

## Introduction

The BOJ decided its policy rate by 25bp in December MPM with unanimous votes. The policy rate reached 0.75%, highest since August 1995. Governor Ueda explained that lower uncertainties of US economy and stronger confidence in the inflation outlook were the reasons for the rate hike.

## Assessment of economy

Governor Ueda confirmed the gradual recovery of economic activities. He also mentioned that uncertainties about US economy and impacts of overseas trade policies reduced

Attached text of policy statement confirmed that while production and exports remained sidelines, corporate profits and sentiments remained elevated. It also explained that business investment gradually increased, and private consumption remained resilient on the back of improved employment/earnings.

During the Q&A session, a reporter asked whether the BOJ made upward revision of the outlook. Governor Ueda explained that the assessment of risks improved, while the central scenario would be reviewed by incoming data.

## Assessment of prices

Governor Ueda expected that wages and prices would probably continue rise gradually. He expressed the view that the momentum of wage rises would probably be maintained in FY2026 in light of survey results, due to tight labor conditions, high level of aggregate corporate profits..

Attached text of policy statement confirmed the expected trajectory of prices. Specifically, core CPI inflation rate would decelerate to below 2% toward 1H of FY2026, due to diminishing impacts of food price inflation and effects of government policy measures. Nevertheless, both underlying inflation and core CPI inflation would re-accelerate under economic recovery and higher expectation of inflation.

During the Q&A session, a reporter asked about the weakness of wage rises among SMES. While Governor Ueda admitted that some weakness among SMEs as well as some industries, he explained that the overall momentum remained intact, and profits of SMEs remained resilient.

Another several reporters raised the issue of depreciation of JPY. Governor Ueda expressed several members of the MPM expressed the concerns about the risk of renewed import inflation if JPY depreciates further. He also mentioned that the BOJ should watch carefully whether upward pressure of import prices would affect underlying inflation or not.

The other reporter raised concern about sustainability of food price inflation. Governor Ueda expressed the view that whether the rate of rise in wages is consistent with 2% target would matter, and transfer or such rising costs to prices would be the element of underlying inflation.

## Decision of rate hike

The BOJ decided to raise its policy rate by 25bp with unanimous votes. Governor Ueda expressed the stronger confidence that underlying inflation would converge to 2% target in later phase of the outlook. Nevertheless, attached text confirmed that monetary condition remained accommodative due to substantially negative real policy rate.

During the Q&A session, several reporters criticized that the rate hike was too late. Governor Ueda explained that the goal is to achieve inflation target in stable and sustainable manner, suggesting cautiousness remained warranted. At the same time, he would like to avoid raising rate too slowly, in order to prevent accelerated hikes in the future.

Other several reporters asked about the impacts of the policy rate hike. Governor Ueda reiterated that monetary condition would remain accommodative. He also explained that rise in the market rates has been contained in the short to medium term zones. Regarding the impacts on bank lending, he mentioned that the BOJ would monitor carefully the lagged developments by monthly data and surveys.

Looking forward, several reporters asked the probable path of further rate hikes. Governor Ueda reiterated the idea that policy decision would continue to depend on the incoming data and the confidence in the outlook.

In terms of the implication of expected deceleration of core CPI inflation toward 1H of FY2026, Governor Ueda affirmed the idea that the policy decision should be based on underlying inflation. Meanwhile, he admitted that there remained uncertainties about US economy including lagged impact on consumption and deceleration of AI investment.

As a related issue, many reporters raised the issue of neutral rate. Readers may like to note that Governor Ueda suggested some rise in natural rate of interest at his speech on December 1st. There has been a speculation that the BOJ might announce revised estimates of neutral rate. It should also be noted that the range of estimates by empirical studies as a part of the BO's policy review last year was from 1% to 2.5%.

While Governor Ueda admitted that neutral rate is an important concept for monetary policy, he reiterated that it remained technically difficult to show the sharper estimates. He also expressed the view that the BOJ would identify the magnitude of monetary easing by monitoring the reactions of economy and prices against rate hikes.

Moreover, Governor Ueda insisted that policy rate at 0.75% remained lower than the lower end of the estimates of neutral rate, and he suggested the gradual increase in policy rate is warranted.

Lastly, some reporters raised the issue of rise in long-term yields. While Governor Ueda avoided to make direct comments, he referred to changing outlook of economy and prices, monetary and fiscal policy as the reasons. He also suggested that "stock effect" by JGB holdings might become slightly weaker as the markets expect the future course of reduction in the size of balance sheet of the BOJ.

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