

Flath (2005)

International Finance

rate movements could no longer be prevented. Movements in official reserve accounts therefore elicited special attention, distinct from the other capital accounts. In the balance of payments of Japan (and also France and Italy) the international assets (i.e. net dollar-denominated claims) of private commercial banks are treated as though they are under the regulatory control of the monetary authorities and are therefore a component of the nation's stock of international reserves usable to maintain a fixed exchange rate. But since the early 1980s in Japan, financial market deregulation has largely freed the international capital transactions involving

Japanese citizens and corporations, including commercial banks. The international holdings of private banks in Japan should probably no longer be considered official reserves, but in the official presentation of Japan's balance of payments they still are. Since the 1971 demise of the Bretton Woods system and its replacement with a regime of floating rates, central banks, including the Bank of Japan, continue to intervene in international currency markets but not nearly to the same extent as before.

Table 7.2 represents the official accounts of the balance of payments for Japan for 2001. In that year merchandise exports exceeded merchandise imports

Table 7.2. Accounts of the balance of payments of Japan, 2001; units = billions of yen

	Debits	Credits	Deficit (-) or Surplus (+)
A. Current account			
1. Goods		46,584	
(a) Exports			
(b) Imports	38,056		8,528
Net balance on merchandise trade			-5,316
2. Services			
(a) Transportation	3,934	2,917	
(b) Travel	3,219	402	
(c) Other	5,997	4,515	3,212
Net balance on goods and services			8,400
3. Investment income and compensation of employees	4,114	12,514	-961
4. Unilateral transfers	1,708	747	10,651
Net balance on current account			CA
B. Capital account			
1. Long-term capital			
(a) Direct investment		759	
inward (net)			
outward (net)	4,659		
(b) Portfolio investment		7,438	
inward (net)			
outward (net)	13,068		
2. Short-term capital			
(a) Financial derivatives		-12,270	
inward (net)			
outward (net)	-12,456		
(b) Other		-2,096	
inward (net)			
outward (net)	-5,613		
3. Capital transfers			-346
Net balance on non-reserve capital accounts			-6,173
4. Changes in Reserve Assets (net)			-4,936
Net balance on capital accounts			-11,455
Net errors and omissions			457

Source: Japan Statistical Yearbook 2004, Table 15-17.

$$\begin{array}{r}
 \text{CA} \quad \text{KA} \quad \text{OR} \quad \text{error} \sim 0 \\
 10,651 + -6,173 + -4,936 + 457 = 141
 \end{array}$$