

# **Japan's Balance of Payments Statistics and International Investment Position for 2016**

**July 2017  
International Department  
Bank of Japan**

Japan's balance of payments statistics for 2016 -- the annually revised figures for the first through the third quarter of 2016 and the second preliminary figures for the fourth quarter of 2016 -- were released on April 10, 2017, by the Ministry of Finance and the Bank of Japan in the *Balance of Payments*.

Japan's international investment position at year-end 2016 was released on May 26, 2017, by the Ministry of Finance and the Bank as the *International Investment Position of Japan (End of 2016)*.

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## Explanatory Notes

- Unless otherwise noted, the figures and charts in this report are based on data from the following sources: Balance of Payments, International Investment Position, International Investment Position (Quarterly Data), Gross External Debt Position, Direct Investment Flows by Region and Industry, Direct Investment Income by Region and Industry, and Direct Investment Position by Region and Industry.
- Unless otherwise stated, figures by region before 2014 (including those used for charts) have been compiled based on the fifth edition of the *Balance of Payments Manual (BPM5)* published by the International Monetary Fund (IMF). For this reason, the total may differ from charts using "historical data rearranged based on the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)*," in which figures that were originally compiled based on *BPM5* were rearranged in accordance with *BPM6* to the greatest extent possible.
- Direct Investment Flows by Region and Industry and the Direct Investment Position by Region and Industry are compiled based on the directional principle, while the Direct Investment Income by Region and Industry is compiled based on the asset and liability principle. A detailed explanation is provided in Section "VI. A. On the Difference between the Two Sets of Direct Investment Data Released."
- All notes in this report are listed in Section "VII. Notes."

## **I. Introduction**

The balance of payments (BOP) are a set of statistics that record Japan's international transactions with the rest of the world -- trade in goods and services, financial transactions in securities and other assets, as well as the associated financial flows -- in a comprehensive and systematic manner. The assets and liabilities arising as a result of such transactions are recorded in the international investment position (IIP).

The International Department of the Bank of Japan releases an annual report summarizing developments in these transactions and changes in assets and liabilities during the preceding year. By making greater use of time-series charts, this year's report is structured to make historical developments in Japan's BOP easier to understand. The report now also provides a range of statistical data related to travel, which has been attracting considerable attention in recent years. Moreover, technical points to consider when using the BOP statistics and other matters are explained in Section "VI. Explanation of Technical Matters."

Most of the BOP data are available in the Bank's online data portal, the BOJ Time-Series Data Search (data on Direct Investment by Region and Industry are provided in file format on the Bank's website). This means that readers can check detailed figures and/or construct their own charts by obtaining data from the Bank's website and data portal. Information on how to use the BOJ Time-Series Data Search as well as series codes used in the portal are provided in supplementary material that is available on the Bank's website together with this report. Readers are encouraged to make use of the material as necessary when using the BOJ Time-Series Data Search.

Japan's BOP statistics are compiled mainly from reports prepared by government offices, financial institutions, business corporations, and individuals based on the Foreign Exchange and Foreign Trade Act. In fiscal 2015, the number of such reports used for the BOP statistics amounted to around 440 thousand. The statistics compiled by the Ministry of Finance and the Bank on this basis are not only published as BOP and IIP statistics, but are also employed as source data for the System of National Accounts and the Flow of Funds Accounts. In addition, they are provided to international organizations such as the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) and are employed to gauge and analyze global economic and financial developments. The BOP and IIP statistics presented in this report have been

compiled through the efforts and collaboration of a large number of individuals and institutions, and the Bank hopes that this report in the new format will help readers to better understand developments in Japan's BOP and IIP.

July 2017

Balance of Payments Division

International Department, Bank of Japan

## **II. Overview of Japan's BOP and IIP for 2016**

*Japan's current account surplus increased for the second consecutive year.*

- The current account surplus reached 20.3 trillion yen, the highest level in nine years, i.e., since 2007, the year before the global financial crisis.
- The balance on goods turned to a surplus for the first time in six years, i.e., since 2010, the year before the Great East Japan Earthquake -- with the decline in imports exceeding that in exports.
- The deficit on services declined. The surplus on travel increased mainly reflecting a rise in the number of foreign visitors to Japan, while the deficit on other services decreased mainly due to a decline in payments for other business services.
- The surplus on primary income declined for the first time in four years, to 18.1 trillion yen. Yen-denominated receipts of investment income on equity and investment fund shares and of interest payments decreased mainly due to the yen's appreciation compared to a year earlier.

*The financial account registered an increase in net lending due to a rise in the current account surplus.*

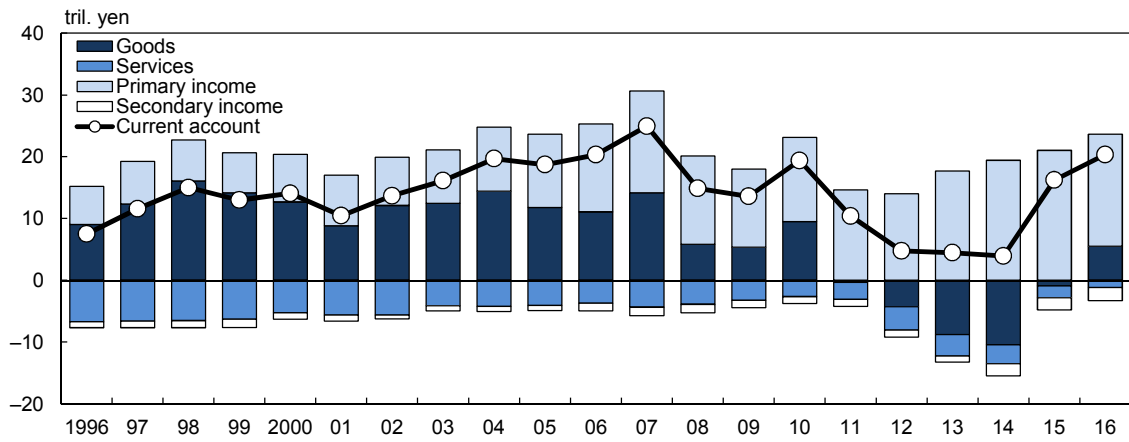
- Net lending under direct investment registered the second-highest increase on record. Net acquisitions of direct investment assets marked a record high mainly due to active mergers and acquisitions by Japanese firms. Net incurrence of direct investment liabilities marked a record high mainly due to a shift to net incurrence from net repayment of debt instruments, although direct investment liabilities were low compared to direct investment assets.
- Net lending under portfolio investment registered the highest increase on record. Net purchases of foreign securities by Japanese investors decreased from a year earlier, when they registered the largest amount on record, mainly reflecting a decline in net purchases of equity and investment fund shares. On the other hand, net purchases of Japanese securities by foreign investors decreased, mainly because investment in Japanese equity and investment fund shares as well as short-term debt securities shifted to net sales.

*Japan's IIP registered an increase in net assets for the first time in two years.*

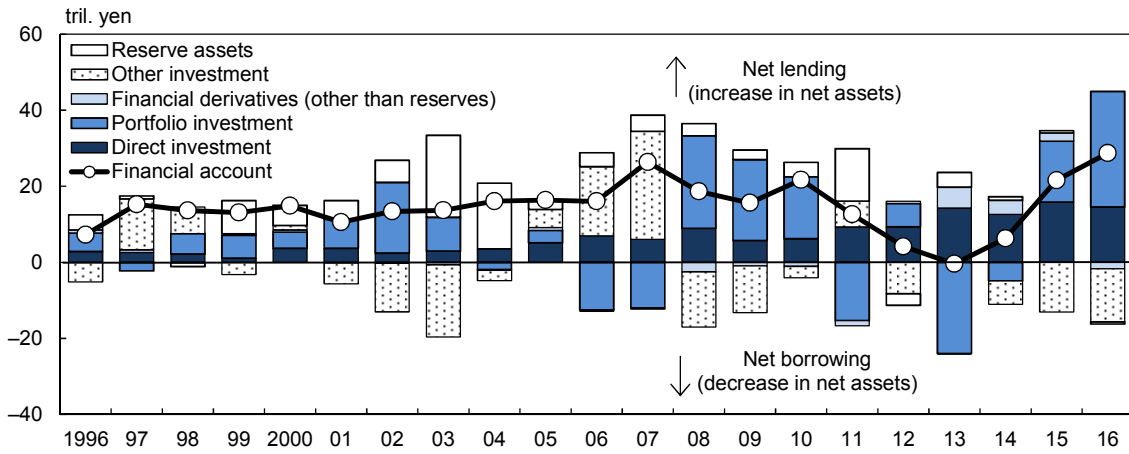
- Japan's net asset position increased for the first time in two years as the increase in assets exceeded that in liabilities.
- Assets increased mainly due to an increase in portfolio investment transactions and a rise in foreign stock prices.
- Liabilities increased due to an increase in loans.
- Among major countries that release IIP data, Japan at year-end 2016 continued to be the country with the largest net asset position, which amounted to 349.1 trillion yen.



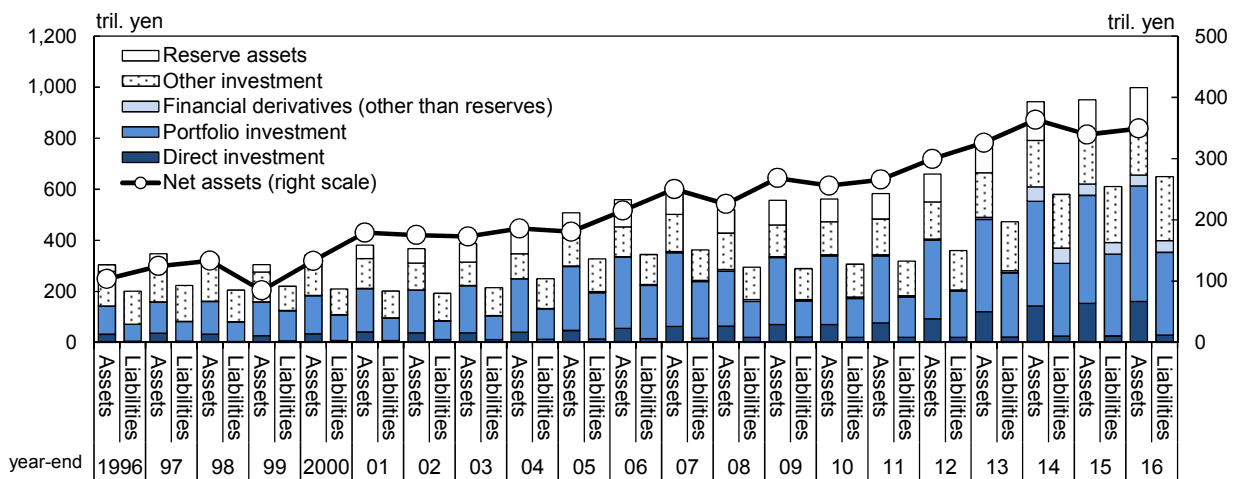
**Figure 1: Current Account**



**Figure 2: Financial Account**



**Figure 3: IIP**



### III. Developments in the Current Account in 2016

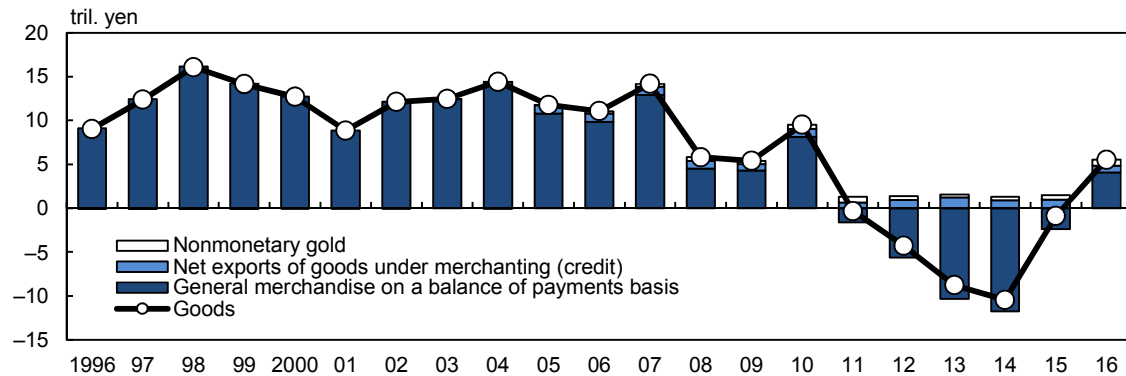
#### A. Goods

The balance on goods turned to a surplus of 5.5 trillion yen in 2016 from a deficit of 0.9 trillion yen in 2015 -- the first surplus in six years, i.e., since 2010, the year before the Great East Japan Earthquake -- with the decline in imports exceeding that in exports.

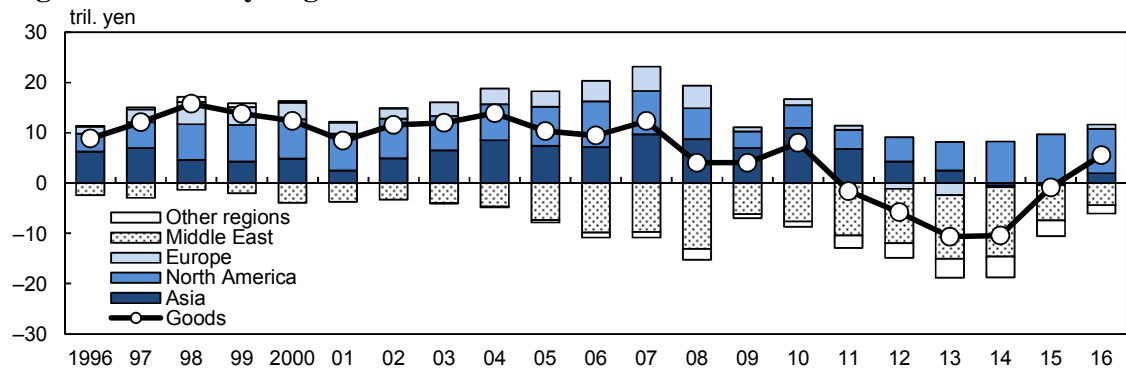
Exports fell to 69.0 trillion yen in 2016 from 75.3 trillion yen in 2015, led by a decline in exports of manufactured goods such as iron and steel products to Asia. Imports fell to 63.5 trillion yen in 2016 from 76.2 trillion yen in 2015, mainly as a result of a drop in mineral fuel imports such as crude oil and liquefied natural gas from the Middle East due to the effects of the decline in crude oil prices.

Looking at the contribution of changes in quantities and prices separately, changes in prices made a larger contribution to the decline in both exports and imports than changes in quantities.

