Review of MPM: October 2026

Nomura Research Institute, Ltd.

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October 30, 2026

Envision the value,
Empower the change



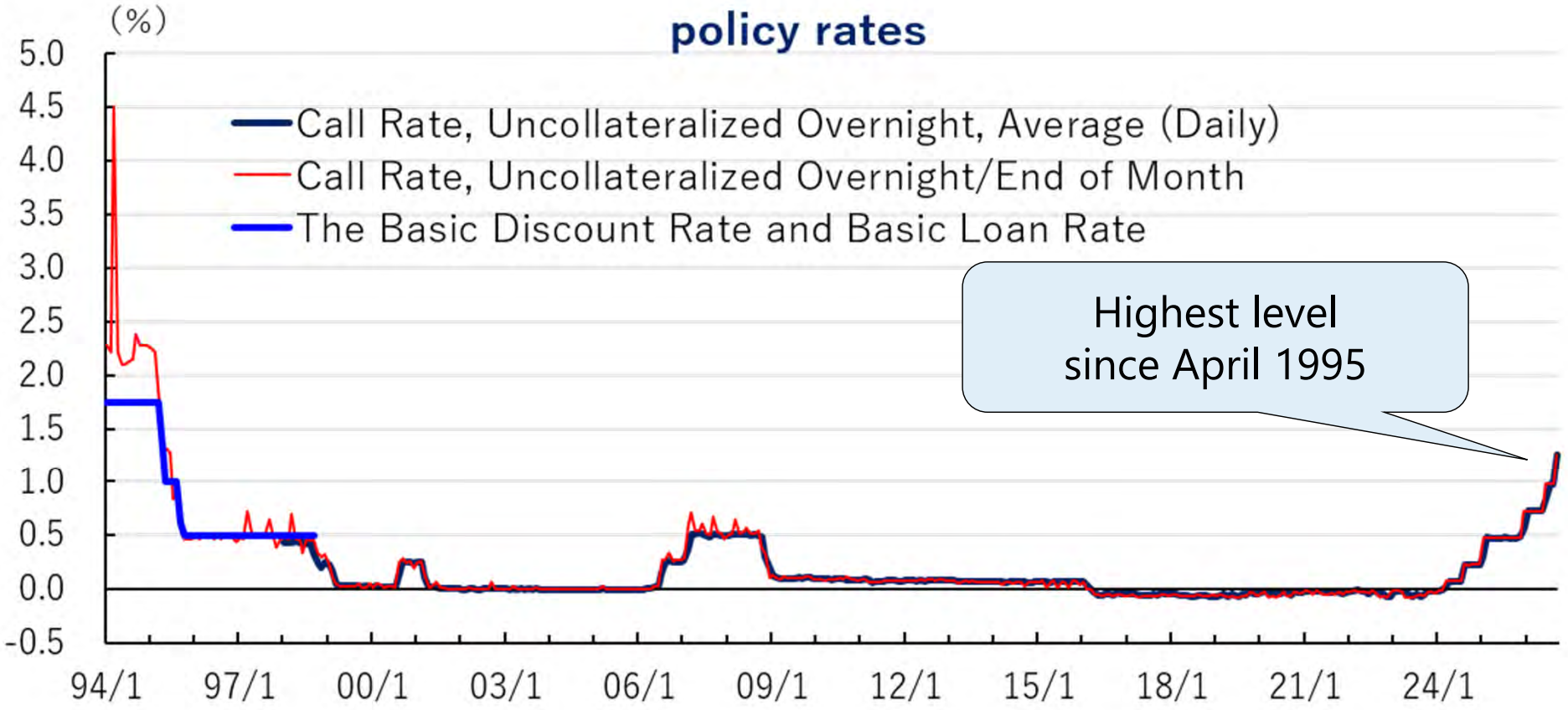
Review of the result of October 2026 MPM

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Policy Interest Rates

The Bank will encourage the uncollateralized overnight call rate to remain at around 1.25 percent.

: interest rate held steady (8 - 1 majority vote)



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Arguments voted for a rate hike

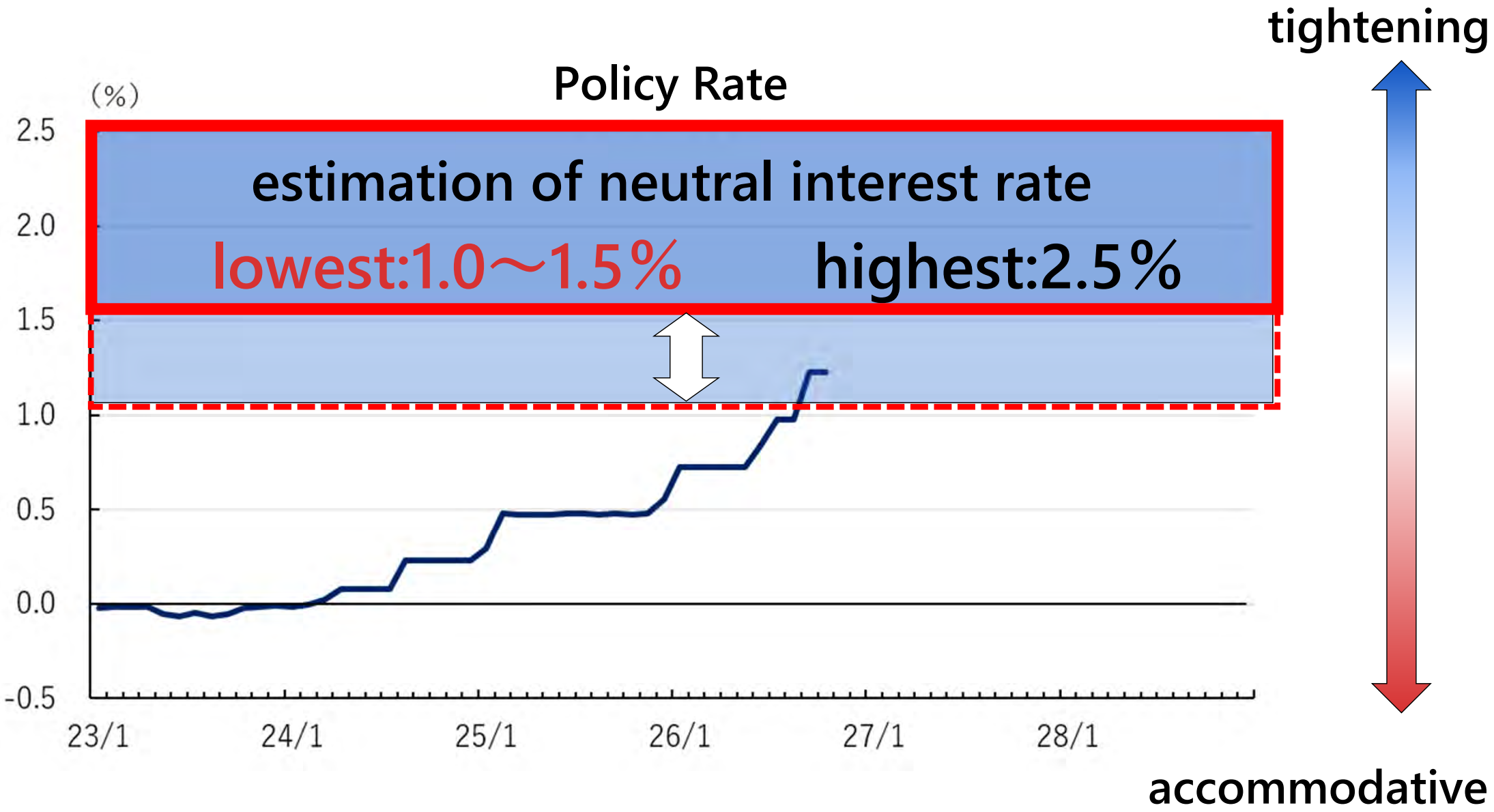
Takata Hajime insists that the Bank would encourage the uncollateralized overnight call rate to remain at around 1.5 percent (=rate hike by 25bps).

- **underlying CPI inflation having reached the price stability target**
- **the situation had shifted to a new phase in which the Bank needs to step up the pace of bringing the policy interest rate closer to the neutral interest rate so that it could make nimble responses.**

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Neutral Interest Rate



（source）NRI

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Change in the Pace of Sales of ETFs

Experience of the sales since January 2026

The Bank has been conducting its sales of ETFs smoothly while avoiding a major impact on the market. Meanwhile, the trading value in the stock market has been expanding.

Fundamental principles for the disposal

The Bank should dispose its holdings of ETFs and J-REITs for adequate prices, taking into account the condition of the financial markets.

The Bank should avoid incurring losses as much as possible.

The Bank should avoid inducing destabilizing effects on the financial markets as much as possible.

Change in the pace of sales of ETFs: From January 2027

	Pace of sales (amount per year)[1]		Proportion to the trading value	Years to complete sales[3]
Before	Book value	About 330 billion yen	**About 0.05%**	About 112 years
After	Book value (Market value)	About 860 billion yen (About 2,460 billion yen[2])	**About 0.1%**	About 43 years

1. The Bank will sell ETFs at the amount approximately proportionate to the share of each ETF in its holdings, with consideration to spreading out the timing of the sales.
2. Calculated using the market-to-book ratio of the ETFs sold by the Bank since January 2026.
3. Calculated by dividing the amount outstanding of the Bank's ETF holdings as of the end of September 2026 by the annual sales amount (on a book value basis).

- A temporary adjustment in the sales amount or a suspension of sales may be made within the range of the annual sales pace in response to changes in financial market conditions. (This remains the same as before.)

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BOJ October MPM: Current Situation

	Current Situation	Changes
Business sentiment	business sentiment has also been at a more favorable level.	“more” was added.
Private consumption	Private consumption has been resilient against the background of an improvement in the employment and income situation, despite the impact of factors such as price increases.	“although weakness has been seen in household sentiment.” was eliminated. “despite the impact of factors such as price increases” was added.
CPI (all items less fresh food)	the year-on-year rate of increase in the CPI (all items less fresh food) has been rising moderately, being at around 2 percent recently, as the effects of a rise in import prices have been emerging, with moves to pass on wage increases to selling prices continuing.	“1.5 percent” was changed to “2 percent”
Inflation expectations	Inflation expectations are at around 2 percent.	“have risen moderately” was eliminated. “are at around 2 percent” was added.

(source) Bank of Japan

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BOJ October MPM: Underlying Inflation 1

<Baseline Scenario of the Outlook for Economic Activity and Prices>

Economic Activity

FY 2026
Continue growing moderately, albeit at a decelerated rate
(↓) rise in energy and raw material prices since early spring
(↑) AI-related demand, wage increase, government's measures, etc.

FY 2027 onward
Economic growth rate is likely to rise moderately
(↑) waning adverse effects of high energy and raw material prices
(↑) intensified virtuous cycle from income to spending

Prices (less fresh food)

In the first half of the projection period
Accelerate to a level clearly above 2 percent
(↑) rise in crude oil prices, rise in the prices of semiconductors and other items, depreciation of the yen

In the second half of the projection period
Decline toward around 2 percent
(↓) waning effects of high crude oil prices

◎ **Underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent**, and is expected to remain at around that level*

- With a sense of labor shortage continuing to be strong, the mechanism in which wages and prices rise moderately in interaction with each other has been operating
- Medium- to long-term inflation expectations are at around 2 percent

*For developments in indicators related to underlying inflation, see the next page

<Policy Board Members' Forecasts>

y/y % chg., medians of forecasts

	FY 2026	2027	2028
Real GDP	0.7 (+0.1)	0.7 (-0.1)	0.8 (-)
CPI (less fresh food)	2.5 (-)	2.6 (+0.2)	2.0 (-)
CPI (less fresh food and energy)	2.4 (-0.1)	2.7 (+0.1)	2.3 (+0.1)

Note: Figures in parentheses indicate changes from the July 2026 Outlook Report. Figures do not take into account the impact stemming from the proposed reduction in the consumption tax on food and beverages.

<Risks to Economic Activity and Prices>

Risks
The situation in the Middle East, developments in AI-related demand, developments in foreign exchange rates, etc.

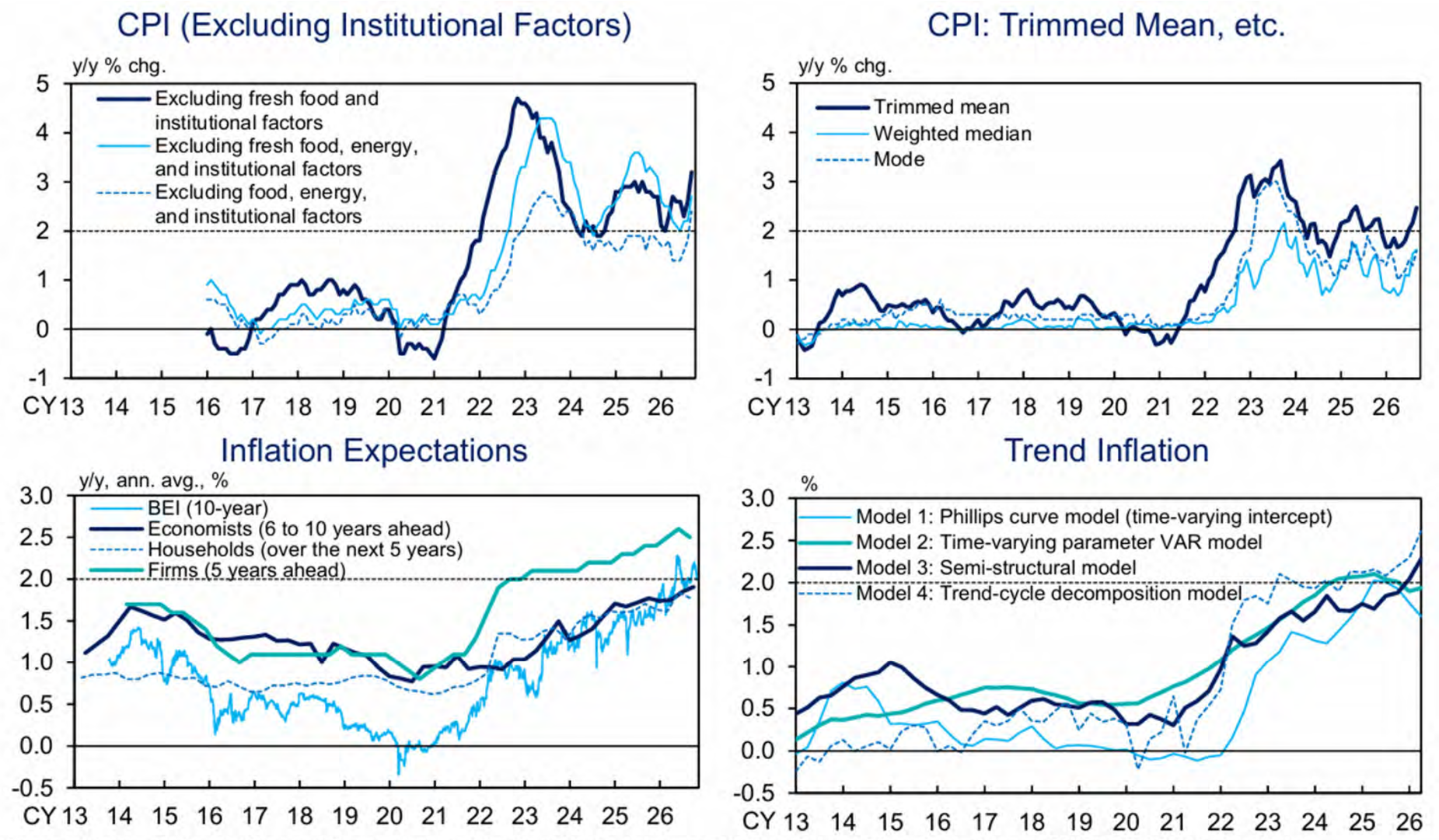
Risk Balance
- ✓ Economic activity: generally balanced
- ✓ Prices: skewed to the upside
- ✓ **There is a risk that** medium- to long-term inflation expectations will rise and **underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent**, given that firms' behavior has been shifting more toward raising wages and prices and there are various factors that could drive up prices.

1

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BOJ October MPM: Underlying Inflation 2



Sources: Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Cabinet Office; Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; Consensus Economics Inc., "Consensus Forecasts"; Bloomberg; Google Trends, etc.

Notes: 1. Figures in the upper-left chart, the upper-right chart, and the lower-right chart are staff estimates. For details, see the following paper: Monetary Affairs Department, Bank of Japan, "The Concept and Measurement of Underlying Inflation," *Bank of Japan Review Series*, March 2026.

2. In the lower-left chart, figures for economists show the forecasts of economists in the *Consensus Forecasts*. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method, which takes into account time variation in the distribution of responses to a five-choice qualitative question. Figures for firms show the inflation outlook of enterprises for general prices in the *Tankan* (all industries and enterprises, average) .

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BOJ October MPM: economic outlook

"Comparing the projections with those presented in the previous Outlook Report, the projected real GDP growth rates are more or less unchanged throughout the projection period. ."

: although the projection for FY2026 has been revised slightly upward.

Factors behind the upward revision for FY2026

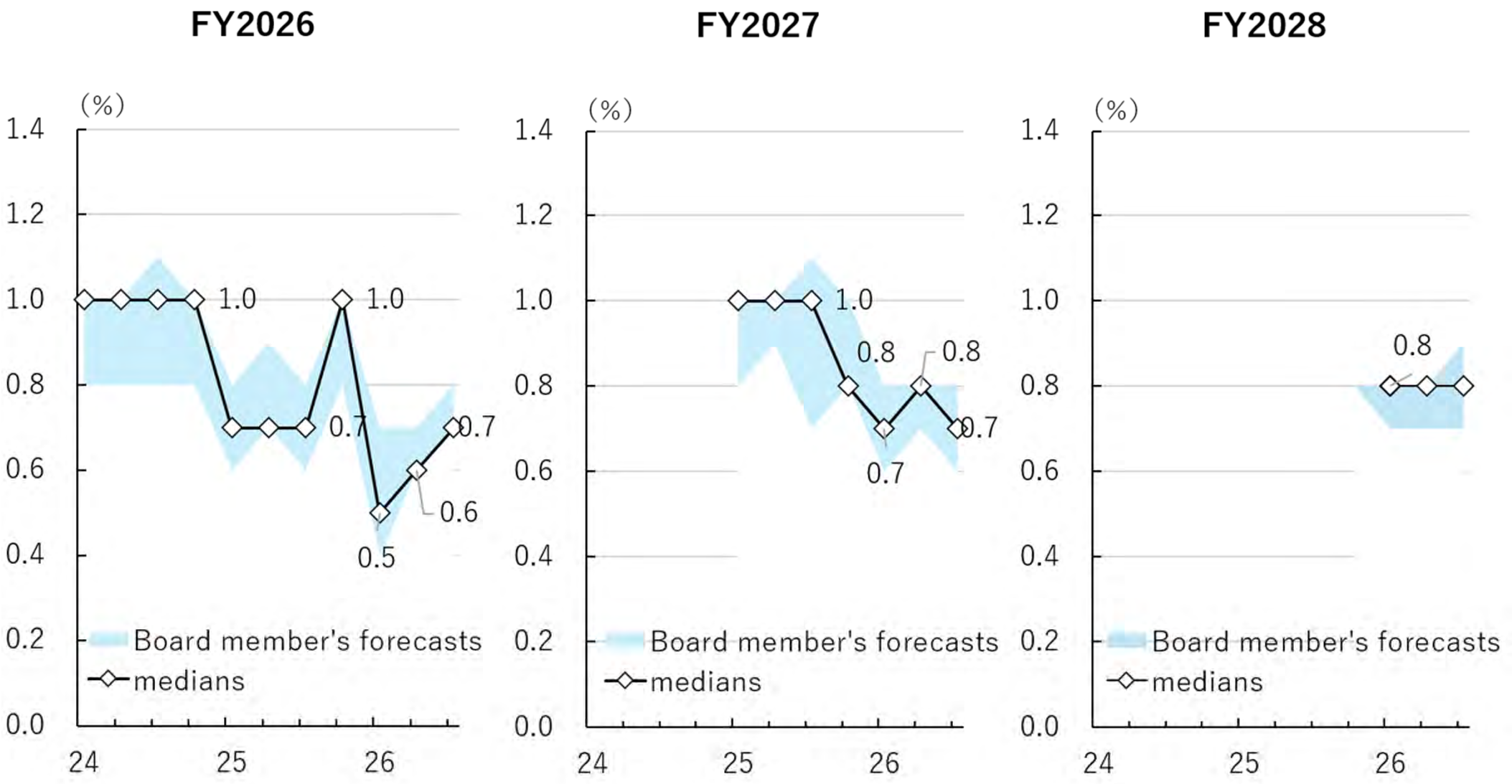
- Exports, despite the impact of the situation in the Middle East, are likely to continue increasing moderately, with the solid increase in global AI-related demand spreading to a broader range of areas. In the previous outlook, exports were expected to remain more or less flat.

- Nominal wages are projected to continue increasing steadily, with base pay increases being realized at around the same level as in 2025. In the previous outlook, nominal wages is projected to remain at around its current pace. (Private consumption, however, is expected to be more or less flat due to the impact of price rises, particularly in energy prices.)

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Forecasts for real GDP



(source) Bank of Japan

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BOJ October MPM: price outlook

"Comparing the projections with those presented in the previous Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2027 is somewhat higher, reflecting factors such as the effects of the rise in crude oil prices since the summer."

Factors behind the upward revision for FY2027

- Medium- to long-term inflation expectations are at around 2 percent. Regarding the outlook, inflation expectations are likely to remain broadly around their current level, as firms' active wage- and price-setting behavior is expected to be maintained on the back of factors such as the tightening of labor market conditions. In the previous outlook, inflation expectations was expected to have risen moderately.

- underlying CPI inflation is at a level that is generally consistent with the price stability target of 2 percent, and is expected to remain at around that level. In the previous outlook, underlying CPI inflation is expected to increase gradually, coming to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter

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Effects of Consumption Tax Cut

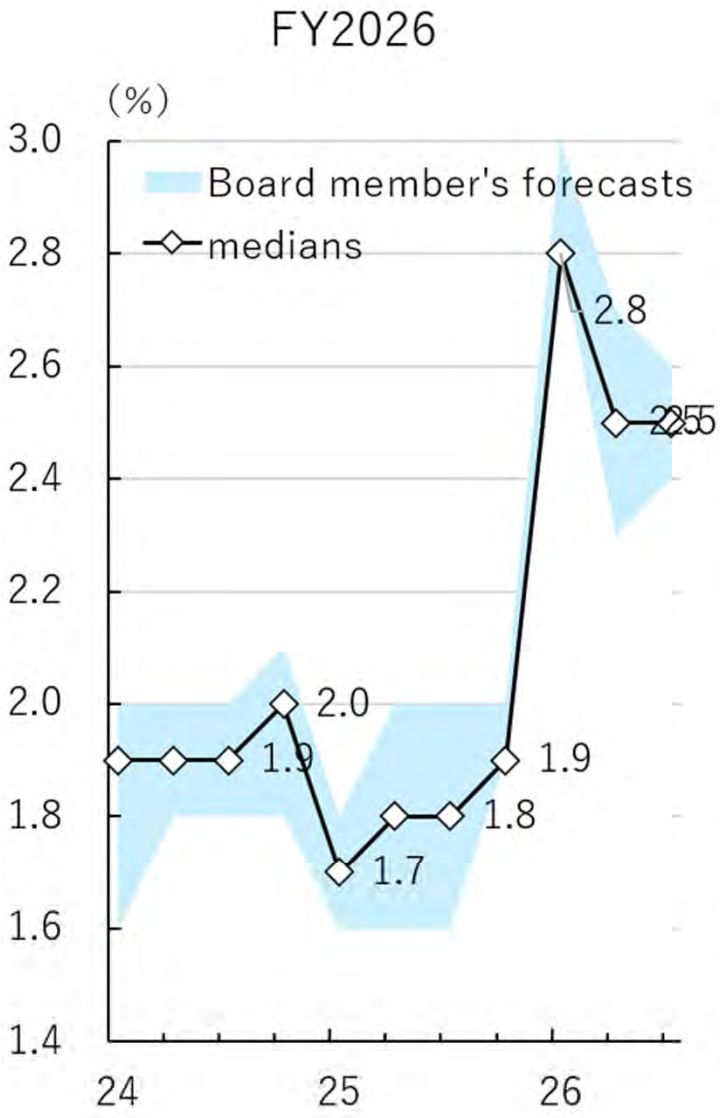
[5] The forecasts in this Outlook Report do not take into account the impact stemming from factors such as the proposed temporary reduction in the consumption tax on food and beverages, which is currently being deliberated in the Diet. Assuming that the consumption tax cut will be applied to the prices of all items specified in the policy outline on tax reforms decided by the Cabinet in September 2026, the effects of the consumption tax cut on the year-on-year rates of change in the CPI figures for fiscal 2027 are estimated to be around minus 1.3 percentage points for the CPI (all items less fresh food) and around minus 1.4 percentage points for the CPI (all items less fresh food and energy). In this context, it is highly likely that upward pressure will be exerted on the economic growth rate, although the degree of impact is highly uncertain.

