November 16, 2026

Bank of Japan

Economic Activity, Prices, and Monetary Policy in Japan:

Japan's Money and Capital Market Transformation -- Will a Paradigm Shift Occur?

Speech at a Meeting Held by the Tokushima Association of Corporate Executives

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 Tokushima Association of Corporate Executives. 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. Regarding the U.S. economy, despite initial concerns that domestic demand might decline due to the impact of wide-ranging tariffs imposed in April 2025 by the Trump administration, the actual impact has been limited. Specifically, although there was a slowdown in U.S. employment in 2025, it has been heading toward improvement in 2026, and corporate profits for IT-related firms in particular have also improved. In 2025, in light of the slowdown in employment, the Federal Reserve cut its policy interest rate in September, October, and December (Chart 1). While the Federal Open Market Committee (FOMC) participants' projections for the federal funds rate suggested further rate cuts as of the beginning of 2026, since the middle of 2026 the projections have shifted to suggesting potential rate hikes. The Federal Reserve did in fact raise the rate in September.

Global Economic Environment in 2026: Movement Toward Recovery Beginning to Gain Momentum

I have been expecting the global economic environment to go through a shifting phase in 2026, in which the movement toward recovery begins to gain momentum. This view is grounded in the fact that economies around the world simultaneously adopted the same policy direction, namely, they employed expansionary monetary and fiscal policies. I believe the global economy is entering this new phase from both macroeconomic and structural perspectives, in which increased investment fueled by the global AI boom brings about an uplift in economic activity. The present circumstance is similar to the period six years ago, in

2020, when economic stimulus measures from both monetary and fiscal sides were adopted simultaneously around the world during the COVID-19 pandemic. Today, the worldwide harmonization of economic policies -- or, the synchronization of economic cycles -- stems from the alignment of macroeconomic policies and from the AI boom. Chart 2 shows that monetary policy worldwide has been synchronized since 2020, divided into four phases. After simultaneous policy interest rate cuts in 2020-2021, the global trend shifted to a phase of monetary tightening in 2022-2023. Subsequently, various countries and regions went through a phase of monetary easing during 2024-2025, cutting policy interest rates in a synchronized manner. In 2026, the trend has shifted to policy interest rate hikes. As shown in Chart 3, fiscal expansion has taken place in regions such as the United States, Europe, and China, producing expansionary effects in combination with monetary accommodation. As indicated in Chart 4, the October 2026 World Economic Outlook (WEO) by the International Monetary Fund (IMF) also shows that the global economy, particularly for advanced economies, has been heading toward improvement.

Japan's Economic Environment in 2026: No Marked Slowdowns

In 2025, the impact of U.S. tariff policy was initially expected to push down Japan's economy. The surge in crude oil prices reflecting the situation in the Middle East in 2026 was also expected to push down the economy, due to a deterioration in the terms of trade. In reality, however, Japan's economy has not shown marked slowdowns so far (Chart 5). With wage increases catching up with higher prices, the year-on-year rate of change in real wages has recently turned positive (left panel of Chart 6).

Three Factors Behind the Unexpected Economic Recovery: AI Demand, Improved Business Performance, and Avoidance of the Yen's Appreciation

Japan's economy has not seen a significant slowdown despite the considerable downward pressure it experienced early on in both 2025 and 2026. I believe this can be attributed to three factors: (1) economic recovery stemming from global AI demand; (2) improvement in Japanese firms' investment and profits even in the wake of heightened tensions over the situation in the Middle East; and (3) the containment of the yen's appreciation as a result of the global shift toward policy interest rate hikes in 2026. At the same time, it is important to

note that prices here have come under upward pressure. I would like to explain my view on each of these points.

In terms of the first point, the global economy is heading toward a recovery trend in 2026. With an expansion in investment and demand shocks, particularly related to AI, business performance is projected to improve on a global scale, and the deterioration in the terms of trade, reflecting rising prices of energy-related products, is expected to subside, including in Japan. Chart 7 shows changes in the terms of trade for each economy compared with the period following Russia's invasion of Ukraine in 2022. A deterioration in the terms of trade was initially expected for net importers of crude oil, such as Japan and South Korea. However, in South Korea, a rise in export prices driven by demand shocks, particularly related to AI, has led to a significant improvement in the terms of trade. For Japan, the global expansion of AI-related demand has driven up export volume as well as the prices of electric and electronic products, such as memory chips (Chart 8). The deterioration in the terms of trade has therefore been limited compared with 2022 and 2023, when the economy was impacted by the situation in Ukraine. The United States has transitioned to being a net exporter of crude oil following the shale revolution, and has seen an improvement in its terms of trade. As a result, employment in the United States, which had been a concern in light of its deterioration until 2025, has been heading toward improvement in 2026. Given this, the U.S. economy is expected to recover, along with support from AI-driven wealth effects. Stock prices have been reaching new historical highs around the world in 2026, including in Japan, the United States, Canada, the Netherlands, Germany, Italy, Sweden, Taiwan, and South Korea. In sum, while concerns over an economic slowdown initially emerged, these concerns have subsided.

I believe the global rate cuts and fiscal expansion that took place in 2024-2025 have underpinned the global economy and spurred a shift toward global rate hikes through 2026. On the monetary front, as suggested by Chart 9, I believe the global expansion of the money stock (M2) has also supported global asset markets by way of monetary accommodation. On the fiscal front, as indicated by Chart 10, since the 2010s -- and particularly from 2020 onward -- the global economy has been shored up by the growth of government debt in excess of the growth of private debt. These factors suggest an uplift in global economic activity on both the monetary and fiscal fronts.

As for the second point regarding improved business performance, there has been an upswell in positive developments among Japanese firms even in the wake of heightened tensions over the situation in the Middle East. No notable downward revisions were seen in business fixed investment plans in the September 2026 *Tankan* (Short-Term Economic Survey of Enterprises in Japan). Japan's corporate profits, including those of exporting firms, have not shown a decline, and the improvement in firms' financial results for the first half of fiscal 2026 exceeded expectations. The improvement in the financial position of Japanese firms as a result of long-standing business restructuring has made them more resilient to global shocks. As shown in the left panel of Chart 11, corporate profits increased more than tenfold over the 25 years from the second half of the 1990s to fiscal 2025, reaching their highest level on record, of around 100 trillion yen. 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 brought about by trade friction. Moreover, the earnings revision index, which indicates the degree of revision to firms' earnings forecasts, has been positive since the beginning of the second half of fiscal 2026 -- as shown in the right panel of Chart 11 -- and forecasts of corporate profits for fiscal 2026 as a whole are also expected to be revised upward. The results of the September 2026 *Tankan* show that the spillover of AI investment has spread not only to large firms but also to small and medium-sized firms, suggesting that Japanese firms have become more confident of achieving profitability by passing on cost increases to prices and maintaining appropriate selling prices, including in the future (Chart 12). Regarding this price pass-through, the government has introduced initiatives to encourage firms to pass on cost increases to prices, including the implementation this year of the Fair Transactions Act.[1] This could support possible wage hikes in 2027. Regarding wage increases, building on a three-year trend since 2023, the 2026 annual spring labor-management wage negotiations marked a high level of wage growth, as shown in the right panel of Chart 6. The expectation is that such wage hikes will continue and take hold in 2027.

[1] Effective from January 1, 2026, the Subcontract Act has been revised and renamed the Act on Preventing Delay in Payment to Small and Medium-Sized Entrusted Business Operators in Relation to Manufacturing Consignment, commonly known as the Fair Transactions Act. The revision expands the scope of applicable transactions and business operators, strengthens measures to ensure fair dealings in transactions involving small and medium-sized entrusted business operators, and enhances protections for the interests of small and medium-sized subcontracting firms.

Moreover, initial concerns over supply-side constraints stemming from the situation in the Middle East notwithstanding, the risk of a significant slowdown in Japan's economy has recently decreased. This is mainly due to the effects of the government's measures to reduce the household burden of higher energy prices and progress in securing alternative sources of supply for raw materials.

On the third point in relation to the yen's appreciation, Japan's economy has avoided the risk of returning to deflation -- a situation that could have been triggered by the yen's appreciation stemming from speculation over various policies of the U.S. administration and by the potential resultant downturn in corporate profits and import prices. Although the Federal Reserve moved to cut the policy interest rate in 2025, it has implemented a rate hike this year on the back of the resilient U.S. economy, and concerns over the yen significantly appreciating have also been dispelled.

Upside Risks to Prices in 2026

While the three factors I have mentioned provide grounds for confidence in Japan's economy, they also act as upside risks to prices. In 2026, the rise in energy prices stemming from the situation in the Middle East has pushed up prices; an uplift in global economic activity may have also acted as an upside risk to prices. Furthermore, geoeconomic fragmentation may have caused a shift in the trend up to the 2010s, which was characterized by long-term stagnation and deflationary concerns. In Japan, the year-on-year rate of increase in the producer price index (PPI) stood at 7.1 percent as of October 2026, and there are upside risks to prices, with more firms passing on upstream price increases downstream (Chart 13). I am paying attention to the fact that firms' and households' perceptions of price pass-throughs have changed significantly compared with 2022, and that such pass-throughs have been occurring at a faster pace.

In sum, based on these three factors, as positive developments among firms in Japan have continued, I expect that overseas factors potentially constraining such developments are unlikely to exert downward pressure. The Bank's initial consensus scenario was that the impact of the situation in the Middle East in 2026 would exert upward pressure on prices, but would exert downward pressure on the economy. My view, however, is that, in reality, the

scenario of a slowdown in Japan's economy has become less likely. I therefore believe that 2026 represents a new phase, in which it has become necessary to move the focus more to upswings in prices, in light of the shift that overseas economies have gone through, with the movement toward recovery beginning to gain momentum. In what follows, I will further explain the reasoning behind my thoughts from a historical perspective.

II. Recent Conduct of Monetary Policy: Why I Consider 2026 to Be a Turning Point

The Bank raised the policy interest rate to around 1.0 percent at the Monetary Policy Meeting (MPM) held in June 2026, and then to 1.25 percent in September. At the October MPM, I proposed that the Bank raise the policy interest rate to 1.5 percent. Although this is solely my personal view, I will explain the reasoning behind this proposal in the context of Japan's post-bubble economic history. It is my belief that 2026 marks a significant turning point.

From the Long Post-Bubble "Frozen Era" to a New Phase in 2026

My current understanding of monetary policy conduct is that, while rate hikes were conducted at a moderate pace from 2024 to 2025, with two rate hikes a year, 2026 represents the start of a new phase, in which the Bank should not carry out rate hikes at a fixed pace and size but instead needs to raise the rate nimbly. In considering what led me to this understanding, I would like to take a look back at three historical stages since the collapse of the bubble economy in the 1990s: (1) the "frozen era" -- that is, the prolonged period of post-bubble deflation from the 1990s; (2) the stage of unprecedented monetary easing from 2013 to 2019; and (3) the stage of policy rate normalization that began in 2020. I would then like to take a detailed look at the third stage, starting in 2020, and provide an overview of the phase shift that has taken place in 2026 (Chart 14).

Three Post-Bubble Stages: The "Frozen Era," Unprecedented Monetary Easing, and Policy Rate Normalization

Looking back at the three post-bubble stages since the 1990s, the first stage is the "frozen era." The starting point of Japan's long-term stagnation in the wake of the bubble economy was around 1990, and I believe that this 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 that was brought about mainly by trade friction.

Chart 15 shows developments in the Nikkei 225 Stock Average and the U.S. dollar/yen exchange rate. After stock prices peaked in 1989, Japan's economy fell into stagnation in complete isolation from the rest of the world, characterized by asset deflation and a super-strong yen, lasting for more than two decades. The economy thereby fell into a deflationary state as if under a "freezer spell." As shown in Chart 16, in the context of asset deflation, firms were inclined to pursue management with minimum assets, reducing the size of their balance sheets and reining in investment and interest-bearing debt. As shown in Chart 17, the capital adequacy ratios of Japanese firms have increased significantly, from the 10-20 percent range in the 1990s to the 40-50 percent range in recent years. At the same time, amid the yen's appreciation sparked by trade friction, firms continued to engage in business restructuring, in which they held down prices and wages in their income statements. Geopolitically as well, starting in the late 1980s, Japan's trade surplus and the expansion of its asset markets were perceived as a global threat. This triggered the suppression of the country's overseas presence, which significantly impacted the economy. Examples of this include the Japan-United States Semiconductor Agreement and Japan's voluntary export restraints on automobiles. In consequence, firms' persistent pursuit of both management with minimum assets and business restructuring for more than a decade led to the formation of the norm that wages and prices do not rise easily and to a deflationary state with a shrinking equilibrium.

The second stage began in 2013, when the Bank embarked on unprecedented monetary easing. The Bank's unprecedented unconventional monetary policy starting in 2013, together with the government's fiscal policy and growth strategy, enabled Japan's economy to escape from the trap of asset deflation and extreme upward pressure on the yen. 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. Still, it proved difficult to make a change in the behavior of firms and households

that resulted from the prolonged period of shrinking equilibrium, and the norm of prices not increasing easily thereby persisted.

Following the "frozen era" starting in the 1990s, and the stage of unprecedented monetary easing starting in 2013, the third stage, involving policy rate normalization, began in 2020. It can be argued that, in this stage, building on the groundwork laid down between 2013 and 2019, the "big push" that originated abroad dispelled the norm in Japan.[2] I believe this was largely driven by the expansion in fiscal and monetary policies and in monetary supply across the globe that I mentioned earlier. Moreover, as shown in Chart 18, changes in corporate behavior are giving rise to an increase in bank lending. My assessment that the price stability target has almost been achieved reflects this positive development in corporate behavior -- that is, the shift away from management with minimum assets and business restructuring, as presented in Chart 16.

Assessment of Four Phases Within the Stage of Policy Rate Normalization Since 2020

In what follows, I would like to focus on the final stage, involving the policy rate normalization that began in 2020, by further breaking it down into four sub-stages. In the first half of this speech, I explained that global financial conditions have been synchronized since 2020, as shown in Chart 2. The first sub-stage in this process involved global rate cuts in 2020-2021, followed by the second sub-stage involving global rate hikes in 2022-2023. The third sub-stage involved another round of global rate cuts in 2024-2025, and 2026 marks a fourth sub-stage -- a phase of shifting again toward global rate hikes. Based on these four sub-stages, I will explain why I believe Japan has entered a new phase in 2026 (Charts 19 and 20).

2020-2021: Transitional Phase Toward Policy Rate Normalization -- The Lead-Up to Monetary Policy Normalization

During the first sub-stage in 2020-2021, although there had been improvements in the macroeconomic environment in Japan starting from 2013, the post-bubble norm of prices not

[2] "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.

increasing easily remained in place. In response to the global crisis in the wake of the COVID-19 pandemic, Japan was not an exception in pursuing accommodative monetary and fiscal policies. This period can be considered as a transitional phase toward policy rate normalization in Japan -- in other words, the lead-up to monetary policy normalization.

2022-2023: First Phase of Policy Rate Normalization -- More Flexible Yield Curve Control (YCC)

During the second sub-stage in 2022-2023, Japan was struck by global inflation, and its import prices also rose. However, with the entrenched norm that wages and prices do not rise easily, the Bank "looked through" the global trend of interest rate hikes and instead continued with monetary easing. The continuation of monetary easing led to the yen's depreciation, serving as the aforementioned "big push" and thereby helping to unfreeze the existing norm. With the Bank adopting more flexible YCC, this period can be considered as the first phase of policy rate normalization.

2024-2025: Second Phase of Policy Rate Normalization -- Shifting Away from Unprecedented Monetary Easing

The third sub-stage in 2024-2025 stands as the second phase of policy rate normalization and corresponds to the cycle of global interest rate cuts. Starting with the 2023 annual spring labor-management wage negotiations, Japan achieved clear wage increases, moving toward unfreezing the norm of wages and prices not increasing easily. In March 2024, the Bank took steps to normalize the unprecedented monetary easing it had pursued up to that point, including terminating the negative interest rate policy and discontinuing YCC. The following July, it raised the policy interest rate to 0.25 percent and decided on a plan for the reduction of its purchase amount of Japanese government bonds (JGBs). In 2025, the Bank implemented further rate hikes at the beginning of the year in January and at the end of the year in December. However, normalizing the policy interest rate in the midst of the cycle of policy rate cuts abroad presented challenges for Japan.

The overseas environment during 2024-2025 in particular posed challenges. While central banks abroad continued to cut interest rates, partly over concerns of a slowdown in U.S. employment, monetary policy in Japan took the opposite course. Although the Bank of Japan

raised its interest rate in July 2024, this was immediately followed by market adjustments, driven particularly by the yen's significant appreciation reflecting a slowdown in the pace of employment growth in the United States. This made it difficult for the Bank to step up the pace of policy rate normalization. Moreover, with tariffs imposed by the Trump administration and the slowdown in U.S. employment in 2025, the Bank managed to take advantage of a lull in headwinds from abroad and raised the interest rate at the beginning and end of 2025, in January and December. In this way, although the second phase of policy rate normalization marked a significant shift away from unprecedented monetary easing, amid headwinds from abroad, the pace of the Bank's interest rate hikes ended up being gradual, twice a year. Also, to fully dispel the norm that wages and prices do not rise easily, the Bank's focus was on raising underlying inflation, as real interest rates remained negative even amid rate hikes.

2026: Third Phase of Policy Rate Normalization -- A New Cycle of Interest Rate Hikes and a Regime Change

I believe 2026 represents a third phase of policy rate normalization. The trigger for this has been the global shift to interest rate hikes. This shift has been underpinned by the macroeconomic environment during the previous phase in 2024-2025, which involved global rate cuts and fiscal stimulus, and, from the second half of 2025, by demand shocks, particularly related to AI. The return to interest rate hikes in June 2026 by the European Central Bank (ECB) and in September by the Federal Reserve are harbingers of this transition.

Today, the norm of prices not increasing easily has already been dispelled. In addition, medium- to long-term inflation expectations have risen to above 2 percent, as suggested by Chart 21, which shows the break-even inflation (BEI) rate calculated using inflation-indexed JGBs. Given this, price increases now have a greater tendency to generate second-round effects.

For many years, including under the negative interest rate policy, Japan's interest rates were the lowest in the world, but today, as shown in Chart 22, the level of nominal interest rates no longer ranks the lowest globally. As shown in Chart 23, however, when comparing real policy interest rates -- that is, the nominal policy interest rate minus the inflation rate -- the rate in

Japan remains at the lowest level in the world. Chart 24 shows the interest rate differentials between Japan and the United States in both nominal and real terms. Given that some participants in foreign exchange markets have recently paid attention to not only nominal but also real interest rate differentials, it is necessary to monitor price developments transmitted through exchange rates. Such developments represent one of the reasons why interest rate hikes are currently needed.

2026 Marking a Shift to a New Phase Requiring a Nimble Approach to Interest Rate Hikes

In the second phase of policy rate normalization in 2024-2025, the Bank's policy rate hikes were carefully timed against the global trend of rate cuts, resulting in gradual adjustments over time. In the third phase of policy rate normalization in 2026, however, following the shift to rate hikes abroad, the Bank's approach has become aligned with the global policy direction. While my assessment is that the Bank's price stability target has almost been achieved, inflationary pressure reflecting the situation in the Middle East could push prices above the target. The Bank implemented policy interest rate hikes twice a year in both 2024 and 2025, each time by 0.25 percentage points. I believe, however, that 2026 calls for a regime change, in which the Bank should not carry out rate hikes at a fixed pace and size, but instead needs to take nimble and data-dependent actions in response to the price and economic environment in Japan, and reflecting overseas trends in particular.

The Neutral Interest Rate Potentially Exceeding Market Expectations amid a Shift in the Overseas Environment

The neutral interest rate is currently a focus of attention in the markets. Since the neutral interest rate and the natural rate of interest underlying it are important from a theoretical perspective, the Bank has estimated the level of the natural rate of interest, as shown in the left panel of Chart 25. The right panel of Chart 25 indicates that, in Europe and the United States, policy interest rates are considered to be already well-positioned within the neutral zone, and in this context, policy interest rates have been raised; in contrast, Japan's policy interest rate has only finally approached the neutral zone. Since I consider that underlying CPI inflation has reached the price stability target, I believe it is necessary to bring the policy interest rate sufficiently close to the neutral interest rate level to be able to respond nimbly to

the possible second-round effects of price rises and changes in business cycles at home and abroad.

The neutral interest rate is indeed a useful concept for market participants who invest in debt securities, as it acts as a reference level for the purchase of such securities. In Japan, however, it is difficult to predict the neutral rate specifically, because adjustments in interest rates are currently taking place here amid structural changes following on from decades of an economy without positive rates, stemming from the protracted deflationary equilibrium in this country. Also, it is necessary to take into account the fact that, in addition to factors specific to Japan, the neutral interest rate here tends to be substantially influenced by the overseas environment. Given the current circumstances, with central banks abroad entering a rate hike cycle and the Bank adopting the same policy direction, the possibility that a rise in overseas interest rates could push Japan's neutral interest rate above the level expected by the markets warrants attention.

