

1.2% Real GDP growth 2025 (−0.2% in 2024)	¥663 trn Nominal GDP 2025, ≈\$4.4 trn	~\$38,300 GNI per head 2025 (World Bank)	−1.3% Real wages 2025, 4th fall in a row; C ~53% of GDP	¥31.9 trn Record current account surplus 2025 (−4.8% GDP)
3.2% CPI 2025; 4th year above 2% target	2.5% Unemployment 2025; tight labour market	1.14 Fertility rate 2025; ~29% aged 65+	~0.33 Gini; relative poverty 15.4% (2021)	~230% Gross public debt % GDP 2025; highest in rich world

STRUCTURE OF THE ECONOMY

	% OF GDP (2024)	% OF JOBS (2025)
Agriculture	1.0	2.8
Industry	26.8	23.2
Services	71.4	~74

- Manufacturing ~19% of GDP, larger than UK or US. High-value cars, machinery, components.
- AD mix:** weak C (falling real wages, ageing), large G funded by borrowing, current account surplus from *primary income*, not goods.
- Debt:** ~90% held at home, in yen; Bank of Japan owns about half of government bonds.
- System:** market economy with keiretsu business groups and a protected farm sector.

MAIN INDUSTRIES

- Autos:** Toyota is world's largest carmaker by sales; vehicles & parts ≈ 1⁄5 of goods exports.
- Chips:** world leaders in chip materials and equipment; subsidised fabs (TSMC Kumamoto, Rapidus).
- Robots:** ~45% of world industrial robots (Fanuc, Yaskawa).
- Keiretsu:** linked firm networks (Mitsubishi, Mitsui, Toyota suppliers).
- Tourism:** 40 m+ visitors in 2025, boosted by the weak yen.
- Rice:** tariffs of several hundred %; prices roughly doubled 2024–25.

GROWTH STORY: TURNING POINTS

1973 Oil shock ends ~9% a year "miracle" growth	1985 Plaza Accord: yen doubles; rate cuts feed bubble	1990 Bubble bursts: Nikkei −60% by 1992; "lost decades"	1997 Banking crisis; consumption tax 3 → 5%
2001 World's first QE at zero rates (liquidity trap)	2013 Abenomics: three arrows; 2% target	2016 Negative rates (−0.1%) and yield curve control	2024–26 Negative rates end; rates 1.25% (Sept 2026); oil shock

Bubble → deflation: asset prices crash → debts exceed assets → firms repay debt instead of investing (balance sheet recession) → weak AD → falling prices and low expectations.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Public debt	~230% GDP; debt service ~¼ of budget	Fiscal sustainability
Ageing	Births 671k vs deaths 1.59 m	LRAS, dependency ratio
Falling real wages	−1.3% in 2025	Real vs nominal, C
Weak yen	~¥164/\$ July 2026	Imported inflation
Energy imports	~95% of crude from Middle East	Supply shock
Productivity	Lowest per hour in G7	LRAS, supply side
Labour shortage	2.57 m foreign workers (<4%)	Migration
Dual labour market	~37% non-regular; pay gap ~21%	Inequality

INEQUALITY & DEVELOPMENT

- Gini ~0.33, near OECD average; narrow pay gaps between managers and workers.
- Relative poverty 15.4% (2021); single-parent households 44.5%.
- Gender pay gap ~21%; women over-represented in non-regular jobs.
- ~30% of people live in greater Tokyo; rural areas ageing, ~9 m empty homes.
- Real wages fell 2022–25 despite 5%+ pay deals at large firms.

Can Japan exit cheap money safely? For: debt in yen, held at home, nominal GDP rising. Against: yields ~3%, ageing costs, government wants more spending.

CLASSIC CHAINS USING JAPAN

Deflation: prices expected to fall → spending delayed → AD ↓ → real debt and real interest rates ↑ → investment ↓ → further downward pressure on prices.

Weak yen: yen ↓ → import prices ↑ → cost-push inflation → real wages ↓ → C ↓; but exporter profits and tourism ↑.

