Not to be released until 8:50 a.m. Japan Standard Time on Wednesday, January 28, 2026.

January 28, 2026

Bank of Japan

Minutes of the Monetary Policy Meeting

on December 18 and 19, 2025

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

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, December 18, 2025, from 2:00 p.m. to 3:55 p.m., and on Friday, December 19, from 9:00 a.m. to 12:12 p.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[2]
NOGUCHI Asahi
NAKAGAWA Junko
TAKATA Hajime
TAMURA Naoki
KOEDA Junko
MASU Kazuyuki

Government Representatives Present

NAKATANI Shinichi, State Minister of Finance, Ministry of Finance[3]
MAEDA Tsutomu, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[4]
KIUCHI Minoru, Minister of State for Economic and Fiscal Policy, Cabinet Office[5]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[4]
MIZUTA Yutaka, Deputy Director General for Economic and Fiscal Management, Cabinet Office[6]

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on January 22 and 23, 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 via conference call from his office at the Bank's Head Office.
3 Present on December 19.
4 Present on December 18.
5 Present on December 19 from 10:58 a.m. to 12:12 p.m.
6 Present on December 19 from 9:00 a.m. to 10:57 a.m.

Reporting Staff

SHIMIZU Seiichi, Executive Director (Assistant Governor)

KAMIYAMA Kazushige, Executive Director

SUWAZONO Kenji, Executive Director

NAKAMURA Koji, Executive Director

OKUNO Akio, Director-General, Monetary Affairs Department

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

SUGO Tomohiro, Head of Economic Research Division, Research and Statistics Department

CHIKADA Ken, 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

KAJITANI Tsutomu, Deputy Director, Secretariat of the Policy Board

KITAHARA Jun, Senior Economist, Monetary Affairs Department

NISHINO Kousuke, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[7]

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 October 29 and 30, 2025.[8] The uncollateralized overnight call rate had been in the range of 0.476 to 0.482 percent.

Meanwhile, the Bank had conducted Japanese government bond (JGB) purchases of about 3.3 trillion yen per month in accordance with the JGB reduction plan decided at the June 2025 meeting.

B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around 0.5 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 over the intermeeting period on the back of solid corporate results, although it had declined temporarily in line with adjustments in U.S. stock prices. Yields on 10-year JGBs had risen significantly, mainly reflecting market views on future developments in economic activity and prices. The liquidity indicators in the JGB markets continued to improve on the whole. In the foreign exchange market, the yen had depreciated against both the U.S. dollar and the euro over the intermeeting period.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole, although some weakness had been seen in part, reflecting trade and other policies in each jurisdiction. The U.S. economy maintained solid growth on the whole, although some weakness had been seen in part. European economies continued to be relatively weak on the whole, partly reflecting that exports had seen a reactionary decline following earlier front-loading. The Chinese economy had decelerated, mainly due to the impact of tariff increases and the gradually diminishing

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

[8] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

effects of government policies, and as adjustment pressure continued in the real estate and other markets. Emerging and commodity-exporting economies other than China had improved moderately on the whole.

As for the outlook, although trade and other policies in each jurisdiction were expected to lead to some slowdown in overseas economies, these economies were projected to see a gradual acceleration in their growth rate thereafter, and then return to a growth path. There were high uncertainties regarding the outlook, such as the impact of trade policy in each jurisdiction, developments in global AI-related demand, and developments in the Chinese economy.

With respect to overseas financial markets, despite continued attention to uncertainties over the global economy, market sentiment remained at an improved level. U.S. long-term interest rates were more or less unchanged over the intermeeting period; they had temporarily declined, as market expectations of policy interest rate cuts by the Federal Reserve had increased, but had subsequently risen, as attention had been drawn to, for example, a possible increase in the issuance of U.S. Treasury securities. European long-term interest rates had risen, mainly because market expectations of policy interest rate cuts by the European Central Bank had subsided. U.S. stock prices were more or less unchanged over the intermeeting period; they had temporarily declined due to factors such as valuation adjustments particularly in AI-related sectors, but had subsequently risen, mainly reflecting increased market expectations of policy interest rate cuts. European stock prices were more or less unchanged over the intermeeting period, moving in line with U.S. stock prices. Meanwhile, currencies in emerging economies had been more or less flat on the whole. Crude oil prices had declined, due to prospects of an easing of supply and demand conditions on the back of, for example, an increase in oil production by OPEC Plus.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately, although some weakness had been seen in part. Regarding the outlook, economic growth was likely to be moderate as trade and other policies in each jurisdiction led to some slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions were expected to provide support.

