Review of MPM: September 2026

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September 18, 2026

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Envision the value,
Empower the change

Review of MPM

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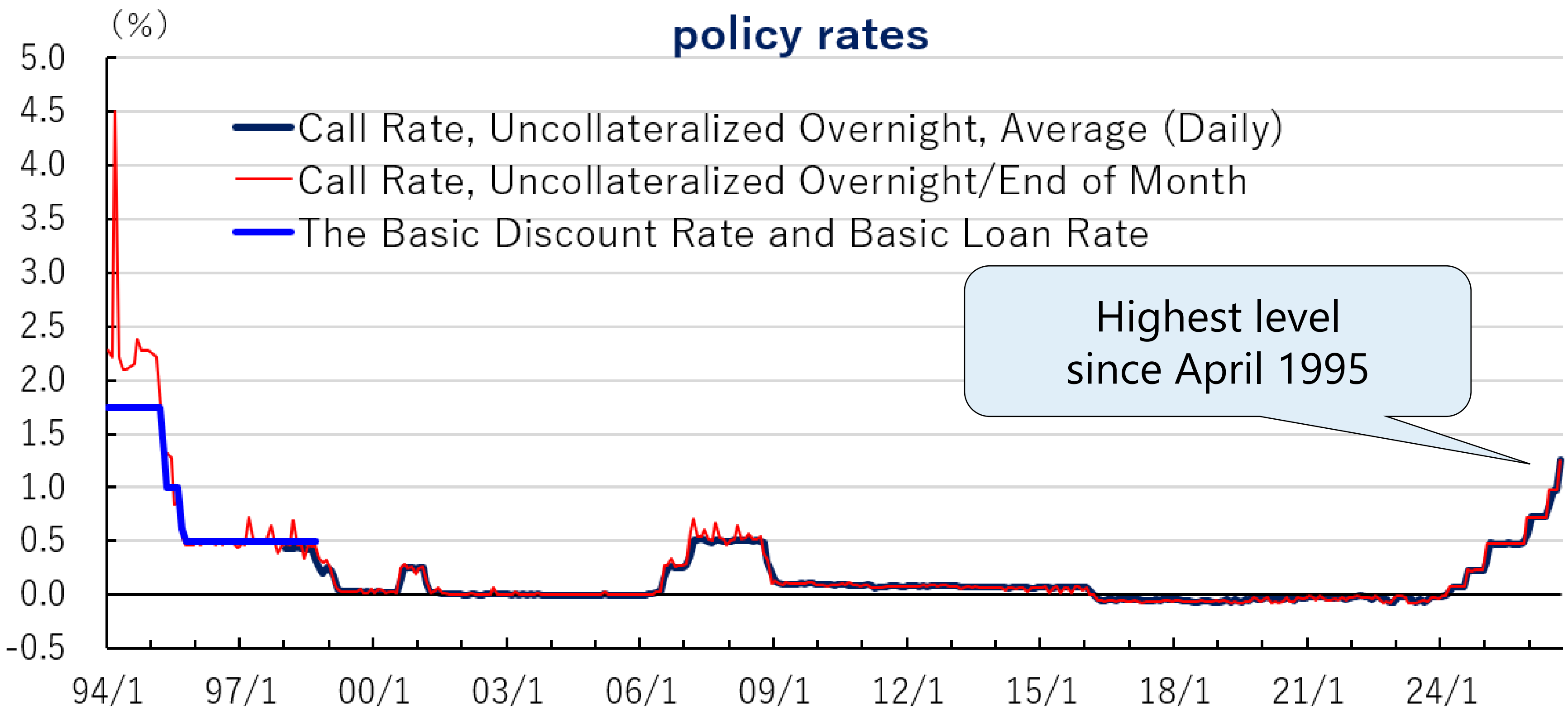
Policy Interest Rates

The Bank will encourage the uncollateralized overnight call rate to remain at around 1.25 percent.

: interest rate hike by +0.25%p (7-2 majority vote)



(source) Bank of Japan

Voting against the Action

September 2026 MPM

Voting for the action: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki. Voting against the action: ASADA Toichiro and SATO Ayano. Asada Toichiro dissented, considering that, with the rate of increase in the CPI (all items less fresh food) being below 2 percent recently, it could not necessarily be said that the economic situation was strong, and it was therefore desirable for the Bank to maintain the guideline for money market operations. Sato Ayano dissented, considering that current economic and price developments did not appear to have substantially accelerated compared to before, and in this context, it was not appropriate for the Bank to raise the policy interest rate at this time.

June 2026 MPM

Voting for the action: HIMINO Ryozo, UCHIDA Shinichi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki. Voting against the action: ASADA Toichiro. Absent: UEDA Kazuo. Asada Toichiro dissented, considering that, regarding the impact of the situation in the Middle East, downside risks to production and employment were greater than upside risks to prices, and it was desirable for the Bank to maintain the guideline for money market operations.

(source) Bank of Japan

BOJ Policy Rate Hike Briefing: Sep. MPM

Economic activity and prices — **Developing generally in line with the baseline scenario**

Economic activity: Japan's economy has recovered moderately, despite the impact of the situation in the Middle East
- ✓ Increase in global AI-related demand
- ✓ Improvement in the employment and income situation
- ✓ The government's various measures

Prices: underlying CPI inflation has been approaching 2 percent
- ✓ High year-on-year rate of increase in the PPI New！！
- ✓ Upward pressure has started to spill over into consumer prices New！！
- ✓ Continued rise in medium- to long-term inflation expectations

Risks — **The situation in the Middle East, Expansion in AI-related demand, Developments in foreign exchange rates**

There is a risk that underlying CPI inflation will deviate upward to a level above the price stability target of 2 percent

Financial conditions — **Japan's financial conditions have been accommodative**

Adjusting the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target of 2 percent

Short-term interest rate : raised to "around 1.25%"
(uncollateralized overnight call rate) (previously "around 1.0%")

- Accommodative financial conditions are expected to be maintained, continuing to firmly support economic activity.
- The Bank will 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.
- The Bank will consider the timing and pace of adjustment, while examining the likelihood of realizing the baseline scenario and the risks to the outlook.
- The perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important.

（source）Bank of Japan

Changes between July and Sep. MPM

A rate hike to address upside risks to prices, amid reduced downside risks to economic activity and continued resilience in the economy.

	economy	prices
Current situation	--	↑
Outlook	--	--
risk	↓	--

Compared with June, the statement adds that "In particular, the perspective of stabilizing underlying CPI inflation at a level around 2 percent becomes important in order to keep risks of underlying CPI inflation deviating upward to a level above the price stability target of 2% from materializing and thereby exerting an adverse impact on the economy afterward" retaining the wording introduced in July.

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Main Risks Pointed Out at July MPM

■ risks to the outlook

situation in Middle East	developments in foreign exchange rates	global AI-related demand

■ additional explanation in "conduct of monetary policy"

In particular, **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.

(Source) Bank of Japan

Economic conditions behind the rate hike

Main Points

① Recent Developments

What is the reason for the change in the judgment regarding prices?

② Outlook

Will inflationary pressures affect the outlook to be presented in the next Outlook for Economic Activity and Prices? Do you regard these pressures as persistent? If so, does this imply the need to raise the terminal level of the policy interest rate or to accelerate the pace of increases?

③ Risks

Has the Bank judged that downside risks to economic activity have diminished? Has the extent of upside risks to prices changed from July?

① Recent Developments

Any changes in the assessment of economic activity and prices, including developments in overseas economies, which support the rate hike?

- ✓ Overseas economies, particularly the U.S. economy, have grown moderately.
- ✓ Downside risks to the domestic economy have receded.
- ✓ The underlying rate of inflation has moved closer to 2 percent.
- ✓ At the same time, increases in producer prices have been passed on to consumer prices.

On the premise that the current economic situation does not pose an obstacle to a rate hike, it is necessary to respond to inflationary pressures.

Overseas Economies

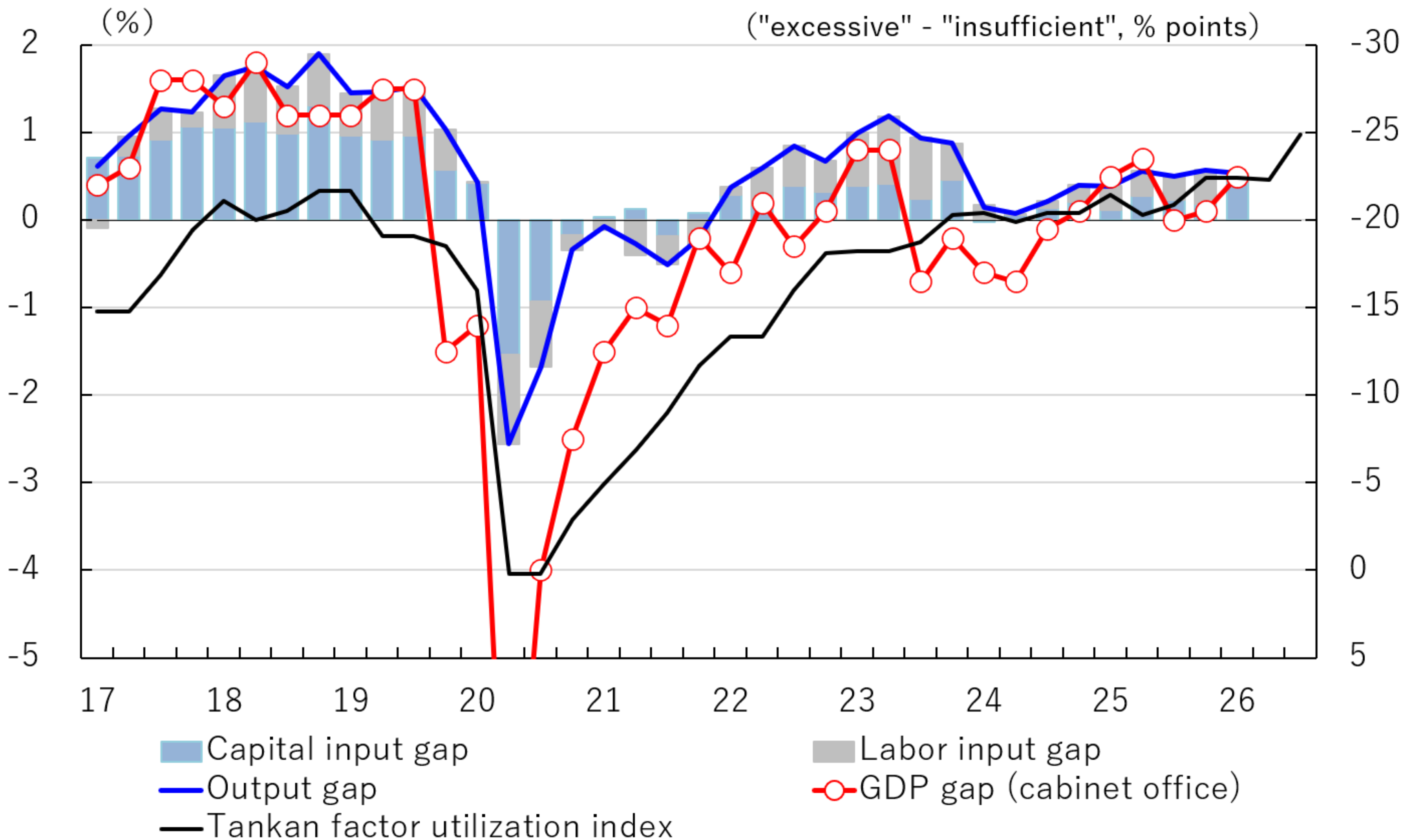
	July MPM
U.S.	economy maintained solid growth on the whole, although some weakness had been seen in part
Europe	economies remained resilient, particularly in domestic demand, although some weakness had been seen in part
China	economy had picked up recently, mainly supported by an increase in exports, although consumption had lacked momentum

■**Summary of Opinions at MPM on July 30 and 31, 2026**

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.

