

Daiwa's View

Key points to note at Oct BOJ MPM: Recognition of economy/prices, spreading support for rate hike

- Domestic economy on track, but high uncertainty assumed for overseas economies
- Do not expect major differences in recognition between BOJ and new administration
- No major changes in recognition of economy/prices
Recognition of large downside risks for economic risk balance?
- Expect only board members Tamura and Takata to call for rate hike

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Domestic economy/prices on track, but assume high uncertainties for overseas economies

During [his 3 October press conference](#), BOJ Governor Kazuo Ueda cited three points in regards to economic and price risk factors, specifically (1) trends for overseas economies, (2) impact of tariff policies on corporate profits and wage/price setting behavior (factor impacting domestic economy), and (3) food price trends. As for the impact of tariff policies on businesses, [the BOJ's Tankan survey \(Sep\)](#) and [the BOJ's branch managers' meeting report \(Oct\)](#) both point to relatively solid corporate trends. In other words, Japan's economy is generally progressing in line with the BOJ's expectations.

However, BOJ leadership has placed the greatest priority on "trends for global economy." On 14 October, IMF released its latest *World Economic Outlook*. According to this report, growth for the global economy was revised upward to +3.2% for 2025 (previously +3.0%) and +3.1% for 2026 (unchanged). US growth rates were revised upward to +2.0% for 2025 (previously +1.9%) and +2.1% for 2026 (previously +2.0%). However, the outlook is recognized as carrying significant downside risks. Indeed, the IMF report stated, "This apparent resilience, however, seems to be largely attributable to temporary factors, such as front-loading of trade and investment/inventory management strategies, rather than to fundamental strength."

In his 15 October (Japan time) speech at the annual meeting of the National Association for Business Economics (NABE), Fed Chairman Jerome Powell said, "The outlook for employment and inflation does not appear to have changed much since our September meeting four weeks ago." He also indicated "considerable downside risks" for the jobs market. Under such circumstances, we can presume that the recognition of the BOJ leadership regarding trends for overseas economies includes persistent high uncertainties.

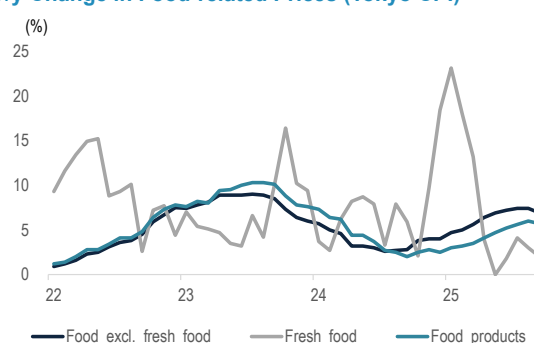
Furthermore, the current price trends are within the range of the BOJ's assumption that the "effects of the recent rise in food prices are expected to wane" as evidenced by the sense that the y/y price increases for processed foods peaked in [the September Tokyo CPI report](#).

IMF World Economic Outlook (Oct 2025, y/y %)

	2024	2025	Difference from previous projections	2025	Difference from previous projections
World	3.3	3.2	0.2	3.1	0.0
Advanced Economies	1.8	1.6	0.1	1.6	0.0
US	2.8	2.0	0.1	2.1	0.1
Japan	0.1	1.1	0.4	0.6	0.1
Euro Area	0.9	1.2	0.2	1.1	-0.1
Emerging Market and Developing Economies	4.3	4.2	0.1	4.0	0.0
China	5.0	4.8	0.0	4.2	0.0

Source: IMF; compiled by Daiwa.

Y/y Change in Food-related Prices (Tokyo CPI)



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

Communication with new Takaichi administration

Communication with the new Takaichi administration is also a factor hindering an October rate hike. At her inauguration press conference on 21 October, prime minister Takaichi said, "The government holds the ultimate responsibility for macroeconomic policy." She added that, "It is of the utmost importance that the BOJ works in close cooperation and communicates thoroughly with the government, based on the fact that monetary policy is a component of economic policy."

However, this statement that, "The government holds the ultimate responsibility for macroeconomic policies (including monetary policy)" is viewed as falling within the scope of the interpretation of Article 4 of the Bank of Japan Act. On 29 May 1997, during Diet deliberations on the enactment of the new Bank of Japan Act, then-MOF official Kimio Yamaguchi expressed his understanding that, "Regardless of the BOJ's various legal characteristics, since it exists within the broader sense of administration, it is necessary to establish a system whereby the Cabinet bears some form of ultimate responsibility." When the new Bank of Japan Act was enacted, there was the fact that a certain degree of administrative responsibility regarding monetary policy was anticipated.

