

Japan's Balance of Payments Statistics and International Investment Position for 2017

July 2018
International Department
Bank of Japan

Japan's balance of payments statistics for 2017 -- the annually revised figures for the first through the third quarter of 2017 and the second preliminary figures for the fourth quarter of 2017 -- were released on April 9, 2018, by the Ministry of Finance and the Bank of Japan in the *Balance of Payments*.

Japan's international investment position at year-end 2017 was released on May 25, 2018, by the Ministry of Finance and the Bank as the *International Investment Position of Japan (End of 2017)*.

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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. For the difference between the two principles, see Section "VI. A. On the Difference between the Two Sets of Direct Investment Data Released" in *Japan's Balance of Payments Statistics and International Investment Position for 2016* released in 2017.

- All notes in this report are listed in Section "VI. Notes."

I. Introduction

A. Characteristics of This Annual Report

The balance of payments (BOP) are a set of statistics that record the international transactions of an economy 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 BOP and IIP are compiled in accordance with the *Balance of Payments and International Investment Position Manual* published by the International Monetary Fund (IMF), so that figures for Japan and other countries can be aggregated and compared.

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. The number of such reports used for the BOP statistics amounts to over 400 thousand a year. The statistics compiled by the Ministry of Finance and the Bank of Japan 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 IMF and the Organisation for Economic Co-operation and Development (OECD) and are employed to gauge and analyze global economic and financial developments.

The International Department of the Bank regularly releases an annual report summarizing developments in Japan's BOP and IIP during the preceding year. This year's report, in addition to recent developments in the BOP, also contains a section "Basic Knowledge on the BOP" to allow those looking at these statistics for the first time to gain a basic understanding. In addition, the report also contains appendixes outlining recent efforts related to the compilation and release of Japan's BOP.

Most of Japan's 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 obtain data presented in this report, including data underlying the figures, from the BOJ Time-Series Data Search. Together with this report, information on how to use the BOJ Time-Series Data Search as well as a list of series codes used in this report are provided in supplementary materials on the Bank's website. Readers are encouraged to make use of the materials as necessary when using the BOJ Time-Series Data Search.

B. Basic Knowledge on the BOP

The BOP are a set of statistics that record various transactions of an economy with the rest of the world in a systematic manner. Speaking somewhat technically, they are compiled in accordance with the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and are based on double-entry accounting. Specifically, the details of the transactions and the associated financial flows are categorized based on the standard components of *BPM6* and are compiled by recording equal amounts on the credit and the debit side, respectively.

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

Components of the BOP

In *BPM6*, the BOP consists of three major standard components: the current account, the financial account, and the capital account. The current account pertains to goods, services, primary income, and secondary income, while the financial account pertains to 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 recorded under the components shown in *BPM6*. The main types of transactions included in each component are as follows.

Current account	Transactions in goods and services, payments/receipts of income, etc.
Goods	Goods transactions such as exports/imports of goods and intermediary trade.
Services	Travel, transport, and other service transactions such as charges for the use of intellectual property n.i.e.
Primary income	Payments/receipts of assets income such as dividends paid out of earnings and interest on bonds, as well as other income.
Secondary income	Payments/receipts of compensation for damages etc.
Capital account	Debt forgiveness, transfer of assets through inheritances, etc.
Financial account	Transactions involving the acquisition/disposal of external financial assets and incurrence/repayment of external financial liabilities.
Direct investment	Investments for the acquisition of firms, establishment of affiliates, etc., as well as withdrawals.
Portfolio investment	Sales/purchases and issuances/redemptions of equity and debt securities.
Financial derivatives (other than reserves)	Payments/receipts of forward trading gains and losses, notional exchange gains and losses on currency swaps, etc.
Other investment	Currency and deposits, loans, accounts receivable/payable resulting from the time difference between the contract date and settlement of securities, etc.
Reserve assets	Changes in reserve assets.

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 financial liabilities. Conversely, the following are recorded as debits: imports of goods and services, income payments, transfer payments, increases in financial assets, and decreases in financial liabilities.

The following concrete transaction examples provide an illustration of the way the BOP statistics are compiled based on double-entry accounting:

- (1) Export of cars 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 company

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

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

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 financial 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
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Note: Example (3) assumes that the investment ratio (for voting rights) is 10 percent or more, while example (4) assumes that the investment ratio is less than 10 percent.

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. Meanwhile, in example (4), the transaction will be recorded in the financial account as a credit of 100 under "loans" in "other investment (financial 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 financial liabilities (credit minus debit)." 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 example above, this means:

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

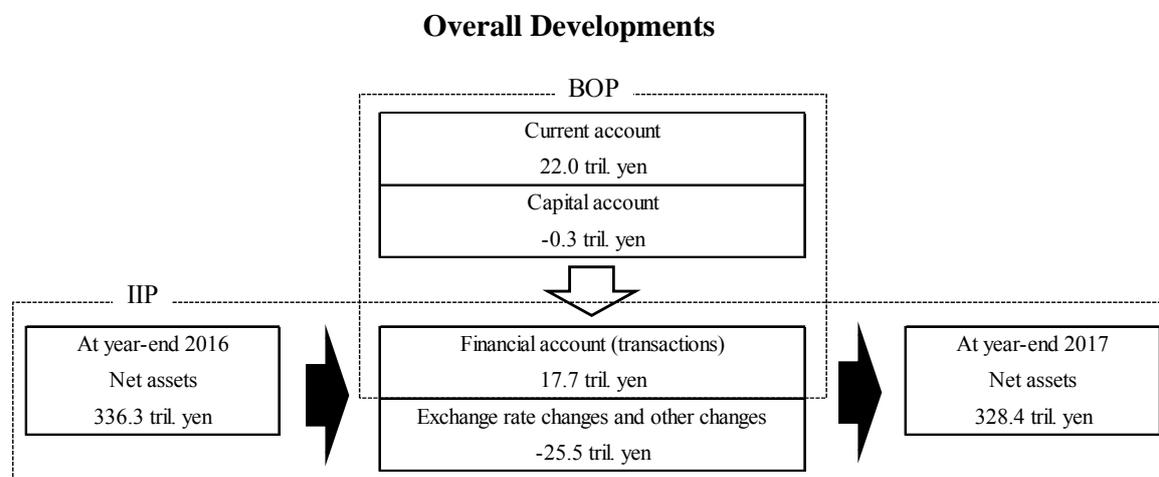
Meanwhile, "net errors and omissions" is an adjusting item to account for statistical errors. In compiling the actual BOP statistics, it is not always possible to collect information on the credit and debit side of a certain transaction within the same period, given that the vast number of transactions 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 this reason, 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."

II. Overview of Japan's BOP and IIP for 2017

Overall developments

The current account registered the second-largest surplus on record mainly due to an increase in the surplus on primary income reflecting a rise in dividend receipts from overseas affiliates. As a result, the financial account registered an increase in net assets. The net asset position decreased as the increase in liabilities exceeded that in assets. While transactions led to an increase in external assets, the increase in assets was outweighed by an increase in liabilities mainly reflecting a rise in Japanese stock prices, which increased the value of Japanese stocks held by nonresidents.

Figure 1: Japan's BOP and IIP for 2017



BOP (Flows)

tril. yen

	2016	2017	y/y chg.
Current account	21.1	22.0	+0.9
Goods	5.5	5.0	-0.6
Services	-1.1	-0.7	+0.4
Primary income	18.8	19.8	+1.0
Secondary income	-2.1	-2.1	+0.0
Capital account	-0.7	-0.3	+0.5
Financial account	28.3	17.7	-10.6
Direct investment	14.5	16.8	+2.3
Portfolio investment	29.6	-6.0	-35.6
Financial derivatives (other than reserves)	-1.7	3.5	+5.1
Other investment	-13.7	0.7	+14.4
Reserve assets	-0.6	2.7	+3.2
Net errors and omissions	8.0	-4.0	—

IIP (Stocks)

tril. yen

	Assets			Liabilities		
	Year-end 2016	Year-end 2017	y/y chg.	Year-end 2016	Year-end 2017	y/y chg.
Total	986.3	1,012.4	+26.1	650.0	684.0	+34.0
Direct investment	158.9	174.7	+15.8	28.2	28.6	+0.3
Portfolio investment	441.4	463.4	+22.0	325.2	377.7	+52.5
Financial derivatives (other than reserves)	43.5	33.8	-9.6	45.5	33.9	-11.5
Other investment	200.0	198.1	-1.9	251.1	243.8	-7.3
Reserve assets	142.6	142.4	-0.2	—	—	—
Net assets	336.3	328.4	-7.9			

Developments in major components

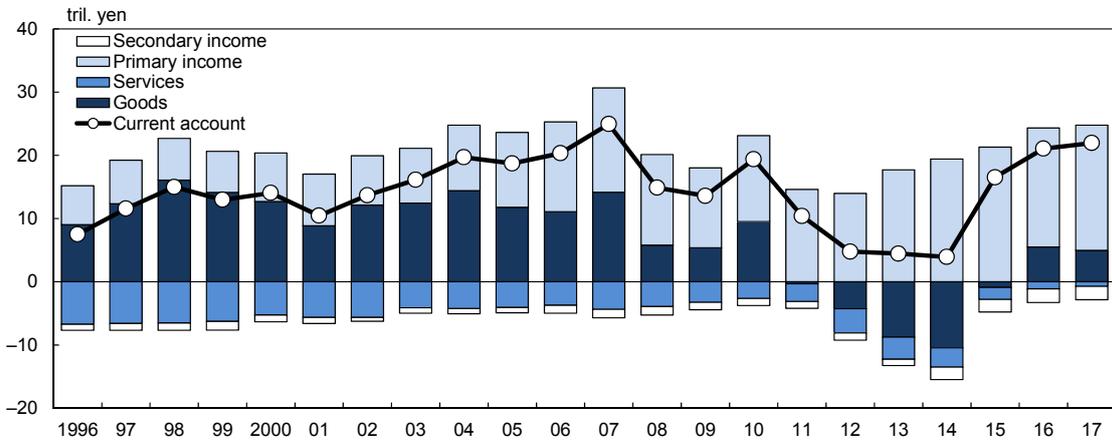
- The current account registered the second-largest surplus on record (smaller only than in 2007).
 - o The surplus on goods decreased mainly due to an increase in mineral fuel imports.
 - o The deficit on services continued to decline. The surplus on travel marked a record high since 1996 mainly reflecting a rise in the number of foreign visitors to Japan.
 - o The surplus on primary income increased, reflecting a rise in dividend receipts from overseas affiliates.

- The financial account registered an increase in net assets. However, the increase was smaller than in the previous year.
 - o Net lending under direct investment registered the largest surplus on record. Net acquisitions of direct investment assets marked a record high, mainly due to active mergers and acquisitions by Japanese firms.
 - o Net lending under portfolio investment registered the first deficit in three years. Net purchases of foreign securities by Japanese investors decreased as long-term debt securities shifted to net sales, and net purchases of Japanese securities by foreign investors increased mainly because investment in Japanese equity and investment fund shares shifted to net purchases.

