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25-22 Perspectives on Japan's Continuing Exorbitant Privilege

Kenneth Rogoff and Takeshi Tashiro

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ABSTRACT

With renewed doubt about the scale, scope, and even the sign of the dollar's "exorbitant privilege," we revisit Japan's case, in particular, the persistent excess return on its external balance sheet, which derives in part from its ability to issue safe government debt at scale. Retaining this privilege is conditional, however, on Japan managing its debt dynamics and keeping inflation under control.

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Kenneth Rogoff is Maurits C. Boas Professor at Harvard University.

Takeshi Tashiro is a nonresident senior fellow at the Peterson Institute for International Economics and consulting fellow at the Research Institute of Economy, Trade and Industry.

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INTRODUCTION: THE END OF EXORBITANT PRIVILEGE?

Debate has resurfaced over whether the United States' "exorbitant privilege" is fading. Coined by the former French finance minister Valéry Giscard d'Estaing, the phrase captures how the United States is able to take advantage of global demand for US dollar bonds, including both public and private, to buy high-yielding assets abroad, including, for example, equities and direct foreign investment. Certainly, the dollar's reserve currency status—including its role as the lingua franca of global trade and the leading foreign asset in most central bank portfolios—is an important piece of the United States' exorbitant privilege, but it is only one dimension of a broader phenomenon (Rogoff 2025).

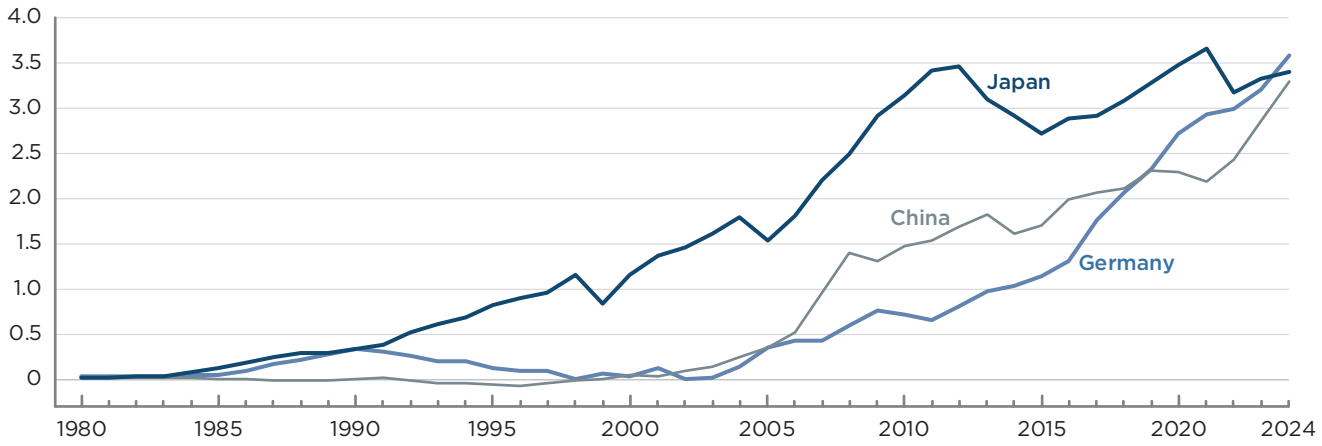
Yet the phenomenon is not uniquely American.[1] As Nievas and Sodano (2024) argue, a broader rich-world privilege persists—smaller in scale outside the United States, but present nonetheless. Across advanced and emerging market economies, reserves are substantial and held chiefly in US dollars—often on the order of three-fifths—alongside the euro, the yen, and other major currencies. Japan, in particular, has long benefited from very low interest rates and—following Rogoff and Tashiro (2015)—has enjoyed its own version of exorbitant privilege, even though the yen ranks far below the dollar and the euro as a reserve currency. Nevertheless, in practice, three elements go together in Japan's case. First, its external balance sheet tends to earn a positive income differential over its liabilities, which is what we mean by "exorbitant privilege" in the narrow, Giscard d'Estaing sense. Second, foreign investors historically value the safety and liquidity of the Japanese government bond market. In practice, this means that Japan can often borrow at yields that are lower than what one would predict based purely on the level of its public debt, because investors are willing to pay a safety premium for government bonds. Third, there is a safe-asset dimension whereby benchmark sovereign yields tend to fall when investors seek reduced risk exposure. The latter two describe structural channels that may help sustain Japan's privilege but are neither a necessary nor a sufficient condition for it. With some observers arguing that the dollar's role as a reserve currency might have peaked a decade ago with its market share since falling, this is an interesting time to ask how Japan's exorbitant privilege has fared.

JAPAN IS NO LONGER THE WORLD'S LARGEST NET CREDITOR

Japan's net international investment position (NIIP) reached a record 533 trillion yen (about US$3.4 trillion) in 2024. Yet Germany has overtaken Japan as the world's largest net creditor, with a NIIP of roughly 569 trillion yen (US$3.6 trillion), ending Japan's 33-year run (figure 1). Much of the literature on exorbitant privilege arose from the US puzzle: Despite a large negative

1 Recent work for the United States (e.g., Tabova and Warnock 2025) emphasizes portfolio-level changes, geometric- vs. arithmetic-mean returns, and security-level measurement of expected returns. Our setting differs on all three: Our core results hinge on the bond income component rather than equity-heavy portfolio dynamics; for income-only (valuation-excluded) yields the geometric mean is very close to the arithmetic mean, so conclusions are insensitive to this choice; and Japan's primary income data are recorded on an accrual basis as reported (security-level imputations are limited; discount securities are symmetric). See Bureau of Economic Analysis, "US International Economic Accounts: Concepts and Methods," and Bank of Japan, "Japan's Balance of Payments Related Statistics: Methodologies by Item." We therefore treat the US findings as informative but not determinative for Japan.

