November 20, 2025

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Niigata

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(English translation based on the Japanese original)

I. Current Situation and Outlook for Economic Activity and Prices

There is now just over a month left in the year. Looking back on this year, the *kanji* character for "rice" -- also used in the Japanese word for "United States" -- often caught my attention in news coverage. First of all, extremely high uncertainties emerged over U.S. trade policy this spring. If trade policy, among other factors, exerts downward pressure on overseas economies, Japan's external demand will likewise be undermined. If the profits of exporting firms and their fixed investment decline, this could also exert downward pressure on the economy. Meanwhile, the price of rice, a staple food in Japan, began to surge in the second half of last year. Amid high inflation against the background of increases in the price of various food items, the attention given to rice prices may have had an impact on consumers' perceived inflation.

Today, I would like to talk about the current situation and outlook for economic activity and prices, keeping in mind the impact of U.S. trade policy and rice prices, and the magnitude of the impact.

Economic Developments Abroad

Let me begin with developments in overseas economies. Please take a look at the left panel of Chart 1. Here, overseas economies are represented by the average real GDP growth rate of Japan's trading partners, weighted by their share in Japan's exports. Looking back over the past three decades, the GDP growth rate of overseas economies fell sharply due to the global financial crisis (GFC) and the COVID-19 pandemic, but on average, these economies have seen an annual growth rate in the range of 3.5-4.0 percent. Regarding the outlook for overseas economies, no significant slowdown is expected, based on the projections released by the International Monetary Fund (IMF) in October 2025. Japan's total goods exports account for approximately one-sixth of its GDP, with roughly half of these exports destined for Asia. Exports to the United States make up around 20 percent of Japan's total exports. Since the future course of the global economy may depend on developments in the U.S. economy, it is crucial to monitor these developments, alongside those in other regions, when considering developments in external demand for Japan's economy. While U.S. domestic demand has been resilient recently, I believe that future developments in the economy may depend not

only on the current trade policy but also on changes in investment cycles and the employment situation, among other factors.

Economic Developments in Japan

Next, I would like to turn to Japan's economy. Please see the breakdown of the real GDP growth rate in the right panel of Chart 1. The economic growth rate in Japan has remained relatively low compared with that of overseas economies. Also, when major negative external shocks occurred, such as the GFC and the COVID-19 pandemic, domestic demand dropped sharply. Exports also dropped significantly at the time, and the economic growth rate fell into deeply negative territory. U.S. tariff policy launched this year may not have as significant an impact as previous major external shocks, but given the high degree of uncertainty, the need has arisen to ascertain the extent of the shock's impact.

Please take a look at the right panel of Chart 2, which illustrates real exports by type of goods. Exports have been somewhat weak recently in the steel and aluminum industries; these industries are classified under "motor vehicles and related goods" and "intermediate goods," both of which are subject to sectoral tariffs introduced by the U.S. administration. On the other hand, exports of semiconductors, which are classified under "IT-related goods," have been increasing, likely reflecting demand from the IT industry. Turning to the left panel of Chart 2, while exports to the United States have been weak recently, exports to the NIEs and ASEAN economies have been increasing, driven by semiconductor exports. All in all, I would not go so far as to say that exports have deviated downward from the trend.

Business fixed investment has also been firm recently (left panel of Chart 3). According to business fixed investment plans in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), the rate of increase in planned investment has been relatively high, similar to the level of last year (right panel of Chart 3). Reports from the latest meeting of the general managers of the Bank of Japan's branches also suggest that firms have solid demand for fixed investment to address labor shortages. Although uncertainties surrounding U.S. tariff policy remain, they have subsided recently. In the meantime, stock prices in Japan have reached record highs, backed by the global trend of uptick in stock prices. I believe that these factors have also acted as a driver to stimulate investment.

Corporate profits have been at elevated levels even for manufacturing, which faces concerns over the impact of tariffs (left panel of Chart 4). Business conditions have also been at a high level in terms of the diffusion index in the *Tankan*, against the backdrop of the continued high stock prices (right panel of Chart 4). However, some exporting firms affected by tariffs have not fully passed on the associated costs to U.S. selling prices; instead, they have absorbed part of the increased burden from tariffs by lowering yen-based export prices. As such, I consider it necessary to monitor how this will affect profits of exporting firms, including their affiliated firms. Such monitoring is also crucial to assess future developments in wage hikes.

In this profit environment, nominal wages have continued to rise steadily, supported in part by a rise in scheduled cash earnings, which exclude bonuses and overtime pay. That said, real disposable income -- which takes into account the burden of social security contributions and taxes -- has remained flat, in part because of higher prices (left panel of Chart 5). Scheduled cash earnings per full-time employee have increased by around 2-3 percent year on year, supported by base pay hikes, and hourly scheduled cash earnings per part-time employee have also increased steadily (right panel of Chart 5). As working-style reforms advance and working hours decline, I believe "hourly wages per employee" provides useful information, even when monitoring wages for full-time employees.

Regarding wage hikes, while annual wage revisions in the spring labor-management wage negotiations are important, there are also other wage developments that need to be monitored. For example, it would be useful to examine (1) the extent to which the minimum wage is raised, (2) how far winter bonuses reflect corporate profits, and (3) the degree to which switching jobs improves wages.

Turning to household spending, real consumption of nondurable goods, including food, has been weak, as indicated by the Consumption Activity Index (CAI, real), in light of higher prices, mainly of food, and other factors (left panel of Chart 6). Nonetheless, services consumption has been robust, and overall consumption seems to remain resilient, as indicated by the System of National Accounts (SNA), which is compiled using data on both the demand and supply sides (right panel of Chart 6).

Based on a comprehensive assessment of the aforementioned economic developments, my view is that Japan's recent economic indicators have been solid overall. The Bank's view in the October 2025 *Outlook for Economic Activity and Prices* (Outlook Report) is that the economy "has recovered moderately, although some weakness has been seen in part." I will discuss the outlook for economic activity and the risk balance later.

Price Developments in Japan

Next, I would like to discuss prices. While the consumer price index (CPI) relates closely to people's daily lives, it reflects the price of final goods, or business-to-consumer (B2C) prices. Hence, before addressing the CPI, I would like to discuss business-to-business (B2B) prices -- in other words, price pass-through between firms. To examine B2B prices, I think developments in import prices are a crucial factor. Please refer to the left panel of Chart 7. Since 2021, import prices have risen significantly, affected by higher crude oil prices and the yen's depreciation, among other factors. However, import prices have recently declined slightly, on a year-on-year basis.

The right panel of Chart 7 suggests that the producer price index (PPI) is influenced by developments in import prices. The breakdown of contribution indicates that the recent increase in the PPI is driven by the effects of surging food prices. This may reflect factors such as increases in personnel expenses and distribution costs, as well as developments in import prices, but it can also be assumed that food prices globally have been subject to greater volatility, affected by climate change and other factors. I believe that it is necessary to monitor closely whether food prices continue to trend upward.

Moving on to the CPI, food accounts for around one-fourth of the index. Please refer to Chart 8. The recent rise in the CPI has indeed been driven by the increase in food prices. In particular, the contribution of rice prices has increased over the past year. Here, "rice" refers to branded rice covered by the CPI, and its impact on other rice-related food, such as rice balls and sushi (box lunch), is reflected in "food (less rice)."

