

VI. International Monetary Study II for
KUINEP

The Internationalization of the Yen

—its importance and issues to overcome—

April-July 2004

1. What is the internationalization of the yen?

What is the internationalization of the yen? 円の国際化とは？

- Unit of account or invoicing currency 計算単位として
- Means of payment or vehicle currency 支払手段として
- Store of value or investment currency 価値の保蔵手段として

Presence of Euro, US\$ and Yen as International Currency (%)

	(EU15)	Euro	US\$	Yen
Invoicing currency in trade (1992)	(31.0)	27.8	47.6	4.8
Vehicle currency in foreign exchange market (01)	(25.5)	19.0	45.0	11.5
International bank lending balance (Sep 2000)	(31.3)	26.9	41.3	8.7
International bond balance (end 2000)	(37.8)	30.0	48.7	8.6
Foreign reserve (end 2001)	(17.0)	13.0	68.3	4.9

(Source) Handout of Mr. Y. Masuda (Fuji Research Institute) at the panel “International Currencies in the 21st Century” held at the Japan Society of Monetary Economics on 26th May 2001. Forex market (BIS), Foreign reserve (IMF annual report)

(1) Unit of account or invoicing currency in trade 貿易の建
値通貨

The use of yen in Japan's trade has remained unchanged recently.
Raw material and fuels are invoiced in dollars entirely.

Exports **Share of Home-Currency Invoiced Transactions** (Unit : %)
in Trades of Major Industrialized Countries

	1980	1988	1995	2002(h.1)
Japan	29.4	34.3	36.0	34.9
United States	97.0	96.0	ca.92	-
United Kingdom	76.0	57.0	ca.52 ⁽⁹⁹⁾	-
Germany	82.3	81.5	74.8	-
France	62.5	58.5	49.2 ⁽⁹⁷⁾	-
Italy	36.0	-	38.0 ⁽⁹⁷⁾	-

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Imports

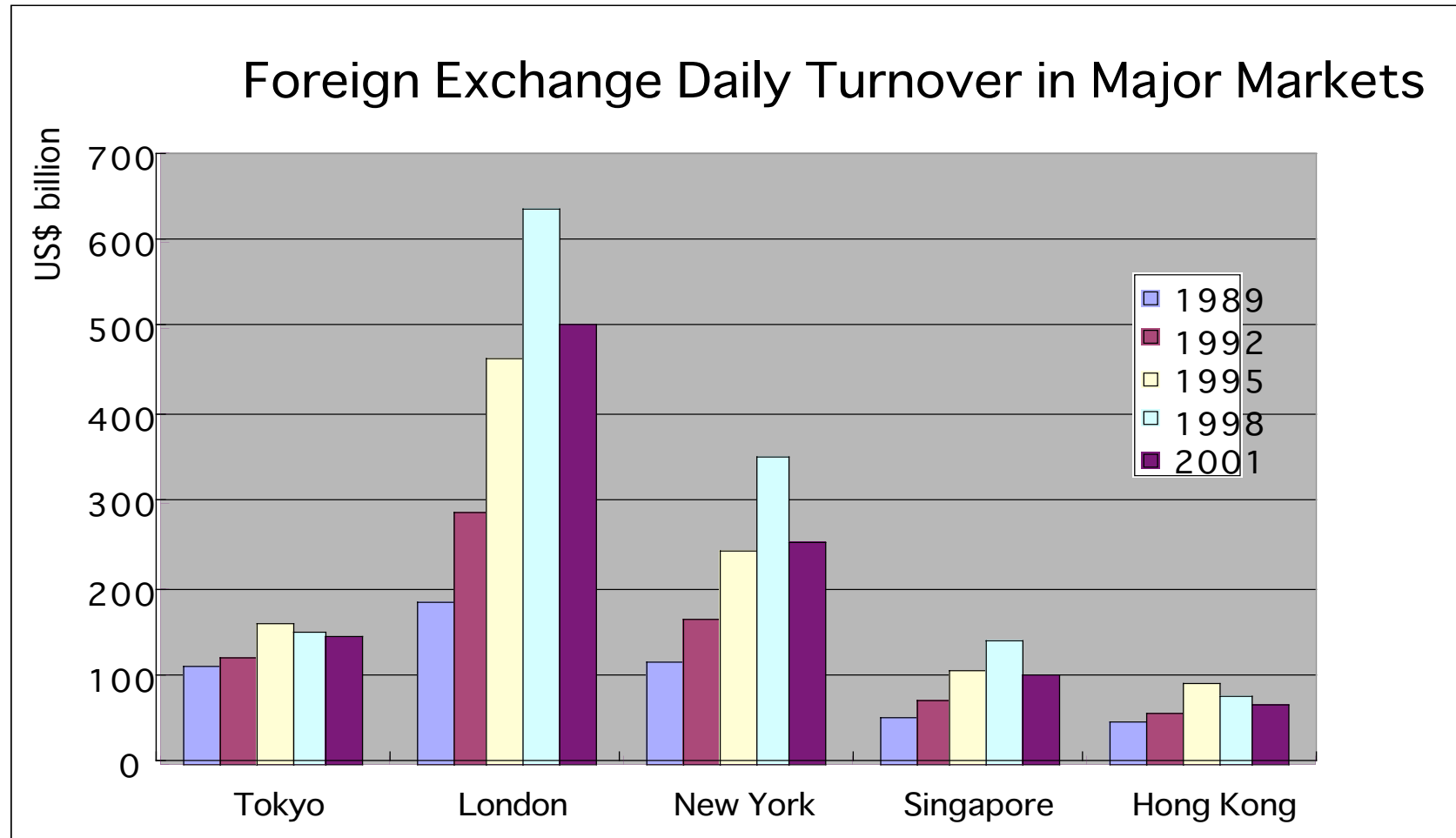
(Unit : %)

