Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Hyogo

June 25, 2026

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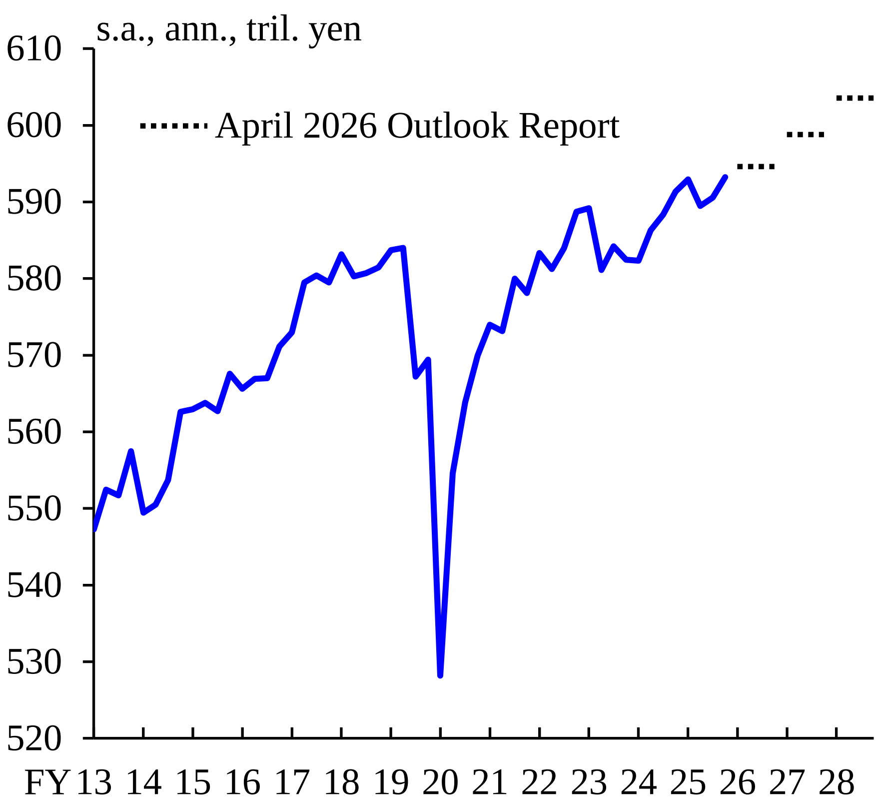
Chart 1

The Bank's Forecasts for Real GDP

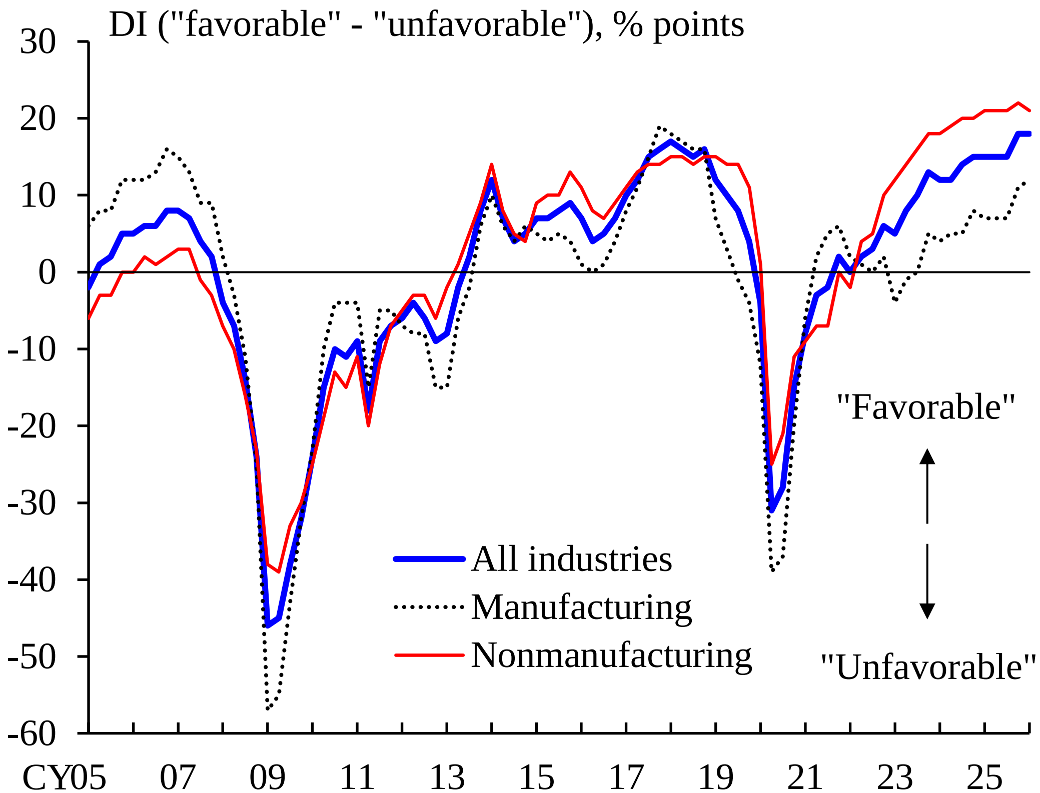


	Projected Growth Rate of Real GDP					
	January 2025	**April 2025**	**July 2025**	**October 2025**	**January 2026**	**April 2026**
FY 2025	1.1%	0.5%	0.6%	0.7%	0.9%	1.0%
FY 2026	1.0%	0.7%	0.7%	0.7%	1.0%	0.5%
FY 2027	—	1.0%	1.0%	1.0%	0.8%	0.7%
FY 2028	—	—	—	—	—	0.8%

Note: Forecasts are the medians of the Policy Board members' forecasts. Real GDP values for 2026/Q2 onward are calculated by multiplying the actual figure for fiscal 2025 by all successive projected growth rates for each year.

Sources: Cabinet Office; Bank of Japan.

