

Economic Activity and Prices,  
and Monetary Policy in Japan  
*Speech at the Kisaragi-kai Meeting in Tokyo*

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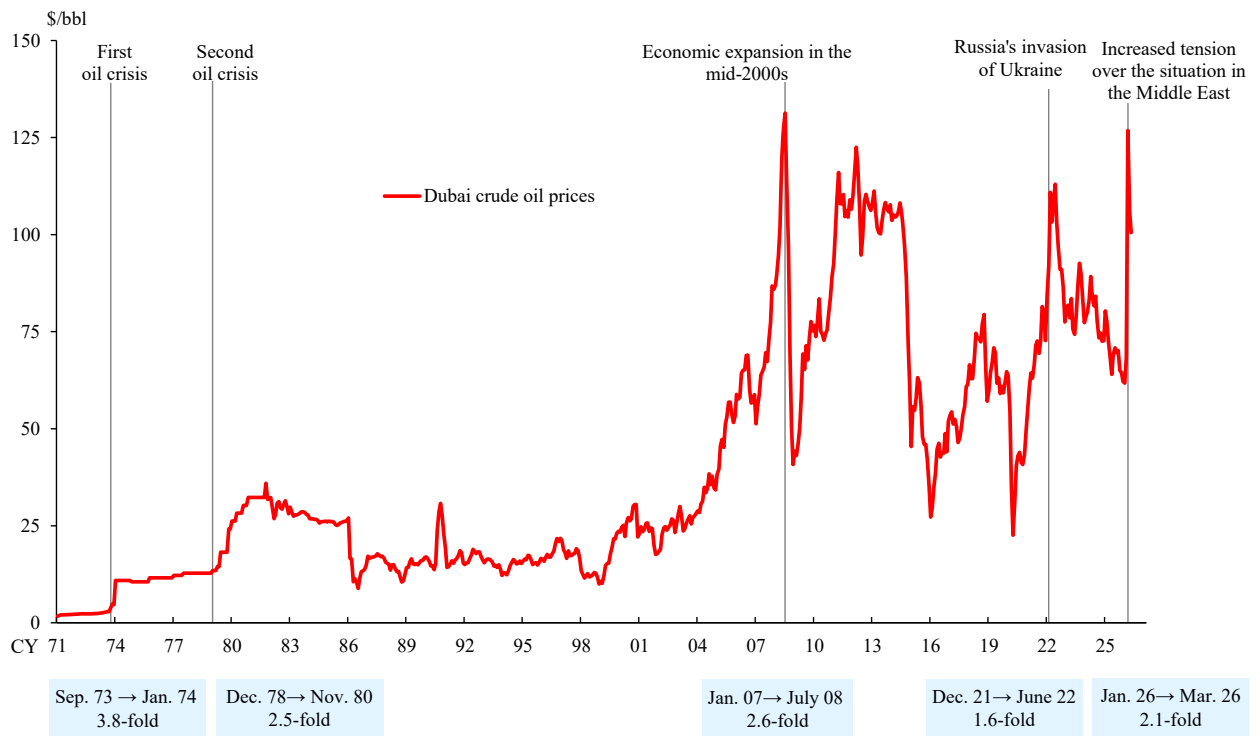
Introduction