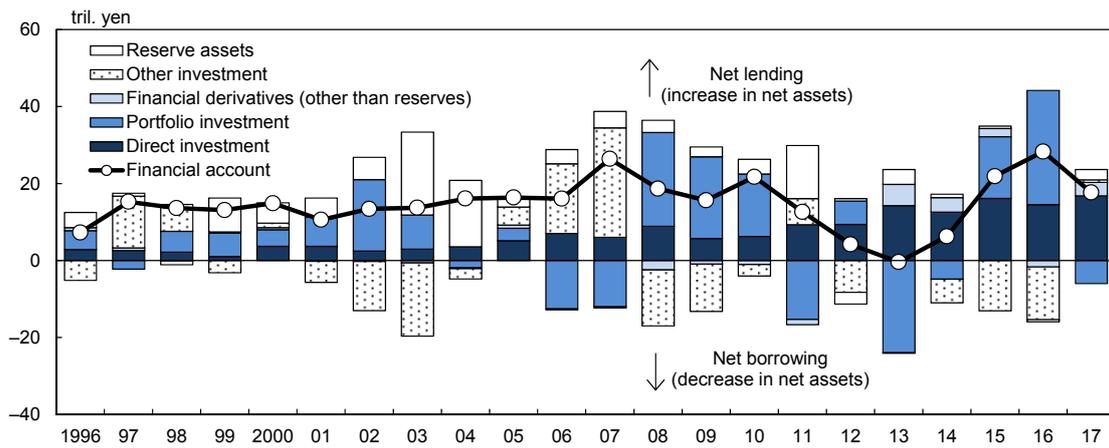
- Japan's IIP registered a decrease in net assets.
 - o Assets increased, mainly reflecting the increase in outward portfolio investment due to the rise in foreign stock prices.
 - o Liabilities also increased, mainly reflecting the increase in inward portfolio investment due to the rise in Japanese stock prices.
 - o Japan's net asset position decreased as the increase in liabilities exceeded that in assets, but Japan at year-end 2017 continued to be the country with the largest net asset position among major countries that release IIP data.

Figure 2: Japan's BOP and IIP

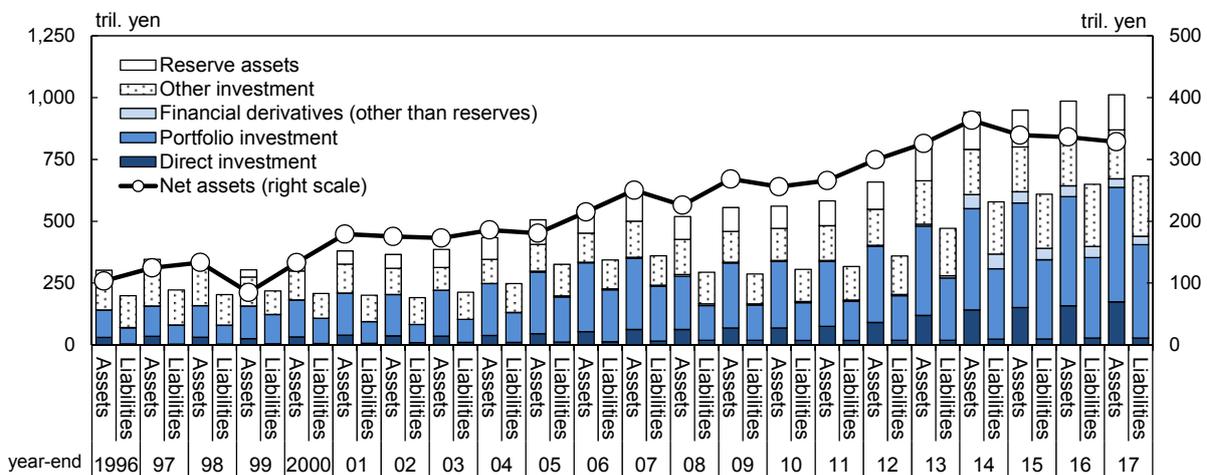
Current Account



Financial Account



IIP



III. Developments in the Current Account in 2017

A. Goods

The surplus on goods decreased to 5.0 trillion yen in 2017 from 5.5 trillion yen in 2016 as the increase in imports exceeded that in exports.

Exports increased to 77.3 trillion yen in 2017 from 69.1 trillion yen in 2016 mainly due to an increase in exports of machinery (such as semiconductor manufacturing equipment) to Asia. Imports increased to 72.3 trillion yen in 2017 from 63.6 trillion yen in 2016 mainly due to an increase in imports of mineral fuels (such as crude oil) from the Middle East as a result of the rise in crude oil prices.

Looking at the contribution of changes in quantities and prices separately, changes in both quantities and prices contributed to the increase in exports as well as imports.

Figure 3: Goods

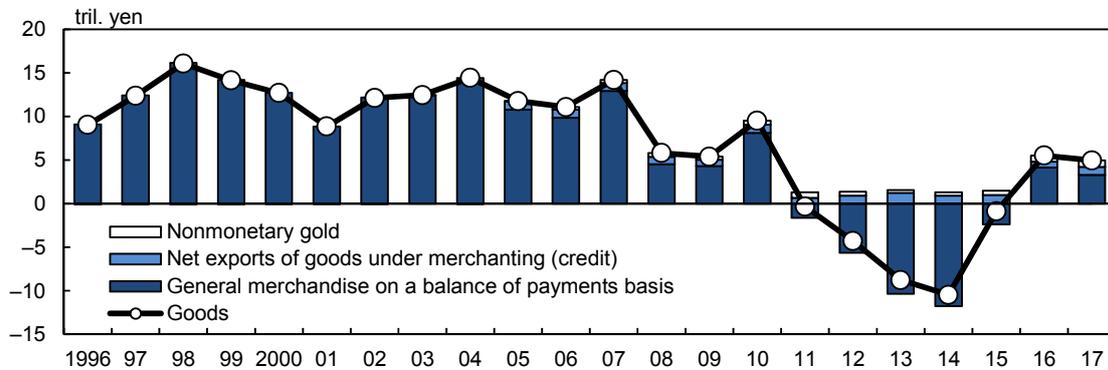


Figure 4: Goods by Region

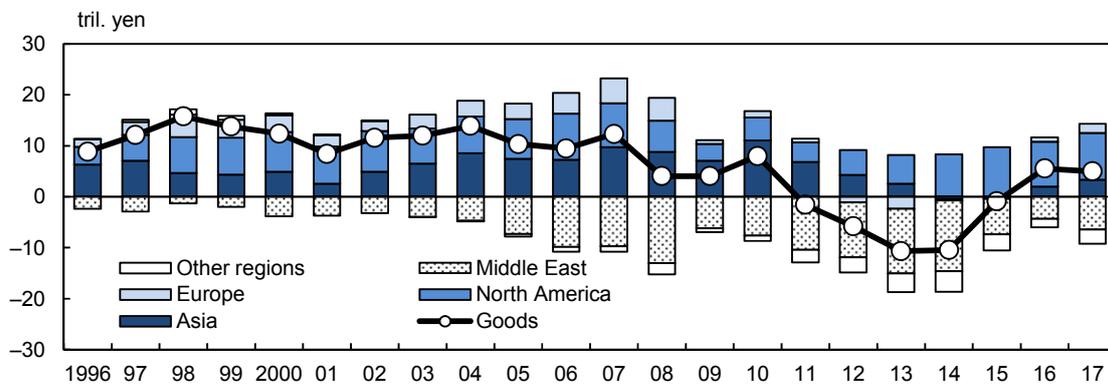


Figure 5: Exports by Region

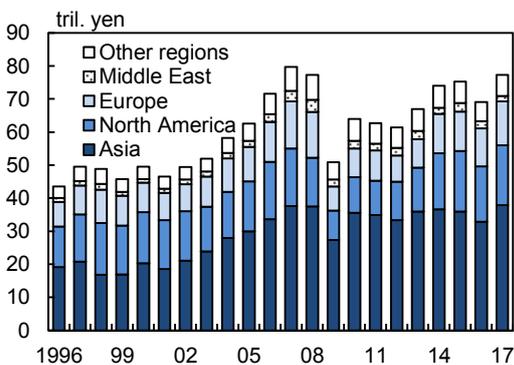


Figure 6: Imports by Region

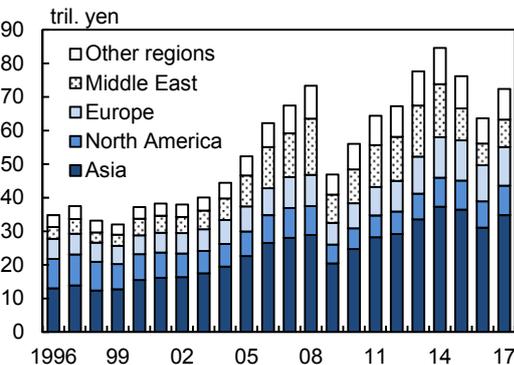
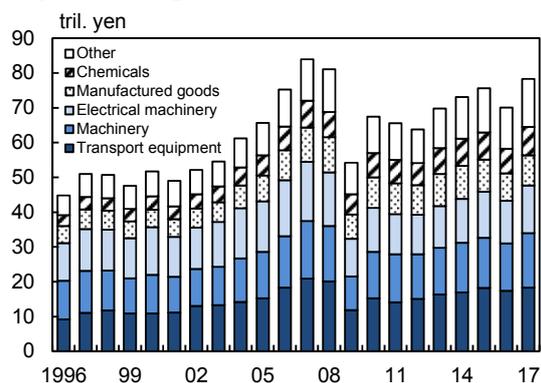
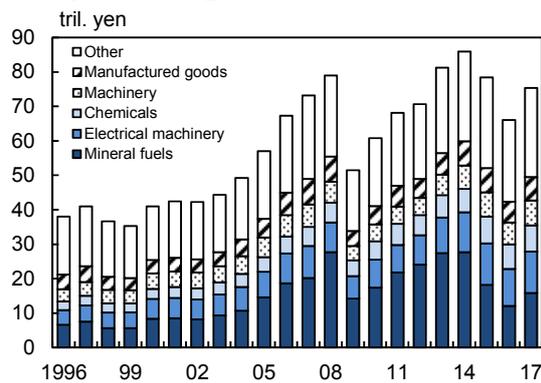


Figure 7: Exports by Commodity



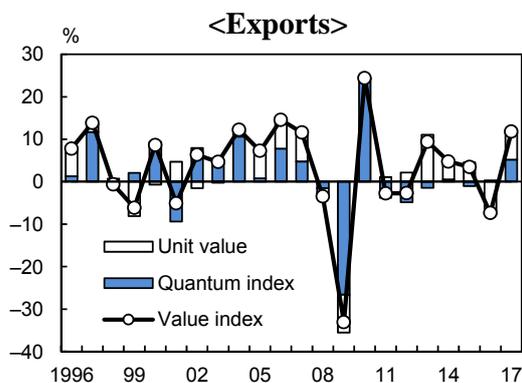
Source: Ministry of Finance, *Trade Statistics of Japan*.

