July 23, 2025

Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Kochi

UCHIDA Shinichi

Deputy Governor of the Bank of Japan

(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity today to exchange views with leaders in administrative, economic, and financial areas in Kochi Prefecture. I would like to take this chance to express my sincere gratitude for your cooperation with the activities of the Bank of Japan's Kochi Branch. Today, I will explain Japan's economic activity and prices, as well as the Bank's conduct of monetary policy.

I. Current Situation of and Outlook for Economic Activity and Prices

I will start by talking about developments in economic activity and prices. Please take a look at Chart 1. Japan's economy has recovered moderately, although some weakness has been seen in part. As for the outlook, Japan's economic growth is likely to moderate due to the effects of trade and other policies in each jurisdiction. Thereafter, however, the growth rate is likely to rise, with overseas economies returning to a moderate growth path. That said, there are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The outlook I just explained is developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided.

Considering this, I would like to explain three key factors in projecting future developments in Japan's economy: (1) trade policy in each jurisdiction and its impact on the global economy; (2) the impact of such trade policy on Japan's economy; and (3) the rise in consumer prices, including food prices, and developments in private consumption.

Trade Policy in Each Jurisdiction and the Global Economy

Please refer to Chart 2. Since early spring of this year, the environment surrounding economic activity and financial markets at home and abroad has been changing significantly due to the series of tariff policies introduced by the United States. International organizations have significantly revised their economic projections downward. That said, at present, while deterioration in economic indicators worldwide has been seen mainly in soft data, including confidence indicators, hard data -- such as economic growth rates and employment indicators -- have not deteriorated as much, reflecting factors such as front-loading due to the increase in U.S. tariffs.

Please refer to Chart 3. In the United States, the increase in tariffs is likely to push up consumer prices through a rise in import prices, while in the real economy, it is likely to push down firms' and households' spending by way of elevated inflation and heightened uncertainties. Looking at the upper left-hand graph, business sentiment in the United States (red line and green dotted line) has deteriorated somewhat since the announcement of new tariffs. Moreover, consumer sentiment (blue line) has deteriorated substantially, mainly due to growing concerns over future inflation.

Turning to the upper right-hand graph, while the impact of tariff hikes on consumer prices has been limited on the whole so far, the prices of some goods for which the United States is heavily dependent on imports -- such as household electrical appliances, furniture, and toys -- have risen. On this point, U.S. imports increased rapidly in the first quarter of 2025, as shown in the lower left-hand graph. Since it is possible that many products currently on sale in the United States were imported before the tariffs were imposed, close examination of price developments over the next few months is warranted, as is examination of the impact on private consumption and other factors if prices increase.

Meanwhile, looking at the lower right-hand graph, the U.S. unemployment rate (red line) has been more or less flat, at around 4 percent. This likely reflects the recent decline in the labor force participation rate (blue line). While U.S. labor market indicators have a tendency to fluctuate and thus require further monitoring, labor supply has weakened, possibly affected by the change in U.S. immigration policy. Labor market conditions have remained tight, but wages are unlikely to come under strong upward pressure, since labor demand has weakened, as seen in the number of newly employed persons.

With regard to future developments, the main scenario is that tightness in U.S. labor market conditions will gradually ease as labor demand sees a moderate deceleration, generally in line with the deceleration in labor supply. In this case, it is unlikely for second-round inflationary effects to be exerted through wage increases. On the other hand, if consumer prices rise substantially due to the impact of tariff hikes and labor market conditions remain tight, the risk of inflation will be of concern. Conversely, if labor market conditions deteriorate considerably, policy responses are likely to take account of a potential economic slowdown. Therefore, developments in consumer prices and labor market conditions over the next few months are key in assessing the U.S. economy and the Federal Reserve's conduct of monetary policy. In addition, these developments are likely to affect global financial and capital markets, including the foreign exchange market.

Meanwhile, the Chinese economy has continued to show relatively high growth, mainly due to the effects of government measures, including subsidies to promote purchasing of durable goods, and to the front-loading of exports. However, these positive effects are expected to wane, and issues such as sluggishness in the real estate market and the high youth unemployment rate have persisted. Moreover, with the Chinese economy initially facing the issue of structural excess production, there are Japanese firms that have shown concern that the condition of international commodity markets, including the prices of basic materials in Asian markets, may deteriorate due to exports from China.

European economies have been relatively weak, with a deterioration in consumer sentiment and a reactionary decline in exports following front-loading. Meanwhile, there have been some strong developments, such as a recovery in global demand for IT-related goods, mainly led by AI-related products. It seems that an increasing number of experts are viewing developments in other IT-related goods somewhat cautiously, as front-loading for these goods has likely paused, although these views may change depending on future developments in tariffs.

As I just explained, among recent developments in the global economy, while the impact of tariffs on confidence indicators can be observed, assessing hard data is difficult given, for example, the timing of front-loading and the reactionary decline. Going forward, I believe close attention is warranted on the direct impact via trade and the impact of deteriorating sentiment on business fixed investment and private consumption.

Trade Policy in Each Jurisdiction and Japan's Economy

Next, I will talk about the impact on Japan's economy. Please take a look at Chart 4. The results of the June 2025 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) released by the Bank on July 1 indicate that business sentiment has deteriorated in some manufacturing industries, mainly due to the impact of U.S. tariff policy, but has stayed at a favorable level overall.

Moving on to Chart 5, corporate profits have continued on an uptrend regardless of industry and firm size. Looking at the right-hand table, manufacturing firms have revised their profit projections for fiscal 2025 downward, expecting a decline of 8.4 percent. However, nonmanufacturing firms, which have not been affected as much by the trade policies, have revised their profit projections for fiscal 2025 upward, and the profit levels of manufacturing firms through fiscal 2024 had been high. Therefore, projected profits in the corporate sector overall have continued to be at a relatively high level, with the projected decline of 5.7 percent in fiscal 2025 close to the increase of 5.6 percent in fiscal 2024.

Please refer to Chart 6. Business fixed investment has continued on a moderate increasing trend, and this fiscal year's investment plans in the left-hand graph indicate that this trend will be maintained. The right-hand graph shows developments in machinery orders and construction starts, which are leading indicators of business fixed investment. These indicators have also continued to show an increasing trend and there seems to be no significant change in firms' appetite for investment at this stage. Of course, with extremely high uncertainties regarding trade and other policies, many exporting firms may have put off revising their business fixed investment plans. That said, there have been many reports from firms in a wide range of industries that they consider labor-saving and efficiency-improving investment to be essential given intensifying labor shortages, and that they plan to steadily move forward with the investments they deem necessary from a medium- to long-term perspective, such as investments for digitalization and decarbonization, regardless of how tariff policies unfold.

Chart 7 illustrates the employment and income situation. Looking at the final aggregate results of annual spring labor-management wage negotiations -- presented in the upper left-hand graph -- this year's agreed wage growth rate was 5.25 percent, which was somewhat higher than last year and the highest level in 34 years. Developments by firm size and type of employment -- presented in the lower left-hand table -- show that the wage growth rate for unions that have 99 or less members has increased the most from the previous year. Moreover, the results of other surveys -- such as those conducted by the Japan Chamber of Commerce and Industry -- indicate that micro, small, and medium-sized firms, which are facing severe labor shortages, plan to conduct wage hikes similar to or somewhat higher than those in fiscal 2024, with some raising wages as a defensive step. Therefore, the impact of tariff policies does not seem to have been significant at the time of this year's annual spring labor-management wage negotiations.

