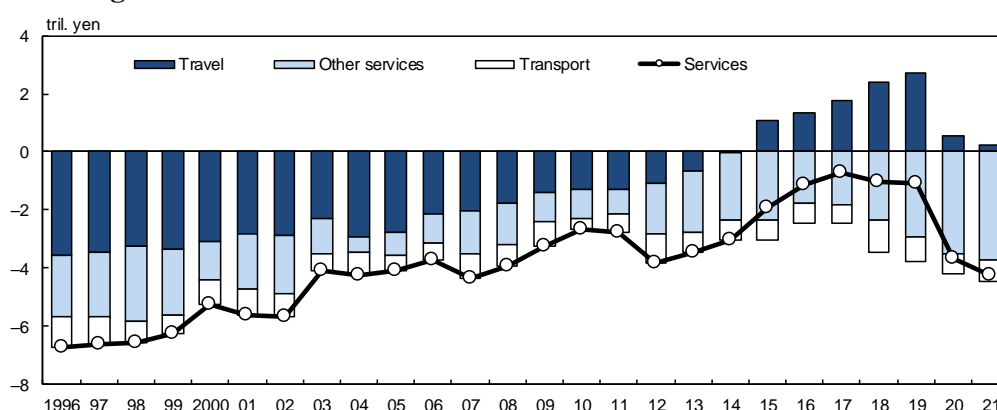


## Appendix 1. Developments in Services

### *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.

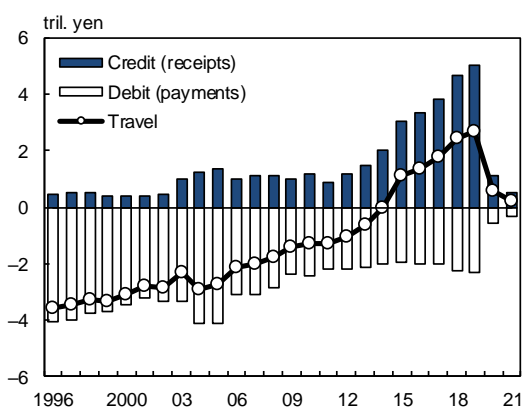
**Appendix Figure 1.1: Services Balance**



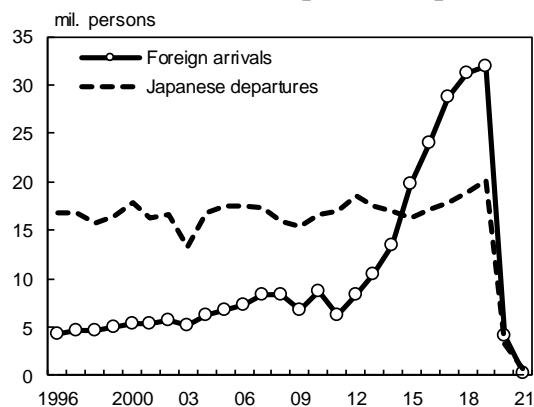
### *Developments in travel*

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**



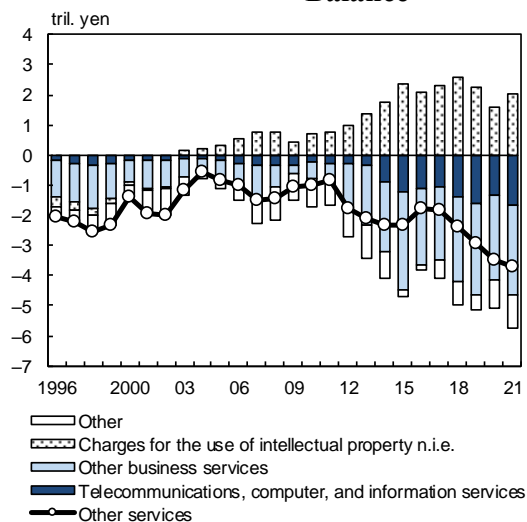
Sources: Immigration Services Agency of Japan;  
JNTO.

