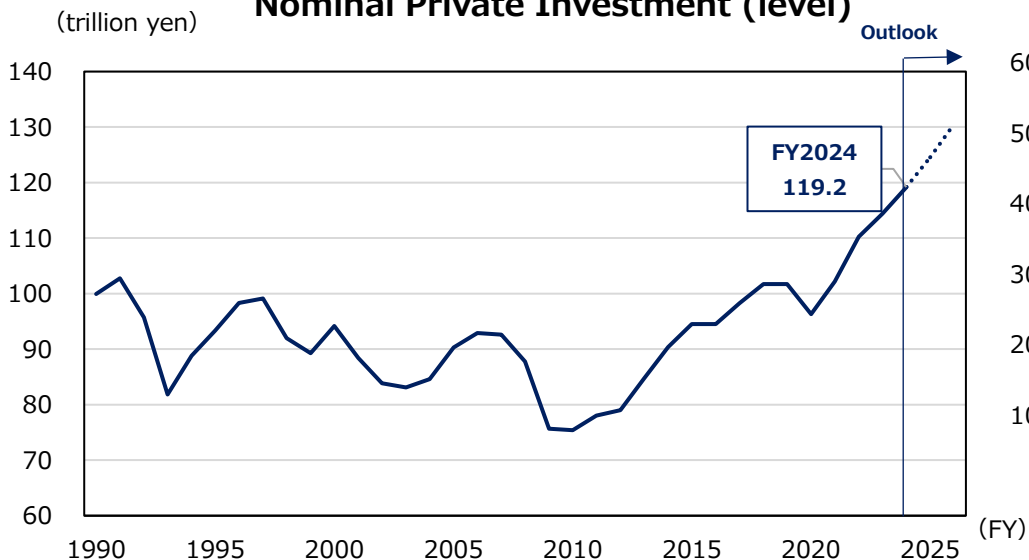
Inflation Rate (CPI) and Wage Growth



(Note1) The CPI figures exclude the impact of consumption tax hike.

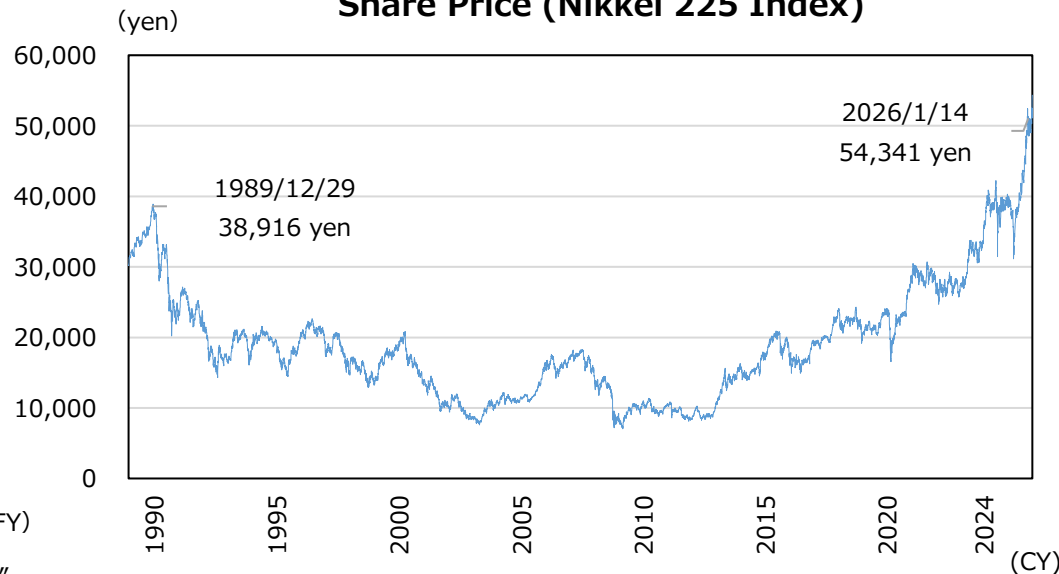
(Note2) Core CPI covers all items less fresh foods.

Nominal Private Investment (level)



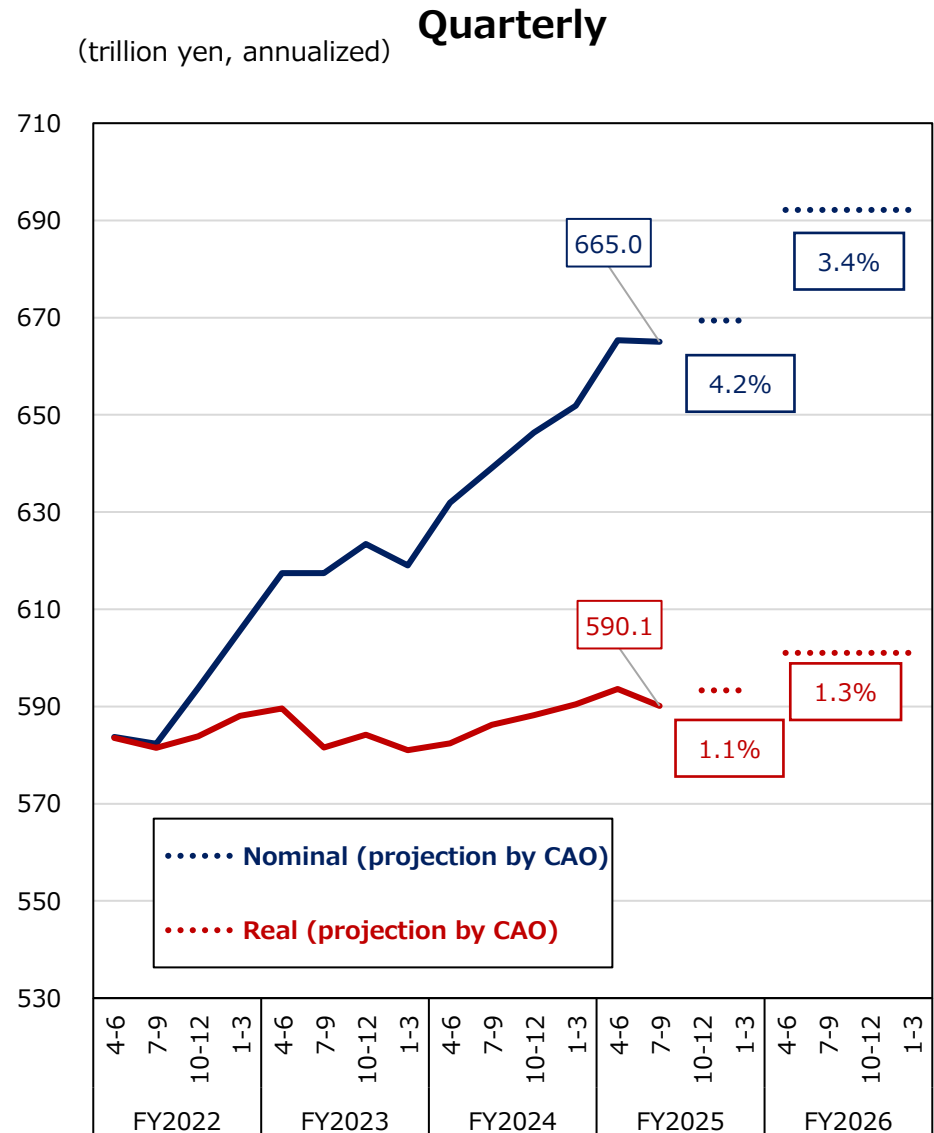
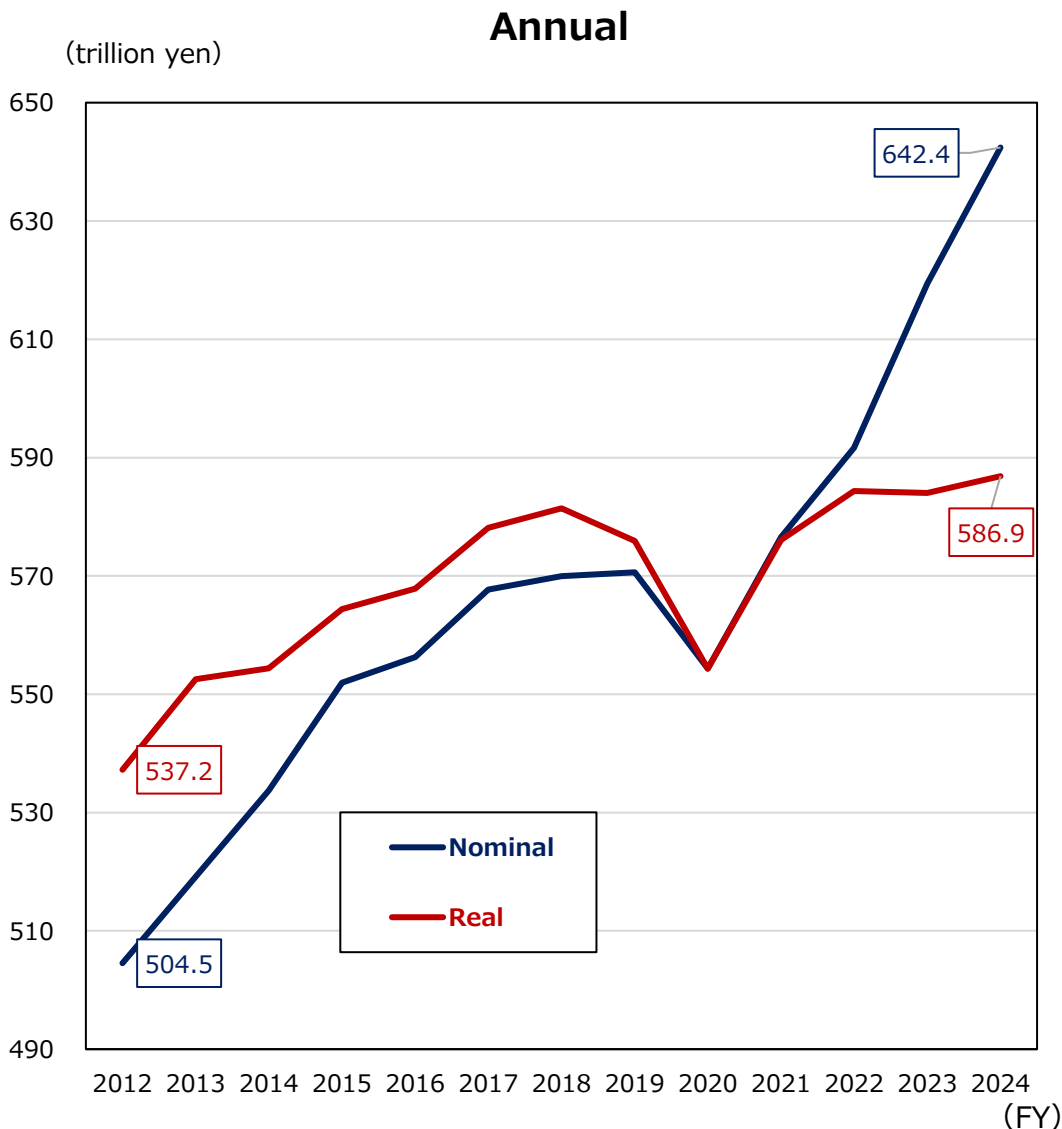
(Note) Figures for FY2025 and FY2026 are from "Fiscal Year 2026 Economic Outlook".

Share Price (Nikkei 225 Index)



(Source) Cabinet Office, Ministry of Internal Affairs and Communications, Rengo (Japanese Trade Union Confederation), Bloomberg

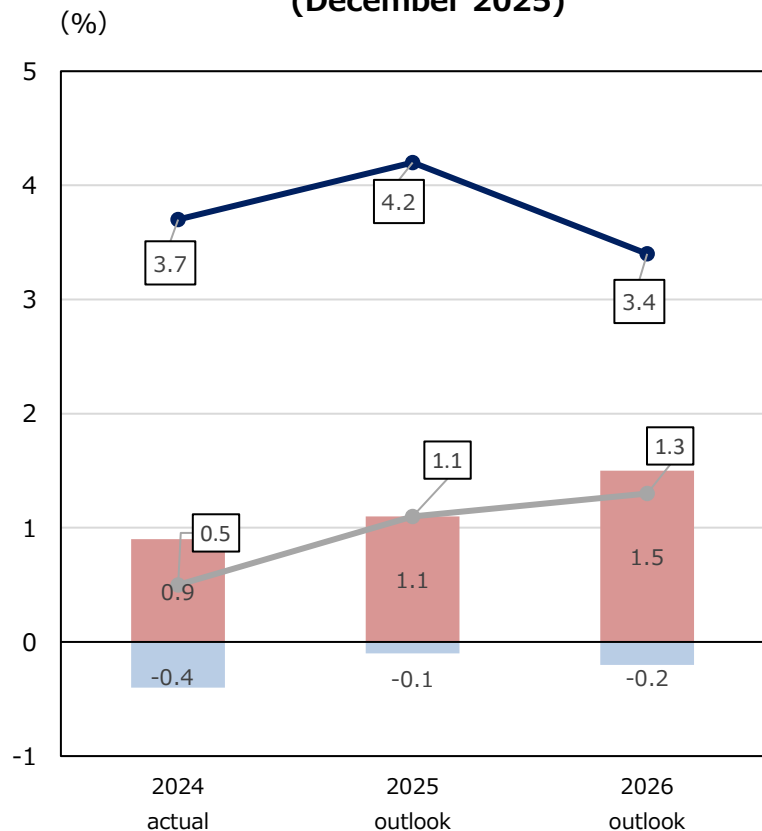
Major economic indicators: GDP (level, current price and constant price)



(Note1) Actual figures are seasonally adjusted and annualized.
(Note2) Estimates in the right figure are based on "Fiscal Year 2026 Economic Outlook". Nominal GDP and real GDP for FY2025 and FY2026 are calculated by multiplying nominal GDP and real GDP for FY2024 by the growth rate in "Fiscal Year 2026 Economic Outlook".
(Source) Cabinet Office

Major economic indicators: economic outlook

Economic Outlook (Fiscal Year) (December 2025)



■ Domestic demand contribution
 ■ External demand contribution
—●— Nominal GDP growth rate
 —●— Real GDP growth rate

Reference: Assumption of external environment

	FY2025	FY2026
Exchange rate(JPY/USD)	150.8	155.2
Crude oil price (USD/barrel)	71.3	68.0
Real Growth Rate of World GDP (excluding Japan) (%)	2.8	2.8

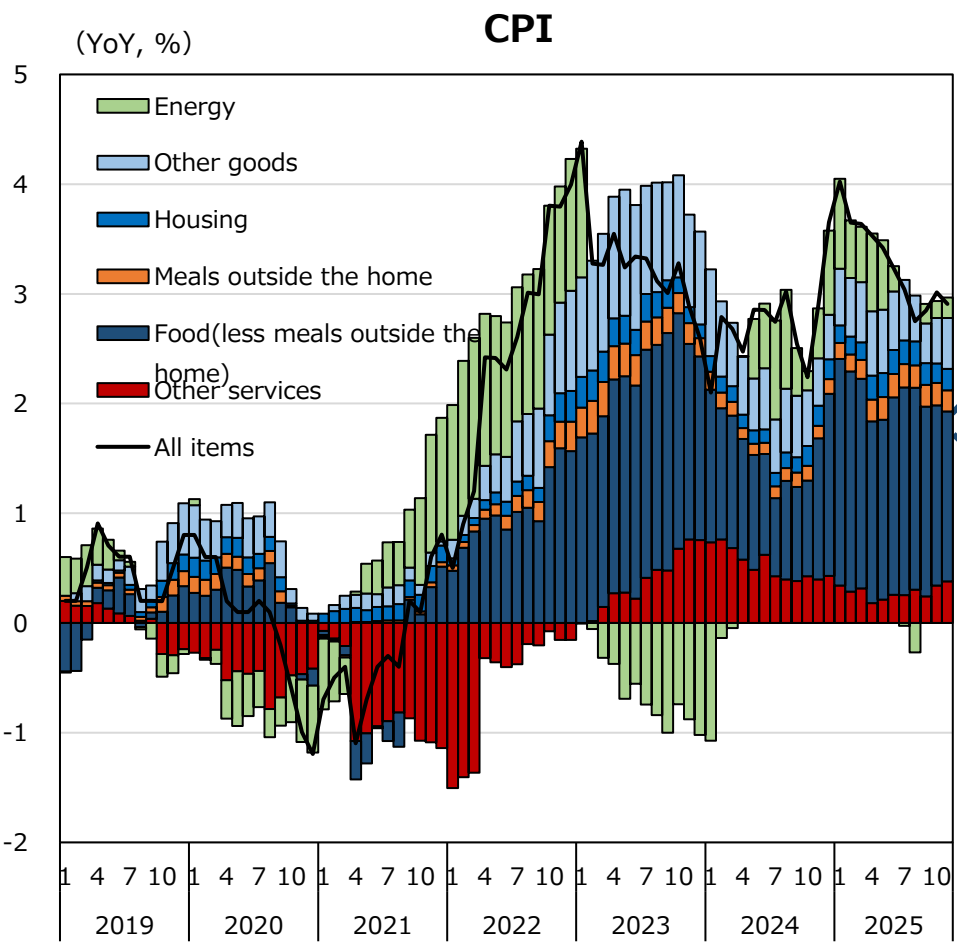
	Actual	Government		Private Institutes			Bank of Japan		
		Economic Outlook (2025.12.24)		ESP Forecast (2025.12.15)			Outlook Economic Activity and Prices (2025.10.31)		
	FY2024	FY2025	FY2026	FY2025	FY2026	FY2027	FY2025	FY2026	FY2027
Real GDP Growth Rate	0.5%	1.1% (Approx.)	1.3% (Approx.)	0.9% (0.8/1.0)	0.8% (0.6/1.0)	0.8% (0.6/1.1)	0.6~0.8% Median (0.7)	0.6~0.8% Median (0.7)	0.7~1.1% Median (1.0)
Contribution of private demand	0.4%	1.0% (Approx.)	1.3% (Approx.)	0.9% (0.8/1.0)	0.7% (0.4/0.9)	—	—	—	—
Nominal GDP Growth Rate	3.7%	4.2% (Approx.)	3.4% (Approx.)	3.9% (3.6/4.2)	2.8% (2.3/3.4)	—	—	—	—
Consumer Price Index	3.0% (All items)	2.6% (Approx.)	1.9% (Approx.)	2.7% (2.6/2.9)	1.8% (1.5/2.2)	1.9% (1.5/2.2)	2.7~2.9% Median (2.7)	1.6~2.0% Median (1.8)	1.8~2.0% Median (2.0)

(Note1) Private Institutes indicates consensus (bottom 8 ave./upper 8 ave.).