Business Conditions DI

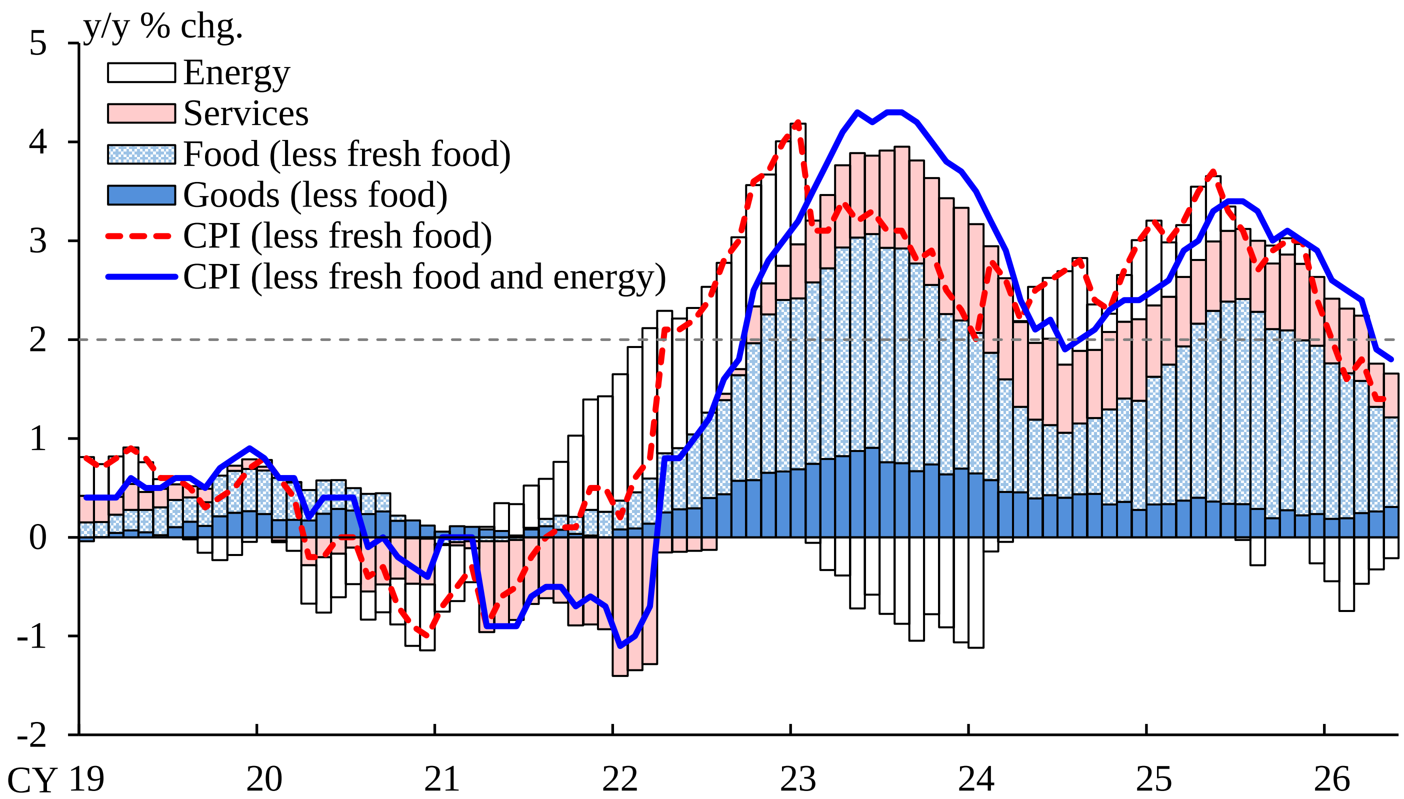


	March 2025	June 2025	September 2025	December 2025	March 2026
All industries	15	15	15	18	18
Manufacturing	7	7	7	11	12
Non-manufacturing	21	21	21	22	21

Note: Figures are based on the *Tankan*, and are for all enterprises.
Source: Bank of Japan.

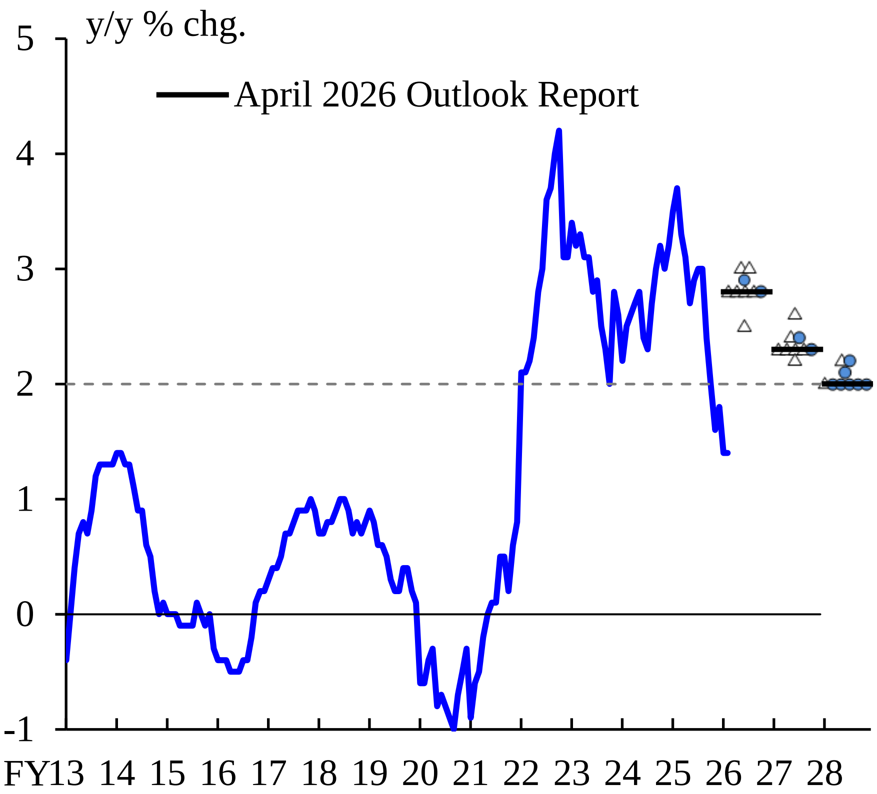
Chart 3

Consumer Prices



Source: Ministry of Internal Affairs and Communications.

The Bank's Forecasts for the CPI



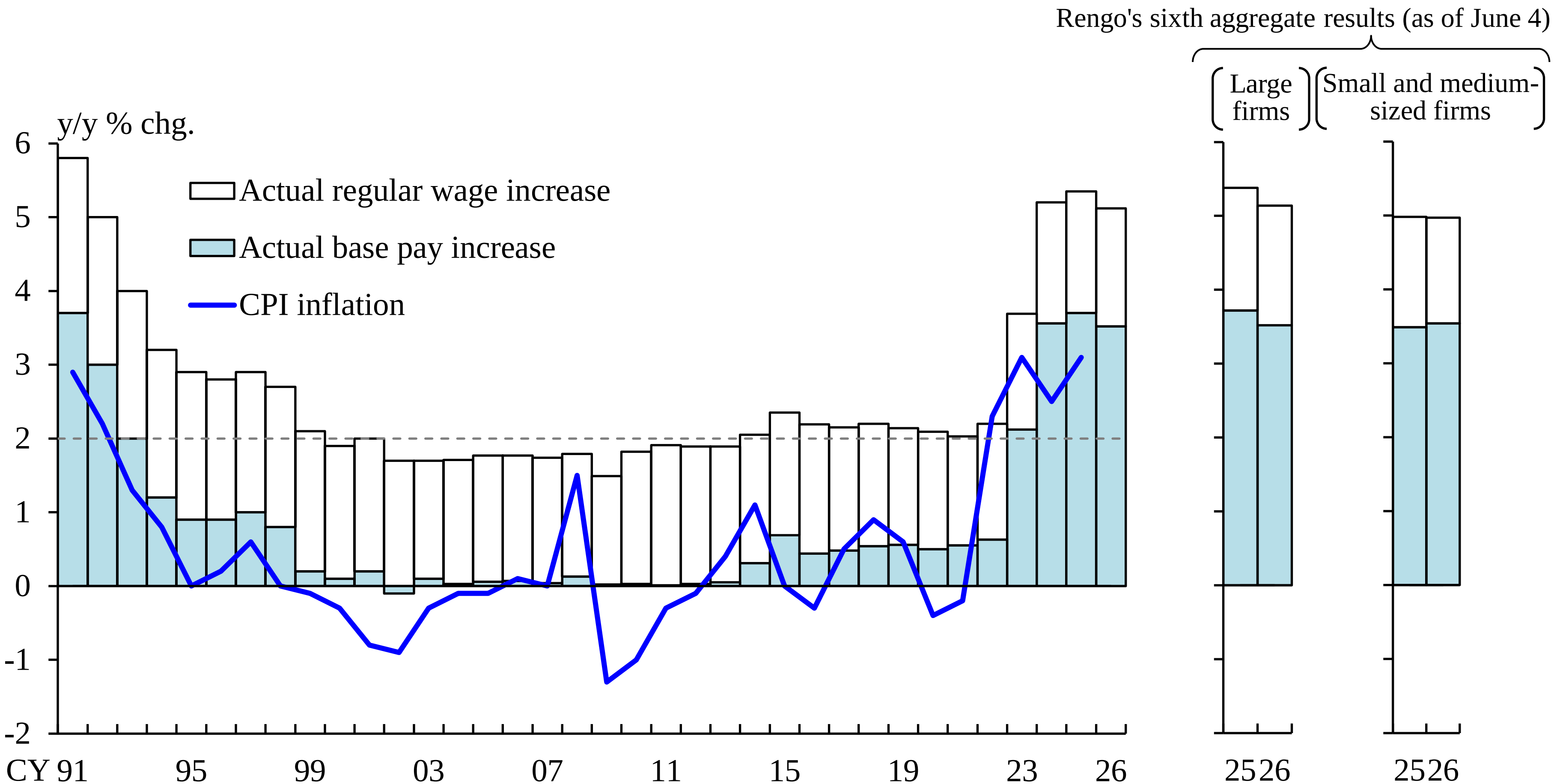
	Projected Rate of Increase in the CPI					
	January 2025	April 2025	July 2025	October 2025	January 2026	April 2026
FY 2025	2.4%	2.2%	2.7%	2.7%	2.7%	2.7%
FY 2026	2.0%	1.7%	1.8%	1.8%	1.9%	2.8%
FY 2027	—	1.9%	2.0%	2.0%	2.0%	2.3%
FY 2028	—	—	—	—	—	2.0%

Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of consumption tax hikes.
2. The locations of ●, △, and ▼ in the chart indicate the figures for each Policy Board member's forecasts. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside." The dotted black lines show the medians of the Policy Board members' forecasts.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 5

Results of the Annual Spring Labor-Management Wage Negotiations

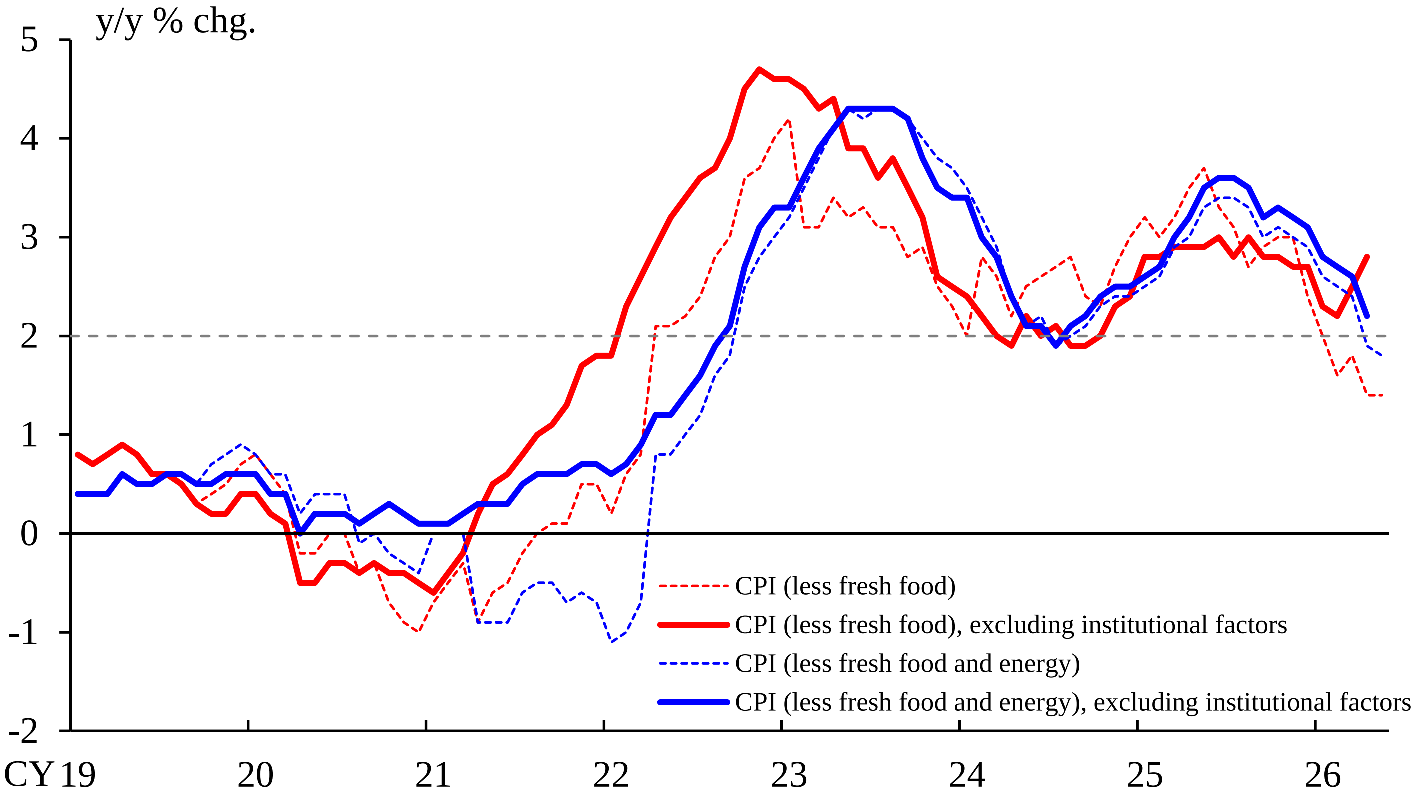


Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of consumption tax hikes, on a calendar-year basis.

2. Figures for actual base pay increase and actual regular wage increase from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2026 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear.

Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

Consumer Prices (Excluding Institutional Factors)

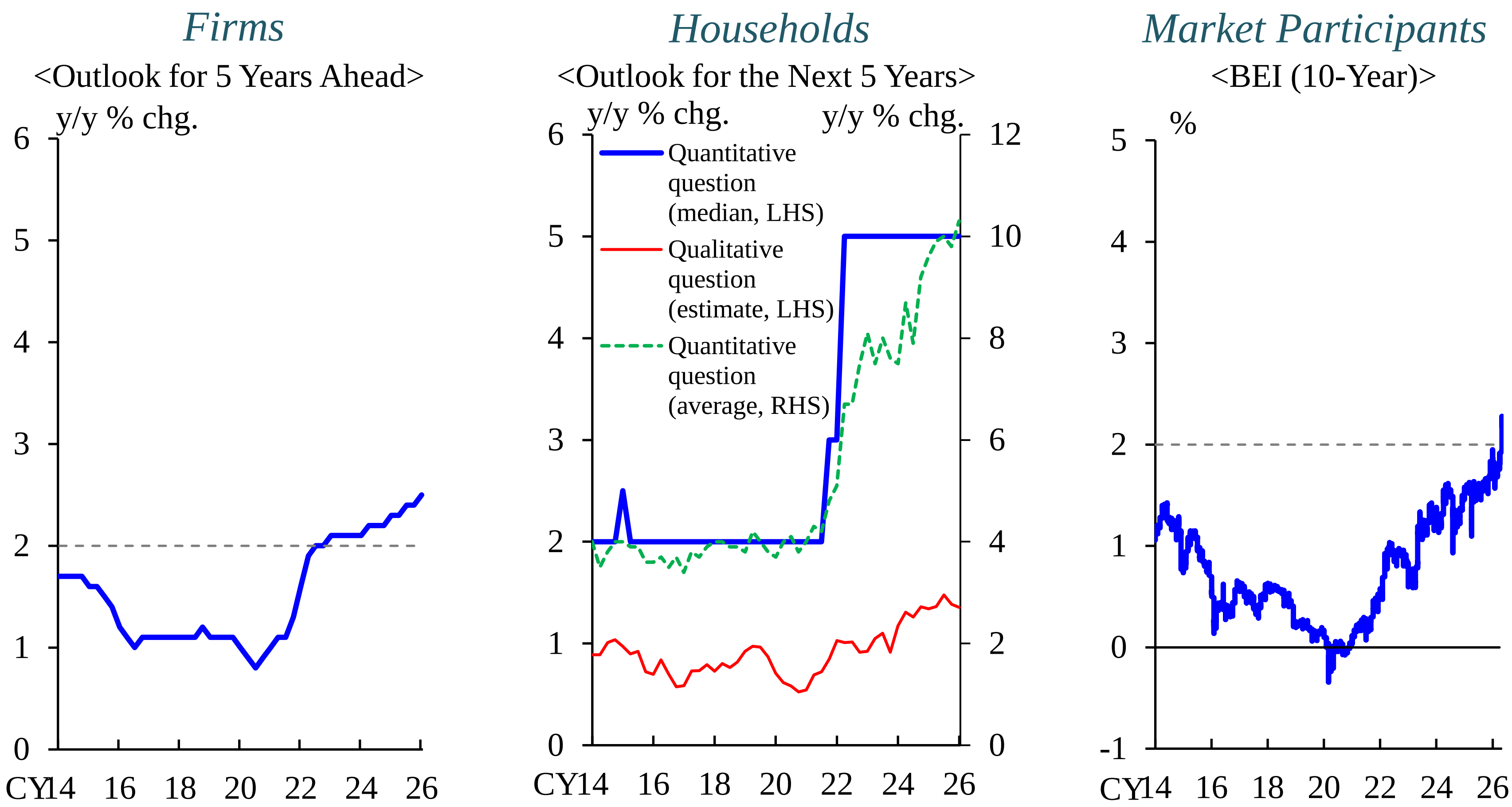


Note: Institutional factors include the effects of the consumption tax hike, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.