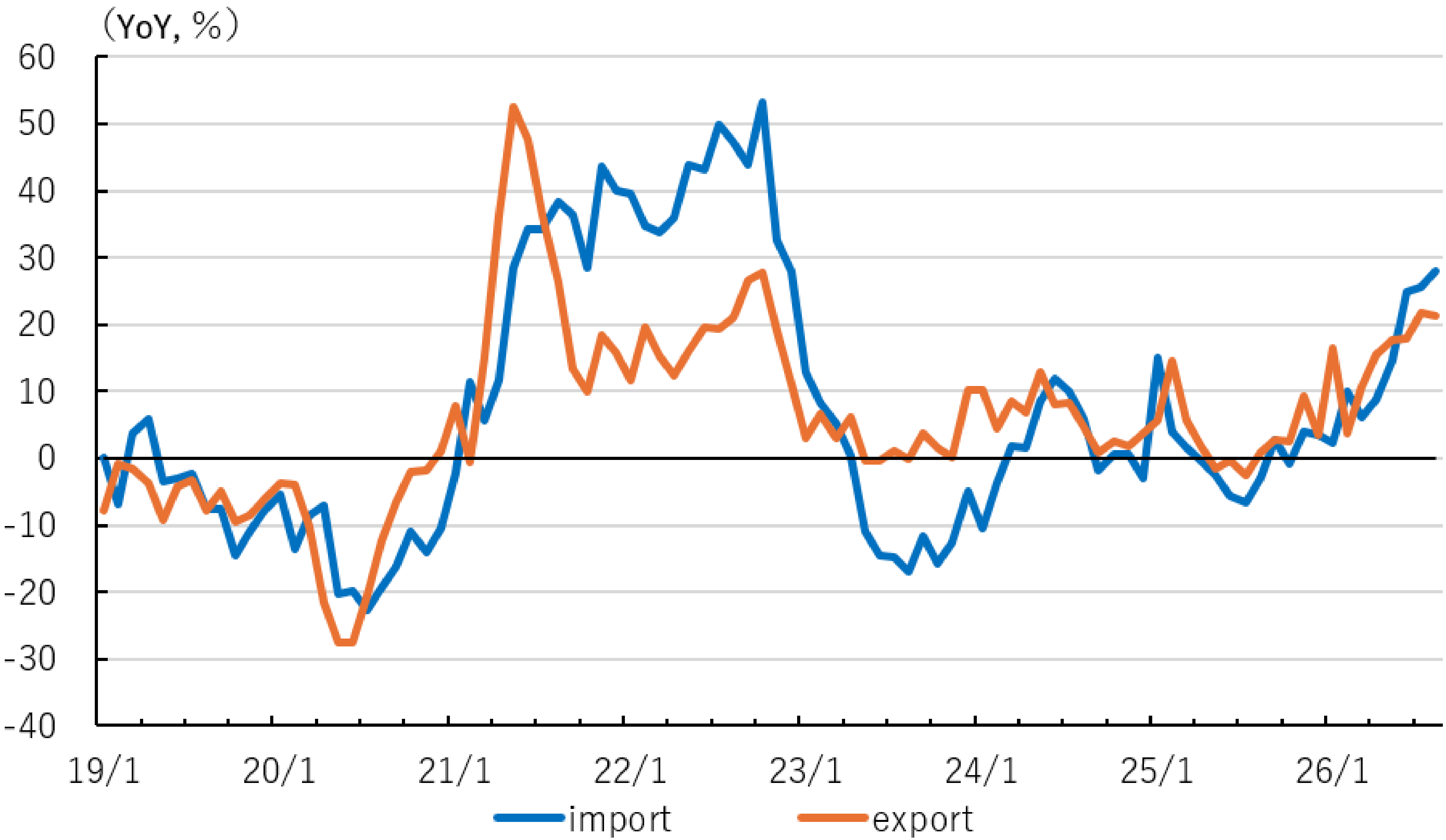
（source） Bank of Japan

Output Gap



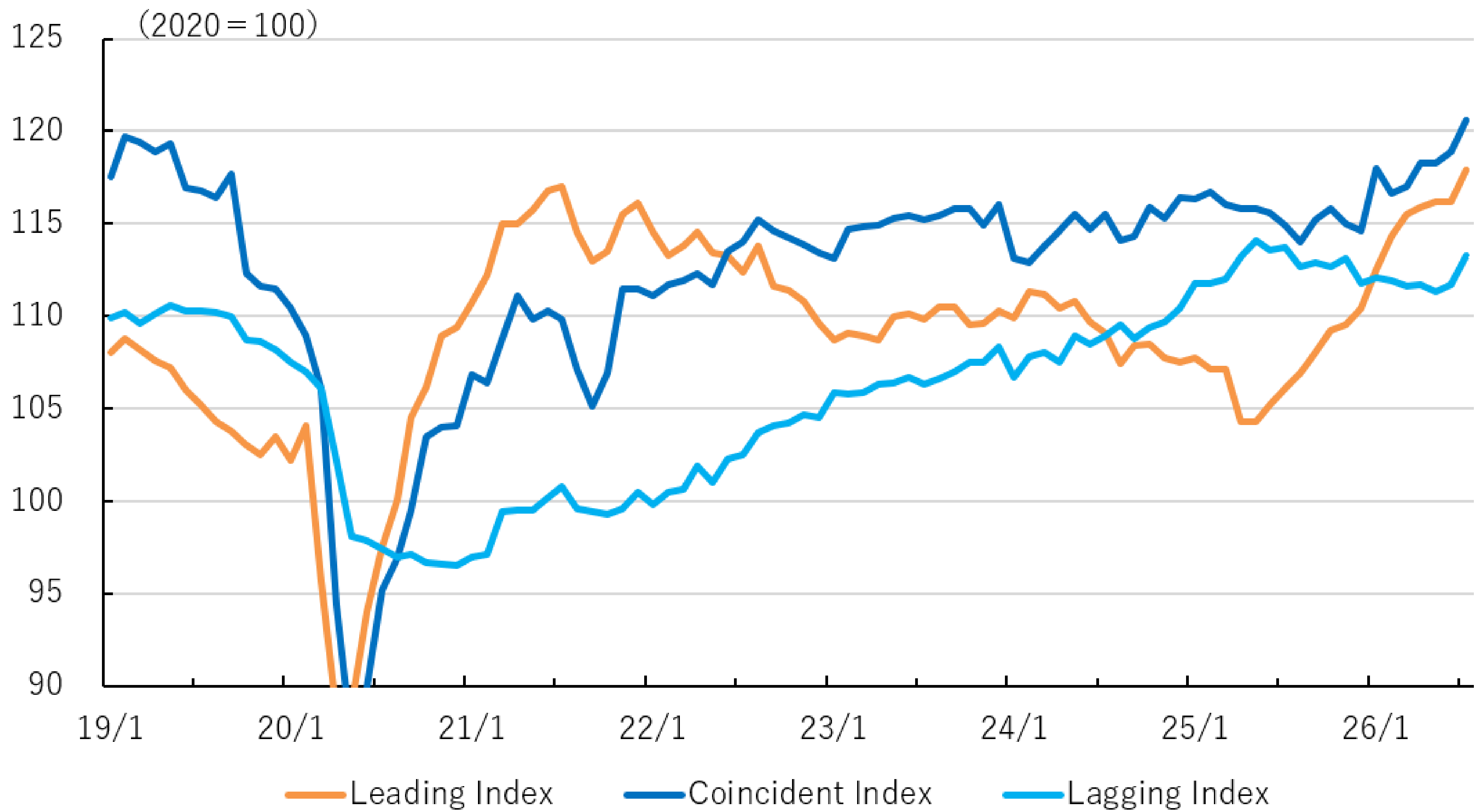
(Source) Bank of Japan, Cabinet office

Trade



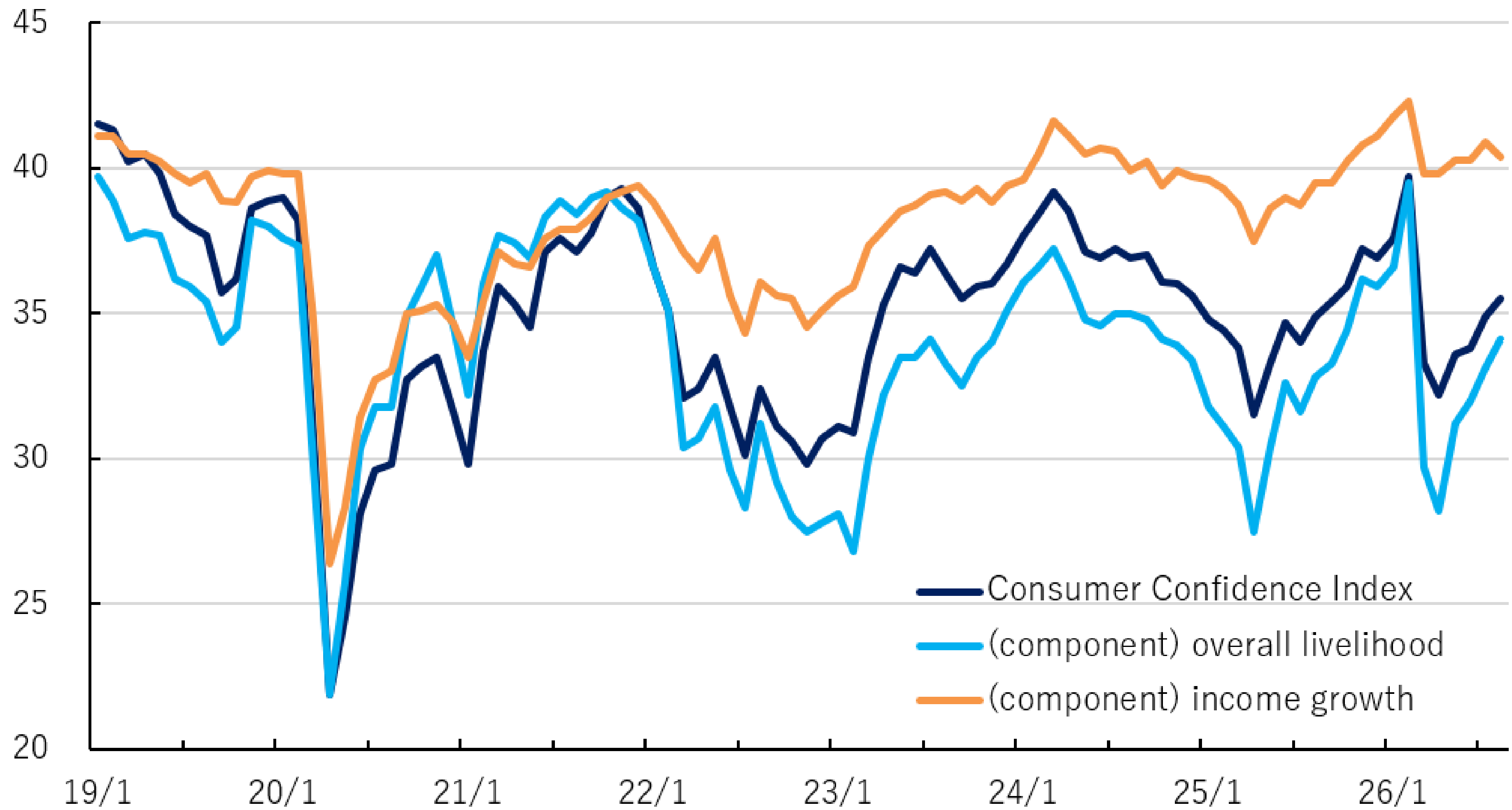
(Source) Ministry of Finance

Indexes of Business Conditions



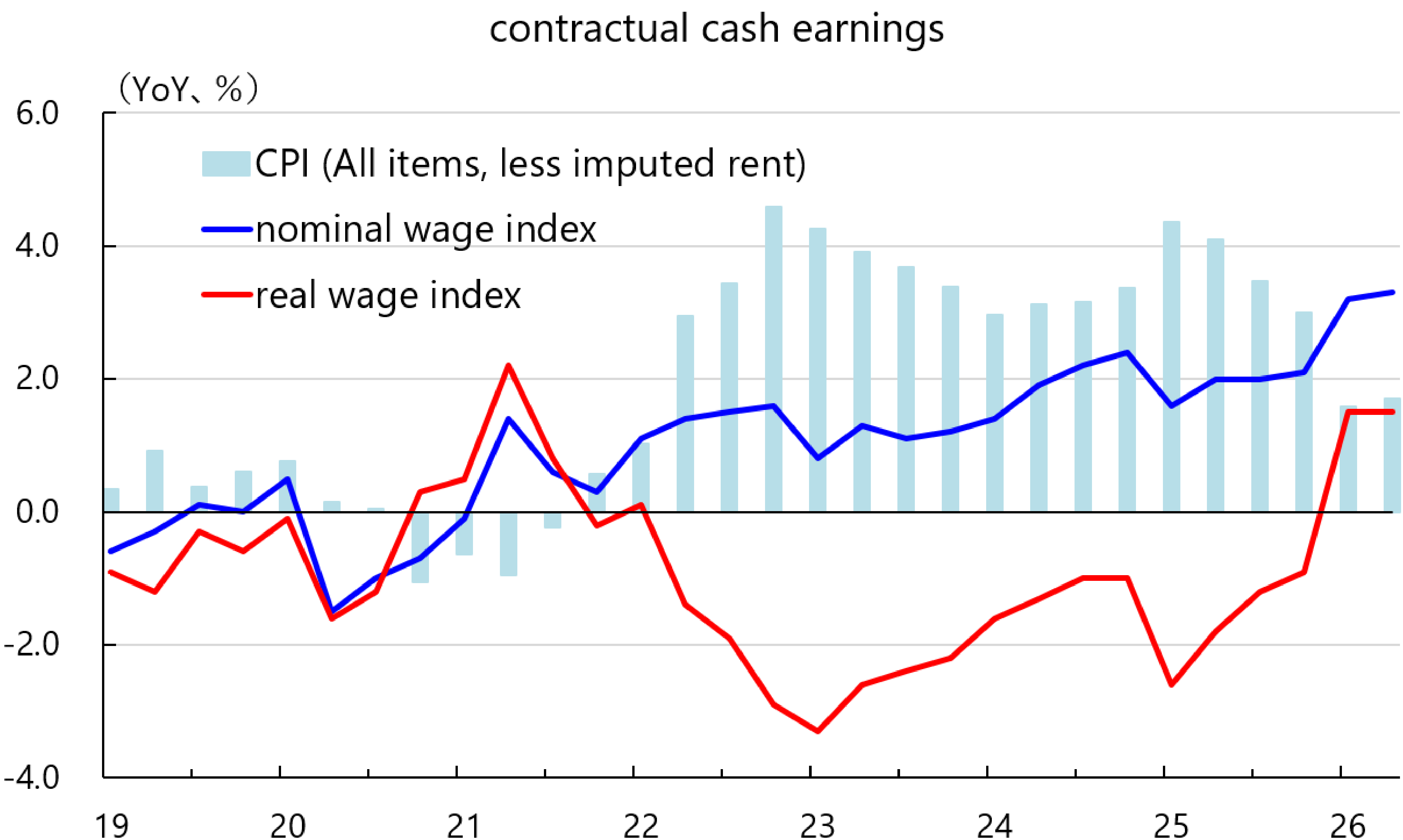
(source) cabinet office

Consumer Confidence



（Source） Cabinet Office

Wage Index



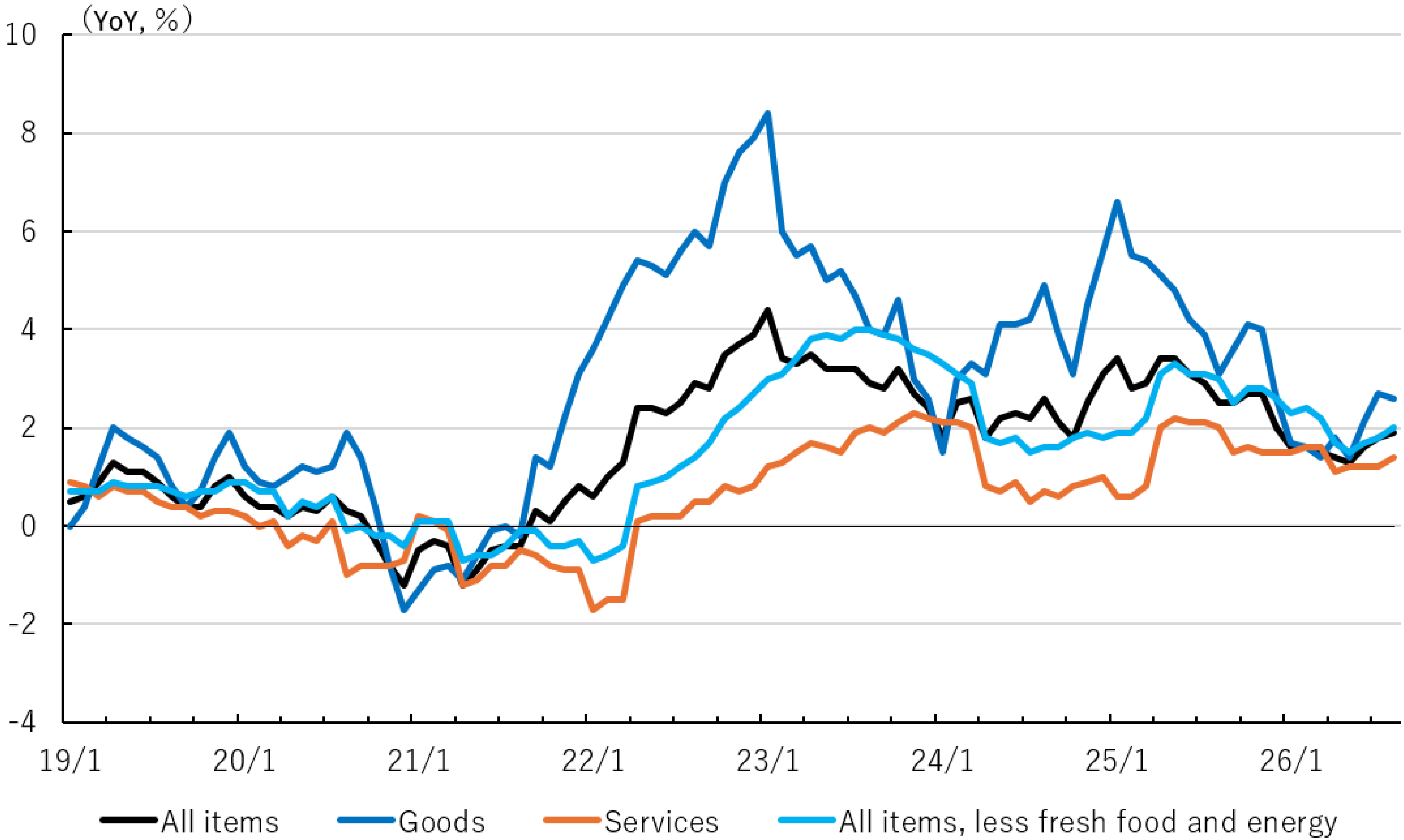
（Source）Ministry of Health, Labour and Welfare (MHLW)

② Outlook

Whether there have been any changes of the economic / price outlook that could affect the terminal rate or the pace of policy interest rate hikes?

