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November 5, 2026

Bank of Japan

Minutes of the Monetary Policy Meeting

on September 17 and 18, 2026

(English translation prepared by the Bank's staff based on the Japanese original)

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A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Thursday, September 17, 2026, from 2:00 p.m. to 3:59 p.m., and on Friday, September 18, from 9:00 a.m. to 11:47 a.m.[1]

Policy Board Members Present

UEDA Kazuo, Chairman, Governor of the Bank of Japan
HIMINO Ryozo, Deputy Governor of the Bank of Japan
UCHIDA Shinichi, Deputy Governor of the Bank of Japan
TAKATA Hajime
TAMURA Naoki
KOEDA Junko
MASU Kazuyuki
ASADA Toichiro
SATO Ayano

Government Representatives Present

NAKATANI Shinichi, State Minister of Finance, Ministry of Finance[2]
NAKAYAMA Mitsuteru, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
KIUCHI Minoru, Minister of State for Economic and Fiscal Policy, Cabinet Office[2]
TSUTSUMI Masahiko, Director-General for Economic and Fiscal Management, Cabinet Office[3]

Reporting Staff

KAMIYAMA Kazushige, Executive Director
SUWAZONO Kenji, Executive Director
MASAKI Kazuhiro, Executive Director (Assistant Governor)

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[1] The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on October 29 and 30, 2026, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

[2] Present on September 18.

[3] Present on September 17.

NAKAMURA Koji, Executive Director

OKUNO Akio, Director-General, Monetary Affairs Department

YANO Masayasu, Deputy Director-General, Monetary Affairs Department[4]

IDE Joji, Head of Policy Planning Division, Monetary Affairs Department

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department

MINEGISHI Makoto, Director-General, Financial Markets Department

KAWAMOTO Takuji, Director-General, Research and Statistics Department

SAKURA Kenichi, Head of Economic Research Division, Research and Statistics Department

KASAI Makoto, Director-General, International Department

Secretariat of the Monetary Policy Meeting

FUKUDA Eiji, Director-General, Secretariat of the Policy Board

MIURA Yukihiro, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

OHTA Yukisato, Head of Policy Infrastructure Division, Monetary Affairs Department[4]

YAGI Tomoyuki, Senior Economist, Monetary Affairs Department

MIKI Mayuko, Senior Economist, Monetary Affairs Department

[4] Present on September 17 from 2:50 p.m. to 3:59 p.m.

I. Summary of Staff Reports on Economic and Financial Developments[5]

A. Market Operations in the Intermeeting Period

The Bank had been conducting money market operations in accordance with the guideline for money market operations decided at the previous meeting on July 30 and 31, 2026.[6] The uncollateralized overnight call rate had been in the range of 0.976 to 0.980 percent.

Meanwhile, the Bank had conducted Japanese government bond (JGB) purchases of about 2.5 trillion yen per month in accordance with the plan for the outright purchases of JGBs decided at the June 2026 meeting.

B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around 1.0 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased.

The Tokyo Stock Price Index (TOPIX) had risen, reflecting factors such as favorable corporate results in Japan and the United States. Yields on 10-year JGBs had increased, moving in line with U.S. interest rates, while market participants had raised their expectations for the terminal policy rate. The liquidity indicators in the JGB markets continued to improve. In the foreign exchange market, the yen had appreciated against both the U.S. dollar and the euro, mainly on the back of coordinated foreign exchange intervention by Japan and the United States and market views on Japan's monetary policy.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole, although some weakness had been seen in part, partly due to the impact of the situation in the Middle East. The U.S. economy maintained solid growth on the whole, although some weakness had been seen in part. 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.

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[5] Reports were made based on information available at the time of the meeting.

[6] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 1.0 percent.

The Chinese economy had picked up on the whole, mainly supported by an increase in exports, although consumption had lacked momentum. Growth in emerging and commodity-exporting economies other than China had improved moderately on the whole, although some weakness had been seen in part.

As for the outlook, overseas economies were expected to come under downward pressure for the time being due to the impact of the situation in the Middle East. Thereafter, however, based on the assumption that the impact of the situation in the Middle East would ease, overseas economies were projected to continue growing moderately, partly supported by global AI-related demand. Regarding the outlook, attention was warranted for the time being on how the future course of the situation in the Middle East would affect global financial markets and the global economy; in addition, there remained high uncertainties, for example, over developments in global AI-related demand.

With respect to overseas financial markets, although high uncertainties over the situation in the Middle East remained, market sentiment continued to be at an improved level, as robust corporate profits had been maintained. Long-term interest rates in the United States and Europe had risen significantly, as attention continued to be drawn to inflationary pressure stemming from factors such as prolonged tension over the situation in the Middle East. U.S. stock prices had risen, reflecting favorable corporate results. European stock prices were more or less unchanged over the intermeeting period; they had been weighed down by higher crude oil prices, although solid corporate results had been viewed positively by market participants. Meanwhile, currencies in emerging economies were more or less unchanged over the intermeeting period, albeit with fluctuations due to factors such as a change in market views on U.S. monetary policy. Crude oil prices had risen, with continued tension over the situation in the Middle East.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately, although some weakness had been seen in part, partly due to the impact of the situation in the Middle East. Regarding the outlook, the economy was likely to decelerate somewhat for a time. This was because, although solid global AI-related demand and the government's various measures were likely to provide

support, the economy was expected to be pushed down by a deterioration in the terms of trade reflecting the rise in energy and raw material prices.

Exports and industrial production had started to increase, albeit moderately, against the backdrop of factors such as the solid increase in global AI-related demand. Regarding the outlook, exports and industrial production were expected to continue increasing moderately, mainly led by capital goods and IT-related goods, on the back of solid global AI-related demand.

Corporate profits had been at high levels, against the backdrop of factors such as the solid increase in global AI-related demand, while they had been affected by the situation in the Middle East. Under these circumstances, business fixed investment had been on a moderate increasing trend, despite being affected by a rise in construction costs. Regarding the outlook, business fixed investment was likely to follow an upward trend, underpinned by factors such as moves to clear order backlogs for existing investment projects, in addition to investment in AI-related areas for capacity expansion. That said, for the time being, the growth momentum in business fixed investment was likely to remain subdued, mainly for construction investment, due to factors such as the impact of the rise in construction costs and delays in construction projects.

