May 22, 2025

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Miyazaki

NOGUCHI Asahi

Member of the Policy Board

(English translation based on the Japanese original)

I. Economic Activity and Prices

A. Economic Developments at Home and Abroad

I will begin my speech by talking about recent economic developments at home and abroad.

From the collapse of the bubble economy in the early 1990s until around 2021, when recovery from the COVID-19 pandemic began, Japan's economy was in a state of low nominal growth, with prices and wages tending to decline but barely rising. However, having been engulfed by the wave of global inflation, which emerged following the pandemic, Japan's inflation rate has remained above 2 percent since fiscal 2022. This high inflation has placed a heavy burden on households, forcing them to continue curbing consumption; on the other hand, however, it has played a significant role in pushing up wages that had been suppressed until recently. As a consequence, Japan's economy is currently shifting to a new phase where sustainable inflation is realized accompanied by wage increases. The keys to making this shift happen are a lasting momentum for wage increases and an intensified underlying inflation trend resulting from the pass-through of higher wages to prices.

Currently, Japan's economy is growing steadily, with the exception of rather unexpected factors such as the rise in prices of rice and fresh food causing upswings in overall inflation. While there remains weakness in domestic demand due to high prices, the annualized quarter-on-quarter real GDP growth rate has continued to recover moderately, owing in part to the expansion in external demand reflecting the yen's depreciation (Chart 1). On the other hand, downside risks stemming from overseas economies have rapidly heightened as new U.S. tariff policies have been put forward with unexpected intensity by the second Trump administration. Accordingly, forecasts for overseas economic growth have been revised markedly downward (Chart 2).

Until recently, overseas economies came close to making a so-called soft landing, in the sense that the high inflation caused by the post-pandemic reopening of the economies began to subside without an accompanying significant rise in the unemployment rate (Chart 3). Particularly in the United States, as inflation was contained gradually due to monetary tightening, the economy maintained high growth, partly because immigrant inflows helped increase labor supply and labor productivity rose. Currently, however, the United States is

facing an acute increase in concerns over so-called stagflation, where inflation resurges while the economy contracts (Chart 4). This is because the roll out of a vast array of tariffs will not only induce a decline in households' real income and consumption through domestic price hikes, but will also adversely affect employment and investment. Moreover, while some import-competing industries that are shielded by tariffs could earn profits, growth in such industries will rather reduce the productivity of the overall economy as these industries are essentially relatively low-productivity sectors in which a country has a comparative disadvantage.

What is more concerning is the intensification of global trade friction reflecting the retaliatory tariffs already being applied in part. If the friction intensifies further, a bloc economy similar to that in the 1930s could reappear. In that case, as happened back then, economic deterioration will spread worldwide through a contraction in global trade. Such a contraction could ultimately result in all countries being losers, so to speak. According to the trade theory advanced by David Ricardo, free trade benefits all participating countries. Thus, if there is an unwinding of free trade, its benefits could be lost and all the countries involved will in turn incur losses.

B. Price Developments

Turning to domestic price developments, Japan faced typical cost-push inflation in the post-pandemic period, due to higher imported goods prices brought about by the impact of global inflation. This was especially evident in the fact that prices of energy and food accounted for a sizable contribution to rises in consumer prices. However, the rate of increase in imported goods prices became moderate, in line with subsiding global inflation, and the pace of increase in the prices of energy and food started to regain stability. As a result, the year-on-year rate of increase in the consumer price index (CPI) declined to the range of 2.0-2.5 percent around the middle of 2024 (Chart 5).

The CPI inflation rate has increased again since then, primarily due to the rise in food prices. One of the causes of the higher inflation is the resumption of the yen's depreciation after having temporarily appreciated sharply in summer 2024. The yen's depreciation has directly led to rises in the price of imported food and other items because the pass-through of higher

import prices, after having been weak, has intensified due to the entrenched inflationary trend. Another factor contributing to the rise in CPI inflation is price hikes of rice and fresh food resulting from supply shortages (Chart 6). I will later elaborate on how to assess price rises essentially stemming from these exogenous factors in the context of monetary policy.

II. Monetary Policy

A. Policy Interest Rate Adjustments

Next, I will discuss the Bank of Japan's policy conduct. Judging that achievement of the price stability target of 2 percent in a sustainable and stable manner was in sight, the Bank, at the Monetary Policy Meeting (MPM) held in March 2024, decided to discontinue its large-scale monetary easing policy and shift back to a conventional policy framework, in which the degree of monetary accommodation is adjusted by guiding the money market rate. Subsequently, the Bank raised the target level of its policy interest rate, the uncollateralized overnight call rate, from "around 0 to 0.1 percent" to "around 0.25 percent" in July, followed by a hike to "around 0.5 percent" in January 2025 (Chart 7).

The reason behind the Bank's adjustments to its policy interest rate is to reach a situation in which inflation of around 2 percent is achieved in a stable manner, as smoothly as possible. Indeed, prices are on the rise, but in terms of the underlying trend in inflation -- which I will come back to later -- inflation has yet to reach the target point at this stage. Nevertheless, various indicators suggest steady progress in approaching that point. If the Bank were to avoid even a single adjustment to the policy interest rate until prices reach the target point, unexpectedly rapid adjustments -- which could potentially trigger economic shocks -- would be necessary when the target is actually met.

The Bank will adjust its policy interest rate while carefully monitoring developments in the underlying trend to make sure that inflation begins to stabilize at around 2 percent. In doing so, I believe it is crucial that the Bank take a measured, step-by-step approach as follows: the Bank takes sufficient time to examine the economic impact of the rate hike each time it raises the policy interest rate; the Bank then decides on the next policy rate hike after adequately assessing both upside and downside risks at each point in time. This implies that the terminal policy rate, which corresponds to the peak level of the policy interest rate, should not be

determined in advance based on factors such as the estimated neutral interest rate. Given that Japan's economy has experienced deflationary trends over a few decades, these estimates are only useful in providing a rough figure for the terminal policy rate, which can only be measured based on the economic situation at the time, particularly price developments.

B. Balance-Sheet Adjustments

At the July 2024 MPM, the Bank decided on a plan for the reduction of its purchase amount of Japanese government bonds (JGBs) for the period until March 2026 (Chart 8). The Bank's purpose here is not to adjust monetary accommodation but to restore the JGB markets, which contracted due to the large-scale monetary easing policy. Unlike the period of scarce reserve balances prior to the global financial crisis in 2008, when the Bank guided and maintained the money market rate as the policy interest rate, exclusively through money market operations, the Bank now sets the interest rate it applies to current account balances held by financial institutions at the Bank as the policy interest rate. Thus, monetary policy conduct is independent of the Bank's balance sheet. Even if the extent of the reduction in the Bank's JGB purchases leads to monetary tightening or easing, either should be adjusted by guiding the money market rate.

