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Bank of Japan

**Economic Activity, Prices, and Monetary Policy in Japan:
Japan as a Leading Asset Management Center**

*Speech at a Meeting of the Chugoku Economic Federation
Held in Hiroshima*

TAKATA Hajime
Member of the Policy Board

(English translation based on the Japanese original)

Introduction

It is my pleasure to have the opportunity to address you today at the meeting of the Chugoku Economic Federation. I would like to take this chance to express my sincere gratitude for your support and cooperation with the activities of the Bank of Japan.

My remarks will focus on Japan's economic activity and prices, as well as the Bank's conduct of monetary policy.

I. Economic Activity and Prices

I will begin with developments in economic activity and prices.

Overseas economies have grown moderately on the whole, although some weakness has been seen in part, reflecting trade and other policies in each jurisdiction. In the October 2025 *World Economic Outlook* (WEO), the International Monetary Fund (IMF) revised upward its forecast for global growth from the April WEO, which had incorporated the significant impact of U.S. tariff policy, and from its subsequent July *WEO Update* (Chart 1). Let me take a look at developments in the U.S. economy, where the impact of tariff policy has been of concern. Although domestic demand in the United States was expected to decline due to price rises stemming from the impact of reciprocal tariffs imposed in April by the Trump administration, the actual impact of this has so far been limited. Specifically, although there has been a slowdown in U.S. employment, corporate profits for IT-related firms in particular have improved, and stock prices have risen to record high levels. Amid anxiety about the future, deep-rooted concerns over consumption and investment remain, but solid asset prices have continued to cause the impact of tariff policy on consumer sentiment to be limited. The Federal Reserve kept its policy interest rate unchanged from the January 2025 Federal Open Market Committee (FOMC) meeting. In light of the slowdown in employment, however, it once again cut the policy rate at the September FOMC meeting (Chart 2). Meanwhile, wages and employee income have been robust, and AI investment has also remained at a high level. As for the outlook, I am of the view that a sharp economic slowdown triggered by credit contraction, which was common during past economic downturns in the United States, is unlikely, in light of factors such as stable financial conditions and the sound balance sheets of households, firms, and financial institutions. Since the start of 2025, what might be called

a "north wind" policy predominated in the United States -- i.e., a policy that, like the north wind in Aesop's fable, tends to favor pressure over persuasion, as represented by U.S. tariff policy in particular. Such a policy exerts a negative impact on economic growth. However, as seen in the passage of tax cut legislation in July, coupled with an expansion in investment spurred by deregulatory initiatives, the situation in the United States appears to be shifting to a "sun" policy, which prefers persuasion and exerts a positive impact on economic growth.

The theory of optimal tariffs suggests that the United States, which imposes tariffs worldwide, has thus far been containing the impact of an economic slowdown through improvements in its terms of trade that reflect its privileged position as an economic superpower. Under the United States' global imposition of tariffs, its trading partners -- by reducing the prices of exports to the United States -- end up shouldering themselves the burden of tariffs that would normally have been borne by the United States. Let us take a look at Chart 3. This is a textbook conceptual diagram illustrating the theory of optimal tariffs.¹ The following mechanism is at work for a large country like the United States that can exert an influence on the global economy: a fall in demand due to tariff impositions is followed by a drop in global prices from P_0 to P_2 as shown in the left panel. This results in tariff revenues (denoted by (2) in the left panel) outweighing welfare losses brought about by tariffs (denoted by (1) in the left panel), thereby generating positive gains (denoted by (2) minus (1) in the left panel). By contrast, with respect to a small country, as shown in the right panel of Chart 3, global prices remain unchanged even with the imposition of tariffs (marked by $P_0=P_2$ in the right panel), implying that the kind of improvement in the terms of trade that is the case with a large country cannot be expected. Put differently, although there are differences between industries and products, a large country like the United States generates an impact similar to levying taxes on the rest of the world by causing other countries to lower their export prices. With respect to those countries that bear the costs of tariffs, on the other hand, such costs essentially serve as a factor pushing down economic activity. Yet, amid the global sense of risk

¹ For details, see, for example, Elhanan Helpman and Paul R. Krugman, *Trade Policy and Market Structure* (Cambridge: The MIT Press, 1989) and Furusawa, T., "Keizai kyoshitsu Beikoku no koeki jyoken wa kaizen mo" [Economics class: Despite improvement in the U.S. terms of trade], *Nikkei*, September 24, 2025. Although the rate of passing on tariff increases to U.S. selling prices is almost 100 percent for small countries, the rate for large countries is low. U.S. selling prices are thus not necessarily under upward pressure, and the United States may enjoy the benefits of tariff impositions.

engendered by U.S. tariff impositions, Europe, the United States, China, and other emerging economies have all leaned toward accommodative policies on both the fiscal and monetary fronts. This, in turn, has created an extraordinary environment where the same policy direction has been adopted around the world. Chart 4 shows the stance of monetary policy worldwide. As can be seen, after some tightening in 2022 and 2023, the various countries and regions have gone through a phase of monetary easing in a synchronized manner over the past year or so. At the same time, fiscal expansion has also taken place in regions such as the United States, Europe, and China, producing expansionary effects in combination with monetary accommodation. As a consequence, even though there were initial concerns about a global economic slowdown in the wake of the U.S. tariff policy, attention to the possibility of an unexpected uplift in economic activity and inflationary pressure is currently warranted, with monetary and fiscal policies all moving in the same direction. The present circumstance is similar to the period starting in 2020 when economic stimulus measures were adopted globally during the COVID-19 pandemic. The global rise in stock prices since this past summer may be owing to the contributions of accommodative monetary and fiscal policies employed around the world.

The impact of U.S. tariff policy was initially expected to push down Japan's economy through such channels as a slowdown in overseas economies, a decline in domestic corporate profits and the associated slowdown in wage increases, and a postponement of firms' and households' spending due to increased uncertainty. Japan's economic outlook from spring 2025 may be likened to a "planned suspension" of public transportation, in that the outlook was revised downward preemptively in anticipation of being hit by the "typhoon" of reciprocal tariffs beginning in April under the Trump administration (Chart 5). In reality, however, the Bank's *Tankan* (Short-Term Economic Survey of Enterprises in Japan) released in October and reports at the latest meeting of the general managers of the Bank's branches have revealed no marked slowdowns. In Japan's corporate sector, corporate profits for fiscal 2025 are projected to be at high levels, despite being sluggish. The final aggregate results of the 2025 annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) also show that the negotiations agreed on high levels of wage increases (Chart 6). In the household sector, private consumption has been resilient against the background of an improvement in employee income, despite weakness in consumer

sentiment due to the impact of price rises and other factors (Chart 7). These developments suggest that there has been no change in the structure in which an improvement in the employment and income situation underpins private consumption. The inflation rate has recently been above 2 percent due to the rise in rice and other food prices (Chart 8). Private consumption is expected to continue increasing moderately, however, with wage increases catching up with higher prices, reflecting the rise in wage growth.

Looking at medium- to long-term inflation expectations of various economic entities to assess underlying inflation, expectations have continued to rise steadily (Chart 9). Growth in the GDP deflator -- which indicates domestic inflationary pressure and had been mainly led by unit profits -- has increasingly been driven by a rise in unit labor costs since 2024, reflecting wage increases. As a result, the growth rates of unit profits and unit labor costs are coming into balance, and signs of homemade inflation have emerged, in that inflationary pressure is stemming not only from import price factors but from domestic factors as well. In this regard, the high levels of wage increases agreed in the 2025 annual spring labor-management wage negotiations suggest that these trends will continue. The fact that the benchmark for the degree of increase in the minimum wage has been raised to 6 percent for fiscal 2026 -- up a percentage point from fiscal 2025 -- also suggests that wage increases will continue. Moreover, as prefectures compete to raise their minimum wage levels to an extent that surpasses the national benchmark, the national weighted average of the minimum wage has risen by as high as 6.3 percent. This example symbolizes a change in the norm for prices, and is likely to influence inflation expectations. The government's stated intention to raise the hourly minimum wage to 1,500 yen by the end of the 2020s is also likely to serve as forward guidance for wages by demonstrating a commitment to the future wage level.

As firms face supply-side constraints due to labor shortages -- in other words, a shift to a "labor shortage economy" -- their wage- and price-setting behavior has been active. With wage hikes taking hold, inflationary pressure is increasingly being driven by domestic factors. Given this, overall prices have been rising even amid a fall in energy prices, and the year-on-year rate of increase in the consumer price index (CPI) for items excluding fresh food has remained at 2 percent and above for nearly three and a half years, since April 2022 (Chart 8). In fact, this rate is higher than in the United States and major European economies. Given

that there has already been a shift away from the deflationary norm, combined with a rise in inflation expectations, I believe that, as far as recent domestic developments suggest, Japan's economy is at a stage where the price stability target is almost achieved.

In examining the momentum toward achieving the price stability target after the announcement of reciprocal tariffs in April, I have closely monitored whether or not U.S. tariff policy will dampen the scenario I have described. To this end, as well as examining the transmission channels to Japan's economy of the impact of U.S. tariff policy, I have so far paid attention to whether any adverse impact of tariff policy will materialize in terms of the following four points. First, whether business fixed investment will weaken, due to heightened uncertainty. Second, whether exports will become sluggish, given a global economic slowdown caused by U.S. tariff policy. Third, whether a decline in corporate profits will restrain the momentum for wage increases in 2026, while also restraining selling prices. And fourth, whether the yen will appreciate, amid speculation over various policies of the U.S. administration, thereby pushing down corporate profits and import prices, for example.

Let me assess how these four points have played out up to this point, half a year since the imposition of U.S. reciprocal tariffs in April. With regard to the first point, no pronounced weakness in business fixed investment has been suggested by sources such as the *Survey on Planned Capital Spending* for fiscal 2025 released by the Development Bank of Japan (DBJ) or the Bank's October 2025 *Tankan*. What caught my attention in particular was the upward revision in the *Tankan's* diffusion index (DI) for business conditions for large manufacturing enterprises, which are considered susceptible to the impact of reciprocal tariffs. In relation to the second point, the IMF revised upward its forecast for global economic growth in its October 2025 WEO, following an upward revision in July, and the semiconductor cycle, for example, has also been on an uptrend. As for the third point, corporate profits for the April-June quarter of 2025 have seen a decline for the manufacturing industry in particular but, partly reflecting the impact of the yen's depreciation, no notable developments among exporting firms have been confirmed that were weaker than expected. With the subsequent agreement in tariff negotiations between Japan and the United States, the earnings revision index, which indicates the degree of revision to firms' earnings forecasts, has turned positive since August, while corporate profits for fiscal 2025 might also be revised upward in the

second half of the fiscal year. Thus, a restraint on momentum for wage increases seems unlikely. Moreover, the fact that the benchmark for the rate of increase in the minimum wage for 2025 has been set at 6 percent -- surpassing the rate for 2024 -- will also serve to drive wage increases in 2026. I have been concerned about the fourth point, namely, the possibility of significant market volatility, depending on the expectations for the U.S. administration's policies, but the U.S. economy has so far avoided deterioration. Although the Federal Reserve moved to cut the policy interest rate in September 2025, the yen saw no appreciation and has instead depreciated. In addition, the fact that both Japanese and U.S. stock prices have been at historically high levels has engendered favorable market sentiment. In sum, my assessment of the four points of concern suggests that, given the sustained positive developments among firms in Japan, overseas trade policies potentially constraining such developments are unlikely to become a significant downside factor. Consequently, the momentum toward achieving the outlook for domestic prices will not be dampened by overseas factors. Given this situation, my view is that the "planned suspension" I mentioned -- or the preemptive downward revision of the outlook since the first half of 2025 ahead of the "typhoon" approaching from overseas -- will be lifted. Discussions that assume achievement of the price stability target therefore need to take place.

Comparison with Past Japan-U.S. Trade Friction

As I did in my previous speech, let me compare trade friction until the 1990s with the recent U.S. tariff policy.² The main cause of the U.S. current account deficit, which has continued for over half a century, is the trade deficit. From the 1980s to the 1990s, Japan accounted for the overwhelming proportion of the overall U.S. trade deficit (Charts 10 and 11). At its peak in 1991, Japan's share of the U.S. trade deficit reached 53 percent, leading observers to frame the U.S. trade deficit issue as a Japan-U.S. trade issue. At the time, foreign exchange markets were expected to function as a venue to correct the current account deficit, and the yen came under increasing upward pressure.

As Chart 11 showed, Japan had an overwhelming presence in the U.S. trade deficit. In

² For details, see Takata, H., "Economic Activity, Prices, and Monetary Policy in Japan," speech at a meeting with local leaders in Mie, July 3, 2025, https://www.boj.or.jp/en/about/press/koen_2025/ko250703a.htm.

addition to the yen's appreciation, this resulted in direct measures by the U.S. government, such as imposing export quotas and encouraging voluntary export restraints on Japanese products. Although they were not the imposition of tariffs per se, these measures brought about an extraordinary situation in which Japan alone faced deterioration in its competitive environment. Japanese firms were hit hard as they tried to maintain competitiveness vis-à-vis other economies in the U.S. market by keeping their U.S. dollar-denominated selling prices unchanged despite the yen's appreciation, thereby avoiding a price pass-through. They dealt with the resultant burden by reducing costs through business restructuring, under which they held down wages, margins, domestic selling prices, and yen-denominated export prices.

Unlike the trade friction until the 1990s, recent U.S. tariff policy targets a wide range of countries and regions, so that Japan is not the only one affected. Of course, regarding the Japanese automobile industry, given its high degree of dependence on exports, the impact of U.S. tariffs is significant. However, the proportion of automobiles produced by Japanese automakers that are exported to the United States has declined from a peak of around 20 percent in 1988 to about 6 percent in 2024. I would also like to point out that improvement in the financial position of Japanese firms as a result of longstanding business restructuring has made them more resilient to global shocks. As shown in the left panel of Chart 12, corporate profits expanded almost tenfold in fiscal 2024 compared to the second half of the 1990s, reaching their highest level on record of around 90 trillion yen. The current situation, where corporate profits remain at high levels, differs from the economic recovery phase in the 2000s, and has led to an increase in the overall level of corporate value. Japanese firms have built up resilience against shocks by lowering their break-even points over more than three decades to withstand even the yen's appreciation in an adverse business environment brought about by trade friction.

The 15 percent U.S. reciprocal tariff rate, which was agreed in July 2025 and went into effect in September, is among the lowest out of countries with a trade surplus vis-à-vis the United States. The degree of Japanese exports' dependence on the United States is also significantly lower than in the past. The decline in profits for fiscal 2025 announced by Japanese automakers due to tariff increases is currently estimated to add up to around 2.5 trillion yen, but the decline could actually end up being more limited, in light of the fact that Japanese

firms' profits stand at nearly 100 trillion yen and that a pass-through of tariffs to prices, including prices of related parts, is expected across the industry, on top of the benefits of a weaker yen. To sum up, despite the impact of U.S. tariff policy, corporate behavior, particularly of exporting firms, has shown no signs of change so far, and I consider it unlikely that the kind of pressure to cut prices and suppress wages seen in the 1990s will re-emerge, or that the positive movement of Japanese firms will be disrupted.

II. Recent Conduct of Monetary Policy

Let me now present my views on the Bank's future conduct of monetary policy.

The Bank decided to raise the policy interest rate to around 0.5 percent in January 2025, judging it appropriate to adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent, as Japan's economic activity and prices had been developing generally in line with the Bank's outlook and the likelihood of realizing the outlook had been rising.

The price stability target is now close to being achieved, owing to overseas and domestic factors. In this situation, real interest rates, particularly the short-term rate, have been significantly negative, and the Bank has maintained accommodative financial conditions (Chart 13). In cautiously examining the timing of another gear shift in monetary policy, I have paid attention to overseas factors, particularly those associated with tariff policy. However, as I mentioned earlier, I have reached the conclusion that the initial concerns over overseas factors have abated. In this situation, it has been confirmed that positive corporate behavior -- including solid business fixed investment, sustained wage hikes, and a continued price pass-through of cost increases -- has been maintained. Furthermore, Japan and the United States agreed on a U.S. tariff rate of 15 percent in July 2025, which actually went into effect in September. Given these developments, my assessment is that Japan's economy is now at a stage where it can discontinue its mode of vigilance and lift its "planned suspension" approach in determining the outlook.

