June 25, 2025
Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan

Speech at a Meeting with Local Leaders in Fukushima

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(English translation based on the Japanese original)

I. Economic Activity and Prices

A. Current Situation of and Outlook for Economic Activity and Prices

I will begin my speech by talking about developments in economic activity and prices in Japan. Simply put, my current assessment of these developments can be summarized into three points.

First, until March 2025, Japan's underlying inflation, measured by the consumer price index (CPI), had been on track toward achieving the price stability target of 2 percent and had been rising at a slightly faster pace than expected. Therefore, it could be judged that the likelihood of achieving the price stability target had increased further and the upward risks to prices had also grown further.

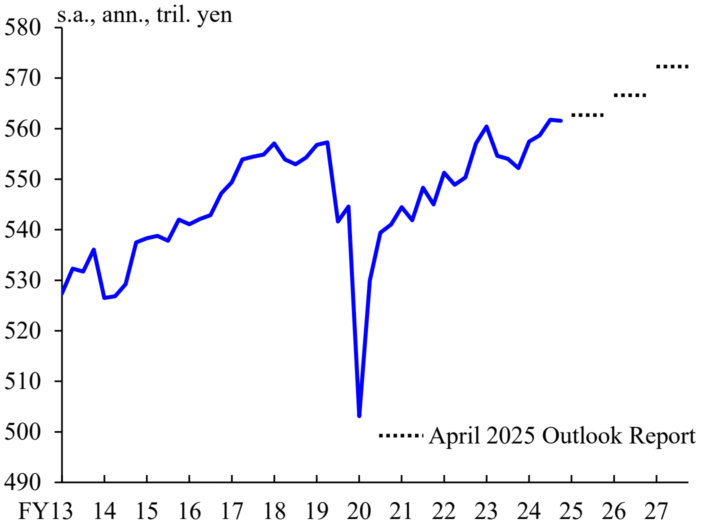
Second, regarding the U.S. tariff policy announced afterward, I assume that it will highly likely exert downward pressure on Japan's economic activity and prices. Nevertheless, the year-on-year rate of increase in the CPI is likely to continue rising at around 2 percent through fiscal 2027.

Third, despite the downward pressure, I take the risk to be low of Japanese firms' wage- and price-setting behavior reverting to the past behavior observed when wages and prices did not rise easily, and it is unlikely that underlying CPI inflation, which has been increasing, will turn downward.

Now, I will explain these points in more detail, touching on the Bank of Japan's outlook for economic activity and prices.

First, the Bank assesses that the economy has recovered moderately on the whole, although some weakness has been seen in part. In terms of the medians of the Policy Board members' forecasts -- as presented in the April 2025 *Outlook for Economic Activity and Prices* (Outlook Report) -- Japan's real GDP growth rate is expected to be at 0.5 percent for fiscal 2025, 0.7 percent for fiscal 2026, and 1.0 percent for fiscal 2027 (Chart 1). The forecasts were revised downward from those made in January because Japan's economy was projected to see a deceleration, mainly due to a slowdown in overseas economies induced by the impact of U.S.

Chart 1: The Bank's Forecasts for Real GDP



	January 2025 Outlook Report		April 2025 Outlook Report
FY 2025	1.1%	→	0.5%
FY 2026	1.0%	→	0.7%
FY 2027	—		1.0%

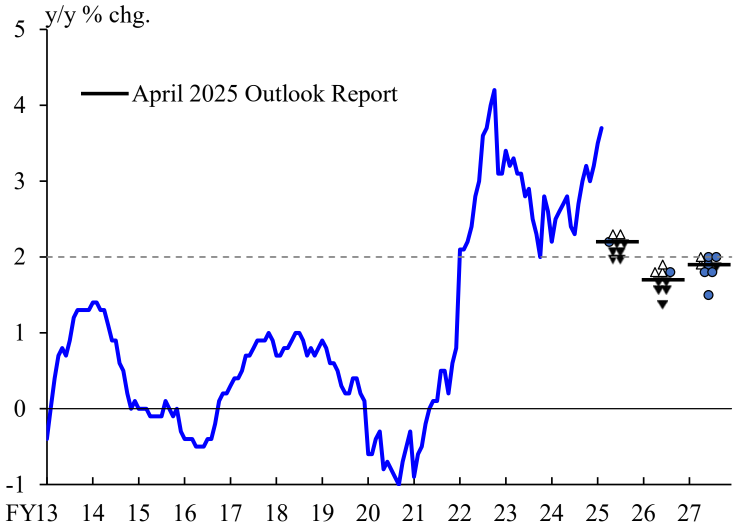
Notes: 1. Forecasts are the medians of the Policy Board members' forecasts. Real GDP values for fiscal 2025 onward are calculated by multiplying the actual figure for fiscal 2024 by all successive projected growth rates for each year.
2. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

Sources: Cabinet Office; Bank of Japan.

tariff policy. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.

Second, the year-on-year rate of increase in the CPI for all items excluding fresh food is slightly above 3.5 percent. In terms of the medians of the Policy Board members' forecasts presented in the April Outlook Report, the rate of increase is expected to be at 2.2 percent for fiscal 2025, 1.7 percent for fiscal 2026, and 1.9 percent for fiscal 2027 (Chart 2). The forecasts were revised downward from those made in January, mainly reflecting a decline in crude oil prices and the downward revision of the GDP growth rates. Nevertheless, the rate of increase is likely to continue rising at around 2 percent.

Chart 2: The Bank's Forecasts for the CPI



	January 2025 Outlook Report		April 2025 Outlook Report
FY 2025	2.4%	→	2.2%
FY 2026	2.0%	→	1.7%
FY 2027	—		1.9%

Notes: 1. Figures are the CPI for all items less fresh food, excluding the effects of the consumption tax hikes.

2. The locations of ●, △, and ▼ in the chart indicate the figures for each Policy Board member's forecasts. 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." The dotted black lines show the medians of the Policy Board members' forecasts.

3. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

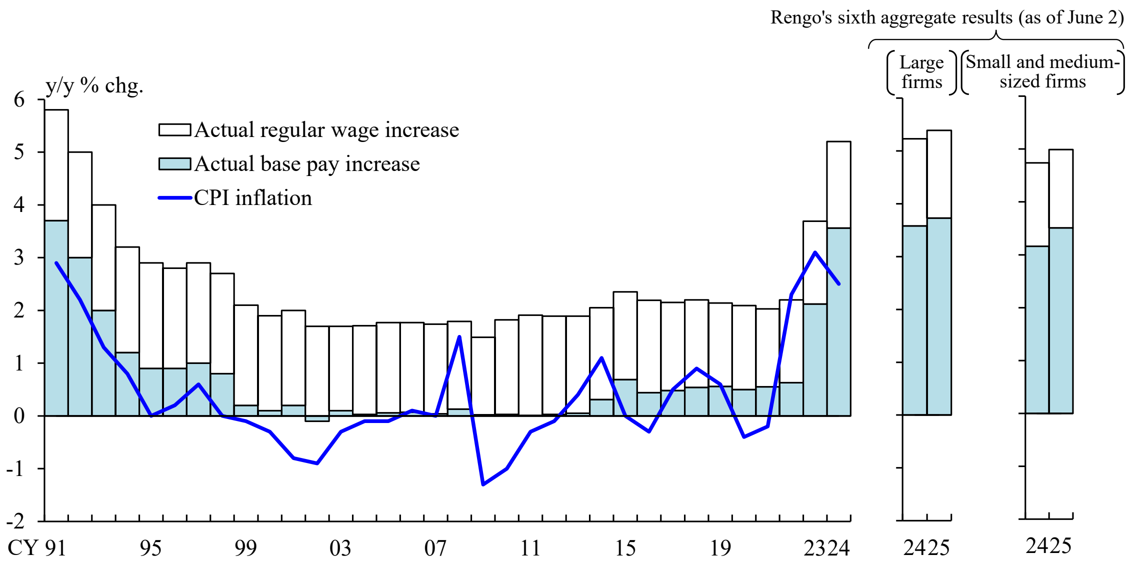
Sources: Ministry of Internal Affairs and Communications; Bank of Japan.

B. Wage and Price Developments

As I mentioned at the outset, my view is that Japan's underlying CPI inflation had been on track toward achieving the price stability target of 2 percent and had been rising at a slightly faster pace than expected until March 2025 -- prior to the period when the Policy Board members made the aforementioned forecasts on the CPI for the April Outlook Report. This view is based on factors such as the wage and price situation in Japan at that time. The situation has remained basically unchanged even up until now, and the CPI figures for April and May are higher than expected.

First, regarding wages, the provisional results of the 2025 annual spring labor-management wage negotiations show that wage growth has exceeded the solid wage growth achieved last year (Chart 3). In particular, the rate of increase in base pay in 2025 for small and medium-sized firms has been greater than that for large firms, compared with 2024. It is necessary to continue to monitor how the 2025 labor-management wage negotiations turn out and whether wage hikes spread to small and medium-sized firms that do not have labor unions. Nevertheless, I believe that the momentum for wage hikes is strong enough at present.

Chart 3: Results of the Annual Spring Labor-Management Wage Negotiations

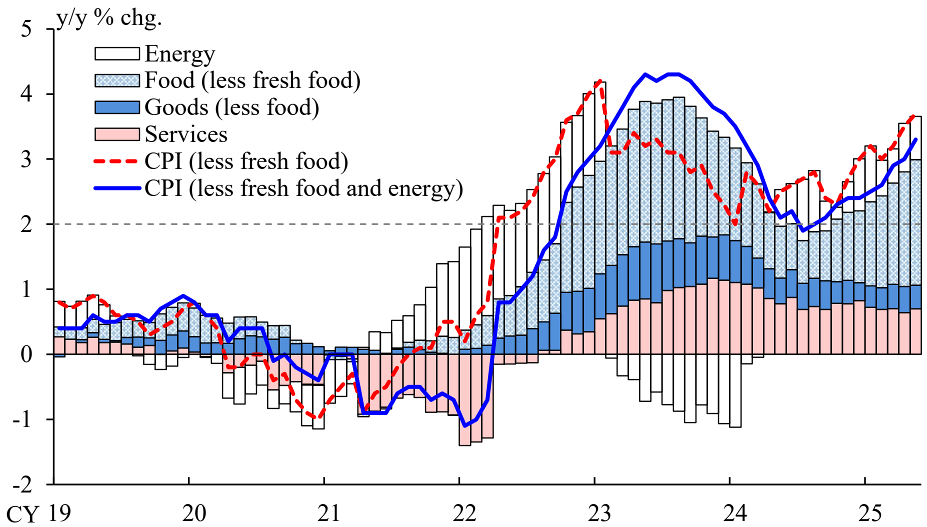


Notes: 1. Figures for "CPI inflation" are for all items less fresh food, excluding the effects of the consumption tax hikes, on a calendar-year basis.
2. Figures for "actual base pay increase" and "actual regular wage increase" from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2024 are figures released by the Japanese Trade Union Confederation (Rengo). Figures are based on the wage negotiation results of labor unions for which the base pay increase is clear.

Sources: Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo.

Next, the year-on-year rate of increase in the CPI for all items excluding fresh food is slightly above 3.5 percent, and that for all items excluding fresh food and energy, for which prices fluctuate significantly, is slightly above 3 percent (Chart 4). This is mainly because firms have continued to pass on higher personnel expenses to selling prices and because there have been effects of the past rise in import prices and of the rise in food prices such as rice prices.

