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December 29, 2025

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on December 18 and 19, 2025

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part. Japan's economic growth is likely to be moderate due to the effects of trade and other policies in each jurisdiction. Thereafter, however, Japan's economic growth rate is likely to rise, with overseas economies returning to a growth path.
- The latest *Tankan* (Short-Term Economic Survey of Enterprises in Japan) shows that business sentiment has not been weak, including among small and medium-sized firms in the automobile-related industry. Regarding U.S. trade policy, it appears that downside risks to the outlook have decreased.
- Many regional firms have expressed the view that labor-saving investment to address labor shortages has pushed up their business fixed investment. Labor-saving investment represents progress toward solving issues and contributes to economic growth.
- Next year's wage hikes at large firms with labor unions are likely to be at least around the same level as this year, mainly reflecting relatively high price increases, solid corporate profits, and continued labor shortages.
- The government's economic measures are likely to push up the economy for the next year or two, and may alleviate the temporary sluggishness in economic growth to some degree. It is also possible that households' perceived inflation could ease.

¹ English translation prepared by the Bank's staff based on the Japanese original.

² "Summary of Opinions at the Monetary Policy Meeting" is made through the following process: (1) each Policy Board member and government representative makes a summary of opinions that she/he presented at the Monetary Policy Meeting (MPM) under a certain word limit and submits this to the Governor of the Bank of Japan, who serves as the chairman of the MPM, and (2) the chairman edits those opinions as his responsibility.

- The current phase is similar to the period when economic stimulus measures from both monetary and fiscal sides were adopted simultaneously around the world during the COVID-19 pandemic. As with that period, the alignment of global policy cycles is expected to lead to higher economic growth and prices worldwide.

Prices

- Underlying CPI inflation has continued to rise moderately, with moves to pass on wage increases to selling prices continuing. In the second half of the projection period of the *Outlook for Economic Activity and Prices*, underlying CPI inflation is expected to be at a level that is generally consistent with the price stability target.
- Japan's economic growth being modest is no longer the baseline scenario, and this has reduced the possibility that the underlying trend in prices will become sluggish.
- While the rate of increase in the CPI is likely to decline gradually through the base effects, the upward momentum in nominal wages seen thus far is expected to be maintained toward the annual spring labor-management wage negotiations for the next fiscal year. Therefore, it is likely that the rate of increase in real wages will rise into positive territory in the first half of next year and the underlying trend in prices will continue to rise steadily toward 2 percent.
- Price rises have been sticky due to the effects of more active price-setting behavior of firms and of past developments in foreign exchange rates. Regarding the outlook, it is 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 emerge -- will boost consumption and appetite for investment, thereby strengthening the upward momentum of the economy and medium- to long-term inflation.
- If it is confirmed next spring that the wage growth rate will be at a level in line with the price stability target for the third consecutive year, it can be judged that the underlying trend in prices has reached 2 percent.
- Amid continued relatively high price increases even in food items other than those related to rice, in examining price developments, attention should be paid to, for example, firms' stance on price hikes and to consumer purchasing behavior.
- Against the background of global demographic developments and climate change, it is possible that intermittent shocks from rising import prices are emerging, which may affect

underlying inflation and inflation expectations, and attention should therefore be paid to developments in import prices.

II. Opinions on Monetary Policy

- It is highly likely that the mechanism in which both wages and prices rise moderately will be maintained, and the likelihood of realizing the baseline scenario of the outlook for economic activity and prices has been rising. It is appropriate for the Bank to raise the policy interest rate and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target.
- It is appropriate for the Bank to adjust the degree of monetary accommodation at this MPM, since, (1) the impact of U.S. tariffs can no longer be described as an unprecedented risk, while downside risks to the global economy remain high; (2) corporate profits of Japanese firms have remained at high levels and the momentum in wage hikes toward next spring has been maintained; and (3) although CPI inflation in Japan is projected to be temporarily below 2 percent as food price inflation subsides, it is expected to increase thereafter, accompanied by wage increases.
- Corporate profits have been solid enough to support wage hikes and, considering factors such as the impact of developments in foreign exchange rates on prices, inflationary pressure is likely to continue if current financial conditions are maintained. Therefore, waiting until the next MPM entails considerable risk.
- If real interest rates continue 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.
- Current financial conditions are becoming excessively accommodative relative to economic fundamental conditions, and it is therefore desirable to raise the policy interest rate by 0.25 percent. Going forward, it will be necessary to adjust the degree of monetary accommodation at the appropriate timing.
- Japan's real policy interest rate is by far at the lowest level globally. Considering the impact such a low real policy interest rate has on prices through foreign exchange markets, it is appropriate for the Bank to adjust the degree of monetary accommodation.

