Japan's Economy and Monetary Policy

Speech at a Meeting with Local Leaders in Saitama

August 27, 2026

HIMINO Ryozo

Deputy Governor of the Bank of Japan

Chart 1

How Four Factors Affect Economic Activity and Prices

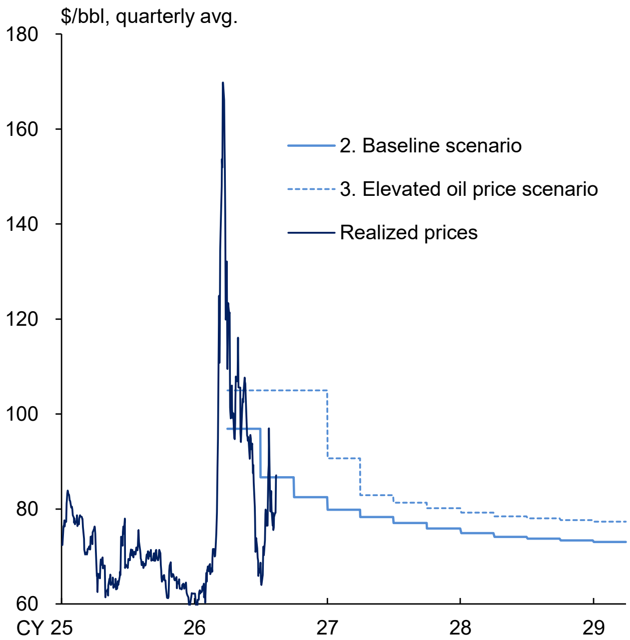
	Impact on economic activity	Impact on prices
Rise in crude oil prices stemming from the Middle East conflict	⇩	⇧
Increase in AI-related demand	⇧	⇧
Depreciation of the yen	⇧⇩	⇧
Accommodative financial conditions	⇧	⇧

Chart 2

Oil Price Scenarios in the April 2026 Outlook Report

Scenarios	Assumptions
1. Rapid resolution scenario	Tension over the situation in the Middle East will ease swiftly, leading to a faster-than-expected decline in crude oil prices.
2. Baseline scenario	In line with expectations in futures markets, Dubai crude oil prices will decline from around 105 U.S. dollars per barrel to the range of around 70-80 dollars per barrel toward the end of the projection period (FY 2026 to 2028).
3. Elevated oil price scenario	Dubai crude oil prices remain at a high level of around 105 U.S. dollars per barrel through the end of CY 2026.
4. Supply chain disruption scenario	Firms' production activity will decline further due to large-scale disruptions in supply chains.

Scenarios and Realized Prices



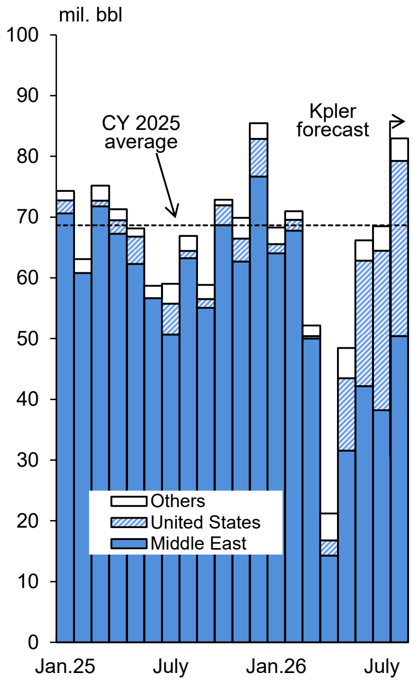
Note: The scenarios in the left-hand table summarize those presented in the April Outlook Report. Scenario 1 corresponds to the last risk regarding the situation in the Middle East on pages 6-7; Scenario 2 corresponds to the assumption for the baseline scenario described in footnote 2, and is also shown as the baseline scenario in Chart B3-1; Scenario 3 corresponds to the first risk on page 5 and the risk scenario shown in Chart B3-1; and Scenario 4 corresponds to the second risk referred to on page 6.
Sources: Bank of Japan; Bloomberg; Nikkei Inc.