Nimble Conduct of Monetary Policy in Japan After the Return to Being a "Normal Economy": My Personal View

With respect to the conduct of monetary policy, my view is that, in 2026, Japan's economy has entered a phase that differs from the environment seen up to 2024-2025; it is on this basis that I have considered that the Bank needs to adopt a nimble approach. The reason is that the overseas environment has entered a new cycle of policy interest rate hikes driven by AI investment-centered demand shocks. In the context of a "frozen" economy with a shrinking equilibrium arising from the norm that wages and prices do not rise easily, I believe this situation calls for a shift in mindset, away from one based on the long-standing environment where Japan followed a path independent of the rest of the world, as it continued to do in 2022-2023. The mindset should now shift to one that assumes Japan has returned to being a "normal economy," linked with economic developments abroad. Moreover, given the inflationary pressures that could become evident toward the second half of fiscal 2026 and the risk of prices deviating upward from the price stability target, I consider it necessary for the Bank to shift from its current stance of encouraging a rise in underlying inflation and to demonstrate to the market its determination to prevent upward deviations in prices, while giving consideration to the impact through foreign exchange markets. Until now, the Bank

has maintained a policy of addressing one-sided risks, focusing on bringing underlying inflation to a higher level. Now it is time for the Bank to aim at anchoring underlying inflation, by adjusting prices both upward and downward as necessary. I thus believe it necessary for the Bank to undergo a regime change, placing the policy interest rate at an early stage in what I would call a "good" position -- that is, a level near the median of the range of the neutral interest rate which can allow for either interest rate hikes or cuts. In regard to further policy interest rate hikes, my view is that the Bank should not aim to reach the expected neutral interest rate, nor should it be bound by particular intervals or ranges anticipated in the markets. Rather, I believe the Bank needs to conduct rate hikes nimbly after gauging the degree of accommodation in domestic financial conditions, in addition to examining developments overseas.

While there are various ways of examining financial conditions, the germane question is whether positive developments, especially among firms, are being sustained. In firms' balance sheets and profit and loss statements, as I touched on in Chart 16, the benchmark on the balance sheet side is firms' borrowing and investment, while their price-setting behavior and wage developments serve as an indicator of financial conditions on the profit and loss side. Moreover, each time the Bank raises its policy interest rate, it is necessary to examine whether the subsequent lending attitudes of banks and other financial institutions and the funding environment for firms are accommodative. At this point, the funding environment in Japan remains accommodative, as suggested by a comparison of the average interest rates firms are paying with their return on assets (ROA) (Chart 26). Developments in stock, real estate, and foreign exchange markets are also important in assessing financial conditions.

Two and a half years have passed since the Bank began raising the policy interest rate in 2024, and some take the view that the rate hikes are having a cumulative effect. In other words, in line with the rate hikes, the effects of higher interest rates are working their way through financial conditions, including conditions in the global economy. Once higher interest rates start to adversely affect corporate behavior, the Bank can take this as a sign that the policy interest rate has reached the neutral interest rate and begin to envision a potential rate cut, shifting away from the rate hikes thus far. Now that financial conditions in Japan are returning to those of a "normal economy" and to a "normal cycle," I believe the Bank is at a new stage

that calls for nimble responses when it comes to either raising or lowering the policy interest rate.

That said, I believe the timing of the cumulative effects of policy interest rate hikes taking hold is still some way off, considering several factors: (1) Japanese firms' capital adequacy ratios are much higher than in the 1990s, as Chart 17 shows, which makes them more tolerant of higher interest rates; (2) financial conditions remain accommodative both at home and abroad; (3) the global economy has returned to a recovery trend; and (4) demand shocks, particularly related to AI, have occurred. Based on the aforementioned recognition that the situation has shifted to a new phase -- a regime change -- in which the Bank needs to step up the pace at which the policy interest rate approaches the neutral interest rate, I proposed that the Bank raise the rate at the October 2026 MPM. Despite turbulence in the stock market in early November, mainly related to global AI-related stocks, I believe AI investment will remain solid overall.

III. My View on Japan's Money and Capital Market Transformation: The 2026 Turning Point -- Will a Paradigm Shift Occur?

In the previous section, I looked back on Japan's post-bubble economic history and argued that 2026 marks a turning point for the economic and financial environment. In what follows, I would like to look ahead to developments in the capital markets in response to changes in this environment. In considering this transformation, I have chosen three of the books I have written over the past quarter century, using them as a means of reviewing how the environment has changed. The books are *Kokusai bōraku* (Government bond sell-off) from 2001, *Ginkō no senryaku tenkan* (The strategic shift of banks) from 2004, and *Kojin kin'yū shisan 2,000 chō en: Yama wa ugoku ka* (Household financial assets of 2,000 trillion yen: Will a paradigm shift occur?) from 2022.[3,4,5]

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[3] Takata, H. and Sumitomo, K., *Kokusai bōraku* [Government bond sell-off] (Chuokoron-Shinsha, Inc., 2001).

[4] Takata, H. and Shibasaki, T., *Ginkō no senryaku tenkan: Nippon ban shijō gata kansetsu kin'yū e no michi* [The strategic shift of banks: The road to Japanese-style market-based indirect finance] (Toyo Keizai Inc., 2004).

[5] Takata, H., *Kojin kin'yū shisan 2,000 chō en: Yama wa ugoku ka* [Household financial assets of 2,000 trillion yen: Will a paradigm shift occur?] (Kinzai Institute for Financial Affairs, Inc., 2022).

What I wanted to argue in the book I wrote 25 years ago, *Kokusai bōraku*, was that interest rates would rise precisely at the point when Japan's economy recovered. That time may have now arrived. In *Kojin kin'yū shisan 2,000 chō en*, published four years ago, I posed the question of whether a paradigm shift would occur in the asset choices of households. This year, household financial assets in Japan have reached 2,500 trillion yen. In this context, as in other countries, the funds of Japanese households may now be shifting away from bank deposits into risky assets and foreign currencies. Moreover, in *Ginkō no senryaku tenkan*, which I wrote two decades ago, I pointed to the possibility of the loan market being transformed through market-based indirect finance. With a change in the forms of funding at the entry point for credit intermediation through disintermediation, Japan has now realized financial intermediation that does not go through banks, as part of the trend toward making the country a leading asset management center.[6] I would now like to look back on the turning points involved in these developments, from the historical perspective set out in the first part of my speech. My aim is to show that a regime change is under way in capital flows and in the financial system as well.

Economic Recovery Arrives a Quarter Century Later

In 2001, the sizeable volume of JGB issuance in the wake of the collapse of the bubble economy sparked concerns that supply and demand pressures in the JGB market would push up interest rates. My message in the first book I am presenting today, *Kokusai bōraku*, was that increased issuance alone would not readily lead to higher interest rates. This was because balance sheet adjustments after the bubble's collapse would take time, holding back economic recovery and reducing the demand for loans -- as lending contracted, financial institutions, particularly banks, would struggle to find investment opportunities, which would increase their demand for JGBs. I argued that interest rates would rise at the point when the economy recovered, balance sheet adjustments were complete, positive expectations took hold, and lending increased. That point had not yet arrived in 2000, however, and the lessons learned in the aftermath of the Great Depression in the United States also suggested that getting there would take longer than expected.

[6] Disintermediation refers to a shift in which firms raise funds directly in the markets, for example by issuing stocks and bonds, rather than borrowing from banks.

Chart 27 compares the timelines of the adjustment processes in the United States after the Great Depression and in Japan, focusing on the government bond markets. In the United States, balance sheet adjustments during the Great Depression of the 1930s led to a contraction in lending, and U.S. banks filled the resulting gap between deposits and loans by holding Treasury bonds. Demand for loans recovered in line with the economic recovery after World War II. The main risk facing banks thus shifted from the credit risk associated with lending in the aftermath of the Great Depression to the interest rate risk associated with their large post-war holdings of Treasury bonds. As Chart 28 shows, debt securities such as Treasury bonds accounted for more than half of U.S. banks' assets after World War II, which left the banks with substantial exposure to interest rate risk. To help manage the adjustment process, among other objectives, the Federal Reserve pursued a government bond price-supporting policy known as a "pegging operation," holding the U.S. 10-year Treasury yield at 2.5 percent until 1951. In that year, inflationary pressures associated with maintaining bond prices under the peg led to the discontinuation of the Treasury bond price-supporting policy under the Treasury-Federal Reserve Accord. The U.S. Treasury, meanwhile, sought to stabilize the financial system through "bond conversion," exchanging bonds held by banks for nonmarketable Treasury bonds. These measures eventually brought the long adjustment process following the Great Depression to a conclusion.

Japan has also undergone adjustments following the collapse of the bubble economy, on a scale comparable to those of the Great Depression. During the process, large volumes of JGBs were issued, generating concerns that interest rates would rise due to unease about the supply and demand balance in the JGB market. In reality, though, interest rates remained low. Meanwhile, from 2020 onward, corporate behavior has become positive, and the Bank has been raising the policy interest rate since 2024. Japan is now at a turning point, as these developments are increasingly likely to be sustained. In this sense, I believe Japan has finally entered a phase of economic recovery and rising interest rates. However, the comparison of the Japanese and U.S. timelines I presented shows that Japan has taken far longer to get to this point than the United States did after the Great Depression.

At the same time, when I wrote the book 25 years ago, another question I sought to address was how Japan would handle the shift from credit risk to interest rate risk in the banking

sector. In the United States, as the economy began to recover after World War II, the authorities sought to avert such a shift through the pegging operation I referred to. Looking back over the quarter century since the book came out, I believe the Bank of Japan's large-scale purchases of JGBs under its unconventional monetary easing policy introduced in 2010, coupled with YCC starting from 2016, can be compared with developments in the United States from the second half of the 1940s until the Accord in 1951. Credit risk problems at Japanese banks reached their worst point in the early 2000s and then began to ease. Banks subsequently faced episodes of interest rate risk, including the so-called VaR shock of 2003.[7] From the 2010s onward, however, the Bank's large-scale JGB purchases allowed banks to sell their holdings at high prices, and thus low yields. As Chart 29 shows, Japanese banks' JGB holdings decreased substantially, a trend that continued into the 2020s. Today, financial institutions in Japan have ample capital and the financial system remains stable, which leads me to believe that the Bank is approaching an exit from large-scale JGB purchases. Nevertheless, conditions in the JGB market, debt management policy, and the stability of the financial system continue to warrant close attention.

***2022:* Kojin kin'yū shisan 2,000 chō en -- Yama wa ugoku ka**

The second book I would like to refer to, *Kojin kin'yū shisan 2,000 chō en: Yama wa ugoku ka*, published in 2022, looked ahead to Japan's development as a leading asset management center, taking that year as the starting point of a new era of asset management. Household financial assets have increased from 2,000 trillion yen in 2021 to 2,500 trillion yen at the end of June 2026, so in some respects the paradigm shift referred to in the book's title has taken place. As Chart 30 shows, the share of cash and deposits in household financial assets fell from 53 percent in 2022 to 47 percent in June 2026, suggesting a shift toward equities and other risk assets.

Let us return to Chart 15, which shows developments in the Nikkei 225 Stock Average and the U.S. dollar/yen exchange rate. Amid many years of weak stock prices and the yen's

[7] "VaR shock" refers to the sharp drop in JGB prices and the corresponding rise in long-term interest rates that took place in June 2003. Under the risk management model known as value at risk (VaR), which was used by many financial institutions, increased market volatility calls for reducing the amount of assets that can be held. Once JGB prices had fallen beyond a certain threshold, selling therefore triggered further selling, resulting in a historic decline in JGB prices.

appreciation, people in Japan were unable to enjoy 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; in my view, it is not that Japanese people are inherently unsuited to investing, but that there was no need for it. It was the case that banks met firms' strong demand for funds through lending, while households provided the deposits that made this possible. Chart 31 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.

Traumatic Norm That Persisted Even After the "Frozen Era"

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 took 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 that took hold after the bubble's collapse. Similarly, the normalization of policy rate in Japan took much longer than initially anticipated, as I noted earlier, which can also be attributed to the traumatic norm.

Chart 32 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 an extended period 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 aged 50 and above, which holds the bulk of financial assets in Japan, has been inclined to build up wealth primarily in the form of cash and deposits. As inflation expectations formation in Japan has been adaptive in nature, it can be inferred that the shift from cautious inflation expectations took far longer than initially anticipated.

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. Again, as shown in Chart 32, there is a 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. Conversely, despite holding a significant amount of financial assets, the generation aged 40 and above left with lingering trauma had remained cautious toward investment. Most recently, however, underpinned by institutional support from the government, there may have been a gradual shift away from the traumatic norm for this generation as well. Comparing Chart 33 with Chart 32, the extent of the traumatic experience in terms of the duration of negative returns from investment has diminished significantly over the five years from 2021 to 2026, especially among people in their 40s and 50s. This suggests the possibility of a steady shift in the mindset of the generation left with trauma.

Another point for discussion on this paradigm shift may be households' shift toward holding assets in foreign currencies. As indicated in Chart 34, the yen's depreciation in the 2010s and its rapid weakening from 2020 onward resulted in higher returns on foreign currency-denominated assets. This likely helped households move beyond the traumatic experience stemming from the yen's appreciation and acted as one of the triggers for the shift toward

foreign currencies. In terms of investment practices, households have now gained access to low-fee investment trust products denominated in foreign currencies, with further impetus provided by the new NISA. Turning to the corporate sector, a super-strong yen after the turn of the 2010s was considered one of the so-called six headwinds impacting Japanese firms at the time.[8] To avoid the adverse effects of the yen's appreciation, many firms shifted their investments from the domestic market to overseas, fueling a growing trend in foreign direct investment.

The History of Asset Management in Japan and the United States: Two Wheels of a Cart in Japan Fulfilled with a 30 Year Delay

Next, Chart 35 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, IRAs, and 401(k) plans, all of which focus on pensions -- were first established in the 1970s.[9,10,11] 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. The amount outstanding of investment has increased significantly since the 1980s, mainly in investment trusts. 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 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

[8] 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.

[9] 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.

[10] IRA stands for Individual Retirement Account.

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

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.

In Japan, it took longer for the JGB market to normalize than it did for the U.S. Treasury market. As presented in Chart 30, a shift of household funds to risk assets already occurred in the second half of the 1980s. In the wake of the collapse of the bubble economy in the 1990s, however, the propensity of households to hold their financial assets in the form of cash and deposits reemerged. Thereafter, in the 2010s, household asset portfolios did not see an immediate change, despite the continued trend of high stock prices and the yen's depreciation. From 2020 onward, it can be said that the aforementioned successful investment experiences coupled with policy support have finally started to drive a paradigm shift for household investment.

The transformation of asset management in Japan can be observed at the national level as well. Chart 36 shows developments in Japan's current account balance. It is not the case in Japan that the current account balance is mainly driven by the trade balance; rather, it is driven 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 37. 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 2010s, 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 today in that a large portion of investment returns from overseas are reinvested abroad and therefore do not tie into domestic investment opportunities, but Japan as a whole is transitioning toward an investment-oriented business model.

2004:* Ginkō no senryaku tenkan -- *Toward Market-Based Indirect Finance

The third book I want to introduce today is called *Ginkō no senryaku tenkan*, which came out in 2004. The book describes the strategic shift of Japanese banks toward market-based indirect finance. I would like to say a word here about market-based indirect finance. The left panel of Chart 38 is a conceptual diagram of direct finance, in which investors and firms are directly connected. The right panel shows indirect finance, in which banks and other financial institutions intermediate funds to firms. Market-based indirect finance refers to marketized bilateral lending, and encompasses syndicated loans, loan trading, and funds provided by pension funds and investment trusts. In Japan, this type of finance has developed as a hybrid of traditional indirect finance centered on banks and direct finance centered on securities markets.

Market-based indirect finance began to rise to prominence in Japan in the 2000s, as capital constraints in the wake of the bubble's collapse left Japanese banks unable to retain loans receivable on their balance sheets. By diversifying market participants, market-based indirect finance offered a path toward multi-pronged credit intermediation. Chart 39 shows a rise in the share of market-based indirect finance in a narrow sense, involving a shift away from bilateral lending. At the time, overseas funds became the main source of capital for banks in Japan, as they were undercapitalized, and private equity (PE) funds, predominantly of foreign origin, came to the fore. Subsequently, the share of market-based indirect finance declined following the turmoil of the Global Financial Crisis in the late 2000s and as banks once again began keeping loans receivable on their balance sheets from the 2010s, in line with their efforts to rebuild capital.

Today, market-based indirect finance is attracting renewed attention, for several reasons. In addition to growing demand for large-scale financing, particularly for AI investment and M&As, the reasons include the narrowing of the loan-deposit gap stemming from sluggish deposit growth on the financing side, the need to consider liquidity indicators to meet regulatory requirements, and the pressure on banks -- arising from the need to practice proper corporate governance -- to raise their return on equity (ROE) and improve asset efficiency.

The current role of financial institutions in Japan is no longer simply to intermediate funds to firms, as was conventionally expected. Rather, the institutions are expected to play the role of managing intergenerational finance, such as through pension and asset management services bridging the working-age and retired generations. In this context, the focus of financial intermediation is shifting from credit intermediation centered on the traditional commercial banking model -- whereby banks play a major role in gathering funds from households as deposits and lending them to firms -- toward the fields of pensions and asset management, which form key components of market-based indirect finance in a broad sense. Chart 40 shows trends in the amount outstanding of bank lending and the market size of pensions and asset management in Japan. 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. This dramatic increase highlights the growth of Japan's asset management industry. At the same time, 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 40. These developments, too, form part of the expansion of credit intermediation outside banks, or market-based indirect finance in the broad sense.

Two Aspects of Disintermediation: Financing and Investment

Market-based indirect finance can also be described as a shift in credit intermediation toward channels other than banks, or disintermediation. Disintermediation has two aspects: financing and investment. In the United States, money market accounts offered by securities companies, which have developed as alternatives to bank deposits, have had a major impact on the financing side. Earlier, I used Chart 35 to explain the shift of funds toward risk assets in that country from the 1970s. Although these financial products are not covered by bank deposit insurance, their higher interest rates attracted funds away from deposits. Disintermediation specifically refers to a shift of funds into products other than bank deposits, and is sometimes described as a "move away from banks." In the United States, money market funds (MMFs) were a major driver of the shift away from deposits in the disintermediation of the 1970s. Subsequently, in the second half of the 1970s, cash management accounts (CMAs) were developed with a feature that added payment functions to MMFs. As shown in Chart 41, MMFs expanded substantially throughout the 1980s and 1990s. In Japan as well, rising short-

term interest rates could lead to a shift of funds into products other than deposits, such as MMFs.[12] In fact, such a shift is already taking place, with funds moving into JGBs for retail investors.

The second aspect of disintermediation concerns firms turning to institutions other than banks to intermediate their funding. From the 1970s, because they had higher credit ratings than banks, many leading firms in the United States were able to issue CP to secure funding from the market at lower rates than banks themselves could obtain.

Subsequently, starting in the 1980s, U.S. banks rapidly shifted toward business management focused on ROE, placing greater emphasis on capital efficiency. They adopted an approach, similar to that of investment banks, that prioritized fees and turnover, moving into market-based indirect finance while limiting the expansion of their balance sheets. They also moved toward a model that improved capital efficiency by capitalizing on asset management capabilities, including investment funds. As shown in Chart 42, loans have declined as a share of U.S. banks' total assets. Chart 43 shows how firms in Japan and the United States raise debt financing. Bank loans remain at high levels in Japan, while in the United States, bank loans have declined and the issuance of corporate bonds and CP has increased. Chart 44 compares the timelines of changes in the two countries' lending markets. Market-based indirect finance began to emerge in Japan in the 2000s, with its first stage lagging two decades behind the United States. Today, Japan seems to be entering the second stage of market-based indirect finance, this time with a time lag of four decades. In recent years, the arranged amount of syndicated loans in Japan has increased substantially.

Private markets have recently attracted attention, particularly in the United States. As I noted earlier, overseas PE funds began entering the Japanese market in the 2000s in response to the shortage of capital following the collapse of the bubble economy, and these funds have since gained prominence in this country. Meanwhile, as shown in Chart 43, private debt (PD) already has a substantial presence in the United States, providing an alternative to bank

[12] In the past, domestic MMFs were primarily invested in JGBs and treated as products similar to deposits. Although sales of these products were suspended in 2016, they are expected to resume in response to higher interest rates. Currently, money reserve funds (MRFs) offered by Japanese securities companies serve as a repository for idle funds; MRFs are expected to be resilient to inflation.

lending. Although the presence of PD in Japan remains limited, looking ahead, as the share of market-based indirect finance begins to rise again, a private market for debt, or a PD market, may finally emerge here as well. This possible development involves several factors: financing constraints on banks' deposits and liquidity; the possibility that banks will limit their holdings of low-return loan assets to boost capital efficiency, including improving ROE, in response to corporate governance trends; and the need on the supply side to supply risk capital through the markets for large-scale corporate actions, and M&As in particular. At the same time, taking these structural changes into account, it will be increasingly vital to conduct monitoring from a multifaceted perspective and pay attention to the transmission channels through which these changes may affect Japan's financial system.

