

The Anomaly of Household Financial Asset Holdings in Japan: A Comparison with the USA and Europe

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Abstract

This paper examines household financial asset holdings in Japan and compares them with those in the USA and Europe. We uncover the unique characteristics of Japan's household assets and consider the reasons behind their anomalous nature. Our study reveals that Japanese households have a strong preference for low-risk assets, such as cash and deposits, while US and European households tend to prefer medium- or high-risk investments. Furthermore, our study derives significant implications from our findings and provides valuable insights into the factors driving this anomaly. Additionally, we will discuss future policy prescriptions and present some prospects.

Keywords

Anomaly, Europe, Household Financial Asset Holding, Japan, USA

1. Introduction

The selection of financial assets for households has always been a significant concern. Not only practitioners, but also academics, have shown interest in this topic, as demonstrated by existing studies (e.g., Vu et al., 2021; Bucciol et al., 2022; Cao et al., 2022; Jiang et al., 2022; Xiao & O'Neill, 2022; Xu et al., 2022; Hu et al., 2023; Qiao & Cai, 2023; Chen et al., 2024; Chipunza & Fanta, 2024; Gu & Zhu, 2024; He & Lin, 2024; Heo et al., 2024; Lan et al., 2024; Liu et al., 2024; Tu, 2024; Xu et al., 2024).

Japan has long suffered from deflation, but only recently has the consumer price inflation rate turned positive. However, interest rates have remained very low, and the real value of low-return financial assets held by households has been eroded. Our data analysis shows that, despite this situation, Japanese households contin-

uously hold most of their financial assets in the form of cash and deposits. What is the background and reason behind this anomalous asset selection behavior of Japanese households? What can policymakers and financial institutions in Japan do? What should Japanese individuals do? In this paper, we will discuss these questions. Therefore, given and motivated by this, our current study empirically examines household financial asset holdings in Japan and compares them with those in the USA and Europe.

As a result, the present study reveals that Japanese households have a strong preference for low-risk investments, such as cash and deposits, while US and European households tend to prefer medium- or high-risk assets. Furthermore, our study derives significant implications from these findings and provides valuable insights into the factors driving this anomaly. We believe that the findings, discussion, and implications derived from our study will be beneficial not only for academics but also for industry practices.

The rest of this paper is organized as follows. Section 2 documents the data and our methodology. Sections 3 and 4 present our findings and discussion, respectively. Section 5 presents our conclusions.

2. Data and Methodology

This section describes the data and methodology used in the study. Initially, we used data on household financial asset holdings in the USA, Japan, and the Euro area. This data was sourced from the Bank of Japan. Additionally, we included data on the annual interest rates for three-month large term deposits from Nikkei, Inc., and the annual consumer price inflation rate (average value of the monthly annualized rates compared to the same month of the previous year) computed and supplied by the Statistics Bureau of Japan for further discussion.

In this study, we will examine the data and analyze trends and variations graphically. Our analysis will primarily focus on the years 2018 to 2024.

3. Findings

This section presents our findings. **Table 1** shows the results for the composition of household financial assets in the USA, Japan, and the Euro area. Specifically, Panels A, B, and C of this table show the situations as of the end of March 2018, March 2022, and March 2024, respectively. Additionally, to make it easier to understand, we visualized these figures of Panels A, B, and C in **Figure 1**, **Figure 2**, and **Figure 3**, respectively.

From **Table 1** and **Figure 1**, **Figure 2**, and **Figure 3**, we understand the following remarkable facts and trends. First, strikingly, the holding ratios of cash and deposits in Japanese households are extremely higher than those in the USA and the Euro area. Second, also highly notably, the holding ratios of risky assets, such as mutual funds, shares, and other equity, in Japanese households are significantly lower than those in the USA and the Euro area. These findings clearly demonstrate the anomaly of Japanese household financial asset holdings compared with the

USA and Europe. Below we will discuss this anomaly from multiple perspectives.

Table 1. Composition ratios of household financial assets in the USA, Japan, and the Euro area.

