December 25, 2025

Bank of Japan

Toward the Achievement of the Price Stability Target Accompanied by Wage Increases

Speech at the Meeting of Councillors of Keidanren (Japan Business Federation) in Tokyo

UEDA Kazuo

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(English translation based on the Japanese original)

Introduction

It is a great honor to have this opportunity to address such a distinguished gathering of business leaders in Japan today.

2026 is now just a week away. Looking back over the past twelve months, Japan's economy has shown resilience, having continued to recover moderately despite downward pressure on corporate profits stemming from the impact of U.S. tariff policies. Against this backdrop, at the Monetary Policy Meeting (MPM) held last week, the Bank of Japan decided to raise the policy interest rate for the first time since January this year. In this regard, I would like to begin my speech today by briefly explaining the background to the policy change. I would then like to share with you an outline of the state of the economy the Bank is aiming for and, on that basis, set out my hopes for business leaders in Japan.

I. Recent Conduct of Monetary Policy: Raising the Policy Interest Rate

Let me start by talking about recent developments in economic activity and prices and the Bank's conduct of monetary policy. In March 2024, the Bank judged it was within sight that the price stability target of 2 percent would be achieved in a sustainable and stable manner, and changed its large-scale monetary easing framework, which had lasted for over a decade. The Bank thereby shifted its monetary policy to guiding the short-term interest rate as a primary policy tool. Against this backdrop, the Bank gradually adjusted the degree of monetary accommodation by raising the policy interest rate to around 0.25 percent in July 2024 and to around 0.5 percent in January 2025.

Thereafter, with uncertainties regarding U.S. tariff policies remaining high, the Bank kept the policy interest rate unchanged. At last week's MPM, however, it decided to raise the policy interest rate from around 0.5 percent to around 0.75 percent. In making this decision, the key factors were developments in the U.S. economy and the impact of tariff policies as well as moves to raise wages in light of next year's annual spring labor-management wage negotiations.

First, as for the U.S. economy and the impact of tariff policies, the Bank judged that, while uncertainties remained, they had declined. Looking at the U.S. economy, with the pass-through of tariff costs to selling prices remaining only moderate, private consumption has been solid. Moreover, business fixed investment has increased, reflecting an expansion in AI-related demand. In light of these developments, while there are still factors to consider, such as developments in the labor market, it appears that downside risks to the U.S. economy overall have decreased. With regard to the impact of tariff policies on Japan's economy, although there has been downward pressure on corporate profits, mainly in manufacturing, there are no signs that the effects have spread to the economy as a whole, including business fixed investment and employment and wage developments. Please take a look at Chart 1. The *Tankan* (Short-Term Economic Survey of Enterprises in Japan) released last week indicates that business sentiment, shown in the left panel, has been at a favorable level. Regarding corporate profits shown in the right panel, profit projections for fiscal 2025 have been revised upward slightly from the projections in the previous survey released three months ago, including in manufacturing, suggesting that the uncertainty surrounding the outlook is gradually diminishing.

Looking at the background conditions of wage developments, labor market conditions have continued to be tight, and corporate profits are expected to remain at high levels on the whole, even after taking into account the impact of tariff policies, as I mentioned earlier. In this situation, considering factors such as the stances of labor and management on the annual spring labor-management wage negotiations and anecdotal information gathered through the Bank's Head Office and branches, as shown in Chart 2, it is highly likely that firms will continue to raise wages steadily next year, following the solid wage increases this year, and the risk of firms' active wage-setting behavior being interrupted is expected to be low. On the price front, underlying CPI inflation has continued to rise moderately, with moves to pass on wage increases to selling prices continuing.

Based on these recent data and anecdotal information, it is highly likely that the mechanism in which both wages and prices rise moderately will be maintained next year and beyond. As a result, it appears that the likelihood of realizing the Bank's baseline scenario has been rising -- that is, underlying CPI inflation will be at a level that is generally consistent with the price stability target of 2 percent in the second half of the projection period of the October 2025 *Outlook for Economic Activity and Prices* (Outlook Report), which extends from the second half of fiscal 2026 through fiscal 2027. In view of these developments in economic activity and prices, the Bank, at the MPM held last week, judged it appropriate to raise the policy interest rate and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent.

