



August 28, 2025
Bank of Japan

**Economic Activity, Prices,
and Monetary Policy in Japan**

Speech at a Meeting with Local Leaders in Yamaguchi

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(English translation based on the Japanese original)

I. Current Situation of Economic Activity and Prices

A. Current Economic Developments Abroad

I will first briefly touch on the current situation of overseas economies (Chart 1). Although tariff negotiations between the Japanese and U.S. governments have resulted in an agreement recently, and progress has been made in negotiations and agreements on trade and other policies in each jurisdiction, there remain many uncertainties in this regard. With respect to global business sentiment, as of July 2025, the Purchasing Managers' Index (PMI) for the services industry has been clearly above 50 -- the break-even point between improvement and deterioration -- while the PMI for the manufacturing industry has been at around 50. Let me outline the projected growth rate of the global economy in terms of the weighted averages, which are calculated using countries' share in Japan's exports as weights and the growth rate in the *World Economic Outlook* (WEO) compiled by the International Monetary Fund (IMF). Specifically, it is projected that the growth rate for 2025 and 2026 will decelerate to the range of 2.5-3.0 percent, and the rate for 2027 will return to around 3 percent, which is broadly in line with the average growth rate since 1980. These projections for 2025 and 2026, released in July, have been revised slightly upward from those in April.

B. Current Economic Developments in Japan

The Bank of Japan judges that Japan's economy has recovered moderately, although some weakness has been seen in part. In what follows, I would like to explain current developments in Japan's economy from two aspects: the corporate sector and the household sector.

1. Corporate sector

Let me start with the corporate sector (Chart 2).

I would like to start with the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and consider the latest data for the January-March quarter of 2025. Current profits for all industries and enterprises, excluding the finance and insurance industries, decreased by 2.6 percent quarter on quarter; however, on a year-on-year basis, current profits for the same quarter increased by 3.8 percent, which is a high level at around the historical peak. By industry, although current profits of manufacturers decreased by 2.4 percent year on year, they have remained at high levels on the back of the recovery in IT-related demand, mainly

for AI, and the increase in orders related to business fixed investment. Meanwhile, current profits of nonmanufacturers increased by 7.0 percent year on year, and this is mainly attributable to robust demand for digital-related investment, solid demand for services, including inbound tourism demand, and progress in price revisions.

As for business fixed investment, the aggregate supply of capital goods -- a coincident indicator of machinery investment -- has been resilient, supported by demand for AI- and labor saving-related investments. Despite being affected by delays in construction projects due to high construction material prices and labor shortages, private construction completed (nonresidential) -- a coincident indicator of construction investment -- has increased moderately, supported by strong construction demand related to, for example, logistics facilities and urban redevelopment.

Next, I will turn to industrial production and exports (Chart 3). Industrial production was more or less flat for the April-June quarter. Automobile production has decreased recently due to the reactionary decline following the increased production at some automakers, although capacity utilization rates have remained high, supported by solid demand at home and abroad. With robust AI-related demand, such as for data servers, production of electronic parts and devices has increased, induced by front-loading of production in Asia in preparation for the possible introduction of sectoral tariffs on semiconductors by the U.S. government. I will outline developments in real exports through July, shown in the right panel of Chart 3. Real exports increased for the January-March quarter, reflecting the front-loading due to tariff hikes. Since April, they have been close to the historical peak on the whole; although exports of some goods such as automobile parts have decreased in reaction to the prior front-loading, exports of IT-related goods have seen a front-loading.

Let me now outline developments in real exports by region and by type of goods (Chart 4). By region, exports to the United States increased in the January-March quarter by 8.5 percent on a quarter-on-quarter basis, likely due to the front-loaded exports of goods such as automobile parts, reflecting tariff hikes. Thereafter, exports to the United States decreased by 3.3 percent in the April-June quarter on a quarter-on-quarter basis and by 4.9 percent in July relative to the April-June quarter, partly reflecting a reactionary decline following the front-

loading. That said, the level of exports to the United States has been maintained on the back of resilient demand in the country. Exports to Europe have continued to be relatively weak, reflecting subdued business fixed investment in the region. Exports to China have remained more or less flat at low levels due to the leveling-off of demand for semiconductor production equipment, as Chinese manufacturers' increased competitiveness has led to a shift to local production. Exports to the NIEs, ASEAN, and some other Asian economies have increased. This reflects the front-loading of exports in preparation for the possible introduction of sectoral tariffs on semiconductors by the U.S. government, with solid global AI-related demand. Moving on to the right panel of Chart 4, which shows developments in exports by type of goods, exports of automobile-related and IT-related goods have seen a front-loading due to the increase in tariffs, while exports of automobile-related goods have also seen a subsequent reactionary decline. Exports of capital goods have picked up as a trend, albeit with fluctuations, supported by resilient demand for semiconductor production equipment. Exports of intermediate goods have been flat at low levels, due to oversupply in Asia.

To examine the impact of tariffs on the corporate sector, it will be necessary to assess the latest data.

2. Household sector

I will now turn to the employment and income situation and private consumption.

The employment and income situation has improved moderately. Chart 5 shows that the number of employed persons has continued to increase steadily. As for the number of regular and non-regular employees, the calendar year 2019, the year before the outbreak of the pandemic, is used as the base year. The number of regular employees has been on a moderate uptrend, mainly in the information and communications industry and in the medical, healthcare, and welfare services industry, both of which have faced severe labor shortages. The number of non-regular employees has been somewhat below the level observed before the pandemic, partly because firms have made a shift from non-regular to regular employment. On the wage side, nominal wages per employee have continued to increase steadily. The final aggregate results of the 2025 annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) show that the average year-on-year rate

of increase in wages for regular employees agreed in the negotiations is 5.3 percent, and that for small and medium-sized firms also stands at 4.7 percent, both following the high levels for 2024 (Chart 6). In light of the employment and wage developments mentioned so far, employee income -- which is the total amount of wages earned by all employees -- has seen a considerable increase on a year-on-year basis in nominal terms. In real terms -- based on the consumer price index (CPI) for all items excluding imputed rent -- the year-on-year rate of increase in employee income has risen recently, after having decelerated mainly as a reflection of the rise in inflation.

Let me now outline private consumption (Chart 7). Despite weakness in consumer sentiment due to the impact of price rises and other factors, private consumption has remained resilient because, as noted earlier, the number of employees has increased and firms have made progress in revising wages to reflect the results of the 2025 annual spring labor-management wage negotiations. Looking at the Consumption Activity Index (CAI), which is calculated by combining various sales and supply-side statistics, nondurable goods consumption has continued to be relatively weak, reflecting consumers' increased thriftiness due to the rise in the price of food they buy on a daily basis. Nevertheless, services consumption in particular has seen a moderate increasing trend against the backdrop of the improvement in the income situation.

