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May 7, 2026  
Bank of Japan

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# **Minutes of the Monetary Policy Meeting**

on March 18 and 19, 2026

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(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 Wednesday, March 18, 2026, from 2:00 p.m. to 3:53 p.m., and on Thursday, March 19, from 9:00 a.m. to 11:39 a.m.<sup>1</sup>

#### **Policy Board Members Present**

**UEDA Kazuo, Chairman, Governor of the Bank of Japan**

**HIMINO Ryoza, Deputy Governor of the Bank of Japan**

**UCHIDA Shinichi, Deputy Governor of the Bank of Japan<sup>2</sup>**

**NOGUCHI Asahi**

**NAKAGAWA Junko**

**TAKATA Hajime**

**TAMURA Naoki**

**KOEDA Junko**

**MASU Kazuyuki**

#### **Government Representatives Present**

**MAEDA Tsutomu, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance**

**KIUCHI Minoru, Minister of State for Economic and Fiscal Policy, Cabinet Office<sup>3</sup>**

**HAYASHI Sachihiko, Vice-Minister for Policy Coordination, Cabinet Office<sup>4</sup>**

**MIZUTA Yutaka, Deputy Director General for Economic and Fiscal Management, Cabinet Office<sup>5</sup>**

#### **Reporting Staff**

**SHIMIZU Seiichi, Executive Director (Assistant Governor)**

**KAMIYAMA Kazushige, Executive Director**

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<sup>1</sup> The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 27 and 28, 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.

<sup>2</sup> Present via conference call.

<sup>3</sup> Present on March 19 from 9:45 a.m. to 11:39 a.m.

<sup>4</sup> Present on March 18.

<sup>5</sup> Present on March 19 from 9:00 a.m. to 9:44 a.m.

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

NISHINO Kousuke, Senior Economist, Monetary Affairs Department

FUKUSHIMA Shunsuke, Senior Economist, Monetary Affairs Department

## **I. Summary of Staff Reports on Economic and Financial Developments<sup>6</sup>**

### **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 January 22 and 23, 2026.<sup>7</sup> The uncollateralized overnight call rate had been in the range of 0.727 to 0.736 percent.

Meanwhile, the Bank had conducted Japanese government bond (JGB) purchases of about 2.9 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 0.75 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) were more or less unchanged.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged over the intermeeting period; it had risen following the House of Representatives election, but had subsequently declined, affected by the situation in the Middle East. Yields on 10-year JGBs were more or less unchanged, reflecting market attention to inflationary pressure and to concerns over an economic downturn, both of which stemmed from the situation in the Middle East. The liquidity indicators in the JGB markets continued to improve on the whole. In the foreign exchange market, the yen had been more or less flat against both the U.S. dollar and the euro over the intermeeting period, albeit with fluctuations.

### **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 had shown resilience, particularly in domestic demand, although

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<sup>6</sup> Reports were made based on information available at the time of the meeting.

<sup>7</sup> The guideline was as follows:

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

weakness remained in part. 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. Emerging and commodity-exporting economies other than China had improved moderately on the whole.

As for the outlook, with the expectation that the situation in the Middle East would gradually moderate, overseas economies were projected to return to a growth path, partly supported by global AI-related demand, even as downward pressure stemming from the impact of trade and other policies in each jurisdiction was expected to remain. Regarding the outlook, attention was warranted for the time being on the future course of the situation in the Middle East and on how this would affect global financial markets and the global economy; in addition, there remained high uncertainties over, for example, the impact of trade policy in each jurisdiction and over developments in global AI-related demand.

With respect to overseas financial markets, since the turn of March 2026, market sentiment had deteriorated significantly in the wake of increased tension over the situation in the Middle East. U.S. stock prices had declined, partly due to concerns over developments in AI-related sectors and to risk-off moves among market participants reflecting the situation in the Middle East. European stock prices had declined, affected by the situation in the Middle East. U.S. long-term interest rates had fallen due to weak economic indicators, but had subsequently risen reflecting market attention to inflationary pressure in the wake of the situation in the Middle East. European long-term interest rates had moved in line with developments in U.S. long-term interest rates. Meanwhile, currencies in emerging economies had depreciated amid the U.S. dollar's appreciation due to the increased tension over the situation in the Middle East. Crude oil prices had risen significantly, mainly against the background of the de facto closure of the Strait of Hormuz.

## **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, the economy was likely to continue growing moderately, with overseas economies returning to a growth path, and as a virtuous cycle from income to spending gradually intensified, supported by factors such as the government's economic measures and accommodative financial conditions, while the economy was projected to be

affected by trade and other policies in each jurisdiction. However, in the wake of the increased tension over the situation in the Middle East, global financial and capital markets had been volatile and crude oil prices had risen significantly; future developments warranted attention.

