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Monetary policy and Interest rates in Japan:

Political interactions and societal impacts during 2012 – 2025

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Thanh Son Mai

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Author(s): Thanh Son Mai

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Abstract.

During 2012-2025, Japan carried out perhaps the largest monetary policy experiment in modern central banking history. This thesis examines the Bank of Japan's (BOJ) massive, unprecedented implementation in unconventional monetary policy (Quantitative and Qualitative Easing, Negative Interest Rate Policy, Yield Curve Control) through three interconnected research questions addressing the policy's evolution, political-BOJ interactions, and societal consequences of those policies.

The study adopts a qualitative single-country case study design, building on Historical Institutionalism framework, the Principal-Agent theory and a Distributional Consequences approach. Evidence is drawn from qualitative content analysis and documentary analysis of BOJ policy meeting minutes, governor speeches, the 2013 Joint Statement, and IMF reports during the study period.

The thesis reaches three findings. Japan's monetary policy from 2012 to 2025 evolved primarily through path dependency, with each failure to reach the 2% inflation target resulting in greater commitment rather than a changing framework. Second, the political relationship between the BOJ and successive governments is best described as constructed alignment where the Shinzo Abe government reshaped the BOJ's effective goal independence through agent selection, institutional contracting, and normative pressure, all within the formal wording of the 1998 BOJ Act. Distributional consequences of unconventional monetary policy were predictable but institutionally overlooked and benefited the asset-rich households most while dragging down real wage growth and the returns for ordinary depositors and pensioners.

The thesis concludes that Japan's monetary experiment was a necessary but ultimately insufficient response to structural problems that monetary instruments alone could not resolve. Without structural reforms in other areas, it grew into a system whose distributional costs were largely unavoidable: a lesson for modern monetary policymakers in other advanced economies as well.

Keywords: Japan, monetary policy, interest rates, Quantitative & Qualitative Easing, Negative Interest Rate Policy, Yield Curve Control, Bank of Japan

Acknowledgement of the Use of AI tools

Artificial Intelligence (AI) has been used as part of my research process. Specifically, I used **Consensus** for accessing the most updated and relevant papers that are usually paywalled and unable to access free of charge or even via the university account in the library databases. In the early stages of the research process, I also used **Deepseek** to brainstorm ideas, draft and structure the layout of the thesis.

Prompts: Find papers related to “historical institutionalism”, “quantitative easing”, “monetary policy in Japan”, etc.

In addition, I used AI overview upon Google search results for looking up thesaurus (synonyms/ antonyms) to replace words in a sentence. As a habit, I usually tend to make a simple sentence a complicated one by using heavy, academic-sounding words instead of familiar vocabulary with the same meaning. This prompted me to use **Google Search – AI Overview** results to this end (refer to image in the next page):

*Prompt*s: word + synonym/ antonym (state/ confirm synonym)

In terms of proofreading and spelling check, my in-app Microsoft Office 365 Word version ran it automatically with **Copilot**.

In addition, **Google Gemini AI Pro** is used to refine my sketched graph or chart.

Google

confirm synonym

AI Mode All Images Forums Videos Short videos Web More Tools

AI Overview

confirm

/kənˈfəːm/

Synonyms for **confirm** depend on the context of your sentence.

Choose the best fit from these direct alternatives:

- **To verify the truth or facts:** Verify, Validate, Substantiate, Corroborate
- **To give formal approval:** Ratify, Certify, Endorse
- **To back up a statement:** Bear out, Attest
- **To strengthen or make firm:** Establish, Reinforce

Examples:

- *"Please **verify** (or **confirm**) your email address."*
- *"The board will **ratify** (or **confirm**) the new policy today."*

For a comprehensive list across all definitions, explore Thesaurus.com's Confirm Synonyms or Merriam-Webster's Synonym Chooser to see subtle differences in usage.

AI can make mistakes, so double-check responses

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1 Introduction

Entering 2012 Japan was still experiencing two decades of economic dysfunction caused by "institution and economic malfunction". Following the collapse of the 1990s Japanese asset price bubble, Japan experienced "lost decades" characterised by a prolonged period of chronic deflation, minimal economic growth and non-stop monetary stimulus and fiscal policy measures, all of which had failed to bring about private investment, consumption and to end its deflationary mindset. As such, the initial reaction of the Bank of Japan (BOJ) to the recession after the bursting of the bubble was entirely conventional: it proceeded through a series of policy rate reductions, reaching zero effective lower bound by the early 1990s. As deflation became firmly established and harder to reverse through the late 1990s, the central bank ran out of options. By March 1999, the BOJ had reached the effective zero lower bound, abandoning the policy rate as the primary instrument of monetary stimulus and introducing for the first time in Japan zero interest rates. (Fujiki et al., 2001, pp. 90-91; Ito, 2006)

A trial period of quantitative easing began in March 2001, whereby the BOJ was instructed to expand the balance on current accounts held at the BOJ to inject liquidity into the economy. Though this initial attempt at quantitative easing led to a slight improvement in financial conditions, it did not result in the lasting recovery of prices for which some BOJ staff had hoped. Nevertheless, it was maintained throughout the expansion period until January 2006, when it was dissolved after indications that inflation was picking up and that deflationary pressures were relieved (Ito, 2006). However, this reversal of policy, taken amid the global financial crisis of 2008, returned the BOJ to zero lower bound policies, renewing arguments among staff on whether the policy framework should be better adapted for the circumstances that then existed. (Hamada et al., 2010, pp. 3-9; Kuttner & Posen, 2001, pp. 94-95; Ito & Mishkin, 2006, pp. 132-133; Shirai, 2018, p. 2)

As Shinzo Abe took office in December 2012 after promising renewed economic policies, Japan's central bank had already exhausted many of its traditional monetary policy tools, including zero interest rate policy from 1999 and its first use of quantitative easing from 2001. This prolonged stagnation period left ordinary Japanese citizens poorer as employment no longer offered the security of former times, precarious and insecure non - regular work expanded and as people had saved their life's income of up to tens of years and seen it return nothing over many decades. (Vogel, 2006) Japan's approach to monetary policy changed as Abe made restoring the economy a central campaign promise. Abe's "Abenomics" policies had "three arrows" aiming at aggressive monetary loosening, proactive fiscal stimulus and structural reforms to revitalise the economy, in which BOJ was expected to operate more proactively than it did previously in its "traditional, detached technocracy role". (Schiff, 2015, pp. 1-9; Popli, 2022; BBC, 2022) Pressure from Abe on the BOJ even prior to his winning office, the government and BOJ signing a Joint Statement committing to 2% price stability in February 2013 (Cabinet office & Bank of Japan, 2013) and his appointing Haruhiko Kuroda as governor of the BOJ in March 2013 redefined the institutional relationship between political authority and Japan's central bank independence. On April 2013, Kuroda launched quantitative and qualitative easing (QQE) measures. That month the target was set for the BOJ to double the monetary base over a period of two years. This move marked the launch of one of the longest and largest experiments with quantitative monetary policy among advanced economies (Ito, 2014, pp. 5-8; Hausman & Wieland, 2014, pp. 1-6). QQE was eventually expanded and was supplemented with Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC) in 2016 and several years afterwards. (Bernanke, 2020, pp. 944-945) This multifaceted and expanding monetary policy framework, involving multiple Prime Ministers, including Abe, the COVID-19 crisis and lingering debate over whether it was sustainable until Kazuo Ueda's March 2024 hike marked the end of the Abe-led monetary expansion. (Kihara, 2024a)

1.1 Research Problem and Relevance

While some of Japan's monetary policy debates boil down to whether certain tools were useful or if they succeeded in keeping the inflation target in mind, this thesis argues it is not straightforward to grasp the policy decisions from 2012-2025 merely with economic jargon or technical expertise. It is suggested that policy came as a product of connections between people, negotiations among institutions, norms that encouraged policy and historically constructed limitations, as well as producing outcomes which impacted people across the country and varied across demographic groups in ways that were occasionally left out of some government discourse. In the broadest sense, this thesis is structured around three research questions which tackle the political, institutional and social aspects of Japan's monetary policy from 2012 to 2025:

Research Question 1: What were the central features of Japan's monetary policy framework and the interest rate environment between 2012 and 2025 and how did these features vary according to which administration held power?

Research Question 2: How did interactions between the Japanese political authorities and the Bank of Japan affect those policy developments?

Research Question 3: To what extent have those monetary policies had noticeable effects on Japanese society and what has their success been in attaining their goals?

I expect the questions to form a well-motivated research design whereby Research Question 1 sets the background, Research Question 2 explains the dynamics driving the policy story outlined in the previous question and Research Question 3 evaluates the consequences stemming from those dynamics, forming part of the more comprehensive argument found in the “Discussion and Theoretical Analysis of Empirical Findings” chapter. As set out in greater detail below, Research Question 1 explores the empirical facts and the history of BOJ's policy interventions under different prime ministers (PM): Shinzo Abe, Yoshihide Suga, Fumio Kishida, Shigeru Ishiba and Sanae Takaichi – as well as asking how policy decisions varied from one PM to another – employing a Historical Institutionalist perspective on path dependency, critical junctures and the nature of gradualist change. Research Question 2 addresses the crucial relationships between the country's politicians and its central bank by investigating the various formal mechanisms (such as PM appointment powers) and informal influences (e. g. threats of political action) by which governments have caused the Bank of Japan to act in certain ways, it deploys Principal-Agent theory as conceptual frameworks for examining those relationships. Research Question 3 assesses the extent of those policy interventions' impact on households, commercial banks, pension funds, labourers and the distribution of Japanese wealth and income, utilising Distributional Consequences and a review of government impact reports to answer that question. In brief, the questions together form a causally linked institutional account: politics gives way to institution, which then has social effects.

These questions of my thesis are expected to make contributions to the scholarship on Japanese monetary policy. Much research has addressed political pressure and interference in BOJ operations throughout Abenomics, but scholars have left the changing political relationships between various successive prime minister after Abe and the BOJ largely under-researched as a continuous institutional dynamic. In addition to the political relationships, this thesis covers the latest developments under Takaichi administration, providing a unique and timely overview of the full Abenomics era and its continuing impact on Japan's institutions as well.

1.2 Overview of Research Methods

This thesis adopts a qualitative research design, which employs both content and documentary analysis. I firmly believe that the method fits the nature of the questions addressed and the material I had at hand. Meanwhile, quantitative methods do not sufficiently cover the study of institutional functioning, political dynamics and public discourse, all of which requires the in-depth examination of official documents, official pronouncements, minutes of meetings, public messages, etc., by which institutions justify and compete. Therefore, a thorough content analysis of a range of BOJ policy meeting minutes, and governor's statements, speeches and press conferences, as well as reports to the Diet will be carried out to understand how the meanings of policies (and the rhetoric with which they are accompanied) have been presented to the public across the study period, including not only the content of decisions, but how they have been framed, the theories that have been employed in defence of them, the ways in which political relations have been characterised, the importance given to distributional effects and shifts in framing in institutional rhetoric throughout the period.
Documentary analysis will subsequently look at several key institutional documents – the March 2013 Joint Statement, the BOJ Annual Reports, IMF Article IV consultation reports, for instance – and identify these as established artifacts, with their own authorial intent, institutional background and intended readership and context.
Whereas the qualitative analysis draws out systematic patterns in a larger text corpus,

documentary analysis examines a smaller set of texts more closely – looking critically at their authenticity, credibility, representativeness and meaning in an institutional context. Both methods will be addressed fully in Chapter 3 (Theoretical Framework and Methods).

1.3 Thesis Contribution

Japan's experience with several years spent at the effective zero lower bound, the political legitimisation of ease, as well as the distributional and institutional problems with such programs can be a preview of struggles other central banking institutions will likely confront and I expect that Japan's struggle is something to investigate for other reasons beyond a case study that only helps analysts of Japan. In this research, I try to make an original contribution to the ongoing scholarly and policy debate on Japanese monetary governance by addressing the most recent and previously unexamined phase of the government-BOJ relationship, particularly under the recent administration of Takaichi. In addition, this thesis offers an original contribution to the understanding of Japanese politics and monetary governance from 2012 to 2025. It reflects on how the answers to the central research questions challenge or strengthen prevailing theories on central bank independence and institutional change.

1.4 Thesis Structure

This thesis is organised in eight chapters. The chapters have a progressive structure from theoretical and contextual analysis in the early sections of the thesis, through empirical analysis in the middle, to synthesis and conclusion at the end. Together, these chapters aim to deliver a comprehensive examination of Japanese monetary and interest rate policies during the period from 2012 to 2025.

The introduction sets out the historical and institutional context of the Japanese monetary and interest rate policy regimes from 2012 until 2025. It also presents the main research questions, argument and plan of the thesis.

Chapter 2 examines the most important recent literature related to the policy of the Bank of Japan since the fall of the asset bubble in the 1990s, since when the economy has struggled from periods of deflation, the "lost decades", then towards Abenomics and the move towards policy normalisation and interest rate increases since 2024. It critically discusses the literature about the independence of central banks in practice, politics of monetary governance, distributional consequences of sustained low interest rates and seeks to outline the existing research gaps which this thesis attempts to fill.

Chapter 3 sets out the theoretical and methodological foundations: a multi-layered institutionalist framework comprising Historical Institutionalism, Principal-Agent theory and a Distributional Consequences approach, applied through qualitative content and documentary analysis of primary sources.

Chapters 4, 5 and 6 are the empirical core of the thesis. These chapters are organised chronologically and thematically, detailing the evolution of policy shifts in Japan under different governments: from Shinzo Abe (2012-2020) to Yoshihide Suga (2020-2021) and then Fumio Kishida (2021-2024), Shigeru Ishiba (2024-2025) and Takaichi (2025 onwards) administrations. I will then examine the political relationship between successive administrations and the BOJ, and assess the societal consequences of a decade of ultra-loose monetary policy.

Chapter 7 summarises the findings across different levels of analysis with a discussion and theoretical analysis of empirical findings. The research concludes with a summary of research findings, the limitations of the thesis and suggests potential recommendations for further research.

2 Literature Review

This literature review is organised into three sections. The first covers general theoretical issues of Unconventional Monetary Policy (UMP), Central Bank Independence (CBI), the political economy of monetary policy and distributional effects of low interest rates. The second examines how these debates have been applied to the case of Japan, and what scholars have argued and discussed. The third points out what remains unresolved in the existing literature, how it informs this study and what this thesis can contribute.

2.1 General Literature

2.1.1 Unconventional Monetary Policy (UMP)

The theoretical basis of Quantitative Easing (QE) builds on the portfolio balance channel. The idea is that central banks purchase long-term bonds, they absorb much of the term premium by switching investors out of long-term government bonds and into other riskier assets. This broadens financial conditions to the extent that not just the yields on long-term bonds but also the term premiums on other riskier, but longer-term, assets fall and bond rates drop at all maturities, fostering higher rates of borrowing, investment and consumption. (Bernanke & Reinhart, 2004, pp. 1-2)

Besides asset purchases, Woodford (2012, pp. 4-8) provided a basis for forward guidance (a central bank communication on its future intentions of the policy rate) as a tool of monetary policy when interest rates are at the zero lower bound (ZLB). Brunnermeier and Koby (2018) further developed the “reversal interest rate” concept, a rate at which it becomes more contractionary than expansionary because central banks cannot sustain negative interest rates and keep their banks in business, by putting pressure on their profitability margins.

In addition, some governments pursued Yield Curve Control (YCC) controlling both short-term interest rates and long-term bond yields, for instance, on 10-year government bonds as practiced by Japan. Bernanke (2020, pp. 977-978) cautiously assessed the possible transferability of YCC in practice and argued that, despite its theoretical attraction, the exit from such policy was likely to be tricky. Carrière-Swallow et al. (2025) challenge its long-run sustainability and manageability given the exit difficulties facing many central banks.

Although these framework approaches are analytically useful, a shared limitation is that the literature largely examines the effectiveness of monetary policy on narrow macroeconomic indicators and treats monetary policy as purely technical rather than political. This framing hides the processes and mechanisms through which policy decisions are made, how political relationships shape them and how they ultimately affect different social groups differently – precisely the focus of this thesis.

2.1.2 Central Bank Independence

According to recent macroeconomic theory, central bank independence (CBI) emerged due to time inconsistency as pointed out by Kydland and Prescott (1977) and developed by Barro and Gordon (1983). In their argument, governments with electoral motivations will be determined to spur economic output via a boost in growth of monetary base or supply, leading to a politically motivated inflationary bias. This eventually leads to temporary short-term stimulus while ignoring price stability in the long term and thereby creating inflation equilibrium which an independent central bank committed to price stability can prevent.

