25 February 2026

Will Takaichi's fiscal ambitions reach into monetary policy?

Key takeaways

- Prime Minister Takaichi Sanae has been cautious about the Bank of Japan's (BOJ) policy normalization, but there are growing signs that she may want to assert greater control over the bank.
- Her recent meeting with BOJ Governor Ueda Kazuo in which she may have voiced her opposition to additional rate hikes suggests a willingness to apply direct pressure that Ueda may struggle to resist.
- Meanwhile, her picks for two policy board seats reinforce the impression that she is guided by ambitions to increase government spending and is prepared to use monetary policy as an instrument in support of those goals.

Even as Prime Minister Takaichi Sanae has begun laying the groundwork for a sustained commitment to "responsible fiscal expansion," her government has been relatively hands off regarding the Bank of Japan (BOJ) and its cautious pursuit of monetary policy normalization. This has been the case despite Takaichi herself having expressed her concerns about the BOJ's moving too quickly to raise interest rates before she became prime minister in October 2025.

However, it is possible that the prime minister, now bolstered by her parliamentary victory, could be prepared to apply pressure to the BOJ, pushing BOJ Governor Ueda Kazuo to align monetary policy with the Takaichi government's broader policy goals. The evidence at this point is far from conclusive, but she may be looking to curtail the bank's independence in support of her agenda. To some extent, it is more logical that she would exert greater control of the BOJ than that she would respect its independence and allow it to raise interest rates. The underlying philosophy guiding her approach to fiscal policy is that Japan faces a crisis that requires significant outlays by the government in pursuit of national autonomy and self-reliance. To the extent that further policy normalization could raise borrowing costs for the public and private sectors, it could be a threat to her ambitions. Furthermore, the LDP's right's belief – as articulated by the late Abe Shinzō – that the government and central bank need to work in coordination, implying that the central bank (i.e. unelected officials appointed by elected officials) needs to accommodate itself to the goals of political leaders.

The upshot is that while Takaichi may be cautious about overt threats to the bank's independence for fear of adverse market reactions – just as she and her advisers are careful to reassure markets about their commitment to fiscal sustainability – she may nevertheless be looking to ensure that the BOJ is aligned with her government's priorities, perhaps relying more on the Ministry of Finance (MOF) (and perhaps also the US government) to manage possible exchange rate volatility that could result from a more heavy-handed approach to monetary policy.

In this case, it may be necessary to take recent signals from the government on monetary policy more seriously. For example, while neither Ueda nor government officials has confirmed that the prime minister expressed her opposition to rate hikes in their brief meeting on 16 February, it may be necessary to take seriously a report this week suggesting that in their meeting Takaichi "expressed reservations" about additional rate hikes by the BOJ.

Meanwhile, while the prime minister's choices for the BOJ policy board, announced on 25 February, do not dramatically alter the balance of power within the BOJ, they are a revealing indicator of the intellectual currents guiding the Takaichi government. With Noguchi Asahi's term on the board ending on 31 March and Nakagawa Junko's ending on 29 June, the government announced on Wednesday, 25 February that the seats will be filled by Chuo University economist Asada Tōichirō and Aoyama Gakuin economist Satō Ayano. Both are known to be reflationists with connections to the broad universe of fiscal expansionists in Takaichi's orbit. Satō, for example, lectured to the LDP's Parliamentarians' League for Responsible Fiscal Expansion in 2023, arguing that yen weakness can be good for Japan's economy over the long run. Asada, meanwhile, is a heterodox Keynesian; his publications include translating Hyman Minsky into Japanese. In a 2021 conversation with Fujii Satoshi, a conservative nationalist public intellectual and advocate of fiscal expansionism, in Fujii's journal *Criterion*, Asada rejected the Ministry of Finance's "balanced budget-ism" and praised Abe for making a political issue of monetary policy (but chided him for raising the consumption tax rate twice). Asada agreed with Fujii that a future prime minister should explicitly embrace fiscal expansionism backed by monetary easing. Both appointments show the degree to which Takaichi is determined to increase fiscal outlays – and suggest that she is prepared to mobilize the BOJ in support of her fiscal ambitions.

What is unclear is how the Takaichi government's guiding philosophy ultimately translates into monetary policy. Ueda's calculations – both political and economic – may be the deciding factor in the direction of monetary policy. Ueda has shown himself to be more of a cautious steward than a hard-charging monetary hawk, committed to policy normalization but determined to move at a deliberate pace to allow ample time to gather data on current conditions and the impact of previous rate hikes, while also modulating the timing of hikes depending on external developments. He has, of course, also shown a willingness to yield to political pressure, as when then-Prime Minister Kishida Fumio chided him for remarks about the impact of yen weakness on inflation. If the Takaichi government forces the issue, he may be reluctant to resist.

Tobias Harris
Founder and Principal
Japan Foresight LLC
tobias@japanforesight.com
+1.847.738.4048