Reflecting such high wage growth rates, scheduled cash earnings -- presented in the right-hand graph -- have continued to be on a clear increasing trend, albeit with fluctuations due to the number of working days and other factors. Meanwhile, the number of employed persons has continued to increase steadily, mainly in the information and communications industry and in the medical, healthcare, and welfare services industry, both of which have faced severe labor shortages. Against this backdrop, employee income -- which is the product of wages per employee and the number of employed persons -- has continued to see a relatively high year-on-year increase, and is currently at around 4 percent.

Thus, although tariff policies are expected to have a negative impact, the business plans of Japanese firms assume that profits will remain at a high level, albeit with a decline, and that they will continue with fixed investment and human capital investment.

That said, future developments require attention. The course of tariff negotiations between jurisdictions remains uncertain and firms have yet to deal with their effects. Regarding Japan's economy as a whole, I think that (1) the baseline scenario is that economic growth will moderate temporarily, as I mentioned at the outset, amid a slowdown in overseas economies and a decline in domestic corporate profits and other factors, and (2) there are high uncertainties over Japan's economy and risks are skewed to the downside.

The direct impact of U.S. tariff hikes on Japanese firms is likely to first appear in export profitability or export volume, depending on whether the firms pass on the increased costs due to the tariffs to selling prices in the United States. Looking at Chart 8, export prices, especially those of passenger cars to North America, have clearly fallen since April this year. That said, as transactions observed at this point seem to have been mainly between parent companies in Japan and their sales subsidiaries in the United States, the actual selling prices of subsidiaries will be determined by factors such as the future competitive environment in the U.S. markets. As such, Japanese firms' export and sales strategies and the magnitude of the impact on their profits will depend, for example, on the specific tariff rate levels and how firms in other jurisdictions will react.

Considering these factors on the assumption that negotiations between jurisdictions will progress to some extent, profits in the corporate sector overall will continue to be at a high level, even if exporters' profits are pushed down, as shown in the June 2025 *Tankan*. With regard to wage-setting, the baseline scenario is that, since an acute sense of labor shortage will persist, the recent trend of firms actively raising wages and prices will continue.

However, if the negative impact of tariff policies turns out to be greater or more prolonged than expected, there is concern that the trend of wage hikes observed over the past few years could weaken through, for example, greater pressure on domestic supply chains in export industries to reduce costs or adverse effects on private consumption and the nonmanufacturing sector. Considering the extremely high uncertainties regarding developments in the global economy and global financial and capital markets, close attention is warranted on such downside risks to Japan's economic activity and prices.

Moreover, future economic developments concerning these points will vary across industries, firms, and regions, and such developments cannot be fully understood using macro data alone. In particular, the Bank, through dialogue with business managers, aims to carefully gauge in a timely manner how these uncertainties will affect firms' decision-making, such as about investment. I would thus like to ask you all for your continued cooperation in, for example, interviews conducted by the Bank's branches.

Developments in Consumer Prices and Private Consumption

I would now like to discuss the third factor, which is developments in prices and private consumption. Please refer to Chart 9. As presented in the left-hand graph, consumer sentiment in Japan has recently deteriorated, mainly against the background of a rise in food prices, such as rice prices, and uncertainties regarding tariff policies. The right-hand graph shows developments in real private consumption. Consumption of nondurable goods (green dotted line) including food has continued on a decreasing trend, reflecting consumers' increased thriftiness, mainly due to the rise in food prices. On the whole, however, private consumption (red line) has maintained a moderate increasing trend, supported by an improvement in the employment and income situation. Regarding the outlook, since wage increases are expected to continue, as I explained earlier, their developments relative to price increases will be important.

Please take a look at Chart 10. The year-on-year rate of change in the consumer price index (CPI, all items less fresh food) -- represented by the red line -- was in the range of 3.0-3.5 percent for June 2025. The main reason behind inflation in recent years is the increase in food prices (light blue bars). The first increase was seen from 2022 through 2023, led by a rise in import prices. Although it paused in the first half of last year, food prices have increased again since the second half of last year, mainly due to the rise in rice prices.

Meanwhile, the year-on-year rate of increase in services prices (pink bars) rose through 2023, and thereafter has been more or less flat. Wage increases have continued to push up services prices -- although the pace has not accelerated -- as a moderate underlying trend.

Looking ahead, the Bank expects the impact of higher rice prices and other cost-push factors to eventually wane, partly owing to various government measures. Meanwhile, underlying inflation excluding cost-push factors is determined by the output gap, which captures the utilization of labor and capital in the overall economy, and by medium- to long-term inflation expectations, which indicate firms' and households' views on prices over a somewhat longer horizon.

Please refer to Chart 11. As shown in the left-hand graph, the output gap (red line) is currently at around zero percent. Since the actual growth rate of Japan's economy is projected to remain roughly in line with the potential growth rate for the time being, it is likely that the gap will remain at around the current level. Thereafter, it will improve again as the actual growth rate rises. Meanwhile, labor shortages have intensified, partly due to a deceleration in the pace of increase in labor force participation of women and seniors, which has supported labor supply to date. There have also been cases where, due to labor shortages, firms -- particularly in nonmanufacturing industries, such as accommodations as well as eating and drinking services -- are unable to raise their capacity utilization rates even when their facilities are underutilized, which I believe is also being observed in Kochi Prefecture. In this sense, upward pressure on wages and prices could be stronger than suggested by the output gap.

Moreover, the upper right-hand graph shows that medium- to long-term inflation expectations have risen moderately in recent years, with firms' behavior shifting more toward raising wages and prices. This trend is expected to continue going forward, although the pace is likely to be sluggish due to deceleration in the economy, and then to increase again. After the turn of this fiscal year, price hikes have spread from rice to other food products as well, and consumer prices have risen by more than what the Bank or market participants had expected. This suggests that, at least with regard to food prices, firms' price-setting behavior has changed significantly compared to the past. As similar trends can be seen in related areas, such as dining-out, the Bank will monitor the extent of these developments. After all, since food products are closely tied to daily life and purchased frequently, they are likely to have a relatively stronger influence on people's views on prices. While it is difficult to observe medium- to long-term inflation expectations directly, since the past few years have been a period of major change, the Bank will carefully gauge these developments, including micro-level changes in corporate behavior.

Please look at the lower right-hand table. In sum, the Bank's outlook for prices is as follows. The effects of the rise in food prices are expected to wane. Underlying inflation is likely to be sluggish temporarily, mainly because economic growth is likely to moderate due to the effects of trade policy in each jurisdiction. The year-on-year rate of increase in the CPI (all items less fresh food) could fall below 2 percent at some point through fiscal 2026. Thereafter, actual inflation and underlying inflation are both expected to increase gradually, since it is likely that, in line with the increase in the economic growth rate, tightness in labor market conditions will become more evident, and a growing number of firms will shift their behavior more toward raising wages and prices. The Bank expects to achieve the price stability target of 2 percent sometime during the second half of the projection period of its latest *Outlook for Economic Activity and Prices* -- namely, the period from the second half of fiscal 2026 through fiscal 2027.

II. The Bank's Conduct of Monetary Policy

Future Conduct of Monetary Policy

Next, I will discuss the Bank's conduct of monetary policy.

As I have already explained, amid a slowdown in overseas economies, it is likely that Japan's economic growth will moderate and underlying inflation will be sluggish temporarily. In addition, given that there remain extremely high uncertainties regarding the trade policy of each jurisdiction and its effects on domestic and overseas economies, risks to economic activity and prices are both skewed to the downside. In light of these points, it is important to firmly support economic activity by maintaining accommodative financial conditions. At the Monetary Policy Meeting (MPM) held last month, the Bank decided to keep the policy interest rate unchanged at 0.5 percent. Please refer to Chart 12. As shown in the left-hand graph, the real interest rate -- calculated as the nominal interest rate minus the expected rate of inflation -- is significantly negative. Moreover, as shown in the right-hand graph, the *Tankan* results indicate that financial institutions have continued to take an active lending stance, and that issuance conditions for corporate bonds have remained favorable on the whole. Japan's financial conditions have been accommodative.

