



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Mie

July 3, 2025

TAKATA Hajime

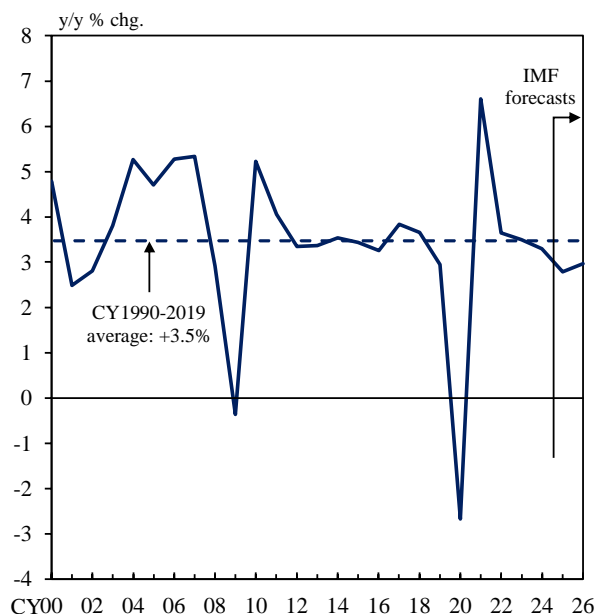
Member of the Policy Board

Bank of Japan

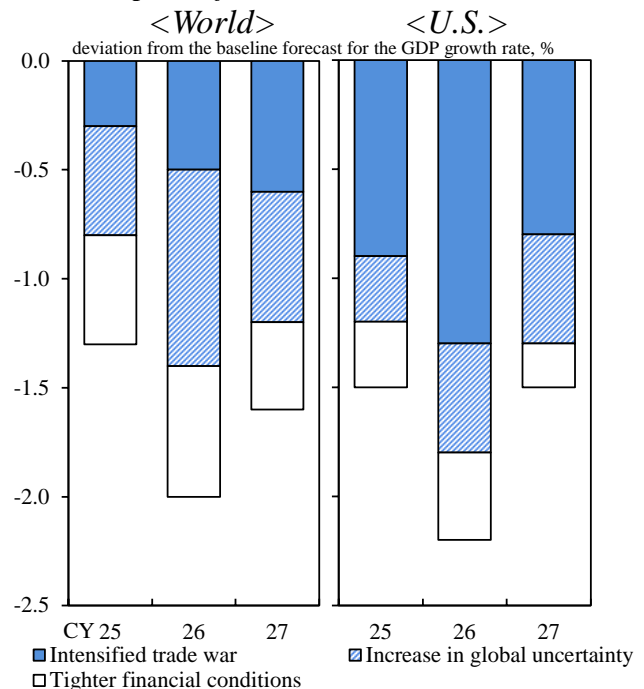
Chart 1

Developments in Overseas Economies (IMF's April 2025 WEO)

Global Growth Rate



Impact of Risk Scenarios on GDP

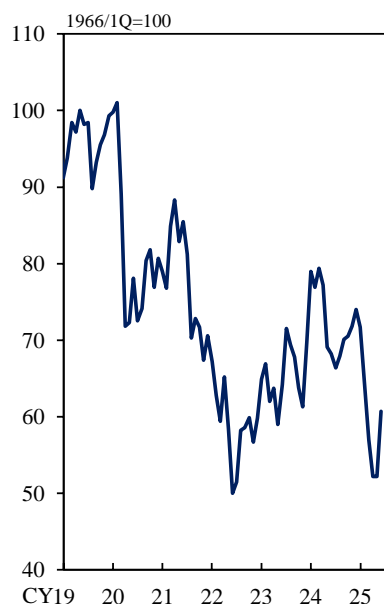


Note: In the right panel, for details of the assumptions of each scenario, see Box 1.1. of the April 2025 *World Economic Outlook* (WEO).

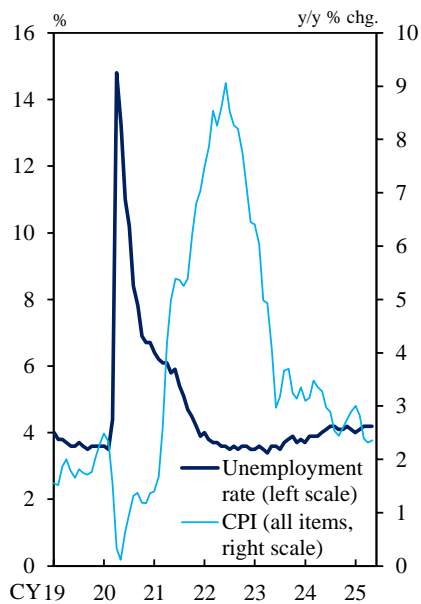
Source: IMF.

The U.S. Economy

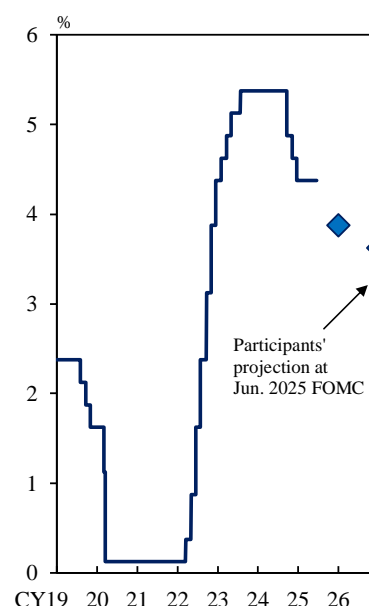
Consumer Confidence



Employment and Prices



Policy Interest Rate

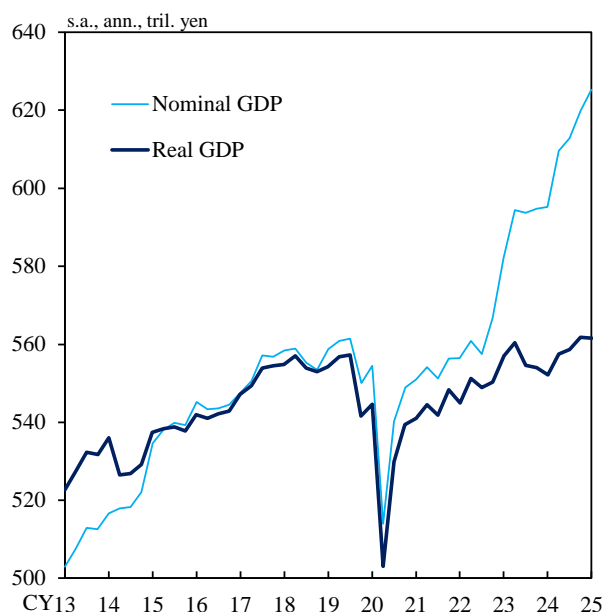


Note: In the left panel, figures are from the University of Michigan's consumer sentiment index. In the right panel, figures are the medians of the target ranges for the federal funds rate. Figures for participants' projections are the medians of all participants' projections at the FOMC meetings.

Sources: Bloomberg; BLS; FRB; University of Michigan.