Private consumption had been resilient against the background of an improvement in the employment and income situation, although weakness had been seen in household sentiment. The consumption activity index (CAI; real, travel balance adjusted) had increased for the April-June quarter of 2026, and had declined slightly for July, relative to that quarter. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators, private consumption for August seemed to have declined from the previous month, due in part to weather conditions, including torrential rain and heavy rain, and with the leveling off of a temporary increase in demand for durable goods, such as automobiles, stemming from institutional factors. Consumer sentiment deteriorated sharply in March and April, reflecting the unstable situation in the Middle East and a rise in inflation expectations, but continued to pick up thereafter. Regarding the outlook, while price rises were expected to weigh on real disposable income, private consumption was highly likely to remain resilient for the time being, pushed up by the government's various support measures and a front-loading of demand for goods such as air conditioners, in addition to the wealth effects from higher stock prices.

Labor market conditions remained tight. Under these circumstances, the employment and income situation had improved moderately. The number of employed persons had increased at a pace of around 0.5 percent on a year-on-year basis, but the growth momentum had recently slowed, reflecting the decline in the number of self-employed workers and family workers, which tends to fluctuate significantly. Nominal wages per employee continued to increase steadily, albeit with fluctuations. With regard to the outlook, employee income was likely to continue increasing steadily, albeit with fluctuations, with corporate profits remaining on an uptrend.

As for prices, in international commodity markets, crude oil prices had seen a rapid and significant rise due to the military conflict in the Middle East starting at the end of February. Subsequently, these prices had declined temporarily, reflecting the signing in mid-June of the memorandum of understanding aimed at bringing the conflict in the Middle East to an end, but had recently seen a clear upturn, due to the resurgence of the military conflict. Copper prices remained elevated. Meanwhile, market prices of food had risen slightly. The year-on-year rate of increase in the producer price index (PPI) had been in the range of 7-8 percent, pushed up by a significant increase in prices of petroleum and coal products, and of chemicals and related products -- reflecting the impact of the situation in the Middle East -- as well as by a rise in prices of nonferrous metals and machinery driven by the expansion in global AI-related demand. With moves to pass on the rise in personnel expenses and other factors to selling prices continuing, the year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) had been at around 3 percent. Despite factors such as the effects of the government's measures to reduce the household burden of higher energy prices, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been moderately rising recently, being in the range of 1.5-2.0 percent, as the effects of a rise in import prices had been emerging, with moves to pass on wage increases to selling prices continuing. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be at around 2 percent in the near term, as the rise in energy prices was likely to be curbed by the government's fuel oil subsidies and its measures in summer 2026 to reduce the household burden of higher electricity and gas charges. Toward the second half of fiscal 2026, however, the rate of increase in this CPI was expected to accelerate markedly, to a level exceeding 3 percent, due to a greater upward contribution of energy prices reflecting

a rise in electricity and gas charges driven by higher import prices of liquefied natural gas (LNG), as well as a higher rate of increase in the CPI (all items less fresh food and energy).

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates remained at low levels, mainly in the short- to medium-term zone, although they had recently risen. Firms' funding costs had increased. Firms' demand for funds had increased on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been in the range of 5.5-6.0 percent; that in the aggregate amount outstanding of CP and corporate bonds had been at around 5 percent. Firms' financial positions had been favorable. The number of bankruptcies of firms had been more or less flat.

Meanwhile, the year-on-year rate of change in the money stock had been at around 2 percent.

II. Changes to the Terms and Conditions of the Funds-Supplying Operations to Support Financing for Climate Change Responses

A. Staff Reports

With regard to the Funds-Supplying Operations to Support Financing for Climate Change Responses, since the start of lending in December 2021, the outstanding balance had continued to increase, on the back of steady progress in private sector efforts to address climate change and financial institutions significantly revising their target levels upward. Given these developments, it could be assessed that the purpose of the operations had been achieved thus far. On this basis, with roughly half of the implementation period -- which is until the end of fiscal 2030 -- having already elapsed, it would be appropriate that the Bank, with the aim of continuing to provide stable support for private sector efforts on climate change while ensuring the smooth conduct of market operations, amend the "Principal Terms and Conditions of the Funds-Supplying Operations to Support Financing for Climate Change Responses" as follows: the Bank would (1) change the loan rate from the current fixed rate

to a floating rate and (2) set an upper limit on the total amount of loans at 50 trillion yen and on the amount of loans for each counterparty at 10 trillion yen.

Regarding the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, it would be appropriate that the Bank also change the loan rate from the current fixed rate to a floating rate, together with the changes regarding the Funds-Supplying Operations to Support Financing for Climate Change Responses. Moreover, with regard to the loan rate for the Funds-Supplying Operations against Pooled Collateral, it would be desirable that the Bank, with the aim of facilitating money market operations, enable the selection of the floating-rate method, in addition to the current multiple-rate competitive auction method and fixed-rate method.

With regard to the Great East Japan Earthquake -- the designated disaster under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas -- it was deemed that the purpose of the operation to support efforts toward restoration and reconstruction made by financial institutions in disaster areas had been achieved, given factors such as the recent usage of the operation. It would therefore be appropriate that the Bank amend the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" and remove the Great East Japan Earthquake from the category of designated disasters under the operation following the loan disbursement in May 2027.

B. Discussions by the Policy Board

Members agreed that, as explained by the staff, it was appropriate that the Bank would (1) change the loan rate and set upper limits on the amount of loans under the Funds-Supplying Operations to Support Financing for Climate Change Responses, (2) change the loan rates for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations against Pooled Collateral, and (3) remove the Great East Japan Earthquake from the category of designated disasters under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas following the loan disbursement in May 2027.

A few members expressed the recognition that the changes to the loan rates discussed at this meeting were timely, as they would provide appropriate usage incentives to

financial institutions, depending on economic and financial developments, while the Bank would make necessary adjustments to the policy interest rate.

C. Vote

Members voted unanimously to approve the amendments. It was confirmed that this would be made public after the meeting.

III. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic and Price Developments

With regard to global financial and capital markets, members shared the view that, although high uncertainties over the situation in the Middle East remained, market sentiment continued to be at an improved level, as robust corporate profits had been maintained.

Members shared the recognition that overseas economies had grown moderately on the whole, although some weakness had been seen in part, partly due to the impact of the situation in the Middle East. As for the outlook, members agreed that overseas economies were expected to come under downward pressure for the time being due to the impact of the situation in the Middle East. They continued that, thereafter, however, based on the assumption that the impact of the situation in the Middle East would ease, overseas economies were projected to continue growing moderately, partly supported by global AI-related demand. One member said that, since the previous meeting, sentiment toward the strength in and the sustainability of AI-related demand had further improved. The member then pointed out that, amid such a demand shock and the rise in global inflationary pressure, global monetary policy had been shifting away from the previous trend of policy interest rate cuts observed from 2024 to 2025, and moving toward a policy of interest rate hikes from summer 2026.