As for the future conduct of monetary policy, given that real interest rates are at significantly low levels, if the aforementioned baseline scenario of the outlook for economic activity and prices is realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.

In this regard, the Bank will examine whether the outlook will be realized, without any preconceptions. As I have explained, it is not entirely clear how trade negotiations between jurisdictions will evolve; it is also not entirely clear from each jurisdiction's economic data to date how economic activity and prices at home and abroad, as well as global financial and capital markets, will develop. I would like to pay close attention to these factors, as there are extremely high uncertainties and as domestic and overseas economies seem to be at a critical juncture. These factors also have the risk of putting downward pressure on prices in Japan. On the other hand, there has been upward pressure from cost-push factors, especially for food prices. My attention will therefore be on how such upward and downward pressure may affect the outlook for prices through, for example, firms' wage- and price-setting behavior.

Under the premise that the outlook for economic activity and prices comes with uncertainty, the Bank needs to adjust monetary policy to best balance the upside and downside risks from the perspective of maintaining stability in economic activity and prices. This is called the risk-management approach, and the Bank aims to take this kind of orthodox and robust monetary policy approach, especially now when uncertainties are extremely high.

Plan for the Reduction of the Purchase Amount of Japanese Government Bonds

Please refer to Chart 13. I would now like to talk about the Bank's purchases of Japanese government bonds (JGBs). Under large-scale monetary easing conducted from 2013, the Bank had purchased large amounts of JGBs from the market to stabilize the entire yield curve at a low level. It concluded this policy framework last year, and has been reducing its purchase amount of JGBs in a planned manner. Specifically, the Bank decided to reduce the amount of its monthly outright purchases, which had been close to 6 trillion yen, by about 400 billion yen each calendar quarter through March 2026.

Please take a look at Chart 14. The Bank's plan for the reduction of the purchase amount of JGBs is based on the idea that, in principle, long-term interest rates are to be formed in financial markets. The move is thus aimed at reducing the Bank's market presence, which had increased substantially as a result of large-scale monetary easing, and thereby improving the functioning of the JGB markets. The functioning of the JGB markets has actually been improving as the Bank makes headway in reducing its JGB purchase amount. This can be seen, for example, in the increase in the transaction volume for cash JGBs -- as presented in the left-hand graph -- particularly for on-the-run issues, and in the fact that JGB yields -- as presented in the right-hand graph -- are moving more in line with various economic indicators, market participants' views on future monetary policy, and developments in overseas interest rates. That said, as the Bank's JGB holdings have remained substantial, market participants and many others have continued to express the view that improvement in market functioning is still only halfway accomplished and thus there is considerable room for further progress.

Let me go back to Chart 13. Taking this view of market participants into account, at the MPM held last month, the Bank decided on a new reduction plan for JGB purchases through March 2027. Specifically, it will continue to reduce the monthly purchase amount by about 400 billion yen each calendar quarter through March 2026, in line with the previous plan, and from April 2026 onward, will moderate the pace of reduction to about 200 billion yen each calendar quarter. As a result, flow-based monthly purchases in January-March 2027 will be about 2 trillion yen, which is equivalent to about one-third of monthly purchases before the start of reductions.

As I mentioned earlier, in principle, long-term interest rates are to be formed in financial markets, and to further advance this, it is desirable for the Bank to continue reducing its purchase amount of JGBs. On the other hand, if the pace of reduction is too fast, this may have an unforeseen impact on market stability. Notably, JGB purchases and the holdings of market participants will increase in terms of both flow and stock as the reduction of the Bank's purchase amount moves forward. Given this, the Bank decided that it was appropriate to slow the pace of reduction, taking into account market participants' views. In addition, the plan decided at the June 2025 MPM continues to allow enough flexibility to support stability in the JGB markets. That is to say, if an exceptional case, such as a rapid rise in long-term interest rates, should take place, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases. It will also conduct an interim assessment of the new reduction plan at the June 2026 MPM while reviewing the developments in and functioning of the JGB markets. If deemed necessary, the Bank may modify the plan as appropriate.

The large-scale monetary easing conducted from 2013, combined with government measures, cleared the personnel surplus that was at the root of the deflationary economy, and labor shortages are currently a driving force behind changes in corporate behavior and in Japan's economic structure. I believe large-scale monetary easing was a necessary policy for Japan's economy. On the other hand, there is no such thing as a free lunch, and the overall effect of the easing on Japan's economy will not be definite until the exit process is complete. I believe it can be judged that the easing had positive effects on Japan's economy only after the Bank makes a successful exit.

Restoring interest rate formation to the original state where rates are determined by the market requires predictability. On the other hand, there is no precedent for the current situation, in which the Bank must normalize policy from the state during the yield curve control period, when it had an overwhelming presence in the JGB markets. A certain degree of flexibility to prepare for unexpected developments is essential to avoid causing a situation where rapid interest rate fluctuations adversely affect economic activity and prices. Similarly, the Bank has taken various measures to strike the right balance from an early stage, such as expanding the range of 10-year JGB yield fluctuations under yield curve control. While these efforts have sometimes been said to be ambiguous or difficult to understand, they have, after all, allowed the Bank to proceed with normalization while maintaining market stability. Going forward, the Bank will continue to aim to understand developments in the JGB markets as accurately as possible through its operations and through dialogue with market participants, and to take appropriate steps to bring the markets closer to their original state.

It should be noted that, in designing policy measures, the Bank is paying close attention to the potential adverse effects of rapid interest rate fluctuations on economic activity and prices. It goes without saying that the aim is not to support the financing of the government. The Bank decided at the June 2025 MPM to slow the pace of reduction and to maintain a mechanism that allows for flexibility, from such a perspective.

III. Economy of Kochi Prefecture

In closing, I would like to talk about the economy of Kochi Prefecture. Please take a look at Chart 15.

The share of manufacturing in the prefectural economy has been low compared with other prefectures, while the share of services, construction, and other nonmanufacturing has been high, yielding an industrial structure supported by domestic demand. For this reason, the direct impact on Kochi Prefecture's economy of trade and other policies abroad has so far been limited, and the economy has continued to pick up gradually as domestic demand, including private consumption, has been firm. Tourism demand is expected to increase this year, partly due to the broadcast of a television drama series set in the prefecture.

That said, looking at Kochi Prefecture's economy from a longer-term perspective, the population is declining at a faster pace than the national average -- as indicated in the left-hand graph -- and the prefecture faces the threat of natural disasters, such as a massive earthquake in the Nankai Trough off the Pacific coast. On this point, the local government has positioned the issue of population decline as its top priority in the Kochi Prefecture Strategy for Creating a Vibrant Future, formulated in March 2024. This strategy includes efforts to raise the income of young people through industrial development and to promote sharing in childcare and housework between the genders. In the strategy revision for fiscal 2025, the prefecture has adopted pioneering approaches to population decline, including measures to ensure sustainable public services. Moreover, to prepare for a potential Nankai Trough earthquake, the prefecture has made steady progress in, for example, making homes earthquake-resistant, constructing tsunami evacuation towers, and implementing triple defense measures against tsunamis at Urado Bay.

