



## Japan's reflationary awakening

Japan's "lost decades" are over, but a new era of volatility may have begun. As the Bank of Japan grapples with rising JGB yields and a weakening yen, PM Sanae Takaichi's pivot toward fiscal loosening has sent ripples through global markets.

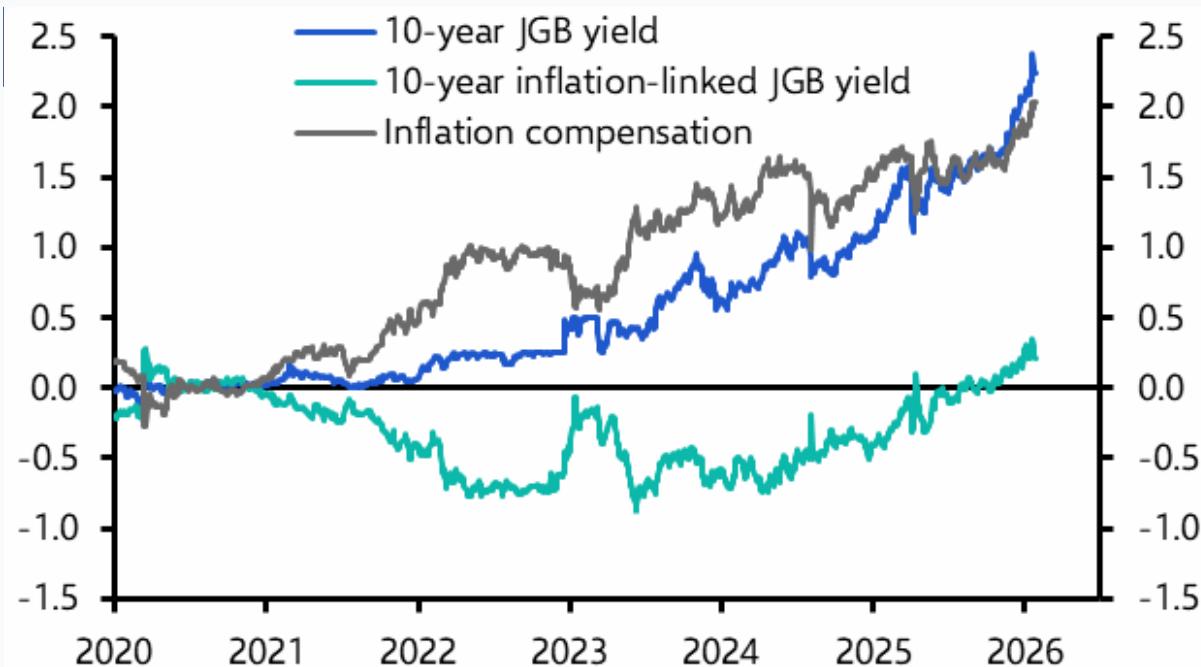
Is Japanese inflation now set to grow at a sustainable level, or another false dawn? And are fresh fiscal strains emerging that will upend domestic and international financial markets? This page collects our key analysis on a pivotal moment in Japan's economic history and what it means for the

