October 3, 2025

Bank of Japan

Japan's Economy and Monetary Policy

Speech at a Meeting with Business Leaders in Osaka

UEDA Kazuo

Governor of the Bank of Japan

(English translation based on the Japanese original)

Introduction

It is my great pleasure to have the opportunity today to exchange views with a distinguished gathering of business leaders in the Kansai region. I would like to take this chance to express my sincerest gratitude for your cooperation with the activities of the Bank of Japan's branches in Osaka, Kobe, and Kyoto. When I visited this region last year, I had the opportunity to tour the construction site of Expo 2025 Osaka, Kansai. Since then, I have wished for the Expo's success, and since its opening this April, I have been delighted to see it thriving every day, welcoming over 22 million general visitors from Japan and abroad. I would like to express my sincere respect to everyone whose efforts made this possible.

Today, I look forward to hearing your candid opinions, which will be useful in the Bank's policy decisions and business operations. Before hearing from you, I would like to talk about developments in Japan's economic activity and prices and explain the Bank's thinking on the conduct of monetary policy.

I. Economic Activity and Prices

Current Situation of and Outlook for Economic Activity

I would like to begin by discussing the current situation of and outlook for economic activity in Japan. The Bank assesses that Japan's economy has recovered moderately, although some weakness has been seen in part.

Please take a look at Chart 1, which shows developments in the corporate sector. The results of the Bank's *Tankan* (Short-Term Economic Survey of Enterprises in Japan) released two days ago show that business sentiment has improved in some manufacturing industries, reflecting firms' view that the agreement in the Japan-U.S. tariff negotiations has reduced uncertainty in the outlook. The results also show that business sentiment has been at a favorable level on the whole. Turning to Chart 2, while corporate profits in manufacturing have been affected by factors such as a deterioration in export profitability reflecting U.S. tariff policies, profits on the whole have remained at high levels, at around the historical peak. Looking at profit projections for this fiscal year in the table on the right, profits of firms in manufacturing are now expected to fall by 8.6 percent, which is around the same level as in the previous survey in June. However, in nonmanufacturing, where the impact of

U.S. tariff policies is relatively limited, profit projections remain more or less unchanged from the actual profits of the previous year, and overall, corporate profits are expected to remain at a relatively high level.

Please turn to Chart 3. Starting with exports, shown in the left panel, the overall trend has continued to be more or less flat, although there have been a front-loading and a subsequent reactionary decline due to the increase in U.S. tariffs, mainly in automobiles, since early spring of this year. Next, business fixed investment, shown in the right panel, has continued to exhibit a moderate increasing trend, and business fixed investment plans for this fiscal year also indicate that the growth momentum in investment has been maintained. Anecdotal information from firms suggests that many are committed to firmly moving ahead with investments that are necessary from a medium- to long-term perspective, such as labor-saving and efficiency-improving investments to address labor shortages and digital-related investments.

Next, let us look at the household sector. Please see Chart 4. As for private consumption, although consumption of nondurable goods has continued on a decreasing trend, reflecting consumers' increased thriftiness due to the rise in food prices, overall consumption has been resilient against the background of an improvement in the employment and income situation.

Chart 5 shows more details on the employment and income situation. Looking at nominal wages in the left panel, scheduled cash earnings have continued to rise steadily, reflecting the high wage growth rate achieved in the annual spring labor-management wage negotiations. In addition, summer special cash earnings (bonuses, etc.) also have been increasing firmly, reflecting factors such as firms' strong business performance in the second half of fiscal 2024. Meanwhile, wage increases have been widely observed, as seen, for example, in the increase in the minimum wage from the previous fiscal year marking the largest rise on record. The number of employees has also continued to grow, particularly in industries facing severe labor shortages, and the rate of increase in employee income -- that is, nominal wages multiplied by the number of employees -- has remained at a relatively high level.

As I have described, while U.S. tariff policies have negatively affected the profits of Japanese exporting firms, so far there are no signs that the effects have spread to Japan's economy as a whole, including business fixed investment and employment and wage developments.