Population decline and disaster prevention are major issues that Japan as a whole must address. Thus, Kochi Prefecture's unique and ambitious initiatives will serve as an important guidepost for the entire country if realized. I would like to conclude my remarks by expressing my hope that Kochi Prefecture will become a model for a sustainable regional community. Thank you very much for your attention.

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Kochi

July 23, 2025

UCHIDA Shinichi
Deputy Governor of the Bank of Japan

Introduction

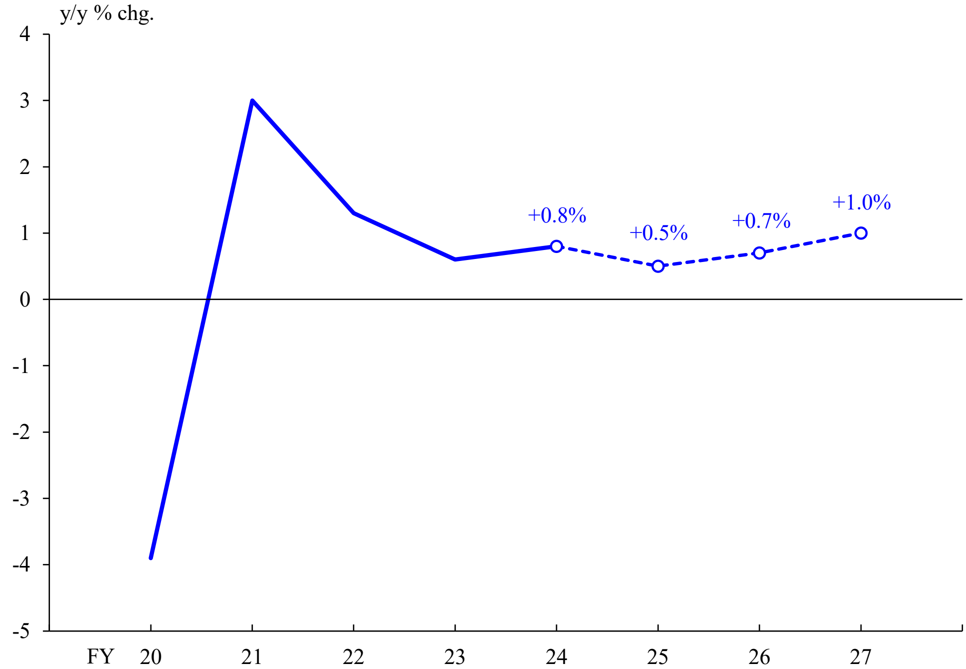
I. Current Situation of and Outlook for Economic Activity and Prices

II. The Bank's Conduct of Monetary Policy

III. Economy of Kochi Prefecture

Chart 1

Real GDP

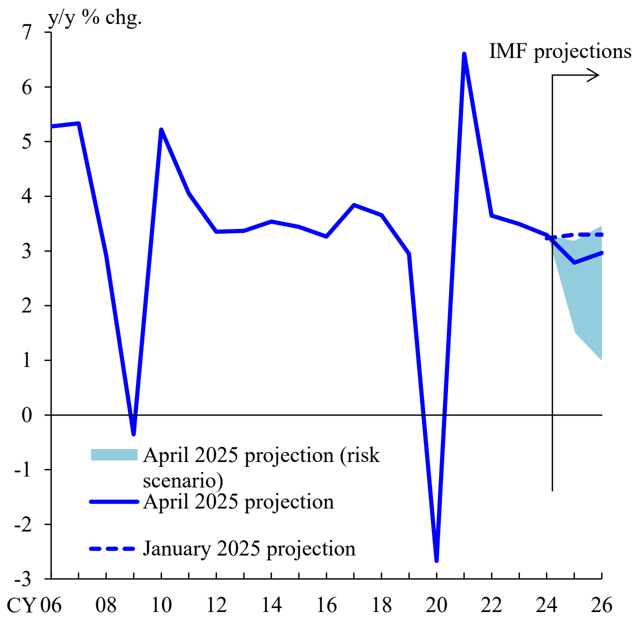


Note: The dotted line shows the medians of the Policy Board members' forecasts in the April 2025 Outlook Report.
Sources: Cabinet Office; Bank of Japan.

Chart 2

Global Economy

Global Growth Rate (IMF Projections)



Projections by International Organizations

IMF (April 2025)

y/y % chg.	CY 2024	CY 2025 [Projection]	CY 2026 [Projection]
World	3.3	2.8 (-0.5)	3.0 (-0.3)
United States	2.8	1.8 (-0.9)	1.7 (-0.4)
Euro area	0.9	0.8 (-0.2)	1.2 (-0.2)
China	5.0	4.0 (-0.6)	4.0 (-0.5)

OECD (June 2025)

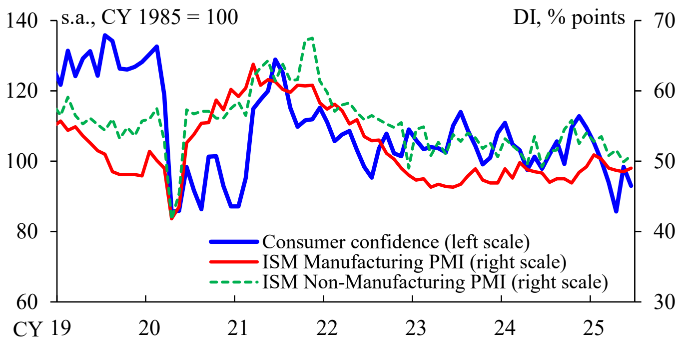
y/y % chg.	CY 2024	CY 2025 [Projection]	CY 2026 [Projection]
World	3.3	2.9 (-0.4)	2.9 (-0.4)

Notes: 1. In the left-hand chart, "April 2025 projection" shows the IMF's "reference forecast" in the April 2025 *World Economic Outlook* (WEO). "April 2025 projection (risk scenario)" shows the range of projected outcomes should the upside and downside risks presented in the April 2025 WEO materialize.
2. In the right-hand chart, figures in parentheses indicate changes from January 2025 projections for the IMF and December 2024 projections for the OECD.
Sources: IMF; OECD.

