

Fiscal Year 2026 Economic Outlook and Basic Stance on Economic and Fiscal Management

〔January 23, 2026
Cabinet Decision〕

1. Economic Trends in FY 2025

The Japanese economy has reached the stage where it is transitioning from one defined by a deflation and cost-cutting economy to a new growth-oriented economy, as evidenced by wage increases exceeding 5% for two consecutive years.

The Japanese economy is recovering at a moderate pace, while the effects caused by the U.S. trade policies are seen mainly in the automotive industry. However, potential growth remains sluggish, wage growth fell below inflation, and private consumption has been weakened by price increases, in particular food prices.

In response to such situation, the government firstly formulated the Comprehensive Economic Measures to Build a Strong Japanese Economy (approved by the Cabinet on November 21, 2025; hereinafter referred to as the “Comprehensive Economic Measures”), consisting of three pillars: securing everyday life and measures to address rising prices; strategic investments that enhance resilience against potential crises and growth-oriented investments for building a robust economy; and strengthening defense capability and diplomatic power. The government will implement the FY 2025 Supplementary Budget (enacted on December 16, 2025), which underpins the Comprehensive Economic Measures, swiftly and steadily to disseminate its effects broadly.

In FY 2025, the Japanese economy is expected to continue its moderate recovery, with the real Gross Domestic Product (GDP) growth rate projected to be approximately 1.1%, the nominal GDP growth projected to be approximately 4.2%, and the Consumer Price Index (CPI, all items) inflation rate projected to be approximately 2.6%.

2. FY 2026 Basic Stance on Economic and Fiscal Management

In FY 2026, the government will conduct economic and fiscal management under the concept of “responsible and proactive public finances” that fulfills our duty to future generations, in transitioning to a growth-oriented economy where prices increase steadily and wages grow above inflation sustainably. Through strategic employment of fiscal policies, the government will promote strategic investments to enhance resilience against potential crises and growth-oriented investments with the collaboration of the public and private sector to solve social challenges, ensure safety and peace of mind in people’s daily lives, increase employment and income, raise potential growth, and by doing so, realize a strong economy.

Fiscal and social security systems must also be transformed to respond to the inflation and wage growth appropriately. Furthermore, the government will thoroughly implement administrative and fiscal reforms to enhance the quality of expenditures. As a part of this reform, the government will redesign systems and institutions concurrently to enhance the efficiency and effectiveness of the delivery of public services to the people.

Amidst these efforts, the government will increase tax revenues through economic growth, suppress debt increase within the range of GDP growth rate, and reduce the government-debt-to-GDP ratio. This will achieve fiscal sustainability to secure market confidence and realize a strong economy and fiscal soundness simultaneously.

Appropriate monetary policy management is critically important to achieve both strong economic growth and price stability going forward. The government will continue to work closely with the Bank of Japan to achieve sustained economic growth under price stability that never slips back into deflation. The government expects the Bank of Japan to achieve the price stability target of two percent in a sustainable and stable manner, while confirming the virtuous cycle between wages and prices, by conducting appropriate monetary policy management in light of economic activity, prices and financial conditions.

Through these efforts, the government aims to deliver the fruits of economic growth widely among the people to realize a society where everyone can feel prosperity, anxieties about the future are transformed into hope, and people can feel safe.

3. Economic Outlook for FY 2026

In FY 2026, growth led by domestic demand is expected to continue in the Japanese economy, as private consumption is expected to increase in line with the improvement in income environment, supported by the effects of various policy measures, and business investment is also expected to increase with the advancement in efforts to promote investments in crisis management and economic growth.

The real GDP growth rate, nominal GDP growth rate, and CPI (all items) inflation rate are projected to be approximately 1.3%, 3.4%, and 1.9%, respectively.

However, close attention should be given to the effects of uncertainties in the global economy and fluctuations in financial and capital markets.

(I) Real Gross Domestic Product (Real GDP)

(i) Private consumption

Private consumption is expected to increase by approximately 1.3%, in line with the improvement in income environment with the gradual slowdown of inflation, supported by the effects of various policy measures.

(ii) Private residential investment

Private residential investment is expected to increase by approximately 1.3%, recovering from the decline in the previous fiscal year associated with the revision of the Building Standards Act.

(iii) Private non-residential investment

Private non-residential investment is expected to increase by approximately 2.8%, against the backdrop of robust corporate profits and strong investment appetite, with the advancement in efforts to promote investments in crisis management and economic growth.

(iv) Government expenditures

Government expenditures are expected to increase by approximately 1.1% due to expenditures associated with an aging society and the Comprehensive Economic Measures.

