

# Japan's Economy and Monetary Policy

*Speech at a Meeting with Local Leaders in Eastern Hokkaido*

September 2, 2025

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## Introduction

### I. Economic Activity and Prices

The Philosophy and Policies of the New U.S. Administration

The Impact of Tariff Policy

Outlook for Prices

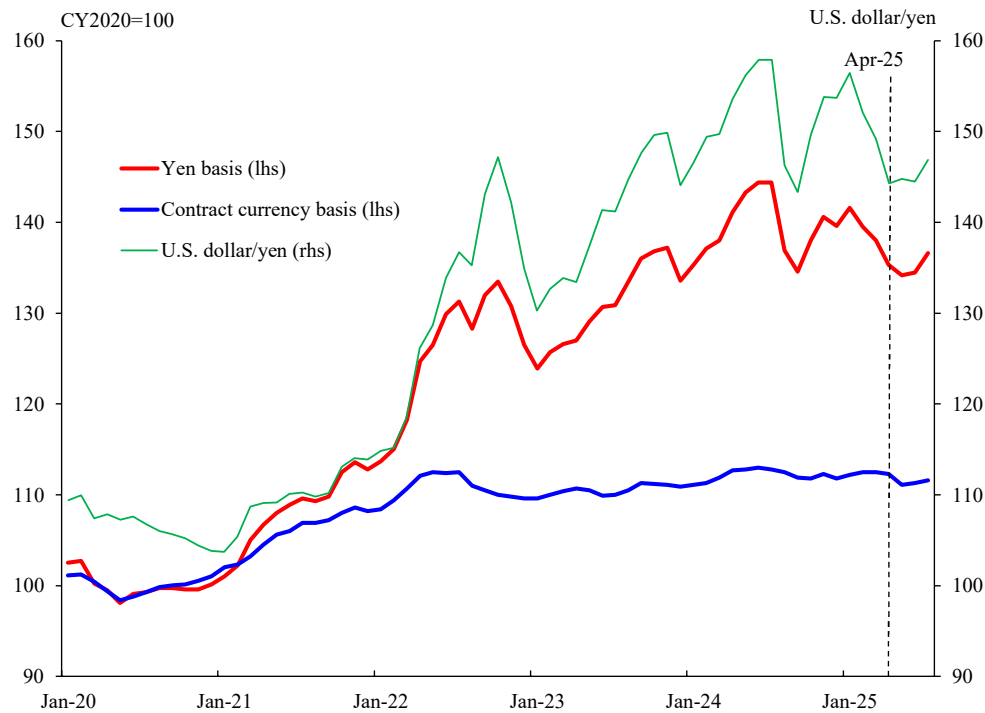
### II. Monetary Policy

Monetary Policy Outlook

Plan for Reducing the Bank's Government Bond Purchases

## On the Economy of Eastern Hokkaido

## Prices of Exports from Japan

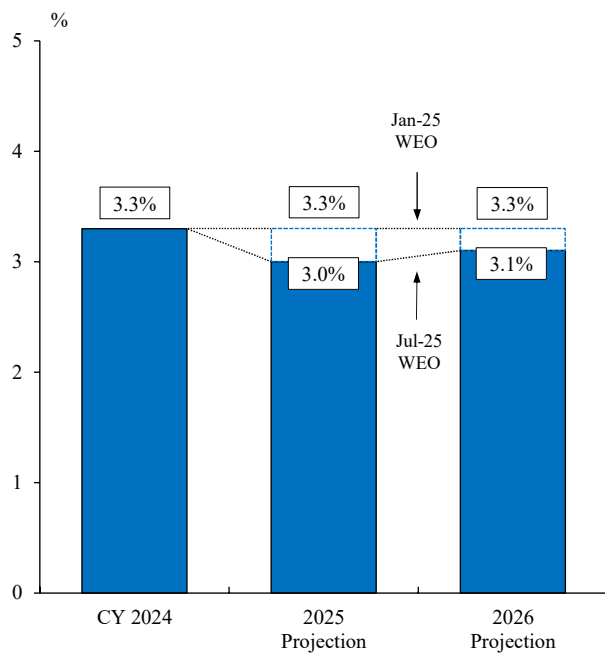


Source: Bank of Japan.

