

Daiwa's Economic View

January MPM: BOJ hints at faster pace of rate hikes

- BOJ stands pat, Takata advocates rate hike
- Policy board members' views on economy improve; some hawkish changes to inflation outlook
- Proposed rate hike, bullish inflation forecasts imply pickup in pace of hikes

FICC Research Dept.

Kento Minami
81-3-5555-8789
kento.minami@daiwa.co.jp



Kenji Yamamoto
81-3-5555-8784
kenji.yamamoto@daiwa.co.jp



Daiwa Securities Co. Ltd.

Focus at January MPM on whether weak yen affects distance to next rate hike

The Bank of Japan (BOJ) is currently assessing the impact of its December 2025 rate hike. At the time of the December Monetary Policy Meeting (MPM), policy board members were already increasingly concerned that a weaker yen would heighten upside risks to inflation. The yen has also weakened further YTD due to the decision to call a snap Lower House election. US Treasury Secretary Scott Bessent's January comments emphasizing the need for sound monetary policy and communication at the Japan-US finance ministers' meeting may have reduced the political costs associated with rate hikes in relative terms.

Yields also rose sharply in response to Prime Minister Sanae Takaichi's 19 January press conference, but this may have been a "bad" increase, driven mainly by concerns about the BOJ falling behind the curve. We therefore think early rate hikes to curb inflation would be justified.

As noted, we think current conditions merit somewhat more hawkish messaging from the BOJ. Given this context, the focus at the January MPM was on what the BOJ's economic and inflation forecasts (factoring in the impact of the weaker yen) and view on the balance of risks implied about the time until its next rate hike.

Proposed rate hike, bullish inflation outlook imply pickup in pace of hikes

The BOJ remained on hold at its 22-23 January MPM. Board member Hajime Takata's proposal to raise the policy rate to 1%, on the basis that the price stability target has been more or less reached and that there is substantial upside risk to domestic prices given the recovery in overseas economies, was voted down. We would note that in 2025, Mr. Takata and board member Naoki Tamura both proposed a rate hike at the September MPM, three months ahead of the actual hike to 0.75% in December.

The BOJ also revised up some of its economic and inflation forecasts. We would note that the distribution of board members' forecasts shows that several have bullish forecasts for the core CPI. This hawkish view of consumer prices is consistent with the BOJ's improving assessment of the Japanese economy.

On the monetary policy front, the BOJ also indicated that "if the aforementioned outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate." It also maintained its view that "in the second half of the projection period...underlying CPI inflation is likely to be at a level that is generally consistent with the price stability target." However, Mr. Takata's call for a rate hike and the BOJ's bullish inflation forecasts imply that it could move up the timing of its next hike.

Economic outlook: Confirms policy board members' confidence in Japanese economy

The BOJ's latest *Outlook for Economic Activity and Prices* report (*Outlook Report*) raised its real GDP forecasts (median of majority of policy board members' forecasts) for FY25 from +0.7% to +0.9% and for FY26 from +0.7% to +1.0%, but lowered its forecast for FY27 to +0.8%. Its upward revisions for FY25 and FY26 factor in reduced uncertainty about the US economy and tariff policy and the impact of the Takaichi government's economic stimulus package. It lowered its FY27 forecast to reflect a pullback from the one-time demand boost from the stimulus.

The BOJ also revised its risk balance for the economy from "skewed to the downside for fiscal 2026" to "generally balanced". Two policy board members cited upside risks to the FY26 economic outlook, in line with the previous MPM, while the number citing downside risks fell from three to one. The larger-than-expected upward revision to the BOJ's FY26 economic forecasts in particular confirms that policy board members are growing increasingly confident about the outlook for the Japanese economy.