- Real interest rates are expected to remain significantly negative after raising the policy interest rate to 0.75 percent, and accommodative financial conditions will be maintained. The policy interest rate and monetary accommodation will continue to be at a level and a degree that strongly support Japan's economy.
- After the change in the policy interest rate, although real interest rates will be at significantly low levels, nominal interest rates will reach a level not seen for a considerable time. Therefore, it will be crucial to monitor the impact on the economy and financial markets.
- It is possible that there will be a shift in the overseas environment from this year's tendency toward cutting policy interest rates to a tendency toward raising the rates next year. In order to avoid falling behind the curve, it is desirable for the Bank to steadily raise the policy interest rate.
- As for future adjustments to the degree of monetary accommodation, it is desirable for the Bank to make decisions as appropriate at each MPM without having a specific pace in mind, carefully examining developments in economic activity and prices as well as financial conditions.
- With regard to the future conduct of monetary policy, it is important for the Bank to choose the appropriate timing to adjust the policy interest rate, examining the state of economic activity and prices as well as financial markets.
- The policy interest rate hikes so far have only had limited impact on economic activity and prices. It can be said that there is still considerable distance to the neutral interest rate level. 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. Adjusting the policy interest rate in a timely manner will help prevent rapid monetary tightening in the future, leading to sustainable and stable economic growth.
- Japan's economy is at a multilayered phase: while many households face difficulties due to cost-push inflation, such as the rise in food prices, sustainable achievement of the price stability target of 2 percent is becoming more realistic. Fiscal and monetary policies complement each other in this respect.
- It is difficult to identify in advance the neutral interest rate level, and it should be interpreted with considerable latitude. It is 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.

- Given the difficulty of identifying the neutral interest rate, the Bank should not be aiming for a particular level of the neutral rate, but rather should be flexible in its conduct of monetary policy, since overseas interest rate environments are also expected to change.
- 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, changes in firms' business fixed investment and in households' savings and investment. The Bank will be able to make policy decisions built on firm foundations by adopting an approach in which it gauges 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.
- The yen's depreciation and the rise in long-term interest rates reflect to some extent the policy interest rate being too low relative to the inflation rate. Raising the policy interest rate in a timely manner could curb future inflationary pressure and lead to holding down long-term interest rates.
- The level and fluctuations in long-term interest rates appear to reflect risk premium factors to some extent. Globally, attention has been drawn to fiscal conditions and inflation, and developments in long-term interest rates should be monitored carefully.

III. Opinions from Government Representatives

Ministry of Finance

- The government expects 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.
- On this basis, regarding the proposal on the change in the policy interest rate, the government expects the Bank to make decisions at this MPM as appropriate, and to explain its policy intention carefully to the market and other stakeholders.
- Moreover, with a view to the future conduct of monetary policy, the government expects the Bank to carefully examine factors such as the impact of the change in the policy interest rate

at this MPM on economic activity and prices, while continuing to closely exchange views with the government.

Cabinet Office

- Embracing an approach of "responsible and proactive public finances," the Takaichi Cabinet will do its utmost to build a "strong Japanese economy" by, for example, undertaking initiatives related to comprehensive economic measures.
- The government considers that the proposal made at this MPM has been judged necessary for achieving the price stability target in a sustainable and stable manner. Meanwhile, it is necessary to pay due attention to future developments in factors such as business fixed investment and corporate profits.
- The government expects 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.