

Outlook for the Japanese Economy

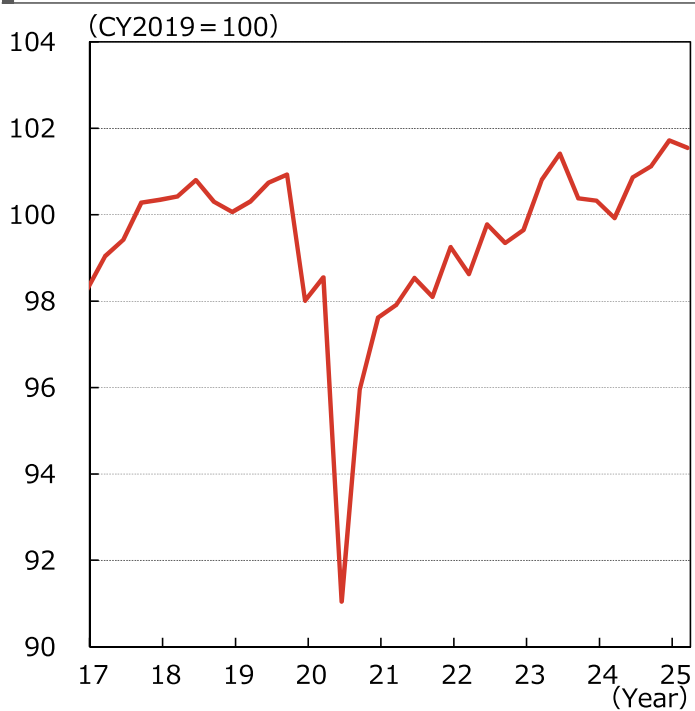
MUFG Bank
Economic Research Office

23 May 2025



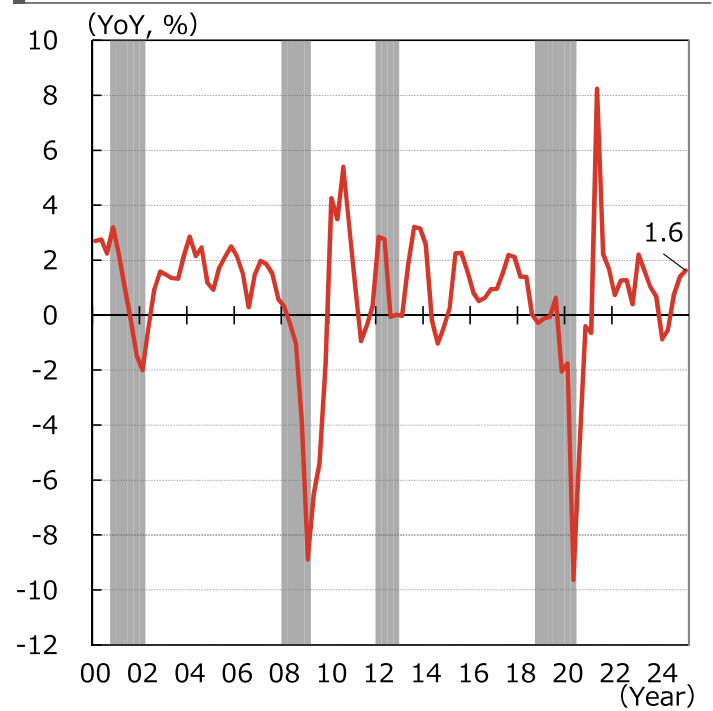
GDP growth is accelerating, but the future economic prospects are unclear

Real GDP Level



Source: Cabinet Office

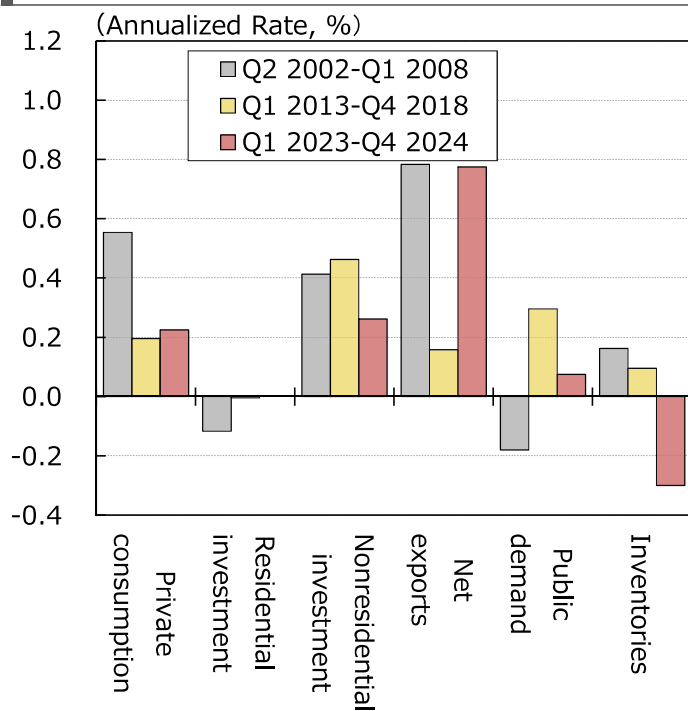
Real GDP Growth



Note: Shadow areas indicates recessions.
Source: Cabinet Office

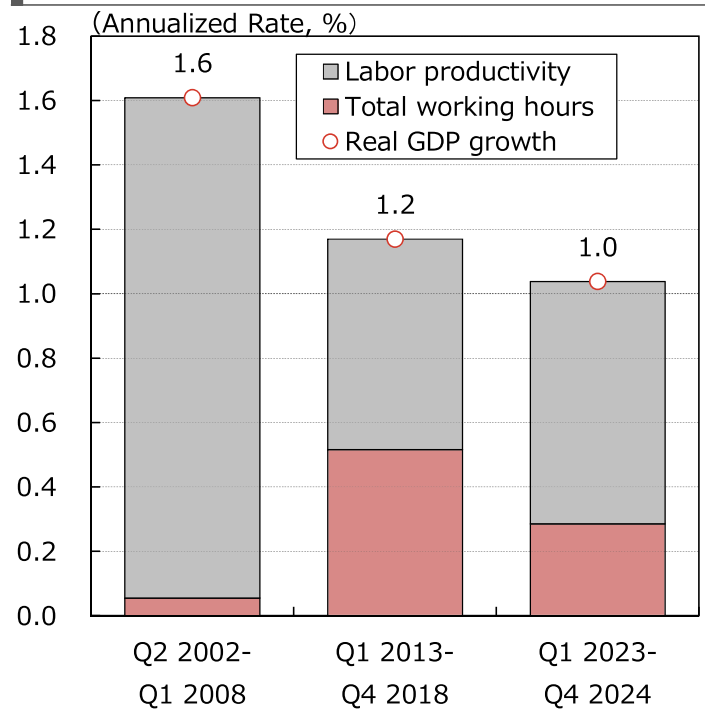
Growth of private domestic demand and labor supply slowed after the pandemic

Real GDP Growth by Expenditure



Source: Cabinet Office

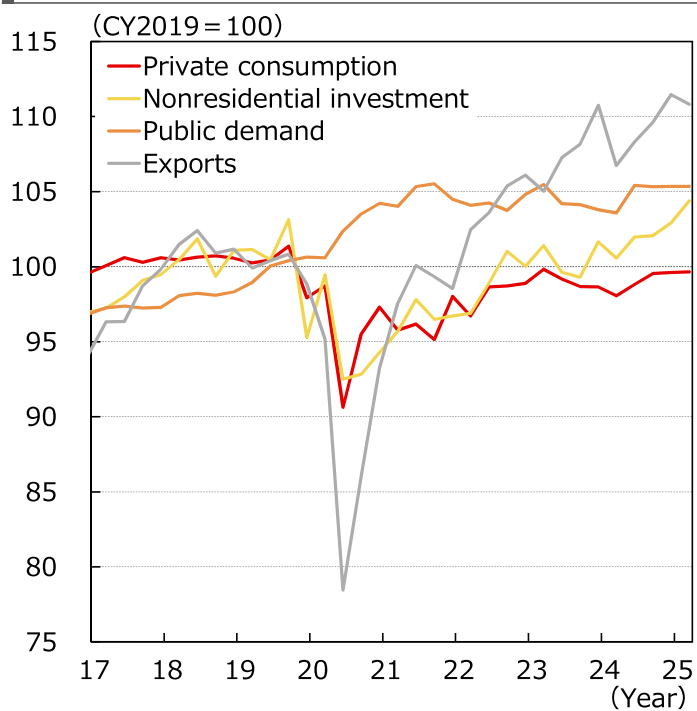
Labor Productivity and Working Hours



Source: Cabinet Office, Ministry of Internal Affairs and Communications, Ministry of Health, Labour and Welfare,

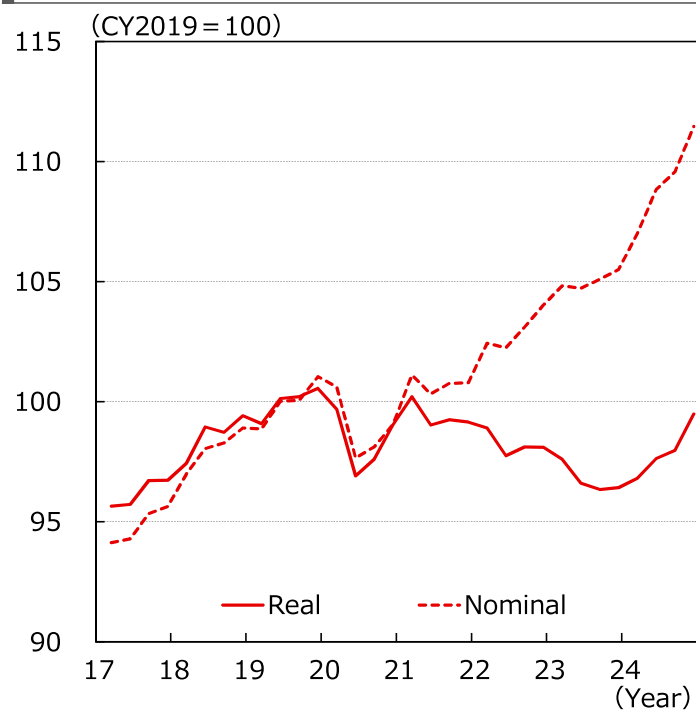
Inflation has slowed the recovery of private consumption

