

Current Status of Japan's Fiscal Balance



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International Comparison Done on General Government Fiscal Balance

The Japanese government's plan for the fiscal 2023 budget was approved in a Cabinet meeting at the end of 2022. General Account Budget expenditure came to a record high of 114 trillion yen, with factors such as defense expenditure exceeding public works expenditure and dependence on newly issued government bonds surpassing 30% to cover such expenditures exceeding tax revenues gaining particular attention.

What is used for international comparison of financial conditions is the General Government Fiscal Balance, which is the sum of national, municipal and social security funds, including special accounts on pensions. The state of this fiscal balance can be grasped from the Annual Report on National Accounts released at the end of each year. This article will confirm the current state of Japan's fiscal balance based on the Annual Report for fiscal 2021 which was published at the end of December 2022.

Fiscal Balance Deficit for Fiscal 2021 Was Nominal GDP Ratio of 5.9%

The status of the General Budget Expenditure is shown as Net lending (+)/Net borrowing (-) in the Capital and Financial Accounts of the Annual Report. The result for fiscal 2021 was a 32.6 trillion yen (nominal GDP ratio of 5.9%) deficit (to borrow the terminology for National Accounts, a net borrowing). Compared to the 10% nominal GDP ratio of the deficit in fiscal 2020, when expenditures expanded under the coronavirus pandemic, the deficit has shrunk but remains high.

This fiscal balance is the savings of the government minus investments such as public works (fixed capital formation, etc.). When the fiscal balance deficit is divided into a savings factor and an investment factor, it can be confirmed that Japan's fiscal balance deficit in recent years can be attributed mainly to the savings factor (*Chart 1*). Savings for fiscal 2021 saw a deficit of 28.7 trillion yen (nominal GDP ratio of 5.2%).

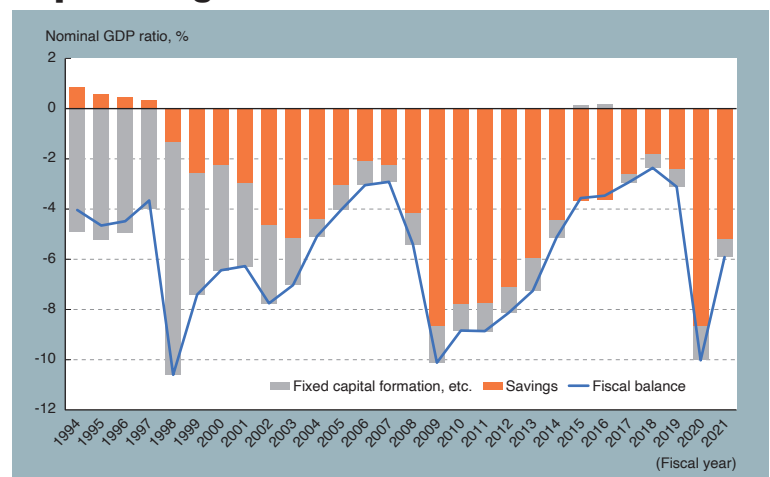
These savings consist of tax and social security premium revenues (185.7 trillion yen in fiscal 2021, nominal GDP ratio 33.7%) minus general government expenditures excluding investments (214.0 trillion yen in fiscal 2021, nominal GDP ratio 38.9%), and adding property income receivable minus payable (property income (net), negative 357.9 billion yen, nominal GDP ratio 0.1%). Interest payments on government bonds were equivalent to property income payments, but the impact of negative property income (net) on the saving deficit is not too large. This is because many of the government bonds are purchased for management of pension funds, and looking at the General Government Fiscal Balance, interest payments on government bonds also becomes property income receivable.

Nominal GDP Ratio of Tax & Social Security Revenue Rising

From the above, it can be understood that the savings deficit of the General Government can mostly be explained by the difference in tax

CHART 1

Trends in the fiscal balance of the Japanese government



Source: Annual Report on National Accounts by Cabinet Office

and social security revenues and expenditures of the government excluding investments. Looking at [Chart 2](#) which shows each of the trends of nominal GDP ratio, it can be confirmed that the nominal GDP ratio of tax and social security revenues has been continuing to rise since the early 2000s. Under the current standard of National Accounts, only the actual values after fiscal 1994 can be confirmed, but the 33.7% nominal GDP ratio for fiscal 2021 exceeds the peak in fiscal 1990 (nominal GDP ratio 28.6%) under the old standard. The main factor behind this is the consistent rise in the nominal GDP ratio of social security premiums since fiscal 1994. GDP is income earned domestically in Japan, and thus it can be seen that premium rates against income have been rising over the years and the increase in financial burdens continues.