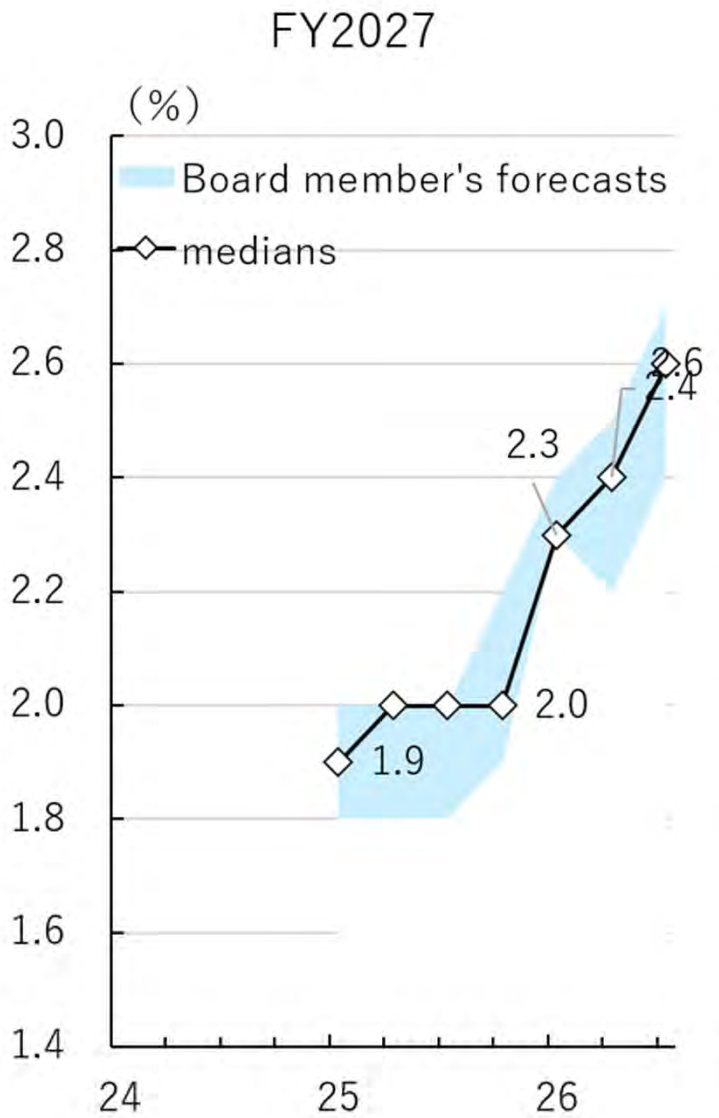
	October Outlook (all items less fresh foods)	After Consumption Tax Cut : ▲1.3%p
FY2026	+2.4%～+2.6% <+2.5%>	+1.1%～+1.3% <+1.2%>
FY2027	+2.4%～+2.7% <+2.6%>	+1.1%～+1.4% <+1.3%>
FY2028	+2.0%～+2.1% <+2.0%>	+0.7%～+0.8% <+0.7%>

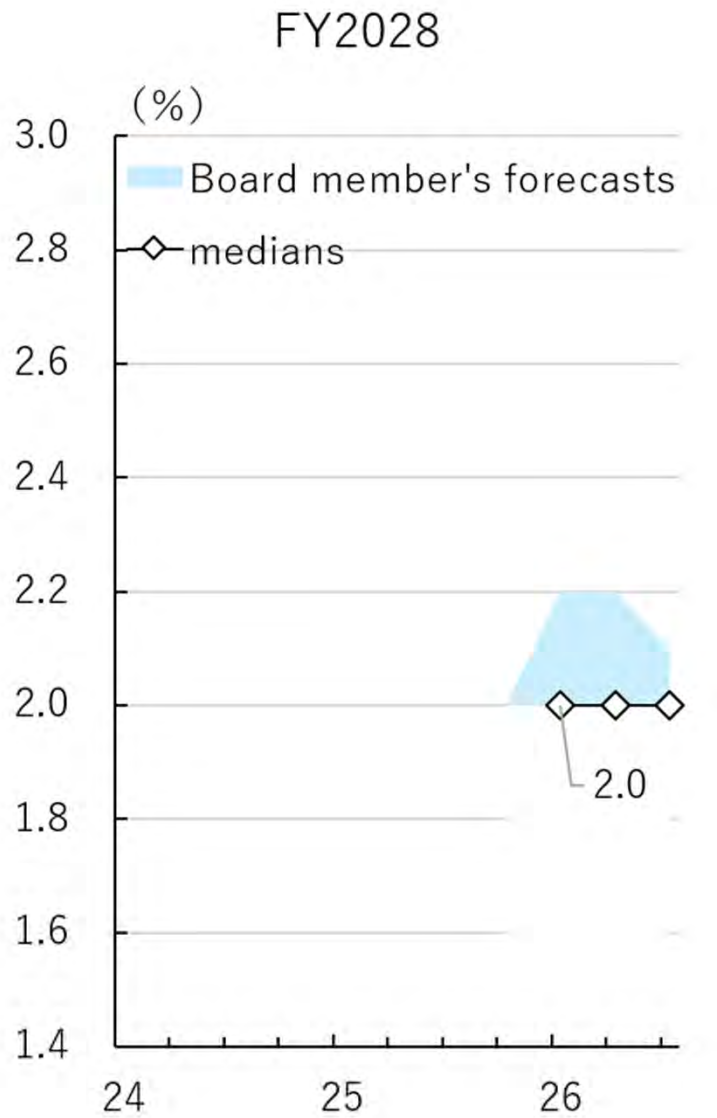
(source) Bank of Japan

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Forecasts for CPI(all items less fresh food)



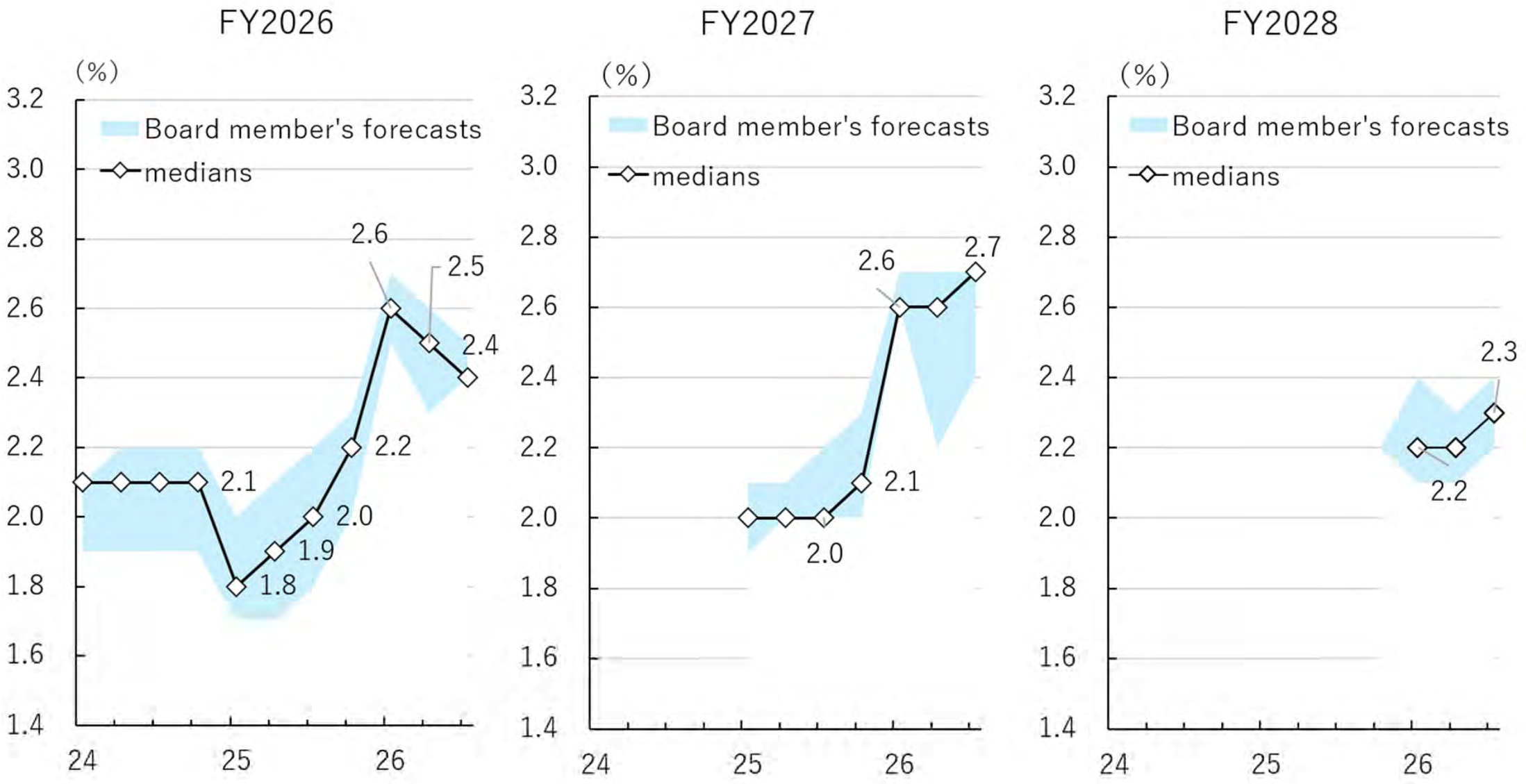




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Forecasts for CPI (all items less fresh food and energy)



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BOJ October MPM: risks

<Risks Unchanged from the Previous Outlook>

- **Effects of developments in the Middle East on economic activity and prices**: Concerns over global crude oil supply and declining oil inventories warrant attention to the risk of a further rise in procurement costs.
- **Developments in AI-related demand:** The positive effects of expanding AI-related demand are expected to spread to a wider range of sectors.
- **Effects of fluctuations in foreign exchange rates on economic activity and prices**: Foreign exchange rates are assessed to have shown somewhat larger fluctuations since the summer.

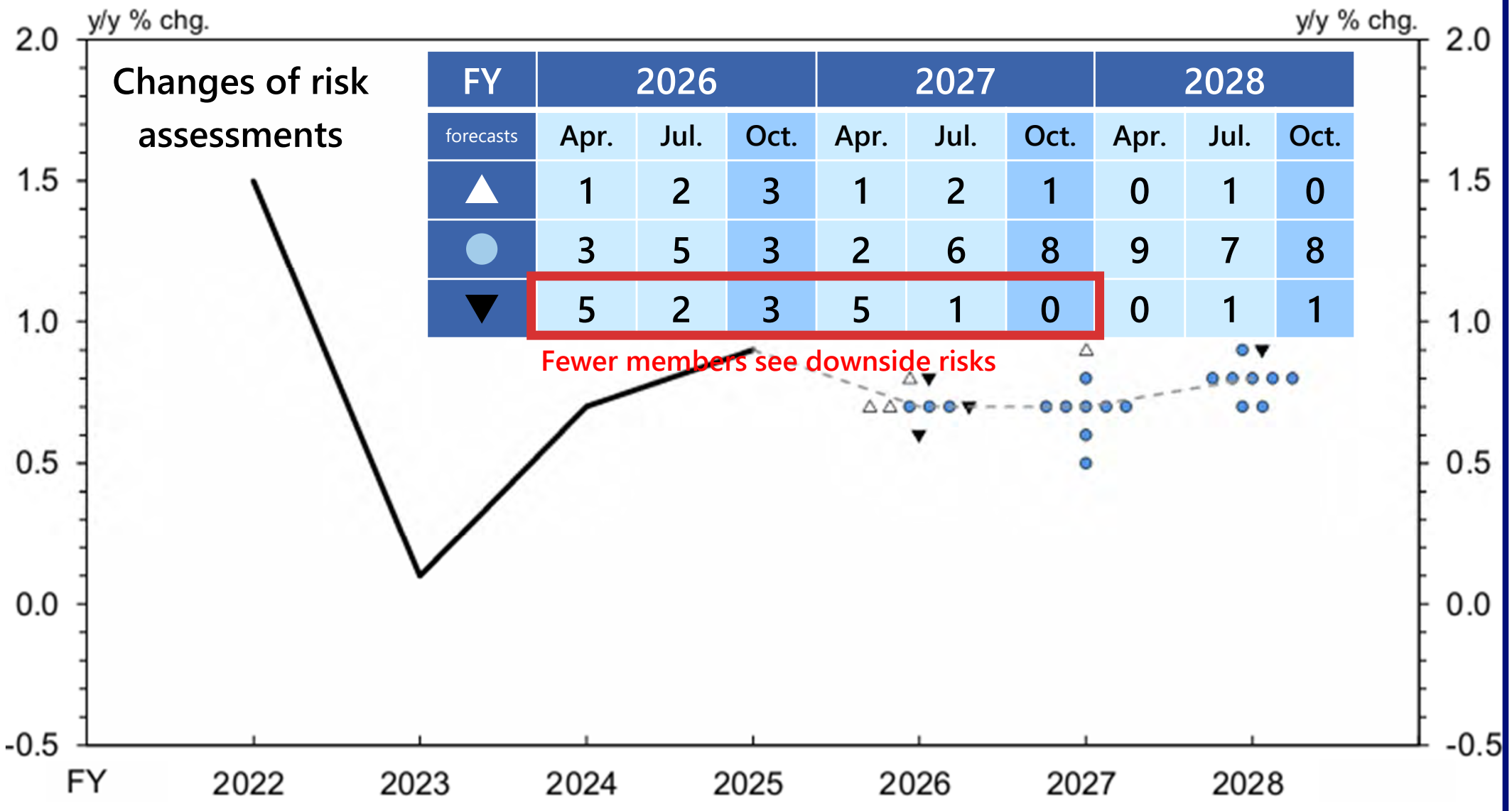
<Additional Risks>

- The effects on Japan's economic activity and prices, through financial markets, of **rising global inflationary pressures** and a shift **toward interest rate hikes by central banks in the United States and Europe**.
- The effects **of fiscal expansion globally** on economic activity, prices, and financial markets.
- The effects on the global economy and prices of **excess supply capacity for certain goods in China**, amid continued high uncertainty surrounding the future pace of growth of the **Chinese economy**.
- **A rise in grain prices** stemming from heightened geopolitical risks and weather-related factors worldwide.

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Risk assessments (Real GDP)



Changes of risk assessments

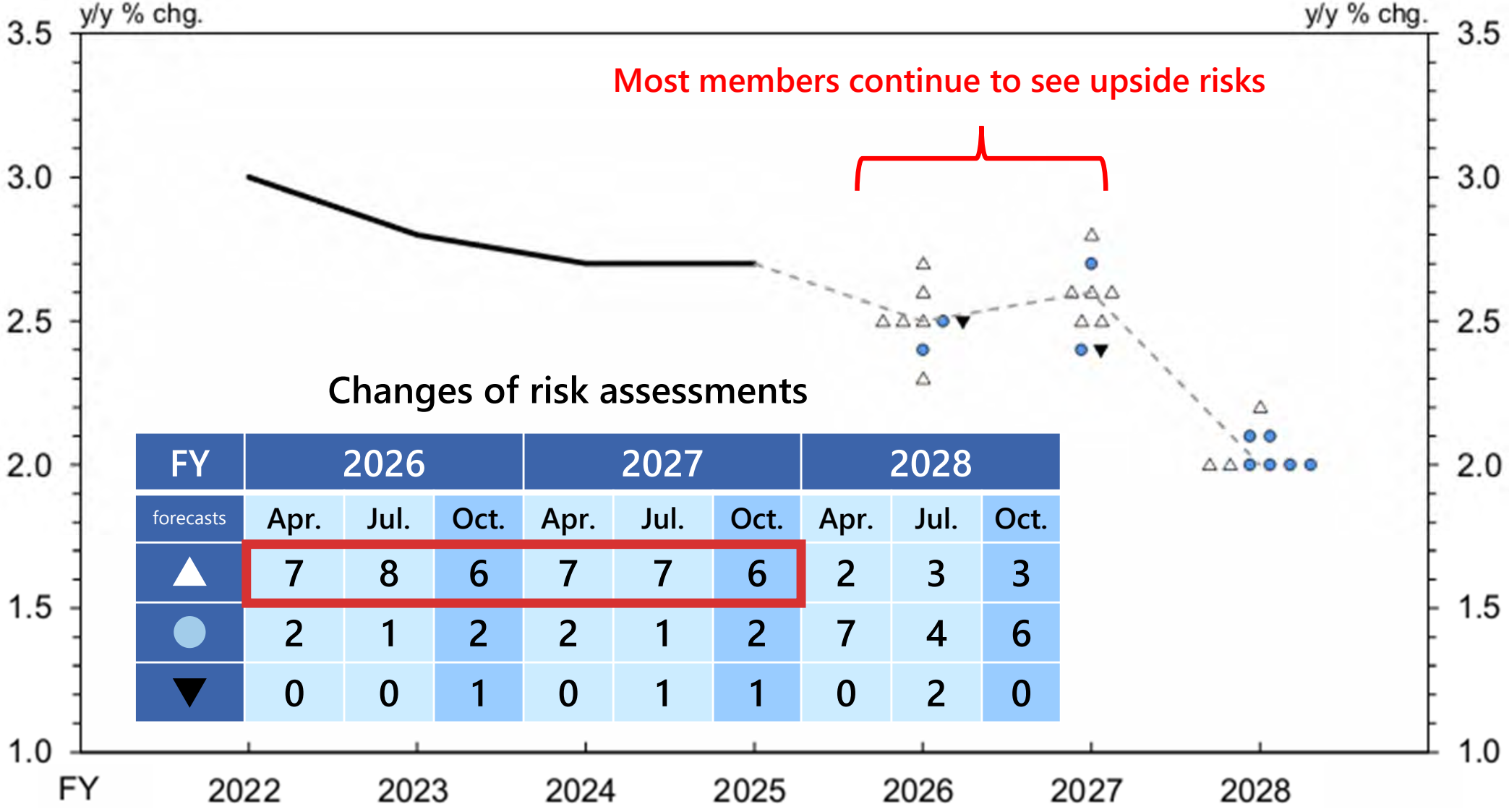
FY	2026			2027			2028		
forecasts	Apr.	Jul.	Oct.	Apr.	Jul.	Oct.	Apr.	Jul.	Oct.
▲	1	2	3	1	2	1	0	1	0
●	3	5	3	2	6	8	9	7	8
▼	5	2	3	5	1	0	0	1	1

Fewer members see downside risks

Source: Bank of Japan, "Outlook for Economic Activity and Prices" (January, April, and July 2026)

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Risk assessments (CPI(All Items Less Fresh Food))



Changes of risk assessments

FY	2026			2027			2028		
forecasts	Apr.	Jul.	Oct.	Apr.	Jul.	Oct.	Apr.	Jul.	Oct.
▲	7	8	6	7	7	6	2	3	3
●	2	1	2	2	1	2	7	4	6
▼	0	0	1	0	1	1	0	2	0

Source: Bank of Japan, "Outlook for Economic Activity and Prices" (January, April, and July 2026)

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Review of Governor Ueda's Press Conference

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Review (1)

Backward looking	Forward looking
● **Overseas Developments** ・No remarks. ● **Financial Conditions** ・Financial conditions remain accommodative. ・The degree of accommodation is gradually diminishing. ● **Corporate Activity and Exports** ・Business fixed investment related to AI remains robust.	● **Overseas Developments** ・Global inflationary pressure is higher. ● **Financial Conditions** ・Adjusting the degree of accommodation in financial conditions also plays an important role in anchoring inflation expectations. ● **Corporate Activity and Exports** ・There is uncertainty as to whether AI-related investment will generate commensurate returns. With market expectations running ahead of realized earnings, financial markets have undergone adjustments as earnings results have become available. Such volatile movements are likely to recur.

※The Governor's remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

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Review (2)

Backward looking	Forward looking
● **Prices and Inflation Expectations** ・Medium- to long-term inflation expectations had remained well below 2 percent until recently, but have risen gradually and reached around 2 percent. ・Compared with the United States, however, they are assessed to be far less firmly anchored. ・The change in the assessment of underlying inflation also reflects the effects of developments in the Middle East becoming apparent in the headline CPI in September and October. ● **Government and Fiscal Policy** ・No remarks.	● **Prices and Inflation Expectations** ・Although headline inflation may fluctuate, underlying inflation is projected to remain at around 2 percent. ・Inflation expectations are an important indicator in assessing whether underlying inflation will become firmly established at 2 percent. ● **Government and Fiscal Policy** ・A declaration that Japan has exited deflation falls within the purview of the government, not the central bank.

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Comments on Policy Management (1)

Assessment of Risk Factors

- ✓ It is difficult to judge whether risks have increased in quantitative terms overall. In addition to the risks identified previously, however, attention should be paid to a qualitative change: inflationary pressures associated with AI-related developments and the situation in the Middle East could prompt interest rate hikes by central banks in the United States and Europe, lead to higher short-term interest rates globally, and alter global financial conditions.

Assessment of Underlying Inflation

- ✓ Underlying inflation has risen gradually, reflecting the effects of various measures taken by the government and the Bank of Japan since 2013, tighter labor market conditions, and firms' increasingly active price-setting behavior. Many relevant indicators are now at around 2 percent. The consumer price index (CPI) excluding temporary factors has risen; inflation expectations, taken as a whole, have increased moderately to around 2 percent; and trend inflation is also around 2 percent.
- ✓ All Policy Board members agreed on the importance of firmly establishing inflation at 2 percent in a sustainable and stable manner, rather than merely regarding the current rate of inflation as acceptable.
- ✓ The Bank will continue to examine the likelihood of the outlook being realized and the risks surrounding it. It was judged necessary to assess developments in economic activity and prices for a little longer before making a decision. At the same time, although underlying inflation is broadly consistent with the price stability target, financial conditions remain accommodative and upside risks to inflation warrant close attention.

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Comments on Policy Management (2)

Firmly Establishing Price Stability

- ✓ Whether price stability has become firmly established will be assessed using a range of indicators of underlying inflation. In addition to the figures themselves, it is important to examine the mechanisms that would allow these indicators to remain stable. Particular attention should be paid to whether medium- to long-term inflation expectations are anchored. It is also crucial to assess whether wage- and price-setting behavior remains consistent with the 2 percent target when actual inflation falls below 2 percent—for example, whether 2 percent becomes an accepted reference point in labor-management wage negotiations.
- ✓ The objective is to achieve the price stability target in a sustainable and stable manner, and that point has not yet been reached. Monetary policy will be conducted so as to firmly establish such a situation. Accordingly, achieving the target is not a matter of making a declaration at a particular point in time.
- ✓ A declaration that Japan has exited deflation is a matter for the government. Comment on the accord is withheld at this point.

Upside Risks to Inflation

- ✓ As indicated in the assessment of the balance of risks, upside risks to inflation remain non-negligible. They have not, however, increased substantially compared with a month ago.
- ✓ An important consideration is whether monetary policy can effectively help anchor inflation expectations. Given the upside risks to inflation, the question is how to adjust the degree of monetary accommodation.
- ✓ With regard to heightened global inflation risks, attention will be paid to transmission channels including medium- to long-term interest rates and foreign exchange rates.

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Comments on Policy Management (3)

Effects of Past Interest Rate Hikes

- ✓ To avoid an excessive slowdown in economic activity or raising rates too far, the degree of monetary tightening must ultimately be assessed in relation to inflation. Along the way, close attention should be paid to financial conditions, including corporate financing and bank lending. Surveys of both banks and firms currently indicate that, at the macroeconomic level, firms do not face difficulties in raising funds and bank lending conditions remain favorable. Bank lending continues to increase in quantitative terms. A closer examination, however, points to reports of tightening cash-flow conditions, particularly among small and micro-sized firms. These developments warrant monitoring.

Pace of Interest Rate Hikes

- ✓ Decisions on interest rate hikes from December onward will be made at each Monetary Policy Meeting, based on an assessment of the likelihood of the outlook being realized and the risks surrounding it.
- ✓ It would be desirable for the policy rate eventually to reach a level broadly consistent with the neutral rate, allowing monetary policy to respond flexibly to shocks in either direction. In practice, however, it is difficult to determine when that point has been reached. The cumulative effects of past rate hikes must be assessed gradually through developments in financial conditions.
- ✓ While the policy rate should eventually move toward the neutral rate, the pace will be determined carefully, taking account of the cumulative effects of past hikes.

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Comments on Policy Management (4)

Considerations in Deciding on Rate Hikes

- ✓ Conducting monetary policy appropriately so as to firmly establish price stability will gradually strengthen public confidence in the Bank and, in turn, reinforce central bank independence.
- ✓ The pace of interest rate hikes cannot be determined in advance.
- ✓ The emphasis is not so much on flexible policy conduct for its own sake as on responding appropriately to upside risks, given that a visible acceleration in inflation would be undesirable.

Review of the Pace of ETF Sales

- ✓ The pace of sales was last announced one year and one month ago. Since then, stock prices have risen by around 20 percent and trading volume has increased substantially. By the summer, the actual pace of sales had fallen below the initially envisaged rate of 0.05 percent. Against this background, the Bank reviewed its past sales of shares purchased from financial institutions and assessed the overall situation. It concluded that a pace of around 0.1 percent—which would take around 43 years—would have only a limited impact on the market.
- ✓ The market value of the holdings is difficult to project, as it depends more on stock price developments than on the pace of sales. The number of shares held, however, will decline, as will the Bank's share of the market.

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Judgement for the underlying inflation rate in Japan

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Conditions for Consecutive or Large Rate Hikes

Q. "Is a 50-basis-point rate hike, or a series of consecutive rate hikes, difficult to envisage?"

A. "Your question is about the relationship between rate hikes and financial conditions, and whether, in that context, a rate hike of more than 25 basis points is possible. In short, I think **there are various possibilities depending on developments in prices. We therefore cannot decide in advance to rule out any particular course of action**."

Q. "How do you view the possibility of consecutive rate hikes at this point?"

A. "To put it simply, **whether we make a large rate hike or raise rates several times in succession would depend on whether there is a high risk of inflation rising far above the price stability target, or whether it has already exceeded the target**. The United States and Europe in 2022 and 2023 are good examples.

Our policy is to think carefully and act in advance to avoid such a situation. We do not currently see underlying inflation as clearly exceeding 2 percent, but we will continue to make adjustments preemptively so that it does not do so. I believe this would also reduce the possibility of finding ourselves compelled to make large rate hikes that could, in some circumstances, cause unexpected disruptions to the economy or financial markets."

(Source) Translated into English by Nomura Research Institute based on remarks by the Governor at the Press Conference following the September Monetary Policy Meeting.

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Underlying Inflation and the Pace of Interest Rate Hikes

Pace of interest rate hikes:

Step 1
Is inflation approaching the price stability target?

25 bps every 6 months

Step 2
Has the price stability target been achieved?

25 bps every 3 months

・There is a risk that inflation will overshoot the price stability target.
・The economy is more resilient than expected.

BoJ conduct monetary policy so as to avoid moving to Step 3 and Step 4.

Step 3
Is there a high risk that inflation will overshoot the target?

25 bps every 1 or 2 months
= consecutive rate hikes

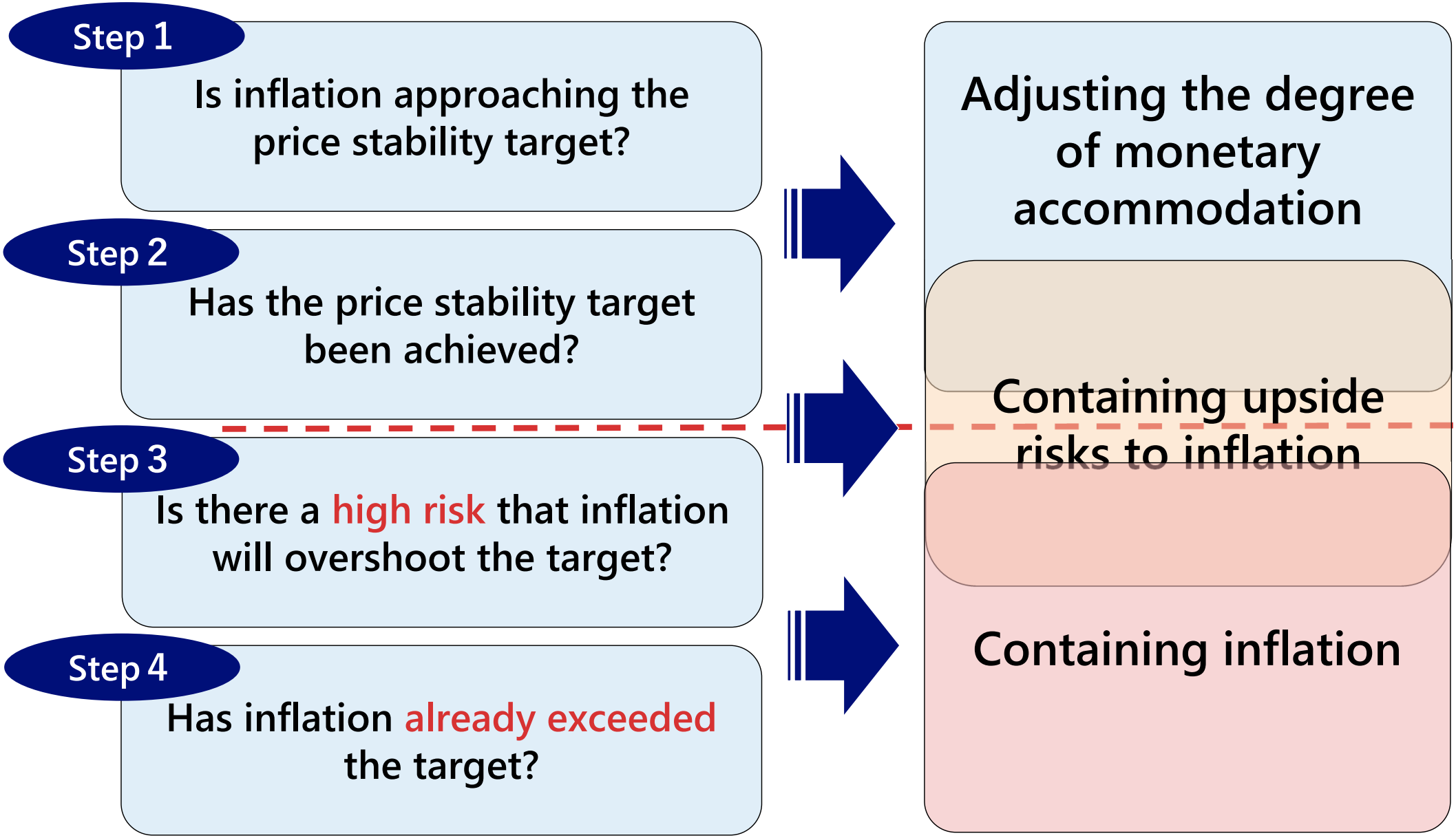
Step 4
Has inflation already exceeded the target?