	1980	1988	1995	2002(h.1)
Japan	2.4	13.3	22.7	24.2
United States	85.0	85.0	ca.80	-
United Kingdom	38.0	40.0	ca.40 ⁽⁹⁹⁾	-
Germany	43.0	52.6	51.5	-
France	33.1	48.9	46.6 ⁽⁹⁷⁾	-
Italy	18.0	-	38.1 ⁽⁹⁷⁾	-

(Note) For German exports and Italian exports and imports in 1988, data in 1987 are provided. (Sources) For Year 1980 and 1988: George S. Tavlas and Yuzuru Ozeki (1992), "The Internationalization of Currencies: An Appraisal of the Japanese Yen", IMF Occasional Paper No.90 For Year 1995 and 1997: Central banks' data (As for Japan, data provided by Ministry of International Trade and Industry) 円の国際化推進研究会 H.14年9月12日財務省配布資料

(2) Means of payment or vehicle currency in forex market 為替市場の媒介通貨

- The share of Tokyo market is the 3rd, and the share of yen in the foreign exchange turnover is also the 3rd in the world, but the relative weights have declined.



(source : BIS)

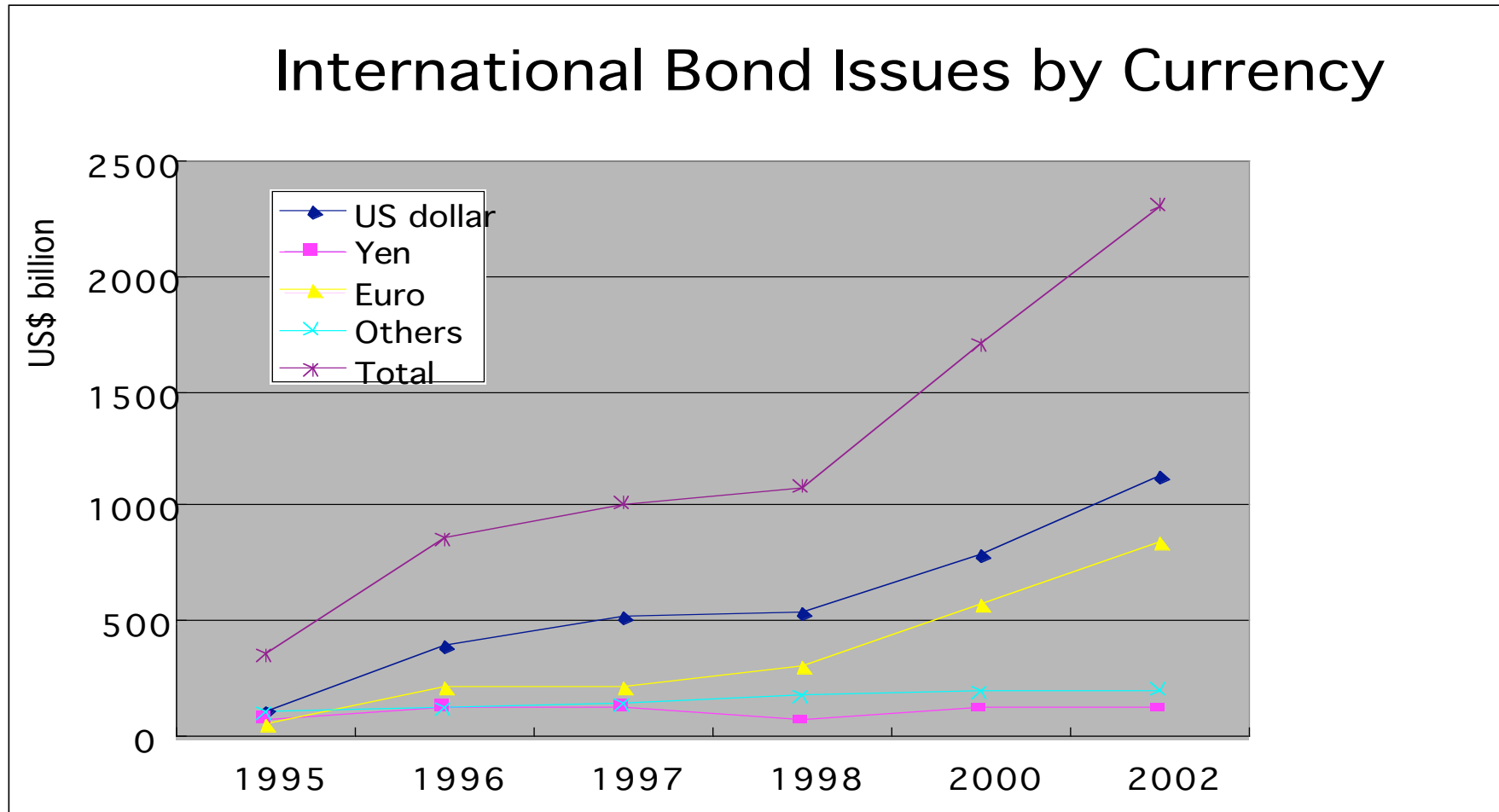
Currency distribution of traditional forex market activity
(average daily turnover %)

