

19 March 2026

Bank of Japan enters holding pattern again

Key takeaways

- Bank of Japan (BOJ) Governor Ueda Kazuo acknowledged the risks of stagflation stemming from the Hormuz crisis as the BOJ held rates steady at its 18-19 March meeting
- While Ueda said that there is some debate within the policy board over how to respond to stagflation – leaving open the possibility of a hike to curb inflation – his past caution in the face of geopolitical uncertainty suggests the BOJ may be reluctant to act swiftly.
- In the near term, it will be left to the Takaichi government to manage inflationary pressures through subsidies and possible foreign exchange intervention.

The Bank of Japan (BOJ), as expected, announced on Thursday, 19 March that it would keep its policy rate unchanged at 0.75%. This is essentially a repeat of earlier episodes since the BOJ began normalizing interest rates in 2024 under Governor Ueda Kazuo's stewardship. While Ueda is not abandoning policy normalization, he has repeatedly pursued this goal cautiously, pausing when external shocks complicate the outlook for prices and Japan's economy more broadly.

Accordingly, while the BOJ's policy statement emphasized that "Japan's economy is likely to continue growing moderately," with a "virtuous cycle from income to spending gradually [intensifying]," his remarks in his press conference stressed the profound and deepening uncertainty surrounding the impact of the Hormuz crisis on Japan's economy. He noted that the war could make it more difficult for Japan's economy to meet growth and inflation forecasts and acknowledged the risks of stagflation resulting from the war. The governor did not rule out the possibility that the BOJ could hike rates to deal with inflation resulting from an energy price shock, but emphasized the high

levels of uncertainty, the volatility of the situation, and the difficulty of making any firm decisions.

Notwithstanding remarks from Ueda that policy board members seemed more focused on the risks of higher inflation than slower economic activity, Ueda's past caution suggests that as long as the situation in the Persian Gulf is fast changing and uncertain, the bank is unlikely to act. It may take a clear and overwhelming signal that prices have surged past the bank's target and are likely to stay at those levels for a prolonged duration before the BOJ raises again. The BOJ does not have a formal dual mandate, but Ueda has generally been careful about the impact of monetary policy on real economic activity and is unlikely to move aggressively with rate hikes if doing so could weaken investment and consumption.

Therefore, for the time being, the Takaichi government will be taking the lead in managing the impact of the Hormuz crisis, both through subsidies for fuel producers and, presumably, intervention in foreign exchange markets to combat the yen's slide. Finance Minister Katayama Satsuki addressed both on Thursday, saying in regard to the former that it is "only natural for the government to step in" and warning that the government will take a "firm stance" against speculation against the yen as the currency approaches JPY 160/USD.

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