Furthermore, Rogoff (1985) expanded this idea with the “conservative central banker” thesis while Debelle and Fischer (1994, pp. 196-197) introduced the distinction between goal and instrument independence. Cukierman et al. (1992, pp. 356-367) developed indices to measures bank independence along legal and behavioural ways and distinguish the de jure (the formal) and de facto (the actual) central bank independence, meaning legal independence as written by the law and factual independence as exercised by the central banker. Finally, Alesina and Summers (1993, p. 159) presented cross-country data from 16 OECD economies to support their finding of a link between central bank independence and low inflation without any visible and measurable impact on the real economic performance. While these frameworks comprise the leading theory on modern central banking, they are largely based on historically contingent assumptions. For instance, the concepts of Kydland-Prescott and Barro-Gordon were designed in relation to the high inflationary conditions in the 1970s, but if these models are applied to Japan after 1998, when the BOJ came under political pressure not to restrain, but to reflate (increase) the money supply to counter the persistent risk of deflation, these models may offer limited help in providing a coherent explanation for the BOJ's actions. Indeed, the empirical findings of Alesina and Summers too, reflected an inflationary era and hence cannot be easily generalised to a deflation context in which inflation was persistently absent or even negative. Plus, the indices constructed by Cukierman et al. treated independence as a fixed, measurable concept, while it should be treated as relational and discursively reproduced. The greatest challenge to this framework comes from Adolph's book titled “Bankers, Bureaucrats, and Central Bank Politics – The Myth of Neutrality”, which effectively shows that central bankers are not neutral technocrats, but agents shaped by career backgrounds and driven by future employment concerns. Through carefully controlled and selective hiring and promotion decisions, partisan governments have been able to influence central bankers within even theoretically independent central banks so that their actions are in fact in line with the interest of their administrations. This way offers politicians the ability to shape monetary policy within formally independent institutions. (Adolph, 2013, pp. 13-15; pp. 304-306). Unfortunately, such mechanisms for the indirect influencing of monetary policy are systematically overlooked by the typical central bank independence indices employed in the literature.

2.1.3 Political Economy of Monetary Policy

The political business cycle (PBC) literature examines how electoral and partisan incentives affect macroeconomic policy. Nordhaus (1975, pp. 187-189) proposed the opportunistic political business cycle model, in which governments attempt to manipulate the economy to secure more votes, causing expansionary policies to take place prior to elections, followed by contractionary adjustments to compensate. Hibbs (1977, pp. 1473-1482) put forward the partisan political business cycle model, stating that left-wing parties favour high employment rates even at the cost of higher inflation, while right-wing parties favour stable prices over low unemployment. Franzese (1999, pp. 681-684; 2002) suggested that even formally independent central banks accommodate government preferences when such governments control the central bankers' appointments or can threaten their budgets and legal autonomy through legislative action.

Maxfield (1997, pp. 13-18) argued that central bank independence is not a result of neutral institutional design aimed at producing non-partisan macroeconomic policy but instead is created strategically by politicians who aim to increase the credibility of their policies through delegation. From his experience as vice chair of the Federal Reserve Board, Blinder (1998, pp. 63-76) claimed that central banks are not completely independent technocrats or purely servants of government will, but instead institutions that have to continuously manage relations with politicians, markets and the public. Diessner (2024, pp. 1111-1112) observes that in Japan, a similar form of informal cooperation and political influence, relevant during crisis events, persists while Japan formally retains its central bank independence, noting how a central bank's exposure to balance sheet losses increasingly demands increased cooperation with government.

Although important, these political explanations, based primarily on cross-national quantitative methodology of incentive structures, generally miss a crucial ideational and communicative dimension of monetary policy governance. Schmidt (2008) describes such a dimension through discursive institutionalism, arguing that the language that central bank officials and politicians communicate is not just descriptions of policy choices, but is fundamental of policy itself, shaping it through rhetoric and communication. Braun (2015, pp. 381-384) adds that central bank communication does not only describe a future state of affairs but actively performs the credibility which central banks claim to be the agents. This ultimately creates a public expectation that subsequently affects behaviour. Braun further notes that the “front stage” of official central bank discourse may not reflect backstage deliberations, meaning official communication cannot always be taken at face value. This discursive perspective could prove directly relevant to the BOJ under Governor Kuroda.

2.1.4 Distributional Consequences of Monetary Policy

Monetary policy, although influential, has traditionally received less scholarly attention for its distributional outcomes compared with its macroeconomic indices. The assumption was that monetary policy affects the entire economy equally, leaving the distribution of outcomes to fiscal policy. (BIS, 2021, pp. 56-57; Bagchi, 2024, p. 167) However, this presumption has increasingly been questioned. Coibion et al. (2017, pp. 30-31) challenged this empirically proving across a range of advanced economies that monetary policy has significant and systematic distributional effects. Specifically, it tends to reduce income inequality via labour market channels but increases inequality of wealth as asset prices are boosted by expansive policy – a contrast also directly relevant to Japanese policy.

Piketty's (2014, pp. 529-530) claim that the returns on capital consistently exceed the economy's growth is relevant as well. A prolonged environment of low-interest rates speeds up this concentration of wealth as asset prices grow faster than the rate of return on people's savings. From the post-Keynesian and institutionalist schools, financialisation refers to the rising significance of financial motivations, financial instruments and financial institutions in economic affairs, helping to explain the interaction between monetary policy and the structural elements of advanced capitalist economies for producing specific distributive effects (Epstein, 2005, pp. 3-16).

I suppose these contributions are important but require careful adaptation before they can be applied to Japan. While Piketty's is perhaps a broader point than simply one on monetary policy, it helps explain how monetary policy contributes to the inequality trends of recent decades. Epstein's argument is of great interest as well, as it focuses on the interactions between finance and capitalist structures through the lens of policy. However, Epstein’s financialisation concept was largely developed on the basis of Anglo-American capitalism and it may need adaptation to be useful in Japan's bank-centred financial system. Moreover, Coibion et al.'s cross-national findings of effects cannot be easily and directly generalised to an economy with Japan’s labour market rigidities and aging population. In contrast, Piketty works at an abstract level, intermediate institutional theory is required to explain precisely how monetary policy decisions create such outcomes, although they certainly play a part in a system of persistently low interest rates that he claims explains a good part of the trend toward inequality in the advanced countries.

2.2 Case of Japan in the Literature

2.2.1 Unconventional Monetary Policy in Japan

The central bank did begin UMP more than a decade prior to the global financial crisis in 2008. Abenomics introduced in 2013 – consisting of negative interest rates, large-scale asset purchases, forward guidance and substantial fiscal expansion combined with structural reform to get Japan out of deflation and create economic growth (Ito, 2021, pp. 13-14) – had generated a large amount of scholarship specific to Japan. Ito (2014) moved from cautious optimism about QQE's potential to scepticism when the 2% inflation target was missed repeatedly and marginal returns diminished over time raising questions about its efficiency in Japan (Ito & Mishkin, 2006). Hausman and Wieland (2014) claimed that the policy generated meaningful, early improvements in Japanese inflation expectations (e.g., end outright deflation and stimulate Japanese equity prices), supported by the work of Kawamoto et al. (2023, p. 2), who stated that from the time QQE was introduced up to the third quarter of 2020, QQE was estimated to have had a modest but measurable positive impact on both real GDP and inflation over the period. The statement by Hausman and Wieland was further strengthened by Miyao and Okimoto (2017, pp. 4-5), who concluded that an expansionary UMP shock resulted in increases in both real output and inflation which persisted over time. The increase was even greater when QQE policy was initiated, not when the first quantitative easing was announced. Against this, Fukuda (2025, pp. 1-4) instead attributed only short-term economic stabilisation effects to unconventional easing and suggested that that the sustained ultra-low interest rate may harm medium-to-long-term productivity growth, prices and labour markets due to inefficient use of resources. This latter view he explicitly acknowledged echoed the scepticism expressed even ahead of Abenomics by Kuttner and Posen (2001), who had stressed that monetary policy alone would be insufficient without an accompanying fiscal response to pull its economy out of an inflationary or deflationary trap. However, since fiscal policy cannot carry out an inflation target independently of private interest rates, it is often used to supplement an independent monetary policy target. They also noted that since banks and households will adjust their loan and savings behaviour on the basis of what they think rates will be going forward (than based on current rates), low interest rates alone are unlikely to be enough to overcome Japan's trap. The debate between these positions remains unsettled partly because the criteria for policy success are themselves controversial. These institutional and political factors are rarely discussed in the macroeconomic literature focused on aggregate indicators and counterfactual simulations.

2.2.2 Central Bank Independence and the Bank of Japan

The BOJ's formal independence was established in 1998 after Ministry of Finance supervision was officially removed by a revision of the Bank of Japan Act of 1998 though, it remained uncertain how the BOJ was to manage its relationship with the government (Cargill et al., 2000, pp. 56-61). As the economic context shifted from inflationary to deflationary, political demands escalated that the BOJ take a more aggressive action and monetary policy became progressively politicised (Park, 2020, pp. 433-435; Dwyer, 2012, pp. 183-184). Park et al. (2018, pp. 38-41 & pp. 131-133) argued that the policy shift under Abenomics resulted not simply from the external political pressure, but also from a paradigm shift among BOJ insiders finding that central bankers' attitudes toward inflation and deflation were stronger indicators of policy choices than any political affiliation or economic factor. This echoes directly with Adolph's (2013) perspective of government exerting control by appointments than by decree to influence ideology.

However, the prevalent literature on CBI glosses over what Hamada et al. (2010) called a challenge that such arrangements raise – they argued that formal independence was exercised in an economically dysfunctional manner after finding that the pre-Abenomics BOJ's institutional conservatism led to the deflationary stagnation of the Japanese economy. Understanding the interaction between Abe and the BOJ therefore requires answering not only what compromises were made to independence but also what this independence was actually used for.

2.2.3 Political Economy of the BOJ-Government Relationship

Japan's political economy has features that the standard PBC or CBI literature does not fully cover: the LDP's long-standing dominance, the close institutional ties between the Ministry of Finance, the BOJ, and the business community, and the serious political difficulty the deflation resulted in two decades.

Dwyer (2012) traces the pre-Abenomics politicisation of BOJ policy through parliamentary pressure groups and public campaigns. Park (2020) argues that the “Abe effect”, the systematic alignment of BOJ policy with the government's reflation agenda, cannot be explained through principal-agent theory alone; it required a shared ideational and ideological framework. It was a "policy alliance" enabled by legitimation strategies that made their collaboration seem to outsiders a matter of technical agreement than political persuasion.

Kihara (2026b), in an analysis of BOJ governors’ speeches spanning 1998 to 2022, demonstrates that Kuroda's rhetorical style was remarkably more assertive than that of all his predecessors, and that this assertiveness faded well before the BOJ formally retreated from its quantitative easing commitments, suggesting the communicative retreat preceded the policy turn by several years. Interpreted through Schmidt (2008) and Braun (2015), these findings show how such a discourse served to enhance the political and institutional legitimisation of a policy agenda and also how the gap between Kuroda's assertive public language and the BOJ’s Policy Board doubts highlights Braun's theory of the divergence between frontstage performance and backstage deliberation.

2.2.4 Distributional and Societal Effects in Japan

The distributional consequences of Japan's UMP have been documented across several channels. Saiki and Frost (2014; 2020) demonstrated that QQE widened income inequality by disproportionately benefiting higher-income households through the asset price channel, with Japan's labour market rigidities and ageing population weakening the countervailing employment channel and making Japan's distributional experience under UMP distinctive relative to other advanced economies.

In parallel with Saiki and Frost (2014, 2020), Taghizadeh-Hesary et al. (2019, 2021) confirmed these findings that QQE-caused increase in money supply contributed to a rise in income inequality, mostly through asset price channels, despite progressive tax rates relieving some of this effect. They went on to conclude that, although taxation progressive policies only partially mitigated the negative distributional outcomes, quantitative easing was more problematic in an aging economy and progressive taxes were not sufficient to counteract the increases in income inequality. Tada and Kurose (2025) used a Pasinetti Index to reveal how increased rentier income spurred by the negative real interest rates of monetary expansion caused a decline in the wage share via a decrease in capital utilisation. UMP has worsened inequality effects in the same manner as it did in Western developed economies via asset price channels where high-income groups gain from additional capital income. The authors suggest that higher Pasinetti indices lead to falling combined demand as additional rentier income serves to decrease the wage share through capacity utilisation's fall.

Concerning the literature on labour markets, Israel and Latsos (2020, pp. 11-13) observed that "expansionary monetary policy is associated with a decreased gender pay gap, but an increased education pay gap, which may both be related to the labour productivity channel." although there was a rise in demand for workers (i.e., tightness), continued to show little growth over time. Saiki and Frost (2020) demonstrated that wage growth stayed surprisingly weak even amid tight labour market conditions because of structural rigidities that have limited any normally assumed positive effect on the income distribution from rising wages. Borio et al. (2017) and Haba et al. (2025) documented how long-term zero or negative real interest rates compressed net interest margins for commercial banks and financial institutions. Caballero et al. (2008, pp. 1943-1944) explained a deeper structural mechanism: how low-cost funds allowed banks to keep insolvent "zombie" companies afloat, which in turn suppressed entry by healthy firms as well as prevented them from more workers and investing more in capital goods. This discouraged healthy firm growth and dragged down productivity throughout Japan's economy. Fukuda (2025) identifies such banking profitability issues as a core driver of stagnant productivity in Japan. Yoshino et al. (2018) argued that the low rates drove property investment that worsened housing affordability for younger and lower-income households, contributing to an increasing degree of social divide, potentially worsening social and political polarisation.

I would argue that the distributional literature is empirically rich but analytically fragmented. Experts, researchers and scholars on inequality, banking, housing, pensions and other topics work with different datasets and methodologies, resulting in few studies with cross-channel synthesis. No study integrates these findings into a coherent account that fully captures winners and losers in Japan's monetary regime. This is a fragmentation that makes systemic distributional critique easier to deflect in official discourse. A further limitation is the attribution problem: Japan's simultaneous ageing crisis, consumption tax increases, labour market deregulation, and global economic fluctuations all interacted with monetary policy, making it very difficult to isolate monetary policy's particular distributional contribution.

2.3 Research Gap and Thesis Contribution

The literature presented above sheds light on different aspects of the research question but leaves important gaps that motivate this study. The UMP literature provides excellent macroeconomic assessment of Japan’s policy instruments but rarely offers anything on the political and institutional processes through which they were adopted, put in place, modified and ultimately abandoned. The CBI literature offers excellent conceptual tools to understand monetary governance, particularly the distinction between de jure/de facto independence and Adolph’s (2013) interesting account of how key individuals shape the institution but its inflation bias framework does not work well in the deflationary context. It also tends to assume that loss/ compromise of formal independence is intrinsically a problem without asking whether that independence was well-exercised or not. The political economy literature makes a case for political influence on independent central banks being structural rather than exceptional, but existing studies tend to focus on the Abe era in particular, instead of tracking how the BOJ–government relationship evolved across subsequent administrations. The distributional literature details the societal impacts of UMP in various areas, such as: financial markets, housing, labour market and corporate governance, but the field remains fragmented and the problem of identifying exactly what part of monetary policy contributes to any given distributional effect cannot easily be resolved – a limitation this study acknowledges instead of claiming to solve.

Against that backdrop, my thesis offers three main contributions, relevant to the scope and depth of the investigation. First, it extends the administration-specific lens beyond the Abe era to examine the continuity and change in monetary governance under Suga, Kishida, Ishiba and Takaichi; all within the broad arc from the launch of Abenomics to the normalisation period in 2024. Existing studies that focused solely on Abenomics or stopped before 2022 cannot capture how political and institutional conditions surrounding BOJ monetary policy changed as Abenomics came to an end, nor how normalisation actually played out in practice. Second, the thesis employs an integrated political economy framework to question how the BOJ government-relationship was constructed, maintained and renegotiated over this period, drawing on historical institutionalism, principal-agent theory and sociological institutionalism – distributional consequences. This framework falls short of providing a comprehensive empirical map of all BOJ-government interactions over the study periods, but it adds a dimension missing in current work: a theoretically grounded qualitative approach that combines both the structural conditions of political influence and the ideological and rhetorical strategies used to legitimise that influence. Third, this study draws on the distributional literature reviewed above and re-examines the societal consequences of Japan's monetary policy experience through a political economy lens. This study asks not only what the distributional effects were as the existing literature often does but also how they were shaped, justified and managed within the institutional and political context this thesis focuses. Again, this does not solve the distributional literature's fragmentation problem, which would require much more ambitious work, but it connects the distributional outcomes to the political process that produced them in a way that the existing literature does not aim to.

Taken together, I expect that these contributions add nuance to the study of Japanese monetary governance between 2012 and 2025. The study shows how governance changes were materialised differently by successive governments, the mechanisms through which political influence was exerted and the societal impacts.

3 Theoretical Framework and Methods

3.1 Theoretical Framework

The institutionalist approach emphasises how formal and informal rules, historical paths, and social norms shape monetary policy outcomes, political interactions, and societal impacts, rather than viewing them as purely economic decisions. In Japan from 2012 to 2025, this lens highlights the BOJ's evolving independence amid political pressures from Abenomics, leading to aggressive easing policies like QQE, with mixed societal effects such as wage stagnation and inequality.

This chapter presents the theoretical and methodological foundations of the thesis in two connected parts. First, the thesis outlines the multi-layered institutionalist framework through which the subject is examined and shows how each theoretical pillar addresses a research question outlined in the Introduction. Second, it explains the research design and how content and documentary analysis are used to gather and evaluate the evidence. The second is closely linked to the first, because methodological choices flow logically from theoretical preferences: an institutionalist framework concerned with the behaviour patterns, determined by formal rules, informal norms and language in institutions, requires analysis of decision processes not only in terms of outcomes, but as to how they have been justified, framed and contested in institutional communications.

