

Japan's Balance of Payments Statistics and International Investment Position for 2021

**July 2022
International Department
Bank of Japan**

This report is an English translation of the Japanese original released on July 8, 2022.

Japan's balance of payments statistics for 2021 -- the annually revised figures for the first through the third quarter of 2021 and the second preliminary figures for the fourth quarter of 2021 -- were released on April 8, 2022, by the Ministry of Finance and the Bank of Japan in the Balance of Payments.

Japan's international investment position at year-end 2021 was released on May 27, 2022, by the Ministry of Finance and the Bank as the International Investment Position of Japan (End of 2021).

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Explanatory Notes

- Unless otherwise noted, the figures and charts in this report are based on data from the balance of payments (BOP) related statistics, such as the Balance of Payments and the International Investment Position, jointly released by the Bank of Japan and the Ministry of Finance.
- Figures from 2014 onward are compiled based on the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) published by the International Monetary Fund (IMF). In principle, figures before 2014 in this report use "historical data rearranged based on the BPM6," in which figures that were originally compiled based on the fifth edition of the Balance of Payments Manual (BPM5) were rearranged in accordance with the BPM6 to the greatest extent possible. However, unless otherwise stated, figures by partner economy, including those by region, have been compiled based on the BPM5. For this reason, the totals may differ from corresponding data underlying the charts using "historical data rearranged based on the BPM6." Moreover, for figures for portfolio investment and "other investment" under the financial account, those compiled based on the BPM5 excluding securities lending transactions are used so that the data are comparable with the BPM6-based data.
- In the Direct Investment by Region and Industry statistics, figures for flows under the financial account and those for positions are compiled based on the directional principle, while those for income under primary income in the current account are compiled based on the asset and liability principle. For the difference between the two principles, see [Recording Principles of Direct Investment](#) on the Bank's website. Moreover, the industry classification for flows and positions is based on the industry of the investee such as a subsidiary, while that for income is based on the industry of the payer.
- Most of Japan's BOP related data are available in the Bank's online data portal, the BOJ Time-Series Data Search (except for data on Direct Investment by Region and Industry, which are provided in file format on the Bank's website). In addition, a list of the series codes of data used in this report is provided on the Bank's website. A comprehensive list of BOP related statistics and details on how they are released are provided on the [Balance of Payments Related Statistics \(Data Based on the BPM6\)](#) page of the Bank's website. See also the [FAQs on the Balance of Payments Related Statistics](#) for more information.

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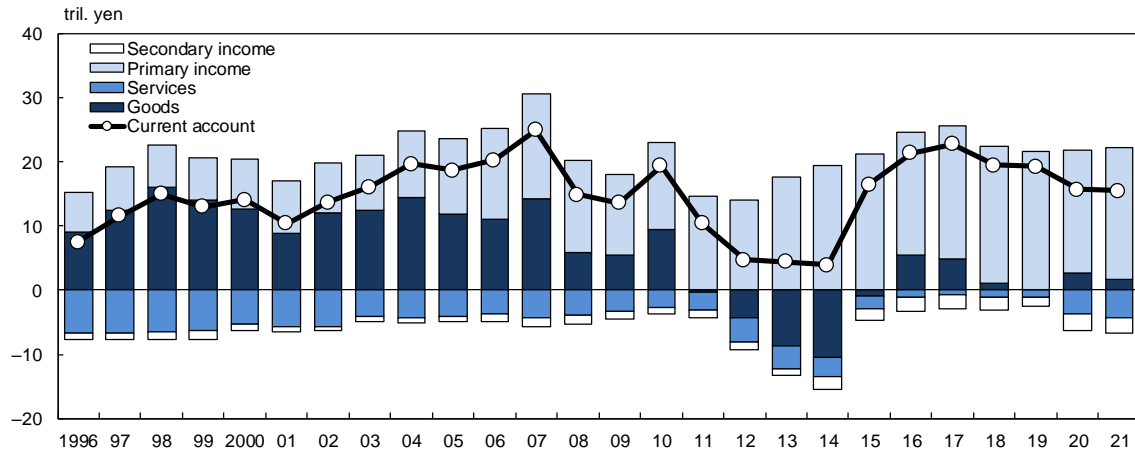
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Summary

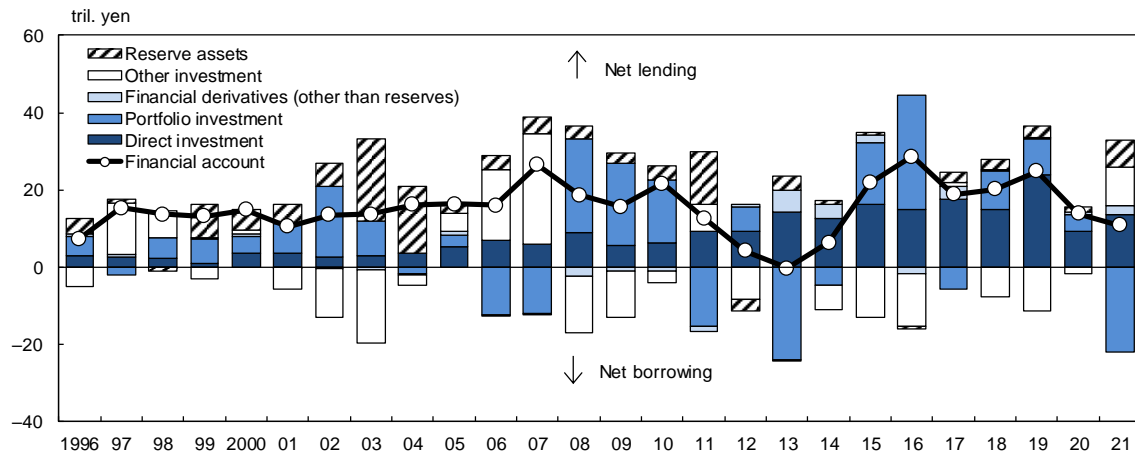
- The current account surplus decreased slightly to 15.5 trillion yen in 2021 from 15.7 trillion yen in 2020. The decrease reflects the fact that although the surplus on primary income increased, that on goods decreased and the deficit on services increased.
- Looking at the breakdown, the surplus on primary income widened, mainly due to a rise in the surplus on direct investment income. On the other hand, the surplus on goods narrowed, reflecting the fact that although exports increased owing to the recovery in overseas economies, imports rose even more due to such factors as the surge in raw material prices.
- Looking at services by component, the surplus on travel declined further, reflecting the low number of inbound and outbound travelers throughout 2021 due to the impact of the novel coronavirus (COVID-19). The deficit on other services increased slightly, mainly due to the rise in the deficit on telecommunications, computer, and information services.
- From a somewhat longer-term perspective, Japan's services balance has consistently been in deficit. While the deficit followed a decreasing trend before the outbreak of COVID-19 owing to the increase in consumption by foreign travelers in Japan (i.e., travel receipts), it has been widening again since 2020, mainly due to the decline in the number of foreign travelers to Japan and the increase in digital-related payments such as for IT services and content distribution (see Appendix 1).
- From a somewhat longer-term perspective, the surplus on portfolio investment income has been on the decline, as payments have followed an increasing trend while receipts have remained more or less unchanged (see Appendix 2).
- Reflecting the surplus on the current account, the financial account registered net lending, which, however, decreased to 10.8 trillion yen in 2021 from 13.8 trillion yen in 2020. Looking at the breakdown, direct investment registered net lending, while portfolio investment registered net borrowing.
- Looking at developments in direct investment in 2021 classified by type of investment, for direct investment assets, M&A type transactions continued to account for a significant share. Meanwhile, with respect to direct investment liabilities, the share of M&A type transactions increased significantly reflecting large-scale M&As (see Appendix 3).

- Japan's net asset position marked a record high, rising to 411.2 trillion yen at year-end 2021 from 355.0 trillion yen at year-end 2020. This reflects an increase in the yen value of foreign currency-denominated assets due to the yen's depreciation. Among major economies, Japan at year-end 2021 continued to record the largest net asset position.
- In relation to statistical standards, international discussions on many different issues have been taking place in preparation for the updating of the International Monetary Fund (IMF)'s Balance of Payments and International Investment Position Manual (BPM) scheduled for 2025. One of the major issues being addressed in the ongoing discussions is the recording of crypto assets (see Appendixes 4 and 5).

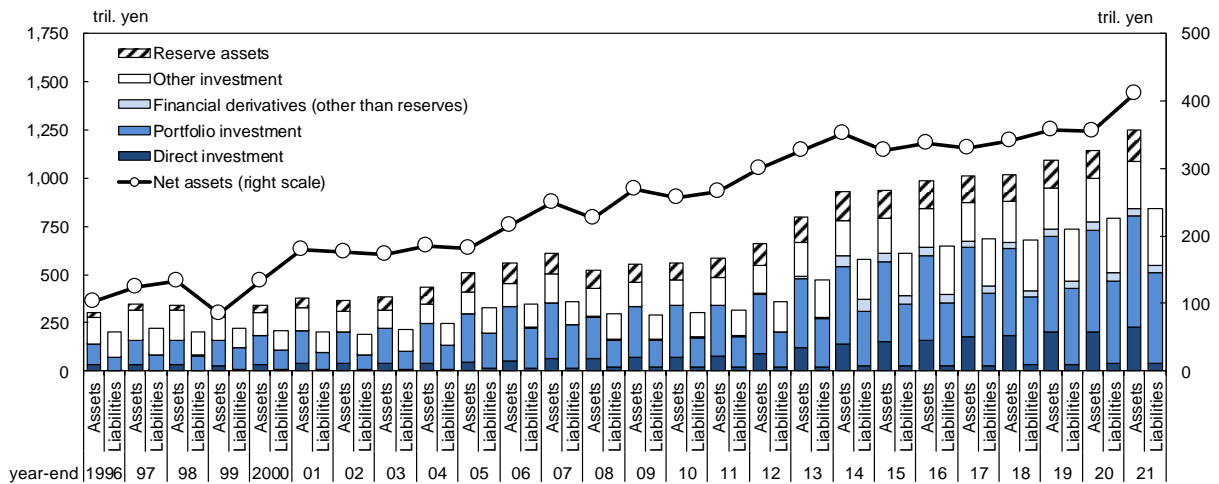
Current Account



Financial Account



International Investment Position (IIP)



Balance of Payments (BOP) (Flows)

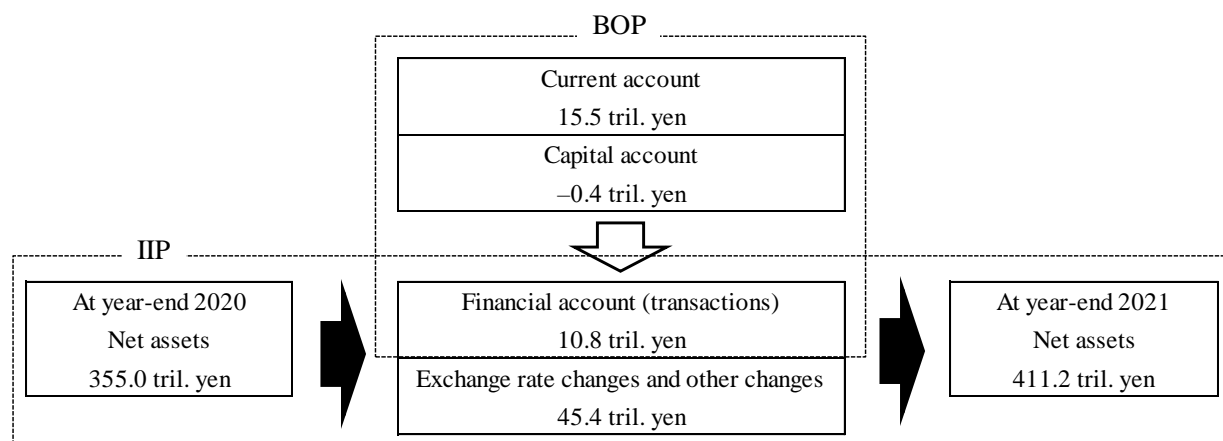
tril. yen

	2020	2021	y/y chg.
Current account	15.7	15.5	-0.2
Goods	2.8	1.7	-1.1
Services	-3.7	-4.2	-0.6
Primary income	19.1	20.5	+1.4
Secondary income	-2.6	-2.4	+0.1
Capital account	-0.2	-0.4	-0.2
Financial account	13.8	10.8	-3.1
Direct investment	9.1	13.4	+4.3
Portfolio investment	4.4	-22.0	-26.4
Financial derivatives (other than reserves)	0.8	2.4	+1.6
Other investment	-1.7	10.1	+11.7
Reserve assets	1.2	6.9	+5.7
Net errors and omissions	-1.7	-4.3	—

IIP (Stocks)

tril. yen

	Assets			Liabilities		
	Year-end 2020	Year-end 2021	y/y chg.	Year-end 2020	Year-end 2021	y/y chg.
Total	1,144.6	1,249.9	+105.3	789.6	838.7	+49.1
Direct investment	204.6	228.8	+24.1	40.2	40.5	+0.3
Portfolio investment	525.6	578.3	+52.8	426.0	471.0	+45.0
Financial derivatives (other than reserves)	44.7	35.8	-8.9	42.3	35.1	-7.2
Other investment	225.5	245.2	+19.7	281.0	292.1	+11.0
Reserve assets	144.2	161.8	+17.5	—	—	—
Net assets	355.0	411.2	+56.2			



I. Developments in the Current Account in 2021

A. Goods

The surplus on goods decreased to 1.7 trillion yen in 2021 from 2.8 trillion yen in 2020 as the increase in imports exceeded that in exports.

Exports increased to 82.3 trillion yen in 2021 from 67.3 trillion yen in 2020 due to an increase in exports of a wide range of commodities, particularly to Asia. Imports climbed to 80.6 trillion yen in 2021 from 64.5 trillion yen in 2020 mainly due to an increase in imports of "mineral fuels" (such as crude oil) from the Middle East reflecting the rise in prices of such fuels.

Breaking down changes in trade indexes -- calculated based on the Trade Statistics of Japan (referred to as "Trade Statistics" hereafter) -- into the contribution of changes in quantities and changes in prices, changes in both contributed to the rise in exports as well as imports. That said, changes in quantities made a larger contribution to the rise in exports, while changes in prices made a larger contribution to the rise in imports.

Figure 1: Goods Balance

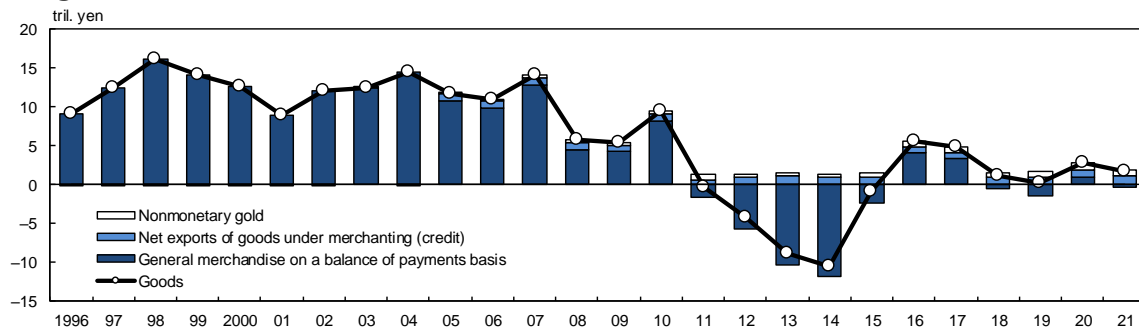


Figure 2: Goods by Region

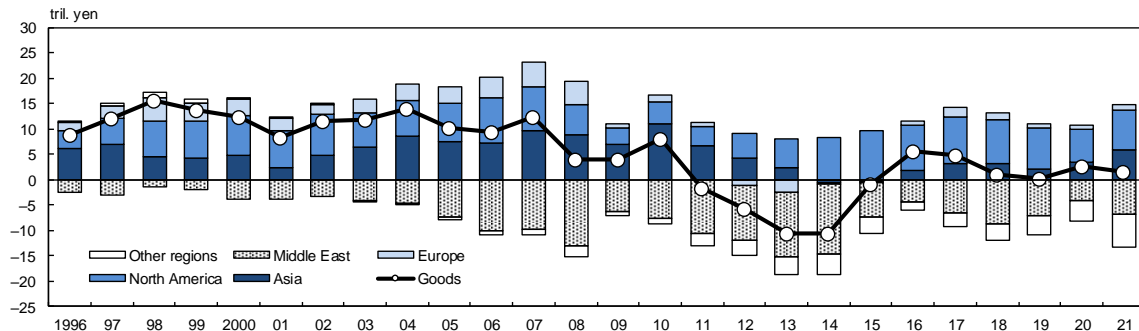


Figure 3: Exports by Region

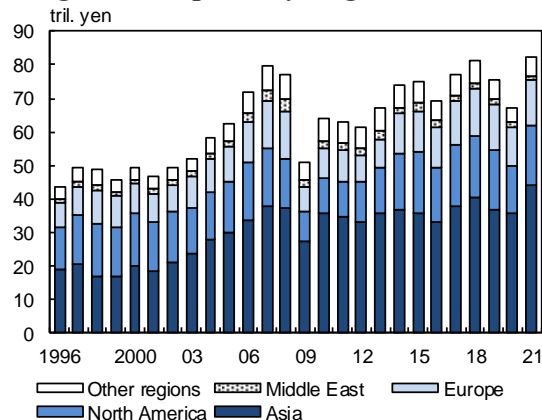
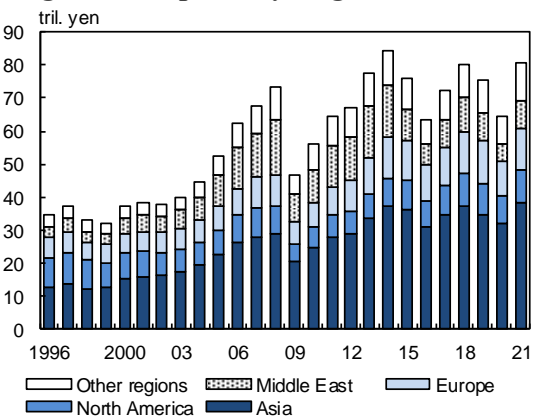
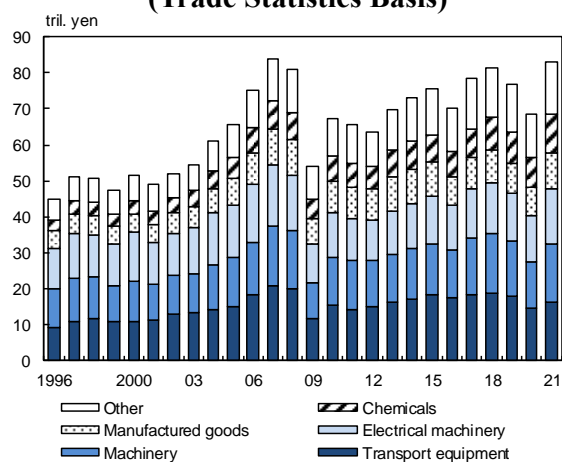


Figure 4: Imports by Region

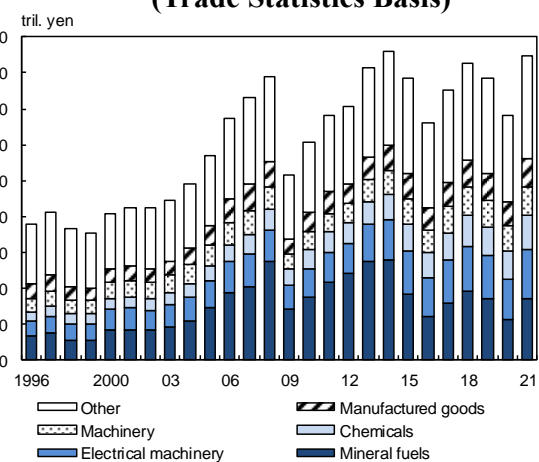


**Figure 5: Exports by Commodity
(Trade Statistics Basis)**



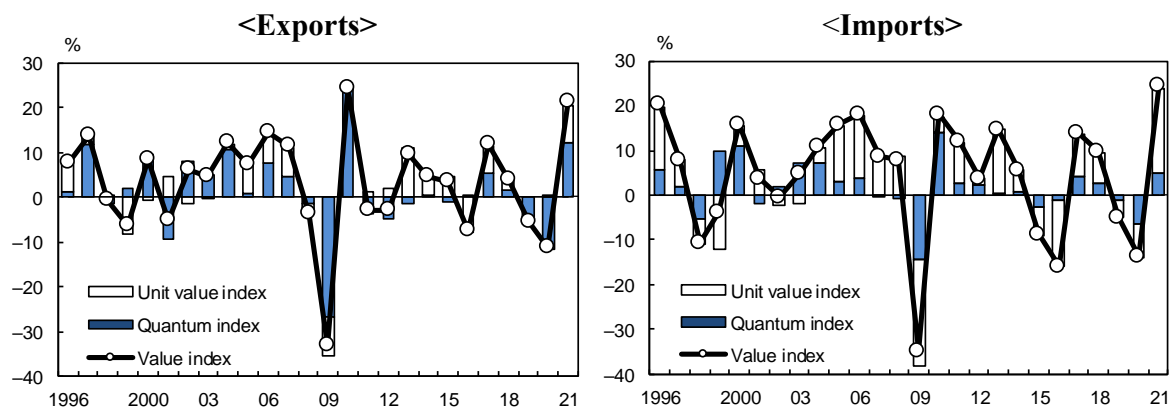
Source: Ministry of Finance (MOF), "Trade Statistics of Japan."