Members agreed that the U.S. economy maintained solid growth on the whole, although some weakness had been seen in part. One member expressed the view that the economy was expected to recover, supported by fiscal spending -- including tax cuts and tariff revenue refunds -- and by the wealth effects from higher stock prices, mainly of AI-related firms, in addition to employment conditions heading toward improvement, amid an improvement in the terms of trade due to the United States being a net exporter of crude oil. One member pointed out that, although the U.S. economy was expected to exhibit solid

growth of slightly more than 2 percent, attention needed to be paid to uncertainties surrounding future economic policy, taking into account factors such as concerns over medium- to long-term fiscal sustainability and the effects of the U.S. midterm elections in November.

Members shared the recognition that 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.

Members shared the view that the Chinese economy had picked up on the whole, mainly supported by the increase in exports, although consumption had lacked momentum. One member expressed the recognition that, despite subdued private consumption and business fixed investment due to a decline in real estate prices and a deterioration in local government finances, the Chinese economy maintained a certain level of growth, driven by the increase in exports and by support from fiscal policy.

Members shared the recognition that growth in emerging and commodity-exporting economies other than China had improved moderately on the whole, although some weakness had been seen in part.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

With regard to economic activity, members shared the view that Japan's economy had recovered moderately, although some weakness had been seen in part, partly due to the impact of the situation in the Middle East. Most members shared the view that, although the situation in the Middle East remained unclear, the economy had been supported by progress in securing alternative sources of supply and by the government's various measures. These members continued that, under these circumstances, AI-related demand had spread in the corporate sector, with its positive impact being observed in exports, production, and profits, and that private consumption had been resilient in the household sector, against the background of improvement in the employment and income situation. In this regard, these members expressed the recognition that Japan's economy had been developing generally in line with the baseline scenario presented in the July 2026 *Outlook for Economic Activity and Prices* (Outlook Report). One of these members pointed out that, although the rise in prices of crude oil and other imported commodities was a factor that led to a deterioration in the terms of trade, both the price and volume of exports from Japan had risen, partly driven by

the demand shock from the global expansion in AI-related demand, and that, under these circumstances, the deterioration in the terms of trade in the current phase had been limited on the whole, and concerns over an economic slowdown had subsided. Meanwhile, one member expressed the recognition that, although the real GDP growth rate for the April-June quarter had been positive, the breakdown showed that the growth rate for domestic demand was negative, and while external demand was positive, this was merely the result of a decrease in imports reflecting supply-side constraints stemming from the situation in the Middle East. The member continued that, therefore, it could not be said that the economy was growing in a strong and sound manner. In response, a few members pointed out that the somewhat weak figures for domestic demand in the April-June GDP statistics were considered to be attributable to technical factors regarding the treatment of, for example, the sale of intellectual property rights abroad and the provision of free school lunches. These members continued that, considering these factors, domestic demand was not weak, and the economy had been developing in line with the projections made in the July 2026 Outlook Report.

As for the outlook for economic activity, members shared the recognition that (1) Japan's economy was expected to continue growing moderately, albeit at a decelerated rate -- this was because, although the rise in crude oil prices since early spring reflecting the impact of the situation in the Middle East was expected to push down economic activity, the economy was likely to be underpinned by factors such as the government's various measures and accommodative financial conditions, in addition to the increase in global AI-related demand and (2) Japan's economic growth rate was likely to rise moderately thereafter, since it was projected that the adverse effects of high crude oil prices would wane and that the virtuous cycle from income to spending would gradually intensify.

Members agreed that exports and industrial production had started to increase, albeit moderately, against the backdrop of factors such as the solid increase in global AI-related demand. One member noted that the breakdown of the coincident index of the Indexes of Business Conditions for July showed an increase in shipments related to industrial production, particularly shipments of investment goods related to semiconductors, and the member expected these developments to continue.

Members shared the recognition that business fixed investment had been on a moderate increasing trend, despite being affected by the rise in construction costs, with corporate profits being at high levels, against the backdrop of factors such as the solid increase

in global AI-related demand. One member pointed out that real business fixed investment in the GDP statistics had registered negative growth for two consecutive quarters -- despite the recent temporary fluctuations stemming from the sale of intellectual property rights abroad -- which suggested that investment had been sluggish relative to the active plans, and thus attention was warranted on future downside risks. In response, one member stated that the weak business fixed investment relative to the plans was mainly due to supply-side factors such as the rise in construction costs and labor shortages, and considering that order backlogs for investment should be cleared over time, there was no need to be excessively concerned. A different member pointed out that, according to the Survey on Planned Capital Spending conducted by the Development Bank of Japan (DBJ), investment related to AI and data centers was expected across a wide range of manufacturing industries, and an increase in investment related to electricity had also been seen in nonmanufacturing industries as an inducement effect of AI-related demand.

Most members shared the recognition that private consumption had been resilient against the background of the improvement in the employment and income situation, although weakness had been seen in household sentiment. Some members pointed out that, with corporate profits being at high levels, real wages had improved and bonus payments this summer had been solid, and that, under these circumstances, consumer sentiment -- which had been relatively weak -- had picked up and private consumption had shown resilience. One member expressed the view that real private consumption in the April-June GDP statistics remained unchanged from the previous quarter, showing a lack of momentum. In relation to this, one member noted that private consumption not having been necessarily strong was attributable to structural factors, such as the population decline and the current pension benefit system. The member then expressed the view that, from a cyclical perspective, private consumption had been rather resilient, partly due to wage increases and the government's various measures to transfer income to households. A different member added that, looking at developments in real disposable income, while property income and the compensation of employees had increased, social insurance benefits, including pensions, had not grown. The member continued that, as a result, consumption behavior had varied considerably depending on household attributes, such as generation and the composition of financial assets held.

Members shared the view that the employment and income situation had improved moderately. One member said that the rate of increase in the CPI for 2026 was expected to be lower than the past few years on a calendar-year basis, and the impact on firms' wage setting warranted attention. The member then expressed the view that, considering that robust corporate profits had been maintained, it was highly possible at this point that the wage increases in the annual spring labor-management wage negotiations in 2027 would be similar to the figures seen in 2026.