The Bank's JGB reduction plan decided in July 2024 can be said to be automatic in nature, in that the planned amount of monthly purchases of JGBs will be reduced by about 400 billion yen each calendar quarter, in principle. This means that, since the formation of long-term interest rates is left to the market, there will be no policy-driven changes in the Bank's JGB purchases. On the other hand, the plan ensures a certain degree of flexibility in market operations, in that it allows for making flexible changes to the amount of JGB purchases in the case of sudden market swings. The reason is that, even though recovery in market functioning is important, this would be meaningless if it ended up fostering or disregarding market turmoil. However, such an unusual measure will only be implemented during times of severe market disruption. Yields on 10-year JGBs surged to nearly 1.6 percent in March 2025, but I personally believe that this rise -- albeit rapid -- cannot be regarded as disruptive, as it seems to have mainly reflected expectations among market participants of a higher terminal policy rate, given Japan's higher-than-expected economic growth and upswings in prices.

At the June 2025 MPM, the Bank will conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs decided in July 2024, and announce a new guideline for its purchases from April 2026. In my view, it is unnecessary at this point to make any major changes to the current plan; that said, the Bank will need to examine the reduction plan for April 2026 onward from a longer-term perspective. In any case, under the current policy regime, which is premised on ample reserve balances, the Bank is able to take sufficient time in reducing the size of the balance sheet. This is also desirable in terms of maintaining market stability.

III. Toward Sustainable Achievement of the 2 Percent Price Stability Target

A. Importance of Sustainable Price Stability

The Bank has continued with monetary easing in terms of maintaining sufficiently low real interest rates, aiming to achieve the price stability target of 2 percent in a sustainable and stable manner. Since spring 2022, the year-on-year rate of change in Japan's CPI has consistently exceeded the target of 2 percent (Chart 5). The Bank has however continued with monetary easing based on the assessment that the rise in inflation may not necessarily be sustainable as it has basically been driven by exogenous factors, led by higher import prices. Due to the prolonged depreciation of the yen, the impact of higher import prices remains deeply entrenched. That said, unless there is a continuous depreciation of the yen, the impact will eventually dissipate. In addition, since around the end of 2024, the rise in prices of rice and fresh food has pushed up inflation substantially, but because this is attributable primarily to supply shortages, prices of these items should at least no longer continue to rise linearly, unless such shortages increase further.

The rise in inflation caused by these exogenous factors is essentially temporary and unsustainable, even if it lasts for a prolonged period. In contrast, if inflation is accompanied by a sustained increase in nominal wages, which represent labor compensation, it should certainly be sustainable. Labor is an essential factor of production for all goods and services. Therefore, if nominal wages as a representation of labor remuneration continue to rise, prices in many cases will also continue to rise. In fact, in many countries and periods, there has generally been a strong correlation between inflation and nominal wage growth (Chart 9).

This means that, for prices to keep rising moderately at a rate of around 2 percent, nominal wages should also keep rising at a rate consistent with those price rises.

Another way in which inflation and nominal wage growth are linked is that the latter requires the former. That is, for firms to raise wages, many goods and services inevitably require a pass-through of wage increases to their prices. In other words, if goods and services industries cannot raise prices, they will also find it difficult to raise wages. In Japan, nominal wages tended to fall and rarely rose from the late 1990s, when deflation became severe, until the early 2020s, when the pandemic struck (Chart 9). This suggests that firms continued to avoid raising wages to the extent possible for fear of a decline in sales and profits if they raised their selling prices. As a result, even when corporate profits grew, real wages in Japan did not rise sufficiently, and the labor share continued to decline as a trend (Charts 10 and 11).

One of the reasons the Bank has been conducting monetary policy with the aim of achieving sustained inflation of around 2 percent is that, when many firms are able to raise their selling prices by that amount, they will likely be able to raise wages accordingly. I believe that, if such wage increases bring about a rise in people's real wages owing to productivity growth, it can be said that a "virtuous cycle between wages and prices" has finally been achieved.

B. Steady Strengthening of Inflation Accompanied by Wage Increases

Price stability as pursued by monetary policy is not a state where prices remain unchanged. If the prices of goods and services do not change at all, this rather indicates market malfunctioning. Instead, monetary policy should aim to achieve a state in which the prices of many goods and services continue to rise moderately accompanied by nominal wage increases. This implies that the focus of monetary policy is not on temporary price changes caused by import or supply-side factors, but on the underlying trend in inflation, which is closely linked to developments in nominal wages.

To distinguish the underlying factors that have sustained the rise in CPI inflation since spring 2022, the Bank has used the concepts of the "first force" and the "second force," with the former representing a temporary rise in inflationary pressure caused by exogenous factors, and the latter representing a more sustainable rise in inflationary pressure stemming from

wage increases.[1] Since the recent increase in CPI inflation is driven mostly by higher energy and food prices, the first force still accounts for a substantial part of the rise in the CPI; in fact, due to the rise in prices of rice and fresh food, the first force rather seems to have become stronger most recently. In other words, the strength of the second force, which corresponds to the underlying trend in inflation, is not yet sufficient. At least, the second force alone cannot explain the achievement of 2 percent inflation.

That said, the second force is also certainly gaining momentum. The main reason is that the nominal wage growth rate has continued to rise, reflecting the tight labor market conditions following the pandemic and the results of the annual spring labor-management wage negotiations to date (Chart 12). While it is difficult to accurately determine the extent to which wage increases are pushing up inflation, it is possible to get a rough idea from, for example, developments in services prices, as I will elaborate shortly.

What is important for monetary policy decisions is the underlying trend in inflation, which excludes temporary price fluctuations. However, this does not mean that the first force can be disregarded, since it may also indirectly affect underlying inflation. When temporary price fluctuations affect nominal wages and even the underlying trend in inflation through a change in people's inflation expectations, this is generally called the secondary effect. A typical example of this is the wage-price spiral that occurred in many advanced economies in the 1970s, a phenomenon where wages and prices continued to rise in unison.

Although the secondary effect is normally regarded as undesirable since it undermines price stability, there are some cases when such an effect becomes necessary. For instance, Japan's economy had long been mired in the "zero norm" with regard to prices and wages -- that is, a vicious cycle in which prices do not rise because wages do not rise, and vice versa. However, the indications of a virtuous cycle in which inflation rises accompanied by wage increases are finally beginning to emerge, and it is clear that the trigger for this was higher import prices caused by global inflation following the pandemic. In that sense, it can be considered that the first force has also had a certain impact on the underlying trend in inflation.

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[1] See Ueda, K., "Japan's Economy and Monetary Policy," speech at a meeting with business leaders in Osaka, September 25, 2023.

C. Price Changes of Goods and Services Due to Gaps in Productivity Growth

As these two forces illustrate, the attributes of each item driving what is generally referred to as a rise in inflation are often far from uniform. To start with, there are items such as energy and fresh food whose prices fluctuate substantially in the short term due to changes in supply conditions. While prices of these items have a large impact on people's livelihoods, they are not strongly linked to the underlying trend in inflation. What matters for the underlying trend in inflation is how the prices of goods and services excluding energy and fresh food develop. However, even between goods and services, there are extremely large differences in the way their prices change.