Chart 3

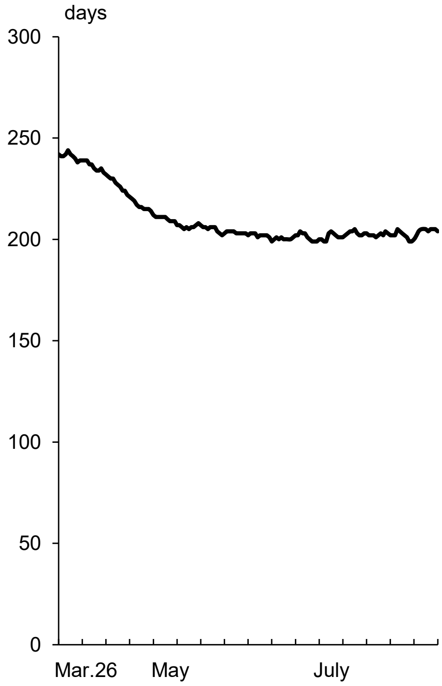
Alternative Procurement of Crude Oil

Progress in Alternative Procurement

For April	Approximately 25% of the required quantity procured (Expanded procurement sources beyond the Middle East and the United States to include Central and South America as well as the Asia-Pacific region)
For May	Approximately 60% (Expanded procurement sources to include Central Asia)
For June	Approximately 80% (Expanded procurement sources to include Africa)
For July	Approximately 100% (In particular, procurement from the United States was more than ten times the average monthly volume of the previous year)



Japan's Petroleum Reserves



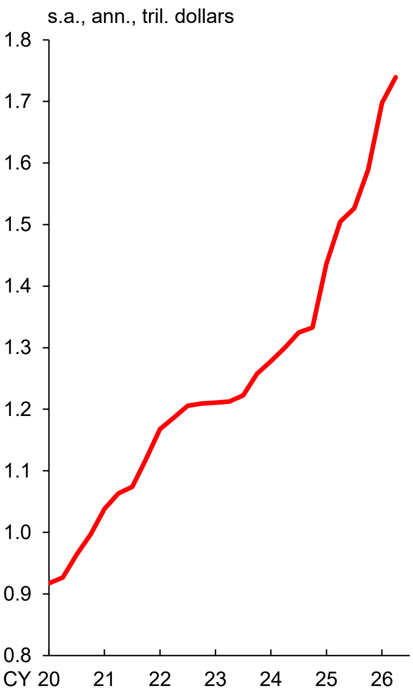
Notes: 1. In the middle chart, the Kpler forecast is based on past vessel movements and other data (as of August 21), and is subject to revision.
2. In the right-hand chart, the figures for petroleum reserves from June 29 onwards are based on preliminary estimates from the Ministry of Economy, Trade and Industry.

Sources: Ministry of Economy, Trade and Industry; Cabinet Office, "Annual Report on the Japanese Economy and Public Finance 2026"; Kpler.