Exports continued to be more or less flat as a trend. Regarding the outlook, they were likely to remain more or less flat for a while. This was because, although solid global AI-related demand was expected to push up exports, mainly of IT-related and capital goods, the increased tension over the situation in the Middle East was projected to lead to a decline in automobile exports to the Middle East and push down production and trade activity in manufacturing through the emergence of bottlenecks on the supply side and through heightened uncertainties.

Industrial production continued to be more or less flat from a somewhat long-term perspective. Regarding the outlook, industrial production was expected to remain more or less flat on the whole. This was because, although it was likely to be pushed up by solid global AI-related demand and resilient domestic demand that was partly supported by the government's economic measures, industrial production was projected to be pushed down by production adjustments in the basic materials industry and by heightened uncertainties, both of which were due to the increased tension over the situation in the Middle East.

Corporate profits remained at high levels on the whole, although downward effects due to tariffs had been seen in manufacturing. 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, downward pressure was likely to be gradually exerted on business fixed investment from a deceleration in corporate profits due to higher crude oil prices and from a rise in 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 been flat for the October-December quarter of 2025, but had increased for January 2026 relative to that quarter, mainly for nondurable goods, such as beverages and food. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators, private consumption since February seemed to have declined slightly from the previous month. Consumer sentiment had seen a clear improvement recently, as the year-on-year rate of

change in real wages had turned positive and projected inflation had clearly declined, both of which reflected (1) a decline in the rate of increase in food prices and (2) the government's measures to reduce the household burden of higher energy prices. Regarding the outlook, private consumption was expected to remain resilient for the time being, supported by a rise in employee income and by government measures to address rising prices, but downward pressure stemming from higher energy prices was likely to intensify from spring 2026.

The employment and income situation had improved moderately. The year-on-year rate of change in the number of employed persons had been at 0 percent, pushed down by a decline in the number of self-employed persons. Nominal wages per employee continued to increase steadily, albeit with fluctuations. With regard to the outlook, employee income was likely to continue to see a steady increase at its current pace for the time being, albeit with fluctuations.

As for prices, in international commodity markets, crude oil prices had risen significantly recently, against the background of the increased tension over the situation in the Middle East. Copper prices had also seen a clear increase. Meanwhile, market prices of food had been on a moderate declining trend. The year-on-year rate of increase in the producer price index (PPI) had been on a decelerating trend, mainly due to the past decline in crude oil prices and the deceleration in the pace of increase in food prices, such as rice prices, and had been at around 2 percent recently. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) had been on a decelerating trend, being at around 2.5 percent recently, primarily because the impact of the price hikes seen in fiscal 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 above 2 percent, partly due to the effects of the rise in food prices, such as rice prices; however, the rate of increase had recently fallen to around 2 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI was likely to temporarily decelerate to a level below 2 percent in the short run, with the waning of the effects of the rise in food prices, such as rice prices, and pushed down by a decline in energy prices reflecting the government's measures to reduce the household burden of higher energy prices; thereafter, however, the

rate of increase was expected to come under upward pressure again, affected by the surge in crude oil prices.

## 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 5 percent; that in the aggregate amount outstanding of CP and corporate bonds had been in the range of 7.0-7.5 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 since the turn of March 2026, market sentiment had deteriorated significantly in the wake of the increased tension over the situation in the Middle East. Some members expressed the recognition that, with crude oil prices rising significantly, volatility in financial markets had risen, as seen in, for example, the decline in stock prices in major economies. One of these members pointed out that the so-called flight to quality seemed to have been constrained even with risk sentiment becoming cautious, and that this was partly because the formation of government bond yields had been affected by factors such as growing global concerns over rising inflation.

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, with the expectation that the

situation in the Middle East would gradually moderate, overseas economies were projected to return to a growth path, partly supported by global AI-related demand, even as downward pressure stemming from the impact of trade and other policies in each jurisdiction was expected to remain. A few members pointed out that future developments in overseas economies depended on the extent to which possible negative shocks arising from the situation in the Middle East would be offset by demand for IT-related goods, fiscal policy in each jurisdiction, and other factors. These members then expressed the view that, in light of the recent strength in global demand for IT-related goods and expansionary macroeconomic policy in each jurisdiction, a significant slowdown in the global economy and resulting downward deviation in prices was unlikely to occur, at least in the current baseline scenario.

