Daiwa's Economic View

BOJ January MPM Summary of Opinions: Prescription for weak yen/rising yields

- BOJ thinks domestic-demand/export sectors could both recover in 2026
- Many concerns about upside risks to inflation
- Growing concerns about falling behind the curve; next rate hike appears close
- Prescription for weak yen/rising yields: rate hikes, fiscal responsibility

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The Bank of Japan's (BOJ) January Monetary Policy Meeting (MPM) featured a proposal by board member Hajime Takata that the Bank raise its policy rate again, a more positive view of the economy, and hawkish inflation forecasts. In particular, the *Outlook for Economic Activity and Prices* report's core CPI forecasts imply a broadly hawkish view among the BOJ's board, with four members projecting that inflation will exceed the median of 1.9% in 2026 and four expecting it to surpass 2% in FY27.

We think the shift in the BOJ's view reflects concerns about upside risks to inflation caused by the weaker yen and the government's fiscal stimulus. We therefore think the key themes are (1) whether members other than Mr. Takata favor raising interest rates again, (2) the BOJ's view of inflation based on forex trends, and (3) its assessment of the impact of rate hikes thus far.

Opinions on economy expect recovery for domestic-demand/export sectors

The BOJ board's opinions on the economy included the view that "accommodative policies have been adopted around the world, on both the monetary and the fiscal front, and AI-related investment has been increasing. Against this backdrop, the global economy is expected to go through a shifting phase this year, where momentum toward recovery starts to operate." They also include the forecast that "the rate of change in real wages will finally turn positive and remain so." The BOJ assumes that both domestic-demand firms and exporters will begin to recover in 2026. While it points out uncertainties such as US employment trends and the direction of monetary policy, the BOJ likely views these risks as comparatively minor.

On the flipside, another opinion notes that the weak yen could widen disparities between companies. If productivity gaps between companies become entrenched, this could impede the efficient reallocation of labor, capital, and other resources and depress the potential growth rate. In a 31 January campaign speech for the Lower House election, Prime Minister Sanae Takaichi called yen weakness "a major opportunity for export industries." However, we would caution that excessive yen depreciation could be negative both for inflation and for the structure of the economy.

◆ **Opinions on Economic Developments in Summary of Opinions at Jan MPM (2 Feb 2026)**

- Regarding the U.S. economy, uncertainties remain about risks surrounding employment and about the direction of monetary policy given these risks. However, it appears that these uncertainties have been mitigated by robust IT-related demand, particularly that related to AI.
- Accommodative policies have been adopted around the world, on both the monetary and the fiscal front, and AI-related investment has been increasing. Against this backdrop, the global economy is expected to go through a shifting phase this year, where momentum toward recovery starts to operate.
- While the yen's depreciation pushes up the profits and wages of large firms, it pushes down those of small and medium-sized firms. Coupled with the yen's depreciation pushing up prices, this could lead to wider inequality.

Many opinions express concern about upside risks to inflation

Opinions on prices highlighted board members' awareness of rising rent inflation, particularly in Tokyo's 23 wards, and the potential for sticky inflation in goods prices to become more widespread. While emphasizing the need to monitor how much underlying inflation has become entrenched under these conditions, the board expressed opinions such as "some indicators of long-term inflation expectations have already started to show stability" and "if (1) the annual spring labor-management wage negotiations, (2) developments in prices, and (3) inflation expectations evolve in line with the Bank's outlook, it can be judged as early as spring this year that the underlying trend in prices has reached 2 percent." These views indicate the growing recognition within the BOJ that it is close to achieving its price stability target.

The BOJ is increasingly concerned about upside risks to inflation, including "the pass-through to prices of the yen's depreciation, an expansion in demand driven by fiscal policies, and China's restrictions on exports to Japan" given ongoing labor supply constraints. In particular, it noted that "if the yen depreciates further, it is possible that the rate of increase in the CPI will decline at a slower pace and start to rise."