GDP and Outlook for Economic Activity and Prices

GDP



Outlook for Economic Activity and Prices
(April 2025 Outlook Report)

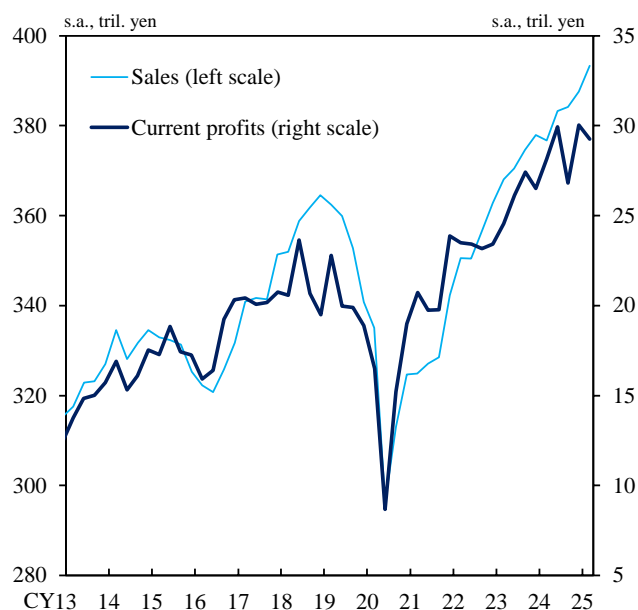
	y/y % chg.		
	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2025	+0.5	+2.2	+2.3
As of January 2025	+1.1	+2.4	+2.1
Fiscal 2026	+0.7	+1.7	+1.8
As of January 2025	+1.0	+2.0	+2.1
Fiscal 2027	+1.0	+1.9	+2.0
As of January 2025	-	-	-

Note: In the right panel, figures indicate the medians of the Policy Board members' forecasts (point estimates).

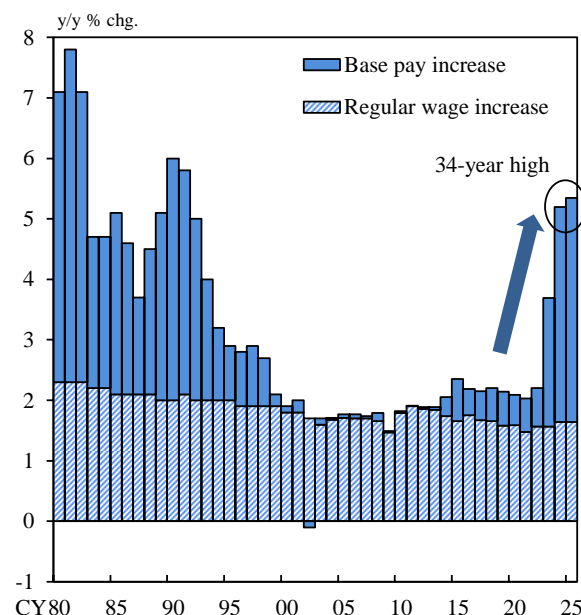
Sources: Cabinet Office; Bank of Japan.

Corporate Sector and Wage Growth

Corporate Profits



Wage Growth Rate

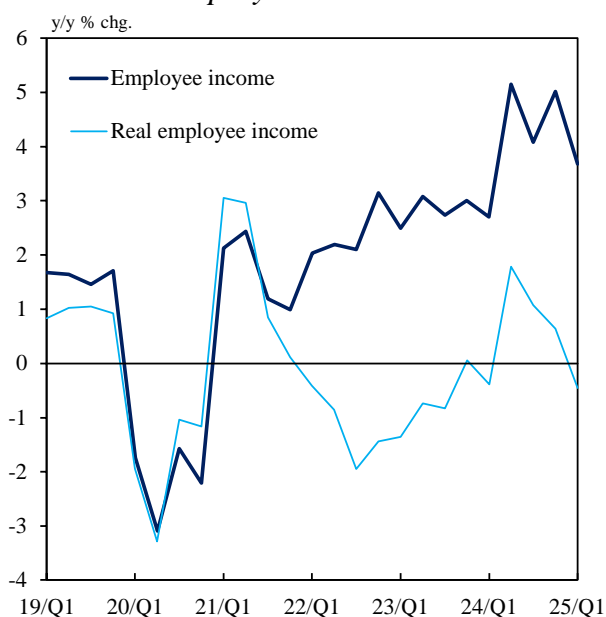


Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Excluding the finance and insurance industries.
2. In the right panel, figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2025 are figures released by Rengo. Figures for 2025 are based on Rengo's sixth aggregate results.

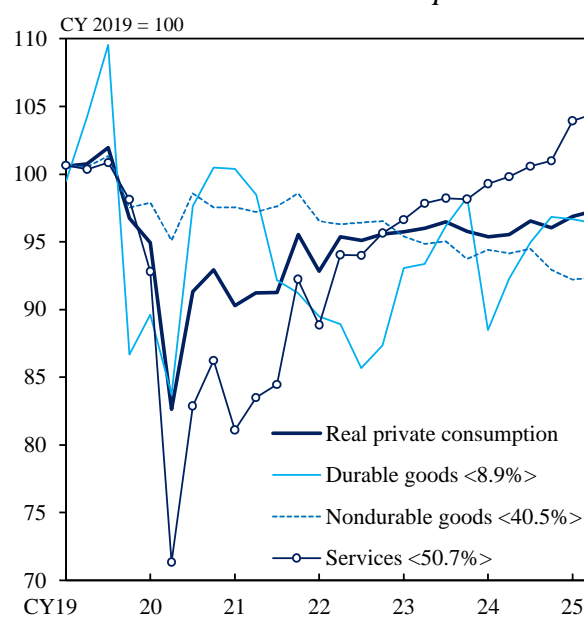
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Finance.

Private Consumption

Employee Income



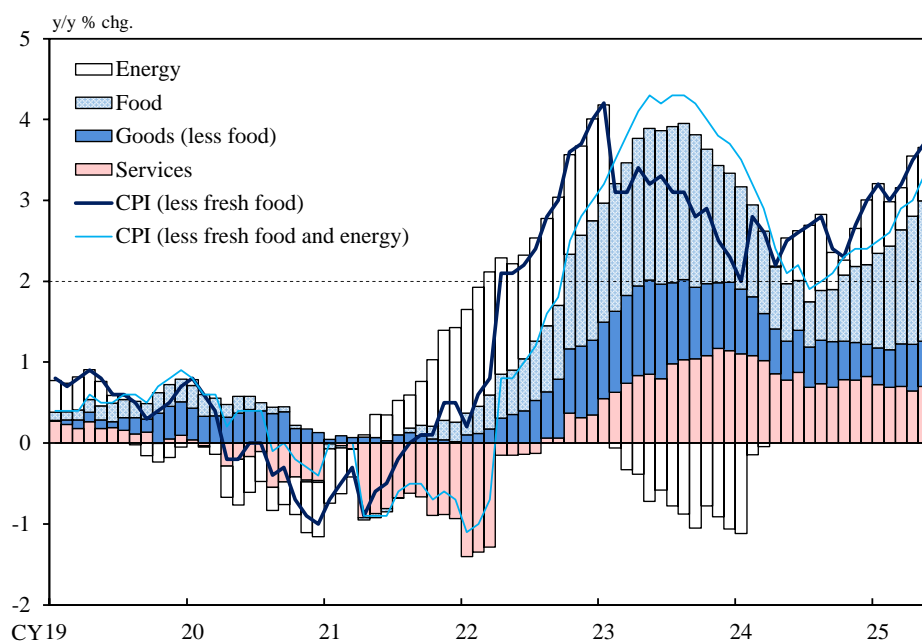
Real Private Consumption



Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) \times Number of employees (*Labour Force Survey*). Figures for real employee income are based on Bank staff calculations using the CPI (less imputed rent). Figures from the *Monthly Labour Survey* are based on continuing observations following the sample revisions. Figures for 2025/Q1 are March-April averages.
2. In the right panel, figures for real private consumption are the real Consumption Activity Index (travel balance adjusted) based on Bank staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption. Figures in angle brackets show the weights in the index. Figures for 2025/Q2 are those for April.