Looking ahead, although private consumption is expected to remain resilient, supported by an improvement in employee income, Japan's economic growth is likely to moderate temporarily, as overseas economies are likely to decelerate under the impact of tariff policies, putting downward pressure on exports and business fixed investment. Thereafter, however, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.

Current Situation of and Outlook for Prices

Next, I would like to talk about developments in prices. As shown in Chart 6, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been in the range of 2.5-3.0 percent recently. The main driver of the price increases has been developments in food products, including rice. In the chart, the light blue bars show the contribution of food prices to the overall rate of change in the CPI. They show that more than half of the increase in the CPI is attributable to higher food prices.

The rise in food prices, particularly rice prices, is largely driven by temporary supply-side factors rather than a sudden rise in consumer demand. Therefore, once these factors subside, the contribution of food prices to the overall increase in the CPI is expected to gradually recede. For this reason, the Bank's baseline scenario in the July *Outlook for Economic Activity and Prices* (Outlook Report) is that the year-on-year rate of increase in the CPI for all items excluding fresh food is likely to fall below 2 percent at some point through the next fiscal year.

Looking ahead, the Bank expects that, despite the impact of U.S. tariff policies and other factors, a sense of labor shortage will grow as the economic growth rate rises, and medium- to long-term inflation expectations will rise. As a result, it is likely that underlying CPI inflation -- that is, inflation excluding the effects of temporary factors such as developments related to food -- will increase along with actual inflation and, in the second half of the projection period of the Outlook Report, will reach a level that is generally consistent with the price stability target of 2 percent.

Points to Monitor at This Juncture

There are various uncertainties surrounding the baseline scenario for economic activity and prices that I have just described. I would like to discuss three key points that are important when assessing developments in Japan's economic activity and prices at this juncture.

The first point concerns developments in overseas economies. The Bank expects that, although overseas economies will experience a temporary slowdown reflecting trade and other policies in each jurisdiction, they will then return to a moderate growth path. However, this outlook could change considerably depending on economic and policy developments in major economies, especially the future course of the U.S. economy.

So far, tariff policies have had no major negative impact on the U.S. economy, which has continued to grow moderately, as seen, for example, in the fact that quarter-on-quarter real GDP growth turned positive in the April-June quarter. Corporate profits have been solid, especially among high-tech firms, and business fixed investment has continued to increase moderately, driven mainly by AI-related investment. Private consumption has been resilient, supported by durable goods.

However, as shown in the left panel of Chart 7, the pace of employment growth in the United States has slowed notably since the summer. Even so, the rise in the U.S. unemployment rate has remained modest, as can be seen in the middle panel. This is likely due to the simultaneous slowdown in labor supply reflecting strict U.S. immigration policies. Meanwhile, although consumer prices in the United States, shown in the right panel, have been rising for some goods, the pass-through to selling prices of increased costs due to tariffs has so far been limited. That said, there is no doubt that tariffs are being imposed widely on U.S. imports, so the question is when and in what form the impact will manifest. If U.S. firms bear the burden of the increase in import costs, the deterioration in corporate profits will exert downward pressure on employment and income in the United

States. The slowdown in U.S. employment growth I mentioned earlier may be a sign that such developments are beginning to emerge. Furthermore, if firms are unable to fully take on the increased costs and pass them on to selling prices, consumer prices will rise, negatively affecting private consumption.

The Federal Reserve recently decided to cut the policy interest rate for the first time in nine months, focusing on downside risks to employment, and this policy is expected to support the U.S. economy. That said, regarding the outlook for the economy, Chairman Powell has stated that inflation risks are tilted to the upside and employment risks are tilted to the downside, which suggests that considerable uncertainties remain. The future course of the U.S. economy and the conduct of monetary policy under these circumstances could have a significant impact on Japan's economic activity and prices through developments in the global economy and changes in global financial and foreign exchange markets. The Bank will therefore continue to closely monitor the situation.

The second point concerns how U.S. tariff policies will affect profits and the wage- and price-setting behavior of Japanese firms. The fact that a tariff rate of 15 percent has now been set will lead to reducing uncertainty surrounding U.S. tariff policies. How individual firms adapt their business strategies based on this tariff rate is likely to become clear going forward.

