

Fiscal Year 2025 Economic Outlook and Basic Stance for Economic and Fiscal Management

(January 24, 2025)
Cabinet Decision

1. Economic Trends in FY 2024

The Japanese economy is currently at a crossroads of transitioning from a long-standing cost-cutting-model economy to a growth-oriented economy driven by wage increases and investment, without reverting to deflation.

In this context, the government formulated the Comprehensive Economic Measures to Foster the Safety and Security of Citizens and Sustained Growth (Cabinet decision on November 22, 2024, hereinafter referred to as the "Comprehensive Economic Measures"), which focuses on three pillars: growth of national and regional economies, overcoming high prices, and ensuring the safety and security of the people. These measures aim to ensure realizing an economy where wage growth constantly outpaces price increases, thereby securing the transition to a growth-oriented economy driven by wage increases and investment. The government will execute the supplementary budget for FY 2024 swiftly and steadily to disseminate the effects of the Comprehensive Economic Measures broadly.

In FY 2024, the Japanese economy is expected to continue its moderate recovery, with the real GDP growth rate projected to be approximately 0.4%, the nominal GDP growth rate projected to be approximately 2.9%, and the Consumer Price Index (all items) projected to rise by approximately 2.5%.

2. FY 2025 Basic Stance for Economic and Fiscal Management

In FY 2025, the government will continue to prioritize the increase in current and future wages and incomes for all generations. The goal of economic and fiscal management is to create an economy where wage growth constantly outpaces price increases and to ensure a transition to a growth-oriented economy driven by wage increases and investment.

The government will implement seamless economic and fiscal management by steadily executing the FY 2025 budget, which was formulated consistent with the supplementary budget for FY 2024, with a focus on addressing recent elevated prices and rising wages and procurement costs.

Specifically, the government will work on raising the minimum wage, promoting appropriate transactions such as price pass-through, promoting labor-saving and digitalization investments to address labor shortages, and the three-pronged set of labor market reforms that include investment in human resources. The government will also transform the Japanese economy into a growth-oriented economy that creates high added value by working on initiatives of Stimulating Japan's Investment Power, such as public-private partnership investments in growing areas including digital transformation (DX), green transformation (GX), artificial intelligence (AI), and semiconductors, and on initiatives of Promoting Japan as a Leading Asset Management Center that supports the asset formation of the people.

Furthermore, the government will promote policies, including the Local Community Revitalization 2.0 and promotion of disaster risk reduction and national resilience, based on the Comprehensive Economic Measures and the Basic Policy on Economic and Fiscal Management and Reform 2024 (Cabinet decision on June 21, 2024, hereinafter referred to as "Basic Policy 2024").

In promoting economic and fiscal management, including these policies, the government will aim to overcome deflation and move to a new stage of the economy, based on the principle that "a sound economy is the foundation of fiscal health", and improve the fiscal conditions and build a crisis-resistant economy that can develop vigorously.

The government will promote efforts on Evidence-Based Policy Making (EBPM) and the Plan-Do-Check-Act (PDCA) cycle and ensure effective and efficient spending, based on the EBPM Action Plan 2024 and the Reform Implementation Program 2024 formulated based on the Basic Policy 2024.

The government will continue to cooperate closely and work together with the Bank of Japan in order to overcome deflation early and achieve sustainable economic growth with price stability. The government expects the Bank of Japan to achieve the price stability target of 2 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.

3. Economic Outlook for FY 2025

In FY 2025, economic growth led by private demand is expected to continue. Wage growth is expected to outpace price increases, leading to an increase in private consumption, and private non-residential investment is expected to remain solid, with the support of the effects of the Comprehensive Economic Measures.

The real GDP growth rate is projected to be approximately 1.2%, the nominal GDP growth rate approximately 2.7%, and the Consumer Price Index (all items) to rise by approximately 2.0%.

However, full attention should be given to 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 projected to increase by approximately 1.3% year on year, as wage growth is expected to outpace price increases.