As for the future conduct of monetary policy, given that real interest rates are at significantly low levels, if the baseline scenario presented in the October Outlook Report is realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation. The Bank believes that adjusting the degree of monetary accommodation as appropriate will lead to smoothly achieving the price stability target and to long-term growth that can serve as a foundation for firms to conduct business with confidence. In what follows, I will talk about the state of the economy the Bank is aiming to achieve from a somewhat long-term perspective.

II. An Economy in Which Both Wages and Prices Rise Moderately

A. The State of the Economy the Bank Is Aiming For

In line with the Bank of Japan Act, the Bank conducts monetary policy based on the principle that the policy should be "aimed at achieving price stability, thereby contributing to the sound development of the national economy." More specifically, at the January 2013 MPM, the Bank set a price stability target of 2 percent and, under this target, aims to achieve an economy in which both wages and prices rise moderately.

Chart 3 is a simple illustration of this mechanism. Let me explain this chart considering profits in the corporate sector as a starting point. If corporate profits increase as economic activity gains momentum, business fixed investment and wages are expected to rise. Higher wages, in turn, boost private consumption by way of raising household income. This increase in demand leads to moderate price rises and, on the side of firms, to a rise in selling prices and further improvement in corporate profits, which are then expected to once again spur growth in business fixed investment and wages. For the economy to continue expanding not only in nominal terms but also in real terms -- excluding the effects of inflation -- it is important that labor productivity increase through, for example, proactive investment by firms, and that such productivity gains be reflected in higher real wages.

The Bank projects that this mechanism, in which the cycle between wages and prices operates, will function steadily; in other words, rather than a temporary rise in prices driven mainly by cost-push factors, the Bank expects that a situation in which people engage in economic activities on the assumption that moderate inflation will continue going forward, resulting in the sustainable and stable achievement of the 2 percent price stability target. This is the essential foundation for Japan's economy to continue to grow in the long term, and we believe this is nothing other than the principle for the Bank's conduct of monetary policy, namely that the policy should be "aimed at achieving price stability, thereby contributing to the sound development of the national economy."

B. Taking Stock of Where Japan's Economy Stands

Next, I would like to take stock of where Japan's economy stands in relation to the state of the economy the Bank is aiming to achieve. Please take a look at Chart 4. Over the past decade, corporate profits have approximately doubled. In the labor market, with the working-age population continuing to decline and the room for the additional labor supply of seniors and women diminishing, labor market conditions have further tightened.[1] Against this background, as shown in Chart 5, wages -- which had been stagnant for many years -- have come under upward pressure, resulting in high wage growth in recent years. Reflecting these developments, together with the impact of post-COVID-19 global inflation and the yen's depreciation, consumer prices have also continued to register positive growth.

Given that structural changes in Japan's labor market -- including the decline in the working-age population -- are irreversible, barring a major negative shock to the economy, it is expected that labor market conditions will remain tight and that upward pressure on wages will continue. Moreover, with the inflation rate remaining positive and inflation expectations among households and firms continuing to rise, moves to pass on increases in

[1] For a discussion on the structural changes in Japan's labor market, see Ueda, K., "Japan's Labor Market under Demographic Decline: Evolving Dynamics and Macroeconomic Implications," remarks at the panel on "The Policy Implications of Labor Market Transition" at the Jackson Hole Economic Policy Symposium hosted by the Federal Reserve Bank of Kansas City, August 23, 2025.

wages and input prices to selling prices have steadily become widespread. Taking these developments into account, the likelihood of Japan's economy returning to a so-called zero norm state, in which wages and prices hardly change, seems to have decreased considerably.

Please turn to Chart 6. Looking at recent price developments, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been at around 3 percent. While this is largely a reflection of the effects of food prices, including the price of rice, being pushed up by temporary cost-push factors, the continued pass-through of wage increases to selling prices, which I mentioned earlier, has led to a moderate rise not only in food prices but also in the prices of goods and services. Chart 7 shows indicators related to underlying inflation, which excludes temporary factors. There is no single indicator that pins down developments in underlying inflation. That said, the indicators presented in Chart 7 together with factors that underlie price developments, such as the output gap and labor market conditions, suggest that Japan's underlying inflation has followed a moderate uptrend on the whole and is steadily approaching 2 percent.

