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Japan's Balance of Payments for 2007

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International Department
Bank of Japan

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Contents

I. Summary	1
 II. Current Account	
A. Summary	3
B. Developments in the Main Components	4
1. Goods	4
a. Exports	5
b. Imports	7
2. Services	10
a. Transportation	11
b. Travel	12
c. Other services	14
3. Income	15
4. Current transfers	16
 III. Capital and Financial Account	
A. Summary	17
B. Developments in the Main Components	17
1. Direct investment	17
a. Outward direct investment (assets)	18
b. Inward direct investment (liabilities)	19
2. Portfolio investment (excluding securities lending)	21
a. Outward portfolio investment (assets)	21
b. Inward portfolio investment (liabilities)	28
3. Financial derivatives	30
4. Other investment (excluding securities lending)	31

Boxes

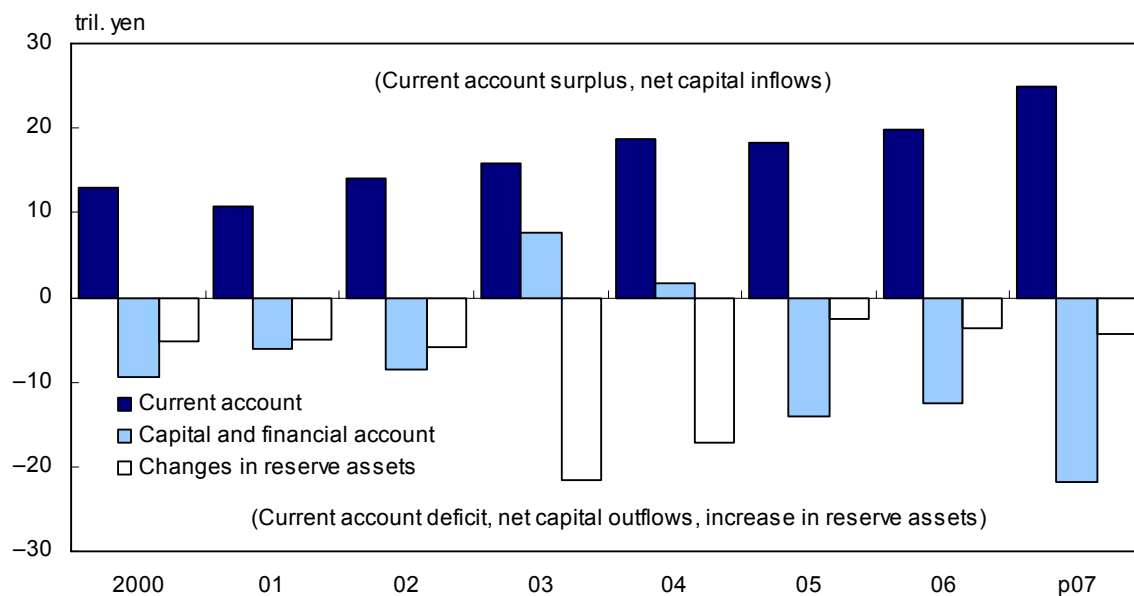
Box 1.	Features of the Balance of Income in 2007	32
Box 2.	Overseas Activities of Japanese Companies and Developments in the Service Account	35
Box 3.	Classification of Direct Investment by Type of Investment	40
Box 4.	Outward Investment in Equity Securities in 2007	42

I. Summary

Japan's current account surplus increased to 25.0 trillion yen in 2007, up from 19.8 trillion in 2006, marking a new record high for the second consecutive year. This was mainly due to the growth of the surpluses in the trade and income balances. The capital and financial account deficit (net outflow) increased to 21.9 trillion yen in 2007, up sharply from 12.5 trillion yen in 2006, reflecting the increase in net outflows of "other investment." Reserve assets continued to increase, registering 4.3 trillion yen in 2007, up from 3.7 trillion yen in 2006. Balance of payments data for the whole of 2007, the second half of 2007, and the fourth quarter of 2007 in this report are preliminary unless otherwise stated.

In balance of payments statistics, the following relationship holds true at all times: Current account + capital and financial account + changes in reserve assets + errors and omissions = 0. Japan's balance of payments for 2007 shows that the current account surplus earned is mirrored by reverse flows abroad in the form of a capital and financial account deficit (outflows) and an increase in reserve assets.

Figure 1: Balance of Payments



Note: "p" denotes preliminary data. The same applies to the remainder of the report.

Table 1: Japan's Balance of Payments

bil. yen

	2005	2006	p2007	Change from the previous year	Highlights
Current account	18,259.1	19,848.8	25,001.2	+5,152.5	The surplus registered a record high due to an increased trade surplus and income surplus.
Goods and services	7,693.0	7,346.0	10,077.5	+2,731.6	The surplus increased, mainly due to an increased trade surplus.
Goods	10,334.8	9,464.3	12,379.1	+2,914.8	The surplus increased for the first time in three years as the increase in exports exceeded the increase in imports.
Exports	62,631.9	71,630.9	79,723.9	+8,093.1	Exports increased, reflecting worldwide economic growth.
Imports	52,297.1	62,166.5	67,344.8	+5,178.3	Imports increased, reflecting the rising prices of natural resources.
Services	-2,641.8	-2,118.3	-2,301.6	-183.2	The deficit remained, mainly due to a deficit in the travel account.
Income	11,381.7	13,745.7	16,273.0	+2,527.3	The surplus registered a record high for the fourth consecutive year.
Current transfers	-815.7	-1,242.9	-1,349.3	-106.4	The deficit increased due to increased payments of contributions and taxes.
Capital and financial account	-14,006.8	-12,466.5	-21,916.6	-9,450.0	The outflow of funds increased through "other investment."
Of which:					
Outward direct investment	-5,045.9	-5,845.9	-8,618.2	-2,772.3	The outward investment amount registered a record high.
Inward direct investment	305.9	-756.6	2,647.9	+3,404.5	The inward investment amount registered a record high.
Outward portfolio investment	-23,567.4	-9,689.0	-12,936.8	-3,247.7	Net purchases (outflows) increased as purchases of bonds and notes increased.
Equity securities	-2,540.6	-3,055.0	-2,968.9	+86.0	
Bonds and notes	-22,024.6	-7,725.5	-10,243.4	-2,517.9	
Money market instruments	997.8	1,091.4	275.6	-815.8	
Inward portfolio investment	20,346.1	22,198.5	24,926.7	+2,728.2	Net purchases (inflows) increased as purchases of bonds and notes and money market instruments increased.
Equity securities	13,978.6	9,855.4	5,420.4	-4,435.0	
Bonds and notes	7,232.1	8,459.9	10,524.6	+2,064.7	
Money market instruments	-864.6	3,883.2	8,981.7	+5,098.4	
Financial derivatives	-802.3	283.5	321.6	+38.1	The net inflow of funds remained at approximately the same level as in 2006.
Other investment	-4,701.9	-18,108.1	-27,822.7	-9,714.7	The net outflow of funds increased due to lending to overseas branches, etc.
Changes in reserve assets	-2,456.2	-3,719.6	-4,297.4	-577.8	Reserve assets continued to increase.
Errors and omissions	-1,796.0	-3,662.7	1,212.7	+4,875.4	
Ratio of current account to nominal GDP (%)	3.6	3.9	4.8		

Notes:

1. Negative figures represent capital outflows. Negative figures in "Changes in reserve assets" represent an increase in reserve assets.
2. Figures for portfolio investment and other investment exclude securities lending transactions.

II. Current Account

A. Summary

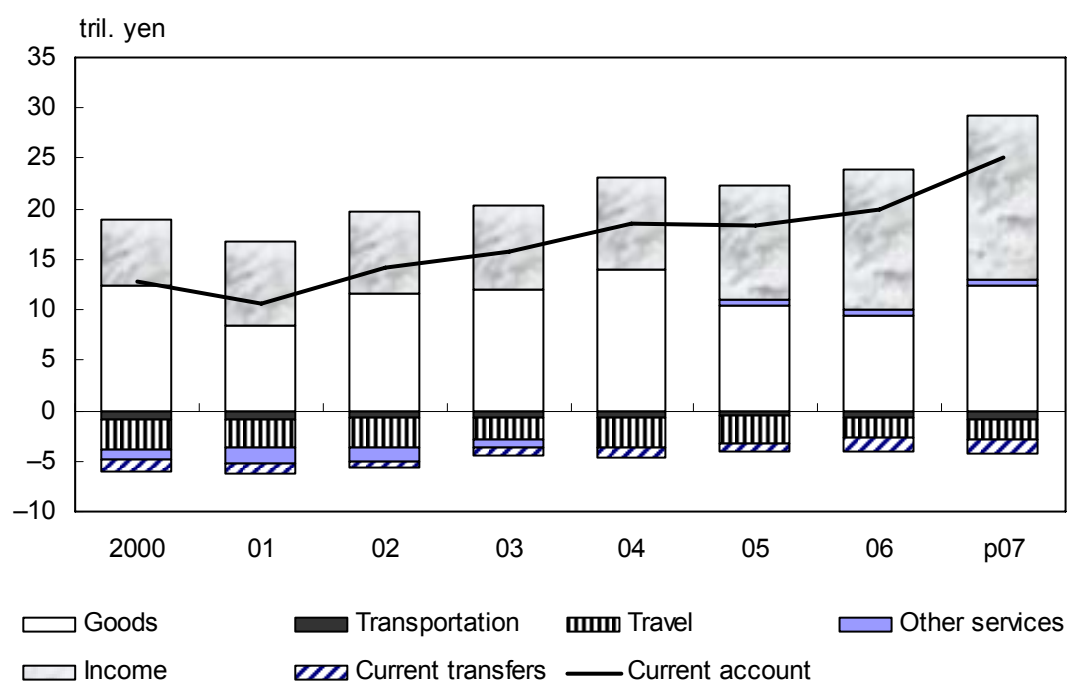
The current account surplus marked a record high for the second consecutive year as the trade surplus increased for the first time in three years and the income surplus reached a record high.

Table 2: Current Account

bil. yen

	2006	p2007	Change from the previous year
Current account	19,848.8	25,001.2	+5,152.5
Goods and services	7,346.0	10,077.5	+2,731.6
Goods	9,464.3	12,379.1	+2,914.8
Exports	71,630.9	79,723.9	+8,093.1
Imports	62,166.5	67,344.8	+5,178.3
Services	-2,118.3	-2,301.6	-183.2
Transportation	-603.2	-825.5	-222.3
Travel	-2,140.9	-2,026.0	+114.9
Other services	625.8	549.9	-75.9
Income	13,745.7	16,273.0	+2,527.3
Current transfers	-1,242.9	-1,349.3	-106.4

Figure 2: Current Account



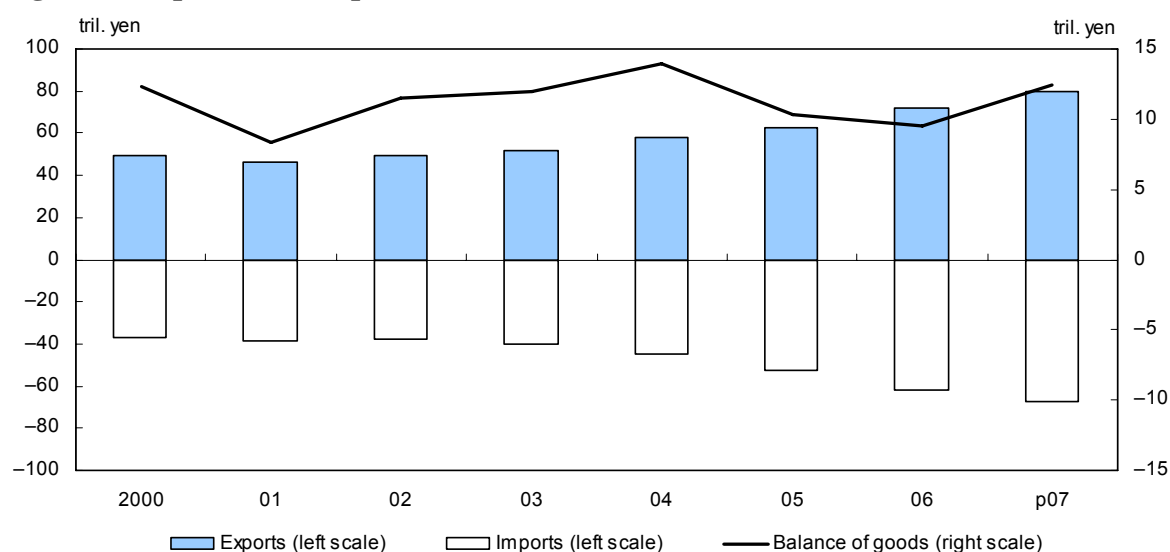
B. Developments in the Main Components

1. Goods

The balance of goods in 2007 registered a surplus of 12.4 trillion yen, an increase of 2.9 trillion yen or 30.8 percent from the previous year.

While both exports and imports increased in 2007, the increase in exports exceeded the increase in imports. As a result, the surplus of trade in goods increased for the first time in three years. Figures by region and type of goods are based on the "Trade Statistics of Japan."¹

Figure 3: Exports and Imports



¹ Figures for exports and imports are based on the "Trade Statistics of Japan" (customs-clearance basis). The definitions of exports and imports in the balance of payments statistics differ from those of the merchandise trade statistics in the "Trade Statistics of Japan." Balance of payments statistics are based on the transfer-of-ownership principle, while merchandise trade statistics are recorded on a customs-clearance basis. Therefore, certain adjustments are made to compile the balance of payments statistics. The major differences between the merchandise trade statistics and the balance of payments statistics are as follows:

	Merchandise Trade Statistics	Balance of Payments Statistics
Price quoted	Exports: FOB Imports: CIF	Exports: FOB Imports: FOB
Coverage	Goods that have crossed the customs frontier of the reporting economy	Goods whose ownership has been transferred between residents and nonresidents (in principle)
Time of recording	Exports: When the ship or aircraft carrying the goods leaves the port Imports: When imported goods are officially recognized	When ownership is transferred

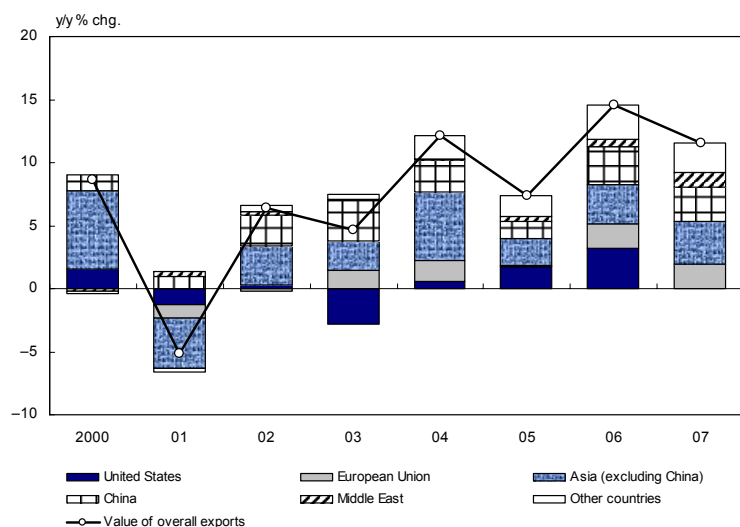
Note: FOB stands for "free on board" and CIF stands for "cost, insurance, and freight." On an FOB basis, the price of goods at the border of the exporting country is recorded. On a CIF basis, freight charges and insurance premiums are recorded in addition to the price of goods.

a. Exports

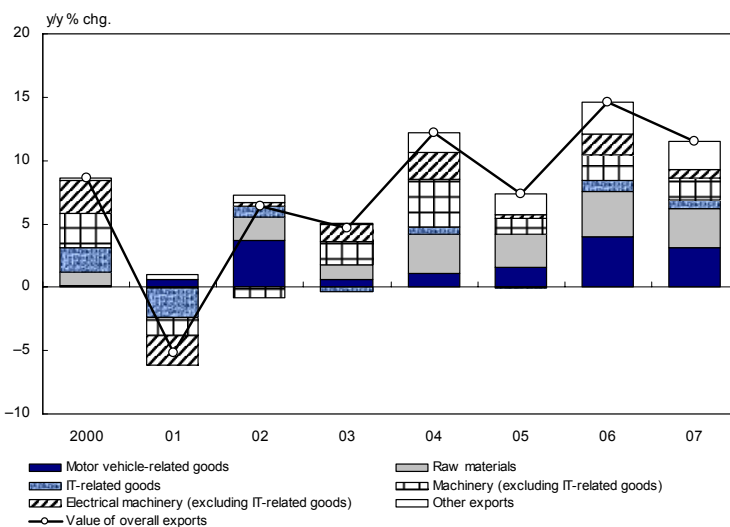
Exports increased for the sixth consecutive year to 79.7 trillion yen, an increase of 8.9 trillion yen or 11.3 percent from the previous year, reflecting the expansion in overseas economies. By region and by item, a large contribution to the total increase was made by exports to Asia, primarily of chemicals, steel, and other raw materials experiencing price increases. Exports of motor vehicle-related goods increased to the Middle East, the European Union, and Russia, where Japanese vehicle sales were strong. Exports to the United States remained largely unchanged from the previous year due to the slowdown in the U.S. economy. Growth in motor vehicle-related exports to the United States decelerated, while exports of construction and mining machinery declined due to sluggish housing investment.

Figure 4: Contribution to Overall Export Growth

By Region



By Item



Note: Figures for the European Union are compiled retroactively based on the 2007 increase in membership in 2007 to 27 countries. Figures for motor vehicle-related goods represent the sum of figures for motor vehicles and motor-vehicle parts. Figures for raw materials represent the sum of figures for minerals, chemicals, and manufactured products classified chiefly by material. Figures for IT-related goods represent the sum of figures for semiconductors and other electronic parts, computers, and computer-related parts. Machinery includes scientific, medical, and optical instruments.

Source: Ministry of Finance, "Trade Statistics of Japan."

Table 3: Contribution to Overall Export Growth by Region

y/y % chg.

	Overall exports	United States	European Union	Asia	Of which: China	Middle East	Russia	Central and South America	Oceania	Africa	Others
Year-on-year change	+11.5	-0.2	+13.3	+12.9	+18.9	+37.9	+54.1	+16.2	+16.8	+24.2	+10.1
Contribution to overall export growth	—	(-0.0)	(+1.9)	(+6.1)	(+2.7)	(+1.1)	(+0.6)	(+0.8)	(+0.4)	(+0.4)	(+0.3)

Note: Figures for the European Union are compiled based on the increase in membership in 2007 to 27 countries.

Source: Ministry of Finance, "Trade Statistics of Japan."