50 bps every 1 or 2 months
= consecutive large rate hikes

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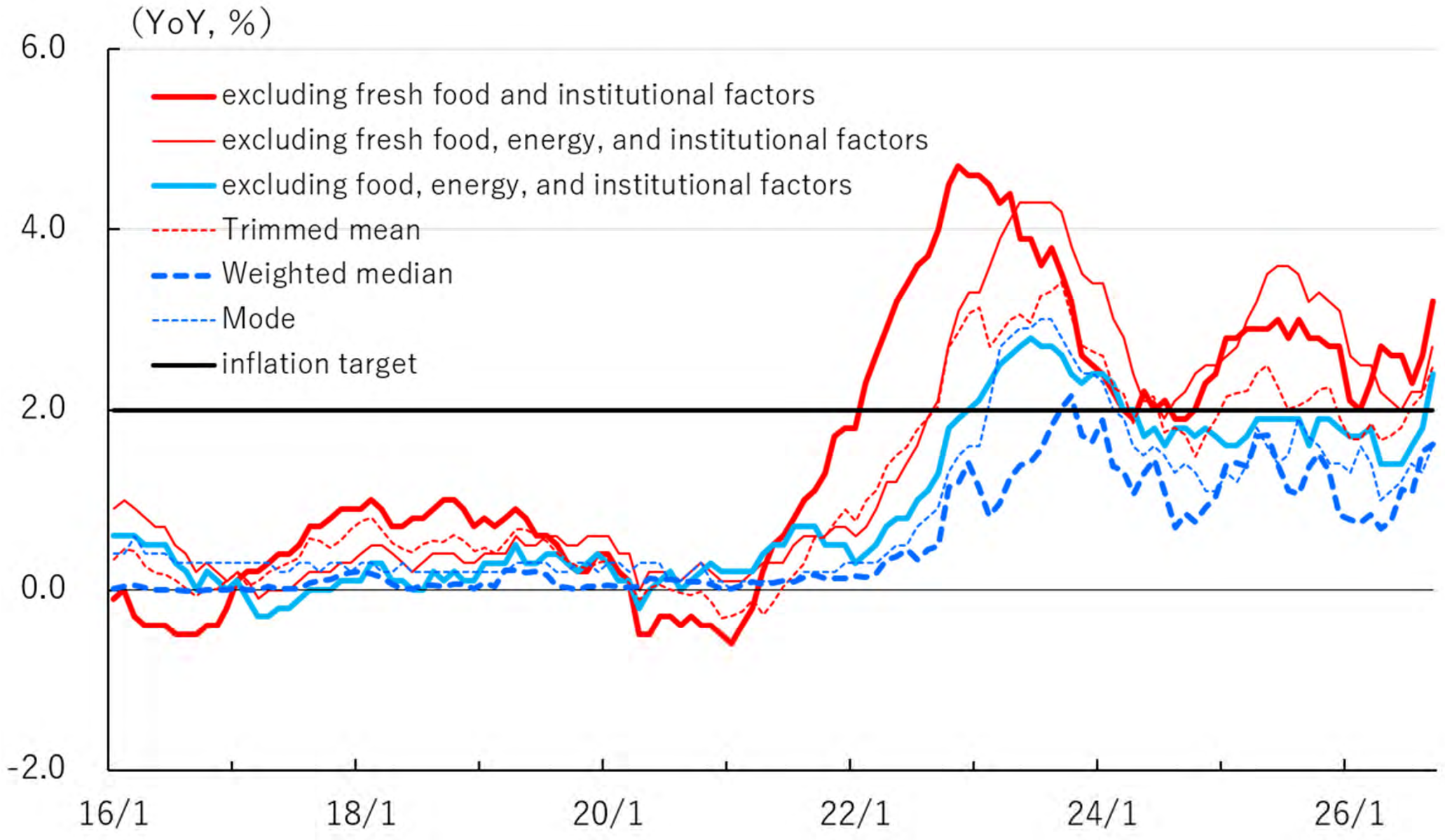
The Purpose of Interest Rate Hikes



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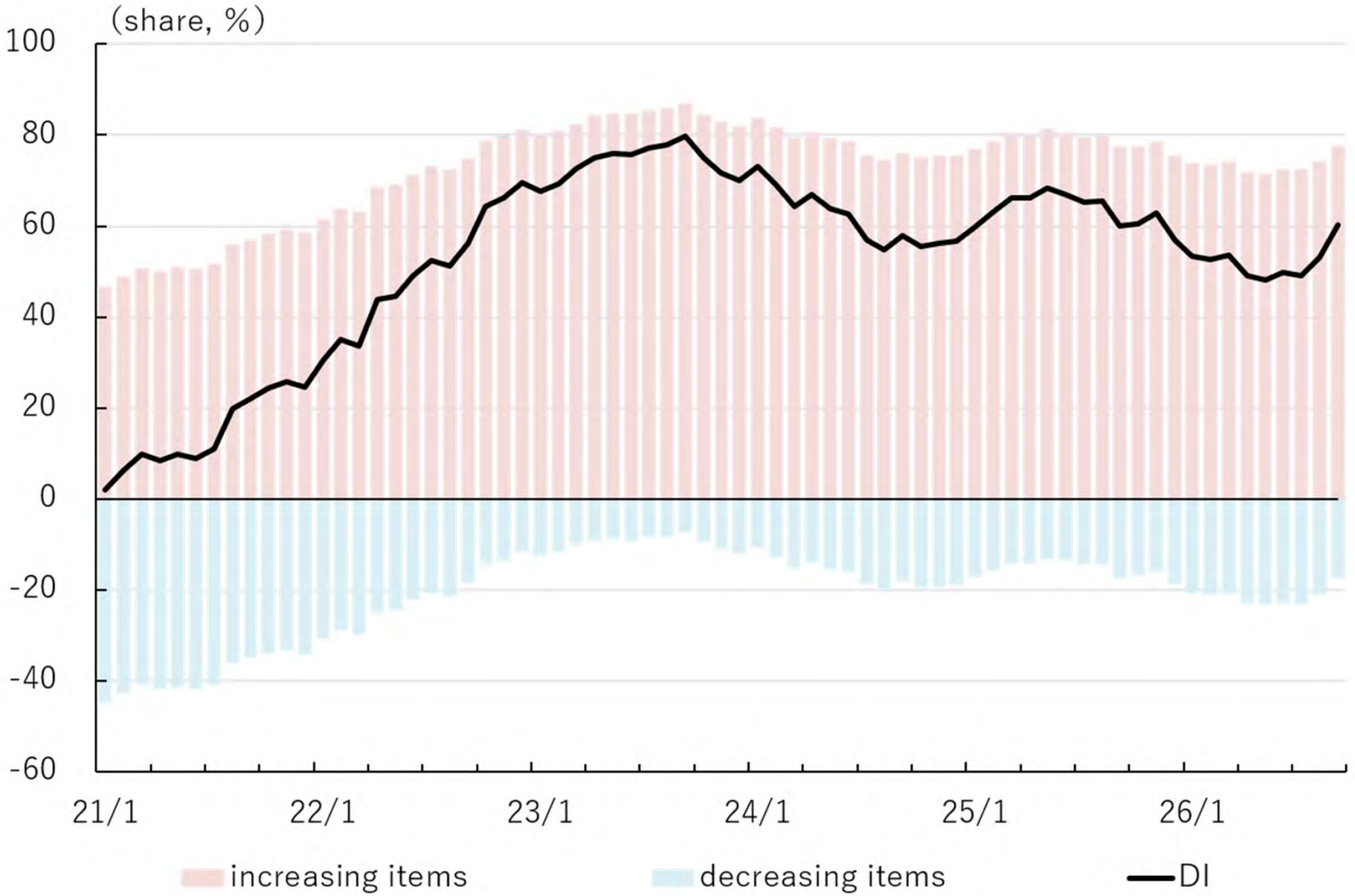
Indicators for Core CPI (1)



(Source) Bank of Japan

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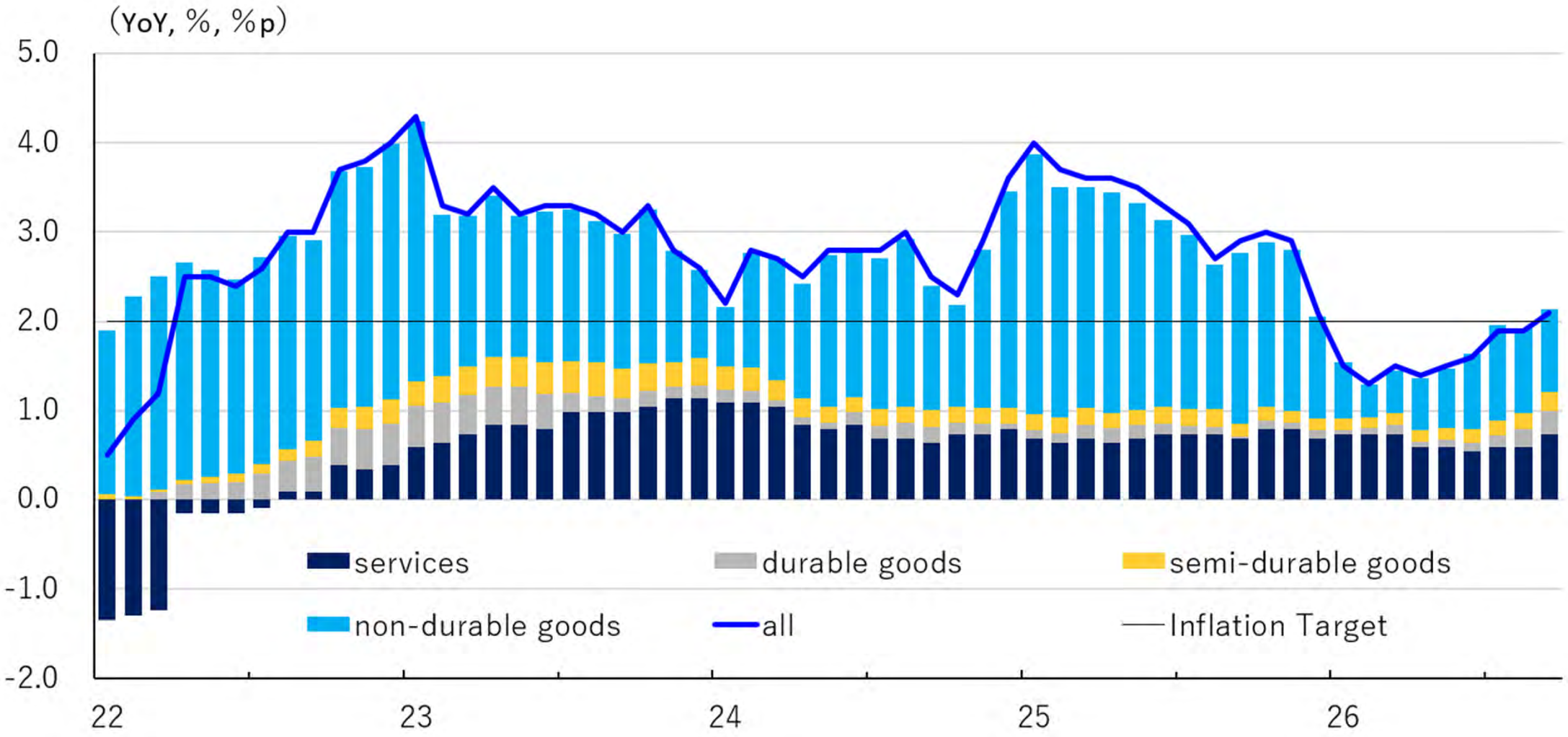
Indicators for Core CPI (2)



(Source) Bank of Japan

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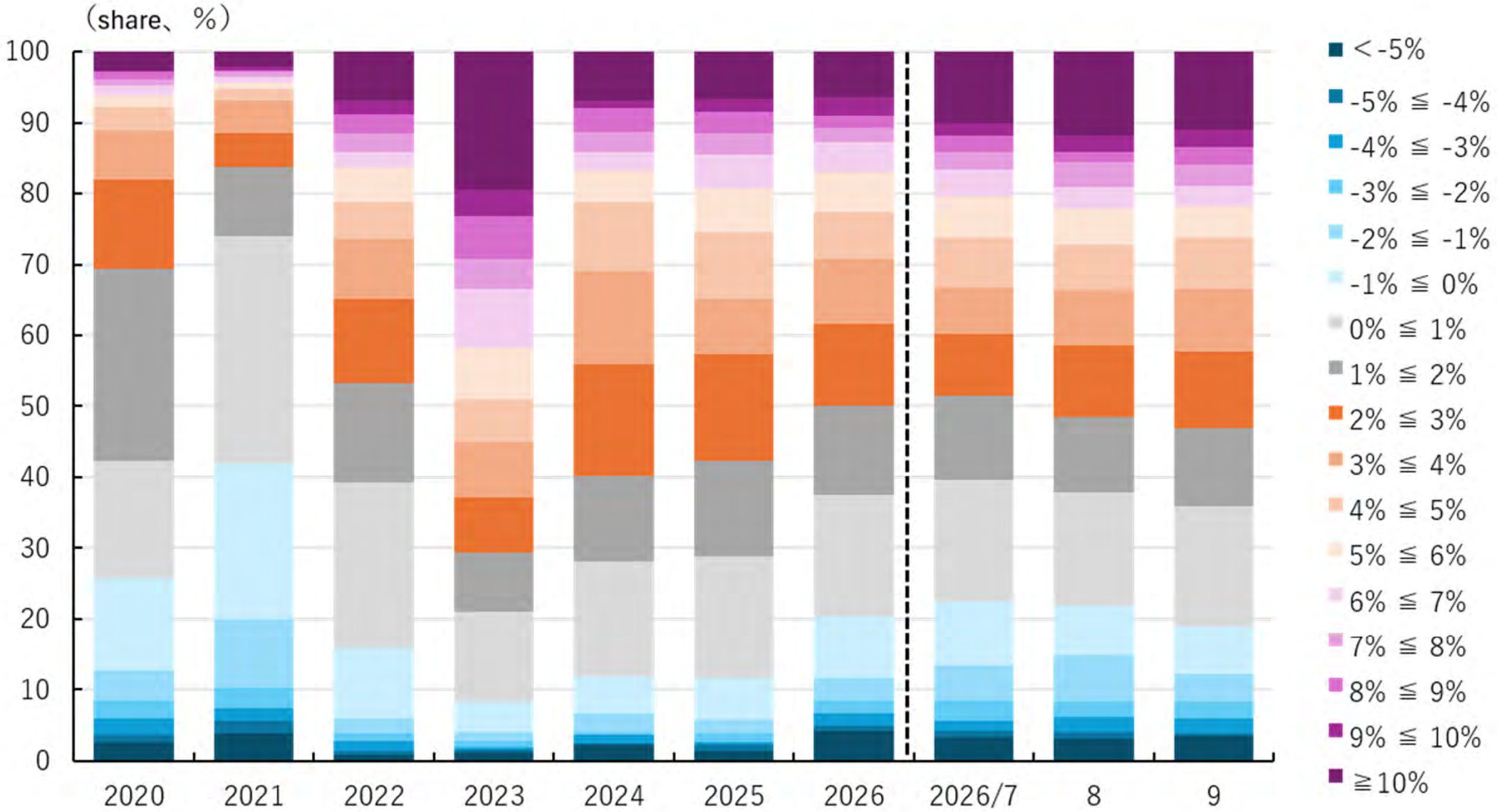
CPI



(Source) Ministry of Internal Affairs and Communications (MIC)

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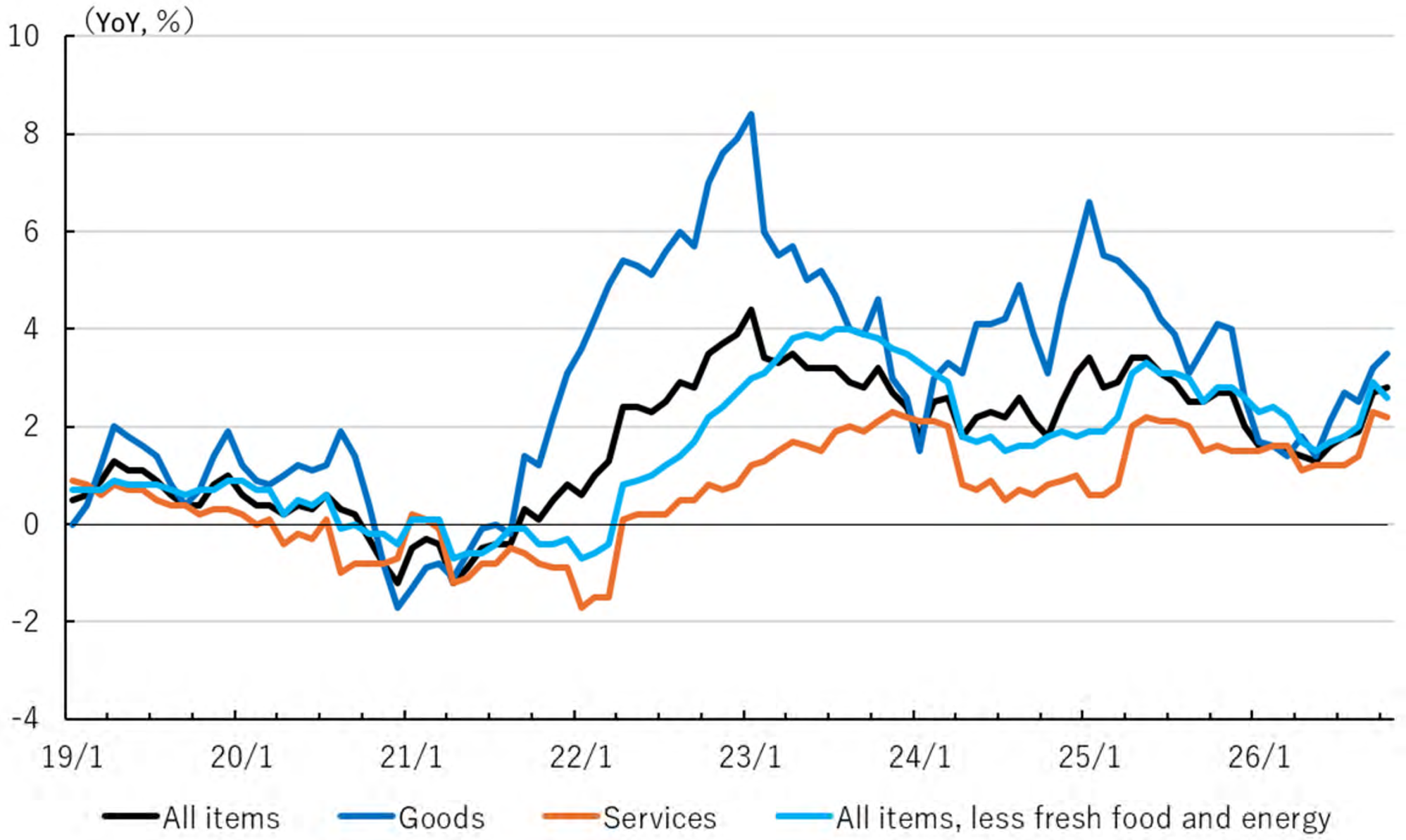
Distribution of Price Increases by Item



(Source) Ministry of Internal Affairs and Communications (MIC)

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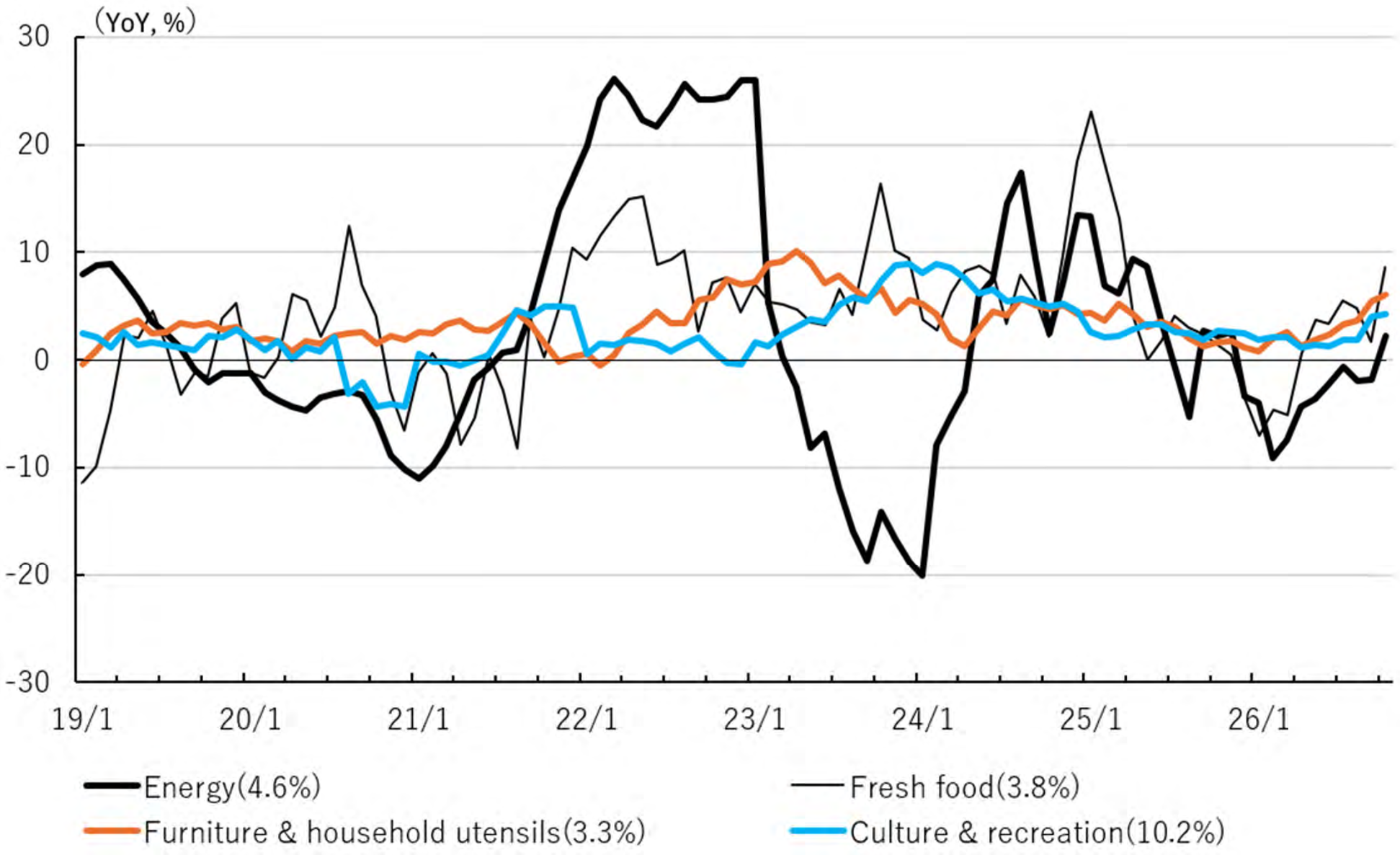
Tokyo-area CPI ①



(Source) Ministry of Internal Affairs and Communications (MIC)

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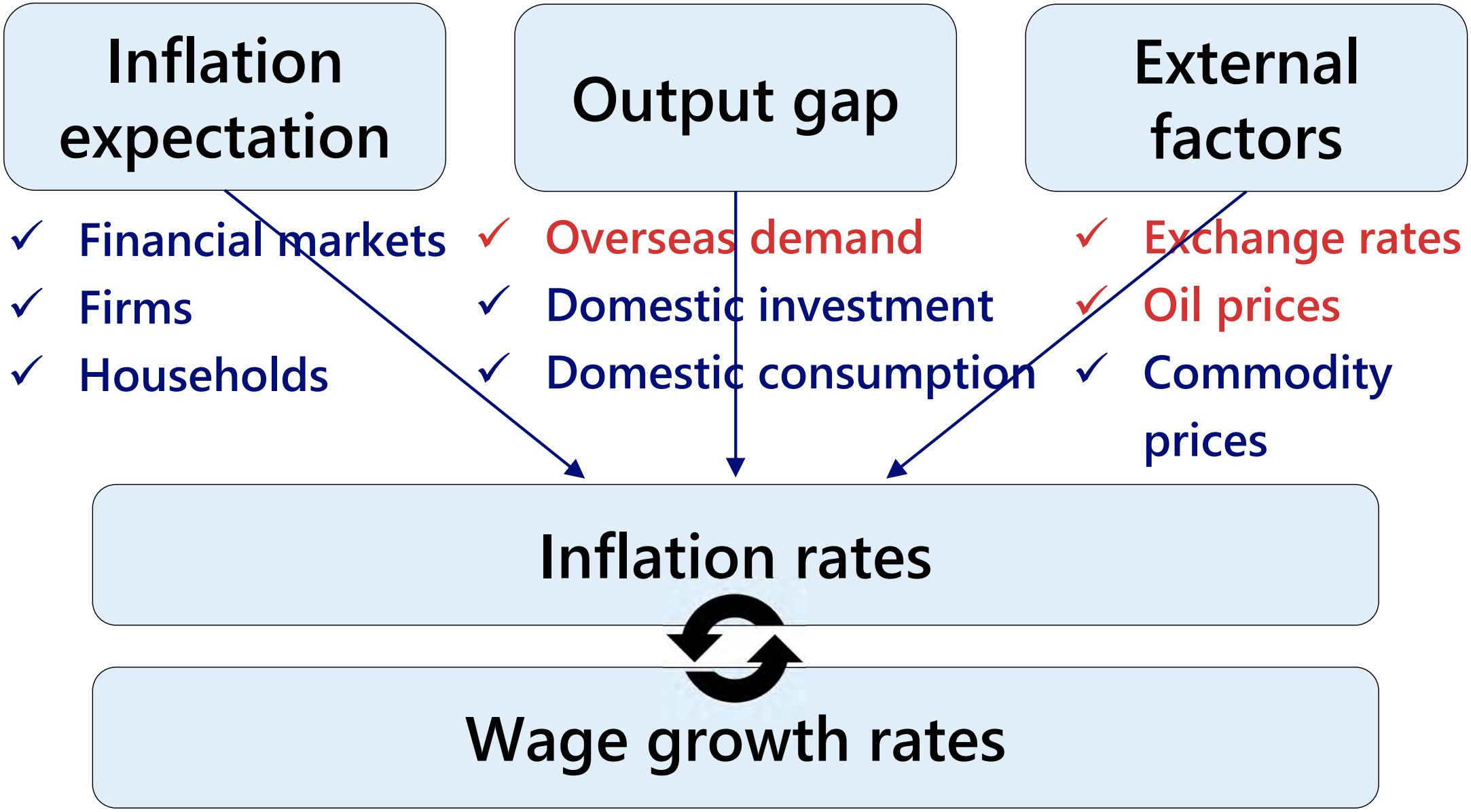
Tokyo-area CPI ②



