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Economic Activity, Prices, and Monetary Policy in Japan

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(English translation based on the Japanese original)

I. Economic Activity and Prices

I will begin with developments in economic activity and prices.

Overseas economies have grown moderately on the whole. Regarding the U.S. economy, despite initial concerns that domestic demand might decline due to the impact of wide-ranging tariffs imposed in April 2025 by the Trump administration, the actual impact has been limited. Specifically, although there was a slowdown in U.S. employment in 2025, it has been heading toward improvement in 2026, and corporate profits for IT-related firms in particular have also improved. In 2025, in light of the slowdown in employment, the Federal Reserve cut its policy interest rate in September, October, and December (Chart 1). While the Federal Open Market Committee (FOMC) participants' projections for the federal funds rate suggested further rate cuts as of the beginning of 2026, they have shifted to suggesting potential rate hikes since the middle of 2026. From the start of 2025, what might be called a "north wind" policy predominated in the United States -- i.e., a policy that, like the north wind in Aesop's fable, tends to favor pressure over persuasion, as represented by U.S. tariff policy in particular. Such a policy has a negative impact on economic growth. However, in 2026, given tax cuts and the expansion in investment spurred by deregulatory initiatives, the situation in the United States appears to be shifting to a "sun" policy, which prefers persuasion and has a positive impact on economic growth.

Global Economic Environment in 2026: Movement Toward Recovery Beginning to Gain Momentum

I expect that the global economic environment will go through a shifting phase in 2026, in which the movement toward recovery begins to gain momentum. This view is grounded in the fact that economies around the world simultaneously adopted the same policy direction, namely, they employed expansionary monetary and fiscal policies. In addition to the macroeconomic perspective, from a structural perspective, increased investment fueled by the global AI boom is expected to bring about an uplift in economic activity. The present circumstance is similar to the period six years ago, in 2020, when economic stimulus measures from both monetary and fiscal sides were adopted simultaneously around the world during the COVID-19 pandemic. Today, the worldwide harmonization of economic policies -- or, the synchronization of economic cycles -- stems from the alignment of macroeconomic

policies and from the AI boom. Chart 2 shows that monetary policy worldwide has been synchronized since 2020, divided into four phases. After simultaneous policy interest rate cuts in 2020-2021, the global trend shifted to a phase of monetary tightening in 2022-2023. Subsequently, the various countries and regions went through a phase of monetary easing during 2024-2025, cutting policy interest rates in a synchronized manner. In 2026, the trend has been shifting to policy interest rate hikes. As shown in Chart 3, fiscal expansion has taken place in regions such as the United States, Europe, and China, producing expansionary effects in combination with monetary accommodation.

Japan's Economic Environment in 2026: No Marked Slowdowns

In 2025, the impact of U.S. tariff policy was initially expected to push down Japan's economy. The surge in crude oil prices reflecting the situation in the Middle East in 2026 was also expected to push down the economy due to a deterioration in the terms of trade. The economic outlook for Japan from 2025 may be likened to a "planned suspension" of public transportation, in that the outlook was revised downward preemptively in anticipation of being hit by the "typhoon" of reciprocal tariffs beginning in April 2025 under the Trump administration and of the situation in the Middle East in 2026 (Chart 4). In reality, however, Japan's economy has not shown marked slowdowns so far. With wage increases catching up with higher prices, the year-on-year rate of change in real wages has recently turned positive (left panel of Chart 5). When the turmoil in the Middle East first broke out, sentiment indicators in Japan plunged, driven by fear akin to "Knightian uncertainty," where the probability distribution is unknown. Recently, however, this fear has subsided as the uncertainty has turned into foreseeable risks.

The Situation in the Middle East and Lessons from the 1970s Oil Crisis: Concerns over Second-Round Effects

Some say that the recent surge in oil prices reflecting the situation in the Middle East is the most significant since the oil crisis of the 1970s. As I entered university in 1978, an experience that influences my economic forecasts is the oil crisis of the 1970s. Looking back, the first oil crisis in 1973 saw second-round effects of price rises resulting in runaway inflation. By contrast, during the second oil crisis starting in 1979, second-round effects were contained. The difference between the first and second oil crisis can be attributed to whether or not there

were second-round effects and "home-made" inflation. Specifically, the following four points made the difference: (1) monetary and fiscal policies to manage aggregate demand; (2) restraint in wage increases; (3) restraint in price pass-through; and (4) behavioral changes, including energy saving.

The current economic environment in Japan in relation to these four points is as follows. First, with regard to monetary and fiscal policies, the real policy interest rate has been negative and fiscal policy has also been accommodative. Second, regarding wage increases, these have been firm, because of base pay increases in 2026 that are at high levels comparable to those in 2025 and because of the government's target for raising the minimum wage. The 2026 annual spring labor-management wage negotiations marked a high level of wage growth, as shown in the right panel of Chart 5, and no signs of a deceleration in the wage growth rate have been seen since. Given the high levels of wage increases for three consecutive years in 2024, 2025, and 2026, the expectation is that wage hikes will continue and take hold in 2027. Third, as for price pass-through, government initiatives to encourage firms to pass on cost increases to prices have been introduced, including the implementation this year of the Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment.[1] The annex paper to the Bank's *Regional Economic Report* released in May 2026 points out that the trend of price revisions to pass on various cost increases, including higher personnel expenses, to selling prices has been spreading steadily.[2] Fourth, with regard to energy saving, the government continues to take measures to hold down the rise in electricity charges and gasoline prices through subsidies,

[1] Effective from January 1, 2026, the Subcontract Act has been revised and renamed the Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment, commonly known as the Fair Transactions Act. The revision expands the scope of applicable transactions and business operators, strengthens measures to ensure fair dealings in transactions involving small and medium-sized entrusted business operators, and enhances protections for the interests of small and medium-sized subcontracting firms.

[2] For more details, see the annex paper to the *Regional Economic Report*, "Chiiki no shōhi kanren kigyō no kakaku settei kōdō no henka to 2026 nendo no kakaku kaitei hōshin" [Changes in price-setting behavior of and price revision plans for fiscal 2026 at regional consumer-facing firms], Bank of Japan, May 15, 2026 (available only in Japanese). A similar discussion is presented in Box 3 of the July 2026 *Outlook for Economic Activity and Prices*, Bank of Japan.

enabling the use of energy as usual. These four factors could contribute to generating potential second-round effects.

The year-on-year rate of increase in the producer price index (PPI) has already risen to 7.2 percent, as of the July 2026 index, and there are upside risks to prices, with more firms passing upstream price increases on downstream (Chart 6). With price pass-through becoming standard practice, as indicated in the aforementioned annex paper to the *Regional Economic Report*, I am paying attention to the fact that firms' and households' perceptions of price pass-through have changed significantly compared with 2022, and that pass-throughs have been occurring at a faster pace. Through the second half of fiscal 2026, the rise in producer prices upstream will likely spread to consumer prices downstream, posing upside risks to prices. Moreover, as the accumulated experience of inflation since 2022 has led to an increase in medium- to long-term inflation expectations, the recent depreciation of the yen and the situation in the Middle East could also drive a further rise in inflation expectations, generating upside risks to prices.

Assessment of Five Factors of Concern Regarding an Economic Slowdown Reflecting the Situation in the Middle East: Unlikely to Exert Downward Pressure

Since the announcement of reciprocal tariffs in April 2025, I have focused on whether or not U.S. tariff policy will dampen the momentum toward achieving the price stability target in Japan. In 2026, I have paid attention to whether the surge in crude oil prices reflecting the situation in the Middle East will exert downward pressure on the economy. In examining the transmission channels to Japan's economy of the impact of U.S. tariff policy from 2025 and of the situation in the Middle East in 2026, I have paid attention to the following five points. First, whether business fixed investment will weaken, due to heightened uncertainty. Second, whether exports will become sluggish, given a global economic slowdown. Third, whether a decline in corporate profits will restrain the momentum for wage increases, while also restraining selling prices. Fourth, whether energy-related products will face supply-side constraints. And fifth, whether the yen will appreciate amid speculation over various policies of the U.S. administration, thereby pushing down corporate profits and import prices, and whether Japan's economy will run the risk of returning to deflation.

With regard to these five points, on the first point, no notable downward revisions were seen in business fixed investment plans in the June 2026 *Tankan* (Short-Term Economic Survey of Enterprises in Japan). What caught my attention in particular was that investment plans for large manufacturers, which are susceptible to the impact of overseas developments, remained at high levels. High levels of fixed investment plans were also indicated in the *Survey on Planned Capital Spending* for fiscal 2026 released in August by the Development Bank of Japan (DBJ). Manufacturers in a wide range of industries were expecting investments related to AI and data centers, while nonmanufacturers' plans reflected the impact of increased electricity demand.

In relation to the second point, the global economy is heading toward a recovery trend in 2026. With an expansion in investment and demand shocks, particularly related to AI, business performance is projected to improve on a global scale, and the deterioration in the terms of trade reflecting rising prices of energy-related products is expected to subside, including in Japan. Charts 7 and 8 show changes in the terms of trade for each economy compared with the period following Russia's invasion of Ukraine in 2022. A deterioration in the terms of trade was initially expected for net importers of crude oil such as Japan and South Korea. However, in South Korea, a rise in export prices driven by demand shocks, particularly related to AI, has led to a significant improvement in the terms of trade. For Japan, while the improvement has not been as pronounced as in South Korea, the global expansion of AI-related demand has driven up export prices of electric and electronic products such as memory chips, and the deterioration in the terms of trade has been limited so far compared with 2022 and 2023, when the economy was affected by the situation in Ukraine (Chart 9). The United States, which has a significant impact on the global economy, has transitioned to a net exporter of crude oil following the shale revolution, and has seen an improvement in its terms of trade. As a result, employment in the United States, which had been a concern due to its deterioration until 2025, has been heading toward improvement in 2026. Given this, the U.S. economy is expected to recover, along with support from fiscal factors including tax cuts and from AI-driven wealth effects. Stock prices have been renewing historical highs around the world in 2026, including in Japan, the United States, Canada, the Netherlands, Sweden, Taiwan, and South Korea. In sum, while concerns over an economic slowdown initially emerged, these concerns have subsided.

As for the third point, corporate profits, including those of exporting firms, have not shown a notable decline, and the improvement in firms' financial results for the April-June quarter of 2026 has exceeded expectations. The improvement in the financial position of Japanese firms as a result of longstanding business restructuring has made them more resilient to global shocks. As shown in the left panel of Chart 10, corporate profits have increased more than tenfold over the 25 years since the second half of the 1990s, reaching their highest level on record of around 90 trillion yen. Japanese firms have built up resilience against shocks by lowering their break-even points over more than three decades to withstand even the yen's appreciation brought about by trade friction. Moreover, the earnings revision index, which indicates the degree of revision to firms' earnings forecasts, has remained positive since July 2026 -- as shown in the right panel of Chart 10 -- and forecasts of corporate profits for fiscal 2026 are also expected to be revised upward. The results of the June 2026 *Tankan* show that more firms have raised their output prices, suggesting that Japanese firms have become more confident in achieving profitability by passing on cost increases to prices, including in the future (Chart 11). This could support possible wage hikes in 2027.

On the fourth point, regarding supply-side constraints, the risk of a significant slowdown in Japan's economy appears to have decreased compared with a while ago. This is mainly due to the effects of the government's measures to reduce the household burden of higher energy prices and progress in securing alternative sources of supply for raw materials. Looking back over the past half century since the oil crisis, my view is that "oil flows to the highest bidder" -- in other words, one can buy crude oil if one pays the price for it. Thanks to concerted efforts by the public and private sectors over the years, Japan has historically managed to secure the necessary amount of crude oil by raising its purchase prices.

I have been concerned about the fifth point, namely, the possibility that markets may become volatile depending on expectations for the U.S. administration's policies, but the U.S. economy has avoided deterioration. Although the Federal Reserve moved to cut the policy interest rate in 2025, markets are now factoring in potential rate hikes in 2026 because of the resilience of the U.S. economy.

In sum, my view on the five points of concern is that, as positive developments among firms in Japan have continued, overseas factors potentially constraining such developments have become unlikely to exert significant downward pressure. The initial consensus scenario was that the impact of the situation in the Middle East in 2026 would exert upward pressure on prices, but would exert downward pressure on the economy. However, my view is that, in reality, the scenario of a slowdown in Japan's economy has become less likely and fears of the economy returning to deflation have receded; I therefore believe that 2026 marks a new phase when it has become necessary to move the focus more to upswings in prices, in light of expectations that overseas economies will go through a shift in which the movement toward recovery begins to gain momentum. I will further explain the reasoning behind my thoughts next.

II. Recent Conduct of Monetary Policy: Why I Consider 2026 to Be a Turning Point

The Bank decided to raise the policy interest rate to around 1.0 percent at the June 2026 Monetary Policy Meeting (MPM). At the July MPM, I proposed that the Bank raise the policy interest rate to 1.25 percent. Although this is solely my personal view, I will explain the reasoning behind this proposal in the context of Japan's post-bubble economic history. Furthermore, I would like to point out that 2026 marks a significant turning point.

From the Long Post-Bubble "Frozen Era" to a New Phase in 2026

My current understanding of monetary policy conduct is that, while rate hikes were conducted at a moderate pace from 2024 to 2025, with two rate hikes a year, 2026 represents the start of a new phase, in which rate hikes will not be carried out at a fixed pace but will instead be conducted in a nimble manner. In considering what led me to this understanding, I would like to take a look back at three historical stages since the collapse of the bubble economy in the 1990s: (1) the "frozen era" -- that is, the prolonged period of post-bubble deflation from the 1990s; (2) the stage of unprecedented monetary easing from 2013 to 2019; and (3) the stage of policy rate normalization that began in 2020 (Chart 12). I would then like to take a detailed look at the third stage, starting in 2020.

Three Post-Bubble Stages: The "Frozen Era," Unprecedented Monetary Easing, and Policy Rate Normalization

Looking back at the three post-bubble stages since the 1990s, the first stage is the "frozen era." The starting point of Japan's long-term stagnation in the wake of the bubble economy was around 1990, and I believe that this stagnation was caused by two main factors: (1) asset deflation, and (2) a prolonged business environment in which it was difficult to depend on external demand due to, for example, the yen's appreciation that was brought about mainly by trade friction.

Chart 13 shows developments in the Nikkei 225 Stock Average and the U.S. dollar/yen exchange rate. After both peaked in 1989, Japan's economy fell into stagnation in complete isolation from the rest of the world, characterized by asset deflation and a super-strong yen, lasting for more than two decades. The economy thereby fell into a deflationary state as if under a "freezer spell." As shown in Chart 14, in the context of asset deflation, firms were inclined to pursue management with minimum assets, reducing the size of their balance sheets and reining in investment. At the same time, amid the yen's appreciation sparked by trade friction, firms continued to engage in business restructuring, in which they held down prices and wages in their income statements. Firms' persistent pursuit of both management with minimum assets and business restructuring for more than a decade led to the formation of the norm that wages and prices do not rise easily and to a deflationary state with a shrinking equilibrium.

