Executive Summary:
Economic Outlook for FY 2026

December 2025

Cabinet Office

1. Outlook for Economic Growth

In FY 2025, despite the remaining uncertainty in the global economy, real GDP is projected to grow at approximately 1.1%, led by the increases in private consumption and business investment, supported by various policy measures.

In FY 2026, real GDP is projected to grow at approximately 1.3%. Private consumption is expected to increase in line with the improvement in the income environment. The growth in business investment is expected to accelerate with the advancement of efforts to promote investments in crisis management and economic growth.
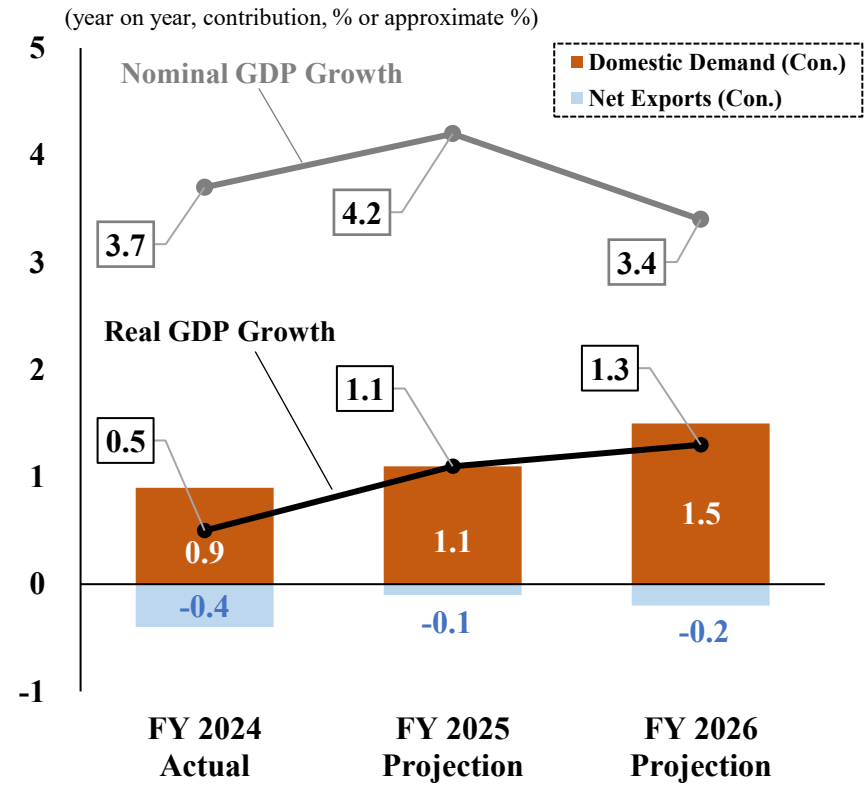
Main Economic Indicators

(year on year, % or approximate %)

	FY 2024	FY 2025			FY 2026		
	Actual	Mid-Year Outlook	Private Consensus	Economic Outlook	Mid-Year Outlook	Private Consensus	Economic Outlook
Real GDP	0.5	0.7	0.9	1.1	0.9	0.8	1.3
Private Consumption	0.2	1.0	1.2	1.3	1.1	0.9	1.3
Business Investment	0.9	1.8	1.7	1.9	1.9	1.6	2.8
Domestic Demand (Con.)	0.9	0.9	1.0	1.1	0.9	0.9	1.5
Net Exports (Con.)	-0.4	-0.2	-0.1	-0.1	-0.0	-0.1	-0.2
Nominal GDP	3.7	3.3	4.0	4.2	2.7	2.7	3.4
CPI (all items)	3.0	2.4	2.8	2.6	1.9	1.9	1.9
Unemployment rate	2.5	2.4	2.5	2.5	2.4	2.4	2.4

Assumption of external environment

	FY 2025		FY 2026	
	Mid-Year Outlook	Economic Outlook	Mid-Year Outlook	Economic Outlook
Exchange rate (yen/U.S. dollar)	145.7	150.8	146.0	155.2
Crude oil import price (U.S. dollar/barrel)	74.0	71.3	73.7	68.0
Real growth rate of world GDP (%)	2.5	2.8	2.8	2.8

Economic Growth

(year on year, contribution, % or approximate %)

Legend:
- Domestic Demand (Con.)
- Net Exports (Con.)

