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June 25, 2025

Bank of Japan

Summary of Opinions at the Monetary Policy Meeting[1,2]

on June 16 and 17, 2025

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part. Japan's economic growth is likely to moderate due to the effects of trade and other policies in each jurisdiction. Thereafter, however, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.

- While much of the hard data for April and May has been relatively solid, it is likely that the effects of tariff policies are yet to materialize.

- According to anecdotal information from firms in a wide range of industries, including small and medium-sized firms, some have been withholding judgment about the impact of U.S. tariff policy amid the difficulty of determining the direction that the policy will take, given the lack of information. While the impact of U.S. tariff policy will certainly exert downward pressure on firms' sentiment, the Bank needs to take some time to examine the magnitude of the impact on the real economy.

- Anecdotal information from firms suggests that, despite the impact of U.S. tariff policy, many firms will (1) continue to raise wages to address labor shortages; (2) continue to make high levels of business fixed investment, including investment in digital transformation and efficiency-improving investment; and (3) make solid investment to strengthen profits to address shareholders' expectations.

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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.

- Although the direct impact of U.S. tariff policy has not been observed so far, Japan's economy has been somewhat stagnant, mainly against the background of a deterioration in sentiment reflecting elevated food prices and U.S. tariff policy.

- The *Financial Statements Statistics of Corporations by Industry* shows that, while firms' earning power and capacity for raising wages have improved, focusing on small and medium-sized firms, it seems that it has been difficult for them to both raise wages and maintain business fixed investment. Japan's economy is thus at the crossroads between making a transition to a "growth-oriented economy driven by wage increases and investment" and falling into stagflation.

- The situation of government bond markets around the world has been a major topic of discussion, such as at international meetings. Japan's economy has entered a phase where attention is warranted on the possibility that developments overseas will spread to Japan.

Prices

- Underlying CPI inflation is likely to be sluggish, mainly due to the deceleration in the economy, and risks to this inflation are skewed to the downside. Thereafter, however, underlying CPI inflation is expected to increase gradually, as the economic growth rate rises. In the second half of the projection period of the April 2025 *Outlook for Economic Activity and Prices*, underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target.

- Although uncertainty regarding trade policies remains extremely high, on the domestic front, wage developments have been solid, and the CPI has been slightly higher than expected.

- Rice prices have almost doubled compared with the previous year. This rise in rice prices has pushed up the CPI considerably and has also spread to prices of related items. As the price of rice -- which is a staple food in Japan -- could affect perceived inflation and inflation expectations, it is necessary to closely monitor developments in rice prices.

- Europe, the United States, and China and other emerging economies have all leaned toward accommodative policies on both the fiscal and monetary fronts. Against this backdrop, Japan's economy could unexpectedly be pushed up or experience inflationary pressure.

- Although the CPI has been higher than expected, the pass-through of higher wages to services prices seems to have plateaued.

II. Opinions on Monetary Policy

- If its outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation. In this regard, considering the extremely high uncertainties, it is important for the Bank to judge whether the outlook will be realized, without any preconceptions.

- Even if Japan's economic activity and prices develop in line with the baseline scenario, it is likely that economic growth will moderate and that the improvement in underlying CPI inflation will be sluggish temporarily, and there is high uncertainty and downside risks surrounding trade policies. Given this, the Bank should, at this point, maintain accommodative financial conditions with the current interest rate level and thereby firmly support the economy.

- Even though prices have been somewhat higher than expected, it is appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy, given the downside risks to economic activity stemming from U.S. tariff policy and the situation in the Middle East.

- With extremely high uncertainty in the outlook, it is necessary to examine economic developments and other factors. It is therefore appropriate for the Bank to maintain the current policy interest rate for the time being.

- With inflation being at levels higher than expected, the Bank may face a situation where it should adjust the degree of monetary accommodation decisively, even when there is high uncertainty.

- It is desirable for the Bank to further reduce its purchase amount of Japanese government bonds (JGBs) to ensure that long-term interest rates are formed more freely. On the other hand, with the reduction of the purchase amount progressing, if the pace of the reduction is too fast, this may have an unforeseen impact on market stability. In formulating a plan for the reduction, it is necessary to strike a balance between these two factors.

