



June 25, 2026

Bank of Japan

**Economic Activity, Prices,
and Monetary Policy in Japan**

Speech at a Meeting with Local Leaders in Hyogo

TAMURA Naoki

Member of the Policy Board

(English translation based on the Japanese original)

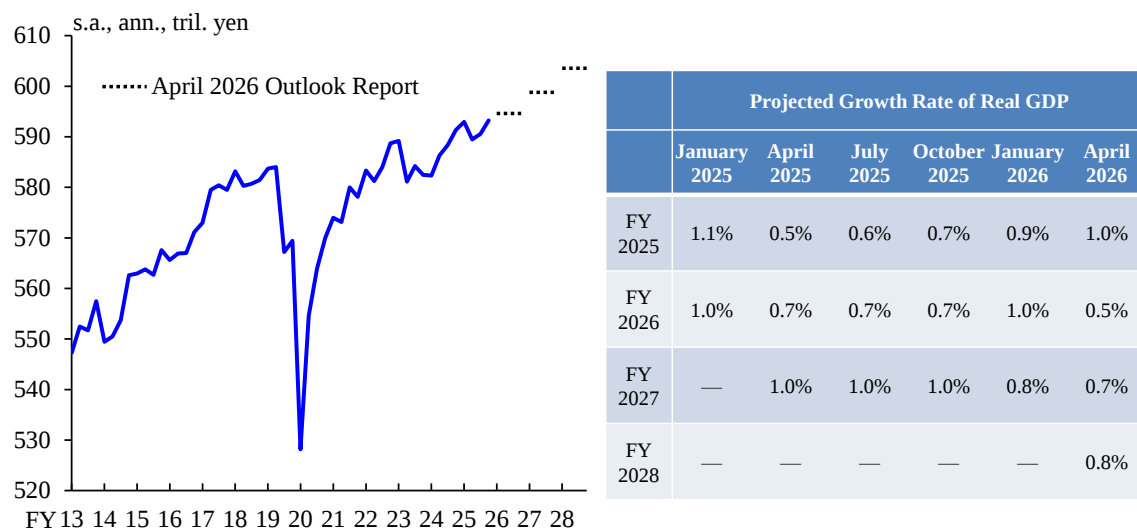
I. Economic Activity and Prices

A. Current Situation and Outlook for Economic Activity in Japan

I will begin my speech by talking about developments in economic activity in Japan. The Bank of Japan assesses that the economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East.

After the announcement of a new U.S. tariff policy in April 2025, there was significant uncertainty regarding its impact on Japan's economy. In this situation, the Bank had to make revisions to its forecasts for real GDP growth, as shown in Chart 1. That said, uncertainty regarding U.S. tariff policy decreased markedly thereafter, as many countries and regions, including Japan, reached agreements in trade negotiations with the United States. With regard

Chart 1: The Bank's Forecasts for Real GDP



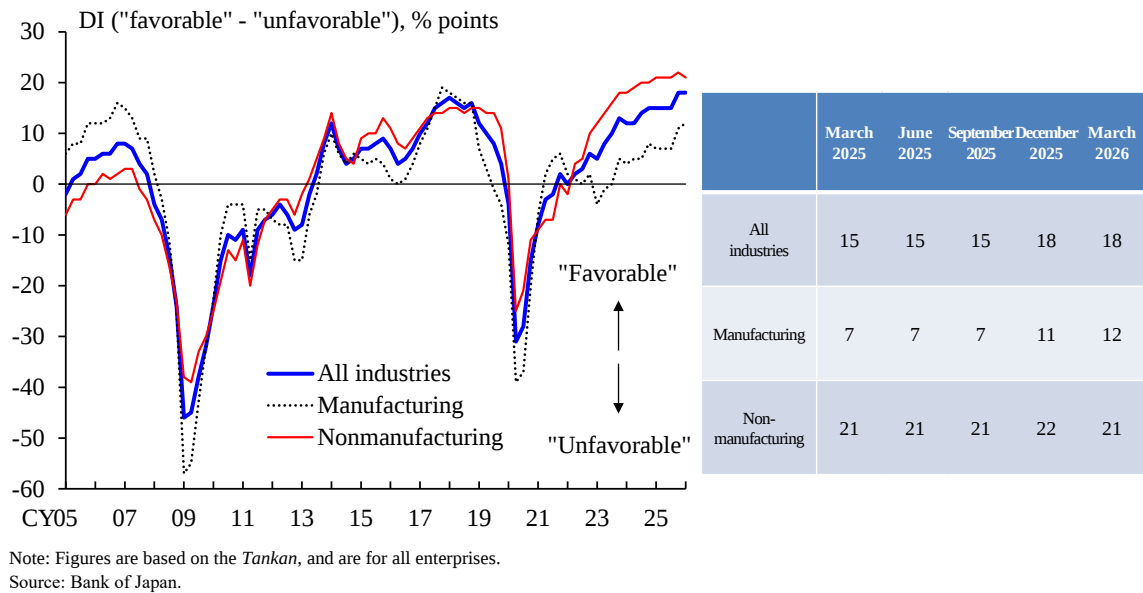
Note: Forecasts are the medians of the Policy Board members' forecasts. Real GDP values for 2026/Q2 onward are calculated by multiplying the actual figure for fiscal 2025 by all successive projected growth rates for each year.

Sources: Cabinet Office; Bank of Japan.

to developments in business sentiment, firms have maintained a proactive stance. For instance, the diffusion index (DI) for business conditions in the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) has stayed at a favorable level, as indicated in Chart 2. Business sentiment did not deteriorate much even after the announcement of the U.S. tariff policy. While it is true that the economy has been boosted by global AI-related demand since then, it can be said that firms' initial views have turned out to be accurate. Against this backdrop, the Bank revised its forecasts for real GDP growth in the January 2026 *Outlook for Economic Activity and Prices* (Outlook Report) for both fiscal 2025 and 2026 to broadly the same levels

as projected in the January 2025 Outlook Report, which was released before the U.S. tariff policy announcement.

Chart 2: Business Conditions DI



As such, Japan's economy was projected to continue growing moderately. However, following the increase in tension over the situation in the Middle East in February 2026, the Bank had to make revisions to its forecasts once again in April. Specifically, for fiscal 2026, the Bank has revised down its forecast for real GDP growth, as the rise in crude oil prices reflecting the impact of the situation in the Middle East is expected to push down corporate profits and households' real income through factors such as a deterioration in the terms of trade. From fiscal 2027 onward, the Bank projects that the real GDP growth rate will rise moderately, as it is expected that the adverse effects of high crude oil prices will wane and that a virtuous cycle from income to spending will gradually intensify. The Bank's baseline scenario is based on the assumption that, as the tension in the Middle East begins to ease, Dubai crude oil prices will decline from the level at the time the outlook was formulated in April.¹ However, if crude oil prices remain elevated longer than expected, there is a risk of a further slowdown in Japan's economy.