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

II. Conduct of Monetary Policy

Concluding Remarks

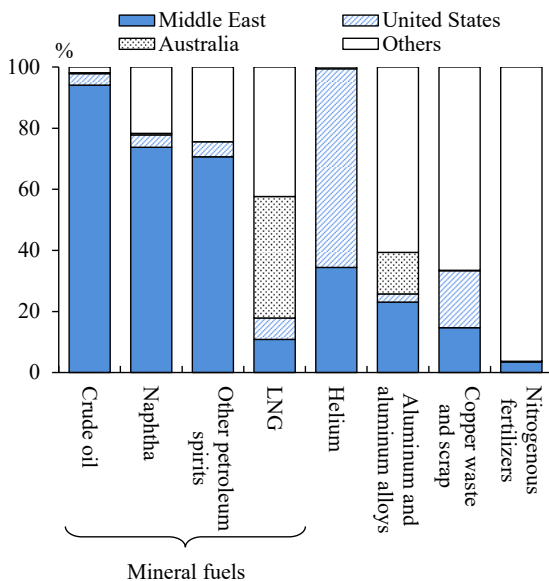
## Developments in Crude Oil Prices



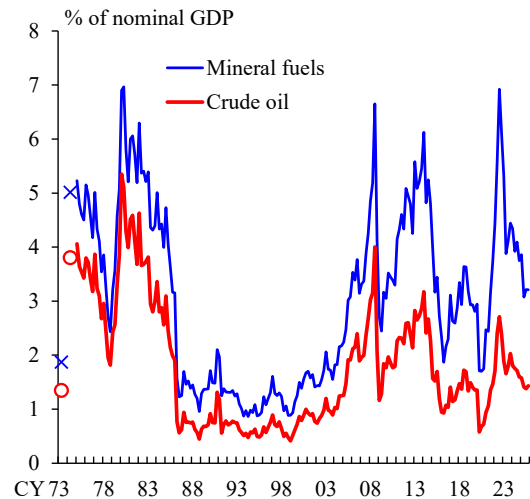
Note: Figures for Dubai crude oil prices up through October 1986 are based on the rates of change in Arab light crude oil prices. Sources: Nikkei Inc.; QUICK; Bloomberg.

## 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

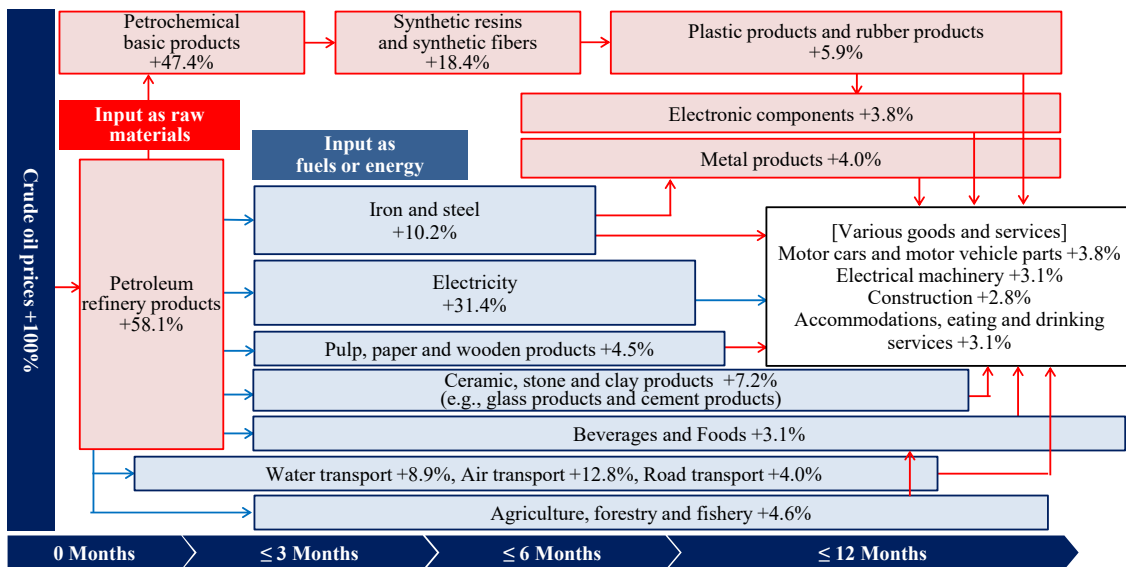


Notes: 1. In the left-hand chart, figures are nominal values for 2025. The Middle East refers to the Islamic Republic of Iran, Iraq, the Kingdom of Bahrain, Saudi Arabia, Kuwait, Qatar, Oman, Israel, Jordan, the Syrian Arab Republic, Lebanon, the United Arab Emirates, the Republic of Yemen, and the West 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.

## 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.

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

#### 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.

#### Baseline Scenario

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.

