



## **Japan's Balance of Payments Statistics for 2014 and International Investment Position at Year-End 2014**

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**September 2015**  
**International Department**  
**Bank of Japan**

This report is an English translation of the Japanese original released on August 10, 2015.

Japan's balance of payments statistics for 2014 -- the annually revised figures for the first through the third quarter of 2014 and the second preliminary figures for the fourth quarter of 2014 -- were released on April 8, 2015, by the Ministry of Finance and the Bank of Japan in the *Balance of Payments*.

Japan's international investment position at year-end 2014 was released on May 22, 2015, by the Ministry of Finance and the Bank as the *International Investment Position of Japan (End of 2014)*.

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## **I. Introduction**

### **A. Switch to the *BPM6*-Based Statistics and Characteristics of This Report**

Until last year, the International Department of the Bank published two separate annual reports on developments in Japan's balance of payments (BOP) and international investment position (IIP) under the *BOJ Reports & Research Papers* series.<sup>1</sup> From this year onward, however, developments in Japan's BOP and IIP -- for the preceding calendar year and at year-end of the preceding calendar year, respectively -- will be presented collectively in a single annual report. This reflects the switch to the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* as the basis for the compilation of Japan's BOP related statistics for data from January 2014 onward. Published by the International Monetary Fund (IMF), the *Balance of Payments Manual* provides the international standard for compiling the BOP and IIP. In the revision of the manual for the sixth edition, balance sheet items were expanded, allowing analyses that more organically connect transactions in the current and financial accounts as well as the IIP. This was the result of a series of discussions among a group of statistical experts organized by the IMF, reflecting the growing international interest in balance sheet vulnerabilities after currency crises. Against this background, this report aims to present the BOP and IIP in a more unified manner.

In addition, this report presents, in several boxes, analyses of new data series that became available with the switch to the *BPM6*-based statistics. First, Box 1 outlines the switch to the *BPM6*-based statistics in Japan while briefly explaining the background to the revision of the *Balance of Payments Manual* for the sixth edition. Then, using data series newly released with the switch to the *BPM6*-based statistics, Boxes 3 and 7 respectively examine developments in direct investment income by region and industry, and in the composition of yen-denominated assets and foreign currency-denominated liabilities.

### **B. Overview of the BOP and IIP**

The sum of the balances of the current and capital accounts in the BOP, i.e., the net surplus or deficit, represents Japan's net lending to or net borrowing from the rest of the world. This is conceptually equal to the net balance of the financial account, which records transactions in external financial assets and liabilities. However, changes in the IIP are attributable not only to such financial transactions but also to market developments including those in exchange rates, interest rates, and stock prices. The following is an overview of the current and financial accounts

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<sup>1</sup> For example, developments in the BOP for 2013 and the IIP at year-end 2013 were released in "Japan's Balance of Payments for 2013" and "Japan's International Investment Position at Year-End 2013," respectively, under the *BOJ Reports & Research Papers* series.

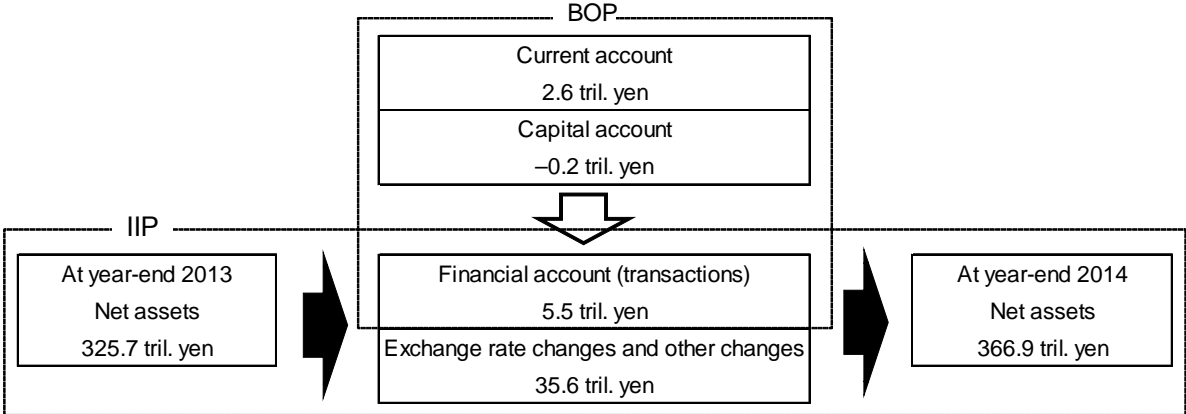
for 2014 and the IIP at year-end 2014 bearing these points in mind.<sup>2</sup>

First, the current account surplus decreased for the fourth consecutive year. The reason is that although (1) the deficit on services decreased, reflecting mainly the increase in the number of foreign visitors to Japan, and (2) the surplus on primary income such as portfolio investment income increased, mainly reflecting the yen's depreciation, (3) the deficit on goods increased.

Second, Japan's financial account balance turned from net borrowing to net lending, with net assets increasing mainly as a result of a shift to net purchases of foreign securities by Japanese investors and continuing large net acquisitions of foreign direct investment assets. However, the amount of net lending (size of the surplus) was relatively small compared to that registered up until 2011, reflecting the decrease in the current account surplus.

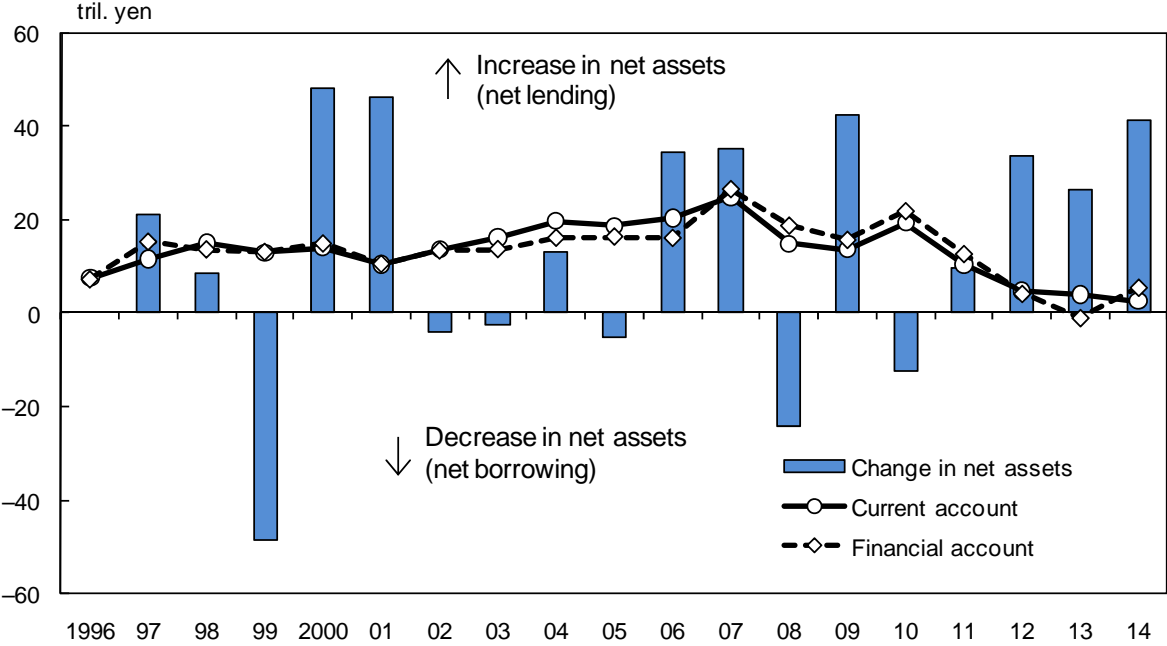
And third, net assets registered a record high since year-end 1996, from when comparable data are available, due to the financial account balance turning to net lending and the increase in the yen value of external assets reflecting the yen's depreciation.

**Figure 1: Japan's BOP for 2014 and IIP at Year-Ends 2013 and 2014**



<sup>2</sup> Notable features of the data for 2014 and at year-end 2014 are considered in several boxes, which provide some more details and background.

**Figure 2: Current and Financial Accounts and Changes in Net Assets**



**C. Structure of This Report**

This report consists of four sections. Following this introductory section, Sections 2 and 3 cover the current account and financial account, respectively, outlining the trends in these accounts and then describing developments by main component. Next, Section 4 presents an overview of the IIP, explains the changes by factor while taking into account developments in the financial account, and describes changes by component.<sup>3</sup>

<sup>3</sup> Unless otherwise stated, figures through 2013 or year-end 2013 are "historical data rearranged based on the *BPM6*," which are historical time series data consistent with the *BPM6*-based statistics. As figures in the tables of this report have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

### **Box 1. Overview of the *BPM6*-Based Statistics**

The IMF publishes the *Balance of Payments Manual*, the international guide for the compilation of BOP related statistics, to allow for international comparability. In Japan, BOP related statistics for transactions from 1996 through 2013 were compiled and disseminated based on the fifth edition of the *Balance of Payments Manual (BPM5)* published in 1993.

Given that a considerable amount of time had passed since the publication of *BPM5*, and in light of numerous changes affecting BOP related statistics, the IMF updated the manual and published *BPM6* in 2008, reflecting (1) growing interest as a result of a series of currency crises since the mid-1990s and other events in the use of balance sheet data to analyze economies' vulnerabilities (the so-called balance sheet approach); (2) concrete steps toward the revision of the System of National Accounts (SNA), bringing about the need to strengthen the consistency of macroeconomic statistics including BOP related statistics; and (3) the transformation of economic activities through globalization as well as the growing sophistication of financial transactions. Against this background, the Ministry of Finance and the Bank revised Japan's BOP related statistics and began to release *BPM6*-based statistics for transactions from January 2014 onward.<sup>4</sup>

*BPM6* has the following features reflecting the above developments that led to the update: (1) an emphasis on the international investment position and the statistics related to finance; (2) improved consistency with the SNA through the standardization of components and more detailed sectoral classifications; and (3) the development of data to properly grasp globalized company structures and production processes as well as sophisticated financial transactions. Specifically, the following changes have been made with the switch to the *BPM6*-based statistics.

#### **More detailed breakdowns of the international investment position and financial items**

In the *BPM5*-based BOP and IIP, "portfolio investment," "financial derivatives," and "other investment" were broken down into three sectors (public sector, banks, and other sectors). In the *BPM6*-based statistics, they are now broken down into five sectors (central bank; general government; deposit-taking corporations, except the central bank; other financial corporations; and others, which include nonfinancial corporations, households, and nonprofit institutions serving households [NPISHs]).

In the BOP, not only flow and positions data for direct investment but also "direct investment income" earned from direct investment is now compiled and disseminated broken down by region and industry.

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<sup>4</sup> For details, see "Revision of Balance of Payments Related Statistics in Japan" released on October 8, 2013, available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>).



In the IIP, a detailed breakdown for both assets and liabilities not only of securities under portfolio investment but also of other debt instruments, distinguishing by currency, sector, and maturity, is now compiled and disseminated.<sup>5</sup>

In the IIP, the coverage of financial derivatives is expanded to include swap positions.<sup>6</sup>

### **Changes in presentation to enhance consistency with the SNA in the BOP**

The "financial account" and "changes in reserve assets" in the *BPM5*-based statistics focused on financial inflows/outflows and showed inflows with a plus sign and outflows with a minus sign. The "financial account" in the *BPM6*-based statistics focuses on changes in assets and liabilities and shows increases in assets and liabilities with a plus sign and decreases with a minus sign (see Table 1 for Box 1).

**Table 1 for Box 1: Changes in Sign Conventions for the Financial Account**

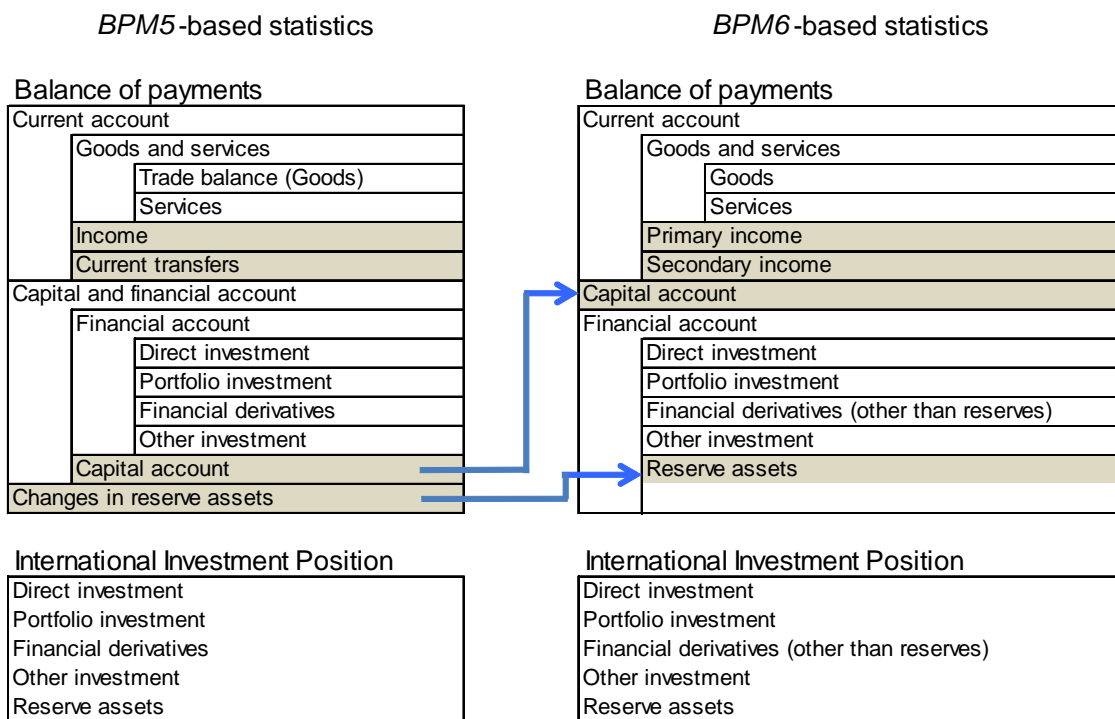
		Financial account and changes in reserve assets based on <i>BPM5</i>	Financial account based on <i>BPM6</i>
Assets	Financial outflows = increases in assets	–	+
	Financial inflows = decreases in assets	+	–
Liabilities	Financial inflows = increases in liabilities	+	+
	Financial outflows = decreases in liabilities	–	–

The components labeled "income" and "current transfers" in the *BPM5*-based statistics are respectively renamed "primary income" and "secondary income" in accordance with the SNA (see Figure 1 for Box 1). In addition, the "capital and financial account" and "changes in reserve assets" in the *BPM5*-based statistics are combined into the "financial account." The "capital account" is now separated from the "capital and financial account" and treated as a main account comparable to the "current account" and the "financial account."

<sup>5</sup> In the *BPM5*-based statistics, portfolio investment asset positions were disseminated by currency and type of securities.

<sup>6</sup> In the *BPM5*-based statistics, "financial derivatives" included positions in options and futures.