When examining developments in profits and expenditures in the corporate sector, while taking into account the current state of wages and prices in Japan, which I have mentioned earlier, several challenges that need to be addressed to realize the state of the economy the Bank envisions become evident. As shown in the left panel of Chart 8, looking back, since the second half of the 1990s, when Japan's economy fell into deflation, firms put priority on maintaining employment, while restraining wage hikes and business fixed investment. Under the severe business environment firms were facing, such actions not only had the effect of curbing the rise in the unemployment rate -- they were also necessary to improve firms' financial positions. Having overcome this situation, firms' personnel expenses and business fixed investment have started to rise moderately. Nevertheless, it has been pointed out that growth in such expenses and investment has remained moderate relative to the substantial increase in corporate profits. As a result, the labor share, which is the ratio of personnel expenses to the total value added generated by firms, has continued on a moderate declining trend, as shown in the right panel.

C. Further Changes to Be Anticipated

Given these developments, Japan is entering a phase in which it is more necessary than ever, for long-term economic growth to be realized, to invest in people and carry out business fixed investment with an eye to the future. In any era, the driving force of a country's economic growth is proactive action on the part of firms. In what follows, I would like to elaborate on this point, setting out my hopes for firms.

First, regarding investment in people, high wage growth has been achieved in recent years, as mentioned earlier. Moreover, the wage hikes have been observed across a broader range of firm sizes and regions. Looking ahead to next year's annual spring labor-management wage negotiations, Keidanren has expressed a stance of aiming at further anchoring the momentum for wage increases, which is very encouraging. The Bank expects that, as such proactive developments continue in Japan, the mechanism through which wage expectations are formed will change. For example, in past spring wage negotiations, labor unions often demanded that price increases in the preceding fiscal year be reflected in wages (base pay increases); however, in a state where the cycle between wages and prices operates steadily and the 2 percent price stability target is achieved in a sustainable and stable manner, unions may shift to a negotiation approach of requiring wage increases in a more forward-looking manner, grounded in the assumption that prices will continue to rise by 2 percent in the future. In fact, a report released by the Japanese Trade Union Confederation (Rengo) in September this year proposes to reflect the outlook for prices in the level of wage demands to stabilize people's expectations about future wages.[2] My understanding is that firms' managements make decisions regarding wage hikes in light of various factors, including corporate profits, labor market conditions, and price developments. If firms' managements begin to take into consideration the assumption that prices will continue to rise at a rate of 2 percent, the mechanism in which both wages and prices rise moderately can be expected to become more robust and more sustainable throughout Japan.

The second point focuses on firms' efforts with regard to business fixed investment. The prolonged period of deflation in Japan likely created incentives for firms to put off

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[2] See the report on wage negotiations aimed at creating the future released by Rengo's evaluation committee on September 19, 2025 (available only in Japanese).

investment and accumulate cash and deposits to prepare for future uncertainties. However, if the economy moves into a state where moderate price rises continue, the real value of cash and deposits will tend to decrease, while investments with an eye to the future will be increasingly important. Moreover, given the expectation that labor shortages will persist, there seems to be ample room to step up labor-saving investment, including through the use of AI. In fact, such moves are already becoming more widespread. The business fixed investment plans for fiscal 2025 in the Bank's *Tankan* released last week show a solid year-on-year increase of around 10 percent in investment. This confirms that firms have maintained an active investment stance, centered on research and development (R&D) in growth areas, such as AI, and on labor saving-related software. What is important is to overcome the supply-side constraint of labor shortages and achieve improvements in corporate profitability and labor productivity through such forward-looking business fixed investment. In the process, to enhance the returns from business fixed investment, simply making investment is not enough -- to make use of such investment in business, it is also crucial to secure personnel capable of capitalizing on AI and software by means of human resource development, including reskilling. The expectation is that, by simultaneously moving ahead with investments in both people and growth areas, the cycle between wages and prices will further gain strength in a way that is accompanied by improvements in labor productivity.

Efforts on the part of firms, which I have described thus far, are likely to gain greater traction when backed up appropriately by policies of the government and the Bank. The government has recently formulated an economic policy package in this regard, called the "Comprehensive Economic Measures to Build a 'Strong Japanese Economy.'" The various benefit measures included in the package are expected to alleviate the burden on households and firms, while at the same time developing the environment for wage increases at firms and promoting growth investment. The Bank intends to firmly support such forward-looking behavior by firms from the financial side through the achievement of the 2 percent price stability target in a sustainable and stable manner.

Concluding Remarks

The time for my speech is running out. Today, I shared my views on the state of the economy the Bank is aiming to achieve and expressed my hopes for firms. Amid tightening labor market conditions, firms' wage- and price-setting behavior has changed significantly in recent years, and the achievement of the 2 percent price stability target, accompanied by wage increases, is steadily approaching. I would like to close today by expressing my hope that Japan will further approach the state of the economy the Bank is aiming for in the coming year.