## Corporate Sector

### Real Exports

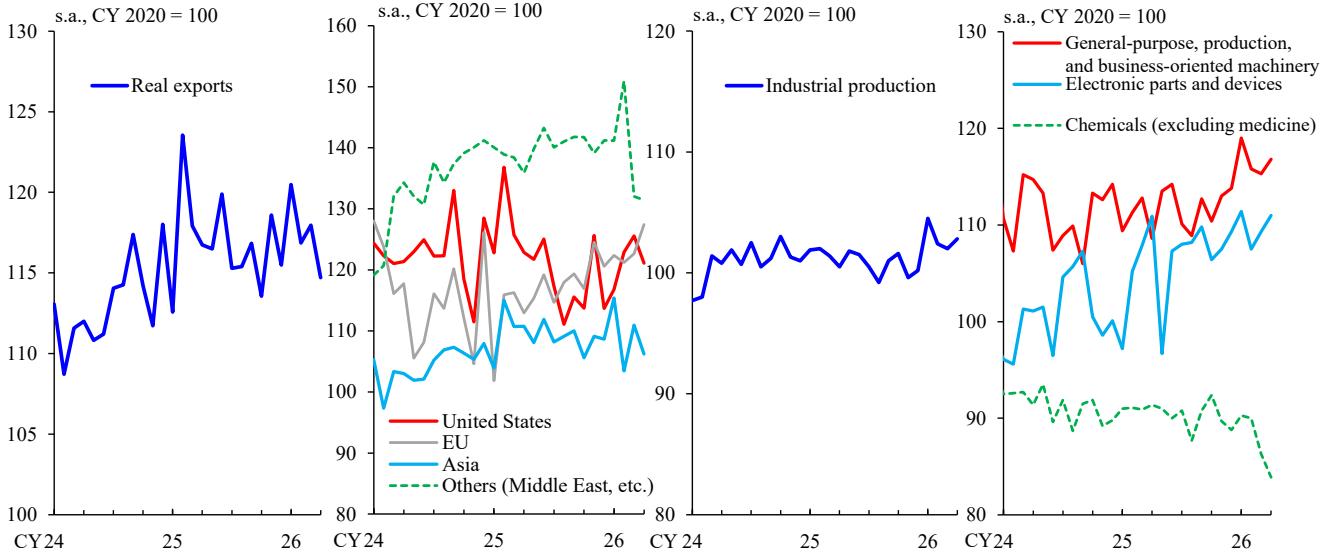
### Industrial Production

#### Total

#### By Region

#### Total

#### By Industry



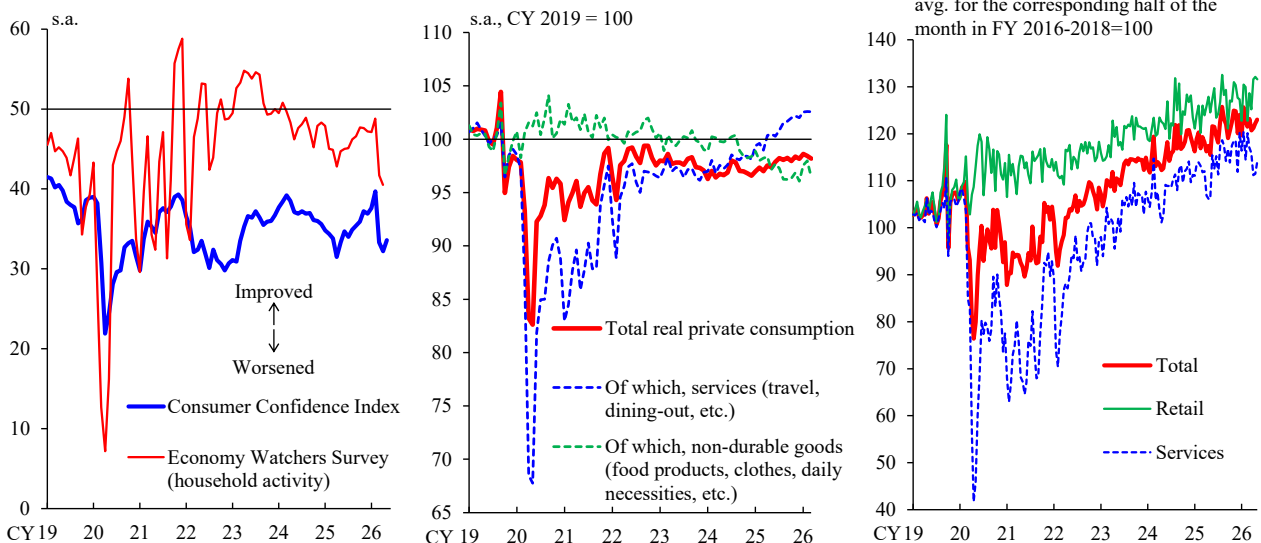
Note: In the chart for real exports by region, "others" includes Middle Eastern countries, Australia, the United Kingdom, Mexico, and Canada.  
Sources: Bank of Japan; Ministry of Finance; Ministry of Economy, Trade and Industry.

