Economic Activity, Prices, and Monetary Policy in Japan: Japan as a Leading Asset Management Center

Speech at a Meeting of the Chugoku Economic Federation Held in Hiroshima

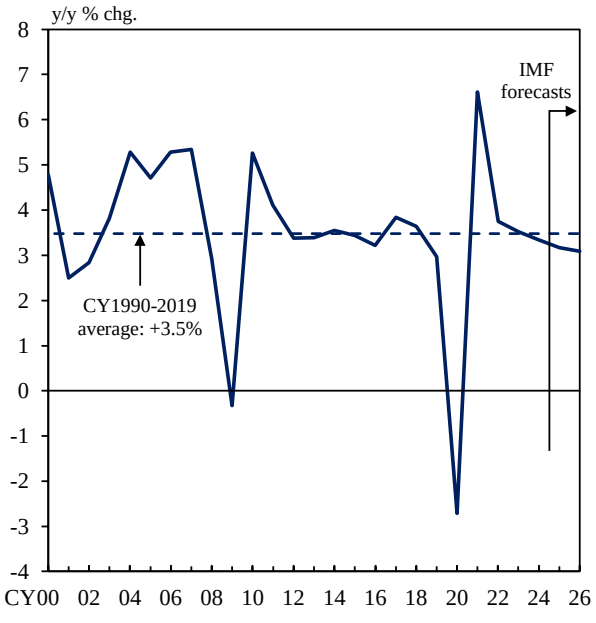
October 20, 2025

TAKATA Hajime
Member of the Policy Board
Bank of Japan

Chart 1

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

Global Growth Rate

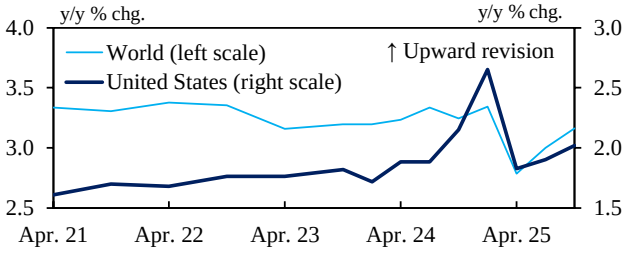


Growth Rates in Major Economies

y/y % chg., % points

	CY2023	CY2024	CY2025 [Forecast]	CY2026 [Forecast]
World	3.5	3.3	3.2 (0.2)	3.1 (0.0)
Advanced economies	1.7	1.8	1.6 (0.1)	1.6 (0.0)
United States	2.9	2.8	2.0 (0.1)	2.1 (0.1)
Euro area	0.4	0.9	1.2 (0.2)	1.1 (-0.1)
Emerging market and developing economies	4.7	4.3	4.2 (0.1)	4.0 (0.0)
China	5.4	5.0	4.8 (0.0)	4.2 (0.0)

Changes in Growth Projections for 2025

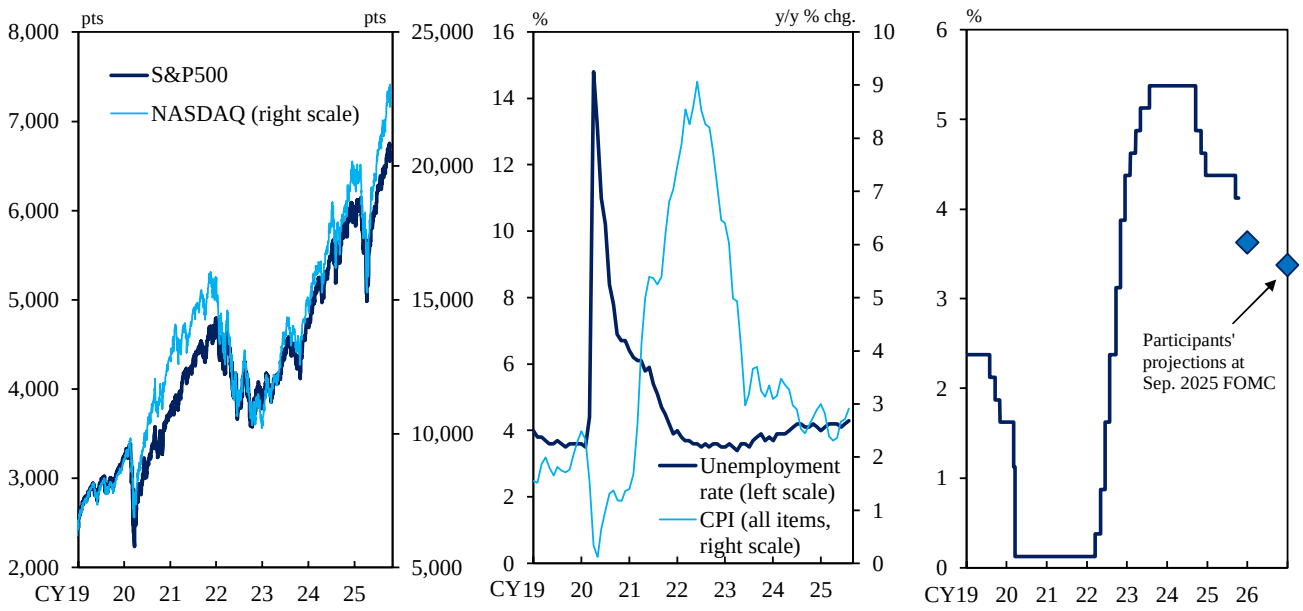


Note: In the table, figures in brackets are the differences from forecasts in the July 2025 World Economic Outlook (WEO) *Update*.
Source: IMF.

Chart 2

U.S. Economy

Stock Prices *Employment and Prices* *Policy Interest Rate*



Note: In the right panel, figures are medians of the target ranges for the federal funds rate. Figures for participants' projections are medians of all projections at FOMC meetings.

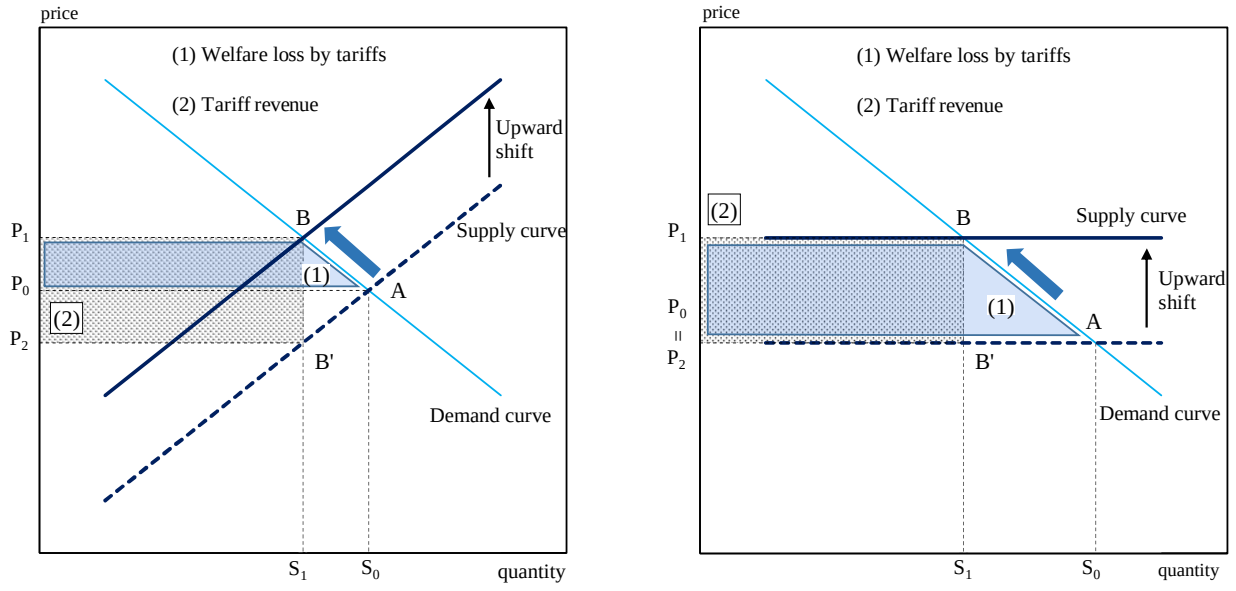
Sources: Bloomberg; BLS; FRB.

Chart 3

Optimal Tariff Theory

Large Countries
— Limited pass-through of tariffs to domestic prices —
(Positive gain from tariff revenue)

Small Countries
— Nearly 100% pass-through of tariffs to domestic prices —
(Welfare loss exceeds tariff revenue)

