



October 15, 2026

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Kumamoto

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(English translation based on the Japanese original)

Please allow me first to offer my sincere condolences to all those affected by the 2026 Kumamoto Earthquake. I would also like to express my deepest respect to all those who have dedicated themselves to the recovery and reconstruction efforts.

I. Current Situation and Outlook for Economic Activity and Prices

Three Perspectives

Today, I would like to begin by noting three perspectives that I have recently had in mind when assessing economic activity and prices, and then I will explain the current situation and outlook for economic activity and prices.

The first perspective centers on AI. Over the past six months, or even the past few months, AI progress has been remarkable. For Japan, AI could stimulate related demand in the short run, including that from overseas, and put upward pressure on prices. In the longer run, however, it could have a multifaceted impact on economic activity and prices, and I would like to elaborate on this later.

The second perspective involves geopolitical risks. In recent years, it seems that geopolitical risks have been materializing more frequently than in the past, as seen in the situation in Ukraine since spring 2022 and the situation in the Middle East since this spring. Every time these risks materialized, prices of crude oil and other international commodities rose significantly (left panel of Chart 1). Moreover, looking at foreign exchange rates, the appreciation of the yen as a safe-haven currency in times of crisis has become less evident in recent years (right panel of Chart 1). When the situation in the Middle East escalated this spring, the yen remained on a depreciation trend amid a surge in crude oil prices. Reflecting such market and exchange rate factors, import prices have risen significantly, as shown in the left panel of Chart 2. In recent years, not only market factors stemming from the materialization of geopolitical risks but also exchange rate factors appear to have been pushing up import prices. Higher import prices tend to lead to a rise in the producer price index (PPI), as Japan is dependent on imports of energy and food (right panel of Chart 2).¹

¹ The pace of price pass-through of rising PPI has been analyzed in the boxes in past issues of the *Outlook for Economic Activity and Prices* (Outlook Report). For recent examples, see Box 3 in the July 2026 Outlook Report and Box 2 in the April 2026 Outlook Report.

This prompts me to place greater emphasis on upside risks to prices amid heightened geopolitical risks. In line with this view, an international comparison suggests that price increases that accompany geopolitical shocks tend to be more apparent in Japan.²

Geopolitical tensions could also have a negative impact on Japan's terms of trade and tighten supply-side constraints. Concerns over an economic slowdown stemming from this year's Middle East situation, however, seem to have eased, because of the drawdown in stockpiles of petroleum and alternative sourcing, as well as broader-than-expected AI-related demand.

The third perspective concerns natural disaster risks. Japan has been able to strengthen its capacity to respond to and recover from earthquakes and other natural disasters, thanks to the years of dedication of all involved. That said, amid ongoing climate change, extreme heat is becoming more severe, and heavy rains that can cause flood damage are becoming more frequent and intense across the globe. Japan itself has suffered record-breaking heavy rains and resulting flood damage, caused by linear rainbands. Although Japan is noted for its high resilience to natural disasters, how to maintain this resilience in the long run is a critical issue that could affect the underlying strength of Japan's economy, given the declining population and aging infrastructure.³

Economic Developments

Having these three perspectives in mind, I would first like to discuss recent developments in overseas economies. AI- or IT-related demand has been driving world economic growth. Notably, AI-related business fixed investment has been rising significantly in the U.S. economy, accounting for about a quarter of nominal global GDP, and exports from the NIEs and from ASEAN economies have rapidly increased, as these economies play an important

² For an international comparison, see, for example, Caldara, D. et al., "Do Geopolitical Risks Raise or Lower Inflation?" *Journal of International Economics* 159, no. 104188 (January 2026): fig. 8.

³ Japan's high risk of natural disasters and its strong resilience to them are referred to, for example, in the following report: International Monetary Fund, Asia and Pacific Department, "Japan: 2022 Article IV Consultation -- Staff Report," *IMF Country Report* 2022, no. 099 (April 2022). For an analysis of flood damage, see, for example, Ashizawa, T. et al., "Physical Risks from Climate Change Faced by Japan's Financial Institutions: Impact of Floods on Real Economy, Land Prices, and FIs' Financial Conditions," *Bank of Japan Review Series*, no. 22-E-2 (March 2022).

role in global IT supply chains (Chart 3). These recent developments show that the world economy has continued to grow, despite the impact of the situation in the Middle East.

Turning to recent economic developments in Japan, corporate profits have remained at high levels (Chart 4). The latest September 2026 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) shows that business fixed investment has generally been on a moderate increasing trend, without significant deterioration in business sentiment (Charts 4 and 5). With wage growth continuing, solid wage revisions were achieved this spring, aiming to secure labor in light of labor shortages (Chart 6, and right panel of Chart 8). Please refer to Chart 7. In terms of spending, deterioration in consumer sentiment has leveled off, and the Consumption Activity Index (CAI) excluding inbound tourism consumption has been solid thus far, despite the situation in the Middle East. Under these circumstances, the output gap has remained positive, and the potential growth rate has been resilient partly due to the stable growth in productivity (left panel of Chart 8, and right panel of Chart 9). Given these developments, my view is that Japan's recent economic indicators have been solid overall.

That said, as shown in the left panel of Chart 9, the contribution to the year-on-year rate of change in real GDP indicates that private demand has been somewhat weak recently. This is mainly caused by technical factors in statistical compilation but also reflects developments in construction and housing investments that have been affected by, for example, a surge in material prices. It is worth noting that growth in real net exports is driven more by a decrease in imports than by an increase in exports. The yen's depreciation is theoretically considered to boost export competitiveness, but in reality, the decrease in imports of petroleum-related products reflecting the situation in the Middle East has outweighed export growth.

Price Developments in Japan

Next, I would like to discuss price developments. Please refer to Chart 10. There are signs of expansion in the year-on-year increase in the consumer price index (CPI). Prices seem to have risen markedly for items that firms believe consumers will continue to buy even after price increases, amid active business-to-business (B2B) price pass-through driven by the high growth in import prices (right panel of Chart 2). For example, restaurant-served sushi, a services item, has recently been pushing up the CPI. I believe this reflects the price pass-

through of higher costs of imported food stemming from the yen's depreciation, given solid inbound tourism demand.

In this context, prices have continued to rise across a wide range of items, with over 70 percent of the more than 500 goods and services items in the CPI increasing year-on-year (right panel of Chart 11). The left panel of Chart 11 shows a histogram of the year-on-year price change by item, where one item counts for one value. The chart shows that the peak once seen around 0 percent has decreased, and that the center of distribution has shifted to the right. The corresponding monthly data from fiscal 2026 indicates that the latest median remains in the early 2 percent range, around the same level as in fiscal 2025.

I have been referring to "the interaction of wages and prices" as the situation in which a moderate rise in prices and wages, accompanied by a rise in labor productivity, results in an increase in real wages and consumption. In assessing the second-round effects and the sustainability of this interaction, the pass-through from prices to wages and from wages to prices should be monitored. Regarding the pass-through from prices to wages, many firms consider business performance the most important factor when deciding on wage revisions.⁴ Continued moderate economic growth and solid business performance is therefore important for the sustained pass-through from prices to wages. Regarding the pass-through from wages to prices, on the other hand, demand-side factors, such as the transmission from income to consumption, and supply-side factors, such as the progress in passing on higher personnel expenses to prices, should be monitored.

Recruiting and retaining employees is another important factor when firms consider wage hikes. Various aspects of wage developments that differ across industries and firm size should be noted to understand firms' wage- and price-setting behavior. These aspects include how labor shortages spur mergers and acquisitions (M&As), business closures, and wage gains from job switching.

⁴ For details, see Ministry of Health, Labour and Welfare, *Survey on Wage Increase*, 2025.

Outlook for Economic Activity and Prices

Next, I would like to discuss the outlook for economic activity and prices and the risk balances. The Bank of Japan's nine Policy Board members indicate their respective forecasts for Japan's economic activity and prices at the Monetary Policy Meetings (MPMs) held in the month in which the Outlook Report is released. The members' latest forecasts, as of July 2026, indicate that risks to economic activity are balanced; on the other hand, risks to prices continue to be skewed to the upside for both fiscal 2026 and 2027 (Chart 12). Attention is being paid to upside risks to prices stemming from the yen's depreciation and strong global AI-related demand, in addition to the impact of the situation in the Middle East.

Let me elaborate a little on AI. In the short run, AI-related exports and labor-saving investment amid labor shortages stimulate demand, and strong global AI-related demand has been exerting inflationary pressure. AI-related exports have recently been mitigating the deterioration in the terms of trade, while the expansion in AI-related demand could increase imports of related goods and services. Looking ahead, I believe it will be necessary to pay attention to both AI-related exports and imports.

Moreover, as already widely discussed, AI will also have a significant impact on labor market conditions. That said, no clear indications of AI displacing labor are currently observed in Japan, as the June 2026 *Tankan* indicates an increase in the number of new graduates hired. This may be because Japan has faced labor shortages, and perhaps because the ability to substitute AI for labor has been received rather positively thus far. Furthermore, the impact of AI on macroeconomic productivity is another important point. Attention should be paid to the possibility that AI-related cyberattacks could become a negative productivity shock. At the same time, a topic for discussion in considering monetary policy stance is whether AI supports both investment to make up for labor shortages and efforts to raise productivity, and whether it contributes to raising the potential growth rate.