## Household Sector

### Consumer Sentiment

### Private Consumption

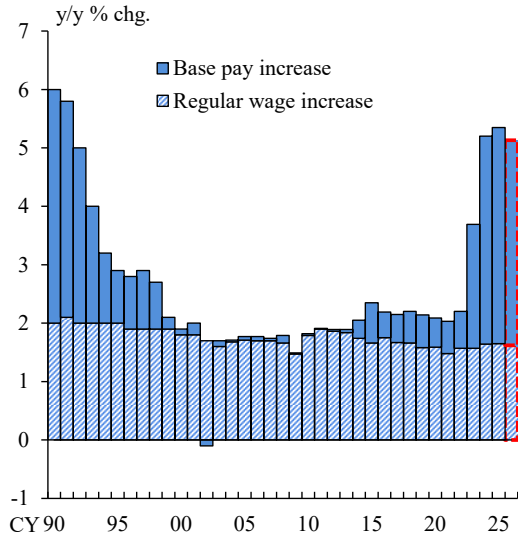
### Consumption Developments Based on Credit Card Spending



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."

# Wages

Results of Spring Wage Negotiations



Results by Type of Employment and Firm Size

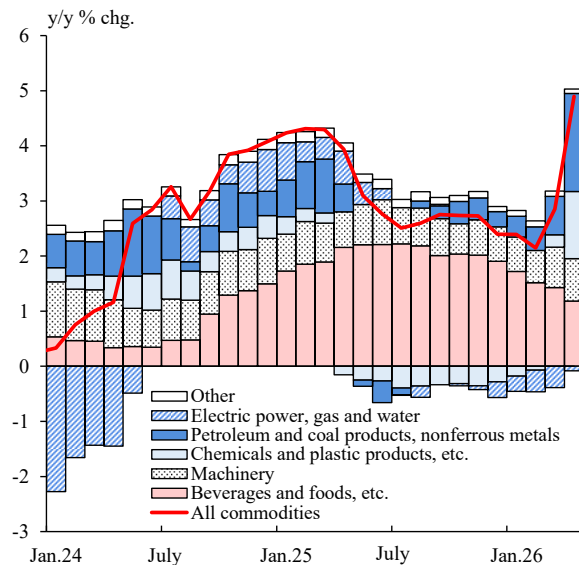
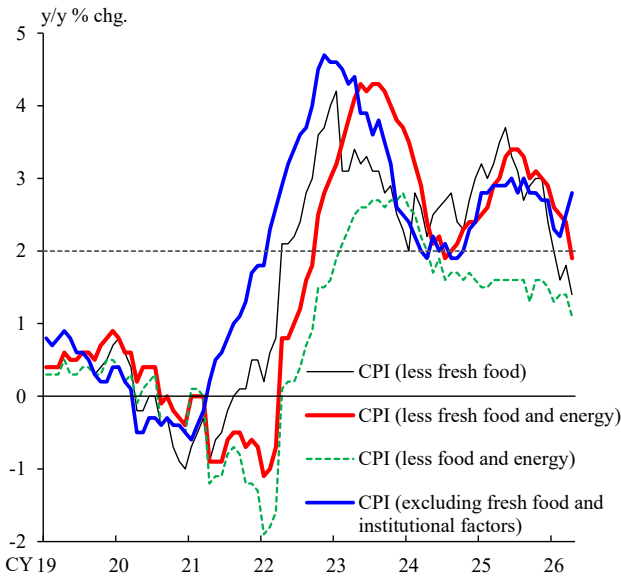
	total wage increase	
(persons)	CY 2025 final results	CY 2026 fifth aggregation
Regular employees	5.25%	5.05%
(1,000 or more)	5.39%	5.07%
(300 to 999)	5.08%	5.06%
(100 to 299)	4.76%	4.93%
(99 or less)	4.36%	4.43%
Part-time employees	5.81%	6.26%

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.

