Provisional Translation

No.5

Macroeconomic Policy Management in Light of Changes in the Price and Interest Rate Environment

September 30, 2026

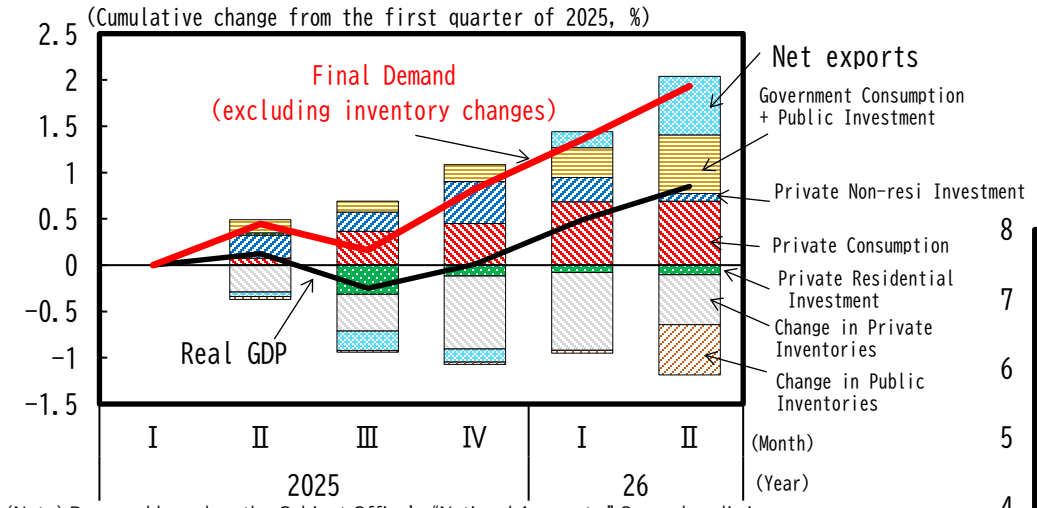
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※This document provides a summary of policy proposals submitted for discussion by the expert members to the Council on Economic and Fiscal Policy.

Economic Trends

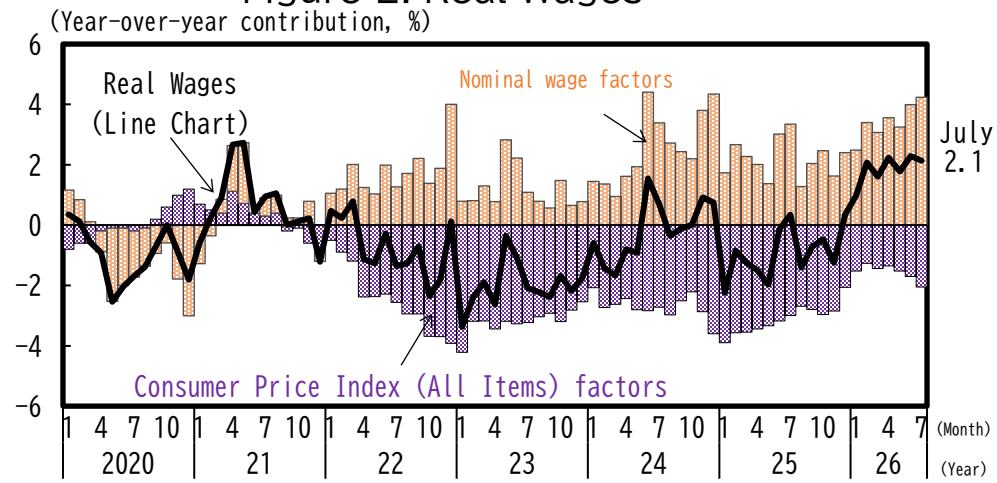
◯**Final demand in GDP has remained robust**, and the **economic recovery period may become the longest in the postwar era** .
◯**Real wages** rose 2.1% year-over-year as of July, marking **eight consecutive months of growth** since December of last year.
◯While the share of food expenses in total consumption is higher among middle- and low-income households, **food prices in Japan have been rising at a faster pace than overall prices or wages** since the COVID-19 pandemic.