GDP by Expenditure Components



Source: Cabinet Office

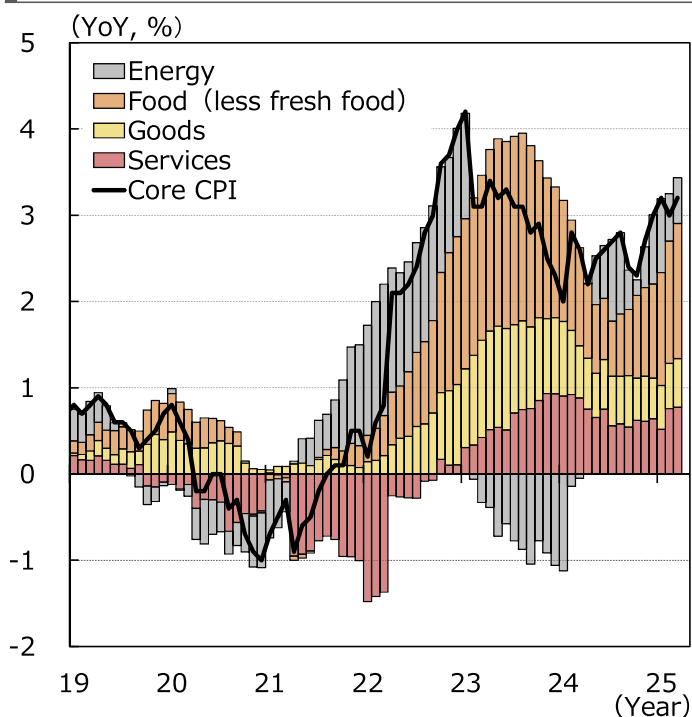
Compensation of Employees



Source: Cabinet Office

The weak yen is still driving up inflation and weighing on consumer confidence

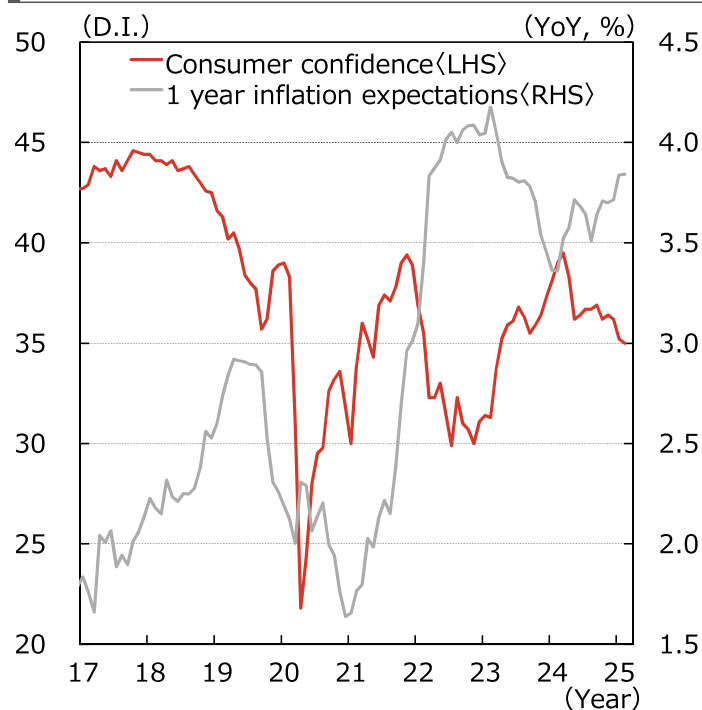
Core CPI (CPI less fresh food)



Note: Energy subsidies were effective from Feb 2023 to Jun 2024 and from Sep 2024 to Nov 2024.

Source: Ministry of Internal Affairs and Communications

Consumer Confidence and Inflation Expectations

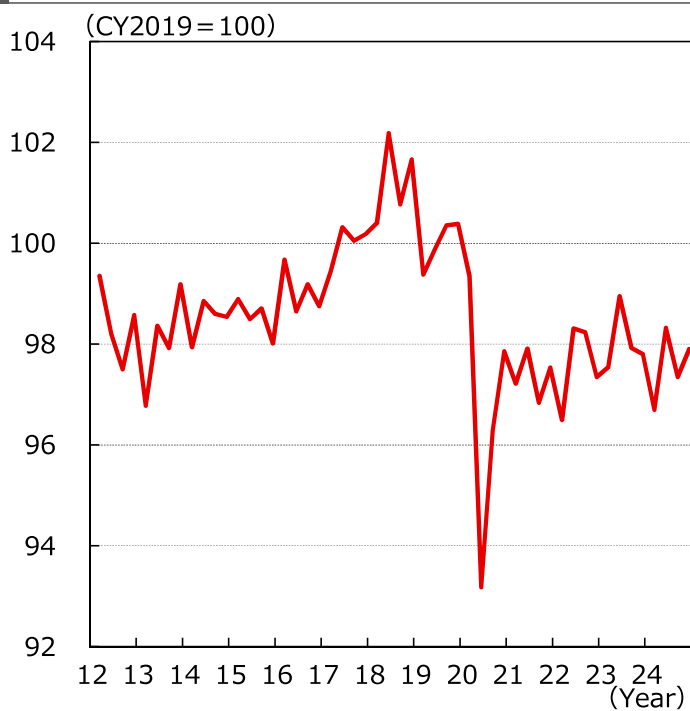


Note: "Go up greater than or equal to 5% (go down greater than or equal to 5%)" is calculated as 5% (-5%), "go up greater than or equal to 2% to less than 5% (go down less than 5% to greater than or equal to 2%) is calculated as 3.5% (-3.5%), "go up less than 2% (go down less than 2%)" is calculated as 1% (-1%).

Source: Cabinet Office

Working hours haven't recovered to pre-Covid levels due to supply-side factors

Total Working Hours



Source: Ministry of Internal Affairs and Communications,
Ministry of Health, Labour and Welfare,

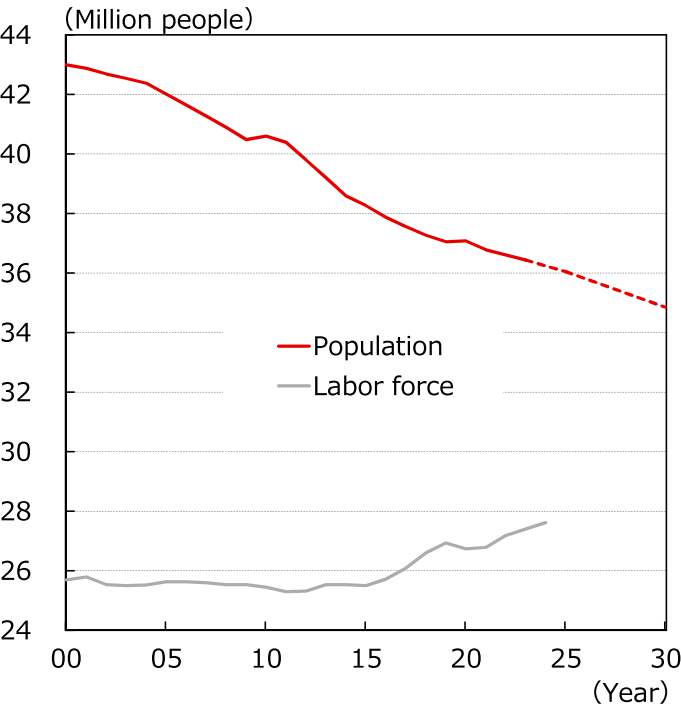
Enterprises' Employment Conditions



Source: Bank of Japan

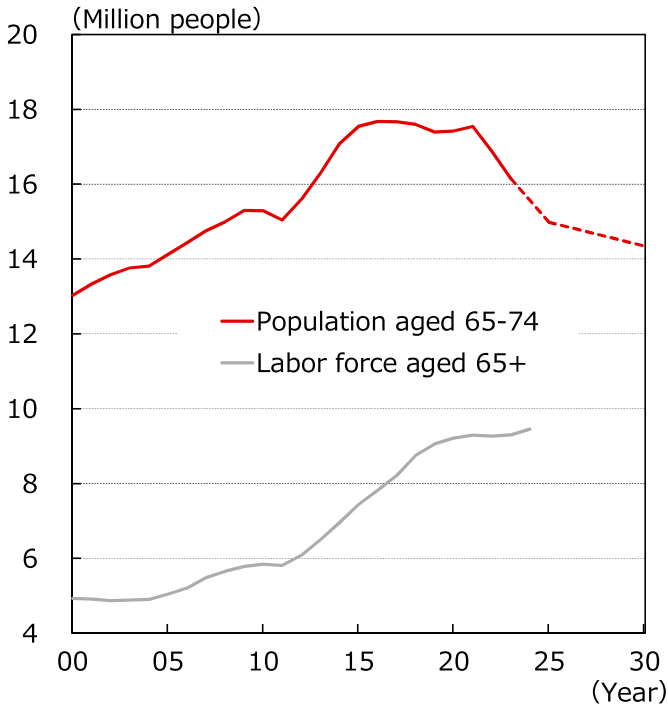
The aging of baby-boomers has led to a labor shortage

No. of Women Aged 15-64: Total and Those in Work



Note: Dotted line is estimations by The National Institute of Population and Social Security Research
Source: Ministry of Internal Affairs and Communications

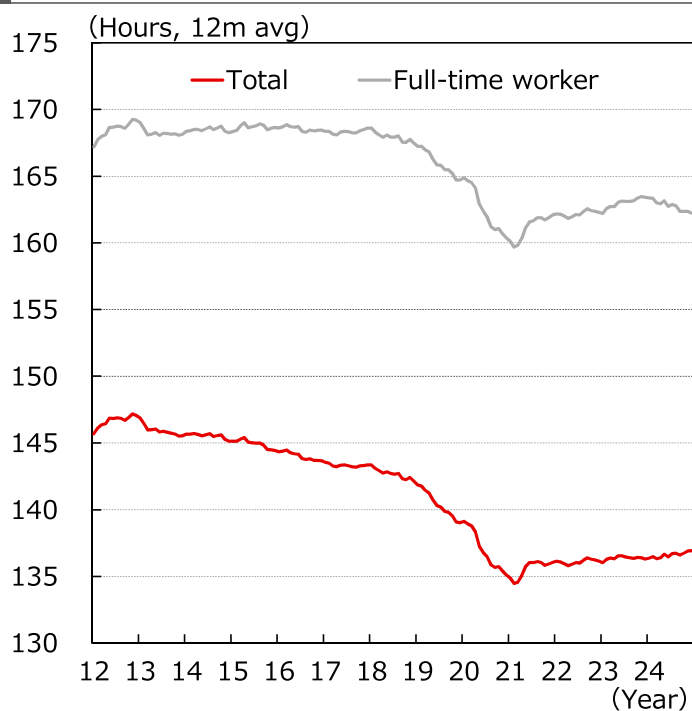
No. of Elderly: Total and Those in Work



Note: Dotted line is estimations by The National Institute of Population and Social Security Research
Source: Ministry of Internal Affairs and Communications

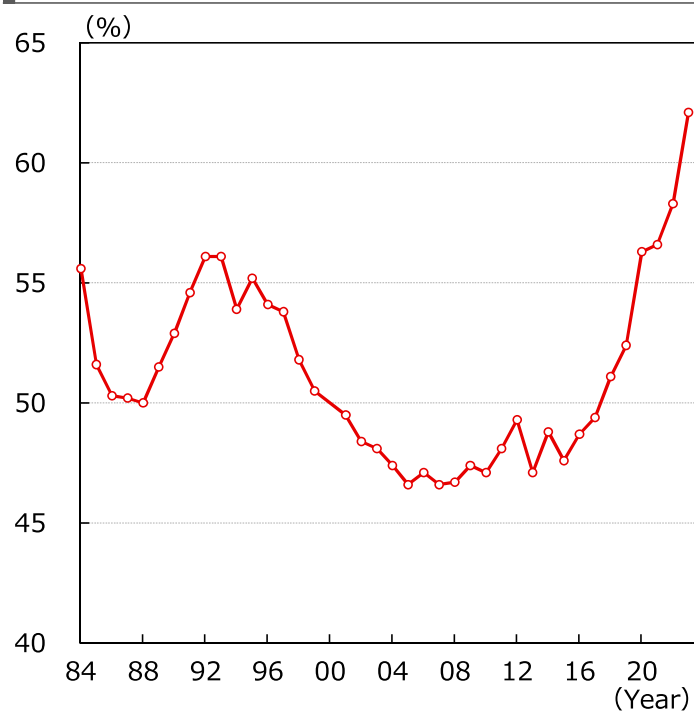
Work-style reforms have also prevented a recovery of the labor supply