**Figure 1 for Box 1: Structure of the Accounts (Changes in Arrangements and Names of Main Components)**

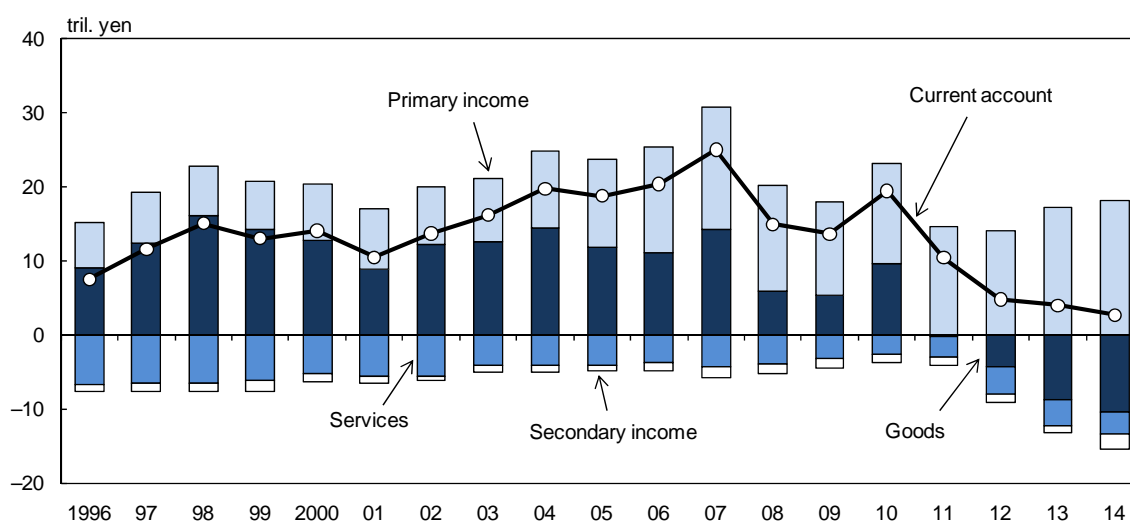


## II. Developments in the Current Account in 2014

### A. Summary

The deficit on goods increased because the increase in imports exceeded the increase in exports. By contrast, the deficit on services decreased mainly due to a decrease in the deficit on travel, while the primary income surplus increased, mainly because receipts of direct investment income and portfolio investment income increased. Meanwhile, the deficit on secondary income increased. As a result of these developments, the current account surplus decreased.

**Figure 3: Current Account**



### B. Developments in the Main Components

#### 1. Goods

Exports increased to 74.1 trillion yen in 2014 from 67.8 trillion yen in 2013 due to an increase in exports particularly to Asia as well as an increase in the yen value of exports reflecting the yen's depreciation.<sup>7</sup> Led by imports from Asia and concentrating on items such as electrical machinery, imports overall also increased, to 84.5 trillion yen in 2014 from 76.6 trillion yen in 2013, showing higher growth than exports. As a result, the deficit on goods increased to 10.4 trillion yen in 2014 from 8.8 trillion yen in 2013, reaching -- as in the previous year -- a new record high since 1996, from when comparable data are available.<sup>8</sup>

<sup>7</sup> On an annual average basis, the yen stood at 103.17 yen to the U.S. dollar, a depreciation of 9.3 percent compared to 2013, and at 139.04 yen to the euro, a depreciation of 11.7 percent compared to 2013. The exchange rates used in the conversion were determined in accordance with Article 35, item 2 of the ministerial ordinance concerning reports on foreign exchange transactions, etc.

<sup>8</sup> In this report, "rearranged data based on the *BPM6*," which are disseminated for data from January 1996 onward, are used for time-series comparisons.

Developments by region and by commodity are shown in Tables 1 and 2. Figures for both exports and imports are based on the *Trade Statistics of Japan*.<sup>9</sup>

**Table 1: Exports by Region and by Commodity**

tril. yen				
	2013	2014	y/y chg.	Contribution to overall export growth (% points)
Total exports	69.8	73.1	+3.3	+4.8
Asia	37.9	39.5	+1.7	+2.4
Of which: China	12.6	13.4	+0.8	+1.1
North America	13.8	14.5	+0.7	+1.0
EU	7.0	7.6	+0.6	+0.8
Central and South America	3.6	3.6	+0.0	+0.0
Others	7.6	7.9	+0.4	+0.5
Machinery	13.4	14.2	+0.9	+1.2
Electrical machinery	12.1	12.7	+0.6	+0.9
Transport equipment	16.3	16.9	+0.6	+0.8
Of which: Motor vehicles	10.4	10.9	+0.5	+0.7
Manufactured goods	9.2	9.5	+0.3	+0.4
Of which: Iron and steel products	3.8	4.0	+0.2	+0.2
Chemicals	7.5	7.8	+0.3	+0.4
Others	11.3	12.0	+0.7	+1.0

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

<sup>9</sup> While the *Trade Statistics of Japan* are the main data source for goods in Japan's BOP, the definitions of exports and imports of goods differ between the two statistics and certain adjustments are made to compile the BOP. The major differences are shown in the table below:

	<i>Trade Statistics of Japan</i>	Goods in the BOP
Valuation	Exports: FOB (Free on Board), i.e., the price of goods at the frontier of the exporting country is recorded. Imports: CIF (Cost, Insurance, and Freight), i.e., including insurance premiums and freight charges in addition to the price of goods.	Exports: FOB Imports: FOB
Coverage	Goods that have crossed Japan's customs frontier	Goods whose ownership has changed between residents and nonresidents. Returned goods are excluded.
Time of recording	Exports: When the ship or aircraft carrying the goods leaves the port Imports: When import of the goods is permitted	When ownership changes

**Table 2: Imports by Region and by Commodity**

tril. yen

	2013	2014	y/y chg.	Contribution to overall import growth (% points)
Total imports	81.2	85.9	+4.7	+5.7
Asia	36.0	38.6	+2.6	+3.3
North America	8.0	8.7	+0.7	+0.9
EU	7.6	8.2	+0.5	+0.6
Middle East	15.7	15.8	+0.2	+0.2
Others	14.0	14.6	+0.6	+0.7
Electrical machinery	10.3	11.5	+1.2	+1.5
Of which: Semiconductors etc.	2.4	2.9	+0.4	+0.5
Telecommunications apparatus	2.7	2.9	+0.2	+0.2
Machinery	6.0	6.8	+0.8	+1.0
Manufactured goods	6.2	7.0	+0.7	+0.9
Mineral fuels	27.4	27.7	+0.2	+0.3
Of which: Liquefied natural gas	7.1	7.9	+0.8	+1.0
Petroleum	14.2	13.9	-0.4	-0.5
Raw materials	5.4	5.6	+0.2	+0.3
Transport equipment	2.8	3.1	+0.3	+0.3
Of which: Aircraft	0.7	0.7	+0.0	+0.1
Motor vehicles	1.1	1.2	+0.1	+0.1
Others	23.1	24.3	+1.2	+1.4

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

## 2. Services

The deficit on services decreased to 3.1 trillion yen in 2014 from 3.5 trillion yen in 2013, mainly due to a decrease in the deficit on travel.

**Table 3: Services**

bil. yen

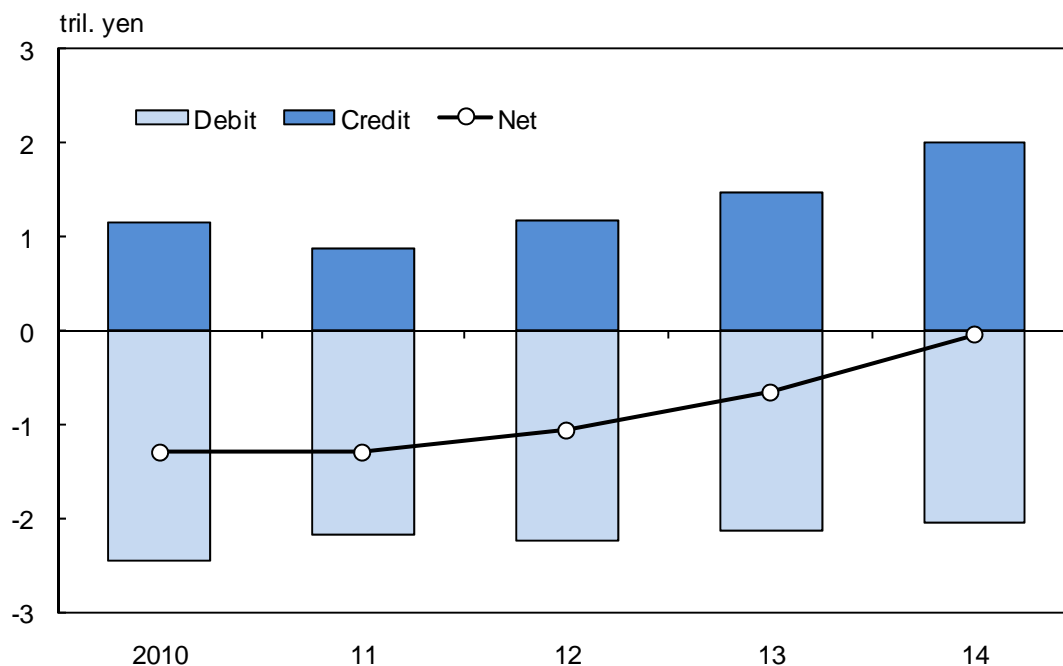
	2013	2014	y/y chg.	Major factors
Services	-3,478.6	-3,080.1	+398.6	—
Transport	-718.3	-667.7	+50.6	The deficit decreased due to a decrease in the deficit on air transport.
Of which: Sea transport	-134.7	-185.2	-50.4	
Air transport	-570.9	-475.0	+95.9	
Travel	-654.5	-44.1	+610.4	The deficit decreased reflecting an increase in receipts due to an increase in the number of foreign visitors to Japan. <sup>1</sup>
Credit	1,476.6	1,997.5	+520.9	
Debit	2,131.1	2,041.6	-89.5	
Other services	-2,105.8	-2,368.3	-262.5	The deficit increased due to an increase in the deficit on telecommunications, computer, and information services.
Credit	7,860.3	11,088.9	+3,228.7	
Debit	9,966.1	13,457.2	+3,491.1	
Of which: Telecommunications, computer, and information services	-355.3	-876.4	-521.2	The deficit increased due to an increase in payments for computer services.
Credit	264.4	337.5	+73.1	
Debit	619.7	1,213.9	+594.3	
Charges for the use of intellectual property n.i.e.	1,342.2	1,697.3	+355.0	The surplus increased as receipts in the transportation equipment and pharmaceuticals industries increased.
Credit	3,081.4	3,907.1	+825.7	
Debit	1,739.1	2,209.8	+470.7	

Note: 1. According to the Japan National Tourism Organization, the number of foreign visitors to Japan reached about 13.41 million in 2014, an increase of 29.4 percent from the previous year.

## Box 2. Developments in the Travel Balance

Developments in the travel balance contributed to the decrease in the deficit on services. Mainly due to an increase in receipts, the deficit on travel for 2014 decreased and registered a record low since 1996, from when comparable data are available (see Figure 1 for Box 2). On a monthly basis, travel recorded a surplus in April 2014 for the first time in 44 years, and continued to do so in May, July, October, November, and December.

Figure 1 for Box 2: Travel Balance

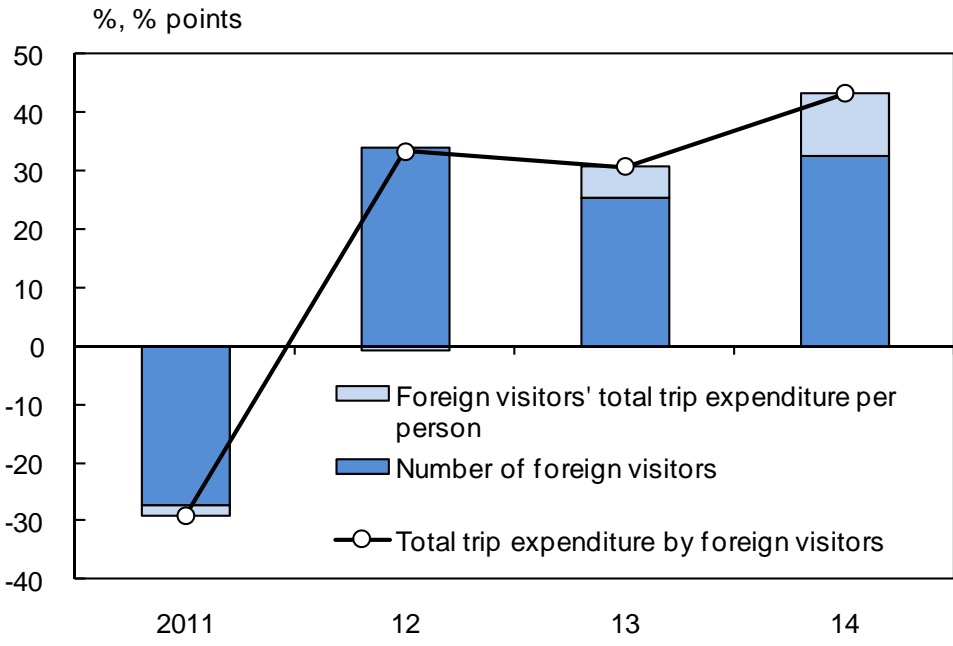


Receipts in travel include, for example, not only expenditures of travelers but also expenditures of international students, business travel expenditures (such as accommodation) of the host company for corporate guests, and medical expenses.<sup>10</sup> Decomposing the year-on-year change in the total trip expenditure by foreign visitors (available in the Japan Tourism Agency's *Consumption Trend Survey for Foreigners Visiting Japan*) in order to identify the reason for the significant increase in receipts in travel shows that both increases in the number of foreign visitors and in foreign visitors' total trip expenditure per person contributed to the increase in the total trip expenditure by foreign visitors (see Figure 2 for Box 2).<sup>11</sup> This is attributable to a number of factors such as the yen's depreciation, easing of visa issuance requirements for foreign visitors, and the expansion of consumption tax-free items.

<sup>10</sup> Expenditures of travelers are estimated using data on foreign visitors' total travel expenditure per person and the number of foreign visitors.

<sup>11</sup> The contribution of the number of foreign visitors is calculated by deducting the year-on-year change in foreign visitors' total trip expenditure per person from that in total trip expenditure by foreign visitors.

**Figure 2 for Box 2: Contribution to the Year-on-Year Change in Total Trip Expenditure by Foreign Visitors**



Source: The figures for foreign visitors' total trip expenditure per person and total trip expenditure by foreign visitors are from Japan Tourism Agency, *Consumption Trend Survey for Foreigners Visiting Japan*.<sup>12</sup>

<sup>12</sup> The survey is based on interviews conducted quarterly at air and sea ports (the current sample size is about 30,000 persons per year).



### 3. Primary income

The surpluses on both direct investment income and portfolio investment income increased, partly due to the increase in their yen value reflecting the yen's depreciation. Against this background, the surplus on primary income increased to 18.1 trillion yen in 2014 from 17.2 trillion yen in 2013, reaching -- as in the previous year -- a new record high since 1996, from when comparable data are available.

