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## **MONETARY AFFAIRS:**

**Review: BoJ on Hold in October,  
But a Hike in December Remains on the Table**

**by**

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**30 October 2025**

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### Review: BoJ on Hold in October, But a Hike in December Remains on the Table

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#### Executive Summary

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➤ **Decision Made:** *The Bank of Japan (BoJ) maintained its policy rates in October.* The BoJ board voted in an unanimous decision to keep its short-term policy rate unchanged at 0.50% with two dissenters. The BOJ kept rates steady but reiterated its commitment to raise borrowing costs if the economy follows its projections, shifting investor focus to a possible hike in December. At the press briefing, Ueda emphasized that the outlook remains exposed to several risks, particularly the uncertainty surrounding how global trade policies will affect economic activity and price developments worldwide.

➤ **Policy Discussion:** *The BOJ kept rates steady but reaffirmed its readiness to raise borrowing costs if the economy evolves as projected, shifting investor focus to a possible December hike.* The decision, taken at the first meeting since pro-easing Prime Minister Sanae Takaichi took office, saw two dissenters again push for a 0.75% hike, reflecting cautious policy normalization under Governor Kazuo Ueda amid political uncertainty. The Bank expects inflation to dip below 2% before gradually returning to target as labor markets tighten, maintaining flexibility to adjust policy while global risks persist.

Political dynamics are also shaping the outlook. Takaichi's support for loose monetary policy has tempered expectations for near-term tightening, though economists still anticipate a rate hike by early 2025. With inflation above target for over three years and the yen under renewed U.S. scrutiny, the BOJ faces growing pressure to act while balancing price stability, growth, and currency concerns:

➤ **Changes to Economic Forecasts:** *The BOJ said price risks remain balanced, while economic risks lean to the downside for the next fiscal year.* It slightly raised this year's growth forecast to 0.7% from 0.6% and maintained its view that inflation will reach the 2% target by early 2028, indicating the economy is broadly progressing as expected.

Japan's economy is recovering moderately but unevenly, weighed down by weak exports and U.S. tariffs. While profits remain strong and business investment steady, manufacturing faces pressure and consumption is tempered by rising prices despite solid wage growth. Inflation hovers near 3%, though core inflation is expected to dip below 2% before gradually returning to target as labor markets tighten and expectations firm. The outlook remains largely unchanged, supported by stable oil prices and accommodative policy, though risks persist from global trade tensions, China's slowdown, and volatile commodity prices. Domestically, labor shortages may drive automation but also limit growth, leaving inflation pressures balanced between higher costs and slowing profits.

#### Key Picture: Bank of Japan Forecasts – 2024-2026 – From the October 2024 Outlook

|                             | 2025f          |                |             | 2026f          |             | 2027f          |             |
|-----------------------------|----------------|----------------|-------------|----------------|-------------|----------------|-------------|
|                             | Latest Reading | October Report | July Report | October Report | July Report | October Report | July Report |
| GDP<br>(real growth, y-o-y) | 1.2            | 0.7            | 0.5         | 0.7            | 0.7         | 1.0            | 1.0         |
| Inflation*<br>(%, y-o-y)    | 2.9            | 2.7            | 2.7         | 1.8            | 1.8         | 2.0            | 2.0         |

Source: Bank of Japan 'Outlook for Economic Activity and Prices' [May](#) and January 2025. Note: 1. Forecasts are for the fiscal year (FY) in Japan from April 1 - 31 March of the following year; 2. Latest GDP reading for Q2-2025; 3. Latest inflation reading for September 2025.

## Analysis

- ✧ **DECISION MADE:** *On October 30, the Bank of Japan (BoJ) remained on hold.* The BoJ kept its the key short-term interest rate at “around 0.50%” with two dissenters. Tamura and Takata again advocated raising the benchmark rate to 0.75%, repeating their stance from last month — the first time Governor Ueda faced opposition from more than one policymaker against keeping rates unchanged.

In terms of *forward guidance*, further rate hikes would hinge on how likely it is that the Bank’s economic outlook is achieved. The BoJ reiterated its commitment to raise borrowing costs if the economy follows its projections, shifting investor focus to a possible hike in December. There are various risks to the outlook,” Ueda said at a press briefing following the decision. “In particular, the effects of trade policies on global economic and price trends remain highly uncertain.”

In terms of *balance sheet policies*, the BoJ agreed to gradually reduce its monthly JGB purchases to around ¥2 trillion by January–March 2027—cutting about ¥400 billion per quarter until early 2026, then ¥200 billion per quarter from April 2026 onward. The Bank retains flexibility to intervene if long-term rates rise sharply and may revise the plan at any policy meeting if needed. As of the June 2025 quarter, the Bank of Japan is estimated to purchase approximately ¥4.1 trillion in JGBs each month.

