

Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Wakayama

March 2, 2026

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Deputy Governor of the Bank of Japan

Introduction

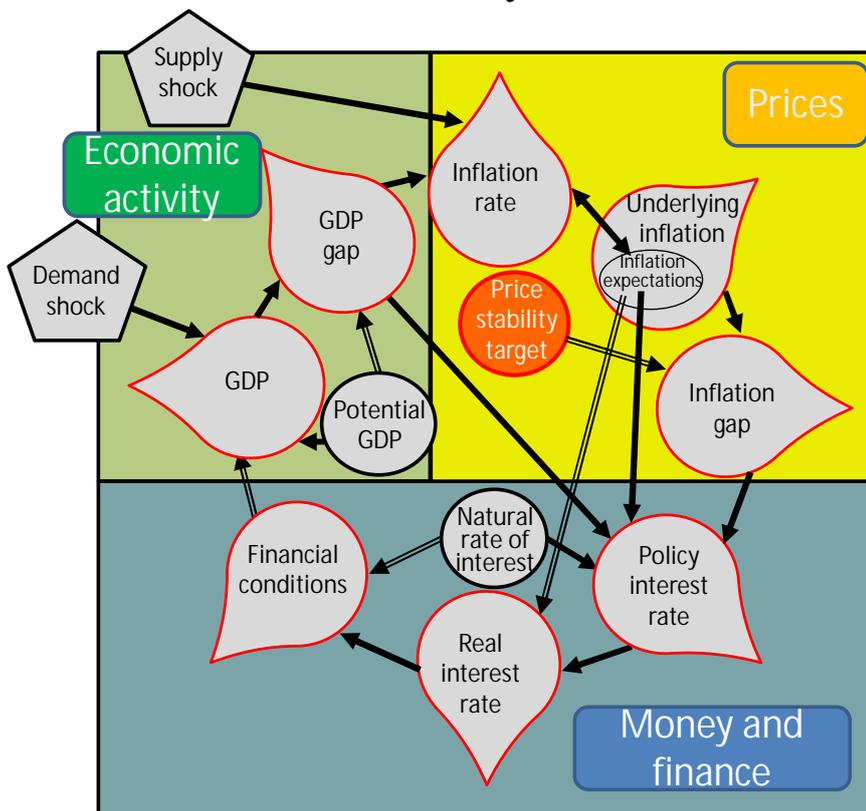
I. Economic Activity

II. Prices

III. Monetary Policy

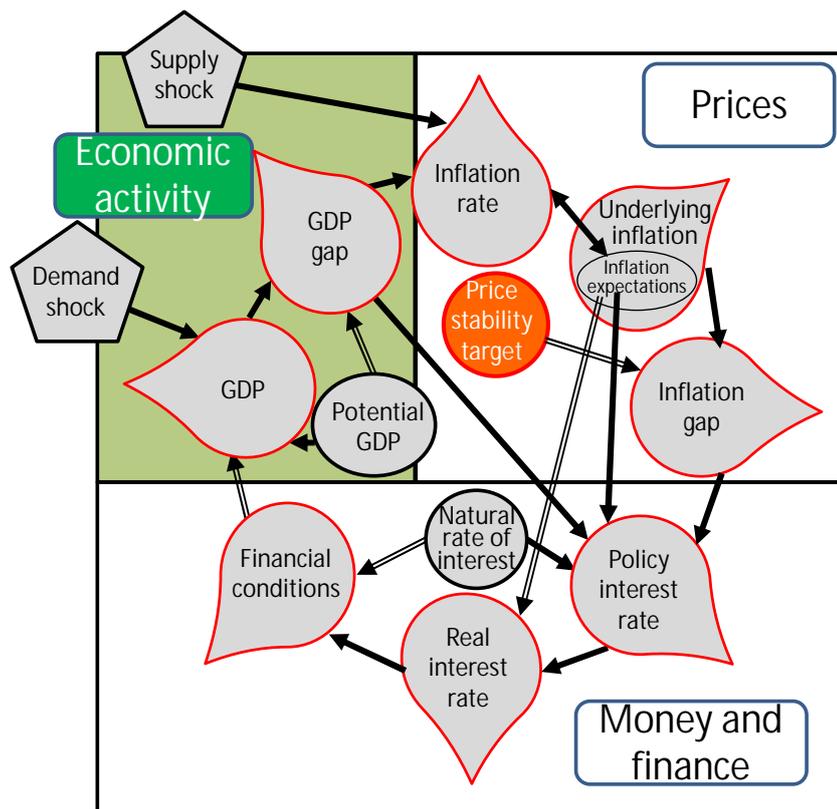
Conclusion

Macro Economy: An Overview



Overview of Economic Activity

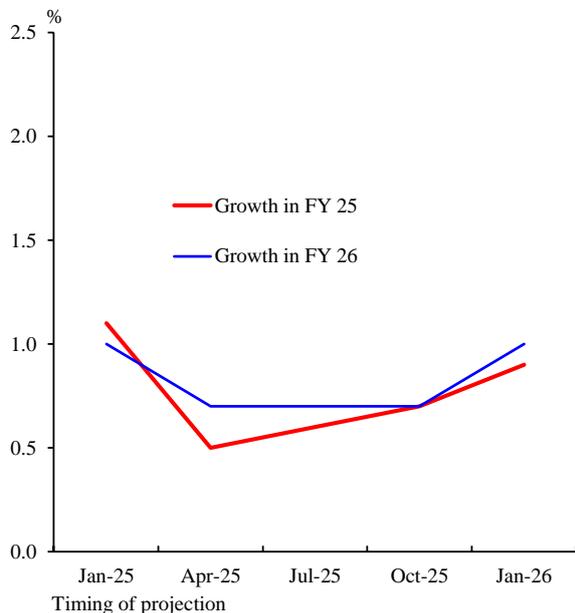
The Bank's January 2026 Outlook Report



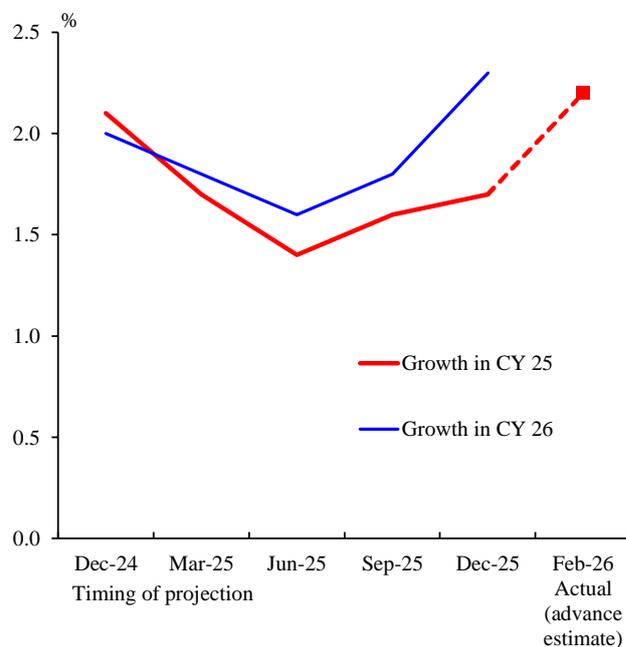
Japan's economy is likely to continue growing moderately, with overseas economies returning to a growth path, and as a virtuous cycle from income to spending gradually intensifies, supported by factors such as the government's economic measures and accommodative financial conditions, while the economy is projected to be affected by trade and other policies in each jurisdiction.

Changes in GDP Growth Projections

Japan
(Median of BOJ Policy Board)



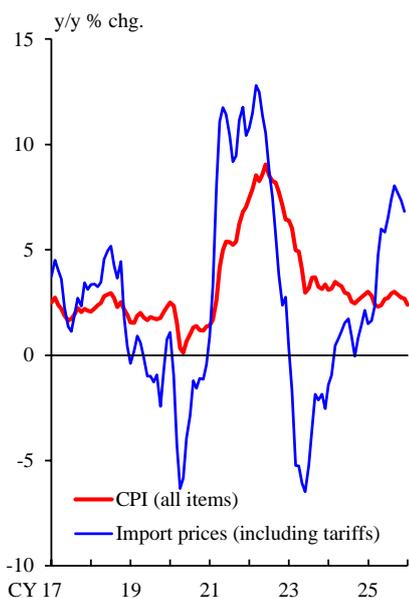
United States
(Median of FOMC Participants)