(ii) Private residential investment

While supported by the Comprehensive Economic Measures, private residential investment is projected to decrease in real terms by approximately 0.3% year on year amid persistent high material prices.

(iii) Private non-residential investment

Private non-residential investment is projected to increase by approximately 3.0% year on year, driven by high profits and a strong investment appetite among companies, along with the effects of the Comprehensive Economic Measures.

(iv) Government expenditures

Government expenditures are projected to remain flat at approximately 0.0% in real terms. While prices are rising, expenditures associated with the aging population are expected to increase and government spending on the Comprehensive Economic Measures will be similar to the level of FY 2024.

(v) External demand (net exports of goods and services)

External demand is projected to remain flat, with its contribution to real GDP growth projected at approximately -0.0%. Exports are expected to increase in line with the moderate recovery of the global economy, while imports are also expected to increase along with the increasing domestic demand.

(II) Real Gross National Income (Real GNI)

The real GNI is projected to increase by approximately 1.1% year on year, which is nearly the same rate as the real GDP growth rate.

(III) Labor and Employment

The unemployment rate is projected 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 2.4% year on year, as domestic demand and exports increase.

(V) Prices

The Consumer Price Index (all items) is projected to increase by approximately 2.0% year on year. While the impact of rising import prices such as raw material prices is expected to fade, domestic prices are projected to increase moderately along with wage increases.

The GDP deflator is projected to increase by approximately 1.5% year on year.

(VI) Balance of Payments

The current account surplus will remain flat as net income from abroad is expected to stay positive, with the ratio of the current account balance to nominal GDP projected to be at approximately 4.9%.

(Note 1) This economic outlook is made on the premise of the economic and fiscal management as described in "2. FY 2025 Basic Stance for Economic and Fiscal Management".

(Note 2) The Japanese economy mainly consists of private activity and is influenced by unpredictable factors in changes in the international environment. Accordingly, the projections should be considered within a certain range.

Main Economic Indicators

	FY2023 (Actual)	FY2024	FY2025	Percentage changes over the previous fiscal year					
				FY2023		FY2024		FY2025	
				Trillion yen (Nominal)	Trillion yen (Approx.) (Nominal)	% (Nominal)	% (Real)	% (Approx.) (Nominal)	% (Approx.) (Real)
Gross domestic product	595.2	612.7	629.3	4.9	0.7	2.9	0.4	2.7	1.2
Private consumption	323.1	333.0	343.6	2.4	-0.4	3.1	0.8	3.2	1.3
Private residential investment	22.2	22.6	22.8	0.9	0.8	1.5	-1.3	1.1	-0.3
Private non-residential investment	101.8	107.0	111.1	3.5	-0.1	5.1	2.3	3.8	3.0
Change in private inventories *	0.6	0.7	0.5	(-0.4)	(-0.4)	(0.0)	(-0.0)	(-0.0)	(0.0)
Government expenditures	152.9	157.3	159.2	1.0	-0.7	2.9	1.0	1.2	0.0
Government consumption	122.5	125.8	127.6	0.3	-0.8	2.7	1.1	1.4	0.3
Public investment	30.4	31.5	31.6	3.1	-0.3	3.8	1.0	0.3	-1.0
Exports of goods and services	132.2	140.0	146.5	7.1	2.8	5.9	1.7	4.7	3.6
Less: Imports of goods and services	137.7	148.0	154.5	-5.8	-3.3	7.4	4.3	4.4	3.6
Contribution of domestic demand				1.9	-0.7	3.4	1.1	2.7	1.3
Contribution of private demand				1.6	-0.6	2.6	0.8	2.4	1.3
Contribution of public demand				0.3	-0.2	0.7	0.3	0.3	0.0
Contribution of external demand				3.0	1.4	-0.4	-0.6	-0.0	-0.0
National income	437.8	452.8	462.6	6.9		3.4		2.2	
Compensation of employees	302.4	313.9	322.7	1.9		3.8		2.8	
Property income	33.1	34.9	35.1	10.5		5.4		0.6	
Entrepreneurial income	102.3	104.0	104.9	23.3		1.7		0.8	
Gross national income	631.3	654.0	670.6	4.9	2.0	3.6	1.2	2.5	1.1
Labor and employment	Ten thousands	Ten thousands (Approx.)	Ten thousands (Approx.)		%		% (Approx.)		% (Approx.)
Total labor force	6,934	6,955	6,958		0.4		0.3		0.1
Total employment	6,756	6,779	6,788		0.4		0.3		0.1
Employees	6,089	6,121	6,130		0.7		0.5		0.1
Unemployment rate	%	% (Approx.)	% (Approx.)						
	2.6	2.5	2.4						
Production	%	% (Approx.)	% (Approx.)						
Industrial production	-1.9	-1.0	2.4						
Prices	%	% (Approx.)	% (Approx.)						
Domestic corporate goods price index	2.4	2.8	1.6						
Consumer price index (all items)	3.0	2.5	2.0						
GDP deflator	4.2	2.5	1.5						
Balance of payments	Trillion yen	Trillion yen (Approx.)	Trillion yen (Approx.)		%		% (Approx.)		% (Approx.)
Balance of goods and services	-6.3	-6.6	-6.4						
Trade balance	-3.7	-4.6	-4.1						
Exports	101.9	106.7	112.3		2.2		4.6		5.3
Imports	105.7	110.8	116.4		-10.1		4.8		5.0
Current balance	26.6	30.9	31.0						
Current balance as a percentage of GDP	%	% (Approx.)	% (Approx.)						
	4.5	5.0	4.9						