Average Working Hours



Source: Ministry of Health, Labour and Welfare

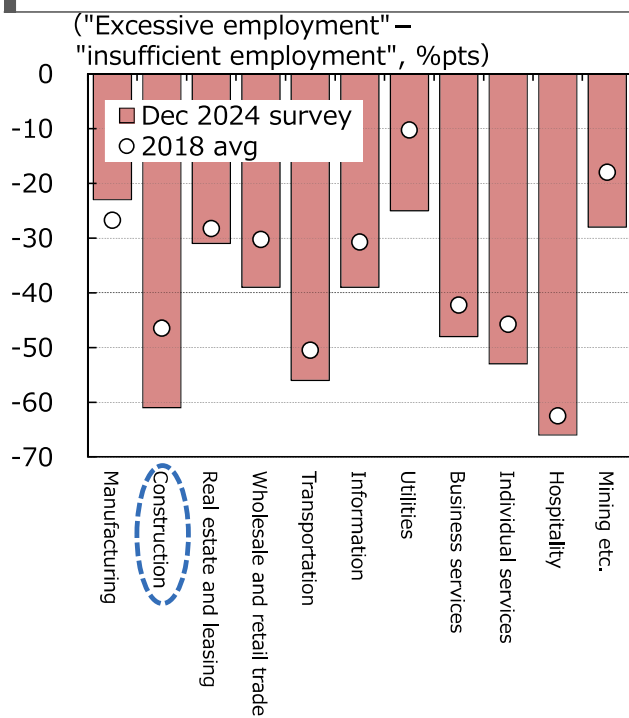
Average Rate of Annual Paid Leave Taken



Source: Ministry of Health, Labour and Welfare

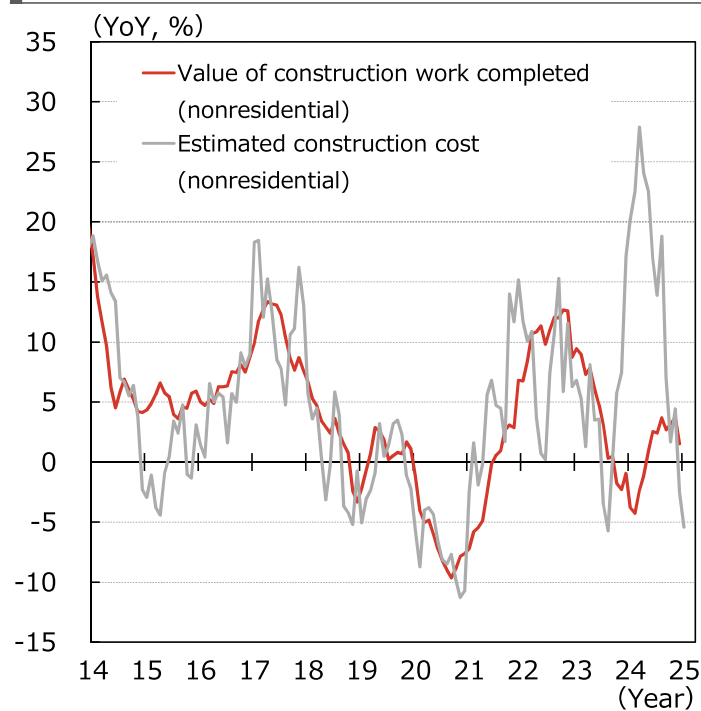
A labor shortage in the construction sector is weighing on investment

Enterprises' Employment Conditions by Industry



Source: Bank of Japan

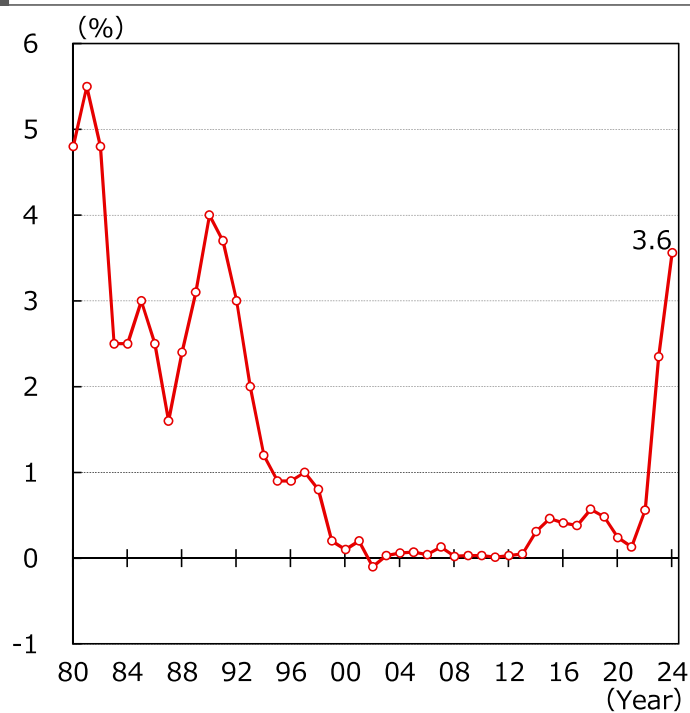
Construction Investment



Note: Estimated construction cost is 6m average of YoY.
Source: Ministry of Land, Infrastructure, Transport and Tourism

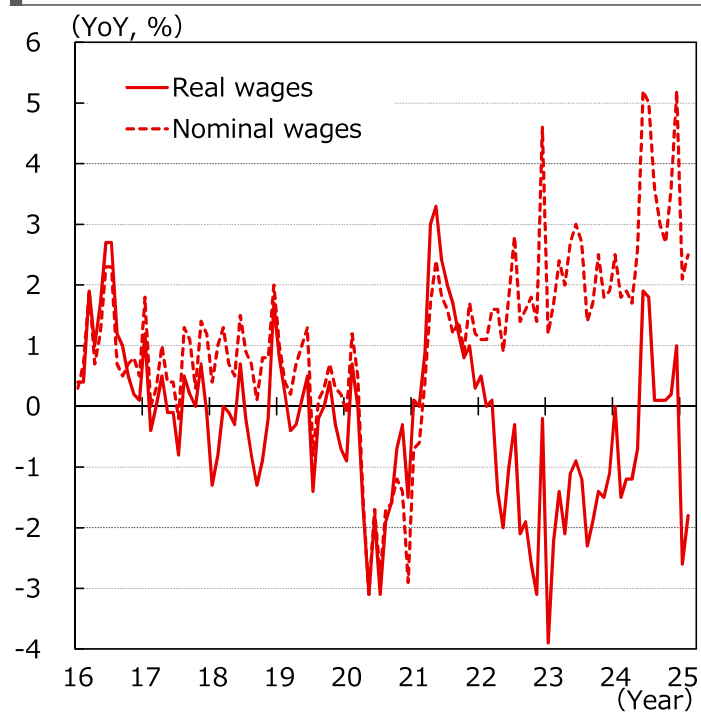
Real wages have started to pick up and will underpin consumption

Base Pay Growth



Note: Data for CY2024 is based on the result of spring wage negotiations
Source: Ministry of Health, Labour and Welfare, Japanese Trade Union Confederation

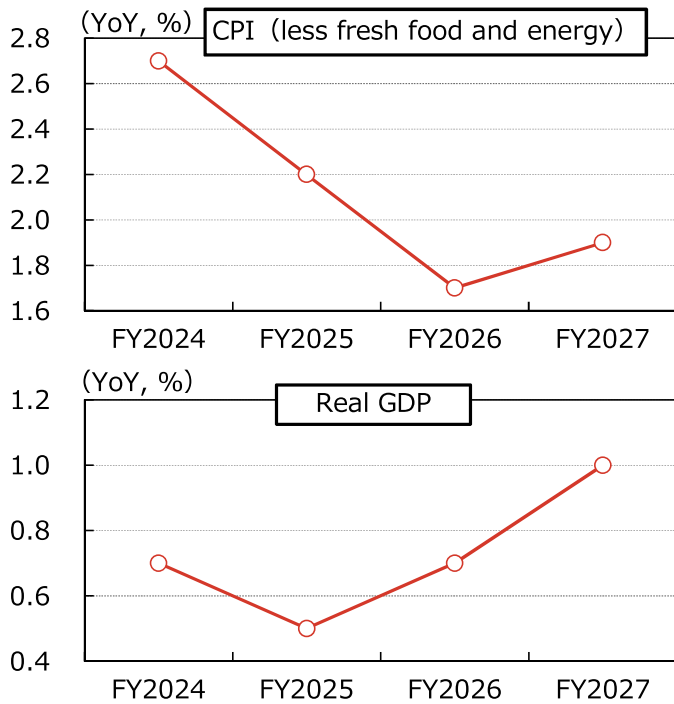
Wage Growth and Inflation



Source: Ministry of Internal Affairs and Communications,
Ministry of Health, Labour and Welfare

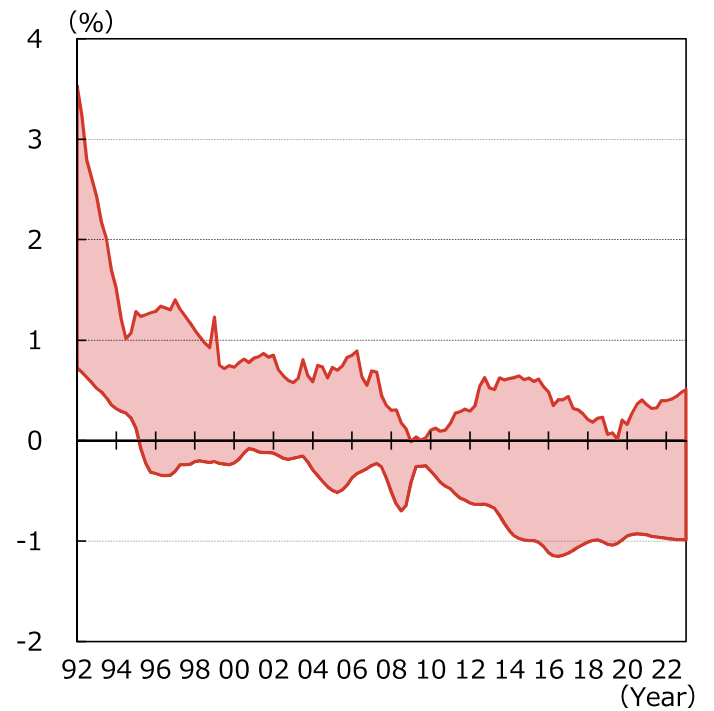
The BoJ intends to raise its policy rate

Forecasts of the Policy Board Members (Median)



Note: As of May 2025 MPM.
Source: Bank of Japan

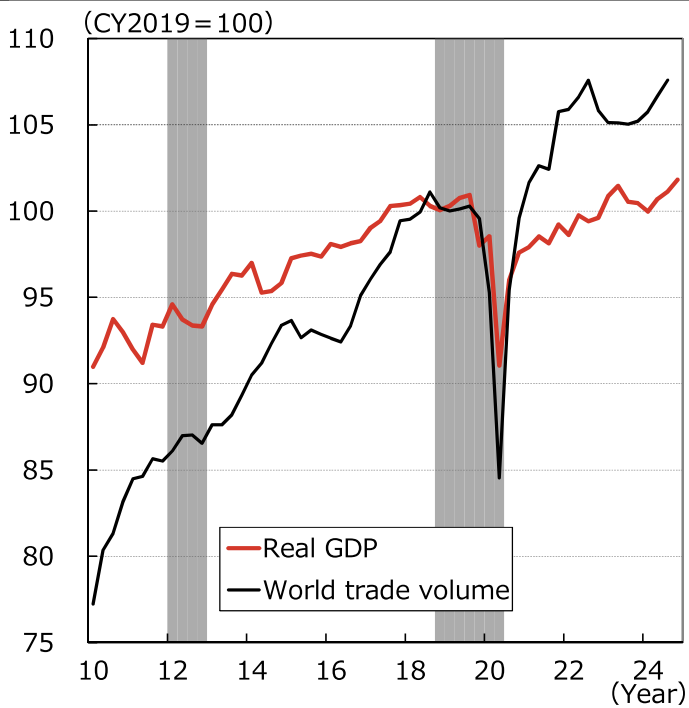
BoJ Estimates of the Neutral Interest Rate