Looking at the results of the September *Tankan*, firms in nonmanufacturing, where the impact of tariffs is relatively limited, are highly likely to maintain high levels of profits on the whole. On the other hand, as mentioned earlier, firms in industries with a high export share, such as automobiles, expect in their profit projections for this fiscal year that their profits will fall considerably.

Even so, the high level of profits accumulated by firms, including in these industries, should act as a buffer to some extent, so it is likely that the mechanism in which wages and prices rise moderately in interaction with each other will essentially remain in place. However, if uncertainty regarding overseas economies and trade and other policies remains high, firms may place stronger emphasis on cost-cutting and may weaken their efforts to reflect price increases in wages. The Bank will continue to closely examine firms' views through its Head Office and branches to see whether these risks materialize going forward. I would also like to take this opportunity today to seek your views.

The third point concerns developments in food prices. While the current price rises can essentially be regarded as largely due to temporary factors, there are some views that they are becoming more attributable to the pass-through of increased personnel expenses and distribution costs to selling prices of food. Therefore, depending on firms' wage- and price-setting behavior, it is possible that price rises will persist for longer than expected. Conversely, attention is warranted on the fact that, if prolonged food price increases lead to a deterioration in household sentiment, this could dampen private consumption and act to push down inflation.

II. The Bank's Conduct of Monetary Policy

Next, I would like to talk about the Bank's conduct of monetary policy.

The environment surrounding economies at home and abroad has changed substantially since the introduction of U.S. tariff policies was announced in April. The tariff policies have created uncertainty for the global economy, including the U.S. labor market and price developments, and the unprecedentedly high tariff rate of 15 percent will exert downward pressure on Japan's economy. Given these factors, it is important, first of all, to maintain accommodative financial conditions and thereby firmly support economic activity. For this reason, the Bank, at the Monetary Policy Meeting (MPM) held last month, decided to keep the policy interest rate unchanged at 0.5 percent.

Regarding the future conduct of monetary policy, as shown in Chart 8, given that real interest rates are at significantly low levels, if the baseline scenario for economic activity and prices outlined so far 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.

To determine whether economic activity and prices are improving, the Bank will, for the time being, monitor factors such as the points I mentioned -- namely, developments in the global economy, especially the U.S. economy; the impact of U.S. tariff policies on Japanese firms' profits and wage- and price-setting behavior; and price developments, including food prices.

The Bank will carefully examine the likelihood that the baseline scenario for economic activity and prices will be realized, as well as both upside and downside risks, and will make monetary policy decisions as appropriate and without any preconceptions.

Concluding Remarks

Finally, I would like to say a few words about the Bank's efforts to reduce the size of its balance sheet.

Under the large-scale monetary easing framework that lasted for more than a decade, the Bank conducted purchases of Japanese government bonds (JGBs) with the aim of keeping long-term interest rates stable at low levels, and of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) to lower risk premiums in the markets. As a result, the Bank's balance sheet has expanded to a particularly large scale compared with other major central banks.

While these were all necessary measures to overcome deflation, now that the Bank has returned to normal monetary policy -- focused on guiding short-term interest rates -- another major challenge is to return its enlarged balance sheet to an appropriate size.

Since last summer, the Bank has been gradually reducing its purchase amount of JGBs, which account for the majority of the Bank's assets, so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets. Moreover, at last month's MPM, the Bank decided to start selling its holdings of ETFs and J-REITs to the market in a manner that avoids inducing destabilizing effects on the financial markets as much as possible.

Although the process of reducing the size of the balance sheet is gradually making progress, given its large scale, this process is expected to continue for quite a long time. The Bank will continue to manage its balance sheet as appropriate, drawing on sources such as precedents from overseas.

Thank you very much for your attention.

