

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 7-1 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 1.0 percent.¹

2. In accordance with the change in the guideline for money market operations, the Bank decided, by a 7-1 majority vote, to change the interest rates applied to its measures.² ^[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 1.0 percent.³

- (2) Basic loan rate⁴

The basic loan rate applicable under the complementary lending facility will be 1.25 percent.

3. 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). While higher crude oil prices have been exerting downward pressure on economic activity, the economy has generally been supported by factors such as high levels of corporate profits and an improvement in the employment and income situation. Meanwhile, the risk of a significant

¹ The new guideline for money market operations will be effective from June 17, 2026.

² The new interest rate applied to the complementary deposit facility and the new basic loan rate will be effective from June 17, 2026.

³ The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and the Funds-Supplying Operations to Support Financing for Climate Change Responses continue to be the interest rate applied to the complementary deposit facility.

⁴ 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 1.25 percent (discounting of bills is currently suspended).

slowdown in the economy appears to have decreased compared with a while ago. This is mainly because the effects of the government's various measures including those to reduce the household burden of higher energy prices will continue to provide support, and progress has been made in securing alternative sources of supply for raw materials that are highly dependent on the Middle East. Against this backdrop, Japan's economy has been developing generally in line with the baseline scenario, which expects that the economy will continue growing moderately, albeit at a decelerated rate.

On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has recently been at a level below 2 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices. However, the price pass-through stemming from the rise in crude oil prices has been progressing at a relatively fast pace in business-to-business transactions, which could spread to an increase in consumer prices across a wide range of items. Against this backdrop, taking into account that medium- to long-term inflation expectations have also continued to rise, there is a risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent.

Japan's financial conditions have been accommodative. Real interest rates have been negative, mainly in the short- to medium-term zone. Firms' and other entities' demand for funds has increased. Issuance conditions for CP and corporate bonds have also remained favorable.

In view of these developments in economic activity and prices 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.

4. 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 closely monitoring the impact of the future course of the situation in the Middle East on Japan's economic activity and prices and examining the likelihood of realizing the baseline scenario of the outlook for economic activity and prices and the risks to the outlook. 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: HIMINO Ryoza, UCHIDA Shinichi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki. Voting against the action: ASADA Toichiro. Absent: UEDA Kazuo. Asada Toichiro dissented, considering that, regarding the impact of the situation in the Middle East, downside risks to production and employment were greater than upside risks to prices, and it was desirable for the Bank to maintain the guideline for money market operations.

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. Exports and industrial production have continued to be more or less flat as a trend. Corporate profits have been at high levels against the backdrop of a solid increase in global AI-related demand. Under these circumstances, business fixed investment has been on a moderate increasing trend. 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, with moves to pass on wage increases to selling prices continuing, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been above 2 percent, partly due to the effects of the rise in food prices, such as rice prices; however, the rate of increase has recently been at around 1.5 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices. Inflation expectations have risen moderately.
2. Japan's economic growth is likely to decelerate, since the rise in crude oil prices reflecting the impact of the situation in the Middle East is expected to push down corporate profits and households' real income through factors such as a deterioration in the terms of trade. However, the economy is expected to continue growing moderately, albeit at a decelerated rate, since it is likely to be underpinned by factors such as the government's various measures and accommodative financial conditions, in addition to developments such as continued high levels of profits in the corporate sector. 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, as the rise in crude oil prices is expected to push up prices, mainly of energy and goods, with moves to pass on wage increases to selling prices continuing. Thereafter, with the waning of the effects of high crude oil prices, the rate of increase is expected to decline toward around 2 percent. 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 future course 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.

Reference

Meeting hours:

Monday, June 15: 14:00-15:57

Tuesday, June 16: 9:00-12:12

Policy Board members present:

HIMINO Ryoza, Chairman (Deputy Governor)

UCHIDA Shinichi (Deputy Governor)

NAKAGAWA Junko

TAKATA Hajime

TAMURA Naoki

KOEDA Junko

MASU Kazuyuki

ASADA Toichiro

[Others present]

June 15

From the Ministry of Finance:

MAEDA Tsutomu, Deputy Vice-Minister for Policy Planning and Coordination
(14:00-15:57)

From the Cabinet Office:

HAYASHI Sachihiko, Vice-Minister for Policy Coordination (14:00-15:57)

June 16

From the Ministry of Finance:

NAKATANI Shinichi, State Minister of Finance (9:00-11:38, 11:51-12:12)

From the Cabinet Office:

MIZUTA Yutaka, Deputy Director General for Economic and Fiscal Management (9:00-9:05)

KIUCHI Minoru, Minister of State for Economic and Fiscal Policy (9:06-11:38, 11:51-12:12)

Release dates and times:

Change in the Guideline for Money Market Operations -- Tuesday, June 16 at 12:19

Summary of Opinions -- Wednesday, June 24 at 8:50

Minutes of the Monetary Policy Meeting -- Wednesday, August 5 at 8:50