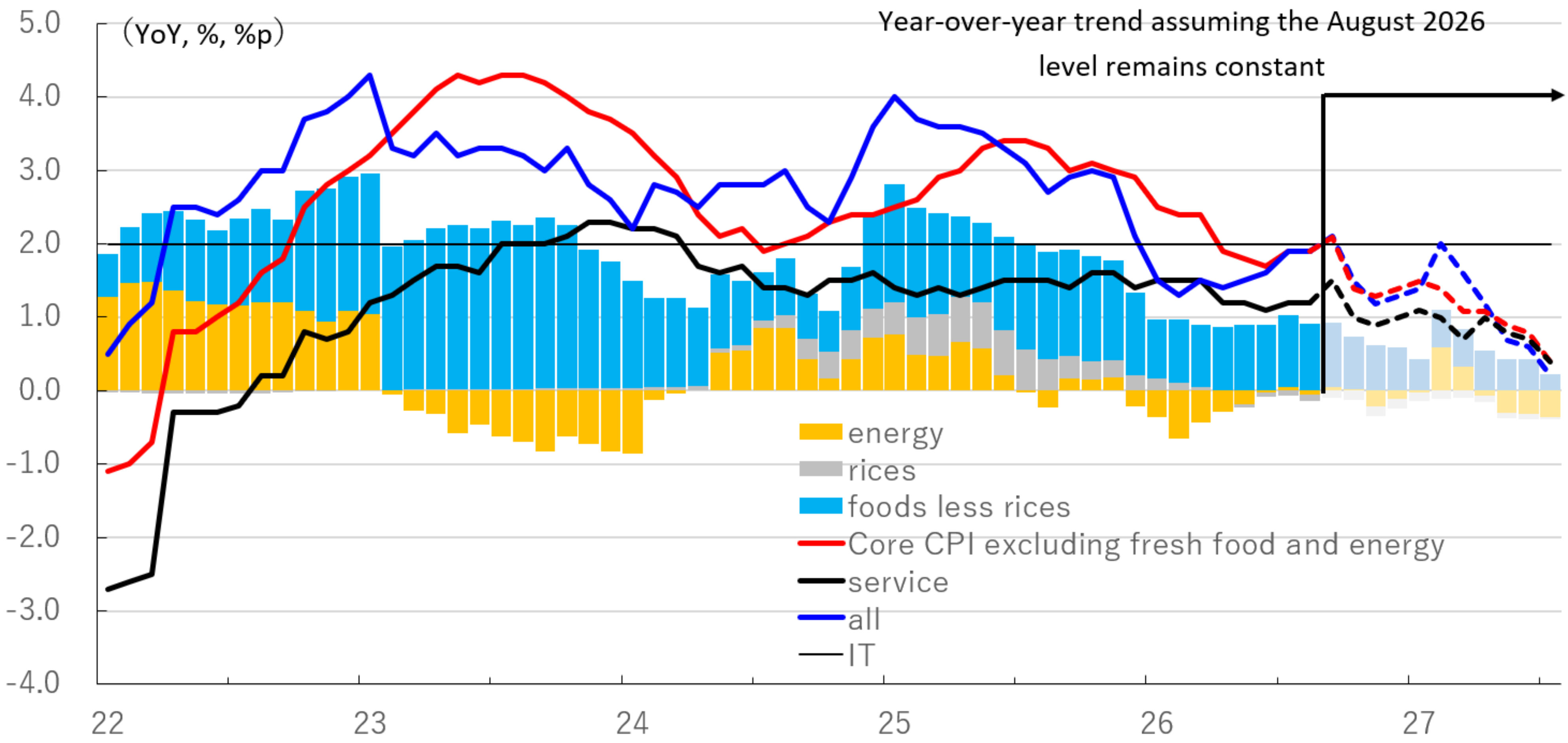
- ✓ No significant changes warranting a revision to the outlook that the economy will gradually grow at a pace above its potential growth rate.
- ✓ No major changes to the price outlook, which sees inflation rising to clearly above 2% from the second half of FY2026 and then moderating toward around 2%. However, the assumption that the effects of higher crude oil prices will wane may need to be revised.
- ✓ **No major revisions are warranted at this point, but uncertainties remain.**

Tokyo-area CPI



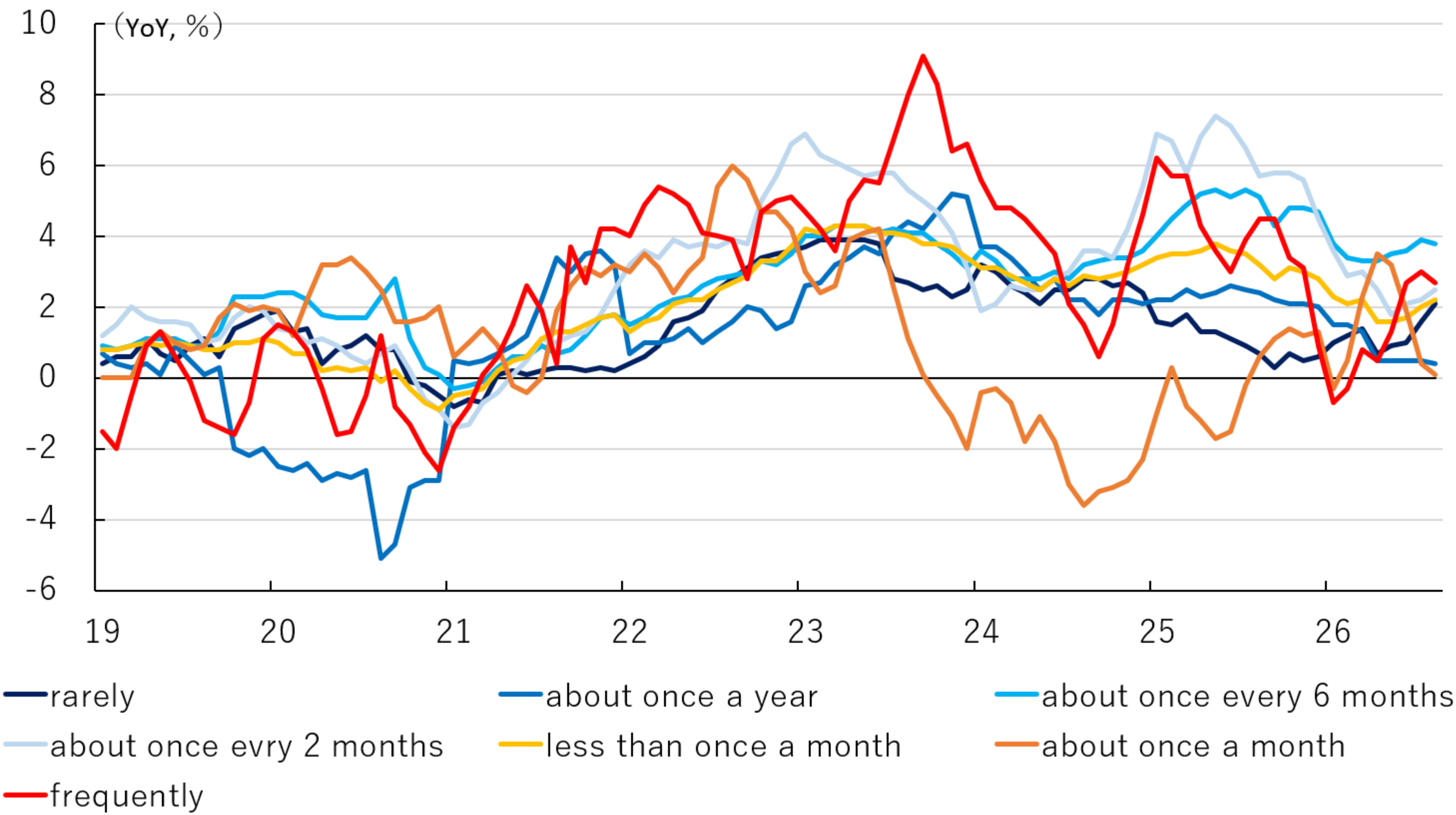
(Source) Ministry of Internal Affairs and Communications (MIC)

CPI



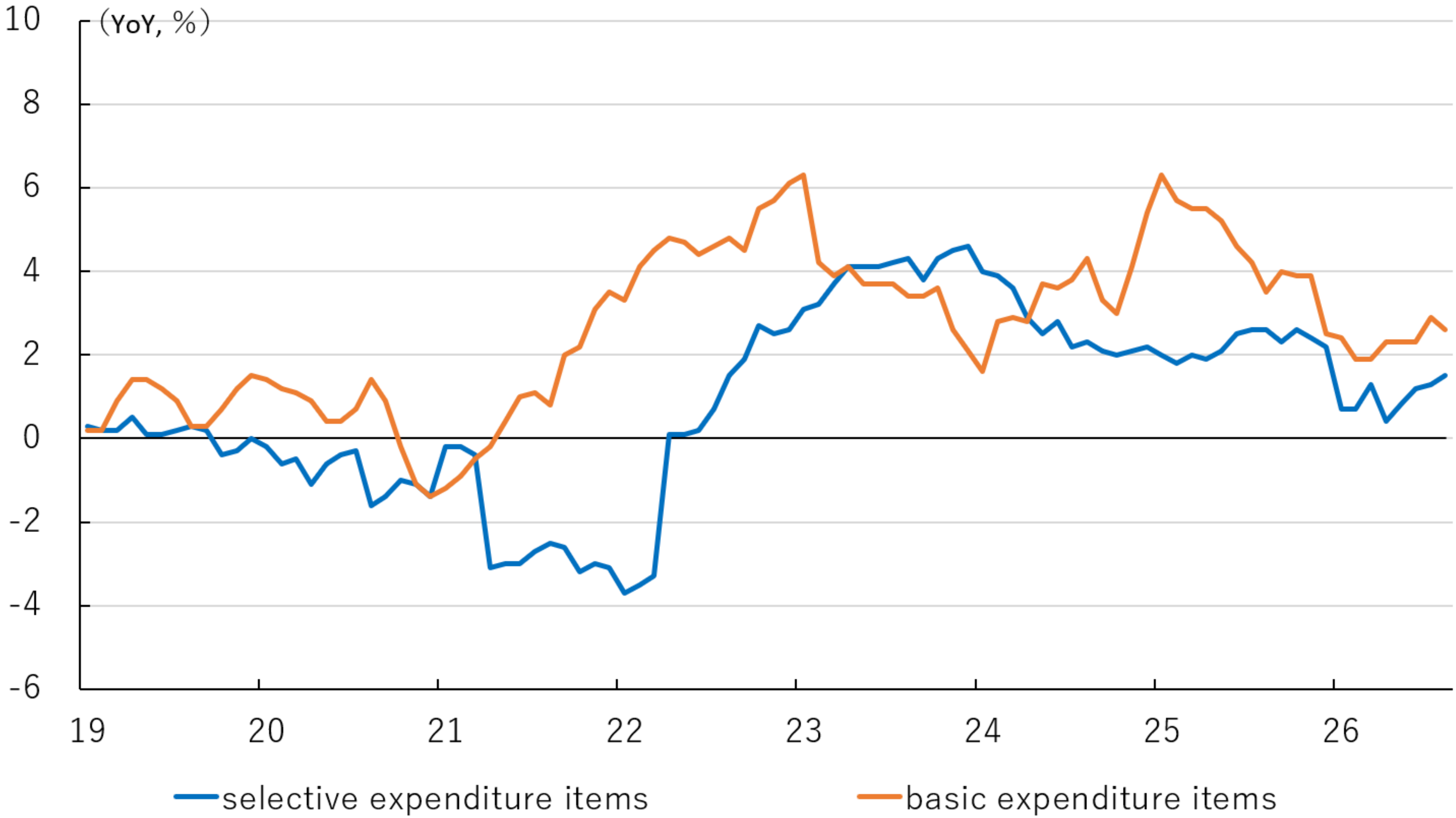
(Source) Ministry of Internal Affairs and Communications (MIC)

CPI by Purchase Frequency



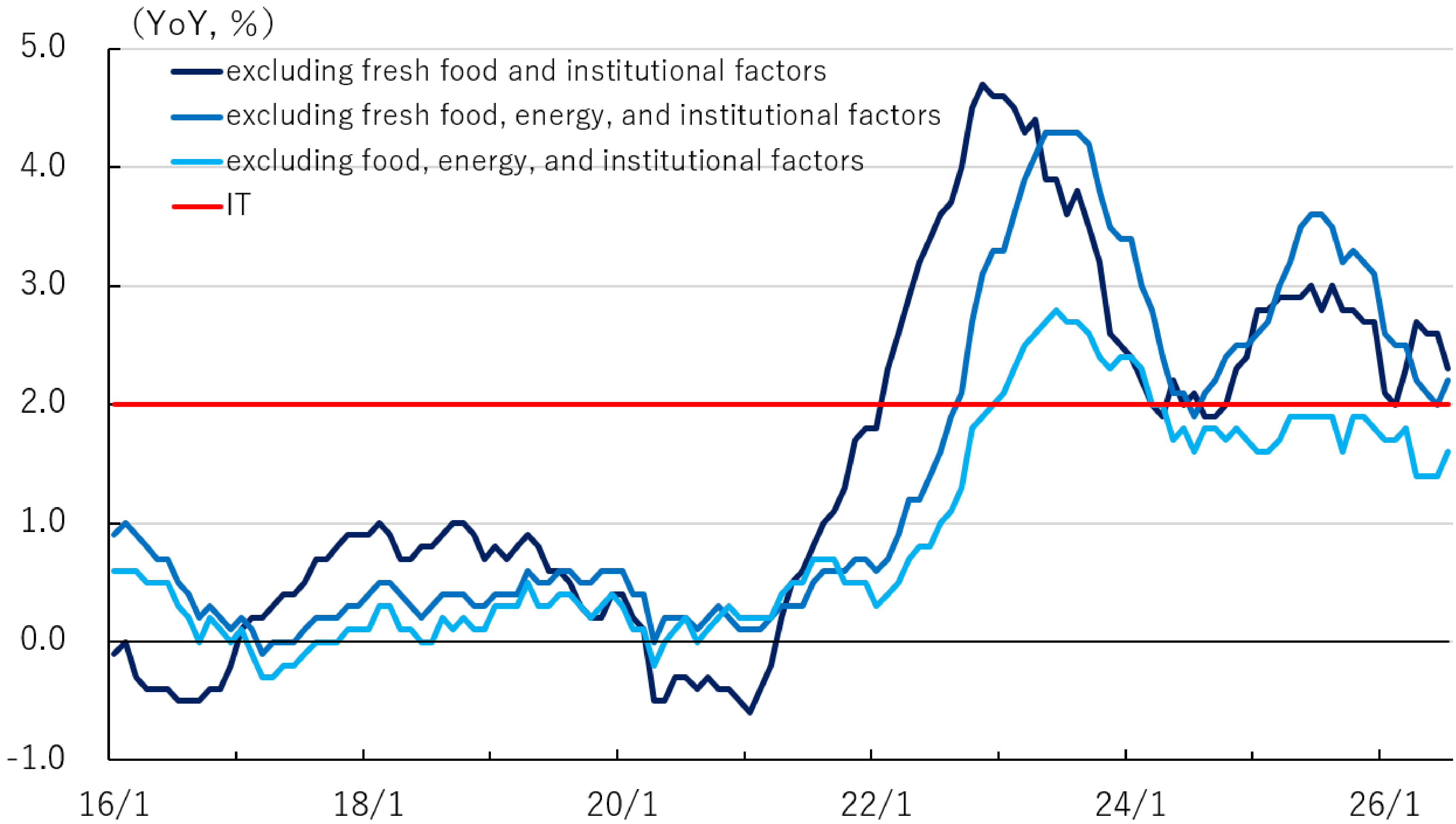
(Source)　Ministry of Internal Affairs and Communications (MIC)

CPI by Expenditure Type



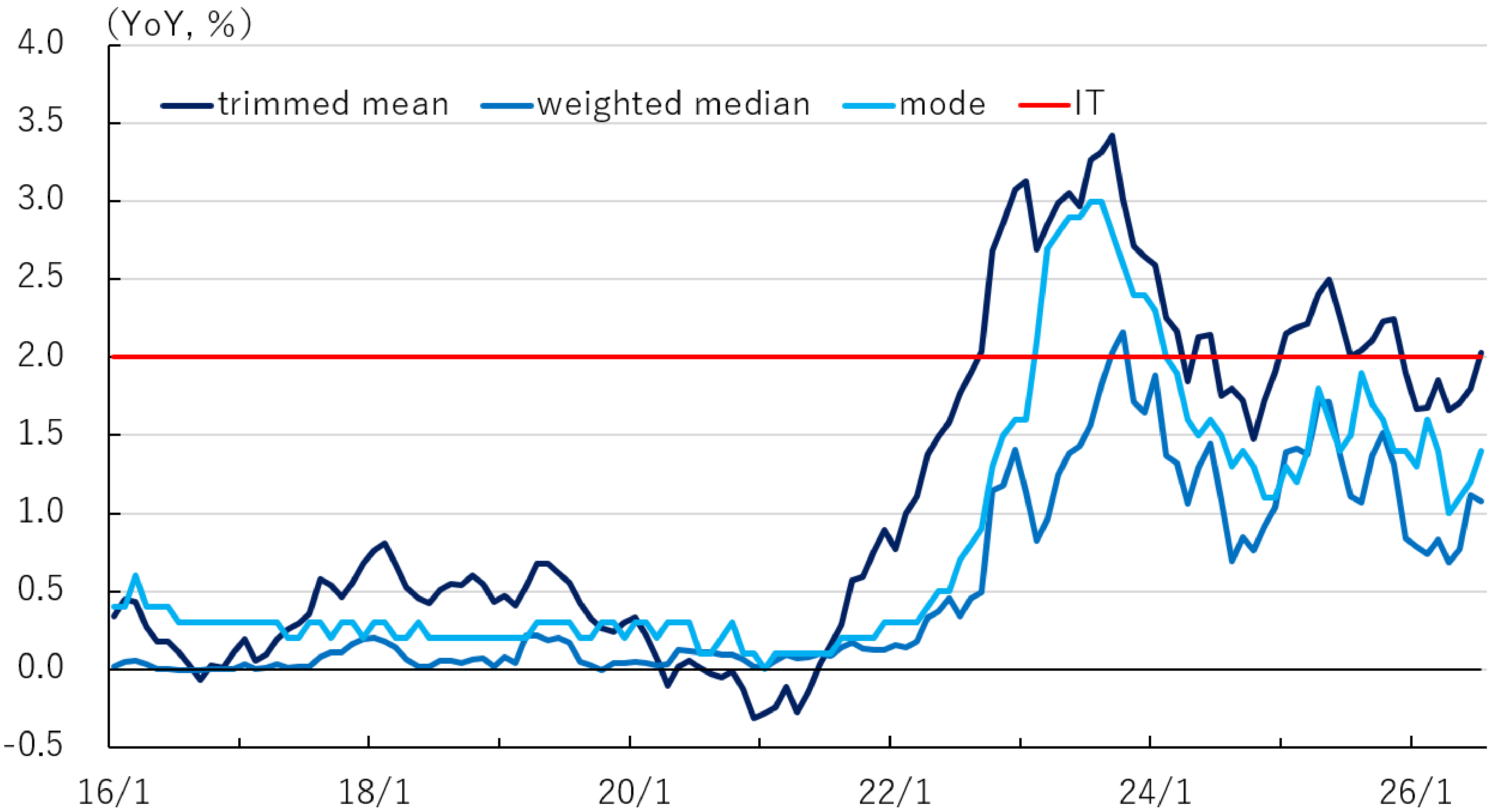
(Source) Ministry of Internal Affairs and Communications (MIC)

