

## Introduction

The BOJ decided to maintain its policy rate at 0.5% in October MPM, with two dissent votes. Overall impression of the discussion suggests a next rate hike was getting closer.

## Assessment of economy

First line of comment confirmed the central scenario that the economic growth would re-accelerate after temporally slowdown due to overseas trade policies.

Regarding the US tariffs, four lines of comments expressed optimistic views. One of them confirmed that the impacts were contained so far, and the other judged that the uncertainties were lower than July. Moreover, other couple of comments expected that the further negative impacts would become smaller, partly due to economic stimulus in the US.

Meanwhile, a line of comment pointed out that it was difficult to take account of prospective fiscal policy by the new administration in Japan when submitting the own outlook.

Interestingly, other couple of comments suspected the side-effect of substantially low real interest rates with reference to expansion of bank lending for M&As and real estate projects, as well as rise in real estate prices.

## Assessment of prices

First line of comment confirmed the central scenario that the underlying inflation would reaccelerate and converge to the inflation target in later period of the outlook, after temporary stagnation. Following line of comment also expected that gradual rise in the underlying inflation would be sustained by improvement of the real wage.

Other four lines of comments discussed the implications of price-setting behavior by the firms.

Three of them expressed constructive views. One of such comments suggested that rise in food prices were driven by changing behavior of the firms, as well as rises in wage and transportation costs associated with depreciation of JPY. Therefore, firms' behavior and households' reaction would deserve attention.

Couple of other comments claimed that the "norm" of firms has changed with reference to either upward movement of medium-term inflation expectation or upward pressure of wages. Consequently, one argued that the judgment of achieving the inflation target could be possible in the next spring. The other warned that upside risk of inflation should be taken care of.

However, one comment expressed relatively cautious view. It suggested that change of behaviors was gradual except for food industries, and that it may be due to cautious attitude of the households with increasing expenditures on foods.

## Management of policy rate

First two lines of comments confirmed the central view of policy normalization as far as the economy and prices would evolve in line with the outlook. One of them pointed out the needs to make judgment without any prejudice, and the other suggested that the "initial momentum" of annual wage negotiation of 2026 "Shunto" round would be important.

Following comment reiterated the points of reaction function:

1) impacts of overseas trade policies on the global economy, 2) direction of the US monetary policy and foreign exchange rate and 3) outlook of domestic price and wage. It also insisted that the maintenance of firms' proactive behavior toward wage would be crucial.

Another set of discussions was regarding the timing of a next rate hike.

Two lines of such comments suggested the timing would be close. One of them pointed out the side-effects of inflation such as change in consumption pattern, rises in construction costs and rising housing prices. It further expected that conditions would be met depending on the outlook of prices and its confidence. The other claimed that the BOJ should not fail to raise policy rate in a timely manner, as the policy rate remained below its neutral level.

The other two lines of such comments expressed cautiously optimistic views. One of them suspected that the conditions were being met, while it would like to confirm the anchoring of underlying inflation at 2%. The other suggested that the BOJ could raise policy rate, if the maintenance of proactive behavior of firms toward wage would be confirmed. Nevertheless, it referred to no additional downside factors of the global economy and financial markets as conditions.

On the other hand, two lines of comments suggested that the BOJ should wait for a moment. As the reasons, one of them raised the risk that a collapse of "strange balance" in the US labor market, adjustment of financial markets and their impacts on economy and prices in Japan. The other referred to uncertainties of the US tariffs as well as unknowns of economic policy by the new administration in Japan.

Next set of comments discussed the appropriateness of the current level of policy rate.

One of them suggested that the BOJ should adjust the magnitude of monetary easing by raising policy rate in order to avoid as accelerated rate hikes in later years. The other expressed the idea that a policy rate hike at the current juncture should be viewed as a normalization process to an equilibrium level in order to correct the economic distortions.

Last set of comments discussed the communication policy, but each of them expressed the diversified views.

One of them argued that the BOJ should explain carefully the special factors behind and the mechanisms (including aggregate demand/supply, wage and inflation expectation). On the other hand, the other argued that the BOJ could put more stress on headline inflation as the "norm" changed.

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