Notes on Financial Markets Vol.255

Summary of Opinions at April/May MPM—Uncertain but resilient

May 13, 2025

Introduction

The BOJ decided to maintain its policy rate at 0.5% at April/May MPM. Members pointed out the high uncertainty about its economic outlook but maintained the constructive view of domestic inflation.

Assessment of economy

First line of comment expressed the central view that the growth rate would accelerate after its pause due to the effects of trade policies by major economies.

Several lines of comments insisted the downside risks, however.

One of them referred to the downward drivers on domestic economies, including the impacts of high uncertainty on business investment and household consumption, decrease in the exports to the US and their profit margin, the impacts on exports to ROW due to slowdown of global economy and appreciation of yen, and the negative wealth effects of drop in stock prices.

The other expressed concerns about the impacts on SMEs, as large firms may reconstruct their business lines, reduce the number of counterparties for enhancing supply chains, and shift their production facilities to the US.

Another of them focused the downside risk of global economies, due to potential shrink in international trade, leading to downward pressures on domestic economy.

On the other hand, three lines of comments expressed the cautiously optimistic views. One of them, seemingly by an executive member, insisted that the outlook could be revised substantially on conditions of the factors such as evolution of the US tariff policy and its reaction by domestic businesses.

The other of them raised the upside risk of the US economy when the US administration would shift its attention to tax reduction. Another of them suggested that competitive conditions of Japanese firms may not deteriorate, as mutual tariff would be applied to major economies.

All in all, a line of comment suggested that the BOJs should take account of the domestic factors as well as evolution of the US tariff, as dependence of Japan’s economy on export is not so high in terms of GDP.

Assessment of prices

First two lines of comments, which seem to be those by executive members, confirmed the constructive views. One of them maintained the scenario that underlying inflation would gradually accelerate after its pause due to slowdown of economic activities. The other expressed the similar view with reference to the prospects of wage rises under tight labor conditions.

Moreover, another line of comment expressed the confidence in maintaining around 2% inflation until FY2027, and referred to the upside risks of inflation due to potential disruptions of global supply chains

On the other hand, a line of comment warned about the downside risk of inflation, as the US tariff policy would cause slowdown of economic activities and disruption of supply chains, both of which could have negatively affect the wages.

Finally, the last line of comment expressed the benign view that the US tariff policy and its associated uncertainty would not affect either underlying inflation or potential growth rate from longer-term perspective. According to this comment, it could be the theoretically concluded that the tariff shock would not have long-term real impacts, as it could be understood as a short-term price shock.

Management of monetary policy

First three lines of comments confirmed the central view that the BOJ would continue to adjust the magnitude of monetary easing as long as the economy and the prices evolve along the outlook. At the same time, they insisted that the BOJ should carefully assess the plausibility and the risks of the outlook when they conduct monetary policy.

Following two lines of comments suggested, however, that the BOJ should take wait-and-see stance for the time being. They referred to the uncertainty of the US tariff policy and its potential negative impacts on domestic economy including excess reduction in costs, prevention of wage hike and business investment as well as “hollowing-out” of industries.

According to the comments, careful observation about corporate sentiment and corporate bankruptcies would be warranted.

Nevertheless, other three lines of comments pointed out the resiliency of our economy. First of them suggested that the BOJ should not be overly pessimistic and conduct monetary policy in agile and flexible manner.

The other two lines of comments claimed that domestic economy would not return to the environment where wages and prices are hard to rise.

One of them suggested that the important conditions for achieving inflation target, including proactive behavior of wage/price setting by firms and inflation expectation by households and firms, remained intact. The other confirmed that the monetary policy stance remained accommodative.

Last two line of comments on policy rate discussed the communication policy.

One of them insisted the importance of careful dialogue with the markets, as the economic outlook and its associated path of policy rate could promptly change in either direction.

The other line of comment expressed the constructive view that the market appeared to adjust their own view of policy rate path according to the BOJ’s fundamental strategy and the incoming information of both domestic and overseas economies.

Readers may like to remember that this is the line of argument that Deputy Governor Uchida discussed before.

Author: Tetsuya Inoue
Senior Chief Researcher
Financial Markets and Digital Business Research Department
Nomura Research Institute

This note is intended solely for informational purposes and should not be construed as investment advice. The author does not guarantee the accuracy or completeness of the information contained. Opinions in this note are those of the author and do not represent the views of Nomura Research Institute or Financial Technology and Market Research Department. This note is exclusively for the personal use of those receiving it directly from the author.