



# Economic Activity, Prices, and Monetary Policy in Japan

*Speech at a Meeting with Local Leaders in Kyoto*

February 26, 2026

TAKATA Hajime

Member of the Policy Board

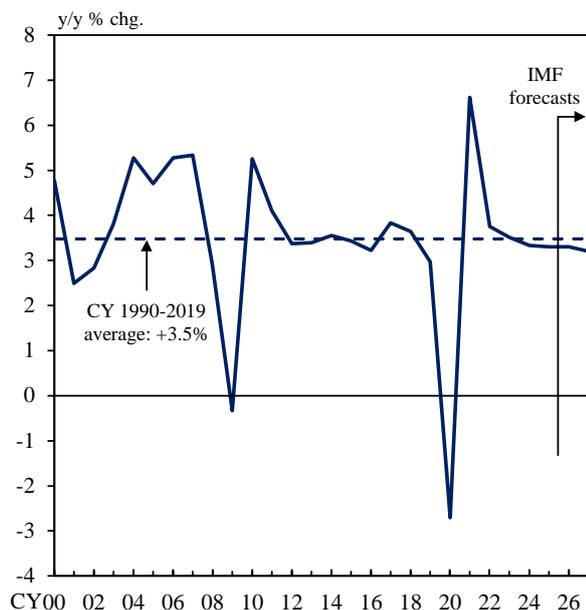
Bank of Japan

Chart 1

## Developments in Overseas Economies: IMF's January 2026 WEO *Update* (1)

(Upward revisions to growth projections have continued globally)

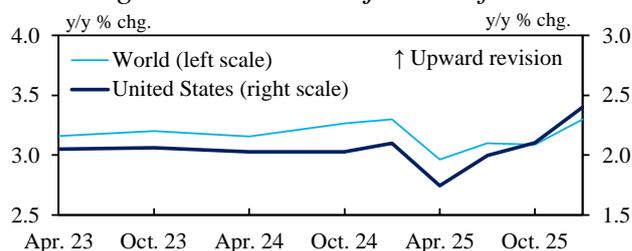
*Global Growth Rate*



*Growth Rates in Major Economies*

	y/y % chg., % points			
	CY 2024	CY 2025	CY 2026 [Forecast]	CY 2027 [Forecast]
World	3.3	3.3	3.3 (0.2)	3.2 (0.0)
Advanced economies	1.8	1.7	1.8 (0.2)	1.7 (0.0)
United States	2.8	2.1	2.4 (0.3)	2.0 (-0.1)
Euro area	0.9	1.4	1.3 (0.1)	1.4 (0.0)
Emerging market and developing economies	4.3	4.4	4.2 (0.2)	4.1 (-0.1)
China	5.0	5.0	4.5 (0.3)	4.0 (-0.2)

*Changes in Growth Projections for 2026*



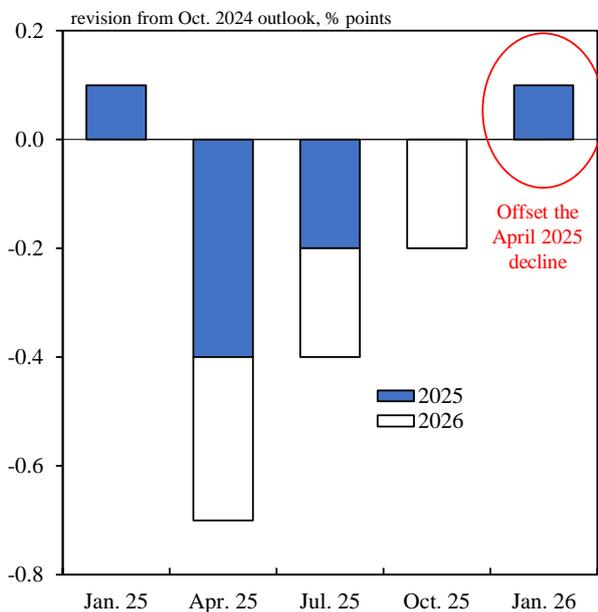
Note: In the table, figures in brackets are the differences from forecasts in the October 2025 *World Economic Outlook* (WEO).

Source: IMF.

# Developments in Overseas Economies: IMF's January 2026 WEO Update (2)

(Increase in global growth is projected to fully offset the April 2025 decline)

Revisions to the Global Economic Growth Outlook



IMF Comments on the  
January 2026 WEO Update

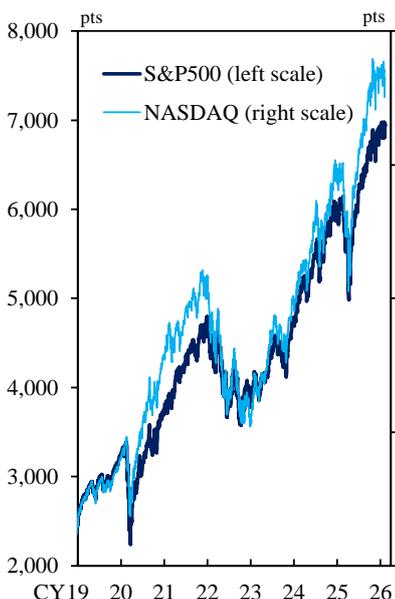
- Global economic growth continues to show resilience despite the tariff shock and heightened uncertainty.
- Consequently, current growth projections are **broadly unchanged from a year earlier**.
- This strength reflects a confluence of factors, including easing trade tensions, **increased fiscal stimulus, accommodative financial conditions, and the continued surge in investment in the IT sector, especially in AI.**

Source: IMF.

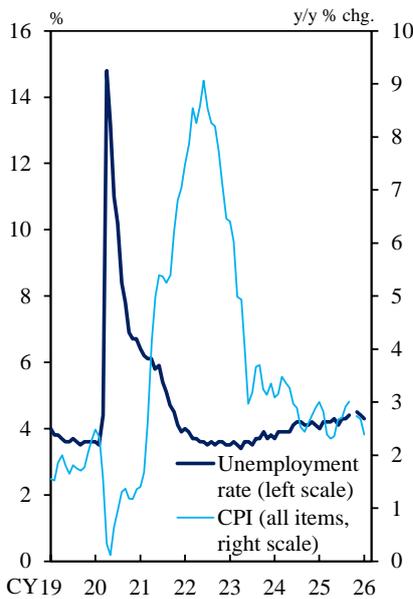
# U.S. Economy

(U.S. economy remains firm amid policy rate cuts despite weak employment)

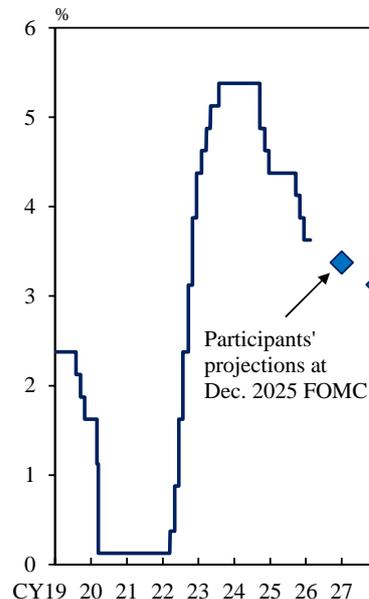
Stock Prices



Employment and Prices



Policy Interest Rate



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

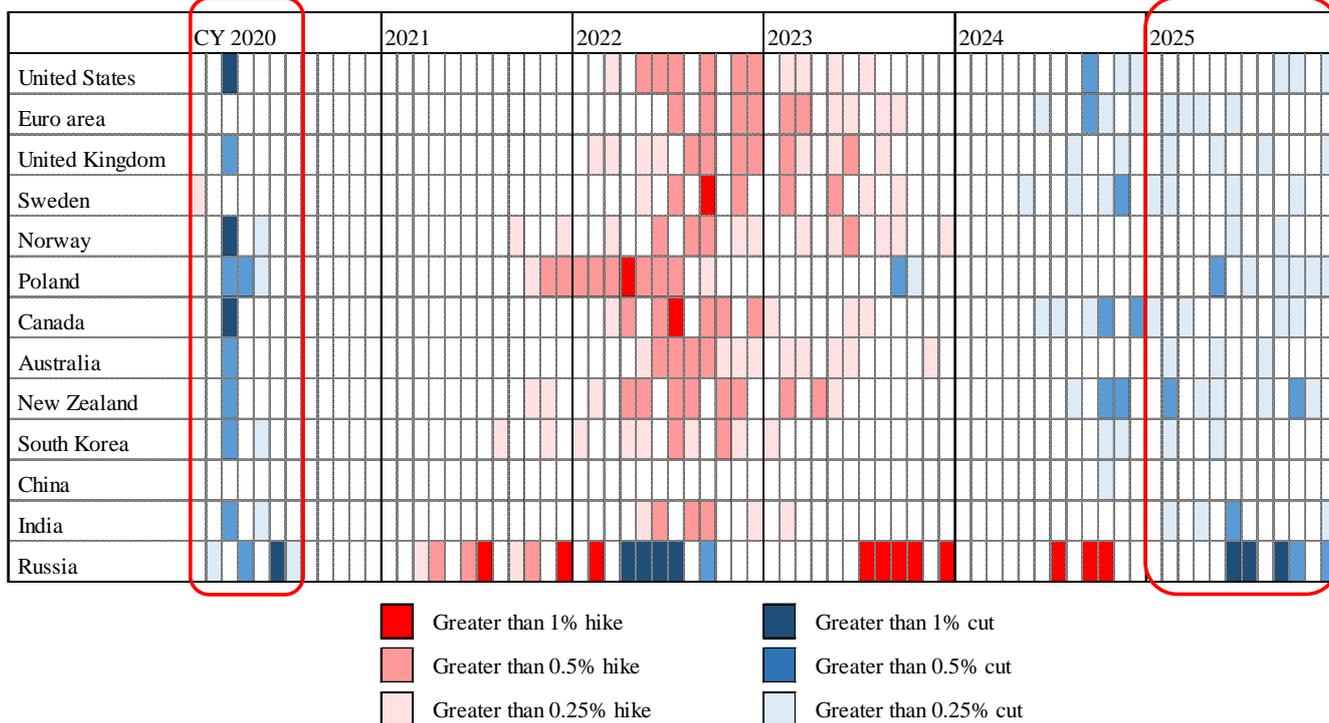
Sources: Bloomberg; BLS; FRB.