C. Current Price Developments in Japan

Next, I would like to talk about current price developments in Japan (Chart 8).

Consumer prices have continued to see high growth, mainly due to the effects of the rise in the price of rice and other food items, in a situation where more firms have revised prices to reflect increases in, for example, wages and distribution costs. The year-on-year rate of increase in the CPI for all items excluding fresh food has declined to around 3 percent, because of the earlier decline in commodity prices and a deceleration in the rate of increase in energy prices that reflects government support to alleviate the increased burden of fuel oil prices. Meanwhile, despite downward pressure stemming from subsidies for high school tuition, the rate of increase in the CPI for all items excluding fresh food and energy has shown

a slight acceleration, registering 3.4 percent, due mainly to the effects of higher mobile phone charges.

The breakdown of the year-on-year rate of change in the CPI for all items excluding fresh food and energy shows that the rate of increase in goods prices has accelerated due to the effects of the rise in the price of rice and other food items. The rate of increase in general services prices decelerated for some months after the turn of the year due to a dissipation of the upward pressure on prices brought about by the resumption in 2024 of the price survey of charges for package tours to overseas. Thereafter, however, the rate of increase in general services prices has returned to an uptrend, which shows that dining-out has also been affected by the price pass-through of personnel expenses and other costs and by rising food prices.

The year-on-year rate of increase in the producer price index (PPI) has fallen to around 2.5 percent, mainly due to the effects of stabilized commodity prices, the yen's appreciation relative to the previous year, and government support to alleviate the increased burden of fuel oil prices. The rate of increase in the services producer price index (SPPI, excluding international transportation) has marked 3 percent, mainly on the back of the rise in personnel expenses.

Let me now consider data on factors affecting the price developments that I have just outlined (Chart 9). While crude oil prices have decreased, the FAO Food Price Index has risen. In this situation, the rate of change in the import price index on a yen basis has declined year on year, amid the downward pressure stemming from the price of commodities such as crude oil, coupled with the impact of the yen's appreciation. Nevertheless, the import price index on a yen basis has been higher than that on a contract currency basis.

I will explain the core indicators of the CPI, which the Bank releases regularly (Chart 10). The left panel of Chart 10 provides some major indicators for capturing the underlying trend in the CPI, which are estimated by the Bank's staff as explained in the footnotes of this chart. The right panel of the chart shows the share of items in the CPI for all items excluding fresh food, whose prices have increased or decreased from a year earlier. Turning to Chart 11, the left panel shows the distribution of the year-on-year price changes for items that make up the

CPI for all items. The tails of the distribution have been extended upward, and the simple median has been at around 2 percent.

The rate of increase in some of these core indicators has recently slowed, mainly due to a decline in the rate of increase in energy prices, which have a large weight in the CPI. Yet, with the effects of the rise in food prices, such as rice prices, being observed in a wide range of items from summer 2024, the share of price-increasing items and the rate of increase in the core indicators of the CPI have been on a rising trend.

In this situation, medium- to long-term inflation expectations have risen moderately on the whole. Such expectations have risen more significantly over the past few years than in the past. The Bank deems that this reflects factors such as the recent price developments mentioned earlier and firms' behavior shifting more toward raising wages and prices. Future developments in these factors therefore warrant careful attention.

II. Outlook for and Risks to Economic Activity and Prices

A. Prospects for Firms' and Households' Economic Activity

Let me now turn to the prospects for the economic activity of firms and households in Japan.

Exports and industrial production are projected to be negatively affected, for the time being, by the reactionary decline following the front-loading due to the increase in U.S. tariffs. Moreover, they are expected to show some weakness reflecting a slowdown in overseas economies. Thereafter, however, as overseas economies return to a moderate growth path, exports and industrial production are likely to head toward a recovery.

Corporate profits, while being at high levels, are likely to turn to a decline, mainly in manufacturing, reflecting the effects of the deterioration in export profitability due to the increase in U.S. tariffs and of the slowdown in overseas economies. Thereafter, corporate profits are expected to return to an improving trend due to factors such as an increase in domestic and external demand.

As for business fixed investment, heightened uncertainties over trade policies and the deterioration in the profit environment could result in a downward revision of investment plans, although labor-saving investment and moves to clear order backlogs are expected to provide some support. That said, business fixed investment is likely to regain its growth momentum. This is because, with reduced uncertainties regarding future profits given the agreement on tariff rates between Japan and the United States, firms will be able to actively undertake forward-looking investment, such as that for capacity expansion and for restructuring supply chains.

Nominal employee income is likely to continue to see a steady increase for the time being, reflecting the results of the annual spring labor-management wage negotiations. Although the pace of increase in income is projected to decelerate temporarily due to a decline in corporate profits, its growth momentum is likely to increase thereafter, in line with a recovery in profits.

Private consumption is highly likely to remain more or less flat; although a rise in scheduled cash earnings reflecting the results of the 2025 annual spring labor-management wage negotiations is expected to provide some support, consumption is likely to be pushed down by the rise in food prices in particular. Thereafter, private consumption is projected to return to a moderate increasing trend, since the improvement in real employee income is likely to become pronounced, as firms revise their wages reflecting higher corporate profits and as the pace of price rises moderates.

I will outline the results of the Bank's June 2025 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) (Chart 12). The Bank assessed that business sentiment, at the time of the survey, stayed at a favorable level on the whole. However, the forecast in the *Tankan* for three months ahead worsened for both manufacturing and nonmanufacturing, marking a 6 percentage point deterioration for all industries and enterprises. The year-on-year rate of increase in business fixed investment plans for fiscal 2025 reported in the June *Tankan* was at a relatively high level of 9.4 percent. The results of the upcoming September *Tankan* will also be very important in examining the changes arising from factors such as progress in trade policy negotiations between jurisdictions since the June survey.

B. Outlook for Economic Activity and Prices

Now, I would like to explain the Bank's outlook for Japan's economic activity and prices, in terms of the forecasts of the majority of the Policy Board members, released after the July 2025 Monetary Policy Meeting (MPM) (Chart 13).

The real GDP growth rate is projected to be 0.6 percent for fiscal 2025, 0.7 percent for fiscal 2026, and 1.0 percent for fiscal 2027, in terms of the median of the Policy Board members' forecasts.

These real GDP projections are more or less unchanged from those in the April 2025 *Outlook for Economic Activity and Prices* (Outlook Report). Japan's economic growth is likely to moderate temporarily, since it is projected that trade and other policies in each jurisdiction will lead to a slowdown in overseas economies and to heightened uncertainties, and that these will push down Japan's exports and business fixed investment. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.