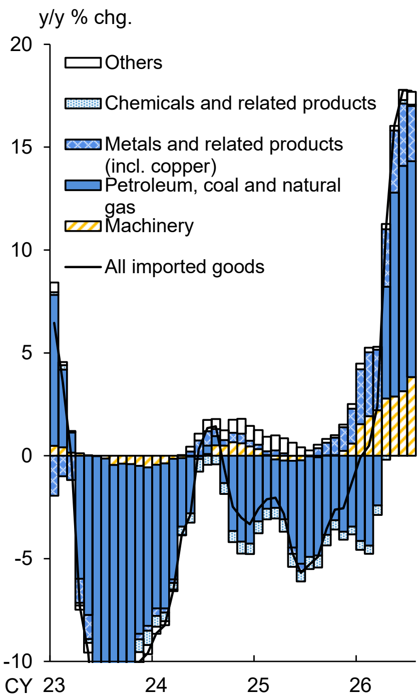
Chart 4

Increase in Global AI-Related Demand

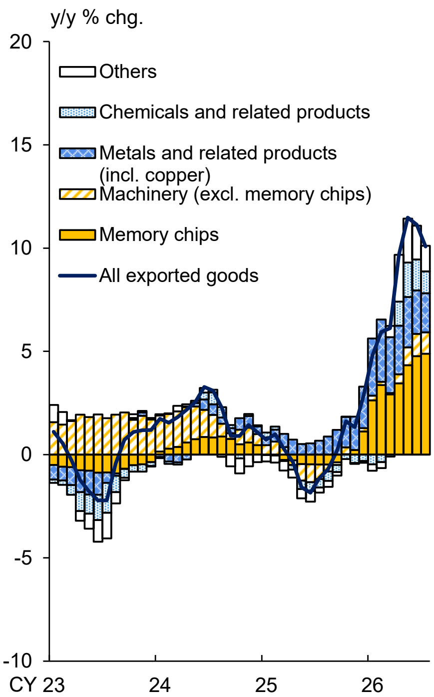
IT-Related Fixed Investment in the United States



Japan's Import Prices (Contract Currency Basis)



Japan's Export Prices (Contract Currency Basis)

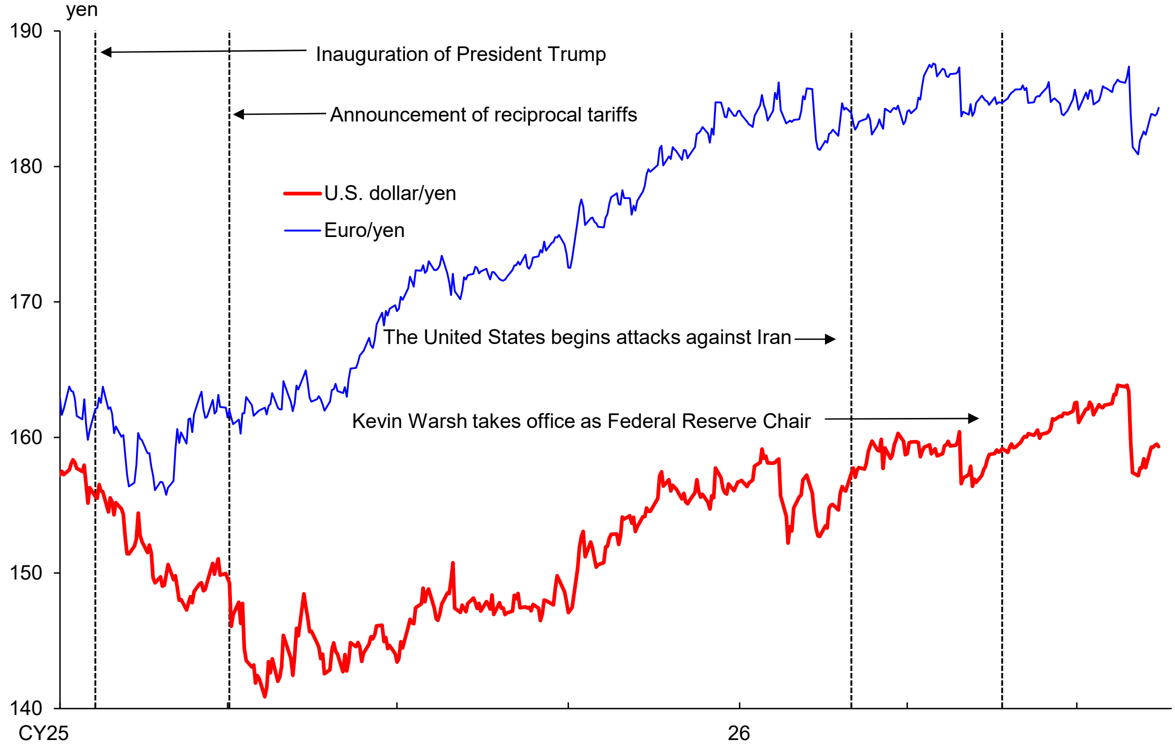


Note: In the left-hand chart, IT-related fixed investment is the sum of software investment, information processing equipment (within machinery investment), and data centers (within construction investment). Figures are in real terms.

Sources: Bank of Japan; Haver.