Still, given a possible deceleration in the U.S. economy owing to the impact of tariff policy, I consider it important, based on many years of history, to also carefully monitor the risk that

the divergence of monetary policy stances between Japan and abroad could bring about high volatility in financial markets, particularly foreign exchange markets. In fact, since Japan's shift to a floating exchange rate system in the 1970s, there have been repeated correlations between the monetary policies of Japan, the United States, and Europe. Looking back on the previous five cycles of policy interest rate hikes, excluding the most recent one, the Bank of Japan raised its rate during the Federal Reserve's rate hike cycle, and also moved to cut rates after the Federal Reserve cut its rate. Hence, the Federal Reserve's resumption of rate cuts may have hindered the flexibility of the Bank's monetary policy. Having said that, as the U.S. economy is currently unlikely to see a serious recession, the situation is different from the periods after the collapse of the dot-com bubble around 2000 and in the wake of the Global Financial Crisis in the late 2000s. When the Federal Reserve decided to cut its policy rate in September, Chair Powell stated at a press conference that the reason behind the decision was not a recession; rather, the decision was made in the context of risk management. Firmness in the U.S. economy has been maintained since then. As U.S. long-term interest rates have bottomed out and the yen's appreciation has been avoided even after the Federal Reserve's September rate cut, I believe that this rate cut, unlike cases seen repeatedly in the past, will not act to constrain rate hikes in Japan.

From 2022 to 2023, the world saw upswings in prices as the global trend of economic recovery following the COVID-19 pandemic led to a rise in energy and food prices -- in other words, a "big push."³ Japan, too, was engulfed by this wave of price upswings, and -- with the yen's depreciation also playing a part -- became subject to price rises, mainly of imported goods. Although the second-round effects of these price increases were limited in Japan, since the norm of restraining wage hikes was still functioning at the time, this big push originating from overseas helped to enable Japan to break free of this norm. On the other hand, the most recent price increases have a greater tendency to generate second-round effects, given the fact that the norm of prices not increasing easily has already been dispelled and that medium- to long-term inflation expectations are likely to rise. A rise in underlying inflation is also evident, not only from wage increases but also from the start of rises in housing and office rent, both

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

of which had been sticky and inherently rigid. Moreover, since there are now fewer constraints from overseas circumstances, it is necessary to bear in mind the risk that Japan might face greater-than-expected upswings in prices if factors that push up prices emerge. In light of expectations in 2026 for the fourth round of wage increases since 2023, mainly in the form of base pay increases, I believe that the Bank should make a further gear shift, and engage in communication that assumes that the price stability target has been almost achieved.

As long as the shrinking equilibrium and the norm of wages and prices not increasing easily remained in place, it was necessary that the Bank -- in terms of communicating with the markets -- patiently continue with monetary easing, on the basis that underlying inflation had not yet reached the price stability target, even if headline inflation exceeded 2 percent. As Japan's economy has now returned to normal with the norm being dispelled, I have come to believe that it is vital to address the situation focusing on the level of headline inflation, which has already remained at 2 percent and above for the past three and a half years. Considering that the once deeply entrenched norm has waned in Japan, that the price stability target has been almost achieved, and that the "planned suspension" approach can be lifted reflecting fewer concerns over overseas factors, I believe that now is a prime opportunity to raise the policy interest rate. Based on this assessment, I proposed raising the policy interest rate to 0.75 percent at the September 2025 Monetary Policy Meeting (MPM), in view of the need to make a further gear shift, that is, to adjust the degree of monetary accommodation.

Reduction in Japanese Government Bond Purchases

With respect to outright purchases of Japanese government bonds (JGBs), the Bank conducted an interim assessment of the plan for their reduction at the June 2025 MPM, taking into account opinions collected from market participants. Based on the assessment, the Bank decided to continue to cut down its monthly purchase amount by about 400 billion yen each calendar quarter until January-March 2026, maintaining the amount and pace of the reduction decided in July 2024 (Chart 14). Thereafter, the amount of purchases will be reduced by about 200 billion yen each calendar quarter, so that it will be about 2 trillion yen in January-March 2027. The Bank's plan for the reduction of its purchase amount of JGBs stipulates that, in principle, long-term interest rates are to be formed in financial markets, and that the Bank will reduce its purchase amount of JGBs in a predictable manner, while allowing enough

flexibility to support stability in the JGB market. Given that the price stability target has already been almost achieved and that the norm of prices and wages not increasing has also been dispelled, I believe now is the time to head toward marketization and normalization, given that the longstanding yield curve control (YCC), in which the Bank controlled long-term interest rates, has fulfilled its historical role. Therefore, I believe the Bank needs to aim for a shift away from the deterioration in functioning in the JGB market caused by its large-scale JGB purchases and move toward normalization by reducing its purchases. At the same time, considering the current size and composition of the Bank's balance sheet, I believe that -- with a view to adjusting the degree of monetary accommodation -- the Bank is at a phase where it should deliberate on managing the money stock and reducing the size of the balance sheet.

That said, from the perspective of maintaining smooth market functioning, I believe the Bank should take time and be prudent in reducing its JGB purchases. The reason for this is that its JGB purchases thus far had served to hold back the total amount of JGBs in the market by increasing the Bank's JGB holdings. Conversely, the reduction in the Bank's purchases will supply the market with some portion of the JGBs the Bank has purchased to date, in effect resulting in an increase in the amount of JGBs in the market. Taking this into consideration, it can be said that the market is in a phase of having one of the largest supplies of JGBs compared to the past. Chart 15 shows historical developments in the net issuance of JGBs, representing the annual change in the outstanding amount of JGBs issued. By deducting the annual change in the Bank's JGB holdings -- which factors in the amount of its JGB purchases that year -- from the net JGB issuance, the annual change in the outstanding amount of JGBs in the market can be derived, which in effect represents the supply of JGBs to the market. The chart indicates the extent to which the reduction in the Bank's JGB purchases has led to an increase in the outstanding amount of JGBs in the market relative to the 1980s. I believe it is necessary to prudently examine whether the market will become volatile, as the annual change in the outstanding amount of JGBs in the lead up to 2026 is estimated to reach a peak level comparable to the early 2000s. Needless to say, the reduction in the Bank's JGB purchases does not aim at giving consideration to the fiscal situation. That said, since the reduction in purchases in effect supplies the market with JGBs, I believe it is also necessary, in terms of the functioning of the market as a whole, to ensure stability while maintaining

close communication among authorities. Looking back over the past year, there have been some unexpected changes in the market structure, such as weakening investment demand for super-long-term JGBs. Given this, I believe it is necessary to carefully monitor the situation in view of the interim assessment of the JGB reduction plan at the June 2026 MPM.

Disposal of Exchange-Traded Funds and Japan Real Estate Investment Trusts

At the September 2025 MPM, the Bank decided on the basic principles for its disposal of exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) it holds. This represents a shift toward an exit from quantitative easing, which was led mainly by the Bank's JGB purchases, and from qualitative easing, under which the Bank increased its purchases of ETFs and J-REITs. As shown in Chart 16, the Bank in July 2025 completed the disposal of the stocks it had purchased from financial institutions. Based on insights gained from this disposal, the Bank decided to sell its holdings of ETFs and J-REITs to the market at a scale generally equivalent to its disposal of the stocks. The intent of ETF purchases was to contain risk premiums in the stock market and improve the deflationary situation. As this purpose has been fulfilled, the Bank decided in March 2024 to discontinue its purchases. Now that Japan's economy is breaking free from a deflationary environment, the Bank -- with a view to proceeding with policy normalization -- arrived at the decision in September 2025 to sell its ETFs and J-REITs. Although risk premiums in the stock market have been normalized, sales of ETFs and J-REITs should be carried out with caution to avoid inducing destabilizing effects on the financial markets. Considering that risk premiums remain high in the J-REIT market despite firm real estate market conditions, it is desirable to considerably moderate the pace of sales of these instruments, as was decided at the September MPM.

III. Japan's Economy under Initiatives to Promote Japan as a Leading Asset Management Center

So far, I have discussed the historical shift in Japan mainly among firms as a shift to positive corporate behavior, but this shift also includes a change in households' stance toward financial assets. I would like to present my views on the investment behavior of households from a historical perspective, in light of a recent hot topic; namely, the concept of promoting Japan as a leading asset management center, which includes a shift from saving to investing. Japanese households are finally beginning to break free of the norm of holding cash and

deposits as their main financial assets. However, concerns have arisen over whether recent U.S. tariff policy will disrupt the momentum of this shift. In fact, in the midst of economic recovery around 2000 and in the mid-2000s, global demand shocks resulted in several "false dawns,"⁴ or temporary economic recoveries, in the context of the behavior of Japanese firms and households. My expectation is that Japan will see a "true dawn" this time around; in other words, "this time is different," and we will see a situation that transcends the norm.⁵ This also implies that the flow of funds in Japan and financial intermediation by banks in particular will likely be significantly affected. Amid government efforts to promote Japan as a leading asset management center, the Japan Financial Literacy and Education Corporation (J-FLEC) was established in April 2024, as shown in Chart 17, with the Bank of Japan serving as one of the contributors of capital. This has created an opportunity to move ahead with full-fledged efforts to foster financial and economic education in this country. Later in this speech, I will talk about why such initiatives are necessary at this point in time.

Why Japanese Households Hold So Much Cash and Deposits

My view is that the climax of the Japan-U.S. trade friction discussed earlier that intensified from the 1970s coincided with Japan's long-term stagnation following the collapse of the bubble economy, both of which took place around 1990. In other words, I believe that the post-bubble long-term stagnation was caused by two main factors: (1) asset deflation, and (2) a prolonged business environment in which it was difficult to depend on external demand due to, for example, the yen's appreciation, brought about mainly by trade friction. My understanding is that, although Japanese firms weathered past trade friction and cost competition with firms overseas stemming from the yen's appreciation by means of restructuring, mainly in terms of wages, and of cost reduction, including involving affiliates, this had the side effect of creating the norm that wages and prices do not rise. In this context, it became common for Japanese households to hoard cash and deposits.

⁴ Shirakawa, M., "Way Out of Economic and Financial Crisis: Lessons and Policy Actions," speech at the Japan Society in New York, April 23, 2009, https://www2.boj.or.jp/archive/en/announcements/press/koen_2009/ko0904c.htm.

⁵ Nakaso, H., "Japan's Way toward Strong, Sustainable, and Balanced Growth: Assessment of the potential of the Japanese economy suggests the sun also rises," speech at a meeting hosted by the Japan Society and the City of London Corporation in London, October 5, 2017, https://www.boj.or.jp/en/about/press/koen_2017/ko171005a.htm.

Chart 18 shows the developments in the Nikkei 225 Stock Average and the U.S. dollar/yen exchange rate. After peaking in 1989, the Japanese stock market entered a downtrend, in complete isolation from the rest of the world. This is what I call Japan's "frozen era," which lasted for more than two decades. On top of this came the impact of a strong yen, a double blow that for many years left Japan as if under a frozen spell. The environment in Japan was therefore not conducive to enjoying much success from investing in risky assets such as stocks or foreign currency-denominated products.

Cash and deposits account for a high proportion of individuals' financial assets in Japan, but this was completely rational given the situation until recently. In my view, it is not that Japanese people are inherently unsuited to investing, but that there was no need for it. In other words, rather than lacking financial literacy, they likely never felt the need to manage their financial assets in the first place. My understanding is that Japanese households did not have to deal with the complex issues of finance and investment, and Japan as a whole has had a framework that eliminates the need for individuals to manage their financial assets. Under the lifetime employment system here, for decades it was good enough for individuals to simply save and deposit money, without the hassle of investing. Choices about household assets were guided by an environment in which lifetime employment was implicitly guaranteed in an ever-growing economy, with salaries increasing as firms expanded. In effect, households were tightly bound to firms, almost as if people were investing directly in the firms they worked for. Banks, in turn, fulfilled a special role by meeting firms' strong demand for funds through lending, while households provided the deposits that made this possible. This is no longer the case, however, and the new environment requires that Japanese people give thought to building up their own wealth.

As of the end of June 2025, Japanese household financial assets stood at approximately 2,200 trillion yen, a record high level. It is necessary to recall that household funds amount to nearly four times Japan's GDP. Chart 19 provides a comparison of household financial assets in Japan, the United States, and the euro area. It shows that cash and deposits account for around 50 percent of household financial assets in Japan, a striking contrast with the other two regions. This figure supports the common claim that Japan has not made progress in shifting

from saving to investing, and that its asset management industry trails nearly three decades behind the United States and Europe.

Traumatic Norm That Persisted Even After the "Frozen Era"

Following the collapse of the bubble economy, which peaked in 1989, Japan entered the prolonged "frozen era" characterized by asset deflation and a super-strong yen, as shown in Chart 18. In this situation, it was rational for Japanese citizens to hold their assets in yen, and notably in the form of cash and deposits, in terms of safeguarding wealth. Subsequently, however, the unprecedented asset deflation and excessive appreciation of the yen reached a turning point around 2012. Since then, stock prices in Japan have continued to follow a rising trend and the yen has continued to depreciate. While it is natural to assume that this would have induced a shift among Japanese households toward investing in risk assets or foreign currency-denominated assets, in reality, it has taken a long time for these households to break away from the persistent norm of holding cash and deposits as their main financial assets. In examining the possibility that it might take longer than expected for a shift in the entrenched mindset to come about, I would like to present the following estimate -- as an example of Japan's negative experience, or hysteresis effects -- to illustrate the persistence of the norm of wages and prices not increasing, which took hold after the bubble's collapse.

Chart 20 shows cumulative returns on investment by age of investor, assuming that an investor made a fixed monthly investment in the Nikkei 225 Stock Average starting from age 22, when many people are likely to begin working. With the ongoing rise in stock prices over the past decade or so, people in their 20s and 30s have experienced hardly any negative returns. In contrast, those in their 40s and 50s have experienced negative returns for nearly half of their working lives, due to prolonged post-bubble sluggishness in the stock market. While this is merely an estimate using stock prices, it shows that people in their 40s and 50s in particular, the generation that currently makes up the core of firms and other economic entities, have suffered a long-term negative and traumatic experience. This was likely one of the factors that led to the deeply-entrenched cautiousness in corporate behavior after the bubble's collapse. Similarly, in terms of personal asset management, the experience of such trauma could be the reason why the generation that holds the bulk of financial assets in Japan has been inclined to build up wealth primarily in the form of cash and deposits. As these

developments suggest, a shift in corporate and household behavior mired in such a traumatic norm could take longer than expected, perhaps the decade it takes to form the next generation. As inflation expectations formation in Japan has been adaptive in nature,⁶ and given the long period of time during which the wage and price norm was entrenched, it can be inferred that the shift from cautious inflation expectations took far longer than initially anticipated. However, more than a decade has now passed since the market reached a turning point in the 2010s, and signs of a change in people's mindsets are finally emerging, starting with the younger generation.

What is interesting in Chart 20 is the significant gap between the younger generation in their 20s and 30s and people in their 40s and 50s. The younger generation, which has had fewer negative experiences, has served as a driving force behind the growth of personal asset management in recent years, taking advantage of opportunities like the new Nippon Individual Savings Account (NISA). The positive environment for personal asset management over the past decade or so has likely given rise to a generation with less trauma and a greater inclination to invest. At the same time, the younger generation may have also experienced less trauma in terms of its investment stance toward real estate. Conversely, despite holding a significant amount of financial assets, the generation aged 40 and above left with lingering trauma remained cautious toward investment. Most recently, however, underpinned by institutional support from the government, there may have been a shift away from the traumatic norm for this generation as well.