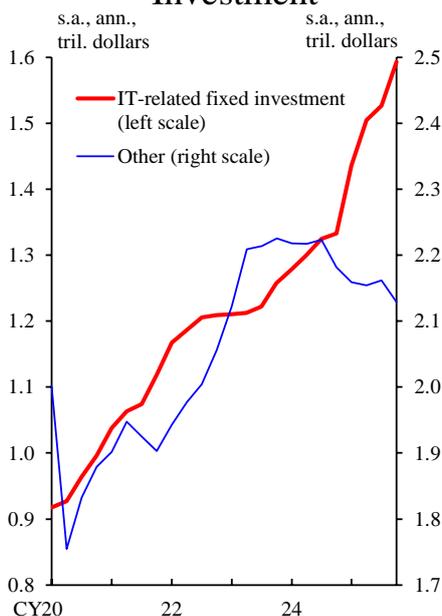
Sources: Bank of Japan; Federal Reserve; BEA.

U.S. Economy

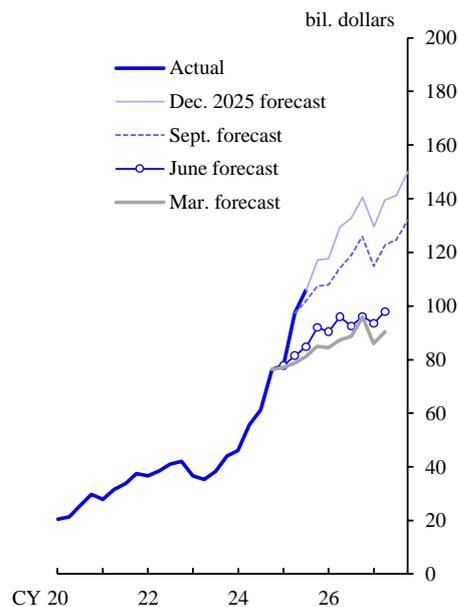
Prices



Real Business Fixed Investment

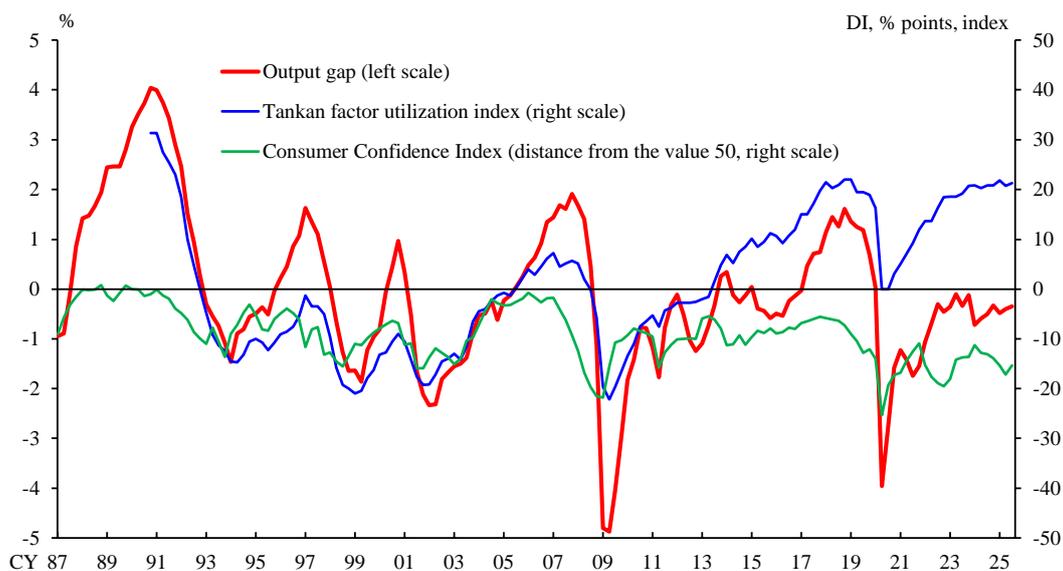


Capital Expenditures by Hyperscalers



Notes: 1. In the left-hand chart, import prices (including tariffs) are based on staff calculations using published import price figures and the effective tariff rates. Figures for October 2025 is linearly interpolated using figures for September and November.
 2. In the middle chart, IT-related fixed investment is the sum of software investment, information processing equipment (within machinery investment), and data centers (within construction investment). Based on staff calculations.
 3. In the right-hand chart, figures are the sum of capital expenditures of Alphabet, Amazon, Meta, Microsoft, and Oracle.
 Forecasts are aggregated by S&P Global Market Intelligence from analysts' forecasts that mainly reflect information published by the companies.
 Sources: Haver; S&P Global Market Intelligence.