(Note2) Bank of Japan indicates forecasts of the majority of the policy board members. The forecasts of the majority of the policy board members are constructed as follows: each policy board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

(Note3) CPI figures in Actual and Government are All items. CPI figures in Private institutes and Bank of Japan are core CPI (All items, less fresh food).

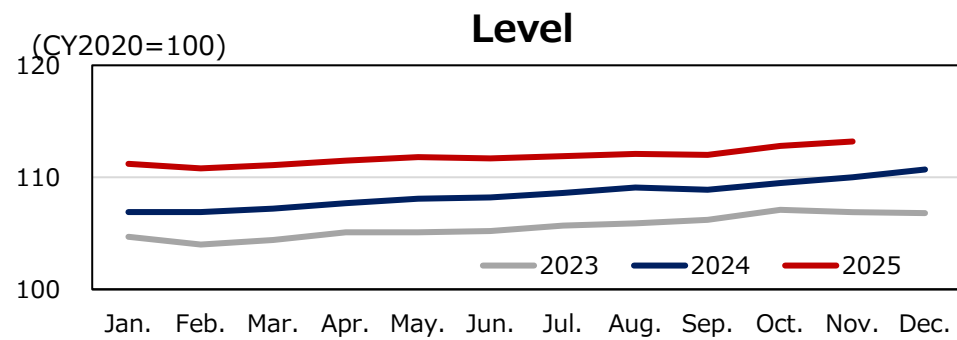
Major economic indicators: inflation (CPI)



Factors contributing to rising food prices

	2025	2024	2023
Soaring raw material prices	96.1%	92.2%	96.2%
Logistics cost	78.6%	68.1%	58.4%
Soaring energy price	63.8%	60.6%	80.6%
Labor cost	50.3%	26.5%	9.1%
Yen depreciation	12.4%	28.1%	11.4%

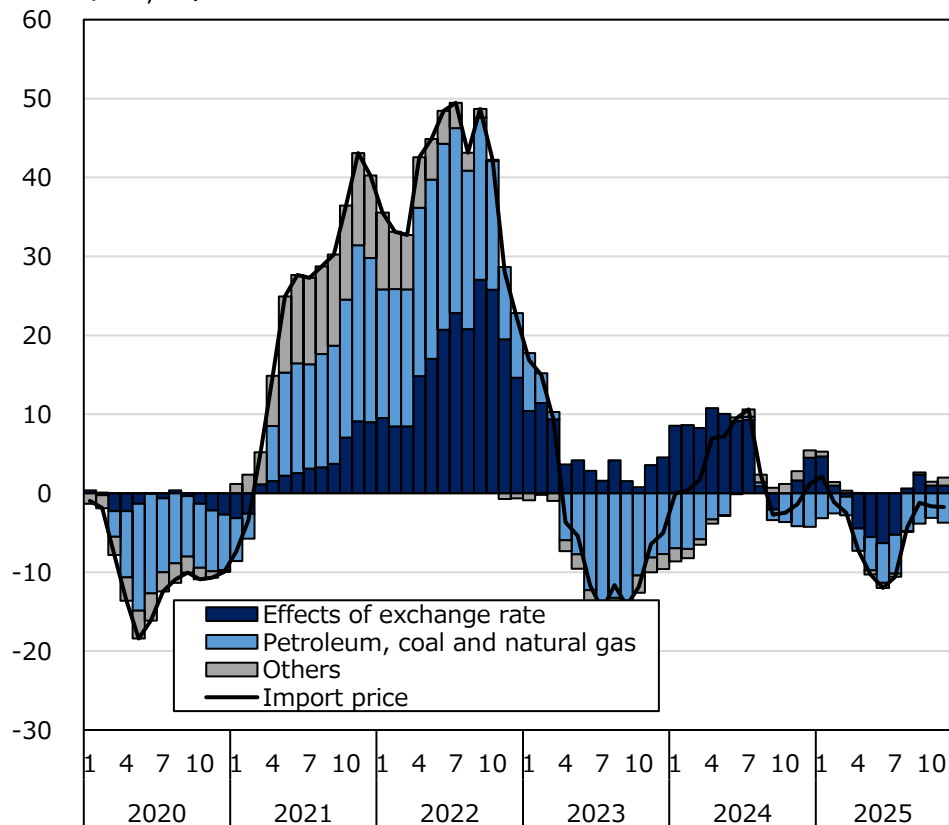
(Source) Teikoku Databank, Ltd. (as of Dec 26, 2025)



(Source) Ministry of Internal Affairs and Communications

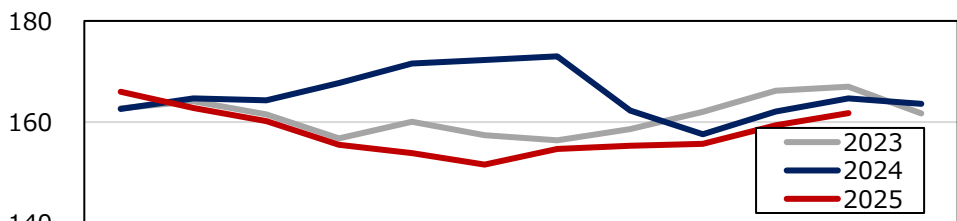
Major economic indicators: inflation (import price and domestic goods price)

(YoY, %) **Import Price Index, YoY change**



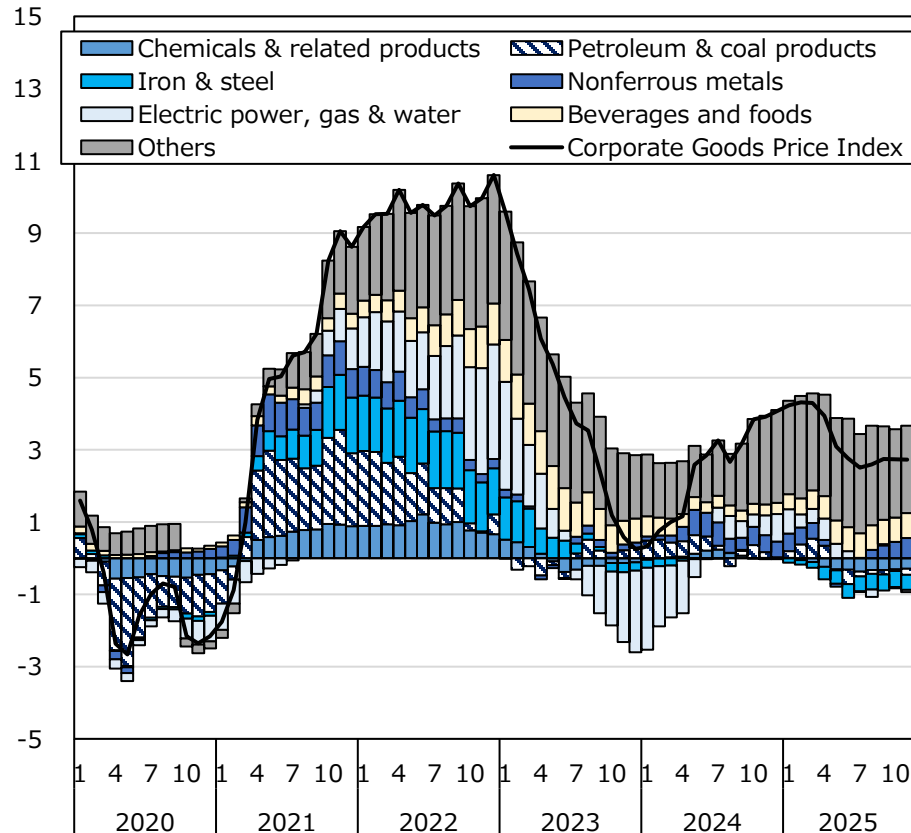
(CY2020=100)

Level



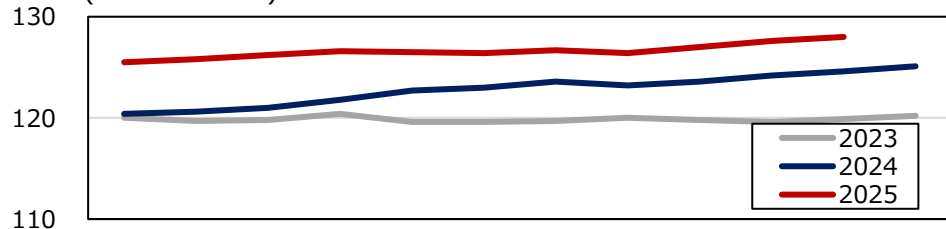
Jan. Feb. Mar. Apr. May. Jun. Jul. Aug. Sep. Oct. Nov. Dec.

(YoY, %) **Corporate Goods Price Index (CGPI)**



(CY2020=100)

Level



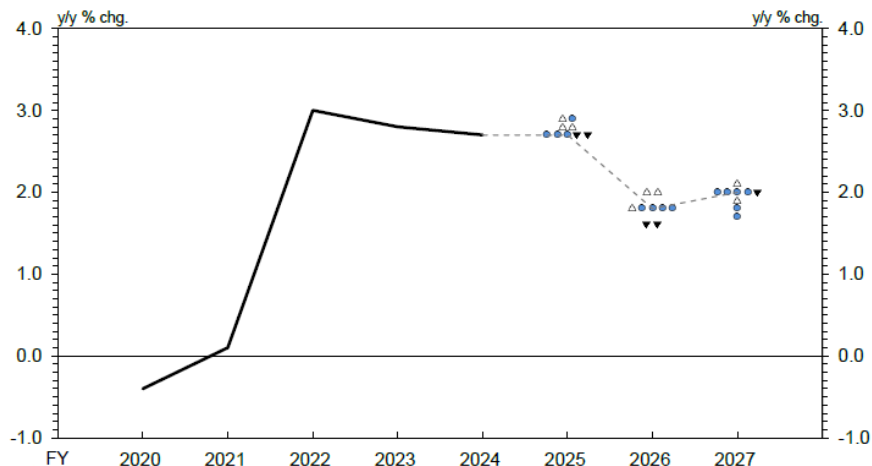
Jan. Feb. Mar. Apr. May. Jun. Jul. Aug. Sep. Oct. Nov. Dec.

(Note) The Corporate Goods Price Index covers goods traded in the corporate sector.

(Source) Bank of Japan

Major economic indicators: inflation (forecasts)

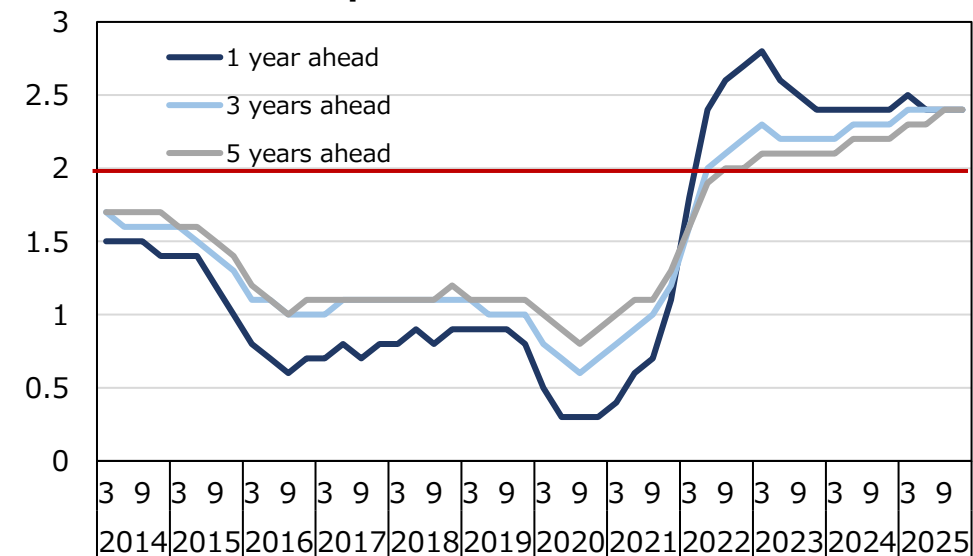
Forecasts of CPI (All Items Less Fresh Food)



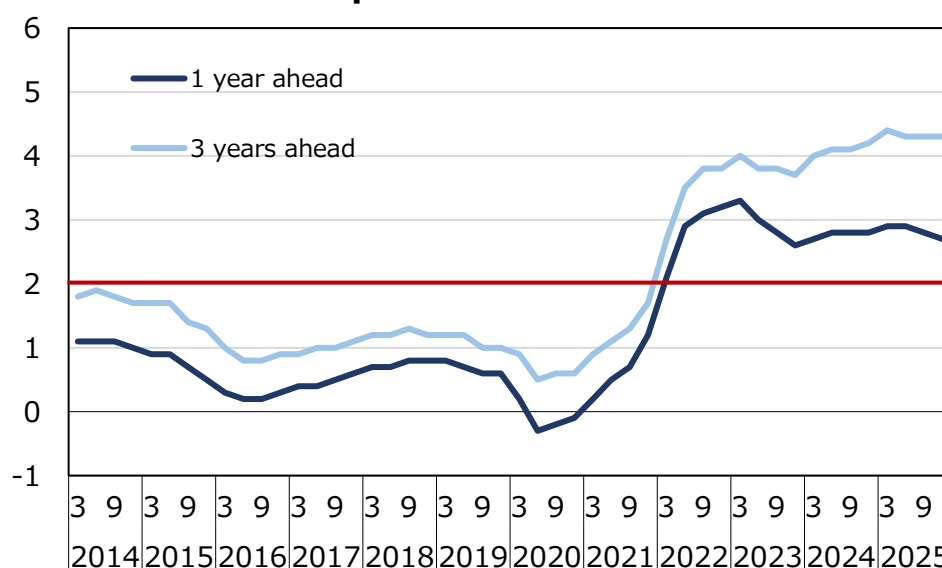
	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2025	+2.7	+2.8
Fiscal 2026	+1.8	+2.0
Fiscal 2027	+2.0	+2.0

(Note1) The solid lines show actual figures, while the dotted lines show the medians of the Policy Board members' forecasts (point estimates).
 (Note2) The locations of ●, △, ▼ in the charts indicates the figures for each Policy Board member's forecasts to which they attach the highest probability. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside."
 (Source) Bank of Japan, Outlook for Economic Activity and Prices, Oct 2025

