Japan: main points of policy outlook

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- **Driven by a phase of global cyclical economic recovery and the expansion of domestic demand through the Takaichi administration's PPP strategic investment initiatives, a rising capex cycle would take the lead, putting downward pressure on the corporate savings rate. The 2026 Honebuto would mark the beginning of a shift toward proactive fiscal policy focused on strategic investment, particularly through new investment frameworks. Core inflation (ex fresh food and energy) temporarily decelerates due to slow recovery in domestic demand, but then re-accelerates towards the 2% target. By 2027, domestic demand expands strongly, supported by an upside in capex cycle and rising real wages. By 2028, recovery in domestic demand is expected to accelerate, the corporate savings rate to return to its normal negative territory and potential growth to exceed its trend – marking a complete escape from structural economic stagnation.**

- **The BoJ is assigned a dual mandate of "strong economic growth" and "stable price increases", resulting in a gradual pace of rate hikes. Maintaining low real interest rates promotes economic activity. The Honebuto outline signals a major shift in economic policy; combined with a consumption tax cut, the Takaichi administration's strategy of expanding strategic investment and pursuing a high-pressure economy has become more clearly defined. By 2028, the corporate savings rate is expected to return to negative territory, and the real policy rate would move out of negative ground relative to the inflation target. The prospects for Japan's economic revival are increasingly bright, with the terminal rate projected to reach 2.50% in 2029 (revised up from 2.25%).**

- **Backed by a landslide victory in the Lower House election, the Takaichi administration implemented a major shift in economic and fiscal policy through the Honebuto framework. The administration commits to sustained expansion of the economic scale under a "high-pressure economy" approach, combining proactive fiscal policy, accommodative monetary policy and public-private strategic investment until the output gap becomes sufficiently positive. Rising corporate spending drives down the corporate savings rate, and together with proactive fiscal expansion, restores net domestic fund demand that had effectively disappeared – providing the momentum for a complete exit from structural economic stagnation. Household burdens until real wages rise will be mitigated through fiscal support measures such as a VAT reduction.**

- **Against a backdrop of global slowdown and heightened geopolitical risks, insufficient policy support and a breakdown in the credit and capital expenditure cycles would weaken domestic demand, push the corporate savings rate higher and risk a return to structural stagnation. Premature rate hikes by the Bank of Japan could further delay the recovery in employment, wages and consumption. A collapse in the capital expenditure cycle would knock Japan out of the global strategic investment race, eroding future productive capacity and leaving JPY depreciation and rising interest rates unchecked. Sustaining the capital expenditure cycle while cushioning JPY weakness through currency intervention and stimulus measures is therefore essential.**

1. Driven by a phase of global cyclical economic recovery and the expansion of domestic demand through the Takaichi administration's PPP strategic investment initiatives, a rising capex cycle would take the lead, putting downward pressure on the corporate savings rate. The 2026 Honebuto would mark the beginning of a shift toward proactive fiscal policy focused on strategic investment, particularly through new investment frameworks. Core inflation (ex fresh food and energy) temporarily decelerates due to slow recovery in domestic demand, but then re-accelerates towards the 2% target. By 2027, domestic demand expands strongly, supported by an upside in capex cycle and rising real wages. By 2028, recovery in domestic demand is expected to accelerate, the corporate savings rate to return to its normal negative territory and potential growth to exceed its trend – marking a complete escape from structural economic stagnation.

Real GDP and CPI forecasts by BoJ and CACIB

BoJ	Real GDP	CPI (ex fresh food)	CPI (ex fresh food and energy)
FY26	+0.6	+2.5	+2.5
FY27	+0.8	+2.4	+2.6
FY28	+0.8	+2.0	+2.2

