

Mid-Year Economic Projection for FY2025

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Cabinet Office

The Japanese economy has been recovering at a moderate pace, while effects of the U.S. trade policies have been seen in some areas. Going forward, the continued improvement in the employment and income environment, with wage increases exceeding 5% for the second consecutive year, and various policy measures are anticipated to support the economy. On the other hand, the effects of the recent rise in prices on personal consumption, if it continues, pose a downward risk of the Japanese economy. Attention should also be given to the risk of downward pressure due to the impact of the U. S. tariff measures.

The government will respond to the current high prices by mobilizing all possible policy measures, in addition to the relevant measures included in the FY2024 supplementary budget or the FY2025 budget, as well as the sale of government rice reserves and support for energy prices. The government will continue to take necessary measures, taking into account the recent agreement between Japan and the U.S., including those outlined in the "Emergency Response Package in Response to U.S. Tariff Measures" (decided by the Comprehensive Response Headquarters for U.S. Tariff Measures on April 25, 2025), and take every precaution regarding economic and fiscal management. Furthermore, based on the "Basic Policy on Economic and Fiscal Management and Reform 2025" (Cabinet approval on June 13, 2025), the government will advance efforts to raise people's income and productivity of the economy, with wage increases that exceed price increases, to ensure a transition to a growth-oriented economy driven by wage increases and investment.

Based on these basic policies, the Japanese economy in FY2025 is projected as follows: Despite the impact of rising prices, the U.S. tariff measures, and the slowdown in global economic growth, GDP growth is projected to be approximately 0.7% in real terms and approximately 3.3% in nominal terms, supported by increases in income, including wage increases, and the effects of various policy measures. The Consumer Price Index (all items) is projected to rise by approximately 2.4%.

In FY2026, as a projection under certain assumptions to provide a reference for discussions on macroeconomy, the GDP growth rate is projected to be approximately 0.9% in real terms and approximately 2.7% in nominal terms, supported by domestic demand. The Consumer Price Index (all items) is projected to rise by approximately 1.9%.

Main Economic Indicators

(% or approximate %)

	FY2024 Actual	FY 2025	
		January Projection	Mid-Year Projection
Real GDP	0.8	1.2	0.7
Private consumption	0.8	1.3	1.0
Private residential investment	-1.0	-0.3	-0.7
Private non-residential investment	2.4	3.0	1.8
Government expenditure	1.3	0.0	0.0
Government consumption	1.3	0.3	0.4
Public investment	1.3	-1.0	-1.3
Exports of goods and services	1.7	3.6	1.2
Less: Imports of goods and services	3.5	3.6	2.0
Contribution of domestic demand	1.2	1.3	0.9
Contribution of private demand	0.9	1.3	0.9
Contribution of public demand	0.3	0.0	0.0
Contribution of net exports	-0.4	-0.0	-0.2
Real GNI	1.7	1.1	0.7
Nominal GDP	3.7	2.7	3.3
Unemployment rate	2.5	2.4	2.4
Number of employees	0.9	0.1	0.4
Industrial production	-1.4	2.4	-0.3
Domestic corporate goods price index	3.3	1.6	1.9
Consumer price index (all items)	3.0	2.0	2.4
GDP deflator	2.9	1.5	2.6

(Note 1) The figures represent the year-over-year rate of change, except for the unemployment rate and the contributions of domestic demand and net exports.

(Note 2) The figures for “January Projection” are those shown in the FY2025 Economic Outlook and Basic Stance for Economic and Fiscal Management (Cabinet decision, January 24, 2025).

(Note 3) The assumptions on the U.S. tariff measures are based on the agreement between Japan and the U.S. on July 22, 2025 (U.S. time). The assumptions on other measures, including tariff rates for each country, are based on the announcements by the U.S. government as of July 31, 2025 (U.S. time).

(Note 4) The Japanese economy mainly consists of private activity and could be influenced by unforeseeable market fluctuations and other changes, especially those in the international environment. Accordingly, the main economic indicators above should be understood as being subject to upside and downside risks.

Economic Projection for FY2026 for reference

(Approximate %)

	FY2026
Real GDP	0.9
Private consumption	1.1
Private residential investment	-0.2
Private non-residential investment	1.9
Contribution of domestic demand	0.9
Contribution of net exports	-0.0
Real GNI	0.7
Nominal GDP	2.7
Unemployment rate	2.4
Number of employees	0.1
Domestic corporate goods price index	1.2
Consumer price index (all items)	1.9
GDP deflator	1.8

(Note 1) The figures represent the year-over-year rate of change, except for the unemployment rate and the contributions of domestic demand and net exports.

(Note 2) References for FY2026 are a preliminary projection provided for discussions on the macroeconomy in FY2026 and should be understood as being subject to considerable upside and downside risks with various uncertainties.

(Note 3) In the above preliminary projection, public demand is assumed to be neutral in terms of its contribution to real GDP.

(Note 4) The assumptions on the U.S. tariff measures are based on the agreement between Japan and the U.S. on July 22, 2025 (U.S. time). The assumptions on other measures, including tariff rates for each country, are based on the announcements by the U.S. government as of July 31, 2025 (U.S. time).

(Note 5) The government economic outlook for FY2026 will be released as the FY2026 Economic Outlook and Basic Stance for Economic and Fiscal Management, which is planned to be formulated and approved by the Cabinet at the end of 2025, based on policy measures for the next fiscal year as well as the latest economic conditions.

Notes on the Mid-Year Economic Projection for FY2025

The projections are based on the assumptions shown below. These are technical assumptions for the projections, and they do not represent the view of the Cabinet Office.

	FY2025		FY2026 (Reference)
	(January Projection)	(Mid-Year Projection)	
Real growth rate of world GDP (excluding Japan) (%)	2.9	2.5	2.8
Exchange rate (yen/U.S. dollar)	153.6	145.7	146.0
Crude oil import price (U.S. dollar/barrel)	76.2	74.0	73.7

Notes

- (1) The real growth rate of world GDP (excluding Japan) is calculated based on economic outlooks of international organizations.
- (2) The exchange rate is assumed to stay constant at 146.0 yen/U.S. dollar from July 18, 2025, onward, which is the average exchange rate from June 19 to July 18, 2025.
- (3) The crude oil import price is assumed to stay constant at 73.7 U.S. dollars/barrel from July 18, 2025, onward, which is the average spot price of the Dubai crude oil plus the cost of freight and insurance from June 19 to July 18, 2025.