# Prices

CPI

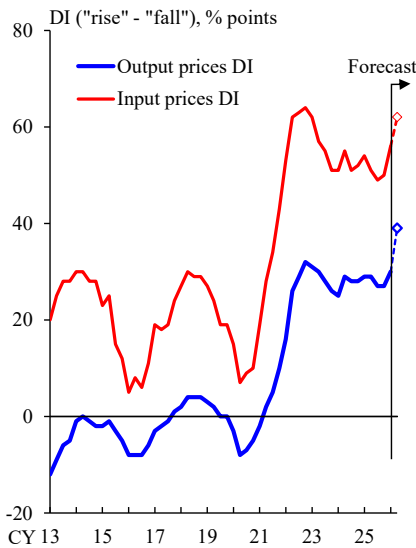
PPI



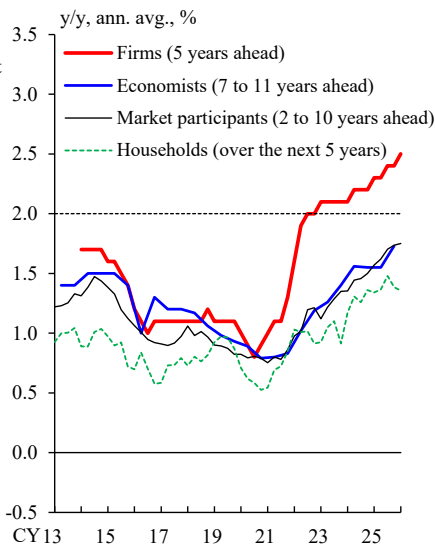
Notes: 1. In the left-hand chart, institutional factors include the effects of the consumption tax rate change, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity and gas charges), the reduction in mobile phone charges 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.

## Indicators Related to Inflation Expectations

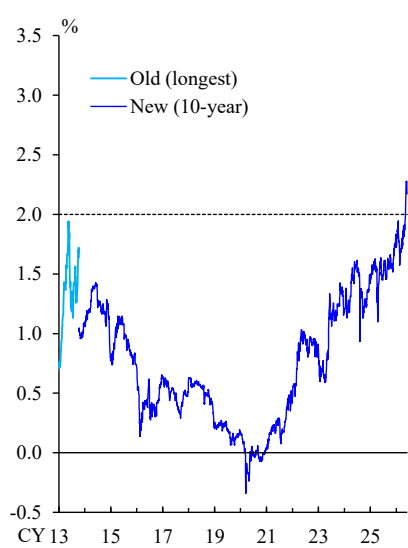
*Outlook for Input and Output Prices (Tankan)*



*Inflation Expectations*



*Market-Based Inflation Expectations*



Notes: 1. In the left-hand chart, figures are for all industries and enterprises.

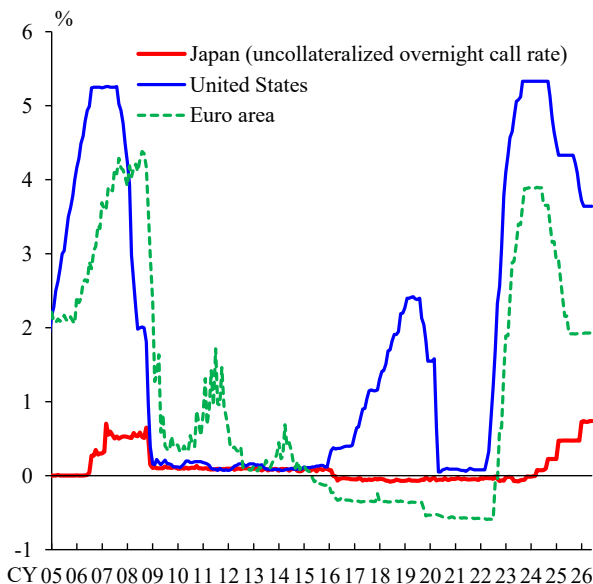
2. In the middle chart, "market participants" shows data from the "QUICK Monthly Market Survey <Bonds>" and "economists" shows the forecasts of forecasters surveyed for the *ESP Forecast*. Figures for "households" are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using 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.

