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Bank of Japan

## Summary of Opinions at the Monetary Policy Meeting<sup>1,2</sup> on July 30 and 31, 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.
- Agreement in tariff negotiations between Japan and the United States represents great progress and will lead to reduced uncertainty regarding Japan's economy. These developments do not require the Bank to change the baseline scenario from the previous *Outlook for Economic Activity and Prices* (Outlook Report); meanwhile, the likelihood of this baseline scenario being realized has increased.
- While, in Japan, the amount of exports from industries such as transportation machinery and large machinery to the United States is large, the impact of tariffs has not been widely seen in the results of the *Tankan* (Short-Term Economic Survey of Enterprises in Japan) and other surveys. This may be because many of the industries covered by these surveys, such as nonmanufacturing, are less directly affected by tariffs.
- Regarding trade policies, attention is warranted on the fact that Japan's economy is entering a phase where the effects of front-loading of exports seen thus far will dissipate and the adverse effects of the tariffs will be seen.

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<sup>1</sup> English translation prepared by the Bank's staff based on the Japanese original.

<sup>2</sup> "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 basic elements of U.S. tariff policy have been settled. It will be necessary to analyze and conduct research from various perspectives to determine to what extent inflation in the U.S. economy rises due to tariffs or to what extent consumers reduce consumption under rising inflation.
- The global economy's capacity to absorb the impact of U.S. tariff policy is remarkable. That said, it will take some time to see if such optimism is justified.
- While policies that have a negative impact on economic growth, tariffs in particular, were introduced first, the situation has now changed. This can be seen, for example, in the agreement in tariff negotiations between Japan and the United States and the passage of U.S. tax cut legislation.
- As was the case during the pandemic, Europe, the United States, and China and other emerging economies have all leaned toward accommodative policies on both the fiscal and monetary fronts in the current phase due to a global sense of risk. Against this backdrop, the global economy could be pushed up or experience inflationary pressure, leading to higher-than-expected economic growth.
- Regarding wage hikes, while focusing closely on wage revisions in the annual spring labor-management wage negotiations, attention is also warranted on various other developments. It is necessary to examine 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.

### *Prices*

- Underlying CPI inflation is likely to be sluggish, mainly due to the deceleration in the economy; thereafter, however, it is expected to increase gradually, as the economic growth rate rises. In the second half of the projection period of the Outlook Report, it is likely to be at a level that is generally consistent with the price stability target.
- Regarding underlying inflation, it is necessary to closely examine a variety of information and make a comprehensive assessment. Given recent developments, it can be considered that, although underlying inflation has been rising moderately toward 2 percent, it has not yet reached 2 percent.

- It is likely that rice prices will remain relatively high, and upward pressure will continue to be exerted on other food prices due to the spread of cost pass-through. There is 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.
- Some research suggests that actual price levels could affect inflation expectations. In light of this, it is possible that perceived inflation will not decline, even if the year-on-year rate of increase in rice prices decelerates. While underlying inflation appears to be around 2 percent recently, taking into account estimation errors and other factors, there are also downside risks to prices, and attention is therefore warranted on whether underlying inflation will remain at this level.
- During the time of the deflationary norm, temporary factors that push down prices had a large impact. More recently, however, while the impact of factors that push down prices -- such as a decline in import prices -- tends not to become widespread, temporary factors that push up prices tend to have a large impact. Developments that lie behind this change may include the following: increasing labor shortages, the changing mindset of firms and consumers with regard to price and wage setting and to cost pass-through, and rising inflation expectations.
- It has become more likely, compared to April, that the Bank can judge that the price stability target will be achieved in the first half of the projection period of the Outlook Report, considering (1) the agreement in negotiations between Japan and the United States, (2) firms maintaining their positive wage- and price-setting behavior, and (3) higher prices. With inflation remaining significantly above 2 percent for more than three years, inflation expectations can be considered to have reached around 2 percent, and there is concern as to whether they will rise further.
- It is necessary to pay due attention to whether fiscal policy decisions will lead to a pushing up of prices.

## **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 that high

uncertainties remain, it is important for the Bank to judge whether the outlook will be realized, without any preconceptions.

- Even with Japan and the United States reaching an agreement on tariffs, the baseline scenario remains unchanged, namely that Japan's economic growth will moderate and the improvement in underlying CPI inflation will be sluggish temporarily, and high uncertainties remain regarding trade policies and their impact. Given this, the Bank should, at this point, maintain accommodative financial conditions with the current interest rate level and thereby firmly support the economy.
- There is not yet sufficient data from each economy to determine precisely the impact of trade policies. Moreover, it is 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 Bank should therefore make policy decisions when more data is available.
- At least two to three more months are needed to assess the impact of U.S. tariff policy. If the U.S. economy is able to withstand the impact to a greater extent than expected, the downward effects on Japan's economy are likely to remain minimal. In that case, it may be possible for the Bank to exit from its current wait-and-see stance, perhaps as early as the end of this year.
- Since it can be considered that Japan's policy interest rate is lower than the neutral rate, unlike in the United States and Europe, the Bank should continue to raise the policy interest rate when possible. With the stock market reacting positively to the agreement in tariff negotiations between Japan and the United States, the Bank needs to bear in mind that it should not become overly cautious and miss the opportunity to raise the policy interest rate.
- Since rapid policy interest rate hikes will inflict considerable damage on Japan's economy, it is important from a risk management perspective for the Bank to raise the policy interest rate in a timely manner.
- Future developments in inflation expectations are important when considering monetary policy conduct. Unlike in the past phases, actual inflation and inflation expectations in the current phase have both continued to rise accompanied by increasing corporate profits and wages. A rise in the price of items such as food, including rice, and gasoline tends to push up inflation expectations, since consumers are likely to be attentive to the actual price levels of these items and feel that prices are increasing.

- When underlying inflation is substantially below 2 percent, it is considered to have greater significance than actual inflation for the making of policy decisions. However, as underlying inflation approaches 2 percent, the significance of actual inflation gradually increases.
- The Bank is at a phase where it should shift the core of its communications regarding price developments from underlying inflation to actual price developments and the outlook for prices, to the output gap, and to inflation expectations.
- While it is difficult to pin it down with one particular indicator, underlying inflation is an important concept for central banks when conducting monetary policy.
- There has already been a shift away from the deflationary norm, and medium- to long-term inflation expectations have been rising. In this regard, the second-round effects of price increases are more likely to emerge, and underlying inflation has been rising. A sense of economic well-being among households has been pushed down by inflation, and the Bank is now at a phase where it needs to place more emphasis on the upside risks to prices. Given this, it is likely that the Bank has now entered a stage where it should consider its communications with the view that the price stability target will be achieved.
- Yields on 10-year Japanese government bonds (JGBs) have been at around 1.5 percent recently. Considering factors such as developments in economic activity and prices, financial conditions have remained accommodative.
- Regarding the Bank's balance sheet, it is necessary to consider factors such as its optimal size and the path by which that is to be achieved, from the perspective of avoiding interference with the Bank's guidance of the short-term interest rate.

### **III. Opinions from Government Representatives**

#### ***Ministry of Finance***

- The government will 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 will 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 can mitigate the impact on industries and employment in Japan.

- 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*

- Japan's economy is recovering at a moderate pace, while the effects caused from the U.S. trade policies and so on are seen in some areas. That said, due attention is warranted on risks from factors such as the effects of continued price increases.
- Regarding U.S. tariff measures, the government reached an agreement with the United States, based on an approach that pursues "investment over tariffs." That said, the tariff measures are still in place, and the government will therefore do its utmost to ensure sound economic and fiscal management, while continuing to take necessary measures.
- 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.