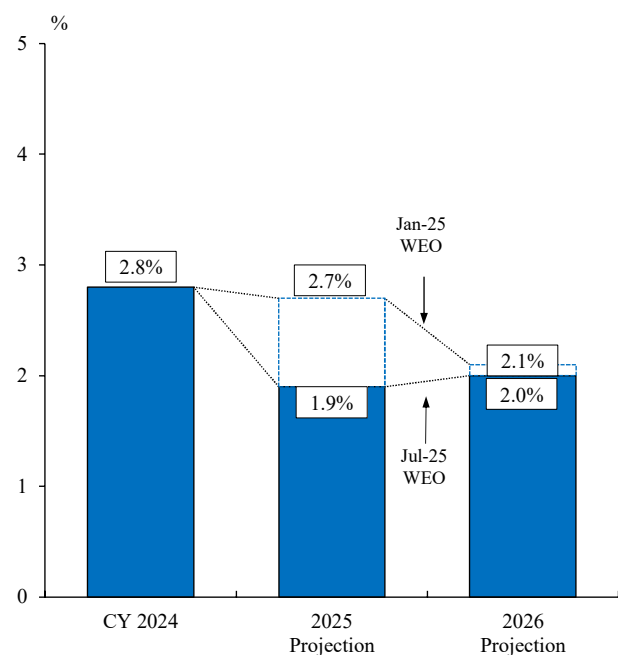
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## IMF World Economic Outlook (WEO) Growth Projections

### World



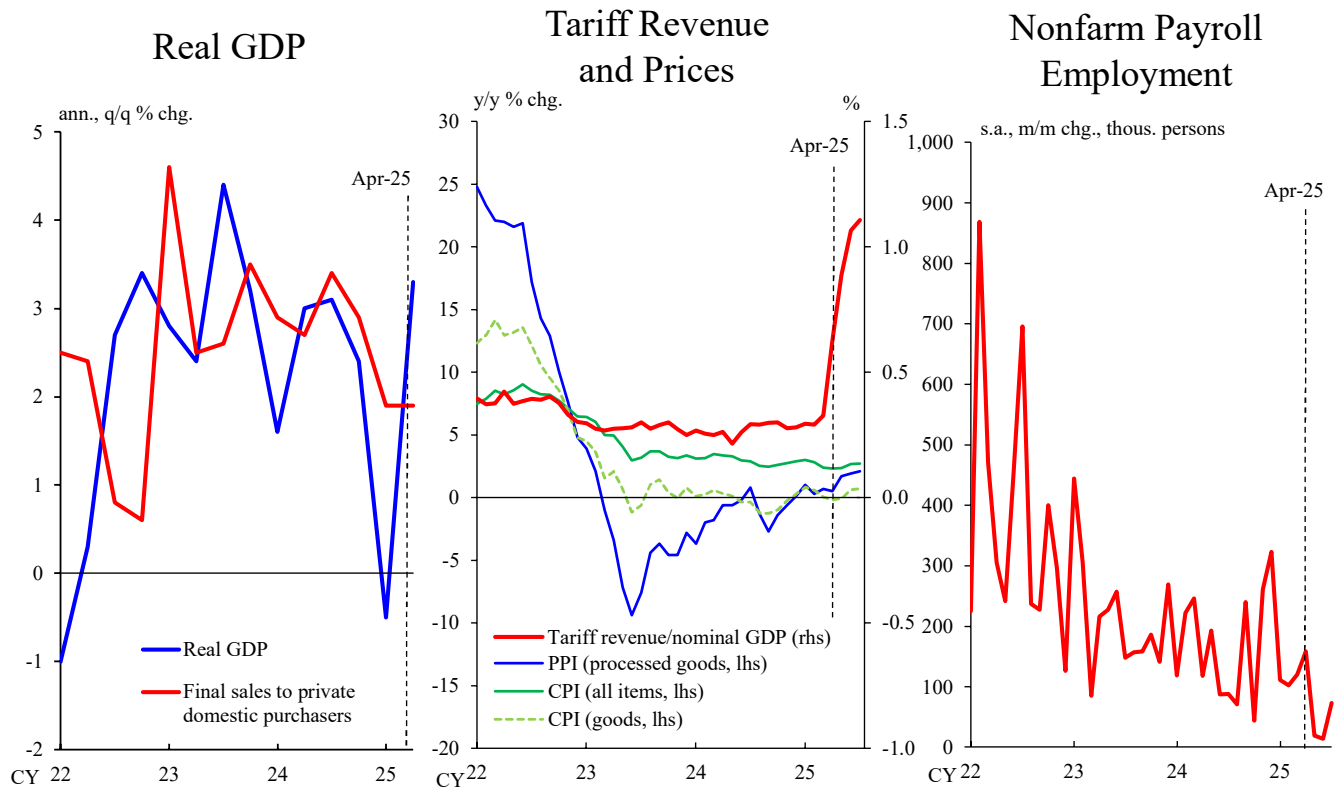
### United States



Source: IMF.