3.1.1 Why Institutionalism?

The theoretical framework adopted in this thesis is institutionalist approach. To simply put, institutionalism asks a question that purely economic analysis tends to skip over: why do organisations behave the way they do, even when that behaviour seems economically irrational? Standard economic frameworks do attempt to answer the two questions concerning policy goals: did inflation reach its target, did growth recover? These are important questions, but they leave a great deal unexplained. Yet this approach fails to address key features of the BOJ's monetary policy from 2012 onwards. Why, for example, did the BOJ maintain a policy of ultra-loose money for nearly a decade, long after it became clear the inflation target would not be reached by the promised schedule? How could the political leaders continue to exert pressure on a formally independent BOJ without ever illegally violating the independence guaranteed? And why were the economic and social costs of this policy distributed so unevenly across Japanese society and why did official communications rarely acknowledge this?

These questions cannot be answered by economics alone. It can explain why inflation rises in times of excess demand and unemployment falls in times of recovery. It is unable to explain why an institutionally designed structure (independence) might be legally preserved while functionally undermined by politics or why particular individuals are in positions to exert that pressure without being dismissed by the central bank's governing board.

This thesis argues for the use of an institutionalist approach to overcome the limitations of mainstream economic language. Institutions are understood as formal rules, informal norms and organisational practices which structure the social world and the ways in which people behave, think and act. Plus, institutionalism has a distinctive claim that organisations and the individuals within them do not simply calculate the best means to given ends but have their very understanding of appropriate ends shaped by the institutional context (Hall & Taylor, 1996, pp. 937-938; pp. 947-948). Institutions constrain what actors consider possible, appropriate and legitimate, regardless of what their rational choices might tell them and they explain the gap between what rationally constrained individuals would choose and what they actually do (Lowndes et al., 2018, p. 66-68). This thesis uses institutionalism precisely because this institutional gap explains much of the BOJ's behaviour between 2012 and 2025.

Three institutionalist theories will be presented in the following section, each of which directly relates to one of the research questions. These theories are not proposed as competing frameworks but as complementary lenses that provide a richer understanding of the BOJ's monetary policy than would be possible by isolating just one. These three theories have been chosen for their ability to explain

(1) the path of monetary policy over time (research question 1),

(2) the political dynamics that constrained and reshaped it (research question 2)

and (3) the varied societal consequences that resulted from it. (research question 3)

They represent, as Clift (2014, p. 4) put it, the task of comparative political economy: the analysis of the way in which political institutions interact with economic structures to produce particular policy outcomes and distribute these outcomes across society.

3.1.2 Historical Institutionalism – How policy evolves

Historical Institutionalism is developed by scholars such as Thelen (2004), Mahoney (2001) and Pierson (2000). These researchers emphasise how past policy decisions remain present in today's systems and how institutions can be adapted over time through practice and interpretation, rather than just through new laws. More broadly, they highlight how policy decisions set by the actors are dependent on certain institutional contexts. The perspective of Historical Institutionalism offers many analytical benefits to the thesis. Among its most useful concepts for this study, I highlight three: path dependency, critical junctures and gradual institutional change.

Path dependency refers to how early institutions restrict later options. It specifically means that once an institution takes on a particular direction, past decisions, historical events, and early institutional choices restrict current options, making it difficult to change even if better alternatives exist. (Mahoney, 2001) According to Lowndes et al. (2018, p. 62-68), one of Historical Institutionalism's most significant contributions is to reveal how institutions persist less through logical decision-making and more through the accumulated weight of past decisions.

Path dependency does not mean institutions never change. Historical Institutionalism's second significant concept of value is critical junctures. Critical junctures are moments where historical continuity is interrupted by events that reshape institutional pathways and make radical change possible, as suggested by Lowndes et al. (2018, p. 67). The December 2012 general election in which Abe won a landslide victory, the launch of the QQE regime in April 2013 and the planned return to positive interest rates in April 2024 each constitute critical junctures within the BOJ's institutional course, representing periods when political and economic conditions came together to encourage or bring about a drastic institutional change.

Between these defining events, I would argue that Mahoney and Thelen's (2009) concept of gradual institutional change serves to describe the evolving framework. Gradualism, rather than a radical shift, was, in turn, the most institutionally rational route available given the credibility costs of a reversal of QQE.

Historical Institutionalism serves as the key conceptual lens for answering Research Question 1, outlining the evolution of BOJ policy over the study period. As opposed to offering a simple chronology of policy statements, the theoretical approach allows for an explanation of why the BOJ acted as it did at each juncture, why it persisted instead of pivoting, why change was gradual as opposed to sudden and why normalisation required such careful management of the institution.

3.1.3 Principal-Agent Theory – Politics of Independence

In Principal-Agent theory, the government is the principal, the entity assigning authority to the central bank (the agent), which exercises this authority in the principal's place (Moe, 1984). The main concern is the question: how can a principal manage the behaviour of its agent, who enjoys a substantial degree of formal independence and cannot be directly commanded? As Clift (2014, pp. 171-173) argues in his analysis of comparative political economy, the formal independence rarely keeps economic institutions entirely free from politics. The real difference between countries is how the government exerts control – whether they use formal laws, behind-the-scenes pressure, or by ensuring both sides share the same economic vision.

The most powerful tool available to a principal is agent selection. When the governor chosen by a principal holds views close to those of the principal, direct orders are no longer necessary. The Principal-Agent Theory addresses a "specific social relationship, that is, delegation, in which two actors are involved in an exchange of resources." (Braun & Guston, 2003, pp. 303-304) The agent would, out of professional judgment, eventually reach the same conclusion as his principal. Grafstrom (2009) makes a closely related observation in her paper examining how independent central banks affect democratic accountability: agreements made between central bankers and government bodies almost consistently shift accountability towards the central banks and away from the governments.

Principal-Agent theory is, therefore, a perfect framework to answer Research Question 2, by focusing on how Japan's leaders shaped monetary policy. It also provides the necessary structural vocabulary to study the government – BOJ relationship without reducing it to a simple story of political capture on the one hand and unbreakable central bank independence on the other. What occurred was a combination of methods where formal tools such as government appointments, joint public statements and Diet testimonies were used to create the policy agreement desired by the Japanese government, all while preserving formal independence.

3.1.4 Sociological Institutionalism – Distributional Consequences: Who bears the costs?

The first two theories address how policy evolved and how political actors shaped it. A question that they leave unanswered concerns who bears the burden of those choices and who enjoys their profits when central banks make the policy choices they make – a question central to the Research Question 3 and to the argument that Japan's monetary policy cannot be evaluated only against economic indicators, such as: CPI or GDP growth. The answer requires a sociological observation of how institutions produce and conceal distributional outcomes.

The third pillar draws on sociological institutionalism with a focus on distributional consequences of "institution". Sociological institutionalism, associated with Meyer and Rowan (1977) and DiMaggio and Powell (1983), argues that organisations work within institutional logics which are cognitive frameworks defining what outcomes are evaluated, discussed and treated as legitimate institutional responsibility. Furthermore, "organizational control efforts, especially in highly institutionalized contexts, are devoted to ritual conformity, both internally and externally... the more highly institutionalized the environment, the more time and energy organizational elites devote to managing their organization's public image and status and the less they devote to coordination and to managing particular boundary-spanning relationship." (Meyer & Rowan, 1977, pp. 360-361) The BOJ's institutional logic throughout the study period was technocratic: success was defined by CPI inflation and GDP growth thereby keeping distributional consequences out of scope. I would assume that is not ideological neutral but it is a formal structure that maintained the appearance of independence for the sake of credibility, even though its actual operations or the actual consequences of its operations told a different story.

In his book titled “Institutions and social conflict”, Jack Knight came up with various observations of institutions’ distributional effects. Clearly, social institutions have an effect on the distribution of the benefits they help produce through “expected-utility calculus”. (Knight, 2009, pp. 209-210) The institution’s capability of stabilising social expectations via information and sanctions helps structure social action in the direction of equilibrium outcomes while social institutions can be best explained in terms of distributional consequences, which is one of the pillars this study bases on to explain the case of BOJ. Knight’s book provided an excellent source of theoretical framework to this study as it explains “development and change are functions of the distributional conflict over substantive social outcomes; maintenance and stability are functions of the continuing ability of institutional rules to provide distributional advantages” so that we can frame social interactions as bargaining problems and “invoke the asymmetries of power in a society”. (Knight, 2009, p. 210)

As a result, the outcomes described in this research’s analysis parts should not be seen as unintended by-products of BOJ policy but as determined by its fundamental logic of the policy instruments themselves. Therefore, Research Question 3 can be understood through the framework of distributional consequences to examine the socioeconomic impacts of the BOJ's monetary policy and also explore why the institutional logic of the BOJ made those consequences so difficult to acknowledge in official discourse.

3.2 Research Design and Methodology

3.2.1 A qualitative, case study approach

This thesis follows a qualitative case study approach. The case study is of Japan only and consists of an intensive investigation of that case. The purpose of using case study research, as Yin (2003, p. 13) defines it, is to investigate a contemporary phenomenon in its real-world context, especially when the boundaries between the phenomenon and its context are not clearly evident. The phenomenon – the changing role of monetary policy – cannot be studied in isolation from its political, institutional and socio-cultural environment.

I choose to study Japan on theoretical grounds and not because it as a case of convenience. Japan's evolution from 2012 to 2025 presents a range of relevant features in a striking manner. We are analysing monetary policy in a formally independent central bank that was explicitly being told how it should behave by a government, whose actions swung wildly from aggressive expansion to unprecedented quantitative easing, back to normalisation and had a rich documentary record to trace those changes. As Seawright and Gerring (2008, pp. 301-302) describe it, it is an extreme case where the dynamics of interest have been played out to a degree where we are provided with rare insights, in unusually clear and often well-documented form. To adopt a comparative design here, with the purpose of highlighting some form of convergence or divergence, would potentially sacrifice the in-depth knowledge of the institutional framework in exchange for a broader scope. I would argue that single country case studies in comparative political economy gain their value not because they're representative but because they illustrate general dynamics of how institutions work by providing well-documented instances. Additionally, this research deals with different Japanese administrations to highlight the differences in the course of action over the study period, making it a form of within-case comparison between the approaches taken by various prime ministers in question.

3.2.2 Sources of Empirical Data and Information

This research draws on two types of empirical data to support the findings: primary and secondary.

Primary sources are BOJ monetary policy meeting minutes, governor's speeches and statements. These are the backbone of the content analysis as they enrich the data and make the analytical strength visible. In addition to these, news articles from trusted media outlets are cited as a primary source in case it impartially reports what those involved said from press conferences, for example. These were gathered from the BOJ archive at *www.boj.or.jp* and the Prime Minister's Office of Japan at *https://japan.kantei.go.jp/*, covering 2012–2025. Some of the press articles can play as a primary source depending on the content, for example, a factual report of what Prime Minister Takaichi said at a press conference, or a journalist's account of a Takaichi-Ueda meeting. Secondary sources of this thesis are largely gathered from news outlets with articles and commentaries, scholarly papers by researchers, IMF working papers as well as chapters from published books. These two sources of information are expected to work well with each other to enhance the analysis and highlight the findings in a way that readers could grasp the whole picture of what happened.

Guided by my research questions and my chosen theoretical concepts, I was investigating my selected sources to find evidence of path dependency, interactions and relationships between BOJ governors and the government as well as how they balanced public endorsement of political goals with attempts to preserve the central bank’s independence. In addition, primary and secondary sources are vital for my observations of distributional consequences and uneven effects of policy on different social groups.

With all these approaches, I tracked a discursive framing/ management of how policy failures were consistently attributed to external factors, how normalisation was seen as success rather than correction, and how the independence was formally maintained even as its substance or nature was actually reshaped.

3.2.3 Content Analysis

The chosen methodological approach to address these questions is qualitative content analysis of policy-related texts. Krippendorff (2004, p. 18) defined it as a method of studying patterns of meaning, framing and emphasis within sets of messages. I did not look for how often specific words were repeated in texts but , as it fits with this analysis, I sought out institutional actors who claimed that they and the government had maintained policies across this period, how they sought to legitimise this continuity and how their reasoning changed from the period prior to 2012, throughout the decade under review and leading up to 2025. Qualitative content analysis is appropriate where the research seeks to grasp how institutional actors manufacture meaning and legitimate themselves within the political system. This thesis uses a deductive analysis approach because it “works with prior formulated, theoretical derived aspects of analysis, bringing them in connection with the text" (Mayring, 2000, p. 4) and it is chosen when the structure of analysis is operationalized on the basis of previous knowledge and the purpose of the study is theory testing (Elo & Kyngäs, 2007)

The three theoretical pillars of Historical Institutionalism, Principal-Agent Theory, and Sociological Institutionalism provide a prior analytical framework. The purpose of the content analysis is not to discover new themes from the beginning but to investigate whether, and in what form, the institutional and political dynamics mentioned are visible in the primary sources. I would argue this makes a deductive approach the suitable choice: the theoretical framework is established first, and the empirical analysis is structured around finding evidence relevant to it.

Historical Institutionalism requires evidence about the framing of policy decisions at critical junctures and the changing interpretations and uses of policy legacies. Principal-Agent Theory requires evidence of preference signals, accountability language and moments of institutional divergence. Distributional consequences approach requires an indication and discussion, of whether the impacts of policy were perceived and discussed within governmental or BOJ circles and a more fundamental inquiry as to whether the distributional outcomes of policy were a matter of public discussion between the two institutions over time. As a result, the qualitative content analysis is the appropriate method when the research goal is to understand how institutional actors construct meaning and legitimacy – a description that precisely fits the analytical task of this thesis.

The methodology thus follows from the relevant theories accordingly.

From Historical Institutionalism: Language of commitment and path dependency, Framing of policy continuity or change, Institutional justifications at moments identified as critical junctures.

From Principal-Agent theory: Signals of preference alignment between the government and BOJ, Accountability language between the government and the BOJ, Indicators of institutional divergence between the government and BOJ's stances on policy.

From Distributional Consequences: Language relating to distributional impacts and societal consequences and Expressions concerning public expectations of the BOJ or government policy interventions. Methodologically speaking, this means the content analysis looks for both the presence and absence of distributional consequences in BOJ and government's communications as documents reveal as much through their absence as through their explicit content.

The approach here, of looking at the content of policy texts to find out whether societal concerns were a significant feature of policy considerations and public discussions about the Bank, can be seen as grounded in the work on institutionalism more broadly. The theoretical considerations that guided the analysis, such as understanding how institutions maintain their coherence through time and the ways in which powerful actors persuade us of their reasoning, align well with the approach adopted.

3.2.4 Documentary Analysis

Documentary analysis treats documents as institutional artifacts than simple factual records. They are seen as products of and participants in particular institutional and political processes, whose content, framings and absences are revealing (Prior, 2003).

This methodological approach is particularly suited with institutionalist framework. Formal documents are treated as institutional acts by itself. For example, the 2013 Joint Statement did not simply describe the terms of a particular accord, it created normative expectations, redefined the normative understanding of government – BOJ interaction and established standards to measure policy decisions in the period thereafter. If one analyses this document as situated, asks what it commits to, what it leaves deliberately ambiguous and how subsequent policy decisions draw on it, this method captures dynamics of institutional interaction that treating the statement simply as a historical report of agreements would entirely miss. Each document used is assessed against Scott's (1990, pp. 6-8) criteria of authenticity, credibility, representativeness and meaning.

I would argue that the use of both methods together represents an attempt at methodological triangulation: cross-checking across more than one methodological approach can strengthen credibility of research findings (Denzin, 1978, p. 297-299). While content analysis offers breadth across the full research period, document analysis can provide institutional depth at a series of specific points during this study. Using both together provides the wide-angle and close-up views needed to answer all three research questions. To ensure validity, serious attention is paid to sources and material evidence that either qualify or call into question the assumptions drawn from the framework. Given that the sources used for analysis here are all publicly available, no human subjects are involved and therefore no ethical considerations need to be addressed.

4 Monetary and Interest Rate Policy in Japan: Overview of the period 2012 – 2025

It is arguable that 13 years between 2012 and 2025 would represent the most significant and institutionally challenging years in BOJ's post-war history.

