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Ueda hints BOJ could hold for longer amidst global uncertainty

Key takeaways

- The Bank of Japan (BOJ) left interest rates unchanged at its 18-19 December policy board meeting, as Governor Ueda Kazuo pointed to pronounced uncertainty about the impact the incoming US administration could have on Japan's economy, particularly on the outlook for wage negotiations.
- Ueda continues to see room for additional rate hikes but refused to commit to a timeline.
- If the divergence between the BOJ and Federal Reserve triggers prolonged yen weakness, however, the bank could face greater domestic political pressure in 2025.

The Bank of Japan (BOJ) ultimately decided to keep its policy rate unchanged at 0.25% at its 18-19 December policy board meeting. In both the statement and Governor Ueda Kazuo's press conference following the meeting, the BOJ struck a more dovish tone than in [October](#). Whereas after previous decisions to hold in September and October, Ueda's concerns were primarily about uncertainty in the United States and, to a lesser extent, China, Ueda expressed a greater degree of caution about the health of Japan's economy on Thursday.

The upshot is that, for the moment, **it is difficult to anticipate a rate hike at the BOJ's 23-24 January meeting**. Asked why the bank held, Ueda said that although the outlook for growth and prices continues to improve, the BOJ wants to see the outlook for FY2025 wage negotiations considering the uncertainty surrounding US economic policy under the incoming Trump administration.

The problem, of course, is that the BOJ may not have much more clarity on either dimension ahead of the next meeting. Not only will the bargaining positions of organized labor and corporate Japan not be entirely apparent by the BOJ's 23-24 January policy board meeting, but to the extent that major exporters are waiting to see what policies – particularly tariff policies – the Trump administration announces after taking office, wage negotiations could be more muddled than in previous years.

Ueda has not abandoned the goal of monetary policy normalization – stressing that real rates remain low and accommodative and that gradual hikes, including beyond 0.5%, are possible – but the governor acknowledged that waiting for clarity on both US economic policy and Japan's *shuntō* negotiations introduces considerable uncertainty into the outlook for the BOJ's next rate hike. Moreover, Ueda's determination to follow the data – and his admission that global uncertainty is weighing on the bank's thinking – will continue to complicate the BOJ's communications with markets. The “will they or won't they” debate that preceded the December meeting could be repeated through April, as the bank watches for ambiguity and uncertainty to dissipate.

Japan's domestic political situation, while less a subject of discussion than in October, may also be a complicating factor for Ueda. The Ishiba government was conspicuously quiet ahead of this week's policy board meeting, though both Finance Minister Katō Katsunobu and Economic Revitalization Minister Akazawa Ryōsei have previously cautioned against the BOJ's moving too quickly to hike rates. However, with the yen falling following the hawkish signaling from the Federal Reserve on Wednesday and the dovish signaling from the BOJ on Thursday, the Ishiba government's calculations could shift. As the past year has revealed, the public's tolerance for yen weakness is limited. If the yen enters a new period of weakness and volatility – which could also impact the *shuntō* – the Ishiba government could be more vocal about the direction of monetary policy, particularly with upper house elections approaching in summer 2025.

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