Provisional Translation

Executive Summary: Mid-Year Economic Projection for FY 2026

July 30, 2026

Cabinet Office

1. Outlook for Economic Growth

- **In FY 2026, despite the downward pressure derived from higher crude oil prices, real GDP is projected to grow at approximately 0.9%, supported by higher income from wage increases and various policy measures.**
- **In FY 2027, real GDP is projected to grow at approximately 1.1%. The recovery in domestic demand is expected to continue with the strengthening of efforts to promote strategic investments that enhance resilience against potential crises and investments that promote growth.**

Main Economic Indicators

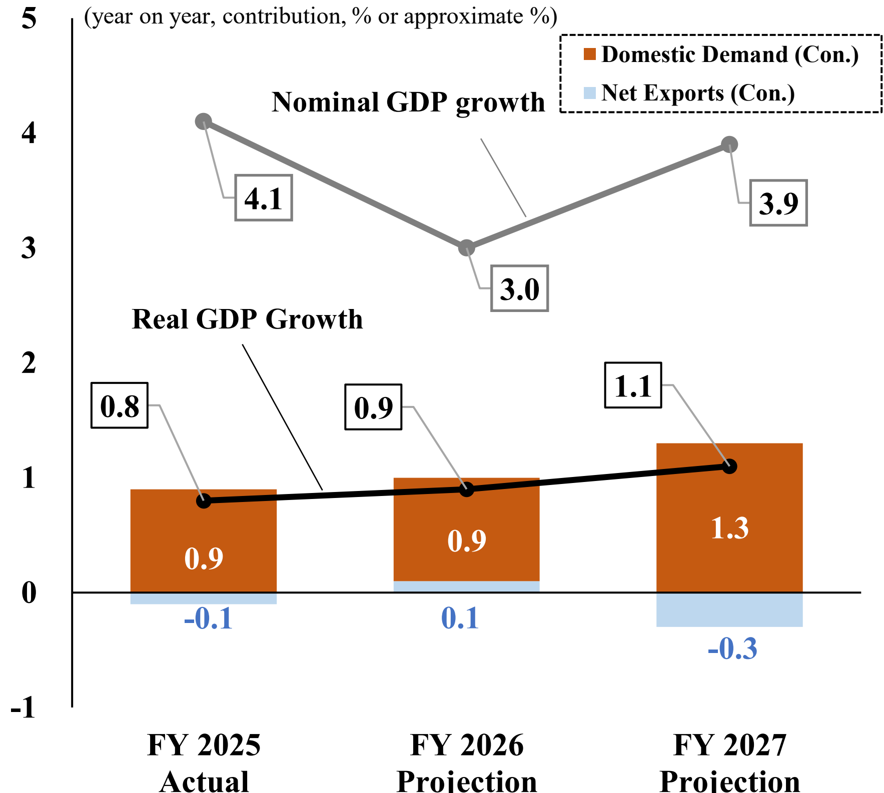
(year on year, % or approximate %)

	FY 2025	FY 2026			FY 2027	
	Actual	January projection	Private Consensus	**Mid-Year Projection**	Private Consensus	**Mid-Year Projection**
Real GDP	0.8	1.3	0.7	**0.9**	0.9	**1.1**
Private Consumption	1.3	1.3	0.7	**0.9**	0.8	**1.0**
Business Investment	2.0	2.8	1.0	**2.3**	1.7	**2.6**
Domestic Demand (Con.)	0.9	1.5	0.6	**0.9**	1.0	**1.3**
Net Exports (Con.)	-0.1	-0.2	0.1	**0.1**	-0.1	**-0.3**
Nominal GDP	4.1	3.4	2.8	**3.0**	3.2	**3.9**
CPI (all items)	2.6	1.9	2.2	**2.2**	2.3	**2.1**
Unemployment rate	2.6	2.4	2.6	**2.6**	2.5	**2.5**

