Japan: main points of the economic outlook

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1. **Domestic demand remains weak, as structural stagnation pressures persist – evidenced by the anomalously positive corporate savings rate. The economy faces downward pressure from a global slowdown driven by rising crude oil prices and monetary policy tightening. Rising energy costs are eroding household purchasing power and increasing the price elasticity of demand. With domestic demand still sluggish and a VAT cut in place, core CPI (ex fresh food and energy) is expected to decelerate temporarily. In addition to a reduction in geopolitical risks, the expansion of strategic investments through public-private partnerships would lead to an increase in real wages, which would gradually expand domestic demand. The Japanese economy would fully escape structural economic stagnation once the corporate savings rate returns to a normal negative level.**

2. **Reflation driven by proactive public finance and accommodative monetary policy has significantly expanded nominal GDP. However, following the BoJ's premature rate hikes and amid a global economic slowdown with worsening in terms of trade, the pace of nominal GDP expansion is expected to slow temporarily.**

3. **Net domestic fund demand (corporate saving rate + fiscal balance) has recovered, and reflation has driven nominal GDP growth. Under the Takaichi administration, proactive public finance – through strategic public-private investment and a temporary VAT cut – is expected to restore domestic demand, alongside a cyclical global recovery following receding geopolitical risks. As corporate domestic spending increases, the corporate saving rate would begin to decline. Together with continued proactive public finance, this will revive net funding demand, which had effectively disappeared, and provide momentum for a full exit from structural economic stagnation.**

4. **An upswing in the capex cycle will help return the corporate saving rate to a normal negative level. As long as the capex cycle remains on an upward trend, expectations of future supply capacity expansion would limit further strong depreciation pressure on the JPY. As the decline in the corporate saving rate catches up with the capex cycle, real wage growth will strengthen. The focus of the economy, policy, corporates and markets will shift from external demand to domestic demand.**

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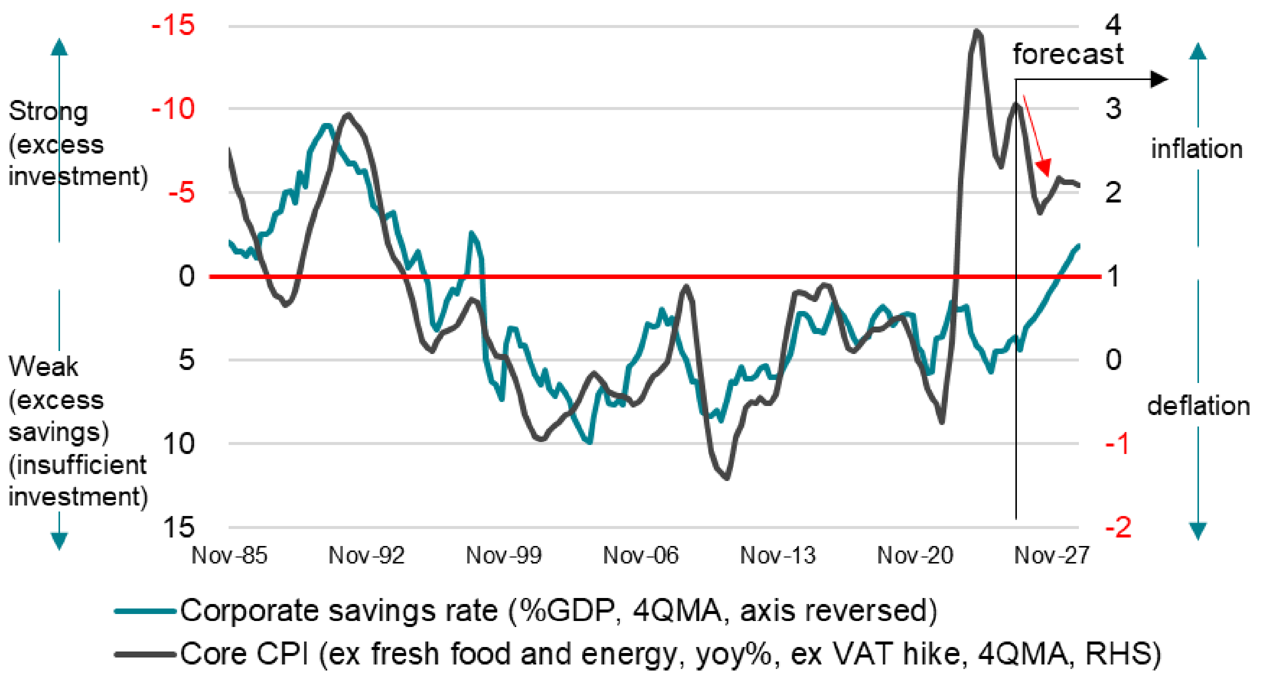
Corporate savings rate and core CPI



