

Daiwa's View

Discussions within BOJ on tariffs, trade policy: At stage for mulling resumption of rate hikes

- Economic slowdown pressure due to tariffs may not be as strong as feared at Apr meeting
- Many firms plan to continue raising wages despite US tariff policies
- Expect to realize outlook in which trade issues progress "without escalation"

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Following [the BOJ's July Monetary Policy Meeting \(MPM\)](#), the minutes for the June meeting were released on 5 August, as scheduled. Naturally, the minutes for the June meeting do not cover the developments in July, when trade agreements between the US and various countries/regions were finalized in a positive manner, including the surprisingly positive [US/Japan agreement](#).

Naturally, the Bank's policy stance as of the June meeting was, "Considering the downside risks to economic activity stemming from US tariff policy and the situation in the Middle East it was therefore appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy." Also, as stated in the Summary of Opinions, "There were high uncertainties and downside risks as negotiations between the US and other jurisdictions on trade policies had just begun, so the Bank should, at this point, maintain accommodative financial conditions."

◆ Minutes of BOJ's Monetary Policy Meeting in June 2025 (5 Aug 2025)

- Many members expressed the view that, even though prices had been somewhat higher than expected, there were high uncertainties in the outlook, and that it was necessary to examine economic developments, considering the downside risks to economic activity stemming from U.S. tariff policy and the situation in the Middle East. These members continued that it was therefore appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy.
- One member expressed the view that the Bank should, at this point, maintain accommodative financial conditions with the current interest rate level and thereby firmly support the economy, given the following: ... there were high uncertainties and downside risks as negotiations between the United States and other jurisdictions on trade policies had just begun.

Economic slowdown pressure due to tariffs may not be as strong as feared at Apr meeting

However, as of the June meeting, many of the discussions on tariffs and trade were very informative. First, a few members expressed the view that, "Although uncertainties remained high, there was a possibility that downward pressure on Japan's economy stemming from US tariff policy would turn out to be less strong than they had expected at the time of the previous meeting." One member, believed to be board member Hajime Takata, [pointed out](#), "The degree to which US trade policy is transmitted to industry as a whole might turn out to be more limited than expected, given developments such as a decline in the share of exports to the US and a shift to value-added products."

Also, regarding exports, a member pointed out that, "A pronounced decline in real exports had not been observed thus far, partly owing to the front-loading." As for capex, one member said, "While some firms were, for the time being, waiting to see how the situation developed, only a few firms had mentioned thus far that they had decided to cancel fixed investment."

As stated in the June Summary of Opinions, another member pointed out that, according to anecdotal information from firms, “Many firms would (1) continue to make high levels of business fixed investment, including investment in digital transformation and efficiency-improving investment; and (2) make solid investment to strengthen profits to address shareholders’ expectations, despite the impact of US tariff policy.”

Many firms plan to continue raising wages despite US tariff policies

Regarding wages, a few board members pointed out that, “Impacts from US tariff policy had not been observed in the results of the 2025 annual spring labor-management wage negotiation.” On top of that, they expressed their view that, “If such an impact were to appear, it would begin to be reflected in winter bonuses.” In regard to that point, a few other board members pointed out that, “According to anecdotal information from firms, many of them would continue to raise wages to address labor shortages, despite the impact of US tariff policy.”

Also, a member pointed out that, “**The entrenched zero norm with regard to wages and prices, in which wages cannot be raised due to the difficulty in passing on higher labor remuneration to selling prices, had started to dissipate.**” This member added the view that, “It was important that the momentum of wage increases be sustained even with corporate profits being pushed down by tariff policy.” One member said, “Attention was warranted on price rises due to domestic factors such as wage increases to address labor shortages.”