Figure 1: Real GDP



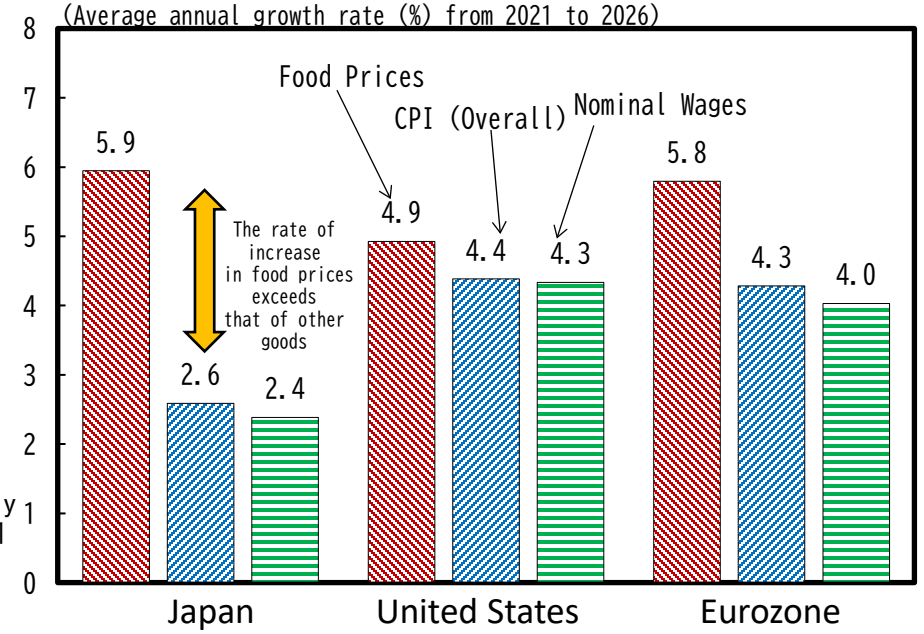
(Note) Prepared based on the Cabinet Office's "National Accounts." Second preliminary estimate for the April-June 2026 quarter.

Figure 2: Real Wages



(Note) Compiled based on the Ministry of Health, Labor, and Welfare's "Monthly Labor Survey."

Figure 3: Food Prices, Overall Prices, and Wages (International Comparison)



(Note) Compiled using data from the Ministry of Internal Affairs and Communications' "Consumer Price Index," the Ministry of Health, Labor and Welfare's "Monthly Labor Survey," and statistics from various countries. For each category, the average for January-July of 2021 and 2026 (with the exception of nominal wages in the Eurozone, which are based on the average for the first and second quarters) were compared, and the growth rate was converted to an annual average. "Food prices" refer to food excluding meals eaten out and alcoholic beverages.

Background of Rising Interest Rates (1)

○Since the invasion of Ukraine in 2022, **major economies have raised policy rates to counter high inflation**, causing long-term interest rates to rise as well. Since then, **constraints on crude oil supply and persistently high prices** have continued; furthermore, **factors such as increased investment in AI-related by hyperscalers and rising fiscal demand due to changes in the security environment have contributed to persistently high interest rates worldwide**.

○In **Japan**, starting in 2024, amid policy changes such as the **abolition of yield curve control (YCC)** and **a reduction in long-term government bond purchases**, long-term interest rates have risen, influenced by **domestic economic and inflation conditions, overseas interest rates, and government bond supply and demand**.

