



**ROSA & ROUBINI**  
ASSOCIATES

## **MONETARY AFFAIRS:**

**Review: BoJ Hikes Rates in June  
and Maintains a Tightening Bias**

**by**

**Brunello Rosa and Nato Balavadze**



**16 June 2026**

## Brunello Rosa and Nato Balavadze

### Review: BoJ Hikes Rates in June and Maintains a Tightening Bias

16 June 2026

#### Executive Summary

Page | 2

- ✦ **Decision Made:** *The Bank of Japan (BoJ) raised its policy rates in June.* The BoJ board voted to raise its short-term policy rate unchanged to 1.0%. The decision passed 7-1, with board member Toichiro Asada dissenting on the grounds that downside risks to growth and employment from Middle East tensions outweighed inflation risks. The BoJ maintained its forward guidance, signalling further gradual rate hikes as inflation approaches its 2% target and real rates remain low. Policymakers stressed that the pace of tightening will depend on economic conditions, inflation dynamics, and geopolitical developments.

On the balance sheet, the BoJ announced it will pause bond tapering from April 2027, maintaining monthly purchases of around ¥2 trillion in government bonds. While annual reviews of the tapering plan will be discontinued, the Bank retained flexibility to adjust purchases if conditions require.

- ✦ **Policy Discussion:** *The BoJ raised interest rates to a 31-year high, continuing its policy normalisation cycle as it seeks to contain inflationary pressures stemming from the Iran war-induced energy shock.* Deputy Governor Shinichi Uchida said the recent US-Iran peace deal and progress in securing alternative energy supplies had reduced the risk of a sharp economic downturn, but warned that inflation risks remain elevated and could push underlying inflation above the Bank's 2% target.

The decision broadly matched market expectations, with investors focused less on the 25bp hike itself and more on the Bank's guidance. The BoJ maintained its commitment to further gradual rate increases, while stressing that the timing and pace of future tightening will depend on inflation, economic conditions, financial markets, and developments in the Middle East.

Although the peace agreement has eased fears of a prolonged energy shock, inflationary pressures remain evident. Producer price inflation rose to a three-year high of 6.3% in May, while a weak yen continues to raise import costs. At the same time, the BoJ adopted a more cautious tone by pausing its bond tapering programme from April 2027 and maintaining monthly government bond purchases of around ¥2 trillion, highlighting the delicate balance between combating inflation and supporting economic growth.

#### Key Picture: Bank of Japan Forecasts – 2025-2027 – From the January 2026 Outlook

	Latest Reading	2026 <sup>f</sup>		2027 <sup>f</sup>		2028 <sup>f</sup>
		April Report	January Report	April Report	January Report	April Report
GDP (real growth, y-o-y)	0.6	0.5	1.0	0.9	1.0	0.8
Inflation* (%, y-o-y)	1.4	2.8	1.8	2.3	2.0	2.0

Source: Bank of Japan 'Outlook for Economic Activity and Prices' April and January 2026. Note: 1. Forecasts are for the fiscal year (FY) in Japan from April 1 - 31 March of the following year; 2. Latest GDP reading for Q1 -2026; 3. Latest inflation reading for April 2026.

## Analysis

- ✦ **DECISION MADE:** *On June 16, the Bank of Japan (BoJ) raised its policy rates.* The BoJ raised its key short-term interest rate to 1.0% with one dissenter. One BOJ member (Asada Toichiro) dissented arguing that the Middle East situation posed greater downside risks to production and employment than upside risks to inflation, and therefore supported keeping the Bank's money market operations guideline unchanged. The move was the BoJ's first rate hike since December and brings it further into line with other major central banks.

In terms of *forward guidance*, with inflation nearing target and real rates still low, the Bank signals further gradual rate hikes, carefully calibrating timing and pace in response to economic conditions and geopolitical risks. Any change to this language, particularly the commitment to "continue to raise rates", would be closely scrutinised by markets for clues about the future pace of tightening.

In terms of *balance sheet policies*, the BoJ also announced that it will pause its bond tapering programme from April 2027, maintaining monthly purchases of around ¥2 trillion (\$12.5 billion) in Japanese government bonds. The Bank will discontinue its annual reviews of the tapering plan, while retaining the flexibility to adjust the pace of bond purchases at future policy meetings if conditions warrant.

- ✦ **POLICY DISCUSSION:** *The BOJ raised interest rates to a 31-year high, marking another step in the normalisation of monetary policy as it sought to contain inflationary pressures stemming from the energy shock triggered by the Iran war.* Deputy Governor Shinichi Uchida, speaking on behalf of Governor Kazuo Ueda, who was absent due to medical treatment, said the risk of a sharp economic downturn had diminished following the recent US-Iran peace agreement and progress in securing alternative energy supplies. However, he cautioned that inflation risks remain elevated, with broader price increases threatening to push underlying inflation above the Bank's 2% target.

The decision broadly matched market expectations. Investors had viewed a standard 25bp increase with unchanged forward guidance as the least market-moving outcome. The key focus was therefore on the BoJ's policy signal. The Bank retained its guidance that it will continue raising rates and adjusting the degree of monetary accommodation as underlying inflation approaches 2% and financial conditions remain supportive. However, policymakers stressed that the pace and timing of future tightening would depend on economic activity, inflation developments, financial conditions, and the evolution of the situation in the Middle East.

The conflict has complicated the BoJ's policy outlook by simultaneously fuelling inflation through higher energy prices while weighing on growth in an economy heavily reliant on imported fuel. Although the US-Iran peace deal has reduced fears of a prolonged energy shock, inflationary pressures remain evident. Producer price inflation accelerated to a three-year high of 6.3% in May, suggesting firms are increasingly passing higher input costs on to consumers. Analysts expect core inflation to move back above the BoJ's 2% target later this year as the effects of government energy subsidies fade.