**Figure 6: Imports by Commodity
(Trade Statistics Basis)**



Source: MOF, "Trade Statistics of Japan."

Figure 7: Year-on-Year Changes in Trade Indexes



Source: MOF, "Trade Statistics of Japan."

(Reference) While the Trade Statistics are the main data source for goods in Japan's balance of payments (BOP) statistics, 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 as follows:

	Trade Statistics	Goods in the BOP
Valuation	Exports: FOB (Free on Board), i.e., the price of goods at the frontier of the exporting economy 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.

B. Services

The deficit on services increased to 4.2 trillion yen in 2021 from 3.7 trillion yen in 2020 due to a further decline in the surplus on "travel."

By region, the services balance vis-à-vis Asia shifted to a deficit.

Figure 8: Services Balance¹

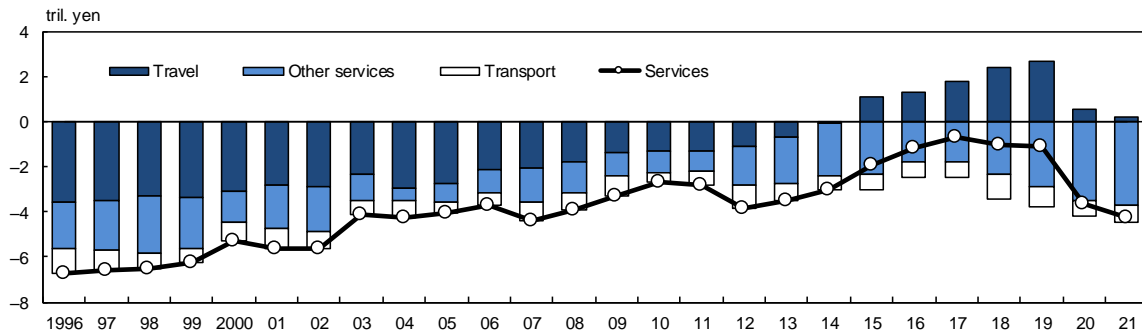


Figure 9: Services Credit and Debit

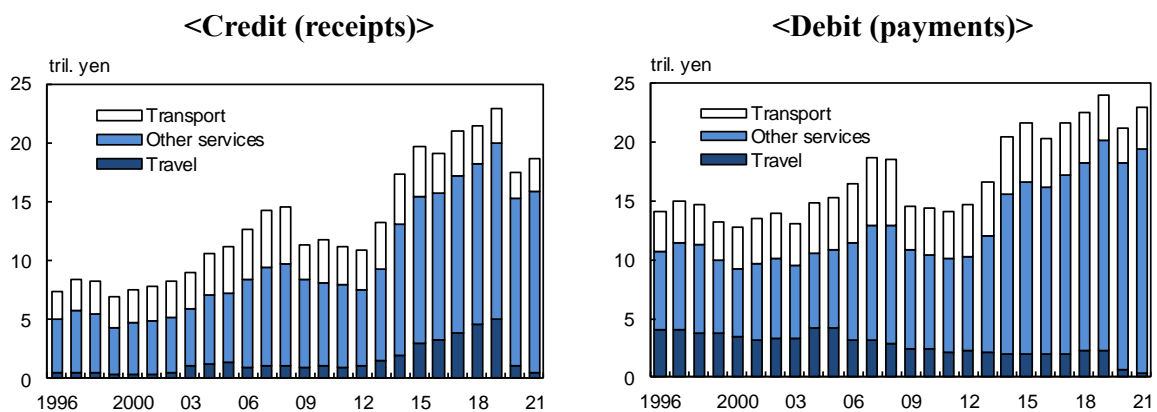
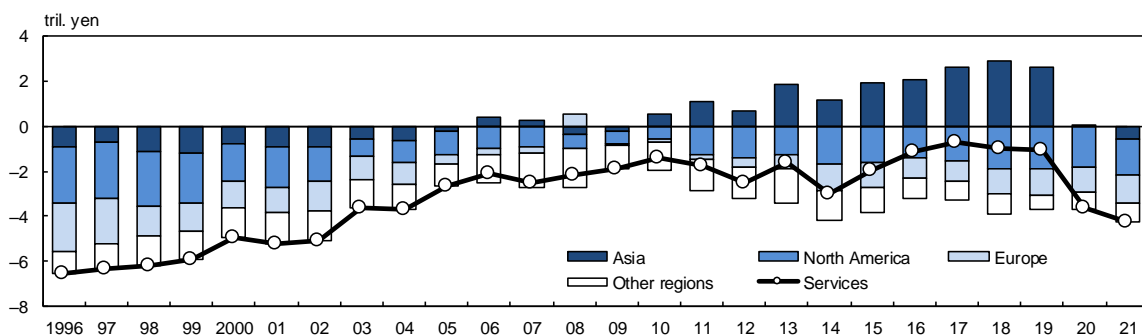


Figure 10: Services by Region



¹ For data from 2014 onward, "other services" include the estimated values of transactions worth 30 million yen or less.

1. Travel

The surplus on travel declined further to 0.2 trillion yen in 2021 from 0.6 trillion yen in 2020 reflecting the low number of inbound and outbound travelers throughout 2021 due to the impact of COVID-19.

Figure 11: Travel Balance

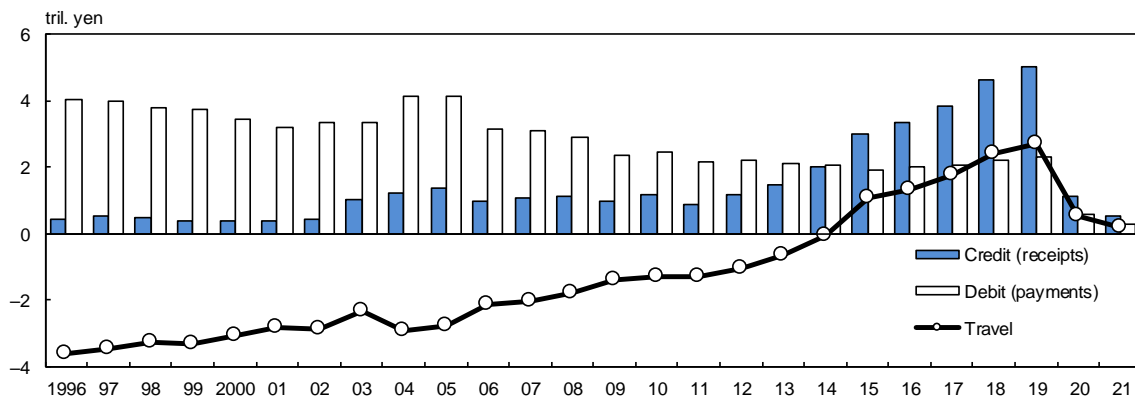


Figure 12: Travel by Partner Economy

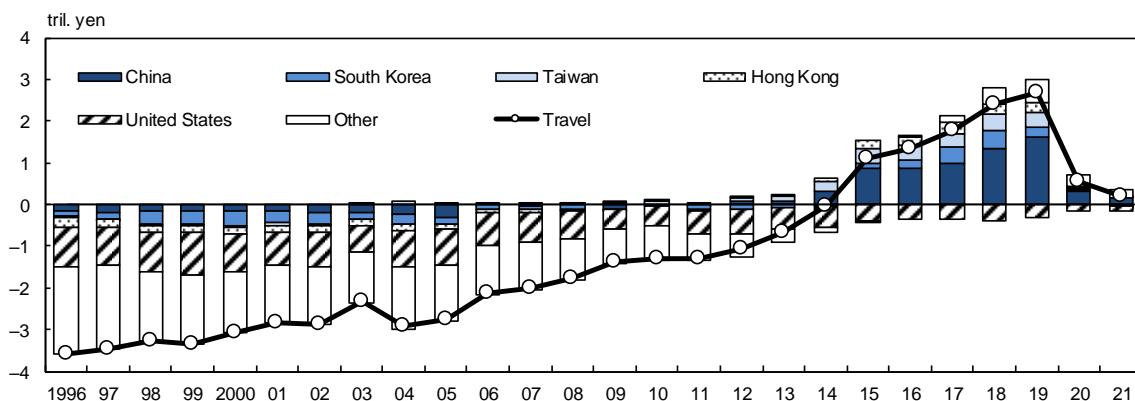
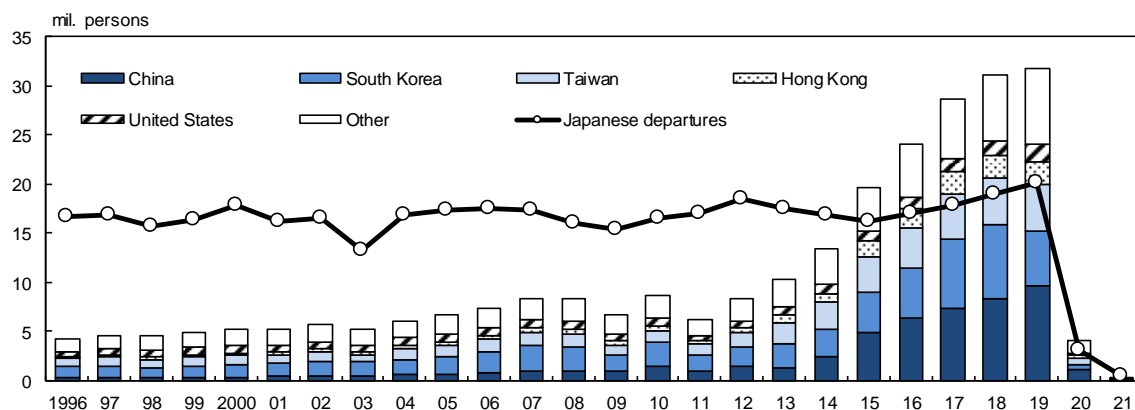


Figure 13: Number of Foreign Arrivals by Partner Economy and Number of Japanese Departures



Sources: Immigration Services Agency of Japan; Japan National Tourism Organization (JNTO).

2. Other services (charges for the use of intellectual property n.i.e.)

The deficit on other services increased slightly, mainly due to the rise in the deficit on "telecommunications, computer, and information services."

The surplus on charges for the use of intellectual property n.i.e. increased to 2.0 trillion yen in 2021 from 1.6 trillion yen in 2020, mainly reflecting the rise in receipts of "charges for the use of industrial property n.i.e." due to an increase in production and sales of Japanese manufacturers' overseas affiliates. By region, receipts of charges for the use of intellectual property n.i.e. increased particularly from Asia and North America.

Figure 14: Other Services Balance

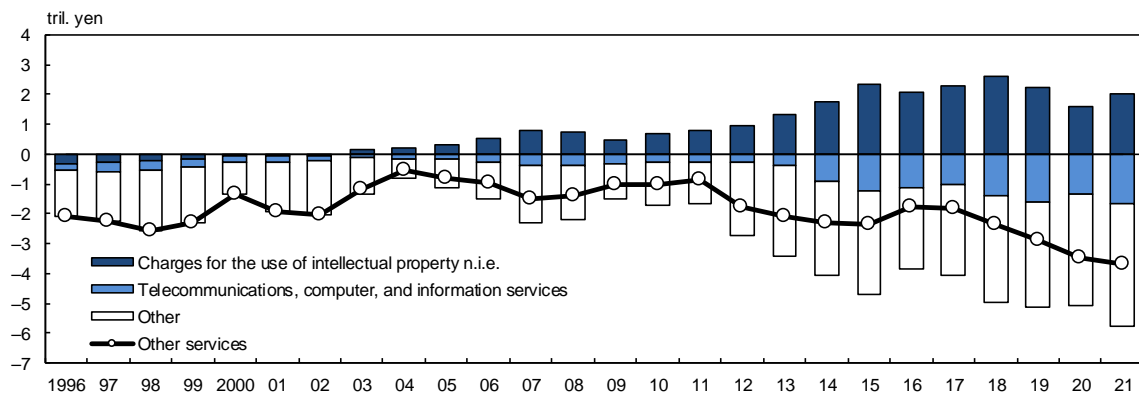


Figure 15: Charges for the Use of Intellectual Property n.i.e.

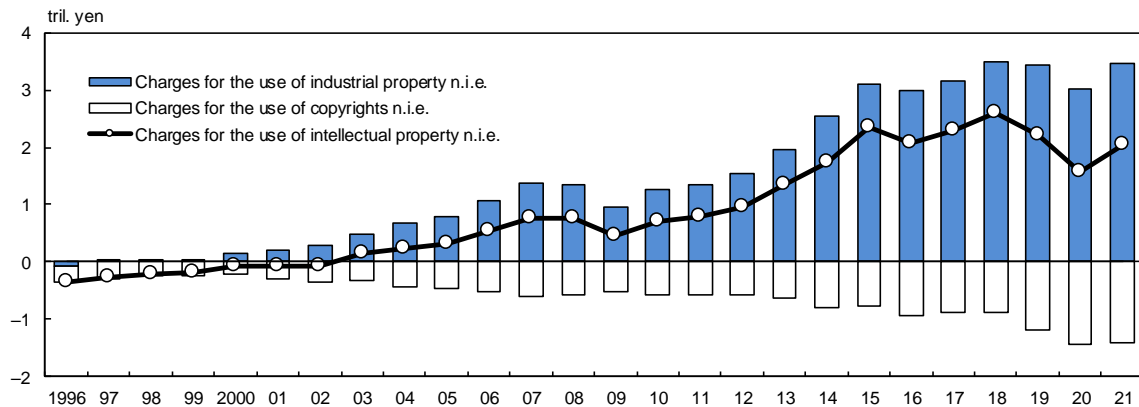
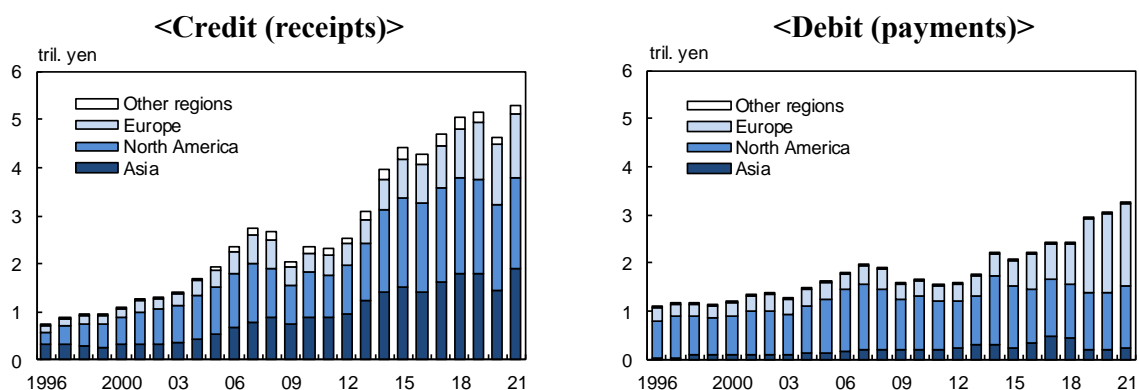


Figure 16: Charges for the Use of Intellectual Property n.i.e. by Region

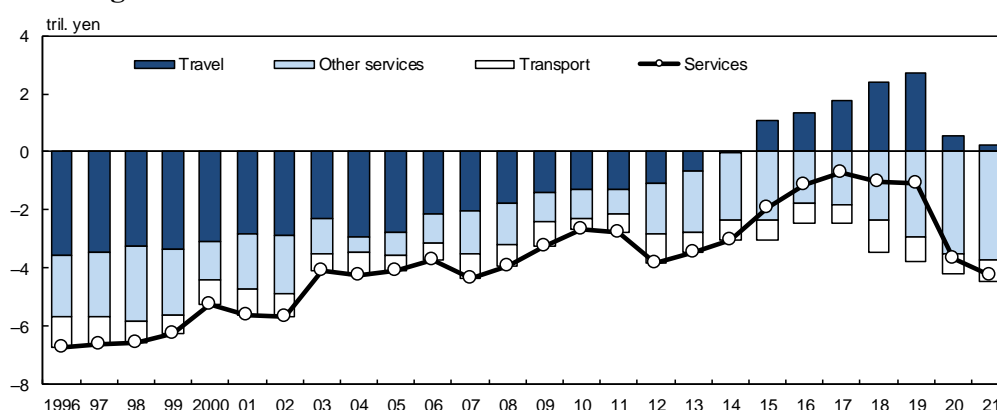


Appendix 1. Developments in Services

Developments in services overall

Japan's services balance has consistently been in deficit since 1996, from when comparable data under the current statistical standards are available. While the deficit followed a decreasing trend before the outbreak of COVID-19, it has been widening again since 2020, mainly due to the decline in the number of foreign travelers to Japan and the increase in digital-related payments such as for IT services and content distribution.

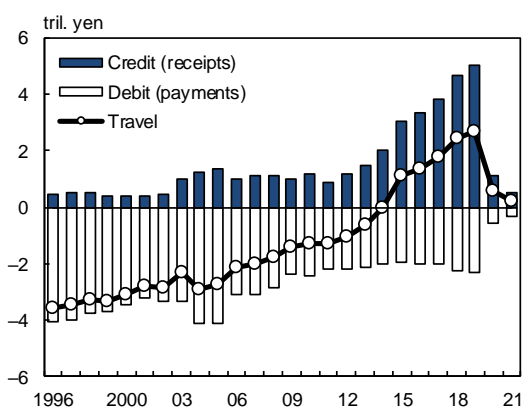
Appendix Figure 1.1: Services Balance



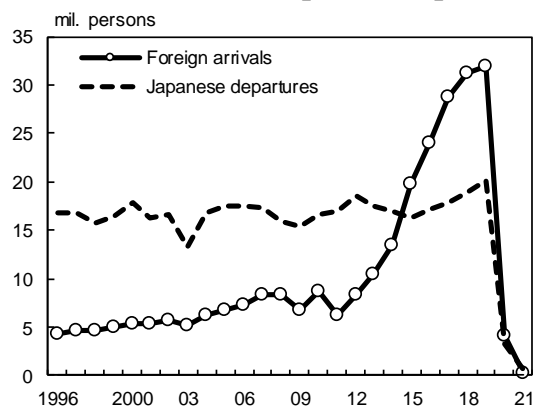
Developments in travel

The travel balance has been in surplus since 2015 due to a significant increase in receipts (i.e., consumption by foreign travelers in Japan) and a moderate decrease in payments (i.e., consumption by Japanese travelers abroad). Following the outbreak of COVID-19, the surplus fell sharply, reflecting the substantial reduction in the number of inbound and outbound travelers due to the imposition of entry and travel restrictions across economies.