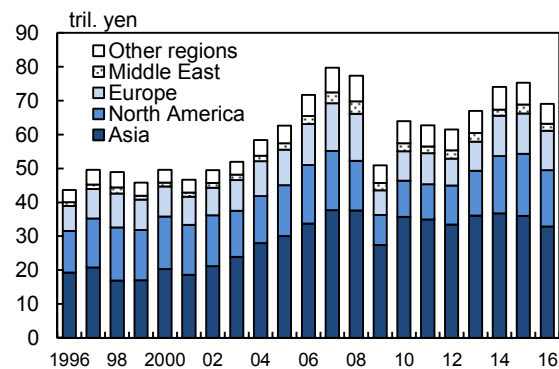
**Figure 4: Goods**



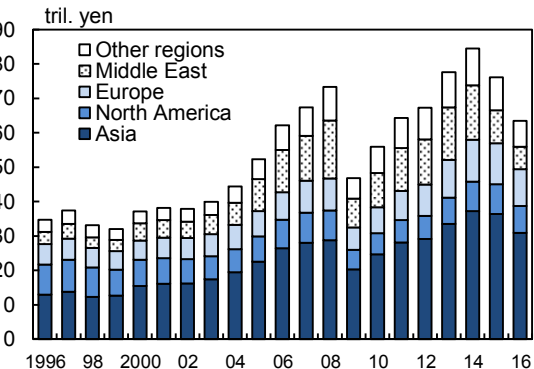
**Figure 5: Goods by Region**



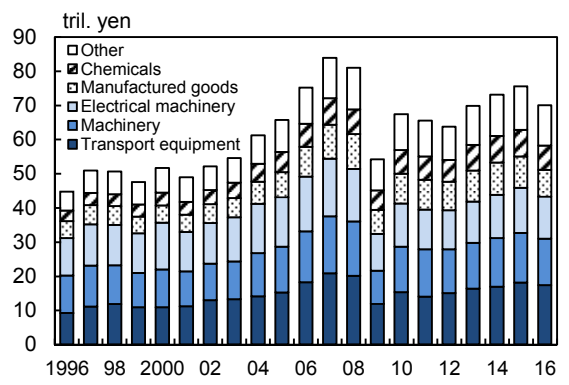
**Figure 6: Exports by Region**



**Figure 7: Imports by Region**

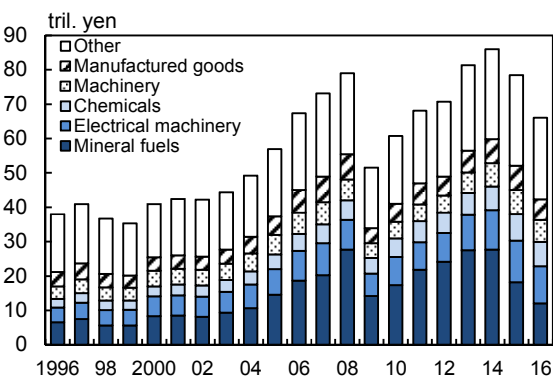


**Figure 8: Exports by Commodity**



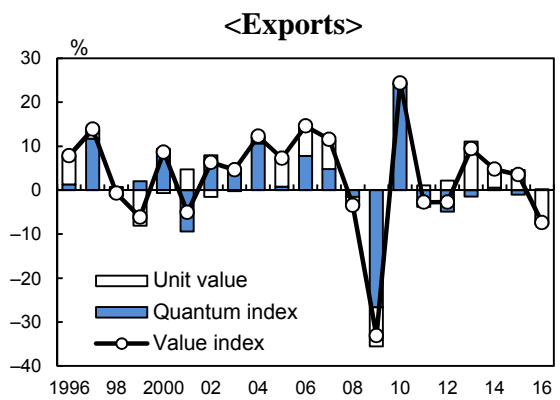
Source: Ministry of Finance, *Trade Statistics of Japan*.

**Figure 9: Imports by Commodity**

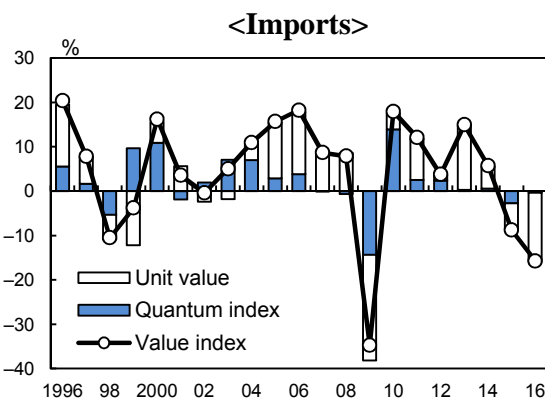


Source: Ministry of Finance, *Trade Statistics of Japan*.

**Figure 10: Year-on-Year Changes in Trade Indexes**



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



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

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

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

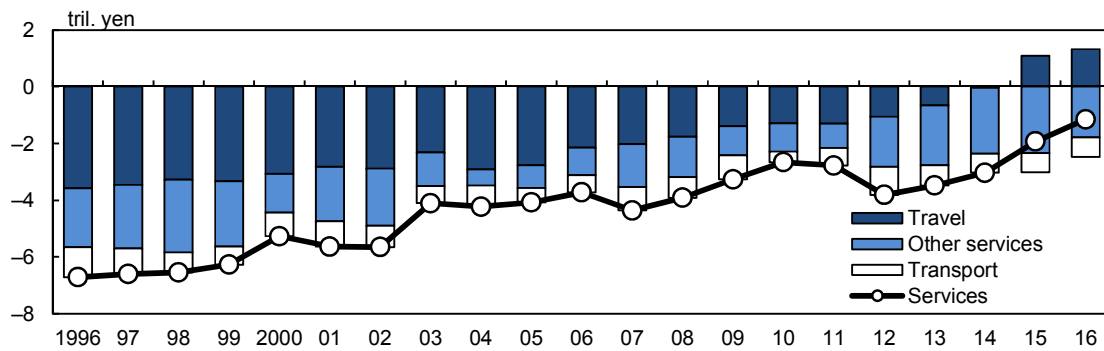
## B. Services

The deficit on services declined to 1.1 trillion yen in 2016 from 1.9 trillion yen in 2015, marking the smallest deficit since 1996, from when comparable data are available.

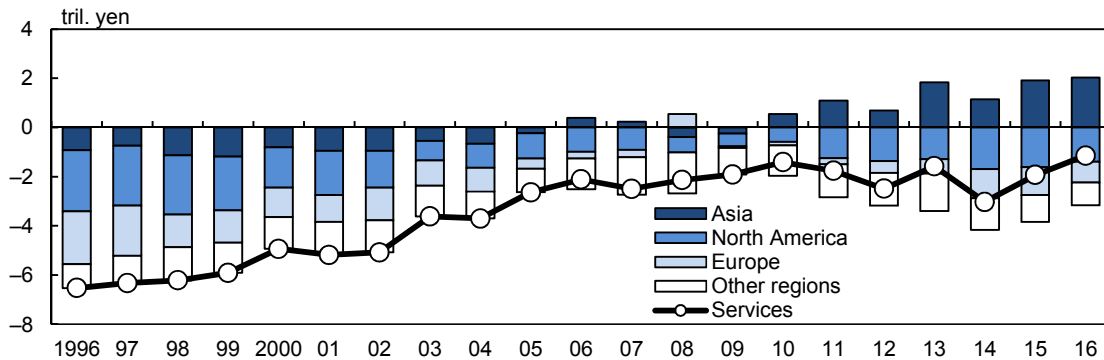
The deficit on transport remained essentially unchanged from a year earlier at 0.7 trillion yen. The surplus on travel increased to 1.3 trillion yen in 2016 from 1.1 trillion yen in 2015 due to a rise in the number of foreign visitors to Japan. The deficit on other services declined to 1.8 trillion yen in 2016 from 2.3 trillion yen in 2015 mainly due to a decline in the deficit on other business services.

The share of services in the total transactions in the goods and services account has continued to increase over the past few years both in exports and in imports (receipts and payments).

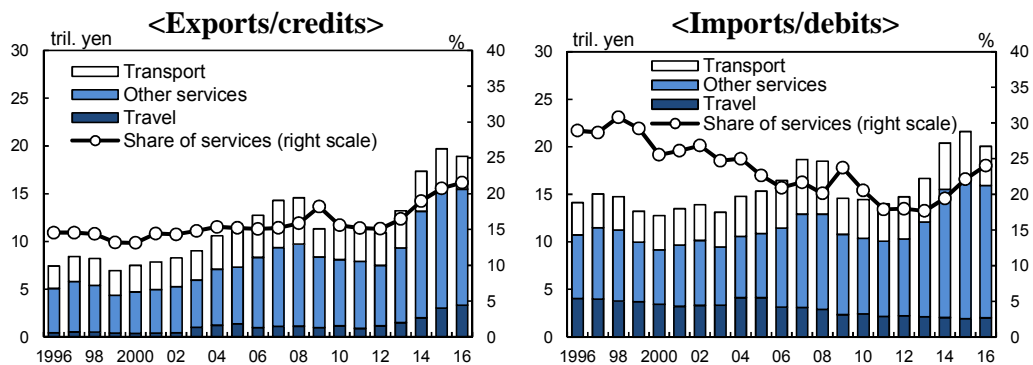
**Figure 11: Services**



**Figure 12: Services by Region**



**Figure 13: Share of Services in the Total Transactions in the Goods and Services Account<sup>1</sup>**

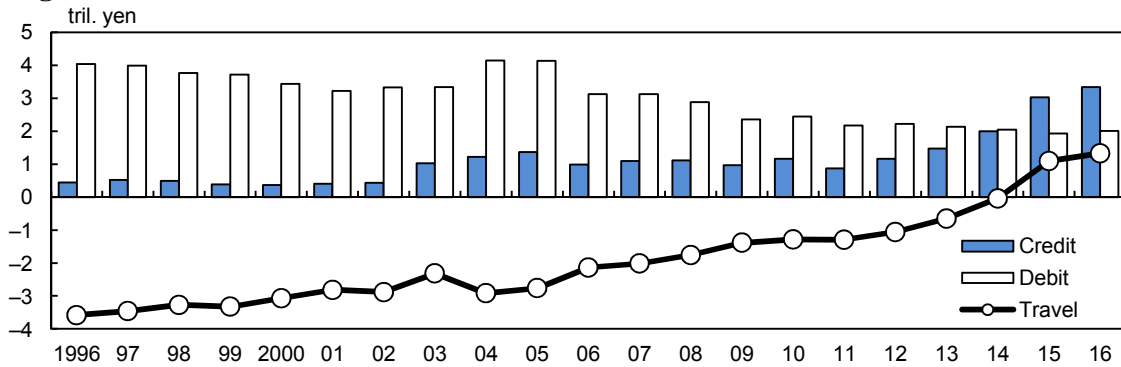


# 1. Travel

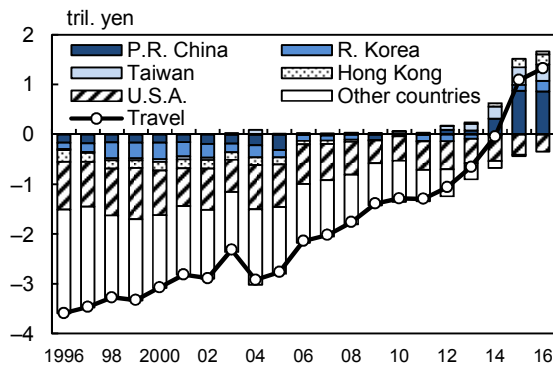
The surplus on travel increased to 1.3 trillion yen in 2016 from 1.1 trillion yen in 2015, marking a record high since 1996, from when comparable data are available, with the increase in receipts -- due mainly to a rise in the number of foreign visitors from Asia -- exceeding the increase in payments.

Looking at developments in receipts, the pace of increase slowed, reflecting that while the number of foreign visitors especially from Asia rose for the fifth year in a row, travel expenditure per foreign visitor to Japan fell for the first time in five years.

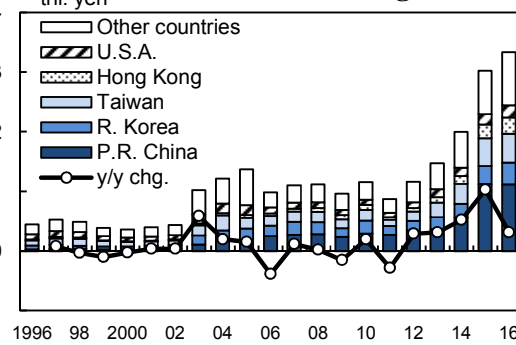
**Figure 14: Travel**



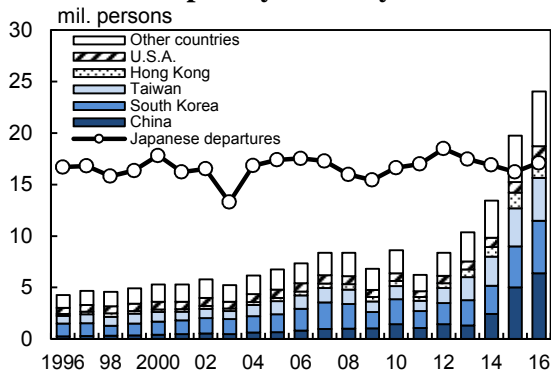
**Figure 15: Travel by Country**



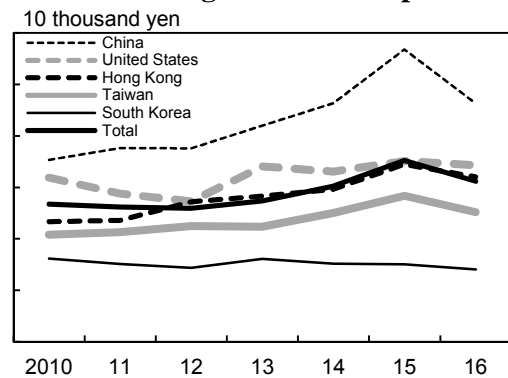
**Figure 16: Credit by Country and Year-on-Year Changes**



**Figure 17: Number of Foreign Visitors to Japan by Country**



**Figure 18: Travel Expenditure per Foreign Visitor to Japan**



Sources: Ministry of Justice, *Statistical Survey on Legal Migrants*; Japan National Tourism Organization (JNTO), *Foreign Visitors and Japanese Departures*.

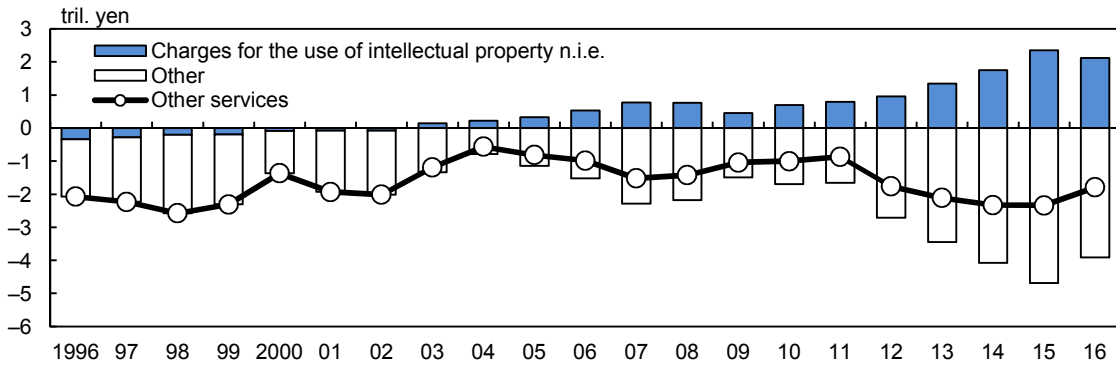
Source: Japan Tourism Agency, *Consumption Trend Survey for Foreigners Visiting Japan*.