Units: yoy%

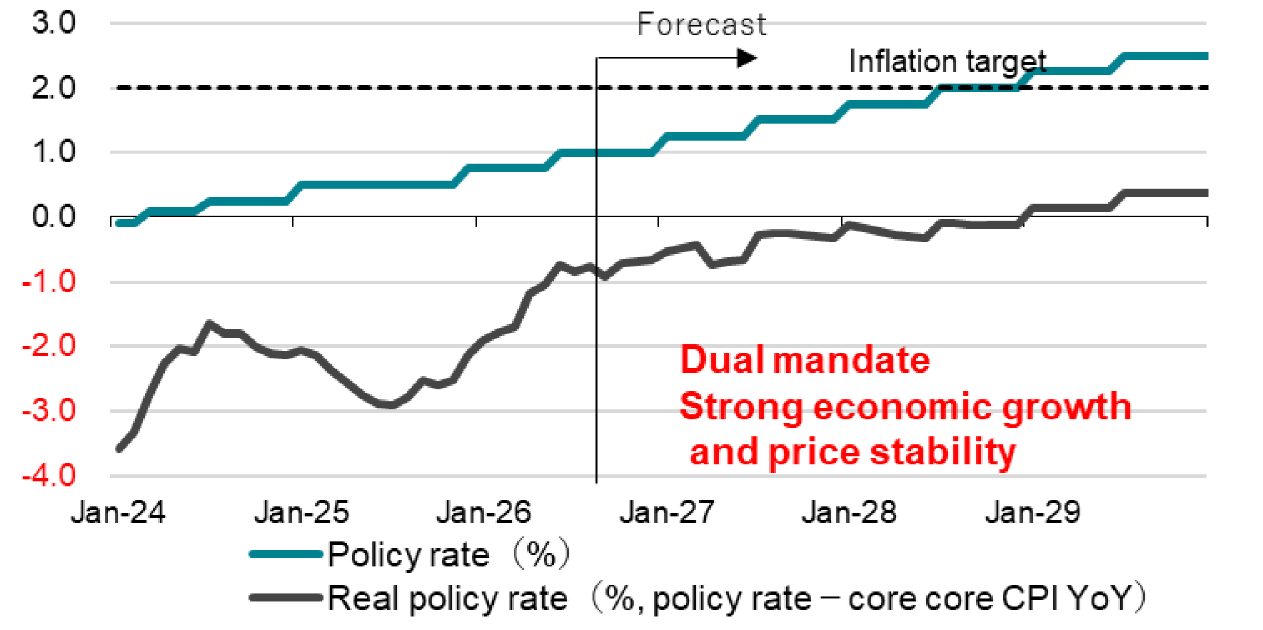
CACIB	Real GDP	CPI (ex fresh food)	CPI (ex fresh food and energy)
FY26	+0.7 (+0.8)	+1.8 (+1.7)	+1.8 (+2.0)
FY27	+1.1 (+0.8)	+0.4 (+0.8)	+0.7 (+0.9)
FY28	+1.6 (+1.6)	+2.1 (+1.7)	+2.1 (+1.8)

*parenthesis denote CY forecast; Units: yoy%

Source: BoJ, Crédit Agricole CIB

2. The BoJ is assigned a dual mandate of "strong economic growth" and "stable price increases", resulting in a gradual pace of rate hikes. Maintaining low real interest rates promotes economic activity. The Honebuto outline signals a major shift in economic policy; combined with a consumption tax cut, the Takaichi administration's strategy of expanding strategic investment and pursuing a high-pressure economy has become more clearly defined. By 2028, the corporate savings rate is expected to return to negative territory, and the real policy rate would move out of negative ground relative to the inflation target. The prospects for Japan's economic revival are increasingly bright, with the terminal rate projected to reach 2.50% in 2029 (revised up from 2.25%).

BoJ policy rate



Source: MIAC, BoJ, Crédit Agricole CIB

3. Backed by a landslide victory in the Lower House election, the Takaichi administration implemented a major shift in economic and fiscal policy through the Honebuto framework. The administration commits to sustained expansion of the economic scale under a "high-pressure economy" approach, combining proactive fiscal policy, accommodative monetary policy and public-private strategic investment until the output gap becomes sufficiently positive. Rising corporate spending drives down the corporate savings rate, and together with proactive fiscal expansion, restores net domestic fund demand that had effectively disappeared – providing the momentum for a complete exit from structural economic stagnation. Household burdens until real wages rise will be mitigated through fiscal support measures such as a VAT reduction.