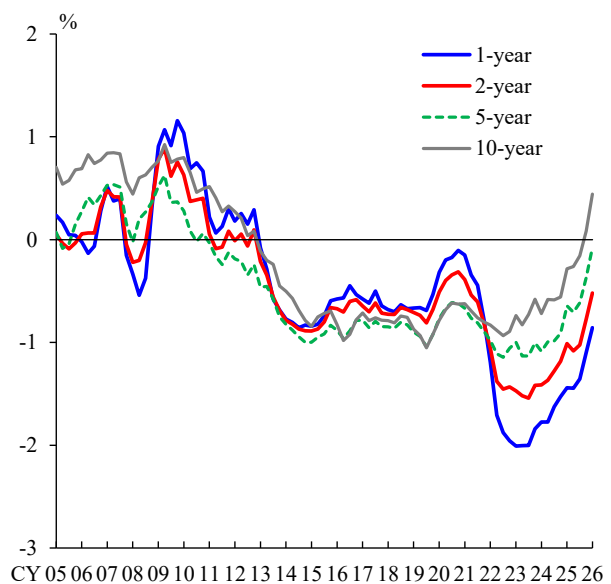
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; JCER, "ESP Forecast"; Bloomberg.

## Policy Interest Rates and Real Interest Rates

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



*Real Interest Rates in Japan*



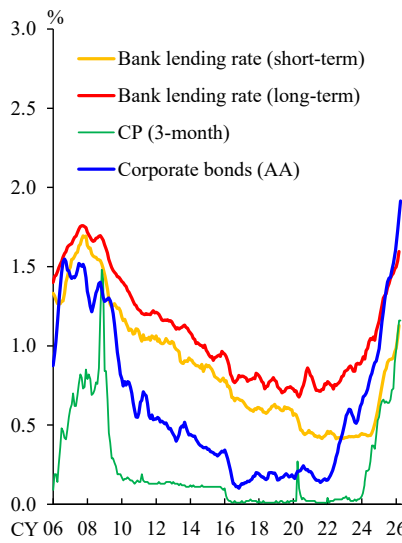
Notes: 1. In the left-hand chart, figures for the United States are the effective federal funds rate. Figures for the euro area are the Euro Overnight Index Average (EONIA) prior to October 2019 and the euro short-term rate (€STR) thereafter. The latest figures are for May 2026.

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).

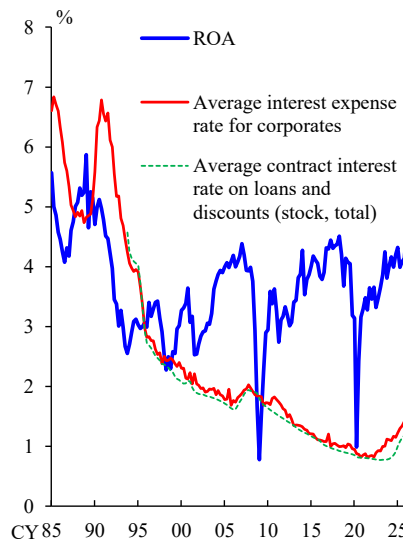
Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg.

## Corporate Finance (1)

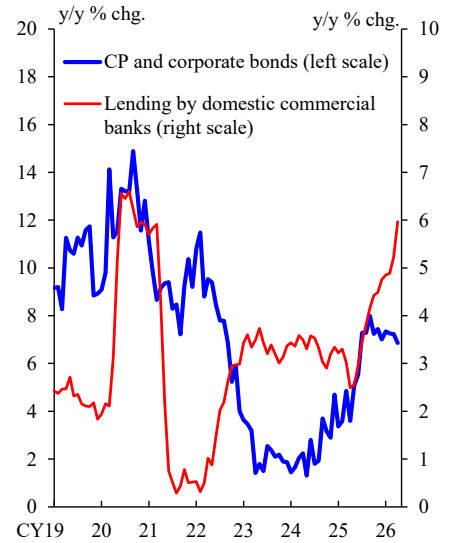
*Corporate Funding Rates*



*Funding Costs and Profitability*



*Growth in Outstanding Bank Lending, CP, and Corporate Bonds*

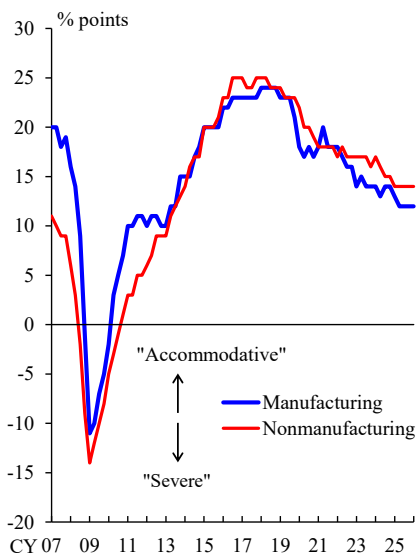


Notes: 1. In the left-hand chart, bank lending rates and corporate bonds represent 6-month backward moving averages. The CP issuance yields refer to a-1-rated CP (those up through September 2009 refer to CP rated a-1 or higher). The corporate bond issuance yields cover domestically issued corporate bonds,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