# Positive Contribution of Monetary Policy Across the World

(Economies converged toward easing in 2025, as in 2020)

Similarly converged toward easing in 2020

Converged toward easing in 2025

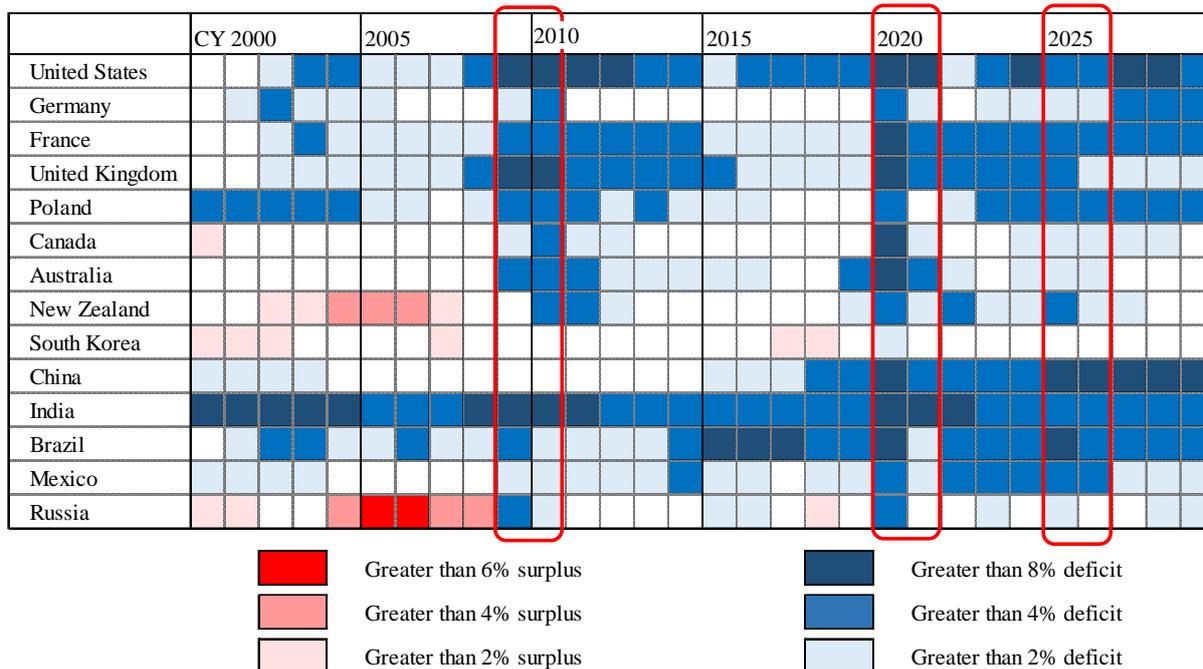


Sources: Overseas central banks.

# Positive Contribution of Fiscal Policy Across the World

(Global fiscal expansion has taken place since 2025, as seen during the COVID-19 pandemic)

*Fiscal Balance (GDP Ratio, %)* Global fiscal expansion similar to after the Global Financial Crisis and during the pandemic

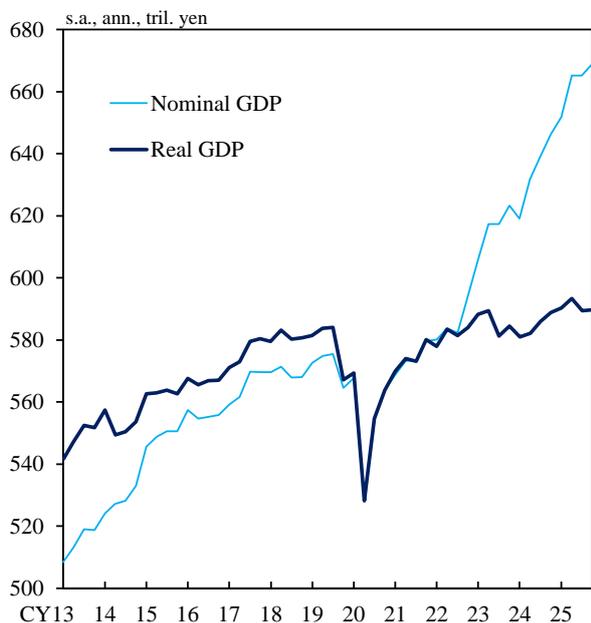


Source: IMF.

# Japan's GDP and Outlook for Economic Activity and Prices

(Japan's economy is likely to improve moderately)

## GDP



## Outlook for Economic Activity and Prices

(January 2026 Outlook Report)

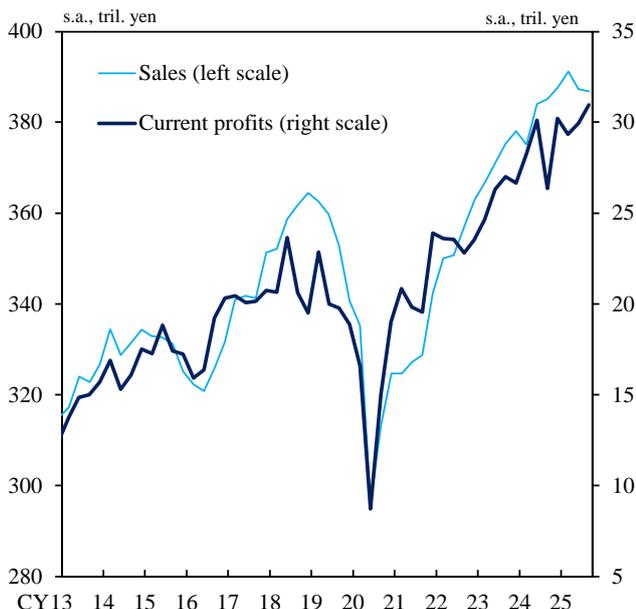
	y/y % chg.		
	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2025	+0.9	+2.7	+3.0
As of October 2025	+0.7	+2.7	+2.8
As of July 2025	+0.6	+2.7	+2.8
Fiscal 2026	+1.0	+1.9	+2.2
As of October 2025	+0.7	+1.8	+2.0
As of July 2025	+0.7	+1.8	+1.9
Fiscal 2027	+0.8	+2.0	+2.1
As of October 2025	+1.0	+2.0	+2.0
As of July 2025	+1.0	+2.0	+2.0

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

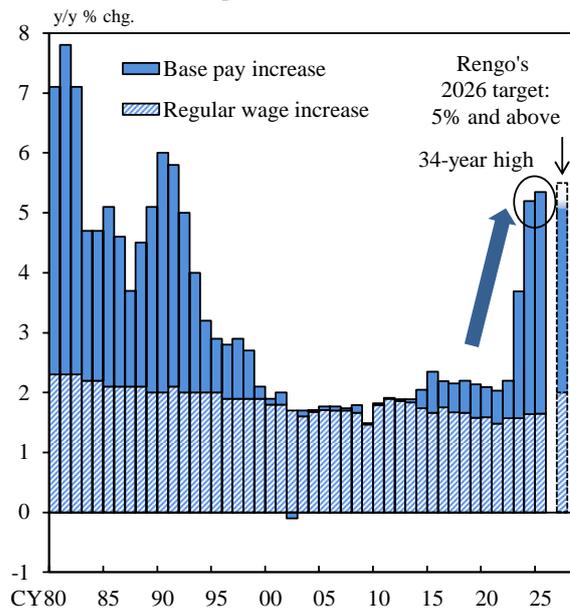
# Corporate Sector and Wage Growth in Japan

(Corporate profits are at high levels and the wage growth rate remains at its highest level in 34 years since the bubble period)