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

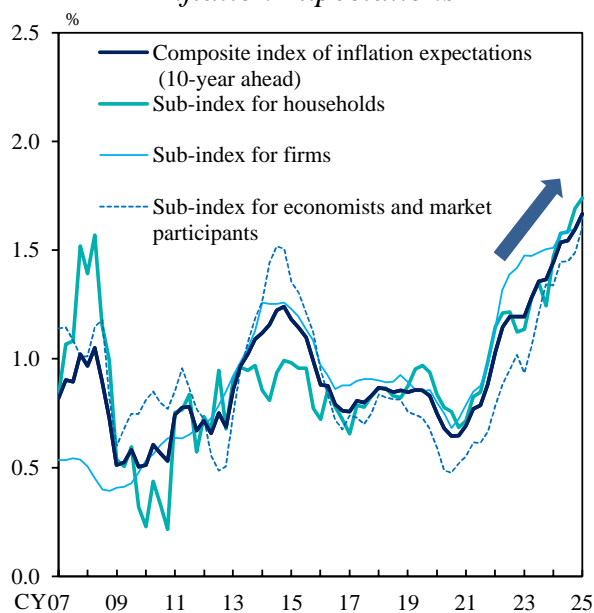
CPI Inflation



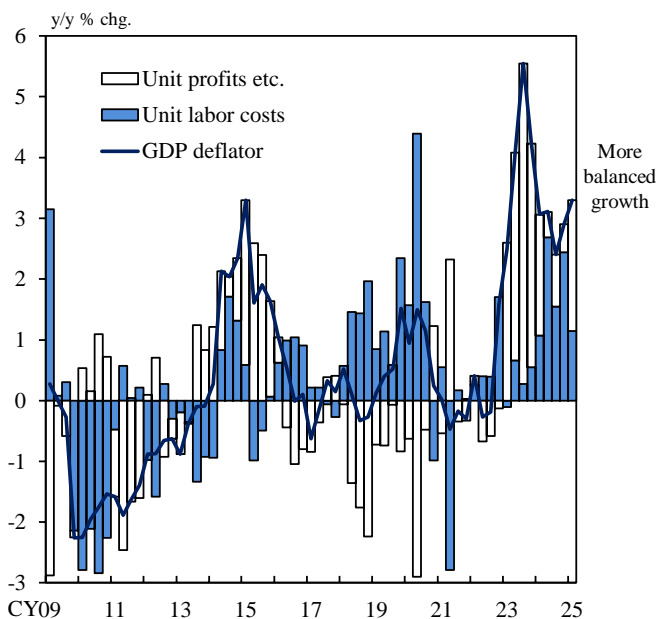
Source: Ministry of Internal Affairs and Communications.

Inflation Indicators

Composite Index of Inflation Expectations



GDP Deflator



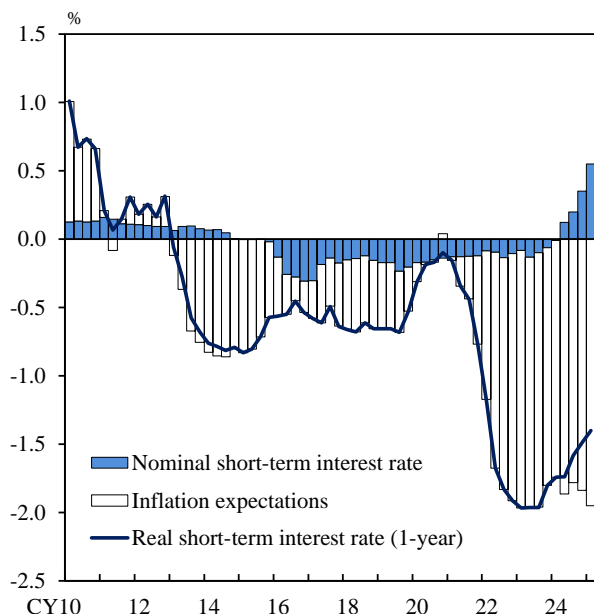
Notes: 1. In the left panel, the composite index is calculated by extracting the common components, based on the first principal component, of the inflation expectations of firms, households, and economists and market participants. For details of the calculation method, see Box 4 of the April 2024 Outlook Report.

2. In the right panel, unit labor costs = nominal compensation of employees / real GDP.

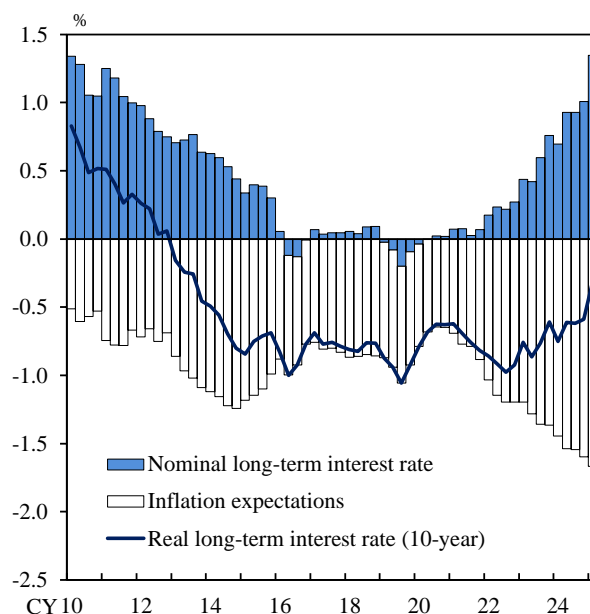
Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Real Interest Rate

Real Short-Term Interest Rate (1-Year)



Real Long-Term Interest Rate (10-Year)



Note: Figures for real interest rates are calculated by deducting inflation expectations from JGB yields for each maturity. Figures for inflation expectations are based on Bank staff calculations using the expectations of various economic entities (firms, households, and experts) at different horizons. Specifically, the data used in the calculations are as follows: for firms, the *Tankan*; for households, the *Opinion Survey on the General Public's Views and Behavior*; for experts, the *QUICK Survey*, the *Consensus Forecasts*, and inflation swap rates.

Sources: Bloomberg; Consensus Economics Inc., *Consensus Forecasts*; QUICK, *QUICK Monthly Market Survey <Bonds>*; Bank of Japan.