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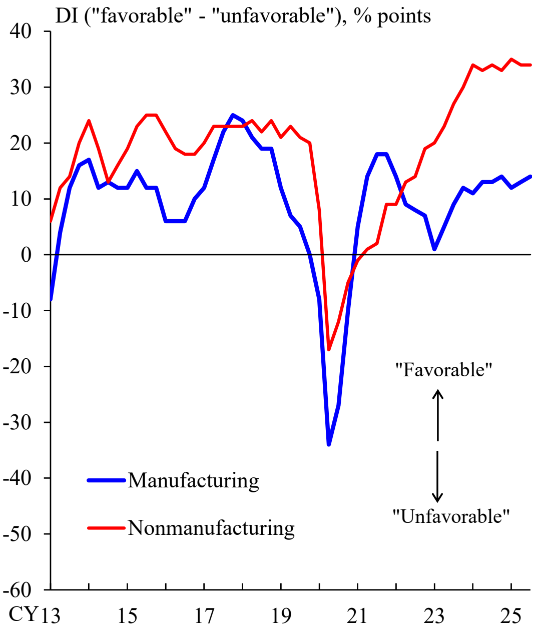
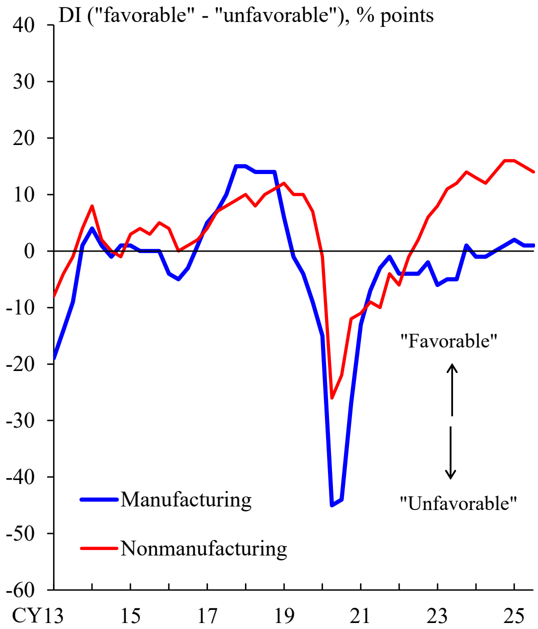
Corporate Sector (1)

Business Conditions (Tankan)

Large Enterprises



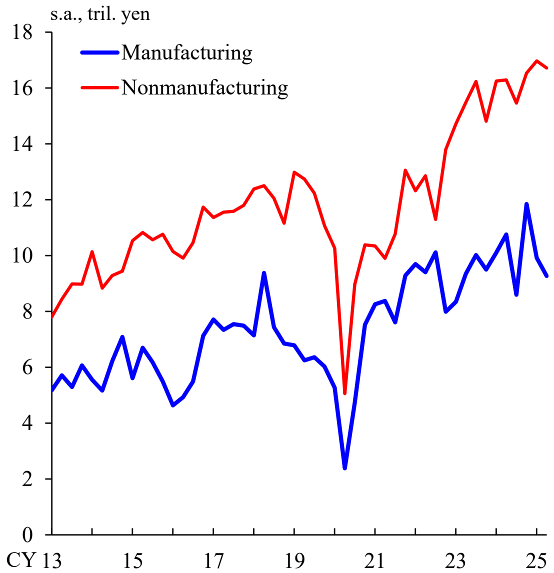
Small Enterprises



Source: Bank of Japan.

Corporate Sector (2)

Corporate Profits



Profit Projections (Tankan)

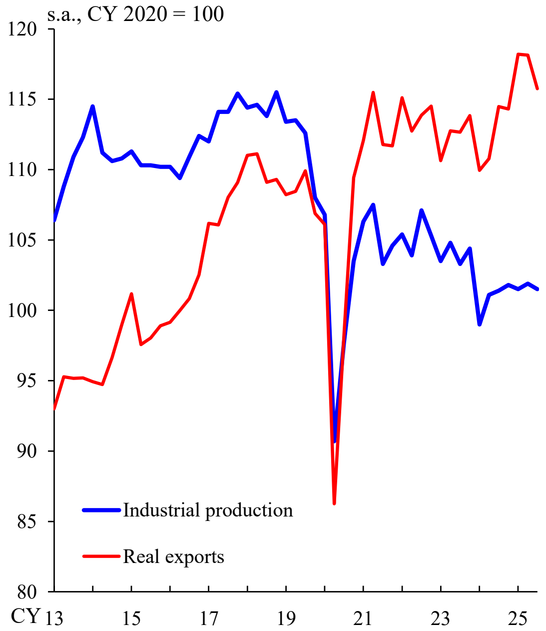
y/y % chg.