Sources: Bank of Japan; etc.

Chart 7

Inflation Expectations



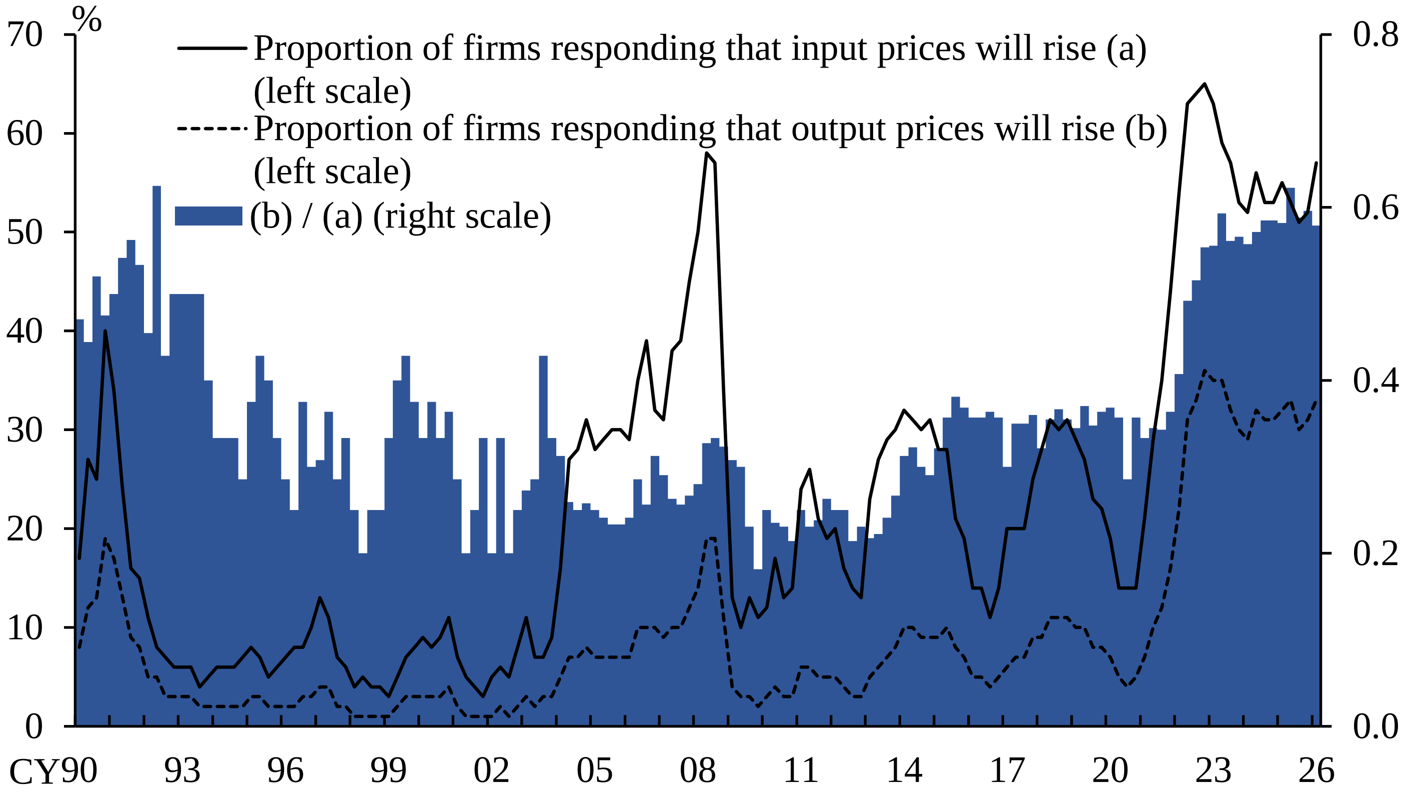
Notes: 1. Figures for firms in the left panel are based on the *Tankan*, and are averages of all industries and enterprises.

2. Figures for households in the middle panel are based on the *Opinion Survey on the General Public's Views and Behavior*. Figures for the quantitative question are based on numerical values for expected inflation rates provided by respondents, and the average of those is calculated by excluding 0.5 percent of the highest and lowest figures, respectively, in order to avoid extremes. Figures for the qualitative question are estimated using the modified Carlson-Parkin method, quantifying the results of the 5-choice question, asking respondents their expectations for whether and to what degree prices will go up or down.

3. Figures for market participants in the right panel indicate the BEI (break-even inflation) rate, which is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs.

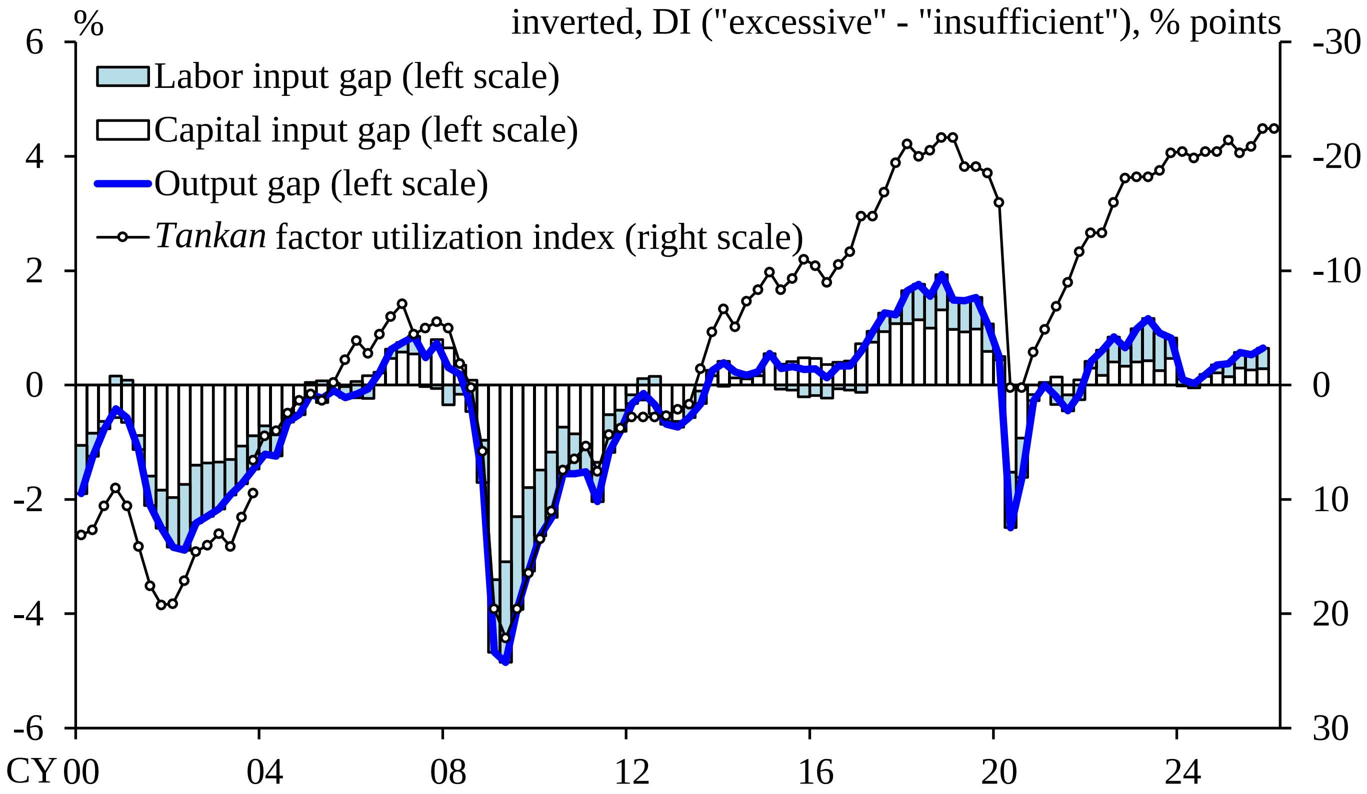
Sources: Bloomberg; JCER, *ESP Forecast*; Bank of Japan.

