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Yen at its Weakest Against the Dollar in About 40 Years – What Impact Will This Have on the Japanese Economy?

Benefits of the weak yen have been unevenly distributed; impact on real GDP over the past year was -0.14%

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Summary

- At the end of June 2026, the USD/JPY exchange rate briefly hit the 162-yen level, marking a low not seen in about 40 years. According to estimates using the DIR macroeconomic model, while a weaker yen and stronger dollar generally have a net positive impact on the Japanese economy under normal economic conditions, the benefits of yen weakness do not spread widely. For many companies and households, the increased burden resulting from rising import prices is likely to be more noticeable. Furthermore, it appears that the positive effects of yen weakness have been offset by factors such as companies' progress in passing on price increases, downward pressure on exports due to the deteriorating situation in the Middle East, and a decline in the number of Chinese visitors to Japan caused by worsening Japan-China relations. Taking these factors into account, we estimate that a 10% depreciation of the yen against the dollar had a negative impact of approximately 0.14% on real GDP over the past year.
- Movements in the USD/JPY exchange rate are often explained by the real interest rate differential between Japan and the US; however, since the fall of 2025, this relationship has weakened, and the yen has been depreciating against the dollar amid a narrowing real interest rate differential. The relationship between US real interest rates and the USD/JPY exchange rate has remained stable recently, and it appears that upward pressure on the yen resulting from rising interest rates in Japan has been limited. This is believed to stem from the fact that, while the Bank of Japan (BOJ) 's monetary policy is in the process of normalization and it continues to raise interest rates, the current interest rate level remains low relative to the inflation rate and other factors, and is below the interest rate level appropriate for the actual state of the economy (the neutral rate). If this view accurately reflects the situation, the yen is likely

to weaken against the dollar as long as expectations of rising US interest rates remain strong due to high inflation. On the other hand, even if the BOJ continues to raise interest rates, the yen may not reverse its current trend to one of appreciation for some time.
