



Not to be released until 8:50 a.m.
Japan Standard Time on Friday,
March 28, 2025.

March 28, 2025

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on March 18 and 19, 2025

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part. It is likely to keep growing at a pace above its potential growth rate, as a virtuous cycle from income to spending gradually intensifies.
- Japan's real economy has improved moderately, and prices have been somewhat higher than expected.
- The wage growth rate agreed in this year's annual spring labor-management wage negotiations so far has been somewhat higher than that agreed last year. This indicates that the nominal wage increase consistent with the price stability target of 2 percent is becoming firmly established.
- In this year's annual spring labor-management wage negotiations, the increase over last year in the wage growth rate of small and medium-sized firms has been greater than the increase for large firms. As has been the case with the progress in cost pass-through since 2022, large firms have taken the lead in wage hikes, and small and medium-sized firms have been following them.
- The annual spring labor-management wage negotiations have begun well, as was expected in January. Although private consumption was relatively weak in January, amid high prices for food and other items, it is likely to be supported by wage hikes.

¹ English translation prepared by the Bank's staff based on the Japanese original.

² "Summary of Opinions at the Monetary Policy Meeting" is made through the following process: (1) each Policy Board member and government representative makes a summary of opinions that she/he presented at the Monetary Policy Meeting (MPM) under a certain word limit and submits this to the Governor of the Bank of Japan, who serves as the chairman of the MPM, and (2) the chairman edits those opinions as his responsibility.

- The *Financial Statements Statistics of Corporations by Industry* shows that wages have increased in small and medium-sized firms, which account for about 70 percent of employment in Japan, whereas their business fixed investment has decreased for two consecutive years. With the high labor share, it seems that it has been difficult to both raise wages as a defensive step and increase business fixed investment. In this situation, there remain concerns over the sustainability of wage hikes.
- Business fixed investment by small and medium-sized firms and structural reforms to step up the scale of their businesses is key to establishing the norm that wages rise.
- Uncertainties regarding the policies of the new U.S. administration will have an impact on business and household sentiment around the world. Therefore, uncertainties regarding the global economy have heightened.
- Heightened uncertainties regarding the global economy triggered by U.S. policy conduct can be pointed out as a change in risks to the outlook since the previous MPM.
- Employment conditions in the U.S. economy have remained solid, and the economy has been following a path toward making a soft landing.
- In the United States, the risks of both inflation and an economic downturn have heightened.

Prices

- Underlying CPI inflation is expected to increase gradually. In the second half of the projection period of the January 2025 *Outlook for Economic Activity and Prices*, it is likely to be at a level that is generally consistent with the price stability target.
- Considering factors such as the provisional aggregate results of the annual spring labor-management wage negotiations, prices are likely to increase steadily. Moreover, it is highly likely that underlying CPI inflation has been increasing steadily toward 2 percent.
- The policies of the new U.S. administration could have an impact on prices in Japan through factors such as developments in global economic activity and prices and in financial and foreign exchange markets.
- The rate of increase in the CPI (all items) for January mainly reflected an increase in the prices of energy, fresh food, and cereals, although the increase in energy prices is highly likely to be temporary. While the increase in the price of fresh food and cereals has been

primarily regarded as a supply shock, the higher prices may persist, and attention should therefore be paid to its impact on inflation expectations among other factors.

- The surge in the price of agricultural products is mainly attributable to factors that are not temporary, such as a decline in supply capacity and a rise in personnel expenses. Moreover, this surge is likely to push up households' inflation expectations and thereby have a large impact on the underlying trend in prices.
- It is still taking time for firms to fully pass on cost increases to selling prices, and therefore, upward pressure on prices is likely to remain for a while. For example, a survey conducted by a private organization shows that changes in food prices have gained momentum again in 2025.
- With high levels of wage hikes being implemented, Japan's economy is at a stage where the price stability target is close to being achieved, mainly due to inflationary pressure stemming from domestic factors. In fiscal 2025, the Bank will enter a new phase where it needs to take this into account when communicating to the public.