As for prices, members shared the recognition that, despite factors such as the effects of the government's measures to reduce the household burden of higher energy prices, the year-on-year rate of increase in the CPI (all items less fresh food) had been moderately rising recently, being in the range of 1.5-2.0 percent, as the effects of a rise in import prices had been emerging, with moves to pass on wage increases to selling prices continuing. One member pointed out that, although the year-on-year rate of increase in the CPI had been rising moderately, the rate of increase in not only the CPI (all items less fresh food) but also the CPI (all items less fresh food and energy) remained in the range of 1.5-2.0 percent recently. In response, some members said that upward pressure on prices in business-to-business transactions had started to spill over into consumer prices, and that the month-on-month rate of increase in the CPI (all items less fresh food and energy) had accelerated. A different member expressed the recognition that, within the CPI, the year-on-year rate of increase in services prices had been rising gradually thus far, but it appeared that the pace of increase had been more or less unchanged recently, and that the figures did not clearly suggest a further acceleration in services prices. In response, some members pointed out that services prices continued to increase steadily over the past few years, albeit gradually. These members then said that if this trend accelerated further, underlying inflation might deviate upward accordingly. One of these members noted that, when assessing the underlying trend in services prices, it was desirable to exclude housing rent and public services, as price revisions for these items tend to lag. The member continued that the year-on-year rate of increase in services prices excluding housing rent and public services had already been at around 3 percent for nearly two years, and that the current phase should rather be focused on ensuring this rate did not accelerate.

Regarding price developments in business-to-business transactions, members concurred that the rate of increase in the PPI continued to be high on a year-on-year basis,

reflecting the impact of the expansion in AI-related demand, in addition to high crude oil prices and the depreciation of the yen. As for the breakdown of the PPI, a few members pointed out that, while the momentum of price hikes at the upstream stage in the supply chain, such as for petroleum and coal products, had paused, the price pass-through of these hikes had been spreading to the midstream and downstream stages, for example, for plastic products. On this basis, one of these members expressed the view that, with the preliminary figure for the year-on-year rate of increase in the PPI registering 7.6 percent for August, there were views that the rate of increase had peaked out from the revised figure for July, which was 7.7 percent. The member continued that, however, given that the preliminary figure for July had been revised upward to a considerable extent in the following month, it was quite possible that the preliminary figure for August would also be revised upward. With regard to developments in the SPPI, one member noted that the year-on-year rate of increase for motor freight transportation, categorized under domestic distribution costs, had accelerated to almost 6 percent for July. On this basis, the member expressed the view that, considering that gasoline prices had been declining on a year-on-year basis, it was likely that there had been a de facto pass-through of increases in personnel expenses, triggered by high crude oil prices.

Meanwhile, members concurred that inflation expectations had risen moderately. One member expressed the recognition that, as the accumulated experience of inflation since 2022 had led to an increase in medium- to long-term inflation expectations, the recent rise in crude oil prices had been driving a further rise in inflation expectations. One member pointed out that households' perceived inflation had recently been easing somewhat, with rice prices declining, while active price pass-through continued in business-to-business transactions. The member then commented that, in assessing developments in inflation expectations, it was important to examine moves by various economic entities, including firms and households.

With regard to the outlook for prices, members shared the recognition that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to accelerate to a level clearly above 2 percent from the second half of fiscal 2026. They continued that, this was because, with moves to pass on wage increases to selling prices continuing, the rise in crude oil prices to date was expected to push up prices, mainly of energy and goods, and the rise in the prices of semiconductors and other items, reflecting the increase in global AI-related demand, and the recent depreciation of the yen were likely to lead to an increase in prices, mainly of durable goods. In addition, members agreed that, meanwhile, with a sense of labor

shortage continuing to be strong, it was projected that the mechanism in which wages and prices rise moderately in interaction with each other would be maintained, and that medium- to long-term inflation expectations would rise. On this basis, most members shared the recognition that underlying CPI inflation was expected to increase gradually, coming to a level that was generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027 and remaining at around that level thereafter. In response, one member expressed the recognition that the level of the rate of increase in the CPI, including underlying CPI inflation, already had generally reached the price stability target. Furthermore, a different member stated that underlying CPI inflation already had been at a level that was generally consistent with the price stability target of 2 percent, and that developments in prices since the previous meeting had further supported this view.

Regarding projections for the CPI, many members noted that there was a growing possibility that the CPI inflation rate would rise from early autumn, considering, for example, that price hikes were scheduled for a greater number of items among beverages and food compared with typical years, as upward pressure on prices in business-to-business transactions had started to spill over into consumer prices. A few of these members expressed the recognition that, in addition to the rise in the prices of items such as packaging materials and food trays, the recent acceleration in distribution costs was expected to facilitate firms' pass-through of cost increases to selling prices and encourage price hikes in final consumer goods. Meanwhile, one member said that, regarding the consumption tax cut on food items -- which was currently under consideration -- while firms' actual price-setting behavior was uncertain, when calculated based on the assumption that the change in the consumption tax rate would be fully passed on to prices of all items to which the reduced tax rate would be applied, the tax cut was estimated to push down the year-on-year rate of change in the CPI for fiscal 2027 by over 1 percentage point.

Many members shared the view that underlying CPI inflation had been fairly close to 2 percent recently, and that it would be important, from the perspective of sustainable and stable achievement of the price stability target, to examine whether it became anchored at a level around 2 percent. One of these members expressed the view that, among the relevant indicators of underlying CPI inflation, there were some exceeding 2 percent and others falling below it; however, it was difficult to determine conclusively whether underlying CPI inflation had reached 2 percent based on an analysis of these indicators. The member continued that,

instead, the discussion should be premised on underlying CPI inflation being around 2 percent, focusing on how to anchor it at 2 percent. This member then commented that, in assessing the extent to which underlying CPI inflation was anchored at a level around 2 percent, attention was warranted on price developments and subsequent developments in wage increases in 2027. In relation to this, one member expressed the recognition that underlying CPI inflation was becoming anchored at around 2 percent in a sustainable and stable manner, given the following: (1) looking at the price change distribution by CPI item, it could be confirmed that the earlier peak of the distribution located close to 0 percent had fallen in recent years, and that the distribution had shifted toward positive territory; and (2) the medium- to long-term inflation rate, including the markets' break-even inflation (BEI) rate, had been stable at around 2 percent recently.

As for risks to economic activity and prices, members agreed that, while there were various risks to the outlook, it was necessary, for the time being, to pay particular attention to the impact of the situation in the Middle East on financial and foreign exchange markets and on Japan's economic activity and prices. Members also agreed that it was necessary to pay attention to the effects of developments in global AI-related demand and of future developments in foreign exchange rates on Japan's economic activity and prices. One member noted that, looking at developments observed since the previous meeting, while the assessment of risks associated with AI-related demand remained unchanged, since July, crude oil prices had risen by about 50 percent and the yen had appreciated by about 5 percent. The member then expressed the recognition that, if current market conditions remained unchanged, this would push up consumer prices considerably as a whole. Meanwhile, one member pointed out that international prices of not only crude oil but also grains such as wheat, corn, and soybeans had recently been rising sharply, and attention was therefore warranted on the possibility that this would induce stronger upward pressure on import and domestic prices.

