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September 25, 2025

Bank of Japan

Minutes of the Monetary Policy Meeting

on July 30 and 31, 2025

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

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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, July 30, 2025, from 2:00 p.m. to 3:51 p.m., and on Thursday, July 31, from 9:00 a.m. to 11:50 a.m.¹

Policy Board Members Present

UEDA Kazuo, Chairman, Governor of the Bank of Japan

HIMINO Ryoza, Deputy Governor of the Bank of Japan

UCHIDA Shinichi, Deputy Governor of the Bank of Japan

NOGUCHI Asahi

NAKAGAWA Junko

TAKATA Hajime

TAMURA Naoki

KOEDA Junko

MASU Kazuyuki

Government Representatives Present

SAITO Hiroaki, State Minister of Finance, Ministry of Finance²

MAEDA Tsutomu, Deputy Vice-Minister for Policy Planning and Coordination,
Ministry of Finance³

SETO Takakazu, State Minister of Cabinet Office, Cabinet Office²

HAYASHI Sachihiro, Vice-Minister for Policy Coordination, Cabinet Office³

Reporting Staff

SHIMIZU Seiichi, Executive Director (Assistant Governor)

KAMIYAMA Kazushige, Executive Director

SUWAZONO Kenji, Executive Director

NAKAMURA Koji, Executive Director

¹ The minutes of this meeting were approved by the Policy Board at the Monetary Policy Meeting held on September 18 and 19, 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 July 31.

³ Present on July 30.

OKUNO Akio, Director-General, Monetary Affairs Department

IDE Joji, 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

MIURA Yukihiro, Director, Deputy Head of Planning and Coordination Division,
Secretariat of the Policy Board

YAGI Tomoyuki, Senior Economist, Monetary Affairs Department

KITAHARA Jun, Senior Economist, Monetary Affairs Department

FUKUSHIMA Shunsuke, Senior Economist, Monetary Affairs Department

I. Summary of Staff Reports on Economic and Financial Developments⁴

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 June 16 and 17, 2025.⁵ The uncollateralized overnight call rate had been in the range of 0.476 to 0.479 percent.

Meanwhile, in June 2025, the Bank conducted Japanese government bond (JGB) purchases of about 4.1 trillion yen per month. In July 2025, it cut down the monthly purchase amount by about 400 billion yen, to about 3.7 trillion yen per month; this was in accordance with the JGB reduction plan decided at the June 2025 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. 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), while generally moving in line with U.S. stock prices, had risen, reflecting that tariff negotiations between Japan and the United States had resulted in an agreement. Yields on 10-year JGBs had been more or less flat; however, they had recently risen, reflecting tariff negotiations between Japan and the United States resulting in an agreement, and partly due to speculation over policy interest rate hikes by the Bank and over future fiscal policy. The liquidity indicators in the JGB markets continued to improve on the whole. In the foreign exchange market, the yen had temporarily appreciated against the U.S. dollar, as market expectations for policy interest rate cuts by the Federal Reserve had increased; however, it had depreciated over the intermeeting period, amid improvement in market sentiment. The yen had also depreciated 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 continued to be relatively weak on the whole, partly reflecting that exports had seen a reactionary decline following earlier front-loading. As for the Chinese economy, despite government support, the pace of improvement in the economy had been on a slowing trend, with downward pressure mainly from tariff increases and adjustments in the real estate market. 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, these economies were projected to see a gradual acceleration in their growth rate thereafter, and then return to a moderate growth path. 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, despite continued attention to uncertainties over the global economy, market sentiment had improved, mainly due to recent solid economic indicators in the United States and to progress in trade policy negotiations. U.S. long-term interest rates were more or less unchanged over the intermeeting period; they had temporarily declined, as market expectations for policy interest rate cuts by the Federal Reserve had increased, but had subsequently risen, as attention had been drawn to solid economic indicators. European long-term interest rates had increased slightly, mainly due to prospects of an easing of supply and demand conditions, as Germany approved plans to increase issuance of sovereign bonds, in line with the release of a draft budget that includes an increase in defense spending. With the improvement in market sentiment, U.S. stock prices had risen, as the solid business performance of major high-tech and other firms had been perceived as favorable. European stock prices were more or less unchanged over the intermeeting period; they had declined, reflecting increased tension over the situation in the Middle East, but had subsequently risen, moving in line with U.S. stock prices. Meanwhile, currencies in emerging economies had been more or less flat on the whole. Crude oil prices

had declined, against the background of the easing of geopolitical tensions in the Middle East following the agreement on a ceasefire between Iran and Israel.

