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March 30, 2026

Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on March 18 and 19, 2026

### I. Opinions on Economic and Financial Developments

#### *Economic Developments*

- Japan's economy has recovered moderately, although some weakness has been seen in part. As for the outlook, with overseas economies returning to a growth path, Japan's economy is likely to continue growing moderately, 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.
- Developments in the annual spring labor-management wage negotiations show many large firms have met in full or nearly full the demands of their labor unions. It is highly likely that a wide range of firms will continue to raise wages steadily this year.
- Although large firms are likely to raise wages steadily, it is necessary, considering the situation in the Middle East, to continue to monitor developments toward the final outcome of labor-management wage negotiations, including those at small and micro firms.
- The situation in the Middle East and the associated rise in crude oil prices should be considered as a risk scenario, and it is necessary to carefully examine their impact on markets and the economy. So far, excessive reactions have been contained in Japan, partly due to expectations surrounding the government's policies; in addition, the degree of the impact could vary depending on future developments. There is thus no need to revise the baseline scenario for economic activity and prices at this point.

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<sup>1</sup> English translation prepared by the Bank's staff based on the Japanese original.

<sup>2</sup> "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.

- While Japan's economy has remained resilient, economic downside effects stemming from increased tension over the situation in the Middle East -- such as rising gasoline prices -- have started to emerge. Future developments will continue to warrant attention.
- Attention needs to be paid to the impact of 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.
- Japan's potential growth rate in recent years has been supported by solid total factor productivity (TFP). Looking ahead, however, the extent to which there remains room for an increase in working hours and whether appropriate investment is made amid changing circumstances will also be key issues.

### *Prices*

- Underlying CPI inflation is likely to continue rising moderately, as the mechanism in which wages and prices rise moderately in interaction with each other is expected to be maintained. 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. Attention should also be paid to the impact of the rise in crude oil prices on the outlook for underlying CPI inflation.
- The rate of increase in the price of goods excluding food and energy and of services has been at around 1.5 percent, remaining stable below 2 percent. Underlying inflation appears still to be below 2 percent, and this is not a situation where a sharp increase in inflation should be of concern, assuming that the rise in food prices will subside.
- Underlying inflation has not been sufficiently anchored at 2 percent yet. While downside risks remain, there is also the possibility that underlying inflation will exceed 2 percent, depending on the future course of the situation in the Middle East.
- Amid increased tension over the situation in the Middle East, there is concern that energy prices, which had been stable, may rise, leading to an increase in headline CPI once again.
- A significant portion of liquefied natural gas (LNG) imported to Japan is contracted at prices linked to crude oil prices in the Middle East. A surge in crude oil prices in the Middle East therefore leads to an increase in prices, not only for gasoline and plastics but also for a wide range of items, including electricity and gas.

- Should tension over the situation in the Middle East be prolonged, the direct impact is likely to be far greater than that stemming from the surge in rice prices. However, it is difficult to assess at this point whether the direct impact will be greater than that arising from the rise in import prices after Russia's invasion of Ukraine. That said, compared with the period following the invasion of Ukraine, greater attention is warranted on the spillovers and second-round effects of shocks on both prices and growth.
- There is concern that the surge in crude oil prices and the depreciation of the yen will push up inflation significantly for an extended period, given factors such as (1) inflation expectations having risen to around 2 percent, (2) firms' active price-setting behavior, and (3) supply shortages.
- Even during a phase when actual prices rise with an increase in crude oil prices, as seen today, inflation inertia is likely to remain, due to the government's measures to support passing on price and wage increases, and inflation expectations are likely to rise.
- Having learned from the criticism for "looking through" the rise in inflation in 2022, expectations for policy interest rate hikes have been emerging recently in Europe and other countries. Downward pressure on the yen is therefore likely to emerge.
- Considering that consumer prices are 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, it is desirable for the Bank to provide more detailed explanations of underlying trends in prices, such as by releasing additional core CPI indicators with a view to capturing these trends.

## **II. Opinions on Monetary Policy**

- Given that real interest rates are at significantly low levels, if the Bank's outlook for economic activity and prices will be realized, it is 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.
- Despite the policy interest rate hikes so far, accommodative financial conditions have been maintained. Even with regard to the impact of rate hikes on domestic investment, there have been few cases where the rise in interest rates was the reason for firms to withdraw investment; in many cases, withdrawal was caused by labor shortages and increased material prices.

- Uncertainties surrounding the situation in the Middle East have heightened recently, and market sentiment has deteriorated significantly. Given these circumstances, the Bank should maintain the current policy interest rate at this meeting.
- The timing for raising the policy interest rate will 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. Specifically, from the next MPM onwards, it will be appropriate to assess in detail whether financial conditions remain accommodative after the last rate hike, while examining, for example, the extent to which wage increases and "beginning-of-the-period price hikes" are widespread.
- The situation in the Middle East could result in upward pressure on prices and downward pressure on the economy. However, under current financial conditions, the uptrend in prices is likely to be maintained. Moreover, given that, for example, moves to raise wages have continued amid labor shortages, and firms' appetite for investment has been strong, the Bank would need to consider adjusting the degree of monetary accommodation without long intervals between adjustments.
- It is necessary to avoid a situation where underlying inflation continues to rise above 2 percent. If there are no signs of a significant deterioration in the economic environment or in the wage-setting stance of small and medium-sized firms, the Bank will need to raise the policy interest rate without hesitation.
- 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. A policy rate hike, including the size of the hike, needs to be considered, taking into account factors such as the course of the situation in the Middle East, the *Tankan* (Short-Term Economic Survey of Enterprises in Japan), reports at the meeting of the general managers of the Bank's branches, and anecdotal information from firms.
- 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. When inflation is temporary, the basic response for the Bank would be to wait until the cost-push factor dissipates, without taking hasty actions. However, monetary tightening could become necessary if the cost-push pressure is likely to intensify due to an excessive depreciation of the yen, or if the second-round effects become more pronounced and cause wages to increase more than expected.

- 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 is necessary to accelerate the pace of policy interest rate hikes beyond previous projections and shift toward neutral or restrictive financial conditions, if tension over the situation in the Middle East were to become prolonged.
- Firms' wage- and price-setting behavior has become more active, with the norm for prices changing and the pass-through of the yen's depreciation becoming more pronounced. Against this background, there is a risk that the Bank may unintentionally fall behind the curve, since the second-round effects and the rise in underlying inflation that stem from overseas developments are more likely to emerge. While uncertainties due to the rise in crude oil prices may 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.
- Maintaining price stability through monetary policy, and thus minimizing downside risks to economic activity, are 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."

### **III. Opinions from Government Representatives**

#### ***Ministry of Finance***

- With regard to the outlook for Japan's economy, there is 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 is necessary to closely monitor developments in financial markets with utmost vigilance.
- 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, paying due attention to factors such as economic developments at home and abroad, including the impact of the situation in the Middle East on Japan's economy, and communicating effectively with the market.

### *Cabinet Office*

- It is necessary to closely monitor with utmost vigilance the impact of the situation in the Middle East on Japan's economy and developments in financial markets.
- Given the recent situation in the Middle East, the government has carried out emergency measures to curb dramatic price fluctuations and has begun to release petroleum reserves, and it will continue to do its utmost to ensure sound economic and fiscal management in response to developments in economic activity and prices.
- 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 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.