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"The Yen" - Historical and Structural Perspectives

~The Yen's Depreciation Trend May Persist ~

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〈Summary〉

- The USD/JPY exchange rate can move either toward yen appreciation or depreciation in the short term, as it is influenced by Japan-U.S. monetary policy, interest-rate differentials, and expectations regarding foreign-exchange intervention. From a medium- to long-term perspective, however, the long-standing yen-appreciation trend that had continued since the 1970s has come to an end, and the yen has shifted to a depreciation trend since Abenomics; the likelihood is rising that this trend will be prolonged.
- Looking back at the very long-term evolution of the yen's value since the Meiji era, the exchange rate was initially USD 1 = JPY 1 from the Meiji period through the prewar years, but the yen generally followed a depreciation trend and stood at around USD 1 = JPY 4–5 immediately before World War II. After the war, the yen started from a fixed exchange rate of USD 1 = JPY 360 and shifted to a floating exchange-rate regime in the 1970s. In 2011, it reached USD 1 = JPY 75. In other words, the yen's value followed a history in which it depreciated to roughly one-fourth to one-fifth over about 70 years before the war and, after a sharp devaluation caused by defeat in the war, appreciated four- to fivefold over about 70 years after the war. Since the start of Abenomics in 2012, however, yen depreciation has continued up to the present.
- The yen's current level is around its lowest in approximately half a century in terms of the real effective exchange rate. From the perspective of purchasing power parity, although the theoretical level would be around JPY 70–100 to the dollar, the actual exchange rate is significantly weaker than that. From the postwar period through 2020, the market exchange rate was often positioned on the yen-appreciation side relative to purchasing power parity, and consumer price-based purchasing power parity functioned as a kind of resistance line during phases of yen depreciation. Since 2020, however, this relationship has been breaking down, and yen depreciation beyond purchasing power parity has become the norm.

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- Looking ahead, the Bank of Japan is strengthening its monetary tightening stance, and the yen's depreciation trend is expected to pause in the short term. Over the medium to long term, however, several factors are expected to exert depreciation pressure on the yen: the widening deficit in the balance of digital-related services; the weak domestic repatriation of earnings from overseas securities and direct investment, reflecting reinvestment abroad; the widening deficit in the secondary income balance due to reinsurance premiums associated with natural disasters and remittances by foreign workers; and dollar demand arising from Japan's pledge to invest USD 550 billion in the United States during negotiations over Trump tariffs. The expansion of inbound tourism receipts may be a factor supporting yen appreciation, but supply constraints limit its capacity to underpin the yen. In addition, wavering confidence in the U.S. dollar as the international key currency is adding uncertainty to the outlook for the yen.
- For both companies and the government, it is important to formulate strategies based on the possibility that the long-term trend will continue to be yen depreciation. At the same time, a currency is also a barometer of a country's national strength. Japan should make efforts to enhance the value of the yen by advancing structural reforms aimed at strengthening export capacity and increasing inward investment, thereby putting a brake on one-sided yen depreciation. Excessive yen depreciation and excessive yen appreciation alike are detrimental to the Japanese economy. To stabilize the value of the currency, fiscal policy, growth strategy, and monetary policy will need to be coordinated effectively.
- In recent years, the economic environment has changed substantially, and the same events as in the past will not necessarily recur. Still, it is often said that "history does not repeat itself, but it rhymes." As the global economy undergoes dramatic change amid developments such as Trump tariffs, currency policy and exchange-rate strategy require humility in learning from history and a long-term perspective.