Source: BoJ, Cabinet Office, MIAC, Crédit Agricole CIB

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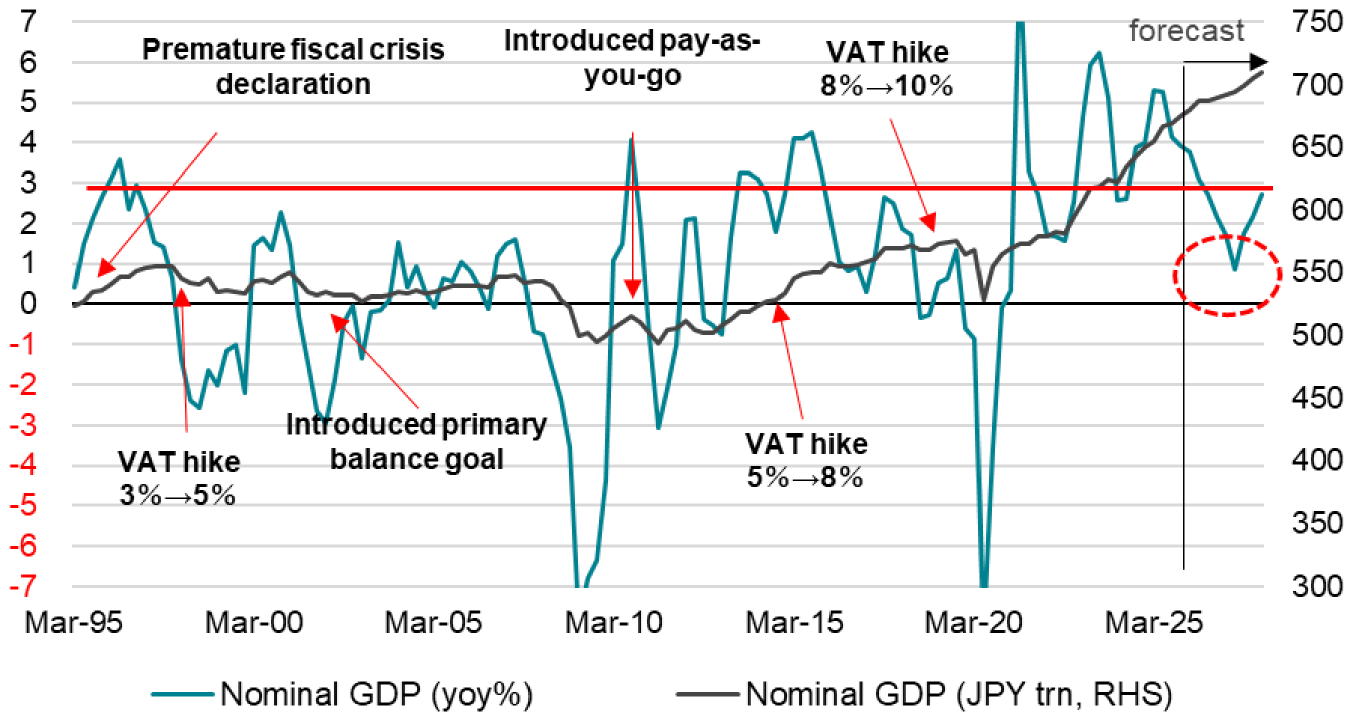
Nominal GDP