Assumption of external environment

	FY 2026		FY 2027
	January projection	**Mid-Year Projection**	**Mid-Year Projection**
Real growth rate of world GDP (%)	2.8	2.7	2.8
Exchange rate (yen/U.S. dollar)	155.2	161.4	161.9
Crude oil import price (U.S. dollar/barrel)	68	92.5	85.4

Economic Growth

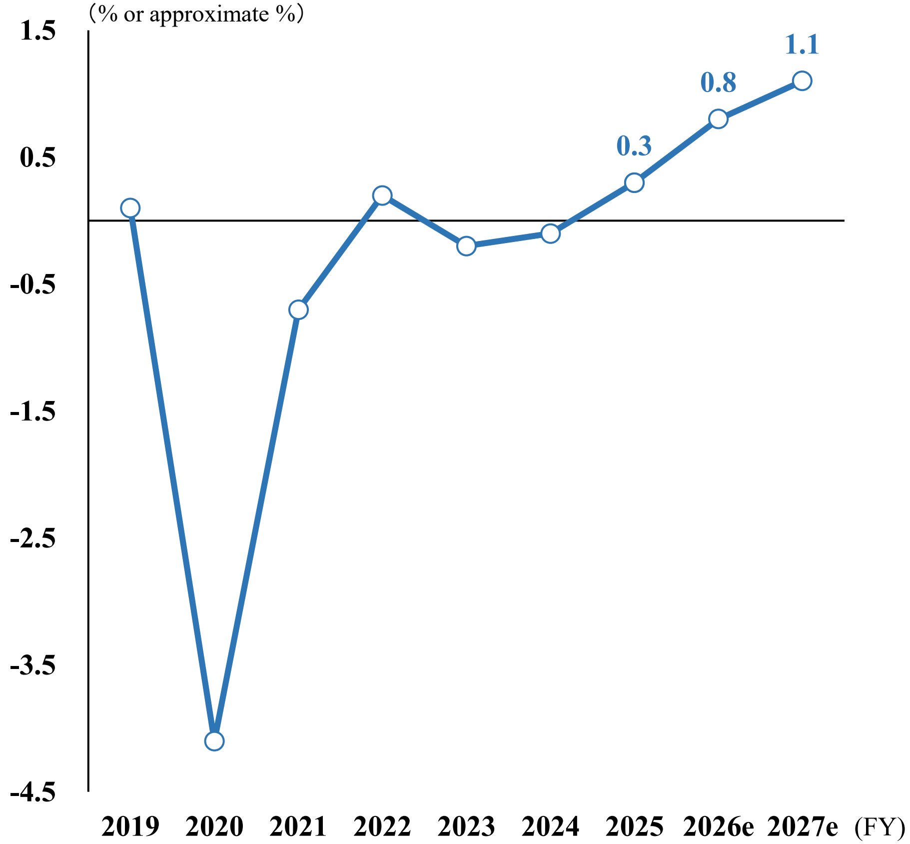


(Notes)
1. The figures of private consensus are the average rates of "ESP Forecast" July 2026 (Survey period: July 1-8, released on July 15).
2. CPI of private consensus is all items less fresh food.
3. Assumptions of external environment;
   -The real growth rate of the world GDP is calculated based on economic outlooks of international organizations.
   -The exchange rate and crude oil import price (weighted average price by import source (Dubai/WTI)) are assumed to stay constant from July 17, 2026, onwards at the average level from June 17 to July 16, 2026.