¹ The outlook formulated in April 2026 assumes that, based, for example, on developments in futures markets, Dubai crude oil prices will decline from around 105 U.S. dollars per barrel to the range of around 70-80 dollars per barrel toward the end of fiscal 2028. While moves toward an easing of tension

I believe it is inevitable that the economy will come under some degree of downward pressure due to a rise in domestic prices stemming from the impact of the situation in the Middle East. However, according to the results of the March 2026 survey, the business conditions DI in the *Tankan* I mentioned earlier does not indicate a significant deterioration in business sentiment, as was seen during the Global Financial Crisis or the COVID-19 pandemic, although it is necessary to carefully consider how much the impact of the situation in the Middle East is factored in, given the responding period.² This suggests that positive business sentiment has been maintained. In addition, I believe that the degree of deterioration in economic conditions will depend significantly on how far prices rise and whether these rises continue through factors such as an increase in wages and inflation expectations. I therefore consider price developments to be extremely important for Japan's economy looking ahead.

B. Current Situation and Outlook for Prices in Japan

I will now talk about prices in Japan. As shown in Chart 3, with moves to pass on wage increases to selling prices continuing, the year-on-year rate of increase in the consumer price index (CPI) for all items excluding fresh food had been above 2 percent, partly due to the effects of the rise in food prices, such as rice prices; however, the rate of increase has recently been at around 1.5 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices.

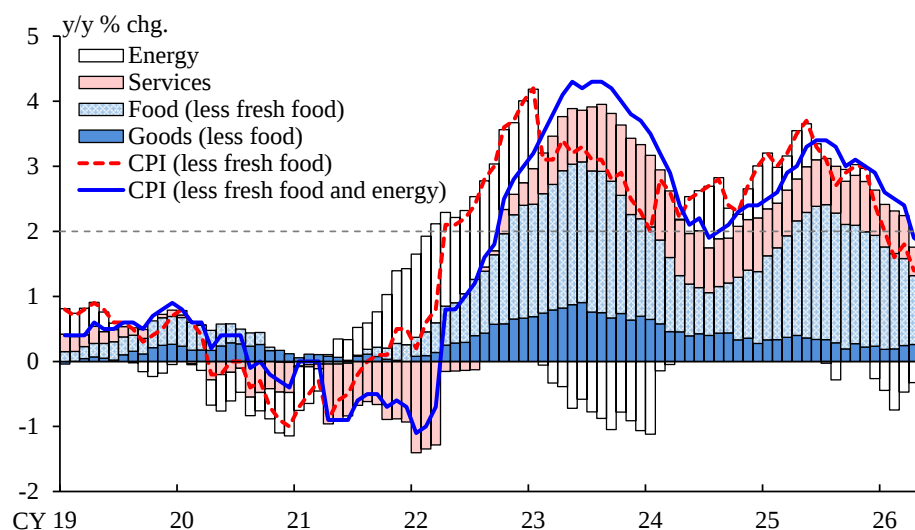
As was the case with the forecasts for real GDP growth, the Bank had to make revisions to its forecasts for CPI inflation, taking account of the uncertainty caused by U.S. tariff policy from April 2025. That said, firms have maintained a proactive stance, as I mentioned earlier, and a wide range of firms were expected to raise wages steadily in fiscal 2026. Given these circumstances, in the January 2026 Outlook Report, the Bank revised its fiscal 2026 forecast for CPI inflation for all items excluding fresh food, bringing it to broadly the same level as

in the Middle East have been seen recently, the crude oil price situation, including the pace of recovery in logistics, remains unclear.

² The responding period for the March 2026 *Tankan* was from February 26 to March 31, with March 12 set as the deadline. As of that date, the response rate stood at around 70 percent. (The final response rate in terms of the share of valid responses to the question on business conditions was 99.0 percent, as the Bank continues to collect responses after the deadline, until one business day prior to the day of release.)

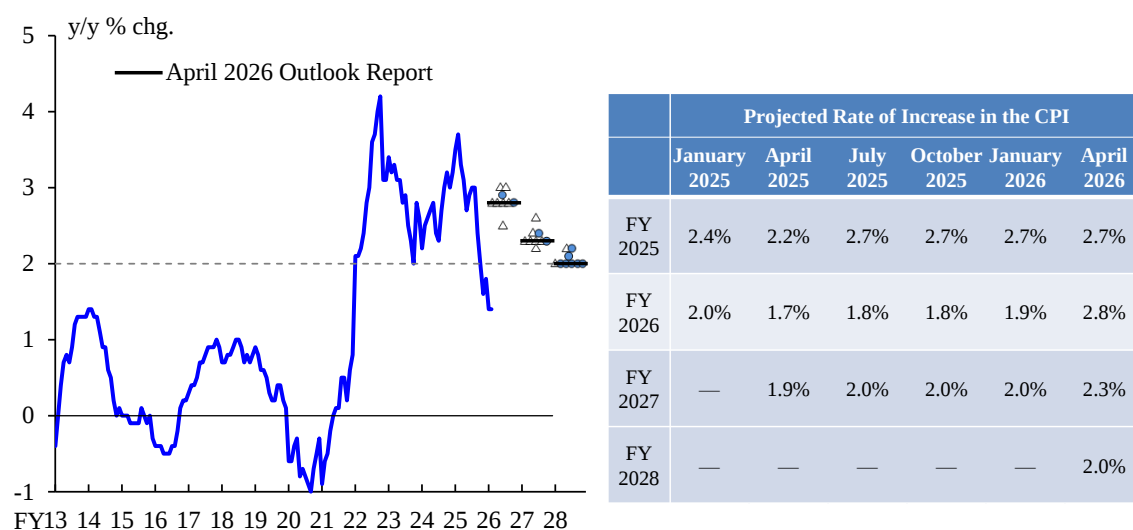
the forecast made prior to the U.S. tariff policy announcement, as shown in Chart 4.

Chart 3: Consumer Prices



Source: Ministry of Internal Affairs and Communications.

Chart 4: The Bank's Forecasts for the CPI



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

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

However, reflecting the situation in the Middle East, the Bank had to make revisions to its forecasts for CPI inflation once again, as was the case with the forecasts for real GDP growth.

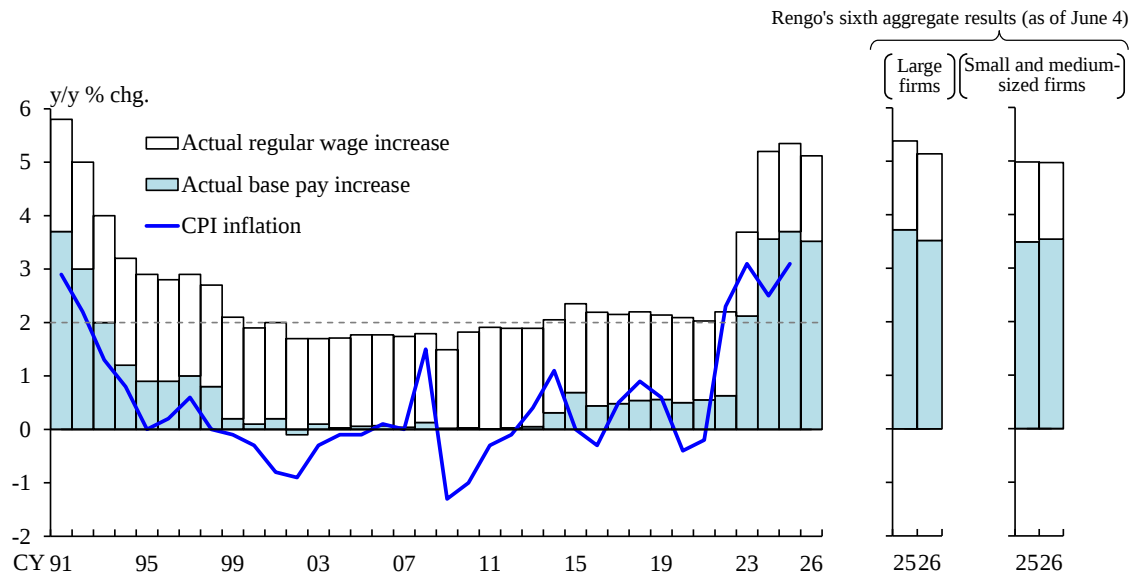
Specifically, the Bank's baseline scenario is as follows. The year-on-year rate of increase in the CPI for all items excluding fresh food is likely to accelerate to a level clearly above 2 percent, as the rise in crude oil prices is expected to push up prices, mainly of energy and goods, with moves to pass on wage increases to selling prices continuing. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline toward around 2 percent. Underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter. As I mentioned earlier, this scenario is based on the assumption of an easing of tension in the Middle East and the accompanying decline in Dubai crude oil prices. If crude oil prices remain elevated, there is a risk that the CPI will deviate upward from the baseline scenario.