II. Conduct of Monetary Policy

Financial Conditions and Various Economic Entities

Following the policy interest rate hike in September 2026, the uncollateralized overnight call rate has increased to around 1.25 percent (Chart 13). Long-term interest rates, which were

once extremely low, have recently been increasing amid higher interest rates observed globally (Chart 15).

I believe it is important to examine how the change in the policy interest rate affects financial conditions as well as economic activity and prices. From this perspective, I would like to explain my view on the current situation for economic entities. My view on the situation for the government sector has not changed, so I will explain the situation for households and firms in the following. Overall, I believe Japan's financial conditions have remained accommodative.

Regarding households, housing loans, generally held by the working generation, make up the bulk of household liabilities and are mostly on a variable-rate basis linked to prime lending rates. In terms of life cycle trends in Japan, employees in their 20s and 30s -- the generation that typically purchases homes -- tend to enjoy relatively high wage growth, and as they reach their 40s and 50s, their interest-generating financial assets also increase. Given this context, the recent interest rate increases are not necessarily expected to reduce the overall consumption of the working generation. Still, I would like to examine the accumulated impact of policy interest rate hikes on household behavior.

With regard to firms, Chart 14 suggests no significant changes in firms' financial positions and financial institutions' lending attitudes; hence, I assess that firms' funding conditions have remained favorable on the whole. In terms of funding demand, the September 2026 *Tankan* shows that business fixed investment plans have remained solid as a whole (right panel of Chart 5). Although some weakness has been seen among small firms in nonmanufacturing, no major deterioration is apparent. The results of different surveys show that the main factor pushing down domestic business fixed investment plans thus far is not the rise in interest rates, but rather a change in plans because of the surge in construction costs, the careful review and streamlining of investment components, and delays in construction schedules.⁵

⁵ For details, see the *Survey on Planned Capital Spending* for fiscal 2026, published by the Development Bank of Japan (DBJ).

Neutral Interest Rate

In terms of the conduct of monetary policy, it is important to take into consideration the neutral interest rate, derived by converting the natural rate of interest, which is based on the real interest rate, into nominal terms. The neutral interest rate refers to the interest rate level at which economic activity and prices neither accelerate nor decelerate.

While the neutral interest rate is not directly observable, a possible candidate could be calculated by adding 2 percent -- equivalent to the price stability target -- to the potential growth rate, assuming that the potential growth rate will approximately equal the natural rate of interest in the long run. As the potential growth rate has been slightly positive, the current estimate of the neutral interest rate could be above 2 percent. Another possible candidate for the neutral interest rate is the value to which short-term interest rates converge. A standard model of interest rates often assumes mean reversion -- that is, short-term interest rates are prone to reverting to a certain mean level in the long run. In Japan, interest rates remained low, around 0 percent, for a long period under the unconventional monetary policy; if this period is predominantly included in estimating the converged short-term interest rate, the estimated value will be low. On the other hand, amid the transition to the positive interest rate environment, the converged rate is likely to have increased. For these reasons, I believe that the level of the neutral interest rate is considerably above 1 percent, which is roughly the lower bound of the estimated range.⁶

Moreover, long-term interest rates are theoretically considered to reflect policy interest rate expectations and risk premiums (or term premiums). If the market perceives that the policy interest rate is approaching the neutral interest rate, and if market expectations for future policy interest rates converge, changes in interest rates in the long-term zone will be driven by risk premiums. On this point, I will continue to closely monitor the impact on risk

⁶ As the neutral interest rate involves the concept of macroeconomic equilibrium, which neither accelerates nor decelerates economic activity and prices, I believe it is necessary to consider the rate in real terms. The Bank releases estimates for the range of the natural rate of interest in real terms, which is at around minus 0.9 to 0.5 percent. When converted into nominal terms by adding 2 percent -- the price stability target -- the neutral interest rate falls in the range of around 1.1-2.5 percent. See Bank of Japan, Monetary Affairs Department, "Developments in the Natural Rate of Interest and the Assessment of the Degree of Monetary Accommodation," *Bank of Japan Review Series*, no. 26-E-4 (March 2026).

premiums of fiscal policies, inflation risk, and institutional investors' views of interest rates. Various factors affect risk premiums. For example, when crude oil prices surge, concerns over inflation are factored into global bond prices, which in turn can contribute to pushing up Japan's long-term interest rates. Supply-and-demand factors include the current situation and the outlook for the supply side of government bonds, which are linked to fiscal factors. They also include demand for safe assets, which can grow in tandem with interest rate increases, and changes in the size of the central bank's balance sheet. Generally speaking, the impact on long-term interest rates of changes in central bank holdings of government bonds may be smaller during the passive reduction phase than the active expansionary phase.⁷ I will elaborate on the Bank's efforts to reduce the size of its balance sheet later.

Progress Toward Achieving the Price Stability Target

Various indicators are used to assess underlying inflation (Charts 16 and 17). Over the past year or so, I have argued that underlying inflation has been about 2 percent on the whole, and I have been examining the extent to which it is anchored at that level. As I mentioned earlier in reference to Chart 11, the continued price increases across a wide range of CPI items and the shift in the price-change distribution seem to suggest that underlying inflation is becoming anchored at around 2 percent. Given that wages have also increased stably on the whole, it appears that sustained inflation is taking hold in Japan more than before.

In assessing the extent to which underlying inflation has been anchored, it is also necessary to examine both the supply and demand sides of the overall economy. On the demand side, because Japan's economy experienced sharp drops in domestic demand and sluggish inflation in response to major external shocks, I have been carefully monitoring the risk of weakening domestic demand posed by U.S. trade policy and the situation in the Middle East. Japan's economy, however, has shown resilience against these recent external shocks. On the supply

⁷ 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). This paper analyzes the impact of the reduction in the Bank's Japanese government bond (JGB) purchases on long-term interest rates over the period from summer 2024 to summer 2026. This period saw changes in fundamentals, as seen in an increase in underlying inflation. The analysis results suggest that the reduction in the Bank's JGB purchases, which expanded risk premiums, did not significantly affect the rise in long-term interest rates during this period.

side, I am paying more attention than before to the upside risks to prices that could be caused by the materialization of geopolitical risks or climate change risks.

Future Policy Interest Rate Hikes

I believe that the Bank should adjust the policy interest rate in a timely manner with an eye on the economic and price situation, while keeping in mind the estimated range of the neutral interest rate. In this context, it is also vital for the Bank, when examining economic and price developments as well as financial conditions, to broaden the scope and increase the resolution of its analysis, as positive interest rates have become a normal precondition for economic activity. Given that there have been considerable upside risks to prices in addition to continued accommodative financial conditions, the Bank should not become overly cautious about raising the policy interest rate.

Normalization of the Bank's Balance Sheet

The primary focus of the Bank's monetary policy conduct is to control the policy interest rate. The Bank is also currently normalizing its balance sheet, which expanded exceptionally under the long period of unconventional monetary policy. Please refer to Chart 18 for the size of the Bank's balance sheet.

Under the framework the Bank introduced in 2024 for the reduction of the amount of its JGB purchases, the Bank has been gradually reducing its JGB purchases, which expanded significantly under the unconventional monetary policy. I believe this framework was developed in light of the substantial size of JGB redemptions held by the Bank. At the June 2026 MPM, the Bank decided to reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter until March 2027, and from April 2027, to set the amount of its monthly purchases of JGBs to be about 2 trillion yen (Chart 19). From fiscal 2027, the Bank will keep the scale of JGB purchases at a fixed amount, a level lower than the initial phase of reduction, thereby stably proceeding with the redemption of its JGB holdings. In doing so, the amount of redemption would be well above that of purchases for at least several years. The substantial size of the Bank's balance sheet should not be

underestimated, and it is vital to proceed steadily with the normalization of its balance sheet. I will therefore continue to closely and carefully monitor the process of normalization.

Thank you.