Source: Bank of Japan

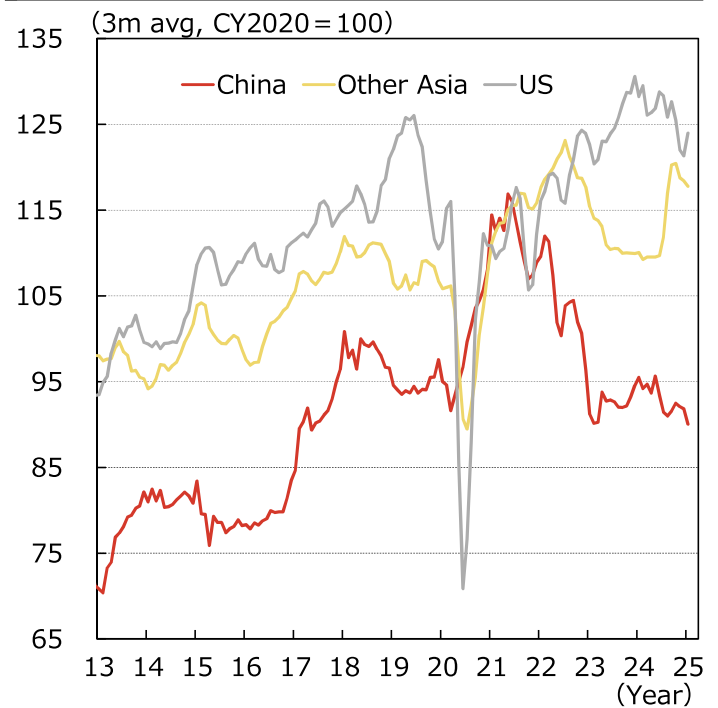
Higher US tariffs on Chinese imports will have a large impact on the Japanese economy

Japan Real GDP and World Trade Volume



Note: Shadow areas indicates recessions.
Source: Cabinet Office, Netherlands Bureau for Economic Policy Analysis

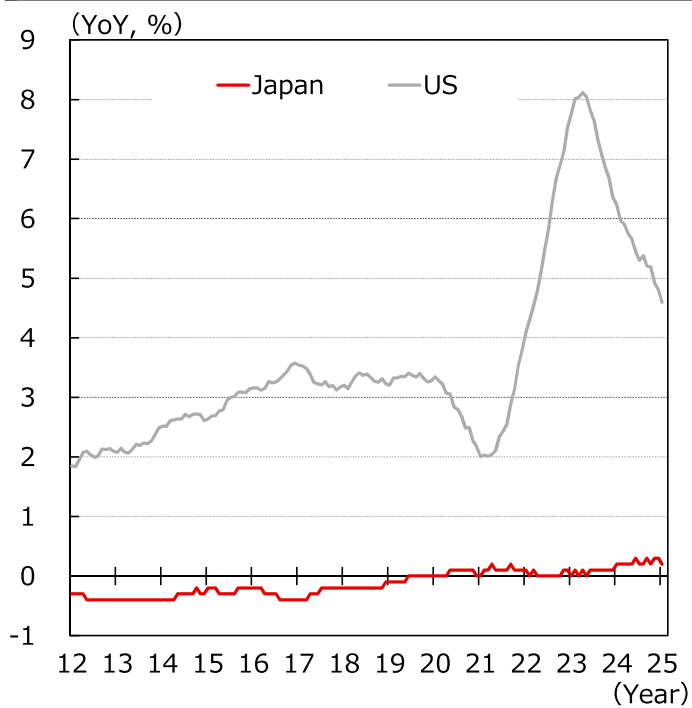
Japanese Trade Volume by Partner



Source: Bank of Japan

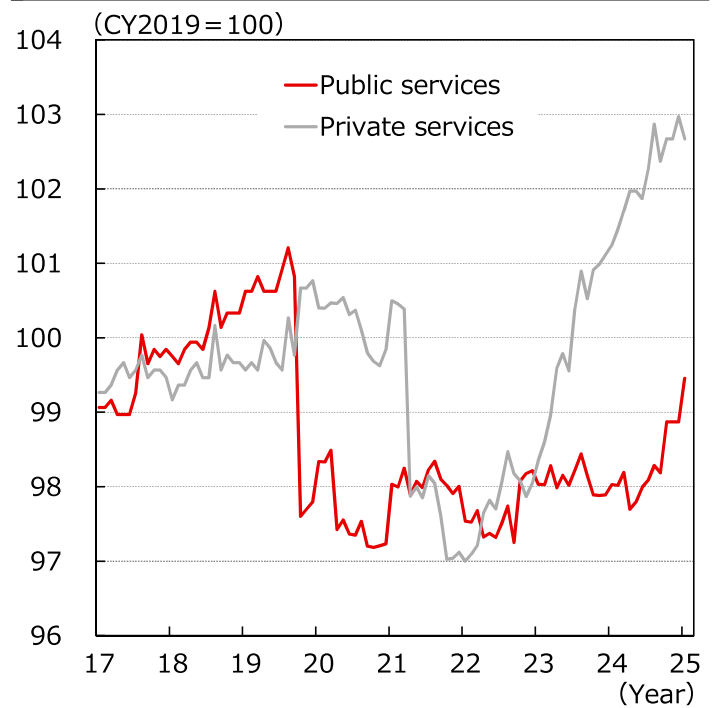
Weakness in core service prices casts doubt on sustainability of 2% inflation

Owner's Equivalent Rent in CPI



Source: Ministry of Internal Affairs and Communications, U.S. Department of Labor

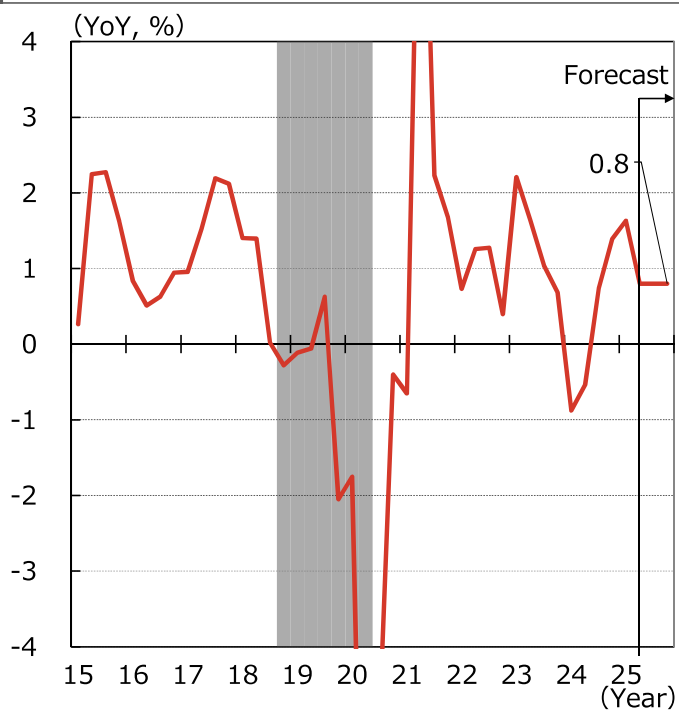
Price of Public and Private Services



Source: Ministry of Internal Affairs and Communications

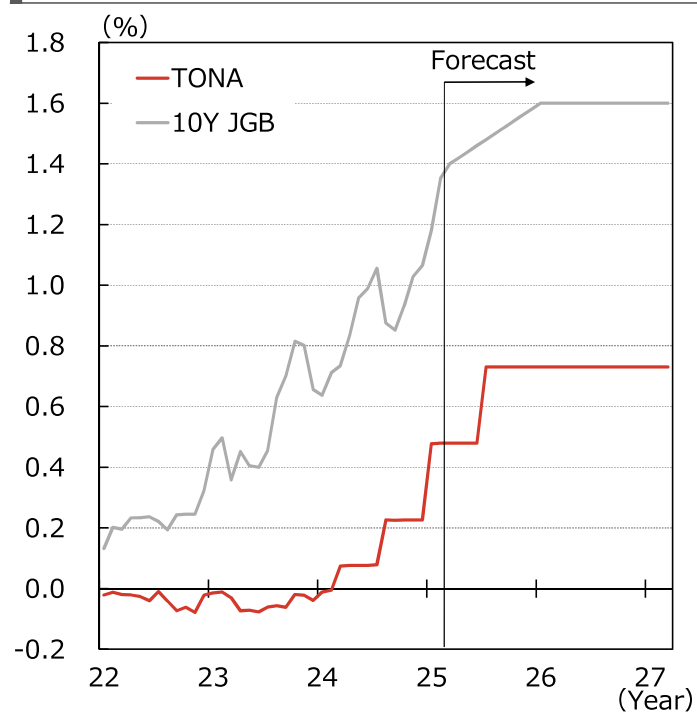
We forecast modest growth and another rate hike