Figure 1
Net international investment position, 1980–2024 (trillions of US dollars)



Sources: International Monetary Fund, International Investment Position; and Milesi-Ferretti (2024). Japan (1980–1995): official IIP from the External Wealth of Nations Database; China (1981–2003): net IIP excluding gold from the External Wealth of Nations Database. Other years: IMF.

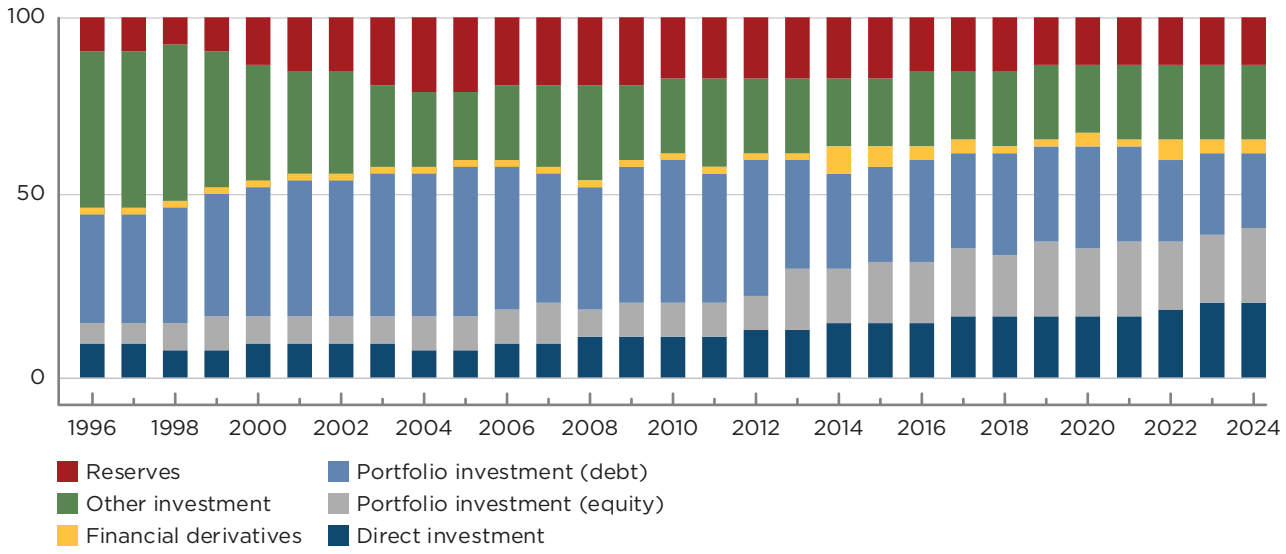
NIIP, the United States has historically earned positive excess returns on its external balance sheet. Gourinchas and Rey (2007) document this for the United States, while Rogoff and Tashiro (2015) analyze Japan's case in the context of its decades-long status as the world's largest net creditor. Building on that framework, Gourinchas (2025) notes signs of a softening in the US privilege amid rising trade tensions and doubts about US exceptionalism.

JAPAN'S EXTERNAL POSITION: LARGER—AND MORE EXPOSED TO EXCHANGE RATE EFFECT AND MARKET RISK

Over the decade since our previous paper, Japan's external position has changed markedly. The economy has become more deeply integrated into global markets. An emblematic step was Japan's leadership in ratifying the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). As integration has advanced, Japanese corporations have increased outward investment. At the household level, a pronounced home bias remains—most assets are yen-denominated and roughly half are held in cash and deposits—but the 2024 launch of the new NISA scheme (a tax-exempt program for individual investors) has begun to shift portfolios, particularly among younger households, toward market assets, including foreign exposure. On the public side, the Government Pension Investment Fund (GPIF), with assets exceeding 260 trillion yen (about US$1.7 trillion), allocates roughly half of its portfolio to non-Japanese assets.

In recent years the change has been most visible in scale. While domestic output has grown only modestly, Japan's NIIP has continued to rise and now stands at roughly 80 percent of GDP. The depreciation of the yen has mechanically boosted the yen value of foreign currency assets and thus contributed to this increase. The composition has shifted as well: By end-2024, roughly one-fifth of external assets were in direct investment, portfolio equity, portfolio debt, and other investment (e.g., international lending of banks and currency and deposits), respectively. This contrasts sharply with the configuration

Figure 2
Composition of Japan's external assets, 1996–2024 (percent)



Sources: Ministry of Finance; Bank of Japan.

three decades ago, when Japan became the world's largest net creditor. At that time, about half of external assets were classified as other investment, and direct investment accounted for only around one-tenth. The newer mix—heavier in equity and direct investment—supports higher expected returns but increases sensitivity to market and exchange rate fluctuations (figure 2).