Regarding the impact of the situation in the Middle East, some members expressed the recognition that, while the situation in the region remained unclear, concerns initially raised over a significant deterioration in economic activity had not materialized so far, partly due to the use of petroleum reserves and progress in securing alternative sources of supply. On this basis, many members shared the view that, as crude oil prices had risen again with the ongoing military conflict in the Middle East, upside risks to prices continued to be high, reflecting factors such as higher import prices. One of these members stated that, taking into

account these recent developments, it was necessary to consider the outlook for prices while keeping in mind that crude oil prices could remain high. On this basis, a few members, including this member, expressed the view that attention should be paid, as a tail risk, to possible constraints of crude oil, not only in terms of price but also quantity, due to the prolonged conflict in the Middle East, taking into account factors such as the suspension of Saudi Arabia's oil pipeline operations, the instability of crude oil transportation via the Red Sea, and declines in petroleum reserves in the United States and China. As for the impact of geopolitical risks, one member commented that, regarding Russia's invasion of Ukraine, although energy prices initially rose sharply to a greater extent than in the current conflict in the Middle East, they became quite stable thereafter, despite the continued conflict between the two countries. The member continued that, from a long-term perspective, the impact of geopolitical conflicts on energy prices was unlikely to be so significant. In response, one member noted that long-term international comparative analyses of the impact of geopolitical shocks on economic activity and prices across countries had shown that inflation was higher in Japan than in other economies following such a shock. The member then expressed the view that this could be attributed to Japan's economic structure, in that Japan is highly dependent on imports of energy and food.

Regarding the impact of AI-related demand on the real economy, many members pointed out that, amid the continued increase in global demand, strong business fixed investment could further push up the global economy; on the other hand, if profits did not increase in line with such investment, adjustment pressure could arise, accompanied by, for example, changes in asset prices. As for the impact on prices, some members expressed the recognition that AI-related demand continued to warrant attention as a factor that could drive up prices because prices in business-to-business transactions had been rising due to the tightening of supply and demand conditions for items such as semiconductors and copper, and this could lead to price rises at the consumer level in durable goods that used these items and in other various items.

As for the effects of developments in foreign exchange rates, many members shared the recognition that, although the yen had appreciated since the previous meeting, import prices had risen due to the earlier depreciation of the yen, and this was likely to push up the prices of, for example, durable goods through the price pass-through in business-to-business transactions. One member pointed out that, while the impact of developments in foreign

exchange rates on Japan's economy varied, in terms of the impact on prices, a depreciation of the yen would work to push up prices, whereas an appreciation of the yen would work to push them down. One member expressed the view that Japan's economy seemed to have become more resilient to external shocks recently, including the deterioration in the situation in the Middle East. The member continued that this was mainly attributable to stronger business performance, supported by the earlier depreciation of the yen, and the resulting greater ability of firms to absorb downward pressure on profits.

B. Financial Developments

Members agreed that financial conditions in Japan had been accommodative. Many members expressed the recognition that real interest rates had been rising recently, but the rates remained at low levels, mainly in the short- to medium-term zone, where they have a large impact on economic activity. These members continued that firms' and other entities' demand for funds had increased, and financial institutions' lending attitudes remained proactive. A few of these members added that, when developments in asset prices -- such as higher stock prices and the yen's depreciation -- were taken into consideration, financial conditions could be seen as being more accommodative. One member noted that recent corporate loan rates appeared to be still far from the level that would affect the behavior of large firms and competitive small and medium-sized firms, while firms with vulnerable financial structures were beginning to feel the burden of the recent rates. On this basis, the member commented that, although bankruptcies caused by the burden of loan rates were unlikely to increase significantly for the time being, it was necessary to pay careful attention to firms' views. One member expressed the view that a rise in housing loan rates was unlikely to have a significant impact on people's behavior when purchasing a home or taking out a loan, especially with continued expectations of rising housing prices. The member continued that, however, it was necessary to carefully monitor the impact of rising interest rates on households' behavior, taking into account factors such as differences in household attributes, including generation and the composition of assets and liabilities. Meanwhile, a different member pointed out that central banks in Europe, the United States, and Asia and Oceania had turned to policy interest rate hikes since summer 2026. The member then commented that a significant regime shift in financial conditions surrounding Japan had become increasingly

evident over the past few months, including the effects of this shift in the global economic environment.

IV. Summary of Discussions on Monetary Policy

Based on the above assessment of economic and financial developments, members discussed monetary policy.

Members first exchanged views on the guideline for money market operations for the intermeeting period.

Based on the discussions on economic and financial developments, most members shared the recognition that Japan's economic activity and prices had been developing generally in line with the baseline scenario presented in the July 2026 Outlook Report, and underlying CPI inflation had been approaching 2 percent. These members continued that, under these circumstances, financial conditions had been accommodative, and attention was warranted on various upside risks to prices. Specifically, most members pointed out that as the economy had recovered moderately, despite the impact of the situation in the Middle East, upward pressure on prices in business-to-business transactions had started to spill over into consumer prices and moves to pass on wage increases to selling prices had been continuing. On this basis, these members shared the recognition that, in this situation, underlying CPI inflation had been approaching 2 percent, taking into account that medium- to long-term inflation expectations continued to rise. As for risks to the baseline scenario, most members concurred that attention continued to be warranted on the impact that the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates had on Japan's economic activity and prices, and that there was a risk that underlying CPI inflation would deviate upward to a level above the price stability target of 2 percent. Meanwhile, members agreed that Japan's financial conditions had been accommodative, as evidenced by, for example, real interest rates remaining at low levels, mainly in the short- to medium-term zone, firms' and other entities' demand for funds having increased, and financial institutions' lending attitudes also remaining proactive.