- **This is an English version of "歴史的・構造的な観点からみた円相場～円安トレンドは長期化する可能性" in JRI Viewpoint.**

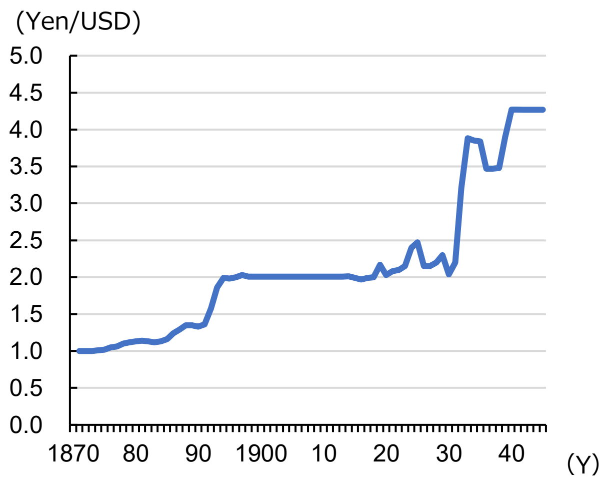
1. Introduction: From an Era of Yen Appreciation to an Era of Yen Depreciation

The yen has recently remained on a depreciation trend. Historically, however, the yen had long followed an appreciation trend after Japan shifted to a floating exchange-rate regime in the early 1970s. The massive scale of the Foreign Exchange Fund Special Account also reflects the accumulated yen-selling and dollar-buying interventions conducted during past periods of yen appreciation. In this sense, Japan's current difficulty in responding to yen depreciation can be regarded as a relatively new phenomenon in historical terms. Although the exchange rate is influenced in the short term by monetary policy, foreign-exchange intervention, and overseas interest-rate developments, from a medium- to long-term perspective it can be said that the yen-appreciation trend has ended and that the yen has shifted to a structural depreciation trend. This paper examines the outlook for the yen exchange rate from both a review of historical developments and an analysis of economic fundamentals.

2. The USD/JPY Exchange Rate from the Meiji Restoration to World War II

Discussions of the history of the USD/JPY exchange rate tend to focus on the Nixon Shock of 1971 and the subsequent shift to a floating exchange-rate regime in 1973. To understand changes in the value of the yen from a longer-term perspective, however, it is useful to go back to the monetary system established after the Meiji era. Although the prewar exchange-rate system differed greatly from the present one, including under silver and gold standards, the fact that the yen's external value was strongly shaped by factors such as the economy and diplomatic relations offers implications that remain relevant today.

Figure1.The USD/JPY Exchange Rate from the Meiji Restoration to World War II



(Source) JRI based on the BOJ and MOF

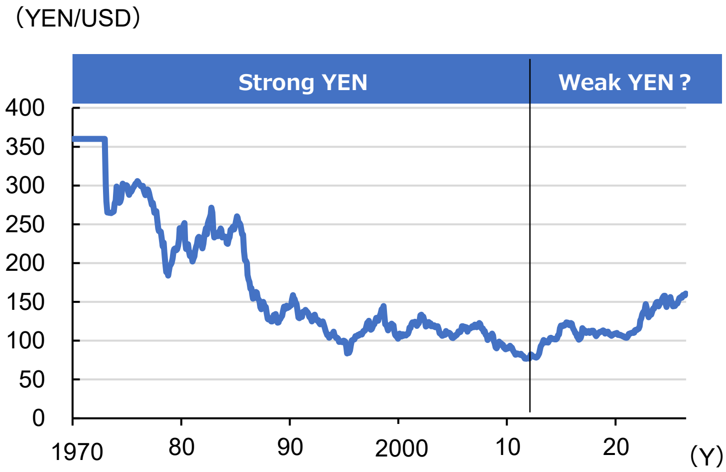
The starting point of Japan's modern foreign-exchange system can be found in the New Currency Act of 1871. Under this act, one ryo was set equal to one yen, one dollar, and 1.5 grams of gold. Thereafter, when the silver standard was adopted in 1885, the yen depreciated as the price of silver declined. After the Sino-Japanese War of 1895, Japan used reparations as a financial resource and shifted to the gold standard in 1897, with one yen set equal to 0.5 dollars and 0.75 grams of gold. Subsequently, the yen exchange rate fell sharply following the re-imposition of the gold export embargo in December 1931. The yen-dollar rate, which had been slightly above 0.5 dollars per yen immediately before the embargo, depreciated rapidly to the JPY 4 range against the dollar by the end of 1932 (Figure 1).

