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June 20, 2025

Bank of Japan

Minutes of the Monetary Policy Meeting

on April 30 and May 1, 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 Wednesday, April 30, 2025, from 2:00 p.m. to 3:55 p.m., and on Thursday, May 1, from 9:00 a.m. to 11:55 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
NAKAMURA Toyoaki
NOGUCHI Asahi
NAKAGAWA Junko
TAKATA Hajime
TAMURA Naoki
KOEDA Junko

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

SHIMIZU Seiichi, Executive Director (Assistant Governor)
KAMIYAMA Kazushige, Executive Director
SUWAZONO Kenji, Executive Director
NAKAMURA Koji, 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 June 16 and 17, 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 May 1.
[3] Present on April 30.

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

KAWAMOTO Takuji, 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

FUKUDA Eiji, Director-General, Secretariat of the Policy Board

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

MARUO Yuji, Senior Economist, Monetary Affairs Department

KITAHARA Jun, 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 March 18 and 19, 2025.[5] The uncollateralized overnight call rate had been in the range of 0.476 to 0.477 percent.

Meanwhile, in March 2025, the Bank conducted Japanese government bond (JGB) purchases of about 4.5 trillion yen per month. In April 2025, it cut down the monthly purchase amount by about 400 billion yen, to about 4.1 trillion yen per month; this was in accordance with the JGB reduction plan decided at the July 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. As for interest rates on term instruments, yields on three-month treasury discount bills (T-Bills) had increased slightly.

The Tokyo Stock Price Index (TOPIX) had declined in line with U.S. stock prices, and also partly due to the yen's appreciation. While yields on 10-year JGBs had fluctuated in both directions, moving in line with U.S. long-term interest rates, they had generally declined over the intermeeting period, against the background of factors such as a change in market views on the Bank's future monetary policy. The liquidity indicators in the JGB markets showed that, while transaction volume had been at a relatively high level compared to 2024, bid-ask spreads had deteriorated after the turn of April 2025, as volatility in the JGB markets had increased. In the foreign exchange market, the yen had appreciated against the U.S. dollar, partly due to dollar selling driven by factors such as concerns over a slowdown in the U.S. economy, while yen purchasing had increased with market participants shifting into "risk-off" mode. The yen had been more or less flat against the euro.

[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, although some weakness had been seen in part, reflecting trade and other policies in each jurisdiction. The U.S. economy had grown moderately, although some weakness had been seen in part. European economies had been relatively weak, mainly in manufacturing. As for the Chinese economy, despite government support, the pace of improvement in the 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, although trade and other policies in each jurisdiction were expected to lead to a slowdown in overseas economies, they were projected to see a gradual acceleration in their growth rate thereafter, and then grow moderately. There were high uncertainties regarding the outlook, such as the future course of policy conduct in each jurisdiction, developments in the Chinese economy, and how geopolitical tensions would unfold.

With respect to overseas financial markets, market sentiment deteriorated significantly in early April 2025 due to heightened uncertainties regarding the future course and impact of trade and other policies in each jurisdiction. Although further deterioration in market sentiment had been avoided, reflecting factors such as a pause in the implementation of some tariffs, overseas financial markets continued to see large fluctuations recently. U.S. long-term interest rates had declined temporarily through early April but had then risen considerably, marking an overall slight increase over the intermeeting period. European long-term interest rates had decreased significantly, mainly because market expectations of policy interest rate cuts by the European Central Bank (ECB) had increased. U.S. and European stock prices declined substantially in early April. Although they had subsequently rebounded, U.S. and European stock prices had marked an overall decline over the intermeeting period. Meanwhile, currencies in emerging economies had temporarily depreciated significantly as investors' risk aversion had heightened, given trade policies worldwide, but had then recovered somewhat. Crude oil prices had fallen due to concerns over a decline in demand that reflected trade and other policies in each jurisdiction.

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, economic growth was likely to moderate as trade and other policies in each jurisdiction led to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions were expected to provide support.

Exports and industrial production continued to be more or less flat as a trend, although there had been some front-loading due to the increase in U.S. tariffs. Regarding the outlook, exports and industrial production were likely to be generally under increasing downward pressure stemming from the slowdown in overseas economies, while the front-loading due to the increase in U.S. tariffs and a reactionary decline were likely to be seen.

