

Outlook for Economic Activity and Prices (April 2026)

The Bank's View¹

Summary

- Japan's economic growth is likely to decelerate in fiscal 2026, since the rise in crude oil prices reflecting the impact of the situation in the Middle East is expected to push down corporate profits and households' real income through factors such as a deterioration in the terms of trade. However, the economy is expected to continue growing moderately, albeit at a decelerated rate, since it is likely to be underpinned by factors such as the government's various measures and accommodative financial conditions, in addition to developments such as continued high levels of profits in the corporate sector. Japan's economic growth rate is likely to rise moderately from fiscal 2027 onward, since it is projected that the adverse effects of high crude oil prices will wane and that a virtuous cycle from income to spending will gradually intensify.
 - The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) is likely to be in the range of 2.5-3.0 percent in fiscal 2026, as the rise in crude oil prices is expected to push up prices, mainly of energy and goods, with moves to pass on wage increases to selling prices continuing. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline to the range of 2.0-2.5 percent in fiscal 2027 and to around 2 percent in fiscal 2028. Meanwhile, with a sense of labor shortage continuing to be strong, it is projected that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained, and that medium- to long-term inflation expectations will rise. In this situation, underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter.
 - Comparing the projections through fiscal 2027 with those presented in the previous *Outlook for Economic Activity and Prices* (Outlook Report), the projected real GDP growth rate for fiscal 2026 is lower, and the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2026 is significantly higher, both reflecting the rise in crude oil prices.
 - There are various risks to the outlook. For the time being, it is necessary to pay particular attention to the impact of the future course of the situation in the Middle East on financial and foreign exchange markets and on Japan's economic activity and prices.
 - With regard to the risk balance -- particularly for fiscal 2026 -- risks to economic activity are skewed to the downside, and risks to prices are skewed to the upside. While these risks could both heighten, it is necessary to pay due attention, in particular, to keep the risk of inflation significantly deviating upward from materializing and thereby exerting an adverse impact on the economy afterward, given factors such as underlying CPI inflation approaching 2 percent and firms' behavior shifting more toward raising wages and prices.
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¹ "The Bank's View" was decided by the Policy Board at the Monetary Policy Meeting held on April 27 and 28, 2026.

I. Current Situation of Economic Activity and Prices in Japan

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. Overseas economies have grown moderately on the whole, although some weakness has been seen in part. Exports and industrial production have continued to be more or less flat as a trend. Corporate profits have remained at high levels on the whole, although downward effects due to U.S. tariff policy have been seen in manufacturing. Business sentiment has also been at a favorable level, while it has been affected by the situation in the Middle East. Under these circumstances, business fixed investment has been on a moderate increasing trend. Private consumption has been resilient against the background of an improvement in the employment and income situation, although it has been affected by price rises. On the other hand, housing investment has been on a declining trend. Public investment has continued to be more or less flat. Meanwhile, labor market conditions have remained tight. Financial conditions have been accommodative. On the price front, with moves to pass on wage increases to selling prices continuing, the year-on-year rate of increase in the CPI (all items less fresh food) had been above 2 percent, partly due to the effects of the rise in food prices, such as rice prices; however, the rate of increase has recently been in the range of 1.5-2.0 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices. Inflation expectations have risen moderately.

II. Baseline Scenario of the Outlook for Economic Activity and Prices in Japan^{2,3}

A. Baseline Scenario of the Outlook for Economic Activity

In fiscal 2026, Japan's economic growth is likely to decelerate, since corporate profits and households' real income are expected to be pushed down by factors such as a deterioration in the terms of trade reflecting the rise in crude oil prices.

Reflecting the impact of the situation in the Middle East, crude oil prices have risen significantly; in particular, Dubai crude oil prices have surged. This will lead to a deterioration in the terms of trade for Japan, which is highly dependent on crude oil produced in the Middle East, and will push down corporate profits and households' real

² The baseline scenario in this Outlook Report is developed based on the assumption that, regarding the situation in the Middle East, which has been unclear recently, with the impact expected to ease, crude oil prices will decline, and large-scale disruptions in supply chains will not occur. Under this assumption, based, for example, on developments in futures markets, Dubai crude oil prices are expected to decline from around 105 U.S. dollars per barrel to the range of around 70-80 dollars per barrel toward the end of the projection period. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the situation in the Middle East.

³ Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

income through price rises in energy and raw materials. However, Japan's economy is expected to continue growing moderately, albeit at a decelerated rate. This is because the economy is likely to be underpinned by factors such as the government's various measures (e.g., measures to reduce the household burden of higher energy prices, such as fuel oil subsidies, and policies concerning the provision of free education) and accommodative financial conditions, in addition to continued high levels of profits in the corporate sector and solid wage increases being achieved thus far in this year's annual spring labor-management wage negotiations.

In the corporate sector, although global AI-related demand is expected to remain strong, exports and production are likely to be more or less flat for the time being, as the impact of the situation in the Middle East is likely to exert downward pressure on, for example, automobile exports to the Middle East. Corporate profits are likely to decline due to the impact of the deterioration in the terms of trade, despite remaining at high levels. In this situation, the growth momentum in business fixed investment is likely to slow, although the government's economic measures and accommodative financial conditions, in addition to order backlogs for existing projects, are expected to provide support for business fixed investment.

In the household sector, regarding the employment situation, labor market conditions are likely to remain tight despite the impact of the slowdown in the economy. In this situation, although affected by the decline in corporate profits, the growth in nominal wages is projected to remain at around its current pace, mainly reflecting the outcome of this year's annual spring labor-management wage negotiations. Private consumption is expected to be more or less flat due to the impact of price rises, particularly in energy prices, although it is likely to be underpinned by income transfers to households through the government's various measures in addition to wage increases. Housing investment is expected to follow a moderate declining trend, mainly reflecting a rise in housing prices and demographic developments. Meanwhile, public investment is expected to be more or less flat, and government consumption is expected to increase moderately reflecting factors such as an uptrend in healthcare and nursing care expenditures and a rise in defense-related spending.

From fiscal 2027 onward, Japan's economic growth rate is expected to rise moderately, since it is projected that the adverse effects of high crude oil prices will wane and that the virtuous cycle from income to spending will gradually intensify. Exports and production are likely to increase moderately, as the impact of the situation in the Middle East eases, and as overseas economies continue to grow moderately. Corporate profits are likely to improve, supported by an improvement in the terms of trade reflecting a decline in crude oil prices and by an increase in domestic and external demand. In this situation, business fixed investment is likely to remain on an upward trend, pushed up by labor-saving investment to address labor shortages, investment for capacity expansion, and

investment projects to adapt to changes in the trade structure and supply chains, among other investments. Looking at the employment and income situation, labor market conditions are likely to remain tight, and nominal wages are expected to continue increasing steadily. In addition, with the pace of price rises expected to moderate gradually, private consumption is projected to return to a moderate increasing trend.

Comparing the projections through fiscal 2027 with those presented in the previous Outlook Report, the projected real GDP growth rate for fiscal 2026 is lower due to the significant rise in crude oil prices. Meanwhile, the projected growth rates for fiscal 2025 and 2027 are more or less unchanged.

Meanwhile, the potential growth rate is expected to remain slightly positive.⁴ This is mainly because productivity is likely to increase due to advances in digitalization and investment in human capital, and because capital stock is projected to increase steadily. Potential growth is likely to be supported by the government's various measures and other factors.

B. Baseline Scenario of the Outlook for Prices

The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be in the range of 2.5-3.0 percent in fiscal 2026, as the rise in crude oil prices is expected to push up prices, mainly of energy and goods, with moves to pass on wage increases to selling prices continuing. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline to the range of 2.0-2.5 percent in fiscal 2027 and to around 2 percent in fiscal 2028. Meanwhile, with a sense of labor shortage continuing to be strong, it is projected that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained, and that medium- to long-term inflation expectations will rise. In this situation, underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter. From the perspective of sustainable and stable achievement of the price stability target, it will also be necessary to examine whether underlying CPI inflation becomes anchored at a level around 2 percent.

Comparing the projections through fiscal 2027 with those presented in the previous Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2026 is significantly higher and that for fiscal 2027 is also somewhat higher, reflecting the effects of the rise in crude oil prices.