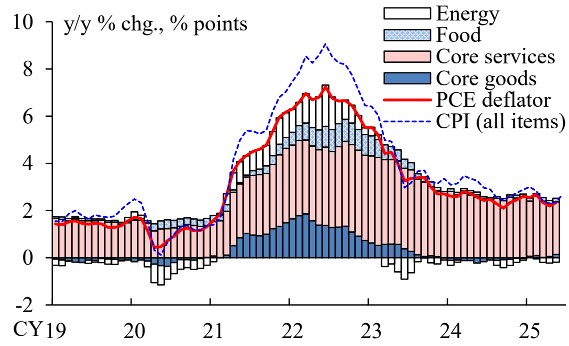
Chart 3

U.S. Economy

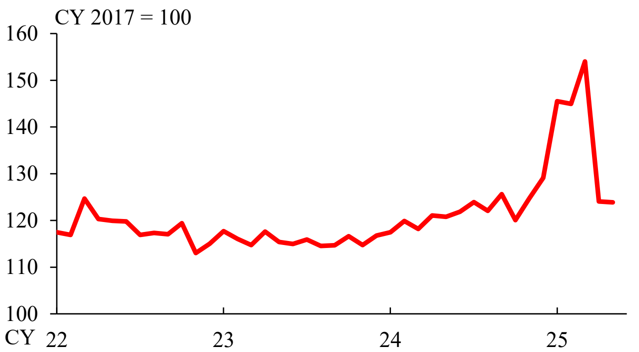
Business and Household Sentiment



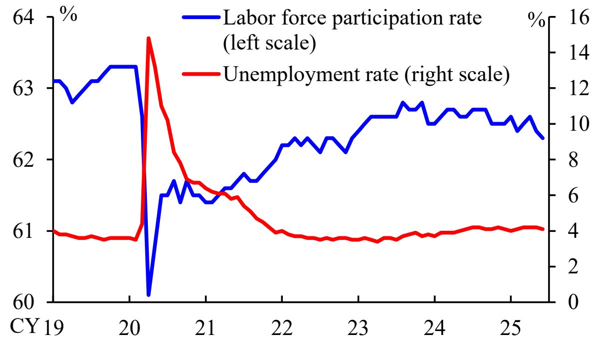
CPI



Real Imports



Labor Market



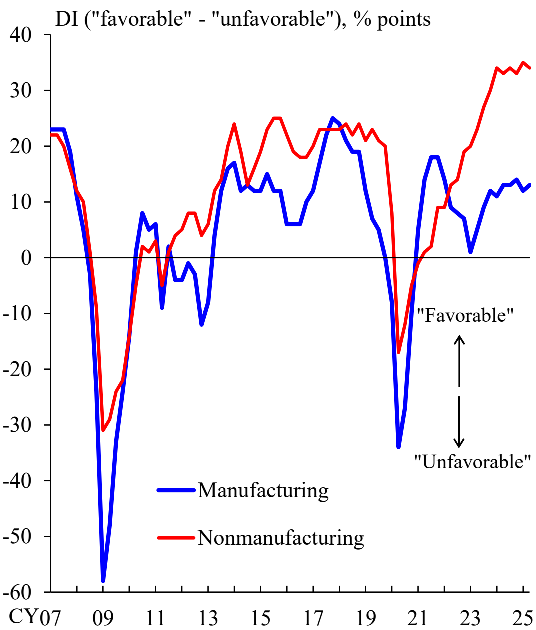
Note: In the upper left-hand chart, figures for consumer confidence are from the Conference Board.
Source: Haver.

Chart 4

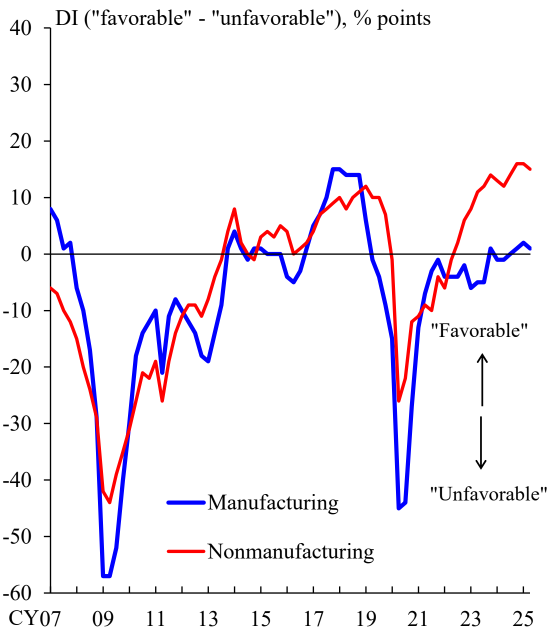
Corporate Sector (1)

Business Conditions (Tankan)

Large Enterprises



Small Enterprises



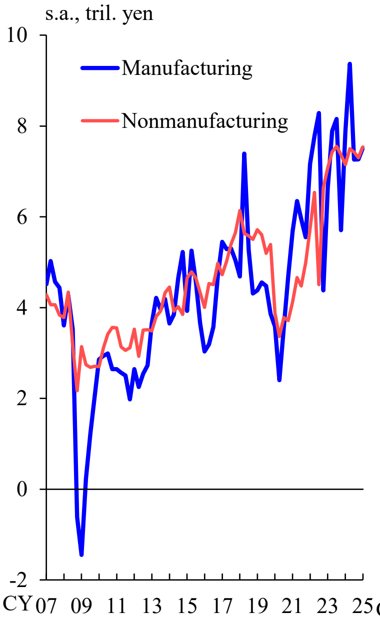
Source: Bank of Japan.

Chart 5

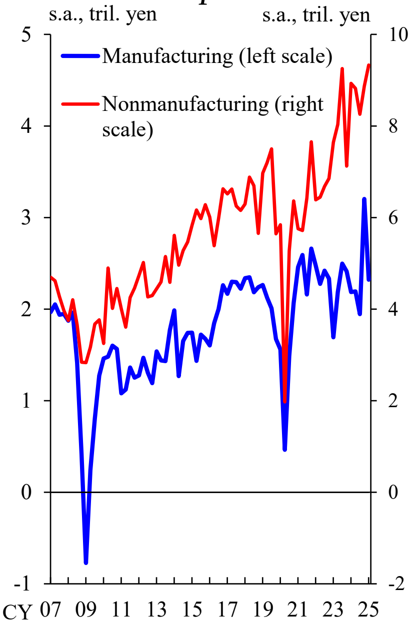
Corporate Sector (2)

Corporate Profits

Large Enterprises



Small and Medium-Sized Enterprises



Profit Projections (Tankan)

y/y % chg.

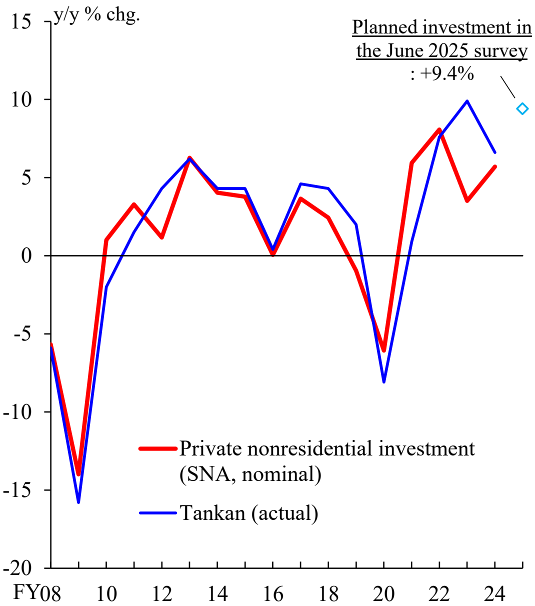
		FY 2024 (Actual value)	Revision rate	FY 2025 (Projection)	Revision rate
All industries and enterprises		5.6	3.9	-5.7	-0.6
Large enterprises	Manufa-cturing	6.0	3.3	-8.4	-5.6
	Non-manufa-cturing	2.4	2.8	-1.3	2.5

Note: In the left-hand and middle charts, figures are current profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance." Figures from 2009/Q2 onward exclude pure holding companies. In the right-hand chart, figures are current profits.
Sources: Ministry of Finance; Bank of Japan.