FY25-27 Forecasts of Majority of Policy Board Members (y/y %)

	Real GDP	CPI (all items less fresh food)	(Ref) CPI (all items less fresh food and energy)
FY25	+0.8 ~ +0.9 [+0.9]	+2.7 ~ +2.8 [+2.7]	+2.9 ~ +3.1 [+3.0]
As of Oct	+0.6 ~ +0.8 [+0.7]	+2.7 ~ +2.9 [+2.7]	+2.8 ~ +3.0 [+2.8]
FY26	+0.8 ~ +1.0 [+1.0]	+1.9 ~ +2.0 [+1.9]	+2.0 ~ +2.3 [+2.2]
As of Oct	+0.6 ~ +0.8 [+0.7]	+1.6 ~ +2.0 [+1.8]	+1.8 ~ +2.2 [+2.0]
FY27	+0.8 ~ +1.0 [+0.8]	+1.9 ~ +2.2 [+2.0]	+2.0 ~ +2.3 [+2.1]
As of Oct	+0.7 ~ +1.1 [+1.0]	+1.8 ~ +2.0 [+2.0]	+2.0 ~ +2.2 [+2.0]

Source: BOJ; compiled by Daiwa

Notes: (1) Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates).

(2) The forecasts of the majority of the Policy Board members are constructed as follows: each Policy Board member's forecast takes the form of a point estimate -- namely, the figure to which they attach the highest probability of realization. These forecasts are then shown as a range, with the highest figure and the lowest figure excluded. The range does not indicate the forecast errors.

(3) Each Policy Board member makes their forecasts taking into account the effects of past policy decisions and with reference to views incorporated in financial markets regarding the future conduct of policy.

Distribution of Real GDP Forecasts (majority of policy board members)

(%)	FY25		FY26		FY27	
	Oct-25	Jan-26	Oct-25	Jan-26	Oct-25	Jan-26
0.4						
0.5						
0.6	2		2			
0.7	5	1	5	1	2	1
0.8	1	1	1	2		4
0.9	1	6		1	2	1
1.0		1	1	4	3	3
1.1					2	
1.2				1		
Upside	2	1	2	2	0	0
Downside	3	0	4	1	0	0
Balanced	4	8	3	6	9	9

Source: BOJ; compiled by Daiwa.

Inflation outlook: Hawkish revision; change in forex language may also reflect growing concerns

The BOJ maintained its CPI (excl. fresh food) forecasts (median of majority of policy board members' forecasts) of +2.7% for FY25 and +2.0% for FY27, but raised its FY26 forecast from +1.8% to +1.9%. It also raised its CPI forecasts (excl. fresh food/energy) for FY25-27. This reflected the weaker yen and the contribution to inflation from the improving output gap.

We note that the latest *Outlook Report* cites the government's economic stimulus as a drag on inflation mainly in FY26. While it is unclear to what extent its previous forecasts factored the impact of the stimulus, its simulation suggests that it will depress the Japan-style core CPI by around 0.16ppt in FY25 and 0.35ppt in FY26.

The fact that the BOJ nevertheless revised up its core CPI forecasts particularly for FY26 implies that considerable upside has emerged since it published its October 2025 forecasts. The FY26 core CPI forecast in the *Outlook Report* (+1.9%) is also somewhat above the economist estimate of +1.85% in the *ESP Forecast*. The BOJ's FY27 core-core CPI forecast, a key focus in gauging the pace of rate hikes, rose above 2%, to +2.1% (+2.0% in the previous report).

We would also highlight the distribution of policy board members' forecasts. The number of citing upside/downside risks to FY26 was unchanged from the previous report, but one member's core CPI forecast is +1.8%, four are +1.9%, three +2.0%, and one +2.1%, implying that all members have quite bullish expectations for FY26 inflation. Four members also estimate that the core CPI will exceed 2% in FY27, indicating that the BOJ has revised its perception of inflation in a considerably more hawkish direction.

The BOJ also added language about forex as a risk to inflation, stating that "attention should be paid to the point that...exchange rate developments...could affect underlying CPI inflation through changes in inflation expectations." This change in wording likely signals a further increase in the BOJ's concerns about forex.

Overall, the BOJ's forecasts are on the high side, and a growing number of board members see the potential for FY27 CPI inflation to exceed 2%, suggesting that concerns about forex and fiscal impact may also be spreading within the BOJ. We think the latest *Outlook Report* implies the potential for a pickup in the future pace of rate hikes.