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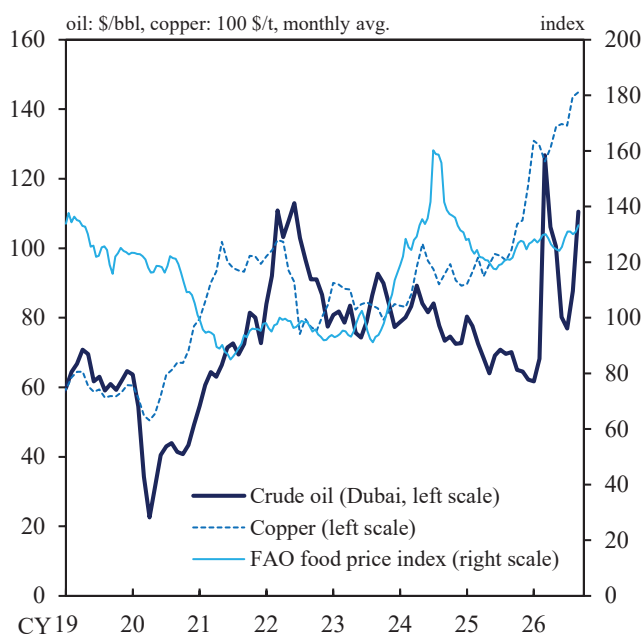
Member of the Policy Board

Bank of Japan

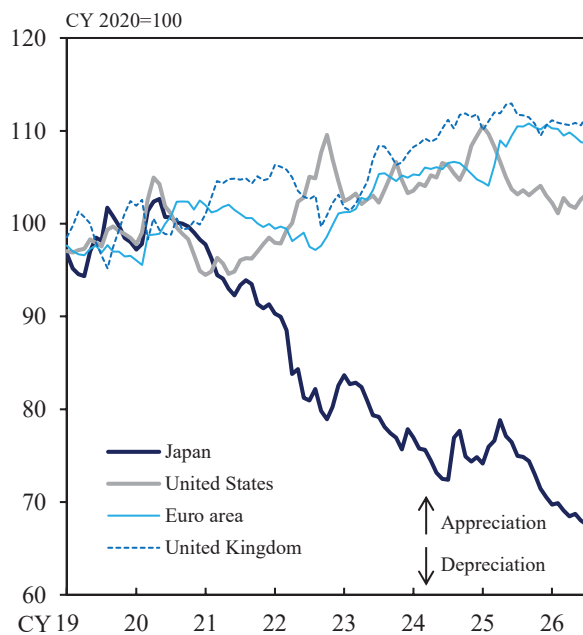
Chart 1

Commodity Prices and Effective Exchange Rates

International Commodity Prices



Nominal Effective Exchange Rates



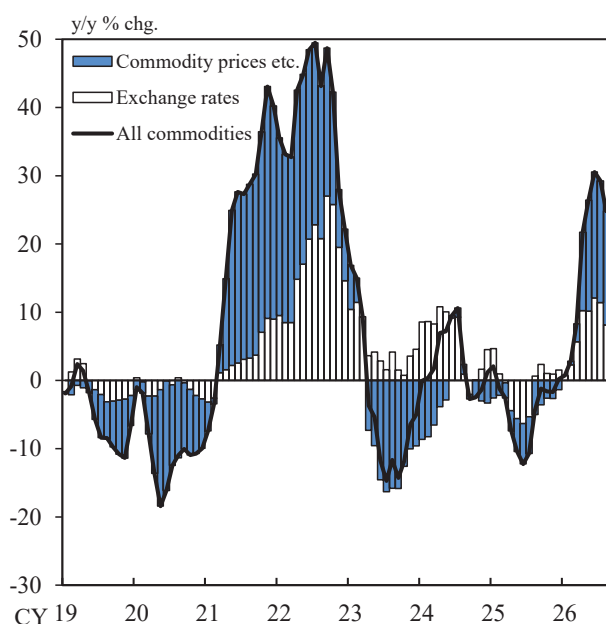
Notes: 1. In the left panel, the FAO food price index is a price index comprising meat, dairy, cereals, vegetable oils, and sugar (CY 2014-2016 average=100).

2. In the right panel, figures are based on the broad effective exchange rate indices.

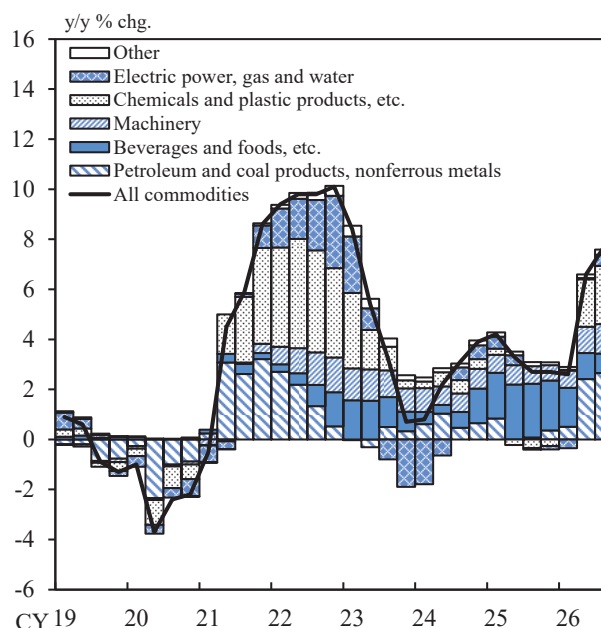
Sources: BIS; Bloomberg; FAO; Nikkei Inc.

Import Prices and Producer Price Index

Import Prices



PPI

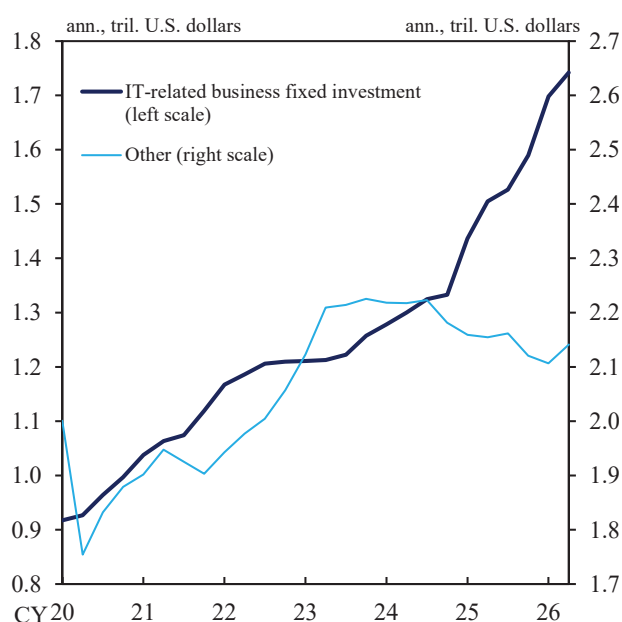


- Notes: 1. In the left panel, the contribution of changes in commodity prices etc. is calculated using changes in the import price index on a contract currency basis. The contribution of changes in exchange rates is calculated using the difference between the import price index on a yen basis and that on a contract currency basis.
2. In the right panel, figures exclude the effects of the consumption tax rate change. Figures for "beverages and foods, etc." include agriculture, forestry and fishery products.

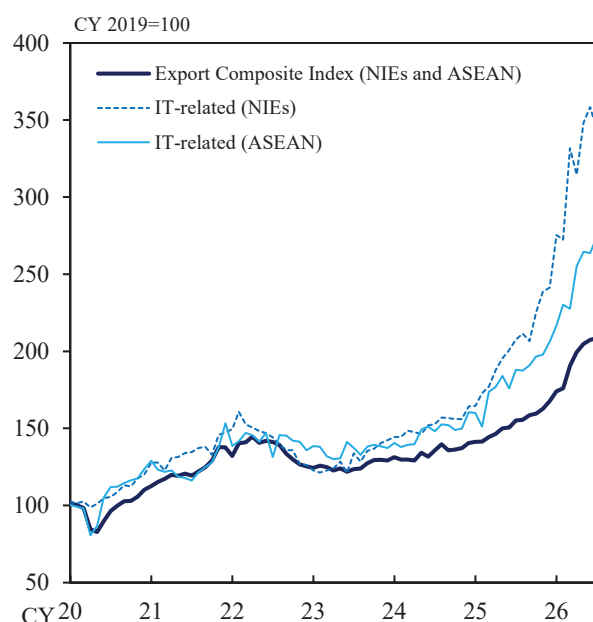
Source: Bank of Japan.

AI-Related Demand

U.S. Business Fixed Investment



Exports from NIEs and ASEAN

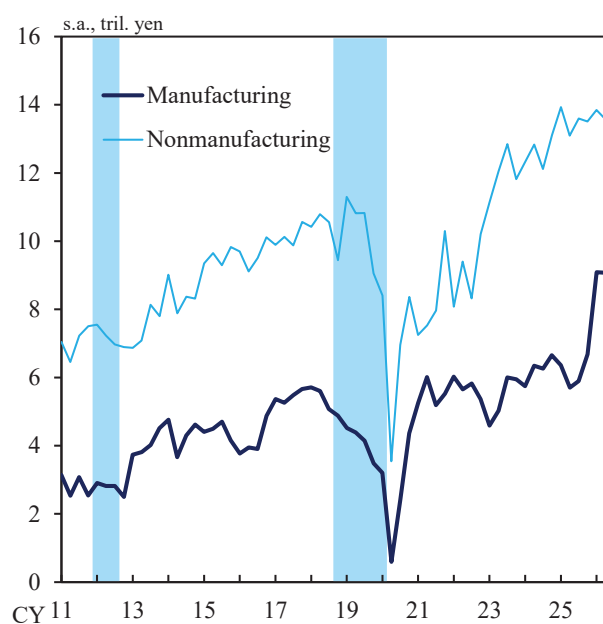


- Notes: 1. In the left panel, figures for IT-related business fixed investments are the sum of software investment, information processing equipment (within machinery investment), and data centers (within construction investment).
2. In the right panel, figures are based on nominal U.S. dollars. Unpublished data points, if any, are filled in with estimates. Figures for Export Composite Index (NIEs and ASEAN) are indices based on the sum of gross exports from the nine economies in the region.

