

## Economic Research View:

# BOJ's January Monetary Policy Meeting and Possible Impact of President Trump's Inaugural Address on Future Policy Making

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On January 20, the 47<sup>th</sup> US President Donald Trump's second inaugural address took place. He maintained the speech in a mild tone by not mentioning immediate tariffs. However, reports later indicated his initial plans against Mexico and Canada, as well as the possibility of tariffs against all countries and regions, though he is "not ready" for the latter. He also issued a presidential memorandum that requested a report by April 1 on topics including causes of US deficit and Japan is expected to be included in the report's subjects.

Meanwhile, the Bank of Japan decided on a policy rate hike by 25 basis points to around 0.5% on January 24. Governor Kazuo Ueda stated at a press conference after the policy meeting to confirm that the economy and prices are "on track" supported by a solid momentum of the spring labor negotiations and general stability of the global financial markets, although there are various policy uncertainties by the new US administration. He also stated that even after the rate hike to around 0.5%, there remains a "considerable distance" to the neutral interest rate, reiterating the view that rate hikes would continue if the outlook stays on track.

The BOJ appears to have reached a consensus that even with an additional rate hike to 0.75%, it will remain within the realm of monetary easing as viewed lower than the neutral rate. However, the Economic Research Team anticipates that within 2025, Japan's political landscape and US trade policies will hinder additional rate hikes, and expects an additional rate hike in April 2026 after the BOJ more firmly confirms from 2025 the impact of tariff increases on corporate profits and wage growth.

## Possible Impact of President Trump's Inaugural Address on the Bank of Japan Monetary Policy Making

Figure 1. Key takeaways from President Trump's Inaugural Address

Declared national emergency south of the border	Immediately halt all illegal immigration and begin deportation of millions of foreign criminals. Reintroduce the Mexican standby policy. End the practice of "catch-and-release". Deployed troops south of the border. Recognized drug cartels as foreign terrorist organizations.
Declared national energy emergency	He instructed members of the administration to use their authority to the fullest to defeat inflation and bring down costs and prices quickly. Inflation crisis was caused by wasteful spending and skyrocketing energy prices. Declared a national energy emergency. To continue digging. The US will become a manufacturing nation again. Utilize the most oil and gas on the planet of any manufacturing nation. Reduce prices, fill strategic reserves, and export those resources to the rest of the world.
To end the Green New Deal	To revoke preferential treatment for electric vehicles. Produce cars in the US again.
To establish an External Revenue Service	Immediately revise and make drastic changes to the US trading system. Impose tariffs and taxes on foreign countries to bring wealth to the US citizens. Establish a Foreign Revenue Service for this purpose. This will allow vast amounts of money to flow into the US Treasury from foreign countries.
To establish a Department of Government Efficiency	To restore the ability and effectiveness of the federal government.
To abolish all government censorship	Immediately sign an executive order to abolish all government censorship and restore free speech in the US.
Renamed the Gulf of Mexico as the Gulf of America	Mount Denali renamed as Mount McKinley.
To reclaim the Panama Canal	US ships are overcharged. The Panama Canal is currently ran by China. We did not give it to China, we gave it to Panama, and now we will take it back.

Figure 2. Basis for US Tariff Raise and Japan's Response Measures

Overview		Would it be a basis for Trump's Tariffs?
Trade Act of 1974, Section 301	Based on a report by the USTR, countermeasures can be invoked against unfair trade practices by trading partners	Effective against China since 2018. 60% tariffs can be imposed against China by raising existing tariffs.
Trade Expansion Act of 1962, Section 232	Based on a report by the Department of Commerce, US Security 7) Imports can be restricted on the grounds of threats	In principle by item. A uniform tariff hike across products and countries of origin is not suitable.
International Emergency Economic Rights (IEEPA)	In peacetime when there is an unusual threat to national security, trade and capital transactions can be restricted	It is generally used to prohibit trade with specific countries or individuals. Uniform tariff increases across items and countries of origin is not suitable, but it may be used to prevent the influx of migrants
Tariff Act of 1930, Section 338	A maximum 50% tariff may be imposed on discriminatory treatment on trades against the US.	Implementation is likely limited currently, as it overlaps with Section 301 to be legislated later on.
Trade Act of 1974, Section 122	If a large size and serious balance of payments deficit occurs, a maximum 15% tariff can be added to all imports. The temporary measure lasts 150 days, but can be extended with congress approval.	As it covers all imports, tariffs can be raised by at least 10% across the board. It is in line with the administration's policy that it can be invoked on account of the trade deficit. Extending the effective period may be possible in a "red-sweep" congress?