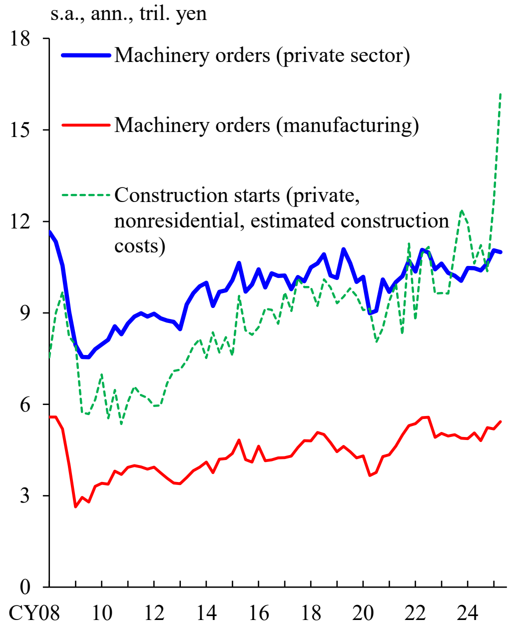
Chart 6

Corporate Sector (3)

Business Fixed Investment Plans



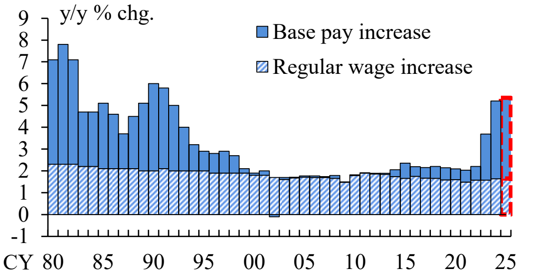
Leading Indicators of Business Fixed Investment



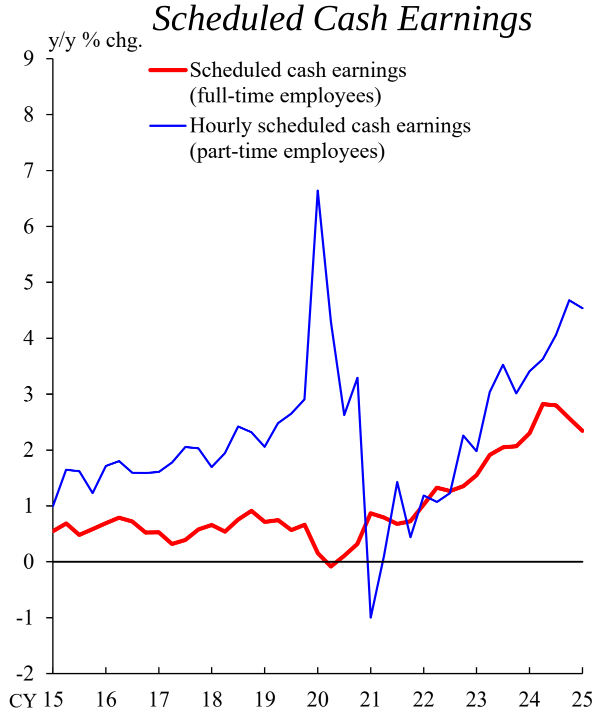
Notes: 1. In the left-hand chart, figures are based on the *Tankan*, including software and R&D investments and excluding land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.
2. In the right-hand chart, figures for machinery orders in the private sector exclude orders for ships and orders from electric power companies. Figures for 2025/Q2 are April-May averages.
Sources: Cabinet Office; Bank of Japan; Ministry of Land, Infrastructure, Transport and Tourism.

Wages

Results of Spring Wage Negotiations



Scheduled Cash Earnings



Results by Type of Employment and Firm Size

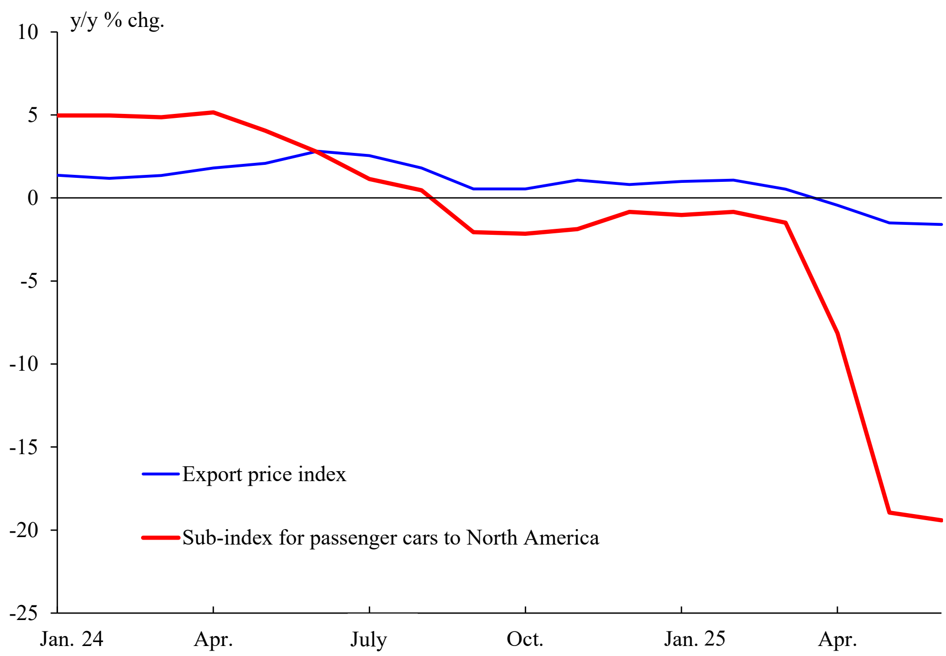
total wage increase

(persons)	CY 2024 final results	CY 2025 final results	CY 2024→ CY 2025
Regular employees	5.10%	5.25%	+0.15%pt
(1,000 or more)	5.24%	5.39%	+0.15%pt
(300 to 999)	4.98%	5.08%	+0.10%pt
(100 to 299)	4.62%	4.76%	+0.14%pt
(99 or less)	3.98%	4.36%	+0.38%pt
Part-time employees	5.74%	5.81%	+0.07%pt

Notes: 1. In the upper left-hand chart, 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 base pay increase and regular wage increase are aggregated values of the wage negotiation results of labor unions for which the base pay increase is clear.
2. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.

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

Export Prices

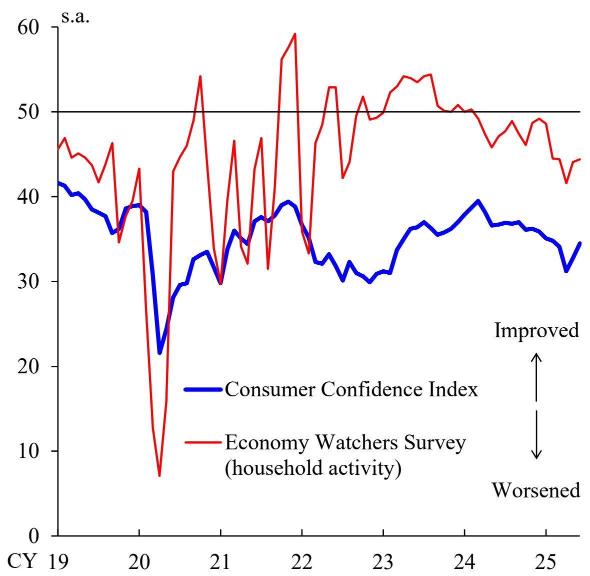


Note: Figures are on a contract currency basis.
Source: Bank of Japan.