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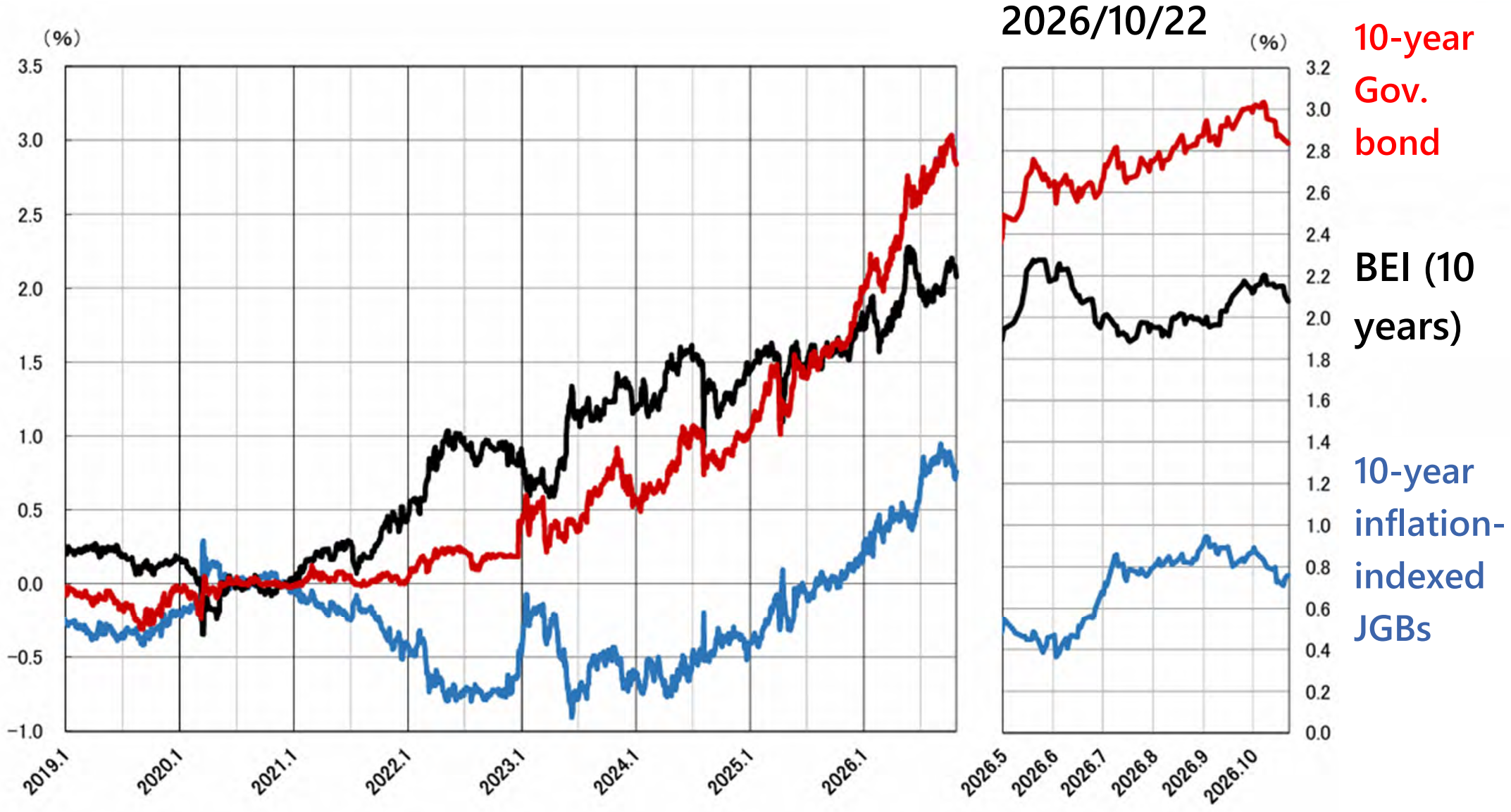
Structure of Inflation Rate



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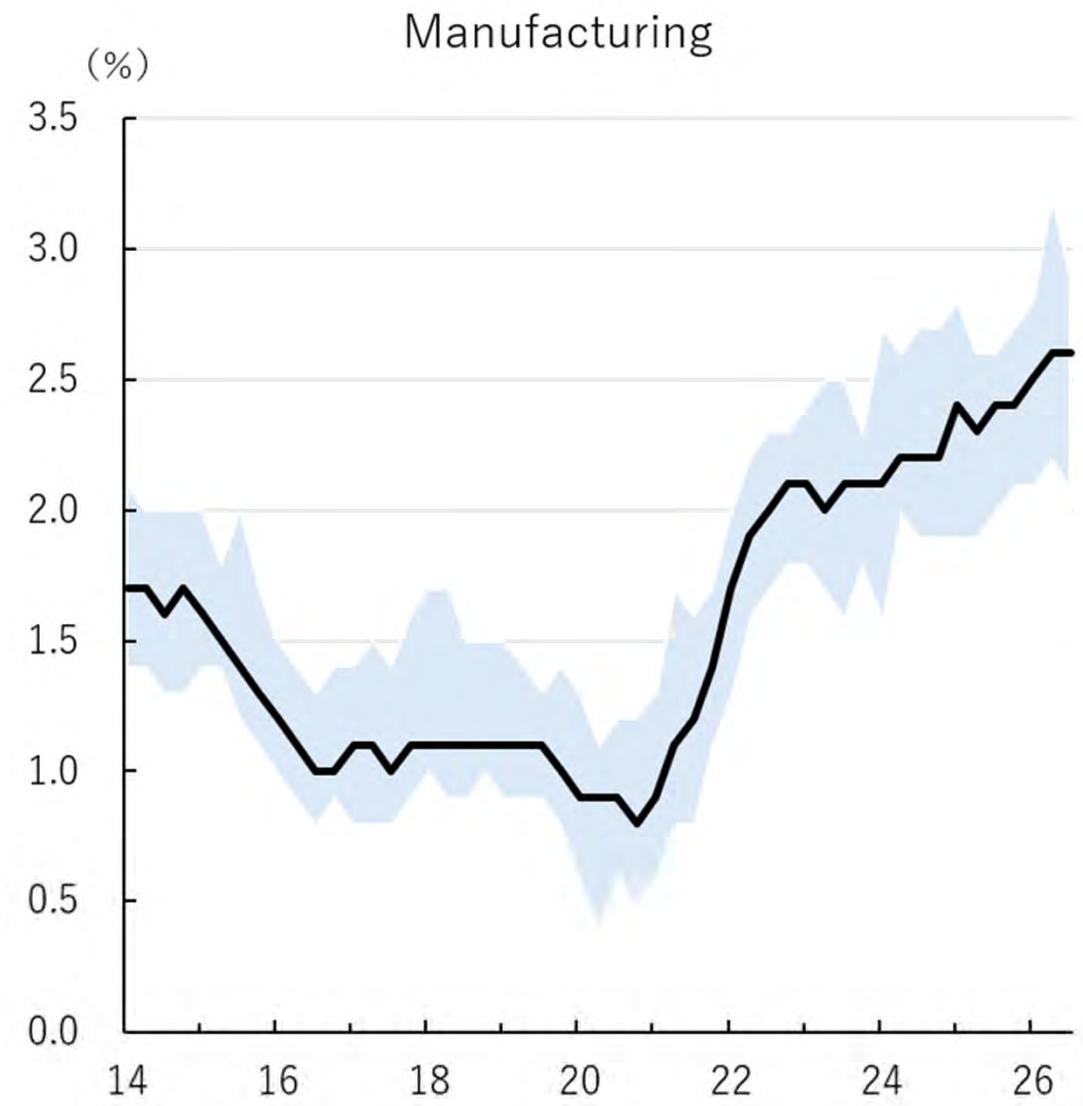
BEI

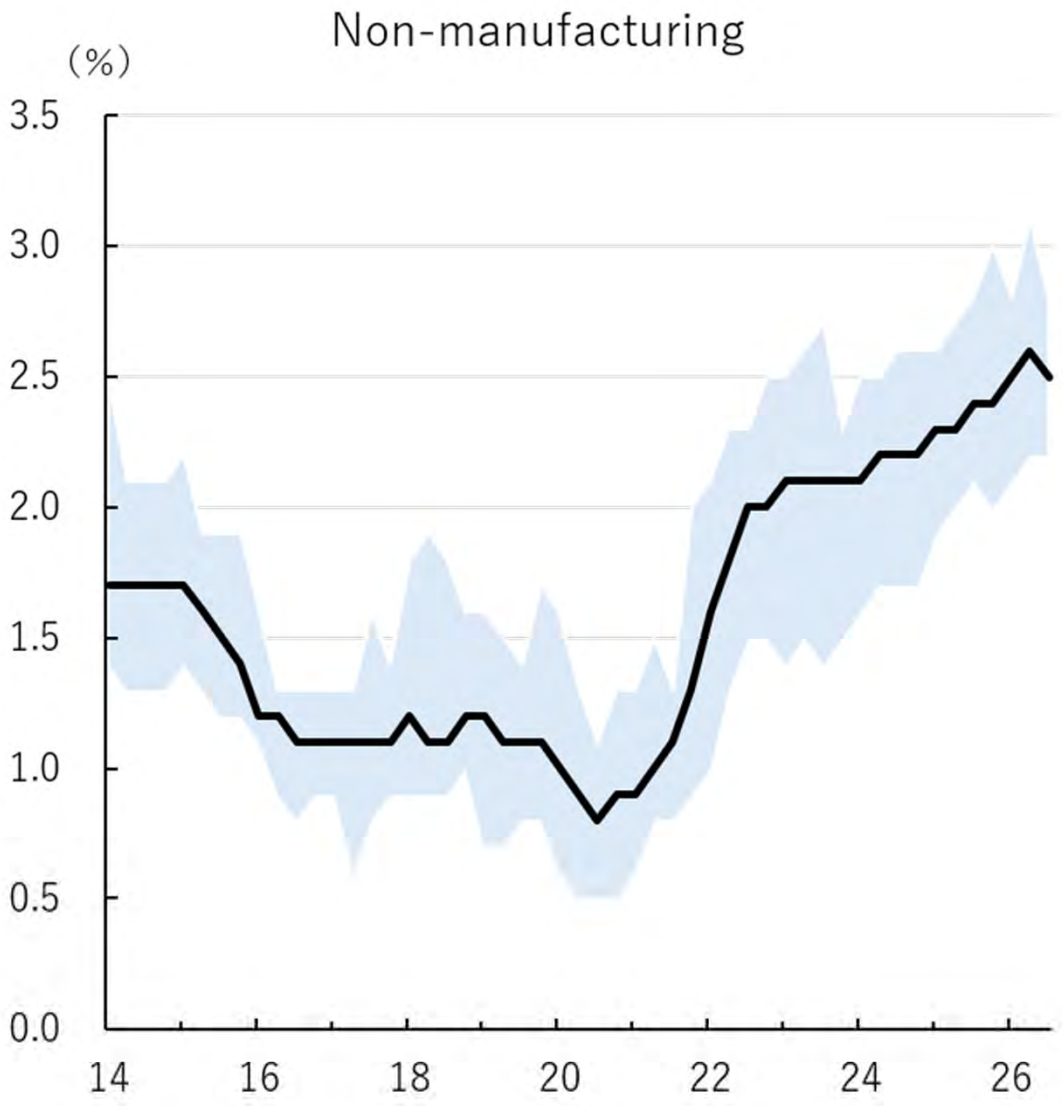


(Source) MoF

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Inflation Expectation by Firms

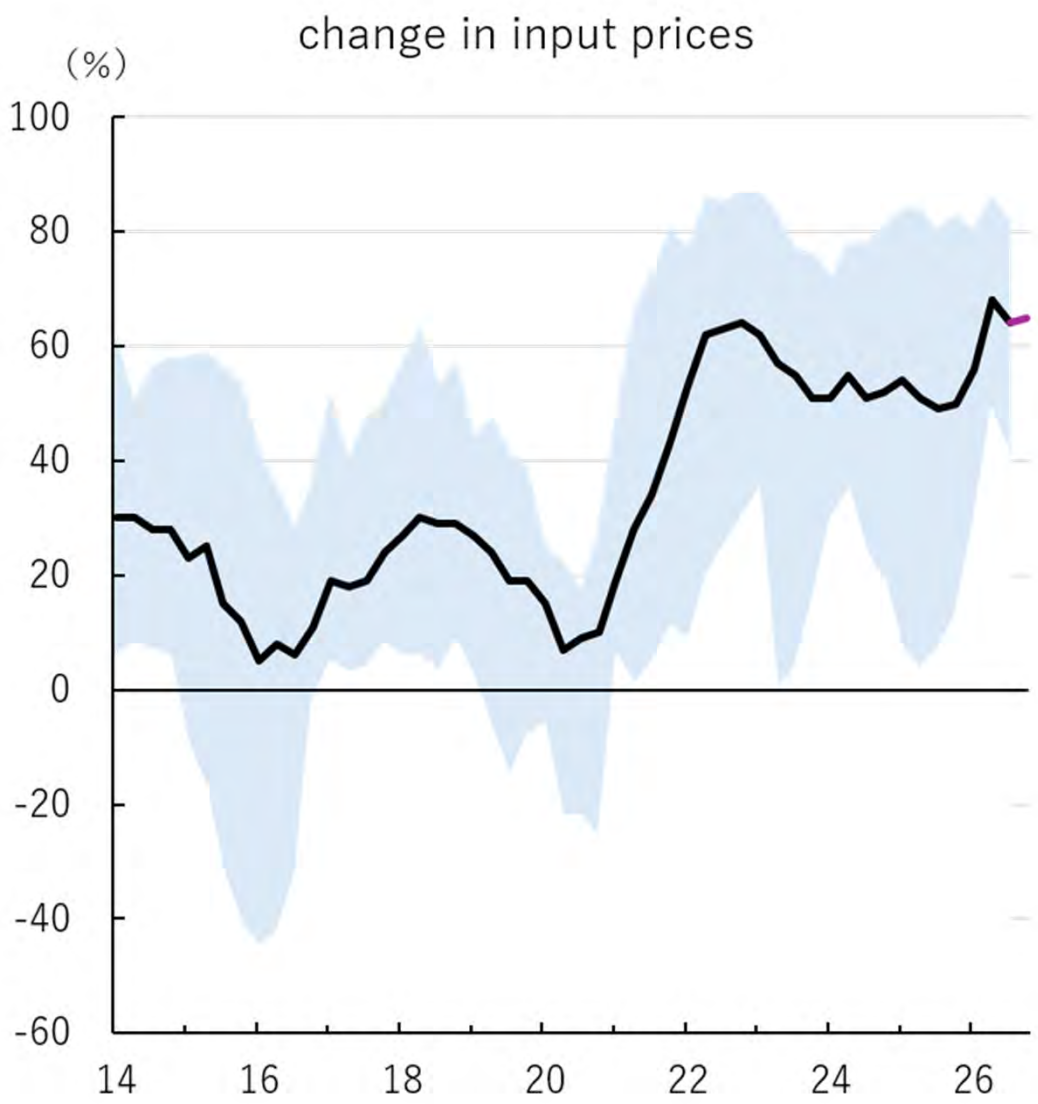


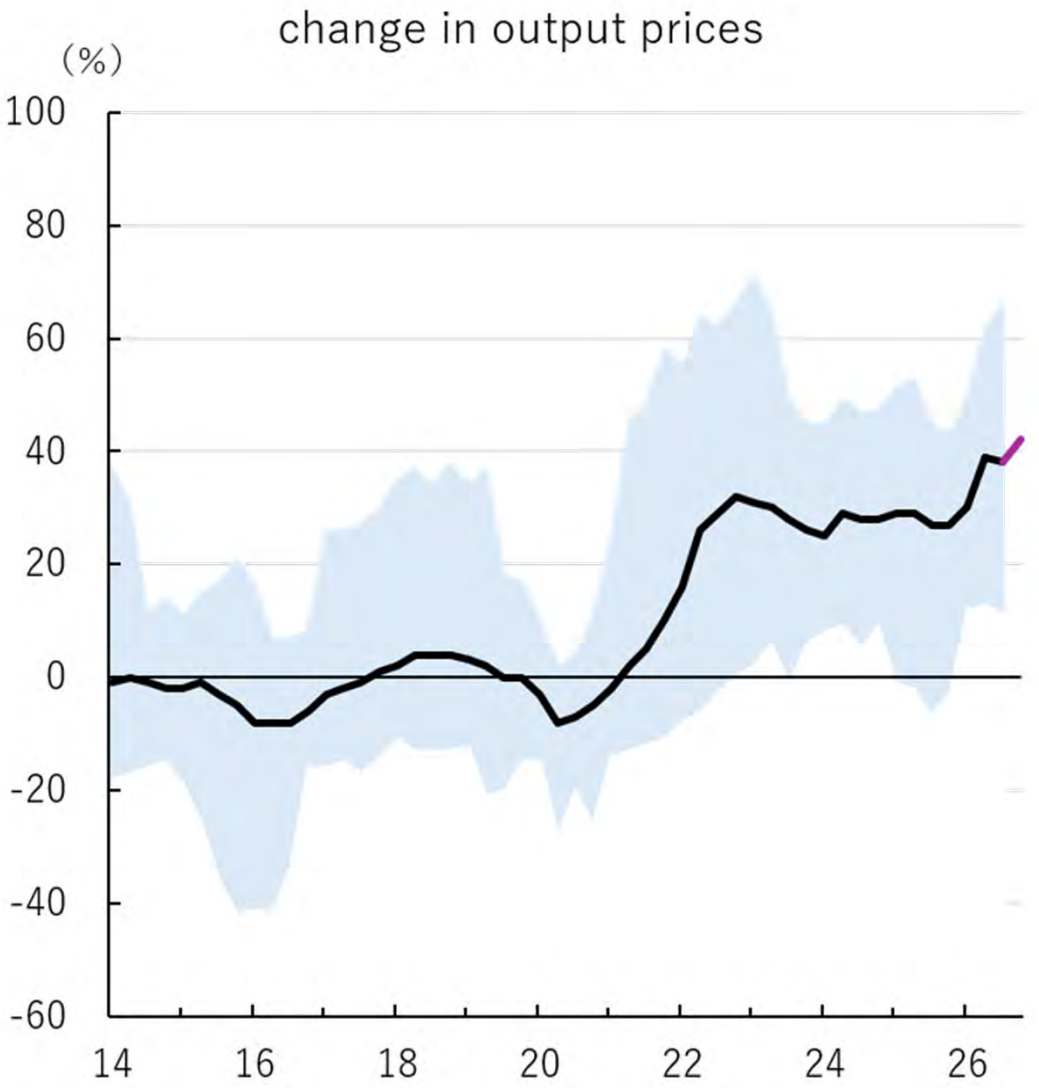


(Source) Bank of Japan

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Input Prices and Prices





(Source) Bank of Japan

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Price-Setting Behavior by Firms

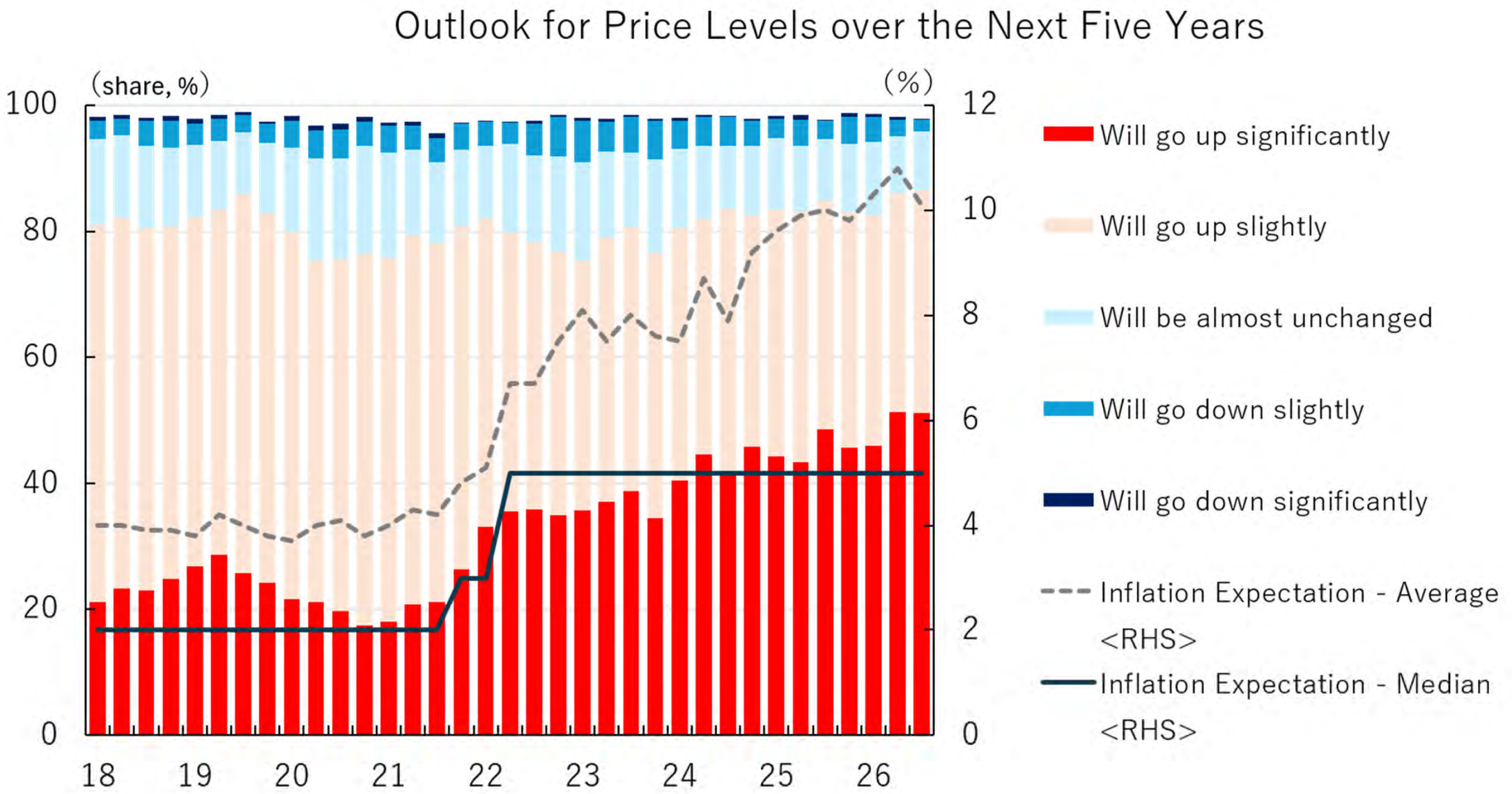
Price hikes have been mainly driven by higher costs, although some firms have also reported raising prices in response to strong demand.

- We had not planned to revise prices in fiscal 2026. However, developments in the Middle East pushed up the procurement costs of paint thinner, helium gas, and other materials, prompting us to decide promptly to raise prices. (Kyoto [metal products])
- As raw material prices and transportation costs have been raised several times within a short period amid developments in the Middle East, we have also increased the frequency of our price revisions. (Hakodate [food products])
- We could no longer absorb the rise in procurement costs for packaging materials and other items caused by developments in the Middle East and the yen's depreciation. We therefore passed on the cost increases to prices, but only for popular prepared foods, for which demand is less likely to be affected. (Yokohama [supermarkets])
- Restaurants and hotels whose main customers are tourists continue to raise prices proactively, as demand has remained robust even after price hikes. (Naha [accommodations])
- We continue to raise prices proactively in response to a substantial rise in food procurement costs. Whereas we previously raised prices every one to two years, we now do so every few months. (Akita [restaurants])
- Procurement costs have risen for a wide range of products, including daily necessities and food, amid developments in the Middle East. With consumers becoming more cost-conscious, we need to limit price hikes to maintain sales. We are therefore reviewing our suppliers and changing package sizes, among other measures. (Sapporo [home centers])
- We can set prices somewhat more aggressively for products with the largest market share. For other products, however, we set prices cautiously, taking account of consumer reactions and the pricing behavior of competitors. (Nagoya [food products])
- Although memory procurement costs have surged, it is difficult to pass on the entire increase to selling prices. Once our inventories procured before the price surge are depleted after the start of 2027, this will put downward pressure on profits. (Head Office [business-oriented machinery])

(Source) Translated into English by Nomura Research Institute based on Regional Economic Report (October 2026) published by Bank of Japan.