Figure 3. Japan's Possible Response Measures

Japan's Possible Response Measures	
Response measure tariffs	Article 6 of the Customs Tariff Act. When deemed necessary to protect Japan's interests under the WTO agreement, it is imposed with the approval of the WTO. This is a system that imposes additional customs duties at a rate of up to the amount of the taxable price of the specified goods (ad valorem tax rate of 100% or less).

Note: In the imposition of Article 232 Tariffs on Steel and Aluminum under the First Trump Administration, Japan did not file a complaint with the WTO.

Source: Kawase, Tsuyoshi (2024), "Will 'Tariff Man' Trump Really Raise Tariffs?" Economic Research Institute for Advanced Industry, from the Japan Customs website, compiled by Nomura Asset Management.

On January 20, the 47th US President Donald Trump made an inaugural address, stating that on trade policy to "immediately overhaul the US trade system and establish a Foreign Revenue Service to impose tariffs on foreign goods". However, afterward, President Trump announced plans to impose tariffs of up to 25% on imports from Mexico and Canada by February 1, citing that both countries had not taken sufficient measures to prevent the influx of illegal immigrants and drugs into the US. He also mentioned the possibility of considering a uniform tariff on imports from all countries and regions, although he stated that "we are not ready for that yet". While there was no immediate negative surprise of imposing universal baseline tariffs using Section 122 of the Trade Act of 1974, discussions of tariff increases on Mexico and Canada were mentioned, indicating that future steps are being outlined.

An executive memorandum titled "America First Trade Policy" has been released, calling for a report by around April 1 on investigations into the causes of the US trade deficit, proposals for corrective measures, the design of a Foreign Revenue Service, reviews of unfair trade practices by other countries and proposed responses, as well as reviews of currency policies and practices in major trading partners with appropriate measures to be recommended. Japan is expected to be included in the report's subjects, and details may emerge in March.

On January 23-24, at the monetary policy meeting, the Bank of Japan decided on an additional 25 basis point interest rate hike, setting the policy interest rate at around 0.5%. The Bank of Japan stated that the economy and prices are "on track," and regarding the momentum of the spring labor negotiations and the policy uncertainties of the new US administration, it noted that there are "voices indicating that solid wage increases will be implemented, continuing from last year," and that "although various uncertainties are being considered, the international financial capital markets remain generally stable." It appears that the Bank considered it has currently cleared the condition to justify the rate hike by "one notch". In the statement the BOJ maintains that if conditions remain "on track," it will further "adjust the degree of monetary easing".

After the monetary policy meeting in the afternoon on January 24, Governor Ueda stated in a press conference that even after the rate hike to 50 basis points, there remains a "considerable distance" to the neutral interest rate, reiterating the view that rate hikes would continue if the outlook stays on track. While there were no strong indications regarding the timing of the next rate hike, financial market participants predicting a rate hike in July have been prominent so far. However, considering (1) the BOJ would not be able to communicate that it is close to the neutral interest rate taking into consideration the risk that yen might depreciate amid such communication, nor there is not a need for the BOJ to do so, (2) the likelihood that overseas factors, such as the impact of the Trump administration's policies, have not been factored in, which could lead to changes in the BOJ's outlook as policies become more concrete, and (3) Governor Ueda's

acknowledgment of wanting to detect signs of nearing the neutral interest rate through data before a significant deterioration occurs, it seems that if the consensus leans towards a July rate hike, the downside risk of delays in rate hikes is greater than the upside risk of anticipation being brought forward.

The BOJ appears to have reached a consensus that even with an additional rate hike to 0.75%, it will remain within the realm of monetary easing (i.e., "0.75% is viewed as lower than the neutral rate"). However, the Economic Research Team anticipates that within 2025, Japan's political landscape and US trade policies will hinder additional rate hikes as mentioned above. The Team also believes that entering 2026, additional rate hike in April could be expected after the BOJ's more firmly confirming the impact of tariff increases on corporate profits and wage growth than confirmed in 2025.

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