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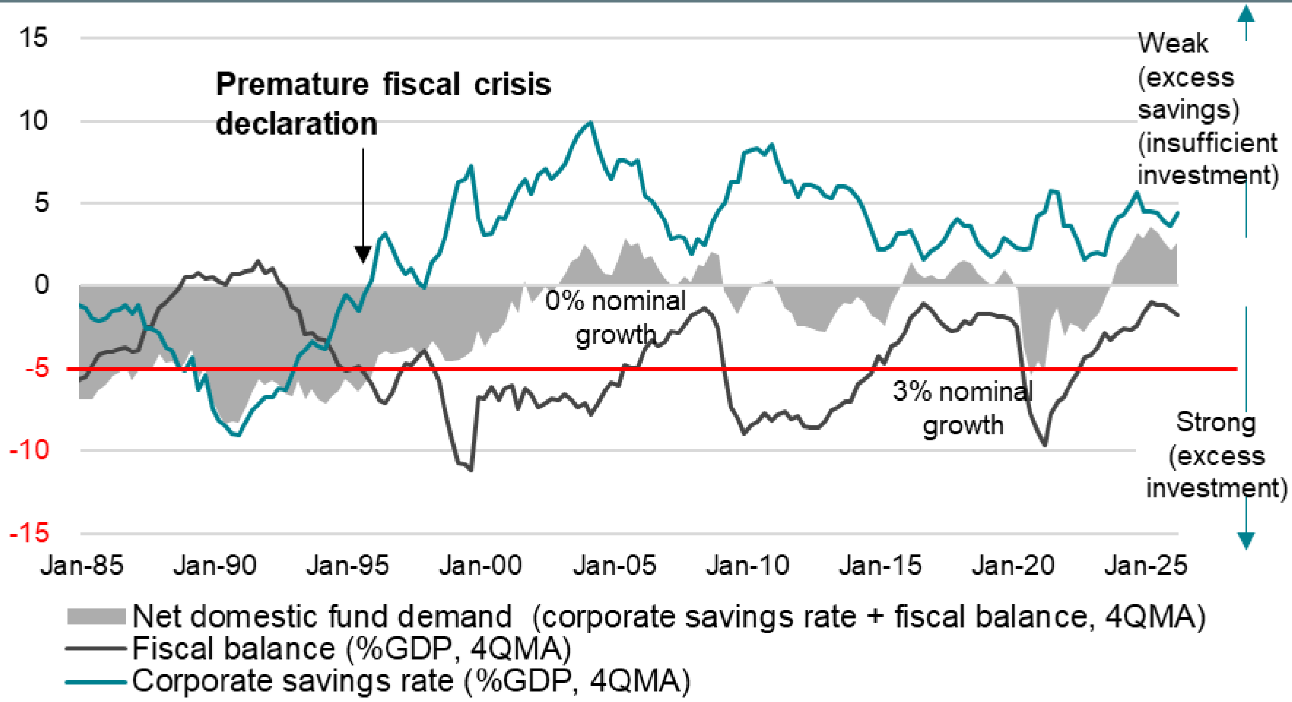
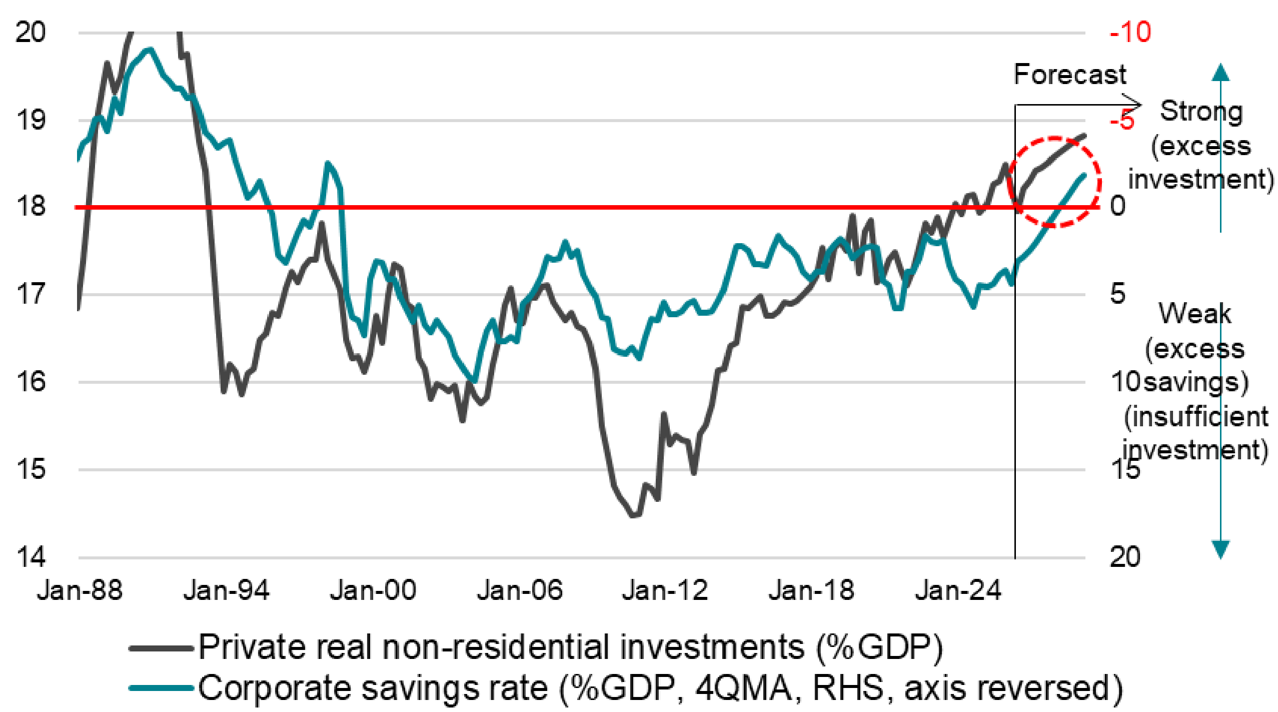
Net domestic fund demand (corporate savings rate + fiscal balance)