Indicators for Core CPI (1)



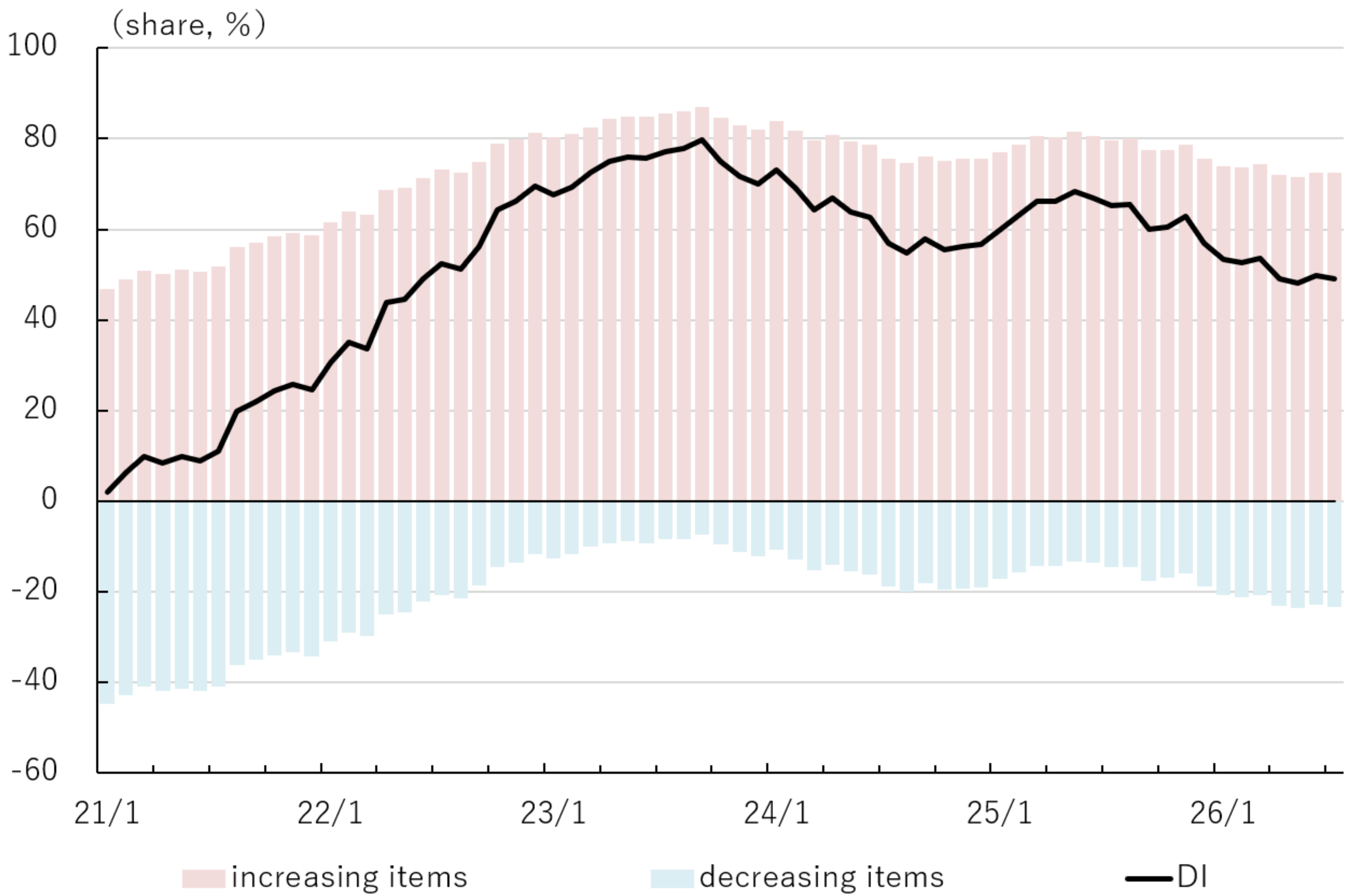
(Source) Bank of Japan

Indicators for Core CPI (2)



(Source) Bank of Japan

Indicators for Core CPI (3)



（Source） Bank of Japan

Supply Shocks and Underlying Inflation

2025 2026 2027

Food price increases (rice, processed foods, etc.)

Household and corporate inflation expectations ↑↑

Corporate pricing ↑

Service prices ↑ (limited)

Underlying inflation ↑ (limited)

Already passed through to underlying inflation = Limited second-round effects

Oil price increases (Middle East tensions)

Household and corporate inflation expectations ↑

Energy-related prices ↑↑

Corporate pricing ↑

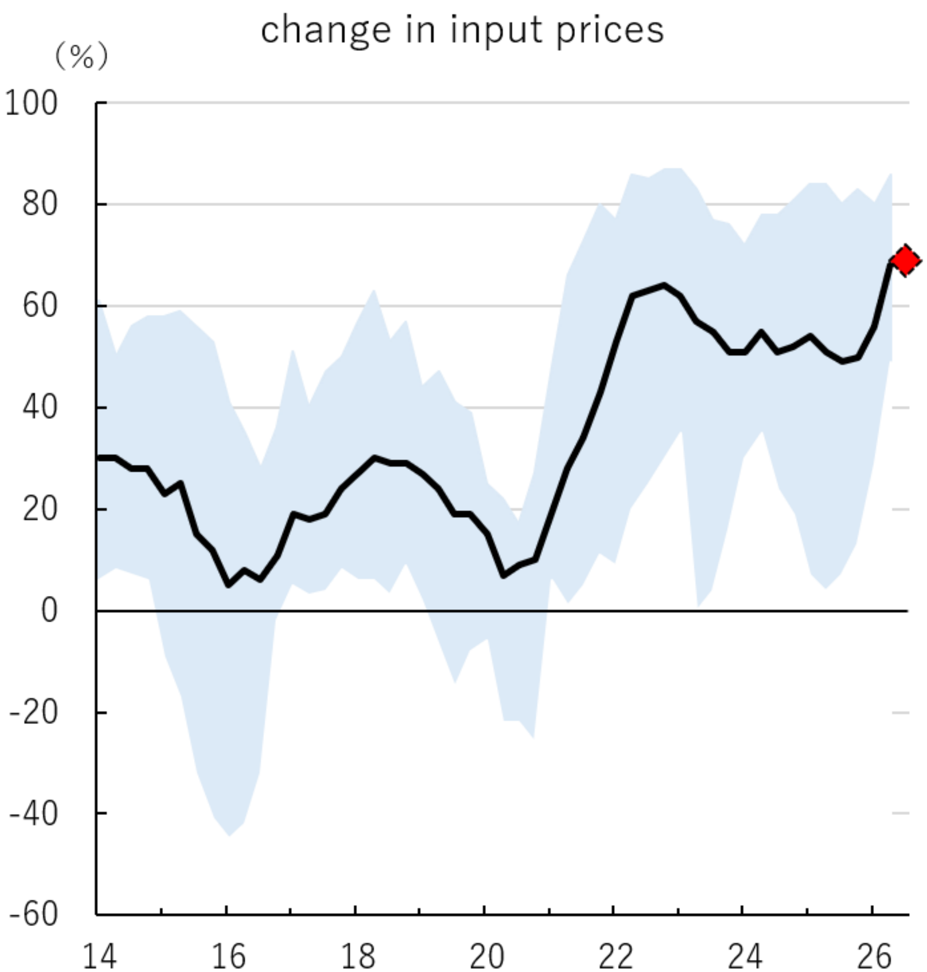
Pass-through to service prices ??

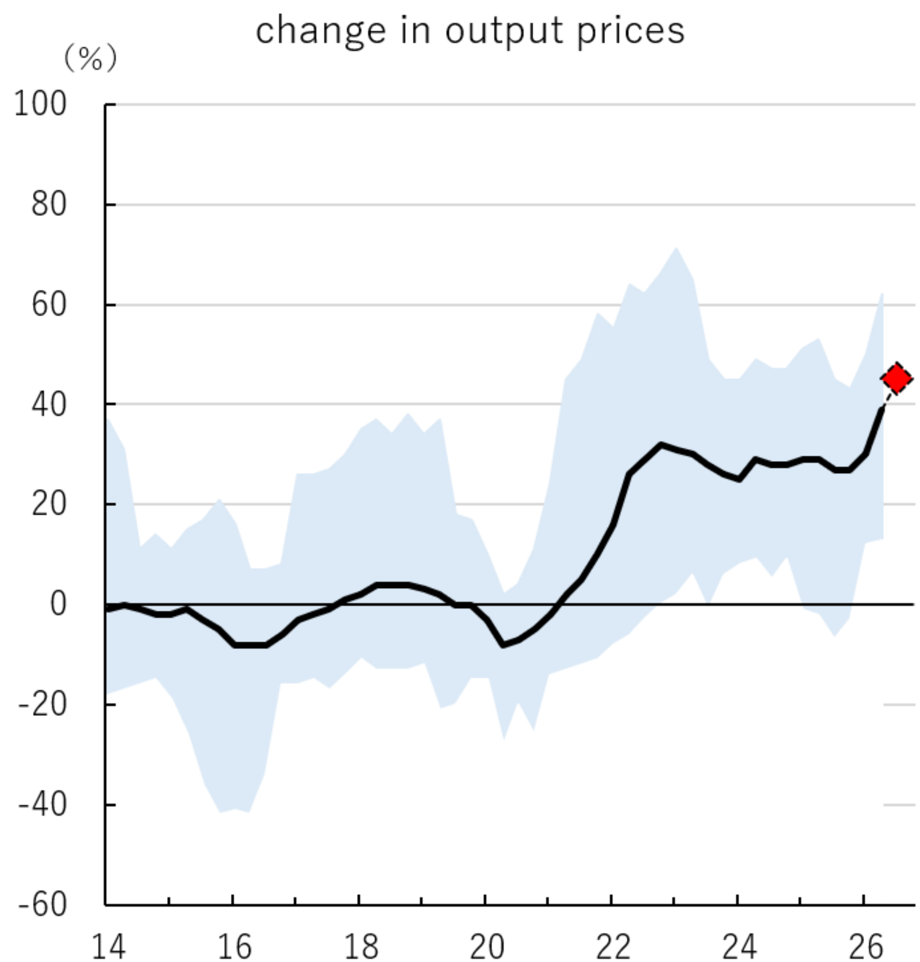
Likely to feed through to underlying inflation = Assessing second-round effects

Higher import prices due to yen depreciation

(Source) NRI

Corporate Pricing Behavior





(Source) Bank of Japan

③ Risks

What is the assessment of the three risk factors identified in July MPM?

- ✓ Factor1: Situation in Middle East is still uncertain
- ✓ Factor2: Developments in foreign exchange rates are relatively stable
- ✓ Factor3: Global AI-related demand is still strong

As of September, there are some concerns about upside risks to inflation, primarily driven by factor 1. In terms of the magnitude of the risks, the ranking may be 1 > 2 > 3. However, it cannot be said that the risks associated with Factors 2 and 3 have diminished.

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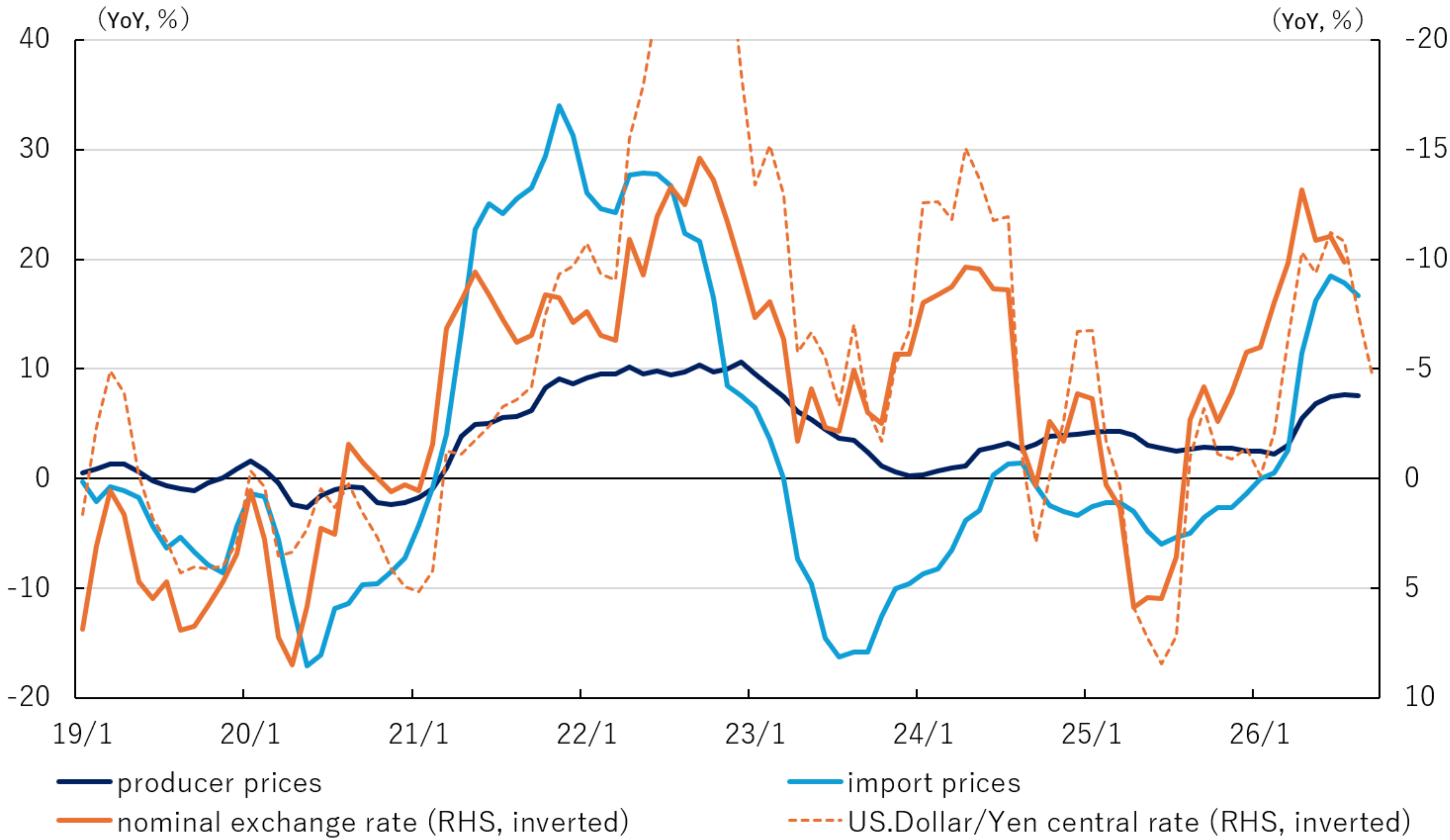
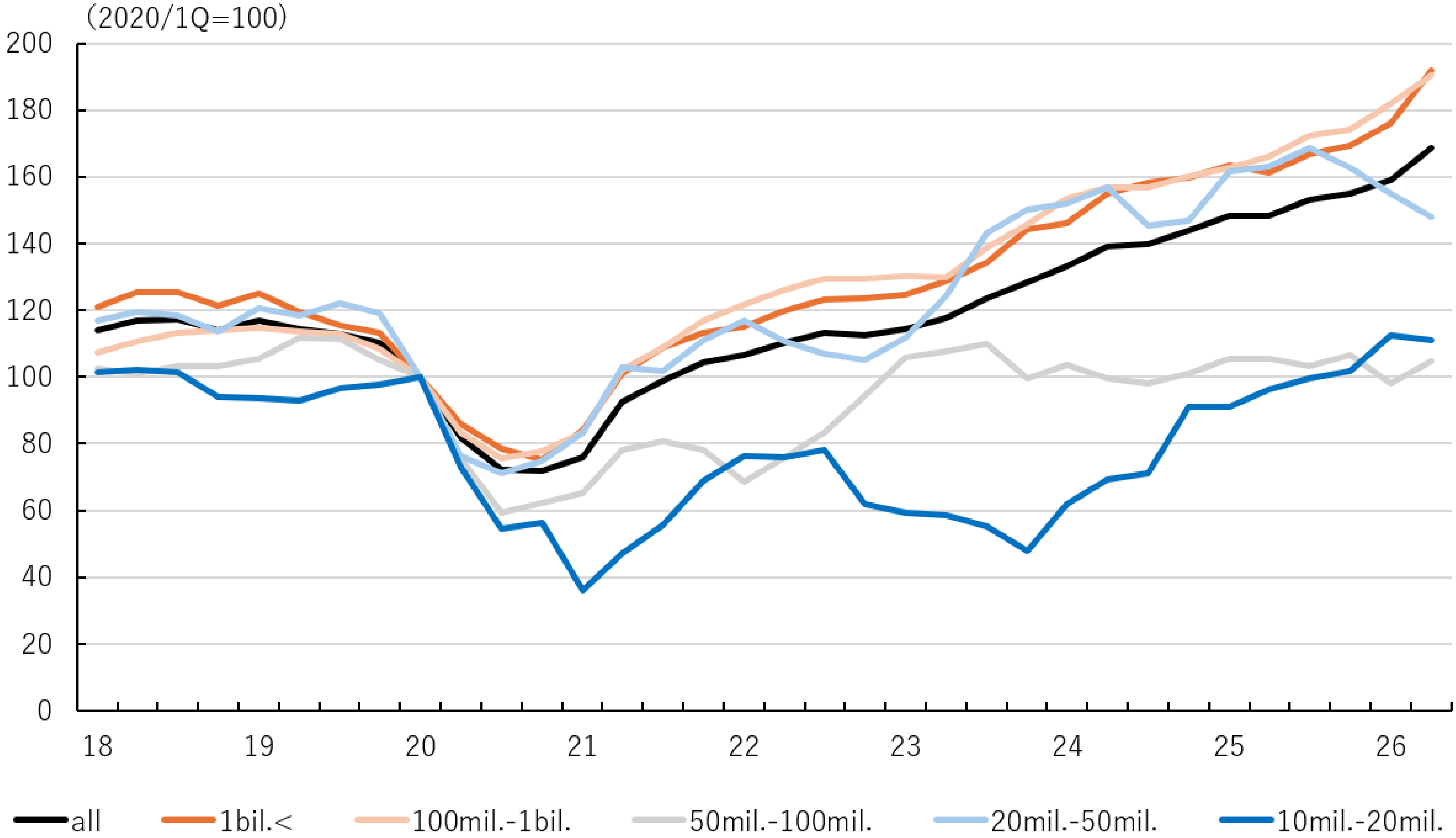
Exchange Rate and Import Prices