C. My View: The 2 Percent Price Stability Target Has Already Been Achieved, with Risks to Prices Skewed to the Upside

I have so far presented the official view of the Bank. My own assessment is that underlying CPI inflation has already reached a level that is generally consistent with the price stability target of 2 percent. Moreover, I believe there is a high risk that price developments will deviate upward from the Bank's baseline scenario. In what follows, I will explain why I take this view.

The first factor behind my view concerns underlying CPI inflation. As I have previously stated, my view is that, with the mechanism in which wages and prices rise moderately in interaction with each other being maintained and inflation recently shifting into an endogenous and sticky state, the last piece of the puzzle needed to judge that the 2 percent price stability target has been achieved is developments in wage hikes in 2026. Specifically, I would like to confirm whether wage growth in 2026 will be at a level in line with the price stability target for the third consecutive year. In this regard, the aggregate results of this year's annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo), as shown in Chart 5, indicate that both large firms and small and medium-sized firms are expected to maintain solid wage increases, with base pay hikes of around 3.5 percent, exceeding 2 percent.

Chart 5: Results of the Annual Spring Labor-Management Wage Negotiations

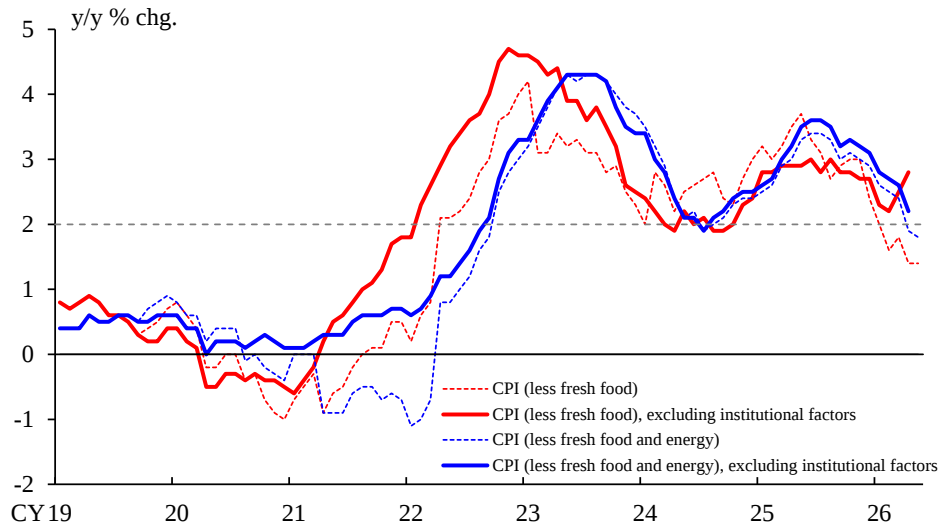


Notes: 1. Figures for CPI inflation are for all items less fresh food, excluding the effects of consumption tax hikes, on a calendar-year basis.
 2. Figures for actual base pay increase and actual regular wage increase from 1991 to 2014 are those published by the Central Labour Relations Commission, while those from 2015 to 2026 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.

The second factor is developments in the CPI. Although, on the surface, the year-on-year rate of increase in the CPI for all items excluding fresh food has been below 2 percent recently, this reflects the effects of factors such as the government's measures to reduce the household burden of higher energy prices and policies concerning the provision of free education. Excluding these institutional factors, the rate has been above 2 percent, as shown in Chart 6, which is in line with my expectations.

The third factor behind my view is developments in medium- to long-term inflation expectations. As I have noted on previous occasions, I believe that, when considering price developments, the focus should be placed on the inflation expectations of firms and households, who are the actual drivers of economic activity. I have been arguing that firms' and households' inflation expectations have reached approximately 2 percent, and recent survey results, as shown in Chart 7, support this view. For firms, the March 2026 *Tankan* results show that their inflation outlook for general prices for five years ahead is 2.5 percent, up 0.1 percentage points from the December 2025 *Tankan*. For households, the results of the March 2026 *Opinion Survey on the General Public's Views and Behavior* indicate that the

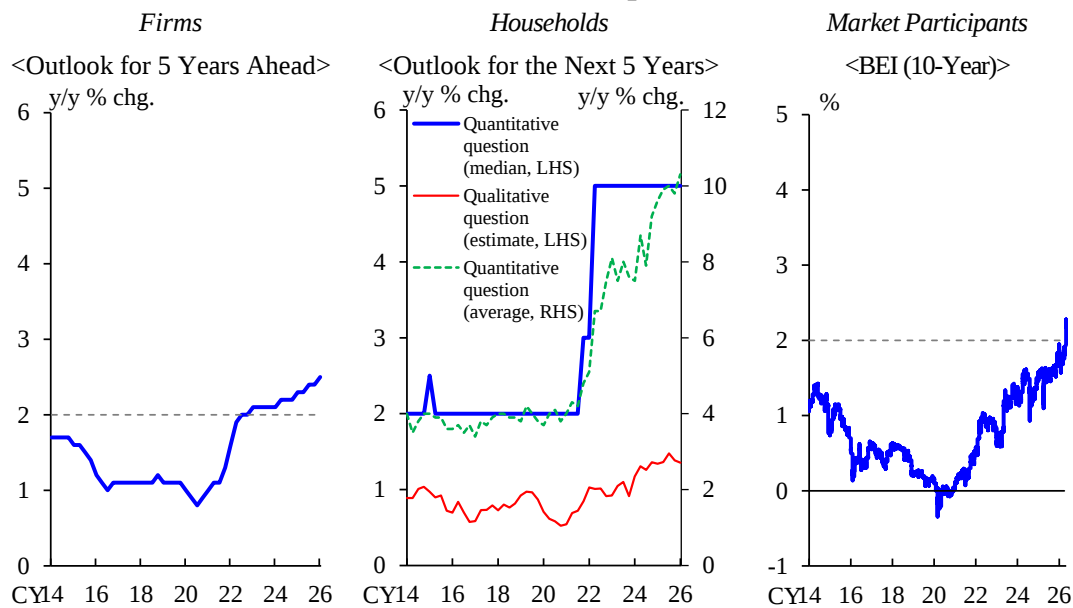
Chart 6: Consumer Prices (Excluding Institutional Factors)



Note: Institutional factors include the effects of the consumption tax hike, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.