Table 4: Contribution to Overall Export Growth by Item

y/y % chg.

	y/y change	Contribution to overall export growth	Major factors
Value of overall exports	+11.5	—	
Motor vehicle-related goods	+15.3	(+3.1)	
Motor vehicles	+16.4	(+2.7)	Exports to the Middle East, the European Union, and Russia increased, while the growth in exports to the United States decelerated sharply due to the slowdown in the U.S. economy.
Parts of motor vehicles	+11.0	(+0.4)	Exports to Asia and the European Union increased due to increased overseas production in these regions.
Transport equipment (excluding motor vehicles)	+8.4	(+0.3)	Exports of transport equipment increased, mainly due to growth in exports of cargo ships reflecting the worldwide increase in cargo volume.
Raw materials	+14.1	(+3.1)	
Of which: Chemicals	+14.0	(+1.3)	Exports of plastics and other products increased due to tighter supply-demand conditions in Asia.
Iron and steel products	+16.0	(+0.7)	Exports to Asia increased due to higher prices reflecting higher raw material costs and strong demand for high quality steel for the automobile and shipbuilding industries.
Non-ferrous metals	+24.4	(+0.4)	Exports of copper and copper alloys increased to Asia reflecting higher prices.
Machinery (excluding IT-related goods)	+8.8	(+1.7)	
Of which: Power generating machinery	+11.8	(+0.4)	Exports of motor vehicle and ship engines to Asia and the European Union increased reflecting increased overseas production of motor vehicles and increased demand for ships.
Construction and mining machinery	+18.7	(+0.3)	Exports increased due to overseas demand for natural resources and infrastructure development. Exports of construction machinery for the housing sector to the United States decreased but increased to the European Union.
Pumps and centrifuges	+18.9	(+0.3)	Exports to Asia and the Middle East increased due to growing demand from infrastructure development and plant construction.
IT-related goods	+7.5	(+0.7)	
Of which: Semiconductors and other electronic parts	+8.0	(+0.5)	Exports to Asia increased due to growing demand for mobile phones and other products.
Computers and computer-related parts	+6.5	(+0.2)	Exports to the European Union and Asia increased due to firm demand for personal computers and other products.
Electrical machinery (excluding IT-related goods)	+4.3	(+0.6)	Exports of electric power machinery (generators, etc.) and electrical circuits increased, mainly to Asia.
Mineral fuels	+59.2	(+0.5)	Exports of gas oils and kerosene increased, mainly to Asia, reflecting an increase in overseas demand and a decrease in domestic demand.
Other exports	+16.3	(+1.4)	

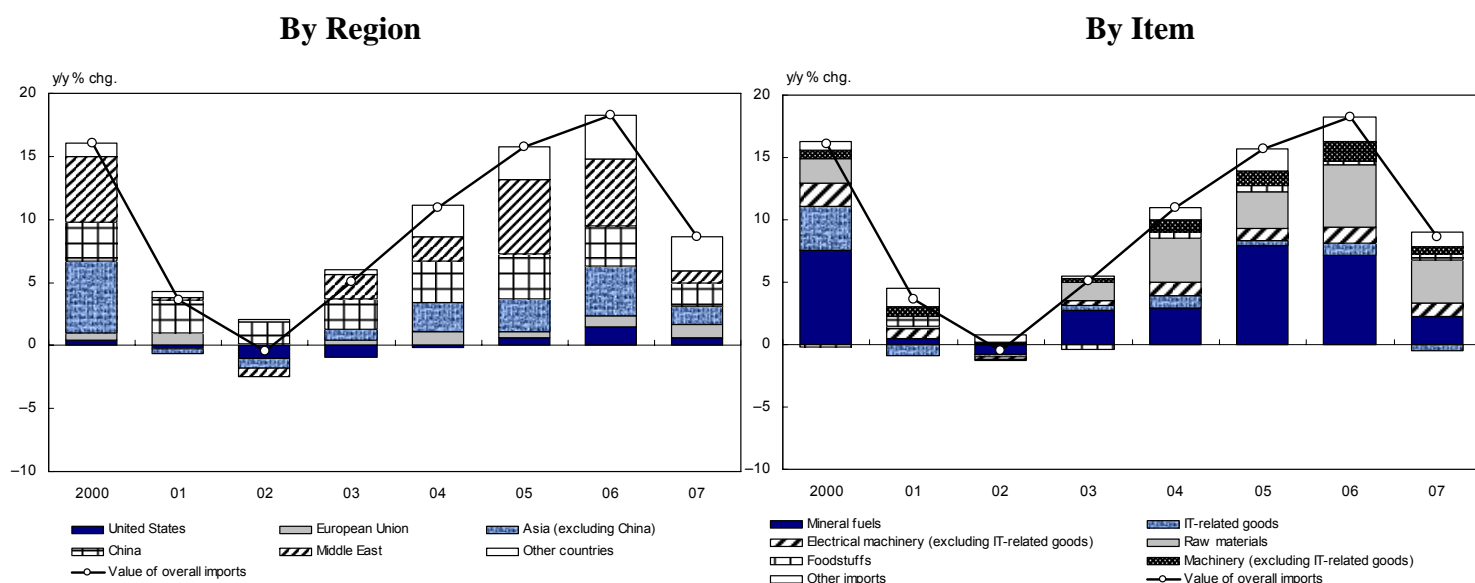
Note: Figures for raw materials represent the sum of figures for minerals, chemicals, and manufactured products classified chiefly by material. Figures for IT-related goods represent the sum of figures for semiconductors and other electronic parts, computers, and computer-related parts. Machinery includes scientific, medical, and optical equipment.

Source: Ministry of Finance, "Trade Statistics of Japan."

b. Imports

Imports increased for the fifth consecutive year to 67.3 trillion yen, an increase of 5.2 trillion yen or 8.3 percent from the previous year, reflecting the rising prices of natural resources. By type of goods, a large contribution to the total increase was made by raw materials, such as imports of non-ferrous metals and chemicals. Crude oil and mineral fuels continued to contribute to the increase of total imports. Import volumes remained flat from the previous year, while the pace of the rise in prices slowed, so that the year-on-year increase in the value of crude oil and mineral fuel imports decelerated to 8.3 percent in 2007, down from 18.9 percent in the previous year.

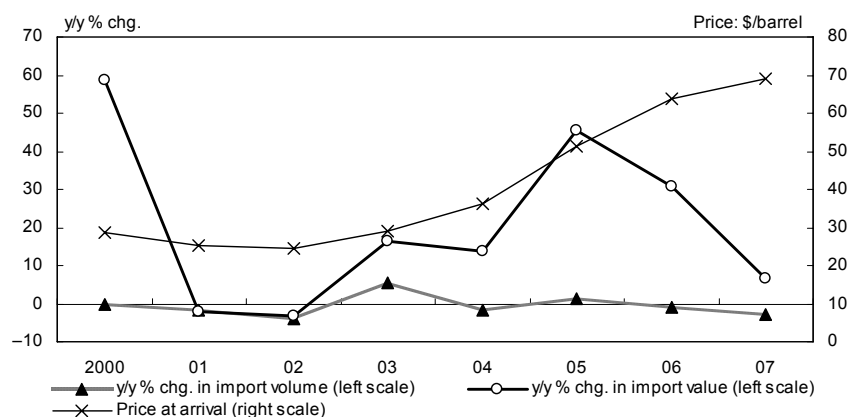
Figure 5: Contribution to Overall Import Growth



Note: Figures for the European Union are compiled retroactively based on the increase in membership in 2007 to 27 countries. Figures for IT-related goods represent the sum of figures for semiconductors and other electronic parts, computers, and computer-related parts. Figures for raw materials represent the sum of figures for minerals, chemicals, and manufactured products classified chiefly by material (excluding textile yarn and fabrics). Machinery includes scientific, medical, and optical instruments.

Source: Ministry of Finance, "Trade Statistics of Japan."

Figure 6: Imports of Crude Oil



Note: Figures for price at arrival are calculated by the International Department of the Bank of Japan.

Source: Ministry of Finance, "Trade Statistics of Japan."

Table 5: Contribution to Overall Import Growth by Region

y/y % chg.

	Overall imports	United States	European Union	Asia	Of which: China	Middle East	Russia	Central and South America	Oceania	Africa	Others
Year-on-year change	+8.6	+5.5	+9.7	+7.5	+9.1	+5.3	+60.3	+19.8	+13.5	+12.7	+8.1
Contribution to overall export growth	—	(+0.6)	(+1.0)	(+3.3)	(+1.9)	(+1.0)	(+0.7)	(+0.7)	(+0.7)	(+0.3)	(+0.2)

Note: Figures for the European Union are compiled based on the increase in membership in 2007 to 27 countries.

Source: Ministry of Finance, "Trade Statistics of Japan."

Table 6: Contribution to Overall Import Growth by Item

y/y % chg.

	y/y change	contribution to overall export growth	Major factors
Value of overall imports	+8.6	—	
Raw materials	+15.1	(+3.5)	
Of which:			
Chemicals	+11.4	(+0.8)	Imports from the European Union and Asia increased due to a rise in prices.
Non-ferrous metals	+21.1	(+0.7)	Imports of nickel and nickel alloys, and platinum and platinum alloys increased, mainly from Africa, due to a rise in prices.
Ore of non-ferrous metals	+27.8	(+0.7)	Imports of nickel, copper, and other ores increased from Asia and South America, partly due to a rise in prices.
Mineral fuels	+8.3	(+2.3)	
Of which:			
Crude oil and partly refined oil	+6.4	(+1.1)	Imports from the Middle East and Russia increased due to a rise in crude oil prices. However, the rate of increase in imports declined significantly as the upward movement in crude oil prices slowed down compared to 2006.
Liquefied natural gas	+18.1	(+0.7)	Imports from Asia, the Middle East, and Africa increased due to growing demand for liquefied natural gas as an alternative energy source and due to a rise in prices.
Electrical machinery (excluding IT-related goods)	+11.9	(+1.0)	Imports of telecommunications apparatus increased from Asia and the United States.
Machinery (excluding IT-related goods)	+7.6	(+0.6)	
Of which:			
Power generating machinery	+19.0	(+0.2)	Imports of motor vehicle and aircraft engines increased from the European Union, Asia, and the United States.
Foodstuffs	+5.8	(+0.5)	
Of which:			
Grain	+35.6	(+0.4)	Imports from the United States increased due to a rise in prices.
Transport equipment	+12.1	(+0.4)	Imports of aircraft increased from the United States and the European Union, and the imports of motor vehicle parts increased from Asia and the European Union.
Textiles	+1.8	(+0.1)	Imports of apparel increased from Asia, mainly from China.
IT-related goods	-5.3	(-0.5)	
Of which:			
Semiconductors and other electronic parts	-0.7	(-0.0)	Imports of integrated circuits from the United States decreased.
Computers, and computer-related parts	-9.8	(-0.4)	Imports from Asia and the United States decreased due to sluggish domestic demand for computers and related products.
Other imports	+9.4	(+0.7)	

Note: Figures for raw materials represent the sum of figures for minerals, chemicals, and manufactured products classified chiefly by material (excluding textile yarn and fabrics). Figures for IT-related goods represent the sum of figures for semiconductors and other electronic parts, computers, and computer-related parts. Machinery includes scientific, medical, and optical instruments. Figures for textiles represent the sum of figures for textile yarn and fabrics, and clothing and accessories.

Source: Ministry of Finance, "Trade Statistics of Japan."

(Reference) Developments in Foreign Exchange Rates in 2007

The average foreign exchange rate applied to the calculation of customs values (Director-General of Customs posted rate²) for 2007 was 117.93 yen per dollar (a 1.4 percent yen depreciation from 2006) and 160.89 yen per euro (a 10.6 percent yen depreciation from 2006).³ This depreciation of the yen contributed to the increases in yen-denominated values of exports and imports.

Figure 1 for Reference: Director-General of Customs Posted Rate (Annual Average Rate)

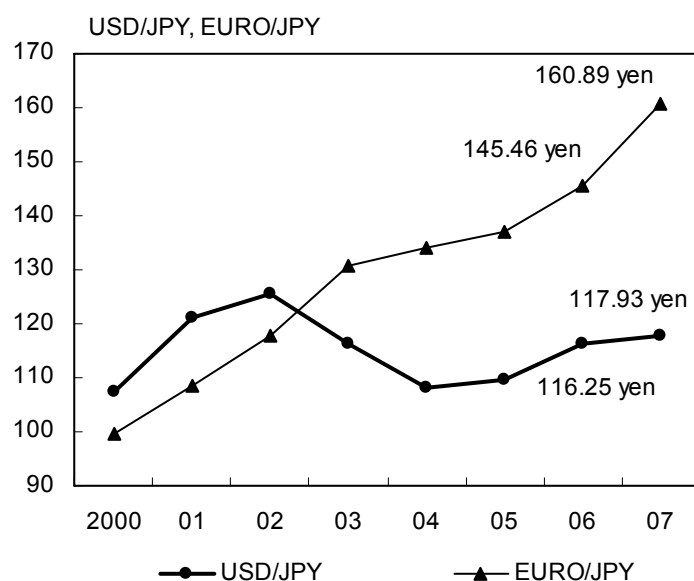
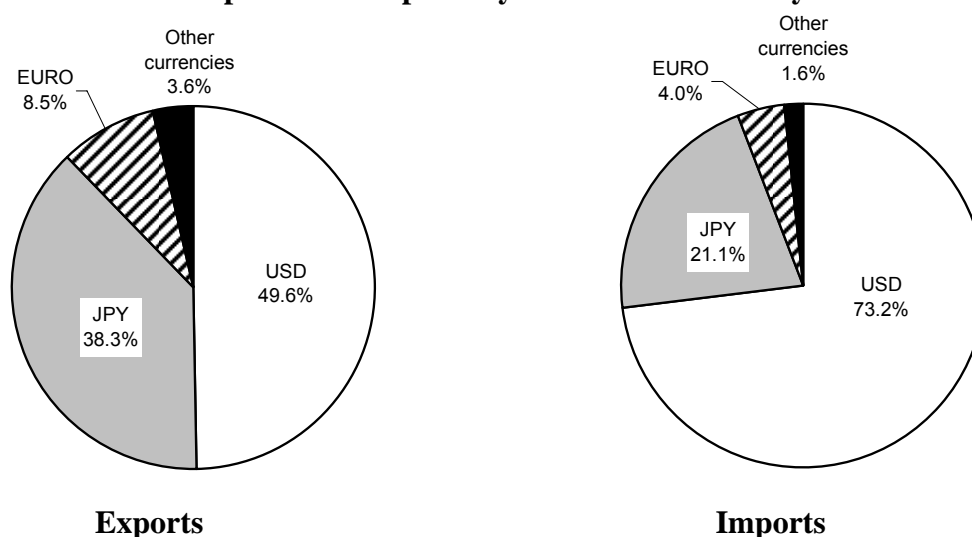


Figure 2 for Reference: Exports and Imports by Settlement Currency



Source: Japan Customs web site.

² The Director-General of Customs posted rate is the weekly average interbank rate (central spot rate) on the Tokyo Foreign Exchange Market from two weeks earlier, and is posted weekly.

³ Average annual value obtained by weighting the weekly posted rates by the number of days applicable.

2. Services

The deficit in the balance of trade in services for 2007 rose to 2.3 trillion yen, an increase of 0.2 trillion yen or 8.7 percent from 2006. The balance of trade in services continued to record a deficit in the 2-3 trillion yen range mainly due to outlays made by Japanese travelers abroad, such as consumption overseas and airfare payments to foreign airlines. While the balances of travel and transportation continued to register deficits, the balance of trade in other services posted a surplus for the third consecutive year due to surpluses in "merchandising and other trade-related services" and "industrial processes, franchises, etc."

Figure 7: Services

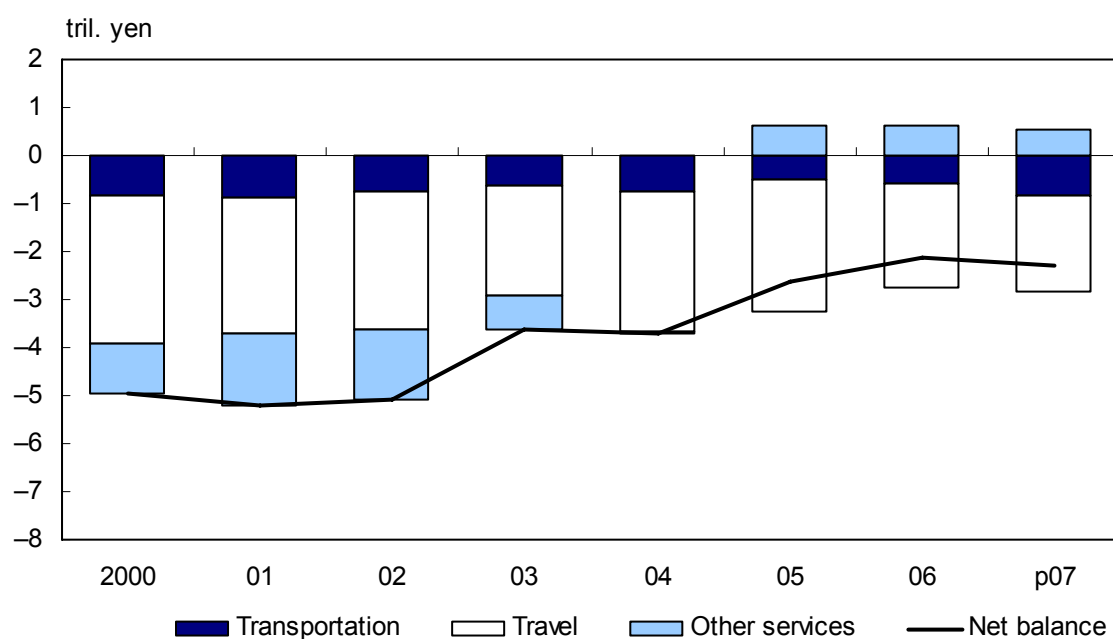


Table 7: Balance of Trade in Services

bil. yen				
	2006	p2007	Change from the previous year	Major factors
Services	-2,118.3	-2,301.6	-183.2	
Transportation	-603.2	-825.5	-222.3	The deficit rose as sea transport debits increased due to a surge in import freight rates.
Travel	-2,140.9	-2,026.0	+114.9	The deficit decreased due to an increase in the number of foreign visitors to Japan.
Other services	625.8	549.9	-75.9	The surplus of "royalties and license fees" increased, but the balance of "other business services" turned to deficit mainly due to an increase in payments regarding R&D. As a result, the surplus in the balance of trade in other services decreased slightly.

a. Transportation

The deficit in the balance of transportation rose to 0.8 trillion yen, an increase of 0.2 trillion yen or 36.9 percent from 2006. Against the background of strong movement of cargo, freight payments to foreign shipping companies increased reflecting a surge in sea freight rates, and payments of terminal charges to overseas ports by Japanese shipping companies also increased. This contributed to an increase in the deficit of "other sea transport."

Figure 8: Transportation

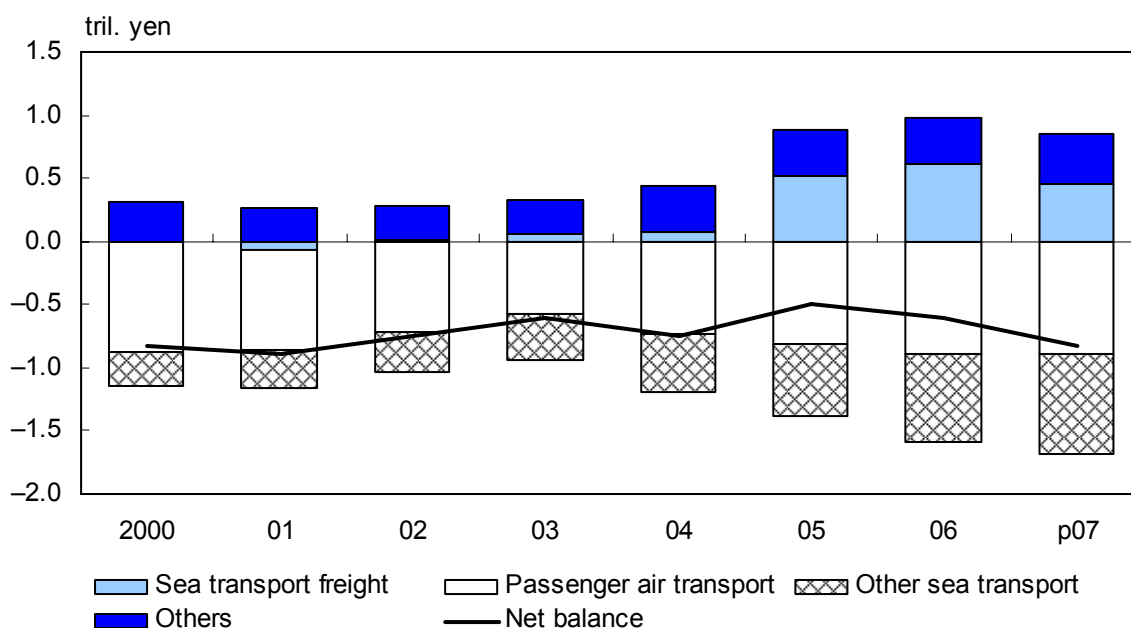


Table 8: Balance of Transportation

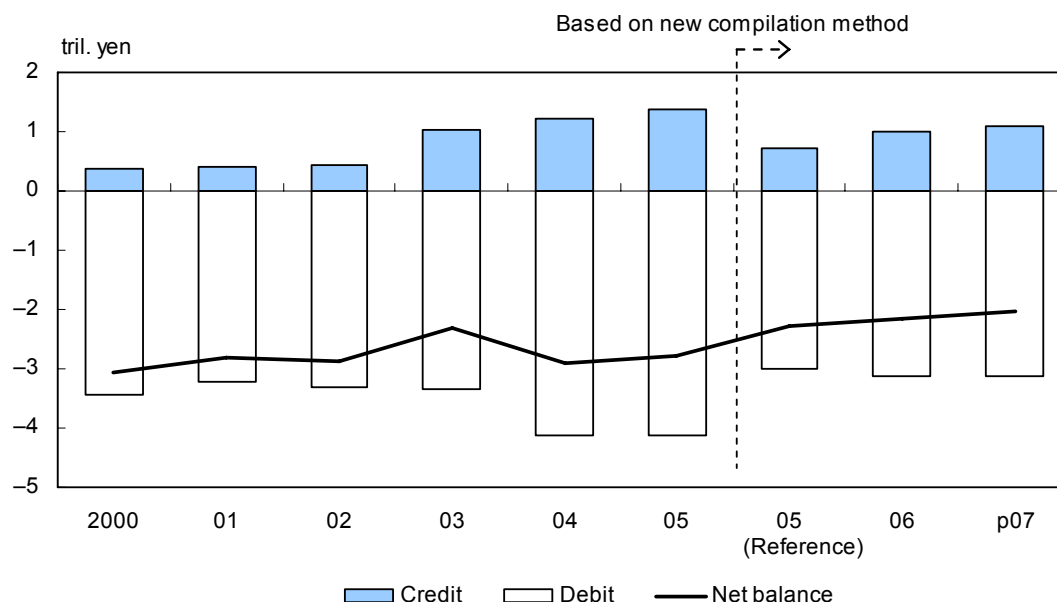
bil. yen

	2006	p2007	Change from the previous year	Major factors
Transportation	-603.2	-825.5	-222.3	
Of which:				
Sea transport	-83.3	-323.8	-240.5	
Of which:				
Freight	610.9	459.6	-151.4	Debits in sea freight increased primarily due to a surge in tramp freight rates for imports of natural resources.
Credit	2,914.3	3,430.4	+516.1	
Debit	2,303.4	2,970.9	+667.5	
Other sea transport	-690.1	-779.1	-88.9	Terminal charges paid by Japanese shipping companies in overseas ports increased.
Credit	301.7	317.0	+15.4	
Debit	991.8	1,096.1	+104.3	
Air transport	-511.5	-485.3	+26.1	
Passenger	-898.1	-898.2	-0.2	Both credits and debits increased due to the upward adjustment in fuel surcharges following the rise in crude oil prices.
Credit	349.5	360.2	+10.7	
Debit	1,247.5	1,258.4	+10.9	
Freight	50.2	91.4	+41.2	Credits increased due to the upward adjustment in fuel surcharges following the rise in crude oil prices. Debits decreased due to the decrease in import air cargo.
Credit	353.1	386.9	+33.8	
Debit	302.9	295.5	-7.4	
Other air transport	336.4	321.5	-14.9	The surplus remained at approximately the same level as in 2006 supported by continued net receipts of agency fees.
Credit	457.5	440.8	-16.7	
Debit	121.1	119.3	-1.8	

b. Travel

The deficit in the balance of travel decreased to 2.0 trillion yen, a decline of 0.1 trillion yen or 5.4 percent from 2006. The deficit decreased for the third consecutive year, due to an increase in the number of foreign visitors.

