



November 10, 2025
Bank of Japan

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

Speech at a Meeting of the Okayama Club

NAKAGAWA Junko

Member of the Policy Board

(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity to address the members of the Okayama Club today. I would like to begin by talking about the current situation of Japan's economic activity and prices and the outlook, and then talk about the Bank of Japan's conduct of monetary policy. Afterward, I look forward to hearing from you about the situation this region is currently facing, and I would also be grateful to hear your views on the Bank's policies and business operations.

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

A. Current Economic Developments in Japan

The Bank judges that Japan's economy has recovered moderately, although some weakness has been seen in part.

1. Corporate sector

Let me start with corporate activity.

Please take a look at Chart 1. The *Financial Statements Statistics of Corporations by Industry, Quarterly*, for the April-June quarter of 2025 showed that current profits for all industries increased by 0.2 percent year on year, maintaining high levels at around the historical peak (left panel of Chart 1). While the current profits of manufacturers decreased by 11.5 percent year on year, those of nonmanufacturers increased by 6.6 percent, reaching high levels at around the historical peak. The decrease among manufacturers mainly reflects the fact that Japanese automakers have so far responded to U.S. tariff hikes by absorbing a large part of the impact through lowering export prices. Meanwhile, the increase in the current profits of nonmanufacturers reflects solid performance across a wide range of industries, owing to, for example, demand for services -- including inbound tourism -- and progress in passing on costs to selling prices.

A similar pattern is observed in business sentiment (right panel of Chart 1). The Bank's September 2025 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) showed that the diffusion index (DI) for business conditions has been at a favorable level for all industries; the DI for nonmanufacturing in particular was at a more favorable level. The DI for

manufacturing remained on a par with the previous June survey. This is likely attributable to the fact that the agreement in the Japan-U.S. tariff negotiations reached in July has reduced uncertainties in the outlook, and that the additional tariff rates on Japanese exports were set at levels that would not disadvantage Japanese exports vis-à-vis the exports of other economies.

Please turn to Chart 2. Real exports have remained more or less flat as a trend (left panel of Chart 2). Since the beginning of 2025, however, they have seen a front-loading due to the tariff hikes and a subsequent reactionary decline. Data by region indicate that exports to the United States decreased by 8.0 percent for the July-September quarter from the previous quarter due to, for example, the effects on automobile exports from the suspension of production lines at some automakers (middle panel of Chart 2). On the other hand, exports to the NIEs and to ASEAN and some other Asian economies increased, reflecting solid global AI-related demand, in addition to moves firms have taken in view of the possible introduction of U.S. tariffs on semiconductors.

Firms have maintained their appetite for fixed investment, despite the impact of U.S. tariff policy on their business performance and uncertainties regarding the outlook (right panel of Chart 2). Business fixed investment plans in the September 2025 *Tankan* indicated that the year-on-year rate of increase in investment remained at a relatively high level of 10.3 percent for fiscal 2025 -- marking the same pace of growth as in the September 2024 survey. This reflects investment demand in digital areas -- including AI -- and for labor saving, as well as strong construction demand related to, for example, logistics facilities and urban redevelopment.

2. Household sector

Next, I would like to focus on the household sector.

With regard to the employment and income situation, please look at Chart 3. In nominal terms, employee income -- the total amount of wages earned by all employees -- has continued to show a considerable increase (left panel of Chart 3). Moreover, in recent years, this has been driven more significantly by growth in nominal wages than in the number of employees. In

real terms based on the consumer price index (CPI), the year-on-year rate of change in employee income has been at around 0 percent, reflecting CPI inflation. The number of employees has also increased, mainly in the information and communications industry and in the medical, healthcare, and welfare services industry, both of which have faced severe labor shortages. Wage growth has been driven both by the high wage growth rate agreed in the 2025 annual spring labor-management wage negotiations and by an increase in bonus payments on the back of favorable corporate profits.