Members agreed that the U.S. economy maintained solid growth on the whole, although some weakness had been seen in part. A few members expressed the recognition that the impact of tariffs, which had been a major concern associated with corporate activities and prices, remained limited. Some members were of the view that the recent substantial increase in AI-related investment had been the driving force of the U.S. economy, although the expansion of the AI boom could cause uncertainty about the employment situation in the United States and business conditions for the country's software-related firms competing with AI-related firms. One member noted that, currently, there were no indicators showing significant changes in the U.S. price situation and labor market conditions. The member then stated that if the economy continued to see mixed conditions in this way, the process of very moderate cuts in the U.S. policy interest rate could be expected to continue. Meanwhile, regarding characteristics of AI-related investment in the United States, one member noted that active use had been made of the private credit market, and that risks had been transferred to a wide range of investors through, for example, the structuring of securitized products. The member continued that, since it had been difficult to identify where the risks lay, financial developments warranted careful monitoring.

Members shared the recognition that European economies had shown resilience, particularly in domestic demand, although weakness remained in part.

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. Many members expressed the recognition that economic data for the past few months, which did not include the effects of the increased tension over the situation in the Middle East, indicated that the virtuous cycle from income to spending had been maintained in both the corporate and household sectors. These members continued that the data were generally in line with the Bank's outlook in the January 2026 *Outlook for Economic Activity and Prices* (Outlook Report). One of these members added that the recent solidity in the domestic economy was seen in, for example, figures for the October-December quarter of 2025 for private consumption and business fixed investment in real GDP statistics and those for corporate profits and business fixed investment in the *Financial Statements Statistics of Corporations by Industry*. On the other hand, a different member pointed out that, while Japan's economy remained resilient, economic downside effects stemming from the increased tension over the situation in the Middle East -- such as rising gasoline prices -- had already started to emerge, and that future developments would continue to warrant attention.

As for the outlook for economic activity, members concurred that Japan's economy was likely to continue growing moderately, with overseas economies returning to a growth path, and as the virtuous cycle from income to spending gradually intensified, supported by factors such as the government's economic measures and accommodative financial conditions, while the economy was projected to be affected by trade and other policies in each jurisdiction. On this basis, they also shared the recognition that, in the wake of the increased tension over the situation in the Middle East, global financial and capital markets had been volatile and crude oil prices had risen significantly, and that future developments warranted attention. Many members expressed the recognition that the impact of the situation in the Middle East on Japan's economy depended heavily on how long and in what form the situation as seen currently would continue. These members continued that, as future developments were unclear, there was not enough information at present for the Bank to revise its baseline scenario of the outlook. In relation to this, one member pointed out that the situation in the

Middle East and the associated rise in crude oil prices should be considered as a risk scenario, and it was necessary to carefully examine their impact on markets and the economy. On this basis, the member expressed the view that so far, excessive reactions had been contained in Japan, partly due to expectations surrounding the government's policies, and that the degree of the impact could vary depending on future developments. This member continued that there was thus no need to revise the baseline scenario for economic activity and prices at this point. Meanwhile, one member noted that Japan's potential growth rate in recent years had been supported by solid total factor productivity (TFP). The member then expressed the recognition that, looking ahead, the extent to which there remained room for an increase in working hours and whether appropriate investment was made amid changing circumstances would also be key issues.

Members shared the recognition that exports and industrial production continued to be more or less flat as a trend. In relation to services exports, one member expressed the view that inbound tourism demand remained favorable on the whole, on the back of the yen's depreciation, and that the impact of the decline in the number of Chinese tourists remained limited, despite previous concerns. With regard to the impact on exports of the increased tension over the situation in the Middle East, one member pointed out that, although the share of exports to the Middle East was not so large for both goods and services, Japan's exports could be indirectly affected through trade with economies such as Asia and Europe. The member then commented that, regarding IT-related exports, which had been mainly directed toward the NIEs and ASEAN economies, the recent rise in memory prices had improved Japan's terms of trade, and close attention was warranted on whether this situation would change.

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. One member expressed the view that Japanese firms maintained their positive business fixed investment stance, aiming to address geopolitical risks and explore new areas of growth, and that, regarding the outlook, they were also likely to continue labor-saving investment and investment to facilitate digital transformation, with tightening labor market conditions. One member expressed the recognition that business fixed investment was expected to remain solid, considering factors such as the expansion in AI-related demand, high levels of corporate profits, and the government's support for focused

investment in 17 strategic sectors. Meanwhile, regarding corporate profits, a few members said that, while U.S. tariff policy had pushed down the profits of some automakers, the simultaneous expansion of the AI boom had significantly pushed up the profits of semiconductor-related firms. These members continued that, as a result of this and other factors, listed firms' full-year financial results for fiscal 2025 were expected to reach record high levels. A different member expressed the recognition that, as far as the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) data suggested, profits after tax for small and medium-sized firms had seen a clear increase in many industries, compared with five years ago, and it seemed that favorable business performance in recent years had spread throughout the corporate sector, regardless of firm size.