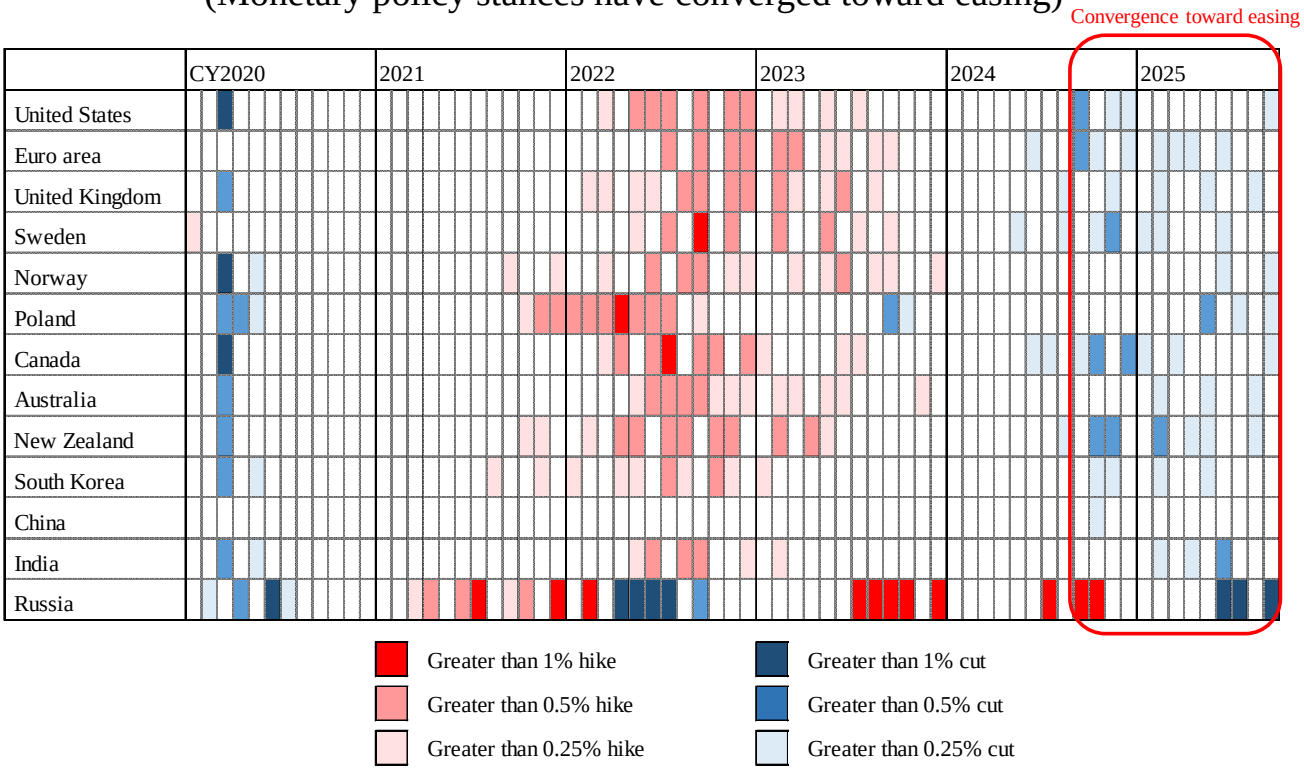


Note: The charts are based on Helpman, E. and Krugman, P., *Trade Policy and Market Structure*, (MIT press, 1989), etc.

Chart 4

Monetary Policy Stances Across the World

(Monetary policy stances have converged toward easing)

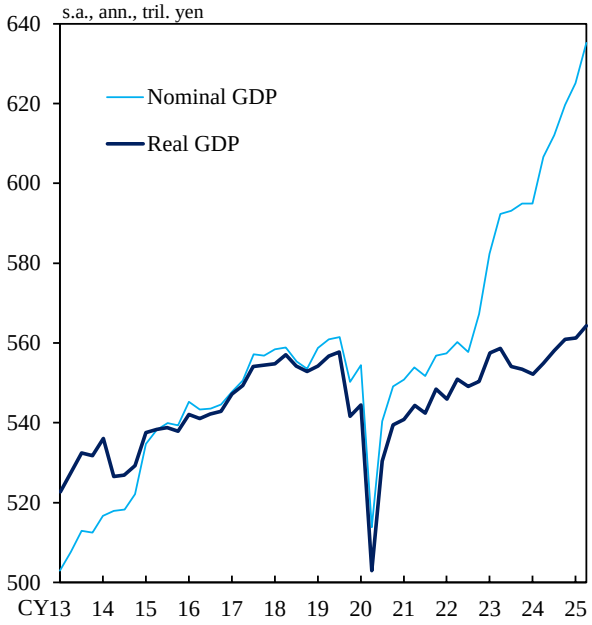


Sources: Overseas central banks.

Chart 5

GDP and Outlook for Economic Activity and Prices

GDP



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

y/y % chg.

	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2025	+0.6	+2.7	+2.8
As of April 2025	+0.5	+2.2	+2.3
As of January 2025	+1.1	+2.4	+2.1
Fiscal 2026	+0.7	+1.8	+1.9
As of April 2025	+0.7	+1.7	+1.8
As of January 2025	+1.0	+2.0	+2.1
Fiscal 2027	+1.0	+2.0	+2.0
As of April 2025	+1.0	+1.9	+2.0

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

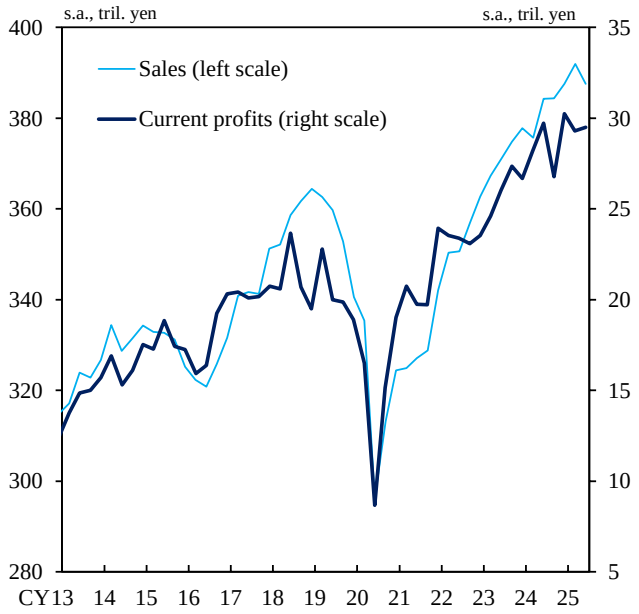
Sources: Cabinet Office; Bank of Japan.

Chart 6

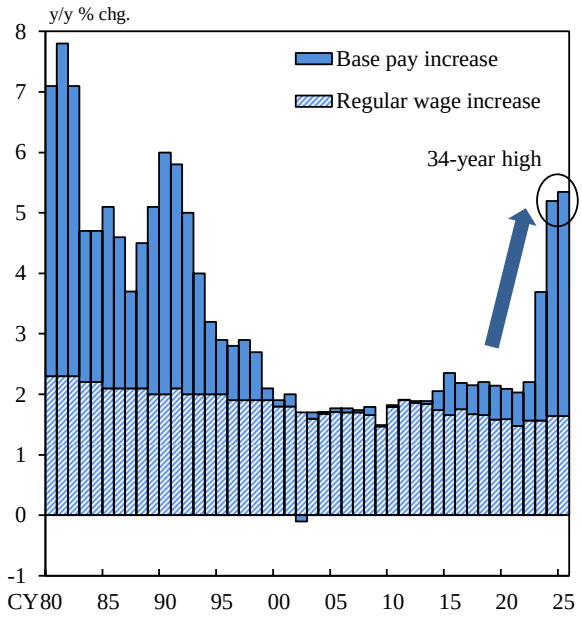
Corporate Sector and Wage Growth

(Corporate profits are at high levels and the wage growth rate is a 34-year high)

Corporate Profits



Wage Growth Rate



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

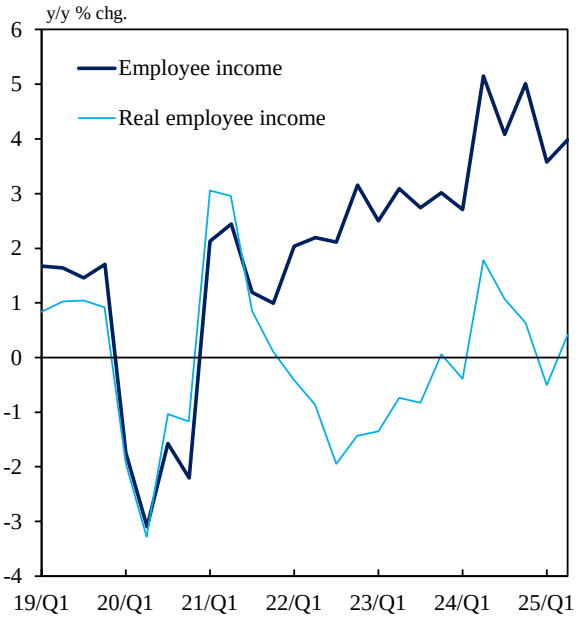
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Finance.

Chart 7

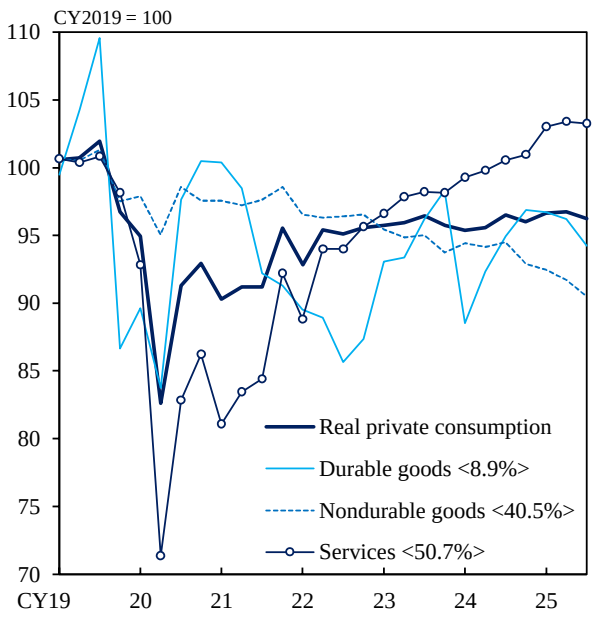
Private Consumption

(Employment and income situation has been resilient)

Employee Income



Real Private Consumption



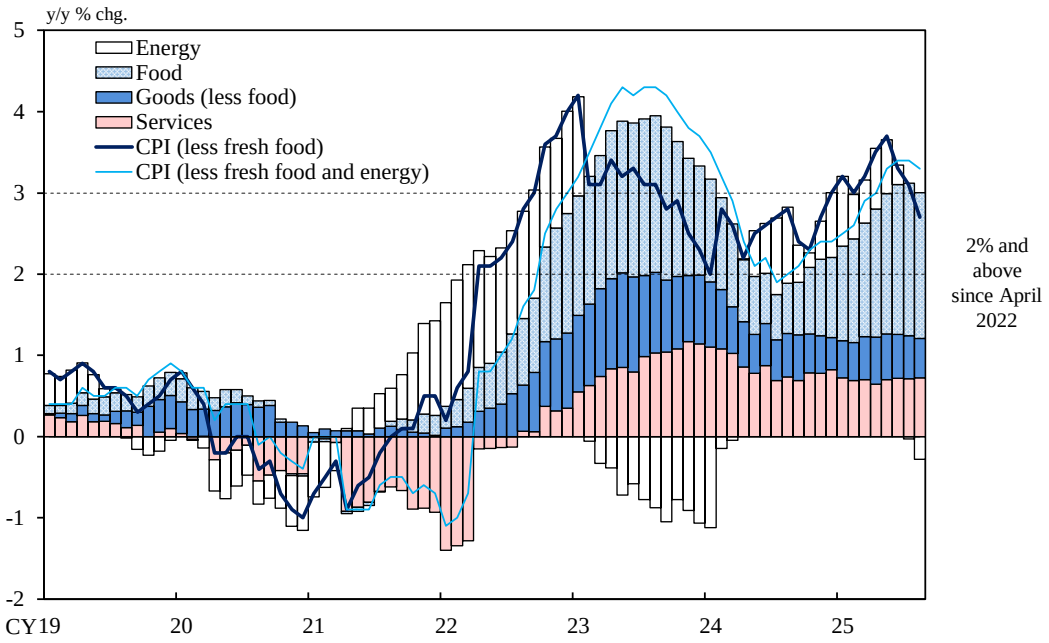
Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures for real employee income are based on Bank staff calculations using the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

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

Chart 8

CPI Inflation

(Inflation has remained at 2% and above for three and a half years)



Source: Ministry of Internal Affairs and Communications.

