Japan economic update: key policy calls; government and BoJ work together to achieve both strong economic growth and stable prices

- **Monetary policy: a dual mandate of achieving both strong economic growth and stable prices.**
- **Fiscal policy: promote aggressive fiscal policy and focus on expanding domestic demand under structural investment and high-pressure economy stance.**


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Monetary policy: a dual mandate of achieving both strong economic growth and stable prices

Four rate hikes since 2024 have delayed the recovery of domestic demand. By acting prematurely, the room for further rate hikes to counter the global rise in interest rates has been wasted. The coordination between the Takaichi administration's high-pressure economic policy to overcome structural economic stagnation and its proactive fiscal policy is now more important. The government has imposed a de facto dual mandate on the BoJ, aiming to achieve both strong economic growth and stable inflation. We expect rate hikes to be gradual, occurring once every six months. By 2028, the corporate savings rate would return to negative, corporate funding demand to recover, and structural economic stagnation would be overcome, resulting in a policy rate of slightly over 2%, and the real policy interest rate would move away from negative relative to the inflation target. The real policy rate would be maintained near zero percent, supporting the move toward negative corporate savings rate due to increased corporate investment. The endpoint is where the real policy rate returns to a modest positive level in 2029 (terminal rate of 2.5%). The expansion of strategic investments, which would revitalize the economy, could allow the real terminal rate to reach a level comparable to the current potential growth rate (around 0.5%). Under geopolitical risks and a global economic slowdown, an overly hasty pace of rate hikes — should the credit cycle and capital expenditure cycle falter — would lead to a slowdown in domestic demand, pushing the corporate savings rate higher and posing the risk of a return to structural stagnation.

Fiscal policy: promote aggressive fiscal policy and focus on expanding domestic demand under structural investment and high-pressure economy stance

A complete break from the liberal paradigm of shrinking government is made, with a new approach addressing the social and economic challenges holding back growth through proactive fiscal policy and public-private strategic investment. The Takaichi administration – committed to proactive fiscal policy and a high-pressure economy – seeks to sustain strong public support through to the 2028 Upper House election by delivering a tangible recovery through expanded strategic investment and tax cuts. The flawed primary balance surplus target, which wrongly requires even strategic investment to be covered by tax revenues, is hollowed out through the Honebuto framework, with the fiscal anchor shifting to a stable decline in the debt-to-GDP ratio. Budget formulation is fundamentally reformed, establishing a new investment envelope in the initial budget to enable long-term growth-strategy-based spending, while supplementary budgets respond flexibly to crises. To reduce dependence on external demand, economic policy promotes a domestic demand expansion analogous to the late 1980s following the trade conflict with the US. A complete exit from structural stagnation produces a significant upside surprise in tax revenues, moving the fiscal balance out of deficit by 2029. The government's net debt-to-GDP ratio falls below the 50% level that prevailed during Japan's AAA-rated era.

Japan outlook 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%

Note: CACIB CPI forecasts take into account VAT cut on food to 1% from Apr 2027

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

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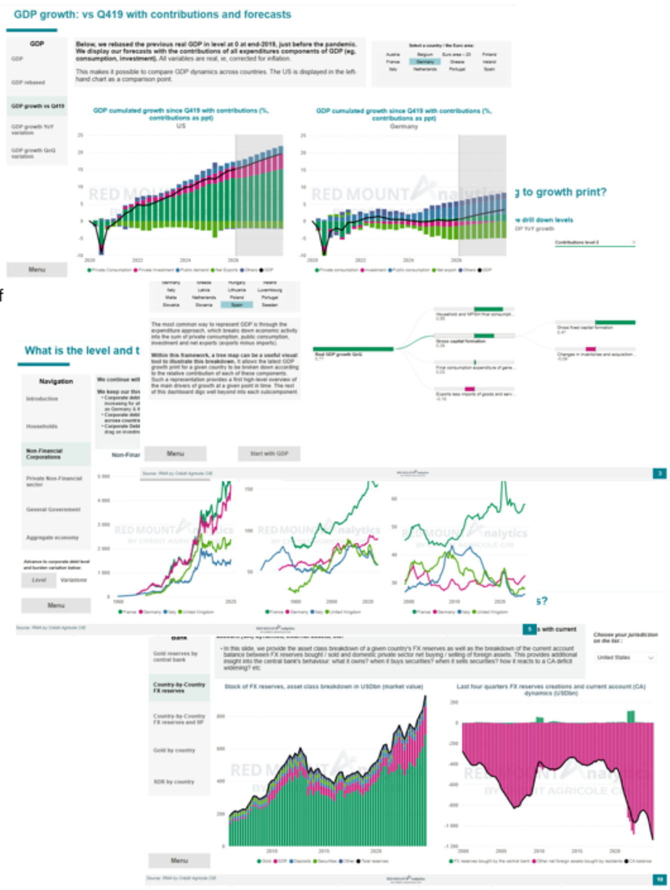

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