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 expressed the recognition that a recent significant change was that private consumption, which had been pushed down by high prices, had finally started to turn upward, as moves to raise food prices, including rice prices, had waned. One member pointed out that, considering that it was the period before annual wage increases took effect, private consumption had shown solid developments, partly supported by government subsidies for gasoline prices, electricity charges, and gas charges. On this basis, the member noted that the government's income transfer measures were set to continue into fiscal 2026, as exemplified by the expansion of free high school tuition and the introduction of free elementary school lunches. This member continued that these measures were expected to push up consumption through an increase in households' disposable income.

Members shared the view that the employment and income situation had improved moderately. A few members pointed out that, partly due to government measures to address rising prices, the rate of increase in the CPI had seen a clear decline, and that the rate of change in real wages, which had been in negative territory for a long time, had recently turned positive. Meanwhile, with regard to the annual spring labor-management wage negotiations, most members expressed the view that many large firms had met in full or nearly full the demands of their labor unions, and it was highly likely that a wide range of firms would continue to raise wages steadily in 2026. A few members said that, although large firms were likely to raise wages steadily, it was necessary, considering the situation in the Middle East, to continue to monitor developments toward the overall final outcome of labor-management

wage negotiations, including those at small and micro firms. One of these members added that there was a strong tendency for business managers in Japan to give consideration to moves by other firms in the same industry and keep in line with them when deciding on their own wage-setting stance. The member continued that close attention was therefore warranted on whether uncertainties surrounding the situation in the Middle East would affect the trend of wage hikes among small and medium-sized firms. In relation to this, noting that there had been reports from small and micro firms since 2025 that they were struggling with the need to raise wages as a defensive step, a different member expressed the view that, when examining the wage growth rates of these firms, it was necessary to carefully analyze whether such structural factors were affecting these rates or whether the uncertainties surrounding the situation in the Middle East were affecting them.

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 above 2 percent, partly due to the effects of the rise in food prices, such as rice prices. They continued that, however, the rate of increase had recently fallen to around 2 percent due to factors such as the effects of the government's measures to reduce the household burden of higher energy prices. In addition, members concurred that inflation expectations had risen moderately. A few members expressed the recognition that, as the rise in food prices, including rice prices, had started to subside recently, the Bank's outlook to date that the CPI inflation rate would temporarily decelerate due to cost-push factors subsiding was becoming a reality. One member noted that, while rice prices had started to decline reflecting the supply and demand conditions for rice in the distribution process, price levels remained relatively high. The member then expressed the view that this was one example of prices being less likely to return to pre-surge levels once benchmark and market prices were formed. On this basis, the member said that expectations of higher food prices among consumers as such might have been affecting underlying inflation, and that close attention was warranted on the spillovers from these price trends to prices of items other than food. One member stated that the rate of increase in the price of processed food that does not use rice as an ingredient remained elevated in the range of 5.0-6.0 percent. The member then noted that there had been an increasing number of reports pointing out that the recent rise in food prices stemmed from increased personnel expenses and distribution costs, rather than high raw material costs such as international commodity prices and rice prices. This member continued that, however, the

rise in food prices was notable even compared with the rates of increase in personnel expenses and distribution costs. A different member expressed the view that the year-on-year rate of increase in the CPI for Tokyo's 23 wards for February 2026 had decelerated, as projected, due to the effects of government policies, such as the abolition of the provisional gasoline tax rate, and to the reactionary decline following the significant price rises in 2025, mainly of food. The member continued that looking at the CPI by item, however, prices of services, such as dining-out, hotel charges, and cram school fees, continued to reflect increases in personnel expenses.

With regard to the outlook for prices, most members shared the recognition that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to temporarily decelerate to a level below 2 percent, 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. These members continued that the rate of increase was then expected to come under upward pressure, affected by the recent rise in crude oil prices. In addition, members shared the view that, meanwhile, the mechanism in which wages and prices rise moderately in interaction with each other was likely to be maintained, and, thereafter, it was projected that a sense of labor shortage would grow as the economy continued to improve 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 and, in the second half of the projection period of the January 2026 Outlook Report, be at a level that was generally consistent with the price stability target. Members concurred that attention should also be paid to the impact of the rise in crude oil prices on the outlook for underlying CPI inflation. One member pointed out that "beginning-of-the-period price hikes" by firms would serve as an indicator for assessing whether underlying inflation would rise moderately. The member then commented that developments in services prices in particular warranted attention, given their relationship with wages. One member noted that the rate of increase in the price of goods excluding food and energy and of services had been at around 1.5 percent, remaining stable below 2 percent. On this basis, the member expressed the recognition that underlying inflation appeared still to be below 2 percent, and this was not a situation where a sharp increase in inflation should be of concern, assuming that the rise in food prices would subside. A different member pointed out that underlying inflation had not been sufficiently anchored at 2 percent yet. The member then expressed the view that, while attention had so