Panel A. End of March 2018			
	USA	Japan	Euro area
Cash and deposits	13.1	52.5	33.0
Debt securities	5.9	1.3	2.5
Mutual funds	11.8	4.0	9.6
Shares and other equity	36.2	10.9	19.2
Insurance, pension, and standardized guarantees	30.2	28.5	33.4
Other assets	2.8	2.8	2.3
Panel B. End of March 2022			
	USA	Japan	Euro area
Cash and deposits	13.7	54.3	34.5
Debt securities	2.6	1.3	1.6
Mutual funds	12.6	4.5	10.4
Shares and other equity	39.8	10.2	19.5
Insurance, pension, and standardized guarantees	28.6	26.9	31.9
Other assets	2.7	2.8	2.1
Panel C. End of March 2024			
	USA	Japan	Euro area
Cash and deposits	11.7	50.9	34.1
Debt securities	4.6	1.3	3.1
Mutual funds	12.8	5.4	10.6
Shares and other equity	40.5	14.2	21.5
Insurance, pension, and standardized guarantees	27.7	24.6	28.7
Other assets	2.7	3.6	2.0

All figures are in percentages.

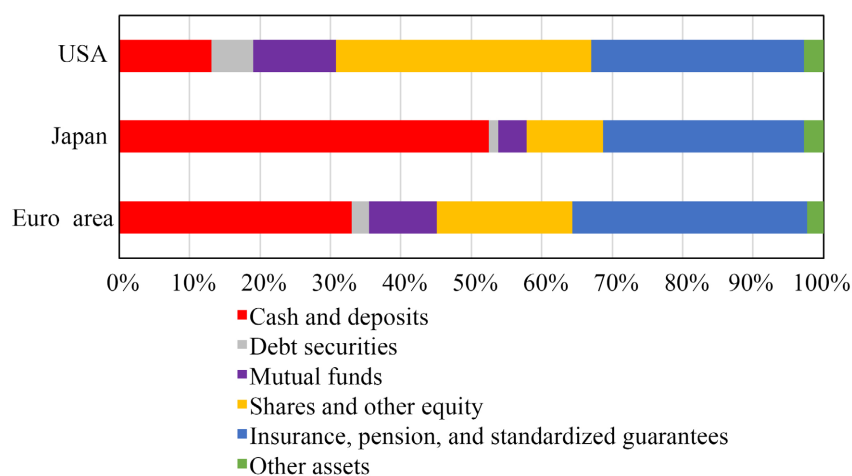


Figure 1. Composition ratios of household financial assets: End of March 2018.

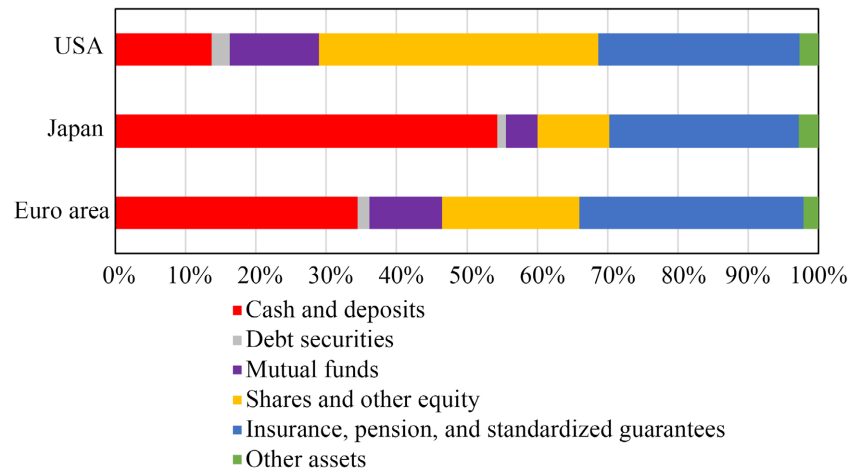


Figure 2. Composition ratios of household financial assets: End of March 2022.