Thank you very much for your attention.

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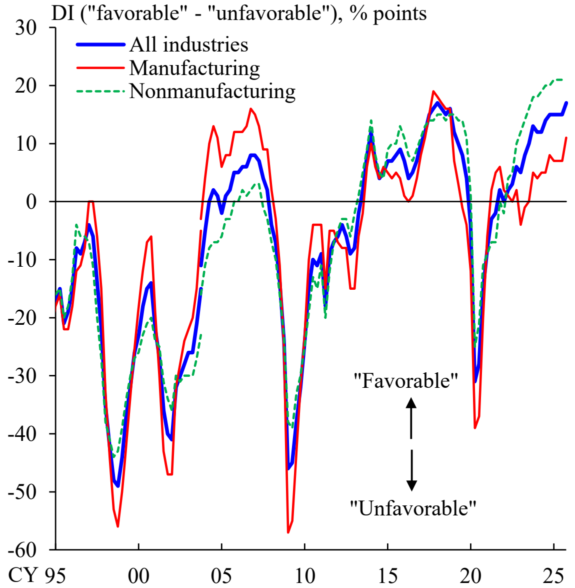
Results of the December *Tankan*

Business Conditions DI



Corporate Profits

y/y % chg.

		FY 2024	FY 2025	
		Actual value	Projection	Revision rate
All industries		5.6	-2.7	2.3
	Manufa-cturing	5.8	-6.7	1.6
	Non-manufa-cturing	5.5	0.4	2.8

Note: Based on the *Tankan*. In the left-hand chart, there is a discontinuity in the data for December 2003 due to a change in the survey framework. In the right-hand table, figures are current profits. The revision rate for FY 2025 is calculated relative to the September 2025 survey.
Source: Bank of Japan.

Moves toward Wage Increases Next Year

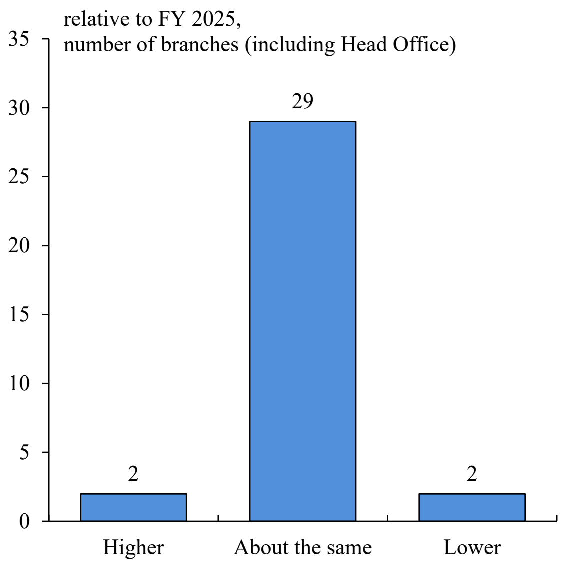
Annual Spring Labor-Management Wage Negotiation Stance

Figures in parentheses indicate base pay increase rates

	Rengo Wage increase target	Keidanren Positioning of wage increase	Actual wage increase
CY 2023	Around 5% (Around 3%)	Starting point	3.58% (2.12%)
CY 2024	5% or more (3% or more)	Acceleration	5.10% (3.56%)
CY 2025	5% or more (3% or more)	Anchoring	5.25% (3.70%)
CY 2026	5% or more (3% or more)	Further anchoring	—