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

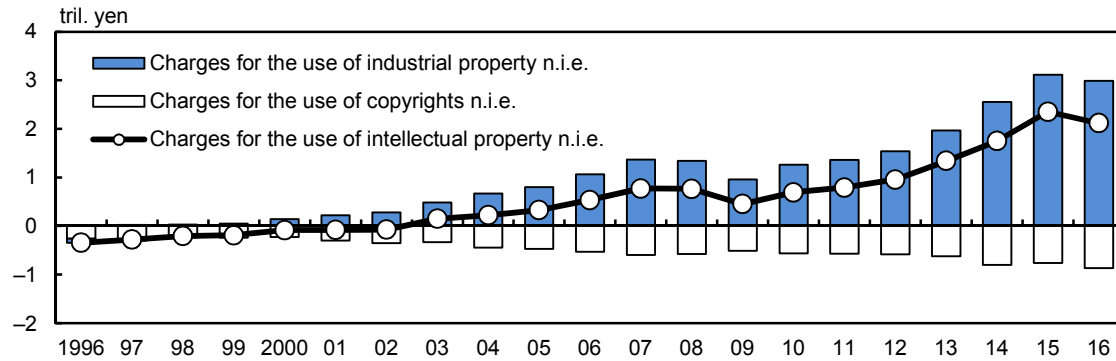
The surplus on charges for the use of intellectual property n.i.e., which are part of "other services," fell for the first time in seven years, to 2.1 trillion yen in 2016 from 2.4 trillion yen in 2015, mainly due to a decline in receipts.

Receipts fell for the first time in five years, reflecting the yen's appreciation compared to a year earlier, with the regional breakdown showing that the decline was led by receipts from Asia.

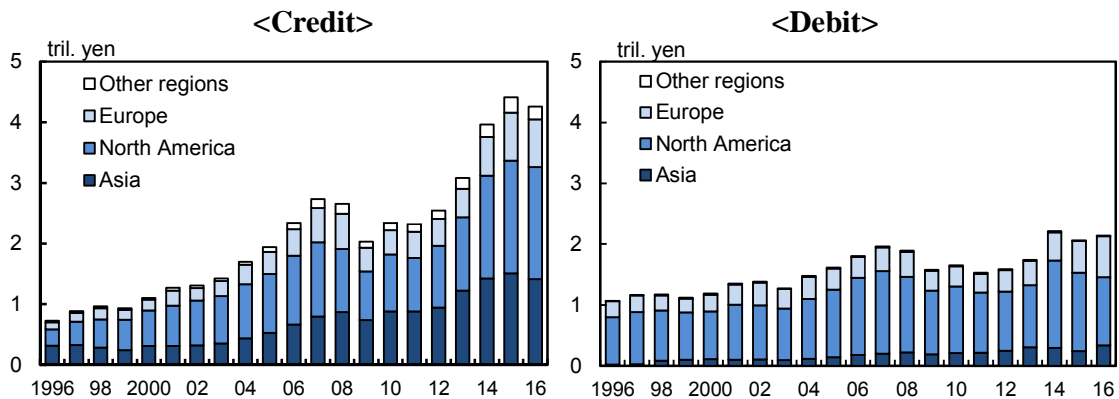
**Figure 19: Other Services**



**Figure 20: Charges for the Use of Intellectual Property n.i.e.**



**Figure 21: Charges for the Use of Intellectual Property n.i.e. by Region**

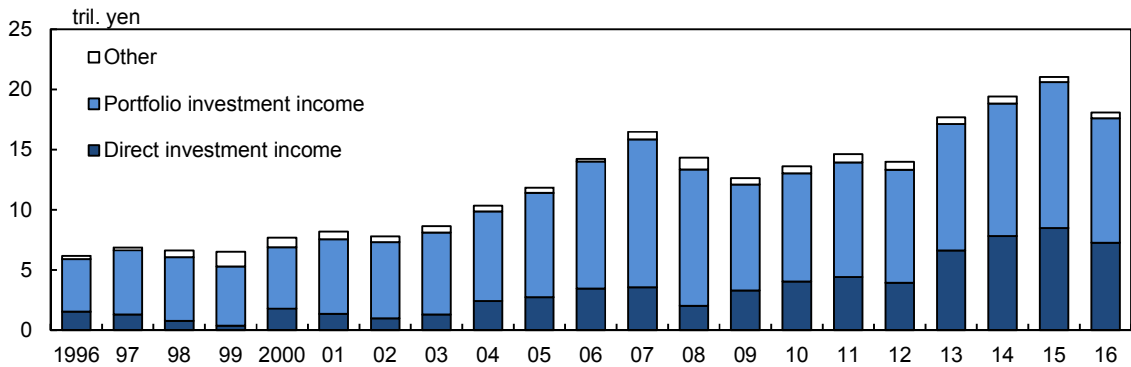


### C. Primary Income

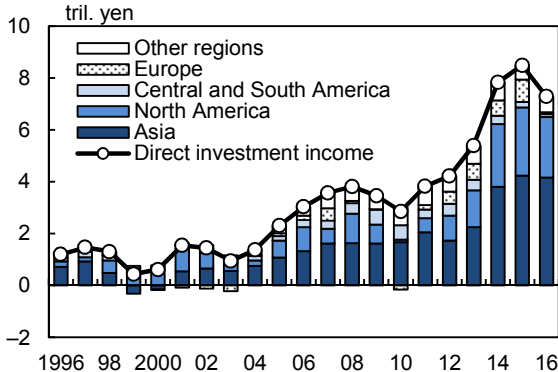
The surplus on primary income declined for the first time in four years, to 18.1 trillion yen in 2016 from 21.0 trillion yen in 2015, reflecting decreases in the surpluses on both direct investment income and portfolio investment income.

By region, receipts of direct investment income from regions such as Europe and North America decreased, and receipts of portfolio investment income from Central and South America decreased. Looking at portfolio investment income by component, the largest decline was observed in investment income attributable to investment fund shareholders, and interest receipts also decreased.

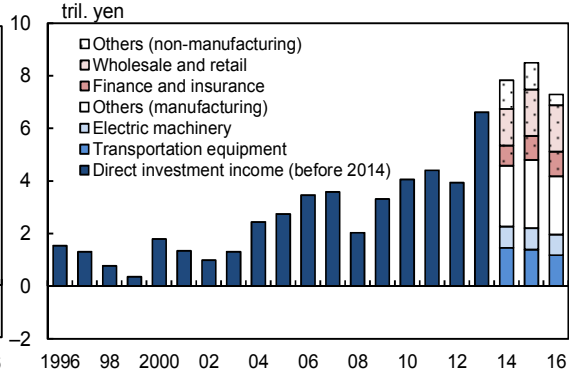
**Figure 22: Primary Income**



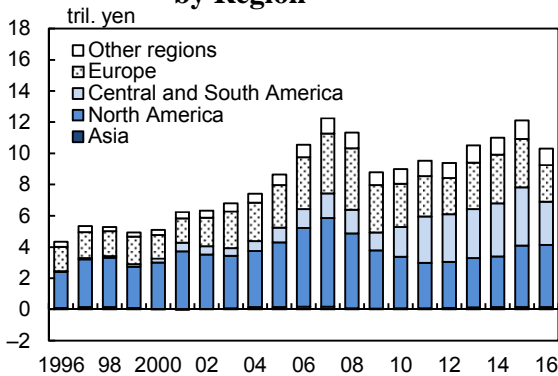
**Figure 23: Direct Investment Income by Region**



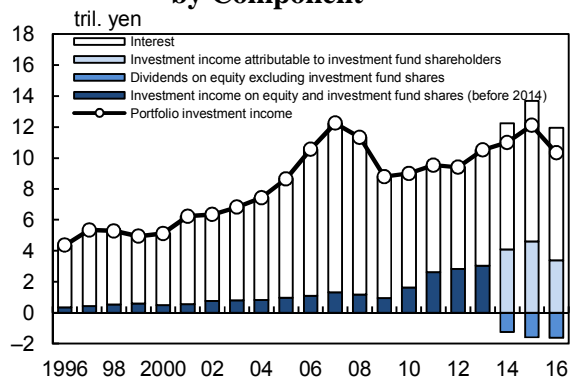
**Figure 24: Direct Investment Income by Industry**



**Figure 25: Portfolio Investment Income by Region**



**Figure 26: Portfolio Investment Income by Component**

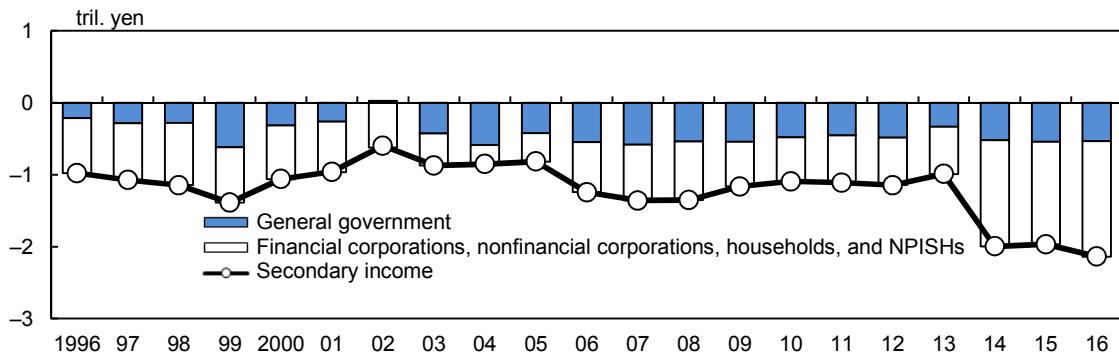


## D. Secondary Income

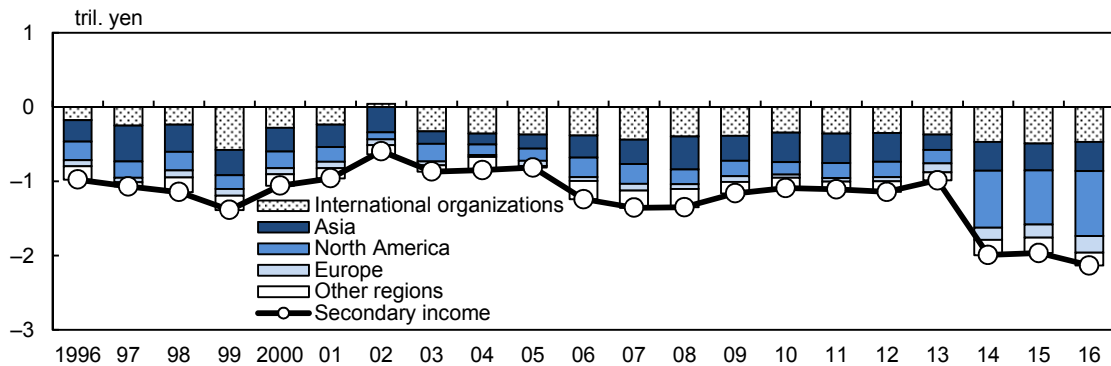
As for secondary income, while the deficit in the general government account was more or less unchanged from a year earlier, the deficit in the "financial corporations, nonfinancial corporations, households, and NPISHs" sector increased. The deficit on secondary income increased to 2.1 trillion yen in 2016 from 2.0 trillion yen in 2015, marking the largest deficit since 1985, from when comparable data are available.

By region, the deficit with North America increased. Meanwhile, the deficit with international organizations was essentially unchanged from a year earlier.

**Figure 27: Secondary Income**



**Figure 28: Secondary Income by Region**





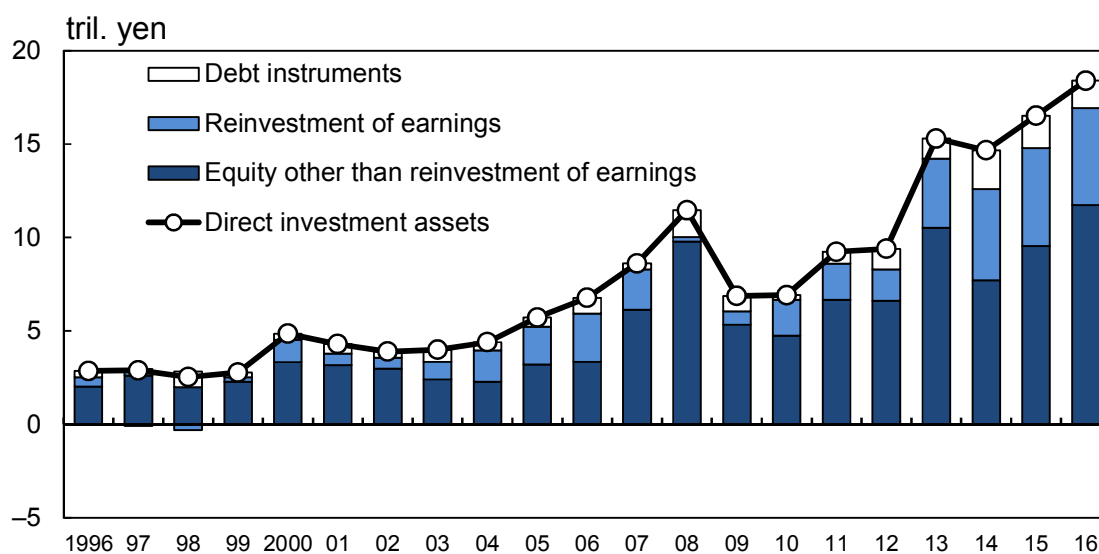
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## IV. Developments in the Financial Account in 2016

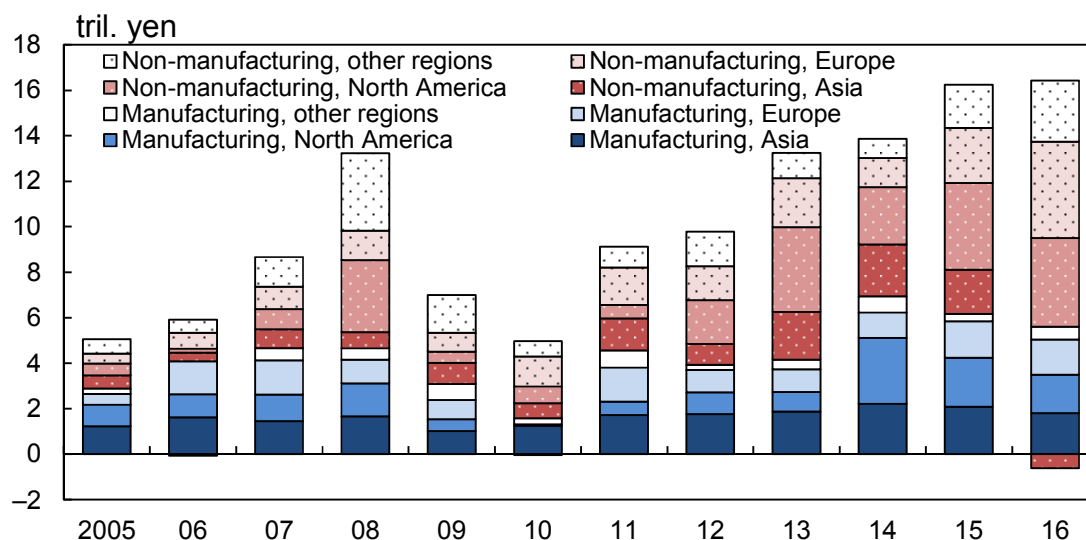
### A. Direct Investment Assets

Net acquisitions of direct investment assets increased to 18.4 trillion yen in 2016 from 16.5 trillion yen in 2015, marking a record high since 1996, from when comparable data are available, due to a rise in net acquisitions of equity other than reinvestment of earnings. By region and industry, outward direct investment increased, led by an increase in net acquisitions of assets in the non-manufacturing sector in Europe.