Figure 8: Imports by Commodity

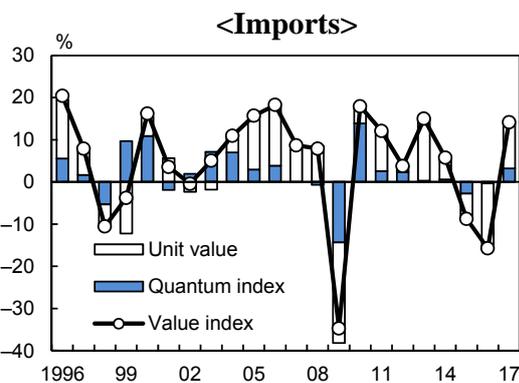


Source: Ministry of Finance, *Trade Statistics of Japan*.

Figure 9: 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 0.7 trillion yen in 2017 from 1.1 trillion yen in 2016, 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 1.8 trillion yen in 2017 from 1.3 trillion yen in 2016 due to a rise in the number of foreign visitors to Japan. The deficit on other services remained essentially unchanged from a year earlier at 1.8 trillion yen.

The share of services in the total transactions in the goods and services account declined both in exports and in imports (receipts and payments) as the increase in exports and imports of goods exceeded the increase in receipts and payments for services.

Figure 10: Services

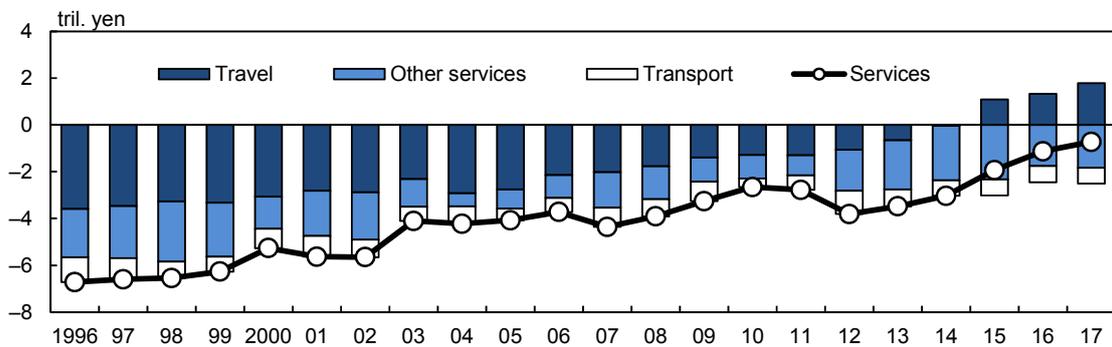


Figure 11: Services by Region

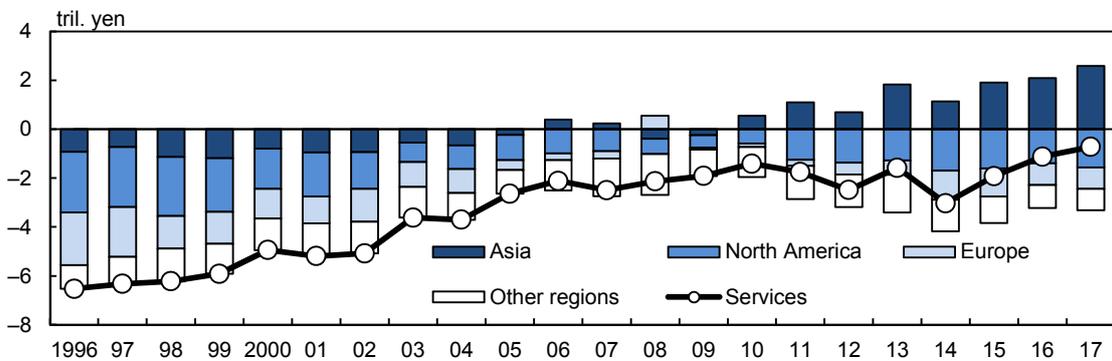
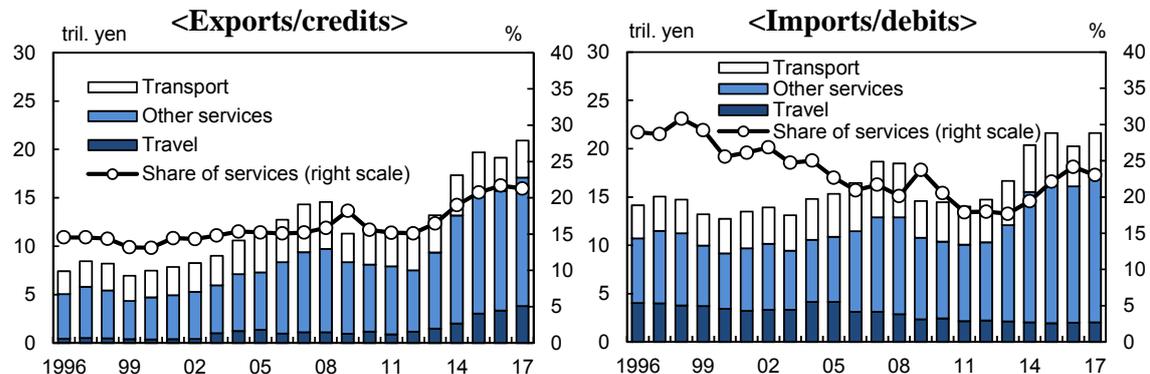


Figure 12: Share of Services in the Total Transactions in the Goods and Services Account¹



1. Travel

The surplus on travel increased to 1.8 trillion yen in 2017 from 1.3 trillion yen in 2016, 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 receipts, although travel expenditure per foreign visitor to Japan fell from a year earlier, receipts increased as the number of foreign visitors especially from Asia rose for the sixth year in a row.

Figure 13: Travel

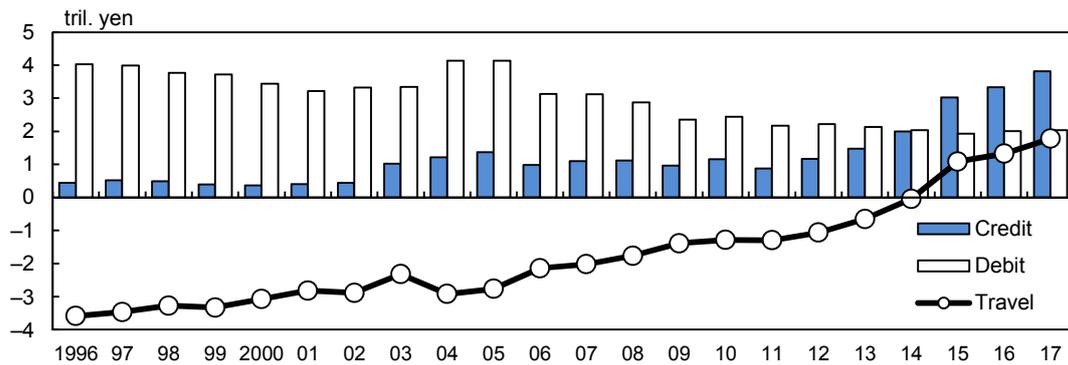


Figure 14: Travel by Country

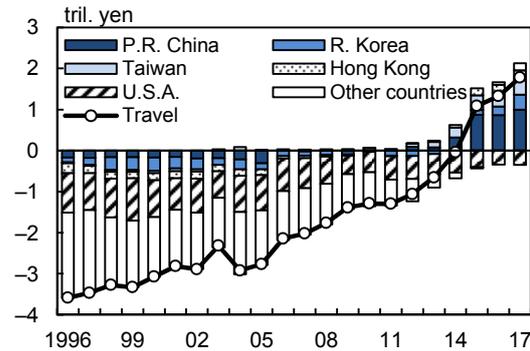


Figure 15: Credit by Country

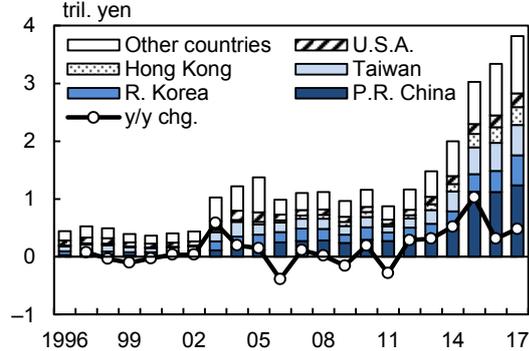


Figure 16: Number of Foreign Visitors to Japan by Country

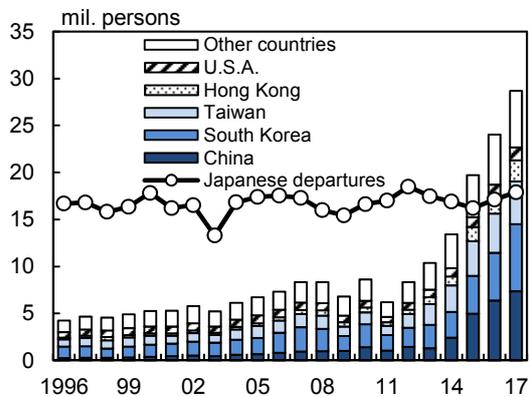
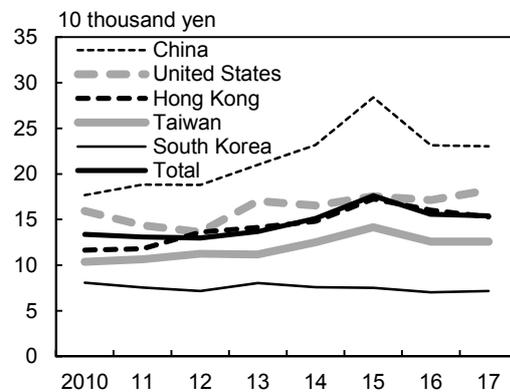


Figure 17: Travel Expenditure per Foreign Visitor to Japan



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," increased to 2.3 trillion yen in 2017 from 2.1 trillion yen in 2016 due to a rise in receipts.

A regional breakdown shows that the rise was led by receipts from Asia.

Figure 18: Other Services

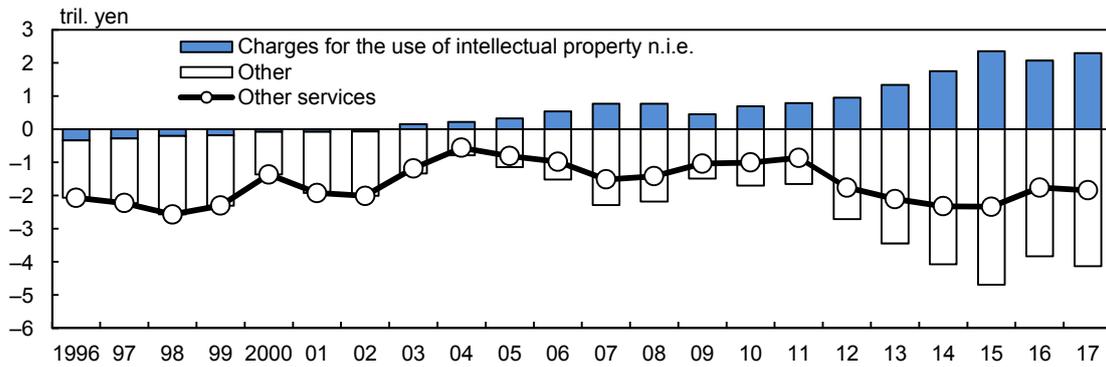


Figure 19: Charges for the Use of Intellectual Property n.i.e.