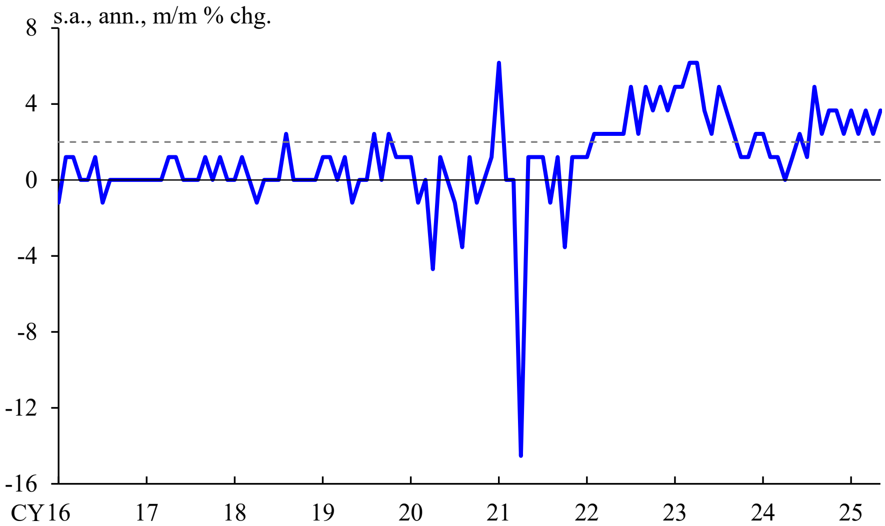
Chart 4: Consumer Prices



Source: Ministry of Internal Affairs and Communications.

In relation to this, I would now like to raise four points I am focusing on in terms of price developments. The first point is developments in the seasonally adjusted month-on-month rate of increase in the CPI for all items excluding fresh food and energy on an annualized basis. This rate of increase provides a snapshot of recent CPI developments since it is not affected by price developments in the same month of the previous year. After hovering at low levels for a long time, the rate of increase rose sharply from 2022 to 2023, fueled by higher import prices. The CPI inflation rate subsequently settled down around the first half of 2024. However, due to what can be called another round of pass-through to selling prices of higher personnel expenses and other costs, the rate of increase has accelerated again since June 2024, maintaining an increase of around 3 percent on an annualized basis (Chart 5).

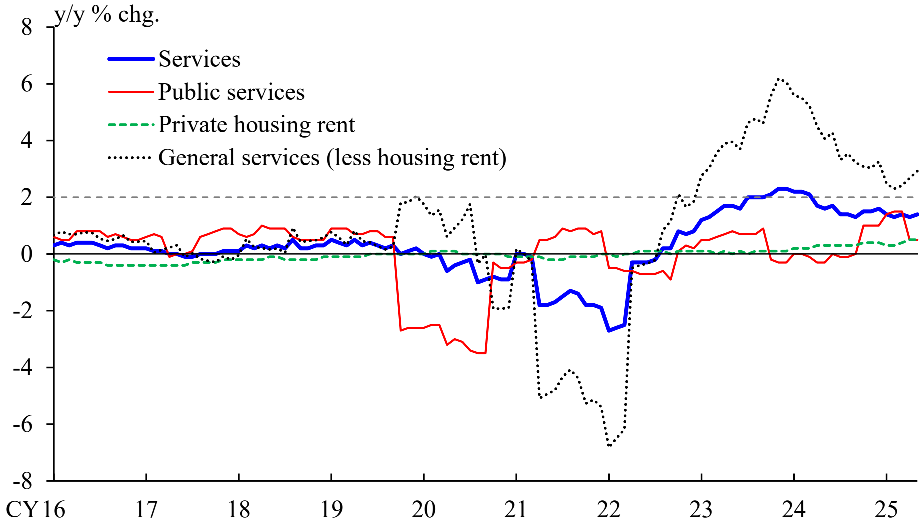
Chart 5: Consumer Prices (Annualized Month-on-Month Rate of Change)



Note: Figures are the CPI for all items less fresh food and energy.
Source: Ministry of Internal Affairs and Communications.

The second point is developments in services prices, which are important in assessing the degree of the pass-through of wages to selling prices. On the surface, the year-on-year rate of increase in services prices has tracked at somewhat below 2 percent (Chart 6). Nevertheless,

Chart 6: Consumer Prices (Housing Rent and Public Services)



Source: Ministry of Internal Affairs and Communications.

services include housing rent[1] and public services,[2] which are considered to structurally follow developments in general prices with a significant time lag.[3] Therefore, it is important to note that housing rent and public services are pushing down increases in services prices

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[1] The small rate of increase in terms of the year-on-year rate of change in Japan's CPI for housing rent has been attributed to the high institutional barriers against raising rent, and because surveys on housing rent include ongoing rents, the impact of increases in new contract rents made at the time of a change of resident is not fully accounted for. A downward bias in housing rent is also created by the fact that a quality adjustment to housing for rent in terms of deterioration from aging is not incorporated. It is important to note that these effects are reflected not only in private housing rent but also in imputed rent, which has a large weight in the CPI.