**Table 4: Primary Income**

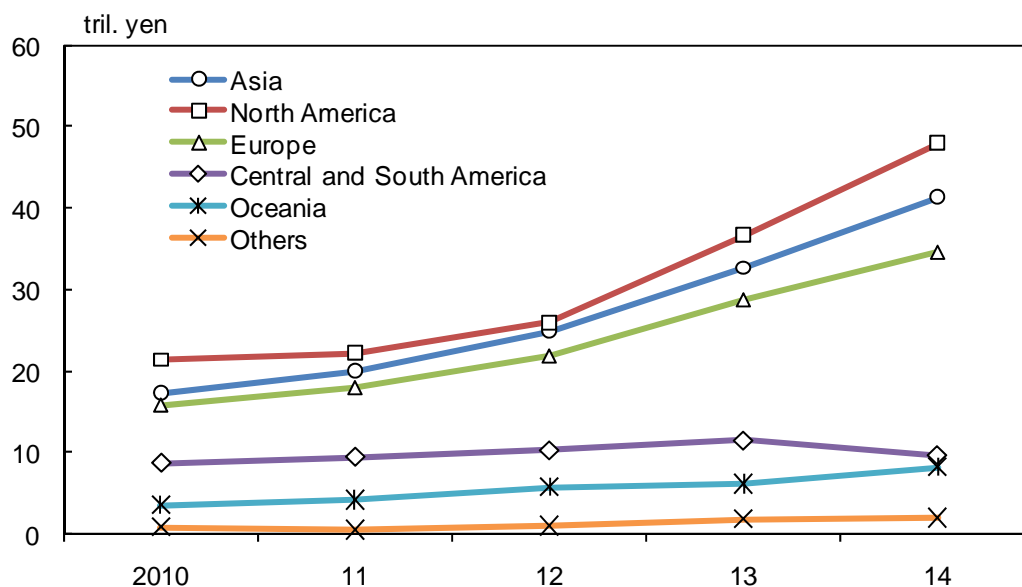
bil. yen

	2013	2014	y/y chg.	Major factors
Primary income	17,172.9	18,120.3	+947.4	—
Of which:				
Direct investment	6,084.2	6,547.7	+463.5	The surplus increased due to an increase in receipts of dividends and withdrawals from income of quasi-corporations.
Credit	7,720.1	8,301.9	+581.8	Total receipts increased because receipts of dividends and withdrawals from income of quasi-corporations increased, mainly reflecting the increase in the yen value of such receipts due to the yen's depreciation and the improvement in the business performance of the overseas subsidiaries of Japanese companies.
Of which: Dividends and withdrawals from income of quasi-corporations	4,780.0	5,612.0	+832.0	
Debit	1,635.9	1,754.2	+118.3	Total payments increased due to an increase in payments of dividends and withdrawals from income of quasi-corporations, mainly reflecting an improvement in the business performance of Japanese subsidiaries of foreign companies.
Of which: Dividends and withdrawals from income of quasi-corporations	1,207.9	1,350.4	+142.5	
Portfolio investment	10,517.9	10,989.6	+471.7	The surplus increased due to an increase in interest receipts.
Investment income on equity and investment fund shares	3,036.0	2,866.6	-169.3	The surplus decreased because of an increase in payments reflecting an increase in liabilities to foreign investors.
Credit	5,257.1	5,729.2	+472.1	
Debit	2,221.1	2,862.5	+641.4	
Interest	7,481.9	8,123.0	+641.1	The surplus increased because of an increase in receipts reflecting (1) the increase in the yen value of interest receipts due to the yen's depreciation and (2) the increase in Japanese-owned assets abroad.
Credit	8,512.3	9,403.3	+891.0	
Debit	1,030.4	1,280.4	+249.9	

### Box 3. Developments in Direct Investment Income Receipts by Region and Industry

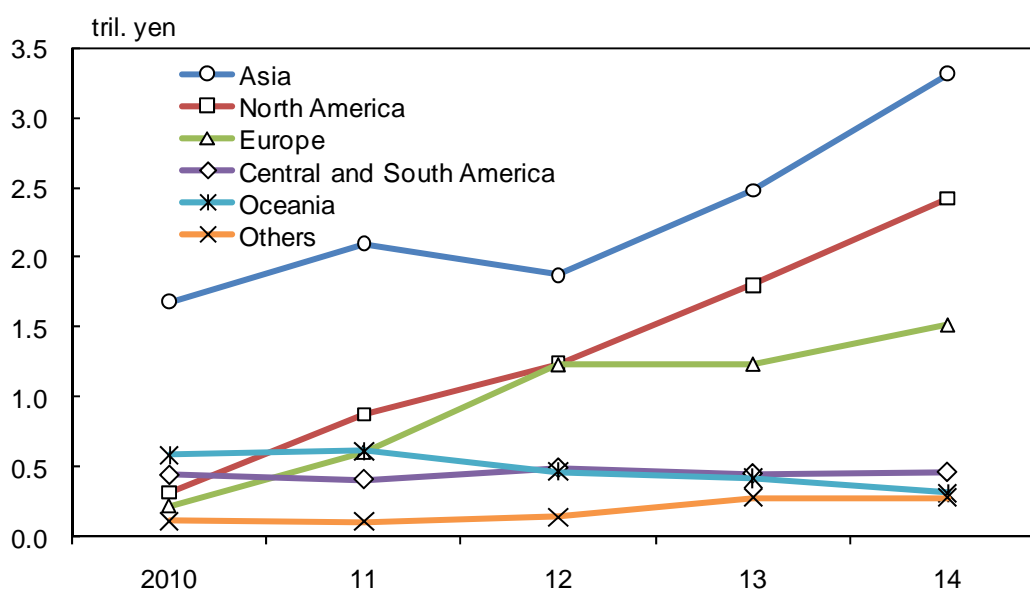
Japan's outward direct investment positions in Asia, North America, and Europe have been on an uptrend. However, while direct investment income receipts from Europe have been increasing at a relatively slow pace, those from Asia and North America have been increasing substantially (see Figures 1 and 2 for Box 3). This implies that the rates of return on outward direct investment may differ significantly by region.

**Figure 1 for Box 3: Outward Direct Investment Position by Region<sup>1</sup>**



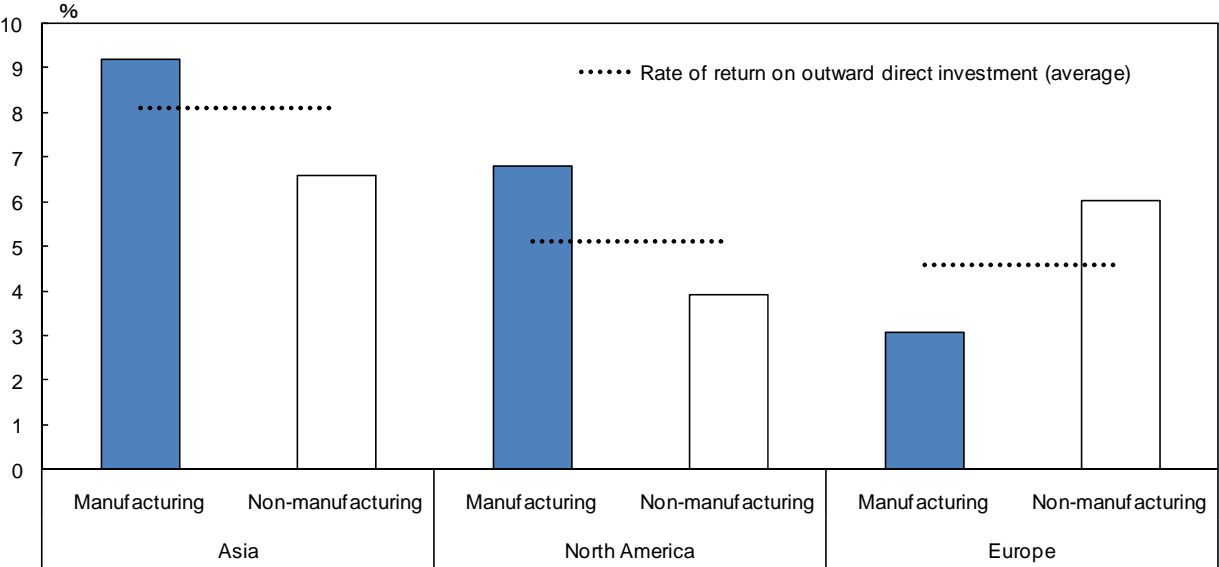
Note: 1. Figures through 2013 are based on *BPM5*. The same applies to the remainder of this box.

**Figure 2 for Box 3: Direct Investment Income Receipts by Region**



The following is a somewhat more detailed analysis of the differences in direct investment income by region, using data newly released in the *BPM6*-based statistics. While data for direct investment flows and positions by region and industry were already released in the *BPM5*-based statistics (in the BOP and IIP, respectively), with the switch to the *BPM6*-based statistics, data for direct investment income by region and industry are now also released. Using these data, the rates of return on direct investment by region and industry for 2014 can be calculated.<sup>13</sup> Looking at the rates of return on outward direct investment by sector in major regions, differences in the rate of return across regions are much more pronounced in manufacturing than in non-manufacturing, with the rate of return in manufacturing being higher in Asia and North America than in Europe (see Figure 3 for Box 3).

**Figure 3 for Box 3: Rate of Return on Outward Direct Investment by Region and Sector (as of 2014)<sup>1</sup>**



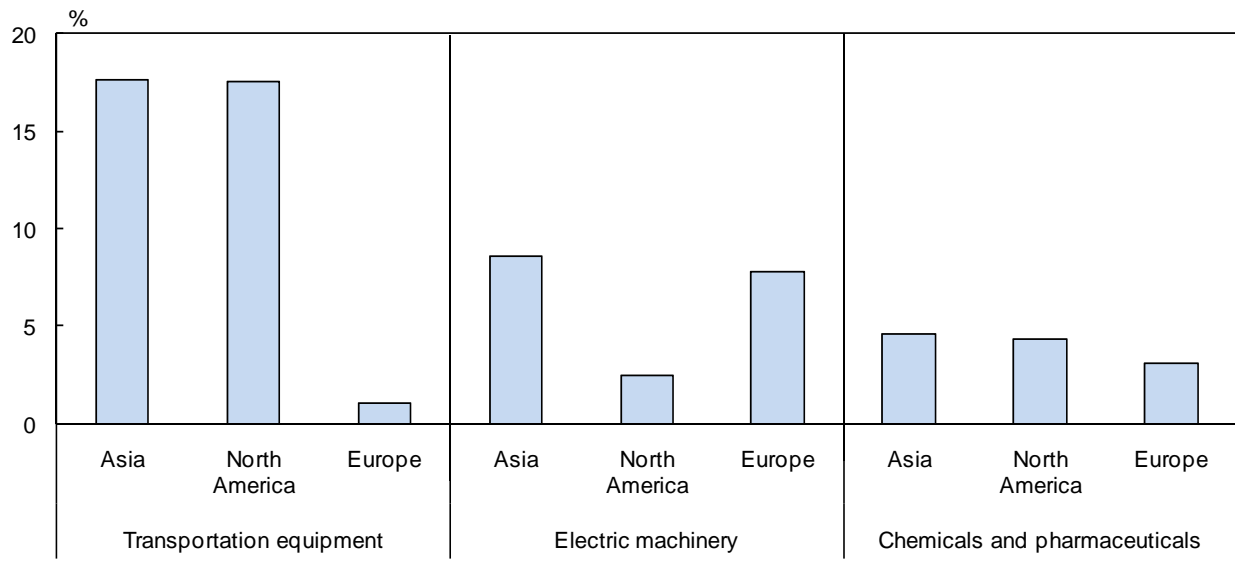
Note: 1. The rate of return on outward direct investment is calculated by dividing the annual direct investment income receipts by the outward direct investment position as of the end of the corresponding year. The same applies to the remainder of this box.

Focusing on the transportation equipment, electric machinery, and chemicals and pharmaceuticals industries, which account for substantial shares of outward direct investment, to examine the reasons for the regional difference in the rates of return in the manufacturing sector shows that the difference is particularly large in the transportation equipment industry (see Figure 4 for Box 3).<sup>14</sup>

<sup>13</sup> It should be noted that the rates of return on direct investment may fluctuate over the course of a year depending on individual companies' policies for dividend payments.

<sup>14</sup> The respective shares of the transportation equipment, electric machinery, and chemicals and pharmaceuticals in Japan's outward direct investment position in each of the regions are as follows: (1) 12.8, 11.1, and 8.1 percent in Asia; (2) 7.8, 7.3, and 9.7 percent in North America; and (3) 9.8, 7.7, and 10.0 percent in Europe.

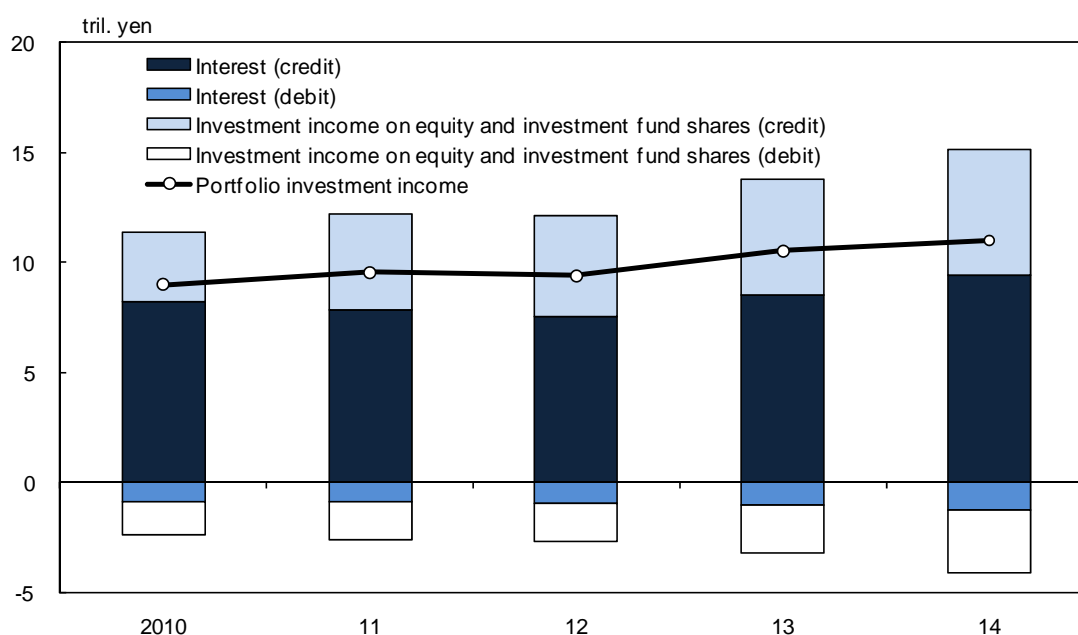
**Figure 4 for Box 3: Rate of Return on Outward Direct Investment in Major Industries in Asia, North America, and Europe (as of 2014)**



## Box 4. Relationship between Portfolio Investment Income Receipts and Portfolio Investment Assets

The surplus on portfolio investment income increased in 2014 due to an increase in the receipts of interest as well as investment income on equity and investment fund shares (see Figure 1 for Box 4). This box examines the link between portfolio investment income receipts and portfolio investment assets.