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 and a subsequent reactionary decline, due to the increase in U.S. tariffs. Regarding the outlook, exports and industrial production were likely to be negatively affected by the reactionary decline following the front-loading due to the increase in U.S. tariffs, and were expected to be under gradually increasing downward pressure stemming from the slowdown in overseas economies.

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 had been resilient 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 for the January-March quarter of 2025 on a quarter-on-quarter basis, mainly led by an increase in services consumption, but remained more or less flat for the April-May period, relative to that quarter, pushed down by the rise in food prices. Based on anecdotal information from firms, statistics published by industry organizations, and high-frequency indicators, private consumption since June seemed to have remained more or less flat from the previous month, although there continued to be many firms that

had pointed to consumers' increased thriftiness, partly due to the rise in food prices, such as rice prices. Consumer sentiment remained at a low level, although it had recently picked up somewhat, partly because the rise in rice prices had paused. Regarding the outlook, although a rise in scheduled cash earnings reflecting the results of the 2025 annual spring labor-management wage negotiations was expected to provide some support, private consumption was likely to be more or less flat, since, in addition to the recent rise in food prices, the slower growth in bonuses reflecting a decline in corporate profits would push down consumption through the second half of fiscal 2025.

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 continued to increase steadily. With regard to the outlook, employee income was likely to continue to see a steady 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, etc.) 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, in international commodity markets, prices of crude oil and copper had increased recently. The price of wheat had been more or less flat. The year-on-year rate of increase in the producer price index (PPI) had declined, being at around 3 percent recently, mainly due to the effects of the past decline in crude oil prices and the yen's appreciation. The year-on-year rate of increase in the services producer price index (SPPI, excluding international transportation) remained relatively high, being at around 3.5 percent recently, mainly on the back of a rise in personnel expenses. With moves to pass on wage increases to selling prices continuing, 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, due to the effects of the rise in food prices, such as rice prices, and other factors. Inflation expectations had risen moderately. With regard to the outlook, the year-on-year rate of increase in the CPI was expected to decelerate toward the end of fiscal 2025, as the rise in food prices, such as rice prices, was likely to dissipate and as the effects of the past yen's appreciation were expected to exert downward pressure mainly on durable goods.

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 percent; that in the aggregate amount outstanding of CP and corporate bonds had been in the range of 5.0-5.5 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 at around 1.0 percent.

3. Financial system

Japan's financial system maintained stability on the whole.

Profits of major banks had increased, 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 increased, 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. 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 that high uncertainties remained 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 July 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, despite continued attention to uncertainties over the global economy, market sentiment had improved, mainly due to recent solid economic indicators in the United States and to progress in trade policy negotiations. One member noted that U.S. stock prices had been renewing historical highs. As background to this, the member pointed out that the effects of tariff increases on the U.S. economy had been limited thus far, and that profits of U.S. firms had been improving, primarily in the IT sector. A different member expressed the recognition that, although market sentiment had recovered to the condition before the announcement of reciprocal tariffs, there was a risk of a reversal in market sentiment if this proved to be too optimistic, and developments in market sentiment therefore warranted attention.

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 expressed the view that both the U.S. and Chinese economies had shown solid developments thus far, and the risk of an economic slowdown was likely to be not that significant, mainly because of growth in the IT sector and policy responses in each jurisdiction that aimed at underpinning domestic demand. A different member noted that the global economy's capacity to absorb the impact of U.S. tariff policy was remarkable. That said, the member continued that it would take some time to see if such optimism was justified.

Members agreed that the U.S. economy had grown moderately, although some weakness had been seen in part. On this basis, some members commented that it was likely that the effects of tariff policy were yet to materialize, and therefore careful monitoring was warranted on developments, particularly in consumer prices and the labor market. One of these members added that, now that the basic elements of tariff policy had been settled, it would be necessary to analyze and conduct research from various perspectives to determine to what extent inflation would rise due to tariffs or to what extent U.S. consumers would reduce consumption under rising inflation. A different member expressed the recognition that, although the employment statistics for June had been relatively robust, the increase in the number of government employees seemed to be due to distortions in seasonal adjustments,

and the fall in the unemployment rate was attributable to a decline in the labor force participation rate due to immigration policies. The member continued that the risk of a sharp deterioration in the employment situation could therefore not be ruled out. Meanwhile, a few members expressed the view that, for a major economy like the United States, there was a possibility that its terms of trade would improve by imposing certain tariffs, rather than by setting tariff rates to zero, as stated by what is known as the theory of optimal tariffs. In addition, one member pointed out that, while policies that had a negative impact on economic growth, tariffs in particular, had been introduced first in the United States, the situation had now changed, as seen, for example, in the passage of tax cut legislation. The member then noted that the U.S. economy was also unlikely to plunge into recession, triggered by credit contraction, because the balance sheets of households, firms, and financial institutions in the United States had been mostly sound and financial conditions had been stable.