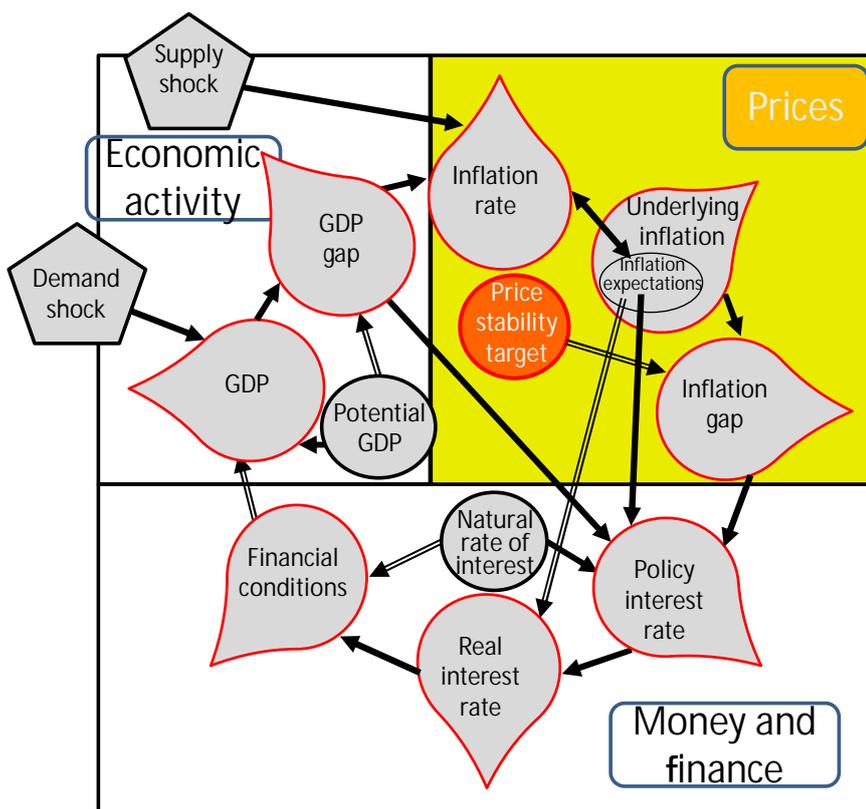
GDP Gap (Output Gap)



Notes: 1. The *Tankan* factor utilization index represents the weighted average of the production capacity DI and the employment conditions DI. The capital and labor shares are used as weights. Figures are calculated by deducting the proportion of enterprises responding "excessive" from the proportion of those responding "insufficient," and thus their signs are reversed from those presented in the *Tankan*.
 2. Figures for the Consumer Confidence Index are seasonally adjusted.
 3. The end point of the horizontal axis is 2025/Q3.

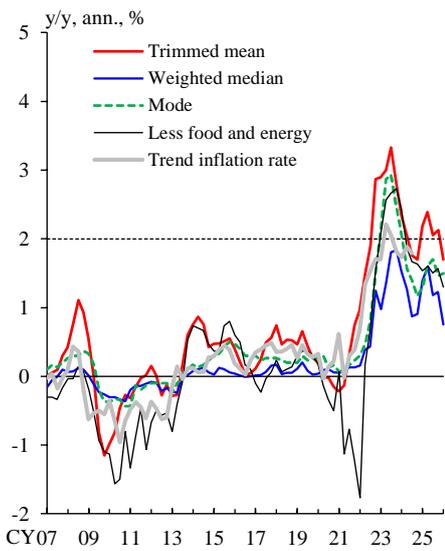
Sources: Bank of Japan; Cabinet Office.