Exports continued to be more or less flat as a trend, while they had been affected by the increase in U.S. tariffs. Regarding the outlook, exports were highly likely to remain somewhat decelerated for the time being. This was because, although solid global AI-related demand was expected to provide some support, a reactionary decline following the front-loading due to the increase in U.S. tariffs and a decrease in final demand due to progress in the pass-through of tariff hikes to selling prices were likely to push down exports.

Industrial production continued to be more or less flat. Regarding the outlook, although a reactionary decline following the front-loading due to the increase in U.S. tariffs and the effects of the slowdown in overseas economies were expected to exert downward pressure, industrial production was likely to remain more or less flat as a trend, as domestic demand was expected to be resilient, partly due to the effects of the government's economic measures.

Corporate profits remained at high levels on the whole, although downward effects due to tariffs had been seen in manufacturing, and business sentiment had been at a favorable level. In this situation, business fixed investment had been on a moderate increasing trend. With regard to the outlook, business fixed investment was likely to continue on an increasing trend, supported by moves to clear order backlogs and by labor-saving investment to address labor shortages; that said, a slowdown in growth momentum in business fixed investment was highly likely to continue for a while against the background of slower growth in corporate profits and rising construction costs.

Private consumption had been resilient against the background of an improvement in the employment and income situation, although it had been affected by price rises. The consumption activity index (CAI; real, travel balance adjusted) had increased slightly for the July-September quarter of 2025 on a quarter-on-quarter basis. It had then increased for October, relative to that quarter, mainly due to an increase in durable goods such as automobiles and household appliances. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators, private consumption since November seemed to have declined slightly from the previous month. Consumer sentiment had seen a clear improvement recently, mainly on the back of a decline in the rate of increase in food prices and the rise in stock prices. Regarding the outlook, although wage increases and the government's measures to reduce the household burden of higher energy prices were expected to provide some support, private consumption was highly likely to remain more or less flat for a while, since elevated food prices would push down consumption.

The employment and income situation had improved moderately. The number of employed persons continued to increase steadily, mainly for regular employees. Nominal wages per employee continued to increase steadily. With regard to the outlook, employee income was likely to continue to see a steady increase for the time being, albeit with fluctuations due to factors such as winter bonus payments, and minimum wage revisions being moved back to a later date than in 2024.

As for prices, in international commodity markets, crude oil prices had been on a moderate declining trend, albeit with fluctuations, while copper prices had seen a clear increase. Meanwhile, market prices of food had declined somewhat recently. The year-on-year rate of increase in the producer price index (PPI) had followed a decelerating trend, mainly due to the decline in crude oil prices, and had recently been in the range of 2.5-3.0 percent. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) had been on a decelerating trend, being in the range of 2.5-3.0 percent recently, primarily because the impact of the price hikes in 2024 had dissipated, although the rate itself remained relatively high, mainly on the back of a rise in personnel expenses. 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 at around 3 percent recently, due to the effects of the rise in food prices, such as rice prices, and other factors. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI was expected to decelerate toward the end of fiscal 2025, as the effects of the rise in food prices, such as rice prices, were likely to wane and as the government's measures to reduce the household burden of higher energy prices were expected to exert downward pressure.

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates had been negative. Firms' funding costs had increased. Firms' demand for funds had increased moderately 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 at around 4.5 percent; that in the aggregate amount outstanding of CP and corporate bonds had been at around 7.5 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 in the range of 1.5-2.0 percent.

II. 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, despite continued attention to uncertainties over the global economy, market sentiment remained at an improved level. Many members noted that stock prices had been at high levels on a global basis, especially in the United States. These members continued that this was mainly because uncertainties regarding trade and other policies in each jurisdiction were diminishing, and because there were expectations for high-tech related firms to perform well, as AI-related demand continued to expand. In relation to AI, one of these members pointed out that attention was warranted on the possibility that if revenue did not increase in line with investment, this could bring about adjustments in stock prices, particularly for firms with weak financial bases.

Members shared the recognition that overseas economies had grown moderately on the whole, although some weakness had been seen in part, reflecting trade and other policies in each jurisdiction. As for the outlook, they concurred that, although trade and other policies in each jurisdiction were expected to lead to some slowdown in overseas economies, these economies were projected to see a gradual acceleration in their growth rate thereafter, and then return to a growth path. Some members pointed out that it had become less likely that overseas economies would see a pronounced slowdown from 2026 onward, considering the decline in uncertainty regarding the effects of trade policies, the expansion in AI-related demand, and other factors. One member said that the current phase was similar to the period when economic stimulus measures from both monetary and fiscal sides had been adopted simultaneously around the world during the COVID-19 pandemic due to a global sense of risk. The member continued that, as in that period, the alignment of global policy cycles was expected to lead to higher economic growth and prices worldwide.