far been paid mainly to downside risks, there was also the possibility that underlying inflation would exceed 2 percent, depending on the future course of the situation in the Middle East. In addition, one member expressed the recognition that, if it could be confirmed that wage hikes in the annual spring labor-management wage negotiations were at a level in line with the price stability target for the third consecutive year, it could be judged as early as April 2026 that the underlying trend in prices had reached 2 percent. The member then said that an examination of factors such as firms' and households' inflation expectations and firms' price-setting behavior was required, using sources such as the March 2026 *Tankan*, the March 2026 *Opinion Survey on the General Public's Views and Behavior*, and anecdotal information from firms. Meanwhile, 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 risks to economic activity and prices included the future course of the situation in the Middle East as well as developments in crude oil prices, 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 that it was necessary to pay due attention to the impact of these risks on Japan's economic activity and prices.

On this basis, members discussed the possible impact of the situation in the Middle East on Japan's economic activity and prices. With regard to the impact on economic activity, they shared the recognition that the rise in crude oil prices -- especially the surge in Dubai crude oil prices -- was likely to push down Japan's economy, which relied heavily on Middle Eastern crude oil. A few of these members added that attention needed to be paid to the impact of the increased tension over the situation in the Middle East on Japan's economy through a deterioration in the terms of trade, as well as the resultant decline in corporate profits, more cautious sentiment, and other factors. One member pointed out that, comparing the two phases when commodity prices had risen significantly -- today and around 2022, when the rise was due to Russia's invasion of Ukraine -- the situation was different in that, for example, the economy around 2022 had been in a recovery phase from the COVID-19 pandemic with various benefit payments and pent-up demand remaining, whereas recently, real wages continued to decline and households' propensity to consume had increased considerably. The

member then expressed the view that, although the current shock did not seem to carry a high risk of causing a deterioration in the economy, it warranted more attention than the shock in 2022. A few members noted that the extent to which the surge in crude oil prices and the rise in inflation would push down the economy depended heavily on the degree and persistence of the rise in crude oil prices. In relation to this, one member said that it was necessary to keep in mind the possibility that it might take some time before safe passage through the Strait of Hormuz was sufficiently secured and crude oil prices returned to pre-surge levels, even if the conflict in the Middle East was soon resolved. A few members pointed out that, should the de facto closure of the Strait of Hormuz be prolonged, there was a risk that downward pressure could be exerted on firms' production activity through the impact on supply chains.

With regard to the impact of the situation in the Middle East on prices in Japan, members concurred that, while energy and other prices could be pushed up in the short run, underlying inflation could be pushed either upward or downward. As for the short-term impact, one member said that there was concern that energy prices, which had been stable recently, might rise, leading to an increase in headline CPI once again. One member pointed out that, since a significant portion of liquefied natural gas (LNG) imported to Japan was contracted at prices linked to crude oil prices in the Middle East, the surge in crude oil prices in the Middle East would lead to an increase in prices, not only for gasoline and plastics but also for a wide range of items, including electricity and gas. Regarding the impact on underlying inflation, many members expressed the recognition that, if downward pressure was exerted on economic activity and the output gap deteriorated, this could push down underlying inflation. These members continued that, on the other hand, if the rise in crude oil prices led to an increase in firms' and households' medium- to long-term inflation expectations, this would push up underlying inflation. Many members expressed the recognition that, since firms' wage- and price-setting behavior had become more active over the past few years, the rise in crude oil prices in the current phase was more likely to spill over to prices of various other goods and services, and that these developments were more likely to lead to pushing up underlying inflation through a rise in inflation expectations. One of these members pointed out that there was concern that the surge in crude oil prices and the depreciation of the yen would push up inflation significantly for an extended period, given factors such as inflation expectations having risen to around 2 percent, firms' active price-setting behavior, and supply

shortages. One member added factors such as the following as reasons for the possibility that underlying inflation could see an upward deviation: the fact that the output gap and labor market conditions had tightened compared with 2022, and the possibility that people in Japan might not regard the current inflation as merely temporary because the current shock was the third one following those triggered by the invasion of Ukraine and the surge in rice prices. A different member expressed the view that, even during a phase when actual prices rose with an increase in crude oil prices, as seen today, inflation inertia was likely to remain, due to the government's measures to support passing on price and wage increases, and this was likely to raise inflation expectations and bring about inflation caused by second-round effects. Meanwhile, another member noted that, should the tension over the situation in the Middle East be prolonged, the direct impact on Japan's economic activity and prices was likely to be far greater than that stemming from the surge in rice prices, but it was difficult to assess at this point whether the direct impact would be greater than that arising from the rise in import prices in 2022. The member then expressed the view that, compared with 2022, however, greater attention was warranted on the spillovers and second-round effects of shocks on both prices and growth. In addition, one member expressed the recognition that, having learned from the criticism for "looking through" the rise in inflation in 2022, expectations for policy interest rate hikes had been emerging recently in Europe and other countries, leading to the situation where downward pressure on the yen was likely to emerge.