⁴ Under a specific methodology, Japan's recent potential growth rate is estimated to be around 0.5-1.0 percent. However, the rate should be interpreted with considerable latitude. This is because the estimate is subject to change depending on the methodologies employed and could be revised as the sample period becomes longer over time. In addition, there are high uncertainties over how factors such as advances in digitalization will affect the trends in productivity or labor supply.

The year-on-year rate of increase in the CPI (all items less fresh food and energy) is likely to be at a level exceeding 2 percent, as the rise in crude oil prices is expected to push up prices, mainly of goods. Thereafter, the rate of increase in this CPI is likely to decline, with the waning of the effects of high crude oil prices.

The main factors that determine underlying inflation are assessed as follows. The output gap, which captures the utilization of labor and capital, has followed an improving trend, albeit with fluctuations, and has been slightly positive recently. Based on the aforementioned outlook for economic activity, it is likely that the output gap will temporarily narrow within positive territory in fiscal 2026 but improve moderately again from fiscal 2027 onward. Meanwhile, labor market conditions have tightened to a greater extent than can be explained by the changes in the output gap, partly due to a deceleration in the pace of increase in labor force participation of women and seniors. In this situation, upward pressure on wages and prices likely has become stronger than suggested by the output gap, given that firms -- particularly in labor-intensive industries -- have started to face labor supply constraints.

Medium- to long-term inflation expectations have risen moderately. Regarding the outlook, as firms' active wage- and price-setting behavior is expected to continue on the back of factors such as the tightening of labor market conditions, inflation expectations are likely to continue to rise moderately. Medium- to long-term inflation expectations are expected to come to a level around 2 percent between the second half of fiscal 2026 and fiscal 2027 and remain at around that level thereafter.

III. Risks to Economic Activity and Prices

The aforementioned baseline scenario of the outlook for economic activity and prices is based on the assumption, among others, that, with the impact of the situation in the Middle East expected to ease, crude oil prices will decline, and large-scale disruptions in supply chains will not occur. That said, given that such an outlook could change considerably depending on the future course of the situation in the Middle East, the following first outlines the risks regarding the situation in the Middle East and their impact on the outlook for economic activity and prices. Risks other than the situation in the Middle East are then examined.

A. Risks regarding the Situation in the Middle East

The first is the risk that adverse effects, such as the deterioration in the terms of trade, will strengthen to a greater extent than expected, if the turmoil surrounding the situation in the Middle East becomes prolonged, and crude oil prices remain elevated. Under the baseline scenario, it is expected that Japan's economy will not enter a significant adjustment phase, despite being affected by downward pressure from high crude oil

prices. However, if crude oil prices remain elevated for longer than expected, the economy could slow further through a significant decline in corporate profits and households' real income. Such an economic slowdown could push down underlying CPI inflation through factors such as a deterioration in the output gap and a strengthening of moves among firms to cut costs, and in turn could weaken the mechanism in which wages and prices rise moderately in interaction with each other.

With regard to prices, however, risks are skewed to the upside, as follows. Given that crude oil is widely used as a raw material from the upstream to downstream stages of the production process in various industries, elevated crude oil prices could push up not only energy prices, but also prices in general, particularly of a wide range of goods. Moreover, considering the current situation of Japan's economy that, for example, firms' behavior has shifted more toward raising wages and prices compared with the period such as when commodity prices rose after Russia's invasion of Ukraine, it is possible that the rise in crude oil prices is passed on to the price of various goods and services more easily than before. Furthermore, attention should also be paid to the possibility that such moves have become more likely to lead to a pushing up of underlying CPI inflation through a rise in inflation expectations.

In addition, given that a considerable portion of raw materials for fertilizers that are essential for the production of crops is produced in the Middle East, if the turmoil surrounding the situation in the Middle East persists and bottlenecks in logistics remain for a prolonged period, attention will also need to be paid to the possibility that food prices could rise by more than expected through higher market prices for raw materials.