Members shared the view that European economies continued to be relatively weak on the whole, partly reflecting that exports had seen a reactionary decline following earlier front-loading.

Members shared the view that, despite government support, the pace of improvement in the Chinese economy had been on a slowing trend, with downward pressure from tariff increases and adjustments in the real estate market.

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

Members agreed that financial conditions in Japan had been accommodative. One member pointed out that yields on 10-year JGBs had been at around 1.5 percent recently, and considering factors such as developments in economic activity and prices, financial conditions remained accommodative.

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. Many members expressed the recognition that the negative impact of U.S. tariff policy remained limited thus far, and that it had not spread to the economy overall. One of these members expressed the view that the results of the June 2025 *Tankan* (Short-Term Economic Survey

of Enterprises in Japan) were stronger than market expectations -- business sentiment had been flat, projected profits in the corporate sector continued to be at a high level on the whole, and business fixed investment plans had been firm. In relation to this, a different member noted that while, in Japan, the amount of exports from industries such as transportation machinery and large machinery to the United States was large, the impact of tariffs had not been widely seen in the results of the *Tankan* and other surveys. The member continued that this might be because many of the industries covered by these surveys, such as nonmanufacturing, were less directly affected by tariffs. One member expressed the recognition that, although the effects of tariff policy had begun to materialize in some industries such as automobiles, profits of nonmanufacturing had been favorable, and that Japan's economy had held up as a whole.

Members concurred that exports and industrial production continued to be more or less flat as a trend, although there had been some front-loading and a subsequent reactionary decline, 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. One member expressed the view that business fixed investment had been resilient recently, and machinery orders -- a leading indicator -- had also not shown a significant decline at this point.

Members concurred that private consumption had been resilient 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 expressed the view that, although some weakness had been seen in macro data due to consumers' increased thriftiness, private consumption remained resilient, partly owing to so-called selective consumption and other factors, with an increase in employee income. One member pointed out that, looking at the breakdown of the CAI, consumption of nondurable goods had been weak, affected by price rises; however, there was a possibility that e-commerce consumption and charges for overseas subscription services, for example, were not sufficiently captured in these statistics. The member continued that it was therefore necessary to grasp the true state of consumption from various data.

Members shared the view that the employment and income situation had improved moderately. Some members expressed the recognition that, based on the June 2025 *Tankan*

and anecdotal information from firms, the positive wage-setting stance of firms had been maintained, despite U.S. tariff policy. One of these members expressed the view that, although the recent *Monthly Labour Survey* had yet to clearly show the high nominal wage growth achieved in the 2025 annual spring labor-management wage negotiations, it was highly likely that such growth would be gradually reflected.

As for prices, members agreed that, with moves to pass on wage increases to selling prices continuing, 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, due to the effects of the rise in food prices, such as rice prices, and other factors. One member expressed the view that, while the recent rise in food prices was essentially considered to stem from cost-push factors reflecting a rise in the cost of food ingredients, it was also a sign that passing on cost increases to prices was becoming easier, owing to the changing mindset of consumers with regard to inflation. One member pointed out that higher-than-expected CPI in the past year could be explained mainly by the rise in the price of rice and other food. The member then expressed the recognition that, although higher wages had been gradually passed through to services prices as an underlying trend, it seemed this pass-through had not accelerated recently. A different member pointed out that, during the time of the deflationary norm, temporary factors that pushed down prices had a large impact. The member continued that more recently, however, while the impact of factors that pushed down prices -- such as a decline in import prices -- tended not to become widespread, temporary factors that pushed up prices tended to have a large impact. On this basis, the member expressed the view that developments that lay behind this change might include the following: increasing labor shortages, the changing mindset of firms and consumers with regard to wage and price setting and to cost pass-through, and rising inflation expectations.