Corporate profits had been on an improving trend. Business sentiment had stayed at a favorable level. In this situation, business fixed investment had been on a moderate increasing trend. With regard to the outlook, growth momentum in business fixed investment was highly likely to slow. This was because, although moves to clear order backlogs and labor-saving investment to address labor shortages were expected to provide some support, a deterioration in the profit environment and heightened uncertainties were likely to push down business fixed investment.

Private consumption maintained its moderate increasing trend against the background of an improvement in the employment and income situation, despite weakness in consumer sentiment due to the impact of price rises and other factors. The consumption activity index (CAI; real, travel balance adjusted) had increased slightly on average for the January-February period of 2025 relative to the October-December quarter of 2024, supported by an increase in services consumption. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators, private consumption since March 2025 seemed to have been on a moderate increasing trend, particularly in services, although there continued to be some firms that had pointed to consumers' increased thriftiness. Consumer sentiment remained on a deteriorating trend, mainly led by a rise in prices of food, such as rice and fresh food; it should be noted that these latest data on consumer sentiment did not reflect the increase in volatility in financial markets after U.S. reciprocal tariffs were announced on April 2, 2025. Regarding the outlook, although private consumption was expected to continue to be affected for the time being by the deterioration in consumer sentiment stemming from the rise in food prices, it was projected to maintain its moderate increasing trend, as wage increases continued as a result of the annual spring labor-management wage negotiations.

The employment and income situation had improved moderately. The number of employed persons continued to increase steadily, mainly for regular employees. Nominal wages per employee had increased clearly. With regard to the outlook, employee income was likely to continue to see a clear increase for the time being, supported by the rise in nominal wages reflecting the 2025 annual spring labor-management wage negotiations. Thereafter, as downward pressure on special cash earnings (bonuses) was likely to strengthen due to a deterioration in corporate profits, the pace of increase in employee income was projected to decelerate.

As for prices, commodity prices had been on a downtrend on the whole due to vigilance against the expected slowdown in overseas economies. 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 been in the range of around 0.5-1.0 percent recently. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, being in the range of 3.0-3.5 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 moves to pass on wage increases to selling prices continued, and as there had been effects of the past rise in import prices and of the rise in food prices, such as rice prices. Inflation expectations had risen moderately. With regard to the outlook, for the time being, the year-on-year rate of increase in the CPI was likely to remain at around the current level due to upward pressure from the rise in food prices, such as rice prices, and from a dissipation of the effects of the government's measures to reduce the household burden of higher energy prices. Thereafter, the rate of increase was expected to decelerate toward the end of 2025, albeit with fluctuations reflecting energy prices, as the impact of the rise in food prices was likely to dissipate.

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. Firms' moves to accumulate cash reserves against the background of heightened uncertainties regarding trade and other policies in each jurisdiction were limited at this point. With regard to credit supply, financial institutions' lending attitudes as perceived by firms had been accommodative. Issuance conditions for CP had been favorable. In the corporate bond market, issuance conditions remained favorable on the whole, although a widening of issuance spreads had been seen in part and some firms had delayed issuance of bonds since the turn of April, reflecting factors such as the increased volatility in the market. In this situation, the year-on-year rate of increase in the amount outstanding of bank lending had been at around 3 percent; that in the aggregate amount outstanding of CP and corporate bonds had been in the range of 4.5-5.0 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 0.5-1.0 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had been firm, owing in particular to a rise in net interest income, mainly composed of interest on loans, and to an increase in net non-interest income, such as fees and commissions. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

Profits of regional banks had been firm, mainly on the back of the rise in net interest income. Meanwhile, their credit costs had been at low levels. Their capital adequacy ratios remained sufficiently above the regulatory requirements.

With regard to the financial cycle, of the 14 Financial Activity Indexes (FAIXs) that comprise the heat map in the *Financial System Report*, 12 showed neither an overheating nor a contraction of financial activities, and two -- including one indicating stock prices -- showed deviations from the trends, toward overheating. Regarding the financial gap, the positive gap remained narrower than a while ago, and there had been no overheating of financial activities overall. However, attention continued to be warranted on the pace of increase in real estate prices, and it was necessary to continue paying close attention to whether financial activities would not significantly deviate from real economic activity. In addition, given the extremely high uncertainties regarding trade and other policies in each jurisdiction, it was necessary to carefully monitor the impact these policies had on the financial system through various channels.