（Source）Bank of Japan

Operating Profit by Company Size



(Source) Ministry of Finance (MOF)

Review of Governor Ueda’s Press Conference

Review (1)

Backward looking	Forward looking
● **Overseas Developments** ・The Middle East situation has worsened somewhat and remains uncertain. Despite downward pressure, overseas economies are supported by rising AI-related demand and government measures. Crude oil prices have risen. ・Exchange rate movements are passed on to a range of consumer prices through interfirm transactions.	● **Overseas Developments** ・Higher crude oil prices are likely to spread to a broad range of prices. Overseas central banks' actions affect Japan through various channels, including exchange rates, and warrant close attention.
● **Financial Conditions** ・Financial conditions remain accommodative, although the degree of accommodation is gradually diminishing: (1) interest rates are considerably tighter; (2) bank lending remains somewhat accommodative; and (3) asset markets (stock prices and exchange rates) remain somewhat accommodative. While (2) and (3) may need to tighten, the side effects of abrupt tightening warrant attention.	● **Financial Conditions** ・Transmission from the policy rate to the real economy is difficult to assess, given its indirect nature and time lags. The degree of monetary accommodation is a useful gauge but needs to be monitored carefully.

※The Governor's remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

Review (2)

Backward looking	Forward looking
● **Prices and Inflation Expectations** ・Inflation expectations have continued to rise. ・Underlying inflation is now quite close to the target. ・Following the first wave of food price increases, a second wave stemming from the situation in Iran is emerging. ● **Government and Fiscal Policy** ・The Bank continues to work closely with the Takaichi administration.	● **Prices and Inflation Expectations** ・Inflation is expected to be broadly consistent with the price stability target from the second half of fiscal 2026 through fiscal 2027. ・It will take some time to confirm that underlying inflation has become firmly anchored. ・If the second wave stemming from the situation in Iran persists, its impact on producer and consumer prices will warrant close attention. ● **Government and Fiscal Policy** No remarks.

※The Governor's remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

Review (3)

Backward looking	Forward looking
● **Corporate Activity and Exports** ・Overseas contacts say AI-related demand has remained stronger than expected in recent months, though it has not accelerated. ● **Private Consumption** ・Members favoring no change cited weak domestic demand in the GDP breakdown. Others viewed the weakness as temporary or technical. ● **Labor Market** ・Wage data show solid growth, reflecting the spring wage negotiations.	● **Corporate Activity and Exports** No remarks. ● **Private Consumption** No remarks. ● **Labor Market** No remarks.

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Comments on Policy Management (1)

- **Terminal Rate**

・We do not comment on short-term market moves.
・The terminal rate is determined by the medium- to long-term nominal neutral rate and, over shorter horizons, by economic and price conditions and overseas interest rate developments.
・Since the nominal neutral rate cannot be identified precisely, the terminal rate cannot be fixed either. It will become clear only ex post, as policy is adjusted as needed based on incoming data.

- **Pace of Rate Hikes**

・The economy remains partly weak, due in part to the Middle East situation, but is recovering moderately. Domestic producer prices are rising strongly, consumer prices are increasing moderately, and inflation expectations continue to rise.
・These developments are broadly in line with the baseline outlook. Against this background, and taking account of monetary accommodation and various risks, we decided to raise rates.
・The pace will be determined by examining the likelihood of the outlook being realized and the risks around it, including the effects of the Middle East situation, AI-related demand, and exchange rates. When underlying inflation was below 2 percent, policy needed to push it up; now that it has moved closer to 2 percent, the aim is to anchor it there. We see this as a change in the policy phase.
・We are mindful of upside risks to prices and the possible adverse effects on the economy thereafter, but we do not have any specific pace in mind.

※The Governor's remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

Comments on Policy Management (2)

● **Rate Hike Decision**

・The reasons for hiking in September rather than July are: (1) a slight worsening of upside inflation risks stemming from the Middle East; (2) feedback from overseas that AI-related demand, though not accelerating, has remained stronger than expected in recent months; and (3) regarding underlying inflation, some medium- to long-term inflation expectations have stayed elevated after rising, and wage data show solid growth reflecting spring negotiations—all of which are crucial for the stable achievement of the price target.

・Regarding the pass-through of corporate prices to consumer prices, various information and past patterns suggested a broadening effect. This morning's CPI confirmed price increases in expected items, demonstrating this "broadening to the consumer stage."

・We examined the impact of AI, exchange rates, and crude oil prices on the certainty and risks of the outlook.

・Risk management involves both upside and downside risks. While we have pursued gradual rate hikes out of consideration for downside risks, we now need to raise rates with greater attention to upside risks.

・We neither rule out nor pre-commit to specific policy adjustments, including consecutive rate hikes. However, large or consecutive rate hikes are typically deployed in situations where the risk of inflation overshooting the target significantly is high or already materializing. We are preemptively adjusting policy to prevent such a scenario.

※The Governor’s remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

Comments on Policy Management (3)

- **Timing of Target Achievement**

While underlying inflation is quite close (or getting closer) to the target, the view is maintained that it will reach a level broadly consistent with the price stability target from the second half of fiscal 2026 through fiscal 2027. It will take some time to confirm that this is firmly anchored.
The spring wage negotiations in fiscal 2027 will be important for confirming this anchoring.
The shift in the policy phase will also be reviewed in the October Outlook Report.

- **Relationship with Foreign Exchange**

Monetary policy is not conducted as a tool to control exchange rates.

- **Policy Operations**

Regarding future MPM (Monetary Policy Meeting) schedules, the lag until implementation will also be taken into consideration.

- **Communication**

We have no choice but to operate taking the impact of external comments on the market as a given.

- **Reduction of JGB Purchases**

There has been no recent analysis suggesting that supply-and-demand factors have had a significant impact on the rise in long-term interest rates.

※The Governor's remarks on this page have been paraphrased by NRI and translated into English on a simplified basis.

Key Takeaways for the October MPM

Key Takeaways for the October MPM

**How Should We Assess the Impact of Previous Rate Hikes?
How Will Their Effects Emerge Going Forward?**

- ✓ The effects of rate hikes typically take six months to a year and a half to feed through to the economy.
- ✓ The policy rate has reached the lower end of the neutral rate range.
- ✓ Real interest rates have moved into positive territory, particularly at the longer end of the curve.
- ✓ For those holding assets, higher interest rates lead to increased interest income.
- ✓ For those carrying liabilities, higher interest rates lead to increased interest payment burdens.

**Accommodative financial conditions are now broadly approaching neutral.
The economy is entering a phase in which the effects of the rate hikes are likely to become increasingly evident.**

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Transmission Mechanism and Time Lags of Interest Rate Hikes

1 day

① Financial Markets
→ Government bond yields, exchange rates, stock prices

1 month

② Financial Institutions
→ Lending rates, outstanding loans, banks' lending standards

③ Households
→ Mortgage rates, interest payments, interest income on deposits

④ Corporates
→ Borrowing costs, interest payments

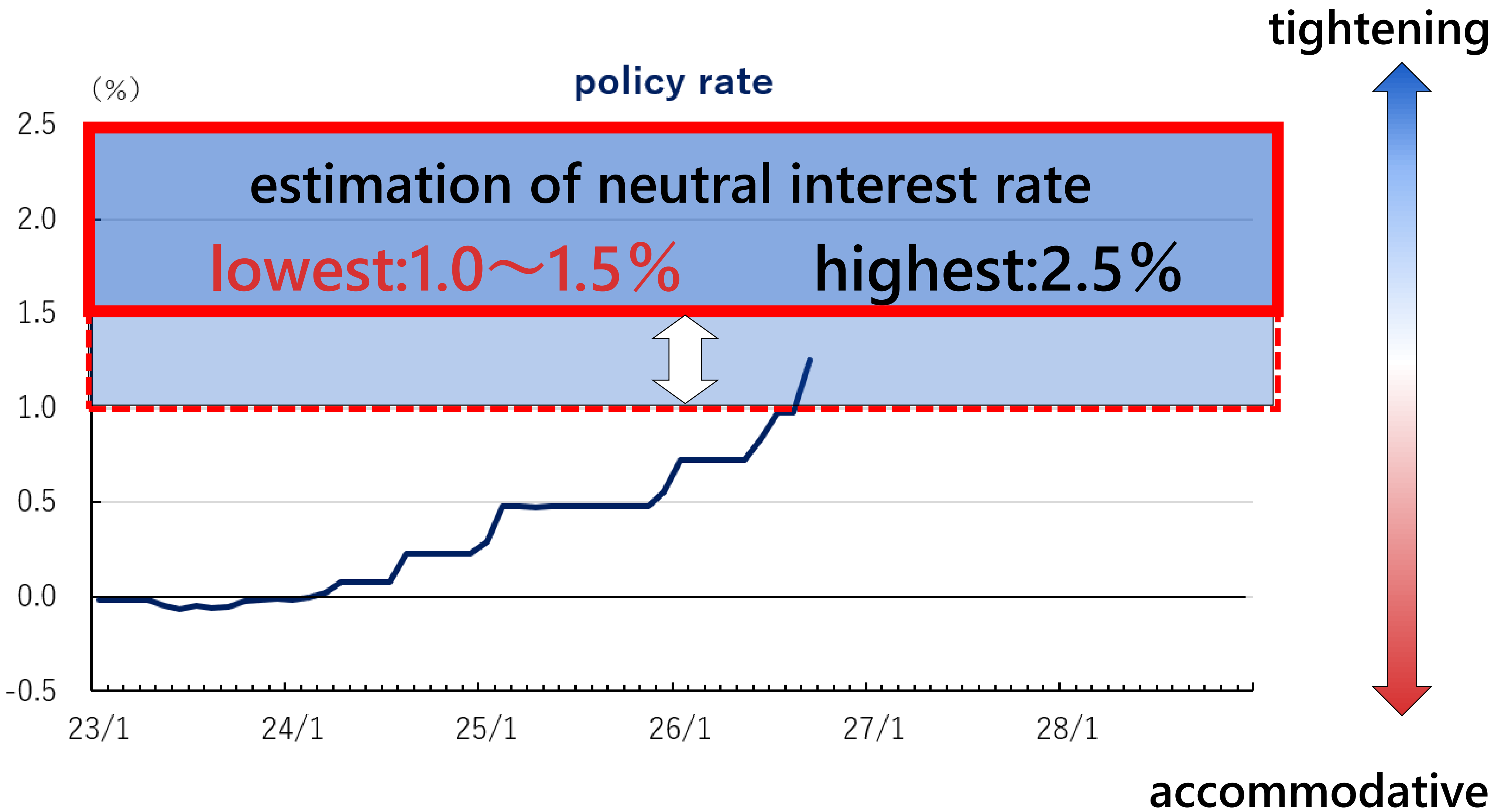
⑤ Real Economy
→ Consumption, residential investment, business investment, GDP, output gap