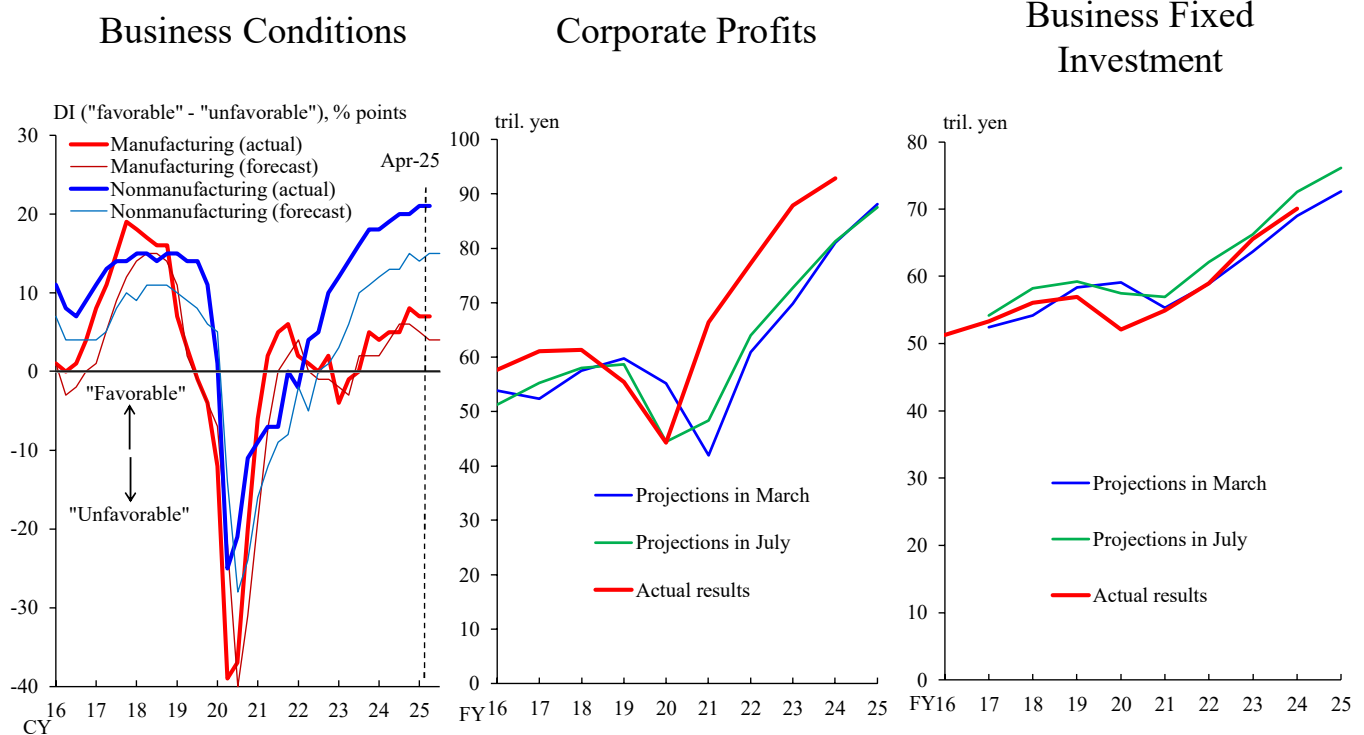
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## U.S. Economy



Note: In the middle panel, nominal GDP is calculated by dividing the value for each year by 12.  
Sources: U.S. Department of the Treasury; U.S. Census Bureau; Bureau of Economic Analysis; Bureau of Labor Statistics.

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Business Conditions of Japanese Firms (*Tankan*)

Note: In the left-hand panel, figures are for all enterprises. The latest figures for actual results are for June 2025, and the latest figures for forecasts are for September.