* 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.

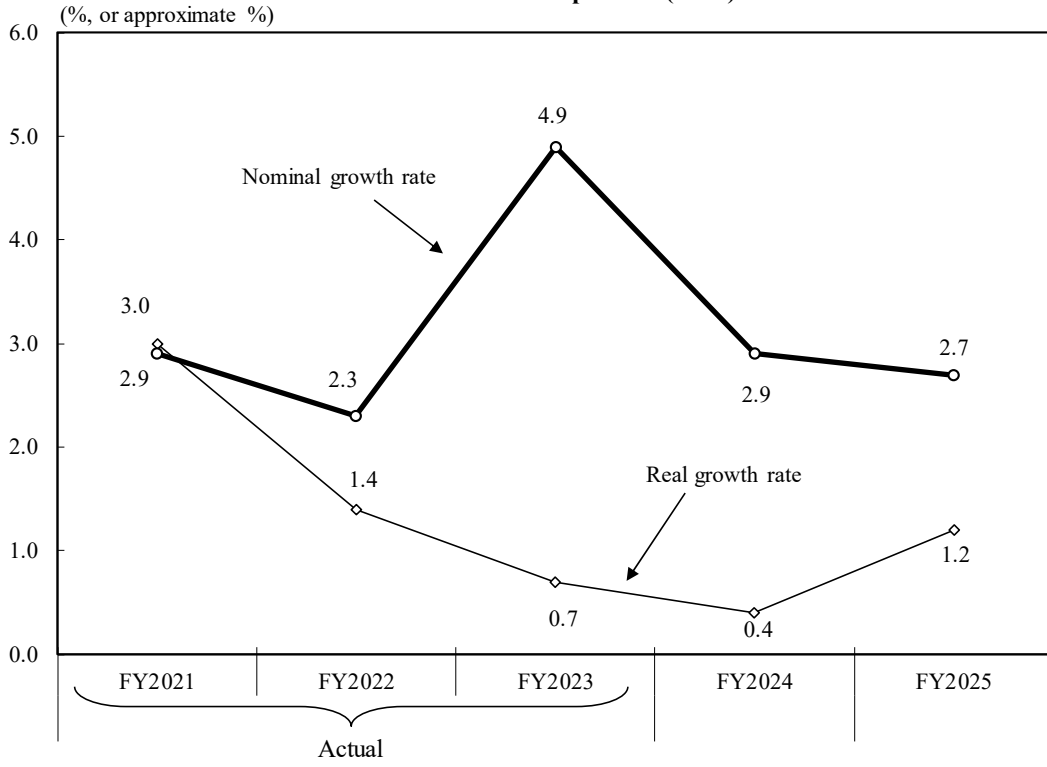
	FY2023 (Actual)	FY2024	FY2025
Real growth rate of world GDP (excluding Japan) (%)	3.3	3.0	2.9
Exchange rate (yen/dollar)	144.6	152.8	153.6
Import price of crude oil (dollar/barrel)	87.9	81.8	76.2