Plan for the Reduction of the Purchase Amount of JGBs

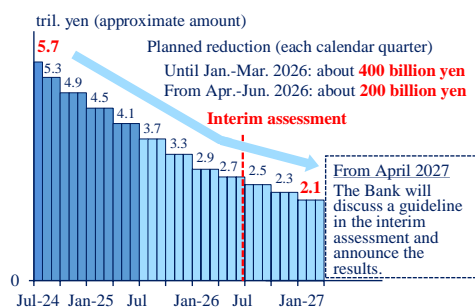
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

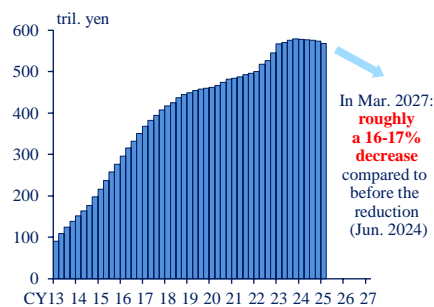
- Until January-March 2026 : about **400 billion yen** (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027: about **200 billion yen**
- The Bank will **gradually reduce** its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings

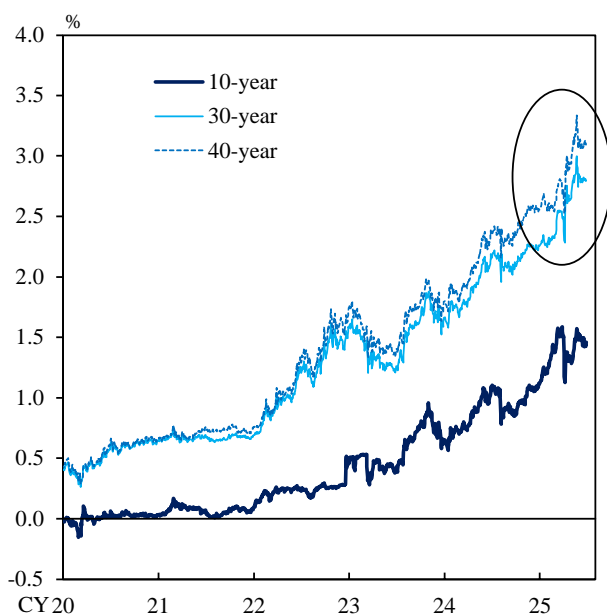


Allowing Enough Flexibility

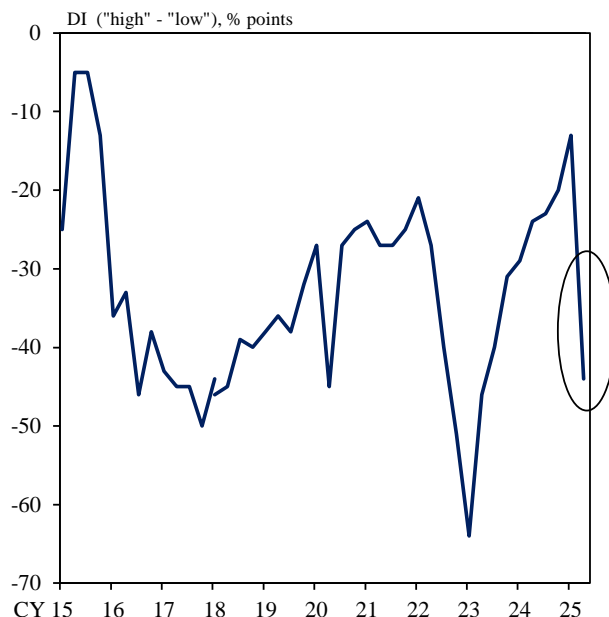
1. The Bank will **conduct an interim assessment of the plan at the June 2026 MPM**.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

Degree of Bond Market Functioning

Yields on Long-Term and Super-Long-Term JGBs



DI for the Degree of Bond Market Functioning

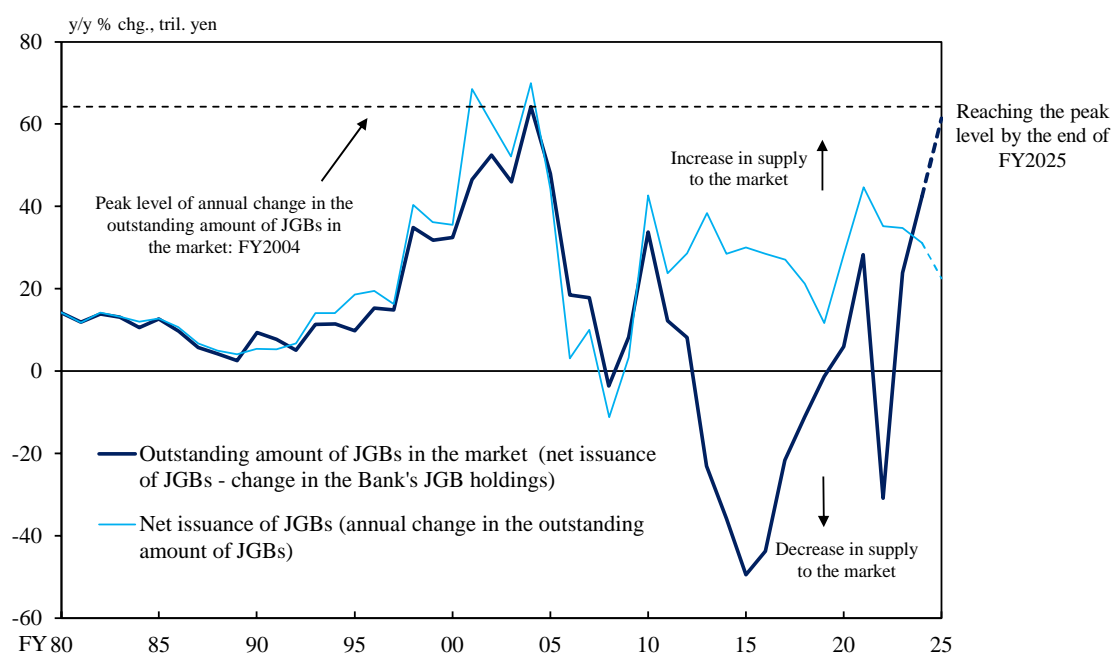


Note: In the right panel, the survey from February 2018 onward includes responses from major insurance companies, asset management companies, etc., in addition to those from eligible institutions for the Bank's outright purchases and sales of JGBs. Regarding the figures for February 2018, the reference data, which are based on responses only from eligible institutions for the Bank's outright purchases and sales of JGBs, are also indicated.

Sources: Ministry of Finance; Bank of Japan.