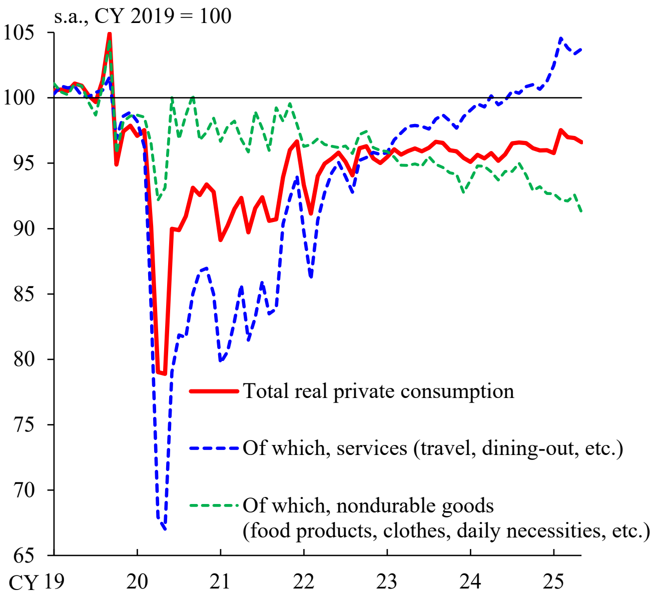
Chart 9

Household Sector

Consumer Sentiment



Real Private Consumption

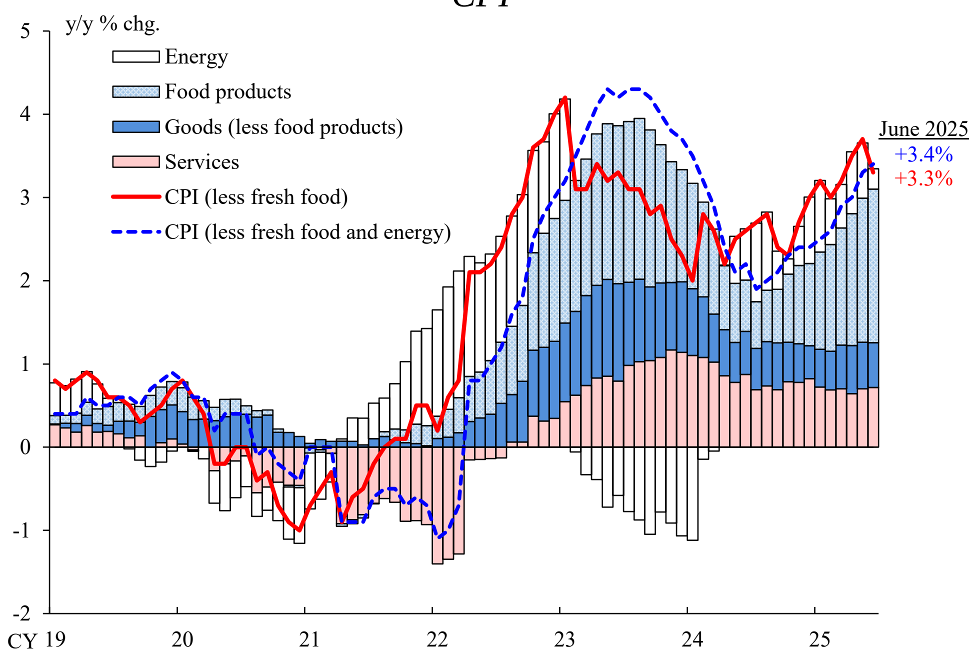


Notes: 1. In the left-hand chart, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.
2. In the right-hand chart, figures for total real private consumption are based on the Consumption Activity Index (Real).
Sources: Bank of Japan; Cabinet Office.

Chart 10

Prices

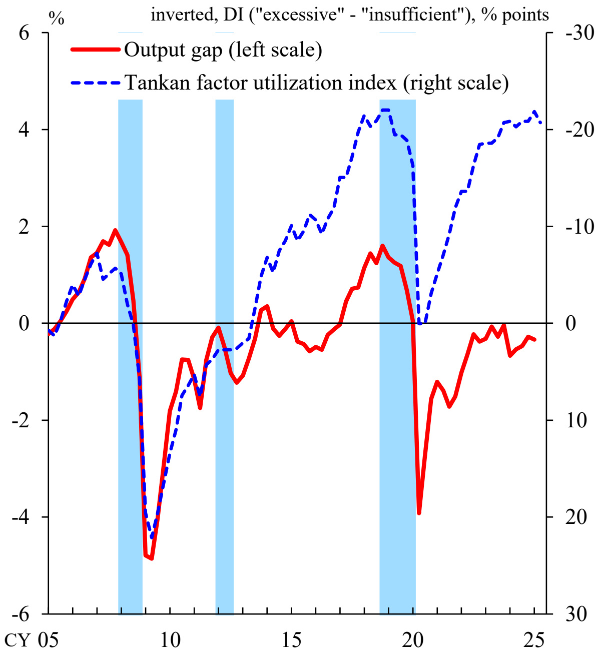
CPI



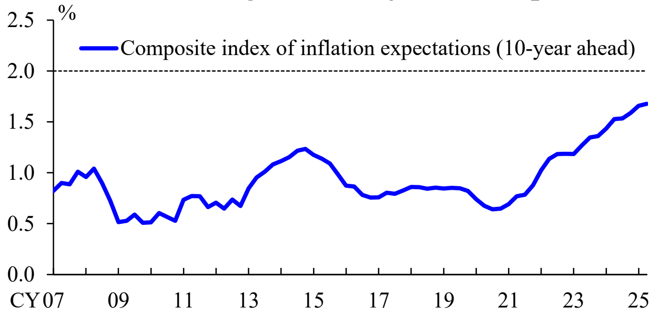
Source: Ministry of Internal Affairs and Communications.

Output Gap and Inflation Expectations

Output Gap



Medium- to Long-Term Inflation Expectations



Medians of the Policy Board Members' Forecasts

y/y % chg.

	FY 2025	FY 2026	FY 2027
CPI (all items less fresh food)	2.2 (-0.2)	1.7 (-0.3)	1.9
CPI (all items less fresh food and energy)	2.3 (+0.2)	1.8 (-0.3)	2.0

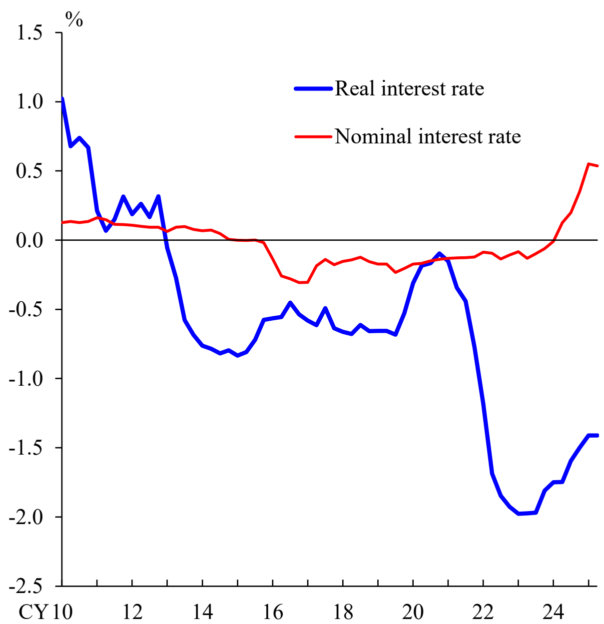
Assumptions:
1. Negotiations between jurisdictions will progress to some extent.
2. Significant disruptions of global supply chains will be avoided.

Notes: 1. In the left-hand chart, figures for the output gap are staff estimates. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. The capital and labor shares are used as weights. Shaded areas denote recession periods.
2. For details of the approach used in the upper right-hand chart, see Box 4 of the April 2024 Outlook Report.
3. In the lower right-hand table, figures in parentheses indicate changes from the January 2025 Outlook Report.

