

Japanese yen hits 40-year low

Nick Beams
1 July 2026

The Japanese government and its financial arms, the Ministry of Finance and the central bank, are becoming increasingly embroiled in a series of economic problems that are leading to a continuous fall in the value of the yen.

Earlier this week, the yen weakened to 162 to the US dollar, hitting its lowest level in almost four decades despite efforts by financial authorities to prop up the currency. In an expression of concern over the weakening, Japan's chief cabinet secretary, Minoru Kihara, told a press conference that the government "stands ready to take action whenever necessary."

The immediate effect of the falling yen is to increase the price of oil and energy as Japan is dependent on the Middle East for more than 90 percent of its supplies. But the hikes will go across the board as Japan imports much of its food and raw materials.

Last year the price of rice, a staple, soared from ¥2000 to ¥5000 for a five-kilogram bag. While it came down somewhat this year because of government intervention, it still remains at historically high levels.

The latest slide in the yen's value came despite Ministry of Finance intervention in April and May when it spent a record \$72 billion to support it, the money being drawn mainly from Japanese holdings of US Treasury bonds. The intervention, and the threats by the government to speculators that it was prepared to do more, prompted a rise in the yen's value. But it was short-lived and its slide continued, reaching its lowest level since December 1986 on Tuesday.

More intervention may come—level of 163 yen to the dollar is being touted as a new line in the sand—and the authorities are said to have "ample ammunition" with which to intervene. But such measures are not a long-term solution because the problems go deeper than a temporary currency mismatch.

As Bloomberg noted: "History is unkind to unilateral FX (foreign exchange) intervention. And it's

downright brutal when the fundamentals are leaning the other way, which is exactly the trap Japan finds itself in."

A key issue is the divergence between Japanese interest rates and the rest of the world. After years of ultra-low rates, close to zero and at times even negative, the Bank of Japan has lifted its base interest rate to 1 percent, in an attempt to "normalise" monetary policy. However, this remains well below the rate in the US, between 3.50 and 3.75 percent, with the Fed having ruled out cuts for the foreseeable future because of rising inflation.

The senior currency analyst at the financial firm MUFG Lee Hardman, told the *Financial Times* (FT) that crossing ¥162 was "another reminder of how weak the yen has become. The energy price shock has weighed on the [currency], and the Fed's hawkish policy update is now encouraging higher US rates and a stronger dollar."

Lower rates in Japan have led to international investors borrowing in Japan and then using the money to invest in the US and other markets, leading to an outflow of yen, putting downward pressure on the currency.

While the lower value of the yen aids exporters, making their products more competitive in global markets, the authorities cannot allow the yen to slide. This is because such a decision would certainly bring retaliation from the US where the Trump administration, along with others before it, has periodically accused Japan of being currency manipulator.

A continuing slide will create broader problems. In a comment to the FT Chris Turner of the financial firm ING noted that authorities recognised that intervention at this point was "an exercise in futility."

"But they don't want to leave yen losses unchecked in case it triggers a 'sell Japan' mindset should

Japanese government bonds and then equities come under pressure too.”

Another contributing factor is the very slow rise in the interest rate of the Bank of Japan. It lifted its rate to “around 1 percent” in the middle of last month. While this was the highest level since 1995 it is below the inflation rate now running at 1.5 percent, and well below other central bank settings.

The Bank of Japan is being constrained by political pressure from the Sanae Takaichi government which wants it to go slow on interest rate hikes. Following her election victory in February, she said she was going to set out a new direction for the Japanese economy.

That plan, though short on detail, was unveiled last week. It involves a ¥370 trillion (\$2.3 trillion) investment program based on government private sector collaboration. It will extend over 14 years and direct investment into 17 key sectors of the economy with more than \$600 billion for AI and semiconductors.

Takaichi said Japan’s problems did not stem from a lack of innovation or efficiency.

“What is lacking is domestic investment,” she said, and that the government would support companies that had advanced technologies in sectors such as shipbuilding, solar panels, quantum computers and the next generation of nuclear reactors.

“The Takaichi cabinet will break the cycle of excessive austerity and insufficient investment in the future.”

But questions are already being raised about how corporations will be induced to take part—they are supposed to finance more than half of the outlays—and how much the government contribution would add to the national debt, already at around 200 percent of GDP, the highest for any advanced economy.

Investors have already signalled their concerns over financing with the interest rates on longer-term government bonds reaching their highest levels since the 1990s in recent months.

The fall in the value of the yen poses an acute dilemma for the government. An increase in the Bank of Japan interest rate would provide a boost to the yen. But such an increase would add to the costs of servicing government debt and have an adverse impact on economic growth.

As far as the currency markets are concerned, there is likely to be a continuing slide of the yen, lifting

inflation and contributing still further to the real wage cuts for the working class which will undermine support for the government, unless the Bank of Japan starts to lift rates more than it has so far.

The government, however, is pushing to keep them down. According to Bloomberg, the government will unveil its Basic Policy next month, which sets out the annual blueprint for its economic strategy with Takaichi “expected to use that document to dissuade the Bank of Japan from further interest rate hikes.”

If that turns out to be the case, then it will mean further turbulence for the currency.



To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact