

Introduction

The BOJ decided to maintain its policy rate in July MPM. It also kept the outlook largely unchanged except for inflation in FY2025. Governor Ueda confirmed the view that the policy normalization would be continued while paying attention to elevated uncertainties of impacts by trade policies.

Assessment of economy

Statement of the new outlook confirmed the constructive view with reference to swings of exports and production, gradual increase in investment and resilient consumption. Governor Ueda expected slowdown of economic activities, but recovery afterwards both due to evolutions of overseas economies.

He also explained that central assumption of the outlook reflected the agreement of tariffs, excluding the case of substantial disruption of global supply chain. Moreover, the BOJ's previous assumption was largely equivalent to the actual agreement.

The new forecast of real GDP growth rate from FY2025 to FY2027 is +0.6%→+0.7%→+1.0%. Only the number for FY 2025 was revised by 0.1pp this time.

Regarding the risks of the outlook, the statement confirmed the three factors; 1) evolutions of trade policies and their global impacts, 2) evolutions of import prices and 3) changes in potential growth rate. The potential upside risk by fiscal expansion in the US and Europe was newly added to 1).

During the Q&A session, reporters asked about the reduction in the uncertainty of outlook and its implications.

Governor Ueda expressed the cautious view that magnitude and timing of impacts of higher tariff on economy remained highly uncertain. Moreover, he remained cautious about the timing to have clearer understanding of the impacts.

Interestingly, he also suggested the idea that largely equivalent rates of tariffs to major economies would not affect the competitiveness of Japanese firms considerably, and as a result, reactions of US economy remained important.

Assessment of prices

Statement of the new outlook confirmed the constructive view of underlying inflation. It expected a pause of improvement due to the slowdown of economic activities, but a resume afterwards because of the gradual rise in wages and price with cross-reference mechanism.

It should be noted that the BOJ used the words of “virtuous circle of wage and prices” to refer such mechanism. While it is not certain about the reason, the BOJ may need to take account of complaints about high inflation by the households.

The new forecast of core CPI inflation rate (excluding flesh food) from FY2025 to FY2027 is 2.7%→1.8%→2.0%. They were revised upwards by 0.5pp, 0.1pp, 0.1pp respectively this time. Its statement explained that the upward revision for FY2025 was due to rise in food (especially rice) prices, but expected the impacts would diminish in coming months.

Regarding the risks of the outlook, the statement confirmed the two factors; 1) behavior of firms against wage and price and its impacts on inflation expectation and 2) fluctuation of foreign exchange rates and evolutions of import prices.

Nevertheless, the statement put more stress on the upside risk. It mentioned that recent rise in prices partly reflect the transfer of rising costs, which could be sustained. It also suggested that persistent rise in food prices could cause second-round effects on underlying inflation.

During the Q&A session, press reporters raised the issues of underlying inflation.

Governor Ueda explained that the assessment should be based on a set of indicators including actual inflation, inflation expectation, GDP gap and wage rise. He also confirmed the view that underlying inflation was rising but did not converge to 2%.

Regarding the rise in headline inflation (largely due to rise in food prices), Governor Ueda expressed the careful assessment was warranted both in terms of deterioration of consumer sentiment and rise in underlying inflation.

Other reporters asked about the sustainability of wage rise. While Governor Ueda admitted that reduction in corporate profits (among manufacturing sector) could have some negative impacts, he also suggested that rise in wage might have become a new norm for firms.

Management of policy rate

Governor Ueda confirmed the view that the policy normalization would be continued while paying attention to elevated uncertainties of impacts by trade policies.

During the Q&A session, many press reporters suggested the rate hike should be early, due to higher and longer than expected headline inflation and growing complaint about higher living costs by the households.

Governor Ueda confirmed the view that the convergence of underlying inflation to the target was still on the way, and the BOJ needed to be confident about the convergence was necessary.

He also expressed the view that the risk of “behind the curve” of monetary policy remained small, because the spillover effects from wage to services prices has not reinforced. Nevertheless, he added that the BOJ should pay attention to the potential impacts of headline inflation on underlying inflation.

More fundamentally, Governor Ueda explained that policy rate hike against inflation largely caused by supply side factors could shrink aggregate demand, which would not be a desirable outcome.

In contrast, a press reporter suspected the difficulty of raising policy rate when headline inflation decelerate. Governor Ueda admitted the challenge, and suggested that the cross-reference mechanism would be the key.

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