Not to be released until 8:50 a.m. Japan Standard Time on Thursday, May 8, 2025.

May 8, 2025

Bank of Japan

Minutes of the Monetary Policy Meeting

on March 18 and 19, 2025

(English translation prepared by the Bank's staff based on the Japanese original)

A Monetary Policy Meeting of the Bank of Japan Policy Board was held in the Head Office of the Bank of Japan in Tokyo on Tuesday, March 18, 2025, from 2:00 p.m. to 3:42 p.m., and on Wednesday, March 19, from 9:00 a.m. to 11:18 a.m.[1]

Policy Board Members Present

UEDA Kazuo, Chairman, Governor of the Bank of Japan
HIMINO Ryozo, Deputy Governor of the Bank of Japan
UCHIDA Shinichi, Deputy Governor of the Bank of Japan
ADACHI Seiji
NAKAMURA Toyoaki
NOGUCHI Asahi
NAKAGAWA Junko
TAKATA Hajime
TAMURA Naoki

Government Representatives Present

SAITO Hiroaki, State Minister of Finance, Ministry of Finance[2]
TERAOKA Mitsuhiro, Deputy Vice-Minister for Policy Planning and Coordination, Ministry of Finance[3]
SETO Takakazu, State Minister of Cabinet Office, Cabinet Office[2]
HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office[3]

Reporting Staff

KATO Takeshi, Executive Director
SHIMIZU Seiichi, Executive Director (Assistant Governor)
KAMIYAMA Kazushige, Executive Director
SUWAZONO Kenji, Executive Director

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1 The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on April 30 and May 1, 2025, as "a document describing an outline of the discussion at the meeting" stipulated in Article 20, paragraph 1 of the Bank of Japan Act of 1997. Those present are referred to by their titles at the time of the meeting.

2 Present on March 19.

3 Present on March 18.

OKUNO Akio, Director-General, Monetary Affairs Department

NAGANO Teppei, Head of Policy Planning Division, Monetary Affairs Department

SUZUKI Koichiro, Director-General, Financial System and Bank Examination Department

MINEGISHI Makoto, Director-General, Financial Markets Department

NAKAMURA Koji, Director-General, Research and Statistics Department

SUGO Tomohiro, Head of Economic Research Division, Research and Statistics Department

CHIKADA Ken, Director-General, International Department

Secretariat of the Monetary Policy Meeting

HARIMOTO Keiko, Director-General, Secretariat of the Policy Board

KINOSHITA Takao, Director, Deputy Head of Planning and Coordination Division, Secretariat of the Policy Board

YAGI Tomoyuki, Senior Economist, Monetary Affairs Department

NISHINO Kousuke, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments[4]

A. Market Operations in the Intermeeting Period

The Bank had been conducting money market operations in accordance with the guideline for money market operations decided at the previous meeting on January 23 and 24, 2025.[5] The uncollateralized overnight call rate had been in the range of 0.476 to 0.485 percent.

Meanwhile, the Bank had conducted Japanese government bond (JGB) purchases of about 4.5 trillion yen per month, in accordance with the JGB reduction plan decided at the July 2024 meeting. The Bank had discontinued purchases of CP and corporate bonds after the auctions in January 2025, in accordance with the decision made at the March 2024 meeting.

B. Recent Developments in Financial Markets

In the money market, the uncollateralized overnight call rate had been at around 0.5 percent. The general collateral (GC) repo rate had been at around the same level as the uncollateralized overnight call rate on the whole, albeit with fluctuations. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) were more or less unchanged.

The Tokyo Stock Price Index (TOPIX) was more or less unchanged: it had been weighed down by market concerns over the evolving situation regarding trade and other policies in each jurisdiction, although solid corporate profits were viewed positively by market participants. Yields on 10-year JGBs had risen, mainly against the background of generally solid economic indicators and changes in market participants' views on the future conduct of monetary policy that reflected these indicators. The liquidity indicators in the JGB markets continued to be at improved levels on the whole compared with a while ago. The diffusion index (DI) for the degree of bond market functioning in the *Bond Market Survey*, despite remaining negative, showed an improvement, reaching the same level as in the November 2015 survey. In the foreign exchange market, the yen had appreciated against the U.S. dollar as the yield differential between Japan and the United States had narrowed. The yen had been more or less flat against the euro.