Members agreed that the U.S. economy maintained solid growth on the whole, although some weakness had been seen in part. Many members noted that, (1) with the pass-through of tariff costs to selling prices remaining only moderate, private consumption had been solid, partly due to the wealth effects stemming from high stock prices; and (2) business fixed investment had increased, reflecting the expansion in AI-related demand. On this basis, these members expressed the recognition that, while there were still factors to consider, such as developments in the labor market, uncertainty regarding the U.S. economy had decreased. In relation to AI, one of these members expressed the view that, although it was necessary to be cautious about markets' optimism, it was highly likely that business fixed investment would continue to be firm in 2026, with big tech firms in particular currently making fixed investment based on their medium-term plans. Noting that the impact on consumers of the rise in tariff costs was still unfolding, one member expressed the recognition that attention continued to be warranted on the possibility that employment in the United States would be affected by, for example, the burden on domestic firms and uncertainties regarding future developments in private consumption. In relation to this, a different member commented that if the impact of price rises expanded, measures such as removing or reducing tariffs could be taken, with the 2026 midterm elections in view, as had already been the case with some food items. Another member pointed out that the negative impact of tariffs might not materialize, due to upward pressure on the economy from tax cuts and deregulation. Meanwhile, a few members noted that, recently in the U.S. economy, there had been growing disparities in private consumption across income groups and a significant gap between fixed investment by IT-related firms and that by firms in other industries. These members then stated that it was necessary to carefully examine the impact of these factors on future economic developments.

Members shared the recognition that European economies continued to be relatively weak on the whole, partly reflecting that exports had seen a reactionary decline following earlier front-loading.

Members shared the view that the Chinese economy had decelerated, mainly due to the impact of tariff increases and the gradually diminishing effects of government policies, and as adjustment pressure continued in the real estate and other markets.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole.

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. With regard to the impact of U.S. tariff policy, many members expressed the recognition that although there had been downward pressure on corporate profits, mainly in manufacturing, there were no signs that the effects had spread to Japan's economy as a whole, including business fixed investment and employment and wage developments. A few members pointed out that real GDP for the July-September quarter of 2025 had recorded negative growth for the first time in six quarters. These members continued that this, however, largely reflected the impact of a reactionary decline following the front-loading of exports seen in early spring 2025 due to the increase in tariffs, and it was expected that the negative growth would be only temporary.

As for the outlook for economic activity, members shared the recognition that, (1) Japan's economic growth was likely to be moderate as trade and other policies in each jurisdiction led to some slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions were expected to provide support; and (2) thereafter, Japan's economic growth rate was likely to rise, with overseas economies returning to a growth path. Some members pointed out that, with uncertainties regarding the U.S. economy and the impact of tariff policies declining, uncertainty surrounding the outlook for corporate profits was gradually diminishing, as suggested by the slight upward revision in the forecast for corporate profits, including in manufacturing, for fiscal 2025 in the December 2025 *Tankan* (Short-Term Economic Survey of Enterprises in Japan) from the forecast in the September *Tankan*. On this basis, many members expressed the view that, considering that, for example, the effects of the government's economic measures would emerge, Japan's economy was less likely to enter the phase of "modest" growth that had previously been expected. One of these members said that the government's economic measures were likely to push up the economy for the next year or two, and might alleviate the temporary sluggishness in economic growth to some degree. In relation to this, a different member noted that, in considering the effects of fiscal policy, it was important to analyze not only the government's recent economic measures but also the size and content of the overall budget. The member continued that it was necessary to discuss these factors thoroughly in preparation for formulating the January 2026 *Outlook for Economic Activity and Prices* (Outlook Report).

Members shared the recognition that exports and industrial production continued to be more or less flat as a trend, while they had been affected by the increase in U.S. tariffs. One member expressed the recognition that IT-related exports had been on an uptrend, given that the global cycle for IT-related goods such as personal computers and smartphones had been on an expansionary phase, along with favorable global AI-related demand. The member continued that there had been no weakening in exports, which had been a concern at the time of the introduction of tariff policies. Meanwhile, with respect to services exports, a few members noted that attention was warranted on the possibility of inbound tourism demand being pushed down due to a decline in the number of visitors to Japan from China.