The year-on-year rate of change in the CPI for all items excluding fresh food is projected to be 2.7 percent for fiscal 2025, 1.8 percent for fiscal 2026, and 2.0 percent for fiscal 2027, in terms of the median of the Policy Board members' forecasts. Likewise, the rate of change in the CPI for all items excluding fresh food and energy is projected to be 2.8 percent for fiscal 2025, 1.9 percent for fiscal 2026, and 2.0 percent for fiscal 2027.

Compared with the previous Outlook Report released in April, the CPI projections for fiscal 2025 saw a relatively large upward revision of 0.5 percentage points, mainly due to the effects of the rise in food prices. This outlook for prices likely reflects roughly the same factors as the previous Outlook Report, such as the pass-through of higher wages and distribution costs to selling prices, as well as the effects of the earlier rise in rice prices being observed in processed food and dining-out. The baseline scenario of the outlook for prices is as follows. Underlying CPI inflation is likely to decelerate temporarily as the inflationary pressures that I just mentioned wane over time and Japan's economy decelerates due mainly to the effects of the trade policy in each jurisdiction. However, it is likely that the mechanism by which wages and prices rise moderately in interaction with each other will be maintained. Thereafter,

underlying CPI inflation is expected to increase gradually, alongside the rise in medium- to long-term inflation expectations, since it is projected that a sense of labor shortage will grow as the economic growth rate rises. In the second half of the projection period of the July Outlook Report, underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target.

C. Risks to Economic Activity and Prices

There are high uncertainties regarding this outlook for economic activity and prices. I will describe three risks that I am paying attention to.

The first risk involves Japanese firms' wage- and price-setting behavior and its impact on economic activity, prices, and inflation expectations. If firms, in response to tariff policies, have to focus much more on cost cutting over passing on cost increases to selling prices, moves to reflect price rises in wages could weaken. On the other hand, there is also a possibility that upward pressure on wages and the pass-through of higher wages to selling prices will strengthen, and that price rises will affect household sentiment and inflation expectations. This is because, while it is likely that firms' price revisions in response to past inflation are still in progress, firms' behavior has shifted more toward raising wages and prices, and there has been growing expectation that labor market conditions will remain tight.

The second risk concerns the impact of how the rise in supply costs due to trade policies affects economic activity and prices. Firms around the world may go beyond the price pass-through of the increase in tariff rates and adopt more dynamic pricing policies. Costs for restructuring supply chains could also lead to a rise in import prices or to significant fluctuations in foreign exchange rates and international commodity prices. If these supply factors cause a substantial rise in prices that outweighs the rise in wages, and households' defensive attitude toward spending consequently strengthens further, this could in turn push down the economy.

The third risk is the evolving situation regarding trade and other policies in each jurisdiction and its impact on trade activity and business and household sentiment. The recent increase in wide-ranging tariffs is expected to impact global trade activity, and the heightened

uncertainties regarding trade policies are likely to affect business and household sentiment around the world and global financial and capital markets. This in turn could push down domestic and overseas economies. Conversely, the U.S. and European economies in particular could turn out to be stronger than expected, if, in response to the possibilities just mentioned, their governments implement expansionary fiscal policies based on their respective economic measures and political decisions.

III. The Bank's Conduct of Monetary Policy

I would now like to look back at the Bank's decisions made at the MPMs held in June and July 2025.

At the most recent MPM in July, in light of the outlook for Japan's economic activity and prices that I described earlier, the Bank decided to maintain its guideline for money market operations, which stated that it would encourage the uncollateralized overnight call rate -- its policy interest rate -- to remain at the target level of "around 0.5 percent."

At the June 2025 MPM, the Bank decided on a new plan for the reduction of its purchase amount of Japanese government bonds (JGBs) (Chart 14). Specifically, the Bank will reduce the planned amount of its monthly purchases of JGBs so that it will be about 2 trillion yen in January-March 2027; the amount will be cut down, in principle, by about 400 billion yen each calendar quarter until January-March 2026, and by about 200 billion yen each calendar quarter from April-June 2026. The Bank also decided at this meeting to carry out the following at the June 2026 MPM. First, it will conduct an interim assessment of the new plan for the reduction in its JGB purchases; in principle, the Bank intends to maintain the reduction plan, while it may modify the plan if deemed necessary after reviewing the developments in and functioning of the JGB markets. Second, it will discuss a guideline for its JGB purchases from April 2027 and announce the results.

With regard to the future conduct of monetary policy, given the current level of real interest rates, shown in the left panel of Chart 15, if its outlook for economic activity and prices is realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation.

Considering that high uncertainties remain regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, the Bank will make monetary policy decisions as appropriate by continuing to carefully assess data and information as it becomes available.

Thank you.



Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Yamaguchi

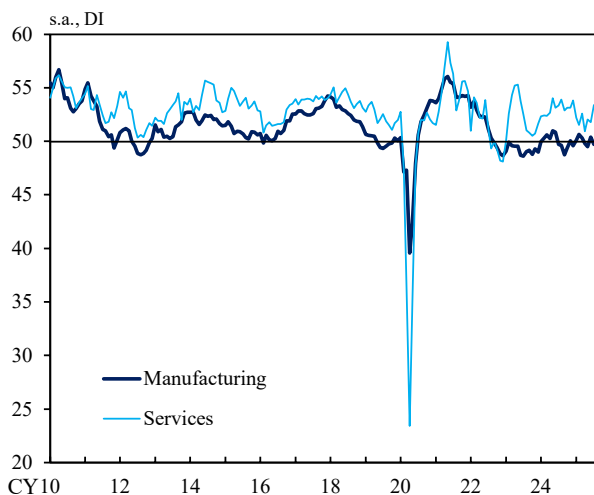
August 28, 2025

NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

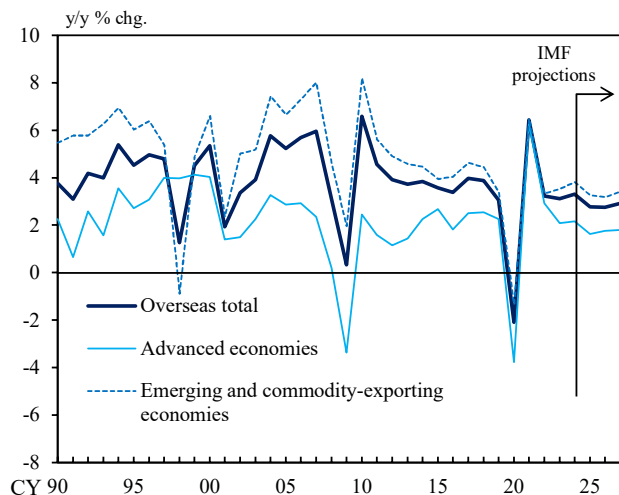
Overseas Economies

Global PMI



Note: Figures for manufacturing are the J.P.Morgan Global Manufacturing PMI.
Figures for services are the J.P.Morgan Global Services PMI Business Activity Index.
Source: Copyright © 2025 by S&P Global Market Intelligence, a division of S&P Global Inc.
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Outlook