CPI developments in the United States, the United Kingdom, and other countries show that, except during periods such as the pandemic, it is mostly services prices that continue to rise, while goods prices on average do not rise as much (Chart 13). Looking around us, many industrial products have clearly become more affordable, particularly when taking into account improvements in product quality due to advances in technology. This implies that goods prices tend to be inexpensive relative to services prices, as goods are more likely to generate higher productivity growth than services. However, this gap in productivity growth between the two merely explains changes in their relative prices, not changes in their absolute prices such as a decline in goods prices or an increase in services prices. To explain this, it is necessary to consider how wages evolve due to increased productivity in the goods sector.

When a firm or an industry experiences increased productivity, its profits temporarily increase; however, in a competitive market, these will eventually be used as a source for either wage hikes or price cuts. Which of the two will be chosen probably depends on economic and labor market conditions. If the firm or the industry maintains its selling prices and uses all of its profits to raise wages in order to secure and expand employment, the labor market will tighten and nominal wages will in turn rise. In that case, other firms or industries whose productivity has not increased will have no choice but to raise wages to retain workers and pass on higher wage costs to their selling prices. In other words, productivity growth in one sector, instead of causing price cuts in that sector, brings about nominal wage growth and

consequent price hikes in another sector without productivity growth.[2] CPI developments in the United States, the United Kingdom, and other countries suggest that this is indeed happening in goods and services prices.

D. Importance of Services Prices in Assessing Underlying Inflation

In assessing the underlying trend in inflation, it is important to consider how steadily the prices of services continue to rise along with nominal wage increases, as services are subject to slow productivity growth, and labor remuneration accounts for a large share of total costs. A unique characteristic of price developments in Japan before the pandemic was the absence of price increases led by services prices. This can be attributed to the deeply-entrenched norm of prices falling but not increasing, which kept many firms, including those in the services industry, from raising prices, no matter what the circumstances. In such an economic environment, firms naturally avoid wage hikes as much as possible, because such hikes directly reduce profits due to increased labor remuneration.

For inflation to remain at an appropriate level, demand-side factors are certainly important. Since many services are non-tradable goods that are both produced and consumed domestically, it can be said that a rise in services prices is a more direct indication of the strengthening of demand-pull inflation caused by an expansion in domestic demand.

If services prices are driven by nominal wages, how do these wages evolve? It is well known that nominal wages are generally downwardly rigid -- that is, they do rise, but they do not fall easily. However, in Japan, from the end of the 1990s, when deflation became full-fledged, wages tended to fall but not to rise easily. Nominal wages in many countries other than Japan have continued to rise steadily, but the pace has been relatively moderate. These

[2] Economist Yoshihiro Takasuka applied this logic to inflation in Japan during the postwar high-growth period and called it "productivity gap inflation." For details, see Takasuka Yoshihiro, *Gendai nihon no bukka mondai* [Price issues in modern Japan] (Tokyo: Shinhyoron Publishing Inc., 1972), ch. 2. However, it should be noted that when different sectors experience productivity growth at different rates, the extent to which general prices rise depends on nominal wage growth rate overall, which is likely subject to economic conditions and other factors; therefore, inflation cannot be explained by productivity gaps alone.

developments suggest that there is a certain degree of rigidity or stickiness in nominal wages, both upward and downward.

This stickiness in nominal wages is perhaps related to the peculiarities of the labor market, in which matching jobseekers to jobs is particularly costly. Apart from part-time work and other non-regular forms of employment, considerable costs and time are required for jobseekers to find a job that meets their criteria and for firms to search for necessary human resources. Moreover, such costs are sunk costs that cannot be recovered.[3] As both employers and employees try to avoid repeatedly incurring these costs, employment relationships generally tend to be continuous; Japan's lifetime employment system is a prime example of such long-term employment practices. This implies that in the labor market, the mechanism whereby supply and demand are adjusted through changes in wages does not function well, or only sluggishly. The same can be said of housing rent, which is as sticky as wages.

A rise in underlying inflation can only be achieved when these sticky nominal wages continue to rise at an appropriate rate reflecting improvements in economic conditions, and accordingly when services prices in particular continue to rise sufficiently. As mentioned earlier, services price inflation usually exceeds goods price inflation to the extent that productivity growth in services falls short of that in goods. Therefore, in order for general prices to keep rising by about 2 percent, the rate of increase in services prices likely needs to consistently exceed 2 percent. Examining the extent to which this condition is currently being met in Japan, I find that the increase in the services producer price index (SPPI), for example, exceeded 2 percent in the second half of 2023, and began to remain stable at around 3 percent from the middle of 2024 (Chart 14). This trend of rising inflation is particularly pronounced in services with a high labor cost ratio, where labor remuneration accounts for a large share of total costs.

On the other hand, although CPI inflation for services has risen post-pandemic, it is still far from remaining firmly above 2 percent (Chart 15). Moreover, when separating CPI items by

[3] American economist Arthur M. Okun has likened these costs inherent in the labor market to tolls. See Arthur M. Okun, *Prices and Quantities: A Macroeconomic Analysis* (The Brookings Institution, 1981), ch. 2.

labor cost ratio, what stands out is the high rate of inflation for items with a low labor cost ratio (Chart 16). This indicates that import price increases have a much greater impact on the overall CPI than wage increases. It also suggests that firms have made progress in passing on wage increases to producer prices, but the pass-through to consumer prices has yet to be fully realized.

E. The Need to Achieve a Virtuous Cycle, and Necessary Policy Responses

Until recently, Japan's economy remained in a situation in which neither prices nor wages rose, and therefore people's real wages did not rise either. In this situation, despite the continuous launch of new and upgraded products, people did not become better off because nominal wages did not rise in a way that reflected improved productivity. In a normal, growing economy, when productivity improves in a certain sector, this causes nominal wages to rise at a rate exceeding the inflation rate, which in turn spreads throughout the economy and benefits those working in other sectors where productivity is less likely to improve. However, nominal wages in Japan had barely risen, and people had therefore been unable to benefit from improved productivity.

What can be said is that, in order for people to enjoy the fruits of economic growth, nominal wages need to rise at a rate exceeding the inflation rate; in other words, real wages must rise. On this point, Japan's real wage growth is finally starting to turn positive (Chart 10). For real wages to increase, it is necessary that the CPI inflation rate decline with a sustained uptrend in nominal wages. I would like to note a few points that need to be kept in mind in this context.

First, in terms of nominal wages, what is needed at this stage is not for momentum for wage increases to strengthen further, but for such upward momentum to become entrenched by trickling down to small and medium-sized firms and regional economies. Assuming that Japan's labor productivity growth rate remains at around 1 percent, if nominal wage growth takes hold at a rate above 3 percent, it can be judged to have reached a level close to that consistent with the 2 percent price stability target. Second, in terms of prices, with overall CPI inflation declining due to weakening of the "first force," the "second force" conversely needs to strengthen. More specifically, while the impact of higher import prices and supply shortages of rice and fresh food wanes, services prices need to rise at a rate above 2 percent,

and this, in my view, is an important condition for sustainable and stable achievement of 2 percent inflation.

Taking these points into account, the Bank's basic stance on its future monetary policy conduct should be to make careful policy adjustments while closely monitoring developments in the economic situation, including upside and downside risks. This is because, unlike in the world of abstract economic models, there are various frictions and resulting stickiness in the real economy, which means that, even when causal economic forces are at work, it takes considerable time for their effects to materialize. Nevertheless, the path of Japan's economy following the pandemic shows that such forces are certainly at work. In that sense, I believe that the necessary approach to the future conduct of monetary policy is cautious optimism, keeping a firm eye on growing overseas risks while calmly assessing how the situation unfolds.