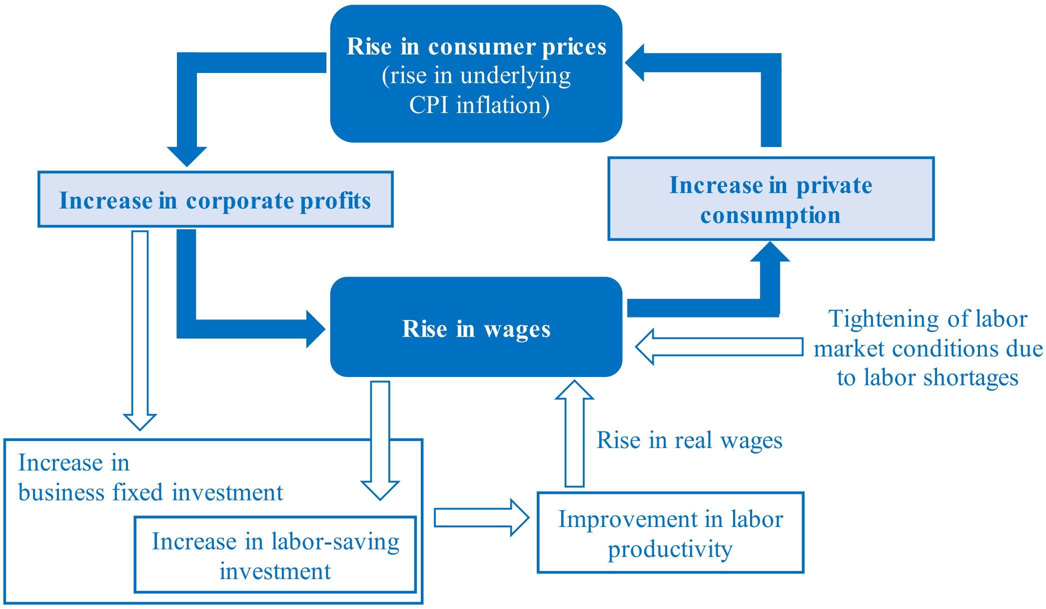
Firms' Stance on Wage Growth for Fiscal 2026

(Anecdotal Information Collected by the Bank's Head Office and 32 Branches)



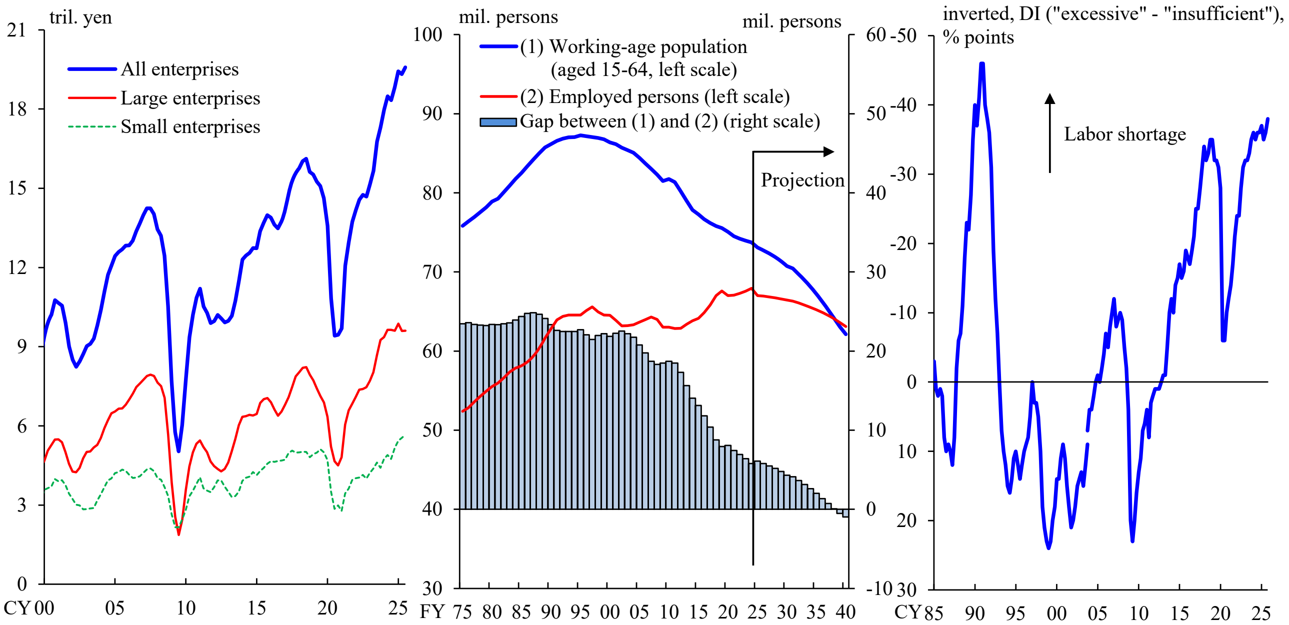
Notes: 1. In the left-hand table, figures for actual wage increases are aggregate figures released by Rengo.
2. In the right-hand chart, figures are based on information collected by the Bank's Head Office and 32 branches on firms' stance on wage growth for fiscal 2026 (released on December 15, 2025).
Sources: Japanese Trade Union Confederation (Rengo); Japan Business Federation (Keidanren); Bank of Japan.