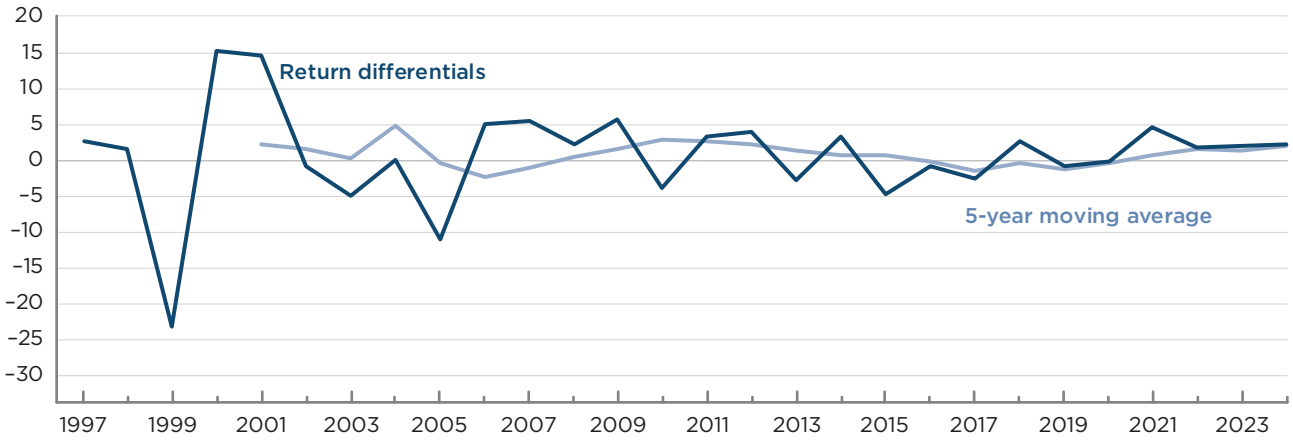
This shift reflects both shocks and structural adjustment: the sharp export decline during the 2008–09 global financial crisis; supply chain disruptions from the Great East Japan Earthquake and the 2011 floods in Southeast Asia; the offshoring of production to emerging economies, especially China; and more recently, the relocation of manufacturing closer to end markets.

A second manifestation is the exchange rate (FX) effect. Between 1995 and 2024, Japan's NIIP rose by far more in yen than in US dollars as the yen depreciated. Given Japan's currency mix—external assets predominantly in foreign currency, liabilities predominantly in yen—a weaker yen mechanically boosts the value of assets relative to liabilities, raising the NIIP-to-GDP ratio in yen terms and heightening FX sensitivity. In US dollar terms, these valuation effects—alongside Germany's own accumulation—help explain why Germany now marginally leads Japan as the world's largest net creditor. A parallel pattern holds on the liability side: In yen terms, liabilities have grown substantially, while the increase is more modest in US dollar terms, making Japan's headline NIIP more sensitive to exchange rate movements (figure 4).

EXORBITANT PRIVILEGE: RETURN DIFFERENTIALS

Against the backdrop of Japan's evolving NIIP, we assess the country's "exorbitant privilege" as the excess return on external assets over liabilities ($r_a - r_l$) and consider its drivers. Figure 3 shows that Japan still earns a positive excess return: The average differential was about 1.0 percentage points over

Figure 3
Return differentials (total, all assets), 1997–2024 (percent)



Note: We report two measures. Income-only (valuation-excluded) = primary investment income divided by the prior year stock of assets (or liabilities). Total (including valuation and other adjustments) = primary income plus the stock-flow adjustment, divided by the prior year stock. The stock-flow adjustment reflects the change in stocks minus net financial flows and includes valuation changes and other statistical adjustments; it is therefore not a pure market return. Financial derivatives are excluded.

Sources: Ministry of Finance; Bank of Japan.

1997–2014 (the scope of our previous paper), and it declines to roughly 0.8 percentage points when extended through 2024. The excess return has narrowed but remains positive.

A more granular look complicates the picture. Table 1 reports differentials by asset class and—where available for 2001–24—FX-excluded variants. Read together, the estimates suggest that Japan still earns a positive spread, consistent with low-cost yen liabilities funding higher-yielding foreign assets; that the spread is sensitive to yields and FX, with the FX-excluded excess return narrowing to about 0.4 percentage points over 2001–24; and that portfolio composition has shifted toward outward direct investment and equity, heightening exposure to global equity cycles and exchange rate regimes.

In recent years the yen has traded far below purchasing power parity (PPP), implying a large real undervaluation. The PPP literature's most robust finding is that when misalignments are large, about half tend to unwind within roughly three years (Rogoff 1996). That strengthens the case for metrics of exorbitant privilege that are robust to transitory—albeit long-lasting—FX moves. One such metric is the income-only return differential: the yield on external assets (primary income receipts divided by the external asset stock) minus the yield on external liabilities (payments divided by the liability stock). Because both the flow and the stock are recorded in the same currency, the mechanical FX translation largely cancels within each currency bucket; the remaining FX sensitivity mainly reflects shifts in currency weights on the external balance sheet rather than valuation effects per se.

