

## Introduction

The BOJ decided to maintain its policy rate unchanged in January MPM. Nevertheless, larger number of comments expressed concerns about upward pressures on underlying inflation, suggesting the next hike may be closer.

## Assessment of economy

First line of comment confirmed the central scenario that the economic growth would re-accelerate thanks to global economic recovery and policy measures by the government. Moreover, following couple of comments expected positive impacts by the momentum of AI related investment, especially in the US. .

The other two lines of comments referred to the implication of wage hikes. One of them expected that rate of increase in real wage would turn positive at last, thanks to deceleration of inflation of energy and food. The other expressed concerns, however, divergence of income could rather increase, as SMEs would suffer from depreciation of JPY by way of downward pressures on profits.

## Assessment of prices

First line of comment confirmed the central scenario that the underlying inflation would reaccelerate and converge to the inflation target in later period of the outlook. In addition, this comment assessed the risk was balanced.

In contrast, the second comment expressed the cautious view with reference to less signs of transferring wage costs to prices among items except for food, food service and hospitality. This comment claimed that it would be worth monitoring the balance among prices, income and consumption, along with the effects of policy measures.

Following two lines of comments raised the issues of important items. One of them suspected that supply factors might not be dominant for rising rice prices, and it suggested the need to check whether rises in other prices could be attributed only to supply factors. The other raised the rises in rents in major cities, and it explained that not only rising cost of materials and labor but growing demand functioned.

All in all, while a line of comment insisted the importance of monitoring the impacts of policy measures on underlying inflation, the following comment expressed confidence that the achievement of 2% inflation could be judged this spring, as wage became driving factor and inflation became persistent accordingly.

Regarding the implications of JPY rates, two lines of comments expressed concerns. One of them insisted the need to be cautious against spillover from depreciation to domestic inflation under modification of pricing behavior of firms. This comment also pointed out that CPI inflation would either decelerate slower or turn higher under further depreciation. The other comment confirmed the view that evolution of JPY rates would have larger impact on domestic inflation as economic dependence on overseas grew.

## Management of policy rate

First two lines of comments confirmed the benign view of financial conditions. One of them explained that the financial condition remained accommodative after the policy rate hike

in December, with reference to demand of funds by firms, lending attitudes by banks, and new issuance of CPs and corporate bonds. The other expressed the view that the industry as a whole could absorb the rising costs of funding by solid condition of business, although firms with long-term projects and SMEs may suffer from the debt service.

Accordingly, the next comment confirmed the idea that it would be appropriate to adjust monetary easing as long as the outlook of economy and prices realize. The following comment confirmed that the BOJ would monitor the reaction of economy, prices and markets before making a decision.

It should be noted that many other lines of comments suggested that a faster pace of rate hike would be worth considering.

One of them expressed the view that financial condition remained substantially accommodative in light of renewed depreciation of JPY, and it suggested a next round of policy rate hike at an appropriate time. Second of them agreed to the idea of an appropriate time. And the third raised the risk of behind the curve when overseas yields change. This comment also confirmed the needs to adjust large negative real policy rate, as it attracted attention in FX market.

Moreover, a line of comment expressed the view that depreciation of JPY and rise in long-term yields reflected the fundamentals, and it claimed that the best solution would be raising policy rate in appropriate and timely manner. The next comment suggested that the interval to a next hike should not be long, as high cost of living is the core agenda of economic policy. Last line of comment also supposed faster rate hike with reference to the distance between the current policy rate and a neutral rate.

## Discussion on rise in long-term yields

First two lines of comments expressed the cautious views. One of them mentioned it was worth monitoring in recent weeks, while the rises in these years largely reflected the improving market functions and of the prospects of achieving the inflation target. The other suggested the view that the risk premium was affected by both inflation and fiscal condition on the one hand and the stock effects by the BOJ on the other hand.

Following three comments confirmed the idea of the BOJ's contingent purchase of JGBs. One of such comments also raised the issue of recent high volatility in yields and the concerns about smooth absorption of the JGBs. All in all, the last comment confirmed the principle that division of role of the BOJ should be based on the functions of the market.

**Author: Tetsuya Inoue**  
**Senior Chief Researcher**  
**Financial Markets and Digital Business Research Department**  
**Nomura Research Institute**

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