Expected Inflation Rate



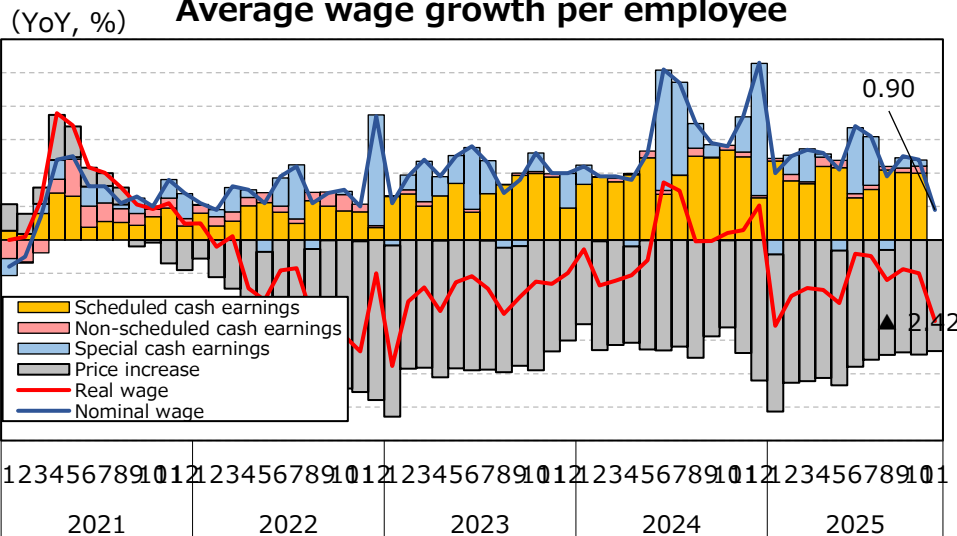
Expected Sales Price



(Source) Bank of Japan

Major economic indicators: wage

Average wage growth per employee

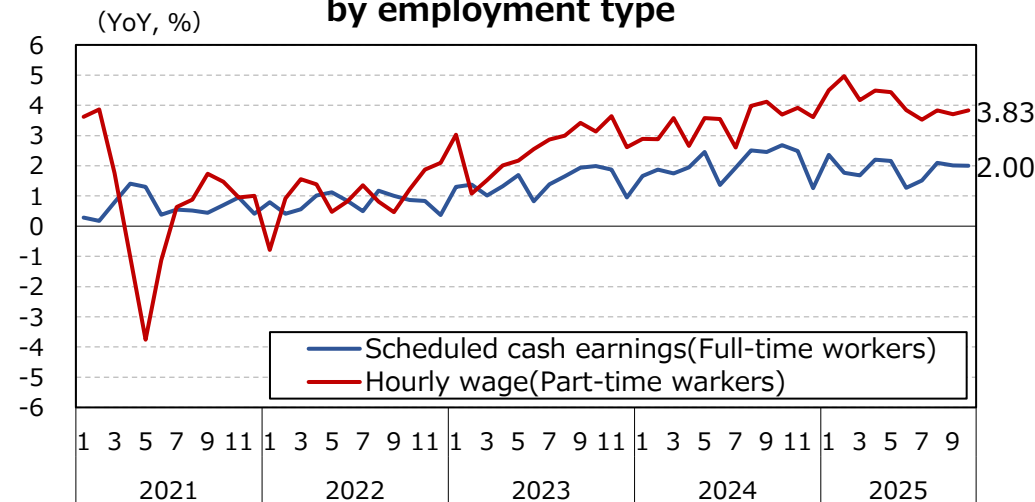


(Note1) Values are based on establishments in the survey for both the "same month last year" and the "current month".

(Note2) Real wage is our calculation.

(Source) Ministry of Health, Labour, and Welfare

Average wage growth by employment type

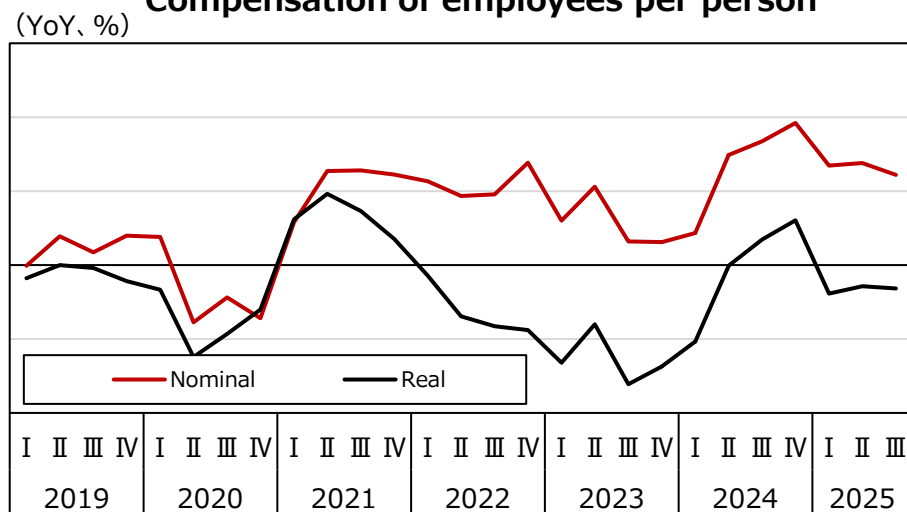


(Note1) Values are based on establishments in the survey for both the "same month last year" and the "current month".

(Note2) Hourly wage = scheduled cash earnings / scheduled hours worked.

(Source) Ministry of Health, Labour, and Welfare

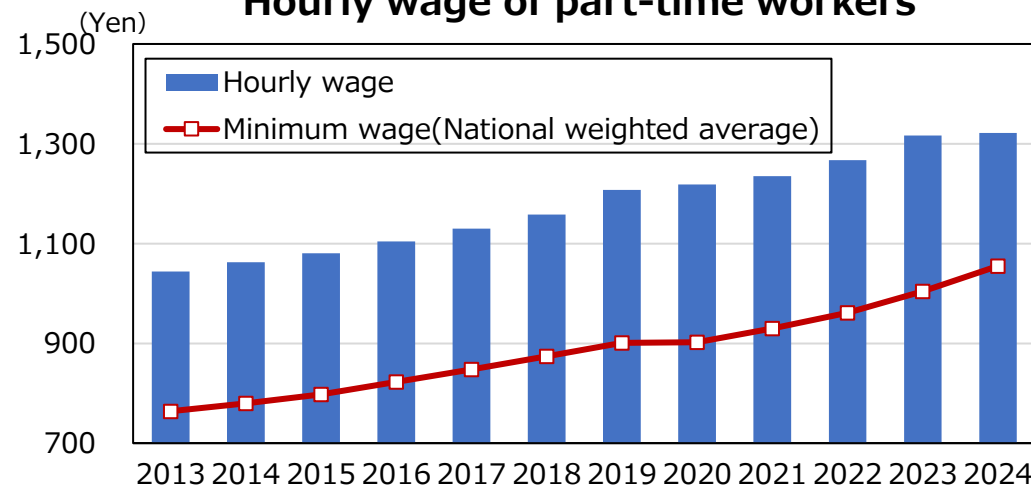
Compensation of employees per person



(Note) Compensation of employees per person
= compensation of employee(SNA) / the number of employee(Labour force survey)

(Source) Cabinet Office, Ministry of Internal Affairs and Communications

Hourly wage of part-time workers



(Note1) Hourly wage is average from October to September of each year. (CY)

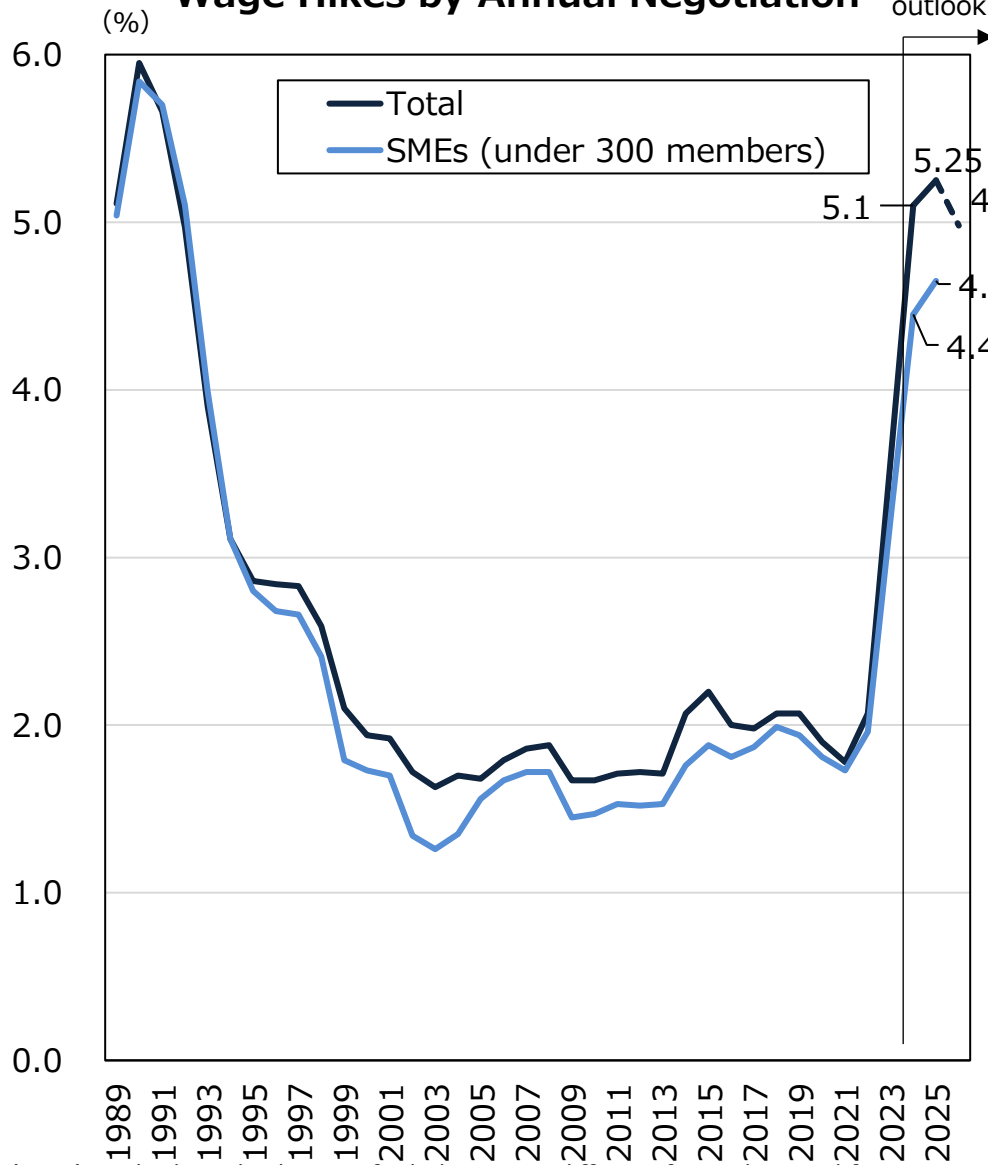
(Note2) The value in 2024 includes the impact of benchmark update in January 2025.

(Note3) Minimum wage is revised every October.

(Source) Ministry of Health, Labour, and Welfare

Major economic indicators: wage

Wage Hikes by Annual Negotiation



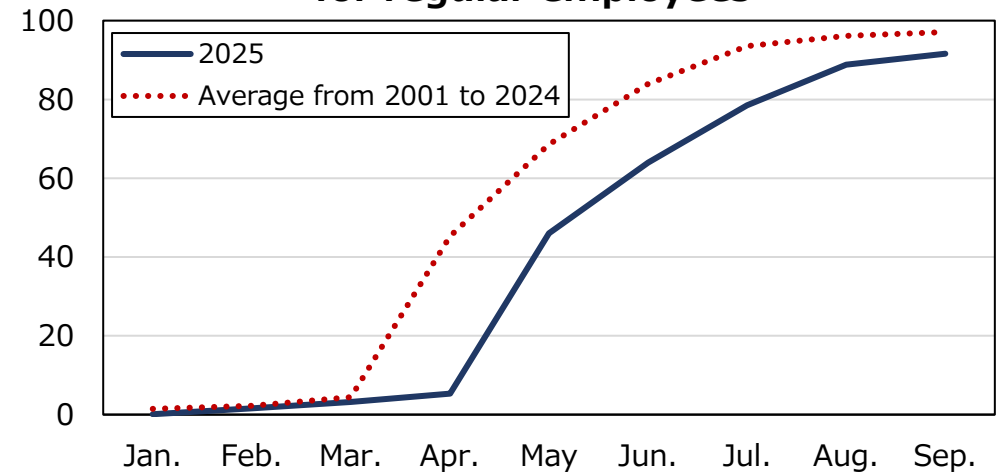
(Note) Methods and subjects of tabulation are different for each period from 1989 to 2024.

(Source) Rengo (Japanese Trade Union Confederation), "ESP Forecast" (as of Dec 15, 2025)

Growth of Minimum Wage



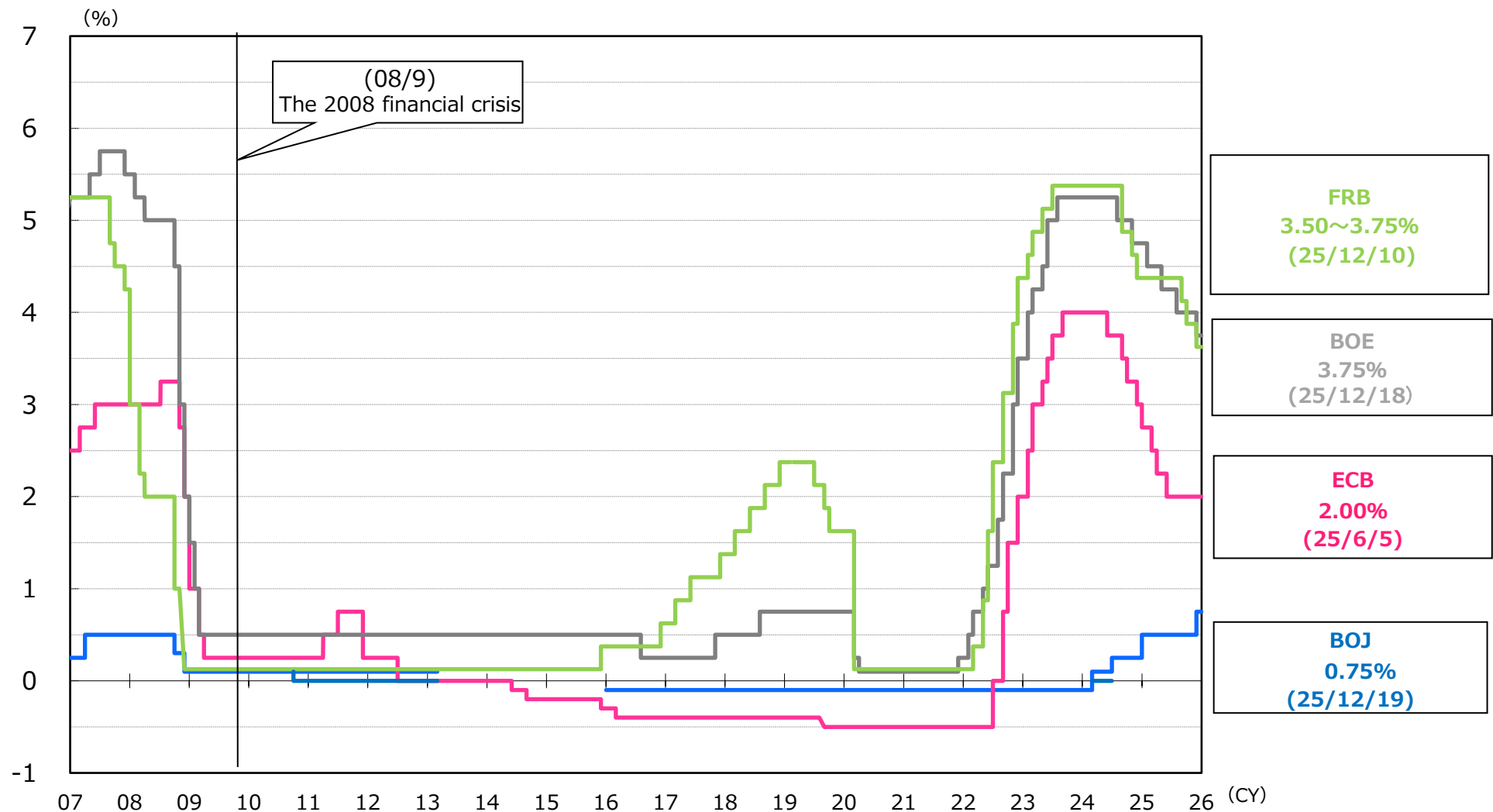
Timing of reflection of wage revision for regular employees



(Note) The survey covers private companies employing at least 100 regular employees. "2024" represents cumulative composition ratio of responding companies (1,783 companies), and "Average from 2001 to 2023" represents cumulative simple average of composition ratio of responding companies.