Shift to Exit from the Coronavirus Pandemic

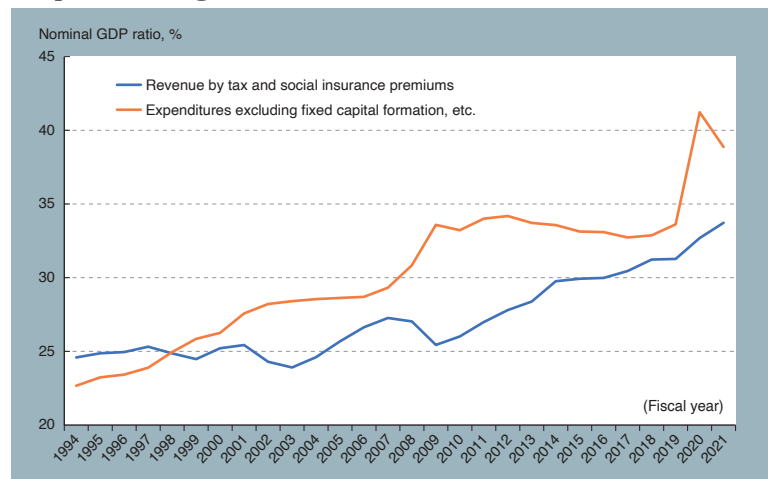
Such an increase in financial burdens is the other side of the coin of the expansion of expenditures by the government excluding investments. Observing the content by dividing them into three components, the nominal GDP ratio of social security-related expenditure has been rising over the years, and it can be confirmed that this has led to the expansion in General Government Expenditure excluding investments ([Chart 3](#)). Social security-related expenditure for fiscal 2021 was 124.3 trillion yen (nominal GDP ratio 22.6%), almost twice the nominal GDP ratio of 12.0% in fiscal 1994. In contrast, the nominal GDP ratio of final consumption expenditures excluding social security has been trending at almost flat.

Looking further into the details, the nominal GDP ratio of social security-related expenditures has been flat since fiscal 2012. During this time, social security expenditures continued to increase every year due to the aging population, but the nominal GDP growth rate turning to positive by overcoming deflation played out successfully. The expansion of nominal GDP led to an increase in tax and social security premium revenues, and it shows that it is vital to fiscal reconstruction.

In addition, it can be confirmed that in fiscal 2020, the nominal GDP ratio of payables of other current transfers minus receivables rose sharply to 7.1%. It dropped to 4.1% in fiscal 2021, but until fiscal 2019 it was around 1%. The sharp rise in fiscal 2020 was due to the various benefits related to the coronavirus pandemic, and if a shift to exit from the pandemic progresses smoothly it can be

CHART 2

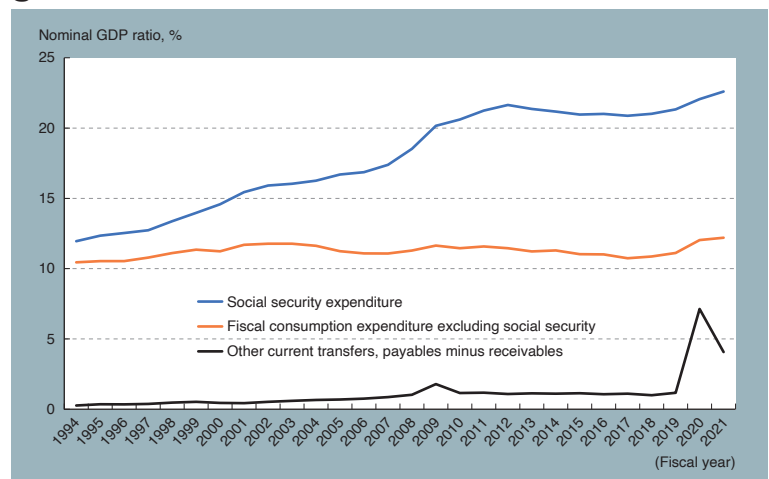
Trends in revenue & expenditure by the Japanese government



Source: Annual Report on National Accounts by Cabinet Office

CHART 3

Trend in expenditure by the Japanese government



Source: Annual Report on National Accounts by Cabinet Office

expected to lead to factors shrinking the fiscal deficit.

Note: This article was written based on information that was available as of Jan. 31, 2023.