Members shared the recognition that business fixed investment had been on a moderate increasing trend, with corporate profits remaining at high levels on the whole, despite being affected by tariff policies, and with business sentiment being at a favorable level. Some members noted that it was confirmed in the December *Tankan* that the growth momentum in business fixed investment was maintained even amid some lingering uncertainty regarding tariff policies. These members then pointed out that this reflected solid demand for labor-saving investment to make up for labor shortages. One of these members -- noting that many regional firms had expressed the view that labor-saving investment to address labor shortages had pushed up their business fixed investment -- expressed the recognition that labor-saving investment represented progress toward solving issues and contributed to economic growth. Meanwhile, a different member expressed the view that the *Financial Statements Statistics of Corporations by Industry* showed that business fixed investment by small and medium-sized firms had been somewhat weak relative to other firms, and that this could be attributed to some extent to high material prices and labor shortages.

Members concurred that private consumption had been resilient against the background of the improvement in the employment and income situation, although it had been affected by price rises. One member noted that, by item, while consumption of high-end products had been solid, cautiousness had been observed in consumption of nondurable goods, such as food and clothes. On this point, a few members expressed the view that consumer sentiment had improved recently, due in part to a decline in the rate of increase in food prices; if this trend continued, factors pushing down private consumption were highly likely to ease on the whole.

Members shared the view that the employment and income situation had improved moderately. Many members pointed out that labor market conditions continued to be tight, and corporate profits were expected to remain at high levels on the whole, even after taking into account the impact of tariff policies. These members then expressed the recognition that, considering factors such as the stances of labor and management on the annual spring labor-management wage negotiations and anecdotal information gathered through the Bank's Head Office and branches, it was highly likely that firms would continue to raise wages steadily in 2026. One of these members expressed the view that wage hikes in 2026 at large firms with labor unions were likely to be at least around the same level as 2025, mainly reflecting relatively high price increases, solid corporate profits, and continued labor shortages. A few members pointed out that, with respect to automakers, where the impact of tariff policies was relatively significant, the yen had been depreciating compared with predicted exchange rates, and tariff costs had been gradually passed on to local selling prices in the export destinations. These members continued that, given such developments, concern that the automobile industry would adversely affect the momentum in wage hikes in the annual spring labor-management wage negotiations had abated considerably. A different member noted that, with corporate profits remaining at high levels on the whole, the results of private surveys revealed that winter bonuses for 2025 had exceeded 1 million yen per employee. The member then expressed the recognition that it was highly likely that firms would continue to raise wages steadily, including in the 2026 annual spring labor-management wage negotiations. In light of these wage developments, some members pointed out that, if the effects of the rise in food prices waned, real wages could be expected to turn positive. One of these members expressed the view that, while the rate of increase in the CPI was likely to decline gradually through the base effects, the upward momentum in nominal wages seen thus far was expected to be maintained toward the annual spring labor-management wage negotiations for fiscal 2026. The member continued that it was therefore likely that the rate of increase in real wages would rise into positive territory in the first half of 2026, and this positive trend would take hold.

As for prices, members agreed that, with moves to pass on wage increases to selling prices continuing, the year-on-year rate of increase in the CPI (all items less fresh food) had been at around 3 percent recently, due to the effects of the rise in food prices, such as rice prices, and other factors. In addition, they concurred that inflation expectations had risen moderately. Many members expressed the recognition that price developments since the previous meeting had been somewhat higher than the Bank's outlook in the October 2025 Outlook Report, mainly owing to the price of rice harvested in autumn 2025 remaining high. One member noted that the recent rise in food prices reflected not only temporary supply-side factors but also, to some extent, the rise in personnel expenses and in distribution costs. One member expressed the recognition that, in examining price developments, attention should be paid to, for example, firms' stance on price hikes and to consumer purchasing behavior, as prices continued to increase by over 5 percent on a year-on-year basis, even in food items other than those related to rice, due to factors such as firms' active price-setting behavior. Meanwhile, a few members mentioned recent developments in housing rent. One member pointed out that the *Housing and Land Survey* showed that the annualized rate of increase in housing rent had been at around 2 percent during the period from 2018 to 2023, indicating a discrepancy from that for private housing rent in the CPI, which had been at around 0 percent. The member then expressed the view that, in fact, the year-on-year rate of increase in consumer prices might be somewhat high, given the weight of private housing rent in the CPI.