Historically Large Annual Change in the Outstanding Amount of JGBs in the Market

(Supply of JGBs to the market surged due to the reduction in the Bank's purchases)



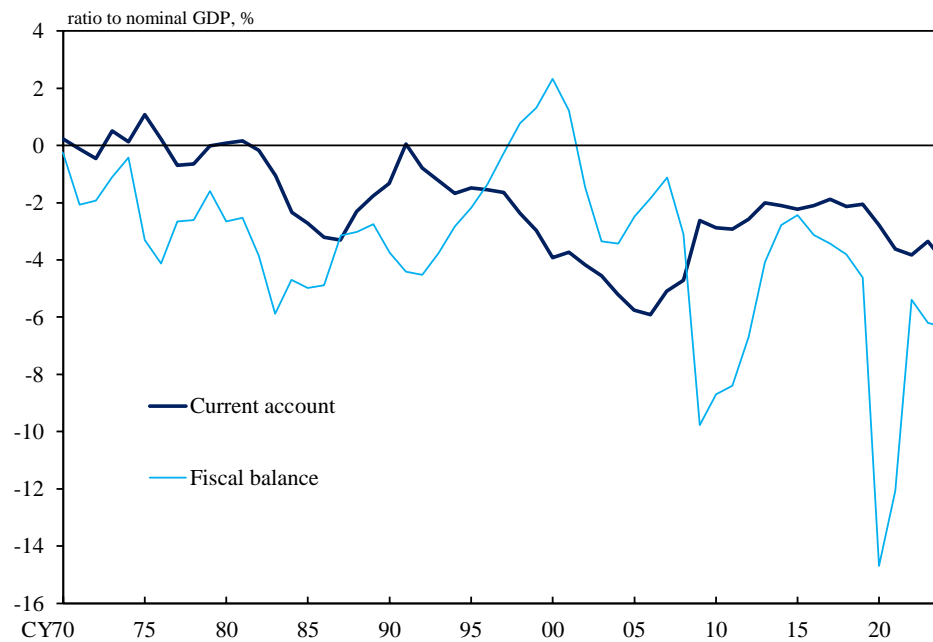
Notes: 1. Figures are on a book value basis and exclude short-term government securities.

2. Figures for FY2025 are estimated using the Cabinet Office's *Economic and Fiscal Projections for Medium to Long Term Analysis* (January 2025) and the Bank's plan for the reduction of the purchase amount of JGBs.

Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

U.S. Current Account

(Focus should be on the future course of twin deficits:
current account and fiscal deficit)

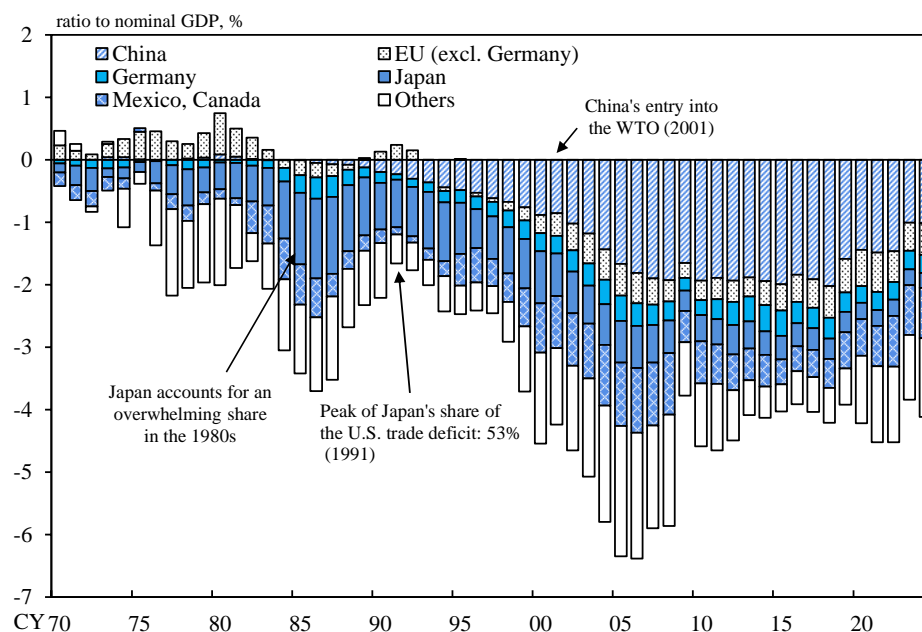


Note: Figures for fiscal balance is on a fiscal-year basis.

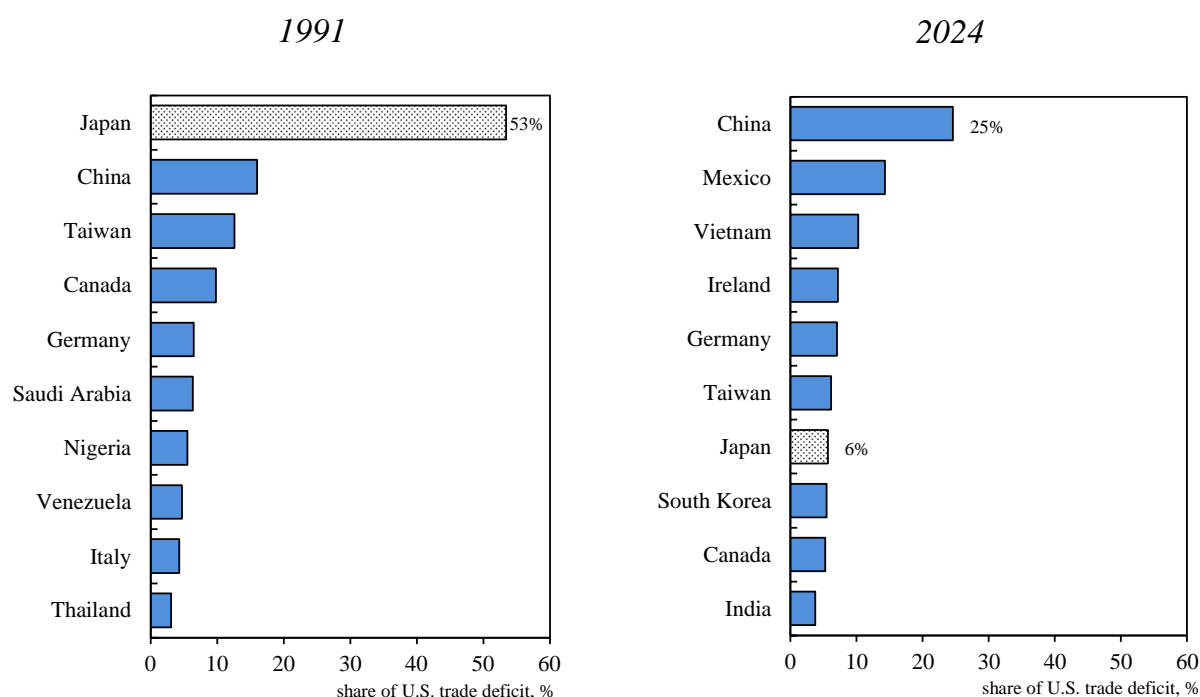
Sources: Bureau of Economic Analysis (BEA); Congressional Budget Office (CBO).

U.S. Trade Balance by Country

(Japan accounted for over half of U.S. trade deficit around 1990)

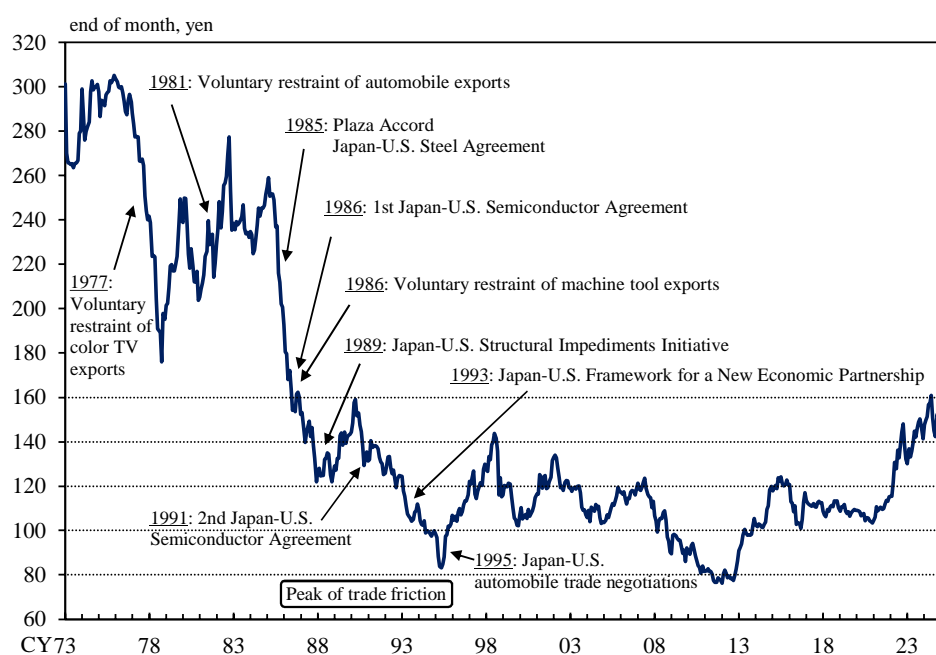


Largest Shares of U.S. Trade Deficit by Country/Region (China has replaced Japan)



Source: IMF.

