Statement by UEDA Kazuo, Governor of the Bank of Japan, concerning the Bank's *Semiannual Report on Currency and Monetary Control* before the Committee on Financial Affairs, Senate, on November 19, 2026

Introduction

The Bank of Japan submits to the Diet its *Semiannual Report on Currency and Monetary Control* every June and December. I am pleased to have this opportunity today to talk about recent economic and financial developments and about the Bank's conduct of monetary policy.

I. Economic and Financial Developments

I will first explain recent economic and financial developments.

Japan's economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East. Exports have increased moderately, against the backdrop of a solid increase in global AI-related demand. Corporate profits have been at high levels, and business fixed investment has been on a moderate increasing trend, despite being affected by a rise in construction costs. Private consumption has been resilient against the background of an improvement in the employment and income situation, despite the impact of factors such as price increases. With regard to the outlook, Japan's economy is expected to continue growing moderately, albeit at a decelerated rate. This is because, although the rise in energy and raw material prices is expected to push down economic activity, the economy is likely to be underpinned by factors such as the government's various measures and accommodative financial conditions, in addition to an increase in AI-related demand.

On the price front, despite factors such as the effects of the government's measures to reduce the household burden of higher energy prices, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food has been rising moderately, being at around 2 percent recently, as the effects of a rise in import prices have been emerging, with moves to pass on wage increases to selling prices continuing. Regarding the outlook, the rate of increase is likely to accelerate to a level clearly above 2 percent. This is

because, with moves to pass on wage increases to selling prices continuing, the rise in crude oil prices is expected to push up prices, mainly of energy and goods, and the rise in the prices of semiconductors and other items, reflecting the increase in global AI-related demand, and the depreciation of the yen thus far are likely to lead to an increase in prices, mainly of durable goods. Meanwhile, with a sense of labor shortage continuing to be strong, the mechanism in which wages and prices rise moderately in interaction with each other has been operating, and medium- to long-term inflation expectations are at around 2 percent. In this situation, underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent.

There are various risks to the outlook for economic activity and prices. It is necessary to continue to pay attention to the impact of factors such as the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates. Given that firms' behavior has been shifting more toward raising wages and prices and there are various factors that could drive up prices, there is a risk that medium- to long-term inflation expectations will rise and underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent. Meanwhile, Japan's financial system has maintained stability on the whole. The Bank judges that, even in the case of an adjustment in the real economy at home and abroad and in global financial markets, the financial system is likely to remain highly robust on the whole, mainly because Japanese financial institutions have sufficient capital bases.

II. Conduct of Monetary Policy

Next, I will explain the Bank's conduct of monetary policy.

At the Monetary Policy Meeting held last month, the Bank decided to maintain the guideline for money market operations, in which it would encourage the uncollateralized overnight call rate to remain at around 1.25 percent. As for the future conduct of monetary policy, given that underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent and financial conditions have been accommodative, the Bank will continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as

financial conditions. In this regard, it will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of factors such as the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates. In particular, the perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important in order to keep the risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent from materializing and thereby exerting an adverse impact on the economy afterward.

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

Thank you.