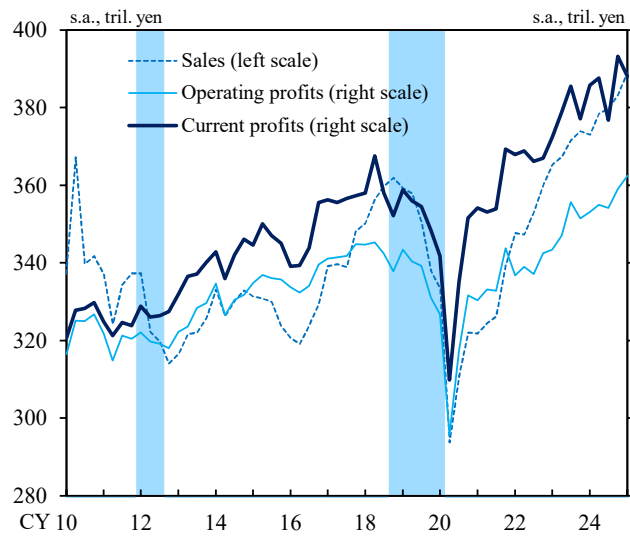


Note: Figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2025 onward are its projections in the April 2025 WEO and the July 2025 WEO Update. Figures for advanced economies are those for the United States, the euro area, and the United Kingdom. Figures for emerging and commodity-exporting economies are those for the rest of the world.
Sources: IMF; Ministry of Finance.

Chart 2

Corporate Sector in Japan

Corporate Profits



Coincident Indicators of Business Fixed Investment

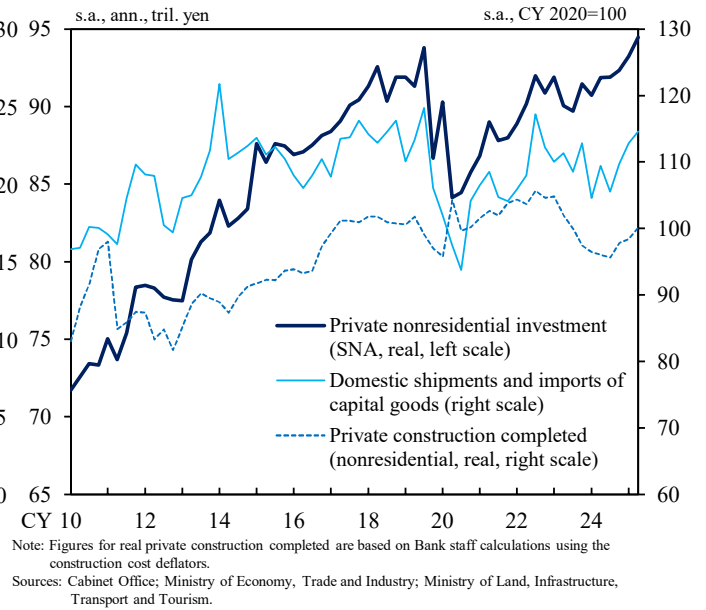
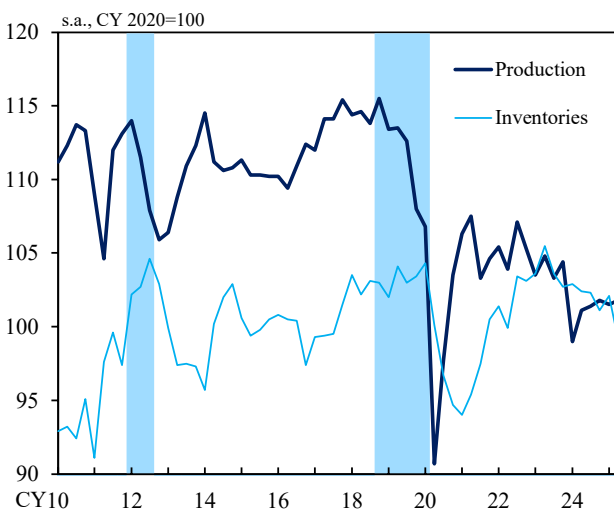


Chart 3

Corporate Sector in Japan

Industrial Production



Real Exports and Imports

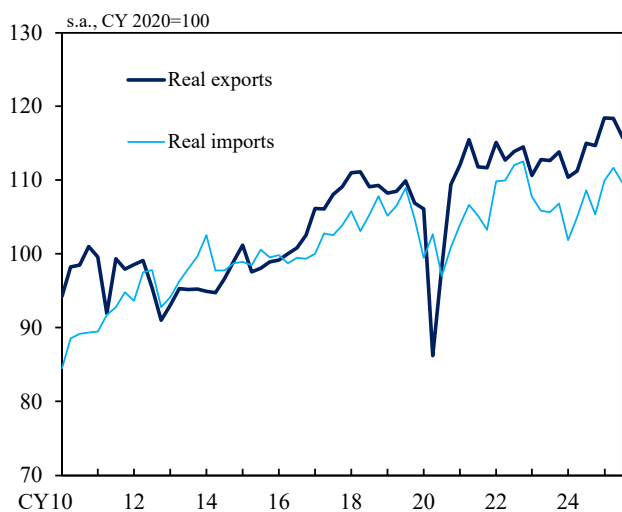
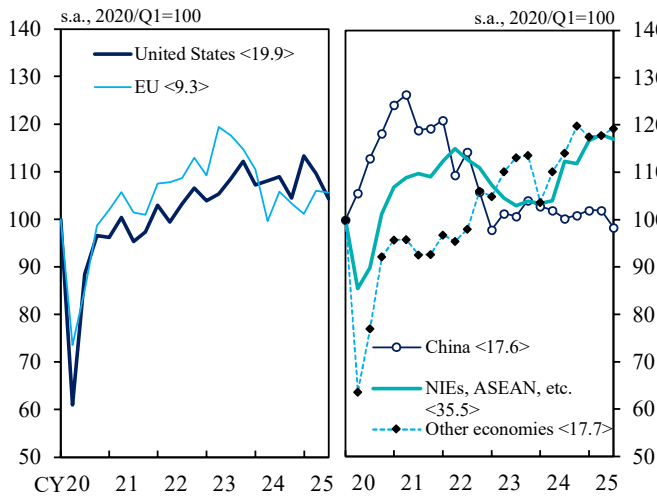