Cycle between Wages and Prices



Corporate Profits and the Labor Market

Corporate Profits *Labor Market Conditions* *Employment Conditions DI*

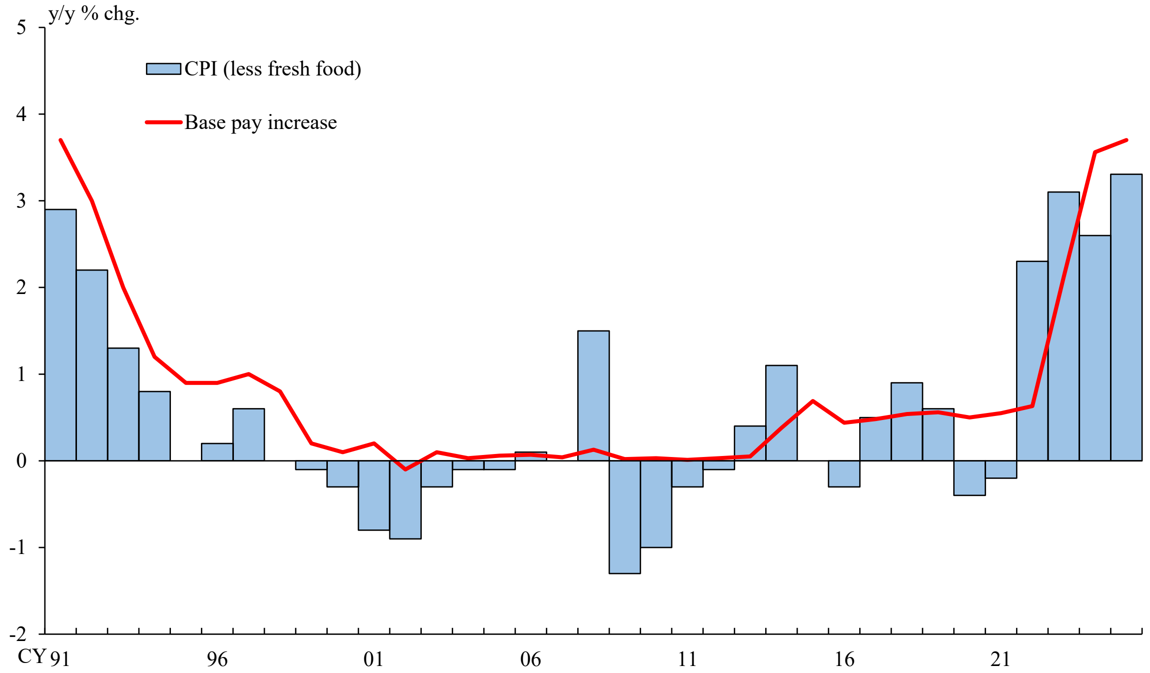


Notes: 1. In the left-hand chart, figures are operating profits based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude "finance and insurance" and those for 2009/Q2 onward also exclude "pure holding companies." Figures are 4-quarter backward moving averages. Large enterprises are enterprises with a capitalization of 1 billion yen or more, while small enterprises are enterprises with a capitalization of 10 million yen or more but less than 100 million yen.
2. In the middle chart, the projection for the working-age population is by the National Institute of Population and Social Security Research. The projection for the number of employed persons is calculated based on projections by the Japan Institute for Labour Policy and Training.
3. In the right-hand chart, figures are based on the *Tankan*. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Sources: Ministry of Finance; Ministry of Internal Affairs and Communications; National Institute of Population and Social Security Research; Japan Institute for Labour Policy and Training; Bank of Japan.

