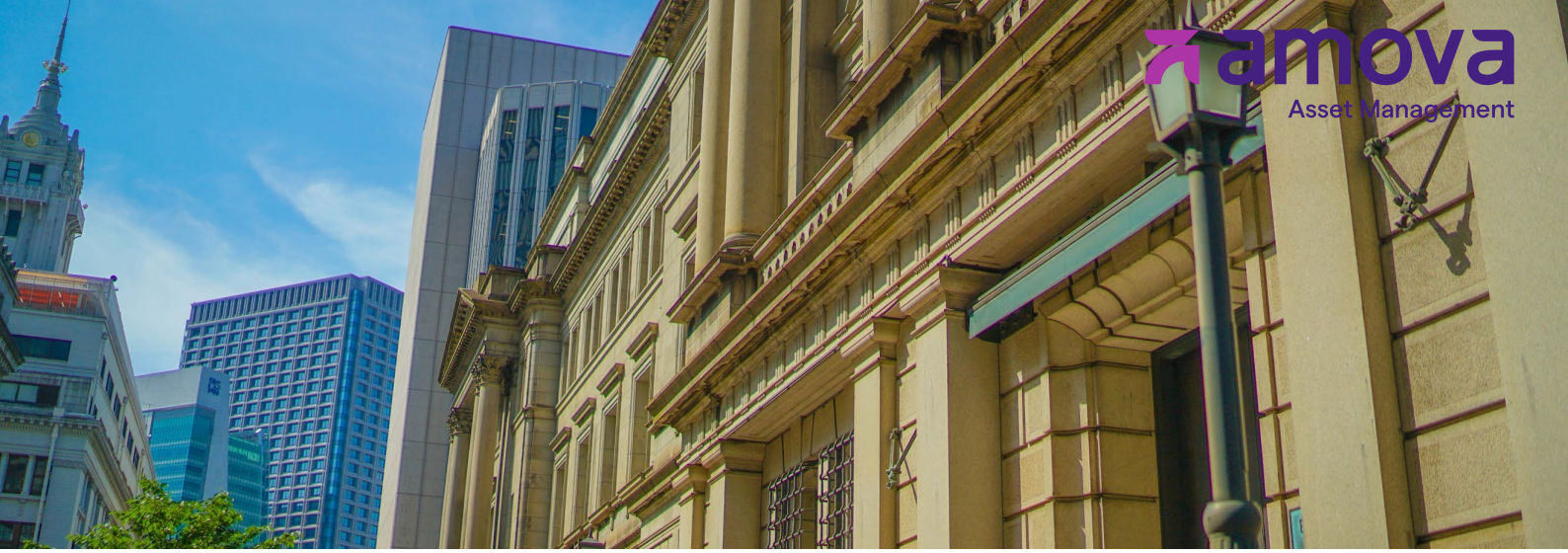


BOJ: How fast to “normal”?

Bank of Japan delivers cautious hike while maintaining accommodative stance

By Naomi Fink, Chief Global Strategist

19 December 2025

The Bank of Japan (BOJ) board voted unanimously to hike interest rates by 25 basis points (bps) to 0.75%—a 30-year high—at the conclusion of its latest policy meeting on 19 December. The move was widely expected and had been priced into Overnight Indexed Swap (OIS) rates before the decision. The unanimous vote follows a 7-2 split when the BOJ kept rates on hold in October, signalling that policy views among board members have become more aligned.

That said, two of the BOJ’s more hawkish members (Naoki Tamura and Hajime Takata) are reported to have expressed dissenting views on the outlook, maintaining that the level of inflation had either already met or was likelier to meet the BOJ’s target earlier than the BOJ baseline. This is indicative of hawkish discomfort with cautious phrasing on Japan’s inflation prospects. Although the consensus vote reduces policy uncertainty, the bias remains tilted toward hikes, with potential upside inflation and growth surprises leaving the door open to earlier normalization of rates than currently projected.

The immediate reaction in markets, however, was to bring the yen moderately lower after the announcement given the caution, rather than outright hawkishness, indicated by the BOJ’s forward communication, which signals the pace of hikes. Following BOJ Governor Kazuo Ueda’s post-meeting press conference, in which he implicitly committed to gradualism by emphasising the need to monitor the economy’s response to hikes to date, the yen’s decline intensified.

In justifying the rate increase, the BOJ is effectively communicating that the “virtuous circle” of “moderate” wage and price rises is resilient, and that uncertainty surrounding external risks, though not eliminated, has decreased.

The policy statement explicitly states that real interest rates remain “significantly low” and that they are “expected to remain significantly negative” after the hike. This conveys that, even at 0.75%, the policy rate remains accommodative. This is consistent with the BOJ’s signalling to date, with central bank estimates of “neutral” real rates ranging from -1 to 0.5% (see graph demonstrating various models of neutral short-term real rates (r*) from a BOJ research paper in Chart 1, below); as a back-of-the-envelope estimate, adding back in the 2% inflation target results in a rough reference range with nominal rates at 1–2.5%.