Thank you.

Economic Activity, Prices, and Monetary Policy in Japan

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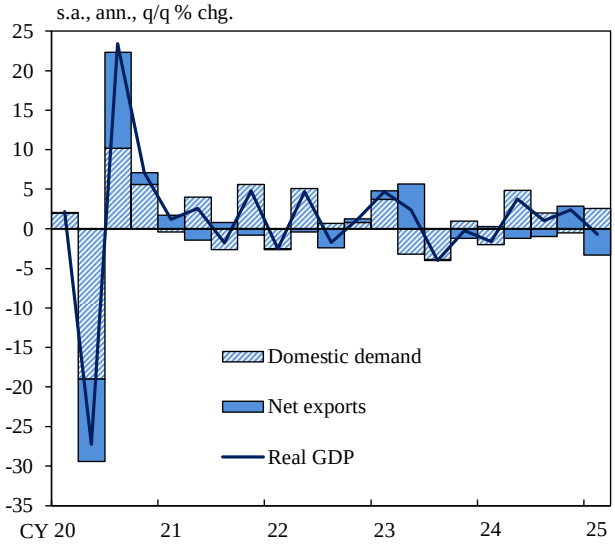
May 22, 2025

NOGUCHI Asahi
Member of the Policy Board
Bank of Japan

Chart 1

Real GDP

Annualized Quarterly Growth Rate



Quarter-on-Quarter Changes

s.a., q/q % chg.

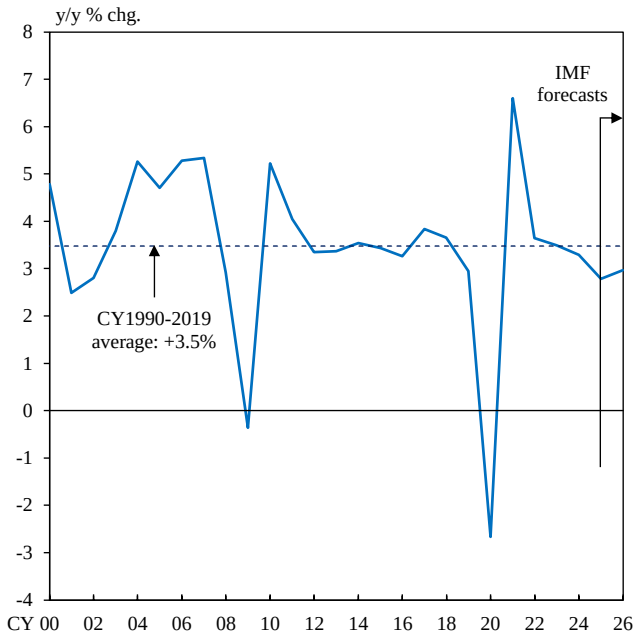
	2024				2025
	Jan.-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan.-Mar.
GDP	-0.4	0.9	0.2	0.6	-0.2
Domestic demand	-0.5	1.2	0.5	-0.1	0.6
Private demand	-0.6	1.0	0.7	-0.2	0.9
Private consumption	-0.6	0.8	0.7	0.1	0.0
Private residential investment	-3.2	1.2	0.7	-0.2	1.2
Private non-resi. investment	-1.1	1.4	0.1	0.8	1.4
Public demand	-0.2	1.8	-0.1	0.0	0.0
Exports of goods & services	-3.6	1.5	1.2	1.7	-0.6
Imports of goods & services	-3.7	2.7	2.2	-1.4	2.9

Source: Cabinet Office.

Chart 2

IMF Forecasts for Global Growth

Global Growth Rate



Major Economies' Growth Rates

y/y % chg.

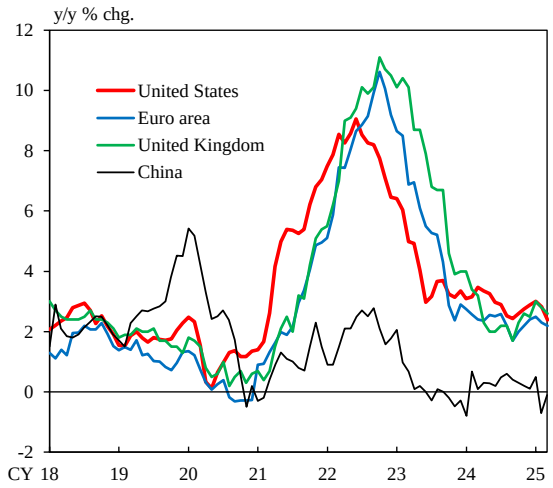
	CY2024	CY2025 [Forecast]		CY2026 [Forecast]
		As of Jan. 2025	As of Apr. 2025	
World	3.3	3.3	2.8	3.0
Advanced economies	1.8	1.9	1.4	1.5
United States	2.8	2.7	1.8	1.7
Euro area	0.9	1.0	0.8	1.2
United Kingdom	1.1	1.6	1.1	1.4
Japan	0.1	1.1	0.6	0.6
Emerging market and developing economies	4.3	4.2	3.7	3.9
China	5.0	4.6	4.0	4.0
India	6.5	6.5	6.2	6.3
ASEAN-5	4.6	4.6	4.0	3.9

Note: Figures are as of April 2025.
Source: IMF.

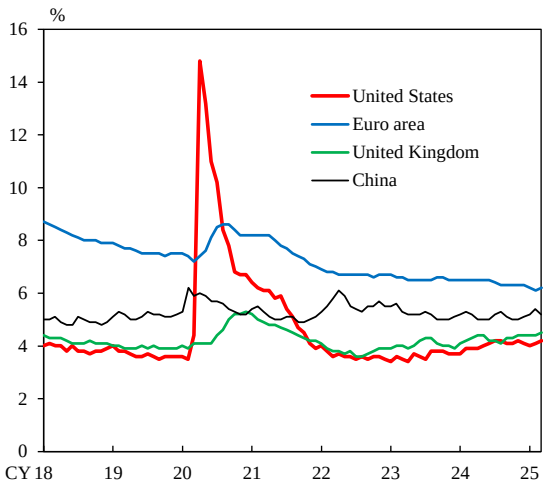
Chart 3

Overseas Economies

CPI



Unemployment Rate



Note: Figures for the CPI are for all items.
Sources: BLS; Eurostat; NBS; ONS.