### Developments in other services

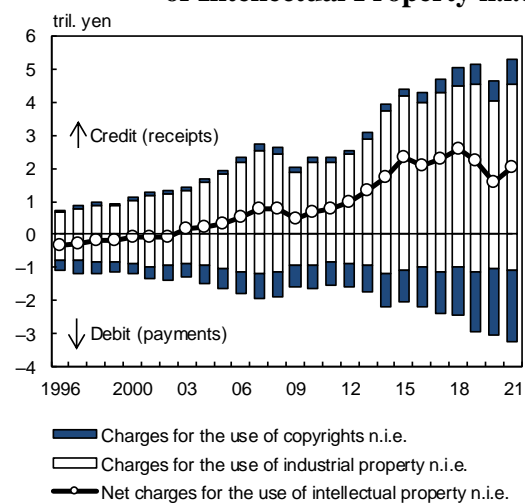
The deficit on "other services" has been widening in recent years.

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."

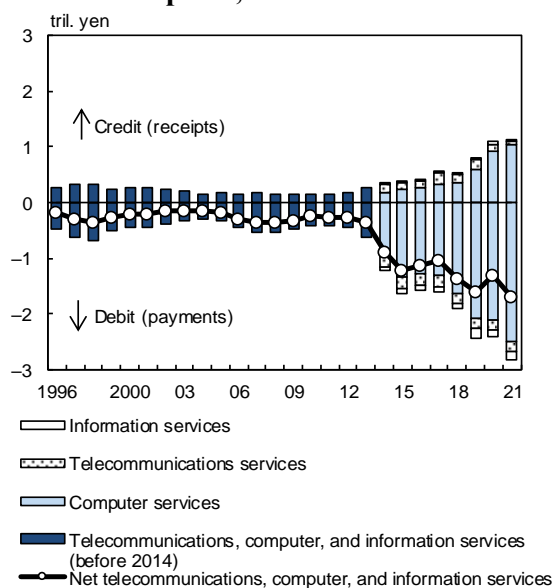
**Appendix Figure 1.4: Other Services Balance**



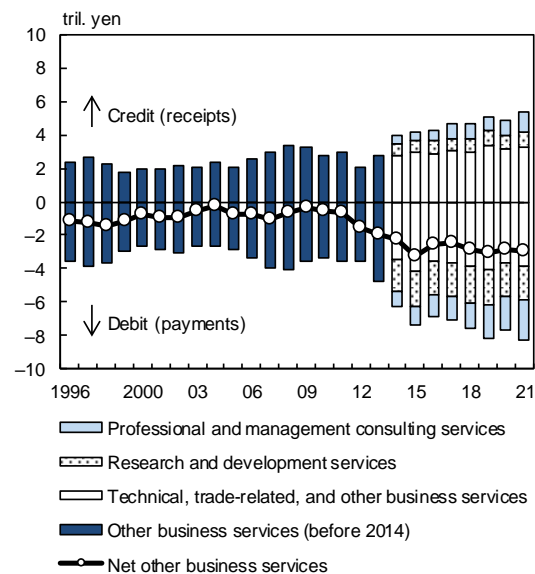
**Appendix Figure 1.5: Charges for the Use of Intellectual Property n.i.e.**



