

19 June 2026 (No. of pages: 2)

Japanese report: 29 May 2026

Can the Japanese Economy Achieve Sustainable Growth? —Examination of Future Scenarios Using the DIR Macroeconomic Model

Integrated Efforts Are Needed in Private-Sector Reform, Supply Capacity Enhancement, and Fiscal Consolidation

Economic Research Dept.

Keiji Kanda
Munehisa Tamura
Hirohito Hatanaka
Ryohei Yoshida
Akane Yamaguchi
Junwen Pang

Summary

- The main downside risk to Japan's economy in the near term is the situation in the Middle East. However, even if this risk subsides, Japan still needs to address medium- to long-term challenges such as low productivity, a declining labor force, and economic security risks. Based on our medium-term macroeconomic model, if the current economic structure is maintained, economic growth is expected to remain below +1% per year through FY2040. While the labor force continues to shrink and excess savings persist in both the corporate and household sectors, the ratio of government debt outstanding to GDP is projected to turn upward in the latter half of the 2030s. Consequently, it is difficult to characterize this outlook as a scenario of sustainable economic growth.
- When constructing three alternative scenarios, the most desirable is one that integrates proactive behavioral changes in the private sector, strengthening of supply capacity, and fiscal consolidation. Under a stable price environment, potential growth would remain stable in the low +1% range on an annual basis, making sustained economic growth in Japan achievable. Both the public and private sectors should aim for a transition to such an economic structure. In addition to enhancing support for

sectors with relatively large room for investment expansion—such as healthcare and welfare, and information and communications—there is a need to promote crisis management investment and growth investment, which are key policy pillars of the Takaichi administration, in a more targeted manner. This should be done with a strong emphasis on cost-effectiveness, while maintaining close attention to the primary balance and ensuring appropriate prioritization.

- One factor behind the lack of clear behavioral change among firms is the limited entry of companies with strong investment appetite—namely, low levels of new business formation and entrepreneurship—which has led to stagnation in industrial dynamism. The startup rate in FY2024 fell to its lowest level since FY1981. In addition, the profitability gap between Japan and the United States, as reflected in the gross profit margins of listed companies, is observed mainly among mature firms that have been in operation for more than 30 years. In addition to strengthening support for startups, it is also important to promote initiatives that encourage greater risk-taking among such firms.
-