Chart 5

Foreign Exchange Markets

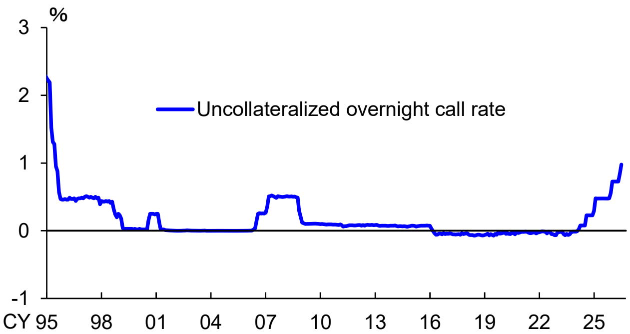


Source: Bloomberg.

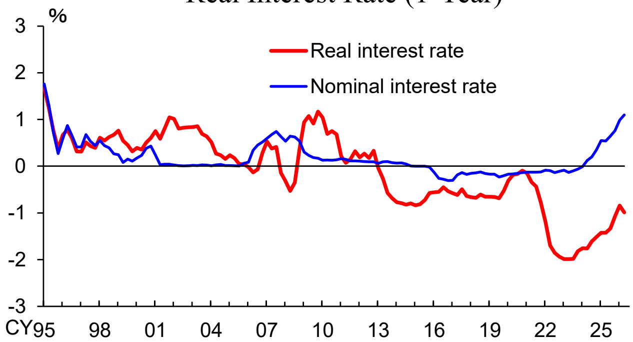
Chart 6

Financial Conditions

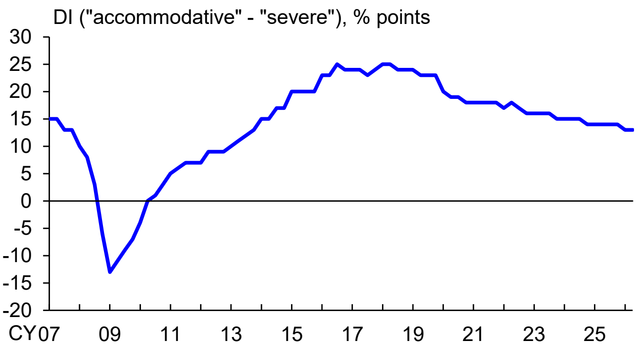
Bank of Japan Policy Rate



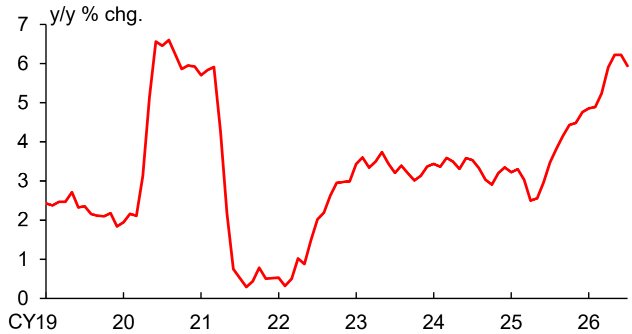
Real Interest Rate (1-Year)



Lending Attitudes as Perceived by Firms (*Tankan*)



