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June 24, 2026

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on June 15 and 16, 2026

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part, partly due to the impact of the situation in the Middle East. As for the outlook, while higher crude oil prices are likely to exert downward pressure on economic activity, Japan's economy is expected to continue growing moderately, albeit at a decelerated rate, supported by factors such as high levels of corporate profits, as well as the effects of various government measures and progress in securing alternative sources of raw materials.
- Downside risks to economic activity have decreased, given developments such as robust corporate profits supported mainly by strong AI-related demand, solid wage increases, and progress in various government measures and in securing alternative sources of raw materials. Japan's economy has been developing in line with the baseline scenario presented in the April 2026 *Outlook for Economic Activity and Prices*, in which the economy is expected to maintain a virtuous growth cycle, albeit at a decelerated pace.
- With overseas economies experiencing an upswing driven by the demand shock from the global expansion of AI-related demand, the deterioration in the terms of trade reflecting higher crude oil prices has been mitigated, and concerns over an economic slowdown have subsided.
- Business performance remains favorable from a macroeconomic perspective, and a stable employment and wage environment and various government measures have been supporting private consumption despite price increases.

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 chairman of the MPM, and (2) the chairman edits those opinions as his responsibility.

- Although an agreement has been reached to end the conflict in the Middle East, looking at the supply shocks caused by the conflict, the downside risks to production and employment appear to be greater than the upside risks to prices. The downside risks to production and employment may disrupt the virtuous cycle between wages and prices, and in the worst-case scenario, this could potentially cause Japan's economy, which appears to have overcome a prolonged period of deflation and transitioned to an inflationary phase, to fall back into deflation again.

Prices

- Underlying CPI inflation is likely to increase gradually, as the mechanism in which wages and prices rise moderately in interaction with each other is expected to be maintained. Underlying CPI inflation is expected to come to a level that is generally consistent with the price stability target between the second half of fiscal 2026 and fiscal 2027.
- Although the year-on-year rate of increase in the CPI has recently been at a level below 2 percent, there is a risk of underlying CPI inflation deviating upward to a level above 2 percent, given the possibility that the relatively fast pace of price pass-through in business-to-business transactions could spread to an increase in consumer prices across a wide range of items, as well as the rise in inflation expectations.
- The impact of the rise in crude oil prices is already spreading to midstream business-to-business prices. In this situation, more concern is warranted about the risk that this could lead to a rise in prices, given that firms' price-setting behavior is becoming more active.
- While the wage-setting stance of small and medium-sized firms has not become cautious, the rise in business-to-business prices has already become evident, and the increase in distribution costs, in particular, could affect underlying inflation.
- Price pass-throughs are highly likely to accelerate, driven by higher import prices. In addition, inflation expectations have shown signs of shifting as indicated by, for example, the break-even inflation (BEI) rate and the widening spread between short- and long-term interest rates, and the negative real interest rate has led to an increase in lending and CP issuance and a rise in asset prices.
- If business performance and stock prices maintain a certain level of robustness, inflationary pressure is likely to continue with the effects of such robustness spilling over.

- Procurement costs for crude oil are likely to remain elevated as the sources of crude oil are expected to be diversified over time to include the United States and other regions.
- Global AI-related demand is pushing up economic activity and prices more than expected.
- Even if crude oil prices decline in the future, it is highly possible that the upward deviation in prices will start to spread across a wider range of items, including to those other than petroleum-related goods, reflecting demand shocks stemming from overseas developments.
- Government measures have the effect of influencing households' perceived inflation by adjusting the price levels of specific goods and services. However, such factors need to be excluded when assessing the level of underlying inflation.

II. Opinions on Monetary Policy

- Given that Japan's economy has been developing generally in line with the baseline scenario and that there is a risk that price increases stemming from high crude oil prices will spread across a wide range of items, and a risk that underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent, it is appropriate for the Bank to raise the policy interest rate and adjust the degree of monetary accommodation.
- Since the previous MPM, the risk of heightened supply-side constraints has abated, owing to progress in securing alternative sources of supply and to the agreement bringing the conflict in the Middle East to an end. However, the future course of the situation in the Middle East remains uncertain and the impact of the situation on logistics persists. Taking into account the risk of price increases, it is appropriate to adjust the policy interest rate at this MPM.
- Import prices have also been driven up by exchange rate developments. Such price increases are considered to place a burden on the business of a considerable number of firms, including small and micro firms. Against this backdrop, it has become more appropriate than before to adjust the degree of monetary accommodation.
- Raising the policy interest rate could suppress aggregate demand by curbing firms' business fixed investment, potentially inducing simultaneous declines in inflation and in production and employment. The Bank should therefore hold the rate steady at this point.
- As for the future conduct of monetary policy, given that underlying CPI inflation has been approaching 2 percent and financial conditions have been accommodative, it is appropriate for the Bank to continue to raise the policy interest rate and adjust the degree of monetary

accommodation, in response to developments in economic activity and prices as well as financial conditions.