## **B. Financial Developments**

Members agreed that financial conditions in Japan had been accommodative. A few members pointed out that real interest rates in the short- to medium-term zone, which affect economic activity to a significant degree, remained clearly negative since the previous meeting, while nominal interest rates were more or less unchanged. One member expressed the view that bank lending had been solid due, for example, to the recovery in economic activity and to more active mergers and acquisitions of firms, and that one of the factors behind these developments was low real interest rates. The member then expressed the recognition that firms' return on assets (ROA) had significantly exceeded lending rates, and profit expectations in asset markets, particularly the real estate market, had been high. This member continued that financial conditions therefore remained accommodative, including in the area of housing loans to households.

### **III. Summary of Discussions on Monetary Policy**

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

With respect to the guideline for money market operations for the intermeeting period, most members shared the view that it was appropriate for the Bank to maintain the guideline that it would encourage the uncollateralized overnight call rate to remain at around 0.75 percent. Some members expressed the recognition that, although the domestic economy had been solid recently, there was concern, due to the impact of the increased tension over the situation in the Middle East, about a resurgence of inflation stemming from the rise in crude oil prices. These members continued that it was first necessary to assess developments, including the future course of the situation in the Middle East. A few members expressed the view that, given that uncertainties surrounding the situation in the Middle East had heightened recently and market sentiment had deteriorated significantly, it was appropriate for the Bank to maintain the current policy interest rate at this meeting. One member noted that the reopening of the Strait of Hormuz was likely to take some time even if the conflict was resolved in a short period of time, and there were not a few concerns over an economic slowdown. The member continued that, given these factors, it was appropriate that the Bank not raise the policy interest rate at this point. On the other hand, one member expressed the view that it was desirable for the Bank to raise the policy interest rate to around 1.0 percent at this meeting, considering that the price stability target had been more or less achieved and that risks to prices in Japan were skewed to the upside due to the second-round effects of price rises stemming from overseas developments. On this basis, the member pointed out that, while expectations had been increasing for policy interest rate hikes by overseas central banks, Japan's real policy interest rate was at the lowest level globally. This member then said that, since foreign exchange market participants pay attention to real interest rate differentials between Japan and abroad, it was necessary for the Bank to adjust the significantly negative real policy interest rate relatively soon.

Members also discussed the impact of the policy interest rate hikes conducted so far by the Bank. Some members expressed the recognition that, while interest rates such as short-term prime rates had been increased incrementally in line with the policy interest rate hikes conducted so far, accommodative financial conditions had been maintained, as seen, for example, in the fact that firms' demand for funds continued to increase moderately and that

financial institutions' lending attitudes and firms' financial positions had stayed at favorable levels on the whole. One of these members expressed the view that, even with regard to the impact of the rate hikes on domestic investment, there had been few cases where the rise in interest rates was the reason for firms to withdraw investment, and that, in many cases, withdrawal had been caused by labor shortages and increased material prices. A few members expressed the recognition that the recent bankruptcies of firms had been mainly caused by long-standing lackluster business performance and labor shortages, and it had rarely been the case that the direct cause of bankruptcies was the rise in interest rates. One member pointed out that, according to anecdotal information from firms, there were no signs that the impact of the Bank's policy interest rate hikes to 0.75 percent had significantly reduced the degree of monetary accommodation and led economic stimulus effects to weaken. A different member expressed the recognition that, as for households, the impact of the rise in interest rates had hardly been observed, as developments in demand for housing loans had seen no significant change and price rises were the main reason for the deterioration in the diffusion index (DI) for household circumstances in the *Opinion Survey on the General Public's Views and Behavior*.

As for the future conduct of monetary policy, members concurred that, given that real interest rates were at significantly low levels, if its outlook for economic activity and prices was realized, it was appropriate that the Bank, in accordance with improvement in economic activity and prices, continue to raise the policy interest rate and adjust the degree of monetary accommodation. On this basis, members shared the view that, with the price stability target of 2 percent, the Bank would 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. With regard to the timing for raising the policy interest rate in the future, many members expressed the recognition that it was desirable for the Bank to continue with the following: making decisions as appropriate at each Monetary Policy Meeting, while assessing (1) the likelihood of realizing the outlook for economic activity and prices as well as underlying inflation, and (2) the risks to the outlook. One of these members noted that the timing for raising the policy interest rate would be determined by assessing factors such as developments in wages, prices, and financial conditions, in addition to the impact of the situation in the Middle East. The member then expressed the view that, specifically, from the next Monetary Policy Meeting