Growth in Outstanding Bank Lending



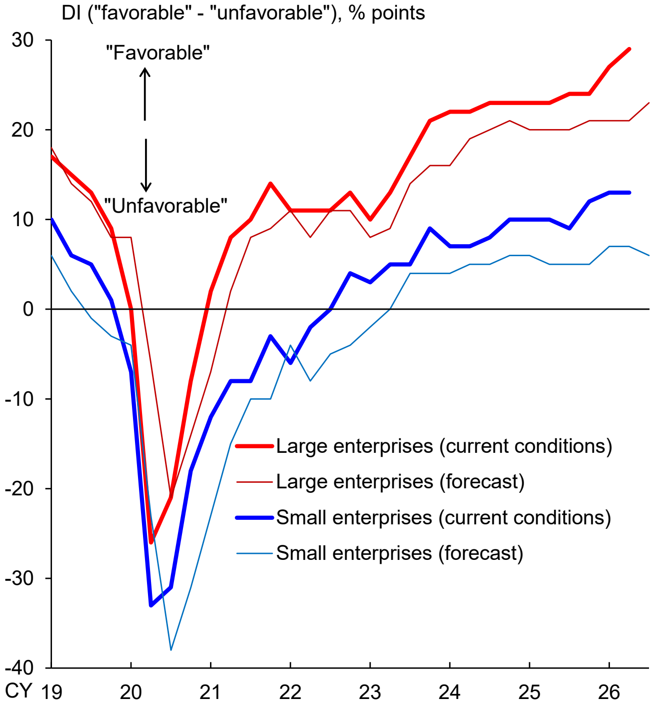
Notes: 1. Regarding the top-left chart, from 1998, the uncollateralized overnight call rate was explicitly designated as the target for money market operations. From March 2001 to March 2006, the target was the outstanding balance of current accounts held at the Bank of Japan. From April 2013 to September 2016, the monetary base was the target. From September 2016 to March 2024, the interest rate applied to the Policy-Rate Balances of current accounts held by financial institutions at the Bank was set as the short-term policy interest rate.
2. In the top-right chart, figures for the real interest rate are calculated as government bond yields (1-year) minus the composite index of inflation expectations (staff estimates).
3. In the bottom-right chart, figures represent the monthly average of lending by domestic commercial banks.

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

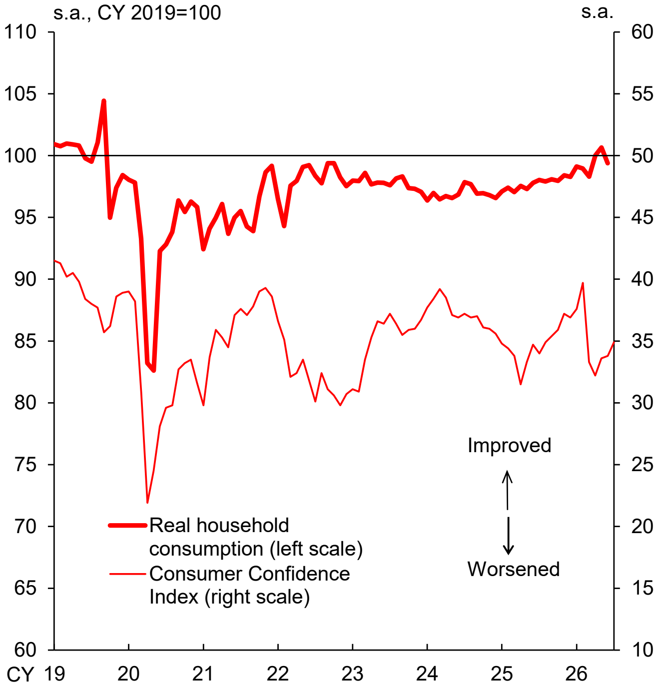
Chart 7

Economic Activity

Business Conditions (*Tankan*)