18 months

⑥ Prices
→ CPI (service prices), employment and wages

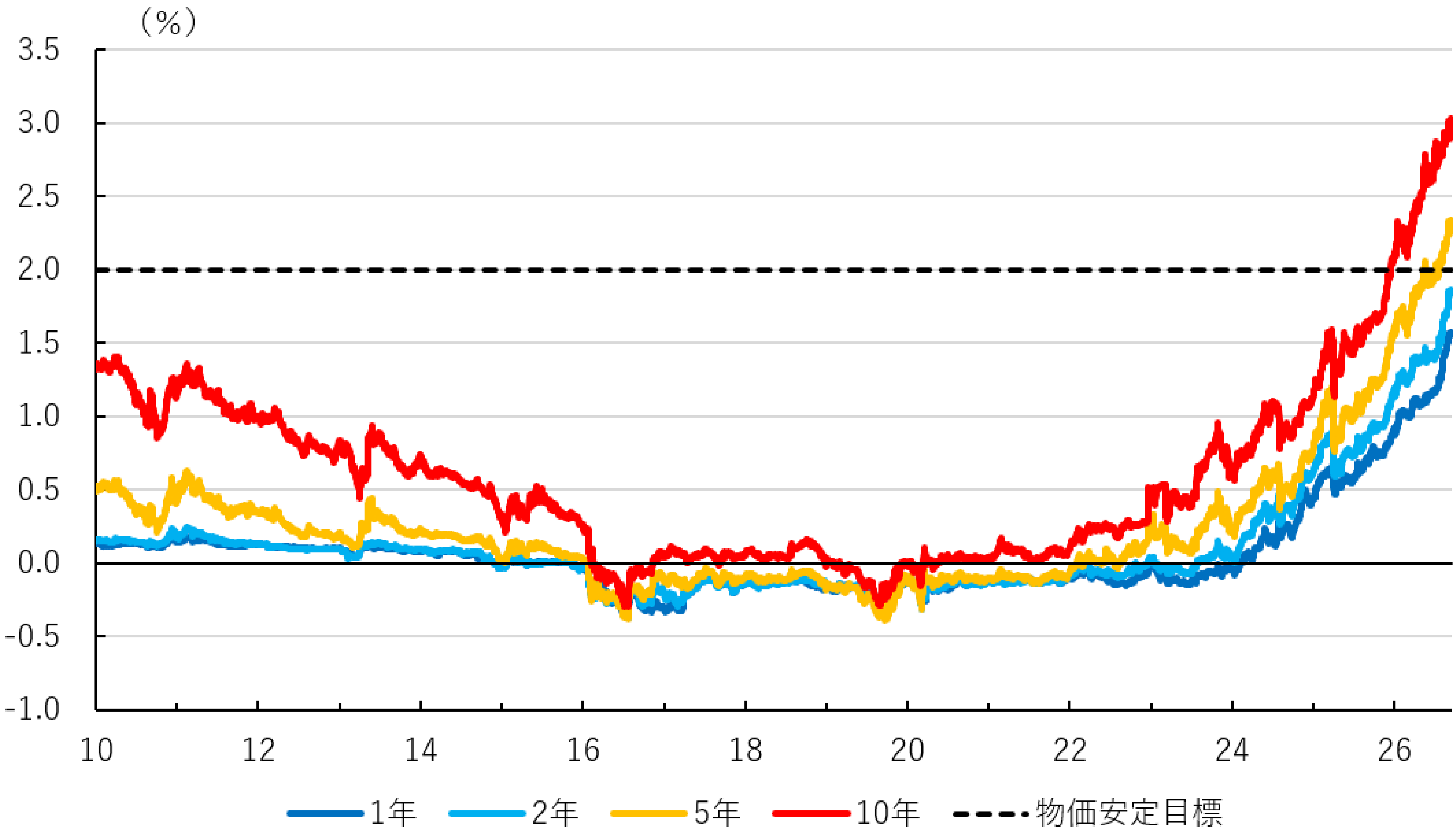
（Source）NRI

Neutral Interest Rate



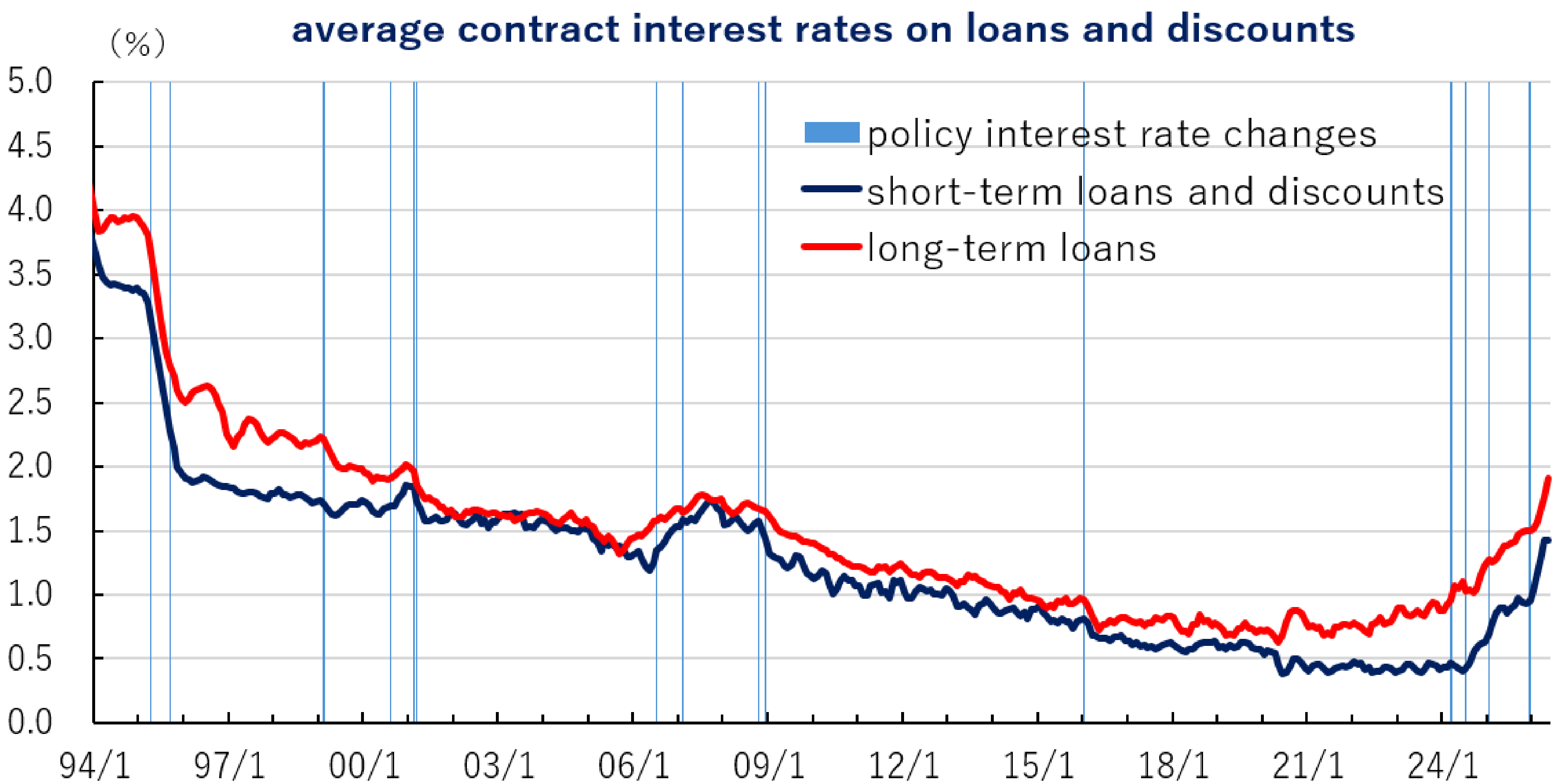
(source) NRI

Gov. Bond Yields



（Source）Ministry of Finance (MOF)

Bank lending rates on new loans



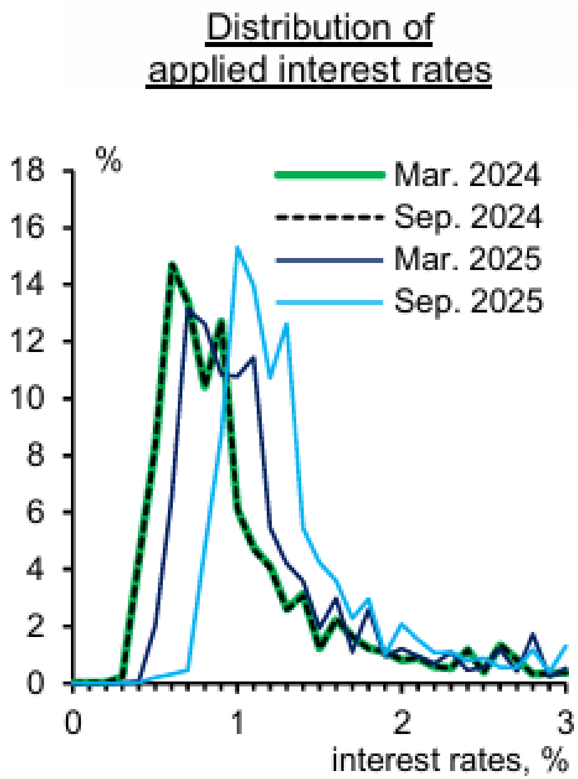
(Source) Bank of Japan

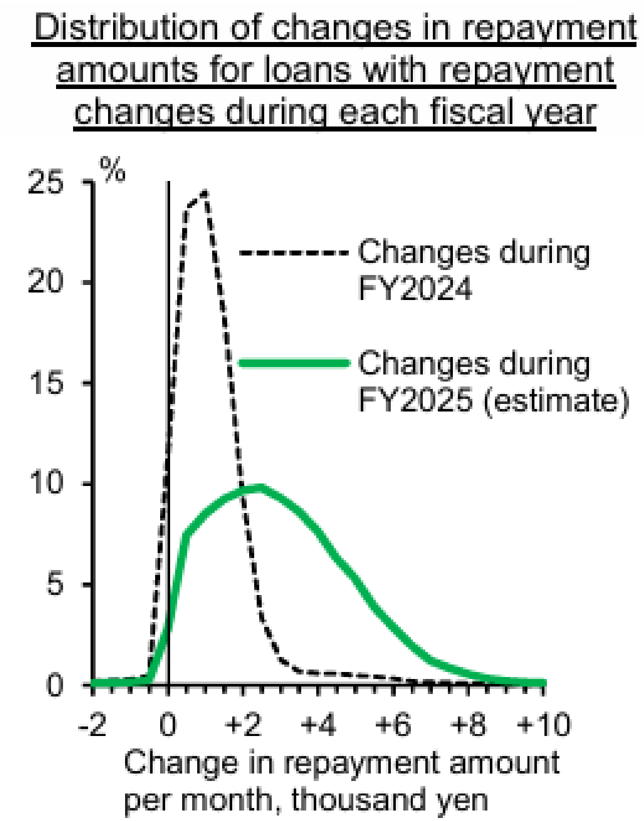
Mortgage Loan Repayment

"Following the policy rate hike in July 2024, the applied interest rates on floating-rate housing loans, which account for a majority of housing loans, rose by 0.15 percentage points for many loans in the period through December 2024, and, following the hike in January 2025, by another 0.25 percentage points in the period through June 2025. **Rates are expected to rise further going forward as a result of the policy rate hike in December 2025.** …in fiscal 2024, the increase in monthly repayments of many floating rate housing loans that experienced revisions in repayment amounts was generally about **1,000 to 3,000 yen**. In fiscal 2025, however, …monthly **repayments increased by around 4,000 to 6,000 yen**"

(Source) Bank of Japan

Applied interest rates and changes in repayment amounts for floating-rate housing loans





Note: The data cover floating-rate housing loans issued by regional banks I that remained on the books of the sample banks from March 2024 to September 2025. The figures for "Changes during 2024" aggregate loans where the repayment amounts differ between March 2024 and March 2025. The figures for "Changes during 2025 (estimate)" are estimates based on data as of the end of September 2025, assuming that the "5-year rule" is applied to all loans.

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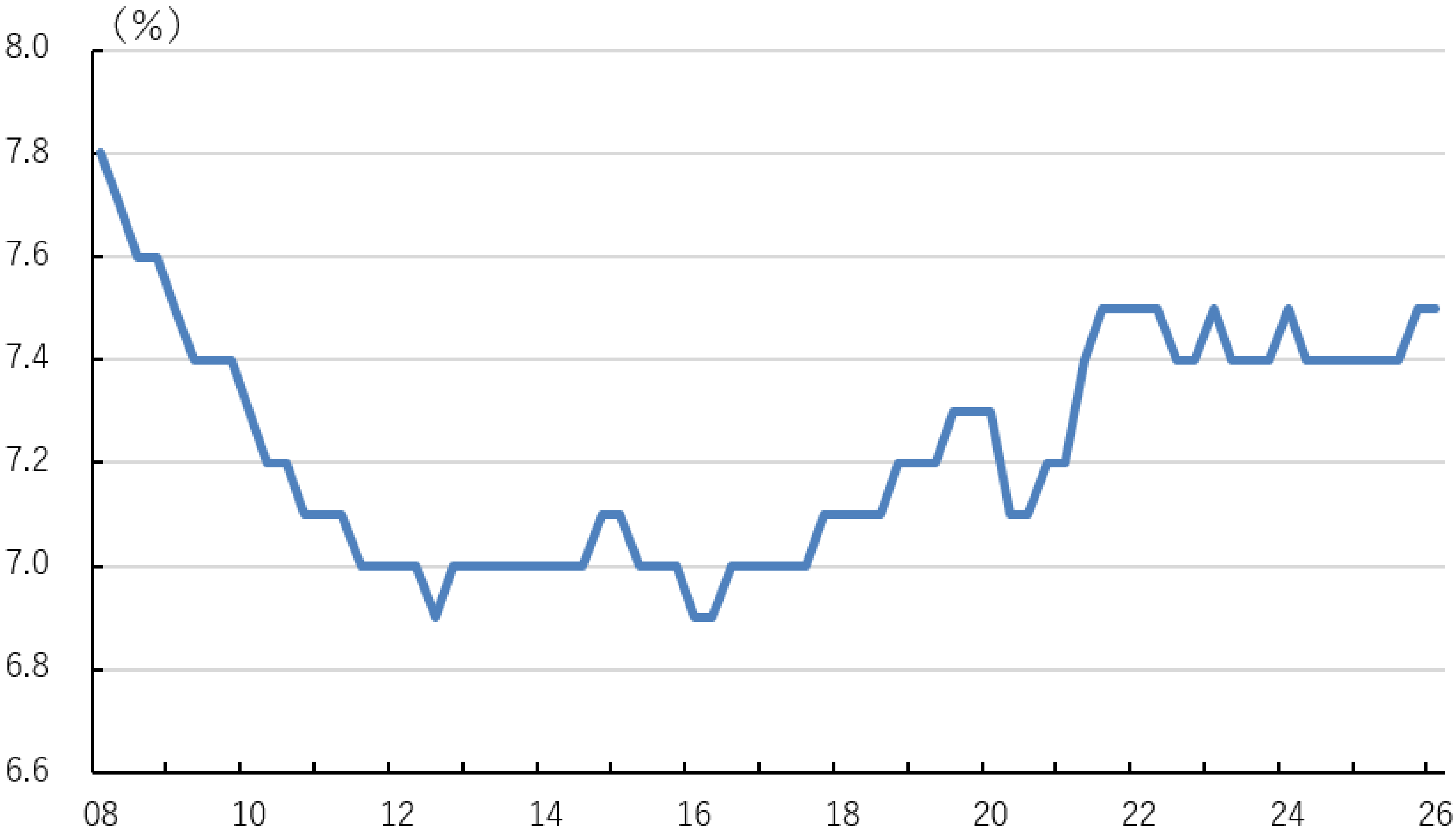
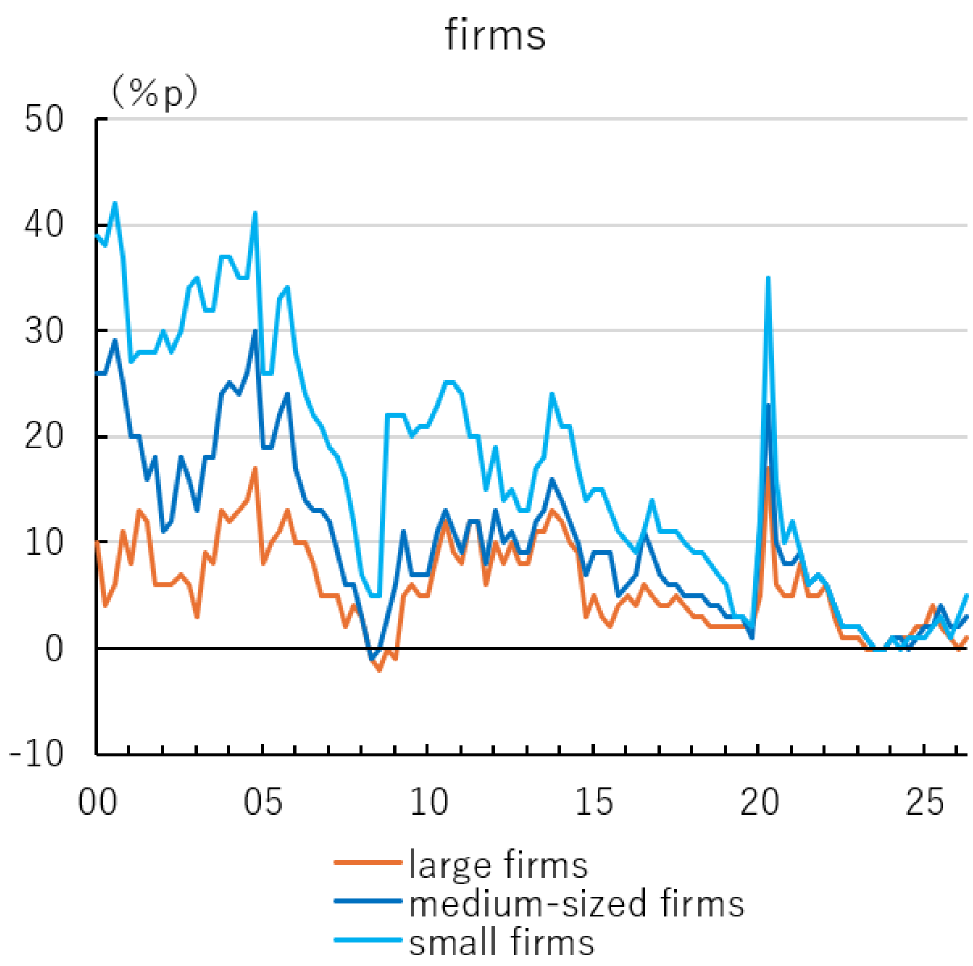
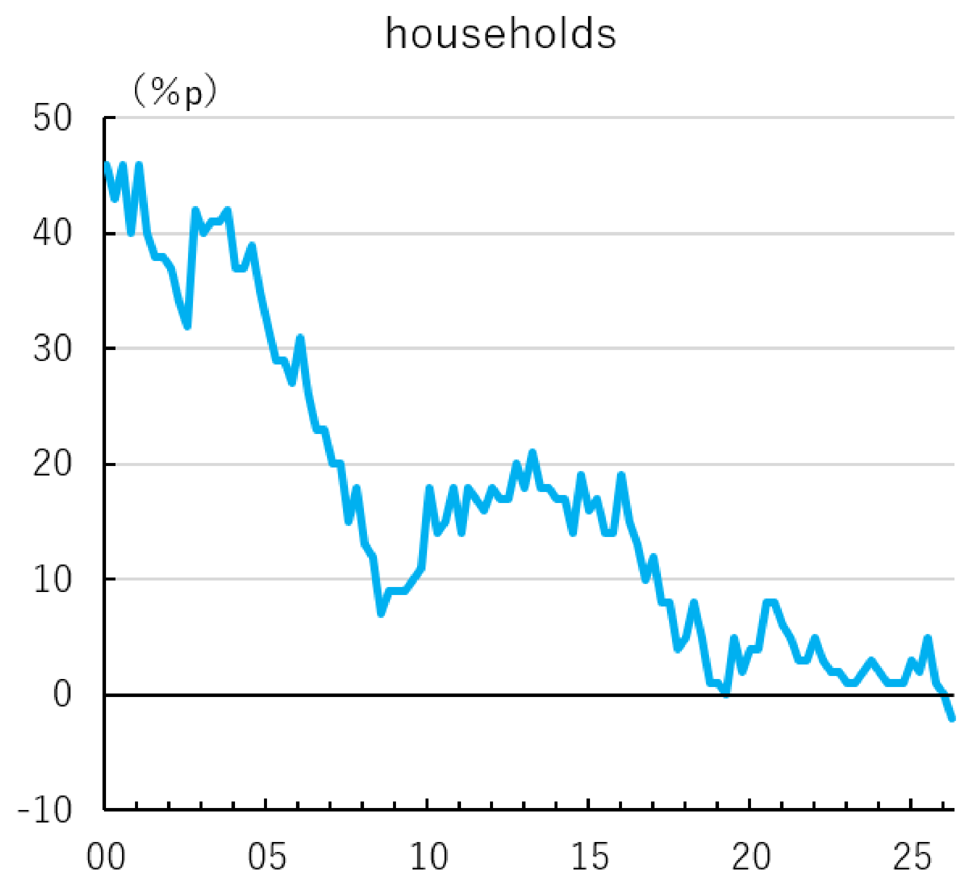
Households Debt Service Ratio