The second stage began in 2013, when the Bank embarked on unprecedented monetary easing. The Bank's unprecedented unconventional monetary policy starting in 2013, together with the government's fiscal policy and growth strategy, enabled Japan's economy to escape from the trap of asset deflation and extreme upward pressure on the yen. I believe that the Bank's patient continuation of monetary easing over many years, along with its influence on the financial and capital markets -- which contributed to an improvement in asset prices and to a reversal in the excessive appreciation of the yen -- laid the groundwork for reaching the inflection point of the norm shift, marking a historic change since the collapse of the bubble economy. Still, it proved difficult to make a change in the behavior of firms and households that resulted from the prolonged period of shrinking equilibrium, and the norm of prices not

increasing easily thereby persisted. Following the "frozen era" starting in the 1990s, and the stage of unprecedented monetary easing starting in 2013, the third stage, involving policy rate normalization, began in 2020. It can be argued that, in this stage, building on the groundwork laid down between 2013 and 2019, the "big push" that originated abroad dispelled the norm in Japan.[3]

For many years, the Bank has patiently continued with monetary easing, supporting the normalization of both corporate and household behavior, which had fallen into a shrinking equilibrium. As indicated in Chart 14, corporate behavior has finally turned positive. Moreover, firms are making investments, including mergers and acquisitions, as seen from the increase in bank lending stemming from changes in corporate behavior, as shown in Chart 15. My assessment that the price stability target has almost been achieved reflects the positive development in corporate behavior -- that is, the shift away from management with minimum assets and business restructuring -- and the extent to which such behavior has taken hold.

Assessment of Four Phases Within the Stage of Policy Rate Normalization Since 2020

In what follows, I would like to focus on the final stage, involving policy rate normalization that began in 2020, by further breaking it down into four sub-stages. In the first half of this speech, I explained that global financial conditions have been synchronized since 2020, as shown in Chart 2. The first sub-stage in this process involved global rate cuts in 2020-2021, followed by the second sub-stage involving global rate hikes in 2022-2023. The third sub-stage involved another round of global rate cuts in 2024-2025, and 2026 marks a fourth sub-stage -- a phase of shifting again toward global rate hikes. Based on these four sub-stages, I will explain why I believe a nimble approach to interest rate hikes is necessary also in Japan in 2026 (Charts 16 and 17).

[3] "Big push" is a term often used in development economics. It refers to a shift from one type of equilibrium to another, triggered by a major shock. The global trend of economic recovery starting in 2022 may have caused a historical shift away from the wage and price norm in Japan.

2020-2021: Transitional Phase Toward Policy Rate Normalization -- The Lead-Up to Monetary Policy Normalization

During the first sub-stage in 2020-2021, although the macroeconomic environment improved in Japan, reflecting the unprecedented monetary easing the Bank began implementing in 2013, the post-bubble norm of prices not increasing easily remained in place. In response to the global crisis in the wake of the COVID-19 pandemic, Japan was not an exception in pursuing accommodative monetary and fiscal policies. This period can be considered as a transitional phase toward policy rate normalization in Japan -- in other words, the lead-up to monetary policy normalization.

2022-2023: First Phase of Policy Rate Normalization -- More Flexible Yield Curve Control (YCC)

During the second sub-stage in 2022-2023, Japan was struck by a "heat wave" of global inflation, and its import prices also rose. However, with the entrenched norm that wages and prices do not rise easily, the Bank "looked through" the global trend of interest rate hikes and instead continued with monetary easing, particularly through its negative interest rate policy. The continuation of monetary easing led to the yen's depreciation, serving as the aforementioned "big push," and thereby helping to unfreeze the existing norm. With the Bank adopting more flexible YCC, this period can be considered as the first phase of policy rate normalization.

2024-2025: Second Phase of Policy Rate Normalization -- Shifting Away from Unprecedented Monetary Easing

The third sub-stage in 2024-2025 stands as the second phase of policy rate normalization and corresponds to the cycle of global interest rate cuts. Starting with the 2023 annual spring labor-management wage negotiations, Japan achieved clear wage increases, moving toward unfreezing the norm of wages and prices not increasing easily. In March 2024, the Bank took a series of steps to normalize the unprecedented monetary easing it had pursued up to that point, including terminating the negative interest rate policy and discontinuing YCC. In the following July, it raised the policy interest rate to 0.25 percent and decided on a plan for the reduction of its purchase amount of Japanese government bonds (JGBs). In 2025, further rate hikes were implemented at the beginning of the year in January and at the end of the year in

December. However, normalizing the policy interest rate in the midst of the cycle of policy rate cuts abroad presented challenges.

I consider it important, based on many years of history, to carefully monitor the risk that the divergence of monetary policy stances between Japan and other countries could bring about high volatility in Japan's financial markets, particularly foreign exchange markets. Since Japan's shift to a floating exchange rate system in the 1970s, there have been repeated correlations between the monetary policies of Japan, the United States, and Europe. Looking back on the previous five cycles of policy interest rate hikes from the 1970s under the floating exchange rate system, excluding the most recent one, the Bank of Japan raised its rate during the Federal Reserve's rate hike cycle, and also moved to cut rates after the Federal Reserve did. Hence, there was a possibility that the Federal Reserve's resumption of rate cuts would hinder the flexibility of the Bank of Japan's monetary policy, as was seen after the collapse of the dot-com bubble around 2000 and in the wake of the Global Financial Crisis in the late 2000s. Having said that, the situation during the second phase of the Bank's policy rate normalization in 2024-2025 appeared to be different from those periods, as the U.S. economy was unlikely to see a recession. The Federal Reserve implemented rate cuts from 2024 through the second half of 2025, but these decisions were made in the context of risk management; moreover, the yen's appreciation was avoided. Given this, my view was that rate cuts in the United States during 2024-2025, unlike cases seen repeatedly in the past, would not act to constrain rate hikes in Japan.

However, the overseas environment during 2024-2025 posed challenges for Japan. While central banks abroad continued to cut interest rates, partly over concerns of a slowdown in U.S. employment, monetary policy in Japan took the opposite course. Although the Bank of Japan raised its interest rate in July 2024, this was immediately followed by market adjustments, driven particularly by the yen's significant appreciation reflecting a slowdown in the pace of employment growth in the United States. This made it difficult for the Bank to step up the pace of policy rate normalization. Moreover, with tariffs imposed by the Trump administration and the slowdown in U.S. employment in 2025, the Bank faced the challenge of taking advantage of a lull in headwinds from abroad and raising the interest rate at the beginning and end of 2025, in January and December. In this way, although the second phase

of policy rate normalization marked a significant shift away from unprecedented monetary easing, amid headwinds from abroad, the pace of the Bank's interest rate hikes ended up being gradual, twice a year. Also, from the perspective of fully dispelling the norm that wages and prices do not rise easily, the Bank maintained negative real interest rates and focused on increasing the likelihood of achieving its price stability target by allowing underlying inflation to rise through a moderate increase in the inflation rate.

2026: Third Phase of Policy Rate Normalization -- A New Cycle of Interest Rate Hikes and a Regime Change

I believe 2026 represents a third phase of policy rate normalization. The trigger for this is the global shift to interest rate hikes. The global shift to interest rate hikes in 2026 has been underpinned by the macroeconomic environment during the previous phase in 2024-2025, which involved global rate cuts and fiscal stimulus, and, from 2025, by demand shocks, particularly related to AI. The return to an interest rate hike in June 2026 by the European Central Bank (ECB) and the shift in the Federal Reserve's monetary policy outlook toward interest rate hikes are harbingers of this transition.

As was shown in Chart 2, after countries and regions converged toward rate cuts in 2020, it took more than a year before the global economy recovered and rate hikes began, owing partly to a halt in the flow of people and logistics. This time, however, there is no halt in that flow, and the combination of worldwide AI investment and the boost provided by monetary and fiscal policies could spur a quicker transition to a cycle of global rate hikes.

Today, the norm of prices not increasing easily has already been dispelled. In addition, medium- to long-term inflation expectations have risen to around 2 percent, as suggested by Chart 18, which shows the break-even inflation (BEI) rate calculated using inflation-indexed JGBs. Given this, price increases now have a greater tendency to generate second-round effects. Moreover, it is necessary to bear in mind the risk that Japan might face greater-than-expected upswings in prices if overseas factors that push up prices emerge.

For many years, including under the negative interest rate policy, Japan's interest rates were the lowest in the world, but today, as shown in Chart 19, the level of nominal interest rates no

longer ranks the lowest globally. As shown in Chart 20, however, when comparing real policy interest rates -- that is, the nominal policy interest rate minus the inflation rate -- the rate in Japan remains at the lowest level in the world. Chart 21 shows the interest rate differentials between Japan and the United States in both nominal and real terms. Given that some participants in foreign exchange markets have recently paid attention to not only nominal but also real interest rate differentials, it is necessary to monitor price developments transmitted through exchange rates. Chart 22 breaks down long-term interest rates in Japan, the United States, and Germany into inflation expectations and real interest rates. Although Japan's real interest rate has shown an uptrend recently, it remains lower than the rates in other countries. At the July 2026 MPM, I considered it necessary to adjust the significantly negative real policy interest rate, taking into account the following recent developments: (1) the already dispelled norm of prices and wages not increasing easily in Japan; (2) price rises and heightened inflation expectations stemming from the situation in the Middle East; and (3) global demand shocks, particularly related to AI.

Entering a New Phase in 2026 Requiring a Nimble Approach to Interest Rate Hikes

In the second phase of policy rate normalization in 2024-2025, the Bank's policy rate hikes were carefully timed against the global trend of rate cuts, resulting in gradual adjustments over time. In the third phase of policy rate normalization in 2026, however, following the shift to rate hikes abroad, the Bank's approach has become aligned with the global policy direction. In this phase, the Bank will need to adopt a nimble approach to address conditions at the time, including overseas developments. While my assessment is that the Bank's price stability target has almost been achieved, inflationary pressure reflecting the situation in the Middle East could push prices above the target. Partly in light of the fact that the Bank implemented policy interest rate hikes twice a year in 2024 and 2025, markets until recently factored in semiannual rate hikes through 2028, as suggested by Chart 23. I believe, however, that 2026 represents a regime change where rate hikes will not be carried out at a fixed pace but will instead be conducted in a nimble and data-dependent manner in response to the domestic price and economic environment, particularly reflecting overseas trends.

Japan's economy until the third phase of policy rate normalization can be described as an "estuary," in which a deflationary mindset that persisted for nearly three decades mixed with

the inflationary pressure that emerged from 2022. As shown in Chart 24, this situation was reflected in the delayed spread of corporate profit growth to households, small and medium-sized firms, and regional firms. Having experienced several periods in the past that turned out to be "false dawns," I had for many years considered it important to maintain accommodative financial conditions. I have come to recognize, however, that starting in 2026, Japan's economy is seeing a shift to a new phase -- a regime change -- underpinned by the dispelling of the norm of prices and wages not increasing easily in Japan and by a shift in the overseas environment, with this new phase entailing upside risks to prices.

There have also been continuous calls for expansionary policies to support sectors where recovery has been slow. Additionally, while all available macroeconomic monetary and fiscal policies have been mobilized to overcome deflation for many years, the government's measures have encouraged wage hikes, and firms' institutional reforms for ensuring the pass-through of cost increases to prices have been widespread.[4] Due to inertia in the implementation of those policies and practices, however, the current situation of rising energy prices entails the risk of inflation overshooting the target.

The Neutral Interest Rate Potentially Exceeding Market Expectations amid a Shift in the Overseas Environment

The neutral interest rate is currently a focus of attention in the markets. Since the neutral interest rate and the natural rate of interest underlying it are important from a theoretical perspective, the Bank has estimated the level of the natural rate of interest, as shown in the left panel of Chart 25. The right panel of Chart 25 indicates that, currently, in Europe and the United States, policy interest rates are considered to be already well-positioned within the neutral zone, and in this context, policy interest rates have been raised in Europe; in contrast, Japan's policy interest rate has yet to reach the neutral zone. Since I consider the price stability target to have been almost achieved, I believe it is necessary to bring the policy interest rate closer to the neutral interest rate in preparation for the second-round effects of price rises.

[4] Institutional reforms include the revision of formulas used in the fuel cost adjustment system for business-use electricity and the introduction of a surcharge system in the chemical industry. For more details, see Box 2 of the April 2026 *Outlook for Economic Activity and Prices*, Bank of Japan.

In practice, however, the neutral interest rate is difficult to determine; I have previously likened it to a rainbow -- something that is visible from afar but which vanishes as you get closer. During my career as a financial practitioner, from the 1980s to the 1990s when I witnessed policy interest rate hikes, and even into the 2000s and beyond, I never focused on the concept of the neutral interest rate. This is because, while in the United States and Europe, the neutral interest rate has been a standard concept since the 1990s, informed by past economic cycles, Japan was in its own deflationary trend for a prolonged period, and there is debate over the efficacy of deriving estimates from data during that time. It is difficult to compare a large country like the United States, where it is possible to estimate the neutral interest rate based on the domestic economic environment, with a country like Japan, where it is harder to make such an estimate. In other words, it is necessary to take into account the fact that the neutral interest rate in Japan tends to be substantially influenced by the overseas environment. Given the current circumstances, with central banks abroad entering a rate hike cycle and the Bank adopting the same policy direction, attention is warranted on the possibility that a rise in overseas interest rates could push Japan's neutral interest rate above the level expected by the markets.

Nimble Conduct of Monetary Policy in Japan After the Return to Being a "Normal Economy"

Monetary policy in Japan is now at a point of exiting from many years of large-scale monetary easing, and I recognize that how smooth this exit is will determine how that easing will come to be judged. With respect to the conduct of monetary policy, my view is that in 2026, Japan's economy has entered a phase that differs from the environment seen up to 2024-2025; on this basis, I consider it necessary for the Bank to adopt a nimble approach. The reason is that the overseas environment has entered a new cycle of policy interest rate hikes driven by AI-investment-centered demand shocks. I believe this situation calls for a shift in mindset, away from one based on the long-standing environment where Japan followed a path independent of the rest of the world, as it continued to do so in 2022-2023, to one that assumes that Japan has returned to being a "normal economy," linked with economic developments abroad. Moreover, given the inflationary pressures that could become evident toward the second half of fiscal 2026 and the risk of prices deviating upward from the price stability target, I consider it necessary for the Bank to shift from the current stance of encouraging a rise in underlying

inflation and to demonstrate to the market its determination to prevent upward deviations in prices, while giving consideration to the impact through foreign exchange markets. In regard to further policy interest rate hikes, my view is that the Bank should not aim to reach the expected neutral interest rate, nor should it be bound by particular intervals or ranges anticipated in the markets. Rather, I believe that the Bank needs to conduct rate hikes nimbly after gauging the degree of accommodation in domestic financial conditions, in addition to examining developments overseas. In short, based on the recognition that Japan's economy has entered a new phase -- a regime change -- in 2026, I proposed raising the policy interest rate at the July MPM.

III. Outlook for the JGB Market

Reduction in JGB Purchases and the JGB Market: In Effect, Historically High Level of JGB Supply to the Market

Having worked in the JGB market for more than 40 years from the 1980s, I would like to briefly look back at historical developments and consider where the market stands at present. Looking back at long-term interest rates over the past 40 years, as shown in Chart 26, the yield on 10-year JGBs rose to a peak in 1990 but then followed a downtrend after the collapse of the bubble economy. The yield remained at a low level as the Bank undertook substantial JGB purchases under the large-scale monetary easing it started in 2013 and then introduced YCC in 2016.

