

## Introduction

The BOJ decided to raise its policy rate by 0.25pp at January MPM. Governor Ueda confirmed that our domestic economy is on track of its outlook. However, the members of the MPM expected upside risks of inflation in FY2025.

## Assessment of economy

Governor Ueda confirmed the view that the domestic economy continued to recover moderately. In fact, the summary text of the quarterly outlook virtually unchanged from the previous one in October.

Specifically, revised forecast of real GDP growth rates from FY2024 to FY2026 is +0.5%→+1.1%→+1.0%. In comparison to the previous one, forecast for FY2024 was only revised down by 0.1pp.

Governor Ueda reiterated the view that our economy would grow faster than its potential on the back of virtuous circle between income and expenditure under gradual recovery of overseas economies and accommodative financial condition with reference to considerable shortage of labor.

During the Q&A session, several reporters asked about the potential impacts by new economic policy measures by President Trump. Governor Ueda explained that they remained uncertain, while the BOJ would pay attention to the tariff policy and its impacts.

## Assessment of prices

Governor Ueda confirmed the constructive view that the confidence in achieving the 2% target in later phase of the outlook period has enhanced, on the back of smooth transfer of rising costs to prices.

Moreover, the summary text of the quarterly outlook reiterated the view that both the virtuous circle between wages and prices and the improvement of GDP gap would support the increase in underlying rate of inflation.

In spite of such benign view, forecast of inflation rate for FY 2025 was notably revised upward.

Specifically, revised forecast of core CPI inflation rate from FY2024 to FY2026 is +2.7%→+2.4%→+2.0%. In comparison to the previous one, forecasts were raised by 0.2pp, 0.5pp and 0.1pp respectively. Moreover, risk balance chart implies that many MPM members expected upside risks of core CPI inflation rate in FY2025.

Governor Ueda explained that upward revision of inflation forecast for FY2025 is mostly due to rising price of rice and renewed rise in import prices on the back of depreciation of JPY. Accordingly, he expected that effects of these factors would diminish in later half of CY2025.

During the Q&A session, some reporters asked about the sustainability of upward pressures of inflation. Interestingly, some of them referred to the risk of further depreciation of JPY due to potential higher inflation in the US and its implication for the monetary policy by the FRB.

Governor Ueda expressed the benign view that underlying inflation has still been in the process of improvement, and therefore there is less risk of “behind the curve” of monetary policy. Nevertheless, he admitted that behavior of firms for

wage settings may have modified further, as firms started to incorporate consecutive wage rises in mid-term business plans. Readers may like to note that survey results suggested that long-term inflation expectation by household also appeared to increase.

## Monetary policy decision

The BOJ decided to raise its policy rate to 0.5% by 25bp. Governor Ueda explained that the decision was based on the view that economy and prices are on track of its outlook, and on the enhanced confidence in achieving the 2%inflation target in later phase of outlook period.

By reiterating such policy idea, Governor Ueda effectively implied that the policy rate hike this time was not affected by the upside rise of inflation in FY2025.

During the Q&A session, several press reporters asked the reason to maintain policy rate at December MPM and to raise it at January MPM. Readers may like to remember that Governor Ueda explained in December that more confidence in wage rise in 2025 and less uncertainty about US economic policy were necessary.

Governor Ueda explained that anecdotal evidences including reports from the BOJ’s branch managers suggested that momentum of wage rise at coming annual negotiation (“Shunto”) appear to remain intact. He also referred to the fact that the financial markets remained stable so far, as the policy announcements by President Trump have been within the range of previous expectation.

In the meantime, several press reporters raised the issue of neutral policy rate. Some of them suggested that its estimate should be revised downward due to demographic factors. In fact, the footnote of the summary text of the quarterly outlook implied that the BOJ’s estimate of potential growth rate marginally decreased.

Governor Ueda expressed the view that associated decrease in neutral policy rate would also be marginal, while he admitted the relationships between the two factors. Moreover, he insisted that the range of estimates of neutral rate remained wide, and it would be difficult to have more accurate value for the time being.

Other press reporters also asked if the pace of policy rate hike would become slower as the policy rate approaches toward neutral level. Governor Ueda mentioned that it would be too early to consider such practice as 0.5% policy rate is still clearly below neutral zone.

Nevertheless, Governor Ueda expressed the cautious view that the BOJ should take more account of impacts of policy rate hike on economy and prices at policy decisions in the future.

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