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[4] Reports were made based on information available at the time of the meeting.

[5] The guideline was as follows:

The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

C. Overseas Economic and Financial Developments

Overseas economies had grown moderately on the whole. The U.S. economy continued to grow firmly, although some weakness had been seen in part. In European economies, some weakness had been observed, particularly in the manufacturing industry. Despite government support, the pace of improvement in the Chinese economy had been on a slowing trend, with continued downward pressure from adjustments in the real estate and labor markets. Emerging and commodity-exporting economies other than China had improved moderately on the whole.

As for the outlook, overseas economies were projected to keep growing moderately. There were high uncertainties regarding the outlook, such as the evolving situation regarding trade and other policies in each jurisdiction and its impact, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, U.S. long-term interest rates had declined significantly, as vigilance against a deterioration in the supply and demand conditions of U.S. Treasury securities had abated somewhat, and as market expectations of policy interest rate cuts by the Federal Reserve had increased. European long-term interest rates had risen significantly, since vigilance had heightened against a deterioration in the supply and demand conditions of European government bonds, mainly due to moves to increase defense spending. U.S. stock prices had fallen, mainly reflecting lower-than-expected economic indicators and heightened uncertainties over trade and other policies. European stock prices had risen, mainly owing to higher-than-expected corporate profits, with attention being paid to the undervaluation of European stock prices relative to those in the United States. Meanwhile, currencies in emerging economies had appreciated against the background of the decline in U.S. interest rates and the U.S. dollar's depreciation, both reflecting concerns over a slowdown in the U.S. economy. Crude oil prices had fallen.

D. Economic and Financial Developments in Japan

1. Economic developments

Japan's economy had recovered moderately, although some weakness had been seen in part. Regarding the outlook, the economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Exports had been more or less flat. Regarding the outlook, as overseas economies continued to grow moderately, exports were projected to return to an uptrend, mainly due to a recovery in global demand for IT-related goods.

Industrial production had been more or less flat. Regarding the outlook, it was projected to return to an uptrend, mainly due to the recovery in global demand for IT-related goods.

Corporate profits had been on an improving trend. In this situation, business fixed investment had been on a moderate increasing trend. With regard to the outlook, such investment was expected to continue on an increasing trend, mainly on the back of accommodative financial conditions, as corporate profits continued on an improving trend.

Private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had decreased for January 2025 relative to the October-December quarter of 2024, mainly for durable goods, and beverages and food. Based on anecdotal information from firms and on high-frequency indicators, private consumption since February 2025 seemed to have been on a moderate increasing trend, although some firms had pointed to the effects of consumers' increased thriftiness due to price rises. Consumer sentiment had deteriorated slightly. Regarding the outlook, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. Thereafter, private consumption was likely to continue increasing moderately as employee income continued to improve.

The employment and income situation had improved moderately. Regarding the number of employed persons, that of regular employees had been on a moderate uptrend, albeit with fluctuations, mainly in the information and communications industry, which had been facing severe labor shortages. The number of non-regular employees overall had been more or less flat, albeit with fluctuations: while the number of non-regular employees in industries such as face-to-face services had been on an increasing trend, the number of involuntary non-regular employees had been on a declining trend with labor market conditions tightening. Nominal wages per employee had increased clearly. With regard to the outlook, nominal employee income was likely to continue to see a clear increase in reflection of an acceleration in nominal wage growth. A positive trend in the year-on-year rate of change in real employee income was expected to take hold, albeit with fluctuations.

