



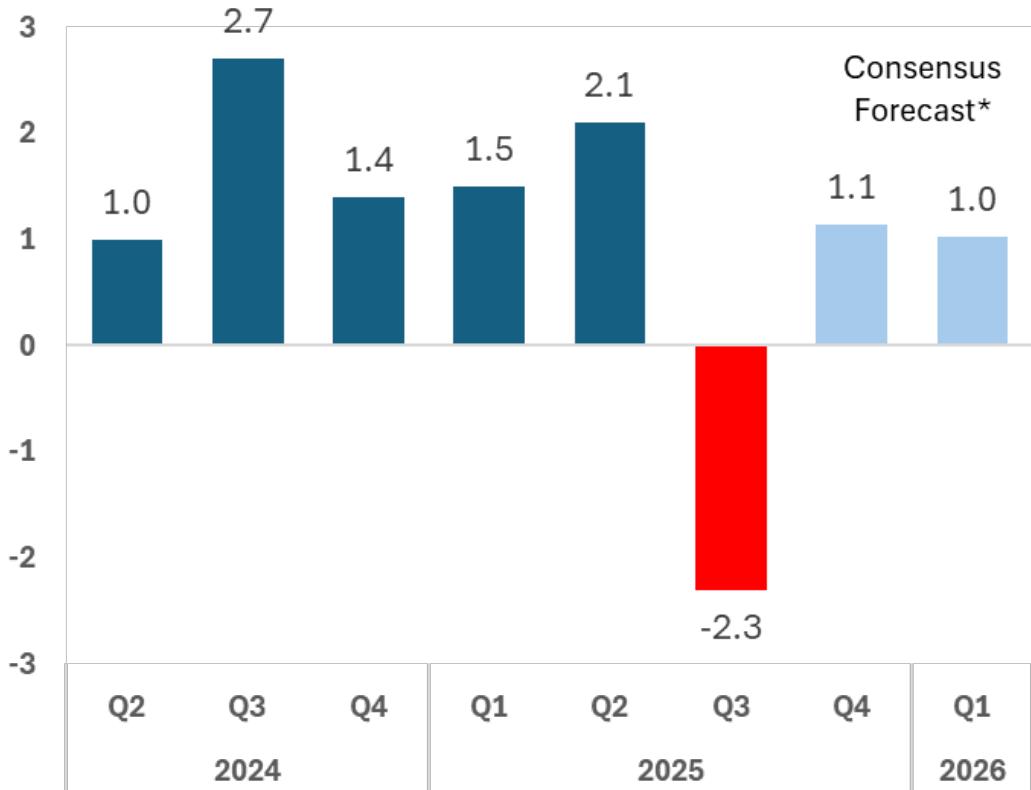
Recent Developments in the Japanese Economy: January 2026

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Temporary pause in recovery

- Japan's economy contracted by 2.3% in Q3 2025, the first decline since early 2024.
- Moderate growth is expected to resume over the coming quarters.
- The economy is expected to remain on a modest growth path.