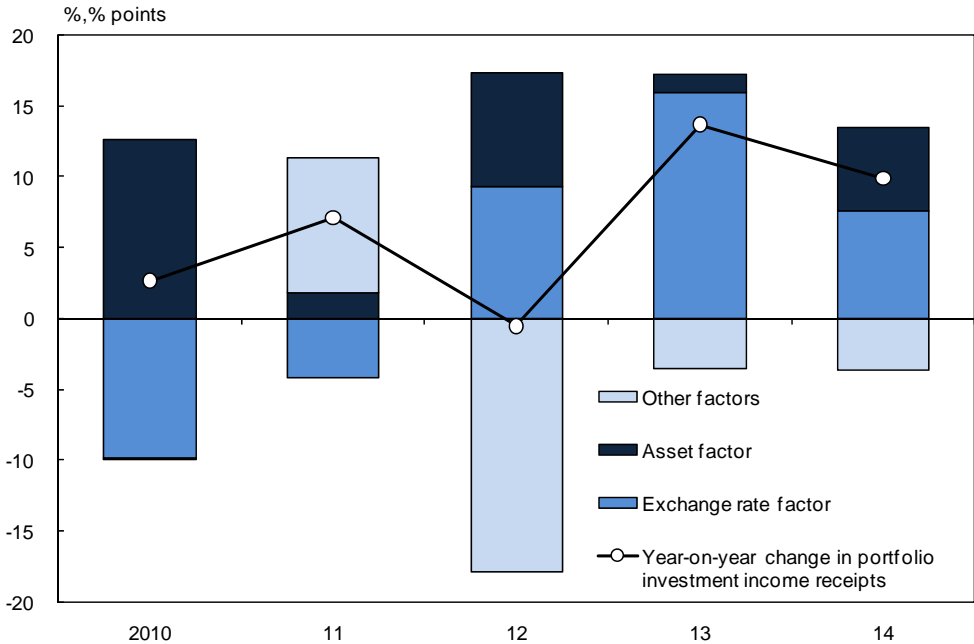
**Figure 1 for Box 4: Portfolio Investment Income**



Portfolio investment income receipts accrue from portfolio investment assets. Factors underlying changes in portfolio investment income receipts can be classified as follows: (1) changes in the amount of portfolio investment assets on an original currency basis (asset factor); (2) changes in exchange rates (exchange rate factor); and (3) other factors, which mainly include changes in interest rates and dividend payout ratios (other factors).

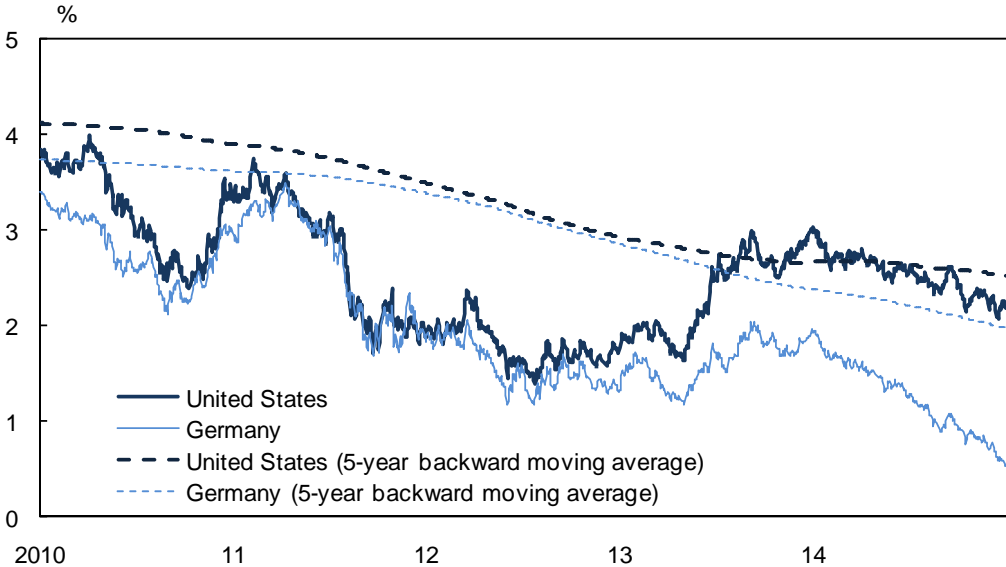
Looking at the factors contributing to the year-on-year change in portfolio investment income receipts in 2014, both the asset factor and the exchange rate factor made a positive contribution (see Figure 2 for Box 4). In other words, a major factor underlying the increase in portfolio investment income receipts in 2014 is the increase in portfolio investment assets on a yen basis (see Table 14 on page 31 for details). On the other hand, other factors made a slightly negative contribution. This is likely due to a decrease in interest income reflecting the decline in U.S. and European long-term interest rates as a result of the continuation or strengthening of monetary easing (see Figure 3 for Box 4).

**Figure 2 for Box 4: Contribution to the Year-on-Year Change in Portfolio Investment Income Receipts<sup>1</sup>**



Note: 1. The contribution of the different factors is calculated as follows: (1) the exchange rate factor is calculated as the share of changes in portfolio investment assets accounted for by exchange rate changes; (2) the asset factor is calculated as the share of changes in portfolio investment assets accounted for by changes other than exchange rate changes (for factors underlying changes in portfolio investment assets at year-end 2014, see Table 14 on page 31); and (3) other factors are calculated by subtracting the contribution of the exchange rate factor and the asset factor from the year-on-year change in portfolio investment income receipts. Other factors include changes in interest rates and dividend payout ratios.

**Figure 3 for Box 4: 10-Year Interest Rates**



Source: Bloomberg.

#### 4. Secondary income

The deficit on secondary income increased to 2.0 trillion yen in 2014 from 1.0 trillion yen in 2013, registering a record high since 1996, from when comparable data are available, mainly because the deficit in the "financial corporations, nonfinancial corporations, households, and NPISHs" sector increased.

**Table 5: Secondary Income**

bil. yen

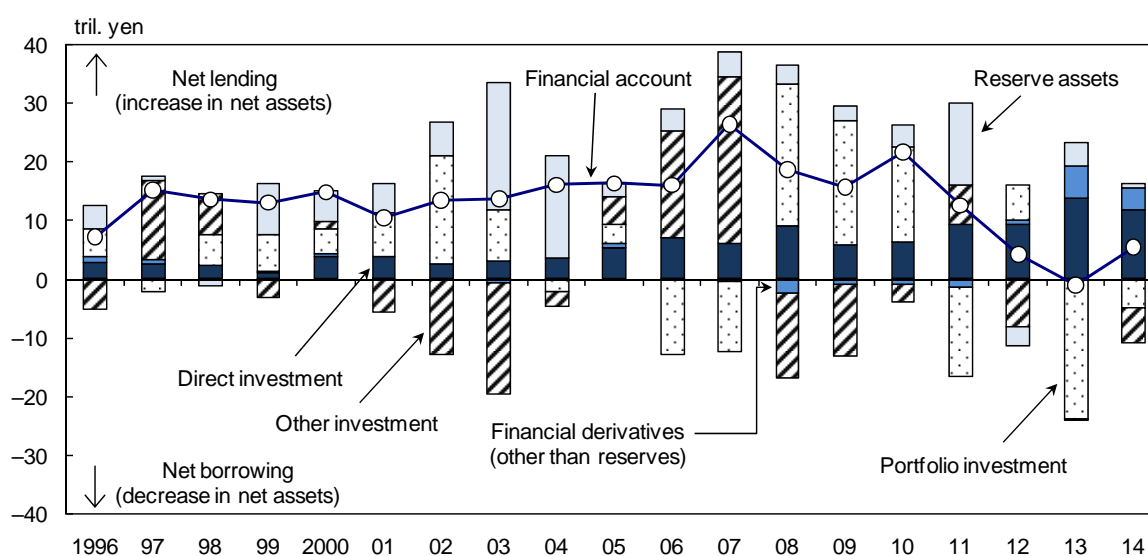
	2013	2014	y/y chg.	Major factors
Secondary income	-989.2	-1,992.9	-1,003.7	—
General government	-331.0	-520.0	-189.0	The deficit increased.
Financial corporations, nonfinancial corporations, households, and NPISHs	-658.2	-1,472.9	-814.7	The deficit increased due to an increase in payments of other current transfers.
Personal transfers (current transfers between resident and nonresident households)	-45.5	-46.0	-0.5	
Other current transfers	-612.7	-1,427.0	-814.2	

### III. Developments in the Financial Account in 2014<sup>15</sup>

#### A. Summary

Net direct investment continued to push up net assets, mainly because net acquisitions of direct investment assets continued. Net financial derivatives (other than reserves) also contributed to the increase in net assets. At the same time, net borrowing under net portfolio investment (which decreases net assets) shrank significantly, mainly reflecting that investment in foreign securities by Japanese investors shifted to net purchases. On the other hand, net borrowing under other investment increased. Reflecting these developments in the main categories, the balance on the financial account shifted to net lending.

**Figure 4: Financial Account**



<sup>15</sup> Figures for portfolio investment and other investment do not include securities lending transactions.

In the *BPM5*-based statistics, securities lending transactions were recorded under "portfolio investment," on the pretense that a change in ownership had occurred. The same amount was recorded as a corresponding entry under "other investment." Such transactions are no longer recorded in the *BPM6*-based statistics.

In the *BPM5*-based statistics, considering that the inclusion of securities lending transactions had made it difficult to grasp actual trends in these transactions because they were large in volume, figures excluding securities lending transactions were compiled and disseminated as reference data. These data are used in this report for figures through 2013.



## B. Developments in the Main Components

### 1. Direct investment

Net acquisitions of direct investment assets continued apace in 2014 and, after a record high of 14.4 trillion yen in 2013, with 12.8 trillion yen registered the second highest level since 1996, from when comparable data are available.

Net incurrence of direct investment liabilities increased, albeit slightly, to 1.0 trillion yen in 2014 from 0.7 trillion yen in 2013.

**Table 6: Direct Investment**

bil. yen

	2013	2014	y/y chg.	Major factors
Direct investment	13,721.0	11,813.4	-1,907.6	—
Assets	14,447.5	12,768.2	-1,679.3	Net acquisitions of assets continued led by investments in the food industry and the finance and insurance industry.
Liabilities	726.5	954.8	+228.3	Net incurrence of liabilities increased led by investments in the finance and insurance industry.

## Box 5. Developments in Direct Investment by Type of Investment

In the tables below, direct investment in equity capital from 2012 through 2014 is classified into six types of investment<sup>16</sup> (only large-value transactions of 10 billion yen or over are classified into (1), (2), (3), (4), or (5)). Japan's classification of direct investment by type of investment has been revised in line with the update of international standards.<sup>17</sup> To facilitate comparison, data based on *BPM5* have been retroactively revised as far back as possible and have been reclassified to the extent possible, based on the following classification:<sup>18</sup>

(1) M&A type transactions: investment for the acquisition of existing shares of ultimate investee enterprises;

(2) greenfield investment: investment for the new establishment of ultimate investee enterprises;

(3) underwriting of extension of capital for the expansion of business operations: investment for the extension of capital for the expansion of business operations of ultimate investee enterprises;

(4) investment for financial restructuring: investment for debt repayment or loss reduction;

(5) other investments: other investments including investment in corporate type investment trusts;

and

(6) investment of less than 10 billion yen.

Regarding direct investment assets, large-value M&A type transactions continued to account for a large share in 2014 (see Table 1 for Box 5). For direct investment liabilities, both large-value M&A type transactions and underwriting of the extension of capital increased significantly, while there continued to be no large-scale greenfield investments (see Table 2 for Box 5).

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<sup>16</sup> Investment here refers to gross investments in equity capital.

<sup>17</sup> The current classification of the types of investment is based on *BPM6* and the fourth edition of the *Benchmark Definition of Foreign Direct Investment* by the Organisation for Economic Co-operation and Development (OECD) published in 2008. The OECD publication provides practical guidelines for the compilation of direct investment statistics and recommends classifying foreign direct investment by type to facilitate analyses.

<sup>18</sup> For details of the previous classification of the types of investment, see "Japan's Balance of Payments for 2005" released on August 18, 2006, available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

**Table 1 for Box 5: Direct Investment Assets by Type of Investment on a Gross Value Basis**

bil. yen

	(1) M&A type transactions	(2) Greenfield investment	(3) Underwriting of extension of capital for the expansion of business operations	(4) Investment for financial restructuring	(5) Other investments	(6) Investment of less than 10 billion yen
2012	2,224.6	65.2	1,795.0	524.1	64.1	5,110.7
2013	4,750.3	143.4	2,411.4	435.2	273.8	4,477.5
2014	3,995.9	81.9	1,338.1	495.2	77.2	6,313.9

**Table 2 for Box 5: Direct Investment Liabilities by Type of Investment on a Gross Value Basis**

bil. yen

	(1) M&A type transactions	(2) Greenfield investment	(3) Underwriting of extension of capital for the expansion of business operations	(4) Investment for financial restructuring	(5) Other investments	(6) Investment of less than 10 billion yen
2012	277.3	–	187.7	270.5	35.5	1,202.7
2013	165.8	–	63.8	276.6	68.2	922.0
2014	656.9	–	351.1	345.3	29.5	2,808.7

## 2. Portfolio investment<sup>19</sup>

### a. Portfolio investment assets

Investment in foreign securities by Japanese investors shifted to net purchases of 12.1 trillion yen in 2014 from net sales of 6.1 trillion yen in 2013, mainly because investment in foreign equity and investment fund shares shifted to net purchases, and net purchases of foreign long-term debt securities increased.

Investment in foreign equity and investment fund shares shifted to net purchases of 6.6 trillion yen in 2014 from net sales of 6.6 trillion yen in 2013. This was mainly because investment by banks and trust banks via their trust accounts, which includes investment by public and private pension funds, as well as investment by investment trust management companies shifted to net purchases. By region, investment in Central and South American securities in particular and investment in Asian and European securities shifted to net purchases.

**Table 7: Investment in Equity and Investment Fund Shares (Assets)**

bil. yen

	2012	2013	2014	y/y chg.
Investment in equity and investment fund shares (assets)	-2,135.1	-6,616.1	6,582.0	+13,198.1
Of which: Trust accounts <sup>1</sup>	-660.8	-4,583.8	1,702.8	+6,286.5
Investment trust management companies	-1,468.4	-1,160.2	4,884.3	+6,044.5
Asia	-171.1	-569.6	1,256.6	+1,826.1
North America	-1,251.8	-4,235.6	-675.6	+3,560.0
Of which: U.S.A.	-1,147.6	-3,967.8	-696.5	+3,271.3
Europe	-550.1	-1,362.3	517.0	+1,879.3
Of which: U.K.	-275.4	-642.1	-182.2	+459.9
France	-106.4	-214.5	-178.7	+35.7
Central and South America	-91.2	-68.8	5,153.5	+5,222.3
Of which: Cayman Islands	-80.9	85.5	4,858.0	+4,772.5
Others	-71.1	-379.9	330.4	+710.3

Note: 1. Trust accounts of banks and trust banks.

<sup>19</sup> Open-ended contract-type investment funds were recorded as "long-term debt securities" through 2013 but are recorded as "equity and investment fund shares" from 2014 onward. This also applies to the IIP.

Net purchases of foreign long-term debt securities increased to 4.4 trillion yen in 2014 from 0.3 trillion yen in 2013, mainly due to an increase in net purchases by life and non-life insurance companies. By region, investment in North American securities shifted to net purchases of 3.2 trillion yen.

**Table 8: Investment in Long-Term Debt Securities (Assets)**

bil. yen

	2012	2013	2014	y/y chg.
Investment in long-term debt securities (assets)	17,048.4	318.5	4,441.1	+4,122.6
Of which: Life and non-life insurance companies	3,850.3	994.4	3,883.1	+2,888.7
Deposit-taking corporations, except the central bank <sup>1</sup>	8,813.2	-2,380.0	-3,433.7	-1,053.7
Asia	660.6	533.6	855.5	+321.9
North America	2,938.1	-1,547.5	3,151.8	+4,699.3
Of which: U.S.A.	2,839.1	-1,679.2	2,714.2	+4,393.4
Central and South America	3,684.5	2,259.4	1,788.6	-470.8
Of which: Cayman Islands	3,082.4	2,081.1	1,685.1	-396.0
Oceania	490.4	-785.0	674.6	+1,459.6
Europe	7,890.5	2,062.5	-1,032.9	-3,095.3
Of which: Germany	532.4	874.7	-3,553.8	-4,428.5
Netherlands	2,099.5	935.5	-614.1	-1,549.6
France	5,068.2	1,919.4	2,791.2	+871.8
U.K.	-951.0	-316.7	192.9	+509.7
Italy	-453.3	-60.2	431.5	+491.7
Others	1,384.3	-2,204.4	-996.5	+1,207.9

Note: 1. Banking accounts of banks and trust banks.