## Drop-In: Takaichi's gamble – Fiscal risks, market

# consequences

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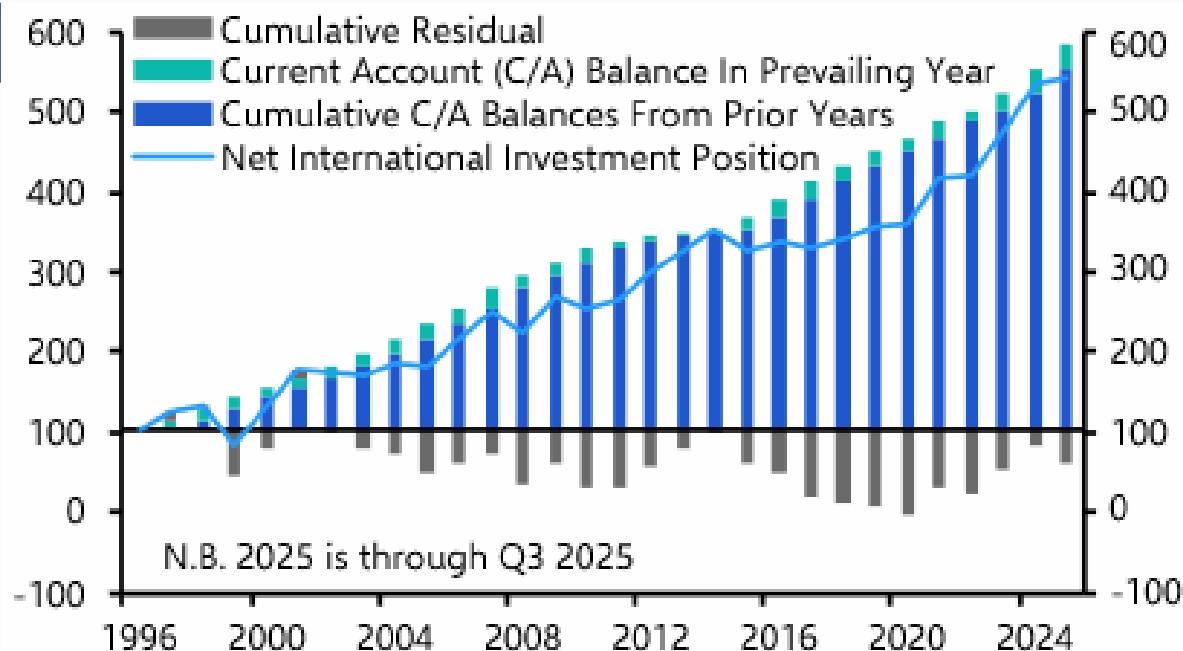


## JAPAN ECONOMICS FOCUS

### BoJ policy rate will rise to 2.5% over coming decade

We now believe that the BoJ's policy rate will climb to 2.5% during the 2030s as inflation settles at higher levels, potential growth picks up and a shift in incentives alters the balance between...

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## ASSET ALLOCATION UPDATE

### How big is the threat to global markets from JGBs?

Although further weakness in JGBs might have implications for financial markets outside Japan, we doubt the global fallout would be large for four reasons.

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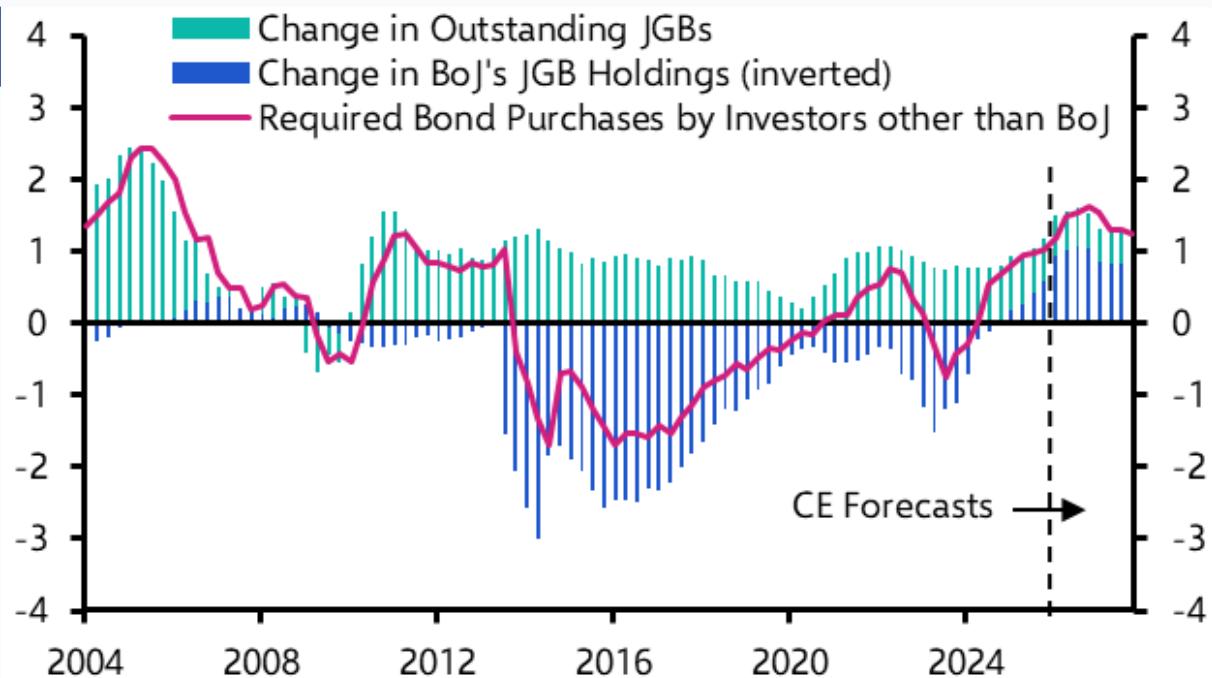