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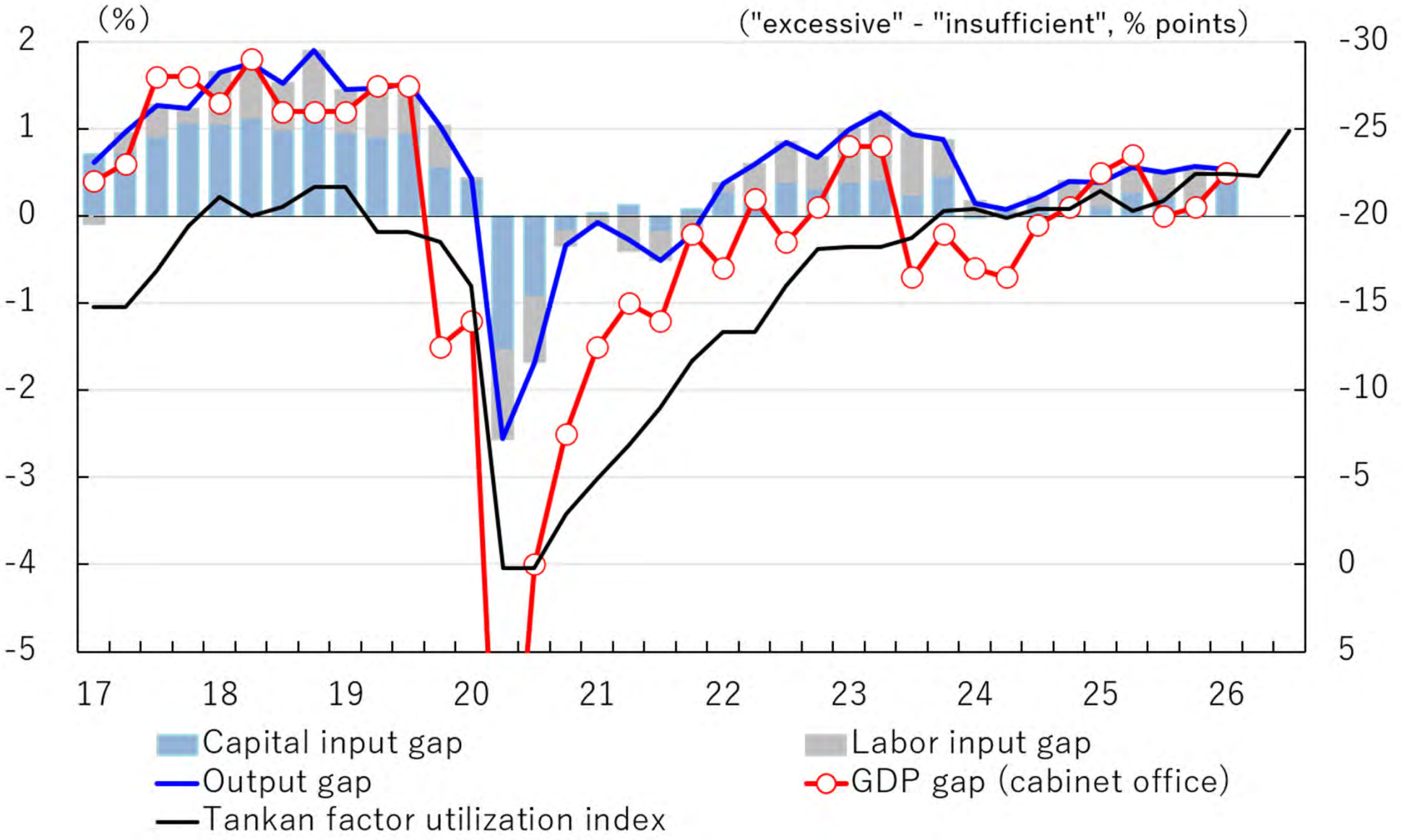
Inflation Expectation by Households



(Source) Bank of Japan

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Output Gap



(Source) Bank of Japan, Cabinet office

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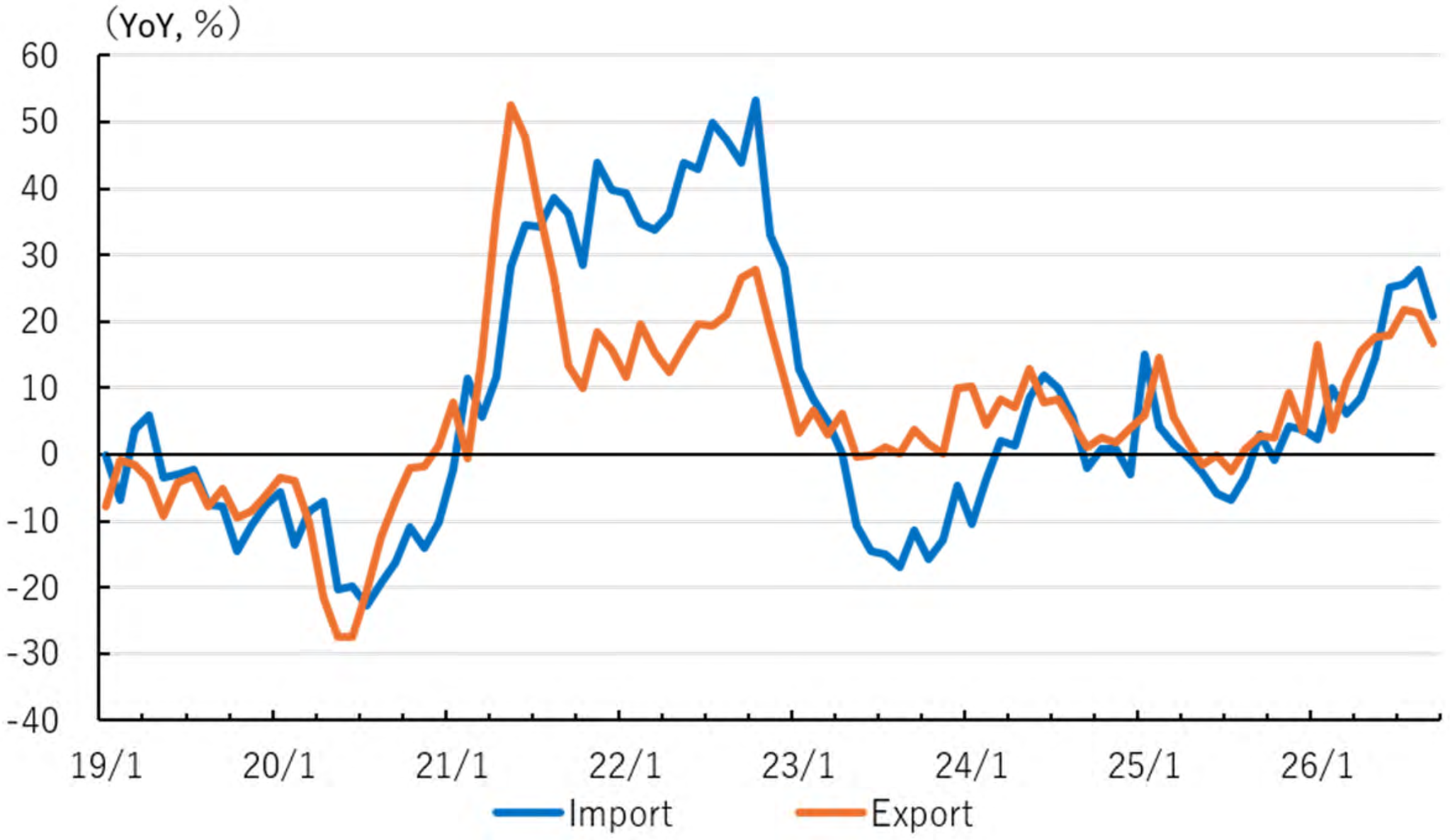
BOJ's Assessment for Overseas Economies

	July MPM
U.S.	(June and July) the US economy maintained solid growth on the whole, although some weakness had been seen in part
Europe	(June) European economies remained resilient, particularly in domestic demand, although some weakness had been seen in part **(July) European economies remained resilient on the whole, but downward pressure on domestic demand had been observed, reflecting the impact of the situation in the Middle East.**
China	(June and July) The Chinese economy had picked up recently, mainly supported by an increase in exports, although consumption had lacked momentum

(source) Bank of Japan

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Trade



(Source) Ministry of Finance

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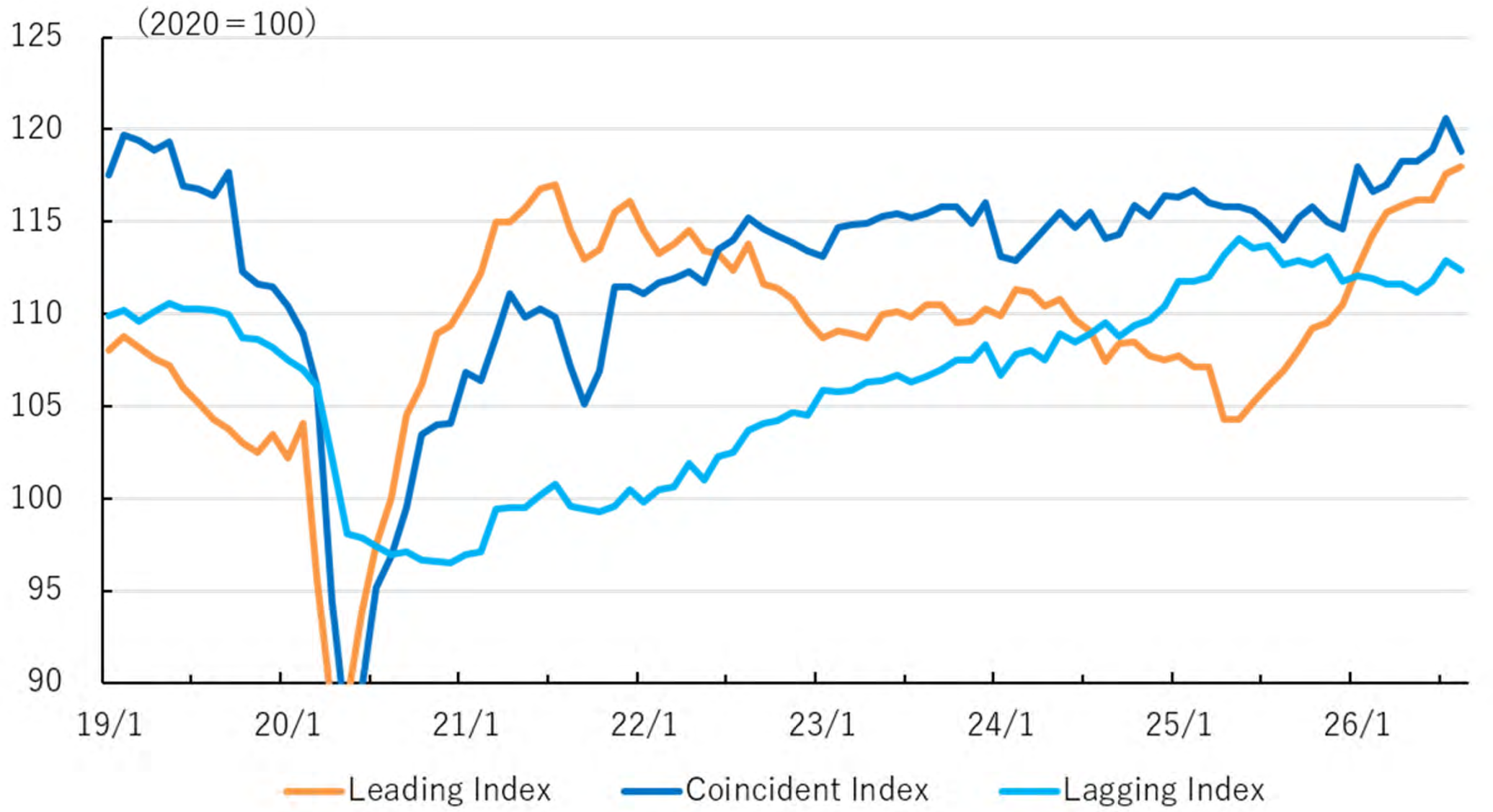
IMF World Economic Outlook

(%)	2026	2027
United States	+2.3	+2.3
July	+2.3	+2.1
April	+2.4	+2.0
Euro Area	+1.1	+1.2
July	+1.1	+1.2
April	+1.3	+1.4
China	+4.5	+4.0
July	+4.4	+4.0
April	+4.5	+4.0
Japan	+0.7	+0.7
July	+0.7	+0.6
April	+0.7	+0.6

(source) Bank of Japan

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Indexes of Business Conditions

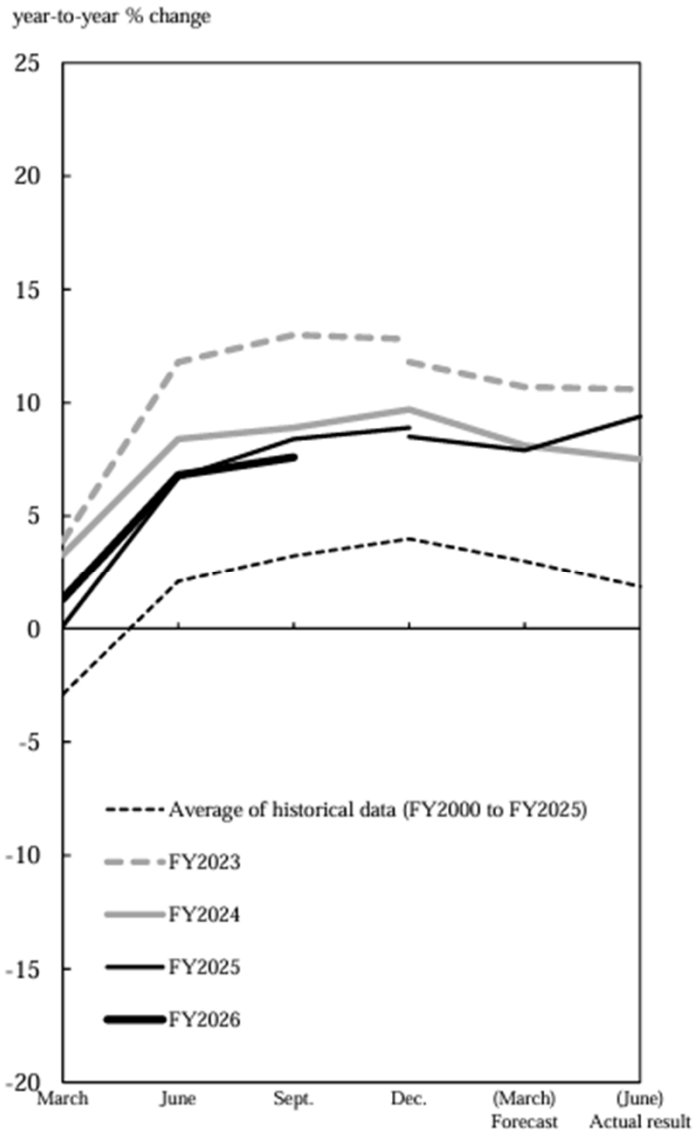


(source) cabinet office

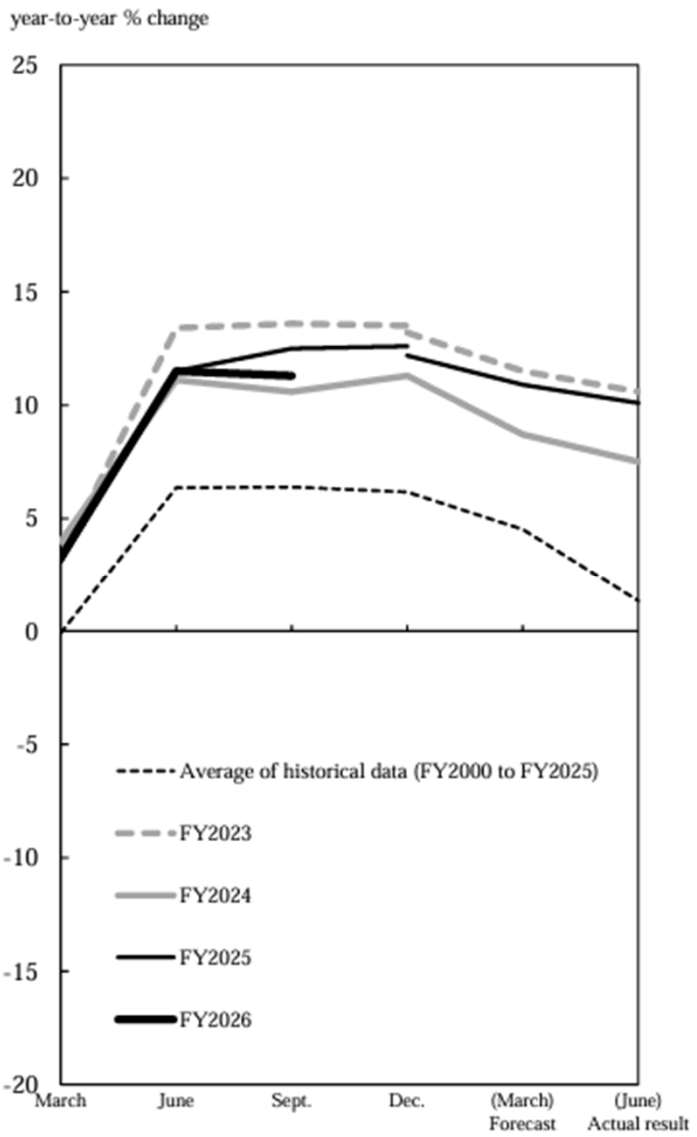
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Developments of Fixed Investment

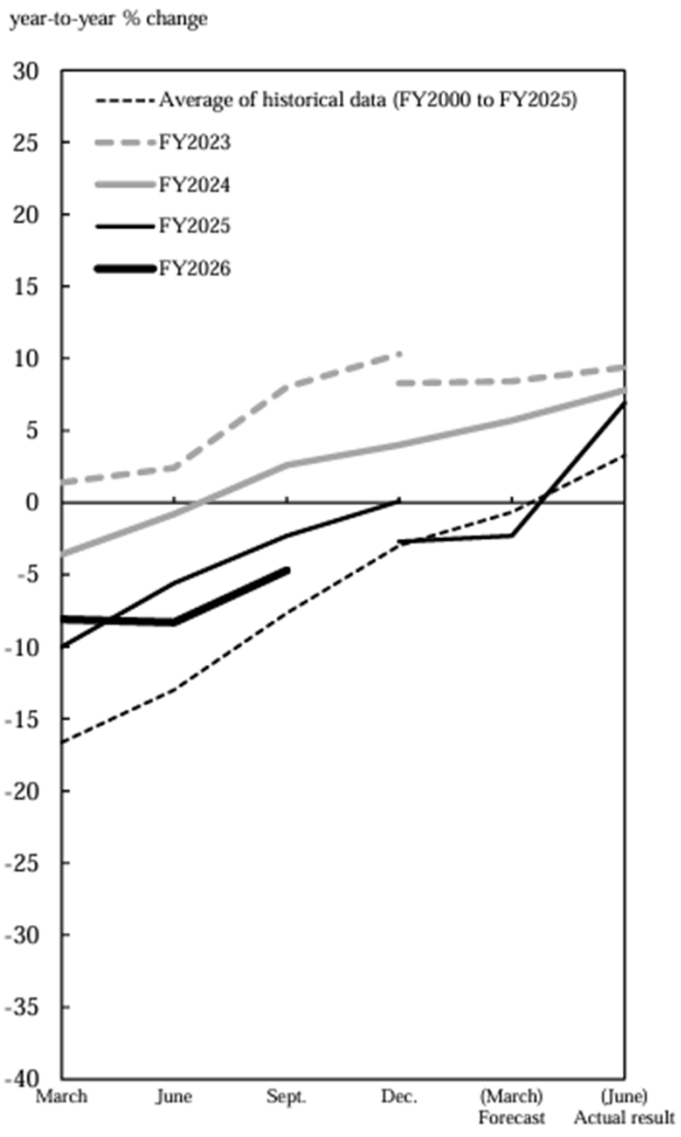
All Enterprises



Large Enterprises



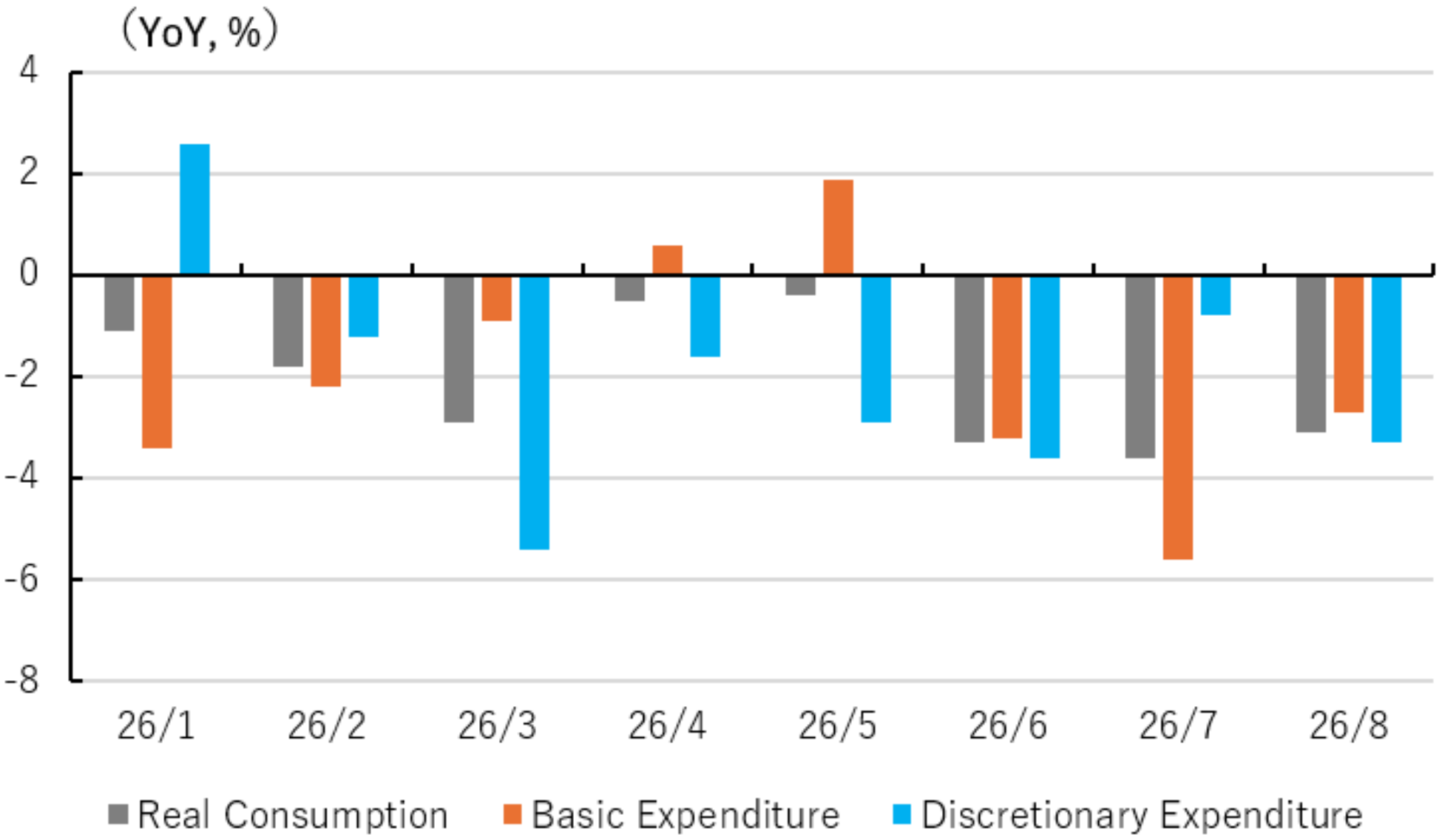
Small Enterprises



(source) Bank of Japan

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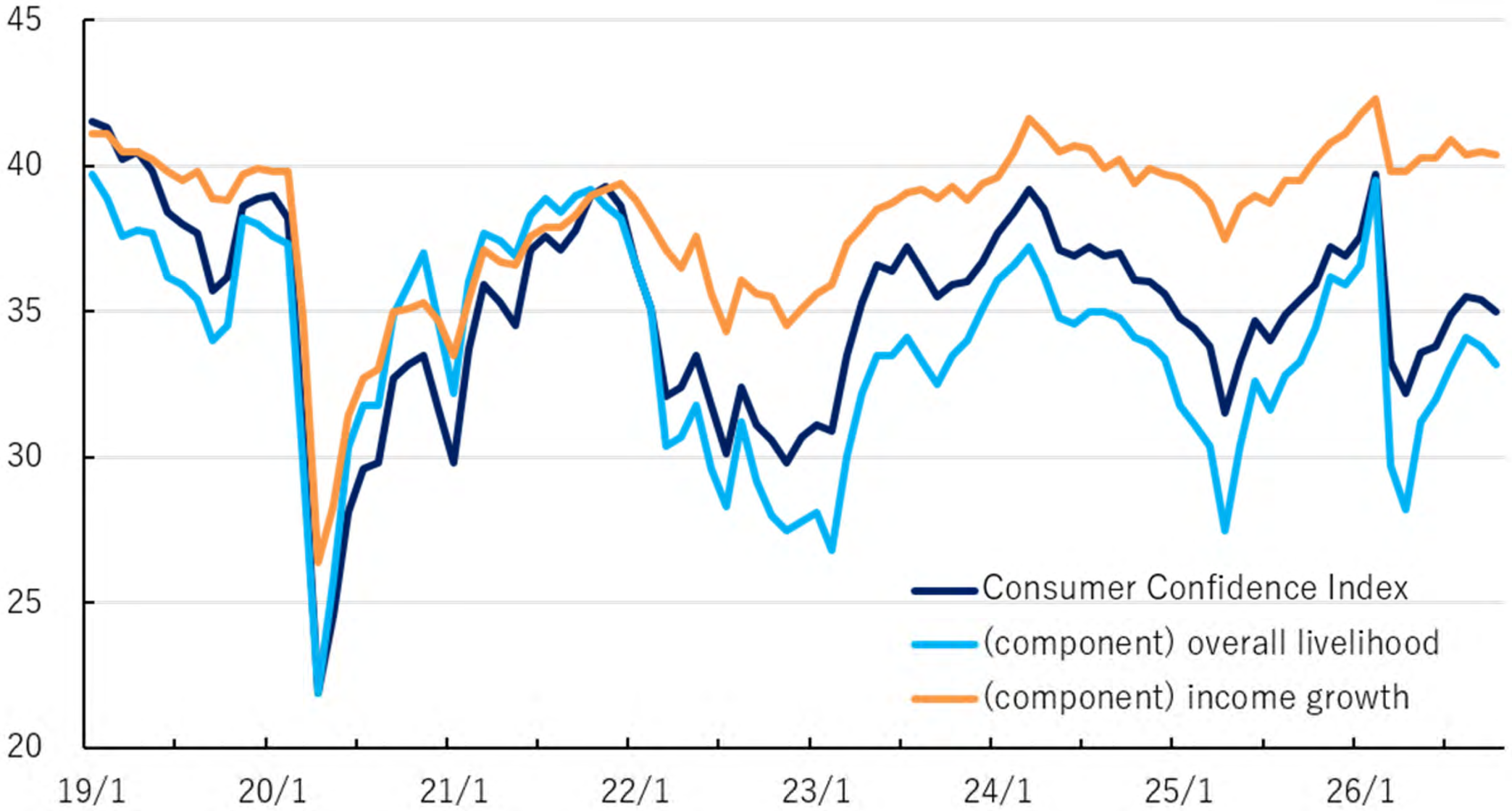
Real Consumption



(Source) Statistics Breau of Japan

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Consumer Confidence



(Source) Cabinet Office

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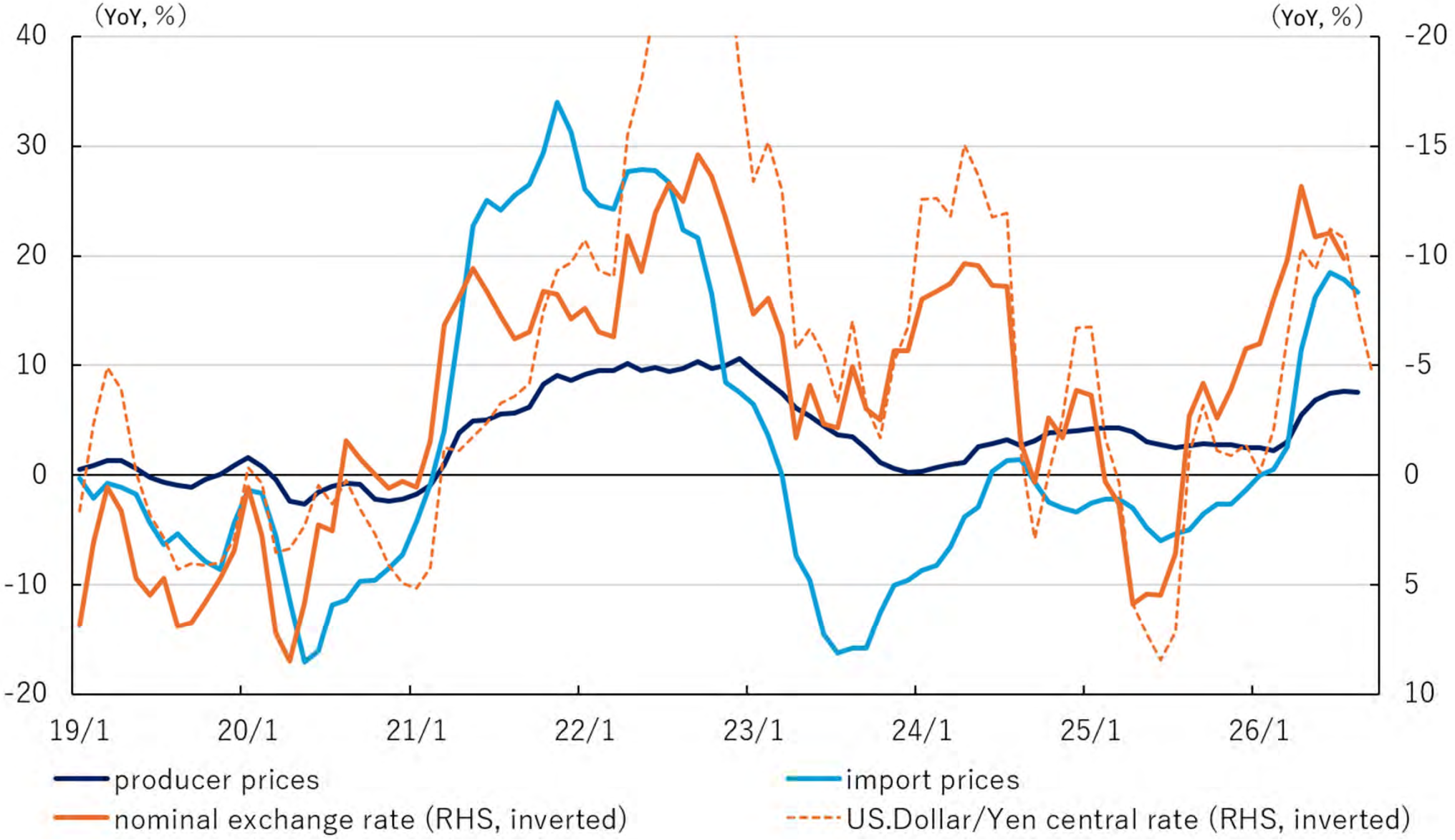
Oil Prices (WTI)