Source: Cabinet Office, BoJ, Crédit Agricole CIB

4. An upswing in the capex cycle will help return the corporate saving rate to a normal negative level. As long as the capex cycle remains on an upward trend, expectations of future supply capacity expansion would limit further strong depreciation pressure on the JPY. As the decline in the corporate saving rate catches up with the capex cycle, real wage growth will strengthen. The focus of the economy, policy, corporates and markets will shift from external demand to domestic demand.

Corporate savings rate and private capex



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Japan economics forecast table

Japan		Q125	Q225	Q325	Q425	Q126	Q226	Q326f	Q426f	Q127f	Q227f	Q327f	Q427f	CY25	CY26f	CY27f	CY28f
Real GDP	qoq%	0.5	0.2	-0.4	0.2	0.5	0.3	0.1	0.1	-0.1	0.5	0.3	0.4				
	qoq ann.%	2.1	0.7	-1.8	1.0	1.9	1.1	0.4	0.4	-0.2	2.2	1.4	1.6				
	yoy%	1.6	1.9	0.7	0.5	0.4	0.5	1.1	0.9	0.4	0.7	0.9	1.2	1.2	0.8	0.8	1.6
Private consumption	qoq%	0.6	0.1	0.5	0.1	0.5	-0.0	-0.4	0.1	-0.4	0.4	0.2	0.3	1.3	0.7	-0.1	1.2
Residential investments	qoq%	-0.5	0.5	-8.0	5.0	0.9	-0.5	-0.5	-0.5	-1.0	0.0	0.3	0.4	-1.8	-0.2	-1.5	1.4
Non-residential investments	qoq%	1.1	1.4	-0.3	1.3	-1.0	-1.2	1.5	0.6	0.6	0.7	0.7	0.7	2.5	0.2	2.6	2.8
Public investments	qoq%	-0.7	0.7	-1.1	-0.4	1.5	-0.1	0.3	0.2	0.5	0.9	0.9	0.9	-0.3	0.9	2.1	3.5
Net trade	pp	-0.5	-0.0	-0.1	0.1	0.3	0.4	-0.3	-0.2	-0.1	-0.0	-0.0	-0.0	-0.2	0.3	-0.4	-0.1
Exports	qoq%	-0.7	1.6	-1.4	0.1	1.7	0.5	0.2	0.2	0.2	0.4	0.4	0.4	2.5	2.1	1.1	1.4
Imports	qoq%	2.0	1.8	-0.6	-0.1	0.3	-1.5	2.0	1.5	0.8	0.5	0.5	0.5	3.8	0.5	3.4	2.1
Nominal GDP	yoy%	5.3	5.3	4.2	3.9	3.8	3.1	2.7	2.2	1.7	0.9	1.7	2.2	4.7	2.9	1.6	3.2
Core CPI (ex fresh food)	yoy%	3.1	3.5	2.9	2.8	1.8	1.5	1.7	1.9	2.1	0.6	0.4	0.1	3.1	1.7	0.8	1.7
Core-core CPI (ex fresh food and energ	yoy%	2.7	3.2	3.2	3.0	2.5	1.8	1.8	1.7	1.7	0.7	0.6	0.6	3.0	2.0	0.9	1.8
Unemployment rate	%													2.5	2.6	2.5	2.5
Nominal agg. compensation	yoy%													3.7	3.6	3.6	4.3
Corporate savings rate	%GDP													3.5	2.5	0.5	-1.5
Household savings rate	%GDP													1.5	2.0	4.0	5.0
Fiscal balance	%GDP													-1.0	-1.5	-2.5	-1.5
Current account balance	%GDP													4.0	3.0	2.0	2.0
BoJ policy rate （current account intere	% (end)	0.50	0.50	0.50	0.75	0.75	1.00	1.00	1.00	1.25	1.25	1.50	1.50	0.50	1.00	1.50	2.00
10Y JGB yield	% (end)	1.35	1.40	1.65	1.80	2.20	2.60	2.90	2.90	2.95	2.95	3.00	3.00	1.80	2.90	3.00	3.00

