

Daiwa's Economic View

BOJ's Summary of Opinions from Sep meeting: Board member balance tilting toward hiking rates

- Economic developments: Emphasis on assessing state of US economy
- Prices: Growing concerns about upside risks
- Clear increase in number of policy board members supporting rate hikes
- Next rate hike expected in Oct-Dec 2025, followed by another in Jul-Sep 2026?

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On 30 September, the BOJ released the Summary of Opinions from [its Monetary Policy Meeting held on 18 and 19 September 2025](#). At that meeting, the BOJ decided to maintain its current monetary policy stance, although two policy board members cast dissenting votes. Furthermore, on 29 September, policy board member Asahi Noguchi (viewed as most dovish policy board member) indicated a preference for hiking rates. This suggests that it was becoming increasingly likely that the policy board member balance is leaning toward a rate hike.

A key point from the Summary of Opinions released under such conditions is the distance to the next rate hike, based on economic/price outlooks and discussions on additional rate hikes, particularly the balance among policy board members.

Economic developments: Emphasis on assessing state of US economy

As for Japan's economy, while the current situation remains upbeat, opinions emphasizing downside risks to the US economy were also prominent.

The Summary of Opinions includes the view that, "The current situation of Japan's economy is relatively solid." Meanwhile, there were also opinions such as, "The largest risk to the outlook is future developments in the US economy" and "If inflation due to tariffs has a significantly negative impact on the US economy, there will also be an inevitable impact on Japan's economy."

The stance of closely assessing developments for the US economy is in step with BOJ Governor Kazuo Ueda's remarks at his press conference following the September meeting. There is probably no doubt that policy board members recognize that confirming a "soft landing for the US economy" is a crucial condition for hiking rates.

◆ Opinions on Economic Developments in Summary of Opinions at Sep MPM (30 Sep 2025)

- The current situation of Japan's economy is relatively solid. The acceleration in price rises of food, including rice, has peaked out, and private consumption -- which had not followed a recovery path -- has finally started to see an upturn.
- An examination of the Tankan (Short-Term Economic Survey of Enterprises in Japan) and anecdotal information from firms is required to determine whether firms have maintained their active business stance.
- When assessing economic developments based on business fixed investment, attention is warranted on the fact that there may be a significant time gap between when firms make their plans to invest and when they actually undertake the investment, and that the situation could change accordingly.
- It is becoming more likely that the impact of U.S. tariff policy on the U.S. and global economies will emerge gradually over time, rather than being seen in the form of a sharp deterioration in inflation or employment.
- The largest risk to the outlook is future developments in the U.S. economy. Although uncertainty caused by U.S. tariff policy itself is likely to decline, if inflation due to tariffs has a significantly negative impact on the U.S. economy, there will also be an inevitable impact on Japan's economy.

Opinions on prices: Concerns about upside risks intensify

Meanwhile, concerns about higher-than-expected inflation have increased, even compared to [opinions from the Summary of Opinions for the July meeting](#).

As for rising food prices, points such as “factors other than rice prices also account for a significant portion” and “there seems to be a higher likelihood that the cost pass-through to food prices will continue” were raised. These are indications that food prices may continue to rise. Also, some opinions cited concerns about upside risks stemming from fiscal factors, specifically, “Risks are skewed to the upside, including the effects of future fiscal policy.”

Furthermore, there was also the view that, “It can be considered that the price stability target has been more or less achieved.” This is consistent with the background behind policy board member Hajime Takata proposal for an interest rate hike in September. Given that policy board members’ price perceptions are skewed toward the upside, the next *Outlook Report* to be released at the October meeting is also likely to highlight upside inflation risks.