Please take a look at the left panel of Chart 9. The CPI for rice has surged since last year. It has doubled since then, pushing up the overall CPI by around 0.6 percentage points. The year-

on-year rate of increase in rice prices has recently decelerated, but the price level has more than doubled compared with the first half of last year.

Turning to the right panel of Chart 9, the Corporate Goods Price Index (CGPI) by commodity suggests that the surge in rice prices since the second half of last year has been driven by brown rice. The price of polished rice has also been increasing in line with that of brown rice. While simple supply and demand curves alone may not fully explain the price formation mechanism of the rice market, generally speaking, if an item has relatively few substitutes and low price elasticity of demand, its price is more likely to be influenced by supply conditions.

The results of the Bank's September 2025 *Opinion Survey on the General Public's Views and Behavior* showed that around 70 percent of respondents feel that prices have gone up significantly compared with a year ago. The share of such respondents decreased slightly from the previous June survey, which may reflect, for example, the effects of the government's release of stockpiled rice. That said, given that rice is a staple food in Japan, even if the year-on-year rate of increase in price decelerates, if the price level itself remains high, this could elevate perceived inflation and, consequently, inflation expectations.[1]

An increase in the price of a wide range of items, not just rice, is also reflected in the uptrend in the diffusion index of price changes, in terms of the share of price-increasing items minus the share of price-decreasing items (left panel of Chart 10). It has been pointed out that in Japan, in contrast to the United States, the CPI for goods, rather than services, showed strong momentum immediately after the pandemic. Nonetheless, according to the final demand-intermediate demand (FD-ID) price indexes, services prices have been increasing at all stages of the production process, from upstream to downstream. Of these indexes, the year-on-year rate of increase in the price of services demanded at the final stage of economic activity has been stable at slightly over 2 percent for about the past year (right panel of Chart 10). My

[1] See, Olivier Coibion and Yuriy Gorodnichenko, "Inflation, Expectations and Monetary Policy: What Have We Learned and to What End?" *NBER Working Paper*, no. 33858, 2025. Mainly based on U.S. data, the authors suggest that the price of daily necessities, such as gasoline, which is easily observed and homogeneous, influences households' inflation expectations.

view is that it is quite possible that these developments will be reflected in the CPI in a sustained manner.

Based on a comprehensive assessment of the aforementioned price developments, my view is that prices in Japan have, on the whole, been relatively strong recently. The Bank's view in the October 2025 Outlook Report is that "with moves to pass on wage increases to selling prices continuing, the year-on-year rate of increase in the CPI (all items less fresh food) has been at around 3 percent recently, due to the effects of the rise in food prices, such as rice prices, and other factors." I will discuss the outlook and the risk balance for prices in the following.

Outlook for Economic Activity and Prices

The Bank's nine Policy Board members indicate their respective forecasts for Japan's economic activity and prices at the Monetary Policy Meetings (MPMs) held in the month in which the Outlook Report is released. Chart 11 shows their forecasts for real GDP and the CPI for all items excluding fresh food (core CPI) for each fiscal year. In the latest October 2025 Outlook Report, Japan's economic growth is projected to be modest temporarily and then to accelerate. As for prices, the effects of the rise in food prices, such as rice prices, are expected to wane through the first half of the next fiscal year.

Please take a look at the box in Chart 11. The Bank takes into account factors such as the following as risks to economic activity: developments in overseas economic activity and prices under the impact of trade and other policies in each jurisdiction; developments in import prices; and the impact of changes in the economic environment on medium- to long-term growth expectations and on Japan's potential growth rate. As for risks to prices, the Bank considers the following: firms' wage- and price-setting behavior, and developments in foreign exchange rates and import prices. The risk balances assessed by each Policy Board member are shown by the shapes of the markers. A comprehensive look at the members' latest forecasts as of October indicates that risks to economic activity are balanced for fiscal 2025 and skewed to the downside for fiscal 2026, and that risks to prices are balanced.

Let me elaborate on the risks related to the United States and to rice, both of which in Japanese, as I mentioned, can be represented by the same character. I consider U.S. tariffs to pose a downside risk to economic activity, while also posing both upside and downside risks to prices. Weaker external demand is a downside risk to prices, whereas stronger supply-side constraints, for example, pose an upside risk to import prices. Regarding rice, if its price level significantly heightens consumers' perception of rising prices, this would create an upside risk to prices through a rise in inflation expectations, while potentially posing a downside risk to economic activity, given the impact on consumption. That said, the overall risk balances for economic activity and prices depend not only on those two factors but also on various others. Of particular importance is financial conditions, which I will discuss in the next section, on the conduct of monetary policy.

II. Conduct of Monetary Policy

Financial Conditions and the Degree of Monetary Accommodation

Japan's financial conditions have remained accommodative. Please take a look at Chart 12. Real interest rates have been negative and have been at clearly low levels relative to other economies. Even if the negative range of the real interest rate narrows slightly, I believe that it is highly likely that financial conditions will continue to be accommodative, thereby continuing to stimulate consumption and investment.

In assessing the degree of monetary accommodation, one perspective is to examine how much real interest rates fall below the natural rate of interest, which represents the rate of interest at which the economy is in equilibrium. While estimates of the natural rate vary widely (right panel of Chart 13), it may be reasonable to assume that, in the long term, developments in the natural rate will be similar to those in the potential growth rate (left panel of Chart 13). I believe it is necessary to pay attention to how the natural rate and the potential growth rate evolve amid changes in the structure of the economy and society, such as demographic trends.

Given that real interest rates are currently at significantly low levels, I believe that the Bank needs to proceed with interest rate normalization -- that is, to return real interest rates to a state of equilibrium -- so as to avoid creating unintended distortions in the future. Recent developments in indicators of supply and demand conditions show that the output gap has

been at around 0 percent (left panel of Chart 14), while labor market conditions have been tight amid a growing sense of labor shortage (right panel of Chart 14). In this situation, I believe it is necessary that the Bank continue to raise the policy interest rate and adjust the degree of monetary accommodation in accordance with improvement in economic activity and prices, as described in the Outlook Report.

While both the real interest rate and the natural rate of interest are real values, the comparison of their corresponding nominal rates -- specifically, the policy interest rate, currently at 0.5 percent, and the neutral interest rate -- has been a topic of discussion in monetary policy. I understand that this topic has also attracted significant attention among market participants.

Underlying Inflation

When considering monetary policy conduct, I believe underlying inflation is an important concept for the Bank's mandate of achieving the price stability target of 2 percent in a sustainable and stable manner.

There are various measures of underlying inflation. Some of those based on hard data play a certain role due to their well-defined calculation methodologies. The left panel of Chart 15 shows quarterly averages of traditional CPI measures. Among them, the year-on-year rate of increase in the CPI for all items excluding fresh food -- for which the Bank releases forecasts in the Outlook Report, as mentioned earlier -- has been at around 3 percent recently. Meanwhile, the rate of increase in the CPI for all items excluding food and energy, which is a typical core inflation measure and widely used overseas, was 1.5 percent for the latest quarter.

The right panel of Chart 15 also shows measures of underlying inflation, calculated using hard data and statistical values such as the mean and median of item-level prices. These measures are not directly affected by extreme price increases in individual CPI items, such as the recent surge in rice prices. A surge in such a staple food price may, however, influence the prices of related items and could also raise consumers' inflation expectations regarding overall food prices. This, in turn, may prompt firms to change their price-setting behavior for other

food items and possibly beyond. Therefore, I believe that rising rice prices could have second-round effects on overall prices.