Based on the above, although the prewar yen exchange rate cannot be compared mechanically with the present because of institutional differences, it can be summarized as having generally moved in the direction of yen depreciation. The yen, which began at around USD 1 = JPY 1 in the early Meiji period, had depreciated to around USD 1 = JPY 4–5 immediately before the war. In other words, the yen's external value depreciated to nearly one-quarter over a period of roughly 70 to 80 years.

3. From the Fixed Exchange-Rate Regime to Yen Appreciation, and Then to Yen Depreciation

After the war, the yen was fixed at USD 1 = JPY 360 under the Bretton Woods system. Although this represented a substantially weaker yen compared with the prewar period, the background was the rapid inflation that occurred in Japan from wartime through the immediate postwar years. From 1933 to 1949, Japan's wholesale prices rose by about 250 times, while U.S. producer prices increased only about twofold over the same period. To resume international trade, a large devaluation of the yen reflecting this Japan-U.S. price differential was indispensable. Thereafter, while the Japanese economy rapidly recovered and exports expanded, the United States experienced a worsening balance of payments and gold outflows. Following the Nixon Shock of 1971, advanced economies shifted to floating exchange-rate regimes. In March 1973, the yen appreciated to the mid-JPY 254 range against the dollar, and thereafter the exchange rate entered a major adjustment phase while fluctuating in response to the oil crises and U.S. economic policy.

Figure2.The USD/JPY Exchange Rate



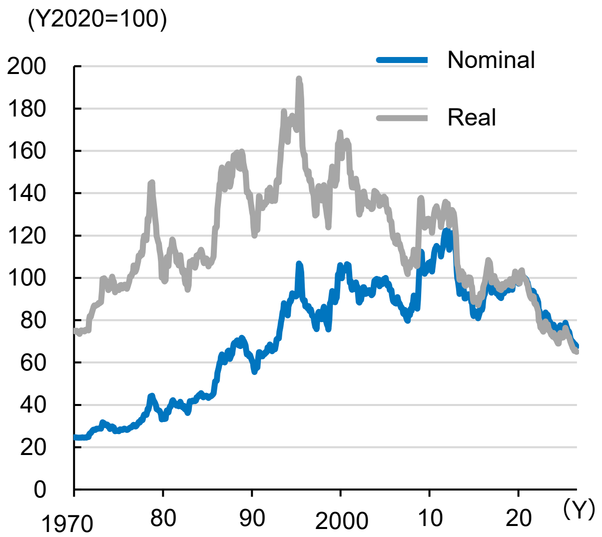
(Source) JRI based on the BOJ and MOF

Even after the shift to floating exchange rates, the U.S. current account deficit was not corrected against the backdrop of Japan's expanding exports to the United States, and in September 1985 the Plaza Accord was reached with the aim of correcting dollar appreciation. This accelerated yen appreciation, and in April 1995 the yen strengthened to the JPY 79 range against the dollar. Subsequently, following the "orderly reversal" agreement at the G7 finance ministers' meeting in 1995, USD/JPY rebounded, and in 1998 the yen depreciated to the upper JPY 147 range. Until the early 2010s, however, the tendency for the yen to be bought in times of crisis—the so-called "safe-haven yen buying"—remained persistent, and in October 2011 the yen appreciated to the JPY 75 range against the dollar. The turning point was after 2012. Yen depreciation proceeded against the backdrop of Abenomics, centered on large-scale monetary easing, and expectations of fiscal expansion and continued monetary easing further intensified yen-selling pressure. The long-standing postwar yen-appreciation trend appears to have shifted significantly at this point (Figure 2).