Changes in Firms' Price-Setting Behavior



Note: Figures are based on the *Tankan*, and are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Output Gap

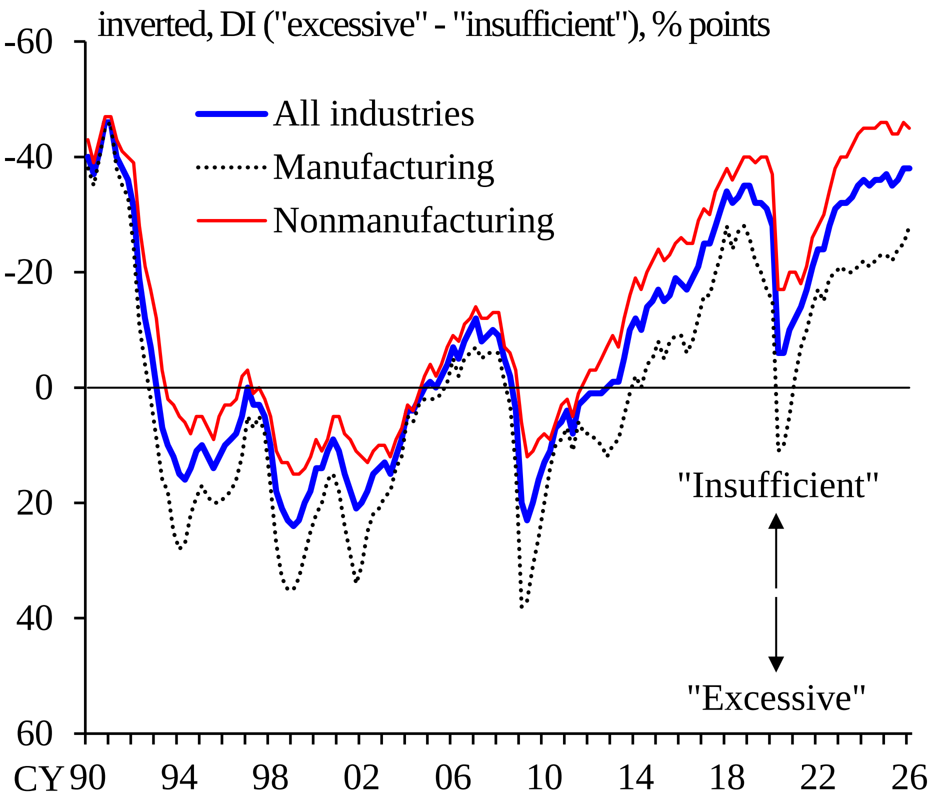


Notes: 1. Figures for the output gap are Bank staff estimates.

2. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. Capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Source: Bank of Japan.

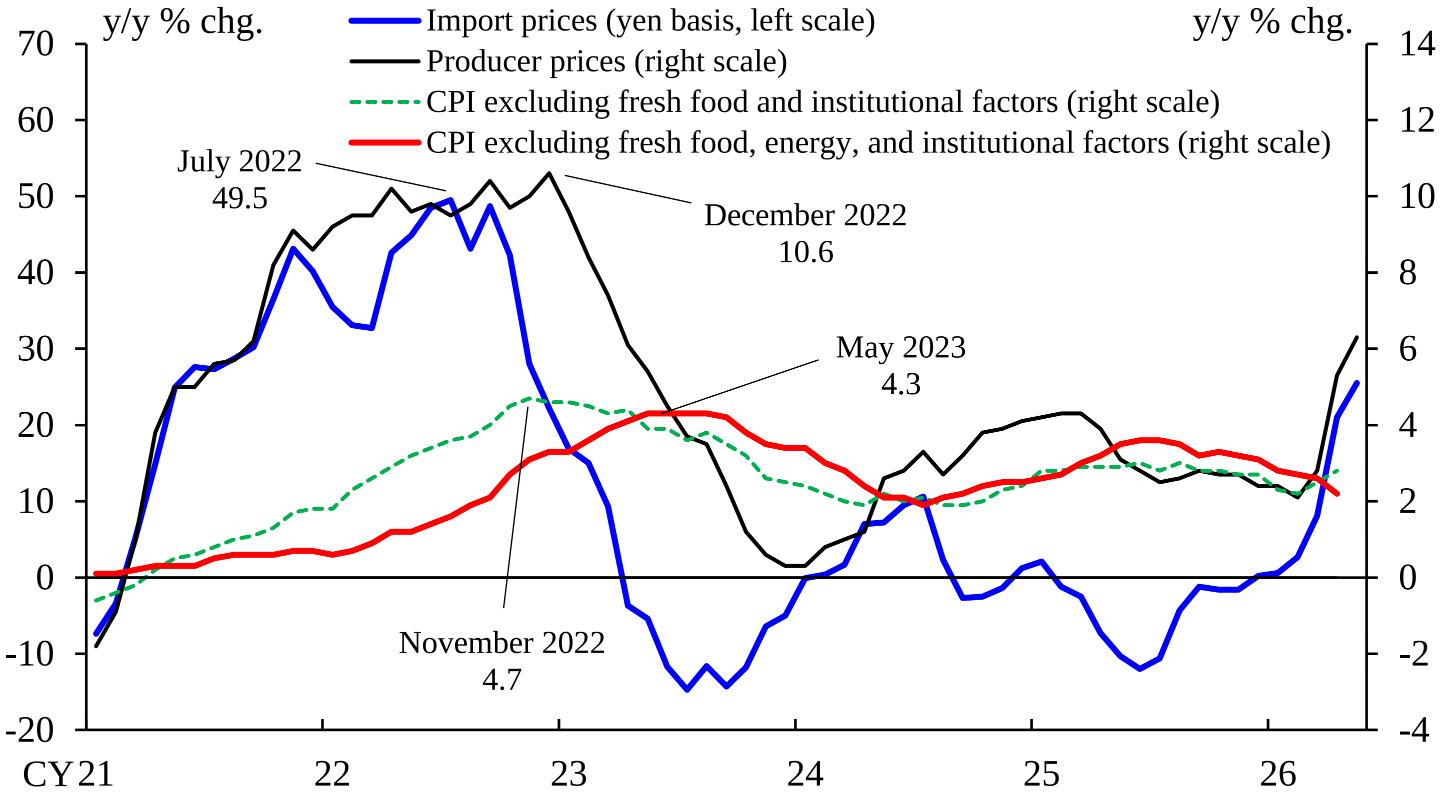
Employment Conditions DI



	June 2025	September 2025	December 2025	March 2026
All industries	-35	-36	-38	-38
Manufacturing	-22	-24	-25	-28
Non-manufacturing	-44	-44	-46	-45

Note: Figures are based on the *Tankan*, and are for all enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Corporate Goods Prices and Consumer Prices