◆ Opinions on Prices in Summary of Opinions at Sep MPM (30 Sep 2025)

- Significant price increases in processed food have continued, and it seems that some firms have started to actively raise prices, even amid the levelling off of the rise in import prices. Depending on the situation in consumer purchasing behavior, there could be a change in the trend of price increases.
- Regarding the outlook for prices, three points warrant attention: the trend of import prices and raw material prices, such as rice prices; the extent to which the pass-through of cost increases to food prices continues; and the spread of the cost pass-through to the price of items other than food. There is a possibility that the price levels of branded rice will remain somewhat higher than expected. In addition, there seems to be a higher likelihood that the cost pass-through to food prices will continue, taking into account data and anecdotal information.
- A considerable portion of the rise in food prices is due to the price of rice, but factors other than rice prices also account for a significant portion.
- It is difficult to determine whether underlying inflation has reached 2 percent or has been sluggish, because of measurement errors or latitude in estimation. On the other hand, it is necessary to carefully examine whether underlying inflation has remained at around 2 percent, and the Bank should monitor factors including implications from economic models.
- In addition to inflationary pressure stemming from domestic factors reflecting sustained wage increases, inflation expectations have risen. Given this, among other factors, it can be considered that the price stability target has been more or less achieved. There has already been a shift away from the deflationary norm, and inflation expectations have been rising. In this regard, the second-round effects of price increases are more likely to emerge, and there are upside risks to prices.
- The underlying trend in prices is highly likely to continue developing steadily toward remaining at 2 percent, and risks are skewed to the upside, including the effects of future fiscal policy.

Monetary policy opinions: Clear increase in members supporting rate hikes

As for opinions on the conduct of monetary policy, there was the view that the BOJ should continue to closely monitor the data. Meanwhile, many are calling for a rate hike and it has become clear that the policy board member balance is shifting toward hiking rates.

The Summary of Opinions indicated that, “Constraints from overseas factors on realizing the outlook for prices are being resolved. Given this, the Bank may return to its monetary policy stance to raise the policy interest rate and adjust the level of real interest rates that are currently low compared with overseas economies.” It also provided the view that, “With risks to prices skewed to the upside, the Bank should set the policy interest rate a little closer to the neutral rate to prevent future shocks arising from possible rapid policy interest rate hikes.” In addition, some policy board members emphasized the risk of waiting too long. They referred to this in such terms as, “Although additional insight could be gained by waiting to observe how developments in the US economy unfold, the costs of waiting will gradually increase for prices in Japan.”

Taking these points into consideration, it is clear that there are members who support an earlier rate hike beyond the two who proposed a rate hike in September.

Among those in favor of checking the data, some contend that, “The degree of slowdown in the US economy remains uncertain,” while also suggesting that, “It may be time to consider raising the policy interest rate again.” It is also clear that the time interval defined as “a little more” in the “assess a little more data” wording has become shorter.

Also, the view described as, "If economic activity and prices remain in line with the Bank's outlook and do not deviate considerably from the path anticipated, the Bank should adjust the policy interest rate level at somewhat regular intervals" was introduced. The wording "somewhat regular intervals" was likely intended to signal a return to the previous pace (roughly one rate hike every six months) after the policy rate reaches 0.75%.

Opinions on Monetary Policy in Summary of Opinions at Sep 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	U.S. tariffs will still have an impact on Japan's economy, even after the rate was reduced to 15 percent, and the outlook for the economy remains unchanged, namely that economic growth is likely to moderate temporarily. On the price front, the year-on-year rate of increase in the CPI is likely to be below 2 percent in fiscal 2026, as cost-push pressure with respect to food is expected to wane. In this situation, the Bank should, at this point, maintain accommodative financial conditions with the current interest rate level and thereby firmly support the economy.
3	Judging solely from the perspective of Japan's economic conditions, it may be time to consider raising the policy interest rate again, given that it has been more than six months since the last rate hike. That said, since the degree of slowdown in the U.S. economy remains uncertain, it is appropriate for the Bank to maintain its current stance regarding the conduct of monetary policy for the time being.
4	A policy interest rate hike at this point, which would come as a surprise to the market, should be avoided.
5	One characteristic of Japan's economy is that domestic demand tends to be vulnerable to negative external shocks. In the process of normalizing the policy interest rate, it would not be too late even if the Bank makes decisions after assessing a little more hard data.
6	In conducting monetary policy, it will be necessary to closely monitor the following three factors: the impact on the global economy of trade policy in each jurisdiction, the direction of U.S. monetary policy and of foreign exchange rates, and the outlook for prices and wages in Japan.
7	Although additional insight could be gained by waiting to observe how developments in the U.S. economy unfold, the costs of waiting will gradually increase for prices in Japan. Therefore, it will be necessary to weigh up the costs and benefits of waiting and the associated risks.
8	If economic activity and prices remain in line with the Bank's outlook and do not deviate considerably from the path anticipated, the Bank should adjust the policy interest rate level at somewhat regular intervals. Looking ahead, a wide range of information, mainly regarding the impact of U.S. tariffs, will become available, such as (1) financial results for the first half of fiscal 2025 and the financial outlook for the fiscal year of firms whose fiscal year ends in March, and (2) the results of the Tankan.
9	The concerns that emerged following the imposition of reciprocal tariffs by the United States have been abated, and constraints from overseas factors on realizing the outlook for prices are being resolved. Given this, the Bank may return to its monetary policy stance to raise the policy interest rate, and adjust the level of real interest rates that are currently low compared with overseas economies.
10	The impact of the Bank's policy interest rate hikes to 0.5 percent on Japan's economy as a whole has been extremely limited. Given that there are currently both upside and downside risks, the Bank should not immediately raise the policy interest rate to a restrictive level. That said, with risks to prices being skewed to the upside, the Bank should set the policy interest rate a little closer to the neutral rate to prevent future shocks arising from possible rapid policy interest rate hikes.
11	The Bank successfully completed the disposal of the stocks it had purchased from financial institutions. It is therefore appropriate for the Bank to start selling exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) in the same way, without undue delay.
12	In order to proceed with policy normalization in a balanced manner in terms of both quantity and interest rate, the Bank may prioritize the normalization of its balance sheet at this MPM. It may be time for the Bank to begin the disposal of ETFs and J-REITs, as time has passed since the termination of the negative interest policy and the start of the reduction of the purchase amount of Japanese government bonds (JGBs).
13	It is not desirable that there continues to be a significant amount of stocks that could be released to the market. It is appropriate for the Bank to begin to dispose of ETFs and J-REITs on a scale that does not have a major impact on the stock market.
14	As long as the Bank disposes of ETFs and J-REITs, which it purchased to have an impact on risk premiums in the markets, in a way that does not have a major market impact, it is inevitable that the disposal will take considerable time.
15	In disposing of ETFs and J-REITs, the Bank should ensure flexibility to support stability in the financial markets by, for example, enabling a temporary adjustment in the sales amount or a suspension of sales, in response to changes in financial market conditions.
16	While risk premiums in the stock market have been normalized, those in the J-REIT market are still high. Given this, it is desirable to moderate considerably the pace of sales of J-REITs.

Source: BOJ; compiled by Daiwa.

Rate hike path and terminal

In addition to the 29 September speech by policy board member Asahi Noguchi, the released Summary of Opinions for the September meeting clearly shows that the BOJ policy board member balance is shifting toward hiking rates. This can be viewed as a factor increasing the likelihood of an early interest rate hike.

That said, the BOJ continues to place emphasis on the likelihood of a soft landing for the US economy. A 19 September Reuters report cited a view within the BOJ that, "Trends for the US Christmas shopping season starting in late November will be critical for gauging the impact of tariffs." As such, Christmas shopping season trends can also be cited as one of the timing points for making a rate hike decision.

That said, Christmas shopping season momentum is expected to be confirmed to some extent by the National Retail Federation's (NRF) retail sales forecast for the year-end shopping season (Nov-Dec), which will be released in mid-October. Furthermore, at this juncture we should also note that any risk-management-driven rate cut, prioritizing the downside risks to the robust US economy and employment, should act to increase the likelihood of a soft landing for the US economy. As for Japan, [the BOJ's Tankan survey \(Sep\) released on 1 October is also expected to show robust corporate performance](#). Combined with upside risks to prices, this seems to suggest conditions are ripe for an early rate hike.

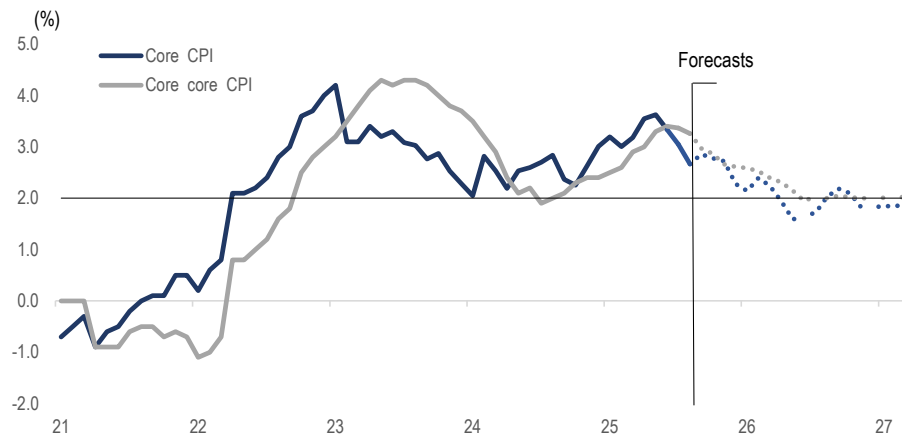
While new data from the BOJ's Tankan survey will be presented at Ueda's 3 October press conference, the Bank is likely to maintain its stance of attaching importance to assessing the state of the US economy. In other words, with the approaching release of September US employment statistics and US CPI data, we expect the BOJ to maintain its flexible stance (= free rein). The more significant timing, in terms of BOJ messaging, is the speech by BOJ Deputy Governor Shinichi Uchida at the National Credit Union Convention on 17 October. The likelihood that such BOJ messaging will take a more hawkish tone at that event is increasing.

Also, as pointed out in the Summary of Opinions, given that Japan's economy is progressing relatively steadily and upside price risks remain in play, we expect that after the policy interest rate reaches 0.75%, the pace of rate hikes will approach the conventional interval (roughly once every six months).

That said, wage increases in 2026 and trends for passing on higher cost to prices will be crucial for determining whether to raise the policy interest rate to 1.0%. Meanwhile, wage increases in 2026 are expected to face some downward pressure due to tariff impacts. Particular attention will be paid to the execution of wage increases, including those among small and medium-sized enterprises, as well as trends for passing on those costs to prices. Based on these factors, we expect the BOJ to raise the policy interest rate to 0.75% in Oct-Dec 2025, followed by an increase to 1.0% in Jul-Sep 2026.

Once the 1.0% target is reached, the policy stance will likely be reconsidered, taking into account the impact of the rate hikes. If it reaches 1.0% in mid-2026, fiscal effects centered on Japan and the US may become apparent around the same time. In that case, both interest rate hikes and fiscal considerations would exert both upward and downward pressure on the economy. Under such conditions, price trends are likely to become a more important indicator than the impact of rate hikes on the economy.

At this juncture, we expect inflation to hover around 2% in FY26, but with the balance of risks tilted to the upside. Specifically, factors such as (1) persistently high food price inflation and (2) progress passing on costs to prices pose upside risks. Taking the above points into consideration, we continue to expect a 1.0% policy interest rate as the terminal for this rate-hiking cycle. We also see a significant chance of rates moving beyond that level.

CPI Forecasts

Source: Ministry of Internal Affairs and Communications; compiled by Daiwa.

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