Shift from the "Showa Model" to the "100-Year Life Model"

As Japan's society continues to age, the financial and economic environment that was taken as a given ever since the post-war years has begun to change. I have described this transformation as a shift from a "Showa model" to a "100-year life model." Immediately after the end of World War II, which represents the mid-Showa era in Japan, the average life expectancy for men was under 60, and the retirement age at many firms was 55. This meant that, back then, there was virtually no such life stage as "post-retirement" and thus little need for pensions, retirement savings, or medical care for the elderly. Chart 21 shows the evolution

⁶ For details regarding the adaptive nature of inflation expectations formation in Japan, see "Assessment for Further Effective and Sustainable Monetary Easing," Bank of Japan, March 19, 2021.

of the average life expectancy in Japan since the post-war period. Average life expectancy for men now exceeds 80, with retirement lasting 10 to 20 years or more. Under the model that assumes a 100-year life,⁷ there is a need to redesign pension systems as well as healthcare and welfare systems from a new perspective. At the same time, individuals need to make their own financial preparations for retirement, which entails a major change in the role of finance and a reshaping of the money flow premised on the post-war Showa model.

As shown in Chart 22, when the Showa model predominated, the role of banks was to intermediate funds to firms with strong funding demand anchored in high economic growth. Chart 23 shows trends in Japan's investment-savings balance. Until the 1990s, firms consistently faced financial deficits, while households constantly ran financial surpluses. Banks fulfilled their financial intermediation function by collecting household surpluses in the form of deposits and lending these to firms with financial deficits. Thus, depository financial institutions, primarily banks, functioned as the key infrastructure for money flow. After entering the 1990s, however, the corporate sector came to have financial surpluses. At the time, this was regarded as a temporary phenomenon following the collapse of the bubble economy but, in reality, Japanese firms have continued to run surpluses for over three decades now. The lack of significant growth in firms' funding demand is a phenomenon common to Europe and the United States, whose economies are at a mature stage of development. Therefore, it is unlikely that Japan's corporate sector will once again experience financial deficits.

As a result of these changes in money flow, the role of financial institutions will no longer be simply to intermediate funds to firms, as was conventionally expected. Rather, they will increasingly contribute to intergenerational finance, such as through pension and asset management services bridging the working and retired generations. Chart 24 indicates the shift from financial services mainly targeting the working generation to intergenerational finance; specifically, a "horizontal shift" in focus, from money flow within the working

⁷ The "100-year life model," which is comparable to the general concept of the era of the 100-year life, refers to a society in which the average life expectancy of the population extends and 100-year life spans become standard, which marks a complete turnaround from the situation immediately following World War II. The term was first advocated by British professor Lynda Gratton, and there have been ongoing government-driven revisions to the social system in Japan to address this situation.

generation, as seen in the Showa model, to money flow bridging generations. This indicates that the focus of financial intermediation is shifting from money flow based on the traditional commercial banking model -- whereby banks gather funds from households as deposits and lend them to firms -- to the fields of pensions and asset management.

Chart 25 shows trends in the amount outstanding of bank lending and the market size of pensions and asset management. While growth in bank lending has been sluggish since the bubble's collapse, the amount outstanding of pensions and invested assets has expanded dramatically over the past two decades, more than fivefold. These developments quantitatively confirm the horizontal shift I mentioned. While the increase in the amount outstanding of pensions and invested assets indicates growth in Japan's asset management industry, bank lending is also underpinned by loans to entities associated with asset management, such as real estate funds, goods rental and leasing firms, and nonbanks, as shown in the right panel of Chart 25. As the growth in bank lending is mainly led by real estate loans, including mortgages, I think future developments in these loans warrant close monitoring.

Next, Chart 26 presents a decade-by-decade timeline indicating notable developments affecting asset management in Japan and the United States. It reveals a nearly 30-year gap. In the United States, the legal infrastructure and tax system for personal investment -- such as ERISA,⁸ IRAs,⁹ and 401(k) plans,¹⁰ all of which focus on pensions -- were first established in the 1970s. At the same time, the United States maintained an economic environment that allowed for successful investment experiences. This combination of institutional and environmental factors -- like two wheels of a cart -- helped to spark and increase awareness about asset management. In contrast, Japan trailed behind the United States by nearly three decades in launching relevant tax systems and other institutional arrangements. In addition, as Japan's economic environment was not conducive to enjoying

⁸ The Employee Retirement Income Security Act (ERISA), enacted in the United States in 1974, is a federal law that sets unified standards for establishing and operating employee pension and benefit plans, requiring pension funds to disclose information about performance and funding, as well as to establish clear procedures for beneficiary appeals, for the purpose of protecting beneficiaries.

⁹ IRA stands for Individual Retirement Account.

¹⁰ The 401(k) is a defined contribution pension plan in the United States.

much success from investment, there was less likelihood of a mindset geared toward personal investment developing. Today, however, Japan is finally equipped with the two wheels of the cart, with both institutional factors and economic conditions allowing for successful investment experiences. While there have repeatedly been expectations in the past about the full-fledged promotion of personal asset management, the momentum for this never lasted. This time around, however, I believe the conditions for the sustainable advancement of personal investment are being fulfilled for the first time.

Another shift financial institutions will have to make under the 100-year life model is the diversification of financial services, to meet increasingly varied individual life plans and needs. Chart 27 illustrates such a shift, from a uniform model to a multi-pronged model -- in other words, a "vertical shift" comparable to the aforementioned horizontal shift. In the uniform environment of the Showa model, financial institutions' single-track business model was based on individuals depositing their income as soon as they earned it. With today's diverse lifestyles, financial services are tailored to various needs, extending widely beyond not only bank lending but also insurance, asset management, and wealth management. As financial needs become more diversified and more widespread under the 100-year life model, financial services are expected to expand even further.

Japan's Investment Trends: Shift to an Investment-Oriented Business Model

Chart 28 presents a conceptual diagram of how growth in corporate profits is spreading across the economy. While corporate profits have expanded significantly from a macroeconomic perspective, several challenges have arisen at the microeconomic level. Specifically, the use of corporate profits as a source for wage hikes and price pass-through to business partners has been limited, due to the norm that wages and prices do not rise, and domestic business fixed investment has also been limited. The government has taken policy actions to address this situation, including holding joint meetings on wage increases between representatives of the government, labor, and management, and implementing measures to promote price pass-through. Given these initiatives, the expectation now is that funds will be distributed equally to households, small and medium-sized firms, and regional firms, thereby achieving a virtuous cycle. Furthermore, adding personal investment as a channel to transmit corporate profits to the public will also be crucial, as it will ensure that the "investment chain" flows

smoothly. These developments are also reflected in a change in the risk transformation function of banks, shown in the right panel of Chart 22. Specifically, financial intermediation has become increasingly multi-pronged, with increasing intermediation through investment funds and nonbanks. Moreover, financial disintermediation is expected to expand, both through investment in financial assets via entities other than banks and in financial instruments other than deposits.

The transformation of Japan's investment model can be observed at the national level as well. Chart 29 shows developments in Japan's current account balance. It is clear that Japan's current account balance is no longer mainly driven by the trade balance, but instead by the primary income balance, which corresponds to the returns on overseas investments to date. Let us again consider Japan's money flow, shown in Chart 30. Until the first half of the 2000s, the inflow of funds to Japan consisted mainly of equities, while Japan's investment abroad consisted mainly of debt securities. Since equities generally yield higher returns than debt securities, Japan's financing through equities and investing in debt securities resulted in negative returns. In contrast, since the second half of the 2000s, the pattern has shifted -- Japan now raises funds through debt securities and its overseas investment primarily takes the form of direct investment. In other words, the macroeconomic business model of Japan as a whole has shifted to an investment model where funds are raised through debt securities and channeled into physical investment, thereby generating income particularly through the primary balance. A challenge remains in that a large portion of investment returns from overseas are reinvested abroad and therefore do not lead to domestic investment opportunities, but Japan as a whole is transitioning toward an investment-oriented business model.

A recent hot topic concerned the purchase of shares of Japanese general trading companies by a prominent American investor, who regarded them as highly attractive investment opportunities. The shift on the part of these firms to an investment-oriented business model leveraging their traditional commercial networks seems to be gaining renewed appreciation from overseas investors as Japan's new business model.

These transitions in corporate and household money flow mark a shift away from bank-centered financial intermediation centered on deposits and loans to an investment-oriented

money flow that includes nonbank financial intermediation. In addition to these changes at the microeconomic level, Japan as a whole is also shifting from the trade-centered model outlined earlier to an investment-oriented business model. Following the collapse of the bubble economy, both firms and households remained cautious in the face of a shrinking equilibrium. Having finally moved past that trauma, however, firms are now spending from an investment-oriented perspective, while households are taking their first steps toward asset management.

A New World Brought about by the Transformation of Money Flow

The challenge today is whether the aforementioned developments can be sustained. Looking back at the history of financial and economic education, which serves as the infrastructure of asset management, the Central Council for Savings Promotion was established in 1952 in Japan during the post-war period. Its aim was to promote a broad public understanding of the importance of savings, and thereby build a foundation for people's living conditions and foster their independence and well-being, as well as to ensure price stability and the sustainable growth of Japan's economy. The organization changed its name to the Central Council for Savings Information in 1988 and then to the Central Council for Financial Services Information (CCFSI) in 2001. In 2024, the functions of the CCFSI were transferred to J-FLEC as a successor organization, as shown in Chart 17. J-FLEC promotes a wide range of financial and economic education, supporting individuals not only with financial asset management but also with household budgeting, life planning, and the use of external knowledge.

Changes in money flow also affect the transmission channels of the Bank's monetary policy. For many years, the Bank's policy operated within a framework in which banks played the central role in financial intermediation. Today, as funding flows increasingly circulate through nonbank institutions and overseas channels, the Bank needs to devise new ways to communicate its monetary policy messages broadly to the market. The Bank has indicated that, in addition to the traditional bank-centered intermediation channel through deposits and lending, in which lower interest rates improve the output gap, the financial and capital markets channels (stock prices and foreign exchange rates) have also come to play a major

role in the transmission of monetary policy.¹¹ This suggests that the Bank's monetary easing, by influencing the markets, is likely to have contributed to the shift away from asset deflation and the so-called six headwinds -- including the headwind of the yen's appreciation -- both of which had prompted changes in corporate behavior in the post-bubble economy.¹² I believe that the Bank's patient continuation of monetary easing over many years along with its influence on the financial and capital markets -- which contributed to an improvement in asset prices and to a reversal in the excessive appreciation of the yen -- laid the groundwork for reaching the inflection point of the norm shift, marking a historic change since the collapse of the bubble economy. In light of the groundwork mentioned earlier, it can be said that the big push that originated abroad acted as the final blow to dispel the norm in Japan. At the same time, this big push is also bringing about changes in household asset management, which is showing a shift away from holding cash and deposits toward investing.

In short, the changes taking place today represent a shift from the Showa model to the 100-year life model. That is, having finally emerged from the long "frozen era" that followed the bubble's collapse, the changes now being seen are not simply a return to the pre-bubble Showa model. Instead, financial intermediation itself is also being transformed, from a bank-centered intermediation model to a multi-pronged intermediation model. These changes are summarized in Chart 31.

Under the Showa model, households supplied funds in the form of deposits to meet firms' robust demand for capital, and banks served as the financial infrastructure supporting this flow. Subsequently, during the "frozen era" following the bubble's collapse, banks curtailed credit by restricting lending, firms fell into a shrinking equilibrium, and households reverted to cash and deposits, resulting in a prolonged deflationary environment. Escaping this "frozen era" has not meant a return to the previous Showa model. Thirty years of structural changes

¹¹ For more details, see "Assessment for Further Effective and Sustainable Monetary Easing," Bank of Japan, March 19, 2021.

¹² The following have been pointed out as the six headwinds faced by Japanese firms: the yen's appreciation; delayed negotiations on economic partnership agreements; high corporate tax rates; rigidity in the labor market; environmental regulations; and high electricity costs. For details, see, for example, Cabinet Office, Annual Report on the Japanese Economy and Public Finance 2021 -- Towards a resilient Japanese economy: Accelerating innovation towards an economic society with strength and flexibility, September 2021. This report is a summary of the Japanese original.

in the wake of the bubble's collapse have caused the emergence of the 100-year life model, in which multi-pronged financial intermediation -- in addition to intermediation by banks -- has become something akin to a business investment model. In this new model, firms are adopting an investor-like stance and households are starting to hold financial instruments other than deposits.

For many years since the 2000s, the Bank has patiently continued monetary easing, supporting the normalization of both corporate and household behavior, which had fallen into a shrinking equilibrium. As a result of this easing, firms are finally beginning to be more proactive and households have also begun investing. The expectation is that increased corporate profits will lead to a greater pass-through of cost increases to selling prices and to wage increases, and that households will start to invest in a broader range of financial assets, which will help Japan break free from post-bubble norms.

As we saw, Chart 12 shows corporate profits and their distribution. In recent years, Japanese firms have increased profits substantially and have significantly raised dividends. At the same time, the labor share, as shown in the right panel of Chart 12, has declined, meaning that the extent to which higher profits have gone into domestic wages and investment has been limited. Given that distributions in the form of interest payments under bank-centered capital flows remain at low levels, households can only reap the benefits of higher corporate profits if they can receive such distributions directly from firms. From this perspective, as shown in Chart 28, it is vital for households to take a personal investment approach that allows them to participate in the investment chain, thereby capturing dividends and increases in corporate value.

This type of multi-pronged financial intermediation, known as nonbank financial intermediation (NBFI), is playing an increasingly large role globally, and monitoring it has become a major regulatory issue in countries around the world. In Japan, the share of credit intermediation conducted through banks is comparatively high, so the relative role of NBFI remains smaller than in Europe and the United States. Nevertheless, as Japan moves toward the 100-year life era and shifts to multi-pronged financial intermediation, the importance of NBFI is expected to increase.

Japan as a Forerunner in Addressing Trade Friction and an Aged Society

Japan is treating the imposition of U.S. reciprocal tariffs in April 2025 as a serious challenge for the country. That said, Japan is also a forerunner in addressing trade friction, in that the country for many years has withstood situations far more stressful than the one we face today. We need to understand that Japan is in a different situation from the past, in the context of the improvement in firms' financial positions and their global business expansion, among other factors. On the other hand, given that it is facing a nationwide shift to a global investor-oriented business model, Japan also needs to respond to changes in economic and financial conditions abroad, including in terms of economic security. As the situation now stands, it is necessary to be aware that firms, financial institutions, and households are constantly under the influence of global markets.

At the same time, the 100-year life model for households in essence represents Japan's most pressing structural issue: an aging population. The shift to intergenerational finance and to a multi-pronged financial intermediation model is predicated on the aging of the population and, in this sense, Japan is a forerunner in addressing an aged society. The reason Japanese firms expanded their businesses on a global scale through direct investment was partly to overcome constraints posed by Japan's aging population and to deal with a situation in which they consequently could not rely solely on domestic demand. Given that it is unrealistic for Japanese people to move abroad en masse, much of the benefits they receive from firms in Japan are likely to derive from their personal asset management, via investment in these firms. In other words, households, too, are expected to engage in Japan's marketization and globalization by way of managing their financial assets. From this perspective, the activities of J-FLEC, which seeks to offer financial and economic education as an infrastructure for asset management, have given rise to high expectations as initiatives that can address the latest trends.

With respect to the conduct of monetary policy, my view is that the Bank is still in the process of gradually shifting gears, based on the recognition that the "true dawn" is now in sight. The background to this is not only the shift to positive corporate behavior, but also the change in households' financial behavior as they have transcended the existing norm. I also believe that it is necessary to disseminate knowledge about financial and economic education to the

general public, mainly through the activities of J-FLEC, and to make nimble responses while paying close attention to the situation at home and abroad, particularly in view of progress in globalization, the shift to a multi-pronged financial intermediation model, and increasing correlation among markets worldwide -- all of which are emblematic of the 100-year life model.

Conclusion

I would like to conclude by expressing my hope for the further development of the economy of the Chugoku region and the continued success of everyone who supports the regional economy. Thank you.