A surge in food prices could therefore possibly affect inflation expectations. For inflation expectations, please refer to Chart 16. The left panel of this chart shows inflation expectations calculated with certain assumptions based on the results of the Bank's Opinion Survey, which I touched on earlier. The right panel of the chart shows indicators of inflation expectations based on surveys of firms and experts and on market data. All of these indicators suggest that inflation expectations have been on a solid uptrend over the past few years.

While there are many measures of underlying inflation, taking into account their measurement errors and estimation uncertainty, overall, I believe that underlying inflation is about 2 percent. Still, I believe, in order to achieve the price stability target, it is important to examine the extent to which underlying inflation has remained stable or been anchored. To this end, I will continue to monitor, for example, whether the long-term inflation expectations, as well as the intercept of the Phillips curve -- which presents the relationship between prices and the unemployment rate -- is stable. In addition, I believe that it is necessary to conduct a comprehensive assessment by monitoring factors that affect prices, such as whether the economy is resilient, and whether supply and demand conditions are tight.

Prices in Japan have recently been rising faster than the rate of underlying inflation. It is necessary to closely monitor whether the contribution of temporary supply-side factors to the increase in the CPI will diminish as expected. It is also necessary to monitor, for example, whether the rise in the price of food and other items could persist for longer than expected and to what extent such developments may influence inflation expectations.

In conducting monetary policy, the Bank needs to remain aware of the short- and long-term impact of its policies, while taking into account developments in economic activity and prices, as well as those in financial markets and the financial system. The Bank should make policy judgements based on data and information available at each point in time.

Normalization of the Bank's Balance Sheet

While the primary focus of its monetary policy conduct is to control the policy interest rate, the Bank is currently normalizing its balance sheet, which grew substantially under the long period of unconventional monetary policy. The largest item on the asset side of the Bank's balance sheet is Japanese government bonds (JGBs). Please take a look at Chart 17, which shows the plan for the reduction of the Bank's purchase amount of JGBs. Under the plan implemented since July 2024, the amount of JGB purchases has been cut down by about 400 billion yen each calendar quarter. Meanwhile, at the June 2025 MPM, the Bank decided to continue with that pace of reduction until March 2026, and, from April 2026, to cut down the amount of purchases by about 200 billion yen each calendar quarter, in principle, so that it can strike a balance between improving market functioning and maintaining stability in the JGB markets. The amount of the Bank's holdings of JGBs will decline moderately each year on a stock basis, as the amount of bonds redeemed exceeds the amount purchased. The Bank will conduct an interim assessment of the reduction plan at the June 2026 MPM.

Please turn to Chart 18. At the September 2025 MPM, the Bank also decided on the principles for the disposal of its holdings of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs). Specifically, it will dispose of these assets, with the sales amounts accounting for about 0.05 percent of the trading values in the markets to avoid inducing destabilizing effects on the financial markets as much as possible. In addition, under this pace of sales, the Bank ensures flexibility to support stability in the financial markets by, for example, enabling a temporary adjustment in the sales amount or a suspension of sales, in response to changes in financial market conditions.

My view is that the Bank should proceed steadily with normalizing its balance sheet in a predictable manner, and at the same time, it should discuss what would be the optimal size and structure of the balance sheet, from both the asset and liability sides.

Thank you.

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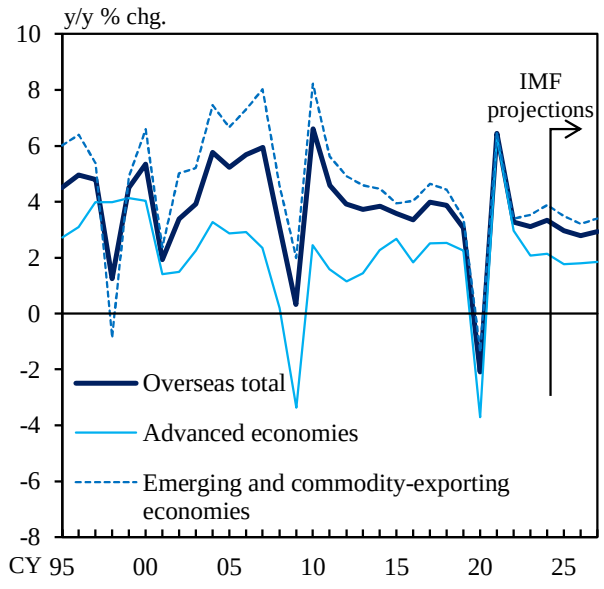
Bank of Japan

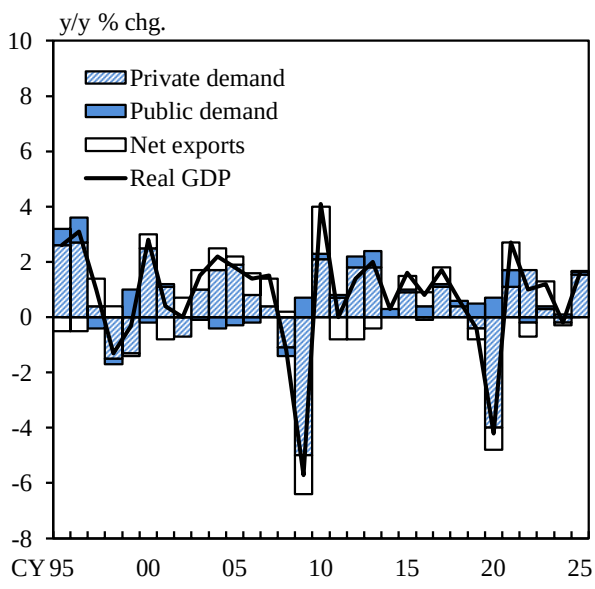
Chart 1

Overseas and Domestic Economies

Overseas Economies



Japan's Economy

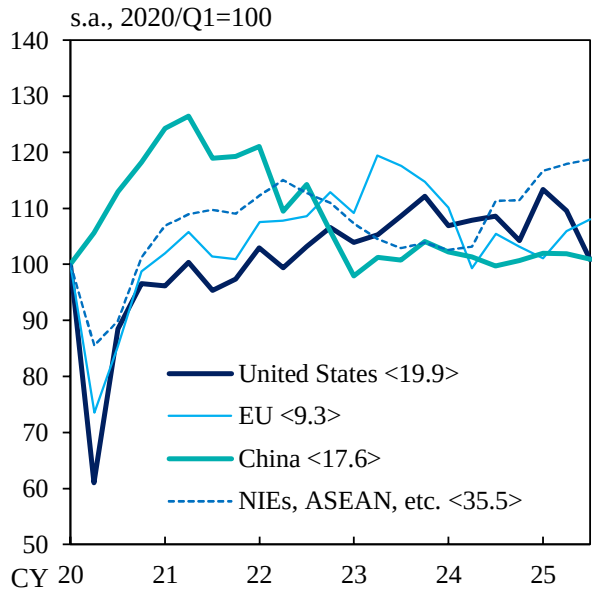


Notes: 1. In the left panel, figures are the weighted averages of real GDP growth rates using countries' share in Japan's exports as weights. The real GDP growth rates are compiled by the IMF, and the rates from 2025 onward are its projections in the October 2025 *World Economic Outlook* (WEO). Figures 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.
2. In the right panel, figures for 2025 are January-September averages.
Sources: Cabinet Office; IMF; Ministry of Finance.