Figure 9: Travel



Note: The compilation method for the travel balance was changed beginning with the figures for January 2006. Under the new method, figures are estimated by multiplying foreign and Japanese travelers' per capita expenditures and the number of travelers. Travelers' per capita expenditures are based on the results of a survey concerning travel expenditures conducted in fiscal 2005.

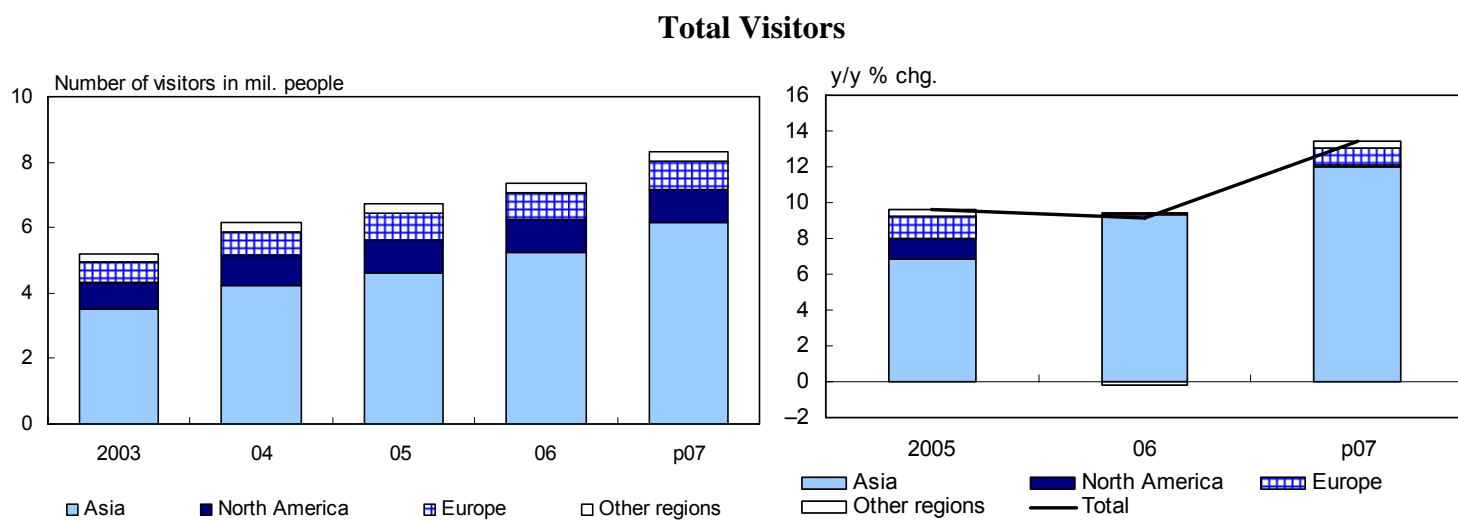
Table 9: Balance of Travel

bil. yen			
	2006	p2007	Change from the previous year
Travel	-2,140.9	-2,026.0	+114.9
Credit	984.8	1,087.2	+102.3
Debit	3,125.8	3,113.1	-12.6

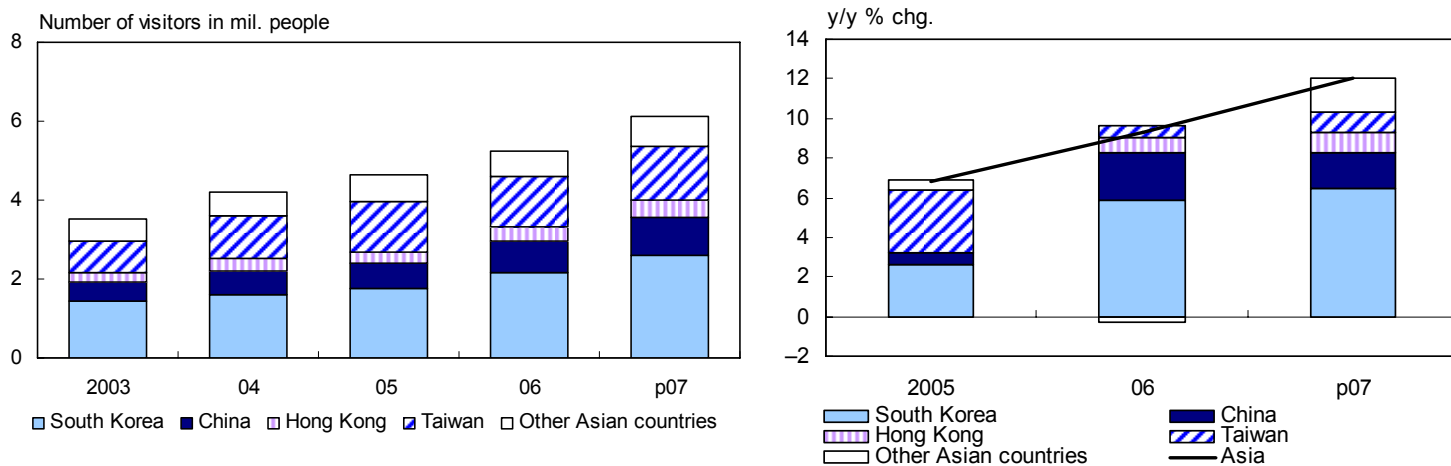
The number of foreign visitors from Asia continued to increase in 2007, led by those from South Korea and China. This partly reflects the positive impact of the Visit Japan Campaign.⁴ As for the number of Japanese traveling abroad, while the number of travelers to Asia continued to increase, led by business travelers to China, the number of travelers to long-distance destinations outside of Asia declined due to (1) a downturn in demand reflecting the rise in airfares due to the surge in crude oil prices and (2) a reduction in the capacity of aircraft economy seating, which is less profitable than business seating.

⁴ The Visit Japan Campaign is part of the "Strategy to Promote Inbound Tourism," which aims to attract foreign visitors to Japan. This is one of the strategies enumerated in the "Inbound Tourism Initiative of Japan," which was announced at a cabinet meeting in December 2002. The goal of the campaign is to increase the annual number of foreign visitors to 10 million by 2010.

Figure 10: Number of Foreign Visitors to Japan



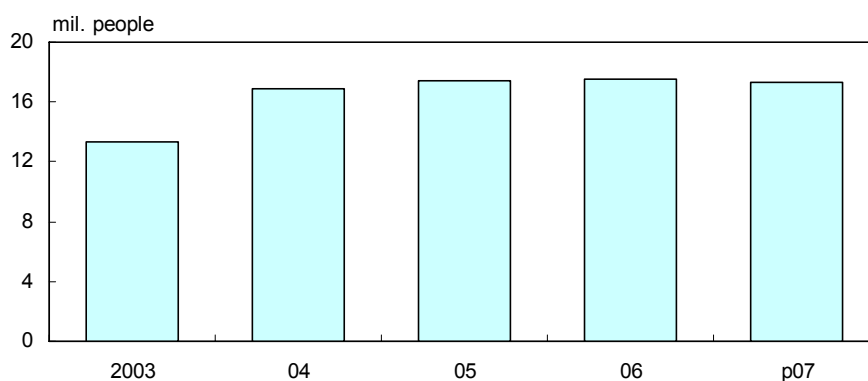
Visitors from Asia



Note: Figures for 2007 are estimated by the International Department of the Bank of Japan using the actual figures for January through November 2007.

Source: Japan National Tourist Organization, "Visitor Arrivals and Japanese Overseas Travelers."

Figure 11: Number of Japanese Overseas Travelers



Source: Japan National Tourist Organization, "Visitor Arrivals and Japanese Overseas Travelers."

c. Other services

The surplus in the balance of trade in other services decreased to 0.5 trillion yen, a decline of 0.1 trillion yen or 12.1 percent from 2006. By item, an increase in the surplus was registered in "industrial processes, franchises, etc." -- i.e., fees for industrial property rights. This reflects an increase in royalty receipts resulting from the expansion of overseas production by Japanese companies. On the other hand, an increase in the deficit was registered in "miscellaneous business, professional, and technical services" reflecting an increase in debits resulting from the expansion of overseas R&D and marketing activities.⁵

Figure 12: Balance of Other Services

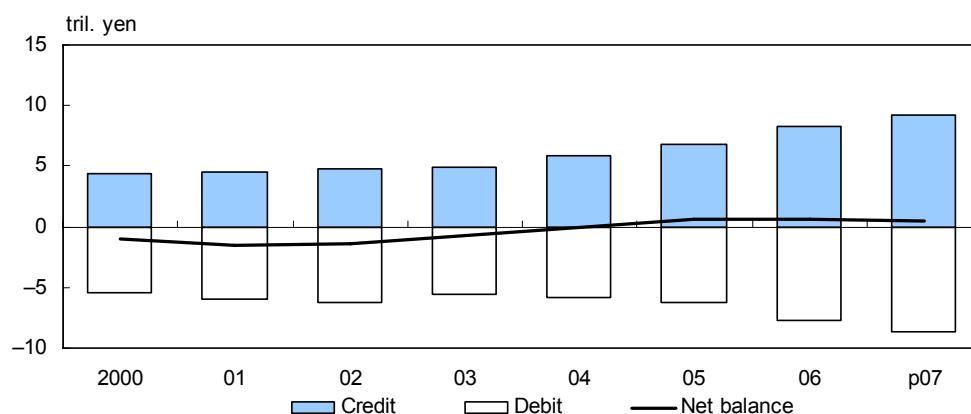


Table 10: Balance of Other Services

bil. yen

	2006	p2007	Change from the previous year	Major factors
Other services	625.8	549.9	-75.9	
Credit	8,282.5	9,237.0	+954.5	
Debit	7,656.7	8,687.1	+1,030.4	
Of which:				
Royalties and license fees	535.8	771.9	+236.1	
Industrial processes, franchises, etc.	1,065.9	1,363.7	+297.8	Credits increased due to a rise in royalties mainly from overseas subsidiaries of Japanese motor vehicle manufacturers.
Credit	2,204.0	2,539.9	+335.8	
Debit	1,138.1	1,176.2	+38.1	
Fees for copyrights	-530.1	-591.8	-61.7	Debits increased primarily due to payments of software licensing fees mainly to the United States.
Credit	134.1	195.1	+61.0	
Debit	664.1	786.8	+122.7	
Construction services	324.4	265.8	-58.6	Credits increased as Japanese engineering and construction companies completed large-scale plant construction projects in the Middle East. Debits also increased due to a surge in costs of construction materials, machinery, and labor.
Credit	1,045.6	1,093.5	+47.9	
Debit	721.2	827.7	+106.5	
Computer and information services	-251.2	-314.5	-63.4	Debits increased reflecting subcontracting of systems and software development by Japanese companies.
Credit	112.4	111.9	-0.5	
Debit	363.5	426.4	+62.9	
Other business services	107.8	-8.8	-116.6	
of which:				
Merchanting and other trade-related services	1,372.3	1,507.4	+135.1	The surplus in merchanting continued to increase.
Credit	2,253.8	2,543.0	+289.2	
Debit	881.6	1,035.6	+154.0	
Miscellaneous business, professional, and technical services	-1,456.4	-1,753.8	-297.4	Debits increased mainly due to an increase in payments regarding R&D and marketing expenditures by Japanese pharmaceutical companies.
Credit	1,087.4	1,267.8	+180.4	
Debit	2,543.8	3,021.6	+477.9	

⁵ See Box 2, "Overseas Activities of Japanese Companies and Developments in the Service Account."

3. Income

The surplus in the balance of income rose to 16.3 trillion yen, an increase of 2.5 trillion yen or 18.4 percent from 2006. This marked a record high for the fourth consecutive year and reflected the following developments. First, the surplus in "portfolio investment income" increased as a result of an increase in receipts of interest on bonds and notes reflecting the continued accumulation of outward portfolio investment and the depreciation of the yen. Second, the increase in profitability of foreign subsidiaries of Japanese companies contributed to an increase in the surplus of "direct investment income".⁶

Figure 13: Income

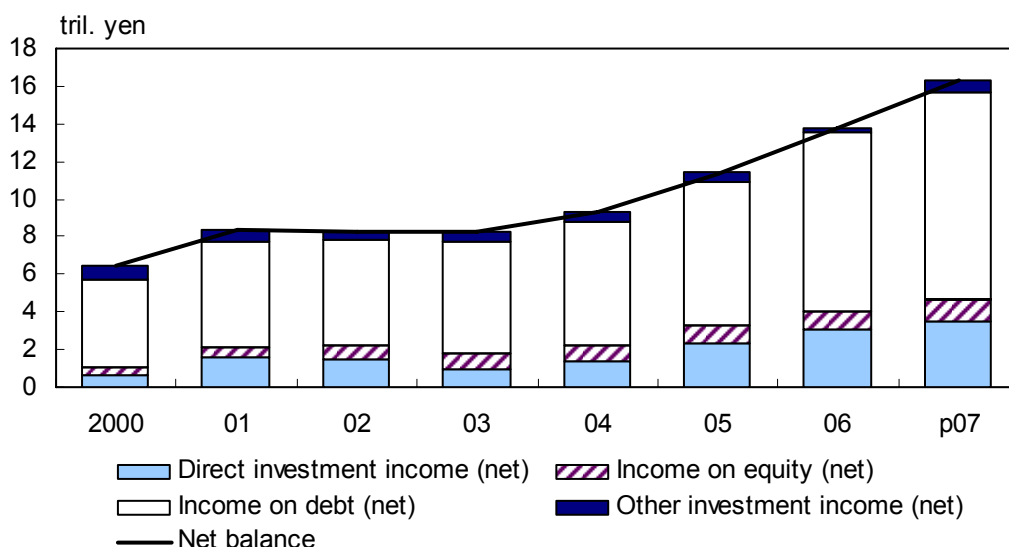


Table 11: Balance of Income

bil. yen		2006	p2007	Change from the previous year	Major factors
Investment income		13,745.7	16,273.0	+2,527.3	
Of which:					
Direct investment income		3,033.8	3,501.5	+467.7	
Of which:					
Dividends and distributed branch profits		1,315.8	1,571.6	+255.8	Credits increased significantly due to the increase in profits of Japanese companies' foreign subsidiaries. At the same time, debits also increased significantly due to payments made to overseas parent companies by subsidiaries in Japan. As a result, the growth in the surplus lost some momentum.
Credit		2,071.9	2,819.4	+747.5	
Debit		756.1	1,247.9	+491.7	
Reinvested earnings		1,644.3	1,843.6	+199.3	
Credit		1,906.3	2,294.5	+388.2	
Debit		262.0	450.9	+188.9	
Portfolio investment income		10,490.5	12,121.2	+1,630.8	
Income on equity		1,031.6	1,192.6	+161.0	
Credit		2,640.5	3,224.4	+583.9	Interest income on bonds and notes continued to increase due to the accumulation of outward portfolio investment and yen depreciation.
Debit		1,608.9	2,031.7	+422.8	
Income on debt		9,458.9	10,928.6	+1,469.8	
Credit		10,303.4	12,005.7	+1,702.3	
Debit		844.5	1,077.1	+232.5	
Other investment income		224.9	657.2	+432.3	
Credit		2,239.0	2,941.9	+702.8	Credits increased reflecting growth in interoffice accounts and interbank deposits of Japanese financial institutions and the rise in yen interest rates.
Debit		2,014.1	2,284.6	+270.5	

⁶ See Box 1, "Features of the Balance of Income in 2007."

4. Current transfers

The deficit in the balance of current transfers rose to 1.3 trillion yen, an increase of 0.1 trillion yen or 8.6 percent from 2006. This reflects an increase in contributions to international organizations for international cooperation and an increase in the payment of taxes to foreign governments.

Figure 14: Current Transfers

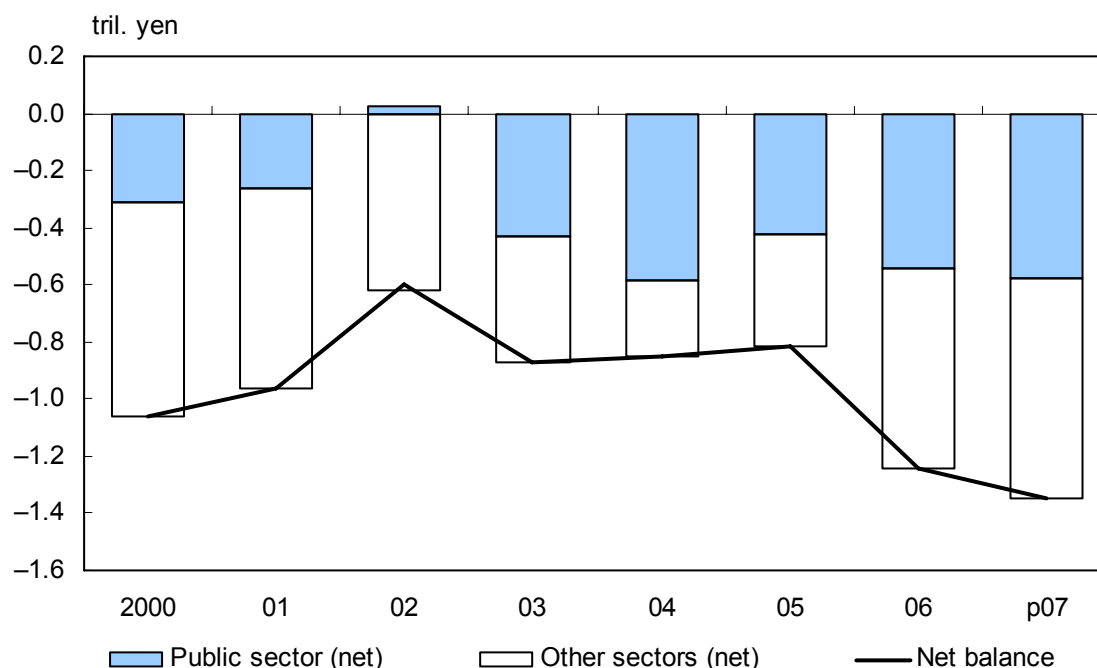


Table 12: Balance of Current Transfers

bil. yen

	2006	p2007	Change from the previous year	Major factors
Current transfers	-1,242.9	-1,349.3	-106.4	
Public sector	-544.9	-579.3	-34.4	The deficit increased due to the increase in contributions to international organizations for international cooperation.
Credit	16.2	27.0	+10.8	
Debit	561.2	606.3	+45.1	
Other sectors	-698.0	-770.0	-72.0	The deficit increased due to the increase in tax and other payments to foreign governments, while the deficit in workers' remittances remained at approximately the same level as in 2006.
Credit	702.8	768.7	+65.9	
Debit	1,400.8	1,538.7	+137.9	
Workers' remittances	-247.2	-256.1	-9.0	Both credits and debits increased, and the deficit was approximately the same as in 2006.
Credit	119.4	148.6	+29.2	
Debit	366.6	404.8	+38.1	
Other transfers	-450.8	-513.9	-63.0	The deficit increased due to the increase in payments of withholding taxes on royalties.
Credit	583.3	620.0	+36.7	
Debit	1,034.1	1,133.9	+99.7	

III. Capital and Financial Account

A. Summary

The capital and financial account recorded a net outflow of 21.9 trillion yen in 2007, up from 12.5 trillion yen in 2006. The increase in outflows under "other investment" reflecting the increase in the overseas investment of funds contributed significantly to the developments.