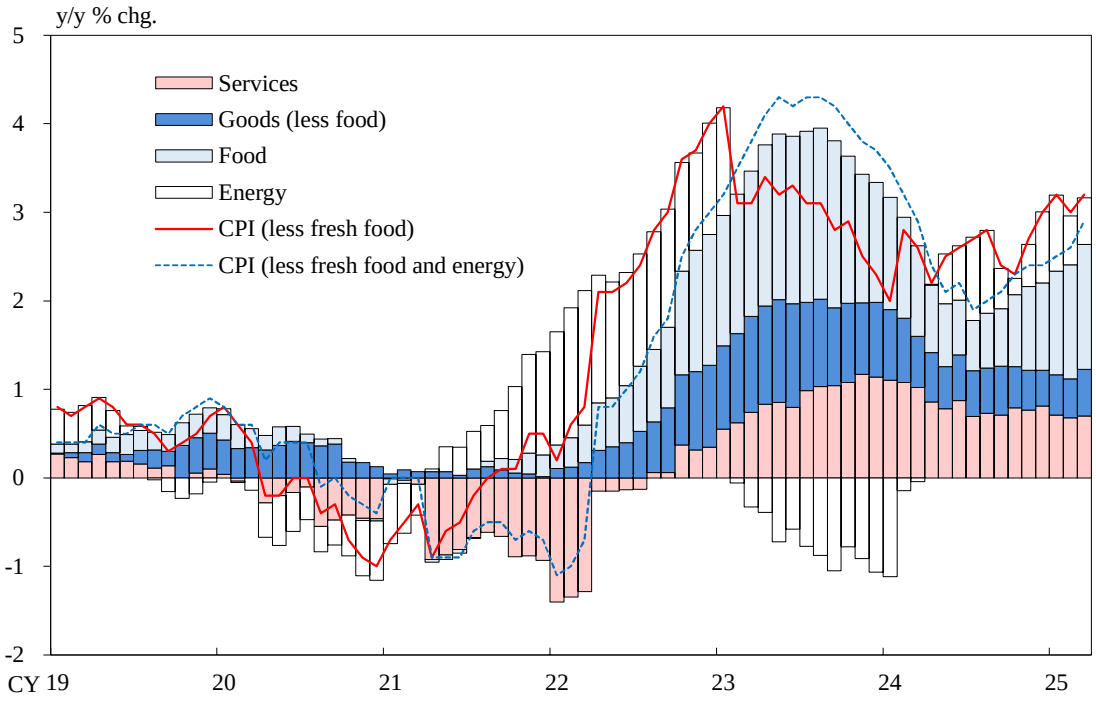
Chart 4

U.S. Consumer Sentiment and Inflation Expectations

Source: University of Michigan.

Chart 5

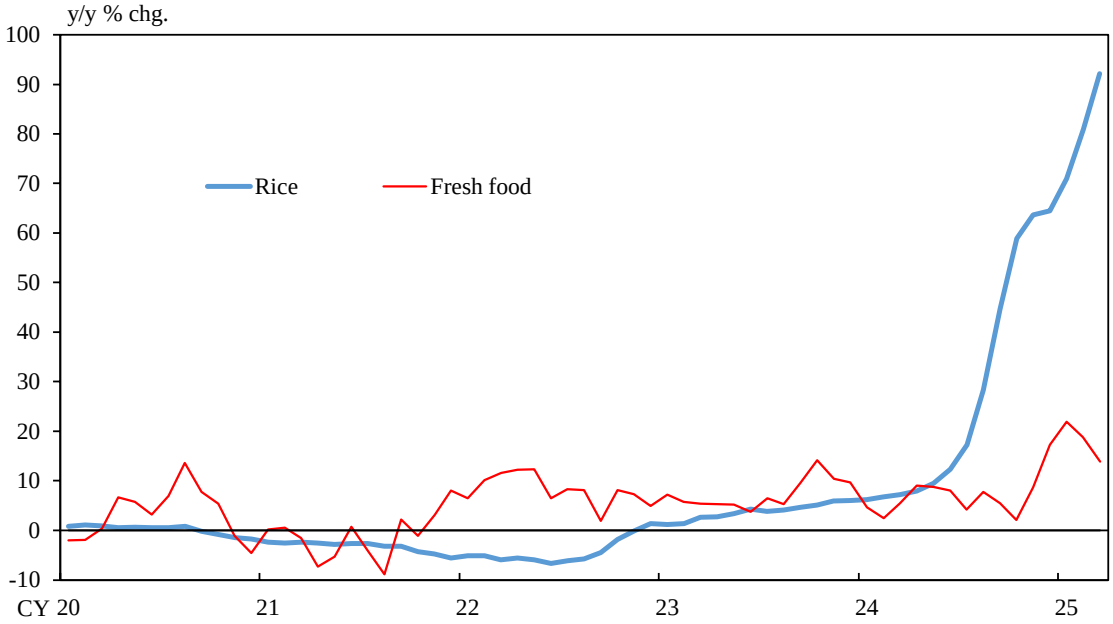
Consumer Prices



Source: Ministry of Internal Affairs and Communications.

Chart 6

Indices of CPI Items



Source: Ministry of Internal Affairs and Communications.

Chart 7

Decision at the January 2025 MPM

Japan's economic activity and prices have been **developing generally in line with the Bank's outlook**, and **the likelihood of realizing the outlook has been rising**.

Medians of the Policy Board Members' Forecasts (y/y % chg.)

	Fiscal 2024	Fiscal 2025	Fiscal 2026
Real GDP	0.5 (-0.1)	1.1 (—)	1.0 (—)
CPI (all items less fresh food)	2.7 (+0.2)	2.4 (+0.5)	2.0 (+0.1)
CPI (all items less fresh food and energy)	2.2 (+0.2)	2.1 (+0.2)	2.1 (—)

Note: Figures in parentheses indicate changes from the October 2024 Outlook Report.

Wages

- Firms have expressed the view that they will **continue to raise wages steadily**, following the solid wage increases last year.

Prices

- With wages continuing to rise, **underlying CPI inflation has been increasing gradually toward 2 percent**.
- CPI inflation is likely to be at around 2.5 percent for fiscal 2025, due to the higher import prices stemming from the yen's depreciation etc.

Overseas economies

- Global financial and capital markets have been **stable on the whole**, while attention has been drawn to various uncertainties.

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate: raised to "around 0.5%"
(uncollateralized overnight call rate) (previously "around 0.25%")

- Real interest rates are expected to remain significantly negative, and accommodative financial conditions will continue to **firmly support economic activity**.
- If the outlook presented in the January Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

Decision at the July 2024 MPM: Plan for the Reduction of the Purchase Amount of JGBs

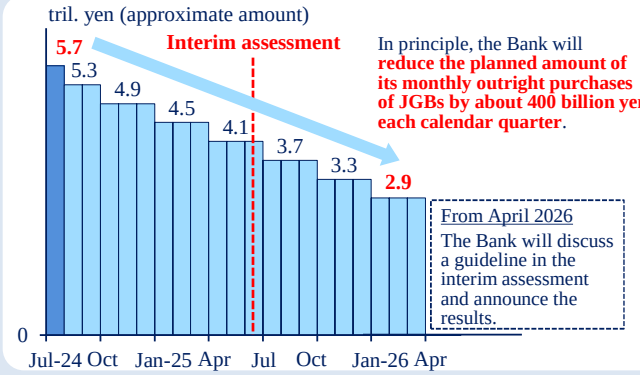
Chart 8

The concept of the plan for the reduction until March 2026

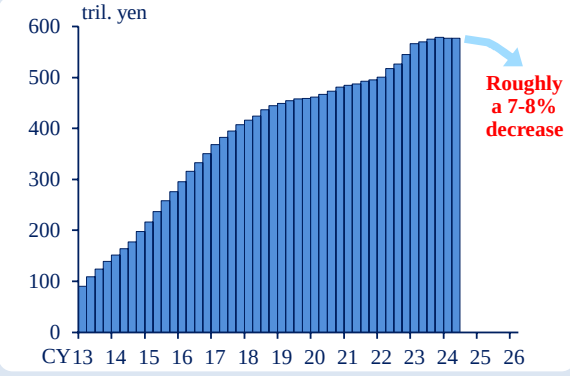
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