**Appendix Figure 1.6: Telecommunications, Computer, and Information Services**



**Appendix Figure 1.7: Other Business Services**



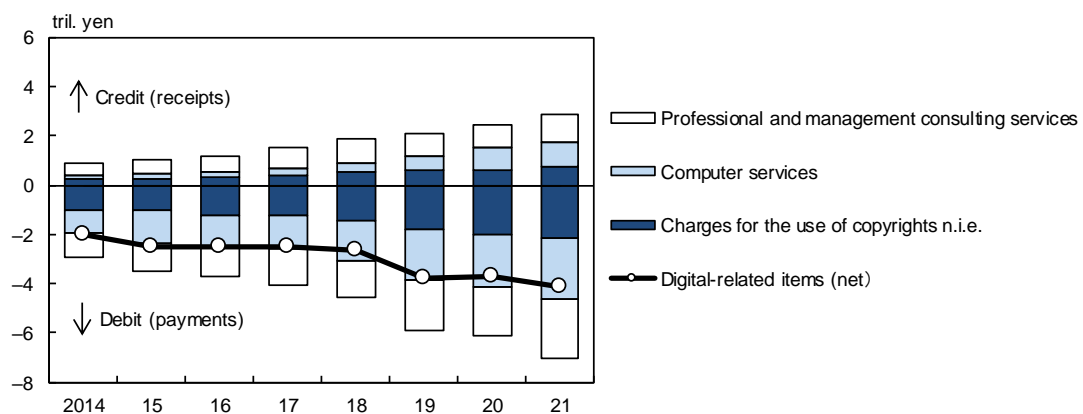
### Digital-related expenditure

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 Transactions<sup>2</sup>**

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

**Appendix Figure 1.8: Digital-Related Items**



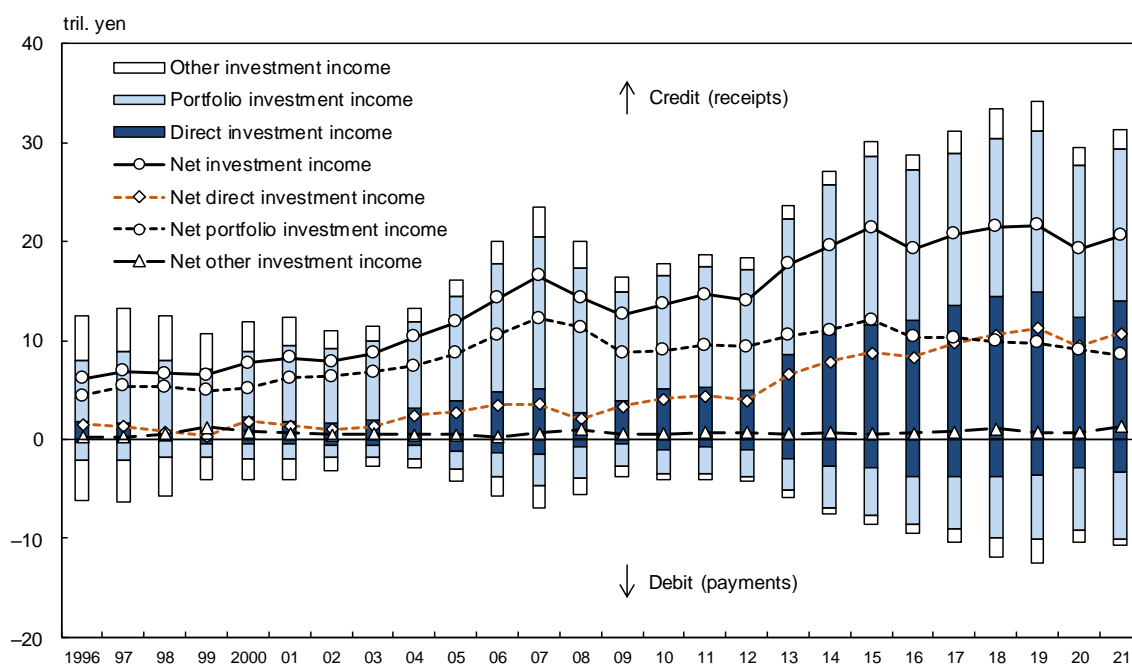
<sup>2</sup> While in this appendix digital-related items are regarded as consisting of "charges for the use of copyrights n.i.e.," "computer services," and "professional and management consulting services," other items may also include digital-related expenditures. In addition, "charges for the use 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.

