

**How Powerful is “YEN”?**

Monthly Economics Overview

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The Ministry of Finance has announced its forecast that the outstanding national bond will leap up to 480 trillion yen in 2004, up 120 trillion yen from the current outstanding bond of 360 trillion yen. This means the outstanding bond will increase more than double in a decade.

Under the slogan of “economic recovery”, the Japanese government has been funding the financial institutes since stock PKO (price keeping operation) of mid 90s, which led the country into record breaking outstanding bond growth rate for a developed country.

(The rate of total revenue supplied by government bonds, the ratio of interest payment of bond to revenue, will be 41.1% in FY2004. Quite unbelievable!!)

Also, according to the “Japanese Balance Sheet” announced by the Ministry of Finance in October 2000, there is a possibility that Japan has capital deficit of 780 trillion yen. Japan has large amount of debt beside government bonds. And this capital deficit does not include the local government bonds and debt of special corporations (NB: run by the government). Some argue that total “public debt” would exceed 1,000 trillion yen. In any case, this first publication of the balance sheet has been criticized from many areas as being “vague”.

However, in spite of all these negative factors, exchange rate remains to be 115 yen to a dollar.

The currency of the country, which outstanding bond is doubling in a decade and planning to allocate 40% of her budget to interest payment, appears to be unharmed.

Various theories on exchange rate, such as purchasing power of parity and asset approach, cannot fully describe the current situation.

What is the “fundamental strength” of yen?

Is it the international credit of Japan and Japanese corporations?

Is it the individual financial asset? (Repayment of bonds will be piece of cake, if government decides to manipulate inflation to swallow the individual asset of 1,400 trillion yen. Of course, Bank of Japan firmly denies the “manipulation of inflation”.)

What would we see if we made a “notional total balance sheet (market value)” consist of Japanese

country (with huge debt), local government (with huge debt), individuals (with asset), and private corporations (majority with huge debt and some with asset)? We may be able to see the “fundamental strength” of yen as the stock based approach.

(I personally think that asset and debt would balance out. How would you readers feel?)

Unfortunately, it is very hard to distinguish the true picture of public debt from the present publication. Yen remains its power within the range of 100 yen to 120 yen with this vague debt on its back.