II. Summary of Discussions by the Policy Board on Economic and Financial Developments and the April 2025 *Outlook for Economic Activity and Prices*

A. Current Situation of Economic Activity and Prices

With regard to global financial and capital markets, members shared the view that (1) market sentiment deteriorated significantly in early April 2025 due to heightened uncertainties regarding the future course and impact of trade and other policies in each jurisdiction, and that (2) although further deterioration in market sentiment had been avoided, reflecting factors such as the pause in the implementation of some tariffs, global financial and capital markets continued to see large fluctuations recently. One member pointed out that, so far, there had been no pronounced "dash for cash," although U.S. financial markets had temporarily seen a decline in stock prices, a rise in long-term interest rates, and a depreciation of the U.S. dollar. On this basis, the member expressed the view that it was necessary to pay close attention to factors such as developments in non-bank financial intermediaries (NBFIs), for which signs of change are difficult to grasp, and thereby monitor whether global financial and capital markets might rapidly become unstable.

Members shared the recognition that overseas economies had grown moderately on the whole, although some weakness had been seen in part, reflecting trade and other policies in each jurisdiction. One member pointed out that, while household and business sentiment indicators and other survey results had started to show the effects of recent tariff policies, this had not significantly affected hard data at this point.

Members agreed that the U.S. economy had grown moderately, although some weakness had been seen in part. On this basis, many members expressed the view that tariff policies were likely to push down the U.S. real economy and, at least in the short term, push up prices. One member pointed out that a severe economic downturn was unlikely given, for example, that the balance sheets of households, firms, and financial institutions had been sound, but the pace of growth in the U.S. economy was highly likely to remain below its potential growth rate for a while. A different member expressed the view that, even if the additional reciprocal tariffs that had been paused were withdrawn, the remaining tariffs would have a significant impact on prices, exerting downward pressure on private consumption and business fixed investment. A few members pointed out that, from a somewhat long-term perspective, there were high uncertainties regarding whether increased prices would be pushed down by an economic slowdown or the inflation rate would continue to be relatively high. On this basis, one of these members added that it was important to pay close attention to labor market conditions, especially wage developments, to assess future price developments. In relation to this, one member expressed the view that, amid an economic slowdown, the risk of inflation expectations being de-anchored to the upside due to a temporary inflation shock was limited. Meanwhile, one member noted that, since taking office, the new U.S. administration had given priority to policies, such as tariffs, that had a negative impact on economic growth; however, if the administration were to conduct policies such as reducing domestic taxes, the growth rate of the U.S. economy could be higher than expected.

Members shared the recognition that European economies had been relatively weak, mainly in manufacturing. One member expressed the view that these economies were experiencing a decline in industrial competitiveness, due to firms constraining investment and costs remaining high thus far, in addition to the impact of the increase in U.S. tariffs.

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 expressed the view that sluggish domestic demand and a decrease in exports caused by intensifying trade friction were matters of concern. The member continued that it was highly likely to take considerable time for the real estate market to recover, given the large size of housing inventories.

Members shared the recognition that emerging and commodity-exporting economies other than China had improved moderately on the whole. One member expressed the view that attention was warranted on the possibility that disinflation would advance with an increase in the inflow of low-priced goods from China to these economies, reflecting the impact of high tariffs imposed between the United States and China.

Members agreed that financial conditions in Japan had been accommodative. One member expressed the view that, since the turn of April, developments such as firms delaying issuance of bonds had been observed in the corporate bond market. The member continued that this was what could be expected in times of increased market fluctuations, and there seemed to be no significant change in investors' appetite for corporate bonds. A different member pointed out that financial institutions were maintaining their active lending attitude, and the availability of funds had therefore been stable. In relation to this, one member expressed the view that, as suggested by the results of the macro stress testing in the *Financial System Report*, financial institutions in Japan had sufficient capital bases to withstand considerably severe stress.

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

With regard to economic activity, members shared the recognition that Japan's economy had recovered moderately, although some weakness had been seen in part. Some members expressed the view that, as far as hard data available to date suggested, Japan's economic activity had been developing generally in line with the Bank's outlook. One member noted that survey results, such as those on household and business sentiment, also showed that, at this point, the economy was not yet affected significantly by trade and other policies in each jurisdiction.

Members concurred that exports and industrial production continued to be more or less flat as a trend, although there had been some front-loading due to the increase in U.S. tariffs.

Members shared the recognition that business fixed investment had been on a moderate increasing trend with corporate profits being on an improving trend and business sentiment staying at a favorable level. A few members noted that the *Financial Statements Statistics of Corporations by Industry* showed that corporate profits for 2024 had reached a record-high level, mainly on the back of progress in the pass-through of cost increases to selling prices and the yen's depreciation. A few other members expressed the view that there were no available data at this point that suggested a trend change in business fixed investment, including labor-saving investment to address labor shortages. Meanwhile, one member expressed the view that, focusing on small and medium-sized firms, business fixed investment per employee had decreased for two consecutive years, suggesting that it remained difficult for them to both raise wages and maintain business fixed investment.