TABLE 1: Timeline of Japan's unconventional monetary policy

Date	Description	Governor
5-Oct-10	Launch of broad-based monetary easing	Shirakawa
22-Jan-13	Adoption of "2% price stability target" for conduct of monetary policy framework	Shirakawa
4-Apr-13	Introduction of "Quantitative and Qualitative Monetary Easing" (QQE)	Kuroda
31-Oct-14	Scaling up of the existing QQE programme	Kuroda
29-Jan-16	Introduction of "QQE with a Negative Interest Rate (the Negative Interest Rate Policy" (NIRP)	Kuroda
21-Sep-16	New framework of "QQE with Yield Curve Control" (YCC)	Kuroda
19-Mar-24	End of QQE with YCC and NIRP	Ueda
31-Jul-24	Decision to guide the uncollateralised overnight call rate toward approximately 0.25%	Ueda
31-Oct-24	Short-term rate held steady at 0.25%, with the Bank indicating gradual hikes toward 1% by fiscal year-end 2025, if inflation trends align with expectation (Policy maintenance)	Ueda
Late 2025	Additional rate adjustments carried out, lifting the policy rate to 0.75% by year-end, as monetary normalisation continues	Ueda

Source: The Bank of Japan

4.1 Quantitative and Qualitative Easing: Transmission Mechanisms and Structural Constraints (2012 – 2015)

Prior to the shift of 2013, it would be a useful reminder to explain what came before it. By the late 2012, the BOJ had spent more than a decade at or near the zero interest rate bound. The Zero Interest Rate Policy was introduced in 1999, then, after a first experiment in 2001 to 2006, it came to an abrupt and prematurely optimistic end as the economy had stabilised temporarily. (McCurry, 2006) The 2008 global financial crisis saw no prospect of further normalisation. The governor in charge, Masaaki Shirakawa, spent his term as governor (2008-2013) embracing the caution his prior experience produced. He constantly emphasised his concerns of over-reliance on monetary policy when he truly felt problems stemmed from structural sources. (Kihara, 2023) As early as December 2011, Shirakawa directly rejected the argument that "insufficient provision of money by the Bank of Japan is the cause of deflation," noting that Japan's monetary base as a proportion of GDP was already "larger in Japan than in the United States and Europe," and warned that "a rise in inflation without a pick-up in real growth rates will not improve living standards." He further stated plainly: "Raising the temperature without improving the fundamental strength is not possible. Even if it were successfully done temporarily, there would be side-effects." (Shirakawa, 2011) By June 2012 he was still insisting that "there are structural and corrosive problems behind the cause of deflation." (Shirakawa, 2012a, p. 10)

When pushed to set definite targets, like inflation, Shirakawa always refused, doubting the BOJ could deliver. That was not a problem with personal timidity, but with an institution built upon the success of managing expectations cautiously.

The critical juncture of 2012-2013 occurred in two related institutional acts. The first was the 2013 Joint Statement between the Abe government and the BOJ. It was titled: “Joint Statement of the Government and the Bank of Japan on overcoming deflation and achieving sustainable economic growth”. Documentary analysis reveals its institutional importance: the BOJ’s commitment was specific and deadline-driven – to pursue 2% price stability “at the earliest possible time” (Cabinet Office & Bank of Japan, 2013) which was later specified by Governor Haruhiko Kuroda as “with a time horizon of about two years”. (Kuroda, 2014, p. 1)

The second act was Governor Kuroda's Quantitative and Qualitative Easing (QQE) announcement in April 2013. Kuroda saw QQE not as a politically driven departure but a “bold policy regime change” designed to fundamentally alter inflation expectations. (Kuroda, 2013c, p. 7) Drawing on international central banking norms and academic consensus, Kuroda transformed a political decision into one of necessary, expert-led intervention. The scale could be seen as unprecedented. Annual Japanese Government Bonds (JGB) purchases amounted to ¥50 trillion, complemented by Exchange Traded Funds (ETF) and Real Estate Investment Trust (REIT) purchases with the commitment to double this purchase figure and the monetary base to ¥270 trillion within two years (Bank of Japan, 2013, pp. 16-20-27). Due to the aggressive nature, Kuroda expected the effects of monetary easing will “permeate the economy and influence prices primarily through three channels” as will be cited in detail in section 6.1. These policies subsequently caused significant changes in financial markets. Japan's stock market, as indicated by the Nikkei 225, soared around 60% between November 2012 (9060) and May 2013 (14,532). (Macrotrends, 2026) At the same time, the Yen weakened from about ¥81 to ¥101 against the US dollar (Macrotrends, 2026). Through portfolio rebalancing channel, asset holders benefited from new gains but they also looked to other sources to rebalance their portfolios from government bonds to other sources. (Saito et al., 2014, pp. 1-2) Indeed, Kuroda himself identified non-regular employment as one of the structural causes of deflation, noting that "a reduction in the wage level due to firms' increased reliance on non-regular employment" was among the factors that "put direct downward pressure on prices." (Kuroda, 2013b, p. 7).

Content analysis of the BOJ's Outlook Reports consistently characterised misses in hitting the inflation target as because of external factors, but not to limits or policy errors on the part of the BOJ (Bank of Japan, 2015, p. 1), thereby protecting its institutional credibility through discursive management. On the occasion of two years on under QQE by which the 2% inflation target should have been achieved, Kuroda had a speech at the Yomiuri International Economic Society in Tokyo. In the speech, he blamed the target miss on external factors: “the year-on-year rate of increase in the consumer price index (CPI) had declined, due mainly to the effects of the substantial decline in crude oil prices since last summer, and recently has been about 0 percent, the underlying trend in inflation has steadily been improving". (Kuroda, 2015, p. 1) This could be seen as the first documented occasion of Kuroda attributing the target failure to conditions outside (oil prices) rather than purely policy shortcomings. I would argue this speech on May 15, 2015 was the point at which discursive pattern had become institutionalised. By November 2017, four and a half years after the two-year commitment, it is arguable that the pattern had deepened further. Speaking at the University of Zurich, Kuroda acknowledged that "annual CPI inflation excluding fresh food has remained in the range of 0.5–1.0 percent" and conceded there was "still a long way to go before the price stability target of 2 percent is achieved." (Kuroda, 2017, p. 7) I think that the framing, however, remained forward-looking rather than self-critical: he assured that the policy was "going in the right direction." The path is as follows: "two years" (2013) → "oil prices" (2015) → "a long way to go" (2017).

Specifically, the second half of the mechanism, however, largely failed. During 2013-2015, even with vast reserves piled high, lending to the private sector rose at only around 2-3% yearly (Bank of Japan, 2016c, pp. 32-33), far too slow for the nominal/ real GDP growth the BOJ needed. As the BOJ's balance sheet expanded, the money multiplier actually declined. (Bank of Japan, 2014b, Chart 37-38) In other words, the rise of the monetary base had failed to lead to a correspondingly large increase in bank lending to the private sector. Kuroda himself acknowledged this structural barrier as early as May 2013, noting that "the households' stance of preferring safe assets has not yet changed" and that "financial institutions have been facing the situation of an increase in funds available for investment amid the sluggish growth in lending," with the gap between deposits and loans having expanded to ¥230 trillion by 2012. (Kuroda, 2013d) The credit channel thus failed for structural reasons that monetary policy could not fix: risk-averse regional banks, cash-rich companies that saw no reason to spend and households that had the least credit access. The exchange rate channel produced mixed results as well. Kuroda identified all three effects in his own analysis: depreciation "enhances price competitiveness" and "brings about rises in nominal value of exports and profits" for exporters, but "pushes down households' real income and profits of domestic demand-oriented firms" through rising import costs. (Kuroda, 2021b)

The distributional consequences were predictable: the economic benefits fell to those who owned assets, such as stock-holding households and those who exported goods abroad (like the large export manufacturers). Meanwhile, the economic costs fell on those who were paid wages by firms that bought and sold imported goods and faced significant price increases for essentials, like the households and small businesses exposed to the import cost increase.

The expectations channel ultimately failed. Using Phillips curve data, Kuroda showed that the entire curve had "shifted downward" since the 1990s, so that "even with the same economic conditions, the inflation rate is now lower than in the past." He also acknowledged the scope of the challenge directly: "a substantially positive output gap of 6 percent would be necessary to achieve the 2 percent price stability target. This gap matches the peak of the bubble period." He therefore argued that QQE needed not to move along the existing curve but to "shift the Phillips curve upward" to work "directly on people's expectations to dispel deflationary expectations." (Kuroda, 2013b, pp. 8–9) This can be interpreted in a way that the governor understood the structural barrier thoroughly, but the institution could not acknowledge that the mechanism had not worked. Analysing 12 BOJ Outlook Reports during 2013-2015 (Bank of Japan, 2026a) reveals that each projected the inflation target of 2% to be reached within one or two years and each report quietly revised downward the prediction, claiming the delay to the missed objective as external factors such as the weak global demand, falling oil price or the April 2014 consumption tax hike (Bank of Japan, 2015, p. 1). This preserved the BOJ's intellectual and legitimate framework even when its performance fell short. The IMF's 2015 Article IV consultation was candid with its assessment in which structural factors, including labour market dualism and weak productivity growth, are constraining the pass-through from monetary stimulus to sustained inflation (International Monetary Fund, 2015, p. 38).

There were three major structural factors. The first was labour market dualism in which there was a deep divide in the Japanese job market between stable, regular workers and unstable, non-regular workers, meaning as demand increased, the companies decided to create more jobs with non-regular, low-paid employees instead of increasing wages for regular employees and the share of non-regular employees increased to nearly 40% by 2015 (Takahashi, 2015). Therefore, the Phillips curve in Japan was flattened out and there was essentially no relationship between falling unemployment and rising wages. This means that the labour market tightening did not generate the wage-price spiral the BOJ's framework needed. The remaining factors were productivity growth and demographics. Japan had a rapidly shrinking and aging population, which led to a structural excess savings over investment that could partially or fully offset a decline in rates but that monetary stimuli could not fully reverse. By the end of 2014, after missing its target, the BOJ did not reconsider its framework but instead decided to expand its QQE programme to ¥80 trillion per year. (Bank of Japan, 2016e) It highlighted the concept of Path dependency: intensification could avoid the credibility costs that the revision of its policy framework would have imposed.

4.2 Intensified Easing and Innovations (2016 – 2019)

In early 2016, the mounting cost forced the BOJ to adapt by laying more measures on top of the existing framework, instead of scrapping old policies. The BOJ's response followed what Thelen (2004, p. 35) called "layering": adding new instruments without abandoning the existing framework.

BOJ Policy Board decided to introduce Negative Interest Rate Policy (NIRP) in January 2016 (-0.1% on excess reserves) (Bank of Japan, 2016a, pp. 1-2) and Yield Curve Control (YCC) in September 2016 (targeting the 10-year JGB yield at approximately zero). However, the decision was faced with opposition from minority members (2 out 9 members) who warned that negative interest rates would damage bank profitability and financial market functioning (Bank of Japan, 2016b, p. 1-3). The concern reflected a real internal institutional division, which Brunnermeier and Koby (2018) would describe as the reversal interest rate problem. The rate literally signifies the point below which monetary easing actually becomes contractionary rather than stimulative. Kuroda later acknowledged this risk explicitly, citing the very same concept: "if the central bank lowers interest rates too far, the banking sector's capital constraint tightens through the decline in net interest margins, impairing financial institutions' intermediation function, so that the effects of monetary easing on the economy reverses and becomes contractionary." He added that "because the impact of the low interest rate environment on financial institutions' soundness is cumulative, the Bank will continue to pay attention to this risk." (Kuroda, 2017b, p. 10) This is what Brunnermeier and Koby (2018) conceptualised as the reversal interest rate.

In September 2016, the BOJ introduced the "New Framework for Strengthening Monetary Easing" (Bank of Japan, 2016b, pp. 1-3) commonly known as Yield Curve Control (YCC), which aimed to manage the shape of the yield curve while QQE's goal of pushing inflation toward 2% goal still remained on the books. This could be seen as careful institutional framing where YCC was presented as a “new framework” rather than a response to NIRP’s problems. The specific phrase "new framework" performed the function of continuity preservation in which layering presented through the language of conversion. In a speech delivered at the Brookings Institution in Washington, D.C. in 2016, Kuroda analytically explained why NIRP and QQE were inadequate and why YCC was added. He identified two core problems of inflation expectations and reversal interest rate. Specifically, Kuroda stated: “despite unprecedentedly large-scale monetary easing, inflation expectation formation in Japan is still adaptive to a large extent. That is, the expectations are formed in a backward-looking manner. In the wake of the substantial decline in crude oil prices since summer 2014, a reduction in the observed inflation has pushed down inflation expectations.” Meanwhile, he recognised that “when short-term interest rates are negative and long-term interest rates have fallen to extremely low levels, there could be side effects or costs that weaken the functioning of financial intermediation, which may reduce monetary easing effects”. (Kuroda, 2016, p. 2) The governor made a surprise summary in the speech when admitting that “Japan's economy is no longer in deflation, which is commonly defined as a sustained decline in prices. However, the price stability target of 2 percent has not been achieved.” I think that this speech could be seen as the clearest evidence that YCC was not an abrupt escalation but a considered response to Kuroda’s own analysis of NIRP’s limitations.

Consequently, YCC committed the BOJ to keeping the target for the 10-year JGB yield at around zero percent. By doing this, the BOJ retained the desired spread between the short end of the curve and that of long rates which banks needed for their profitability, but it also created a new vulnerability. YCC eliminated a central aspect of QQE – quantity discipline – by implicitly committing to unlimited JGB purchases needed to achieve its target yield. With these unlimited purchase commitments in place, BOJ ownership share of outstanding JGBs rose from about 30% in 2015 to around 43%-45% by 2019 (Bank of Japan, 2026b). Kuroda (2017) mentioned this as well, that "the size of the Bank of Japan's balance sheet currently is about 500 trillion yen, which is roughly equivalent to Japan's nominal GDP. Given that the balance sheets of the Federal Reserve and the European Central Bank are equivalent to about 20 to 40 percent of nominal GDP, I think this demonstrates how massive the Bank of Japan's purchases of government bonds are." (Kuroda, 2017b, p. 6) This scale of commitment is exactly what made the exit described in Section 4.4 so institutionally dangerous.

That led Japan's monetary during 2016-2019 to a deepening policy trap. The deterioration of the market's private component also made an exit difficult and created other problems. Bank profitability continued to weaken. The JGB market worsened further as private debt holding collapsed while the inflation target continued to be missed. Even more, various policy commitments became structural features that had been placed into Japan's financial system: pension funds, life insurance companies, commercial banks and the government itself, had reshaped their long-term financial calculations on the assumption that low interest rates would last for decades. This created vested interests for continuation beyond the BOJ's preferences itself. In effect, path dependency became a phenomenon that became internal not only within the central bank, but also system-wide.

4.3 Covid-19 Response and Path to Transition (2020 – 2023)

The pandemic led to a 4.6% drop in Gross Domestic Product (GDP) (Nippon, 2021; Cabinet Office, 2021, pp. 1-2) and triggered increased monetary easing in Japan, expanding its path-dependent toolkit than abandoning it.

The BOJ extended Special Funds – Supplying Operations to offer firms up to ¥110 trillion of low-cost funding, lay out its guideline about ETF purchases from around ¥6 trillion annually, and introduced greater YCC flexibility (Bank of Japan, 2020a, pp. 1-3; 2020b, pp. 1-3; 2020c, pp. 31-33). These measures were explicitly framed as building upon and operating within the existing QQE with YCC framework rather than departing from it. Kuroda made this institutional continuity clear in his statement before the Committee on Financial Affairs, House of Representatives on March 5, 2021, that: "since the framework of Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control has been working well to date, the Bank judges that there is no need to change it." (Kuroda, 2021a, p. 2) This statement with the principal in the principal-agent relationship is the most political evidence of path dependency: even during a once-in-a-generation pandemic shock, the agent reported to its legislative principal that the existing framework required no revision. From a Historical institutionalism perspective, this can be seen as path-dependent: the BOJ responded to the shock using existing mechanisms, rather than a fundamental break with the past. However, it was the pandemic, the post-COVID global supply disruptions followed by the yen's sharp decline after the Federal Reserve aggressive rate hikes from early 2022 that gave Japan the breathing room and institutional incentives to consider normalising monetary policy. Japan's inflation rate surpassed 2% for the first time in years in 2022. It hit 4.3% by early 2023 (Bank of Japan, 2025, p. 16). In its October 2022 Outlook Report, the Bank acknowledged that "recent price rises have been led mainly by increases in import prices" due to a strengthening of commodity prices, rather than solely by demand-pull inflation arising in domestic goods and services (Bank of Japan, 2022, p. 1). For the BOJ, the YCC commitment then required ever-larger JGB purchases to defend the yield ceiling against a rising global rate environment.

December's widening the YCC band from ±0.25% to ±0.50% was described as a measure to improve market functioning. However, markets interpreted it as the beginning of the end (Reuters, 2022). The move represented what Streeck and Thelen (2005) would call “conversion”. This can be understood as one of a series of gradual incremental steps that allow us to modify or gradually transform one institutional logic by subtly shifting, changing or displacing parts of it while still preserving a superficial link to it and maintaining legitimacy (appearance of continuity). The move was seen as a surprise step, hinting at the possibility of BOJ “moving incrementally away from ultra-loose policy” and “paving the way for a full abandonment of the YCC programme” (Reuters, 2022).

