

## Introduction

The BOJ decided to maintain its policy rate at 0.75% in January MPM with one dissent vote. Outlook of economy was revised upward, and outlook of inflation remained unchanged. Stronger confidence in the outlook implied that the BOJ is more confident in the gradual normalization path.

## Assessment of economy

Governor Ueda expressed the improved economic outlook both due to diminishing plausibility of global economic slowdown and stronger momentum of corporate profits and business investment in domestic economy. Moreover, summary text of the outlook expected the positive effects by the policy measures by the government.

The MPM member made upward revision of the outlook of real GDP growth rates: 0.9%→1.0%→0.8% from FY2025 to FY2027. In comparison with the previous one, it is higher by 0.2pp for FY2025 and by 0.3pp for FY2026. Downward revision for FY 2027 by 0.2pp reflects level effects of the policy measures. Revised outlook implies that the growth rate would crawl modestly above its potential.

Summary text of the outlook largely maintained the assessment of risks. Nevertheless, regarding the evolutions of overseas economies, it referred not only to downside risks but also to upside risks including active investment in AI and fiscal expansion. All in all, the MPM members judged that risk is balanced in both direction.

## Assessment of prices

Governor Ueda maintained the constructive outlook of underlying inflation under the improved outlook of economy, while he admitted that headline inflation would decelerate below 2% in coming month due to the policy measures to contain prices..

The MPM member mostly maintained the outlook of core CPI inflation rates: 2.7%→1.9%→2.0% from FY2025 to FY2027. In comparison with the previous one, it is higher by 0.1pp only for FY2026. Revised outlook implies that deceleration in inflation would be temporary and 2% target would be achieved in FY 2027.

Summary text of the outlook largely maintained the assessment of risks. The MPM members judged that risk is still balanced in both direction.

During the Q&A session, many reporters expressed concerns that a renewed depreciation of JPY rates would cause upward pressures on domestic inflation. Governor Ueda explained that it should be monitored carefully when pricing behaviors of firms have modified. In fact, summary text of the outlook referred to the risk of affecting inflation expectation and underlying inflation.

Several other reporters asked about the potential effect of reduction in consumption tax rates as many major parties advocate this policy agenda for coming general election of the lower house of the parliament. Governor Ueda suggested the benign view that increase in real purchasing power and reduction in food prices could somewhat offset each other.

Lastly, some reporters asked about the implications of annual wage revisions in the spring. Governor Ueda explained that it would remain important but not crucial. His comment effectively

suggested that the BOJ has become confident in consecutive rises in wages at least for FY2026.

## Discussion on long-term yields

During the Q&A session, many reporters expressed concerns about the rise in long-term yields and asked about the BOJ's policy action. Readers should be noted that most of them referred to the market concerns about the fiscal discipline, while some of them suspected the risk of behind the curve of monetary policy.

Governor Ueda admitted that recent rise was fast. He also expressed the view that the revision of market outlook of economy, prices, monetary and fiscal policy reportedly contributed to the price actions, as well as some seasonal factors in super-long range.

Regarding the policy action, Governor Ueda avoided to make direct comment. He confirmed the idea that it was important to share the information and the view with the government in light of the division of roles. He also declined to explain the conditions for intervention.

## Decision of policy rate

The MPM in January decided to maintain the policy rate unchanged with one dissent vote claiming that the inflation target was effectively achieved. Readers may like to note that there were also two dissent votes on the outlook, because of their bullish views of underlying inflation.

All in all, improved economic outlook and resilient outlook of underlying inflation suggests that the BOJ is more confident in the gradual policy normalization.

During the Q&A session, focus of attention was a next policy rate hike. Some reporters asked whether the BOJ could raise policy rate when headline inflation decelerates.

Governor Ueda expressed the constructive view that underlying inflation is expected to rise continuously as the government policy measures would rather have the positive impacts by way of improving real purchasing power and supporting aggregate demand.

Another point of discussion was the assessment of spillover effects of the past rate hikes. Governor Ueda explained that it would take long period of time to identify such effect due to the time lags. Nevertheless, he added that the BOJ would like to collect relevant data to estimate them in earlier phase.

Interesting aspect of such discussion was the cautiousness that Governor Ueda suggested. While it would be warranted when the BOJ raises policy rate to the highest level in 30 years, Governor Ueda may also be mindful that the policy rate is getting closer to a neutral level.

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