## 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.<sup>3</sup> 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



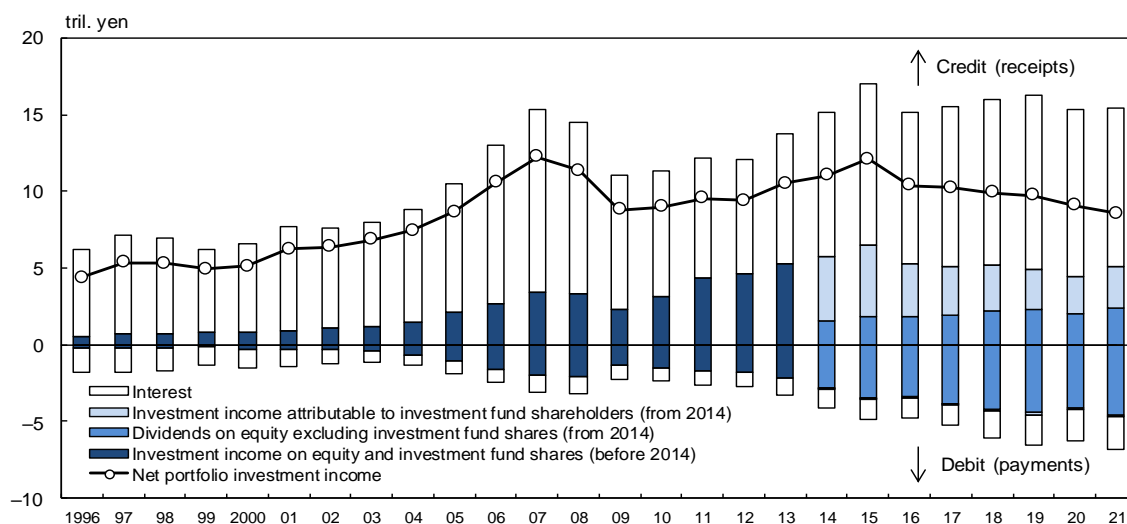
### *Developments in portfolio investment income*

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

<sup>3</sup> 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.<sup>4</sup> 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.

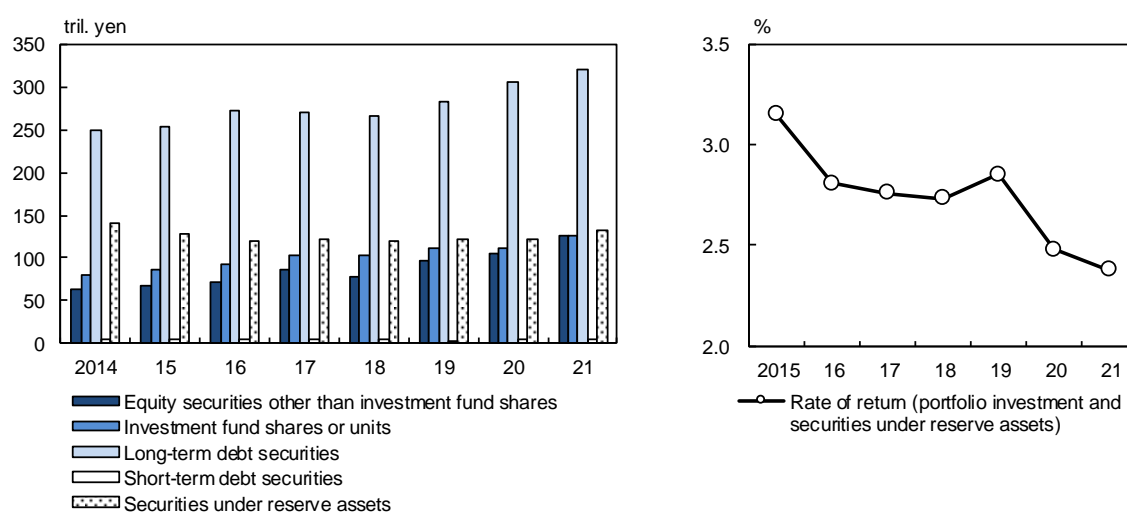
<sup>4</sup> The analytical usefulness of figures before 2014 -- that is, historical data rearranged based on the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) -- is limited as these figures differ from those compiled based on the BPM6 in that (1) "equity 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.<sup>5</sup> 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.