Appendix Figure 1.2: Travel Balance



Appendix Figure 1.3: Number of Foreign Arrivals and Japanese Departures



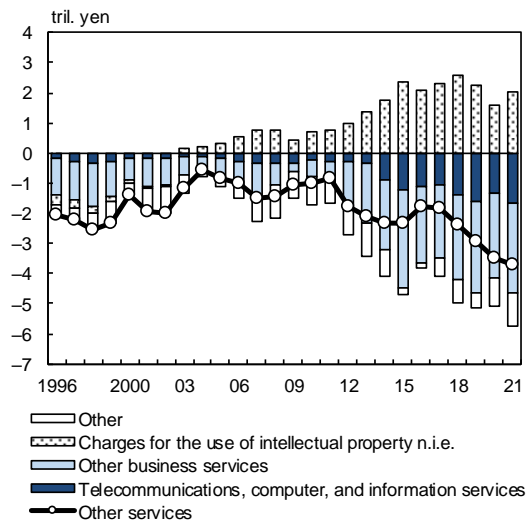
Sources: Immigration Services Agency of Japan;
JNTO.

Developments in other services

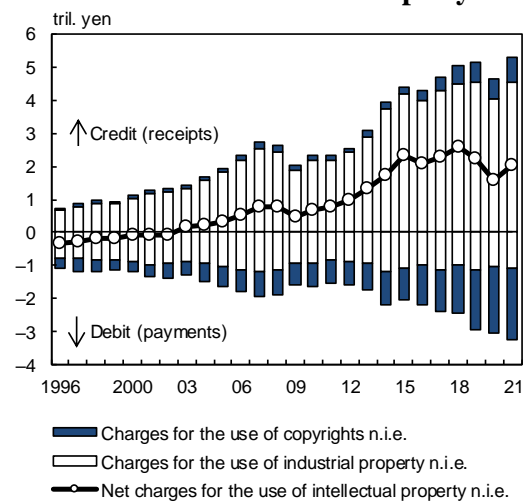
The deficit on "other services" has been widening in recent years.

A breakdown of "other services" is as follows. "Charges for the use of intellectual property n.i.e." have registered a surplus since 2003, fueled by receipts of "charges for the use of industrial property n.i.e."; however, in recent years, the surplus has stopped growing and has remained more or less unchanged, reflecting an increase in payments of "charges for the use of copyrights n.i.e." Meanwhile, payments have been increasing for "computer services" under "telecommunications, computer, and information services" and for "professional and management consulting services" under "other business services."

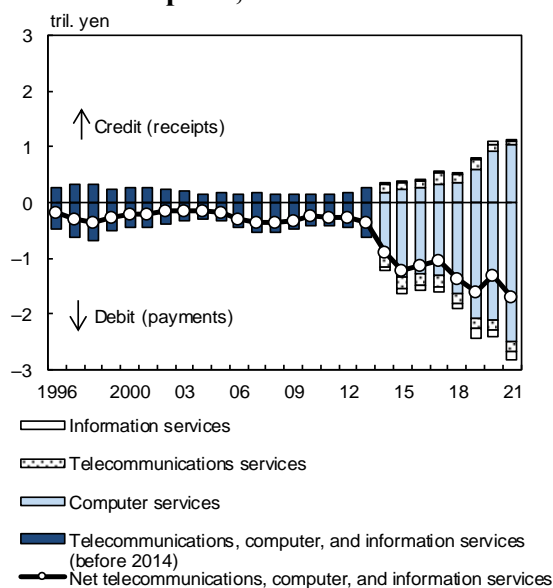
Appendix Figure 1.4: Other Services Balance



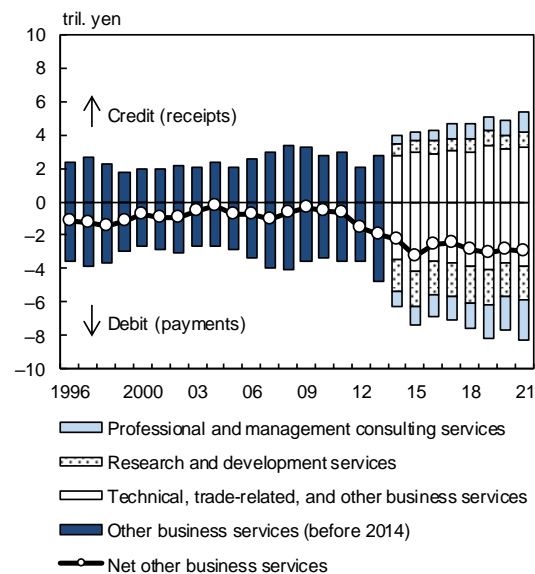
Appendix Figure 1.5: Charges for the Use of Intellectual Property n.i.e.



Appendix Figure 1.6: Telecommunications, Computer, and Information Services



Appendix Figure 1.7: Other Business Services



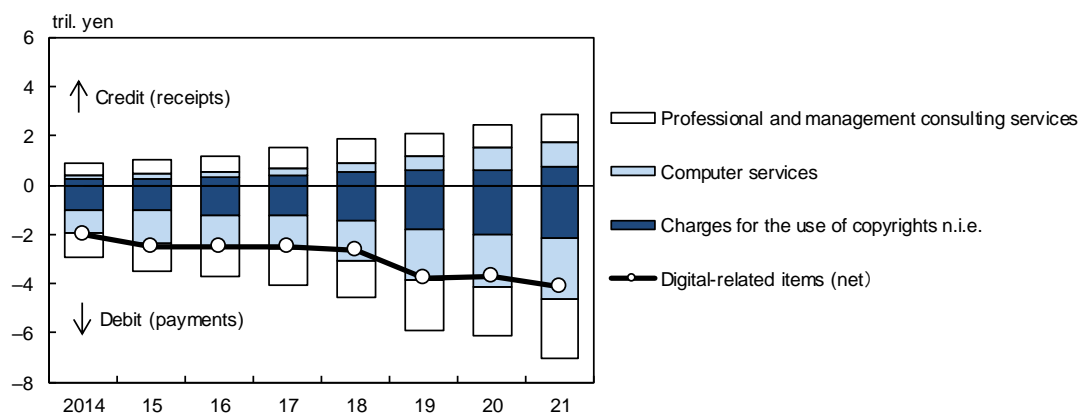
Digital-related expenditure

Among the items mentioned in the preceding section, "charges for the use of copyrights n.i.e.," "computer services," and "professional and management consulting services" are items that include transactions in content distribution, which became the focus of attention due to stay-at-home demand during the COVID-19 pandemic, and digital-related expenditure of enterprises. While both receipts and payments in these digital-related items have been increasing in recent years, the increase in payments has been greater than that in receipts, contributing to the rise in the deficit on services.

Appendix Table 1: Major Items That Include Digital-Related Transactions²

Item	Major transactions
Computer services	<ul style="list-style-type: none"> ✓ Charges for downloading of or subscribing to games and other packaged software. ✓ Costs of developing customized software and fees for using cloud services.
Charges for the use of copyrights n.i.e.	<ul style="list-style-type: none"> ✓ License fees for manufacturing and selling games and other software provided on physical media. ✓ License fees for selling computers on which an operating system is installed. ✓ License fees for distributing music and video.
Professional and management consulting services	<ul style="list-style-type: none"> ✓ Sales of online advertising space.

Appendix Figure 1.8: Digital-Related Items



² While in this appendix digital-related items are regarded as consisting of "charges for the use of copyrights n.i.e.," "computer services," and "professional and management consulting services," other items may also include digital-related expenditures. In addition, "charges for the use of copyrights n.i.e." include transactions other than those involving content, such as license fees for the use of characters, while "professional and management consulting services" include sponsorship and other fees.

C. Primary Income

The surplus on primary income increased to 20.5 trillion yen in 2021 from 19.1 trillion yen in 2020. Although the surplus on "portfolio investment income" declined, that on "direct investment income" climbed.

Looking at direct investment income by region, the increase in the surplus on such investment income was led by a rise in the surplus vis-à-vis Europe and Asia.

Looking at portfolio investment income by component, the surplus on such investment income declined mainly because receipts of "interest" decreased.

Figure 17: Primary Income Balance

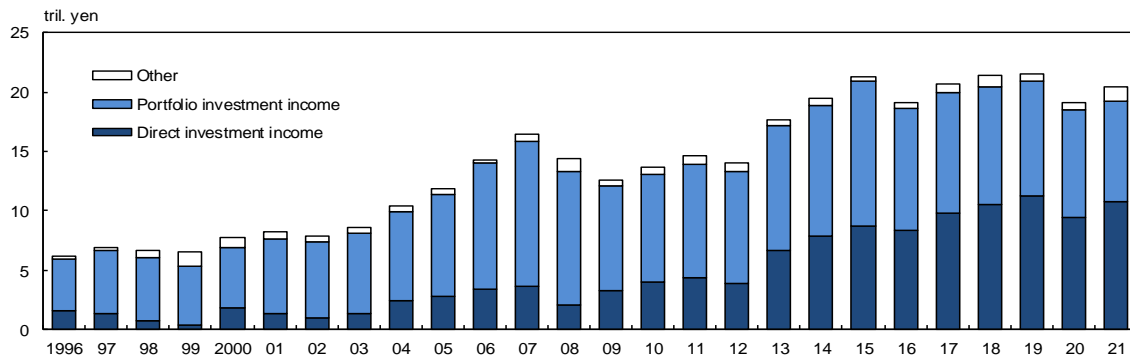


Figure 18: Direct Investment Income by Region

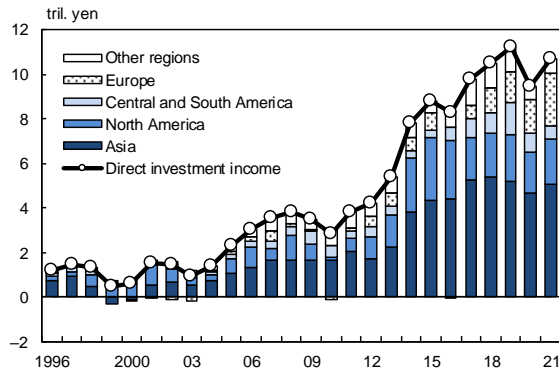


Figure 19: Direct Investment Income by Industry

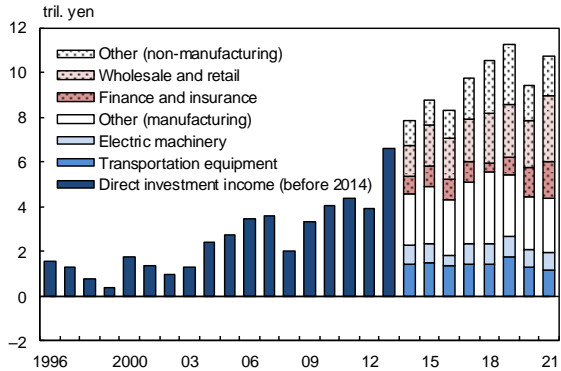


Figure 20: Portfolio Investment Income by Region

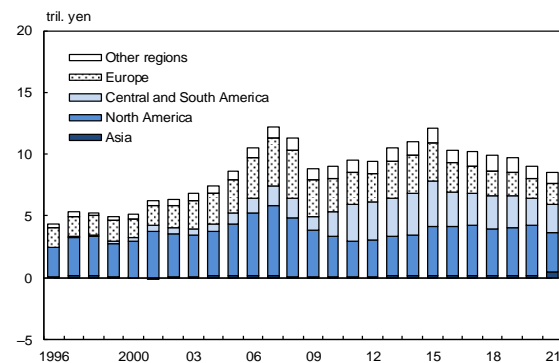
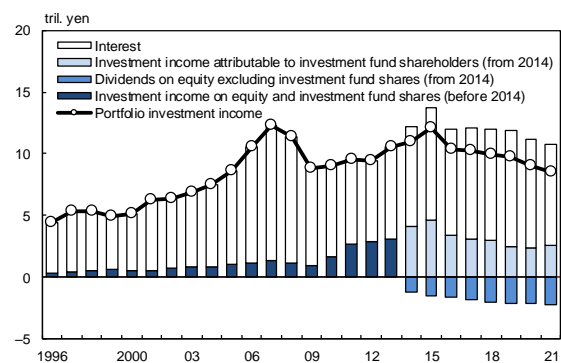


Figure 21: Portfolio Investment Income by Component

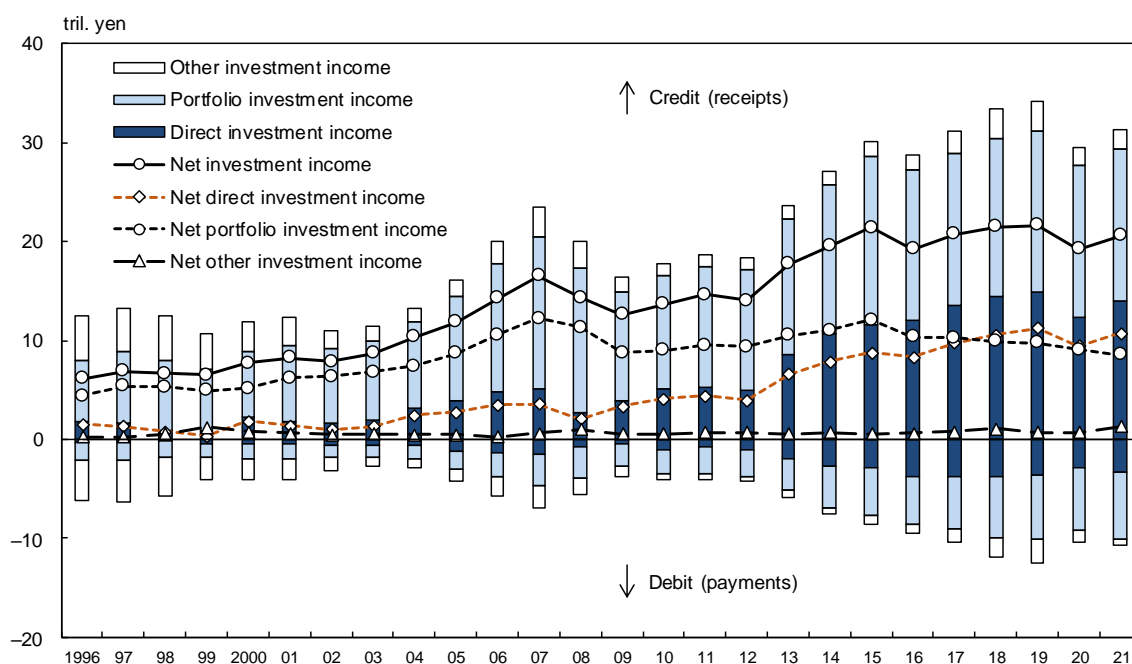


Appendix 2. Developments in Portfolio Investment Income

Developments in investment income overall

Since the latter half of the 2000s, the surplus on primary income, especially the surplus on investment income, has been a major contributor to Japan's current account surplus. The surplus on investment income has remained more or less unchanged since 2015. In 2020, under the initial impact of COVID-19, the surplus on investment income registered the largest fall since 1997, from when comparable data are available, mainly due to a decline in receipts of "direct investment income," particularly receipts of reinvested earnings.³ However, in 2021, the surplus rose again, reflecting an increase in receipts of "direct investment income," particularly of dividends and withdrawals from income of quasi-corporations.

Appendix Figure 2.1: Investment Income



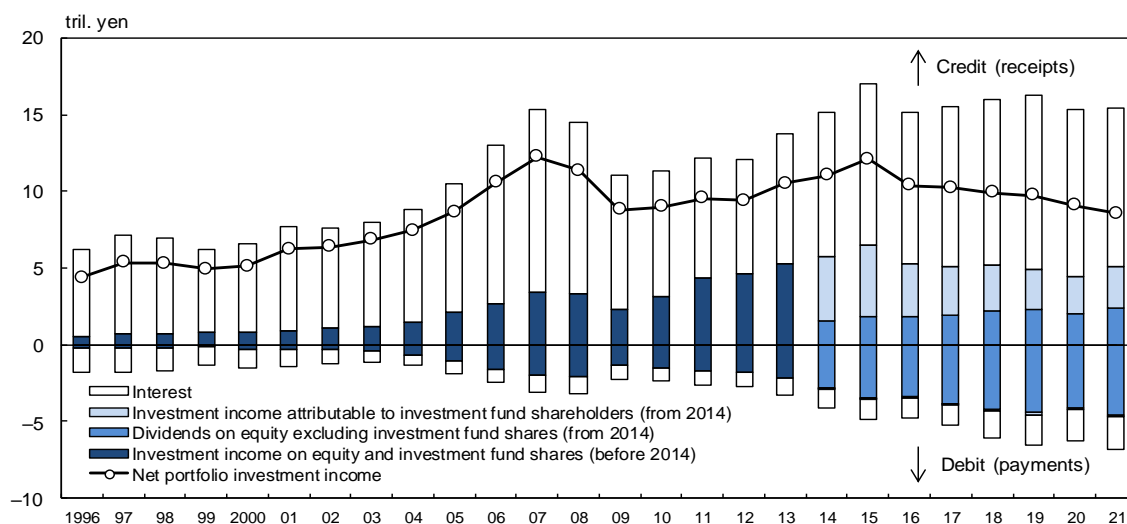
Developments in portfolio investment income

Meanwhile, the surplus on "portfolio investment income" has been on the decline, as payments have followed an increasing trend while receipts have remained more or less unchanged. The following provides an overview of recent trends in receipts and payments of portfolio investment income by component, while also taking a look at the composition of

³ For the recording and revision of reinvested earnings, see Appendix 4 entitled "Developments in Direct Investment Income and Its Recording Method" of "Japan's Balance of Payments Statistics and International Investment Position for 2020" (August 2021).

and developments in the principal of portfolio investment.⁴ The seasonality of receipts and payments of portfolio investment income is also examined.

Appendix Figure 2.2: Portfolio Investment Income



a. Receipts

(1) Dividends on equity excluding investment fund shares

The asset position in "equity securities other than investment fund shares" -- of which U.S. equity securities account for nearly 70 percent -- has been on an increasing trend, reflecting the rise in U.S. stock prices. Receipts of "dividends on equity excluding investment fund shares" also have followed an uptrend, increasing by more than 20 percent in 2021, after having decreased for the first time in four years in 2020 when firms reduced dividends amid the COVID-19 pandemic.

(2) Investment income attributable to investment fund shareholders

The asset position in "investment fund shares or units" mainly consists of yen-denominated Cayman fund shares or units, with those issued by companies residing in the Cayman Islands accounting for nearly 70 percent. While "investment income attributable to investment fund shareholders" had been decreasing since 2016, in 2021 it increased again.

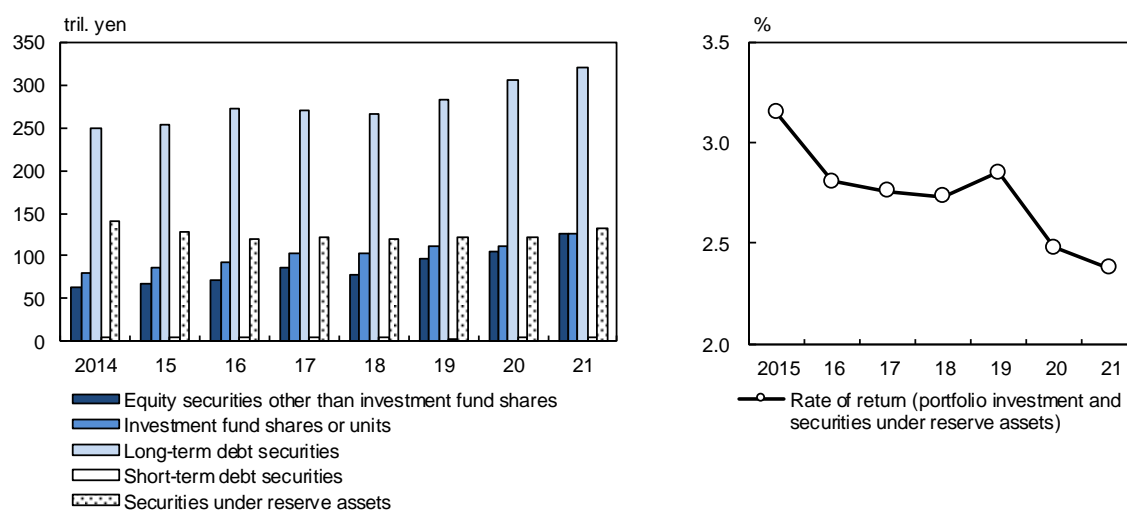
⁴ The analytical usefulness of figures before 2014 -- that is, historical data rearranged based on the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) -- is limited as these figures differ from those compiled based on the BPM6 in that (1) "equity and investment fund shares" (principal) and "investment income on equity and investment fund shares" (income) are not broken down and (2) open-ended contract-type investment funds (principal) are included in "long-term debt securities" (meanwhile, most of the income accrued from such investment funds is included in "investment income on equity and investment fund shares"). For this reason, the following sections mainly examine developments in figures from 2014 onward.