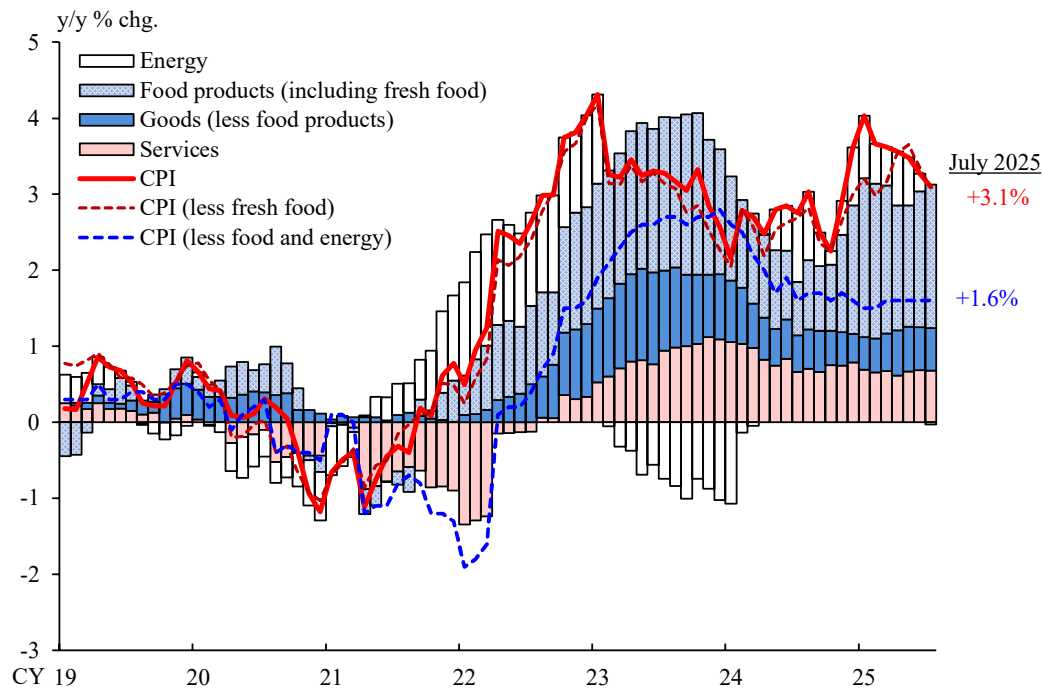
In the middle and right-hand panels, figures are for all industries and enterprises.

Figures in the right-hand panel include software and R&D investments and exclude land purchasing expenses.

Source: Bank of Japan.

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## Consumer Price Index



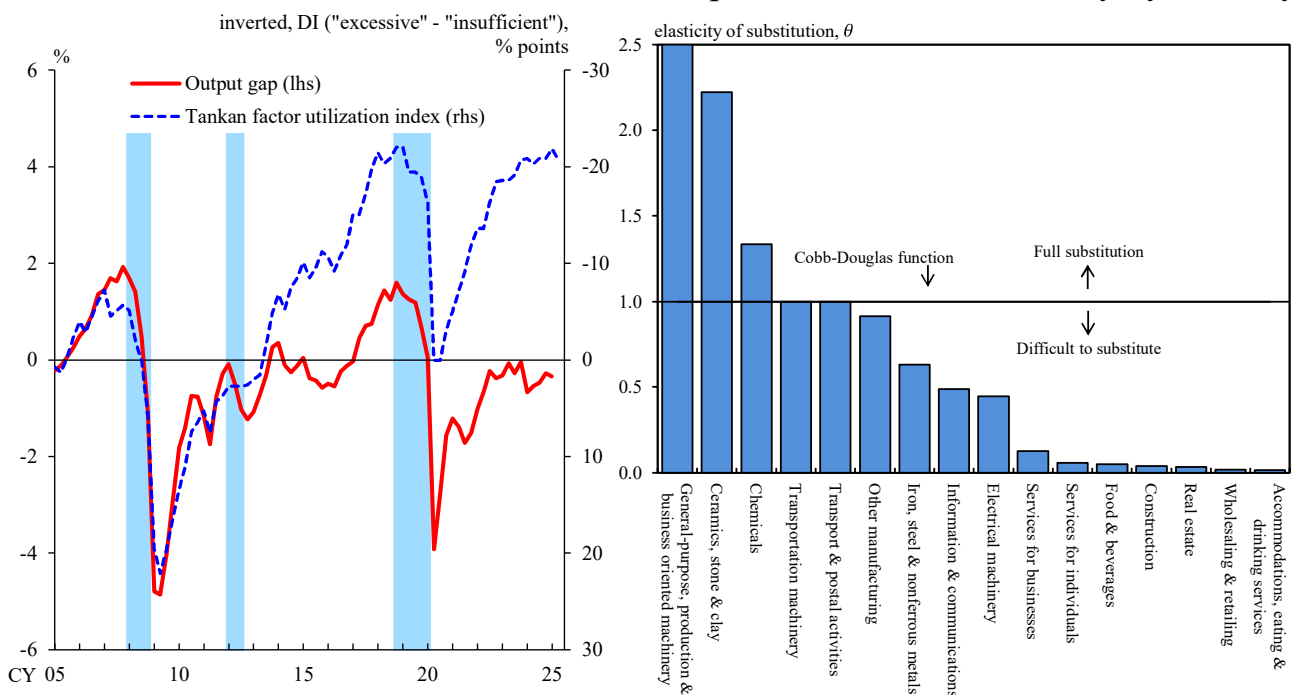
Source: Ministry of Internal Affairs and Communications.