Currency	1989	1992	1995	1998	2001
US dollar	90	82	83	87	90
Deutschemark	27	40	37	30	-----
Yen	27	23	24	21	23
Pound sterling	15	14	10	11	13
ECU and other EMS currencies Euro in 2001	4	12	15	17	38
Others	37	29	31	34	36
Total	200	200	200	200	200

(source : BIS)

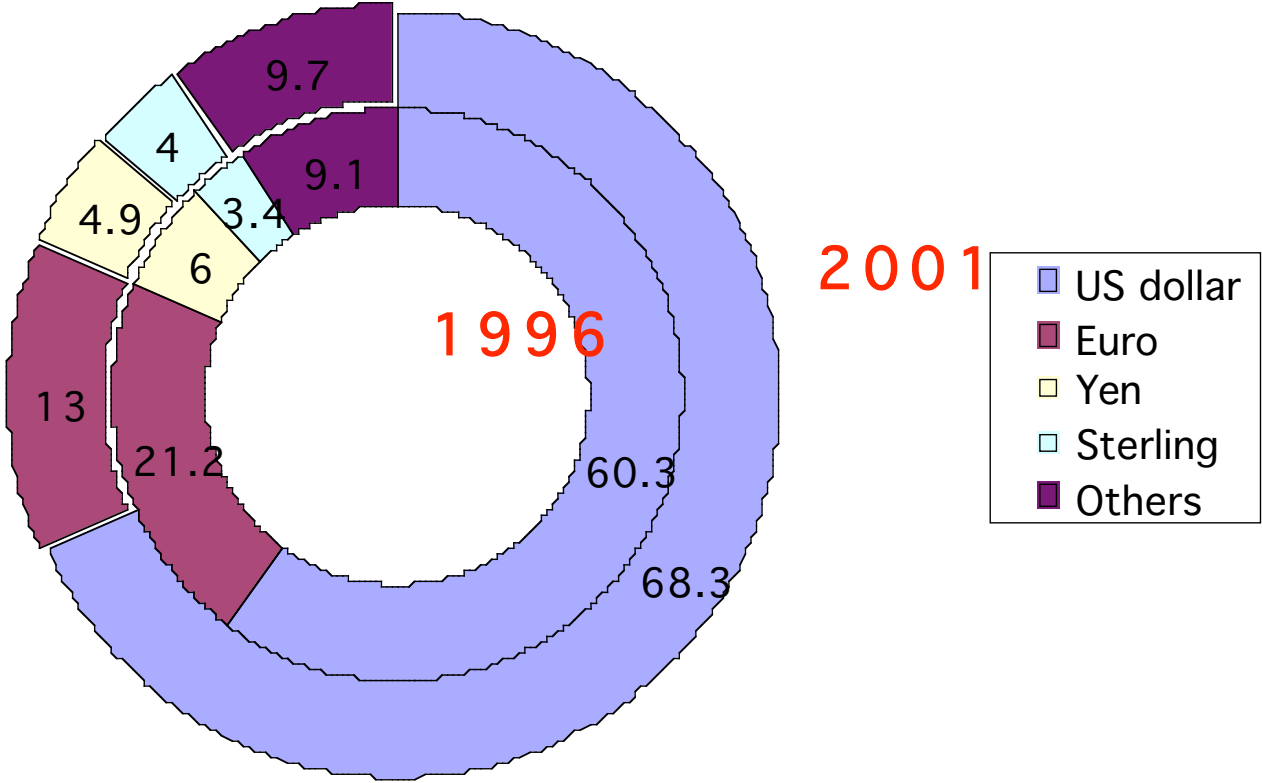
(3) Store of value or investment currency 投資通貨