With the appointment of the academic economist Kazuo Ueda in April 2023 – an individual with no Ministry of Finance affiliation who, during his tenure as an academic, had publicly voiced his scepticism about the long-term sustainability of prolonged unconventional monetary easing (Ueda, 2012, pp. 183-186) – the Kishida government signalled a clear shift in the principal-agent relationship to enable the transition to normalisation. With his much more cautious approach and reluctance to be pinned down by any commitments, his style sharply contrasted with Kuroda’s bold commitments. Content analysis of Kuroda's communications during this period shows how Kuroda carefully presented monetary normalisation. In his first speech as governor, Ueda touched upon three critical points of structural challenges QQE faced, why QQE as necessary but insufficient and the side-effects. Specifically, Ueda stated that monetary faced major challenges in the two mechanisms of the relationship between interest rates and economic activity and that between economic activity and prices. “First, in terms of interest rates and economic activity, monetary policy faced the lower bound on interest rates.... Second, in terms of economic activity and prices, as wage growth and the rate of inflation declined, a mindset and behavior based on the assumption that wages and prices will not rise have taken hold in Japan. In terms of inflation expectations, this corresponds to a situation where these have become entrenched at a low level.” In terms of reasons QQE was essential but far from sufficient, Ueda claimed: “This, together with measures by the government, had been effective in pushing up economic activity and prices even under the first challenge... Japan's economy achieved a situation where it was no longer in deflation, in the sense of a sustained decline in prices... However, I must add that it gradually became clear that the second challenge -- the entrenched mindset that prices and wages were unlikely to rise -- would take more time to overcome.” (Ueda, 2023a, pp. 4-6) He also mentioned the side-effects of policy as “conducting monetary easing over a long period undermines the functioning of financial intermediation... In regard to the impact on the functioning of the bond market, various data and surveys suggest that market functioning has deteriorated to a certain extent.” Despite all these concerns, Ueda insisted on maintaining YCC because “at this point in time, achieving the price stability target of 2 percent in a sustainable and stable manner has not yet come in sight.” (Ueda, 2023a, p. 11)

The BOJ's comprehensive policy review in December 2024 recognised the side-effects caused by more than a decade of prolonged unconventional easing, including reduced market functioning and pressure on the profitability of financial institutions, thus paving the way for possible additional policy normalisation steps (Bank of Japan, 2024a, p. 3-7).

4.4 Normalisation Phase: Drivers, Sequencing and Political Uncertainty (2024 – 2025)

On 19 March 2024, the BOJ ended NIRP, lifted YCC and raised its policy rate to range between 0% and 0.1%, representing its first rate increase in 17 years, followed by further rises to 0.25% in July and 0.5% in December (Bank of Japan, 2024b). Governor Ueda definitively declared QQE was successful because it “had fulfilled its role”, describing the rate hike as a response to an acknowledgment that "a vicious cycle between wages and prices has become more solid" (Ueda, 2024a, p. 1-8). Also in his speech at a meeting held by the Yomiuri International Economic Society in Tokyo, Ueda confirmed the condition for normalisation: “the increase in wages agreed in this year's annual spring labor-management wage negotiations is above 5 percent, while that in base pay is around 3.5 percent, both being the highest levels since 1991.” (Ueda, 2024a, p. 5) The speech is viewed as proof that QQE did not fail or BOJ was changing course but instead the mission was complete.

The conventional interpretation attributes normalisation primarily to rising inflation in Japan as well as the 2024 spring wage negotiations producing the highest wage hikes of 5.10% on average in over three decades (Arakawa, 2025; Ministry of Economy, Trade and Industry, 2024). International Monetary Fund’s warning about financial stability risks (International Monetary Fund, 2024, pp. 18-20) and Japanese currency depreciation to ¥150.95 per dollar (Teso, 2024) all made normalisation both possible and necessary as its rapid weakening squeezed household budgets with soaring prices for imports of food and energy. There was market volatility after the BOJ finally raised interest rates in July 2024, the yen strengthened about 8% while the Nikkei 225 declined roughly 18% in the space of just a few weeks, with carry trade investors unwinding trades dramatically. This indicated how deeply embedded low rates had been in Japan's market structures (Chien & Stewart, 2024; Ito, 2025, pp. 190-192; Aquilina et al., 2024). That highlighted how difficult the exit from over a decade of accommodation would be for politicians and markets alike, since a decade of easy money policy had resulted in structural market dependencies on low interest rates.

However, the extreme gradualism of normalisation still showed a path dependency: The BOJ issued a March 2024 statement that emphasised "accommodative financial conditions will be maintained for the time being" (Bank of Japan, 2024b, p. 1). Ueda managed this institutional problem with reasonable communication strategy, framing normalisation not as a radical denial of the Abenomics or Kuroda’s framework, but as the successful conclusion. It was framed as following a path (path dependency) rather than breaking it (International Monetary Fund, 2024; Bank of Japan, 2024b). This path has already faced other obstacles under the Takaichi administration, including persistent inflation well above the 2% target, a structurally weak yen and various political pressures stemming from the fragile governing coalition, the large deficit and the influence of conservative, business-friendly politicians (Kihara & Yamazaki, 2025). These factors all affect BOJ’s policy direction.

5 Political Interactions

The relationship between Japan's political leadership and the BOJ between 2012 and 2025 raises difficult questions about the central bank independence, democratic responsibility, and the appropriate boundaries between elected officials and monetary policymakers. This section analyses how political actors shaped monetary outcomes across successive administrations, using Historical Institutionalism and Principle-Agent theory to show that the relationship between the BOJ and Japanese politicians during 2012-2025 was neither merely political capture nor purely technocratic independence. It was a more nuanced dynamic that I would characterise as constructed alignment.

5.1 The Institutional Vulnerabilities of BOJ Act 1998

The BOJ, established on July 11, 1882, under the Bank of Japan Act, is the central bank of Japan. It was modelled on the National Bank of Belgium. The BOJ was founded during the Meiji era as part of Japan's modernisation efforts; its primary role was to stabilise Japan's currency and its founders envisioned that it would eventually provide much of the capital to finance industrialisation of the country at the time. For most of its history, however, the BOJ was not an independent institution. The BOJ remained a dependent entity of the Ministry of Finance (MOF), which exercised broad supervisory authority over the BOJ, through much of the prewar and wartime periods, the MOF continued this level of supervision and guidance throughout the post-war reconstruction period, up to and even beyond the 1990s (Cargill et al., 2000, pp. 83-85). Under the old 1942 BOJ Act, "representatives of the MoF and the Economic Planning Agency sat as voting members on the BOJ's policy board", meaning that the government held direct formal influence over monetary policy decisions at the time. (Patrikis, 1998) Institutional reform occurred in the revised Bank of Japan Act of 1998, which was established as part of the government's broader campaign of deregulation and governance reform in response to Japan's asset price bubble collapse. The 1998 BOJ Act removed the Ministry of Finance's ability to make any instructions about monetary policy and established the Policy Board as the highest body of the bank with legitimate and independent authority for deciding on monetary policy. (Bank of Japan, 1998, Article 3-16-19). It also imposed increased accountability obligations, requiring the BOJ to regularly report to the Diet.

The 1998 Act, in theory, could be seen as a significant mark of central bank independence but the Abe-Kuroda experiment exposed three structural vulnerabilities in Japan's central banking structure that explain what Abe did and what Takaichi has restored.

First, appointment mechanism is the most significant factor, which is a critical tool for principal-agent alignment. Having the cabinet appoint the Governor, the Deputy Governors and the Members of the Policy Board means the cabinet can directly change an institution's board simply by appointment or non-reappointment, without formal instruction. The Act was designed to prevent direct ministerial instructions – Article 3 explicitly prohibits such instructions – but it was never designed to prevent preference alignment achieved through selection rather than direction. I would argue that a cabinet that systematically appoints officials whose prior intellectual commitments align with the government's economic agenda does not need to issue instructions because the agency problem is already pre-solved at the point of selection. During 2013-2020, Abe reappointed or appointed all 9 members of the Policy Board. The resulting board was perceived by nearly every economist outside of the BOJ as being strongly aligned with the government's preferences. This kind of behaviour was made possible because the 1998 Bank of Japan Act was designed to prevent direct ministerial instructions (Bank of Japan, 1998, Article 3 & 23), but it was never designed to deal with subtle means of policy change through preference alignment.

Second, the vague mandate to achieve “price stability, thereby contributing to the sound development of the national economy" (Bank of Japan Act, 1998, Article 2), without numerical goals, permitted Abe to pressure the BOJ into agreeing to the 2% inflation target via the 2013 Joint Statement in negotiations. It also failed to explain or define what “price stability” actually meant in quantifiable terms. The ambiguity was not random but a deliberate political compromise because any numerical specification would have required the government and the BOJ to agree on a figure (Shirai, 2018, pp. 32–35). This could be explained by Debelle and Fischer’s framework (1994, pp. 195-198 &, pp. 217-219) as converting an undefined goal into a specific political commitment. The practical effect, however, was that the Act left sufficient space for the government to put a specific target into force through political pressure rather than legislative amendment, which is precisely what the 2013 Joint Statement achieved. What Article 2 of the Act could not prevent was the government converting an undefined goal into a compulsory political commitment.

Third, the 1998 Bank of Japan Act allowed for a requirement of "close contact with the government and exchange views sufficiently" (Bank of Japan, 1998, Article 4) which permits political figures access and input into Bank policy discussions. This provision normalised the political presence in the BOJ's institutional environment and framed the government-BOJ relationship clearly as coordination rather than separation. It also created a background of political expectation that shapes deliberation even without formal instruction. The Act, therefore, clearly framed the relationship as coordination, not subordination or direct instruction whatsoever.

Taken together, these three vulnerabilities: appointment mechanism, vague mandate of price stability and close contact requirement, makes up the legal foundation where the constructed alignment became possible. The 1998 Act was designed to protect the BOJ from a particular kind of political intervention: direct ministerial instruction. However, it was not designed to protect the BOJ from the more sophisticated form of political influence that operates through preference alignment, institutional contracting, and normative pressure. None of these vulnerabilities are exclusive to Japan. In a strikingly similar manner, Donald Trump also employed a policy of persistent public criticism, attempts at appointment strategy and exploitation of legislative provisions to pressure the Federal Reserve to adopt looser policies (Schroeder & Prentice, 2026), yet the Fed was able to maintain monetary policy independence due to strong institutional protections like 14-year, non-renewable board terms, clearer mandates and a deeper culture of independence. (Federal Reserve, n.d.) Similarly, the European Central Bank (ECB)'s independence is enshrined in the Treaty on the Functioning of the European Union – Article 130, which prohibits the ECB from seeking or taking instructions from EU institutions or member state governments. (European Central Bank, 2012, pp. 104-105) This obviously acts as a shield to allow for far stronger protection for its independence. This makes the BOJ experience a key case study for structural vulnerabilities that exist across advanced democracy central banking frameworks.

5.2 Governors in Focus: Masaaki Shirakawa, Haruhiko Kuroda, Kazuo Ueda

These structural vulnerabilities were not merely theoretical but were lived and countered by specific individuals in governorship over the study period. Each of the three governors who held office between 2008 and the present day represented a distinct moment in the relationship between the BOJ's formal independence and its effective autonomy.

Masaaki Shirakawa served as Governor from 2008 to 2013. This period included the 2008 Global Financial Crisis, the Great East Japan Earthquake of 11 March 2011, and early attempts by political groups in the Diet to politicise monetary policy to bring an end to the deflation. Shirakawa had been a member of the BOJ bureaucracy, serving as Governor from April 9, 2008, until March 19, 2013. (Bank of Japan, n.d.) While an academic economist with no political ties, Shirakawa was rather sceptical and opposed to any additional quantitative easing policy beyond that initiated under his predecessor, Toshihiko Fukui. He claimed that Japan’s deflation was structural and that quantitative easing would pose severe risks to financial stability, fiscal discipline and the credibility of the Bank of Japan. His point of view could be seen in the speech delivered at a meeting with business leaders in Nagoya in November 2012 where he elaborated on the structural aspect as saying: “Looking at the monetary base -- which is the amount of "money" supplied by a central bank, percentage point changes in its ratio relative to GDP since the Lehman shock have been more or less the same as in Europe and the United States, where the monetary base is thought to have been increased aggressively during this period (Chart 12). Furthermore, as Japan experienced its financial crisis much earlier than other economies, the ratio of the monetary base relative to GDP also started rising in earlier years and has now reached the highest level among the advanced economies. Under the current zero interest rate environment, the cost of holding money is zero, so money is unlikely to circulate in the economy no matter how much a central bank injects. What is important at this juncture is to raise the velocity of money through the strengthening of growth potential.” (Shirakawa, 2012b, p. 6) With this, Shirakawa seemed to have rejected the Abe-Kuroda narrative that the BOJ had been insufficiently aggressive with empirical data. In the speech, he argued that the BOJ had already expanded its balance sheet more than any other advanced economy central bank. This remark turned Kuroda's subsequent determination of doing "whatever necessary to overcome deflation" (Kuroda, 2013a, p.1) into a direct institutional critique of his predecessor, not just an economic judgment. Two months before his resignation, Shirakawa delivered a speech about "The Roles, Missions, and Challenges of the Central Bank" at the Japan National Press Club, in which he implicitly reiterated the independence of a central bank, institutional independence and purpose. (Shirakawa, 2013) I would argue that this speech, combined with the one in 2012 presented above, demonstrates the before-and-after of the critical juncture of 2013 more sharply, portraying him as seemingly the last defender of BOJ independence. Shirakawa then resigned two months before his term ended March 2013. Shirakawa was the final Governor opposed to quantitative easing and was opposed to the political policies of Abe, his departure from the governorship was politically scripted and motivated, as his five - year term was due to end in May 2013 and his succession would allow the Prime Minister to select a Governor who was willing to engage in policies favourable to his growth agenda. (McLannahan, 2013)

In contrast, Haruhiko Kuroda served as the Governor of the Bank of Japan from March 20, 2013, to March 19, 2023. Before his tenure as Governor, Kuroda was the former President of the Asian Development Bank and former Vice Minister of Finance. He had been a public advocate of monetary reflation (a policy response to economic slowdowns that aims to boost spending and counter deflation) to end the Japanese deflation (Kihara, 2013, Kihara, 2019, Kihara, 2023) and wrote op-eds in English in support of Abenomics and aggressively/ hawkishly pursuing inflation. His appointment to head the Bank of Japan by the Abe government was therefore a clear signal of principal–agent preference alignment, representing the wishes of the Prime Minister that the monetary policies be directed toward the Abe agenda to boost Japan's economy to recovery from deflation. His two consecutive five-year terms mean he has been the longest-serving governor in the modern history of Japan and the central bank. As governor, Kuroda adopted the QQE framework that expanded the base of Japan's reserves by ¥7 trillion every month (approximately $80 billion). During this term, he kept inflation above 2 percent for six consecutive months but also faced significant institutional and media criticism. (Mainichi Japan, 2026). Concerning Kuroda's rhetorical style, the political aspect of the aforementioned “policy alliance” can be implicitly understood in the language Kuroda used in 2013 speech at a meeting held by the Yomiuri International Economic Society in Tokyo, addressing QQE. The speech started with Kuroda confirming the determination to “do whatever necessary to overcome deflation” while stressing the “importance of committing strongly and clearly that the Bank is responsible for achieving the price stability target”. (Kuroda, 2013a, p. 1)

His use of medical metaphors to describe deflation as a disease was not unusual. Indeed, according to Kihara's (2026) analysis of 134 speeches from 1998 to 2022 of four BOJ governors, shows that Kuroda's use of high epistemic modality peaked at 25.5–29.0% between 2013 and 2015 – substantially above the below-20% levels of all his predecessors in his two terms in office. Kuroda used medical metaphors to treat deflation as a disease and BOJ as its doctor apparently to present the central bank as the principal institutional agent responsible for ending deflation. The use of such a language decreased sharply after 2017, hinting that the rhetorical escape from his explicit policy pledge began before the BOJ actually backed down from its quantitative-easing policy.

As April 8, 2023, Governor Kazuo Ueda serves as the Governor of the Bank of Japan. He is a Japanese academic economist who has no affiliation with either the Ministry of Finance nor the Bank of Japan bureaucracy, but has sat on the Policy Board for seven years and publicly expressed scepticism about the long-term sustainability of easing and its risks to the system stability, the central bank's credibility in terms of inflation targeting. (Ueda, 2012, pp. 183-186). As governor, Ueda was under the government of Prime Minister Fumio Kishida and has signalled plans for the Bank of Japan to gradually shift away from its ultraloose policies toward an economic normalisation so long as it does not cause any financial instability or cause political chaos. In the first interest rate hike of over 17 years, the Bank of Japan moved rates above zero in March 2024. With this decision, Ueda brought the monetary component of Abenomics to an end.

5.3 The Abe Era: Coordination or Subordination?

The Abe era (2012-2020) created the case of most significance for analysing a modern advanced country in the post-2008 world in terms of political and central bank interaction because it was the most institutionally sophisticated. Although Japan's government never technically broke the 1998 Bank of Japan Act, it achieved significant influence over BOJ's monetary policy.

Three mechanisms were instrumental in this process in which agent selection was the first and most influential. When the Abe administration took office in December 2012, Abe strategically appointed loyalists to the BOJ's top positions and put the pressure on the BOJ to pursue more aggressive quantitative easing. Breaking with usual convention, where a BOJ insider typically headed the bank, Abe named Haruhiko Kuroda, who had been president of the Asian Development Bank and long supported aggressive monetary easing, as governor in February 2013, as well as an academic and formerly strong opponent of the BOJ's previous anti-deflation efforts, Kikuo Iwata, as deputy governor (Ranasinghe, 2013; nippon.com; 2013). Abe's decision to appoint Kuroda was an example of how governments shape monetary policy through personnel selection. This way, constructed alignment gradually channels through the independence structure to achieve monetary goals rather than oppose it, which maintains the form of *de jure* independence while reshaping *de facto* autonomy.