Private consumption has remained resilient, underpinned by the improvement in the employment and income situation (right panel of Chart 3). That said, consumption of nondurable goods -- such as clothing -- has remained relatively weak, reflecting consumers' increased thriftiness amid a rise in food prices. Services consumption, which had continued on a moderate uptrend, has recently become more or less flat.

B. Current Price Developments in Japan

Let me move on to price developments in Japan. Please refer to Chart 4.

Inflation indicators have continued to see high growth, mainly due to the effects of the rise in rice and other food prices, in a situation where more firms have revised prices to reflect increases in, for example, wages and distribution costs (left panel of Chart 4).

Let us look at the breakdown of the year-on-year rate of change in the CPI excluding fresh food, energy, and the effects of government policies and other factors listed in the note for the right panel of Chart 4. The rate of increase in goods prices accelerated significantly after the COVID-19 pandemic, due mainly to higher commodity and import prices. The rate has once again accelerated since the second half of 2024; this time owing to the effects of the rise in food prices. The rate of increase in general services prices -- which remained barely unchanged for a long time -- has also accelerated, led by recent rises in dining-out prices and mobile phone charges, reflecting the pass-through of utility costs, personnel expenses, and other costs. The rate of change in administered prices has also increased.

Under these circumstances, medium- to long-term inflation expectations have risen moderately on the whole, toward 2 percent. The rise in such expectations over the past few years has been more pronounced than in the past.

II. Outlook for and Risks to Economic Activity and Prices

A. Outlook for Firms' and Households' Economic Activity

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

With regard to overseas economies, there is no change in the envisaged main scenario; that is, the economies are projected to experience a slowdown for a while, due to the impact of U.S. tariff hikes, but then see a gradual acceleration in their growth rate and return to a moderate growth path.

Corporate profits in Japan, while remaining at high levels, are likely to remain on a declining trend for the time being, mainly in manufacturing, reflecting the effects of a deterioration in export profitability due to U.S. tariff hikes and of the slowdown in overseas economies. Corporate profits are subsequently expected to return to an improving trend, supported by a rise in exports stemming from the recovery in overseas economies and by an increase in private consumption fueled by growth in real wages.

Although business fixed investment is likely to be supported by moves to clear order backlogs and by brisk labor-saving investment, its growth momentum is projected to slow temporarily against the background of uncertainties regarding trade policies. Thereafter, however, the growth momentum is likely to increase. This is because, with reduced uncertainties regarding their earnings outlook, firms are expected to be able to actively undertake forward-looking investment, such as that for capacity expansion to respond to higher demand. Labor-saving investment, mainly to address labor shortages, will also likely support the growth momentum.

The pace of increase in nominal employee income is projected to decelerate somewhat due to the decline in corporate profits. However, with continuing tight labor market conditions, its growth momentum is likely to increase to some extent thereafter in tandem with the recovery in profits.

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

As for the outlook for prices, the year-on-year rate of increase in the CPI is expected to moderate, as the positive contribution stemming from the rise in rice and other food prices, which has significantly led CPI inflation, dissipates. The Bank deems that the price rises seen thus far can also be attributed to the shift in the behavior of firms more toward raising wages and prices. Careful attention is therefore warranted to how such behavior will develop going forward.

The outlook I have outlined here factors in the projections that, for example, labor productivity will increase by a certain degree due to labor-saving investment and that the terms of trade, which reflect the prices of crude oil and other goods, will head toward improvement.

B. Outlook for Economic Activity and Prices

Next, I would like to touch on the price forecasts of the majority of the Policy Board members, decided at the October 2025 Monetary Policy Meeting (MPM) (Chart 5).

In terms of the median of the Policy Board members' forecasts, the real GDP growth rate is projected to be 0.7 percent for fiscal 2025, 0.7 percent for fiscal 2026, and 1.0 percent for fiscal 2027. Comparing these with the projections presented in the previous *Outlook for Economic Activity and Prices* (Outlook Report), the projected growth rates are more or less unchanged.

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, also

in terms of the median of the forecasts. The projected rates of increase are likewise more or less unchanged from those presented in the previous report.