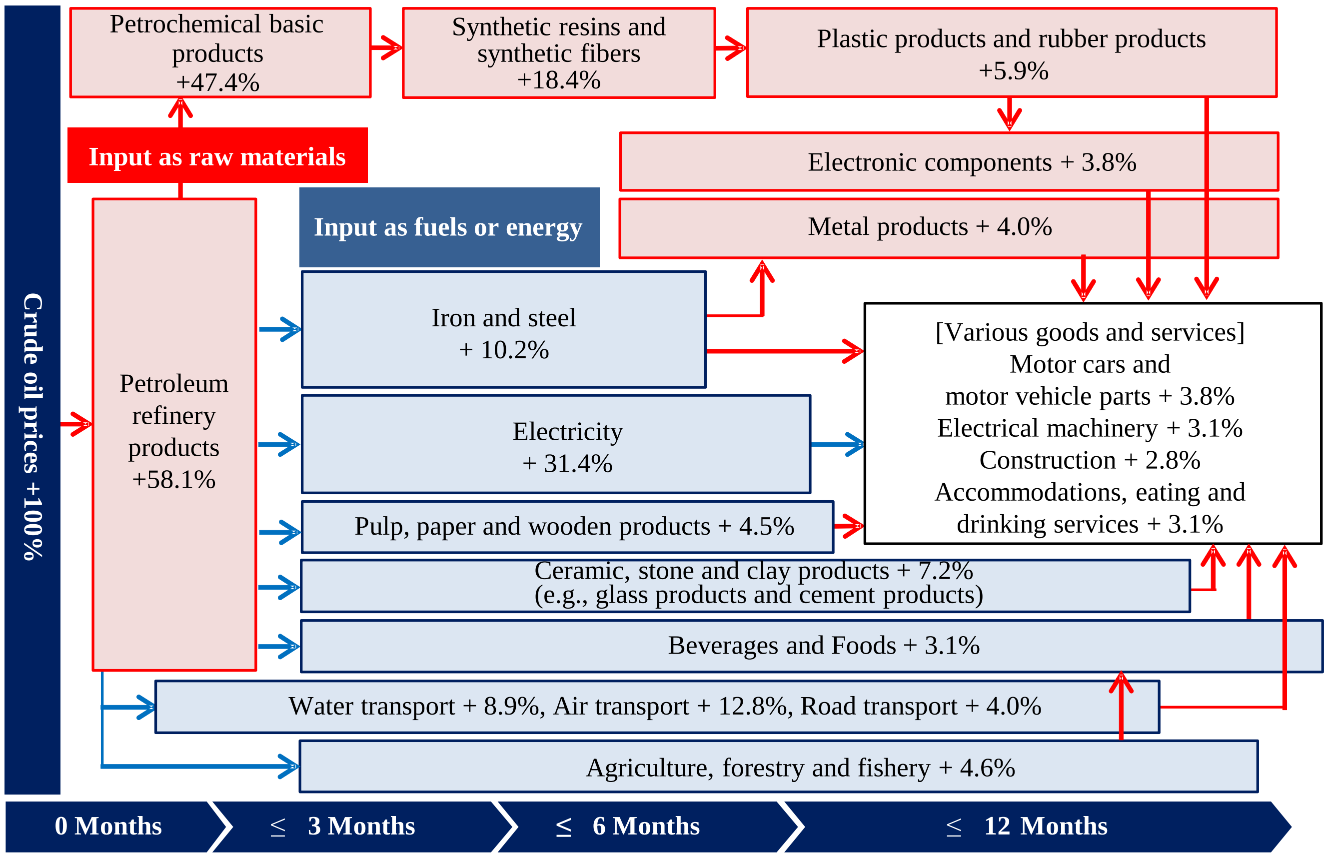


Note: Institutional factors include the effects of the consumption tax hike, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.

Sources: Ministry of Internal Affairs and Communications; Bank of Japan; etc.

Chart 12

The Pass-Through Lags of Corporate Transaction Prices



Notes: 1. Figures show the rate of price increase when prices in the "coal mining, petroleum and natural gas" sector increase by 100 percent.
2. 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.
3. 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; Nikkei NEEDS-Financial QUEST; Bank of Japan.

Change in the Guideline for Money Market Operations (June 2026 MPM)

Economic activity: developing generally in line with the baseline scenario

Japan's economy is expected to continue growing moderately, albeit at a decelerated rate.

Downward pressure on economic activity

- Higher crude oil prices reflecting the situation in the Middle East

Factors supporting economic activity

- High levels of corporate profits and improvement in the employment and income situation

Reduced risk of a significant slowdown in the economy

- The effects of the government's initiatives including measures to reduce the household burden of higher energy prices
- Progress in securing alternative sources of supply for raw materials that are highly dependent on the Middle East

Prices: risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent

Inflationary pressure stemming from the rise in crude oil prices

- Relatively fast pace of price pass-through in business-to-business transactions
- The price pass-through could spread to an increase in consumer prices across a wide range of items
- Continued rise in medium- to long-term inflation expectations

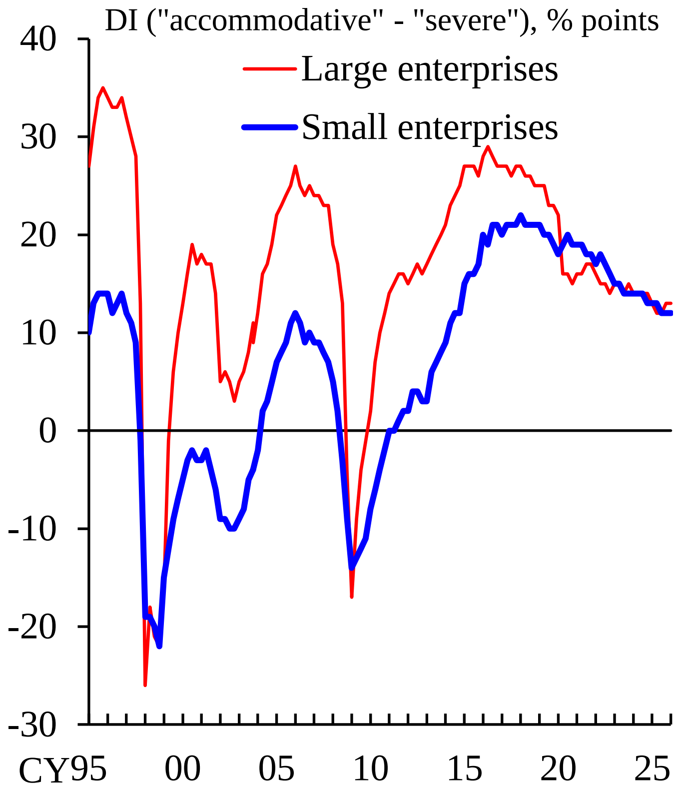
Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate : raised to "around 1.0%"
(uncollateralized overnight call rate) (previously "around 0.75%")

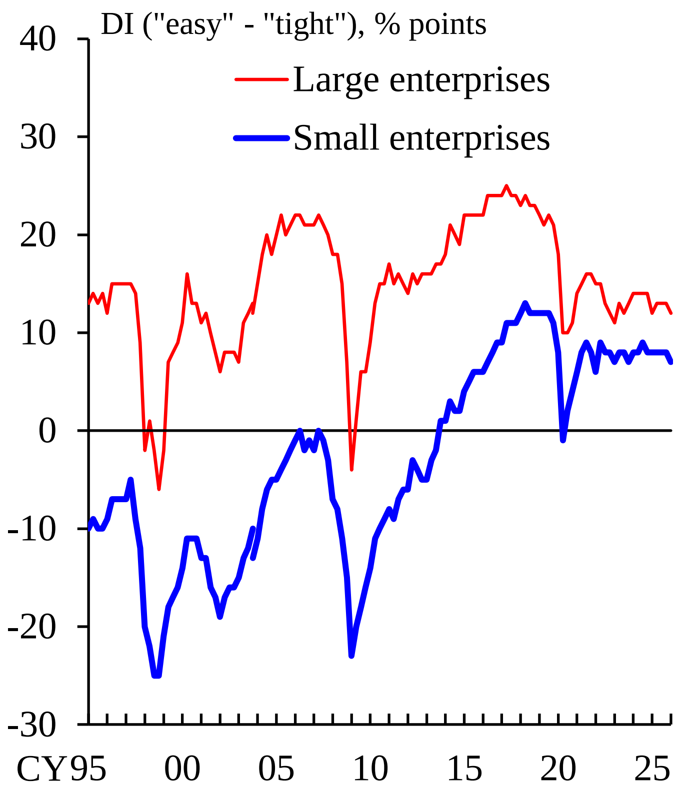
- Accommodative financial conditions are expected to be maintained, continuing to firmly support economic activity.
- The Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions.
- The Bank will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario and the risks to the outlook.