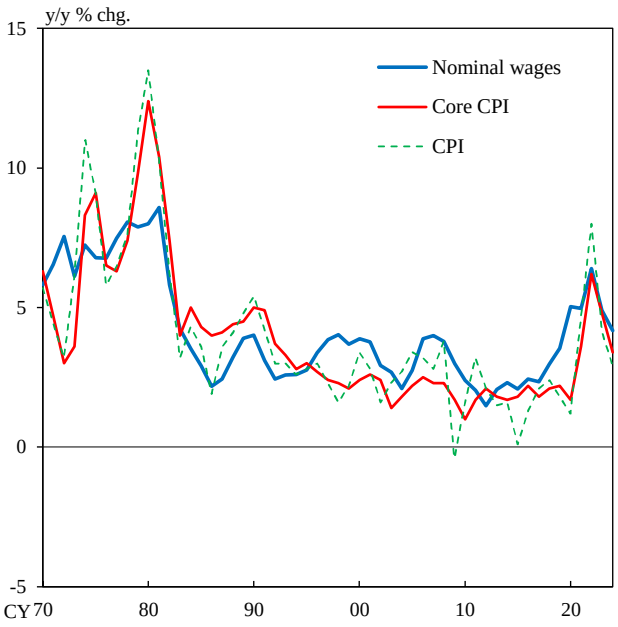
Allowing Enough Flexibility

1. The Bank will **conduct an interim assessment of the plan at the June 2025 MPM**.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

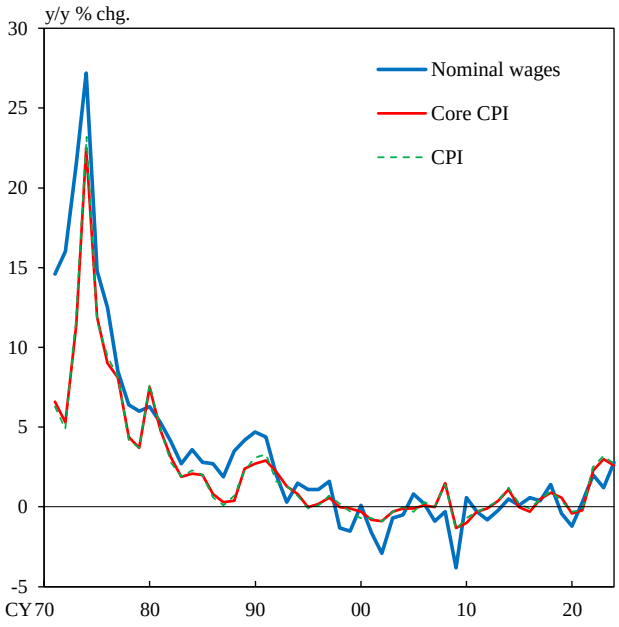
Chart 9

Nominal Wages and CPI

United States



Japan

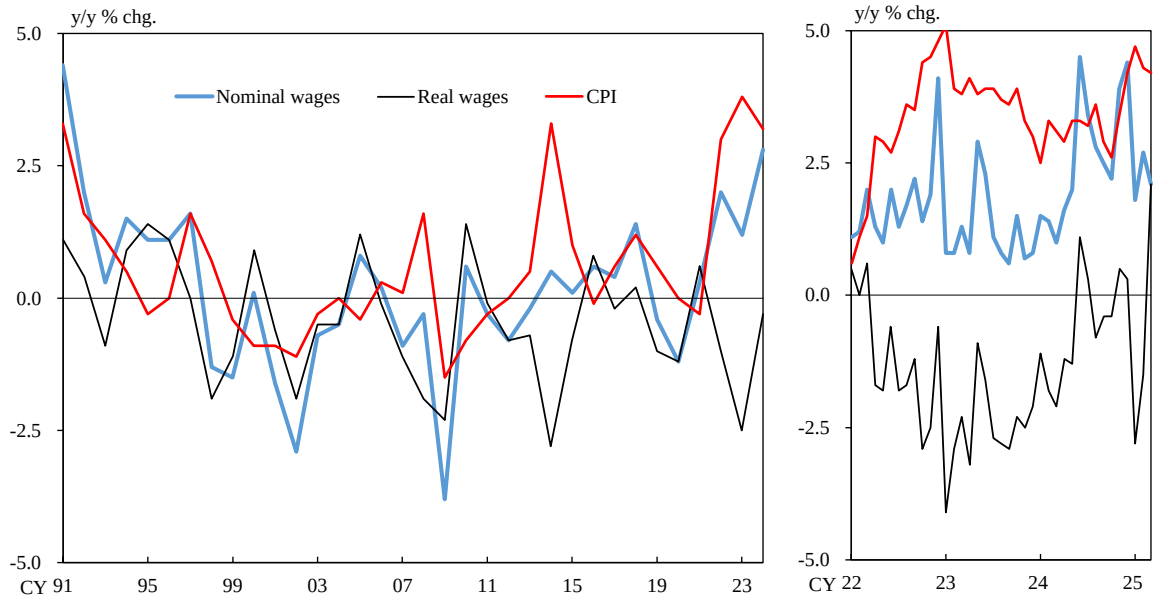


Note: Figures for the CPI are for all items.