## Corporate Profits



## Wage Growth Rate

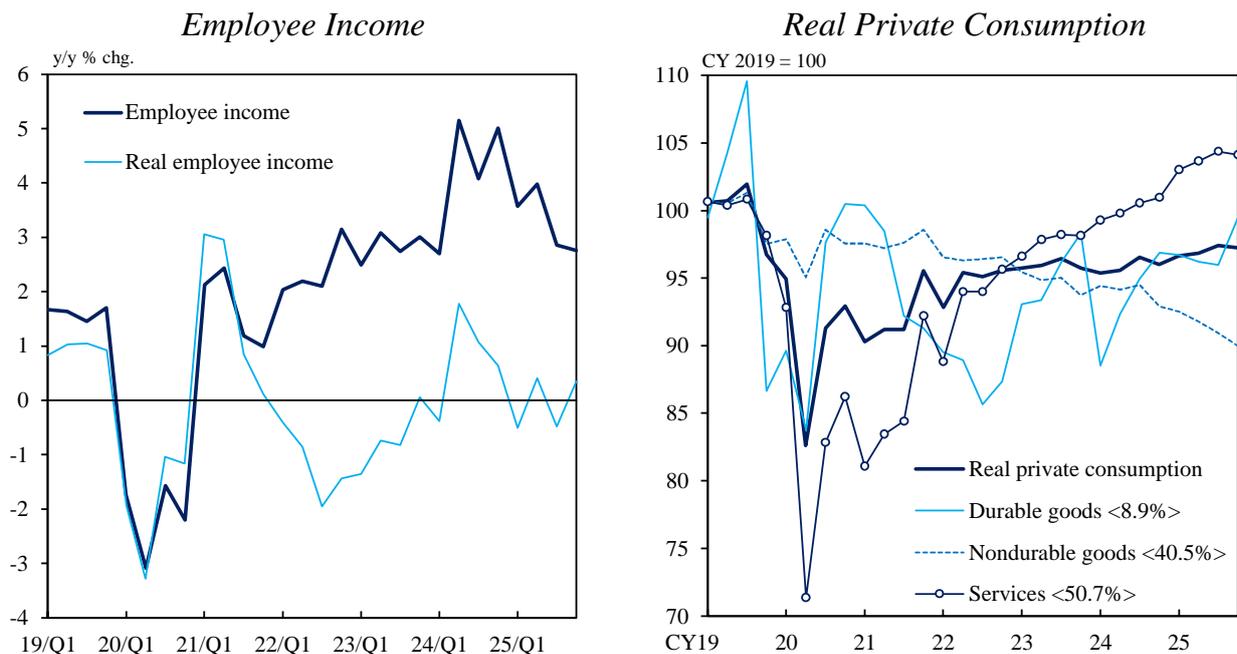


Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude the finance and insurance industries.  
2. In the right panel, figures from 1980 to 2014 are those published by the Central Labour Relations Commission; figures from 2015 to 2025 are those released by Rengo. Figures for 2026 are Rengo's targets for wage hikes for the 2026 annual spring labor-management wage negotiations.

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

# Private Consumption in Japan

(The employment and income situation has been resilient)



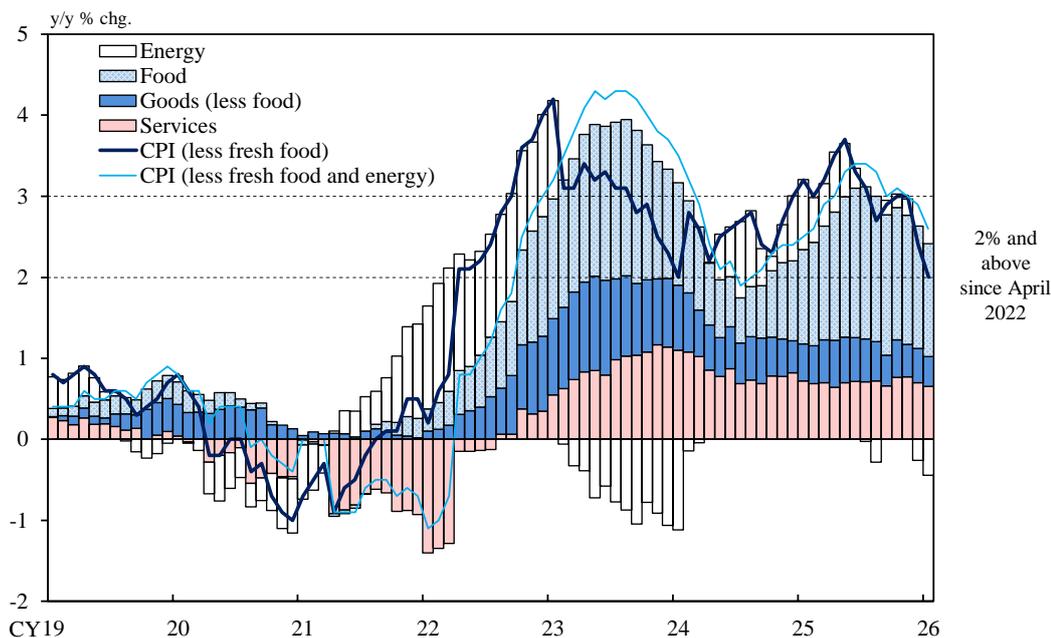
Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures for real employee income are based on Bank staff calculations using the CPI (less imputed rent). Figures from the *Monthly Labour Survey* are based on continuing observations following the sample revisions.

2. In the right panel, figures for real private consumption are the real Consumption Activity Index (travel balance adjusted) based on Bank staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption. Figures in angle brackets show the weights in the index.

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

# CPI Inflation in Japan

(Inflation has remained at 2% and above for nearly four years)



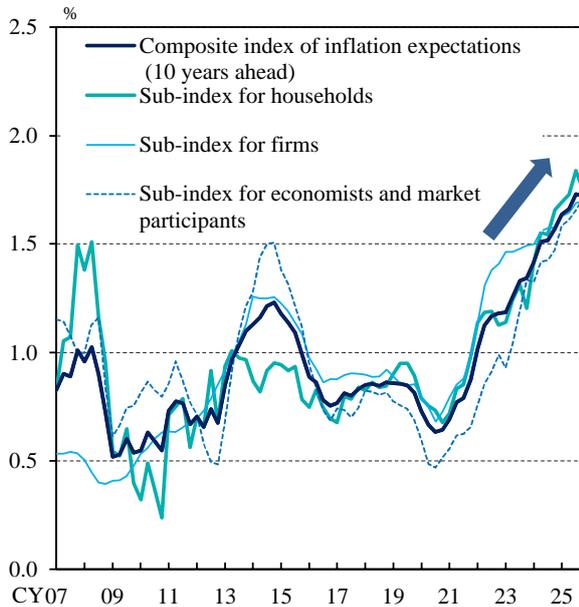
Source: Ministry of Internal Affairs and Communications.

# Inflation Indicators for Japan

(Inflation expectations have continued to rise moderately)

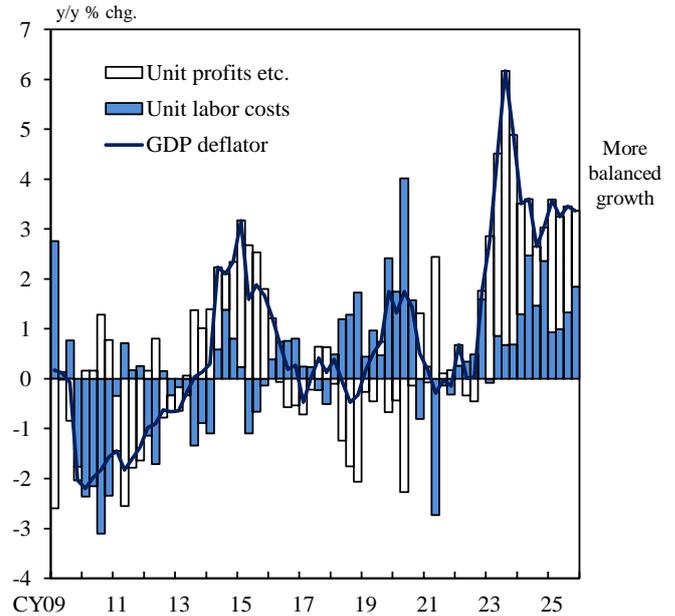
## Composite Index of Inflation Expectations

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



## GDP Deflator

(Reflection of domestic inflationary pressure)



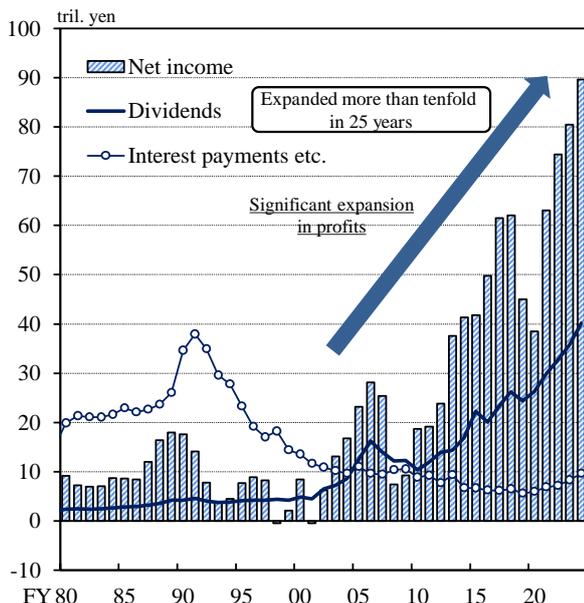
Notes: 1. In the left panel, the composite index is calculated by extracting common components, based on the first principal component, of the inflation expectations of firms, households, and economists and market participants. For details of the calculation method, see Box 4 of the April 2024 Outlook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

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

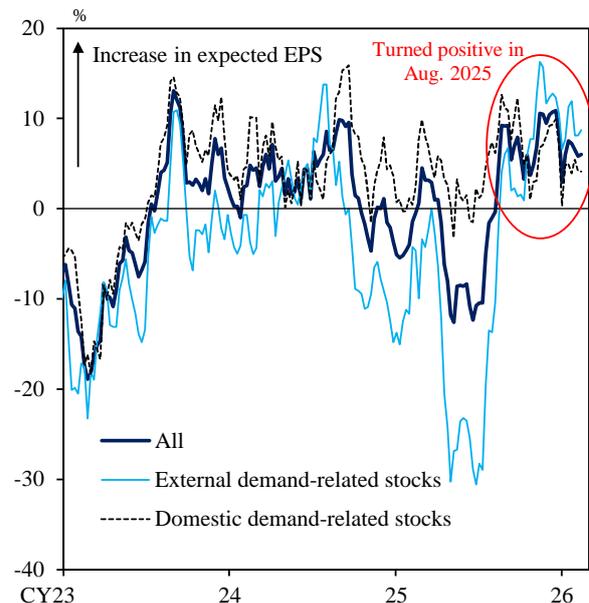
# Rapid Expansion in Japan's Corporate Profits