Chart 5

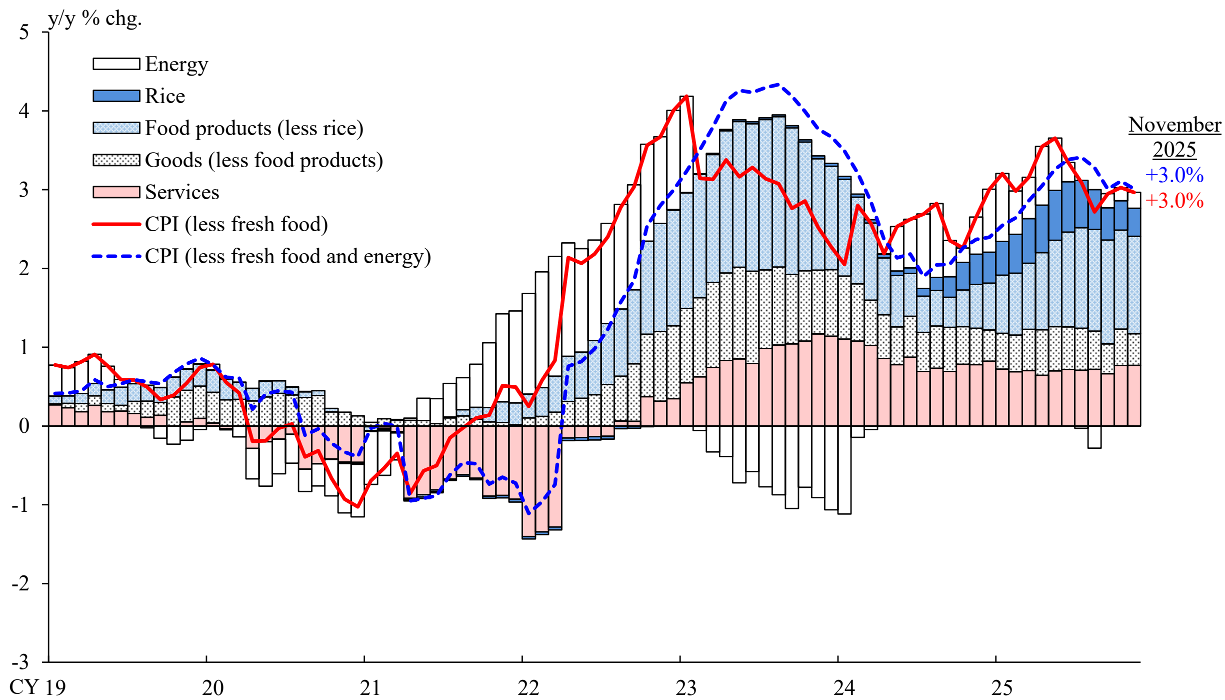
Developments in Wages and Prices



Notes: 1. The CPI figures exclude the effects of consumption tax hikes etc. The figure for 2025 is the January-November average.
2. Figures for base pay increases from 1991 to 2013 are those published by the Central Labour Relations Commission, while those from 2014 to 2025 are figures released by Rengo.
Sources: Ministry of Internal Affairs and Communications; Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission.

Chart 6

Consumer Prices



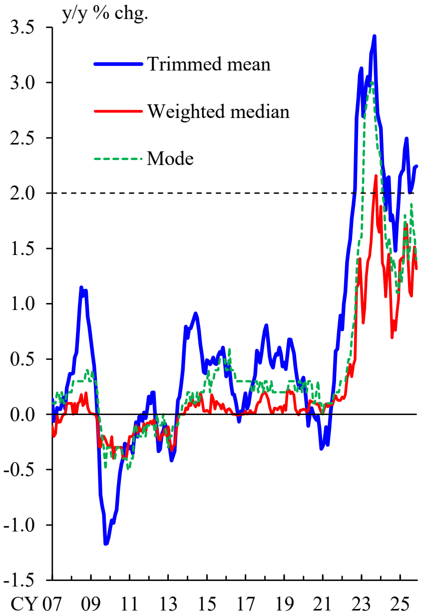
Source: Ministry of Internal Affairs and Communications.

II. An Economy in Which Both Wages and Prices Rise Moderately

Chart 7

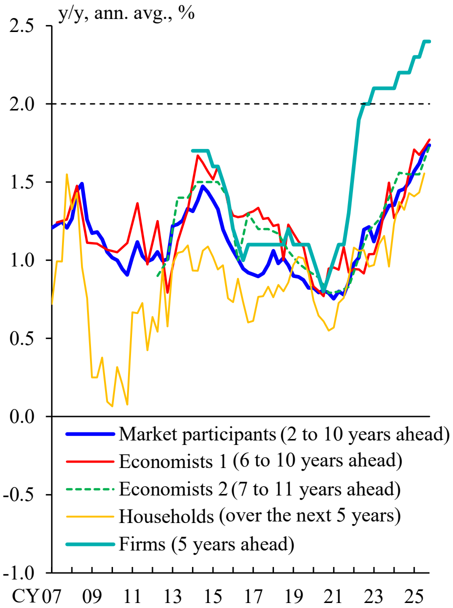
Indicators Related to Underlying Inflation

CPI: Trimmed Mean etc.