（Source）The Nihon Keizai Shimbun

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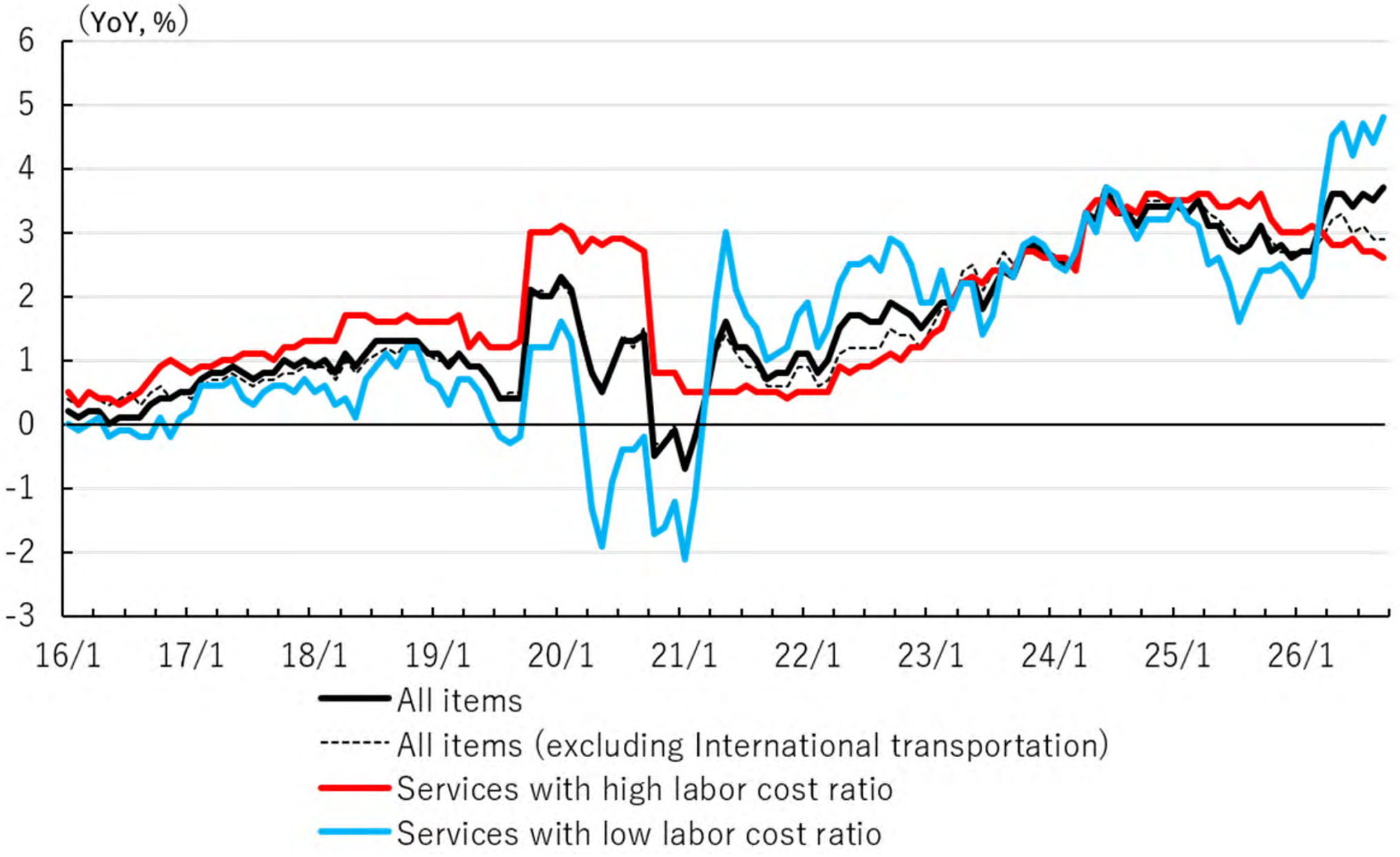
Exchange Rate and Import Prices



(Source) Bank of Japan

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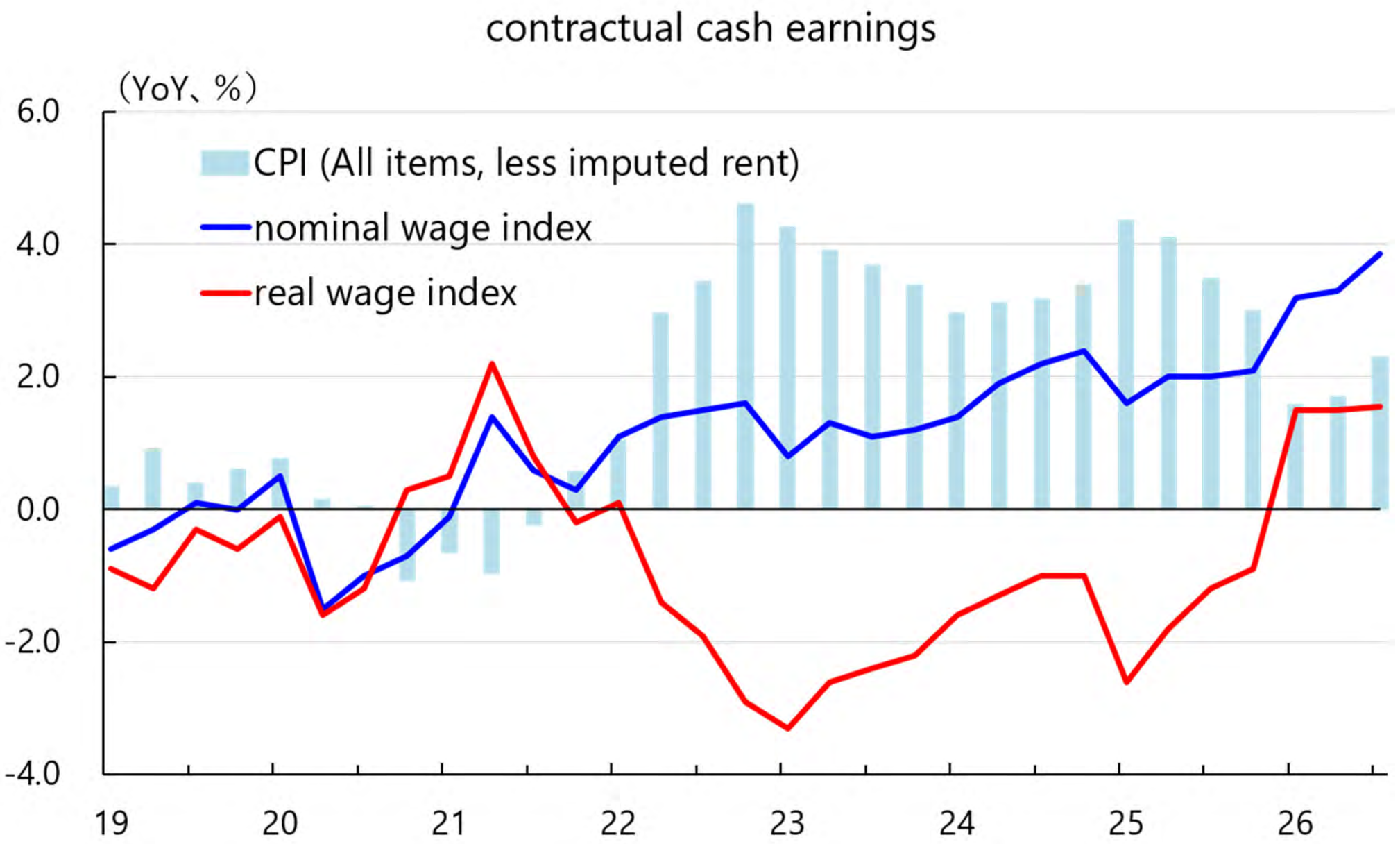
Services Producer Price Index



(Source) Bank of Japan

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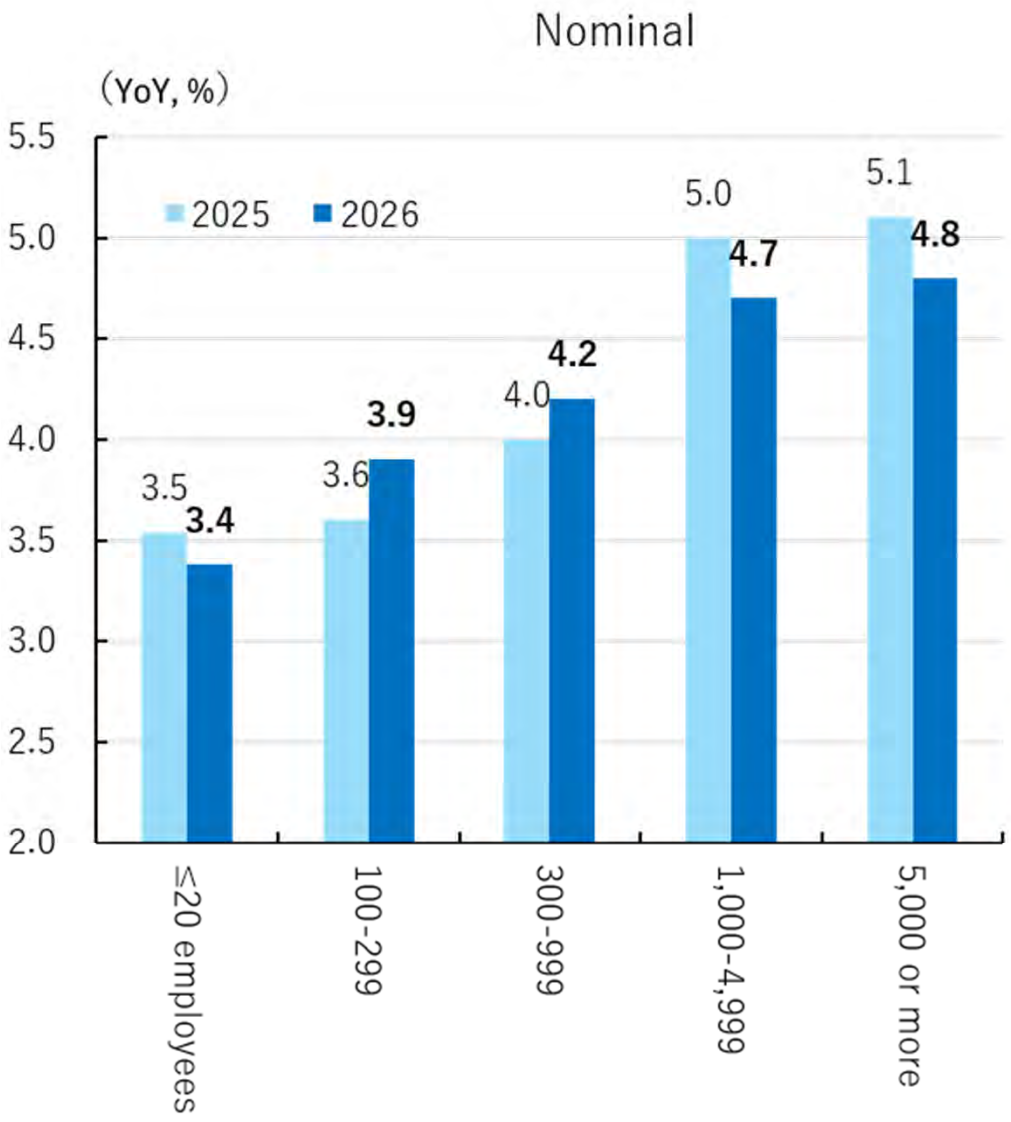
Wage Index



(Source) Ministry of Health, Labour and Welfare (MHLW)

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Wage increase rates by firm size





(Source) **Ministry of Health, Labour and Welfare; Japan Chamber of Commerce and Industry**

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Wage-Setting Behavior by Firms

Many firms reported that, with labor costs rising as they respond to government-led increases in the minimum wage, they could do little more than implement defensive wage increases to secure and retain employees amid labor shortages. Meanwhile, some firms, particularly in industries benefiting from increased AI-related demand, reported that they had raised wages on the back of strong profits and planned to continue doing so.

- **・With profits on an upward trend on the back of AI-related demand, the firm raised wages in fiscal 2026 by more than the labor union had requested. It plans to implement a wage increase of a similar magnitude in fiscal 2027 (Yokohama [electrical machinery]).**
- **・The firm considers it essential to secure and retain workers in order to maintain production levels. It has therefore implemented base pay increases of around 5 percent every year, even at the expense of profits (Akita [transportation equipment]).**
- **・The firm raised the base pay of regular employees in line with the minimum wage increase. It plans to raise prices in stages to secure funds for wage increases (Okayama [restaurants]).**
- **・With rising food and fuel costs making it difficult to secure funds for wage increases, the firm reduced position allowances in fiscal 2026. It maintained the size of wage increases only for younger employees, among whom resignations have been frequent (Kushiro [accommodations]).**
- **・For small and medium-sized firms, merely keeping pace with minimum wage increases has a significant impact on profits. Many therefore find it difficult to raise wages by more than the increase in the minimum wage (Shimonoseki [economic organization]).**

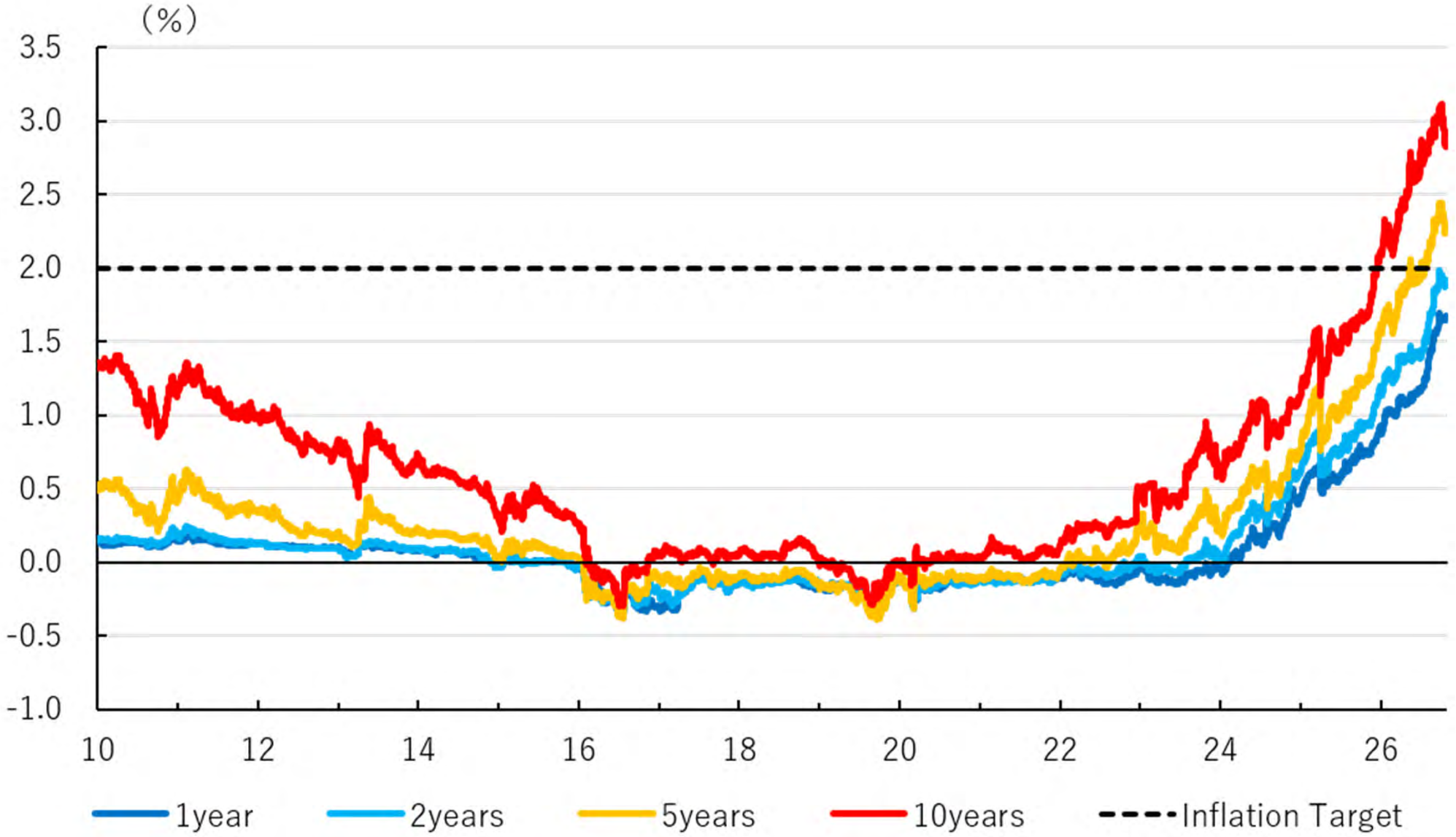
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Judgement for the financial conditions in Japan

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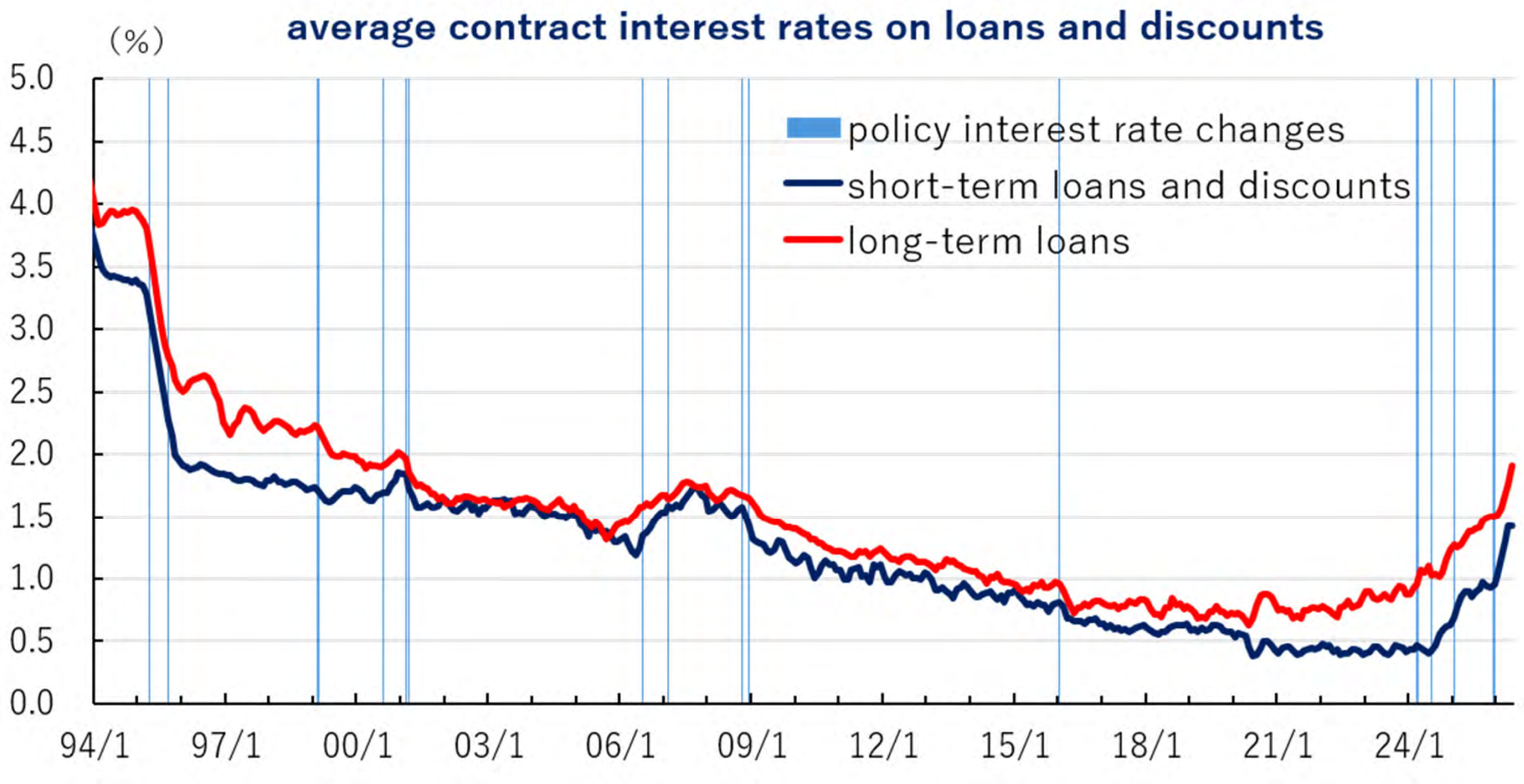
Gov. Bond Yields



(Source) Ministry of Finance (MOF)

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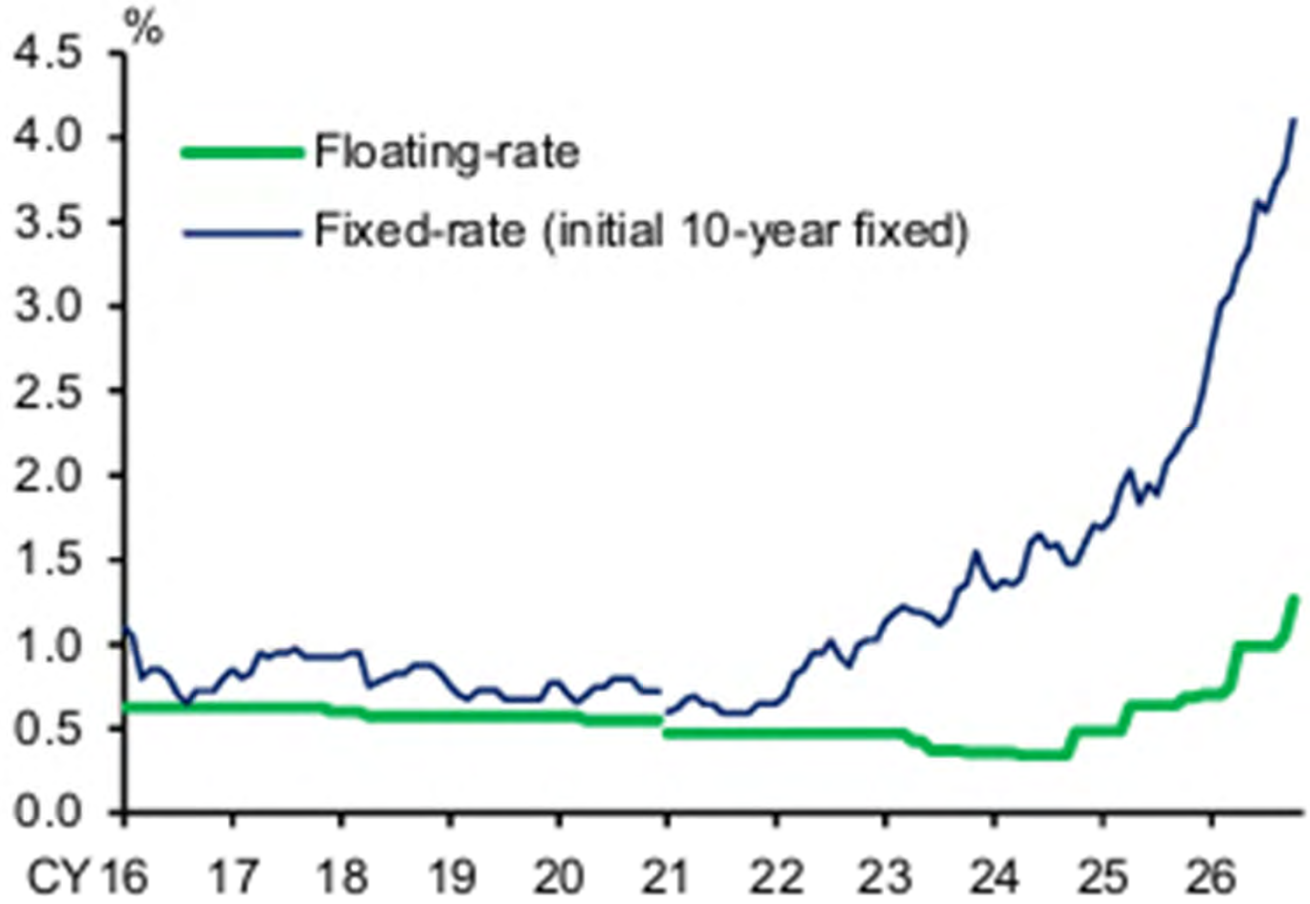
Bank lending rates on new loans



(Source) Bank of Japan

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Interest rates on housing loans