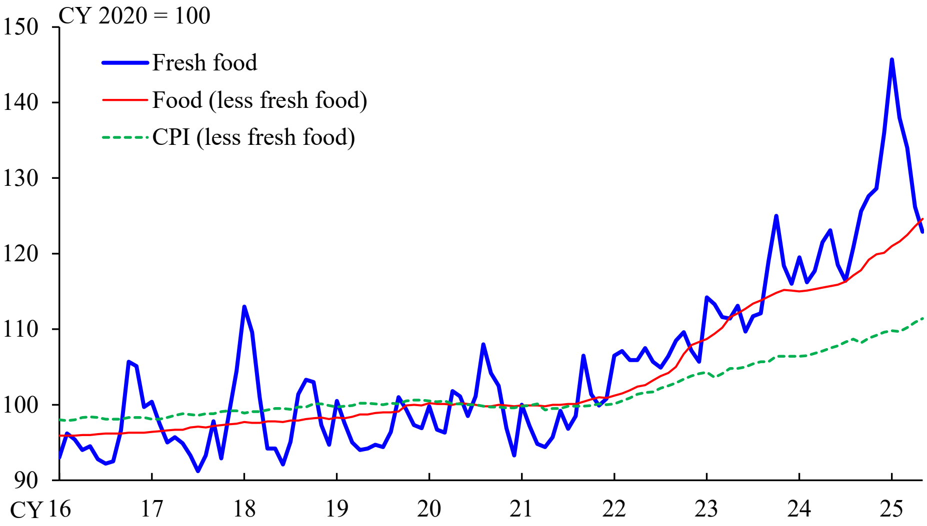
[2] Public services in the CPI include not only items under legal prices and ordinance-based prices, regulated either by the central or local governments, but also items under licensed prices, which require the approval of the central government for price changes, and items under notified prices, whose changes are reported to the government. One of the reasons why the rise in such administered prices in Japan has been sluggish is that government subsidies for supplementing revenues are constantly injected to public firms, and administered prices do not sufficiently reflect operating expenses and depreciation costs of equipment (see Box 4 of the July 2016 Outlook Report). Although higher fire and earthquake insurance premiums and optional auto insurance premiums have recently pushed up the price of public services, the rate of increase remains sluggish when these premiums are excluded.

[3] The weight in services prices is 36 percent for private housing rent (including imputed rent) and 25 percent for public services.

overall. I refer to services prices that exclude these components as "market-based services prices." These prices have continued to grow by more than 2 percent in recent years. Moreover, prices of the two components, housing rent and public services, have also recently begun to rise gradually.

The third point involves developments in the price of fresh food. As fresh food prices fluctuate significantly in line with one-off factors, changes in these prices are considered to be temporary, which is why fresh food is often excluded when assessing underlying inflation. In fact, developments in fresh food prices, when averaged out, more or less tracked overall price developments until around 2021, albeit with large fluctuations (Chart 7). However, since the

Chart 7: Consumer Prices (Fresh Food and Other Food)

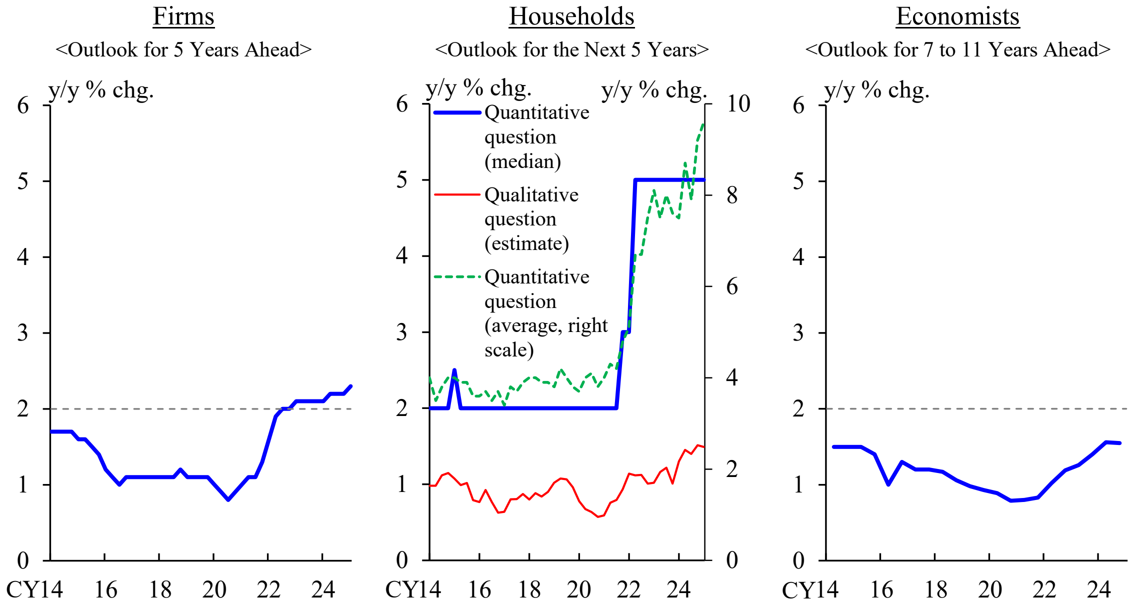


Note: "Fresh food" consists of fresh fish and seafood, fresh vegetables, and fresh fruits. "Food (less fresh food)" consists of rice, raw meat, eggs, various processed food products, and dining-out.
Source: Ministry of Internal Affairs and Communications.

beginning of 2022, although the extent of fluctuation has remained large, the rate of increase in fresh food prices has risen much faster than that in overall prices, even when averaged out. This is mainly attributable to (1) lower supply capacity due to labor shortages, (2) an increase in utility and shipping costs and various other costs, and (3) higher personnel costs for producing fresh food. These factors cannot be considered temporary. Furthermore, there is a significant impact from irregular weather due to climate change, and many point out that such factors will continue to push up prices. The same holds true for food other than fresh food. A rise in the price of fresh food and other food has a significant negative impact on households and substantially affects their inflation expectations, which can give rise to sustained upward pressure on prices. I therefore believe it necessary to closely monitor developments in fresh food prices.

Fourth, medium- to long-term inflation expectations have been rising gradually in a situation where prices in general have been increasing (Chart 8). The *Tankan* (Short-Term Economic

Chart 8: Inflation Expectations



Notes: 1. Figures for firms in the left panel are based on the *Tankan*, and are averages of all industries and enterprises.
2. Figures for households in the middle panel are based on the *Opinion Survey on the General Public's Views and Behavior*. Figures for the quantitative question are based on numerical values for expected inflation rates provided by respondents, and the average of those is calculated by excluding 0.5 percent of the highest and lowest figures, respectively, in order to avoid extremes. Figures for the qualitative question are estimated using the modified Carlson-Parkin method, quantifying the results of the 5-choice question, asking respondents their expectations for whether and to what degree prices will go up or down.

