

Update on “Japan’s Exorbitant Privilege” in 2014

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In 2014, Japan's net external assets increased 13 percent to hit record high, according to the updated estimates presented here. A major factor was yen depreciation, which boosts the value of Japan’s foreign assets relative to Japan’s liabilities to foreigners. Thus, Japan has now maintained its status as the world largest creditor for 24 straight years.

In this short note we update our calculations from our recent paper “[Japan's Exorbitant Privilege](#)” through 2014, and report the new results. The basic results are presented in updated tables 1 - 3.

As table 2 shows, if we exclude the exchange rate effect, return differentials have expanded little compared to that of the previous year. This means that exchange rate depreciation had a huge impact on Japan’s return differentials in 2014.

However, contrary to the negative total return differential during 2013, which we discussed in footnote 17 and was the last year available in [our original paper](#), the overall return differential in 2014 was positive. Thus despite the fact that Japan’s current account surplus in 2014 shrank to its lowest level in 30 years (relative to GDP), Japan’s net wealth position vis a vis the rest of the world still rose significantly. This wealth effect is potentially a significant early effect of Abenomics, though of course there are many factors behind this result and it requires further investigation.

End note: Since Japan adopted the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) published by the International Monetary Fund from 2014, some definitions of the classification of the international investment position and the balance of payments have changed. For example, "investment income attributable to investment fund shareholders" is introduced as a new item under "investment income," and in the BOP and IIP "investment fund shares" is introduced as a new item under "portfolio investment." Transactions related to investment funds is recorded under these new items. See the Bank of Japan release.

https://www.boj.or.jp/en/research/brp/ron_2013/ron131008a.htm/

Japan's Exorbitant Privilege (updated May 2015)

Table1 : Returns Differential Estimates, 1996-2014

		Assets	Liabilities	Difference
Total				
	Total	4.4	3.1	1.3
	Yield	3.4	1.8	1.7
	Stock-flow adjustment effects	0.9	1.3	-0.4
FDI				
	Total	4.8	9.7	-4.9
	Yield	6.3	8.2	-1.9
	Stock-flow adjustment effects	-1.5	1.4	-3.0
Debt				
	Total	6.2	0.4	5.7
	Yield	5.0	2.3	2.6
	Stock-flow adjustment effects	1.1	-1.9	3.1
Equity				
	Total	10.9	8.7	2.1
	Yield	5.0	1.2	3.8
	Stock-flow adjustment effects	5.7	7.4	-1.7
Others				
	Total	1.9	3.1	-1.2
	Yield	1.7	1.4	0.4
	Stock-flow adjustment effects	0.1	1.7	-1.6
Reserves	Stock-flow adjustment effects	2.2		
(for reference)				
Debt and reserves				
	Yield			1.2

Note: Stock-flow adjustment is "change in outstanding" minus "financial account."

Income flow from reserves is not available separately. We show yield from aggregate debt and reserve for the source of debt income flow as a reference

Reinvested earning for FDI is included for this return differentials estimation.

Assets and liabilities outstanding include securities lending in 1995 used as denominators for computing return differentials for 1996 because of data availability.

Japan adopts BPM6 from 2014. Accordingly, the definition of portfolio equity changes into portfolio equity and investment fund share in 2014.

Source:

Sources: Asset and liabilities outstanding: Bank of Japan/Ministry of Finance, International Investment Position. Balance on income and financial account:

Bank of Japan/Ministry of Finance, Balance of Payments statistics. Inflation: IMF, International Financial Statistics and Balance of Payments statistics

Table2: Returns Differential Estimates, excluding fx effect, 2001-2014

		Assets	Liabilities	Difference
Total				
	Total	4.7	3.2	1.5
	Ex FX change	3.7	2.8	0.9
	Yield	3.4	1.6	1.8
	Stock-flow adjustment effects	1.3	1.6	-0.3
	Ex FX change	0.3	1.2	-0.9
FDI				
	Total	6.1	11.5	-5.4
	Ex FX change	4.8	11.5	-6.7
	Yield	7.0	7.7	-0.7
	Stock-flow adjustment effects	-0.9	3.8	-4.6
	Ex FX change	-2.2	3.7	-5.9
Debt				
	Total	5.7	0.5	5.2
	Ex FX change	4.5	0.2	4.2
	Yield	4.6	1.7	2.9
	Stock-flow adjustment effects	1.1	-1.2	2.3
	Ex FX change	-0.1	-1.5	1.4
Equity				
	Total	11.5	7.3	4.2
	Ex FX change	9.6	7.3	2.2
	Yield	5.7	1.6	4.2
	Stock-flow adjustment effects	5.8	5.8	0.0
	Ex FX change	3.8	5.8	-1.9
Others				
	Total	2.6	2.8	-0.2
	Ex FX change	2.3	2.2	0.1
	Yield	1.5	1.0	0.5
	Stock-flow adjustment effects	1.2	1.8	-0.7
	Ex FX change	0.8	1.2	-0.4
Reserves	Stock-flow adjustment effects	1.6		
	Ex FX change	0.9		
(for reference)				
Debt and reserves				
	Yield			1.4

Note: Stock-flow adjustment is "change in outstanding" minus "transaction" based on Bank of Japan/Ministry of Finance estimation.

Income flow from reserves is not available separately. We show yield from aggregate of debt and reserves for the source of debt income flow as a reference.

Reinvested earning for FDI is included for this return differentials estimation.

Japan adopts BPM6 from 2014. Accordingly, the definition of portfolio equity changes into portfolio equity and investment fund share in 2014.

Sources: Balance on income: Bank of Japan/Ministry of Finance, Balance of Payments statistics. Outstanding assets and liabilities: Bank of Japan, "Japan's International Investment Position", various issues; and Ministry of Finance, "Zaisei Kinyu Tokei Geppou" ("Monthly Fiscal and Financial Statistics Review"), various issues. Inflation: IMF, International Financial Statistics and Balance of Payments statistics

Table 3: Return effect and composition effect, 1996-2014

	Total	FDI	Equity	Debt	Other
return effect	1.5	-0.3	0.7	1.6	-0.5
composition effect	-0.2	0.5	-1.1	0.8	-0.4

Note: Income flow derived from reserves is not available separately from other category. Thus, we combine portfolio debt investment and reserve as "debt".

Japan adopts BPM6 from 2014. Accordingly, the definition of portfolio equity changes into portfolio equity and investment fund share in 2014.

Sources: Bank of Japan/Ministry of Finance, Balance of Payments statistics, and Bank of Japan/Ministry of Finance, International Investment Position. IMF, International Financial Statistics