Daiwa's Economic View

BOJ July MPM Summary of Opinions: Step closer to rate hike within 2025

- BOJ's July Summary of Opinions strikes hawkish tone
- Many opinions on economic activity and prices optimistic, cite upside risks
- More opinions on monetary policy conduct advocate early rate hikes
- Hawkish Summary of Opinions vs. dovish governor's press conference

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The Bank of Japan (BOJ) released the Summary of Opinions from its 30-31 July Monetary Policy Meeting (MPM) on 8 August. At its July MPM, the BOJ revised up its inflation outlook and balance of expected risks to reflect the "great progress" of the US-Japan tariff deal, which it expects to lead to reduced uncertainty, and rising food prices. However, BOJ Governor Kazuo Ueda's comment at the post-MPM press conference that rising food prices alone "are not enough to affect monetary policy" was taken as dovish.

Our main focus in the Summary of Opinions from the July meeting was how rising food prices and substantial progress with tariff negotiations affected Policy Board members' economic and inflation forecasts and discussions about additional rate hikes. We note that board members' views on risks to FY25 and FY26 inflation forecasts in the July *Outlook for Economic Activity and Prices* report (*Outlook Report*) were broadly balanced, with three members concerned about upside risks and three about downside risks.

Views on economy: Some optimism despite remaining uncertainty

The BOJ's view on the economy is that progress with tariff negotiations "will lead to reduced uncertainty" and means that "the likelihood of [its] baseline scenario being realized has increased". One member also commented 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." The BOJ's view that uncertainty remains high reflects its awareness that the full impact of tariffs has yet to feed through. Governor Ueda also commented at his press conference that he expects some negative impact from tariffs to emerge in the second half of the year.

In gauging tariffs' impact on the Japanese economy, the BOJ's main focus is global (chiefly US) economic trends. The Summary of Opinions notes the need 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." Another key determinant of the outlook for the Japanese economy will be whether the abrupt US labor market slowdown shown by recent employment data turns into a rapid downturn.

While the impact of tariffs remains uncertain, many board members stated that they expect above-forecast economic growth or are optimistic. These include the views that "the global economy's capacity to absorb the impact of U.S. tariff policy is remarkable" and that "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."

We would also highlight the opinion that "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." This suggests that the BOJ is not rigidly committed to waiting for the results of the spring labor negotiations and is instead looking at a variety of indicators of wage hikes.

◆ Opinions on Economic Developments in Summary of Opinions at Jul MPM (8 Aug 2025)

- 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.
- 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.
- 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.

Opinions on upside risks to inflation stand out

On the inflation front, policy board members' opinions notably emphasize upside risks. These include "temporary factors that push up prices tend to have a large impact [on the inflationary norm]" and "it is necessary to pay due attention to whether fiscal policy decisions will lead to a pushing up of prices."

Other opinions state that "underlying inflation appears to be around 2% recently, taking into account estimation errors and other factors," and that "inflation expectations can be considered to have reached around 2 percent." The BOJ's baseline view seems to be that underlying inflation has yet to reach 2%, but some board members think that it has.

We would also note that the BOJ continues to forecast high food inflation given its view 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".

The BOJ's July *Outlook Report* forecast higher-than-expected inflation in FY25, partly reflecting its expectation for broader-based cost pass-throughs in food. We think the fact that three policy board members noted upside risks even to the BOJ's upwardly revised forecasts reflects a hawkish view of inflation.

We also highlight the comment that "it is possible that perceived inflation will not decline" despite expectations for the y/y uptrend in rice prices to slow. This suggests a growing risk that underlying inflation may not pause as the BOJ's baseline scenario assumes.

◆ Opinions on Prices in Summary of Opinions at Jul MPM (8 Aug 2025)

- 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.

- 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.
- 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.

More opinions on monetary policy conduct advocate early rate hikes

The above opinions on the economy and inflation suggest that more board members favor a near-term rate hike. One opinion stated that (after the two to three months the BOJ thinks are needed to assess the impact of US 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," and that "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." Another opinion states that "the Bank needs to bear in mind that it should not become overly cautious and miss the opportunity to raise the policy interest rate."

There is also an opinion saying that "the Bank should...make policy decisions when more data is available" on US inflation, the labor market, and monetary policy. The Japanese version of the Summary of Opinions specifically says "a little more data", suggesting that the BOJ may make a policy decision by the end of 2025 at the latest.

We also think the conditions for a near-term rate hike are falling into place from a risk-management perspective—which involves positioning monetary policy as neutrally as possible relative to upside and downside risks—now that progress with tariff negotiations has reduced downside risk, and upside risks to inflation are growing. One board member argued that "the Bank is now at a phase where it needs to place more emphasis on the upside risks to prices...[and has] likely...entered a stage where it should consider its communications with the view that the price stability target will be achieved," in a clear signal that it thinks the situation has changed versus April.

The Cabinet Office (an observer at the MPM) also presented the government's view that "due attention is warranted on risks from factors such as the effects of continued price increases." This suggests that the government also has no intention of opposing rate hikes.

Interpreting hawkish Summary of Opinions vs. governor's dovish press conference
The Summary of Opinions shows some board members expressing support for rate hikes. However, as noted, Governor Kazuo Ueda's post-MPM press conference was taken as signaling a dovish stance. We think the mixed message reflects (1) changes in the balance of opinions among policy board members, and (2) the desire to foster market expectations for rate hikes.

In short, while the BOJ's leadership is imagining a scenario where underlying inflation moderates as GDP growth slows, the balance of opinions among policy board members may be skewing increasingly hawkish. This polarization of opinions among policy board members could lead to a rapid decision to raise interest rates once uncertainty about tariffs eases.

With Governor Ueda's dovish press conference and weak US employment data having dampened expectations for another rate hike within 2025, the BOJ may also have chosen to play up board members' hawkish opinions to encourage the market to price in a rate hike. Whatever its intentions were, our base case remains for a next hike within 2025.

Opinions on Monetary Policy in Summary of Opinions at Jul 2025 MPM

	Opinions on Monetary Policy
1	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.
2	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.
3	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.
4	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.
5	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.
6	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.
7	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.
8	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.
9	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.
10	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.
11	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.
12	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.
13	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.

Source: BOJ; compiled by Daiwa.

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