4. How Should the Current Yen Depreciation Be Assessed?

In assessing the yen's underlying strength, it is essential to examine not only the bilateral nominal exchange rate but also the effective exchange rate, which takes into account relationships with trading partners on a weighted-average basis. In particular, the real effective exchange rate, adjusted for price movements, is an important indicator for understanding a currency's real purchasing power and international competitiveness. The yen's current real effective exchange rate is at its lowest level in roughly 50 years, reflecting not only a low nominal exchange rate but also the fact that Japan's wage and price levels remain low by international standards (Figure 3). The current yen depreciation should therefore be understood not merely as a temporary market fluctuation but as a structural phenomenon accompanied by a decline in the relative price level of the Japanese economy.

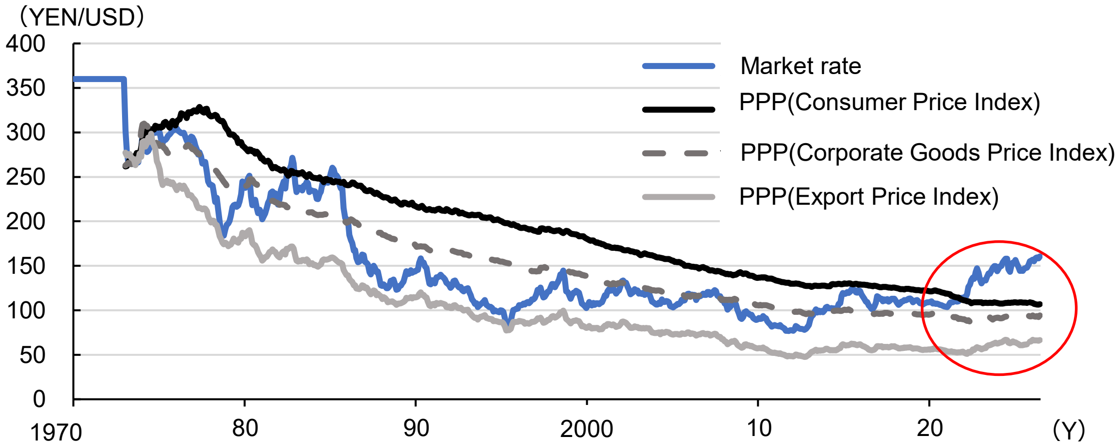
Figure3. The effective exchange rate of the Yen



(Source) JRI based on the BOJ and MOF

From the perspective of purchasing power parity as well, the progress of yen depreciation is striking. As of June 2026, purchasing power parity stood at USD 1 = JPY 106.91 on a consumer price basis, JPY 94.20 on a producer price basis(Corporate Goods Price), and JPY 66.38 on an export price basis, placing the actual exchange rate at a substantially weaker yen level relative to these benchmarks. For many years, the market exchange rate was often positioned on the yen-appreciation side relative to purchasing power parity, and consumer price-based purchasing power parity functioned as a kind of resistance line during phases of yen depreciation. In recent years, however, this relationship has broken down, and yen depreciation beyond various measures of purchasing power parity has become the norm (Figure 4).

Figure4. Purchasing Power Parity and Market rate / USD against



(Source) JRI based on the Institute for International Monetary Affairs (IIMA)

Over the long term, the actual exchange rate is considered to have a certain degree of linkage with purchasing power parity. If a phase in which the actual rate deviates toward yen depreciation relative to purchasing power parity becomes entrenched, it becomes more likely that purchasing power parity itself will shift toward yen depreciation through higher prices in Japan, rather than that the deviation will be corrected through yen appreciation. A depreciation of the purchasing power parity exchange rate means that Japan's inflation rate would continue to exceed that of the United States, creating the risk that yen depreciation and price increases could reinforce each other. In such a phase, monetary policy normalization becomes an increasingly important issue from the standpoint of curbing inflation and stabilizing the value of the currency. From this perspective as well, the era of low interest rates in Japan can be said to have ended.

5. How Should Proposals to Use the Foreign Exchange Fund Special Account Be Viewed?

In response to yen depreciation and rising prices, proposals have emerged to make use of the Foreign Exchange Fund Special Account. These arguments focus on unrealized gains and surpluses in the account as possible financial resources for measures such as a consumption tax cut. However, the Foreign Exchange Fund Special Account is originally a framework designed for foreign-exchange intervention and the management of foreign reserves, and caution is warranted in positioning it as a permanent fiscal revenue source.