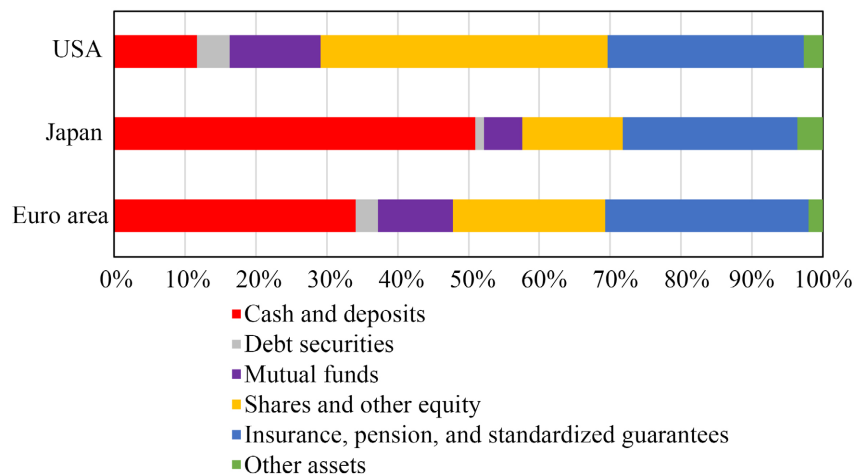


Figure 3. Composition ratios of household financial assets: End of March 2024.

4. Discussion

This section presents our discussion and derives significant interpretations and implications of our findings. As we uncovered in the previous section, despite Japan's reputation for high savings rates, Japanese households, on average, hold very few risky financial assets such as equities. Instead, they tend to hold many low-risk but low-return assets, such as cash and deposits. This anomaly raises questions about the risk preferences and financial literacy among the Japanese population. The key implication from our findings is that Japanese households demonstrate a much higher level of risk aversion compared to those in the USA and Europe. Investing the savings of Japanese households in Japan's stock markets is seen as beneficial for the country as a whole, as it could strengthen the Japanese stock market and attract foreign investment. Therefore, from a policy standpoint, it is important to take steps to decrease the risk aversion of Japanese households.

First, as risk aversion generally increases with age, it is desirable to implement policies that reduce the risk aversion of younger generations, rather than focusing

on the elderly, whose risk aversion tends to remain high. Specifically, the revision and expansion of the Nippon Individual Savings Account (NISA) in 2024 allow Japanese households to invest in risky assets more effectively. This is seen as a positive policy shift. From 2022 to 2024, the cash and deposit ratios of Japanese households have slightly decreased, while the investment ratios in risky assets such as equities have slightly increased. This may be influenced by the renewal of NISA. Furthermore, it would also be desirable to expand and popularize FinTech, making it easier for younger generations, who are more IT-savvy than older people, to access risky asset investments. Private sector efforts to improve the low financial literacy of the Japanese younger generation are crucial as well. Securities companies and other financial institutions need to make more proactive efforts to provide the younger generation with knowledge and information about risky asset investment and management to encourage understanding of the merit.

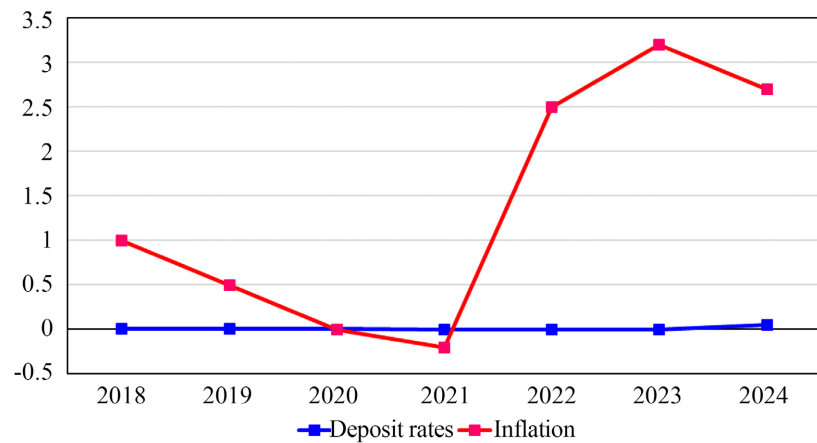
Secondly, since risk aversion generally declines with increasing wealth, policies to encourage wealthy households to invest in risky assets are important. Policies to increase the overall disposable income of Japanese households are also desirable. As mentioned above, financial institutions also need to make more proactive efforts to provide the wealthy with knowledge and information on risky asset investment and management, including the effective use of FinTech.

