

MNI BOJ Preview – December 2025

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MNI Point Of View: Governor Ueda Paves Way For Hike

The Bank of Japan (BOJ) is widely expected to raise its policy interest rate by 25 basis points to 0.75% at the upcoming December 18–19 Monetary Policy Meeting. Governor Kazuo Ueda has recently taken a more open approach to communications, signalling growing confidence in the BOJ's outlook for economic activity and prices.

In a speech on 1 December, he noted that “the likelihood of the baseline scenario for economic activity and prices being realised is gradually increasing,” and highlighted that the BOJ is independently gathering information on the early momentum of the spring labour–management wage negotiations. His remark that the BOJ “will consider the pros and cons of raising the policy interest rate and make decisions as appropriate” points to the possibility of a rate hike in December. Policy Board members Junko Koeda and Kazuyuki Masu have also indicated that “the conditions for a rate rise are gradually falling into place.”

While Ueda's speech did not explicitly signal a December move, some analysts argue that it “paves the way for a December hike” if wage increase momentum is confirmed, particularly through data from the roughly 9,000 respondents to the December Tankan survey. At the meeting, the policy rate is expected to rise to 0.75%, assuming no major market disruptions from key US economic releases. The BOJ is likely to justify the hike by citing “receding uncertainty” regarding tariff policies and confirmation of momentum in the initial phase of spring wage negotiations.

The market has recently shifted its expectations. Until mid-November, many investors believed Prime Minister Takaichi's commitment to Abenomics made short-term BOJ hikes unlikely, briefly pricing a zero probability of a December move. However, the Takaichi administration, confronting a falling yen and rising interest rates, is reportedly willing to accept a hike despite its reflationary stance, leaving few obstacles for the BOJ. The government's supplementary budget, which allocates ¥18.3 trillion (US\$118 billion) to electricity and gas subsidies, AI, and shipbuilding, alongside proposed tax cuts and investment incentives, further supports the case for monetary tightening. Analysts note that “monetary tightening can substitute for fiscal easing,” potentially helping to rein in the rapid rise in 10-year JGB yields, which have climbed roughly half a point since late summer to nearly 2%, levels not seen since the Global Financial Crisis.

Some analysts caution that a December hike is not guaranteed. A 26 November Reuters article described a December move as merely “possible.” Goldman Sachs emphasises that with only a limited number of companies having announced wage plans so far, there is a risk that insufficient information will be available by the December meeting. In that scenario, the BOJ may delay a hike until wage announcements by large firms later in December and the January Branch Managers' meeting.

Looking Ahead

Looking beyond the immediate move, the focus will be on the path and timing of future hikes. As the policy rate approaches 1%, the BOJ is expected to use guidance on the neutral rate to influence market expectations toward a 1% terminal rate. Governor Ueda is likely to reiterate that the neutral rate is “1–2.5%,” noting that 1% is the lower bound and the median is around 1.5%, signalling that “policy normalisation will continue for some time.”

Messaging around the neutral rate is particularly important, as the BOJ likely wants to avoid giving the impression that tightening is finished, which could undermine yen stability. Ueda has emphasised that “if there is to be another rate hike, I intend to express our thinking a little more clearly at that point in time,” and Mizuho highlights that how the BOJ communicates the “distance” to the neutral rate will be a key focus.

Market watchers also note that Ueda is unlikely to provide “any specific hints on further hikes,” with history suggesting that, like former Governor Kuroda, he “prefers gradual tightening,” reinforcing expectations for a cautious approach. While underlying inflation trends support continued normalisation, coordination with the government may be challenging.