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Calendar year, Quarter and Month	Real GDP		Nominal GDP		IIP rate of increase over previous year/term (month) (%)	CPI (All terms, less fresh food) rate of increase over previous year/the same term (month) of the previous year (%)
	Amount (trillion yen)	Rate of increase over previous year/term (%)	Amount (trillion yen)	Rate of increase over previous year/term (%)		
2015	538.1	1.6	538.0	3.7	-1.2	0.5
2016	542.1	0.8	544.4	1.2	0.0	-0.3
2017	551.2	1.7	553.1	1.6	3.1	0.5
2018	554.8	0.6	556.6	0.6	1.1	0.9
2019	552.5	-0.4	557.9	0.2	-3.0	0.6
2020	528.9	-4.3	539.1	-3.4	-10.4	-0.2
2021	540.2	2.1	549.4	1.9	5.6	-0.2
2022	546.0	1.1	556.5	1.3	-0.1	2.3
2022/1st Qtr.	542.0	-0.4	552.8	0.2	0.8	0.6
2nd Qtr.	548.0	1.1	558.5	1.0	-2.7	2.1
3rd Qtr.	546.7	-0.3	554.2	-0.8	5.8	2.7
4th Qtr.	547.5	0.2	561.3	1.3	-3.0	3.8
2022/May	—	—	—	—	-7.5	2.1
June	—	—	—	—	9.2	2.2
July	—	—	—	—	0.8	2.4
Aug.	—	—	—	—	3.4	2.8
Sept.	—	—	—	—	-1.7	3.0
Oct.	—	—	—	—	-3.2	3.6
Nov.	—	—	—	—	0.2	3.7
Dec.	—	—	—	—	0.3	4.0
Sources	"SNA (National Accounts of Japan)", Cabinet Office				"Indices of Industrial Production", Ministry of Economy, Trade and Industry	"Consumer Price Index", Statistics Bureau, Ministry of Internal Affairs and Communications

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Exports amount (trillion yen)	Exports rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount (trillion yen)	Imports rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to US (trillion yen)	Exports to US rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from US (trillion yen)	Imports from US rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to EU (trillion yen)	Exports to EU rate of increase over previous year/ the same term (month) of the previous year (%)
2015	75.6	3.4	78.4	-8.7	15.2	11.5	8.1	6.9	6.7	4.4
2016	70.0	-7.4	66.0	-15.8	14.1	-7.1	7.3	-9.2	6.5	-2.8
2017	78.3	11.8	75.4	14.1	15.1	6.9	8.1	10.5	7.1	9.5
2018	81.5	4.1	82.7	9.7	15.5	2.4	9.0	11.4	7.7	7.8
2019	76.9	-5.6	78.6	-5.0	15.3	-1.4	8.6	-4.2	7.4	-3.0
2020	68.4	-11.1	68.0	-13.5	12.6	-17.3	7.5	-13.7	6.3	-15.1
2021	83.1	21.5	84.9	24.8	14.8	17.6	8.9	19.6	7.7	21.4
2022	98.2	18.2	118.2	39.2	18.3	23.1	11.7	31.5	9.4	22.1
2022/1st Qtr.	22.0	14.5	25.3	34.6	3.9	17.6	2.6	28.9	2.1	14.0
2nd Qtr.	23.9	15.9	28.6	40.8	4.3	15.7	2.7	21.6	2.3	17.4
3rd Qtr.	25.6	23.2	32.0	47.6	4.8	30.0	3.2	42.5	2.4	27.2
4th Qtr.	26.6	18.7	32.3	34.0	5.2	28.2	3.2	32.6	2.6	29.0
2022/May	7.3	15.8	9.6	48.8	1.3	13.6	0.9	24.2	0.7	10.5
June	8.6	19.3	10.0	46.0	1.6	15.7	1.0	25.2	0.8	22.2
July	8.8	19.0	10.2	47.3	1.6	14.1	1.1	46.8	0.8	31.7
Aug.	8.1	22.0	10.9	49.8	1.5	33.8	1.1	40.5	0.7	16.7
Sept.	8.8	28.9	10.9	45.8	1.7	45.3	1.1	40.3	0.8	33.2
Oct.	9.0	25.3	11.2	53.7	1.8	36.6	1.1	47.1	0.9	28.1
Nov.	8.8	20.0	10.9	30.3	1.7	32.6	1.0	21.4	0.9	32.0
Dec.	8.8	11.5	10.2	20.7	1.7	16.9	1.1	31.6	0.9	27.0
Sources	"Trade Statistics of Japan", Ministry of Finance									