onwards, it would be appropriate to assess in detail whether financial conditions remained accommodative after the last rate hike, while examining, for example, the extent to which wage increases and "beginning-of-the-period price hikes" were widespread. One member expressed the recognition that the situation in the Middle East could result in upward pressure on prices and downward pressure on the economy. The member continued that, however, under current financial conditions, the uptrend in prices was likely to be maintained, and, moreover, given that, for example, moves to raise wages continued amid labor shortages and firms' appetite for investment had been strong, the Bank would need to consider adjusting the degree of monetary accommodation without long intervals between adjustments. A different member expressed the view that it was necessary to avoid a situation where underlying inflation continued to rise above 2 percent, and that, if there were no signs of a significant deterioration in the economic environment or in the wage-setting stance of small and medium-sized firms, the Bank would need to raise the policy interest rate without hesitation. Another member pointed out that, with the policy interest rate still far away from the neutral interest rate, falling behind the curve would compel the Bank to pursue rapid and significant monetary tightening, which would cause a major shock to Japan's economy. The member then stated that a policy rate hike, including the size of the hike, needed to be considered, taking into account factors such as the course of the situation in the Middle East, the *Tankan*, reports at the meeting of the general managers of the Bank's branches, and anecdotal information from firms.

Members also discussed the stance on monetary policy conduct given the situation in the Middle East. Many members expressed the recognition that, if supply shocks due to the increased tension over the situation in the Middle East were temporary, the basic response for the Bank would be to "look through" their impact. These members continued that, on the other hand, if these shocks became prolonged and gave rise to concerns over the second-round effects on general prices, it would be necessary for the Bank to respond after examining the impact on inflation expectations and underlying inflation. One of these members expressed the view that the cost-push pressure stemming from high crude oil prices could bring about economic stagnation accompanied by price rises; in other words, 1970s-type stagflation. The member continued that, when inflation was temporary, the basic response for the Bank would be to wait until the cost-push factor dissipated, without taking hasty actions. In relation to this, regarding responses taken following Russia's invasion of Ukraine, many

members expressed the recognition that in Europe and the United States, the decision to "look through" the rise in inflation at that time, judging that it was temporary, was said to have caused the subsequent surge in prices. These members continued that the lessons learned from this experience lay behind the recently heightened expectations for policy interest rate hikes in Europe and other countries. One of these members pointed out that, because policy interest rates in Europe and the United States at that time were significantly below their respective neutral interest rates, rapid rate hikes were inevitable once prices started to rise considerably. The member continued that, however, since the policy interest rates in these economies were currently more or less in their neutral range, substantial rate hikes, as eventually seen following Russia's invasion of Ukraine, were less likely to become necessary. On this basis, the member expressed the view that, because Japan's policy interest rate was currently below its neutral range, particular attention should be paid to the upside risks to prices, given the lessons learned from the experience in Europe and the United States. A different member pointed out that monetary tightening could become necessary if cost-push pressure was likely to intensify due to an excessive depreciation of the yen, or if the second-round effects became more pronounced and caused wages to increase more than expected. The member continued that, however, the risk of underlying inflation accelerating beyond 2 percent was low in Japan, considering, for example, that it was still below 2 percent and a decline in corporate profits resulting from a deterioration in the terms of trade could push down wages in 2027. Based on these discussions, one member expressed the view that, if the tension over the situation in the Middle East were to become prolonged, while having the main option of gradually proceeding with rate hikes and adjusting the degree of monetary accommodation in line with previous projections, it would also be appropriate to pay attention to whether it was necessary to accelerate the pace of policy interest rate hikes beyond previous projections and shift toward neutral or restrictive financial conditions in order to address upside risks to prices stemming from the second-round effects. A different member noted that the pass-through of the yen's depreciation had become more pronounced, and that firms' wage- and price-setting behavior had become more active than in the past. The member continued that, against this background, there was a risk that the Bank might unintentionally fall behind the curve, since the second-round effects and the rise in underlying inflation, both of which stemmed from overseas developments, were more likely to emerge relative to around 2022, when the deflationary norm remained in place. On this basis, the member expressed the view that, while

uncertainties due to the rise in crude oil prices might exert downward pressure on economic activity over time, the Bank should focus for the time being on addressing higher prices driven by the second-round effects and the rise in inflation expectations. One member expressed the recognition that maintaining price stability through monetary policy, and thus minimizing downside risks to economic activity, were actions aligned with the principle that the Bank's policy should be "aimed at achieving price stability, thereby contributing to the sound development of the national economy."