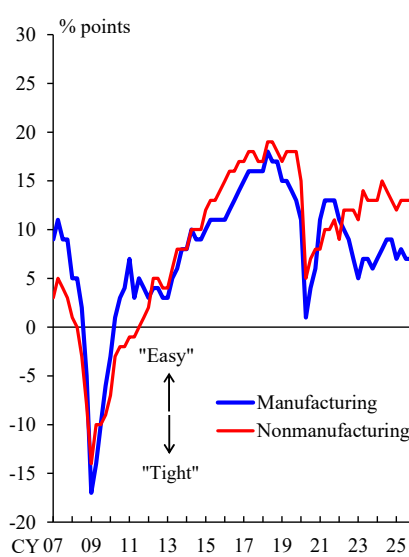
Sources: Bank of Japan; Ministry of Finance; Japan Securities Depository Center; Capital Eye; Japan Securities Dealers Association; I-N Information Systems; Bloomberg.

## Corporate Finance (2)

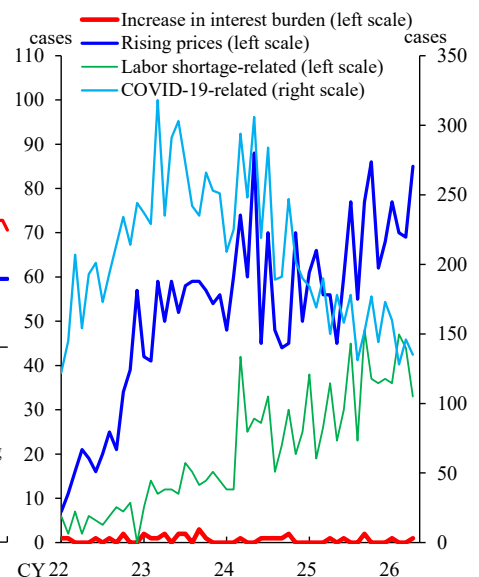
*DI for Financial Institutions' Lending Attitudes*



*DI for Firms' Financial Positions*

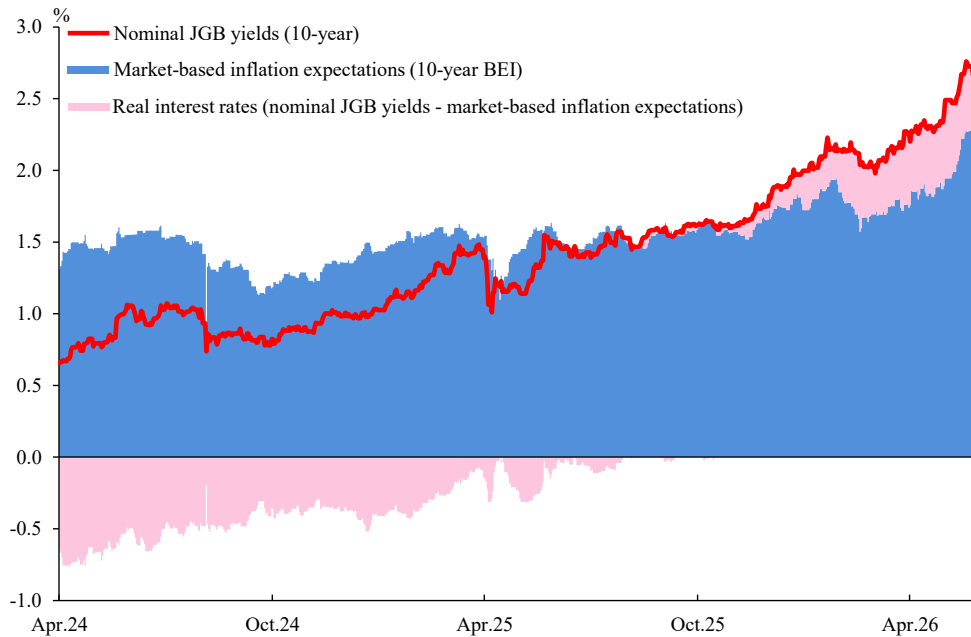


*Bankruptcies by Cause*



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.