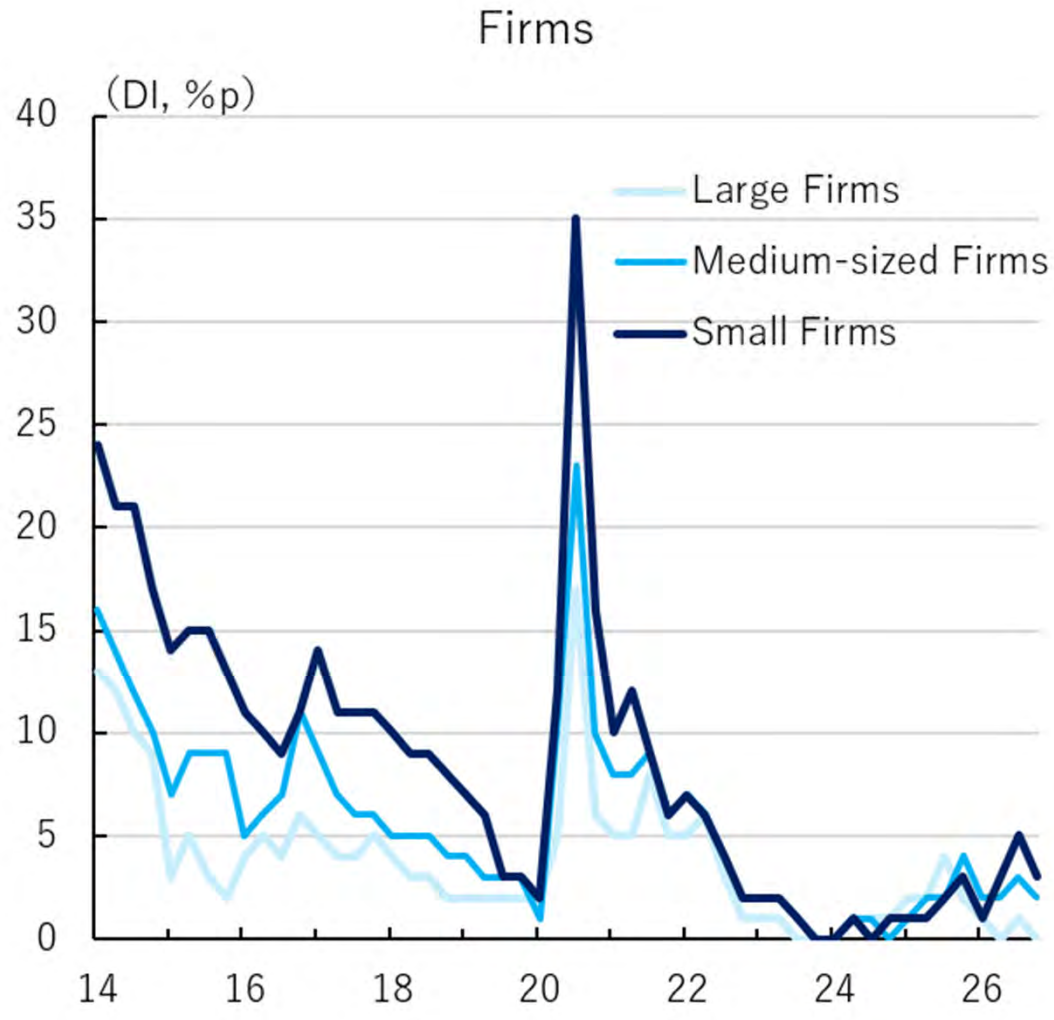


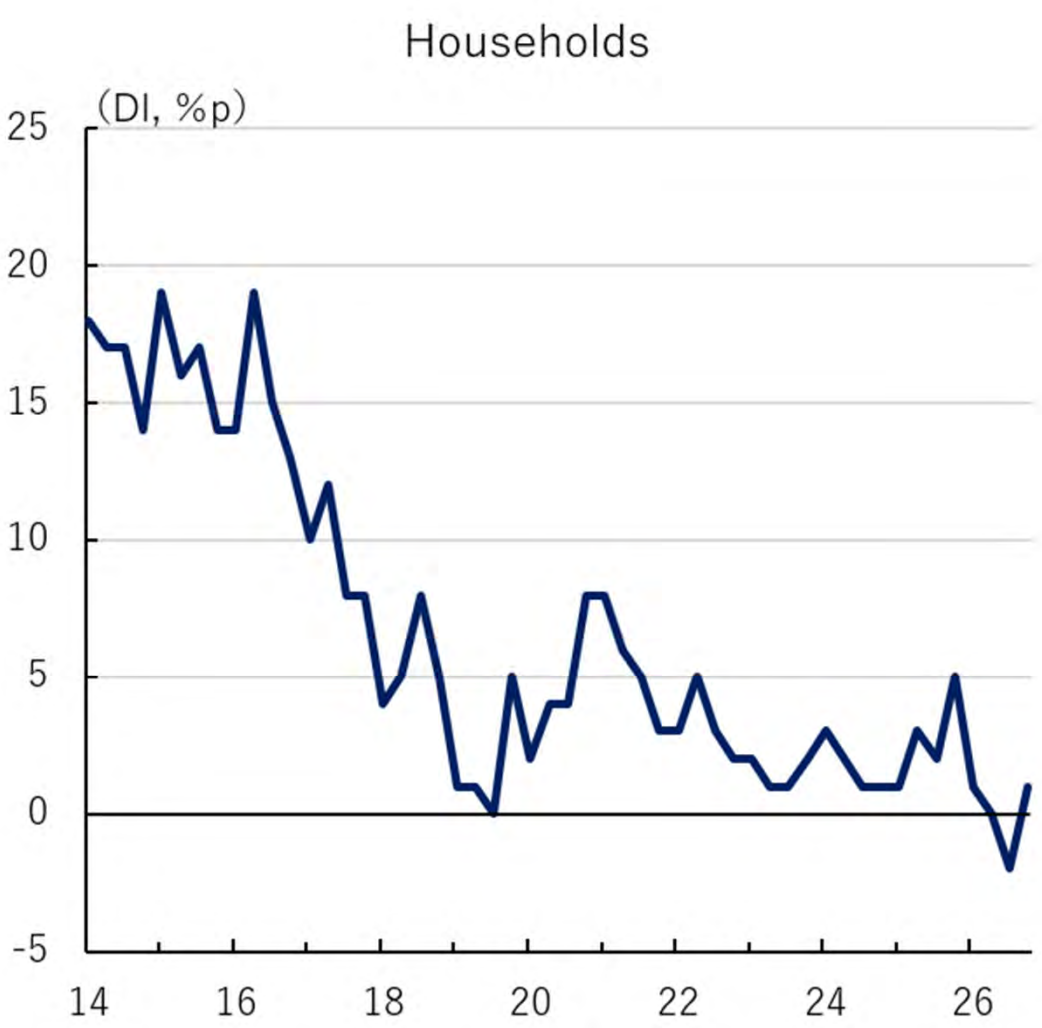
Note: Shows medians of some major banks (preferential rates are taken into account). Covers loans with administrative fees from 2021 and those with guarantee fees up to 2020. Latest data as of October 2026.
Source: Published accounts of individual banks.

（Source）Bank of Japan

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DI for Credit Standards by FI

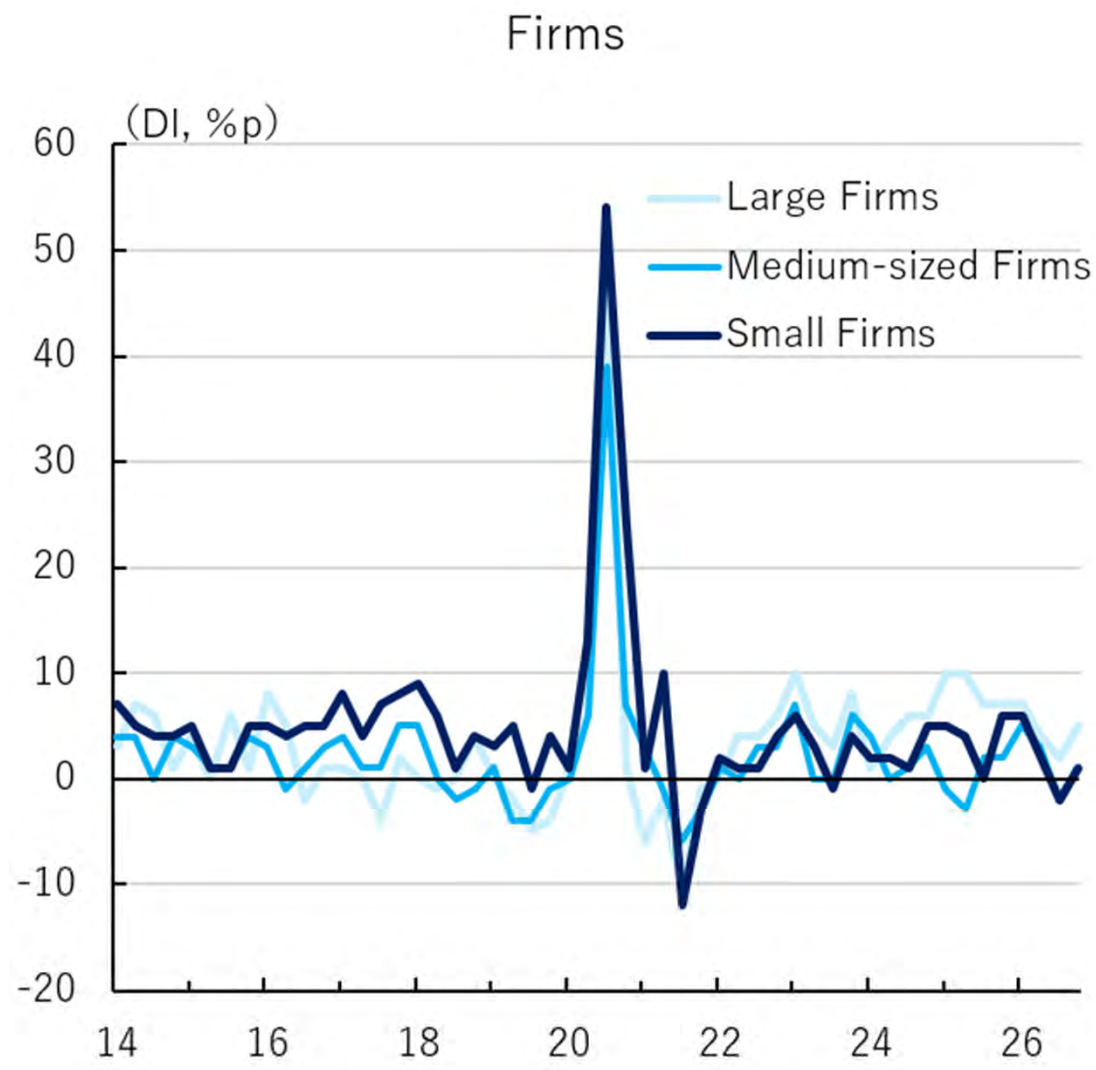


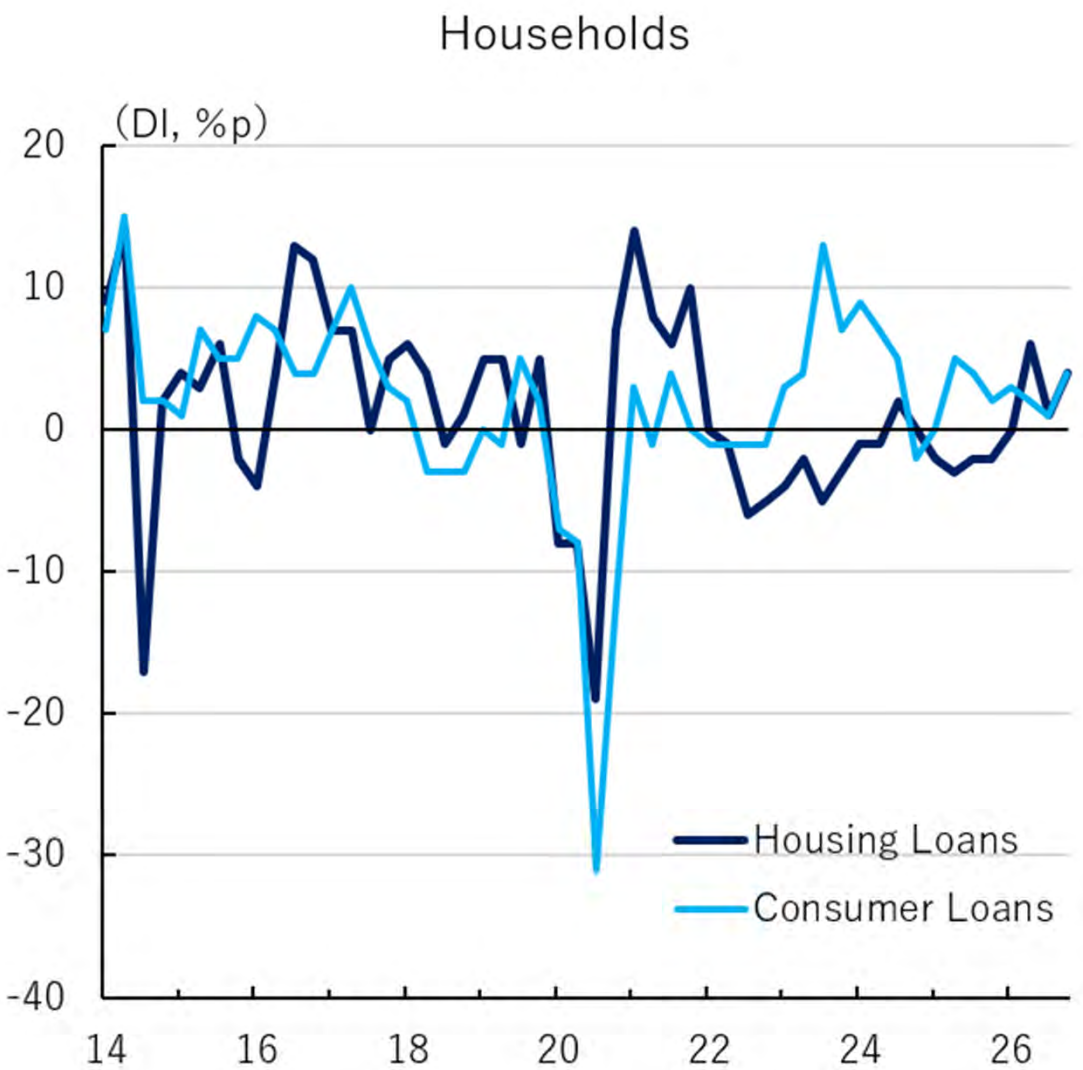


(Source) Bank of Japan

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DI for Demand for Loans by FI

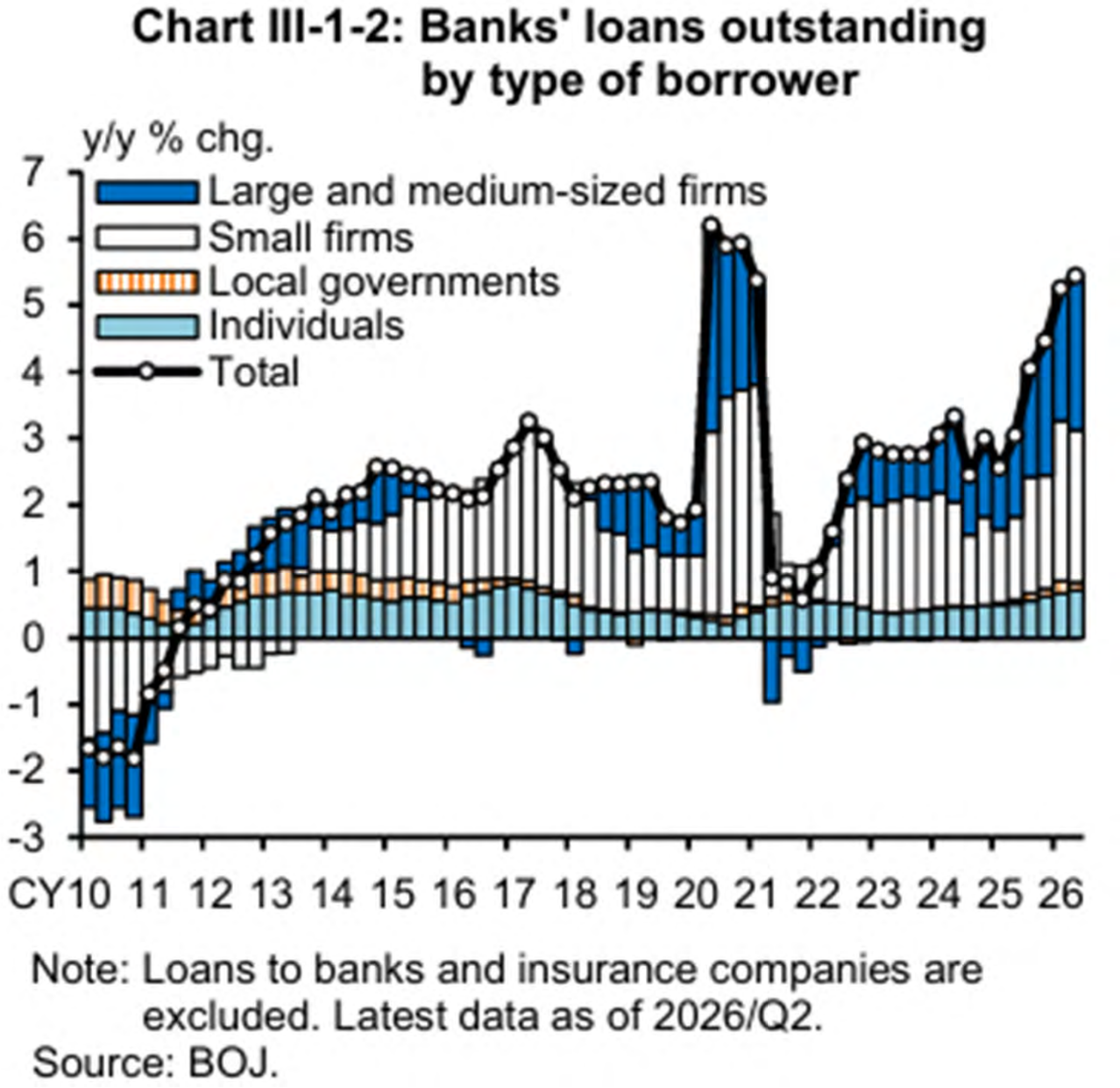




（Source）Bank of Japan

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Outstanding amount of Loans ①

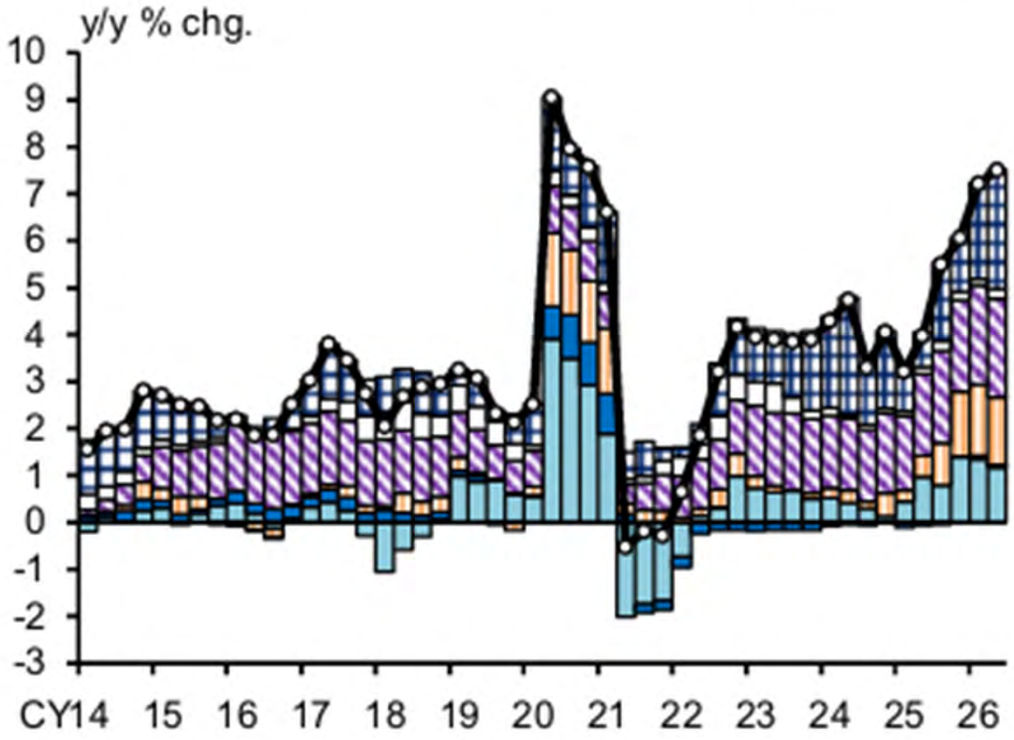


（Source）Bank of Japan

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Outstanding amount of Loans ②

Chart III-1-4: Corporate loans outstanding by industry



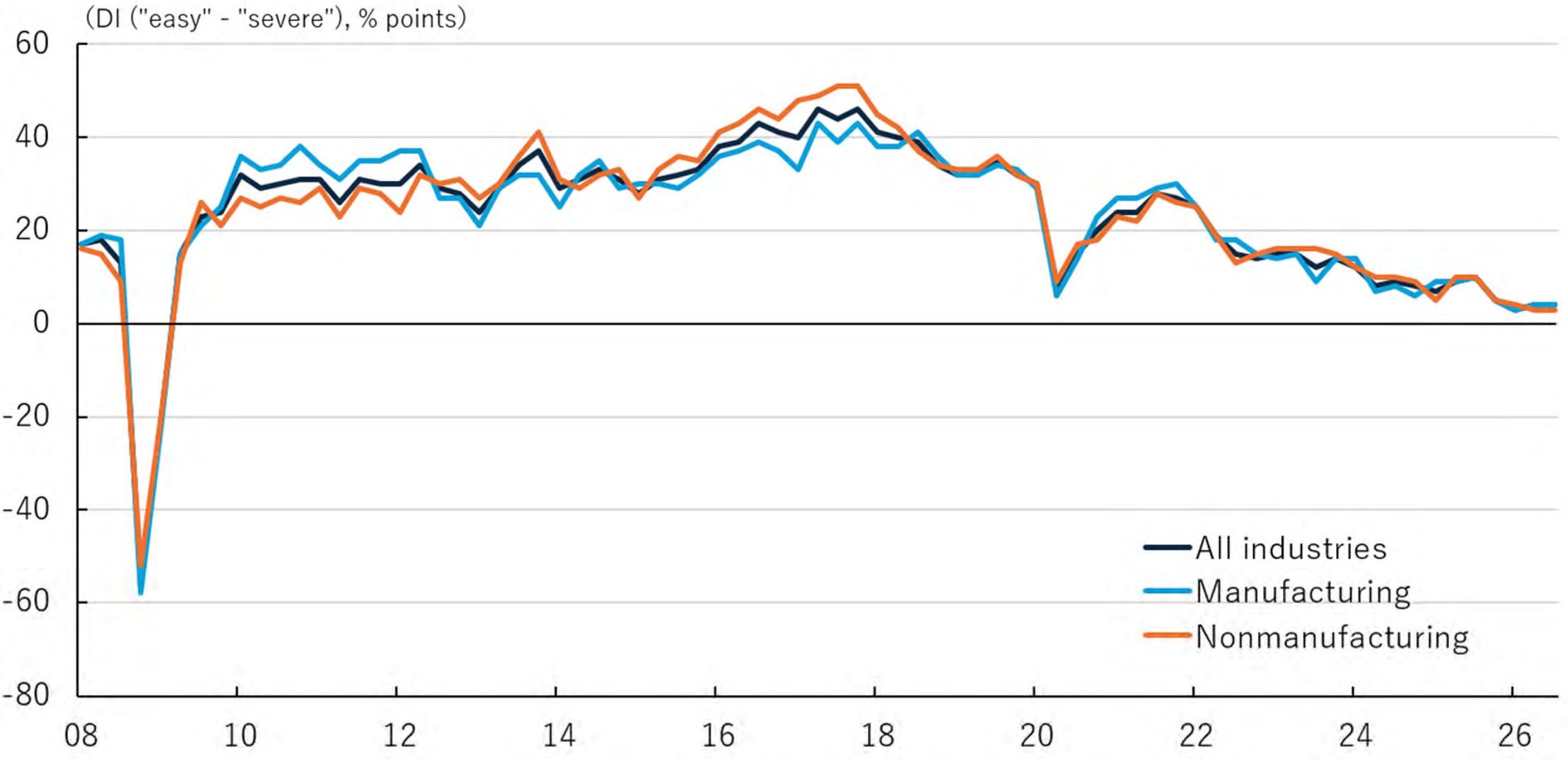
Other industries
Electricity and gas
Real estate
Wholesale and retail / Transportation and postal services
Face-to-face services
Manufacturing
Total

Note: Covers major banks and regional banks. Loans to banks and insurance companies, overseas yen loans, and domestic loans transferred overseas are excluded. "Face-to-face services" consists of food services and accommodations, living-related services and amusement, education, learning support, and medical and nursing care. Latest data as of 2026/Q2.
Source: BOJ.