In other words, Prime Minister Takaichi's remarks were made in accordance with Article 4 of the Bank of Japan Act and demonstrated a certain degree of consideration for the Bank's independence. Minister of Economic and Fiscal Policy Minoru Kiuchi expressed concern at his inauguration press conference (22 Oct) that yen depreciation "will push up prices." It is unlikely that a significant divergence of views will arise to the extent that the government opposes rate hikes, given that "countermeasures against high prices" are the government's top priority.

That said, the new administration had just taken office on 21 October, making it difficult for the BOJ to secure sufficient time for communication with the government. Moreover, while the domestic economy and prices are currently progressing as the BOJ had expected, the Bank likely recognizes that uncertainties surrounding overseas economies remain high. Under these circumstances, there appears to be little reason for the BOJ to rush into raising interest rates at its October meeting. At the 29-30 October Monetary Policy Meeting (MPM), we expect the Bank to maintain the status quo regarding the policy interest rate.

◆Bank of Japan Act (Relationship with the Government)

- Article 4: Taking into account the fact that currency and monetary control is a component of overall economic policy, **the Bank of Japan must always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy are mutually compatible.**

◆Remarks by Kimio Yamaguchi at Upper House Finance Committee (29 May 1997)

- Indeed, **regardless of the various legal characteristics of the Bank of Japan, since it exists within the broader sense of administration, it is necessary to establish a system whereby the Cabinet bears some form of ultimate responsibility for the Bank.** This is probably the prevailing view within the contemporary constitutional interpretation.

Key point (1): Economic and price outlooks

The October meeting will include the release of the BOJ's *Outlook Report*, which should be noteworthy as that report will provide economic and price projections and risk assessments based on the latest macroeconomic conditions and tariff policy developments. Another key point is whether calls for rate hikes will gain traction beyond just two board members (Takata and Tamura.)

We expect the *Outlook Report* to revise the real GDP forecasts, raising it to +0.7% (previously +0.6%) for FY25 and lowering it to +0.6% for FY26 (previously +0.7%). Meanwhile, the growth rate for FY27 is expected to remain unchanged. This upward revision for FY25 reflects the fact that the impact of tariffs has not yet materialized and that GDP for the Apr-Jun quarter of 2025 exceeded expectations. In contrast, FY26 is expected to see a downward revision due to the delayed tariff impacts.

Turning to the price outlook, while we expect core CPI to remain unchanged from FY25 through FY27, an upward revision for FY25 core-core CPI to +2.9% (previously +2.8%) is expected. As mentioned above, current prices appear to be moving largely in line with the BOJ's projections. However, compared to conditions as of the July meeting, [the yen has depreciated further](#), while crude oil prices have fallen. Yen depreciation is a factor pushing up core and core-core CPI, while falling crude oil prices are a factor directly pushing down core CPI. While these effects will likely offset each other, keeping core CPI largely unchanged, we expect an upward revision for core-core CPI.

BOJ Policy Board Members' Projections (median, y/y %)

	Real GDP			Core CPI			Core core CPI		
	Jul 2025*	Oct 2025**	Our forecasts	Jul 2025*	Oct 2025**	Our forecasts	Jul 2025*	Oct 2025**	Our forecasts
FY25	+0.6 %	+0.7 %	+0.8 %	+2.7 %	+2.7 %	+2.8 %	+2.8 %	+2.9 %	+2.9 %
FY26	+0.7 %	+0.6 %	+0.6 %	+1.8 %	+1.8 %	+1.8 %	+1.9 %	+1.9 %	+2.0 %
FY27	+1.0 %	+1.0 %	+0.9 %	+2.0 %	+2.0 %	+1.9 %	+2.0 %	+2.0 %	+2.0 %

Source: BOJ, various materials; compiled by Daiwa.

*BOJ projections. **Our estimates for policy board member projections (highlighted in light blue).