In the second stage now taking shape, market-based indirect finance is expected to play two roles. First, on the policy front, it will drive efforts to promote Japan as a leading asset management center through personal asset management. Second, to bring about the goals envisaged in the Financial Services Strategy to Promote Growth Investment, released by the government in July 2026, Japanese financial intermediation is positioned to meet funding demand for large-scale M&As and major projects.

The Regime Change in 2026 Viewed Through My Three Books

The completion of balance sheet adjustments that lasted for more than three decades in Japan after the collapse of the bubble economy, coupled with geopolitical shifts, appears to have given rise to the turning point in 2026. The points I discussed in the three books I presented today can be viewed altogether as one large shift: the circumstances surrounding JGBs, the shift of household financial assets, and the changes in the lending market. These developments all pertain to the entry and exit points of credit intermediation, and indicate that the prolonged adjustment process extended beyond the private sector into the public sector, using JGBs as the instrument of adjustment. The implications for the macroeconomic environment are that both firms and households appear to be drawing back from the traumatic experience associated with asset deflation and the yen's appreciation during the long "frozen era" after the bubble's collapse, and that Japan's economy may now move beyond a shrinking equilibrium and a low interest rate environment. In other words, overcoming these long-

standing traumatic experiences and norms is expected to drive a shift away from asset deflation, a super-strong yen, and exceptionally low interest rates.

These developments parallel the adjustments and changes in the real economy in Japan since the bubble's collapse. As Chart 16 shows, there has been a shift in the macroeconomic environment, from a shrinking equilibrium amid deflation toward active corporate behavior in an inflationary environment. In terms of monetary policy, there has been a shift from an economy without positive interest rates to an economy with positive rates, and from a prolonged period of low interest rates to a "normal economy." These trends are not confined to Japan. Let me refer to Chart 45 to summarize the changes in global capital markets. From 2000 onward, free trade under the World Trade Organization (WTO) and the international division of labor came to the fore as supply chains across the world became interconnected in a so-called flat world. Since the beginning of the 2020s, the world has become more fragmented, as have supply chains, and countries across the globe have shifted their priority toward ensuring stable supplies at home in the interests of economic security. Another point is that the 2010s saw a global trend toward low interest rates and low growth, or secular stagnation. Since 2020, however, there has been a shift toward a period of burgeoning investment, partly driven by the AI boom. On the fiscal front, since 2020 there has been a shift away from the small-government neoliberalism of the 2000s toward a global trend of fiscal expansion. On the financial front, as Chart 46 shows, the balance sheets of central banks around the world remain substantially enlarged.

Multi-pronged financial intermediation, known as nonbank financial intermediation (NBFI), has grown and is playing an increasingly large role globally, and monitoring it has been a major regulatory issue in countries around the world. In Japan, since the share of credit intermediation conducted through banks is comparatively high, the relative role of NBFI remains smaller than in Europe and the United States. Nevertheless, as Japan shifts to multi-pronged financial intermediation, the importance of NBFI is expected to increase. In addition, from the perspective of market-based indirect financing, 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. 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, 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.

Until recently, investment by Japanese firms was directed overseas, mainly in the form of direct investment. This may have been owing largely to the aforementioned trauma regarding concerns over a strong yen. Today, however, firms are expected to transition back to domestic investment, driven mainly by diminishing fears over a strong yen, trends in economic security, and the government's initiative to expand investment in 17 strategic fields, launched this year. Meanwhile, Japanese banks, particularly major banks, have also been shifting back toward domestic lending from an overseas focus.

Monetary Policy amid a Shift in Money Flow: My Personal View

For many years, the Bank's monetary 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. This is because, in addition to the traditional bank-centered intermediation channel through deposits and lending, in which lower interest rates improve the output gap, other channels have also come to play a major role in the transmission of monetary policy: the financial and capital markets channels (stock prices and foreign exchange rates), and the intermediation channel through market-based indirect financing.

Based on the recognition that 2026 marks a new dimension in which a "true dawn" has come to pass and Japan has returned to being a "normal economy," my view on the conduct of monetary policy is that the Bank is still in the process of raising its policy interest rate, as it seeks to normalize the policy rate to move away from the shrinking equilibrium in Japan and to respond to the global shift in monetary and fiscal policies. The return to being a "normal economy" means that Japan is now exposed not only to factors brought about by structural changes arising from the prolonged period of the "frozen era" and policy rate normalization, but also to the usual business cycles both in Japan and abroad.

I thus believe the implication of the shift in 2026 to a phase calling for the nimble conduct of monetary policy is that, with underlying CPI inflation having already reached the price stability target, Japan is returning to a "normal economy" -- one in which the Bank adjusts prices both upward and downward, and nimbly carries out not only rate hikes, as it has done so far, but at some point also rate cuts, depending on the financial and economic environment and business cycles at home and abroad.

Conclusion

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

Economic Activity, Prices, and Monetary Policy in Japan: Japan's Money and Capital Market Transformation -- Will a Paradigm Shift Occur?

Speech at a Meeting Held by the Tokushima Association of Corporate Executives

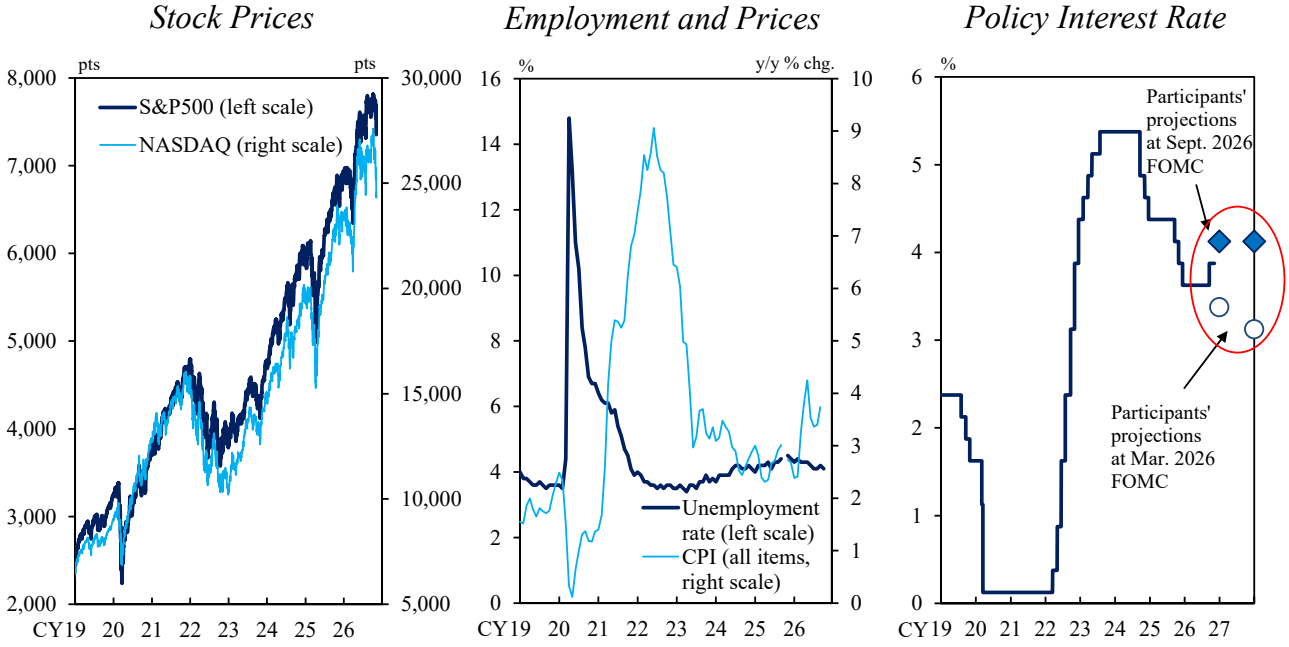
November 16, 2026

TAKATA Hajime
Member of the Policy Board
Bank of Japan

Chart 1

Solid U.S. Economy

(Shifted to a cycle of policy interest rate hikes in 2026)



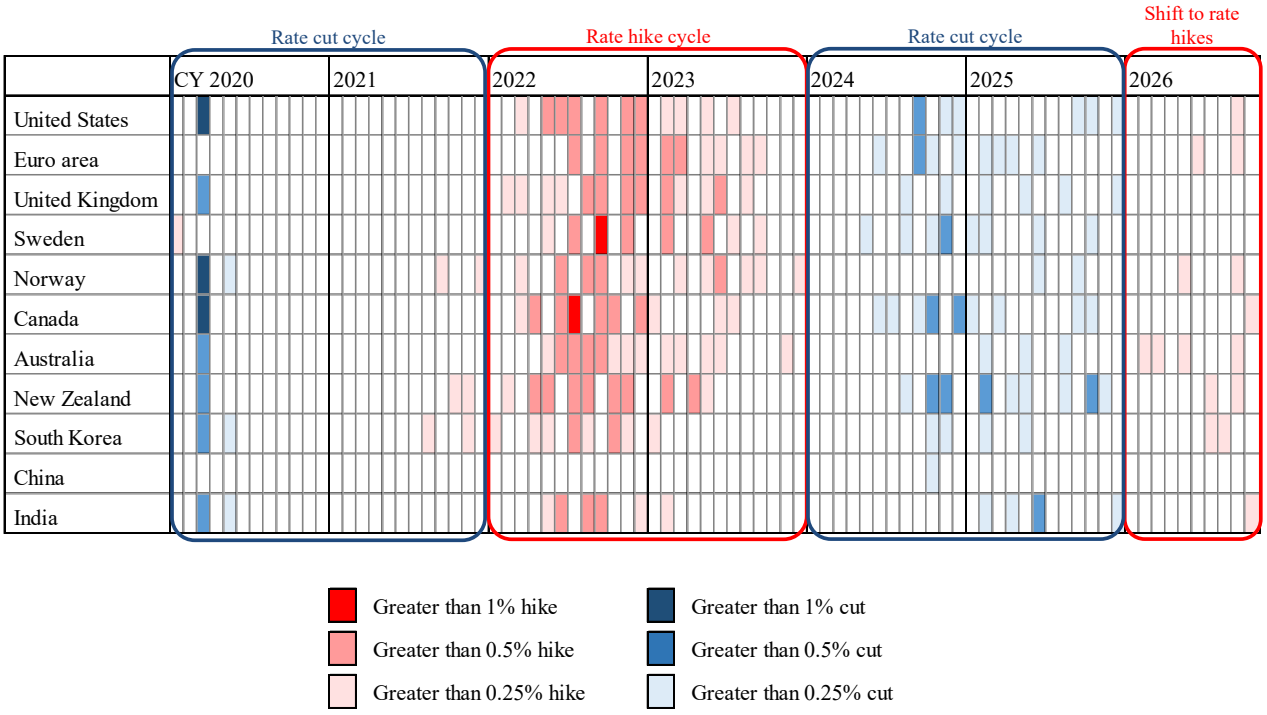
Note: In the right panel, figures are medians of the target ranges for the federal funds rate. Figures for participants' projections are medians of all projections at FOMC meetings.

Sources: Bloomberg; BLS; FRB.

Chart 2

Four Phases of Overseas Monetary Policy Since 2020

(Rate cuts 2020-21, rate hikes 2022-23, rate cuts 2024-25, and rate hikes 2026)



Sources: Overseas central banks.

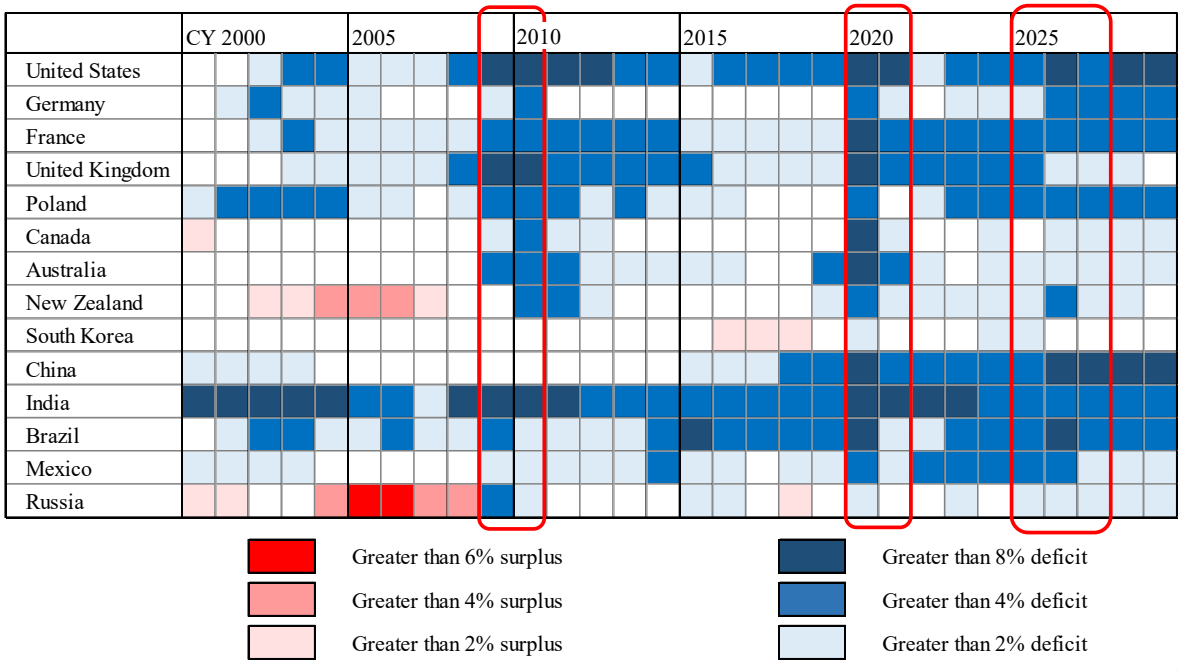
Chart 3

Positive Contribution of Overseas Fiscal Policy

(Global fiscal expansion since 2025, as seen during COVID-19)

Fiscal Balance (GDP Ratio, %)

Global fiscal expansion similar to the period after the Global Financial Crisis and during COVID-19



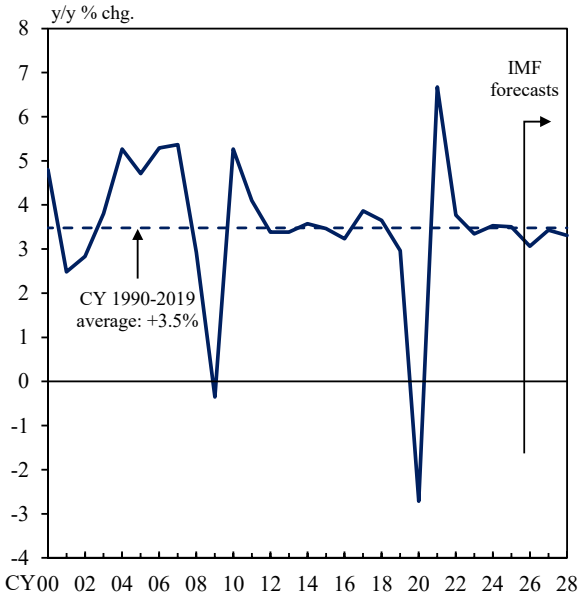
Source: IMF.

Chart 4

Developments in Overseas Economies (IMF October 2026 WEO)

(Global growth projections revised upward, mainly in advanced economies)

Global Growth Rate

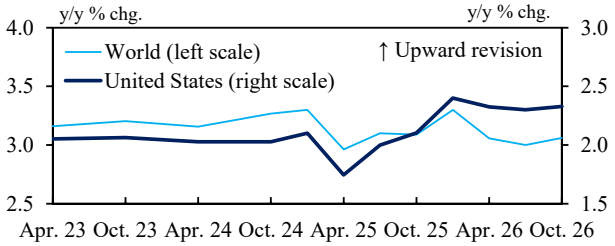


Growth Rates in Major Economies

y/y % chg., % points

	CY2024	CY2025	CY2026 [Forecast]	CY2027 [Forecast]
World	3.5	3.5	3.1 (0.1)	3.4 (0.0)
Advanced economies	2.0	2.0	2.1 (0.4)	1.8 (0.0)
United States	3.0	2.3	2.3 (0.0)	2.3 (0.1)
Euro area	1.2	1.2	1.1 (0.2)	1.2 (0.0)
Emerging market and developing economies	4.5	4.5	3.7 (-0.1)	4.4 (-0.1)
China	5.0	5.0	4.5 (-0.1)	4.0 (-0.1)

Changes in Growth Projections for 2026

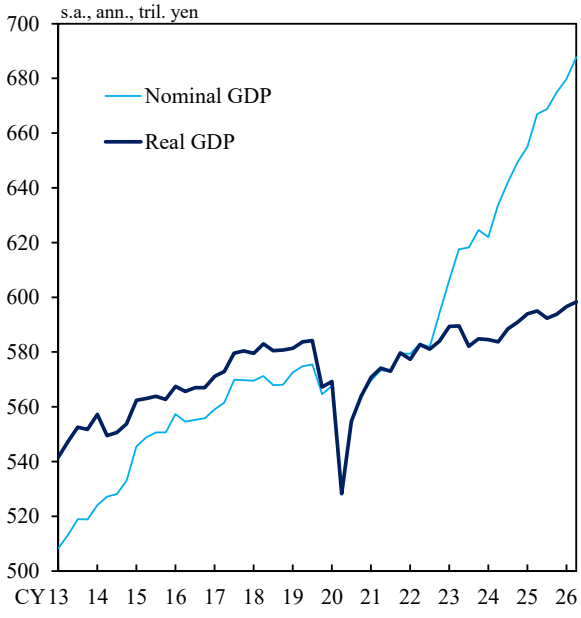


Note: In the table, figures in brackets are the differences from forecasts in the July 2026 World Economic Outlook (WEO) *Update*.
Source: IMF.

Chart 5

Japan's GDP and Outlook for Economic Activity and Prices

GDP



Outlook for Economic Activity and Prices (October 2026 Outlook Report)

y/y % chg.

	Real GDP	CPI (less fresh food)	CPI (less fresh food and energy)
Fiscal 2026	+0.7	+2.5	+2.4
As of July 2026	+0.6	+2.5	+2.5
As of April 2026	+0.5	+2.8	+2.6
Fiscal 2027	+0.7	+2.6	+2.7
As of July 2026	+0.8	+2.4	+2.6
As of April 2026	+0.7	+2.3	+2.6
Fiscal 2028	+0.8	+2.0	+2.3
As of July 2026	+0.8	+2.0	+2.2
As of April 2026	+0.8	+2.0	+2.2

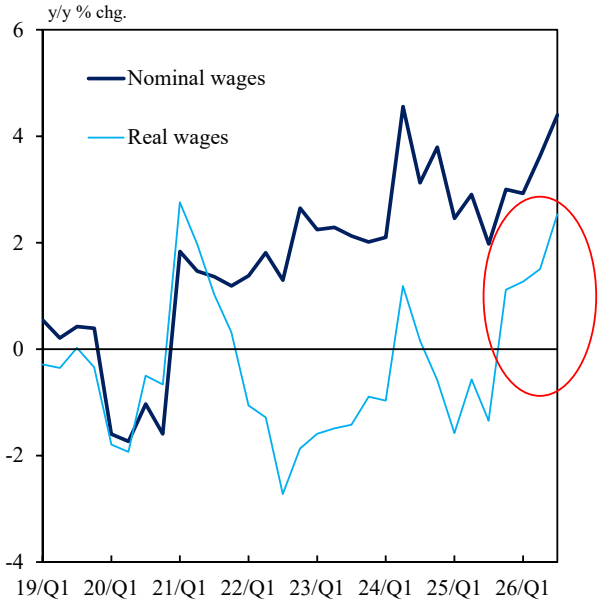
Note: In the right panel, figures indicate medians of Bank of Japan Policy Board members' forecasts (point estimates).
Sources: Cabinet Office; Bank of Japan.

Chart 6

Japan's Employment and Income Situation

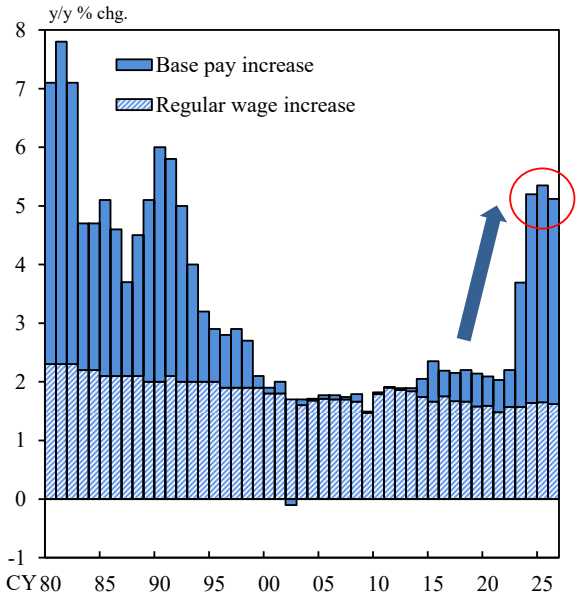
Nominal and Real Wages

(Rate of change in real wages has turned positive)



Wage Growth Rate

(Base pay increases have recovered since 2023)



Notes: 1. In the left panel, Q1 = March-May, Q2 = June-August, Q3 = September-November, Q4 = December-February. Figures are based on continuing observations following the sample revisions. Figures for real wages are based on Bank staff calculations using the CPI (less imputed rent). Figures for 2026/Q3 are those for September.

2. In the right panel, figures from 1980 to 2014 are those published by the Central Labour Relations Commission; figures from 2015 to 2026 are those released by Rengo.

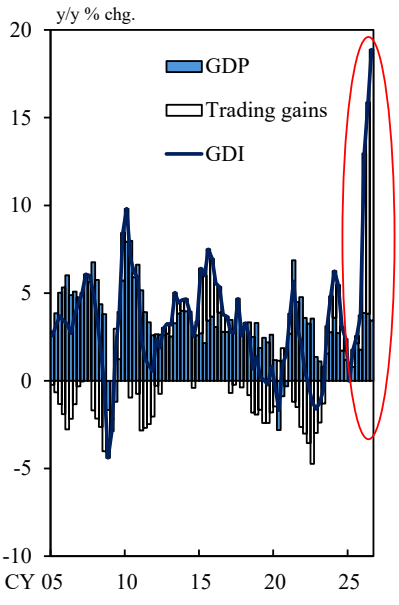
Sources: Central Labour Relations Commission; Japanese Trade Union Confederation (Rengo); Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications.

Chart 7

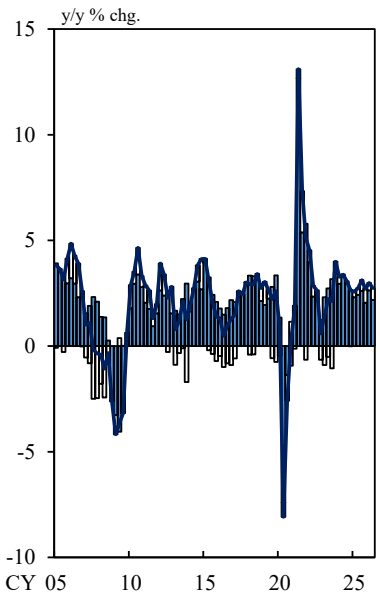
Trading Gains and Losses (SNA Basis)

(Japan's trading gains have improved, although not as pronounced as in South Korea)

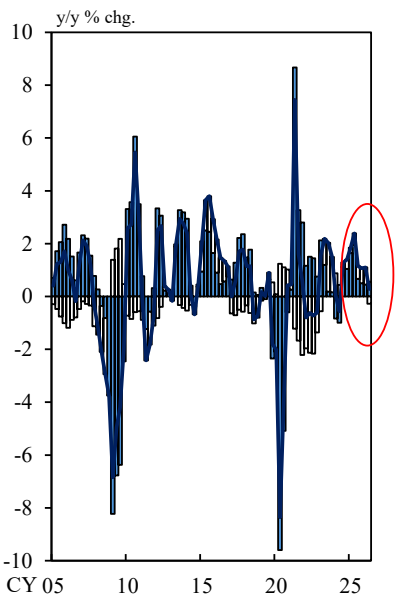
South Korea



United States



Japan



Note: Trading gains/losses = GDI - GDP.

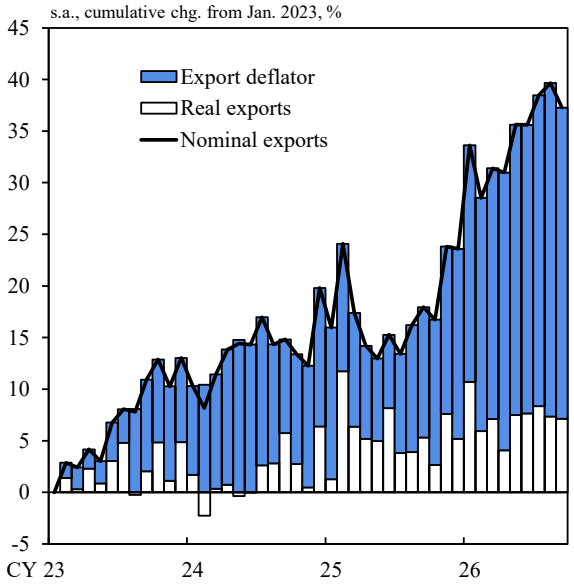
Sources: Cabinet Office; Haver.

Chart 8

Japan's Exports

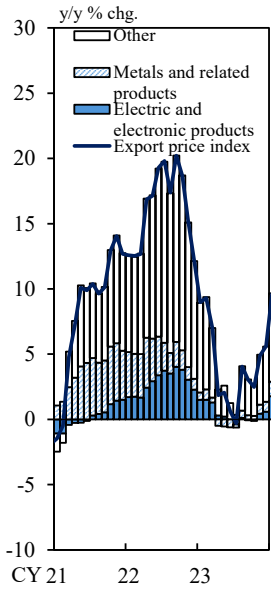
(Japan's exports have expanded, mainly led by AI-related goods, with higher export prices)

Nominal Exports

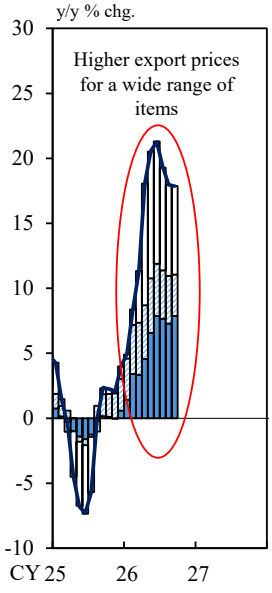


Export Prices

<Around 2022>



<Current Situation>



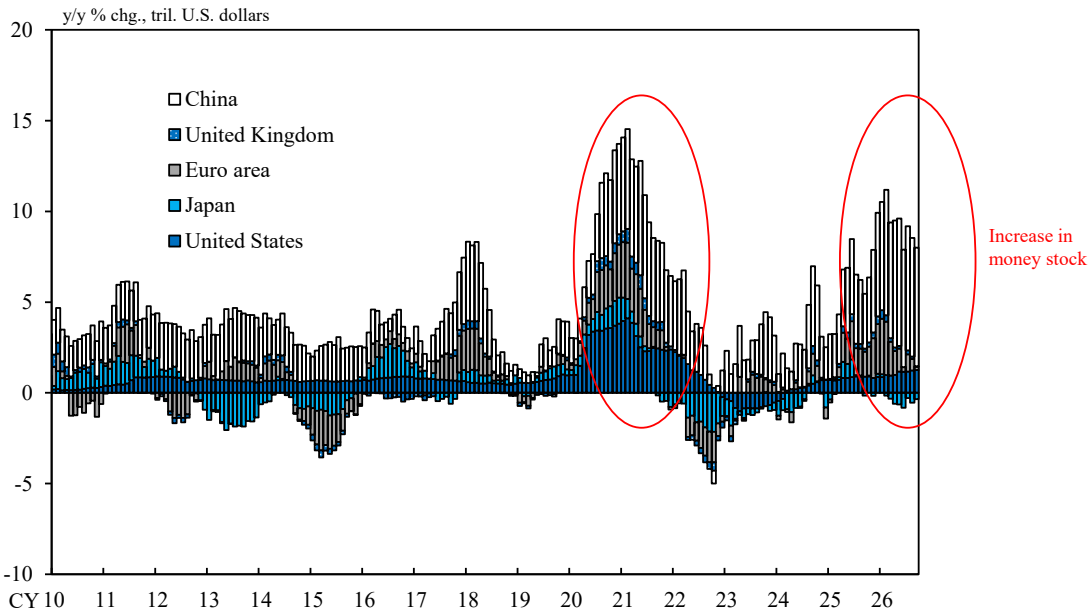
Note: In the left panel, effects of the cross term are allocated in proportion to the size of each factor.

Sources: Ministry of Finance; Bank of Japan.

Chart 9

Global Money Stock (M2)

(Similar to the early 2020s, money supply remains at a high level and accommodative conditions continue globally)

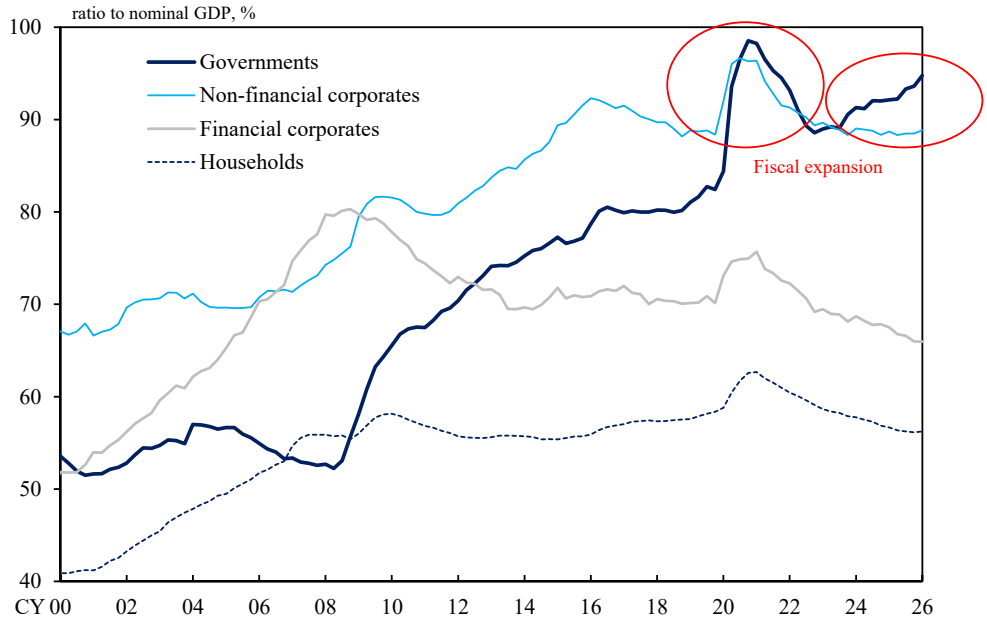


Source: Haver.

Chart 10

Global Debt Levels

(From 2020 onward, government debt has expanded and fiscal policies have been accommodative globally)



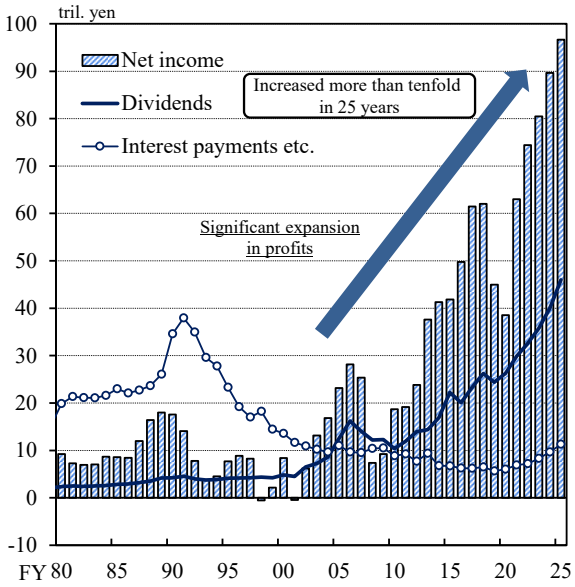
Source: Institute of International Finance.

Chart 11

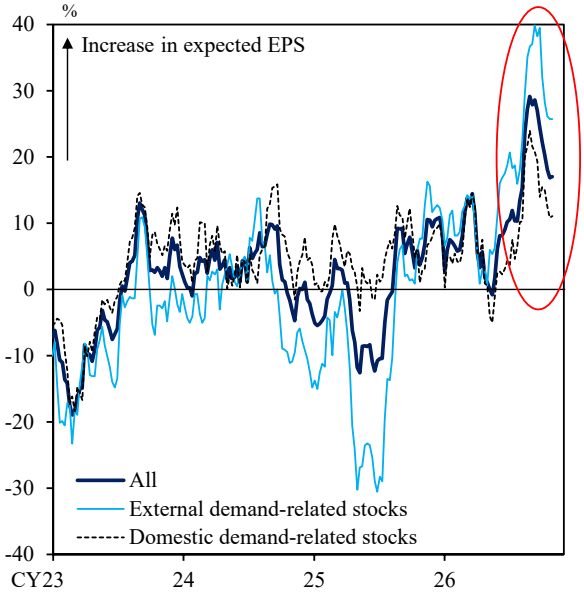
Rapid Expansion in Japan's Corporate Profits

(Corporate profits have continued to improve despite being affected by the situation in the Middle East)

Corporate Profits



Earnings Revision Index (TOPIX)



Notes: 1. In the left panel, figures are based on the *Financial Statements Statistics of Corporations by Industry, Annually*, and exclude the finance and insurance industries.
2. In the right panel, the earnings revision index is calculated as the ratio of the difference between (1) the number of listed firms for which analysts' estimates of 12-month forward earnings per share (EPS) were revised upward from the preceding month and (2) the number of listed firms that saw downward revisions.

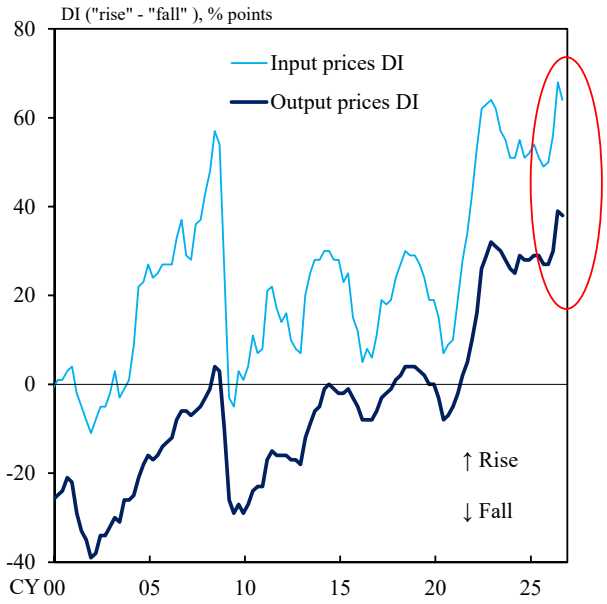
Sources: LSEG Datastream; Ministry of Finance.

Chart 12

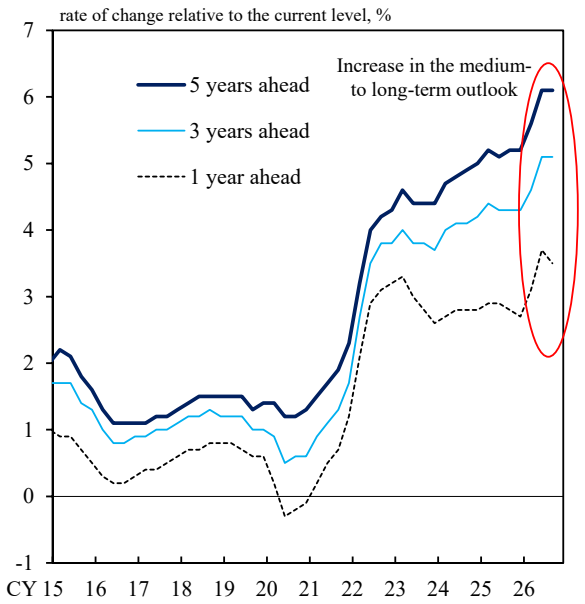
Output Prices of Japanese Firms (*Tankan*)

(Firms have become more confident in passing on cost increases while maintaining output prices despite a decrease in input prices)

DIs for Firms' Input and Output Prices



Outlook for Output Prices



Note: Figures are for all industries and enterprises and exclude the effects of the consumption tax rate changes.

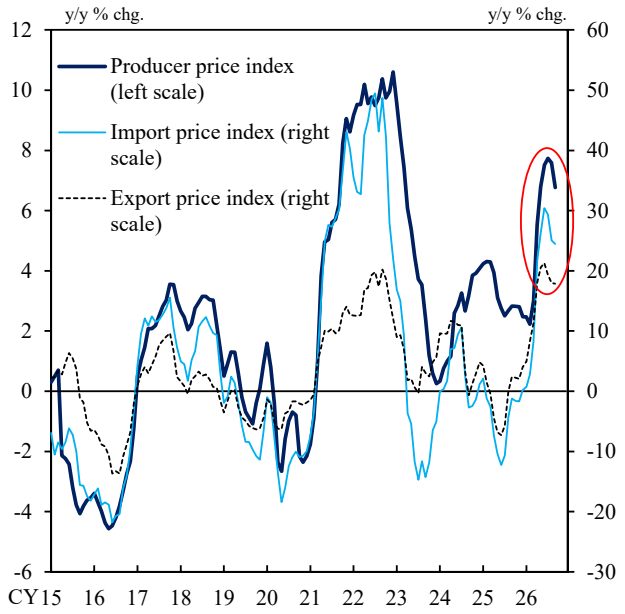
Source: Bank of Japan.

Chart 13

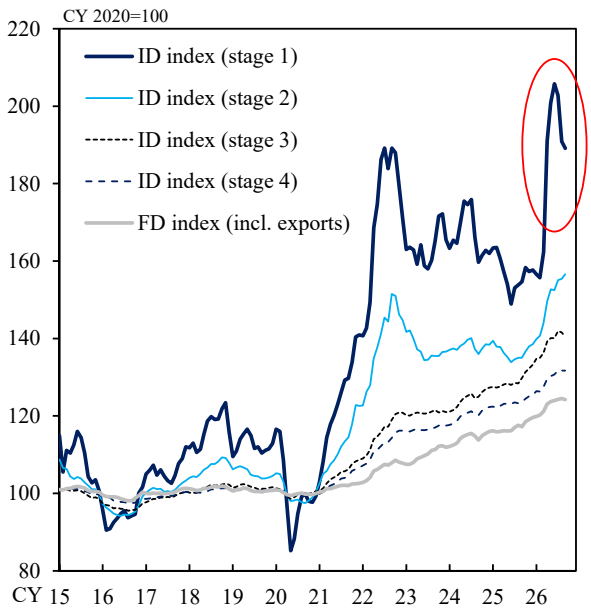
Corporate Goods Price Index in Japan

(Price increases have begun from upstream to downstream)

Producer Prices and Import and Export Prices



FD-ID Price Indices



Note: In the right panel, the final demand-intermediate demand (FD-ID) indices are price indices that reorganize and aggregate producer prices of goods and services by classifying them from upstream to downstream stages of the economy-wide production flow. Stages 1 to 4 represent the four stages of intermediate demand, from upstream to downstream.

Source: Bank of Japan.

Chart 14

My View on Changes Affecting Monetary Policy Since 1990

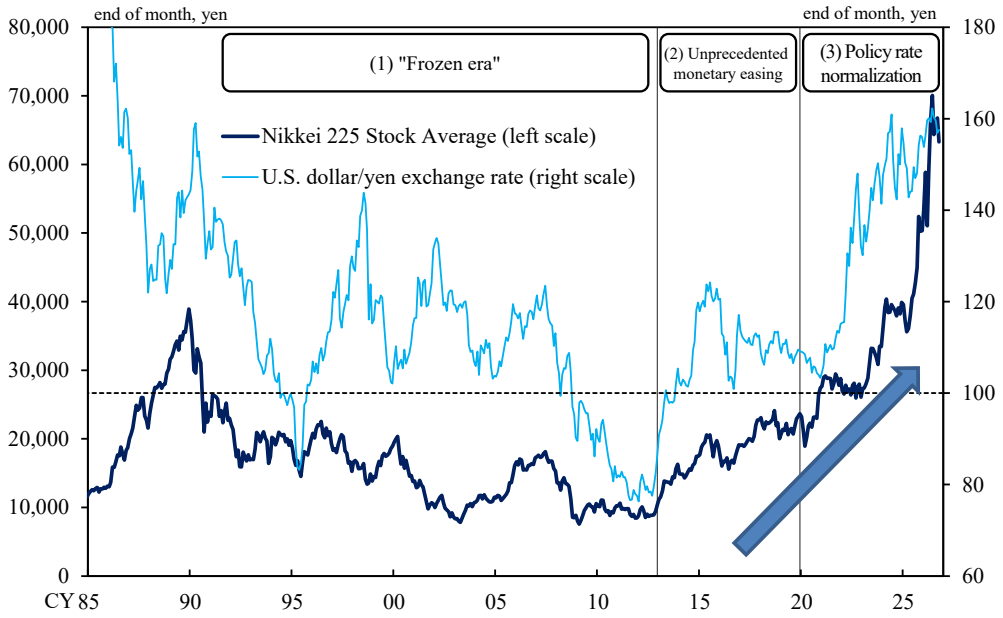
(From the long "frozen era," through the stage of unprecedented monetary easing, to the stage of policy rate normalization)

	(1) "Frozen Era"	(2) Unprecedented Monetary Easing	(3) Policy Rate Normalization
Period	1990s-	2013-2019	2020-
Environment	Asset deflation Difficulty in depending on external demand due to, for example, the yen's appreciation brought about mainly by trade friction	Improvement in asset prices through monetary easing, fiscal policy, and the growth strategy Reversal in the excessive appreciation of the yen	"Big push" originating from abroad, building on unprecedented monetary easing
Corporate and household behavior	Reduction in size of balance sheets Business restructuring to hold down prices and wages	Persistent norm that prices do not rise easily	Shift in the norm Positive developments in corporate behavior

Chart 15

Stock Prices and Exchange Rates

(Both have turned around since 2013 from the "frozen era" that started in the 1990s)



Source: Bloomberg.