Meanwhile, members agreed that inflation expectations had risen moderately. One member expressed the recognition that various measures of inflation expectations had been steadily approaching 2 percent, although they had yet to be anchored at 2 percent. A different member expressed the view that, with inflation remaining significantly above 2 percent for more than three years, inflation expectations could be considered to have reached around 2 percent, and there was concern as to whether they would rise further. In response, one member noted that inflation expectations had been relatively contained, even amid continued price increases. The member then expressed the view that this could be attributed to the past

experience of deflation and expectations regarding the government's measures to address rising prices, among other factors. On this basis, the member expressed the recognition that attention was also warranted on the possibility that a rise in the price of items such as food, including rice, and gasoline could lead to a pushing up of inflation expectations. The member continued that this was because, through the actual price levels of these items, consumers were likely to feel that prices were increasing. In relation to this, one member noted that some overseas research recently suggested that actual price levels themselves could affect inflation expectations. The member continued that, in light of this, it was possible that perceived inflation would not decline, even if the year-on-year rate of increase in rice prices decelerated.

B. Outlook for Economic Activity and Prices

In formulating the July 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 trade and other policies in terms of negotiations between jurisdictions and the impact of these policies on economic activity and prices at home and abroad, members concurred that, from the perspective of clearly communicating the results of their deliberations to the public, it was desirable that they develop the baseline scenario in the July Outlook Report, taking into account developments in negotiations so far, based on common assumptions, including the assumption that 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 policies in each jurisdiction and the response of firms and households to the policies.

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 discussed the impact of U.S. tariff policy on Japan's economy, taking into account developments in negotiations between jurisdictions, including those between Japan

and the United States. Many members expressed the recognition that agreement in tariff negotiations between Japan and the United States represented great progress and would lead to reduced uncertainty regarding Japan's economy. One of these members noted that, as tariffs had turned out not to be as severe as anticipated, particularly those on automobiles, uncertainty regarding tariff policy had decreased markedly, and this had in turn made it easier for Japanese firms to conduct their business activities. Some members expressed the view that the direct impact of tariff policy on Japan's economy might not be so significant, given that U.S. tariffs had also been imposed on a wide range of countries and regions other than Japan, and that Japanese firms were not necessarily at a disadvantage relative to overseas firms in terms of tariff rates. In addition, one member noted that, in considering the impact of tariff policy on Japan's economy, it was necessary to recognize that Japan's automobile industry had been reducing its share of exports to the United States in the long term. Based on these discussions, a few members expressed the recognition that it was important to closely examine the following points through sources such as firms' earnings announcements and anecdotal information: (1) the extent to which the impact of tariff policy reduced the profits of major manufacturing industries, (2) the extent to which the impact of this reduction spilled over to business conditions of small and medium-sized firms, and (3) how these factors affected the course of wage revisions for spring 2026.

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. One member commented that attention was warranted on the fact that Japan's economy was entering a phase where the effects of front-loading of exports seen thus far would dissipate and the adverse effects of the tariffs would be seen.

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 more or less flat for the time being due to the impact of price rises, it was projected to gradually return to a moderate increasing trend, with 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 steady 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, etc.) 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. A few members expressed the view that, if the adverse impact on the profits of automakers -- who serve as trendsetters for wage hikes -- was contained as a result of the agreement in tariff negotiations between Japan and the United States, this would accordingly reduce the possibility of these manufacturers triggering the spread of moves to restrain wage hikes at the 2026 annual spring labor-management wage negotiations. Meanwhile, regarding future developments in wage hikes, one member commented that, while focusing closely on wage revisions in the annual spring labor-management wage negotiations, it was also necessary to examine various other factors such as the degree of increase in the minimum wage, winter bonuses reflecting corporate profits, and developments in the improvement of wages through job changes.

Based on these discussions, members shared the recognition that, comparing the projections with those in the April 2025 Outlook Report, the projected real GDP growth rates were more or less unchanged. They continued that the basic view on future economic developments was unchanged. One member expressed the recognition that, since the April Outlook Report had assumed that "negotiations between jurisdictions will progress to some extent," the recent agreement in tariff negotiations between Japan and the United States did not require the Bank to change the baseline scenario from the one in the April Outlook Report;

meanwhile, as uncertainty regarding tariff policy had decreased, the likelihood of the baseline scenario being realized had increased.