**Figure 29: Direct Investment Assets**



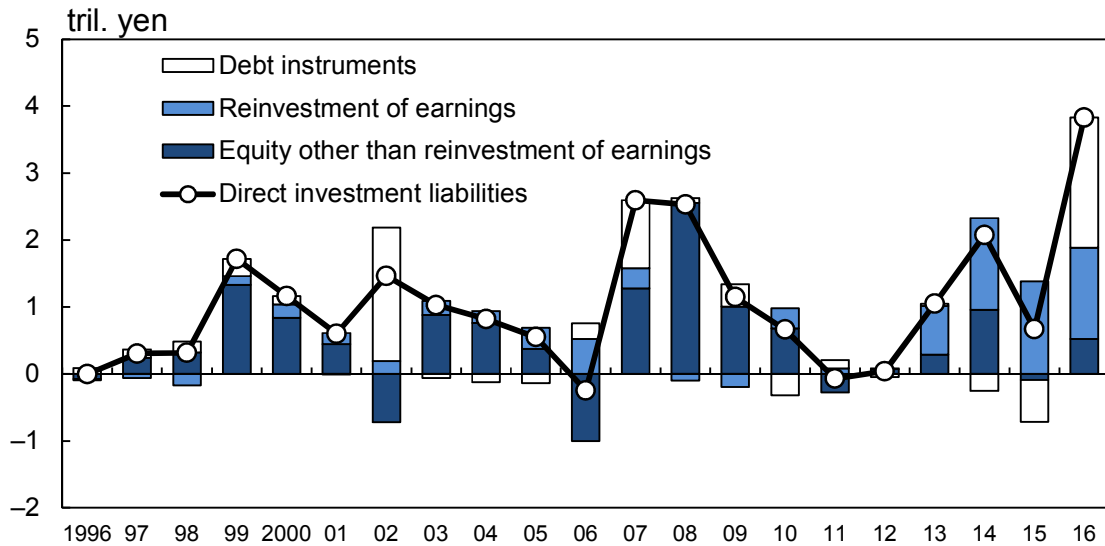
**Figure 30: Outward Direct Investment by Region and Industry**



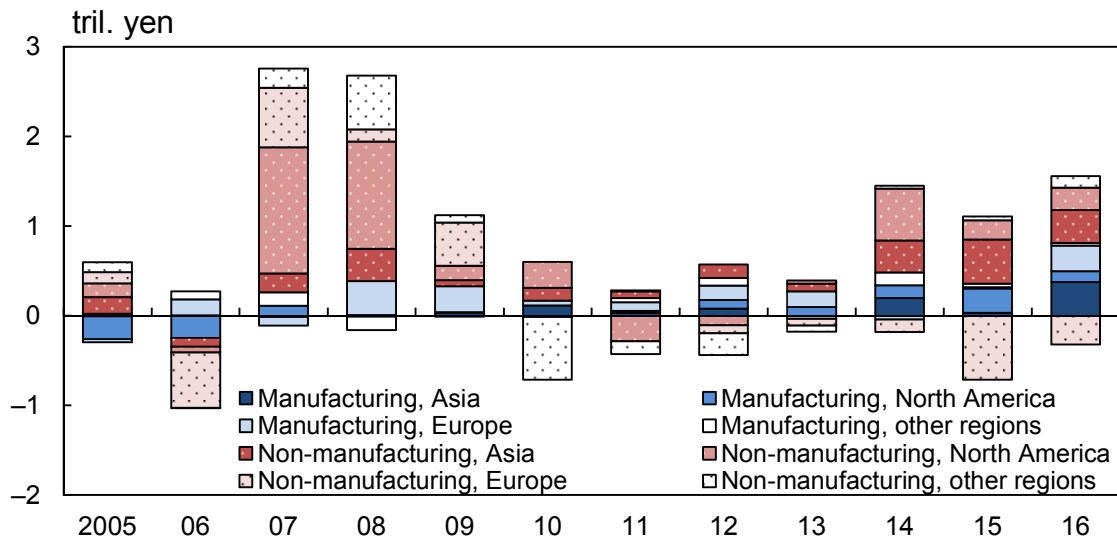
## B. Direct Investment Liabilities

Net incurrence of direct investment liabilities increased to 3.8 trillion yen in 2016 from 0.7 trillion yen in 2015, marking a record high since 1996, from when comparable data are available, mainly due to a shift to net incurrence from net repayment of debt instruments.

**Figure 31: Direct Investment Liabilities**



**Figure 32: Inward Direct Investment by Region and Industry**

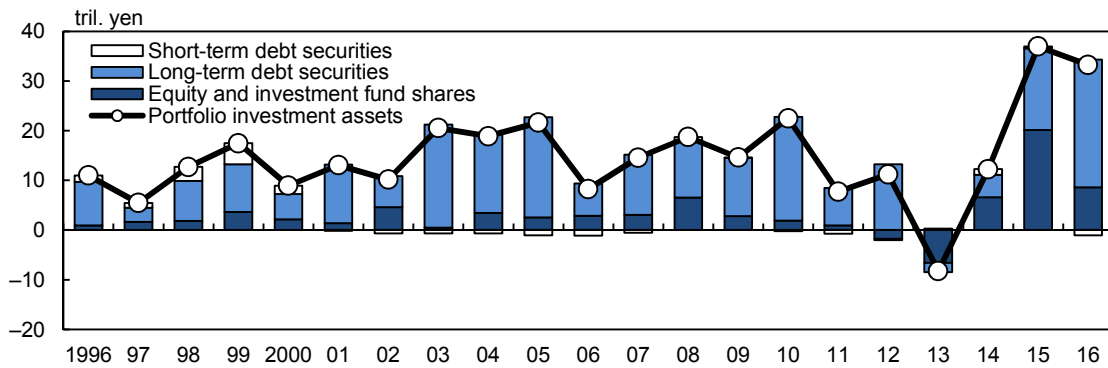


### C. Portfolio Investment Assets

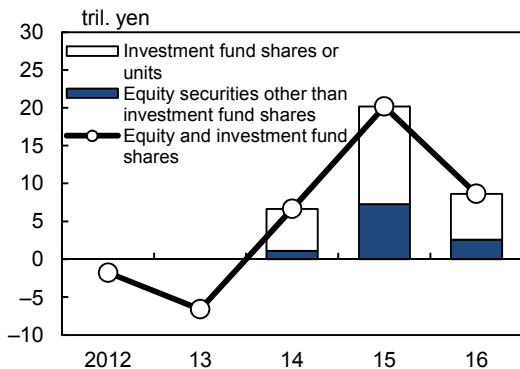
Net purchases of foreign securities by Japanese investors decreased to 33.3 trillion yen in 2016 from 37.0 trillion yen in 2015, mainly reflecting a decline in net purchases of equity and investment fund shares.

As for investment in foreign equity and investment fund shares, net purchases both of equity securities other than investment fund shares and of investment fund shares or units decreased. By region, net purchases of Central and South American securities declined. Net purchases of long-term debt securities increased, mainly due to an increase in net purchases by life insurance companies.

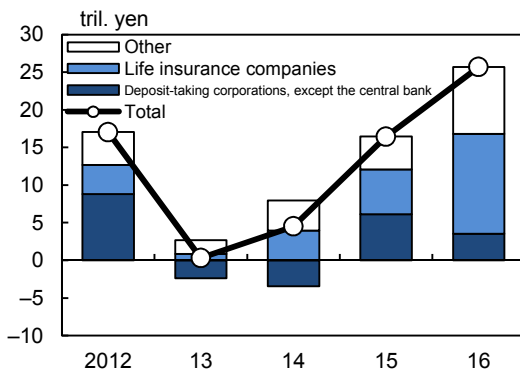
**Figure 33: Portfolio Investment Assets**



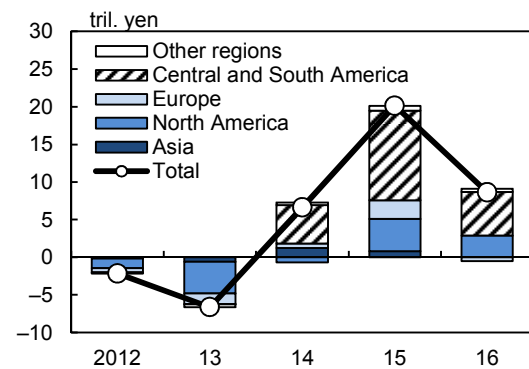
**Figure 34: Equity and Investment Fund Shares by Component (Assets)**



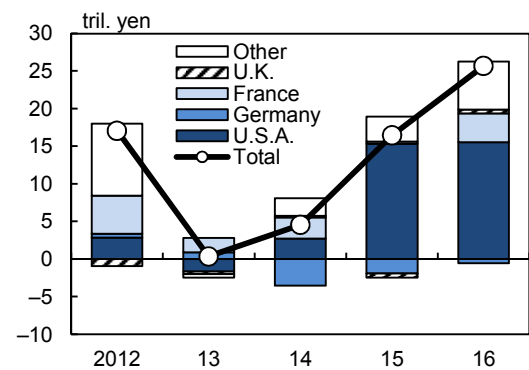
**Figure 36: Long-Term Debt Securities by Sector (Assets)**



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



**Figure 37: Long-Term Debt Securities by Country (Assets)**

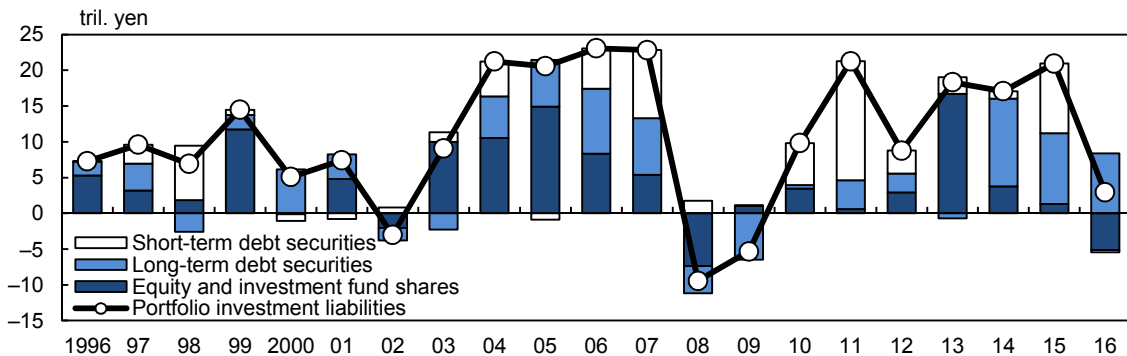


## D. Portfolio Investment Liabilities

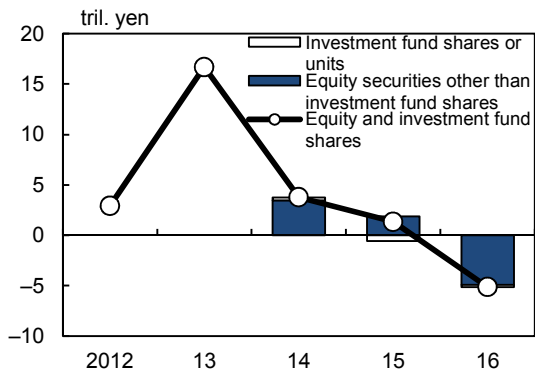
Net purchases of Japanese securities by foreign investors decreased to 2.9 trillion yen in 2016 from 21.0 trillion yen in 2015, mainly because investment in Japanese equity and investment fund shares as well as short-term debt securities shifted to net sales.

Investment in Japanese equity and investment fund shares shifted to net sales from net purchases because investment in equity securities other than investment fund shares shifted to net sales. Investment in Japanese short-term debt securities shifted to net sales from net purchases, mainly due to a shift in investment from Europe to net sales.

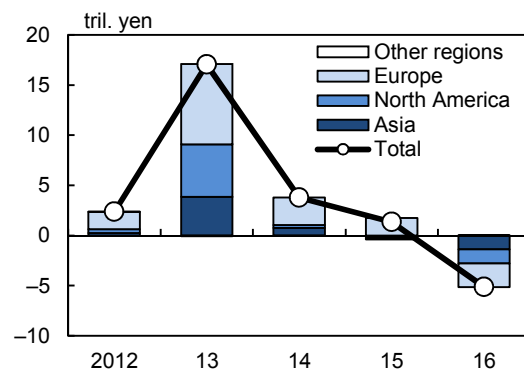
**Figure 38: Portfolio Investment Liabilities**



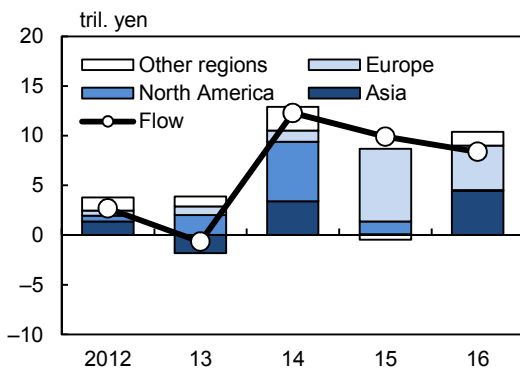
**Figure 39: Equity and Investment Fund Shares by Component (Liabilities)**



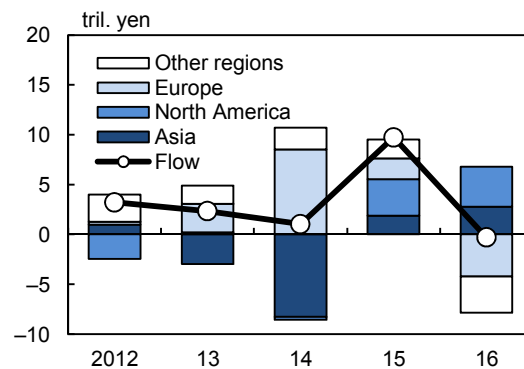
**Figure 40: Equity and Investment Fund Shares by Region (Liabilities)**



**Figure 41: Long-Term Debt Securities (Changes in Liabilities by Region)<sup>2</sup>**



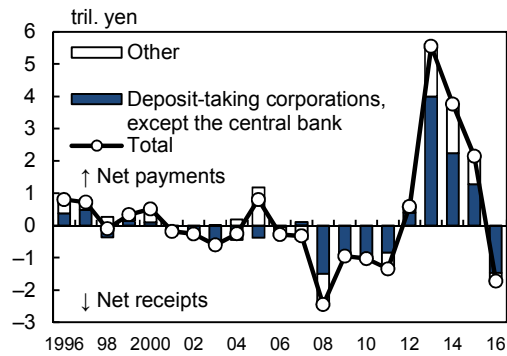
**Figure 42: Short-Term Debt Securities (Changes in Liabilities by Region)<sup>2</sup>**



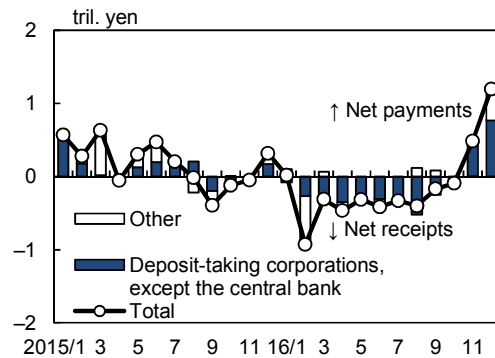
### E. Financial Derivatives (Other than Reserves)

Financial derivatives (other than reserves) shifted to net receipts of 1.7 trillion yen in 2016 from net payments of 2.1 trillion yen in 2015, mainly because residents who had entered into currency swap arrangements received supplementary principal.