Lending Attitudes of Financial Institutions and Firms' Financial Positions

Lending Attitudes of Financial Institutions as Perceived by Firms



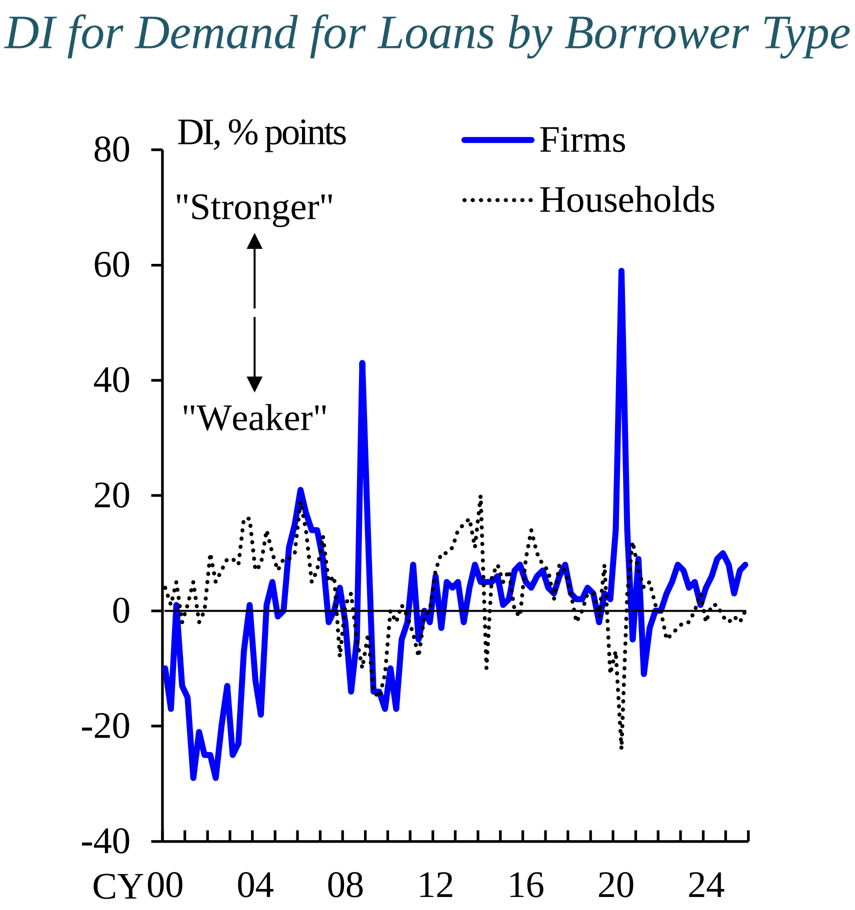
Firms' Financial Positions

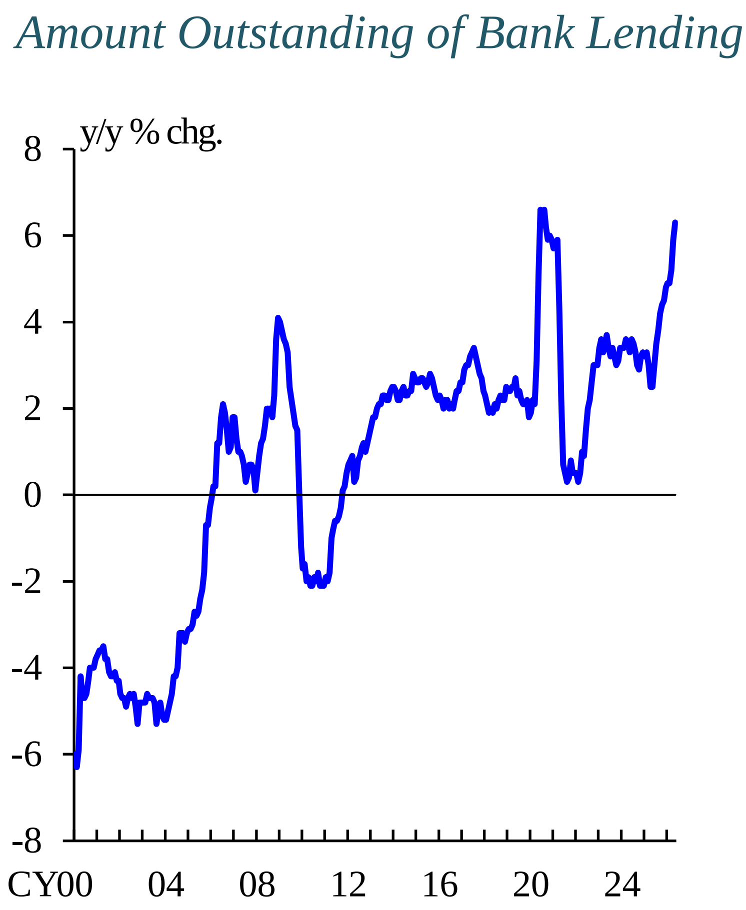


Note: Figures are based on the *Tankan*, and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Source: Bank of Japan.