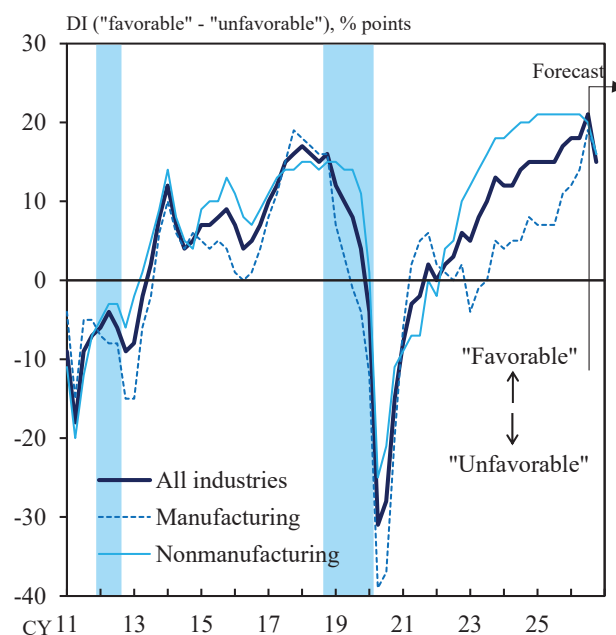
Sources: CEIC; Haver.

Corporate Sector

Operating Profits



Business Conditions

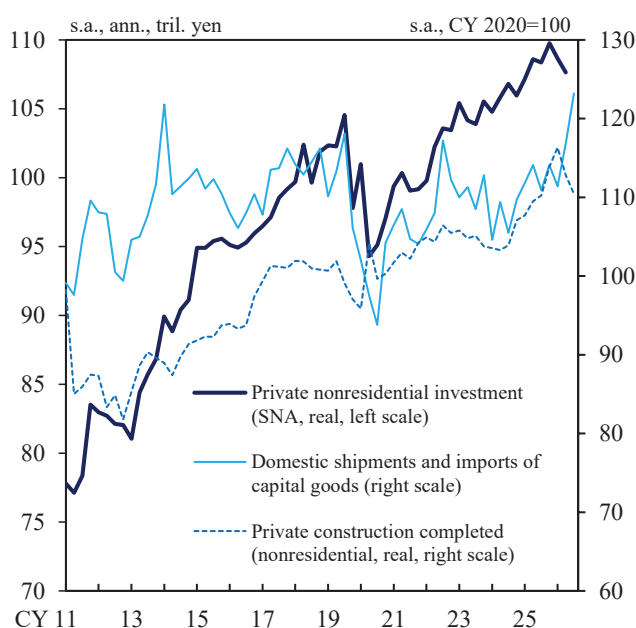


- Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude "finance and insurance" and "pure holding companies."
 2. In the right panel, figures are based on the *Tankan* and are for all enterprises.
 3. In both panels, shaded areas denote recession periods.

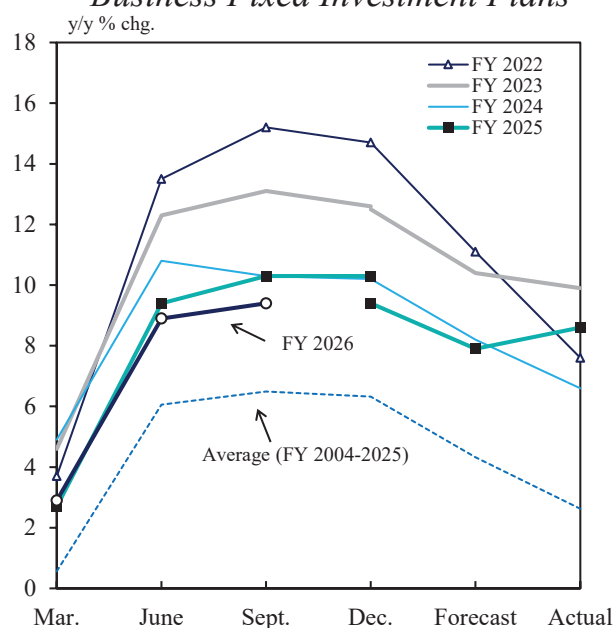
Sources: Ministry of Finance; Bank of Japan.

Business Fixed Investment

Coincident Indicators



Developments in Business Fixed Investment Plans



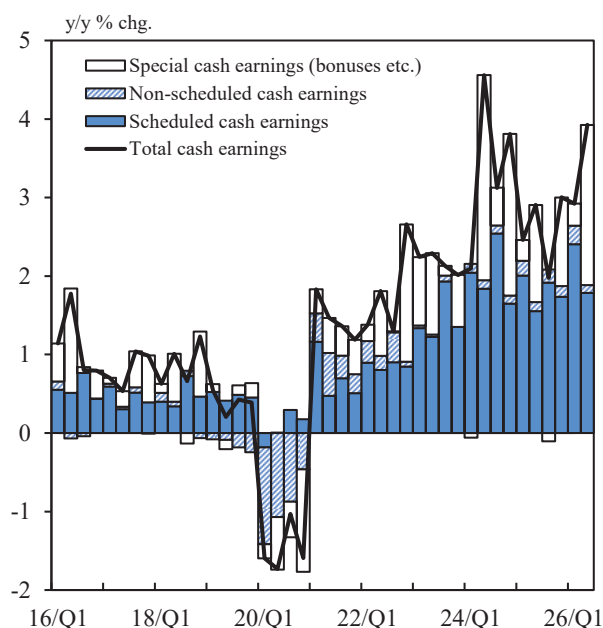
- Notes: 1. In the left panel, figures for real private construction completed are based on Bank staff calculations using the construction cost deflators.

2. In the right panel, figures are based on the *Tankan* and are for all industries including financial institutions. Figures include software and R&D investments and exclude land purchasing expenses. R&D investment is not included before the March 2017 survey. There are discontinuities in the data for December 2023 and December 2025 due to changes in the survey sample.

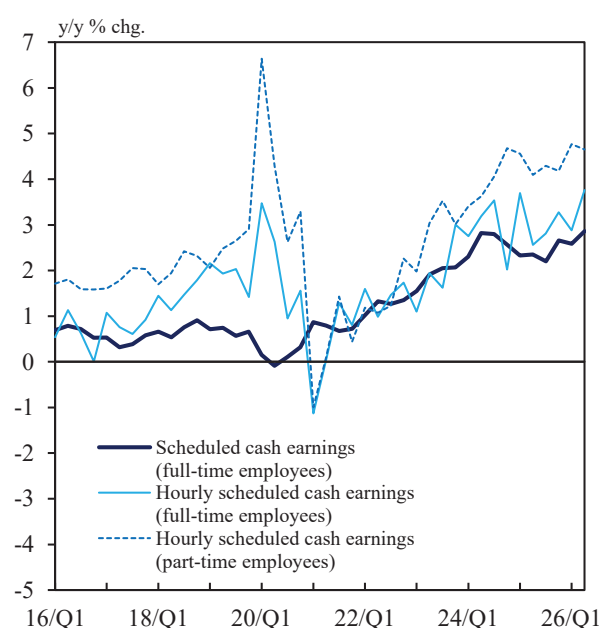
Sources: Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Land, Infrastructure, Transport and Tourism; Bank of Japan.

Wages

Nominal Wages



Scheduled Cash Earnings



Notes: 1. Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February.

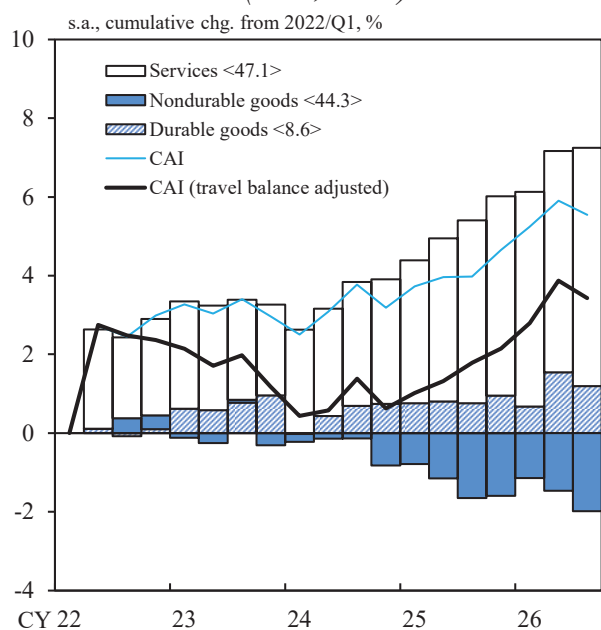
2. Figures are based on continuing observations following the sample revisions.

