Macro Roundup Artcile

Headline: What About Japan?

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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. Related: The Bank of Japan's Seductive Widow-Maker Trade and Japan Demographic Woes Deepen as Birthrate Hits Record Low and Inflation in The *Very* Long Run

Primary Topic: Fiscal Deficits

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

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