## b. Portfolio investment liabilities

Net purchases of Japanese securities by foreign investors continued as investment in Japanese long-term debt securities shifted to net purchases, slightly decreasing to 17.1 trillion yen in 2014 from 17.9 trillion yen in 2013.<sup>20</sup>

Net purchases of Japanese equity and investment fund shares decreased to 3.8 trillion yen in 2014 from 17.0 trillion yen in 2013, mainly due to a decrease in investment from Europe, North America, and Asia.

**Table 9: Investment in Equity and Investment Fund Shares (Liabilities)**

bil. yen

	2012	2013	2014	y/y chg.
Investment in equity and investment fund shares (liabilities)	2,351.2	17,035.0	3,769.4	-13,265.6
Asia	236.5	3,849.0	750.6	-3,098.5
Of which: Hong Kong	70.9	3,498.2	803.4	-2,694.7
Singapore	177.2	353.3	-38.0	-391.3
North America	374.8	5,234.7	274.5	-4,960.2
Of which: U.S.A.	384.1	5,238.1	276.4	-4,961.7
Europe	1,738.8	8,020.8	2,771.1	-5,249.7
Of which: U.K.	1,112.3	6,672.2	2,064.0	-4,608.2
France	736.9	1,450.0	757.4	-692.6
Others	1.1	-69.5	-26.7	+42.8

<sup>20</sup> The regional classification of portfolio investment liabilities is based on the location of the counterparty to the transaction, not the location of the ultimate investor. For example, an investment in Japanese securities by a French investor through a securities company in the United Kingdom would be recorded as an investment from the United Kingdom, not from France. As a result, countries with large financial markets such as the United Kingdom and the United States tend to account for a large amount of investment.

Investment in Japanese long-term debt securities shifted to net purchases of 12.3 trillion yen in 2014 -- a record high since 1996, from when comparable data are available -- from net sales of 1.4 trillion yen in 2013, mainly because net purchases by European investors increased and investment by Asian investors shifted to net purchases.

**Table 10: Investment in Long-Term Debt Securities (Liabilities)**

bil. yen

	2012	2013	2014	y/y chg.
Investment in long-term debt securities (liabilities)	2,719.5	-1,416.1	12,277.0	+13,693.1
Asia	-199.8	-2,084.1	1,465.6	+3,549.6
Of which: P.R. China	373.5	-2,376.6	768.1	+3,144.7
Singapore	-617.1	538.6	240.8	-297.8
North America	1,502.9	1,782.4	2,846.2	+1,063.8
Of which: U.S.A.	1,473.0	1,761.6	2,805.5	+1,044.0
Europe	2,343.2	189.3	8,454.2	+8,264.9
Of which: U.K.	2,959.5	373.6	7,673.5	+7,299.9
France	-255.9	-486.5	119.2	+605.7
Belgium	196.9	272.1	594.2	+322.1
Luxembourg	-239.2	-214.6	105.6	+320.1
Middle East	-536.1	-625.6	-226.2	+399.4
Of which: Iran	-312.0	-303.0	-75.0	+228.0
Saudi Arabia	-186.7	-307.1	-139.2	+167.9
Others	-390.6	-678.2	-262.8	+415.3

Net purchases of Japanese short-term debt securities continued, decreasing to 1.0 trillion yen in 2014 from 2.2 trillion yen in 2013.

**Table 11: Investment in Short-Term Debt Securities (Liabilities)**

bil. yen

	2012	2013	2014	y/y chg.
Investment in short-term debt securities (liabilities)	3,510.0	2,245.1	1,025.5	-1,219.6
Asia	-11,069.8	-5,440.0	-9,525.0	-4,084.9
Of which: Singapore	-5,800.4	-4,242.1	-5,251.9	-1,009.8
Hong Kong	-2,111.4	-1,077.1	-1,262.8	-185.7
North America	-6,935.4	-250.1	-47.7	+202.4
Of which: U.S.A.	-6,595.4	-247.3	195.1	+442.4
Europe	39,679.6	30,561.6	41,530.4	+10,968.8
Of which: U.K.	75,792.4	73,436.1	98,308.2	+24,872.1
France	-15,143.1	-11,981.6	-3,275.1	+8,706.4
Luxembourg	-18,057.6	-26,065.8	-44,408.5	-18,342.7
Middle East	-6,377.0	-9,062.4	-12,867.7	-3,805.3
Of which: U.A.E.	-5,395.0	-7,529.8	-10,869.3	-3,339.4
International organizations	-8,468.4	-8,264.7	-11,802.1	-3,537.4
Others	-3,319.0	-5,299.3	-6,262.5	-963.2

### 3. Financial derivatives (other than reserves)

Net payments associated with financial derivatives (other than reserves) -- which contribute to an increase in net assets -- continued in 2014 and, following the record high of 5.6 trillion yen in 2013, with 3.6 trillion yen registered the second highest level since 1996, from when comparable data are available. This was because residents who had entered into yen-U.S. dollar swap arrangements on the yen-payments side paid supplementary principal reflecting the yen's depreciating trend.

### 4. Other investment

Net borrowing under other investment increased to 5.9 trillion yen in 2014 from 0.1 trillion yen in 2013, mainly due to an increase in funds provided to Japan through interoffice accounts.



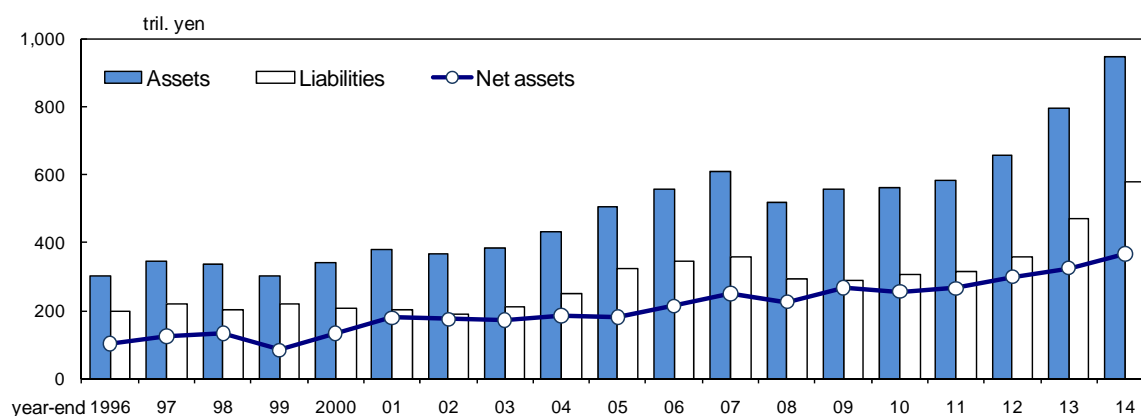
## IV. Developments in Japan's IIP at Year-End 2014<sup>21</sup>

### A. Summary

Japan's external financial assets increased in 2014 mainly due to an increase in the yen value of external assets reflecting the yen's depreciation from the previous year-end. Japan's external liabilities also increased in 2014, mainly due to net acquisitions of Japanese financial instruments by foreign investors and a rise in Japanese equity prices. Japan's net asset position increased in 2014 as the increase in assets exceeded that in liabilities. Net assets stood at 366.9 trillion yen at year-end 2014, up from 325.7 trillion yen at year-end 2013.

The assets, liabilities, and net assets at year-end 2014 registered all record highs since year-end 1996, from when comparable data are available.<sup>22</sup>

**Figure 5: IIP**



**Table 12: Categories of the IIP at Year-End 2014**

	Assets		Liabilities	
	tril. yen	%	tril. yen	%
Direct investment	143.9	+24.6	23.3	+19.4
Portfolio investment	410.1	+48.8	285.2	+13.2
Financial derivatives (other than reserves)	56.3	+48.1	59.2	+50.5
Other investment	183.9	+8.5	210.7	+9.9
Reserve assets	151.1	+17.6	—	—

<sup>21</sup> Figures for portfolio investment and other investment in the IIP exclude securities lending transactions.

<sup>22</sup> For the "historical data rearranged based on the BPM6," the way that figures at year-end 2013 are rearranged partly differs from that for figures through year-end 2012 to improve consistency with figures at year-end 2014.

## B. Major Features of Japan's IIP at Year-End 2014

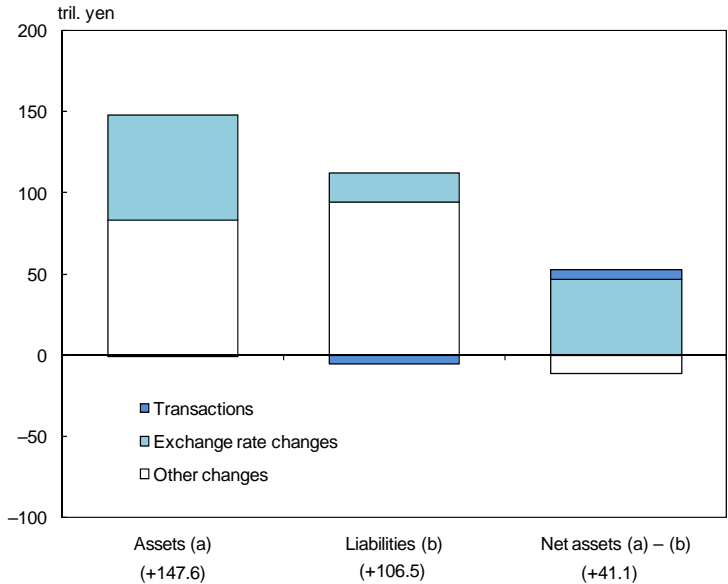
### 1. By factor

Japan's external financial assets and liabilities increased by 147.6 trillion yen and 106.5 trillion yen, respectively, in 2014. As a result, Japan's net asset position increased by 41.1 trillion yen in 2014. These changes are attributable to the following three factors: (1) "transactions," which indicate changes in assets and liabilities as a result of transactions between residents and nonresidents (this factor is equivalent to the balance on the financial account recorded in the BOP for the year); (2) "exchange rate changes," which indicate changes in the yen value of assets and liabilities resulting from fluctuations in exchange rates; and (3) "other changes," which comprise factors other than the two described above such as changes in the value of assets and liabilities resulting from fluctuations in stock prices. Figure 6 shows the changes by factor for year-end 2014.

On both the asset and liability sides, "exchange rate changes" pushed up the positions, raising their yen value reflecting the yen's depreciation against major currencies such as the U.S. dollar. Moreover, "exchange rate changes" pushed up net assets because assets denominated in foreign currencies exceeded liabilities denominated in these currencies.

However, as shown in Figure 6, "other changes" account for the largest part of changes in assets and liabilities. This is because the compilation method for financial derivatives (other than reserves) differs from that for other components. In addition, "other changes" in 2014 are also affected by the expansion of the financial derivatives position to include swap positions from year-end 2014. For notes on factors underlying changes in financial derivatives (other than reserves), see Box 6.

**Figure 6: Factors Underlying Changes in the IIP for Year-End 2014**



**Table 13: Yen Exchange Rates at Year-End**

	2011	2012	2013	2014
USD-JPY <sup>1</sup>	77.57	86.32	105.37	119.80
EUR-JPY <sup>2</sup>	100.38	113.86	145.31	145.44

Notes: 1. Refers to the U.S. dollar in terms of yen. Mid-rates based on offer and bid rates quoted by interbank market participants in the Tokyo market as of 5 p.m. JST.

2. Refers to the euro in terms of yen, calculated using the USD-JPY rates shown above and the EUR-USD rates released by the European Central Bank (ECB) as of 2:15 p.m. CET.

Sources: Bank of Japan; ECB.

**Table 14: Factors Underlying Changes in Assets and Liabilities****Assets**

tril. yen

	Year-end 2013	Year-end 2014	y/y chg.	Transactions	Exchange rate changes	Other changes
Total	797.7	945.3	+147.6	-0.2	+64.4	+83.4
Direct investment	119.3	143.9	+24.6	+12.8	+10.3	+1.5
Portfolio investment	361.3	410.1	+48.8	+12.1	+27.2	+9.4
Equity and investment fund shares	126.2	143.7	+17.4	+6.6	+9.5	+1.4
Debt securities	235.0	266.4	+31.4	+5.5	+17.8	+8.1
Long-term	230.3	260.9	+30.6	+4.4	+17.4	+8.7
Short-term	4.8	5.5	+0.8	+1.1	+0.3	-0.7
Financial derivatives (other than reserves)	8.2	56.3	+48.1	-37.7	+0.0	+85.8
Other investment	175.4	183.9	+8.5	+11.7	+11.3	-14.5
Of which: Loans	115.1	130.0	+15.0	+9.5	+8.0	-2.5
Reserve assets	133.5	151.1	+17.6	+0.9	+15.5	+1.1

**Liabilities**

tril. yen

	Year-end 2013	Year-end 2014	y/y chg.	Transactions	Exchange rate changes	Other changes
Total	472.0	578.4	+106.5	-5.7	+17.5	+94.6
Direct investment	19.6	23.3	+3.8	+1.0	+0.1	+2.8
Portfolio investment	252.0	285.2	+33.2	+17.1	+1.4	+14.7
Equity and investment fund shares	152.3	169.1	+16.8	+3.8	+0.0	+13.0
Debt securities	99.7	116.1	+16.4	+13.3	+1.4	+1.7
Long-term	50.2	64.6	+14.4	+12.3	+1.4	+0.8
Short-term	49.5	51.5	+2.0	+1.0	+0.1	+0.9
Financial derivatives (other than reserves)	8.7	59.2	+50.5	-41.3	—	+91.9
Other investment	191.7	210.7	+18.9	+17.6	+16.0	-14.7
Of which: Loans	134.3	156.7	+22.4	+12.5	+11.2	-1.2

## **Box 6. Notes on Factors Underlying Changes in Financial Derivatives (Other than Reserves)**

### **1. Compilation method for swap transactions in the IIP<sup>23</sup>**

In the IIP, positions in swap transactions are recorded in terms of the value of a swap contract at market prices, not in terms of the notional amount of principal involved. Specifically, if the value of a contract at market prices is positive, it is recorded as an asset, and if it is negative, it is recorded as a liability.<sup>24</sup> However, given that swap transactions do not involve a transfer of funds at the time a contract is entered,<sup>25</sup> such transactions are not recorded as flows of funds at that time; rather, they are recorded as a decrease in assets or liabilities (transactions) at the time a position held as an asset or a liability is settled.<sup>26</sup>

Meanwhile, the BOP does not record changes in the market value of swap contracts; it records payments and receipts when swap transactions are settled.

### **2. Example of how swap transactions are recorded**

The following provides an example of how swap transactions are recorded. A resident who did not hold any swap positions at the end of the previous year enters into a swap contract this year. The resident holds a position with a market value of 20 at the end of June (which is recorded on the asset side of the investment position) and settles the position in July and receives his/her funds (which are recorded on the asset side of investment flows).<sup>27</sup> The position at the end of this year returns to zero, because the position held is resolved. In this case, the year-on-year change in the investment position is zero, transactions are -20, and other changes are +20 (see Table 1 for Box 6).

