

# Economic Commentary

## Speech by BOJ's Takata: Imminent risk balance shift towards neutral?

- No change to BOJ's wait-and-see stance for now
- Neutral economic/price risk balance possible depending on outcome for US-Japan tariff negotiations

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### Speech by BOJ's Takata: No change to wait-and-see stance for now

On 3 July, BOJ Monetary Policy Board member Hajime Takata delivered a speech at a meeting with local business leaders in Mie Prefecture. [During his last speech in February](#), Takata said, "I recognize that inflation is approaching the 2% price stability target, with positive corporate behavior already being observed." He also said, "I believe it will be important for the Bank to consider continuing to implement gear shifts gradually to avoid a materialization of the upside risks to prices and the risk of overheating of financial activity." In this manner, Takata demonstrated a proactive stance toward additional interest rate hikes.

In this manner, Takata is positioned as a hawk among the Policy Board members. However, since his focus had been on positive corporate behavior, it was interesting to see whether his perception has changed in light of the uncertainty surrounding tariff policies, which could have significant shocks, especially for companies.

During his speech, Takata said, "I believe that the Bank is currently only pausing its policy interest rate hike cycle and should continue to make a gear shift (proceed with further adjustment of the degree of monetary accommodation) after a certain 'wait-and-see' period." This view does not differ from the Bank's previous recognition that it would raise interest rates if that likelihood increases. This is specifically based on the outlook that from April, "The underlying growth rate for consumer prices will remain sluggish due to factors such as the slowdown in growth, but will gradually pick up thereafter."

Naoki Tamura, who is considered the most hawkish member of the board, delivered a speech on 25 June during which he said, "Attention is also warranted on upside risks to prices. In this situation, I believe there is a good possibility that the price stability target will be achieved earlier than expected." The BOJ's basic stance is to continue its rate-hiking policy, but it will certainly maintain a wait-and-see approach for now.

In particular, Takata cited the following four potential negative effects of tariff policy: (1) weaker-than-expected capex, (2) weaker-than-expected exports, (3) declining corporate earnings, constraints on wage hikes and sales prices, and (4) downward pressure on corporate earnings and import prices due to yen appreciation. That said, at this juncture, these direct effects are limited. Regarding the impact of tariff policies, BOJ Governor Kazuo Ueda pointed out [at his regular press conference following the June meeting](#) that, "The impact of US tariffs could intensify in the latter half of this year." How economic conditions unfold into the fall will be important for assessing the real economy.

Takata went on to say that attention should be paid to, “The possibility of significant market volatility, depending on the expectations for the new US administration’s policies.” Currently, amid rising prices due to supply shocks caused by soaring food prices, tariff policies are starting to impact exporters in particular. Under such circumstances, if there are significant exchange rate fluctuations, the impact is likely to increase through further supply shocks and downward pressure on exporters.

### **Could potentially correct toward neutral risk balance for economy/prices**

The most noteworthy point of Takata’s speech was his assessment of the risk balance for the economy and prices.

Takata said that in addition to the impact of tariffs, there is also the need to consider that, “Fiscal policy measures, such as tax cuts and deregulation, could contribute to boosting future US economic growth.” He also pointed out that in Japan, “It is necessary to make an objective assessment of the differences from the past, not least the improvement in firms’ financial positions over the 30 years since the collapse of the bubble economy.” In this manner, he stressed that being overly pessimistic about the adverse effects of tariff policies is also a major risk. [The BOJ’s Summary of Opinions for its June meeting \(released on 25 Jun\)](#) included the opinion that, “Europe, the US, 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.” We suspect that this opinion was provided by Takata.

Based on the above remarks, Takata clearly believes that the likelihood that corporations will tend to start returning to cost-cutting behavior patterns (as mentioned by Ueda during his press conference following the June meeting) is extremely low. Takata mentioned higher-than-expected risks for the economy and prices, against the backdrop of the effects of fiscal policies in various countries becoming apparent.

At his regular post-meeting press conference in June, Ueda said, “There is bigger downside risk for both Japan’s economy and prices.” Still, as seen in the Summary of Opinions for the June meeting, where opinions regarding “upside risks to prices” were scattered following improvements for the situation surrounding tariff policies since May, there appears to be a growing consensus among board members toward a view in which the balance of risks to the economy and prices approach neutral.

It is necessary to confirm the outcome of the Japan-US tariff negotiations, which could have the greatest impact on the Japanese economy. However, [assuming that an early agreement is reached between Japan and the US, with tariff rates reduced to the level of the envisioned baseline scenario \(10% reciprocal tariffs + maintenance of product-specific tariffs\)](#), the balance of risks to the economy and prices could move closer toward neutral.

Before the BOJ’s Monetary Policy Board meets in July, there will be an important milestone in the US-Japan tariff negotiations with the deadline for the suspension of additional reciprocal tariffs on 9 July. Furthermore, the BOJ’s branch managers’ meeting report (data from hearings that includes even SMEs) will be held on 10 July and BOJ Deputy Governor Shinichi Uchida will make a speech on 23 July. In particular, Uchida’s speech will be the last official opportunity for the Bank to release information prior to the July meeting. Attention is likely to focus on changes in the BOJ’s recognition of the economy and prices, taking into consideration the milestone for the reciprocal tariff negotiations.

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