

Daiwa's Economic View

BOJ Deputy Governor Himino's speech: March rate hike highly unlikely, but leaves room for April hike

- No groundwork was laid for a March rate hike
- Focus on information from hearings could leave room for a rate hike in April
- Two new uncertainties and communication with the government are constraints

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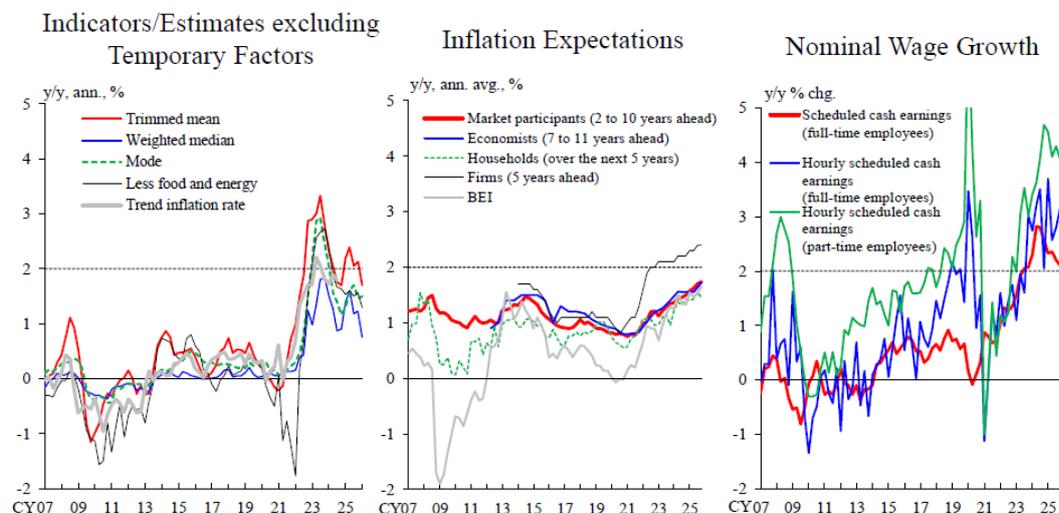
Possibility of an April rate hike remains, but a March hike looks difficult

In a speech on 2 March, BOJ Deputy Governor Ryozyo Himino expressed his view that the Bank's policy "should gradually shift to a more neutral stance through moderate policy rate hikes." In a speech in January 2025, he stated that the Bank would "discuss a rate hike," laying some groundwork for such a move (in fact, a rate hike was decided at the Jan 2025 meeting). In contrast, the content of this latest speech was neutral, merely confirming the basic stance on policy operations. It is therefore difficult to say that any groundwork was laid, at least for the March meeting. Considering that new uncertainties have been added to policy decisions amid escalating tensions in the Middle East, it is highly likely that the status quo will be maintained at the March meeting.

Key points of interest from this speech are the remarks concerning the "remaining distance to achieving the price stability target," the "impact of a rate hike," and the "response to supply shocks."

First, regarding the underlying trend in prices, Deputy Governor Himino stated that "while one might broadly assess that it is already close to 2%, I feel that asserting that the rate has reached 2% for certain may still be premature." Notably, in a *Yomiuri Shimbun* interview on 24 February, Governor Kazuo Ueda also stated that "we have not yet reached a point where it is completely 2%," suggesting that their perceptions regarding the assessment of underlying inflation are largely aligned.

Indicators Related to Underlying Inflation



Source: Reprinted from BOJ materials.

That said, Governor Ueda also suggested in the same interview that there was no major difference in perception among policy board members, noting that “the degree of that difference varies from person to person. In some cases, there are those who would say it has nearly reached 2%.” The shared recognition among policy board members that the distance to the 2% underlying inflation target has considerably narrowed can be seen as a factor justifying a rate hike in the medium term up to at least around 1%, which is seen as the lower bound of the neutral interest rate.

Furthermore, while stating the impact of rate hikes “remain limited for now,” he also mentioned that it will “ultimately translate into changes in economic activity and prices” and that “by examining the qualitative information we gain from interviews with our contacts as well as statistical data, the Bank constructs a clearer picture of how each step is working.” As for information from hearings, the focus will likely be on the BOJ's April Tankan survey and the branch managers' meeting report. In other words, the content of this speech leaves room for a reassessment based on data and hearings from April onward, and we believe that the possibility of an April rate hike remains.