The second point is the risk that large-scale disruptions in supply chains will occur, exerting a significant impact on the production activity of Japanese firms. If the impact on logistics becomes prolonged, the supply of not only crude oil, but also raw materials, intermediate goods, and other items with a high share of imports from the Middle East, could be disrupted. On this point, some material manufacturers have already started reducing the utilization rates of their plants, and attention should be paid to the possibility that such moves could become further widespread. As such, if large-scale disruptions in supply chains occur, firms' production activity could decline, leading to a significant slowdown in the economy. Moreover, such an economic slowdown could push down underlying CPI inflation. On the other hand, if supply-side constraints materialize, there is a possibility that the price of related products will rise significantly, leading to a pushing up of underlying CPI inflation while further heightening the upside risks to prices.

The aforementioned two risks assume that the impact of the situation in the Middle East will become prolonged. Conversely, however, if tension over the situation in the Middle East eases swiftly, leading to a faster-than-expected decline in crude oil prices, downward pressure on corporate profits and household's real income could weaken, and upward

pressure on prices could decline. In that case, there is a possibility that the GDP growth rate will deviate upward and the rate of increase in the CPI (all items less fresh food) will deviate downward from the baseline scenario.

B. Other Risks

Risks other than those arising from the situation in the Middle East that require attention are as follows.

The first is developments in overseas economic activity and prices, including AI-related demand. Regarding AI, amid the continued increase in global demand, strong business fixed investment could push up the global economy; on the other hand, if profits do not expand in line with such investment, adjustment pressure could arise, accompanied by, for example, changes in asset prices. With regard to the U.S. economy, although uncertainties regarding the impact of its tariff policy have declined, attention continues to be warranted on factors such as the impact of tariffs on employment and income formation through a deterioration in corporate profits, as well as the impact on private consumption through the pass-through to consumer prices of increased costs due to tariffs. Moreover, attention also needs to be paid to the possibility that developments such as recent moves toward fiscal expansion, particularly in the United States and Europe, could affect global economic activity and prices. Regarding the Chinese economy, there remain high uncertainties surrounding the future pace of growth, as adjustment pressure has continued in the real estate and labor markets. In addition, it is necessary to pay attention to how excessive supply capacity for some goods will affect global economic activity and prices.

The second risk is the effects of future developments in foreign exchange rates on Japan's economic activity and prices. There are various possible channels in this regard. For instance, if factors such as the rise in crude oil prices result in a depreciation of the yen, this would have a positive impact on, for example, the profits of global firms. On the other hand, such a depreciation of the yen would push down households' real income and exert downward pressure on the profits particularly of small and medium-sized firms, mainly through a rise in import prices. Attention should also be paid to the point that, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices, and that such moves could affect underlying CPI inflation through changes in inflation expectations.

The third risk considered from a somewhat long-term perspective is the impact of various changes in the environment surrounding Japan on firms' and households' medium- to long-term growth expectations and on Japan's potential growth rate. Intensifying labor shortages -- which are partly due to structural demographic changes -- could accelerate labor-saving investment, such as for digitalization and the use of AI, and this, together

with the government's efforts, could push up growth expectations and the potential growth rate. On the other hand, if such a substitution of labor with capital does not sufficiently progress, there is a risk that supply-side constraints will push down the growth rate. Moreover, the trade policies announced so far have partly led to a change in the trend of globalization, and depending on the future course of these policies, this change may accelerate.

IV. Conduct of Monetary Policy

In the context of the price stability target, the Bank assesses the aforementioned economic and price situation from two perspectives and then outlines its thinking on the future conduct of monetary policy.⁵

The first perspective involves an examination of the baseline scenario of the outlook. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to be in the range of 2.5-3.0 percent in fiscal 2026, as the rise in crude oil prices is expected to push up prices, mainly of energy and goods, with moves to pass on wage increases to selling prices continuing. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline to the range of 2.0-2.5 percent in fiscal 2027 and to around 2 percent in fiscal 2028. Meanwhile, with a sense of labor shortage continuing to be strong, it is projected that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained, and that medium- to long-term inflation expectations will rise. In this situation, underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter.