- The yen assets became less attractive due to (a) stagnant Japanese economy, (b) instability of financial sector and © low investment yields.



(source : BIS)

Currency Composition of Foreign Reserves (%)



(source : IMF annual reports)

2. Why is the internationalization of the yen important? 円の国際化はなぜ重要か？

(1) International background

- The birth of the euro: the unavoidable reshuffle of the international monetary system from the dollar unipolar system to the dollar-euro bipolar system. 国際通貨体制の2極化 → **The monetary system becomes unstable.**
- Lessons of the Asian monetary crisis: the importance of **regional cooperation in the monetary field** (the Chiang Mai Initiative). アジア通貨危機の教訓
→ The necessity of establishing a regional monetary zone (a common basket peg system) in East Asia
地域通貨圏の必要性

(2) International perspective 国際的視点から

- Establishment of a more stable international monetary system by **the yen bearing responsibilities that correspond to the relative weight of the Japanese economy in the world** (nominal GDP 17%, trade 7.5%, 2000 出所：財務省円の国際化推進研究会). **日本経済の比重に相応しい責任分担**
- Contribution through **diversification of international assets** to reduce risks. **資産の多様化に貢献**
- Contribution to the stable growth of East Asian economy by the yen playing a pivotal role as **an anchor currency in future regional monetary arrangements**.

将来のアジア通貨圏における基軸通貨の役割

(3) Japan's domestic perspective 日本の視点から

- **Reduction of foreign exchange risks** of Japanese companies in trade and investment (the problem of possible shift of risks to trade partners may arise.)

日本企業の為替リスク回避

- **Revitalization of the Tokyo market** as mother market of the yen and international financial center through expansion of business of financial institutions. **東京金融市場の再活性化**
- Seigniorage (通貨発行益) is likely to be negligibly small.

3. Factors hindering the internationalization of the yen & promotional measures to take

(1) Hindrance 阻害要因 to the internationalization of the yen

(i) **Lack of international confidence** in the Japanese economy and its financial sector 国際的信認の欠如

- **Credit rating of JGB (domestic bond) 日本国債の信用格付け**

	AAA	AA+	AA	AA-	A+	A
Moody's	→	Nov98→	Sep 00→	Dec 01→	→	May 02
S & P	→	Feb 01→	Nov01→	Apr 02		
	US, UK, G,F	Belgium	Italy	Taiwan	Hungary	Greece

- **Bad assets of Japanese banks** (the highest rating of city banks A, local banks AA- as of July 2002) 邦銀の不良債権問題

(筆者作成)