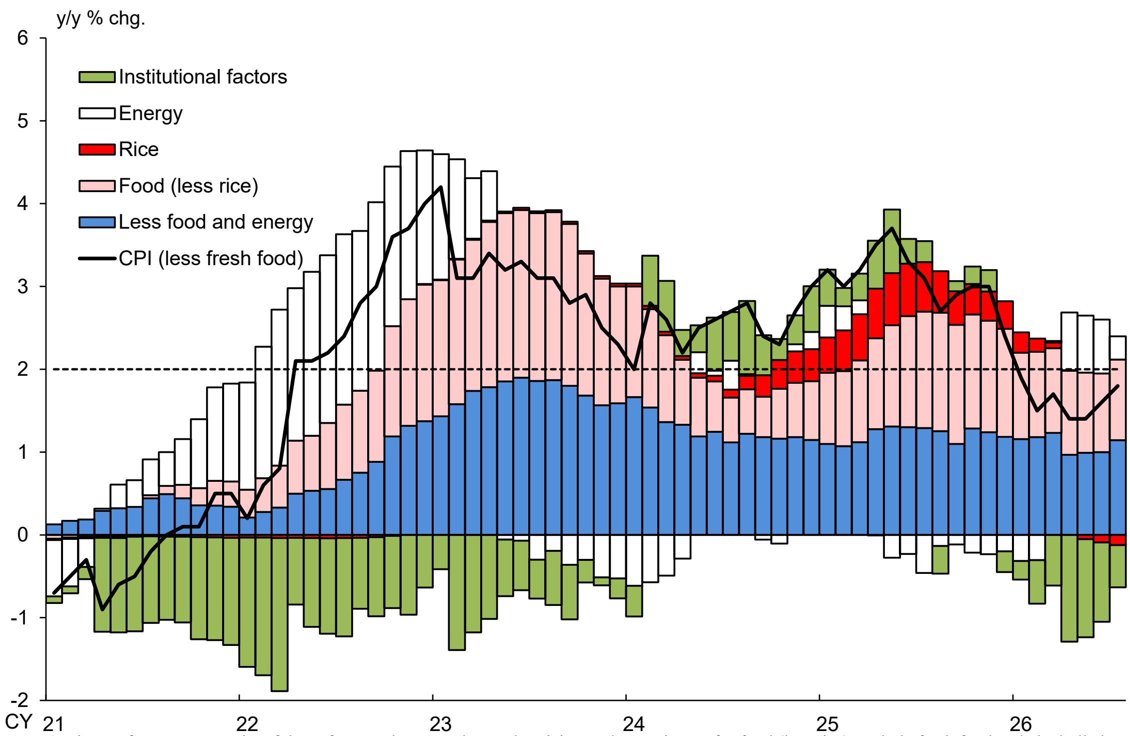
Household Consumption



Note: In the right-hand chart, figures for real household consumption are the real Consumption Activity Index (travel balance adjusted), excluding inbound tourism consumption and including outbound tourism consumption (staff calculations).
Sources: Cabinet Office; Bank of Japan.

Chart 8

Consumer Price Inflation



Notes: 1. Figures for energy consist of those for petroleum products, electricity, and gas. Figures for food (less rice) exclude fresh food and alcoholic beverages.
2. Institutional factors are the sum of the effects of the consumption tax rate change and policies concerning the provision of free education (including the free school lunches starting in April 2026), 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.

Sources: Ministry of Internal Affairs and Communications, etc.

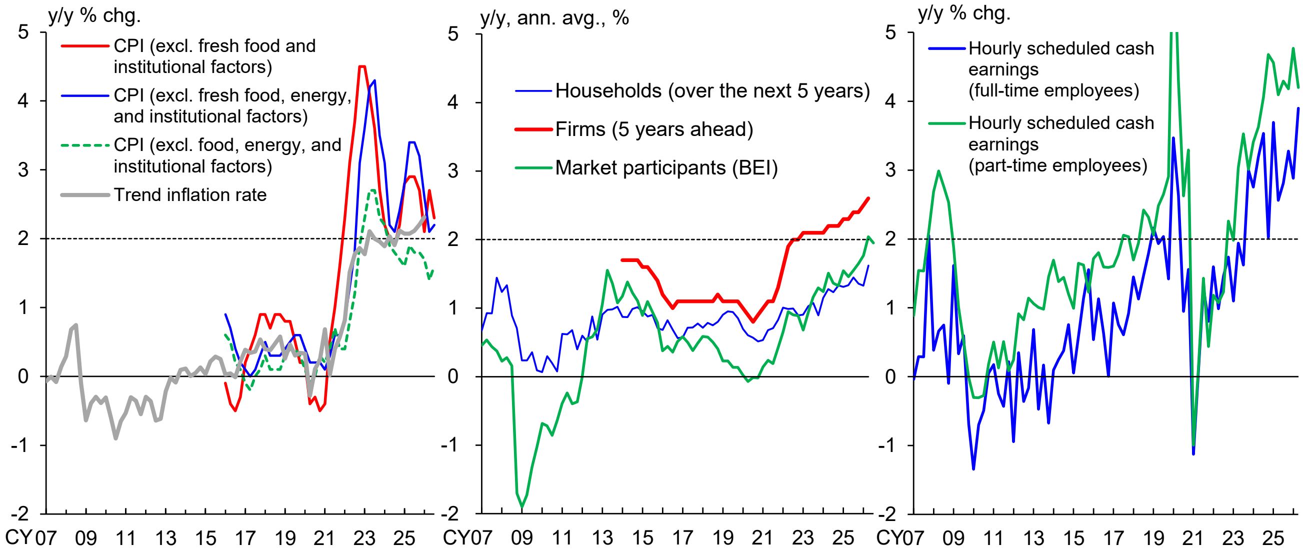
Chart 9

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."