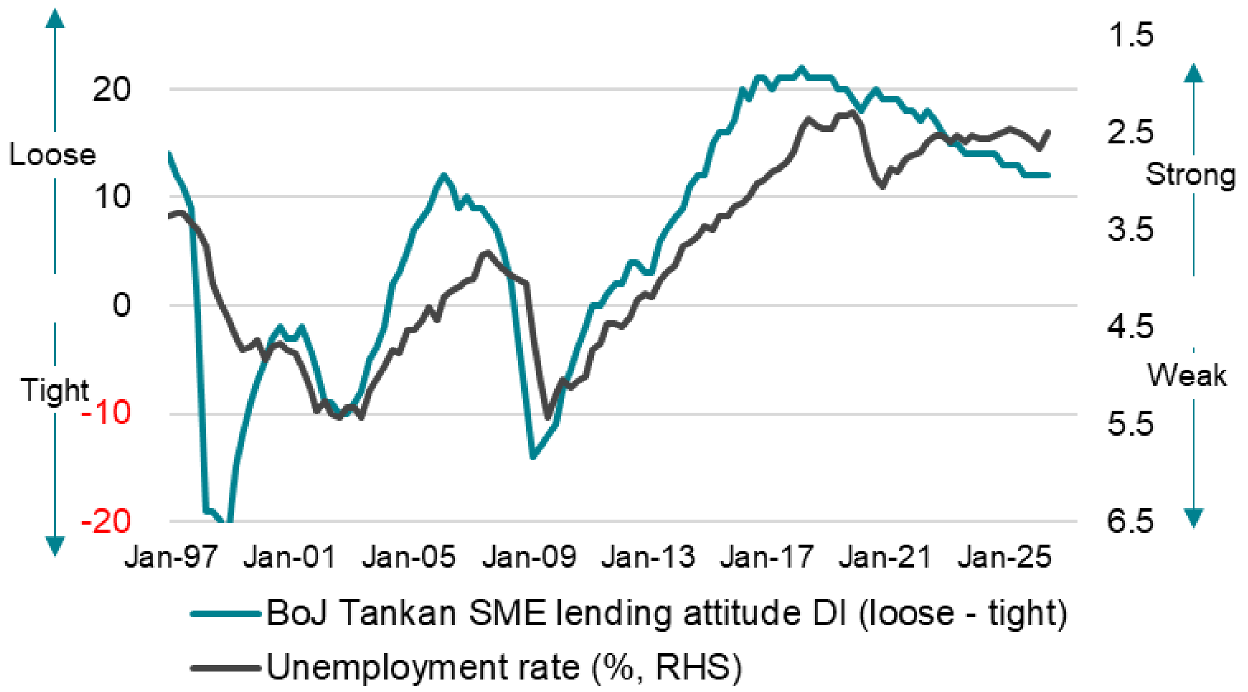
Government's economic policy
Break away from a cost-cutting economy, avoid reverting to deflation, and move towards a growth-oriented economy
Creating a resilient economic structure through innovative strategic investment and expanding domestic demand through public-private partnerships
Even with a declining population, won't allow the economic pie to shrink (over 1% real, 3% nominal growth)
Shift to a flexible fiscal policy that realises strategic investment, without sticking to achieve a single-year primary surplus
Aim for a value-added growth and a strong economy that solves economic and social challenges through strategic investment in public-private partnerships
Steadily reduce debt-to-GDP ratio through a high-pressure economy and responsible, proactive fiscal policy
The BoJ is expected to implement policies that aim to achieve both strong economic growth and stable inflation.

Source: Crédit Agricole CIB

4. Against a backdrop of global slowdown and heightened geopolitical risks, insufficient policy support and a breakdown in the credit & capital expenditure cycles would weaken domestic demand, push the corporate savings rate higher and risk a return to structural stagnation. Premature rate hikes by the

Bank of Japan could further delay the recovery in employment, wages and consumption. A collapse in the capital expenditure cycle would knock Japan out of the global strategic investment race, eroding future productive capacity and leaving JPY depreciation and rising interest rates unchecked. Sustaining the capital expenditure cycle while cushioning JPY weakness through currency intervention and stimulus measures is therefore essential.

Japan's credit cycle and the unemployment rate



Source: BoJ, MIAC, Crédit Agricole CIB

Note: The content is a personal opinion and does not necessarily reflect the government's view.

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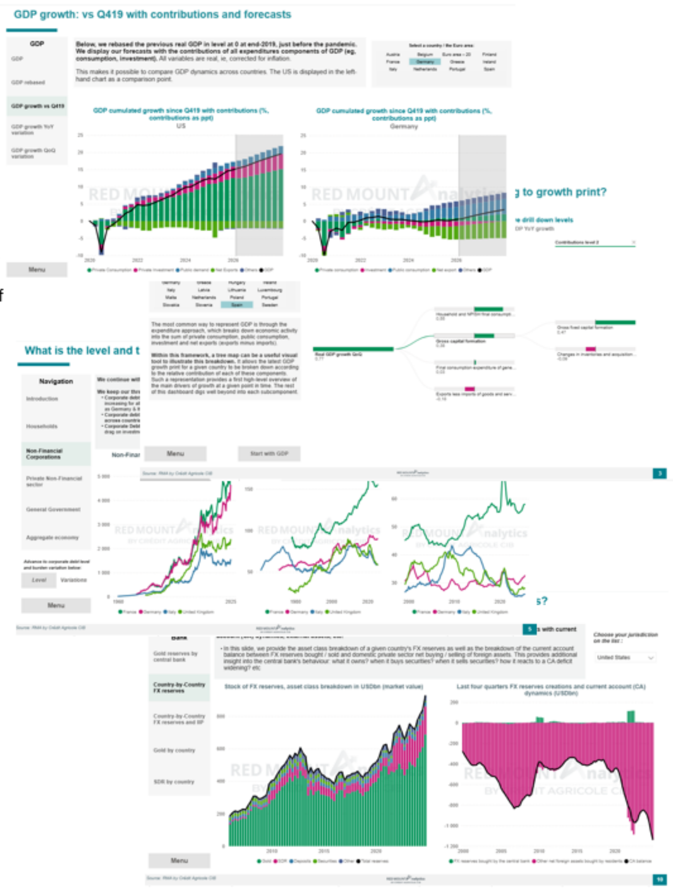

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