The second perspective involves an examination of the risks considered most relevant to the conduct of monetary policy. There are various risks surrounding Japan's economic activity and prices. For the time being, it is necessary to pay particular attention to the impact of the future course of the situation in the Middle East on financial and foreign exchange markets and on Japan's economic activity and prices. In this regard, if the impact of the situation in the Middle East becomes prolonged, crude oil prices could remain elevated and firms' production activity could come under downward pressure through large-scale disruptions in supply chains. Thus, with regard to the risk balance -- particularly for fiscal 2026 -- risks to economic activity are skewed to the downside, and risks to prices are skewed to the upside. While these risks could both heighten, it is necessary to pay due attention, in particular, to keep the risk of inflation significantly deviating upward from materializing and thereby exerting an adverse impact on the

⁵ As for the examination from two perspectives in the context of the price stability target, see the Bank's statement released on January 22, 2013, entitled "The 'Price Stability Target' under the Framework for the Conduct of Monetary Policy."

economy afterward, given factors such as underlying CPI inflation approaching 2 percent and firms' behavior shifting more toward raising wages and prices.

Examining risks on the financial side, financial intermediation activities, such as lending, have operated smoothly, and no major financial imbalances have been seen in current financial activities, although attention continues to be warranted on developments in asset prices, such as real estate and stock prices. Japan's financial system has maintained stability on the whole. 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. In this regard, it is necessary to carefully monitor the impact that factors such as the future course of the situation in the Middle East, the profitability of AI-related investment, and developments in the foreign non-bank financial intermediary (NBFI) sector have on the financial system through various channels.⁶

As for the conduct of monetary policy, given that underlying CPI inflation has been approaching 2 percent and real interest rates are at significantly low levels, 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 closely monitoring the impact of the future course of the situation in the Middle East on Japan's economic activity and prices and examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook. 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.

⁶ For details, see the Bank's *Financial System Report* (April 2026).

Forecasts of the Majority of the Policy Board Members

y/y % chg.

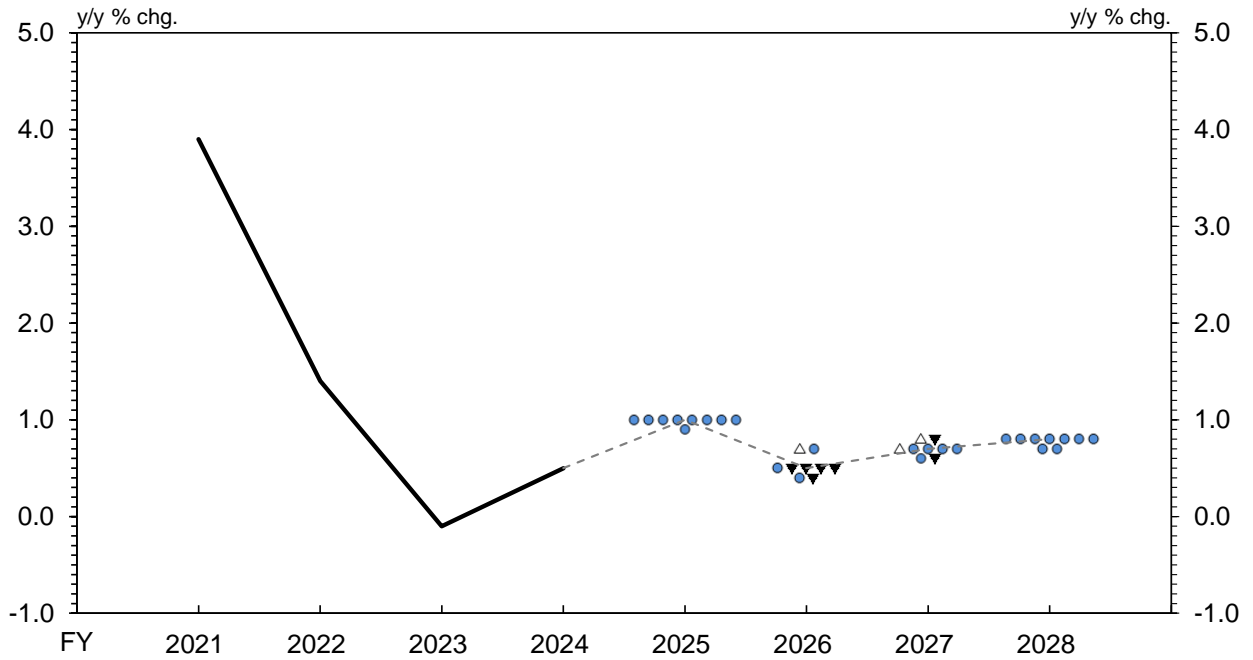
	Real GDP	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2025	+1.0 to +1.0 [+1.0]	+2.7	+3.0
Forecasts made in January 2026	+0.8 to +0.9 [+0.9]	+2.7 to +2.8 [+2.7]	+2.9 to +3.1 [+3.0]
Fiscal 2026	+0.4 to +0.7 [+0.5]	+2.8 to +3.0 [+2.8]	+2.5 to +2.7 [+2.6]
Forecasts made in January 2026	+0.8 to +1.0 [+1.0]	+1.9 to +2.0 [+1.9]	+2.0 to +2.3 [+2.2]
Fiscal 2027	+0.6 to +0.8 [+0.7]	+2.3 to +2.4 [+2.3]	+2.6 to +2.7 [+2.6]
Forecasts made in January 2026	+0.8 to +1.0 [+0.8]	+1.9 to +2.2 [+2.0]	+2.0 to +2.3 [+2.1]
Fiscal 2028	+0.7 to +0.8 [+0.8]	+2.0 to +2.2 [+2.0]	+2.1 to +2.4 [+2.2]