Members also discussed the enhancement of the Bank's communication to the public regarding the conduct of monetary policy. Some members expressed the recognition that, because current consumer prices were likely to fluctuate in the short term due to factors such as government measures to address rising prices and the impact of higher crude oil prices, the Bank needed to further enhance its method of capturing underlying inflation, which is important in conducting monetary policy. On this basis, these members expressed the view that it was desirable for the Bank to provide more detailed explanations to the public, such as by expanding the types of core CPI indicators and releasing CPI estimates that exclude the effects of temporary institutional factors.

#### **IV. Remarks by Government Representatives**

The representative from the Cabinet Office made the following remarks.

- (1) The Japanese economy was recovering at a moderate pace, while the effects of U.S. trade policy remained.
- (2) It was necessary to closely monitor with utmost vigilance the impact of the situation in the Middle East on the Japanese economy and developments in financial markets.
- (3) Given the recent situation in the Middle East, the government had carried out emergency measures to curb dramatic price fluctuations and had begun to release petroleum reserves, and it would continue to do its utmost to ensure sound economic and fiscal management in response to developments in economic activity and prices.
- (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 paying due attention to factors such as economic developments at home and abroad and 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) With regard to the outlook for the Japanese economy, there was concern over the point that factors such as a surge in energy prices reflecting the situation in the Middle East could pose downside risks to the economy. Moreover, it was necessary to closely monitor developments in financial markets with utmost vigilance.
- (2) 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, paying due attention to factors such as economic developments at home and abroad, including the impact of the situation in the Middle East on the Japanese economy, and communicating effectively with the market.

## **V. 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.

#### **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.

Takata Hajime, however, considered that the price stability target had been more or less achieved and that risks to prices in Japan were skewed to the upside due to the second-round effects of price rises stemming from overseas developments. On this basis, he formulated the following proposal.

#### **Takata Hajime'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 1.0 percent.

Takata Hajime's policy proposal on the guideline for money market operations was defeated by a majority vote.

Votes for the proposal: TAKATA Hajime.

Votes against the proposal: UEDA Kazuo, HIMINO Ryoza, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.

The chairman's policy proposal on the guideline for money market operations was decided by a majority vote.

Votes for the proposal: UEDA Kazuo, HIMINO Ryoza, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.

Votes against the proposal: TAKATA Hajime.

## **B. Discussion on the Statement on Monetary Policy**

On the basis of the above discussions, members discussed the Statement on Monetary Policy. 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 beginning of fiscal 2026.

Based on this discussion, the chairman formulated the Statement on Monetary Policy, 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 Attachment).

**VI. Approval of the Minutes of the Monetary Policy Meeting**

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 22 and 23, 2026, for release on March 25.

## Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by an 8-1 majority vote, to set the following guideline for money market operations for the intermeeting period: <sup>[Note 1]</sup>

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

2. 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. Corporate profits have remained at high levels on the whole, although downward effects due to tariffs have been seen in manufacturing. 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 been on a declining trend. 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) 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 fallen to around 2 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.

Japan's economy is likely to continue growing moderately, with overseas economies returning to a growth path, and as a virtuous cycle from income to spending gradually intensifies, supported by factors such as the government's economic measures and accommodative financial conditions, while the economy is projected to be affected by trade and other policies in each jurisdiction. However, in the wake of increased tension over the situation in the Middle East, global financial and capital markets have been volatile and crude oil prices have risen significantly; future developments warrant attention. The year-on-year rate of increase in the

CPI (all items less fresh food) is likely to temporarily decelerate to a level below 2 percent, 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. The rate of increase is then expected to come under upward pressure, affected by the recent rise in crude oil prices. Meanwhile, the mechanism in which wages and prices rise moderately in interaction with each other is likely to be maintained. Thereafter, it is projected that a sense of labor shortage will grow as the economy continues to improve and that medium- to long-term inflation expectations will rise. In this situation, underlying CPI inflation is expected to increase gradually and, in the second half of the projection period of the January 2026 *Outlook for Economic Activity and Prices* (Outlook Report), be at a level that is generally consistent with the price stability target.<sup>[Note 2]</sup> Attention should also be paid to the impact of the rise in crude oil prices on the outlook for underlying CPI inflation.

Risks to the outlook include the future course of the situation in the Middle East as well as developments in crude oil prices, 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.

3. As for the 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 January 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.

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[Note 1] Voting for the action: UEDA Kazuo, HIMINO Ryozi, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki. Voting against the action: TAKATA Hajime. Takata Hajime considered that the price stability target had been more or less achieved and that risks to prices in Japan were skewed to the upside due to the second-round effects of price rises stemming from overseas developments. He proposed that the Bank set the guideline for money market operations as follows: the Bank would encourage the uncollateralized overnight call rate to remain at around 1.0 percent. The proposal was defeated by a majority vote.

[Note 2] 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 beginning of fiscal 2026.