Nominal GDP Growth: 3.7 (FY 2024), 4.2 (FY 2025), 3.4 (FY 2026)

Real GDP Growth: 0.5 (FY 2024), 1.1 (FY 2025), 1.3 (FY 2026)

Domestic Demand (Con.): 0.9 (FY 2024), 1.1 (FY 2025), 1.5 (FY 2026)

Net Exports (Con.): -0.4 (FY 2024), -0.1 (FY 2025), -0.2 (FY 2026)

FY 2024 Actual | FY 2025 Projection | FY 2026 Projection

(Notes)
1. The figures of private consensus are the average rates of 15 private companies' projections after quarterly estimates of GDP of Jul.-Sep. 2025.
2. CPI of private consensus is all items less fresh food.
3. Assumptions of external environment;
   -The exchange rate and crude oil import price are assumed to stay constant at the average level of November from December 1st of 2025 onwards.
   -The real growth rate of the world GDP is calculated based on economic outlooks of international organizations.

- The output gap is expected to turn to and stay positive toward FY 2026.
- CPI (all items) is expected to rise at around 2%. The contribution of food will become smaller and policy measures will reduce energy prices, whereas underlying inflation will accelerate with the expansion of the output gap.

Output Gap

(%)

2

1

0.9

0

0.2

-1

-0.3

-2

-3

-4

-5

2012 2013 2014 2015 2016 2017 2018 2019 2020 2021 2022 2023 2024 2025e 2026e (FY)
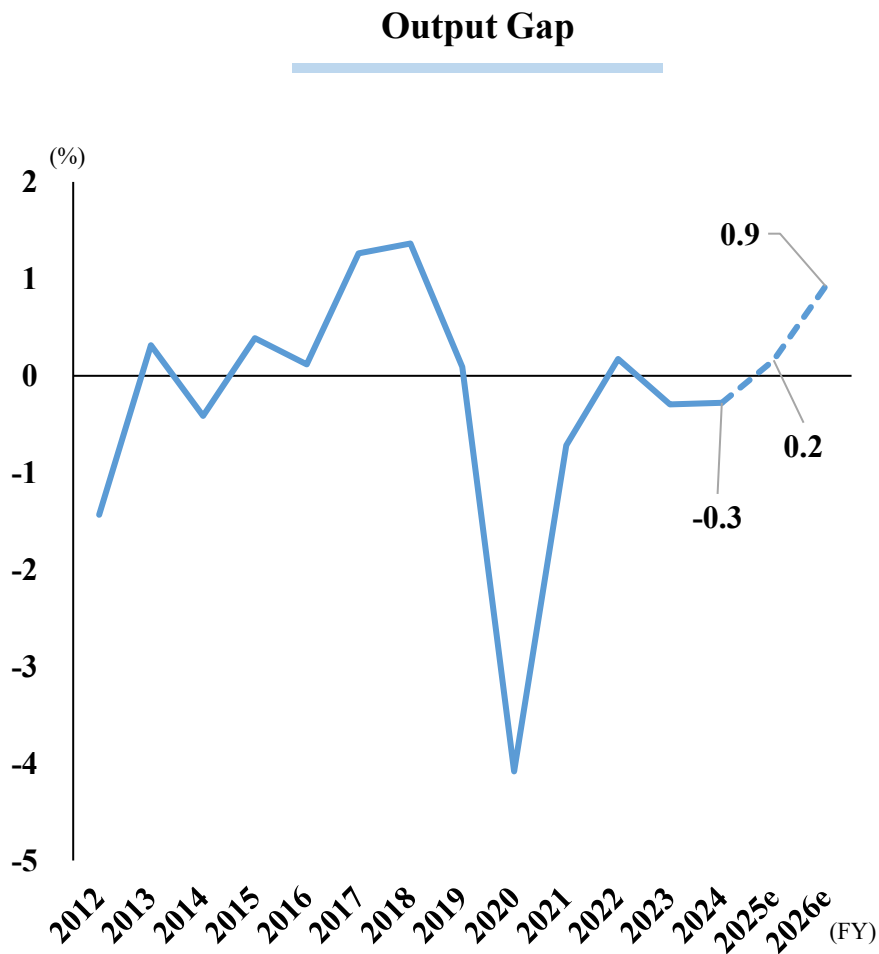
(Note) Potential GDP growth is assumed to be 0.6% in FY 2025 and 0.7% in FY 2026 in reference to the Economic and Fiscal Projections for Medium to Long Term Analysis (August. 7, 2025).