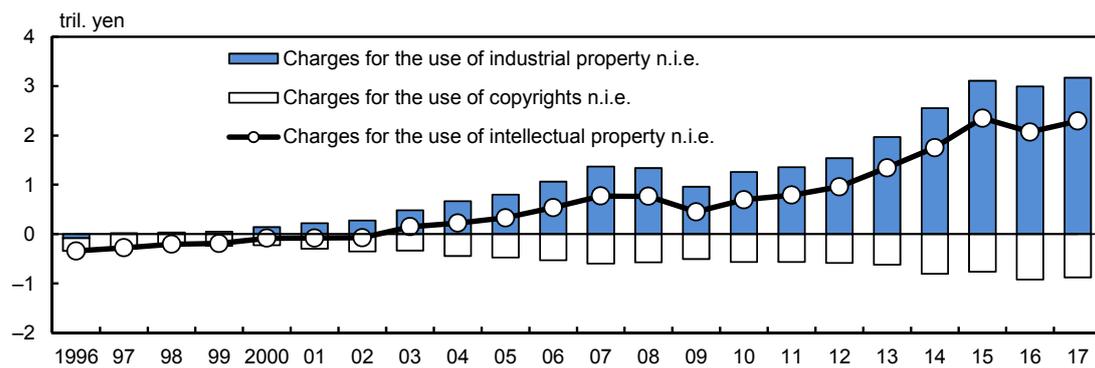
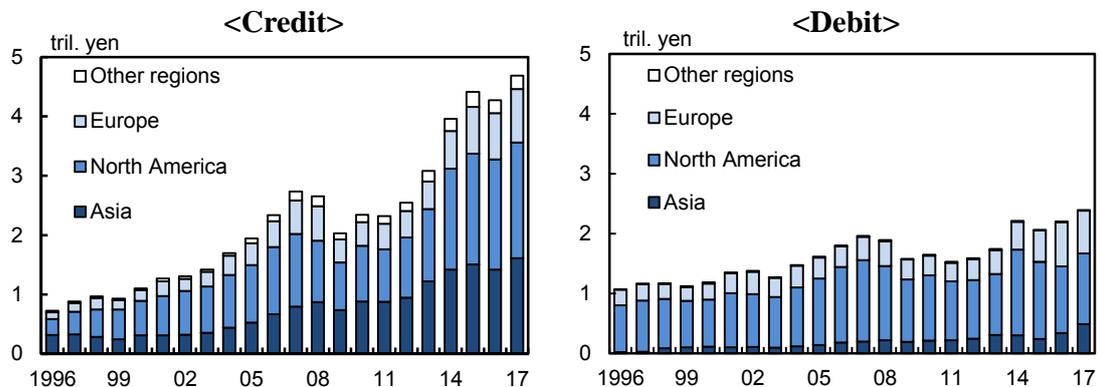


Figure 20: Charges for the Use of Intellectual Property n.i.e. by Region



C. Primary Income

The surplus on primary income increased to 19.8 trillion yen in 2017 from 18.8 trillion yen in 2016, mainly reflecting the increase in the surplus on direct investment income, which marked a record high.

By region, receipts of direct investment income from regions such as Asia increased. Looking at portfolio investment income by component, while interest receipts increased, payments of dividends on equity excluding investment fund shares also increased, so that the surplus on portfolio investment income was more or less unchanged from last year.

Figure 21: Primary Income

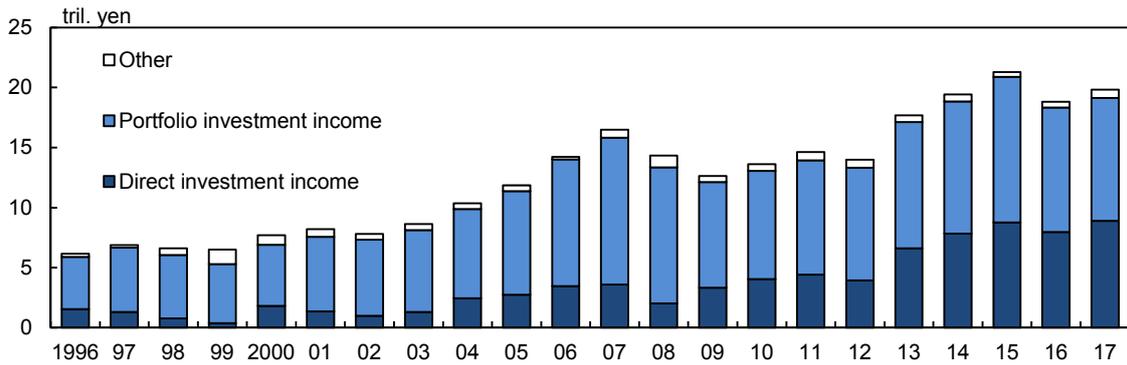


Figure 22: Direct Investment Income by Region

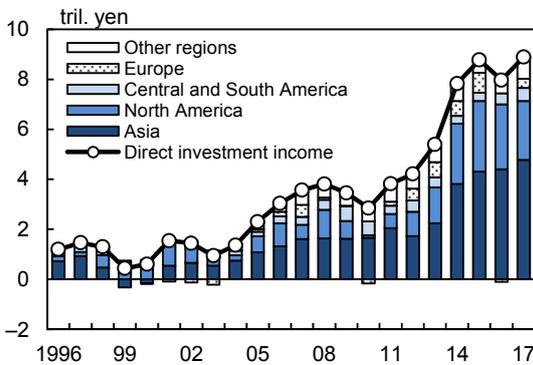


Figure 23: Direct Investment Income by Industry

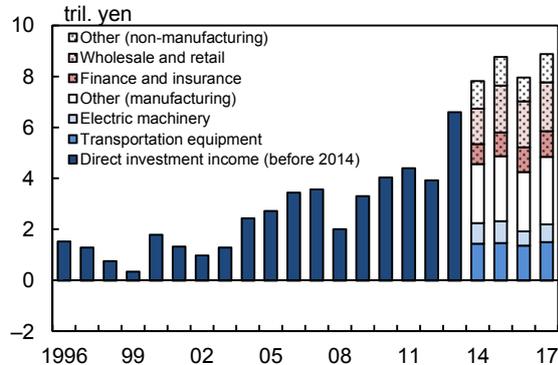


Figure 24: Portfolio Investment Income by Region

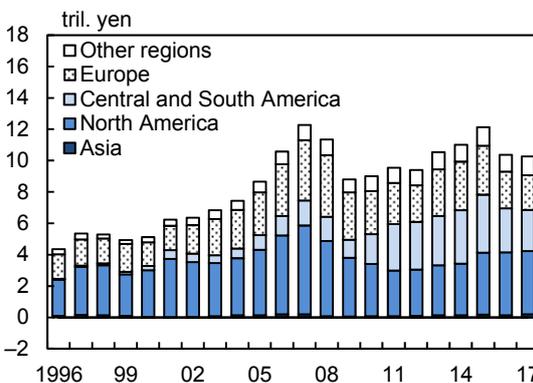
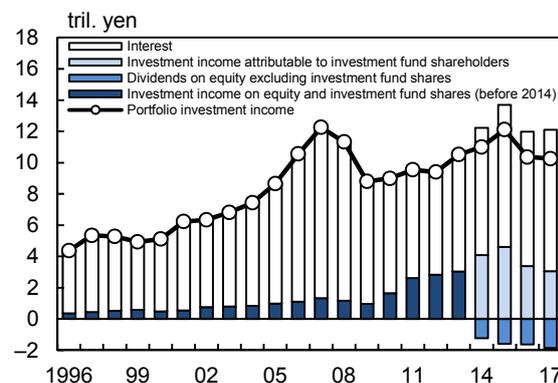


Figure 25: Portfolio Investment Income by Component



D. Secondary Income

As for secondary income, while the deficit in the general government account declined, the deficit in the "financial corporations, nonfinancial corporations, households, and NPISHs" sector increased. The deficit on secondary income was essentially unchanged from a year earlier at 2.1 trillion yen.

Figure 26: Secondary Income

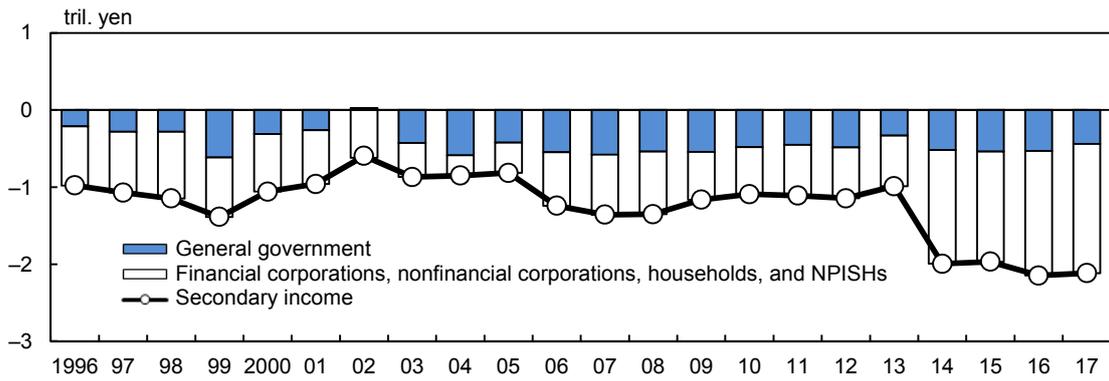
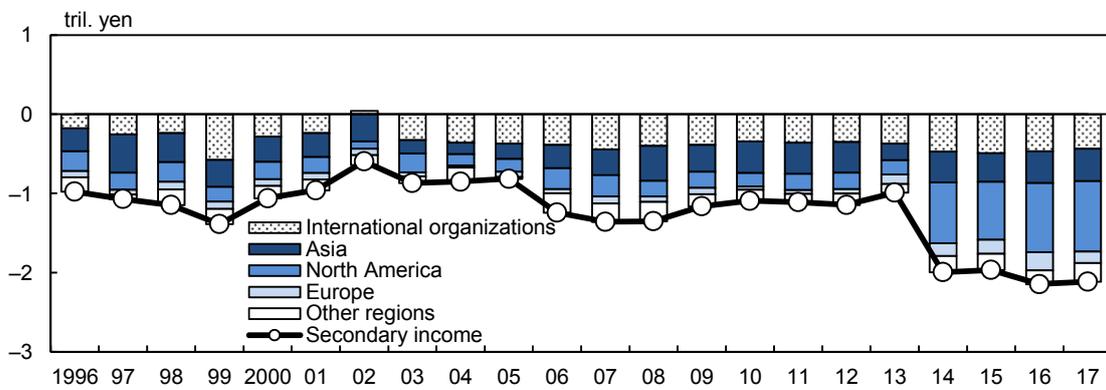


Figure 27: Secondary Income by Region



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IV. Developments in the Financial Account in 2017

A. Direct Investment Assets

Net acquisitions of direct investment assets increased to 18.9 trillion yen in 2017 from 18.8 trillion yen in 2016, marking a record high since 1996, from when comparable data are available, due to a rise in net acquisitions of debt instruments.

By region and industry, outward direct investment increased, led by an increase in net acquisitions of assets in the non-manufacturing sector in Asia.