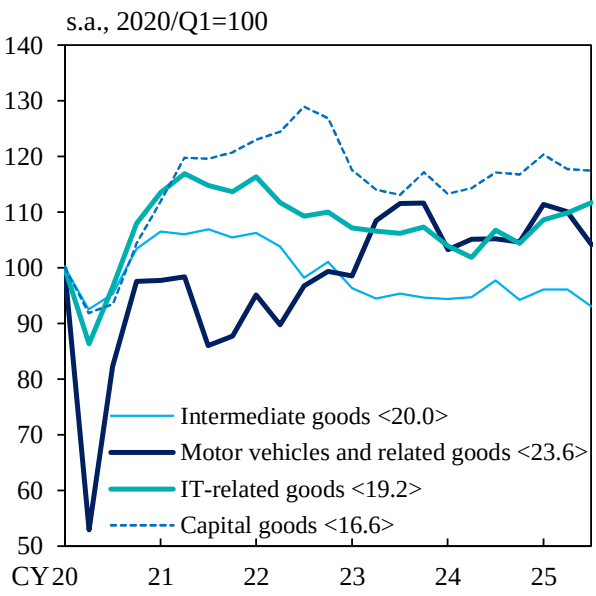
Chart 2

Real Exports

By Region



By Type of Goods

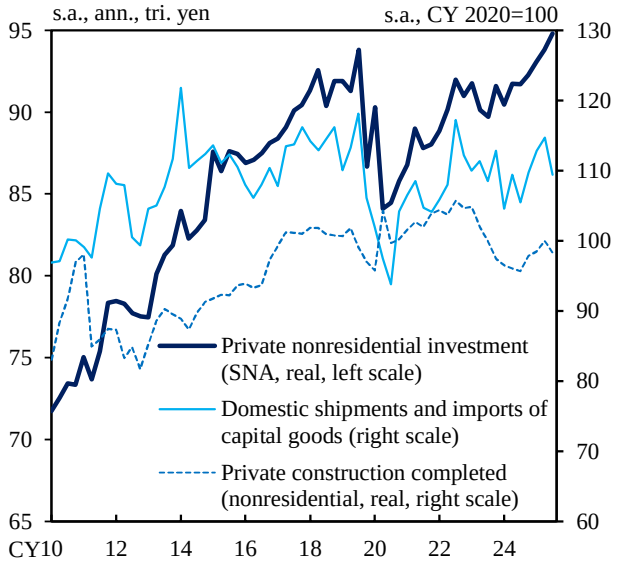


Note: Based on Bank staff calculations. Figures in angular brackets show the share of each country or region (left panel) and of each type of goods (right panel) in Japan's total exports in 2024. In the left panel, figures for the EU exclude those for the United Kingdom for the entire period.
Sources: Ministry of Finance; Bank of Japan.

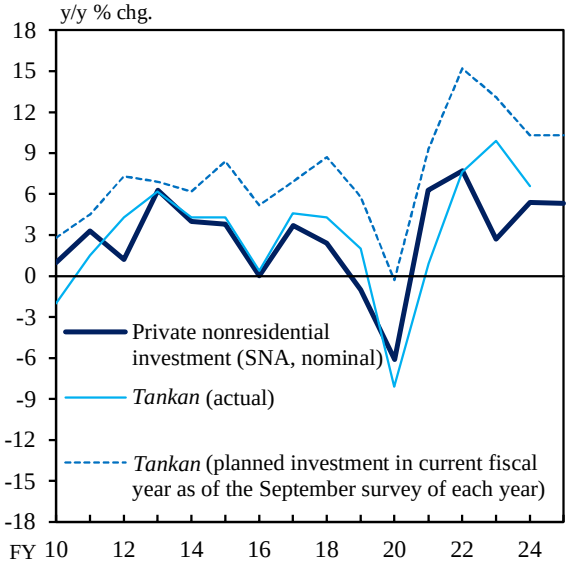
Chart 3

Business Fixed Investment

Coincident Indicators



Planned and Actual Investment

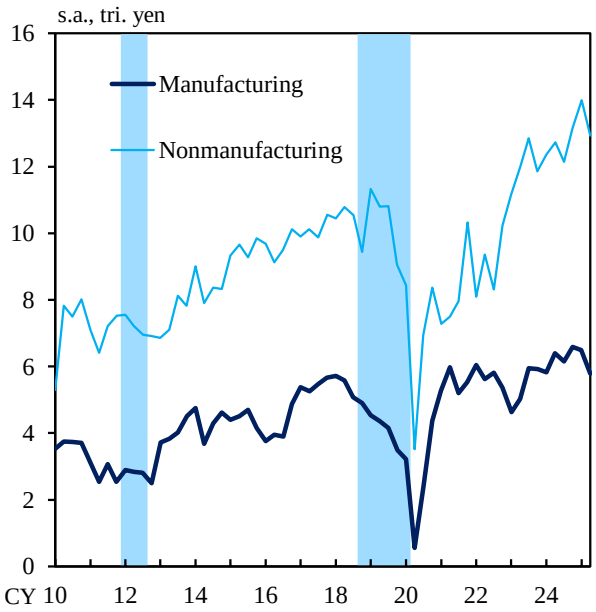


Notes: 1. In the left panel, figures for private construction completed are based on Bank staff calculations using the construction cost deflators, and that for 2025/Q3 is the July-August average.
2. In the right panel, the *Tankan* figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. The figures are for all industries including financial institutions. The figure for private nonresidential investment for fiscal 2025 is the 2025/Q2-Q3 average.
Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

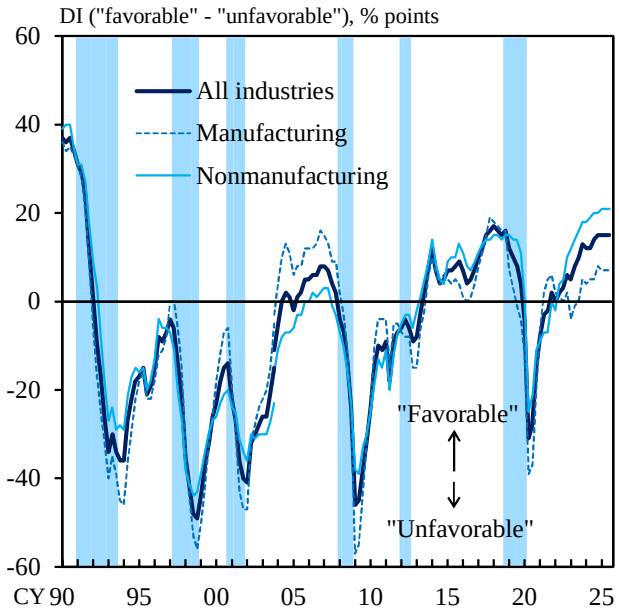
Chart 4

Corporate Sector

Operating Profits



Business Conditions



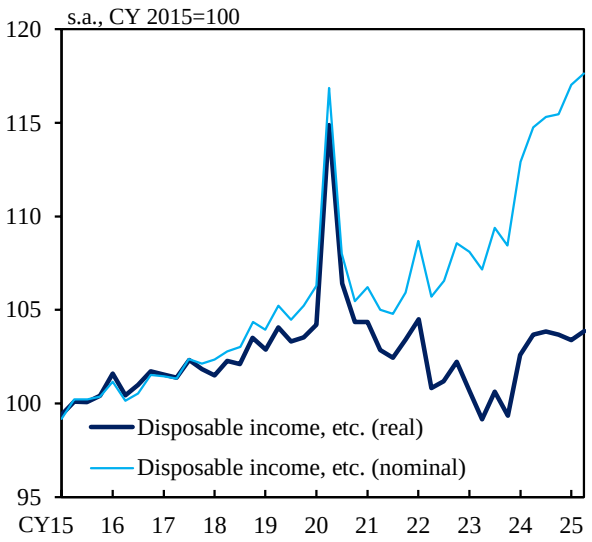
Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and "pure holding companies."
2. In the right panel, figures are based on the *Tankan* and are for all enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
3. In both panels, shaded areas denote recession periods.