## JAPAN ECONOMICS UPDATE

### How would Japan respond to a further surge in yields?

Should JGB yields continue to surge, PM Takaichi may be forced to offset some of the expansionary fiscal measures announced recently with tightening elsewhere. However, those moves may not be seen as...

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## JAPAN ECONOMICS UPDATE

### Bank of Japan will lift rates to 1.75% by next year

The BoJ turned more upbeat when it left policy settings unchanged today and there's a risk that the next rate hike will come earlier than our current forecast of July. And despite the recent surge in...

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## JAPAN ECONOMICS UPDATE

### Is PM Takaichi creating her own Liz Truss moment?

Our base case remains that Japan will avoid a fiscal crisis as its public debt dynamics are more favourable than is widely understood. However, there are mounting risks that PM Takaichi will only rein...

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## JAPAN ECONOMICS FOCUS

### Japan won't experience a fiscal crisis anytime soon

Given that Japan's 10-year government bond yield has surpassed 2% amidst concerns over Japan's fiscal health, we're resending this Focus that was originally published in June 2025. There have been two...

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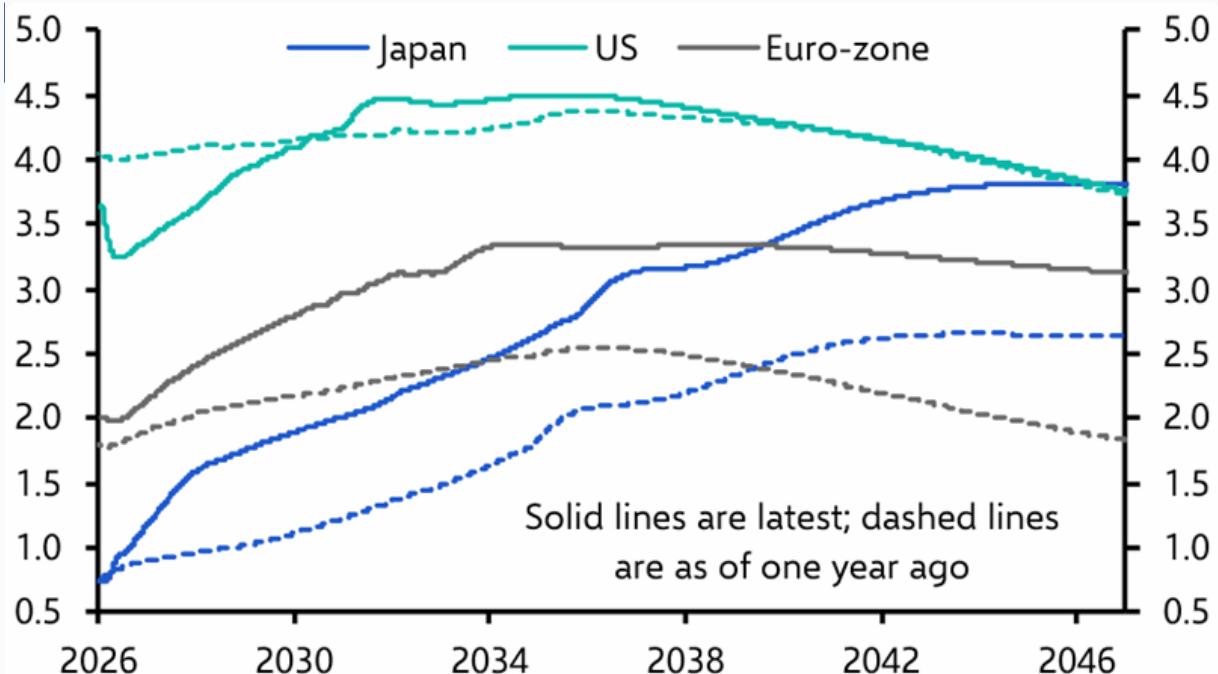