Overview of Prices

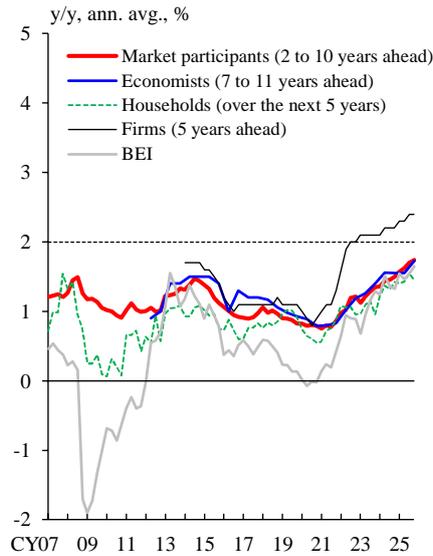


Indicators Related to Underlying Inflation

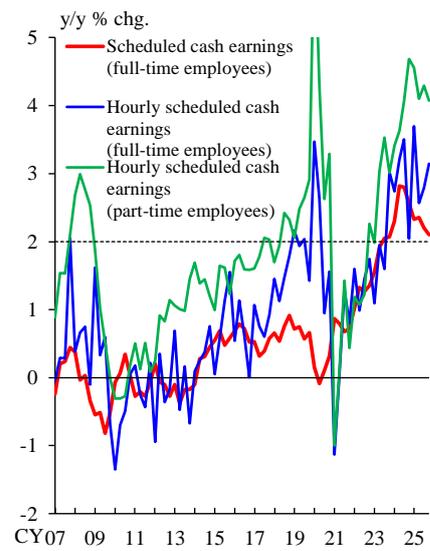
Indicators/Estimates excluding Temporary Factors



Inflation Expectations



Nominal Wage Growth



Notes: 1. In the left-hand chart, for details on the trend inflation rate, see Takatomi et al. (2026), "What Drives Trend Inflation in Japan?: A Trend-Cycle BVAR Decomposition Approach." The latest figures for other items are as of January 2026.
 2. In the middle chart, "market participants" shows data from the "QUICK Monthly Survey <Bonds>" and "economists" shows the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for "households" are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question. 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 a composite of new and old inflation-indexed Japanese government bonds (10-year and the longest-term bonds).
 3. In the right-hand chart, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures from 2016/Q1 onward are based on continuing observations following the sample revisions. Figures for hourly scheduled cash earnings (full-time employees) are seasonally adjusted.
 Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Cabinet Office; Bank of Japan; QUICK "QUICK Monthly Survey <Bonds>"; JCER "ESP Forecast"; Bloomberg.

The Bank's January 2026 Outlook Report

The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is likely to decelerate to a level below 2 percent in the first half of this year, with the waning of the effects of the rise in food prices, such as rice prices, and partly due to the effects of government measures to address rising prices.

However, it is likely that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained, and that underlying CPI inflation will continue rising moderately.

Thereafter, since it is projected that a sense of labor shortage will grow as the economy continues to improve and that medium- to long-term inflation expectations will rise, it is expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) will increase gradually and, in the second half of the projection period, be at a level that is generally consistent with the price stability target.