		FY 2024 (Actual value)	FY 2025 (Projection)	
				Revision rate
All industries and enterprises		5.6	-4.8	0.9
Large enterprises	Manufa-cturing	6.0	-8.6	-0.2
	Non-manufa-cturing	2.4	-0.7	0.6

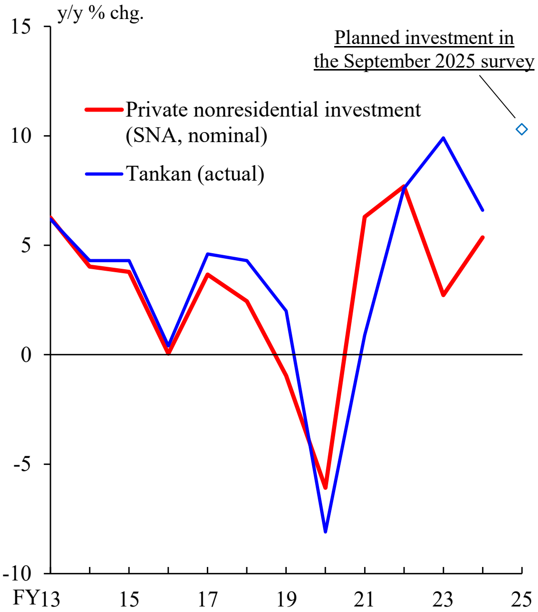
Note: In the left-hand chart, figures are current profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and "pure holding companies." In the right-hand chart, figures are current profits.
Sources: Ministry of Finance; Bank of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

Corporate Sector (3)

Exports and Production



Business Fixed Investment

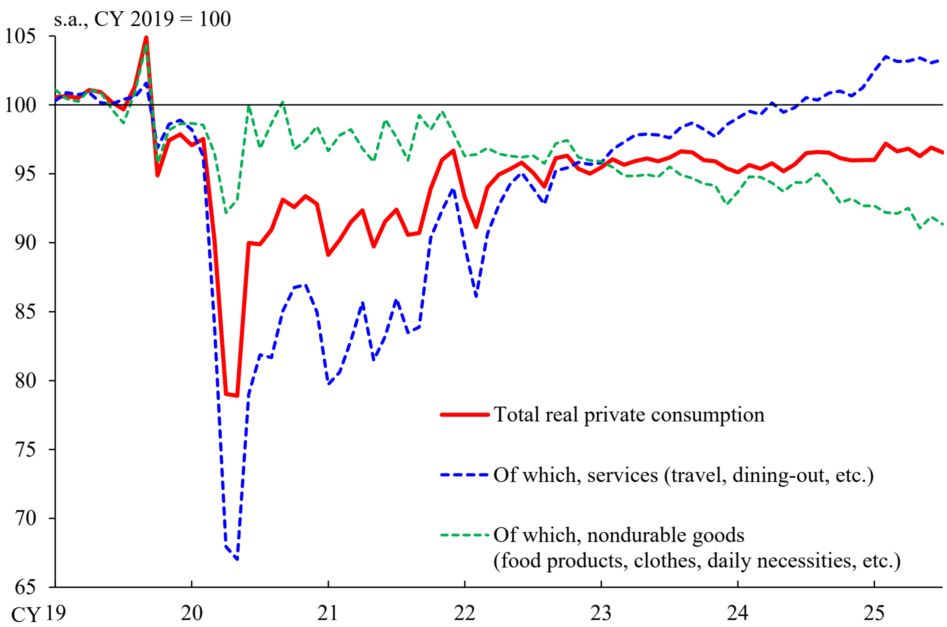


Notes: 1. In the left-hand chart, figures for 2025/Q3 are July-August averages.
2. In the right-hand chart, figures for *Tankan* (actual) include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions.

Sources: Ministry of Economy, Trade and Industry; Bank of Japan; Ministry of Finance; Cabinet Office.