Figure 28: Direct Investment Assets

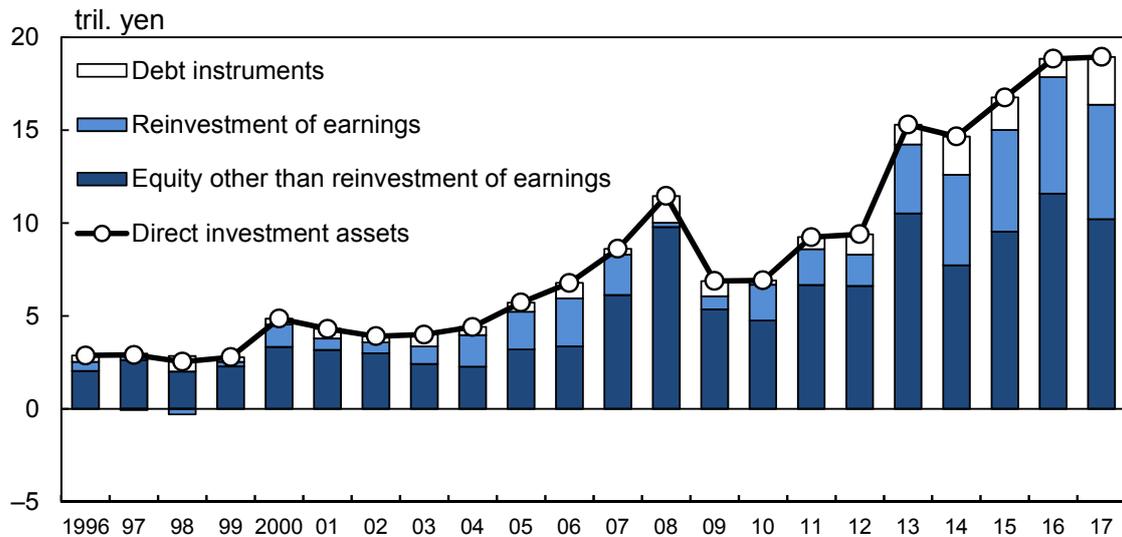
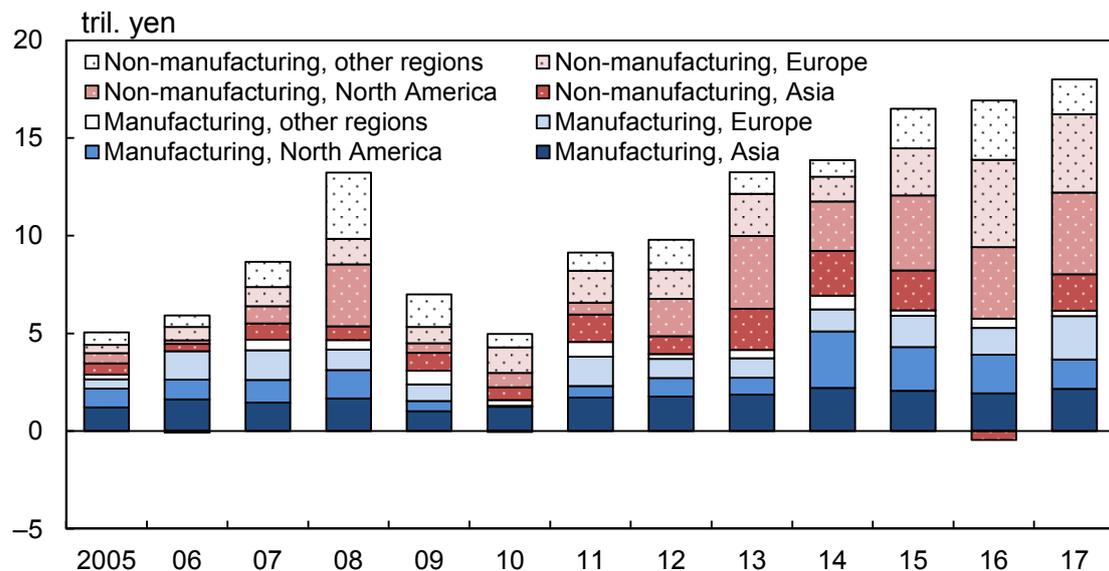


Figure 29: Outward Direct Investment by Region and Industry



B. Direct Investment Liabilities

Net incurrence of direct investment liabilities decreased to 2.1 trillion yen in 2017 from 4.3 trillion yen in 2016, mainly due to a decline in the net incurrence of debt instruments.

Figure 30: Direct Investment Liabilities

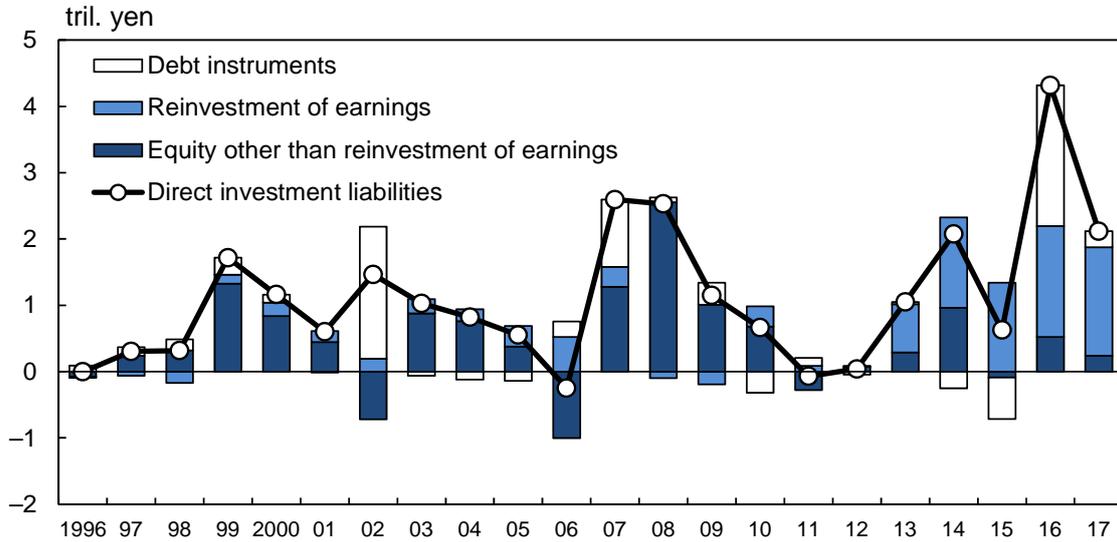
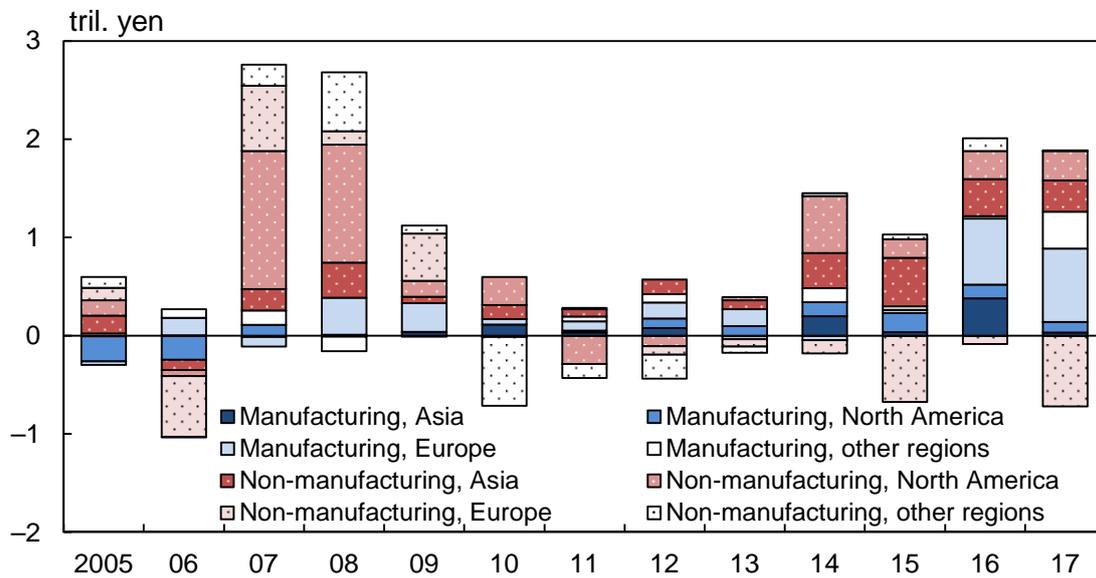


Figure 31: Inward Direct Investment by Region and Industry



C. Portfolio Investment Assets

Net purchases of foreign securities by Japanese investors decreased to 11.2 trillion yen in 2017 from 32.7 trillion yen in 2016, as long-term debt securities shifted to net sales.

As for investment in foreign equity and investment fund shares, net purchases increased due to an increase in net purchases of investment fund shares or units. By region, net purchases of Central and South American securities increased. Long-term debt securities shifted to net sales, mainly because deposit-taking corporations, except the central bank shifted to net sales from net purchases of such securities. By country, investment in U.S. and other long-term debt securities by Japanese investors shifted to net sales from net purchases.

Figure 32: Portfolio Investment Assets

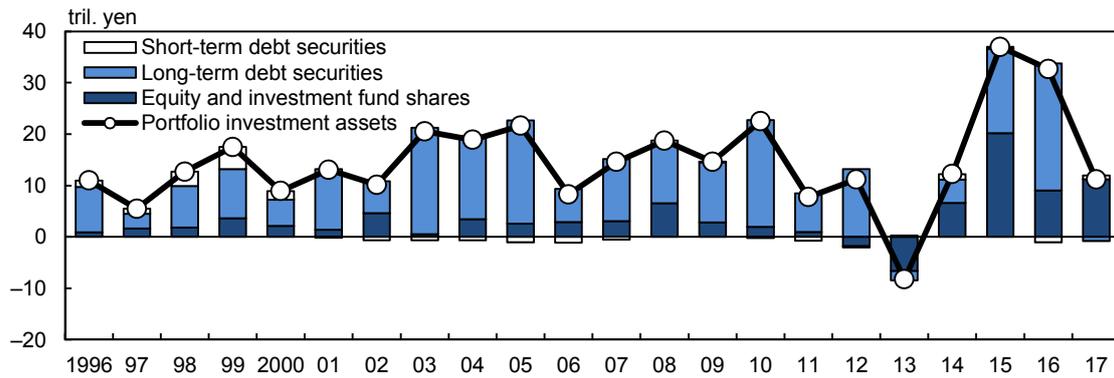


Figure 33: Equity and Investment Fund Shares by Component (Assets)

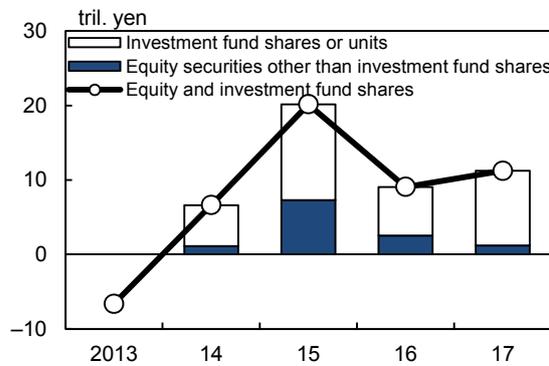


Figure 34: Equity and Investment Fund Shares by Region (Assets)