（Source）Bank of Japan

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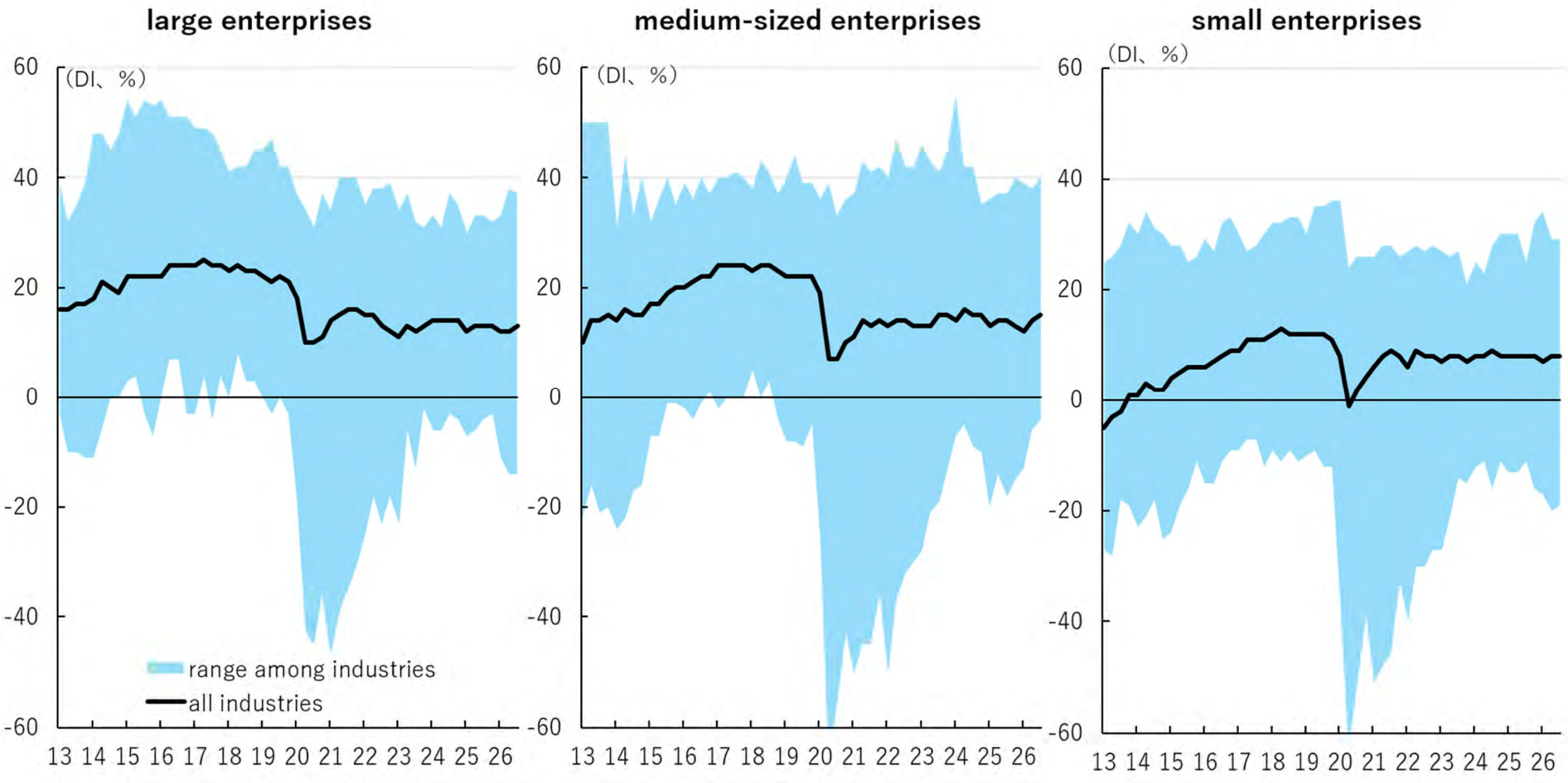
Conditions for CP Issuance



(Source) Bank of Japan

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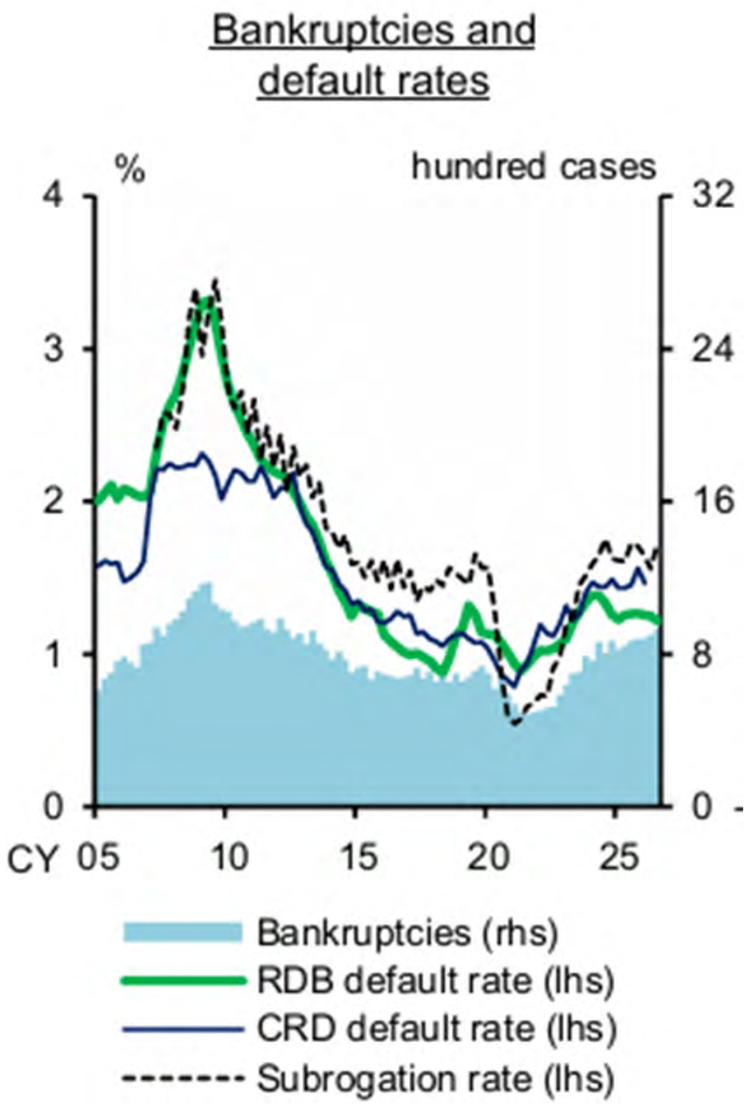
Financial Position

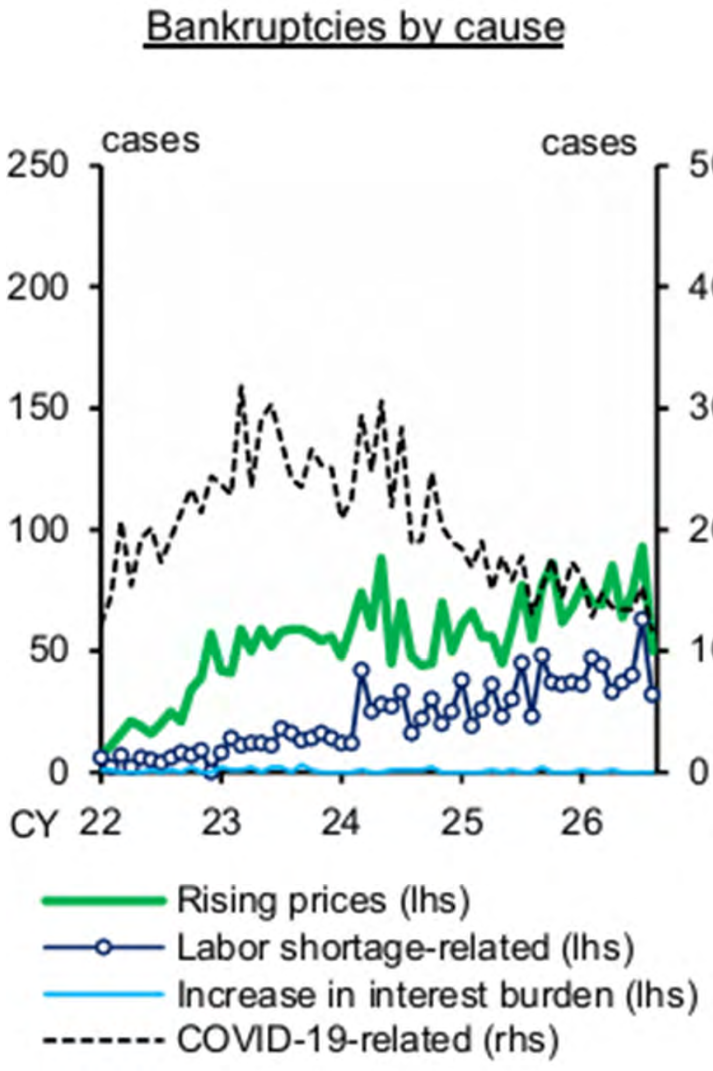


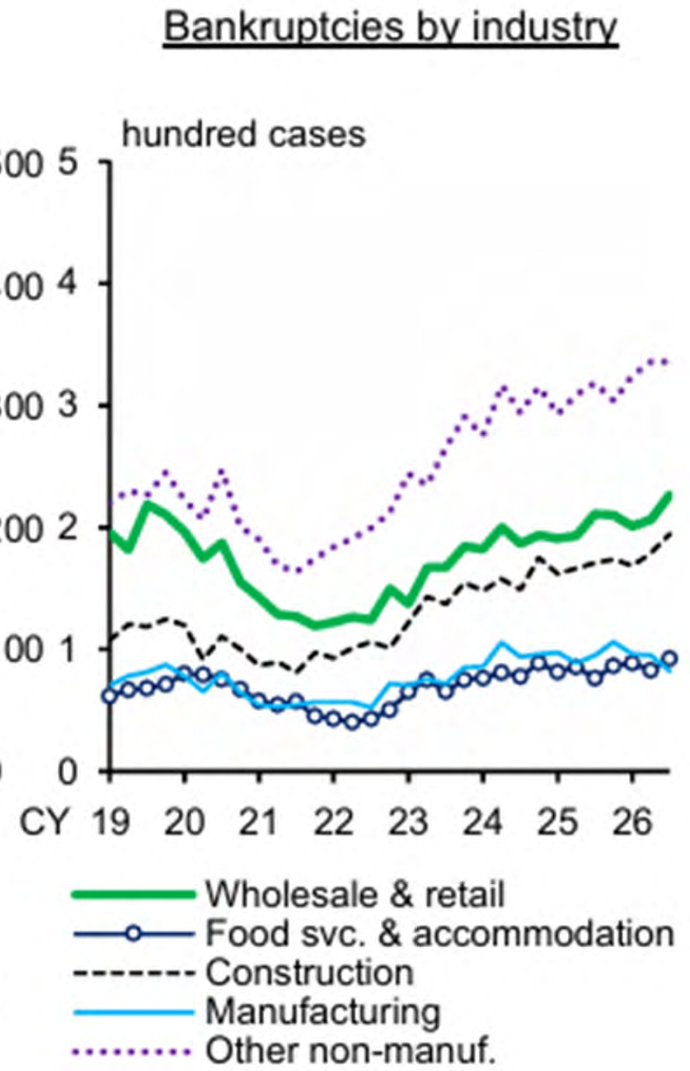
(Source) Bank of Japan

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Corporate Bankruptcies and Defaults





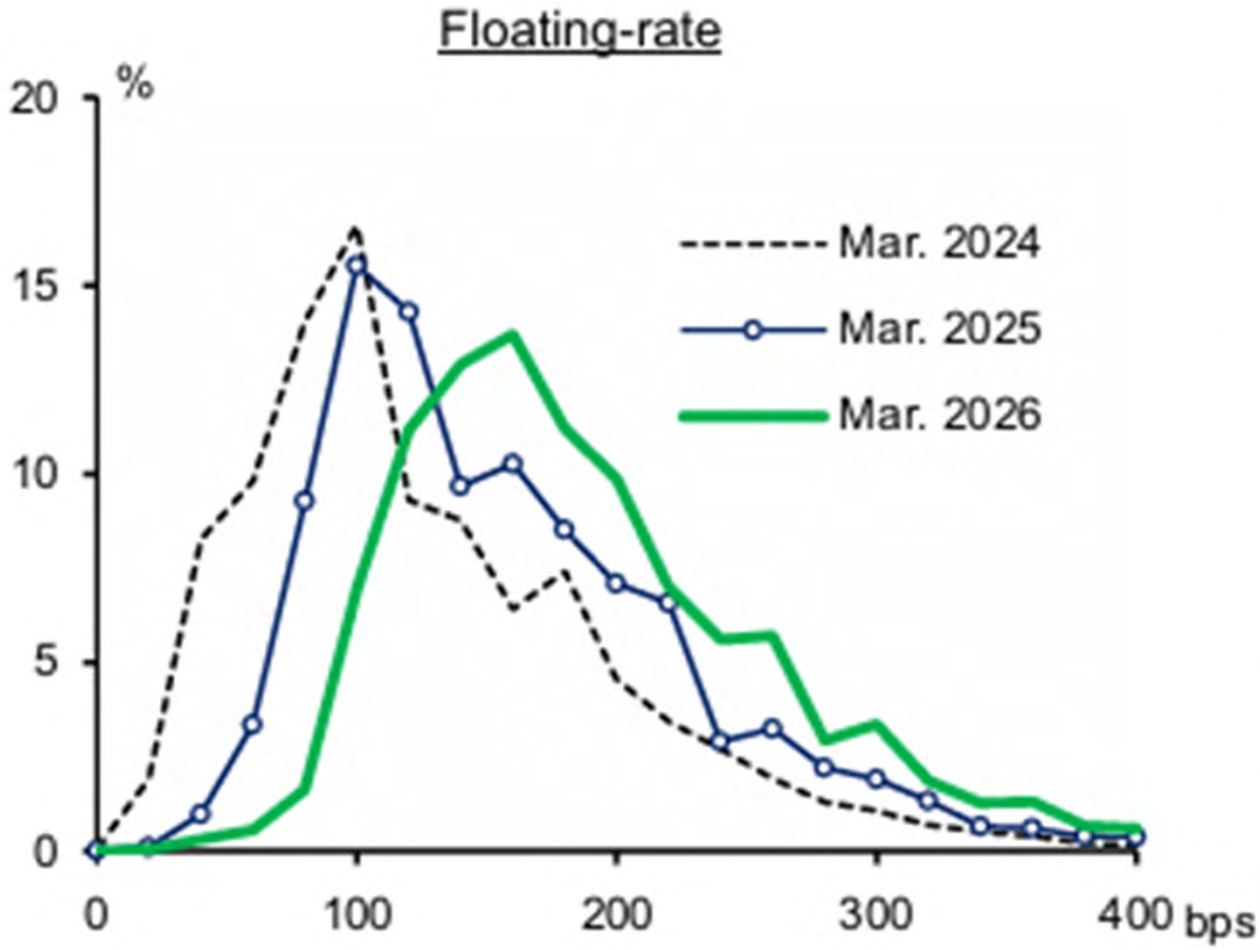


（Source）Bank of Japan

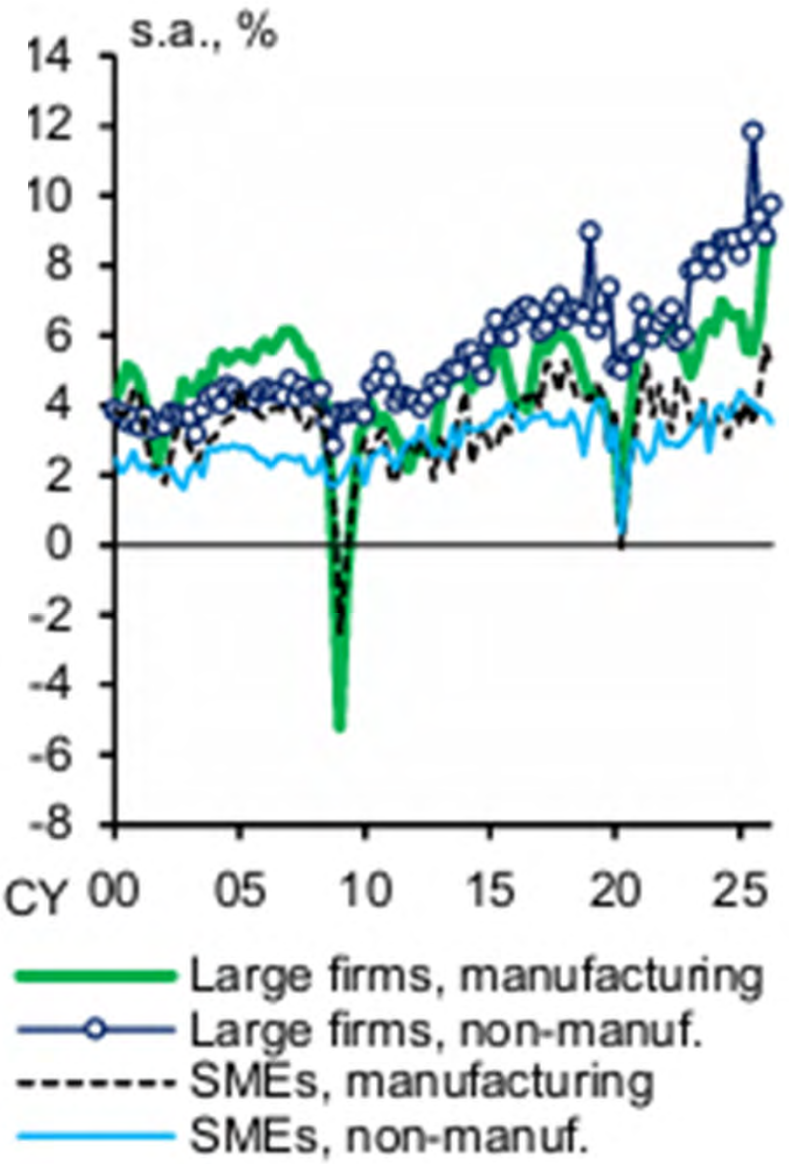
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Lending rates and Corporate profits

Distribution of lending rates



Ratio of operating profits to sales



(Source) Bank of Japan

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Mortgage Loan Repayment

●Variable-rate loans account for the majority of housing loans.

●Changes in interest rates on variable-rate housing loans

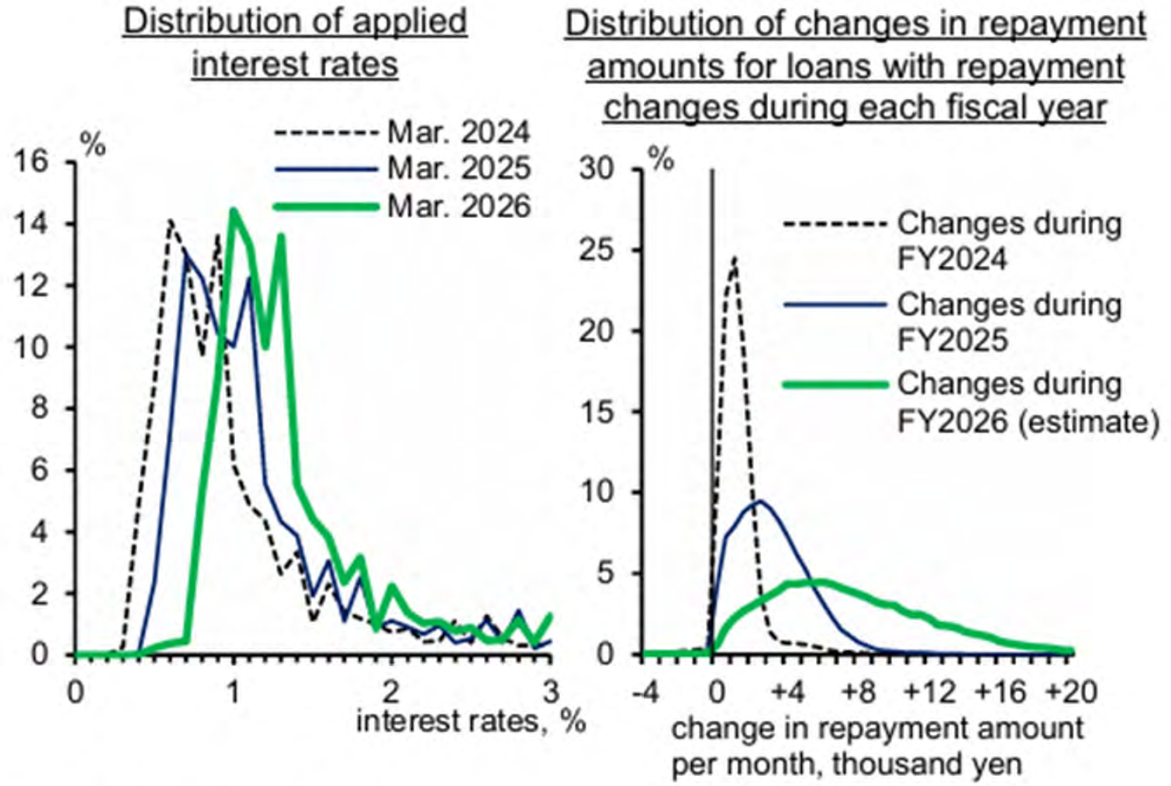
Following the July 2024 rate hike:
+0.15 percentage points
Following the January 2025 rate hike:
+0.25 percentage points
Following the December 2025 rate hike:
+0.25 percentage points
→ The effects of the June and September 2026 rate hikes are also expected to feed through to mortgage rates going forward (by around 0.5 percentage points?).

●Increases in monthly mortgage repayments

FY2024: ¥1,000–3,000 per month
FY2025: ¥4,000–6,000 per month
FY2026: ¥5,000 per month (estimate)

（Source）Bank of Japan

Applied interest rates and changes in repayment amounts for floating-rate housing loans



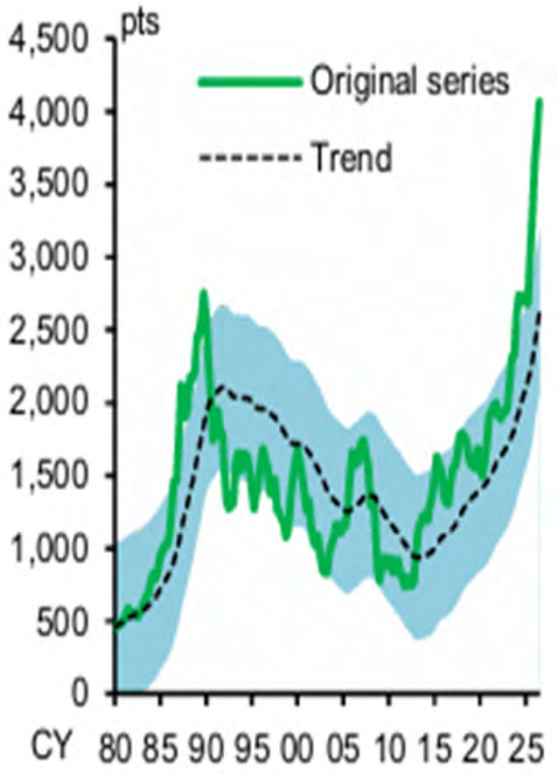
Note: The data cover floating-rate housing loans issued by regional banks I that remained on the books of the sample banks from March 2024 to March 2026. The figures for "Changes during 2024" and "Changes during 2025" aggregate loans where the repayment amounts differ between March 2024 and March 2025 and between March 2025 and March 2026, respectively. The figures for "Changes during 2026 (estimate)" are estimates based on data as of end-March 2026, assuming that the "5-year rule" is applied to all loans.
Source: BOJ.

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Assessment of Asset Prices

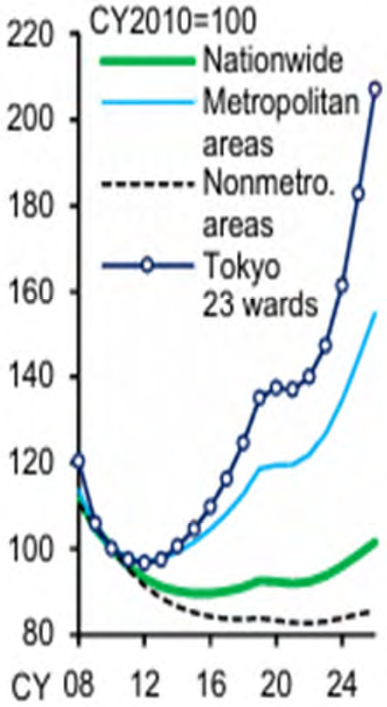
- ✓ Stock prices are above their long-term trend.
- ✓ Real estate prices have risen against the background of the economic recovery and higher prices. In the commercial real estate market, supply and demand conditions have tightened, partly reflecting transaction demand from overseas investors. The pace of increase in land prices has accelerated in the three major metropolitan areas.

Stock prices

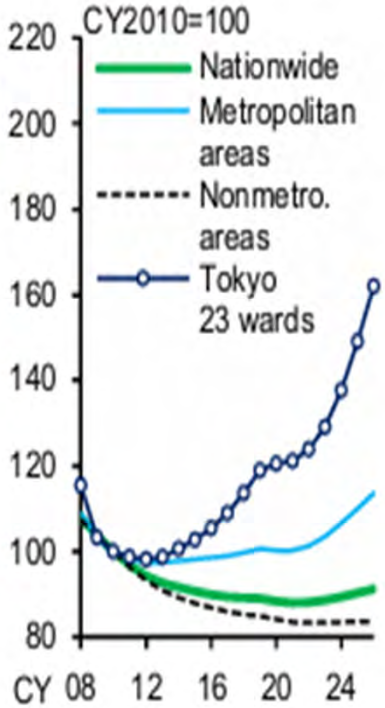


Land prices

(Commercial land)

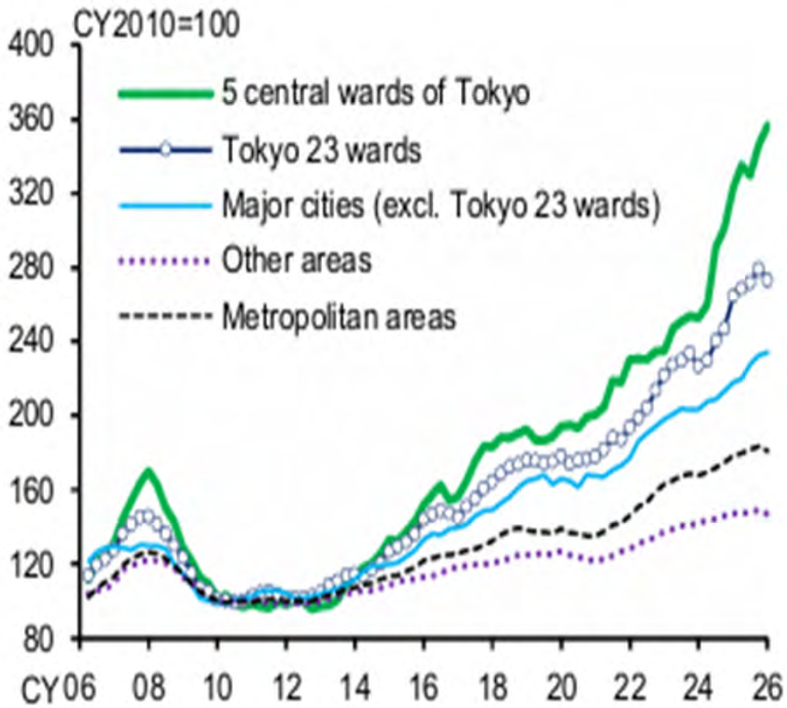


(Residential land)



Real estate transaction prices

(Commercial real estate)



(Source) Bank of Japan

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Key Indicators & Reports for Dec. MPM

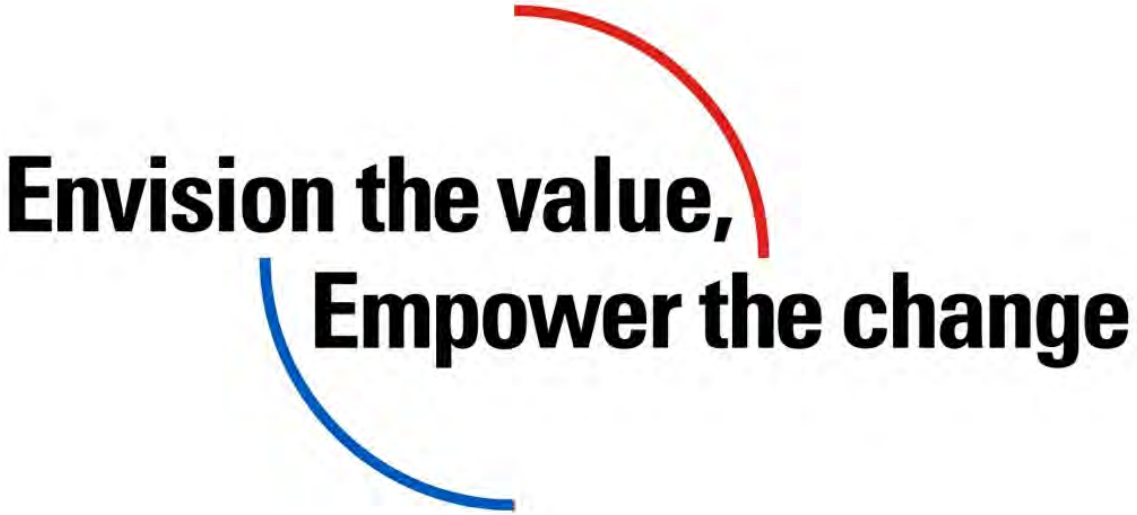
Key Considerations for Monetary Policy: Overseas

- ✓ Developments in the Middle East, including energy price movements.
- ✓ Monetary policy in the United States and Europe, including further policy rate increases and their implications for foreign exchange rates.
- ✓ The outcome of the U.S. midterm elections and its effects on financial markets.

Key Considerations for Monetary Policy: Japan

- ✓ Fiscal policy, including the effects of a reduction in the consumption tax rate and a scaling-back of gasoline price subsidies.
- ✓ Firms' behavior, as assessed in the Tankan (Short-Term Economic Survey of Enterprises in Japan; December 14).
- ✓ Private consumption, including the Consumption Activity Index (November 9 and early December) and the Family Income and Expenditure Survey (December 8).
- ✓ Price developments, including the Corporate Goods Price Index (November 12 and December 10) and the Consumer Price Index (November 20 and December 18).
- ✓ Monetary Policy Meeting materials, including the Minutes of the September meeting (November 5) and the Summary of Opinions from the October meeting (November 10).
- ✓ Speeches by Policy Board members: Member Asada (November 12) and Member Takada (November 16).
- ✓ Developments in foreign exchange markets.

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Empower the change