With the price stability target being almost achieved and the dispelling of the norm of prices and wages not increasing easily, the long-standing YCC policy fulfilled its historical role in 2024. My view was, therefore, that the Bank needed to aim to shift away from the large-scale JGB purchases that caused deterioration in JGB market functioning and proceed with normalization by reducing its purchases. At the same time, considering the appropriate size and composition of the Bank's balance sheet, my view was that the Bank was in a phase where it should consider reducing the size of the balance sheet.

In this regard, with respect to outright purchases of JGBs, the Bank decided in July 2024 on a plan for the reduction of its purchase amount. It then conducted an interim assessment of the reduction plan at the June 2025 MPM. Based on the assessment, the Bank decided to

continue to cut down its monthly purchase amount by about 400 billion yen each calendar quarter until January-March 2026, and, thereafter, reduce the amount of purchases by about 200 billion yen each calendar quarter until March 2027. In the interim assessment of the reduction plan conducted at the June 2026 MPM, the Bank decided to halt the reduction from April 2027 and conduct purchases of about 2 trillion yen per month (Chart 27). With regard to the reduction of its JGB purchases, the Bank has stated that, in principle, long-term interest rates are to be formed in financial markets, and that the Bank will reduce its JGB purchase amount in a predictable manner, while allowing enough flexibility to support stability in the JGB market.

From the perspective of maintaining smooth market functioning, I believe the Bank should take time and be prudent in reducing its JGB purchases. Purchases served to lower interest rates by increasing the Bank's JGB holdings. Conversely, the reduction in purchases will supply the market with some portion of the JGBs the Bank has purchased to date, in effect resulting in an increase in the supply of JGBs to the market. Taking this into consideration, it can be said that the market is in a phase of seeing one of the largest supplies of JGBs compared to the past. Chart 28 shows historical developments in the net issuance of JGBs, representing the annual change in the outstanding amount of JGBs issued. By deducting the annual change in the Bank's JGB holdings -- which factors in the amount of its JGB purchases that year -- from the net JGB issuance, the annual change in the outstanding amount of JGBs in the market can be derived, which in effect represents the supply of JGBs to the market. The chart indicates the extent to which the reduction in the Bank's JGB purchases has led to an increase in the outstanding amount of JGBs in the market relative to the 1980s. I believe it is necessary to closely examine developments in the JGB market, as the annual change in the outstanding amount of JGBs for fiscal 2026 is expected to exceed the record high level in the early 2000s.

The JGB Market and Risk Premiums: Real Super-Long-Term Interest Rates Being Comparable to Those Overseas

Let us return to Chart 26. Looking back at the trend in long-term interest rates since the 1980s and the term spread over that period -- here, the difference between the 10-year JGB yield and the policy interest rate -- a term spread in excess of 2 percent existed as a risk premium until the introduction of large-scale monetary easing. Under large-scale monetary easing, by

contrast, the term spread continued to be compressed by the stock effect of the Bank's JGB purchases and expectations generated by YCC. If the term spread truly reflects the risk premium on JGB investments, in addition to expectations of higher short-term interest rates, investors may demand a certain level of risk premium for bearing an interest rate risk, now that the exit from large-scale monetary easing is under way and the JGB market has begun to function normally again. Moreover, the loan-deposit gap at deposit-taking financial institutions, which has supported demand for JGBs so far, has narrowed due to an increase in lending, as shown in Chart 29. Given this narrowing and international financial regulations for banks, in addition to the aforementioned reduction in the Bank's JGB purchases, the capacity of deposit-taking financial institutions to invest in JGBs could decline. This is an important factor to consider when projecting developments in the JGB market. As shown in Chart 28, an increase in the supply of JGBs to the market implies the need to secure new JGB holders in the market, such as households and other investors. Since a portfolio rebalancing among such investors will require a certain amount of time, I believe that, as decided in June 2026, the Bank will need to take time in adjusting its JGB holdings by continuing with monthly purchases of about 2 trillion yen from April 2027.[5]

Needless to say, the reduction in the Bank's JGB purchases does not aim at giving consideration to the fiscal situation. That said, since the reduction in purchases in effect supplies the market with JGBs, I believe it is also necessary, in terms of the functioning of the market as a whole, to ensure stability and thereby avoid causing excessive volatility. If such volatility were to occur, there is a risk of the JGB market experiencing a deterioration in functioning or becoming dysfunctional. Therefore, to maintain the smooth functioning of the JGB market, in exceptional circumstances, such as a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.

While the insurance industry continued to make substantial net purchases of super-long-term JGBs to match its long-term liabilities, the net amount was declining over the past few years (Chart 30). In this situation, looking back over the past year, volatility has increased due to

[5] For the market impact of the reduction in the Bank's JGB purchases, see Bank of Japan Monetary Affairs Department and Financial Markets Department, "Impact of the Bank of Japan's Reductions in JGB Purchases on the JGB Markets," *Bank of Japan Review Series*, no. 26-E-10 (August 2026).

concerns over supply and demand conditions for super-long-term JGBs in particular, and, as shown in Chart 31, real super-long-term interest rates are at a level comparable to those overseas.

Given these factors, I believe it is necessary to keep a close eye on developments in long-term interest rates and to communicate effectively with the market while taking into account the behavior of financial institutions. At the same time, to maintain the smooth functioning of the JGB market, the Bank needs to monitor the situation carefully in close cooperation with the issuing authority, based on their respective roles.

Thank you.

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Sapporo

September 2, 2026

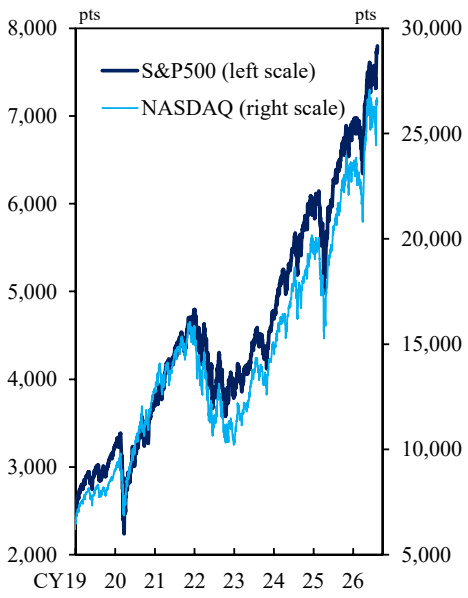
TAKATA Hajime
Member of the Policy Board
Bank of Japan

Chart 1

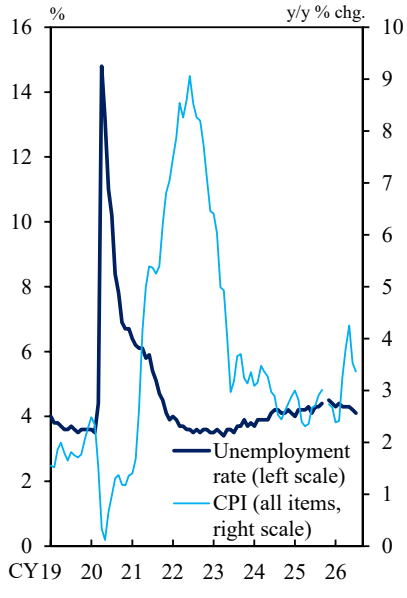
Solid U.S. Economy

(Shifted in 2026 to expected interest rate hikes)

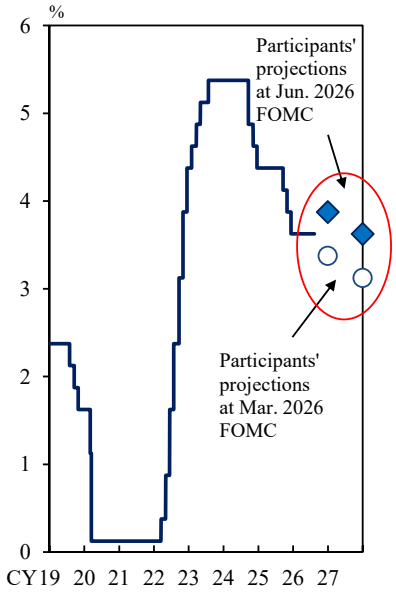
Stock Prices



Employment and Prices



Policy Interest Rate



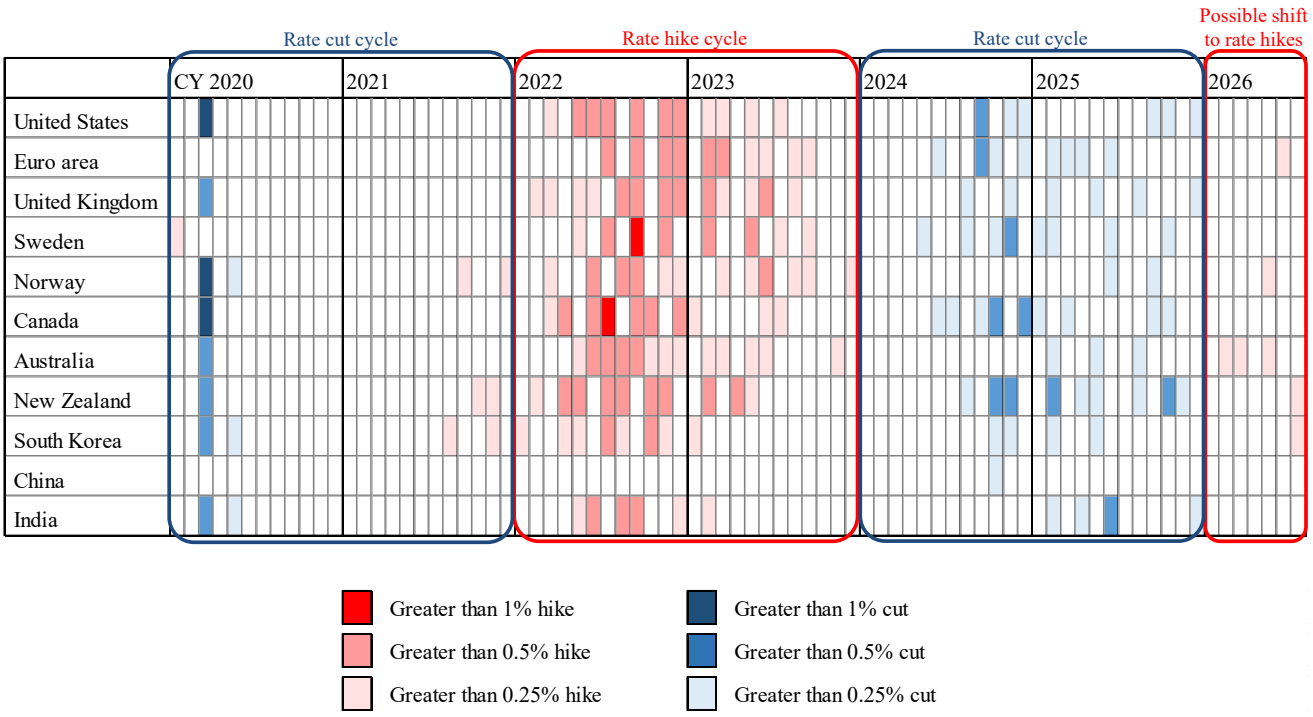
Note: In the right panel, figures are medians of the target ranges for the federal funds rate. Figures for participants' projections are medians of all projections at FOMC meetings.

Sources: Bloomberg; BLS; FRB.

Chart 2

Four Phases of Monetary Policy Overseas Since 2020

(Rate cuts 2020-21, rate hikes 2022-23, rate cuts 2024-25, and rate hikes 2026)



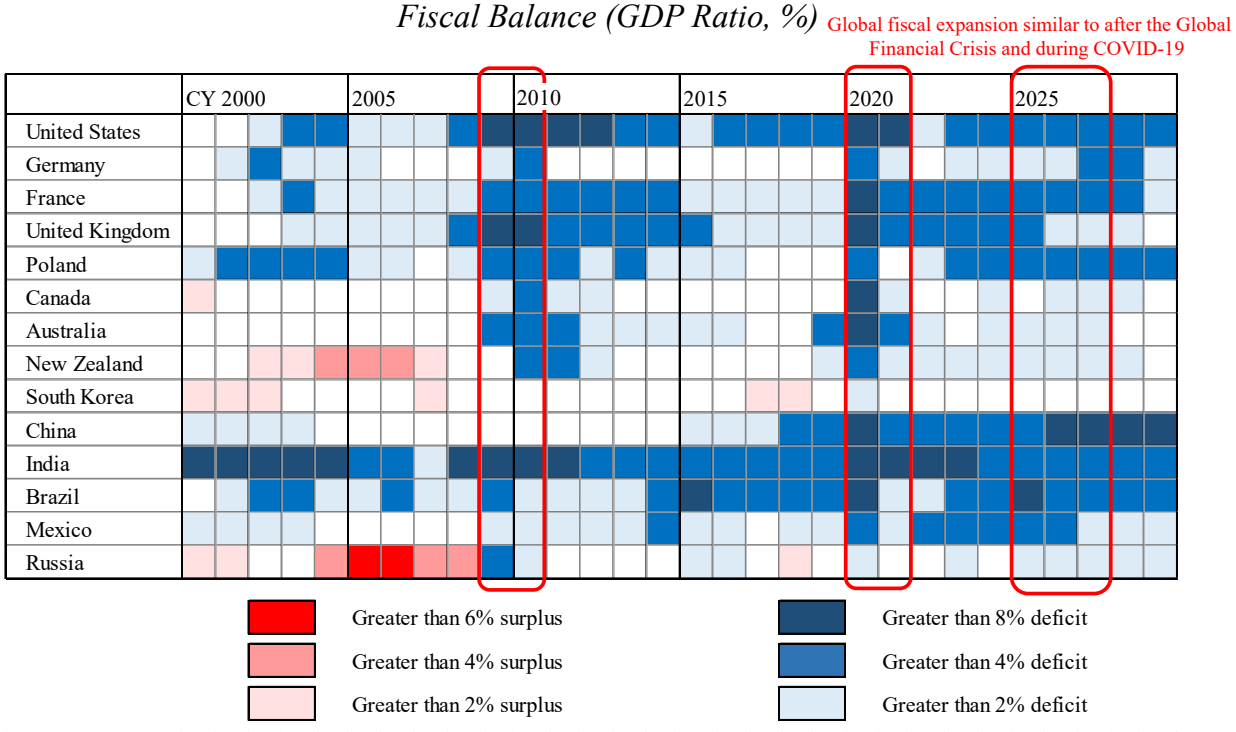
Sources: Overseas central banks.