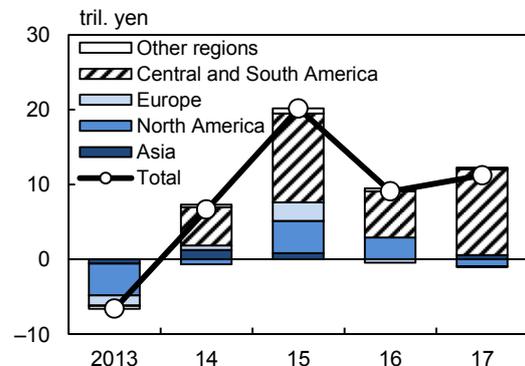


Figure 35: Long-Term Debt Securities by Sector (Assets)

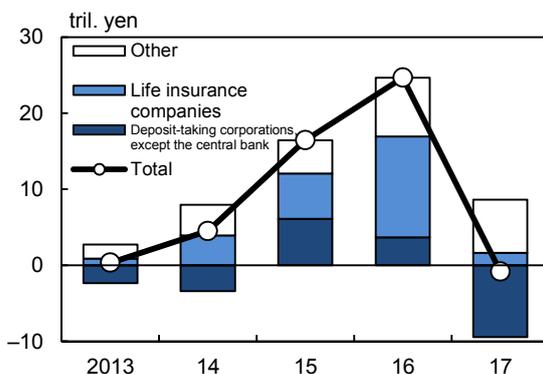
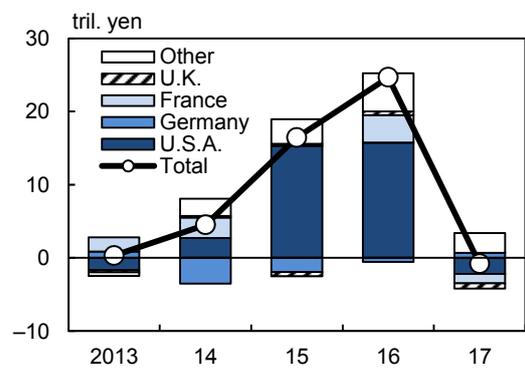


Figure 36: Long-Term Debt Securities by Country (Assets)



D. Portfolio Investment Liabilities

Net purchases of Japanese securities by foreign investors increased to 17.1 trillion yen in 2017 from 3.1 trillion yen in 2016, mainly because investment in Japanese equity and investment fund shares shifted to net purchases.

As for investment in Japanese equity and investment fund shares, investment in both equity securities other than investment fund shares and investment fund shares or units shifted to net purchases.

Figure 37: Portfolio Investment Liabilities

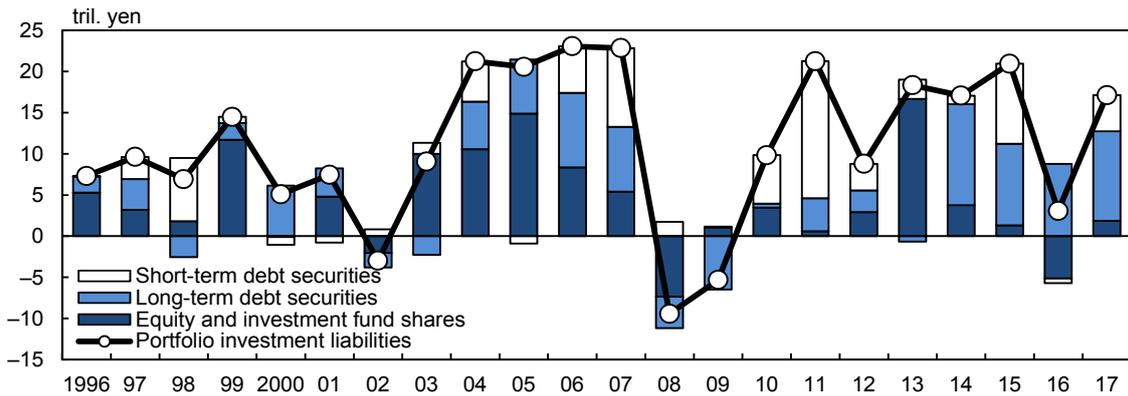


Figure 38: Equity and Investment Fund Shares by Component (Liabilities)

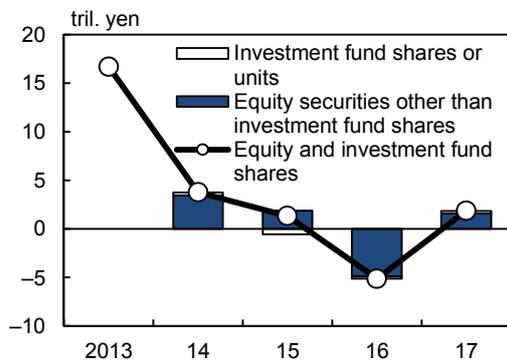


Figure 39: Equity and Investment Fund Shares by Region (Liabilities)

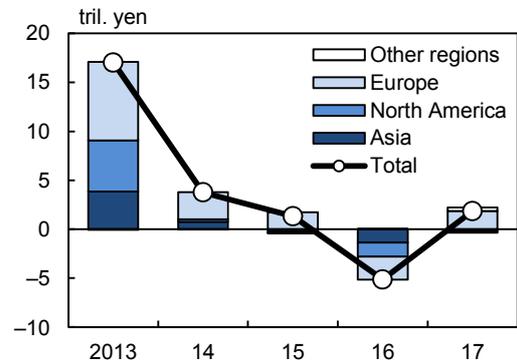


Figure 40: Long-Term Debt Securities (Changes in Liabilities by Region)²

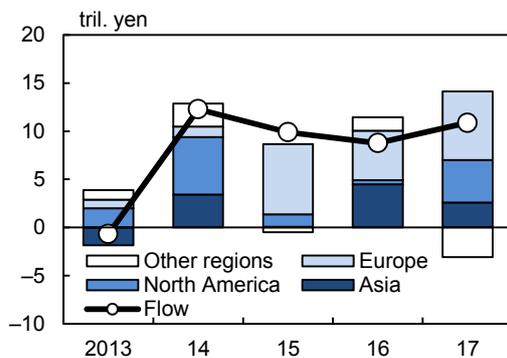
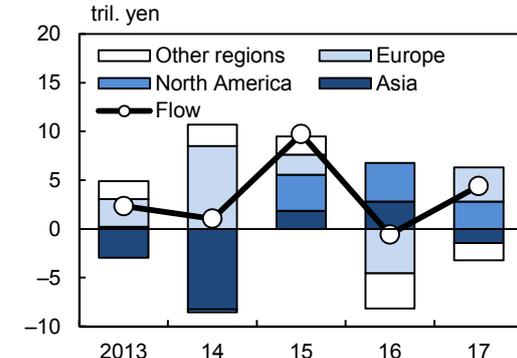


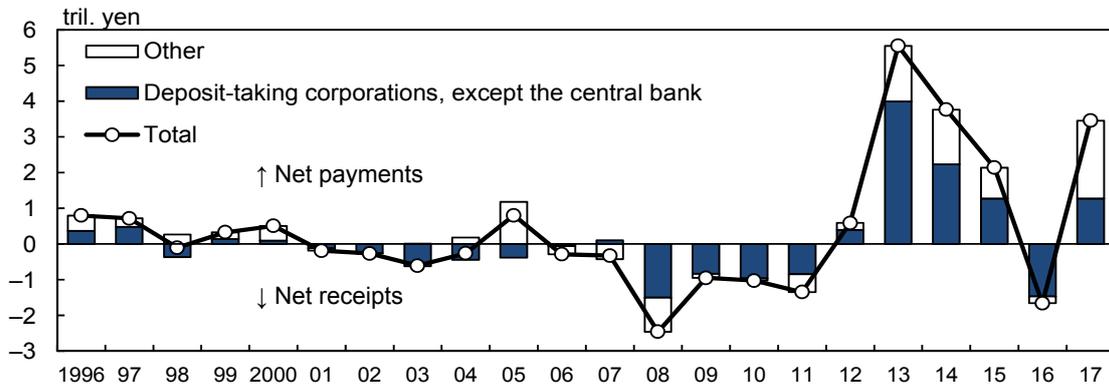
Figure 41: Short-Term Debt Securities (Changes in Liabilities by Region)²



E. Financial Derivatives (Other than Reserves)

Financial derivatives (other than reserves) shifted to net payments of 3.5 trillion yen in 2017 from net receipts of 1.7 trillion yen in 2016, mainly because residents who had entered into currency swap arrangements paid supplementary principal.

Figure 42: Financial Derivatives (Other than Reserves) by Sector



F. Other Investment

Other investment turned to net lending of 0.7 trillion yen in 2017 from net borrowing of 13.7 trillion yen in 2016, mainly because loans turned to net lending.

Figure 43: Other Investment

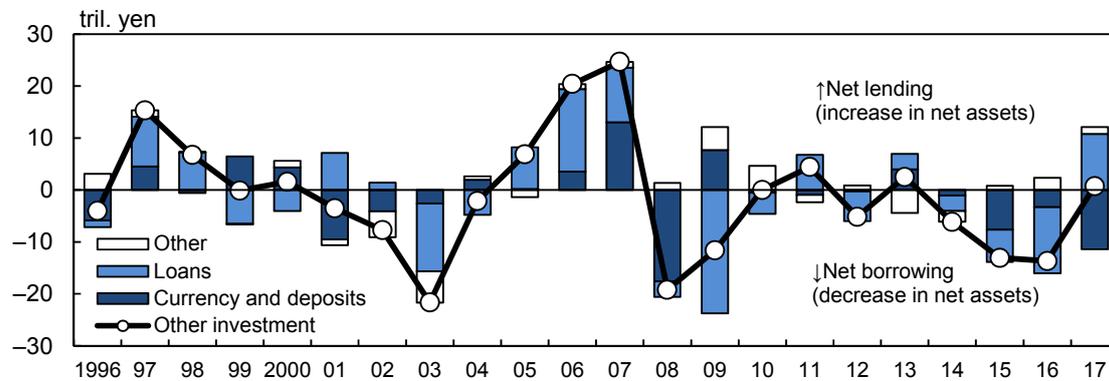


Figure 44: Currency and Deposits

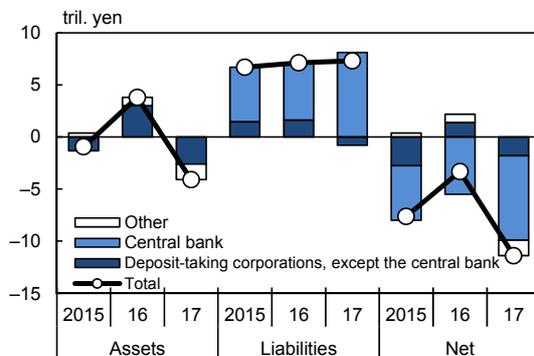
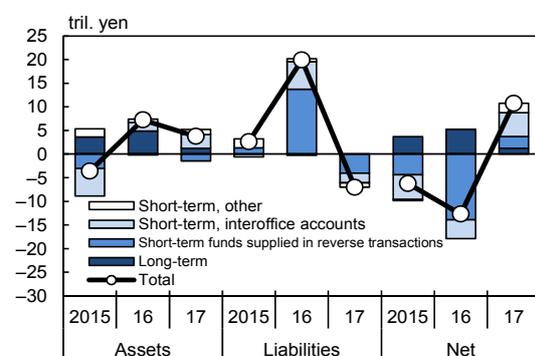


Figure 45: Loans



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V. Developments in Japan's IIP at Year-End 2017

A. Summary

Japan's external financial assets increased to 1,012.4 trillion yen at year-end 2017 from 986.3 trillion yen at year-end 2016, mainly due to an increase in portfolio investment assets. Japan's external liabilities increased to 684.0 trillion yen at year-end 2017 from 650.0 trillion yen at year-end 2016, mainly due to an increase in portfolio investment liabilities.