On the other hand, he indicated a cautious approach to temporary supply shocks, saying that “when addressing temporary supply shocks, it is possible that the effects of the shocks may have already dissipated by the time the policy measures take effect. It is therefore often more prudent to confirm underlying inflation when responding to supply shocks.” In this regard, at the press conference on the same day, he acknowledged that higher crude oil prices and a weaker yen can be classified as supply shocks, while noting that resulting impacts could be multidirectional.

These remarks represent a basic approach to monetary policy operations. However, they do not indicate a stance of front-loading a rate hike at this time in response to concerns about price overshoots primarily caused by forex rates or crude oil prices. Regarding the assessment of the Middle East situation in rate hike decisions, he merely stated at the press conference that “We will closely monitor the situation while cooperating closely with the government,” offering no specific implications directly linked to a policy response.

Communication with government amid two new uncertainties constrains policy decisions

Looking ahead, two new uncertainties have emerged: (1) new additional tariff policies in the US following a Supreme Court ruling and (2) developments in the Middle East. However, Deputy Governor Himino said at the press conference—“the additional tariffs do not go so far as to change the scenario for the Japanese economy.” As such, it seems highly unlikely that these tariffs will deliver a major macroeconomic shock to Japan.

Regarding [the Middle East situation](#), if it is resolved in a short period, the impact on the real economy is likely to be limited, as Japanese companies hold a certain level of crude oil inventories. In addition, existing government measures to address higher prices, such as gasoline tax cuts and electricity/gas subsidies, can function as a short-term buffer against such exogenous shocks. In short, as Deputy Governor Himino stated at the press conference, “there is no change in the policy direction toward rate hikes,” even considering the Middle East situation.

However, at the meeting of the Council on Economic and Fiscal Policy held on 24 February (which Governor Ueda also attended), members Masazumi Wakatabe and Toshihiro Nagahama, citing weak service prices and a decline in the break-even inflation rate, requested that the BOJ carefully confirm price conditions and take appropriate measures to avoid pushing down inflation expectations.

The emergence of new uncertainties, combined with consideration for communication with the government and weakness in some price trends, may be instilling a degree of caution into the BOJ's own momentum toward an early rate hike. Under these circumstances, we think that the BOJ is maintaining a free hand regarding the timing of a rate hike, without strongly committing to a specific time frame.

We believe that the possibility of a rate hike at the March meeting has almost disappeared. Looking forward, we forecast that the BOJ will flexibly determine the timing of a rate hike from April onward, taking into account market trends such as forex rates and crude oil prices at that time, the aggregate results of the 2026 spring wage negotiations, price trends at that point (trends in this year's price revisions), and the expected inflation rate in the April Tankan and other surveys.

◆ **Excerpts from Council on Economic and Fiscal Policy Minutes on 24 Feb 2026 (2nd meeting in 2026)**

(Member Wakatabe)

- **I would like the BOJ to carefully examine three points.** First, the movement of underlying inflation. I understand the BOJ's forecast that a virtuous cycle of wages and prices will work in the latter half of the year, moving toward 2%, but **recently, both the headline and the so-called Western-style core inflation are below 2%, and service prices are also on the weaker side.** Second, the anchoring of medium- to long-term inflation expectations. While various indicators of inflation expectations have been rising, I believe the key will be whether they are stably anchored in the vicinity of 2%. Third, communication regarding the outlook and policy operations. I would like the BOJ to explain changes in the environment surrounding the economy, prices, and interest rates in a very easy-to-understand manner to the government and the public. In line with the spirit of Article 4 of the Bank of Japan Act, I ask that the government and the BOJ always maintain close contact and sufficient communication to ensure consistent policy operations.

(Member Nagahama)

- **The break-even inflation rate has fallen considerably, and the BOJ's estimated underlying inflation rate is also declining. Therefore, I believe we are entering a phase where appropriate action is required from the policy authorities to avoid excessively lowering inflation expectations that have been painstakingly raised.** Furthermore, some argue that the weak yen is the main cause of excessive inflation. Indeed, looking at the average USD/JPY rate last year compared to 2020, the yen has depreciated by about 40%. On the other hand, according to the Cabinet Office's macroeconomic model, a 10% depreciation of the yen has an upward pressure effect of only about 0.2% on the private consumption deflator. Based on this relationship, the upward inflationary effect from the 40% yen depreciation over the past five years is about 0.2% per year on average. Therefore, arguing that the weak yen is the main cause of excessive inflation is an overstatement.

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