Highlights of the Outlook Report



III. Monetary Policy

The Shogun's Monetary Policy

Shogun Tokugawa Yoshimune
Reign: 1716-1751

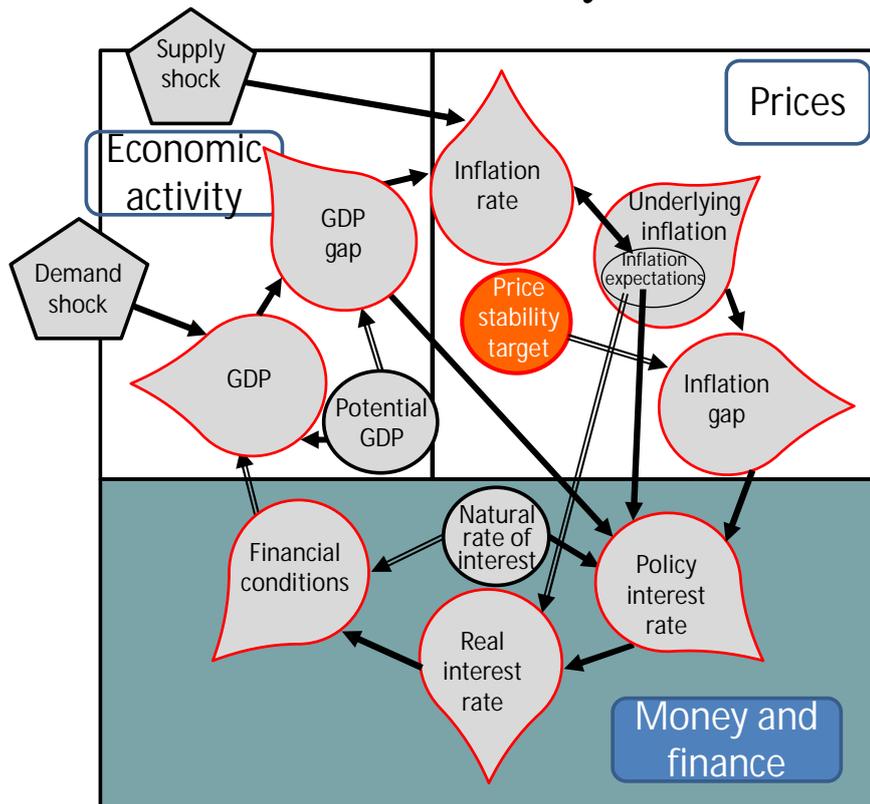
Reminted Gold Coin
(*Genbun Koban*)

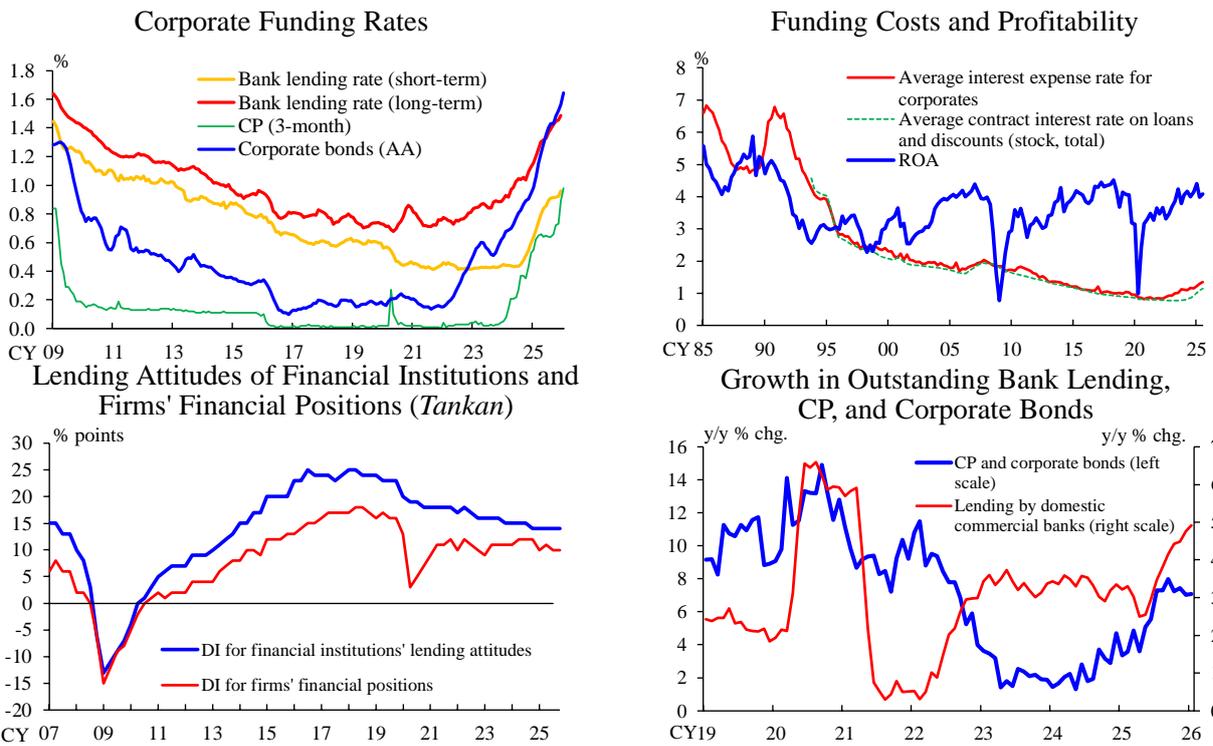


Sources: Wakayama City Museum; Bank of Japan Currency Museum.