As for prices, commodity prices had declined slightly on the whole. The rate of increase in the producer price index (PPI, adjusted for the effects of seasonal changes in electricity rates) relative to three months earlier had decelerated, as the government had temporarily resumed its measures to reduce the household burden of higher electricity and gas charges. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, at around 3 percent recently, mainly on the back of a rise in personnel expenses. The year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) had been in the range of 3.0-3.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, and as the government's measures to reduce the household burden of higher energy prices had been scaled back, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices had waned. Moreover, the rise in rice prices had been another factor pushing up the year-on-year rate of increase in the CPI. Inflation expectations had risen moderately. With regard to the outlook for the CPI, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, underlying CPI inflation was expected to increase gradually, since it was projected that, with a growing sense of labor shortages, the output gap would improve and medium- to long-term inflation expectations would rise with the virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period of the January 2025 *Outlook for Economic Activity and Prices* (Outlook Report), underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. Through fiscal 2025, rice prices were likely to be at high levels and the effects of the government's measures pushing down inflation would dissipate, and these factors were expected to make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food).

2. Financial environment

Japan's financial conditions had been accommodative.

Real interest rates had been negative. Firms' funding costs had increased. Firms' demand for funds had increased moderately on the back of, for example, the recovery in economic activity as well as mergers and acquisitions of firms. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP and corporate bonds had been favorable. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 3.5 percent. That in the aggregate amount outstanding of CP and corporate bonds had been at around 3.5 percent. Firms' financial positions had been favorable. The pace of increase in the number of bankruptcies of firms had slowed.

Meanwhile, the year-on-year rate of change in the money stock had been in the range of 1.0-1.5 percent.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments

A. Economic and Price Developments

With regard to global financial and capital markets, members shared the view that market sentiment had become cautious, amid heightening uncertainties surrounding the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such a situation.

Members shared the recognition that overseas economies had grown moderately on the whole. As for the outlook, they concurred that overseas economies were likely to keep growing moderately. On this basis, members shared the recognition that, since the previous meeting, uncertainties had heightened regarding the policy conduct of the new U.S. administration, including its tariff policy, and the measures other jurisdictions would take in response. Many members noted that the tariff policy could significantly affect trade activities in various economies; continued high uncertainties stemming from this policy could also have an impact on global financial and capital markets and on business and household sentiment around the world. A few members expressed the recognition that it was difficult to determine the specific impact of the tariff policy on Japan's economy and overseas economies until, for example, the framework of U.S. reciprocal tariffs was revealed, which was scheduled for the beginning of April 2025. Meanwhile, some members pointed out that factors such as the change in the international security environment brought about by U.S. policies could substantially affect the global economic structure in the long term.

Members agreed that the U.S. economy continued to grow firmly, although some weakness had been seen in part. Some members expressed the view that some weakness had been seen in business and household sentiment due to uncertainties regarding policies such as the tariff policy; as far as hard data suggested, however, there was no substantial change at this point, mainly in the employment and income situation. One of these members noted that, although the U.S. economy had slowed relative to the high growth pace seen a while ago, employment conditions remained solid, and the economy had been following a path toward making a soft landing. Regarding the outlook, members shared the view that the baseline scenario was that the U.S. economy would continue to grow firmly, but uncertainties regarding its policy conduct and their effects warranted attention. Some members pointed out that households' stance toward private consumption and firms' stance toward business fixed investment could become cautious, amid growing concerns over policy uncertainty. One member noted that the impact of the policies of the new U.S. administration on economic activity and prices could vary depending on the extent and scope of individual policies and on their combination. The member then said that, if the tariff and immigration policies were of considerable scale, this could push up prices from the supply side. On this basis, a few members, including this member, expressed the view that the risks of both inflation and an economic downturn had heightened in the United States. In relation to this, one member pointed out that attention was also warranted on the possibility that reducing the number of federal government employees would push down the labor market, which was in a gradual adjustment phase. Meanwhile, a different member said that, as tariff hikes would yield fiscal resources for tax cuts, it was necessary to examine their future impact on private consumption as well.