II. Opinions on Monetary Policy

- If its outlook for economic activity and prices will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation. In this regard, the Bank will need to make decisions as appropriate regarding its monetary policy conduct, without any preconceptions, based on its latest assessment of the outlook for economic activity and prices, the risks surrounding them, and the likelihood of realizing the outlook.
- For the time being, it is appropriate for the Bank to pay close attention to the policies of the new U.S. administration and their impact on the global economy and global financial and capital markets, and, on the domestic front, to examine how economic activity and prices respond to the new policy interest rate of around 0.5 percent. The Bank should take this into account when deciding on the next policy interest rate hike.
- There is not yet sufficient data to examine fully the effects of the changes in the policy interest rate made up to and including the January 2025 MPM, or of recent fluctuations in long-term interest rates. It will take time for these effects to be fully transmitted to economic activity and for the Bank to examine these effects.

- Downside risks stemming from the United States have rapidly heightened recently and, depending on how tariff-related issues develop, it is quite possible that these risks will even have a negative impact on Japan's real economy. In that case, the Bank will need to be particularly cautious when considering the timing for raising the policy interest rate.
- Downside risks to Japan's economy have increased, with high uncertainties regarding factors such as U.S. tariff policy and supply chain disruptions, and with concern over intensifying competition with Chinese products whose price competitiveness is high. It is necessary for the Bank to adjust its monetary policy while carefully examining the earnings and investment of small and medium-sized firms, developments in wages and prices, and the impact of U.S. tariff policy, and it is therefore appropriate for the Bank to maintain the current monetary policy for the time being.
- At the next MPM, it will be necessary for the Bank to make monetary policy decisions after carefully examining (1) firms' and households' inflation expectations, (2) the materialization of upside risks to prices, and (3) the progress in wage hikes.
- With regard to the U.S. economy, although some indicators show a slowdown, employment-related indicators, for example, have been solid. Although there are high uncertainties over the U.S. economy, given that the Federal Reserve has indicated that it is in no hurry to adjust its policy stance, there continues to be increased flexibility in the Bank of Japan's monetary policy.
- Although uncertainties have heightened, it does not mean that the Bank should always conduct monetary policy in a cautious manner: the Bank may face a situation where it should act decisively.
- When there are both upside and downside uncertainties regarding prices due to trade and other policies in each jurisdiction, it does not mean that the Bank will maintain the current policy and continue with monetary easing simply because there are uncertainties.
- During the phase of the next policy interest rate hike, underlying CPI inflation may be fairly close to the 2 percent price stability target. Therefore, the Bank will need to consider options including a shift from its current accommodative monetary policy stance to a neutral one.
- Given that the rise in asset prices has led to an increase in the expected rate of return, it is possible that market participants consider real interest rates to be lower than the levels obtained using the CPI, which may have further strengthened the effects of monetary easing.

It will be necessary for the Bank to make nimble adjustments to the degree of monetary accommodation from the viewpoint of avoiding the overheating of financial activities, which appears to be due to excessively high expectations of continued monetary easing.

- Regarding the plan for the reduction of the Bank's purchase amount of Japanese government bonds (JGBs), it does not seem necessary at this point to make any major changes to the current plan. That said, the Bank will need to examine the reduction plan for April 2026 onward from a longer-term perspective.
- In conducting an interim assessment of the reduction of its purchase amount of JGBs, the Bank will collect views from market participants when reviewing developments and functioning of the JGB markets. The Bank's communication with market participants during this process is also important from the perspective of maintaining stability in long-term interest rates.

III. Opinions from Government Representatives

Ministry of Finance

- The government considers increasing wages and incomes as the highest-priority issue. It will work to establish a cycle in which wages and income rise steadily through improved productivity and higher value-added, mainly reflecting its efforts to create an environment to raise wages and to promote investment in growth areas.
- The government expects the Bank to conduct monetary policy as appropriate toward sustainable and stable achievement of the price stability target of 2 percent while closely cooperating with the government. Moreover, it expects the Bank to communicate effectively with financial and capital markets, including through its dissemination of information.

Cabinet Office

- The government assesses that Japan's economy is recovering at a moderate pace, although it is still pausing in part. That said, due attention is warranted on factors such as the effect on private consumption of recent price increases and uncertainties regarding the global economy, including policy trends in the United States.
- The government will pay close attention to price developments and respond to them as appropriate. It will also push forward with measures to expand the trend of wage hikes to small and medium-sized firms and regional economies.

- The government expects the Bank to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner, while closely cooperating with the government.