Table 13: Capital and Financial Account

bil. yen

	2006			p2007		
Current account	19,848.8			25,001.2		
Capital and financial account	-12,466.5	Assets (outward investment)	Liabilities (inward investment)	-21,916.6	Assets (outward investment)	Liabilities (inward investment)
Financial account	-11,913.2			-21,445.9		
Direct investment	-6,602.5	-5,845.9	-756.6	-5,970.3	-8,618.2	2,647.9
Portfolio investment	12,509.5	-9,689.0	22,198.5	11,990.0	-12,936.8	24,926.7
Equity securities	6,800.4	-3,055.0	9,855.4	2,451.5	-2,968.9	5,420.4
Bonds and notes	734.4	-7,725.5	8,459.9	281.2	-10,243.4	10,524.6
Money market instruments	4,974.6	1,091.4	3,883.2	9,257.3	275.6	8,981.7
Financial derivatives	283.5	16,667.7	-16,384.2	321.6	22,136.1	-21,814.5
Other investment	-18,108.1	-6,031.4	-12,076.6	-27,822.7	-28,252.4	429.7
Of which: Interoffice account transactions of banks	-1,997.1	3,279.2	-5,276.3	-13,882.8	-9,527.3	-4,355.6
Capital account	-553.3			-470.7		
Changes in reserve assets	-3,719.6			-4,297.4		
Errors and omissions	-3,662.7			1,212.7		

- Notes: 1. Negative figures represent capital outflows. Capital outflows are registered in the case of outward investment and loans by residents, withdrawals of inward investment and loans by nonresidents, and an increase in reserve assets.
2. Figures in this table exclude securities lending transactions. Figures for securities lending transactions are not included in the analysis in this report unless otherwise noted. The reason is that such transactions are large and volatile, and including them in portfolio investment or other investment in the capital and financial account therefore could prevent an accurate understanding of securities transactions and loans.

B. Developments in the Main Components

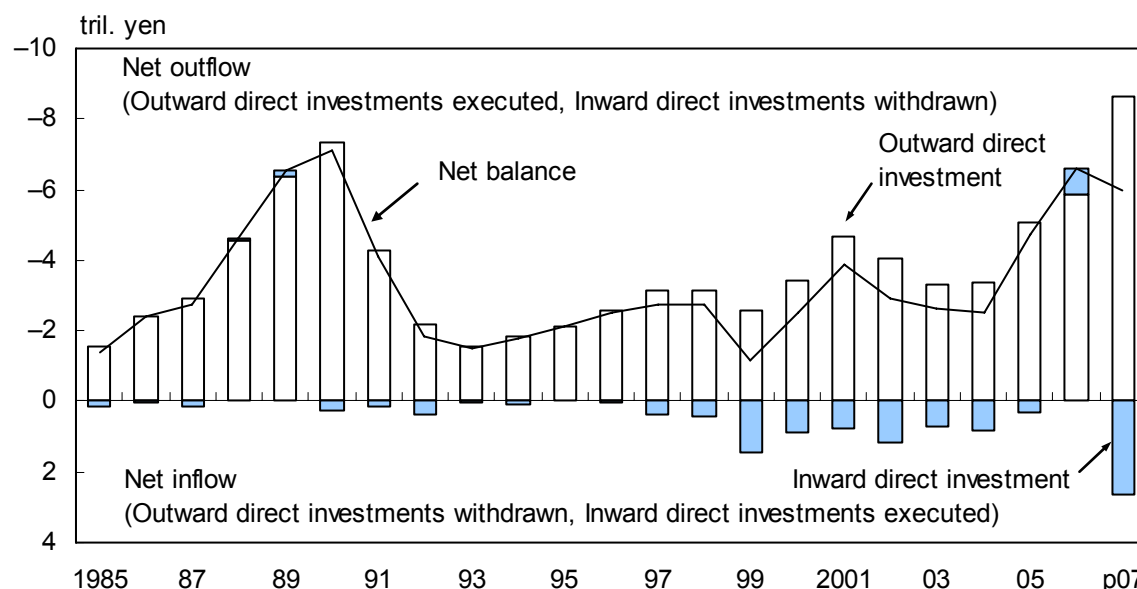
1. Direct investment

Outward direct investment by residents⁷ increased, registering a net outflow of 8.6 trillion yen and exceeding the previous record high set in 1990 (7.4 trillion yen). The surge in outward direct investment was mainly due to acquisitions with the aim of expanding overseas

⁷ Outward direct investment refers to direct investments by Japanese investors in foreign corporations (with at least 10 percent ownership), such as initial capitalization, capital increases, loan capital (excluding loans between financial companies), and reinvested earnings.

business. Inward direct investment by nonresidents⁸ also increased, registering a net inflow of 2.6 trillion yen and exceeding the previous record high set in 1999 (1.5 trillion yen). The surge in inward direct investment was mainly due to large-scale investments made in financial companies.⁹

Figure 15: Outward and Inward Direct Investment



a. Outward direct investment (assets)

The following three types of outward direct investment were executed on a scale exceeding that in 2006: (1) large-scale acquisitions and capital participations with the aim of expanding overseas business; (2) a number of investments for the development of natural resources; and (3) investments in indirect capital increases to inject capital into Japanese financial institutions.¹⁰

(1) Breakdown by region

Net outflows to Asia (including China) amounted to 2.3 trillion yen in 2007, up slightly from the 2.0 trillion yen in 2006. Investments were made by electric machinery companies and others in joint-venture companies to expand overseas production and in acquisitions to expand business operations in Asia. As the value of individual investments in China by Japanese manufacturers was modest, the level of overall investment to Asia remained at approximately the same level as in 2006.

⁸ Inward direct investment refers to direct investments by foreign investors in Japanese corporations (with at least 10 percent ownership), such as initial capitalizations, capital increases, loan capital (excluding loans between financial companies), and reinvested earnings.

⁹ See Box 3, "Classification of Direct Investment by Type of Investment."

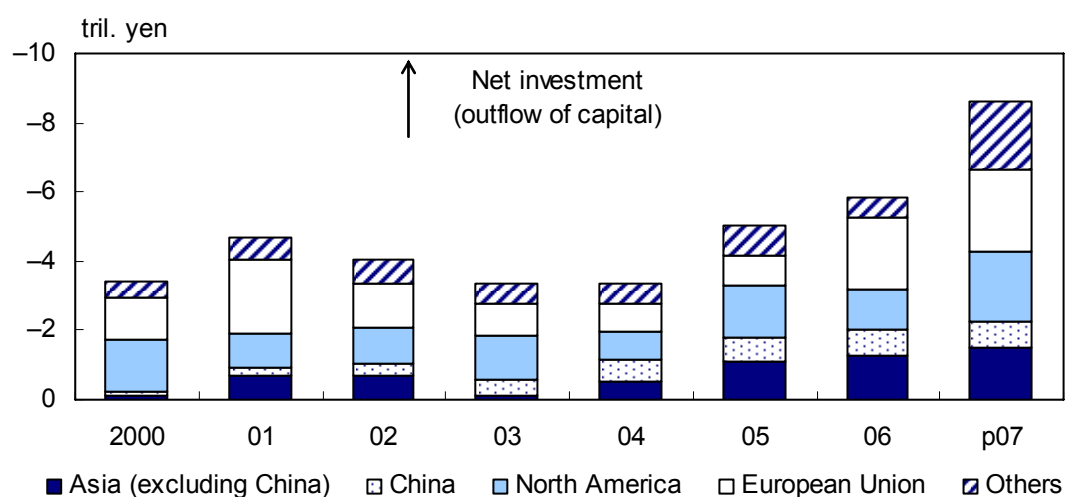
¹⁰ This refers to participation certificates issued by overseas special purpose companies (SPCs) that are subsidiaries of Japanese financial institutions and underwritten by Japanese securities companies. Capital raised through the issuance of participation certificates is used to make subordinated loans to, or to purchase subordinated bonds from, parent financial institutions.

Net outflows to North America increased to 2.0 trillion yen in 2007, up from 1.2 trillion yen in 2006. Contributing factors include investments for capital increases in a subsidiary in the financial sector and the establishment of a new energy-related company in the wholesale sector.

Net outflows to the European Union increased to 2.4 trillion yen in 2007, slightly up from 2.1 trillion yen in 2006. A large-scale investment was made by a food company to expand business operations in the European Union, and investments in corporate-type investment trusts were made by financial companies. These were partly offset by withdrawals from joint-venture companies in the field of natural resources development.

Net outflows to other regions increased significantly to 2.0 trillion yen in 2007 from 0.6 trillion yen in 2006. This was due to the acquisitions of participation certificates issued by special purpose companies (SPCs) established by Japanese financial institutions in Central and South America. Large-scale investments were also made in Oceania, including investments in the mining sector and a corporate acquisition by a food company for the expansion of its overseas business.

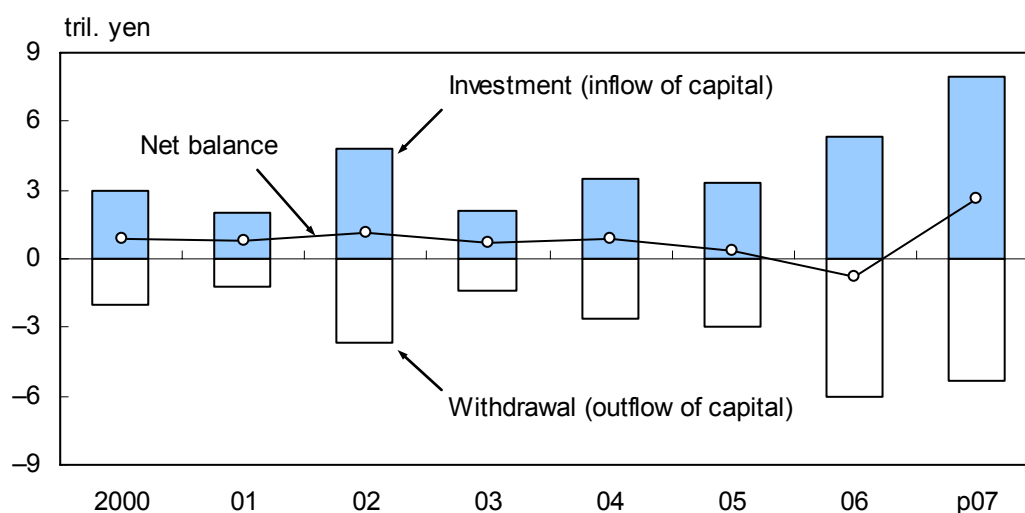
Figure 16: Outward Direct Investment (By Region)



b. Inward direct investment (liabilities)

Net inward direct investment turned positive again after having been negative in 2006. This reflects large-scale investments in the financial sector and the capitalization of foreign subsidiaries in Japan engaged in real estate investment.

Figure 17: Inward Direct Investment



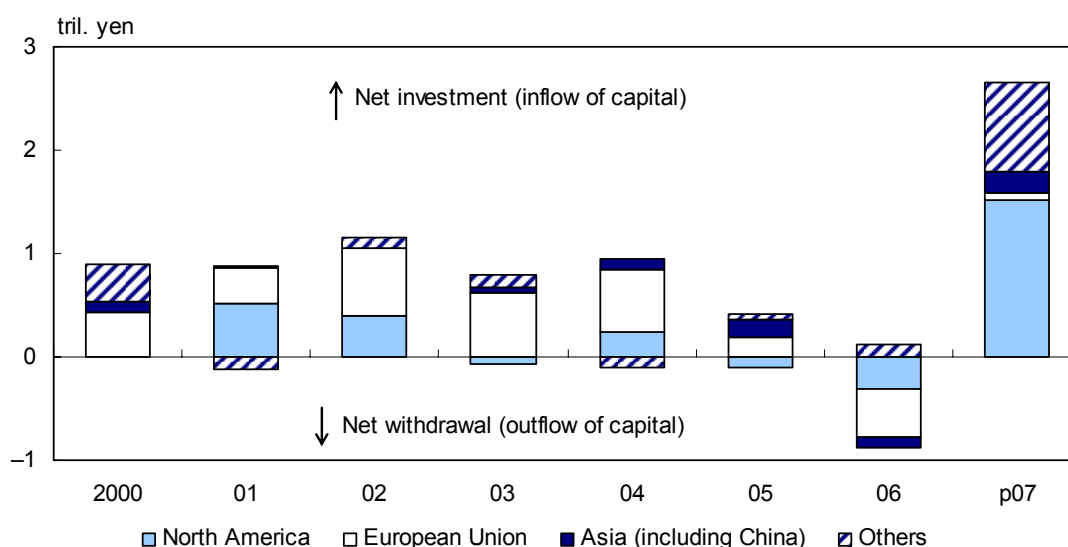
(1) Breakdown by region

Investment from North America turned from a net outflow of 0.3 trillion yen in 2006 to a net inflow of 1.5 trillion yen in 2007. This was due to large-scale investments aimed at the expansion of business activities in the financial sector, including the acquisition of a Japanese securities company.

Investment from Asia (including China) also turned from a net outflow of 0.1 trillion yen in 2006 to a net inflow of 0.2 trillion yen in 2007. This was mainly due to the capitalization of subsidiaries in Japan engaged in real estate investment.

Investment from other regions also turned from a net outflow of 0.4 trillion yen in 2006 to a net inflow of 0.9 trillion yen in 2007. Contributing factors include an investment in the oil industry for the establishment of a business alliance, and the active capitalization of subsidiaries in Japan engaged in real estate investment.

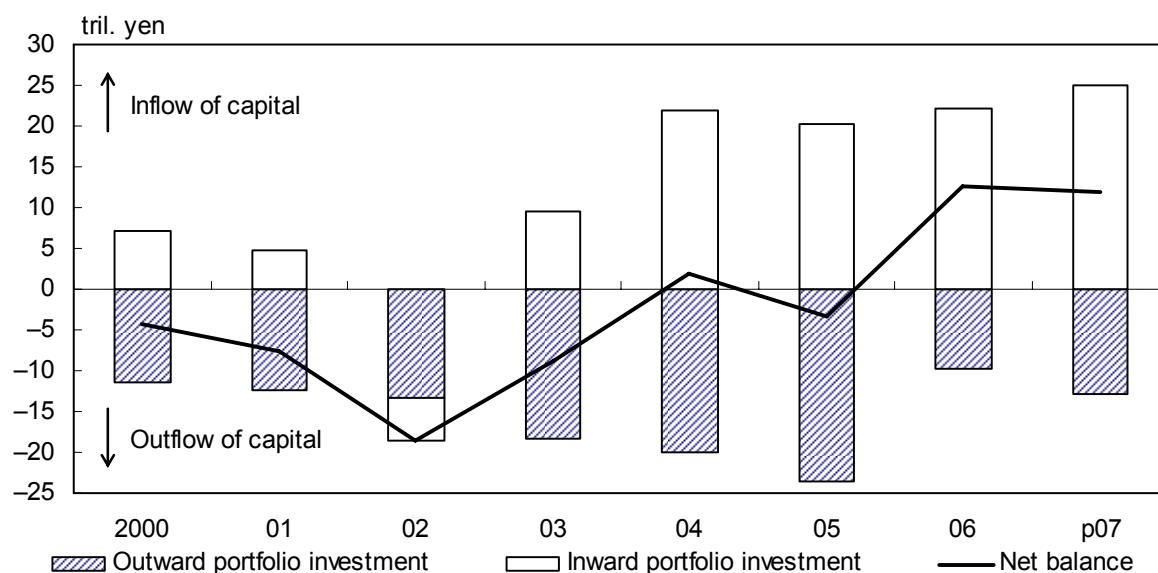
Figure 18: Inward Direct Investment (By Region)



2. Portfolio investment (excluding securities lending)

Outward portfolio investment recorded large net purchases (outflows), increasing to 12.9 trillion yen in 2007 from 9.7 trillion yen in 2006. Inward portfolio investment also recorded large net purchases (inflows) with an increase to 24.9 trillion yen in 2007 from 22.2 trillion yen in 2006. As a result, there was a net inflow of portfolio investment of 12.0 trillion yen, largely unchanged from the previous year's level of 12.5 trillion yen.

Figure 19: Portfolio Investment



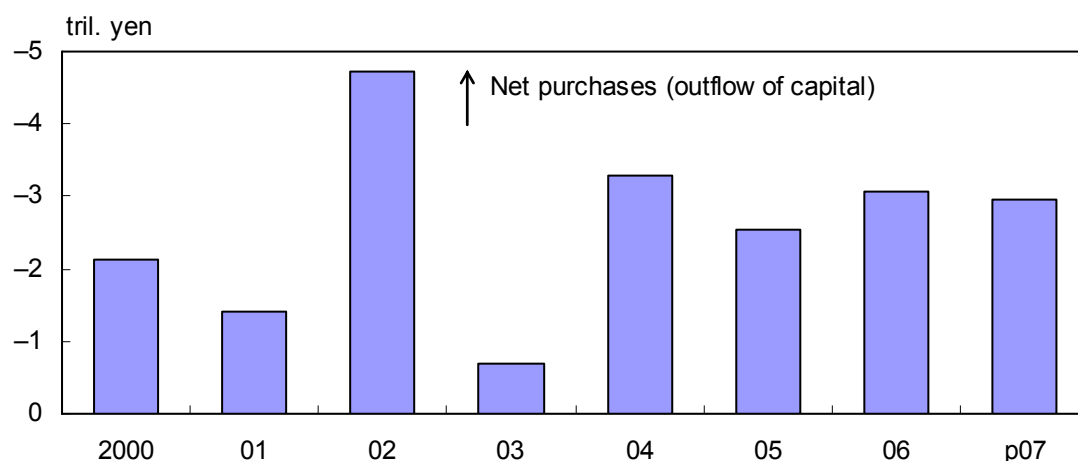
a. Outward portfolio investment (assets)

(1) Outward investment in equity securities (assets)

Net purchases (outflows) of outward portfolio investment amounted to 3.0 trillion yen in 2007, which was largely unchanged from the 3.1 trillion yen in 2006. While individual investors continued to increase their net purchases, this was offset by institutional investors rebalancing their portfolios.¹¹ During the fourth quarter, individual investors sharply curtailed their equity investment as they adopted a more cautious stance in response to volatility in equity prices brought on by the subprime mortgage problem.

¹¹ Public and private pension funds and other institutional investors usually decide the weight of assets such as foreign equities and bonds and domestic equities and bonds in total assets prior to investment. To rebalance their portfolios in order to maintain the desired weighting, they purchase/sell those assets whose weight in total assets has declined/increased due to changes in asset prices or exchange rates.

Figure 20: Outward Investment in Equity Securities



(a) Developments by investor category¹²

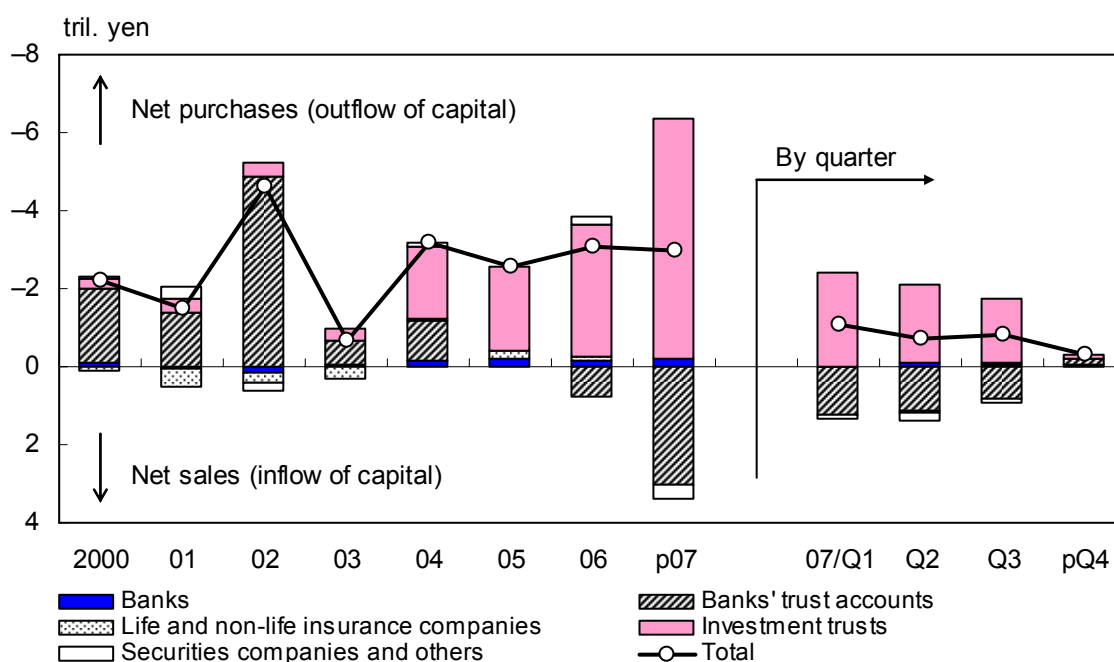
Backed by active investment in investment trusts by individual investors, investment trusts continued to actively purchase foreign corporate equities until the summer of 2007. As a result, net purchases increased to 6.1 trillion yen in 2007 from 3.4 trillion yen in 2006.

