June 3, 2026

Bank of Japan

Economic Activity and Prices, and Monetary Policy in Japan

Speech at the Kisaragi-kai Meeting in Tokyo

UEDA Kazuo

Governor of the Bank of Japan

(English translation based on the Japanese original)

Introduction

It is my great pleasure to have the opportunity to speak today at the Kisaragi-kai meeting.

Since early spring this year, the environment surrounding economic activity and prices both in Japan and abroad has been significantly affected by increased tension over the situation in the Middle East. As the surge in crude oil prices draws global attention to heightened inflationary pressure, central banks around the world face challenges in navigating their particular context for economic activity and prices. The Bank of Japan is no exception. In conducting monetary policy appropriately, it has become more important to accurately gauge the current situation of economic activity and prices and envision future developments.

Today, after discussing its view on economic activity and prices, I would like to talk about the Bank's thinking on the future conduct of monetary policy, including the policy response to supply shocks like the ones that have emerged recently.

I. Impact of the Situation in the Middle East, and Economic Activity and Prices

Impact of the Situation in the Middle East on Economic Activity and Prices in Japan

I would like to begin by discussing the impact of the situation in the Middle East on economic activity and prices in Japan. Since the end of February this year, the price of crude oil, particularly Dubai crude, has risen substantially reflecting increased tension over the situation in the region. Please take a look at Chart 1. Japan's economy has faced several significant crude oil price hikes in the past. These include the two oil crises of the 1970s, and the surge in crude oil prices that occurred during the period of economic expansion in the mid-2000s. More recently, a surge in commodity prices was seen after Russia's invasion of Ukraine in 2022. Looking at the rate of price increases in the immediate aftermath of these shocks, this year's increase is not as large as in the first oil crisis, but it is comparable in magnitude to the other shocks.

For a commodity-importing economy like Japan, higher crude oil prices cause a deterioration in the terms of trade -- that is, an increase in the outflow of income to overseas economies -- and exert downward pressure on the economy. As shown in the left panel of Chart 2, Japan depends on the Middle East for more than 90 percent of its crude oil and is also highly

dependent on the region for numerous other mineral fuels. Looking at the right panel, imports of mineral fuels amounted to about 3 percent of Japan's nominal GDP last year. If the price of these imports rises, the outflow of income to overseas economies will increase accordingly, which will squeeze corporate profits and households' real income.

Next, I would like to consider the impact on prices. Crude oil is widely used as a raw material in various industries ranging from upstream to downstream in the production process. It is thus likely that a rise in crude oil prices will push up the prices not only of energy, but also prices in general, particularly of a wide range of goods. Chart 3 shows how a rise in crude oil prices would spread to the prices of other goods and services through business-to-business transactions. Looking at the chart, it appears that the pass-through of price increases would progress relatively quickly from upstream petroleum products to midstream intermediate goods such as synthetic resins and fibers. Subsequently, in a few months, upward pressure would spread to the price of plastic products, electricity charges, and distribution costs and, within about a year, the pass-through of price increases would extend to final goods and services, including automobiles, construction, and accommodations and eating and drinking services. The estimates in Chart 3 take into account the time lag in price pass-throughs observed in the past, including the experience of the rise in commodity prices after the invasion of Ukraine in 2022. On this point, the environment in Japan today has changed significantly, compared to four years ago, as the country's deflationary mindset has been dispelled and the wage- and price-setting behavior of firms has become more active. Developments in trading practices and legislation have also contributed to changes in the environment, such as the revision of electricity pricing formulas for businesses and the implementation of the Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment. Given these factors, it is highly likely that the price pass-through stemming from the rise in crude oil prices is faster than before and more prone to spreading to a wider range of items.

Baseline Scenario of the Outlook for Economic Activity and Prices, and Risks to the Outlook

Taking into account the impact of the situation in the Middle East, I would now like to talk about the outlook for Japan's economic activity and prices. Please take a look at Chart 4. As

I mentioned earlier, the rise in crude oil prices is expected to push down corporate profits and households' real income through factors such as a deterioration in the terms of trade. Japan's economic growth is therefore likely to temporarily decelerate in fiscal 2026. However, the economy is expected to continue growing moderately, albeit at a decelerated rate, since it is likely to be underpinned by factors such as high levels of profits in the corporate sector, the government's various economic measures, and accommodative financial conditions. From fiscal 2027 onward, Japan's economic growth rate is likely to rise moderately again, with the adverse effects of high crude oil prices being projected to wane.

On the price front, the year-on-year rate of increase in the consumer price index (CPI) is likely to rise significantly, particularly for fiscal 2026, due to factors such as the rise in crude oil prices being expected to push up prices, mainly of energy and goods. Moreover, with a sense of labor shortage continuing to be strong, it is projected that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained. Given such developments, underlying CPI inflation -- which excludes the effects of temporary factors -- is expected to increase gradually, coming to a level that is generally consistent with the price stability target of 2 percent between the second half of fiscal 2026 and fiscal 2027.

This baseline scenario of the outlook for economic activity and prices is based on the assumption that, with the impact of the situation in the Middle East expected to ease, crude oil prices will decline relatively smoothly as projected in the futures market, and large-scale disruptions in supply chains will not occur. Conversely, the outlook itself could change considerably, depending on the future course of the situation in the Middle East and other factors, and this warrants attention. For instance, if the turmoil surrounding the situation in the Middle East becomes prolonged, and crude oil prices remain elevated, there is a possibility that economic growth will deviate downward and inflation will deviate upward from the baseline scenario -- which is the first risk scenario. Furthermore, as a second, more severe scenario, the possibility cannot be ruled out that large-scale disruptions in supply chains will occur, exerting a significant impact on the production activity of Japanese firms. In this case, Japan's economy could slow down significantly, while risks to prices are likely to be further skewed to the upside. Contrary to these scenarios, if ceasefire negotiations between the countries involved make prompt progress and tension over the situation in the

Middle East resolves swiftly, there is also a possibility that economic growth will deviate upward and the rate of increase in the CPI will deviate downward from the baseline scenario.

Points to Monitor at This Juncture

So far, I have discussed the baseline scenario of the outlook for economic activity and prices, as well as a few risk scenarios. In what follows, I would like to discuss two key points that are important when assessing the likelihood of the outlook being realized, and the risks involved.

The first point concerns whether Japan's economy will manage to avoid significant deterioration; in other words, to what extent the economy is resilient to the adverse impact of the situation in the Middle East. Japan's corporate sector has accumulated historically high levels of profits, which is considered to serve as a buffer to support wage increases and business fixed investment in the face of the outflow of income to overseas economies. The expansion of global AI-related demand is also underpinning Japan's economy. Please take a look at Chart 5. Although both exports and production as a whole have remained more or less flat, exports to the United States and Asia, which account for a large proportion of the total, have been resilient on the back of strong AI-related demand. Additionally, production in areas such as production machinery and electronic parts and devices has continued to exhibit an increasing trend. Resilience in production is partly attributable to the government's release of petroleum reserves, as well as progress in securing alternative sources of supply for raw materials that are highly dependent on the Middle East. The Bank regards these efforts to alleviate supply constraints as extremely important to avoid the more severe risk scenario I mentioned earlier.

Next, let us turn to the household sector. Please take a look at Chart 6. Consumer sentiment, as shown in the left panel, has rapidly grown cautious since March, due to the impact of the rise in crude oil prices. However, private consumption, as shown in the middle panel, has so far remained resilient, due in part to recovery in non-durable goods following the stabilization of food prices. Looking at developments in consumption based on credit card spending, as shown in the right panel, there are no signs that cautious sentiment has translated into a decline in consumption. As for the outlook, private consumption is likely to continue to be

underpinned by factors such as wage increases and government measures to reduce the household burden of higher energy prices. With regard to wage developments, please refer to Chart 7. The aggregate results of this year's annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) show that a wage growth rate of around 5 percent has been agreed not only for large firms but also for relatively small firms, marking the third consecutive year of steady wage increases.