Figure 1: Long-Term Interest Rate Trends by Country

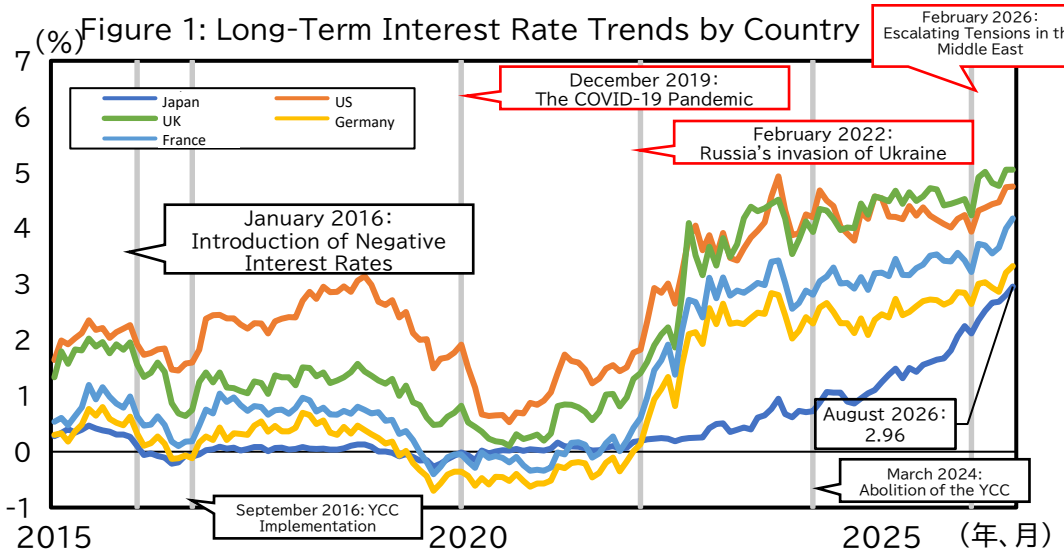


Figure 2: Global Corporate Bond Issuance

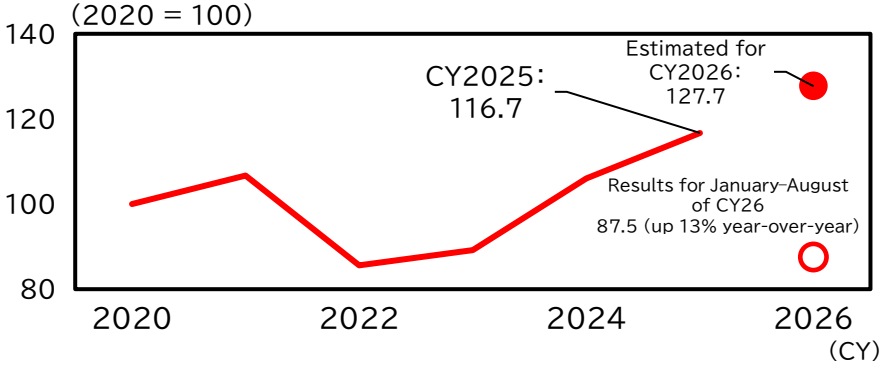


Figure 3: Term Premium in Japan and the U.S. (10-Year Bonds)

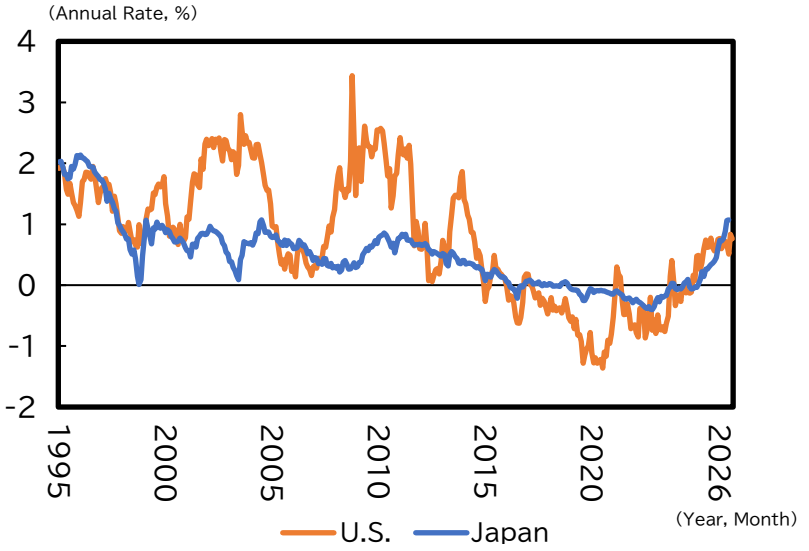
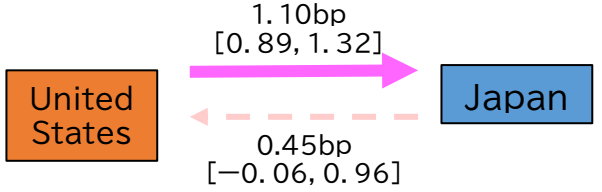


Figure 4: Spillover Effects of Long-Term Interest Rates Between Japan and the U.S.