As of Aug 17 2026
*IS balance items based on flow of funds data

CACIB	Real GDP	CPI (ex fresh food)	CPI (ex fresh food and energy)
FY26	+0.3 (+0.3)	+1.8 (+1.7)	+1.8 (+2.0)
FY27	+0.8 (+0.5)	+0.4 (+0.8)	+0.7 (+0.9)
FY28	+1.4 (+1.4)	+2.1 (+1.7)	+2.1 (+1.8)

*parenthesis denote CY forecast; Units: yoy%

Source: Cabinet Office, BoJ, MIAC, Bloomberg, Crédit Agricole CIB

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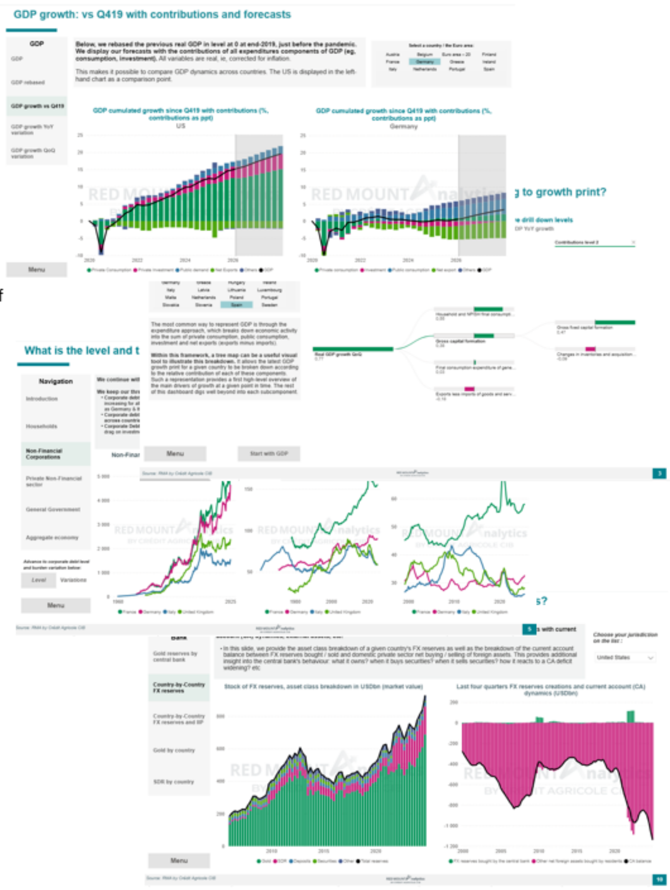

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