Real GDP
Quarter-on-Quarter Percentage Change



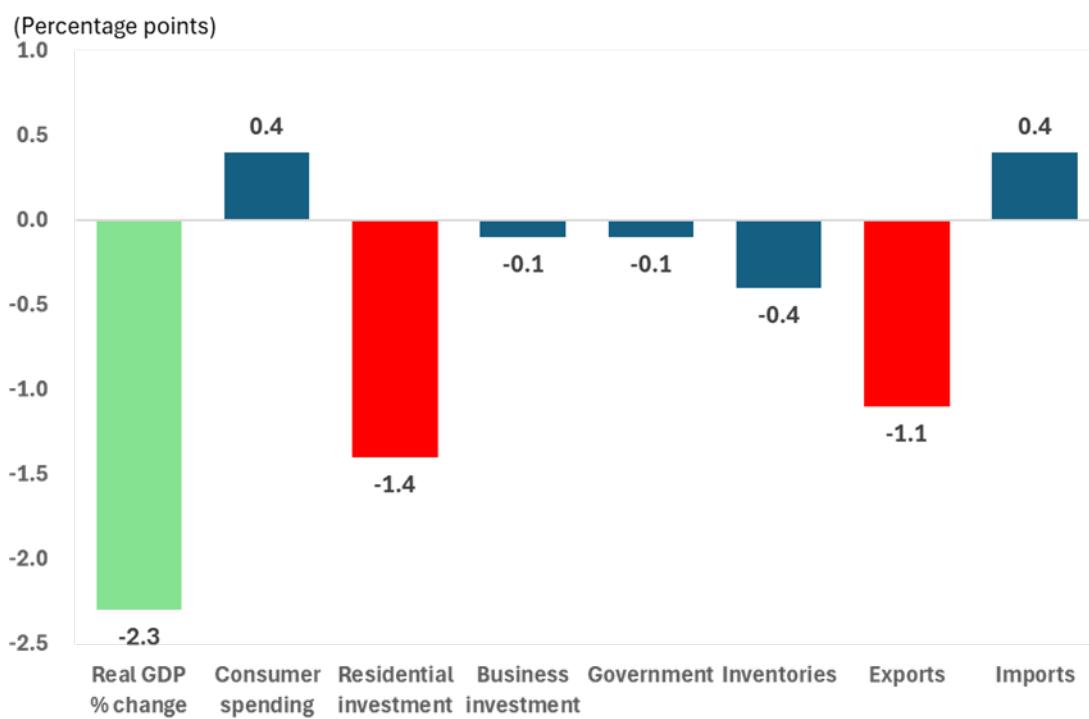
Sources: Cabinet Office; JCER

Notes: Thirty-eight forecasters surveyed as of January by JCER.
Seasonally adjusted annual rates.

Contributions to Quarterly Real GDP Growth (Q3 2025)

Causes of the Slowdown

- Exports declined – particularly for cars and car parts affected by US tariffs.
- Residential investment fell sharply owing to stricter energy-efficiency standards effective in April.
- These factors weighed on Q3 growth but are expected to be temporary.
- A more persistent concern is weak household consumption amid rising prices.



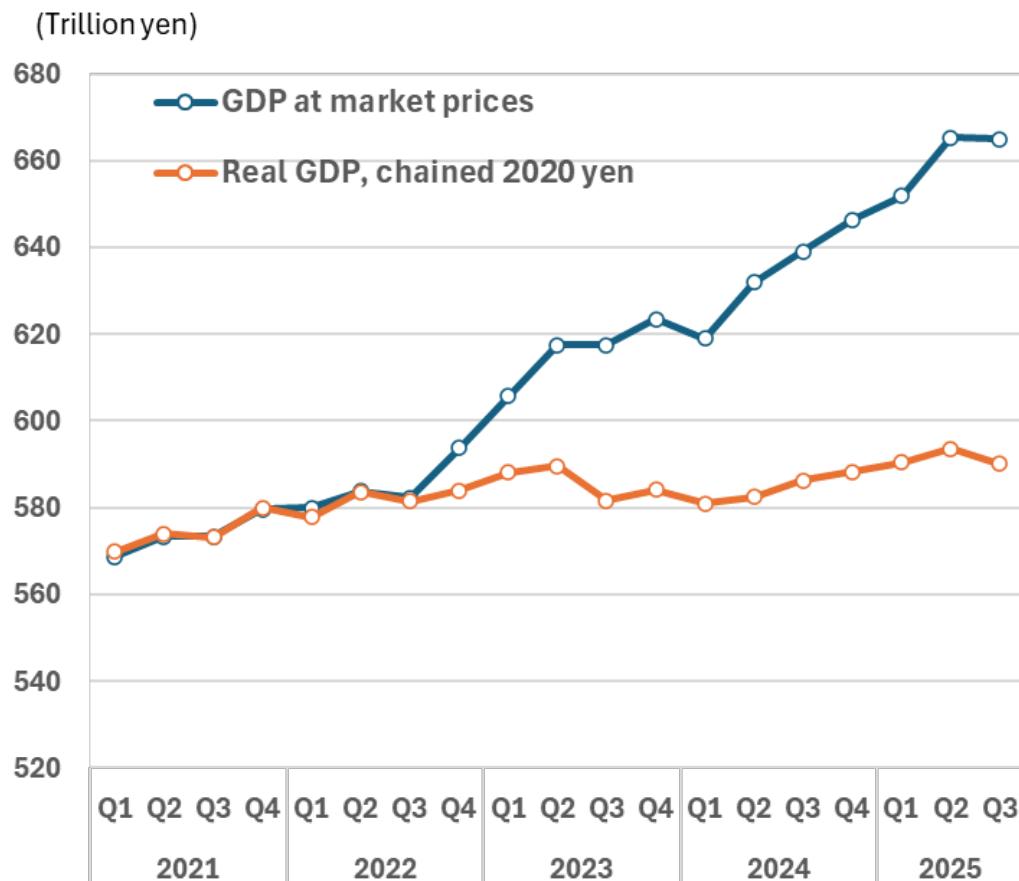
Source: Cabinet Office
Seasonally adjusted annual rates.