Several board members noted that, “In the event that corporate profits were pushed down due to the impact of US tariff policy, close attention needed to be paid to whether firms’ wage- and price-setting behavior, which had been active in recent years, would remain intact.” [This expression “remain intact” was used by BOJ Governor Kazuo Ueda during his July post-meeting press conference as a condition for additional rate hikes.](#)

Several members pointed out that, “Although uncertainties regarding trade policies remained extremely high, prices had been relatively high recently compared with the Bank’s outlook in the April 2025 *Outlook Report*, mainly reflecting the rise in food prices, such as rice prices.”

At stage for mulling resumption of rate hikes

As such, even as of the June meeting, it was confirmed that risks and excessive concerns surrounding tariffs and trade had eased, but discussions on the conduct of monetary policy were even more hawkish than expected.

For example, a few members expressed the view that, “**Taking into account the fact that wages had been solid and prices had been slightly higher than expected, the Bank would likely move on from its current wait-and-see approach and consider resuming the process of policy interest rate hikes, if trade friction was expected to progress without escalation.**” [The developments](#) surrounding tariffs since July are expected to proceed without escalation and the Bank has entered a phase where it is considering resuming its interest rate hike process.

Also, one member indicated that, “Given the high uncertainties, the Bank was considered to be in a phase of pausing its policy interest rate hikes for the time being. However, the Bank also needed to be able to respond in a flexible and nimble manner so that it could return again to the phase of raising its policy interest rate depending on policy developments in the US.” Another member stated, “With inflation at levels higher than expected, the Bank might face a situation where it should adjust the degree of monetary accommodation decisively, even when there were high uncertainties.”

The terms “one member” and “a member” most likely refer to Takata and Naoki Tamura. The issue is the initial “few members” and whether this “one member” or “a member” are the same person. If this involved yet another member, at least four members would have mentioned “resuming the process of policy interest rate hikes” as of June (quite hawkish).

Meanwhile, based on the wording used in past meeting minutes, the “few members” who mentioned resuming the process of policy interest rate hikes are likely to be the same individuals, namely Takata and Tamura. However, at the June meeting, the opinion that, “consider resuming the process of policy interest rate hikes” at the point when “trade issues are not expected to escalate” was itself considered hawkish¹.

◆ **Minutes of BOJ's Monetary Policy Meeting in June 2025 (5 Aug 2025)**

- A few members expressed the view that, taking into account the fact that wages had been solid and prices had been slightly higher than expected, **the Bank would likely move on from its current wait-and-see approach and consider resuming the process of policy interest rate hikes, if trade friction was expected to progress without escalation.**
- One member expressed the recognition that, given the high uncertainties, the Bank was considered to be in a phase of pausing its policy interest rate hikes for the time being. The member continued that, however, the Bank also needed to be able to respond in a flexible and nimble manner so that it could return again to the phase of raising its policy interest rate depending on policy developments in the United States.
- One member said that, with inflation being at levels higher than expected, the Bank might face a situation where it should adjust the degree of monetary accommodation decisively, even when there were high uncertainties.
- In response to this, a different member pointed out that there were extremely high uncertainties regarding the outlook for Japan's economic activity, and that risks remained skewed to the downside. The member then expressed the recognition that it would still take some time to be able to determine future developments in corporate profits and the direction U.S.-Japan trade negotiations would take, and that it was therefore appropriate for the Bank to maintain the policy interest rate at its current level for the time being.

Of course, the consensus reached at the June meeting was, “Considering the extremely high uncertainties regarding the future course of trade and other policies in each jurisdiction and the impact of these policies, it was important for the Bank to carefully examine factors without any preconceptions.” However, in terms of trade issues since then, there have been positive developments such as the agreement reached in negotiations between Japan and the US (big step forward). As a result, the likelihood of achieving the Bank's outlook has increased slightly. The next Summary of Opinions to be released on 8 August will probably confirm what discussions were held at the July MPM regarding the economic and price outlooks, as well as thoughts on additional interest rate hikes¹.

¹ Of note, the comment, “It would still take some time to be able to determine future developments in corporate profits and the direction US/Japan trade negotiations would take, and that it was therefore appropriate for the Bank to maintain the policy interest rate at its current level for the time being” was provided by one board member (a different member).

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