Sources: BLS; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Chart 10

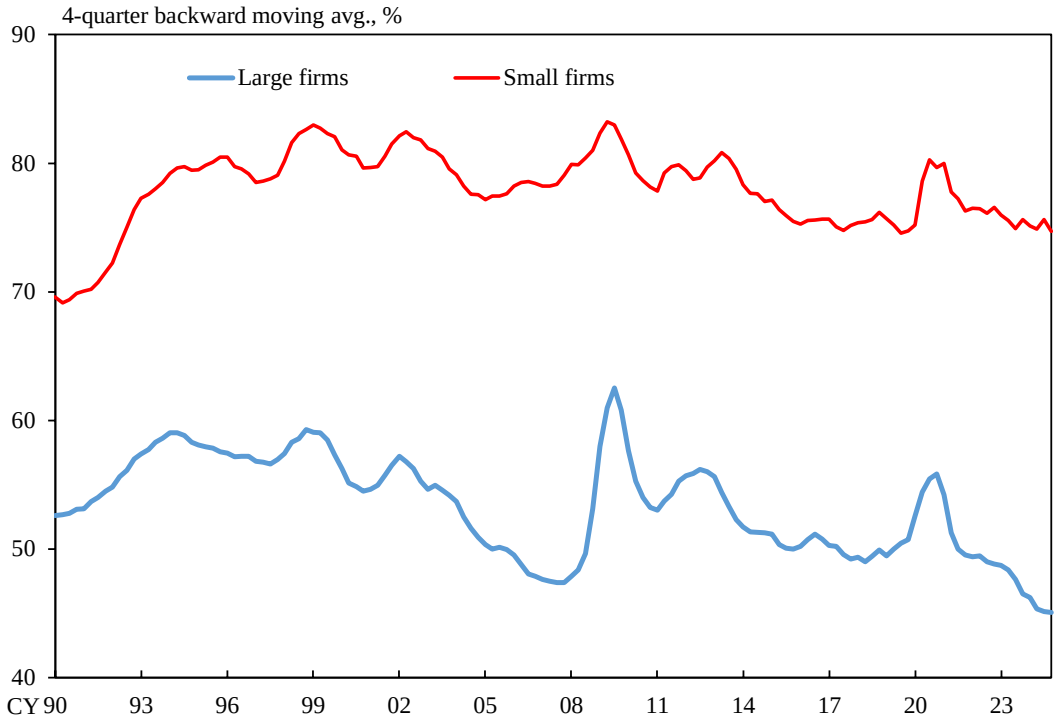
Nominal and Real Wages



Note: Figures for the CPI are for all items excluding imputed rent.
Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Chart 11

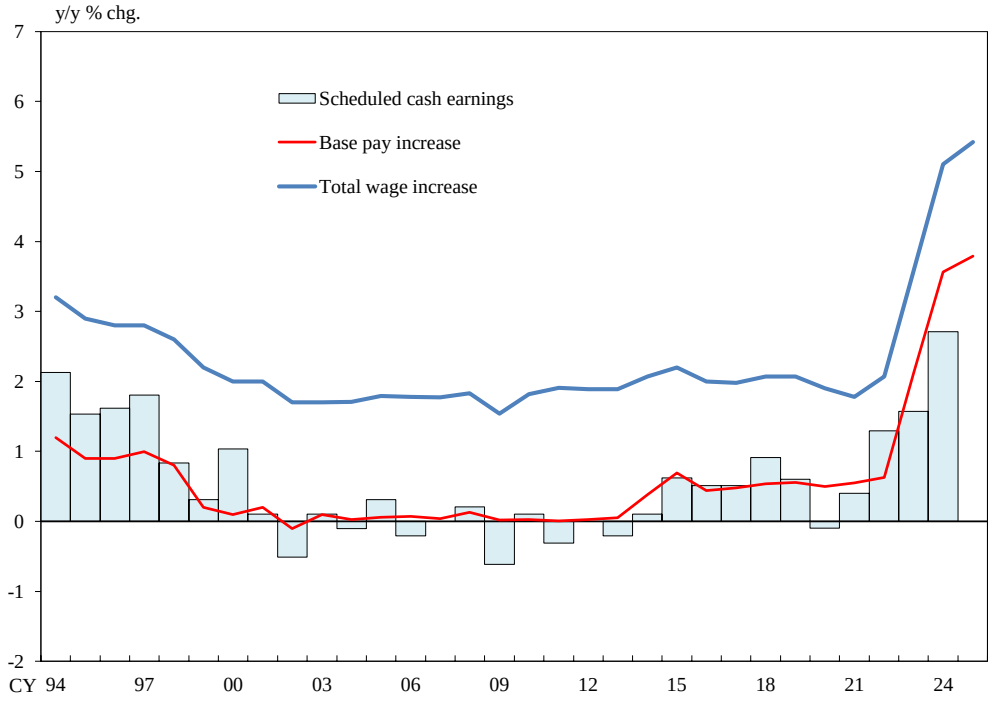
Labor Share



Notes: Large firms are corporations with capital of 1 billion yen or more.
Small firms are corporations with capital of 10 million yen or more but less than 100 million yen.
Source: Ministry of Finance.

Chart 12

Wage Growth



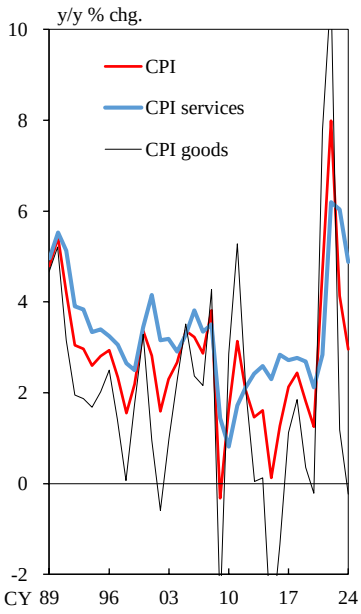
Notes: 1. Figures for scheduled cash earnings are for establishments with 5 or more full-time employees.
2. Figures for base pay and total wage increases from 1994 to 2013 are those published by the Central Labour Relations Commission, while those from 2014 to 2025 are figures released by Rengo.

Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Health, Labour and Welfare.