（Source）BIS

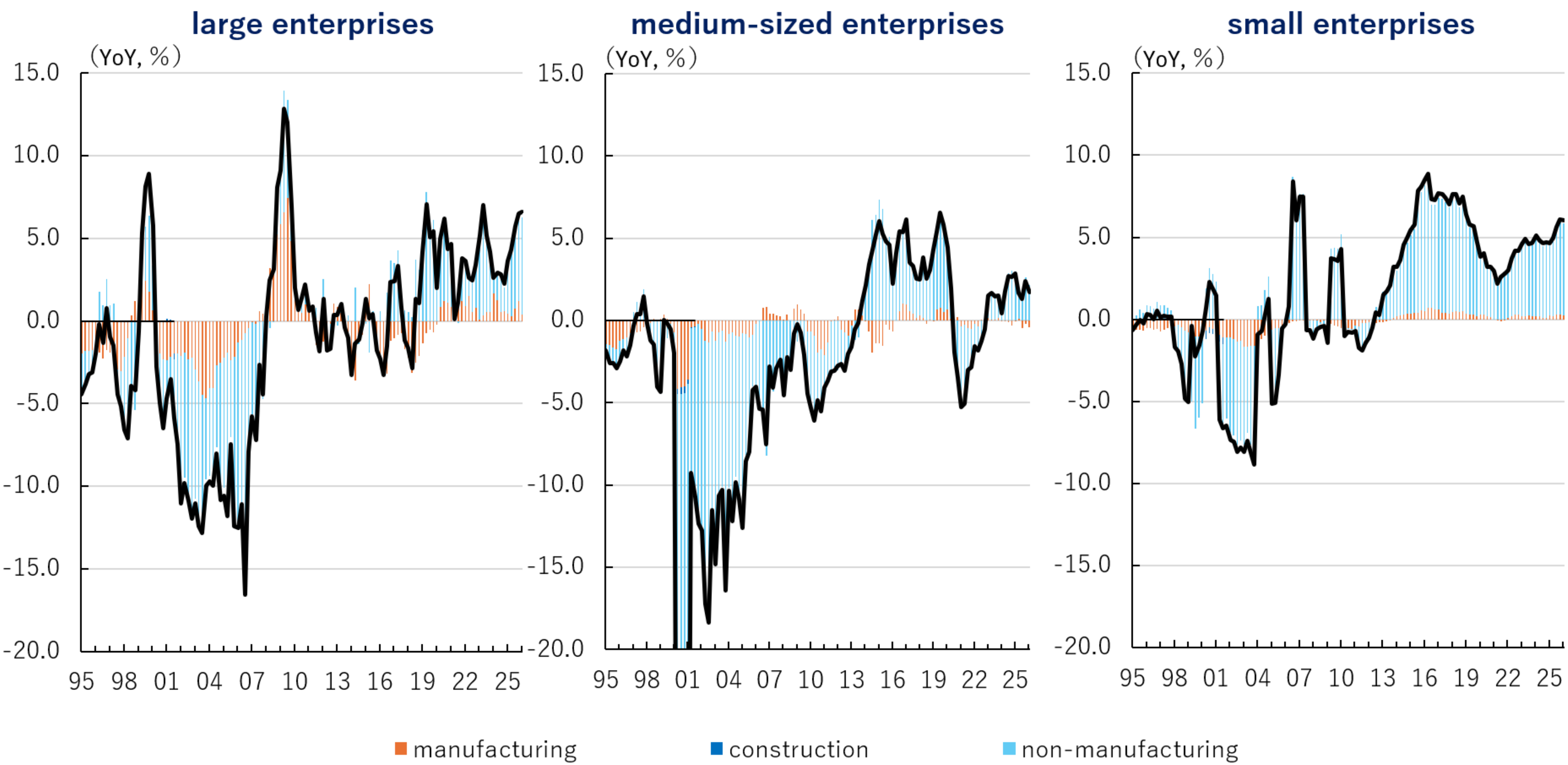
DI for Credit Standards by FI





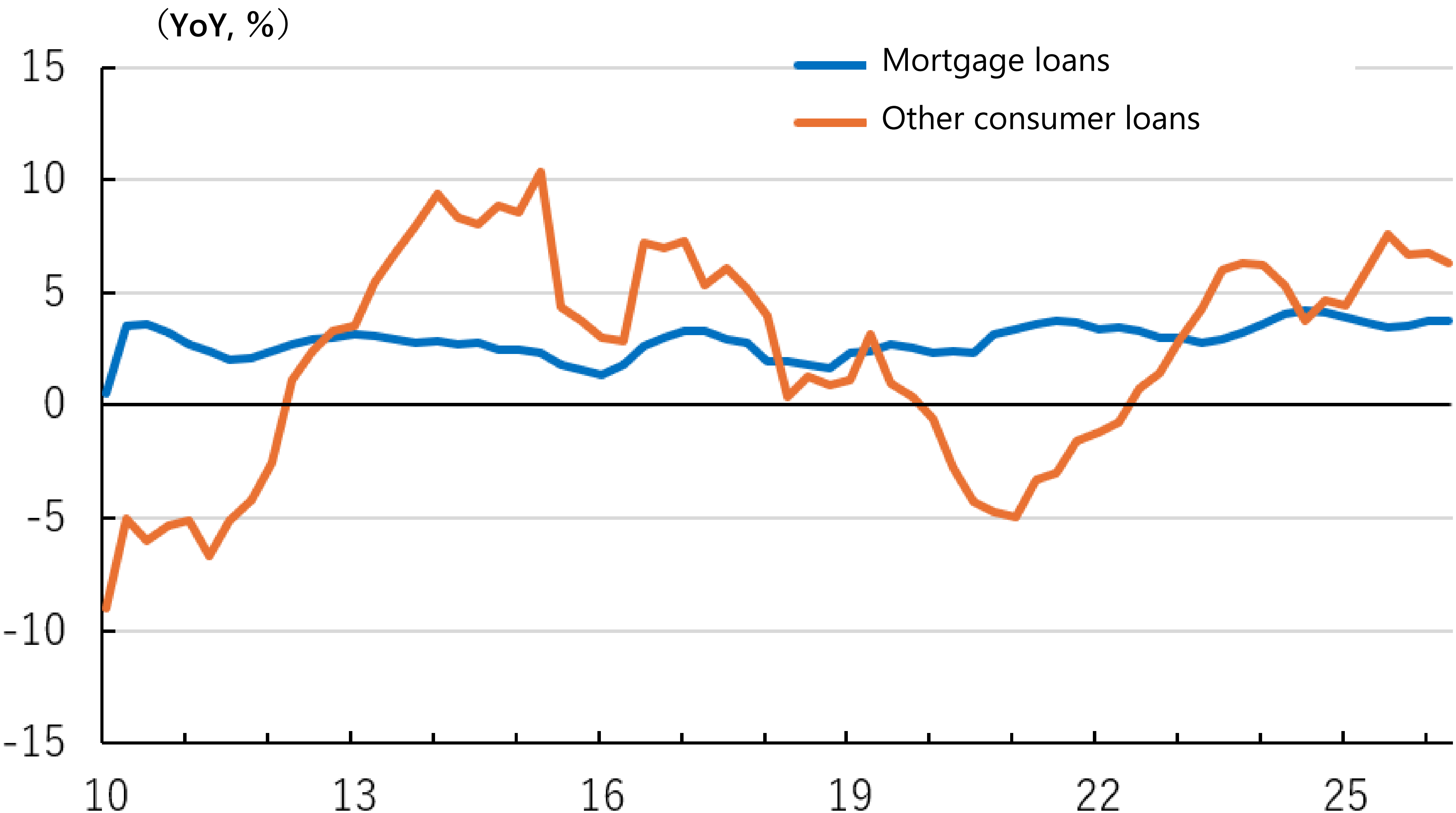
(Source) Bank of Japan

Outstanding Loans for Fixed Investment



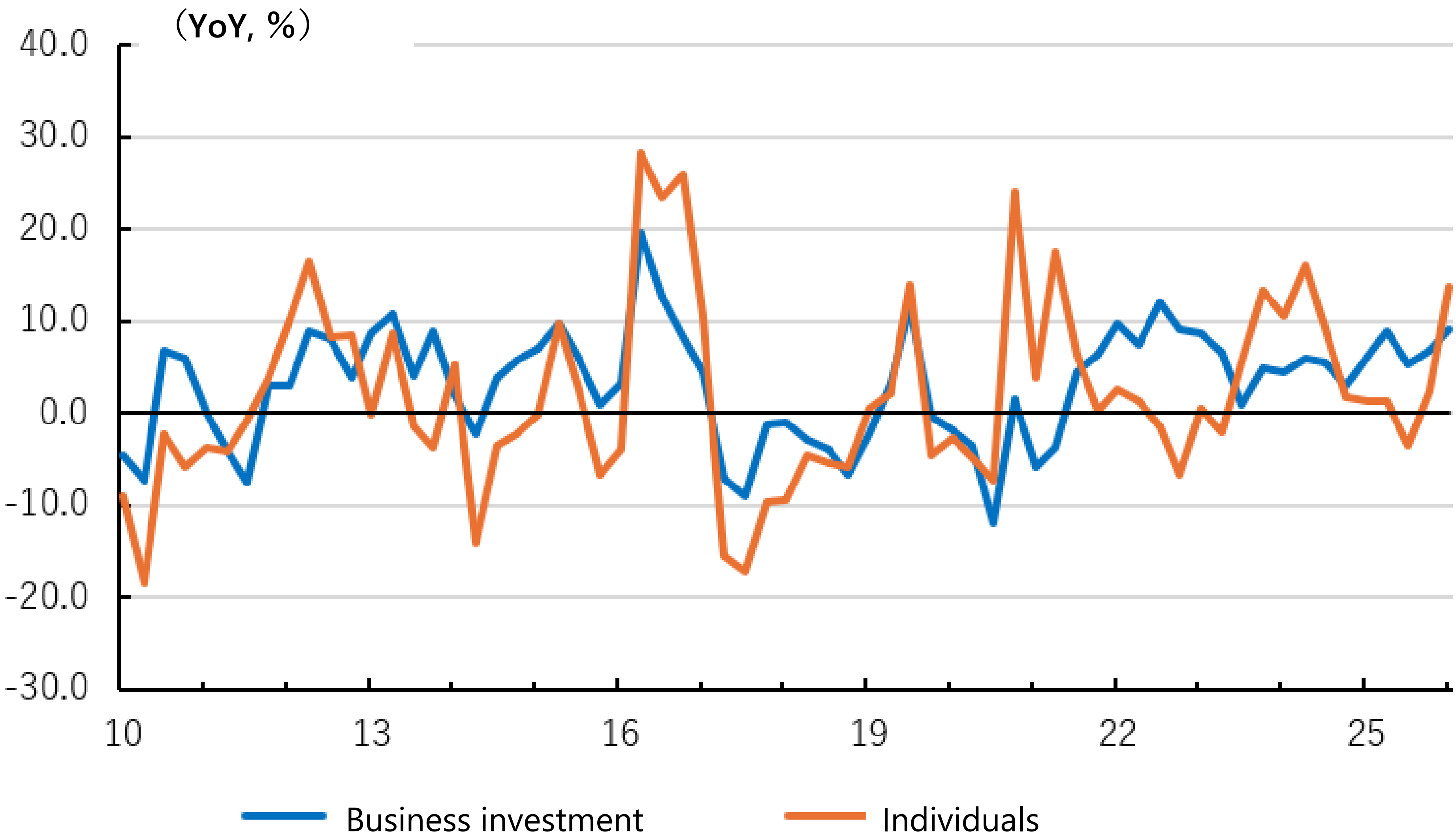
(Source) Bank of Japan

Outstanding Loans to Individuals



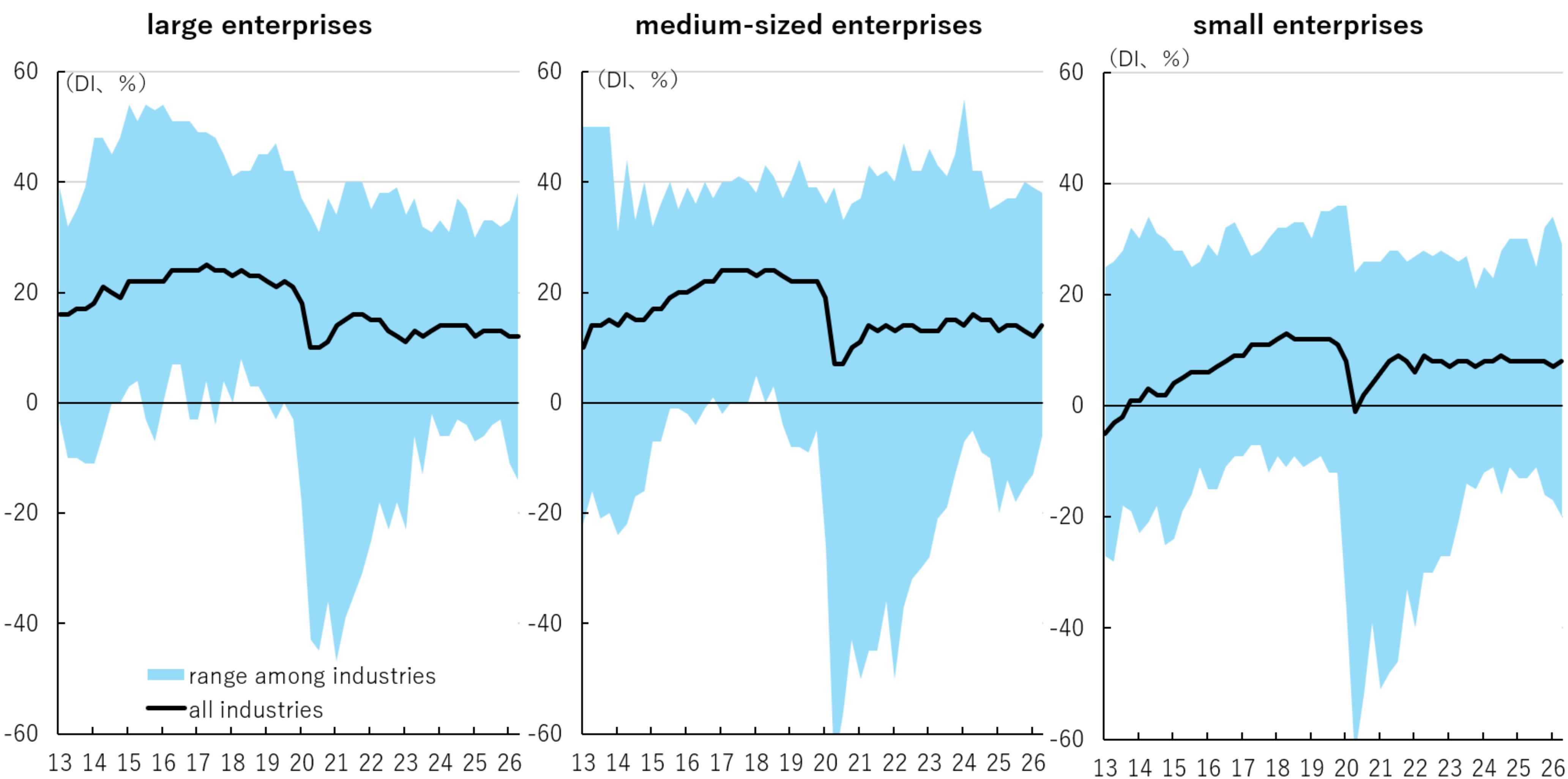
(Source) Bank of Japan

New Bank Lending



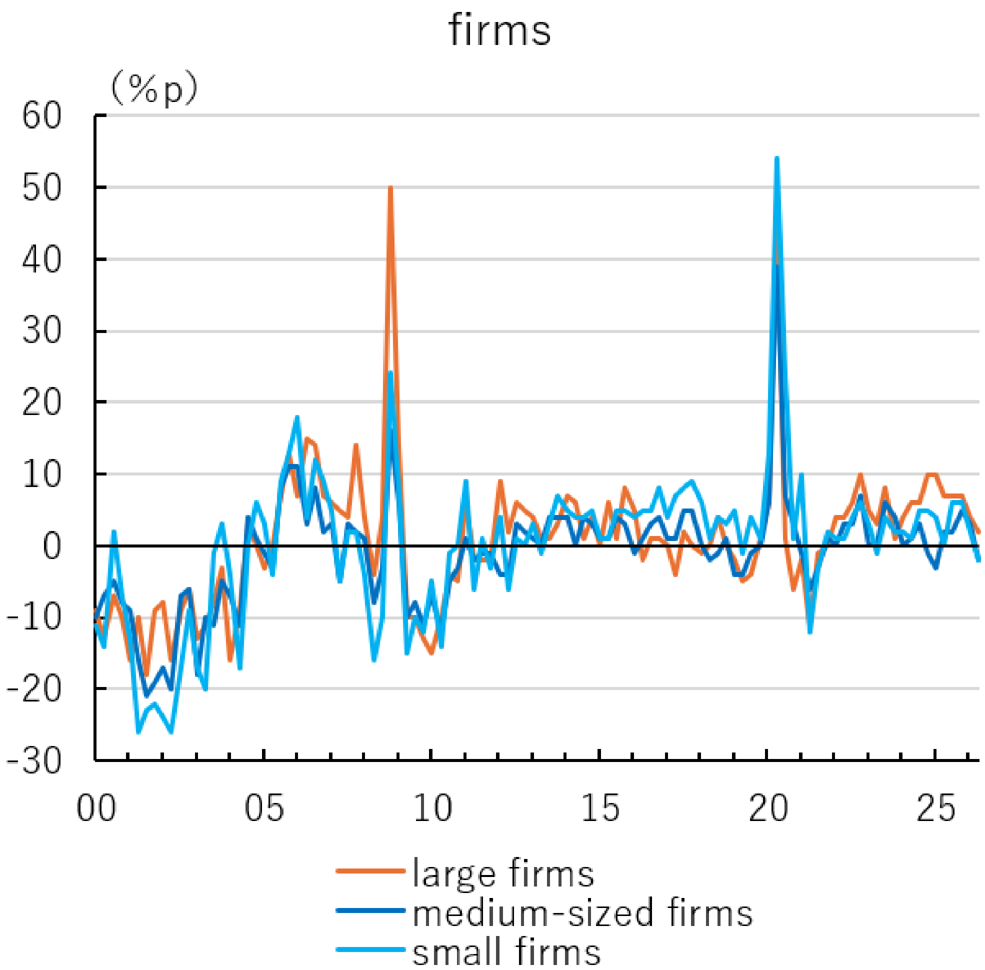
(Source) Bank of Japan

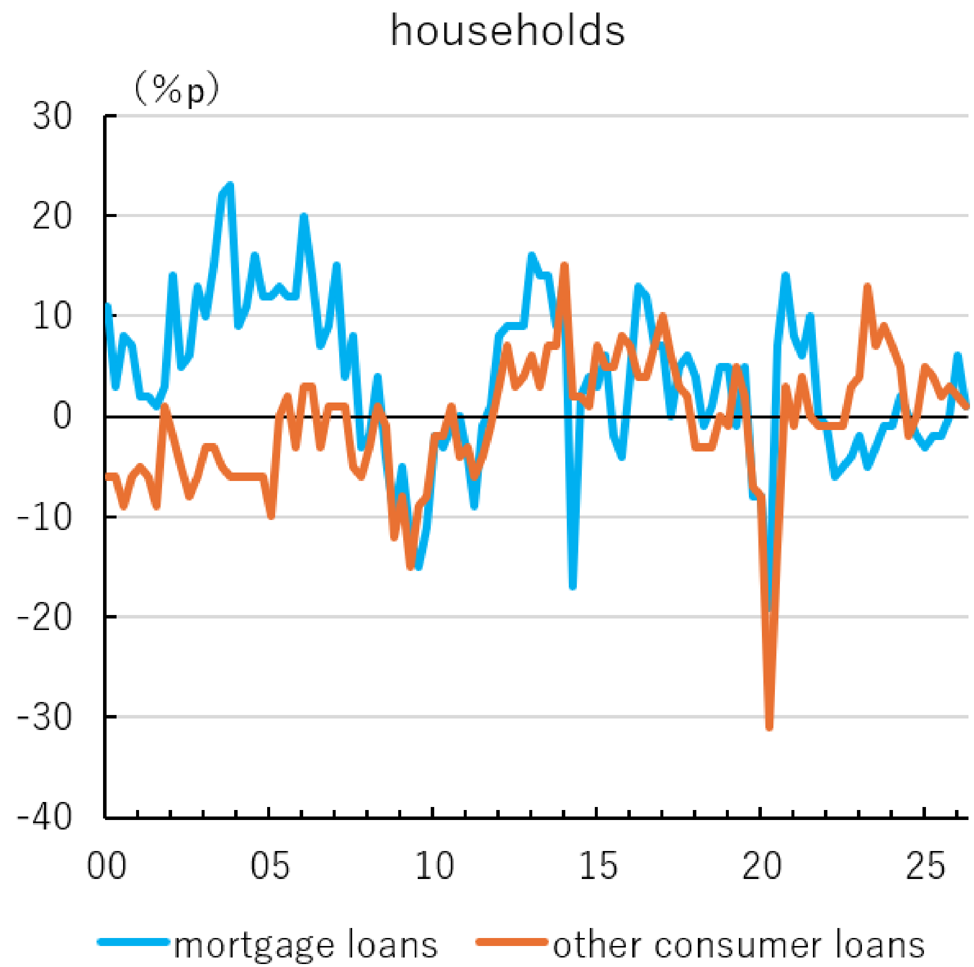
Financial Position



(Source) Bank of Japan

DI for Demand for Loans





(Source) Bank of Japan

FSA Strategic Priorities

2. Ensuring Trust in Stable Financial System and Fair and Secure Markets

The FSA's sector-specific supervision divisions and cross-sectoral monitoring offices will work closely together under the Vice Commissioner for Systemic Stability and Risk to conduct effective onsite and offsite supervision tailored to the risk profile of each financial institution.

Enhancing monitoring of individual financial institutions and the financial system. The FSA will monitor how financial institutions are addressing challenges arising from changing economic and financial environment, such as rising interest rates and growing corporate financing needs.

Points

Priority Areas for Monitoring from a Financial System Stability Perspective

→**Lending to the domestic real estate sector**

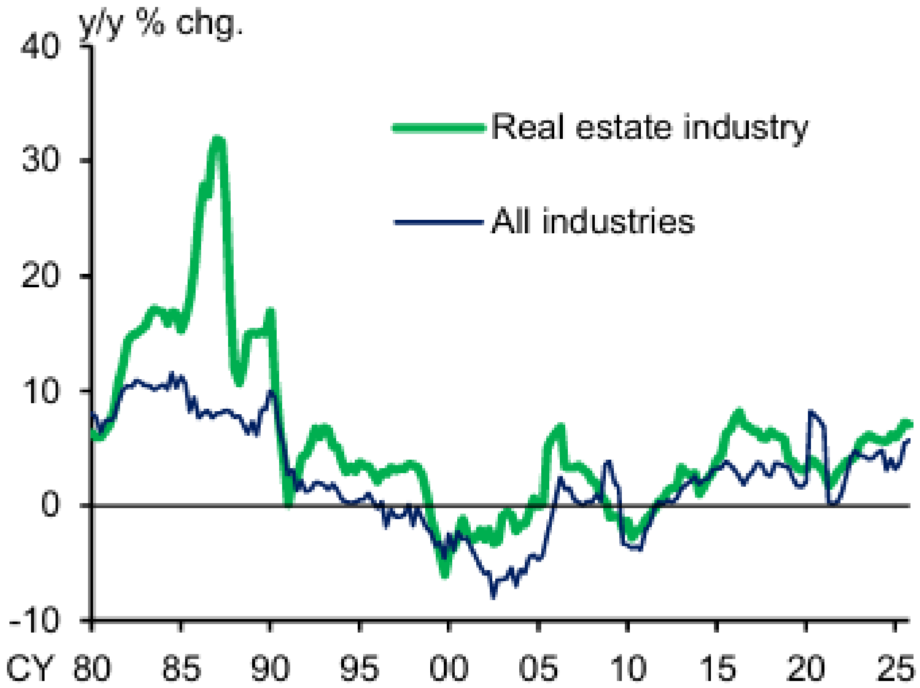
Safe and Smooth Access to Financial Services

→**Super-long-term housing loans**

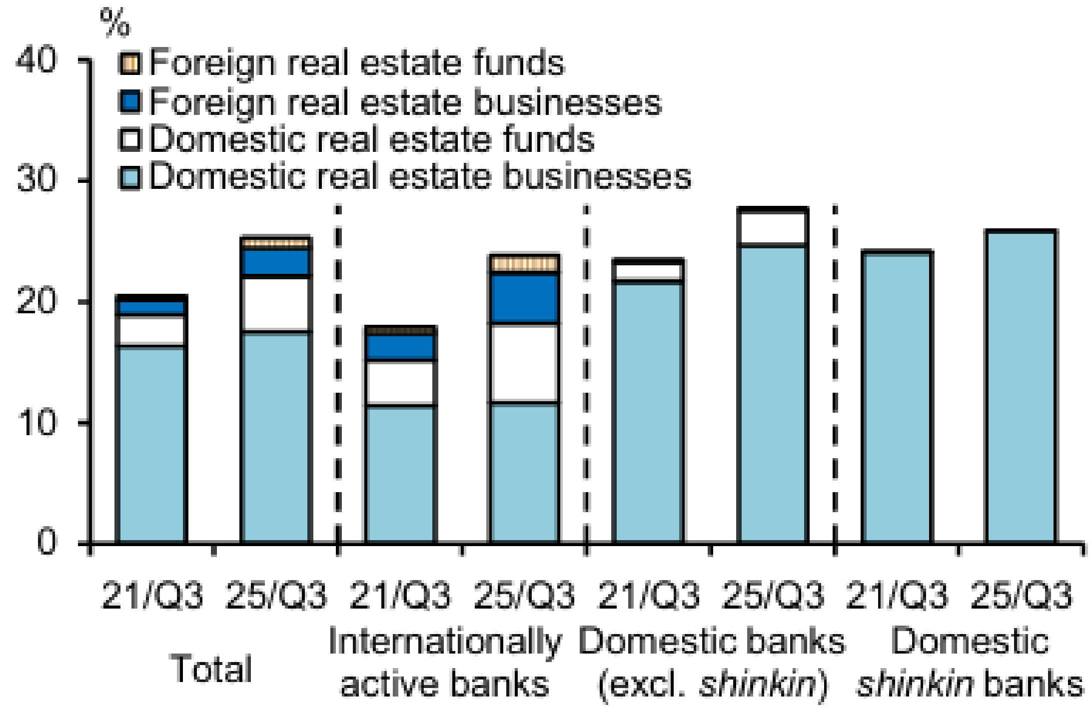
(Source) FSA

Real Estate-related Loans

Year-on-year growth rate in real estate loans



Loans outstanding



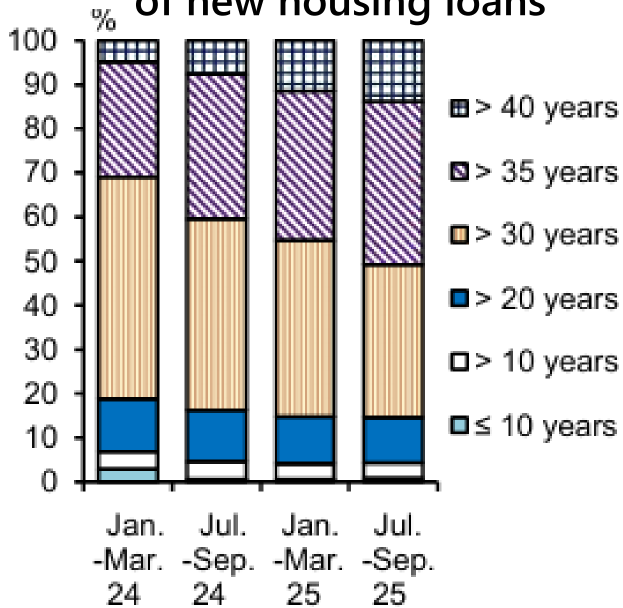
“Real estate-related lending in particular has continued to grow at a faster pace than overall lending, reflecting the sustained robust funding demand from the real estate industry.”

“Japanese banks' exposures to real estate (as a ratio to risk assets) have increased across all types of banks over the past several years, under a continued rise in commercial and residential real estate prices. “