Net sales by banks' trust accounts increased to 3.0 trillion yen in 2007 from 0.8 trillion yen in 2006 as pension funds rebalanced their portfolios in light of the rise in equity prices, which continued until the summer.

Other investors, including securities companies, registered net sales of 0.1 trillion yen in 2007 as compared to net purchases of 0.5 trillion yen in 2006. This was due to securities companies undertaking large-scale redemptions of participation certificates issued by overseas SPCs that are subsidiaries of Japanese financial institutions.

¹² For investment in equity securities by investment trusts and banks' trust accounts, see Box 4, "Outward Investment in Equity Securities in 2007."

Figure 21: Outward Investment in Equity Securities (By Sector)



Note: Figures for years through 2004 are from "Securities Investment at Home and Abroad" (settlement basis). Figures for 2005 and after are based on balance of payments statistics. "Banks" is the sum of the banking accounts of banks and trust banks, while "banks' trust accounts" is the sum of the trust accounts of banks and trust banks.

(b) Breakdown by region

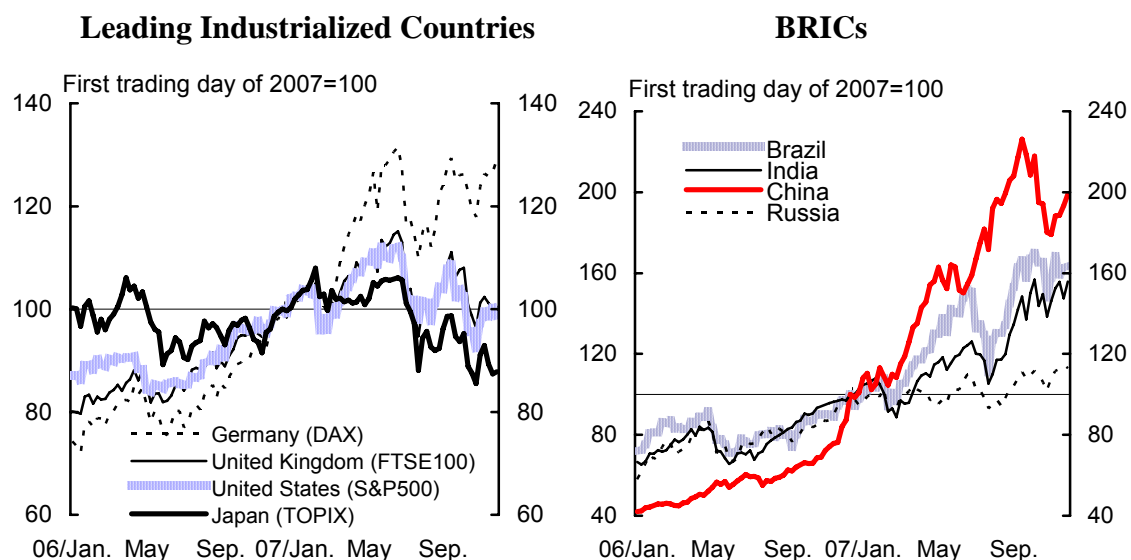
Net purchases of EU equities increased, while net purchases of U.S., Asian, and Central and South American equities decreased. As for BRICs equities, investment in Chinese equities turned from large net purchases during the previous year to net sales as a result of profit-taking. Net purchases of Brazilian equities increased reflecting brisk sales of investment trusts containing them. Investment in Indian and Russian equities registered approximately the same level of net sales and net purchases respectively as in the previous year.

Table 14: Outward Investment in Equity Securities (By Region)

bil. yen

	2005	2006	p2007	IIP (end of 2006)
United States	-959.3	-946.2	-163.2	26,661.0
European Union	-696.0	-221.7	-1,286.7	18,152.3
Of which:				
Germany	-55.5	-35.0	-264.0	1,890.9
France	-73.0	-151.6	-208.8	2,862.5
United Kingdom	78.6	-68.3	-451.3	6,198.1
Asia	-99.0	-661.8	-456.4	4,346.7
Of which:				
China	29.1	-230.5	90.6	1,172.0
India	-232.3	59.6	38.0	450.7
Central and South America	-468.4	-619.4	-505.9	5,125.1
Of which:				
Cayman Islands	-355.5	-489.9	-146.5	3,791.3
Brazil	-27.0	-142.4	-224.8	247.8
Others	-317.9	-605.9	-556.8	6,429.3
Of which:				
Russia	-71.8	-65.8	-85.0	256.6
Total	-2,540.6	-3,055.0	-2,968.9	60,714.4

Note: IIP stands for international investment position.

Figure 22: Equity Price Indices in Major Markets (Yen Basis)

Source: Bloomberg.

(2) Outward investment in bonds and notes (assets)

Net purchases (outflows) of investment in foreign bonds and notes increased to 10.2 trillion yen in 2007 from 7.7 trillion yen in 2006. This increase reflects more active purchases of bonds and notes by banks against the background of the declining trend of long-term interest rates in Europe and the United States in the second half of 2007.

Figure 23: Outward Investment in Bonds and Notes

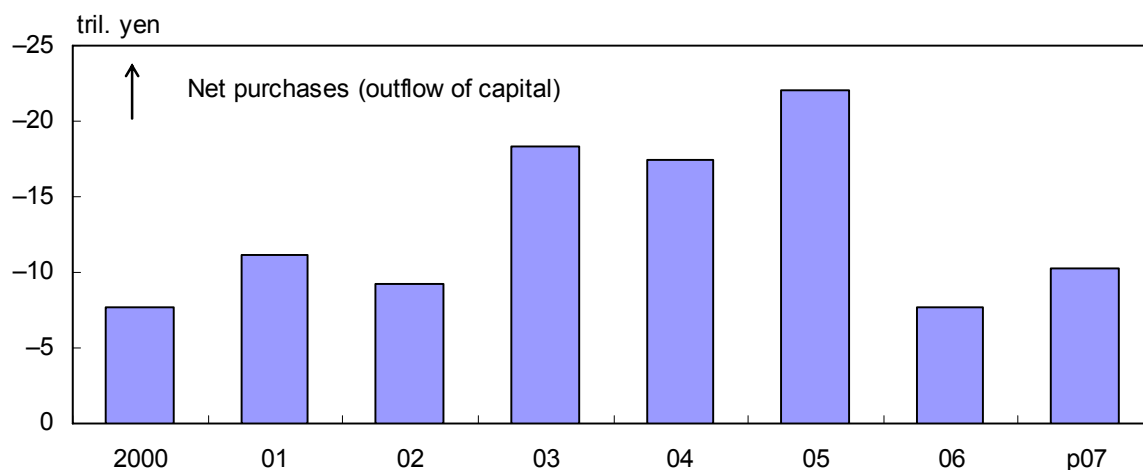
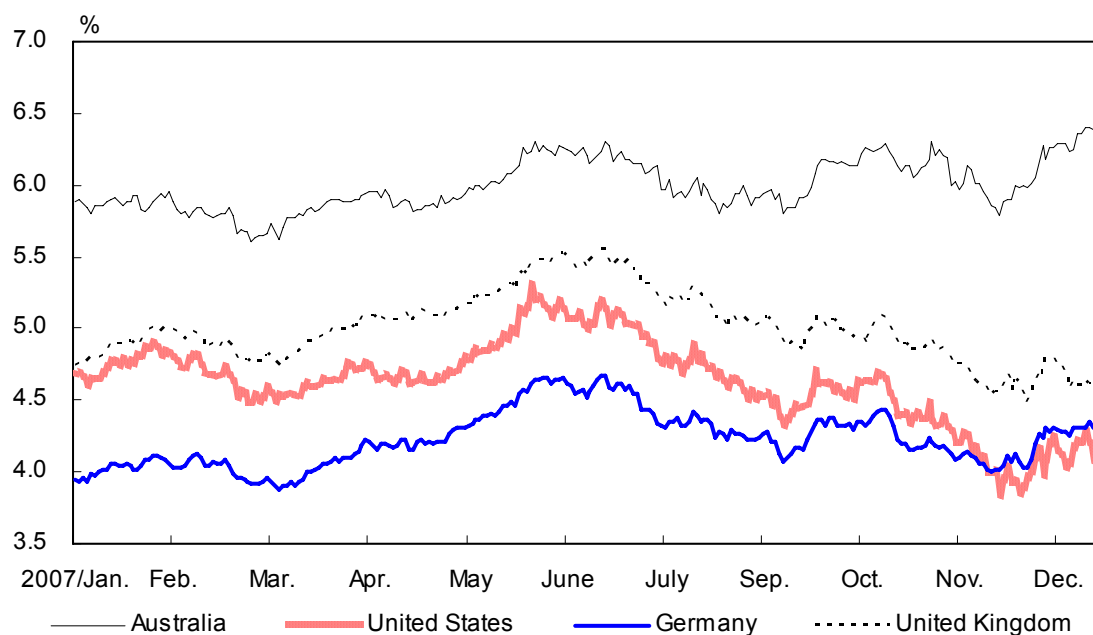


Figure 24: Long-Term Interest Rates in Major Markets (10-Year Government Bonds)



Source: Bloomberg.

(a) Developments by investor category

Banks went from being net sellers of bonds and notes in the first half of the year to being net purchasers in the second half. As a result, outward investment in bonds and notes by banks turned from net sales (inflows) of 2.2 trillion yen in 2006 to net purchases (outflows) of 0.8 trillion yen in 2007.

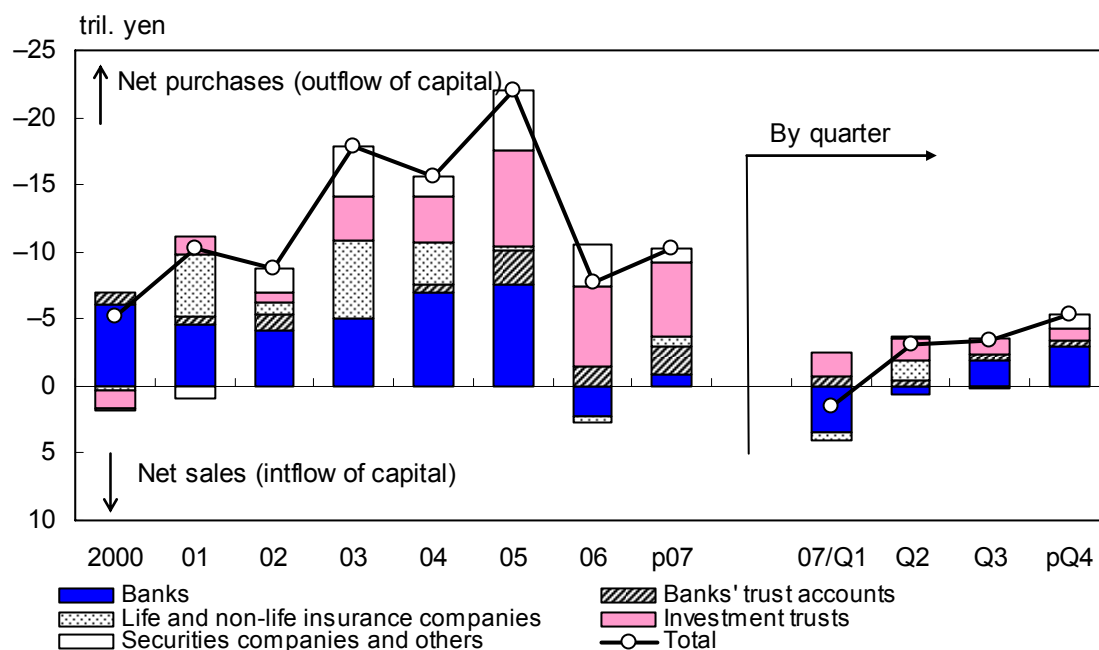
Net purchases (outflows) by banks' trust accounts increased to 2.1 trillion yen in 2007 from 1.5 trillion yen in 2006, reflecting the purchase of bonds and notes due to a rebalancing of portfolios by pension funds.

Net purchases (outflows) by investment trusts amounted to 5.4 trillion yen in 2007, a slight decrease from the 5.9 trillion yen in 2006. Individual investors acting through investment trusts continued to increase their purchases until the summer, but buying momentum quickly dissipated thereafter.

Life and non-life insurance companies were responsible for net purchases (outflows) of 0.8 trillion yen after net sales (inflows) of 0.5 trillion yen in 2006. This mainly reflects their purchases of foreign bonds during a period of relatively high long-term interest rates.

Securities companies accounted for net purchases (outflows) of 1.1 trillion yen in 2007, down from 3.1 trillion yen in 2006. The decrease in net purchases was mainly due to institutional investors selling bonds and notes through securities companies.

Figure 25: Outward Investment in Bonds and Notes (By Sector)



Note: Figures for years through 2004 are from "Securities Investment at Home and Abroad" (settlement basis). Figures for 2005 and after are based on balance of payments statistics. "Banks" is the sum of the banking accounts of banks and trust banks, while "banks' trust accounts" is the sum of the trust accounts of banks and trust banks.

(b) Breakdown by region

Net purchases of EU bonds and notes remained at approximately the same level as in the previous year, while net purchases of Central and South American bonds and notes increased. Net purchases of U.S. bonds and notes decreased.

Table 15: Outward Investment in Bonds and Notes (By Region)

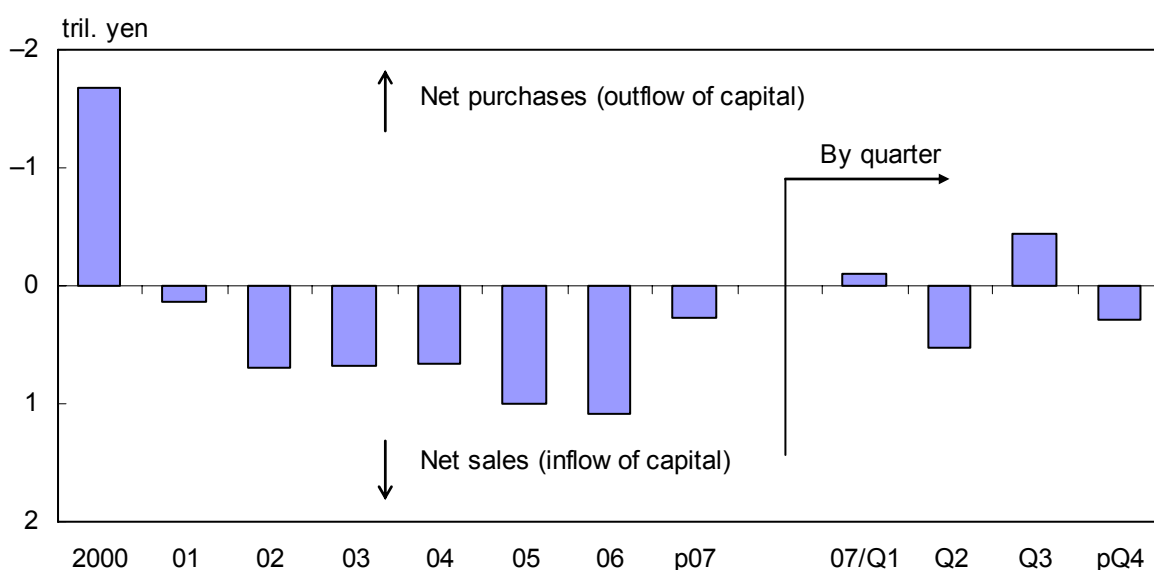
bil. yen

	2005	2006	p2007	IIP (end of 2006)
United States	-6,131.5	-2,413.2	-372.9	67,016.5
European Union	-9,016.4	-3,677.2	-3,888.9	83,637.7
Of which:				
Germany	-1,621.9	-148.5	216.2	18,706.0
France	-1,633.9	-288.4	-95.3	13,944.1
United Kingdom	-2,323.9	-1,721.0	-2,101.1	10,784.0
Luxembourg	-682.7	-187.4	-415.3	9,212.6
Asia	-192.7	-88.5	-579.0	1,602.7
Central and South America	-4,211.1	-340.9	-3,580.3	37,479.6
Of which:				
Cayman Islands	-4,067.3	-294.9	-3,231.5	34,319.7
Others	-2,472.9	-1,205.7	-1,822.3	25,799.2
Total	-22,024.6	-7,725.5	-10,243.4	215,535.7

Note: IIP stands for international investment position.

(3) Outward investment in money market instruments (assets)

Net sales (inflows) of money market instruments decreased to 0.3 trillion yen in 2007 from 1.1 trillion yen in 2006, reflecting increased purchasing by banks.

Figure 26: Outward Investment in Money Market Instruments

b. Inward portfolio investment (liabilities)

(1) Inward investment in equity securities (liabilities)

Net purchases (inflows) decreased to 5.4 trillion yen in 2007, marking a significant decline from the 9.9 trillion yen in 2006. Inward investment in equity securities showed the following developments during 2007. During the first half of the year, net purchases (inflows) continued, reflecting expectations of improved performance in the corporate sector based on solid economic conditions and yen depreciation. However, inward investment in equity securities turned negative during the second half of the year due to growing concerns about corporate performance following the slowdown of the U.S. economy and the appreciation of the yen.

Figure 27: Inward Investment in Equity Securities

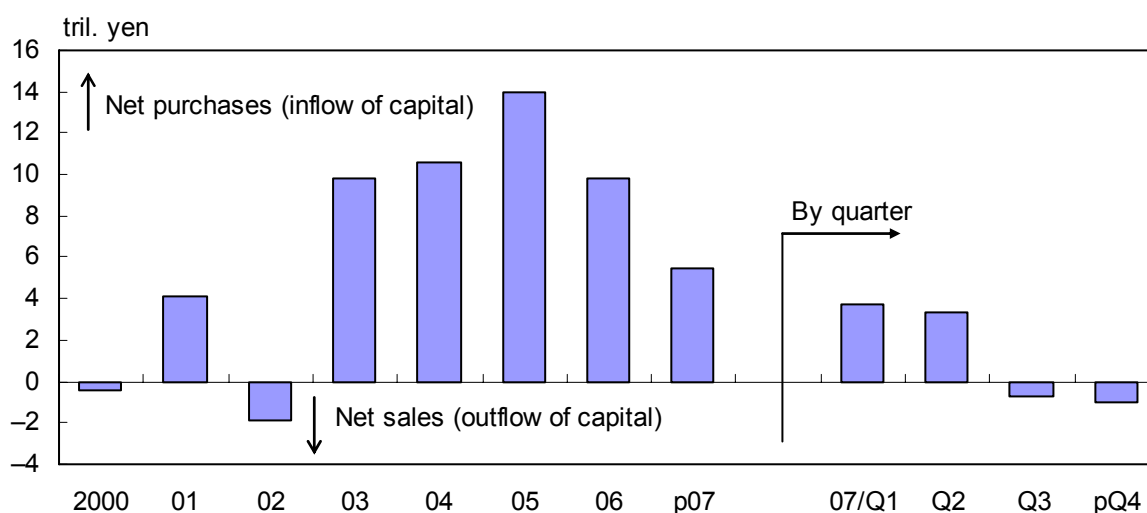


Figure 28: TOPIX (U.S. Dollar Basis)

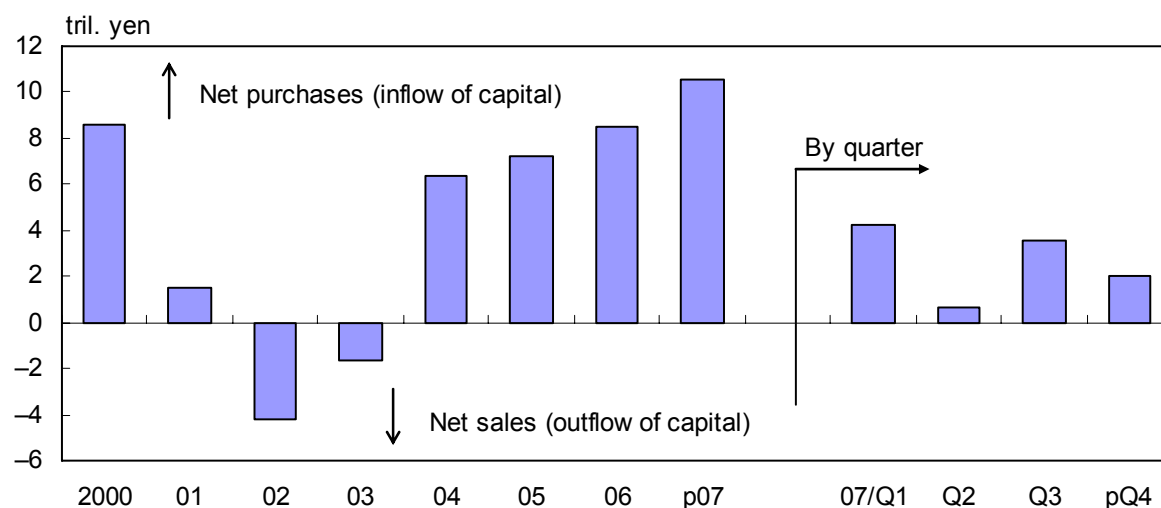


Source: Bloomberg.