Debt and rates: inflation ↑ → Bank of Japan raises rates → bond yields ↑ → debt interest ↑ on ~230% of GDP → less fiscal space.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Gross public debt as % of GDP: _____
3. CPI inflation in 2025: _____
4. Change in real wages in 2025: _____
5. Total fertility rate in 2025: _____
6. Year the asset bubble burst: _____
7. Bank of Japan policy rate, Sept 2026: _____
8. Unemployment rate in 2025: _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

JAPAN EVIDENCE	LETTER	CONCEPT
1. Firms used profits to repay debt after 1990		A. Liquidity trap
2. Rates at zero, yet QE failed to lift inflation to 2%		B. Cost-push inflation
3. Weak yen raised food and energy prices		C. Balance sheet recession
4. Surplus earned from returns on overseas assets		D. Primary income
5. Working-age population shrinking		E. Slower LRAS growth
6. Rates raised while the government spends more		F. Policy conflict

C · COMPLETE THE CHAINS

1. Prices expected to fall → _____ → AD falls → _____ → further falls in prices.
2. Yen depreciates → import prices rise → _____ → _____.
3. Bank of Japan raises rates → _____ → _____ → less room for other spending.

D · EXAM-STYLE QUESTIONS

Extract. Japan's consumer prices rose 3.2% in 2025, above the 2% target for a fourth year. Large firms agreed pay rises of over 5%, but average nominal wages rose about 2.3%. Real wages, measured with CPI excluding imputed rent (up 3.7%), fell 1.3%, the fourth annual fall in a row. With the yen near ¥150 per dollar, food and energy prices rose sharply.

(5 marks) With reference to the extract, explain why real wages in Japan fell in 2025.

(8 marks) Examine two likely effects of a weaker yen on Japan's current account.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether a government with very high public debt, such as Japan's, should make reducing that debt its main economic priority.

ARGUMENTS FOR (WITH JAPAN EVIDENCE)	ARGUMENTS AGAINST / DIFFICULTIES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 1.2% (accept 1.1–1.2%)
2. About 230% (accept 230–250%)
3. 3.2%
4. Fell by 1.3%
5. 1.14
6. 1990 (Nikkei peaked December 1989)
7. 1.25%
8. 2.5%

B · MATCHING

1 → C · 2 → A · 3 → B · 4 → D · 5 → E · 6 → F

C · CHAINS

1. Consumers and firms delay spending / investment → real value of debt and real interest rates rise (investment falls).
2. Cost-push inflation (higher price level) → real wages fall / consumption falls; also a worse trade balance in the short run.
3. Bond yields rise / cost of new government borrowing rises → debt interest payments rise (on debt of ~230% of GDP).

D · EXAM-STYLE GUIDANCE

5 marks: Define real wages: nominal wages adjusted for inflation (1). Use the data: nominal wages +2.3% vs prices +3.7% (the CPI excluding imputed rent used for real wages; headline CPI 3.2%), so real wages –1.3% (1–2). Explain the cause: weak yen (≈¥150/\$) → higher import prices for food and energy → cost-push inflation outpaces pay (2). Extra: 5%+ headline pay deals cover large unionised firms, not small firms or non-regular workers. Must use extract data.

8 marks: Knowledge/application: weaker yen → exports and tourism cheaper for foreigners → export revenue ↑ (services credits ↑); imports dearer in yen → energy import bill ↑ → goods balance worsens (J-curve); primary income worth more when converted to yen. Analysis: link each to the current account. Evaluation (2 points for full marks): Marshall–Lerner condition; energy demand is price inelastic; Japanese firms produce overseas so export volumes respond weakly; time lags.

E · 25-MARK PLAN: POINTS TO LOOK FOR

For making debt the priority

- Debt service ~¼ of FY2026 budget; 10-yr yield ~3%.
- Rate rises increase cost of rolling over debt.
- Ageing will raise pension and health spending.
- Less fiscal space for the next shock (e.g. 2026 oil).
- Fairness between generations.

Against / difficulties

- Debt in yen, ~90% held at home: low default risk.
- Tax rises in 1997 and 2014 caused recessions.
- Nominal GDP growth lowers the ratio without cuts.
- Spending on skills, childcare, energy can raise LRAS.
- Greece-style crisis unlikely: own currency and central bank.

Judgment: debt should be stabilised gradually once growth and inflation are secure, with a focus on raising nominal GDP. A sharp squeeze would repeat 1997. The risk grows as interest rates rise, so the priority increases over time. Compare Greece and Germany.