On that residual, published currency composition covers portfolio investment and, on the debt side, instruments such as portfolio debt securities and other investment. Coverage is not complete for the whole international investment position. Even so, direct investment is widely understood to be in host country currency. While the detailed currency composition of official reserves is not yet

Table 1
Return differentials estimates, excluding exchange rate effect, 2001–24 (percent)

		Arithmetic mean				Geometric mean		
		Assets	*Liabilities*	*Difference*		*Assets*	*Liabilities*	*Difference*
Total		5.0	3.9	1.1		4.7	3.6	1.2
	Ex FX change	3.8	3.4	0.4	Ex FX change	3.7	3.2	0.6
Direct investment		7.0	11.1	–4.1		6.5	10.7	–4.2
	Ex FX change	5.5	10.8	–5.2	Ex FX change	5.4	10.4	–5.0
Debt		5.0	1.2	3.8		4.8	1.2	3.6
	Ex FX change	3.7	0.8	2.8	Ex FX change	3.6	0.8	2.8
Equity		10.7	8.6	2.0		8.3	6.0	2.3
	Ex FX change	8.8	8.6	0.2	Ex FX change	7.4	6.0	1.4
Others		3.1	2.6	0.5		3.1	2.5	0.6
	Ex FX change	2.3	1.7	0.6	Ex FX change	2.3	1.6	0.6
Reserves		1.9				1.5		
	Ex FX change	0.4			Ex FX change	0.4		

Note: Income-only (valuation-excluded) equals primary investment income divided by the prior year stock of assets (or liabilities). Total (including valuation and other adjustments) equals primary income plus the stock-flow adjustment, divided by the prior year stock. The stock-flow adjustment is the change in position from the previous year minus net financial flows, and therefore includes valuation changes and other statistical adjustments; it is not a pure market return. The return differential is the asset return minus the liability return. Reserve accounting: Because reserve income is recorded in primary income, the asset-side bond-income yield uses a denominator that includes foreign exchange reserves (portfolio debt plus reserves); reserve-related stock-flow adjustments appear in the "reserves" line. Where shown, FX-excluded variants remove estimated foreign exchange valuation effects from the stock-flow adjustment (Ministry of Finance estimates). Financial derivatives are excluded.

Source: Ministry of Finance.

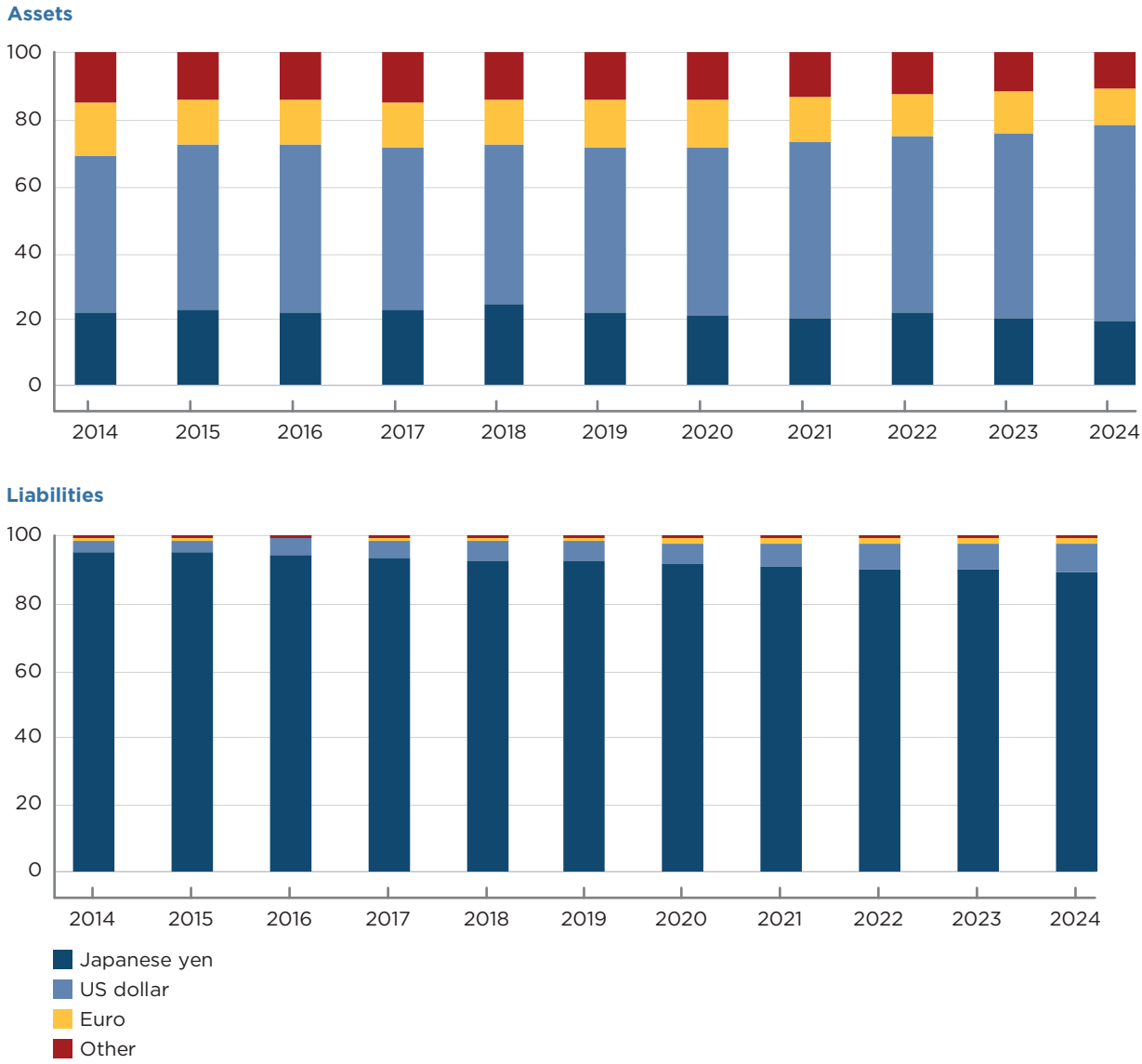
disclosed,[2] reserves accounted for about 12 percent of Japan's external assets in 2024. These gaps are unlikely to overturn our income-only estimates.