Japan Real GDP and Outlook



Note: Shadow areas indicates recessions.
Source: Cabinet Office

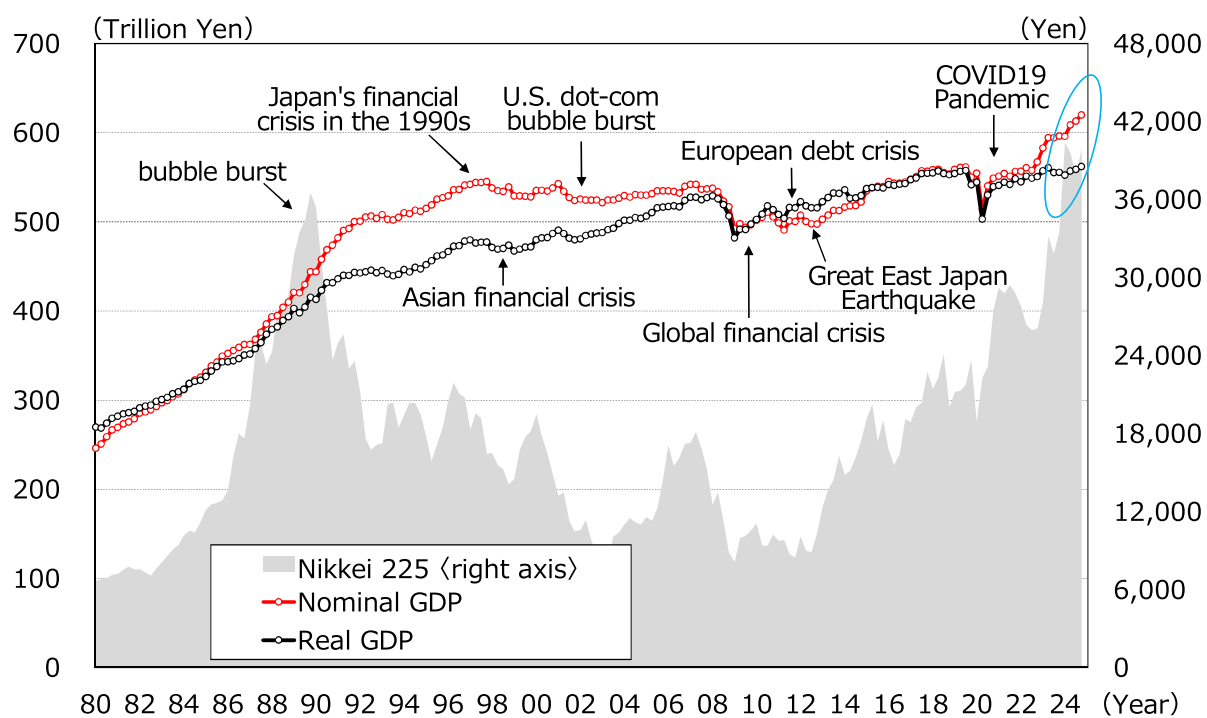
TONA and JGB Yield




Source: Bloomberg

Nominal GDP grows steadily, Nikkei 225 also surpass 1990's peak

Japan Nominal & Real GDP, Nikkei 225



Source: INDB

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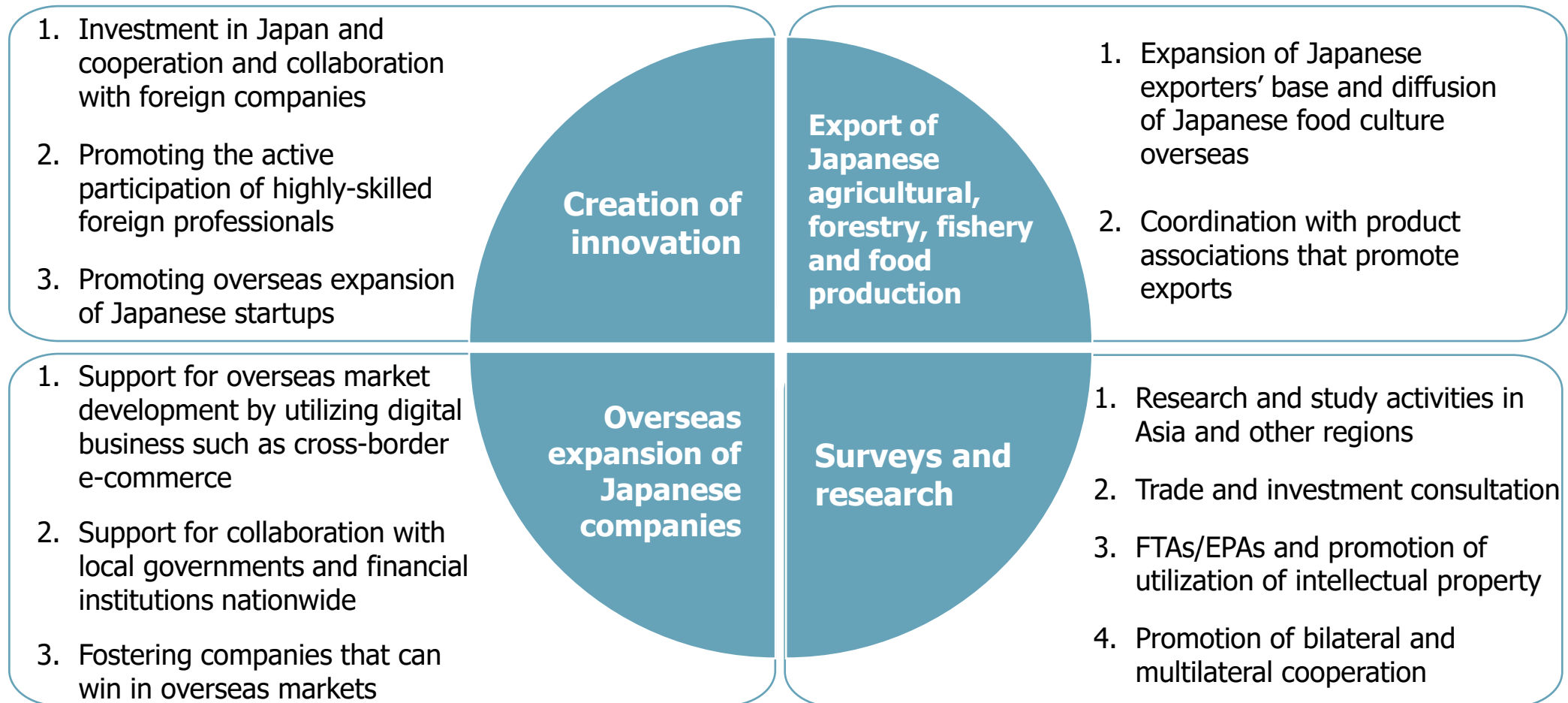


Promoting FDI in Japan to foster innovation

Takeo Nakajima
Director-General
Innovation Department
Japan External Trade Organization (JETRO)
May 23, 2025

Who we are

- JETRO is an independent administrative agency, which connects the Japanese and global economies. We aim to contribute to the further development of Japan's economy and society through trade and investment promotion and research.



2 Positive developments in Japan's economy (and challenges)

Key words

1

- ✓ Nominal **GDP**: 609 trillion yen = record high (2024 Annualized) ※1
- ✓ TSE **market cap**: 953 trillion yen (Apr2025) ※2



Scalable market,
industry, and business

2

- ✓ Corporate **ordinary profit**: 29 trillion yen (Oct–Dec 2024) ※3
- ✓ Corporate **capital investment**: 106 trillion yen = record high (Apr–Jun 2024, Annualized) ※4



Companies secure
profits and enhance
competitiveness

3

- ✓ No. of **startups**: 25,000 = record high (Aug 2024) ※4
- ✓ Corporate **research funding**: 15.13 trillion yen = record high (FY 2022) ※4



Innovation and
entrepreneurship

4

- ✓ Foreign **visitors** : 36.89 million people = record high (2024) ※5
- ✓ **Highly-skilled foreign professionals** in Japan: 23,960 people (note), end of 2023 = highest since survey start ※4



Japan's attractiveness,
open society, and
labor mobility

Source:

※ 1 Cabinet office

※ 2 Japan Exchange Group

※ 3 Ministry of Finance

※ 4 Material of the Council on Economic and Fiscal Policy held in September 2024, edited by JETRO

※ 5 Visitors Statistics(Japan National Tourism Organization)

3 FDI stock in Japan exceeded 50 trillion yen (350 billion dollars)

The Japanese government has set a target of 100 trillion yen in FDI stock by 2030 and set out priority programs and tax reforms.



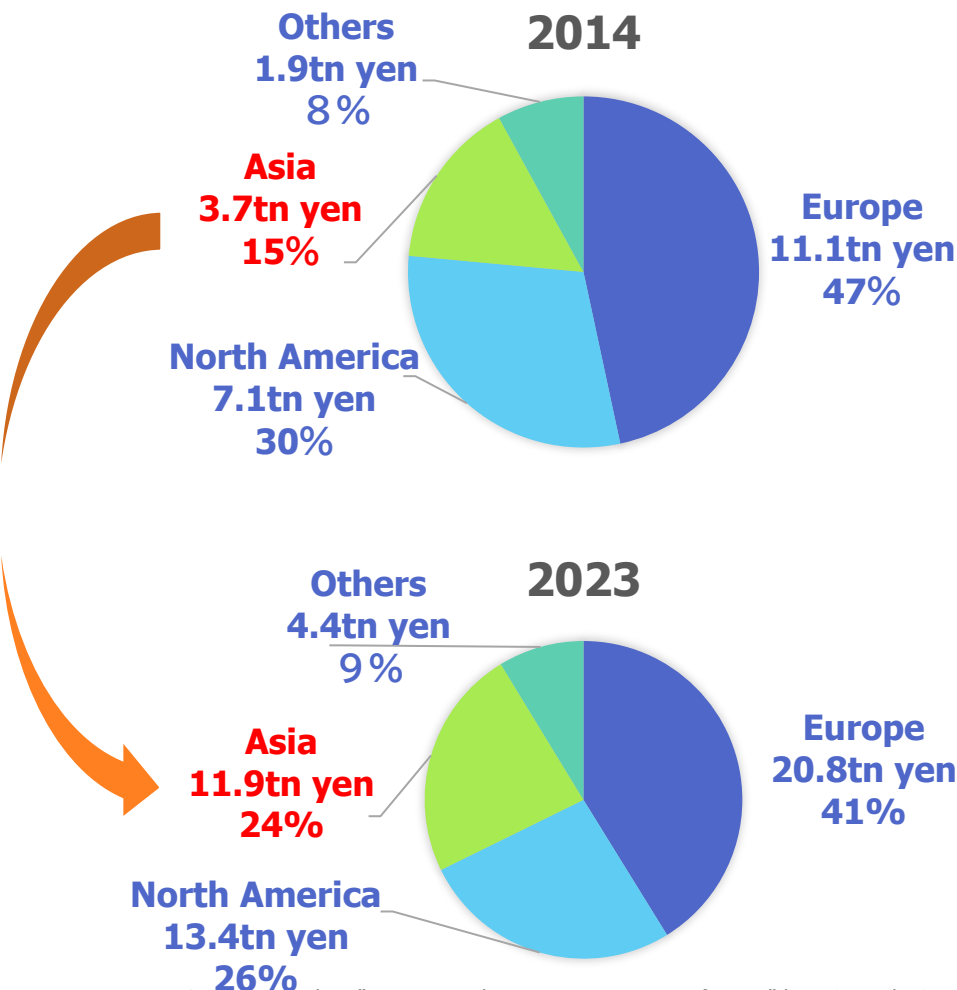
Trends in FDI Stock in Japan (Unit : Trillion yen)

Source: Created by JETRO based on JETRO "JETRO Invest Japan Report 2024" and MOF "International Investment Position of Japan"

*The data is a preliminary figure.

4 | Trend in Inward FDI to Japan by country/region

- By region, Europe accounts for the largest share and Asia's share has increased in recent years.
- By country and region, investment increased notably from the United States (+23.2% YoY) and Taiwan(+21.1% YoY).



Note: Source: Based on "International Investment Position of Japan" by MOF and BOJ

FDI Stock in Japan by Country (end of 2023) (100 million yen,%)

Ranking	Country/Region	Stock	Growth rate (YoY)	Ratio
1	United States	124,655	23.2	24.7
2	United Kingdom	86,989	11.3	17.2
3	Singapore	52,614	8.1	10.4
4	France	34,107	4.5	6.8
5	Netherlands	32,542	-4.6	6.4
6	Hong Kong	27,608	5.3	5.5
7	Cayman Islands	27,073	6.7	5.4
8	Switzerland	20,737	-4.4	4.1
9	Germany	14,015	1.3	2.8
10	Taiwan	12,993	21.1	2.6
-	Others	71,843	3.1	14.2
-	Total	505,176	9.3	100.0

5

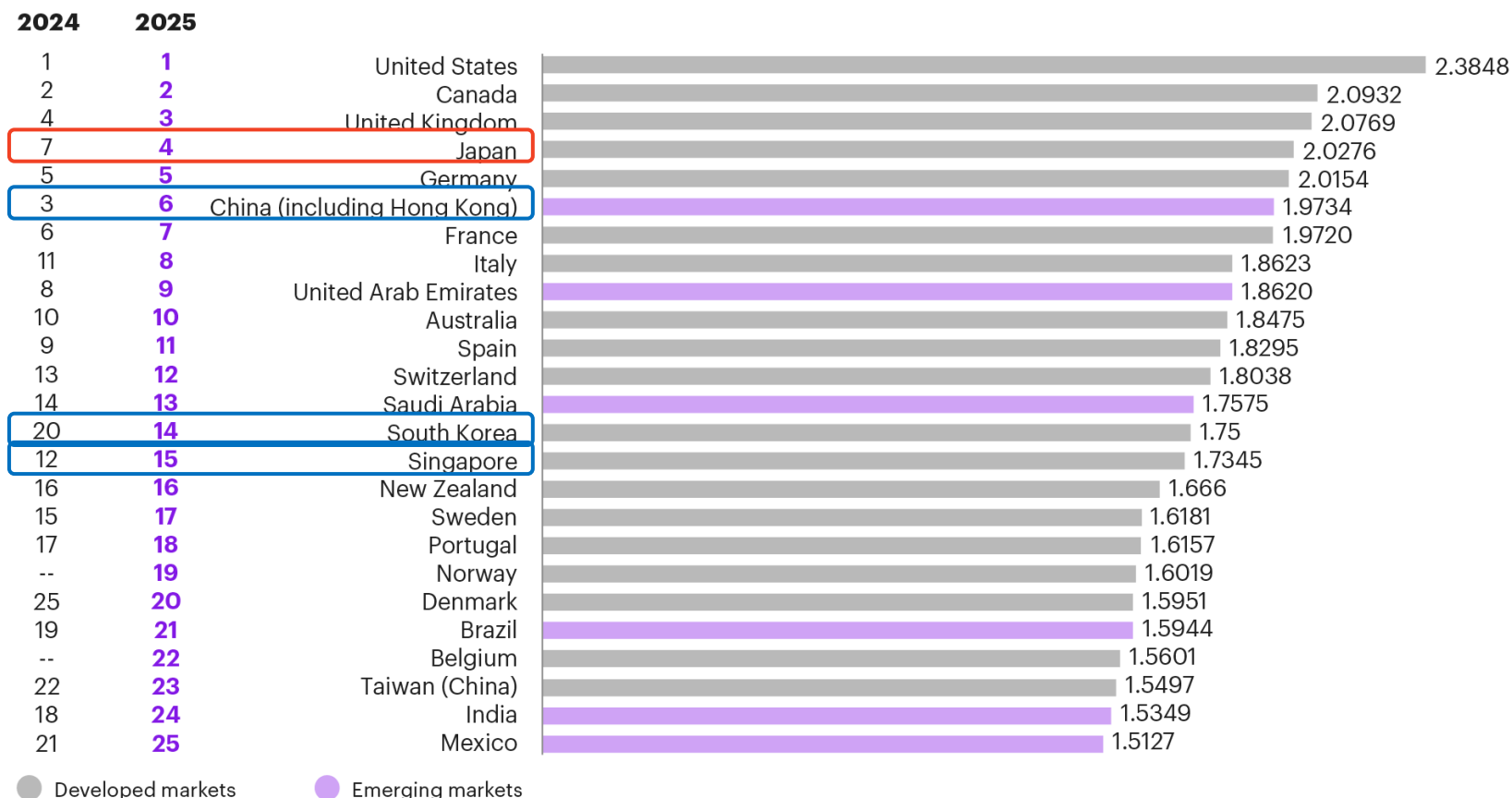
On the FDI Confidence Index, Japan Ranks 1st in Asia and forth worldwide