Cumulative change in the partner country's interest rate in response to a shock equal to one standard deviation (bps, 20 business days)



(Note) Figure 1: Prepared using data from Bloomberg. Long-term interest rates are based on the yields on 10-year government bonds in each country (values for end of months).
Figure 2: Created using data from Bloomberg. Corporate bonds with maturities of over one year are indexed with issuance volume in CY2020 set to 100.
Figure 3: Data for the U.S. is from the Federal Reserve Bank of New York, "Treasury Term Premiums" (Adrian-Crump-Moench (ACM) model); data for Japan is from Jouchi Nakajima (Institute of Economic Research, Hitotsubashi University), "Japanese Monetary Policy Data Site." The term premium is a component of long-term interest rates other than expected interest rates; it corresponds to the additional interest rate investors demand in exchange for bearing liquidity and interest rate fluctuation risks when holding bonds with longer maturities. Figure 4: Estimates by Dai-ichi Life Asset Management Economic Research Institute. The estimation period covers daily closing prices from 2024 onward. The difference between the previous day's 10-year interest rates in Japan and the U.S. is used. A two-variable VAR model with a one-period lag was employed, and the Cholesky decomposition was performed in the order of market close times (Japan → U.S.). Standard deviations are based on 1,000 bootstrap resampling of the residuals. Values in [ ] indicate the 95% confidence interval. Solid lines indicate 1% significance, and dashed lines indicate 10% significance.

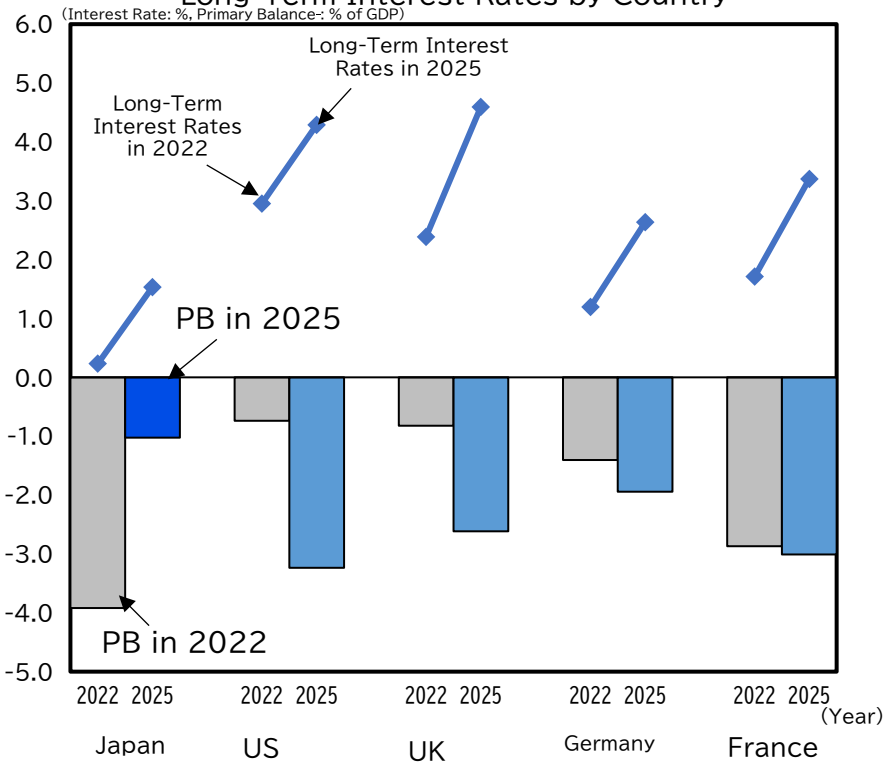
Background of Rising Interest Rates (Part 2)

○Looking at the relationship between changes in the primary balance (PB) and interest rates in 2022 and 2025, while interest rates have risen in other countries as their PBs have deteriorated, Japan's PB has improved the most among major economies. **Fluctuations in long-term interest rates cannot be explained solely by trend in the fiscal balance.**

○Looking at the factors driving the rise in long-term interest rates from 2024 onward, **multiple factors**—including movements in expected inflation rates, and real interest rates, monetary policy, supply and demand for government bonds, and overseas interest rates—are having an impact.