- (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 2024 onward is assumed to stay constant at 153.6 yen/dollar, which is the average exchange rate from November 1 to November 30.
3. The import price of crude oil from December 2024 onward is assumed to stay constant at 76.2 dollars/barrel, which is the average Dubai spot price from November 1 to November 30, 2024, plus freight and insurance.

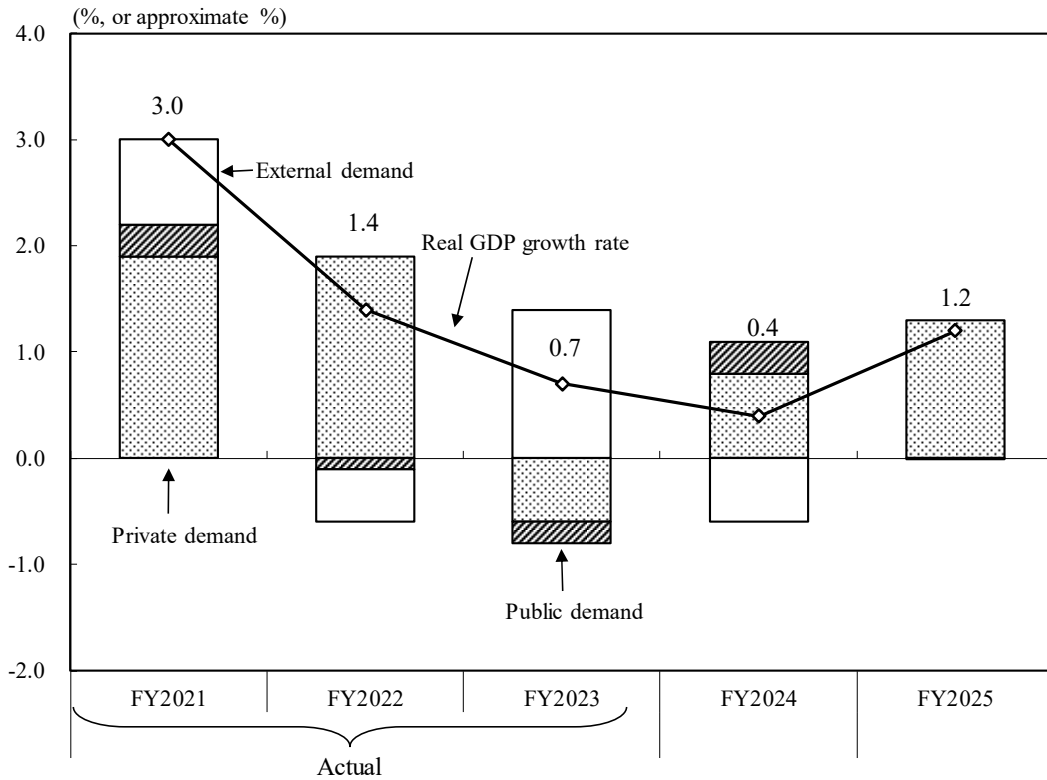
(Reference)

Main Economic Indicators

1. Gross domestic product (GDP)



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.