The high CPI growth for fiscal 2025 is due to the factors that I explained earlier (Chart 4). The year-on-year rate of increase in the CPI is likely to decelerate temporarily as inflationary pressures wane over time. However, it is likely that the mechanism by which wages and prices rise moderately in interaction with each other will be maintained. Thereafter, the rate of increase in the CPI is expected to accelerate gradually, alongside the rise in medium- to long-term inflation expectations, since it is projected that a sense of labor shortage will grow more acute as the economic growth rate rises.

C. Risks to Economic Activity and Prices

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

The first concerns the outlook for the U.S. economy. In recent years, U.S. economic growth has been driven by private consumption and business fixed investment by major IT firms, both of which were mainly supported by high stock prices (left panel of Chart 6). Factors such as corporate dynamism, or the increased entry and exit of firms, the shift of labor to higher-productivity sectors, and the rising number of immigrants have also contributed to economic growth. While consumer prices have shown a moderate rise recently, the impact of tariff hikes on these prices seems to be limited so far (middle panel of Chart 6). It is possible that this impact will become more pronounced in prices and economic activity, and that significant workforce reductions in the government sector as well as a decrease in labor supply due to immigration policy will exert downward pressure on economic growth (right panel of Chart 6). Moreover, attention should be paid to the possibility of considerable adjustments in asset prices and a significant deceleration in the U.S. economy if growth expectations for AI-related investment, which has driven economic growth to date, are adjusted.

The second risk concerns the impact of trade and other policies in each jurisdiction. The very recent U.S.-China summit, for example, is viewed as having made positive progress; as China

leverages its technological capabilities and competitiveness to expand exports to countries other than the United States, this could depress corporate profits in those countries, exert downward pressure on the global economy, and ultimately affect Japan's economy. On the other hand, if countries around the world implement expansionary fiscal policies in response to the outcome of tariff negotiations and tariff policies, global economic growth could turn out to be stronger than expected.

The third risk concerns the wage- and price-setting behavior of Japanese firms, as well as its impact on economic activity and prices in Japan. On the one hand, although Japanese firms are likely still in the process of revising prices in response to past price rises, their behavior has been shifting more toward raising wages and prices in the context of economic and price developments so far. With growing expectations that labor market conditions in Japan will remain tight, wage hikes and the pass-through of higher wages to selling prices could both become stronger than projected. The resultant price rises could then affect household sentiment and inflation expectations. On the other hand, if firms find it difficult to pass on costs to selling prices, mainly due to weakened demand, their profits could face downward pressure. In response, they might lean more strongly toward cost-cutting, which could, in turn, weaken moves to reflect price rises in wages.

III. The Bank's Conduct of Monetary Policy

Thus far, the Bank has maintained accommodative financial conditions to firmly support economic activity and has adjusted the policy interest rate with a view to achieving the price stability target of 2 percent in a sustainable and stable manner. At present, based on its outlook for Japan's economic activity and prices, the Bank is conducting money market operations in line with the guideline calling for it to encourage the uncollateralized overnight call rate -- its policy interest rate -- to remain at the target level of "around 0.5 percent."

The Bank has also proceeded with efforts to reduce the size of its balance sheet. Since summer 2024, it has been reducing its Japanese government bond (JGB) purchases gradually, so that it can improve the functioning of the JGB markets in a manner that supports stability in the JGB markets, based on the principle that long-term interest rates are to be formed in financial markets (Chart 7). At the June 2025 MPM, the Bank decided on a new plan for the reduction

of its monthly outright purchases of JGBs, so that the purchase amount will be about 2 trillion yen in the January-March quarter of 2027; the amount will be cut down, in principle, by about 400 billion yen each calendar quarter until the January-March quarter of 2026, and by about 200 billion yen each calendar quarter from the April-June quarter of 2026. The Bank also decided at this meeting to discuss a guideline for its JGB purchases from April 2027 at the June 2026 MPM and announce the results. At the September 2025 MPM, it decided to sell exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs), at a respective pace of about 330 billion yen and about 5 billion yen per year on a book value basis, in an effort to avoid inducing destabilizing effects on the financial markets as much as possible (Chart 8).