Sources: Bank of Japan; etc.

Chart 7: 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.
3. Figures for market participants in the right panel indicate the BEI (break-even inflation) rate, which is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs.

Sources: Bloomberg; JCER, *ESP Forecast*; Bank of Japan.

average of households' inflation outlook for the next five years is 10.3 percent, up 0.5 percentage points from the December 2025 survey -- although bias in expected price levels should be taken into account. Over the past several months, firms' and households' inflation expectations have not fallen even as inflation has declined on the surface. Given the survey periods, this may partly reflect the impact of the situation in the Middle East, but, in my view, it clearly indicates that the behavior of firms and households has changed and is no longer the one observed during the deflationary and disinflationary periods.³ Moreover, inflation expectations of market participants have also risen to around 2 percent. For the reasons I have outlined, my assessment is that the price stability target has already been achieved.

D. My View: Increasing Upside Risks to Prices Looking Ahead

Next, I would like to discuss the upside risks to prices looking ahead, comparing them with when prices in Japan rose significantly following Russia's invasion of Ukraine in 2022.

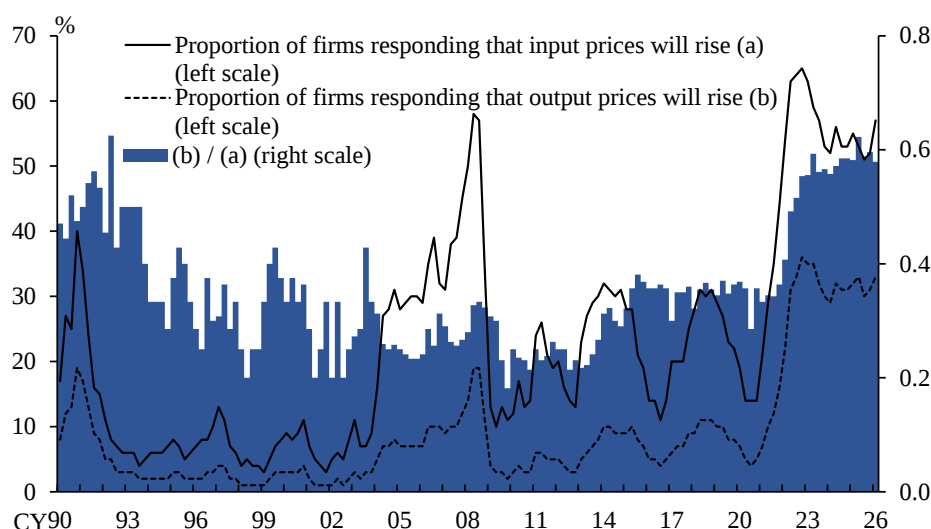
First, let me touch on firms' and households' inflation expectations. As I mentioned earlier, unlike in 2022, firms' and households' inflation expectations have now already reached approximately 2 percent and have continued to rise further. Unlike the United States and Europe, where inflation expectations have been stable at around 2 percent, Japan has seen inflation expectations rise from a low level. Coupled with the impact of the current situation in the Middle East, I am concerned whether any further rise is more than expected.

Second, firms' price-setting behavior has become more active. Chart 8 shows the ratio obtained by dividing the proportion of firms responding in the *Tankan* that output prices would rise, by the proportion of firms responding that input prices would rise -- a rough indicator of firms' willingness to pass on costs to prices. From 2022, this indicator rose and has since remained at a high level last seen during the bubble period. Recently, upside risks to prices have heightened, caused by factors including the following: (1) the pass-through rate from import prices to domestic prices has increased; (2) with shipping costs and personnel expenses continuing to rise, firms are currently passing on those higher costs; (3)

³ The responding period for the March 2026 *Tankan* was from February 26 to March 31, while the survey period for the March 2026 *Opinion Survey on the General Public's Views and Behavior* was from February 4 to March 9.

with large firms taking the lead in raising prices, price hikes are spreading among regional consumer-facing firms; and (4) firms have been passing on costs to prices under the government's strengthened initiatives to promote appropriate price pass-through.⁴

Chart 8: Changes in Firms' Price-Setting Behavior

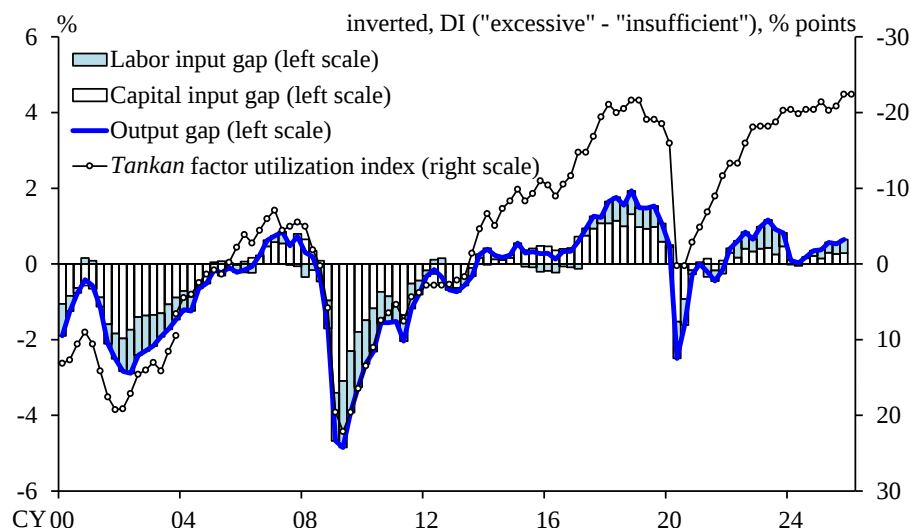


Note: Figures are based on the *Tankan*, and are for all industries and enterprises. There is a discontinuity in the data for December 2003 due to a change in the survey framework.
Source: Bank of Japan.

Third, as I have noted on past occasions, I think one reason why firms' price-setting behavior has become more active is that prices have been under upward pressure, as demand has outstripped potential supply capacity in the overall economy. In this regard, as shown in Chart 9, the output gap estimated by the Bank has generally remained positive since 2022, indicating short supply and excess demand, although estimates need to be viewed with latitude, as they may differ depending on the estimation methods and are subject to estimation errors. In addition, as shown in Chart 10, the employment conditions DI in the *Tankan*, which indicates firms' perceptions of labor shortage, suggests that the sense of labor shortage has grown further recently. As a result of such labor shortages, firms may be unable to operate production facilities as they wish to, leading to a decline in capacity utilization rates; in this case, the estimated output gap is subject to a downward bias. In other words, lower capacity

⁴ For details on developments among regional consumer-facing firms, see the annex paper to the *Regional Economic Report*, "Chiiki no shōhi kanren kigyō no kakaku settei kōdō no henka to 2026 nendo no kakaku kaitei hōshin" [Changes in price-setting behavior of and price revision plans for fiscal 2026 at regional consumer-facing firms] (available only in Japanese).