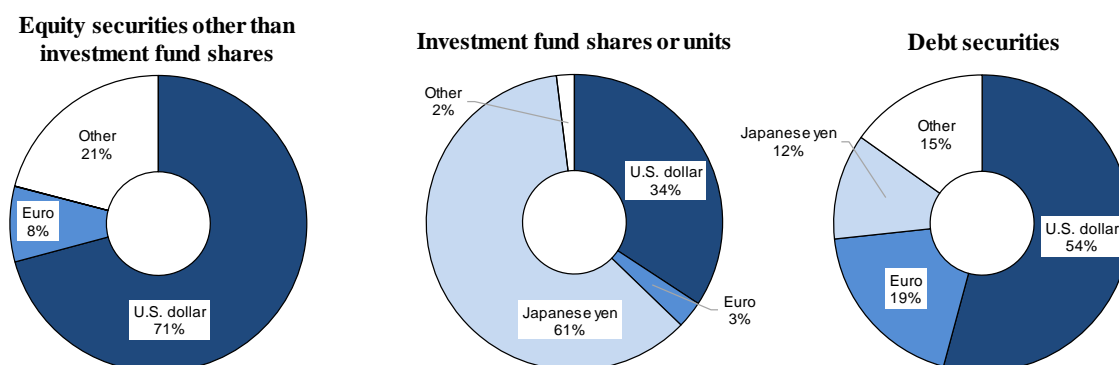
**Appendix Figure 2.3: Portfolio Investment Position (Assets) and Rate of Return<sup>6</sup>**



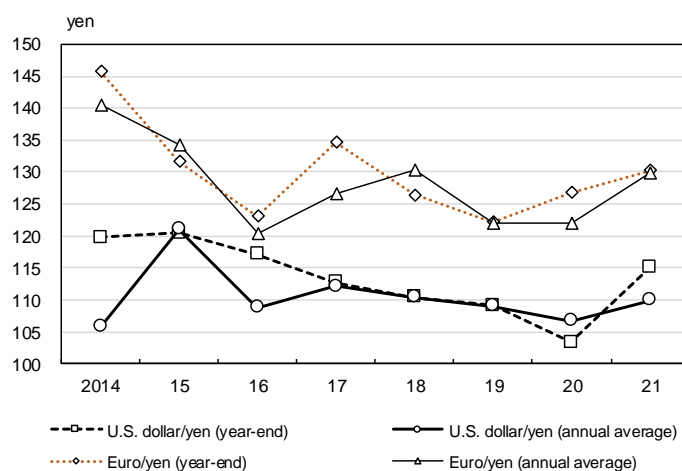
<sup>5</sup> The position in securities under reserve assets is calculated based on the "International Reserves/Foreign Currency Liquidity" released by the Ministry of Finance, with the value of "securities" denominated in U.S. dollars converted into yen using the year-end U.S. dollar/yen Tokyo interbank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

<sup>6</sup> 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

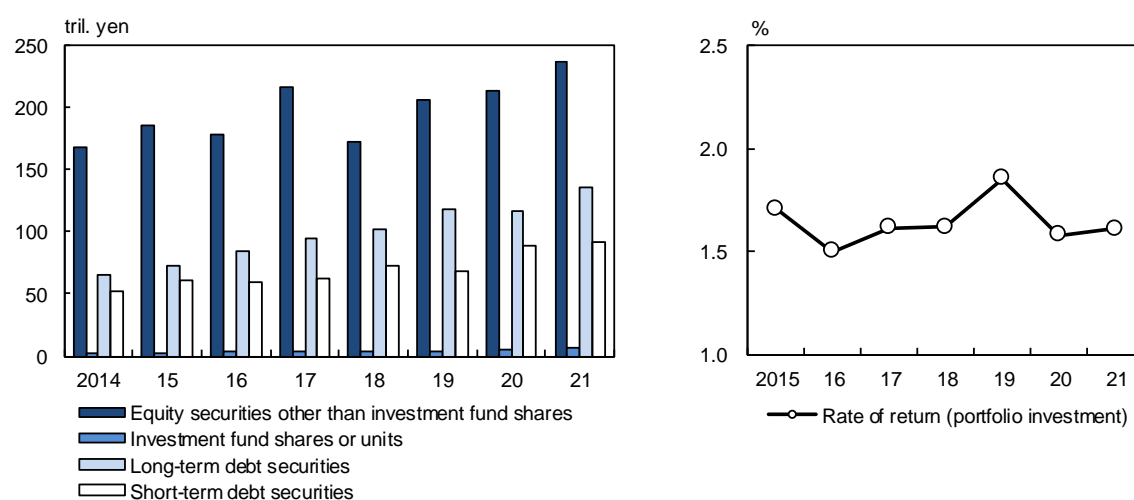
### (1) Dividends on equity excluding investment fund shares

