



Not to be released until 8:50 a.m.
Japan Standard Time on Monday,
February 3, 2025.

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Bank of Japan

Summary of Opinions at the Monetary Policy Meeting^{1,2} on January 23 and 24, 2025

I. Opinions on Economic and Financial Developments

Economic Developments

- Japan's economy has recovered moderately, although some weakness has been seen in part. It is likely to keep growing at a pace above its potential growth rate, as a virtuous cycle from income to spending gradually intensifies.
- Japan's economy has recovered moderately, developing generally as expected.
- The Bank's outlook for Japan's economy is more or less in line with the outlook as of March 2024. The situation where there are various uncertainties stemming from overseas economies is also unchanged from March. Information from various sources collected so far suggests that there is a growing possibility that wage hikes will be conducted at a similar level to those at around the same time last year.
- Wage hikes this spring are likely to be at least at levels comparable to those seen last year, given developments in corporate profits, the labor market, and prices, as well as anecdotal information gathered around the beginning of 2025, such as remarks by corporate executives, various surveys, and reports at the meeting of the general managers of the Bank's branches.
- An increasing number of firms have factored in wage hikes as a premise of their medium-term management plans. This clearly indicates a shift from the zero norm, that is, the norm that wages do not rise.

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.

- For private consumption to follow an uptrend, real wages need to rise. The focus, at this point, is on the sustainability of the momentum in wage hikes in the annual spring labor-management wage negotiations, and on the future course of the higher prices that stem from the rise in prices of rice and fresh food and from the continued depreciation of the yen against the U.S. dollar.
- The negative impact that the yen's depreciation has had on households and firms, through various cost increases, has been caused by the accumulated effects of the yen depreciating in the medium to long term, rather than short-term fluctuations in exchange rates.
- While attention has been drawn to various uncertainties, global financial and capital markets have remained stable on the whole since the new U.S. administration took office, as overseas economies have followed a moderate growth path.
- Regarding the U.S. economy, the Federal Reserve can conduct its monetary policy with more leeway, given the ongoing disinflation process with firmness in the real economy.
- There is a growing likelihood that the U.S. economy will accelerate again in the near future, rather than making a soft landing, as seen in the possibility that the labor market -- which had triggered concerns over the deceleration in the economy -- will bottom out, and in the expectation that the Federal Reserve will temporarily pause its policy interest rate cuts.
- There are high expectations for the U.S. economy to make a soft landing. That said, with high uncertainties surrounding the course of the economic policies of the U.S. administration, attention is warranted on the possibility that, if inflation resurges or interest rates rise further, this will push down private consumption -- which has supported the economy -- through a decline in stock prices.

Prices

- Underlying CPI inflation is expected to increase gradually. In the second half of the projection period of the January 2025 *Outlook for Economic Activity and Prices*, it is likely to be at a level that is generally consistent with the price stability target.
- Reports at the January 2025 meeting of the general managers of the Bank's branches and various surveys suggest quite positive views of firms regarding this year's wage hikes, and the Bank's *Opinion Survey on the General Public's Views and Behavior* released in January indicates a rise in households' medium- to long-term inflation expectations. Given these

factors, there is a growing possibility that underlying CPI inflation will rise steadily toward achieving the price stability target of 2 percent.

- Although the situation varies across industries, the output gap has actually been positive, reflecting labor shortages, and this has been the reason for the continued high inflation.
- Upside and downside risks to prices are generally balanced, although they are both significantly large. There is a possibility that a resurgence of inflation in the United States and global intensification of trade frictions will occur simultaneously, leading to the materialization of a stagflation scenario. The Bank is not in a situation where it can manage such a scenario simply by conducting accommodative monetary policy.