(3) Interest

"Interest," which includes income received by financial institutions and other entities as well as investment income accrued on reserve assets, accounts for about 70 percent of portfolio investment income receipts. Looking at the currency composition of the asset position in debt securities, 88 percent of "debt securities" under portfolio investment are denominated in foreign currencies. When securities under reserve assets are added, 92 percent of debt securities are denominated in foreign currencies.⁵ This implies that for the most part interest receipts are also denominated in foreign currencies and therefore susceptible to fluctuations in exchange rates.

Looking at developments in recent years, the sum of the asset positions in "debt securities" under portfolio investment and "securities under reserve assets" has followed an increasing trend, albeit with fluctuations due to exchange rate movements. However, reflecting the fall in U.S. dollar and euro interest rates, interest receipts in 2021 decreased for the second consecutive year. Moreover, the rate of return fell to a range of 2.0-2.5 percent in 2020.

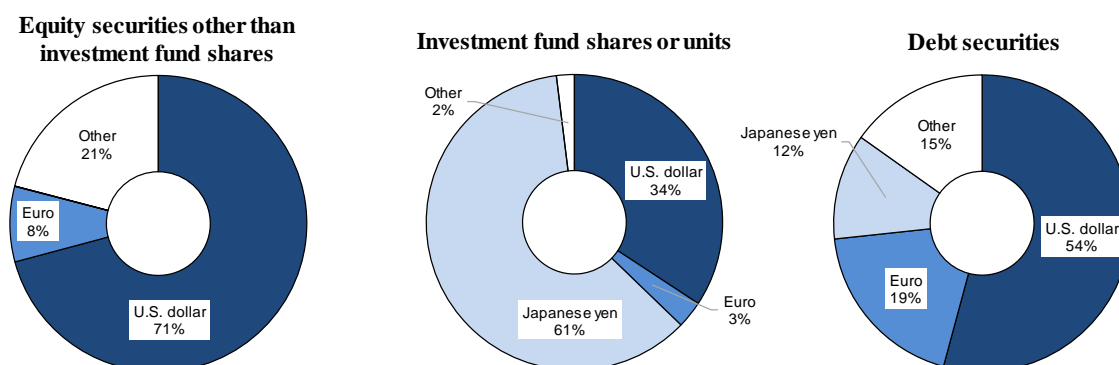
Appendix Figure 2.3: Portfolio Investment Position (Assets) and Rate of Return⁶



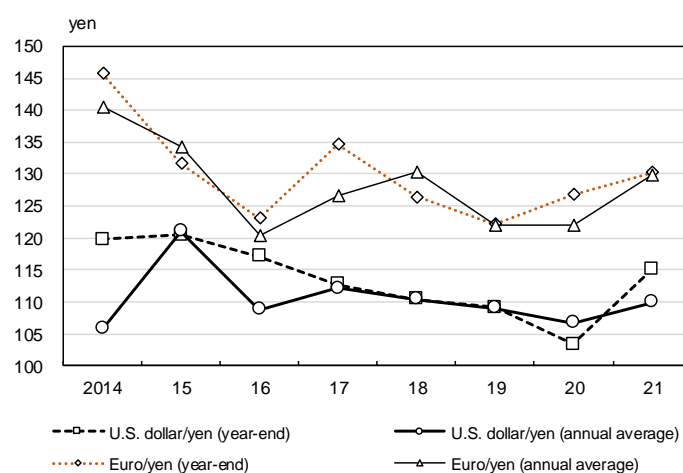
⁵ The position in securities under reserve assets is calculated based on the "International Reserves/Foreign Currency Liquidity" released by the Ministry of Finance, with the value of "securities" denominated in U.S. dollars converted into yen using the year-end U.S. dollar/yen Tokyo interbank market rate. In the following, all "securities" under reserve assets are counted as debt securities.

⁶ The rate of return is calculated by dividing the annual investment income receipts by the asset position at the previous year-end.

Appendix Figure 2.4: Currency Composition of Portfolio Investment Position (Assets) at Year-End 2021



Appendix Figure 2.5: Foreign Exchange Rates



b. Payments

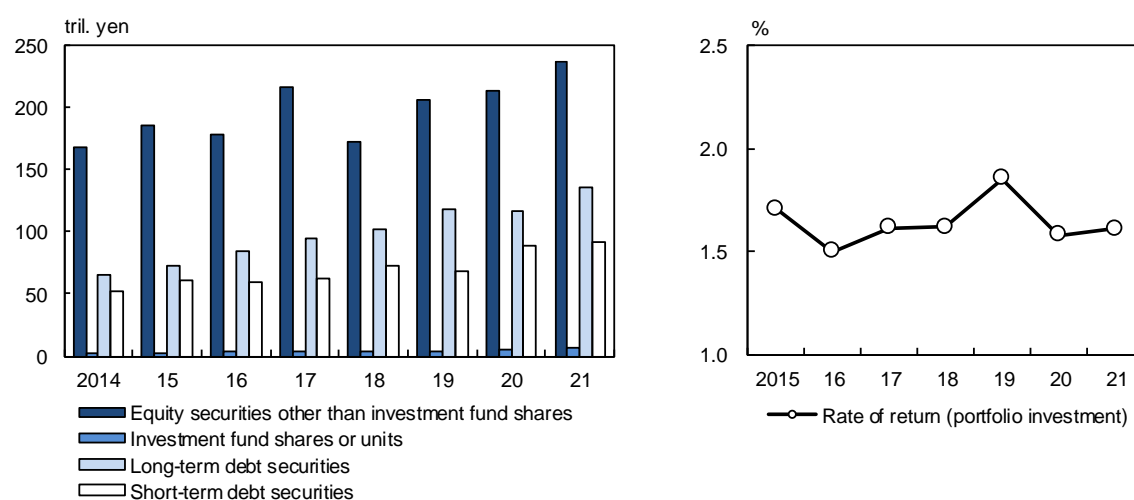
(1) Dividends on equity excluding investment fund shares

"Equity securities other than investment fund shares" account for about half of the liability position in portfolio investment, and "dividends on equity excluding investment fund shares" account for nearly 70 percent of portfolio investment income payments. Since the liability position in "equity securities other than investment fund shares" has followed an increasing trend, albeit with fluctuations due to swings in stock prices, payments of "dividends on equity excluding investment fund shares" also have followed an upward trend. Like dividend receipts, dividend payments in 2020 decreased for the first time in four years but then increased by more than 10 percent in 2021.

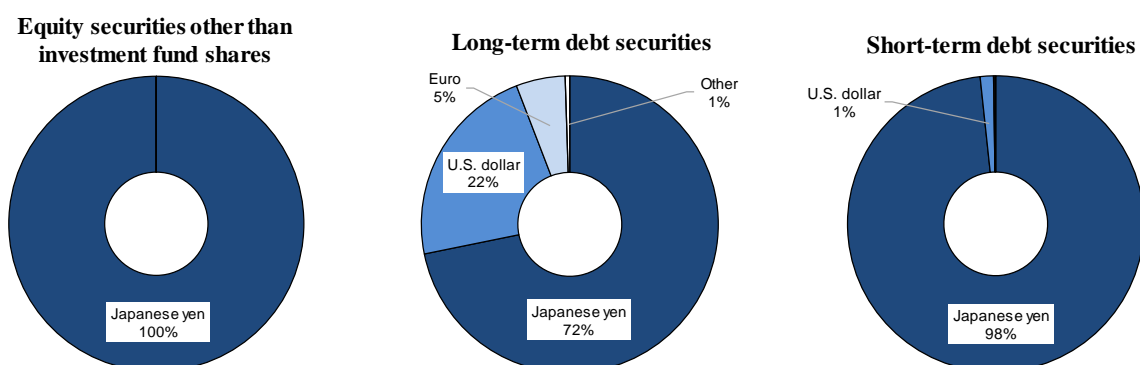
(2) Interest

Looking at the currency composition of the liability position in debt securities, 72 percent of "long-term debt securities" and 98 percent of "short-term debt securities" are denominated in yen. Interest payments have increased for five consecutive years, reflecting the increase in liabilities in long-term debt securities. Meanwhile, the increase in liabilities in "short-term debt securities" has not led to an increase in interest payments, as interest on such securities has been negative since 2016.

Appendix Figure 2.6: Portfolio Investment Position (Liabilities) and Rate of Return⁷

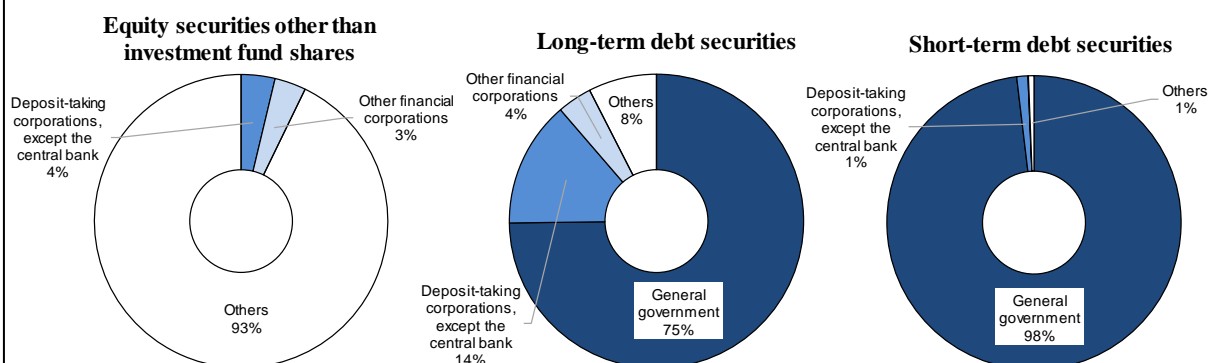


Appendix Figure 2.7: Currency Composition of Portfolio Investment Position (Liabilities) at Year-End 2021



⁷ The rate of return is calculated by dividing the annual investment income payments by the liability position at the previous year-end.

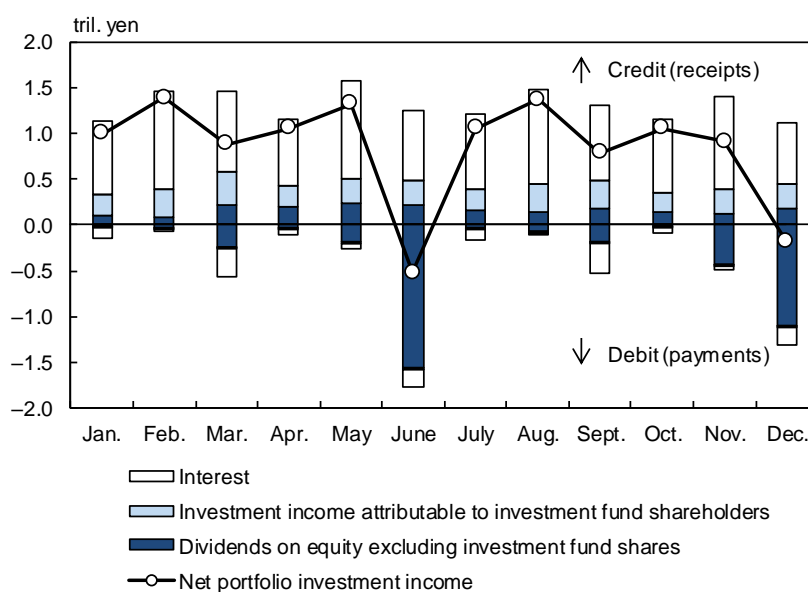
Appendix Figure 2.8: Composition of Portfolio Investment Position (Liabilities) by Sector of Issuer at Year-End 2021



c. Seasonality of portfolio investment income

Monthly figures of portfolio investment income from 2014 through 2021 show that receipts of such income tend to be relatively large in February, May, August, and November, when interest on U.S. government bonds is paid. Meanwhile, portfolio investment income payments reach a peak in June, which is when payments of year-end dividends of Japanese firms whose accounting year ends in March are concentrated (portfolio investment income payments also tend to be large in December, which is when payments of interim dividends are made). In addition, interest payments are relatively large in March, June, September, and December, when interest on Japanese government bonds is paid. As a result, "net portfolio investment income" tends to be negative in June and December.

Appendix Figure 2.9: Portfolio Investment Income (Monthly, Average from 2014 through 2021)



D. Secondary Income

As for secondary income, the deficit narrowed to 2.4 trillion yen in 2021 from 2.6 trillion yen in 2020, primarily reflecting a fall in contributions to international organizations in the "general government" sector.

Figure 22: Secondary Income Balance⁸

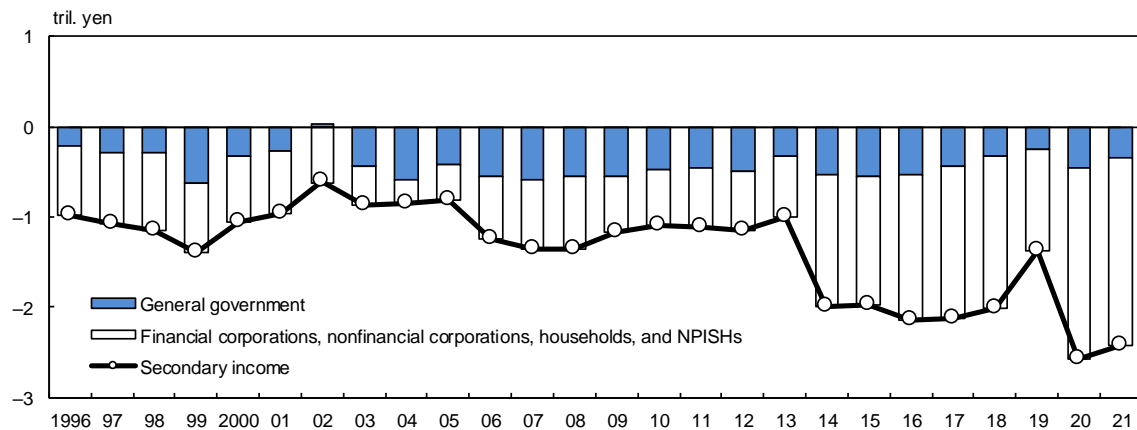
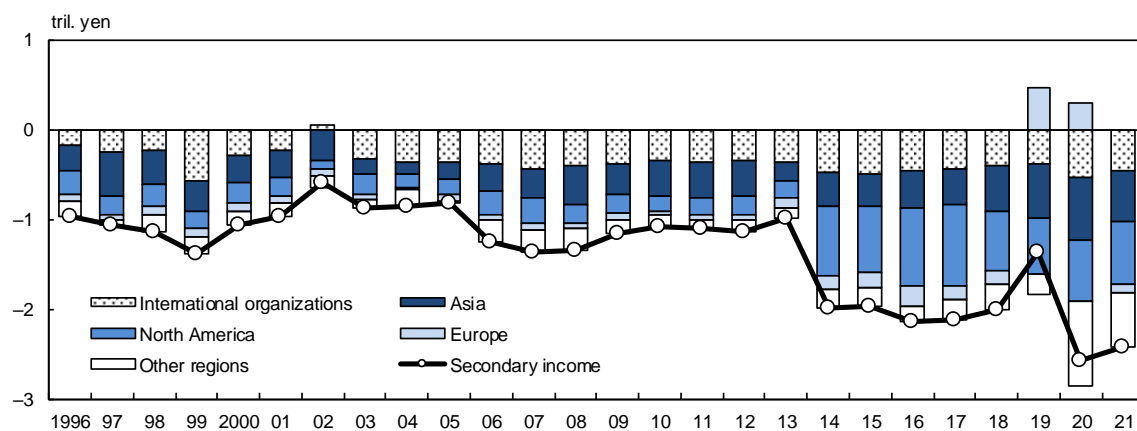


Figure 23: Secondary Income by Region



⁸ "NPISHs" stands for "nonprofit institutions serving households."

II. Developments in the Financial Account in 2021

A. Direct Investment Assets (Outward Direct Investment)

Net acquisitions of direct investment assets increased to 16.4 trillion yen in 2021 from 15.7 trillion yen in 2020, mainly due to a rise in net acquisitions of "equity other than reinvestment of earnings."

By region and industry, net outward investment based on the directional principle increased, mainly because investment in the "manufacturing" sector in Europe shifted to net acquisitions.

Figure 24: Direct Investment Assets

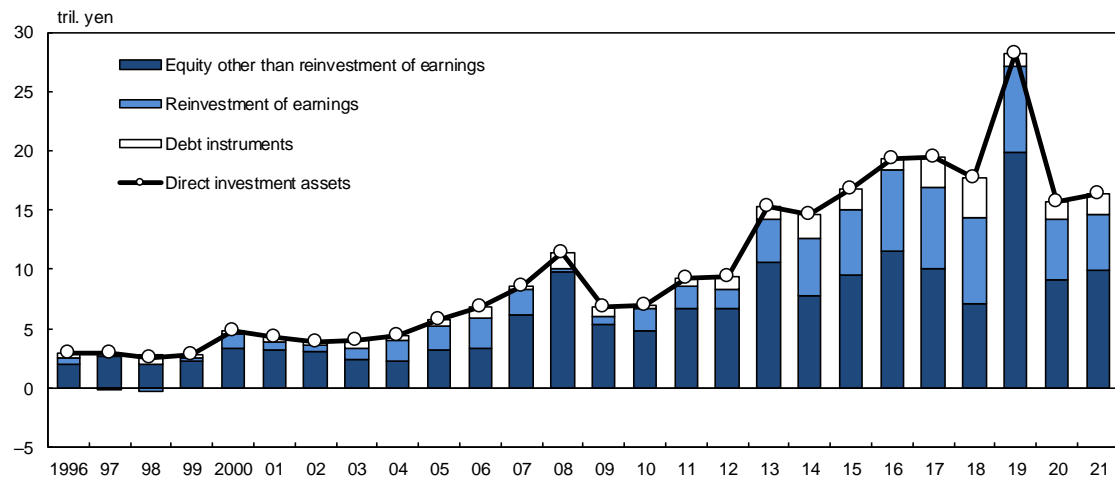
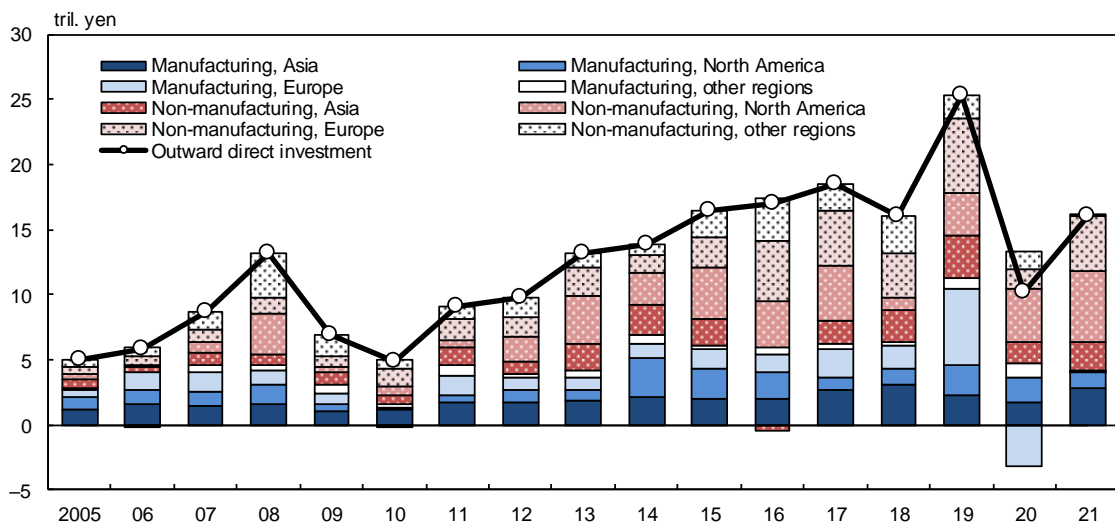


Figure 25: Outward Direct Investment by Region and Industry (Directional Principle Basis)



B. Direct Investment Liabilities (Inward Direct Investment)

Net incurrence of direct investment liabilities decreased to 3.0 trillion yen in 2021 from 6.6 trillion yen in 2020, mainly because investment in "debt instruments" shifted to net withdrawals due to the collection of loans provided by overseas subsidiaries (loan repayments by Japanese parent companies).