Members concurred that private consumption maintained its moderate increasing trend against the background of the improvement in the employment and income situation, despite weakness in consumer sentiment due to the impact of price rises and other factors. One member pointed out that private consumption had been firm on the whole, since the improvement in income, particularly among younger employees, had offset to some extent the negative impact of households' intensified thriftiness caused by the price rises.

Members shared the view that the employment and income situation had improved moderately. One member pointed out that the aggregate results of the 2025 annual spring labor-management wage negotiations compiled by the Japanese Trade Union Confederation (Rengo) showed that the agreed wage growth rate had exceeded the 2024 level, including at relatively small firms. The member continued that, at the April 2025 meeting of the general managers of the Bank's branches, there were many reports that suggested strong momentum in wage hikes, including at small and medium-sized firms. On the other hand, one member expressed the view that, while wage growth had been rising at small and medium-sized firms, which account for about 70 percent of employment in Japan, the gap in wage growth between these firms and large firms had been widening, and that there was still some distance to go before the momentum in wage hikes took hold.

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 moves to pass on wage increases to selling prices continued, and as there had been effects of the past rise in import prices and of the rise in food prices, such as rice prices. One member noted that, looking at the year-on-year rate of change in the CPI for April 2025 for Tokyo's 23 wards, which had been released ahead of the national data, the rate of increase in general services prices excluding housing rent had exceeded 3 percent, and the rate of increase in housing rent had also risen significantly, although the latter could be unique to Tokyo. In relation to this, one member pointed out that, in regions outside Tokyo, the rate of increase in housing rent remained low on the whole, but signs of an acceleration in the rate of increase in new rents had been noticeable recently, particularly in major metropolitan areas. Meanwhile, members agreed that inflation expectations had risen moderately.

B. Outlook for Economic Activity and Prices

In formulating the April 2025 *Outlook for Economic Activity and Prices* (Outlook Report), members first exchanged views on the assumptions for the baseline scenario of the outlook. Given that there were high uncertainties and various views regarding the future course and impact of trade and other policies in each jurisdiction, members concurred that, from the perspective of examining the Bank's baseline scenario and clearly communicating the results to the public, it was desirable that they agree to a certain extent on assumptions for discussion, while taking account of factors such as recent developments in tariff policies. On this basis, members shared the recognition that it was appropriate to develop the baseline scenario in the April Outlook Report based on common assumptions including the following: (1) negotiations between jurisdictions would progress to some extent, and (2) significant disruptions of global supply chains would be avoided. They also shared the recognition that the outlook for economic activity and prices could change considerably depending on the future course of trade policy in each jurisdiction and the response of firms and households in these jurisdictions to the policy. One member expressed the view that how U.S. tariff policy would turn out and how firms would respond to the policy were both fluid. The member continued that, therefore, the Bank's outlook for economic activity and prices could only be provisional at this point, and that it could be revised considerably depending on developments.

Based on the above assumptions, members then discussed the baseline scenario of the outlook for Japan's economic activity. They shared the recognition that (1) Japan's economic growth was likely to moderate as trade and other policies in each jurisdiction led to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions were expected to provide support, and (2) thereafter, Japan's economic growth rate was likely to rise, with overseas economies returning to a moderate growth path.

Members shared the view that U.S. tariff policy and resulting trade policies of other jurisdictions were likely to push down Japan's economy. On this basis, many members noted that the tariff policy would likely push down the economy mainly through the impact on trade and on business and household sentiment. One member added that, while positive supply shocks due to factors such as a decline in commodity prices were also expected, these shocks were likely to be smaller than the negative demand shocks arising through various channels.