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<sup>23</sup> In the BOP and IIP, transactions and positions in financial derivatives (other than reserves) and in underlying assets are recorded separately. Specifically, transactions and positions in financial derivatives (other than reserves) include, for example, options trading, swap transactions, forward and futures trading, and stock options. This box focuses on positions in swap transactions, which started to be compiled from year-end 2014.

<sup>24</sup> Regarding options trading, the market value of a long position is recorded as an asset, while the market value of a short position is recorded as a liability. Moreover, residents' holdings of stock options issued by nonresidents are recorded as assets, while nonresidents' holdings of stock options issued by residents are recorded as liabilities.

<sup>25</sup> However, swap transactions may involve payments or receipts of cash collateral or margins associated with the transactions.

<sup>26</sup> On the other hand, portfolio investment transactions, for example, are recorded as increases or decreases in assets or liabilities (transactions) when assets or liabilities are acquired or disposed.

<sup>27</sup> The corresponding entry for financial derivatives may consist of, for example, an increase in currency and deposits under other investment.

**Table 1 for Box 6: Example of How Swap Transactions Are Recorded**

Example: a swap transaction for which a contract is entered by a resident with a nonresident in June; the contract has a market value of 20 at the end of June and is settled in July.

**A. Investment Flows and Position**

	Investment Flows	
	Assets	Liabilities
June	0	0
July	-20	0

	Investment position	
	Assets	Liabilities
Previous year-end	0	0
End-June	20	0
End-July	0	0
This year-end	0	0

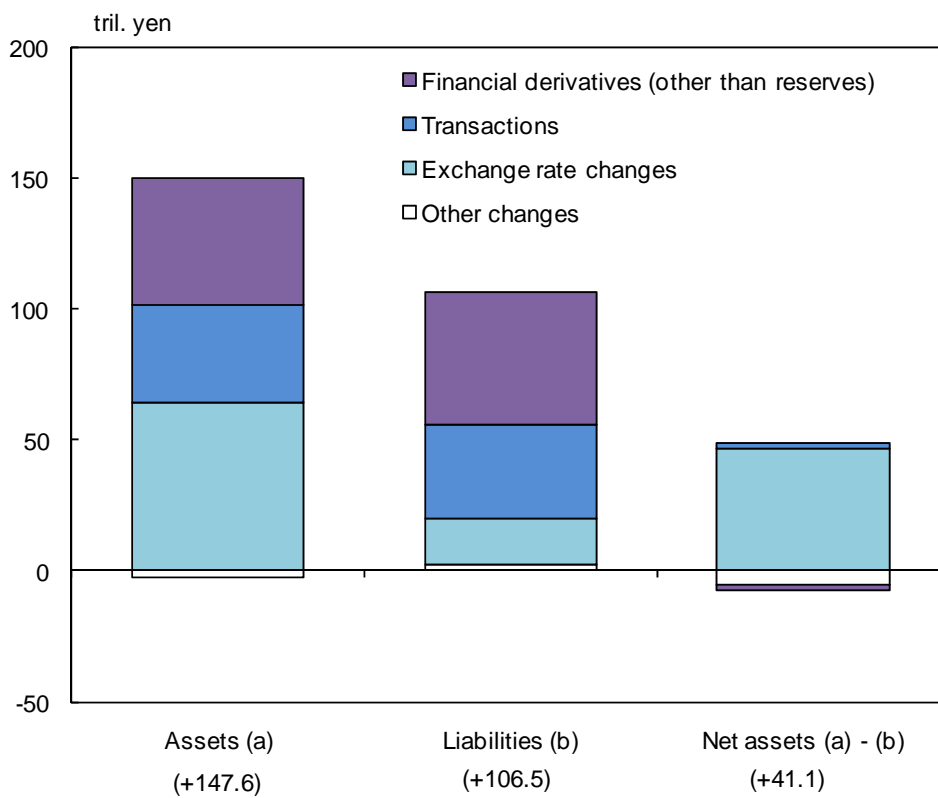
**B. Factors Underlying Changes in the Investment Position**

Previous year-end	This year-end	y/y chg.			
			Transactions	Exchange rate changes	Other changes
0	0	0	-20	0	+20

**3. Factors underlying changes in the investment position excluding financial derivatives (other than reserves)**

As noted earlier in this box, the compilation method for factors underlying changes in financial derivatives (other than reserves) -- including swap transactions that do not involve a transfer of funds at the time a contract is entered -- differs from that for other components. It is therefore necessary to pay attention to the impact on "transactions" and "other changes" when analyzing the factors underlying changes. Furthermore, the investment position in financial derivatives (other than reserves) at year-end 2014 includes swap positions, which started to be recorded from year-end 2014 with the switch to the *BPM6*-based statistics. Examining factors underlying changes in the investment position at year-end 2014 excluding the financial derivatives (other than reserves) position in order to identify trends shows that transactions such as direct investment, portfolio investment, and loans, together with exchange rate changes (as noted on page 30) all contributed to the increase in both assets and liabilities (see Figure 1 for Box 6).

**Figure 1 for Box 6: Factors Underlying Changes in the IIP Excluding Financial Derivatives  
(Other than Reserves)**



## 2. By component

On the asset side, Japanese holdings of "debt securities" increased by 31.4 trillion yen from year-end 2013, reflecting the increase in their yen value due to the yen's depreciation. In addition, "direct investment" assets increased by 24.6 trillion yen as a result of net acquisitions by Japanese investors.

On the liability side, "loans" increased by 22.4 trillion yen from year-end 2013, reflecting the provision of funds to Japan through interoffice accounts. Foreign holdings of "equity and investment fund shares" increased by 16.8 trillion yen due to the rise in Japanese equity prices. In addition, foreign holdings of "debt securities" increased by 16.4 trillion yen, reflecting the fact that investment in long-term debt securities by foreign investors shifted to net purchases.

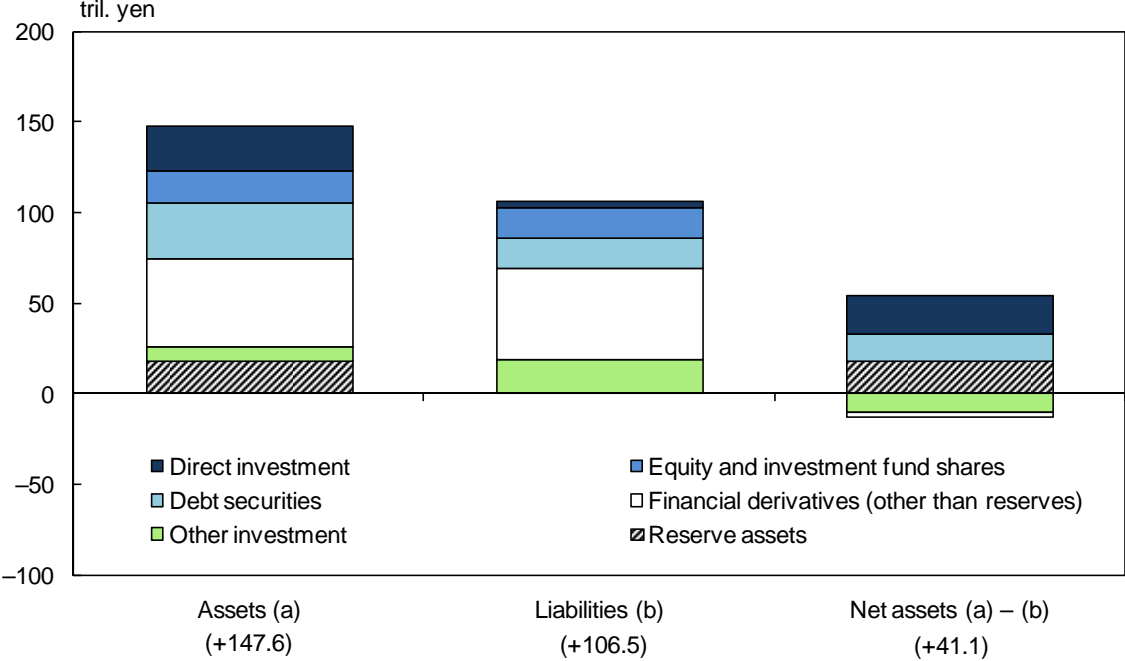
Meanwhile, "financial derivatives (other than reserves)" increased on both the asset and liability sides, since with the switch to *BPM6* they now include swap positions.

**Table 15: IIP by Component at Year-End 2014**

tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Total	945.3	+147.6	578.4	+106.5	366.9	+41.1
Direct investment	143.9	+24.6	23.3	+3.8	120.6	+20.8
Portfolio investment	410.1	+48.8	285.2	+33.2	124.8	+15.6
Equity and investment fund shares	143.7	+17.4	169.1	+16.8	-25.5	+0.6
Debt securities	266.4	+31.4	116.1	+16.4	150.3	+15.0
Long-term	260.9	+30.6	64.6	+14.4	196.3	+16.2
Short-term	5.5	+0.8	51.5	+2.0	-45.9	-1.2
Financial derivatives (other than reserves)	56.3	+48.1	59.2	+50.5	-2.8	-2.4
Other investment	183.9	+8.5	210.7	+18.9	-26.8	-10.5
Of which: Loans	130.0	+15.0	156.7	+22.4	-26.7	-7.5
Reserve assets	151.1	+17.6	—	—	151.1	+17.6

**Figure 7: Contribution to Year-on-Year Changes in the IIP by Component**



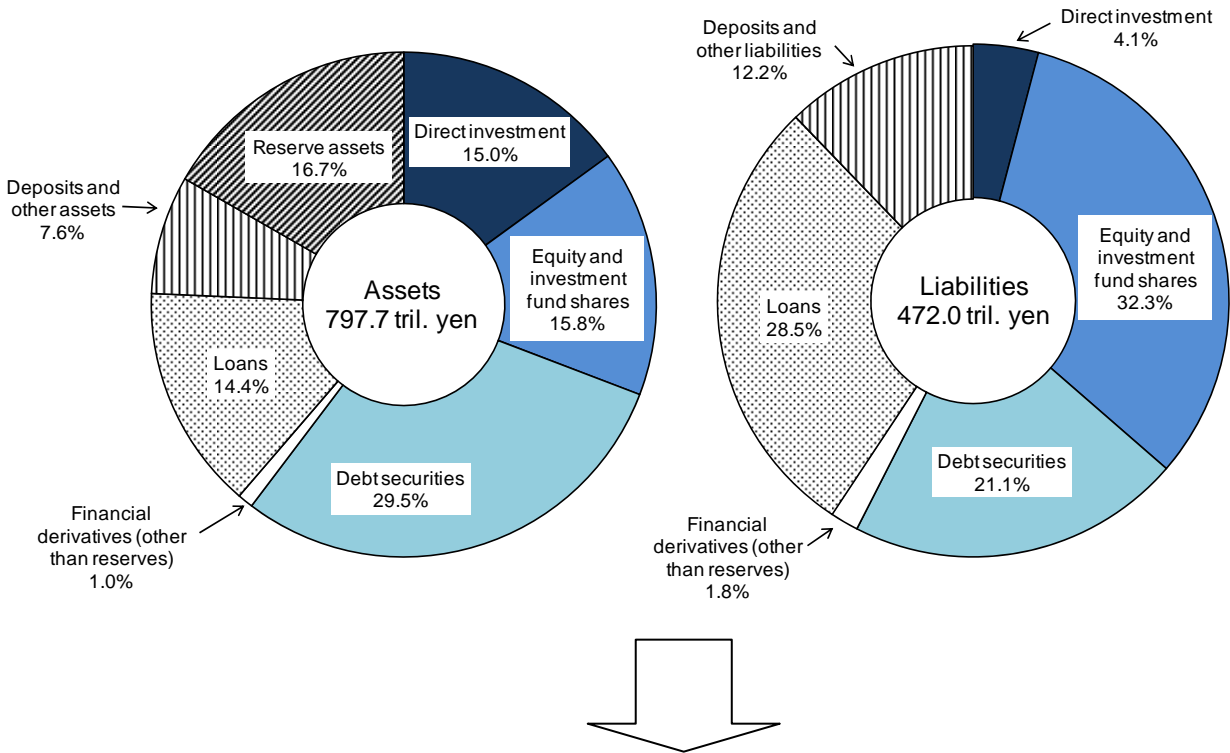


### 3. Share by component

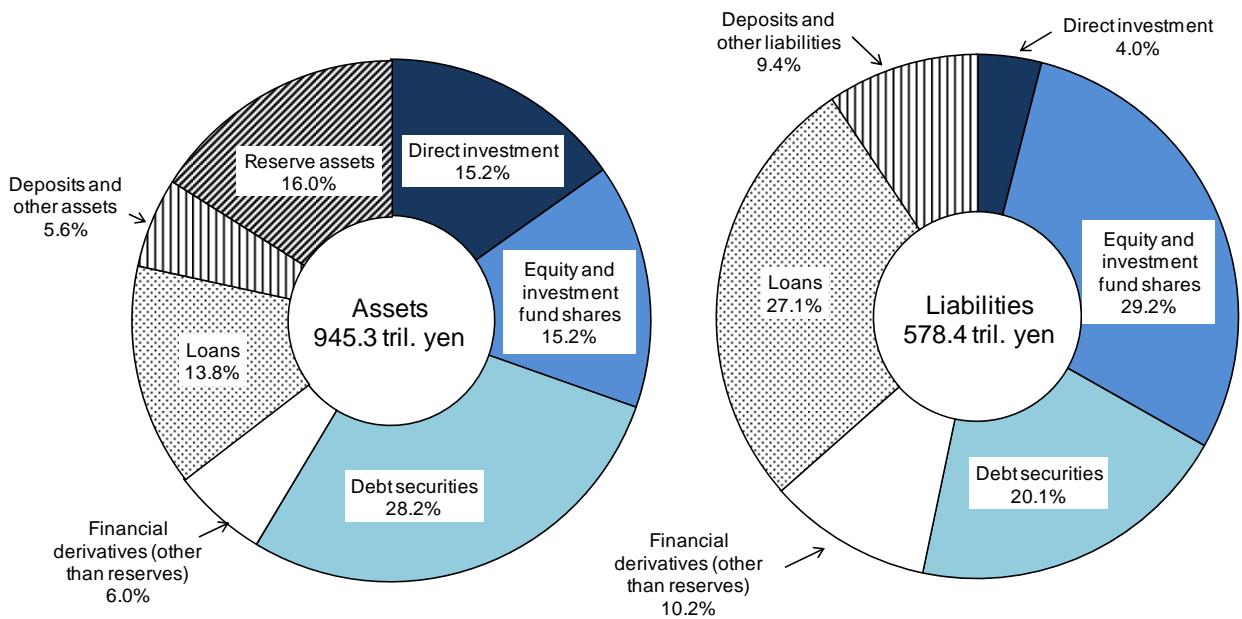
On both the asset and liability sides, the share of "financial derivatives (other than reserves)" increased.