Figure 26: Direct Investment Liabilities

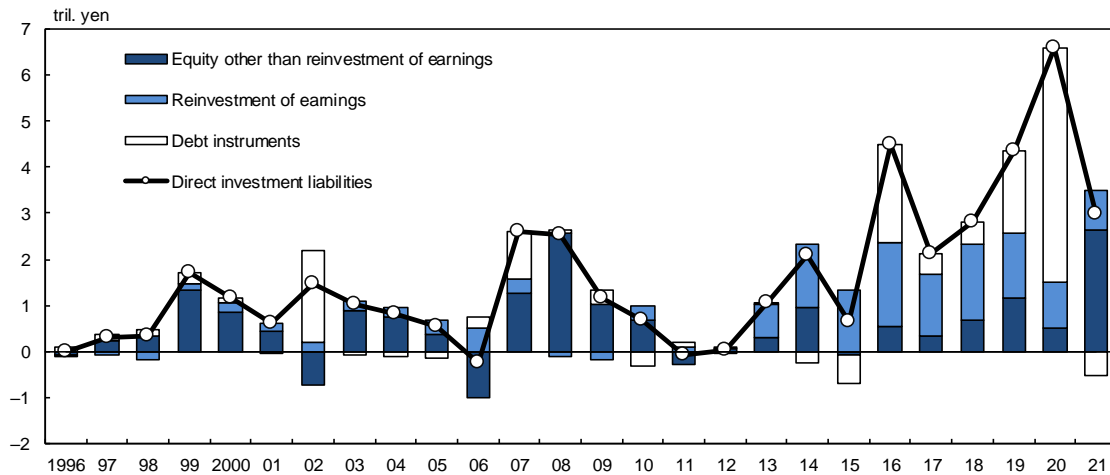
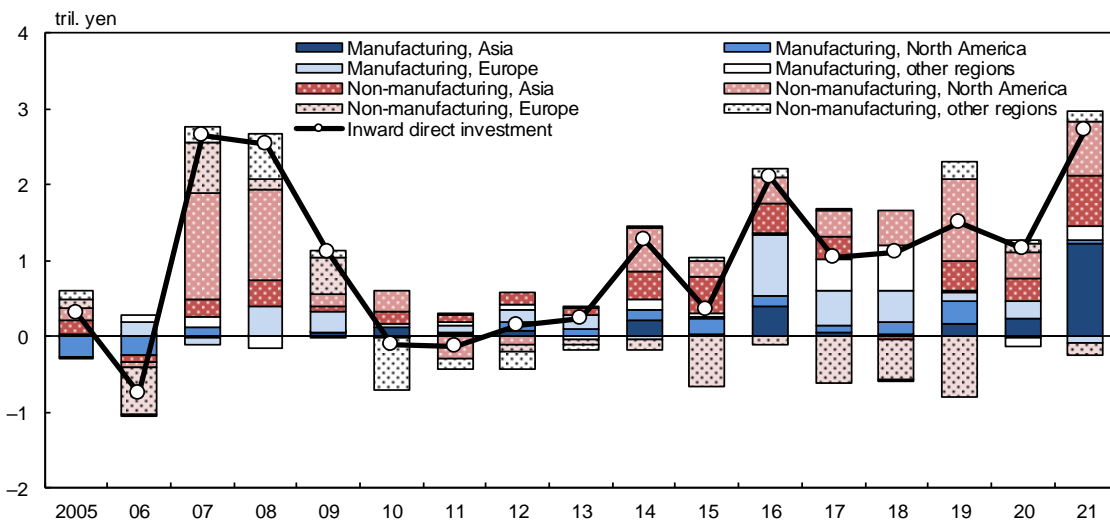


Figure 27: Inward Direct Investment by Region and Industry (Directional Principle Basis)

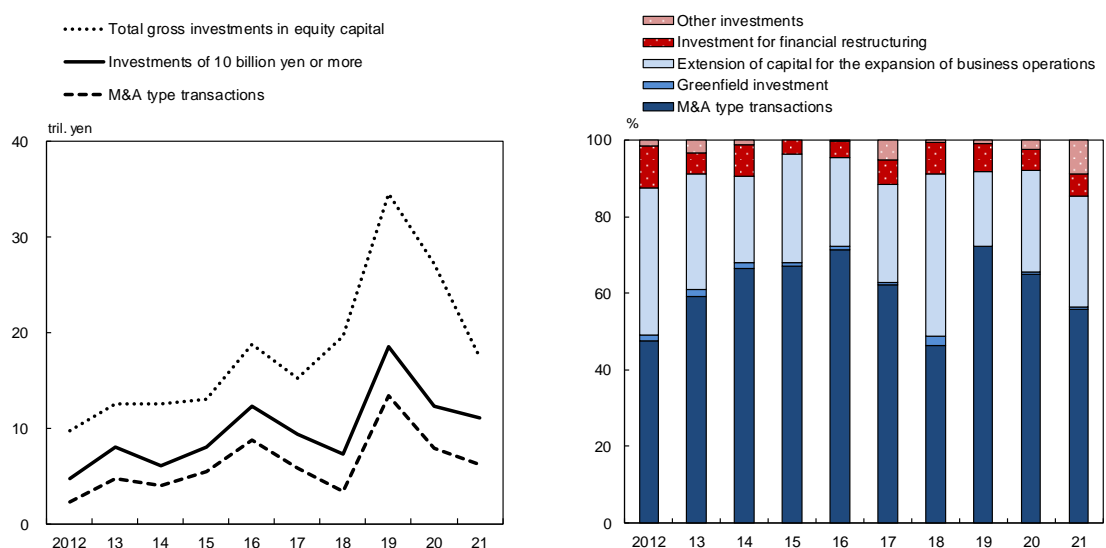


Appendix 3. Developments in Direct Investment by Type of Investment⁹

Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, in 2021, "M&A type transactions" consisting of the acquisition of foreign firms by Japanese firms continued to account for a significant share. The second-largest share was accounted for by the "extension of capital for the expansion of overseas business operations." "Greenfield investment" -- in which new enterprises are established by investors -- continued to be low.

On the other hand, investments under direct investment liabilities continued to be low compared to those under direct investment assets. A breakdown by type of investment shows that, in 2021, the share of "M&A type transactions" intended for the acquisition of Japanese firms by foreign investors increased significantly reflecting large-scale M&As.

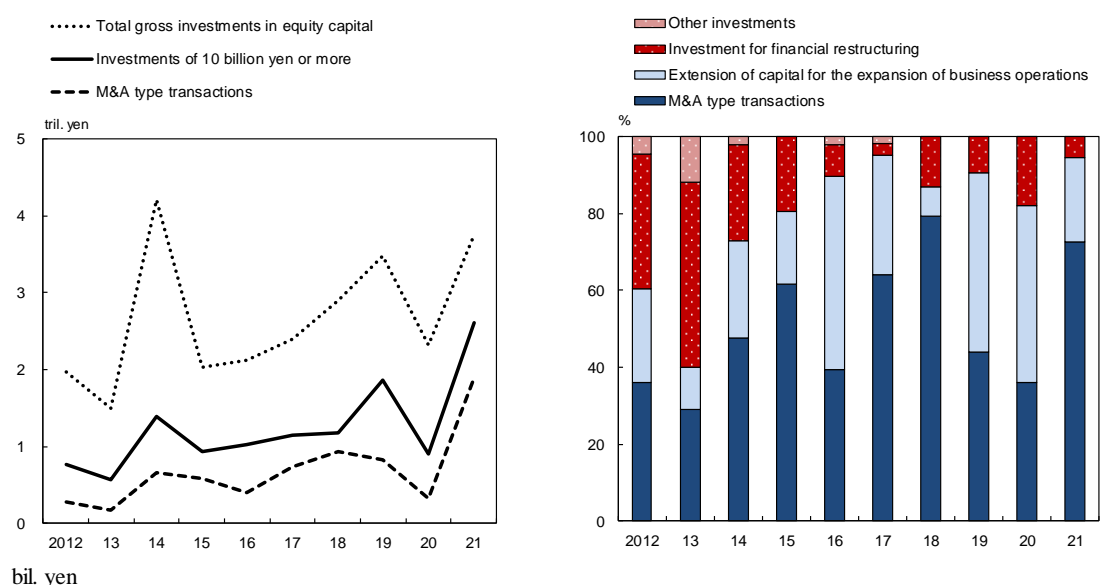
Appendix Figure 3.1: Direct Investment Assets by Type of Investment (Gross Value Basis, Investments of 10 Billion Yen or More)



Direct investment assets	M&A type transactions	Greenfield investment	Extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	Total gross investments in equity capital
2012	2,224.6	65.2	1,795.0	524.1	64.1	9,783.7
2013	4,750.3	143.4	2,411.4	435.2	273.8	12,491.6
2014	4,013.9	81.9	1,370.2	484.9	77.2	12,565.4
2015	5,419.2	55.1	2,285.7	304.9	—	12,998.0
2016	8,761.7	101.5	2,848.8	530.0	38.0	18,785.4
2017	5,798.5	77.7	2,375.5	594.2	497.9	15,233.4
2018	3,391.3	172.9	3,096.0	600.7	38.6	19,572.6
2019	13,405.4	52.0	3,584.7	1,353.5	193.7	34,600.0
2020	7,949.1	79.0	3,226.2	681.4	306.9	27,177.1
2021	6,157.6	58.3	3,194.9	624.4	978.0	17,448.3

Note: Total gross investments in equity capital include investments below 10 billion yen.

Appendix Figure 3.2: Direct Investment Liabilities by Type of Investment (Gross Value Basis, Investments of 10 Billion Yen or More)



Direct investment liabilities	M&A type transactions	Greenfield investment	Extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	Total gross investments in equity capital
2012	277.3	—	187.7	270.5	35.5	1,973.7
2013	165.8	—	63.8	276.6	68.2	1,496.4
2014	656.9	—	351.1	345.3	29.5	4,202.8
2015	577.1	—	177.2	183.4	—	2,028.8
2016	403.8	—	513.1	83.3	22.3	2,122.7
2017	736.4	—	358.5	35.2	21.7	2,393.1
2018	936.2	—	91.4	154.4	—	2,892.8
2019	821.3	—	864.9	178.4	—	3,482.9
2020	327.0	—	416.1	164.6	—	2,323.7
2021	1,900.1	—	570.2	145.4	—	3,744.3

Note: Total gross investments in equity capital include investments below 10 billion yen.

⁹ Reference figures. In accordance with the BPM6 and the Organisation for Economic Co-operation and Development (OECD) Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4), 2008, direct investment transactions (gross investments in equity capital) are classified into the following five types of investment based on the purpose of investment in the ultimate investee enterprises: (1) M&A type transactions: investment for the acquisition of existing shares; (2) greenfield investment: investment for the establishment of new enterprises; (3) extension of capital for the expansion of business operations: investment for the expansion of business operations; (4) investment for financial restructuring: investment for debt repayment or loss reduction; and (5) other investments: other investments including investment in corporate-type investment trusts.

The classification is applied only to direct investment transactions (gross investments in equity capital) of 10 billion yen or more.

Figures before 2014 based on the fifth edition of the Balance of Payments Manual (BPM5) have been retroactively revised as far back as possible and have been reclassified to the extent possible for comparability following current international standards.

C. Portfolio Investment Assets

Investment in foreign securities by Japanese investors shifted to net sales of 0.6 trillion yen in 2021 from net purchases of 17.2 trillion yen in 2020.

Net sales of foreign equity and investment fund shares decreased, because while net sales of "equity securities other than investment fund shares" continued, net purchases of "investment fund shares or units" increased. By region, investment in Central and South American securities, which include securities issued by companies residing in the Cayman Islands, shifted to net purchases.

Net purchases of long-term debt securities decreased, led by a decline in net purchases by "trusts."¹⁰ By partner economy, net purchases of U.S. securities in particular decreased.

Figure 28: Portfolio Investment Assets

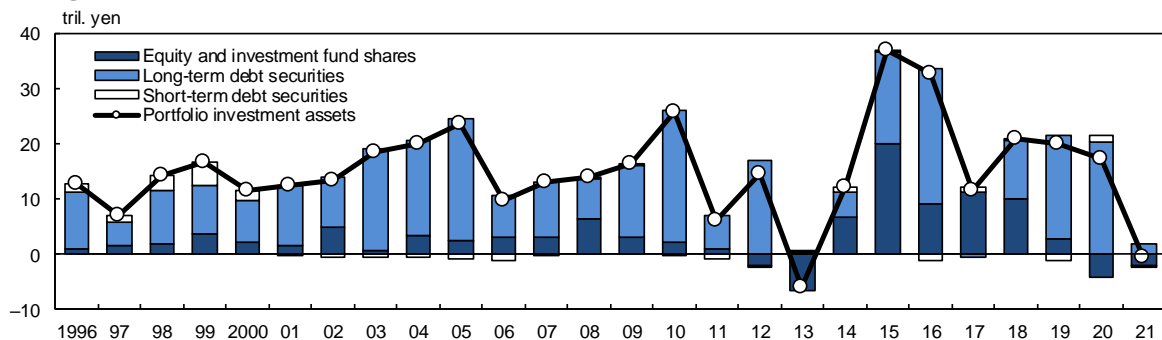


Figure 29: Equity and Investment Fund Shares by Component (Assets)

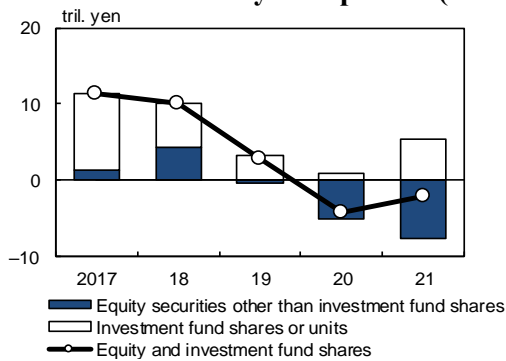


Figure 30: Equity and Investment Fund Shares by Region (Assets)

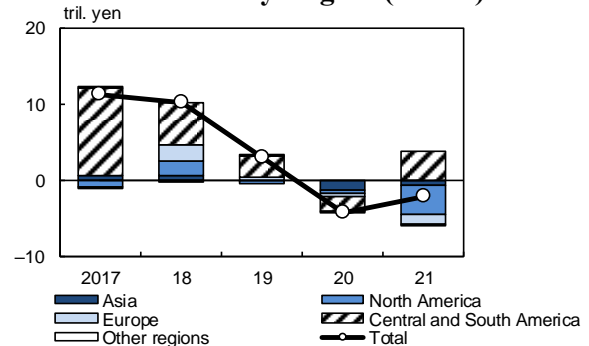


Figure 31: Long-Term Debt Securities by Type of Investor (Assets)

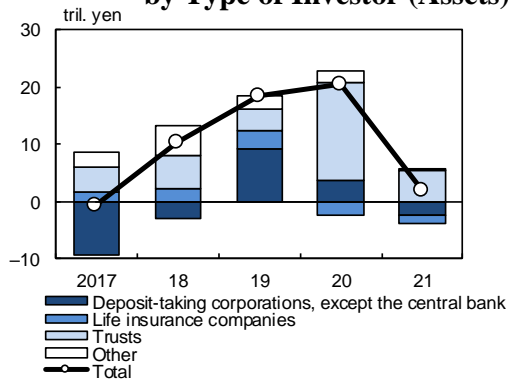
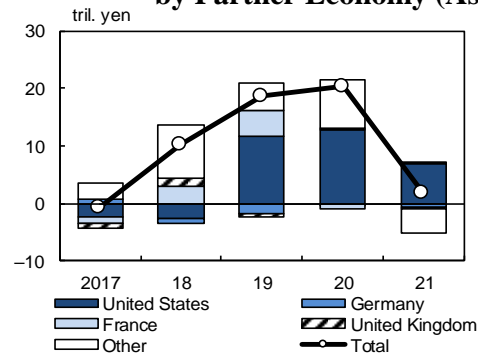


Figure 32: Long-Term Debt Securities by Partner Economy (Assets)



¹⁰ "Trusts" represent the sum of trust accounts of "banks" and "trust banks."

D. Portfolio Investment Liabilities

Net purchases of Japanese securities by foreign investors increased to 21.4 trillion yen in 2021 from 12.9 trillion yen in 2020, mainly because net purchases of "long-term debt securities" increased.

Investment in Japanese equity and investment fund shares shifted to net purchases, mainly because investment in "equity securities other than investment fund shares" shifted to net purchases. Net purchases of Japanese short-term debt securities decreased.