Sources: Ministry of Finance; Bank of Japan.

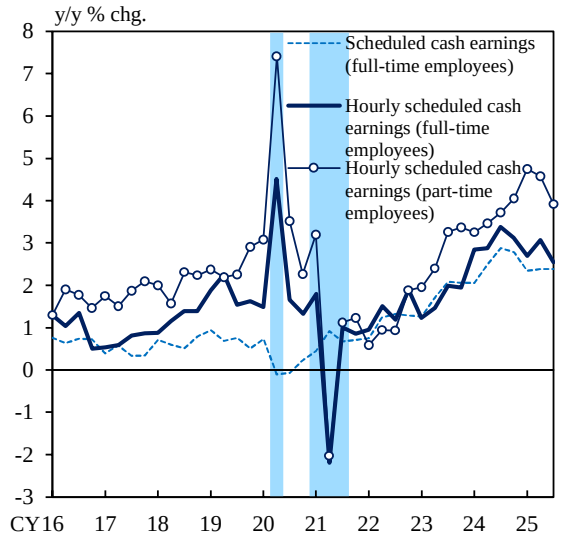
Chart 5

Wage and Income Situation

Disposable Income



Scheduled Cash Earnings



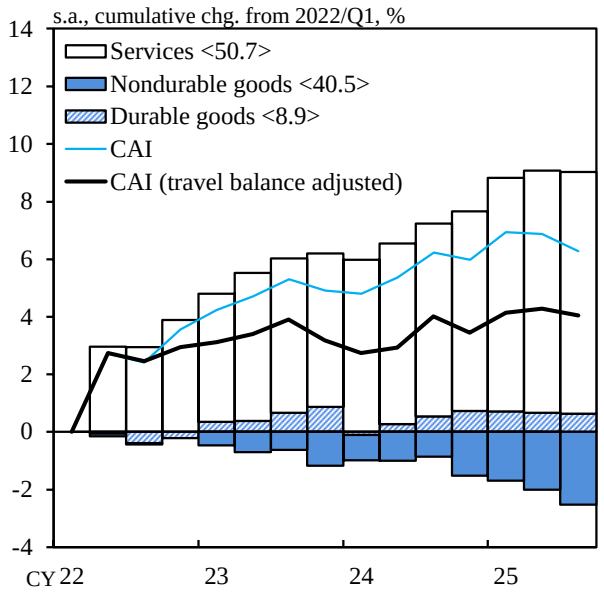
Notes: 1. In the left panel, "disposable income, etc." consists of disposable income and adjustment for the change in pension entitlements. Real values are based on Bank staff calculations using the deflator of consumption of households.
2. In the right panel, "hourly scheduled cash earnings" = scheduled cash earnings / scheduled hours worked. Figures are based on continuing observations following the sample revisions of the *Monthly Labour Survey*. Figures for 2025/Q3 are July-August averages. Figures for hourly scheduled cash earnings are seasonally adjusted. Shaded areas denote the periods of the state of emergency during the COVID-19 pandemic.

Sources: Cabinet Office; Ministry of Health, Labour, and Welfare.

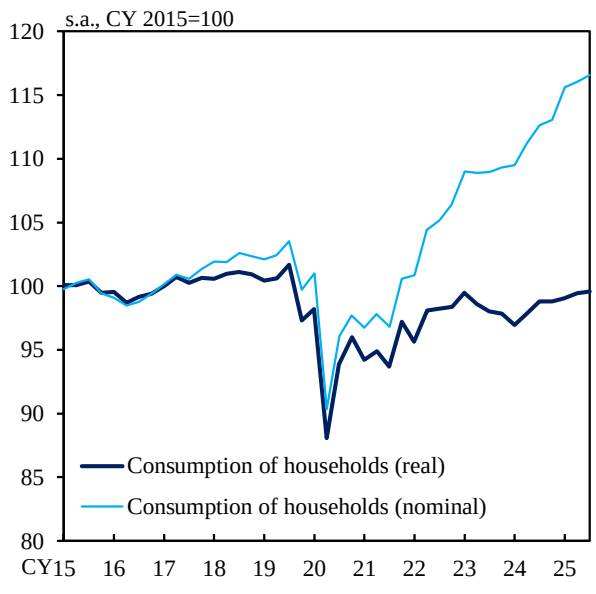
Chart 6

Household Spending

Consumption Activity Index (CAI, Real)



Consumption of Households

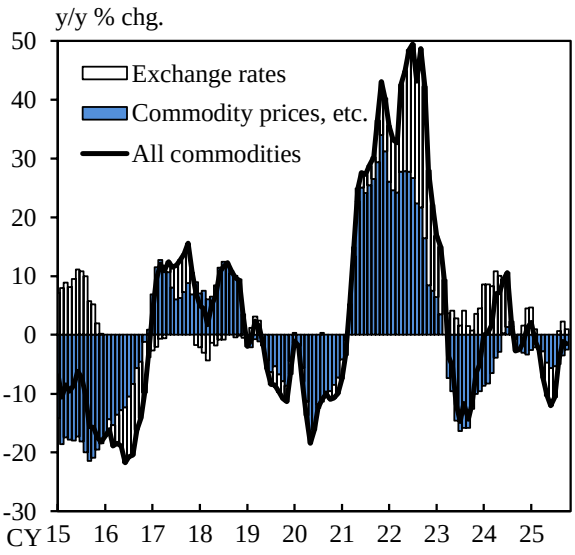


Notes: 1. In the left panel, figures are based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. Nondurable goods include goods classified as semi-durable goods in the SNA. Figures in angular brackets show the weights in the CAI.
2. In the right panel, figures exclude imputed rent.
Sources: Cabinet Office; Bank of Japan; etc.