With regard to the future conduct of monetary policy, given the current level of real interest rates shown in Chart 9, if its outlook for economic activity and prices is realized, the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation in response to improvement in economic and price developments.

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

Thank you.



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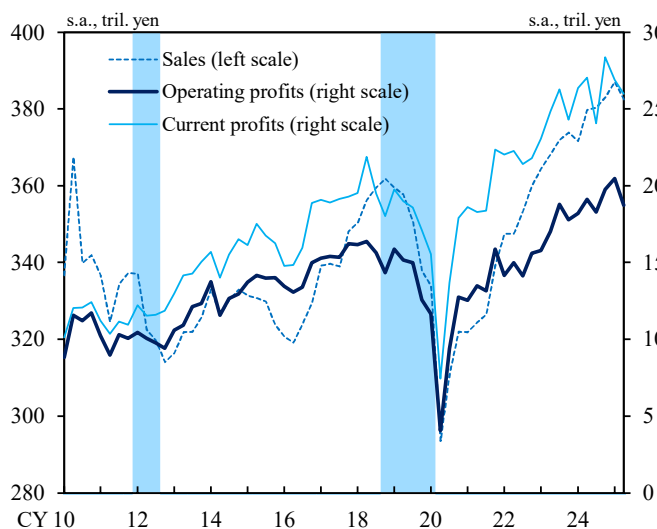
November 10, 2025

NAKAGAWA Junko
Member of the Policy Board
Bank of Japan

Chart 1

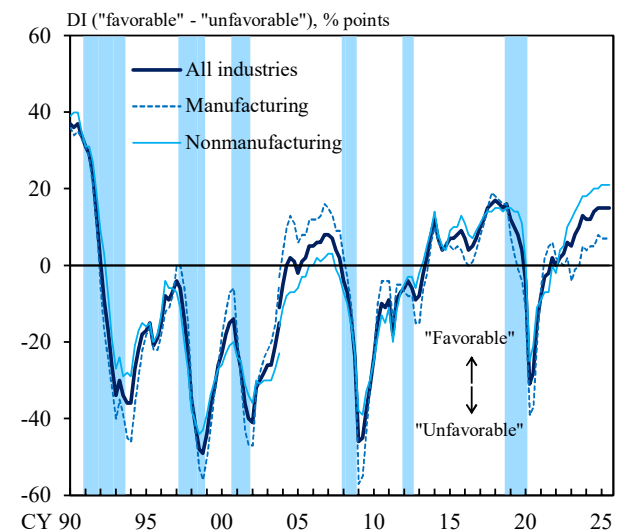
Corporate Sector

Corporate Profits



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry*, Quarterly. Figures exclude the finance and insurance industries and pure holding companies.
2. Shaded areas denote recession periods.
Source: Ministry of Finance.

Business Conditions



Notes: 1. Figures are based on the *Tankan* and are for 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.