Chart 16

My View on Corporate Behavior in the Post-Bubble Period

(Corporate behavior has turned positive from a shrinking equilibrium in balance sheets and income statements)

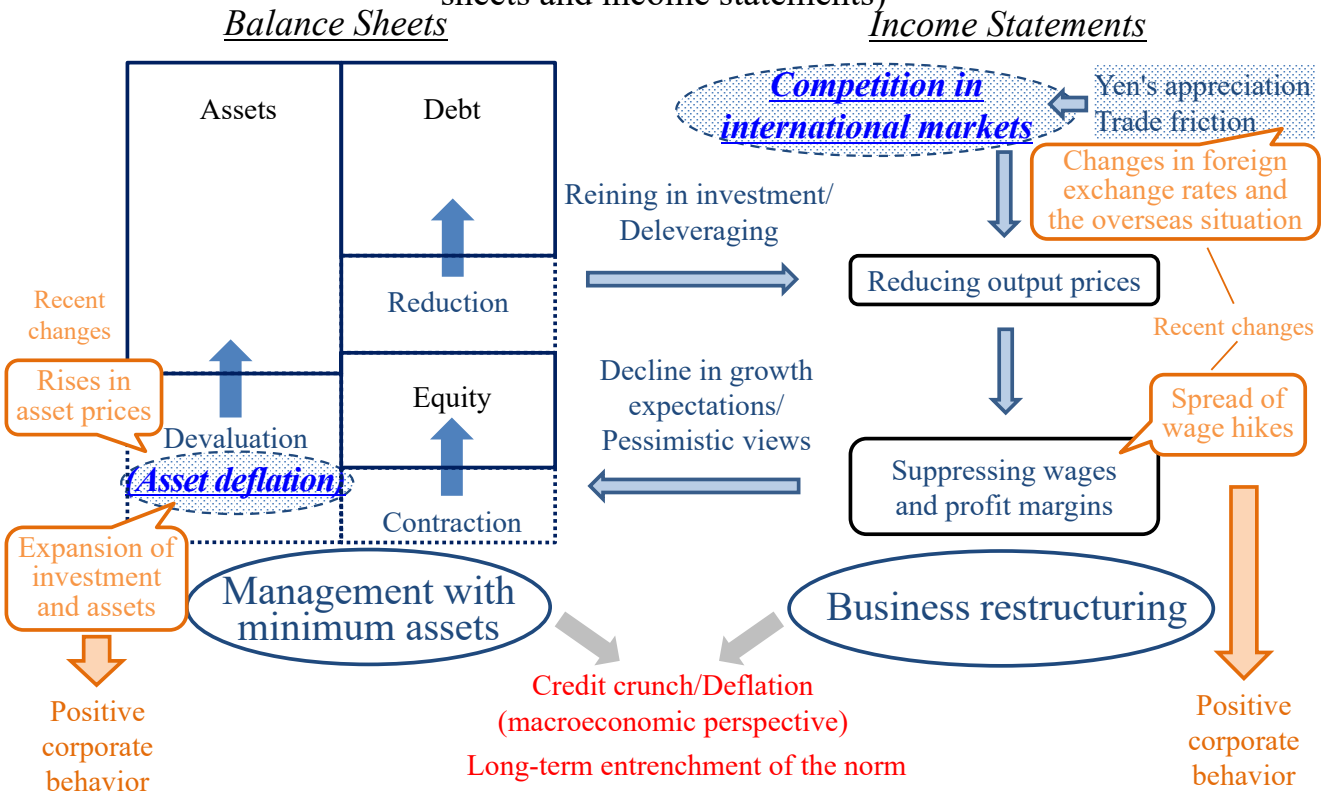
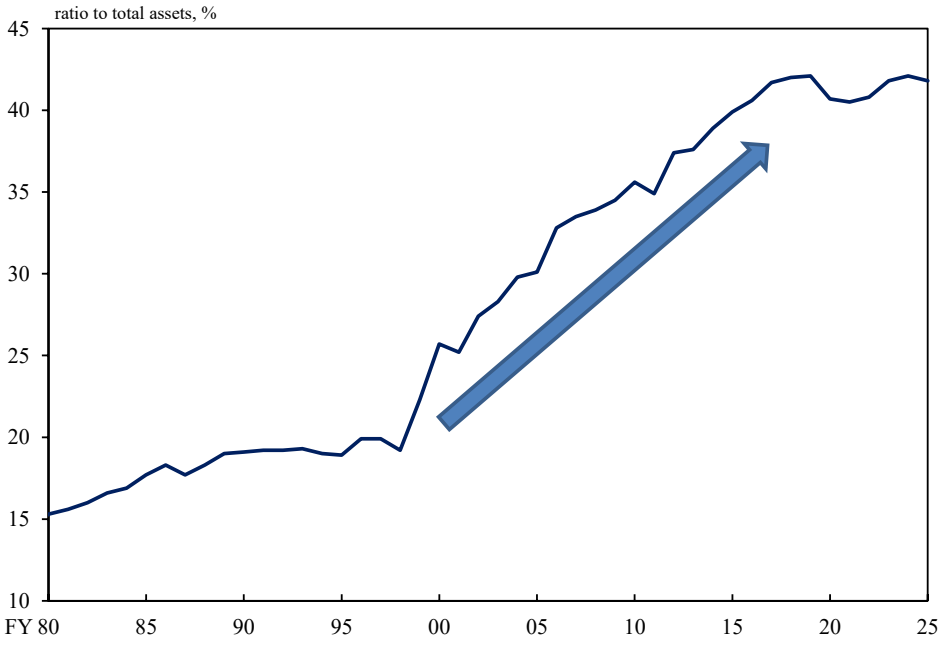


Chart 17

Capital Adequacy Ratios of Japanese Firms

(Japanese firms' capital adequacy ratios have risen significantly from the 10-20% range in the 1990s to the 40-50% range, making them more tolerant of higher interest rates)



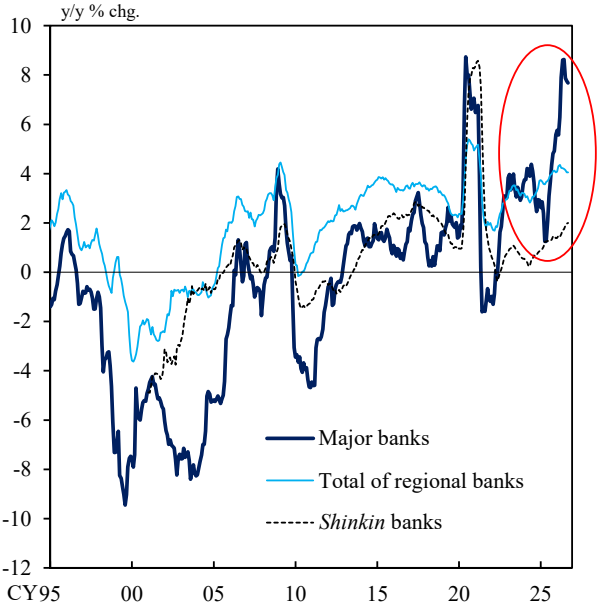
Note: Figures are for all industries and enterprises, excluding "finance and insurance."
Source: Ministry of Finance.

Chart 18

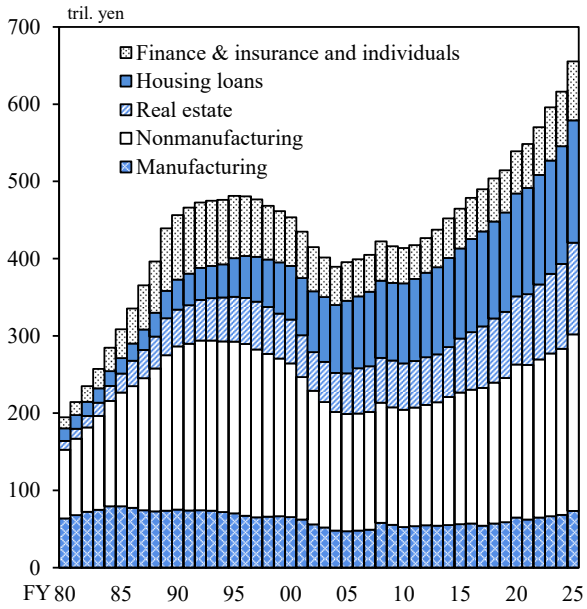
Bank Lending in Japan

(Bank lending has increased, mainly by major banks, marking the highest growth since the bubble period except during COVID-19)

Loans by Type of Bank



Loans by Sector



Notes: 1. In the left panel, figures include loans to local governments and individuals.
2. In the right panel, figures are for domestically licensed banks (banking accounts of domestic branches). Figures for "nonmanufacturing" exclude real estate and finance and insurance, and figures for "finance & insurance and individuals" exclude housing loans.

Source: Bank of Japan.

Chart 19

My View on Four Phases Within the Stage of Policy Rate Normalization Since 2020

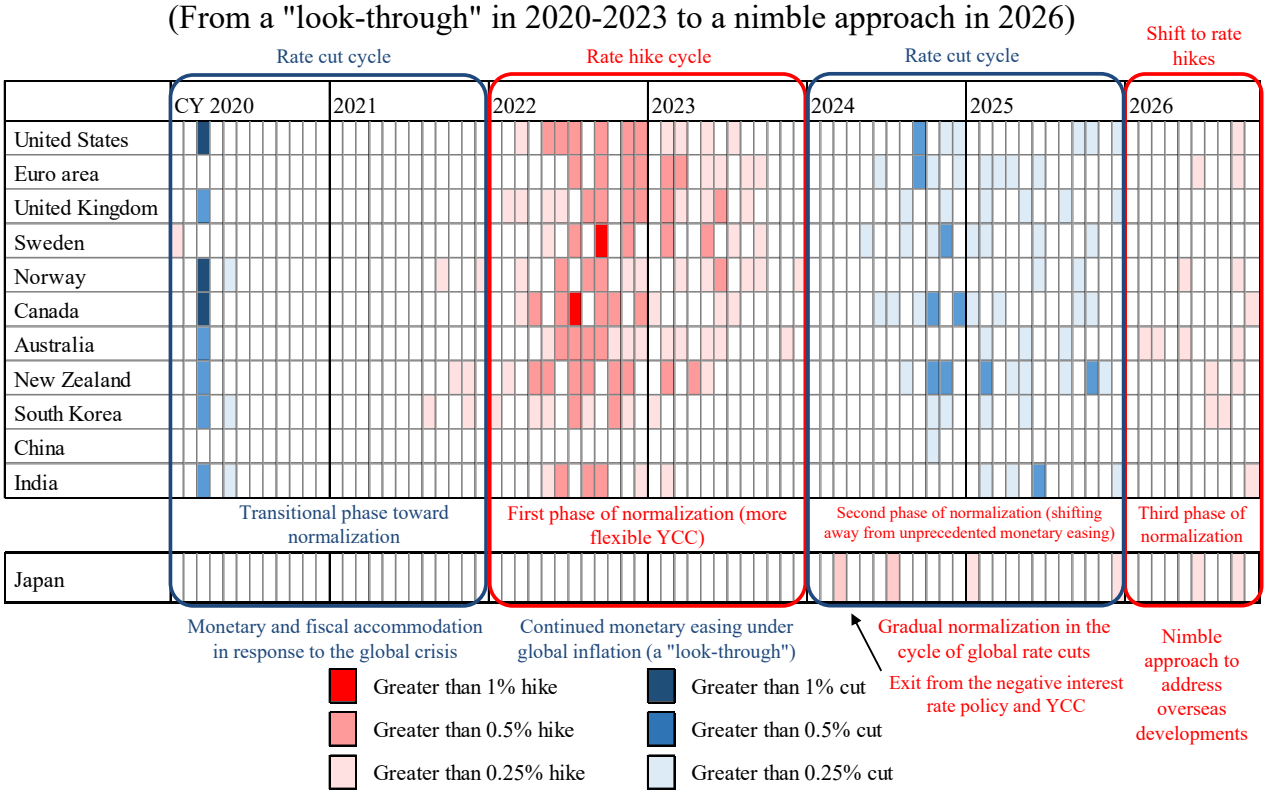
(Third phase in 2026 marks a regime change to a new cycle of interest rate hikes)

	Transitional Phase Toward Normalization	First Phase of Normalization	Second Phase of Normalization	Third Phase of Normalization
Period	2020-2021	2022-2023	2024-2025	2026
Overview	Lead-up to monetary policy normalization	More flexible yield curve control (YCC)	Shifting away from unprecedented monetary easing	Regime change to a new cycle of interest rate hikes
Features	Unchanged norm Accommodative monetary and fiscal policies in response to the global crisis	Continued monetary easing under global inflation (a "look-through") Unfreezing of the norm	Normalization in the cycle of global interest rate cuts Gradual interest rate hikes	Expansion of AI-related demand and a global shift to interest rate hikes Nimble approach to address overseas developments

Chart 20

My View on Four Phases of Monetary Policy in Japan and Overseas Since 2020

(From a "look-through" in 2020-2023 to a nimble approach in 2026)

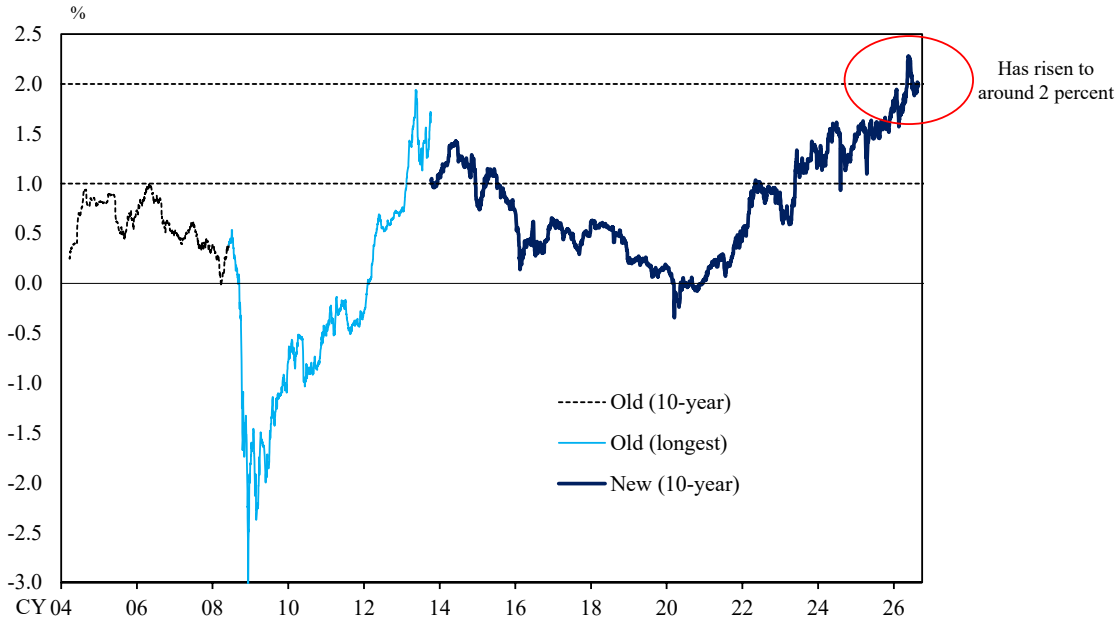


Sources: Overseas central banks.

Chart 21

U.S.-Japan Interest Rate Differential and Exchange Rate

(Both nominal and real interest rate differentials have attracted foreign exchange market attention)



Note: Inflation-indexed JGBs issued since October 2013, which have a principal protection feature, are designated as "new," while those issued from March 2004 to June 2008 are designated as "old." Figures for "old (longest)" are calculated using yield data for issue No. 16 of inflation-indexed JGBs, which were issued in June 2008 and matured in June 2018.

Sources: Bloomberg; QUICK.

Chart 22

Global Nominal Interest Rate Map

(Japan's nominal interest rates are no longer at the lowest level in the world)

%

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year
Switzerland	0.00	0.15	0.16	0.28	0.31	0.34	0.37	0.36	0.39	0.41	0.43	0.45	0.46	0.48	0.50	0.51	0.49	0.52	0.50
Japan	1.25	1.58	1.72	1.86	2.00	2.04	2.27	2.41	2.53	2.61	2.63	2.91	3.18	3.45	3.73	4.00	3.54	3.82	3.98
China	1.25	1.17	1.26	1.28	1.33	1.38	1.42	1.46	1.51	1.56	1.60	1.63	1.65	1.68	1.70	1.73	2.03	2.03	
Sweden	2.00	2.31	2.61	2.66	2.73	2.77	2.81	2.84	2.90	2.93	2.97	2.98	2.99	3.00	3.01	3.04	3.08		
Denmark	2.10	2.58	2.86	2.91	2.92	2.93	2.95	2.97	2.99	3.04	3.09	3.10	3.12	3.13	3.14	3.16	3.23	3.26	
Canada	2.50	2.93	3.15	3.19	3.30	3.37	3.39	3.41	3.49	3.58	3.66	3.68	3.70	3.73	3.75	3.77	3.89	4.00	
Germany	2.65	2.90	2.98	2.98	3.01	3.06	3.08	3.14	3.15	3.22	3.25	3.31	3.36	3.41	3.46	3.51	3.61	3.64	
France	2.65	3.23	3.50	3.79	3.88	4.15	4.23	4.37	4.56	4.61	4.77	4.82	4.88	4.93	4.98	5.04	5.19	5.32	
Spain	2.65	3.00	3.08	3.20	3.28	3.36	3.43	3.52	3.62	3.71	3.84	3.90	3.95	4.01	4.07	4.12	4.28	4.37	
Portugal	2.65	2.94	3.03	3.08	3.21	3.29	3.35	3.48	3.56	3.61	3.71	3.76	3.81	3.86	3.91	3.96	4.16	4.19	
Austria	2.65	2.95	3.08	3.16	3.23	3.29	3.34	3.38	3.42	3.45	3.51	3.56	3.61	3.66	3.71	3.76	3.88	3.88	3.87
Italy	2.65	3.12	3.45	3.55	3.67	3.87	3.91	3.99	4.12	4.26	4.35	4.41	4.47	4.53	4.60	4.66	4.80	4.95	
Ireland	2.65	2.85	2.99	3.05	3.07	3.09	3.20	3.23	3.29	3.36	3.41	3.45	3.50	3.54	3.59	3.64	3.70	3.79	
Netherlands	2.65	2.88	3.00	3.05	3.08	3.11	3.15	3.21	3.25	3.29	3.35	3.39	3.43	3.46	3.50	3.54	3.64	3.61	
Finland	2.65	3.19	3.06	3.24	3.27	3.36	3.40	3.47	3.53	3.59	3.64	3.70	3.75	3.80	3.86	3.91	3.95	4.05	
United Kingdom	4.00	4.49	4.77	4.80	4.73	4.81	4.91	4.97	5.06	5.10	5.16	5.23	5.30	5.34	5.38	5.42	5.58	5.61	5.53
United States	4.00	4.32	4.52	4.58	4.62	4.65	4.69	4.74	4.78	4.82	4.86	4.90	4.95	4.99	5.03	5.08	5.30	5.26	
Norway	4.50	4.84	4.73	4.62	4.53	4.44	4.41	4.39	4.37	4.35	4.33	4.31	4.29	4.26	4.24	4.22	4.11		
Australia	4.85	4.91	4.82	4.70	4.67	4.69	4.75	4.80	4.88	4.94	5.00	5.03	5.05	5.10	5.14	5.19	5.37	5.45	
India	5.50	6.45	6.87	6.92	6.87	7.01	7.19	7.20	7.21	7.18	7.19	7.27	7.29	7.46	7.21	7.38	7.48	7.67	7.74

Below 0% | 0% or higher

0.5% or higher | 1.0% or higher

Note: Figures are as of November 6, 2026. Some figures are estimated by linearly interpolating missing values.
Source: Bloomberg.