Turning point from deflation to inflation

- 2023 may have marked a turning point in Japan's long-standing deflationary economy.
- Nominal GDP, measured at market prices, strengthened as the economy shifted from deflation to inflation.
- However, real GDP growth has remained moderate.

Nominal and Real GDP

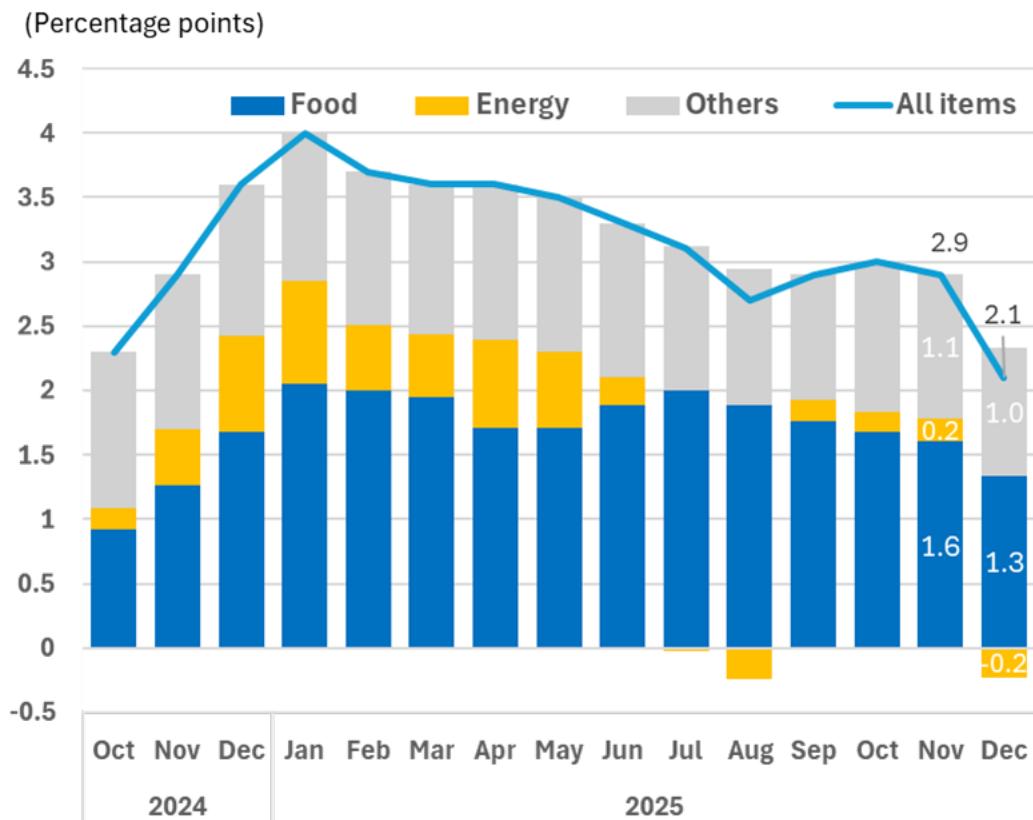


Source: Cabinet Office
Seasonally adjusted, annualized.