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 2.5-3.0 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 shared the recognition that, comparing the projections with those in the April 2025 Outlook Report, the projected year-on-year rate of increase in the CPI (all items less fresh food) for fiscal 2025 was higher, mainly due to the effects of the rise in food prices. They continued that the projected rates of increase in the CPI for fiscal 2026 and 2027 were more or less unchanged.

Regarding the CPI projections, members agreed that the effects of the recent rise in food prices, such as rice prices, were expected to wane. In relation to this, one member noted that the recent rise in rice prices was unique in that it reflected -- besides weather conditions -- the effects of the increase in production costs, which had not been passed through to prices for several years. The member also expressed the view that, apart from rice prices, the rise in the price of processed food was likely to moderate, given that international commodity prices, such as of grains, had started to moderate.

In addition, 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 July 2025 Outlook Report, underlying inflation was likely to be at a level that was generally consistent with the price stability target.

Regarding underlying inflation, many members expressed the recognition that it was necessary to closely examine a variety of information regarding economic activity and prices, in addition to various price indicators and inflation expectations, and make a comprehensive assessment. One member expressed the view that, while it was difficult to pin it down with one particular indicator, underlying inflation was an important concept for central banks when conducting monetary policy. On this basis, some members expressed the view that, given recent developments in various indicators, although underlying inflation had been rising

moderately toward 2 percent, it had not yet reached 2 percent. One member pointed out that it was necessary for the Bank to carefully explain the following: (1) the significant upward revision to the CPI projection for fiscal 2025 at this point was mainly due to the rise in food prices, which had not been assumed at the time of the April 2025 Outlook Report; and (2) this did not mean that underlying inflation had been accelerating recently. Meanwhile, one member expressed the view that underlying inflation was a concept with a certain range, and that, intuitively, it had recently been in the range of around 1.5 to 2.5 percent. A different member expressed the recognition that while the level of underlying inflation appeared to have been around 2 percent recently, taking into account estimation errors in various indicators and the range of these estimates, there were also sizable downside risks to prices, and due attention was therefore warranted on whether underlying inflation would remain at this level. Meanwhile, one member was of the view that, among the determinants of underlying inflation, developments in inflation expectations were important when considering monetary policy conduct. The member continued that this was because, unlike in the past phases, actual inflation and inflation expectations in the current phase both continued to rise, accompanied by improving corporate profits and increasing wages. In relation to this, a different member pointed out that Japan's economy had fallen into disinflation or deflation on a number of occasions during recessions, and even during economic recovery phases, the situation continued in which underlying inflation did not rise easily. The member continued that it was therefore necessary to closely monitor how inflation expectations would react if Japan's economic growth were to moderate in the future. One member expressed the view that, when underlying inflation was substantially below 2 percent, it was considered to have greater significance than actual inflation for the making of policy decisions. The member continued that, however, when underlying inflation approached 2 percent, the significance of actual inflation was thought to gradually increase. A different member expressed the recognition that the Bank was at a phase where it should shift the core of its communications regarding price developments from underlying inflation to (1) actual price developments, the outlook for prices, and special factors affecting these, (2) the output gap, and (3) inflation expectations. Meanwhile, one member pointed out that there had been a sequence of global inflationary factors, such as a reversal of globalization, a decline in the labor supply in China and other economies, and an increase in the costs of responding to climate change. The member continued that, under these circumstances, it was difficult to judge whether the

impact of these factors on prices in Japan should be set aside as an external shock or regarded as a component of the underlying trend of inflation.

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 remained highly 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. One member expressed the recognition that, while the agreement in tariff negotiations between Japan and the United States was a positive development that would lead to reduced uncertainty, negotiations between the United States and other jurisdictions, including China, were still in progress, and that there remained high uncertainty regarding how the outcome of these negotiations would affect domestic and overseas economies.

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. One member expressed the view that the global economy had not deteriorated much recently; however, if agreements on tariff rates between jurisdictions were to be delayed, resulting in prolonged front-loading and a subsequent reactionary decline in exports, there could be a delay in the timing of a deceleration phase in overseas economies, and this warranted attention. In addition, some members expressed the recognition that, although the impact of tariff policy was as yet unclear at this point, it was necessary to carefully examine how it would affect the U.S. economy in terms of, for example, the employment and income situation and price developments. A few of these members expressed the view that, while it should be recognized that the U.S. economy could enter a stagnation phase to some extent, the risk of it falling into recession was low. One member pointed out that, as had been the case during the pandemic, Europe, the United States, and China and other emerging economies had all leaned toward accommodative policies on both the fiscal and monetary fronts in the current phase due to a global sense of risk. The member

continued that, against this backdrop, the global economy could be pushed up or experience inflationary pressure, leading to higher-than-expected economic growth.