Household Sector

Real Private Consumption

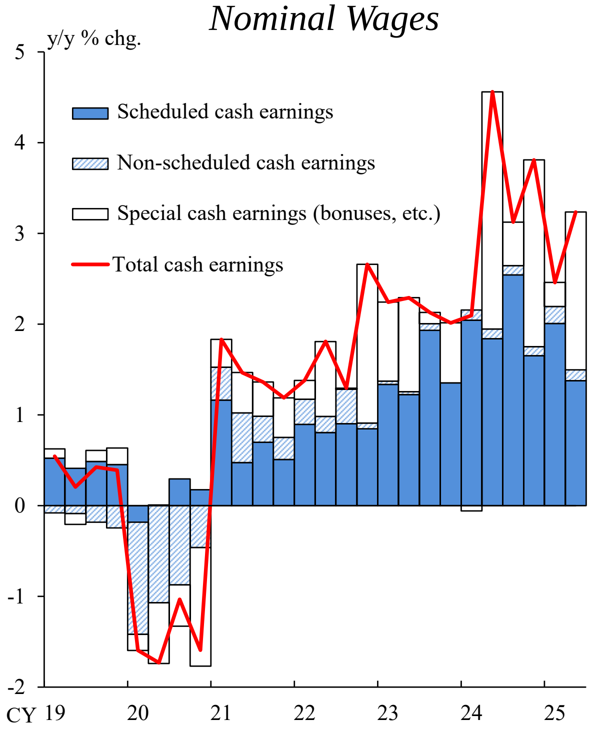


Note: Figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption.

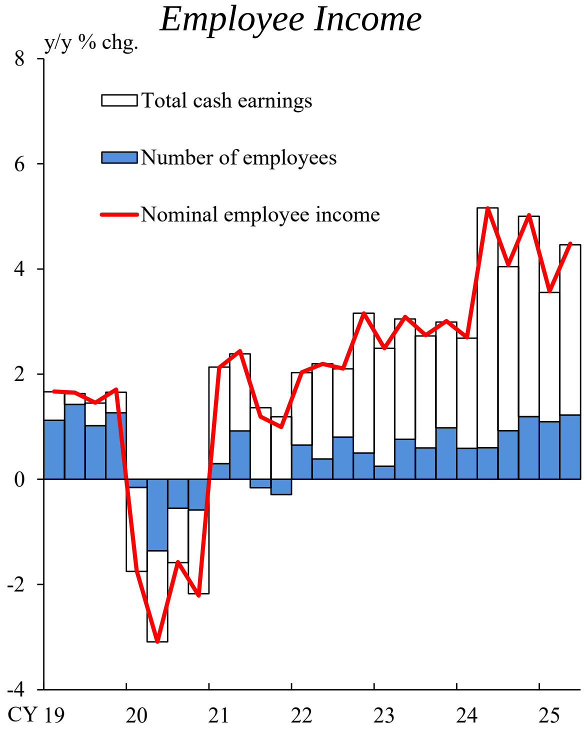
Source: Bank of Japan.