## JAPAN ECONOMICS FOCUS

### Faster food inflation increasingly structural

The continued strength in food inflation is increasingly being driven by rapid growth in labour costs, not least due to strong minimum wage hikes. With wage growth set to remain strong, we expect food...

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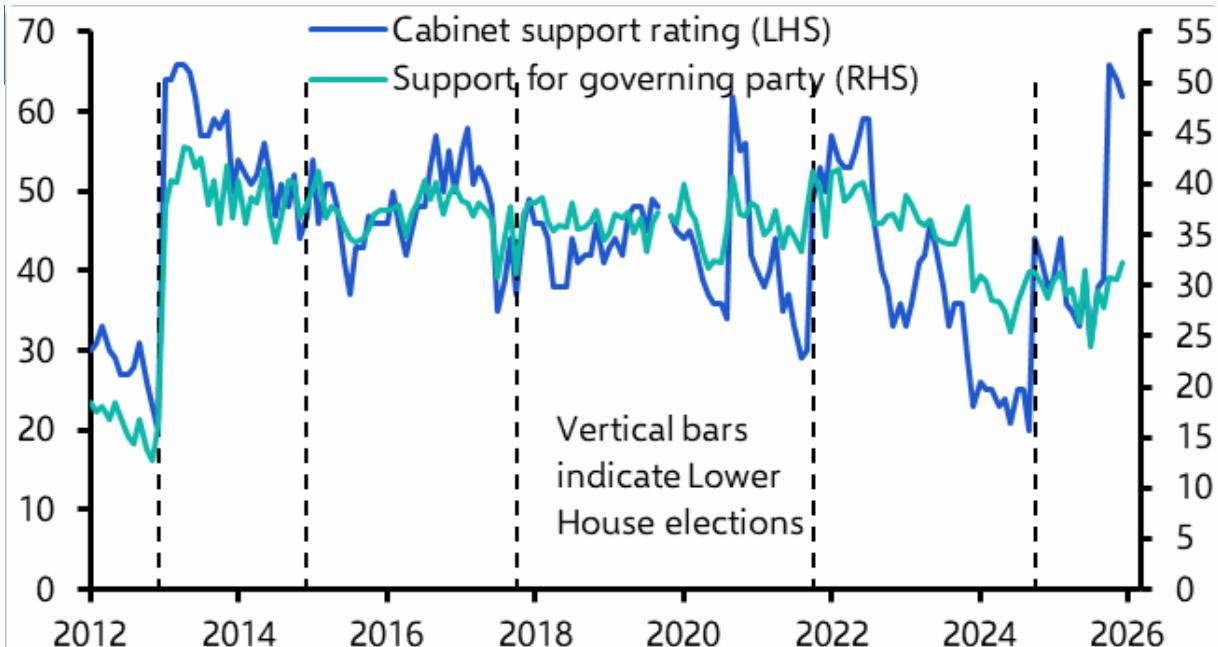


CAPITAL DAILY

## Some more thoughts on the yen's puzzling weakness

Although the yen has recovered a bit of ground against the dollar in the past few days, its prior weakness remains something of a puzzle.

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## JAPAN ECONOMICS UPDATE

### Snap elections won't result in major fiscal loosening

While the ruling LDP/Ishin No Kai coalition will probably enhance its majority in the upcoming Lower House elections, we aren't convinced that this will herald a further major loosening of fiscal...

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## JAPAN ECONOMICS UPDATE

### Government net debt set to fall below 100% of GDP

Japan's fiscal health has continued to improve. While the expansionary measures taken by PM Takaichi mean that the budget deficit won't narrow any further next year, it will remain very low. And with...

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