(2) Inward investment in bonds and notes (liabilities)

Net purchases (inflows) increased to 10.5 trillion yen in 2007 from 8.5 trillion yen in 2006. Net purchases were registered during the first half of the year when long-term interest rates were stable, and purchasing momentum was maintained during the second half of the year while interest rates declined.

Figure 29: Inward Investment in Bonds and Notes



(3) Inward investment in money market instruments (liabilities)

Inward investment in money market instruments registered a significant increase in net purchases (inflows) in 2007, rising to 9.0 trillion yen from 3.9 trillion yen in 2006. This mainly reflects active purchasing by foreign public entities during the second half of the year.

Figure 30: Inward Investment in Money Market Instruments

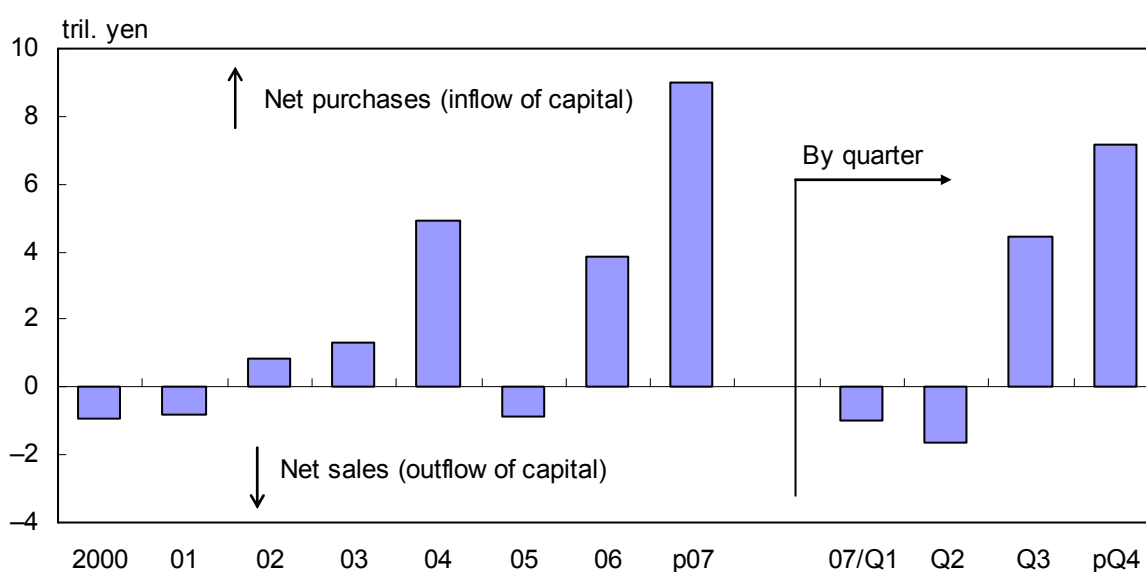
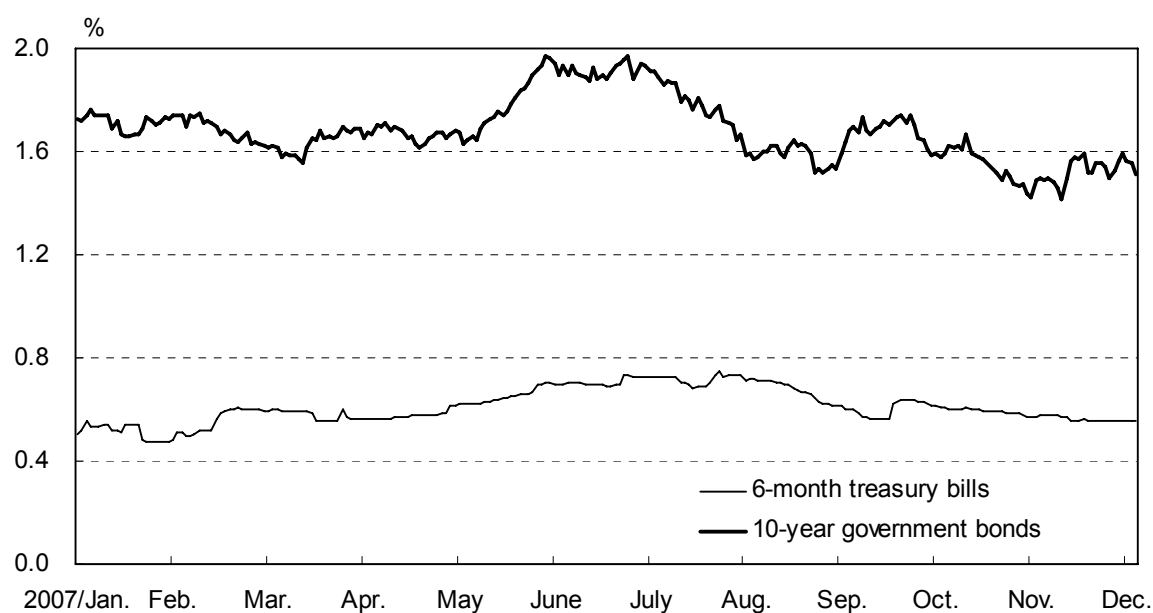


Figure 31: Principal Interest Rates in Japan

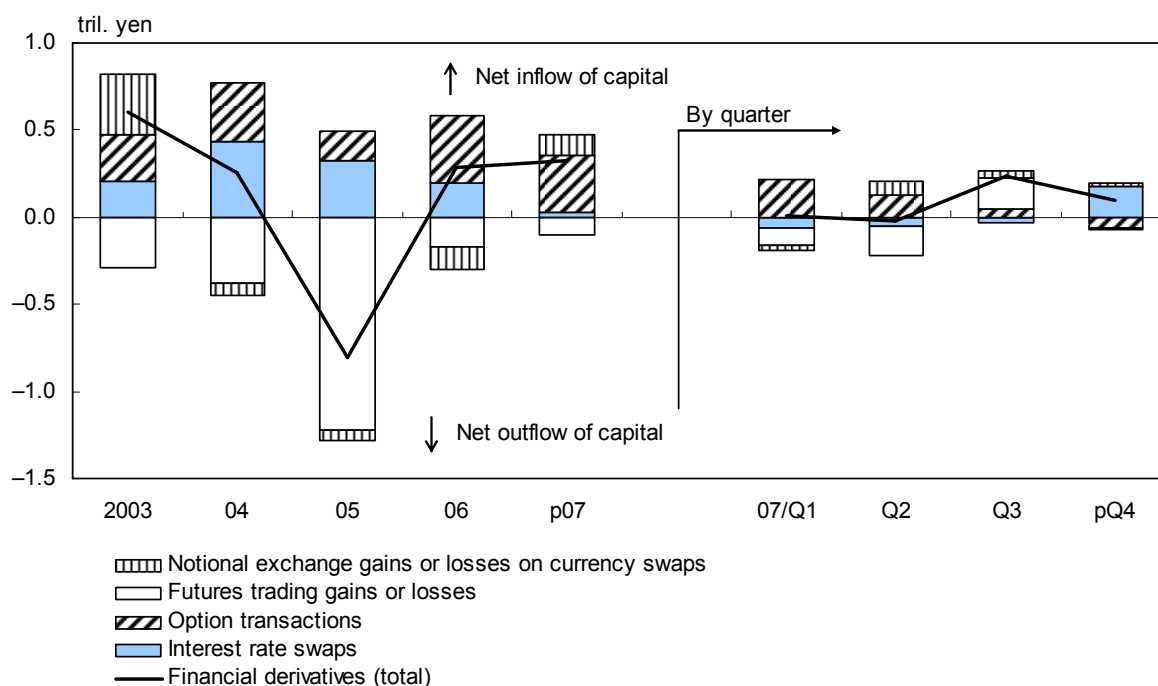


Source: Bloomberg.

3. Financial derivatives

Financial derivatives transactions accounted for a net inflow of 0.3 trillion yen in 2007, unchanged from the previous year's level of 0.3 trillion yen. This reflects the continuation of net inflows in option transactions and net outflows in futures trading.

Figure 32: Financial Derivatives

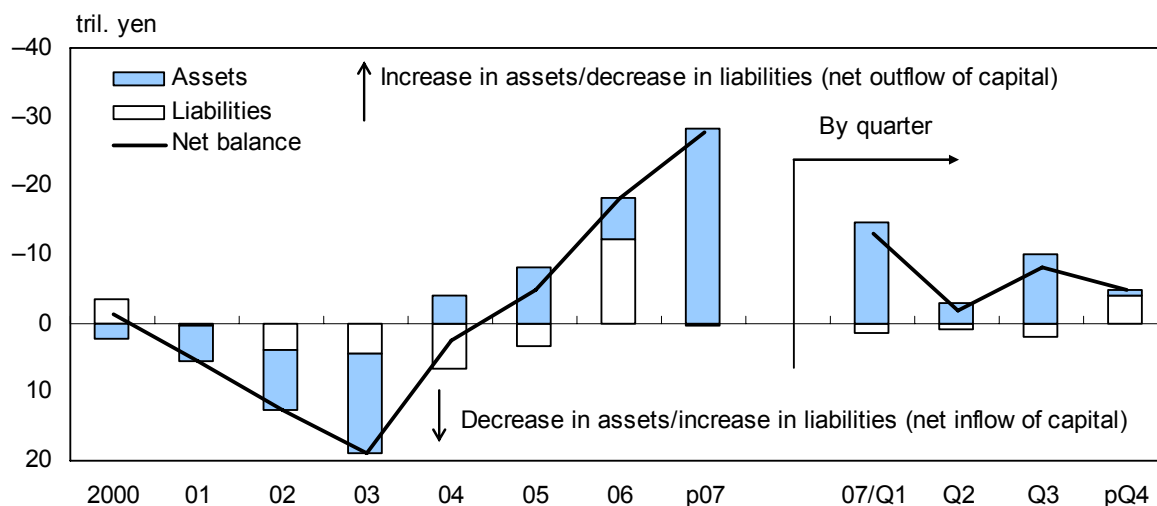


Note: "Financial derivatives (total)" includes investments other than those listed, and therefore does not equal the sum of the individual categories of financial derivatives.

4. Other investment (excluding securities lending)

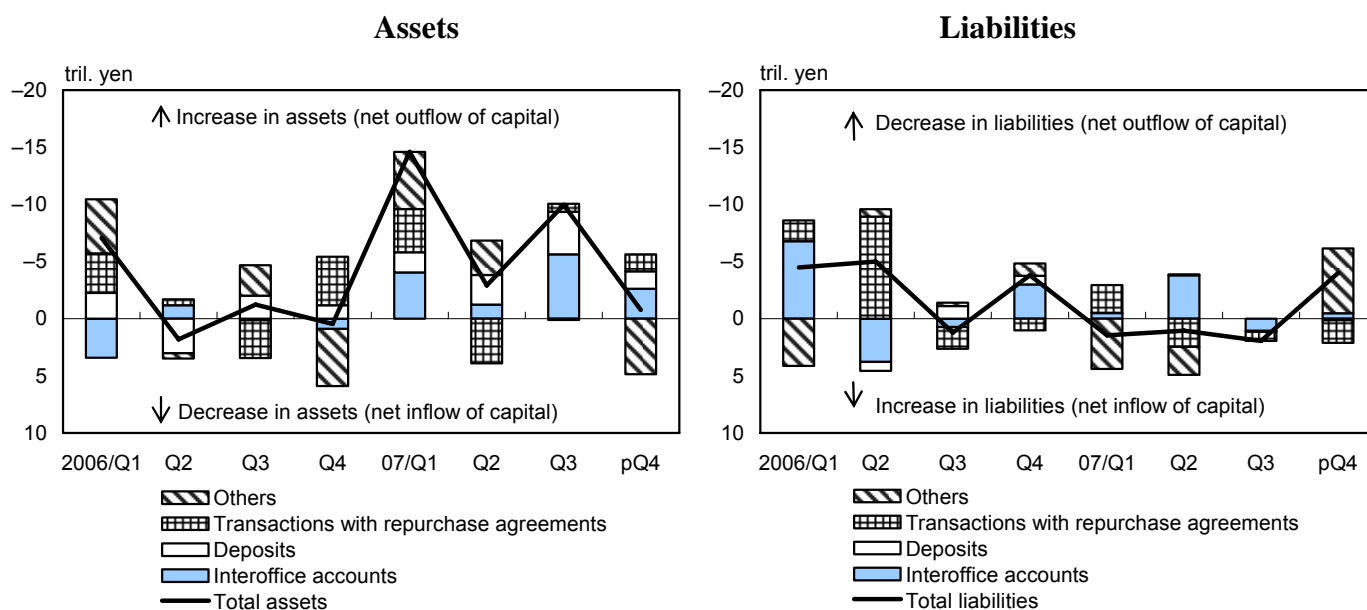
The net outflow of capital through other investment increased sharply to 27.8 trillion yen in 2007 from 18.1 trillion yen in 2006, reflecting the increase in outward investment by banks.

Figure 33: Other Investment



On the asset side, in response to demand for yen funds from foreign investors, outflows increased through deposits and interoffice accounts. During the summer, when overseas financial markets experienced instability due to the subprime mortgage problem, an increase in overseas lending was registered as interoffice accounts were used to respond to the demand from the overseas branches of Japanese banks for foreign currency-denominated funds. Movements on the liability side were generally smaller than those seen on the asset side.

Figure 34: Other Investment Assets and Liabilities (Quarterly Basis)

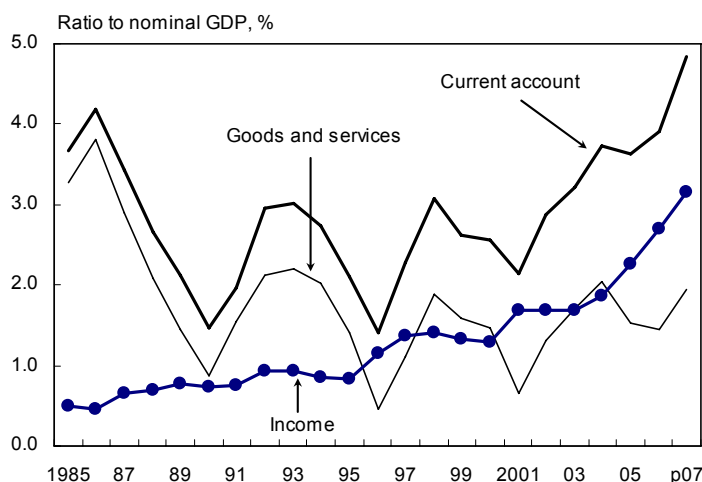


Note: Figures for asset and liability components of other investments are adjusted (i.e., components reassigned) for the effect from recent changes in business categories.

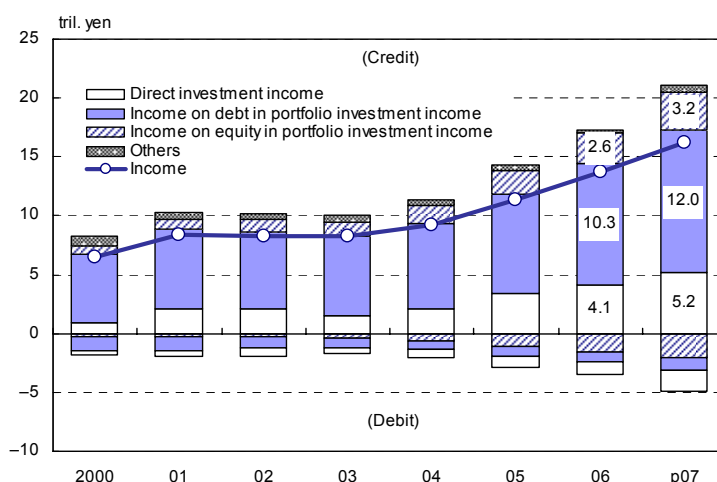
Box 1. Features of the Balance of Income in 2007

Japan's income account surplus has now exceeded its surplus in the balance of trade in goods and services for three consecutive years (since 2005). Against the background of the growth in net external assets, receipts of income on debt and equity in the portfolio investment income have been increasing. Direct investment income receipts have also been rising, reflecting the growth in profits of the overseas subsidiaries of Japanese companies (figures 1 and 2 for Box 1).

**Figure 1 for Box 1:
Current Account Components as
a Ratio to Nominal GDP**

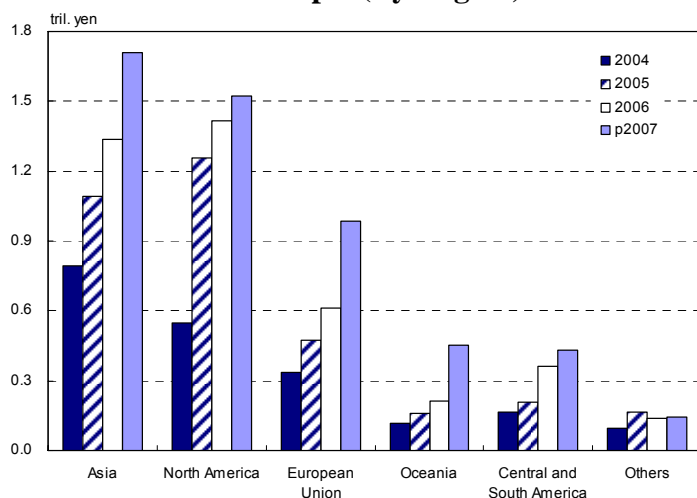


**Figure 2 for Box 1:
Income Account, Credit and
Debit**

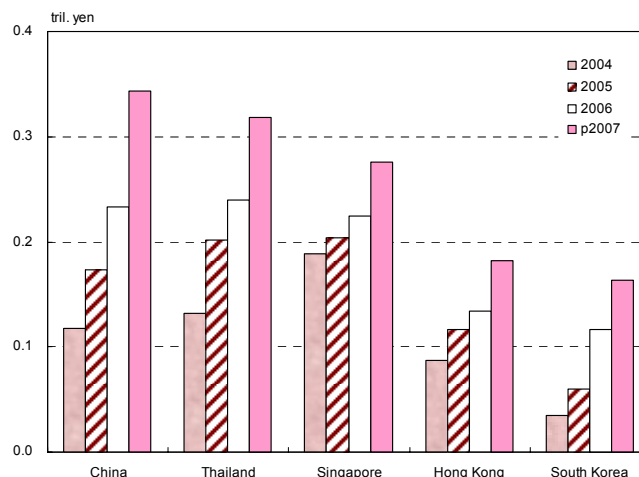


Direct investment income from Asia increased significantly in 2007, overtaking that from North America and making Asia Japan's largest source of direct investment income (Figure 3-1 for Box 1). Among Asian countries, China seemed to have replaced Thailand as the leading source of direct investment income in the region (Figure 3-2 for Box 1).