Chart 23

Global Real Interest Rate Map

(Japan's real policy interest rate remains at the lowest level in the world)

%

	Policy rate	1-year	2-year	3-year	4-year	5-year	6-year	7-year	8-year	9-year	10-year	11-year	12-year	13-year	14-year	15-year	20-year	30-year	40-year
Japan	-1.30	-0.97	-0.83	-0.69	-0.55	-0.51	-0.28	-0.15	-0.02	0.06	0.08	0.35	0.63	0.90	1.17	1.45	0.99	1.27	1.42
Switzerland	-0.84	-0.69	-0.68	-0.57	-0.53	-0.50	-0.47	-0.48	-0.46	-0.44	-0.41	-0.40	-0.38	-0.36	-0.35	-0.33	-0.35	-0.32	-0.35
Austria	-0.62	-0.31	-0.19	-0.11	-0.03	0.02	0.08	0.12	0.15	0.18	0.24	0.29	0.34	0.40	0.45	0.50	0.61	0.62	0.60
Germany	-0.47	-0.22	-0.14	-0.14	-0.11	-0.06	-0.04	0.02	0.03	0.10	0.14	0.19	0.24	0.29	0.34	0.40	0.50	0.52	
Denmark	-0.40	0.08	0.36	0.41	0.42	0.43	0.45	0.47	0.49	0.54	0.59	0.60	0.62	0.63	0.64	0.66	0.73	0.76	
Portugal	-0.39	-0.10	-0.01	0.04	0.17	0.25	0.32	0.44	0.52	0.57	0.67	0.72	0.77	0.82	0.87	0.92	1.12	1.15	
Ireland	-0.20	0.00	0.15	0.21	0.23	0.25	0.36	0.39	0.44	0.52	0.56	0.61	0.65	0.70	0.74	0.79	0.86	0.94	
Netherlands	-0.16	0.07	0.19	0.24	0.27	0.30	0.34	0.40	0.44	0.49	0.54	0.58	0.62	0.65	0.69	0.73	0.83	0.80	
Italy	-0.12	0.35	0.67	0.78	0.89	1.10	1.13	1.22	1.35	1.49	1.57	1.64	1.70	1.76	1.82	1.89	2.02	2.18	
China	-0.11	-0.19	-0.10	-0.08	-0.03	0.02	0.06	0.10	0.15	0.20	0.25	0.27	0.30	0.32	0.35	0.37	0.67	0.68	
Spain	0.00	0.34	0.43	0.55	0.63	0.71	0.78	0.87	0.97	1.06	1.19	1.25	1.30	1.36	1.41	1.47	1.63	1.72	
Sweden	0.13	0.44	0.73	0.79	0.86	0.90	0.93	0.97	1.03	1.05	1.10	1.11	1.12	1.13	1.14	1.17	1.21		
Canada	0.13	0.56	0.78	0.82	0.93	1.01	1.02	1.04	1.12	1.21	1.29	1.31	1.34	1.36	1.38	1.40	1.52	1.63	
France	0.41	0.99	1.25	1.55	1.64	1.90	1.99	2.13	2.31	2.37	2.53	2.58	2.63	2.69	2.74	2.79	2.95	3.08	
Finland	1.00	1.55	1.41	1.59	1.62	1.71	1.75	1.82	1.88	1.94	1.99	2.05	2.10	2.15	2.21	2.26	2.31	2.40	
India	1.09	2.04	2.46	2.50	2.45	2.59	2.78	2.79	2.80	2.77	2.78	2.86	2.87	3.05	2.80	2.97	3.06	3.26	3.33
United States	1.17	1.49	1.68	1.75	1.78	1.81	1.86	1.90	1.94	1.99	2.03	2.07	2.11	2.16	2.20	2.24	2.46	2.43	
United Kingdom	1.20	1.69	1.97	2.00	1.94	2.01	2.11	2.17	2.26	2.30	2.36	2.43	2.50	2.54	2.58	2.62	2.78	2.82	2.73
Norway	1.70	2.04	1.93	1.82	1.73	1.64	1.61	1.59	1.57	1.55	1.53	1.51	1.49	1.46	1.44	1.42	1.31		
Australia	1.76	1.82	1.73	1.62	1.58	1.60	1.66	1.71	1.79	1.86	1.92	1.94	1.96	2.01	2.05	2.10	2.29	2.36	

Below -1.0% | -1.0% or higher

-0.5% or higher | 0% or higher

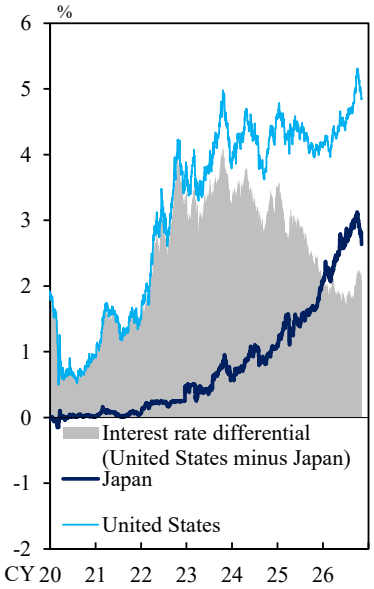
Note: Figures are as of November 6, 2026. Some figures are estimated by linearly interpolating missing values. Figures are adjusted to real terms using the IMF's CPI forecast for each country (2027).
Sources: Bloomberg; IMF.

Chart 24

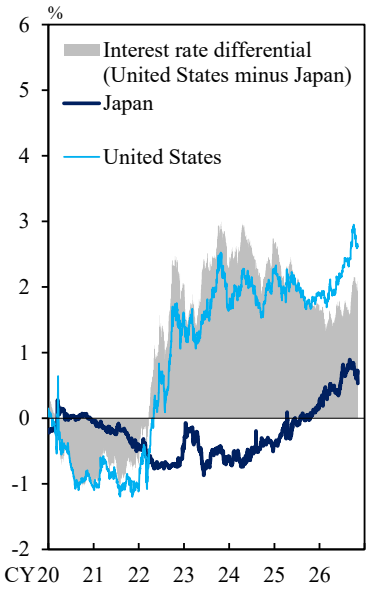
U.S.-Japan Interest Rate Differential and Exchange Rate

(Both nominal and real interest rate differentials have attracted market attention)

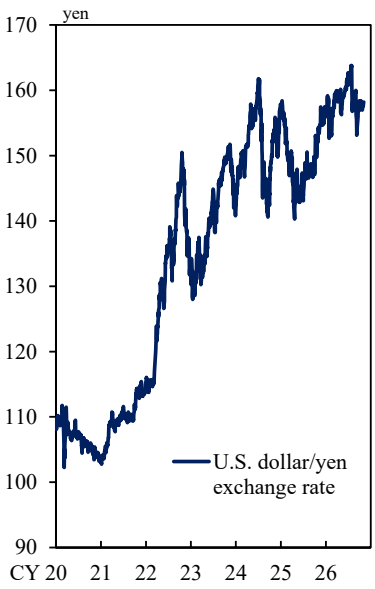
Nominal Long-Term Interest Rates



Real Long-Term Interest Rates



Exchange Rate



Note: Real long-term interest rates are calculated using nominal long-term interest rates and BEI rates.

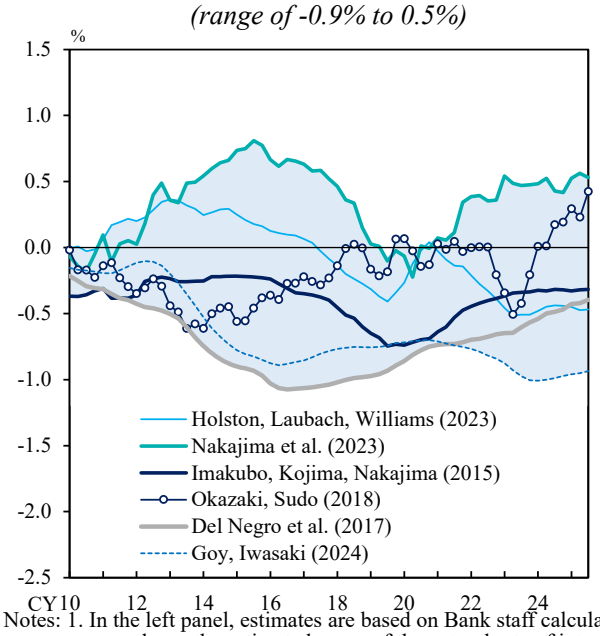
Sources: Bloomberg; LSEG.

Chart 25

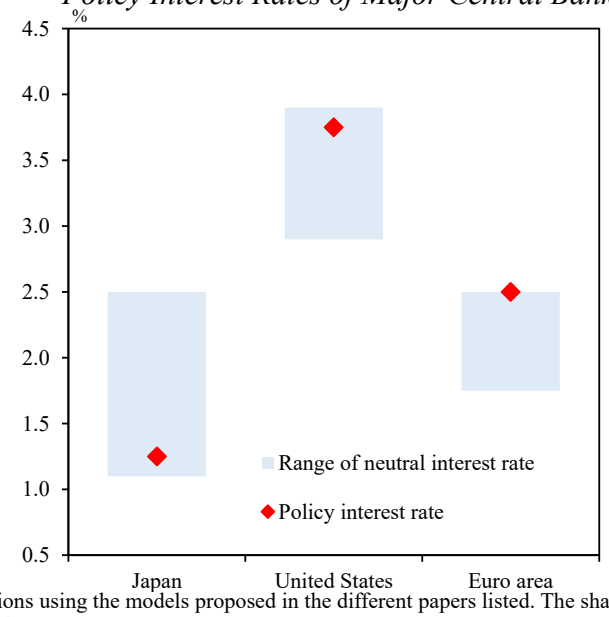
Natural Rate of Interest, Neutral Interest Rate, and Policy Interest Rates

(Japan's neutral interest rate is estimated to be in the 1.1-2.5% range, and Japan's policy interest rate is at the level of the lower bound of the range)

Natural Rate of Interest in Japan (range of -0.9% to 0.5%)



Range of Neutral Interest Rate and Policy Interest Rates of Major Central Banks



Notes: 1. In the left panel, estimates are based on Bank staff calculations using the models proposed in the different papers listed. The shaded area shows the estimated range of the natural rate of interest.

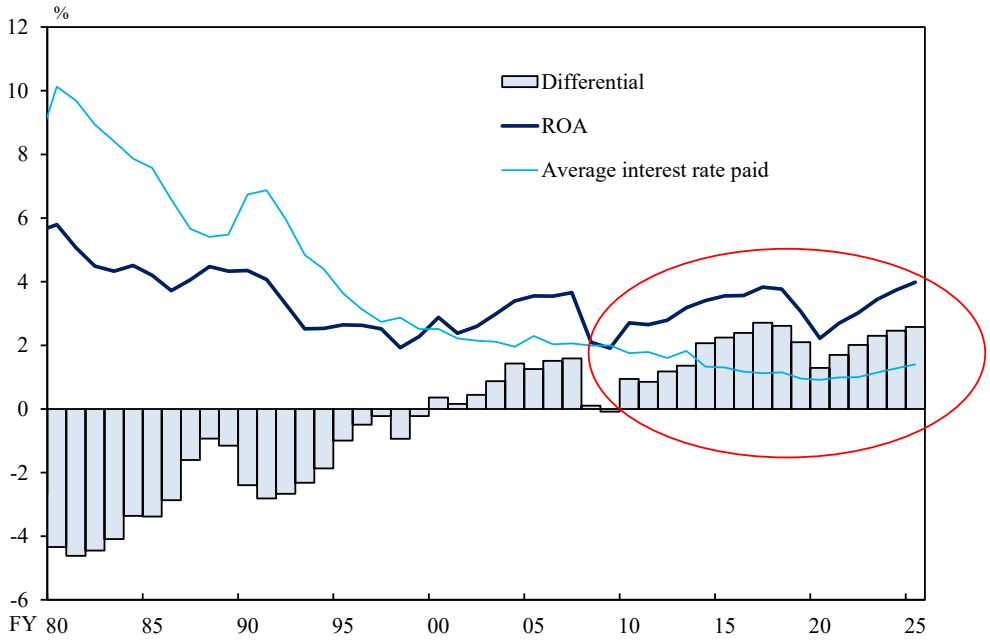
2. In the right panel, as the Federal Reserve does not officially publish the range of the neutral interest rate, the range for the United States is based on the FOMC members' longer-run projections for the federal funds rate in the Summary of Economic Projections released after the September 2026 FOMC meeting. The estimated range of the neutral interest rate for the euro area refers to the figures mentioned in a recent speech by Philip R. Lane, a member of the Executive Board of the ECB.

Sources: Bloomberg; Cabinet Office; Consensus Economics Inc., *Consensus Forecasts*; ECB; Federal Reserve; Ministry of Finance; Ministry of Health, Labour and Welfare; Ministry of Internal Affairs and Communications; Bank of Japan.

Chart 26

ROA and Average Interest Rate Paid of Japanese Firms

(Accommodative conditions for firms have continued as ROA exceeds average interest rate paid)



Note: Figures are for all industries and enterprises, excluding "finance and insurance." ROA = Operating profits / Total assets. Average interest rate paid = Interest payments / Interest-bearing debt.

Source: Ministry of Finance.

Chart 27

My View on the Comparison of Government Bond Markets in the United States After the Great Depression and Japan

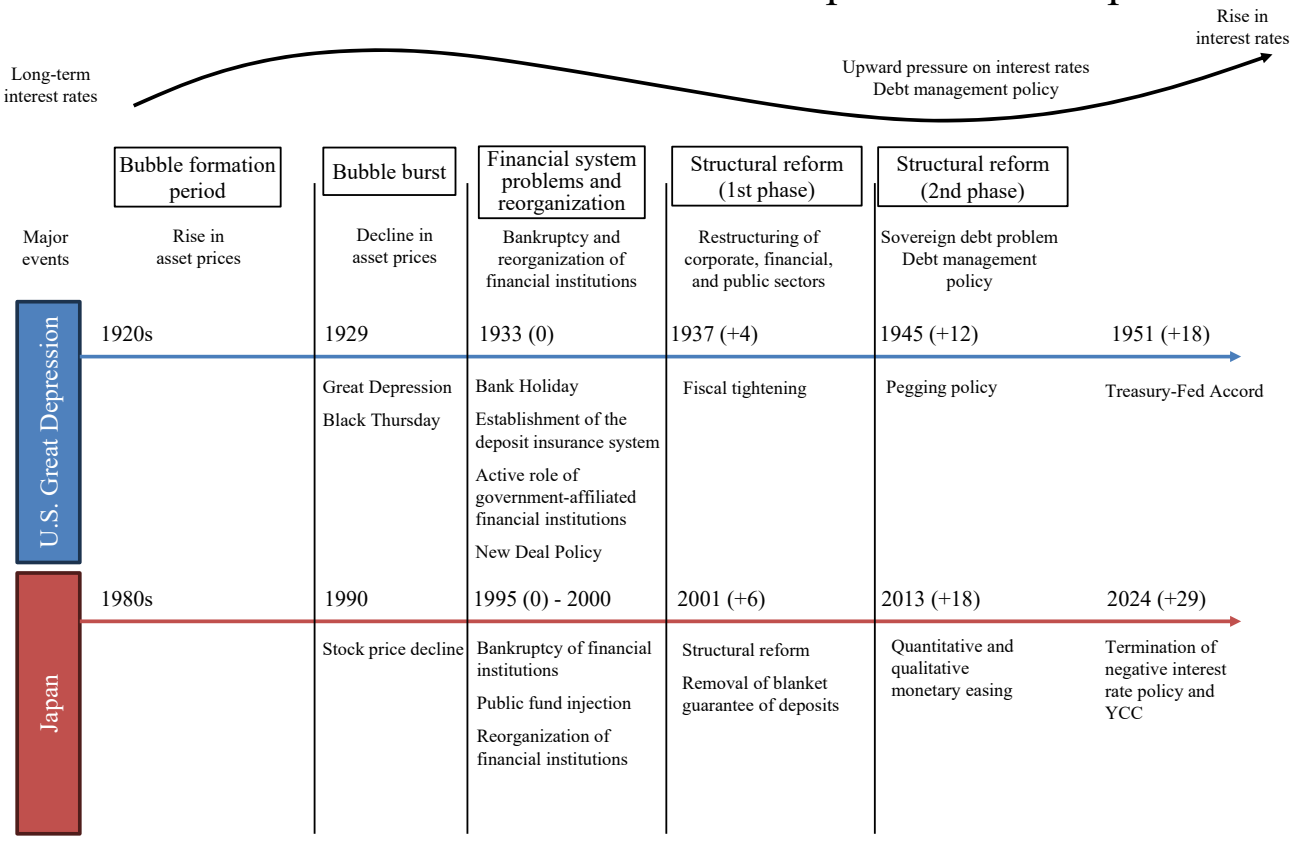
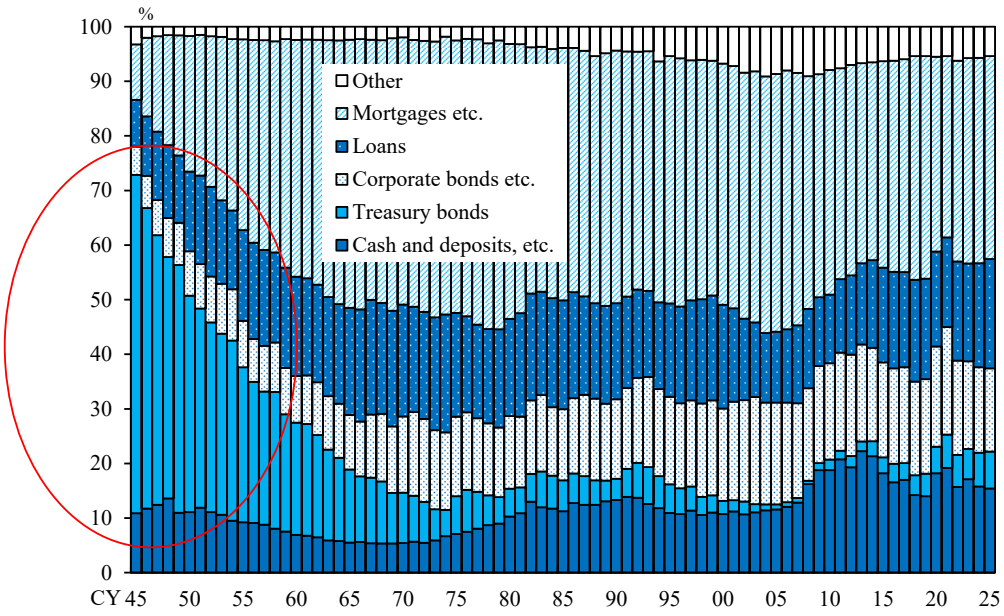


Chart 28

Asset Composition of U.S. Banks

(Right after World War II, Treasury bonds accounted for more than half of U.S. banks' assets, leading to substantial holdings of interest rate risk)

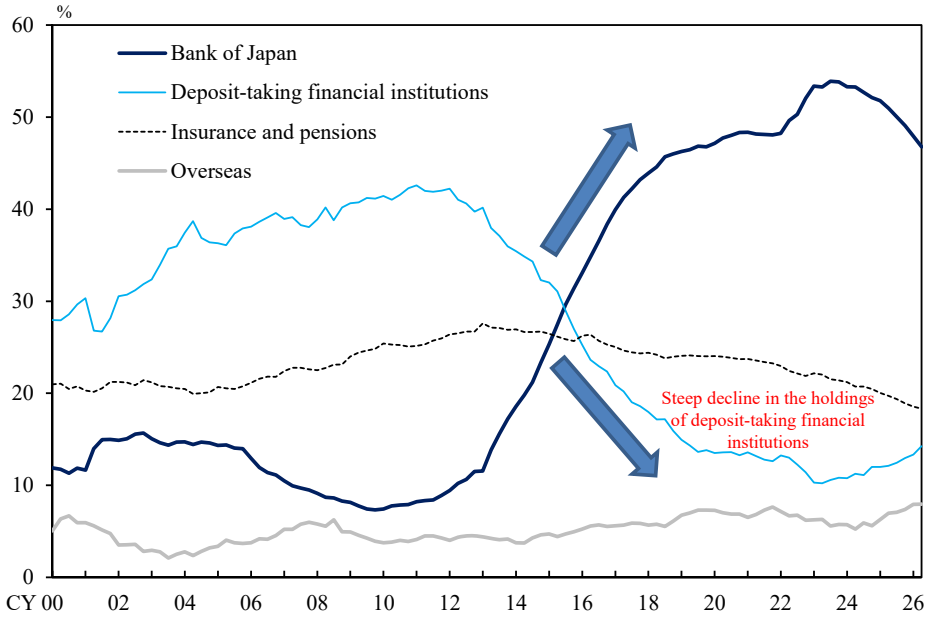


Source: Haver.