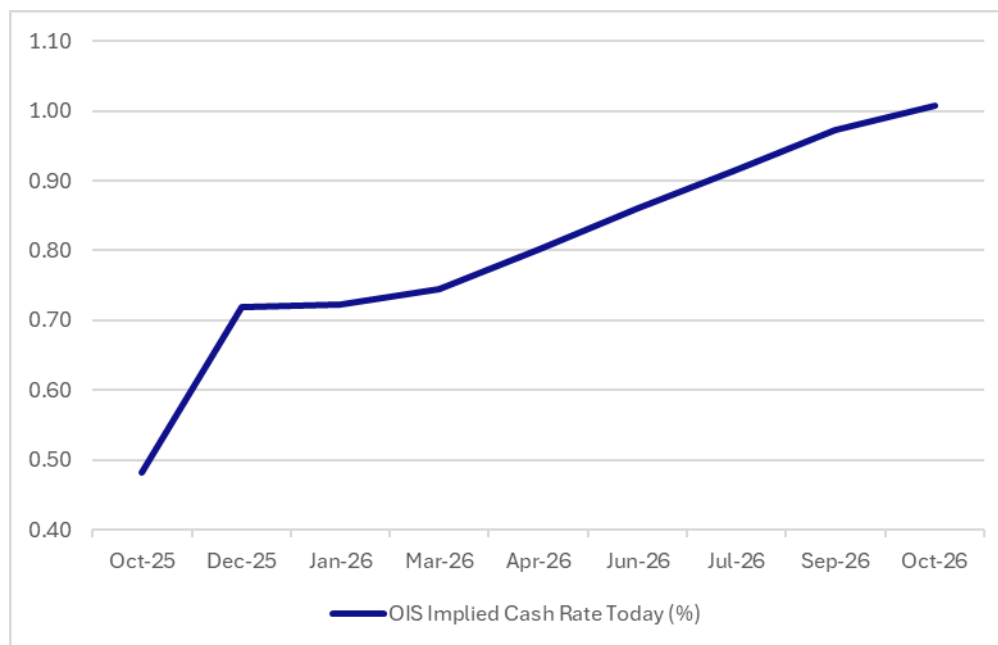
How Governor Ueda addresses these dynamics at the press conference, particularly regarding wage momentum, the neutral rate, and exchange rate risks, will be closely watched, and the pattern of yen depreciation may continue to support BOJ rate hikes into 2026.

BOJ Market Pricing: Hike This Week Almost Fully Priced

Expectations for a 25bp rate hike (from 0.50% to 0.75%) at the BOJ's December 18-19 meeting have strengthened in December.

- BOJ-dated OIS currently assigns a 95% probability to a 25bp hike this week, rising to 105% by March 2026.
- Notably, investors are pricing in two 25bp hikes by September 2026.

Figure 1: BOJ-Dated OIS – Today



Source: Bloomberg Finance LP / MNI

MNI POLICY: BOJ To Keep Neutral, Terminal Rate View

*By Hiroshi Inoue
Dec 11, 2025*

TOKYO - The Bank of Japan will maintain its current 1-2.5% estimated range for the neutral interest rate following the next hike widely expected at the Dec. 18-19 meeting, and will continue to assess whether its policy rate remains appropriately accommodative using indicators such as bank lending, the Tankan survey and capital investment, keeping the door open for further rate hikes, MNI understands.

Recent comments by Governor Kazuo Ueda, who said the bank would consider clarifying the distance from neutral after the next rate increase, have fueled speculation that the bank might narrow the current neutral rate range to counter the view that the BOJ would face limits in raising rates after lifting the policy rate to 0.75%. (See [MNI POLICY: Ueda Sharpens Dec Rate Hike, Risks Credibility](#))

Market participants, however, may have misinterpreted Ueda's comments as signaling a radical policy shift. Concerns about a rising low end of the neutral rate and a higher terminal rate, which the bank also cannot pinpoint, have added upward pressure on JGB yields, and driven concern at the BOJ regarding any update to its neutral estimate. (See [MNI POLICY: BOJ Frets Over Neutral Rate Update](#))

The Bank does not view the lower end of its neutral interest rate range as a target, nor does it consider it the terminal rate. Officials see the neutral rate as a conceptual range rather than a specific level, and say its position cannot be known in advance. Instead, the bank must monitor how the policy rate affects the economy, inflation and overall financial conditions.

POLICY TOOL

Like the Federal Reserve and the European Central Bank, the BOJ cannot precisely identify either the neutral rate or the terminal rate because both move gradually. Nevertheless, the bank continues to use the neutral rate as a communication tool to explain its policy framework, despite it not being directly tied to policy decisions.

The neutral rate is derived from the natural interest rate plus the expected inflation rate of around 2%, but estimates based on six different models produce a wide range. The current estimate was released in 2023 based on data up to September 2019, and officials may review it as new data becomes available.

The BOJ is also considering whether a gradual rise in potential economic growth could increase the natural rate, though the impact on the neutral rate is likely limited. The BOJ is also focusing on total factor productivity (TFP), another determinant of potential growth, but this is difficult to calculate accurately. Officials are unlikely to revise estimates immediately, as revisions to GDP data could alter calculations of potential growth and the economic gap.

