

26 January 2026

BoJ Monetary Policy Decision (22-23 January)

Maintain cautious stance ahead of election and wage negotiations

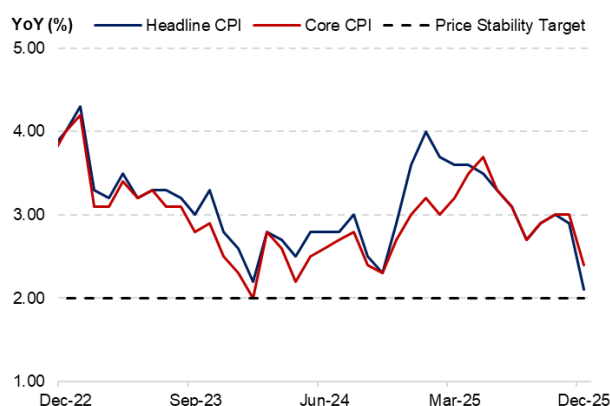
- **Expected hold:** After raising rates in December, the Bank of Japan (BoJ) kept its overnight call rate (OCR) unchanged. This time, only one well-known hawk dissented from the majority's view.
- **Short-term rate (8-1 vote):** The BoJ kept the OCR unchanged at 0.75%. The board reaffirmed that financial conditions remain accommodative despite December's hike, and that underlying inflation is moving closer to the 2.0% target. Hajime Takata dissented, arguing that price stability has largely been achieved and calling for an increase to 1.0%.
- **Long-term rate:** The BoJ will scale back bond-buying. It plans to trim monthly purchases of Japanese government bonds by JPY400.0b/quarter, slowing them to around JPY3.0t by March 2026.
- **Asset purchase guidelines (unanimous):** The BoJ has begun selling its ETF and J-REIT holdings, unwinding its balance sheet at a deliberately slow pace to limit market disruption, as agreed at the September meeting. Based on book value, sales are set at about JPY330.0b per year. At this pace, the exit could stretch over a century if unchanged, with the option to pause during episodes of severe market volatility.
- **Economic growth outlook:** The BoJ raised its median real GDP growth forecast for fiscal 2025 to 0.9% from 0.7% and for fiscal 2026 to 1.0% from 0.7%, while trimming fiscal 2027 to 0.8% from 1.0% as fiscal support wanes. Growth remains moderate, with exports and production recovering gradually amid tariff-related headwinds, partly offset by AI-driven external demand. Corporate profits remain high, supporting labour-saving, digital and R&D investment. Persistent labour shortages continue to lift wages, though private consumption is likely to recover only gradually.
- **Inflation outlook:** Core CPI projections were broadly unchanged, with fiscal 2025 held at 2.7%, fiscal 2026 revised marginally higher to 1.9%, and fiscal 2027 maintained at 2.0%. Inflation is expected to fall below 2.0% in the near term as food-price pressures ease and policy measures take effect, before firming as wage-price dynamics persist under tight labour market conditions. Underlying inflation should stabilise around the price stability target later in the forecast horizon. Risks remain balanced, with upside from wage pass-through and exchange-rate sensitivity, and downside from weaker consumption and tariff-related profit pressures.
- **Baseline scenario:** We expect the next rate hike in mid-2026 and see scope for gradual yen appreciation
 - **Policy rate outlook:** The BoJ signals that its tightening cycle will continue if projections hold. Governor Kazuo Ueda maintained a cautious stance, avoiding sharp shifts while **leaving the door open to further action**. Both headline and core inflation declined in December but remained above the bank's target. Planned wage and price adjustments in April could trigger a rate hike, potentially lifting the OCR to 1.00% by mid-2026. Persistently negative real rates suggest sustained normalisation is still required.
 - **FX outlook (USDJPY):** The yen swung sharply after Ueda's press conference as markets speculated about potential FX interventions. Pre-election fiscal plans, including a food sales tax cut, have added pressure on the currency. Ueda's commitment to nimble bond operations has stabilised JGB yields and reduced volatility, limiting speculative swings. **With gradual BoJ tightening and a softer USD in 2H26, we expect USDJPY to trend towards 145.0 by year-end (2025: 156.7), although short-term swings remain likely.**