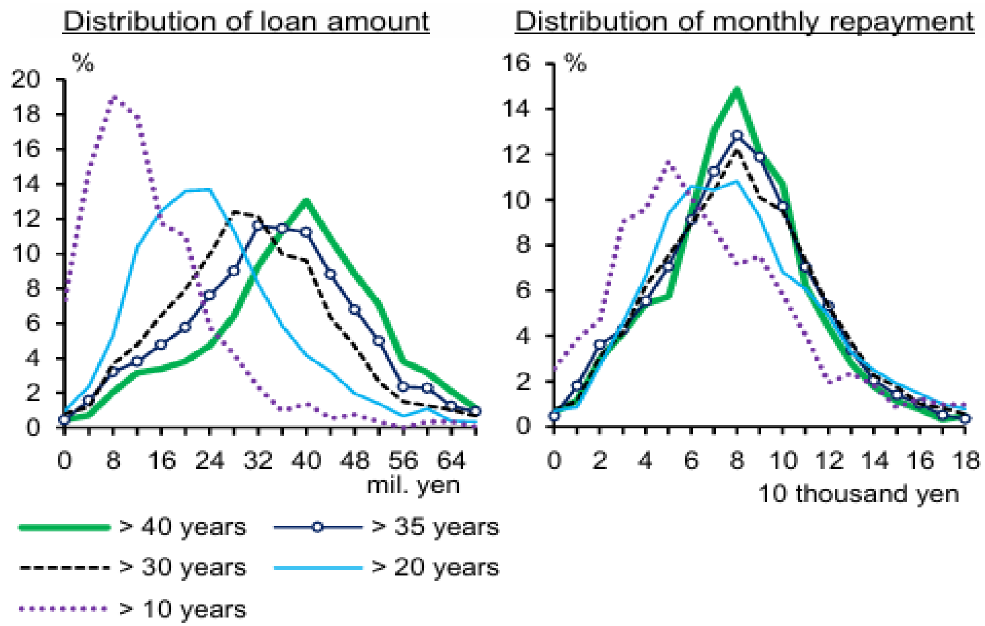
（Source）Bank of Japan

Super-long-term housing loans

Repayment periods of new housing loans



Loan amounts and monthly repayments by repayment period



“Moreover, repayment periods for new housing loans have lengthened further: with an increasing number of banks offering super-long-term housing loans with maturities spanning 40 to 50 years, housing loans with maturity at origination exceeding 35 years now account for more than 50 percent of loan amount, and housing loans exceeding 40 years account for more than 10 percent at regional banks I.”

“While housing loans with longer repayment periods tend to involve larger borrowing amounts, the difference in monthly repayments due to the length of the repayment period is not significant for loans exceeding 30 years. This suggests that super-long-term loans are being used to keep monthly repayments within a certain rang”

（Source）Bank of Japan

Key Indicators & Reports for Oct. MPM

Key Considerations for Monetary Policy: Overseas

- ✓ Middle East situation (energy price developments)
- ✓ U.S. monetary policy (pace of rate hikes, impact on the exchange rate)

Key Considerations for Monetary Policy: Japan

- ✓ Financial institutions (mid-October: FSR; 10/22: Lending Attitudes)
- ✓ Fiscal policy (VAT cuts and securing funding; impact on long-term interest rates and the exchange rate)
- ✓ Corporate developments (10/1: Tankan Survey; mid-October: BOJ Branch Managers' Meeting and Sakura Report)
- ✓ Consumption (10/7: Consumption Activity Index; 10/9: Consumption Trend Index and Family Income and Expenditure Survey; 10/13: Opinion Survey on the General Public's Views and Behavior)
- ✓ Prices (9/25: Core Inflation Indicators; 10/2: Tokyo-area CPI; 10/13: Corporate Goods Price Index; 10/23: CPI; Oct. 30: Tokyo-area CPI)
- ✓ BOJ Meeting Documents (9/28: Minutes of the July MPM; 10/1: Summary of Opinions from the September MPM)
- ✓ Exchange rate(Occurrence of Foreign Exchange Intervention and the Persistence of Its Effects)

Envision the value,
Empower the change