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Sell-Side Views

CBA: “We expect the BOJ to increase its policy interest rate by 25bps to 0.75%. The policy rate is still in stimulatory territory and there is a case for further BOJ policy normalisation. Core inflation has remained above the BOJ’s 2%/yr target in the past two years. The sharp weakening of the yen in the past two months will also add to inflation. Japan’s ageing population is keeping the labour market tight.”

CIBC: CIBC argues that a December rate hike by the BOJ is already largely priced in, with markets assigning around 90% probability. As a result, they expect “a muted yen reaction after announcement,” noting that Governor Ueda is unlikely to provide “any specific hints on further hikes.” CIBC adds that history suggests Ueda, like former Governor Kuroda, “prefers gradual tightening,” reinforcing expectations for a cautious policy path.

- While CIBC had previously expected the next hike in January 2026, it now views the potential shift to a 19 December move as largely immaterial. In their words, bringing the decision forward is “splitting hairs,” with the broader message being that “the BOJ will still act with the usual inertia next year.” This underscores their view that the timing of a single hike matters less than the overall pace of tightening.
- CIBC also stresses that a December hike is not guaranteed. A 26 November Reuters article described a December move as merely “possible,” saying a hike could occur “as soon as December.” The most significant takeaway from that report, according to CIBC, was that after meeting with Sanae Takaichi in November, Governor Ueda was able to remove the prime minister’s objections to a hike.
- Looking ahead, CIBC’s base case is that the BOJ policy rate will remain at 0.75% through the end of 2026. They argue that Japan’s relatively low neutral rate, with the lower bound estimated at around 1.0%, implies the BOJ will remain cautious in raising rates further.

Daiwa: Daiwa noted that Governor Kazuo Ueda, in a speech on 1 December, said “the likelihood of the baseline scenario for economic activity and prices being realized is gradually increasing,” signalling growing confidence in the BOJ’s outlook. He also noted that the BOJ is independently gathering additional information on the early momentum of the spring labour–management wage negotiations ahead of the 18–19 December Monetary Policy Meeting. His remark that the BOJ “will consider the pros and cons of raising the policy interest rate and make decisions as appropriate” points to the possibility of a rate hike at the December meeting.

- At the December MPM, the policy rate is expected to be raised to 0.75%, assuming there is no major market disruption stemming from key US data releases such as the jobs report or CPI. The BOJ is likely to justify a hike by citing “receding uncertainty” around future tariff policies and confirmation of momentum toward the initial phase of the spring wage negotiations. This assessment would be supported by official data, including the BOJ Tankan, as well as information obtained through direct hearings. In this context, the BOJ is likely to judge that “the likelihood has increased that the outlook will be realized.”
- However, with media reports already highlighting the possibility of a December rate hike, such a move is likely well anticipated by markets. As a result, attention will focus on the BOJ’s views on the neutral or terminal interest rate and any signals on the pace of future tightening. Changes in policy wording and the Governor’s comments at the press conference will be closely watched for guidance on the path of monetary policy.

Danske: “We count on the Bank of Japan to deliver the hike. In Japan, wages continue to struggle compensating for inflation with real earnings down 0.7% y/y. Besides that, the economy looks solid, though, and tightening is due to avoid further yen slide, which would be unconstructive for the aim of reeling in cost-push inflation. Ahead of the meetings, we will know more of the current shape of the respective economies with the Tankan business survey published in Japan and PMI data released for all three economies.”

Goldman Sachs: Goldman Sachs notes that BOJ Governor Kazuo Ueda has recently become more open in his public communications. In his 1 December speech, he said the BOJ is “actively collecting information” on firms’ attitudes toward wage increases through its head office and regional branches, and that it will “appropriately judge the pros and cons of a rate hike” at the December Monetary Policy Meeting. While the speech did not explicitly signal a December move, Goldman argues it “paves the way for a December hike” if wage increase momentum can be confirmed.

- According to Goldman Sachs, the key determinant for a December rate hike will be “how much positive information on corporate wage hike policies” the BOJ can gather before the meeting, including from around 9,000 respondents to the December Tankan survey. Given “ongoing favourable business sentiment,” Goldman expects many firms to indicate an intention to continue raising wages. This is especially likely in regional areas, which are more exposed to recent minimum wage increases, and when combined with companies’ first-half results, suggests a “relatively high likelihood” that wage momentum can be confirmed. On this basis, Goldman has brought forward its base case for a BOJ rate hike to December from January.
- However, Goldman cautions that a December hike is “still far from a certainty.” With only a limited number of companies having announced wage plans so far, there is a risk that insufficient information will be available by the December meeting. In that scenario, Goldman expects the BOJ to wait until wage announcements by large firms later in December and discussions at the January Branch Managers’ meeting, before hiking in January 2026.