(v) Net exports of goods and services

The contribution of net exports to the real GDP growth rate is projected to be approximately -0.2%. Exports are expected to increase alongside moderate global economic growth. However, imports are also expected to increase owing to the increase in domestic demand.

(II) Real Gross National Income (Real GNI)

The real GNI is expected to increase by approximately 1.7%, exceeding the real GDP growth rate, as income from abroad is also expected to increase.

(III) Labor and Employment

The unemployment rate is expected to decline to approximately 2.4%, as the labor market tightens in line with moderate economic growth, while the labor force is expected to remain flat.

(IV) Industrial Production

Industrial production is projected to increase by approximately 1.2%, as domestic demand and exports increase.

(V) Prices

The Consumer Price Index (all items) is expected to rise by approximately 1.9%. The increase in food prices is expected to slow down, and energy prices are expected to decrease owing to the effects of the Comprehensive Economic Measures, both of which will decelerate headline inflation, while the underlying inflation rate is expected to rise as the output gap expands.

The GDP deflator is expected to rise by approximately 2.0%.

(VI) Balance of Payments

The current account surplus is expected to remain flat, with the ratio of the current account balance to nominal GDP projected to be approximately 5.5%, as net income from abroad is expected to stay positive.

(Note 1) This economic outlook is made on the premise of economic and fiscal management as described in “2. FY 2026 Basic Stance on Economic and Fiscal Management”.

(Note 2) 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.

Main Economic Indicators

	FY 2024 (Actual)	FY 2025	FY 2026	Percentage changes over the previous fiscal year					
				FY 2024		FY 2025		FY 2026	
	Trillion yen (Nominal)	Trillion yen (Approx.) (Nominal)	Trillion yen (Nominal)	% (Nominal)	% (Real)	% (Approx.) (Nominal)	% (Approx.) (Real)	% (Approx.) (Nominal)	% (Approx.) (Real)
Gross domestic product	642.4	669.2	691.9	3.7	0.5	4.2	1.1	3.4	1.3
Private consumption	340.4	353.5	365.3	2.9	0.2	3.9	1.3	3.4	1.3
Private residential investment	27.6	27.3	28.3	2.6	-0.7	-0.8	-3.4	3.3	1.3
Private non-residential investment	119.2	124.6	130.5	4.2	0.9	4.5	1.9	4.8	2.8
Change in private inventories *	0.1	0.3	0.3	(0.1)	(0.1)	(0.0)	(0.0)	(0.0)	(0.0)
Government expenditures	161.0	164.8	170.0	4.6	2.0	2.3	0.5	3.1	1.1
Government consumption	129.1	131.8	136.0	4.6	2.3	2.1	0.4	3.2	1.0
Public investment	32.0	33.0	34.0	3.8	0.1	3.1	0.5	2.9	1.3
Exports of goods and services	141.7	145.5	151.4	6.8	1.7	2.8	2.5	4.0	2.0
Less: Imports of goods and services	147.4	146.9	153.9	6.3	3.3	-0.4	2.7	4.8	2.9
Contribution of domestic demand				3.7	0.9	3.5	1.1	3.6	1.5
Contribution of private demand				2.5	0.4	2.9	1.0	2.8	1.3
Contribution of public demand				1.1	0.5	0.6	0.1	0.8	0.3
Contribution of net exports				0.0	-0.4	0.7	-0.1	-0.2	-0.2
National income	452.0	477.6	496.1	2.4		5.7		3.9	
Compensation of employees	314.2	326.2	338.1	4.1		3.8		3.7	
Property income	36.3	42.0	44.3	13.8		15.8		5.4	
Entrepreneurial income	101.6	109.5	113.8	-5.8		7.7		4.0	
Gross national income	682.1	711.1	737.4	4.0	1.1	4.3	1.7	3.7	1.7
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)		%	% (Approx.)		% (Approx.)	
Total labor force	6,968	7,005	7,010		0.5		0.5		0.1
Total employment	6,793	6,831	6,841		0.5		0.6		0.1
Employees	6,141	6,190	6,212		0.9		0.8		0.4
Unemployment rate	%	% (Approx.)	% (Approx.)	2.5	2.5	2.4			
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-1.4	0.3	1.2						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	3.3	2.3	1.4						
Consumer price index (all items)	3.0	2.6	1.9						
GDP deflator	3.2	3.1	2.0						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)		%	% (Approx.)		% (Approx.)	
Balance of goods and services	-6.6	-2.1	-2.9						
Trade balance	-4.0	0.6	0.2						
Exports	106.3	108.6	113.8		4.1		2.2		4.8
Imports	110.3	108.1	113.7		4.3		-2.0		5.2
Current balance	29.5	35.6	38.4						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)	4.6	5.3	5.5			

* Figures in parentheses represent contribution to GDP growth.