With regard to the outlook for prices, most members shared the recognition that (1) the year-on-year rate of increase in the CPI (all items less fresh food) was likely to decelerate to a level below 2 percent through the first half of fiscal 2026, with the waning of the effects of the rise in food prices, such as rice prices, and partly due to the effects of government measures to address rising prices; and (2) thereafter, since it was projected that a sense of labor shortage would grow as the economic growth rate rose and that medium- to long-term inflation expectations would rise, it was expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) would increase gradually and, in the second half of the projection period of the October 2025 Outlook Report, be at a level that was generally consistent with the price stability target. One member expressed the view that the year-on-year rate of increase in the CPI (all items less fresh food) was projected to be temporarily below 2 percent, mainly because of subsiding food price inflation and the effects of government measures to address rising prices. The member continued that, nevertheless, underlying CPI inflation, which was more significant in the conduct of monetary policy, was likely to continue to see a moderate rise, particularly in prices that were affected by developments in personnel expenses, as long as the momentum for wage hikes was maintained. One member stated that most food price hikes in 2025 were the result of firms' efforts to make up for past cost increases, and that these efforts had been mostly completed recently. The member then expressed the recognition that price rises were likely to become stickier due to developments in personnel expenses. On this basis, the member expressed the view that, as it was expected that the upward momentum in wages would be maintained and that the rate of increase in real wages would rise into positive territory in the first half of 2026, the underlying trend in prices was likely to continue to rise steadily toward 2 percent, even with the year-on-year rate of increase in the observed CPI decelerating. A different member expressed the recognition that Japan's economic growth being modest was no longer the baseline scenario, and this had reduced the possibility that the underlying trend in prices would become sluggish. Another member noted that it was expected that the government's economic policy and measures to address rising prices -- depending on the scale of their actual effects and the speed at which they emerged -- would boost consumption and appetite for investment, thereby strengthening the upward momentum of the economy and medium- to long-term inflation. Meanwhile, one member said that it was possible that households' perceived inflation could ease if prices of certain goods that could affect people's inflation expectations declined due to the government measures to address rising prices. The member continued that, as for the outlook for prices, it was also necessary to monitor the pass-through of exchange rates to prices and developments in energy prices. In addition, a different member expressed the recognition that it was highly likely that it could be judged in spring 2026, when wage hikes could be expected to be at a level in line with the price stability target for the third consecutive year, that the underlying trend in prices had reached 2 percent. Moreover, 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, given that, for example, wage increases had been anchored and inflation expectations had risen.

Members agreed that <u>risks to economic activity and prices</u> included developments in overseas economic activity and prices under the impact of trade and other policies in each jurisdiction, wage- and price-setting behavior of firms, and developments in financial and foreign exchange markets, and it was necessary to pay due attention to the impact of these risks on Japan's economic activity and prices. One member expressed the view that, while downside risks to the global economy remained high, the risk concerning the impact of U.S. tariff policy could no longer be described as unprecedentedly high as previously feared. A different member pointed out that the December *Tankan* showed that business sentiment had not been weak, including among small and medium-sized firms in the automobile-related industry. The member then expressed the recognition that downside risks to the outlook stemming from the effects of U.S. trade policy had decreased. Based on these discussions, members shared the recognition that, while uncertainties remained regarding the impact of trade policy in each jurisdiction, these uncertainties had declined. Meanwhile, one member noted that if overseas economies were to decelerate more than expected in 2026, the main reasons would likely be a dissipation of markets' optimism about the AI boom and adjustments in the private credit market, rather than the impact of trade policies. Regarding risks to prices, some members expressed the recognition that, with firms' behavior shifting more toward raising wages and prices, the yen's depreciation would more likely push up prices through factors such as rising import prices. In relation to this, some members added that rising import prices could affect underlying inflation through changes in inflation expectations, given that, for example, the norm that wages and prices do not increase easily had already dissipated. Meanwhile, one member expressed the view that the rise in food prices would likely moderate gradually as cost-push factors subsided. The member continued that attention was however warranted on the possibility that if the rise in food prices persisted, price rises would spread to other items through a rise in inflation expectations. In addition, as one cause of the continued relatively high price increases in food items other than those related to rice, one member pointed to the possibility that intermittent shocks from rising import prices were emerging against the background of global demographic developments and climate change. The member then expressed the view that it was necessary to continue to carefully examine such developments in import prices, as they might affect underlying inflation and inflation expectations.

B. Financial Developments

Members agreed that <u>financial conditions in Japan</u> had been accommodative. One member noted that only a few firms had mentioned thus far that their fixed investment stance had weakened significantly as a result of the policy interest rate hike to 0.5 percent. The member continued that, due to the continuation of substantial monetary easing, the diffusion indexes (DIs) for firms' financial positions and financial institutions' lending attitudes in the *Tankan* had stayed at favorable levels. One member expressed the recognition that, with real interest rates being negative, bank lending mainly for real estate continued to increase and expansionary developments had started to be seen on the credit side, such as front-loaded issuances of corporate bonds. A different member expressed the view that the recent high growth in bank lending was also attributable to firms' stronger appetite for growth, combined with factors such as expectations for the government's economic measures.