- The plan decided for the reduction of the Bank's purchase amount of JGBs aims at avoiding adverse effects on economic activity and prices due to rapid fluctuations in interest rates while allowing the rates to be determined, in principle, by the market. It will be necessary for the Bank to clearly explain that this plan does not in any way aim at giving considerations to the fiscal situation.

- While it is desirable for the Bank to reduce its share of JGB holdings as swiftly as possible, if it proceeds too hastily with the reduction, the adjustments may end up taking more time, as was the case when the Federal Reserve had to discontinue its quantitative tightening (QT) in 2019. If the Bank reduces its purchase amount of JGBs significantly and then increases the amount again, this could unnecessarily increase the risk of confusion in the market during the reduction process.

- The Bank needs to continue the reduction of its purchase amount of JGBs, as the functioning of the JGB markets is on its way to recovery. Considering the weak recovery in Japan's economy, heightened uncertainty in the outlook, and the JGB holding capacity of the market, it is appropriate for the Bank to slow the pace of reduction in its purchase amount to 200 billion yen from April 2026, from the perspective of risk management, and to conduct an interim assessment in June 2026.

- It is desirable for the Bank to slow the pace of reduction in its purchase amount of JGBs from April 2026, from the perspective of further smooth conduct of monetary policy. However, this does not mean that the Bank has changed its stance on monetary policy conduct.

- Given that the Bank has purchased a large amount of JGBs, the reduction of its purchase amount will increase the supply of JGBs to the market. Taking this into consideration, it can be said that the market is in a phase with one of the largest supplies of JGBs compared to the past. To prevent the market from becoming unstable, it is necessary to adjust the reduction of the purchase amount, taking into account the amount of JGB supply in the past, and to carefully examine how the market responds.

- The Bank can proceed more cautiously with the reduction of the JGB purchase amount on a flow basis in fiscal 2026, when the Bank will enter the next phase of the reduction process toward reaching the final level of the purchase amount. In addition, the Bank should consider what would be the optimal size of its balance sheet, from both the asset and liability sides.

- The Bank should allow long-term interest rates to be determined by the market and its participants, and should therefore normalize the level of the amount outstanding of its JGB holdings as soon as possible. By doing so, it is important to increase, at the earliest possible time, the capacity in financial markets to absorb shocks.

- Excess reserves seem to be at abundant levels. It is therefore necessary for the Bank to proceed steadily with the reduction of its purchase amount of JGBs, and thereby normalize its balance sheet.

- Regarding the reduction of its purchase amount of JGBs, the Bank needs to consider how to set the final level of the purchase amount from a long-term perspective, along with the future course of the reduction in the size of its balance sheet.

- If the Bank reduced the amount of its monthly outright purchases of JGBs to, for example, about 1 trillion yen, developments regarding its purchases would no longer be discussed in the market. It is not necessary to stick rigidly to making the purchase amount zero.

- Increased volatility in the super-long-term zone may spill over to the entire yield curve, thereby spreading unintended tightening effects to the market as a whole. The yield curve formed under stable market conditions can be considered an important financial infrastructure. It is necessary to ensure the stability of the market while maintaining close communication among authorities.

III. Opinions from Government Representatives

Ministry of Finance

- The government will make progress toward achieving both economic revitalization and fiscal consolidation, based on the Basic Policy on Economic and Fiscal Management and Reform 2025.

- The government expects the Bank to reduce its purchase amount of JGBs as appropriate, including by making flexible responses if deemed necessary, depending on the situation, while giving due consideration to stability in the bond market and other factors.

- 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, paying due attention to factors such as economic developments at home and abroad, and communicating effectively with the market.

Cabinet Office

- The government will do its utmost to address risks facing Japan's economy at this juncture, such as U.S. tariff measures and high prices. It will aim to establish a situation in which the real wage growth rate is around 1 percent. The government will undertake initiatives such as promoting investment and encouraging regional revitalization, and push forward with the transformation to a sustainable economy and society.

- 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. Regarding the reduction of the Bank's purchase amount of JGBs, the government expects the Bank to make flexible responses if deemed necessary, depending on the situation, while communicating with the market as appropriate.