Historical Developments in U.S. Dollar/Yen Exchange Rate and Japan-U.S. Trade Friction (Trade friction reached its peak in the early 1990s)



Note: The descriptions of events in Japan-U.S. trade friction are based on *White Paper on International Economy and Trade 2019*, etc.
Sources: Ministry of Economy, Trade and Industry; Bank of Japan.

My View on Corporate Behavior in the Post-Bubble Period

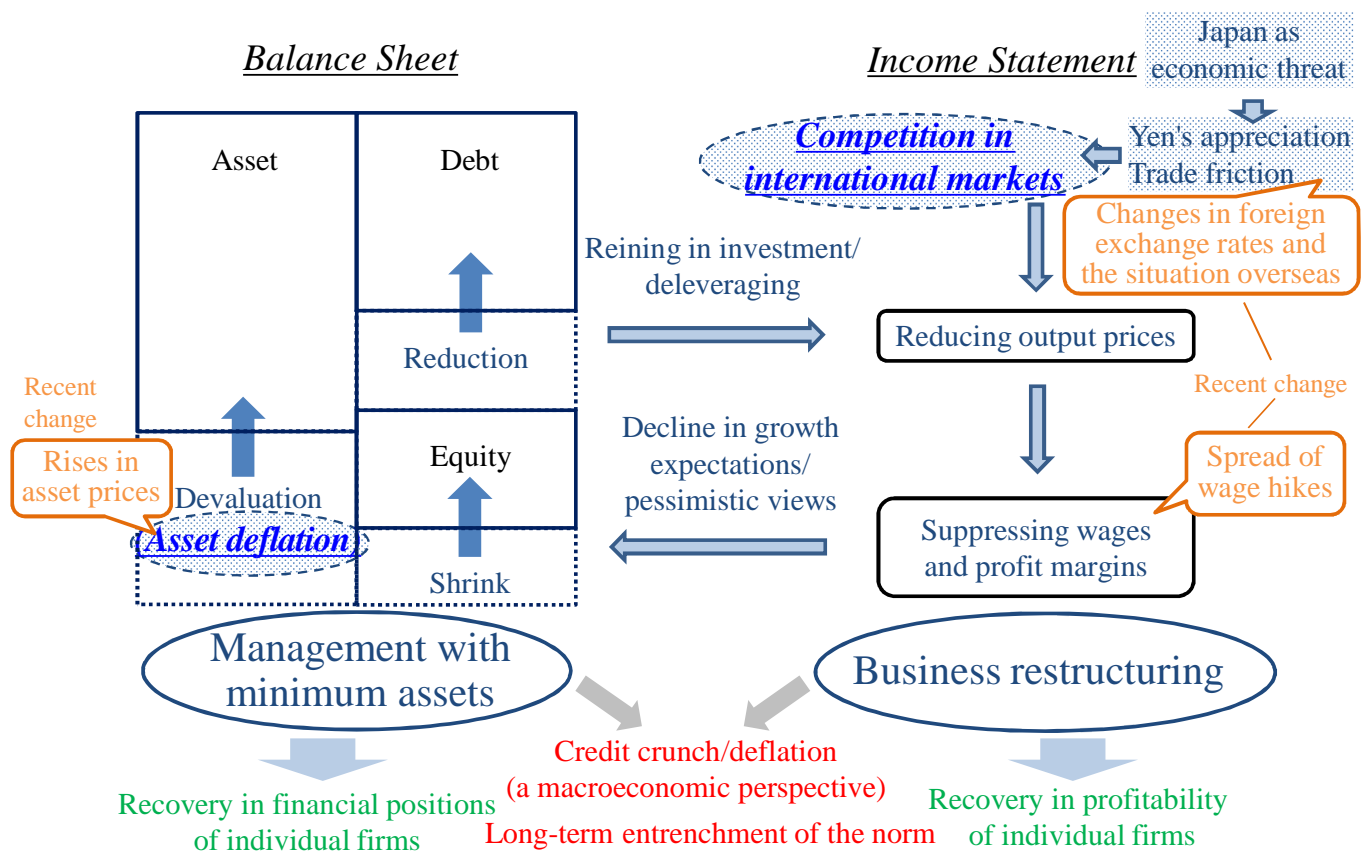
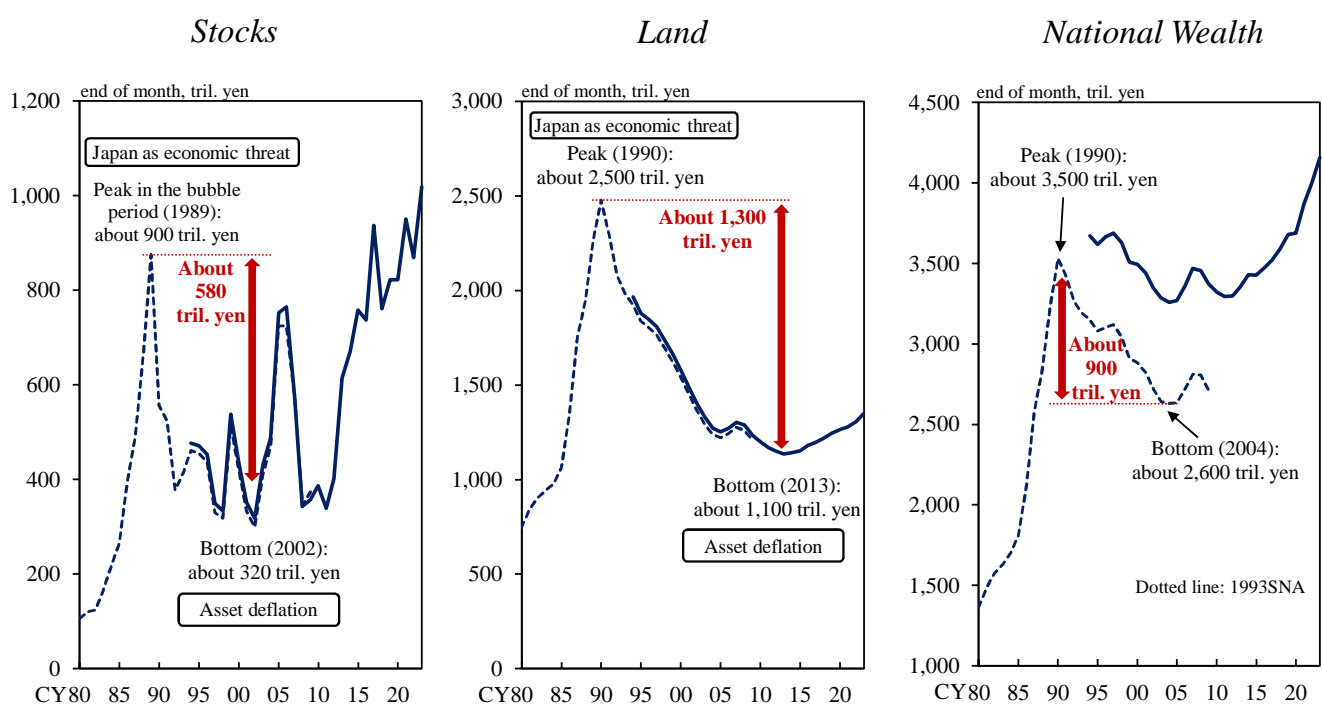