Food price inflation has eased

- Food price inflation has eased, as earlier increases in fresh food prices—including rice—have moderated.
- Headline consumer price inflation is expected to slow to below 2 % in the first half of 2026.
- Our policy aim is to shift from external “cost-push” inflation to more sustainable, wage-driven “demand-pull” inflation.

Contributions to Consumer Price Inflation

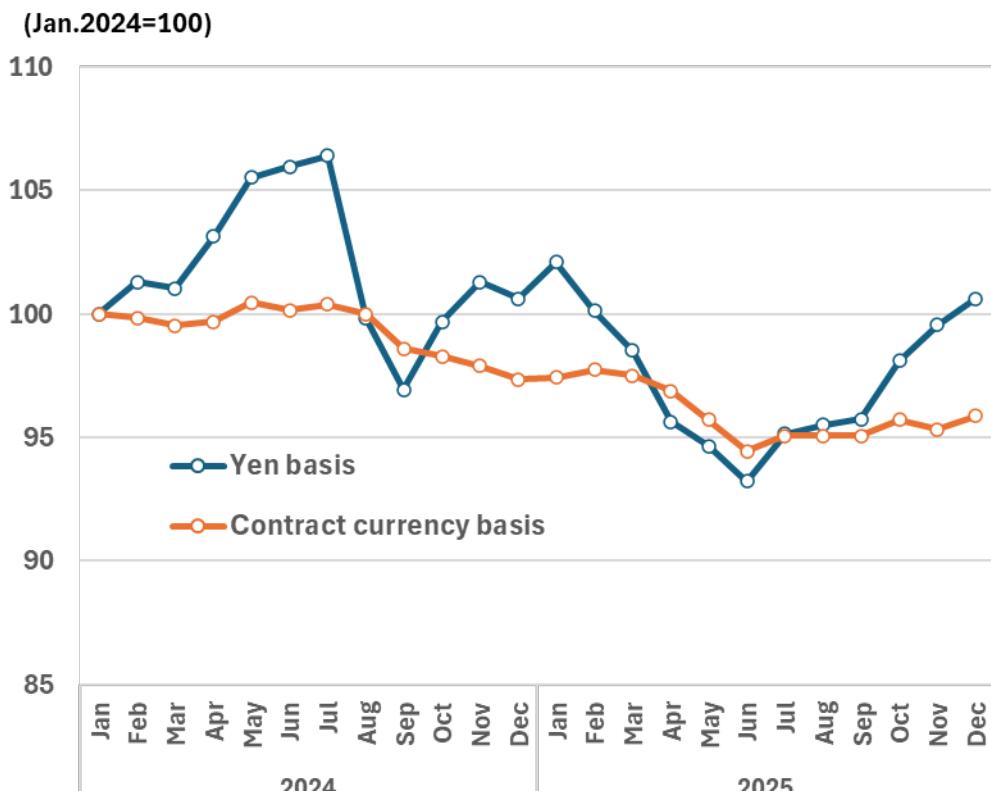


Source: Statistics Bureau

Uncertainty remains ...

- Contract-currency-based import prices have fallen due to lower crude oil prices, though yen depreciation is limiting the impact.
- Around 25% of Japan's goods imports are denominated in yen, while nearly 70% are denominated in US dollars.
- Uncertainty remains around global commodity prices and exchange rate developments.