Japan's net asset position decreased in 2017 as the increase in liabilities exceeded that in assets. Net assets stood at 328.4 trillion yen at year-end 2017, down from 336.3 trillion yen at year-end 2016.

Figure 46: Assets

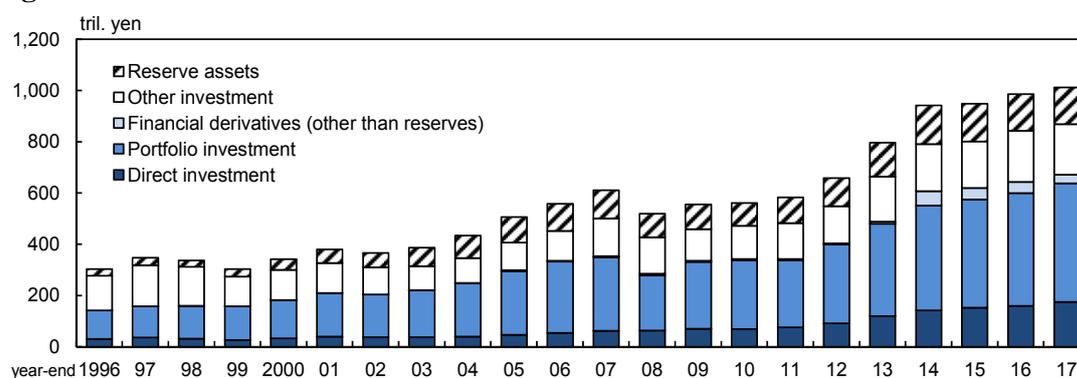


Figure 47: Liabilities

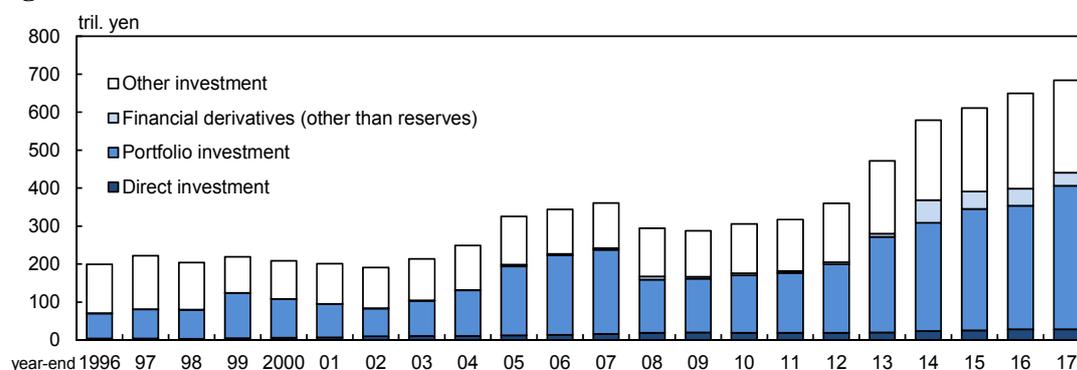
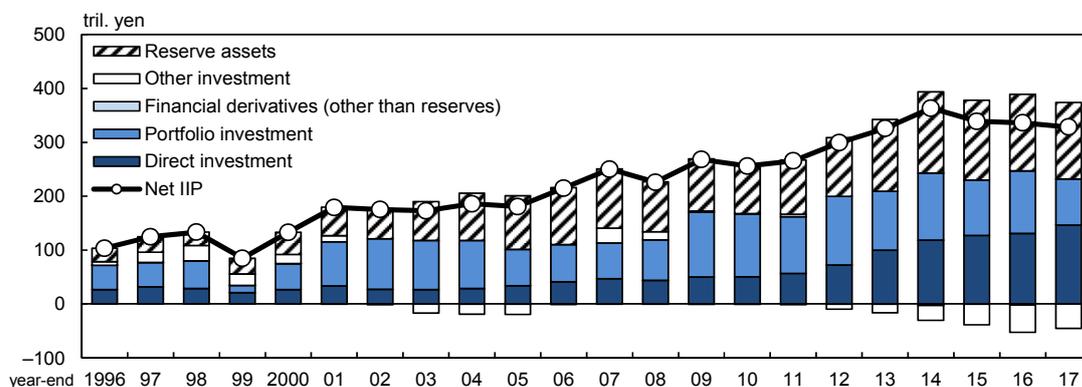


Figure 48: Net IIP



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

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

By factor, other changes contributed to the decrease in external assets, which in turn led to a decline in net assets. Looking at a breakdown of other changes, the increase in external liabilities was led by an increase in the value of portfolio investment liabilities due to a rise in Japanese stock prices.

Figure 49: Year-on-Year Changes in the IIP by Component

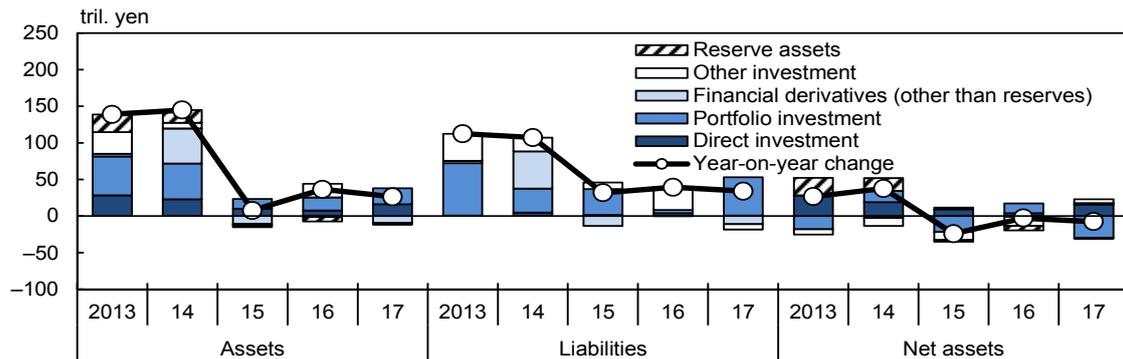


Figure 50: Year-on-Year Changes in the IIP by Factor³

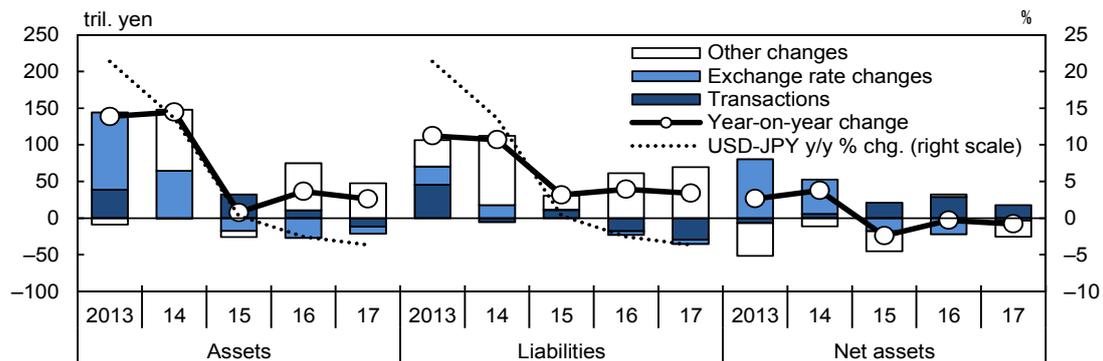
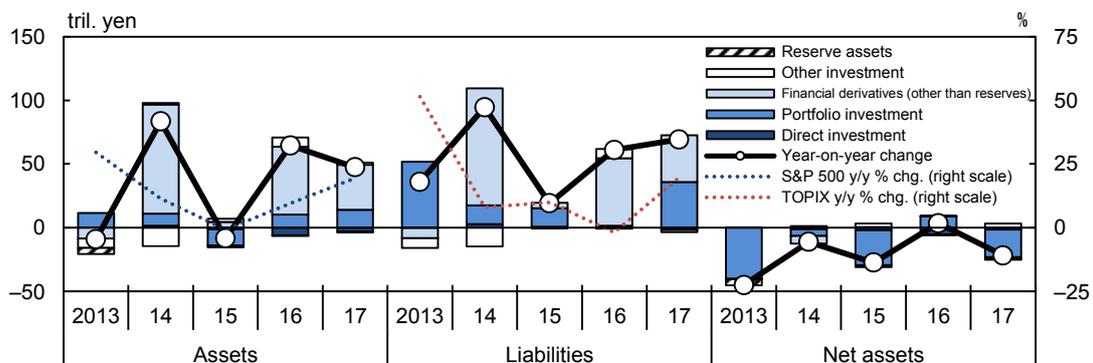


Figure 51: Other Changes by Component



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 continued to make 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 equity securities other than investment fund shares.