Chart 9: Output Gap

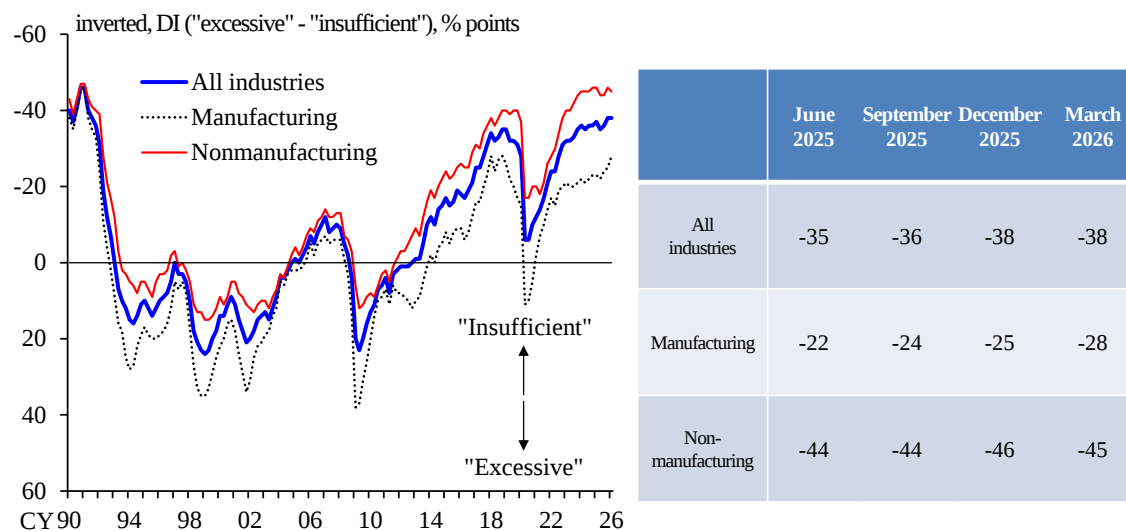


Notes: 1. Figures for the output gap are Bank staff estimates.

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 10: Employment Conditions DI



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

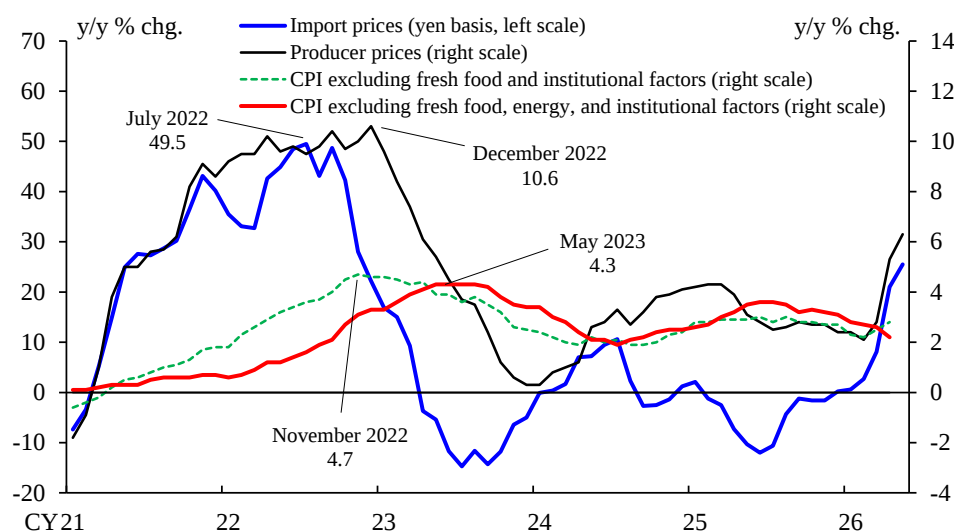
Source: Bank of Japan.

utilization rates do not necessarily indicate excess supply capacity in reality, and the extent of short supply and excess demand could be greater than suggested by the figures of the output gap. It should also be noted that, if firms become unable to adequately produce related

products due to a shortage of raw materials, a decline in capacity utilization rates would push down the figures of the output gap, making them inconsistent with actual economic conditions.

In 2022, both firms and households still retained behavioral patterns from the deflationary and disinflationary periods, so even when global commodity prices were rising, firms remained cautious about raising their selling prices and, after a certain time lag, had no choice but to raise prices. Chart 11 shows that domestic producer prices peaked half a year after import prices hit their peak, and consumer prices excluding fresh food and energy reached their peak a year after import prices. By contrast, I am concerned that the pass-through of the recent rise in import prices to selling prices may occur more quickly, significantly, and broadly than in 2022, given changes in firms' and households' behavior and changes in the economic environment as represented by the short supply and excess demand mentioned earlier. Chart 12 provides an overview of the pass-through lags of corporate transaction prices. Price increases have already begun in corporate transactions for petroleum and coal products, chemicals and related products, and plastic products. It is therefore necessary to closely monitor the extent and speed with which such price pass-through proceeds.

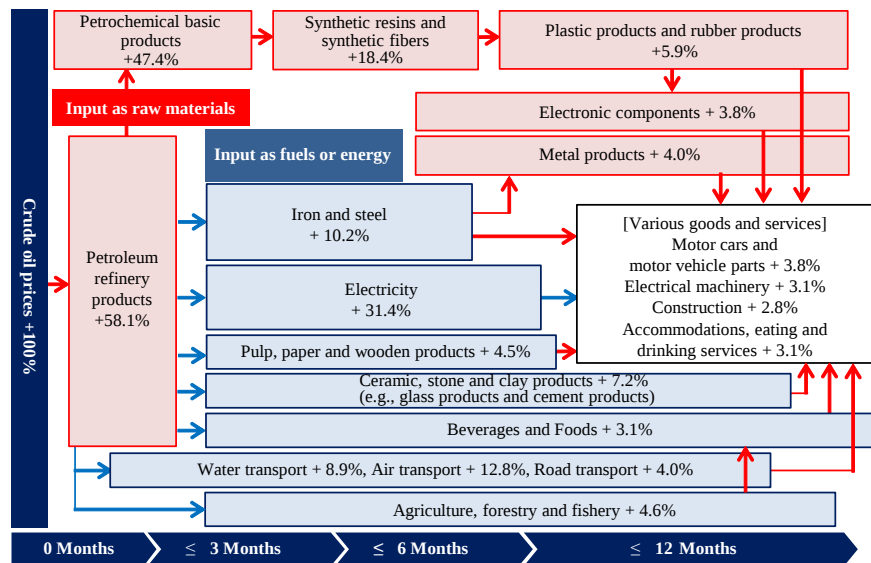
Chart 11: Corporate Goods Prices and Consumer Prices



Note: Institutional factors include the effects of the consumption tax hike, policies concerning the provision of free education, measures to reduce the energy cost burden (such as gasoline prices, electricity charges, and gas charges), the reduction in mobile phone charges in 2021, and travel subsidy programs. Figures are Bank staff estimates.

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

Chart 12: The Pass-Through Lags of Corporate Transaction Prices



Notes: 1. Figures show the rate of price increase when prices in the "coal mining, petroleum and natural gas" sector increase by 100 percent.
 2. The pass-through lag of a crude oil price increase is estimated based on factors such as the results of an econometric analysis using the 2020-base corporate goods price index (CGPI), the 2020-base services producer price index (SPPI), and crude oil prices.
 3. The pass-through lag of "electricity" reflects the latest fuel cost adjustment system of some electric power companies.
 Sources: Ministry of Economy, Trade and Industry; Nikkei NEEDS-Financial QUEST; Bank of Japan.

