



ROSA & ROUBINI
ASSOCIATES

MONETARY AFFAIRS:

**Review: BoJ on Hold in January,
With No Rush for Further Hikes**

by

Brunello Rosa and Nato Balavadze



23 January 2026

Brunello Rosa and Nato Balavadze

Review: BoJ on Hold In January, With No Rush For Further Hikes

23 January 2026

Page | 2

Executive Summary

- ✧ **Decision Made:** *The Bank of Japan (BoJ) maintained its policy rates in January.* The BoJ board voted to keep its short-term policy rate unchanged at 0.75% with one dissenter. Further rate hikes depend on whether the BoJ's outlook is realized. With real rates still very low, the Bank would gradually raise rates and reduce accommodation to achieve the 2% target. Governor Ueda remained neutral, signaling no near-term hikes and stressing that policy hinges on underlying—not headline—inflation, which is still below target.
- ✧ **Policy Discussion:** *The BoJ is increasingly confident in growth and progress toward its 2% inflation target, keeping further rate hikes on the table.* Upward revisions to core inflation point to stronger wage dynamics and inflation pressure from yen weakness, while risks to growth and prices are now seen as broadly balanced. Although Governor Ueda struck a neutral tone and signaled no near-term move, the Bank expects inflation to dip below 2% briefly before rising again as labor shortages and inflation expectations build. With real rates still very low, gradual policy normalization remains the baseline.
That said, hikes are unlikely to be rushed. A June move now appears more likely than October, contingent on strong April price behavior and sustained wage growth, even as core inflation eases only slowly. Political uncertainty has increased after PM Takaichi called a snap election on an expansionary fiscal agenda, unsettling JGB markets. Proposed food tax cuts could temporarily lower CPI by about 1ppt, but unclear financing and growth effects add uncertainty to the BoJ's policy path.
- ✧ **Changes to Economic Forecasts:** *Growth is expected to remain moderate as global demand recovers, wages rise, and fiscal support continues.* Investment should keep expanding—led by digital, AI, and R&D—while consumption gradually strengthens. Growth forecasts for 2025–26 have been revised up, alongside a modest rise in potential growth driven by productivity and capital deepening.
Inflation is set to dip below 2% in early 2026 as food price pressures fade and government measures kick in, but underlying inflation should stay firm and gradually return to the 2% target. Risks remain tilted to external factors—trade policy, China, geopolitics, and commodity prices—while wage dynamics, FX, and import prices could push inflation above or below baseline.

Key Picture: Bank of Japan Forecasts – 2025-2027 – From the January 2026 Outlook

	2025f			2026f		2027f	
	Latest Reading	October Report	October Report	October Report	October Report	October Report	October Report
GDP (real growth, y-o-y)	1.1	0.9	0.7	1.0	1.0	0.9	1.0
Inflation* (%, y-o-y)	2.1	2.7	2.7	1.9	1.8	2.0	2.0

Source: Bank of Japan 'Outlook for Economic Activity and Prices' October 2025 and January 2026. *Note:* 1. Forecasts are for the fiscal year (FY) in Japan from April 1 - 31 March of the following year; 2. Latest GDP reading for Q3 -2025; 3. Latest inflation reading for December 2025.

Analysis

- ✧ **DECISION MADE:** *On December 23, the Bank of Japan (BoJ) kept its policy rates unchanged.* The BoJ kept its key short-term interest rate at 0.75% with one dissenter. Takata Hajime argued that price stability had largely been achieved and that, with overseas economies recovering, inflation risks in Japan were tilted to the upside. He proposed setting the uncollateralized overnight call rate at around 1.0%, but the proposal was rejected by a majority vote.

In terms of *forward guidance*, further rate hikes would hinge on how likely it is that the Bank's economic outlook is achieved. With real interest rates still very low, the Bank will, if the outlook materializes, gradually raise policy rates and scale back monetary accommodation to secure the sustainable achievement of the 2% inflation target. Governor Ueda struck a neutral tone, giving no signal of near-term hikes. He stressed accommodative financial conditions, played down the rise in market rates, and emphasized that policy decisions hinge on underlying—not headline—inflation, which the BoJ sees as still short of the 2% target.

In terms of *balance sheet policies*, the BoJ agreed to gradually reduce its monthly JGB purchases to around ¥2 trillion by January–March 2027—cutting about ¥400 billion per quarter until early 2026, then ¥200 billion per quarter from April 2026 onward. The Bank retains flexibility to intervene if long-term rates rise sharply and may revise the plan at any policy meeting if needed. As of the June 2025 quarter, the Bank of Japan is estimated to purchase approximately ¥4.1 trillion in JGBs each month.