The possibility of an economic slowdown and the magnitude of its impact will ultimately depend significantly on the future course of the situation in the Middle East. Nevertheless, as I mentioned earlier, the accumulation of corporate profits and wage increases will have a positive effect, and if various efforts, such as the securing of alternative sources of supply and income transfers to households, continue to advance, it will be possible to minimize downside risks to economic activity.

The second point concerns how upward pressure on prices stemming from high crude oil prices will actually lead to price increases for goods and services other than energy, as well as how these developments will affect underlying inflation, which the Bank considers to have great significance in conducting monetary policy. Please refer to Chart 8. The year-on-year rate of increase in the CPI for all items excluding fresh food, shown in the left panel, has recently been at a level below 2 percent. However, it is expected that this rate of increase will accelerate again, reflecting the impact of higher crude oil prices. In terms of the median of the forecasts of the Bank's nine Policy Board members, the CPI is projected to see a year-on-year rate of increase of 2.8 percent for this fiscal year. This means that inflation is expected to rise above 3 percent for a certain period during the fiscal year. As I explained earlier, it is possible that the speed of price pass-through has picked up compared to the past, and supporting this view is the fact that corporate transaction prices have already begun to rise markedly. The producer price index (PPI), shown in the right panel, recorded a year-on-year increase of 4.9 percent in April, the highest rate in two years and eleven months. There have been significant upstream price increases, such as for petroleum and coal products and chemicals and related products, while the pass-through of prices is also spreading midstream, such as for plastic products. Meanwhile, people's inflation expectations have also continued to rise moderately. Please turn to Chart 9. As shown in the left panel, the March *Tankan*

(Short-Term Economic Survey of Enterprises in Japan) showed widespread moves among firms to raise their forecasts for input and output prices, reflecting the impact of higher crude oil prices. The middle panel suggests that firms' outlook for inflation has also risen. The right panel shows the medium- to long-term inflation expectations of market participants, derived from inflation-indexed government bonds. These expectations have also risen to a level above 2 percent recently.

With regard to the situation in the Middle East, in addition to these upside risks to prices, there is also a possibility that underlying inflation will be pushed down due to factors such as a deterioration in the output gap stemming from an economic slowdown. However, based on the data and anecdotal information available thus far, the upside risks to prices appear to be greater overall and are likely to emerge sooner. The Bank considers it necessary to pay particular attention to whether the rise in actual prices will push up people's inflation expectations and whether this will cause underlying CPI inflation to deviate upward to a level above the price stability target of 2 percent.

II. Conduct of Monetary Policy

Accommodative Financial Conditions

Now, let me turn to the Bank's conduct of monetary policy. In March 2024, the Bank changed its large-scale monetary easing framework, which had lasted for over a decade. Since then, it has gradually raised the policy interest rate to 0.75 percent -- as shown in the left panel of Chart 10 -- thereby adjusting the degree of monetary accommodation. Reflecting the rate hikes thus far, market interest rates have risen. However, as shown in the right panel, real interest rates -- adjusted by subtracting the inflation rate -- remain in negative territory, particularly in the short- to medium-term zone, where the impact on firms' and households' economic activities is significant.

Please take a look at Chart 11, which presents the environment surrounding corporate finance. Although funding rates, as shown in the left panel, have increased, funding costs, as indicated in the middle panel, continue to remain sufficiently low relative to firms' profitability, such as return on assets (ROA). Against this backdrop, as shown in the right panel, bank lending has significantly increased recently, and the aggregate amount outstanding of CP and

corporate bonds has continued to see relatively high growth. While specific projects, such as large-scale mergers and acquisitions of firms, have partly contributed to this trend, there has been no assessment overall that firms' demand for funds has been constrained by the previous policy rate hikes, amid recovery in economic activity. Proactive allocation of resources to growth areas is essential for Japan's economy. Based on anecdotal information from firms, many of them have pointed out that labor shortages and the surge in material and other prices, rather than the rise in funding rates, are potential impediments to such forward-looking growth investments at the current juncture. Please turn to Chart 12. As shown in the left panel, financial institutions' lending attitudes as perceived by firms remain accommodative regardless of the industry. Furthermore, firms' financial positions, as shown in the middle panel, have remained at favorable levels. Meanwhile, the number of bankruptcies has been on an upward trend recently. That said, as shown in the right panel, the majority of bankruptcies have been attributed to rising prices and labor shortages, while only a limited number can be directly attributed to increased interest burdens.

Thus, interest rate hikes to date notwithstanding, Japan's financial and economic activities have not been constrained. On the contrary, I believe accommodative financial conditions have firmly supported economic activity. Of course, the impact that the situation in the Middle East has on corporate finance, among other factors, needs to be carefully monitored. So far, it appears that the impact on firms' funding conditions has been limited. On the other hand, there have been moves among firms to prepare for future developments, including the expansion of commitment lines from banks and an increase in the number of consultations with government-affiliated financial institutions. In this regard, the Bank will continue to gather detailed information by using the network of its Head Office and branches.

Conduct of Monetary Policy under Supply Shocks

Next, I would like to discuss how central banks should conduct monetary policy in the event of a so-called supply shock like the recent rise in crude oil prices. I would like to share my views on two points that are widely discussed and often brought up at the Bank's Monetary Policy Meetings (MPMs).

The first point is whether monetary policy should address inflation stemming from a supply shock and, if so, under what circumstances. To begin with, inflation stemming from a supply shock is usually temporary and limited to specific items, and it is not considered to have a substantial impact on underlying inflation, which the Bank considers to have great significance. A basic principle, therefore, is that monetary policy should not seek to address such inflation.

The real world is not that simple, however. As I said earlier, even if the initial trigger is a supply shock, depending on the circumstances, price increases may spread to a wide range of items, potentially leading to an upward deviation in underlying inflation by raising people's inflation expectations. When there is a possibility of such secondary spillover effects occurring, a central bank aiming to achieve price stability in a sustainable manner must consider making the necessary response through monetary policy. This idea is now widely shared in many countries in the aftermath of experiences such as the high inflation in Europe and the United States from 2022 to 2023. Furthermore, there is ongoing discussion among policymakers and experts on the conditions under which secondary spillover effects are likely to occur. For instance, it is considered that the greater and more persistent the supply shock, the more likely it is to impact underlying inflation. Also, the more active the wage- and price-setting behavior of firms, the sooner and more extensive the spillover effect of inflation will be. Moreover, to the extent that financial conditions are accommodative, this is likely to give further impetus to the spillover effect.

Let us consider these points in the current context in Japan. First, as I explained at the outset, in terms of the magnitude of the shock, the current increase in crude oil prices has had an impact comparable to the significant oil price increases Japan's economy faced in the past. If the turmoil surrounding the situation in the Middle East becomes prolonged, there is a greater possibility that the persistence of the shock will also have an impact on underlying inflation. The wage- and price-setting behavior of firms has become markedly more active compared to when commodity prices surged after the invasion of Ukraine. Unlike four years ago, when price pass-throughs were limited and wages barely rose, Japan is currently seeing a return of the mechanism in which wages and prices rise in interaction with each other. In terms of financial conditions, unlike the United States and Europe, where policy interest rates are

considered to be in the neutral range, real interest rates in Japan remain low, indicating accommodative conditions. In this sense, compared to other major economies and to our own country in the past, Japan is currently in a situation in which the secondary spillover effects of inflation stemming from higher crude oil prices are more likely to lead to an upward deviation in underlying inflation. The Bank considers that it is necessary to make decisions about future policy based on this premise.