- ✧ **POLICY DISCUSSION:** *The BOJ kept rates steady but reiterated its commitment to raise borrowing costs if the economy follows its projections, shifting investor focus to a possible hike in December.* The Bank of Japan left its benchmark rate unchanged at 0.5% at its first meeting since pro-easing Prime Minister Sanae Takaichi took office, sending the yen lower. The decision, expected by most economists, saw Naoki Tamura and Hajime Takata again dissent in favor of a 0.75% hike—the second straight meeting with two opposing votes. The outcome reflects Governor Kazuo Ueda’s cautious approach to policy normalization amid political uncertainty. The steady dissent highlights that a rate hike remains on the table, though the board appears reluctant to signal any move before the next meeting in seven weeks.

The BOJ expects core inflation to dip below 2% through early fiscal 2026 before gradually rising toward its 2% target as labor markets tighten and inflation expectations firm. It sees downside risks to growth but balanced price risks, with financial conditions remaining stable. With real rates still low, the Bank plans to adjust policy gradually while staying flexible amid global uncertainty to ensure sustainable price stability.

The BOJ’s decision came as U.S. Treasury Secretary Scott Bessent met Japan’s new finance minister, Satsuki Katayama, and appeared to criticize Tokyo over the yen’s weakness, even weighing in on its monetary policy. The U.S. Treasury later stressed the need for “sound monetary policy” to anchor inflation expectations and curb exchange rate volatility.

The yen’s decline has drawn repeated complaints from President Trump, who accused Japan of seeking a trade edge. Trump recently met Prime Minister Takaichi, known for favoring low rates and once calling BOJ hikes “stupid.” Although she has since softened her stance, efforts to strengthen the yen clash with her push for fiscal expansion and easy money. A supporter of “Abenomics,” Takaichi has urged close coordination between the government and BOJ.

Political shifts are also influencing the BOJ’s stance. The appointment of Prime Minister Sanae Takaichi, a supporter of loose monetary policy, has made it harder for the Bank to press ahead with rate hikes, prompting markets to dial back expectations for an October move. Still, most economists expect a hike to 0.75% by year-end, with nearly all seeing one by March. With inflation above target for over three years, pressure is mounting for the BOJ to act. Governor Ueda’s cautious approach reflects an effort to balance growth and price stability while avoiding further yen weakness.

- ✧ **CHANGES TO FORECASTS:** *The BOJ noted that price risks are broadly balanced, while economic risks tilt to the downside for the next fiscal year.* In its latest quarterly outlook, it raised the current fiscal year’s growth forecast slightly to 0.7% from 0.6%. The Bank maintained its view that underlying inflation will

reach its 2% target in the latter half of the three-year projection period through early 2028, suggesting the economy remains broadly on track with its expectations.

Japan's economy is recovering moderately but remains uneven amid weak exports and the drag from U.S. tariffs. Exports and output are largely flat, while profits stay high but manufacturing faces pressure. Business investment continues to rise modestly, supported by profits and easy credit. Consumption is resilient thanks to strong employment and wages, though rising prices strain households. Housing investment has fallen, and public spending is steady.

Inflation remains near 3%, fueled by food costs and wage pass-through. Growth is expected to stay modest as global weakness offsets domestic support, though AI-related demand may help exports. Investment in digitalization, R&D, and supply chains is set to continue despite slower global demand. Tight labor markets will keep wages rising, though weaker profits may cap gains.

Core inflation (ex-fresh food) is projected to dip below 2% through early fiscal 2026 as food price effects fade, before gradually returning toward the BOJ's 2% target later in the forecast period. The outlook—largely unchanged from the previous report—assumes stable oil prices and continued policy support. As the output gap improves and labor shortages persist, firms are likely to keep passing higher costs onto prices, pushing inflation expectations gradually higher.

This outlook is broadly unchanged from the previous report and assumes stable crude oil prices and continued government measures. Core inflation excluding energy is also expected to dip below 2% temporarily before rebounding to around that level as growth strengthens.

Japan's outlook is clouded by global risks, including U.S. tariffs, China's slowdown, and geopolitical tensions that threaten trade and growth. Supply chain disruptions and volatile commodity prices could lift import costs, though fiscal support or cheaper imports may offset some pressure. Domestically, labor shortages and demographics may spur automation but constrain growth, while inflation risks remain balanced between weak profits and rising wage and cost pressures.

- ✧ **OUR TAKE:** *Rate Hikes remain on the Table.* With still elevated trade policy uncertainty and the arrival of neo-Abenomics PM Takaichi, the BoJ remained on hold also in October, even with an increased number of dissenters. The possibility of rate hikes remain on the table, possibly as early as December this year.
- ✧ **MARKET IMPLICATIONS:** *Market reaction to the expected decision was relatively muted.* JGB yields rose in step with U.S. Treasuries, with the two-year yield climbing 1 basis point to 0.95%, its highest since June 2008, while the 10-year yield gained 2.5 basis points to 1.675%. *The yen slips after BOJ leaves rates unchanged.* The yen weakened following the decision, falling to 153.14 per dollar from 152.19 just before the announcement. *Japanese stocks closed higher.* The Nikkei 225 gained 17.96 points, or 0.04%, from Wednesday to close at 51,325.61. Asian markets were mixed Thursday after President Trump announced a deal with China's Xi Jinping on rare earths and tariffs.



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