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200

BOJ Raises Key Rate To a 30-Year High

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TOKYO—Japan's central bank raised its policy-rate target to its highest level in 30 years on Friday, another small step back from the world's longest and biggest experiment with ultraexpansionary monetary policy.

U.S. investors in stocks, bonds, cryptocurrencies and other assets tend not to pay too much attention to the policy moves of other countries' central banks. But the Bank of Japan is different. If the central bankers in Tokyo continue to slowly raise interest rates, the impact could be felt far and wide—including in the U.S.

"I don't think we can entirely treat this as a Japanonly event," said Frederic Neumann, chief Asia economist for HSBC in Hong Kong.

The central bank's rate-setting panel agreed to lift the target rate to 0.75% from 0.5%, where it had been held since January.

BOJ officials raised their policy-rate target in response to sticky inflation, which is still a painful novelty for households in a country that was battling flat or falling prices for decades.

The Federal Reserve, by contrast, cut its benchmark rate this month, and Fed officials are debating whether to do so again in the coming months as the labor market shows signs of softening.

Fed decisions on rates routinely ripple globally thanks to the central role of the dollar in finance and trade and the importance of U.S. consumption to the global economy.

There are reasons why BOJ decisions are felt beyond Japan's shores, too.

One is that ultralow interest rates in Japan have long made the yen an attractive currency for hedge funds and other sophisticated investors to borrow to finance purchases of higher-yielding assets, including Treasurys or U.S. stocks.

Rising rates in Japan, which would tend to lead to a strengthening currency, make that carry trade less attractive.

In extreme cases, investors might be forced to sell stocks, bonds and other assets to repay their yen-denominated loans, destabilizing markets and driving down prices.

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