Chart 29

Share of JGB Holdings

(Share held by deposit-taking financial institutions has dropped sharply, from over 40% to the 10-20% range, as their holdings of interest rate risk have declined)

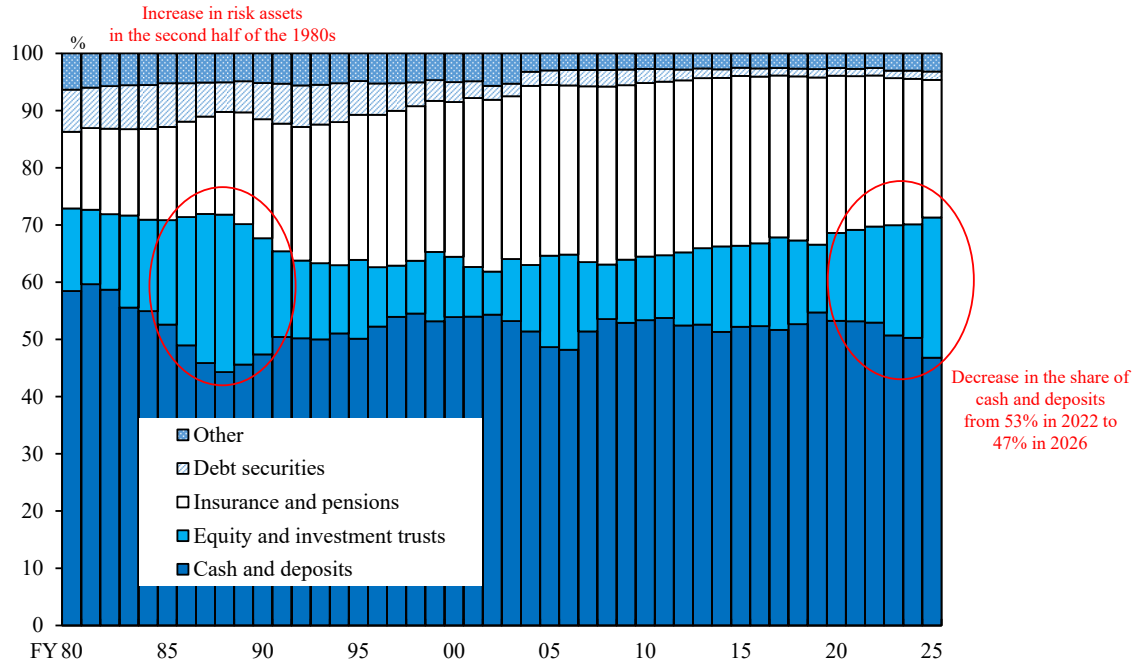


Source: Bank of Japan.

Chart 30

Composition of Japan's Household Financial Assets

(Household financial assets shifted into risk assets in the late 1980s, and today marks the second phase)

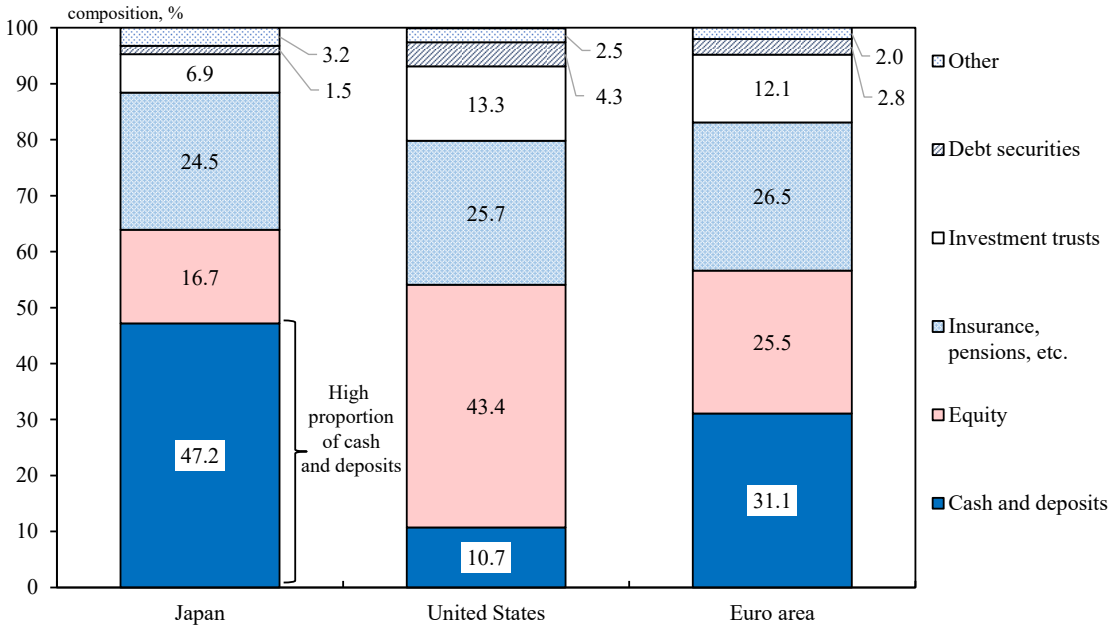


Source: Bank of Japan.

Chart 31

International Comparison of Household Financial Assets

(Japan has a high proportion of cash and deposits)



Note: Figures are as of end-March 2026.

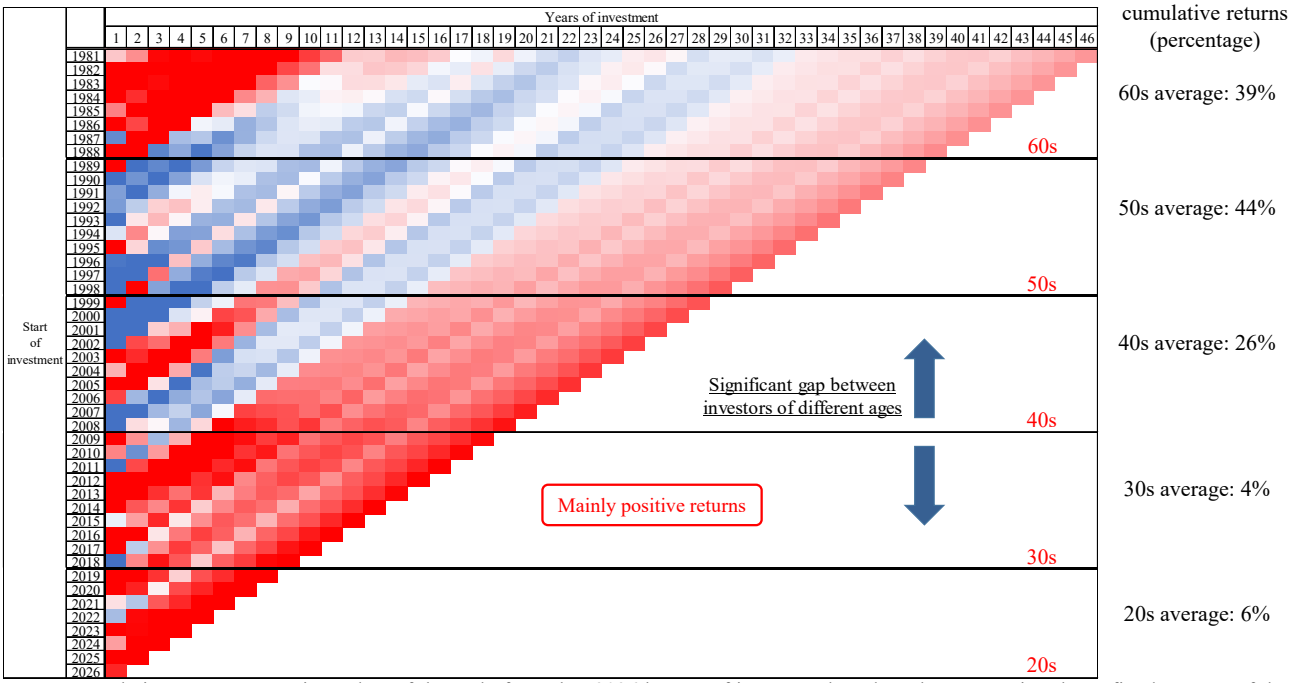
Source: Bank of Japan.

Chart 32

Cumulative Returns from Investment in Japanese Stocks by Age of Investors (2026)

(Lingering trauma among 40s and older)

Red: positive returns
Blue: negative returns



Note: Cumulative returns are estimated as of the end of October 2026 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."

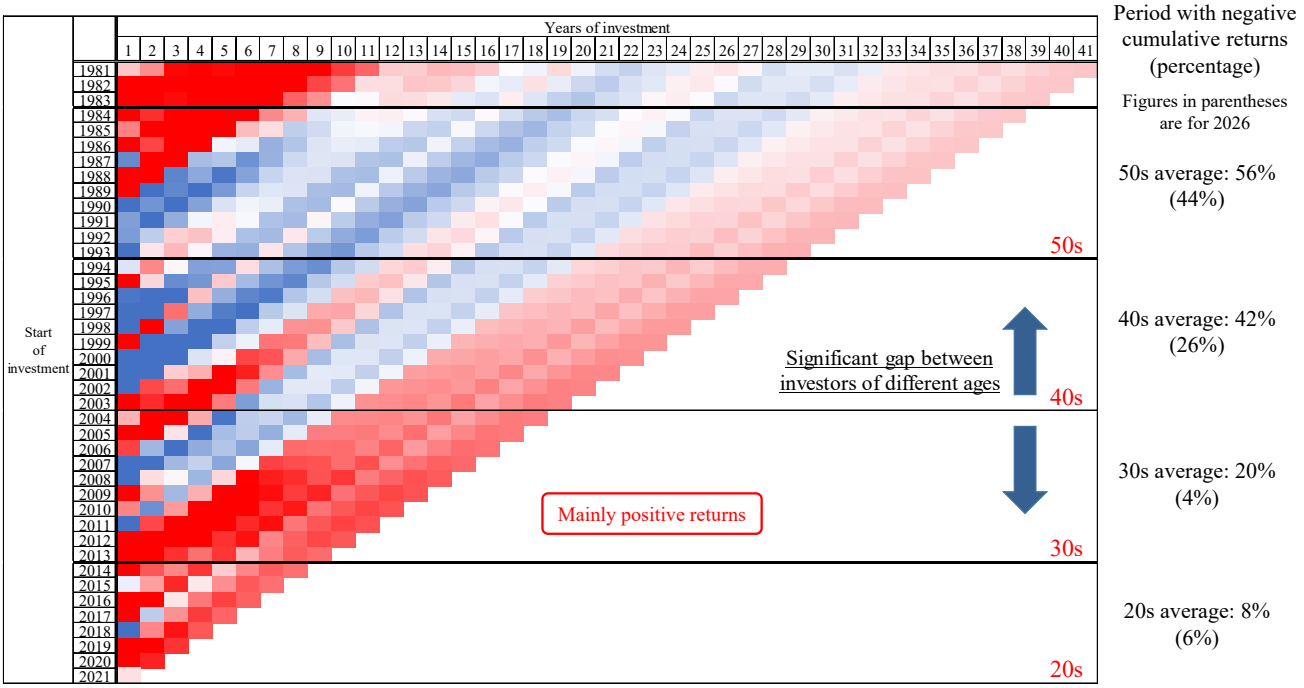
Source: Bloomberg.

Chart 33

Cumulative Returns from Investment in Japanese Stocks by Age of Investors (2021)

(Trauma among 40s and older diminished significantly in the past five years)

Red: positive returns
Blue: negative returns



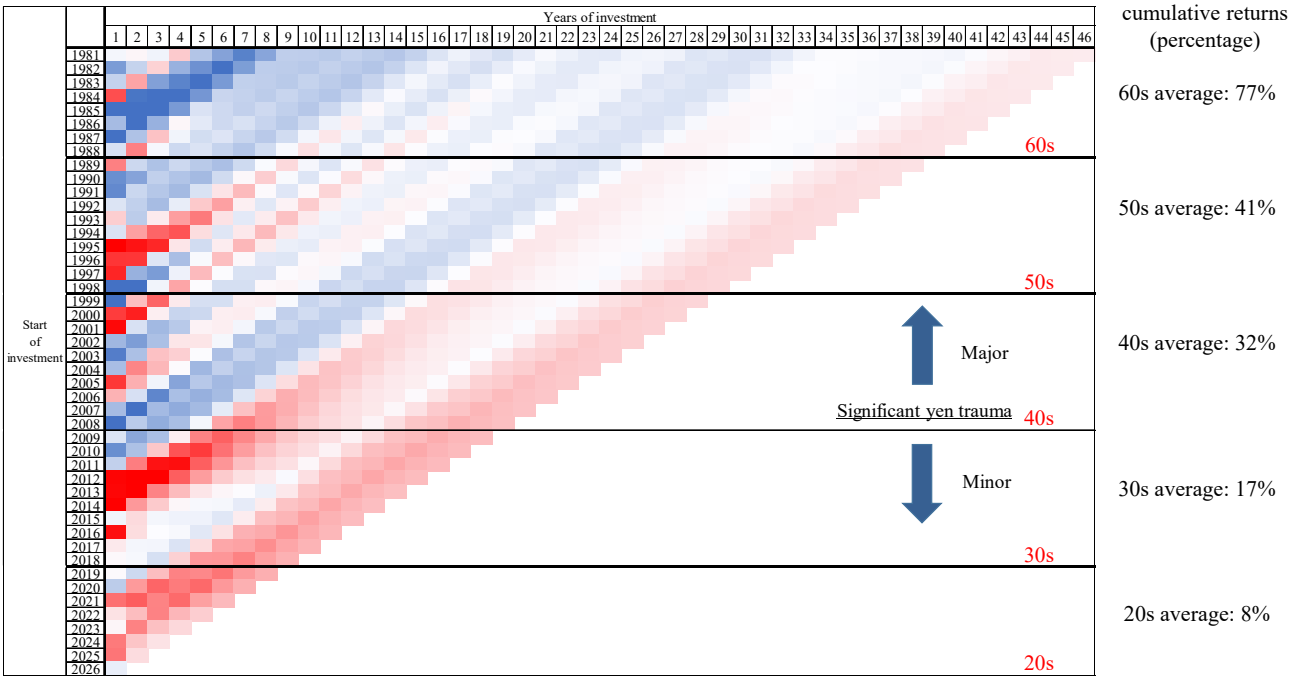
Note: Cumulative returns are estimated as of the end of December 2021 by age of investors, based on the assumption that a fixed amount of the Nikkei 225 Stock Average is purchased every month from the beginning of the year. Red shows positive returns and blue shows negative returns. Darker shades show 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 34

Cumulative Returns from Investment in U.S. dollars by Age of Investors

(Significant yen trauma among 40s and older)



Note: Cumulative returns are estimated as of the end of October 2026 by age of investors, based on the assumption that a fixed amount of the U.S. dollars 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 35

My View on Developments Affecting Asset Management in Japan and the United States

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

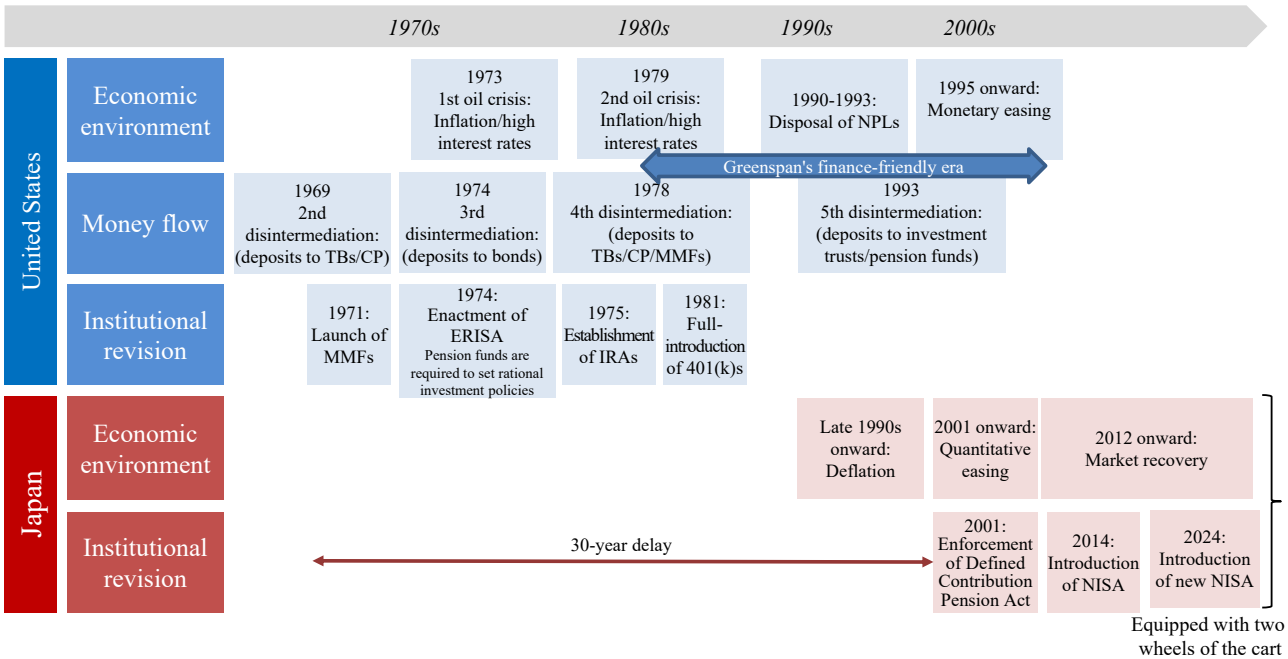
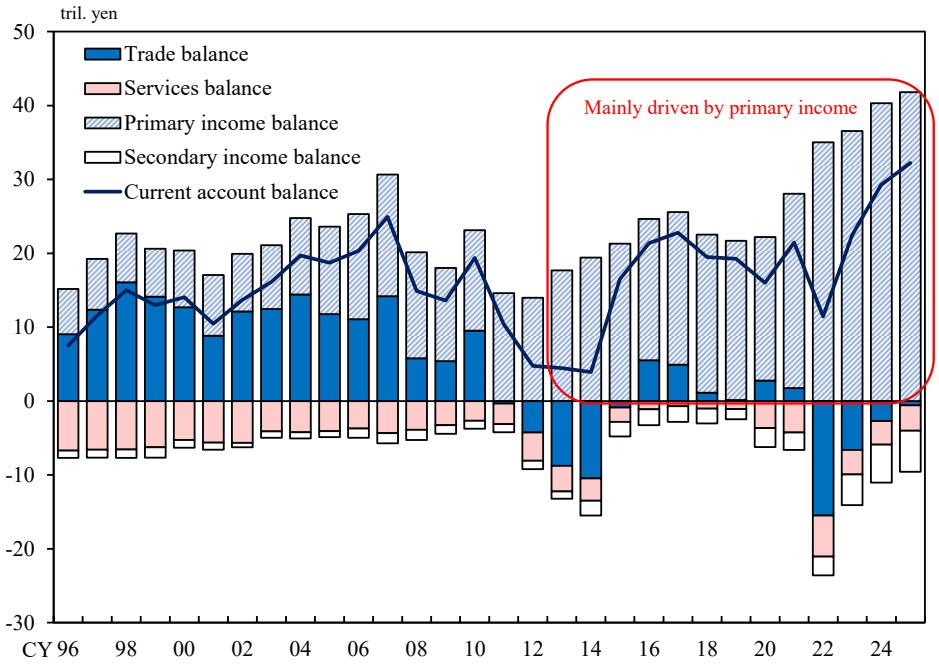


Chart 36

Developments in Japan's Current Account Balance

(Shift to a balance mainly driven by primary income from investment)

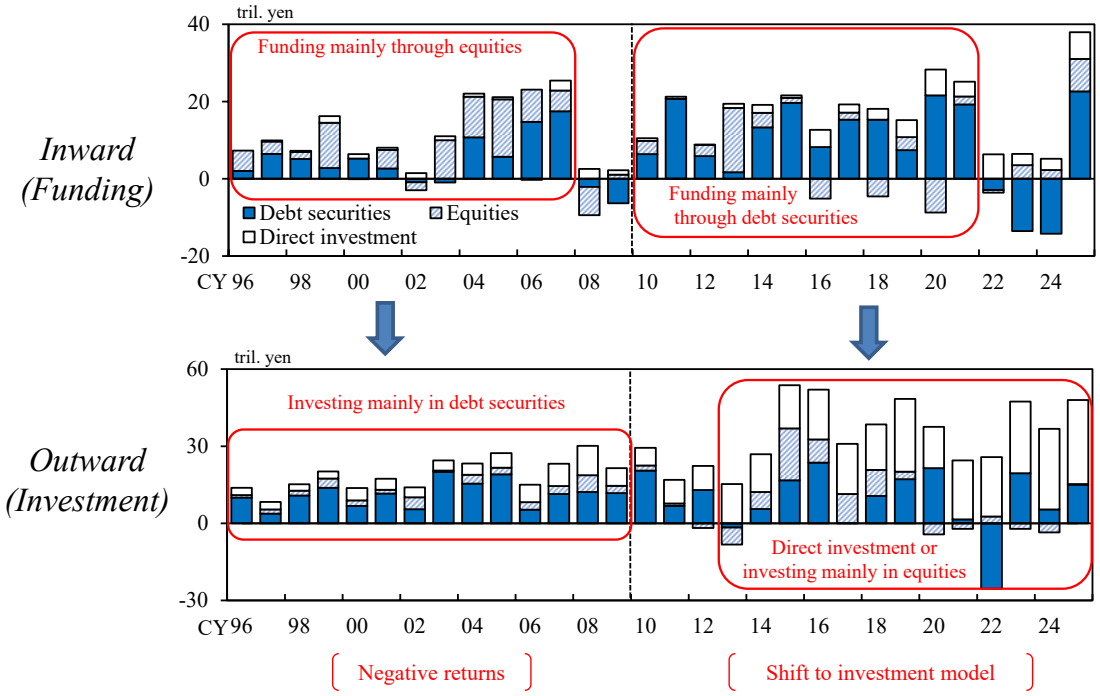


Source: Ministry of Finance.