Economic Activity, Prices, and Monetary Policy in Japan: Japan as a Leading Asset Management Center

*Speech at a Meeting of the Chugoku Economic Federation
Held in Hiroshima*

October 20, 2025

TAKATA Hajime

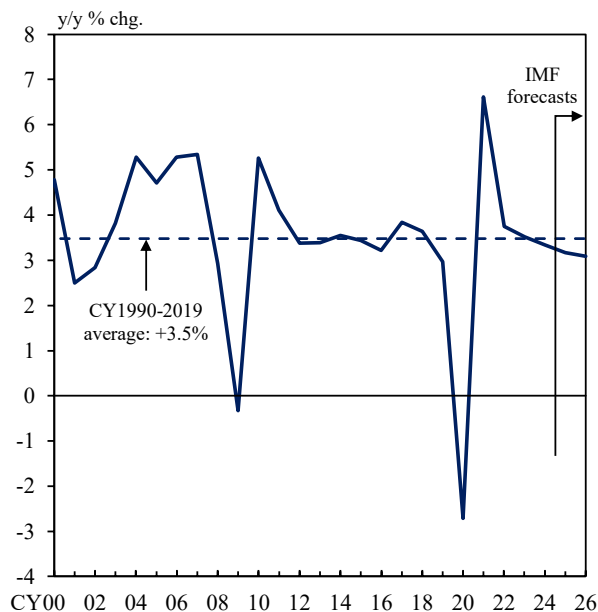
Member of the Policy Board

Bank of Japan

Chart 1

Developments in Overseas Economies (IMF's October 2025 WEO)

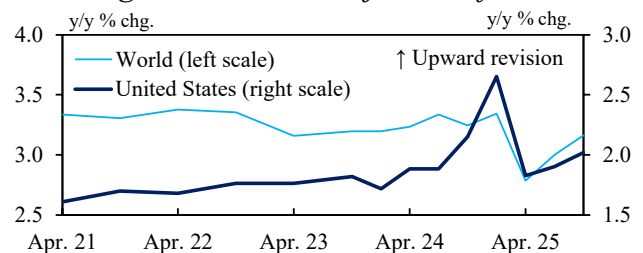
Global Growth Rate



Growth Rates in Major Economies

	y/y % chg., % points			
	CY2023	CY2024	CY2025 [Forecast]	CY2026 [Forecast]
World	3.5	3.3	3.2 (0.2)	3.1 (0.0)
Advanced economies	1.7	1.8	1.6 (0.1)	1.6 (0.0)
United States	2.9	2.8	2.0 (0.1)	2.1 (0.1)
Euro area	0.4	0.9	1.2 (0.2)	1.1 (-0.1)
Emerging market and developing economies	4.7	4.3	4.2 (0.1)	4.0 (0.0)
China	5.4	5.0	4.8 (0.0)	4.2 (0.0)

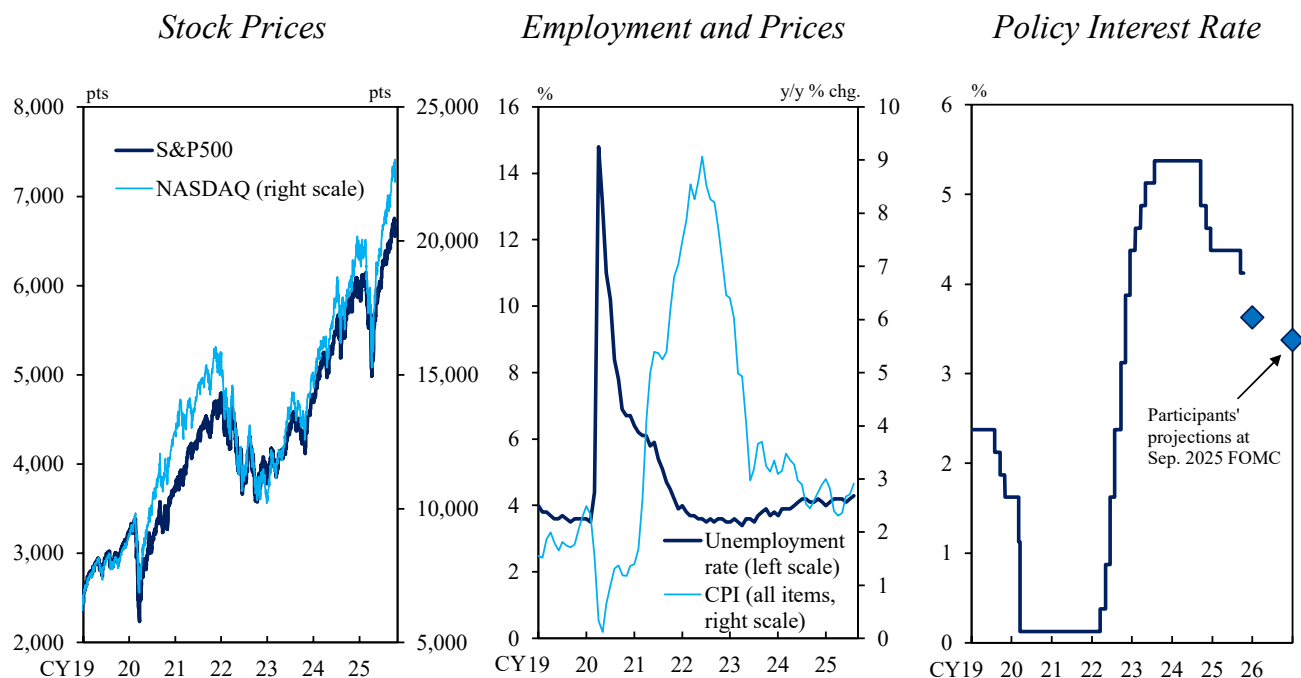
Changes in Growth Projections for 2025



Note: In the table, figures in brackets are the differences from forecasts in the July 2025 World Economic Outlook (WEO) *Update*.

Source: IMF.

U.S. Economy



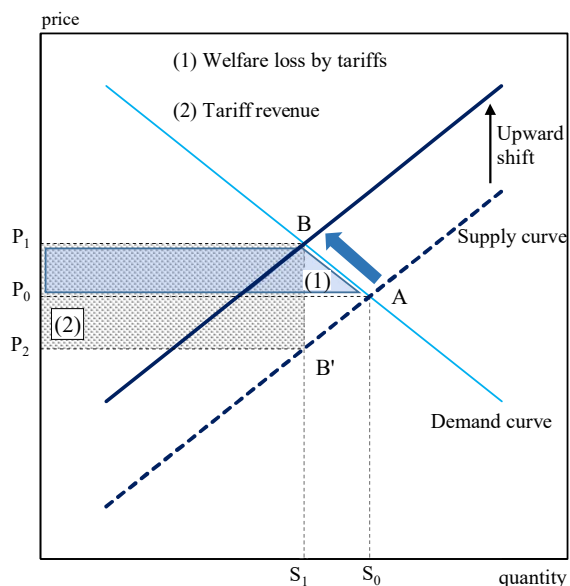
Note: In the right panel, figures are medians of the target ranges for the federal funds rate. Figures for participants' projections are medians of all projections at FOMC meetings.

Sources: Bloomberg; BLS; FRB.

Optimal Tariff Theory

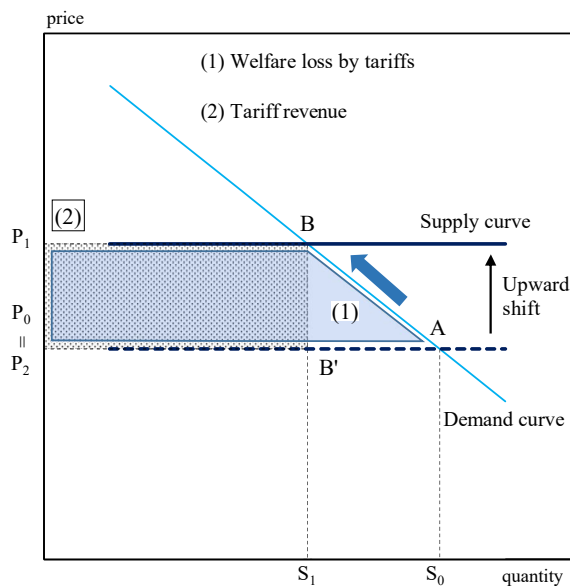
Large Countries

— Limited pass-through of tariffs to domestic prices —
(Positive gain from tariff revenue)



Small Countries

— Nearly 100% pass-through of tariffs to domestic prices —
(Welfare loss exceeds tariff revenue)

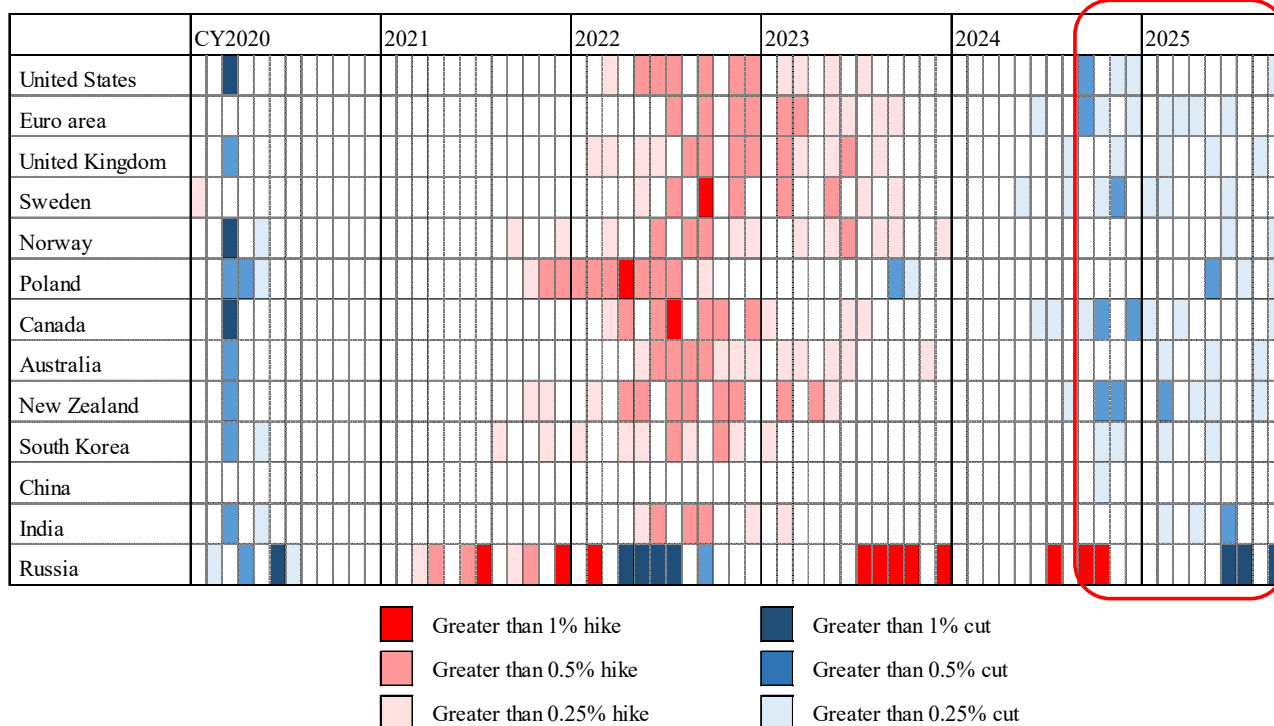


Note: The charts are based on Helpman, E. and Krugman, P., *Trade Policy and Market Structure*, (MIT press, 1989), etc.

Monetary Policy Stances Across the World

(Monetary policy stances have converged toward easing)

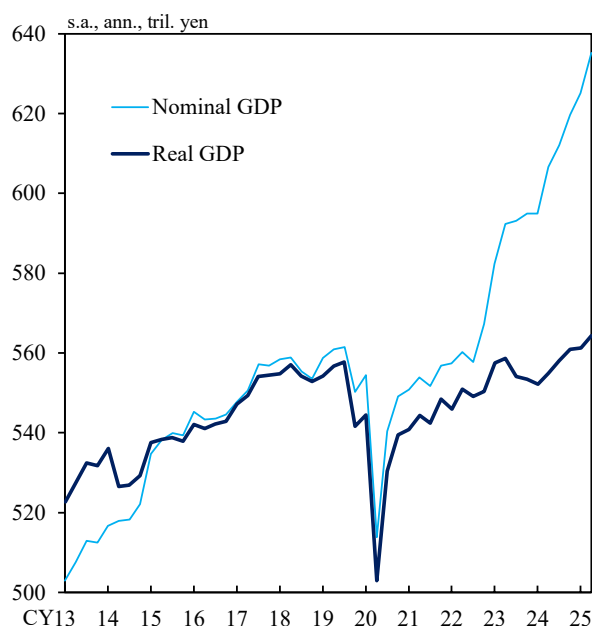
Convergence toward easing



Sources: Overseas central banks.

GDP and Outlook for Economic Activity and Prices

GDP



Outlook for Economic Activity and Prices (July 2025 Outlook Report)

	y/y % chg.		
	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2025	+0.6	+2.7	+2.8
As of April 2025	+0.5	+2.2	+2.3
As of January 2025	+1.1	+2.4	+2.1
Fiscal 2026	+0.7	+1.8	+1.9
As of April 2025	+0.7	+1.7	+1.8
As of January 2025	+1.0	+2.0	+2.1
Fiscal 2027	+1.0	+2.0	+2.0
As of April 2025	+1.0	+1.9	+2.0

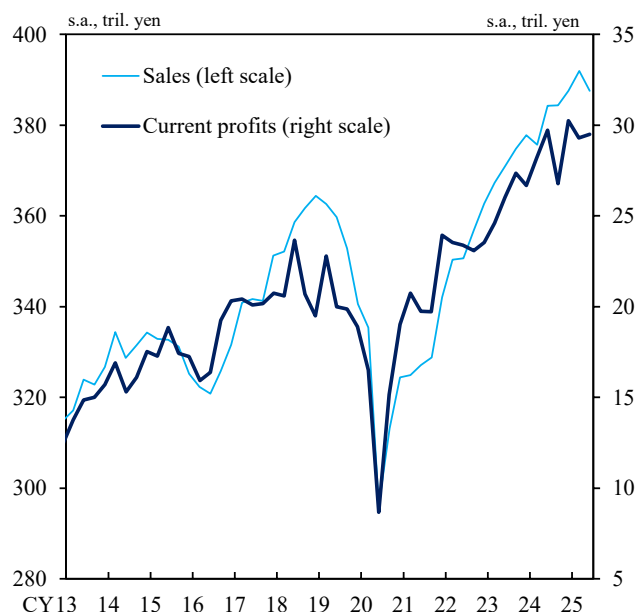
Note: In the right panel, figures indicate medians of Bank of Japan Policy Board members' forecasts (point estimates).

Sources: Cabinet Office; Bank of Japan.

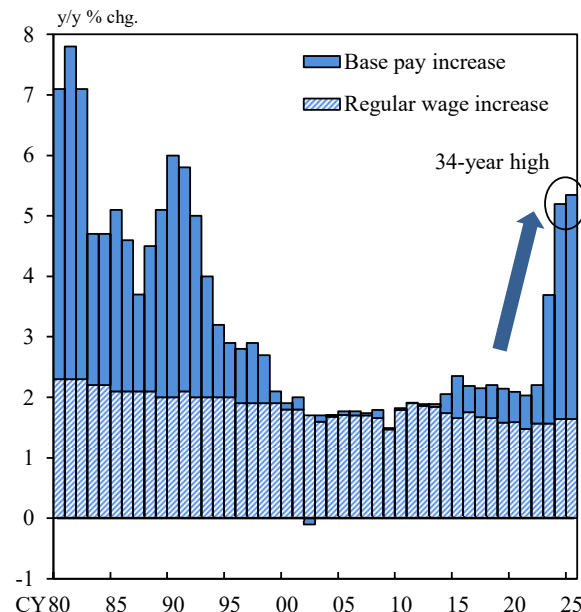
Corporate Sector and Wage Growth

(Corporate profits are at high levels and the wage growth rate is a 34-year high)

Corporate Profits



Wage Growth Rate



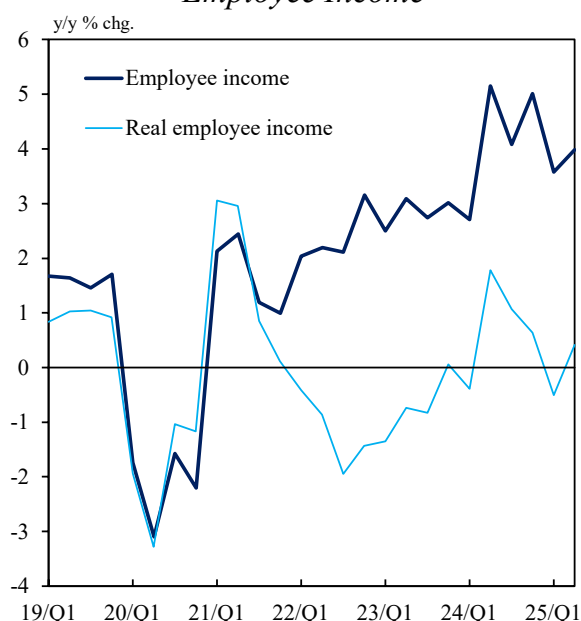
Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Quarterly* and exclude the finance and insurance industries.
2. In the right panel, figures from 1980 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2025 are figures released by Rengo. Figures for 2025 are based on Rengo's seventh (final) aggregate results.

Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Finance.

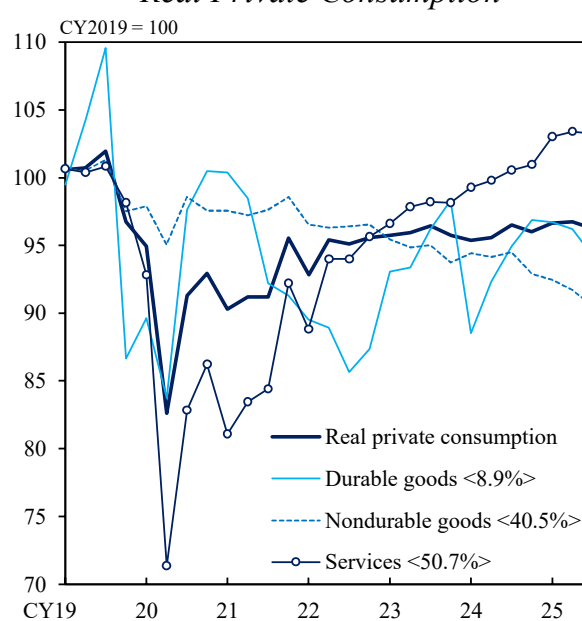
Private Consumption

(Employment and income situation has been resilient)

Employee Income



Real Private Consumption

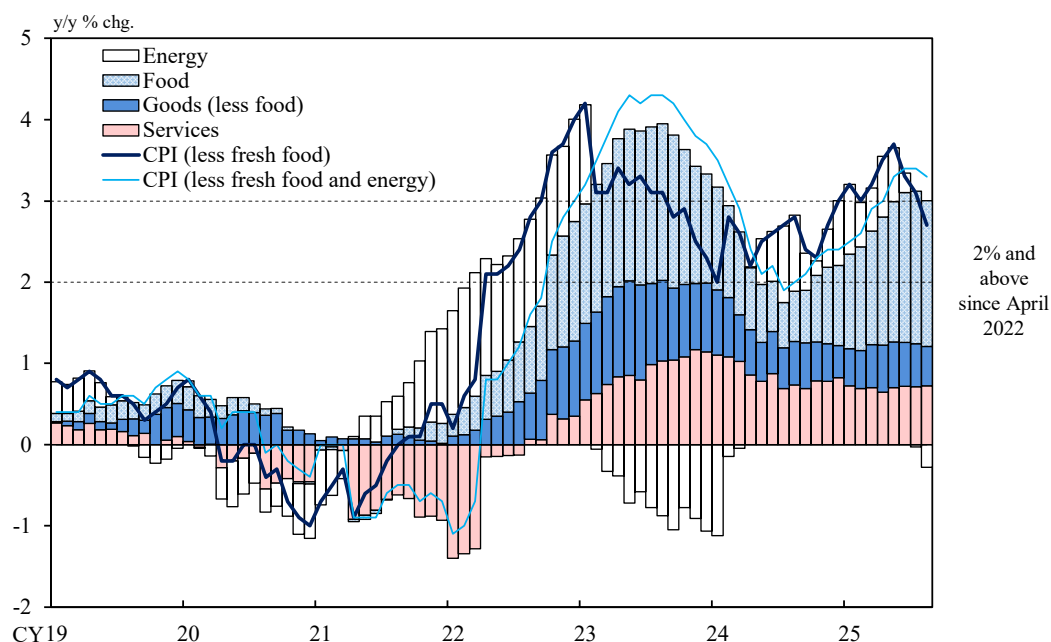


Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Employee income = Total cash earnings (*Monthly Labour Survey*) × Number of employees (*Labour Force Survey*). Figures for real employee income are based on Bank staff calculations using the CPI (less imputed rent). Figures from the *Monthly Labour Survey* are based on continuing observations following the sample revisions.
2. In the right panel, figures for real private consumption are the real Consumption Activity Index (travel balance adjusted) based on Bank staff calculations, which exclude inbound tourism consumption and include outbound tourism consumption. Figures in angle brackets show the weights in the index. Figures for 2025/Q3 are July-August averages.

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

CPI Inflation

(Inflation has remained at 2% and above for three and a half years)



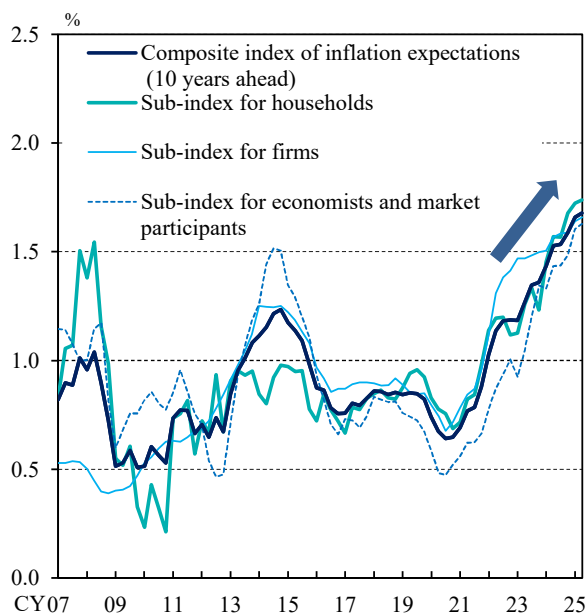
Source: Ministry of Internal Affairs and Communications.

Inflation Indicators

(Moderate increase has continued)

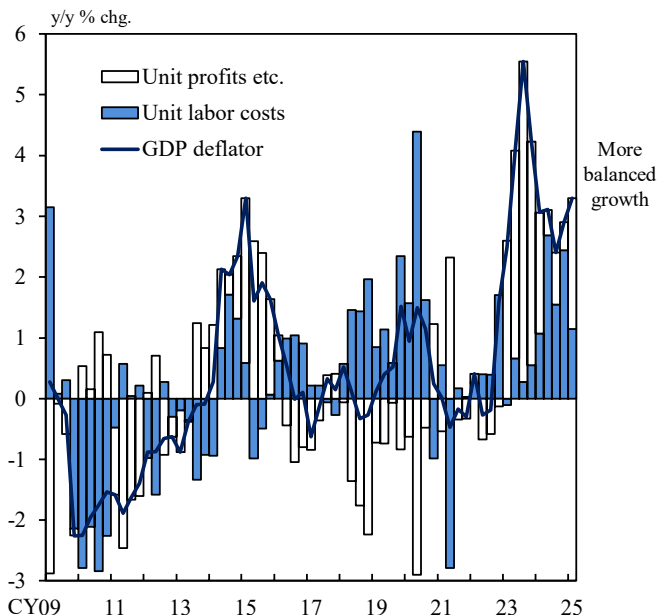
Composite Index of Inflation Expectations

(Medium- to long-term inflation expectations of various economic entities)



GDP Deflator

(Reflection of domestic inflationary pressure)



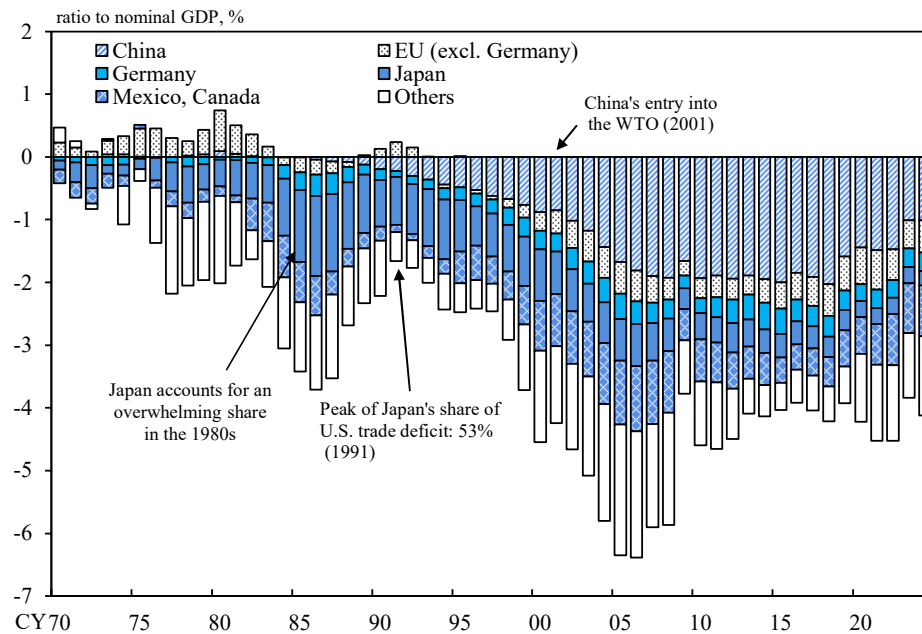
Notes: 1. In the left panel, the composite index is calculated by extracting common components, based on the first principal component, of inflation expectations of firms, households, and economists and market participants. For details of the calculation method, see Box 4 of the April 2024 Outlook Report.

2. In the right panel, unit labor costs = nominal compensation of employees / real GDP.

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

U.S. Trade Balance by Country

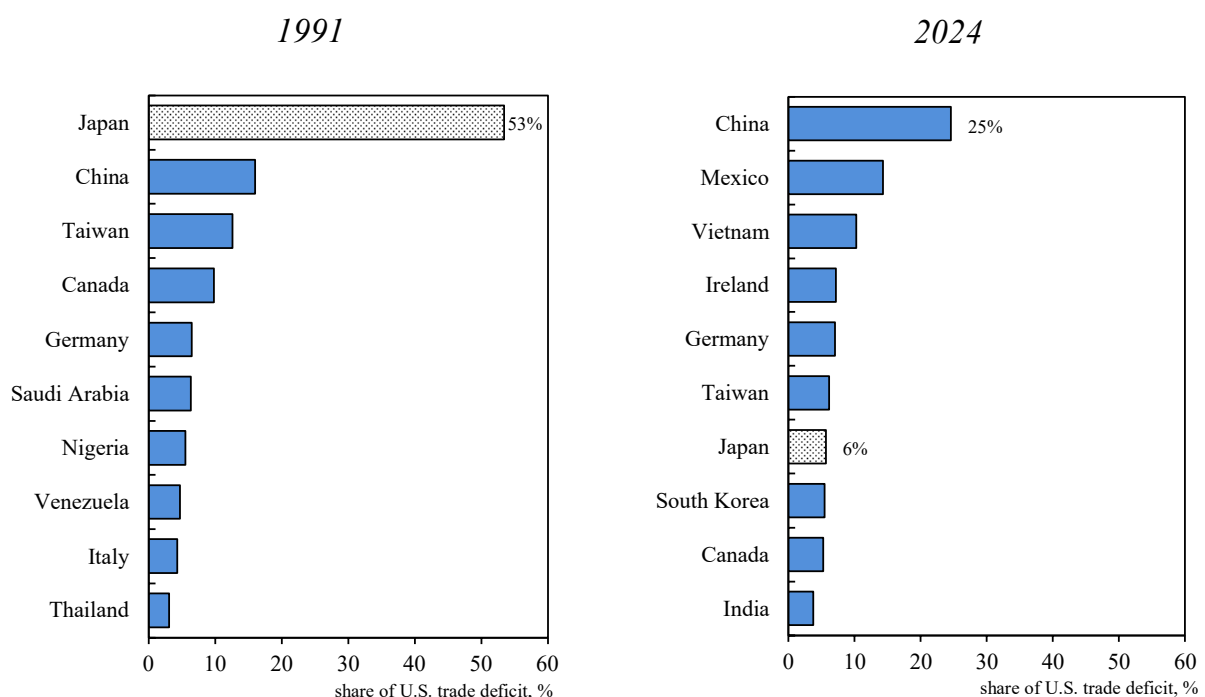
(Japan accounted for over half of U.S. trade deficit around 1990)



Sources: BEA; IMF.

Largest Shares of U.S. Trade Deficit by Country/Region

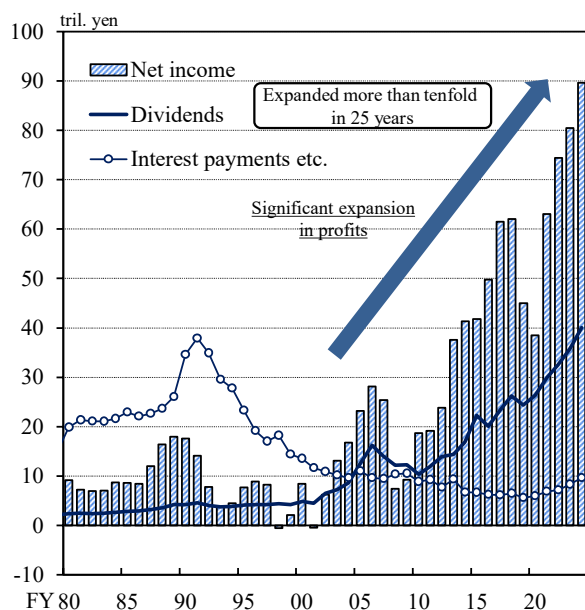
(China has replaced Japan)



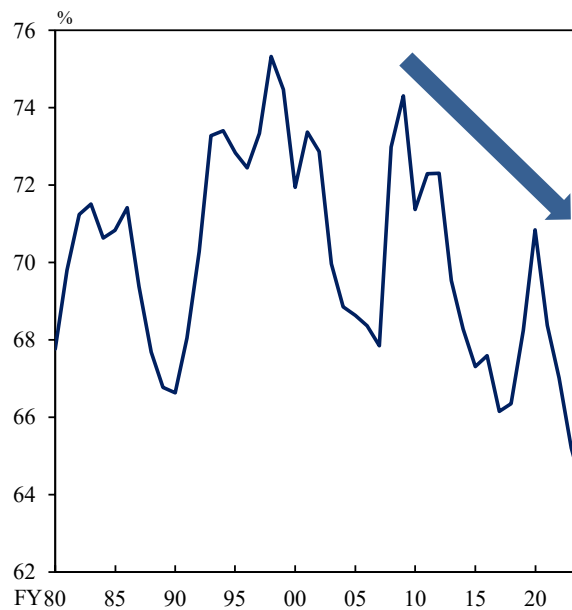
Source: IMF.