Sources: JCER, "ESP Forecast"; Bank of Japan.

Survey of Enterprises in Japan) shows a moderate rise in firms' inflation outlook for general prices, with their inflation outlook for five years ahead remaining above 2 percent. The results of the Bank's *Opinion Survey on the General Public's Views and Behavior* show that the median of households' inflation outlook for five years ahead has been significantly above 2 percent and the average outlook has recently been rising, although bias in expected price levels should be taken into account. The outlook among experts remains somewhat low compared with that of firms and households, but I personally believe that the focus should be placed on the inflation expectations of firms and households, who are the actual drivers of economic activity. I take these expectations to have already reached around 2 percent. Unlike the United States and Europe, where inflation expectations have been stable at around 2 percent, Japan has seen inflation expectations rise from a low level, and attention needs to be paid to whether any further rise is more than expected.

C. Impact of U.S. Tariff Policy

Given the aforementioned price developments, my view was that achievement of the price stability target came close, but the ground shifted significantly following the announcement of the U.S. tariff policy (Chart 9). In the April 2025 Outlook Report released in early May,

Chart 9: Impact of Trade Policies

Impact on Japan's Economic Activity and Prices

Channel	GDP	Inflation
(1) Weaker global demand	↓	↓
(2) Decrease in exports	↓	↓
(3) Decrease in corporate profits	↓	↓
(4) Exchange rate fluctuations	⇧ ↓	⇧ ↓
(5) Supply-chain disruptions, etc.	↓	⇧

The Bank's Forecasts for Real GDP and the CPI (April 2025 Outlook Report)

y/y % chg.

	Real GDP	CPI	
		Less fresh food	Less fresh food and energy
FY 2025	+0.5 (-0.6)	+2.2 (-0.2)	+2.3 (+0.2)
FY 2026	+0.7 (-0.3)	+ 1.7 (-0.3)	+1.8 (-0.3)
FY 2027	+1.0 (—)	+1.9 (—)	+2.0 (—)

Note: Figures in the right panel are the medians of the Policy Board members' forecasts. Figures in parentheses indicate changes from the January 2025 Outlook Report. There are extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies on economic activity and prices at home and abroad. The baseline scenario in the April 2025 Outlook Report was developed based on assumptions including the following: negotiations between jurisdictions will progress to some extent, and significant disruptions of global supply chains will be avoided. Attention is warranted on the possibility that the outlook for economic activity and prices could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.
Source: Bank of Japan.

the Bank revised downward its outlook for economic activity and prices from that made in January, mainly based on the assumption that tariff negotiations between jurisdictions will progress to some extent and significant disruptions of global supply chains will be avoided. Nevertheless, the Bank does not expect the U.S. tariff policy to induce a massive shock similar to the Global Financial Crisis or the COVID-19 pandemic. Naturally, the impact of the tariff policy varies from firm to firm and the Bank should assess the economic situation without preconceptions, but when looking at Japan as a whole, I believe the basic scenario is that Japan will be able to weather the impact, and the economy will merely experience a slowdown. The main reason for this is that the direct impact of the U.S. tariff policy is limited to export-oriented manufacturers and firms associated with those manufacturers' supply chains. Of course, the indirect impact also warrants attention, but the manufacturing industry accounts for only about 20 percent of GDP and about 15 percent of the number of employed persons in Japan. The year-on-year rate of increase in the CPI is likely to continue rising at around 2 percent through fiscal 2027, but if global production systems are disturbed and supply chains are disrupted, prices in Japan may be pushed up, mainly through a rise in import prices.

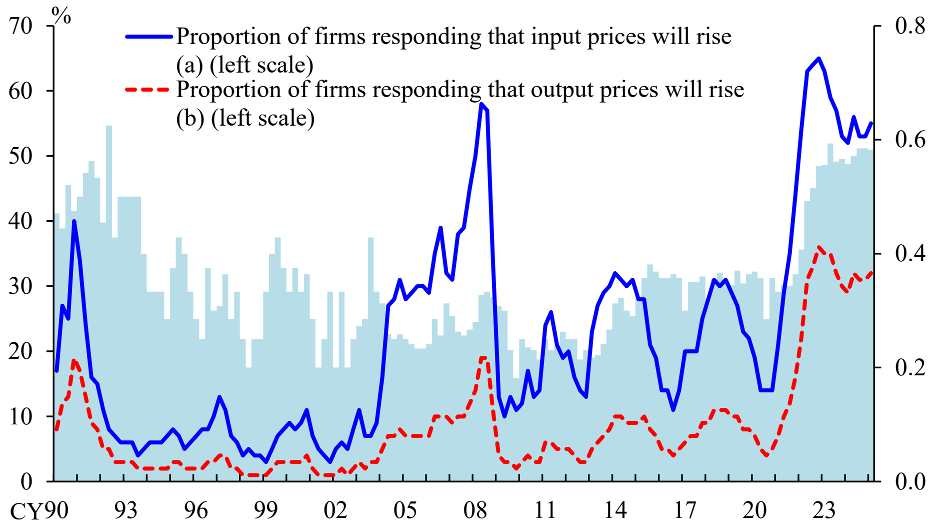
Nonetheless, how U.S. tariff policy turns out and how firms respond to the policy are both fluid. Therefore, the Bank's outlook for economic activity and prices can be described as provisional at this point and, depending on future developments, could be revised considerably, either upward or downward. The Bank needs to carefully examine developments in Japan's economic activity and prices, but I think that particular attention should be paid to whether firms' wage- and price-setting behavior reverts to the past behavior observed when wages and prices did not increase easily.

D. Firms' Price- and Wage-Setting Behavior in Japan

Now, I would like to look back at some of the changes observed in Japan's corporate behavior in recent years.