Members shared the recognition that some weakness had been observed in European economies, particularly in the manufacturing industry. One member noted that the growth rates for Germany and France for the latest quarter had turned negative. The member then expressed the recognition that increases in costs, including energy costs and wages, had reduced industrial competitiveness, thereby lowering capacity utilization rates, and that factors such as the impact of U.S. tariff policy had also contributed to pushing down economic activity.

Members shared the view that, despite government support, the pace of improvement in the Chinese economy had been on a slowing trend, with continued downward pressure from adjustments in the real estate and labor markets. One member pointed out that it was likely to take time for the real estate market to recover. The member continued that, regarding the outlook, amid a strong deflationary trend, with the nominal GDP growth rate falling below the real growth rate for two consecutive years, risks were skewed to the downside, mainly due to a decrease in exports brought about by the intensification of trade friction with the United States. On this point, a different member commented that it was necessary to carefully examine the positive effects and the impact on domestic and overseas economies of the measures set out by the Chinese government, such as measures to increase income and stimulate economic activity and preferential treatment aimed at boosting the birth rate.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole.

Based on the above deliberations on economic and financial conditions abroad, members discussed the state of Japan's economy.

With regard to economic activity, members shared the view that Japan's economy had recovered moderately, although some weakness had been seen in part. Members concurred that economic developments since the previous meeting had been generally in line with the Bank's outlook in the January 2025 Outlook Report.

As for the outlook for economic activity, members shared the recognition that Japan's economy was likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as the virtuous cycle from income to spending gradually intensified against the background of factors such as accommodative financial conditions.

Members shared the recognition that exports and industrial production had been more or less flat.

Members agreed that business fixed investment had been on a moderate increasing trend with corporate profits being on an improving trend. One member pointed out that demand for fixed investment seemed to have been solid, given the accumulated backlog of machinery orders, although a delay in progress due to labor shortages had been observed.

Members shared the view that the employment and income situation had improved moderately. In addition, they shared the recognition that the first provisional aggregate results of the annual spring labor-management wage negotiations compiled by the Japanese Trade

Union Confederation (Rengo) were in line with the view presented at the January 2025 meeting that firms were projected to continue to raise wages steadily in 2025. On this basis, some members said that the wage growth rate agreed in the wage negotiations at this point was at a relatively high level within the previously expected range. Some members also pointed out that the wage growth rate was relatively high not only at large firms but also at relatively small firms, suggesting that a wider range of firms had been raising wages. One of these members noted that the increase over 2024 in the wage growth rate of small and medium-sized firms had been greater than the increase for large firms. The member then added that, as had been the case with the progress in cost pass-through since 2022, large firms had taken the lead in wage hikes, and small and medium-sized firms had been following them. In this situation, many members expressed the recognition that wage increases had been gradually becoming more sustainable. A few members expressed the recognition that the wage increase consistent with the price stability target of 2 percent was becoming established, although future statistics such as the *Monthly Labour Survey* needed to be examined. On this point, one member added that, with a continuing structural change in terms of labor shortages, there had been a widespread recognition between both labor and management that it was necessary to reflect price rises in wages. A few members pointed out that wage hikes were attributable to favorable corporate profits, in addition to severe labor shortages. Meanwhile, a different member said that it was necessary to carefully examine the points that a mismatch in labor seemed to have increased regarding personnel skills and regions, and that wage differentials among firms appeared to have widened. In addition, one member noted that the *Financial Statements Statistics of Corporations by Industry* showed that wages had increased in small and medium-sized firms, which accounted for about 70 percent of employment in Japan, whereas their business fixed investment had decreased for two consecutive years. On this basis, the member expressed the view that, with the high labor share, it seemed that it had been difficult for small and medium-sized firms to both raise wages as a defensive step and increase business fixed investment. The member then pointed out that business fixed investment by small and medium-sized firms to improve their productivity and structural reforms to step up the scale of their businesses was key to establishing momentum in wage hikes.