JPM: JPM expects the BOJ to raise its policy rate by 25bp to 0.75% at next week’s meeting. They note that, “based on economic fundamentals, there is little justification for the BOJ to keep its policy rate unchanged,” and while the October decision to hold rates may have reflected consideration for the new Takaichi administration, a December hike “would not be surprising.” Yen depreciation since October has likely made the government more accepting of a rate increase.

- JPM highlights that the focus will be not just on the rate hike, but also on the path and timing of future hikes. As the policy rate nears 1%, the BOJ is expected to use guidance on the neutral rate to influence market expectations toward a 1% terminal rate. Governor Ueda is likely to reiterate that the neutral rate is “1–2.5%,” noting that 1% is the lower bound and the median is around 1.5%, signalling that “policy normalisation will continue for some time.” The BOJ’s scenario appears to be raising rates roughly every six months, and Ueda recently stated that “the achievement of a sustained 2% inflation target is approaching.”
- JPM also notes potential challenges, including government reluctance to fully support normalisation and projected declines in core inflation toward spring. While underlying inflation trends favour continued tightening, coordination with the government could be difficult. How Governor Ueda addresses these issues at the press conference will be closely watched, and the pattern of yen depreciation may continue to support BOJ rate hikes into 2026.

Mizuho: Mizuho notes that support for a BOJ rate hike is broadening, with Policy Board hawks Hajime Takata and Naoki Tamura joined by Junko Koeda and Kazuyuki Masu expressing openness to tightening. Governor Ueda, typically the most dovish board member, indicated in his 1 December speech that the impact of US tariffs on domestic and external economic activity “does not appear to present any problems.”

- Ueda also signalled a potential December hike, saying the BOJ “will consider the pros and cons of raising the policy interest rate and make decisions as appropriate.” With the OIS market pricing in roughly a 90% chance of a hike as of 11 December, Mizuho argues that “a decision to stand pat would be the more surprising outcome.”
- The Takaichi administration, facing a falling yen and rising interest rates, is reportedly willing to accept a hike despite its reflationary stance, leaving few obstacles for the BOJ. Mizuho sees an “extremely high

likelihood” that the policy rate will be raised to 0.75% at the December MPM, noting that such a move would only bring rates to a level expected sooner or later.

- Governor Ueda also emphasised the importance of messaging around the neutral rate, stating that “if there is to be another rate hike, I intend to express our thinking a little more clearly at that point in time.” Mizuho highlights that how the BOJ communicates the “distance” to the neutral rate will be a key focus, as it likely wants to avoid signaling that tightening is finished, which could affect yen stability.

MUFG: MUFG has revised its outlook for the Bank of Japan, now expecting a rate hike to 0.75% at the December 18–19 Monetary Policy Meeting rather than in January 2026. They note that the BOJ appears ready to gather the information needed on the sustainability of wage increases in the spring 2026 negotiations, which MUFG calls a “necessary condition” for further tightening. Coordination with the government, regarded as a “sufficient condition,” remains somewhat uncertain, but MUFG argues that the Takaichi cabinet is unlikely to ignore the risk that a dovish deferral could accelerate yen weakness and reignite inflationary pressures, making a rate hike likely.

- Policy Board members Junko Koeda and Kazuyuki Masu have indicated that “the conditions for a rate rise are gradually falling into place.” Governor Ueda told a business gathering on 1 December that “it appears that the [US tariff-related] uncertainty surrounding the outlook for Japan’s economy is gradually diminishing” and that “the Bank considers that the likelihood of the baseline scenario for economic activity and prices being realized is gradually increasing.” He also highlighted exchange rate risks, noting that “attention is also warranted on the possibility that these price developments [due to moves in the exchange rate] could affect underlying inflation through changes in inflation expectations.”
- Regarding the spring 2026 wage talks, Ueda said the BOJ “is actively collecting information regarding firms’ stance toward raising wages through its Head Office and branches” and that it “will consider the pros and cons of raising the policy interest rate and make decisions as appropriate,” signaling that a rate hike proposal could be tabled at the December meeting.