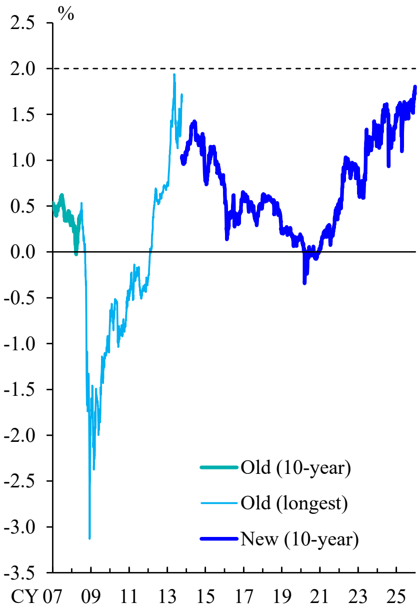


Inflation Expectations

1. Survey



2. BEI



Note: For details of each approach, see the October 2025 Outlook Report. In the right-hand panel, "Old (10-year)" and "Old (longest)" refer to the breakeven inflation rate based on old inflation-indexed JGBs, while "New (10-year)" refers to the breakeven inflation rate based on new inflation-indexed JGBs.

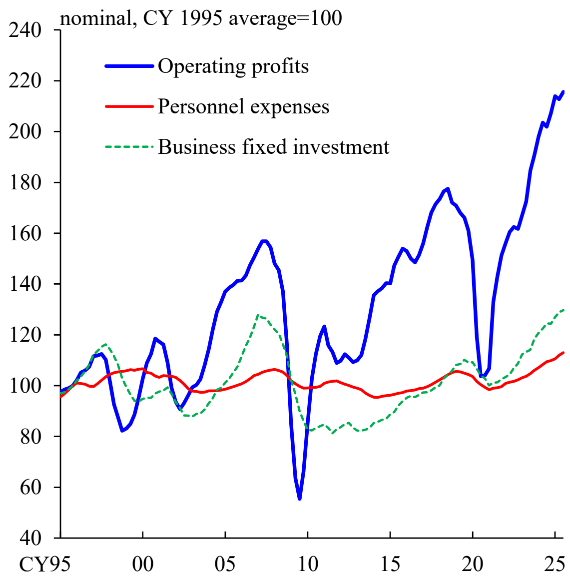
Sources: Bank of Japan; Ministry of Internal Affairs and Communications; QUICK, "QUICK Monthly Market Survey <Bonds>"; JCER, "ESP Forecast"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

II. An Economy in Which Both Wages and Prices Rise Moderately

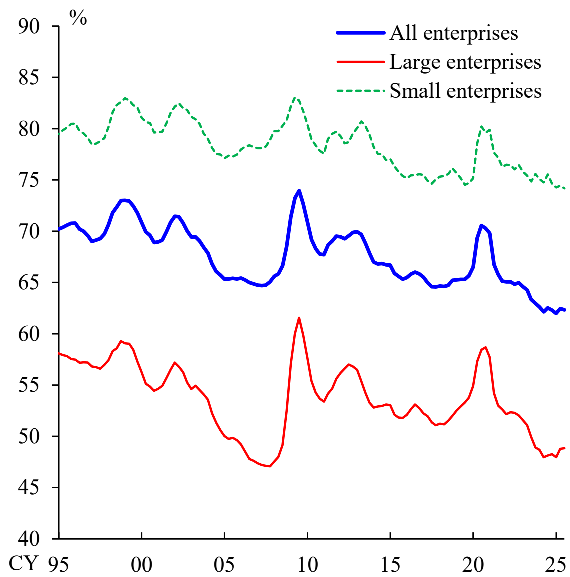
Chart 8

Corporate Sector

Corporate Profits and Spending Behavior



Labor Share



Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*. Figures exclude "finance and insurance" and those for 2009/Q2 onward also exclude "pure holding companies." Figures are 4-quarter backward moving averages.

2. In the right-hand chart, large enterprises are enterprises with a capitalization of 1 billion yen or more, while small enterprises are enterprises with a capitalization of 10 million yen or more but less than 100 million yen. Labor share = Personnel expenses / Value-added, and Value-added = Operating profits + Personnel expenses + Depreciation expenses.

Source: Ministry of Finance.