Members concurred that private consumption had been on a moderate increasing trend despite the impact of price rises and other factors. Regarding the outlook, they shared the view that, for the time being, although private consumption was expected to be affected by price rises, it was projected to continue on a moderate increasing trend, with nominal employee income continuing to improve. Some members pointed out that consumer sentiment indicators had declined somewhat, reflecting the rise in food prices, including rice and fresh food, and some weakness had been seen in nondurable goods. On this basis, some members expressed the recognition that, given anecdotal information from firms and developments in profits of consumption-related firms, for example, the increasing trend in private consumption seemed to be unchanged. These members continued that private consumption was likely to be supported by a pause in the surge in prices, such as fresh food, and by continued wage increases.

As for prices, members agreed that the year-on-year rate of increase in the CPI (all items less fresh food) had been in the range of 3.0-3.5 percent recently, as services prices continued to rise moderately, reflecting factors such as wage increases, although the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices had waned. In addition, they agreed that inflation expectations had risen moderately. On this basis, some members expressed the recognition that, although the recent inflation rate had been within the projected range, it had been somewhat higher due to the rise in food prices, including rice. Many members expressed the view that the rise in food prices largely reflected temporary factors such as weather conditions, but was also attributable to factors such as a sustained decline in supply capacity and a rise in personnel expenses and shipping costs. These members continued that the rise in food prices was also likely to push up inflation expectations and thereby have an impact on underlying inflation. One of these members pointed out that the rate of increase in the CPI (all items) for January 2025 mainly reflected an increase in the prices of energy, fresh food, and cereals. The member then expressed the view that, while the increase in the price of fresh food and cereals had been primarily regarded as a supply shock, the higher prices might persist, and attention should therefore be paid to its impact on inflation expectations, among other factors. In addition, a different member pointed out that, with firms' price-setting behavior changing, it had become easier to pass on costs to prices even for firms located downstream in the supply chain, where the pass-through of cost increases to prices had been slow until recently. On the other hand, one member noted that, while a pass-through of wage increases to selling prices had been reflected clearly in business services, it had not been evident in consumer services. The member continued that, amid a lack of momentum in private consumption, firms might have been cautious about passing on costs to prices.

With regard to the outlook for prices, members concurred that, while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices were expected to wane, underlying CPI inflation was expected to increase gradually, since it was projected that, with a growing sense of labor shortages, the output gap would improve and medium- to long-term inflation expectations would rise with the virtuous cycle between wages and prices continuing to intensify. On this basis, they shared the view that, in the second half of the projection period of the January 2025 Outlook Report, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. One member expressed the view that, considering factors such as the provisional aggregate results of the annual spring labor-management wage negotiations, prices were likely to increase steadily; moreover, it was highly likely that underlying CPI inflation had been increasing steadily toward 2 percent. One member expressed the view that upward pressure on prices resulting from firms' pass-through of cost increases to selling prices was likely to remain for a while. The member then pointed out that a survey conducted by a private organization showed that changes in food prices had gained momentum again in 2025. In relation to this point, a different member said that it was necessary to examine how much prices would rise -- especially services prices -- in the "beginning-of-the-period price hike" in April, when prices of a variety of items are revised in Japan.

As for risks to economic activity and prices, members concurred that there remained high uncertainties surrounding Japan's economic activity and prices, including the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such a situation, developments in commodity prices, and domestic firms' wage- and price-setting behavior. On this basis, some members said that attention needed to be paid to how prices would be affected by the fact that (1) the wage growth rate agreed so far in this year's annual spring labor-management wage negotiations had been relatively high, and (2) food prices had been rising. On the other hand, some members noted that uncertainties had heightened recently regarding the policy conduct of the new U.S. administration, including its tariff policy. These members then expressed the view that due attention should be given to the possibility that there could be an impact on Japan's economic activity and prices, depending on the forthcoming U.S. policies and the measures other jurisdictions would take in response. In relation to this, a few members pointed out that, while the introduction of tariffs would likely push down economic activity, it was difficult to accurately predict the effect on prices.