2. Balance of the Macroeconomy

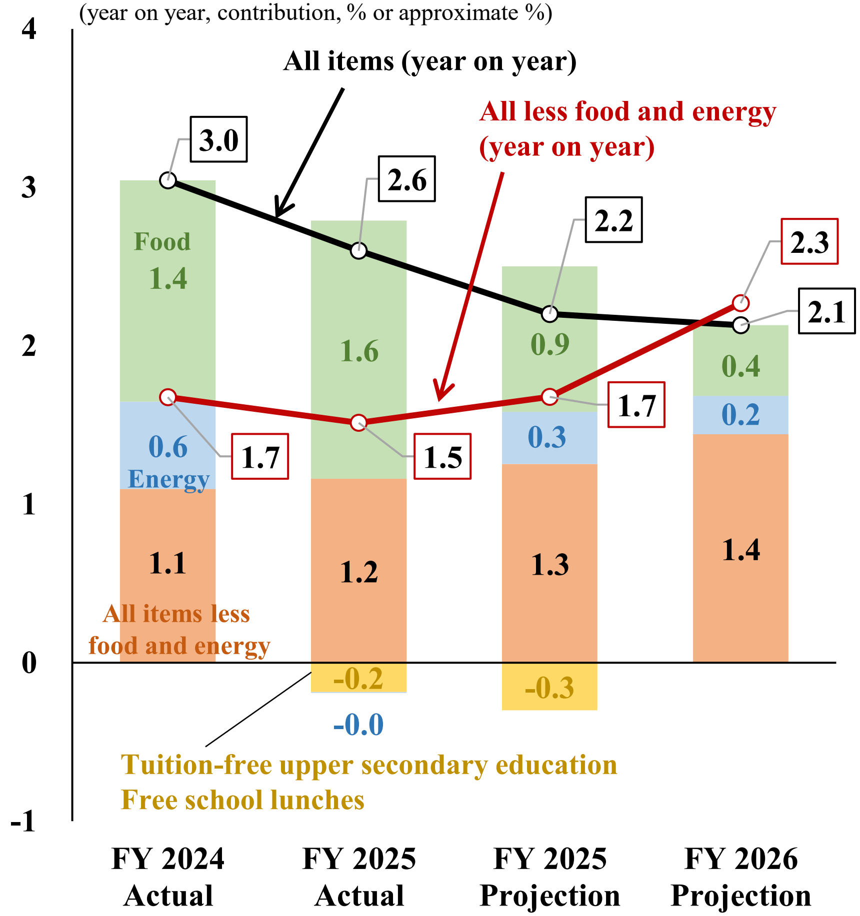
- The output gap is expected to stay positive toward FY 2027.
- CPI (all items) is expected to rise at around 2.2% in FY 2026. While policy measures are expected to reduce energy prices, the impact of higher crude oil prices will gradually spread. In FY 2027, CPI (all items) is expected to rise at around 2.1% along with underlying inflation.

Output Gap



(Note) Potential GDP growth is assumed to be 0.5% in FY 2026 and 0.7% in FY 2027.