**Figure 43: Financial Derivatives (Other than Reserves) by Sector**



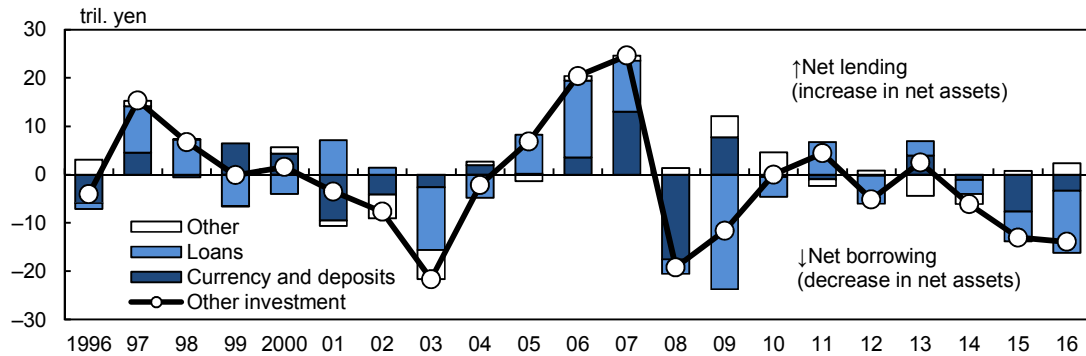
**Figure 44: Financial Derivatives (Other than Reserves) (Monthly)**



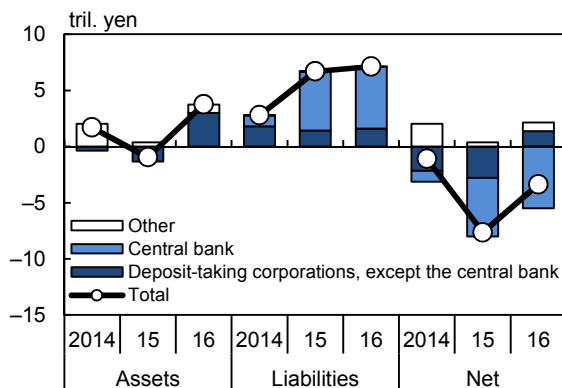
### F. Other Investment

Net borrowing under other investment increased to 13.9 trillion yen in 2016 from 13.1 trillion yen in 2015, mainly due to an increase in net borrowing in the form of short-term loans through transactions with repurchase agreements and securities lending transactions.

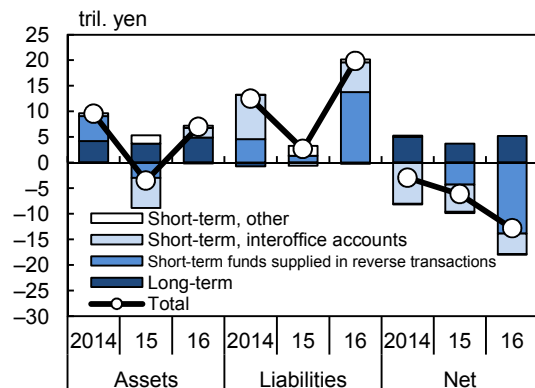
**Figure 45: Other Investment**



**Figure 46: Currency and Deposits**



**Figure 47: Loans**



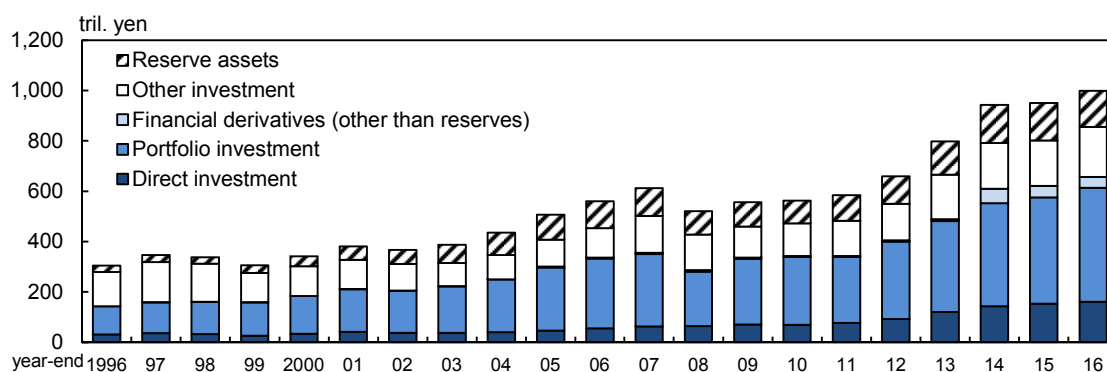
## V. Developments in Japan's IIP at Year-End 2016

### A. Summary

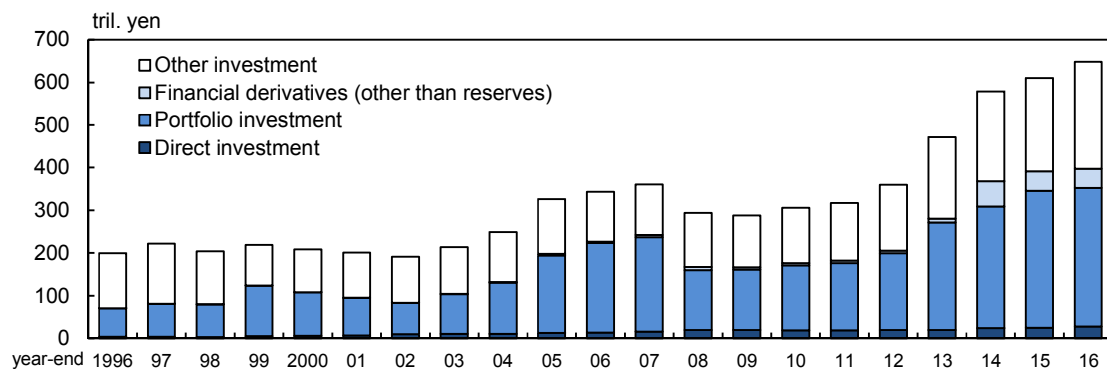
Japan's external financial assets increased to 997.8 trillion yen at year-end 2016 from 949.9 trillion yen at year-end 2015, mainly due to an increase in portfolio investment assets. Japan's external liabilities increased to 648.7 trillion yen at year-end 2016 from 610.7 trillion yen at year-end 2015, mainly due to an increase in other investment liabilities.

Japan's net asset position increased in 2016 as the increase in assets exceeded that in liabilities. Net assets stood at 349.1 trillion yen at year-end 2016, up from 339.2 trillion yen at year-end 2015.

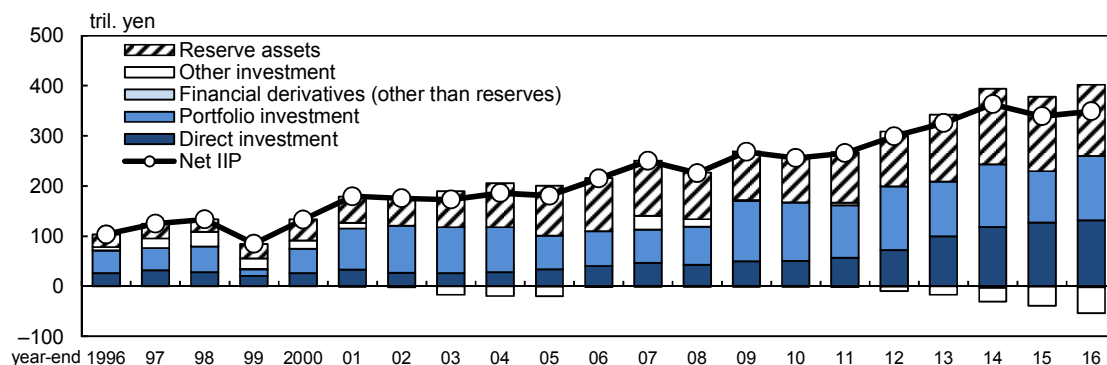
**Figure 48: Assets**



**Figure 49: Liabilities**



**Figure 50: Net IIP**

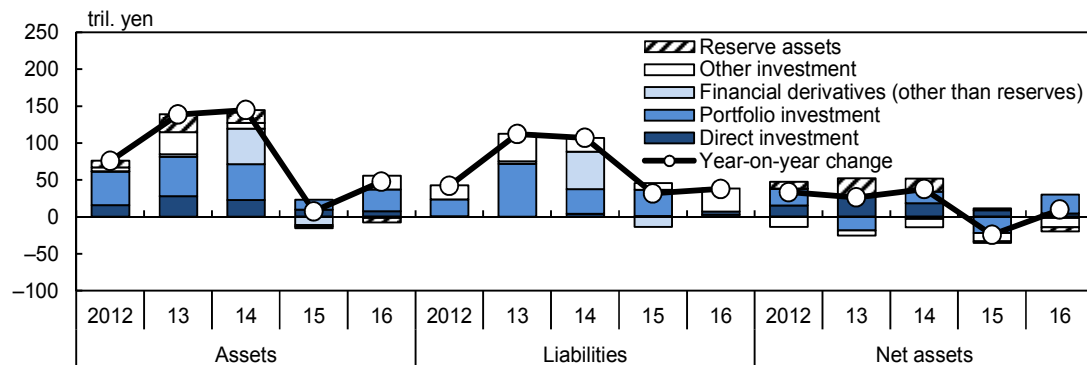


## B. Year-on-Year Changes in Japan's IIP

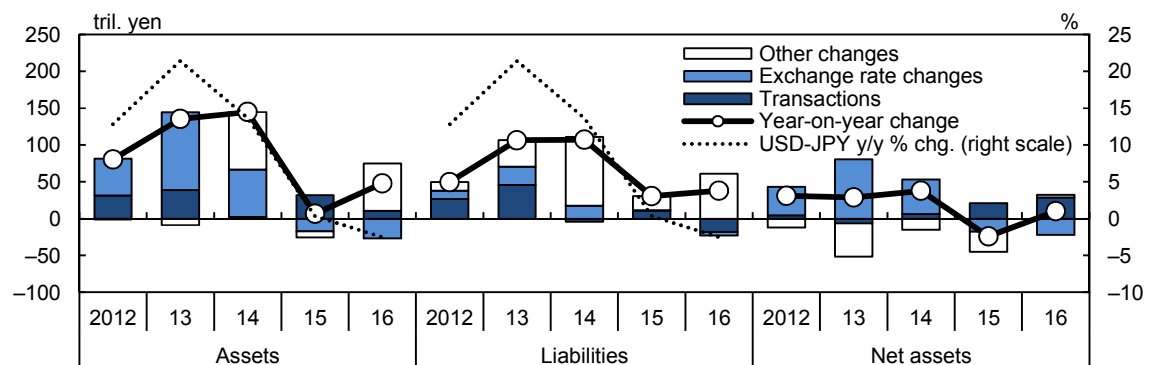
Looking at year-on-year changes in the IIP by component, net assets increased reflecting an increase in portfolio investment assets.

By factor, transactions and other changes contributed to the increase in external assets, which in turn led to the increase in net assets. The contribution of other changes to the increase in net assets was led by an increase in the value of portfolio investment assets due to a rise in foreign stock prices.

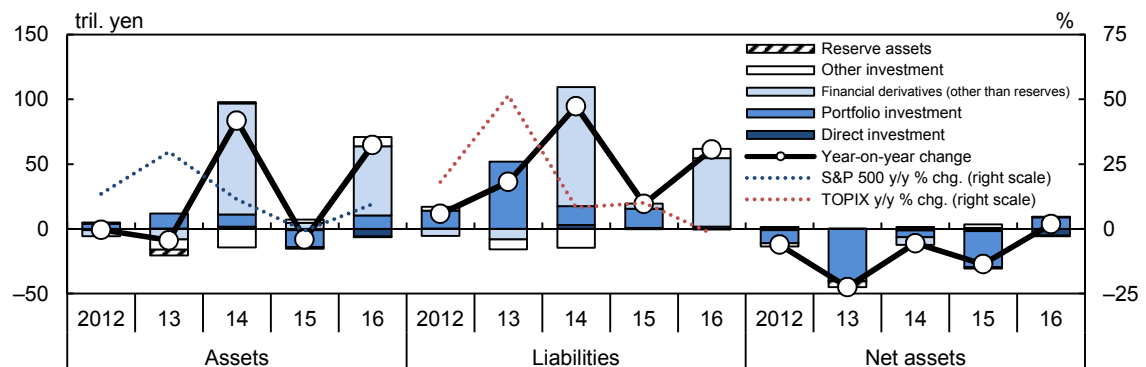
**Figure 51: Year-on-Year Changes in the IIP by Component**



**Figure 52: Year-on-Year Changes in the IIP by Factor**



**Figure 53: Other Changes by Component**



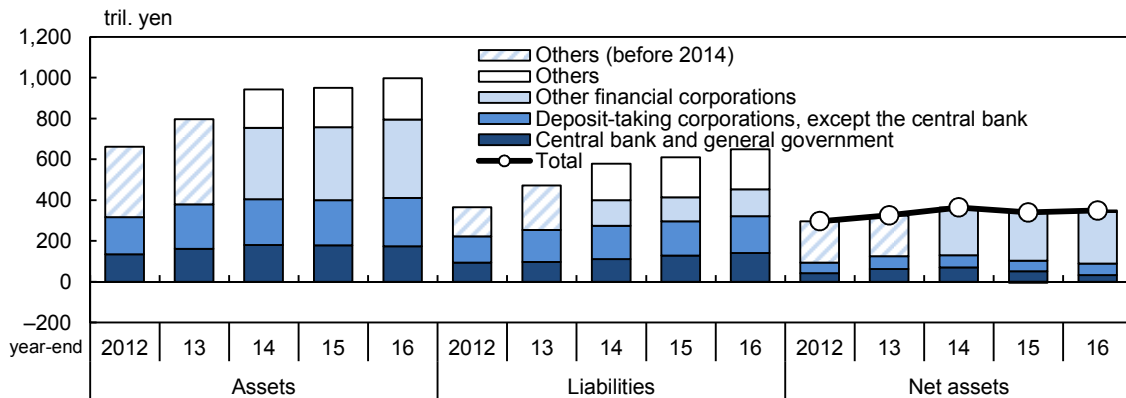


### C. Japan's IIP by Sector

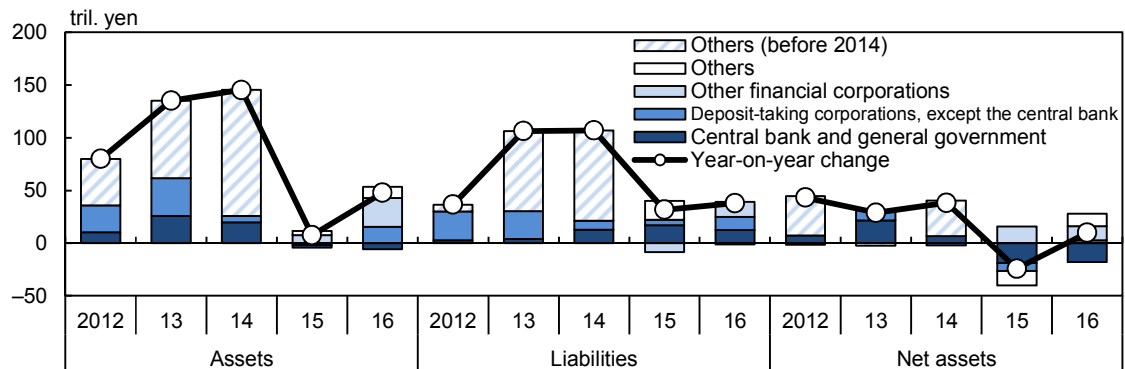
Looking at year-on-year changes in the IIP by sector, the increase in the net assets of other financial corporations made the largest contribution to the increase in net assets overall.