III. 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 <u>the guideline for money market operations for the intermeeting period</u>.

Based on the discussions on economic and financial developments, members shared the recognition that it was highly likely that the mechanism in which both wages and prices rise moderately would be maintained, and the likelihood of realizing the baseline scenario of the outlook for economic activity and prices had been rising. Specifically, they agreed on the following: (1) while uncertainties remained regarding the U.S. economy and the impact of tariff policies, these uncertainties had declined; (2) considering factors such as the stances of labor and management on the annual spring labor-management wage negotiations and anecdotal information gathered through the Bank's Head Office and branches, it was highly likely that firms would continue to raise wages steadily in 2026, following the solid wage increases in 2025, and the risk of firms' active wage-setting behavior being interrupted was expected to be low; and (3) on the price front, underlying inflation continued to rise moderately, with moves to pass on wage increases to selling prices continuing. Based on this recognition, one member expressed the view that corporate profits had been solid enough to support wage hikes and, considering factors such as the impact of developments in foreign exchange rates on prices, inflationary pressure was likely to continue if current financial conditions were maintained; therefore, waiting for a policy change until the next meeting entailed considerable risk. One member noted that if real interest rates continued to deviate from the equilibrium rate, the effects on macro-level resource allocation could lead to future imbalances, and this could in turn have an impact on sustainable economic growth. A different member expressed the view that current financial conditions were becoming excessively accommodative relative to economic fundamental conditions, and it was therefore desirable to raise the policy interest rate by 0.25 percent. A different member expressed the recognition that Japan's real policy interest rate was by far at the lowest level globally, and considering the impact such a low real policy interest rate had on prices through foreign exchange markets, it was appropriate for the Bank to adjust the degree of monetary accommodation. On this basis, the member added that it was possible that there would be a shift in the overseas environment from the tendency in 2025 toward cutting policy interest rates to a tendency toward raising the rates in 2026, and that in order to avoid falling behind the curve, it was desirable for the Bank to steadily raise the policy interest rate.

Based on the above discussions, members agreed that it was appropriate for the Bank to raise the policy interest rate by 0.25 percentage points to around 0.75 percent at this meeting, from the perspective of sustainable and stable achievement of the price stability target of 2 percent. In addition, they 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 0.75 percent; and (2) the basic loan rate would also be raised by 0.25 percentage points to 1.0 percent. One member pointed out that the Bank's large-scale monetary easing measures implemented over the past decade, coupled with government measures, had led to a significant increase in employment. The member then expressed the view that, for both the 2 percent price rise and wage increases exceeding the price rise to take hold, the Bank was now in a phase where it should gradually adjust the policy interest rate level while examining the state of economic activity and prices and the financial markets, and in this context, the member considered the appropriate level for the policy interest rate under current circumstances to be 0.75 percent.

On this basis, 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 noted that real interest rates were expected to remain significantly negative after raising the policy interest rate to 0.75 percent, and accommodative financial conditions would be maintained. These members then expressed the view that the policy interest rate and monetary accommodation would continue to be at a level and a degree that strongly supported Japan's economy. In this regard, one member pointed out that after the change in the policy interest rate, although real interest rates would be at significantly low levels, nominal interest rates would reach a level not seen for a considerable time, and that therefore it would be crucial to monitor the impact on the economy and financial markets. One member noted that, while it had been pointed out that raising the policy interest rate would result in a rise in mortgage rates, it would also lead to a rise in interest rates on deposits, which make up a large portion of the assets of the younger generation and low-income earners. The member then expressed the recognition that both the positive and negative sides of raising the policy interest rate needed to be carefully assessed in terms of the impact on households and consumption as a whole.

As for the future conduct of monetary policy, members concurred that, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, it would be appropriate for the Bank, in accordance with improvement in economic activity and prices, to continue to raise the policy interest rate and adjust the degree of monetary accommodation. Some members pointed out that adjusting the degree of monetary accommodation as appropriate, in line with developments in economic activity and prices, would lead to smoothly achieving the price stability target while securing the stability of the financial and capital markets, and to the long-term growth of Japan's economy, which would benefit the national economy as a whole.