"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.

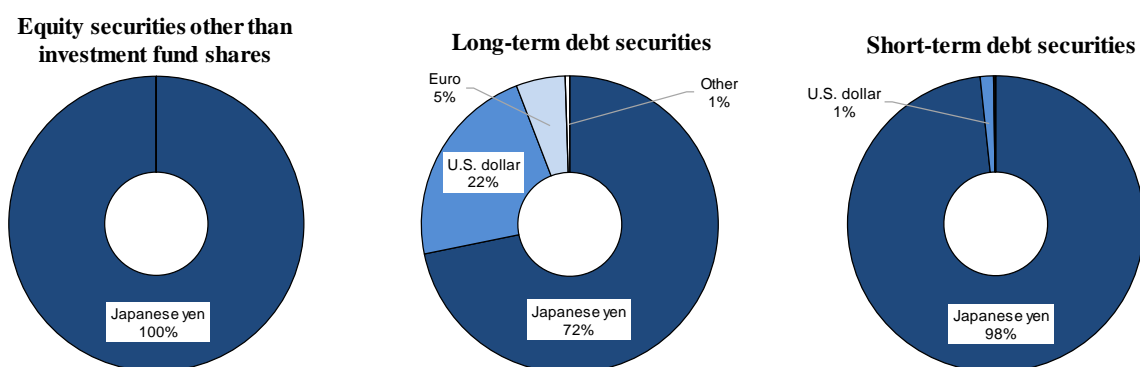
## (2) Interest

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 Return<sup>7</sup>**



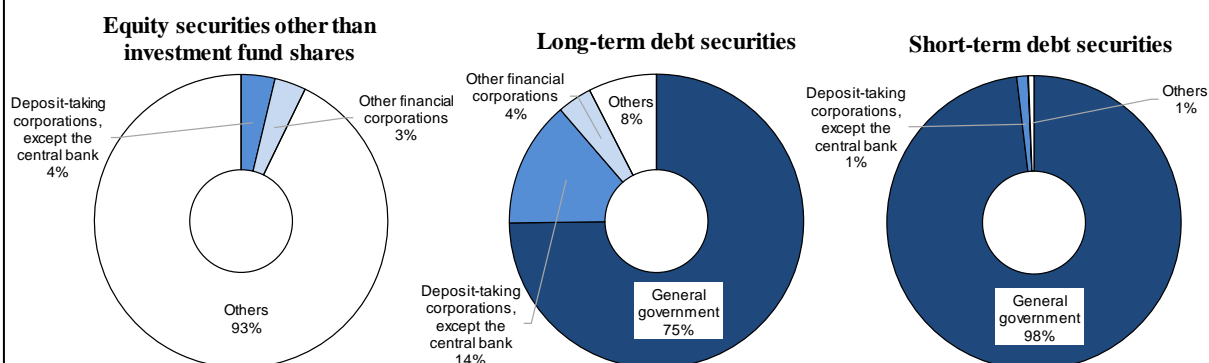
**Appendix Figure 2.7: Currency Composition of Portfolio Investment Position (Liabilities) at Year-End 2021**