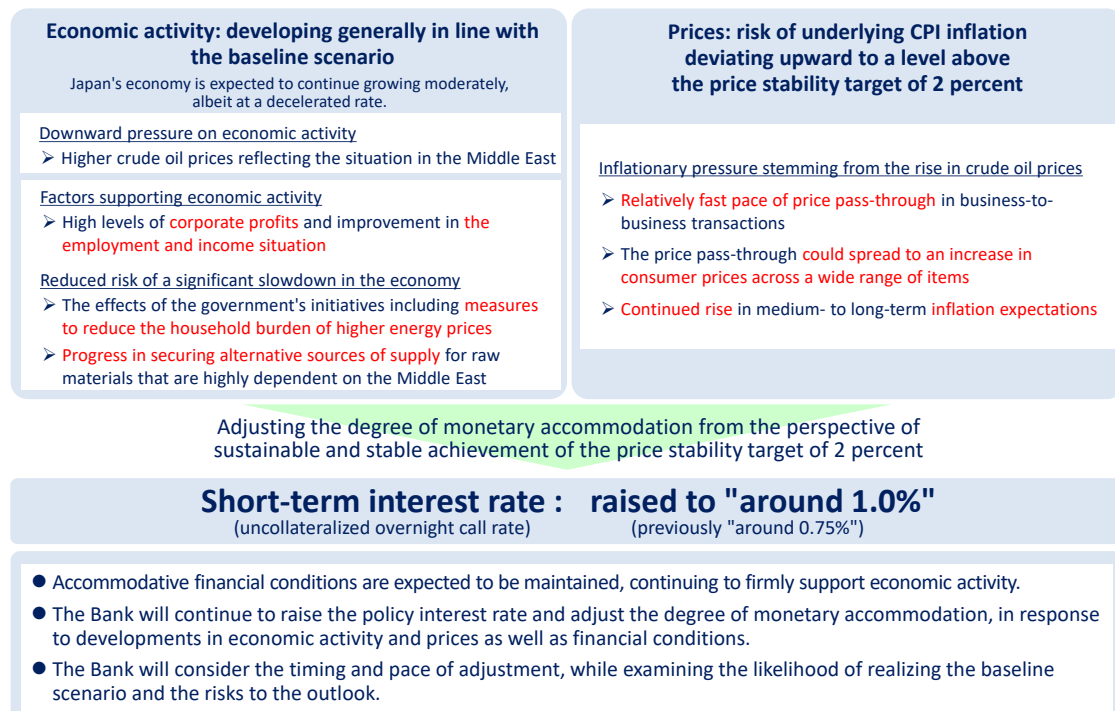
Also in 2022, savings accumulated during the COVID-19 pandemic helped to support consumption even when prices were rising, whereas such support has now waned. However, I think there is a strong possibility that the economy will instead be underpinned by factors such as the solid wage increases compared to 2022, the high levels of profits that have accumulated in the corporate sector, and the government's measures, such as those to reduce the household burden of higher energy prices.

II. Conduct of Monetary Policy

A. Future Conduct of Monetary Policy

I would now 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 decided at the March 2024 Monetary Policy Meeting (MPM), the Bank has returned to conventional monetary policy, employing the guidance of the short-term interest rate as a primary policy tool. After setting the target level of its short-term policy interest rate at around 0 to 0.1 percent at the March 2024 MPM, the Bank has gradually raised the target level, setting it at around 1.0 percent at the most recent MPM held in June 2026, as shown in Chart 13.

Chart 13: Change in the Guideline for Money Market Operations (June 2026 MPM)



In this regard, let me outline my assessment. First, as I mentioned earlier, my view is that underlying CPI inflation has already reached 2 percent. Second, reflecting the situation in the Middle East, the outlook for prices has been revised significantly upward. Third, looking ahead, regardless of how the situation in the Middle East unfolds, I expect upside risks when it comes to prices. Fourth, under these circumstances, the current policy interest rate is in an accommodative range, below the neutral interest rate.

I believe it is important that, as early as now, the Bank move closer to a neutral monetary policy stance -- that is, setting the policy interest rate closer to the neutral interest rate -- to avoid a situation where upside risks to prices materialize and the Bank is compelled to raise the policy interest rate rapidly and significantly into a restrictive range beyond the neutral interest rate, and to ensure the policy interest rate is adjusted as smoothly as possible.

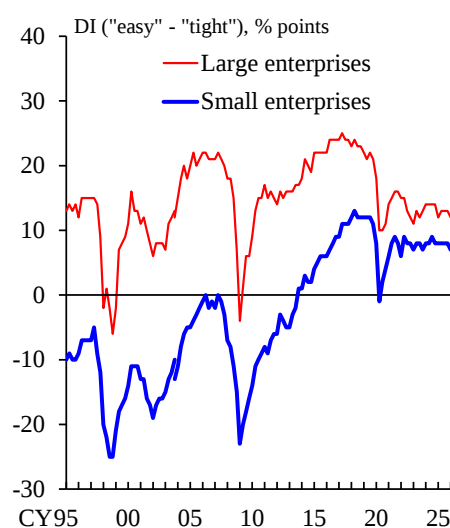
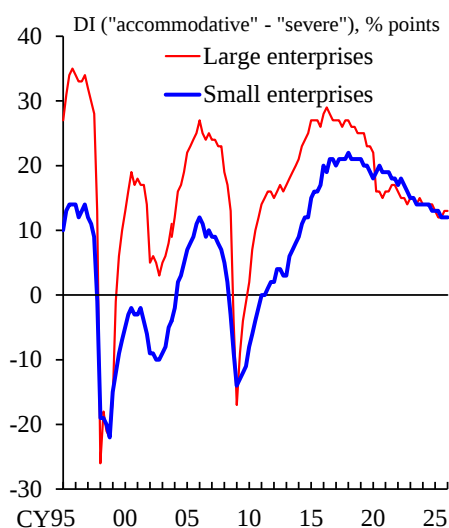
Let me elaborate on the neutral interest rate -- the sum of the natural rate of interest, which is the real interest rate level that is neutral to economic activity and prices, and the expected rate

of inflation.⁵ As I have previously stated, my sense is that the neutral interest rate should be at least around 1 percent, partly drawing on my experience as a financial practitioner. While it has been about six months since the policy interest rate was raised to 0.75 percent in December 2025, financial conditions have remained accommodative on the whole. For example, as shown in Chart 14, financial institutions' lending attitudes as perceived by firms have remained accommodative, and firms' financial positions have continued to be favorable. Furthermore, as indicated in Chart 15, the results of the *Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks* and the amount outstanding of bank lending show that demand for funds is still increasing. Anecdotal information from firms, which I place particular emphasis on, also suggests that the policy interest rate is still far away from the neutral interest rate. Chart 16 provides a stylized representation of how I currently

Chart 14: Lending Attitudes of Financial Institutions and Firms' Financial Positions