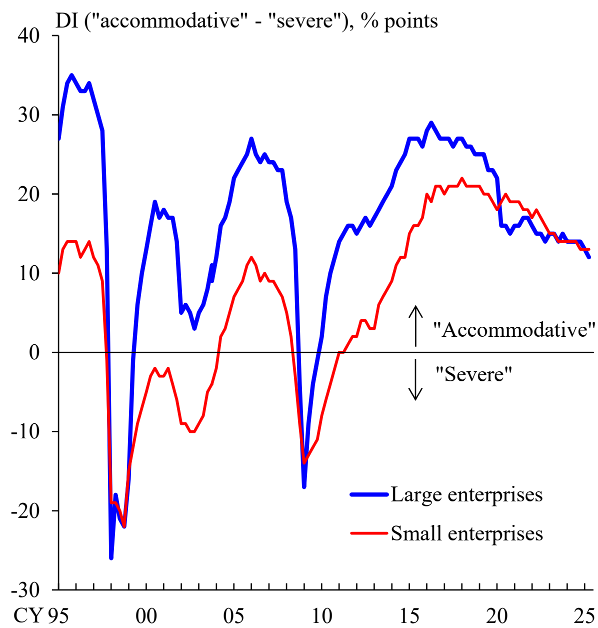
Sources: Bank of Japan; Cabinet Office; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

Financial Conditions

Real Interest Rate (1-Year)



Lending Attitudes of Financial Institutions as Perceived by Firms



Notes: 1. In the left-hand chart, figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (staff estimates).
2. In the right-hand chart, figures are based on the *Tankan* and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

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

II. The Bank's Conduct of Monetary Policy

Chart 13

Plan for the Reduction of the Purchase Amount of JGBs (June 2025 MPM)

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

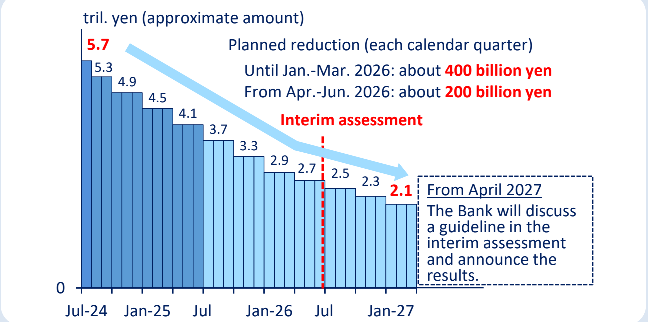
In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- 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

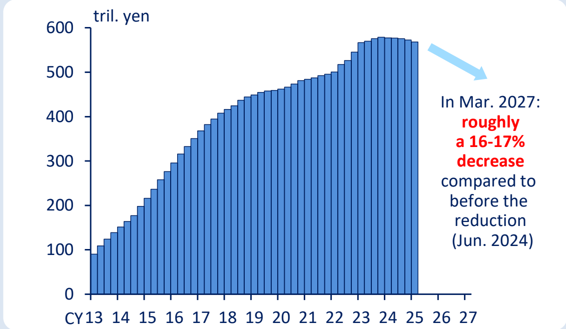
➢ The Bank will gradually reduce its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



Allowing Enough Flexibility

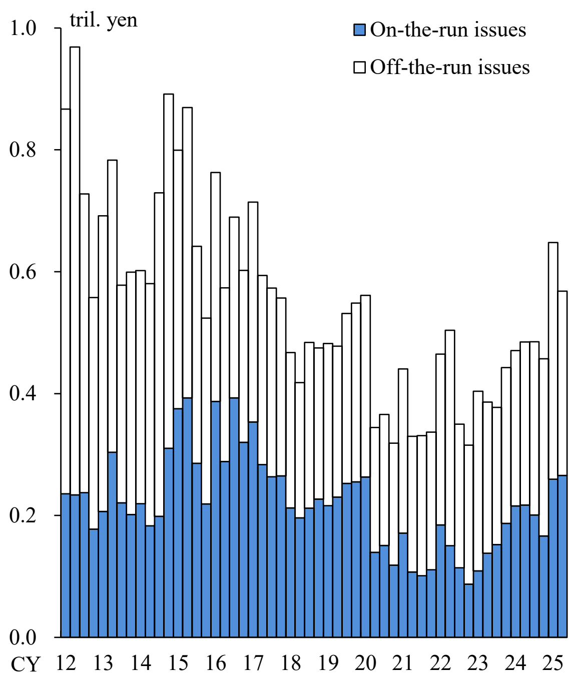
1. The Bank will conduct an interim assessment of the plan at the June 2026 MPM.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

II. The Bank's Conduct of Monetary Policy

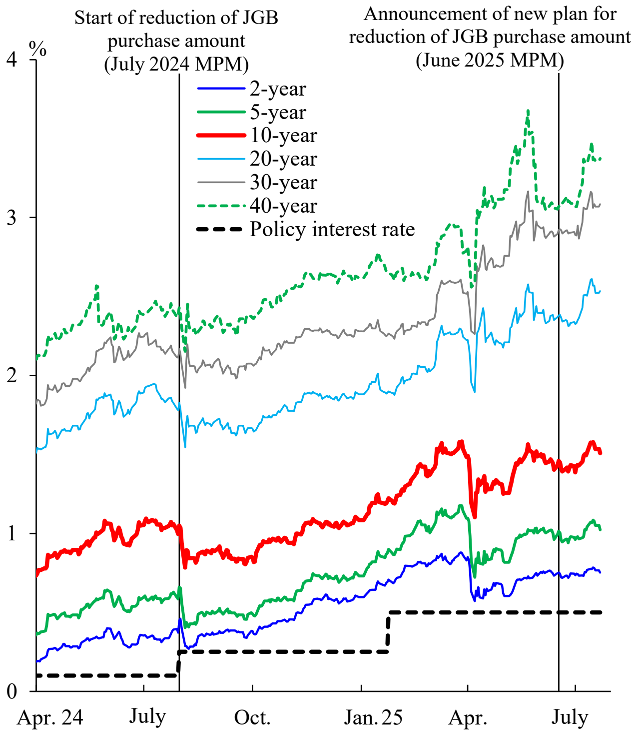
Chart 14

Functioning of and Developments in the JGB Markets

Inter-Dealer Transaction Volume



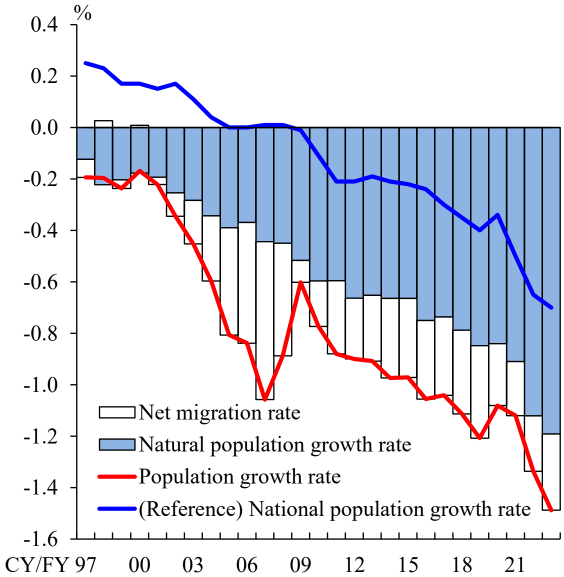
JGB Yields



Note: In the left-hand chart, figures are the sum of daily transaction volumes of 2-year, 5-year, 10-year, 20-year, 30-year, and 40-year JGBs via Japan Bond Trading.
Sources: Japan Securities Dealers Association; QUICK; Japan Bond Trading; Bank of Japan; Bloomberg.

Economy of Kochi Prefecture

Population of Kochi Prefecture



Saga District Tsunami Evacuation Tower

Note: In the left-hand chart, figures from fiscal 2012 onward are based on Japanese residents. Data are aggregated by fiscal year for years before 2013 and by calendar year from 2013 onward.
Sources: Ministry of Internal Affairs and Communications; Kuroshio Town Tourism Network.