(Corporate profits are at historical high levels and expectations of improvement have remained high since the second half of 2025)

## Corporate Profits



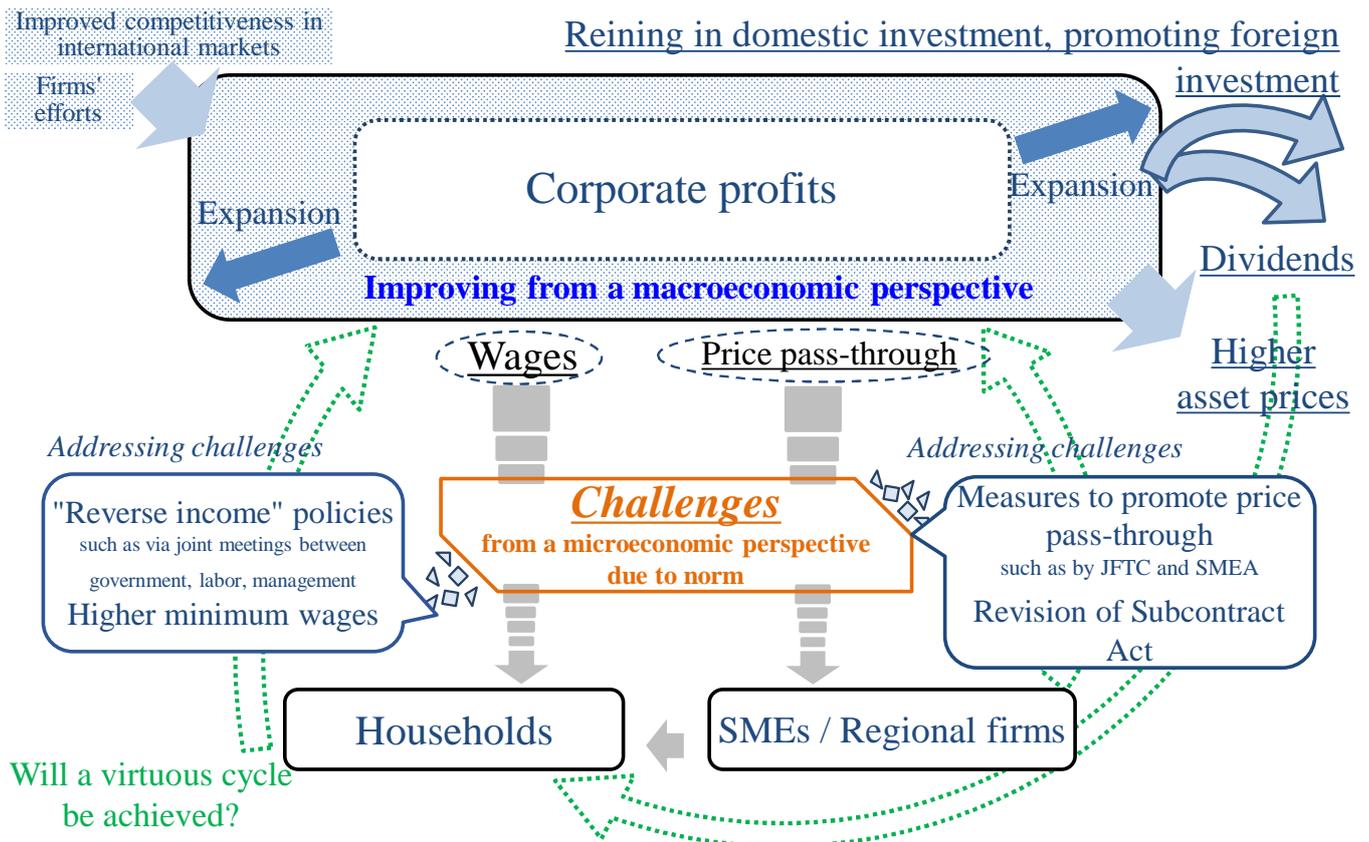
## Earnings Revision Index (TOPIX)



Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.  
 2. In the right panel, the earnings revision index is calculated as the ratio of the difference between (1) the number of listed firms for which analysts' estimates of 12-month forward earnings per share (EPS) were revised upward from the preceding month and (2) the number of listed firms that saw downward revisions.

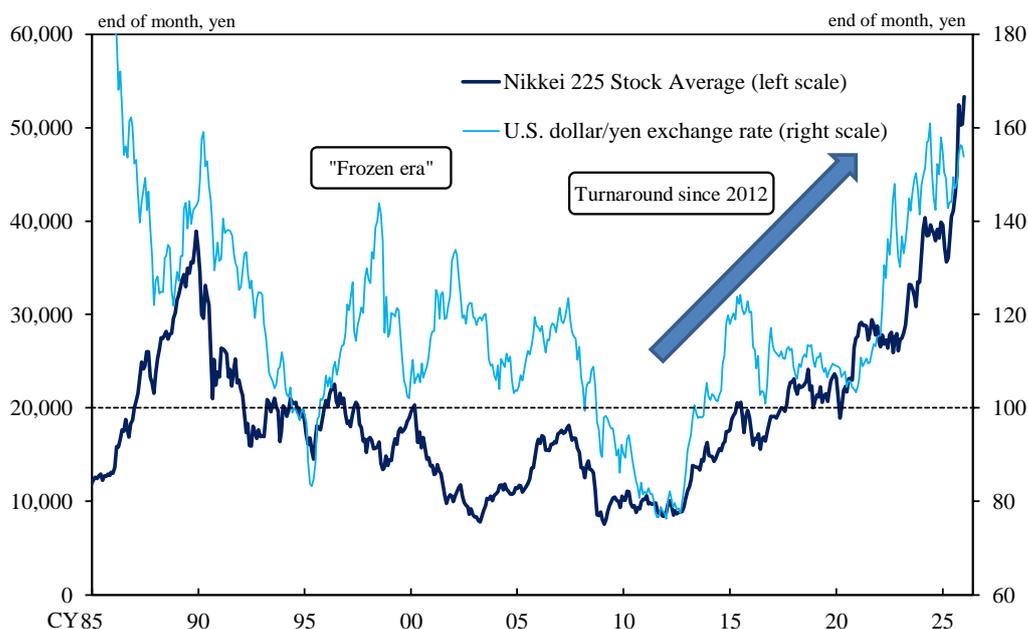
Sources: LSEG Datastream; Ministry of Finance.

### My View on Mechanism of Expanding Corporate Profits and Ensuing Challenges (Expanding corporate profits have spilled over to households, SMEs, and regional firms)



### Stock Prices and Exchange Rates

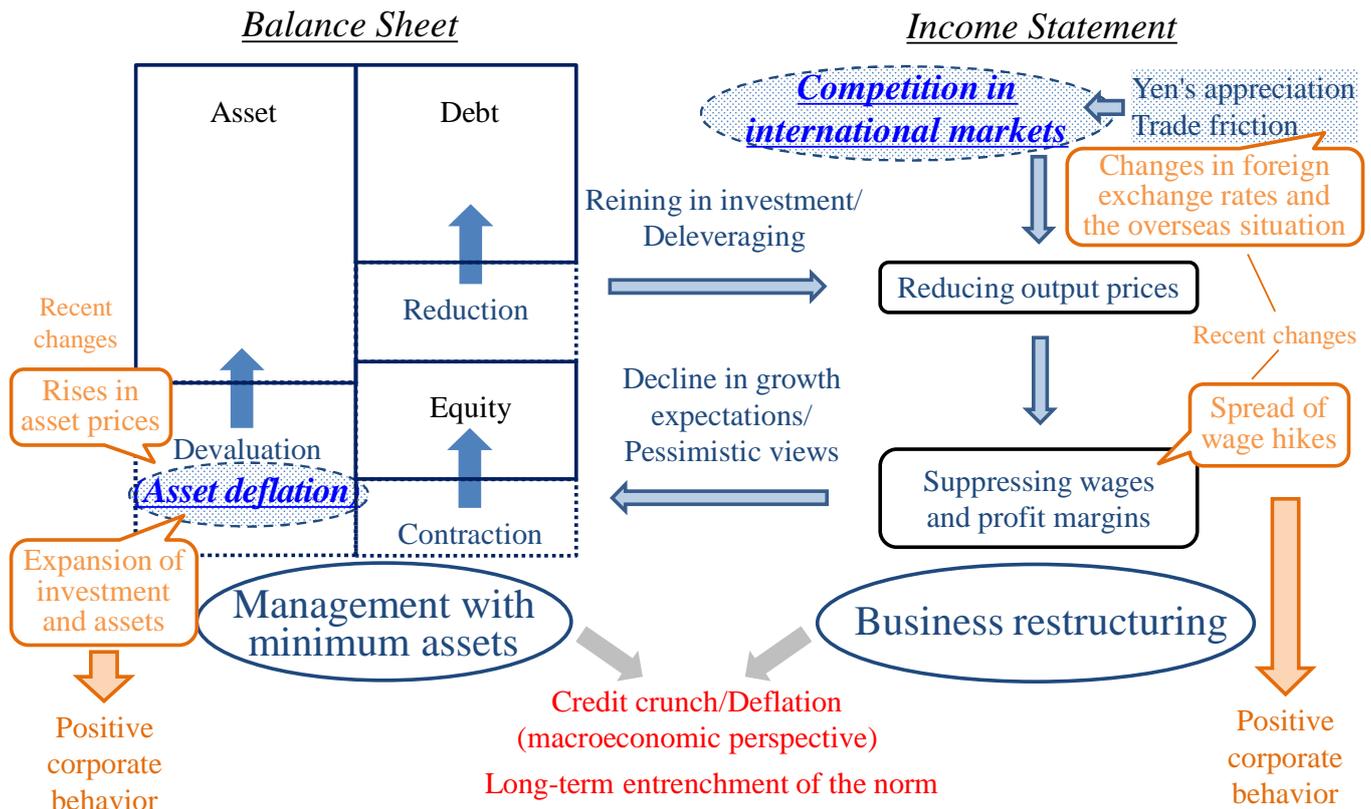
(Both have turned around since 2012 from the "frozen era" that started in the 1990s)



Source: Bloomberg.