SHIFTS IN CURRENCY COMPOSITION: A MIRROR FROM JAPAN'S SIDE

On the asset side, the US dollar share of Japan's portfolio investment assets has risen markedly—from about 47 percent in 2014 to roughly 60 percent in 2024 (figure 4). While holdings in other currencies also expanded in level terms, the

2 US-Japan Finance Ministers' Joint Statement (September 11, 2025): Commitments to publish any FX intervention at least monthly, and to publish reserves/forward positions monthly and reserves' currency composition annually per the IMF Template on International Reserves and Foreign Currency Liquidity.

Figure 4
Currency composition of portfolio investment, 2014–24 (percent)

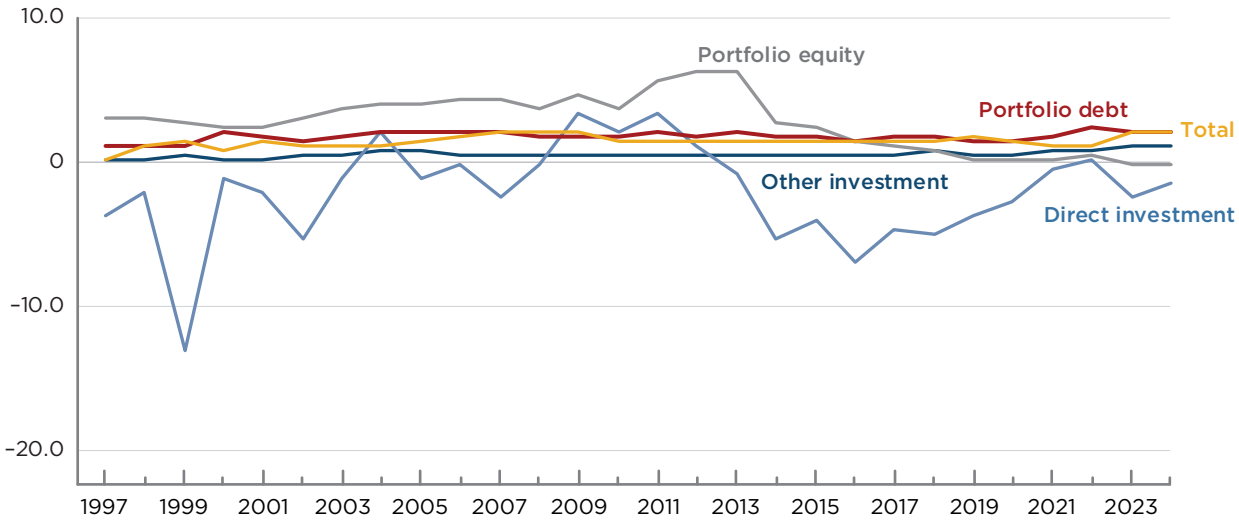


Sources: Ministry of Finance; Bank of Japan.

disproportionate increase in US dollar-denominated assets drove the higher share. On the liability side, the yen remains dominant: Despite a mild down trend, yen-denominated liabilities still account for around 90 percent. For debt instruments, the currency split has been broadly stable over the past decade, with no material drift across major currencies.

Recent US work (e.g., Atkeson, Heathcote, and Perri 2025) argues that the "end of privilege" narrative reflects a sharp deterioration in the US net foreign asset position—to roughly 60 percent of GDP by 2023 Q3—driven largely by a US-specific rise in corporate equity valuations that inflated the market value of US equity liabilities to the rest of the world. Seen from Japan's side, the expansion of US dollar-denominated external assets is the natural counterpart: What the United

Figure 5
Yield differentials by asset class, 1997–2024 (percent)



Note: Yields are income-only (valuation-excluded) measures: primary investment income divided by the prior year stock of assets (or liabilities). The yield differential is the asset yield minus the liability yield. Reserve accounting: Because reserve income is recorded in primary income, the asset-side bond-income yield uses a denominator that includes foreign exchange reserves (portfolio debt plus reserves). Including reserves lowers the level of the asset-side bond yield but does not alter the qualitative conclusions. Financial derivatives are excluded.
Sources: Ministry of Finance; Bank of Japan.

Table 2
Arithmetic mean and geometric mean of yield by asset class, 1997–2024 (percent)

	Total	Direct investment	Portfolio equity	Portfolio debt	Other investment
Arithmetic mean	1.737	–2.091	2.708	1.404	0.489
Geometric mean	1.737	–2.061	2.694	1.405	0.489

Note: Yields are income-only (valuation-excluded) measures: primary investment income divided by the prior year stock of assets (or liabilities). The yield differential is the asset yield minus the liability yield. Reserve accounting: Because reserve income is recorded in primary income, the asset-side bond-income yield uses a denominator that includes foreign exchange reserves (portfolio debt plus reserves). Including reserves lowers the level of the asset-side bond yield but does not alter the qualitative conclusions. Financial derivatives are excluded.
Sources: Ministry of Finance; Bank of Japan.

States records as valuation-driven increases in equity liabilities, Japan partly sees as higher US dollar asset holdings and stock-flow adjustments on the asset side. The mapping is not one-for-one, but the bilateral narrative is consistent.