- ✧ **POLICY DISCUSSION:** *The BoJ is showing greater confidence in both growth and achieving its 2% inflation target, keeping further rate hikes firmly on the table.* Upward revisions to core inflation suggest rising inflation pressure from yen weakness and stronger confidence in wage growth. With economic risks now seen as broadly balanced and fiscal stimulus supporting growth, the BoJ's view that real rates remain very low points to additional rate hikes ahead.

Governor Ueda's comments were neutral, offering no signal of imminent rate hikes and reiterating that future moves depend on economic conditions. He downplayed the recent rise in market rates, emphasized that financial conditions remain accommodative, and avoided committing to bond market intervention. His focus was on underlying inflation—which is seen as gradually rising despite headline inflation falling below 2%—with board members still viewing some distance to the target and April price dynamics as key for future rate decisions.

The Bank assesses the outlook from two angles: the baseline path for inflation and the key risks to growth and prices. CPI inflation is expected to dip below 2% in the near term but gradually rise back toward the price stability target as labor shortages intensify and inflation expectations increase. Risks to activity and prices—stemming from global conditions, trade policies, firms' wage and price behavior, and financial and FX markets—are broadly balanced, with the financial system remaining stable.

Given very low real interest rates, if the outlook holds, the Bank will continue to gradually raise policy rates and reduce monetary accommodation, adjusting policy as needed to ensure the sustainable achievement of the 2% inflation target.

- ✧ **CHANGES TO FORECASTS:** *Looking ahead, growth is expected to stay moderate as global demand recovers, wages rise, and government support continues.* Investment should keep increasing—especially in digital, AI, and R&D—while consumption gradually strengthens. Growth forecasts for 2025–26 have been revised up, and potential growth is set to rise on productivity and capital gains.

Japan's economy is recovering moderately amid pockets of weakness, with trade policies—especially U.S. tariffs—holding back exports and production. Corporate profits remain high, supporting investment,

while consumption is resilient despite inflation around 2.5%. Housing investment is weak, public investment flat, and financial conditions accommodative.

CPI inflation (excluding fresh food) is expected to dip below 2% in early 2026 as food price pressures ease and government measures take effect, but underlying inflation should remain firm. As labor shortages intensify, wages rise, and inflation expectations increase, inflation is projected to gradually return to around the 2% target later in the forecast period.

Risks to growth stem mainly from overseas developments, including trade policies, U.S. tariffs, China's uncertain outlook, AI-driven investment cycles, fiscal expansion, supply-chain disruptions, commodity price volatility, and geopolitical tensions. Import price shocks could either dampen or boost activity, while long-term risks hinge on labor shortages, productivity gains from digitalization and AI, and possible shifts away from globalization.

Price risks center on firms' wage- and price-setting behavior and exchange rate and import price movements. Stronger wage-price dynamics could push inflation above baseline, while prolonged profit pressure or weaker demand could restrain it. Persistent food price increases or sharper FX and commodity swings could also move inflation away from the baseline in either direction.

- ✦ **OUR TAKE:** *Rate hikes are unlikely to be rushed.* A June move now appears more likely than October, contingent on strong April price behavior and sustained wage growth, even as core inflation eases only slowly. Political uncertainty has increased after PM Takaichi called a snap election on an expansionary fiscal agenda, unsettling JGB markets. Proposed food tax cuts could temporarily lower CPI by about 1ppt, but unclear financing and growth effects add uncertainty to the BoJ's policy path.
- ✦ **MARKET IMPLICATIONS:** *The Bank of Japan maintained a hawkish inflation outlook and warned of price risks from a weak yen, reinforcing expectations of further rate hikes.* Short-dated JGB yields rose after the BoJ upgraded its inflation outlook, while long-end pressure eased following earlier selloffs. The two-year yield rose 3bp to 1.245% and the five-year to 1.68%, while the 40-year yield fell 5.5bp to 3.94% after hitting a record high earlier in the week. *The yen slumps despite hawkish tone.* The yen initially weakened before a sharp rebound triggered speculation about possible currency intervention, though Finance Minister Satsuki Katayama declined to comment. The yen fell to 159.21 per dollar as Ueda spoke, before rising to around 157.30. *Japanese stocks closed higher.* The Nikkei 225 gained 0.36%, and closed at 53,846.87.



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE,, United Kingdom.

For information about Rosa&Roubini Associates, please send an email to info@rosa-roubini-associates.com or call +44 (0)20 7101 0718.

Analyst Certification: We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report.

Disclaimer: All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.