The second point involves the question of which risks monetary policy should prioritize when a supply shock increases both downside risks to economic activity and upside risks to prices. This is a very difficult question for a central bank, and there is no single answer. Ultimately, however, I think it boils down to choosing the most appropriate response from the perspective of the sustainable and stable achievement of the Bank's price stability target of 2 percent. Looking at the current situation in Japan from this perspective, as I explained earlier, the situation calls for the need to be attentive to the risk that inflation will not be temporary and underlying inflation will deviate upward. An upward deviation in prices will exert downward pressure on the economy through such factors as a decline in the real purchasing power of households. Also, given that financial conditions are accommodative, if the markets perceive that there is a possibility that the Bank might not take appropriate measures to address higher prices, this could be reflected in a rise in long-term interest rates. As shown in Chart 13, the recent increase in long-term interest rates appears to be attributable to a rise in market inflation expectations. Therefore, it is important to secure market confidence that inflation will be properly controlled through the appropriate conduct of monetary policy. If a delay in the necessary response compels the Bank to later make a substantial policy interest rate hike, this could inflict a heavy burden not only on the economy but also on the financial markets and the financial system. In light of these factors, I think that, while the Bank should be attentive to downside risks to economic activity, it should be more vigilant about the risk of a significant upward deviation in inflation materializing, which could exert an adverse impact on the economy afterward.

Future Conduct of Monetary Policy

So far, I have touched on points including the outlook for economic activity and prices, the impact of the Bank's policy interest rate hikes to date, and the thinking on policy responses

under supply shocks. In the following, I would like to talk about the Bank's future conduct of monetary policy in light of these points.

As presented in the *Outlook for Economic Activity and Prices* released at the end of April, the Bank's basic thinking is as follows: given that underlying CPI inflation has been approaching 2 percent and real interest rates are at significantly low levels, the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions.

In this regard, the Bank will take into consideration factors including the aforementioned two points to monitor -- namely, the impact of the recent supply shocks on Japan's economy, and the effects of the rise in crude oil prices on other goods and services and eventually on underlying inflation -- and will examine the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook.

If, for example, the Bank judges that the likelihood of realizing the baseline scenario will rise, in that tension over the situation in the Middle East will gradually ease and that underlying CPI inflation will gradually rise toward 2 percent on the back of moderate economic growth, I think the Bank will continue to raise the policy interest rate at an appropriate pace. Meanwhile, even if the situation remains unclear, should it be judged that upside risks to prices outweigh downside risks to economic activity, it will be necessary to thoroughly discuss the pros and cons of raising the policy interest rate, from the perspective of preventing adverse effects on the economy and financial markets and achieving the price stability target of 2 percent in a sustainable and stable manner.

Interim Assessment of the Plan for the Reduction of Japanese Government Bond Purchases

Finally, I would like to talk about the Bank's purchases of Japanese government bonds (JGBs). Under the large-scale monetary easing policy, the Bank had purchased large amounts of JGBs from the market. However, following the changes in the policy framework, it has been gradually reducing its purchase amount of JGBs since summer 2024. The plan for the reduction stipulates that, in principle, long-term interest rates are to be formed in financial

markets, and that the Bank will reduce its purchase amount of JGBs in a predictable manner while allowing enough flexibility to support stability in the JGB markets.

Please take a look at Chart 14. In terms of predictability, the current reduction plan, decided in June 2025, makes it clear in advance that the monthly purchase amount of JGBs will be cut down by about 200 billion yen each calendar quarter through January-March 2027. As a result, the monthly purchase in March 2027 will be 2.1 trillion yen, which is equivalent to about one-third of monthly purchases before the start of the reductions, and the amount outstanding of the Bank's JGB holdings will decrease by around 16-17 percent from the amount before the start of the reductions. With regard to ensuring flexibility, specifics such as the purchase amount of JGBs by residual maturity will be decided on an operational level, taking account of market conditions at each point in time. Moreover, in exceptional circumstances such as a rapid rise in long-term interest rates, the Bank could make nimble responses by, for example, increasing the amount of JGB purchases.

The Bank has already announced that, at the June 2026 MPM, it will conduct an interim assessment of the current reduction plan and discuss a guideline for its JGB purchases from April 2027. In view of the interim assessment, the Bank is currently reviewing the developments in and functioning of the JGB markets, and as part of this, it held meetings in late May to exchange views with bond market participants, for which the minutes were released yesterday. Taking into account the discussions at the meetings, I would like to discuss two key points in considering the future guideline for the Bank's JGB purchases.

First, the functioning of the JGB markets has been steadily improving as the Bank makes headway in reducing its JGB purchase amount. Please take a look at Chart 15. While the share of the Bank's JGB holdings is decreasing, particularly for on-the-run issues, the transaction volume for cash JGBs, shown in the middle panel, has followed an increasing trend. In terms of the yield curve shown in the right panel, while there was previously a dip in yields in the 7-10 year zone, where the share of the Bank's holdings was particularly high, this distortion has recently largely dissipated. As long-term interest rates come to be freely formed in the market, market views on future developments in economic activity and prices are more easily

reflected in day-to-day developments in interest rates, and it can be assessed that the JGB markets are regaining the function they were originally expected to have.

The second point concerns how to keep an eye on stability in the JGB markets. The Bank's progress in reducing its JGB purchases means that the amount of JGBs held by market participants will increase accordingly. Recently, due in part to rising JGB yields, investors in Japan, including banks and individual investors, have been gradually increasing their JGB holdings. However, these portfolio adjustments are likely to take some time, and this is a point that needs to be kept in mind in the effort to ensure stability in the JGB markets. At the meetings with bond market participants, while there have been few calls to modify the current reduction plan, which covers the period until March 2027, there has been a range of views regarding the Bank's JGB purchases starting from April 2027.

Drawing from its experience so far and taking into consideration the above two factors -- that is, improvement of market functioning and stability of the JGB markets -- the Bank will discuss its approach to future reductions in JGB purchases at the next MPM.

Concluding Remarks

I have talked today about the impact of the situation in the Middle East on economic activity and prices in Japan, and the Bank's thinking on the conduct of monetary policy in light of that impact.

The turmoil surrounding the situation in the Middle East has not subsided as quickly as initially expected, and even now the situation remains unclear. This is not the first time Japan has experienced this kind of a rise in crude oil prices but, having been in a deflationary state for a long time, facing such a supply shock during an inflationary period is something the country has not experienced in decades. Naturally, the prescription now is different from the economic and price measures taken in the deflationary period.

As I mentioned today, the Bank will strive to fulfill its mandate of achieving price stability by means of appropriate monetary policy. This is crucial not only in terms of preventing downward pressure on economic activity stemming from rising prices but also in terms of

ensuring the stability of the financial and capital markets. The government has already been actively working to secure alternative sources of supply for products that are highly dependent on the Middle East and has also been providing support in areas that face a significant negative impact from higher prices, such as measures to reduce the household burden of higher energy prices. I am convinced that, with such coordinated efforts by the government and the Bank, joined by the unwavering efforts of private firms and the active support of financial institutions, Japan's economy will be able to withstand the current shock and achieve sustainable growth.

Thank you very much for your attention.

