

Daiwa's View

FICC Research Dept.

BOJ Monetary Policy Board candidates: Ideologies of both candidates and their market implications

- JGB market concerns that appointments may limit room for further rate hikes seem rational

Ryoma Kawahara

81-3-5555-8777

ryoma.kawahara@daiwa.co.jp



Daiwa Securities Co. Ltd.

Profiles of Monetary Policy Board candidates

On 25 February, the government presented to the Diet its two candidates for the BOJ's Monetary Policy Board. The two candidates are Toichiro Asada, professor emeritus at Chuo University (succeeding Asahi Noguchi whose term expires at end-Mar) and Ayano Sato, professor at Aoyama Gakuin University (succeeding Junko Nakagawa whose term expires at end-Jun). Both are considered reflationists, but their ideological leanings differ. In this report we organized the key points based on available statements and essays.

Toichiro Asada

Asada's fundamental stance is to oppose austerity measures, while pursuing integrated expansion of fiscal and monetary policy. He generally agrees with the policy implications of modern monetary theory (MMT).

In a 2016 contribution to the Sankei Shimbun, he explicitly stated, "We should proceed with de facto helicopter money." Also, in regard to the government issuing massive amounts of JGBs to be purchased by the BOJ, he said, "It is a mistake to regard fiscal financing as taboo." In 2021, during a dialogue with Professor Satoshi Fujii of Kyoto University, he developed his theory of integrated government, arguing that JGBs held by the BOJ do not constitute actual government debt. In a February 2023 speech at the Liberal Democratic Party's (LDP) Fiscal Policy Review Headquarters, he explained that counter-austerity policies combining tax cuts, increased government spending, and monetary easing are necessary during recessions. In an economic discussion video from the same time, he dismissed the fiscal collapse theory as "vaguely defined" and demonstrated through his own calculations that the private sector's holdings of JGBs have effectively decreased due to increased purchases by the BOJ.

Ayano Sato

Sato has adopted a stance of expansionary fiscal policy and reflationary measures, while also addressing a wide range of themes including regulatory reform, growth strategies, and job mobility (a point that distinguishes her from Asada).

At an October 2022 symposium, Sato discussed the necessity of regional bank restructuring and job mobility. Here, she assessed that monetary easing following Abenomics contributed to fostering startups. At the February 2023 study session held by the "Parliamentary Association for Promoting Responsible Expansionary Fiscal Policy," she explicitly stated that yen depreciation is positive for the Japanese economy. In terms of monetary policy, she also stressed, "Maintain the status quo until broad and sustained wage increases are confirmed." She asserted that there is room for further JGB issuance, as a "crocodile's mouth" (widening gap between increasing expenditures and stagnant tax revenues) did not exist. She also proposed the active management of foreign exchange reserves. In an October 2025 video, while expressing expectations for the Takaichi administration, she contrasted the different environments by saying, "During the Abenomics era, deflation was the main issue, and monetary easing took center stage. However, we are now in an inflationary phase, with fiscal policy and growth strategies taking center stage."

How to interpret statements from each candidate: Concerns about changing environment

While it may be obvious to our regular readers, much of what both candidates said occurred during the Abenomics era, specifically an environment of low inflation, ultra-low interest rates, and insufficient demand. The current environment differs significantly from that time.

Comparison of Economic Conditions During Abenomics Era and Now

	Abenomics Era	Now
Inflation	Low inflation / deflation	Inflation
Interest rates	Ultra-low interest rates / negative interest rates	Monetary normalization
Growth constraints	Insufficient demand	Supply constraints / labor shortages
Role of monetary policy	Leading role	Supporting role

Source: Compiled by Daiwa.

Sato herself recognized this difference as of October 2025, stating that fiscal and growth strategies are the main focus under the current conditions. Meanwhile, recent statements from Asada have been limited. As such, we need to keep in mind that we have not confirmed any updates to his stance regarding the current inflation and interest rate environment, which is a concern.

The theoretical framework that the administration currently appears to be relying on is fiscal stimulus aimed at strengthening supply capacity rather than simple demand stimulation (so-called “modern supply-side economics” approach). The assessment is that the slowdown in capital input growth within supply capacity (= labor input × capital input × total factor productivity) has been depressing Japan’s potential growth rate. As such, the framework seeks to enhance supply capacity through investment tax breaks, regulatory reforms, and restarting nuclear power plants, while justifying fiscal expansion based on the Blanchard-style relationship of nominal growth rate exceeding interest rates (the Domar condition).