At the time of writing this paper, wage growth in Japan is not keeping up with the consumer price inflation rate. It is necessary to raise wages and increase the disposable income of Japanese households. Furthermore, the trends in consumer prices and deposit interest rates also indicate a phenomenon that makes it unbeneficial for Japanese households to continue the anomalous behavior. **Table 2** shows the trends in consumer price inflation rates and deposit interest rates in recent years, and **Figure 4** and **Figure 5** visualize them. As these data show, Japan's deposit interest rates have been lower than the consumer price inflation rate for the past few years. If the relative relationship between the consumer price inflation rate and deposit interest rates does not change, Japanese households' continued holding of assets in the form of cash and deposits will only damage their real value.

Table 2. Deposit and inflation rates in Japan from 2018 to 2024.

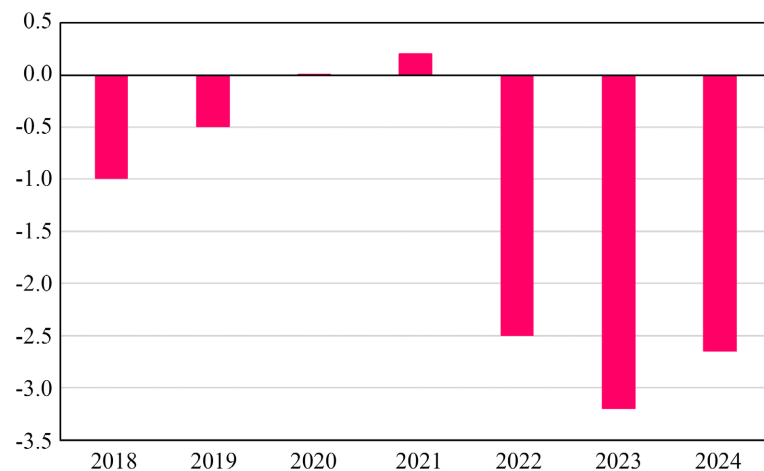
	Deposit rate	Inflation	Difference
2018	0.010	1.0	-0.990
2019	0.010	0.5	-0.490
2020	0.004	0.0	0.004
2021	0.002	-0.2	0.202
2022	0.002	2.5	-2.498
2023	0.002	3.2	-3.198
2024	0.053	2.7	-2.647

Deposit rate: The interest rate for large term deposits (3 months) from Nikkei, Inc. Inflation: The consumer price inflation rate from the Statistics Bureau of Japan. All figures are annual values and in percentages.



Deposit rate: The interest rate for large term deposits (3 months) from Nikkei, Inc. Inflation: The consumer price inflation rate from the Statistics Bureau of Japan. All figures are annual values and in percentages.

Figure 4. Time-series evolution of deposit and inflation rates in Japan, 2018 to 2024.



The differences represent the interest rates for large term deposits (3 months) from Nikkei, Inc. minus the consumer price inflation rate from the Statistics Bureau of Japan. All figures are annual values and in percentages.

Figure 5. Time-series evolution of the differences between deposit and inflation rates in Japan, 2018 to 2024.

Therefore, the Japanese people must properly refer to and understand the data, correctly understand the current situation and risk and return of financial assets deeply, and change their own awareness so that they can voluntarily alter their disadvantageous anomalous behavior. The Japanese must improve their financial literacy.

5. Conclusion

In this study, we examined household financial asset holdings in Japan and compared them with those in the USA and Europe. Our aim is to shed light on the unique characteristics of Japan's household assets and explore the reasons behind

their anomalous nature.

Our analysis revealed that Japanese households have a strong preference for low-risk, low-return investments, such as cash and deposits. This conservative investment behavior sets them apart from households in the USA and Europe, who tend to have a higher appetite for risk and invest more heavily in equities and other higher-risk assets.

Overall, our study highlights the unique characteristics of household financial asset holdings in Japan and provides valuable insights into the factors driving this anomaly. By understanding the characteristics and dynamics of Japan's household financial assets better, policymakers and financial institutions can develop more targeted strategies to encourage investment and wealth accumulation among Japanese households. We believe that the findings, discussion, implications, and insights derived from our current study will be beneficial not only for academic researchers but also for industry practitioners. Examining various segments of the Japanese population such as age, income, and region is left for our future work.

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Conflicts of Interest

The author declares no conflicts of interest regarding the publication of this paper.

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