◆ **Opinions on Prices in Summary of Opinions at Jan MPM (2 Feb 2026)**

- The rise in rice prices was triggered by supply shortages, but with the addition of demand factors during the procurement of rice harvested last autumn, it is possible that the rise in prices was a result of a combination of multiple factors. Close attention continues to be warranted on whether price rises that cannot simply be explained by cost-push factors emerge in other goods.
- In addition to the past rise in food prices, housing rent has risen recently, mainly in urban areas. This is partly due to an increase in demand for rental housing, as housing prices have been pushed up by the rise in material prices, reflecting inflation overseas and the yen's depreciation, and by the rise in personnel expenses. While measures have been taken by national and local governments, close attention is required on developments in housing rent, given that it significantly affects the sense of economic well-being among households and their consumption behavior.
- In examining the extent to which underlying inflation has become entrenched, it is necessary to closely monitor factors such as the effects that the deceleration in the pace of the year-on-year increase in food prices and the government's measures to address rising prices have on the underlying trend in prices. That said, some indicators of long-term inflation expectations have already started to show stability.
- The main driver of price rises has shifted to personnel expenses, and inflation has started to become sticky. If (1) the annual spring labor-management wage negotiations, (2) developments in prices, and (3) inflation expectations evolve in line with the Bank's outlook, it can be judged as early as spring this year that the underlying trend in prices has reached 2 percent.
- In recent years in Japan, firms' price-setting behavior has been undergoing significant change, and the pass-through to prices of higher import prices caused by the yen's depreciation has become more pronounced. Given this, it is necessary to pay closer attention to the effects of foreign exchange rates on prices. If the yen depreciates further, it is possible that the rate of increase in the CPI will decline at a slower pace and start to rise.
- With Japan's economy facing labor supply constraints, risks to prices have become more skewed to the upside, as seen in, for example, the pass-through to prices of the yen's depreciation, an expansion in demand driven by fiscal policies, and China's restrictions on exports to Japan.

Opinions on monetary policy imply next rate hike nearing

Opinions on monetary policy included the view that "the Bank has been examining the response of economic activity, prices, and financial conditions to each rate hike and has been raising the policy interest rate. It is appropriate for the Bank to continue to do so," suggesting that it still sees a need to carefully examine the effects of rate increases.

However, the majority view is that "if the pace of policy interest rate hikes is not too rapid, the Bank need not be overly concerned about the impact on firms' business performance" and "considering the recent depreciation of the yen, current financial conditions are still considerably accommodative relative to economic fundamental conditions." Concerns within the BOJ about the economy and inflation appear relatively minor at least at the current policy rate.

Given this context, some board members' improving view of the economy and hawkish view of inflation is driving concerns that monetary policy could fail to keep up; one opinion states that "if overseas interest rate environments change this year, there is a risk that the Bank may unintentionally fall behind the curve." Another opinion argues that "the Bank should not take too much time examining the impact of raising the policy interest rate, and should proceed with the next step, a rate hike, without missing the appropriate timing," suggesting that the policy board thinks the timing for the next rate hike is nearing.

The comment that the BOJ should not take too much time is prefaced with the note that "addressing rising prices is an urgent priority in Japan". This can be seen as a message from the BOJ to the government, which shares its problematic view of inflation.

The government's opinion, as expressed by the Cabinet Office, is that "toward achieving both strong economic growth and stable inflation, it is extremely important that monetary policy be conducted as appropriate." Given the Cabinet Office's statement regarding rate hikes in the December 2025 Summary of Opinions that "it is necessary to pay due attention to future developments in factors such as business fixed investment and corporate profits," this appears to indicate that the government is more favorably disposed toward rate hikes. This change in policy likely reflects factors such as the yen's depreciation.

On 31 January, Ms. Takaichi stated in a Lower House election campaign speech that yen weakness is "a major opportunity for export industries. The Foreign Exchange Fund Special Account's investments are now in great shape." While she later clarified that she "did not intend to emphasize the benefits of yen weakness," her remarks certainly suggest that she may have a favorable view of the weak yen. However, it is important to note that excessive yen weakness could not only impede "stable inflation" but also potentially have a negative impact on the structure of the economy.

To address the concerns about the BOJ falling behind the curve that are likely a cause of current yen weakness and rising yields, the prescription from the monetary policy side of "[raising] the policy interest rate in a timely and appropriate manner" will be crucial to achieving "stable inflation." That said, concerns about the government's policy stance and fiscal management are also a major factor behind the weak yen and uptrend in yields. We would not forget that as well as timely and appropriate rate hikes, the government needs to demonstrate a clear commitment to fiscal soundness and financial markets.