Economic Activity and Prices, and Monetary Policy in Japan

Speech at the Kisaragi-kai Meeting in Tokyo

June 3, 2026

UEDA Kazuo

Governor of the Bank of Japan

Introduction

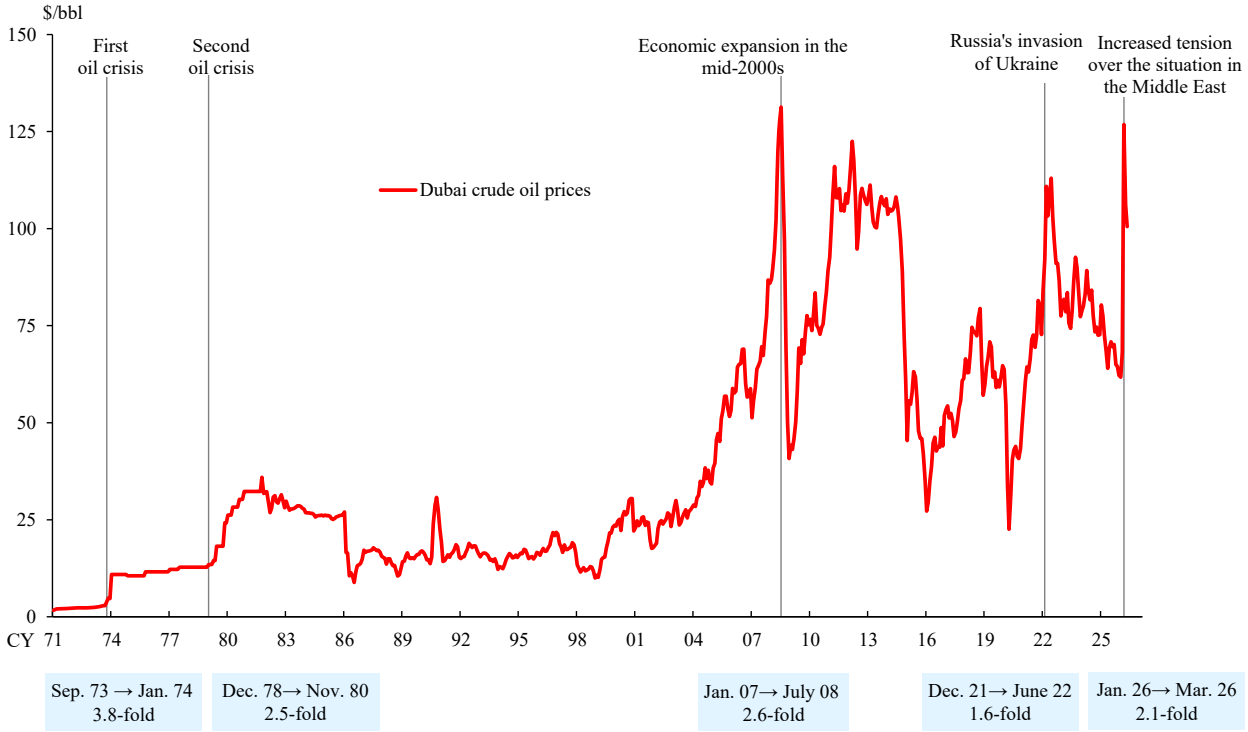
I. Impact of the Situation in the Middle East, and Economic Activity and Prices

II. Conduct of Monetary Policy

Concluding Remarks

Chart 1

Developments in Crude Oil Prices

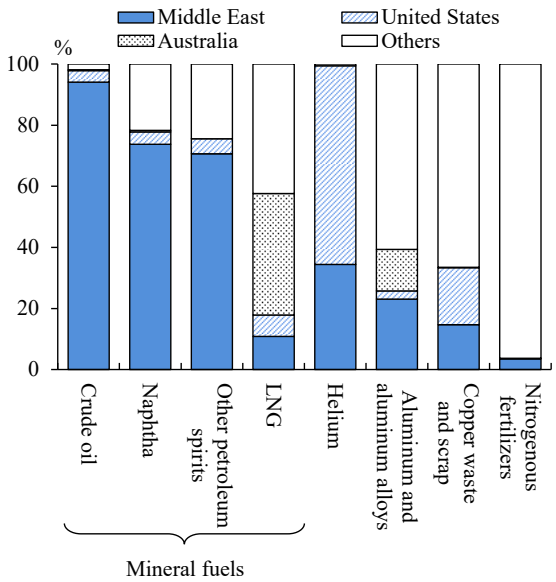


Note: Figures for Dubai crude oil prices up through October 1986 are based on the rates of change in Arab light crude oil prices.
Sources: Nikkei Inc.; QUICK; Bloomberg.

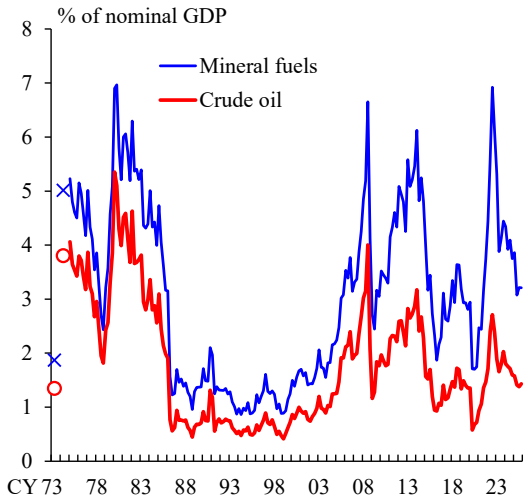
Chart 2

Effects of the Rise in Crude Oil Prices (1) (Outflow of Income to Overseas Economies)

Import Dependence on the Middle East



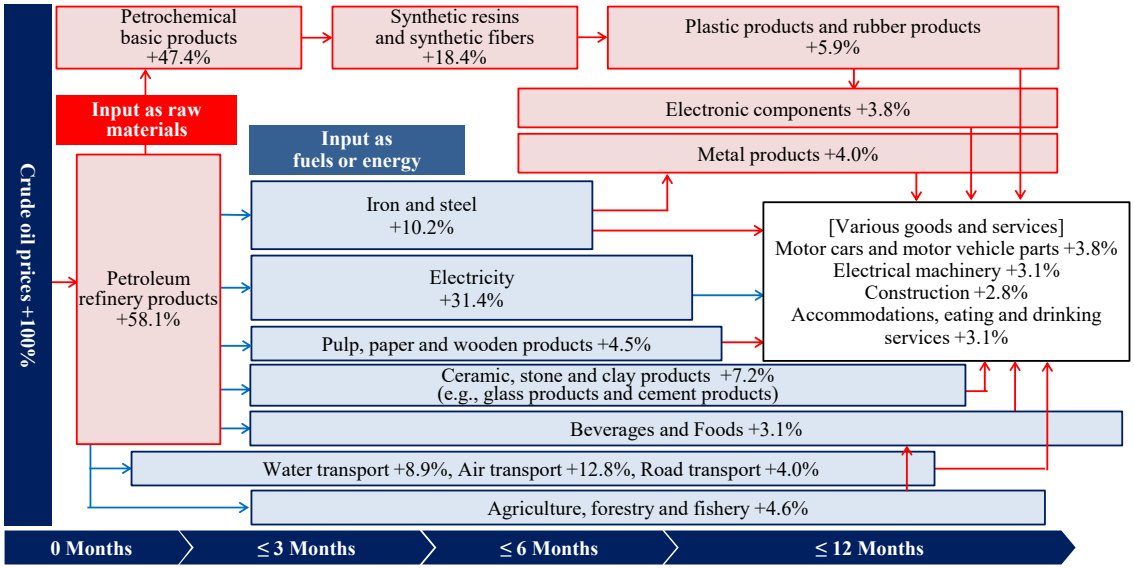
Ratio of Mineral Fuels Imports to Nominal GDP



Notes: 1. In the left-hand chart, figures are nominal values for 2025. The Middle East refers to the Islamic Republic of Iran, Iraq, the Kingdom of Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Israel, Jordan, the Syrian Arab Republic, Lebanon, the United Arab Emirates, the Republic of Yemen, and the West Bank and Gaza Strip.
2. In the right-hand chart, mineral fuels include crude oil, petroleum products, liquefied natural gas (LNG), and coal. The cross and round markers denote values for mineral fuels and crude oil in 1973 and 1974, respectively.
Sources: Ministry of Finance; Cabinet Office.

Chart 3

Effects of the Rise in Crude Oil Prices (2) (Pass-Through to Corporate Transaction Prices)



Note: Figures show the rate of price increase when prices in the "coal mining, crude petroleum and natural gas" sector increase by 100 percent. The pass-through lag of a crude oil price increase is estimated based on factors such as the results of an econometric analysis using the 2020-base corporate goods price index (CGPI), the 2020-base services producer price index (SPPI), and crude oil prices. The pass-through lag of "electricity" reflects the latest fuel cost adjustment system of some electric power companies.
Sources: Ministry of Economy, Trade and Industry; Bank of Japan; Nikkei NEEDS-Financial QUEST.

