

19 September 2025

# BoJ Monetary Policy Decision (18-19 September)

Hawkish hold as two dissenters keep October hike in play as inflation stays firm

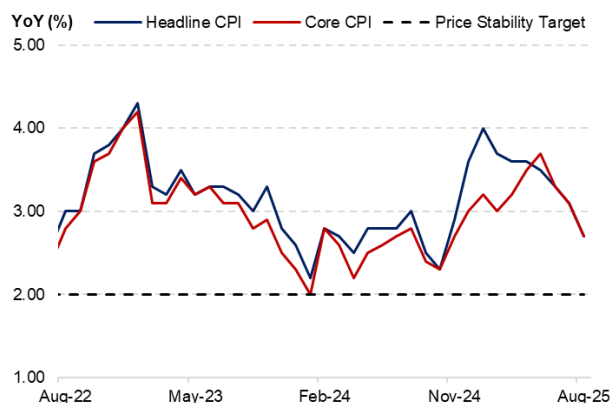
- As expected, the Bank of Japan (BoJ) **left its short-term policy rate unchanged for a fifth straight meeting**. Two board members, however, proposed raising the overnight call rate (OCR) to 0.75%.
- Short-term rate (7-2 majority vote):** The BoJ held the OCR steady at 0.50%. Dissenters, Takata Hajime and Tamura Naoki argued that the price stability target had been broadly achieved. With price risks now tilted to the upside, they called for the Bank to move policy closer to neutral.
- Long-term rate:** BoJ plans to reduce monthly Japanese government bond purchases to JPY2.0t by 1Q27.
- Asset purchase guidelines (unanimous vote):** The Bank decided to sell its ETFs and J-REITs under principles designed to avoid market disruption. Sales will broadly match the scale of earlier stock purchases from financial institutions. A framework to support market stability will be in place, and disposals starting once operational preparations are complete.
- Economic growth outlook:** Growth is expected to moderate in the near term as overseas demand weakens, corporate profits shrink, and housing investment falters. Resilient private consumption and accommodative financial conditions should cushion the downturn. As global trade normalises and economies return to moderate expansion, Japan's economy is expected to recover gradually.
- Inflation outlook:** Core inflation is likely to remain subdued in the short term due to the economic slowdown, but should rise over time, supported by tighter labour markets and higher medium- to long-term expectations. Inflation is projected to converge towards the 2.0% target by the latter half of the forecast period, though global policy risks remain.
- Stable economic conditions and elevated inflationary pressures make October hike likely**
  - Policy rate outlook:** Despite some easing, inflation momentum stayed firm in August, with core inflation still above 3.0%. Both dissenters argued that current price dynamics justify further tightening, and we agree. **Governor Ueda remains wary on the fallout from US trade policy. Unless the 3Q25 Tankan survey shows a sharp deterioration, an October hike looks likely.** Regardless of the LDP leadership outcome, structural labour shortages and higher food costs should keep inflation elevated, pushing the BoJ to continue normalising policy.
  - FX outlook (USDJPY):** Despite today's unchanged stance, markets read the meeting as relatively hawkish with two dissents favouring a hike. **Investor pricing increasingly reflects a potential 25 bps BoJ hike in October amid signs of economic resilience, diverging from the Fed's dovish guidance.** Political sentiment also supports the yen, with Shinjiro Koizumi set to announce his LDP leadership bid on October 4 and favoured to beat Sanae Takaichi. **We maintain our year-end USDJPY forecast at 139.00 (2024: 156.84).**

**Table 1: Policy Rates in Selected Countries**

Rate (Last Change)	Country	Central Bank Interest Rate	Date
4.00% - 4.25% (-0.25%)	USA	Funds Rate Target	Sep-25
4.75% (-0.25%)	Indonesia	BI Rate	Sep-25
2.50% (-0.25%)	Canada	Overnight Rate	Sep-25
1.50% (-0.25%)	Thailand	Repo Rate	Aug-25
5.00% (-0.25%)	Philippines	Target Reverse Repurchase	Aug-25
4.00% (-0.25%)	UK	Base Rate	Aug-25
3.00% (-0.25%)	New Zealand	Official Cash Rate	Aug-25
3.60% (-0.25%)	Australia	Cash Rate	Aug-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25
0.50% (+0.25%)	Japan	Overnight Call Rate	Jan-25