Moreover, members shared the view that it was necessary to pay due attention to developments in financial and foreign exchange markets, including the effects of U.S. tariff policy, and the impact these developments would have on Japan's economic activity and prices. On this basis, members shared the recognition that, in particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments were, compared to the past, more likely to affect prices.

B. Financial Developments

Members agreed that financial conditions in Japan had been accommodative. A few members pointed out that, although firms' funding costs had increased recently, no significant impact had been seen at this point in terms of financial conditions, as the level of lending remained solid and the issuance conditions for corporate bonds continued to be favorable. One of these members expressed the view that the current level of long-term interest rates was still low compared to firms' expected returns, and thus it had not significantly affected firms' investment decisions. On the other hand, a few members expressed the view that it was necessary to also monitor carefully the effects of the rise in borrowing rates on micro-sized firms' financial positions and investment decisions.

III. Summary of Discussions on Monetary Policy

Based on the above assessment of economic and financial developments, members discussed monetary policy.

With respect to the guideline for money market operations for the intermeeting period, members agreed that it was appropriate for the Bank to maintain the guideline that it would encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

As for the future conduct of monetary policy, members shared the following basic thinking: given that real interest rates were at significantly low levels, if the outlook for economic activity and prices was realized, the Bank would accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. They concurred that, in this regard, the Bank would need to make decisions as appropriate regarding its monetary policy conduct, without any preconceptions, based on its latest assessment of the outlook for economic activity and prices, the risks surrounding them, and the likelihood of realizing the outlook.

Some members expressed the recognition that, given that it was immediately after the policy interest rate hike at the previous meeting in January 2025, the current phase allowed the Bank to carefully examine the evolving situation regarding trade and other policies in each jurisdiction and its impact, in addition to examining the policy effects of the interest rate hike. One member noted that, at this point, there was not yet sufficient data to evaluate fully the effects of the changes in the policy interest rate made up to and including the January 2025 meeting, or of recent fluctuations in long-term interest rates. The member continued that it would take time for these effects to be fully transmitted to economic activity and for the Bank to examine these effects. A different member pointed out that, for the time being, it was appropriate for the Bank to pay close attention to the policies of the new U.S. administration and their impact on the global economy and global financial and capital markets, and, on the domestic front, to examine how economic activity and prices respond to the new policy interest rate of around 0.5 percent. The member then expressed the view that the Bank should take these factors into account when deciding on the next policy interest rate hike. A different member noted that downside risks stemming from U.S. policy conduct had rapidly heightened and, depending on future developments in its tariff policy, it was quite possible that these risks would even have a significant negative impact on Japan's real economy. On this basis, the member expressed the view that, if this possibility increased, the Bank would need to be particularly cautious when considering the timing for raising the policy interest rate. Meanwhile, a different member assessed that downside risks to Japan's economy had increased, due to higher uncertainties regarding factors such as U.S. tariff policy and supply chain disruptions, in addition to intensifying competition with Chinese firms with very rapid rates of business transformation. The member then said that it was necessary for the Bank to carefully examine the impact of these downside risks on factors such as the earnings and investment of small and medium-sized firms and developments in wages and prices. The member continued that it was therefore appropriate for the Bank to maintain the current monetary policy for the time being.