*Lending Attitudes of Financial Institutions
as Perceived by Firms*

Firms' Financial Positions



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

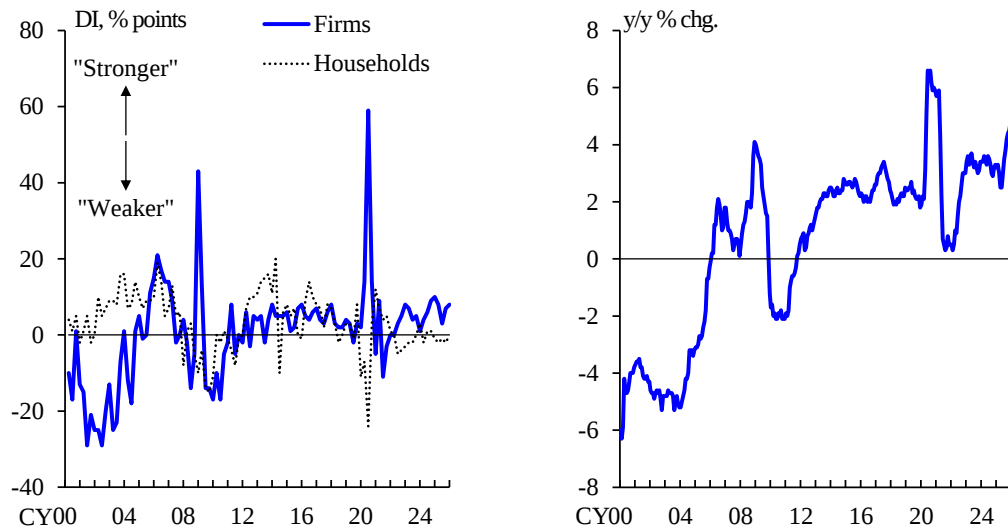
Source: Bank of Japan.

⁵ It should be noted that the natural rate of interest is not directly observable, and estimates vary widely depending on the methodology used. Furthermore, because most of the data used to estimate the natural rate in Japan are drawn from the deflationary and disinflationary periods, there is a high likelihood that a certain degree of bias has arisen, making precise measurement difficult. Therefore, in my view, the only way to determine the difference between the policy interest rate and the neutral interest rate is to examine the response of economic activity and prices as well as financial conditions as the Bank raises the policy interest rate.

Chart 15: Demand for Funds

DI for Demand for Loans by Borrower Type

Amount Outstanding of Bank Lending

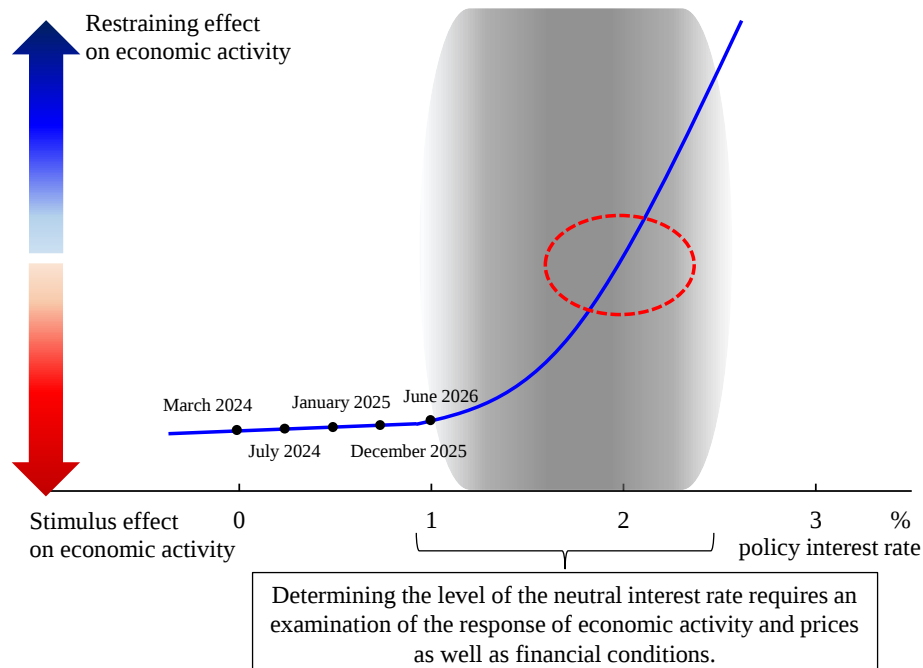


Notes: 1. Figures in the left panel are based on the *Senior Loan Officer Opinion Survey on Bank Lending Practices at Large Japanese Banks*, and indicate changes in demand for loans over the past three months. DI for demand for loans = (percentage of respondents selecting "substantially stronger" + percentage of respondents selecting "moderately stronger" $\times$ 0.5) - (percentage of respondents selecting "substantially weaker" + percentage of respondents selecting "moderately weaker" $\times$ 0.5).

2. Figures in the right panel are monthly averages.

Source: Bank of Japan.

Chart 16: Effects of the Policy Interest Rate on Economic Activity: A Visual Overview Based on Experience as a Financial Practitioner



see the effects of the policy interest rate on economic activity in light of the rate hikes to date, suggesting that the neutral interest rate is most likely around 2 percent. As I have previously mentioned, it is of course difficult to measure precisely the neutral interest rate, and determining the actual level of the neutral interest rate requires an examination of the response of economic activity and prices as well as financial conditions as the Bank raises the policy interest rate.

While central banks in Europe and the United States had adopted a wait-and-see stance in light of the uncertainty regarding the situation in the Middle East, the European Central Bank recently raised its policy interest rates, bringing the interest rate on the deposit facility to 2.25 percent. The Federal Reserve has kept its policy interest rate in the range of 3.50 to 3.75 percent, maintaining its wait-and-see stance. It should be noted that, unlike in Japan, (1) the U.S. policy interest rate is either close to or slightly above the neutral interest rate, and (2) long-term inflation expectations in the United States are anchored at around 2 percent on the basis of confidence in the central bank. By contrast, in Japan, (1) the policy interest rate remains below the neutral interest rate and financial conditions are accommodative, and (2) inflation expectations do not seem to be sufficiently anchored.

Concerns have been voiced that, owing to the impact of the situation in the Middle East, Japan's economy may deteriorate and that this could in turn push down underlying inflation. Naturally, I also recognize such risks. At the same time, as I mentioned earlier, the degree of deterioration in economic conditions will depend significantly on the scale of price rises and how long they continue. Accordingly, in my view, softening the rise in prices will help to curb a subsequent decline in demand and thereby contain a downward deviation of economic activity.

I do not have any preconceptions about the outlook for economic activity and prices as well as financial conditions, nor about the conduct of monetary policy based on the outlook. The Bank will raise the policy interest rate in response to developments in economic activity and prices as well as financial conditions and to the degree of risk. In doing so, I believe it is also necessary to bring the policy interest rate closer to the neutral interest rate in a timely and appropriate manner and at a reasonable pace. A more concrete picture of my outlook for

monetary policy is as follows. Based on the fundamental premise that monetary policy should be decided by examining developments in economic activity and prices as well as financial conditions, considering the recent increase in upside risks to prices, what I envisage as a baseline path is raising the policy interest rate by 0.25 percentage points at intervals of a few months toward the neutral interest rate level of 2 percent. If the materialization of upside risks to prices becomes more likely, I consider it necessary to accelerate the pace of rate hikes without hesitation by increasing the frequency or size of rate hikes. I believe that striving to ensure price stability through such conduct of monetary policy will ultimately lead to containing a downward deviation of Japan's economy.

As shown in Chart 17, Article 2 of the Bank of Japan Act stipulates the following: "The Bank of Japan conducts currency and monetary control, aiming at achieving price stability, thereby contributing to the sound development of the national economy." In my view, it is the Bank's mission to serve as the "guardian of price stability," while maintaining thorough communication with the government.