- Financial conditions are expected to remain accommodative after the policy interest rate hike at this MPM. Therefore, if economic activity and prices develop in line with its outlook, the Bank should maintain its stance to continue to raise the policy interest rate.
- Given the policy interest rate adjustment at this MPM and factors such as the dispersion in estimates of the neutral interest rate, it is appropriate to revise the wording "real interest rates are at significantly low levels" in the description regarding the future conduct of monetary policy.
- Unlike in the United States and Europe, Japan's policy interest rate remains below the estimated range of the neutral interest rate. It is necessary to bring the policy rate closer to the neutral rate as soon as possible and thereby ensure the flexibility needed to swiftly adjust the policy rate in either direction.
- To avoid rapid and significant policy interest rate hikes, the Bank should bring the policy rate closer to the neutral rate sooner. The neutral interest rate appears to be at around 2 percent, and taking this into account, it is desirable to assess economic activity and prices as well as financial developments and to consider whether to raise the policy interest rate as appropriate with intervals of a few months in mind.
- With progress in reducing the Bank's purchase amount of Japanese government bonds (JGBs), the functioning of the JGB markets has been steadily improving. On the other hand, it will likely take some time for investors in Japan to smoothly increase their JGB holdings. If the current pace of reduction were to be continued, this may have an unforeseen impact on market stability. Taking these points into account, it is appropriate to halt the reduction of the Bank's purchase amount of JGBs from April 2027.
- Even if the reduction of the Bank's purchase amount of JGBs were to be halted, the purchase amount would be below 20 percent of the issuance amount. It is therefore unlikely that this would hamper market functioning whereby long-term interest rates are formed freely in the market.
- Supply pressure in the JGB markets has been at historical levels with the reduction of the Bank's purchase amount of JGBs. With market functioning rapidly recovering and real interest

rates in the long- and super-long-term zones being at a level comparable to those overseas, it is appropriate to halt the reduction of the purchase amount of JGBs from April 2027.

- The Bank should discontinue the current framework for the reduction of its purchase amount of JGBs at the end of this fiscal year, and from the next fiscal year, it should enter a phase of stably proceeding with the redemption of its JGB holdings while keeping the scale of JGB purchases at levels lower than in the past. Even in this case, for the next several years, the amount of redemption will remain at least double the amount of purchases. From a somewhat long-term perspective, as the amount of redemption decreases, the maturity of the JGBs the Bank purchases will likely become more important.
- Regarding the plan for the outright purchases of JGBs, it is appropriate to halt the reduction of the Bank's purchase amount from the perspective of maintaining downward pressure on long-term interest rates through the stock effect as much as possible.
- The purpose of the Bank's past large-scale JGB purchases was monetary easing, and there is no need for such purchases under the current circumstances. No disruptions have occurred in the JGB markets, and there is no reason at all to halt the reduction of its purchase amount. If the intention behind its JGB purchases is perceived by the market as fiscal financing or as an attempt to lower long-term interest rates, this could lead to bias in the market and undermine the credibility of the Bank.
- Even if the reduction of the Bank's purchase amount of JGBs is halted, in the case where the average maturity and other conditions of its JGB purchases remain unchanged, the Bank's share of JGB holdings relative to the aggregate amount outstanding will eventually be considerably compressed due to redemption at maturity.
- Even in the case where the reduction of the purchase amount of JGBs is halted, the size of the Bank's balance sheet will steadily decrease mainly because redemption will continue every month, and it is desirable to clearly explain this to the public.

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.

- Regarding the proposals, the government expects the Bank to make decisions at this MPM as appropriate. As for the change in the policy interest rate, the government expects the Bank to explain its policy intention carefully to the market and other stakeholders, and to carefully examine factors such as the impact this change has on economic activity and prices. With respect to the purchase of JGBs, the government expects the Bank to closely monitor market developments and to make nimble responses as necessary.

Cabinet Office

- It is important for the Bank to fulfill its accountability regarding the policy interest rate hike at this MPM, while taking proactive and appropriate action in the event of excessive fluctuations in economic activity. The transition to a growth-oriented economy is crucial, and it is necessary to carefully examine the relationship between macroeconomic supply-demand conditions and price developments.
- Regarding the purchase of JGBs, it is necessary for the Bank to examine the macroeconomic impact of the reduction in the size of its balance sheet and to take appropriate action for market stability.
- The government expects the Bank to conduct monetary policy as appropriate, including the aforementioned points, while understanding initiatives taken by the Takaichi Cabinet such as strategic investments that enhance resilience against potential crises and investments that promote growth.