Regarding the channel via trade, some members expressed the recognition that the increase in U.S. tariffs would push down Japan's exports through a decline in Japanese firms' price competitiveness within the United States, and through downward pressure on the global economy as a whole via a reduction in trade. In addition, a few members pointed out that Japan's exports would be adversely affected if the yen appreciated. A different member said that if high tariffs were imposed for a prolonged period, this might lead Japanese firms, mainly exporting firms -- which would be directly affected by the tariffs -- to proceed with responses such as business realignment, selection of business partners to strengthen supply chains, and moves to shift production sites to the United States. The member continued that there were concerns that these responses would affect small and medium-sized firms in Japan, which are financially relatively weak. In relation to this, one member noted that, while a matter of concern for the time being was the impact on automobile exports, which were subject to product-specific tariffs, a wider range of manufacturers could be affected if the Chinese economy saw a further downturn due to the high tariffs imposed between the United States and China. In response, one member pointed out that, unlike during the yen's appreciation phase in the 1990s, passing on tariff increases to selling prices would likely be feasible for Japanese firms as the new U.S. administration's reciprocal tariffs would be imposed on jurisdictions around the world, and that the tariffs were unlikely to lead to a deterioration in the relative competitiveness of Japanese firms. The member continued that it was therefore possible that the decline in profits of Japanese firms would be limited. A different member expressed the view that the impact of U.S. tariff imposition on Japan's exports could ease, since the imposition would theoretically contribute to the yen's depreciation against the U.S. dollar. On this basis, the member added that, as seen in the share of exports in GDP, for example, Japan's economy was not heavily reliant on trade, and that the Bank therefore needed to assess economic and financial developments in a considered manner, paying attention not only to developments in U.S. tariff policy, but also to domestic factors.

With respect to the channel via business and household sentiment, a few members expressed the view that heightened uncertainties were projected to result in cautious business sentiment, leading more firms to opt for postponing fixed investment for the time being. These members continued that the size of the impact could change considerably, depending on factors such as (1) the future course of trade and other policies in each jurisdiction and (2) developments in financial and foreign exchange markets. One member noted that, unlike past phases of deteriorating sentiment, the current phase was unique in that the situation could see a sudden and significant change, depending on the U.S. administration's decisions, and that this made it difficult to predict the behavior of firms and households. The member then expressed the recognition that the Bank needed to closely examine developments in business fixed investment and private consumption, while making use of, for example, anecdotal information gathered through its branches.

Members agreed that Japan's exports and industrial production were likely to show some weakness, against the background of the slowdown in overseas economies, but were projected to return to an uptrend thereafter.

Members shared the recognition that the growth rate of business fixed investment was likely to decelerate, affected by the slowdown in overseas economies, although it was expected that investment to address labor shortages, digital-related investment, research and development (R&D) investment related to growth areas and decarbonization, and investment associated with strengthening supply chains would continue and that accommodative financial conditions would provide support. In addition, they concurred that, thereafter, as corporate profits were likely to improve with an increase in domestic and external demand, business fixed investment was projected to continue on an increasing trend, partly due to investment for capacity expansion to address the rise in demand.

Members agreed that although private consumption was expected to be affected by the price rises for the time being, it was projected to maintain its moderate increasing trend, mainly due to the continued rise in employee income. They shared the recognition that, thereafter, private consumption was likely to increase moderately as employee income continued to rise.

Members shared the recognition that employee income was likely to continue to see a clear increase for the time being, supported by the rise in nominal wages reflecting the 2025 annual spring labor-management wage negotiations; however, as the downward pressure on special cash earnings (bonuses) was likely to strengthen due to the deterioration in corporate profits, the pace of increase in employee income was projected to decelerate. Members shared the view that, thereafter, the growth momentum in employee income was likely to increase, as the nominal wage growth rate accelerated again in reflection of the recovery in corporate profits.

Based on these discussions, members shared the recognition that, comparing the projections with those in the January 2025 Outlook Report, the projected real GDP growth rate for fiscal 2024 was somewhat higher, mainly led by private consumption, but the projected growth rates for fiscal 2025 and 2026 were lower due to the effects of trade and other policies in each jurisdiction.

Members then discussed the baseline scenario of the outlook for Japan's price developments. They shared the view that the year-on-year rate of increase in the CPI (all items less fresh food) was likely to be in the range of 2.0-2.5 percent for fiscal 2025, in the range of 1.5-2.0 percent for fiscal 2026, and at around 2 percent for fiscal 2027. Members agreed that the effects of the past rise in import prices and of the recent rise in food prices such as rice prices -- these factors had pushed up the inflation rate so far -- were expected to wane. On this basis, members shared the view that underlying CPI inflation was likely to be sluggish, mainly due to the deceleration in Japan's economy, but was expected to increase gradually thereafter, since it was projected that a sense of labor shortage would grow as the economic growth rate rose and that medium- to long-term inflation expectations would rise. They continued that, in the second half of the projection period of the April 2025 Outlook Report, underlying CPI inflation was likely to be at a level that was generally consistent with the price stability target. Some members expressed the recognition that, even with the effects of trade and other policies in each jurisdiction that were assumed at this meeting, there had been no change from the past in the broad direction of underlying CPI inflation increasing gradually toward 2 percent, as it continued to be supported by wage growth and tight labor market conditions. On this basis, a few members expressed the view that, under the baseline scenario, the timing at which underlying CPI inflation would be at a level that was generally consistent with the price stability target was likely to lag behind previous projections by about a year.