2. In the middle chart, 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 observations common to samples before and after 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; Bloomberg.

Chart 10

The Bank's July 2026 Outlook Report

As for the conduct of monetary policy, given that underlying CPI inflation has been approaching 2 percent and financial conditions have been accommodative, 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, it will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates.

In particular, the perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important in order to keep the risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent from materializing and thereby exerting an adverse impact on the economy afterward.

With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate from the perspective of sustainable and stable achievement of the target.

II. Monetary Policy

Chart 11

Monetary Policy Transmission

Policy rate hike ▽ — One year later ▽ — Two years later ▽

△ Market interest rates, including the uncollateralized overnight call rate

△ Interest rates on market rate-linked loans

▢ Deposit rates

▢ Short-term prime rates

▢ Base rates for new mortgage loans

▢ Applicable interest rates for existing floating-rate mortgage loans

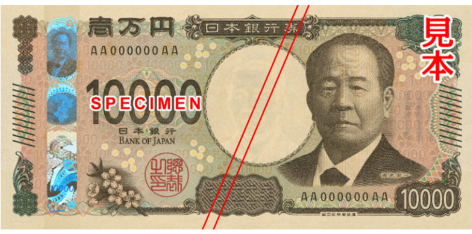
Impact on economic activity and prices

Notes: 1. Regarding the timing of increases in deposit rates, short-term prime rates, and mortgage loan interest rates, the chart provides a rough illustration of the timing of rate revisions based on information gathered through hearings conducted after the policy interest rate hike in December 2025. The timing may vary depending on (i) the timing of the policy rate hike and the reference month for rate revision, and (ii) decisions made by individual banks.
2. For floating-rate housing loans with equal principal and interest payments, rules to prevent a rapid hike in payments are often applied, including the "5-year rule," which delays changes in the monthly repayment amount, and the "125 percent rule," which caps an increase in the monthly repayment amount.

Conclusion

Chart 12

Shibusawa's Role in the Development of the Yen



	Development of the currency system in the Meiji era
1871 (Meiji 4)	New Currency Act Abolition of the feudal domain system … introduced new currency units (*yen*, *sen*, *rin*) … collected old currencies issued by feudal domains
1872 (Meiji 5)	National Bank Act … allowed to establish private banks … amended in 1876 (Meiji 9) to allow private banks to issue inconvertible banknotes
1882 (Meiji 15)	Bank of Japan Act of 1882 … established the Bank of Japan as the central bank
1883 (Meiji 16)	Amendment of the National Bank Act … ended the issuance of banknotes by private banks

The problem was, as I have previously mentioned, that each private bank chartered under the National Bank Act then held the right to issue banknotes. Even upon the expiration of their business term in twenty years, such banks could maintain this right should they choose to extend their operations. This posed the issue that the banknotes issued by the central bank might be perceived on equal footing with those of the private banks, thereby failing to inspire confidence and secure general acceptance among the public. Thus, it was deemed indispensable to mandate that all national banks cease their issuance of banknotes upon the expiration of their charter.
On the occasion, I exerted considerable effort to address this matter, persuading Messrs. Rin'nosuke Yamanaka and Zenjiro Yasuda, who are highly calculating, and others, while also prevailing upon Mr. Miwa, who was opposed to the move, to give his consent. . . . The transition was successfully achieved in 1883 without any particular controversy, based just on directions. It scarcely drew the attention of the general populace, but was a profound reform. . . .

-- "Uyatankai danwa hikki: Dai nana kai" [Record of gatherings for rainy-night talks: The seventh meeting] in *Shibusawa Eiichi denki shiryō: Bekkan* [Collected biographical materials of Eiichi Shibusawa: Supplement], vol. 5.