Notes on Financial Markets Vol.256

Press conference by Governor Ueda—Cautious on both fronts

June 17, 2025

Introduction

The BOJ decided to maintain its policy rate at June MPM as widely expected. Regarding the scheduled review of JGB purchase, which was the focus of the markets, the BOJ decided to reduce its pace of reduction since 2Q of 2026.

Assessment of economy

Governor Ueda confirmed its modesty constructive view of domestic economy. He referred to the signs of front-loading activities by the firms against higher tariffs, and gradual expansion of consumption expenditure by the households.

Looking ahead, Governor Ueda expressed the view that overseas trade policies would undermine the global growth and the profits of Japanese firms, leading to slower domestic economic growth. He also confirmed that the risk of outlook was still tilted downward.

During the Q&A session, a reporter asked the implications of the signs of easing trade tensions between the US and China.

Governor Ueda expressed the cautious view with reference to the uncertainties both about tariffs and export control of strategic materials. Moreover, he argued that their remained substantial uncertainties about its spillover effects even if the negotiations could achieve some agreement.

Other reporter raised the discrepancy between soft data and hard data. While Governor Ueda agreed with such observation, he suggested that the impacts of higher tariffs would emerge as deterioration of hard data as early as in 3Q.

Other several reporters expressed concerns about the potential negative impacts on wage rises by deterioration of corporate profits. Governor Ueda admitted that either level of summer bonus payment or next annual revision of wages could be affected.

Assessment of prices

Governor Ueda confirmed that core CPI inflation rate has been around mid-3%. Nevertheless, he insisted that it is largely due to rising food prices (rice price in particular) , and this is why the BOJ expected that upward pressures by these factors would gradually diminish.

Moreover, he expressed the cautious views of underlying inflation due to potential slowdown of domestic economy. He also explained that the risks of inflation outlook was also tilted downwards.

During the Q&A session, several press reporters raised the issue of assessment of underlying inflation. Governor Ueda reiterated the view that underlying inflation continued to rise gradually, but it had not reached or stabilized at 2% target.

At the same time, Governor Ueda mentioned that the BOJ should watch carefully whether persistently higher rate of inflation along with rising food prices would affect inflation expectation by households.

Other press reporter asked the impacts of prospective economic policy measures by the government. Governor Ueda explained that its magnitude would crucially depend on the effects on purchasing power of households, while the BOJ expected deterioration of business activities in coming months.

Management of policy rate

As the BOJ's decision to maintain its policy rate at 0.5% was widely expected, the focus of attention was the future course of policy normalization.

Some press reporters asked that the next rate hike would be suspended until the uncertainties about the outlook would be meaningfully reduced. While Governor Ueda avoided to answer to the questions directly, he reiterated the view that there remained substantial uncertainties about the outlook, as well as the timing of its clarification.

Review of JGB purchase

Readers may like to remember that the BOJ committed to conduct the review of JGB purchase at June 2025 MPM when they started to reduce the pace of JGB purchase at July 2024 MPM.

It should also be noted that the BOJ's plan of JGB purchase is defined as flow terms. Specifically, July 2024 MPM decided that the monthly amount of JGB purchase (in flow terms) would decrease by 400bil yen per quarter. As a result, it decreased from 5.3trn yen in 3Q of 2024 to 3.7trn in the current quarter.

Under such framework, the pace of reduction of JGB holdings has been much slower than the case of the FRB or the ECB. Nevertheless, thanks to growing scale of redemptions of JGBs held by the BOJ, the size of its balance sheet started to reduce very gradually. In 1Q of 2025, JGB holdings by the BOJ decreased by 6.1trn yen.

As the result of the review, the BOJ decided that the monthly amount of JGB purchase (in flow terms) would decrease by 200bil yen per quarter (in stead of the current 400bil yen) since 2Q of 2026. According to the new plan, it decreased from 3.7trn yen in the current quarter to 2.1trn in 1Q of 2027.

Governor Ueda confirmed the idea that the BOJ would continue to reduce JGB purchase with steps in a foreseeable manner with a view to stability of JGB market.

At the Q&A session, several reporters asked whether the decision was affected by rapid upward movement of super-long JGB yields in recent months. Governor Ueda denied its direct impacts, while he mentioned that the cautiousness was required for market stability in the future.

Other reporters suspected whether the decision took considerations of fiscal conditions. Governor Ueda explained that the BOJ took account of the downside risk of economy due to too fast reduction in JGB purchase. He also explained that the BOJ had closely communicated with the government, and front-loading announcement of the plan would benefit for their debt management policy.

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