**Figure 3-1 for Box 1:
Direct Investment Income
Receipts (By Region)**



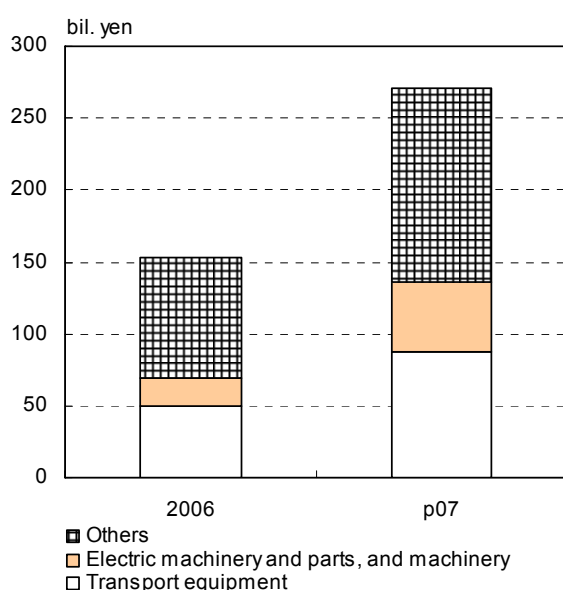
**Figure 3-2 for Box 1:
Direct Investment Income Receipts
from Asian Countries**



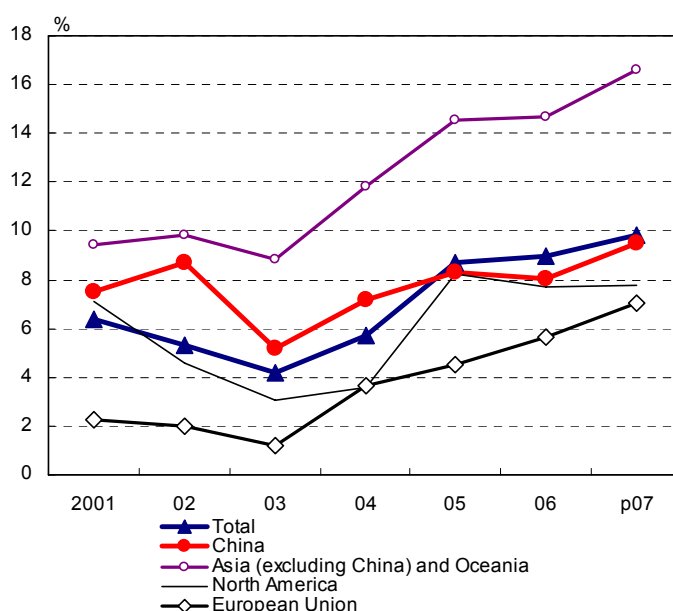
Note: Figures for 2007 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2007.

A review of dividend receipts from the subsidiaries of Japanese companies in China indicates the following. By industry, the transport equipment industry, which accounted for the largest share, recorded a very sharp increase of 76 percent from the previous year. In terms of completed cars, the manufacturing capacity of Japanese motor vehicle manufacturers in China has increased 1.4 times over the past three years. The growth in profits in the transport equipment industry, which includes subsidiaries manufacturing automotive parts, has contributed significantly to the overall increase in direct investment income from China (Figure 4 for Box 1). Moreover, the rate of return (ROR) on direct investment in China in 2007 has improved to the point where it was nearly on par with that in the rest of the world (Figure 5 for Box 1).

**Figure 4 for Box 1:
Dividend Receipts from
Subsidiaries in China**



**Figure 5 for Box 1:
Rate of Return in Outward Direct
Investment (By Region)**

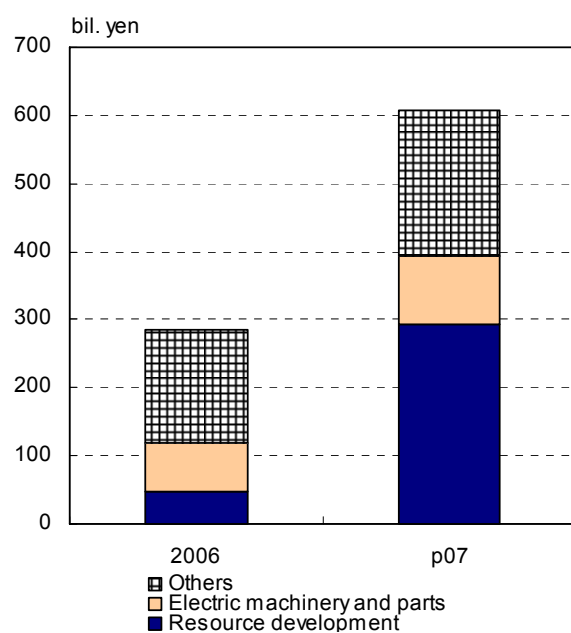


Notes:

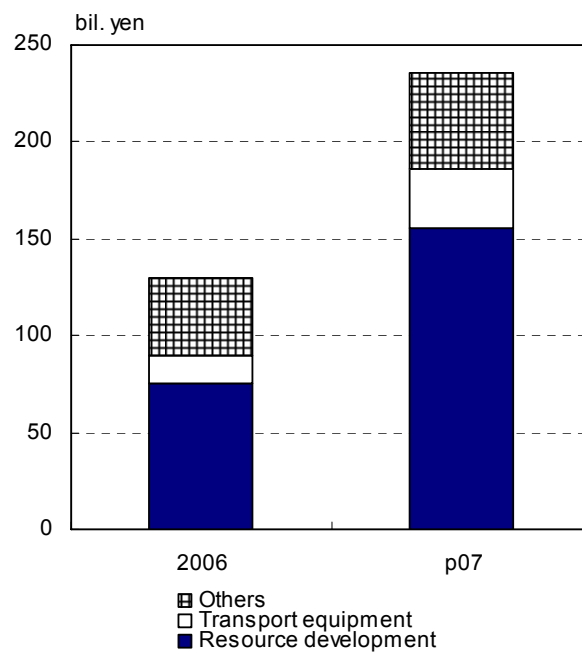
1. Figures for dividend receipts by industry are estimated by the International Department of the Bank of Japan (dividends are a part of direct investment income). However, because dividends of less than 1 billion yen are classified under "others", actual dividend receipts in the "transport equipment" and "electric machinery and parts, and machinery" industries are likely to be larger than the amounts indicated in Figure 4 for Box 1 (the same applies to figures 6 and 7 below).
2. The ROR on outward direct investment is calculated by dividing direct investment income receipts in 2007 by the outward direct investment amount outstanding as of the end of 2006. Figures for 2007 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2007.

Dividend receipts from the European Union and Oceania also increased sharply in 2007, mainly reflecting the rise in resource and energy prices. With regard to the European Union, sharp increases in dividend receipts were registered from Japanese subsidiaries in the United Kingdom and the Netherlands investing in resource development projects. With respect to Oceania, large increases in dividend receipts were registered from Japanese subsidiaries in Australia engaged in resource development (figures 6 and 7 for Box 1).

**Figure 6 for Box 1:
Dividend Receipts from
Subsidiaries in the European
Union**



**Figure 7 for Box 1:
Dividend Receipts from
Subsidiaries in Australia**



Note: Figures for resource development are based on interviews.

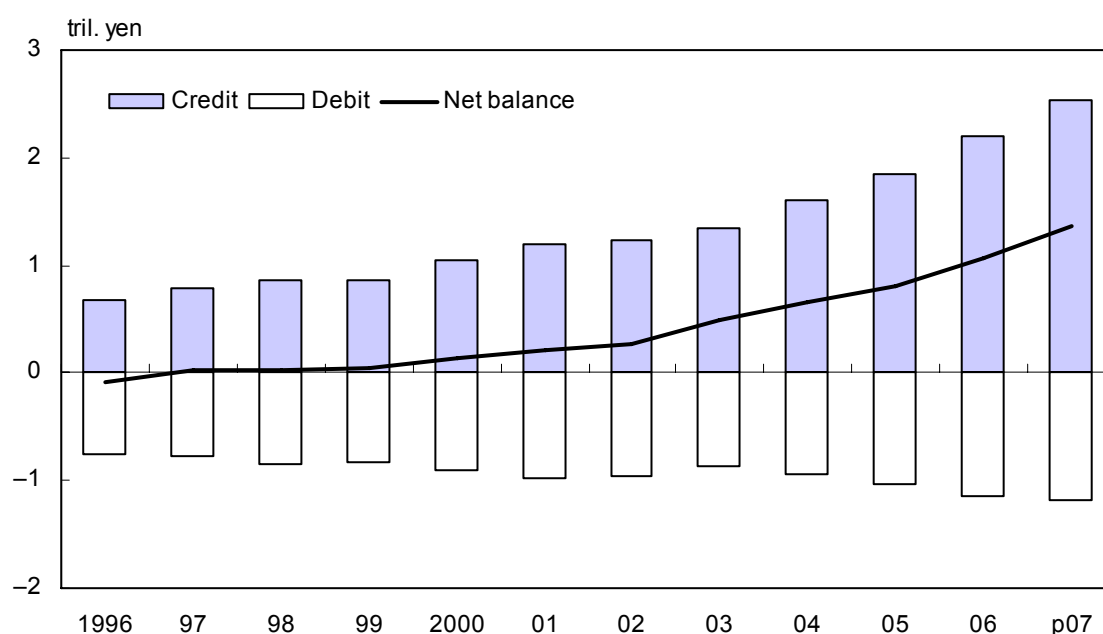
Box 2. Overseas Activities of Japanese Companies and Developments in the Service Account

The balance of payments statistics reflect various economic activities related to the globalization of Japanese companies. The exports and imports of Japanese companies are reflected in the balance of goods, while the establishment of overseas subsidiaries and the acquisition of foreign companies are reflected in the outward direct investment. Moreover, profits received from overseas subsidiaries are registered as credits in the balance of income. Notable developments in recent years in this context are the increasing volume of cross-border receipts for royalties and license fees and payments for professional and technical services, and these developments have significantly affected Japan's balance of "other services."

1. Industrial property rights

In the balance of payments statistics, fees received for the licensing of patents (royalties) are recorded under "industrial processes, franchises, etc." (hereafter "fees for industrial property rights") of "royalties and license fees," a component of "other services." The surplus in "fees for industrial property rights" has been steadily increasing for years and amounted to 1.4 trillion yen in 2007, bettering the record high of 1.1 trillion yen set in 2006.

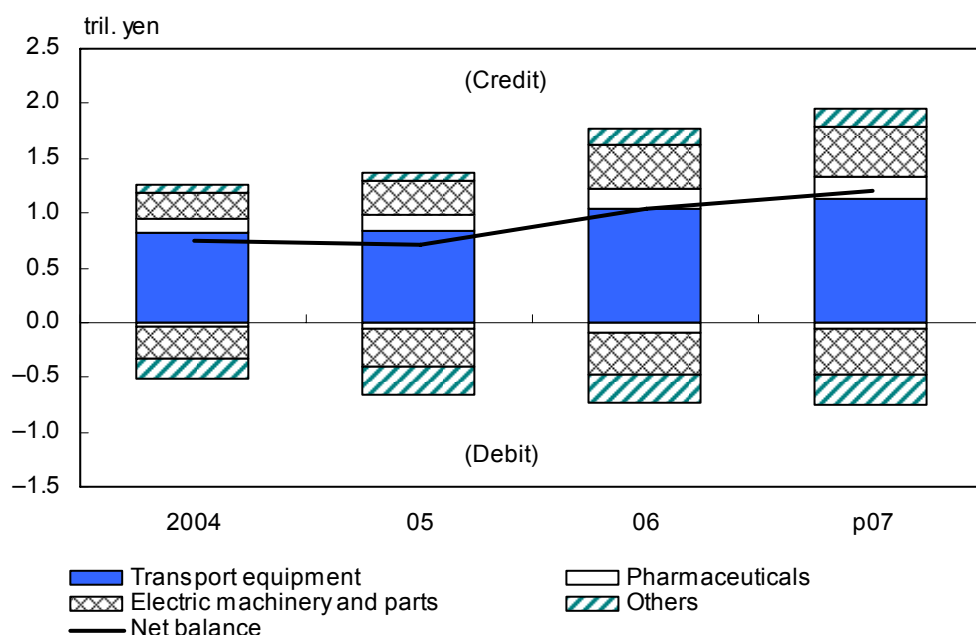
Figure 1 for Box 2: Fees for Industrial Property Rights



A review of payments, receipts, and the net balance of "fees for industrial property rights" by industry indicates the following. The net receipts of the transport equipment industry, where the amount of receipts is large and that of payments small, account for more than 90 percent of the surplus, showing that the expansion of overseas production by Japanese motor vehicle companies is the major contributor to the increase in the overall surplus.¹³

¹³ One of the features of motor vehicle-related receipts of royalties is that intra-firm transactions (between parent companies and their subsidiaries) account for a major portion of total trade. According to the "Survey of Science and Technology Research, 2007" of the Ministry of Internal Affairs and Communications, the share of intra-firm transactions in total royalty receipts is 89.8 percent for transport

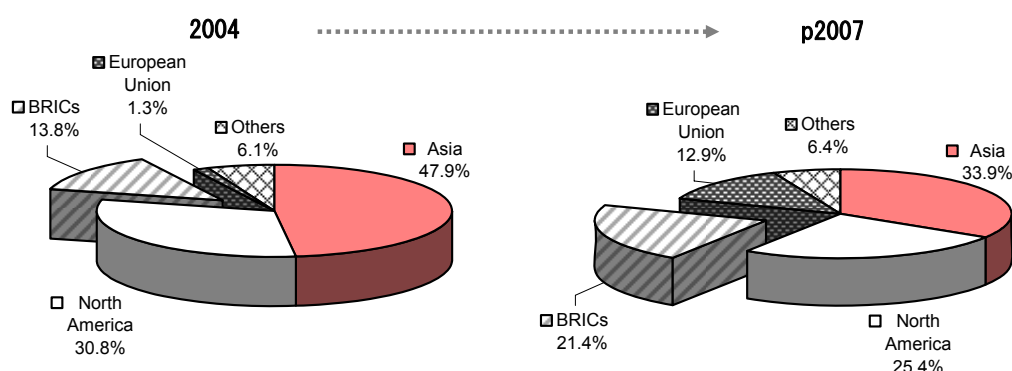
Figure 2 for Box 2: Fees for Industrial Property Rights (By Industry)



Note: Figures by industry are estimated by the International Department of the Bank of Japan. Totals do not match figures for the corresponding balance of payments components.

Surpluses in "fees for industrial property rights" have been increasing for all regions. In particular, the share of the surplus from the BRICs has been increasing and has come to rank third after Asia (excluding China and India) and North America.

Figure 3 for Box 2: The Regional Composition of Fees from Industrial Property Rights (Total Receipts), 2004 and 2007



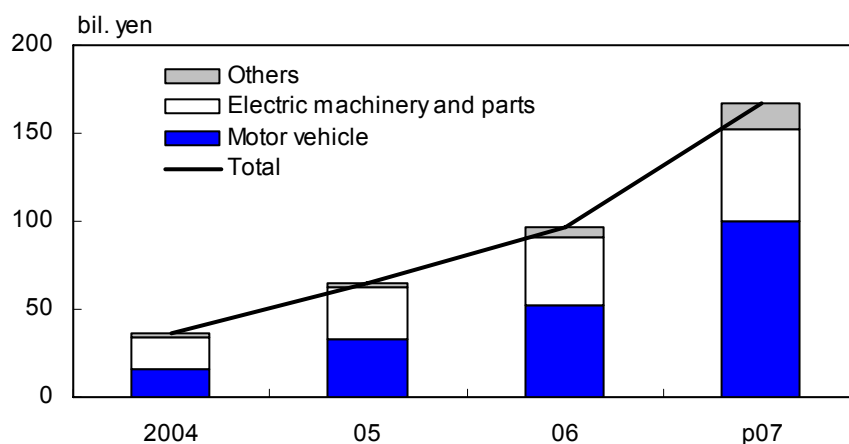
Notes:

1. The regional shares of "fees from industrial property rights" for 2007 are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2007.
2. Figures for Asia exclude China and India.

equipment, 43.1 percent for pharmaceuticals, and 58.3 percent for electric machinery. Royalties related to motor vehicle manufacturing are generally determined on the basis of the number of motor vehicles manufactured or the total amount of sales.

The increase in the surplus from the BRICs is due to the increase in production by Japanese motor vehicle manufacturers mainly in China and India. Against this background, royalties received by Japanese motor vehicle manufacturers from their subsidiaries in the BRICs increased six-fold in the three years from 2004 to 2007.

Figure 4 for Box 2: Fees for Industrial Property Rights Received from the BRICs (By Industry)



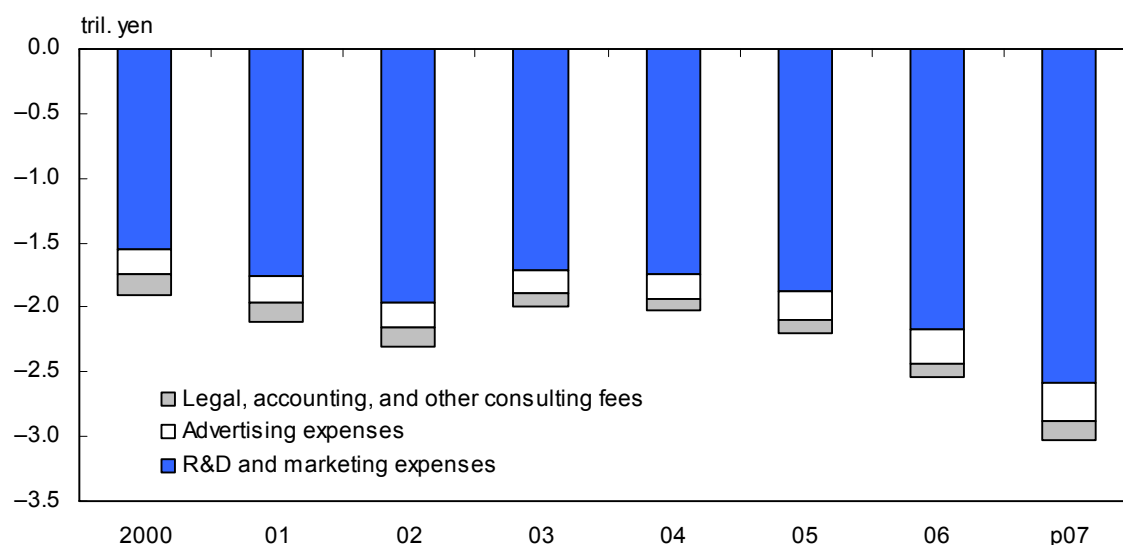
Note: Figures by industry are estimated by the International Department of the Bank of Japan.

The production plans of Japanese motor vehicle manufacturers indicate that they will increase output in the BRICs much more than in the mature markets of North America and the European Union, and it is very likely that the share of the BRICs in the total surplus in "fees for industrial property rights" will continue to grow.

2. Miscellaneous Business, Professional, and Technical Services

The growth in overseas activities of Japanese companies is contributing to an increase in payments for "other services," a component of which is "miscellaneous business, professional, and technical services" comprising advertising expenses, legal, accounting, and other consulting fees, and R&D and marketing expenses. Among these, marked growth can be seen in payments for R&D and marketing expenses.

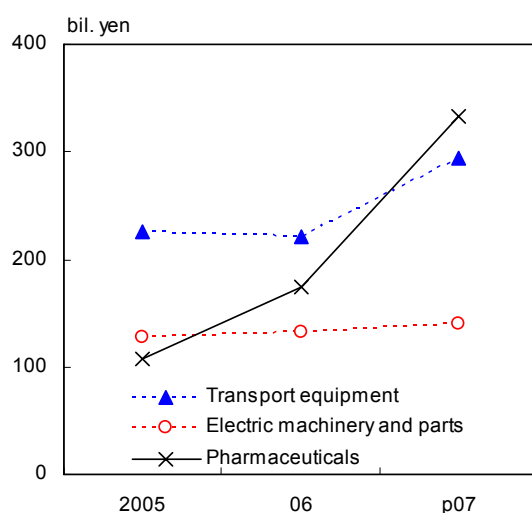
Figure 5 for Box 2: Miscellaneous Business, Professional, and Technical Services



A review of payments for R&D and marketing expenses by industry shows that payments made by pharmaceutical companies have been growing very rapidly, exceeding those by transport equipment companies in 2007. One of the reasons for the rapid growth is that patents on many of the key products of Japanese pharmaceutical companies are due to expire around 2010. Against this background, these companies are stepping up their R&D activities in foreign countries (primarily the United States) where the time needed for the approval of a new pharmaceutical product is shorter than in Japan.