Chart 4

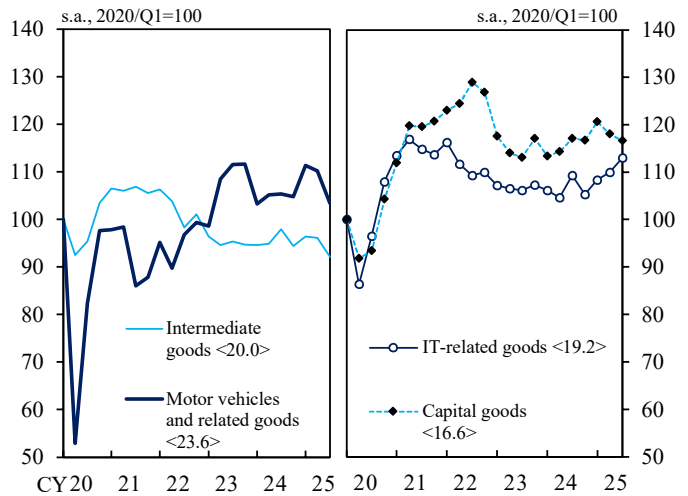
Corporate Sector in Japan

Real Exports by Region



Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the share of each country or region in Japan's total exports in 2024. Figures for 2025/Q3 are those for July.
2. Figures for the EU exclude those for the United Kingdom for the entire period.
Sources: Ministry of Finance; Bank of Japan.

Real Exports by Type of Goods

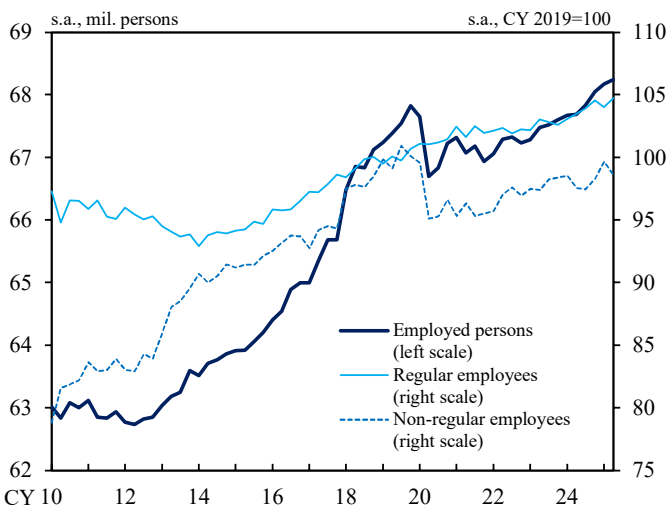


Notes: 1. Based on Bank staff calculations. Figures in angle brackets show the share of each type of goods in Japan's total exports in 2024. Figures for 2025/Q3 are those for July.
2. "Motor vehicles and related goods" includes motor vehicles, parts for motor vehicles, and power generating machinery. "IT-related goods" includes computers and computer units, telecommunication machinery, semiconductors, audio and visual apparatus, and medical and optical instruments. "Capital goods" includes metalworking machinery, construction machines, electrical power machinery, semiconductor production equipment, and ships.
Sources: Ministry of Finance; Bank of Japan.

Chart 5

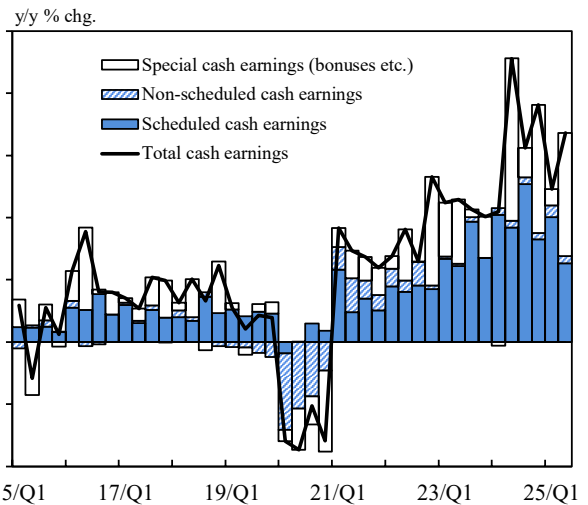
Employment and Income Situation in Japan

Number of Employed Persons



Note: Figures for regular employees and non-regular employees prior to 2013 are based on the "detailed tabulation" in the Labour Force Survey.
Source: Ministry of Internal Affairs and Communications.

Nominal Wages per Employee



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2025/Q2 are those for June.
2. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions.
Source: Ministry of Health, Labour and Welfare.

Employment and Income Situation in Japan

Results of Spring Wage Negotiations

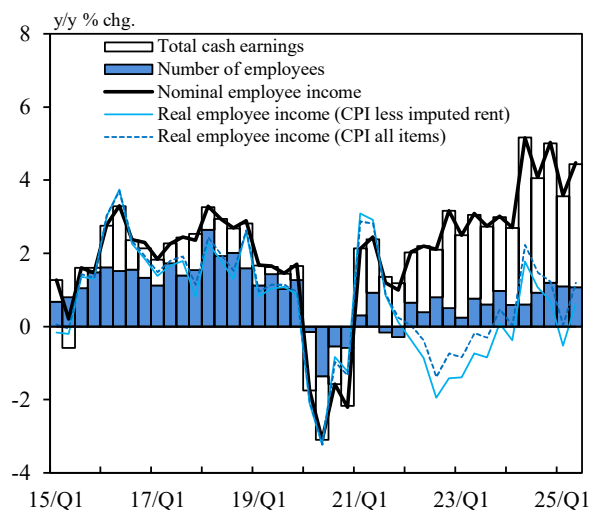
	total wage increase, y/y % chg.			
	2022	2023	2024	2025
Regular employees	2.1	3.6	5.1	5.3
Large firms	2.1	3.6	5.2	5.3
1,000 or more	2.1	3.7	5.2	5.4
300 to 999	2.0	3.4	5.0	5.1
Small and medium-sized firms	2.0	3.2	4.5	4.7
100 to 299	2.0	3.3	4.6	4.8
99 or less	1.9	2.9	4.0	4.4
Part-time employees	2.3	5.1	5.7	5.8
CPI (less fresh food)	2.3	3.1	2.5	3.3

Notes: 1. The figures for the breakdown by the number of regular employees are aggregated values based on the number of union members. Part-time employees include fixed-term employees.

2. The CPI figure for 2025 is the January-July average.

Sources: Japanese Trade Union Confederation (Rengo); Ministry of Internal Affairs and Communications.

Employee Income



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures for 2025/Q2 are those for June.