Turning to yields (income-only returns), figure 5 and table 2 show that Japan's aggregate income differential—the yield on external assets minus the yield on external liabilities—has been positive, averaging just around 2 percentage points in recent years. By asset class, direct investment is volatile and persistently negative on net, consistent with relatively high measured returns

on inward direct investment in Japan compared with outward direct investment income yields. Portfolio equity has weakened and recently turned negative, reflecting low dividend yields on global equities and composition shifts in Japan's external equity holdings. Other investment remains positive but low and stable. The workhorse is portfolio debt: Income yields on Japan's external bond assets remain solidly positive relative to predominantly yen-denominated liabilities. In effect, Japan continues to fund at low domestic rates while investing at higher foreign fixed income yields. Netting these components, the income side of Japan's exorbitant privilege remains in positive territory even as equity-related components have softened. Importantly, these estimates do not account for Japan's debt burden; relative to a debt-invariant benchmark (lower rates at a given debt level), Japan's liability-side privilege would likely be stronger.

This overlaps with Nievas and Sodano (2024). A hallmark of rich-world balance sheets is cheap domestic funding of debt paired with higher-yielding debt assets abroad. That wedge shows up as a persistent bond-side yield differential—one that tends to outlast swings in equity returns—and, in aggregate, supports a robust and durable positive return differential. Measured solely by portfolio returns, differentials can be cyclical (e.g., equity swings). This is why we emphasize the income-only wedge as our core metric of exorbitant privilege and the debt/safe-asset side as a key structural channel that may help sustain it.

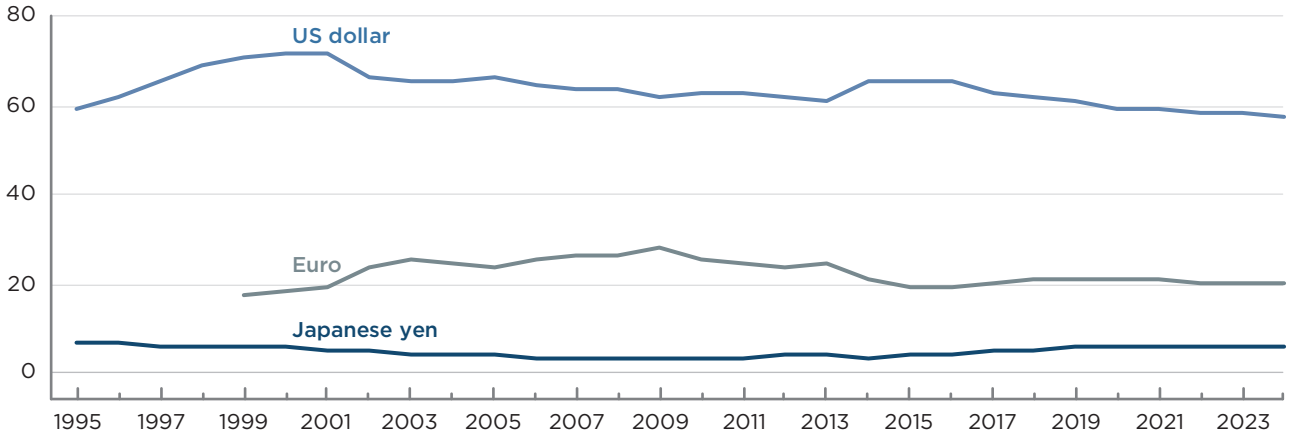
CHANNEL 1: SAFE-ASSET DEMAND AND MARKET LIQUIDITY

Having defined Japan's "exorbitant privilege" narrowly in terms of the external return differential, we now turn to the structural channels that can help sustain it. Where does the bond-income wedge come from? Following Kindleberger's "banker of the world" insight, it reflects institutional depth: Advanced financial systems intermediate at scale, transform maturities and risks, and issue liabilities the world wants to hold. By "safe asset" we mean, more precisely, that for a given quantity of government debt, a country can place its bonds at a lower yield than it otherwise would, because investors are willing to pay a safety premium that shifts out the demand schedule for its debt. On the official side, reserve managers have long parked savings in a small set of safe currencies—roughly 60 percent in US dollars, 20 percent in euros, and a smaller but persistent single-digit share in yen—sustaining demand for those sovereign markets (figure 6). For Japan, the combination of a deep Japanese government bond (JGB) market and structurally low domestic funding costs has enabled a "borrow low at home, invest higher abroad" model, leaving a durable positive wedge on debt income yields.

Beyond official reserves, the foreign share of government bond holdings has risen in recent years. For Japan, nonresident holdings of JGBs are about 13 percent of outstanding, higher than in the past; scaled by GDP, that is roughly 24 percent in 2024, which brings Japan close to the United States on a GDP basis (figure 7).

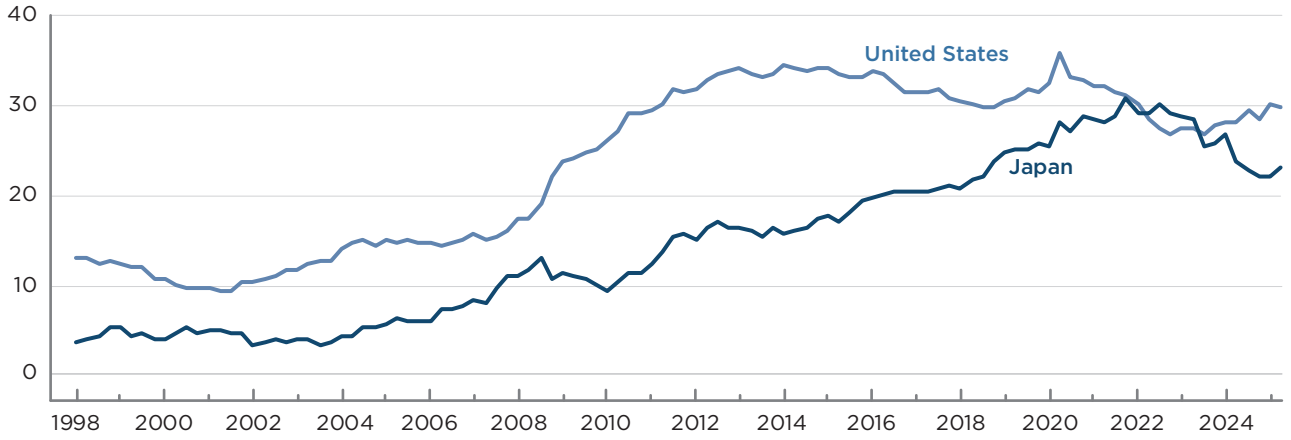
The recent rise in foreign holdings/GDP reflects broadly similar forces across advanced economies: Outstanding government debt has grown (Japan's general government gross debt is about 230 percent of GDP, and net debt is about 130 percent); the nonresident share of holdings has edged higher; and global demand for safe, liquid government bonds has strengthened—helped

