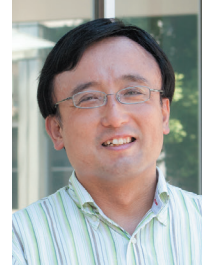


# Japan's Current Account Surplus Significantly Reduced



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## January 2023 Current Account Deficit

Japan's current account for January 2023, released on March 8, 2023, marked a deficit of 1.98 trillion yen. It was the second consecutive deficit for January and exceeded the 1.46 trillion yen deficit in January 2014 to mark the largest deficit ever. The cumulative surplus for January and February released on April 10, which adds the February figure, was 0.2 trillion yen.

As stated in Yoichi Matsubayashi's article in the *Japan SPOTLIGHT* January/February 2023 issue ([https://www.jef.or.jp/journal/pdf/247th\\_Special\\_Article\\_01.pdf](https://www.jef.or.jp/journal/pdf/247th_Special_Article_01.pdf)), a structural change may be occurring in Japan's current account balance. In this month's issue, while reflecting on the most recent data, the current situation around the service balance, which Matsubayashi's article did not address, will be explained.

## Expansion in Trade Balance Deficit as Main Cause

*Chart 1* shows the breakdown of Japan's current account balance of payments. The current account balance in 2022 was 11.5 trillion yen, a decline of 10 trillion yen from the previous year. The main reason behind this was that the trade balance, which saw a surplus of 1.8 trillion yen in 2021, became a deficit of 15.7 trillion yen. This was because while the value of exports increased by 16.4 trillion yen (19.9% increase year-on-year), the value of imports increased by 33.9 trillion yen (42.2% increase year-on-year). According to "Trends in Real Exports and Imports" by the Bank of Japan, real exports in 2022 rose by 0.9% year-on-year and real imports went up by 4.4% year-on-year. While there are factors such as the rise in crude oil prices, the main reason behind the widening of the trade deficit is import growth exceeding export growth on a real basis, which excludes the impact of price fluctuations.

Furthermore, the service balance deficit widened from 4.2 trillion yen in 2021 to 5.4 trillion yen in 2022. The primary income surplus widened by close

to 9 trillion yen from the previous year to 35.2 trillion yen, but the widening deficit for both the trade balance and the service balance exceeded this.

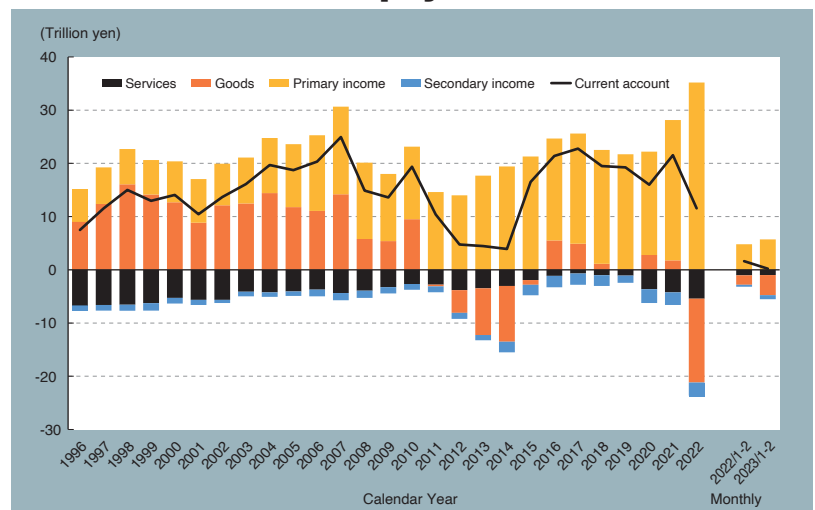
A similar trend was also seen for the cumulative period from January to February 2023. The current account balance for the cumulative period from the January to February 2023 period was a surplus of 0.2 trillion yen. The main reason behind the surplus reducing from 1.6 trillion yen in the previous year is, of course, the trade balance. The trade balance for the cumulative period from January to February was a deficit of 3.8 trillion yen, and compared to the cumulative period from January to February for the previous year, the deficit widened by 2 trillion yen. Import growth on a real basis excluding price fluctuations also exceeded export growth. The service balance saw a deficit of 1.0 trillion yen, and the primary balance saw a surplus of 5.7 trillion yen.