Rapid Expansion in Corporate Profits

Corporate Profits



Labor Share



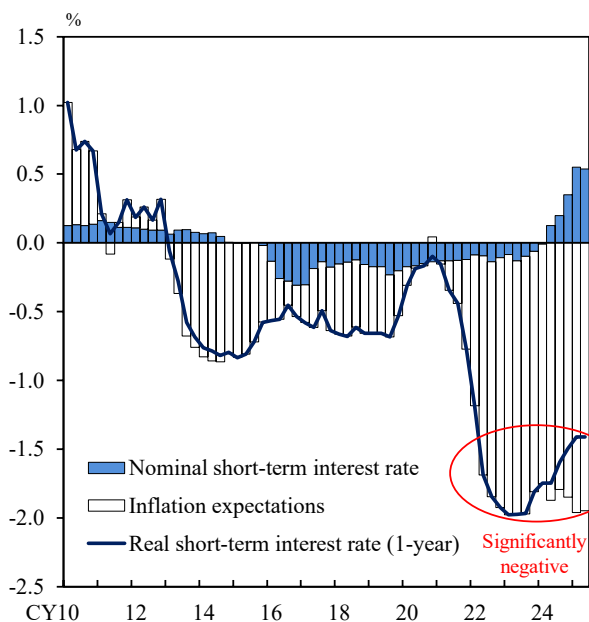
Notes: 1. Figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.

2. Labor share = personnel expenses / value-added. Value-added = operating profits + personnel expenses + depreciation expenses.

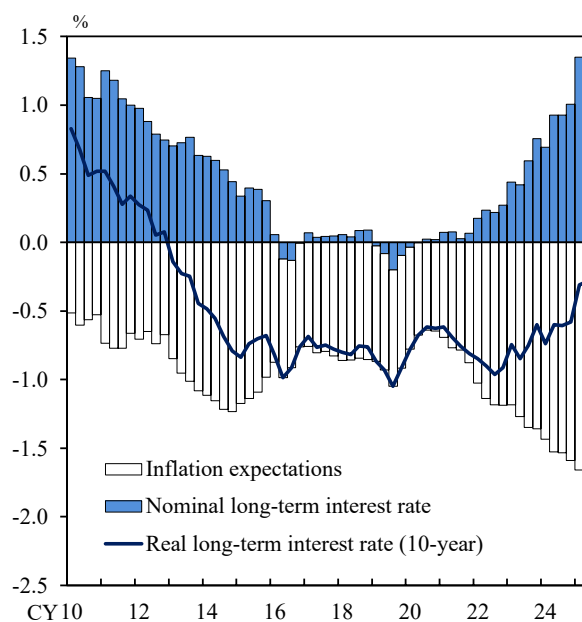
Source: Ministry of Finance.

Real Interest Rate (Rate has remained negative)

Real Short-Term Interest Rate (1-Year)



Real Long-Term Interest Rate (10-Year)



Note: Figures for real interest rates are calculated by deducting inflation expectations from JGB yields for each maturity. Figures for inflation expectations are based on Bank staff calculations using the expectations of various economic entities (firms, households, and experts) at different horizons. Specifically, data used in the calculations are as follows: for firms, the *Tankan*; for households, the *Opinion Survey on the General Public's Views and Behavior*; for experts, the *QUICK Survey*, the *Consensus Forecasts*, and inflation swap rates.

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

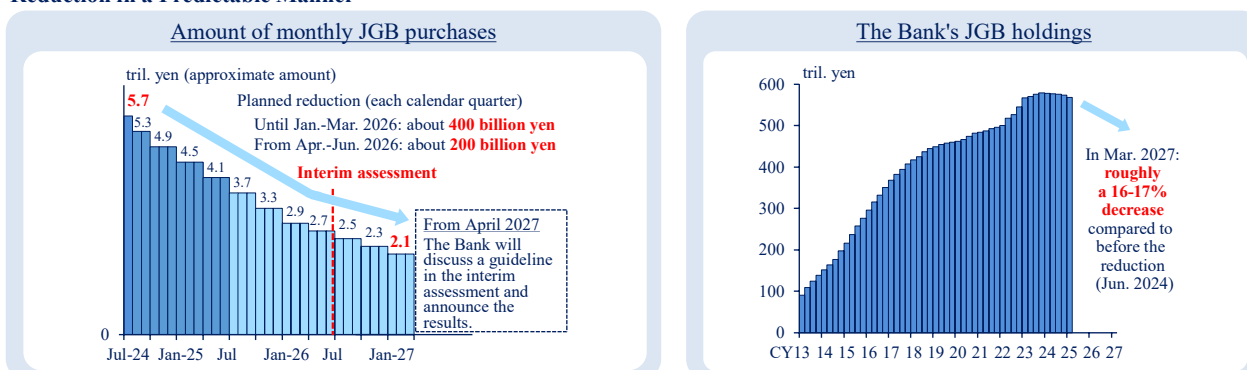
Plan for the Reduction of the Purchase Amount of JGBs

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

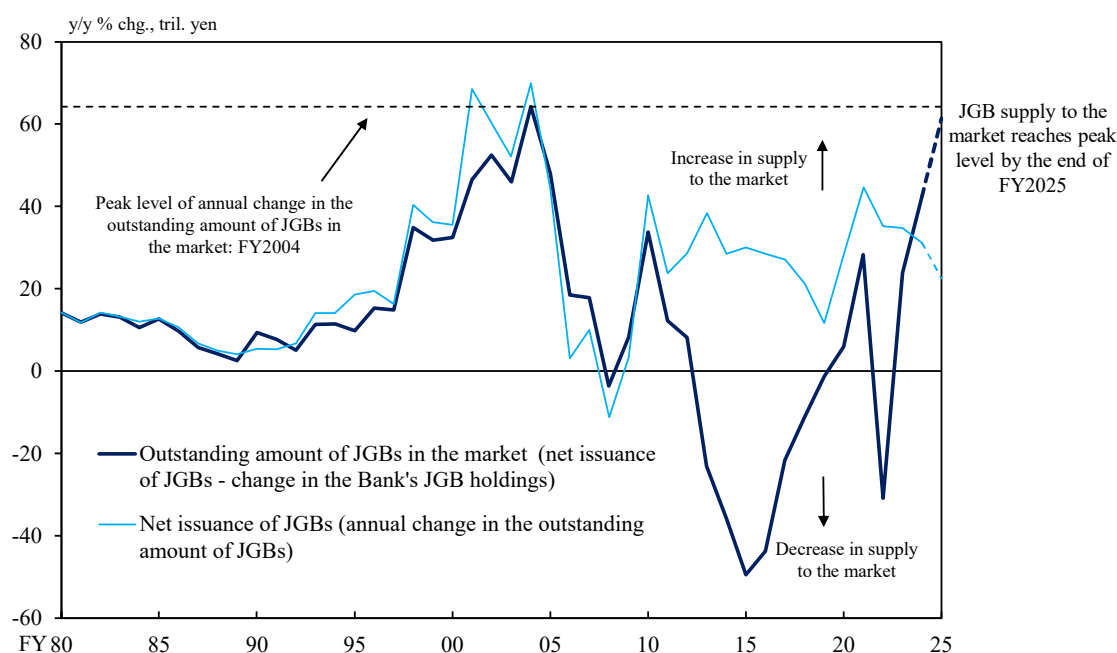


Allowing Enough Flexibility

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.

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

(JGB supply to the market surged to peak level due to reduction in the Bank's purchases)



Notes: 1. Figures are on a book value basis and exclude short-term government securities.

2. Figures for FY2025 are estimated using the Cabinet Office's *Economic and Fiscal Projections for Medium to Long Term Analysis* (January 2025) and the Bank's plan for the reduction of the purchase amount of JGBs.

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

Decisions on Disposal of ETFs and J-REITs (September 2025 MPM)

Fundamental principles for the disposal

- The Bank should dispose of its holdings of ETFs and J-REITs for adequate prices, taking into account the condition of the financial markets.
- The Bank should avoid incurring losses as much as possible.
- The Bank should avoid inducing destabilizing effects on the financial markets as much as possible.

Experience of the sales of the "stocks purchased from financial institutions"

The Bank completed in July 2025 the sales of the stocks purchased for financial stability purposes, while avoiding major market impact.

- The Bank will sell its holdings of ETFs and J-REITs to the market at a scale generally equivalent to that of the sales of the "stocks purchased from financial institutions."

	Stocks (completed)	ETFs	J-REITs
Pace of sales (amount per year)*	Book value About 150 billion yen (Market value) (About 620 billion yen)	About 330 billion yen (About 620 billion yen)	About 5 billion yen (About 5.5 billion yen)
Proportion to the trading value	About 0.05%	About 0.05%	About 0.05%

* The Bank will sell each ETF and J-REIT at the amount approximately proportionate to the share of each asset in its holdings, with consideration to spreading out the timing of the sales.

- A framework supporting the stability in the financial markets will be provided.

- Under the pace of sales described above, the trustee may temporarily adjust the sales amount or suspend the sales, in response to changes in the condition of the financial markets.
- The pace of sales may be modified at future MPMs, based on the fundamental principles and the experience from the sales to be conducted.

- The disposal will begin once necessary operational preparations are completed.

Overview of Japan Financial Literacy and Education Corporation (J-FLEC)

Name

Japan Financial Literacy and Education Corporation (J-FLEC)

Establishment

April 5, 2024

Capital

Government: 50 million yen
 Bank of Japan: 25 million yen
 Japanese Bankers Association (JBA): 12.5 million yen
 Japan Securities Dealers Association (JSDA): 12.5 million yen

* Excluding initial costs disbursed by the government

Legal basis

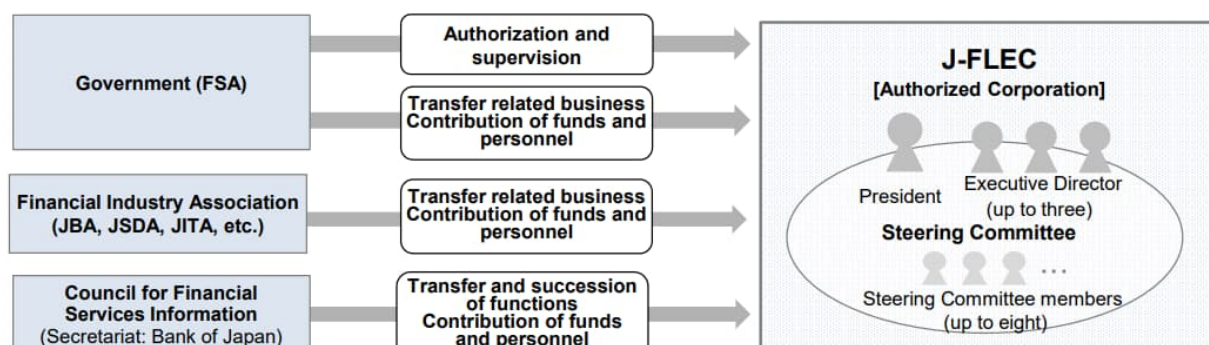
Act on Provision of Financial Services and Improvement of User Environment (effective February 1, 2024)

Purpose

Promote teaching and guidance (financial education) in order to acquire financial and/or economic knowledge that contributes to the appropriate use of financial services, and to develop abilities to utilize such knowledge.

Number of employees

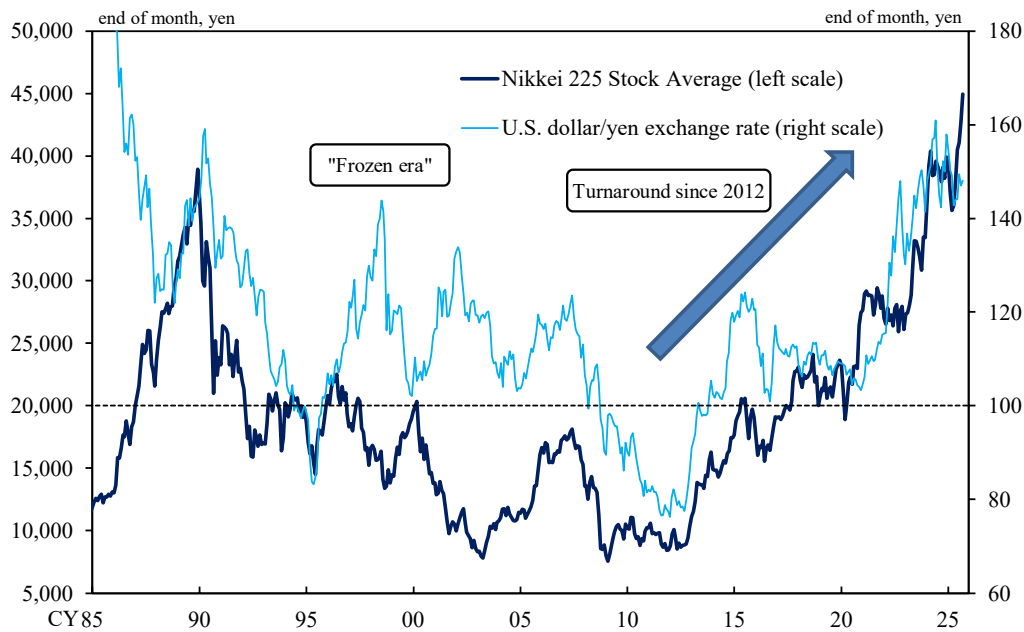
Approximately 70



Note: FSA and JITA stand for the Financial Services Agency and the Investment Trusts Association, Japan, respectively.
 Source: J-FLEC.

Stock Prices and Exchange Rate

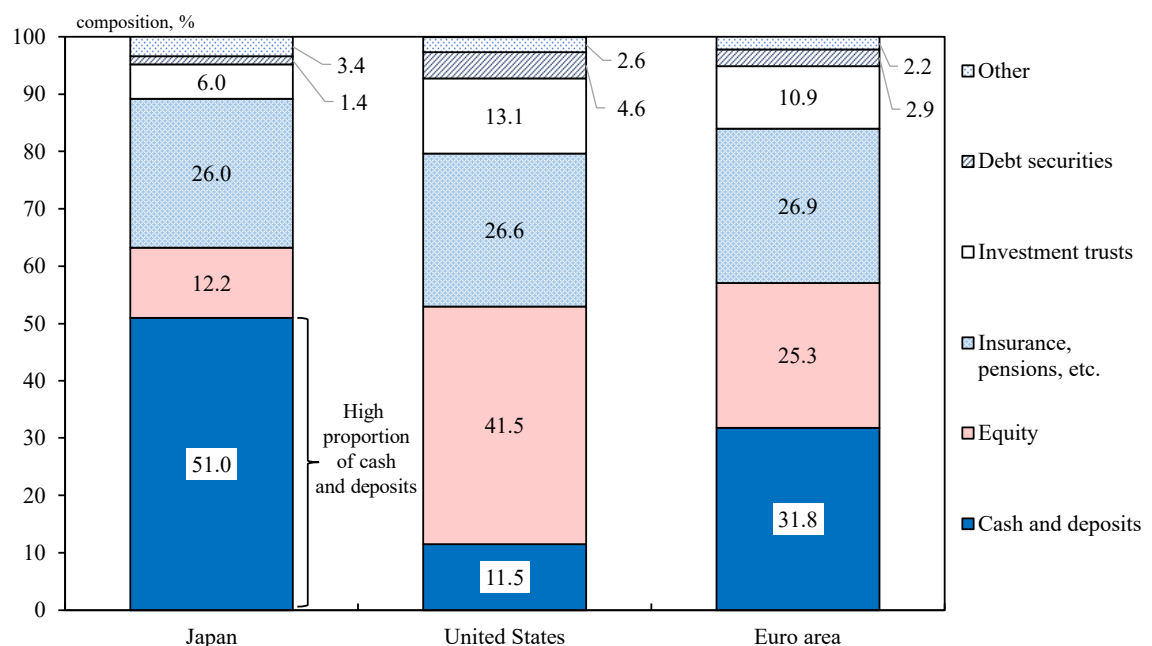
(Both have turned around from the "frozen era" since 2012)



Source: Bloomberg.

International Comparison of Household Financial Assets

(Japan has a high proportion of cash and deposits)



Note: Figures are as of end-March 2025.