Chart 3

Positive Contribution of Fiscal Policy Overseas

(Global fiscal expansion since 2025, as seen during COVID-19)

Fiscal Balance (GDP Ratio, %)

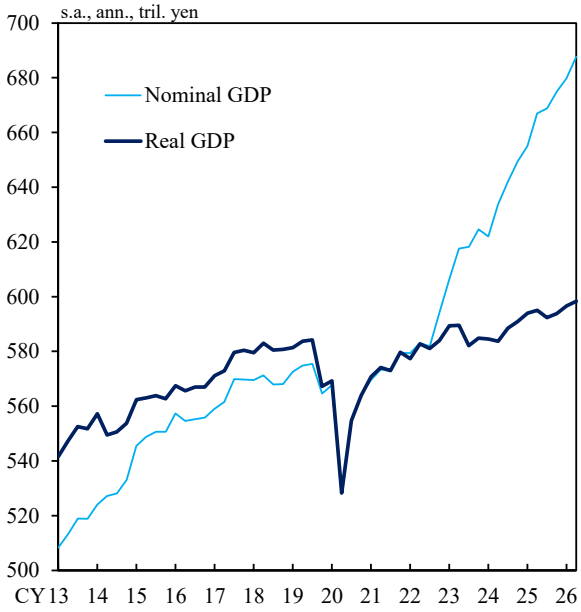


Source: IMF.

Chart 4

Japan's GDP and Outlook for Economic Activity and Prices

GDP



Outlook for Economic Activity and Prices (July 2026 Outlook Report)

y/y % chg.

	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2026	+0.6	+2.5	+2.5
As of April 2026	+0.5	+2.8	+2.6
As of January 2026	+1.0	+1.9	+2.2
Fiscal 2027	+0.8	+2.4	+2.6
As of April 2026	+0.7	+2.3	+2.6
As of January 2026	+0.8	+2.0	+2.1
Fiscal 2028	+0.8	+2.0	+2.2
As of April 2026	+0.8	+2.0	+2.2

Note: In the right panel, figures indicate medians of Bank of Japan Policy Board members' forecasts (point estimates).

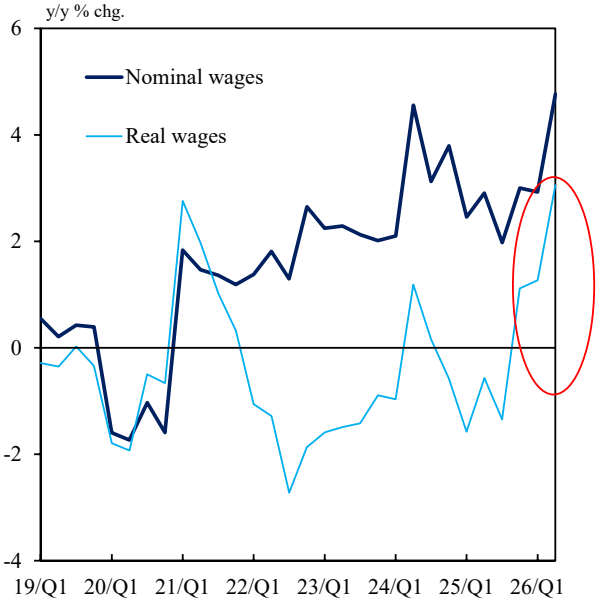
Sources: Cabinet Office; Bank of Japan.

Chart 5

Japan's Employment and Income Situation

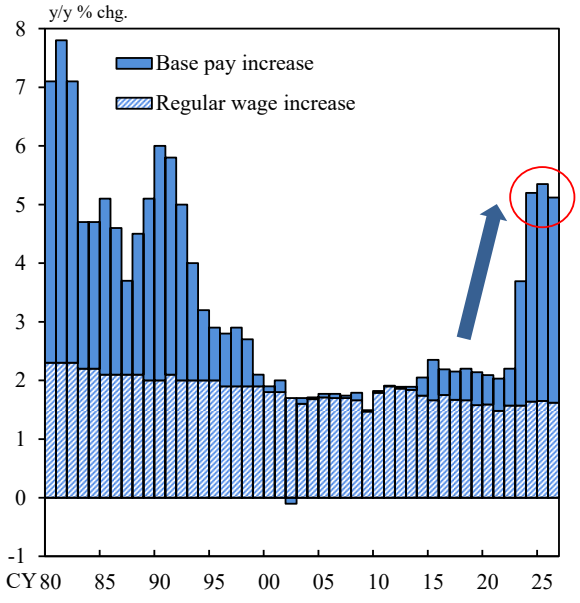
Nominal and Real Wages

(Rate of change in real wages has turned positive)



Wage Growth Rate

(Base pay increases have recovered since 2023)



Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures are based on continuing observations following the sample revisions. Figures for real wages are based on Bank staff calculations using the CPI (less imputed rent). Figures for 2026/Q2 are those for June.

2. In the right panel, figures from 1980 to 2014 are those published by the Central Labour Relations Commission; figures from 2015 to 2026 are those released by Rengo.

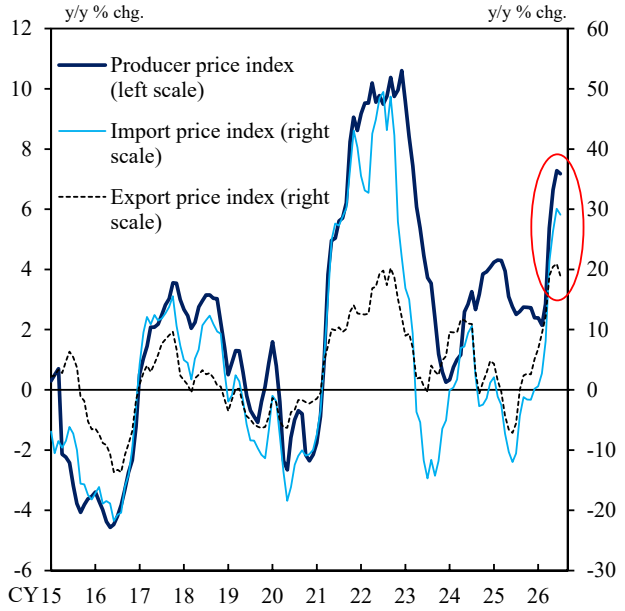
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Chart 6

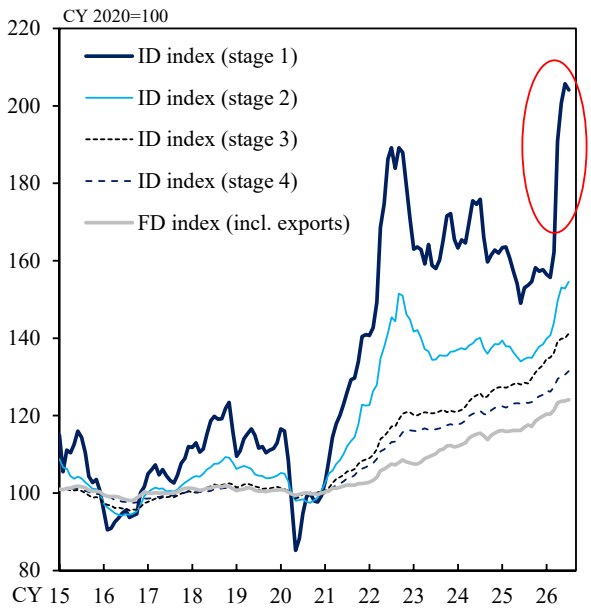
Corporate Goods Price Index in Japan

(Price increases have begun from upstream)

Producer Prices and Import and Export Prices



FD-ID Price Indices



Note: In the right panel, the FD-ID indices are price indices that reorganize and aggregate producer prices of goods and services by classifying them from upstream to downstream stages of the economy-wide production flow. Stages 1 to 4 represent the four stages of intermediate demand, from upstream to downstream.

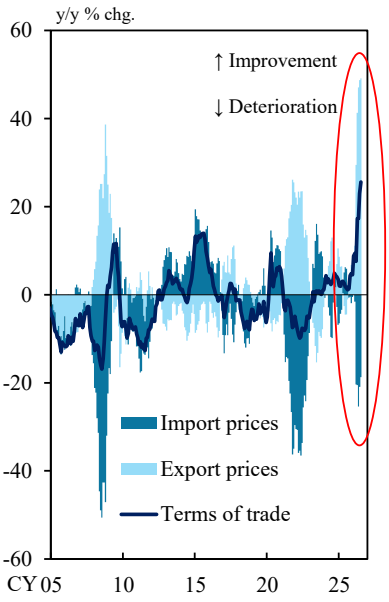
Source: Bank of Japan.

Chart 7

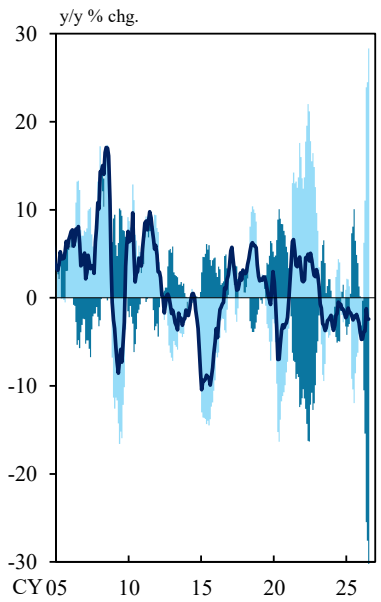
Terms of Trade for Overseas Economies

(Terms of trade have improved for South Korea and the United States despite higher crude oil prices)

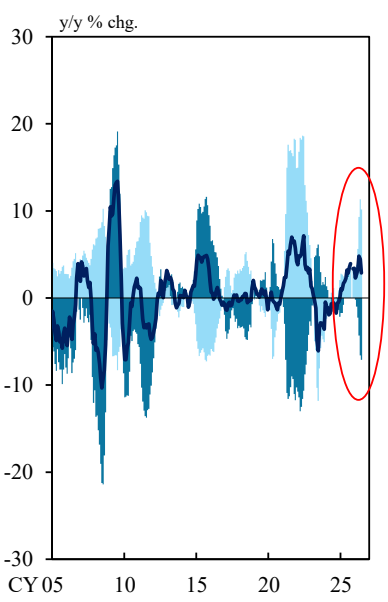
South Korea



Taiwan



United States



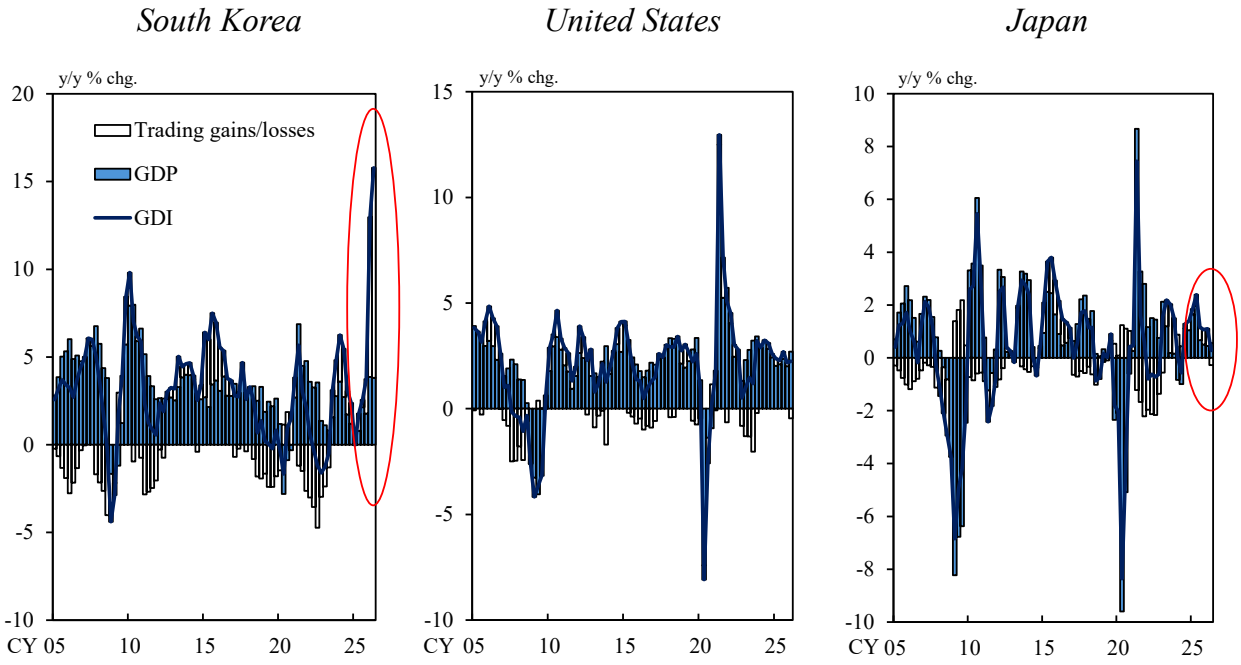
Note: Terms of trade = Export price index on a domestic currency basis / Import price index on a domestic currency basis.

Source: Haver.

Chart 8

Trading Gains and Losses (SNA Basis)

(Japan's trading gains have improved, although not as pronounced as in South Korea)



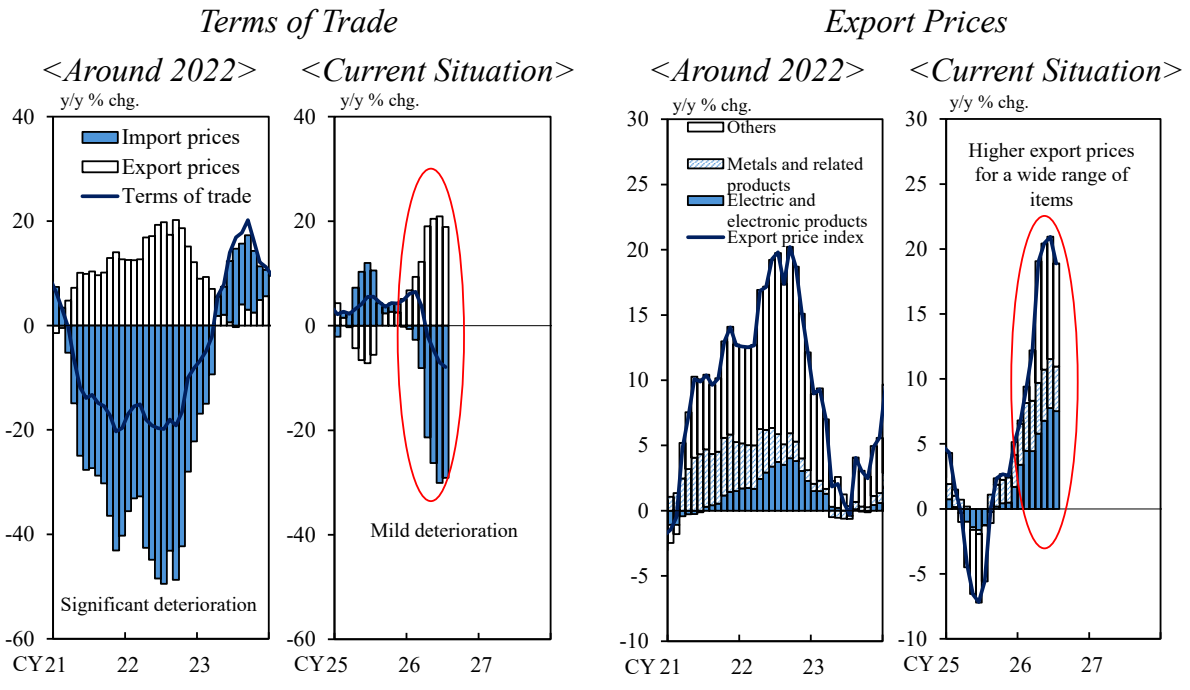
Note: Trading gains/losses = GDI - GDP.