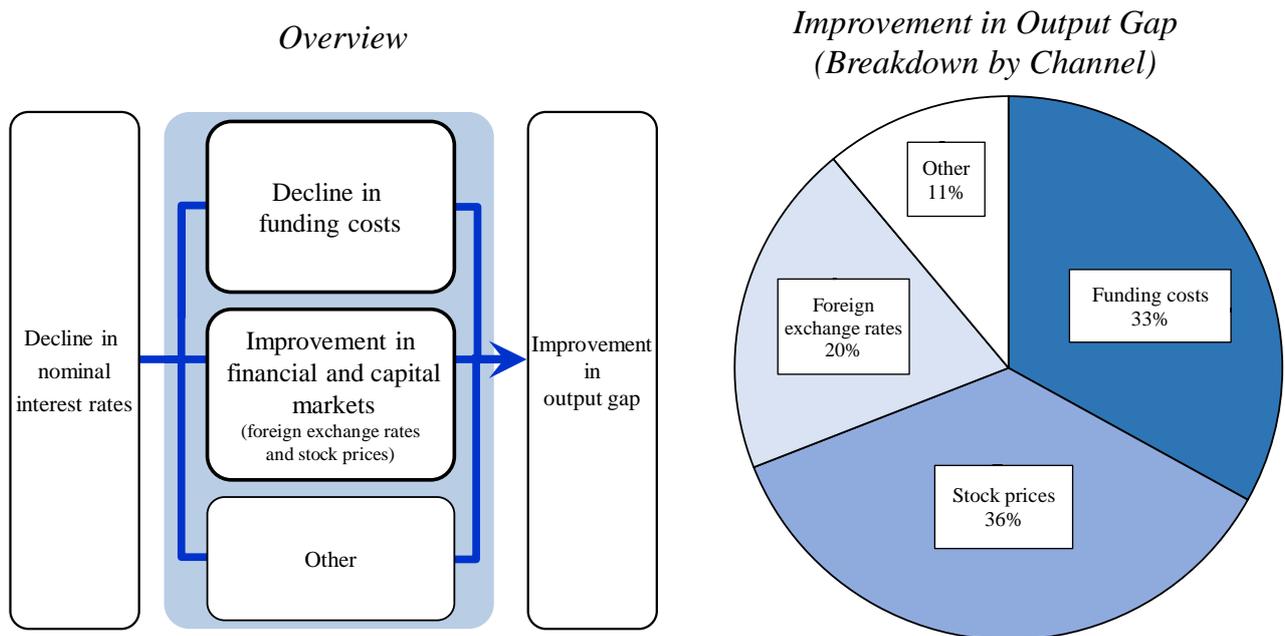
# My View on Corporate Behavior in the Post-Bubble Period

(Corporate behavior has turned positive from shrinking equilibrium)



# Transmission Channels of Lower Interest Rates

(Financial and capital market channels, via stock prices and foreign exchange rates, are important)

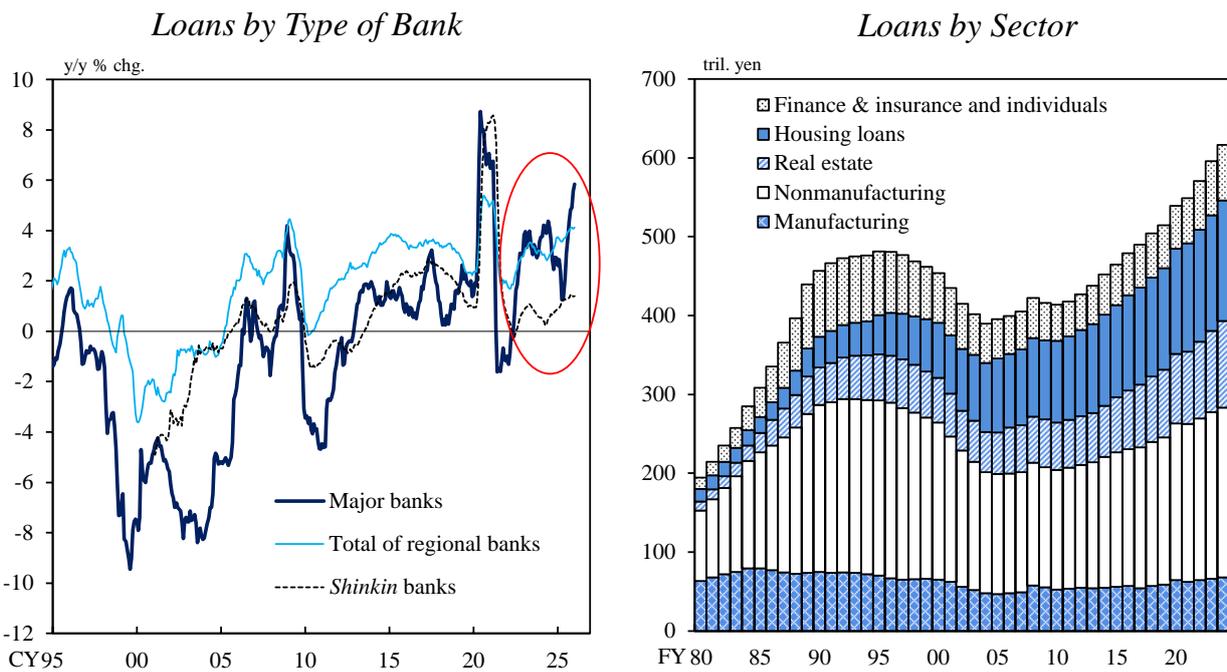


Notes: 1. Figures are based on a VAR model with coefficient restrictions using eight variables: output gap, interest rates (3-month), interest rate spreads (2-year minus 3-month, 5-year minus 2-year, 10-year minus 5-year), aggregate funding costs, nominal effective yen exchange rates, and stock prices.  
 2. Aggregate funding costs are the weighted average of bank lending rates and issuance yields for CP and corporate bonds.  
 3. In the pie graph, figures show 5-year cumulative effects.

Sources: Bloomberg; Bank of Japan; etc.

## Bank Lending in Japan

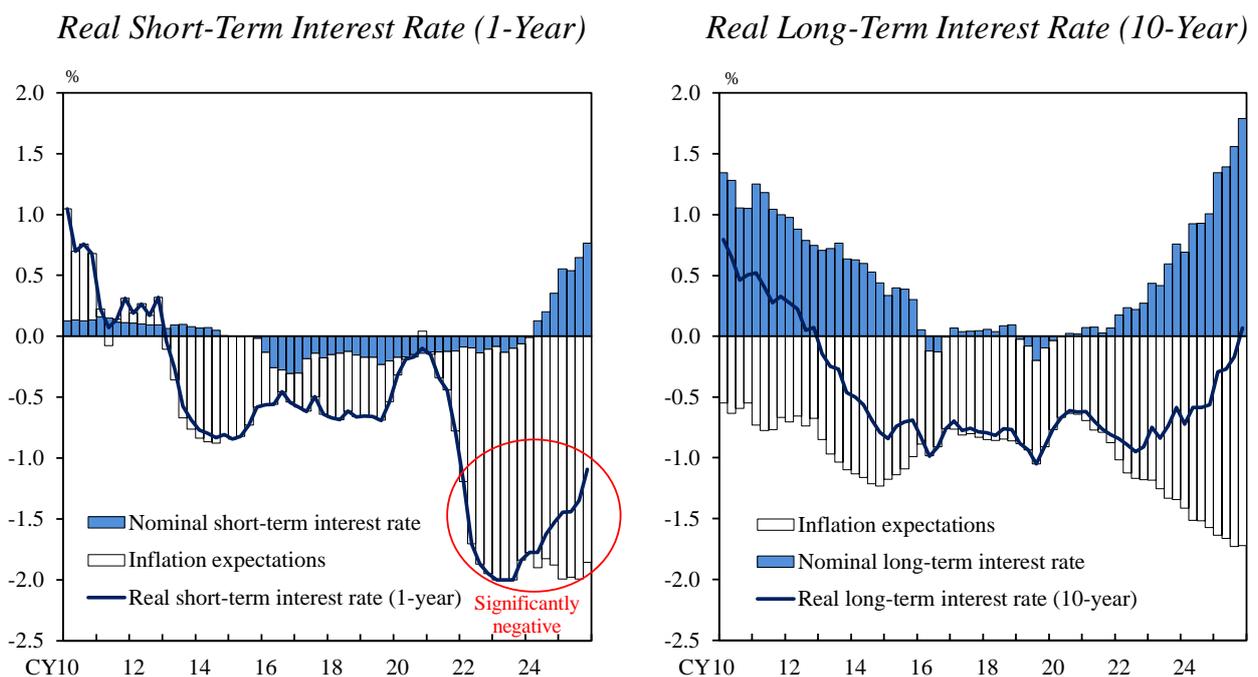
(Bank lending mainly among major banks shows signs of increase)



Notes: 1. In the left panel, figures include loans to local governments and individuals.  
2. In the right panel, figures are for domestically licensed banks (banking accounts of domestic branches). Figures for "nonmanufacturing" exclude real estate and finance and insurance, and figures for "finance & insurance and individuals" exclude housing loans.  
Source: Bank of Japan.