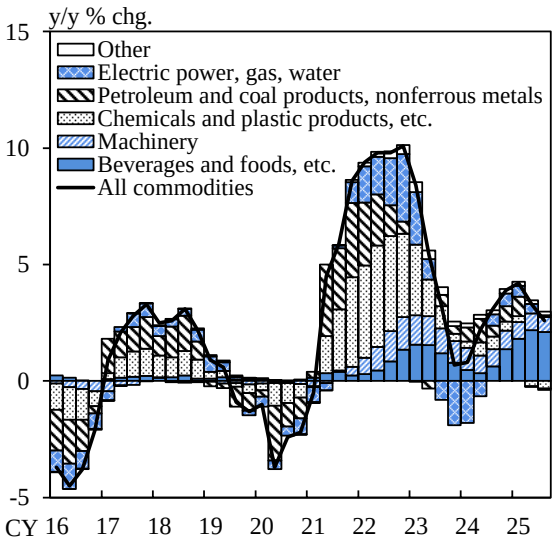
Chart 7

Environment Surrounding Prices

Import Prices (Yen Basis)



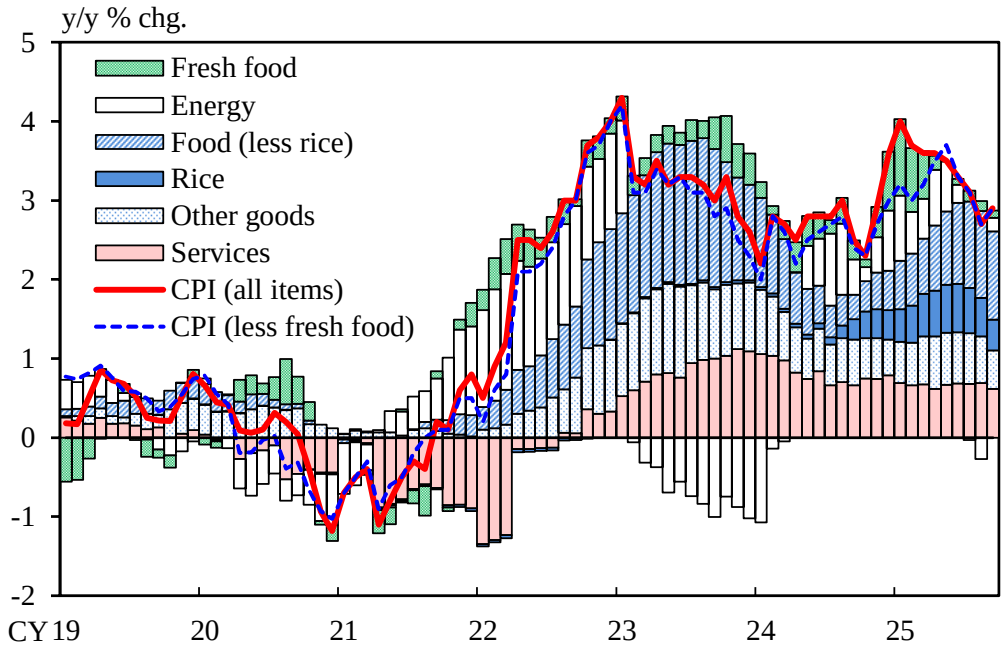
Producer Price Index



Notes: 1. In the left panel, the contribution of changes in commodity prices, etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the import price index on a yen basis and that on a contract currency basis.
2. In the right panel, figures exclude the effects of the consumption tax hike. Figures for "beverages and foods, etc." include agriculture, forestry and fishery products.
Source: Bank of Japan.

Chart 8

Consumer Price Index (CPI)

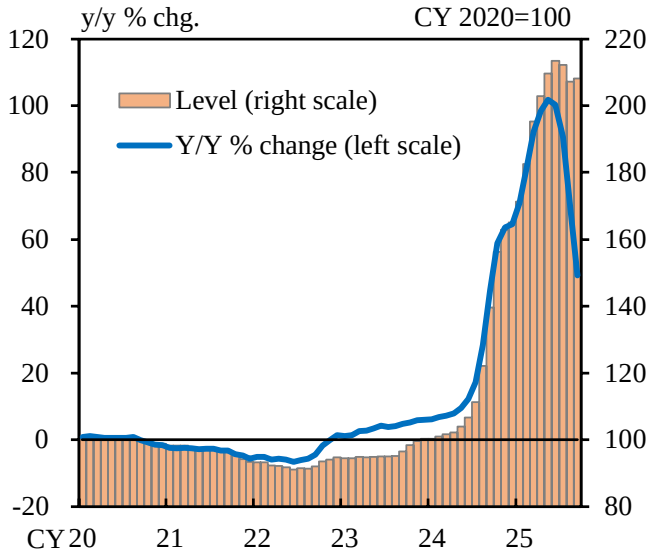


Source: Ministry of Internal Affairs and Communications.

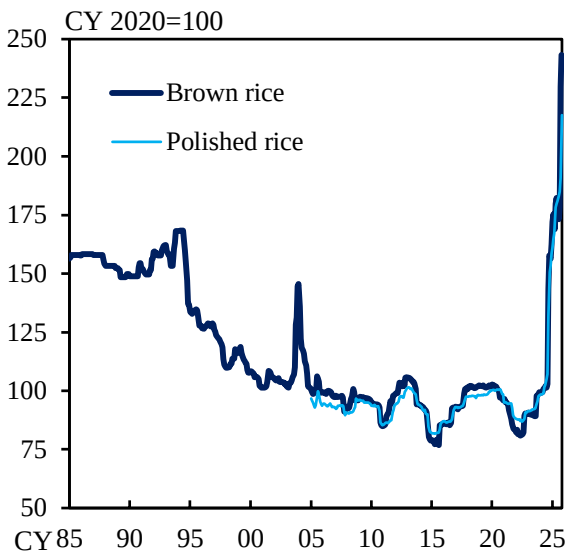
Chart 9

Rice Prices

CPI (Rice)



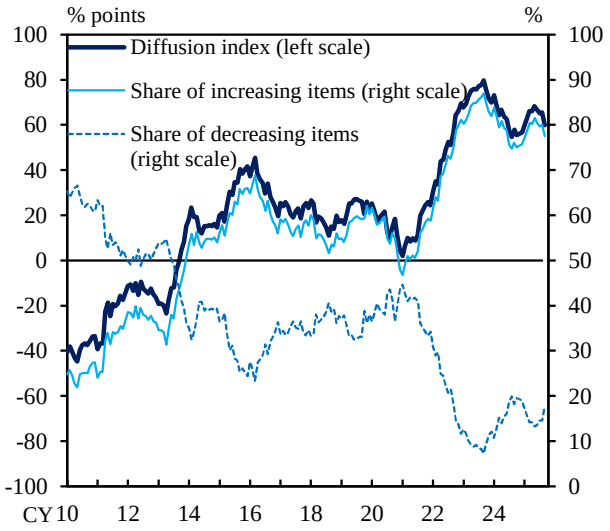
CGPI by Commodity



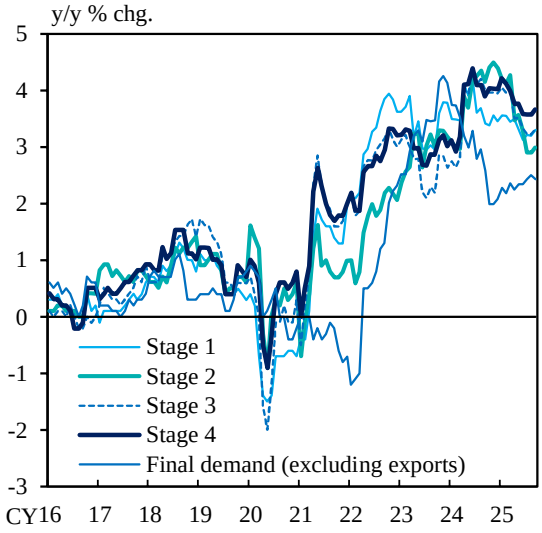
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Price Pass-Through

Diffusion Index of Price Changes



FD-ID (Services)



Notes: 1. In the left panel, the diffusion index 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, policies concerning the provision of free education, 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. In the right panel, figures show the year-on-year rate of change in services prices at each demand stage. Stages 1 to 4 represent the four stages of intermediate demand, from upstream to downstream.