Scotiabank: Scotiabank expects the Bank of Japan to raise its policy rate by 25bps to 0.75% this week, noting that Governor Ueda’s press conference will be closely watched for indications of further tightening in 2026. They highlight that markets have only recently begun pricing a hike, after little expectation as of late November. Scotiabank attributes the shift to Ueda’s December 1 comment that the BOJ “will consider the pros and cons of raising the policy interest rate and make decisions as appropriate,” which fueled speculation.

- Scotiabank also points to the government’s fiscal measures, including the supplementary budget advanced by Prime Minister Takaichi Sanae, which allocates ¥18.3 trillion (US\$118B) to electricity and gas subsidies, AI, and shipbuilding, alongside proposed tax cuts and investment incentives. They note that “monetary tightening can substitute for fiscal easing,” potentially helping to rein in the rapid rise in 10-year JGB yields, which have climbed by roughly half a point since late summer to nearly 2%, levels last seen before the Global Financial Crisis.
- The upcoming Spring ‘Shunto’ wage negotiations are also relevant, with the Japanese Trade Union Confederation demanding wage hikes of 5% or more, potentially marking a fourth consecutive year of large pay gains for a subset of workers. Scotiabank observes that “pass through effects of yen depreciation could give way to lagging upside to core inflation,” noting that the yen has depreciated over 9% to the dollar since April. They expect no forecast update at this meeting, with potential revisions likely at the January 2026 meeting.

Societe Generale: Societe Generale expects the Bank of Japan to raise its policy rate to 0.75% at the December meeting. Governor Ueda signaled the possibility of a hike in his 1 December speech, saying that “we would like to make an appropriate decision on whether or not to raise rates at the December meeting.” Following this, markets quickly began pricing in a December move, similar to the response seen before the January hike. Ueda also indicated at his press conference that he would express his “thinking” on how far the current policy rate is from the neutral rate at the time of the next hike, suggesting that some guidance on the neutral rate is likely at this meeting.

- Societe Generale notes that the BOJ’s August 2024 paper estimated the neutral rate at 1.0–2.5%, and while more recent data may be incorporated, the current neutral rate is only about 0.1pp higher than in 1Q23. They conclude that the BOJ is unlikely to significantly revise its view but may signal that the neutral rate could be above the lower end of the range, given the lack of negative impact from repeated hikes.
- Looking ahead, Societe Generale expects the BOJ to raise its policy rate to 1% by July 2026 and then continue hikes in 25bp increments with gaps of nine to twelve months, targeting a terminal rate of 1.5–1.75%. They argue that underlying inflation, wage growth, and government policies supporting potential growth suggest that inflation pressures are unlikely to fall sharply, supporting the case for continued normalisation.

TD: TD says a Bank of Japan rate hike is “close to fully priced and widely expected” after Governor Ueda flagged an imminent move in recent interviews and speeches. With the decision itself largely anticipated, TD notes that attention will shift to Ueda’s press conference, where investors will look for signals on whether additional rate hikes are likely.

- TD highlights that this focus reflects concerns that inflation could “stay hot” under Prime Minister Takaichi’s fiscal expansion plans, increasing the importance of guidance on the future policy path. As a result, TD expects questions to centre on the BOJ’s estimate of the neutral rate and how policymakers assess the scope for further tightening beyond the near-term move.

Westpac: Westpac argues that the Bank of Japan’s decision to hike rates hinges on whether the policy board is sufficiently confident that wage-driven inflation is taking hold and will persist into the year ahead. They point to RENGO’s announcement of a wage growth target of “around 5.0%,” broadly in line with last year, alongside an explicit focus on achieving “1.0% real wage growth.”

- Westpac notes that a combination of fiscal stimulus and easing inflation should lift real consumption and real wages, reinforcing confidence that underlying inflation pressures are becoming more entrenched. This backdrop, in their view, should “empower the policy board to hike rates by 25bps in December,” as policymakers gain greater assurance that the wage-price dynamic is sustainable rather than temporary.
- Beyond the immediate rate decision, Westpac highlights that market attention will be on the BOJ’s assessment of the neutral policy rate and whether officials adopt a more hawkish tone regarding the eventual end point for policy normalisation. They suggest that any shift in the BOJ’s language around neutral or the terminal rate could be as important as the hike itself, providing guidance on how far and how fast the BOJ is prepared to tighten.