Breakdown of Inflation

(year on year, contribution, % or approximate %)

4

All items (year on year)

3.0

All items less food and energy (year on year)

Food

1.9

3.0

2.6

3

2.6

1.4

1.7

1.6

2.6

1.7

1.6

1.9

1.6

2

0.6

0.9

1.7

Others

1.7

1.1

1.2

1.4

1

0

-0.2

-0.3

-0.7

0.0

-0.1

Energy

Effects of free high-school tuition policy and free school lunch policy

-1

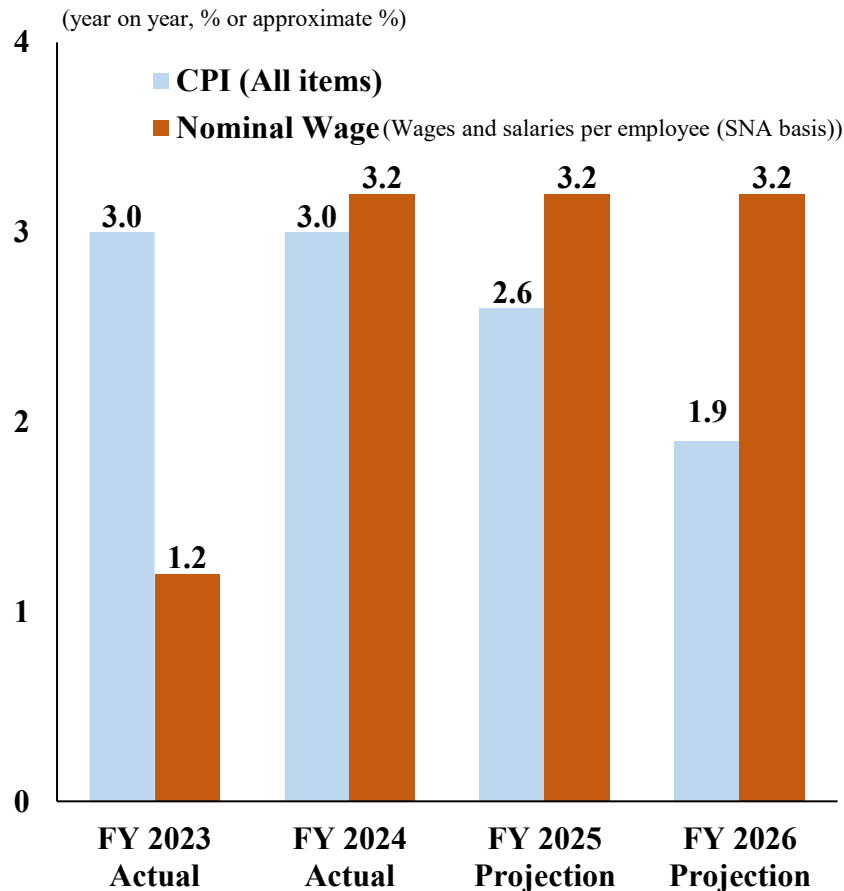| FY 2023 Actual | FY 2024 Actual | FY 2025 Projection | FY 2026 Projection |