Members shared the view that, while trade policy in each jurisdiction could either push up or push down prices in Japan, it was likely to contribute to a downward revision of the baseline scenario under the assumptions at this meeting, mainly through a future deceleration in the economy. In addition, one member expressed the view that, in the event of supply-chain disruptions, this could push up prices temporarily; if disruptions persisted, however, this could push down corporate profits and wages, thereby exerting downward pressure on Japan's underlying inflation. Meanwhile, a different member expressed the recognition that, as tariff impositions could be considered short-term price shocks, it was possible to conclude theoretically that they did not have practical effects in the long term; therefore, at this point, from a somewhat long-term perspective, U.S. tariff policy and its uncertainties would not affect Japan's underlying inflation and potential growth rate.

Members shared the recognition that, comparing the projections with those in the January 2025 Outlook Report, the projected year-on-year rates of increase in the CPI (all items less fresh food) for fiscal 2025 and 2026 were lower, mainly reflecting the decline in crude oil prices and the downward revision of the GDP growth rates.

Members then discussed upside and downside risks to economic activity and prices. They shared the view that there were various risks to the outlook; in particular, it was extremely uncertain how trade and other policies in each jurisdiction would evolve and how overseas economic activity and prices would react to them. Members continued that it was therefore necessary to pay due attention to the impact of these developments on financial and foreign exchange markets and on Japan's economic activity and prices.

On this basis, members noted the following three factors as major risks to economic activity: (1) the evolving situation regarding trade and other policies in each jurisdiction and developments in overseas economic activity and prices under such a situation, (2) developments in import prices, and (3) the impact of various changes in the environment surrounding Japan on firms' and households' medium- to long-term growth expectations and on Japan's potential growth rate.

Regarding risks to prices, members concurred that, if the aforementioned risks to economic activity materialized, prices would be affected, and that the following factors warranted attention as risks specific to prices: (1) firms' wage- and price-setting behavior and its impact on inflation expectations, and (2) future developments in foreign exchange rates and import prices, including international commodity prices, as well as the extent to which such developments would spread to domestic prices.

In relation to the risks to prices of the evolving situation regarding trade and other policies in each jurisdiction, one member noted that the decline in corporate profits -- particularly those of exporting firms -- could push down underlying CPI inflation through an increase in the pressure on suppliers to reduce costs and through changes in their wage-setting behavior. In relation to this, one member pointed out that an important factor in maintaining the momentum in wage hikes was how business managers would set out their stance on winter bonuses for fiscal 2025 and wage hikes for fiscal 2026. A different member commented that it was necessary to carefully monitor, including through anecdotes, factors such as developments in firms' and households' inflation expectations and whether firms' wage- and price-setting behavior would not shift back to what it had been under prolonged deflation or in a low-inflation environment. Moreover, some members expressed the recognition that there was a risk that prices in Japan would be pushed down by an increase in the inflow of low-priced goods from China, reflecting the impact of the high tariffs imposed between the United States and China. In response, a few members pointed out that prices could deviate upward from the baseline scenario, depending on the course of negotiations between jurisdictions. One of these members added that, even if the GDP growth rate and the year-on-year rate of increase in the CPI developed in line with the outlook presented at this meeting, it was quite possible that underlying CPI inflation would be at a level that was generally consistent with the price stability target in the first half of the projection period of the April 2025 Outlook Report, depending on firms' and households' inflation expectations and firms' wage- and price-setting behavior. This member expressed the view that, moreover, as prices were expected to continue increasing at around 2 percent until fiscal 2027, attention was warranted on upside risks to prices due to factors such as global supply-chain disruptions. Meanwhile, some members added that if foreign exchange rates fluctuated significantly, prices could be affected.

With regard to <u>the risk balance</u>, members shared the recognition that, judging each member's risk assessments as a whole, (1) risks to economic activity were skewed to the downside for fiscal 2025 and 2026, and (2) risks to prices were also skewed to the downside for fiscal 2025 and 2026.