Theoretical caveats and market concerns

We would like to express some concerns regarding this framework.

Time lag for strengthening supply capacity

Investment tax breaks, regulatory reforms, and restarting nuclear power plants will all require some time before their effects become apparent. During that time, increased demand resulting from fiscal expansion should occur immediately. If strengthening supply does not materialize, the risk of accelerated inflation due to excess demand is hard to deny. The 30-year JGB yield rise on 25 February may indicate that the market is partially factoring in this time lag risk.

Sustainability of Domar condition

Currently, the nominal growth rate appears to exceed the 10-year JGB yield, suggesting the Domar condition holds, largely due to the significant contribution of cost-push inflation. If the cost-push factor is stripped down, the nominal growth rate will converge at the level of real growth rate + inflation expectations (BEI). The real 10-year JGB yield is already around 0.5%, nearly matching the real potential growth rate. The buffer before conditions reverse is also currently seen as limited. The period during which inflation functions as an “apparent tailwind” will not last forever.

Central bank independence and credibility

If politically motivated appointments raise doubts about [the central bank's independence](#), it would become difficult to deny the risk that the anchor for inflation expectations could weaken, leading to simultaneous currency depreciation and declining JGB prices. The recurring market upheavals stemming from discussions about Fed independence under a second Trump administration serves as a modern example of this phenomenon. The extent to which the new appointees are perceived as “returning to reflation led by politics” will determine the likelihood of a renewed expansion for the risk premium based on the Bank's independence. This point should be kept in mind.

Future outlook

As pointed out in a previous report, the market's focus has shifted “from words to action.” The selection of these Monetary Policy Board member candidates was the first concrete action, confirming that the administration's stance remains unchanged.

The problem is that this is just the beginning. Going forward, the handling of fiscal targets in the “Basic Policies for Economic and Fiscal Management and Structural Reform,” the tone of statements after new Monetary Policy Board members take office, and the political risk of consumption tax cuts becoming entrenched due to the overlap with Upper House election in two years, (which has been pointed out since the last report) will be tested one by one.

More fundamentally, these appointments may serve to narrow the scope of “room for tightening within a rate-hiking environment” within the Monetary Policy Board. If supply capacity strengthening fails to proceed as planned and inflation persists longer than anticipated, it would be natural to view the risk of the BOJ falling behind as having increased. Gains for super-long JGB yields on 25 February could be interpreted as reflecting a portion of that concern.

The current structure where a weak yen, rising stock prices, and rising JGB yields are occurring simultaneously consists of two scenarios, specifically (1) expectations for strengthening supply capacity and (2) concerns about a lagging inflation response. Which scenario becomes reality depends on the quality and speed of policy implementation. However, from the perspective of asymmetric risk, the JGB market's caution is likely within the bounds of a rational response.

Outlook for JGB Yields (%)

		Jan-Mar		Apr-Jun		Jul-Sep		Oct-Dec		End-Mar 2027
		Range	Term-end	Range	Term-end	Range	Term-end	Range	Term-end	Term-end
Japan	Policy interest rate		0.75		1.00		1.00		1.25	1.25
	2yr	1.10 ~ 1.50	1.30	1.15 ~ 1.55	1.35	1.20 ~ 1.60	1.40	1.25 ~ 1.65	1.45	
	5yr	1.45 ~ 1.95	1.70	1.50 ~ 2.00	1.75	1.55 ~ 2.05	1.80	1.60 ~ 2.10	1.85	
	10yr	1.95 ~ 2.55	2.25	2.00 ~ 2.60	2.30	2.05 ~ 2.65	2.35	2.10 ~ 2.70	2.40	2.45
	20yr	2.85 ~ 3.45	3.15	2.90 ~ 3.50	3.20	2.95 ~ 3.55	3.25	3.00 ~ 3.60	3.30	
	30yr	3.25 ~ 3.85	3.55	3.30 ~ 3.90	3.60	3.35 ~ 3.95	3.65	3.40 ~ 4.00	3.70	

Source: Compiled by Daiwa.

IMPORTANT DISCLOSURES

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities

Please refer to https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements**.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

** The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association