In summarizing the aforementioned recognition, one member expressed the view that it was appropriate for the Bank to raise the policy interest rate at this meeting, since (1) economic and price developments were largely on track; (2) the references used to determine the timing of the rate hike -- namely, the situation in the Middle East, AI-related demand, and

developments in foreign exchange rates -- continued to warrant attention as factors that could drive up prices; and (3) financial conditions had shown no significant change since the previous rate hike and appeared to be in accommodative territory. A different member expressed the recognition that, if a policy interest rate hike was decided at this meeting, it would be the first one in the three months since June, and the interval between rate hikes would be shorter than before. The member noted that this was because economic conditions had been more resilient than expected, considering, for example, that concerns initially raised over a deterioration in economic activity due to the impact of the situation in the Middle East had not materialized. This member continued that, under these circumstances, it was appropriate to take a step toward the normalization of the policy interest rate at this meeting. One member expressed the recognition that, in 2024 and 2025, the Bank raised its policy rate at a moderate pace of twice a year, amid differences in the direction of monetary policy between Japan and other economies. The member continued that, recently, however, as central banks in, for example, the United States and Europe had turned to policy interest rate hikes, the situation had been shifting to a new phase in which the Bank needed to adopt a nimble approach in response to factors such as changes in overseas financial conditions and to discuss the size of a rate hike, rather than adhering to a certain pace of rate hikes. A different member pointed out that, by raising the policy interest rate at this meeting, the difference between the policy interest rate and the neutral interest rate would narrow somewhat, and this would enable the Bank to make swift policy decisions, allowing adjustment in response to either upward or downward movements in economic activity and prices as necessary.

Based on the above discussions, most members shared the recognition that it was appropriate for the Bank to raise the policy interest rate by 0.25 percentage points to around 1.25 percent at this meeting, from the perspective of sustainable and stable achievement of the price stability target of 2 percent. These members also shared the recognition that the following points were appropriate: (1) in order to implement this change, the interest rate applied to the complementary deposit facility would be 1.25 percent; and (2) the basic loan rate would also be raised by 0.25 percentage points to 1.5 percent. One member noted that, while various factors had been cited in the market as reasons for raising the policy interest rate, it was necessary for the Bank to explain clearly that it had decided to raise the rate at this meeting in light of developments in Japan's economic activity and prices as well as

financial conditions, from the perspective of sustainable and stable achievement of the price stability target.

On this basis, most members shared the recognition that accommodative financial conditions would be maintained even if the Bank decided to raise the policy interest rate at this meeting. Some members expressed the view that, taking into consideration factors such as the level of real interest rates after raising the policy interest rate, as well as firms' demand for funds and financial institutions' lending attitudes of late, it was highly likely that Japan's economy would continue to be firmly supported. One of these members, noting that firms' views were important in assessing financial conditions, pointed out that at present, most firms reported that the impact of past policy interest rate hikes and near-term potential further rate hikes was limited, and that only a very few firms reported that they would refrain from fixed investment due to interest burdens. On this basis, the member expressed the view that the purpose of policy interest rate hikes was to stabilize prices by influencing demand, and that it was necessary to continue to comprehensively consider various views and assess the degree of monetary accommodation as a whole. In relation to this, one member pointed out that, due to higher stock prices in recent years, firms were more likely than before to allocate their funds actively to investment rather than shareholder returns. The member said that attention should also be paid to this point in assessing financial conditions. A different member noted that recent higher stock prices and depreciation of the yen had contributed to making financial conditions even more accommodative. The member then expressed the recognition that it would be necessary to further examine how to regard developments in asset markets -- separate from interest rates and developments in bank lending -- as a factor in assessing financial conditions, and how to communicate those developments to the public.

On the other hand, a few members expressed the view that it was desirable that the Bank keep the policy interest rate at around 1.0 percent. One of these members expressed the view that, as the year-on-year rate of increase in the CPI had been below 2 percent and it could not necessarily be said that the recent economic situation was strong, raising the policy interest rate at this meeting following the hike in June 2026 could have a negative effect on production, employment, and real income in Japan. The member continued that it was therefore desirable for the Bank to maintain the current guideline for money market operations. A different member expressed the recognition that current economic and price developments had not substantially accelerated compared to before. The member then

expressed the view that it would take some time to assess, for example, developments in private consumption and the extent to which inflation expectations had been anchored at around 2 percent, and that it was not appropriate for the Bank to raise the policy interest rate at this time.

As for the future conduct of monetary policy, members agreed that, given that underlying CPI inflation had been approaching 2 percent and financial conditions had been accommodative, it was appropriate that the Bank continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions. One member expressed the view that it was desirable for the Bank to bring the policy interest rate closer to the approximate goal relatively soon and ensure there was room for nimble adjustment in either direction, so that it could respond flexibly to unexpected movements in economic activity and prices and to changes in the economic environment.

With respect to the timing and pace of adjustment to the degree of monetary accommodation, members shared the view that it was important for the Bank to consider this, while examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates. They then concurred that, in particular, the perspective of stabilizing underlying CPI inflation at a level around 2 percent became important in order to keep the risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent from materializing and thereby exerting an adverse impact on the economy afterward. In relation to this, one member noted that, with underlying CPI inflation considered to be below 2 percent, the aim of monetary policy thus far had been to push it upward; however, underlying CPI inflation was now getting closer to 2 percent, and the perspective of stabilizing it at a level around 2 percent thus became important. The member continued that, in that sense, it was considered that there had been a shift in the phase of monetary policy. One member expressed the view that it was necessary for the Bank to shift from the current stance of encouraging a rise in underlying inflation and to demonstrate to the market its determination to prevent upward deviations in prices through a nimble response to overseas economic environments and to price developments, while giving consideration to the impact on prices stemming from foreign exchange markets. A different member pointed out that, if prices continued to develop

in a manner consistent with the price stability target of 2 percent and financial conditions remained accommodative, it would be necessary for the Bank to continue to adjust the degree of monetary accommodation by raising the policy interest rate. The member then expressed the recognition that, if signs of an upward deviation in prices were observed, the Bank would need to accelerate the pace of rate hikes. Another member commented that, as underlying CPI inflation was expected to reach 2 percent before long, it did not seem to be accelerating at a speed that could lead the Bank to fall behind the curve, so there was no need to take hasty action. The member continued that, however, the Bank should conduct monetary policy as appropriate to prevent excessive and persistent price increases. One member expressed the view that, when deciding on a future policy interest rate hike, although it was important to keep in mind the estimated range of the neutral interest rate, the Bank should continue to act in a timely manner without becoming overly cautious, while broadening the scope and improving the granularity of its analysis, given that there was a certain degree of risk of price increases.