Table 1: Policy Rates in Selected Countries

Rate (Last Change)	Country	Central Bank Interest Rate	Date
0.75% (+0.25%)	Japan	Overnight Call Rate	Dec-25
3.75% (-0.25%)	UK	Base Rate	Dec-25
1.25% (-0.25%)	Thailand	Repo Rate	Dec-25
4.50% (-0.25%)	Philippines	Target Reverse Repurchase	Dec-25
3.50% - 3.75% (-0.25%)	USA	Funds Rate Target	Dec-25
2.25% (-0.25%)	New Zealand	Official Cash Rate	Oct-25
2.25% (-0.25%)	Canada	Overnight Rate	Oct-25
4.75% (-0.25%)	Indonesia	BI Rate	Sep-25
3.60% (-0.25%)	Australia	Cash Rate	Aug-25
2.75% (-0.25%)	Malaysia	Overnight Policy Rate	Jul-25
2.00% (-0.25%)	Euro Area	Key Deposit Facility Rate	Jun-25
2.50% (-0.25%)	South Korea	Base Rate	May-25
3.00% (-0.10%)	China	Loan Prime Rate (1Y)	May-25

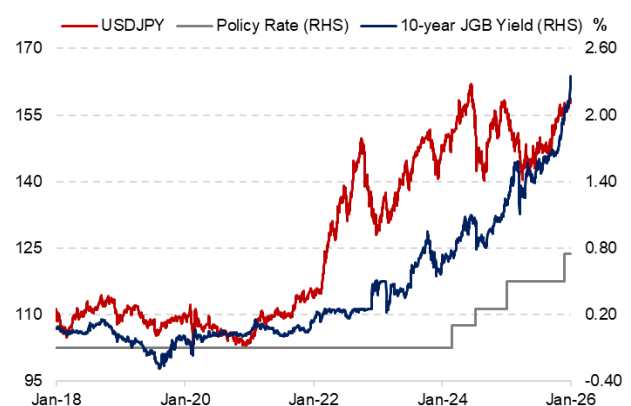
Source: Bloomberg, Kenanga Research

Graph 1: Headline and Core Inflation Rates



Source: Bloomberg, Kenanga Research

Graph 2: USDJPY and Policy Rates (short- and long-term)



Source: Bloomberg, Kenanga Research

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Table 2: Bank of Japan Outlook for Economic Activity and Prices (YoY %)

Forecasts made in	Real GDP		Core CPI	
	October 2025	January 2026	October 2025	January 2026
Fiscal 2025	+0.6 to +0.8 (+0.7)	+0.8 to +0.9 (+0.9)	+2.7 to +2.9 (+2.7)	+2.7 to +2.8 (+2.7)
Fiscal 2026	+0.6 to +0.8 (+0.7)	+0.8 to +1.0 (+1.0)	+1.6 to +2.0 (+1.8)	+1.9 to +2.0 (+1.9)
Fiscal 2027	+0.7 to +1.1 (+1.0)	+0.8 to +1.0 (+0.8)	+1.8 to +2.0 (+2.0)	+1.9 to +2.2 (+2.0)

Source: Bank of Japan, Kenanga Research

Note: Figures in brackets indicate the medians of the Policy Board members' forecasts (point estimates)

Table 3: Bank of Japan Monetary Policy Meeting Schedule for 2026/ KIBB Outlook

No.	Date		KIBB Research Outlook	BoJ Decision
1 st	22-23 January* (Thu and Fri)	☑	No change	No change
2 nd	18-19 March (Wed and Thu)	☐	No change	
3 rd	27-28 April * (Mon and Tue)	☐	No change	
4 th	15-16 June (Mon and Tue)	☐	25 bps hike	
5 th	30-31 July* (Thu and Fri)	☐	No change	
6 th	17-18 September (Thu and Fri)	☐	No change	
7 th	29-30 October* (Thu and Fri)	☐	No change	
8 th	17-18 December (Thu and Fri)	☐	No change	

Source: Bank of Japan, Kenanga Research

*Meeting associated with The Bank's View (outlook for economic activity and prices)

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