II. Opinions on Monetary Policy

- Japan's economic activity and prices have been developing generally in line with the Bank's outlook, and the likelihood of realizing the outlook has been rising. It is appropriate for the Bank to raise the policy interest rate and adjust the degree of monetary accommodation from the perspective of sustainable and stable achievement of the price stability target.
- Underlying CPI inflation has been increasing gradually toward the price stability target of 2 percent. Meanwhile, if actual CPI inflation develops in line with the Bank's outlook, it will have been clearly above 2 percent for four consecutive years since fiscal 2022. In this situation, economic entities' perception of prices has been rising cumulatively, although this was triggered by cost-push factors.
- Considering the impact and the pace of the policy interest rate hikes, as well as recent developments in economic activity and prices, it is appropriate for the Bank to raise the policy interest rate to 0.5 percent at this MPM.
- If the Bank decides to raise the policy interest rate at this MPM, the timing of the policy change will be sufficiently neutral, in the sense that it is neither hawkish nor dovish compared with average market expectations.
- The policies of the new U.S. administration will gradually become clear, and they are likely to affect Japan's economy in various ways. However, the resilience of Japan's economy as a whole has increased enough to withstand some downward stress.
- With the monetary policies of the Bank of Japan and the Federal Reserve moving in opposite directions, large fluctuations in the markets, particularly foreign exchange markets, have been

of concern. However, given the bottoming out of the U.S. economy, the Federal Reserve is expected to temporarily pause its policy interest rate cuts, and this has led to increased flexibility in the Bank of Japan's monetary policy.

- Real interest rates are expected to remain significantly negative after the policy interest rate hike. If economic activity and prices remain on track, it will be necessary for the Bank to continue to raise the policy interest rate accordingly, so that the negative range of real interest rates will shrink.
- With economic activity and prices remaining on track, risks to prices have become more skewed to the upside. It is therefore appropriate for the Bank to adjust the degree of monetary accommodation in a timely and gradual manner.
- Prices could deviate upward from the baseline scenario due to further progress in the pass-through of cost increases to consumer prices toward fiscal 2025 and to the depreciation of the yen. In addition, investors' expectations have increased, following a rise in asset prices including real estate. It will be necessary for the Bank to adjust the degree of monetary accommodation from the viewpoint of avoiding the yen's depreciation and the overheating of financial activities, both of which appear to be due to excessively high expectations of continued monetary easing.
- Looking at the current situation of Japan's economy, a rapid depreciation of the yen, as seen through the first half of last year, would not be desirable. On the other hand, due attention is also warranted on the opposite risk that the yen's depreciation will be retraced excessively.
- While operating profits of larger firms have continued to improve, small and medium-sized firms have seen a decline in their profits after raising wages last year. From the perspective of firms' capacity for raising wages, it is necessary to confirm, using data, whether the earning power of small and medium-sized firms has recovered by, for example, the results of price negotiations being reflected in these firms' business performance; it is also necessary to assess the provisional aggregate results of wage negotiations to be compiled in March by the Japanese Trade Union Confederation (Rengo), particularly developments in wage hikes by small and medium-sized firms. Moreover, uncertainties regarding overseas economies remain high. It is therefore appropriate for the Bank to maintain the current monetary policy for the time being.
- It will be desirable for the Bank to clarify its thinking on the policy interest rate and the role of the various indicators of underlying CPI inflation.

- Considering that both upside and downside risks are significantly large, the Bank should be extremely careful about suggesting the pace of policy interest rate hikes and the terminal policy rate.
- It is likely that firms' and households' inflation expectations have been at around 2 percent. It will be necessary to pay attention to upward risks to prices, carefully monitoring "market-based prices" -- that is, prices of items excluding housing rent and public services -- which would be affected by monetary policy.

III. Opinions from Government Representatives

Ministry of Finance

- The government will submit the budget for fiscal 2025 to the Diet today. The government will work to obtain approval from the Diet for the budget at the earliest possible time so that it can do its utmost with regard to economic and fiscal management.
- The government considers that the change in the policy interest rate proposed at this MPM has been judged necessary for achieving the price stability target of 2 percent, and it expects the Bank to explain its policy intention carefully to the public.
- 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.

Cabinet Office

- The government will do its utmost in its policy conduct to secure a transition to a growth-oriented economy.
- The government considers that the proposal made at this MPM has been judged necessary for achieving the price stability target in a sustainable and stable manner. In order to achieve sustainable growth, the government considers it necessary for the Bank to firmly support the economy from the financial side.
- The government expects the Bank to continue to conduct monetary policy as appropriate toward achieving the price stability target of 2 percent in a sustainable and stable manner, while continuing to closely cooperate and exchange views with the government.