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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on October 29 and 30, 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 be modest 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.
- Japan's economy has maintained its moderate growth path, partly because the impact of U.S. tariff policy has so far been limited.
- The downward pressure on Japan's economy exerted by U.S. tariff policy, particularly the impact on business performance in export-related manufacturing industries, has been considerable, but major firms and medium-sized firms have adapted their economic activities and business strategies to take tariffs into account. While it is possible that the tariff policy may have further impact or that the policy could change, it can be judged that the fog surrounding the outlook has begun to clear, compared with July.
- Even if the impact of U.S. tariff policy becomes pronounced, the expected scale of the impact has become smaller than it was before. Therefore, it is also likely that Japan's economic growth will not be too modest. As a baseline scenario, Japan's economy is expected to continue to grow at a pace slightly above its potential growth rate in both fiscal 2025 and 2026.

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.

- In the United States, with the administration shifting to policies that boost the economy, such as tax cuts and deregulation, it is unlikely that tariffs will cause further negative developments.
- The Japanese government's new cabinet took office last week. It is difficult to say at this time that there is sufficient information regarding the direction or details of the government's policies, and the possible impact of these policies has not been incorporated into the outlook for economic activity and prices. Fiscal factors are important elements to consider when developing the outlook.
- Expansionary developments have started to be seen on the credit side, such as bank lending mainly for real estate and for mergers and acquisitions, and this shows the effects of having significantly negative real interest rates.
- Given that real interest rates have been significantly negative, attention is warranted on developments in factors such as real estate prices.

Prices

- Underlying CPI inflation is likely to be sluggish, mainly affected by the growth pace of the economy; thereafter, however, as the economic growth rate rises, it is expected that underlying CPI inflation and the rate of increase in the CPI will increase gradually and, in the second half of the projection period of the *Outlook for Economic Activity and Prices* (Outlook Report), will be at a level that is generally consistent with the price stability target.
- Even if the downward effects of U.S. tariff policy materialize, it is likely that Japan's economic conditions will be maintained to a considerable extent, mainly on the back of an improvement in real wages reflecting the decline in the inflation rate, and that the underlying trend in prices will continue rising moderately toward 2 percent.
- On the price front, while the effects of the rise in food prices have been pronounced, changes in firms' price-setting behavior in other areas have been moderate. This is likely to be because higher spending on food has led to consumers' increased thriftiness. It is therefore important to closely monitor developments in wages and household income.
- The price rises are attributable to the significant increase in food prices, which reflects some firms' active stance toward raising prices, in addition to the rise in personnel expenses, distribution costs, and import prices. In examining price developments, it will be necessary to

closely monitor, for example, consumer purchasing behavior and whether firms maintain their stance toward prices.

- Inflation expectations of firms and households have already reached approximately 2 percent, an inflationary norm has been established, and upside risks to prices warrant attention. In fact, although households' perceived inflation has fallen, their inflation expectations for five years ahead have risen. Next spring, when wage hikes can be expected to be at a level in line with the price stability target for the third consecutive year, it is highly likely that it could be judged that the price stability target has been achieved.
- Given recent developments in financial and capital markets and firms' active wage- and price-setting behavior, it can be judged with more certainty that the price stability target has been more or less achieved. At this point, since the deflationary norm has already been dispelled and upward pressure on wages has also increased, it is necessary to pay more attention to the upside risks to prices when considering the risk balance.

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 still remain, it is important for the Bank to judge whether the outlook will be realized, without any preconceptions.
- Firms' profit projections, which will take into account the tariff rate of 15 percent, will be fixed in the near future. Firms' wage-setting behavior -- which will be based on these upcoming profit projections -- particularly the momentum of initial moves toward next year's annual spring labor-management wage negotiations, will be an important factor for the Bank to consider in making policy decisions.
- In conducting monetary policy, it will be necessary to continue to closely monitor the following three factors: (1) the impact on the global economy of trade policy in each jurisdiction, (2) the direction of U.S. monetary policy and of foreign exchange rates, and (3) the outlook for prices and wages in Japan. Given uncertainty regarding the impact of tariffs and developments in the global economy, particularly the U.S. economy, whether Japanese firms maintain their active wage-setting behavior is especially important.

