Notes on Financial Markets Vol.257

Summary of Opinions at June MPM—Taking fine balance

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Introduction

The BOJ decided to maintain its policy rate at 0.5% at June MPM. Members expressed a variety of views on the decision to reduce the pace of JGB purchase since April 2026.

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.

Following couple of comments confirmed that the BOJ should monitor carefully the incoming data which would reflect the impacts of trade policies.

The other line of comment suggested the resiliency of corporate activities, with reference to 1) continuous rise in wage due to labor shortages, 2) continuous conduct of business investments for DX and efficiency, and 3) efforts to satisfy stockholders.

In contrast, the other couple of comments expressed the cautious views. One of them described that the economic activities were stagnant due to high food prices and negative sentiment by trade policies.

The other pointed out that coordination between wage rise and business investment by SMEs appeared to be difficult. It discussed further that our economy would be at the pivotal point whether it could shift to a growing economy driven by wage and investment, or it would fall into stagflation.

Assessment of prices

First line of comment confirmed the central scenario. Specifically, it expected slower underlying inflation with substantial downside risks. Nevertheless, it expected its recovery afterwards as the economic growth rate recovers, and its convergence to the target in the later phase of the outlook.

Interestingly, three lines of comments raised the upside risks. The first of them referred to the resiliency of wage developments, and the second claimed the needs of vigilance against the risk of rising inflation expectation due to substantial rise in rice prices. The third pointed out the risk of global inflation when many overseas central banks were easing monetary policy.

In contrast, the other comment described that spillover effects from rising wages to services prices appeared to become stagnant.

Decision on policy rate

First line of comment confirmed the central view of policy normalization as far as the economy and prices would evolve in line with the outlook, while it pointed out the needs to make judgment without any prejudice.

The other couple of comments suggested that the BOJ should take wait-and-see stance for the time being under substantial uncertainties. Moreover, another comment claimed that the BOJ should support the economic activities by maintaining the accommodative condition.

In contrast, the other of line comment suspected that there could be a case to make a bold policy action when inflation rate remaines high.

Management of JGB purchase

Readers may like to remember that the BOJ decided to reduce the pace of monthly JGB purchase by 200bil yen per quarter since April 2026. According to the new plan, monthly purchase (in flow terms) decreased from 3.7trn yen in the current quarter to 2.1trn in 1Q of 2027.

MPM members expressed a large number of comments with this regard.

Two lines of comments expressed the rationales of the decision. One of them explained that the BOJ should take balance between flexible formation of long-term yield and effects on stability of JGB market. The other confirmed that the reduction should be continued, while some factors should be addressed including weakness of the economy, uncertainties of the outlook and capacity of the markets to absorb JGBs.

The other couple of comments discussed the pace of reduction. One of them claimed that too fast reduction might require its adjustment in the future, which could cause unnecessary market disruption. The other suggested that the BOJ should take consideration of supply and market demand of JGBs in order to avoid instability of JGB market.

Another couple of comments raised its relationships with other policies. One of them insisted that it was important for the BOJ to explain that the decision was intended to promote formation of yields in the market without causing negative impacts on economy and prices, but not intended to accommodate fiscal policy.

The other confirmed that the decision did not imply any modification of monetary policy stance.

Interestingly, many other lines of comments discussed the issues of JGB holdings in stock terms in the long run. There appeared to be a consensus that the BOJ should maintain the strategy of reduction in the size of balance sheet.

Two of such comments claimed that the BOJ should consider its optimal size both from asset and liability sides from long-term viewpoints. The other confirmed the view that there remained large rooms to reduce its size taking account of the extremely abundant excess reserves.

Another comment suggested that the normalization of the size of JGB holding should be achieved as soon as possible, in order to reinforce the market capacity to absorb shocks.

Meanwhile, a line of comment suggested that the BOJ would not need to suspend JGB purchase in flow terms in the future, as the market could lose interests in it when monthly purchase reduces to the amount as small as 1trn yen.

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