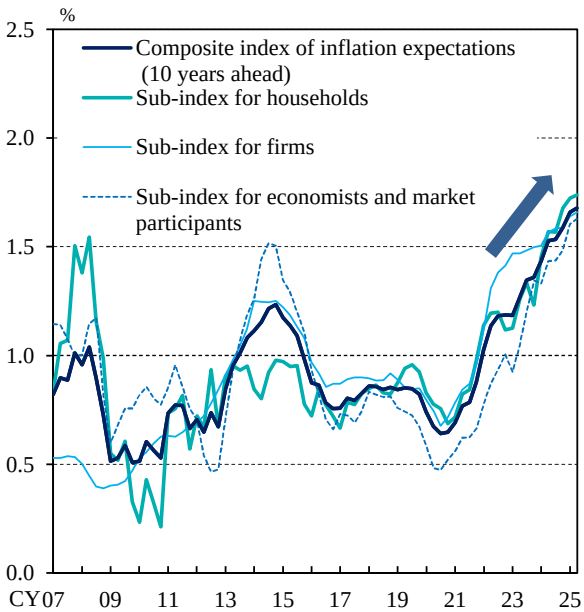
Chart 9

Inflation Indicators

(Moderate increase has continued)

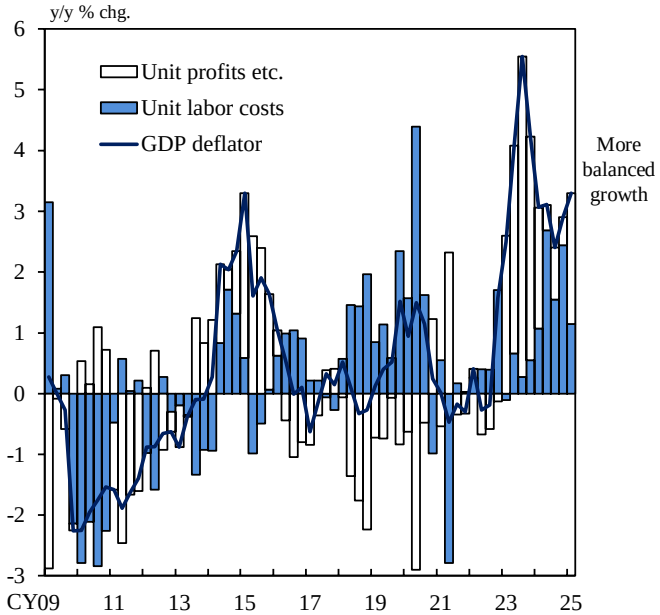
Composite Index of Inflation Expectations

(Medium- to long-term inflation expectations of various economic entities)



GDP Deflator

(Reflection of domestic inflationary pressure)



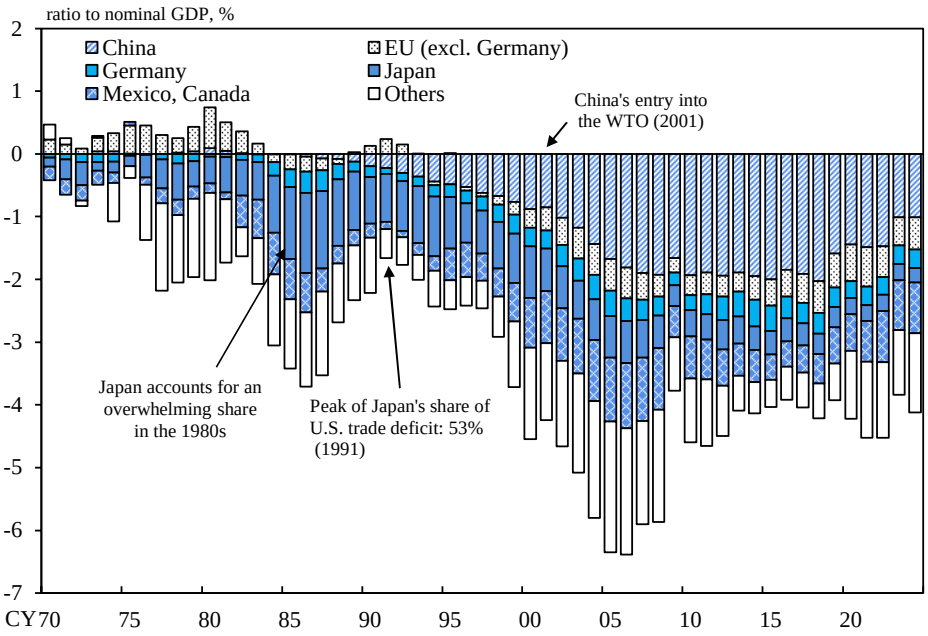
Notes: 1. In the left panel, the composite index is calculated by extracting common components, based on the first principal component, of inflation expectations of firms, households, and economists and market participants. For details of the calculation method, see Box 4 of the April 2024 Outlook Report.
2. In the right panel, unit labor costs = nominal compensation of employees / real GDP.

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

Chart 10

U.S. Trade Balance by Country

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

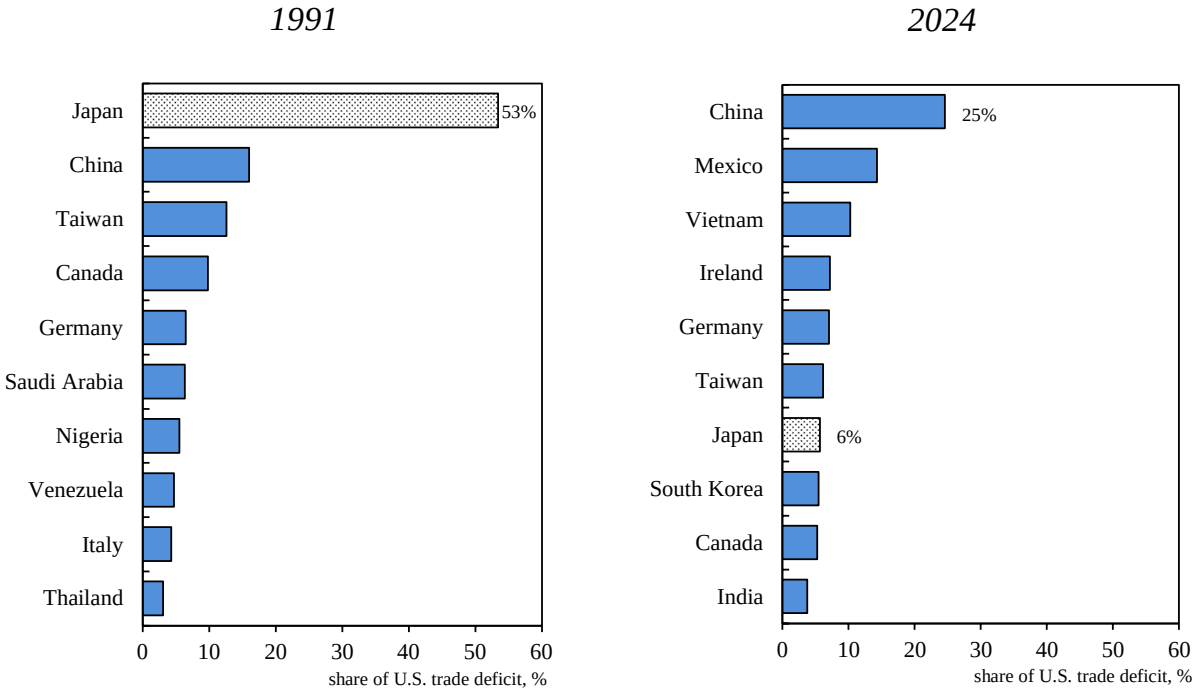


Sources: BEA; IMF.

Chart 11

Largest Shares of U.S. Trade Deficit by Country/Region

(China has replaced Japan)

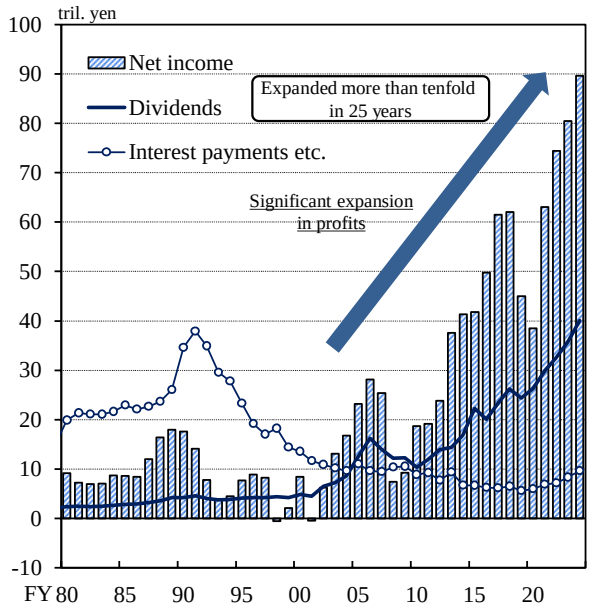


Source: IMF.