Share of government bonds held by non-residents

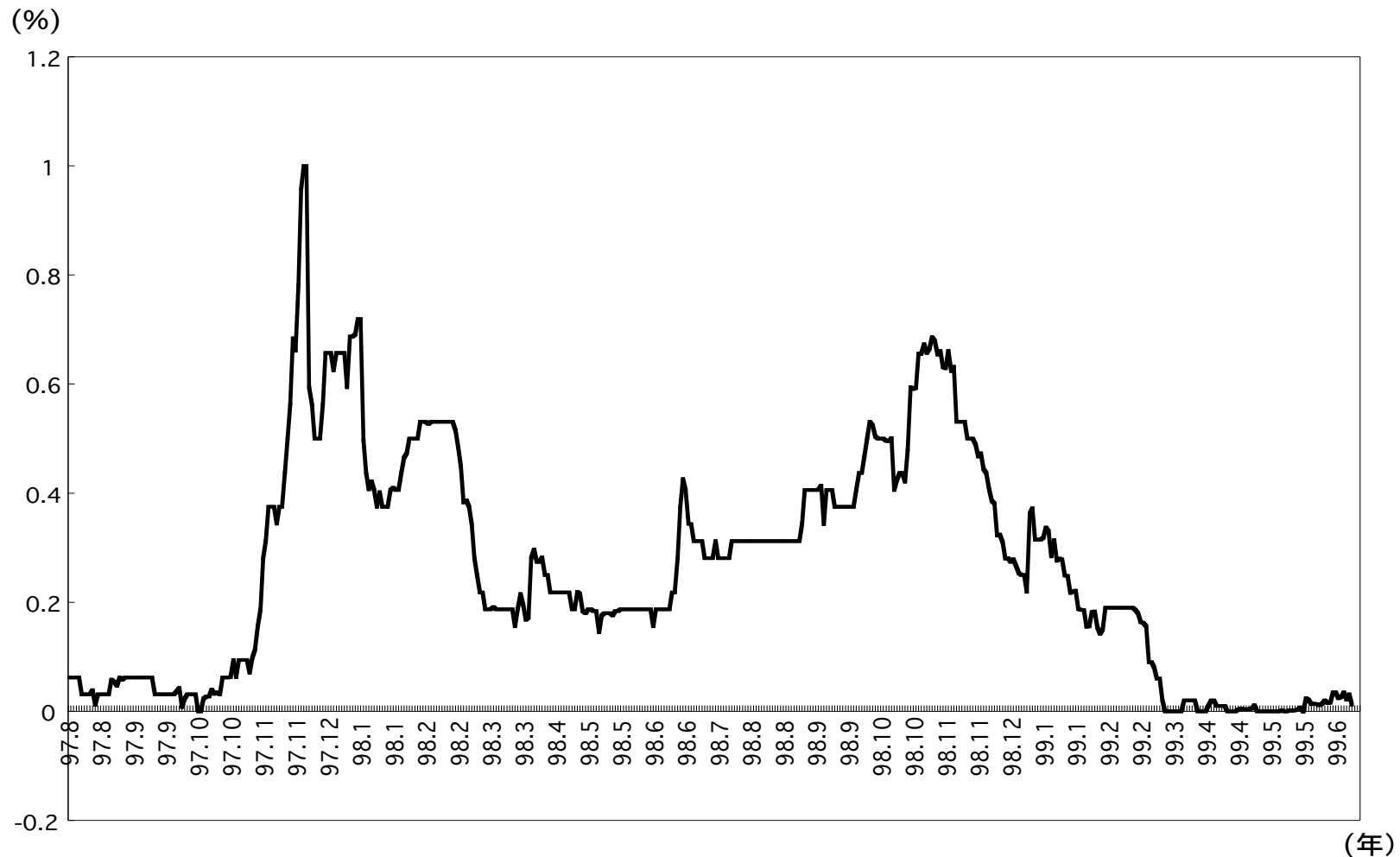
→ Japan's share is considerably lower than other major countries.

Japan (JGB)	USA (TB)	UK (Gilts)	Germany (bonds)
5.9	20.5	18.9	27.1

Japan, US and Germany as of end 2001, UK end 2000

出所：円の国際化推進研究会 H.14年11月12日
財務省資料

The problem of Japan premium and financial instability



(注) ジャパン・プレミアム=最高格付け邦銀3ヵ月物ドルLibor-BBA(British Bankers Association)3ヵ月物ドルLibor

(出所: 東京三菱銀行調査部)

