

18 September 2026

Ueda remains true to himself

Key takeaways

- The Bank of Japan (BOJ) hiked as expected, but Governor Ueda Kazuo declined to commit to a more aggressive pace of normalization despite pressure from the US and financial markets.
- Ueda demonstrated that despite political pressure from Washington – and implicit pressure from the Takaichi government not to move too quickly – Ueda's cautiousness suggests that the bank will continue to move at a careful, deliberate pace.

At the Bank of Japan (BOJ) policy board meeting on 17-18 September, the BOJ did not surprise, announcing a 25-basis-point hike in its policy rate to 1.25%. This hike brought short-term rates to their highest level since 1995. The board's two newest members, Asada Tōichirō and Satō Ayano, voted against the hike, arguing that macroeconomic conditions did not warrant a hike at this moment. However, the bank's consensus outlook included in its policy statement is that inflation will reach and exceed its 2% target during the second half of FY2026 and into FY2027, driven by wage increases, higher energy prices, the global AI boom pushing up costs for related inputs, and yen weakness, all increasingly being passed through to consumers.

What was most significant, however, was how Governor Ueda Kazuo responded not just to the risk environment – which the BOJ said was unchanged from its last meeting in July – but also to the political environment. Notwithstanding extraordinary pressure from the United States for Japan to take policy steps that would strengthen the yen against the dollar, and Ueda acknowledged the risk that inflation could exceed the bank's target, he declined to commit to a faster pace of hikes or larger hikes or offer a clearer perspective on a terminal rate for policy normalization. In other words, he stuck to his prevailing cautious approach, emphasizing the need to review the impact of rate

hikes and assess the economic and price outlook on a meeting-by-meeting basis. Perhaps not surprisingly, the yen weakened in response to Ueda's cautious position, prompting a rate check by the Bank of Japan during overseas trading hours Friday.

While the rate hike may buy Ueda a little more time, it is unlikely to ease the external and internal pressure the BOJ faces. US pressure appears to have made the September rate hike inevitable, as the Takaichi government was bracing for monetary policy becoming a "diplomatic issue" with the Trump administration if the BOJ failed to hike. Having applied pressure on the BOJ once, US Treasury Secretary Scott Bessent may see little reason not to do so again, particularly if other central banks outpace the BOJ in monetary tightening and the yen resumes its weakening. Meanwhile, the bigger – or at least more persistent – challenge could be domestic political pressure to go slowly, US pressure notwithstanding. As Prime Minister Takaichi Sanae signaled on Thursday when she unveiled her new cabinet, her commitment to responsible fiscal expansion has been unshaken by financial market concerns about growing deficits. Takaichi and members of her government have been relatively restrained of late when discussing monetary policy, particularly since the adverse reaction to the first draft of the 2026 basic policy that alluded to greater efforts to coordinate monetary policy with the government's program. However, the threat that Takaichi will exert pressure on the bank to either hike more slowly than Ueda and his more hawkish board members might prefer or stop normalization at a lower terminal rate cannot be dismissed. The expiration of the terms of two of the most hawkish members of the board – Takata Hajime and Tamura Naoki – in 2027 could provide Takaichi with another channel of influence, as the votes of her new appointees from earlier this year already demonstrate. Ueda downplayed the significance of their dissents, noting that their views were not out of line and were taken into consideration by other board members, and denied that the prospect of a change in the board's composition will influence its current policymaking.

Nevertheless, Ueda's attempt to find a balance between these competing political pressures while navigating global and domestic economic conditions suggests that there is little reason to expect more aggressiveness from the governor in pursuit of monetary normalization. After three years in office and despite extraordinary pressure to change course, he has remained true to himself. This is just the kind of governor Ueda is, cautious about policy change and circumspect in his communication. He may bend in response to other actors but has not fundamentally deviated from his approach. Ueda's caution will continue to be the last, best hope for the bank's independence in the face of a tug-of-war between policymakers in Washington and Tokyo and market expectations for a faster pace of normalization.

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