Chart 17

Asset Prices and National Wealth

(Japan was seen as an economic threat but then fell into asset deflation)

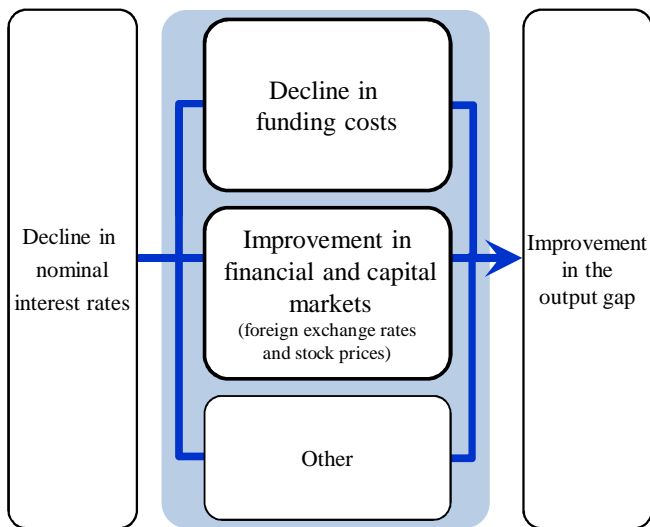


Note: Figures are based on the SNA. Dotted lines are based on the 1993SNA (benchmark year: 2000).

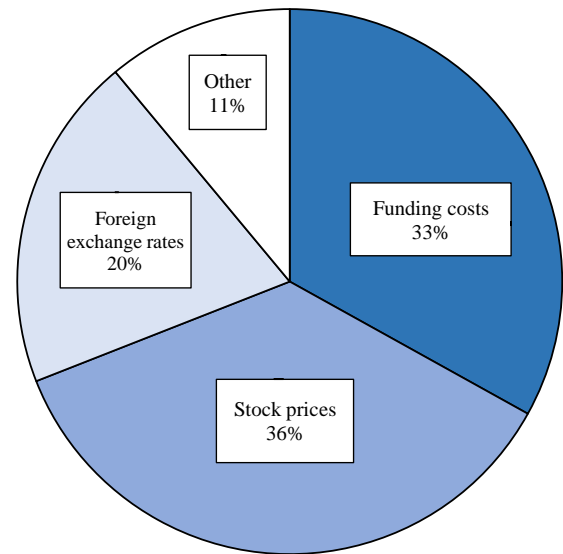
Source: Cabinet Office.

Transmission Channels of Lower Interest Rates

Overview



Improvement in the Output Gap
(Breakdown by Channel)



- Notes: 1. Figures are based on a VAR model with coefficient restrictions using eight variables: output gap, interest rates (3-month), interest rate spreads (2-year minus 3-month, 5-year minus 2-year, 10-year minus 5-year), aggregate funding costs, nominal effective exchange rates of the yen, and stock prices.
 2. Aggregate funding costs are the weighted average of bank lending rates and issuance yields for CP and corporate bonds.
 3. In the right pie graph, figures show the 5-year cumulative effects.

Sources: Bloomberg; Bank of Japan; etc.

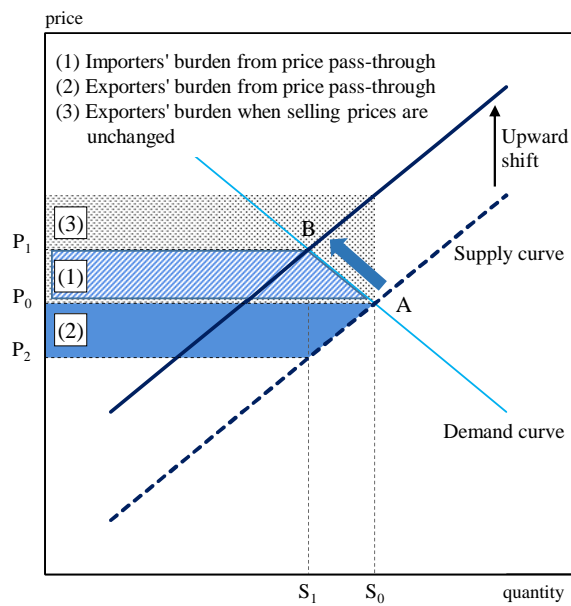
Policy Status of the New U.S. Administration

	Policy Status under the New Administration
Tariffs	<ul style="list-style-type: none"> • Imposition of reciprocal tariffs on all trading partners (10-50%), based on the results of America First Trade Policy investigations • China: 54% (of which additional 24% tariffs have been suspended) • Canada and Mexico: 25% (excl. USMCA-compliant goods) • Steel and Aluminum (50%), Automobiles (25%)
Immigration	<ul style="list-style-type: none"> • Declaration of a national emergency and initiation of procedures to control entry and deport undocumented migrants
Budget	<ul style="list-style-type: none"> • Permanent extension of Trump tax cuts and enactment of additional tax cuts under deliberation in the Senate and the House of Representatives • Cuts to government spending (establishment of the Department of Government Efficiency [DOGE], offer of early retirement to federal workers)
Deregulation, etc.	<ul style="list-style-type: none"> • Declaration of a national energy emergency, promotion of oil and gas field development • Cancellation of EV mandates, withdrawal from the Paris Agreement • Easing of regulations on financial institutions (temporary shutdown of the CFPB, etc.) • Elimination of 10 existing regulations for each new regulation issued

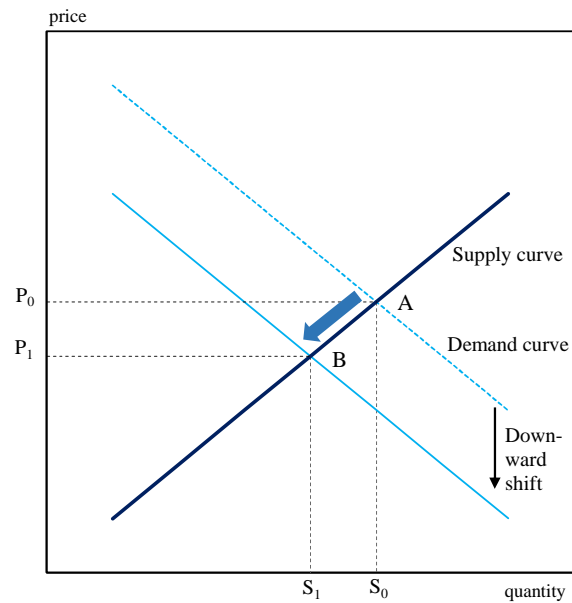
(Sources) White House; news reports, etc.