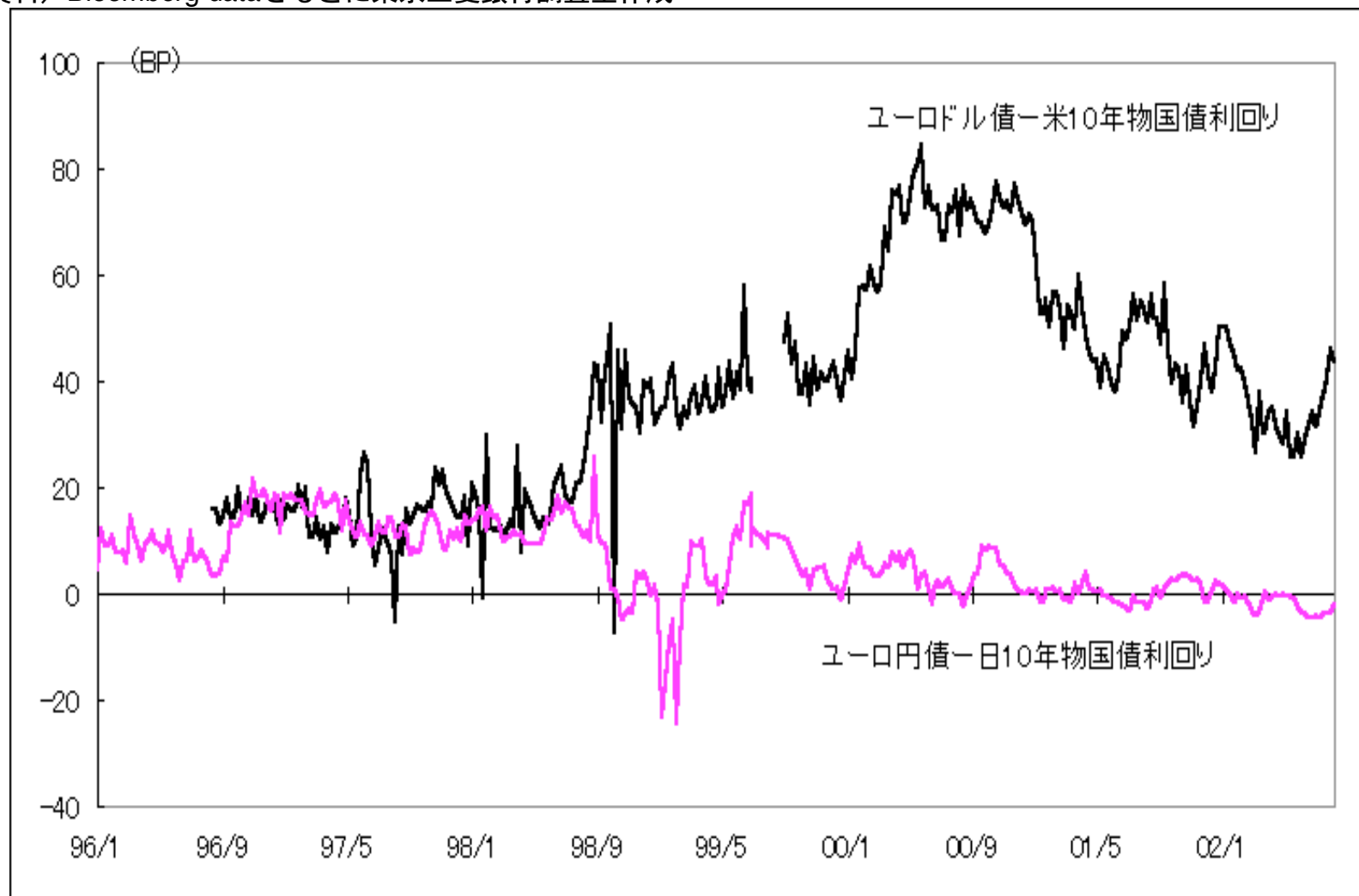
(ii) Problems with the Tokyo market

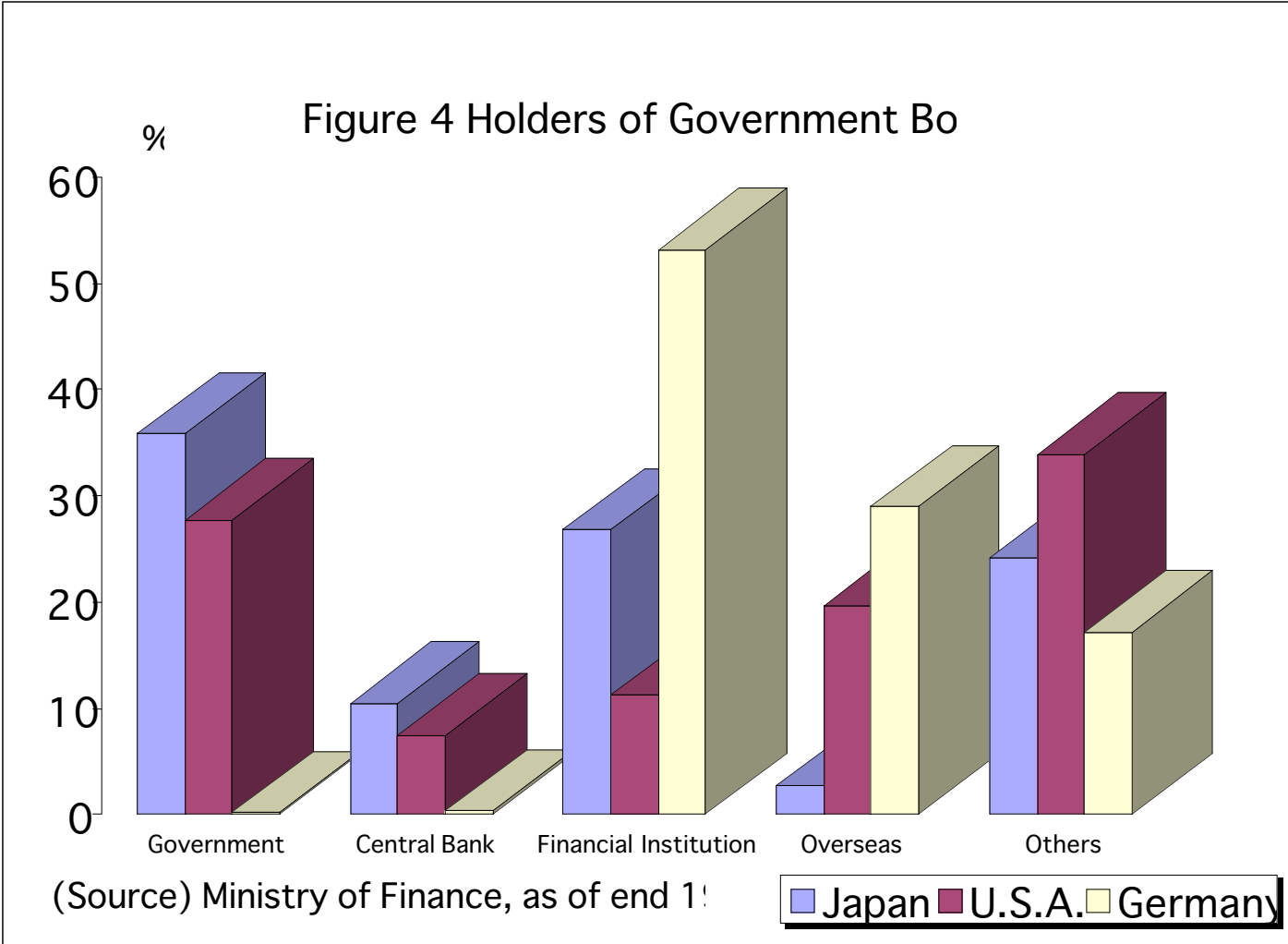
東京金融市場の問題点

- Doubt about its proper functioning of market mechanism (JGB not capable of playing the **benchmark** role of yen bonds) (*Refer to the next figure*) 日本国債が金利指標の役割を果たさず
- Non-transparency due to the **over-presence of public finance** such as the postal saving system (postal savings balance \233 trillion as of March 2003, cf. Mizuho Bank \72 trillion) 肥大化した公的金融の問題
(*Refer to figure 4.*)
- Poor **securities settlement system** (not centrally computerized), far behind the top international level
決済制度の遅れ

Yield spread between euro-bond and government bond (JGB and US TB) ユーロ債スプレッドの日米比較

注：ユーロドル債スプレッド：ユーロドル債（世銀：96年8月21日）－米10年物国債（同7月15日発行）
ユーロ円債スプレッド：ユーロ円債（世銀：94年12月20日発行）－174回債（同9月20日発行）
（資料）Bloomberg dataをもとに東京三菱銀行調査室作成