**Figure 8: Share by Component**

**(1) At Year-End 2013**



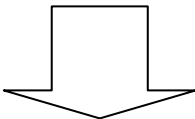
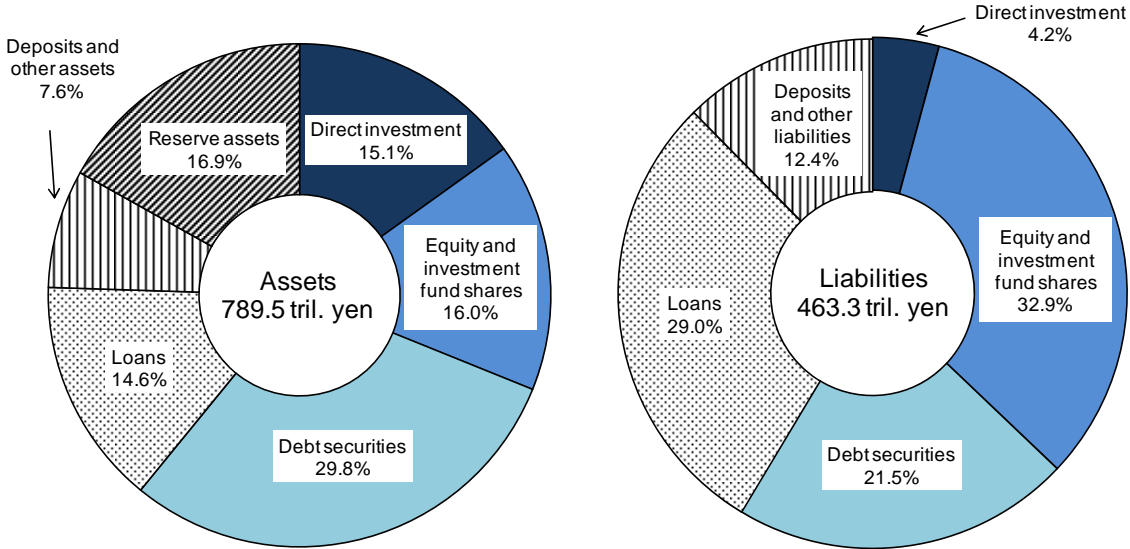
**(2) At Year-End 2014**



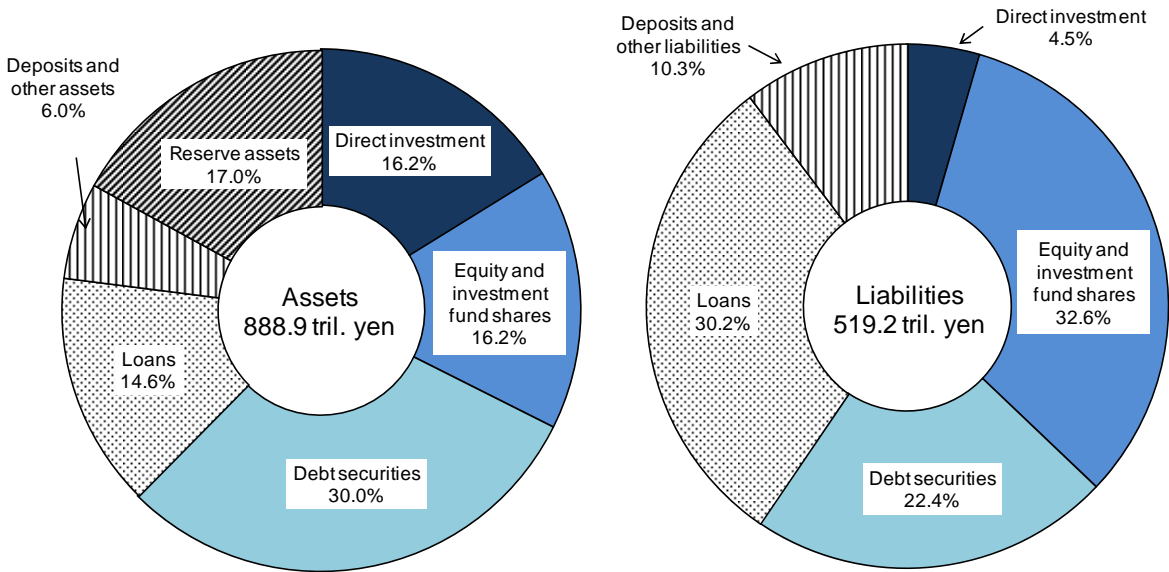
However, when excluding financial derivatives (other than reserves) to remove the effect of the inclusion of swap positions in order to compare the shares of other components at year-end 2013 and year-end 2014, the shares both on the asset and the liability side have remained largely unchanged.

**Figure 9: Share by Component Excluding Financial Derivatives (Other than Reserves)**

**(1) At Year-End 2013**



**(2) At Year-End 2014**



#### 4. By sector<sup>28</sup>

Breaking down changes in net assets held by residents in Japan by sector shows the following.

Net assets held by the "central bank and general government" increased by 7.2 trillion yen from year-end 2013, mainly due to the increase in reserve assets.

Net assets of "deposit-taking corporations, except the central bank" decreased by 2.1 trillion yen.

The net asset holdings of "other financial corporations" and "others" together increased by 36.1 trillion yen. This was mainly due to the increases in direct investment assets and Japanese holdings of foreign debt securities (assets).

**Table 16: IIP by Sector at Year-End 2014**

tril. yen

	Assets	Liabilities	Net assets	
				y/y chg.
Total	945.3	578.4	366.9	+41.1
Central bank and general government	180.7	110.3	70.4	+7.2
Sectors other than the central bank and general government	764.6	468.1	296.5	+34.0
Deposit-taking corporations, except the central bank	224.1	163.8	60.3	-2.1
Other financial corporations	349.4	125.4	223.9	+36.1
Others	191.1	178.8	12.3	

<sup>28</sup> From year-end 2014, the following five sectors are distinguished: (1) "central bank;" (2) "general government," which includes governmental financial institutions; (3) "deposit-taking corporations, except the central bank," which include cooperative-type financial institutions; (4) "other financial corporations," which include trust accounts of trust banks, life and non-life insurance companies, investment trusts, and financial instruments firms; and (5) "others," which include nonfinancial corporations and individuals. When compared with the sectors under the *BPM5*-based statistics, "central bank" and "general government" correspond to the "public sector," "deposit-taking corporations, except the central bank" correspond to "banks," and "other financial corporations" and "others" correspond to "other sectors."

The assets and liabilities for each sector refer to the external assets and liabilities held by that sector.

## 5. By maturity<sup>29</sup>

On both the asset and liability sides, the share of short-term instruments increased from year-end 2013, reflecting the increase in financial derivatives (other than reserves).

For both long- and short-term instruments, assets exceeded the liabilities.

**Table 17: Share by Maturity at Year-End 2014<sup>1</sup>**

tril. yen

	Assets			Liabilities		
		Percentage share			Percentage share	
			y/y chg. (% points)			y/y chg. (% points)
Total	945.3	100.0	—	578.4	100.0	—
Long-term	628.7	66.5	-1.8	272.0	47.0	-3.0
Short-term	316.5	33.5	+1.8	306.4	53.0	+3.0

Note: 1. Long- and short-term items are classified as follows:

Long-term: direct investment; equity and investment fund shares; debt securities (long-term); other equity; loans (long-term); trade credit and advances (long-term); other accounts receivable/payable (long-term); and special drawing rights (under other investment).

Short-term: debt securities (short-term); financial derivatives (other than reserves); currency and deposits; loans (short-term); insurance and pension reserves; trade credit and advances (short-term); other accounts receivable/payable (short-term); and reserve assets.

<sup>29</sup> For both assets and liabilities, long-term instruments are those with an original maturity of more than one year and those with no stated maturity, while short-term instruments are those with an original maturity of one year or less. Reserve assets, for which a maturity breakdown is not publicly available, are classified as short-term instruments here, given that they are external assets that are readily available to and controlled by the monetary authorities. In addition, currency and deposits as well as insurance and pension reserves are also classified as short-term instruments due to data limitations and other practical reasons.

## 6. By region<sup>30</sup>

Developments by region in the direct and portfolio investment positions can be summarized as follows.

On the asset side, investment in North America and the European Union (EU) increased because of the increase in the yen value of assets due to the yen's depreciation as well as the rise in prices of foreign equities and debt securities. Investment in Asia also increased, led by direct investment.

On the liability side, investment from the EU and North America increased due to net acquisitions of Japanese financial instruments as well as the rise in Japanese equity prices.

**Table 18: Direct and Portfolio Investment Positions by Region at Year-End 2014<sup>1</sup>**

### Assets

tril. yen

	Total (a+b)		Direct investment (a)		Portfolio investment (b)	
		y/y chg.		y/y chg.		y/y chg.
Total	554.0	+77.1	143.9	+26.2	410.1	+50.8
Asia	56.5	+14.0	41.4	+8.7	15.1	+5.3
North America	203.9	+36.9	48.0	+11.3	155.9	+25.6
EU	160.5	+14.5	32.9	+5.6	127.6	+8.9
Central and South America	81.6	+5.9	9.7	-1.8	71.9	+7.7
Oceania	25.1	+4.1	8.2	+2.0	16.9	+2.1
Others	26.4	+1.7	3.8	+0.5	22.6	+1.2

### Liabilities

tril. yen

	Total (a+b)		Direct investment (a)		Portfolio investment (b)	
		y/y chg.		y/y chg.		y/y chg.
Total	308.6	+38.7	23.3	+5.4	285.2	+33.4
Asia	33.5	-3.6	3.6	+1.0	29.9	-4.6
North America	110.7	+19.0	6.9	+1.2	103.8	+17.8
EU	113.0	+20.0	9.8	+2.6	103.1	+17.4
Central and South America	9.7	+0.7	1.4	+0.2	8.3	+0.5
Oceania	4.8	+1.2	0.4	+0.3	4.4	+0.9
Others	37.0	+1.4	1.2	+0.1	35.8	+1.3

Note: 1. Figures for year-end 2013 used to calculate the year-on-year change are based on *BPM5*.

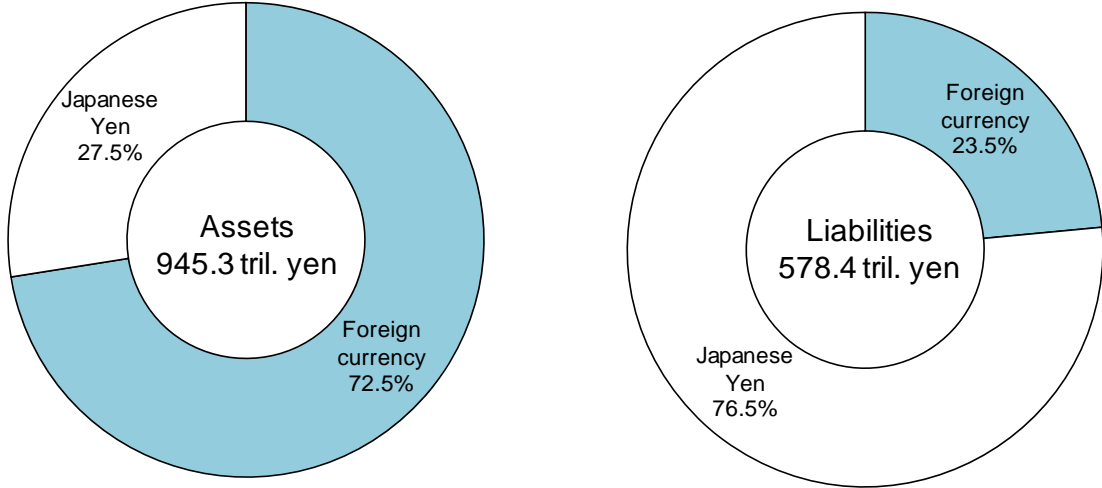
<sup>30</sup> Regional data are compiled and released for the direct and portfolio investment positions as well as the financial derivatives positions.

**Box 7. Newly Released Breakdown of Yen-Denominated Assets and Foreign Currency-Denominated Liabilities**

**1. Exchange rate changes and currency composition of assets and liabilities**

Net assets at year-end 2014 increased mainly due to changes in exchange rates, and registered a record high since year-end 1996, from when comparable data are available. The reason that a depreciation of the yen leads to an increase in net assets is that over 70 percent of assets are denominated in foreign currencies, while only slightly more than 20 percent of liabilities are. Conversely, this means that, while one would expect most of the foreign assets held by Japanese investors to be denominated in local currencies, almost 30 percent are denominated in yen, and while one would expect most of Japan's liabilities to be denominated in yen, over 20 percent are denominated in foreign currencies (see Figure 1 for Box 7).

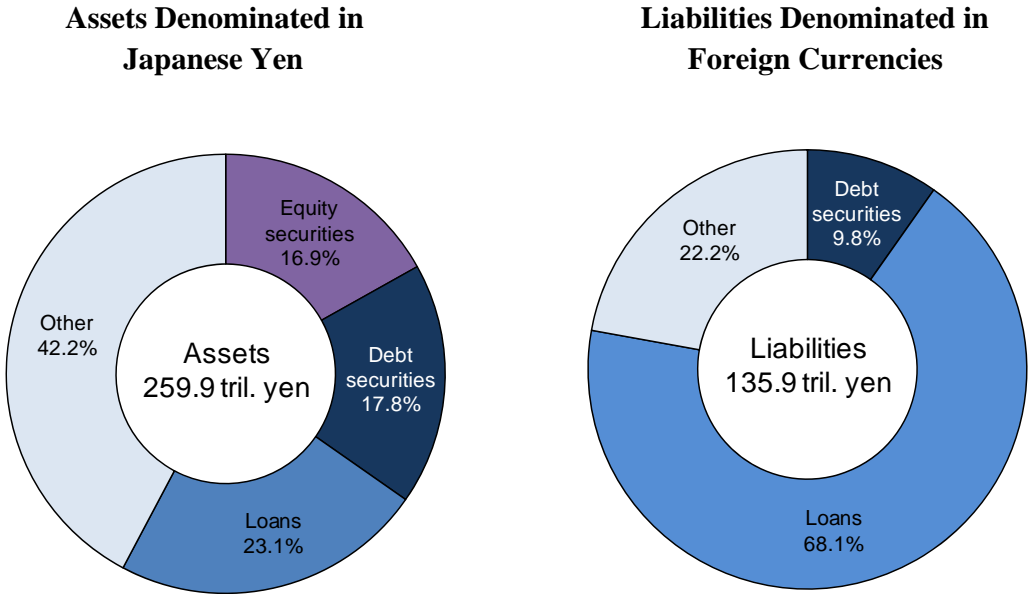
**Figure 1 for Box 7: Currency Composition of Assets and Liabilities at Year-End 2014**



**2. Debt Position (Assets/Liabilities) by Currency (Foreign Currency/Japanese Yen)**

As noted in Box 1, the *BPM6*-based statistics provide a detailed breakdown of assets and liabilities by currency -- classified by sector and maturity -- for data from year-end 2014 onward. The release of such data responds to the growing interest -- sparked by a series of currency crises since the mid-1990s and other events -- in the balance sheet approach, which examines economies' vulnerabilities using developments in stock variables regarding countries' claims and debts by sector. Figure 2 for Box 7 shows that portfolio investment such as investment in equity and debt securities accounts for over 30 percent of assets denominated in yen, and this, together with loans, accounts for almost 60 percent of assets denominated in yen. The figure also shows that almost 70 percent of liabilities denominated in foreign currencies are loans.