Under the current system, even if foreign-exchange gains arise, yen funds obtained through foreign-currency selling intervention are allocated to the redemption of financing bills issued for the Foreign Exchange Fund Special Account. Therefore, even if unrealized gains could be converted into realized gains through yen-buying intervention, they would essentially be used to reduce the account's liabilities, making it difficult to use them directly as financial resources for measures such as a consumption tax cut. In light of the original institutional purpose, it is not appropriate to casually regard the Foreign Exchange Fund Special Account as a fiscal resource.

Even if the scope for use were expanded through legal revisions, the Foreign Exchange Fund Special Account could not serve as a permanent revenue source. The realistically available amount would be limited, and surpluses are likely to decline going forward, given the narrowing of the domestic-foreign interest-rate differential accompanying the Bank of Japan's monetary policy normalization and the reduction in investment principal resulting from past dollar-selling interventions. Furthermore, reducing provisions for the risk of future yen appreciation could weaken the fiscal resilience to exchange-rate fluctuations.

More problematic is that using foreign reserves as a means of securing fiscal resources could weaken Japan's ability to respond to structural yen depreciation. A policy of drawing down foreign reserves may generate fiscal resources in the short term, but it could run counter to medium- to long-term currency stability. Fiscal management and exchange-rate policy need to be considered separately.

6. Outlook for the Yen Exchange Rate

In the short term, monetary tightening by the Bank of Japan may ease downward pressure on the yen to some extent. In addition to curbing price increases, normalization of monetary policy is desirable from the perspective of preventing overheating in equity and real estate markets. Given that the widening domestic-foreign interest-rate differential has been a factor behind yen depreciation, rate hikes should also have some effect in stabilizing the exchange rate. To avoid market turmoil, however, it is essential for the Bank of Japan to communicate carefully about the future conduct of policy.

From the standpoint of containing inflation and yen depreciation, it is important to bring the policy interest rate closer to positive territory not only in nominal terms but also in real terms. For example, continuing rate hikes of around 0.25 percentage points per quarter and raising the policy rate to around 2% by mid-2027 would contribute to both price stability and exchange-rate stability. At the same time, as the government leans toward expansionary fiscal policy, vigilance is needed against fiscal dominance, in which the central bank is compelled to support the government's low-cost financing through government bond issuance. A situation in which fiscal policy constrains monetary policy could encourage yen depreciation through an upward shift in inflation expectations. It is necessary to secure the Bank of Japan's independence and clearly maintain a policy stance that prioritizes price stability.

Looking again at capital flows between Japan and the United States, however, there are numerous structural factors that are likely to strengthen yen-depreciation pressure over the medium to long term. Specifically, these include: (1) the widening deficit in the balance of digital-related services; (2) the weak domestic repatriation of the primary income surplus and the widening deficit in the secondary income balance; and (3) dollar demand associated with large-scale investment in the United States. The increase in inbound tourism receipts may be a factor behind yen appreciation, but given supply constraints and limits to raising unit spending, its yen-supporting effect will be limited. In addition, overseas factors, including changes in the international key-currency system centered on the dollar and the spread of crypto assets, are increasing uncertainty and opacity surrounding the yen exchange rate.

① Widening Deficit in the Balance of Digital-Related Services

First, one structural factor behind yen depreciation is the widening deficit in the balance of digital-related services. In fields such as operating system and application license fees, cloud services, outsourced software development, and professional and management consulting services, payments to overseas providers have been increasing. Behind this trend is Japan's dependence on U.S. big tech companies in areas such as search services, social networking services, video streaming, and cloud services. At the same time, there are also signs of a narrowing deficit, including increased receipts of royalties and license fees associated with the overseas expansion of content industries such as Japanese anime. Strengthening domestic digital infrastructure, including sovereign AI, is an important policy issue not only for containing the digital deficit but also from the standpoint of economic security.