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## Output Gap and Labor Shortages

## Output Gap

## Capital-Labor Substitutability by Industry



Notes: 1. In the left-hand panel, 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.

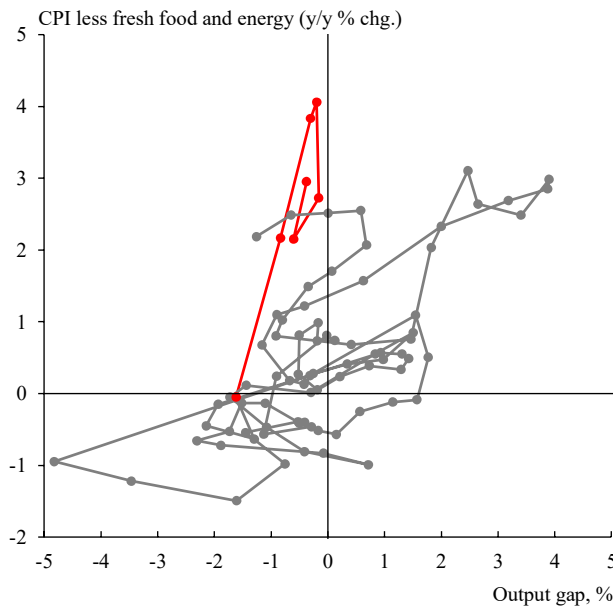
2. In the right-hand panel, figures for the elasticity of substitution are calculated by estimating CES production functions by industry using the following variables from the *Financial Statements Statistics of Corporations by Industry, Quarterly*: value added, tangible fixed assets (excluding construction in progress), and the number of employees. Value added is the sum of operating profits, personnel expenses, and depreciation expenses. The estimation period is from 2000/Q1 to 2024/Q2.

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

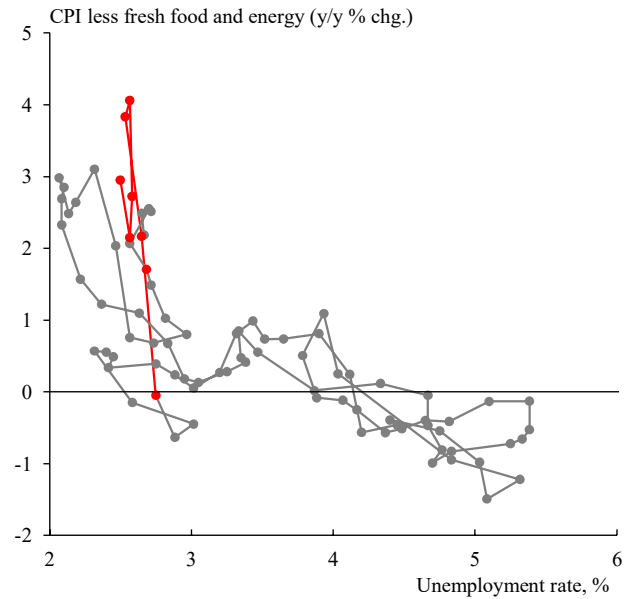
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# Phillips Curve

## Output Gap and Prices



## Unemployment and Prices



Note: Figures are biannual from 1983 to 2025. The red lines show developments from 2022 onward.  
The output gap and unemployment rate are six months ahead of the CPI.  
Sources: Bank of Japan; Ministry of Internal Affairs and Communications.