(Source) Ministry of Health, Labour and Welfare

Monetary policy: policy rates



(Note1) The policy rates of the central banks in the chart above are as follows.

BOJ : Uncollateralized Overnight Call Rate(~13/4, 24/3~), Interest Rate Applied to the Policy rate Balances in Current Accounts at the Bank of Japan(16/1~24/2)

ECB : Deposit Facility Rate

BOE : Bank Rate

FRB : Federal Funds Rate (Since December 2008, the rate has been presented as a target range. The chart shows the median value. The range width is 0.25 percentage points.)

(Source) Bloomberg

Statement on Monetary Policy(December 2025)

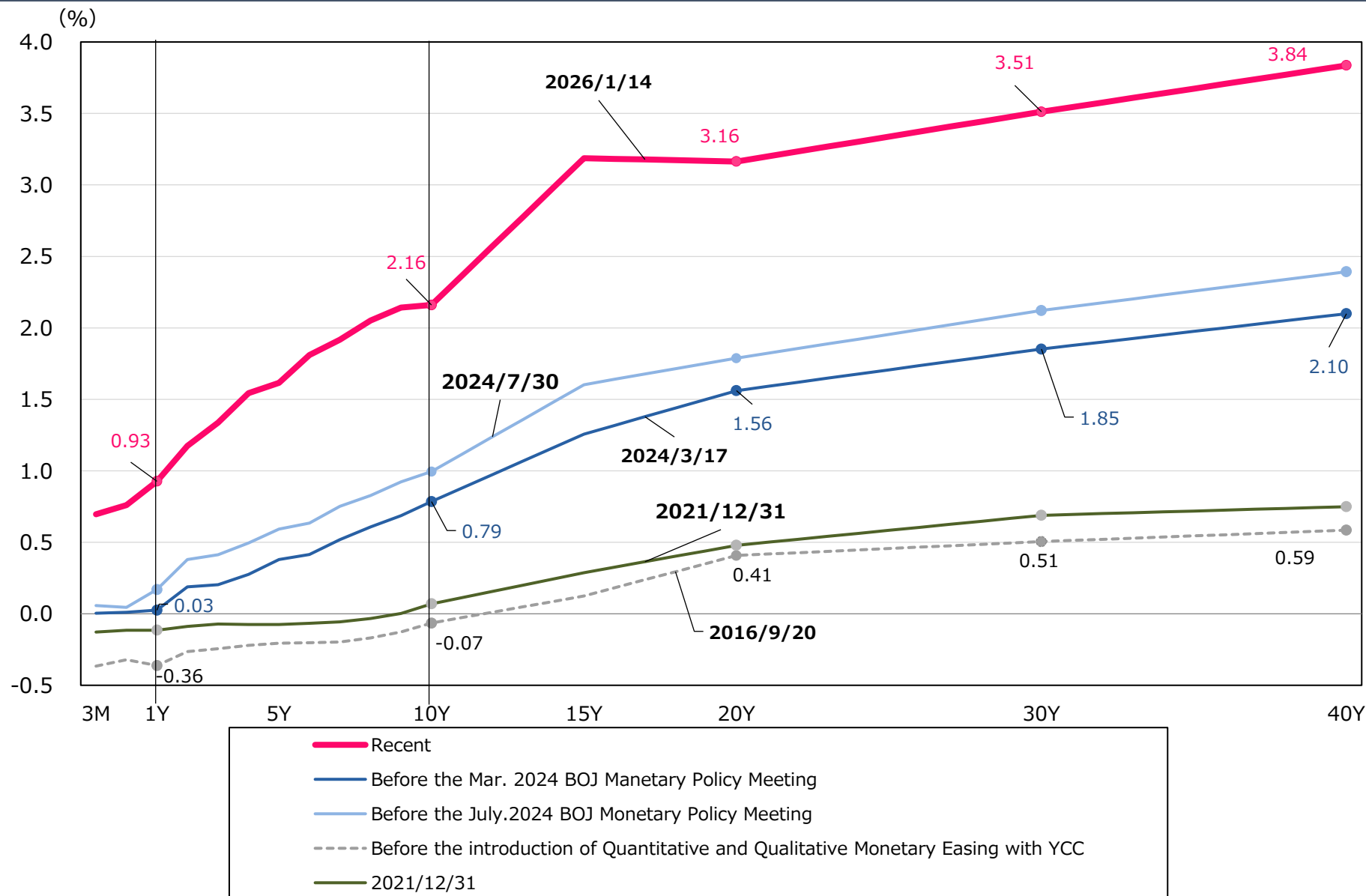
Outlook for CPI

The year-on-year rate of increase in the CPI (all items less fresh food) is likely to decelerate to a level below 2 percent through the first half of fiscal 2026, with the waning of the effects of the rise in food prices, such as rice prices, and partly due to the effects of government measures to address rising prices. Thereafter, **since it is projected that a sense of labor shortage will grow as the economic growth rate rises and that medium- to long-term inflation expectations will rise, it is expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) will increase gradually** and, in the second half of the projection period of the October 2025 Outlook for Economic Activity and Prices, will be at a level that is generally consistent with the price stability target.

Conduct of Monetary Policy

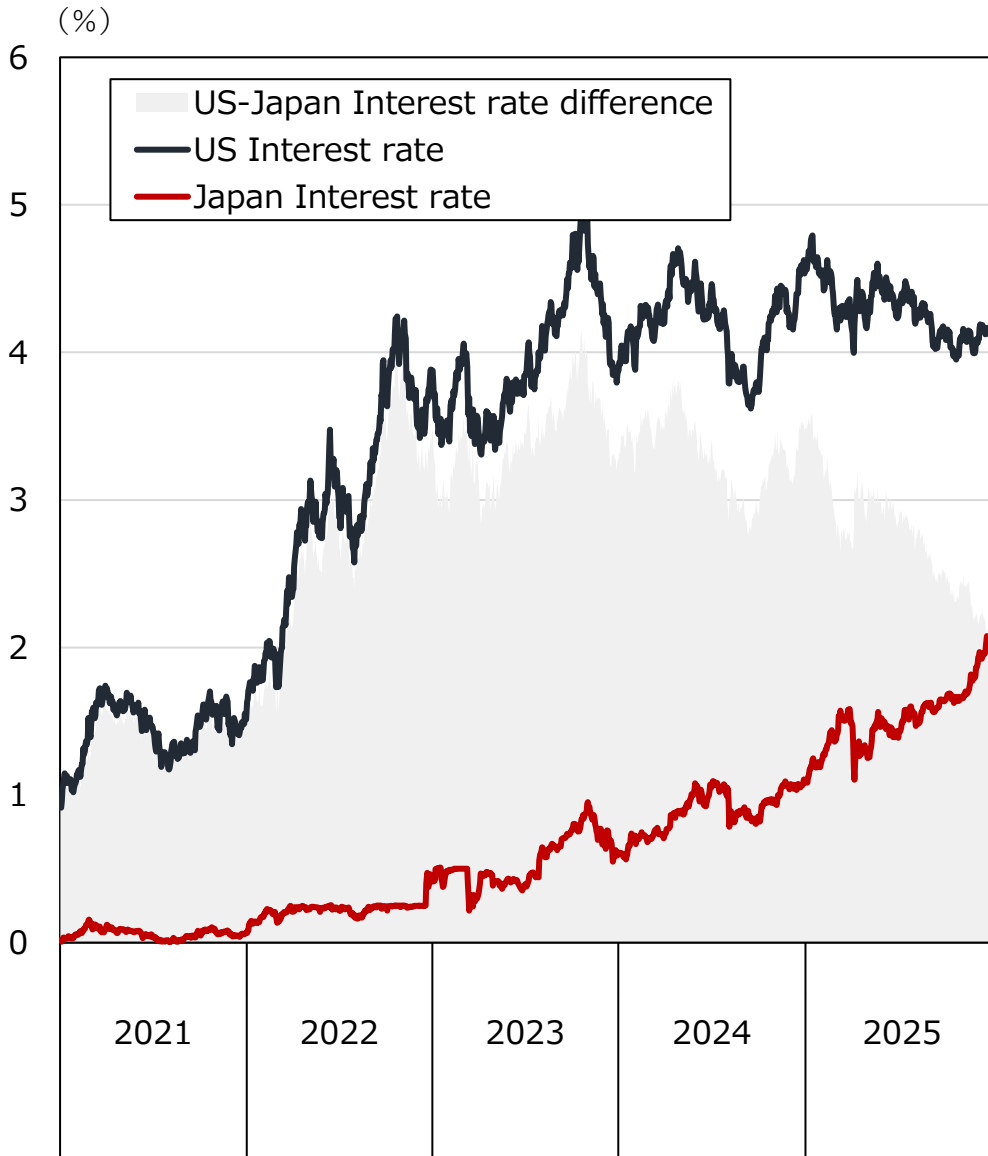
As for the future conduct of monetary policy, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the October Outlook Report will be realized, **the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation**. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

Monetary policy: JGB yield curve



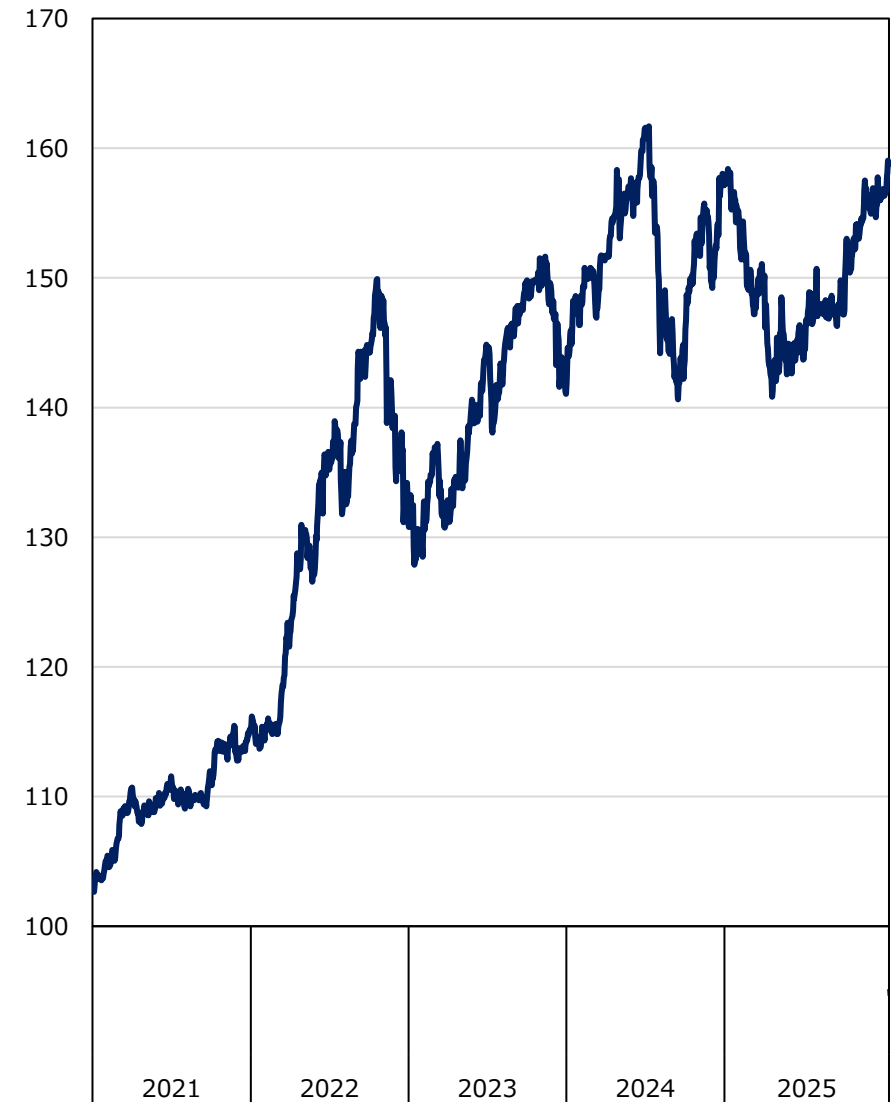
External position: exchange rate and interest rate differential

Interest Rate Differential



U.S. Dollar/Yen

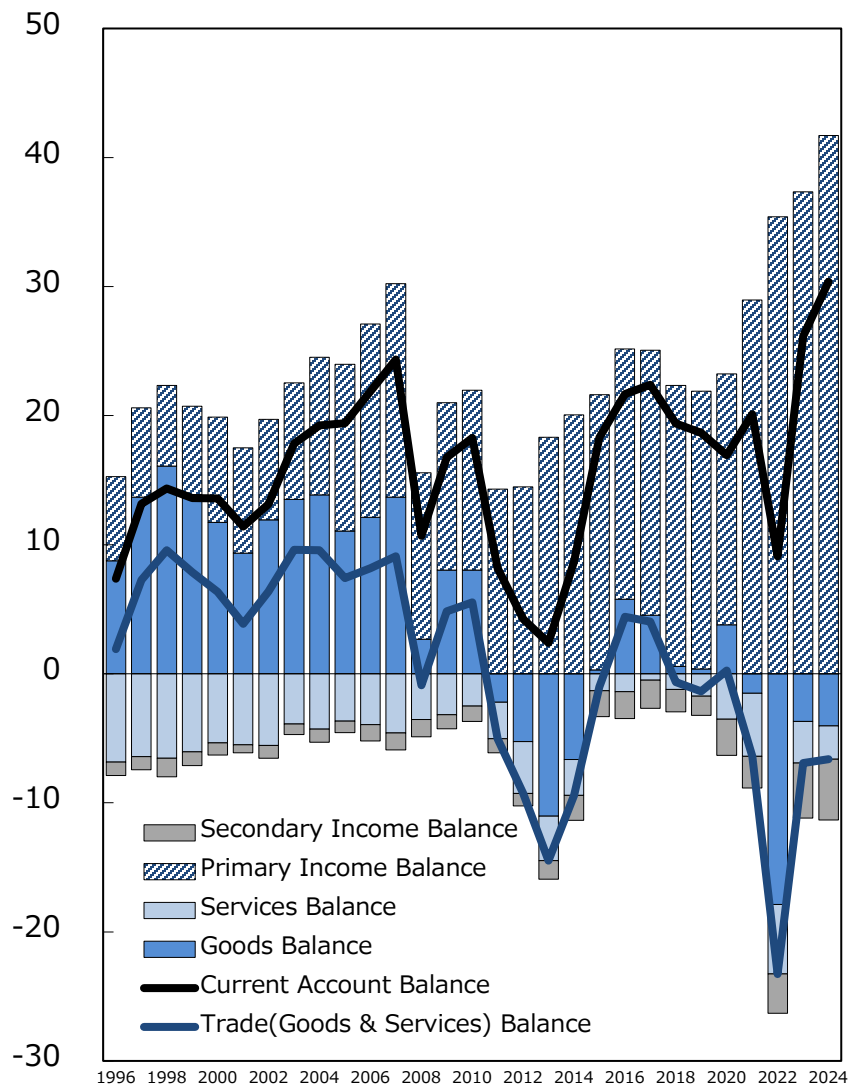
(JPY/USD)



External position

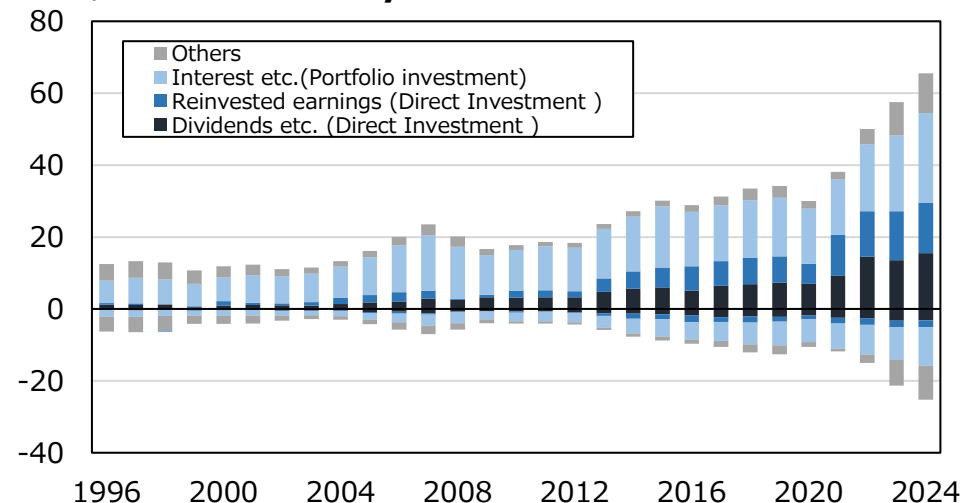
(trillion yen)