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



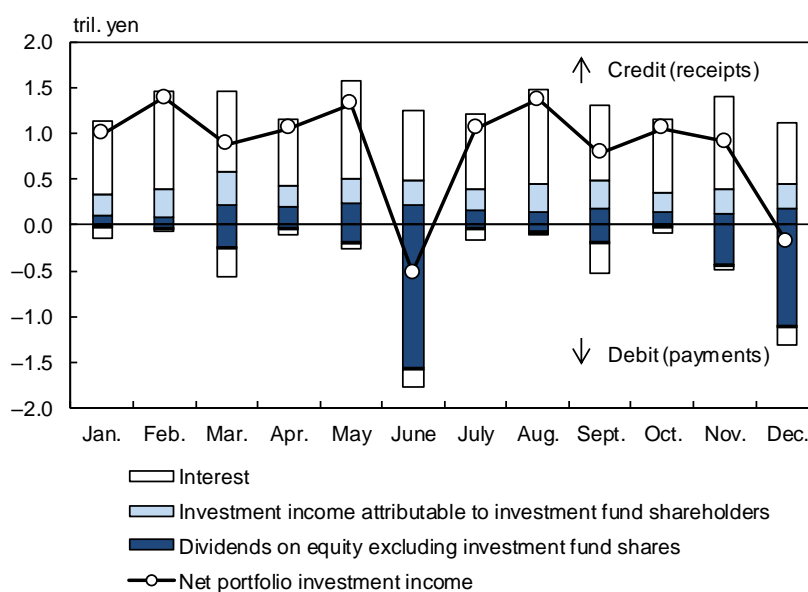
**Appendix Figure 2.8: Composition of Portfolio Investment Position (Liabilities) by Sector of Issuer at Year-End 2021**