## Real Interest Rate in Japan

(Short-term rate in particular has remained significantly negative)



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

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

## Global Nominal Interest Rate Map

(Japan's nominal interest rates are no longer at the lowest level in the world)

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year	%
Switzerland	0.00	0.08	-0.13	-0.04	0.02	0.08	0.17	0.19	0.20	0.24	0.27	0.30	0.32	0.35	0.38	0.41	0.52	0.48	0.41	
Japan	0.75	1.05	1.29	1.44	1.60	1.69	1.88	1.97	2.10	2.18	2.21	2.42	2.63	2.83	3.04	3.25	3.05	3.44	3.67	
Denmark	1.60	1.86	1.76	2.05	2.14	2.23	2.30	2.37	2.44	2.53	2.61	2.63	2.66	2.68	2.70	2.72	2.82	3.12		
Sweden	1.75	1.88	1.87	1.98	2.10	2.21	2.26	2.30	2.40	2.49	2.59	2.62	2.66	2.69	2.73	2.76	2.93			
Germany	2.15	1.99	2.05	2.06	2.20	2.34	2.35	2.50	2.56	2.64	2.76	2.83	2.91	2.99	3.07	3.15	3.32	3.44		
France	2.15	2.06	2.13	2.28	2.44	2.65	2.76	2.93	3.08	3.21	3.35	3.44	3.53	3.62	3.72	3.81	4.01	4.32		
Spain	2.15	2.06	2.08	2.29	2.29	2.40	2.60	2.82	2.90	3.08	3.14	3.23	3.33	3.42	3.52	3.61	3.72	4.03		
Portugal	2.15	2.04	2.09	2.19	2.28	2.53	2.64	2.82	2.86	3.00	3.12	3.19	3.26	3.34	3.41	3.48	3.68	3.91		
Austria	2.15	2.04	2.10	2.22	2.37	2.51	2.62	2.73	2.83	2.95	3.05	3.12	3.20	3.27	3.35	3.42	3.65	3.74	3.77	
Italy	2.15	2.07	2.13	2.35	2.57	2.67	2.90	3.00	3.17	3.33	3.37	3.46	3.54	3.63	3.72	3.80	4.09	4.30		
Ireland	2.15	2.24	2.06	2.08	2.22	2.40	2.38	2.50	2.69	2.77	2.86	2.96	3.06	3.16	3.26	3.36	3.46	3.69		
Netherlands	2.15	2.11	2.04	2.16	2.28	2.34	2.46	2.59	2.65	2.74	2.83	2.90	2.97	3.04	3.12	3.19	3.31	3.49		
Finland	2.15	2.22	2.10	2.20	2.37	2.48	2.61	2.71	2.81	2.92	3.04	3.12	3.21	3.30	3.39	3.48	3.59	3.82		
Canada	2.25	2.32	2.48	2.50	2.64	2.80	2.89	2.99	3.08	3.17	3.26	3.29	3.33	3.36	3.40	3.44	3.61	3.73		
China	3.00	1.35	1.41	1.42	1.50	1.59	1.63	1.68	1.72	1.77	1.81	1.86	1.91	1.95	2.00	2.05	2.36	2.30		
United Kingdom	3.75	3.58	3.59	3.65	3.75	3.83	4.00	4.00	4.29	4.35	4.42	4.57	4.71	4.76	4.80	4.84	5.10	5.23	5.20	
United States	3.75	3.43	3.41	3.45	3.53	3.61	3.71	3.81	3.89	3.98	4.06	4.11	4.17	4.23	4.29	4.35	4.64	4.70		
Australia	3.85	4.18	4.23	4.27	4.29	4.36	4.43	4.55	4.60	4.68	4.75	4.79	4.83	4.88	4.94	4.99	5.18	5.24		
Norway	4.00	4.07	4.08	4.09	4.11	4.13	4.16	4.19	4.22	4.24	4.27	4.28	4.28	4.28	4.28	4.28	4.29			
India	5.25	5.65	5.77	6.05	6.32	6.43	6.62	6.67	6.68	6.67	6.68	6.84	6.87	7.01	7.03	7.11	7.23	7.47	7.50	



Note: Figures are as of February 13, 2026. Some figures are estimated by linearly interpolating missing values.  
Source: Bloomberg.

## Global Real Interest Rate Map

(Japan's real interest rates are at the lowest level in the world)

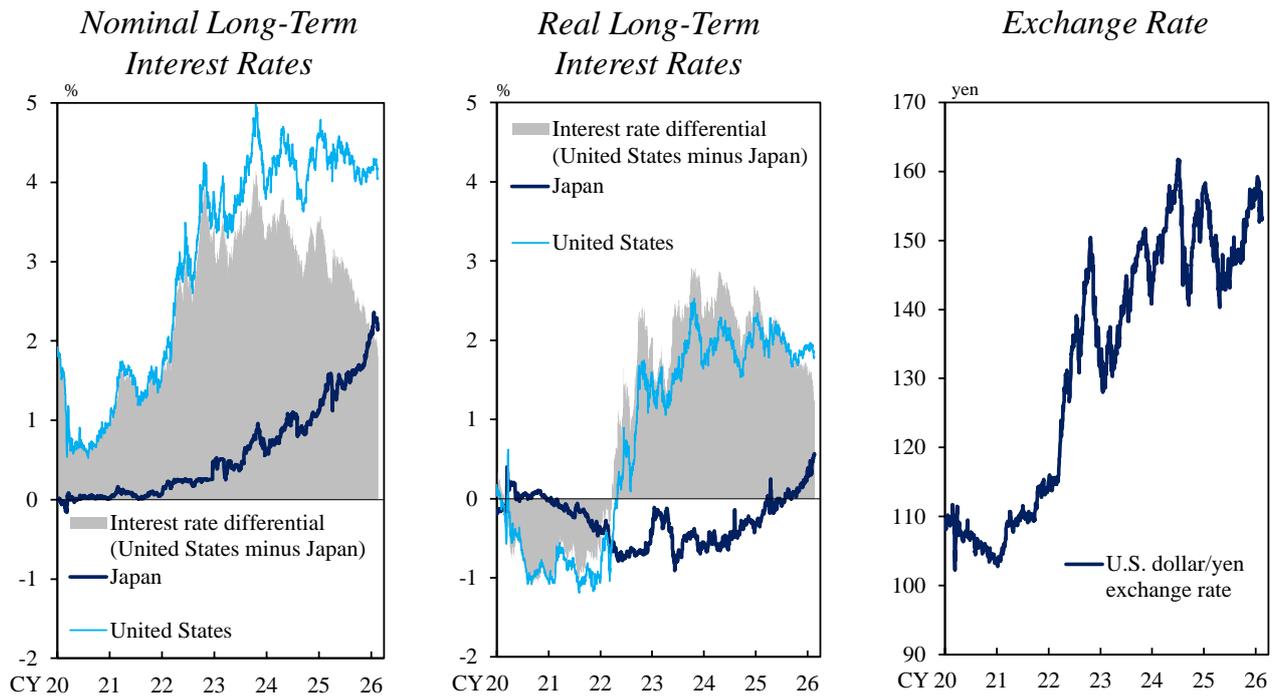
	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year	%
Japan	-1.39	-1.09	-0.86	-0.70	-0.54	-0.46	-0.26	-0.17	-0.05	0.04	0.07	0.28	0.48	0.69	0.90	1.10	0.91	1.30	1.53	
Switzerland	-0.56	-0.48	-0.69	-0.60	-0.54	-0.47	-0.38	-0.37	-0.36	-0.31	-0.29	-0.26	-0.23	-0.20	-0.18	-0.15	-0.04	-0.08	-0.14	
Denmark	-0.46	-0.19	-0.30	-0.01	0.09	0.18	0.25	0.32	0.39	0.47	0.56	0.58	0.60	0.62	0.64	0.66	0.77	1.06		
Netherlands	-0.30	-0.34	-0.41	-0.29	-0.17	-0.11	0.01	0.14	0.20	0.30	0.38	0.45	0.52	0.60	0.67	0.74	0.86	1.04		
Austria	-0.18	-0.29	-0.23	-0.11	0.04	0.18	0.29	0.40	0.50	0.62	0.72	0.79	0.87	0.94	1.02	1.10	1.32	1.41	1.44	
Portugal	0.02	-0.08	-0.03	0.06	0.16	0.41	0.52	0.69	0.74	0.88	1.00	1.07	1.14	1.21	1.28	1.35	1.56	1.78		
Spain	0.13	0.03	0.05	0.27	0.27	0.38	0.58	0.80	0.88	1.06	1.11	1.21	1.30	1.40	1.49	1.59	1.70	2.01		
Italy	0.14	0.06	0.12	0.34	0.56	0.66	0.88	0.99	1.16	1.31	1.36	1.44	1.53	1.62	1.70	1.79	2.07	2.29		
Sweden	0.15	0.28	0.27	0.38	0.50	0.61	0.66	0.70	0.80	0.89	0.99	1.02	1.06	1.09	1.13	1.16	1.33			
Finland	0.21	0.28	0.16	0.26	0.43	0.54	0.67	0.77	0.87	0.99	1.10	1.19	1.28	1.37	1.45	1.54	1.66	1.89		
Canada	0.22	0.29	0.45	0.47	0.61	0.77	0.86	0.96	1.05	1.14	1.23	1.26	1.30	1.33	1.37	1.41	1.58	1.70		
Germany	0.39	0.24	0.29	0.30	0.45	0.59	0.59	0.74	0.80	0.89	1.00	1.08	1.16	1.23	1.31	1.39	1.56	1.68		
Ireland	0.49	0.58	0.40	0.42	0.56	0.74	0.72	0.85	1.03	1.11	1.20	1.30	1.40	1.50	1.60	1.70	1.80	2.03		
France	0.62	0.53	0.60	0.76	0.91	1.12	1.24	1.40	1.55	1.69	1.82	1.91	2.00	2.10	2.19	2.28	2.48	2.79		
Australia	0.83	1.16	1.21	1.25	1.27	1.33	1.40	1.52	1.58	1.66	1.73	1.76	1.80	1.86	1.91	1.97	2.16	2.22		
India	1.20	1.60	1.72	2.01	2.27	2.39	2.58	2.62	2.64	2.62	2.64	2.79	2.83	2.97	2.99	3.06	3.18	3.42	3.45	
United Kingdom	1.20	1.04	1.05	1.10	1.21	1.28	1.46	1.46	1.74	1.80	1.87	2.02	2.17	2.21	2.25	2.30	2.56	2.68	2.65	
United States	1.32	0.99	0.98	1.01	1.09	1.17	1.28	1.38	1.46	1.54	1.62	1.68	1.74	1.80	1.86	1.92	2.21	2.26		
Norway	1.60	1.67	1.68	1.69	1.71	1.73	1.76	1.79	1.82	1.84	1.87	1.88	1.88	1.88	1.88	1.88	1.89			
China	2.32	0.67	0.73	0.74	0.83	0.91	0.95	1.00	1.04	1.09	1.14	1.18	1.23	1.27	1.32	1.37	1.68	1.62		