A breakdown of external assets held by other financial corporations indicates that portfolio investment assets increased mainly due to an increase in assets of long-term debt securities.

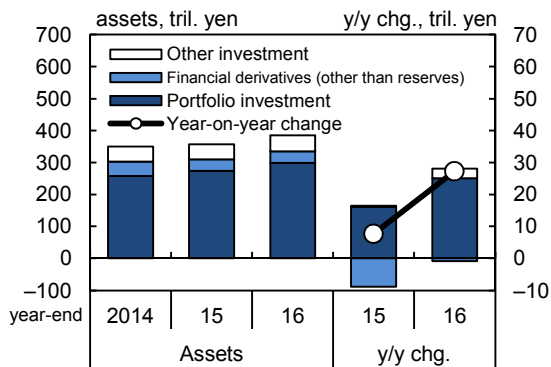
**Figure 54: IIP by Sector**



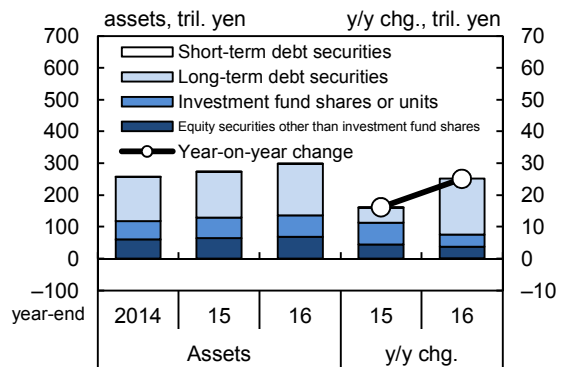
**Figure 55: Year-on-Year Changes in the IIP by Sector**



**Figure 56: Assets of Other Financial Corporations**



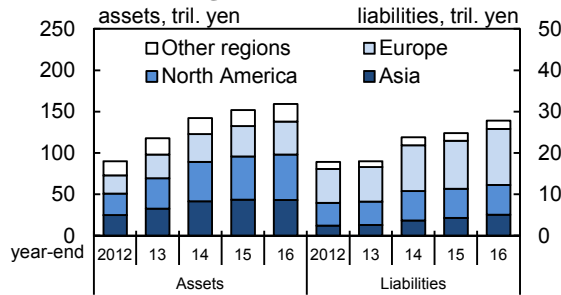
**Figure 57: Portfolio Investment Assets of Other Financial Corporations**



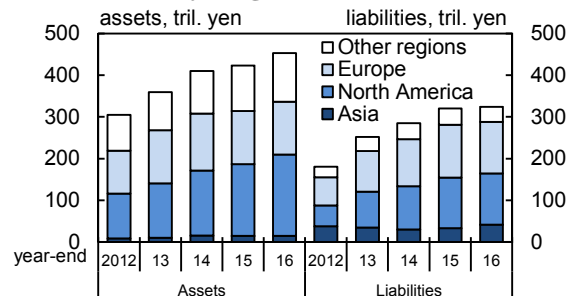
## D. Direct Investment Position and Portfolio Investment Position by Region

Looking at the direct investment position by region, on the asset side, investment in Europe increased, while on the liability side, investment from Europe also increased. As for the portfolio investment position, on the asset side, investment in North America increased, while on the liability side, investment from Asia increased.

**Figure 58: Direct Investment Position by Region**



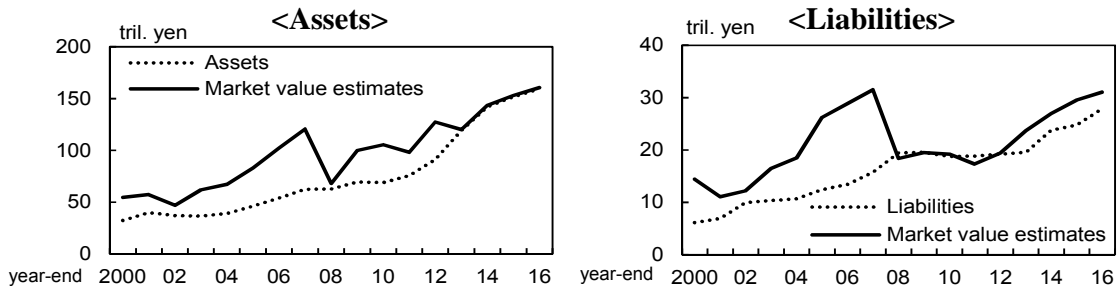
**Figure 59: Portfolio Investment Position by Region**



## E. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 160.4 trillion yen and 31.1 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 159.2 trillion yen and 27.8 trillion yen, respectively).

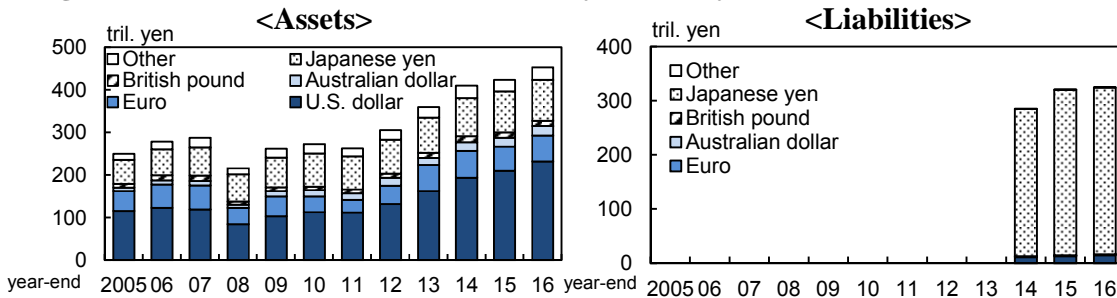
**Figure 60: Market Value Estimates of Direct Investment Position**



## F. Portfolio Investment Position by Currency

Portfolio investment assets increased led by an increase in U.S. dollar-denominated assets due to purchases of U.S. government bonds, while portfolio investment liabilities increased led by an increase in yen-denominated liabilities due to purchases of Japanese government bonds.

**Figure 61: Portfolio Investment Position by Currency**

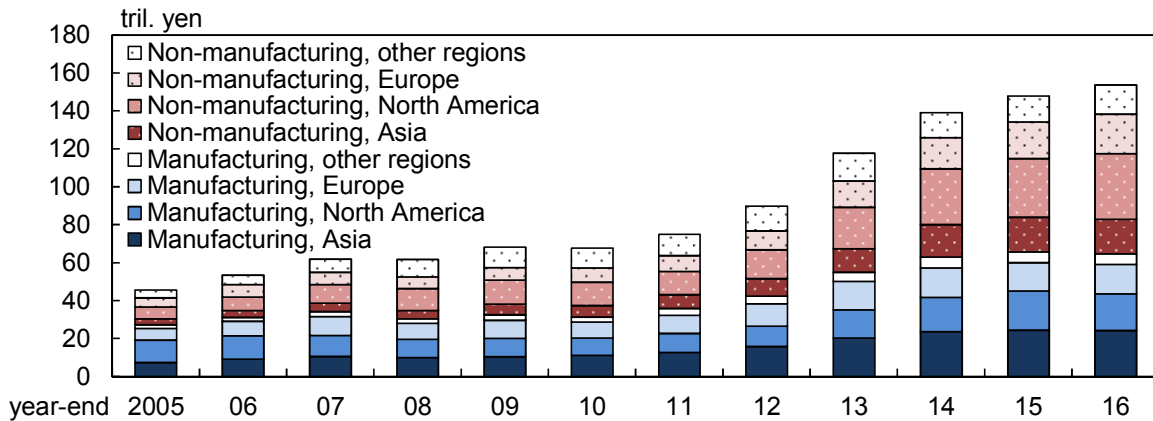


Note: Figures for the portfolio investment position (liabilities) by currency have been released starting with those for year-end 2014.

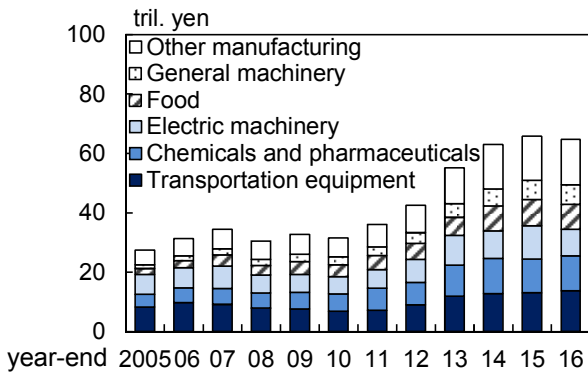
## G. Outward Direct Investment by Region and Industry

Looking at outward direct investment by region and industry, the investment position particularly in the non-manufacturing sector in North America increased. By industry, while the investment position in the manufacturing sector declined for the first time in six years, that in the non-manufacturing sector increased for the 11th year in a row since statistics started to be compiled. However, looking at the rate of return, this was high in the manufacturing sector, particularly in Asia, whereas that in the non-manufacturing sector in regions such as North America was relatively low.

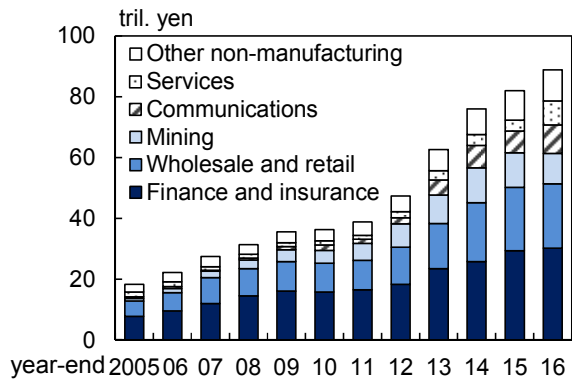
**Figure 62: Outward Direct Investment Position by Region and Industry**



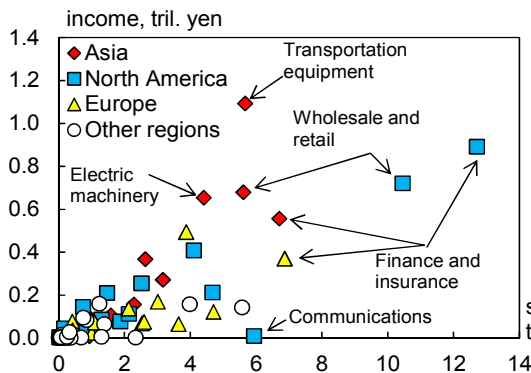
**Figure 63: Manufacturing Investment Position**



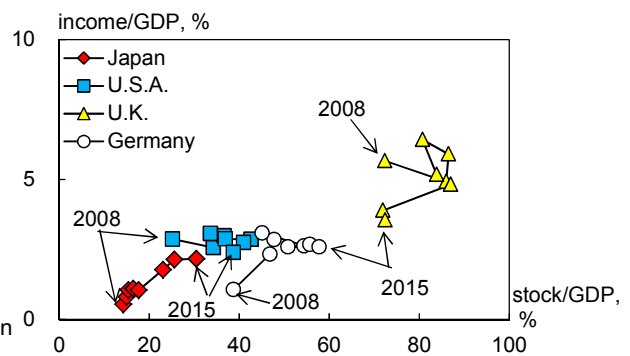
**Figure 64: Non-Manufacturing Investment Position**



**Figure 65: Investment Position and Income by Region and Industry for 2016**



**(Reference) International Comparison of Investment Position and Income**



Source: IMF.

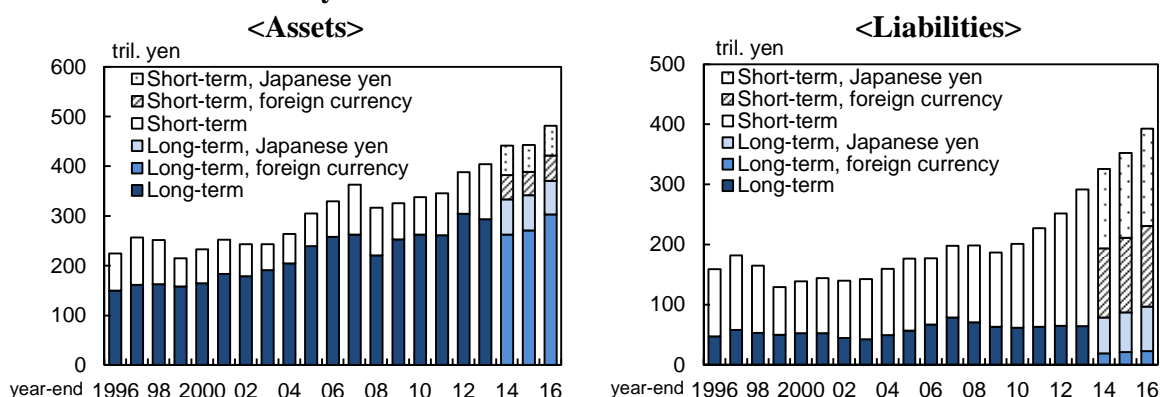
## H. Debt Position (Assets/Liabilities) by Currency

Looking at the debt position by currency in terms of foreign currency and Japanese yen, assets increased mainly due to an increase in long-term foreign-currency denominated assets, while liabilities increased mainly due to an increase in short-term yen-denominated liabilities.

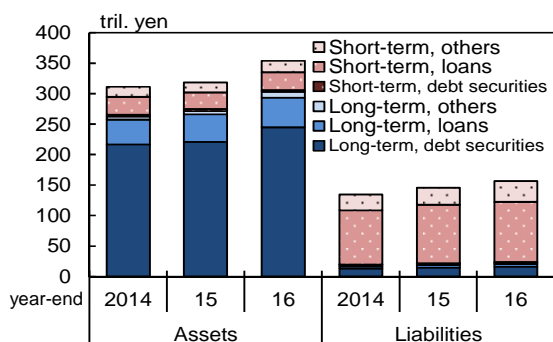
Breaking down foreign currency-denominated assets and liabilities, assets increased mainly due to increases in long-term loans and debt securities, while liabilities increased mainly due to an increase in short-term loans.

Looking at the debt position by currency, in terms of major currencies, assets exceeded liabilities both for deposit-taking corporations, except the central bank, and for other financial corporations.