Import Prices

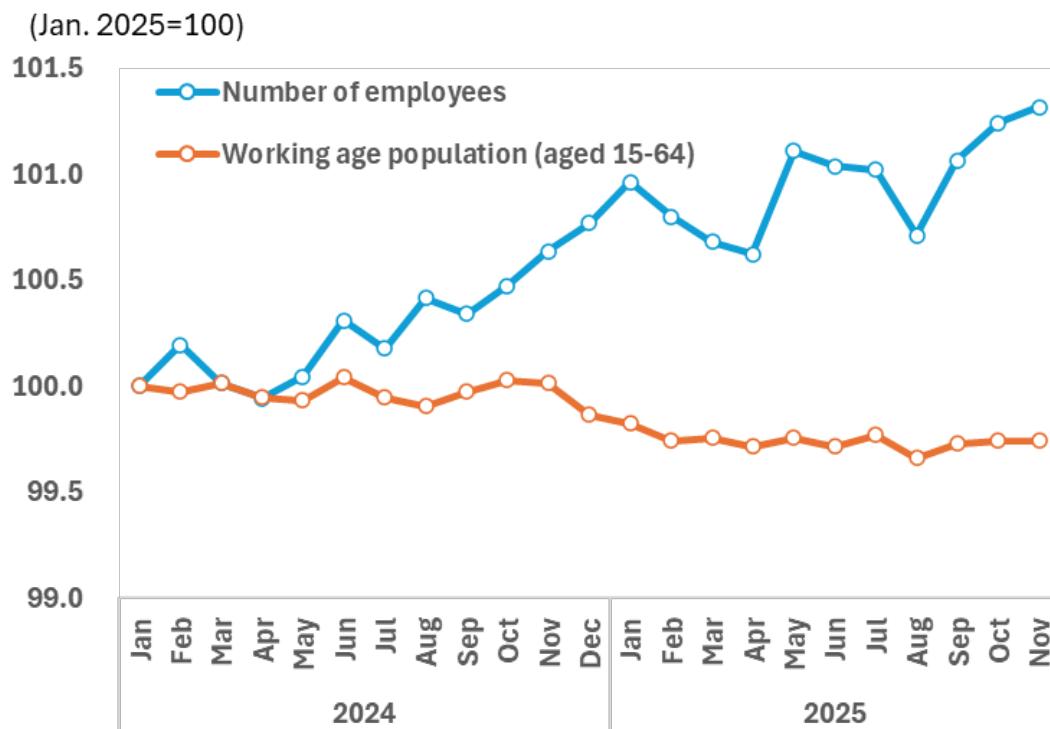


Source: Bank of Japan

Employment rising despite ageing population

- Despite a shrinking working-age population, employment continues to rise.
- Japan's employment rate stands at 80%, well above the OECD average of 70% in 2025.
- Labour force participation among older adults (65+) is 26%, well above the OECD average of 16% in 2024.
- It is getting harder to find room for further increases in labour supply.