These appointments were deliberately designed to ensure a more ideologically aligned BOJ leadership, as Ito (2021, p. 191) noted: Kuroda had publicly supported Abe's aggressive easing calls when the BOJ governor at the time was resisting them, and Abe later remembered that Kuroda was supportive and "recognised the merit in my ideas" whereas the media and some economics circles were against his agenda (Hitoshi, 2024). The appointment, therefore, was a politically driven selection on ideological grounds, based on mutual belief that deflation was mainly caused by monetary reasons and was curable through aggressive monetary policy. With an agent whose preference matches the principal's at the time of selection, the agency problem is pre-solved, the principal does not need to issue directions. This makes it possible that it was he who triggered an “Abe effect” in which the central bank followed his thinking about outcomes related to inflation and growth, by filling the board with members whose prior intellectual commitments had once matched his policy agenda. During 2013-2017, Abe appointed or reappointed all nine Policy Board members, systematically replacing opponents with reflationary-minded nominees until full board alignment was achieved by mid-2017 (Darrah, 2017).

The second major element was the 2013 Joint Statement (Cabinet Office & Bank of Japan, 2013). This was considered a pivotal document in redefining the political relationship between the BOJ and Abe administration in a way that the government would exert a significant influence and scrutiny over BOJ. In addition to Point 2 about price stability and vague obligations of the government (Point 3), Point No. 4 from the 2013 Joint Statement demonstrated this vividly, in which “the Council on Economic and Fiscal Policy will regularly review the progress in the conduct of macroeconomic policies including monetary policy, the current condition and future prospects of prices in the context of the price stability target under those policies, economic and fiscal situation including employment conditions, and progress in economic structural reform.” (Cabinet Office & Bank of Japan, 2013) The provision apparently put the BOJ under a lower position in decision-making because the Council on Economic and Fiscal Policy was chaired by the Prime Minister, which meant the statement attempted to grant more control over the BOJ’s policies to the political side.

In the meantime, the government’s corresponding obligations were vague and hard to verify. Applying Debelle and Fischer's distinction between goal and instrument independence (1994, pp. 195–198) to the 2013 Joint Statement, while the document may have preserved the BOJ's instrument independence, “free to choose the means by which it seeks to achieve its goals”, it fundamentally constrained goal independence by requiring the BOJ to pursue a 2% inflation target through political and governmental pressure rather than autonomous deliberation. The title itself "Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth" is revealing, framing deflation as an objective shared by "the Government and the Bank of Japan". It repositioned the inflation target as an element of the government's economic programme rather than the pursuit of independent central bank policy, which Thelen (2004, p. 36) would describe as "institutional conversion" since the 1998 BOJ Act remained legally unchanged but was reinterpreted without amendment to facilitate a relationship its creators had not originally intended. The argument here is not whether the Joint Statement was wrong or improper in its efforts to enhance democratic accountability, but that it was structurally unbalanced: the BOJ assumed a specific, measurable and deadline-driven obligation, whereas the Abe administration's pledges of "flexibly managing macroeconomic policy" and "establishing a sustainable fiscal structure" were vague and impossible to verify in political terms. This was an arrangement that was politically functional precisely because it centralised accountability on the central bank while providing the government with plausible deniability.

Analysing Kuroda speeches further, I realised that he already flagged the asymmetry in his first speech in 2013: “in order to avoid a possible arousal of doubt regarding the Bank's increasing purchases of JGBs as financing fiscal deficits, it is vital for the government to clearly show the future course of fiscal consolidation and steadily make progress to reform the fiscal structure... We strongly expect the government to move on that front.” I think this is significant because Kuroda was publicly “strongly expecting” the government to deliver on its vague fiscal commitments, but it never did. Even as the economy changed, this Joint Statement remained the core reference point for deciding whether monetary policy was doing enough throughout the Kuroda era.

The third important mechanism was public political pressure. Abe repeatedly made comments about monetary policy calling for "bold easing" by the BOJ, criticising its caution and its impact on the yen. (Reuters, 2012a; 2013b; Dickie, 2012) These public remarks created an atmosphere of political expectation for institutional behaviour that put the central bank under indirect instruction. The requirement for “close contact” (BOJ Act, 1998, Article 4) is undoubtedly the foundation for that, in which government representatives attended the BOJ policy meeting, conveyed the opinions and concluded with such statements as: “The government regarded QQE with a Negative Interest Rate proposed at this meeting as necessary for achieving the target of monetary policy, and would like the Bank to make an appropriate decision at this meeting” and “The government expected the Bank to continue to thoroughly and actively explain the situation of its monetary policy management, including QQE with a Negative Interest

Rate proposed at this meeting." This is practically identical to indirect instructions from the government, trying to exert its influence and put additional pressure on the BOJ. (Bank of Japan, 2016d, p. 18)

Depending on one's focus, this can be seen as either coordination or subordination. While the 1998 Act was not never formally breached, the gap that Cukierman et al. (1992, pp. 354-355) described between the formal (*de jure* independence) and the actual (*de facto* independence) was large, in that the BOJ had been put in the position where it was prevented from exercising control over monetary targets (goal independence) under rules which the Act had not anticipated. This constraint was reinforced throughout Kuroda's decade by way of appointment strategies and political pressure. I would characterise the resulting political economy relationship as a constructed alignment where official status and recognition of the BOJ as independent remain unchanged, while the central bank's effective degree of goal independence has been greatly modified through tactics that are technically consistent with the existing law but in violation of its underlying intentions.

5.4 The Post-Abe Transition: Suga, Kishida, and Ishiba

According to the Principal-Agent theory, it is highly likely that new leaders usually stick with existing contract by default unless they have a very strong reason to change. Following Abe's resignation in August 2020 (Rich, 2020), Yoshihide Suga (2020-2021) had initially announced the commitment to maintain the policy established during Abe's two terms, highly approving of Kuroda's leadership (Shigeta, 2020) and drumming up support for continued expansionary monetary policy. This institutional mechanism would remain the case despite Suga's less confrontational style than Abe, since institutional means of control remained. I would suppose that demonstrated the constructed alignment, once established, it may continue even after its creator is no longer involved.

Fumio Kishida (2021-2024) took a slightly different stance. He expressed concern over distributional impacts under Abenomics while emphasising the need for income redistribution through his "new capitalism" agenda. In what was to be one of his most influential policy decisions, Kishida chose Kazuo Ueda as the next BOJ Governor in early

2023 – a principal-agent readjustment signalling a greater willingness to normalise policy and say goodbye to Abenomics. Ueda's confirmation hearings contrasted sharply with Kuroda stressing the need for bold actions while Ueda emphasised the importance of financial stability and appropriate normalisation conditions. (Iwamoto & Obe, 2023; Business Standard, 2013; Kajimoto & Kihara, 2023). The political agenda had clearly shifted, and this appointment reflected this shift.

Finally, the subsequent prime minister, Shigeru Ishiba, who would succeed Kishida from October 2024 to September 2025, represented explicit non-interventionism and stated his intention to "respect the autonomy of the Bank of Japan". Regular Ishiba-Ueda meetings focused on information exchange rather than policy coordination. Despite the short time in office and instability of his administration stemming from the ruling coalition, it underscored continued structural tensions (Kihara & Yamazaki, 2024; Kihara, 2024b). Ishiba's resignation once again underscored the institutional uncertainty at a critical moment, showing that even leaders personally committed to central bank independence also face structural constraints that test institutional limits in practice. Moreover, only under Shigeru Ishiba's administration in late 2024 was there widespread signal of doubt about the continuation of aggressive easing with Ishiba saying that the economy was not ready for further tightening and urging the BOJ to keep an accommodative stance (Fujioka & Atkins, 2024; Fujioka & Hagiwara, 2024). Ishiba, a more hawkish politician who openly viewed more aggressive easing with some concern, viewed the change in political economy resulting from subsequent governments as the negative side-effects of the 2010s' rock-bottom interest rates. This potentially complicated the normalisation debate rather than pushed it forward.

5.5 Sanae Takaichi – Constructed Alignment revisited

Sanae Takaichi would inherit additional challenges in the coming months including rising inflation above the 2% target, depreciation of the yen and significant political pressures on her fragile coalition government, from fiscally conservative lawmakers who have made the BOJ's policy direction more complicated. (Kihara, 2025a)

Upon taking over as prime minister on 21 October 2025 and becoming Japan's first female prime minister after winning the LDP leadership election, Sanae Takaichi initiated a qualitatively different phase in the political economy of Japanese monetary policy. The mechanisms of political influence that the Abe administration had pioneered were now being reactivated by Abe’s most committed ideological advocate, operating in the new context of achieved inflation, not deflation.

Takaichi is not simply Abe's successor in a biographical or political sense. she has been seen as his most vocal proponent of the Abenomics monetary agenda among LDP members. Her “Sanaenomics” programme requires aggressive fiscal expansion and continuation of accommodative monetary conditions to stimulate the economy. (East Asia Forum, 2025) Her public rhetoric during the LDP leadership contest and her first months in office revealed a vague return to the early Abe era's “pressure” strategy. Her past criticisms described interest rate hikes as "stupid" and stated that ultimate responsibility lay with the government for "both monetary and fiscal policy" (The Japan Times, 2025; Kihara, 2025b). Takaichi announced her policy vision in October 2025 first policy speech by highlighting her approach to monetary policy and implying a stance of policy coordination between the government and BOJ (Prime Minister's Office, 2025; Dua, 2025), which was clearly resembling the language used in the 2013 Joint Statement. Takaichi was then quoted as saying: “In terms of economic policy, the government is responsible for deciding the direction of fiscal and monetary policy… The means of conducting monetary policy should be determined by the BOJ. That was the premise of my remarks last year.” (Fujioka & Yokoyama, 2025) Also in her first speech before the Diet, Takaichi declared that her "cabinet regards as fundamental the principle that the economy is what enables fiscal spending" and committed to "strategically employ fiscal policies" to generate an economic virtuous cycle that would "enable the public to feel the fruits of economic recovery in a tangible manner." (Prime Minister's Office, 2025) This framing positioned the government, not the BOJ, as the primary driver of macroeconomic outcomes, consistent with her publicly stated view that ultimate responsibility for both monetary and fiscal policy lay with the government mentioned above. (The Japan Times, 2025; Kihara, 2025b)

The Takaichi administration has since faced additional constraints that further complicate matters: inflation remaining above the 2% target, a structurally weakened yen, and political pressures arising from a fragile coalition and influential fiscal conservatives, all further complicating the BOJ's policy direction (Kihara, 2025b). The institutional significance of Takaichi's pressure can be best understood in comparison with the early Abe era. When Abe pressed the BOJ on its ultra-loose stance in 2012-2013, he was pushing against an institution already paralysed by deflationary stagnation, a scenario with an arguable case to be made for more aggressive monetary policy. In 2025-2026, however, Takaichi is pressing against an institution implementing a policy adjustment that aligns with its own policy-setting criteria of sustained 2% inflation, wage growth and financial market conditions, which are also of significant concern to policymakers. Hence, Takaichi's pressure is a call not for the BOJ to meet its mandate, but to subordinate it to government policy. This is a direct violation of goal independence than Abe’s pressure, even if the formal mechanisms in use are identical within the same existing framework of the 1998 BOJ Act.

Analysis of the government's engagements with the BOJ following Takaichi's appointment sheds further light on the underlying dynamics. The November 2025 meeting between Prime Minister Takaichi and Governor Ueda triggered considerable market reaction, pushing the yen lower and delaying expected interest rate hikes – a sign that political signalling alone carries institutional weight (Schroeder & Prentice, 2026). The BOJ maintained some degree of institutional independence and proceeded with raising rates to 0.75% in December 2025 despite political resistance, described by one commentator as "their first showdown" with the new administration (Kihara, 2025a). The subsequent nominations of dovish, *reflationist* (academics who aim to stimulate a stagnant economy and push prices back to a long-term average after a period of contraction or deflation) to open seats on the BOJ's Policy Board signal a strategy to rebuild institutional preferences over the medium term through appointment mechanisms similar to the method used by Abe in 2013 (Fujioka &, Yokoyama, 2026; Kihara, 2026a)

From a Principal-Agent perspective, Takaichi's premiership illustrates a fundamental conflict highlighted by policy normalisation. The BOJ, led by Governor Ueda, seeks to recover goal independence, effectively compromised under Kuroda's leadership. Takaichi challenges this, insisting on the government's primary responsibility for economic outcomes, both fiscal and monetary policies. However, the prime minister attempted to refrain from raising such a contentious issue of easy money in one of their brief meetings afterwards, softening her previous tone and effort to meddle in BOJ policymaking. (Tang, 2026) The same structural vulnerabilities outlined above are in essence, the infrastructure within which the contest between the political and monetary arms of the government is playing out. However, in a speech to a meeting of councillors of Keidanren (Japan Business Federation) in Tokyo, Ueda made it with a title “achievement of the 2 Percent Price Stability Target and Japan's Economy”. (Ueda, 2024b) The naming arguably signalled that the rate hike was a mission accomplishment, not a response to pressure. In contrast to Takaichi’s pressure strategy, I would argue that this speech is the institutional counter-narrative where Ueda was publicly defining the rate hike as data-driven normalisation, not political submission.

The Takaichi case also has comparative significance beyond Japan. Donald Trump's systematic verbal and political attacks against the Federal Reserve have employed a similar mechanism of tactics: public normative pressure, appointment strategy, exploitation of legislative ambiguities, to serve politically motivated monetary preferences. (Schroeder & Prentice, 2026)

Both Trump and Takaichi came to power with declared aims of looser monetary policy and framing tight monetary policy as detrimental to growth and ordinary people. The difference in outcomes of the Fed's greater success to date in resisting political pressure-reflects institutional advantages: longer non-renewable Board member terms, stricter legal mandate and a deeper culture of independence. As such, Japan's experience is more than an isolated case of Japanese monetary politics. I think it stands as a classic example of the structural fragility of central bank independence in advanced democracies when subjected to severe political pressure.

6 Societal Impacts

6.1 The Asset-Price Channel and the Upward Redistribution of Wealth

By most measures, Japan's biggest distributive consequence and least publicly acknowledged policy outcome was the artificially boosted asset prices created by a decade of ultra-loose monetary policy and the unequal way the gains were distributed.

Kuroda called on both investors and financial institutions investing in JGBs “to shift from JGBs to such risk assets as stocks and foreign-denominated bonds and/or to increase lending within their portfolios”. (Kuroda, 2013a, p. 6) In the meantime, “with a view to lowering risk premia of asset prices, the Bank will purchase ETFs and Japan real estate investment trusts (J-REITs) so that their amounts outstanding on the Bank's balance sheet will increase at an annual pace of about 1 trillion yen and about 30 billion yen, respectively.” (Kuroda, 2013a, p. 4) This mechanism was intentionally designed for those actors to achieve those gains.

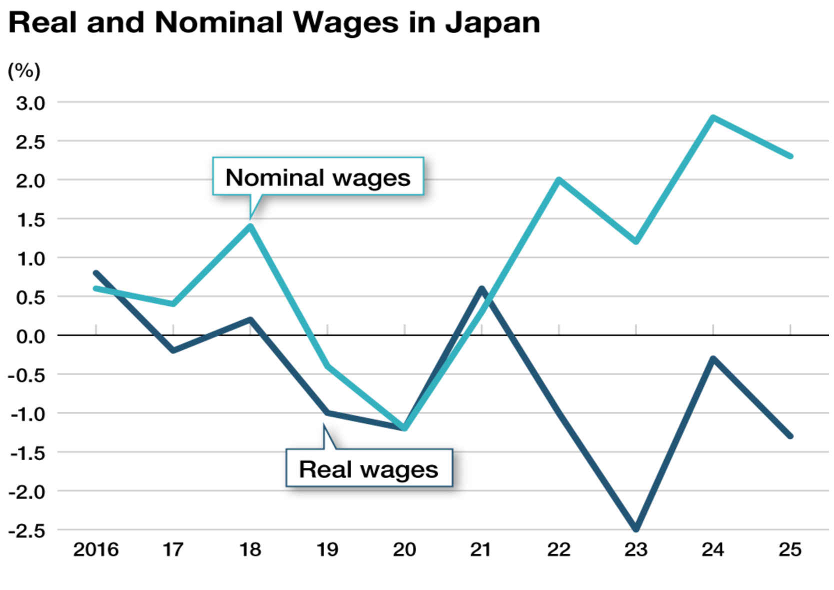
In addition, the Nikkei 225 quadrupled in value between its late-2012 lows around 10,000 and early 2025 highs above 40,000 (Nikkei, 2026). The BOJ's stock market intervention adds a further distributional dimension as described by Harada and Okimoto (2021), it influenced Nikkei stock market growth, to the point that by BOJ's exchange-traded fund purchases materially inflated Nikkei 225 stock prices, with cumulative effects of roughly “20% as of October 2017”. This made it the largest single shareholder in a market where wealth ownership is heavily concentrated among higher-income households. Between 2015 and 2025, average condominium prices in Japan increased by more than 30%, pushing the price-to-income ratio from roughly 9 up to over 12 (MacroMicro, 2026). One key BOJ move, direct buying of equity Exchange-Traded Funds (ETF), stood as an extreme example of a central bank's intervention in stock markets and distribution of asset gains in specific and uneven ways. Indeed, with Japan's richest 20% of households holding about 70% of all financial assets (Statistics Bureau of Japan, 2020), the BOJ itself had estimated that the top 10% of wealthy households had captured 60% of all gains arising from QQE-driven asset price increases. This could be seen clearly from Kuroda’s explanation after the launch of QQE through three channels: “First, the purchases of JGBs, ETFs, and J-REITs will encourage a further decline in longer-term interest rates and lower risk premia of asset prices. This will raise firms' credit demand through a decline in funding costs. Second, as a result of the Bank's massive purchases of JGBs, both investors and financial institutions investing in JGBs are expected to shift from JGBs to such risk assets as stocks and foreign-denominated bonds and/or to increase lending within their portfolios. In economic textbooks, this is referred to as a portfolio rebalancing effect. The extension of the average remaining maturity of JGB purchases reflects our understanding of such an effect. Third, the commitment to achieve the price stability target at the earliest possible time and the continuation of the new phase of monetary easing are thought to drastically change the expectations of markets and economic entities." (Kuroda, 2013a, p6)

The empirical evidence confirms this. Saiki and Frost (2014, pp. 1-2) identified a rise in the Gini coefficient in the QQE's early stages and a widening of income inequality due to the portfolio balance channel, which gave disproportionate benefits to the rich. On a cross-country level, Coibion et al. (2017, pp. 21-22) demonstrated how expansionary monetary policy consistently fuels wealth inequality, precisely through rising asset values, even when it reduces income inequality through labour market expansion.