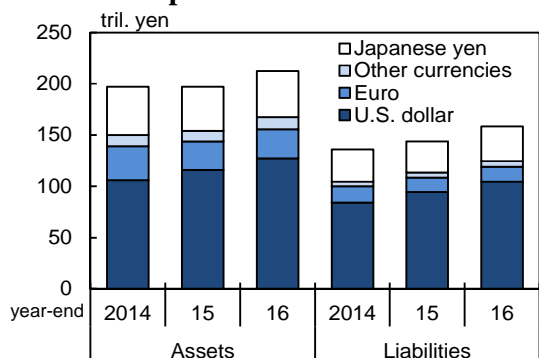
**Figure 66: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity<sup>3</sup>**



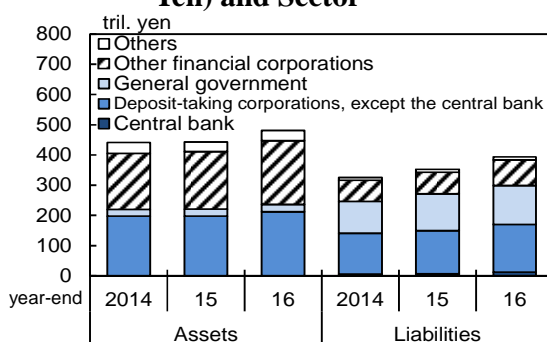
**Figure 67: Foreign Currency-Denominated Debt Position by Component**



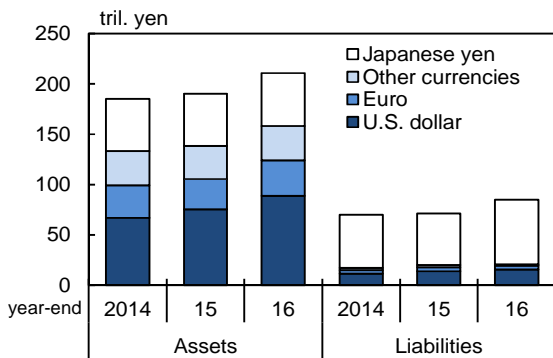
**Figure 69: Debt Position by Currency <Deposit-taking corporations, except the central bank>**



**Figure 68: Debt Position by Currency (Foreign Currency/Japanese Yen) and Sector**



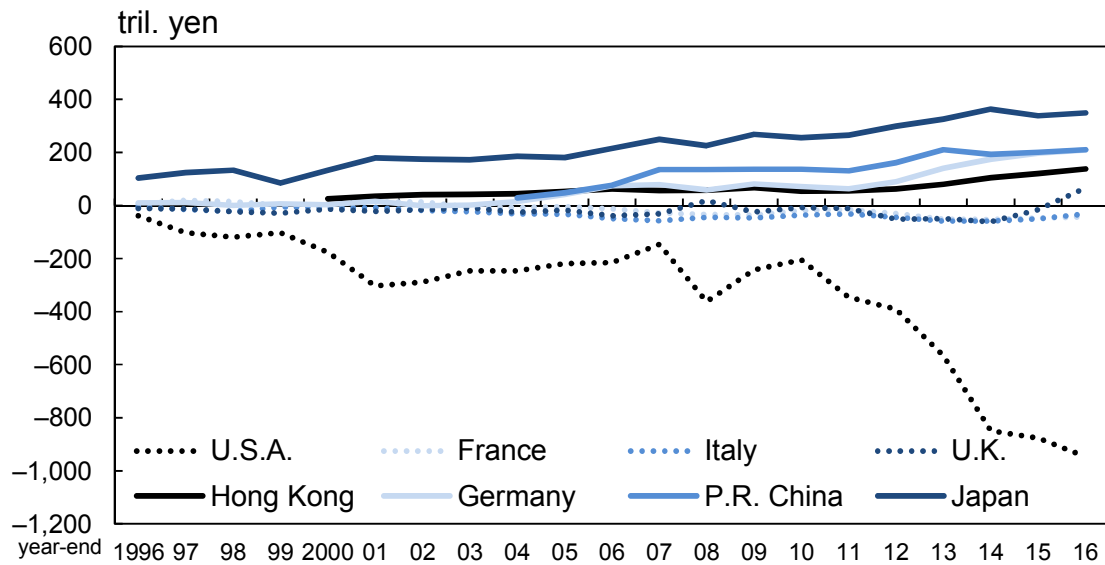
**<Other financial corporations>**



## I. International Comparison of Net IIP

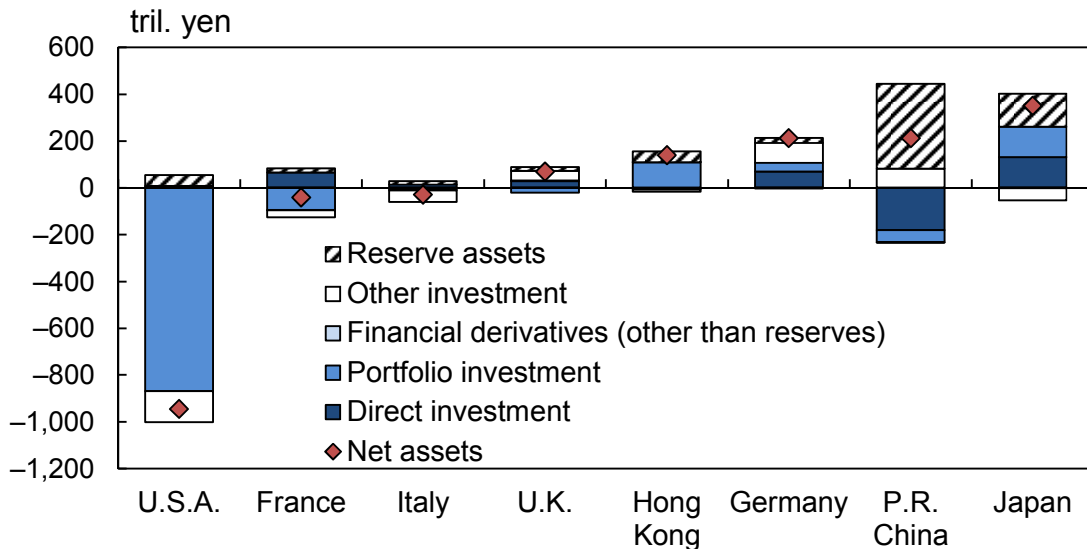
Among major countries that release IIP data, Japan at year-end 2016 continued to be the country with the largest net asset position, which amounted to 349.1 trillion yen.

**Figure 70: International Comparison of Net IIP (Time Series)**



Source: IMF.

**Figure 71: International Comparison of Net IIP at Year-End 2016**



Source: IMF.

## **VI. Explanation of Technical Matters**

### **A. On the Difference between the Two Sets of Direct Investment Data Released<sup>4</sup>**

The Bank releases two sets of foreign direct investment data: direct investment data on assets and liabilities released as part of the BOP statistics, and data on direct investment by region and industry, where direct investment assets and liabilities are referred to as outward and inward direct investment, respectively. There are certain differences between the two sets of data, as a result of which there are also differences in aggregate figures. The reason for these differences is that standard presentations in the two sets of international standards used for foreign direct investment apply different recording principles.

In one of the two sets of international standards, which is in accordance with the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual (BPM6)*, the asset and liability principle is applied in the standard presentation of data on foreign direct investment like other items in the BOP. Under the asset and liability principle, investments of Japanese companies in foreign companies are classified as assets, and investments from foreign companies in Japanese companies are classified as liabilities.

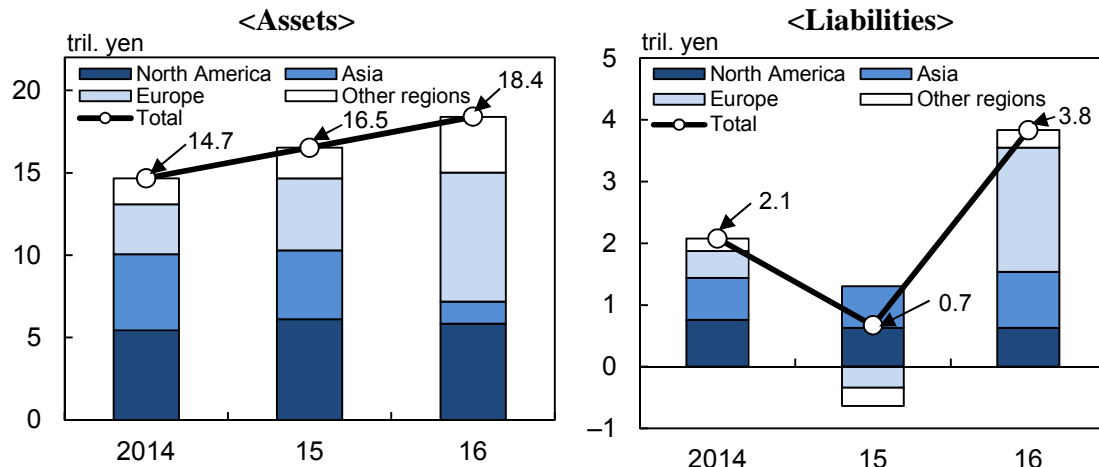
In the other set of standards in accordance with the *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, the directional principle is applied in the standard presentation of data on foreign direct investment by region and industry. Under the directional principle, the recording criterion is the residency of the parent company, so that investments from a Japanese parent company in overseas affiliated companies and investments from overseas affiliated companies in the Japanese parent company are classified under outward direct investment (with the latter representing outward investment withdrawals by the parent company), and investments from an overseas parent company in an affiliated company in Japan and investments from the affiliated company in Japan in the overseas parent company are classified under inward direct investment (with the latter representing inward investment withdrawals by the parent company).

It should be noted, though, that net assets obtained by calculating the difference between assets (outward direct investment) and liabilities (inward direct investment) are identical regardless of which recording principle is applied.

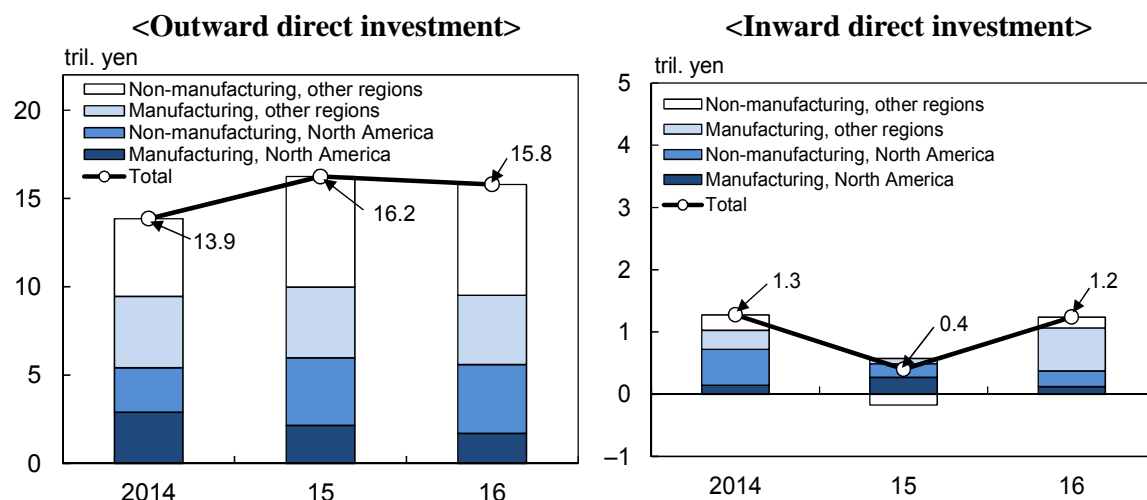
Therefore, when analyzing developments in direct investment, which of the two sets of data should be used depends on what one is interested in. For instance, since the direct investment statistics based on the asset and liability principle in the BOP statistics are based on the same recording principle as the other items of the BOP, they are suitable for comparisons of different items in the statistics, such as calculating the share of components in the financial account.

On the other hand, data on direct investment by region and industry based on the directional principle are useful for grasping developments in investment and funding in terms of parent companies' residency. For example, assuming that a company in Japan establishes a financial affiliated company overseas and the affiliated company lends surplus funds to the parent company in Japan for financing, based on the asset and liability principle of the BOP such a loan would be recorded as a liability, whereas in the direct investment statistics by region and industry based on the directional principle, this would be recorded as an outward investment withdrawal by the parent company.

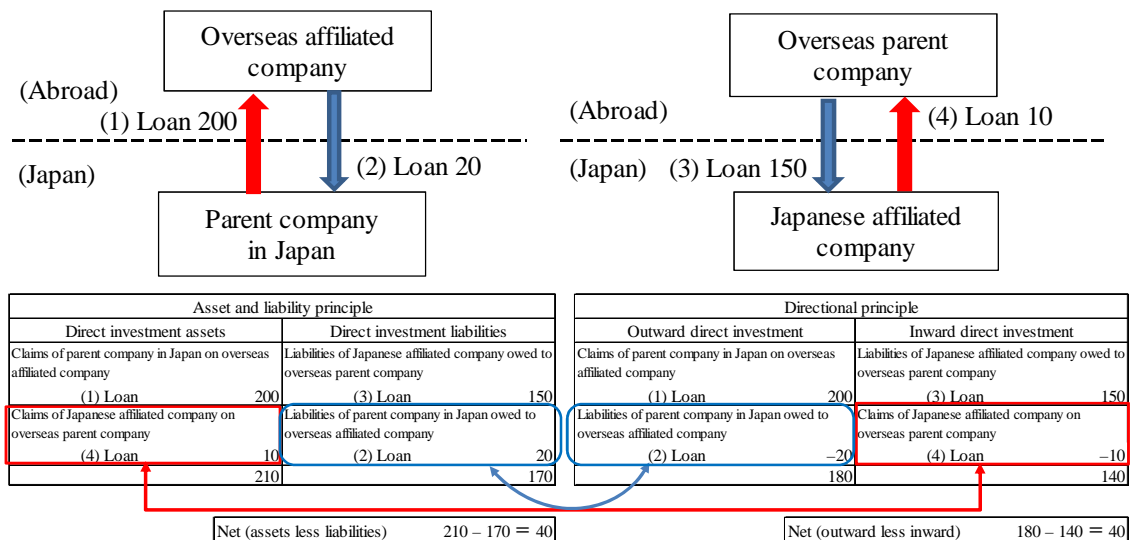
**Figure 1: Direct Investment Flows in the BOP Statistics**



**Figure 2: Direct Investment Flows by Region and Industry**



**Figure 3: Recording Methods Based on the Asset and Liability Principle and the Directional Principle**



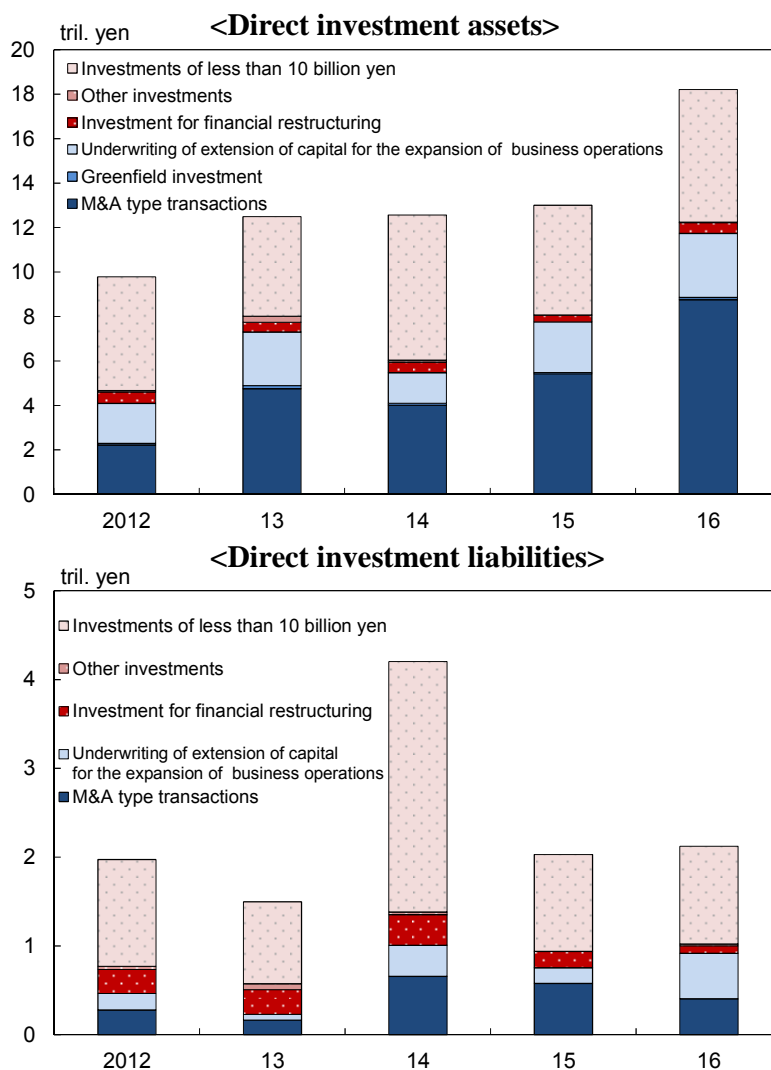
\* The net value of assets based on the asset and liability principle and that based on the directional principle are identical (in the example above, the value of net assets in each case is 40).