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. One member noted that a rise in food prices was likely to have an impact on people's perception of price developments, given that food items had a large weight in the CPI and were frequently purchased; meanwhile, such a rise in prices could lead to a deterioration in consumer sentiment. The member continued that a rise in food prices could therefore exert both upward and downward pressure on underlying inflation and inflation expectations. On this basis, the member pointed out that more time should be taken in examining whether moves to raise food prices would subside, owing in part to the government's responses with regard to rice prices, and whether there would be changes under such circumstances in firms' price-setting behavior for a wider range of items, including services. A different member expressed the recognition that rice prices would remain relatively high, and it was highly likely that upward pressure would also continue to be exerted on other food prices due to the spread of cost pass-through. The member then pointed out that there was a risk that the effects of the recent extreme heat and water shortages could either push up or push down prices through factors such as supply-side constraints on food, a decline in demand for goods and services, and the impact on productivity. One member expressed the recognition that, when rice prices rose in 1993, the price of food other than rice remained high even after rice prices decreased. The member continued that, given this, food prices could remain elevated this time as well, acting as an upside risk to prices. One member expressed the view that it was quite possible and had become more likely, compared to April, that the Bank could judge that the price stability target would be achieved in the first half of the projection period of the Outlook Report, considering (1) the agreement in tariff negotiations between Japan and the United States, (2) firms maintaining their positive wage- and price-setting behavior, and (3) recent higher prices. One member said that there had already been a shift away from the deflationary norm, and medium- to long-term inflation expectations had been rising. The member continued that, in this regard, the second-round

effects of price increases were more likely to emerge, and underlying inflation had been rising. On this basis, the member expressed the opinion that, given that the sense of well-being among households had been pushed down by inflation, as shown in the Bank's June 2025 *Opinion Survey on the General Public's Views and Behavior*, released in July 2025, and that growing attention had been drawn to price rises, the Bank was now at a phase where it needed to place more emphasis on the upside risks to prices. The member continued that, under these circumstances, it was likely that the Bank had now entered a stage where it should consider its communications with the view that the price stability target would be achieved. In addition, a few members pointed out that it was necessary to pay due attention to whether fiscal policy decisions would lead to a pushing up of prices. Meanwhile, one member said that the recent higher prices largely reflected a sectoral shock, namely a rise in food prices, and that inflation was likely to subside once the catching up of relative prices was complete. On this basis, the member expressed the view that risks to prices were skewed to the downside, given the risk that tariff policy could push down the real economy and thereby exert downward pressure on prices. A few members expressed the recognition that, in sectors such as industrial products and basic materials, there was a possibility that low-priced products would flow into Japan's market from China, which has an oversupply, and that this could push down prices.

With regard to the risk balance, 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 generally balanced.

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. Many members expressed the view that, although agreement in tariff negotiations between Japan and the United States was thought to have reduced uncertainty, it was necessary to monitor the impact of tariff policy on economic activity and prices for the time being. These members continued that it was therefore appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy. One member said that, even with Japan and

the United States reaching an agreement on tariffs, the baseline scenario remained unchanged, namely that Japan's economic growth would moderate and the improvement in underlying CPI inflation would be sluggish temporarily. The member then expressed the view that, given that high uncertainties remained regarding trade policies and their impact, the Bank should, at this point, maintain accommodative financial conditions with the current interest rate level and thereby firmly support the economy. A different member expressed the recognition that, in the current phase, the Bank should continue to monitor the effects of the policy interest rate hike decided in January 2025.

As for the future conduct of monetary policy, members shared the view that, if the baseline scenario of the outlook for economic activity and prices was realized, the Bank would, in accordance with improvement in economic activity and prices, continue to raise the policy interest rate and adjust the degree of monetary accommodation. In this regard, they agreed that, considering that high uncertainties remained 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 baseline scenario would be realized, without any preconceptions. One member expressed the view that there was not yet sufficient data from each economy to determine precisely the impact of trade policies. The member added that, moreover, it was possible that the direction of U.S. monetary policy and of foreign exchange rates could change significantly, depending on developments in consumer prices and labor market conditions in the United States. The member continued that the Bank should therefore make policy decisions when more data was available. One member expressed the recognition that the policy interest rate was lower than the neutral rate, with prices remaining relatively high and the output gap being at around 0 percent recently. The member continued that, in such a situation, it was appropriate for the Bank to return the policy interest rate to its neutral level where possible, while taking into account the financial and economic environment at each point in time, so as to, for example, curb unintended economic distortions. A different member also said that since it could be considered that Japan's policy interest rate was lower than the neutral rate, unlike in the United States and Europe, the Bank should continue to raise the policy interest rate when possible. On this basis, the member pointed out that with the stock market reacting positively to the agreement in tariff negotiations between Japan and the United States, the Bank needed to bear