Key point (2): Risk balance and policy stance

As for the risk balance in the economic outlook, the recognition that downside risks remain significant will likely persist, as was the case before. As mentioned above, the BOJ is currently closely monitoring economic developments overseas, particularly in the US. In the US, the government shutdown has delayed the release of key economic indicators such as employment statistics, while concerns are mounting over a renewed US-China trade dispute. These factors will continue to fuel concerns about a downturn for overseas economies, particularly the US. The outlooks for FY25 and FY26 will probably continue to be viewed as having large downside risks.

Furthermore, given that recent price trends have generally unfolded as expected by the BOJ, we expect the balance of risks to the price outlook to remain unchanged from the previous assessment, maintaining the view that these risks are “generally balanced.”

There will likely be no change in terms of risk factors for the economy and prices. In particular, one price risk factor cited by the BOJ is, “Future developments in foreign exchange rates and import price trends, including international commodity prices, as well as the extent to which such developments will spread to domestic prices.” However, as long as the current level persists, [it does not raise significant concerns about the path toward achieving the 2% price stability target](#). The previous description of forex is also expected to remain unchanged.

Under these conditions we expect the BOJ to maintain its policy stance of raising interest rates, stating that, “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.” Meanwhile, the Bank will also probably indicate that there is no change to its recognition of the situation in which, “High uncertainties remain regarding the future course of trade and other policies in each jurisdiction and the impact of these policies.”

Key point (3): Interest rate hike proposals

At the September MPM, a proposal to raise the policy interest rate to 0.75% was submitted by board members Hajime Takata and Naoki Tamura. Remarks at [recent speeches by Tamura \(16 Oct\)](#) and [Takata \(20 Oct\)](#) remained hawkish. At the October meeting, it is highly likely that both of these board members will again propose an interest rate hike.

That said, we assume that interest rate hike proposals from members other than Tamura and Takata are unlikely at the October meeting. Since September, the yen has depreciated while crude oil prices have declined. These two effects are expected to largely offset each other. Price

trends, particularly for food items, are also currently unfolding as projected by the BOJ and it cannot be said that upside risks to prices have clearly increased.

Furthermore, on 29 September, policy board member Asahi Noguchi, previously regarded as the most dovish member, said, "I believe Japan will require a new policy perspective." This indicated a more positive stance toward raising interest rates. That said, Noguchi pointed out significant downside risks due to US tariff policies. Indeed, he said, "It is necessary that the Bank assess underlying inflation as carefully as possible for the time being." Therefore, while Noguchi's recognition has positively shifted, he will probably not call for a rate hike (run counter to BOJ leadership), given the current situation in which BOJ leadership is focusing on downside risks.

Oct meeting to highlight high uncertainty, but Dec rate hike remains our main scenario

Overall, the October meeting is unlikely to include significant economic and price outlook revisions. Still, the assessment that downside risks to the economy, particularly from overseas economies, remain significant is likely to be maintained and the view that "uncertainty is high" is likely to be conveyed.

The timing for the next interest rate hike will likely be viewed as a "timing issue" based on the following factors.

- Political communication
- Shift in perception of economic outlook (likelihood of US soft landing, massive scale of fiscal stimulus)
- Shift in perception of price outlook (higher-than-expected prices mainly due to forex trends)

In particular, if downside risks to the global economy materialize, such as a steeper-than-expected deterioration for US employment or a resurgence of US-China trade frictions, the BOJ would find it difficult to make an early interest rate hike. Also, if domestic inflation risks do not intensify, the tight deliberation schedule of the extraordinary Diet session ending on 17 December (including possibility of session extension) raises the risk that political communication could obstruct a December rate hike. Furthermore, waiting until January would allow confirmation of nationwide wage hike momentum based on the results of the BOJ's branch managers' meeting, a factor that could be considered when determining the timing for an interest rate hike.

That said, the domestic economy is already on track and, with increasing voices within the policy board pointing to upward pressure on prices, it is highly likely that there is a desire within the Bank to implement an interest rate hike as early as possible. Furthermore, if downside risks to the economy recede, such as through the materialization of upside price risks centered on forex or confirmation of US economic resilience, the probability of a rate hike in December would increase.

In particular, as pointed out by Takata in his 20 October speech, the "unusual environment" where fiscal and monetary policies in various countries are simultaneously shifting toward easing has the potential to raise the long-term economic and price outlooks more than expected, which could be a factor that hastens policy decisions.

Even if the October meeting indicates that uncertainty centered on tariff policy remains high, as we expected, we will continue to assume an interest rate to 0.75% by the end of this year, based on the points covered in this report.

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