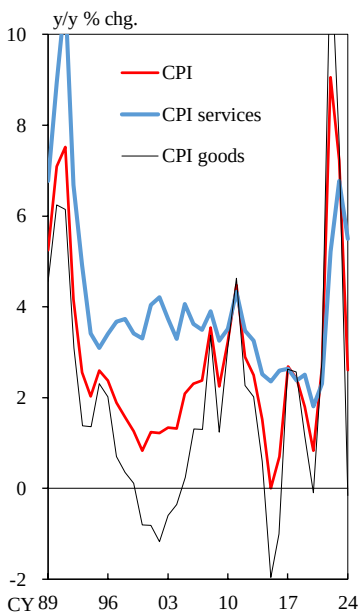
Chart 13

Consumer Prices, Services Prices, and Goods Prices

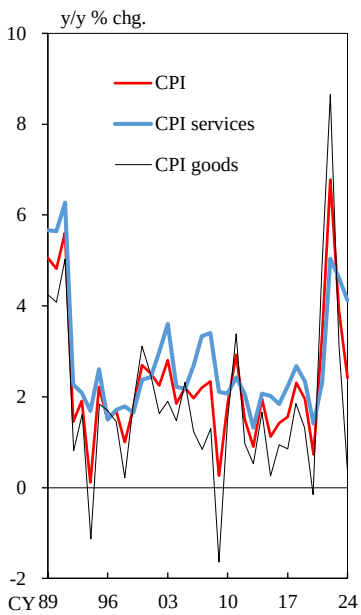
United States



United Kingdom



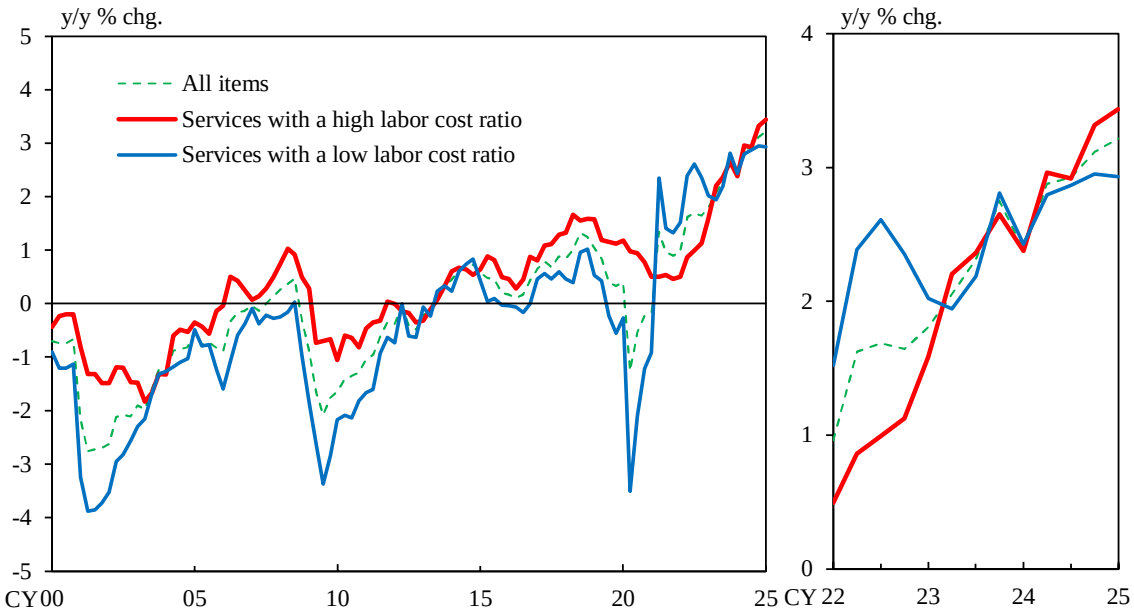
Canada



Sources: BLS; ONS; Statistics Canada.

Chart 14

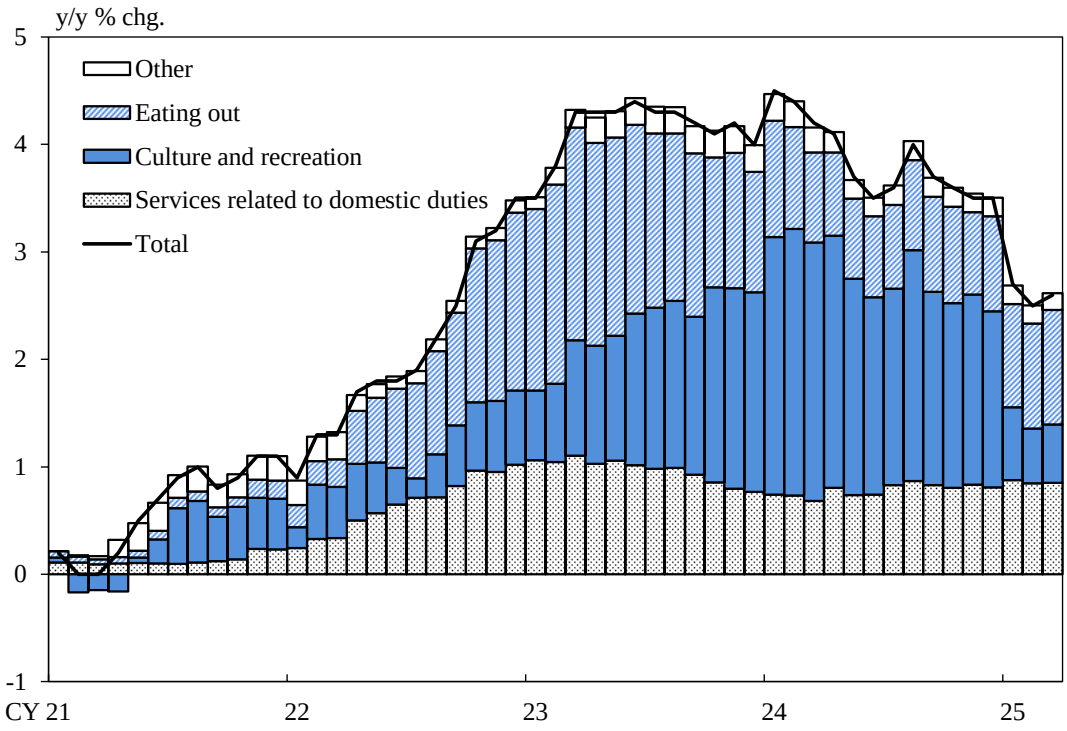
Services Producer Prices



Note: Figures exclude the effects of consumption tax hikes.
Source: Bank of Japan.

Chart 15

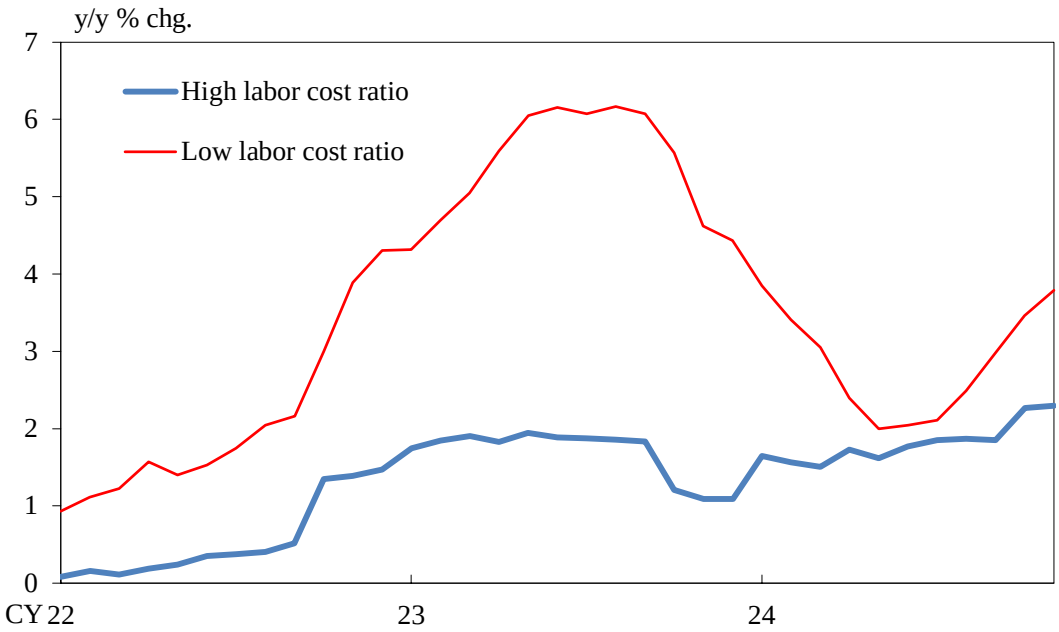
CPI for General Services



Note: Figures are Bank staff estimates and exclude mobile phone charges and the effects of the consumption tax hike, free education policies, and travel subsidy programs.
Source: Ministry of Internal Affairs and Communications.

Chart 16

CPI by Labor Cost Ratio



Notes: 1. Figures are based on Bank staff calculations using the CPI excluding fresh food, energy, imputed rent, and the effects of temporary factors.

2. CPI items are matched to the items in the *2015 Input-Output Tables for Japan* and grouped in terms of the share of "wages and salaries" and other labor costs in the domestic output of those items. Figures for items with a high (low) labor cost ratio are the weighted averages of the items that fall into the top (bottom) 25 percent.

Source: Ministry of Internal Affairs and Communications.