

Macro Roundup Article

Headline: [What About Japan?](#)

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Publication	Federal Reserve Bank of St. Louis
Publication Date	November 06, 2023

Tweet: A new @stlouisfed piece contends that the Japanese government takes on both duration and currency risk as it borrows short to invest in long-duration assets including foreign equities, domestic equities, and foreign debt. @HannoLustig

Summary: We show that Japan's government has engineered a sizeable duration mismatch on its consolidated balance sheet. The Japanese government implements a sizeable carry trade, and it earns high realized asset returns while its borrowing rates decline. Japan's government has realized an ex-post excess return of about 2.13% per annum above its funding cost by going long in long-duration risky assets, financed with mostly short-duration funding in the form of bank reserves, T-bills, and bonds. This investment strategy has allowed the government to earn more than 3% of GDP from its risky investments.

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Primary Topic: Fiscal Deficits

Topics: Academic paper, Database, Fiscal Deficits, Fiscal Policy, Government Spending, Weekly

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