Chart 2

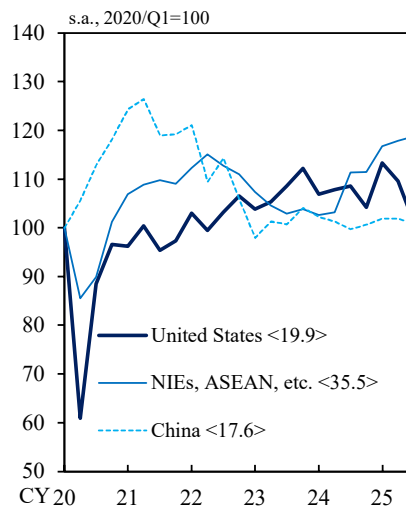
Corporate Sector

Real Exports

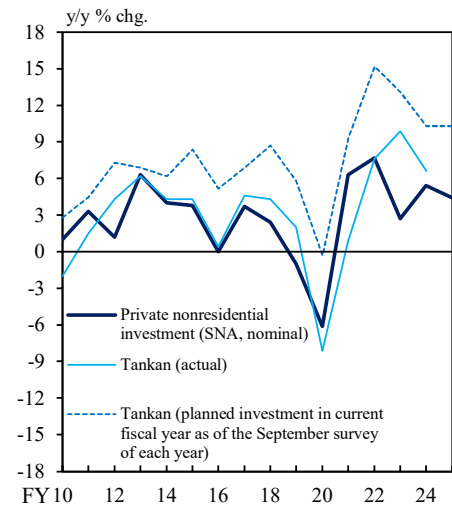


Note: Based on Bank staff calculations. Figures in angle brackets show the share of each country or region in Japan's total exports in 2024.
Sources: Ministry of Finance; Bank of Japan.

Real Exports by Region



Planned and Actual Business Fixed Investment (Nominal)

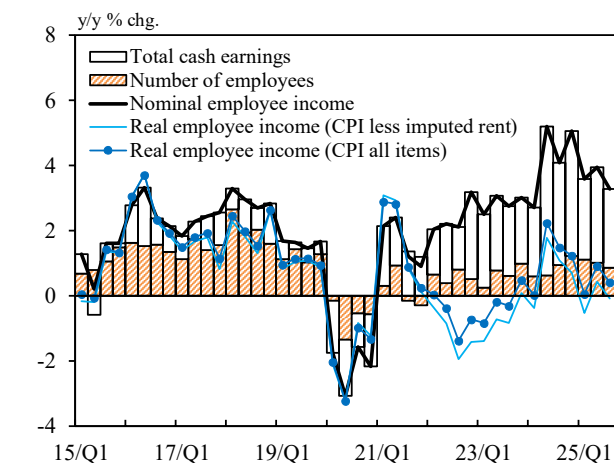


Notes: 1. The *Tankan* figures include software investment and research and development (R&D) investment but exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. Figures are for all industries including financial institutions.
2. The figure for private nonresidential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

Chart 3

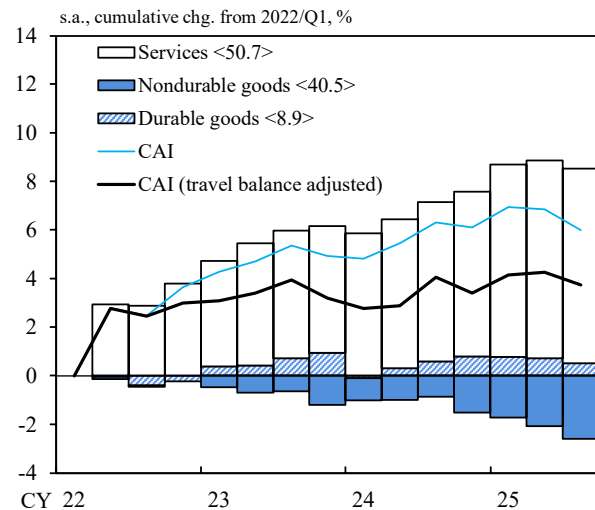
Household Sector

Employee Income



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

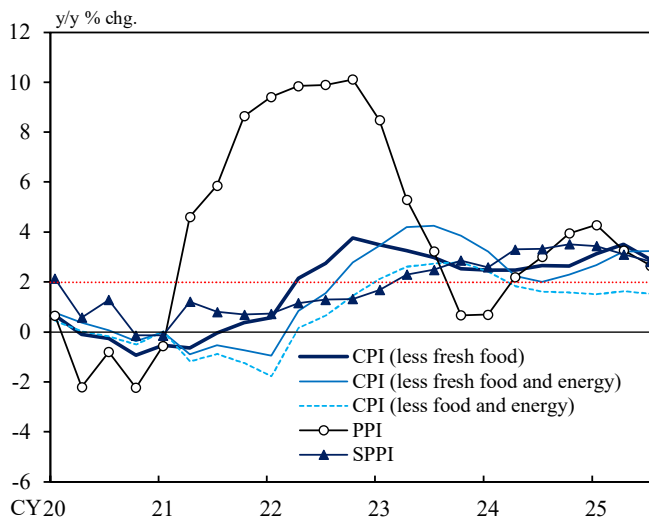
Real Private Consumption



Notes: 1. Based on Bank staff calculations. Figures for the Consumption Activity Index (CAI, travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. Figures for 2025/Q3 are July-August averages.
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