Calendar year, Quarter and Month	Cash salary amount rate of increase over previous year/the same term (month) of the previous year (%)	Active job openings-to-applicants ratio (time(s))	Unemployment rate (%)	M2 rate of increase over previous year/ the same term (month) of the previous year (%)	Balance of payments		Yen/\$ rate (averaged during the term)
					Trade balance (trillion yen)	Current balance (trillion yen)	
2015	0.1	1.20	3.4	3.6	-0.9	16.5	121.0
2016	0.6	1.36	3.1	3.4	5.5	21.4	108.8
2017	0.4	1.50	2.8	4.0	4.9	22.8	112.2
2018	1.4	1.61	2.4	2.9	1.1	19.5	110.4
2019	-0.4	1.60	2.4	2.4	0.2	19.3	109.0
2020	-1.2	1.18	2.8	6.5	2.8	15.8	106.8
2021	0.3	1.13	2.8	6.4	1.7	21.6	109.8
2022	2.1	1.28	2.6	3.3	-15.8	11.4	131.4
2022/1st Qtr.	1.5	1.21	2.7	3.5	-1.9	4.9	116.2
2nd Qtr.	1.5	1.25	2.6	3.3	-3.8	2.4	129.6
3rd Qtr.	1.7	1.32	2.6	3.4	-5.5	2.4	138.4
4th Qtr.	3.3	1.35	2.5	3.0	-4.6	1.8	141.4
2022/May	1.0	1.24	2.6	3.1	-2.0	0.8	128.7
June	2.0	1.27	2.6	3.3	-1.1	0.5	133.9
July	1.3	1.29	2.6	3.4	-1.2	0.9	136.7
Aug.	1.7	1.32	2.5	3.4	-2.5	0.7	135.3
Sept.	2.2	1.34	2.6	3.3	-1.8	0.8	143.1
Oct.	1.4	1.35	2.6	3.1	-1.9	-0.1	147.2
Nov.	1.9	1.35	2.5	3.1	-1.5	1.8	142.2
Dec.	4.8	1.35	2.5	2.9	-1.2	0.0	134.9
Sources	"Monthly Labour Survey", Ministry of Health, Labour and Welfare	"Employment Referrals for General Workers", Ministry of Health, Labour and Welfare	"Labour Force Survey", Statistics Bureau, Ministry of Internal Affairs and Communications	"Money Stock", Bank of Japan	"Balance of Payments", Ministry of Finance		Bank of Japan

Calendar year, Quarter and Month	Foreign Trade Statistics									
	Imports amount from EU (trillion yen)	Imports from EU rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to Asia (excluding China) (trillion yen)	Exports to Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from Asia (excluding China) (trillion yen)	Imports from Asia (excluding China) rate of increase over previous year/ the same term (month) of the previous year (%)	Exports amount to China (trillion yen)	Exports to China rate of increase over previous year/ the same term (month) of the previous year (%)	Imports amount from China (trillion yen)	Imports from China rate of increase over previous year/ the same term (month) of the previous year (%)
2015	7.8	4.6	27.1	3.7	18.9	-2.6	13.2	-1.2	19.4	1.3
2016	7.4	-5.0	24.7	-8.7	16.2	-14.5	12.4	-6.5	17.0	-12.4
2017	8.0	7.0	28.0	13.3	18.6	14.8	14.9	20.5	18.5	8.5
2018	8.8	10.6	28.8	2.9	20.0	7.8	15.9	6.8	19.2	4.0
2019	8.8	0.3	26.6	-7.6	19.0	-5.3	14.7	-7.6	18.5	-3.9
2020	7.8	-12.1	24.1	-9.4	17.2	-9.4	15.1	2.7	17.5	-5.1
2021	9.5	21.8	30.2	25.0	20.7	20.6	18.0	19.2	20.4	16.4
2022	11.4	20.3	36.4	20.6	28.5	37.6	19.0	5.7	24.8	21.8
2022/1st Qtr.	2.6	24.1	8.2	18.8	6.2	29.1	4.3	7.0	5.5	16.6
2nd Qtr.	2.9	20.8	9.2	24.7	6.9	39.2	4.6	0.5	5.8	17.3
3rd Qtr.	2.7	8.4	9.5	23.3	7.7	46.4	5.1	14.4	6.7	33.0
4th Qtr.	3.2	28.5	9.5	16.1	7.8	35.4	5.0	1.5	6.7	20.4
2022/May	1.0	18.8	2.9	28.6	2.3	52.7	1.4	-0.2	2.0	25.8
June	0.9	18.1	3.2	25.9	2.3	38.9	1.7	7.4	2.2	33.3
July	0.8	7.3	3.3	26.1	2.5	42.3	1.8	12.8	2.2	34.7
Aug.	0.9	-1.7	3.0	20.9	2.6	49.6	1.6	13.4	2.2	34.3
Sept.	1.0	19.7	3.2	22.6	2.6	47.2	1.7	17.1	2.3	30.1
Oct.	1.1	40.2	3.2	22.0	2.7	54.5	1.7	7.7	2.4	39.4
Nov.	1.1	21.1	3.2	16.4	2.7	36.8	1.6	3.5	2.3	17.3
Dec.	1.0	25.7	3.1	10.4	2.4	17.6	1.6	-6.2	2.0	6.4
Sources	"Trade Statistics of Japan", Ministry of Finance									