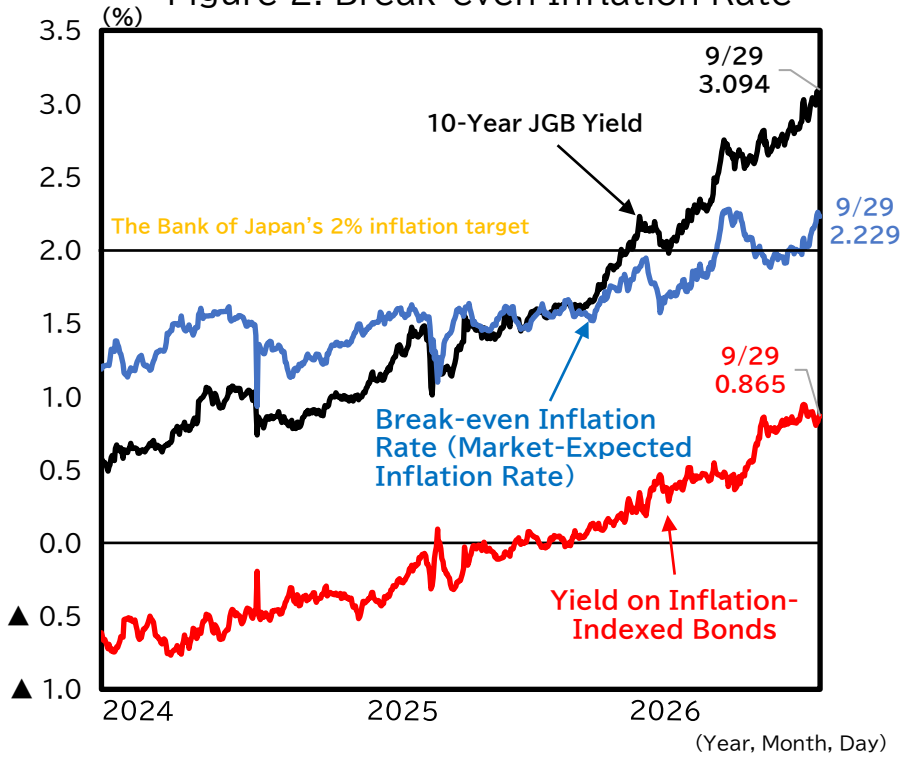
○Long-term interest rates are generally influenced by various factors, including (1) monetary policy, (2) expected inflation rates, (3) expected growth rates, (4) supply and demand for government bond and the fiscal situation, and (5) overseas interest rates, demand for funds, and exchange rates. Regarding current interest rate trends as well, **it is important to comprehensively examine these factors**.

Figure 1: Changes in the Primary Balance and Long-Term Interest Rates by Country



(Note) Compiled from Bloomberg and the OECD Economic Outlook.

Figure 2: Break-even Inflation Rate

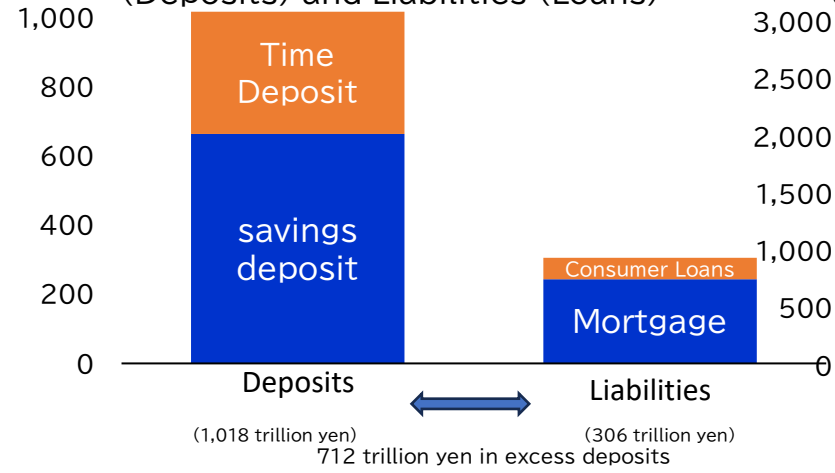


(Note) Created using data from Bloomberg.

The Impact of Rising Interest Rates

○In the **household sector**, while there has been an **increase in interest income from savings and other sources, the burden of debt, such as mortgage loans, has also increased, particularly among households in their 30s and 40s. The impact varies depending on assets, liabilities, age, and income**.
○Looking at the **corporate sector**, many companies currently report that their financial position is ample, and **the financial conditions are generally accommodative at this time**; however, since the impact varies depending on factors such as company size, financial condition, and debt composition, **it may become apparent with a time lag**.
○In addition, it is necessary to closely monitor impacts through various channels, such as stock prices.

Figure 1: Household Financial Assets (Deposits) and Liabilities (Loans)



(Note) Compiled from the Bank of Japan's Financial Flow Statistics (as of the end of March 2026).
Households include self-employed individuals.