Current account Balance



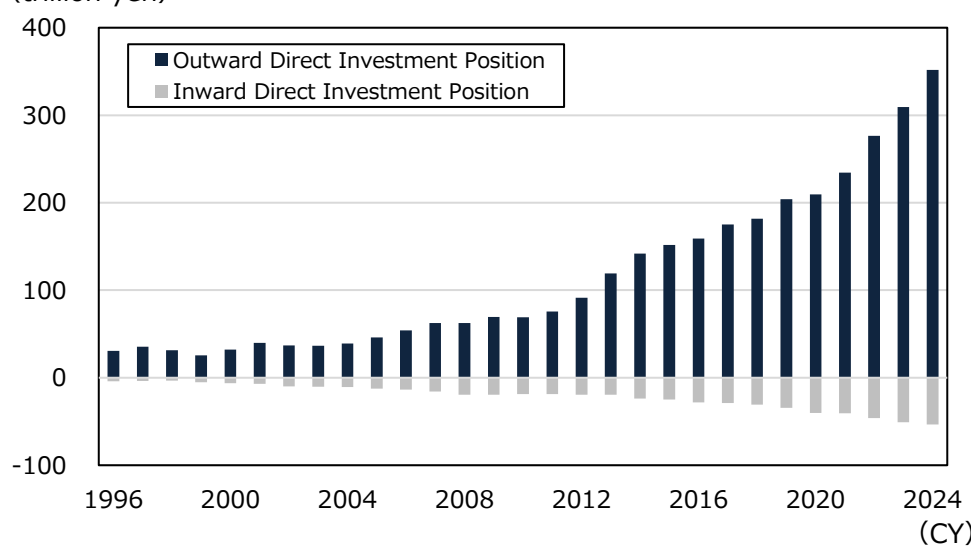
(trillion yen)

Primary Income Balance



(trillion yen)

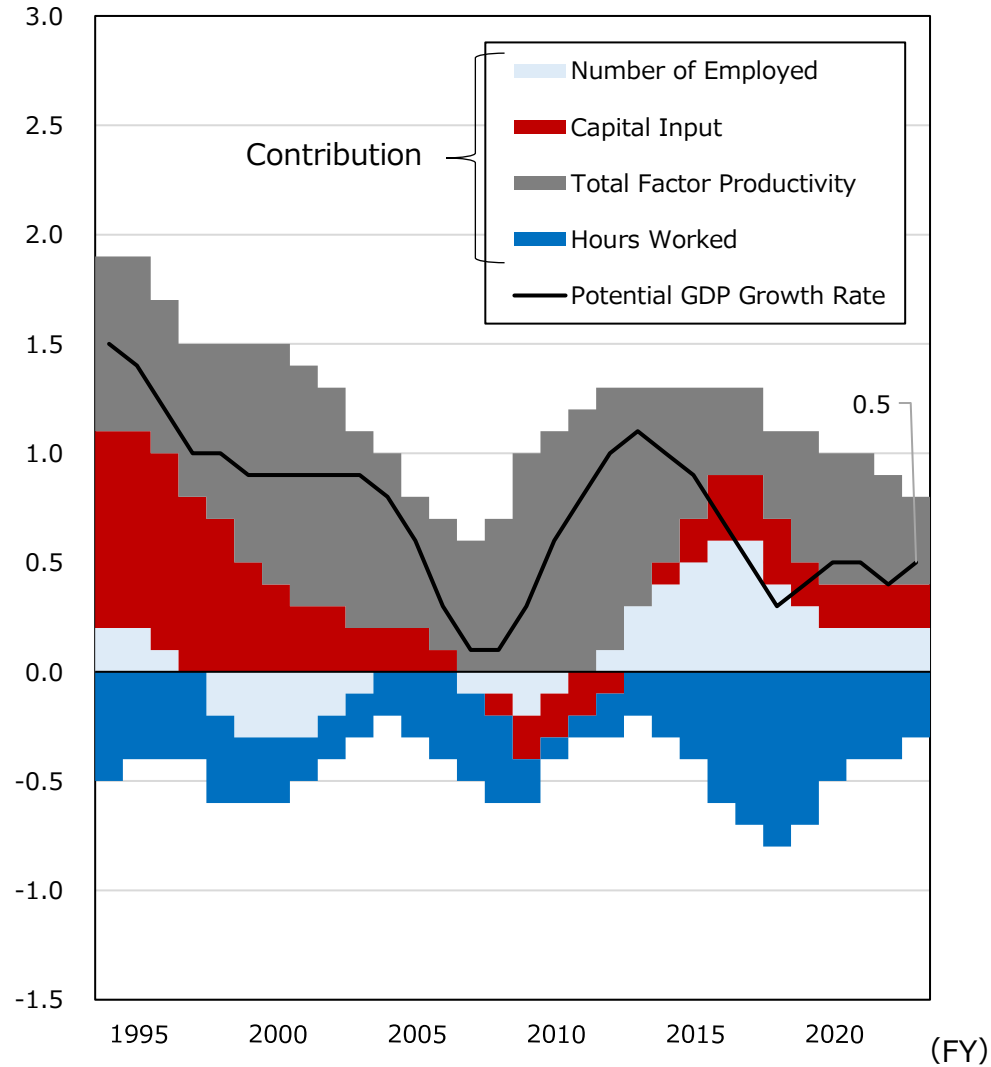
Direct Investment Position



Economic policies: potential GDP growth and output gap

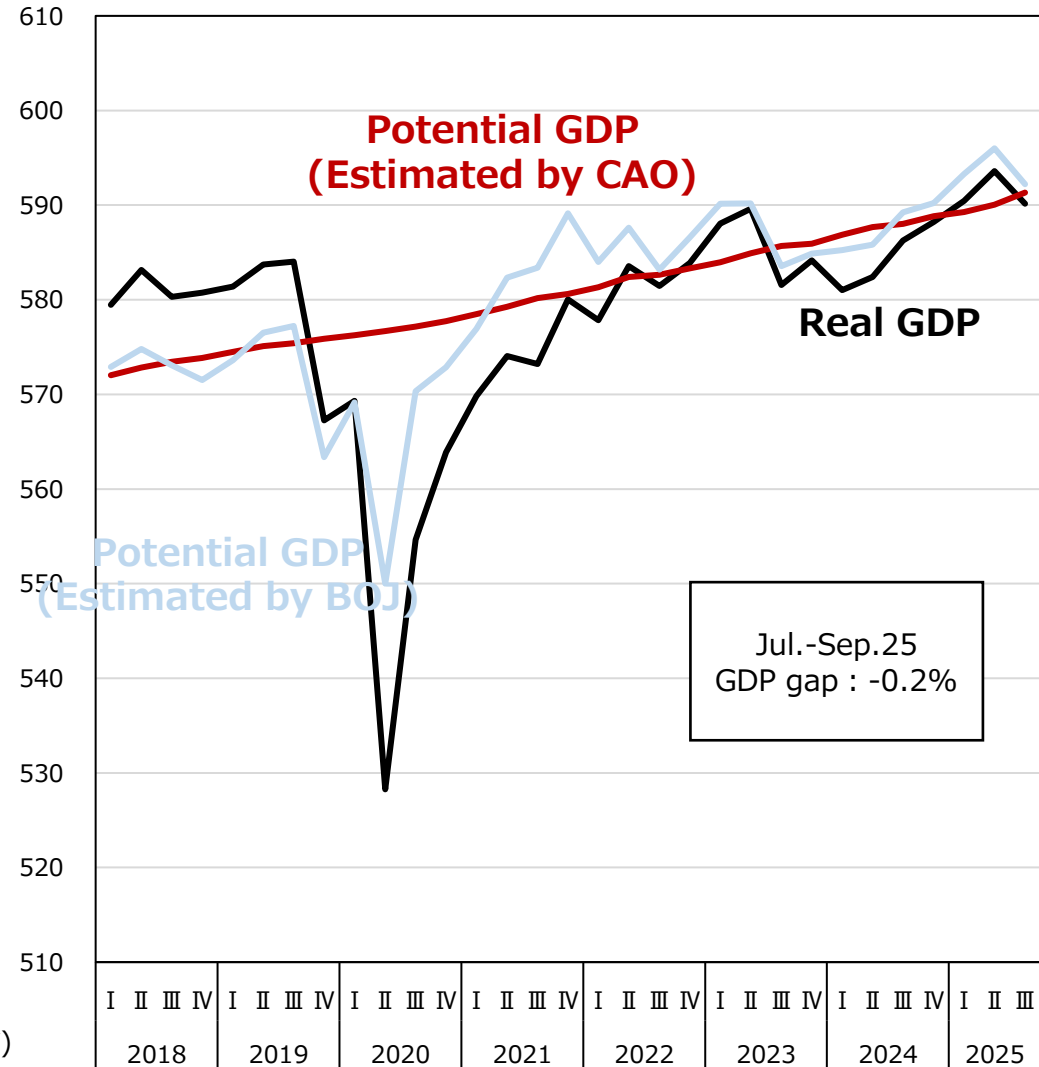
Potential GDP Growth Rate by Cabinet Office

(%,YoY)



Estimated Potential GDP and Real GDP, level

(trillion yen, annualized)

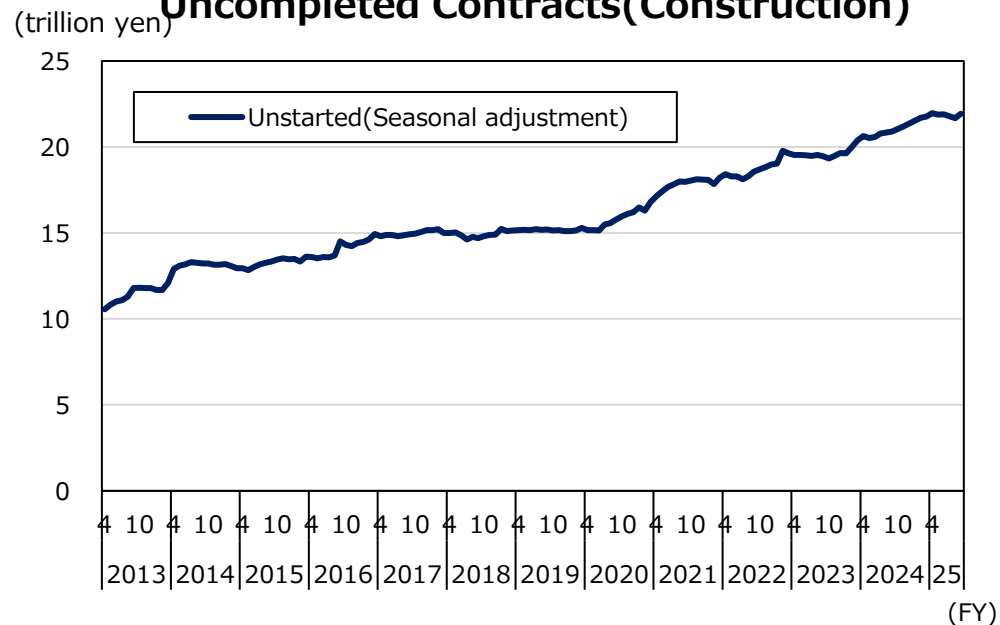


Economic policies: labor shortage

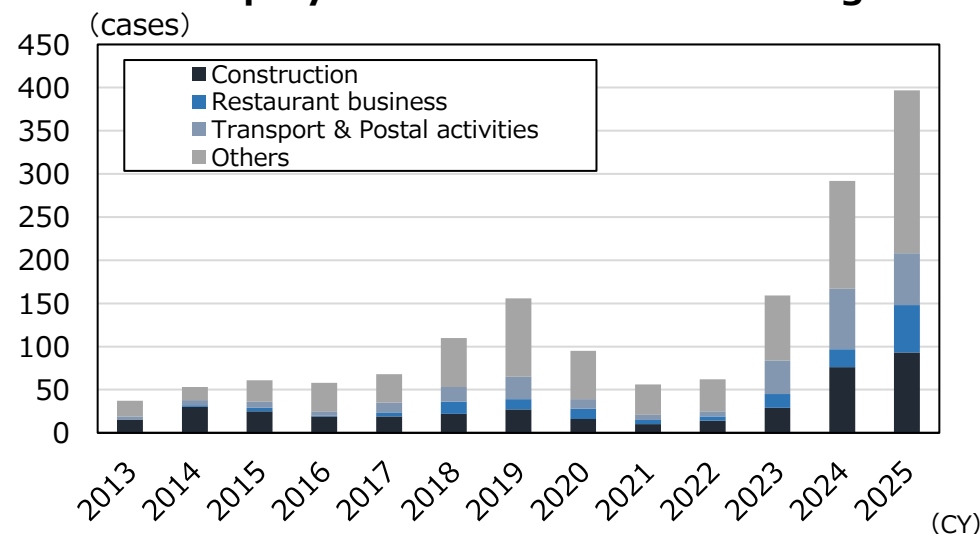
Employment Conditions



Uncompleted Contracts(Construction)