3. In the right panel, figures for hourly scheduled cash earnings (full-time employees) are seasonally adjusted.

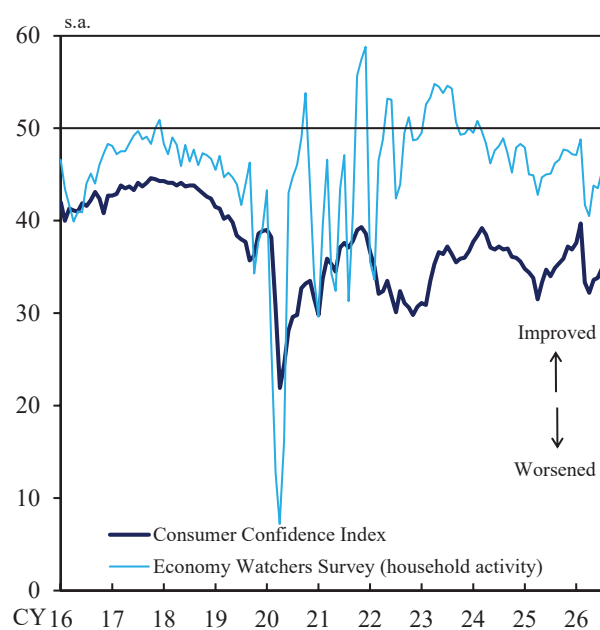
Source: Ministry of Health, Labour and Welfare.

Household Spending

Consumption Activity Index (CAI, Real)



Confidence Indicators

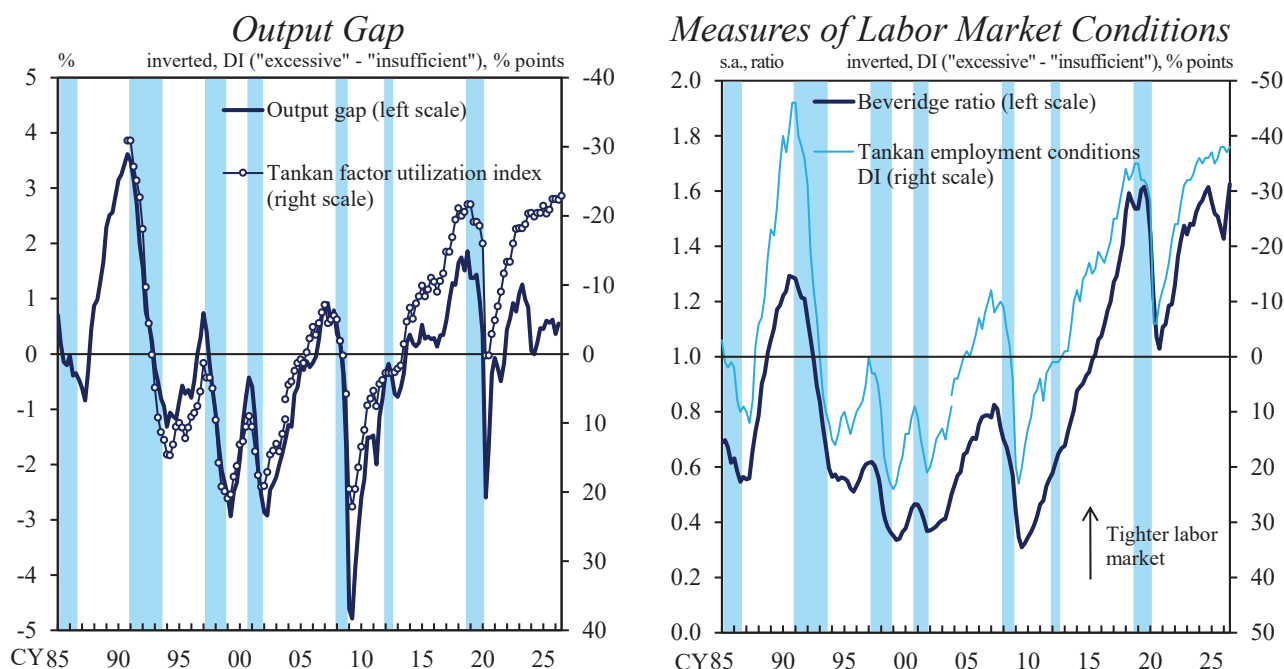


Notes: 1. In the left panel, figures are based on Bank staff calculations. Figures for the CAI (travel balance adjusted) exclude inbound tourism consumption and include outbound tourism consumption. Nondurable goods include goods classified as semi-durable goods in the SNA. Figures in angular brackets show the weights in the CAI.

2. In the right panel, figures for the *Economy Watchers Survey* are those for the current economic conditions DI.

Sources: Cabinet Office; Bank of Japan; etc.

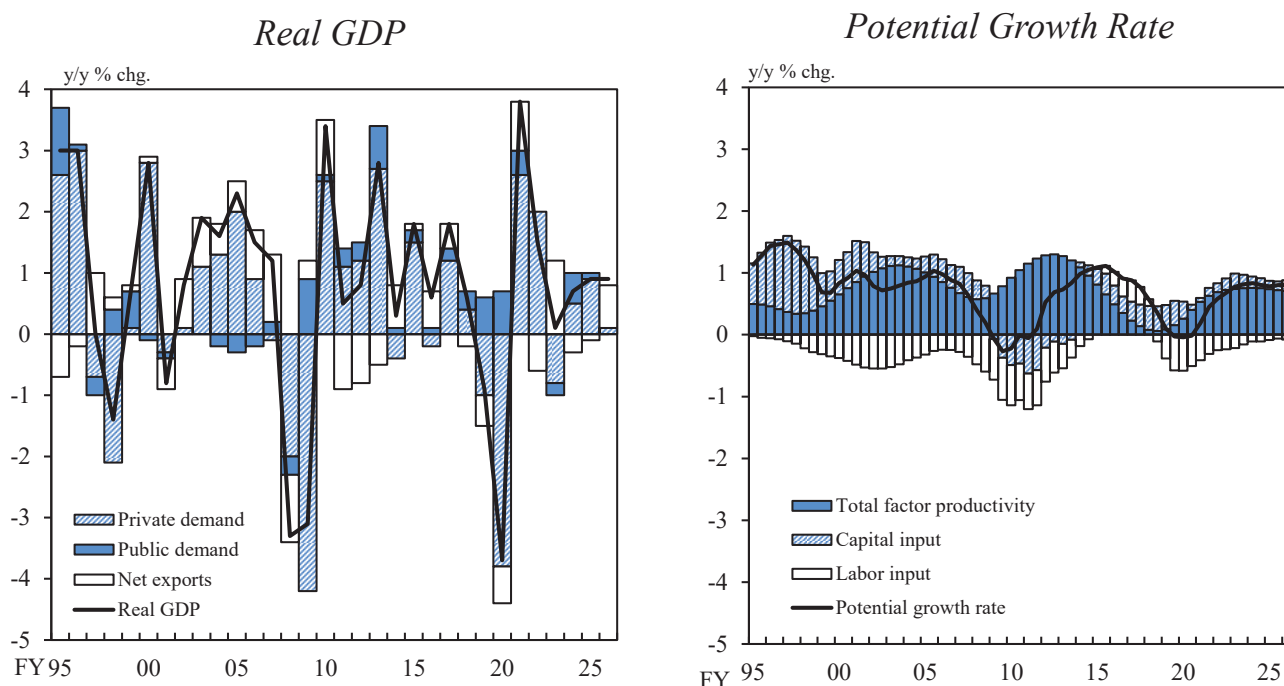
Indicators of Supply and Demand Conditions



- Notes: 1. In the left panel, figures for the output gap are Bank staff estimates. The *Takan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI. The capital and labor shares are used as weights.
2. In the right panel, Beveridge ratio = Vacancy rate / Unemployment rate excluding self-employed and family workers. Figures are calculated using vacancy rates calculated based on the *Employment Referral Statistics* until 2019/Q4, and using the *Survey on Labour Economy Trend* from 2020/Q1 onward. Figures from 2025/Q3 onward are estimates based on the DI for enterprises' employment conditions in the survey.
3. In both panels, shaded areas denote recession periods. Figures for the *Takan* factor utilization index and *Takan* employment conditions DI are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Sources: Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Real GDP and Potential Growth Rate



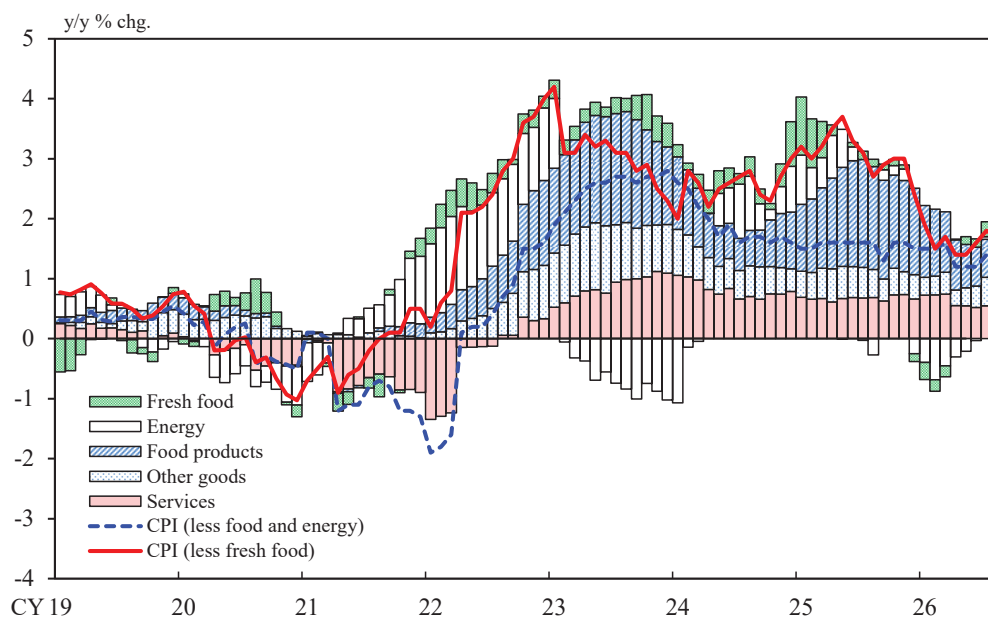
Notes: 1. In the left panel, figures for fiscal 2026 are April-June averages.