### 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)**

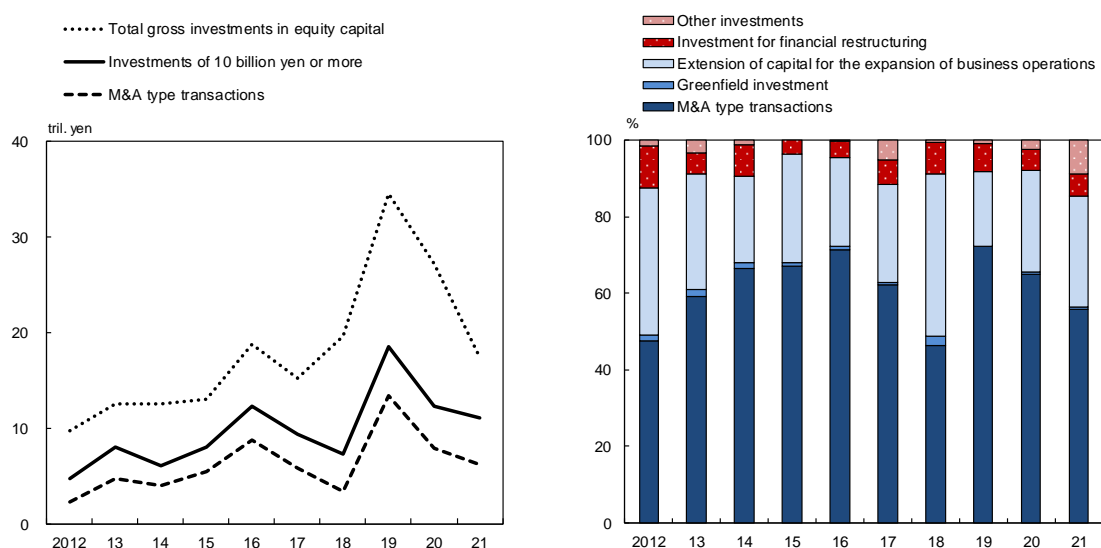


### Appendix 3. Developments in Direct Investment by Type of Investment<sup>9</sup>

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)**

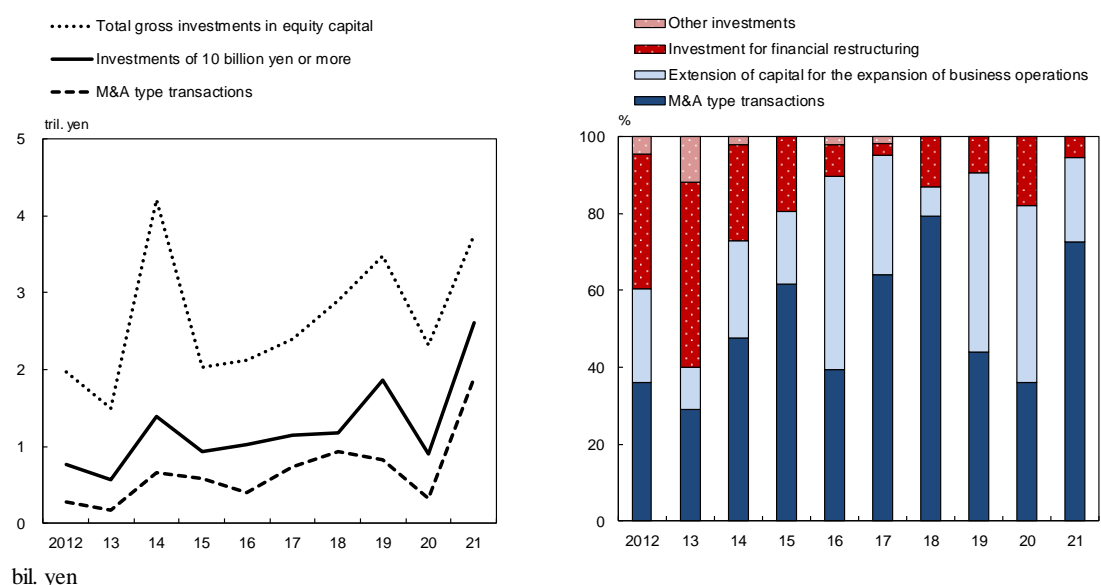


bil. yen

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.

<sup>9</sup> 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.

#### **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"> <li>● 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.</li> <li>● Economies in which resident special purpose entities (SPEs) have a strong presence should disseminate separate data for SPEs' external transactions as a sub-item.</li> </ul>
Sustainable finance	<ul style="list-style-type: none"> <li>● List relevant information in the BOP statistics -- such as on direct investment by region and industry as well as transactions in carbon dioxide (CO<sub>2</sub>) emissions permits -- to be used as reference for developing statistics related to sustainable finance.</li> </ul>
Crypto assets	<ul style="list-style-type: none"> <li>● 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).</li> </ul>
Integrated presentation of flows and stocks	<ul style="list-style-type: none"> <li>● 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).</li> </ul>
Improving communication with data users	<ul style="list-style-type: none"> <li>● Change of labels to more self-explanatory and user-friendly ones. Example of proposed change: Change "primary income" to "earned income"</li> <li>● Establishment of a self-assessment framework for national compilers to gauge the degree to which their statistics conform to the BPM.</li> </ul>

## **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.<sup>19</sup>

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.

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<sup>19</sup> 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"> <li>● Claims on other entities.</li> <li>● Monetary gold, which is an exception in that it does not have a corresponding liability.</li> </ul> <p>Examples: equity, debt securities, currency and deposits, loans, and monetary gold.</p>	<ul style="list-style-type: none"> <li>● Whether to treat crypto assets without a corresponding liability as an exception similar to monetary gold.</li> </ul>
2	Produced nonfinancial assets	Current account	<ul style="list-style-type: none"> <li>● Produced assets from which benefits can be derived by using them in production and other processes.</li> </ul> <p>Examples: (1) precious metals and stones and (2) goods such as machinery and equipment.</p>	<ul style="list-style-type: none"> <li>● Whether to treat crypto assets without a corresponding liability similar to precious metals.</li> <li>● Advisability of recording crypto assets in two different accounts (i.e., the financial or the current account) depending on their type.</li> </ul>

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.<sup>20</sup>

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