

16 June 2026

No surprises from BOJ as focus turns to fiscal policy

Key takeaways

- The Bank of Japan (BOJ) delivered the expected announcements on Tuesday, 16 June, raising short-term rates to their highest level since 1995 and indicating its intention to pause its bond-purchase tapering in April 2027.
- Deputy Governor Uchida Shinichi, filling in for ailing Governor Ueda Kazuo, stayed strictly on message, avoiding any hint of change to the bank's plans for monetary policy normalization.
- The BOJ's neutral messaging should mean greater attention on the Takaichi government's fiscal policies, which will be articulated in forthcoming policy documents.

With BOJ Governor Ueda Kazuo hospitalized, the BOJ policy board delivered no surprises on 16 June, announcing 25-basis-point hike to 1.0% and indicating its intention to pause scaling back monthly long-term bond purchases from April 2027, holding them at roughly JPY 2.1tn monthly indefinitely in the name of stabilizing the bond market.

The prospect of an end to hostilities between the US and Iran, while characterized by Deputy Governor Uchida Shinichi as a “hopeful development,” did not fundamentally alter the BOJ's outlook. The bank sees a certain amount of inflation over the coming months as essentially baked in – looking at both the BOJ's internal inflation metrics and business price indices – even though headline inflation has seemingly been contained by the Takaichi government's subsidies. While Asada Tōichirō, the newest policy board member, voted against the rate hike, arguing that the risks to growth and employment from the Hormuz crisis are worse than the risks of higher inflation, the policy board was broadly united in viewing the risks of higher inflation as worse than the risks to growth.

In his press conference filling in for Ueda, Uchida was strictly on message. He effectively communicated a neutral position regarding the timing of subsequent rate hikes, stressing that the bank will adapt flexibly in response to economic, price, and financial market conditions and emphasizing its desire to “not fall behind the curve” in containing inflation. Uchida noted that the bank still has room to hike, given that real rates are still negative, but there is no indication that the bank will change its prevailing approach of giving ample time between hikes as it assesses the impact of each hike on the real economy and financial markets and, it seems, negotiates with the Takaichi government.

On the whole, the BOJ’s latest decisions do not fundamentally alter the landscape for the Takaichi government. While the BOJ avoided dovish signaling that might have weakened the yen – creating new headaches for both the government and the bank – it also did little to shield the government from financial market concerns about the impact the Takaichi government’s policies could have on Japan’s fiscal trajectory over the medium term. As [discussed](#) previously, while the BOJ will freeze its asset purchases at JPY 2.1tn per month in the interest of easing the BOJ’s exit from bond market dominance, it will still be buying between JPY 40-50tn less in JGBs per annum. In short, the BOJ will still be withdrawing demand for Japanese government debt at the same time that the Takaichi government is outlining policies to create more of it. That mismatch between the supply of and demand for government debt is, fundamentally, the problem that Prime Minister Takaichi Sanae will have to solve as she pursues her program of national renewal. The government’s impending growth strategy and Basic Policy on Economic and Fiscal Management and Reform will ensure that attention remains on the Takaichi government’s fiscal policies for the time being.

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