III. Monetary Policy

Overview of Money and Finance





Notes: 1. In the top-left chart, bank lending rates and corporate bonds represent 6-month backward moving averages. The CP issuance yields refer to a-1-rated CP (those up through September 2009 refer to CP rated a-1 or higher). The corporate bond issuance yields cover domestically issued corporate bonds, excluding those issued by financial institutions.

2. In the top-right chart, ROA is calculated as operating profits divided by total assets. The average interest expense rate for corporates is calculated as interest payments divided by interest-bearing debt. Figures for the solid lines are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly*, and are seasonally adjusted.

3. In the bottom-right chart, lending by domestic commercial banks represents a monthly average. CP and corporate bonds are as of the end of the period.

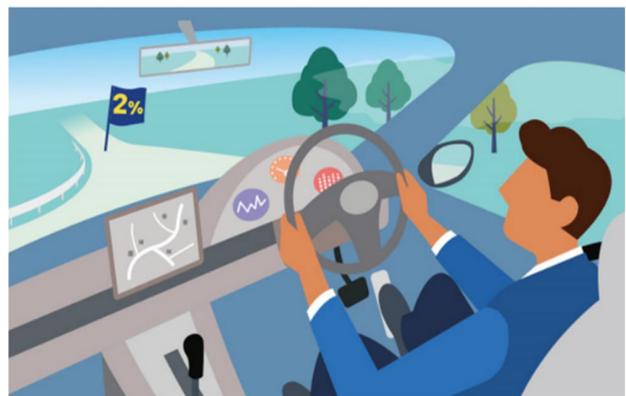
Sources: Bank of Japan; Ministry of Finance; Japan Securities Depository Center; Capital Eye; Japan Securities Dealers Association; I-N Information Systems; Bloomberg.

The Bank's January 2026 Outlook Report

As for the conduct of monetary policy, given that real interest rates are at significantly low levels, if the aforementioned outlook for economic activity and prices will be 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.

With the price stability target of 2 percent, it will conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

Highlights of the Outlook Report

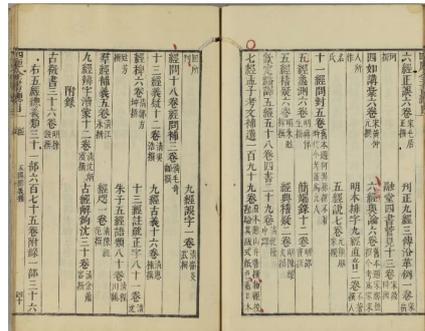
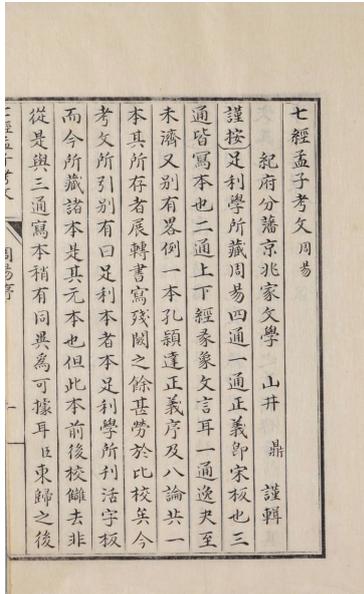


Conclusion

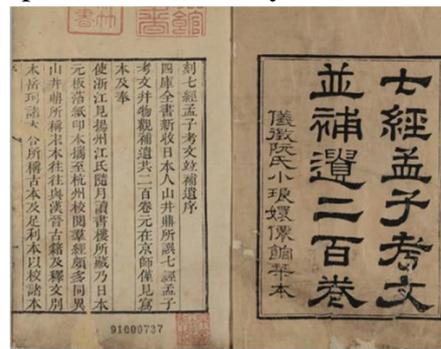
Textual Critique of the Seven Classics and Mencius by Yamanoi Kanae

... published in Japan during the time of Yoshimune,

... included in a Chinese emperor's literary compilation,



... and reprinted in China by an eminent scholar.



Source: Kyoto University Library (<https://rmda.kulib.kyoto-u.ac.jp/>).