First, firms' price-setting behavior has become more active in terms of raising prices, and this trend has been taking root. Dividing the percentage of firms responding in the *Tankan* that output prices would rise, by the percentage of firms responding that input prices would rise, shows that this value dropped after the bursting of the bubble economy and remained at that level for a long time (Chart 10). Although not precise, this calculation gives a rough idea of how many firms facing higher input prices will raise their output prices. In other words, it shows how active firms are in terms of raising prices. From 2022, however, this figure recovered to its previous level and has since remained at a relatively high level. This seems to be because the rise in input prices in recent years was so large that firms had no choice but to raise their output prices and, since numerous firms had to take similar action, the trend of raising output prices began to take root, which changed firms' perceptions and behavior.

Chart 10: Changes in Firms' Price-Setting Behavior

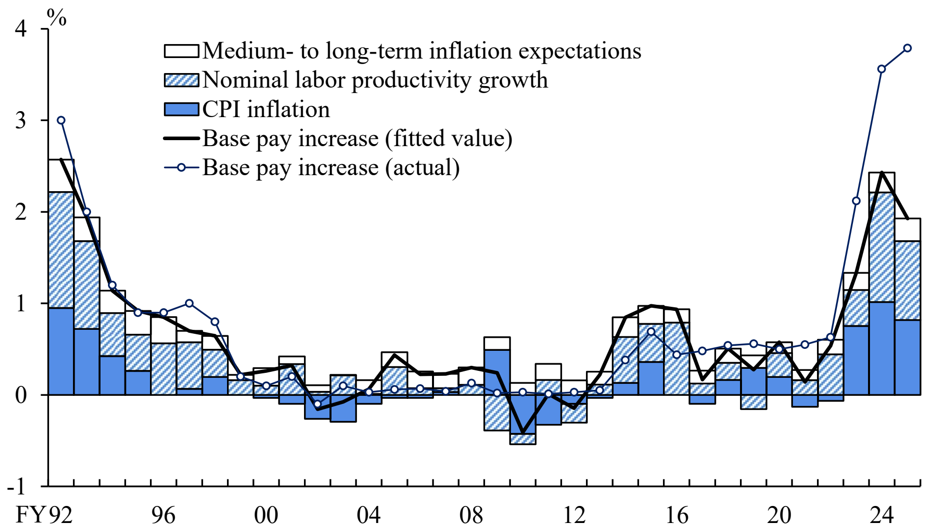


Note: Figures are based on the *Tankan*, and are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Next, firms' wage-setting behavior has also become more active. A regression using data from fiscal 1992 through fiscal 2022 -- with the rate of increase in base pay as the dependent variable and the inflation rate, nominal labor productivity, and medium- to long-term inflation expectations as explanatory variables -- shows that the actual values of increases in base pay are clearly above the fitted values from fiscal 2023 onward (Chart 11). This suggests that firms' wage-setting behavior has become significantly more active in recent years.

Chart 11: Changes in Firms' Wage-Setting Behavior

Base Pay Increase (Actual and Fitted Value)



Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of the consumption tax hikes, etc. Figures for actual base pay increases from fiscal 1992 to 2013 are those published by the Central Labour Relations Commission, while those from fiscal 2014 onward are figures released by Rengo (the figure for fiscal 2025 is from Rengo's fourth aggregate results).

2. The base pay regression for the estimation of base pay increases is specified as shown below. The estimation period is from fiscal 1992 to 2022.

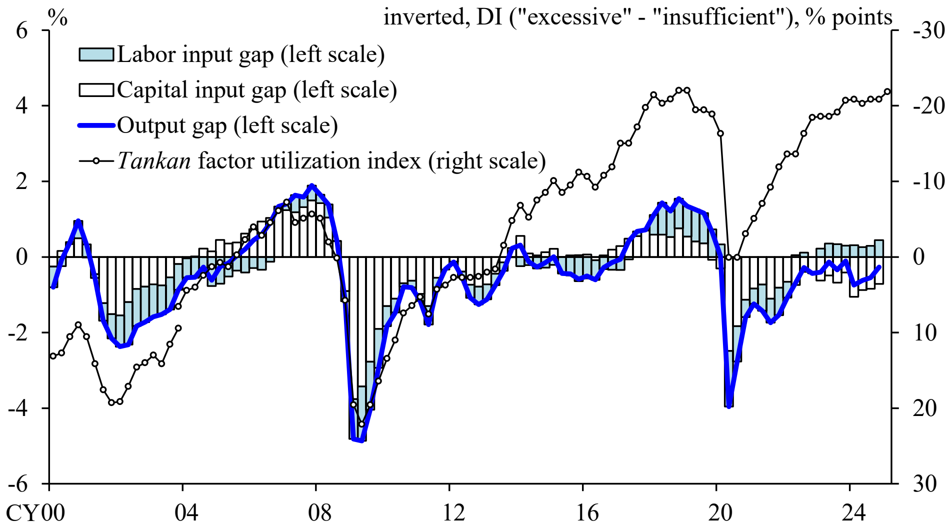
Base pay increase = 0.33 × CPI inflation (t-1) + 0.24 × nominal labor productivity growth (t-1) + 0.13 × medium- to long-term inflation expectations (t-1)

Sources: Cabinet Office; Central Labour Relations Commission; Ministry of Internal Affairs and Communications; Rengo; etc.

Unless there is a reversal in the wage- and price-setting behavior of firms, which has changed and has become more active, it is unlikely that underlying CPI inflation, which has been increasing toward the price stability target of 2 percent, will turn downward. Then, how high is the risk of firms' wage- and price-setting behavior reverting to the past behavior? The impact of U.S. tariff policy is highly uncertain, making it difficult to predict precisely, but at this point in time, I take the risk to be low.