Chart 4

Baseline Scenario of the Outlook for Economic Activity and Prices, and Risks to the Outlook (April 2026 Outlook Report)

Baseline Scenario

Economic Activity

- Japan's economic growth is likely to decelerate in fiscal 2026, since the rise in crude oil prices is expected to push down corporate profits and households' real income through factors such as a deterioration in the terms of trade.
- Thereafter, Japan's economic growth rate is likely to rise moderately, since it is projected that the effects of high crude oil prices will wane.

Prices

- The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be in the range of 2.5-3.0 percent in fiscal 2026, reflecting the rise in crude oil prices. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline.
- Meanwhile, with a sense of labor shortage continuing to be strong, underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027.

Medians of the Policy Board Members' Forecasts

y/y % chg.

	FY2026	FY2027	FY2028
Real GDP	0.5 (-0.5)	0.7 (-0.1)	0.8
CPI (all items less fresh food)	2.8 (+0.9)	2.3 (+0.3)	2.0
(Reference) CPI (all items less fresh food and energy)	2.6 (+0.4)	2.6 (+0.5)	2.2

Note: Figures in parentheses indicate changes from the January 2026 Outlook Report.

Assumptions of the Baseline Scenario

- With the impact of the situation in the Middle East expected to ease, crude oil prices will decline.
- Large-scale disruptions in supply chains will not occur.

Risks to Economic Activity and Prices

Risks regarding the Situation in the Middle East

- The turmoil surrounding the situation in the Middle East could become prolonged, and crude oil prices could remain elevated.
- Large-scale disruptions in supply chains could occur, exerting a significant impact on the production activity of firms.

Risk Balance

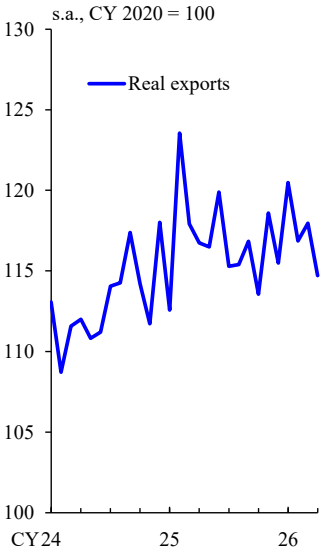
- Particularly for fiscal 2026, risks to economic activity are skewed to the downside, and risks to prices are skewed to the upside.
- It is necessary to pay due attention, in particular, to keep the risk of inflation significantly deviating upward from materializing and thereby exerting an adverse impact on the economy afterward, given factors such as firms' behavior shifting more toward raising wages and prices.

Chart 5

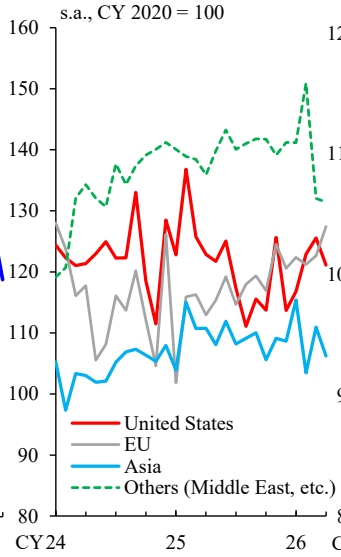
Corporate Sector

Real Exports

Total

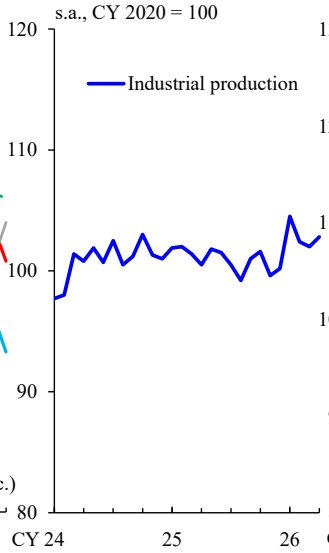


By Region

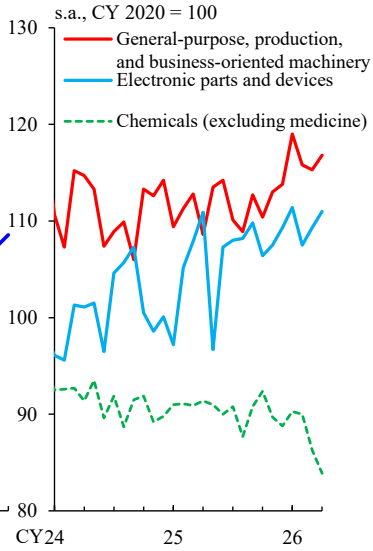


Industrial Production

Total



By Industry

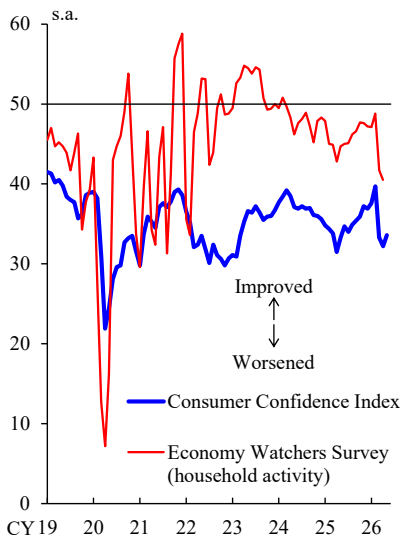


Note: In the chart for real exports by region, "others" includes Middle Eastern countries, Australia, the United Kingdom, Mexico, and Canada.
Sources: Bank of Japan; Ministry of Finance; Ministry of Economy, Trade and Industry.