2. In the right panel, figures are Bank staff estimates.

Sources: Cabinet Office; Bank of Japan.

Environment Surrounding Prices (1)

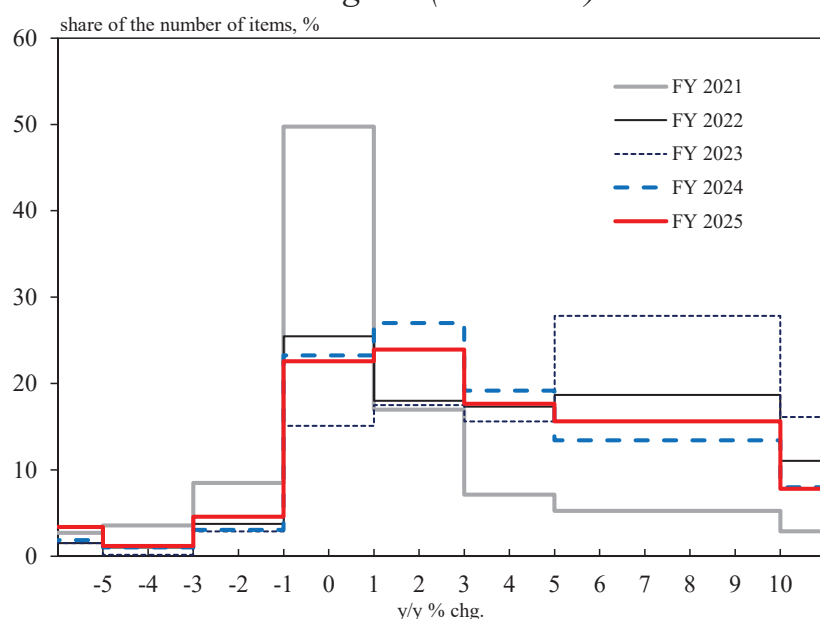
Consumer Price Index (CPI)



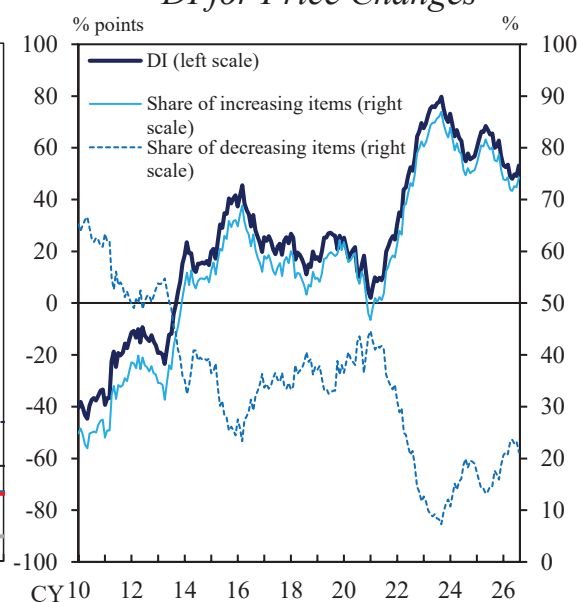
Source: Ministry of Internal Affairs and Communications.

Environment Surrounding Prices (2)

Histogram (CPI items)



DI for Price Changes



Notes: 1. In the left panel, figures are based on CPI all items. The left-most bin includes items with a price decrease of more than 5 percent, while the right-most bin includes items with a price increase of 10 percent or more.

2. In the right panel, the DI is defined as the share of increasing items minus the share of decreasing items. The share of increasing/decreasing items is the share of items for which price indices increased/decreased from a year earlier. Figures for the DI are based on Bank staff calculations using CPI (less fresh food). The CPI figures are Bank staff estimates and exclude the effects of the consumption tax rate changes, policies concerning the provision of free education (including the free school lunches starting in April 2026), and travel subsidy programs.

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

Outlook for Economic Activity and Prices (as of July 2026)

Risks regarding AI-related demand

- Strong business fixed investment could push up the global economy, while, if profits do not align, adjustment pressure could arise, accompanied by, for example, changes in asset prices.
- On the price front, the rise in semiconductor prices could lead to an increase in consumer prices across a variety of items.

Risk regarding the situation in the Middle East

- Crude oil prices have declined compared with a while ago, decreasing the significant downside risks to economic activity and the significant upside risks to prices.

Risk regarding developments in foreign exchange rates

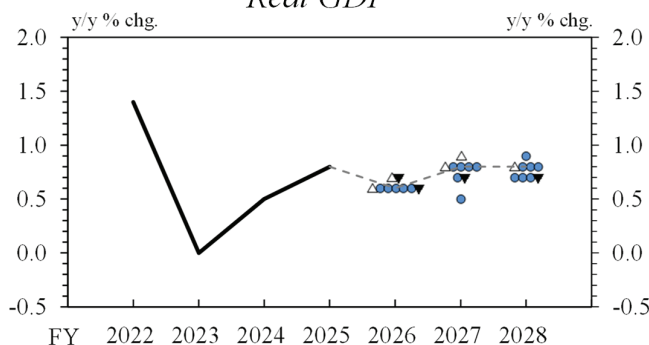
- The year-on-year rate of increase in import prices has recently risen substantially due to the depreciation of the yen as well as developments in commodity prices, such as high crude oil prices. This is expected to push up the prices of a wide range of items.

Risk balance

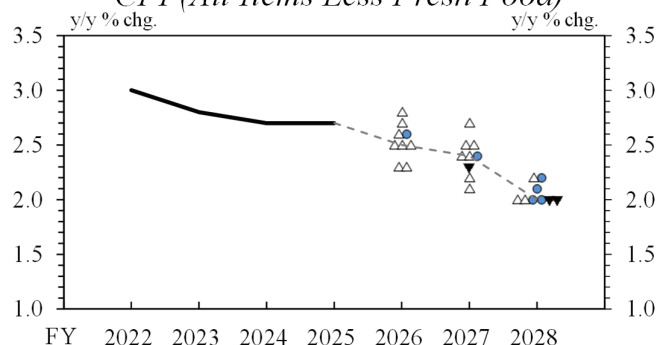
- Risks to economic activity are generally balanced, and risks to prices are skewed to the upside.

Policy Board Members' Forecasts and Risk Assessments

Real GDP



CPI (All Items Less Fresh Food)

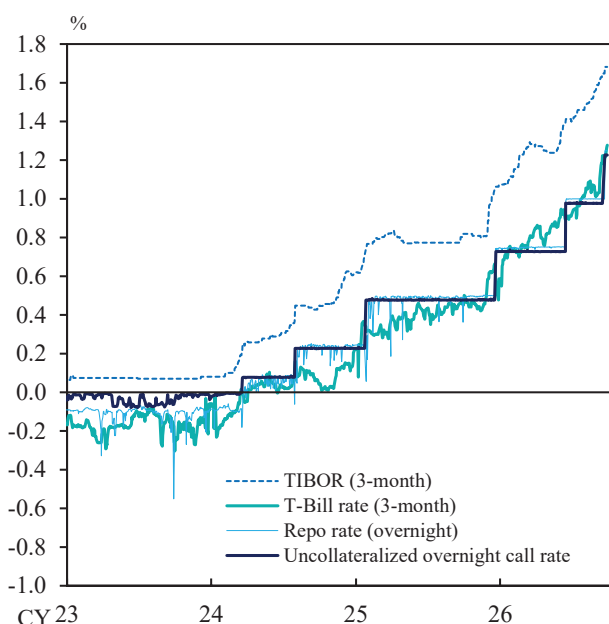


- Notes: 1. The solid lines show actual figures, while the dotted lines show the medians of the Policy Board members' forecasts (point estimates).
 2. The locations of ●, △, and ▼ in the charts indicate the figures for each Policy Board member's forecasts to which they attach the highest probability. The risk balance assessed by each Policy Board member is shown by the following shapes: ● indicates that a member assesses "upside and downside risks as being generally balanced," △ indicates that a member assesses "risks are skewed to the upside," and ▼ indicates that a member assesses "risks are skewed to the downside."