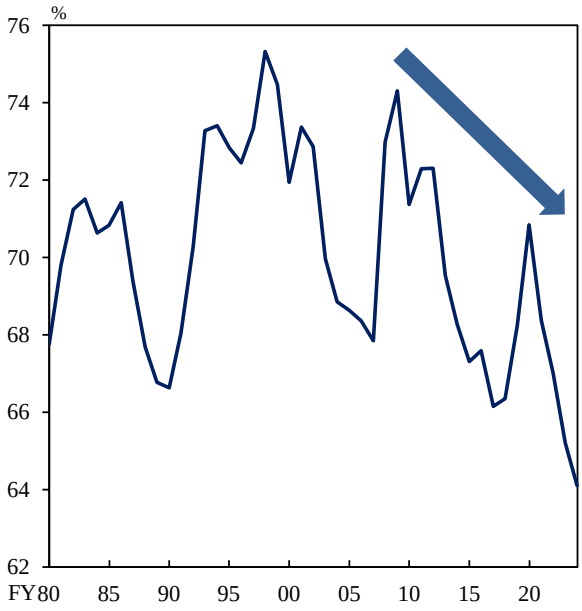
Chart 12

Rapid Expansion in Corporate Profits

Corporate Profits



Labor Share



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.
2. Labor share = personnel expenses / value-added. Value-added = operating profits + personnel expenses + depreciation expenses.

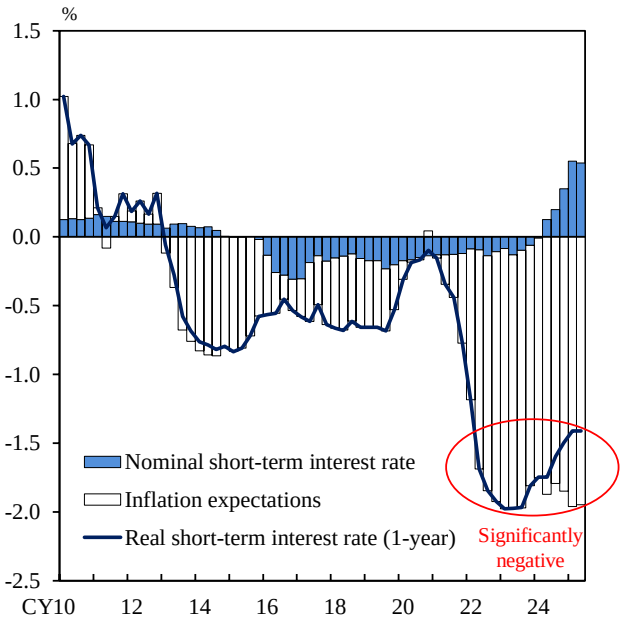
Source: Ministry of Finance.

Chart 13

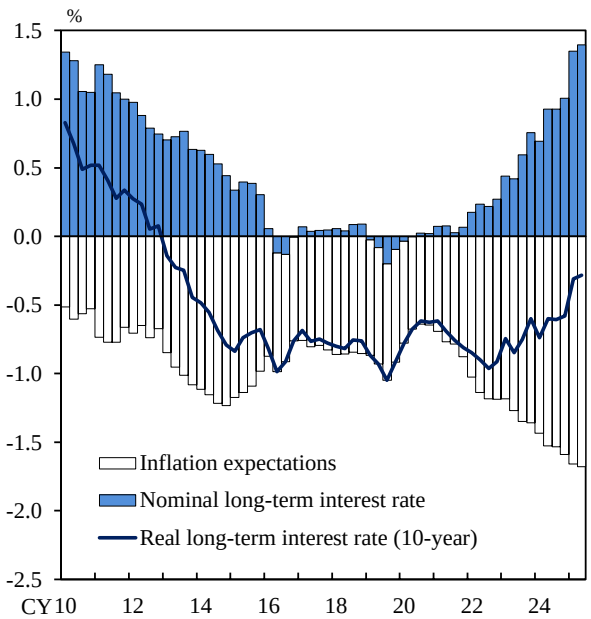
Real Interest Rate

(Rate has remained negative)

Real Short-Term Interest Rate (1-Year)



Real Long-Term Interest Rate (10-Year)



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

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

Chart 14

Plan for the Reduction of the Purchase Amount of JGBs

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

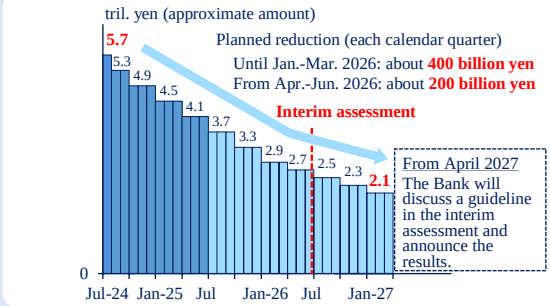
In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- Until January-March 2026 : about 400 billion yen (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027: about 200 billion yen

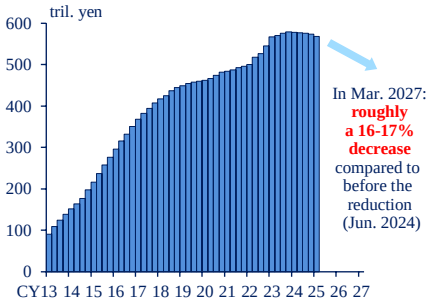
➢ The Bank will gradually reduce its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



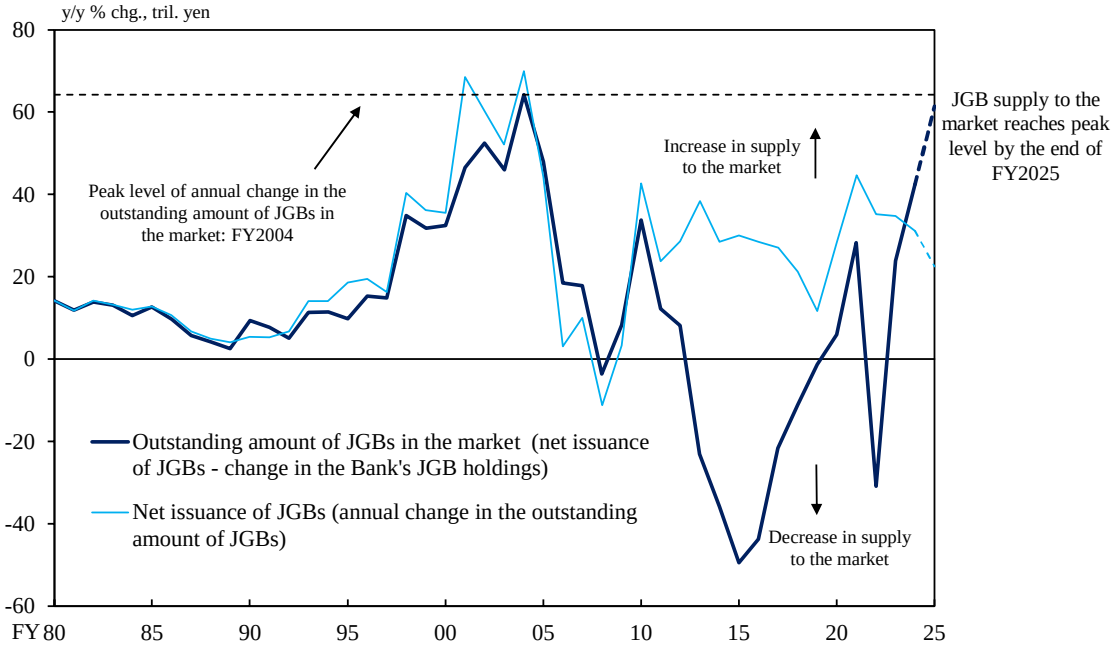
Allowing Enough Flexibility

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

Chart 15

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

(JGB supply to the market surged to peak level due to reduction in the Bank's purchases)



Notes: 1. Figures are on a book value basis and exclude short-term government securities.
2. Figures for FY2025 are estimated using the Cabinet Office's *Economic and Fiscal Projections for Medium to Long Term Analysis* (January 2025) and the Bank's plan for the reduction of the purchase amount of JGBs.

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

Decisions on Disposal of ETFs and J-REITs (September 2025 MPM)

Fundamental principles for the disposal

- The Bank should dispose of its holdings of ETFs and J-REITs for adequate prices, taking into account the condition of the financial markets.
- The Bank should avoid incurring losses as much as possible.
- The Bank should avoid inducing destabilizing effects on the financial markets as much as possible.

Experience of the sales of the "stocks purchased from financial institutions"

The Bank completed in July 2025 the sales of the stocks purchased for financial stability purposes, while avoiding major market impact.

1. The Bank will sell its holdings of ETFs and J-REITs to the market at a scale generally equivalent to that of the sales of the "stocks purchased from financial institutions."

	Stocks (completed)	ETFs	J-REITs
Pace of sales (amount per year)* Book value (Market value)	About 150 billion yen (About 620 billion yen)	About 330 billion yen (About 620 billion yen)	About 5 billion yen (About 5.5 billion yen)
Proportion to the trading value	**About 0.05%**	**About 0.05%**	**About 0.05%**

* The Bank will sell each ETF and J-REIT at the amount approximately proportionate to the share of each asset in its holdings, with consideration to spreading out the timing of the sales.

2. A framework supporting the stability in the financial markets will be provided.
   - Under the pace of sales described above, the trustee may temporarily adjust the sales amount or suspend the sales, in response to changes in the condition of the financial markets.
   - The pace of sales may be modified at future MPMs, based on the fundamental principles and the experience from the sales to be conducted.
3. The disposal will begin once necessary operational preparations are completed.

