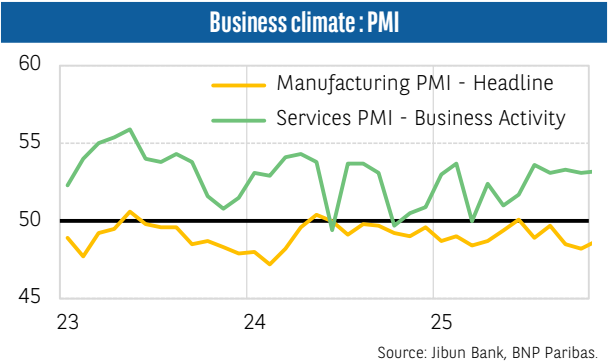
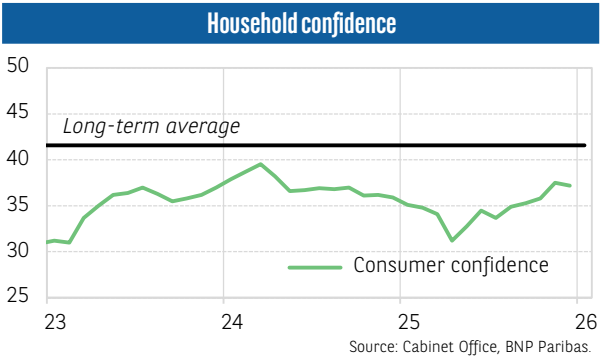


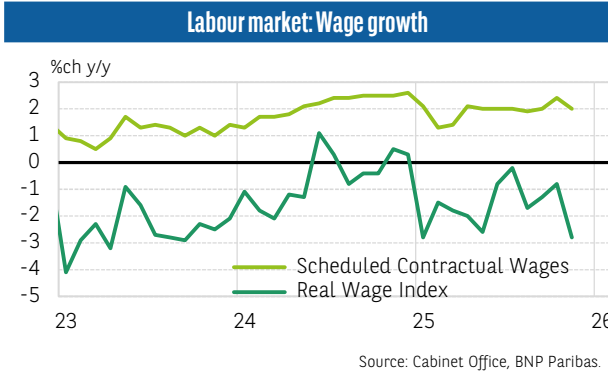
Japan: Inflationary growth



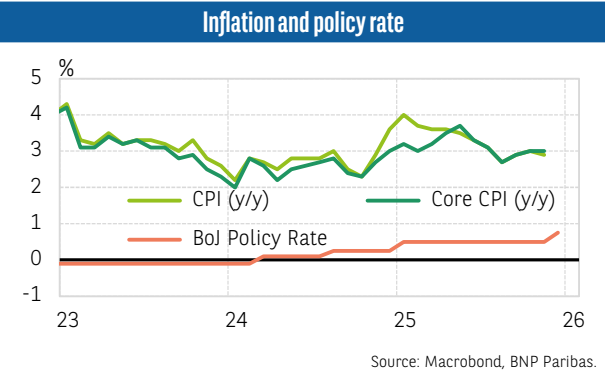
Business conditions showed improvement after holding up well. The TANKAN quarterly survey for Q4 2025 reported its highest level (17, +2 points) since 2018, after four steady quarters. The business conditions for large manufacturing companies (15, +1 point) – the most sensitive to US tariffs – showed continued improvement in 2025. At the same time, the manufacturing PMI remained stable (49.0), while the services PMI declined but remained at a healthy level (52.6, -0.7 pp).



Better household sentiment. Household confidence, as measured by the Cabinet Office, improved for the second consecutive quarter in Q4 2025, standing at 36.8 (+2.2 points), after being weakened by tariff fears in H1. The greater rise related to “overall livelihood” (35.5, +3.1 points), while employment exhibited the best result (41.1, +2.2 points).



Decline in real wages and a persistently low unemployment rate. Contractual scheduled wages increased by an average of +2.3% y/y in October–November 2025 (+2.0% y/y in Q3). Real wages declined due to inflation (-0.8% y/y in October, -2.8% y/y in November). The unemployment rate remained low (2.6% in October–November, up 0.1 pp compared to Q3).



30-year high for the policy rate amid the strongest inflation period since early 1990s. Core inflation persisted and reached +3.0% y/y in October–November 2025 (+2.9% y/y in Q3) due to energy prices. In December 2025, the Bank of Japan (BoJ) raised the uncollateralized overnight call rate to +0.75% (+25bp, unanimously), its highest level since 1995, due to the moderate impact of the tariff shock and a robust wage outlook. We anticipate the process to extend in the upcoming years with one rate cut per half year in 2026 and 2027.

GDP growth q/q: actual, carry-over and forecasts										
ACTUAL	OBSERVED			FORECAST (q/q)			ANNUAL FORECASTS (y/y)			
Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	2024 (observed)	2025	2026	2027
0.6	0.4	0.5	-0.6	0.3	0.2	0.2	-0.2	1.2	0.7	0.8

Source: Cabinet Office, BNP Paribas

Growth continues after the repercussions of US tariffs. According to our forecasts, GDP returned to growth in Q4 2025 (+0.3% q/q), supported by retail sales and industrial production. The Q3 setback (-0.6% q/q), which followed five consecutive quarters of growth (for the first time since 2018), was linked to tariffs and non-residential investment. Growth is expected to continue in Q1 2026 at the same pace as in Q4 2025: above Japan’s potential growth, which fits with the continued inflationary pressures.

Anis Bensaidani (completed on 19 January 2026)