Figure 6
Currency composition of foreign reserves held by countries around the world, 1995–2024 (percent)



Source: International Monetary Fund, Currency Composition of Official Foreign Exchange Reserves (COFER) dataset.

Figure 7
Foreign holdings of government debt, Japan and United States, 1998–2025 (percent of GDP)

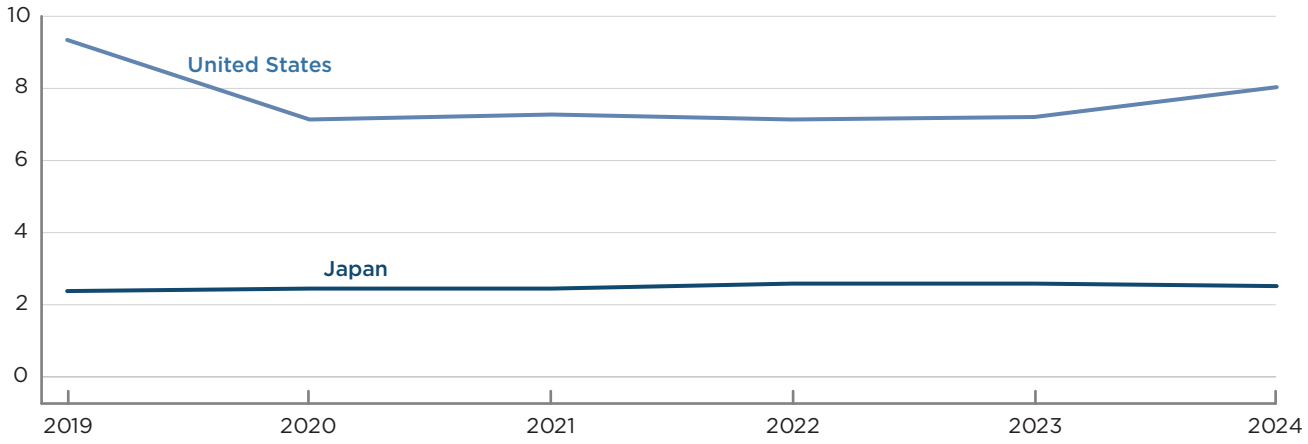


Sources: Ministry of Finance; Cabinet Office; Bank of Japan; Bureau of Economic Analysis; and Board of Governors of the Federal Reserve System.

by prudential rules, the expansion of cross-border and index-linked investing, collateral needs, and hedged yield incentives. Against this backdrop, foreign holdings stand at about 29 percent of GDP in the United States and in 2024 climbed toward roughly 24 percent in Japan as yields have risen and market functioning has improved. Differences in levels mainly reflect the scale of debt outstanding and the degree of domestic absorption by local institutions, rather than a fundamentally different demand story. Whether that demand translates into privilege, however, depends on market functioning—on liquidity.

Because cash government bonds trade mainly over the counter, comprehensive transaction data are scarce. We therefore begin with bid-ask spreads in yield basis points and examine not only average levels but also the dispersion (standard deviation) and skewness of high-frequency quotes. Using

Figure 8
Turnover in government bond markets: Japan and the United States, 2019–24



Note: Turnover is calculated as the trading volume of Treasuries divided by the outstandings of Treasuries. Outstandings of Treasuries include, for Japan, general government bonds and financing bills (from the Ministry of Finance), and for the United States, Bills, Notes, Bonds, TIPS, and FRNs (from the Securities Industry and Financial Markets Association). For Japan, the aggregate of monthly trading volumes (from the Japan Securities Dealers Association) to an annual number is divided by the average of quarterly outstandings of Treasuries. For the United States, ADV trading volume (from the Securities Industry and Financial Markets Association) is multiplied to obtain the annual trading volume and then divided by outstandings.

