

20 September 2024

## Ueda holds steady but domestic political shock could be looming

### Key takeaways

- The Bank of Japan's (BOJ) policy board announced on 20 September that it would leave its monetary policies unchanged, citing global economic uncertainty, though Governor Ueda Kazuo did not rule out additional rate hikes in the near term.
- The bigger challenge for Ueda is the possibility that the Liberal Democratic Party (LDP) chooses Takaichi Sanae, who has repeatedly expressed her opposition to BOJ policy normalization, as its next leader, which could lead to conflict between the BOJ and her government.
- Takaichi, however, is not guaranteed to win and the most likely alternatives would be more inclined to respect the BOJ's independence.

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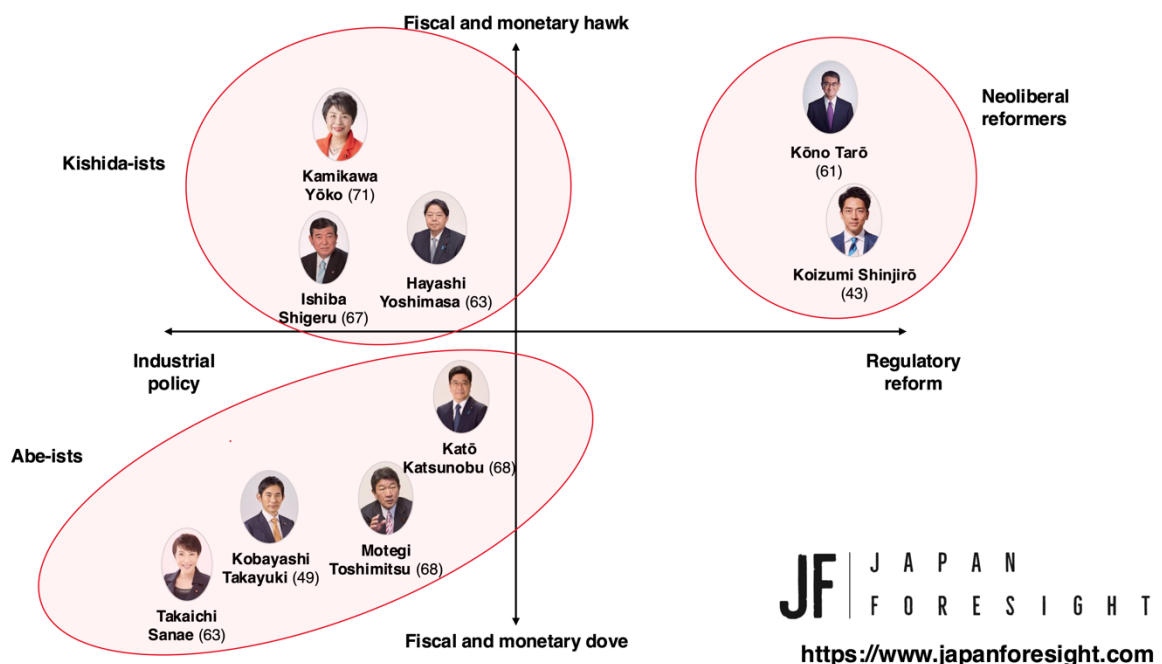
**A**t its policy board meeting on 20 September, the Bank of Japan (BOJ) announced that, as was widely expected, it would leave its short-term [policy rate](#) unchanged at 0.25%. The BOJ's statement – as well as Governor Ueda Kazuo's remarks in his press conference on Friday – were conspicuous in calling attention to “high uncertainties” regarding growth and inflation in Japan as well as circumstances in the global economy, particularly with slowing growth outlooks in the United States and China, Japan's major trading partners.

In his press conference, Ueda was cautious about the timing and speed of additional interest rate hikes, citing uncertainty surrounding the US economy and the outlook for the Federal Reserve's rate decisions. But he continued to express positive notes about the outlook for wages and consumption in Japan, noted that the stronger yen has reduced the risks of import-induced cost-push inflation, and downplayed the impact that

the financial market [turbulence](#) in August had on the real economy, although he acknowledged that the volatility may have been in part due to poor communication by the BOJ.

But while Ueda placed particular emphasis on global economic uncertainty as a reason for caution, domestic political uncertainty may be an important factor, albeit one that Ueda could not openly acknowledge. Ueda was asked about the Liberal Democratic Party's (LDP) leadership election, and, not surprisingly, he refrained from commenting on remarks made by individual candidates about the BOJ and expressed his hopes that there will be sufficient communication between the bank and the next administration. Of course, the prospect that Japan could be in the middle of a general election campaign when the BOJ policy board meets next on 30-31 October already means that politics will push market attention to the BOJ's 18-19 December meeting.

However, it is possible if not certain that from October onward Ueda could be dealing with a very different government than the outgoing Kishida administration. The [rise](#) of Takaichi Sanae, who according to some estimates could be in a tie for first with Ishiba Shigeru for voting in the first round of the LDP election, means that Japan's government should [shift](#) in a dramatically more dovish direction on monetary and fiscal policy in the coming weeks. She has now on multiple occasions express her opposition to further interest rate hikes and in remarks on 19 September voiced her opposition to revising the 2013 accord between the LDP-led government and the BOJ, arguing that the government and BOJ have still not achieved the stable 2% inflation target because the recent price increases are driven by imported food and energy price increases, not sustainable increases in incomes and consumption. It is unclear whether she also wants the BOJ to sustain its long-term debt purchases.



Takaichi's stance, together with her commitment to higher deficit spending in the near term, could immediately have a disruptive impact on the BOJ if she were to win. She would likely look back to the example of Abe Shinzō in late 2012 and early 2013 and use her bully pulpit to pressure the bank to continue monetary easing or apply pressure privately if Ueda proved resistant. She could also, if necessary, instruct the non-voting government representatives who attend policy board meetings and have the right to submit motions to take the unusual if not unprecedented step of requesting that the board postpone an interest rate hike in accordance with Article 19.2 of the BOJ law. It is unclear how Ueda would respond to these actions by a Takaichi government, but the potential for conflict between the government and the BOJ is apparent – and if Ueda is defiant, Takaichi could seek to emulate Abe by pressuring Ueda to resign before his term ends in 2028.

To be clear, Takaichi is not guaranteed to win, even if she advances to the second round. She could struggle in particular against Koizumi Shinjirō in a runoff, who appears to have attracted more support from the lawmakers who will decide the outcome of the second. While she may fare better against Ishiba Shigeru, who is currently the top choice of party rank-and-file supporters if not of LDP lawmakers, due to Ishiba's weak relationships within the parliamentary party, she may still not be the favorite in a runoff against Ishiba. And if Koizumi or Ishiba were to win, both would be more likely to respect the BOJ's independence and continue the Kishida government's [approach](#) than Takaichi, limiting the risks of political interference in pursuit of monetary easing. But the outcome of the LDP's 27 September leadership election remains uncertain, and a Takaichi victory could have an immediate impact on the outlook for Ueda's BOJ.

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