Figure 33: Portfolio Investment Liabilities

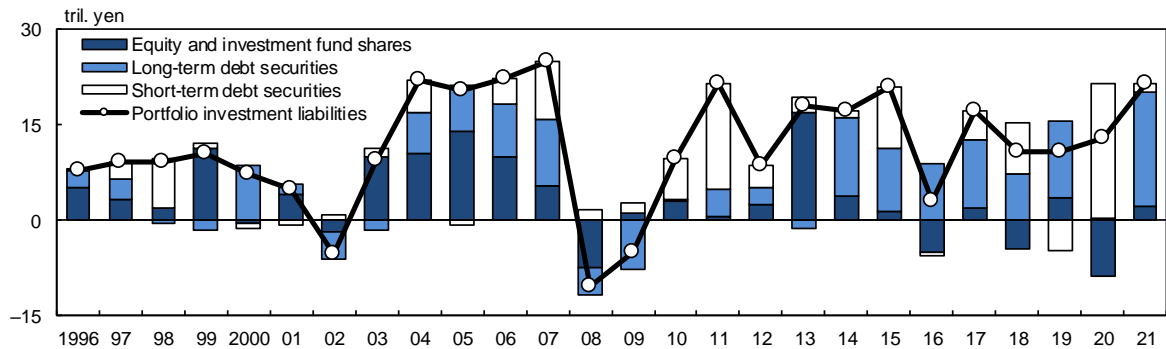


Figure 34: Equity and Investment Fund Shares by Component (Liabilities)

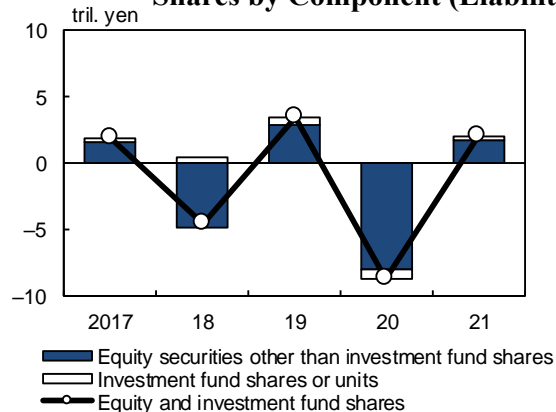


Figure 35: Equity and Investment Fund Shares by Region (Liabilities)

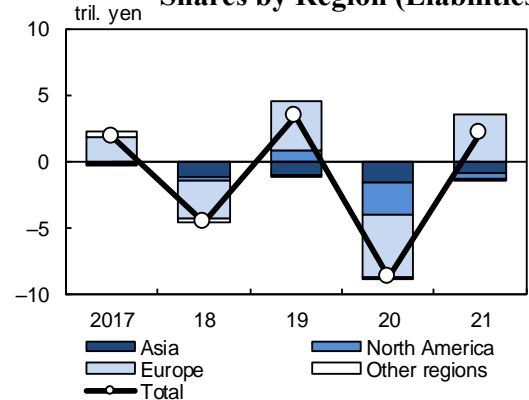


Figure 36: Long-Term Debt Securities (Changes in Liabilities by Region)¹¹

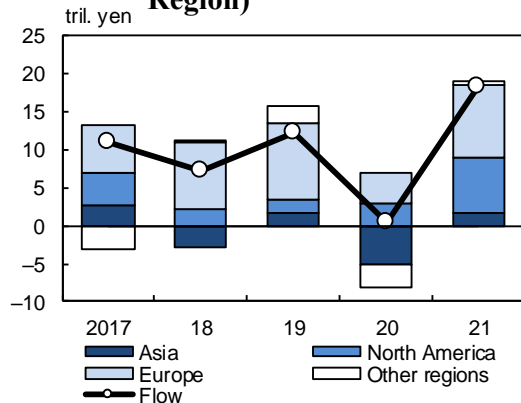
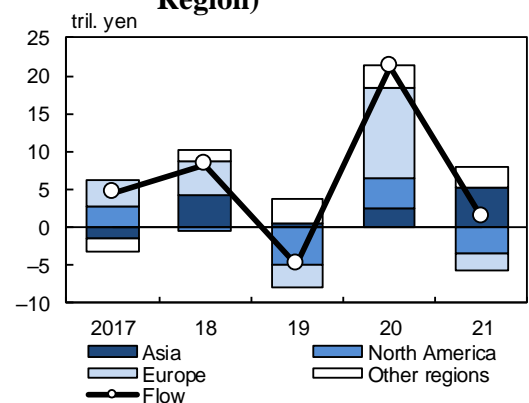


Figure 37: Short-Term Debt Securities (Changes in Liabilities by Region)¹¹

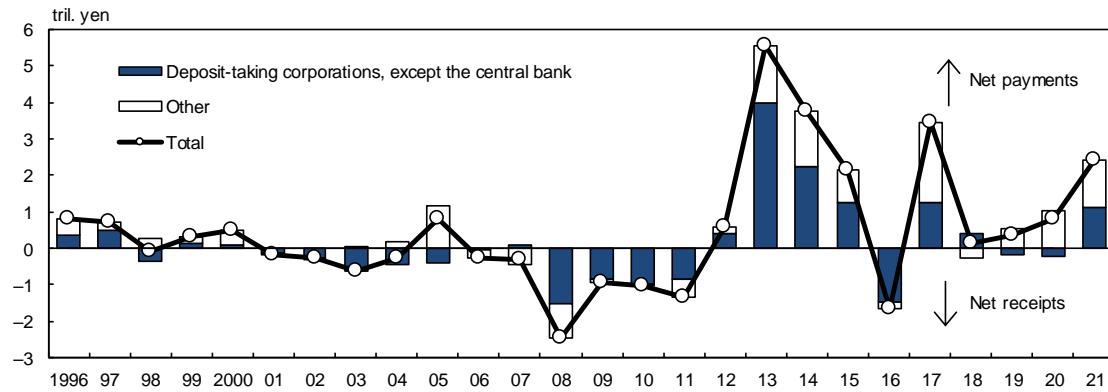


¹¹ There are discrepancies between the flows and the sums of changes in liabilities by region.

E. Financial Derivatives (Other than Reserves)

Net payments of financial derivatives (other than reserves) increased to 2.4 trillion yen in 2021 from 0.8 trillion yen in 2020, mainly because transactions in the "deposit-taking corporations, except the central bank" sector shifted to net payments.

Figure 38: Financial Derivatives (Other than Reserves) by Sector



F. Other Investment

Other investment turned to net lending of 10.1 trillion yen in 2021 from net borrowing of 1.7 trillion yen in 2020, as "loans" turned to net lending.

Figure 39: Other Investment

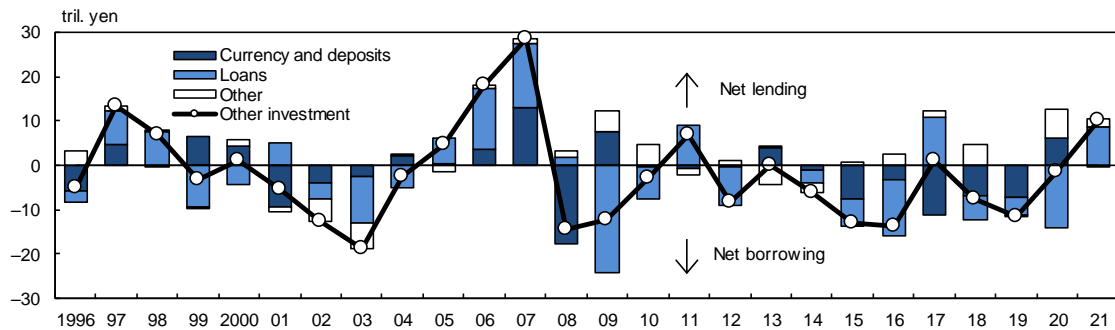


Figure 40: Currency and Deposits

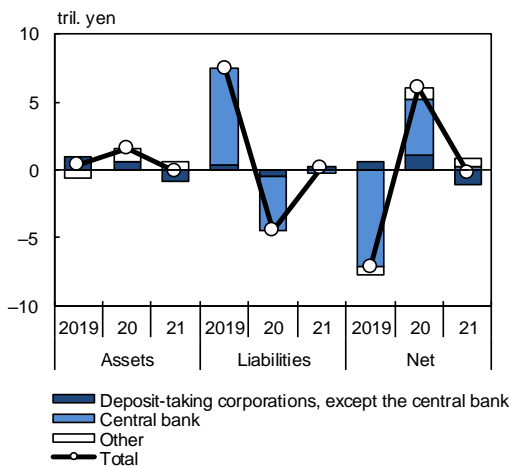
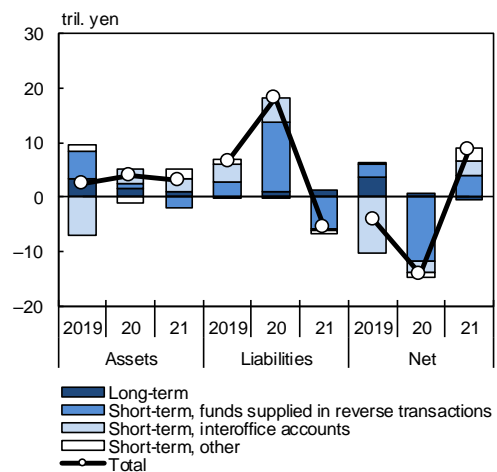


Figure 41: Loans



III. Japan's International Investment Position (IIP) at Year-End 2021

A. Summary

Japan's external financial assets and liabilities both increased, mainly due to increases in "portfolio investment." External financial assets climbed to 1,249.9 trillion yen at year-end 2021 from 1,144.6 trillion yen at year-end 2020, while liabilities increased to 838.7 trillion yen at year-end 2021 from 789.6 trillion yen at year-end 2020.

Japan's net asset position marked a record high, rising to 411.2 trillion yen at year-end 2021 from 355.0 trillion yen at year-end 2020.

Figure 42: Assets

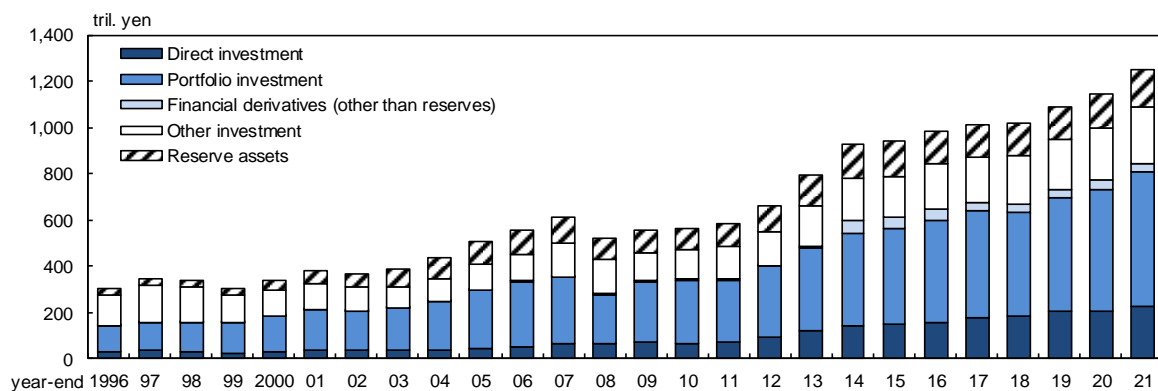


Figure 43: Liabilities

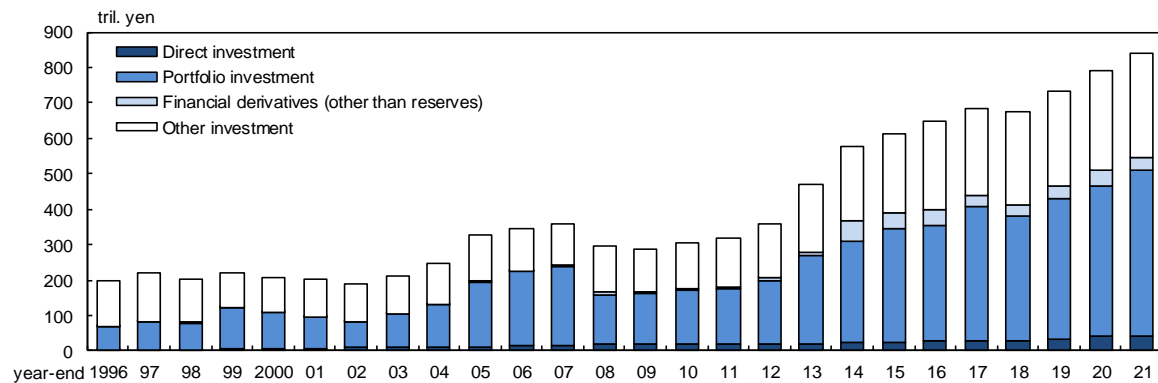
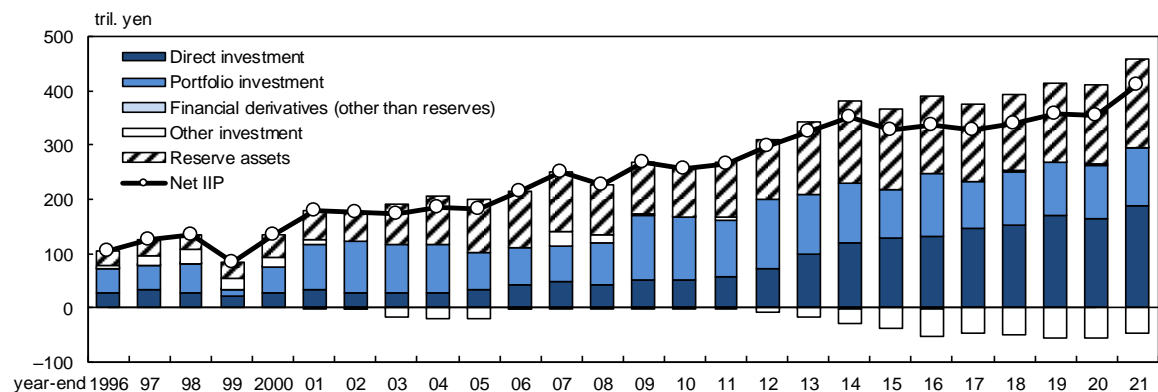


Figure 44: Net IIP



B. Year-on-Year Changes in Japan's IIP

Looking at year-on-year changes in the IIP by component, "portfolio investment" saw an increase in both assets and liabilities, while "direct investment" saw a large increase in assets.

By factor, "exchange rate changes" made the largest contribution to the increase in net assets. Meanwhile, looking at the breakdown of "other changes" by component, both assets and liabilities were pushed up by other changes pertaining to "portfolio investment," which can primarily be attributed to valuation gains on portfolio investments driven by the rise in both foreign and Japanese stock prices.

Figure 45: Year-on-Year Changes in the IIP by Component

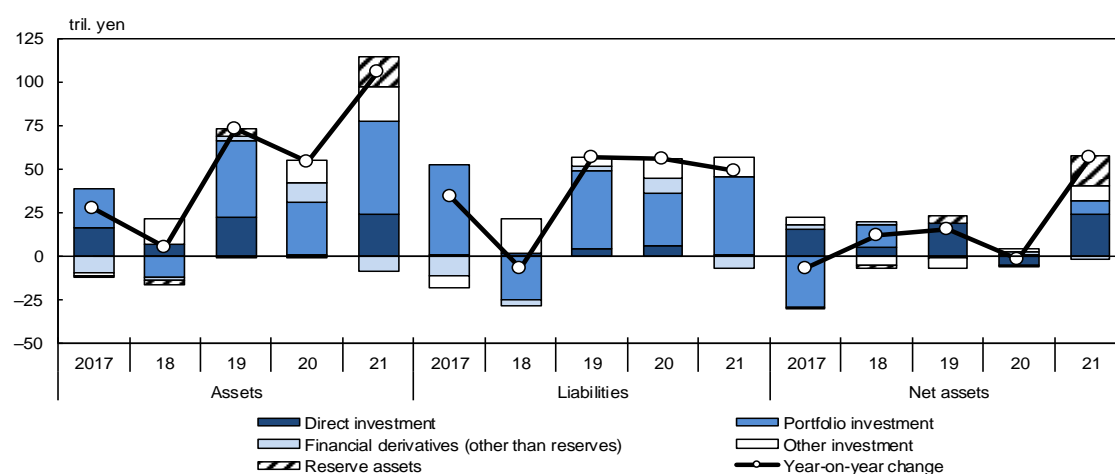
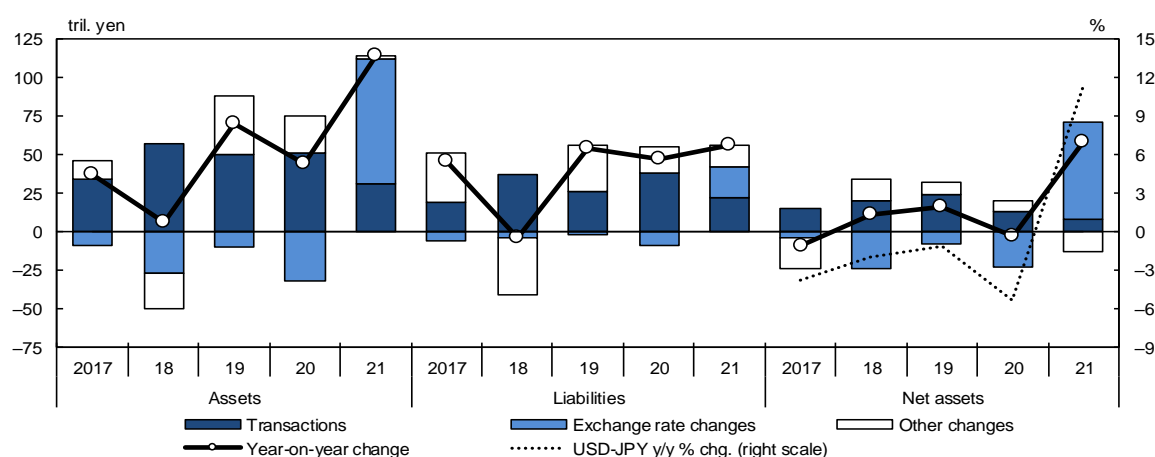


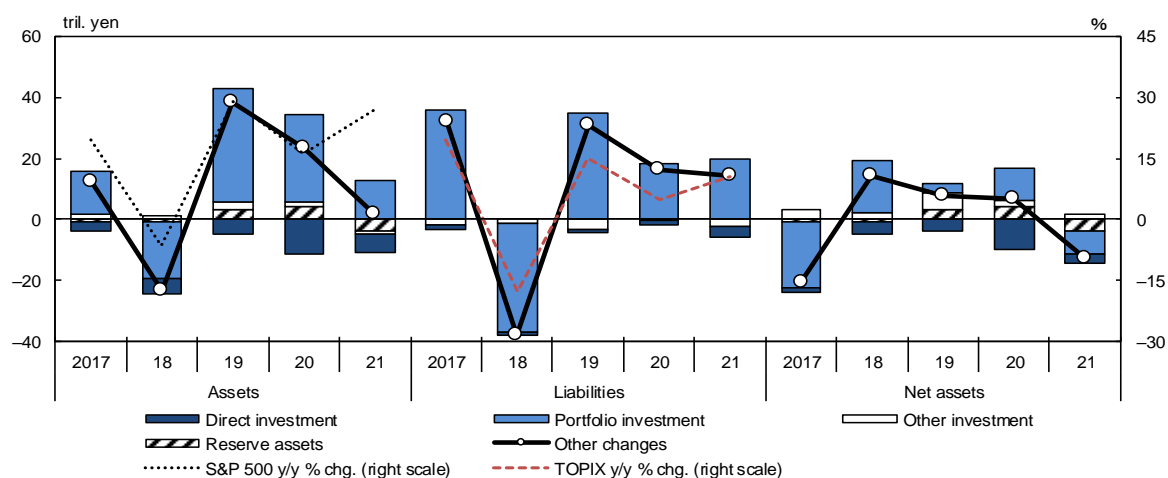
Figure 46: Year-on-Year Changes in the IIP by Factor¹² excluding Financial Derivatives (Other than Reserves)¹³



¹² Year-on-year changes in the IIP by factor before 2021 do not add up as the figures for "exchange rate changes" and "other changes" do not reflect annual revisions.

¹³ Except for items such as the payment of option premiums, financial derivatives at their inception generally do not involve transactions that are recorded in the financial account, and investment positions change during the contract period in accordance with price changes in the underlying assets. Since the settlement of positions is recorded in the financial account as a reduction in assets and

Figure 47: Other Changes by Component excluding Financial Derivatives (Other than Reserves)¹⁴

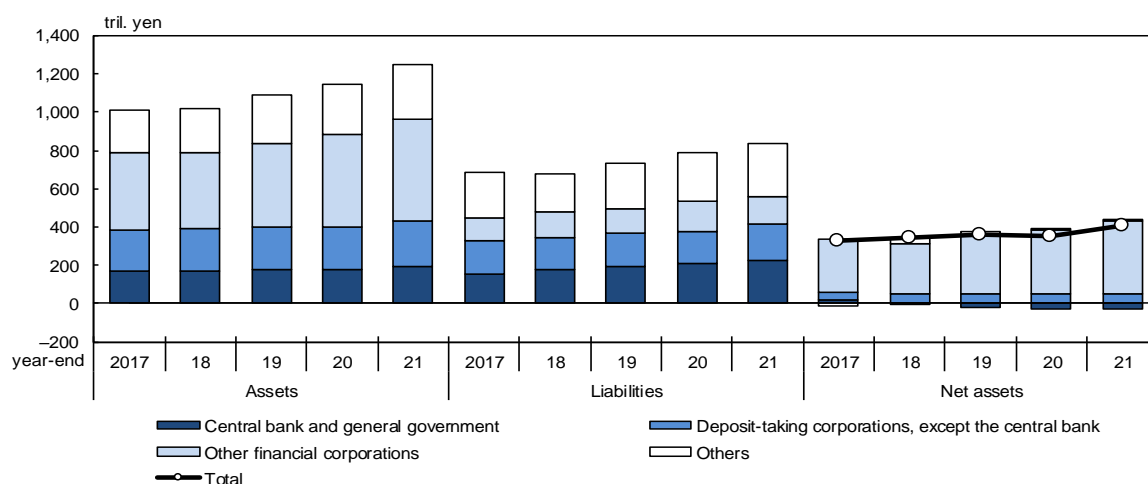


Source: Bloomberg.