## Developments in Long-Term Interest Rates



Source: Bloomberg.

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## Current Plan for the Reduction of the Purchase Amount of JGBs

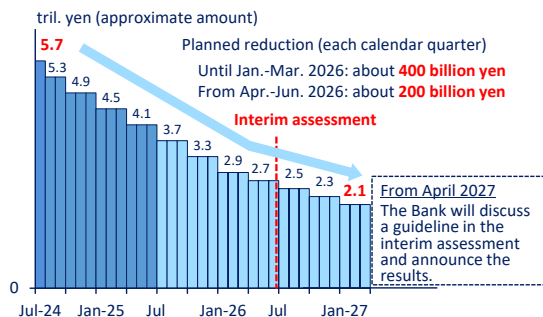
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to **reduce its purchase amount of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets

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

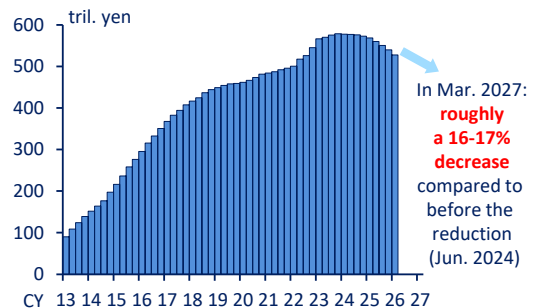
- Until January-March 2026 : about **400 billion yen**
  - From April-June 2026 to January-March 2027 : about **200 billion yen**
- The Bank will **gradually reduce** its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

### Reduction in a Predictable Manner

#### Amount of monthly JGB purchases



#### The Bank's JGB holdings



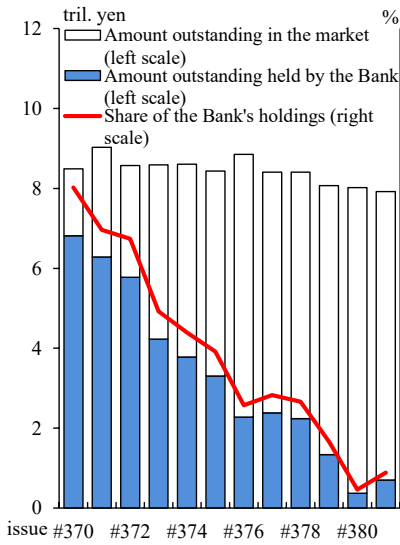
### Allowing Enough Flexibility

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

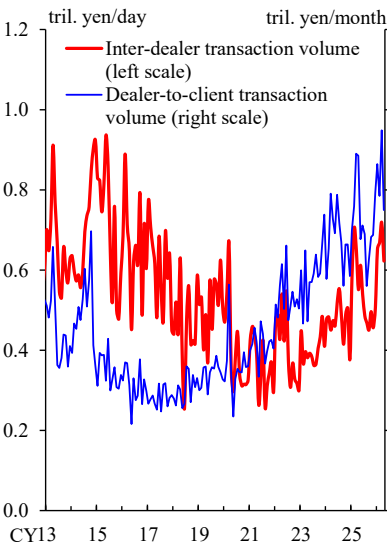
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# Functioning of the JGB Markets

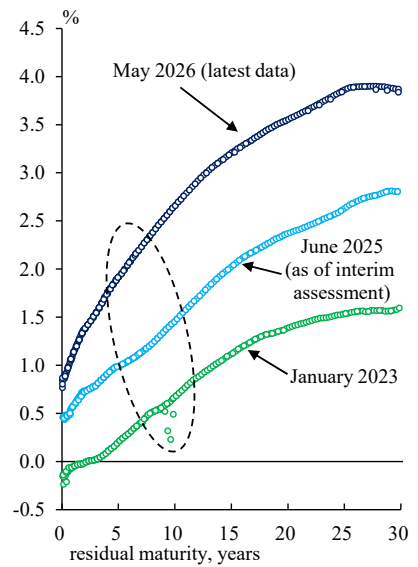
*The Bank's Holding Share of 10-Year JGBs*



*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.