Overview of Japan Financial Literacy and Education Corporation (J-FLEC)

Name
Japan Financial Literacy and Education Corporation (J-FLEC)

Establishment
April 5, 2024

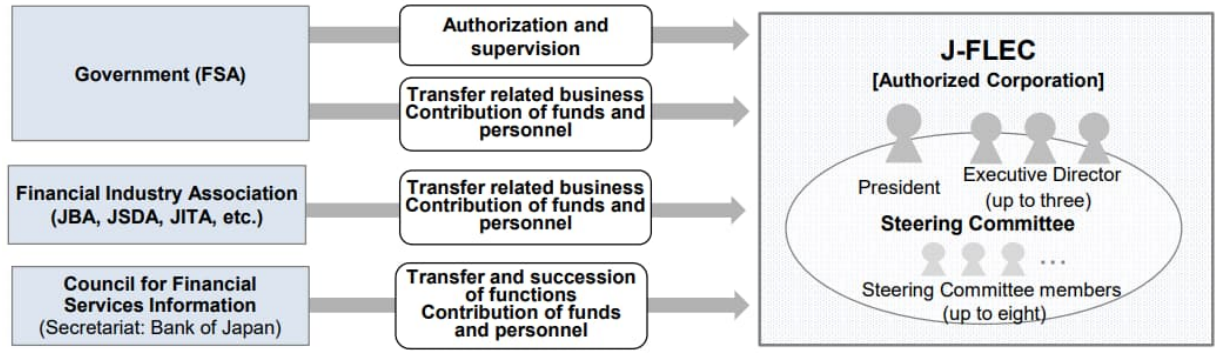
Capital
Government: 50 million yen
Bank of Japan: 25 million yen
Japanese Bankers Association (JBA): 12.5 million yen
Japan Securities Dealers Association (JSDA): 12.5 million yen

* Excluding initial costs disbursed by the government

Legal basis
Act on Provision of Financial Services and Improvement of User Environment (effective February 1, 2024)

Purpose
Promote teaching and guidance (financial education) in order to acquire financial and/or economic knowledge that contributes to the appropriate use of financial services, and to develop abilities to utilize such knowledge.

Number of employees
Approximately 70

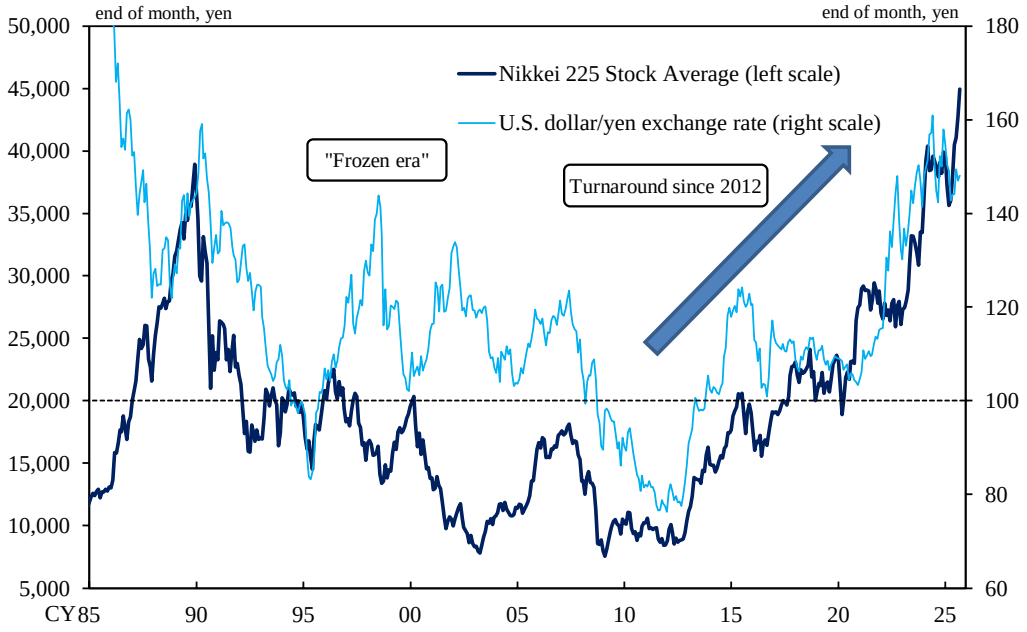


Note: FSA and JITA stand for the Financial Services Agency and the Investment Trusts Association, Japan, respectively.
Source: J-FLEC.

Chart 18

Stock Prices and Exchange Rate

(Both have turned around from the "frozen era" since 2012)

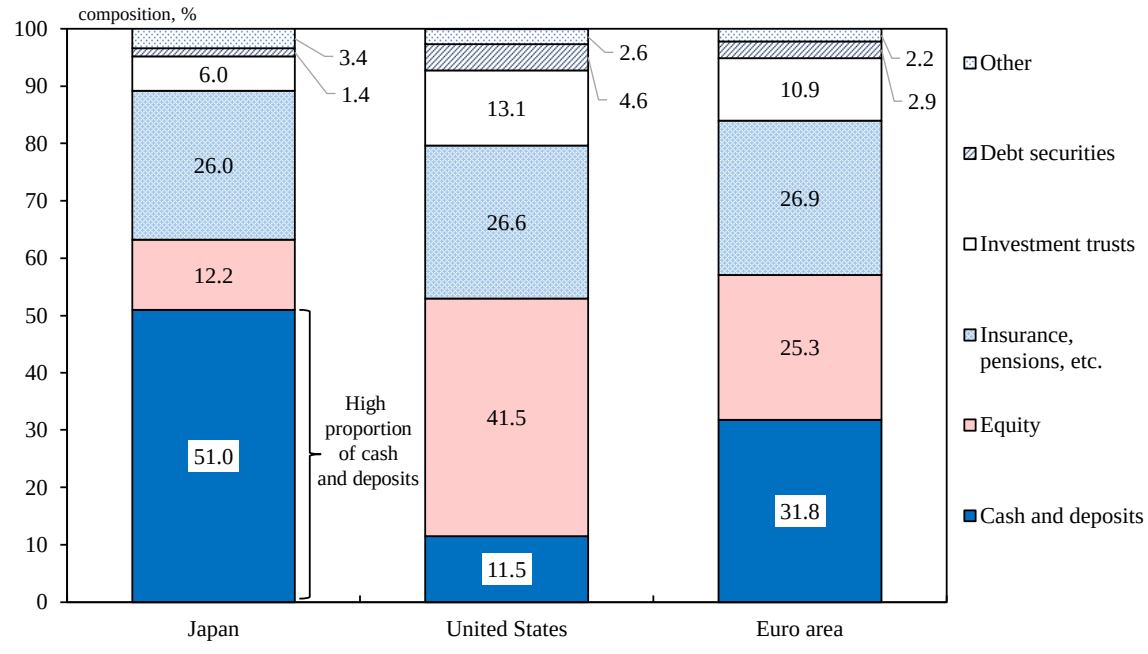


Source: Bloomberg.

Chart 19

International Comparison of Household Financial Assets

(Japan has a high proportion of cash and deposits)

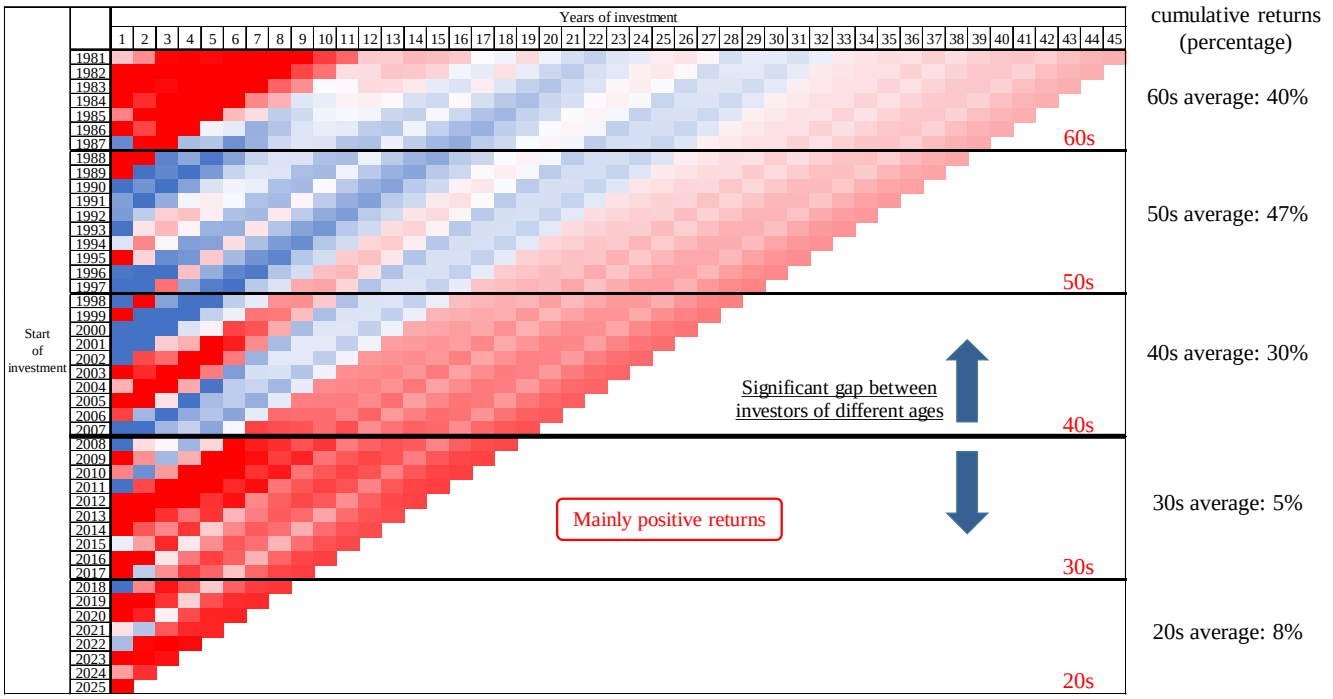


Note: Figures are as of end-March 2025.

Source: Bank of Japan.