C. Japan's IIP by Sector

Looking at the IIP by sector, assets increased led by a rise in the assets of "other financial corporations," while liabilities increased led by a rise in the liabilities of "others."

Figure 48: IIP by Sector¹⁵



liabilities, increases in the financial derivatives positions are in principle due to "other changes" and decreases due to "transactions." (Meanwhile, changes due to "exchange rate changes" are generally zero since the main source data are reported in yen terms.) Therefore, since the impact of price changes differs from that for other functional categories, this report presents changes in Japan's IIP by factor excluding financial derivatives.

¹⁴ See footnote 13.

¹⁵ All direct investment is included in "others."

D. Direct Investment Position and Portfolio Investment Position by Component

Looking at the direct investment position by component, both assets and liabilities rose, led by increases in "equity other than reinvestment of earnings." As for the portfolio investment position, both assets and liabilities climbed, led by increases in "equity and investment fund shares."

Figure 49: Direct Investment Position by Component¹⁶

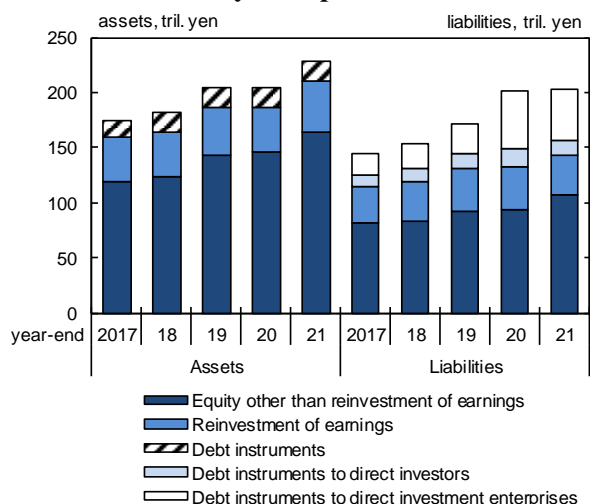
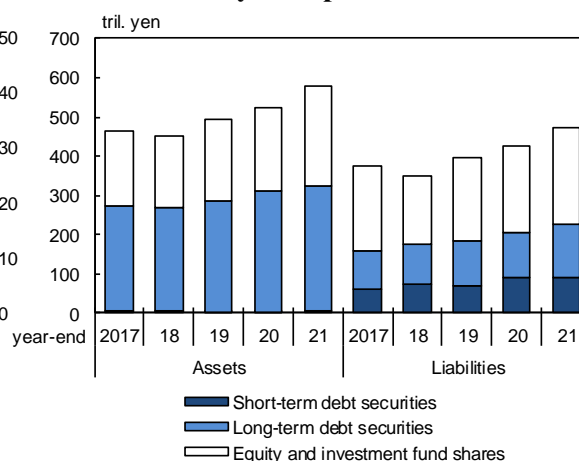


Figure 50: Portfolio Investment Position by Component



E. Direct Investment Position and Portfolio Investment Position by Region

Looking at the direct investment position by region, assets increased led by investment in North America, while liabilities increased led by investment from Asia and "other regions." As for the portfolio investment position, both assets and liabilities increased driven by investment in and from North America.

Figure 51: Direct Investment Position by Region

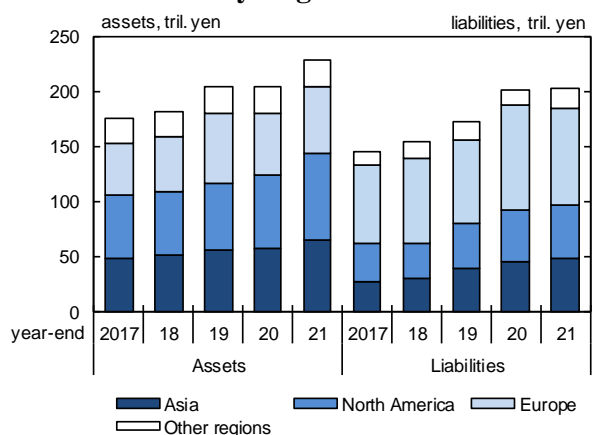
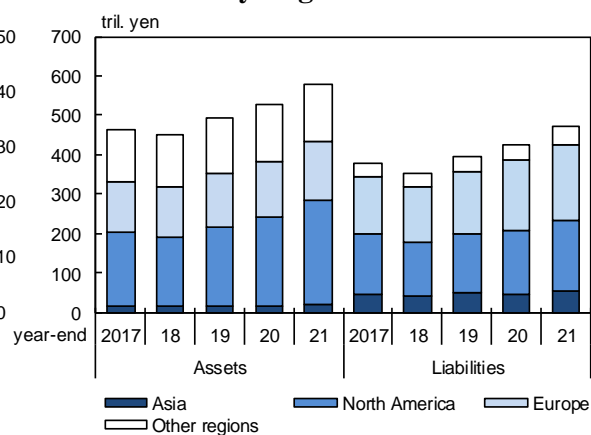


Figure 52: Portfolio Investment Position by Region

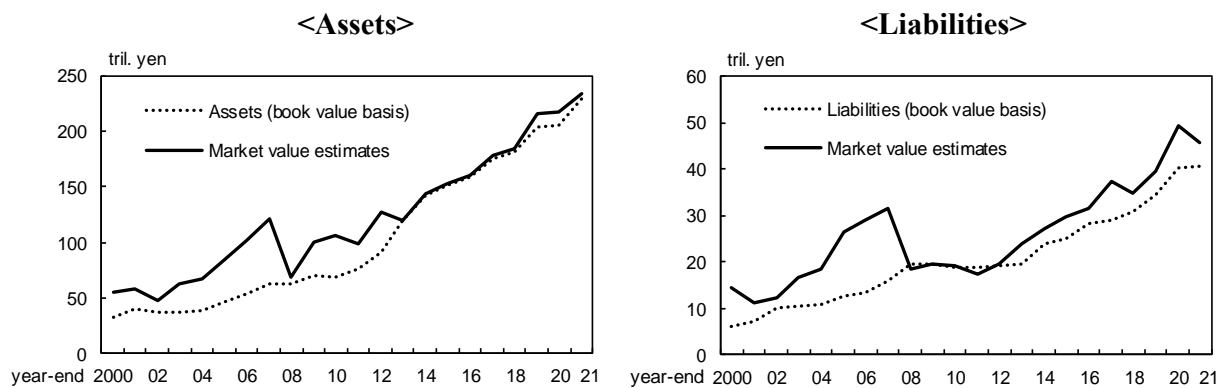


¹⁶ On the liabilities side, "debt instruments to direct investors" represent liabilities vis-à-vis overseas parent companies (direct investors) etc., while "debt instruments to direct investment enterprises" represent liabilities vis-à-vis overseas subsidiaries etc.

F. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 234.0 trillion yen and 45.7 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 228.8 trillion yen and 40.5 trillion yen, respectively).

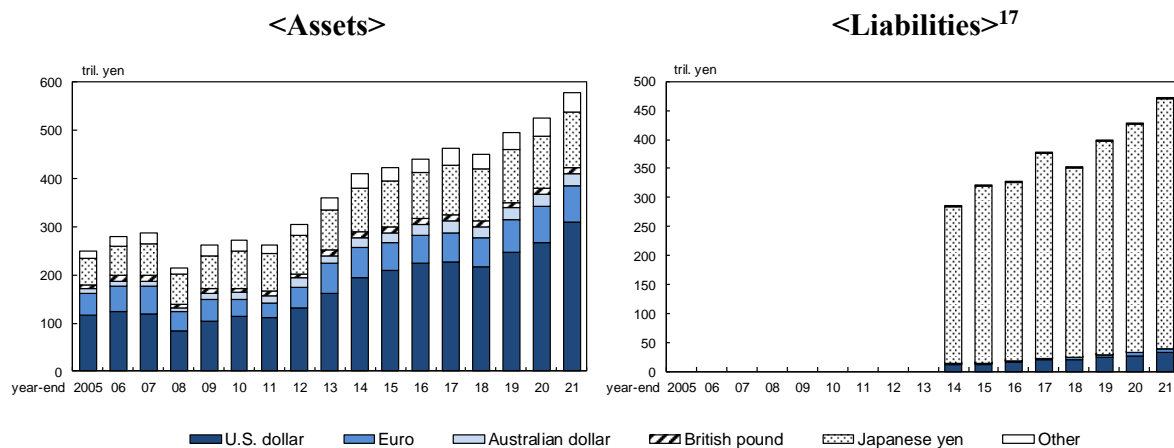
Figure 53: Market Value Estimates of Direct Investment Position



G. Portfolio Investment Position by Currency

Looking at the portfolio investment position by currency, the increase in assets was mainly due to an increase in U.S. dollar-denominated equities, while the increase in liabilities was led by an increase in yen-denominated equities.

Figure 54: Portfolio Investment Position by Currency



¹⁷ Figures for the portfolio investment position (liabilities) by currency have been released starting with those for year-end 2014.

H. Debt Position (Assets/Liabilities) by Currency¹⁸

Looking at the debt position by currency in terms of foreign currency and Japanese yen, assets increased led by a rise in long-term foreign currency-denominated assets, while liabilities increased reflecting, for example, a rise in short-term foreign currency-denominated liabilities. Foreign currency-denominated assets climbed led by an increase in long-term debt securities, while liabilities increased driven by a rise in short-term loans.

Figure 55: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity

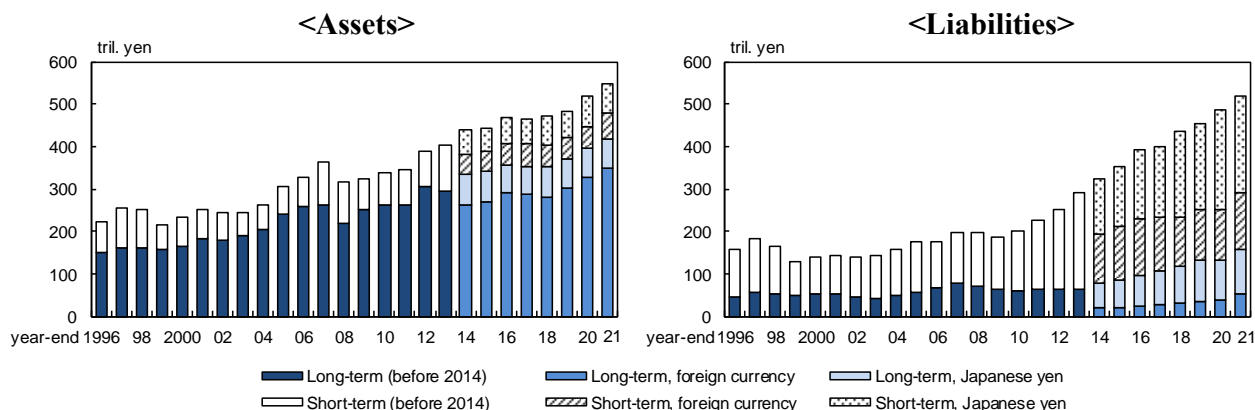


Figure 56: Foreign Currency-Denominated Debt Position by Component

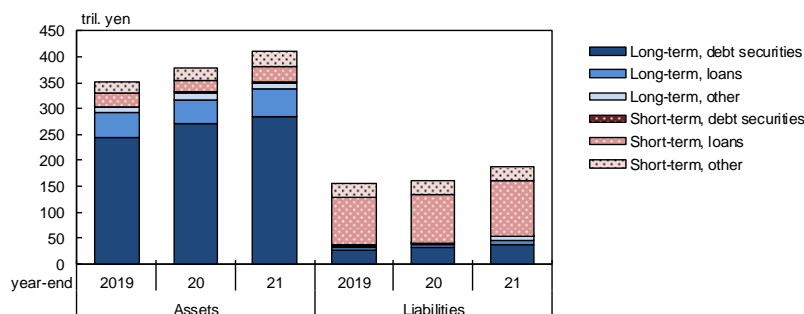
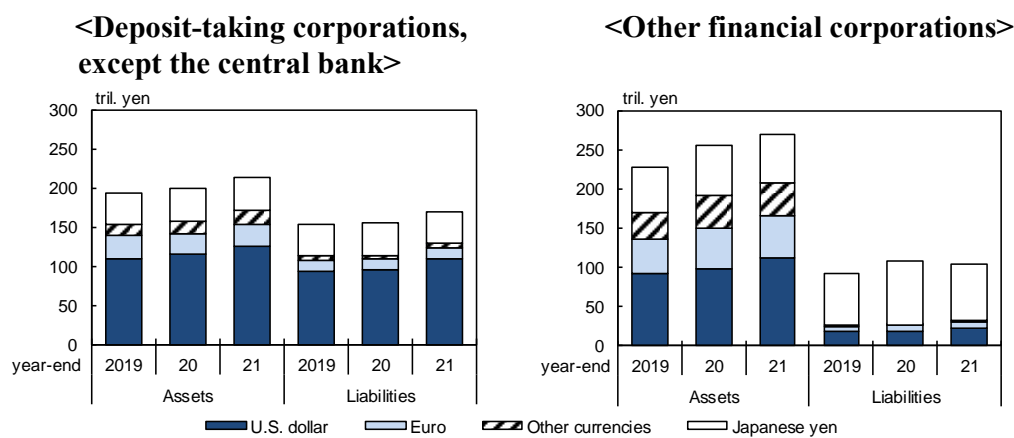


Figure 57: Debt Position by Currency



¹⁸ Figures in the Debt Position (Assets/Liabilities) by Currency (Foreign Currency/Japanese Yen) and Debt Position (Assets/Liabilities) by Currency include debt instruments under "portfolio investment" and "other investment." That is, equity instruments are excluded.

I. Outward Direct Investment Position (Directional Principle Basis)

The outward direct investment position based on the directional principle increased. By region and industry, a major reason for the increase was the rise in the investment position in the "non-manufacturing" sector in North America.

By industry, the investment positions in industries such as "finance and insurance" and "wholesale and retail" rose.

Figure 58: Outward Direct Investment Position by Region and Industry

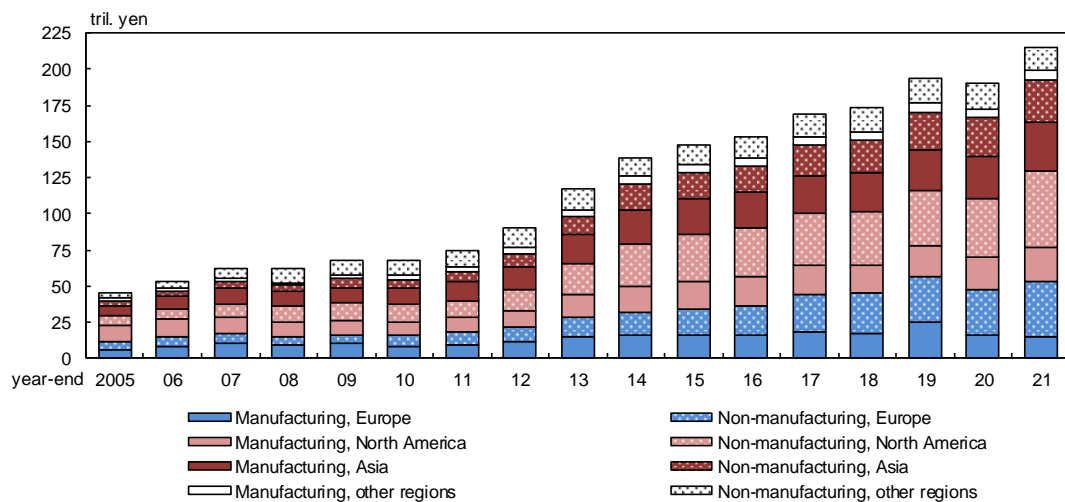


Figure 59: Outward Investment Position in the Manufacturing Sector

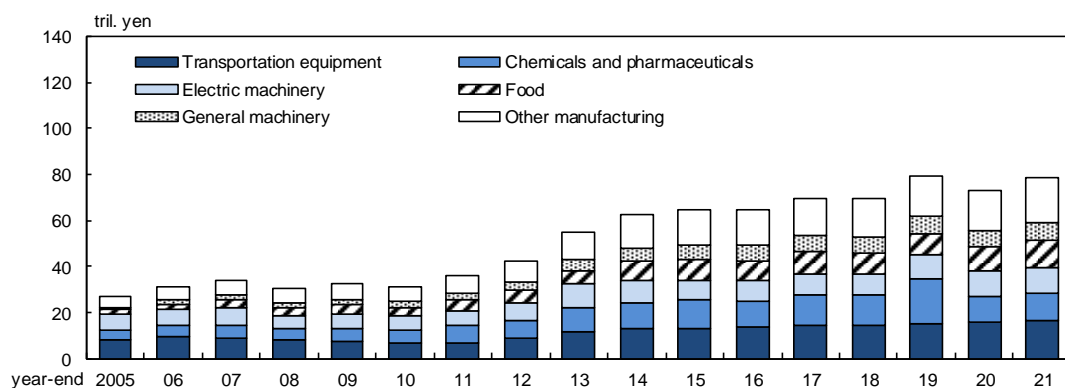
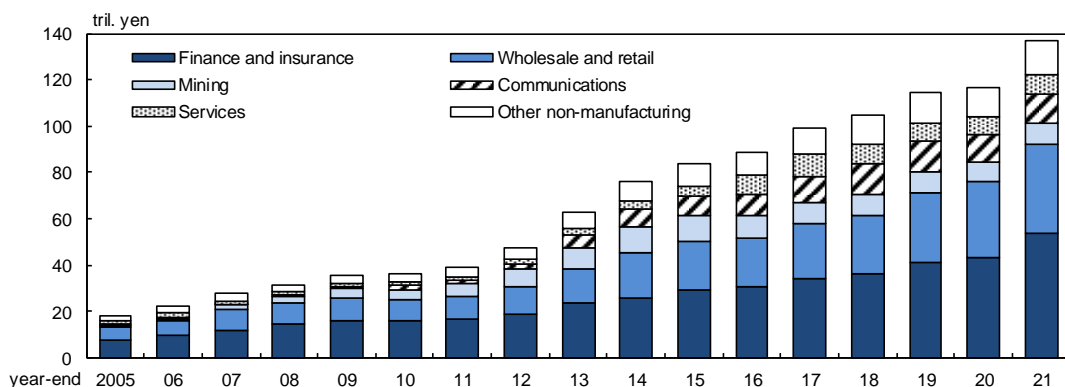


Figure 60: Outward Investment Position in the Non-Manufacturing Sector



J. Inward Direct Investment Position (Directional Principle Basis)

The inward direct investment position based on the directional principle increased. By region and industry, the inward investment position in the "non-manufacturing" sector vis-à-vis North America saw an increase.

By industry, the investment positions in "chemicals and pharmaceuticals" and "finance and insurance" climbed.