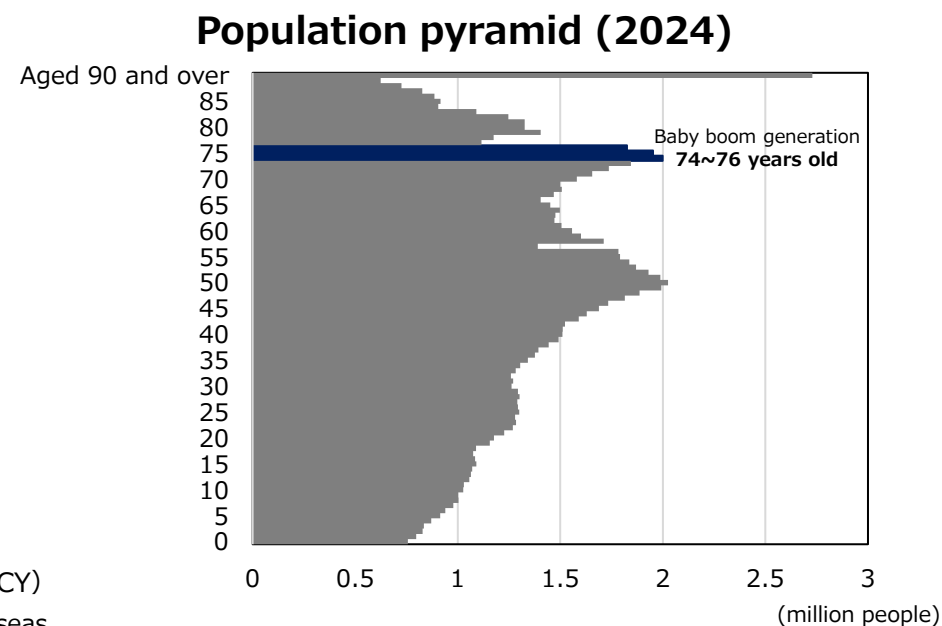
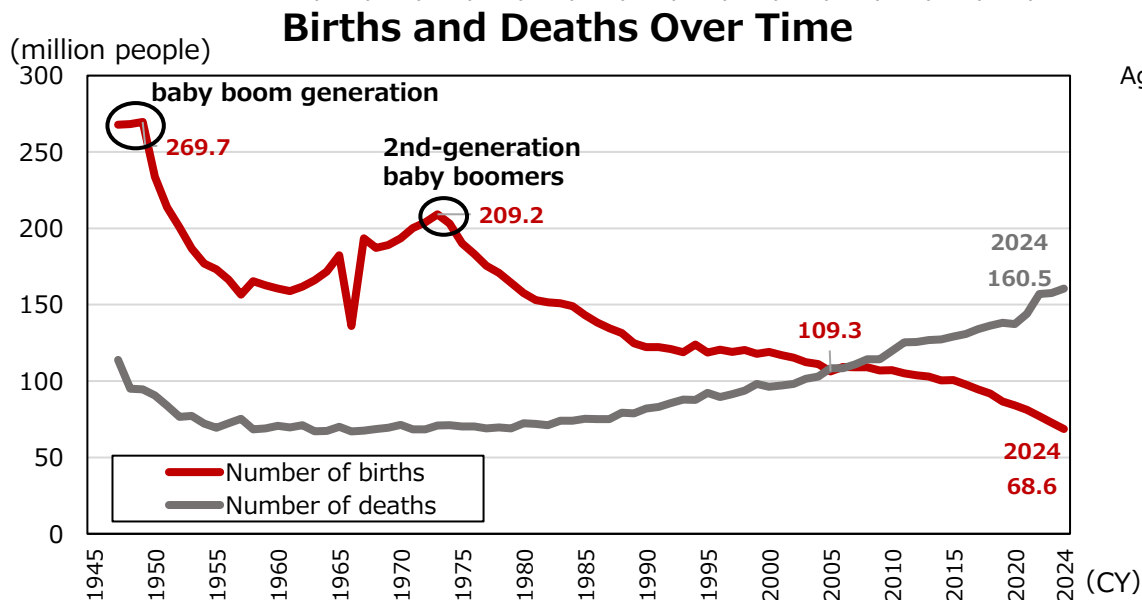
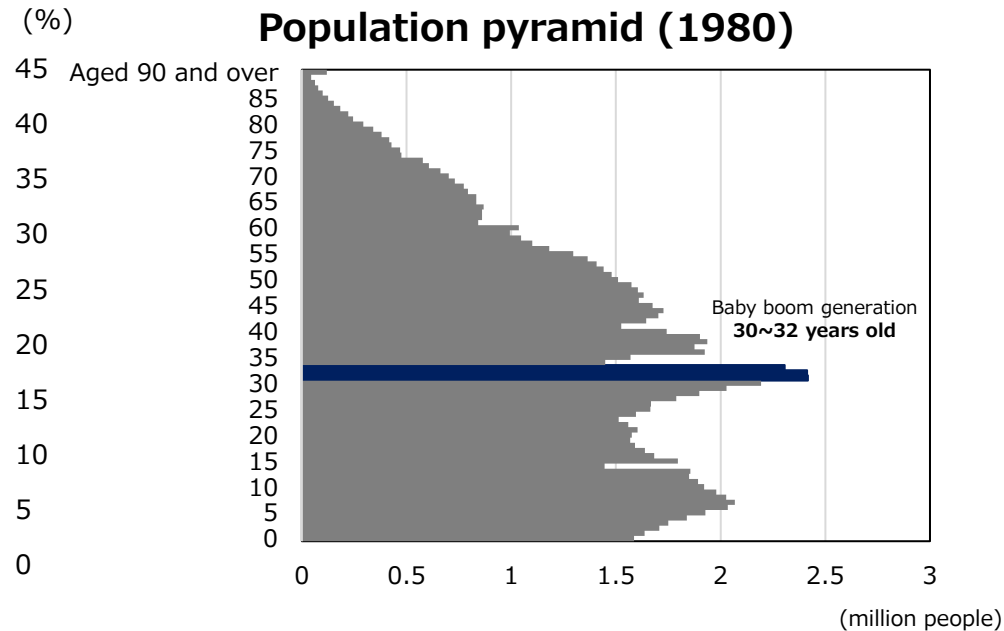
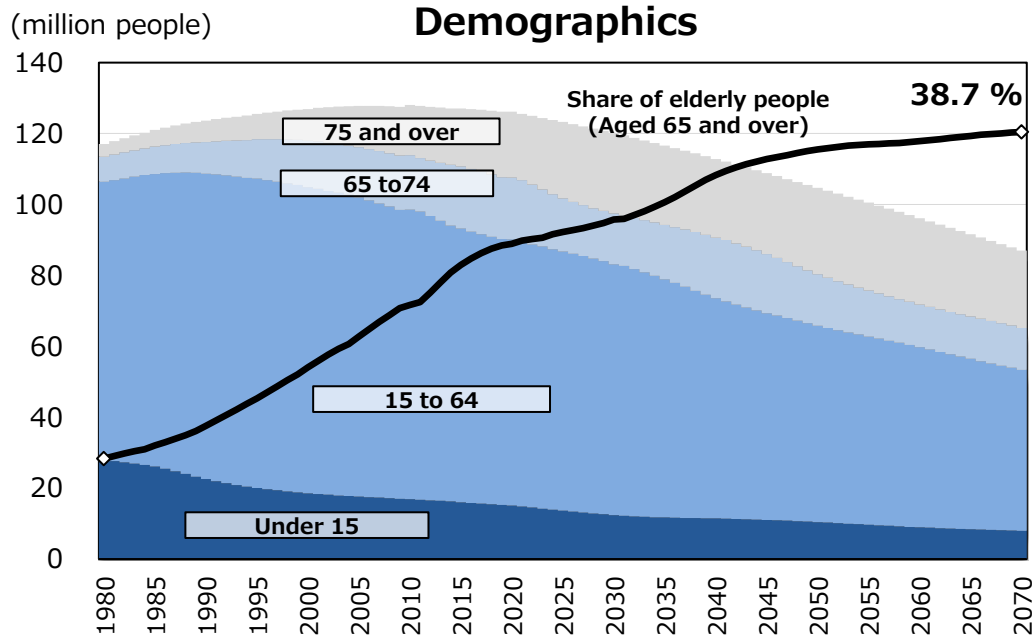
Bankruptcy cases due to labor shortage



(Note) Diffusion index of excessive employment minus insufficient employment

(Source) Bank of Japan, Ministry of Health, Labour and Welfare, Ministry of Land, Infrastructure, Transport and Tourism, Tokyo Shoko Research, Ltd

Economic policies: demographic shifts



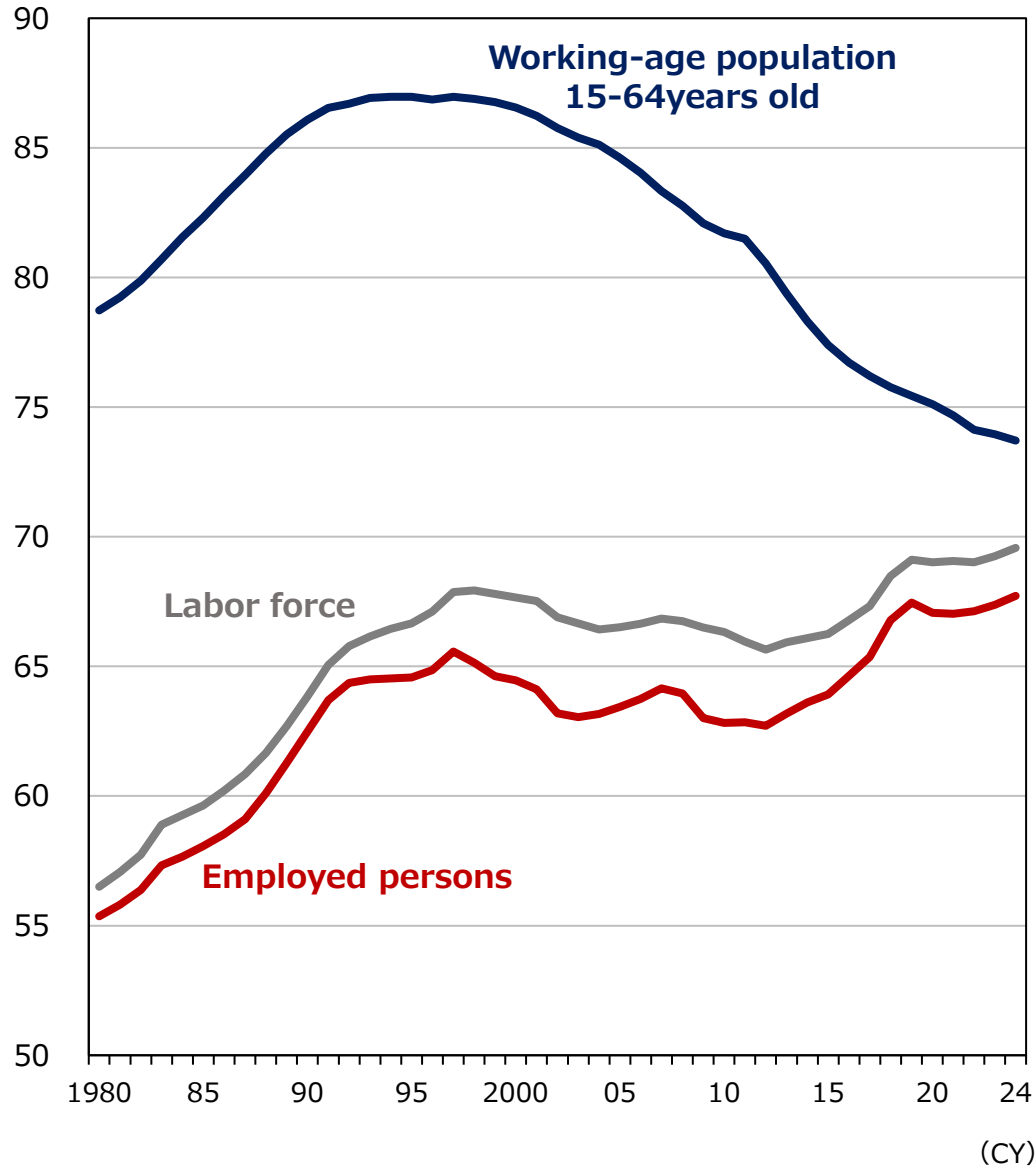
(Note) This excludes both foreign residents in Japan and Japanese nationals residing overseas.

(Source) Ministry of Internal Affairs and Communications, Ministry of Health, Labor and Welfare, National Institute of Population and Social Security Research

Economic policies: labor force

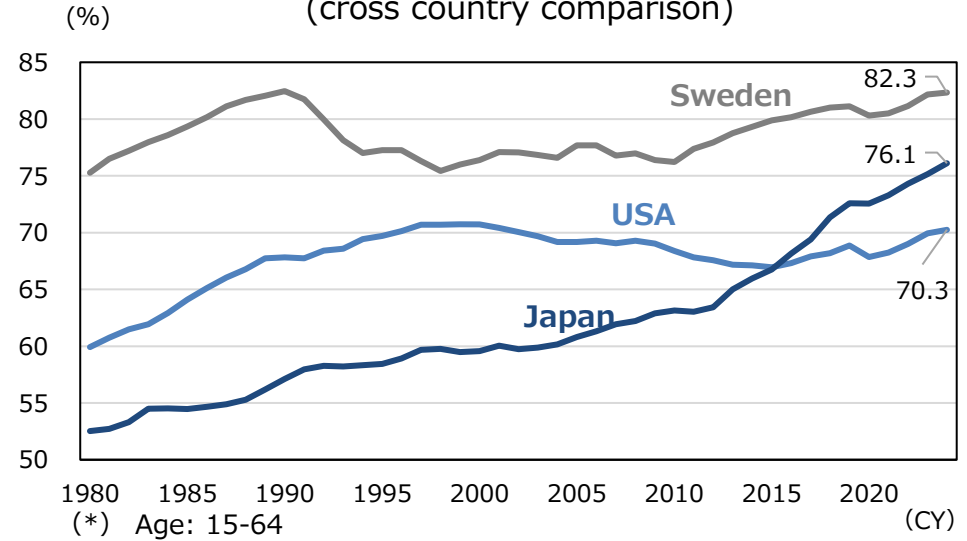
Total population and labor force

(million people)



(Source) Ministry of Internal Affairs and Communications, OECD statistics

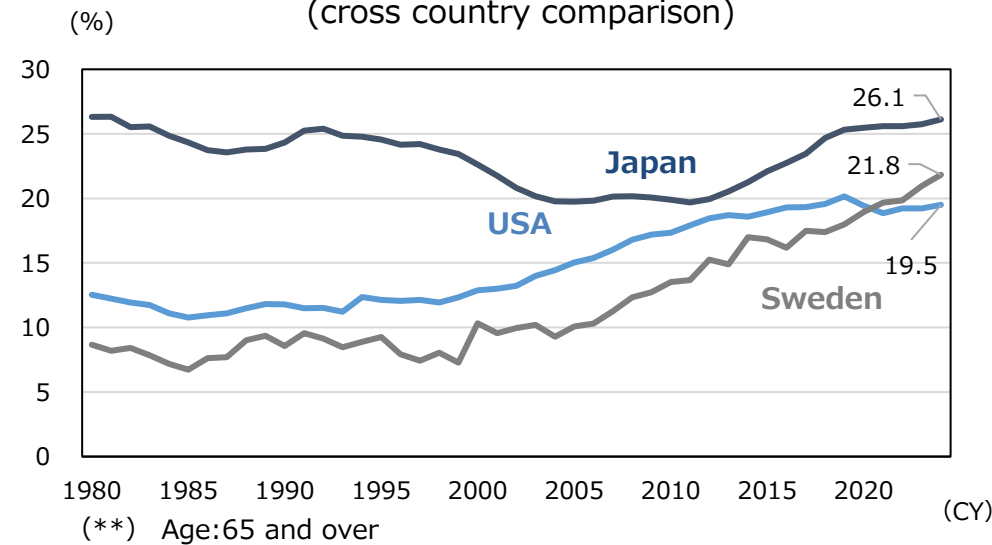
Employment ratio of the women* (cross country comparison)



(*) Age: 15-64

(CY)

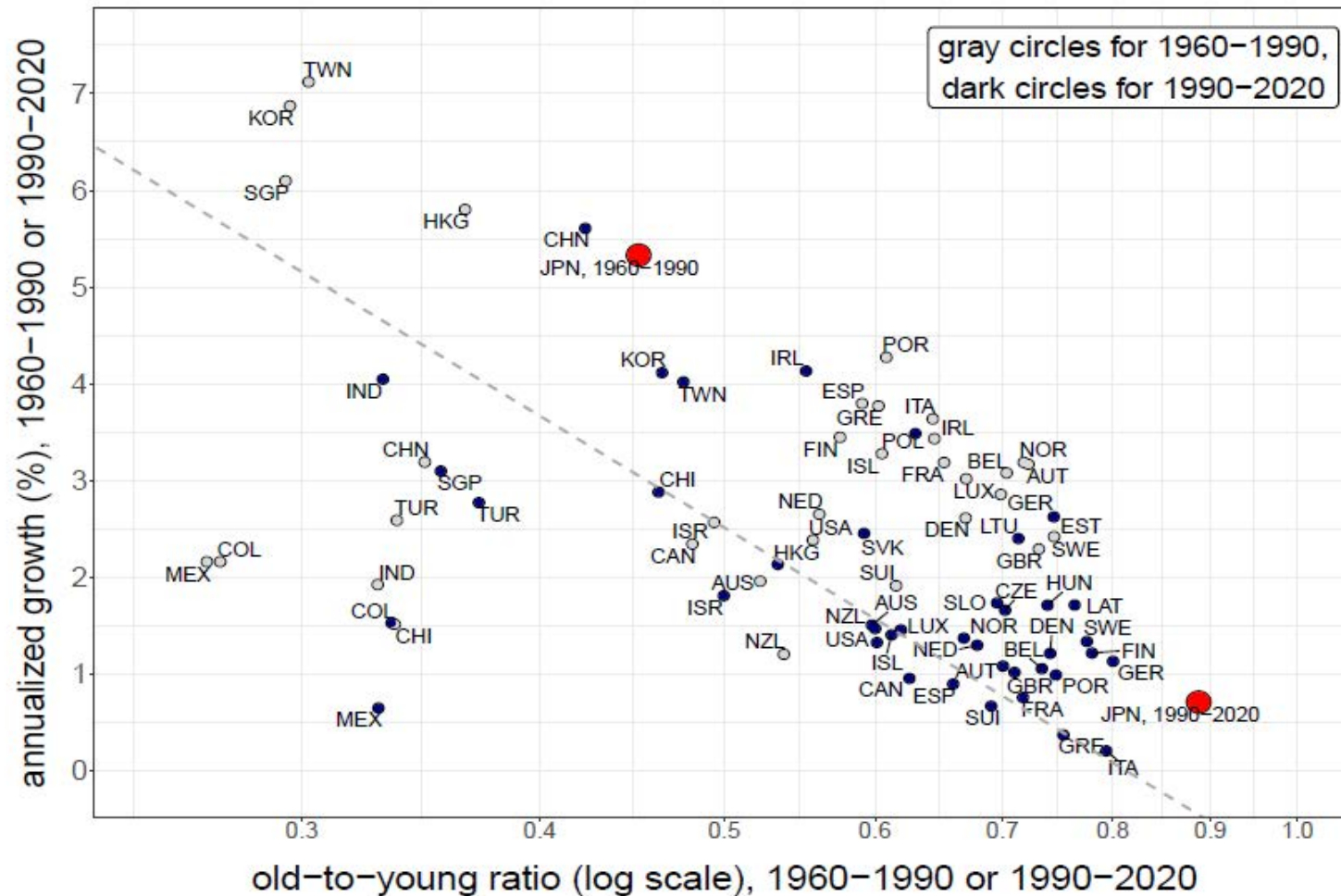
Employment ratio of the elderly** (cross country comparison)