Chart 17: Bank of Japan Act

(Purpose)

Article 1

- (1) The purpose of the Bank of Japan, or the central bank of Japan, is to issue banknotes and to carry out currency and monetary control.
- (2) In addition to what is prescribed in the preceding paragraph, the Bank of Japan's purpose is to ensure smooth settlement of funds among banks and other financial institutions, thereby contributing to the maintenance of stability of the financial system.

(The Principle of Currency and Monetary Control)

Article 2

The Bank of Japan conducts currency and monetary control, aiming at achieving price stability, thereby contributing to the sound development of the national economy.

(Respecting the Autonomy of the Bank of Japan and Ensuring Transparency)

Article 3

- (1) The Bank of Japan's autonomy regarding currency and monetary control must be respected.
- (2) The Bank of Japan must endeavor to clarify to the citizen the content of its decisions, as well as its decision-making process, regarding currency and monetary control.

(Relationship with the Government)

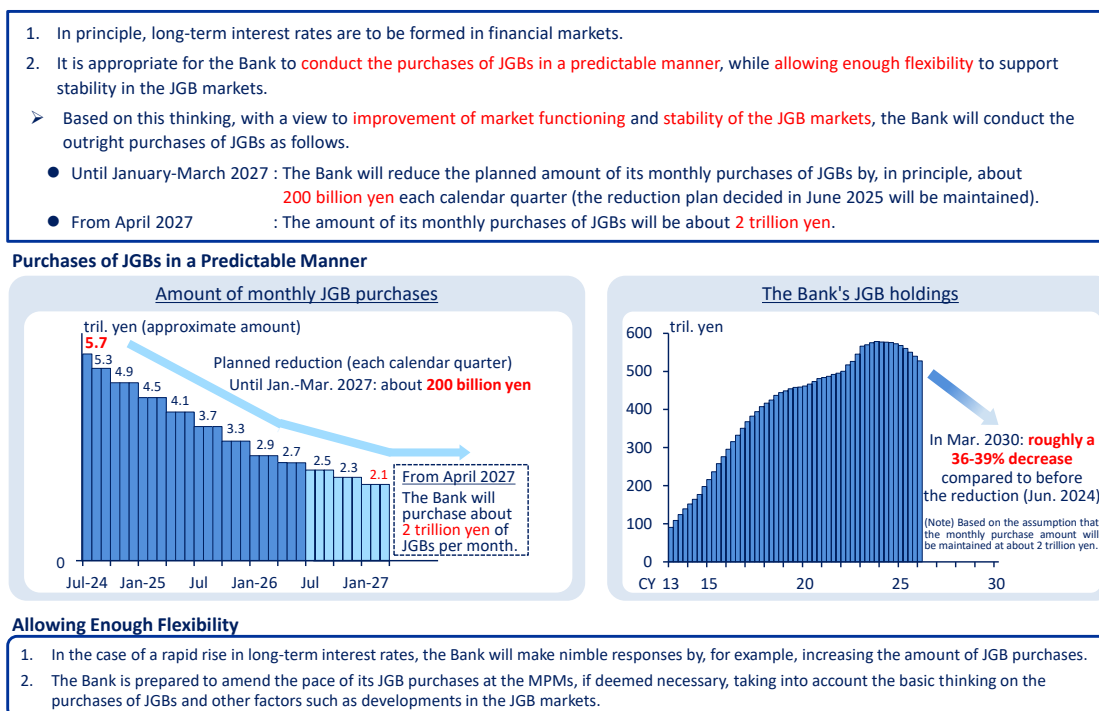
Article 4

Taking into account the fact that currency and monetary control is a component of overall economic policy, the Bank of Japan must always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy are mutually compatible.

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). At the June 2026 MPM, as shown in Chart 18, the Bank decided to conduct the outright purchases of JGBs as follows. First, the Bank will reduce the planned amount of its monthly purchases of JGBs by, in principle, about 200 billion yen each calendar quarter until January-March 2027. From April 2027, the amount of its monthly purchases of JGBs will be about 2 trillion yen. Second, 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. Third, the Bank is prepared to amend the pace of its JGB purchases at the MPMs, if deemed necessary, taking into account the basic thinking on the purchases of JGBs and other factors such as developments in the JGB markets. This decision was made with a view to improvement of market functioning and stability of the JGB markets.

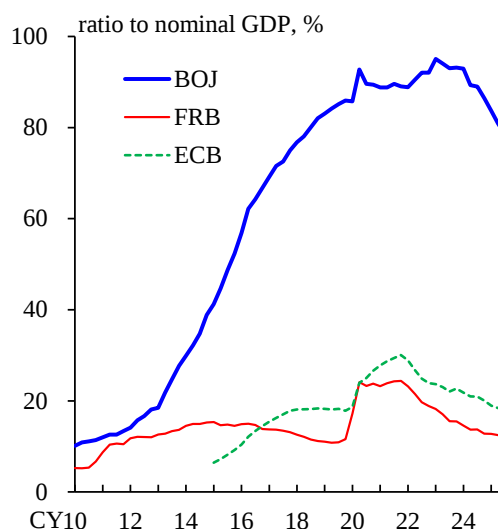
Chart 18: Plan for the Outright Purchases of JGBs (June 2026 MPM)



I voted against this proposal at the June MPM 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.

The Bank's large-scale JGB purchases were originally conducted as a monetary easing measure, but now that the economic environment has changed significantly, there is no need to purchase JGBs for monetary policy purposes. If the Bank reduces the amount of purchases rapidly, however, there is concern that this could cause market disruption, which is why the Bank has been reducing its purchases gradually. My view is that the degree of JGB market functioning has improved. In this context, the recent rise in long-term interest rates does not indicate that the Bank's reduction of its JGB purchases has caused market disruption; rather, it reflects factors such as market participants' views on future inflation and on monetary and fiscal policies, and is basically regarded as in line with fundamentals. Under these circumstances, while there is no need for the Bank to accelerate the reduction in the amount of its JGB purchases, it should continue with the reduction to normalize its JGB holdings at the earliest opportunity, given that the Bank's government bond holdings remain at high levels relative to those of central banks in Europe and the United States, as indicated in Chart 19. I believe that it is important for the Bank to conduct monetary policy as appropriate with the aim of ensuring price stability, and to proceed steadily with the normalization of its JGB holdings while closely monitoring market functioning.

Chart 19: Government Bond Holdings of Major Central Banks



Sources: Cabinet Office; Eurostat; Federal Reserve Board; U.S. Bureau of Economic Analysis; Bank of Japan.

In the long term, the Bank will need to examine the size of its balance sheet -- particularly reserve balances on the liability side -- in terms of the final target and the appropriate size. It

has been pointed out that the amount of reserve deposits needed in the financial system overall may have increased due to, (1) the tightening of regulations following the Global Financial Crisis; (2) changes in the financial environment, such as digitalization; and (3) the strengthening of risk management measures in response to these two factors. That said, given the pace of reduction in the Bank's JGB holdings, it will still take many years for the Bank to normalize its balance sheet, and it is therefore premature to start discussing the specifics of the normalization. At some point in the future, however, taking into account factors such as economic and financial conditions at the time, the Bank will need to examine the appropriate level of reserve balances and the method of providing funds -- focusing on the composition of the asset side of the Bank's balance sheet, such as the share of JGBs and loans, and the maturity of these assets -- from the perspective of contributing to price stability, financial system stability, and economic growth in Japan.

Thank you.