Figure 61: Inward Direct Investment Position by Region and Industry

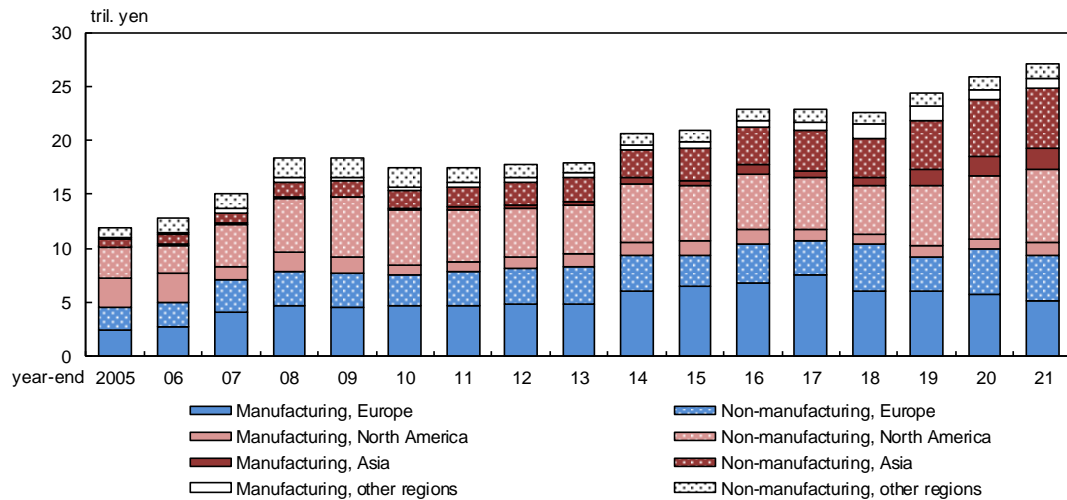


Figure 62: Inward Investment Position in the Manufacturing Sector

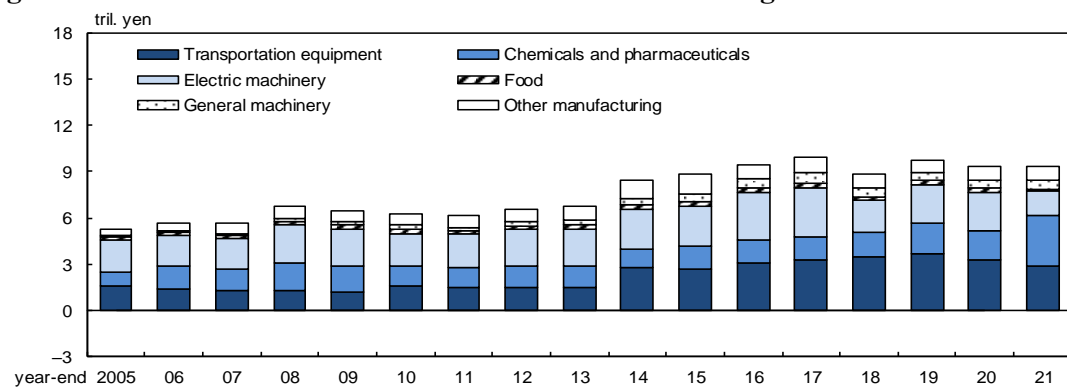
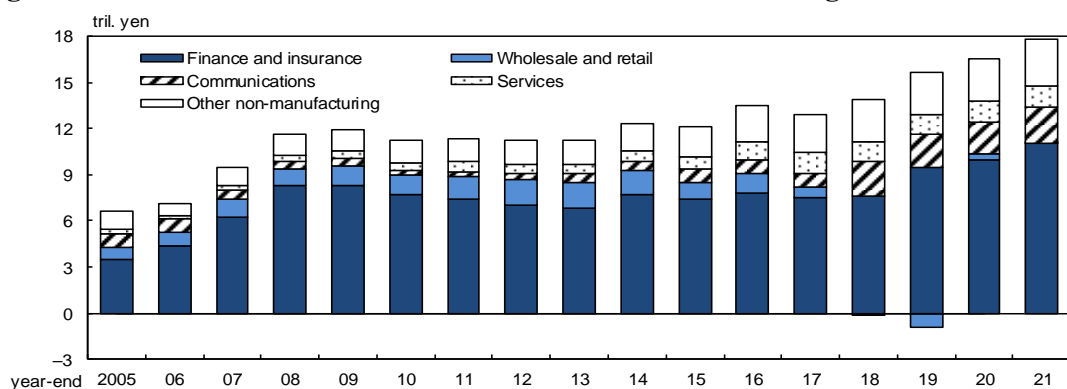


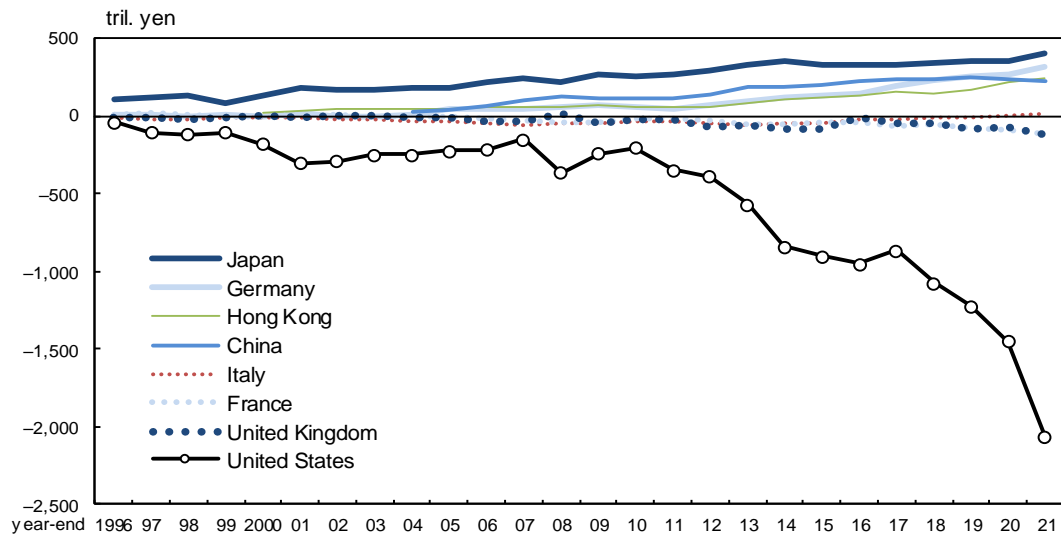
Figure 63: Inward Investment Position in the Non-Manufacturing Sector



K. International Comparison of Net IIP

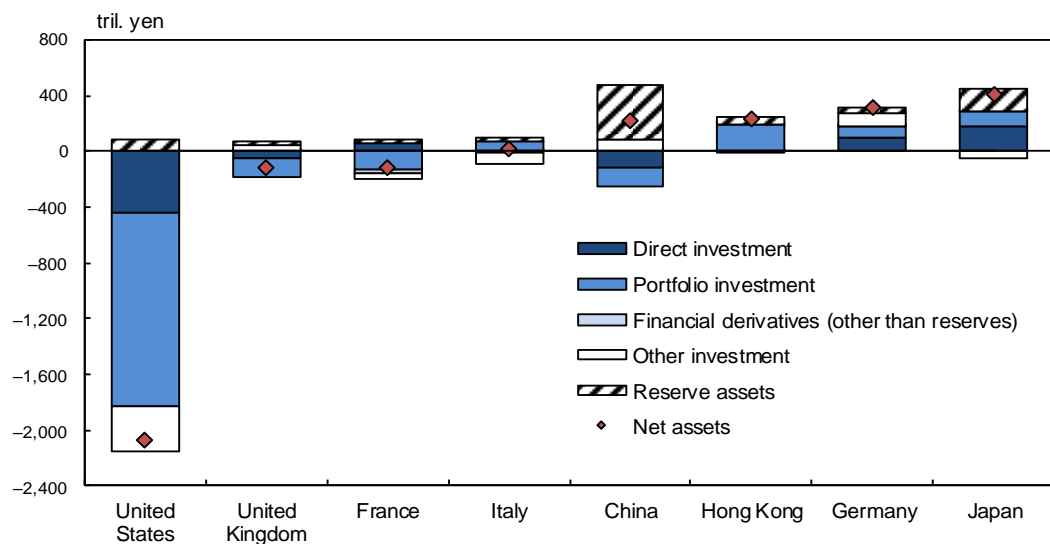
Among major economies that release IIP data, Japan at year-end 2021 continued to record the largest net asset position, which amounted to 411.2 trillion yen.

Figure 64: International Comparison of Net IIP (Time Series)



Source: International Monetary Fund (IMF).

Figure 65: International Comparison of Net IIP at Year-End 2021



Source: IMF.

Appendix 4. Update of the International Monetary Fund (IMF)'s Balance of Payments and International Investment Position Manual (BPM)

The balance of payments (BOP) statistics are compiled by each economy in accordance with the BPM published by the IMF. The BPM has been revised every 10 years or so to reflect such factors as changes in the international economic and financial landscape and the growing diversity of user needs. At present, Japan's BOP statistics are compiled based on the latest version, which is the sixth edition of the BPM (BPM6) published in 2008.

In the updating of the BPM, strong consideration was given to consistency across the statistical standards for macroeconomic statistics. Given that the United Nations Statistical Commission in 2020 launched discussions on the update of the System of National Accounts (SNA), the IMF Committee on Balance of Payments Statistics (BOPCOM) -- consisting of national compilers of BOP statistics and officials of international organizations -- has also been working on an update of the BPM6.

For the update process, specialized task teams have been set up for different fields, and BOPCOM has discussed more than 70 issues based on guidance notes prepared by the task teams. In October 2021 and March 2022, BOPCOM meetings were jointly held with the Advisory Expert Group on National Accounts. So far, most of the issues initially identified have been discussed.

Major topics discussed for the updating of the BPM include (1) globalization, (2) sustainable finance, (3) crypto assets, (4) preparation of the integrated presentation of flows and stocks, and (5) initiatives to improve communication with data users (Appendix Table 4).

In the coming months, the many different issues will be classified by priority into (1) those to be included in the new manual (BPM7), (2) those to remain on the research agenda for future work, and (3) those to be removed from the research agenda. To determine the priority of issues, the IMF is soliciting opinions not only from compilers but also from a wide range of parties, including data users.

The BPM7 is scheduled to be released in 2025, necessitating concrete discussions also in Japan regarding the start of compiling BPM7-based statistics (at present, no date for the switchover to the BPM7 has been set).

Appendix Table 4: Major Topics Discussed for the BPM Update and Current Proposals

Topic	Current proposals
Globalization	<ul style="list-style-type: none"> ● Cases in which an enterprise outsources manufacturing processes to overseas contractors by supplying important intellectual property products (IPPs) such as blueprints of its products should be treated in the same manner as cases in which an enterprise outsources processing by providing material inputs, and purchases of final goods from such overseas contractors and the subsequent sale of those goods abroad should be recorded as exports and imports under general merchandise instead of merchanting. ● Economies in which resident special purpose entities (SPEs) have a strong presence should disseminate separate data for SPEs' external transactions as a sub-item.
Sustainable finance	<ul style="list-style-type: none"> ● List relevant information in the BOP statistics -- such as on direct investment by region and industry as well as transactions in carbon dioxide (CO₂) emissions permits -- to be used as reference for developing statistics related to sustainable finance.
Crypto assets	<ul style="list-style-type: none"> ● Introduction of a recording method for crypto assets, which currently are not recorded in the BOP statistics. While so far there is more or less a consensus that crypto assets with a corresponding liability should be recorded as financial assets, there is ongoing debate over the recording of crypto assets without a corresponding liability (such as Bitcoin).
Integrated presentation of flows and stocks	<ul style="list-style-type: none"> ● Preparation of an integrated IIP presentation that shows opening and closing values of the IIP as well as factors (such as flows and price changes) that explain changes in the IIP, in order to clearly show factors that affect the IIP other than flows (i.e., the financial account of the BOP statistics).
Improving communication with data users	<ul style="list-style-type: none"> ● Change of labels to more self-explanatory and user-friendly ones. Example of proposed change: Change "primary income" to "earned income" ● Establishment of a self-assessment framework for national compilers to gauge the degree to which their statistics conform to the BPM.

Appendix 5. International Discussions on the Recording of Crypto Assets in the BOP Statistics

While discussions on crypto assets -- which have been attracting growing attention in recent years -- have taken place at the IMF's BOPCOM since 2018, no definite consensus has yet been established on the recording method, and crypto assets therefore currently are not recorded in the BOP statistics. The recording of crypto assets has been one of the major issues being addressed in the ongoing discussions on updating the IMF's BPM.

In the discussions, there is more or less a consensus that crypto assets are digital representations of value that rely on cryptography and distributed ledger technology, and that crypto assets with a corresponding liability (such as stablecoins) should be recorded as financial assets under the financial account. In contrast, various proposals have been presented for the recording of crypto assets without a corresponding liability (such as Bitcoin). The following are the two major proposals.¹⁹

One proposal is to classify crypto assets without a corresponding liability as financial assets. Recording crypto assets as financial assets regardless of type would likely be straightforward for reporters and data users. However, the BPM defines financial assets as assets with a corresponding liability, and further examination is required whether crypto assets without a corresponding liability should be treated similar to monetary gold (i.e., gold held as a reserve asset), which is the only type of financial asset that does not have a corresponding liability.

The other proposal is to classify crypto assets without a corresponding liability as produced nonfinancial assets similar to precious metals. While such crypto assets could be regarded as similar to precious metals, recording crypto assets in two different accounts (i.e., the financial or the current account) depending on their type will be challenging in terms of the designing of reporting procedures and analysis of statistics.

¹⁹ See "F.18 The Recording of Crypto Assets in Macroeconomic Statistics" available on the IMF website.

Appendix Table 5: Major Proposals for the Recording of Crypto Assets without a Corresponding Liability

Category under which the assets are proposed to be recorded		Account under which the assets are to be recorded	Definitions and examples of financial/produced nonfinancial assets	Issues for consideration
1	Financial assets	Financial account	<ul style="list-style-type: none"> ● Claims on other entities. ● Monetary gold, which is an exception in that it does not have a corresponding liability. <p>Examples: equity, debt securities, currency and deposits, loans, and monetary gold.</p>	<ul style="list-style-type: none"> ● Whether to treat crypto assets without a corresponding liability as an exception similar to monetary gold.
2	Produced nonfinancial assets	Current account	<ul style="list-style-type: none"> ● Produced assets from which benefits can be derived by using them in production and other processes. <p>Examples: (1) precious metals and stones and (2) goods such as machinery and equipment.</p>	<ul style="list-style-type: none"> ● Whether to treat crypto assets without a corresponding liability similar to precious metals. ● Advisability of recording crypto assets in two different accounts (i.e., the financial or the current account) depending on their type.

At present, neither proposal is definitive, and BOPCOM plans to hold further discussions regarding these issues, reflecting future developments in crypto asset markets and related international discussions.²⁰

²⁰ The classification of nonfungible tokens (NFTs) will also be addressed as a separate topic.

Reference: Basic Knowledge on the BOP

The BOP is a set of statistics that records various transactions of an economy with the rest of the world in a systematic manner. The statistics are compiled in accordance with the BPM6 and are based on double-entry accounting. Specifically, trade in goods and services and financial transactions are categorized based on the standard components of the BPM6, and equal amounts are recorded on the credit and the debit side.

This section, to provide some basic knowledge for understanding the BOP, outlines the components of the statistics and explains double-entry accounting.

Components of the BOP

In the BPM6, the BOP consists of three major standard components: the current account, the financial account, and the capital account. The current account comprises goods, services, primary income, and secondary income, while the financial account comprises direct investment, portfolio investment, financial derivatives (other than reserves), other investment, and reserve assets.

In principle, transactions recorded in Japan's BOP statistics are classified according to the nature of the economic value provided and are recorded under the components shown in the BPM6. The main types of transactions included in each component are as follows:

Current account	Transactions in goods and services as well as receipts/payments of income.
Goods	Exports/imports of goods and intermediary trade (i.e., merchanting).
Services	Travel, transport, charges for the use of intellectual property, and other service transactions related to business activities.
Primary income	Receipts/payments of dividends paid out of earnings and interest on debt securities.
Secondary income	Receipts/payments of insurance premiums/claims and compensation for damages, contributions to international organizations, and remittances for living expenses of family members.
Capital account	Debt forgiveness and transfer of assets through inheritances.
Financial account	Transactions involving the acquisition/disposal of external financial assets and incurrence/repayment of external liabilities.
Direct investment	Investments for the acquisition of firms and establishment of subsidiaries, as well as withdrawals.
Portfolio investment	Sales/purchases of equity as well as sales/purchases and issuances/redemptions of debt securities.
Financial derivatives (other than reserves)	Receipts/payments of forward trading gains/losses and notional exchange gains/losses on currency swaps.
Other investment	Loans, receipts/payments of deposits, and creation/extinction of other financial assets and liabilities (e.g., accounts receivable/payable resulting from the time difference between the contract date and settlement of securities).
Reserve assets	Changes in foreign currency holdings as a result of foreign exchange market interventions and increases due to the receipt of interest income.

Double-entry accounting in the BOP

In the BOP statistics, each transaction consists of two entries, a credit entry and a debit entry, of equal value, and the sum of the credit entries and the sum of the debit entries are in principle the same. The following are recorded as credits: exports of goods and services, income receipts, transfer receipts, decreases in financial assets, and increases in liabilities. Conversely, the following are recorded as debits: imports of goods and services, income payments, transfer payments, increases in financial assets, and decreases in liabilities.

The following concrete transaction examples illustrate how the BOP statistics are compiled based on double-entry accounting:

- (1) Export of motor vehicles to an overseas firm, receipt of export proceeds worth 80

Exports	80	(Credit – Export of goods)
Currency	80	(Debit – Increase in financial assets)

- (2) Remittance of dividends of 10 to an overseas investor holding shares in a Japanese firm

Currency	10	(Credit – Decrease in financial assets)
Dividends	10	(Debit – Income payments)

- (3) Remittance by a Japanese parent company of funds of 40 for the establishment of an overseas subsidiary

Currency	40	(Credit – Decrease in financial assets)
Shares	40	(Debit – Increase in financial assets)

- (4) Receipt in cash of a loan of 100 from an overseas bank

Loan	100	(Credit – Increase in liabilities)
Currency	100	(Debit – Increase in financial assets)

	Credit (Receipts)	Debit (Payments)	Net	Balance
Current account	80	10	+70	+70
Goods	80 ⁽¹⁾		+80	+80
Services			0	0
Primary income		10 ⁽²⁾	-10	-10
Secondary income			0	0
Capital account			0	0

	Assets			Liabilities			Balance
	Credit	Debit	Net	Credit	Debit	Net	
Financial account	50	220	+170	100	0	+100	+70
Direct investment		40 ⁽³⁾	+40			0	+40
Portfolio investment			0			0	0
Financial derivatives (other than reserves)			0			0	0
Other investment	10 ⁽²⁾ +40 ⁽³⁾	80 ⁽¹⁾ +100 ⁽⁴⁾	+130	100 ⁽⁴⁾		+100	+30
Reserve assets			0				0
Net errors and omissions							0

For instance, in example (1), the transaction will be recorded as a credit of 80 under "goods" in the current account, and the currency receipt of 80 will be recorded as a debit under "other investment (financial assets)" in the financial account. In example (4), the transaction will be recorded in the financial account as a credit of 100 under "loans" in "other investment (liabilities)" and as a debit of 100 under "currency and deposits" in "other investment (financial assets)."

Balances in the BOP statistics are obtained as follows. The current and capital accounts are calculated as "credit minus debit," while the financial account is calculated as "net acquisition of financial assets (debit minus credit) minus net incurrence of liabilities (credit minus debit)." In this report, if the net acquisition of financial assets minus the net incurrence of liabilities in the financial account is positive, this will be referred to as "net lending," and if it is negative, this will be referred to as "net borrowing." By definition, the following identity holds:

$$\text{Current account balance} + \text{Capital account balance} - \text{Financial account balance} + \text{Net errors and omissions} = 0$$

In terms of the aforementioned examples, this means:

$$\text{Current account balance (+70)} + \text{Capital account balance (0)} - \text{Financial account balance (+70)} = 0$$

Meanwhile, "net errors and omissions" are an adjustment item to account for statistical errors. In compiling the actual BOP statistics, it is not always possible to collect information on the credit and debit sides of a certain transaction within the same period, given that the vast number of transactions are aggregated based on various types of reports and sources. In addition, even for the same transaction, the amounts recorded in different sources may disagree due to different valuation methods. For these reasons, in practice, the totals on the credit and the debit side do not agree with each other, resulting in errors in the compilation of the statistics. To adjust for such errors, the BOP statistics provide for "net errors and omissions."