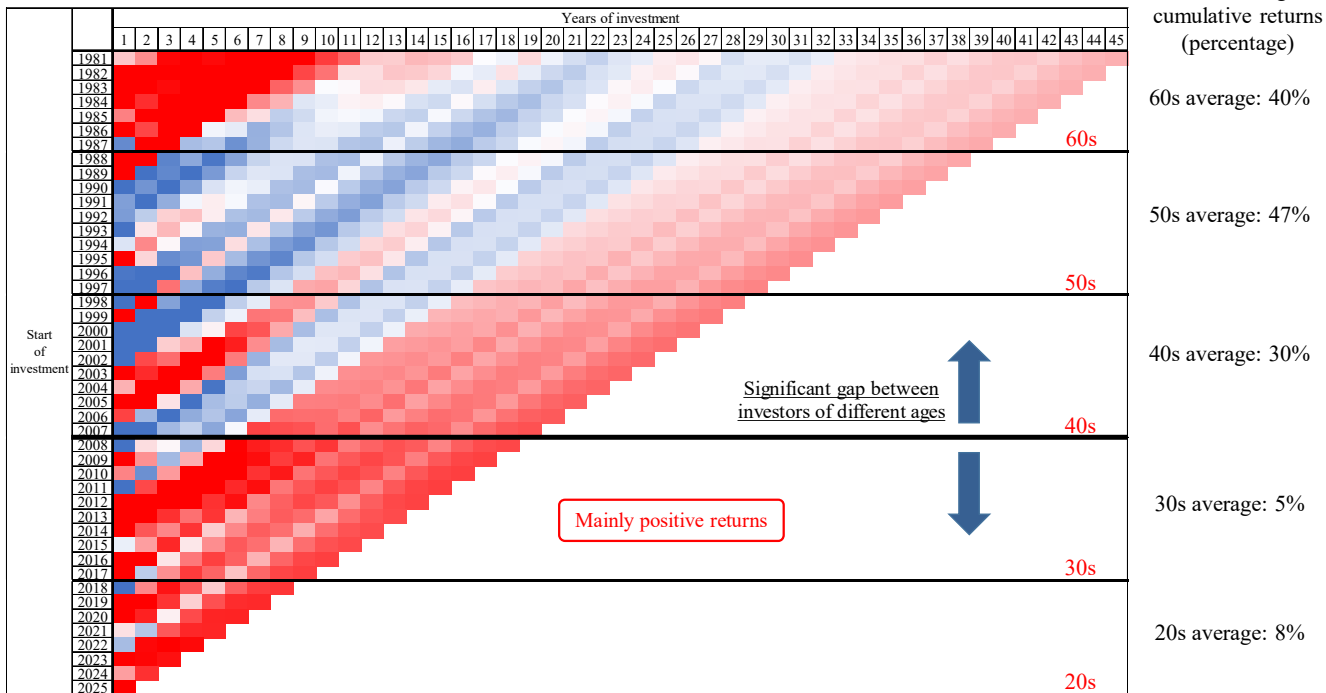
Source: Bank of Japan.

Chart 20

Cumulative Returns from Investment in Japanese Stocks by Age of Investors

Red: positive returns
Blue: negative returns

Period with negative
cumulative returns
(percentage)

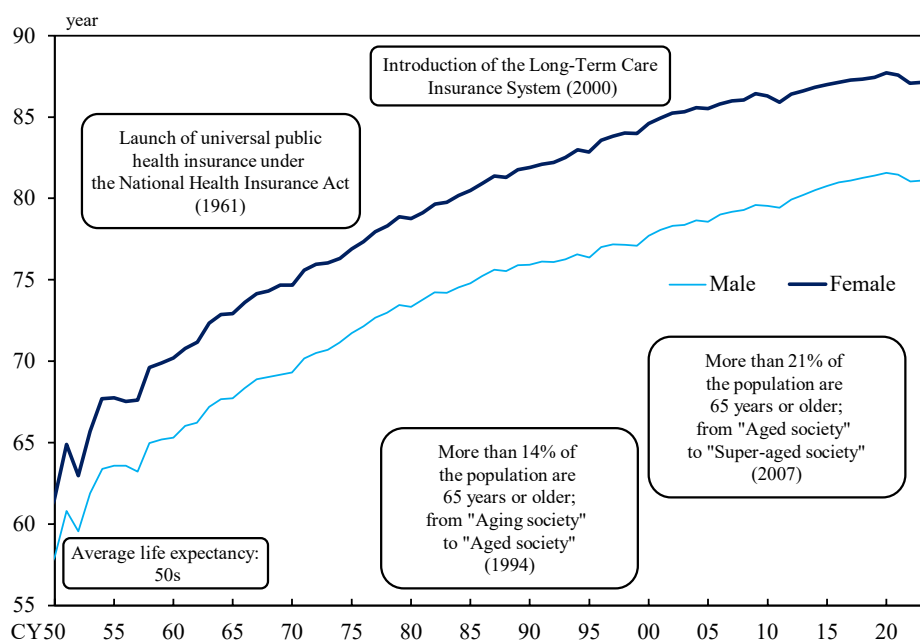


Note: Cumulative returns are estimated as of the end of September 2025 by age of investors, based on the assumption that a fixed amount of the Nikkei 225 Stock Average is purchased every month from the beginning of the year. Red shows positive returns and blue shows negative returns. Darker shades show larger positive or negative returns. Percentages for the period with negative cumulative returns are calculated by dividing "years with negative cumulative returns as of the year end" by "total years of investment."

Source: Bloomberg.

Chart 21

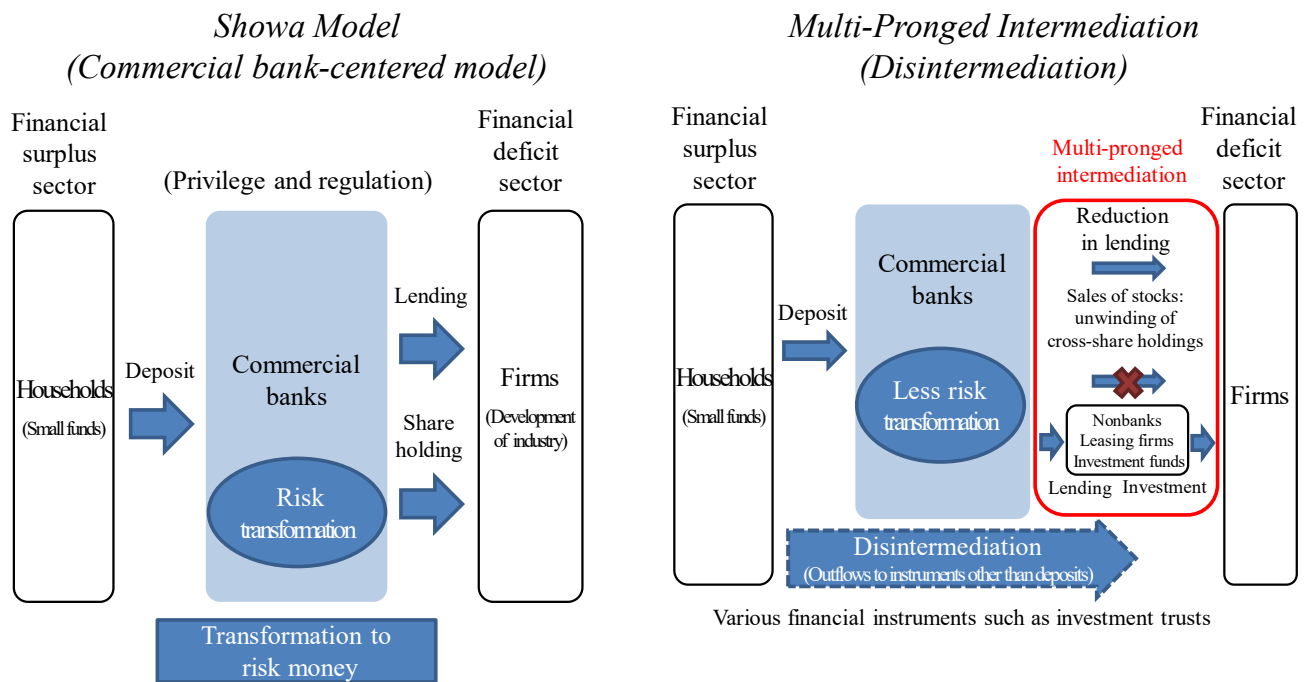
Average Life Expectancy in Japan since the Post-War Period (Rose from 50s to 80s)



Source: Ministry of Health, Labour and Welfare.

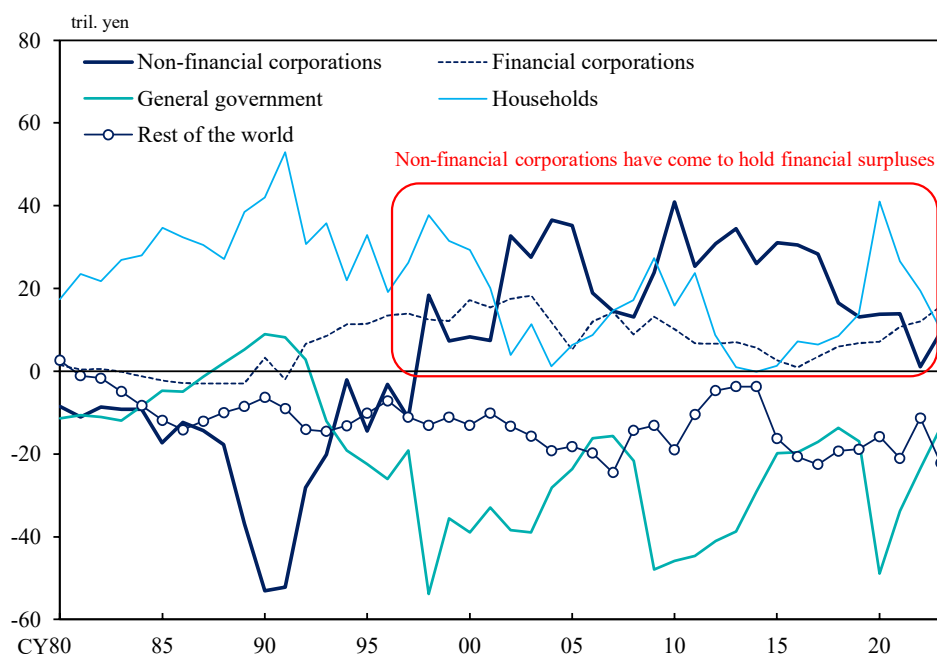
Risk Transformation Function of Banks Supporting Japan's Economic Growth

(From commercial banking model to multi-pronged model)



Japan's Investment-Savings Balance

(Firms have come to hold financial surpluses)



Shift from "Showa Model" to "100-Year Life Model"

(Horizontal shift: shift from money flow within the working generation to intergenerational finance)

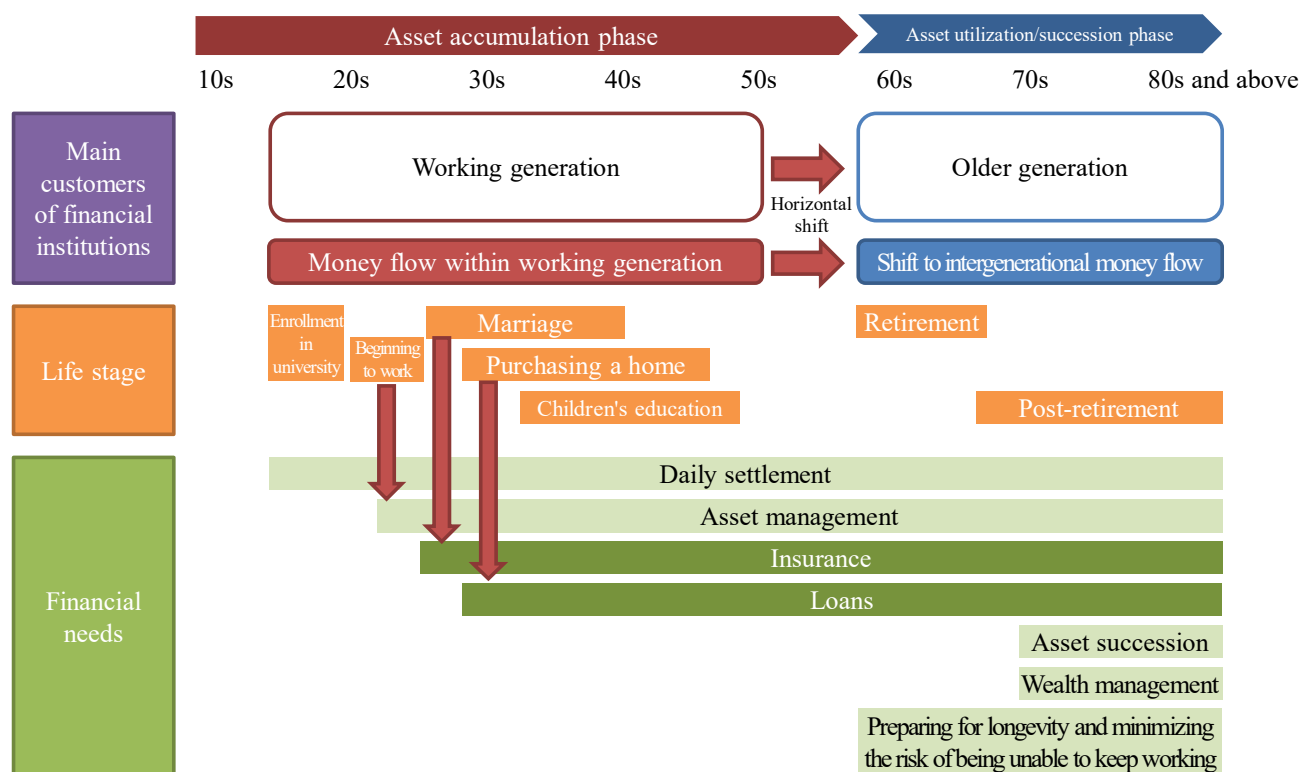
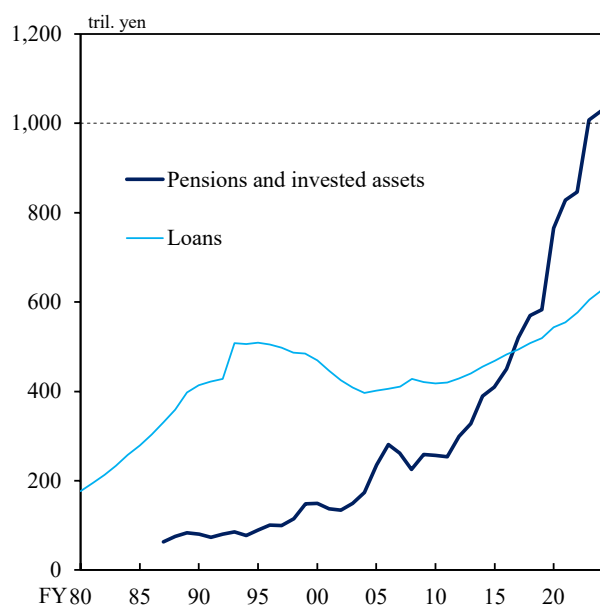


Chart 25

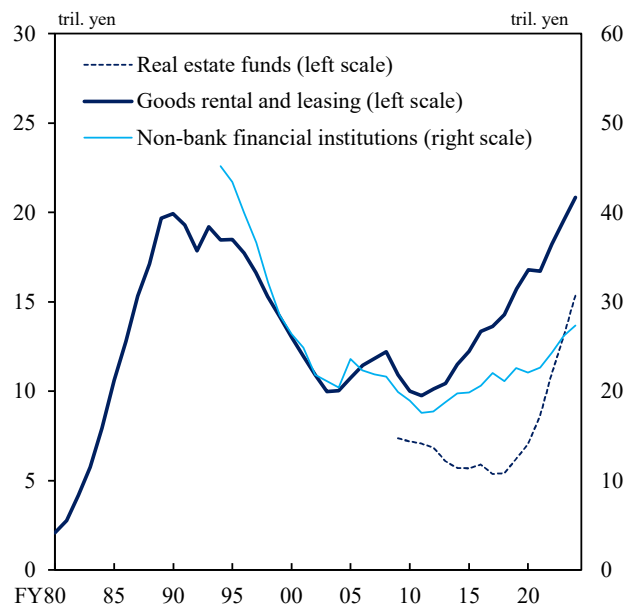
Amount Outstanding of Loans, Pensions, and Invested Assets in Japan

(Shift to increases in asset management and multi-pronged financial intermediation)