First, I expect that, with labor shortages continuing in the future, actual supply capacity will stay below demand, and wages and prices will be under upward pressure. The Bank's estimate of the output gap has been at around 0 percent recently, and this estimate seems likely to be pushed down because firms have been unable to operate their facilities sufficiently due to labor shortages (Chart 12). The high levels of order backlogs for construction and machinery also suggest that supply capacity has been unable to adequately meet the robust demand for business fixed investment (Chart 13).

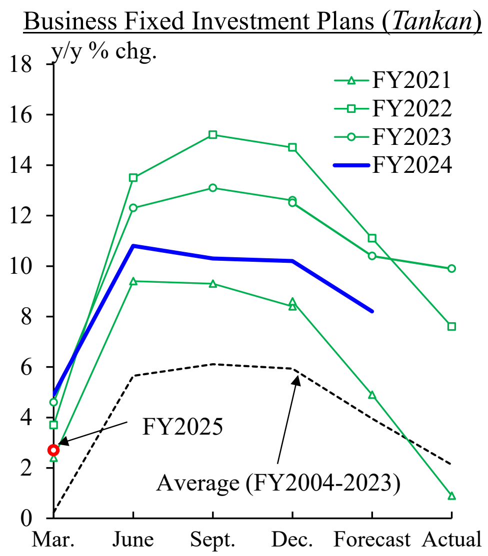
Chart 12: Output Gap

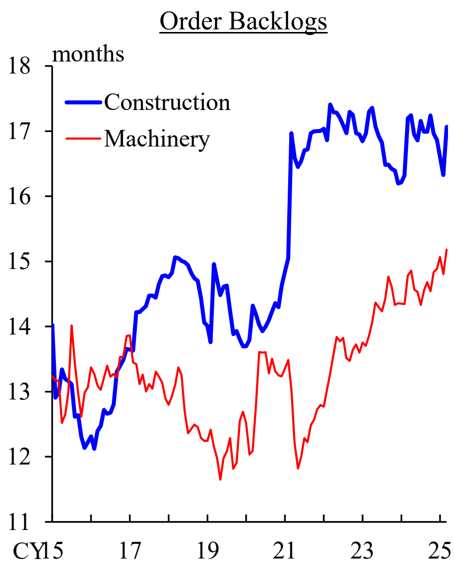


Notes: 1. Figures for the output gap are Bank staff estimates.
2. The *Tankan* factor utilization index is calculated as the weighted average of the production capacity DI and the employment conditions DI for all industries and enterprises. Capital and labor shares are used as weights. There is a discontinuity in the data for December 2003 due to a change in the survey framework.

Source: Bank of Japan.

Chart 13: Business Fixed Investment





Notes: 1. In the left panel, figures include software and R&D investments and exclude land purchasing expenses. Figures are for all industries including financial institutions.
2. In the right panel, figures for "construction" are based on a survey of 50 major construction companies, and calculated as the value of construction work yet to be executed at the end of the last month of the quarter divided by the average value of construction work executed over the preceding 12 months. Figures for "machinery" are calculated as the value of machinery orders yet to be executed at the end of the last month of the quarter divided by the average sales over the preceding three months, and these data are seasonally adjusted.

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

Second, as firms have become accustomed to raising their prices, they have come to recognize again the importance of price-setting strategies. According to the Bank's survey of firms conducted during the period from November 2023 to February 2024, 72 percent of the respondents said that they thought it preferable for prices and wages to rise moderately. I believe that, encouraged in part by various support measures by the government, it is highly likely that there will be a sustained shift among firms from management oriented toward cost-cutting, to management oriented toward growth by creating high added value.

II. Conduct of Monetary Policy

A. Future Conduct of Monetary Policy

Now, I would like to turn to the Bank's conduct of monetary policy. The Bank conducts monetary policy with the aim of achieving the price stability target of 2 percent in a sustainable and stable manner. Since the changes in the monetary policy framework made in March 2024, the Bank has returned to conventional monetary policy, employing the guidance of the short-term interest rate as a primary policy tool.

The Bank's outlook for prices is as follows. Underlying CPI inflation is likely to be sluggish for the time being, mainly due to the deceleration in the economy. Thereafter, however, it is expected to increase gradually, since it is projected that a sense of labor shortage will grow as the economic growth rate rises, and that medium- to long-term inflation expectations will rise. In the second half of the projection period presented in the April 2025 Outlook Report -- which covers the period through fiscal 2027 -- underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target. On the other hand, the Bank's outlook for economic activity and prices can be described as provisional, and attention is also warranted on upside risks to prices. In this situation, I believe there is a good possibility that the price stability target will be achieved earlier than expected.

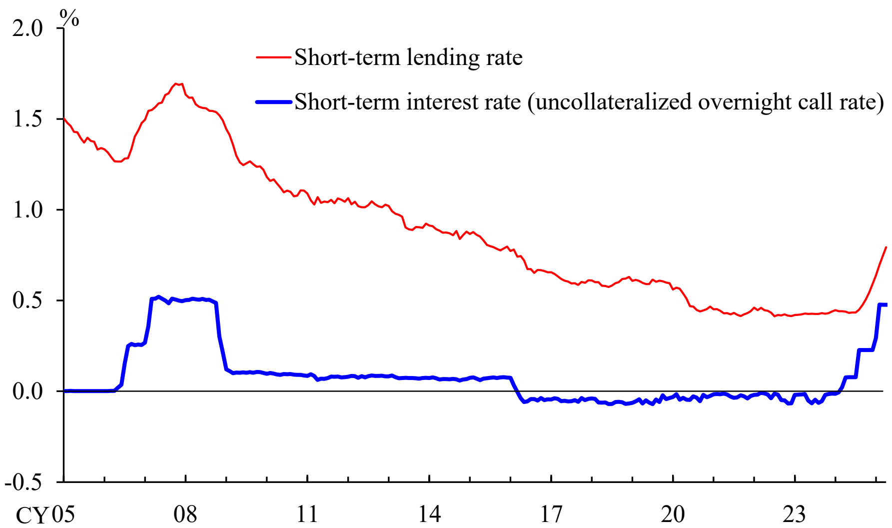
Given that real interest rates -- calculated as the nominal interest rate minus the expected rate of inflation -- are currently at significantly low levels, my basic thinking is that the Bank will analyze the data and various information without preconceptions, and will accordingly raise the policy interest rate and adjust the degree of monetary accommodation in a timely and appropriate manner in line with improvements in economic activity and prices, without haste or delay. I do not expect uncertainties to be entirely cleared up, but at each Monetary Policy Meeting (MPM), the Bank has to decide the policy interest rate for the intermeeting period. When the likelihood of achieving the price stability target increases or, when upside risks to prices grow, I believe that the Bank may face a situation where it should act decisively, despite heightened uncertainties.