## Widening Service Balance Deficit Due to "Others"

On the other hand, although the service balance deficit was on a

CHART 1

### Trends in balance of payments



Source: Balance of payments, Ministry of Finance

declining trend until 2019, the deficit began to widen after 2020. The service balance in 2022 was 5.4 trillion yen and the deficit widened by 1.2 trillion yen from the previous year (Chart 2). This is because, while the surplus increased for the travel balance and charges for the use of intellectual property, which was the driving force behind the shrinking deficit until 2019, the deficit widened for other services excluding charges for the use of intellectual property.

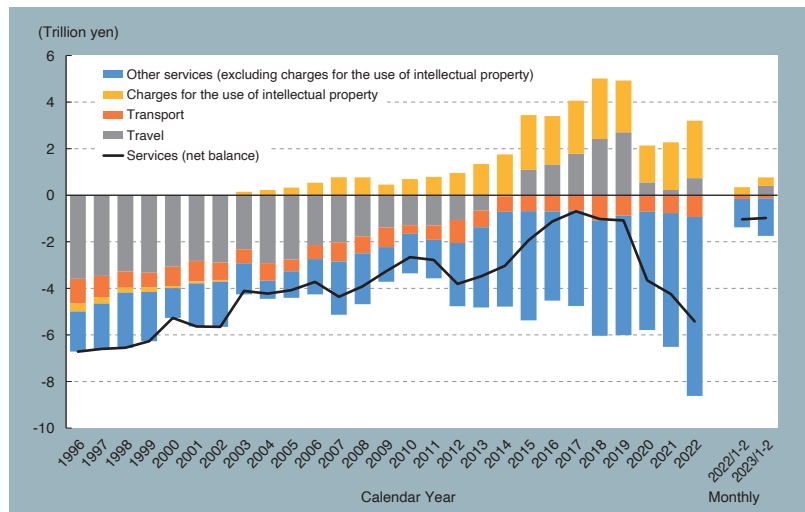
The main factor behind the deficit for other services excluding charges for the use of intellectual property widening is other business services. In 2022, it saw a 4.4 trillion-yen deficit, and the deficit widened by 1.4 trillion yen. Looking further at the breakdown, the deficit widened for research and development services by 0.6 trillion yen, professional and management consulting services by 0.4 trillion yen, and technical, trade-related, and other business services by 0.4 trillion yen. Of these, professional and management consulting services include sales transactions for advertising space on websites, but it can be suspected that payments to overseas law firms and accounting firms also increased.

### Increase in Income Balance Not Flowing Back to Japan

There is a structural change also occurring in the primary income balance which covers the deficits in the trade balance and the service balance (Chart 3). The primary income balance in 2022 was a surplus of 35.2 trillion yen and increased by 8.8 trillion yen compared to the previous year, but the majority was direct investment income (23.2 trillion yen in 2022, a 6.4 trillion-yen increase year-on-year). In addition, half of this is reinvested earnings, which is equivalent to the retained earnings of such entities as local affiliate companies of direct investment destinations. Unlike portfolio investment profits which are gained from investments in overseas securities and bonds, these are hard to convert into yen and flow back to Japan. This is said to be one reason behind the weakness of the Japanese yen against other currencies such as the US dollar, despite maintaining a current account surplus, and whether this trend will become stronger from now on requires close watching.

CHART 2

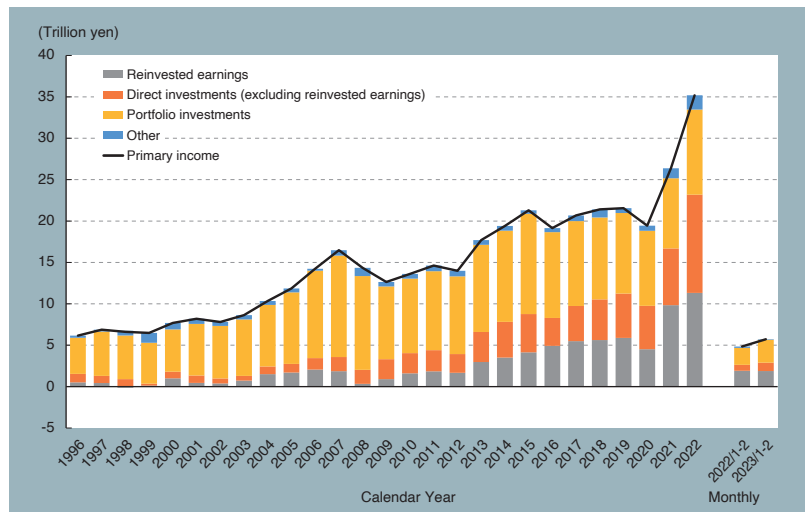
## Trends in services (net balance)