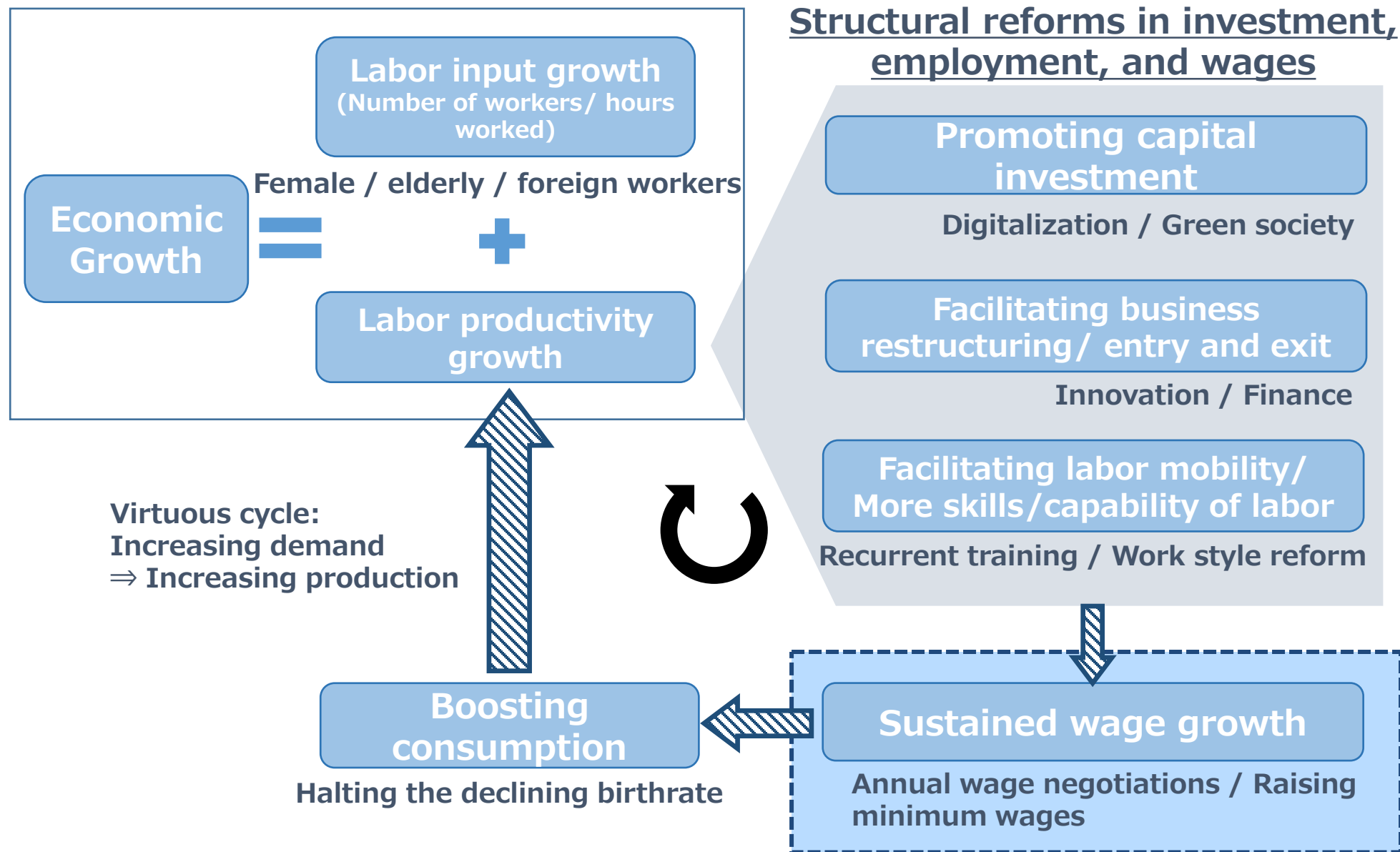
(**) Age: 65 and over

Economic policies: growth under aging

Figure 1: Percapita GDP Growth against the Ratio, 1960-1990 and 1990-2020 Combined, OECD + Asian Tigers + CHN + IND



Economic policies: virtuous cycle of the economy



Economic policies: promoting investment

- By advancing bold and “**strategic investments that enhance resilience against potential crises**” and “**growth investment**,” the government will secure safety and peace of mind in people’s daily lives, increase employment and incomes, raise the growth rate, and create a robust economy.
- Government and the private sector will work together to expand investment aimed at solving social challenges, minimising various risks, and unlocking the potential of cutting-edge technologies.

17 strategic sectors

- | | |
|--|---|
| 1. AI and Semiconductors | 10. Disaster Resilience and National Land Strengthening |
| 2. Shipbuilding | 11. Drug Discovery and Advanced Medical Care |
| 3. Quantum Technology | 12. Fusion Energy |
| 4. Synthetic Biology and Biotechnology | 13. Materials(Critical Minerals and Components) |
| 5. Aerospace | 14. Port and Logistics |
| 6. Digital and Cybersecurity | 15. Defense Industry |
| 7. Content Industry | 16. Information and Communications technology |
| 8. Food Tech | 17. Marine Industry |
| 9. Resource and Energy Security・GX | |

cross-sectoral issues

1. Becoming a Technology-Oriented Nation and Enhancing Competitiveness
2. Human Resource Development
3. Startup Promotion
4. Unlocking Potential through Finance
5. Labor Market Reform
6. Reducing Household Burdens through Outsourcing of Care and Childcare
7. Creating an Environment for Wage Increases
8. Cybersecurity

Economic policies: promoting investment

AI and semiconductor industry

- **Over the seven years to FY2030**, the government will provide over **10 trillion yen** of public support (including financial support) for AI and semiconductor sectors.
- Securing the necessary financial resources by following measures:
 - (1) issuing special session bonds which will be redeemed by transferring funds from the FILP special account
 - (2) using the return of government funds previously budgeted for semiconductor support
 - (3) the use of GX economy transition bonds and the inspection and review of government funds

Green Transformation(GX)

- **20 trillion-scale fiscal support** for up-front investments will be provided **over the next 10 years** funded by issuing **GX economy transition bonds**.
- This support will target investments in fields for which decisions are inevitably difficult only by the private sector and contribute to strengthen industrial competitiveness and to achieve economic growth as well as reducing CO2 emissions.
- **The GX Economy Transition Bonds will be redeemed by Pro-Growth Carbon Pricing (carbon surcharges starting from FY2028, emissions quotas starting from FY2033).**

Basic Policy 2025 (June13, 2025)

The government will invest in the mass production of next-generation semiconductors.

We will work to strengthen the supply chain through support for capital investment and infrastructure development, as well as support for design and development and the cultivation of highly skilled personnel.

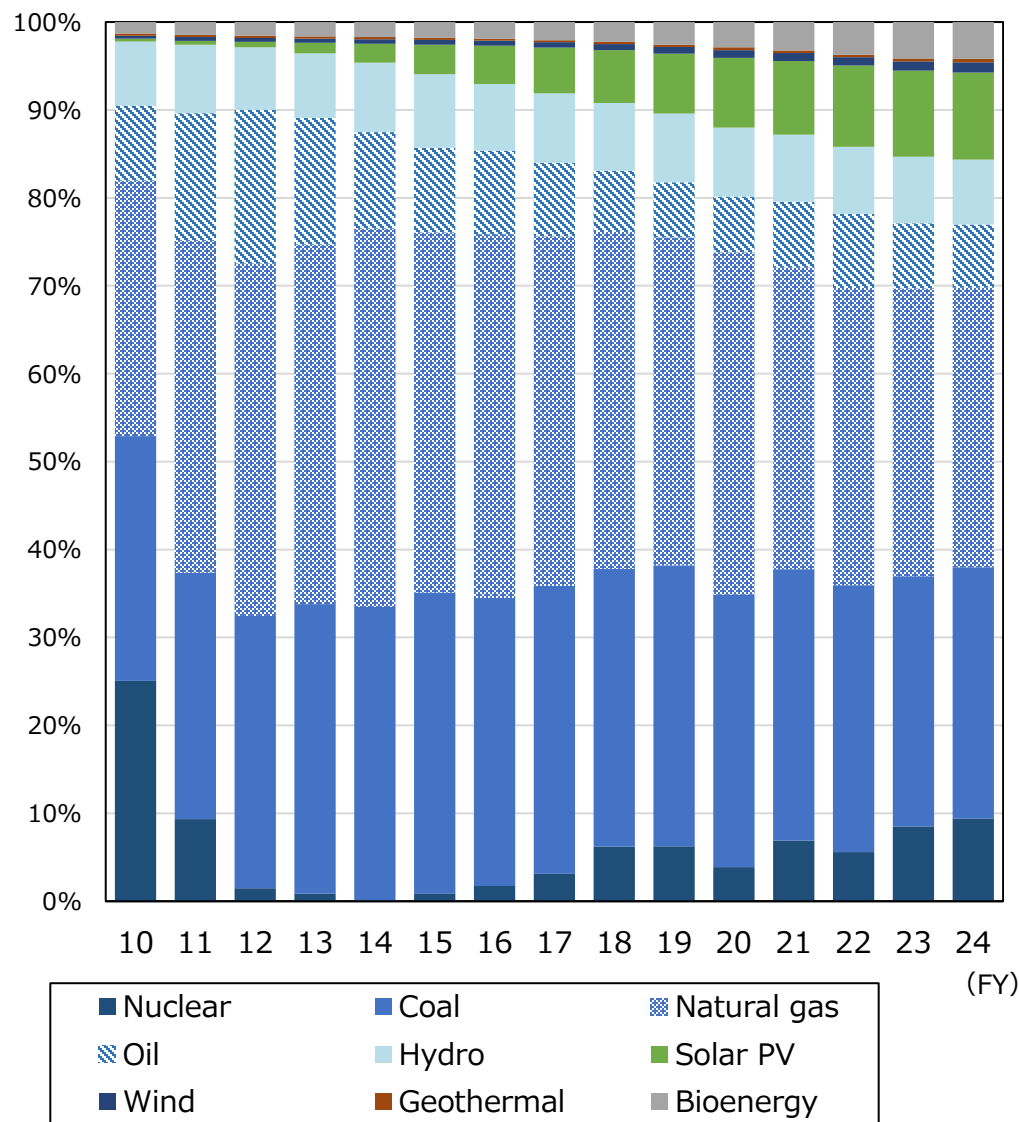
We will build an ecosystem in Japan that spans the design and manufacture of advanced semiconductors, the assembly and operation of servers, and the development and utilization of sovereign AI.

(Source) Cabinet Office, Basic Policy on Economic and Fiscal Management and Reform 2024,June13 2025 (billion yen)

Project	FY2021	FY2022	FY2023	FY2024	FY2025	Support target
Conventional semiconductors, etc.	47	369	575	-	-	Renesas, etc.
Advanced semiconductors	617	450	632	471	-	TSMC: 1,208 FY2021:476 FY2023:732
Next-Generation Semiconductors	110	485	646	992	333	Rapidus: 1,723 FY2021:70 FY2022:260 FY2023:590 FY2024:803
Total	774	1,304	1,853	1,463	333	Total: 5,727

Economic policies: energy composition

Power Supply Composition



The 7th Strategic Energy Plan (2025.2.18)

*Provisional Translation

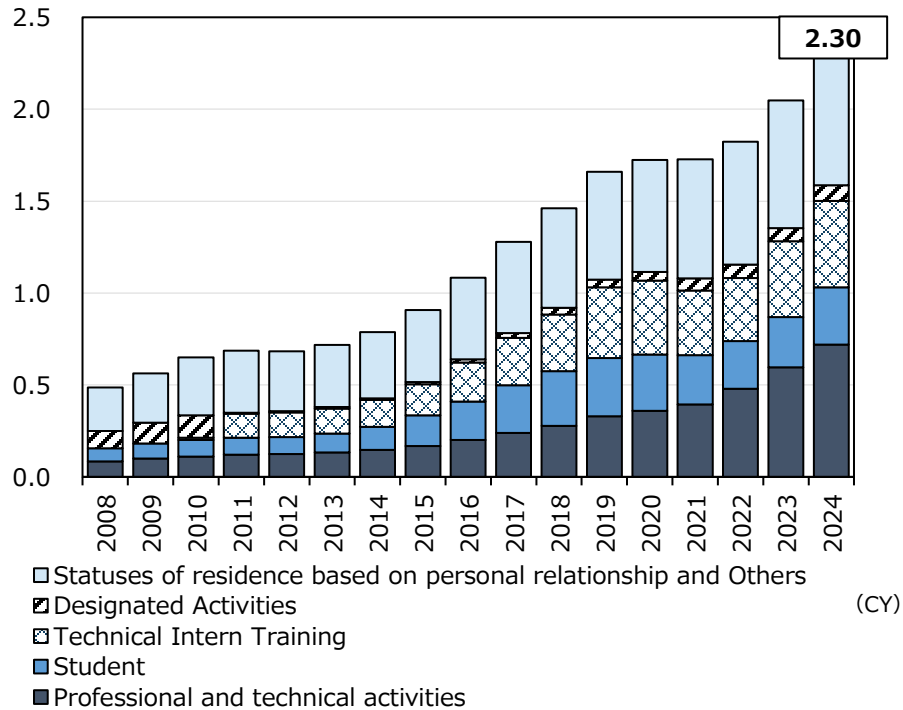
In order to break away from excessive dependence on fossil fuels, it is essential to promote thorough energy conservation on the demand side, fuel conversion in the manufacturing industry, etc., and **on the supply side, to make maximum use of power sources that contribute to energy security, such as renewable energy and nuclear power, and that have a high decarbonization effect.**

In particular, with the increase in electricity demand expected due to the progress of DX and GX, the ability to secure sufficient decarbonized power sources to meet this demand will determine the economic growth and industrial competitiveness of Japan. If Japan is unable to expand our low-carbon power sources and achieve economic growth and strengthen its industrial competitiveness, it will be difficult to maintain employment and raise wages, **so it is extremely important to make the most of both renewable energy and nuclear power, rather than engaging in a binary debate about whether to use renewable energy or nuclear power.**

Economic policies: foreign workers

Number of foreign workers

(million people)

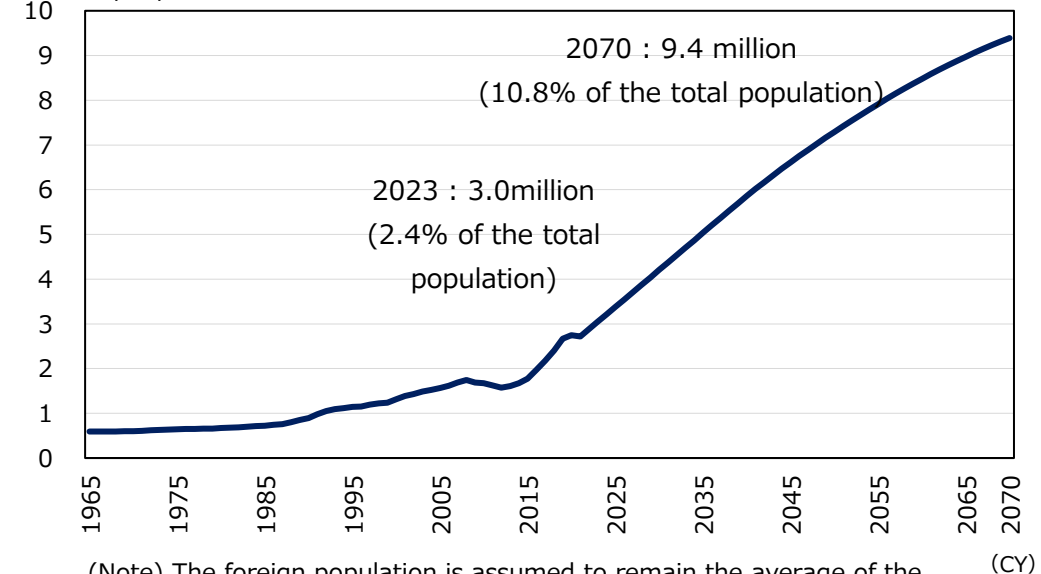


□ Statuses of residence based on personal relationship and Others
 ▨ Designated Activities
 ▩ Technical Intern Training
 ■ Student
 ■ Professional and technical activities