Breakdown of Inflation

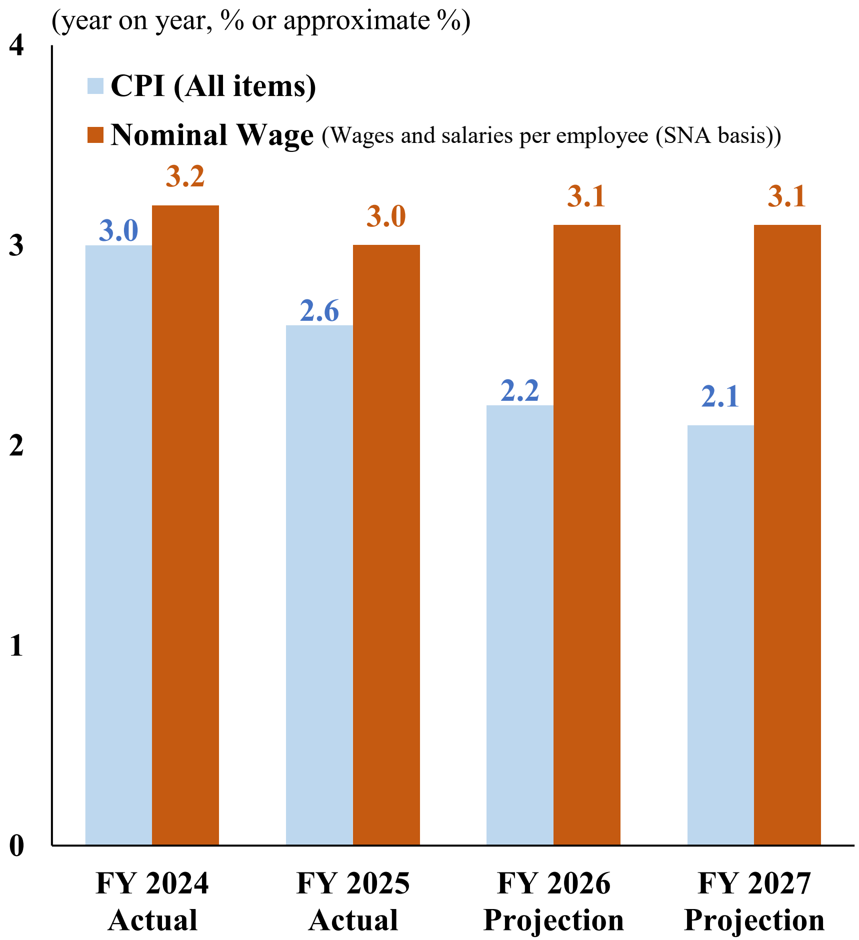


(Reference) Year-on-year inflation rate without free tuition and school lunch policy:
All items:2.8% in FY 2025, 2.5% in FY 2026
All items less food and energy:1.8% in FY 2025, 2.0% in FY 2026

3. Household Sector

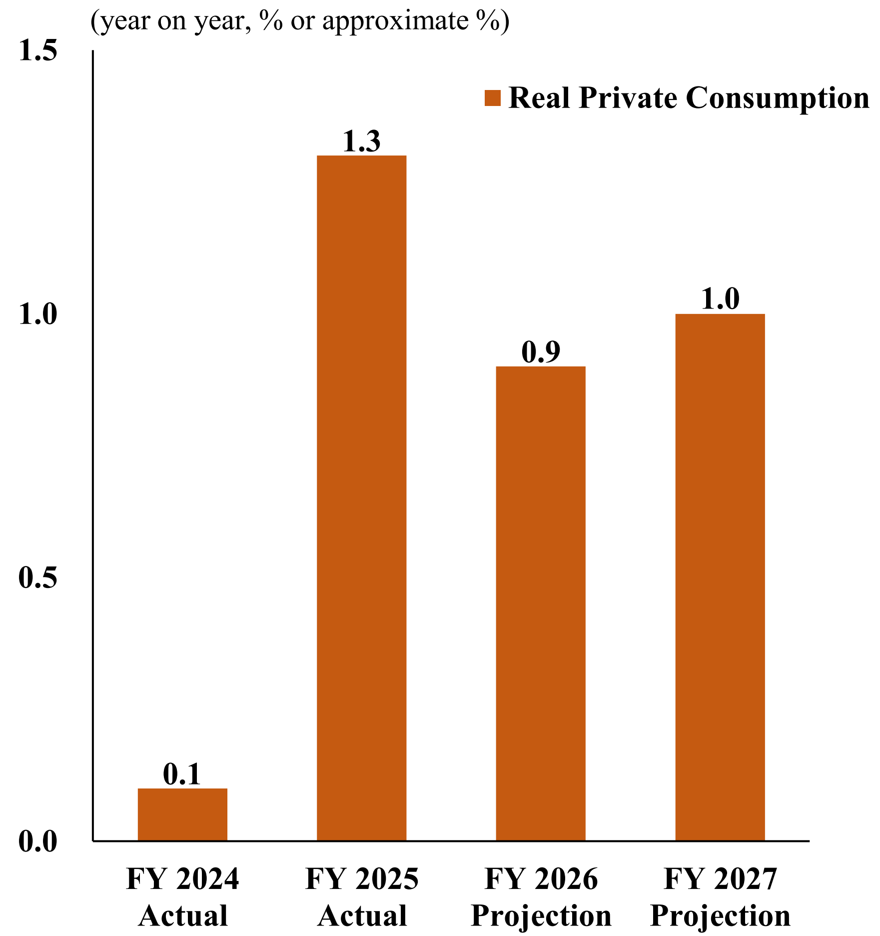
- **With tight labor market conditions, the nominal wage is expected to grow at a similar rate to that of recent year toward FY 2027. As a result, the real wage is projected to grow positively despite ongoing inflation.**
- **Private consumption is expected to keep increasing at a moderate pace.**