On the other hand, some have voiced the opinion that Japan's policy interest rate has remained under 0.5 percent over the past three decades, and that there is a significant barrier to raising the rate higher than 0.5 percent. However, I do not consider that there is a barrier of 0.5 percent for two reasons.

First is the change in the level of the inflation rate. In 2007 and 2008, when the policy interest rate stood at 0.5 percent, the year-on-year rate of increase in the CPI for all items excluding fresh food was at around 0.0 percent and around 1.5 percent, respectively, whereas the rate is slightly above 3.5 percent at present.

Second is the change in the level of lending rates of commercial banks (Chart 14). In 2007

Chart 14: Market Interest Rates and Lending Rates



Note: Lending rates indicate average contract interest rates on new loans and discounts of domestically licensed banks (6-month backward moving averages). Figures are yen-denominated loans on the banking book, excluding loans to financial institutions.
Source: Bank of Japan.

and 2008, short-term lending rates were in the range of 1.5-1.7 percent, but the rate currently remains low at around 0.7 percent.[4] Interest rate spreads on loans seem likely to be narrowing significantly, but by more than can be explained solely by the decline in credit costs compared with 2007 and 2008. The same can be said for housing loans, for which the borrowing interest rate is still lower than that in 2007 and 2008.

B. Plan for the Reduction of the Purchase Amount of Japanese Government Bonds

I have talked about the Bank's conduct of monetary policy, and now I would like to touch on the plan for the reduction of the purchase amount of Japanese government bonds (JGBs) decided at the June 2025 MPM (Chart 15). At the meeting, the Bank conducted an interim

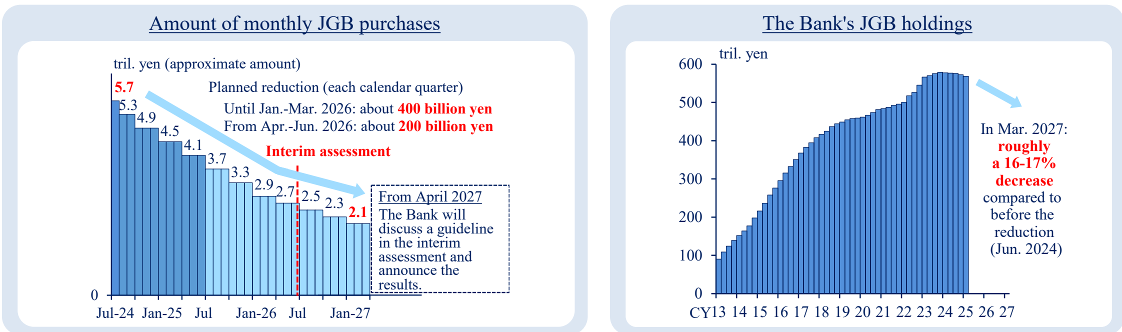
Chart 15: Plan for the Reduction of the Purchase Amount of JGBs (June 2025)

1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- Until January-March 2026 : about 400 billion yen (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027 : about 200 billion yen
- ➢ The Bank will gradually reduce its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner



Allowing Enough Flexibility

1. The Bank will conduct an interim assessment of the plan at the June 2026 MPM.
2. 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.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

assessment of the plan for the reduction in its JGB purchases decided at the July 2024 MPM, and then decided that (1) the Bank will reduce the planned amount of its monthly purchases of JGBs so that it will be about 2 trillion yen in January-March 2027; and (2) the amount will

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[4] Even omitting the impact of a time lag before a policy interest rate hike affects lending rates, there is a difference in the level of lending rates. The lowest lending rate before the policy interest rate increased to 0.5 percent was 1.3 percent in 2007 and 2008, whereas, in recent years, the rate has been at 0.4 percent.

be cut, in principle, by about 400 billion yen each calendar quarter until January-March 2026, and by about 200 billion yen each calendar quarter from April-June 2026. In addition, at the June 2026 MPM, the Bank will conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs. In principle, the Bank intends to maintain the plan for the reduction after the assessment, while it may modify the plan as appropriate, if deemed necessary after reviewing the developments in and functioning of the JGB markets. At the meeting, it will also discuss a guideline for its JGB purchases from April 2027 and announce the results. These decisions were made based on the judgment that it is appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets.

At the June 2025 MPM, I voted against the proposal on changing the pace of reduction of JGB purchase amount, considering that there was no need for the Bank to change the pace of reduction in the amount of its monthly outright purchases of JGBs by 400 billion yen. This was because I judged that the Bank should allow long-term interest rates to be determined by the market and its participants, and that the level of amount outstanding of its JGB holdings should be normalized at the earliest possible time. Reducing the purchase amount at the pace decided at the June MPM will require longer time for the Bank to normalize its balance sheet -- that is, to reduce the amount outstanding of its JGB holdings to a level where further reductions are no longer necessary. The degree of JGB market functioning has stayed low, albeit having improved, and such aftereffects of the Bank's large-scale monetary easing will likely remain for some time. I therefore believe that, although it will take time, the Bank needs to proceed steadily with the normalization of its balance sheet, while closely monitoring market conditions.

Thank you.