Working-Age Population and Employment Trends

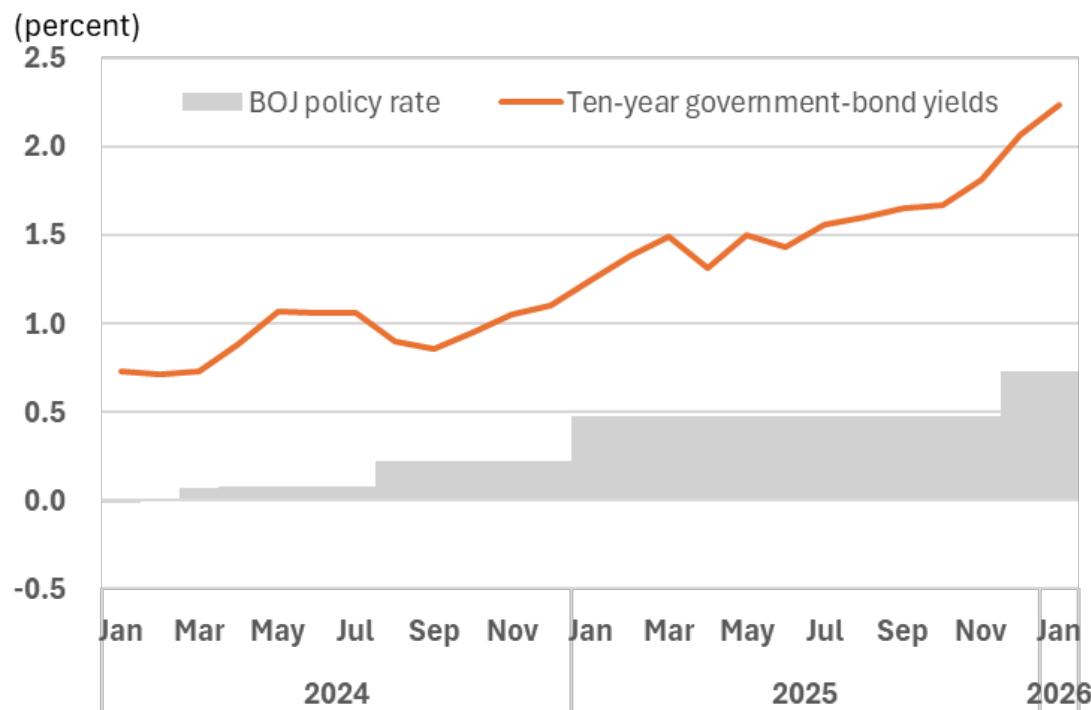


Source: Statistics Bureau

From zero to positive

- The Bank of Japan has raised its policy rate from near zero to 0.75%.
- Long-term interest rates have risen broadly in line with the policy rate.
- Long-term economic and price expectations are key drivers of the term premium.
- It remains essential to monitor developments in markets' long-term economic and price expectations.

Short-Term and Long-Term Interest Rates

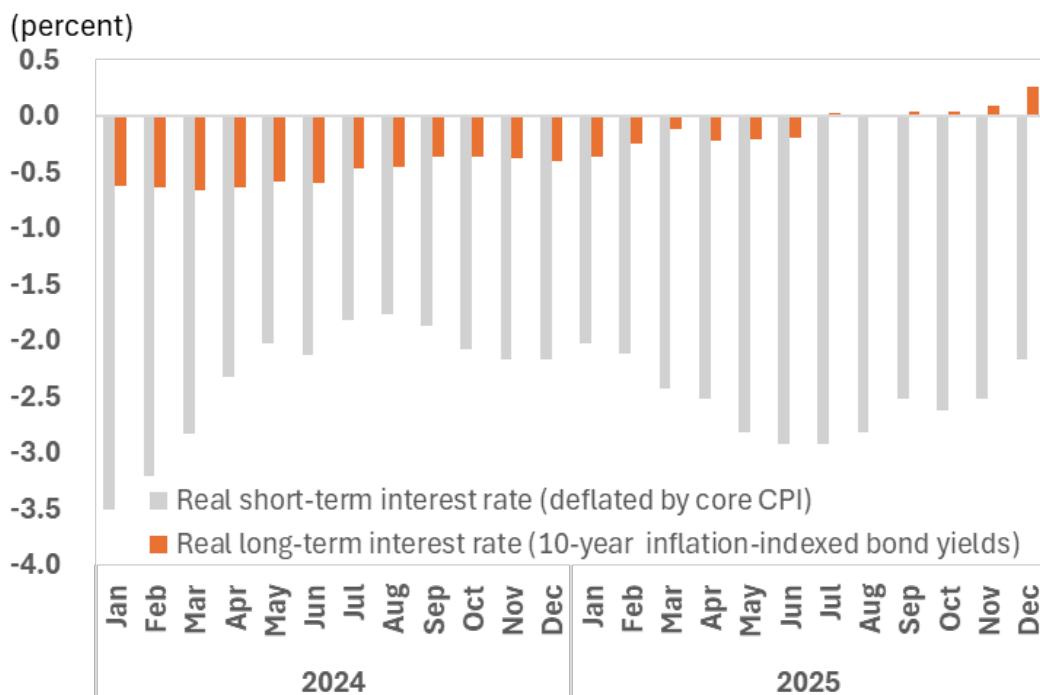


Sources: Bank of Japan; Bloomberg

Still deeply negative ...

- When assessing the impact of interest rates on the economy, it is important to distinguish between nominal and real rates.
- The long-term real interest rate has now turned positive, while the short-term real rate remains deeply negative.
- Current real interest rates are still considered far from restrictive for economic activity.

Short-Term and Long-Term Real Interest Rates



Sources: Bank of Japan; Bloomberg; Statistics Bureau

Thank you