The BOJ also discussed rising long-term yields at its January MPM. However, as noted, its view is that "[raising] the policy interest rate in a timely and appropriate manner" is the key monetary policy prescription needed to treat the current uptrend in long-term yields. While discussions at the January MPM suggest that the BOJ is growing more concerns about the uptrend in long-term yields, it appears that it does not yet view the situation as requiring an immediate flexible response.

Opinions on Monetary Policy in Summary of Opinions at Jan 2026 MPM

	Opinions on Monetary Policy
1	While not much time has passed since the policy interest rate hike in December last year, considering factors such as firms' and other entities' demand for funds, financial institutions' lending attitudes, and issuance conditions for CP and corporate bonds, financial conditions have continued to be accommodative since the rate hike.
2	Some firms with super-long-term investment projects and some small and medium-sized firms may be facing a heavy interest burden. However, for firms as a whole, the increased interest burden has been absorbed by the current solid business conditions to a large extent. If the pace of policy interest rate hikes is not too rapid, the Bank need not be overly concerned about the impact on firms' business performance.
3	Given that real interest rates are at significantly low levels, if the Bank's outlook for economic activity and prices will be realized, it is appropriate that the Bank, in accordance with improvement in economic activity and prices, continue to raise the policy interest rate and adjust the degree of monetary accommodation.
4	The Bank has been examining the response of economic activity, prices, and financial conditions to each rate hike and has been raising the policy interest rate. It is appropriate for the Bank to continue to do so.
5	Considering the recent depreciation of the yen, current financial conditions are still considerably accommodative relative to economic fundamental conditions. The underlying trend in prices has been steadily approaching 2 percent, and it will be necessary for the Bank to continue to adjust the degree of monetary accommodation at the appropriate timing.
6	It cannot be said that the risk of the Bank falling behind the curve has necessarily become more evident, but it is becoming even more important for the Bank to conduct monetary policy carefully and in a timely manner.
7	If overseas interest rate environments change this year, there is a risk that the Bank may unintentionally fall behind the curve. Japan's real policy interest rate is at the lowest level globally, and since foreign exchange market participants pay attention to real interest rate differentials, it is necessary for the Bank to adjust the significantly negative real policy interest rate.
8	The depreciation of the yen and the rise in long-term interest rates largely reflect fundamentals, such as inflation expectations. In this situation, the only prescription from the monetary policy side is to raise the policy interest rate in a timely and appropriate manner.
9	Given that addressing rising prices is an urgent priority in Japan, the Bank should not take too much time examining the impact of raising the policy interest rate, and should proceed with the next step, a rate hike, without missing the appropriate timing.
10	It is appropriate for the Bank to raise the policy interest rate at intervals of a few months, while examining the impact of rate hikes on firms' and households' behavior through anecdotal information and assessing the current policy interest rate relative to the neutral rate.
11	While the rise in long-term interest rates in the past few years can be regarded as part of the normalization of the Japanese government bond (JGB) markets and a factoring in of the achievement of the price stability target, the developments seen over the past two weeks or so have been a one-sided steepening of the yield curve, which warrants attention.
12	Upward pressure on risk premiums of long-term interest rates, stemming from factors such as fiscal conditions and inflation, appears to have been partly offset by the stock effect from the Bank's JGB holdings. The Bank should continue to examine whether lenders and borrowers have been able to adapt to the recent pace of increase in long-term interest rates.
13	As for JGB purchases, in line with its current thinking, the Bank should reduce the purchase amount, while responding to exceptional circumstances by, for example, increasing the purchase amount.
14	Volatility in JGB markets, especially for super-long-term, has increased, and there continues to be concern about supply and demand conditions. It will therefore be necessary in exceptional circumstances to consider a flexible response, including purchases of JGBs.
15	While the exact timing and scale cannot be determined, the possibility of a rise in volatility in Japan's bond markets, as seen recently, can be anticipated. When there is a rise in volatility, it is important for a central bank to examine whether market functioning is maintained. It is crucial that the Bank continue its efforts to promote understanding of its measures, which it adopts in accordance with its role and policy objectives.

Source: BOJ; compiled by Daiwa.

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