Impact of Tariffs: Supply and Demand Curves (1)

Tariff-Imposing Country: Supply Shock



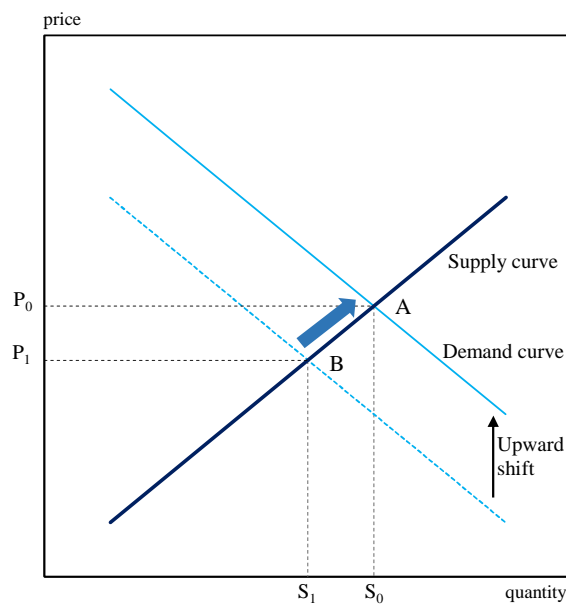
Tariff-Imposed Country: Demand Shock



Note: The charts are based on Krugman, P., Obstfeld, M., and Melitz, M., *International Trade: Theory and Policy*, 10th ed. (Pearson, 2014), etc.

Impact of Tariffs: Supply and Demand Curves (2)

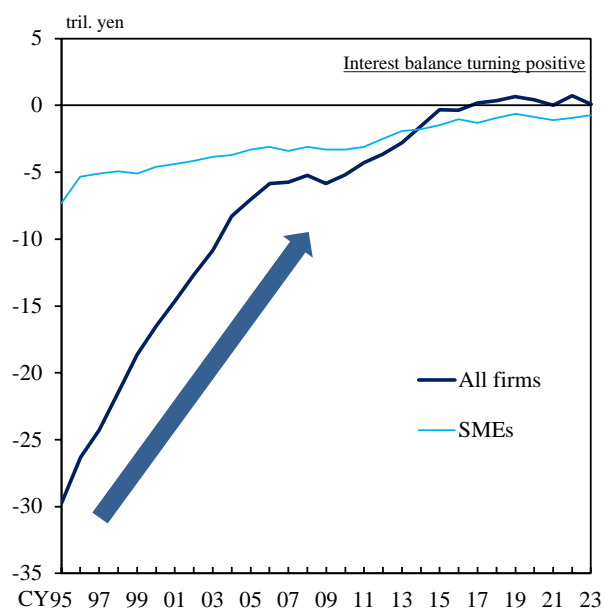
*Tariff-Imposed Country:
Increased Demand Due to Fiscal Policy Measures in the Export Destination*



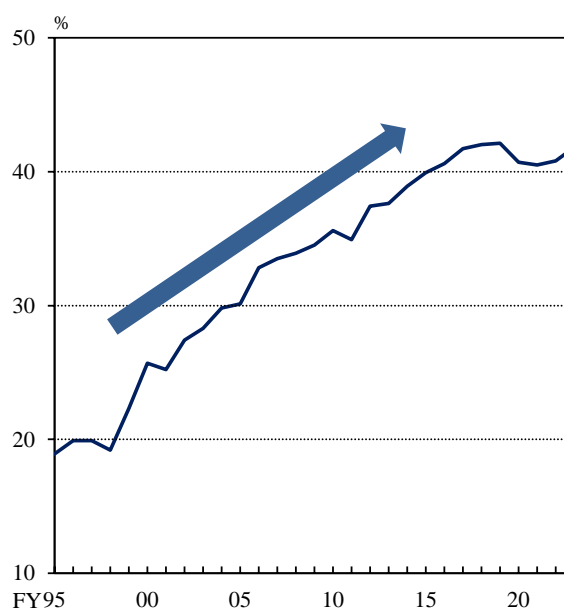
Note: See the note on Chart 20.

Improvement in Corporate Finance

Interest Balance



Capital Adequacy Ratio

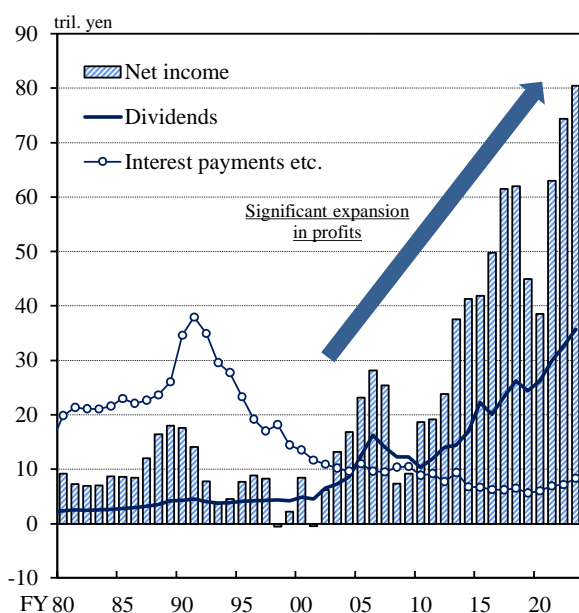


Note: Interest balance for small and medium-sized enterprises (SMEs) in the left panel includes dividend income.

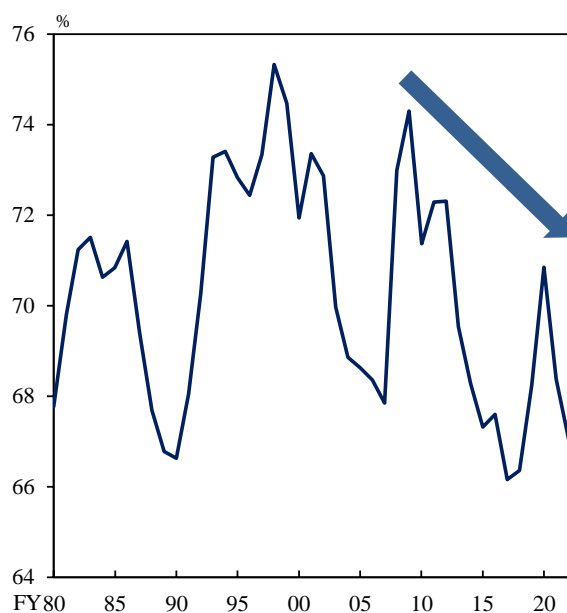
Sources: Cabinet Office; Ministry of Finance.

Rapid Expansion in Corporate Profits

Corporate Profits and Returns to Investors



Labor Share



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.

2. Labor share = personnel expenses / value-added. Value-added = operating profits + personnel expenses + depreciation expenses.

Source: Ministry of Finance.

My View on Mechanism of Expanding Corporate Profits and Ensuing Challenges