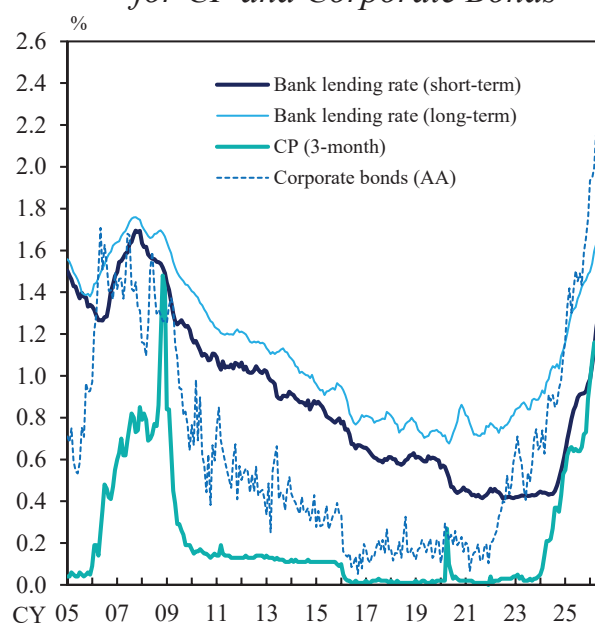
Source: Bank of Japan.

Financial Conditions (1)

Short-term Interest Rates



Bank Lending Rates and Issuance Yields for CP and Corporate Bonds

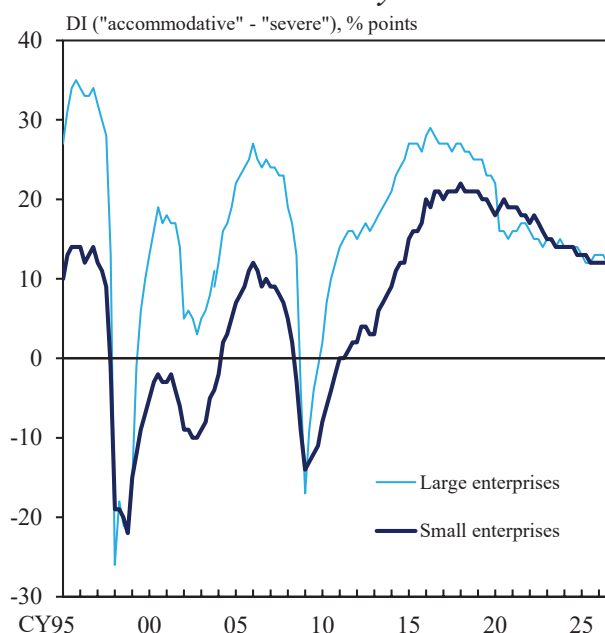


- Notes: 1. In the left panel, figures for repo rate are the Tokyo Repo Rate.
 2. In the right panel, figures for issuance yields for CP up through September 2009 are the averages for CP (3-month, rated a-1 or higher). Those from October 2009 onward are the averages for CP (3-month, rated a-1). Figures for issuance yields for corporate bonds are the averages for domestically issued bonds launched on a particular date. Bonds issued by banks and securities companies, etc. are excluded. Figures for bank lending rates are 6-month backward moving averages.

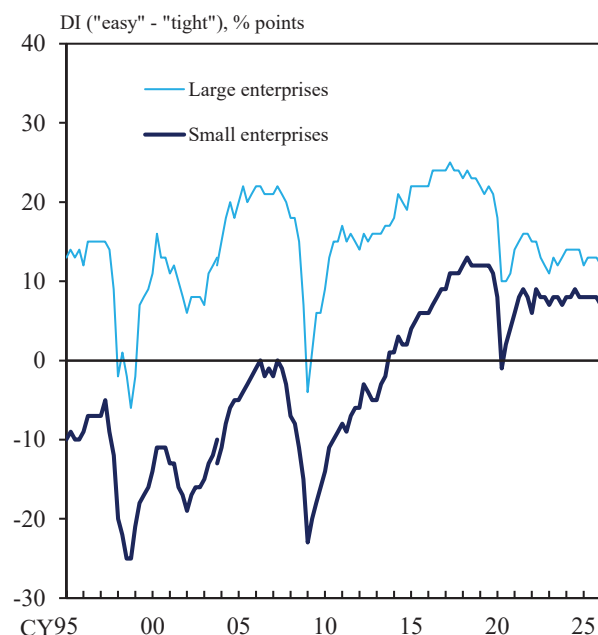
Sources: Bloomberg; Capital Eye; I-N Information Systems; Japan Securities Depository Center; JBA TIBOR Administration; Bank of Japan.

Financial Conditions (2)

*Lending Attitudes of Financial Institutions
as Perceived by Firms*



Firms' Financial Positions



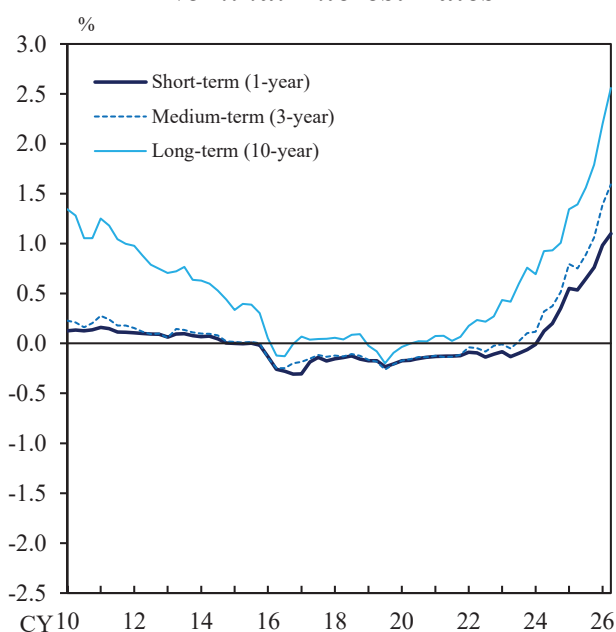
Note: Figures are based on the *Tankan* and are for all industries. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Source: Bank of Japan.

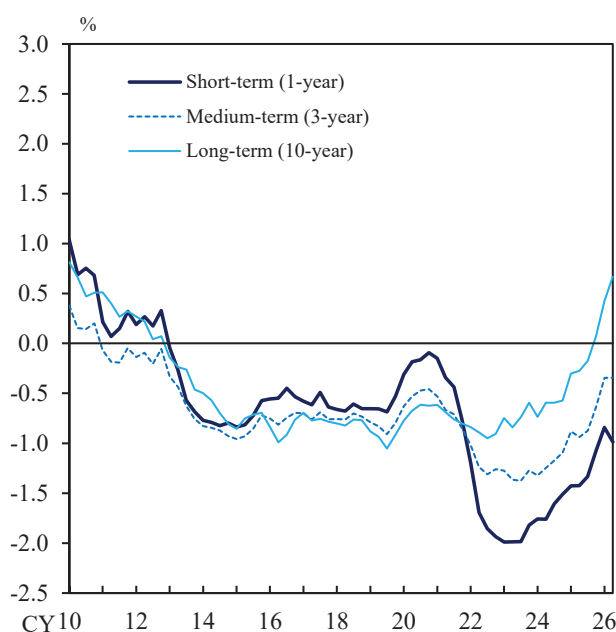
Chart 15

Nominal and Real Interest Rates

Nominal Interest Rates



Real Interest Rates

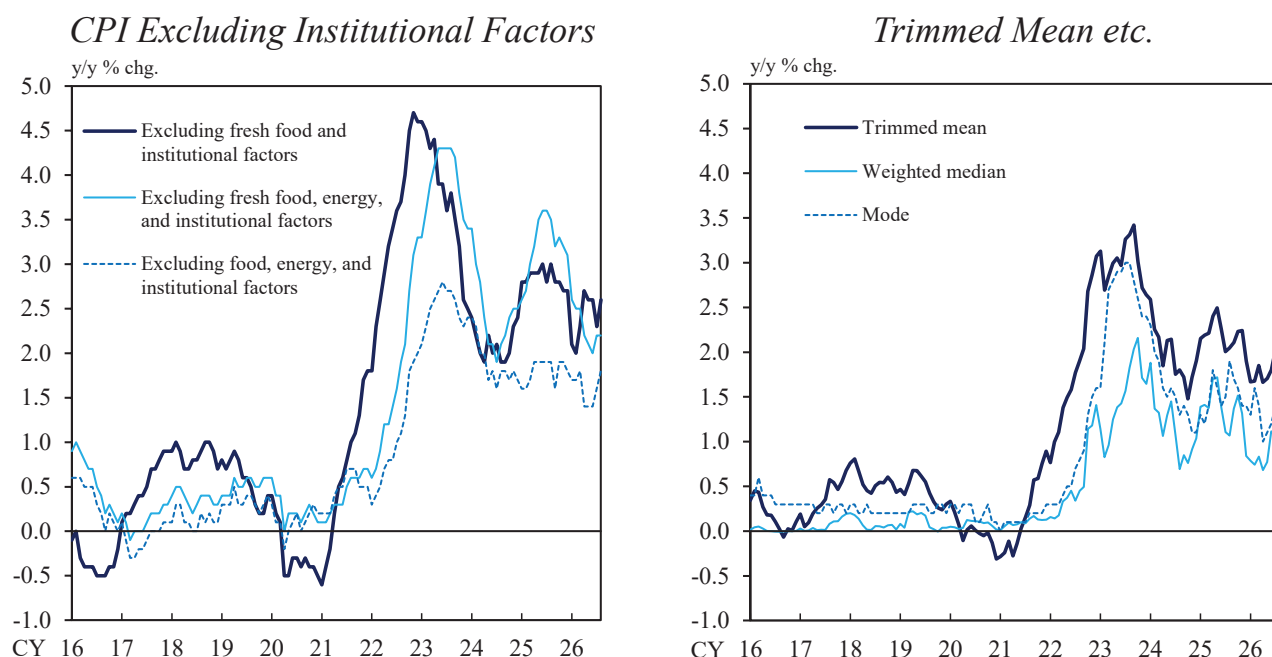


Notes: 1. In the right panel, figures for real interest rates for each maturity are calculated as government bond yields minus the composite index of inflation expectations (Bank staff estimates) for the corresponding maturity.

