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Will economic growth accelerate under the Takaichi LDP-JIP coalition government?

Economic Research Dept.

Keiji Kanda**Munehisa Tamura****Shotaro Kugo****Hirohito Hatanaka**

Summary

- On October 21, 2025, Sanae Takaichi, President of the Liberal Democratic Party (LDP), was elected Prime Minister, forming a coalition government with the Japan Innovation Party (LDP-JIP coalition). Looking back at Japan's economy in the 2020s to consider the future direction of economic policy, Japan saw the strongest export growth among the Group of Seven (G7) nations, yet the weakest private consumption. This was driven by factors such as sluggish growth in real disposable income due to high prices and a strengthening tendency toward thrift. The high prices significantly impacted not only low-income households but also middle-income households. It is estimated almost 60% of the current inflation rate stems from supply shocks, primarily centered on food products.
- Real wages and salaries per capita (as measured in GDP statistics) grew at an annual rate of +0.1% from 2014 to 2024, significantly lower than the rates in the US (+1.5%) and Germany (+0.9%). Labor productivity and working hours were particularly influential factors, with productivity-driven growth amounting to only about half that of the US. One contributing factor was Japan's significantly lower capital accumulation compared to the US, particularly in intangible fixed assets like software and research and development. The downward pressure from working hours was pronounced in Japan. While the effects of work-style reforms are commendable in this regard, a certain number of workers still desire more work. If all such desires were fulfilled, per capita working hours are estimated to increase by 3.6%.
- The Takaichi LDP-JIP coalition government plans to include measures such as abolishing the provisional gasoline tax rate and providing subsidies for electricity and gas bills in its economic stimulus package to combat rising prices. However, measures against high energy prices are inefficient, benefiting high-income individuals and profitable companies. The government should verify the effectiveness and necessity of these policies and review them appropriately, considering Japan's transition to an inflationary economy. Furthermore, the Takaichi LDP-JIP coalition government

intends to expedite the design of an Earned Income Tax Credit (EITC) with benefits system. Japan's redistribution function for low-income groups is weak, and it has repeatedly relied on “primitive low-income support measures” based on households exempt from resident tax. Strengthening and refining low-income support through the EITC is essential. Raising real wage growth rates and economic growth rates is seen as hinging on expanding capital expenditure, making the realization of a “virtuous cycle of wage increases and capital expenditure” crucial.