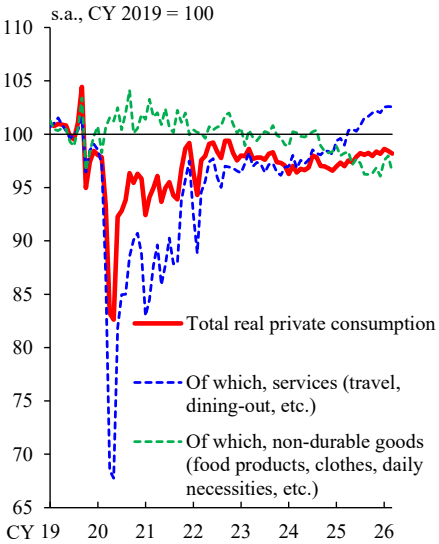
Chart 6

Household Sector

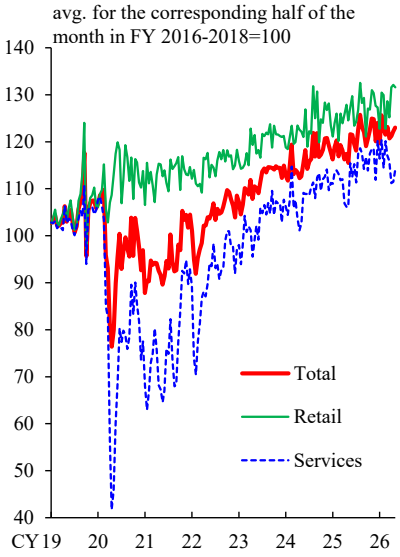
Consumer Sentiment



Private Consumption



Consumption Developments Based on Credit Card Spending

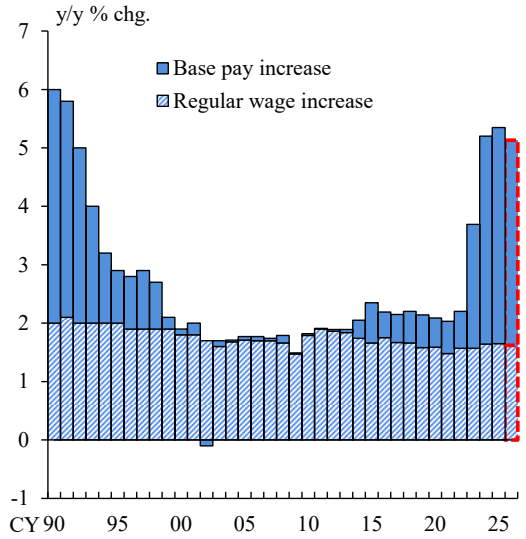


Notes: 1. In the left-hand chart, figures for the *Economy Watchers Survey* are those for the current economic conditions DI. The latest figure for the Consumer Confidence Index is for May 2026, and that for the *Economy Watchers Survey* is for April 2026.
2. In the middle chart, figures for total real private consumption are the real Consumption Activity Index (travel balance adjusted) based on staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption. The latest figures are for March 2026.
3. In the right-hand chart, figures are from the reference series in *JCB Consumption NOW*, which take changes in the number of consumers into account. Figures exclude telecommunications and energy (fuel, electricity, gas, heat supply, and water) and are based on staff calculations.
Sources: Cabinet Office; Bank of Japan; Nowcast Inc./ JCB, Co., Ltd., "JCB Consumption NOW."

Chart 7

Wages

Results of Spring Wage Negotiations



Results by Type of Employment and Firm Size

total wage increase

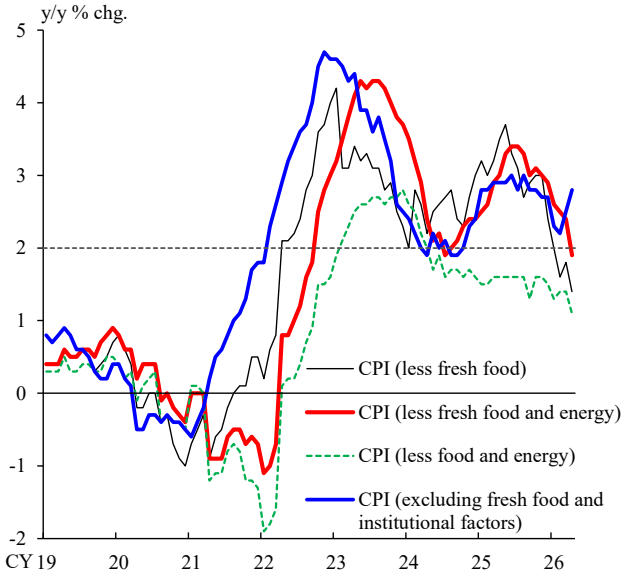
(persons)	CY 2025 final results	CY 2026 fifth aggregation
Regular employees	5.25%	5.05%
(1,000 or more)	5.39%	5.07%
(300 to 999)	5.08%	5.06%
(100 to 299)	4.76%	4.93%
(99 or less)	4.36%	4.43%
Part-time employees	5.81%	6.26%

Note: In the left-hand chart, figures through 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2026 are figures released by Rengo. Figures for 2026 are from the fifth aggregation. Figures for base pay increase and regular wage increase are aggregated values of the wage negotiation results of labor unions for which the base pay increase is clear.
Sources: Japanese Trade Union Confederation (Rengo); Central Labour Relations Commission.

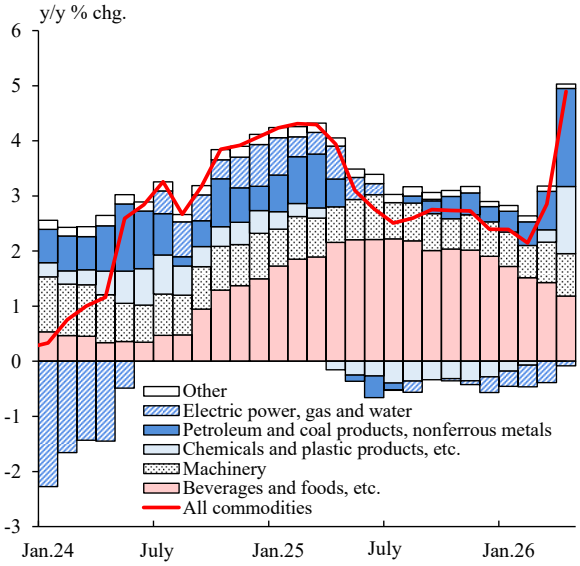
Chart 8

Prices

CPI



PPI

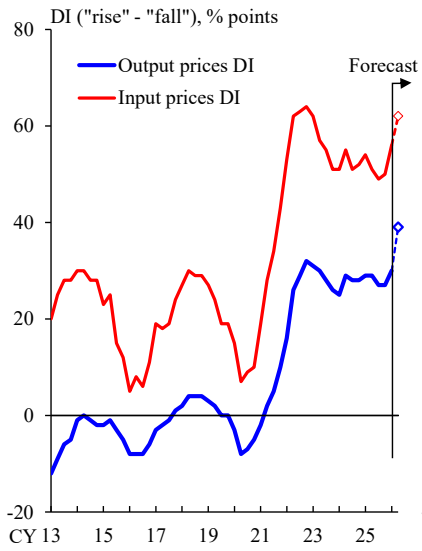


Notes: 1. In the left-hand chart, institutional factors include the effects of the consumption tax rate change, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are staff estimates.
2. In the right-hand chart, figures for "beverages and foods, etc." include agriculture, forestry and fishery products.
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

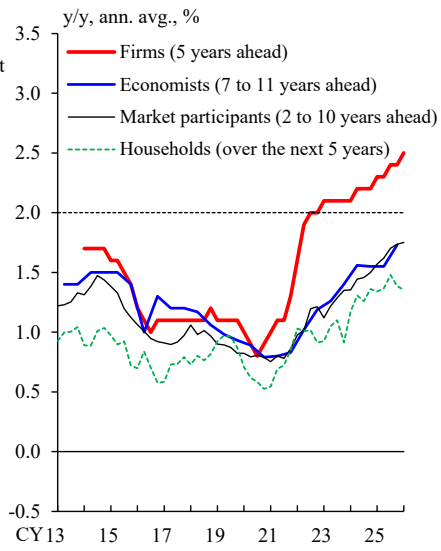
Chart 9

Indicators Related to Inflation Expectations

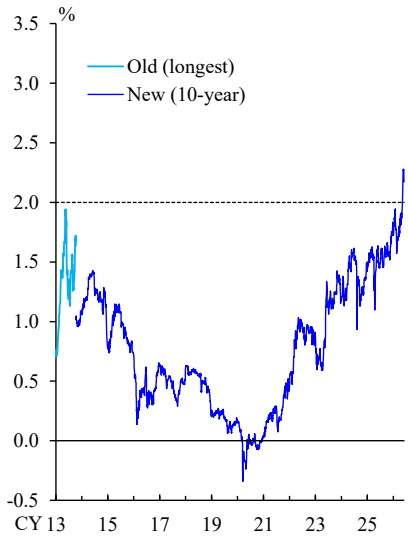
Outlook for Input and Output Prices (Tankan)



Inflation Expectations



Market-Based Inflation Expectations

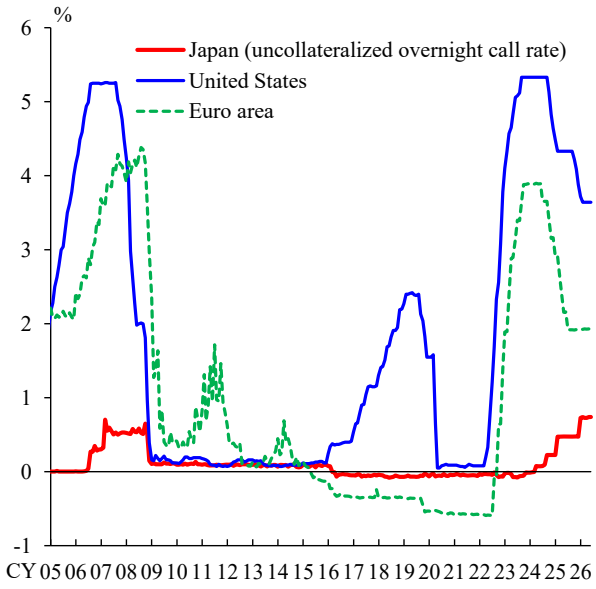


Notes: 1. In the left-hand chart, figures are for all industries and enterprises.
2. In the middle chart, "market participants" shows data from the "QUICK Monthly Market Survey <Bonds>" and "economists" shows the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for "households" are from 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*.
3. The right-hand chart indicates the BEI (break-even inflation) rate, which is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which matured in June 2018.
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; JCER, "ESP Forecast"; Bloomberg.

