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Japan economic update: key economic calls; a move to completely escape from structural deflationary stagnation through a high-pressure economic policy

- **Growth (2026: 0.8%, 2027: 0.8%, 2028: 1.6%): move towards overcoming structural economic stagnation after a short-term stagnation.**
- **Inflation (2026: 2.0%, 2027: 0.9%, 2028: 1.8%): ex-energy would temporarily slow down.**


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Growth (2026: 0.8%, 2027: 0.8%, 2028: 1.6%): move towards overcoming structural economic stagnation after a short-term stagnation

In our view, in 2026, headwinds from the global slowdown, uncertainty surrounding the Trump administration nd geopolitical-driven oil prices & supply disruptions, compounded by premature Bank of Japan rate hikes, will keep economic growth in the 0% range and temporarily stall progress toward exiting structural stagnation. From 2027 onward, a global cyclical recovery combined with the Takaichi administration's proactive fiscal push through expanded public-private strategic investment and an upswing in the capital expenditure cycle will broaden domestic demand and begin to accelerate the move out of structural stagnation. By 2028, growth overshooting into the 1% range will set the economy on a path toward a high-pressure economy. A consumption tax cut, alongside rising real wages, will drive a recovery in consumer spending. Sustained nominal GDP expansion will prompt a clear shift in corporate behaviour from cost-cutting to investment, pushing the capex-to-GDP ratio well above the long-elusive 18% threshold and, together with expanding consumption, adding momentum to the recovery. Rising corporate expected returns and growth rates will lift potential growth, the corporate savings rate will return to a normal negative level, and structural stagnation will be fully overcome. Continued proactive fiscal policy and accommodative monetary policy are necessary conditions – a shift toward fiscal consolidation or an overly rapid pace of rate hikes would risk derailing the exit from structural stagnation altogether.

Inflation (2026: 2.0%, 2027: 0.9%, 2028: 1.8%): ex-energy would temporarily slow down

The YoY rate of the consumer price index (excluding fresh food and energy) would temporarily decline to the 1% range in H226, reflecting still-weak domestic demand and a loss of purchasing power due to a sharp increase in energy costs. Corporates are beginning to become wary of the rising price elasticity of demand. With a temporary VAT cut, the rate would slow down to the 0% range by 2027. Under a global cyclical economic recovery and a recovery in domestic demand, corporate spending, including capital investment and wages, will strengthen, and the positive corporate savings rate, which caused structural economic stagnation as excess savings, would shrink. With the recovery of consumption due to rising real wages and the realisation of a high-pressure economy due to an upward revision of the growth rate, the inflation rate is expected to once again expand towards 2%. By 2028, the corporate savings rate will turn negative, eliminating the pressure of structural economic stagnation, and the stable & sustainable achievement of the price target is expected to be achieved as wage increases accelerate and inflation expectations are anchored at 2%. The prerequisites are that the BoJ's premature rate hikes do not cause domestic demand to falter due to downward pressure on the credit cycle and that there is no rapid appreciation of the JPY.

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	+0.7 (+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, Cabinet Office, MIAC, Crédit Agricole CIB

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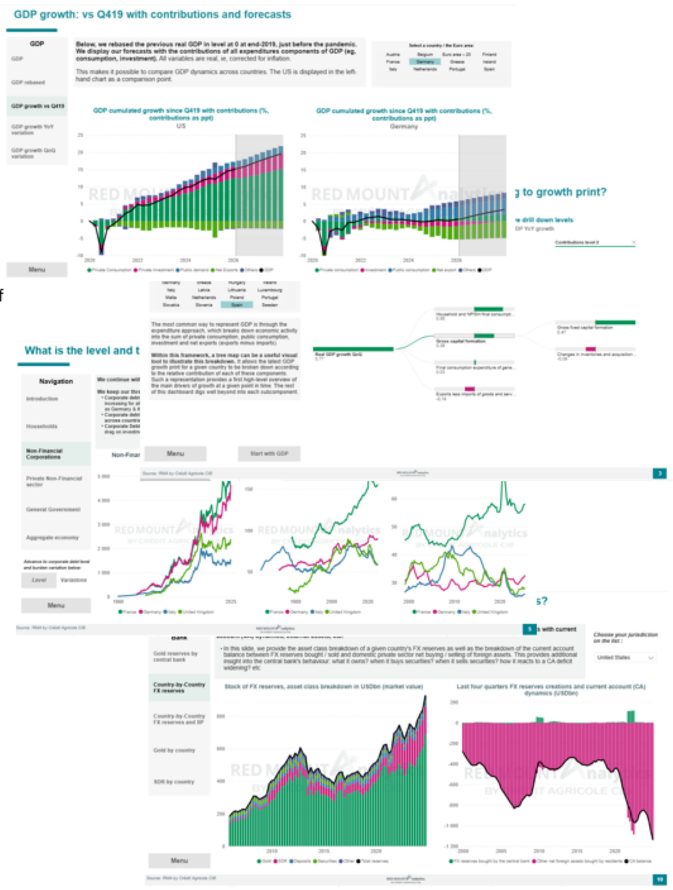

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