Employment and Income Situation

Nominal Wages



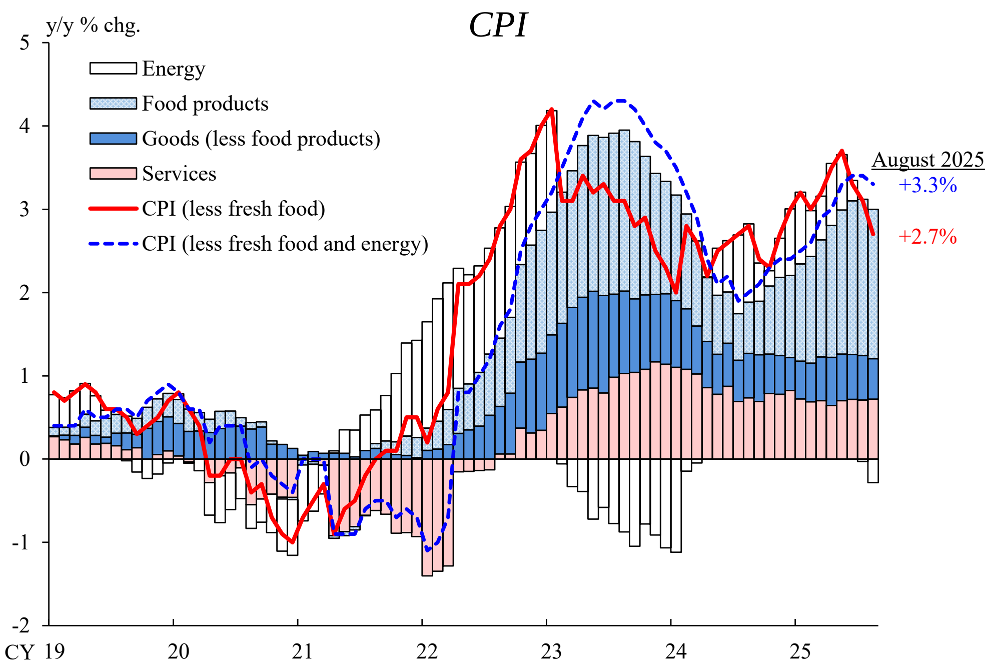
Employee Income



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures in the left-hand chart and figures for "total cash earnings" in the right-hand chart are based on continuing observations following the sample revisions. Figures for 2025/Q2 are June-July averages.
2. Nominal employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*)
Source: Ministry of Health, Labour and Welfare.

Price Developments

CPI



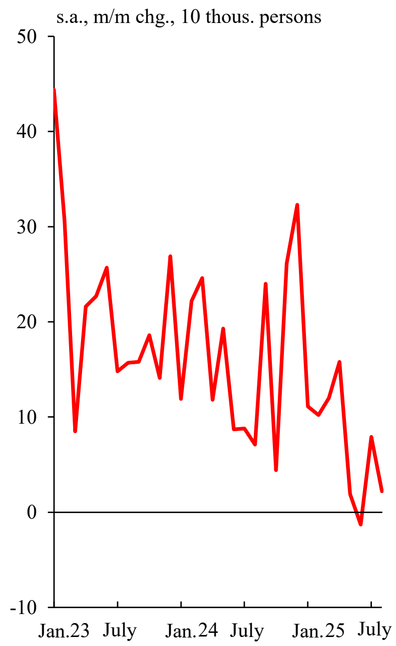
Source: Ministry of Internal Affairs and Communications.

Chart 7

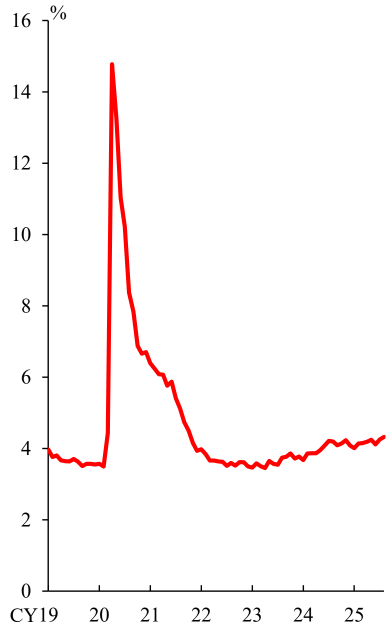
U.S. Economy

Labor Market

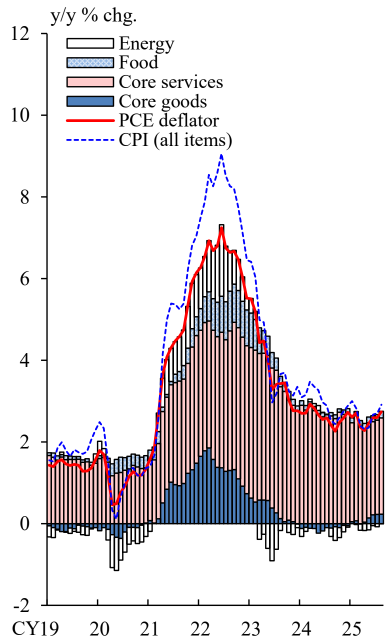
Number of Employees



Unemployment Rate



Consumer Prices



Note: In the left-hand chart, figures are for nonfarm payroll employment.
Source: Haver.

Chart 8

Future Conduct of Monetary Policy

July 2025 Outlook Report

- 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.