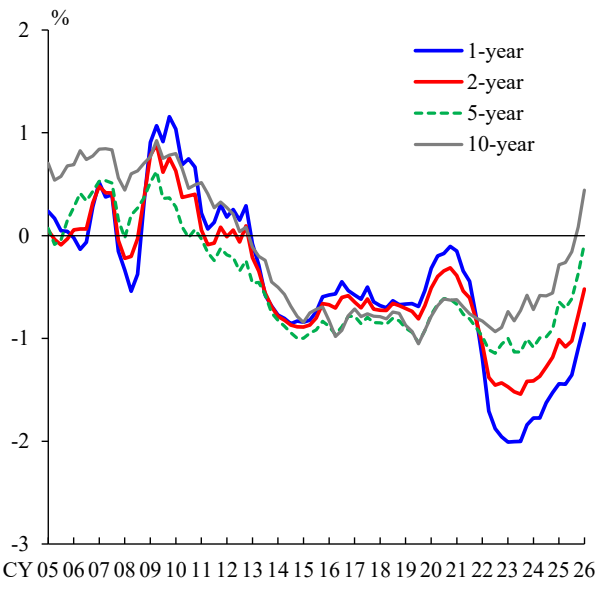
Chart 10

Policy Interest Rates and Real Interest Rates

Policy Interest Rates in Japan, the United States, and the Euro Area



Real Interest Rates in Japan

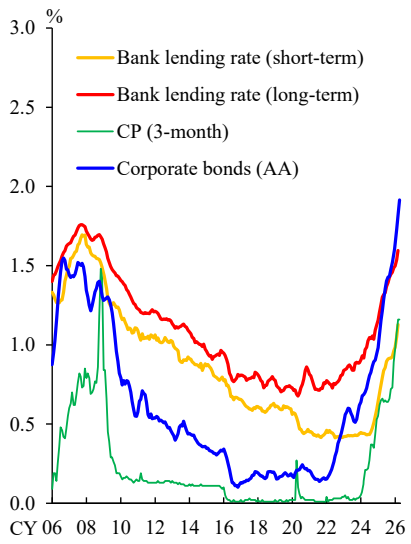


Notes: 1. In the left-hand chart, figures for the United States are the effective federal funds rate. Figures for the euro area are the Euro Overnight Index Average (EONIA) prior to October 2019 and the euro short-term rate (€STR) thereafter. The latest figures are for May 2026.
2. In the right-hand chart, figures are calculated as government bond yields for each maturity minus the composite index of inflation expectations (staff estimates).
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

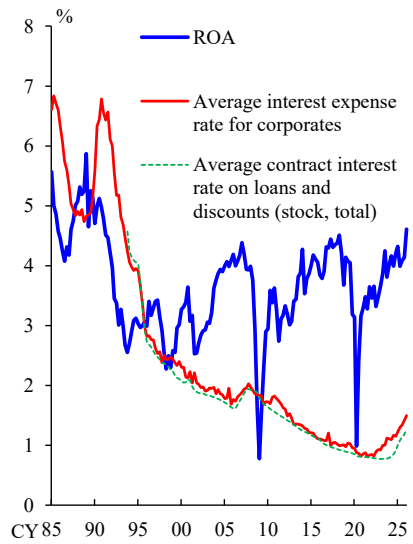
Chart 11

Corporate Finance (1)

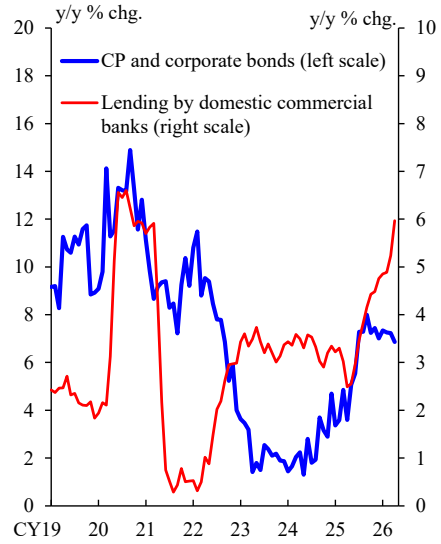
Corporate Funding Rates



Funding Costs and Profitability



Growth in Outstanding Bank Lending, CP, and Corporate Bonds



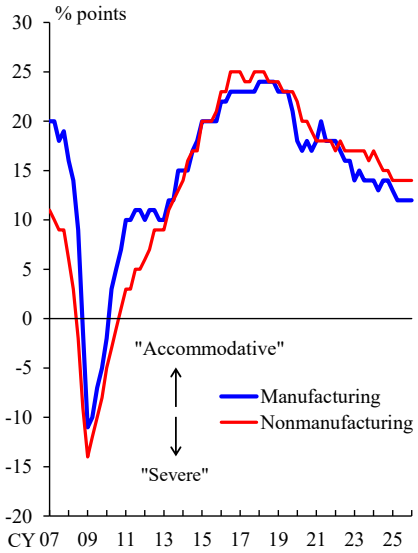
Notes: 1. In the left-hand chart, bank lending rates and corporate bonds represent 6-month backward moving averages. The CP issuance yields refer to a-1-rated CP (those up through September 2009 refer to CP rated a-1 or higher). The corporate bond issuance yields cover domestically issued corporate bonds, excluding those issued by financial institutions. The latest figures are April 2026 for CP and corporate bonds, and March 2026 for bank lending rates.
2. In the middle 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. The latest figures are for 2026/Q1.
3. In the right-hand chart, lending by domestic commercial banks represents a monthly average. CP and corporate bonds are as of the end of the period. The latest figures are for April 2026.

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

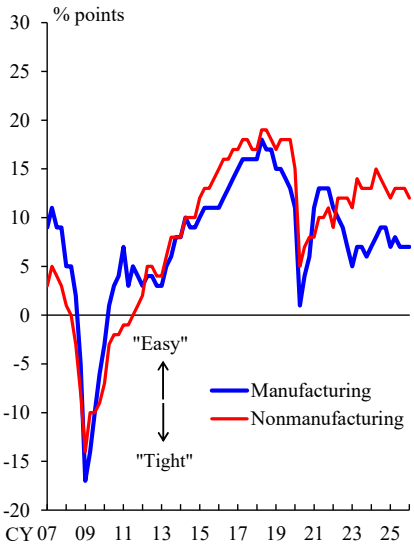
Chart 12

Corporate Finance (2)

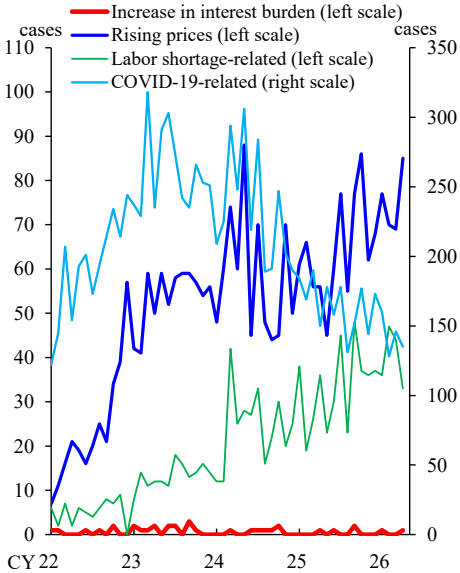
DI for Financial Institutions' Lending Attitudes