Meanwhile, one member expressed the view that, even with heightened uncertainties, it did not warrant the Bank to always conduct monetary policy in a cautious manner, and that the Bank might face a situation where it should act decisively. A different member noted that, when there were both upside and downside uncertainties regarding prices due to the impact of trade and other policies in each jurisdiction, it did not mean that the Bank would maintain the current policy and continue with monetary easing simply because there were uncertainties. The member then said that, at the next meeting, it would be necessary for the Bank to make monetary policy decisions after carefully examining (1) firms' and households' inflation expectations, (2) the materialization of upside risks to prices, and (3) the progress in wage hikes. In relation to this, with regard to the U.S. economy, another member pointed out that, although some indicators showed a slowdown, employment-related indicators, for example, had been solid. The member then expressed the view that, given that the Federal Reserve had indicated that it was in no hurry to adjust its policy stance, there continued to be increased flexibility in the Bank of Japan's monetary policy. Furthermore, the member noted that, given that the rise in asset prices had led to an increase in the expected rate of return, it was possible that market participants considered real interest rates to be lower than the levels obtained using the CPI, which might have further strengthened the effects of monetary easing. The member then commented that, with a view to fiscal 2025, it would be necessary for the Bank to make nimble adjustments to the degree of monetary accommodation if it needed to avoid the overheating of financial activities, which appeared to be due to excessively high expectations of continued monetary easing.

Members discussed how to appropriately communicate the Bank's policy conduct when the underlying trend of inflation continued to rise. One member expressed the view that, given that high levels of wage hikes had been implemented and Japan's economy was at a stage where the price stability target was close to being achieved, the Bank would enter a new phase where it needed to take this into account when communicating to the public. A different member commented that, during the phase of the next policy interest rate hike, underlying CPI inflation might be fairly close to 2 percent. The member continued that, in that situation, the Bank would need to consider options including a shift from its current accommodative monetary policy stance to a neutral one, in its explanation regarding monetary policy stance. In relation to this, some members noted that, given uncertainties over the neutral interest rate, it would gradually become difficult to assess during the process of raising the policy interest rate whether the Bank's monetary policy was accommodative or not. One of these members said that there was no magic cure that would significantly reduce the estimation error of the neutral interest rate, and the Bank needed to continue to work toward, for example, raising estimation accuracy. Some members expressed the view that, taking into account that neither the neutral interest rate nor the underlying inflation rate could be gauged accurately, it was necessary to deliberate on the appropriate ways for the Bank to communicate its monetary policy stance.

Members also discussed the reasoning behind the Bank's market operations, which took into account recent developments in long-term interest rates, and an interim assessment of the plan for the reduction of its purchase amount of JGBs. They agreed that, in principle, long-term interest rates were to be formed freely in the markets in response to factors such as market views of economic activity and prices. On this basis, a few members noted that, in an exceptional situation where long-term interest rates rose in a manner that differed from normal market developments, from the perspective of encouraging the stable formation of interest rates in the markets, the Bank would nimbly conduct operations. These members then commented that, although the markets did not appear to be in such a situation at this point, it was necessary to carefully monitor market developments. In addition, a few members expressed the recognition that it was important for the Bank to continue to carefully explain its assessment of economic activity and prices and the Bank's stance on policy conduct in order for long-term interest rates to be formed smoothly in the markets. Regarding the interim assessment of the plan for the reduction of the Bank's purchase amount of JGBs to be conducted at the June 2025 meeting, one member expressed the view that it did not seem necessary at this point to make any major changes to the current plan. The member noted that the Bank would however need to examine from a longer-term perspective the reduction plan for April 2026 onward, which was not covered by the current plan. In addition, a different member pointed out that, in conducting its interim assessment of the reduction of its purchase amount of JGBs, the Bank would collect views from market participants when reviewing developments and functioning of the JGB markets. The member continued that the Bank's communication with market participants during this process was also important from the perspective of maintaining stability in long-term interest rates. Meanwhile, one member said that it was necessary for the Bank to carefully monitor the supply and demand conditions and the liquidity conditions of JGBs by maturity period, including super-long-term JGBs.

IV. Remarks by Government Representatives

The representative from the Ministry of Finance made the following remarks.

(1) The government considered increasing wages and incomes as the highest-priority issue. It would work to establish a cycle in which wages and income rise steadily through improved productivity and higher value-added, mainly reflecting its efforts to create an environment to raise wages and to promote investment in growth areas.

(2) The government expected 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. Moreover, it expected the Bank to communicate effectively with financial and capital markets, including through its dissemination of information.

