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August 10, 2026

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]
on July 30 and 31, 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. In fiscal 2026, although the rise in crude oil prices is expected to push down economic activity, Japan's economy is expected to continue growing moderately, albeit at a decelerated rate, supported by factors such as global AI-related demand and various government measures. From fiscal 2027 onward, Japan's economic growth rate is likely to rise moderately, since it is projected that the adverse effects of high crude oil prices will wane.

- With the economy experiencing an upswing driven by the demand shock from the global expansion in 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.

- For economic activity, the situation in the Middle East exerts downward pressure, the expansion in AI-related demand exerts upward pressure, and the depreciation of the yen works in both directions.

- As recent reports at the meeting of general managers of the Bank's branches suggested, AI-related demand has spread to a greater extent than expected, and private consumption has shown resilience, as seen, for example, in strong sales of high-end products reflecting the wealth effects from higher stock prices.

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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.

- Due attention is warranted on the possibility that the economy could deviate downward, should expectations regarding the future profitability of AI-related firms diminish and the stock market experience significant adjustments.

- In the past, Japan has experienced a significant decline in domestic demand and a deceleration in inflation in the face of major external shocks. Nevertheless, Japan's economy has shown resilience in the face of U.S. tariff policy and the situation in the Middle East.

- The Cabinet has approved the Basic Policy on Economic and Fiscal Management and Reform 2026, which advocates "responsible and proactive public finances." This policy is expected to raise domestic production, employment, real income, and the inflation rate.

- Since June this year, there has been a significant regime shift in financial conditions surrounding Japan, as the phase of policy interest rate cuts seen globally through last year has turned to a phase of interest rate hikes.

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.

- Given that underlying CPI inflation has been approaching 2 percent, it will be important, from the perspective of sustainable and stable achievement of the price stability target, to examine whether it becomes anchored at a level around 2 percent.

- For prices, the situation in the Middle East, the expansion in AI-related demand, and the depreciation of the yen all exert upward pressure.

- Given factors such as the rise in domestic distribution costs and the increase in the prices of packaging materials and food trays, the price hikes in final consumer goods are expected to accelerate again toward early autumn.

- While the situation in the Middle East remains unclear, crude oil prices and the benchmark price of naphtha have declined from their peak levels reached in April. Moreover, while the producer price index (PPI) has risen reflecting the increase in import prices, the CPI has remained below 2 percent, due in part to the effects of government policies.

- Supply and demand conditions in the crude oil market are balanced, reflecting factors such as an increase in supply as delayed tankers have exited the Persian Gulf. However, once these temporary factors dissipate, supply and demand conditions could tighten again.

- In addition to the depreciation of the yen, geopolitical risks and risks associated with climate change have been factors pushing up import prices. Strong AI-related demand could also lead to an increase in the prices of goods and services. Attention is warranted on upside risks to prices throughout the projection period.

- Considering factors such as the future pass-through of higher crude oil prices to consumer prices, and Japan's output gap, which indicates supply shortages and excess demand, risks to prices are significantly skewed to the upside. In addition, global AI-related demand and expansionary fiscal policies in various economies could further boost demand and push up prices even more.

II. Opinions on Monetary Policy

- Looking at Japan's financial conditions, the short-term real interest rate -- which has a large impact on economic activity -- has been negative, and financial institutions' lending attitudes have remained proactive. Meanwhile, firms' and other entities' demand for funds has increased, as shown, for example, in the acceleration in the rate of increase in bank lending. In light of these developments, Japan's financial conditions have remained accommodative.

- In assessing financial conditions, it is also necessary to take into account factors such as whether financing is being implemented under disciplined investment plans.

- It is considered that there is a time lag of around one to one and a half years for the effects of a policy interest rate hike to emerge in the form of pushing down the inflation rate and domestic economic activity. In order to carefully examine the impact of the rate hike at the previous meeting, it is appropriate for the Bank to keep the policy interest rate unchanged at this meeting.

- 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.

- It is appropriate for the Bank to consider the timing and pace of adjustment to the degree of monetary accommodation, while carefully examining the impact of factors such as the situation in the Middle East, the expansion in AI-related demand, and developments in foreign exchange rates. In doing so, the current phase calls for due attention to upside risks to the underlying trend in prices.

- In conducting monetary policy, the perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important in order to keep the risk of underlying CPI inflation deviating upward to a level above the price stability target of 2 percent from materializing and thereby exerting an adverse impact on the economy afterward.

- In the conduct of monetary policy, when assessing whether underlying CPI inflation will stabilize in a manner consistent with the price stability target, it is necessary to carefully monitor whether medium- to long-term inflation expectations -- which have been rising recently -- stabilize at around 2 percent.

- Given that underlying CPI inflation has been approaching 2 percent and greater consideration should be given to upside risks to prices than before, it could be considered that the pace of policy interest rate hikes will be faster than market expectations, depending on developments in economic activity and prices as well as financial conditions.

- Underlying CPI inflation in Japan is becoming anchored at around 2 percent. With financial conditions remaining accommodative, it is important for the Bank to pay particular attention to upside risks to prices and adjust the policy interest rate nimbly.

- Even if the precise neutral interest rate cannot be determined, it is necessary for the Bank to raise the policy interest rate, which is below the lower bound of the broadly estimated range, in order to set a foundation for the normalization of monetary policy and to ensure the nimbleness of policy decisions.

- As the global environment is turning to a phase of policy interest rate hikes, the situation has shifted to a new phase in which the Bank needs to adopt a nimble approach in response to factors such as changes in overseas financial conditions and to discuss the size of a rate hike, rather than adhering to a certain pace of rate hikes. As concerns over a downward deviation in real economic activity have subsided and inflationary pressures could become evident from the summer, it is necessary for the Bank to shift from the current stance of encouraging a rise in underlying inflation and to clearly demonstrate to the market its determination to prevent upward deviations in prices.

- Should upside risks to prices materialize, it would not only deliver a significant blow to Japan's economy and to people's daily lives but would also compel the Bank to later make rapid and substantial policy interest rate hikes, causing a double shock. The focus of monetary policy has shifted from "lifting underlying CPI inflation to 2 percent" to "avoiding further upward deviation in underlying CPI inflation." It cannot be said that "the risk of waiting is marginal," and it is therefore necessary for the Bank to accelerate the pace of adjustment to the degree of monetary accommodation.

- While long-term interest rates rose in early July, policies in various countries have attracted attention in financial markets recently as a factor influencing daily market movements.

III. Opinions from Government Representatives

Ministry of Finance

- Regarding the 2026 Kumamoto Earthquake, the government will mobilize its full capabilities, with saving lives as its highest priority.

- Based on the Basic Policy on Economic and Fiscal Management and Reform 2026, the government will strive to achieve both "building a strong Japanese economy" and "fiscal sustainability" in an integrated manner, while giving consideration to securing market confidence.

- 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, and communicating effectively with the market.

Cabinet Office

- The government will closely monitor the impact of the 2026 Kumamoto Earthquake on the livelihoods of those affected and on the economy.

- As the economy and public finances are entering a new phase, the government will strive to secure market confidence through achieving both building a strong Japanese economy and fiscal sustainability in a simultaneous manner and through strengthening communication, based on the Basic Policy on Economic and Fiscal Management and Reform 2026 and embracing an approach of responsible and proactive public finances.

- Toward building a strong Japanese economy, it is extremely important that monetary policy be conducted as appropriate in a manner that contributes to achieving stable inflation. 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.