Chart 20

Cumulative Returns from Investment in Japanese Stocks by Age of Investors



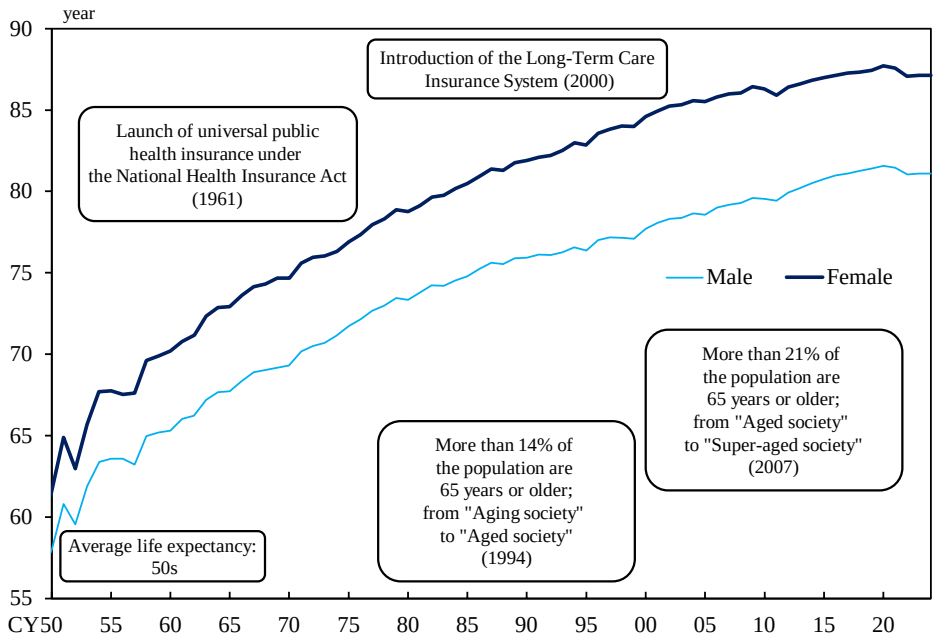
Note: Cumulative returns are estimated as of the end of September 2025 by age of investors, based on the assumption that a fixed amount of the Nikkei 225 Stock Average is purchased every month from the beginning of the year. Red shows positive returns and blue shows negative returns. Darker shades show larger positive or negative returns. Percentages for the period with negative cumulative returns are calculated by dividing "years with negative cumulative returns as of the year end" by "total years of investment."

Source: Bloomberg.

Chart 21

Average Life Expectancy in Japan since the Post-War Period

(Rose from 50s to 80s)



Source: Ministry of Health, Labour and Welfare.

Chart 22

Risk Transformation Function of Banks Supporting Japan's Economic Growth

(From commercial banking model to multi-pronged model)

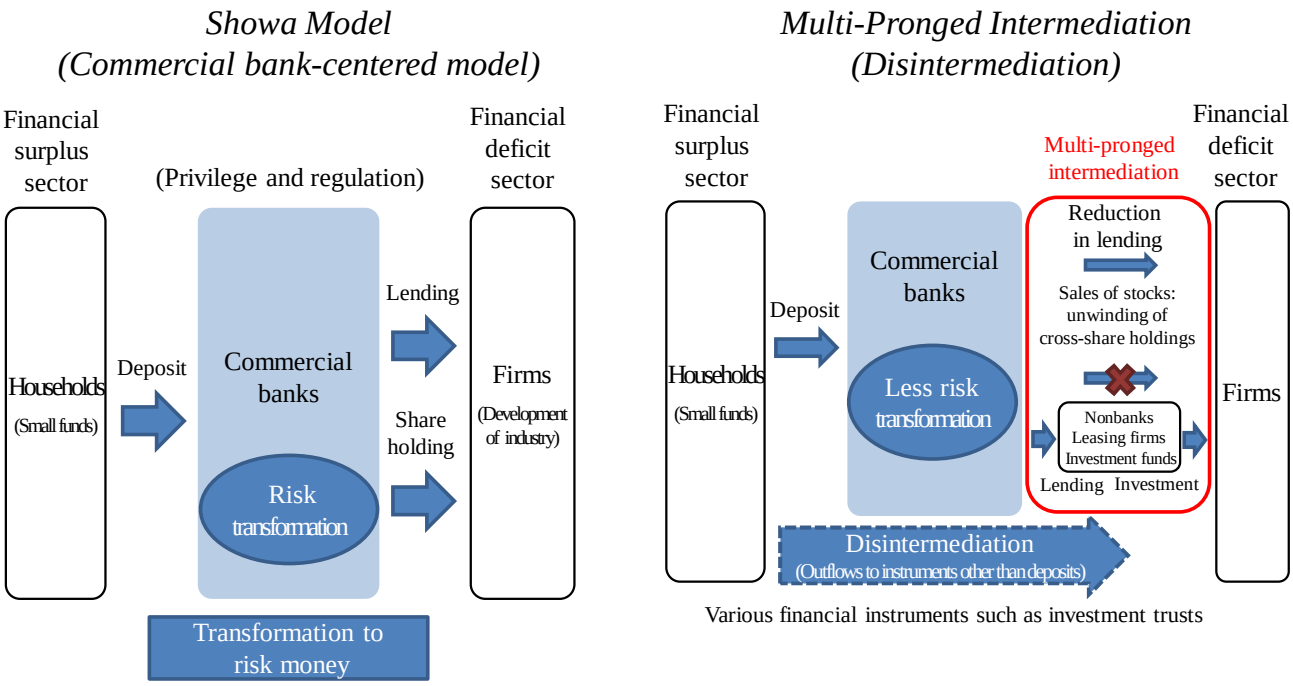
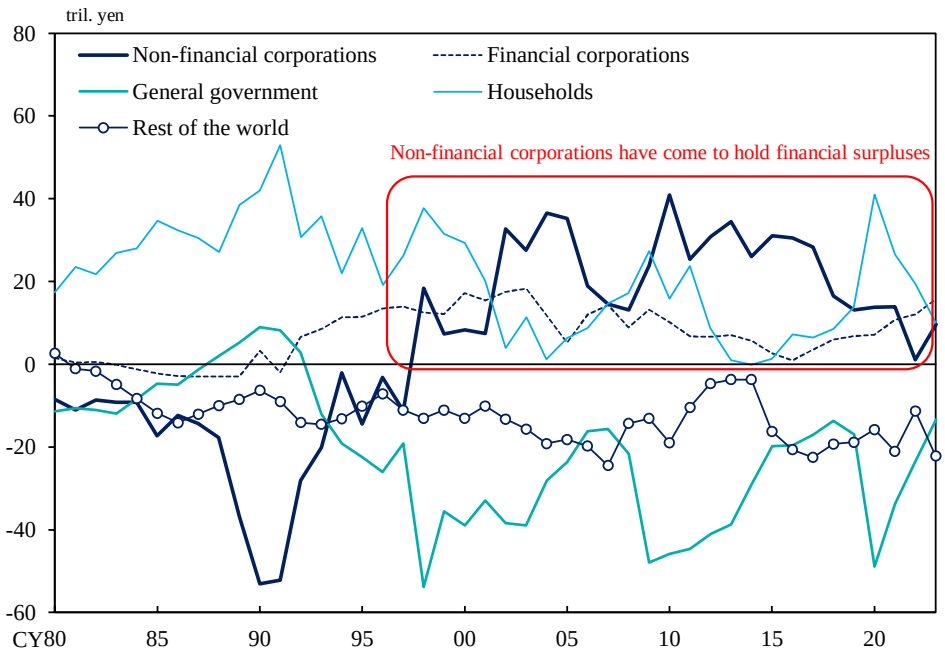


Chart 23

Japan's Investment-Savings Balance

(Firms have come to hold financial surpluses)



Source: Cabinet Office.

Chart 24

Shift from "Showa Model" to "100-Year Life Model"

(Horizontal shift: shift from money flow within the working generation to intergenerational finance)

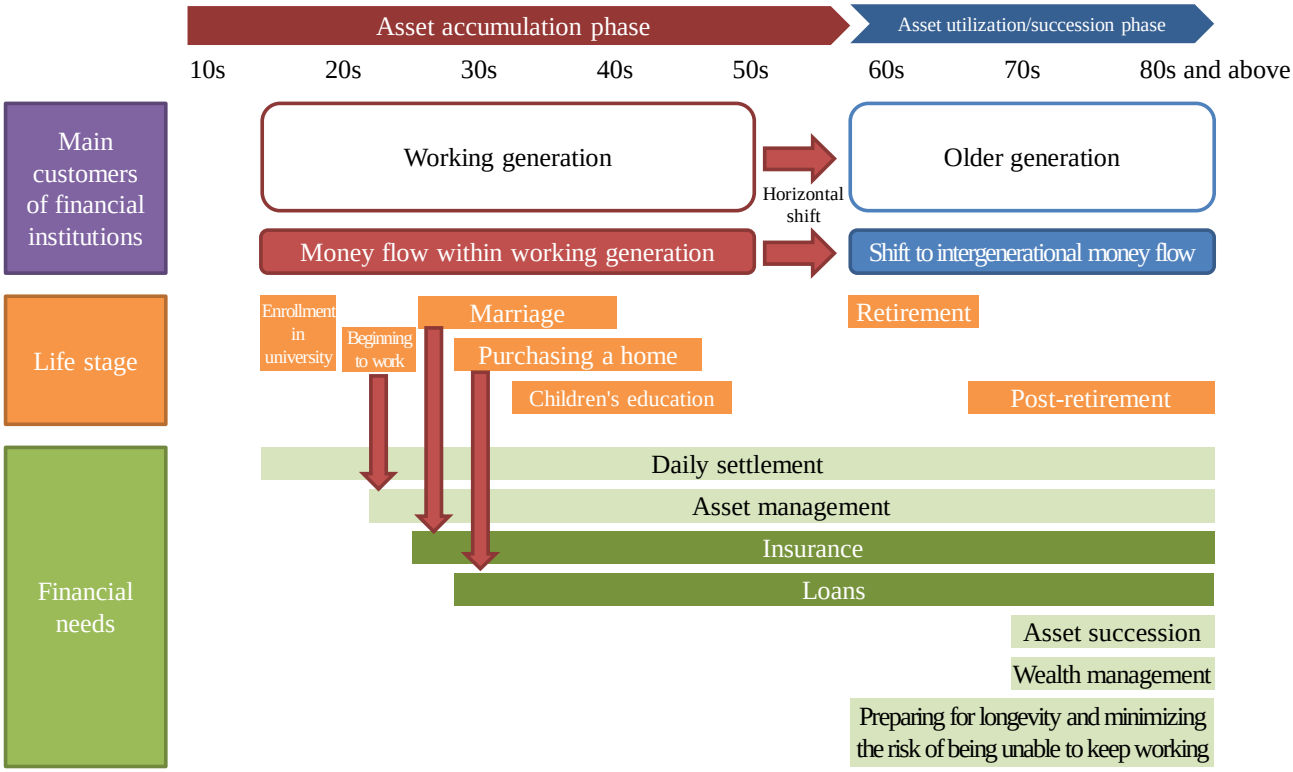
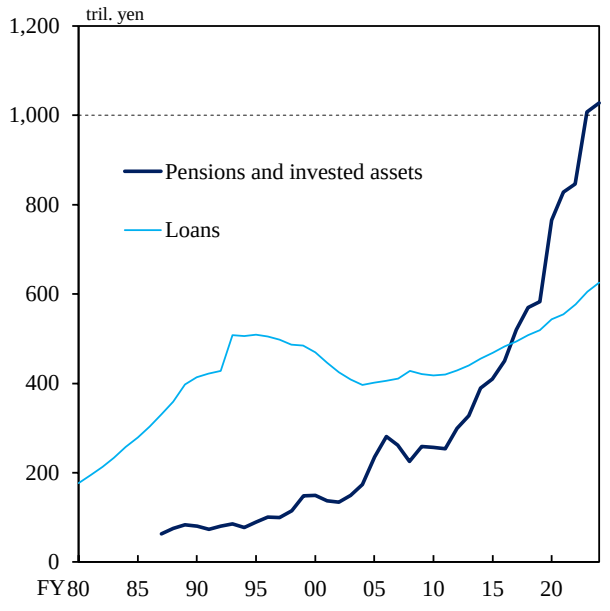