With regard to the pace of adjusting the degree of monetary accommodation, most members expressed the recognition that it was desirable for the Bank to make decisions as appropriate at each Monetary Policy Meeting without having a specific pace in mind, carefully examining developments in economic activity and prices as well as financial conditions. One of these members added that, in determining the timing for making policy adjustments, the Bank would refer to various indicators that capture the underlying trend in prices, and make assessments from various perspectives, including through anecdotal information, on, for example, how much the mechanism in which both wages and prices rise moderately had taken hold. One member pointed out that the policy interest rate hikes so far had only had limited impact on economic activity and prices, and it could be said that there was still considerable distance to the neutral interest rate level. The member then noted that the Bank should adjust the degree of monetary accommodation with intervals of a few months in mind for the time being, while examining the response of economic activity and prices. On this basis, the member expressed the recognition that adjusting the policy interest rate in a timely manner would help prevent rapid monetary tightening in the future, leading to sustainable and stable economic growth.

Meanwhile, one member pointed out that Japan's economy was at a multilayered phase: while many households faced difficulties due to cost-push inflation, such as the rise in food prices, sustainable achievement of the price stability target of 2 percent was becoming more realistic. The member then expressed the view that, with monetary easing and fiscal policy aimed at alleviating the upward pressure of costs complementing each other, sustainable achievement of the price stability target would be further ensured.

With regard to the future conduct of monetary policy, members also discussed how they should consider the neutral interest rate. Many members noted that it was difficult to identify in advance the neutral interest rate level, and it should be interpreted with considerable latitude. These members then expressed the recognition that it was appropriate for the Bank to continue to adjust the degree of monetary accommodation, while examining the response of economic activity and prices to changes in short-term interest rates and attempting to identify the neutral interest rate level. One of these members said that, given the difficulty of identifying the neutral interest rate, the Bank should not be aiming for a particular level of the neutral rate; rather, it was desirable for the Bank to take the stance of carefully examining the degree of monetary accommodation at each Monetary Policy Meeting, based on the economic and financial environment. The member expressed the view that the Bank should be flexible in its conduct of monetary policy, since overseas interest rate environments were also expected to change. One member pointed out that the impact of raising the policy interest rate emerges in the form of changes in economic activity and prices, through channels such as changes in financial markets, changes in financial institutions' interest rate settings and lending behavior, and changes in firms' business fixed investment and in households' savings and investment. On this basis, the member expressed the recognition that the Bank would be able to make policy decisions built on firm foundations by adopting an approach in which it gauged the neutral rate by carefully monitoring the effects of policy interest rate hikes at each stage, through anecdotal information and various indicators, and by using estimates of the neutral rate derived from econometric models. Meanwhile, a few members pointed out that, given that estimates of the neutral interest rate would inevitably involve considerable latitude, it was important to discuss with more focus on the implications and characteristics of each estimate, rather than to narrow down their range. One member stated that the natural rate of interest (the real neutral interest rate) could change, depending on factors such as the potential growth rate or structural changes in people's saving behavior. The member then expressed the view that, if the government's economic policy proved to be effective, thereby leading to an increase in the potential growth rate, the natural rate of interest could also rise.

Members also discussed developments in long-term interest rates and foreign exchange markets. One member expressed the view that, while long-term interest rates had shown somewhat rapid movement since the previous meeting, it could be interpreted from developments in the BEI (break-even inflation) rate that the markets had finally started to factor in sustainable and stable achievement of the price stability target of 2 percent. One member expressed the view that the level and fluctuations in long-term interest rates appeared to reflect risk premium factors to some extent. On this basis, a few members, including this member, stated that developments in long-term interest rates should be monitored carefully, in a situation where attention had been drawn globally to the future course of fiscal policy and developments in inflation. A different member noted that the yen's depreciation and the rise in long-term interest rates reflected to some extent the policy interest rate being too low relative to the inflation rate. The member then expressed the view that raising the policy interest rate in a timely manner could curb future inflationary pressure and lead to holding down long-term interest rates. Some members expressed the recognition that, although addressing developments in foreign exchange markets is not itself the purpose of monetary policy, in deciding whether to raise the policy interest rate, the Bank should give consideration to the impact of the yen's depreciation on inflation rates, and in some cases, on underlying inflation.

IV. 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 11:28 a.m. and reconvened at 11:42 a.m.)

The representative from the Cabinet Office made the following remarks.

(1) The Japanese economy was recovering at a moderate pace, while the effects of trade and other policies in the United States had been seen mainly in the automotive industry.

(2) Embracing an approach of "responsible and proactive public finances," the Takaichi Cabinet would do its utmost to build a "strong Japanese economy" by, for example, undertaking initiatives related to comprehensive economic measures.

(3) The government considered that the proposal made at this meeting had been judged necessary for achieving the price stability target in a sustainable and stable manner. Meanwhile, it was necessary to pay due attention to future developments in factors such as business fixed investment and corporate profits.

(4) 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 in accordance with the spirit of the Bank of Japan Act and of the joint statement of the government and the Bank.