Chart 37

Macro Money Flow in Japan

(Nationwide shift to an investment model)



Source: Ministry of Finance.

Chart 38

Direct Finance and Indirect Finance

(Expansion from traditional to market-based indirect finance)

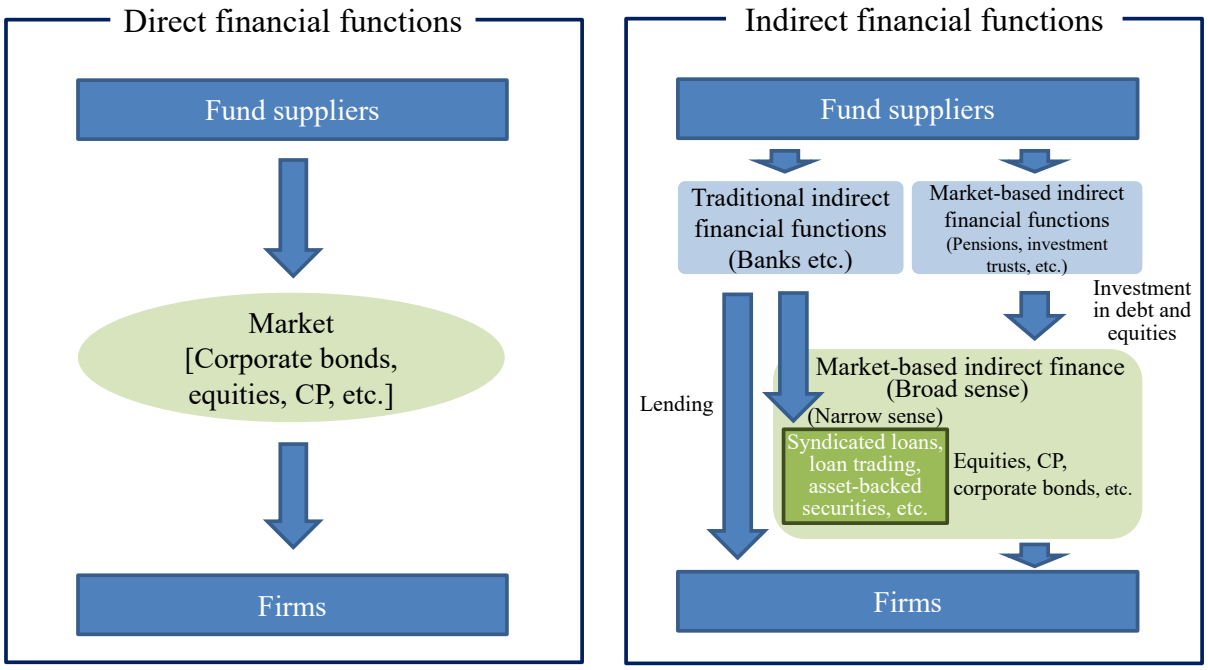
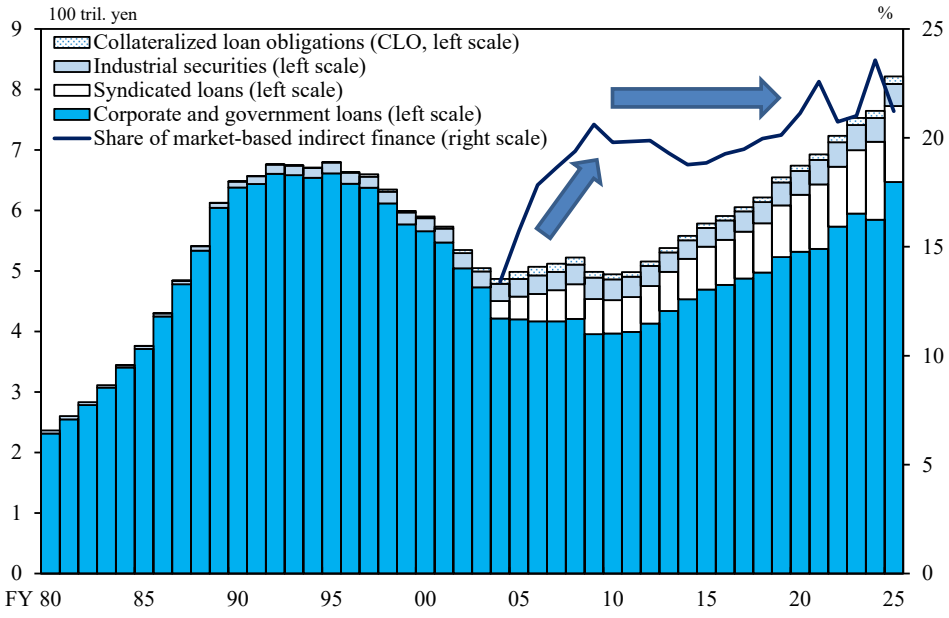


Chart 39

Share of Market-Based Indirect Finance in Japan

(Share of market-based indirect finance in a narrow sense grew in the early 2000s and then stagnated)



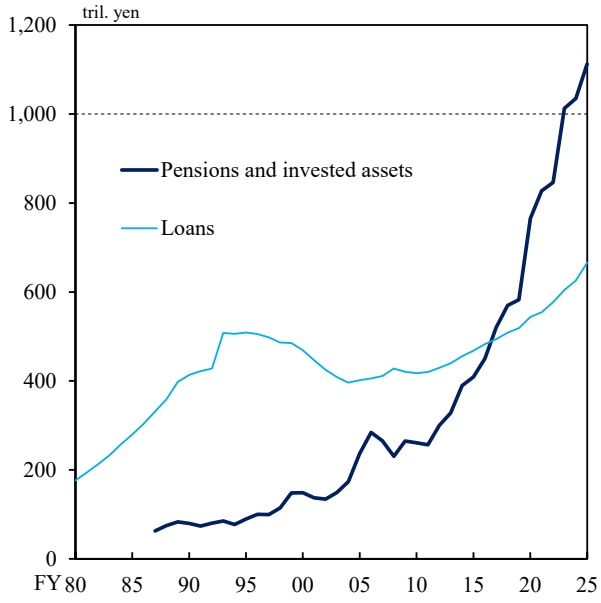
Sources: Japanese Bankers Association; Bank of Japan.

Chart 40

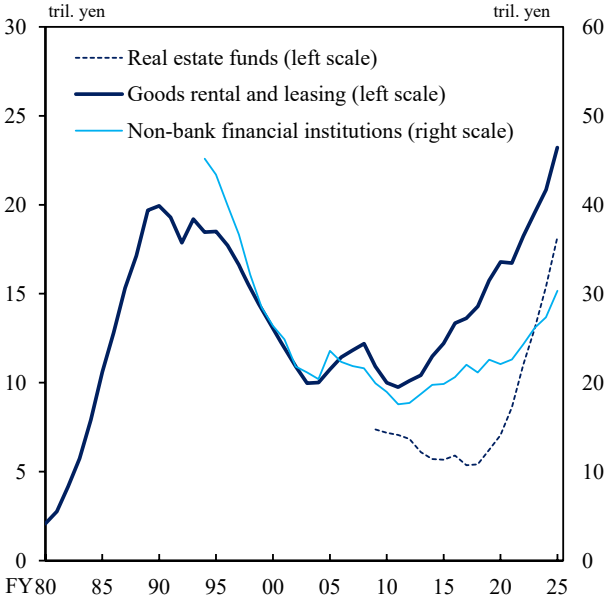
Amount Outstanding of Loans, Pensions, and Invested Assets in Japan

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

Amount Outstanding of Loans, Pensions, and Invested Assets



Loans by Sector



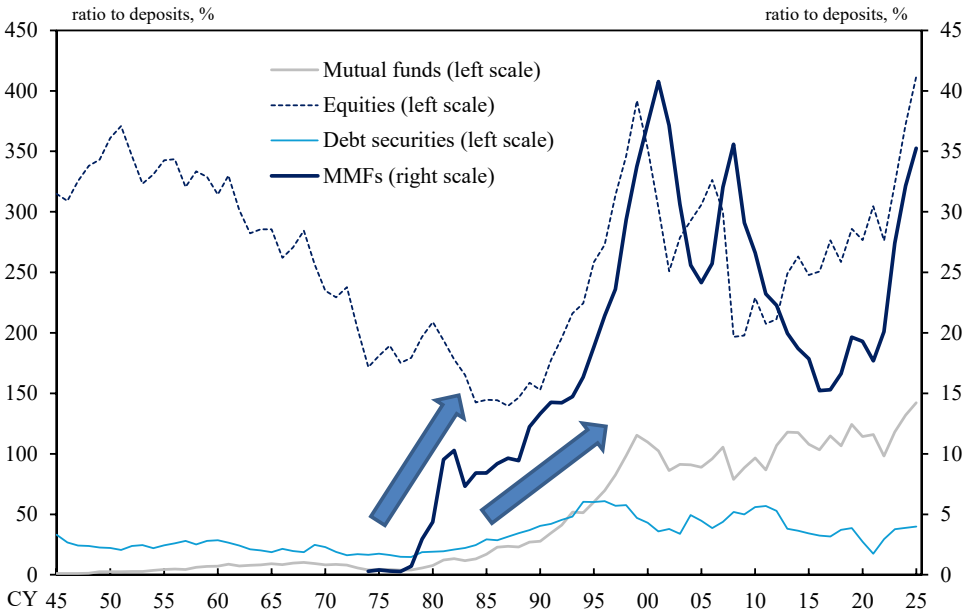
Note: Amount outstanding of pensions and invested assets is the sum of securities investment trusts and assets under management (including some overlap). Loans are those of domestic banks.

Sources: Investment Management Association of Japan; Bank of Japan.

Chart 41

Shift Toward MMFs and Mutual Funds in the United States

(Shift toward MMFs has increased in the 1970s, followed by a shift toward mutual funds and equities from the 1980s)

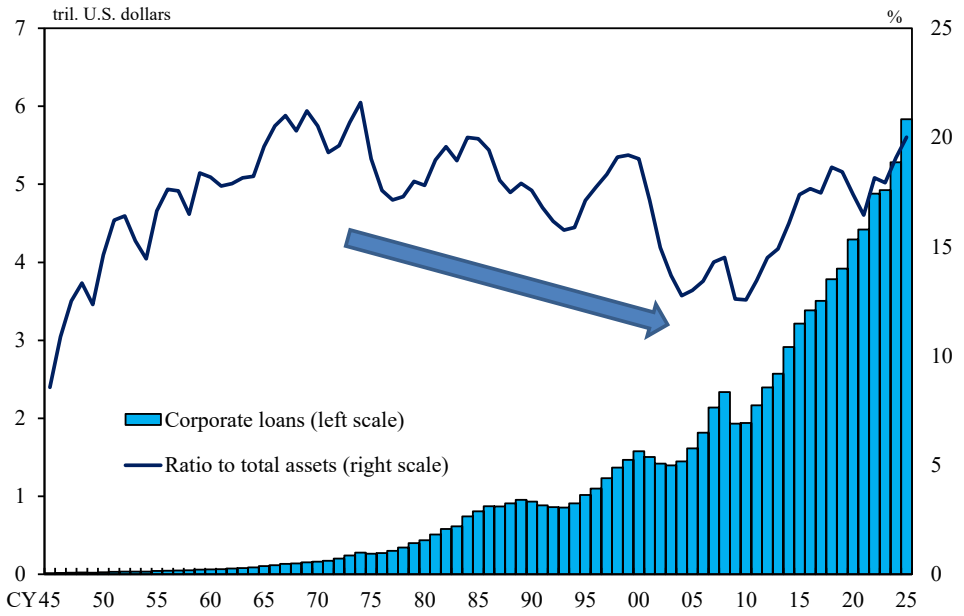


Source: Haver.

Chart 42

Corporate Loans of U.S. Banks

(Share of corporate loans has declined since the 1980s)

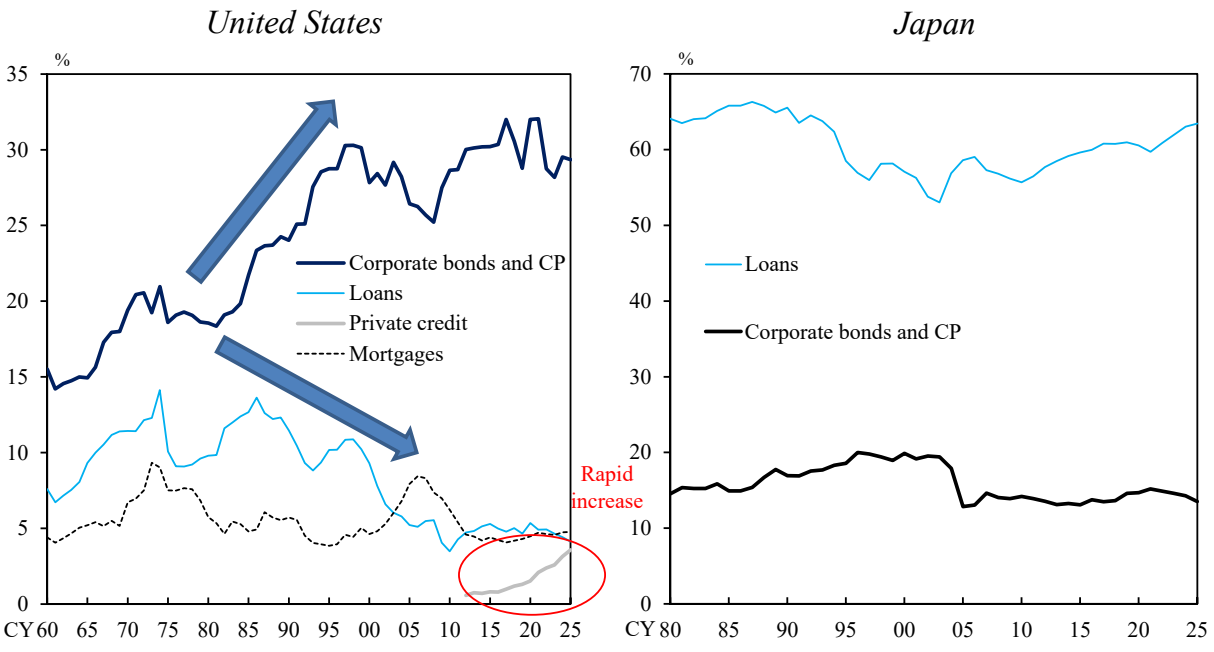


Source: Haver.

Chart 43

Debt Financing of U.S. and Japanese Firms

(U.S. firms have shifted to corporate bonds and CP, while Japanese firms remain dependent on bank lending)



Sources: Haver; Bank of Japan.

Chart 44

My View on Trends in U.S. and Japanese Lending Markets

(Japan's market-based indirect finance lags behind the United States by 20-40 years; looking ahead to the second stage)

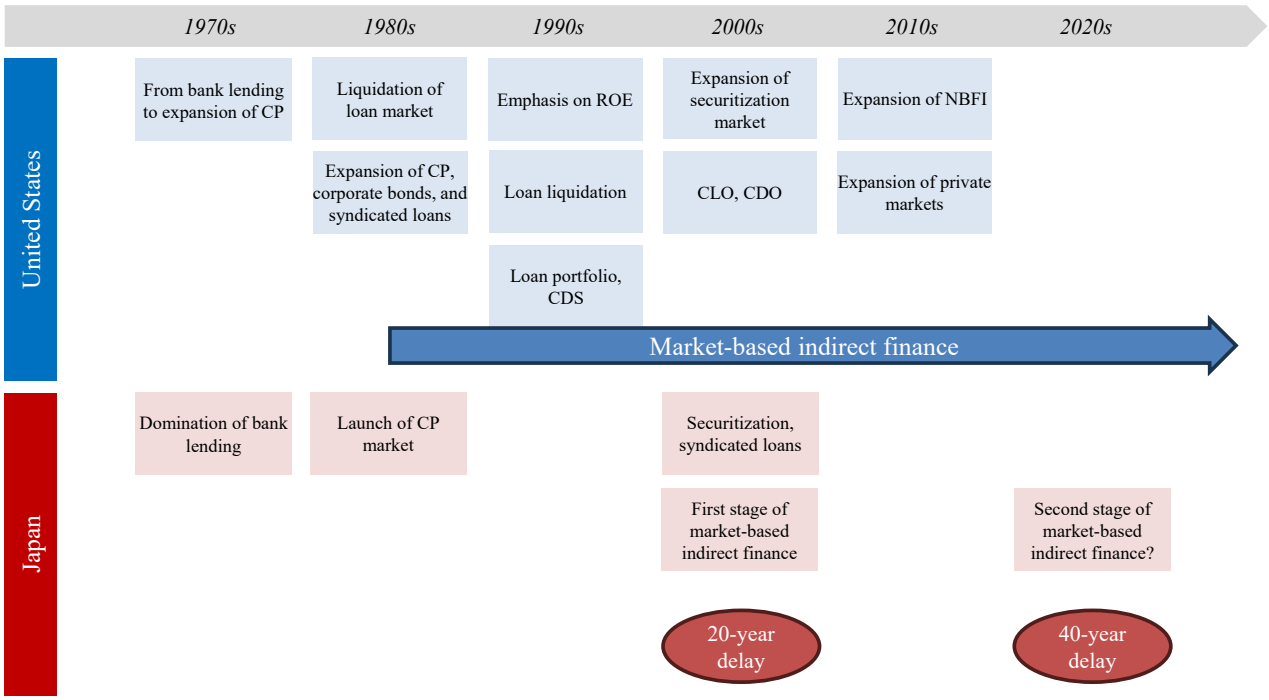


Chart 45

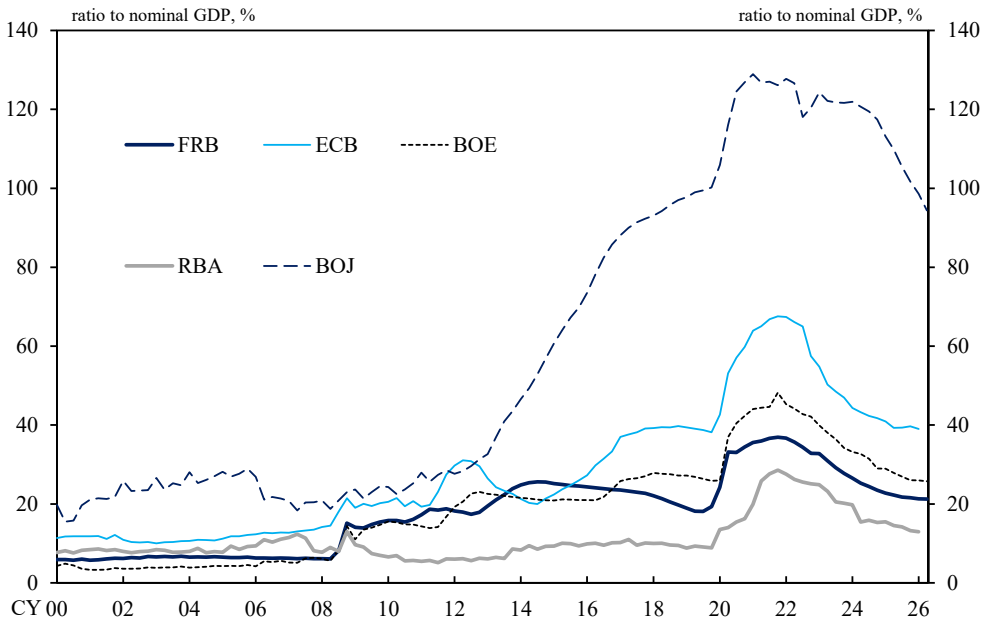
My View on Transformation in Global Capital Markets in the 2020s

	Until 2010s	2020s
Global economy	"Flat world" Free trade and international division of labor under WTO Supply chain	"Fragmented world" Economic security Reshoring
Growth	Secular stagnation Low growth, low interest rates, and low inflation	Global investment boom Demand shock of AI Rising growth expectations, high interest rates, and high inflation
Government finance	From neoliberalism to fiscal expansion	Use of fiscal policy
Central bank balance sheets	Expansion	Remain at high levels after expansion

Chart 46

Central Bank Balance Sheets

(Central banks' balance sheets remain elevated globally, and accommodative conditions continue)



Source: BIS.