Chart 25

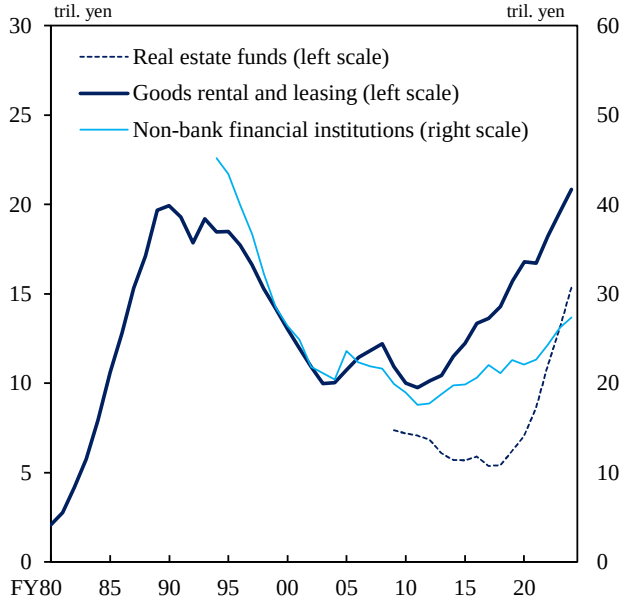
Amount Outstanding of Loans, Pensions, and Invested Assets in Japan

(Shift to increases in asset management and multi-pronged financial intermediation)

Amount Outstanding of Loans, Pensions, and Invested Assets



Loans by Sector



Note: Amount outstanding of pensions and invested assets is the sum of securities investment trusts and assets under management (including some overlaps). Loans are those of domestic banks.

Sources: Japan Investment Advisers Association; Bank of Japan.

Chart 26

Developments Affecting Asset Management in Japan and the United States

(Both economic environment and institutional conditions -- two wheels of a cart -- are fulfilled in Japan for the first time)

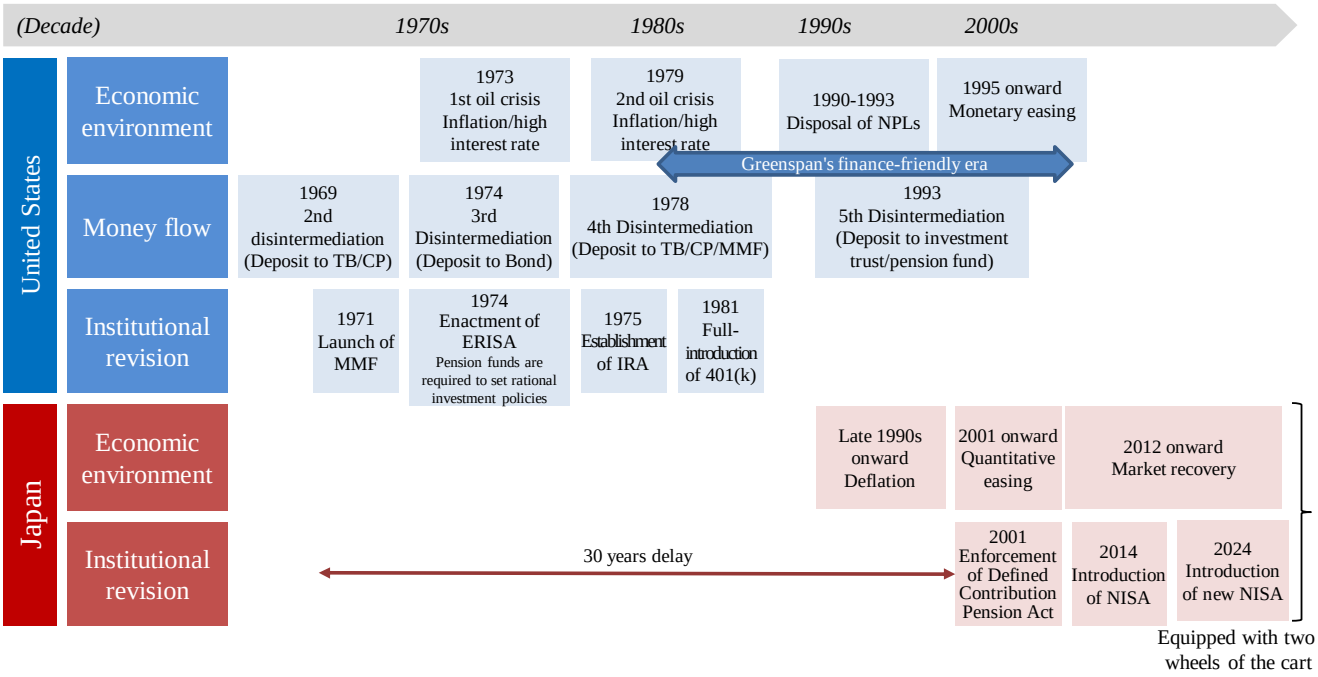


Chart 27

Shift from Uniform Life Model to Multi-Pronged Model

(Vertical shift: diversification of financial needs)

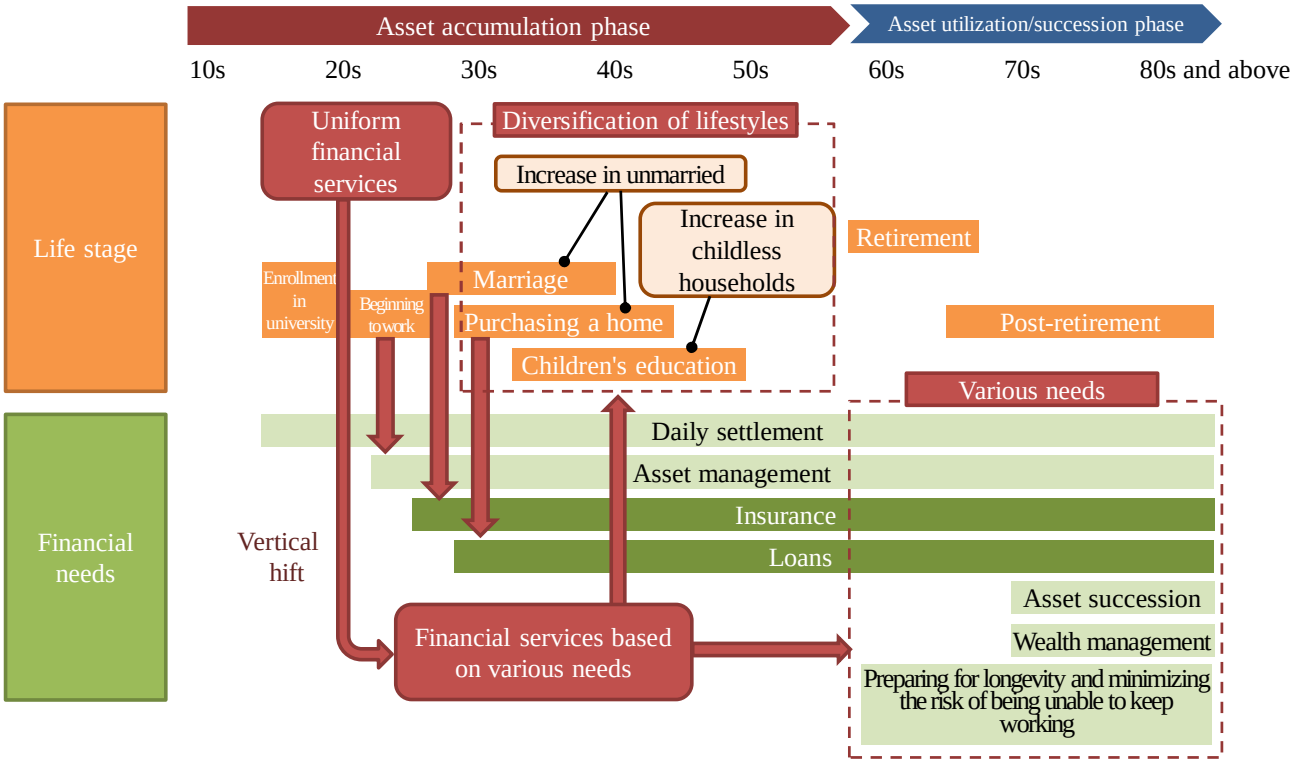


Chart 28

My View on Mechanism of Expanding Corporate Profits and Ensuing Challenges

(Toward establishment of an investment chain)