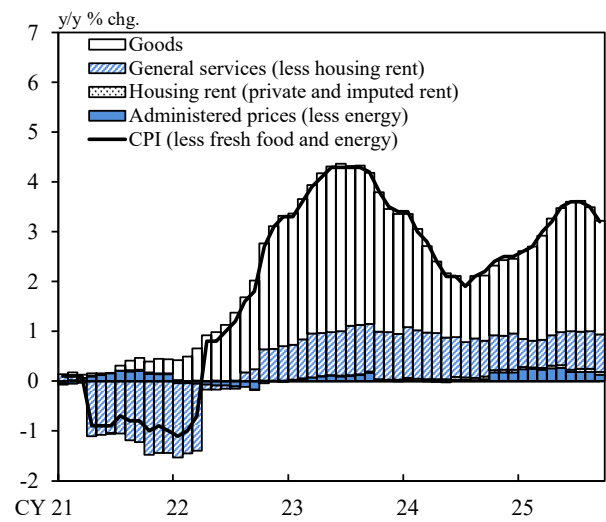


Notes: 1. Figures for the producer price index (PPI) are adjusted for the hike in electric power charges during the summer season. Figures for the services producer price index (SPPI) exclude international transportation.

2. Figures for "food" in the CPI exclude alcoholic beverages.

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

CPI (Less Fresh Food and Energy)



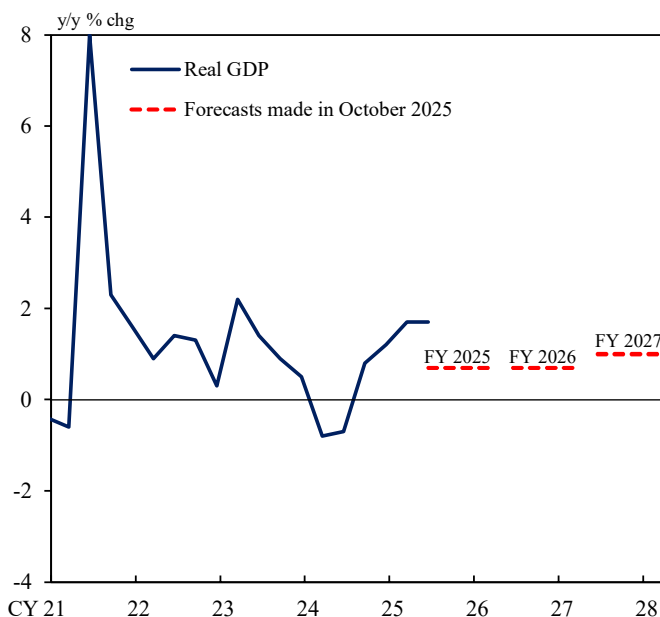
Notes: 1. Administered prices (less energy) consist of public services and water charges.

2. CPI figures are Bank staff estimates and exclude the effects of the consumption tax hike, free education policies, and travel subsidy programs.

Source: Ministry of Internal Affairs and Communications.

Outlook for Economic Activity and Prices (October 2025)

Real GDP



Note: Forecasts presented are the medians of the Policy Board members' forecasts.