A persistently weak yen, which raises import costs and amplifies inflationary pressures, is also likely to reinforce the case for further policy tightening. At the same time, the BoJ signalled caution by announcing that it will pause its bond tapering programme from April 2027 and maintain monthly purchases of around ¥2 trillion in government bonds. While the move reduces upward pressure on yields, it may raise questions about the pace of balance-sheet normalisation and the Bank's commitment to policy tightening.

The BoJ's decision comes during a pivotal week for global central banks. While the Fed is widely expected to leave rates unchanged, recent comments from policymakers have highlighted growing concerns over inflation, leading markets to increasingly view a future rate hike as more likely than a rate cut. Against this backdrop, the BoJ's latest move reinforces the broader shift among major central banks towards maintaining a restrictive policy stance in the face of persistent inflation risks.

- **ECONOMIC ASSESSMENT:** *Japan's economy has continued to recover moderately despite some weakness stemming from tensions in the Middle East.* While higher oil prices have weighed on activity, strong corporate profits, improving employment and income conditions, government measures to cushion households from rising energy costs, and progress in diversifying raw material supplies have helped offset the impact. As a result, the risk of a sharp slowdown has diminished, and the economy is broadly evolving in line with the BoJ's expectation of continued, albeit slower, growth.

Inflation has remained below the 2% target due to government energy subsidies. However, higher crude oil prices are increasingly being passed through to producer prices and could spread more broadly to consumer goods and services. Combined with rising medium- to long-term inflation expectations, this has increased the risk that underlying inflation could exceed the BoJ's 2% target.

Financial conditions remain highly accommodative, with negative real interest rates and favourable funding conditions supporting borrowing and investment. Against this backdrop, the BoJ judged it appropriate to slightly reduce monetary accommodation in order to achieve its inflation target sustainably, while maintaining overall supportive financial conditions for the economy.

- **OUR TAKE:** *We expect more rate increases by year end.* As the BoJ didn't wait for July, when a new outlook is released, to increase rates, we believe it's building up room for more gradual rate increases by year end. The exact timing will depend on evolving economic conditions.
- **MARKET IMPLICATIONS:** *Markets took the decision as relatively dovish. Investors had speculated about the possibility of a larger 50-bps, but no such proposal was put forward.* In a nutshell, the Nikkei 225 rose following the decision, while the yen strengthened slightly and government bond yields edged higher. Japan's 10-year JGB yield increased by 3 bps to 2.615%. *The yen strengthened marginally against the dollar.* The yen rose briefly before sliding to 160.29 per dollar, teetering around the 160 line seen as heightening the chance of currency intervention. *Japanese stocks surge amid hopes of stable oil supplies.* The Nikkei 225 jumped as much as 1% to set a fresh record high above 70,000 after the announcement.



Rosa & Roubini Associates Ltd is a private limited company registered in England and Wales (Registration number: 10975116) with registered office at 75 King William Street, London EC4N 7BE, United Kingdom. For information about Rosa&Roubini Associates, please send an email to [info@rosa-roubini-associates.com](mailto:info@rosa-roubini-associates.com) or call +44 (0)20 7101 0718. **Analyst Certification:** We, Brunello Rosa and Nato Balavadze, hereby certify that all the views expressed in this report reflect my personal opinion, which has not been influenced by considerations of Rosa & Roubini Associates' business, nor by personal or client relationships. We also certify that no part of my compensation was, is or will be, directly or indirectly, related to the views expressed in this report. **Disclaimer:** All material presented in this report is provided by Rosa & Roubini Associates-Limited for informational purposes only and is not to be used or considered as an offer or a solicitation to sell or to buy, or subscribe for securities, investment products or other financial instruments. Rosa & Roubini Associates Limited does not conduct "investment research" as defined in the FCA Conduct of Business Sourcebook (COBS) section 12 nor does it provide "advice about securities" as defined in the Regulation of Investment Advisors by the US SEC. Rosa & Roubini Associates Limited is not regulated by the FCA, SEC or by any other regulatory body. Nothing in this report shall be deemed to constitute financial or other professional advice in any way, and under no circumstances shall we be liable for any direct or indirect losses, costs or expenses nor for any loss of profit that results from the content of this report or any material in it or website links or references embedded within it. The price and value of financial instruments, securities and investment products referred to in this research and the income from them may fluctuate. Past performance and forecasts should not be treated as a reliable guide of future performance or results; future returns are not guaranteed; and a loss of original capital may occur. This research is based on current public information that Rosa & Roubini Associates considers reliable, but we do not represent it is accurate or complete, and it should not be relied on as such. Rosa & Roubini Associates, its contributors, partners and employees make no representation about the completeness or accuracy of the data, calculations, information or opinions contained in this report. Rosa & Roubini Associates has an internal policy designed to minimize the risk of receiving or misusing confidential or potentially material non-public information. We seek to update our research as appropriate, but the large majority of reports are published at irregular intervals as appropriate in the author's judgment. The information, opinions, estimates and forecasts contained herein are as of the date hereof and may be changed without prior notification. This research is for our clients only and is disseminated and available to all clients simultaneously through electronic publication. Rosa & Roubini Associates is not responsible for the redistribution of our research by third party aggregators. This report is not directed to you if Rosa & Roubini Associates is barred from doing so in your jurisdiction. This report and its content cannot be copied, redistributed or reproduced in part or whole without Rosa & Roubini Associates' written permission.