- Despite expectations for wage hikes next year, it seems that the burden on people in their daily lives has increased, judging from, for example, the change in consumption behavior due to price rises, and from the rise in construction costs -- such as material prices and personnel expenses -- and housing prices, and the resultant decline in the number of housing starts. The recent growth in bank lending also warrants attention. While uncertainties remain, the Bank will be in a situation where it should adjust the policy interest rate depending on the outlook for economic activity and prices and on the likelihood of achieving the outlook.
- Japan's policy interest rate is lower than the neutral rate, unlike in the United States and Europe. It is also possible that financial and capital markets, such as the stock market, will become unstable. While the current situation may not require immediate action, the Bank should not miss the timing to raise the policy interest rate, while continuing to provide appropriate information.
- It is likely that conditions for taking a further step toward the normalization of the policy interest rate have almost been met. However, the Bank needs to examine to what extent the underlying inflation rate has become entrenched.
- The impact of tariff policies is taking time to materialize, and accommodative financial conditions will be maintained even after the next policy interest rate hike. Given these factors, if there is no negative news regarding the global economy or financial markets, and if it is confirmed that firms' active wage-setting behavior will be maintained -- judging from, for example, moves by both labor and management in the initial stages toward the annual spring labor-management wage negotiations -- this is likely to lead to a policy change.
- It may be desirable to raise the policy interest rate sooner, considering the risk of prices in Japan being pushed up significantly through, for example, the yen's depreciation on the back of an overheating of the U.S. economy due to factors such as income tax refunds. However, the risk of greater-than-expected downward pressure being exerted on Japan's prices and economic activity cannot yet be ruled out, which could be caused by the U.S. labor market starting to lose its "curious kind of balance" and U.S. capital markets entering an adjustment phase. It is therefore appropriate to take some time to examine the situation before making a decision.
- Although the timing at which the Bank should raise the policy interest rate is getting closer, it is appropriate to take a little more time to examine the situation, taking into account, for

example, that uncertainty regarding U.S. tariff policy remains high and the direction of the economic policy of Japan's new administration is not yet fully clear.

- The Bank should adjust the degree of monetary accommodation and set the policy interest rate a little closer to the neutral rate to prevent future shocks arising from possible rapid policy interest rate hikes.
- Raising the policy interest rate at this point can be considered part of the process of normalizing the policy interest rate, through which the Bank will curb economic distortions for the future and gradually return the policy interest rate to a state of equilibrium.
- The Bank should carefully explain that, when making monetary policy decisions, it will take into account underlying mechanisms -- such as supply and demand conditions, wages, and inflation expectations -- and special factors, rather than simply whether the CPI is above or below 2.0 percent.
- With a shrinking equilibrium mindset remaining in place, it was necessary for the Bank to discuss headline inflation separately from underlying inflation. However, with the changing norm in Japan, straightforward communication that emphasizes developments in headline inflation is now desirable.

III. Opinions from Government Representatives

Ministry of Finance

- The government's stance is that it will work to tackle rising prices immediately and formulate economic policy that restores strength to Japan's economy. The government will formulate comprehensive economic measures and compile the supplementary budget, based on the prime minister's instructions given on October 21.
- 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 of trade and other policies in the United States have been seen mainly in the automotive industry.

- Embracing an approach of "responsible and proactive public finances" and based on the principle of "a sound economy is the foundation of fiscal health," the government will formulate an economic policy package consisting of three pillars: tackling rising prices, conducting strategic investments that enhance growth strategies and resilience against potential crises, and building up Japan's diplomatic capacity and defense capabilities.
- 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 in accordance with the spirit of the Bank of Japan Act and of the joint statement of the government and the Bank.