III. Summary of Discussions on Monetary Policy

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

With respect to <u>the guideline for money market operations for the intermeeting period</u>, 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. Many members pointed out that, considering the downward deviations from its outlook for economic activity and prices and the heightened uncertainties, it was appropriate at the moment for the Bank to carefully monitor the future course and impact of trade and other policies in each jurisdiction, while maintaining accommodative financial conditions. Some members expressed the view that real interest rates were at significantly low levels, and it was important to firmly support the economy by maintaining such levels. One of these members added that it had been more than a year since the Bank moved away from the lower bound on interest rates; in this situation, economic activity and prices had been firm, and the current monetary policy stance was highly accommodative. One member expressed the view that it was necessary to examine the effects of the policy interest rate hike decided in January 2025. A different member noted that the Bank needed to maintain a wait-and-see approach until developments in U.S. tariff policy became somewhat settled. Meanwhile, one member expressed the view that the recent U.S. tariff policy could lead Japanese firms to conduct excessive cost-cutting and restrain wage hikes and investment, and could also bring about a hollowing out of industries; close attention was thus warranted on whether there would be a change in the sentiment of firms or in trends in bankruptcies. The member then said that, in order to carefully examine the impact of U.S. tariff policy on Japan's economy, it was appropriate for the Bank to maintain the current guideline for money market operations.

As for the future conduct of monetary policy, members concurred that if the outlook for economic activity and prices was realized, it would be appropriate for the Bank, in accordance with improvement in economic activity and prices, to continue to raise the policy interest rate and adjust the degree of monetary accommodation. Some members expressed the recognition that the Bank's stance to continue to raise the policy interest rate was appropriate, given that real interest rates were significantly negative and the price stability target of 2 percent was likely to be realized. One of these members said that it was necessary to be attentive to the fact that Japanese firms' financial positions had improved significantly, as seen, for example, in their sound balance sheets. One member expressed the view that the most important factor with regard to achieving the price stability target was developments in firms' wage- and price-setting behavior and in firms' and households' inflation expectations, and in that sense, there was little risk of such behavior and expectations returning to the previous situation where wages and prices did not increase easily. The member continued that, therefore, it was unlikely that underlying CPI inflation, which had been increasing toward 2 percent, would turn to a decline.

In this regard, many members noted that, considering the extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it was important for the Bank to carefully examine factors such as developments in economic activity and prices as well as in financial markets at home and abroad, and judge whether the outlook for economic activity and prices would be realized, without any preconceptions. One member expressed the recognition that, amid the extremely high uncertainties -- including the future course of negotiations between jurisdictions that was assumed in the outlook -- the outlook itself could change, both upward and downward. The member continued that it was therefore necessary to examine the likelihood of realizing the outlook and the risks to the outlook. While expressing the view that the likelihood of realizing the outlook for economic activity and prices was not as high as before, one member said that it would be necessary for the Bank to examine the possibility of both upward and downward deviations from its outlook and conduct monetary policy as appropriate. A different member expressed the recognition that, while the Bank would enter a phase of pausing its policy interest rate hikes with a deceleration in the U.S. economy, it should not be too pessimistic, and that it would be required to conduct monetary policy in a nimble and more flexible manner, such as by conducting further policy interest rate hikes in response to policy changes in the United States. Meanwhile, a different member pointed to the possibility that if the supply-chain disruptions and other factors pushed down the economy and pushed up prices at the same time, it would be more difficult to respond with monetary policy actions in Japan, where inflation expectations were not as anchored as in the United States.

Members also discussed the Bank's strategy for communication to the public regarding the conduct of monetary policy. Some members pointed out that, in a situation where the outlook for economic activity and prices could change significantly both upward and downward, it was important for the Bank to carefully explain that the future path of the policy interest rate could change from the one expected in the baseline scenario. Moreover, one member expressed the opinion that, in the baseline scenario discussed at this meeting, while it was assumed that there were various uncertainties, the 2 percent price stability target was expected to be achieved, albeit with a delay. The member continued that, considering this outlook, it was important for the Bank to explain its basic thinking at this point that it should continue to adjust the degree of monetary accommodation by raising the policy interest rate. In relation to this, one member pointed out that market participants had been interpreting new information obtained from home and abroad based on the Bank's basic thinking on monetary policy conduct, had developed their views on the timing of policy interest rate hikes, and continued to revise their views without seeking direct indications from the Bank. On this basis, the member expressed the view that it was desirable for market participants to turn their attention to economic and price developments rather than the specific wording of the Bank's explanation, and that it was appropriate for the Bank to continue to communicate in a way that this situation could be maintained.