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 of the change in the policy interest rate at this meeting on economic activity and prices, while continuing to closely exchange views with the government.

V. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the 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 unanimous 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 0.75 percent.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
Votes against the proposal: None.

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

To reflect the 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 unanimous 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 0.75 percent per annum.

Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
Votes against the proposal: None.

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

To reflect the 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 unanimous 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 1.0 percent per annum.

> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.
> Votes against the proposal: None.

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 expressed opposition to the description regarding the outlook for underlying CPI inflation, considering that underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target from the middle of the projection period.

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).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of October 29 and 30, 2025, for release on December 24.

Attachment 1
December 19, 2025
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 unanimous vote, to set the following guideline for money market operations for the intermeeting period:

   The Bank will encourage the uncollateralized overnight call rate to remain at around 0.75 percent.[9]

2. In accordance with the change in the guideline for money market operations, the Bank decided, by a unanimous vote, to change the interest rates applied to its measures.[10]

   (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 0.75 percent.[11]

   (2) Basic loan rate[12]

   The basic loan rate applicable under the complementary lending facility will be 1.0 percent.

3. Japan's economy has recovered moderately, although some weakness has been seen in part (see Attachment 2). Looking at the background conditions of wage developments, labor market conditions have continued to be tight, and corporate profits are expected to remain at high levels on the whole, even after taking into account the impact of tariff policies. In this situation, considering factors such as the stances of labor and management on the annual spring labor-

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[9] The new guideline for money market operations will be effective from December 22, 2025.

[10] The new interest rate applied to the complementary deposit facility and the new basic loan rate will be effective from December 22, 2025.

[11] 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.

[12] 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 1.0 percent (discounting of bills is currently suspended).

management wage negotiations and anecdotal information gathered through the Bank's Head Office and branches, it is highly likely that firms will continue to raise wages steadily next year, following the solid wage increases this year, and the risk of firms' active wage-setting behavior being interrupted is expected to be low. While uncertainties remain regarding the U.S. economy and the impact of trade policy in each jurisdiction, these uncertainties have declined. On the price front, underlying CPI inflation has continued to rise moderately, with moves to pass on wage increases to selling prices continuing.

Based on these recent data and anecdotal information, it is highly likely that the mechanism in which both wages and prices rise moderately will be maintained. Against this backdrop, the likelihood of realizing the baseline scenario that underlying CPI inflation will be at a level that is generally consistent with the price stability target of 2 percent in the second half of the projection period of the October 2025 *Outlook for Economic Activity and Prices* (Outlook Report) has been rising.

In view of these developments in economic activity and prices, 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. Real interest rates are expected to remain significantly negative after the change in the policy interest rate, and accommodative financial conditions will continue to firmly support economic activity.

4. As for the future conduct of monetary policy, given that real interest rates are at significantly low levels, if the outlook for economic activity and prices presented in the October Outlook Report will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation. With the price stability target of 2 percent, it will conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

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. Overseas economies have grown moderately on the whole, although some weakness has been seen in part, reflecting trade and other policies in each jurisdiction. Exports and industrial production have continued to be more or less flat as a trend, while they have been affected by the increase in U.S. tariffs. Corporate profits have remained at high levels on the whole, although downward effects due to tariffs have been seen in manufacturing, and business sentiment has been at a favorable level. In this situation, 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 it has been affected by price rises. On the other hand, housing investment has declined. Meanwhile, public investment has continued to be more or less flat. 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) has been at around 3 percent recently, due to the effects of the rise in food prices, such as rice prices, and other factors. Inflation expectations have risen moderately.

2. Japan's economic growth is likely to be moderate, as trade and other policies in each jurisdiction lead to some slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions are expected to provide support. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a growth path. The year-on-year rate of increase in the CPI (all items less fresh food) is likely to decelerate to a level below 2 percent through the first half of fiscal 2026, with the waning of the effects of the rise in food prices, such as rice prices, and partly due to the effects of government measures to address rising prices. Thereafter, since it is projected that a sense of labor shortage will grow as the economic growth rate rises and that medium- to long-term inflation expectations will rise, it is expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) will increase gradually and, in the second half of the projection period of the October 2025 *Outlook for Economic Activity and Prices*, will be at a level that is generally consistent with the price stability target. [Note]

3. Risks to the outlook include developments in overseas economic activity and prices under the impact of trade and other policies in each jurisdiction, wage- and price-setting behavior of firms, and developments in financial and foreign exchange markets, and it is necessary to pay due attention to the impact of these risks 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 underlying CPI inflation, considering that underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target from the middle of the projection period.