in mind that it should not become overly cautious and miss the opportunity to raise the policy interest rate. One member noted that at least two to three more months were needed to assess the impact of U.S. tariff policy. The member then expressed the recognition that, if the U.S. economy was able to withstand the impact to a greater extent than expected, the downward effects on Japan's economy were likely to remain minimal, and that this might make it possible for the Bank to exit from its current wait-and-see stance, perhaps by the end of 2025 at the earliest. One member noted that, since rapid policy interest rate hikes due to a delay in policy response to higher prices would inflict considerable damage on Japan's economy, it was important for the Bank to raise the policy interest rate in a timely manner, from a risk management perspective as a central bank. Meanwhile, one member pointed out that, based on the baseline scenario in which inflation in Japan would decelerate temporarily, the Bank should decide whether to raise the policy interest rate with due consideration. The member continued that, on the other hand, it was appropriate for the Bank to adjust the degree of monetary accommodation in a timely manner if inflation remained above 2 percent for a prolonged period of time, owing to price rises mainly led by necessities with low price elasticity of demand and items facing strong supply constraints due to labor shortages.

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 July 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 that high uncertainties remained 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.

Members also discussed the Bank's strategy regarding its balance sheet. One member noted that, from the perspective of avoiding interference with the Bank's guidance of the short-term interest rate, it was necessary to consider factors such as the following: the optimal size of total current account balances at the Bank and of the Bank's overall balance sheet, and the path by which those were to be achieved. The member continued that this needed to be done while referring to, for example, precedents among other major central banks. On this basis, the member expressed the view that, given the current framework in which the Bank applies interest rates to current account balances, there was a possibility that it would be difficult for the Bank to guide the short-term interest rate for price stability if it were to scale back the total outstanding balance of current accounts at the Bank to a level seen before the Global Financial Crisis. In relation to this, a few members said that it was necessary to consider not only the size of the Bank's balance sheet but also the composition of its asset holdings, while noting that these were issues to be addressed in the future. One member then expressed the recognition that, in considering the Bank's asset composition, an important perspective would be to hold, as far as possible, the kind of assets the Bank's holding of which would have a neutral impact on the market.

IV. Remarks by Government Representatives

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

- (1) The government would analyze thoroughly the agreement between Japan and the United States on U.S. tariff measures and the impact of the measures on Japan. The government would also do its utmost to offer well-tailored support in response to consultations regarding assistance for cash flow and other concerns of small- and medium-sized enterprises and small-scale business operators, in order to ensure that the government could mitigate the impact on industries and employment in Japan.
- (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, paying due attention to factors such as economic developments at home and abroad, and communicating effectively with the market.

The representative from the Cabinet Office made the following remarks.

- (1) Japan's economy was recovering at a moderate pace, while the effects caused from the U.S. trade policies and so on had been seen in some areas. That said, due attention was warranted on risks from factors such as the effects of continued price increases.
- (2) Regarding U.S. tariff measures, the government had reached an agreement with the United States, based on an approach that pursued "investment over tariffs." That said, the tariff measures were still in place, and the government would therefore do its utmost to ensure sound economic and fiscal management, while continuing to take necessary measures.
- (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 Ryozi, UCHIDA Shinichi, NOGUCHI Asahi, NAKAGAWA Junko, TAKATA Hajime, TAMURA Naoki, KOEDA Junko, and MASU Kazuyuki.

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 July 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 August 1.

VII. Approval of the Minutes of the Monetary Policy Meeting

The Policy Board approved unanimously the minutes of the Monetary Policy Meeting of June 16 and 17, 2025, for release on August 5.

VIII. Approval of the Scheduled Dates of the Monetary Policy Meetings

The Policy Board approved unanimously the dates of the Monetary Policy Meetings to be held in 2026 and agreed to make this public after the meeting.

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.