Japan ranks first in Asia and fourth worldwide in the Foreign Direct Investment Confidence Index.

This rating reflects the market's continued strength in technology innovation and growth potential of the Japanese economy, as well as low investment risk.

Figure 1

2025 FDI Confidence Index® global rankings

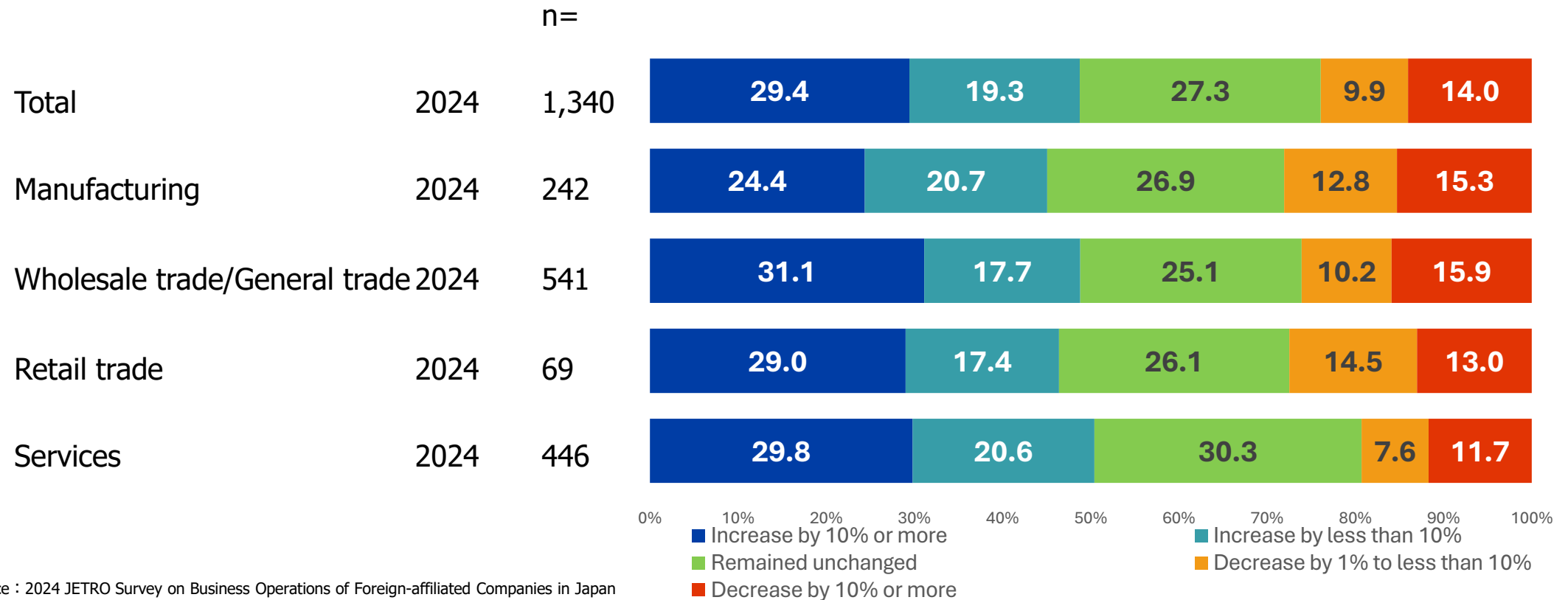


Note: emerging markets are classified according to the IMF's country classification.

Source: 2025 Kearney Foreign Direct Investment Confidence Index

6 About 50% of Foreign-affiliated Companies Increased Revenue

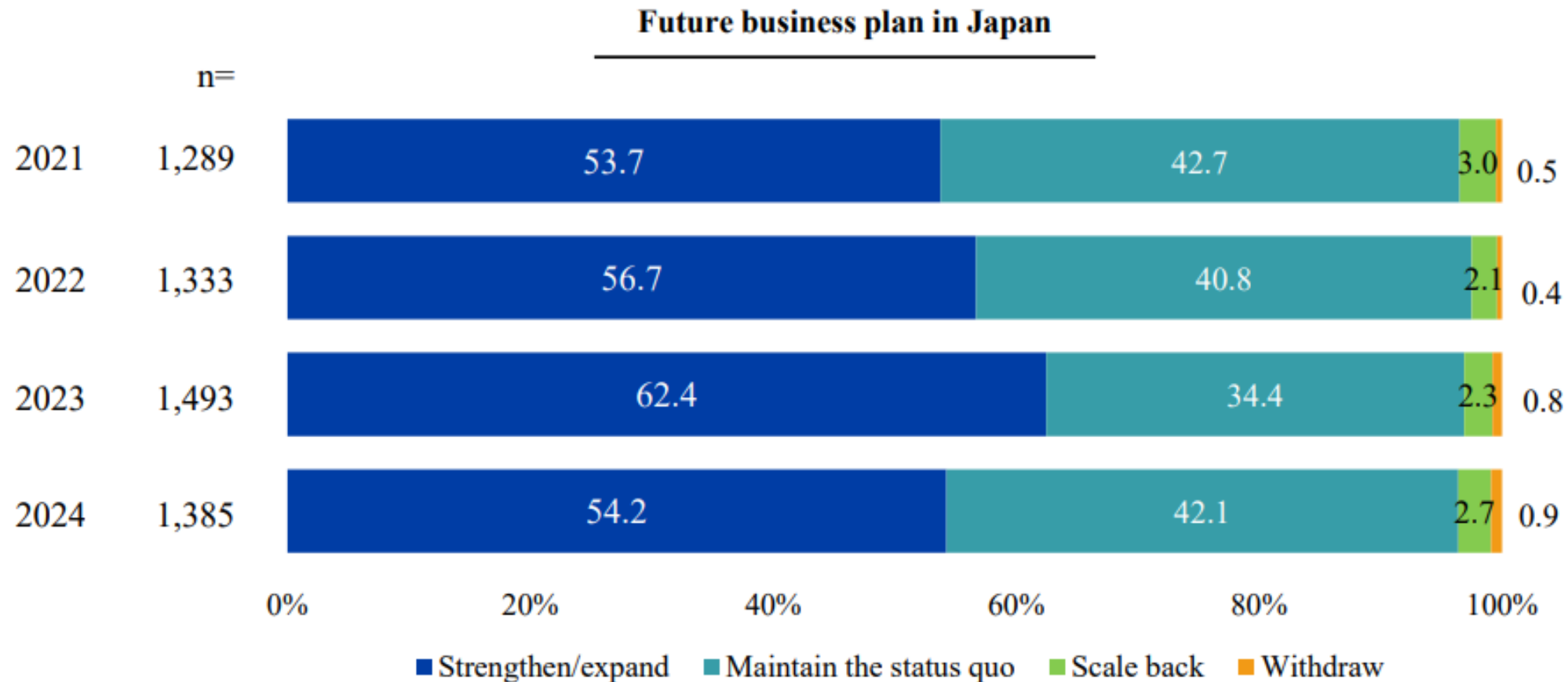
- Looking at the year-on-year changes in sales by industry for the most recent financial year, revenue increased or remained unchanged in over 70% of companies across all categories.
- In particular, services companies with revenue growth accounted for over half (50.4%) of the companies in their category.



Source : 2024 JETRO Survey on Business Operations of Foreign-affiliated Companies in Japan

7 Over 50% of Companies Intend to Strengthen/Expand Their Japan Operations

- Regarding future business plans in Japan, 54.2% of companies responded that they intend to strengthen and expand their businesses. This intention surpassed all others, and in general most companies had a positive attitude for business in Japan.

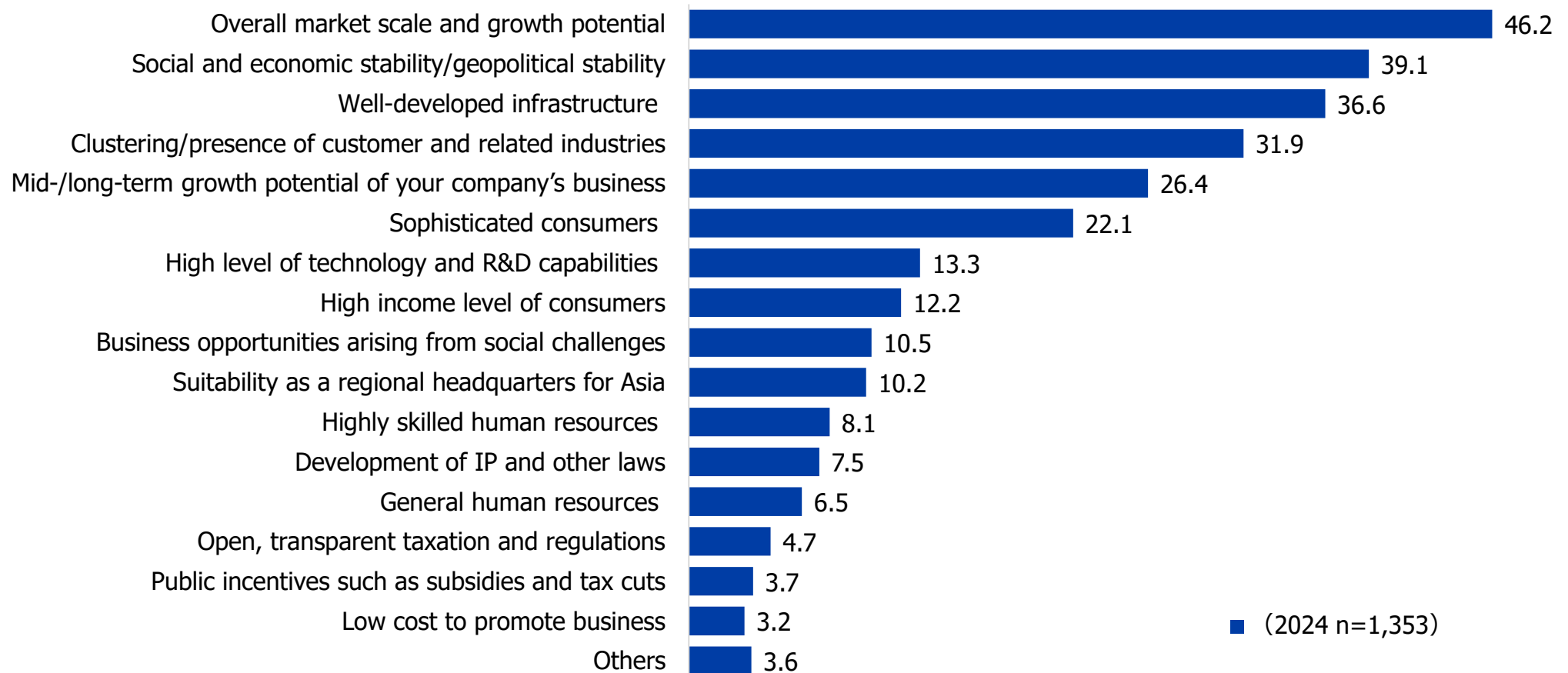


Source : 2024 JETRO Survey on Business Operations of Foreign-affiliated Companies in Japan