In light of the above discussions, the chairman requested that the staff present possible descriptions of the future conduct of monetary policy to include in the April 2025 Outlook Report. The staff reported that the descriptions could be as follows. First, as for the conduct of monetary policy, given that real interest rates were at significantly low levels, if the outlook for economic activity and prices discussed at this meeting was realized, the Bank, in accordance with improvement in economic activity and prices, would continue to raise the policy interest rate and adjust the degree of monetary accommodation. Second, in this regard, considering the extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it was important for the Bank to carefully examine factors such as developments in economic activity and prices as well as in financial markets at home and abroad, and judge whether the outlook would be realized, without any preconceptions. Third, with the price stability target of 2 percent, the Bank would conduct monetary policy as appropriate, in response to developments in economic activity and prices as well as financial conditions, from the perspective of sustainable and stable achievement of the target.

In reaction to the staff's explanation, members shared the view that the descriptions presented by the staff were appropriate. Some members expressed the view that it was necessary to also explain in the April Outlook Report that the baseline scenario was developed based on certain assumptions regarding the future course of trade and other policies in each jurisdiction, and that the outlook could change considerably depending on the future course of the policies in each jurisdiction and the response of firms and households in these jurisdictions to the policies.

Members also discussed <u>recent developments in the JGB markets and the Bank's thinking on its JGB purchases</u>. Some members once again presented the Bank's basic thinking such as the following: (1) in principle, long-term interest rates were to be formed in financial markets, and (2) it was appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets. One of these members noted that, in deciding the JGB reduction plan, the key point would be to determine to what extent the Bank could reduce its JGB purchases while containing the possibility of a disruption in JGB market functioning. Some members expressed the view that the JGB markets had been divided by maturity, as seen, for example, in the significant rise in yields on super-long-term JGBs. One of these members said that, in view of the interim assessment of the plan for the reduction of the purchase amount of JGBs, it was important for the Bank to carefully examine supply and demand conditions and liquidity of JGBs by maturity and the variety of views of market participants from different business types. In relation to this, some members added that some market participants had pointed out the following: in the current situation where the number of participants in the super-long-term JGB market was limited in the first place, the rise in the yields of super-long-term JGBs was attributable to factors such as a decline in investors' demand resulting from regulatory-driven demand being past its peak. One member expressed the recognition that, excluding exceptional cases, if the Bank responded to every temporary change in the supply and demand balance, market functioning would be hampered again. One member pointed out that, while it was natural for central banks to take appropriate account of market views, if a central bank was continually over-flexible in response to these views, this flexibility itself could make the bank's responses less predictable, thereby increasing uncertainties in the markets. Based on these discussions, members concurred that, at the June 2025 meeting, the Bank would need to thoroughly review the developments in and functioning of the JGB markets after carefully assessing market participants' opinions and views, conduct an interim assessment of the current reduction plan, and discuss the guideline for its JGB purchases from April 2026.

IV. Remarks by Government Representatives

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

(1) The government would pay close attention to developments in tariff negotiations with the United States and to the impact of U.S. tariff measures on Japan's export industries, on small and medium-sized firms and regional economies affected by those tariffs, and on people's daily lives. The government would do its utmost to provide necessary support, such as for financing.

(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 and paying due attention to factors such as economic developments at home and abroad. 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 Japanese economy was recovering at a moderate pace, while there was uncertainty arising from U.S. trade policy and other factors. It was necessary to pay even more attention to this uncertainty, together with factors such as the effect on private consumption of continued price increases.

(2) In line with the emergency response package to address U.S. tariff measures, the government would do its utmost to provide necessary support. 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, NAKAMURA Toyoaki, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, and KOEDA Junko.

Votes against the proposal: None.

B. Discussion on 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. Discussion regarding the Outlook Report

Members discussed the draft of "The Bank's View" in the April 2025 Outlook Report (consisting of "The Bank's View" and "The Background"). To reflect the view of the members, the chairman formulated a proposal on "The Bank's View" and put it to a vote. The Policy Board decided the text of "The Bank's View" by a unanimous vote. It was confirmed that "The Bank's View" would be released immediately after the meeting. It also was confirmed that the full text of the Outlook Report would be made public on May 2.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of March 18 and 19, 2025, for release on May 8.

Attachment
May 1, 2025
Bank of Japan

Statement on Monetary Policy

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.