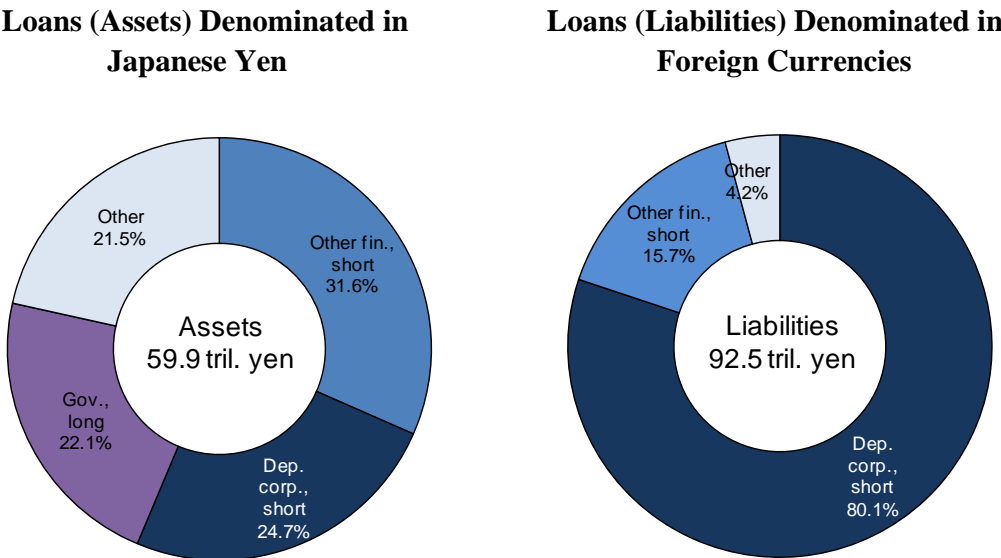
**Figure 2 for Box 7: Ratio of Main Components at Year-End 2014**



**3. Details of loans**

Looking at assets denominated in yen and liabilities denominated in foreign currencies by sector and maturity shows that almost 60 percent of total assets denominated in yen are short-term loans (assets) of "deposit-taking corporations, except the central bank" and "other financial corporations," while over 90 percent of liabilities denominated in foreign currencies are short-term loans (liabilities) of these financial corporations (see Figure 3 for Box 7).<sup>31</sup>

**Figure 3 for Box 7: Breakdown of Loans by Sector and Maturity at Year-End 2014<sup>1</sup>**



Note: 1. "Other fin.," "Dep. corp.," and "Gov." refer to "Other financial corporations," "Deposit-taking corporations, except the central bank," and "General government," respectively.

<sup>31</sup> Loans include transactions between financial corporations and interoffice transactions in a financial corporation.

### C. International Comparison of Net IIP

Among major countries that release IIP data, Japan appears to be the country with the largest net asset position at year-end 2014.

**Table 19: International Comparison of Net IIP at Year-End 2014**

tril. yen

Country	Net IIP
Japan	366.9
China	214.3
Germany	154.7
Switzerland	99.5
Hong Kong	99.5
Russia	40.6
Canada	15.2
France	-51.4
Italy	-65.6
U.K.	-66.8
U.S.A.	-834.3

Source: Ministry of Finance.



## D. Market Value Estimates of Direct Investment Position<sup>32</sup>

The market value estimates of the direct investment position show that assets and liabilities amounted to 145.3 trillion yen and 26.7 trillion yen, respectively, with both exceeding the amounts on a book value basis.

Japan's net asset position at year-end 2014 calculated using the market value estimates of the direct investment position amounted to 364.8 trillion yen.

**Table 20: Market Value Estimates of Direct Investment Position**

tril. yen

	Year-end 2013		Year-end 2014	
		Book value		Book value
Assets	120.1	119.3	145.3	143.9
Liabilities	23.7	19.6	26.7	23.3

**Table 21: Japan's IIP Estimated Using Market Value Estimates of Direct Investment Position**

tril. yen

	Assets		Liabilities		Net assets	
		Of which: Direct investment		Of which: Direct investment		Of which: Direct investment
Year-end 2013	798.5	120.1	476.1	23.7	322.4	96.4
Year-end 2014	946.6	145.3	581.8	26.7	364.8	118.6

<sup>32</sup> With the switch to the *BPM6*-based statistics, the compilation method of the direct investment position has been changed as follows.

Book values: starting with data for year-end 2014, enterprises' own funds at book value instead of investors' historical costs are used as the source data for aggregation.

Market value estimates: for listed enterprises, stock market prices are used if available, while for other enterprises, book values are used.

## Appendix 1. Japan's Balance of Payments (2010-2014)

bil. yen, %

	2010	2011	2012	2013	2014
<b>1. Current account</b>	19,382.8	10,401.3	4,764.0	3,931.7	2,645.8
y/y chg.	+5,790.2	-8,981.5	-5,637.3	-832.3	-1,285.9
y/y % chg.	+42.6	-46.3	-54.2	-17.5	-32.7
Goods and services	6,857.1	-3,110.1	-8,082.9	-12,252.1	-13,481.7
y/y chg.	+4,732.3	-9,967.3	-4,972.8	-4,169.2	-1,229.6
Goods	9,516.0	-330.2	-4,271.9	-8,773.4	-10,401.6
y/y chg.	+4,128.4	-9,846.2	-3,941.7	-4,501.5	-1,628.2
y/y % chg.	+76.6	Negative	12.9 times	2.1 times	+18.6
Exports	64,391.4	62,965.3	61,956.8	67,829.0	74,101.6
Imports	54,875.4	63,295.5	66,228.7	76,602.4	84,503.2
Services	-2,658.8	-2,779.9	-3,811.0	-3,478.6	-3,080.1
Transport	-369.8	-620.2	-990.7	-718.3	-667.7
Travel	-1,287.5	-1,296.3	-1,061.7	-654.5	-44.1
Other services	-1,001.5	-863.4	-1,758.6	-2,105.8	-2,368.3
Primary income	13,617.3	14,621.0	13,991.4	17,172.9	18,120.3
Of which: Direct investment	4,053.7	4,404.4	3,933.2	6,084.2	6,547.7
Portfolio investment	8,993.0	9,538.6	9,396.0	10,517.9	10,989.6
Secondary income	-1,091.7	-1,109.6	-1,144.5	-989.2	-1,992.9
<b>2. Capital account</b>	-434.1	28.2	-80.4	-743.6	-198.7
<b>3. Financial account<sup>1</sup></b>	21,709.9	12,629.4	4,192.5	-933.6	5,499.1
Direct investment	6,251.1	9,310.1	9,359.1	13,721.0	11,813.4
Assets	6,914.7	9,240.8	9,399.8	14,447.5	12,768.2
Liabilities	663.6	-69.3	40.7	726.5	954.8
Portfolio investment	16,236.1	-15,296.5	6,116.0	-23,932.7	-4,950.2
Assets	25,834.1	6,122.8	14,696.8	-6,068.7	12,121.8
Equity and investment fund shares	2,057.4	928.8	-2,135.1	-6,616.1	6,582.0
Long-term debt securities	24,040.6	5,925.8	17,048.4	318.5	4,441.1
Short-term debt securities	-263.8	-731.8	-216.5	228.9	1,098.6
Liabilities	9,598.0	21,419.3	8,580.8	17,864.0	17,072.0
Equity and investment fund shares	2,919.7	550.7	2,351.2	17,035.0	3,769.4
Long-term debt securities	437.5	4,175.2	2,719.5	-1,416.1	12,277.0
Short-term debt securities	6,240.8	16,693.4	3,510.0	2,245.1	1,025.5
Financial derivatives (other than reserves)	-1,026.2	-1,347.0	590.3	5,551.6	3,639.6
Other investment	-2,995.4	6,779.8	-8,250.5	-123.4	-5,893.5
Reserve assets	3,792.5	13,789.7	-3,051.5	3,850.4	889.8
<b>4. Net errors and omissions</b>	2,761.2	2,199.8	-491.1	-4,121.7	3,052.0

Note: 1. Figures for portfolio investment and other investment in the financial account exclude securities lending transactions. Therefore, figures in the financial account through 2013 do not add up to the total.

## Appendix 2. Japan's External Financial Assets (Year-Ends 2010-2014)<sup>1</sup>

bil. yen

Assets	2010	2011	2012	2013	2014
1. Direct investment	68,925	75,565	91,232	119,302	143,940
Equity other than reinvestment of earnings	50,113	54,847	65,868	86,286	97,681
Reinvestment of earnings	14,753	16,341	19,903	26,413	33,543
Debt instruments	4,059	4,377	5,461	6,603	12,717
2. Portfolio investment	269,207	262,639	308,099	361,253	410,056
Equity and investment fund shares	55,262	51,750	59,475	126,224	143,656
Equity securities other than investment fund shares	—	—	—	—	64,427
Central bank	—	—	—	—	16
Deposit-taking corporations, except the central bank	—	—	—	—	574
General government	—	—	—	—	8
Other financial corporations	—	—	—	—	59,930
Others	—	—	—	—	3,899
Investment fund shares or units	—	—	—	—	79,229
Deposit-taking corporations, except the central bank	—	—	—	—	14,813
General government	—	—	—	—	1
Other financial corporations	—	—	—	—	58,153
Others	—	—	—	—	6,262
Debt securities	213,944	210,889	248,624	235,029	266,401
Long-term	211,400	208,890	246,322	230,260	260,856
Deposit-taking corporations, except the central bank	—	—	—	—	99,320
General government	—	—	—	—	718
Other financial corporations	—	—	—	—	138,691
Others	—	—	—	—	22,128
Short-term	2,544	1,999	2,302	4,768	5,544
Deposit-taking corporations, except the central bank	—	—	—	—	3,670
General government	—	—	—	—	—
Other financial corporations	—	—	—	—	999
Others	—	—	—	—	876
3. Financial derivatives (other than reserves)	4,287	4,188	4,623	8,207	56,342
Deposit-taking corporations, except the central bank	—	—	—	—	11,150
General government	—	—	—	—	25
Other financial corporations	—	—	—	—	45,167
Others	—	—	—	—	0
4. Other investment	129,700	140,192	145,509	175,394	183,854
Other equity	5,370	5,504	5,704	5,971	7,813
Currency and deposits	14,359	14,661	15,301	14,712	16,193
Deposit-taking corporations, except the central bank	—	—	—	—	5,938
General government	—	—	—	—	12
Other financial corporations	—	—	—	—	6,695
Others	—	—	—	—	3,548
Loans	71,270	82,284	87,314	115,079	130,044
By maturity:					
Long-term	39,922	42,271	48,904	57,645	66,620
Short-term	31,347	40,013	38,410	57,434	63,424
By sector:					
Deposit-taking corporations, except the central bank	—	—	—	—	77,318
General government	—	—	—	—	21,942
Other financial corporations	—	—	—	—	30,469
Others	—	—	—	—	315
Insurance and pension reserves	—	—	—	692	741
Other financial corporations	—	—	—	—	683
Others	—	—	—	—	57
Trade credit and advances	5,049	4,511	4,793	7,500	8,821
By maturity:					
Long-term	1,164	899	613	556	534
Short-term	3,884	3,612	4,180	6,944	8,286
By sector:					
General government	—	—	—	—	234
Other financial corporations	—	—	—	—	24
Others	—	—	—	—	8,563
Other accounts receivable	33,653	33,232	32,397	31,442	20,242
By maturity:					
Long-term	10,312	9,275	8,554	5,233	5,307
Short-term	23,340	23,957	23,843	26,209	14,935
By sector:					
Deposit-taking corporations, except the central bank	—	—	—	—	10,891
General government	—	—	—	—	391
Other financial corporations	—	—	—	—	7,452
Others	—	—	—	—	1,508
5. Reserve assets	89,330	100,517	109,464	133,529	151,080
<b>Total assets</b>	561,448	583,100	658,927	797,686	945,273

Note: 1. Figures for "Others" include nonfinancial corporations, households, and nonprofit institutions serving households.

The same applies in Appendix 3.

### Appendix 3. Japan's External Liabilities and Net Assets (Year-Ends 2010-2014)

bil. yen

Liabilities	2010	2011	2012	2013	2014
1. Direct investment	18,735	18,824	19,227	19,551	23,344
Equity other than reinvestment of earnings	14,999	14,639	14,810	14,817	15,420
Reinvestment of earnings	1,617	2,079	2,208	2,398	4,959
Debt instruments	2,119	2,105	2,209	2,336	2,965
2. Portfolio investment	152,051	157,481	180,504	252,008	285,228
Equity and investment fund shares	80,537	65,841	83,556	152,323	169,144
Equity securities other than investment fund shares	—	—	—	—	167,634
Deposit-taking corporations, except the central bank	—	—	—	—	13,223
Other financial corporations	—	—	—	—	8,505
Others	—	—	—	—	145,905
Investment fund shares or units	—	—	—	—	1,510
Other financial corporations	—	—	—	—	1,510
Debt securities	71,514	91,639	96,948	99,685	116,084
Long-term	42,877	45,730	49,504	50,168	64,592
Deposit-taking corporations, except the central bank	—	—	—	—	7,155
General government	—	—	—	—	51,750
Other financial corporations	—	—	—	—	2,241
Others	—	—	—	—	3,447
Short-term	28,638	45,909	47,444	49,517	51,492
Deposit-taking corporations, except the central bank	—	—	—	—	344
General government	—	—	—	—	50,901
Other financial corporations	—	—	—	—	19
Others	—	—	—	—	227
3. Financial derivatives (other than reserves)	5,267	5,641	5,326	8,656	59,183
Deposit-taking corporations, except the central bank	—	—	—	—	14,473
General government	—	—	—	—	6
Other financial corporations	—	—	—	—	44,694
Others	—	—	—	—	10
4. Other investment	129,488	135,413	154,568	191,739	210,661
Other equity	—	—	—	—	789
Currency and deposits	10,730	11,176	12,133	11,236	14,842
Central bank	—	—	—	—	1,145
Deposit-taking corporations, except the central bank	—	—	—	—	13,696
Loans	83,860	85,513	101,944	134,276	156,723
By maturity:					
Long-term	14,810	13,596	11,910	11,599	11,157
Short-term	69,050	71,917	90,034	122,677	145,565
By sector:					
Central bank	—	—	—	—	3,987
Deposit-taking corporations, except the central bank	—	—	—	—	94,843
General government	—	—	—	—	—
Other financial corporations	—	—	—	—	56,660
Others	—	—	—	—	1,233
Insurance and pension reserves	—	—	—	178	208
Other financial corporations	—	—	—	—	208
Trade credit and advances	2,378	2,411	2,517	3,429	3,887
By maturity:					
Long-term	142	129	129	125	293
Short-term	2,236	2,282	2,388	3,305	3,595
By sector:					
Other financial corporations	—	—	—	—	5
Others	—	—	—	—	3,882
Other accounts payable	30,978	34,851	36,344	40,626	32,081
By maturity:					
Long-term	2,279	2,457	1,457	428	564
Short-term	28,698	32,394	34,887	40,198	31,517
By sector:					
Deposit-taking corporations, except the central bank	—	—	—	—	20,113
General government	—	—	—	—	421
Other financial corporations	—	—	—	—	10,937
Others	—	—	—	—	609
Special drawing rights	1,542	1,463	1,630	1,993	2,133
<b>Total liabilities</b>	<b>305,542</b>	<b>317,359</b>	<b>359,625</b>	<b>471,955</b>	<b>578,416</b>
<b>Total net assets</b>	<b>255,906</b>	<b>265,741</b>	<b>299,302</b>	<b>325,732</b>	<b>366,856</b>
Central bank and general government	46,758	33,990	41,357	63,193	70,351
Sectors other than the central bank and general government	209,148	231,751	257,944	262,539	296,505
Deposit-taking corporations, except the central bank	43,222	54,484	54,780	62,370	60,255
Other financial corporations	—	—	—	—	223,929
Others	—	—	—	—	12,321