8 Japan's Social and Economic Stability is Becoming an Increasingly Prominent Strength of the Country

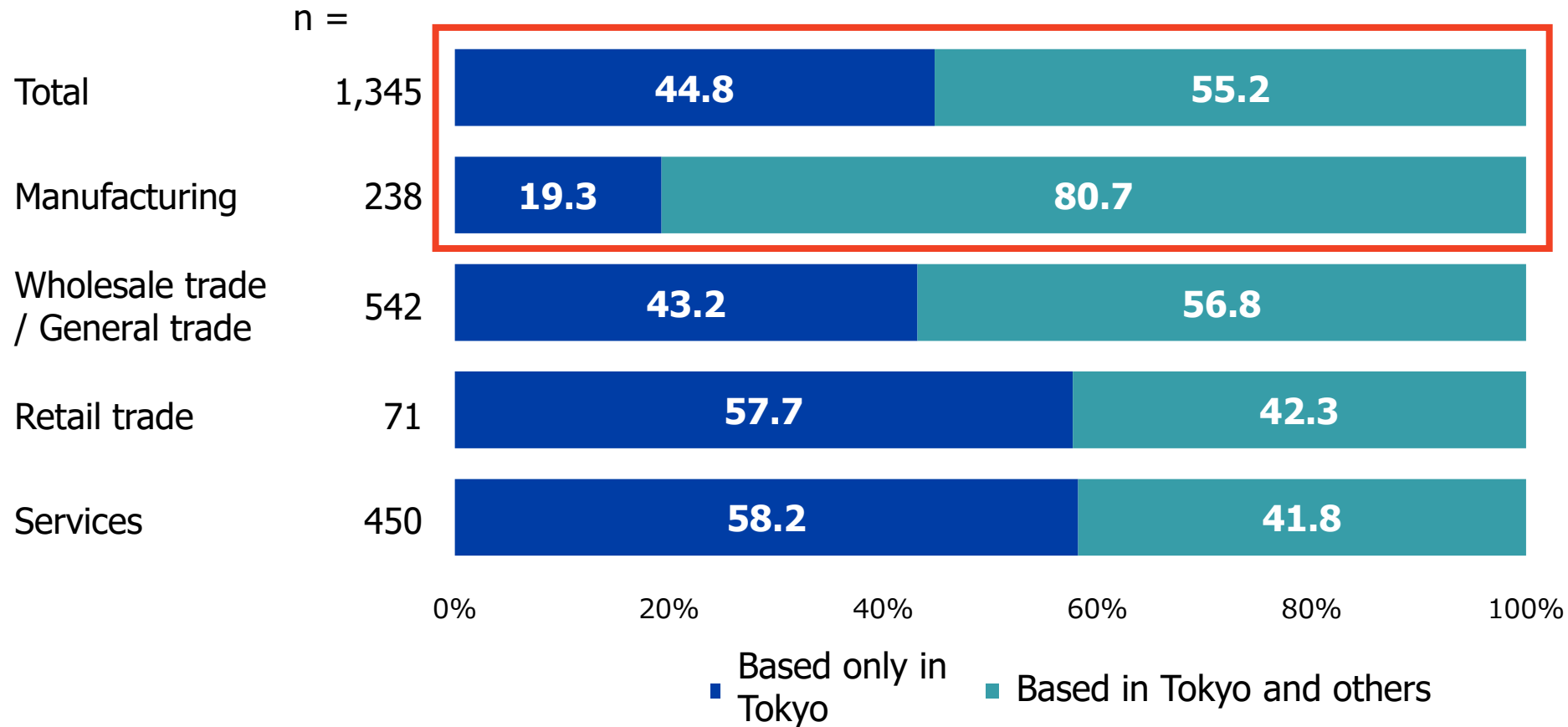
- Regarding the attraction of Japan's business environment compared to other markets around the world, the overall market scale and growth potential ranked highest at 46.2%. This was followed by social and economic stability (39.1%), making it an increasingly prominent strength of the country.

Attractions of Japan's business environment (Multiple responses allowed)



9 Locations of bases in Japan by industry

The majority of firms have a location(s) outside of Tokyo.



Source : 2024 JETRO Survey on Business Operations of Foreign-affiliated Companies in Japan

10 | Why do you choose Japan?

Comments by overseas companies

- "There are those that see challenges in the Japanese economy. But it is a stable economy, and I have confidence that it will continue to be so. Maybe not with huge growth, but at least it's stable."
(President and Representative Director of Bosch Corporation, Mr.Christian Mecker)
- "Japan has very high standards of quality," Jakobs says, noting the skill level of the country's doctors and its well-equipped hospitals. "There is of course investment that you can make here, but also things that you can learn here for the rest of the world," he adds.(CEO of Royal Philips, Mr.Roy Jakobs)
- "Japan offers a unique blend of stability, innovation, and opportunity. For companies willing to invest in understanding the market and building relationships, the rewards are immense. At Biocon, we're excited to be part of this journey and contribute to Japan's vision for affordable, high-quality healthcare." (Executive Chairperson of Biocon, Ms.Kiran Mazumdar-Shaw)
- "Japan will remain at the forefront of technological advancement and create new, transformative products that enable better lives for everyone." (Vice President of Micron Memory Japan, Mr. Joshua Lee)

Source: Expert Perspectives interview series by JETRO

11 JETRO's activities to foster open innovation ecosystems

Develop a system to facilitate the circulation of capital, technology, and talent

Companies expanded into Japan

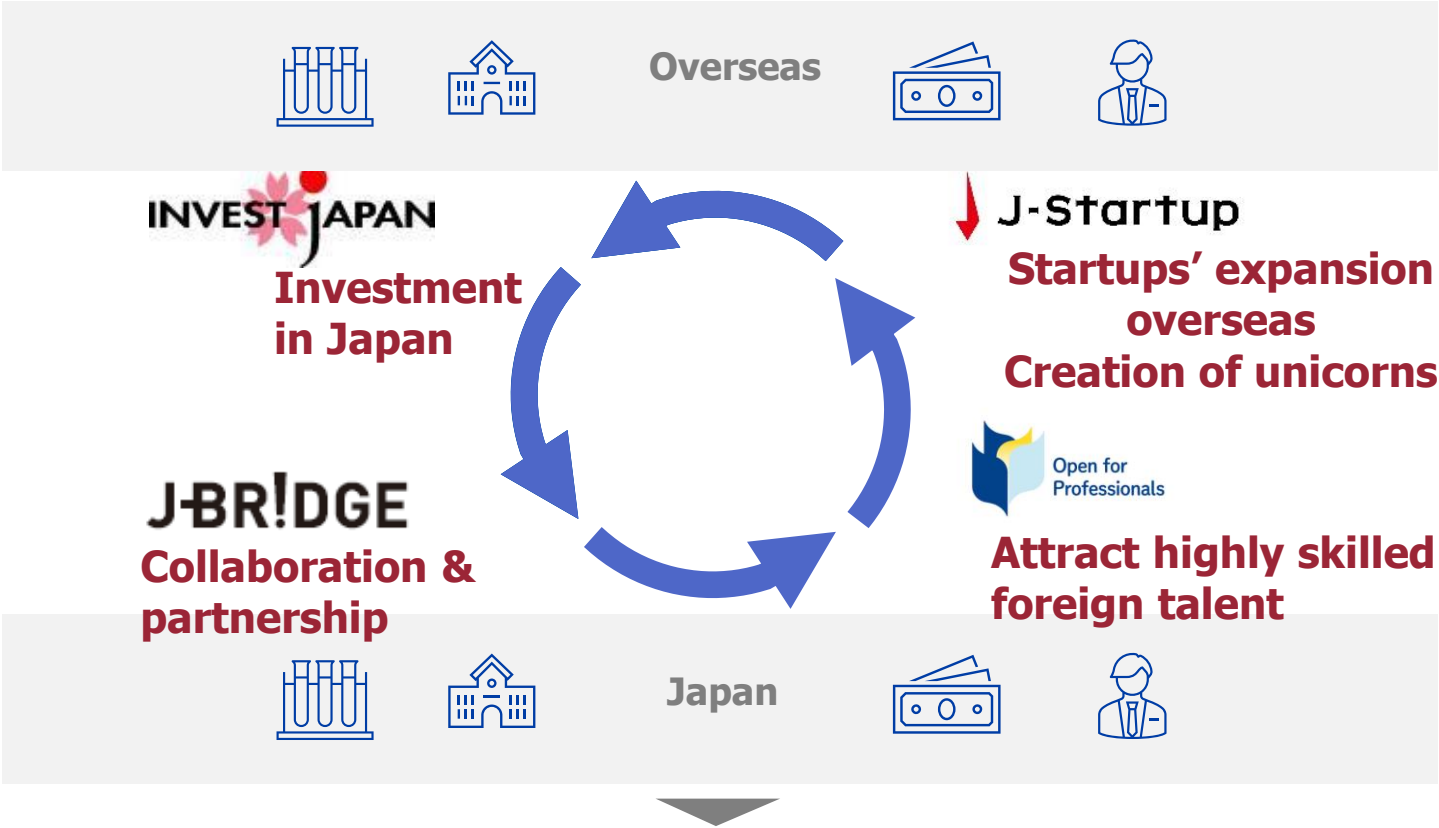
2,600

Support provided to 26,000 companies
(Cumulative from 2003)

Collaboration & partnership

80

Support provided to 1,200 cases
(Since 2022)



Companies expanded overseas

210

Support provided to 3,300 companies
(Cumulative from 2019)