Wages and Prices



(Note) Nominal Wage in FY 2025 is estimate.

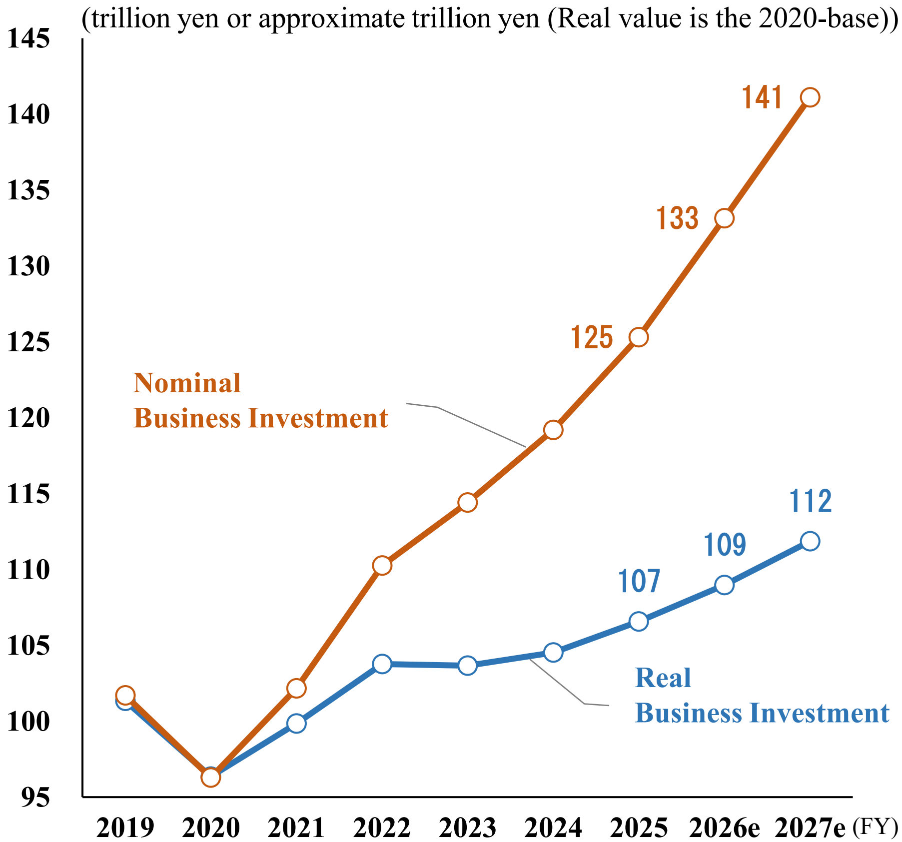
Private Consumption



4. Business Sector

- **Despite the downward pressure on corporate earnings caused by rising tensions in the Middle East, real business investment is expected to continue growing, supported by the efforts to promote strategic investments that enhance resilience against potential crises and investments that promote growth.**
- **Exports are projected to continue increasing under the recovery in the global economy, although exports to the Middle East will remain weak for the time being.**

Business Investment



Exports