2. Nominal employee income = Total cash earnings (Monthly Labour Survey) × Number of employees (Labour Force Survey)

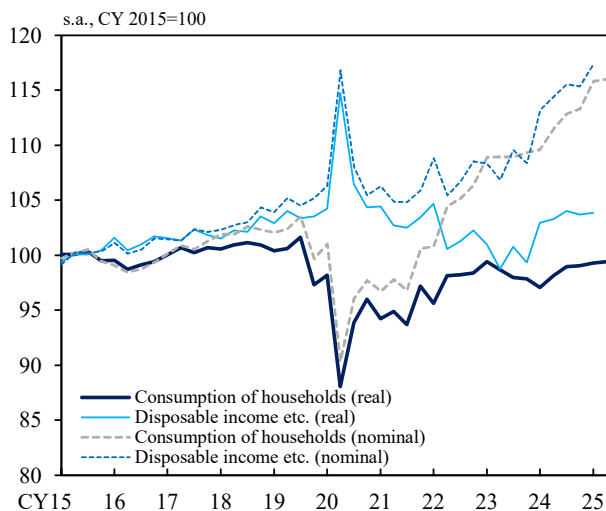
3. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions of the Monthly Labour Survey.

4. Figures for real employee income are based on Bank staff calculations using the price indicators shown in parentheses.

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

Private Consumption in Japan

Real Private Consumption

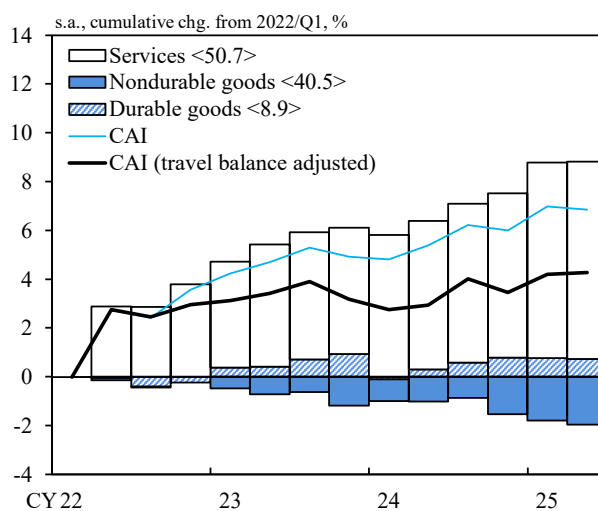


Notes: 1. Figures for consumption of households exclude imputed rent.

2. "Disposable income etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are based on Bank staff calculations using the deflator of consumption of households.

Source: Cabinet Office.

Real Private Consumption by Type



Notes: 1. Based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption.

2. Nondurable goods include goods classified as semi-durable goods in the SNA.

3. Figures in angle brackets show the weights in the CAI.

Sources: Bank of Japan; etc.

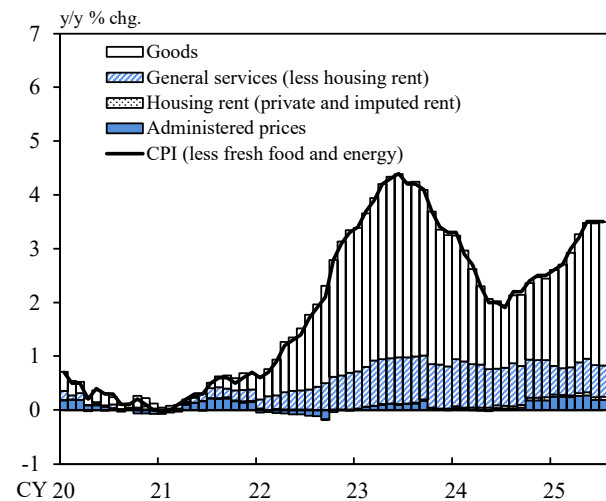
Inflation Indicators

Inflation Indicators

	y/y % chg.			
	24/Q4	25/Q1	25/Q2	25/Q3
CPI				
Less fresh food	2.6	3.1	3.5	3.1
Less fresh food and energy	2.3	2.7	3.2	3.4
Less food and energy	1.6	1.5	1.6	1.6
PPI	3.8	4.2	3.4	2.6
SPPI	3.2	3.5	3.5	3.0
GDP deflator	2.9	3.3	3.0	
Domestic demand deflator	2.4	2.7	2.2	

Notes: 1. Figures for the PPI are adjusted for the hike in electric power charges during the summer season. Figures for the SPPI exclude international transportation.
 2. Figures for "food" in the CPI exclude those for alcoholic beverages.
 3. Figures for 2025/Q3 are those for July.
 Sources: Cabinet Office; Ministry of Internal Affairs and Communications; Bank of Japan.

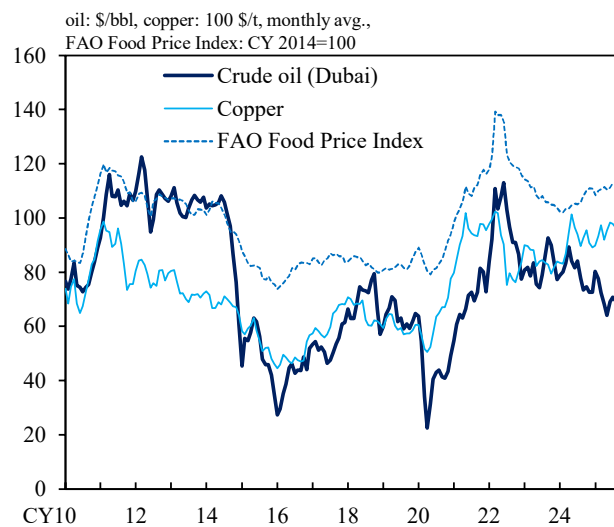
CPI (Excluding Temporary Factors)



Notes: 1. Administered prices consist of public services and water charges.
 2. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, travel subsidy programs, and mobile phone charges.
 Source: Ministry of Internal Affairs and Communications.

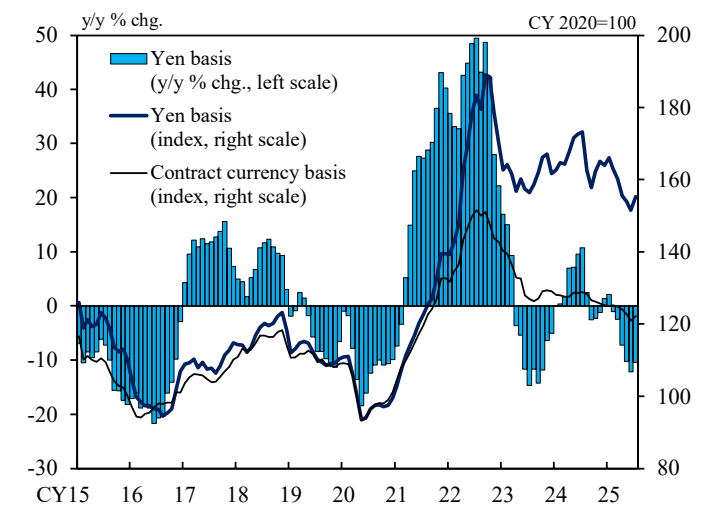
Factors Affecting Consumer Prices

International Commodity Prices



Note: The FAO Food Price Index consists of the price indices of cereals, vegetable oils, sugar, meat, and dairy products.
 Sources: Bloomberg; FAO; Nikkei Inc.