Note: Figures are as of February 13, 2026. Some figures are estimated by linearly interpolating missing values. Figures are adjusted to real terms using the IMF's CPI forecast for each country (2026).  
Sources: Bloomberg; IMF.

# U.S.-Japan Interest Rate Differential and Exchange Rate

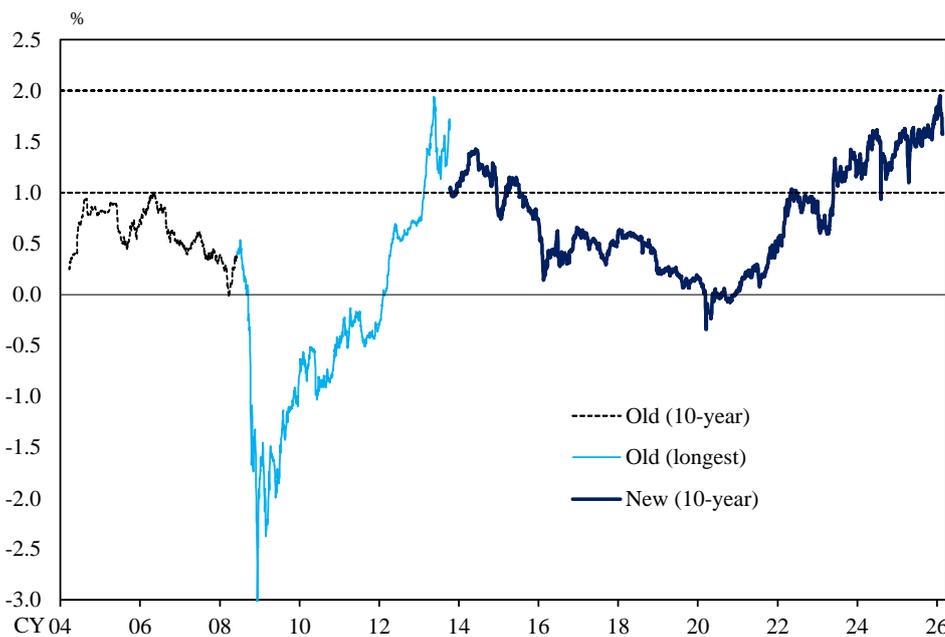
(Both nominal and real interest rate differentials have attracted market attention)



Note: Real long-term interest rates are calculated using nominal long-term interest rates and BEI (break-even inflation) rates.  
Sources: Bloomberg; FRB.

# BEI for Inflation-Indexed JGBs: Inflation Expectations

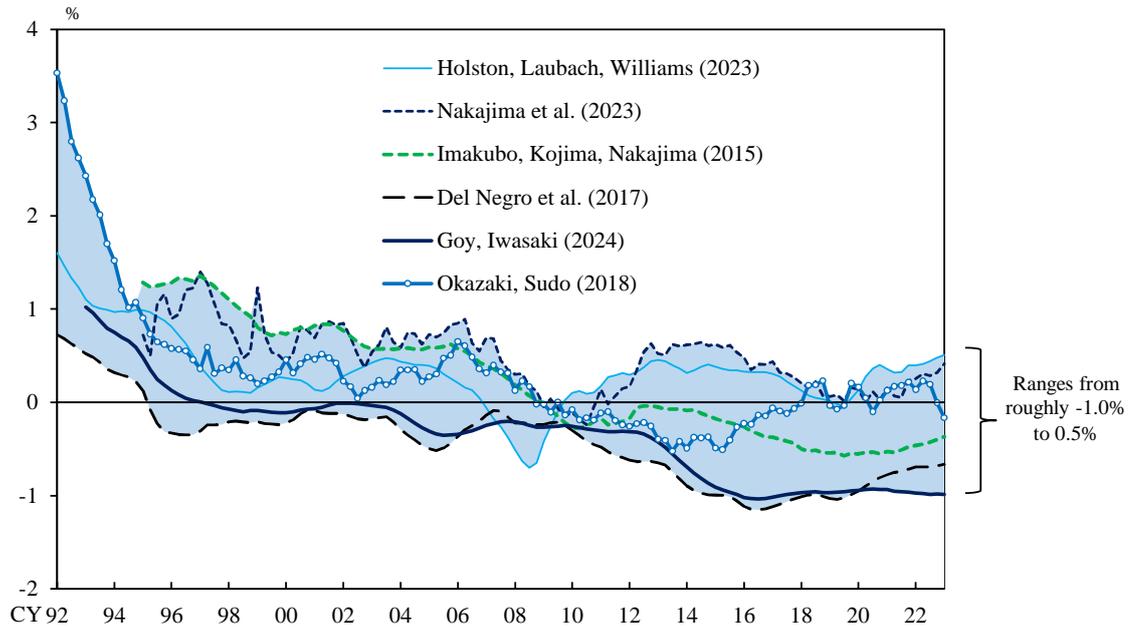
(BEI rate for inflation-indexed JGBs is at a historically high level of around 2%)



Note: Inflation-indexed JGBs issued since October 2013, which have a principal protection feature, are designated as "new," while those issued from March 2004 to June 2008 are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which were issued in June 2008 and matured in June 2018.

Sources: Bloomberg; QUICK.

## Estimates of Japan's Natural Rate of Interest Underlying the Neutral Interest Rate (Estimates range from roughly -1.0% to 0.5%)



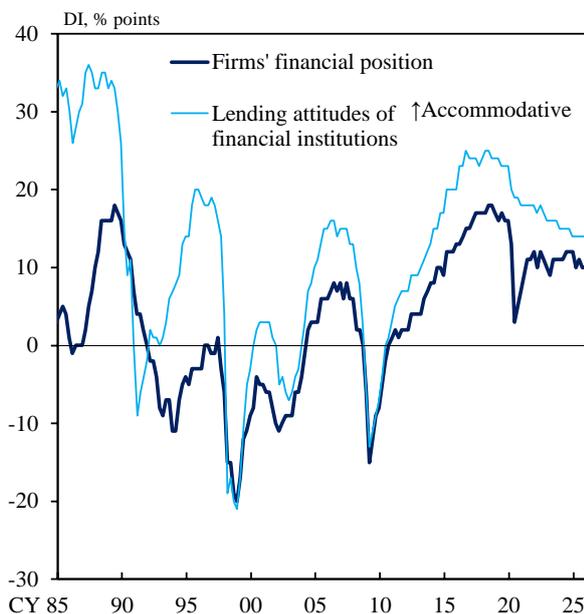
Note: Estimates are based on Bank staff calculations using the models proposed in the different papers listed. The shaded area shows the estimated range of the natural rate of interest.

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.