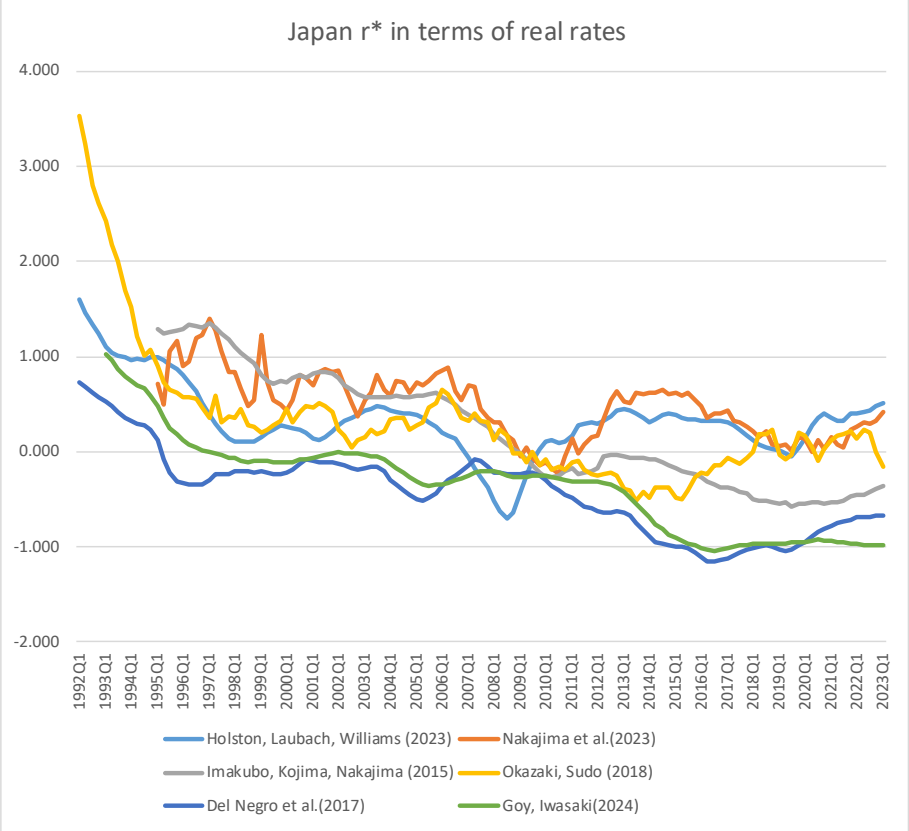
Regarding inflation, the BOJ points out that it is becoming more likely that underlying CPI inflation will be viewed as “consistent with the price stability target of 2%” in the second half of the fiscal 2026 projection period communicated in the October 2025 outlook report. However, it stops short of indicating that its target has been achieved.

The BOJ’s forward-looking language has indicated that accommodative financial conditions are expected to “firmly support economic activity”; however, the bank has stopped short of committing to accelerating the pace at which accommodative policy is wound down. Although directionally clear in its intention to hike rates, the BOJ is still reliant on future “improvement in economic activity and prices” consistent with the October 2025 outlook report to determine the timing of future increases in policy interest rates.

Given some expectations of future fiscal stimulus by the market, the ongoing bear-steepening bias may remain intact as bond markets price in future risk, even in the absence of an apparent acceleration of inflation in the near term. Meanwhile, although BOJ Governor Ueda signalled that the BOJ retains the option to conduct operations in the face of “exceptional” or disorderly moves, he also emphasised that the substantial bond holdings on the BOJ’s balance sheet still

exert downward pressure on yields, implying a reluctance to intervene (via operations in the bond or money markets) in anything but extraordinary circumstances.

Chart 1: Bank of Japan estimates of r* (neutral short-term real rates)



Source: Bank of Japan

Important information: This document is prepared by Amova Asset Management Co., Ltd. and/or its affiliates（hereinafter referred to as" the Group"）and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute personal investment advice or a personal recommendation and it does not consider in any way the objectives, financial situation or needs of any recipients. All recipients are recommended to consult with their independent tax, financial and legal advisers prior to any investment.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this document will not affect the Group's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. The Group makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual securities, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

The Group accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of the Group under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by the Group is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association, Type II Financial Instruments Firms Association

United Kingdom: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated in the United Kingdom by the Financial Conduct Authority (the FCA) (FRN 122084). This document constitutes a financial promotion for the purposes of the

Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the FCA in the United Kingdom, and is directed at professional clients as defined in the FCA Handbook of Rules and Guidance.

United States: This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. An offering of any investments, securities or investment advisory services with respect to securities may only be made by receipt of relevant and complete offering documentation and agreements, as applicable. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Amova Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information to institutional investors, accredited investors as defined in the Securities and Futures Act 2001, and intermediaries only. Amova Asset Management Asia Limited (Co. Reg. No. 198202562H) is regulated by the Monetary Authority of Singapore.

Hong Kong: This document is for information to professional investors as defined in the Securities and Futures Ordinance, and intermediaries only. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Amova Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

New Zealand: This document is issued in New Zealand by Amova Asset Management New Zealand Limited (Company No. 606057, FSP22562). It is for the use of wholesale clients, researchers, licensed financial advisers and their authorised representatives only.

List of Additional Disclaimers for use in the following countries:

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Amova Asset Management UK Limited, which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Amova Asset Management UK Limited is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Amova Asset Management UK Limited and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the group or Sumitomo Mitsui Trust group and not available to Amova Asset Management UK Limited because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document nether constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree80/98, nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Amova Asset Management UK Limited. No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Amova Asset Management UK Limited.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Amova Asset Management UK Limited.

Republic of Korea: This document is being provided for general information purposes only, and shall not, and under no circumstances is, to be construed as, an offering of financial investment products or services. The Company is not making any representation with respect to the eligibility of any person to acquire any financial investment product or service. The offering and sale of any financial investment product is subject to the applicable regulations of the Republic of Korea. Any interests in a fund or collective investment scheme shall be sold after such fund is registered

under the private placement registration regime in accordance with the applicable regulations of the Republic of Korea, and the offering of such registered fund shall be conducted only through a locally licensed distributor.

Canada: The information provided herein does not constitute any form of financial opinion or investment advice on the part of the Company and it should not be relied on as such. It does not constitute a prospectus, offering memorandum or private placement memorandum in Canada, and may not be used in making any investment decision. It should not be considered a solicitation to buy or an offer to sell a security in Canada. This information is provided for informational and educational use only.