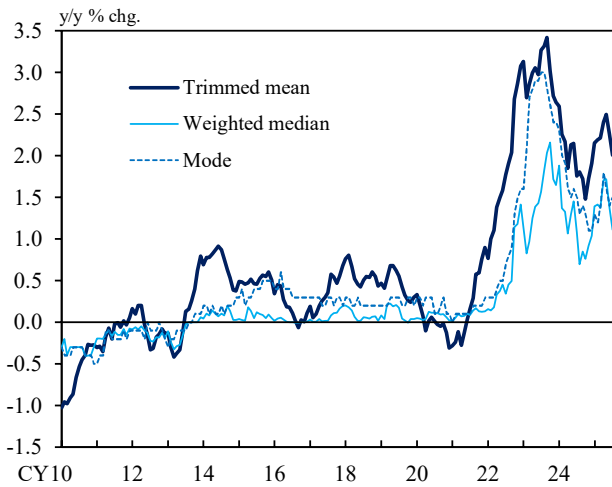
Import Price Index



Source: Bank of Japan.

Core Indicators of the CPI

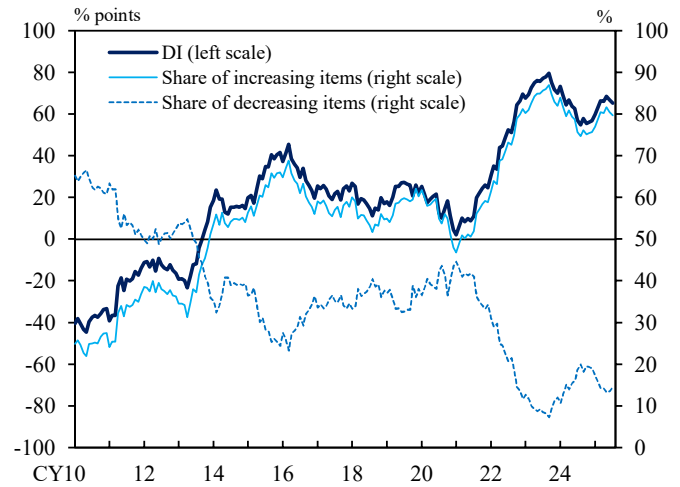
Trimmed Mean etc.



Notes: 1. Based on Bank staff calculations using the CPI excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education.
2. The trimmed mean is calculated by excluding items that belong to a certain percentage of the upper and lower tails of the price change distribution (10 percent of each tail) in order to eliminate the effects of large relative price changes. The mode is the inflation rate with the highest density in the price change distribution. The weighted median is the average of the inflation rates of the items at around the 50 percentile point of the cumulative distribution in terms of weight.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

DI of Price Changes

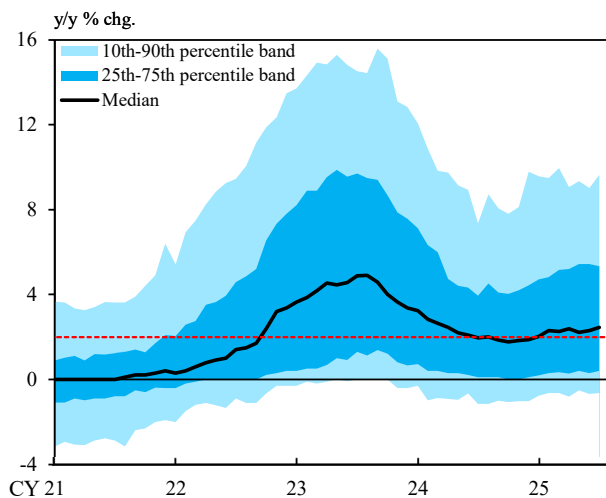


Note: The diffusion index (DI) is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Based on Bank staff calculations using the CPI (less fresh food) excluding the effects of the consumption tax hikes, free education policies, and travel subsidy programs. The CPI figures from April 2020 onward are Bank staff estimates and exclude the effects of measures such as free higher education.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

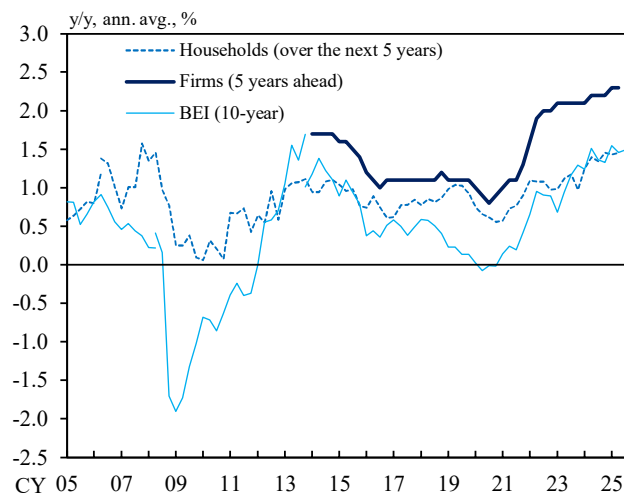
Inflation Expectations

Distribution of Actual Price Changes



Note: Figures are based on the year-on-year price changes for each CPI item.
Source: Ministry of Internal Affairs and Communications.

Survey Results and BEI

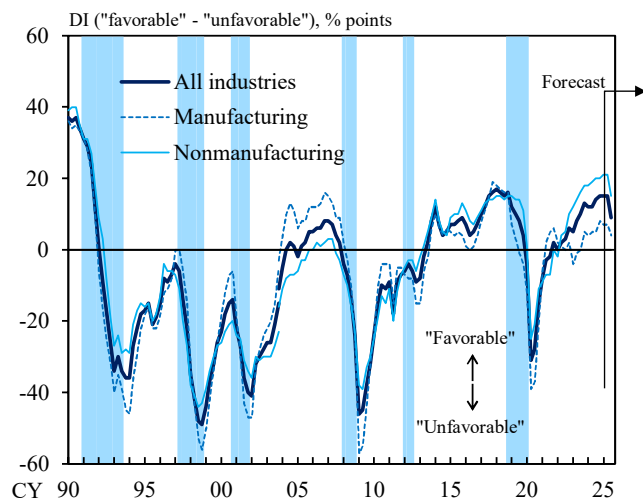


Notes: 1. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.
2. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.
3. The BEI (break-even inflation) rate is the quarterly average of the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures from 2008/Q2 to 2013/Q4 are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which matured in June 2018.

Sources: Bloomberg; Bank of Japan.