With regard to the future conduct of monetary policy, members also discussed how they should consider the neutral interest rate and the terminal policy rate. A few members noted that various views had been expressed in the markets regarding the neutral interest rate and the terminal policy rate, and that the levels of the rates estimated in the markets had recently risen overall. One of these members said that the two-year forward one-year rate in the overnight index swap (OIS) market, which is considered to reflect market views on the terminal policy rate, had recently exceeded 2 percent; however, it incorporates various factors, including market views on Japan's neutral interest rate and on the outlook for Japan's economic activity and prices, as well as developments in overseas interest rates, resulting in significant fluctuations in the rate. One member pointed out that a possible approach to estimating the neutral interest rate assumed that the natural rate of interest was roughly equivalent to the potential growth rate, with 2 percent added to this -- equivalent to the price stability target; based on this idea, the current figure exceeded 2 percent. In response, a different member expressed the view that, while the OIS rate had recently been hovering around the upper bound of the estimated range of the neutral interest rate, market expectations for policy interest rate hikes appeared to be somewhat ahead of the state of Japan's economic activity and prices and the current dynamics in wages and prices. Based on these discussions, many members shared the recognition that it was difficult to identify in advance the neutral

interest rate level, as it was not directly observable. These members continued that it was therefore appropriate for the Bank to continue to adjust the degree of monetary accommodation, while examining changes in financial conditions -- including short-term interest rates -- and the response of economic activity and prices to these changes, and while attempting to identify the neutral interest rate level. One of these members added that, depending on developments overseas, the neutral interest rate might deviate upward from prior estimates or the levels anticipated by the market; therefore, rather than making *a priori* assumptions about the neutral interest rate, it was necessary to examine the degree of monetary accommodation after each policy interest rate hike by comprehensively observing factors such as the behavior of firms, households, and financial institutions, and financial conditions. One member pointed out that communication with market participants needed to be conducted effectively, in order to prevent one-sided monetary policy expectations from being factored into the market.

V. Remarks by Government Representatives

Based on the above discussions, the government representatives requested that the chairman adjourn the meeting. The chairman approved the request. (The meeting adjourned at 11:11 a.m. and reconvened at 11:17 a.m.)

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, while it was necessary to closely monitor the impact of the situation in the Middle East and of natural disasters.

(2) The government expected the Bank to fulfill its accountability regarding the decisions at this meeting and to examine carefully the cumulative effects of past policy interest rate hikes. Looking ahead, it might be necessary for the Bank to take into consideration its estimates of the neutral interest rate. It was important for the Bank to take proactive and appropriate action in the event of excessive fluctuations in economic activity and in the market.

(3) The government expected the Bank to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner, while closely cooperating with the government.

The representative from the Ministry of Finance made the following remarks.

(1) The government expected the Bank to conduct monetary policy as appropriate toward sustainable and stable achievement of the price stability target of 2 percent, while closely cooperating with the government.

(2) On this basis, regarding the proposal on the change in the policy interest rate, the government expected the Bank to make decisions at this meeting as appropriate, and to explain its policy intention carefully to the market and other stakeholders.

(3) Moreover, with a view to the future conduct of monetary policy, the government expected the Bank to carefully examine factors such as the impact on economic activity and prices of the change in the policy interest rate at this meeting.

VI. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the majority view of the members, the chairman formulated the following proposal on the guideline for money market operations and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

The guideline for money market operations for the intermeeting period will be as follows.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 1.25 percent.
>
> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
> Votes against the proposal: ASADA Toichiro and SATO Ayano.

Asada Toichiro dissented, considering that, with the rate of increase in the CPI (all items less fresh food) being below 2 percent recently, it could not necessarily be said that the economic situation was strong, and it was therefore desirable for the Bank to maintain the guideline for money market operations. Sato Ayano dissented, considering that current

economic and price developments did not appear to have substantially accelerated compared to before, and in this context, it was not appropriate for the Bank to raise the policy interest rate at this time.

B. Vote on a Change in the Interest Rate Applied to the Complementary Deposit Facility etc.

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the interest rate applied to the complementary deposit facility etc. and put it to a vote.

The Policy Board decided the proposal by a majority vote and agreed that the amendment to "Principal Terms and Conditions of Complementary Deposit Facility" should be made public promptly after the meeting.

The Chairman's Policy Proposal on a Change in the Interest Rate Applied to the Complementary Deposit Facility etc.:

The interest rate applied to the complementary deposit facility will be as follows, and the "Principal Terms and Conditions of Complementary Deposit Facility" will be amended.

> The interest rate applied to the complementary deposit facility will be 1.25 percent per annum.
>
> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
> Votes against the proposal: ASADA Toichiro and SATO Ayano.

Asada Toichiro and Sato Ayano dissented for the same reasons as they opposed the proposal regarding the guideline for money market operations.

C. Vote on a Change in the Basic Discount Rate and the Basic Loan Rate

To reflect the majority view of the members, the chairman formulated the following proposal on a change in the basic discount rate and the basic loan rate and put it to a vote.

The Policy Board decided the proposal by a majority vote.

The Chairman's Policy Proposal on a Change in the Basic Discount Rate and the Basic Loan Rate:

The basic discount rate for discounting of bills pursuant to Article 33, paragraph 1, item (i) of the Bank of Japan Act and the basic loan rate for loans made pursuant to Article 33, paragraph 1, item (ii) of the Act will be as follows.

> The basic discount rate and the basic loan rate will be 1.5 percent per annum.
>
> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
> Votes against the proposal: ASADA Toichiro and SATO Ayano.

Asada Toichiro and Sato Ayano dissented for the same reasons as they opposed the proposal regarding the guideline for money market operations.

D. Discussion on the Statement Entitled "Change in the Guideline for Money Market Operations"

On the basis of the above discussions, members discussed the statement "Change in the Guideline for Money Market Operations." Takata Hajime expressed opposition to the description regarding the outlook for prices, considering that the level of the rate of increase in the CPI, including underlying CPI inflation, already had generally reached the price stability target. Tamura Naoki also expressed opposition to the description regarding the outlook for prices, considering that underlying CPI inflation already had been at a level that was generally consistent with the price stability target.

Based on this discussion, the chairman formulated the statement "Change in the Guideline for Money Market Operations," which included a note explaining that Takata Hajime and Tamura Naoki had each opposed a different part of the text, and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachments 1 and 2).

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of July 30 and 31, 2026, for release on September 28.

Attachment 1

September 18, 2026

Bank of Japan

Change in the Guideline for Money Market Operations

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a 7-2 majority vote, to set the following guideline for money market operations for the intermeeting period: [Note]

   The Bank will encourage the uncollateralized overnight call rate to remain at around 1.25 percent.[7]

2. In accordance with the change in the guideline for money market operations, the Bank decided, by a 7-2 majority vote, to change the interest rates applied to its measures.[8] [Note]

   (1) Interest rate applied to the complementary deposit facility

   The interest rate applied to the complementary deposit facility (the interest rate applied to current account balances held by financial institutions at the Bank, excluding required reserve balances) will be 1.25 percent.

   (2) Basic loan rate[9]

   The basic loan rate applicable under the complementary lending facility will be 1.5 percent.