DI for Firms' Financial Positions



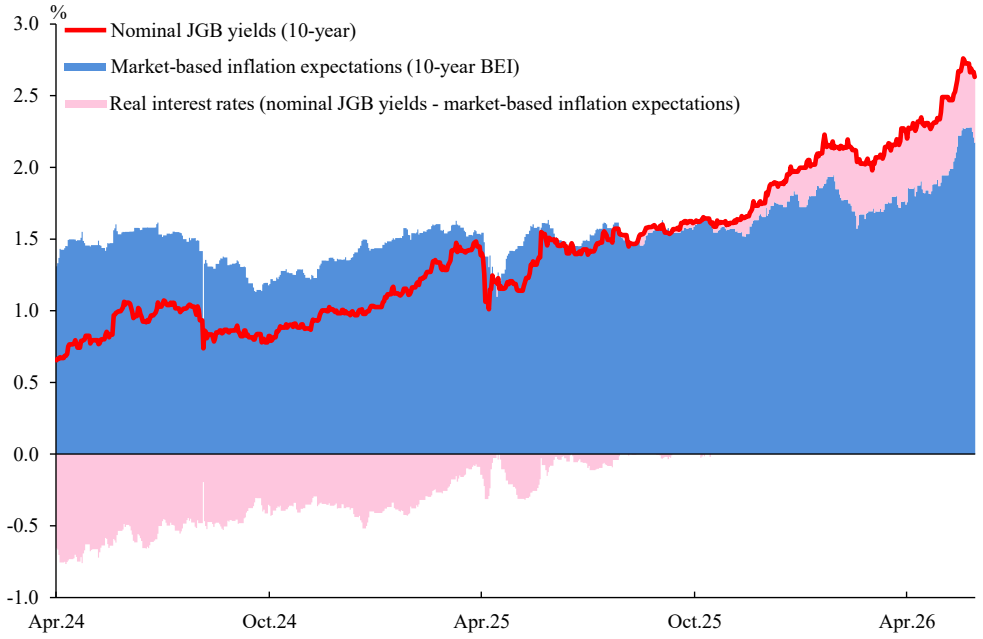
Bankruptcies by Cause



Note: In the left-hand and middle charts, figures are based on the *Tankan*. Figures from the December 2025 survey onward are based on sample enterprises after the March 2026 revision.
Sources: Bank of Japan; Tokyo Shoko Research Ltd.

Chart 13

Developments in Long-Term Interest Rates



Source: Bloomberg.

Chart 14

Current Plan for the Reduction of the Purchase Amount of JGBs

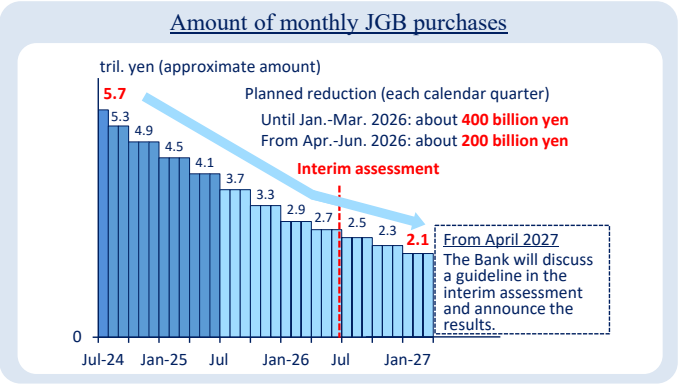
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

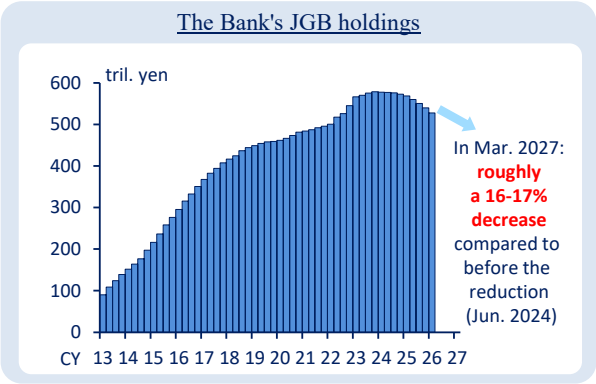
In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- Until January-March 2026 : about 400 billion yen
- 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



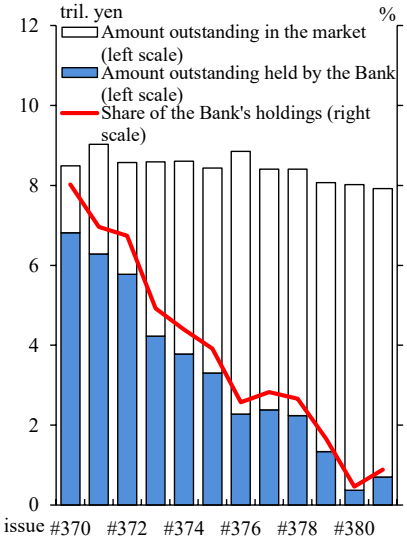


Allowing Enough Flexibility

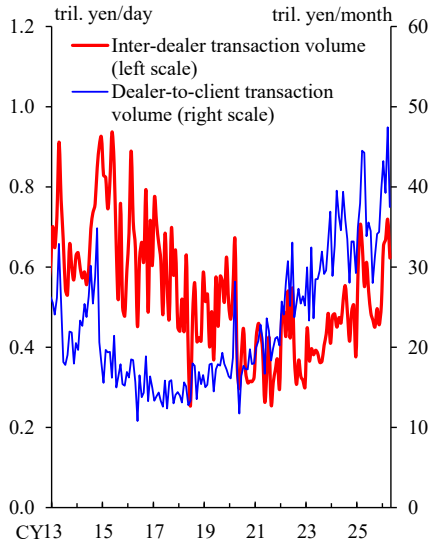
1. The Bank will conduct an interim assessment of the plan at the June 2026 MPM.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

Functioning of the JGB Markets

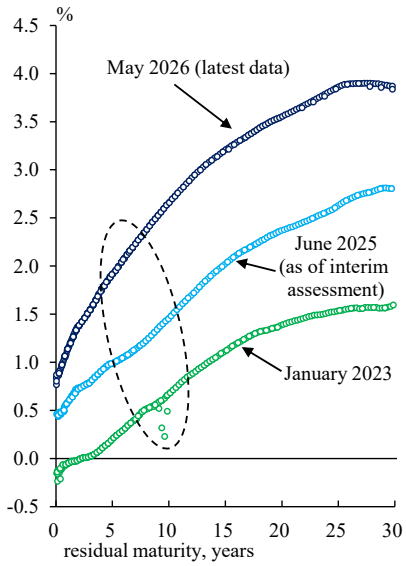
The Bank's Holding Share of 10-Year JGBs



Transaction Volume for Cash JGBs



JGB Yield Curves



Notes: 1. In the left-hand chart, figures are as of the end of April 2026.
2. In the middle chart, figures for dealer-to-client transaction volume are the gross amount purchased by city banks, regional financial institutions, investors (such as life and non-life insurance companies, trust banks, financial institutions for agriculture and forestry, investment trusts, and mutual aid associations of government agencies), and foreigners. Figures for inter-dealer transaction volume are the sum of daily transaction volumes for 2- to 40-year JGBs. The latest figures are for April 2026.
3. The right-hand chart shows the yield curves as of the end of each month. Figures are based on compound yields.

Sources: QUICK; Japan Securities Dealers Association; Japan Bond Trading; Bank of Japan; Bloomberg.