Demand for Funds



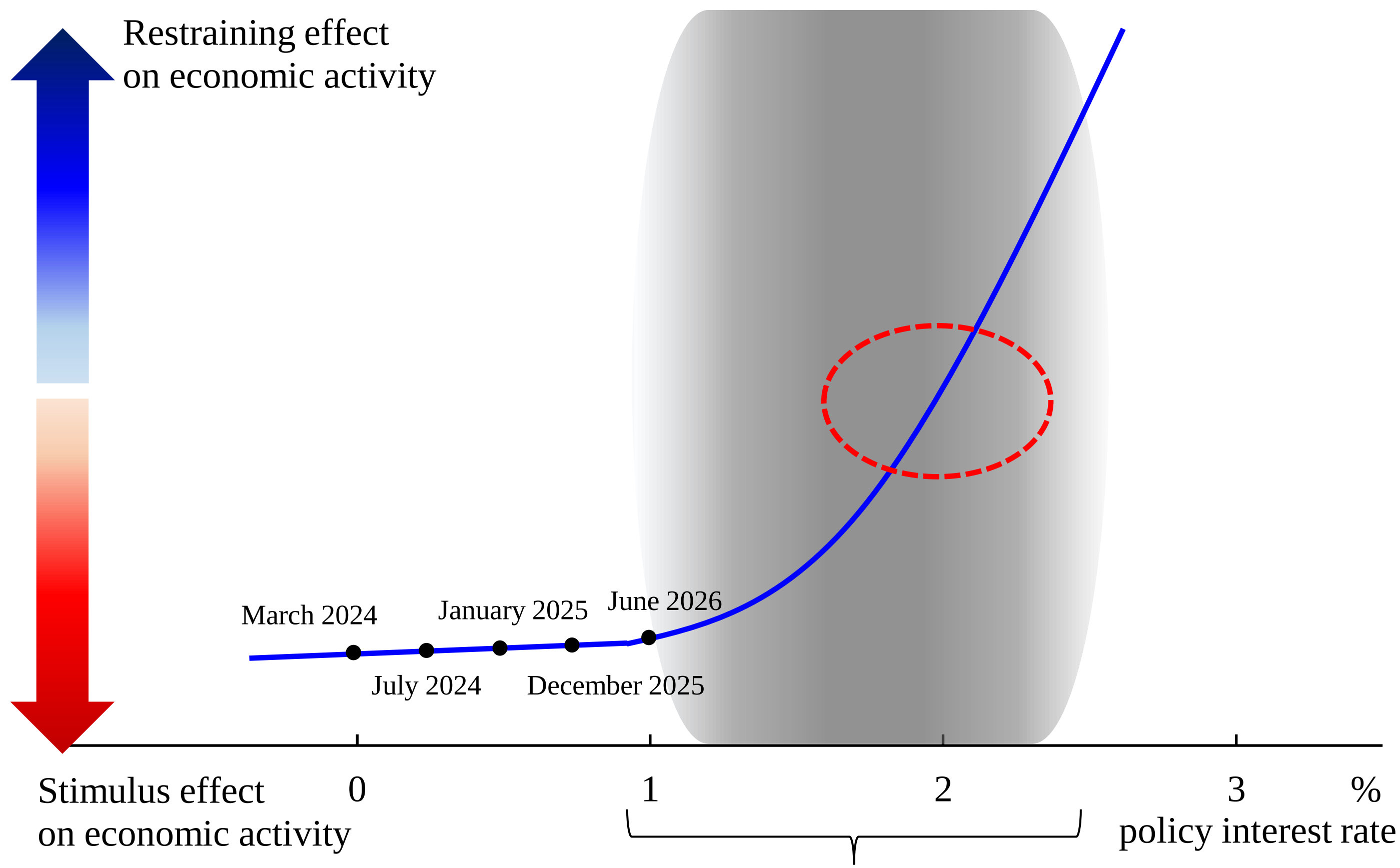


Notes: 1. Figures in the left panel are based on the *Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks*, and indicate changes in demand for loans over the past three months. DI for demand for loans = (percentage of respondents selecting "substantially stronger" + percentage of respondents selecting "moderately stronger" × 0.5) - (percentage of respondents selecting "substantially weaker" + percentage of respondents selecting "moderately weaker" × 0.5).

2. Figures in the right panel are monthly averages.

Source: Bank of Japan.

Effects of the Policy Interest Rate on Economic Activity: A Visual Overview Based on Experience as a Financial Practitioner



Determining the level of the neutral interest rate requires an examination of the response of economic activity and prices as well as financial conditions.

Bank of Japan Act

(Purpose)

Article 1

(1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.

(2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

(The Principle of Currency and Monetary Control)

Article 2

The Bank of Japan conducts currency and monetary control, aiming at achieving price stability, thereby contributing to the sound development of the national economy.

(Respecting the Autonomy of the Bank of Japan and Ensuring Transparency)

Article 3

(1) The Bank of Japan's autonomy regarding currency and monetary control must be respected.

(2) The Bank of Japan must endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control.

(Relationship with the Government)

Article 4

Taking into account the fact that currency and monetary control is a component of overall economic policy, the Bank of Japan must always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy are mutually compatible.

Plan for the Outright Purchases of JGBs (June 2026 MPM)

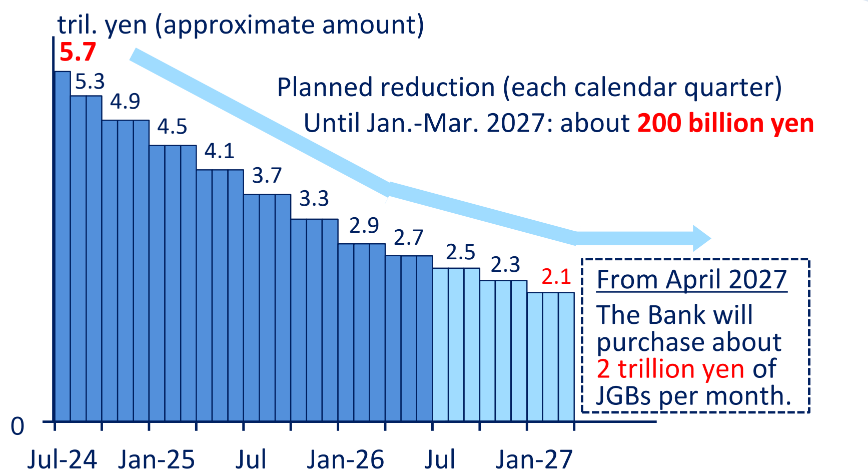
1. In principle, long-term interest rates are to be formed in financial markets.
2. It is appropriate for the Bank to conduct the purchases of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets.

➢ Based on this thinking, with a view to improvement of market functioning and stability of the JGB markets, the Bank will conduct the outright purchases of JGBs as follows.

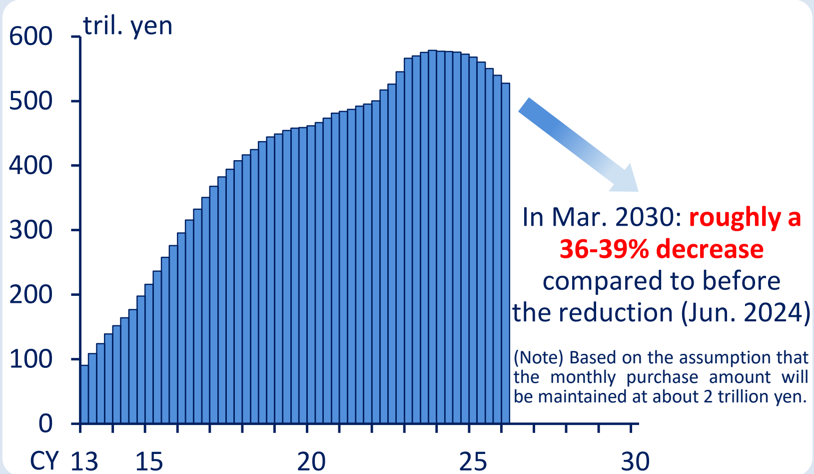
- Until January-March 2027 : The Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter (the reduction plan decided in June 2025 will be maintained).
- From April 2027 : The amount of its monthly purchases of JGBs will be about 2 trillion yen.

Purchases of JGBs in a Predictable Manner

Amount of monthly JGB purchases



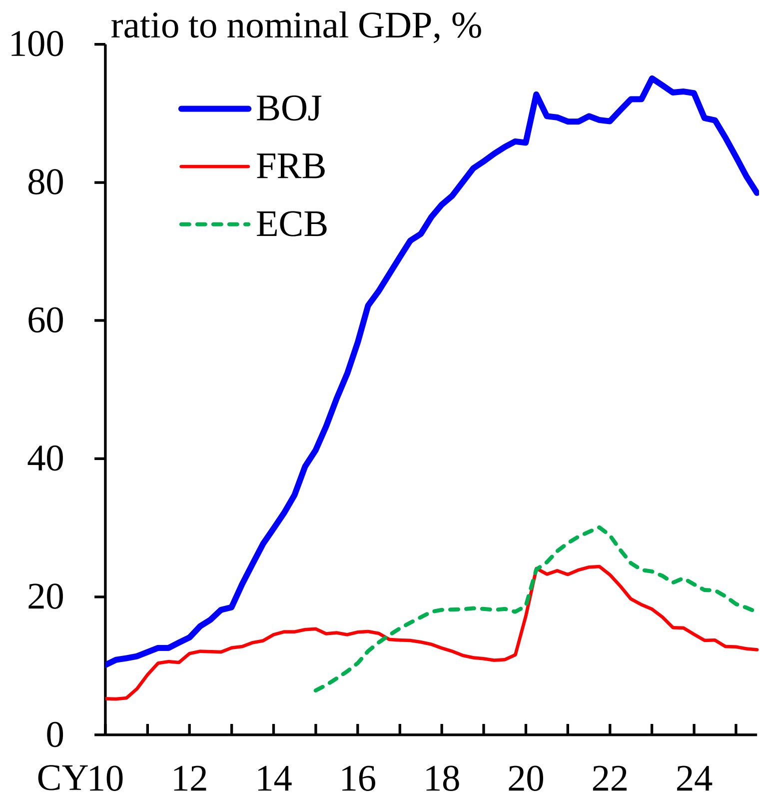
The Bank's JGB holdings



Allowing Enough Flexibility

1. 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.
2. The Bank is prepared to amend the pace of its JGB purchases at the MPMs, if deemed necessary, taking into account the basic thinking on the purchases of JGBs and other factors such as developments in the JGB markets.

Government Bond Holdings of Major Central Banks



Sources: Cabinet Office; Eurostat; Federal Reserve Board; U.S. Bureau of Economic Analysis; Bank of Japan.