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## II. Monetary Policy

## Chart 8

## Outlook for Economic Activity and Prices

### Outlook Report (July 2025)

#### Outlook for Economic Activity

- Japan's economic growth is **likely to moderate**, as trade and other policies in each jurisdiction lead to a **slowdown in overseas economies and to a decline in domestic corporate profits and other factors**. Thereafter, Japan's economic growth rate is **likely to rise, with overseas economies returning to a moderate growth path**.

#### Outlook for Prices

- Underlying CPI inflation is **likely to be sluggish, mainly due to the deceleration in the economy**. Thereafter, however, underlying CPI inflation is **expected to increase gradually, 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, underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target.

#### Medians of the Policy Board Members' Forecasts

|  | (y/y % chg.)  |               |               |
|--|---------------|---------------|---------------|
|  | Fiscal 2025   | Fiscal 2026   | Fiscal 2027   |
| Real GDP                                   | 0.6<br>(+0.1) | 0.7<br>(—)    | 1.0<br>(—)    |
| CPI (all items less fresh food)            | 2.7<br>(+0.5) | 1.8<br>(+0.1) | 2.0<br>(+0.1) |
| CPI (all items less fresh food and energy) | 2.8<br>(+0.5) | 1.9<br>(+0.1) | 2.0<br>(—)    |

Assumptions: 1. Negotiations between jurisdictions will progress to some extent.  
2. Significant disruptions of global supply chains will be avoided.  
Note: Figures in parentheses indicate changes from the April 2025 Outlook Report.

#### Risks to the Outlook

- There have been positive developments in trade and other policies, such as negotiations between Japan and the United States resulting in an agreement.
- That said, **high uncertainties remain** regarding negotiations between jurisdictions and the impact of trade and other policies on economic activity and prices at home and abroad.

#### Risk balance

- Risks to economic activity are skewed to the downside for fiscal 2025 and 2026.
- Risks to prices are generally balanced.

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## Future Conduct of Monetary Policy

### Outlook Report (July 2025)

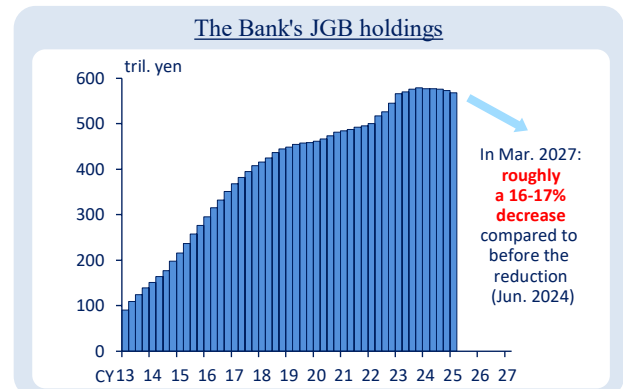
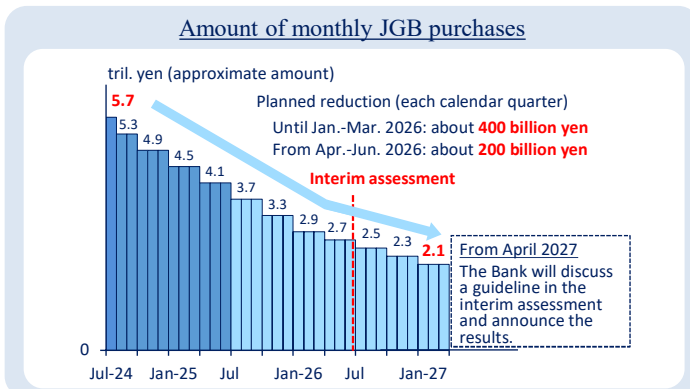
- As for the conduct of monetary policy, given that real interest rates are at significantly low levels, if the aforementioned outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.
- In this regard, considering that high uncertainties remain regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it is important for the Bank to carefully examine factors such as developments in economic activity and prices as well as in financial markets at home and abroad, and judge whether the outlook will be realized, without any preconceptions.
- With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

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### 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



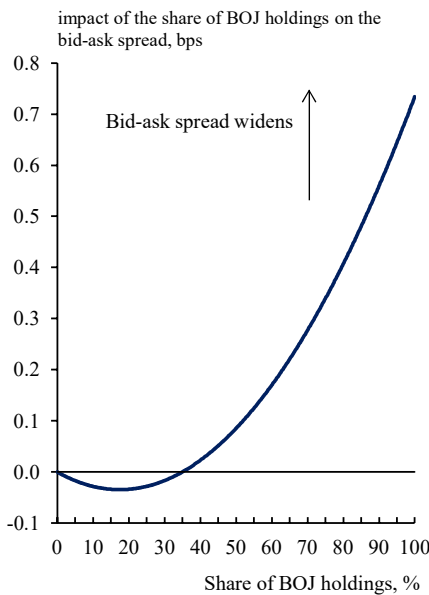
#### Allowing Enough Flexibility

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.