Sources: Cabinet Office; Haver.

Chart 9

Japan's Terms of Trade

(Deterioration in Japan's terms of trade has been limited compared with 2022, with higher export prices for a wide range of items)



Note: Terms of trade = Export price index on a yen basis / Import price index on a yen basis.

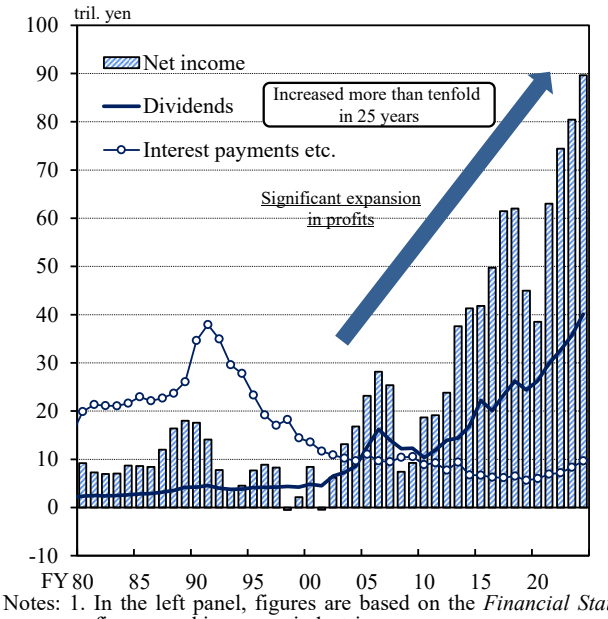
Source: Bank of Japan.

Chart 10

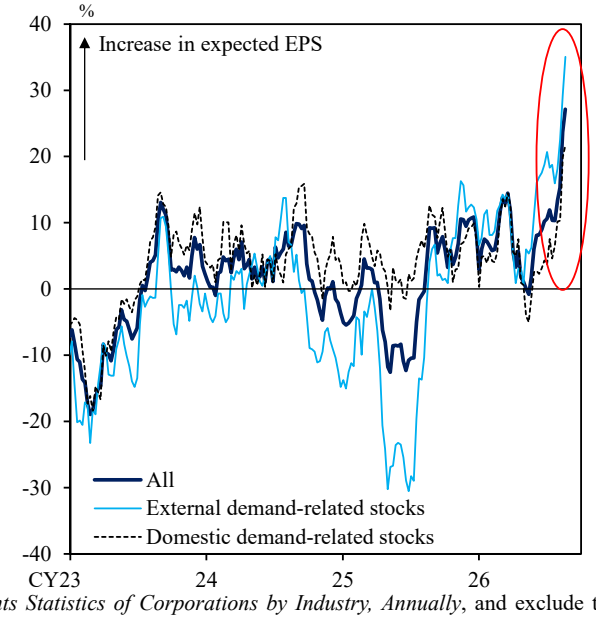
Rapid Expansion in Japan's Corporate Profits

(Corporate profits have continued to improve despite being affected by the situation in the Middle East)

Corporate Profits



Earnings Revision Index (TOPIX)



Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.
2. In the right panel, the earnings revision index is calculated as the ratio of the difference between (1) the number of listed firms for which analysts' estimates of 12-month forward earnings per share (EPS) were revised upward from the preceding month and (2) the number of listed firms that saw downward revisions.

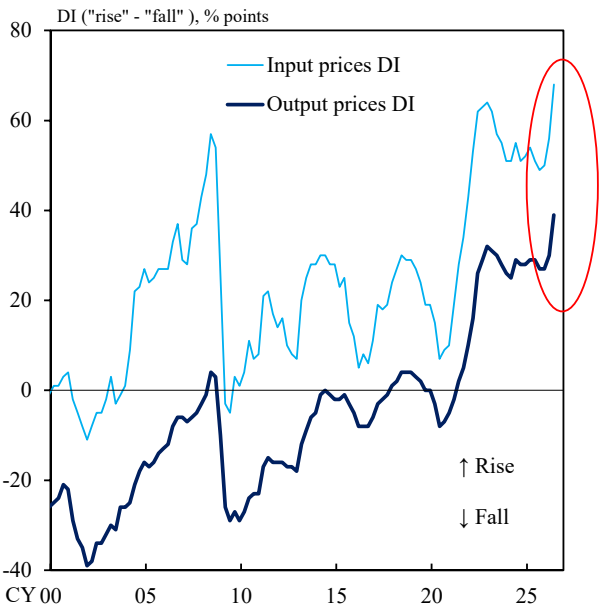
Sources: LSEG Datastream; Ministry of Finance.

Chart 11

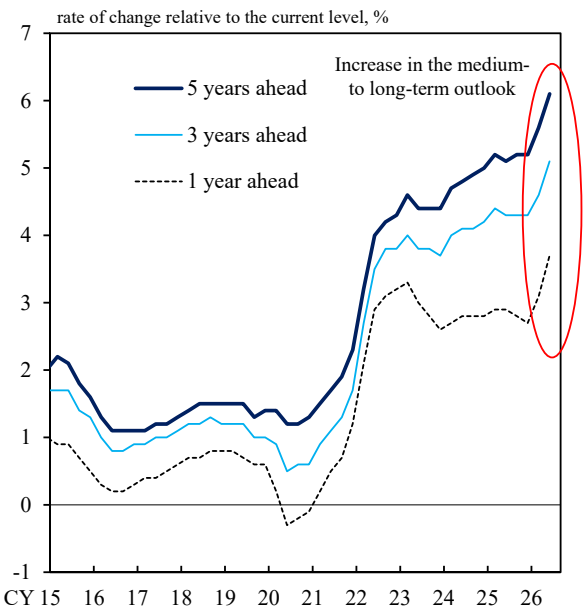
Output Prices of Japanese Firms (*Tankan*)

(Firms have started to anticipate higher output prices)

DIs for Firms' Input and Output Prices



Outlook for Output Prices



Note: Figures are for all industries and enterprises and exclude the effects of the consumption tax rate changes.

Source: Bank of Japan.

Chart 12

My View on Changes Affecting Monetary Policy Since 1990

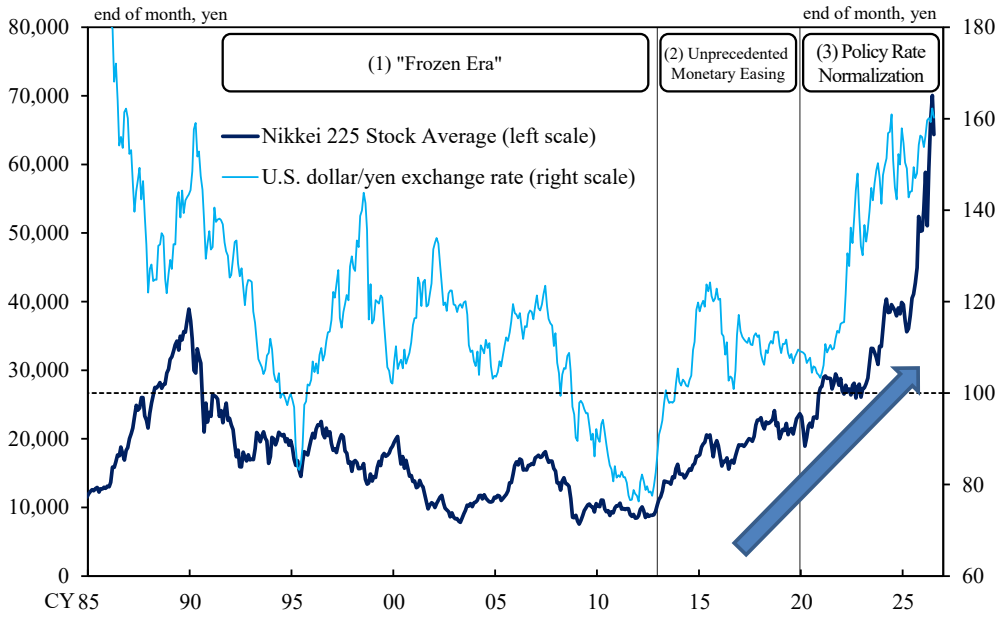
(From the long "frozen era," through the stage of unprecedented monetary easing, to the stage of policy rate normalization)

	(1) "Frozen Era"	(2) Unprecedented Monetary Easing	(3) Policy Rate Normalization
Period	1990s-	2013-2019	2020-
Environment	Asset deflation Difficulty in depending on external demand due to, for example, the yen's appreciation brought about mainly by trade friction	Improvement in asset prices through monetary easing, fiscal policy, and the growth strategy Reversal in the excessive appreciation of the yen	"Big push" originated abroad, building on the unprecedented monetary easing
Corporate and household behavior	Reduction in size of balance sheets Business restructuring to hold down prices and wages	Persistent norm that prices do not rise easily	Shift in the norm Positive developments in corporate behavior

Chart 13

Stock Prices and Exchange Rates

(Both have turned around since 2013 from the "frozen era" that started in the 1990s)



Source: Bloomberg.

Chart 14

My View on Corporate Behavior in the Post-Bubble Period

(Corporate behavior has turned positive from a shrinking equilibrium in balance sheets and income statements)

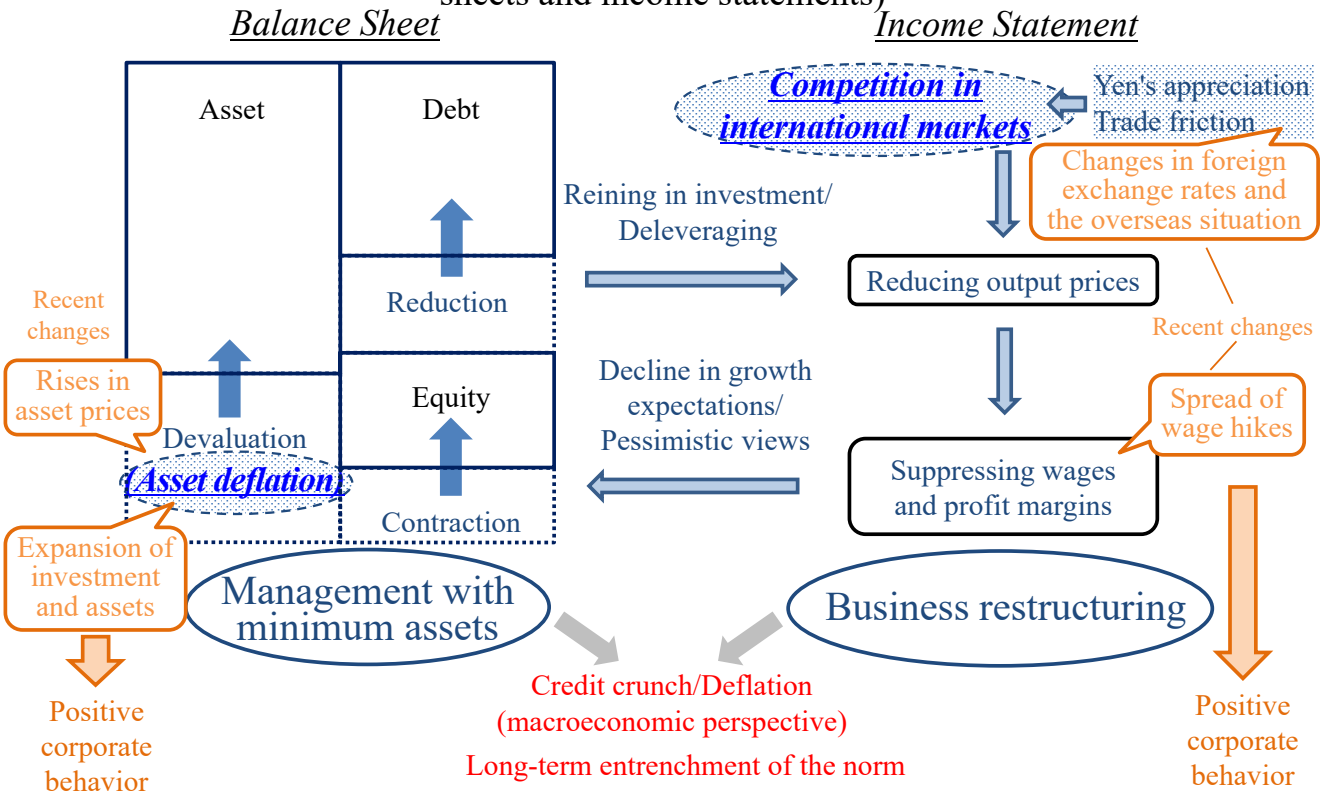
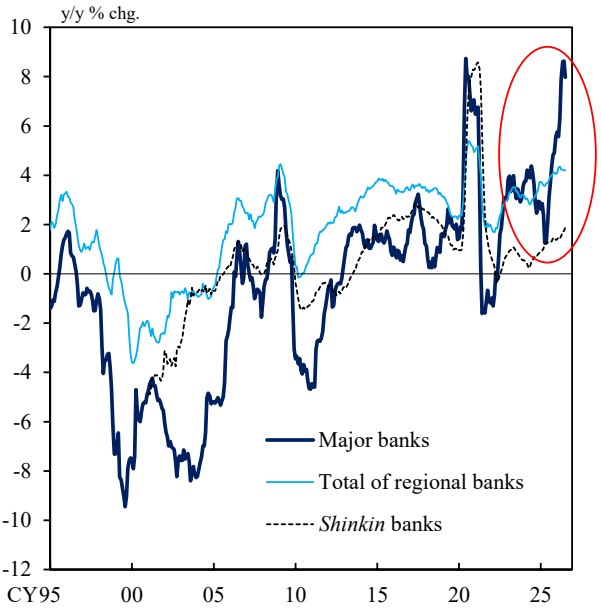


Chart 15

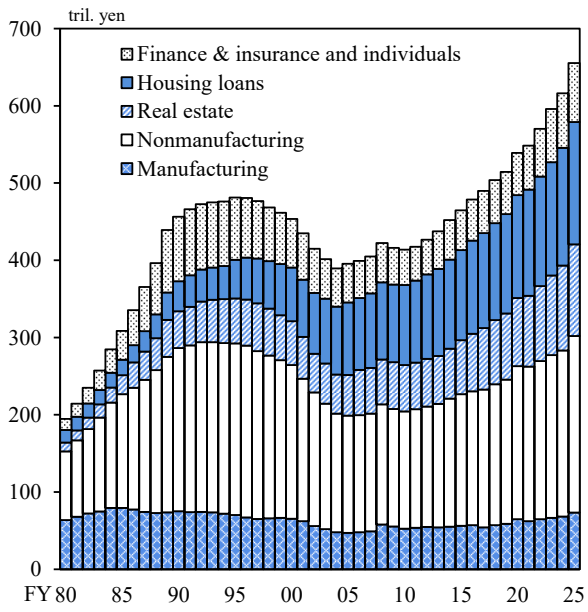
Bank Lending in Japan

(Bank lending has increased, mainly by major banks, reaching the highest growth since the bubble period excluding during COVID-19)

Loans by Type of Bank



Loans by Sector



Notes: 1. In the left panel, figures include loans to local governments and individuals.
2. In the right panel, figures are for domestically licensed banks (banking accounts of domestic branches). Figures for "nonmanufacturing" exclude real estate and finance and insurance, and figures for "finance & insurance and individuals" exclude housing loans.