(Note 1) The figures for consumer price index include all items.

(Note 2) This economic outlook is based on the following assumptions with regard to the real growth rate of world GDP (excluding Japan), the yen exchange rate, and the import price of crude oil. It should be noted that these assumptions are made only for the purpose of preparing the outlook and do not represent government forecasts or outlooks.

	FY 2024 (Actual)	FY 2025	FY 2026
Real growth rate of world GDP (excluding Japan) (%)	3.1	2.8	2.8
Exchange rate (yen/dollar)	152.5	150.8	155.2
Import price of crude oil (dollar/barrel)	82.8	71.3	68.0

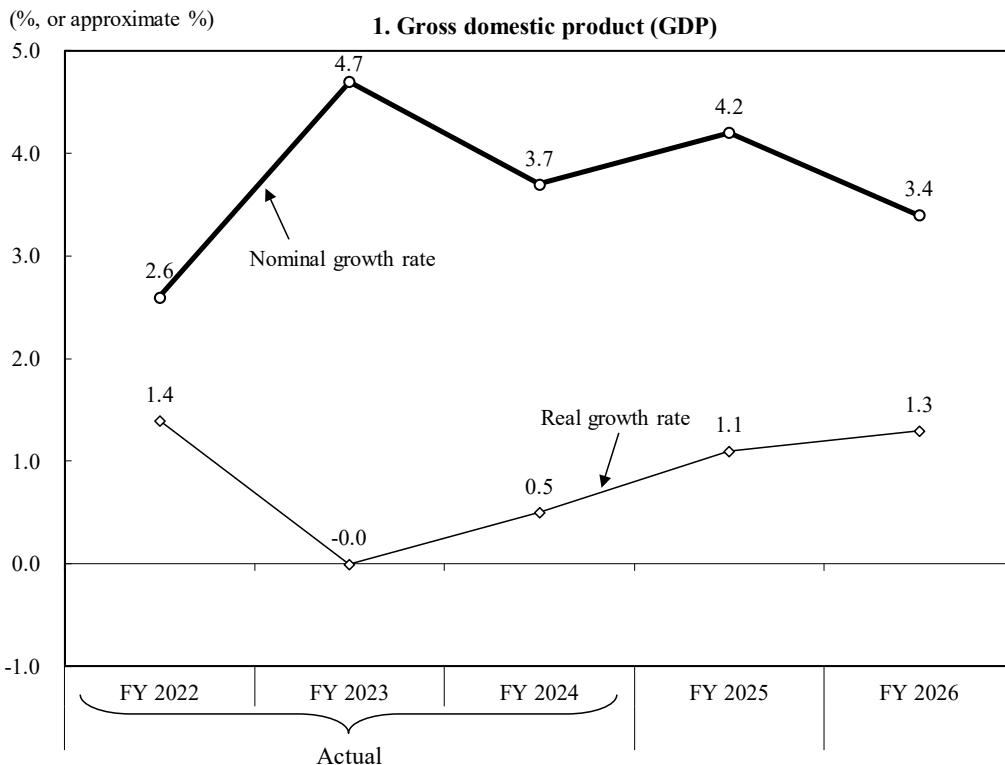
(Remarks) 1. The real growth rate of the world GDP (excluding Japan) is calculated based on economic forecasts of international organizations.

2. The exchange rate from December 2025 onward is assumed to stay constant at 155.2 yen/dollar, which is the average exchange rate from November 1 to November 30.