Amount Outstanding of Loans, Pensions, and Invested Assets



Loans by Sector

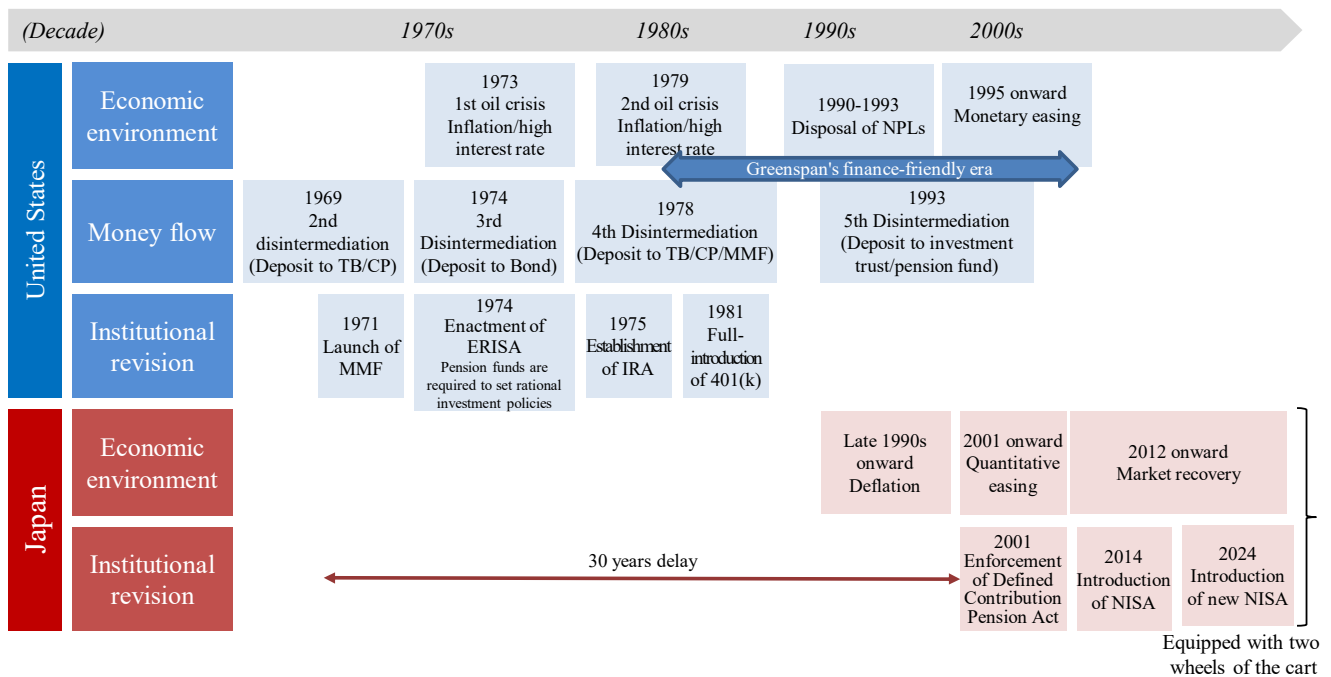


Note: Amount outstanding of pensions and invested assets is the sum of securities investment trusts and assets under management (including some overlaps). Loans are those of domestic banks.

Sources: Japan Investment Advisers Association; Bank of Japan.

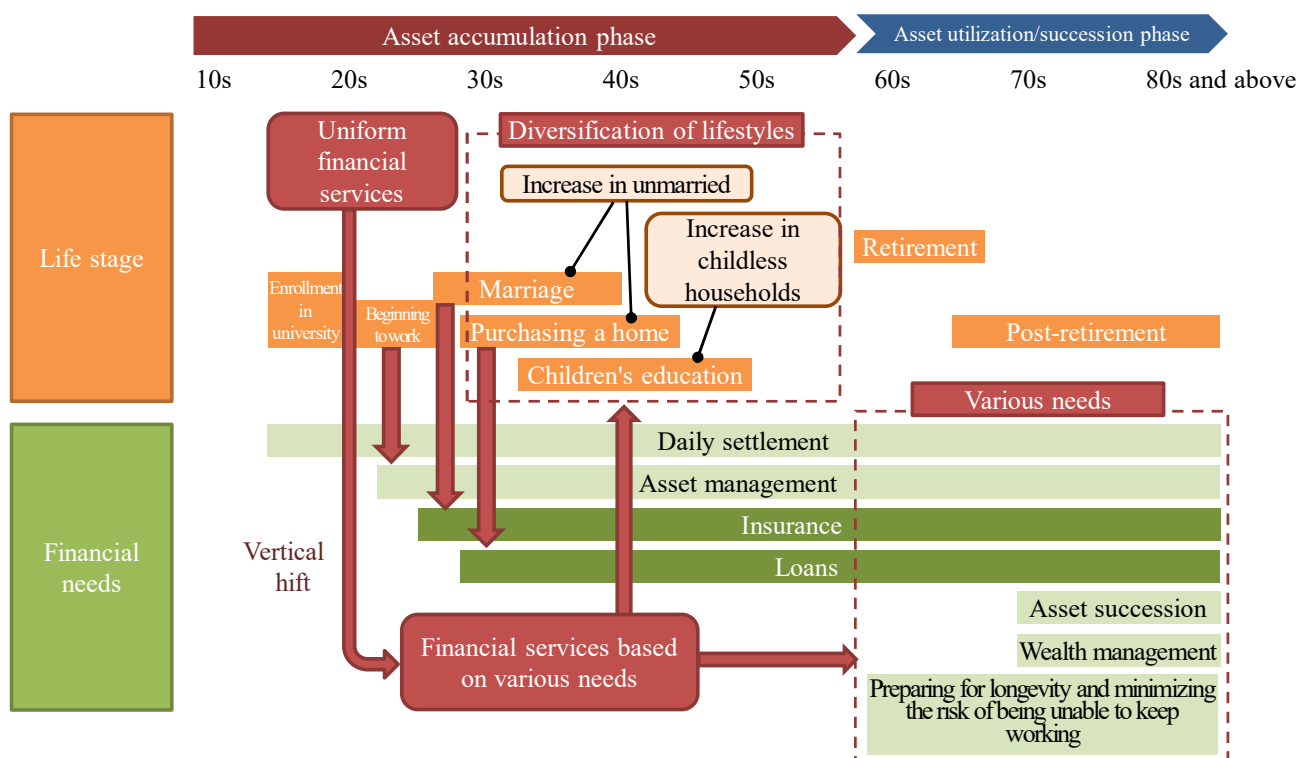
Developments Affecting Asset Management in Japan and the United States

(Both economic environment and institutional conditions -- two wheels of a cart -- are fulfilled in Japan for the first time)

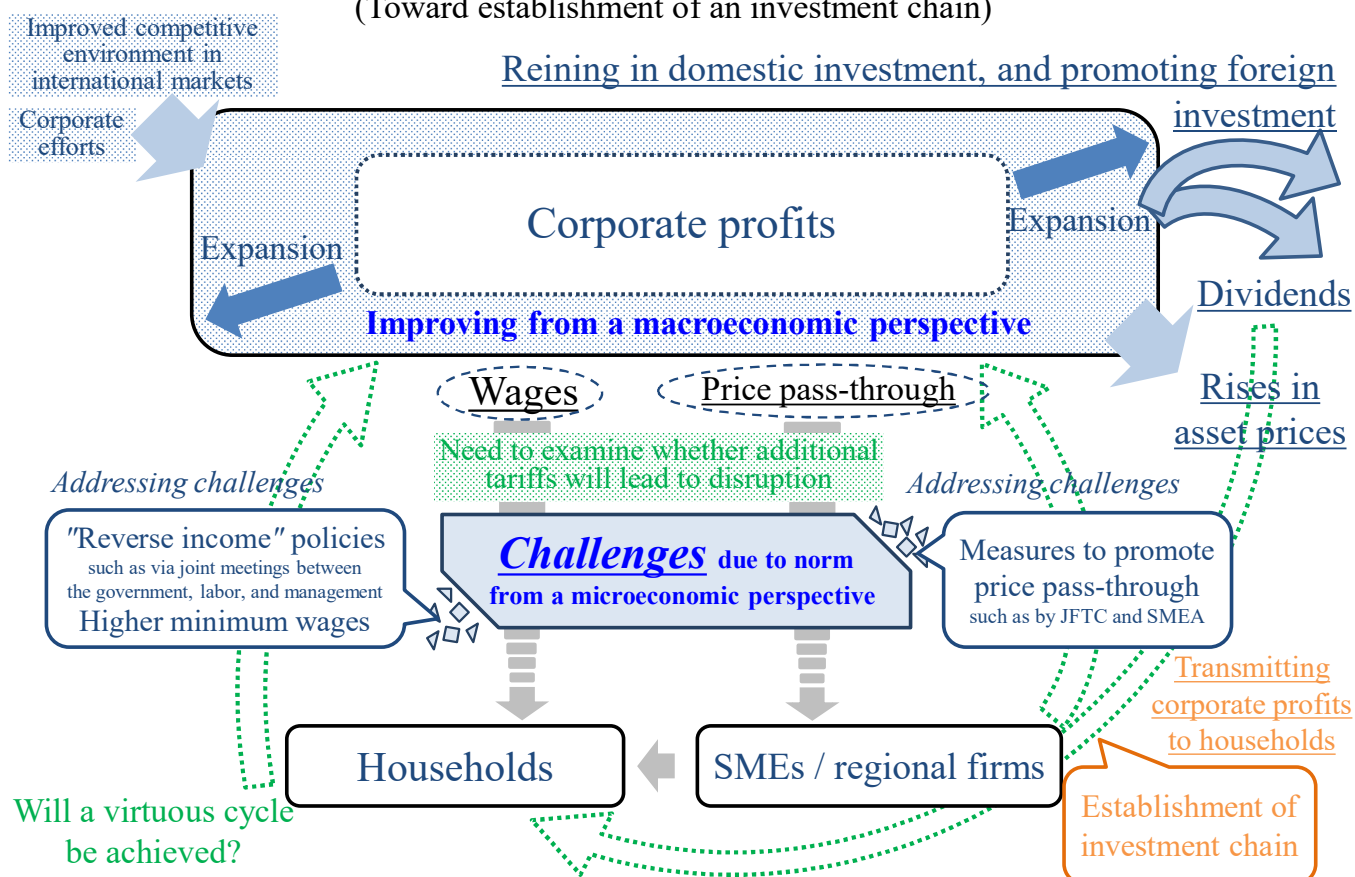


Shift from Uniform Life Model to Multi-Pronged Model

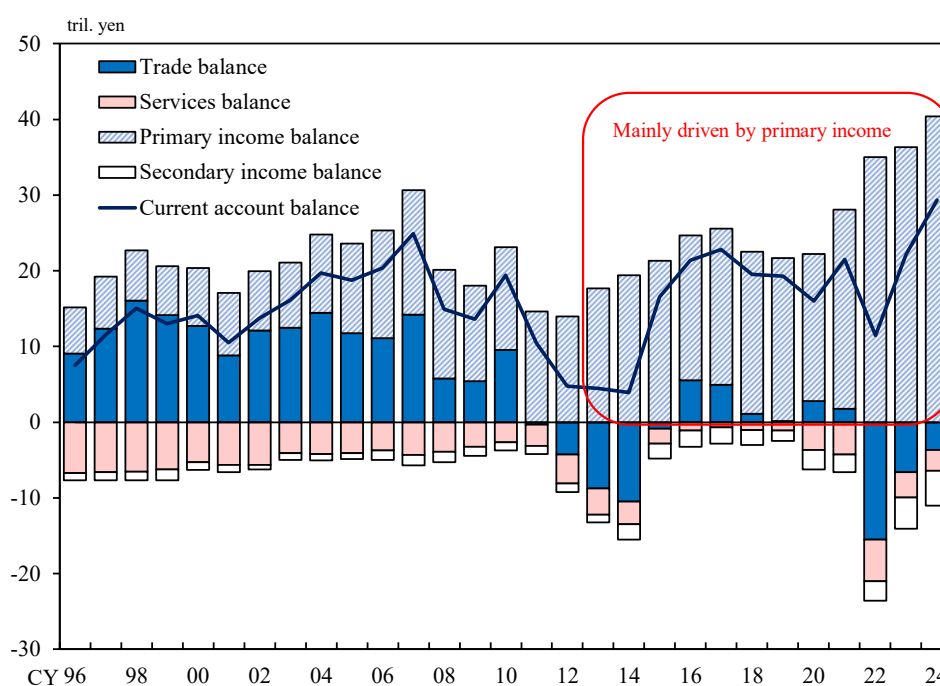
(Vertical shift: diversification of financial needs)



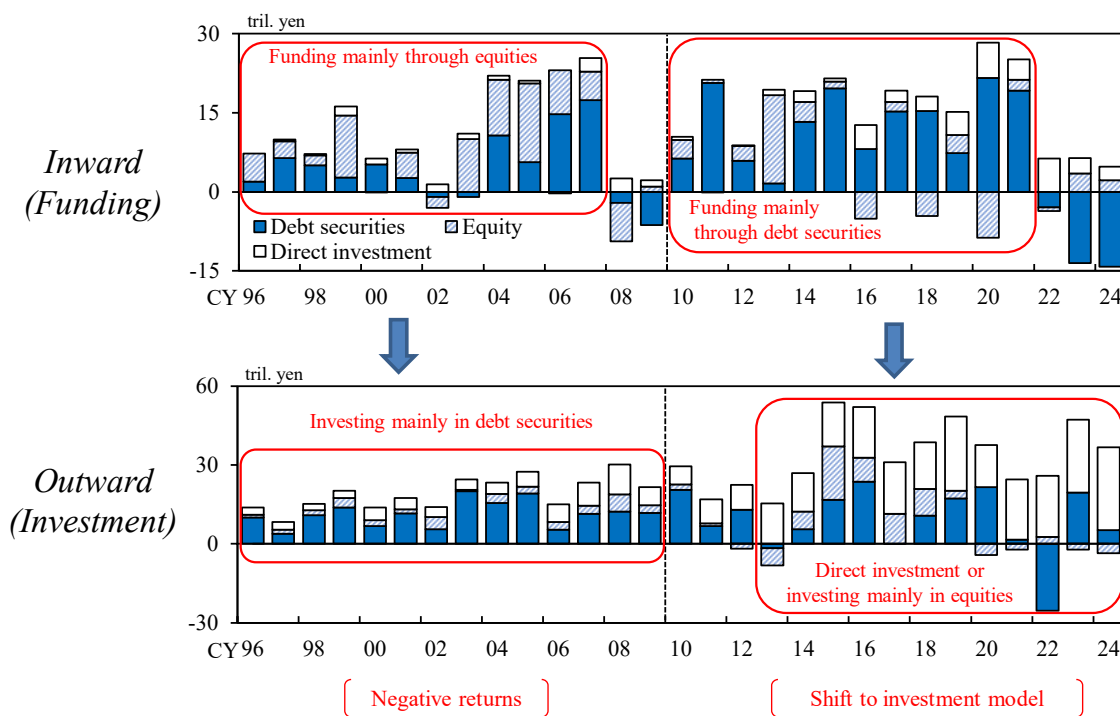
My View on Mechanism of Expanding Corporate Profits and Ensuing Challenges (Toward establishment of an investment chain)



Developments in Japan's Current Account Balance (Shift to an investment-driven balance mainly driven by primary income)



Macro Money Flow in Japan (Nationwide shift to an investment model)



Sources: Ministry of Finance; Bank of Japan.

Transformation of Money Flow (From "Showa model" to "100-year life model")

Showa model	Frozen era	100-year life model
Firms faced financial deficits	Firms fell into a shrinking equilibrium	Firms face financial surpluses
Bank-centered financial intermediation	Credit crunch of banks	Money flow to pensions and asset management, in addition to banks
Deposit-centered household assets	Cash and deposit-centered household assets to hedge against deflation	Diversified asset management other than holding deposits: disintermediation through investment in instruments other than deposits
Single-track deposits and loans	Credit crunch under deflation	Multi-pronged financial intermediation