Source: Bank of Japan.

Chart 16

My View on Four Phases Within the Stage of Policy Rate Normalization Since 2020

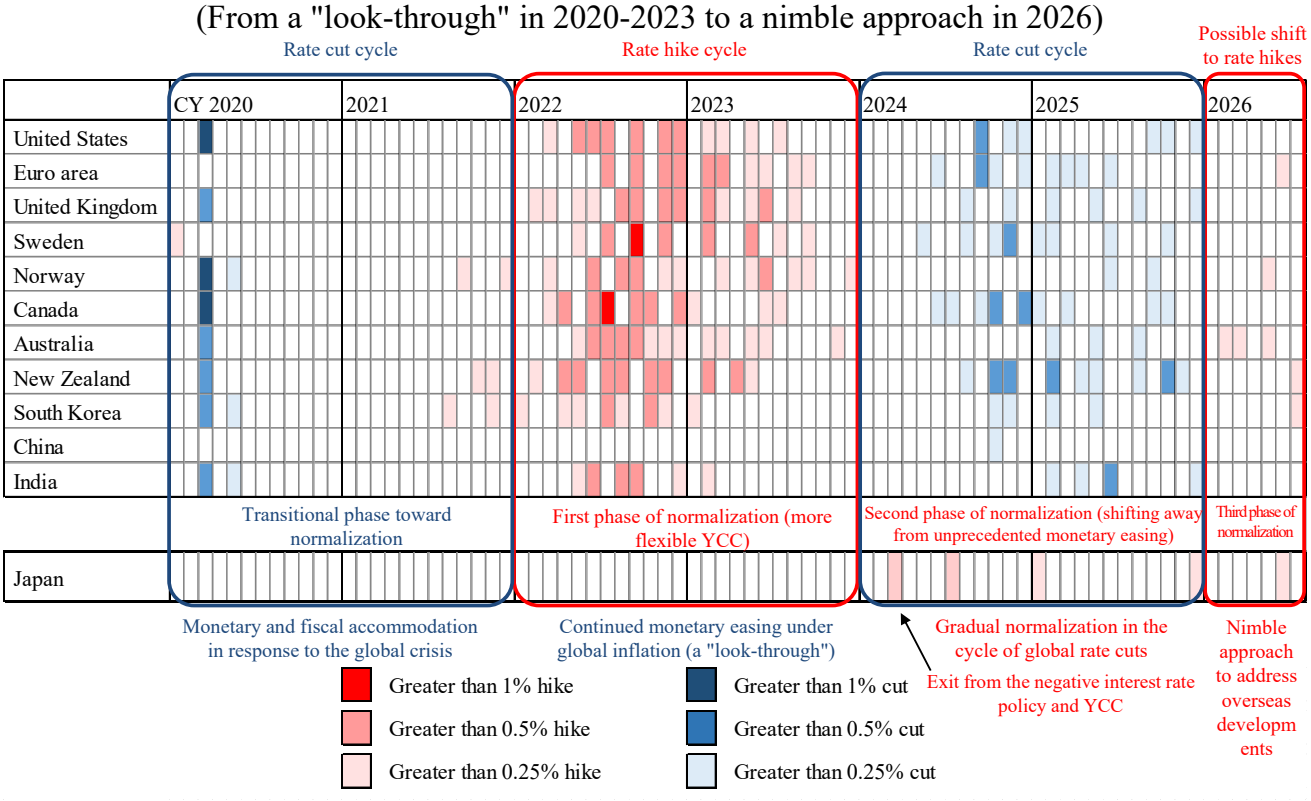
(Third phase in 2026 marks a regime change to a new cycle of interest rate hikes)

	Transitional Phase Toward Normalization	First Phase of Normalization	Second Phase of Normalization	Third Phase of Normalization
Period	2020-2021	2022-2023	2024-2025	2026
Overview	Lead-up to monetary policy normalization	More flexible yield curve control (YCC)	Shifting away from unprecedented monetary easing	Regime change to a new cycle of interest rate hikes
Features	Unchanged norm Accommodative monetary and fiscal policies in response to the global crisis	Continued monetary easing under global inflation (a "look-through") Unfreezing of the norm	Normalization in the cycle of global interest rate cuts Gradual interest rate hikes	Expansion of AI-related demand and a global shift to interest rate hikes Nimble approach to address overseas developments

Chart 17

My View on Four Phases of Monetary Policy in Japan and Overseas Since 2020

(From a "look-through" in 2020-2023 to a nimble approach in 2026)

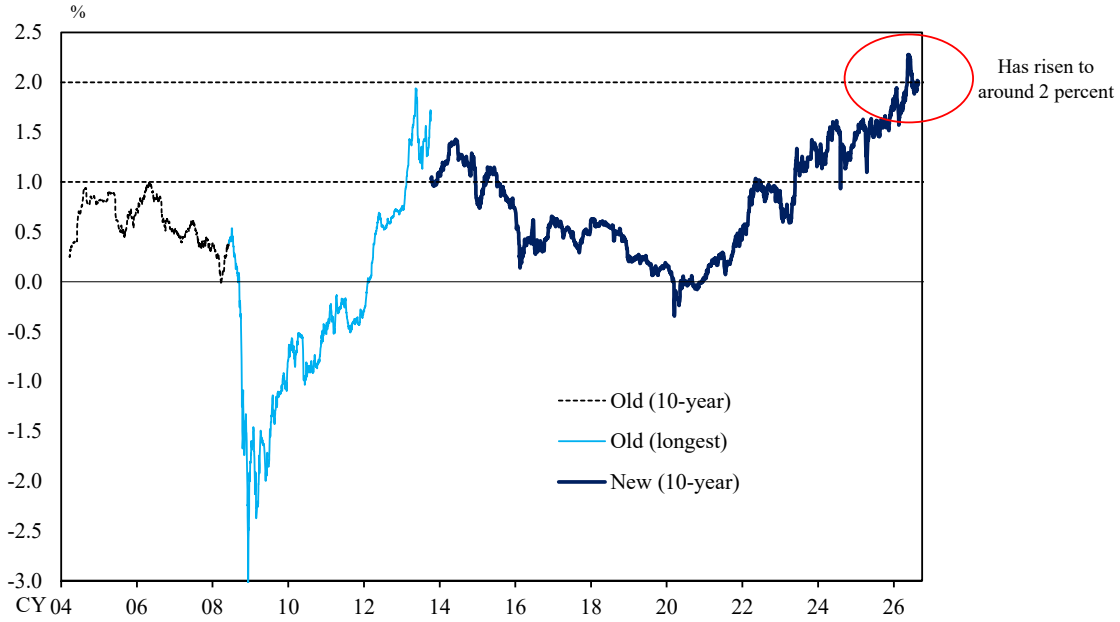


Sources: Overseas central banks.

Chart 18

BEI for Inflation-Indexed JGBs: Inflation Expectations

(BEI rate for inflation-indexed JGBs is at a historically high level of around 2%)



Note: Inflation-indexed JGBs issued since October 2013, which have a principal protection feature, are designated as "new," while those issued from March 2004 to June 2008 are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which were issued in June 2008 and matured in June 2018.

Sources: Bloomberg; QUICK.

Chart 19

Global Nominal Interest Rate Map

(Japan's nominal interest rates are no longer at the lowest level in the world)

%

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year
Switzerland	0.00	0.20	0.04	0.14	0.18	0.20	0.25	0.28	0.30	0.35	0.36	0.39	0.42	0.45	0.48	0.50	0.64	0.55	0.55
Japan	1.00	1.45	1.68	1.89	2.06	2.14	2.46	2.58	2.80	2.89	2.89	3.17	3.45	3.73	4.01	4.28	3.77	4.06	4.15
Sweden	1.75	2.18	2.41	2.51	2.64	2.72	2.77	2.83	2.92	2.95	3.02	3.03	3.05	3.07	3.09	3.10	3.19		
Denmark	1.85	2.39	2.60	2.64	2.71	2.77	2.81	2.86	2.90	2.96	3.03	3.04	3.06	3.07	3.09	3.10	3.18	3.38	
Canada	2.25	2.65	2.90	2.98	3.12	3.22	3.27	3.32	3.42	3.52	3.62	3.65	3.68	3.71	3.73	3.76	3.90	4.05	
Germany	2.40	2.62	2.81	2.81	2.85	2.91	2.96	3.04	3.06	3.15	3.20	3.26	3.32	3.38	3.43	3.49	3.64	3.71	
France	2.40	2.87	3.00	3.13	3.19	3.40	3.49	3.63	3.82	3.86	4.06	4.12	4.18	4.25	4.31	4.37	4.60	4.85	
Spain	2.40	2.68	2.88	2.96	3.02	3.12	3.20	3.30	3.42	3.51	3.66	3.72	3.78	3.85	3.91	3.98	4.08	4.36	
Portugal	2.40	2.73	2.82	2.89	3.00	3.08	3.17	3.31	3.39	3.46	3.56	3.62	3.68	3.74	3.80	3.86	4.09	4.22	
Austria	2.40	2.82	2.86	2.90	2.98	3.04	3.12	3.21	3.27	3.36	3.41	3.47	3.53	3.59	3.65	3.71	3.89	3.97	3.97
Italy	2.40	2.77	3.02	3.11	3.28	3.40	3.55	3.63	3.79	3.94	4.02	4.10	4.18	4.26	4.34	4.42	4.61	4.82	
Ireland	2.40	2.74	2.77	2.85	2.92	2.93	2.99	3.12	3.20	3.23	3.36	3.42	3.47	3.53	3.59	3.65	3.76	3.87	
Netherlands	2.40	2.70	2.81	2.87	2.93	2.95	3.06	3.11	3.17	3.23	3.29	3.34	3.39	3.44	3.49	3.54	3.69	3.72	
Finland	2.40	2.94	2.86	2.94	3.04	3.12	3.23	3.31	3.38	3.45	3.53	3.58	3.64	3.70	3.76	3.82	3.90	4.06	
China	3.00	1.25	1.28	1.30	1.37	1.43	1.49	1.55	1.60	1.64	1.69	1.72	1.75	1.77	1.80	1.83	2.13	2.17	
United Kingdom	3.75	4.05	4.31	4.42	4.47	4.53	4.59	4.72	4.86	4.91	4.99	5.10	5.22	5.28	5.34	5.41	5.64	5.72	5.69
United States	3.75	4.00	4.18	4.24	4.29	4.34	4.40	4.46	4.52	4.57	4.63	4.68	4.73	4.78	4.84	4.89	5.15	5.16	
Norway	4.25	4.55	4.52	4.49	4.44	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.39	4.38	4.38	4.37		
Australia	4.35	4.59	4.59	4.57	4.57	4.63	4.67	4.78	4.88	4.98	5.01	5.05	5.08	5.14	5.21	5.27	5.48	5.57	
India	5.25	5.79	6.10	6.28	6.40	6.46	6.66	6.70	6.80	6.82	6.85	6.91	7.01	6.97	7.01	7.05	7.19	7.48	7.55

Below 0%
0% or higher
0.5% or higher
1.0% or higher

Note: Figures are as of August 25, 2026. Some figures are estimated by linearly interpolating missing values.
Source: Bloomberg.

Chart 20

Global Real Interest Rate Map

(Japan's real policy interest rate remains at the lowest level in the world)

%

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year
Japan	-1.24	-0.79	-0.57	-0.36	-0.19	-0.10	0.22	0.34	0.56	0.64	0.65	0.93	1.21	1.49	1.76	2.04	1.52	1.82	1.91
Ireland	-0.73	-0.40	-0.36	-0.28	-0.21	-0.21	-0.14	-0.01	0.07	0.09	0.22	0.28	0.34	0.40	0.46	0.51	0.63	0.74	
Portugal	-0.71	-0.38	-0.29	-0.23	-0.11	-0.03	0.05	0.20	0.27	0.35	0.45	0.51	0.57	0.63	0.69	0.75	0.98	1.11	
Spain	-0.64	-0.37	-0.17	-0.08	-0.02	0.07	0.16	0.25	0.38	0.47	0.61	0.68	0.74	0.81	0.87	0.94	1.03	1.32	
Switzerland	-0.48	-0.28	-0.43	-0.34	-0.30	-0.28	-0.22	-0.20	-0.18	-0.12	-0.11	-0.08	-0.06	-0.03	0.00	0.03	0.16	0.07	0.08
Netherlands	-0.31	-0.01	0.10	0.16	0.21	0.24	0.35	0.40	0.46	0.52	0.58	0.63	0.68	0.73	0.77	0.83	0.98	1.01	
Canada	-0.29	0.11	0.36	0.44	0.59	0.68	0.73	0.79	0.89	0.99	1.09	1.11	1.14	1.17	1.20	1.23	1.37	1.52	
Germany	-0.25	-0.03	0.16	0.15	0.19	0.26	0.30	0.39	0.41	0.50	0.55	0.61	0.67	0.72	0.78	0.84	0.99	1.06	
Italy	-0.24	0.13	0.39	0.47	0.64	0.77	0.91	1.00	1.15	1.30	1.38	1.46	1.54	1.63	1.71	1.79	1.97	2.18	
Denmark	-0.15	0.39	0.60	0.64	0.71	0.77	0.81	0.86	0.90	0.96	1.03	1.04	1.06	1.07	1.09	1.10	1.18	1.38	
Finland	-0.11	0.43	0.35	0.43	0.53	0.61	0.73	0.80	0.87	0.95	1.02	1.08	1.14	1.20	1.26	1.31	1.40	1.56	
Austria	-0.05	0.37	0.41	0.45	0.52	0.59	0.67	0.76	0.82	0.91	0.96	1.02	1.08	1.14	1.20	1.26	1.43	1.52	1.52
Sweden	0.29	0.72	0.95	1.06	1.19	1.26	1.32	1.37	1.47	1.50	1.56	1.57	1.59	1.61	1.63	1.64	1.74		
Australia	0.33	0.57	0.57	0.55	0.55	0.61	0.65	0.76	0.86	0.96	0.99	1.03	1.06	1.13	1.19	1.25	1.46	1.55	
United States	0.52	0.77	0.95	1.01	1.06	1.11	1.17	1.24	1.29	1.34	1.40	1.45	1.50	1.56	1.61	1.66	1.93	1.94	
India	0.54	1.07	1.39	1.56	1.68	1.74	1.94	1.99	2.08	2.11	2.13	2.19	2.30	2.26	2.30	2.33	2.47	2.76	2.84
United Kingdom	0.55	0.85	1.11	1.22	1.27	1.33	1.39	1.51	1.66	1.70	1.79	1.90	2.01	2.08	2.14	2.21	2.44	2.52	2.49
France	0.56	1.03	1.16	1.29	1.35	1.56	1.64	1.79	1.98	2.02	2.21	2.28	2.34	2.40	2.46	2.53	2.76	3.00	
Norway	0.95	1.25	1.22	1.19	1.14	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.08	1.08	1.07		
China	1.78	0.03	0.06	0.08	0.15	0.22	0.27	0.33	0.38	0.43	0.47	0.50	0.53	0.56	0.59	0.62	0.91	0.95	

Below -1.0%
-1.0% or higher
-0.5% or higher
0% or higher

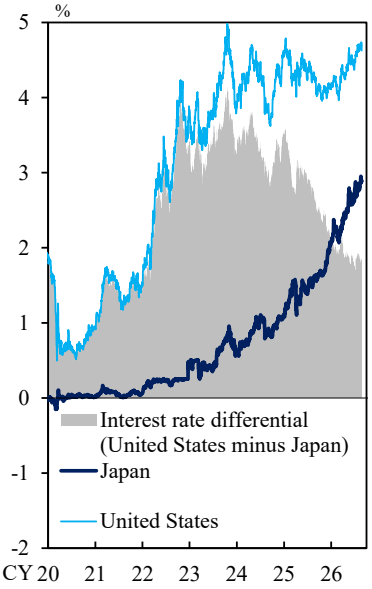
Note: Figures are as of August 25, 2026. Some figures are estimated by linearly interpolating missing values. Figures are adjusted to real terms using the IMF's CPI forecast for each country (2026).
Sources: Bloomberg; IMF.