(Source) Ministry of Internal Affairs and Communications

Future projection of foreign people

(million people)



(Note) The foreign population is assumed to remain the average of the "excess number of foreign arrivals" from 2016 to 2019 until 2040, after which the percentage of excess arrivals by age group is assumed to remain constant.
 (Source) National Institute of Population and Social Security Research

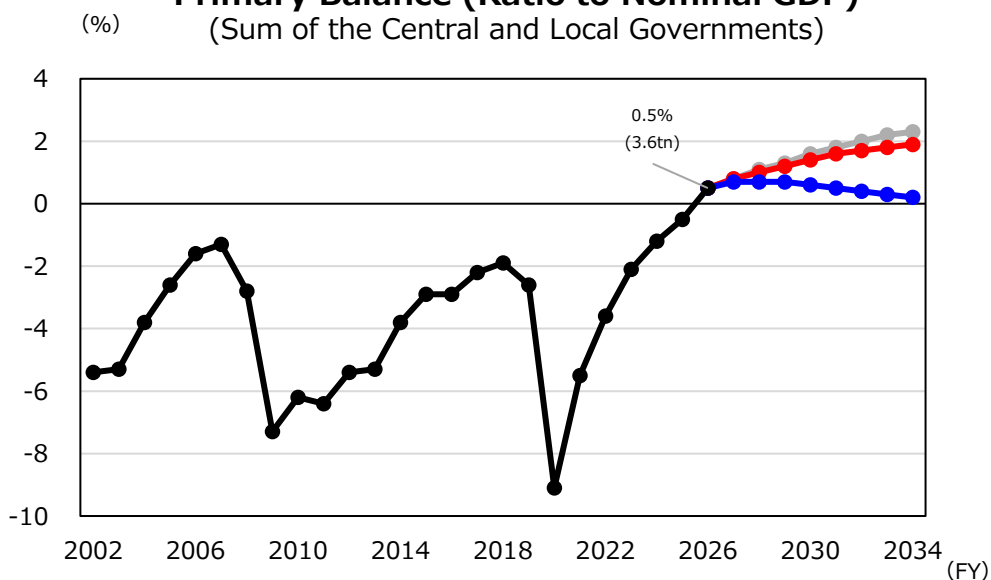
Revision of acts on immigration control and technical intern training (2027.4~)

- The **Technical Intern Training Program (TITP)** is fundamentally reviewed, and the **Employment for Skill Development (ESD) program** will be established in April 2027 to develop and secure human resources in industrial fields with labor shortages.
- It aims at developing human resources with skills at the level of **Specified Skilled Worker (SSW) – type 1** through employment for three years in Japan in the ESD industrial fields, and secure human resources in these fields.

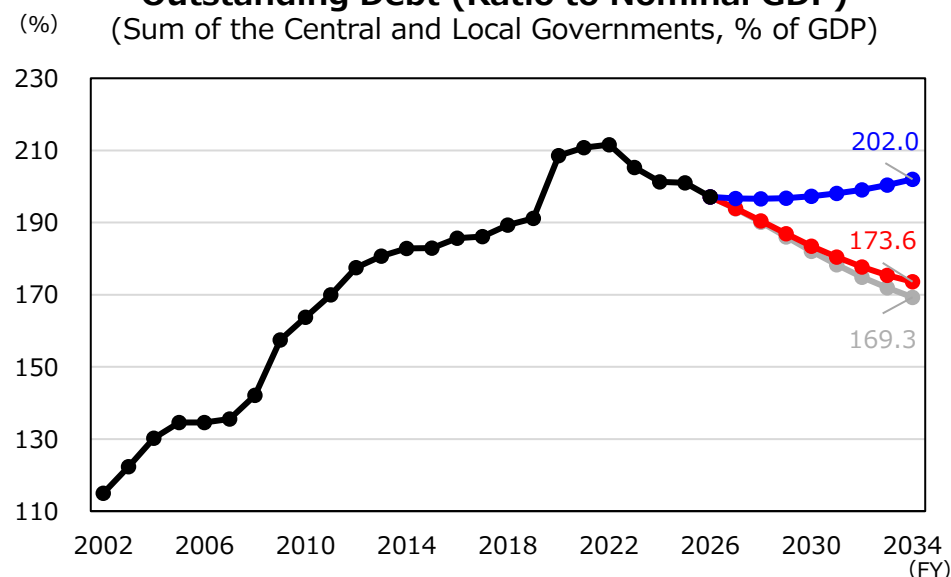
Economic policies: fiscal management

- The primary balance (PB) is currently expected to be in deficit in FY2025.
- Recently the debt-to-GDP ratio gradually declines.

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



Outstanding Debt (Ratio to Nominal GDP)
(Sum of the Central and Local Governments, % of GDP)



("tn" stands for "trillion yen.")

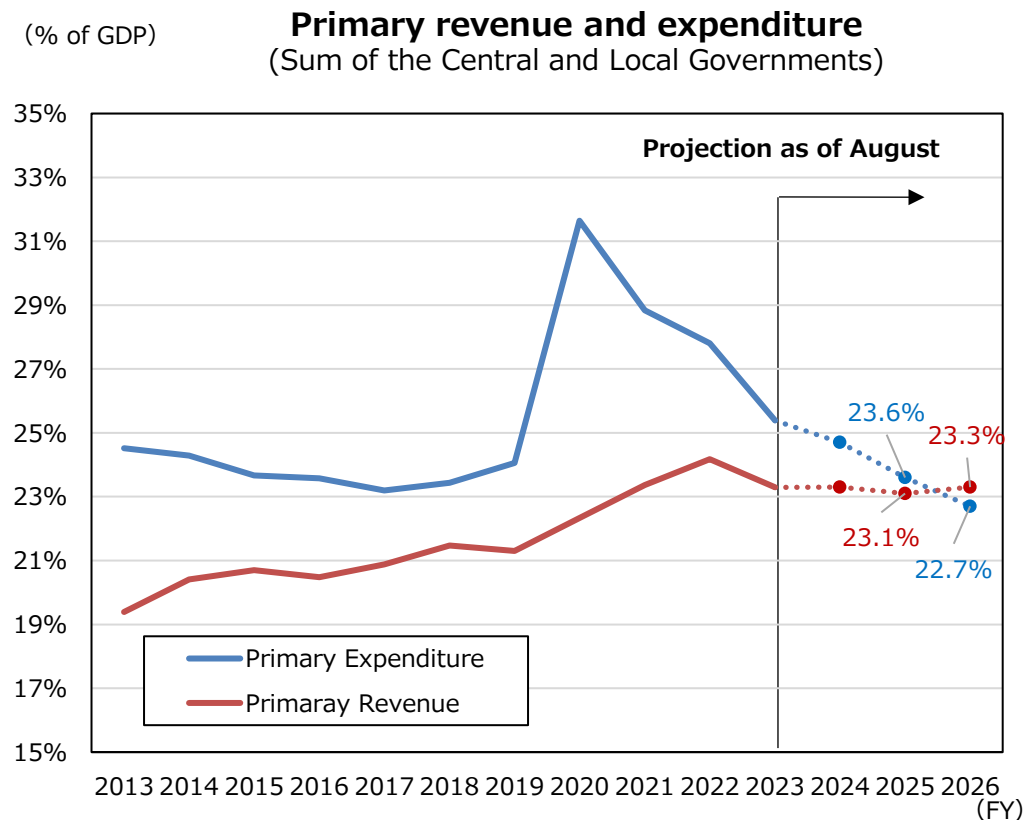
... Higher Economic Growth Case :
Assuming that potential growth rate steady rises, achieving around real 2% and nominal 3% GDP growth.

— Transferring to a New Economic Stage Case :
Assuming that potential growth rate steady rises, achieving around real 1% and nominal 2.5-3% GDP growth.

— Projection of Past Trend Case :
Growth rates of GDP are assumed to be in the mid-0% range for both real and nominal GDP every year.

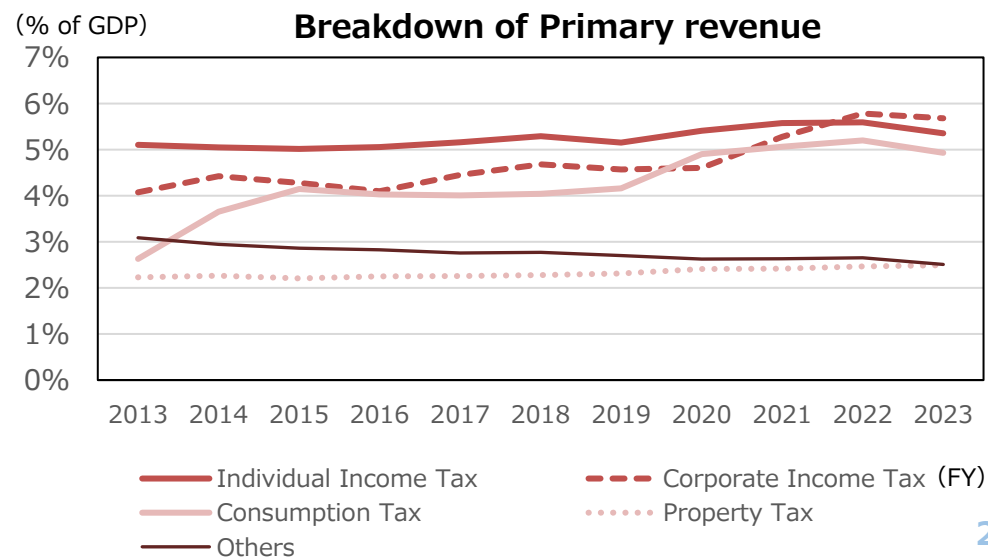
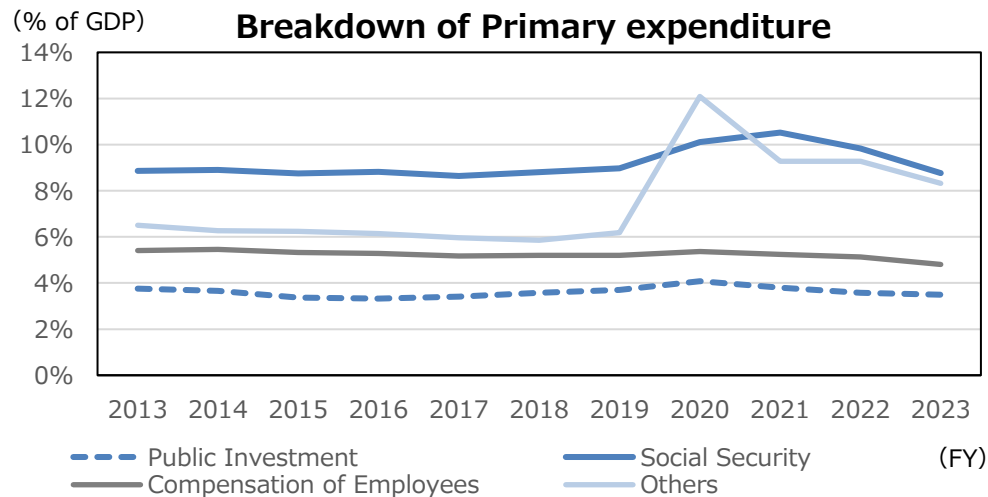
Economic policies: primary revenue and expenditure

- The level of expenditure-to-GDP is getting back to the pre-COVID19 level by normalizing extraordinary spending, while the revenue-to-GDP ratio becomes higher than before.



(Note) The figures for FY2024 onward are from the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis, August 2025

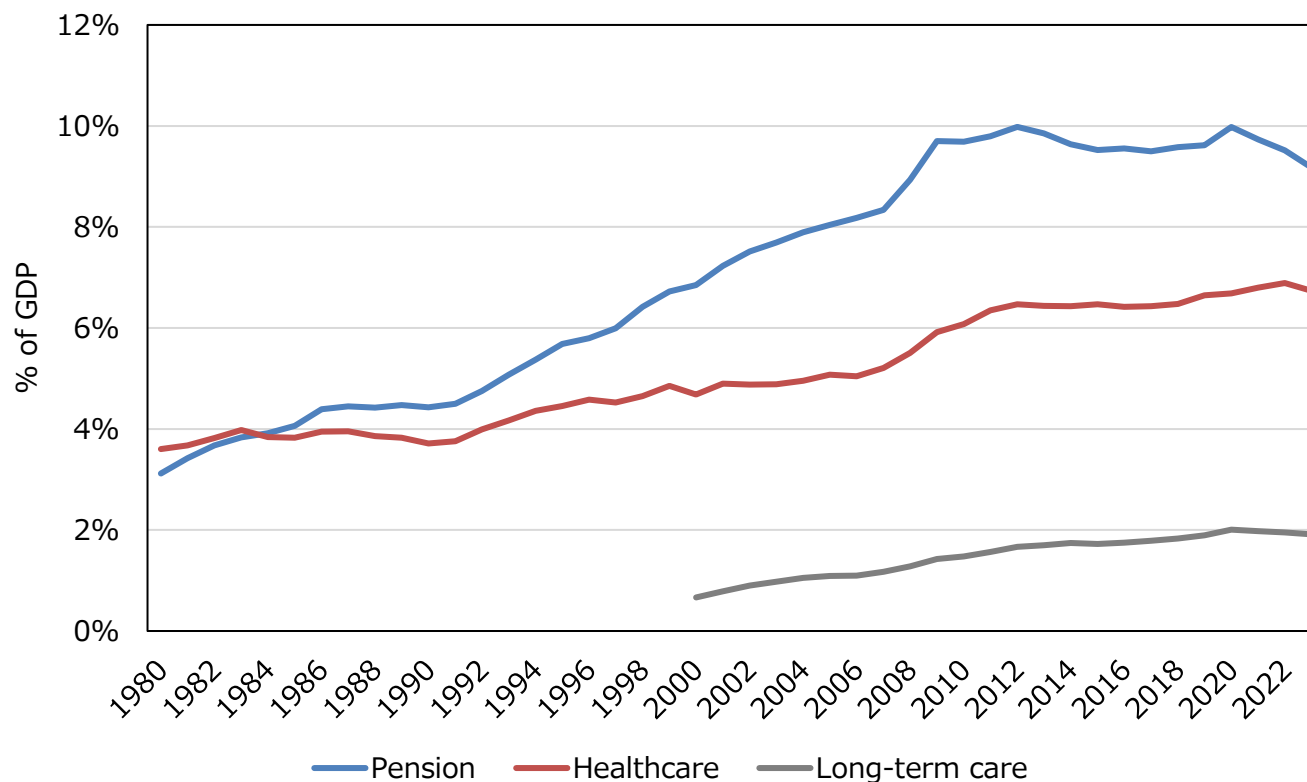
(Source) Cabinet Office



Economic policies: social spending of general government

- **Public pension** benefits have been in line with GDP growth after 2010s, while the **healthcare** and **long-term care** spending grew at more than GDP growth rate.
- To contain the spending increases of social spending, a “spending guideline” was applied every year to control the growth below the increases due to “aging effects”.

Expenditure items of social spending (% of GDP)



The roadmap for reform aiming to build a social security system for all generations

(Decided by the cabinet on Dec 22, 2023)

Examples of reform proposals

- **Revision of self-pay-ratio in long-term care system**

Considering the criteria for “patient with a certain income” for those self pay ratio is 20%

- **Revision of criteria for 30% self-pay-ratio in healthcare and long-term care**

In the healthcare, considering the revision of the criteria for “patient with an income equal to that of the working generation” in line with the burden on working age, etc.

In the long-term care, also considering the revision of the criteria for “patient with an income equal to that of the working generation” in line with the revision in the healthcare and effects on patients.

- **Taking into account financial income in the healthcare and long-term care premium**

Financial income of people with no need of “final tax return” are not reflected in their premium. The way to grasp people’s financial income is discussed.

- **Taking into account financial asset in the healthcare and long-term care**

In line with the situation of individually numbering on saving deposits, considering the reflection of financial assets on the healthcare and long-term care burden.

etc.

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Disclaimer: Views and opinions in this presentation are those of the presenter and do not reflect those of the organization to which he belongs.