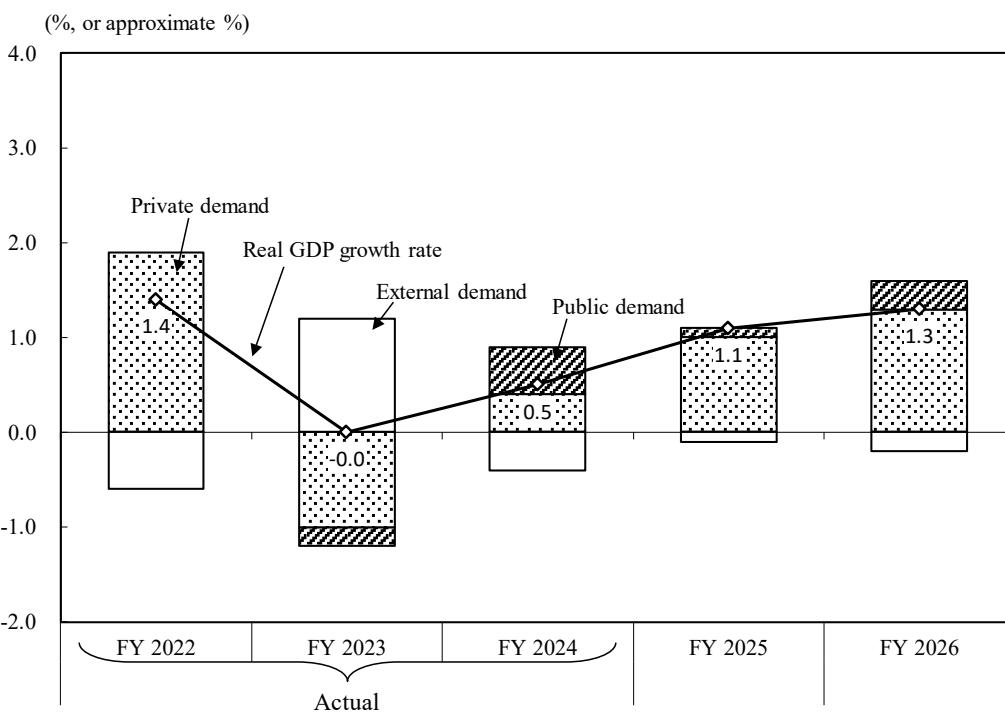
3. The import price of crude oil from December 2025 onward is assumed to stay constant at 68.0 dollars/barrel, which is the average Dubai spot price from November 1 to November 30, 2025, plus freight and insurance.

(Reference)

Main Economic Indicators



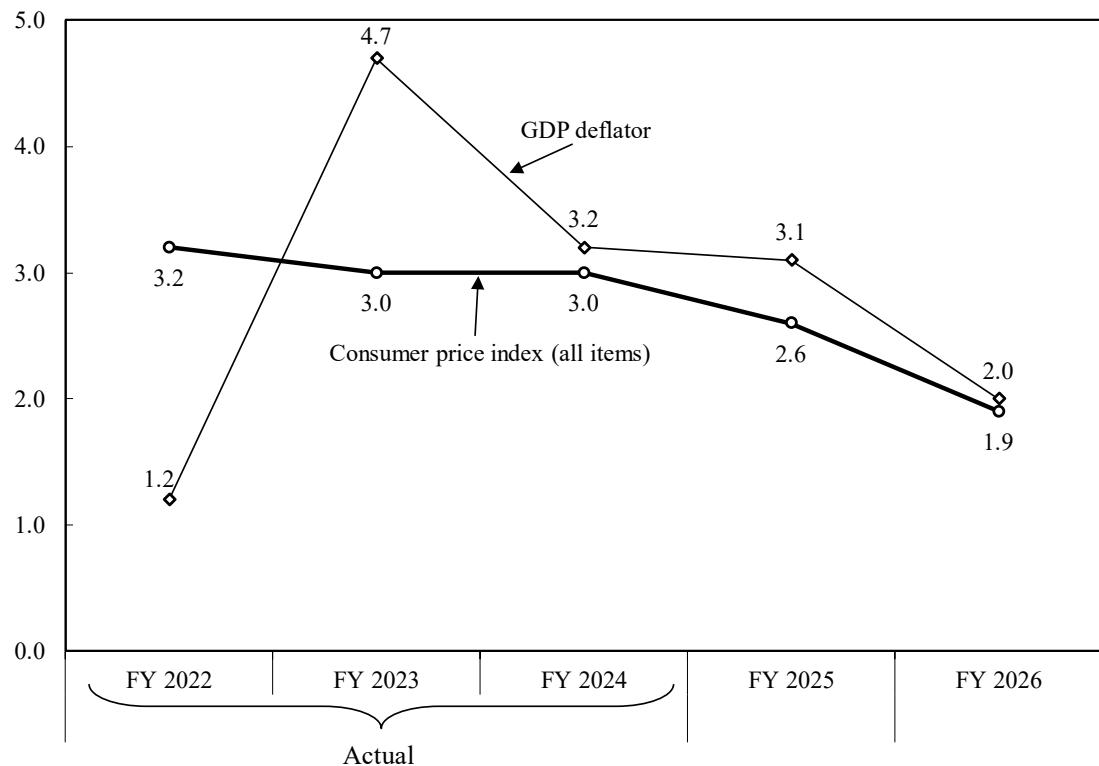
2. Real GDP growth rate and contributions to the real GDP growth rate



(Note) Bars represent each demand component's contribution to the real GDP growth rate.

(%, or approximate %)

3. Percentage change in price related indices



4. Unemployment rate and the number of employees