In Piketty's (2014, pp. 26-27) famous theory, in economies where the return on capital typically exceeds output growth, more of capital flows to private hands. This relationship played out with Japan's decade-long asset price boom. Based on content analysis, the BOJ's Annual Reviews treated these distributional consequences as if they were beyond their scope of responsibility, offering broad statistical trends while framing them as structural problems, not policy effects. This institutional silence protected policymakers by keeping them out of political questioning. The October 2015 Outlook Report published two years into QQE, at the point the 2% target should have been achieved, confirms this pattern. Despite recording that "firms have been seeing record profits" simultaneously with wages improving only at a "somewhat slow" pace (Bank of Japan, 2015, pp. 22-23), the report offers no analysis of why these gains were distributed unevenly, nor any acknowledgment that the portfolio rebalancing channel Kuroda himself had designed was the mechanism producing that asymmetry. Distributional consequences are entirely absent from the text as well. Price misses are attributed only to external factors – "the effects of the decline in energy prices" (Bank of Japan, 2015, pp. 4-8) – describing them as structural problems beyond the policy's reach rather than as predictable outcomes of the instruments chosen. I would suppose this institutional framing protected policymakers from political accountability by making the distributional logic of their own transmission mechanism invisible in official discourse.

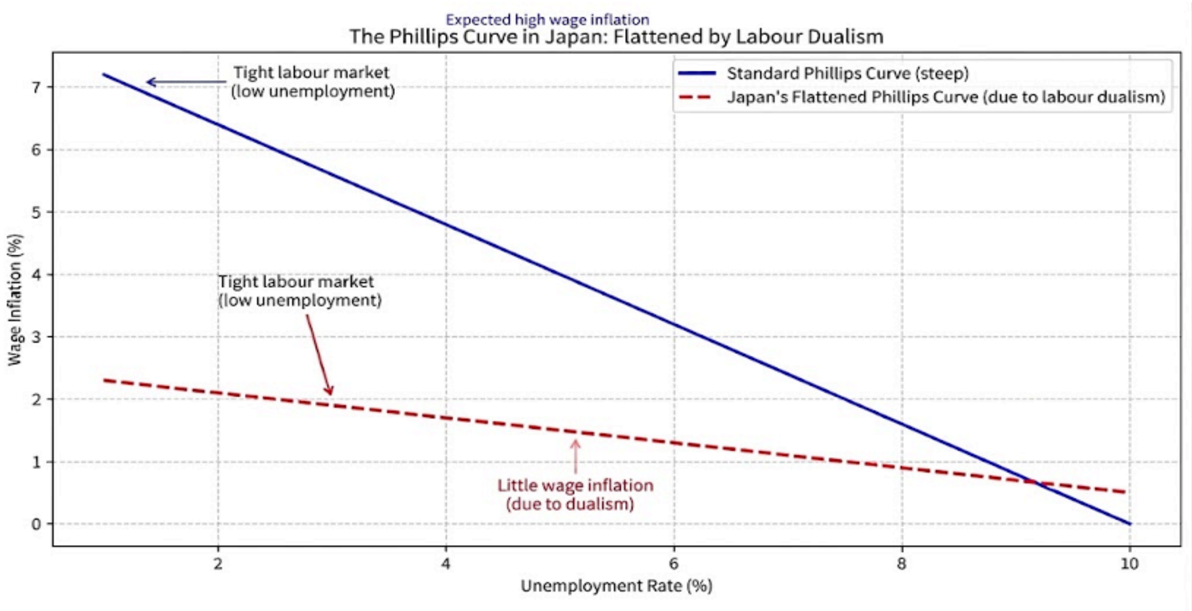
6.2 Labour Market Dualism: Structural Barrier to Inclusive Growth

One of Abenomics' most contested features was its treatment of labour market dynamics. Indeed, unemployment fell from 4.4% in 2012 to 2.4% in 2019 (World Bank Group, 2026) and female workforce participation went from about 63% in 2012 to nearly 74% in 2022 (International Monetary Fund - Asia and Pacific Dept., 2024). However, these were improvements within a dual labour structure where the rise in job numbers happened in jobs where most people had the least job protection and the worst wages. It was Japan's labour market dualism that non-regular workers made up for around 38% of the workforce by 2020, up from around 20% in the 1990s (Ministry of Health, Labour and Welfare, 2006, p. 8; Takahashi, 2015) As mentioned, many women participating in the labour force were drawn into low-wage non-regular employment. Real wages dropped in many years, particularly after 2022 when inflation picked up steam (nippon.com, 2026).



Created by *Nippon.com* based on data from the Ministry of Health, Labor, and Welfare. Percentages shown are for the year-on-year increase or decrease.

As one of the channels for wage-price increases, the labour dualism essentially kept the Phillips curve flat but tight labour markets did not generate wage inflation that fit the BOJ's models. The ideal model goes like this: Low unemployment → Rising wages → Inflation but the case of Japan was blocked by the labour dualism in terms of wage inflation, resulting in the tight markets unable to generate the expected wage-price spiral.



(graph created with support of Gemini AI Pro)

Moreover, as a distributional outcome, the wage gap between regular and non-regular workers widened during Abenomics (Aoyagi et al., 2015, pp. 13-15). The failure to generate consistent inflation and the failure to distribute the benefits fairly are not two different problems. They represent the same fundamental problem when observed from different analytical perspectives.

6.3 Accumulating Social Costs of Monetary Policy

Japan experienced three other social costs of monetary policy. Regional and community banks, which depend heavily on interest income, suffered most in margin compression from NIRP, while serving the regions least subject to profit from asset price appreciation (Borio et al., 2017; Haba et al., 2025). With an aging population, near-zero deposit rates meant household interest earnings fell while the Bank of Japan forecast that its shift to negative rates in January 2016 reduced household interest income by about ¥3 trillion per year (Inui et al., 2017). In 2014, the world's largest pension fund – the Government Pension Investment Fund (GPIF) – shifted its holdings to increase equities (GPIF, 2014), exposing national pension assets to stock market fluctuations in ways that would not be institutionally acceptable if interest rates were normal.

The financial system risks were not hidden. Already in his March 2021 statement, Kuroda formally acknowledged that "there is a possibility that prolonged downward pressure on financial institutions' profits may lead to a gradual pullback in financial intermediation." (Kuroda, 2021a, p. 2) That this warning appeared in a statement before House of Representatives, not a technical paper, but did not bring about a policy revision is evidence of the institutional silence identified: the damage was publicly known but institutionally unaddressed. The damage BOJ’s decade-long policies caused can be traced back to the monetary policy meeting in March 2024 where BOJ acknowledged that: “The side effects of QQE and yield curve control on the functioning of the JGB market could be described as follows: (1) a decline in market liquidity; (2) distortions in relative prices; and (3) a weakening of trading platforms for yen-denominated bonds.” As a result of the large-scale monetary easing measures, “financial institutions’ profitability had been declining, and stress resilience at some institutions had declined”. (Bank of Japan, 2024c, pp. 8-12)

Conversely, the social costs of turning policy around to normalisation were enormous. The inflation that jumped above 2% in 2022 (Griffin, 2022) felt not like a break from deflation but as a cost-of-living crisis, with food prices up 8.5% and energy costs up 12% year-on-year as of early 2026 (Statistics Bureau of Japan, 2026). The effects hardest hit those already most disadvantaged during the era of low rates. At the core of Japan's political economy problem now is an asymmetry: the costs of prolonged accommodation: wider wealth gaps, eroded savings, stressed banking sector. These are gradual and largely hidden to the median household but have a widespread and long-term impact. By contrast, the costs of normalisation are sudden and noticeable. I would argue that Takaichi's government is in part the political realisation of this asymmetry. Her support for continued monetary accommodation reflects her accurate sense of public discomfort and frustration with the costs of normalisation than an ideologically strict defence of Abenomics policies.

In its Financial System Report, the BOJ acknowledged that "the profitability of financial institutions, particularly regional banks, has been under downward pressure" and argued that NIRP (like QQE before it) achieved positive effects primarily through the exchange rate and asset price channels, benefiting asset owners than wage earners. (Bank of Japan, 2016c, pp. 85-86). The question of how the BOJ and its governors observed and presented these negative consequences revealed a consistent institutional pattern. Under Kuroda, social costs were managed through institutional silence because they were absent from Outlook Reports and reframed as structural problems beyond the Bank's accountability. The acknowledgment came only gradually under Ueda, but carefully managed. In November 2023, Ueda warned of "the risk that wage increases will not catch up with inflation and private consumption will be constrained as a result," while also noting that "households' defensive attitudes toward spending -- such as shifting demand toward inexpensive products -- have been observed." (Ueda, 2023b) By September 2024 he acknowledged that "price rises have affected consumption of nondurable goods, such as food products and daily necessities." (Ueda, 2024d)

The formal institutional acknowledgment of policy damage came only at the moment of exit: the March 2024 Policy Board meeting catalogued for the first time the side effects of QQE on market functioning and regional bank resilience. (Bank of Japan, 2024c, pp. 12-15) Even then, I think that the framing was retrospective and technical rather than distributional. By December 2025, with rates at 0.75%, Ueda's Keidanren address presented normalisation entirely as a success story: "the likelihood of realizing the Bank's baseline scenario has been rising" (Ueda, 2025) with no reference to the cost-of-living burden that was driving Takaichi's political resistance. Apparently, the BOJ knew the situation was untenable, but the presentational logic of a credibility-dependent institution required the exit to be declared a completion rather than a concession.

7 Discussion and Theoretical Analysis of Empirical Findings

This chapter brings the findings presented in the previous chapters together and analyse them through the theoretical framework developed in the Chapter 3, assessing what the evidence reveals about the framework's performance and advancing the thesis's original analytical contributions.

7.1 Historical Institutionalism: Path Dependency and the limits of technocratic rationality

The theory of Historical Institutionalism proved the most consistently productive theoretical tool for this research. The concept of path dependency explains what the purely economic viewpoint could not: how the BOJ was enabled to pursue policies for which the justification gradually weakened from 2015 onward. The change in policy it did carry out, as we have seen, was a gradual revision. Moreover, normalisation required and achieved, a degree of careful institutional management that a simpler revision never needed. In this way, the path-dependent institution ensured change happened over a long time, little by little, as its institutions gradually accommodated the political will of the new government. I would argue that the concept is crucial for understanding the BOJ's behaviour and course of action over the entire study period. By the time Haruhiko Kuroda made his QQE announcement in April 2013, he had staked the institution's entire credibility on achieving the 2% inflation objective over two years. When that target was missed time after time, the BOJ could hardly simply acknowledge failure, take responsibility, and change direction because doing so would have undermined its very credibility. Path dependency thus kept the BOJ committed to its goals irrespective of the evidence mounting around it. For example, "Inflation expectations -- such as those derived from market data -- had been increasing from 8 a somewhat longer-term perspective, but many indicators of inflation expectations had been more or less flat since around this summer." (Bank of Japan, 2014c, pp. 7-8) Instead of acknowledging failure and implementing revision, Kuroda went further, creating yet another, still heavier, institutionally irrational stimulus package on the assumption he could restore credibility. Given the economic context at the time of the decision that "The year-on-year rate of increase in the CPI (all items less fresh food) for

September was 1.0 percent. With regard to the outlook, producer prices were expected to stay more or less flat for the time being" (Bank of Japan, 2014c, p. 10), the October 2014 QQE expansion (Bank of Japan, 2014a, pp. 1-2) – increasing annual JGB purchases to ¥80 trillion – illustrates this dynamic precisely: the institutionally rational response to missing the target was to intensify the commitment, because revision would have imposed the credibility costs that intensification could avoid.

During the study period, three critical junctures stand out: December 2012 general election when Abe won a landslide victory, the launch of QQE in April 2013, and the March 2024 end of NIRP. Between these critical junctures, NIRP was merged into QQE, then YCC was added to this, followed by further gradually widened yield bands during 2022-2023, were all examples of what Thelen (2004, p. 35) refers to as *layering*. This form of gradually "grafting new elements onto an otherwise stable institutional framework" was effectively the most rational route given the extreme credibility costs that would have resulted had these policies been reversed. This explains why path dependency was rational. In his first speech, Ueda admitted that "practice may have preceded theory in some respects. In this sense, there remains some room for further analysis regarding, for example, the positive effects and side effects of the measures." (Ueda, 2023a, p.6) Obviously, Ueda's "practice preceding theory" narrative is analytically important because it is the BOJ governor who acknowledged that the institution was operating beyond its theoretical understanding for years.

What makes this case theoretically significant is that path dependency can operate on multiple levels. Within the BOJ, credibility commitments raised the institutional costs of acknowledged failure. To simply put, at the BOJ, an unacknowledged failure simply meant the institution was unable to correct course. Within the financial system, a decade of ultra-loose policy had created structural dependencies – in bank business models, pension fund allocations, corporate balance sheets, and government debt financing – that made sudden and rapid exit extremely dangerous. And within the political economy, those benefiting from low rates tended to exhibit resistance to normalisation that outlasted the original political coalition. The internal mechanism of this path dependency: why the BOJ could not correct course even as evidence emerged, was mentioned by Kuroda in 2017, when he described what he called the "forward guidance puzzle": "even though the forward guidance provided by the Bank of Japan has been much more forceful than that by other central banks, the rise in inflation expectations in Japan has only been moderate." He determined the structural reason as "inflation expectation formation is largely adaptive in that it is greatly affected by past inflation rates. As a result, inflation expectations do not respond instantaneously to central bank forward guidance." (Kuroda, 2017b, pp. 8-9) The governor was publicly acknowledging, four years in, that the core mechanism of his flagship policy was structurally underperforming, but the credibility logic of path dependency made exit impossible.

This multi-level path dependency explains why normalisation required not only different economic conditions but also a different governor, a different political environment, and the shock of external inflation to create the institutional space for change. Ueda mentioned this in his speech “On the Recent Changes in the Bank of Japan's Monetary Policy Framework” (Ueda, 2024c, pp. 3-4) as saying: “This may be a multiple equilibrium type situation where easy money is consistent with either zero or higher inflation. The driver of equilibrium multiplicity seems to have been the strategic pricing behavior of firms in the economy. When firms believe their peers will not raise prices, they think it is best to keep their own prices and wages unchanged, even in the face of small changes in costs or demand, making overall inflation or inflation expectations more entrenched at around zero. An economy in this situation needs a large shock to move from one equilibrium to the other.” He then made a judgment that “the global inflation experienced during 2021-23 has created a lasting change in firms' pricing behavior, perhaps providing a catalyst for movement from the zero to a positive inflation equilibrium.” From what Ueda said, I would argue that the multiple equilibrium framework is consistent with path dependency analysis throughout this study because both describe systems that get stuck and require external shocks to escape.

7.2 Principal-Agent Theory: Architecture of Constructed Alignment

Chapter 5 used Principal-Agent theory to explore the mechanisms by which Abe controlled political and bureaucratic actors under his leadership. In three separate ways, Abe ensured agency, institutions and social values would conform to Abenomics.

This thesis describes these mechanisms of agent selection, institutional contracting, and normative pressure as “constructed alignment”. Abe created and upheld effective autonomy in the BOJ and ensured all of his preferred solutions would be implemented. This constructed alignment, in my point of view, preserved the formal independence while effective goal independence was substantially constrained.