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

Outlook for Economic Activity and Prices

Risks to economic activity

- Developments in overseas economic activity and prices and in import prices
- Impact of changes in the economic environment on growth expectations and Japan's potential growth rate

Risks to prices

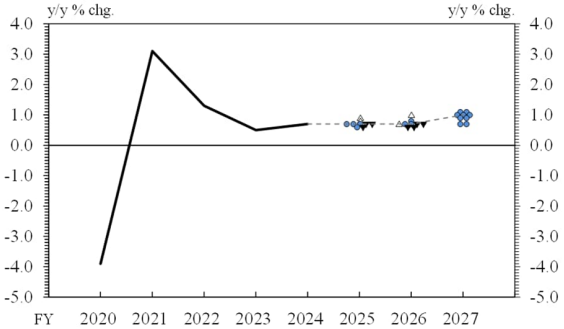
- Firms' wage- and price-setting behavior
- Developments in foreign exchange rates and import prices

Risk balance

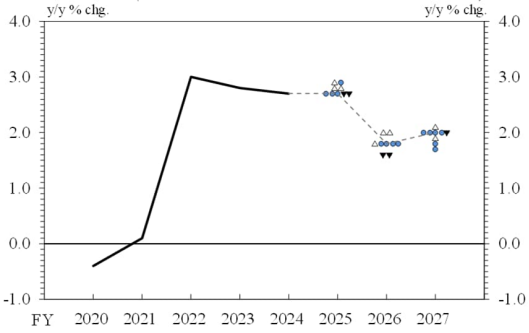
Risks to economic activity are skewed to the downside for fiscal 2026.
Risks to prices are generally balanced.

Policy Board Members' Forecasts and Risk Assessments

Real GDP



CPI (All Items Less Fresh Food)



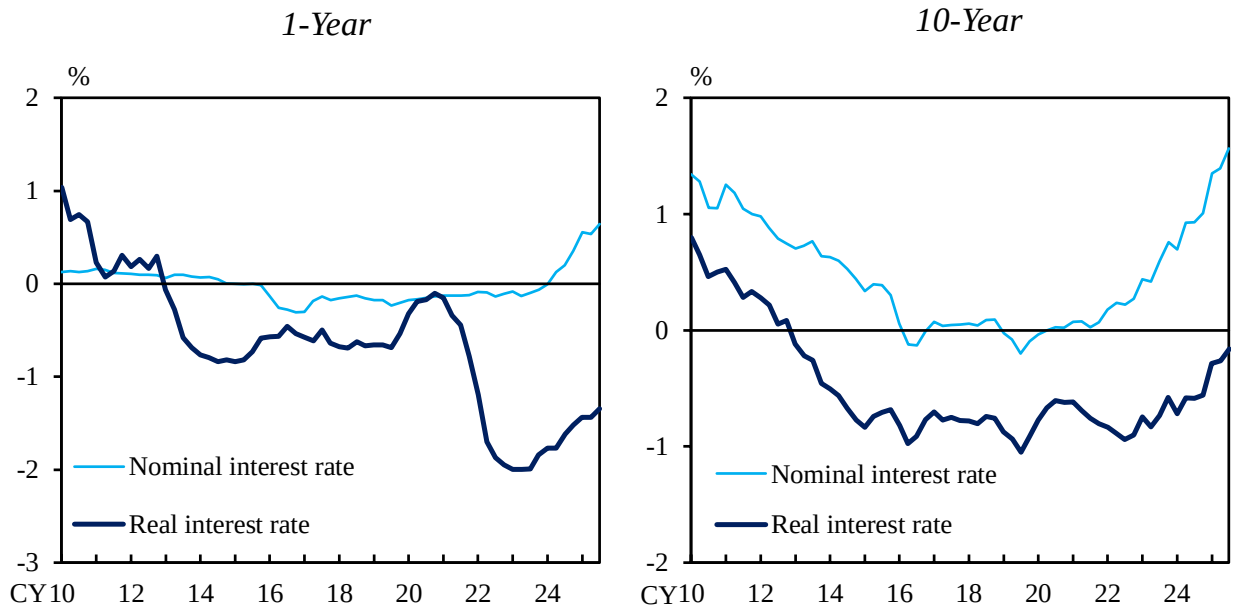
Notes: 1. The solid lines show actual figures, while the dotted lines show the medians of the Policy Board members' forecasts (point estimates).

2. The locations of ●, △, and ▼ in the charts indicate the figures for each Policy Board member's forecasts to which they attach the highest probability. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside."

Source: Bank of Japan.

Chart 12

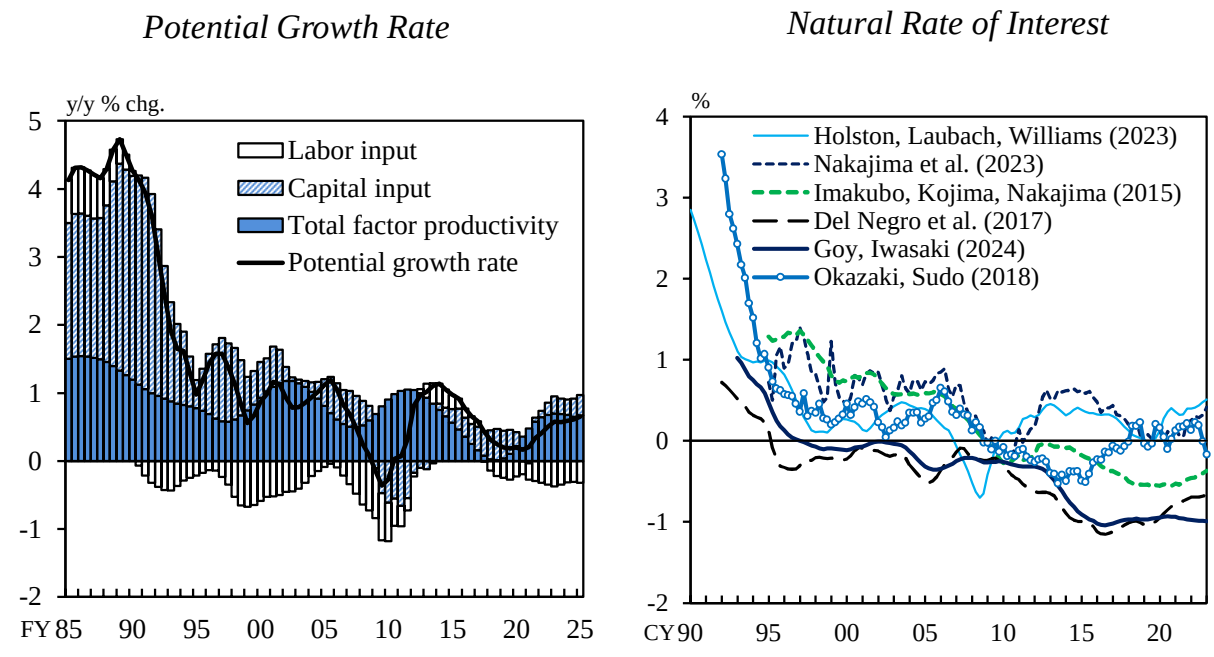
Real Interest Rates by Maturity



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

Chart 13

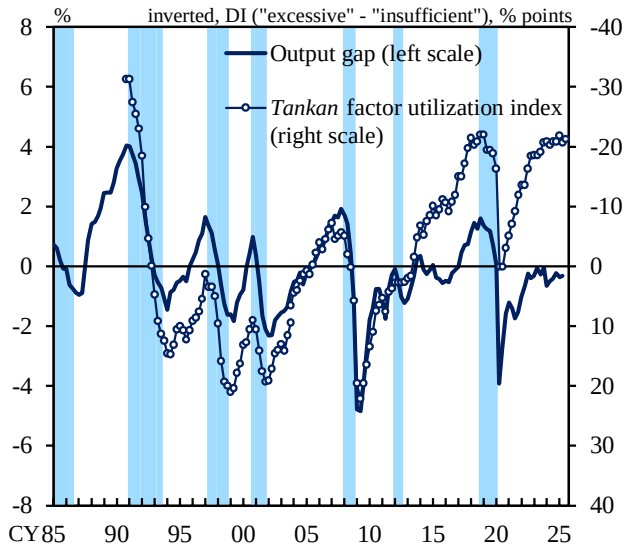
Potential Growth Rate and Natural Rate of Interest