## B. Developments in Direct Investment by Type of Investment

Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, M&A type transactions consisting of the acquisition of foreign firms by Japanese firms increased considerably as a result of large-scale acquisitions. Underwriting of the extension of capital for the expansion of overseas business operations also remained high. On the other hand, greenfield investment -- in which new enterprises are established by investors -- continued to be low.

Meanwhile, direct investment liabilities continued to be low compared to direct investment assets. The breakdown by type of investment shows that underwriting of the extension of capital for the expansion of business operations increased, while M&A type transactions remained relatively high.

**Figure 4: Direct Investment by Type of Investment on a Gross Value Basis<sup>5,6</sup>**



Note: Figures before 2014 based on *BPM5* have been retroactively revised as far back as possible and have been reclassified to the extent possible for comparability following current international standards.

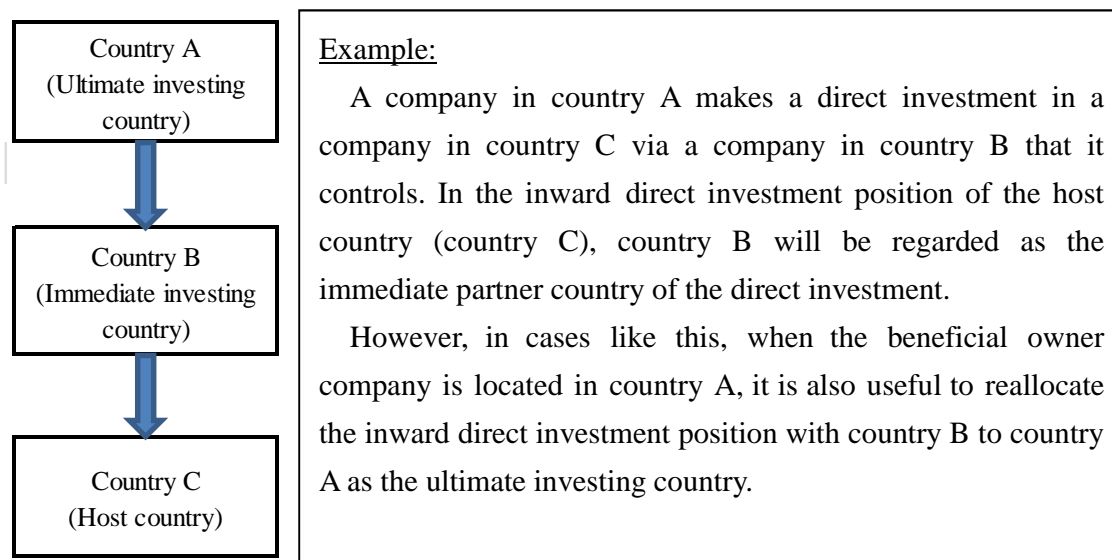


### C. Inward Direct Investment Position on an Ultimate Investor Basis

#### *Overview*

Since direct investment affects the economy of the host country through the creation of employment, the development of local enterprises, and the transfer of technology and know-how, there is considerable interest in direct investment trends.

However, in a situation where the complexity of multinational enterprises' ownership structures is increasing and cross-border flows of funds are becoming more active, there is a growing need to grasp the reality of cross-border direct investment, namely to grasp the ultimate investors in investee companies.



#### *Efforts in Japan toward the compilation of data on an ultimate investor basis*

In order to address this need, it is recommended in international standards that are in accordance with *BPM6* and *BD4* to compile data by regarding the country in which the ultimate investor holding ultimate control resides as the investing country. In Japan, the "ministerial ordinance concerning reporting on foreign exchange transactions, etc." was revised and since 2014 information on the country/region of the ultimate investor is reported if an ultimate investor for an immediate investor exists.

#### *Definition of "ultimate investor"*

According to international standards, an ultimate investor is defined as a company that exercises ultimate control over an immediate investor. Based on this, in Japan, an ultimate investor is regarded as a company that owns more than 50 percent of the voting power of the immediate investor but that itself is not majority-owned by another company.

For example, in the chart above, a company in country B is majority-owned by a company in country A, and if the company in country A itself is not majority-owned by another company, it is the ultimate investor. In contrast, if the company in country A is majority-owned by another company, that company is regarded as the ultimate investor.

*Compilation method of the inward direct investment position and data by ultimate investing country*

The main source data for Japan's inward direct investment position are taken from reports on retained earnings of companies in Japan, in which companies' end-of-accounting-year positions are reported. Since most Japanese companies use the end of March as the end of their accounting year, certain adjustments are made to compile end-of-calendar-year positions.

Specifically, the reported figures of all companies that submitted a report on retained earnings are regarded as the position as at the end of March. The end-of-calendar-year position is compiled by aggregating this position and two sets of data obtained from reports on payments and receipts -- namely, flow data from April to December of the reference year, and foreign direct investment transactions until March of the reference year made by companies that are not required to submit a report on retained earnings (shown in bold type in Figure 5).

With regard to the compilation of data by ultimate investing country, data from the reports on retained earnings on the "investment positions of immediate investors," from which information on the country of the ultimate investor can be obtained, are used to calculate the weights of ultimate investing countries (shown by the arrow on the right in Figure 5). Based on the assumption that these weights can be used as an approximation, they are then applied to the inward direct investment position data (shown by the striped arrow in Figure 5) to obtain data by ultimate investing country.

Finally, it should be noted that while the inward direct investment position also includes real estate investment and investment in branches in Japan, these are excluded when applying weights to the inward direct investment position data, since, considering the nature of these types of investment, it would not be appropriate to use the weights of ultimate investing countries -- calculated using the investment positions of immediate investors -- for approximation.

**Figure 5: Compilation Method of the Inward Direct Investment Position by Ultimate Investing Country**

<Inward direct investment position>		Information on immediate investing country	Information on ultimate investing country
Reports on payments and receipts	Real estate investment and investment in branches in Japan	available	unavailable
	FDI transactions until March of the reference year made by companies that are not required to submit a report on retained earnings	available	unavailable
	Flow data from April to December of the reference year	available	unavailable
	FDI positions of affiliated companies	available	unavailable
Reports on retained earnings	FDI positions of immediate investors  (The accounting year-end of all reporting companies is assumed to be the end of March)	available	available

Original data for calculation of the share of ultimate investors by country

*Aggregate results (estimated values)*

Comparing Japan's inward direct investment position on an immediate and ultimate investing country basis over the past two years -- the latter of which consists of estimated values obtained in the way just described -- shows that, on an ultimate investor basis, direct investment from Europe (in particular the Netherlands and the United Kingdom), Asia (especially Singapore and Hong Kong), and Central and South America (in particular the Cayman Islands) was smaller than on an immediate investor basis, while direct investment from North America (especially the United States) and from France and Germany was larger.

These results indicate that companies located in the United States, France, and Germany channel their investments in Japan through their affiliates in countries/regions (such as the Netherlands, the United Kingdom, Singapore, Hong Kong, and the Cayman Islands) that provide tax advantages.

**Table 1: Inward Direct Investment Position by Country of Immediate Investor and Ultimate Investor**

bil. yen

	Year-end 2015			Year-end 2016		
	By country of immediate investor (published value) (A)	By country of ultimate investor (estimated value) (B)	Difference (B) – (A)	By country of immediate investor (published value) (A)	By country of ultimate investor (estimated value) (B)	Difference (B) – (A)
<b>Total</b>	20,984.6	20,984.6	+0.0	22,255.5	22,255.5	+0.0
<b>Asia</b>	3,599.7	2,714.6	-885.2 ↓	4,241.1	3,176.1	-1,065.0 ↓
P.R. China	79.0	79.0	-0.0	103.3	168.1	+64.8
Hong Kong	932.8	564.6	-368.3	987.0	613.7	-373.3
Taiwan	448.1	456.4	+8.3	682.2	529.8	-152.5
R. Korea	384.3	418.0	+33.6	399.3	516.6	+117.3
Singapore	1,628.5	1,146.1	-482.4	1,960.1	1,282.2	-677.9
Thailand	16.4	6.2	-10.2	22.7	10.3	-12.4
Indonesia	7.9	15.8	+7.8	10.5	5.6	-4.9
Malaysia	85.3	16.9	-68.4	59.5	30.8	-28.6
Philippines	7.9	6.6	-1.3	7.4	7.6	+0.3
Viet Nam	0.0	0.0	+0.0	0.1	-0.7	-0.7
India	8.6	0.7	-8.0	8.8	7.2	-1.7
<b>North America</b>	6,339.5	8,497.3	+2,157.7 ↑	6,253.9	9,223.5	+2,969.6 ↑
U.S.A.	6,199.8	8,337.8	+2,138.0	6,098.7	9,033.4	+2,934.6
Canada	139.8	159.5	+19.7	155.1	190.1	+35.0
<b>Central and South America</b>	1,347.4	892.6	-454.8 ↓	1,409.1	926.7	-482.4 ↓
Mexico	0.3	26.3	+26.0	0.3	27.9	+27.5
Brazil	8.3	-139.3	-147.6	3.9	-127.6	-131.5
Cayman Islands	1,059.9	857.6	-202.3	1,120.6	853.4	-267.2
<b>Oceania</b>	248.3	157.1	-91.3 ↓	295.5	174.4	-121.1 ↓
Australia	205.2	114.5	-90.7	251.9	126.3	-125.6
New Zealand	38.5	38.3	-0.2	35.4	40.6	+5.2
<b>Europe</b>	9,413.7	8,470.8	-942.9 ↓	10,024.6	8,508.7	-1,515.8 ↓
Germany	280.9	1,169.7	+888.8	395.2	863.9	+468.8
U.K.	1,587.8	727.7	-860.1	1,516.7	830.4	-686.3
France	2,988.9	4,148.5	+1,159.6	3,268.6	4,424.8	+1,156.2
Netherlands	2,901.6	724.5	-2,177.1	2,596.5	619.2	-1,977.3
Italy	112.0	69.0	-43.1	118.3	71.4	-46.9
Belgium	63.1	31.2	-31.8	73.8	34.7	-39.1
Luxembourg	446.7	412.1	-34.5	513.9	415.1	-98.8
Switzerland	1,069.9	989.0	-80.9	1,221.4	1,137.5	-83.9
Sweden	154.4	81.9	-72.5	177.6	61.3	-116.3
Spain	32.4	-19.4	-51.7	92.9	-15.6	-108.5
Russia	5.6	5.2	-0.4	6.0	5.7	-0.3
<b>Middle East</b>	20.0	210.5	+190.5 ↑	11.7	177.5	+165.8 ↑
Saudi Arabia	2.7	18.4	+15.6	3.0	-43.5	-46.5
U.A.E.	2.1	157.0	+154.9	5.8	167.1	+161.3
Iran	—	—	—	—	—	—
<b>Africa</b>	12.1	8.4	-3.7 ↓	15.9	10.2	-5.6 ↓
R.South Africa	0.1	0.2	+0.1	0.1	0.2	+0.1

## VII. Notes

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

<sup>2</sup> There are discrepancies between the sums of changes in regional investment positions and the flows.

<sup>3</sup> Long-term and short-term items in the Debt Position (Assets/Liabilities) by Currency (Foreign Currency/Japanese Yen) are classified as shown below. Data before 2014 have been compiled using "historical data rearranged based on *BPM6*."

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

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

<sup>4</sup> Recording principles and the corresponding statistics are shown in the table below:

	Asset and liability principle	Directional principle
Flow data	<ul style="list-style-type: none"> <li>▪ Balance of Payments</li> <li>▪ Regional Balance of Payments</li> <li>▪ Direct Investment by Region and Industry               <ol style="list-style-type: none"> <li>1. Direct Investment Income</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>▪ Direct Investment by Region and Industry               <ol style="list-style-type: none"> <li>2. Direct Investment Flows</li> </ol> </li> </ul>
Stock data	<ul style="list-style-type: none"> <li>▪ International Investment Position of Japan</li> <li>▪ Regional Direct Investment Position -- by country (33 countries) and region</li> <li>▪ Regional Direct Investment Position (Assets) (All regions) -- all countries and regions for which positions are available</li> </ul>	<ul style="list-style-type: none"> <li>▪ Direct Investment by Region and Industry               <ol style="list-style-type: none"> <li>3. Direct Investment Position</li> </ol> </li> </ul>

<sup>5</sup> The following is a classification of direct investment by type of investment:

In accordance with <i>BPM6</i> and <i>BD4</i> , direct investment transactions (gross investments in equity capital) are classified into the following five types of investment:
(1) M&A type transactions: investment for the acquisition of existing shares of ultimate investee enterprises;
(2) greenfield investment: investment for the new establishment of ultimate investee enterprises;
(3) underwriting of extension of capital for the expansion of business operations: investment for the extension of capital for the expansion of business operations of ultimate investee enterprises;
(4) investment for financial restructuring: investment for debt repayment or loss reduction;
(5) other investments: other investments including investment in corporate type investment trusts.

<sup>6</sup> Figures for direct investment by type of investment are shown in the tables below for reference. Figures for direct investment transactions (gross investments in equity capital) of 10 billion yen or more are classified in accordance with *BPM6* and *BD4*.

bil. yen

Direct investment assets	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	For reference: Investments of less than 10 billion yen
2012	2,224.6	65.2	1,795.0	524.1	64.1	5,110.7
2013	4,750.3	143.4	2,411.4	435.2	273.8	4,477.5
2014	4,013.9	81.9	1,370.2	484.9	77.2	6,537.3
2015	5,419.2	55.1	2,285.7	304.9	—	4,933.1
2016	8,749.1	101.5	2,880.3	492.6	11.2	5,969.6

bil. yen

Direct investment liabilities	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	For reference: Investments of less than 10 billion yen
2012	277.3	—	187.7	270.5	35.5	1,202.7
2013	165.8	—	63.8	276.6	68.2	922.0
2014	656.9	—	351.1	345.3	29.5	2,820.0
2015	577.1	—	177.2	183.4	—	1,091.1
2016	403.8	—	513.1	83.3	22.3	1,099.2