The *de jure* and *de facto* distinction is essential for evaluating this dynamic. While the 1998 Bank of Japan Act remained formally unchanged from 2012 to 2025, the political environment of the Abe administration, together with public pressure and events like the 2013 Joint Statement, effectively transformed the extent to which the BOJ was independent from the government in ways not covered by the legal language. Debelle and Fischer's (1994, pp. 195–198) goal/instrument independence framework is useful to examine the dynamic. The 2013 Joint Statement might be considered to respect the BOJ's instrument independence, which points to their ability to determine and choose tools to meet their goals). However, their goal independence was limited: the 2% inflation target was imposed through political pressure rather than judged and determined independently. The problem is that its terms were unbalanced, committing the BOJ to a specific, measurable, deadline-driven obligation while the government's obligations were vague and impossible to verify in political terms. This ultimately shifted any resulting blame for policy missteps onto the BOJ, while affording the government shield and plausible deniability – an arrangement that, as argued by Grafstrom (2009), shifts accountability toward the central bank every time central bank leaders strike any agreement with governmental organisations.

Through a process of constructing an “Abe effect” of loyal appointees leading the BOJ, Abe was, in practice, able to have the BOJ conform to his ideas of achieving a certain goal of inflation along with a certain rate of growth. In addition, Abe managed to shape the BOJ into the political entity he saw necessary for the sake of Abenomics through, than in violation of, political constraints. The Principal-Agent theory and its effects of constructed alignment pushed past the division between captured (dependent) and independent central banks and moved to a third possible scenario: where formal (*de jure)* independence is sustained, while actual (*de facto*) autonomy is gradually reshaped through extensive manipulation of preference incentives. Such an influence is harder to identify, resist and reverse than direct political capture, because it operates within the legal framework while reshaping its spirit and rationale.

The constructed alignment was strengthened in Kuroda's explicit connection of QQE to Abenomics' three-arrow policy structure. By analysing how Kuroda's speeches, one finds consistent discursive management, in which Kuroda accepted government goals for growth and price stability and explicitly set his answers to conform to the Abenomics framework. At the same time, however, he always resisted accepting political direction. He was speaking the language of a central bank that has normalised political preferences but maintain the formal appearance of independence. For example, in his first speech in 2013 when referring to three-pronged strategy (as known as three arrows), Kuroda called it "an appropriate policy package", saying that "the government is determined to address challenges that Japan's economy faces, including the overcoming of deflation, through the combination of three policy arrows -- namely, bold monetary easing, flexible fiscal policy, and a growth strategy that promotes private investment. I think it is indeed an appropriate policy package. Achieving the price stability target of 2 percent at the earliest possible time, through the first arrow (i.e., 10 monetary easing) is the role of the Bank of Japan... the Bank will achieve this target under its own responsibility" (Kuroda, 2013a, pp. 9-10) Acknowledging Abenomics an "appropriate policy package" and making the pursuit of 2 percent target a total "role" of the BOJ are apparently features of constructed alignment in Abe-Kuroda relationship.

After Abe, constructed alignment, once established, continued by default. Suga maintained it even with little personal interest and active effort because he was in power for a very short time so it was not really the best position to do anything about such a complex matter, Kishida worked within it while expanding room to reconsider other alternatives and now Takaichi seeks to reactivate its full potential within the new context of inflation rather than deflation. Ueda's appointment is the largest departure from constructing alignment and it can be seen as the most significant principal-agent readjustment. Nevertheless, it was framed in the language of continuity, which again highlights the reality of path dependency concerning a normalisation path.

7.3 Distributional Consequences: Structural Predictability and Institutional Silence

The distributional consequences framework provided the analytical basis for exploring how policy affects different social groups and for identifying the official institutional silence about these consequences.

The framework's core contribution to this thesis is the argument that the distribution of these consequences was not incidental, but structurally predictable. In the case of BOJ decisions concerning interest rates and asset purchases, its policy tools hardly were value-neutral mechanisms for achieving overall economic stability. They redistributed wealth, risk and opportunity in structurally predictable ways throughout Japanese society. As the portfolio balance channel drove asset prices higher, wealthy Japanese families owning property and stocks saw their portfolios increase in value. The impact of NIRP squeezed the margins of financial institutions that served regional areas and millions of small businesses, leading to negative impacts in those sectors. As the return on deposits fell towards zero, the full financial squeeze of this policy choice was imposed on savers who had built up financial security over years on returns from ordinary savings. These are not accidents of implementation. These results arise naturally from the logic behind the instruments themselves.

Empirical studies support this perspective throughout: Saiki and Frost (2014, pp. 1-2) offer the most direct and straightforward evidence, concluding that the adoption of QQE by Japan was associated with growing income disparity. Their findings suggest that the positive distributional effects of QQE occurred mainly on households that were already well off. Their portfolio share was larger, thus, allowing them to benefit more than poorer households, primarily from an increase in value of their asset portfolio. Conversely, in a cross-country empirical investigation Coibion et al. (2017, pp. 21-22) showed that expansionary monetary policy tends to be associated with a considerable increase in the wealth distribution through asset price rises. In Piketty's comprehensive theoretical underpinning for capitalism (2014, p. 26), such dynamics can become extreme: in economies where the return on assets consistently exceeds the growth rate of output, capital will naturally become more concentrated in private hands. Japan has demonstrated this relationship precisely over the decade-long asset price boom under QQE.

Institutional silence can be said to link the distributional consequences framework and political interaction. In official publications, the distributional effects of policy never have been acknowledged. By making the distributional mechanism invisible in official discourse, both the BOJ and the government made their actions and consequences harder to hold accountable. I would argue that it has never been an attempt deliberately to deceive the public, but an institutional tendency to frame economic outcomes in terms that protect the legitimacy and allow officials to preserve their autonomy.

7.4 Limits of Monetary Policy: A necessary but insufficient condition

The conclusion is clear: in every single dimension, monetary policy was a necessary but insufficient condition for overcoming Japan's structural economic challenges.

The failure to supplement aggressive monetary easing with corresponding reform efforts for the labour market, productivity boost and population management stands as the central policy failure of the Abenomics era. This is apparently reminiscent of Shirakawa’s speech, in which he warned and foresaw that “in an economy where a rise in income is hardly expected to occur in the near future, expenditure keeps declining and thus prices are unlikely to rise. It is in this context that the Bank notes the importance of efforts to strengthen the economy's growth potential and support from the financial side in order for Japan's economy to overcome deflation as early as possible and return to the sustainable growth path with price stability.” (Shirakawa, 2012b, p. 8)

Monetary policy can prevent deflation from spiralling, support financial market stability, and create favourable conditions for growth. It cannot, though, directly address labour market dualism, reverse demographic aging and decline, improve corporate governance, or change the already deeply rooted deflationary mindset overnight. The structural reform pillar of Abenomics was so inadequate that the monetary pillar's distributional logic operated without corrective counterpressure. This arguably made the economy all the more prone to producing the wealth inequality, labour market dualism, and sectoral stress documented in the previous chapter 6. When monetary policy becomes the main instrument of economic governance because structural reform is politically too difficult, its distributional consequences accumulate out of control.

Finally, because of Japan's greater structural constraints, monetary policy's effects became more pronounced and persistent. Japan's case may therefore be the most instructive instance of a challenge that faces other advanced economies attempting to use monetary policy as a sole substitute for structural reform.

8 Conclusion

The aim of this thesis was to examine Japan's monetary and interest rate policies between 2012 and 2025. Instead of treating them as purely technical decisions, I observed them in an institutional process influenced by political relationships, historical constraints, and normative pressures whose effects varied across Japanese society. Applying Historical Institutionalism, Principal-Agent Theory, and Sociological Institutionalism with Distributional consequences framework, coupled with content analysis and documentary analysis of primary sources, this research sought to explain how monetary and interest rate policies evolved throughout the study period, why political influence worked out as it did, and what actually occurred to ordinary Japanese people as a result.

What emerged is a picture of a central bank both bold and constrained at the same time, in which Japanese monetary policy evolved through path dependency, critical junctures and small steps toward institutional change. The 2013 Joint Statement locked the Bank of Japan into an undesirable path with rising exit costs and little benefit while the introduction of NIRP followed by YCC was an institutionally rational step to further that commitment, with each deepening the structural dependencies that made the 2024 normalisation relatively delicate. That normalisation was arguably less a policy success than an escape enabled by external factors: imported inflation and yen depreciation provided the cover that a decade of domestic easing had failed to generate. Politically, the government influence over the BOJ was exercised through methods other than formal instruction as it was unnecessary. Constructed alignment achieved through governor selection, asymmetric accountability, and normative pressure reshaped the substance of independence while its form remained intact. Indeed, the "Abe effect" persisted even after Abe's death and Takaichi's recent attempt to establish government priorities in monetary objectives mirrored Donald Trump's pressure on the Federal Reserve. This confirms that Japan is by no means an isolated case but an instructive one. With regards to distributional consequences, unemployment dropped and female labour force participation rose as a result of the policy but the economic mechanisms that the policies employed selectively favoured asset owners, wage-dependent households, non-regular workers, and hardworking savers paid the costs quietly. The broad-based prosperity Abenomics promised was not delivered.

I would argue that the central lesson of the period is that monetary policy was needed, but ultimately insufficient. The failure was thus a political one of policymakers who failed to match bold monetary experimentation with bold and adequate structural reforms about the labour markets, productivity enhancement, demographic challenges and everything else structural that would have put counterbalance to the distribution logic of the monetary instruments of policy. The problem is not whether Takaichi's government is brave enough to break this pattern and try again, but whether or not she can copy Abenomics' model yet again, using both the fiscal and monetary policy approach while refraining from the real structural solutions needed in Japan. It remains the most important unanswered question of Japan's monetary governance for future scholars to investigate.

From my perspective, Japan's experience is exemplary rather than exceptional. Appointment power, mandate vagueness and close contact requirements all exist in the institutional design of central bank independence across advanced democracies, and both Abe and Takaichi exploited them. The Abe government did not attack or undermine the Bank of Japan's formal legal independence but it reshaped it through formal institutional acts, appointment strategy, and normative pressure, all within the wording of the act, making it a much more difficult struggle for those defending central bank independence to identify what has actually been broken or to rally support around it. That the Federal Reserve proved more resistant to similar pressure from the Trump administration reflects institutional design advantages: longer non-renewable terms, clearer mandates, a deeper culture of independence, rather than any fundamental difference in the nature of the political pressure applied.

As Japan moves deeper into normalisation, a new set of distributional forces has created political pressures that directly shape the conditions under which the BOJ must operate. The inflation experienced since 2022 has not been welcomed by Japanese consumers as escape from deflation. Instead, they face a cost-of-living crisis that affects the less fortunate and marginalised the most during this low-rate decade. This social anxiety is a direct political input to policymakers like Takaichi, whose agenda and support for monetary easing increasingly reflect the public frustration with the normalisation’s immediate costs. Japan's economy still faces a simple dilemma: the long-term, slow, widespread costs of monetary easing versus the short-term, immediate, politically noticeable costs of normalisation. This dilemma will only stop if the country carries out fundamental structural reforms to deal with the underlying conditions: labour market reform that raises wages and reduces dualism, productivity-enhancing investment along with a franker discussion among Japanese population about the limitations of monetary policy tools. Abenomics' model was largely successful on monetary easing yet cautious about structural reforms, now this model’s historical pattern seems to be at risk of repeating itself.

Finally, this study has several important limitations. Firstly, all official documents and minutes of the BOJ are provided in English. While this offers us excellent access to important decision-making, it is possible we have missed nuances and subtle features within Japanese original texts that can only be accessed in the Japanese language. Secondly, some of the most recent Policy Board minutes are still unpublished, pending delay. Thirdly, distributional analysis remains primarily the product of an engaged analysis of empirical studies, but as explained in the previous section, these studies tend to be unable to isolate the causal effect of Japanese monetary policy from other simultaneous economic shocks, such as a variety of fiscal, demographic and labour market and structural economic effects.

In terms of future research, I identify three potential contributions. First, a comparative study of constructed alignment across central banking systems, examining how the mechanisms identified in Japan operate, with what institutional resistance, in the Fed–Trump relationship and in ECB–member state dynamics, would test the framework's generalisability. Second, a quantitative study that integrates the institutional analysis carried out here with household-level distributional data will strengthen the causal account of the specific policy instruments in use versus the distribution-wide impacts experienced across Japan's different social groups. Third, a study of the long-term institutional consequences of the Takaichi administration's response to normalisation whenever more official documents become available could be another topic.

Japan's 2012-2025 economic experience teaches me that monetary policy, no matter how innovative or aggressive, cannot overcome demographic decline, labour market rigidity, weak productivity growth, or deep-rooted expectations, whether deflationary or inflationary. The Bank of Japan did what it could, and in some cases, perhaps more than could reasonably have been expected. I think the failure was not primarily institutional but political: a failure to complement bold monetary experimentation with equivalently ambitious structural reform, a failure whose distributional and institutional consequences it produced across 13 years, is the central lesson of the period this study has examined.

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Appendices

Appendix 1 Glossary of Key Terms

Abenomics: Economic programme launched by then PM Shinzo Abe after 2012 with "three arrows": aggressive monetary easing, proactive fiscal stimulus, and structural reforms

Balance sheet: Record of a central bank's assets (mainly government bonds and other securities it has purchased) and liabilities (mainly bank reserves and currency in circulation)

Carry trade: Investment strategy in which investors borrow in a currency with low interest rates (such as the Japanese yen, Swiss francs) and invest the proceeds in higher-yielding assets elsewhere

Consumer Price Index (CPI): Measure of inflation that tracks changes in the average price of a fixed basket of goods and services purchased by households

Credit channel: Transmission mechanism through which central bank policy affects the economy by influencing the willingness and ability of banks to extend loans to businesses and households

Deflation: Sustained and broad-based decrease in the general price level

Exchange Rate Channel: Monetary policy transmission mechanism whereby changes in interest rates affect the value of the national currency, which in turn influences exports, imports, and inflation

Exchange-Traded Fund (ETF): Investment fund traded on a stock exchange that tracks the performance of a basket of assets such as equities or bonds

Forward Guidance: Form of unconventional monetary policy in which a central bank communicates its intentions about the future path of interest rates, aiming to influence expectations and thereby current borrowing and spending decisions

Gini coefficient: Standard statistical measure of income or wealth inequality within a population, ranging from 0 (perfect equality) to 1 (maximum inequality)

Japanese Government Bond (JGB): Debt securities issued by the Japanese government to finance public expenditure

Monetary Base: Total stock of money directly created and controlled by a central bank, comprising currency in circulation plus commercial bank reserves held at the central bank

Money Multiplier: Ratio between the total money supply (bank deposits, loans, etc.) and the monetary base

Negative Interest Rate Policy (NIRP): Policy under which the central bank charges commercial banks a fee (a negative rate) for holding excess reserves at the central bank, rather than paying interest on them

Nikkei 225: Japan's primary stock market index, tracking the share prices of 225 large companies listed on the Tokyo Stock Exchange

Pasinetti Index: Measure of economic inequality associated with the post-Keynesian economist Luigi Pasinetti, capturing the proportion of income accruing to capital owners (rentiers) relative to workers

Phillips Curve: Empirical inverse relationship, originally identified by A.W. Phillips, between unemployment and inflation: as unemployment falls, workers gain bargaining power and wages rise, pushing up prices

Portfolio Balance Channel: Primary theoretical mechanism through which quantitative easing is expected to work: by purchasing long-term government bonds, the central bank induces investors to rebalance their portfolios away from bonds and into riskier assets (equities, real estate), lowering yields across the board, stimulating investment and consumption, and raising asset prices

Quantitative Easing (QE): form of unconventional monetary policy in which a central bank purchases financial assets (typically government bonds) from commercial banks and financial institutions on a large scale, injecting money into the banking system to lower long-term interest rates and stimulate lending, investment, and economic activity. QE is typically deployed when conventional interest rate cuts are no longer possible because rates are already at or near zero

Quantitative and Qualitative Easing (QQE): Bank of Japan's distinctive version of quantitative easing, introduced by Governor Kuroda in April 2013. "Quantitative" refers to the large-scale expansion of the monetary base; "qualitative" refers to changes in the composition of the BOJ's asset purchases to include longer-dated JGBs, ETFs, and REITs, not just short-term instruments.

Real Estate Investment Trust (REIT): investment vehicle that pools capital to purchase and manage income-generating real estate assets

Reflation/ Reflationary Policy: policy response to economic stagnation or deflation that aims to stimulate demand, raise price levels, and restore economic growth, typically through a combination of monetary easing and fiscal expansion

Reversal Interest Rate: threshold below which further reductions in interest rates become contractionary rather than stimulative, because the damage to bank profitability reduces their capacity to lend

Uncollateralised Overnight Call Rate: Japan's benchmark short-term interbank interest rate, equivalent to the policy rate in other central banking systems. It measures the rate at which banks lend to one another overnight without collateral

Unconventional Monetary Policy (UMP): Monetary policy tools used when conventional interest rate reductions are no longer possible because rates are already at or near zero. UMP encompasses quantitative easing, qualitative easing, negative interest rates, yield curve control, and forward guidance

Yield Curve Control (YCC): UMP framework introduced by the BOJ in September 2016, under which the central bank targets both short-term interest rates (through NIRP) and long-term interest rates (targeting the 10-year JGB yield at around zero) simultaneously. YCC required the BOJ to purchase unlimited quantities of JGBs to defend its yield targets as global interest rates rose after 2021, making it increasingly difficult and costly to maintain, and was eventually terminated in March 2024