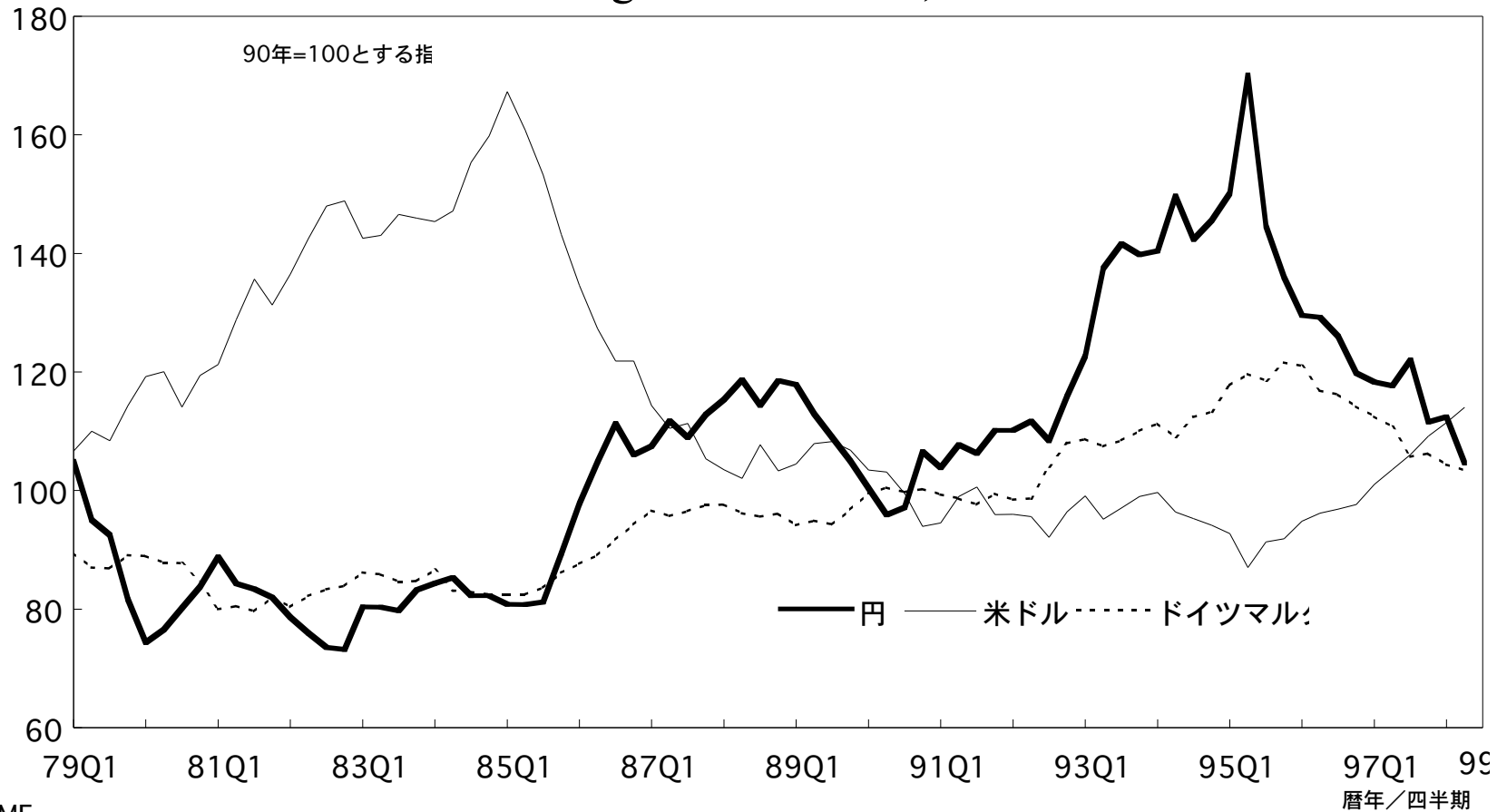




(iii) Unstable yen exchange rate 不安定な円相場

The yen rate is far more volatile than other major currencies.

Real Effective Exchange Rates of Yen, Dollar and DM



(資料) IMF

<実質実効相場の分散> (86年Q1~98年Q2)
米ドル：92.2 円：265.0 マルク：

(iv) **Lack of economic/commercial needs** to internationalize the yen 弱い「円の国際化」を求める声

- **The US dollar is at present the major vehicle /invoicing currency in Asia.**
- Prior to the Asian crisis when most of currencies were de facto pegged to the dollar, there were little needs to use and hold the yen among East Asian economies. Despite the shift to a floating rate system after the crisis, the so-called “inertia” effect of the dollar (ドルの慣性効果) as a key international currency remains strong.
- Private companies do not see strong incentives to use the yen in trade settlement.

(2) Promotional measures to take for the internationalization of the yen 円の国際化促進策

(i) Restoration of **international confidence in the Japanese economy and its financial sector** is most important of all. 日本経済と金融への信認回復

(a) Return to **stable economic growth**, overcoming deflationary pressure

(b) Solution of the **public debt** problem of more than ¥800 trillion or 150% of GDP (出所: 財務省、総務省)

(c) Solution of **NPL** problem (6.96% among 11 major financial groups, Sep. 2003, source:FSA)

(d) Promotion of **structural reform** of industries to meet challenges of structural change of Japanese economy and society

(ii) To make the Tokyo market internationally competitive 東京市場の競争力強化

(a) technical and institutional improvements (e.g. DvP settlement system, tax reform, diversification of JGB maturities/issue format etc.)

(b) political decision to reduce the role of the public finance, especially postal reform, in Japan

(iii) The international cooperation in East Asia to stabilize the yen exchange rate and to create more demand (needs) for international use and holding of the yen. アジアにおける金融協力

4. Yen and a regional monetary zone in East Asia

(1) Are there needs for stability of East Asian currencies?

Yes! 東アジアにおける通貨安定の必要性

- Prevention of **currency crisis** → Chiang Mai Initiative
- High **trade dependency ratio**: 52% among 9 EA economies (the euro area 23%, US 19%, Japan 17%)
- Rising **intra-regional trade ratio**: 35% (26% excluding re-exports of HK and Singapore) (the euro area 50%)
- Movement to establish **FTA** (Free Trade Area) among ASEAN+3 → negotiation between ASEAN and China, discussion between ASEAN and Japan

(2) Stabilization of yen rate and a regional monetary zone 円相場の安定と地域通貨圏

- Stabilization of yen rate is important **both for Japan and East Asia** (lesson from the Asian crisis)
- Yen is a solo currency without any currency zone (euro with Europe and Africa, US dollar with the Americas) → establishment of **a monetary zone in East Asia** with a common currency basket system (basket consisting of US dollar, yen and euro) → closer relationship of yen with regional currencies
- The closer **the interdependence of regional economies**, the stronger the needs for currency stabilization in East Asia