World Economic Situation and Prospects
Weekly Highlights

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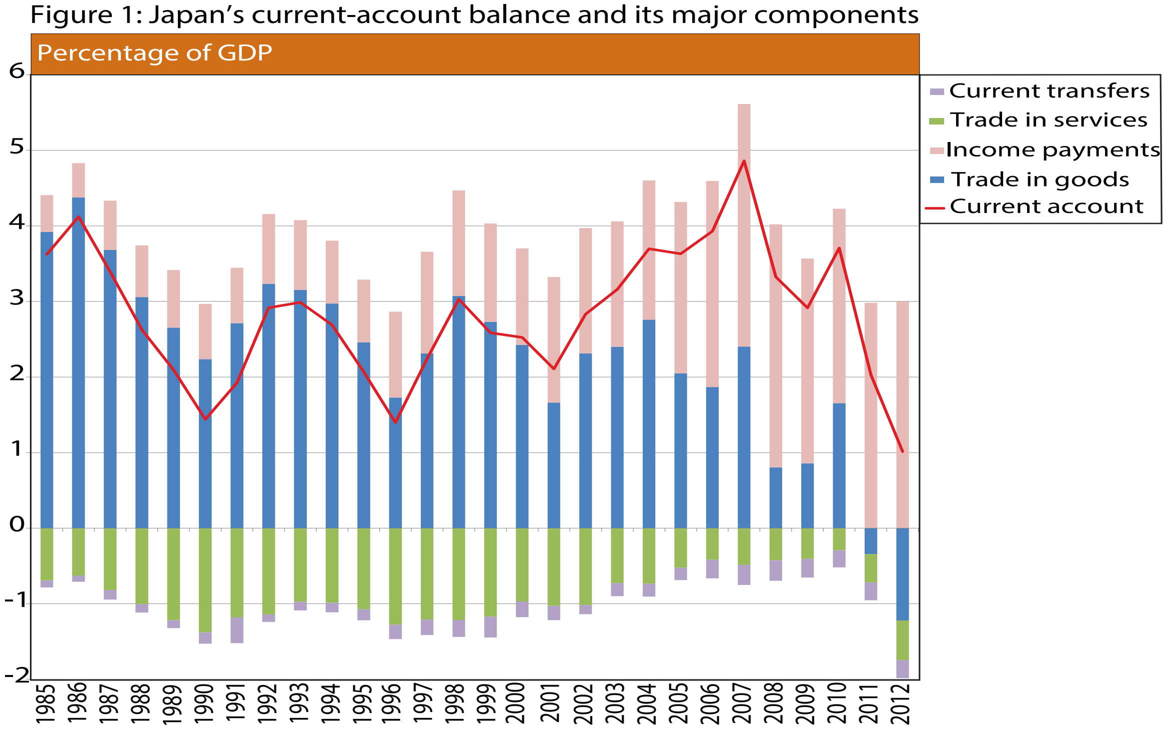
Recent developments in Japan's current-account balance and international portfolio investments

Since 1981, Japan has maintained its current-account balance in surplus every year. Among the four major sub-items of the current account, Japan kept the balances in both the trade of goods and the income account in the black until 2011 (figure 1). The balance in the trade of goods shrank in 2008 and 2009 owing to the global recession, but remained in surplus and recovered in 2010. Since 2011, however, that balance has been in deficit; factors contributing to the deficit included the appreciation of yen until mid-2012, the elevated demand for import of fuel for power-generation after the shutdown of almost all nuclear power generators, and the weakened demand from other developed economies.

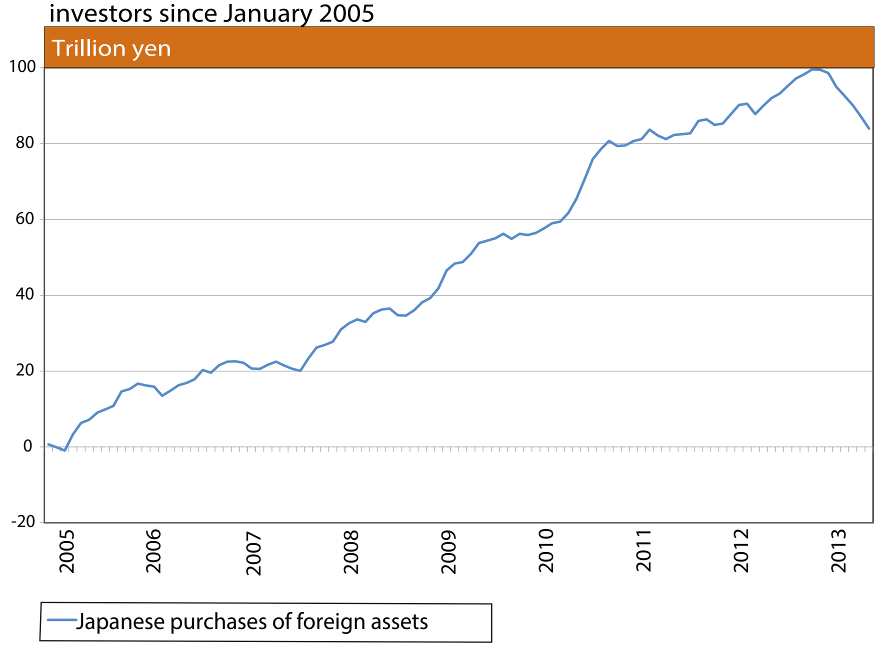
Figure 1: Japan's current-account balance and its major components



Source: UN/DESA, based on national data.

On the other hand, the balance in the income account has been in surplus constantly, thanks to Japan's massive net international investment position, which has increased from about 1 per cent of GDP in 1980 to about 59 per cent of GDP in 2012. Portfolio investment has accounted for a significant portion of Japan's foreign financial asset holdings for decades. High-frequency data on the major investors' international transactions on securities (available since 2005) show that until late 2012 Japanese investors have steadily increased their foreign asset holdings (figure 2).

Figure 2 : Cumulative net purchases of foreign securities by Japanese investors since January 2005



Source: UN/DESA, based on national data.

However, over the past six months, this trend has been reversed, with Japanese investors reducing their net foreign asset holdings. This change can be partly explained by a standard portfolio-adjustment effect, but also reflects the significant depreciation of the yen as well as increased dissaving due to the ageing of the population.

Given Japan's massive positive net international investment position, accumulated over the past few decades, the recent reduction in the holding of foreign securities will not reduce future earned income significantly. Nevertheless, if this trend continues, the positive contribution of investment income to the current account might diminish, eventually leading to an annual current-account deficit.