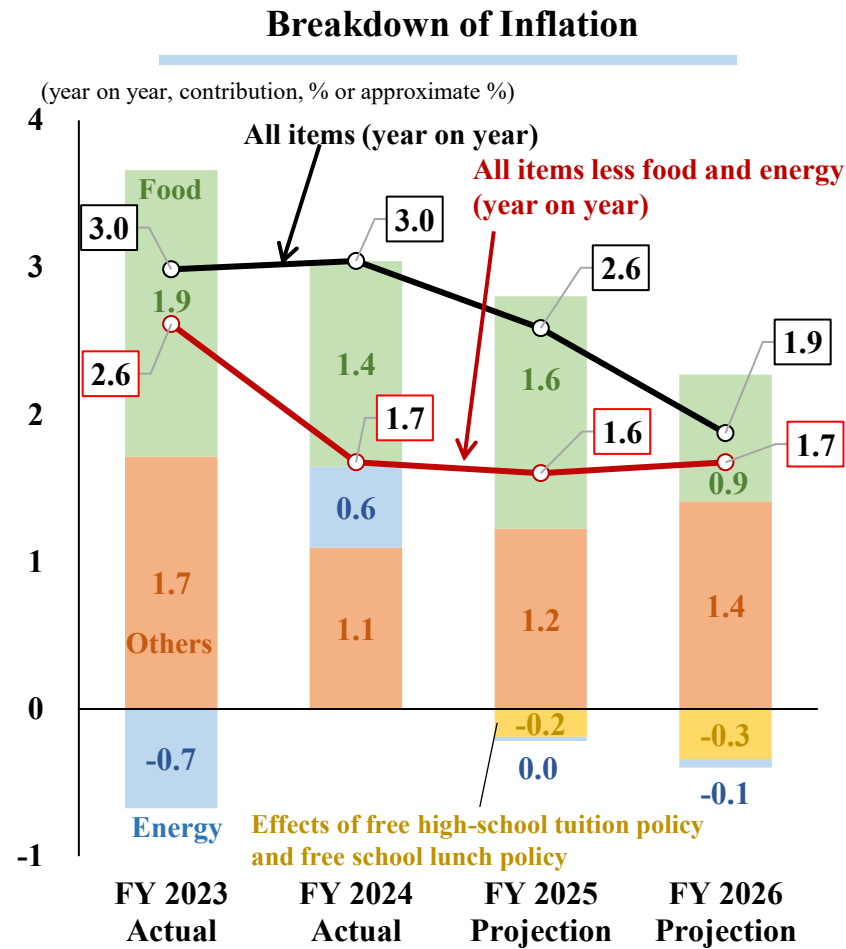
(Reference) Year-on-year inflation rate without free tuition and school lunch policy:
All items: 2.8% in FY 2025, 2.2% in FY 2026
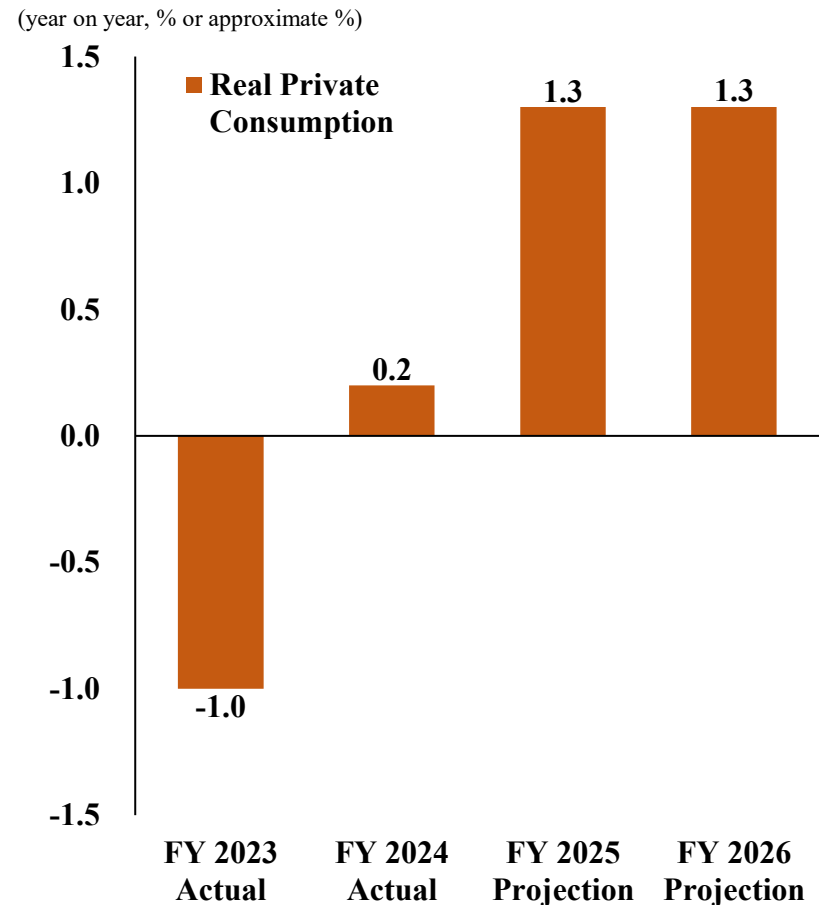All items less food and energy: 1.9% in FY 2025, 2.1% in FY 2026

3. Outlook for Wages and Private Consumption

▌In FY 2025, the real wage is expected to be positive as inflation slows by the end of the fiscal year.