② Developments in the Primary and Secondary Income Balances

Developments in the primary and secondary income balances are also factors contributing to yen depreciation. The primary income balance has been expanding its surplus, mainly through interest and dividends earned from outward direct investment and portfolio investment. However, much of this income is reinvested overseas, making it less likely to generate demand for conversion into yen.

Meanwhile, the deficit in the secondary income balance has been widening, reaching JPY 5.2 trillion in 2025. Considering that the digital deficit amounted to JPY 6.7 trillion, this is no longer a negligible scale. The main factors are overseas outflows of reinsurance premiums associated with the increasing severity of natural disasters and the rise in foreign-currency-denominated insurance contracts, as well as increased remittances by foreign residents to their home countries. Amid ongoing labor shortages and climate change, the yen-depreciating effect of the secondary income balance may persist for some time.

③ Dollar Demand Arising from USD 550 Billion in Investment in the United States

Japan pledged USD 550 billion in investment in the United States in response to Trump tariffs, and this could also become a factor strengthening yen-depreciation pressure. If a large amount of dollar funding is required, demand to exchange yen for dollars will arise, potentially acting in the foreign-exchange market as a factor behind dollar appreciation and yen depreciation. However, depending on the funding scheme, including the use of foreign banks and local procurement of funds, there may be room to restrain yen-selling pressure. As Japanese companies advance overseas investment, it will be important not only to secure investment returns but also to design financing arrangements that limit the impact on the foreign-exchange market.

④ Limited Yen-Appreciation Impact from Inbound Tourism Receipts

Inbound tourism receipts have been expanding amid yen depreciation. The travel balance reached a surplus of JPY 6.7 trillion in 2025, while travel receipts increased to JPY 9.6 trillion on the back of growth in the number of foreign visitors to Japan. Inbound tourism receipts can be a factor supporting yen appreciation through the acquisition of foreign currency, but if supply constraints such as accommodation capacity, transport infrastructure, and labor shortages intensify on the receiving side, the pace of increase will slow. Going forward, therefore, it will be essential not only to increase the number of visitors to Japan but also to raise per-capita spending by shifting toward higher value-added tourism.

⑤ Uncertainty Caused by Changes in the International Key-Currency System

The outlook for the yen exchange rate will be affected not only by Japan-specific factors but also by changes in the international financial order. The current key currency is the U.S. dollar, but if U.S. fiscal and geopolitical risks increase, confidence in the dollar could waver. In that case, downward pressure on the yen might temporarily ease. On the other hand, if movements that complement or substitute for the existing currency system, such as crypto assets and stablecoins, spread further, they could affect the relative standing of national currencies, including the yen. Historically, international key currencies have changed significantly, and the dollar-centered system will not last forever.

In considering the outlook for exchange rates, attention must therefore be paid not only to domestic and international interest-rate differentials and the balance of payments, but also to structural shifts in the key-currency system.

7. Conclusion

Based on the above, given the numerous factors pointing toward yen depreciation, companies and the government should formulate strategies on the assumption that the long-term trend may continue to be yen depreciation. At the same time, a currency is also a barometer of a country’s national strength. Rather than merely watching yen depreciation unfold, Japan should enhance the yen’s international competitiveness by advancing structural reforms aimed at strengthening export capacity and increasing inward investment. Excessive yen depreciation and excessive yen appreciation alike are detrimental to the Japanese economy.

Although reversing the yen-depreciation trend will be difficult, fiscal policy, growth strategy, and monetary policy all need to be coordinated effectively to stabilize the currency.

The economic environment has changed significantly in recent years, and the same developments as in the past will not necessarily occur again. Still, it is often said that "history does not repeat itself, but it rhymes." As the global economy changes dramatically amid developments such as Trump tariffs, it is fair to say that currency policy and exchange-rate strategy require humility in learning from history and a long-term perspective.

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