Sources: Japan Securities Dealers Association; Ministry of Finance; Securities Industry and Financial Markets Association.

this lens, Aliyev et al. (2024) show that in the 10-year sector JGBs exhibit greater dispersion and right-skewness than US Treasuries, implying episodic illiquidity under stress even when average costs are low. By market depth and turnover, US Treasuries remain unmatched; Japan compares favorably with most sovereigns but does not match the breadth and resilience of the US market. We cross-check liquidity using public indicators. On the US side, the New York Fed reports inside-tier order-book depth for on-the-run 2-, 5-, and 10-year Treasuries (Fleming, Krogh, and Nelson 2024); on the Japan side, the Bank of Japan publishes best-quote depth and resiliency for 10-year JGB futures (Bank of Japan, Financial Markets Department 2025). Read together, these indicators send a consistent qualitative message: Treasuries exhibit higher top-of-book capacity in typical weeks and faster rebounds after stress episodes (e.g., March 2020, March 2023), whereas JGB liquidity—solid in calm conditions—can sometimes thin under stress. Because units differ across public series (US dollar notional for US Treasuries vs. futures contracts for JGBs), we do not compare levels; we read them qualitatively alongside turnover. Turnover corroborates the picture—Securities Industry and Financial Markets Association for US Treasuries and Japan Securities Dealers Association for JGBs—pointing to structurally higher trading intensity in the United States (figure 8). These indicators suggest that US Treasuries are structurally deeper and more tail-resilient, while JGB liquidity has improved but remains thinner on these metrics.

In addition, the Bank of Japan's broad perspective review working paper finds that during the Quantitative and Qualitative Easing/Yield Curve Control (YCC) period, two forces coexisted: a "spotlight effect," whereby the Bank of Japan purchased narrowed bid-ask spreads, and a "scarcity effect," whereby the

concentration of holdings reduced float and widened spreads—making market-functioning assessments inherently difficult. Since the exit from YCC, indicators point to an improving trend (Fukuma et al. 2024).

Taken together, the bond-income wedge (foreign bond yields minus yen-funding costs) remains meaningfully positive, while the safe asset/liquidity channel appears more fragile in the tails for JGBs than for US Treasuries. These depth indicators foreshadow the crisis behavior we quantify next.

CHANNEL 2: SAFETY IN CRISIS

A defining property of safe assets is that benchmark yields rally in risk-off as investors seek safety—a behavior grounded in market depth/resiliency and a convenience yield (collateral/settlement services and regulatory demand). Building on the liquidity evidence, we proxy this "flight-to-safety" with a simple crisis beta for 10-year yields.

Daily reduced-form regressions, Δ10-year yield = $\alpha + \beta \cdot \Delta$VIX, imply a negative and statistically distinct crisis beta for JGBs: $\beta = -0.11$ (SE 0.02, t = –5.2, $p<0.001$; see table 3). Long rates thus decline modestly when market-wide volatility rises. The magnitude is smaller than for US Treasuries (roughly −0.5 in comparable daily regressions), consistent with our liquidity evidence that US Treasuries' safe-asset properties are stronger and more tail-resilient.

Table 3
Market volatility and long-term Japanese government bond (JGB) yield

β	−0.106
SE(β)	0.020
t statistics	−5.22
p	<0.001

Note: We regress the day-over-day change in the benchmark 10-year JGB yield on the one-day-lagged day-over-day change in the CBOE Volatility Index (VIX). Results are robust to excluding nontrading days.

Sources: Ministry of Finance; Federal Reserve Bank of St. Louis, Federal Reserve Economic Data (FRED).

Japan operated through much of the sample under policy regimes that compress long-term yields: early 2000s quantitative easing; "quantitative and qualitative" easing under Governor Haruhiko Kuroda; the adoption of negative interest rates in 2016; and, in particular, yield-curve control, under which the Bank of Japan directly targeted the level and shape of the JGB curve. These regimes necessarily attenuate the variability of observed long rates and dampen the pass-through of risk-off shocks. Accordingly, the crisis beta estimated from yield changes is best interpreted as a policy-suppressed lower bound. In the absence of such policies, the magnitude of the beta would plausibly have been larger. Even so, the data indicate that increases in market-wide volatility are associated with declines in long-term JGB yields.

Exorbitant privilege does not mechanically imply contemporaneous FX appreciation; near-term exchange rates reflect many shifting factors. We therefore do not attribute the recent yen weakness to any single cause.

CONCLUSION

Seen through an income-only lens, Japan's privilege remains intact. In the narrow sense of a positive excess return on its external balance sheet, Japan continues to enjoy exorbitant privilege, even as the channels that support it have evolved. The external balance sheet still earns a durable positive bond-income wedge, even as liquidity looks thinner at the tails than in US Treasuries. The recent rise in foreign holdings (as a percent of GDP) fits a broader rich-world privilege rather than a uniquely American phenomenon.

For Japan, the implication is strategic rather than technical. Despite the fact that the yen ranks far below the euro and the dollar as a reserve currency, its privilege nevertheless endures thanks to a high level of credibility, openness, and resilience: credible macroeconomic institutions and a believable fiscal path; open, rules-based access for global investors; and markets that function well in normal times and remain orderly in most episodes of stress, even if liquidity can sometimes thin. Of course, Japan's economy today is at a significant stress point, with the real value of the yen having collapsed after the COVID-19 pandemic, and inflation pressures forcing the Bank of Japan to start raising interest rates, and navigate attendant risks to a financial system that is heavily vested in very low-yielding government debt.

Even so, Japan has retained its safety premium so far, including through the recent growth pickup. If the dollar cedes ground, the euro, the renminbi, and crypto may benefit, and the yen might also stand to gain, primarily as a substitute safe asset. Of course, maintaining exorbitant privilege is not the be all end all of economic policy, and some of the low long-term returns to foreign investors in Japan can also be attributed to the country's long struggle with low growth and high government debt. With debt already high, the premium is conditional on avoiding an inflation overshoot, renewed financial fragility, or a debt event that forces Japan into financial repression. If these risks are managed, Japan can maintain—and potentially expand—the yen's role as a substitute safe asset even as the dollar's dominance evolves.

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