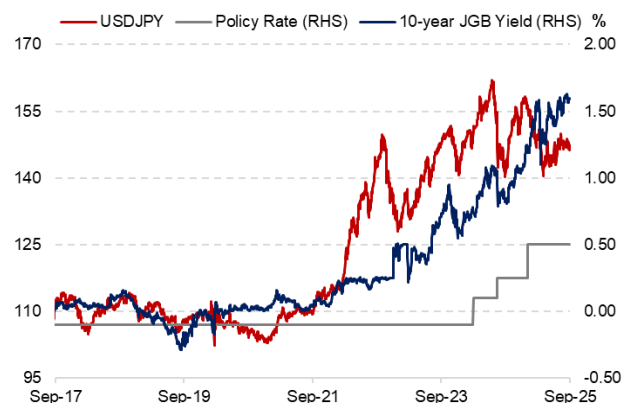
Source: Bloomberg, Kenanga Research

**Graph 1: Headline and Core Inflation Rates**



Source: Bloomberg, Kenanga Research

**Graph 2: USDJPY and Policy Rates (short- and long-term)**



Source: Bloomberg, Kenanga Research

19 September 2025

**Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)**

Forecasts made in	Real GDP		Core CPI	
	April 2025	July 2025	April 2025	July 2025
<b>Fiscal 2025</b>	+0.4 to +0.6 (+0.5)	+0.5 to +0.7 (+0.6)	+2.0 to +2.3 (+2.2)	+2.7 to +2.8 (+2.7)
<b>Fiscal 2026</b>	+0.6 to +0.8 (+0.7)	+0.7 to +0.9 (+0.7)	+1.6 to +1.8 (+1.7)	+1.6 to +2.0 (+1.8)
<b>Fiscal 2027</b>	+0.8 to +1.0 (+1.0)	+0.9 to +1.0 (+1.0)	+1.8 to +2.0 (+1.9)	+1.8 to +2.0 (+2.0)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

**Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2025/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BoJ Decision
1 <sup>st</sup>	23-24 January* (Thu and Fri)	<input checked="" type="checkbox"/>	25 bps hike	25 bps hike
2 <sup>nd</sup>	18-19 March (Tue and Wed)	<input checked="" type="checkbox"/>	No change	No change
3 <sup>rd</sup>	30 April-01 May* (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
4 <sup>th</sup>	16-17 June (Mon and Tue)	<input checked="" type="checkbox"/>	No change	No change
5 <sup>th</sup>	30-31 July* (Wed and Thu)	<input checked="" type="checkbox"/>	No change	No change
6 <sup>th</sup>	18-19 September (Thu and Fri)	<input checked="" type="checkbox"/>	No change	No change
7 <sup>th</sup>	29-30 October* (Wed and Thu)	<input type="checkbox"/>	25 bps hike	
8 <sup>th</sup>	18-19 December (Thu and Fri)	<input type="checkbox"/>	No change	

Source: Bank of Japan, Kenanga Research

\*Meeting associated with The Bank's View (outlook for economic activity and prices)

**Table 4: Bank of Japan Monetary Policy Meeting Schedule for 2026/ KIBB Outlook**

No.	Date		KIBB Research Outlook	BoJ Decision
1 <sup>st</sup>	22-23 January* (Thu and Fri)	<input type="checkbox"/>	No change	
2 <sup>nd</sup>	18-19 March (Wed and Thu)	<input type="checkbox"/>	No change	
3 <sup>rd</sup>	27-28 April * (Mon and Tue)	<input type="checkbox"/>	No change	
4 <sup>th</sup>	15-16 June (Mon and Tue)	<input type="checkbox"/>	No change	
5 <sup>th</sup>	30-31 July* (Thu and Fri)	<input type="checkbox"/>	No change	
6 <sup>th</sup>	17-18 September (Thu and Fri)	<input type="checkbox"/>	No change	
7 <sup>th</sup>	29-30 October* (Thu and Fri)	<input type="checkbox"/>	No change	
8 <sup>th</sup>	17-18 December (Thu and Fri)	<input type="checkbox"/>	No change	

Source: Bank of Japan, Kenanga Research

\*Meeting associated with The Bank's View (outlook for economic activity and prices)

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