3. Regarding the Funds-Supplying Operations to Support Financing for Climate Change Responses, the Bank decided, by a unanimous vote, to change the loan rate to a floating rate and set upper limits on the amount of loans, with the aim of providing stable support for private sector efforts on climate change while ensuring the smooth conduct of market operations.[10]

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[7] The new guideline for money market operations will be effective from September 24, 2026.

[8] The new interest rate applied to the complementary deposit facility and the new basic loan rate will be effective from September 24, 2026.

[9] The basic loan rate is stipulated in Article 15, paragraph 1, item (ii) of the Bank of Japan Act. The basic discount rate in item (i) in the same paragraph also will be 1.5 percent (discounting of bills is currently suspended).

[10] The Bank also decided to change the loan rates for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations against Pooled Collateral. In addition, the Bank decided to remove the Great East Japan Earthquake from the category of designated disasters under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas following the loan disbursement in May 2027, given factors such as the recent usage of the operation.

4. Japan's economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East (see Attachment 2). Regarding the outlook, Japan's economy is expected to continue growing moderately. This is because, although the impact of the situation in the Middle East is expected to push down economic activity, the economy is likely to be underpinned by factors such as the government's various measures, in addition to an increase in global AI-related demand. On the price front, the rate of increase in the producer price index (PPI) has continued to be high on a year-on-year basis, reflecting the impact of the expansion in AI-related demand, in addition to high crude oil prices and the depreciation of the yen. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been moderately rising recently, as upward pressure on prices in business-to-business transactions has started to spill over into consumer prices and moves to pass on wage increases to selling prices have been continuing. In this situation, medium- to long-term inflation expectations have continued to rise, and underlying CPI inflation has been approaching 2 percent. As explained, Japan's economic activity and prices have been developing generally in line with the baseline scenario presented in the July 2026 *Outlook for Economic Activity and Prices*.

   While there are various risks to the baseline scenario, attention continues to be warranted on the impact that the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates have on Japan's economic activity and prices. As for underlying CPI inflation, there is a risk that it will deviate upward to a level above the price stability target of 2 percent, given factors such as firms' behavior shifting more toward raising wages and prices and medium- to long-term inflation expectations rising.

   Japan's financial conditions have been accommodative. Real interest rates have remained at low levels, mainly in the short- to medium-term zone. Firms' and other entities' demand for funds has increased, and financial institutions' lending attitudes have also remained proactive. Moreover, issuance conditions for CP and corporate bonds have remained favorable.

   In view of the aforementioned developments in economic activity and prices, risks, as well as financial conditions, the Bank judged it appropriate to adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent. Accommodative financial conditions are expected to be maintained after the change in the policy interest rate, continuing to firmly support economic activity.

5. As for the future conduct of monetary policy, given that underlying CPI inflation has been approaching 2 percent and financial conditions have been accommodative, the Bank will

continue to raise the policy interest rate and adjust the degree of monetary accommodation, in response to developments in economic activity and prices as well as financial conditions. In this regard, it will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook, including the impact of the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates. In particular, the perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important in order to keep the risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent from materializing and thereby exerting an adverse impact on the economy afterward. With the price stability target of 2 percent, the Bank will conduct monetary policy as appropriate from the perspective of sustainable and stable achievement of the target.

[Note] Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki. Voting against the action: ASADA Toichiro and SATO Ayano. Asada Toichiro dissented, considering that, with the rate of increase in the CPI (all items less fresh food) being below 2 percent recently, it could not necessarily be said that the economic situation was strong, and it was therefore desirable for the Bank to maintain the guideline for money market operations. Sato Ayano dissented, considering that current economic and price developments did not appear to have substantially accelerated compared to before, and in this context, it was not appropriate for the Bank to raise the policy interest rate at this time.

Attachment 2

Economic Activity and Prices in Japan: Current Situation and Outlook

1. Japan's economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East. Overseas economies have grown moderately on the whole, although some weakness has been seen in part. Against the backdrop of factors such as a solid increase in global AI-related demand, exports and industrial production have started to increase, albeit moderately, and corporate profits have been at high levels. Under these circumstances, business fixed investment has been on a moderate increasing trend, despite being affected by a rise in construction costs. Private consumption has been resilient against the background of an improvement in the employment and income situation, although weakness has been seen in household sentiment. On the other hand, housing investment has been on a declining trend. Public investment has continued to be more or less flat. Meanwhile, labor market conditions have remained tight. Financial conditions have been accommodative. On the price front, despite factors such as the effects of the government's measures to reduce the household burden of higher energy prices, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been moderately rising recently, being in the range of 1.5-2.0 percent, as the effects of a rise in import prices have been emerging, with moves to pass on wage increases to selling prices continuing. Inflation expectations have risen moderately.

2. Japan's economy is expected to continue growing moderately, albeit at a decelerated rate. This is because, although the rise in crude oil prices since early spring reflecting the impact of the situation in the Middle East is expected to push down economic activity, the economy is likely to be underpinned by factors such as the government's various measures and accommodative financial conditions, in addition to an increase in global AI-related demand. Japan's economic growth rate is likely to rise moderately thereafter, since it is projected that the adverse effects of high crude oil prices will wane and that a virtuous cycle from income to spending will gradually intensify. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to accelerate to a level clearly above 2 percent from the second half of fiscal 2026. This is because, with moves to pass on wage increases to selling prices continuing, the rise in crude oil prices to date is expected to push up prices, mainly of energy and goods, and the rise in the prices of semiconductors and other items, reflecting the increase in global AI-related demand, and the recent depreciation of the yen are likely to lead to an increase in prices, mainly of

durable goods. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline toward around 2 percent in the second half of the projection period of the July 2026 *Outlook for Economic Activity and Prices*. Meanwhile, with a sense of labor shortage continuing to be strong, it is projected that the mechanism in which wages and prices rise moderately in interaction with each other will be maintained, and that medium- to long-term inflation expectations will rise. In this situation, 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. [Note]

3. There are various risks to the outlook. For the time being, it is necessary to pay particular attention to the impact of the situation in the Middle East on financial and foreign exchange markets and on Japan's economic activity and prices. In addition, it is necessary to pay attention to the effects of developments in global AI-related demand and of future developments in foreign exchange rates on Japan's economic activity and prices.

[Note] Takata Hajime opposed the description regarding the outlook for prices, considering that the level of the rate of increase in the CPI, including underlying CPI inflation, already had generally reached the price stability target. Tamura Naoki opposed the description regarding the outlook for prices, considering that underlying CPI inflation already had been at a level that was generally consistent with the price stability target.