Distribution of Core CPI Forecasts (majority of policy board members)

(%)	FY25		FY26		FY27	
	Oct-25	Jan-26	Oct-25	Jan-26	Oct-25	Jan-26
1.5						
1.6			2			
1.7					1	
1.8			5	1	1	
1.9				4	1	2
2.0			2	3	5	3
2.1				1	1	2
2.2						2
2.3						
2.4						
2.5						
2.6		1				
2.7	5	5				
2.8	2	3				
2.9	2					
Upside	3	2	3	3	2	3
Downside	2	1	2	2	1	2
Balanced	4	6	4	4	6	4

Source: BOJ; compiled by Daiwa.

Core CPI Forecasts as of Each MPM (majority of policy board members)



Source: BOJ; compiled by Daiwa.

Governor's press conference: Concerns about forex?

We expect attention to focus at the press conference on the BOJ's views on inflation, particularly as they relate to forex, in the latest *Outlook Report*. We will therefore be watching for any signals about the conditions for its next rate hike, or the cadence at which it could raise rates.

However, given that only a month has passed since its last rate hike, the BOJ will likely maintain its data-dependent stance. We think Governor Kazuo Ueda is unlikely to explicitly indicate the timing of its next rate hike. On the other hand, given the *Outlook Report*'s hawkish inflation forecasts, we expect him to signal the central bank's alertness toward prices, and particularly the impact of forex.

We also expect questions about the BOJ's view of the ongoing rise in yields. However, if it were to respond proactively to an uptrend in yields that mainly reflects fiscal factors, there is a risk that this could be misunderstood as monetary financing. We therefore expect Mr. Ueda to reiterate at the press conference that in exceptional situations that differ from normal market movements, the BOJ will flexibly implement measures such as increasing its JGB purchases to encourage the stable formation of yields in the market.

Main Contents of *Outlook Report*

● Baseline Scenario of the Outlook for Economic Activity	
Jan 2026	Japan's economy is likely to continue growing moderately, with overseas economies returning to a growth path, and as a virtuous cycle from income to spending gradually intensifies, supported by factors such as the government's economic measures and accommodative financial conditions, while the economy is projected to be affected by trade and other policies in each jurisdiction.
(Oct 2025)	Japan's economic growth is likely to be modest, as trade and other policies in each jurisdiction lead to a slowdown in overseas economies and to a decline in domestic corporate profits and other factors, although factors such as accommodative financial conditions are expected to provide support. Thereafter, Japan's economic growth rate is likely to rise, with overseas economies returning to a moderate growth path.
<Risk balance>	
Jan 2026	Risks are generally balanced.
(Oct 2025)	Risks to economic activity are skewed to the downside for fiscal 2026.
● Baseline Scenario of the Outlook for Prices	
Jan 2026	It is likely ...that underlying CPI inflation will continue rising moderately. Thereafter, since it is projected that a sense of labor shortage will grow as the economy continues to improve and that medium- to long-term inflation expectations will rise, it is expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) will increase gradually and, in the second half of the projection period, be at a level that is generally consistent with the price stability target.
(Oct 2025)	Underlying CPI inflation is likely to be sluggish, mainly affected by the growth pace of the economy. Thereafter, since it is projected that a sense of labor shortage will grow as the economic growth rate rises and that medium- to long-term inflation expectations will rise, it is expected that underlying CPI inflation and the rate of increase in the CPI (all items less fresh food) will increase gradually and, in the second half of the projection period, be at a level that is generally consistent with the price stability target.
<Risk balance>	
Jan 2026	Risks are generally balanced.
(Oct 2025)	Risks are generally balanced.
● Conduct of Monetary Policy	
Jan 2026	Given that real interest rates are at significantly low levels, if the aforementioned outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.
(Oct 2025)	Given that real interest rates are at significantly low levels, if the aforementioned outlook for economic activity and prices will be realized, the Bank, in accordance with improvement in economic activity and prices, will continue to raise the policy interest rate and adjust the degree of monetary accommodation.

Source: BOJ; compiled by Daiwa.

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