Notes: 1. Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

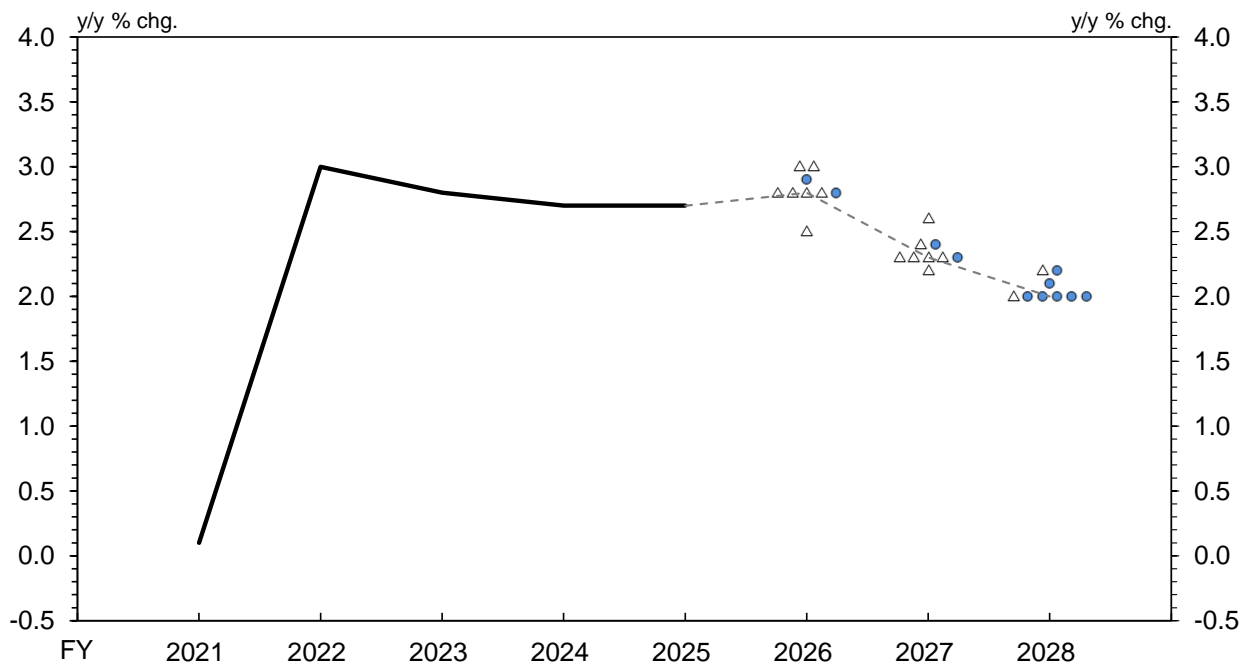
2. The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.
3. Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.
4. The CPI figures for fiscal 2025 are actual values.

Policy Board Members' Forecasts and Risk Assessments

(1) Real GDP



(2) 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."