Source: Balance of payments, Ministry of Finance

CHART 3

## Trends in primary income



Source: Balance of payments, Ministry of Finance

**Note:** This article has been written with information obtained as of April 10, 2023. **JS**

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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	545.8	1.0	556.4	1.3	-0.1	2.3
2022/1st Qtr.	541.8	-0.5	552.8	0.2	0.8	0.6
2nd Qtr.	548.1	1.2	558.6	1.0	-2.7	2.1
3rd Qtr.	546.6	-0.3	554.2	-0.8	5.8	2.7
4th Qtr.	546.7	0.0	560.6	1.2	-3.0	3.8
2022/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
2023/Jan.	—	—	—	—	-5.3	4.2
Feb.	—	—	—	—	4.6	3.1
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	118.1	39.2	18.3	23.1	11.7	31.6	9.4	22.0
2022/1st Qtr.	22.0	14.5	25.4	35.0	3.9	17.5	2.6	29.3	2.1	14.0
2nd Qtr.	23.9	15.9	28.5	40.6	4.3	15.7	2.7	21.4	2.3	17.5
3rd Qtr.	25.6	23.2	31.9	47.3	4.8	30.0	3.2	42.6	2.4	27.2
4th Qtr.	26.6	18.7	32.3	34.0	5.2	28.1	3.2	32.9	2.6	29.0
2022/July	8.8	19.0	10.2	46.9	1.6	14.0	1.1	47.2	0.8	31.7
Aug.	8.1	22.0	10.9	49.3	1.5	33.8	1.1	40.5	0.7	16.7
Sept.	8.8	28.9	10.9	45.8	1.7	45.2	1.1	40.4	0.8	33.2
Oct.	9.0	25.3	11.2	53.6	1.8	36.5	1.1	47.3	0.9	28.1
Nov.	8.8	20.0	10.9	30.3	1.7	32.6	1.0	21.7	0.9	32.0
Dec.	8.8	11.5	10.2	20.8	1.7	16.9	1.1	31.9	0.9	27.0
2023/Jan.	6.6	3.5	10.1	17.6	1.2	10.4	1.0	21.4	0.7	9.5
Feb.	7.7	6.5	8.6	8.3	1.5	14.9	0.9	6.7	0.8	18.6
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	16.0	106.8
2021	0.3	1.13	2.8	6.4	1.8	21.5	109.8
2022	2.0	1.28	2.6	3.3	-15.7	11.5	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	-3.7	2.3	129.6
3rd Qtr.	1.7	1.30	2.6	3.4	-5.5	2.4	138.4
4th Qtr.	2.9	1.35	2.5	3.0	-4.6	1.9	141.4
2022/July	1.3	1.28	2.6	3.4	-1.2	0.9	136.7
Aug.	1.7	1.31	2.5	3.4	-2.5	0.7	135.3
Sept.	2.2	1.32	2.6	3.3	-1.8	0.9	143.1
Oct.	1.4	1.34	2.6	3.1	-1.9	-0.1	147.2
Nov.	1.9	1.35	2.5	3.1	-1.5	1.9	142.2
Dec.	4.1	1.36	2.5	2.9	-1.2	0.1	134.9
2023/Jan.	0.8	1.35	2.4	2.7	-3.2	-2.0	130.3
Feb.	1.1	1.34	2.6	2.6	-0.6	2.2	132.7
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	20.5	36.4	20.6	28.5	37.7	19.0	5.7	24.8	21.9
2022/1st Qtr.	2.7	24.7	8.2	18.8	6.2	29.6	4.3	7.0	5.5	16.6
2nd Qtr.	2.9	20.9	9.2	24.7	6.9	39.0	4.6	0.4	5.8	17.3
3rd Qtr.	2.7	8.3	9.5	23.2	7.7	46.4	5.1	14.4	6.7	33.0
4th Qtr.	3.2	28.6	9.5	16.1	7.8	35.5	5.0	1.4	6.7	20.4
2022/July	0.8	7.1	3.3	26.1	2.5	42.3	1.8	12.8	2.2	34.8
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	47.4	1.7	17.0	2.3	30.1
Oct.	1.1	40.2	3.2	21.9	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	17.8	1.6	-6.2	2.0	6.5
2023/Jan.	0.9	-2.1	2.5	2.3	2.4	17.4	1.0	-17.1	2.4	12.3
Feb.	0.9	4.5	2.8	4.0	2.2	15.7	1.3	-10.9	1.5	-0.6
Sources	"Trade Statistics of Japan", Ministry of Finance									