

## Macro Roundup Article

**Headline:** [The Bank of Japan's Seductive Widow-Maker Trade](#)

**Article Link:** <https://www.project-syndicate.org/commentary/japan-monetary-tightening-could-affect-global-economy-by-kenneth-rogooff-2023-10>

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**Tweet:** [@krogooff](#) argues a Japanese hiking cycle, which is likely given the uptick in domestic inflation, could trigger a systemic Japanese financial crisis.

**Summary:** The BOJ's reluctance to increase its short-term policy rates is understandable, given that Japan's gross government debt currently stands at 260% of GDP, or 235% of GDP after netting out \$1.25 trillion in foreign-exchange reserves. Should the Bank be compelled to raise its short-term policy interest rates by 3% – about half as much as the US Federal Reserve has – the government's debt-servicing costs would explode. Moreover, a sharp interest-rate increase would put enormous pressure on the Japanese banking sector, particularly if long-term rates were to rise as well. Related: BOJ Shock Has Wall Street Gaming Out the Global Spillovers

**Primary Topic:** Financial Markets

**Topics:** Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

**Permalink:** <https://www.edwardconard.com/macro-roundup/krogooff-argues-a-japanese-hiking-cycle-which-is-likely-given-the-uptick-in-domestic-inflation-could-trigger-a-systemic-japanese-financial-crisis?view=detail>

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