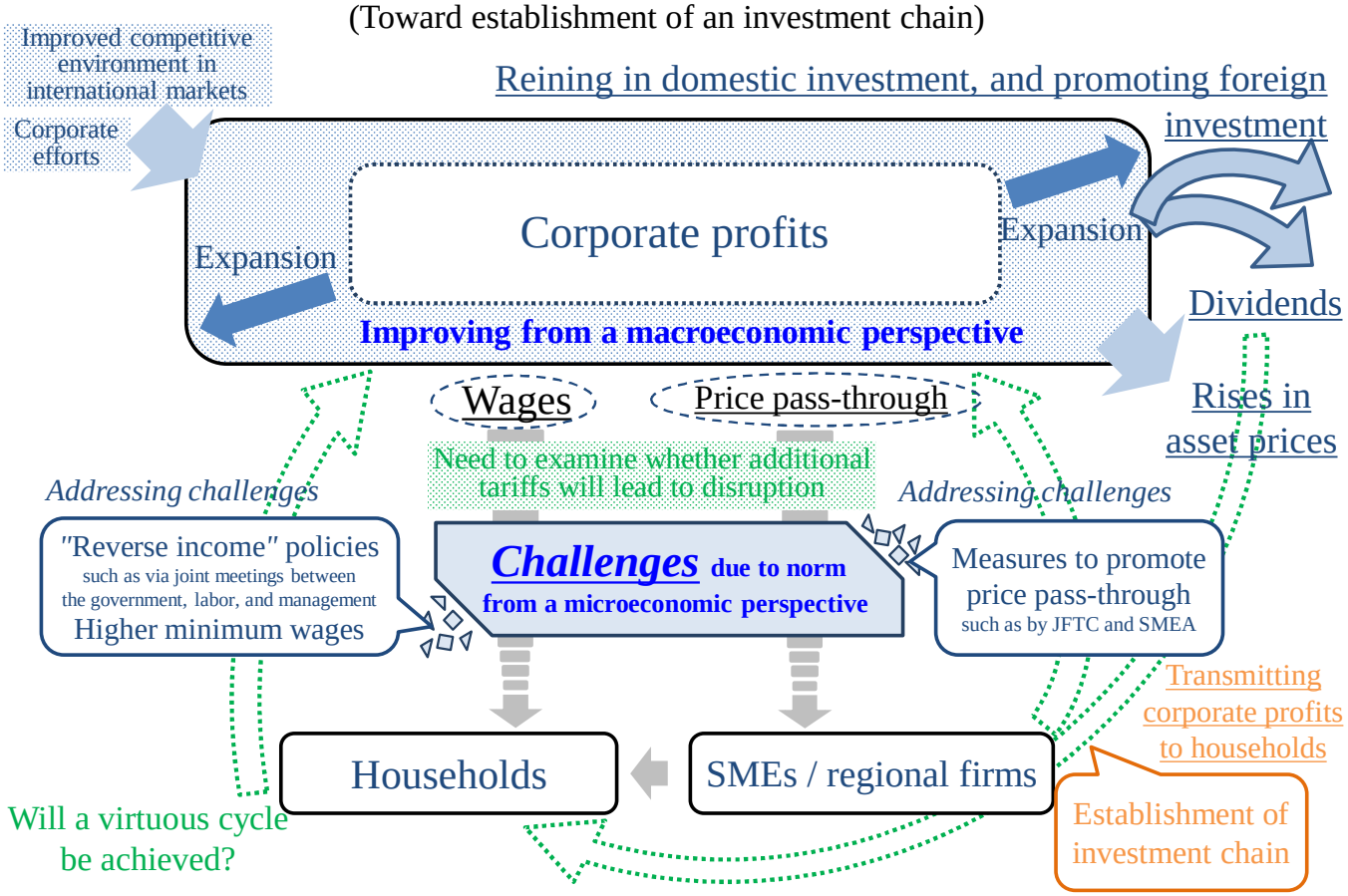
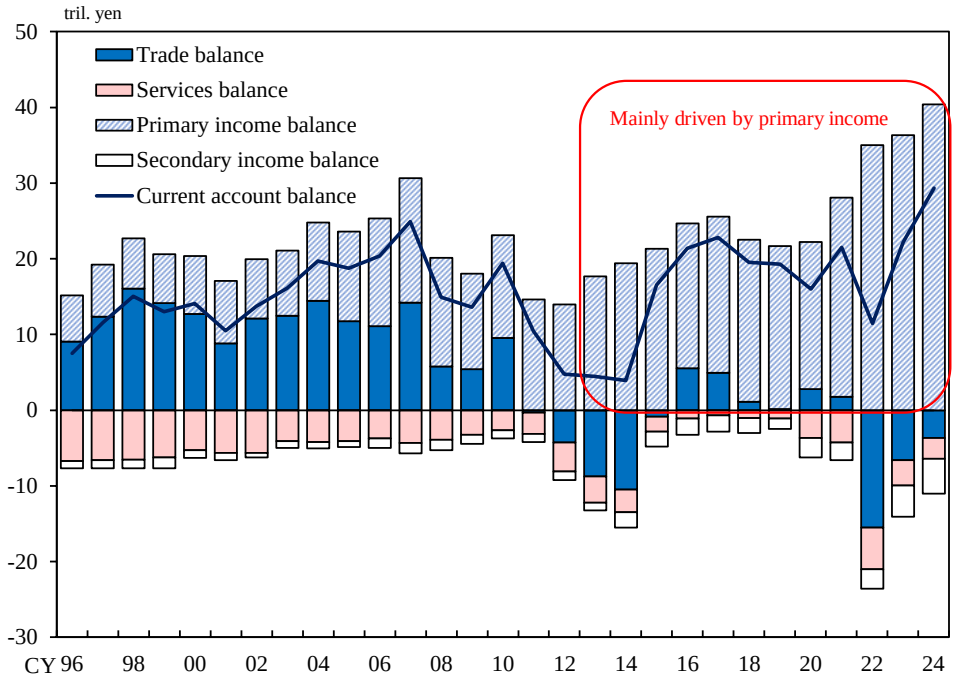


Chart 29

Developments in Japan's Current Account Balance

(Shift to an investment-driven balance mainly driven by primary income)

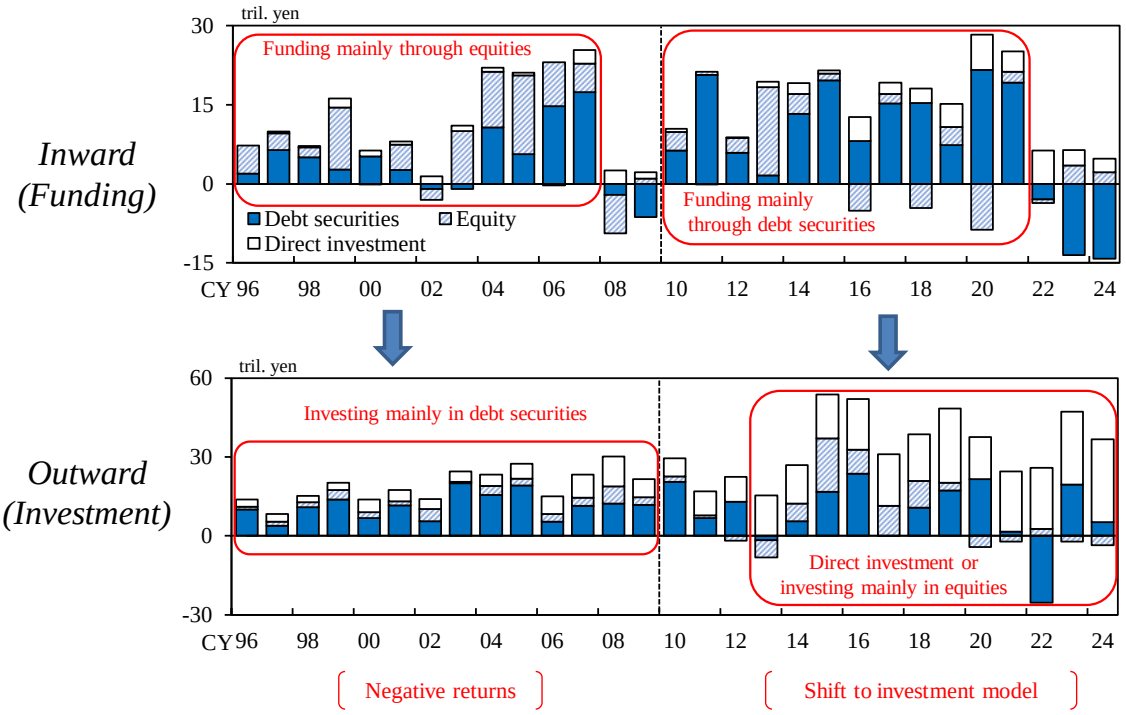


Sources: Ministry of Finance; Bank of Japan.

Chart 30

Macro Money Flow in Japan

(Nationwide shift to an investment model)



Sources: Ministry of Finance; Bank of Japan.

Chart 31

Transformation of Money Flow

(From "Showa model" to "100-year life model")

Showa model	Frozen era	100-year life model
Firms faced financial deficits	Firms fell into a shrinking equilibrium	Firms face financial surpluses
Bank-centered financial intermediation	Credit crunch of banks	Money flow to pensions and asset management, in addition to banks
Deposit-centered household assets	Cash and deposit-centered household assets to hedge against deflation	Diversified asset management other than holding deposits: disintermediation through investment in instruments other than deposits
Single-track deposits and loans	Credit crunch under deflation	Multi-pronged financial intermediation