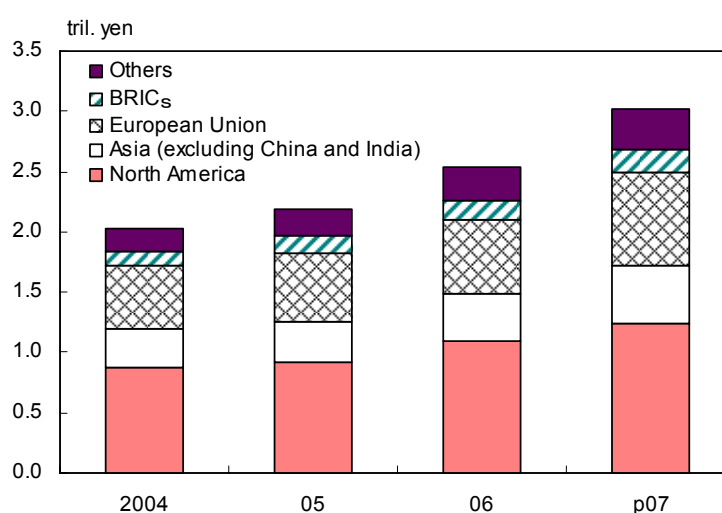
Figure 6 for Box 2: Payments for R&D and Marketing Expenses

By Industry



Note: Figures by industry are estimated by the International Department of the Bank of Japan.

By Region



Note: Figures for 2007 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2007.

(Reference) Industrial Property Rights and Copyrights (By Region)

Table 1 for Box 2: Fees for Industrial Property Rights, by Region

bil. yen

	Total			Asia			North America			European Union		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1996	677.6	760.9	-83.3	292.8	16.4	276.5	257.2	549.3	-292.1	97.5	165.7	-68.2
1997	790.9	771.0	19.9	303.0	23.2	279.7	343.2	553.0	-209.8	110.3	164.3	-54.0
1998	871.4	839.3	32.1	266.8	82.2	184.6	409.7	568.0	-158.3	151.8	157.9	-6.2
1999	871.1	821.4	49.6	232.4	99.1	133.3	471.4	534.1	-62.6	131.0	153.8	-22.7
2000	1,043.0	900.8	142.2	299.3	59.9	239.5	543.8	605.1	-61.3	159.4	184.1	-24.7
2001	1,198.3	979.6	218.7	298.0	27.6	270.4	617.0	676.4	-59.4	224.8	231.9	-7.1
2002	1,232.0	955.1	276.9	309.2	30.0	279.2	689.0	614.2	74.8	167.7	253.5	-85.7
2003	1,342.1	859.0	483.1	340.3	19.5	320.8	737.1	590.9	146.2	187.7	209.2	-21.5
2004	1,599.2	933.1	666.2	427.8	23.9	404.0	831.6	626.1	205.5	252.3	243.9	8.4
2005	1,840.5	1,038.7	801.8	514.6	34.4	480.3	915.1	726.9	188.2	286.9	234.1	52.9
2006	2,204.0	1,138.1	1,065.9	650.4	59.6	590.7	1,055.9	796.9	259.1	349.0	236.0	113.1
p2007	2,539.9	1,176.2	1,363.7	768.2	52.5	715.7	1,108.9	761.9	347.0	435.6	259.7	176.0

Table 2 for Box 2: Fees for Copyrights, by Region

bil. yen

	Total			Asia			North America			European Union		
	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net	Credit	Debit	Net
1996	48.2	307.6	-259.4	22.5	2.8	19.7	13.4	232.9	-219.5	10.4	63.3	-52.9
1997	93.1	392.4	-299.3	26.2	4.1	22.1	39.5	303.0	-263.4	23.3	75.2	-51.9
1998	94.4	331.3	-236.8	17.8	2.2	15.6	53.3	255.1	-201.8	22.0	61.5	-39.4
1999	60.0	299.9	-239.9	12.4	2.0	10.3	29.7	240.2	-210.5	17.4	50.3	-32.9
2000	59.4	285.5	-226.1	10.6	50.7	-40.1	41.4	179.4	-138.0	7.1	48.1	-40.9
2001	70.6	369.4	-298.8	15.1	72.7	-57.6	44.6	229.3	-184.7	9.7	57.4	-47.7
2002	74.5	424.6	-350.2	14.4	76.7	-62.3	46.5	270.0	-223.5	12.3	61.1	-48.8
2003	80.9	414.8	-333.9	13.9	74.2	-60.3	41.9	255.8	-213.9	22.6	68.2	-45.6
2004	98.3	541.3	-443.1	11.5	91.9	-80.4	56.9	359.1	-302.2	29.1	81.4	-52.2
2005	101.4	574.2	-472.9	14.3	105.7	-91.4	54.8	385.6	-330.9	30.2	76.9	-46.7
2006	134.1	664.1	-530.1	16.0	119.3	-103.3	75.1	468.8	-393.6	40.8	67.4	-26.5
p2007	195.1	786.8	-591.8	25.3	135.7	-110.4	113.9	552.0	-438.1	78.1	74.5	3.6

Note: Figures for 2007 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2007.

Box 3. Classification of Direct Investment by Type of Investment

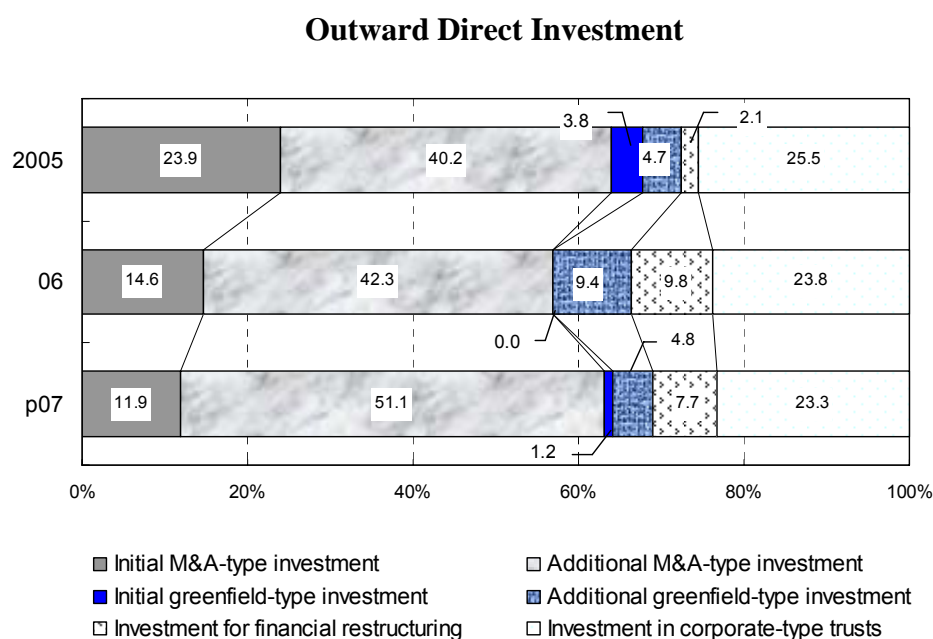
One possible approach to classifying different types of direct investment is to distinguish them by how the invested capital is used by the ultimate investee enterprise. This method allows for the following classification. Investment that increases tangible fixed assets, such as factories and other facilities, can be defined as "greenfield-type investment." Investment that does not increase tangible fixed assets, such as the acquisition of shares, can be defined as "M&A-type investment." Lastly, investment that is used to repay debt can be defined as "investment for financial restructuring." Such a classification makes it possible to examine the rates of return on foreign direct investment and the impact on a host country's economy (e.g., job creation) by the type of investment. It should be noted that because the following analysis focuses on investments of at least 10 billion yen in equity capital, results should be interpreted allowing for a margin of error.

Features Distinguishing Direct Investment in 2007

(1) M&A-type investment continued to account for a large share of both outward and inward direct investment. In 2007, the share of additional M&A-type outward direct investment increased as a result of a series of large-scale acquisitions aimed at expanding overseas business.

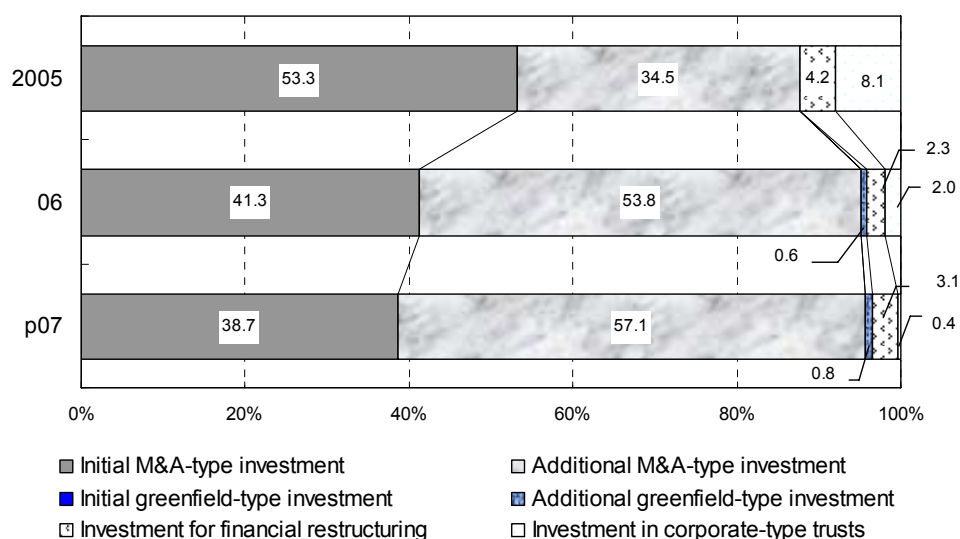
(2) The total value of greenfield-type outward direct investment remained at approximately the same level as the previous year due to investments made by an electric machinery company for boosting overseas production capacity. However, the share of greenfield-type investment in total outward direct investment declined compared to the previous year.

Figure 1 for Box 3: Foreign Direct Investment by Type of Investment (On a Transaction Value Basis)



Note: Investments of 10 billion yen or more accounted for 37.9 percent (on a transaction value basis) of total outward direct investment in 2005, 42.5 percent in 2006, and 52.6 percent in 2007.

Inward Direct Investment



Note: Investments of 10 billion yen or more accounted for 39.0 percent (on a transaction value basis) of total inward direct investment in 2005, 57.1 percent in 2006, and 68.3 percent in 2007.

Table 1 for Box 3: Definitions of the Classification of Foreign Direct Investment (By Investment Type)

Type	Definition
(a) Initial M&A-type investment	It is a first-time investment by a direct investor in a direct investment enterprise, and . . . the invested capital is used for the acquisition of shares issued by an existing enterprise.
(b) Initial greenfield-type investment	. . . the invested capital is used for the acquisition of shares issued by a newly established enterprise.
(c) Additional M&A-type investment	It is not a first-time investment by a direct investor in a direct investment enterprise, and . . . the invested capital is not used for the acquisition of tangible fixed assets of an enterprise (or, it is used for the acquisition of shares already issued by an existing enterprise).
(d) Additional greenfield-type investment	. . . the invested capital is used for the acquisition of tangible fixed assets of an enterprise.
(e) Investment for financial restructuring	. . . the invested capital does not increase the asset base of the enterprise and is used for debt repayment.

Note: These definitions assume that the target enterprise is the ultimate investee enterprise.

The classification of foreign direct investment by type is defined in Table 1 for Box 3. In the table, categories (a) and (c) can be grouped into M&A-type investment, while categories (b) and (d) can be grouped into greenfield-type investment; and categories (a) and (b) can be grouped into initial investment, while categories (c) and (d) can be grouped into additional investment.

In addition to the above categories, investment in corporate-type investment trusts and the acquisition of nonvoting shared issued by SPCs (i.e., participation certificates) are included in direct investment.

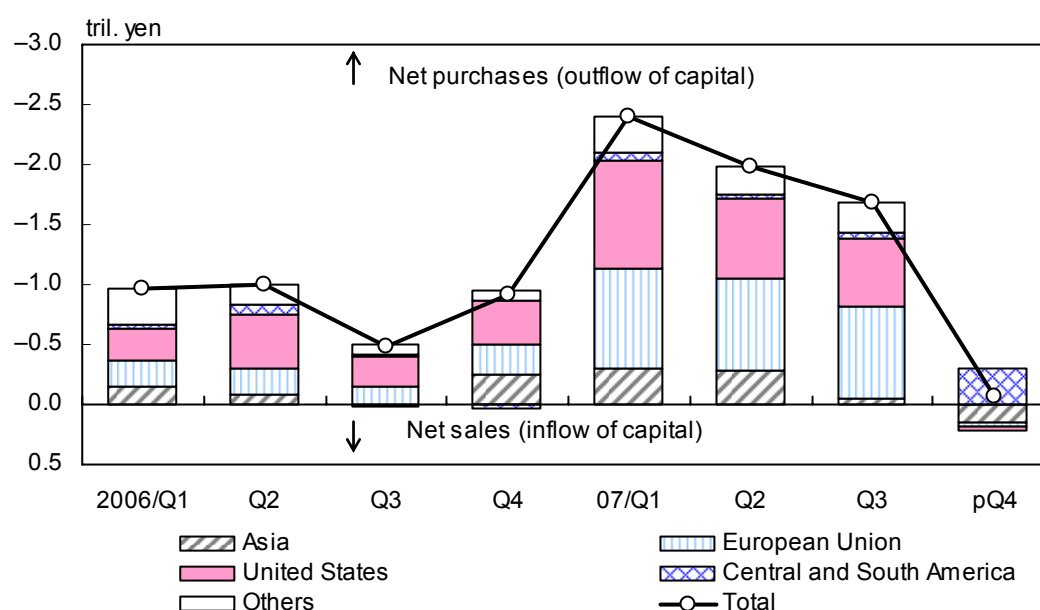
Box 4. Outward Investment in Equity Securities in 2007

Looking at outward investment in equity securities by type of investor, as in 2006, individual investors whose investments are reflected in "investment trusts" accounted for net purchases, while pension funds whose investments are reflected in "banks' trust accounts" accounted for net sales. When overseas financial markets experienced instability due to the subprime mortgage problem during the summer and thereafter, investment by individual investors and pension funds underwent major changes as described below.

Individual Investors (Via Investment Trusts)

Looking at investments by individual investors as reflected in the figures for "investment trusts," net purchases of 4.4 trillion yen during the first half of 2007 were registered. This was more than double the net purchases of 2.0 trillion yen in the first half of 2006. By region, net purchases of EU and U.S. equity securities, which account for the largest shares of investment by individual investors, rose 3.8-fold and 2.2-fold, respectively. Net purchases of Asian equity securities also rose sharply, increasing 2.5-fold from the previous year.

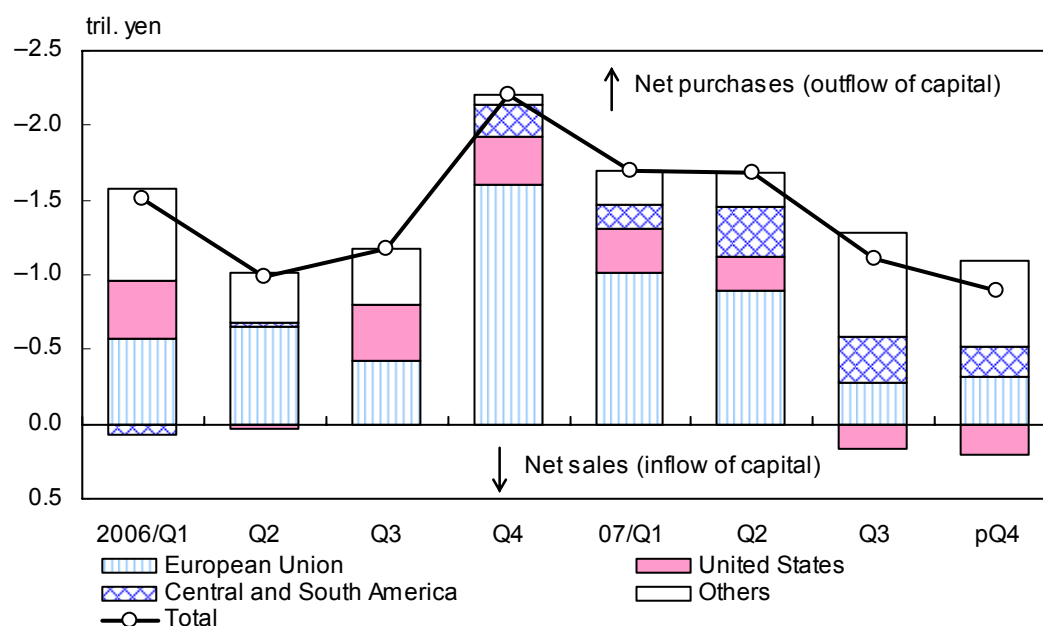
Figure 1 for Box 4: Outward Portfolio Investment in Equity Securities by Investment Trusts



Note: Figures are compiled by the International Department of the Bank of Japan.

However, investment by individual investors fell sharply in the wake of the market instability caused by the subprime mortgage problem. In the fourth quarter of 2007, the total amount of net purchases fell below 100 billion yen as individual investors became net sellers of EU, U.S., and Asian equity securities. Similarly, although individual investors maintained a certain level of investment in bonds and notes through investment trusts, their net purchases of them also followed a downward trend.

Figure 2 for Box 4: Outward Investment in Bonds and Notes by Investment Trusts



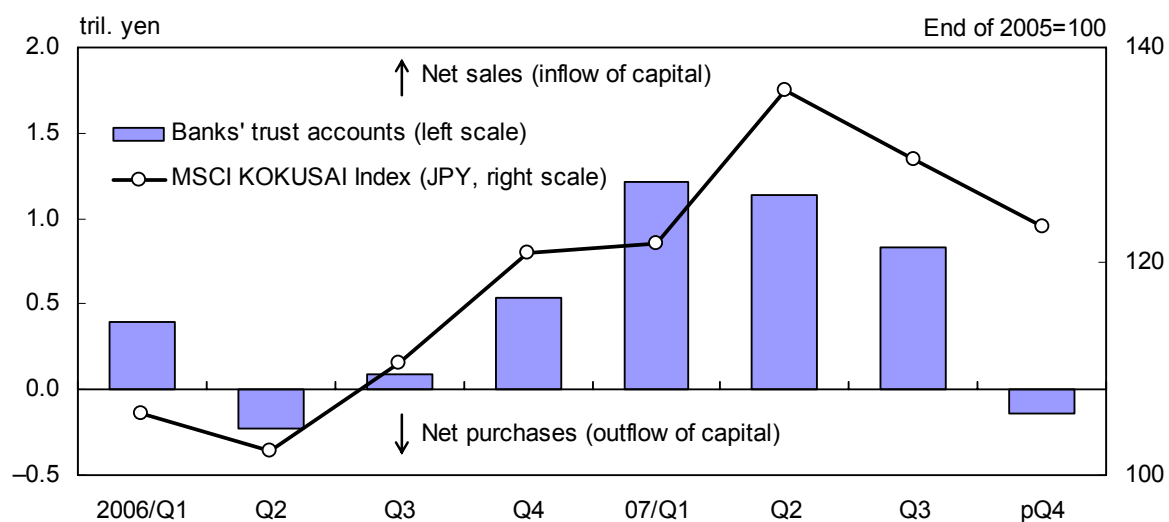
Note: Figures are compiled by the International Department of the Bank of Japan.

2. Pension Funds (Via Banks' Trust Accounts)

Pension funds are among the largest institutional investors in foreign equities, and looking at their investment as reflected in the figures for "banks' trust accounts" indicates that during the first half of 2007 they accounted for net sales of foreign equities of 2.4 trillion yen, up sharply from the 0.2 trillion yen in the first half of 2006. This increase was primarily due to sales of equities for rebalancing as equity prices in Europe and the United States, the main markets for their equity investment, rose during this period. Public and private pension funds and other institutional investors usually decide the weight of assets such as foreign equities and bonds and domestic equities and bonds in total assets prior to investment, and to maintain the desired weighting, portfolios are rebalanced by purchasing/selling those assets whose weight in total assets has declined/increased due to changes in asset prices or foreign exchange rates.

The MSCI KOKUSAI index is one of the benchmarks used in measuring the performances of outward investment in equities by pension funds. Comparing the amount of outward investment in equities by banks' trust accounts and the movement in the index, beginning in the second half of 2006, rising equities prices acted to increase the volume of selling for rebalancing (Figure 3 for Box 4). However, this trend was reversed when equity prices became volatile as a result of the subprime mortgage problem, and a slim margin of net purchases amounting to 0.1 trillion yen was registered in the fourth quarter of 2007. This reflects the purchase of foreign equities undertaken by pension funds to rebalance their portfolios as the weight of foreign equities declined in line with falling prices.

Figure 3 for Box 4: Outward Portfolio Investment in Equity Securities by Banks' Trust Accounts



Note: The MSCI KOKUSAI Index is an index of equities prices in major markets excluding Japan, and is computed and published by Morgan Stanley Capital International Barra (MSCI Barra)