Highly skilled foreign professionals supported

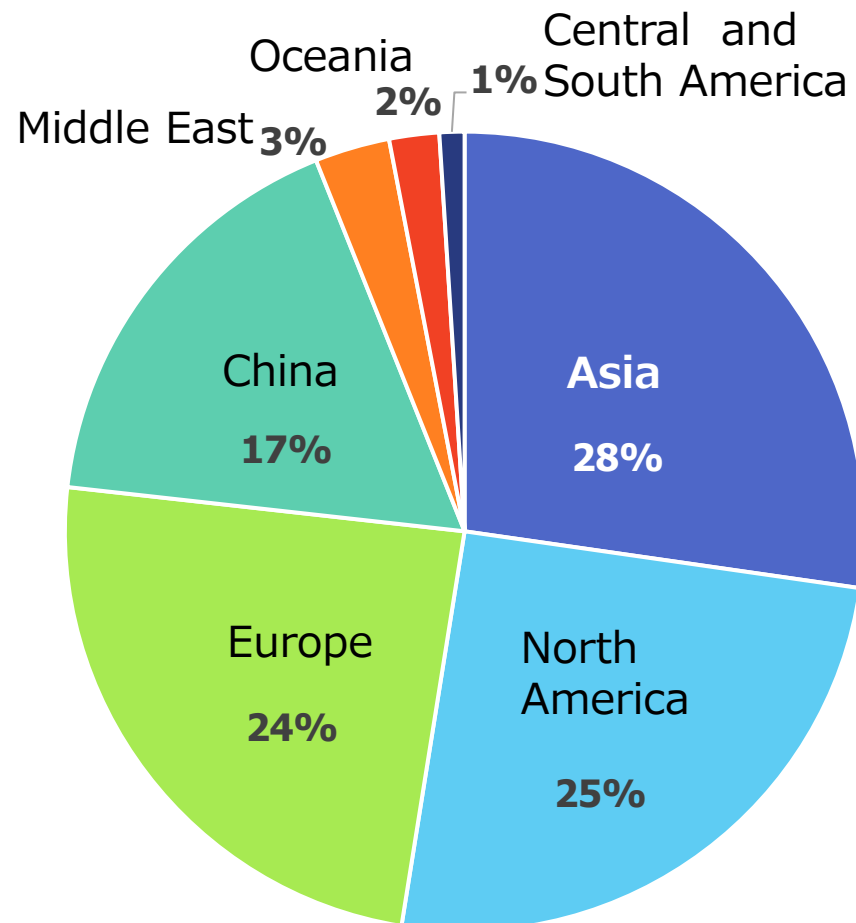
5,300

from 118 countries and regions
(FY2024)

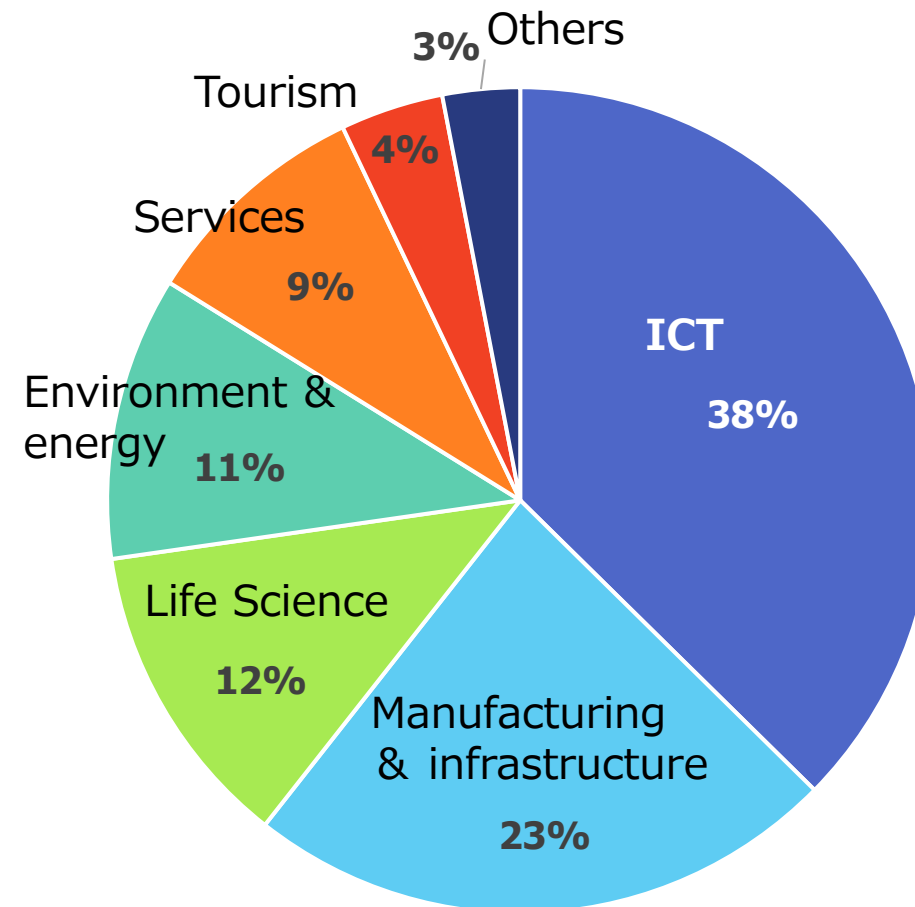
Create innovation and enhance Japan's attractiveness and competitiveness

12 JETRO's support for investment in Japan

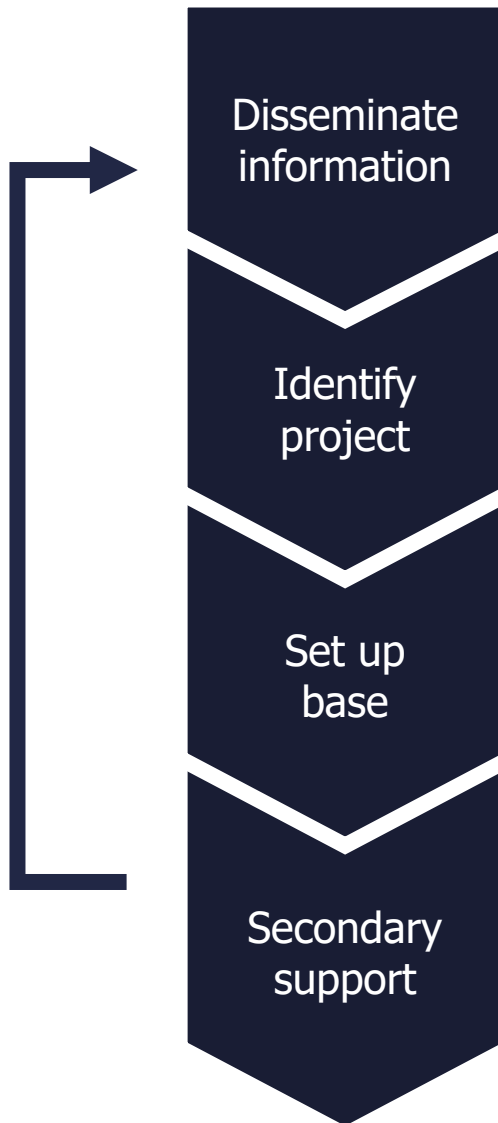
Companies by nationality



Companies by industry



13 | Overview of assisting international firms to invest in Japan



Flow of JETRO's support for investment in Japan

- Discover interest in investment in Japan
- Provide information and insights on destinations and successful cases
- Provide information on industries and potential partner companies in Japan
- Provide consultations on setup entities (Corporate registration, taxation, labor, visas, etc.)
- IBSC facilities
- Support foreign-affiliated companies in regulatory and operational issues (Regulations, permissions, human resources, etc.)
- Follow-ups and a survey: "Foreign-affiliated companies' operations and the environment for investment in Japan"

14 Promoting collaboration and partnership Overview of "J-Bridge" program

1. Publicity on J-Bridge Portal

Database for promising overseas companies

(Only available for J-Bridge Members)



2. Meet-up Service with J-Bridge Members

- ✓ Overseas startups/companies that JETRO supports can access the portal site "Japanese Partner Finder" which contains information on Japanese companies interested in collaboration.

* Only available for the foreign startups/companies who are registered J-Bridge. IF you are interested, please contact the JETRO office nearest you.

- ✓ Once you have found a Japanese company you would like to potentially partner with, you can send a meeting request on the portal and JETRO will handle the meeting arrangements.

3. Invitation to JETRO events (100+/year)



4. Business Meetings arranged by JETRO



15 | Case study: Strategically attracting foreign companies' investment and collaboration in the **semiconductor** sector



Attracting semiconductor and related technology developers and promoting collaboration

Tenstorrent (Tokyo)

Success

- Canadian startup designing semiconductors for AI
- Rapidus announced collaboration with the company in 2024



HERMES-EPI TEK (Kumamoto)

- Leading Taiwanese company providing semiconductor equipment, software process development, etc.
- After establishing a Japanese arm, relocated to Kumamoto in 2024



VMS SOLUTIONS (Kanagawa)

- Korean company providing AI-powered production management solutions
- Supports manufacturing process optimization mainly in semiconductor manufacturing



Creating international collaboration with overseas ecosystems

Promoting R&D, talent, and inter-business exchange

NY CREATES (United States)

JETRO signed an MoU with an institute supporting advanced semiconductor R&D in Albany, NY (Dec. 2024). Based on the MoU, jointly hosted a seminar at SEMICON Japan in corporation with local governments.



Holst Centre (Netherlands)

Research center founded jointly by the Netherlands Organization for Applied Scientific Research and imec, a Belgian research institute for semiconductors and electronics

Strengthening unique regional ecosystems

Hokkaido

Consistent support in forming manufacturing bases for next-generation semiconductors

Conducting comparative surveys using benchmark regions

Making recommendations for identifying and attracts targets and forming an ecosystem

Kumamoto

Addressing needs for expansion into Kyushu

In Sep. 2023, JETRO's Invest Kumamoto Semiconductor Business Support Desk was established. **It has supported three semiconductor-related companies in expansion**

Activities in other regions

Yamagata

Supporting the MoU between Yamagata University and Holst Centre (Netherlands)







Miyagi

Creating collaboration with overseas companies and attracting them, in cooperation with Tohoku University

Hiroshima

Contributing to improving the investment environment of the regional ecosystem, including securing talent

16 Recent notable FDI cases

IT Technology		AI diagnostic tech		Blockchain and NFT	
					
Company	DIGI DINOS JOINT STOCK COMPANY (Vietnam)	Company	FathomX Pte Ltd (Singapore)	Company	Cross The Ages SAS
Sector	software	Sector	Life science	Sector	Blockchain
Entry	April 2024	Entry	November 2023	Entry	August 2024
Destination	Kanagawa	Destination	Chiba	Destination	Tokyo
Outline	<p>It provides software development and consulting services, mainly for Japanese companies, including web system software, games, blockchain development, AI services, and IoT consulting.</p> <p>JETRO provided information on subsidies and incentives, arranged meetings with local authorities, provided consultations by professional experts and helped in opening a bank account.</p>	Outline	<p>A healthcare startup spinning out of the National University of Singapore that develops AI-powered mammography diagnostic imaging technology.</p> <p>Its Japanese arm was established in 2023 through a joint research contract with the National Cancer Center, which was signed in 2022 with JETRO's support.</p>	Outline	<p>A blockchain startup based in Marseille, France. It has released a trading card game application utilizing its in-house developed blockchain and NFT technologies.</p> <p>In 2023, the Consulate-General of Japan in Marseille introduced the company to JETRO. The startup established a limited liability company in Tokyo in August 2024.</p>

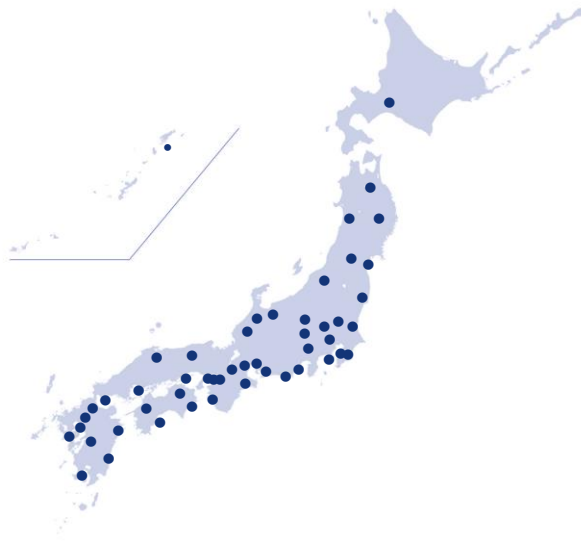
17 JETRO's Network

JETRO is here to support you through our network of offices worldwide

Talk to JETRO First

Japan

51 offices



Overseas

76 offices
in 56
countries



Thank you!!

Takeo Nakajima
takeo_nakajima@jetro.go.jp

Director-General
Innovation Department

Japan External Trade Organization (JETRO)

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