Chart 21

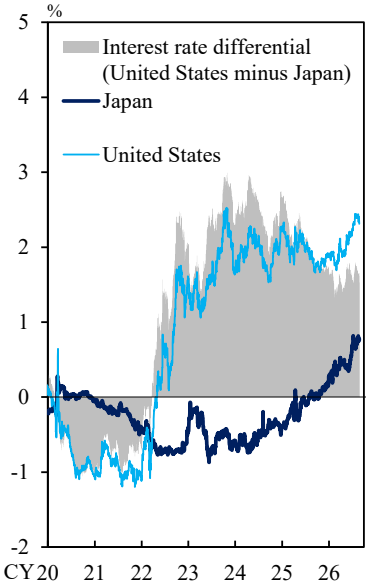
U.S.-Japan Interest Rate Differential and Exchange Rate

(Both nominal and real interest rate differentials have attracted market attention)

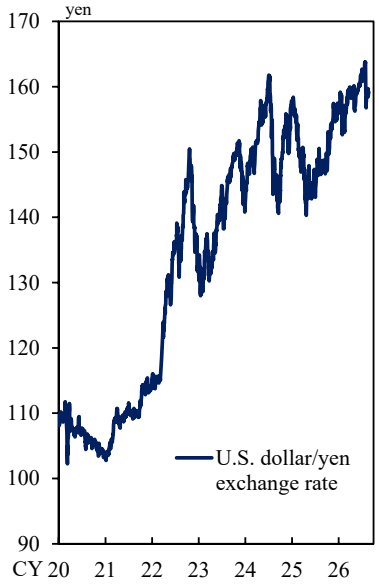
Nominal Long-Term Interest Rates



Real Long-Term Interest Rates



Exchange Rate

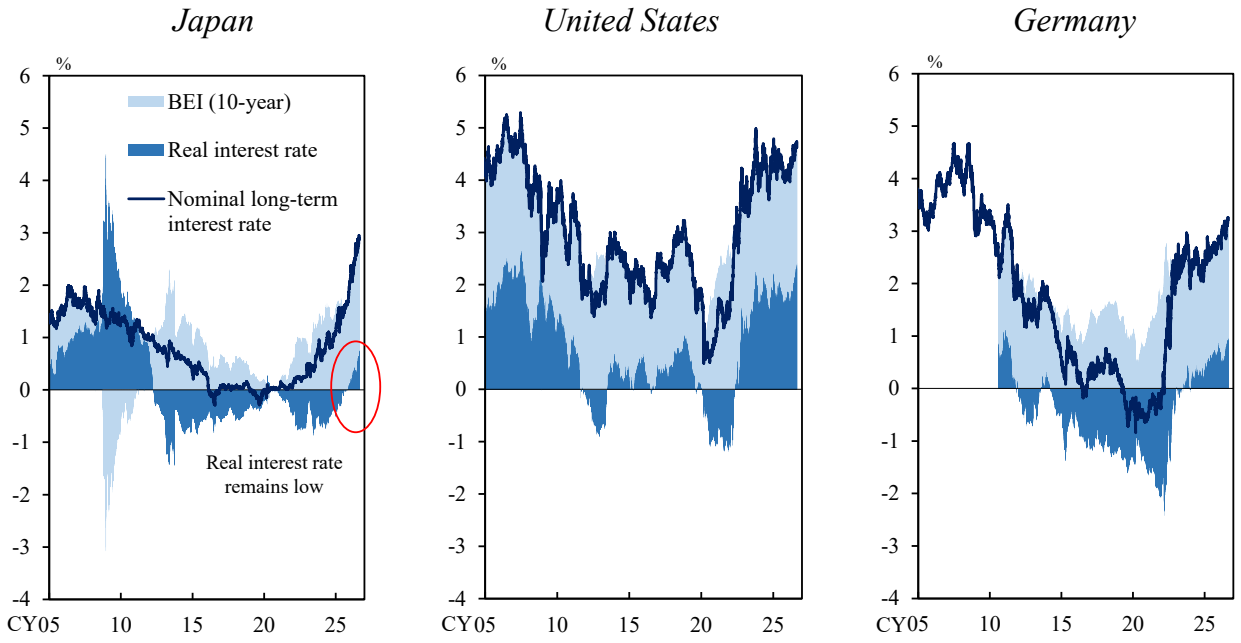


Note: Real long-term interest rates are calculated using nominal long-term interest rates and BEI rates.
Sources: Bloomberg; LSEG.

Chart 22

Decomposition of Nominal Long-Term Interest Rates

(Increase in Japan's long-term interest rate is driven by inflation expectations, while the real interest rate remains low)

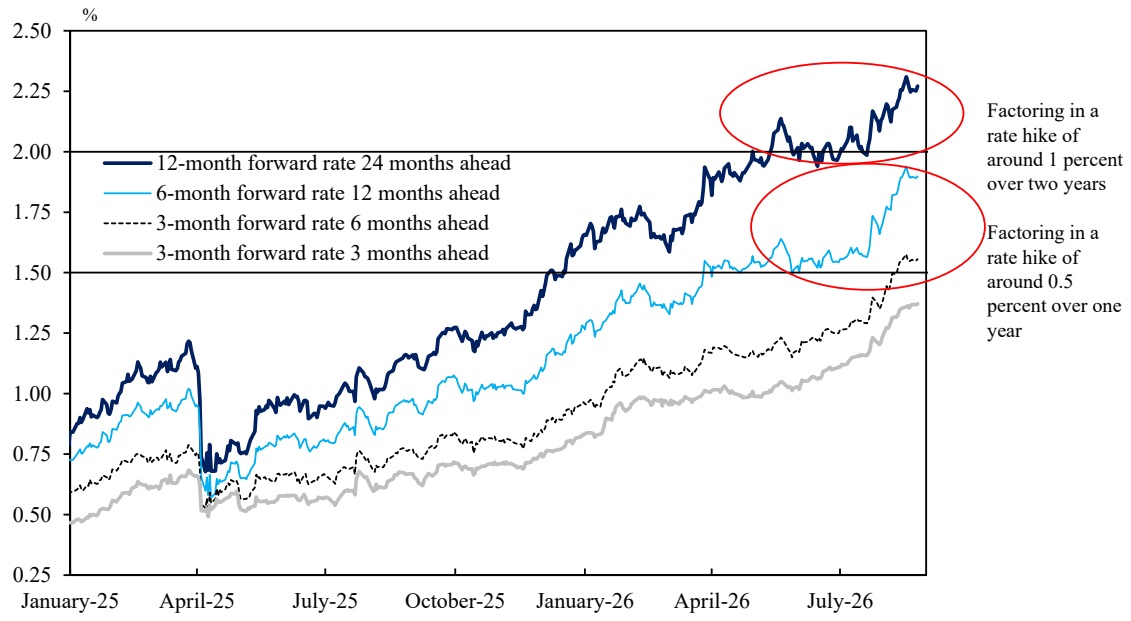


Source: LSEG.

Chart 23

Yen-OIS Forward Rates

(Markets until recently factored in rate hikes of around 0.5 percent over one year and 1 percent over two years)



Source: LSEG.

Chart 24

My View on Mechanism of Expanding Corporate Profits and Ensuing Challenges

(Expanding corporate profits have spilled over to households, SMEs, and regional firms)

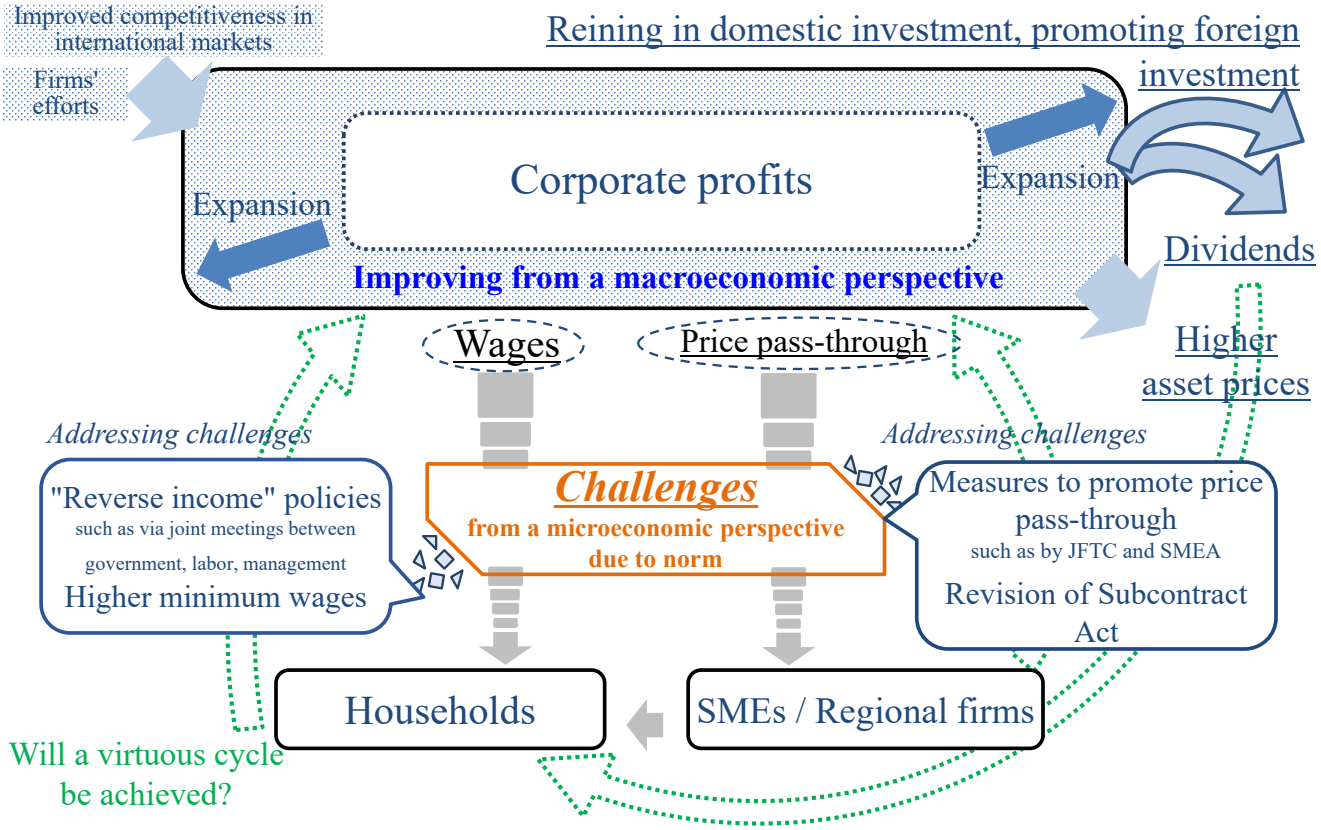
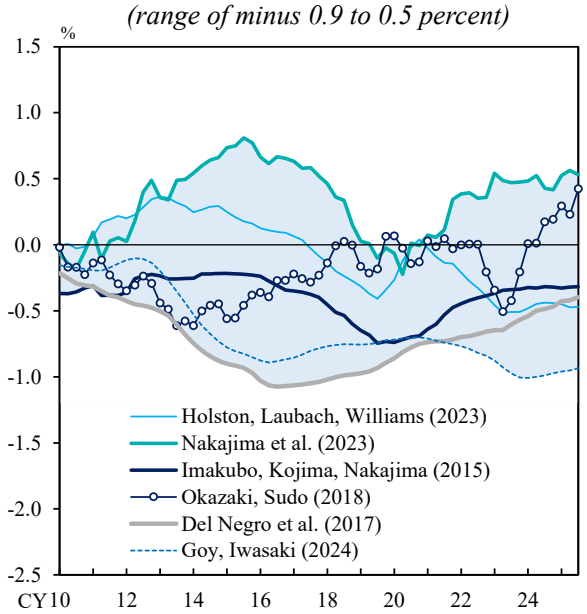


Chart 25

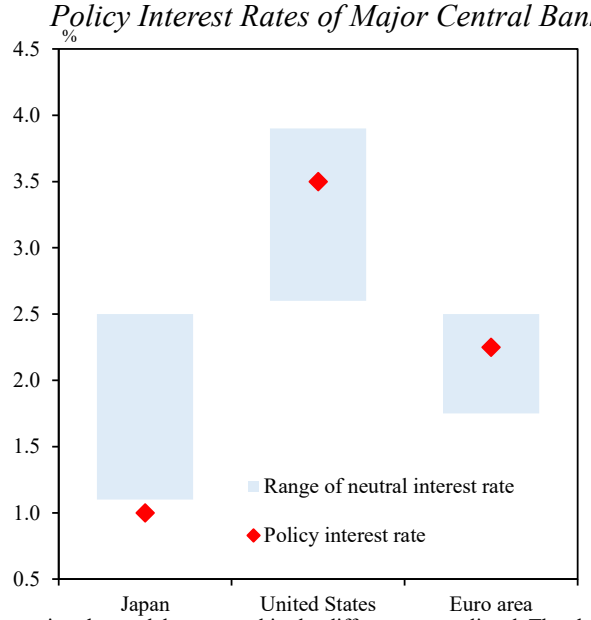
Natural Rate of Interest, Neutral Interest Rate, and Policy Interest Rates

(Japan's neutral interest rate is estimated to be in the 1.1-2.5 percent range, and Japan's policy interest rate is outside the range)

Natural Rate of Interest in Japan
(range of minus 0.9 to 0.5 percent)



Range of Neutral Interest Rate and Policy Interest Rates of Major Central Banks



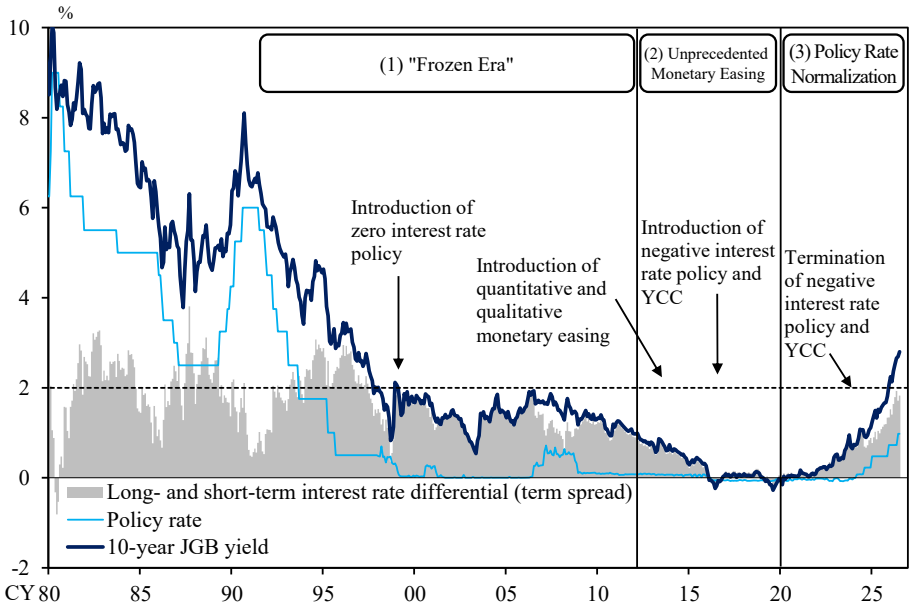
Notes: 1. In the left panel, estimates are based on Bank staff calculations using the models proposed in the different papers listed. The shaded area shows the estimated range of the natural rate of interest.
2. In the right panel, as the Federal Reserve does not officially publish the range of the neutral interest rate, the range for the United States is based on the FOMC members' longer-run projections for the federal funds rate in the Summary of Economic Projections released after the June 2026 FOMC meeting. The estimated range of the neutral interest rate for the euro area refers to the figures mentioned in a recent speech by Philip R. Lane, a member of the Executive Board of the ECB.

Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; ECB; Federal Reserve; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 26

Developments in Japan's Long- and Short-Term Interest Rates

(Term spread reflects the risk premium on JGB investments)



Notes: 1. Figures for the policy interest rate before 1998 are the basic discount rate and basic loan rate (official discount rate), and those for 1998 onward are the uncollateralized overnight call rate.
2. Figures for 10-year JGB yields before 1987 are over-the-counter quotes.
Sources: Ministry of Finance; Bank of Japan.

Chart 27

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

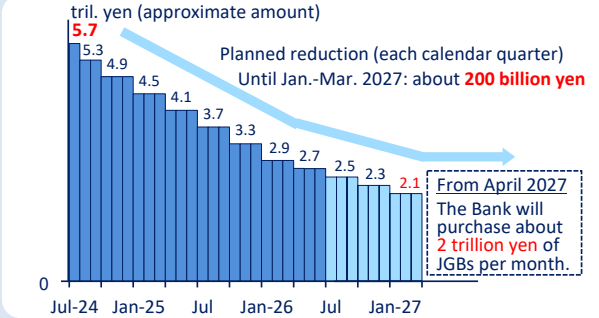
1. In principle, long-term interest rates are to be formed in financial markets.
2. It is appropriate for the Bank to conduct the purchases of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets.

➢ 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.

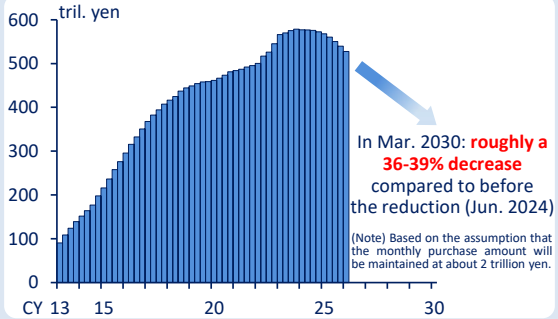
- Until January-March 2027 : The Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter (the reduction plan decided in June 2025 will be maintained).
- From April 2027 : The amount of its monthly purchases of JGBs will be about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

Purchases of JGBs in a Predictable Manner

Amount of monthly JGB purchases



The Bank's JGB holdings



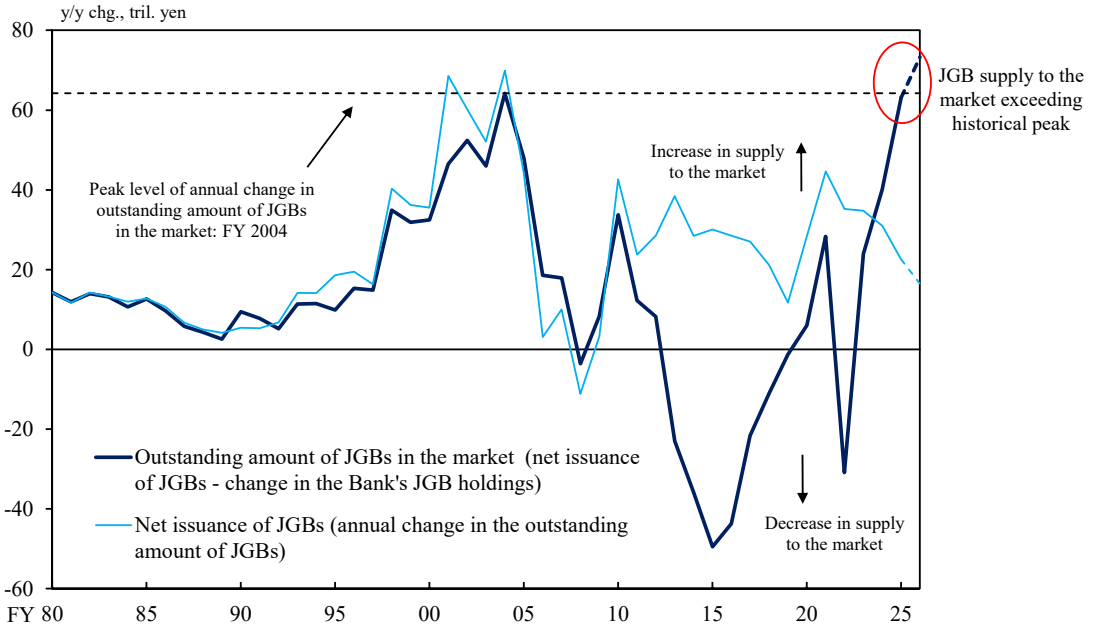
Allowing Enough Flexibility

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.

Chart 28

Historically Large Annual Change in Outstanding Amount of JGBs in the Market

(JGB supply to the market is estimated to exceed the historical peak due to a reduction in the Bank's purchases)



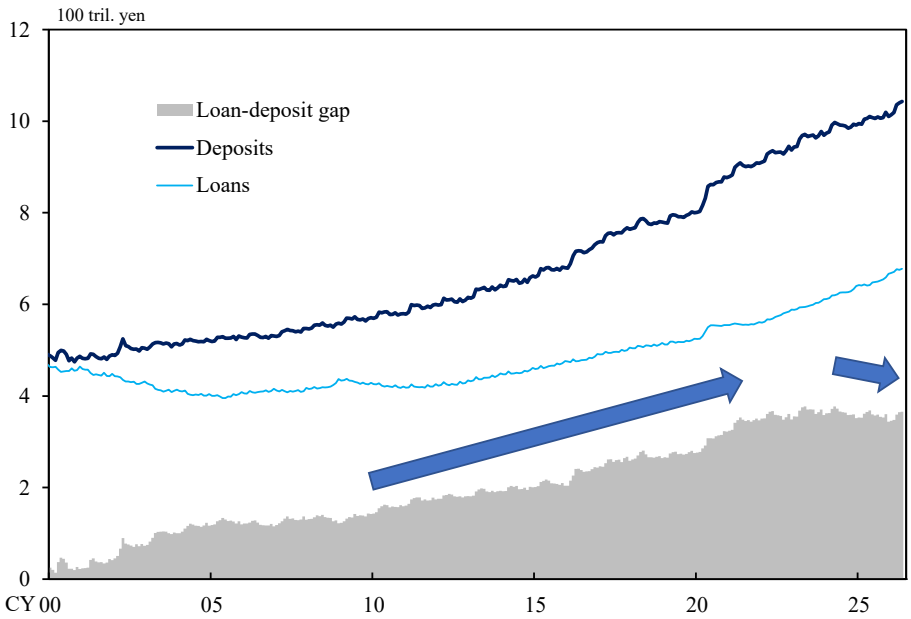
Notes: 1. Figures are on a book value basis and exclude short-term government securities.
2. Figures for fiscal 2026 are estimated using the Ministry of Finance's JGB issuance plan for that fiscal year, the revision to the previous fiscal year's plan, and the Bank's plan for the reduction in JGB purchases.

Sources: Cabinet Office; Ministry of Finance; Bank of Japan.

Chart 29

Developments in the Loan-Deposit Gap at Japanese Banks

(The loan-deposit gap supporting JGB demand has narrowed, marking a historical turning point)



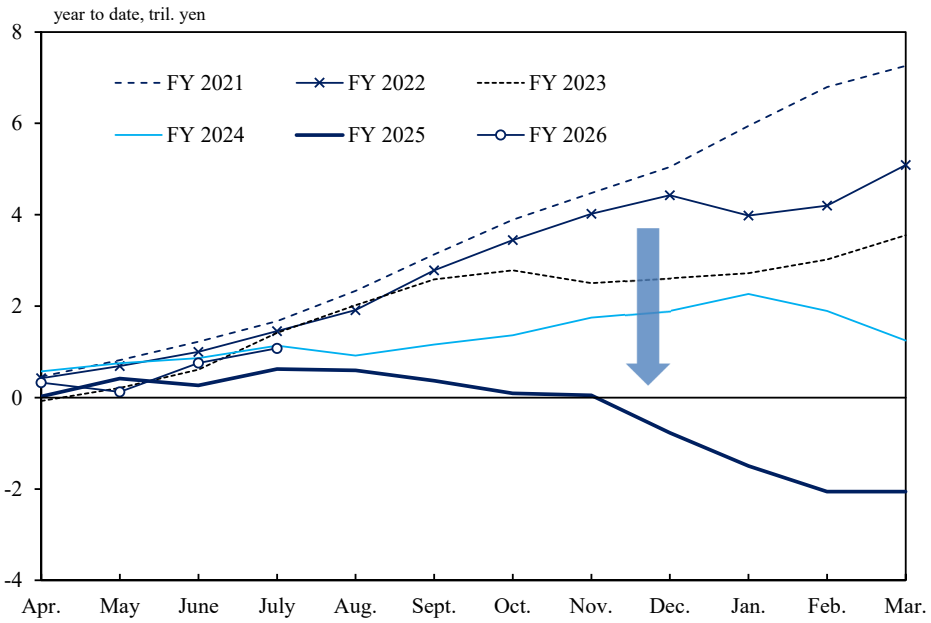
Note: Figures are for domestically licensed banks.

Source: Bank of Japan.

Chart 30

Net Purchases of Super-Long-Term JGBs by Life and Non-Life Insurance Companies in Japan

(Insurers, so far major buyers of super-long-term JGBs, have reduced their net purchases)



Source: Japan Securities Dealers Association.

Chart 31

Global Real Interest Rate Map

(Japan's real super-long-term interest rates are now at a high level even compared to those overseas)

%

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year
Japan	-1.24	-0.79	-0.57	-0.36	-0.19	-0.10	0.22	0.34	0.56	0.64	0.65	0.93	1.21	1.49	1.76	2.04	1.52	1.82	1.91
Ireland	-0.73	-0.40	-0.36	-0.28	-0.21	-0.21	-0.14	-0.01	0.07	0.09	0.22	0.28	0.34	0.40	0.46	0.51	0.63	0.74	
Portugal	-0.71	-0.38	-0.29	-0.23	-0.11	-0.03	0.05	0.20	0.27	0.35	0.45	0.51	0.57	0.63	0.69	0.75	0.98	1.11	
Spain	-0.64	-0.37	-0.17	-0.08	-0.02	0.07	0.16	0.25	0.38	0.47	0.61	0.68	0.74	0.81	0.87	0.94	1.03	1.32	
Switzerland	-0.48	-0.28	-0.43	-0.34	-0.30	-0.28	-0.22	-0.20	-0.18	-0.12	-0.11	-0.08	-0.06	-0.03	0.00	0.03	0.16	0.07	0.08
Netherlands	-0.31	-0.01	0.10	0.16	0.21	0.24	0.35	0.40	0.46	0.52	0.58	0.63	0.68	0.73	0.77	0.83	0.98	1.01	
Canada	-0.29	0.11	0.36	0.44	0.59	0.68	0.73	0.79	0.89	0.99	1.09	1.11	1.14	1.17	1.20	1.23	1.37	1.52	
Germany	-0.25	-0.03	0.16	0.15	0.19	0.26	0.30	0.39	0.41	0.50	0.55	0.61	0.67	0.72	0.78	0.84	0.99	1.06	
Italy	-0.24	0.13	0.39	0.47	0.64	0.77	0.91	1.00	1.15	1.30	1.38	1.46	1.54	1.63	1.71	1.79	1.97	2.18	
Denmark	-0.15	0.39	0.60	0.64	0.71	0.77	0.81	0.86	0.90	0.96	1.03	1.04	1.06	1.07	1.09	1.10	1.18	1.38	
Finland	-0.11	0.43	0.35	0.43	0.53	0.61	0.73	0.80	0.87	0.95	1.02	1.08	1.14	1.20	1.26	1.31	1.40	1.56	
Austria	-0.05	0.37	0.41	0.45	0.52	0.59	0.67	0.76	0.82	0.91	0.96	1.02	1.08	1.14	1.20	1.26	1.43	1.52	1.52
Sweden	0.29	0.72	0.95	1.06	1.19	1.26	1.32	1.37	1.47	1.50	1.56	1.57	1.59	1.61	1.63	1.64	1.74		
Australia	0.33	0.57	0.57	0.55	0.55	0.61	0.65	0.76	0.86	0.96	0.99	1.03	1.06	1.13	1.19	1.25	1.46	1.55	
United States	0.52	0.77	0.95	1.01	1.06	1.11	1.17	1.24	1.29	1.34	1.40	1.45	1.50	1.56	1.61	1.66	1.93	1.94	
India	0.54	1.07	1.39	1.56	1.68	1.74	1.94	1.99	2.08	2.11	2.13	2.19	2.30	2.26	2.30	2.33	2.47	2.76	2.84
United Kingdom	0.55	0.85	1.11	1.22	1.27	1.33	1.39	1.51	1.66	1.70	1.79	1.90	2.01	2.08	2.14	2.21	2.44	2.52	2.49
France	0.56	1.03	1.16	1.29	1.35	1.56	1.64	1.79	1.98	2.02	2.21	2.28	2.34	2.40	2.46	2.53	2.76	3.00	
Norway	0.95	1.25	1.22	1.19	1.14	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.09	1.08	1.08	1.07		
China	1.78	0.03	0.06	0.08	0.15	0.22	0.27	0.33	0.38	0.43	0.47	0.50	0.53	0.56	0.59	0.62	0.91	0.95	

Below -1.0%
-1.0% or higher
-0.5% or higher
0% or higher

Note: Figures are as of August 25, 2026. Some figures are estimated by linearly interpolating missing values. Figures are adjusted to real terms using the IMF's CPI forecast for each country (2026).
Sources: Bloomberg; IMF.