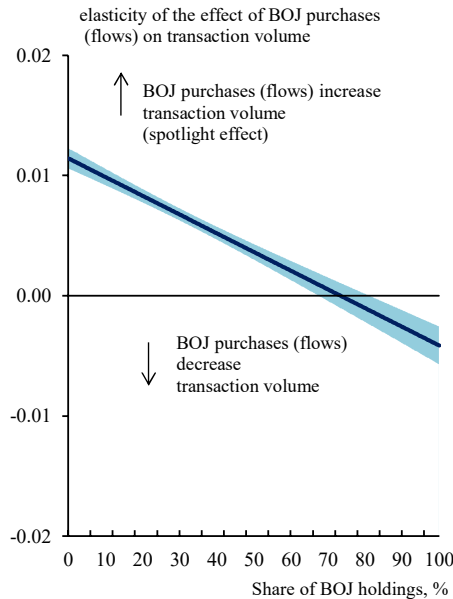
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## Functioning of JGB Market

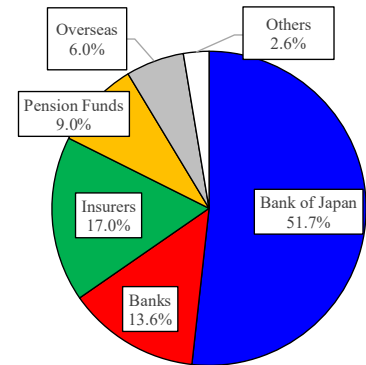
Share of BOJ Holdings and Spread



Share of BOJ Holdings and Transaction Volume



Share of JGB Holdings <End of Fiscal 2024>



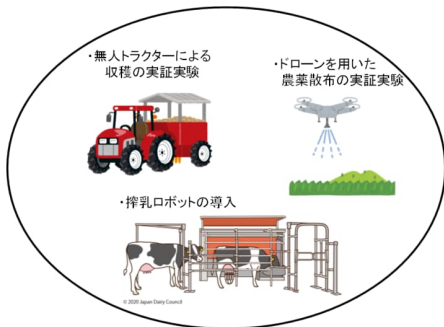
Note: In the left-hand and middle panels, the share of BOJ holdings is calculated for each issue number.  
In the middle panel, the shaded area denotes the 99 percent confidence interval.  
Sources: QUICK; Japan Bond Trading; Ministry of Finance; Bank of Japan.

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## On the Economy of Eastern Hokkaido

Chart 12

### Digital Transformation of Agriculture Industry



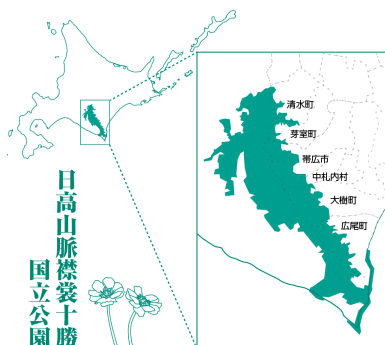
### Hokkaido Spaceport



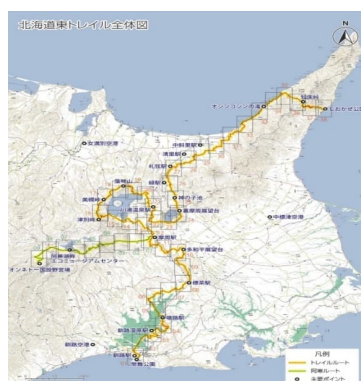
### Kushiro Port



### Hidakasanmyaku-Erimo-Tokachi National Park



### Hokkaido East Trail



### Extension of Trans-Hokkaido Expressway



Sources: Japan Dairy Council; Taiki Town; Kushiro City; TOYO Inc.; Doto Trail Club.

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