▌In FY 2026, the inflation rate is expected to decline, partly owing to the effects of policies, while the nominal wage is expected to grow at a similar rate to that of recent years. As a result, the real wage is projected to increase by around 1%.

▌Real private consumption is expected to keep increasing at a moderate pace, with the support of policy measures.

Outlook for Wages and Prices

(year on year, % or approximate %)

■ CPI (All items)
■ Nominal Wage (Wages and salaries per employee (SNA basis))

	CPI	Nominal Wage
FY 2023 Actual	3.0	1.2
FY 2024 Actual	3.0	3.2
FY 2025 Projection	2.6	3.2
FY 2026 Projection	1.9	3.2

Outlook for Private Consumption

(year on year, % or approximate %)

■ Real Private Consumption

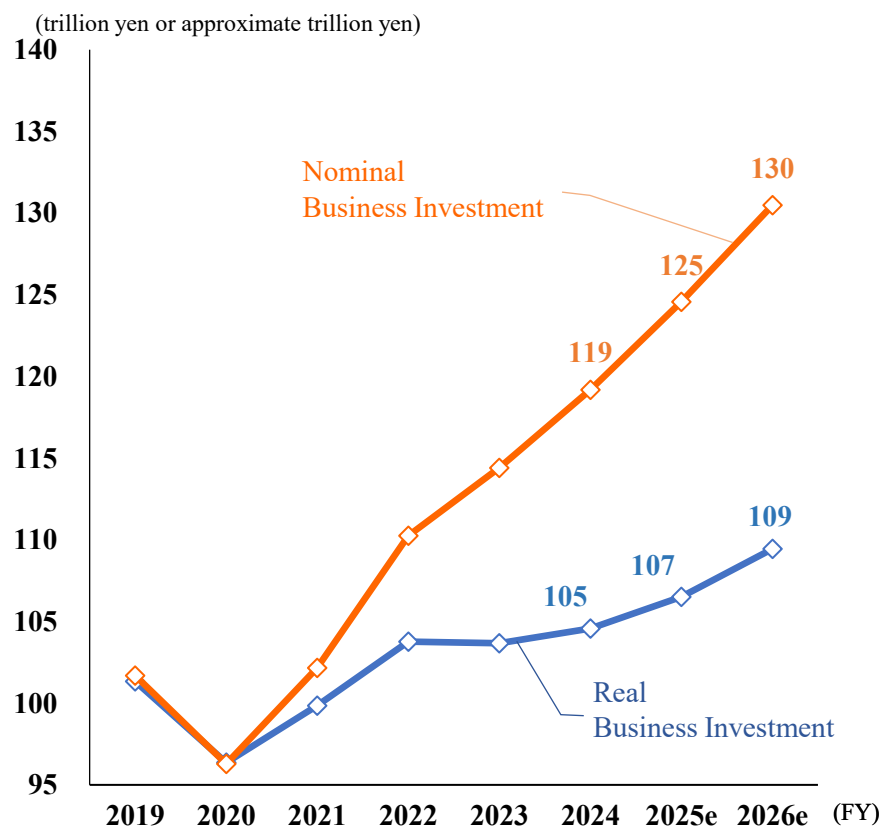|	Real Private Consumption
FY 2023 Actual	-1.0
FY 2024 Actual	0.2
FY 2025 Projection	1.3
FY 2026 Projection	1.3

4. Outlook for Business Sector

▌ With the advancement of efforts to promote investments in crisis management and economic growth, real business investment is expected to continue growing in FY 2025 and FY 2026, supported by robust corporate profits.

▌ Real exports are expected to increase steadily in the environment where the global economy will grow resiliently despite the remaining uncertainty.

Outlook for Business Investment

(trillion yen or approximate trillion yen)

Nominal Business Investment: 130, 125, 119

Real Business Investment: 105, 107, 109

FY: 2019, 2020, 2021, 2022, 2023, 2024, 2025e, 2026e

Outlook for Exports

(trillion yen or approximate trillion yen)

Real Exports: 104, 106, 108

FY: 2019, 2020, 2021, 2022, 2023, 2024, 2025e, 2026e