2. In both panels, figures are on a quarterly average basis.

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

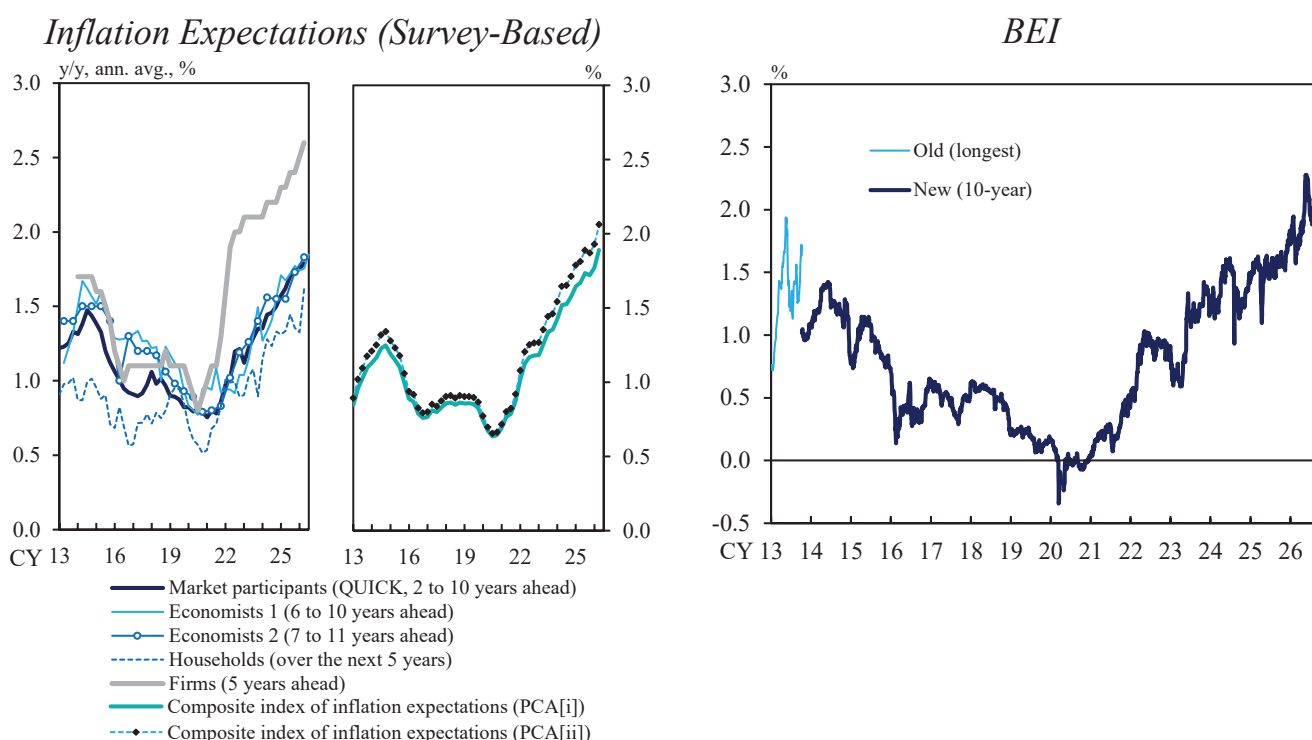
Underlying Inflation (1)



- Notes: 1. In the left panel, institutional factors include the effects of the consumption tax rate change, 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 charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.
2. In the right panel, figures are based on Bank staff calculations using the CPI. The CPI figures are Bank staff estimates and exclude the effects of the consumption tax rate change, policies concerning the provision of free education (including the free school lunches starting in April 2026), and travel subsidy programs.

Sources: Bank of Japan etc.

Underlying Inflation (2)

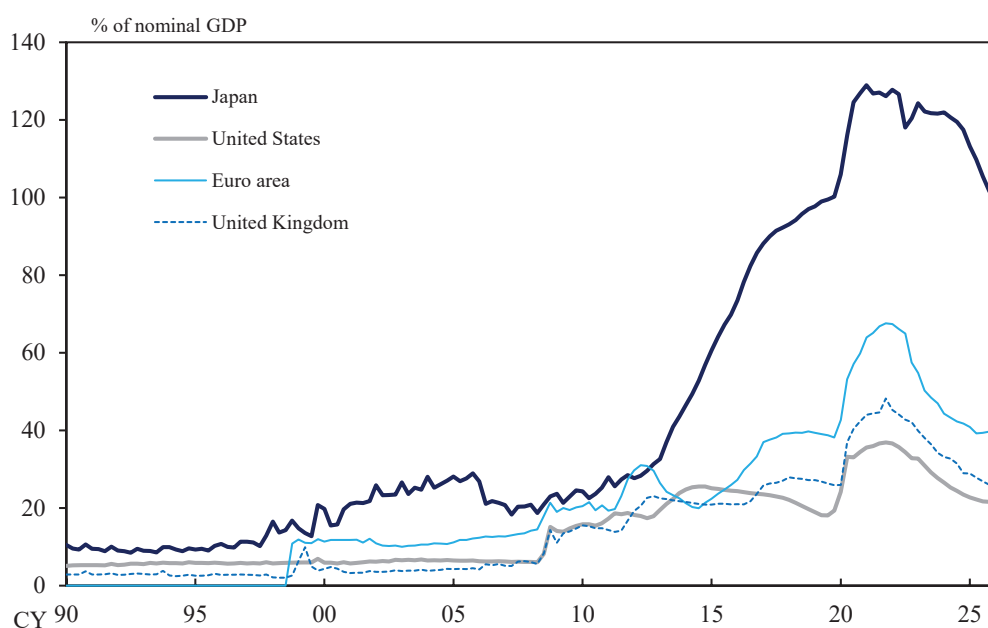


- Notes: 1. For details on the left two panels, see Bank of Japan, Monetary Affairs Department, "The Concept and Measurement of Underlying Inflation," *Bank of Japan Review Series*, no. 26-E-5 (March 2026).

2. In the right panel, the BEI (break-even inflation) rate is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Inflation-indexed JGBs issued since October 2013 are designated as "new," while the rest are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which matured in June 2018.

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

Central Banks' Balance Sheets



Source: BIS.

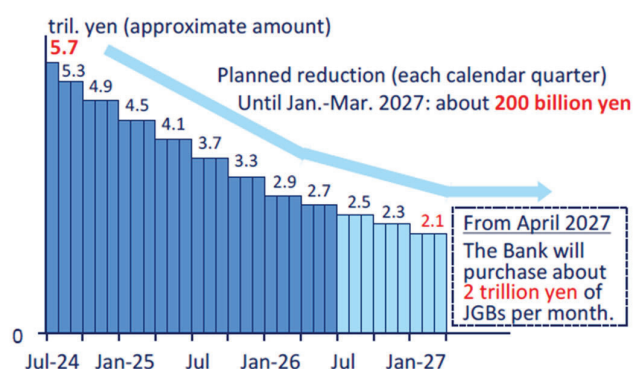
Chart 19

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

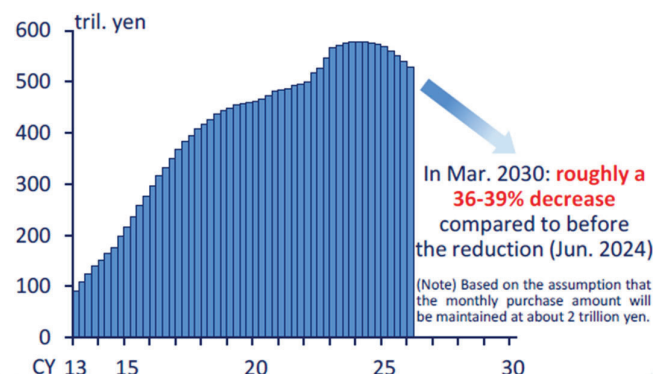
1. In principle, long-term interest rates are to be formed in financial markets.
2. It is appropriate for the Bank to **conduct the purchases of JGBs in a predictable manner**, while **allowing enough flexibility** to support stability in the JGB markets.
 - Based on this thinking, with a view to **improvement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

Source: Bank of Japan.