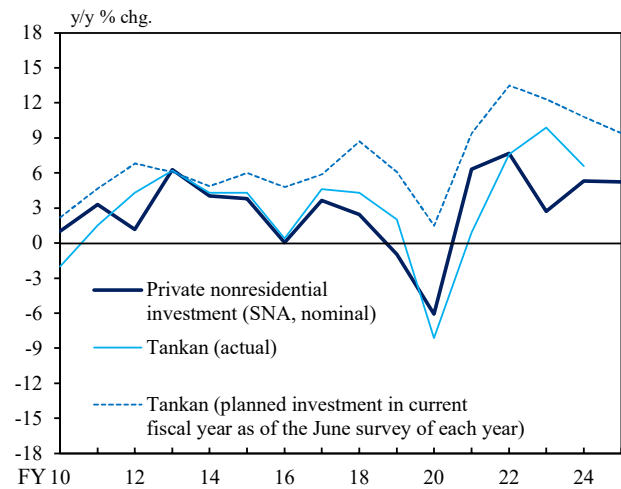
Business Conditions and Fixed Investment (June 2025 *Tankan*)

Business Conditions



Notes: 1. Based on the *Tankan*. All enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
2. Shaded areas denote recession periods.
Source: Bank of Japan.

Planned and Actual Business Fixed Investment



Notes: 1. The *Tankan* figures include investments in software and research and development (R&D) but exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.
2. The figure for private nonresidential investment for fiscal 2025 is that for 2025/Q2.
Sources: Cabinet Office; Bank of Japan.

Outlook for Economic Activity and Prices (as of July 2025)

y/y % chg.

	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2025	+0.5 to +0.7 [+0.6]	+2.7 to +2.8 [+2.7]	+2.8 to +3.0 [+2.8]
Forecasts made in April 2025	+0.4 to +0.6 [+0.5]	+2.0 to +2.3 [+2.2]	+2.2 to +2.4 [+2.3]
Fiscal 2026	+0.7 to +0.9 [+0.7]	+1.6 to +2.0 [+1.8]	+1.7 to +2.1 [+1.9]
Forecasts made in April 2025	+0.6 to +0.8 [+0.7]	+1.6 to +1.8 [+1.7]	+1.7 to +2.0 [+1.8]
Fiscal 2027	+0.9 to +1.0 [+1.0]	+1.8 to +2.0 [+2.0]	+2.0 to +2.1 [+2.0]
Forecasts made in April 2025	+0.8 to +1.0 [+1.0]	+1.8 to +2.0 [+1.9]	+1.9 to +2.1 [+2.0]

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).
Source: Bank of Japan.

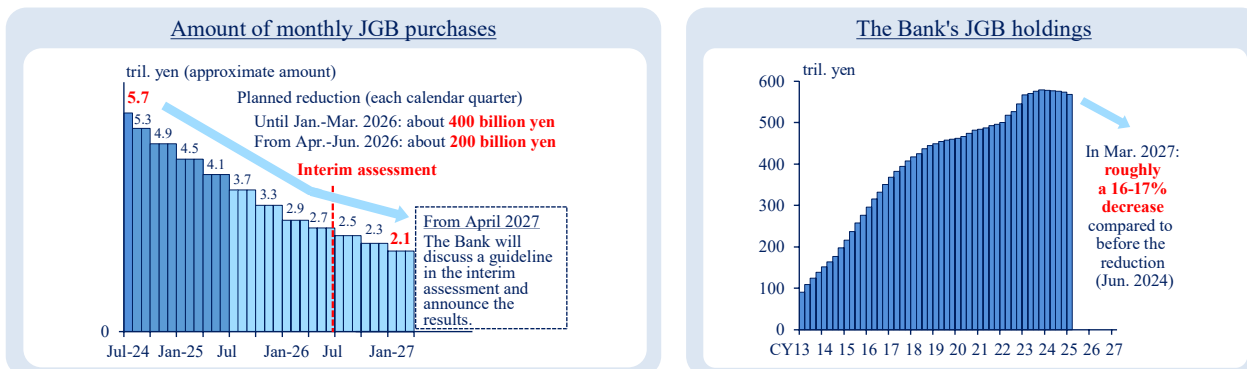
Plan for the Reduction of the Purchase Amount of JGBs (June 2025)

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



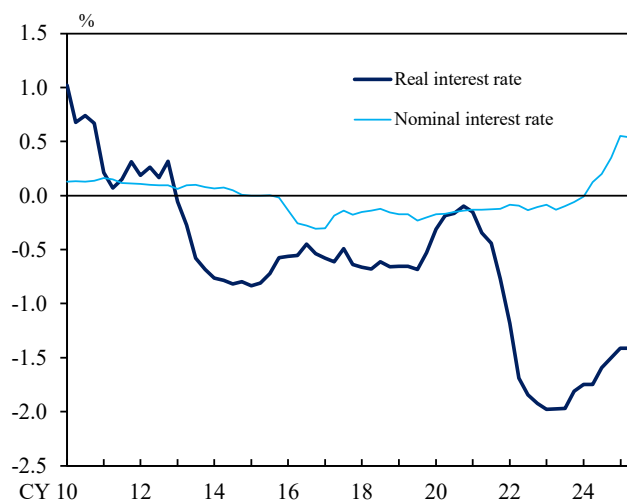
Allowing Enough Flexibility

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.

Chart 15

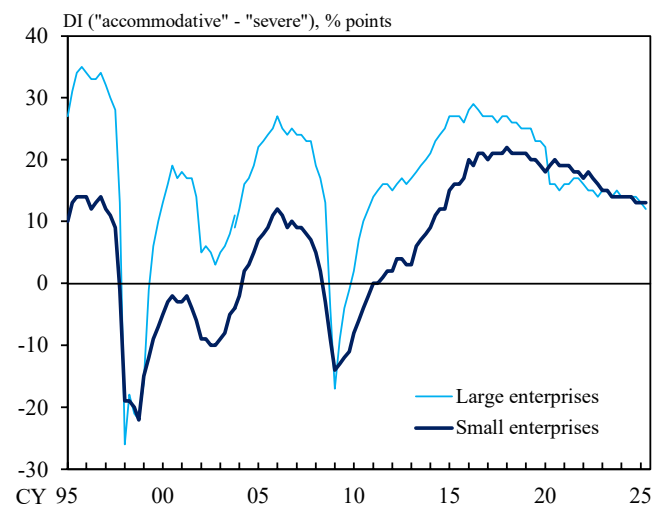
Financial Conditions in Japan

Real Interest Rate (1-Year)



Note: Figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (Bank staff estimates).
 Sources: Bloomberg; Consensus Economics Inc., Consensus Forecasts; QUICK, QUICK Monthly Market Survey <Bonds>; Bank of Japan.

Lending Attitudes of Financial Institutions as Perceived by Firms



Note: 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.
 Source: Bank of Japan.