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

CPI (Less Fresh Food)

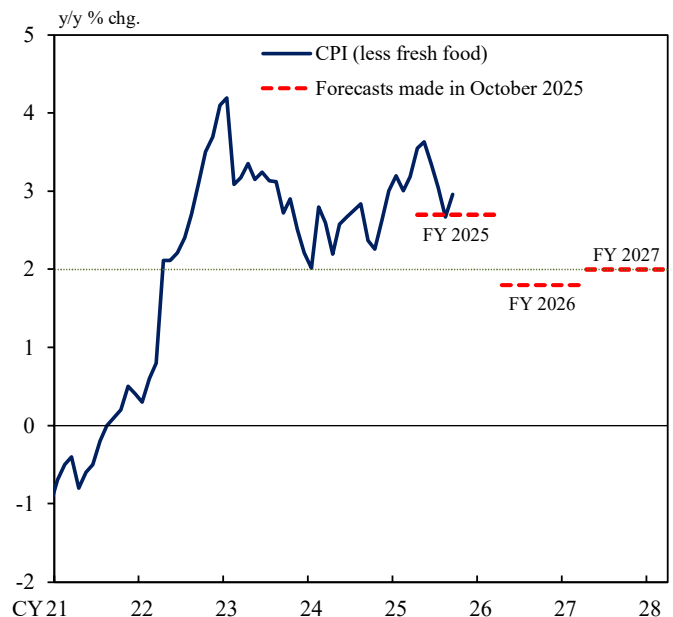
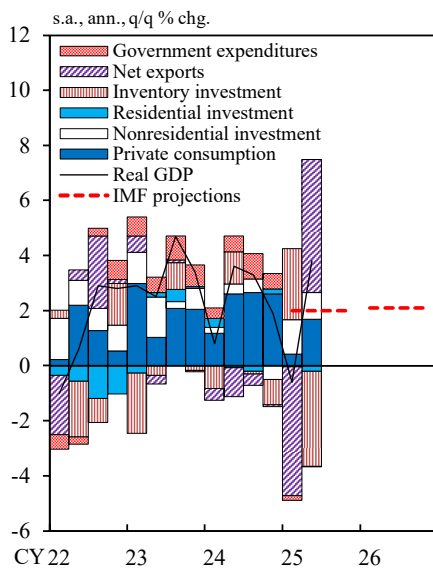


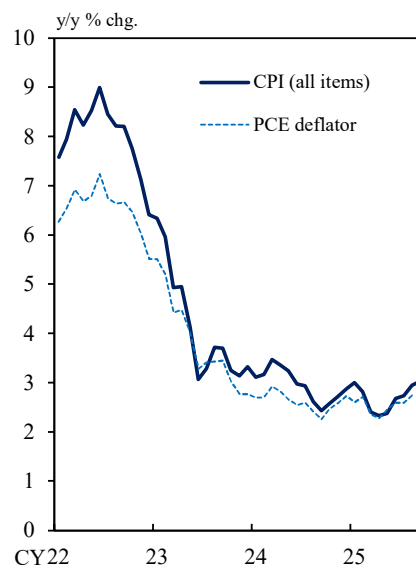
Chart 6

U.S. Economy

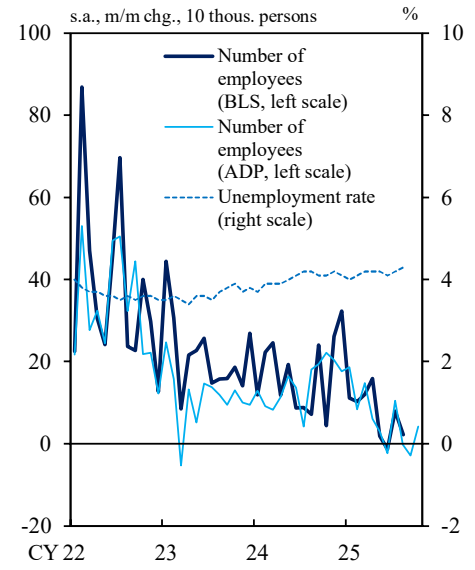
Real GDP



Consumer Prices



Labor Market



Notes: 1. In the left panel, IMF projections are those as of October 2025.

2. In the right panel, number of employees refers to nonfarm payroll employment figures from the Bureau of Labor Statistics (BLS) and total nonfarm private payroll employment figures from Automatic Data Processing, Inc. (ADP).

