1 September 2026

US pressure on macroeconomic policy puts Takaichi in bind

Key takeaways

- US Treasury Secretary Scott Bessent has publicly leaned on Japan to pursue macroeconomic policies to strengthen the yen, the price of the US participation in a joint foreign exchange intervention.
- While Bessent's remarks are aimed at the Bank of Japan (BOJ) in the immediate term, over the longer term US pressure poses a direct challenge to Prime Minister Takaichi Sanae's fiscal program.
- Takaichi cannot change course without crippling her government, meaning her defense of her fiscal program could mean more friction with the US, more market anxiety, and more dissent from LDP fiscal hawks to come, as well as tension with the BOJ.

Bank of Japan (BOJ) Governor Ueda Kazuo, in Asheville, North Carolina for the G20 Finance Ministers and Central Bank Governors Meeting, met with US Treasury Secretary Scott Bessent on Sunday, 30 August. The meeting, anticipated since Bessent expressed his eagerness to meet with Ueda the same day that the US and Japan carried out their extraordinary joint intervention to strengthen the yen, was clearly going to be a key milestone before the BOJ's next meeting on 18-19 September, and it did not disappoint.

Bessent has signaled that the quid-pro-quo for US support for the yen would be macroeconomic policy decisions by the BOJ and Takaichi government to bolster the yen over the longer term. Accordingly, the Treasury readout of the meeting explicitly said:

> The Secretary emphasized the importance of sound formulation and communication of monetary policy to anchor inflation expectations and avoid excess exchange rate volatility.

> Secretary Bessent also expressed strong support for Japan's decisive market and monetary steps to address the substantial undervaluation of the yen and noted the role of yen weakness in contributing to domestic inflationary pressures in Japan.

Bessent has delivered similar messaging in other bilateral meetings and media appearances, for example expressing in an interview that he "[believes] the Japanese government and the Bank of Japan will take measures that will lead to a stronger yen."

In effect, the treasury secretary has confirmed that the joint intervention was driven more by the Trump administration's priorities to contain an increase in US bond yields and a dollar surge than an altruistic desire to aid an ally in need. Prime Minister Takaichi Sanae is therefore in an increasingly uncomfortable position. Insofar as Takaichi has wanted the BOJ to move slowly in normalizing interest rates and is determined to use expansionary fiscal policy to finance the government's priorities – ranging from industrial policy to higher defense spending to the consumption tax cut – the result could be that the Takaichi government presses ahead with higher spending even as interest rates rise. The prime minister has virtually no room to compromise on fiscal policy, given that she sees reorienting Japan's finances around her agenda as essential for enabling Japan to face significant domestic and international challenges. It would be politically ruinous for Takaichi to launch a fiscal u-turn, particularly due to US pressure.

The timing of public pressure from Bessent on Ueda is particularly inauspicious for Takaichi. The Ministry of Finance (MOF) is in the process of compiling budget requests from ministries into an initial budget proposal. In response to the Takaichi government's instructions for ministries to disregard the customary "ceilings" on budget requests for spending related to the government's "strong and prosperous Japan" program, the ministries have responded with requests that could total at least JPY 143tn. While the government's determination to move away from regular supplemental budgets means that the figure will have to be compared to overall spending in past years and not just general budgets, the budget could nevertheless be larger and could also mean greater debt issuance due to tax revenue shortfalls as a result of the consumption tax cut on foodstuffs. It may not be a coincidence that interest rates climbed past 3.0% for the first time since 1996 as the picture of the FY2027 budget has taken shape, a movement that also reflects MOF's intentions to set the assumed interest rate for debt servicing at 3.8%.

The upshot is that Takaichi now must defend her economic program from both financial markets and the United States (even as the Trump administration wants Japan to spend more on defense). She may face increasing pressure from within the Liberal Democratic Party to bend to these pressures, as the open dissent to her decision to cut the consumption tax showed. While they cannot necessarily say so openly, they may welcome US pressure as useful for bringing Japan back to fiscal responsibility. Finally, she may find herself in a tug-of-war with the Trump administration for influence over Japan's own central bank.

Of course, Ueda's position is no less compromised. He not only faces threats to his independence from his own government but also from the United States government. The bank faces an unenviable situation in which deciding to raise rates in September could signal that the BOJ's independence is compromised, yet holding rates steady might satisfy Takaichi but could lead to downward pressure on the yen that would drive inflation higher (while exacerbating tensions with the United States).

Takaichi, already on the defensive amidst falling approval ratings and intra-party friction, will therefore enter the new Diet session facing renewed questions about the sustainability of her program. Ultimately, it will be Japanese consumers and businesses, stuck between the prospect of higher import costs due to yen weakness or higher borrowing costs due to rising interest rates, who will pay the price for the government's policies.

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