Figure 2 (1): Financial Assets by Age of Household Head

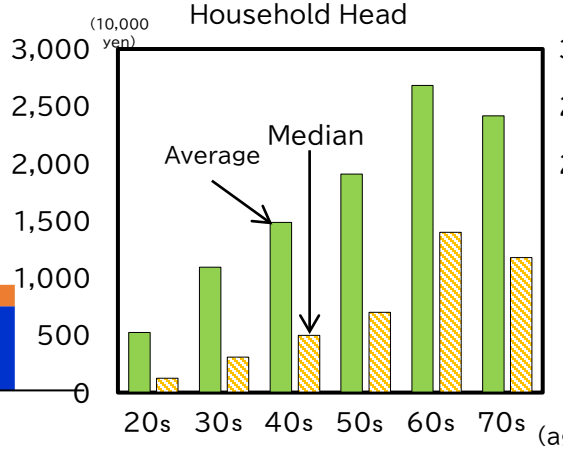
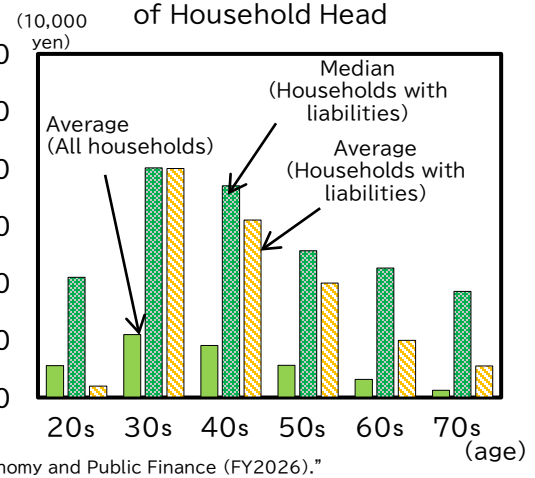


Figure 2(2): Financial Liabilities by Age of Household Head



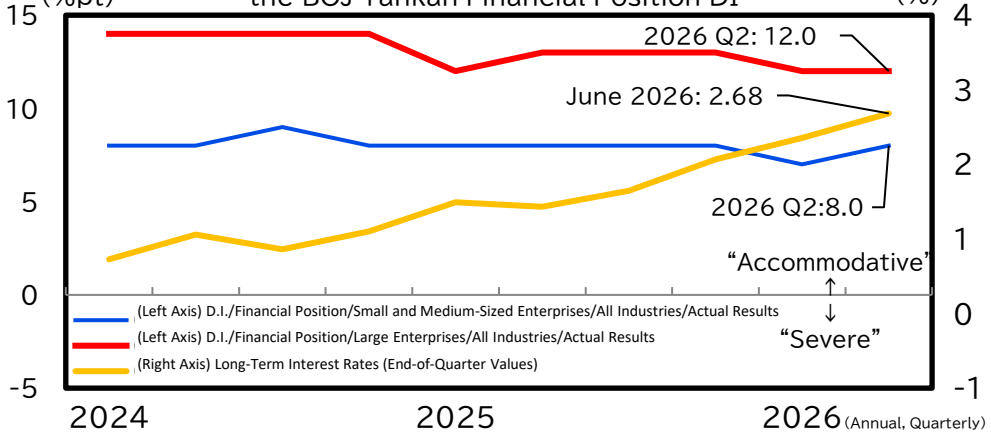
(Note) Cabinet Office, "Annual Report on the Japanese Economy and Public Finance (FY2026)."
Data from the Japan Financial Literacy and Education Corporation, "Survey of household finances" (households with two or more members, 2025).

Table 3: Examples of Measures to Address Rising Mortgage Rates for Families with Children and other eligible households

・Interest rate reduction program in "Flat 35" (*) became available for refinancing into a fixed-rate loan (FY2025 Supplementary Budget)
*Interest rates are reduced by 0.25 to 0.75 percentage points for five years, depending on the number of children and other aspects.
・The maximum loan amount for existing homes with high energy efficiency is hiked(by 5 to 10 million yen), and the deduction period is extended to 13 years (FY2026 Tax Reform)

*Note that while the proportion of variable-rate mortgages is high in Japan (75% of new mortgage borrowers between April and September 2025 opted for variable rates), the proportion of fixed-rate mortgages is high in the United States (only 3% of new borrowers in the third quarter of 2025 chose variable rates).

Figure 4: Long-Term Interest Rates and the BOJ Tankan Financial Position DI



(Note) Compiled using data from Bloomberg and the Bank of Japan's "Short-Term Economic Survey of Enterprises in Japan(Tankan)"