Sources: ADP; Bureau of Economic Analysis; BLS; IMF.

Chart 7

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

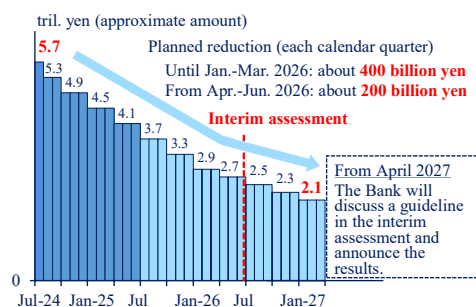
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

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

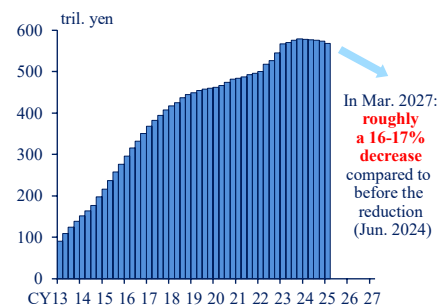
- Until January-March 2026 : about **400 billion yen** (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027: about **200 billion yen**
- The Bank will **gradually reduce** its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



Allowing Enough Flexibility

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

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 About 150 billion yen (Market value) (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.

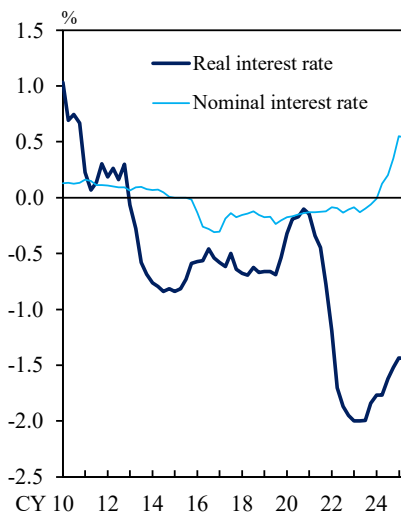
- Under the pace of sales described above, the trustee may temporarily adjust the sales amount or suspend the sales, in response to changes in the condition of the financial markets.
- The pace of sales may be modified at future MPMs, based on the fundamental principles and the experience from the sales to be conducted.

3. The disposal will begin once necessary operational preparations are completed.

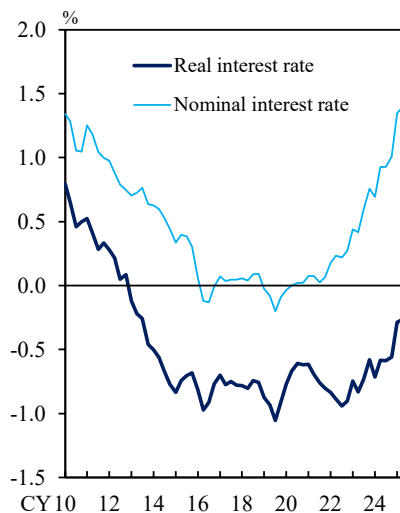
Financial Conditions

Real Interest Rates

1-Year

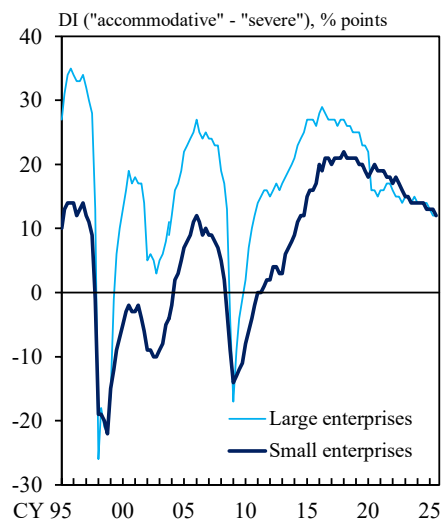


10-Year



Note: Figures for real interest rates are calculated as government bond yields for the corresponding maturity 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



Note: Figures are based on the *Tanken* 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.