The representative from the Cabinet Office made the following remarks.

(1) The government assessed that the Japanese economy was recovering at a moderate pace, although it was still pausing in part. That said, due attention was warranted on factors such as the effect on private consumption of recent price increases and uncertainties regarding the global economy, including policy trends in the United States.

(2) The government would pay close attention to price developments and respond to them as appropriate. It would also push forward with measures to expand the trend of wage hikes to small and medium-sized firms and regional economies.

(3) The government expected 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.

V. Votes

A. Vote on the Guideline for Money Market Operations

Based on the above discussions, to reflect the view of the members, the chairman formulated the following proposal on the guideline for money market operations and put it to a vote.

The Policy Board decided the proposal by a unanimous vote.

The Chairman's Policy Proposal on the Guideline for Money Market Operations:

The guideline for money market operations for the intermeeting period will be as follows.

> The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

> Votes for the proposal: UEDA Kazuo, HIMINO Ryozo, UCHIDA Shinichi, ADACHI Seiji, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, and TAMURA Naoki.
> Votes against the proposal: None.

B. Discussion on the Statement on Monetary Policy

On the basis of the above discussions, members discussed the Statement on Monetary Policy. The chairman formulated the Statement on Monetary Policy and put it to a vote. The Policy Board decided the text by a unanimous vote. It was confirmed that the statement would be released immediately after the meeting (see Attachment).

VI. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of January 23 and 24, 2025, for release on March 25.

Attachment
March 19, 2025
Bank of Japan

Statement on Monetary Policy

1. At the Monetary Policy Meeting held today, the Policy Board of the Bank of Japan decided, by a unanimous vote, to set the following guideline for money market operations for the intermeeting period:

   The Bank will encourage the uncollateralized overnight call rate to remain at around 0.5 percent.

2. Japan's economy has recovered moderately, although some weakness has been seen in part. Overseas economies have grown moderately on the whole. Exports and industrial production have been more or less flat. With an improving trend in corporate profits, business fixed investment has been on a moderate increasing trend. The employment and income situation has improved moderately. Private consumption has been on a moderate increasing trend despite the impact of price rises and other factors. Housing investment has been relatively weak. Public investment has been more or less flat. Financial conditions have been accommodative. On the price front, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food) has been in the range of 3.0-3.5 percent recently, as services prices have continued to rise moderately, reflecting factors such as wage increases, and as the government's measures to reduce the household burden of higher energy prices have been scaled back, although the effects of a pass-through to consumer prices of cost increases led by the past rise in import prices have waned. Inflation expectations have risen moderately.

   Japan's economy is likely to keep growing at a pace above its potential growth rate, with overseas economies continuing to grow moderately and as a virtuous cycle from income to spending gradually intensifies against the background of factors such as accommodative financial conditions. With regard to the CPI (all items less fresh food), while the effects of the pass-through to consumer prices of cost increases led by the past rise in import prices are expected to wane, underlying CPI inflation is expected to increase gradually, since it is projected that, with a growing sense of labor shortage, the output gap will improve and medium- to long-term inflation expectations will rise with a virtuous cycle between wages and prices continuing to intensify. In the second half of the projection period of the January 2025 *Outlook for Economic Activity and Prices*, underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target. Through fiscal 2025, rice prices are likely to be at high levels and the effects of the government's measures pushing down inflation will dissipate, and these factors are expected to make a positive contribution to the year-on-year rate of increase in the CPI (all items less fresh food).

Concerning risks to the outlook, there remain high uncertainties surrounding Japan's economic activity and prices, including the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such situation, developments in commodity prices, and domestic firms' wage- and price-setting behavior. Under these circumstances, it is necessary to pay due attention to developments in financial and foreign exchange markets and their impact on Japan's economic activity and prices. In particular, with firms' behavior shifting more toward raising wages and prices recently, exchange rate developments are, compared to the past, more likely to affect prices.