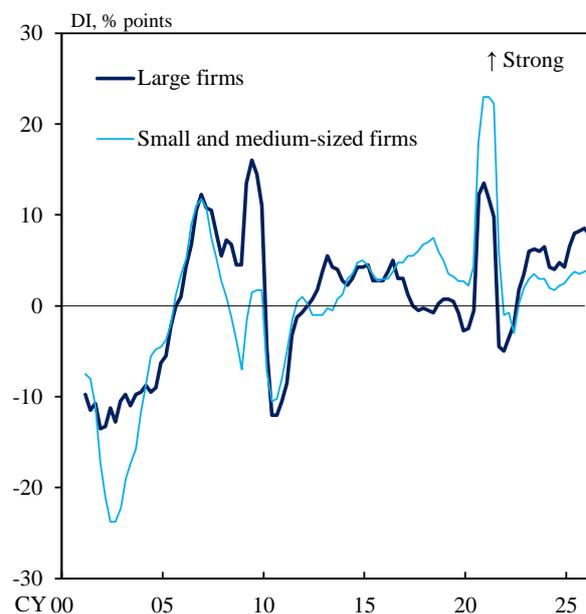
## Financial Conditions in Japan

(Financial conditions based on firms' financial positions and demand for funds have remained accommodative)

*Financial Conditions as Perceived by Firms  
(Tankan)*



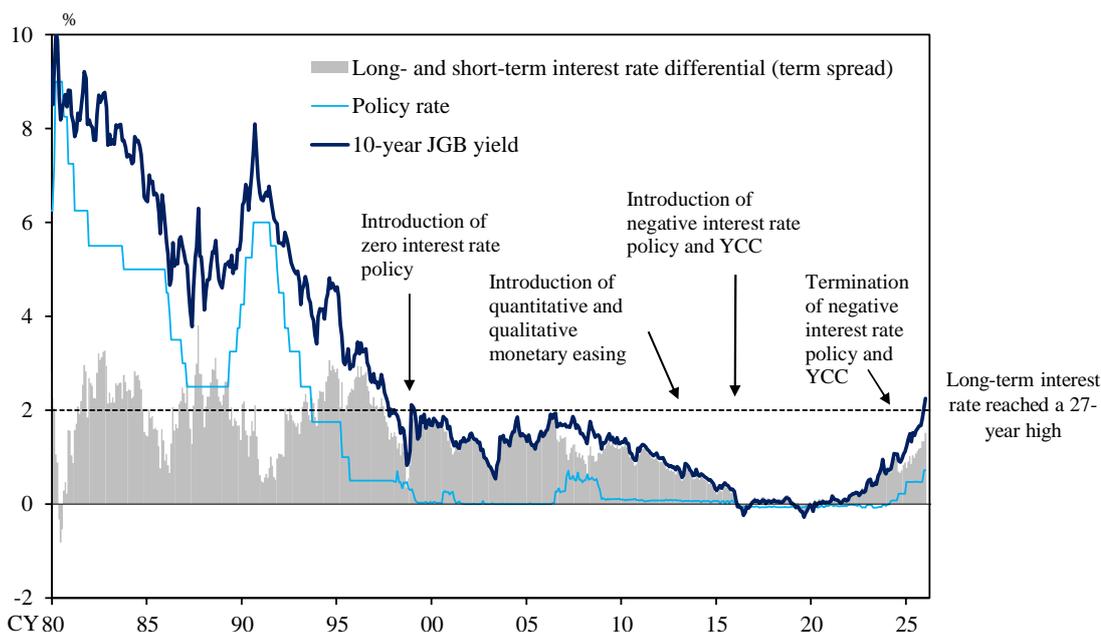
*Demand for Funds as Perceived by  
Financial Institutions*



Note: In the right panel, figures are 4-quarter backward moving averages.  
Source: Bank of Japan.

# Developments in Japan's Long- and Short-Term Interest Rates

(Term spread reflects the risk premium on JGB investments)



Notes: 1. Figures for the policy interest rate before 1998 are the basic discount rate and basic loan rate (official discount rate), and those for 1998 onward are the uncollateralized overnight call rate.  
 2. Figures for 10-year JGB yields before 1987 are over-the-counter quotes.  
 Sources: Ministry of Finance; Bank of Japan.

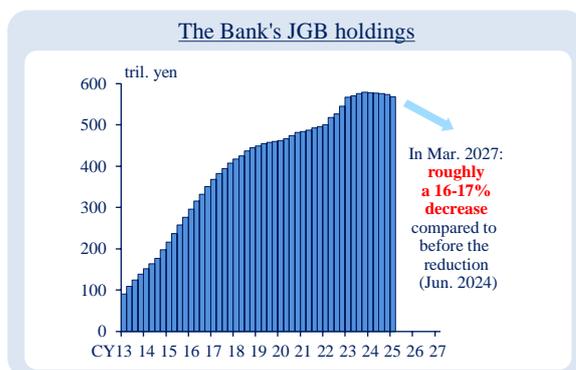
# Plan for the Reduction of the Purchase Amount of JGBs

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

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

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

### Reduction in a Predictable Manner

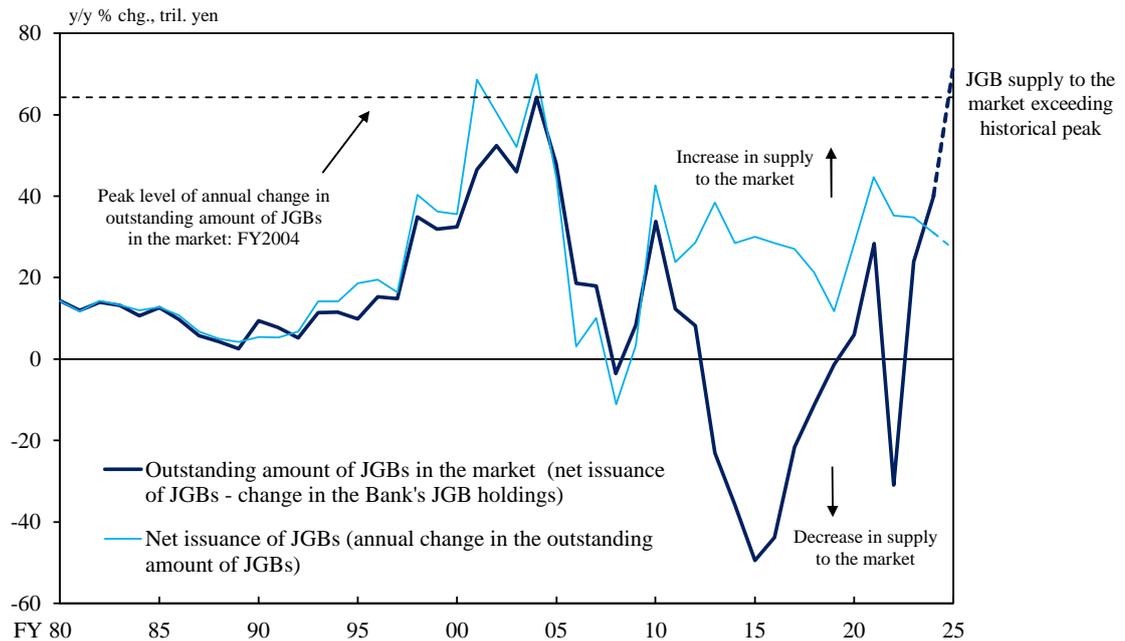


### Allowing Enough Flexibility

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.

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

(JGB supply to the market is estimated to exceed the historical peak due to a reduction in the Bank's purchases)

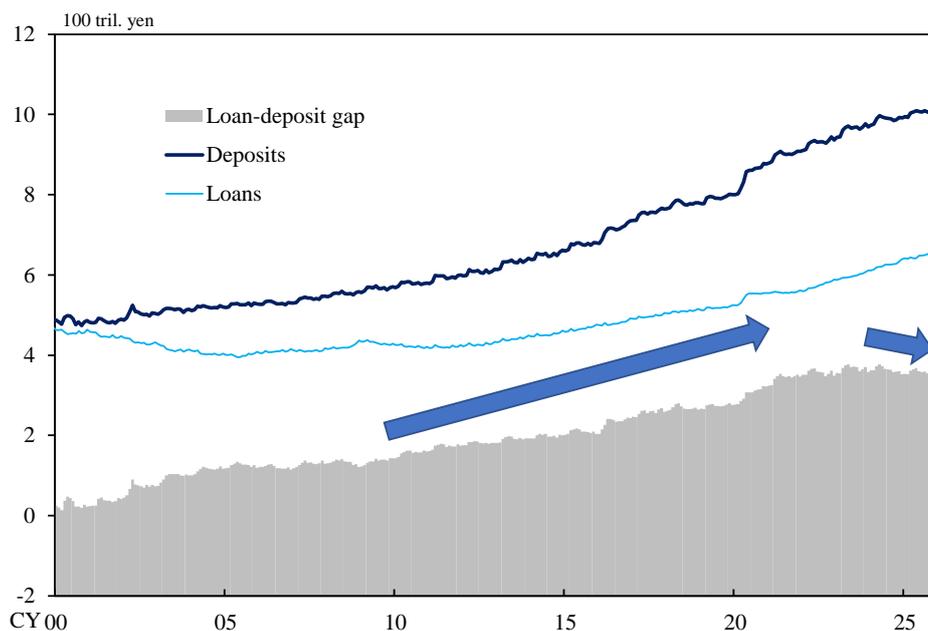


Notes: 1. Figures are on a book value basis and exclude short-term government securities.  
 2. Figures for fiscal 2025 are estimated using the Ministry of Finance's JGB issuance plan for that fiscal year, the revision to the previous fiscal year's plan, and the Bank's plan for the reduction of JGB purchases.

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

## Developments in Loan-Deposit Gap in Japan

(Loan-deposit gap supporting JGB demand has narrowed, marking a historical turning point)



Note: Figures are for domestically licensed banks.  
 Source: Bank of Japan.