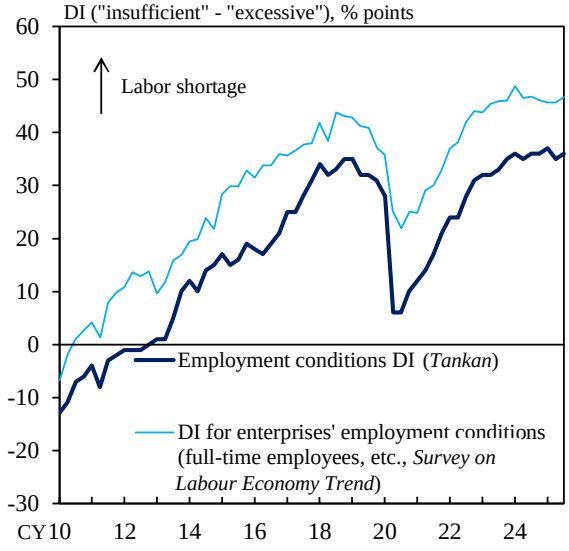
Notes: 1. In the left panel, figures are Bank staff estimates. Figures for the first half of fiscal 2025 are those for 2025/Q2.
2. In the right panel, the estimates are based on Bank staff calculations using the models proposed in the respective papers.
Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Indicators of Supply and Demand Conditions

Output Gap



Measures of Labor Market Conditions



Notes: 1. In the left panel, figures for the output gap are Bank 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. There is a discontinuity in the data for December 2003 due to a change in the survey framework. Shaded areas denote recession periods.
2. In the right panel, figures for the employment conditions DI are for all industries and enterprises. Figures for the DI for enterprises' employment conditions (full-time employees, etc.) are seasonally adjusted.

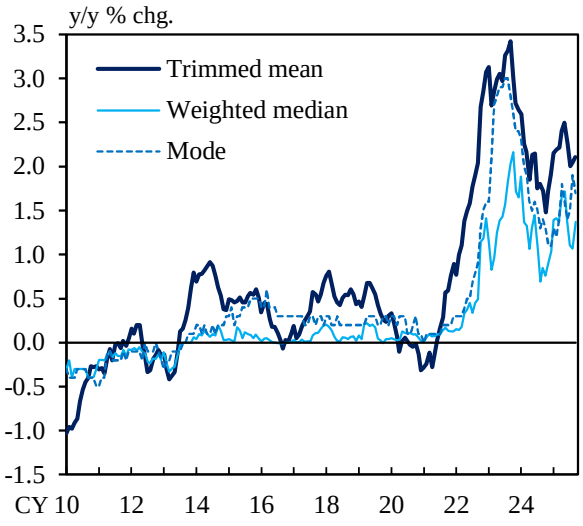
Sources: Ministry of Health, Labour and Welfare; Bank of Japan.

Underlying CPI Inflation (1)

CPI Indicators

	y/y % chg.			
	24/Q4	25/Q1	25/Q2	25/Q3
Consumer Price Index (CPI)				
Less fresh food	2.6	3.1	3.5	2.9
Less fresh food and energy	2.3	2.7	3.2	3.2
Less food and energy	1.6	1.5	1.6	1.5

CPI: Trimmed Mean, etc.



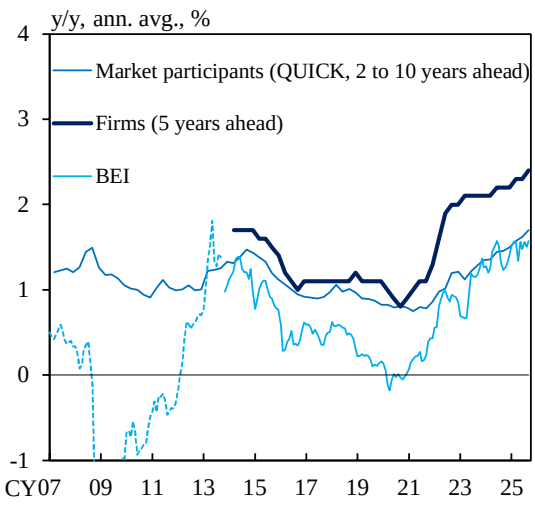
Notes: 1. In the left panel, figures are on a quarterly basis. Figures for "less food and energy" include alcoholic beverages.
2. In the right panel, figures are on a monthly basis, and are based on Bank staff calculations using the CPI excluding the effects of the consumption tax hikes, policies concerning the provision of free education, 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.

Underlying CPI Inflation (2)

Inflation Expectations (Households)

Inflation Expectations (Firms and Market Participants)



Notes: 1. In the left panel, figures are from the *Opinion Survey on the General Public's Views and Behavior*. Figures for "qualitative" are estimated using the modified Carlson-Parkin method for a 5-choice question. Figures for "quantitative" are estimated, with answers above 5% replaced by 5%, and answers below -5% replaced by -5%.

2. In the right panel, figures for "firms" show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*. The BEI (break-even inflation) rate is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. The dotted line represents the rate calculated based on inflation-indexed JGBs issued before October 2013.

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

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

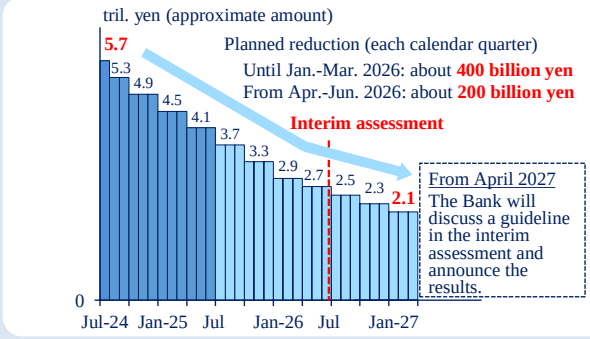
In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- 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

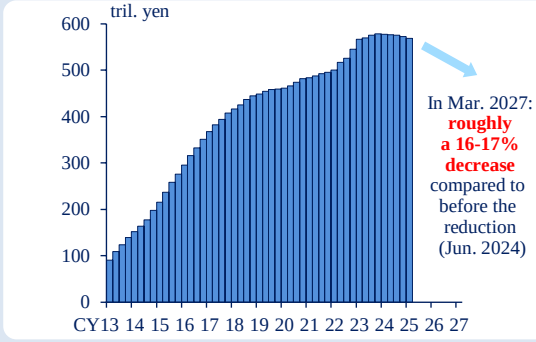
➢ The Bank will gradually reduce its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

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 (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.