Figure 52: IIP by Sector

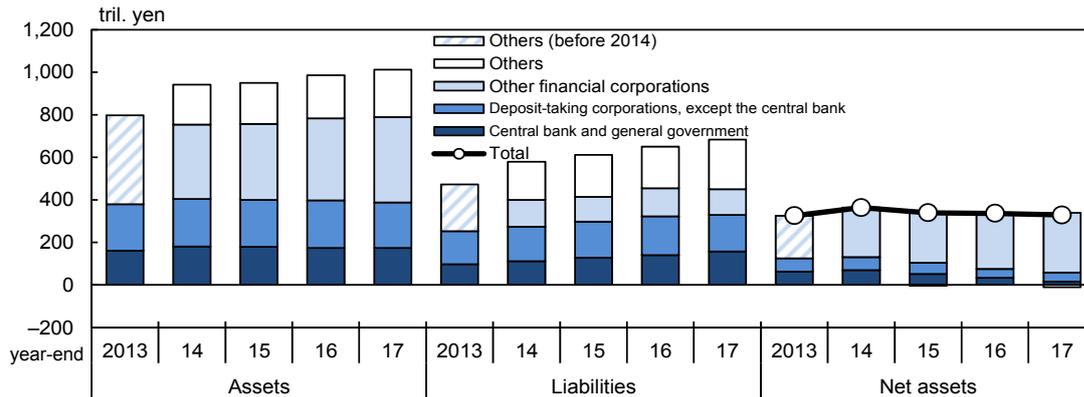


Figure 53: Year-on-Year Changes in the IIP by Sector

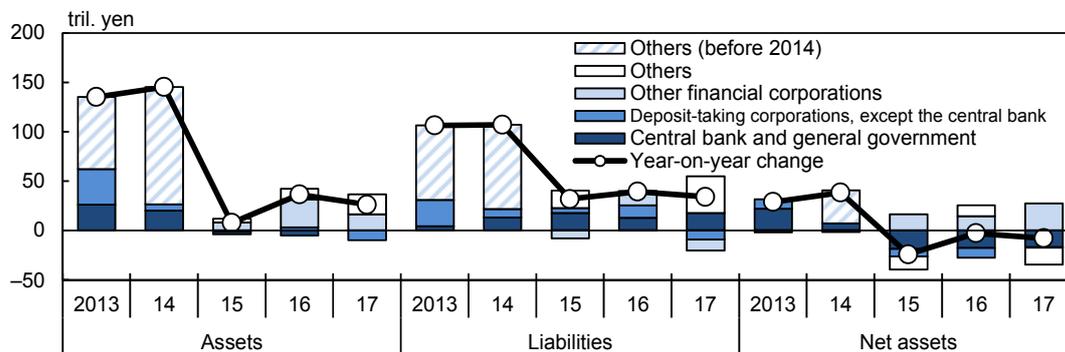


Figure 54: Assets of Other Financial Corporations

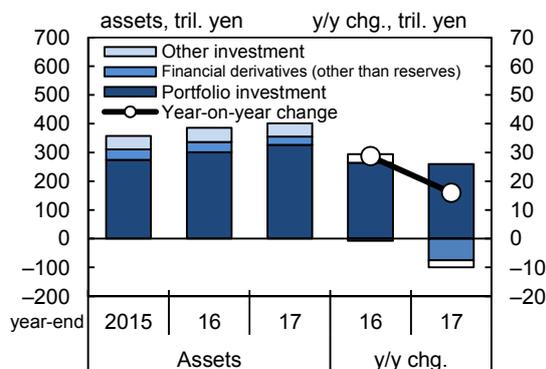
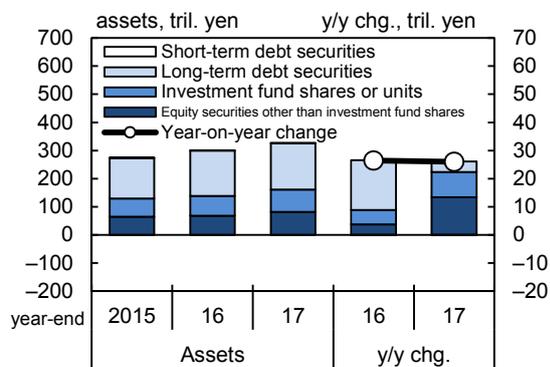


Figure 55: Portfolio Investment Assets of Other Financial Corporations



D. Direct Investment Position and Portfolio Investment Position by Region

Looking at the direct investment position by region, both on the asset side and the liability side, investment in and from regions such as Europe increased. As for the portfolio investment position, on the asset side, investment especially in other regions such as the Cayman Islands increased, while on the liability side, investment from regions such as North America and Europe increased.

Figure 56: Direct Investment Position by Region

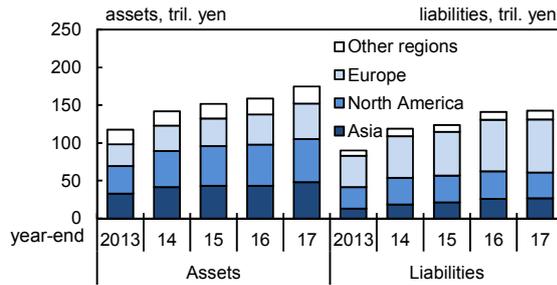
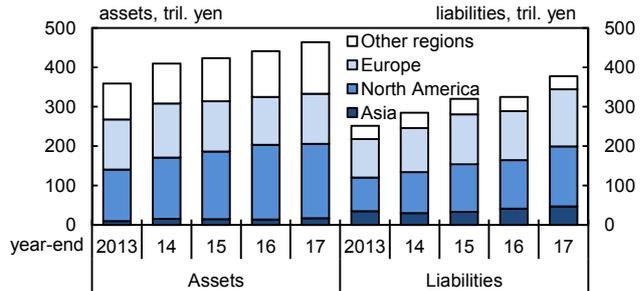


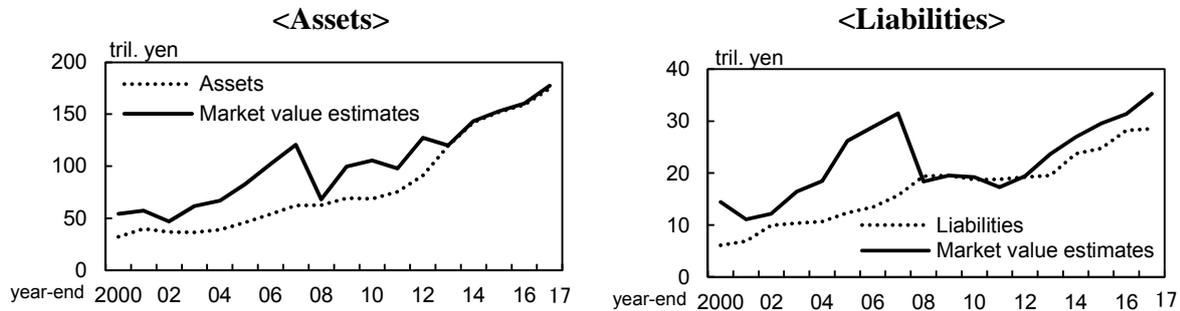
Figure 57: Portfolio Investment Position by Region



E. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 177.6 trillion yen and 35.3 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 174.7 trillion yen and 28.6 trillion yen, respectively).

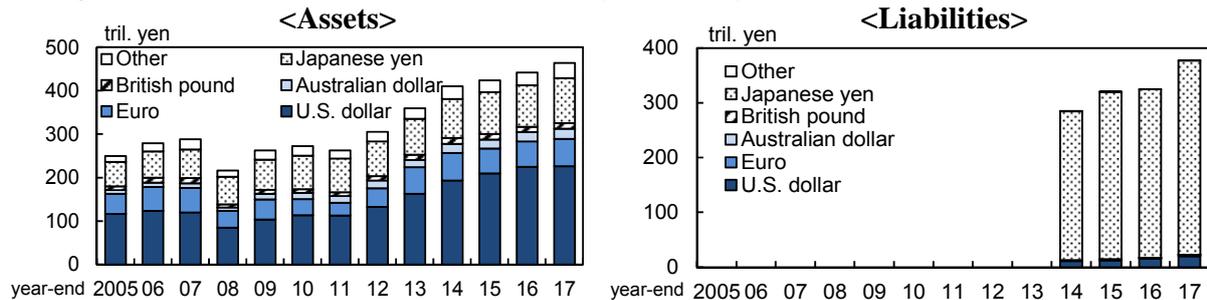
Figure 58: Market Value Estimates of Direct Investment Position



F. Portfolio Investment Position by Currency

Looking at the portfolio investment position by currency, portfolio investment assets increased due to an increase in Japanese investors' holdings of yen-denominated investment funds set up overseas, while portfolio investment liabilities increased mainly due to an increase in overseas investors' holdings of yen-denominated equities.

Figure 59: 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 Position by Region and Industry

Looking at the outward direct investment position by region and industry, the investment position particularly in the non-manufacturing sector in Europe increased. By industry, the investment position in the manufacturing sector increased in 2017 after a decrease in 2016, while that in the non-manufacturing sector increased for the 12th year in a row since statistics started to be compiled.

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 60: Outward Direct Investment Position by Region and Industry

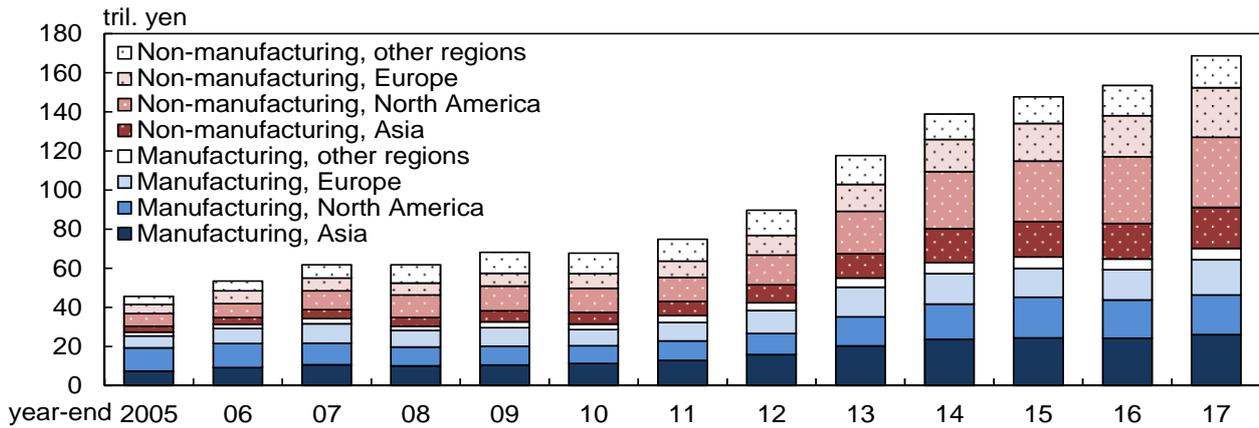


Figure 61: Manufacturing Investment Position

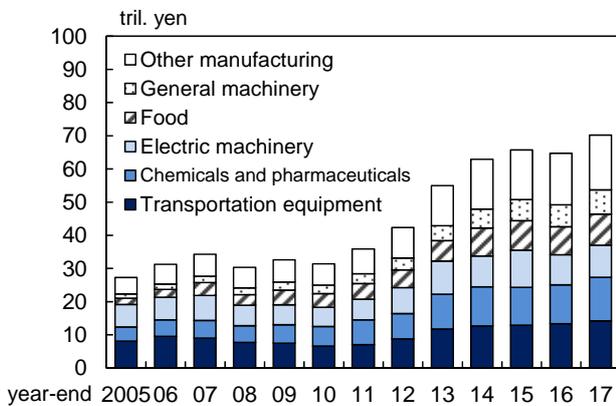


Figure 63: Investment Position and Income by Region and Industry for 2017

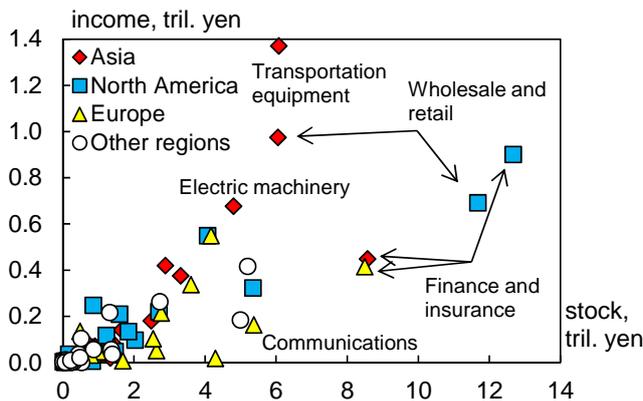
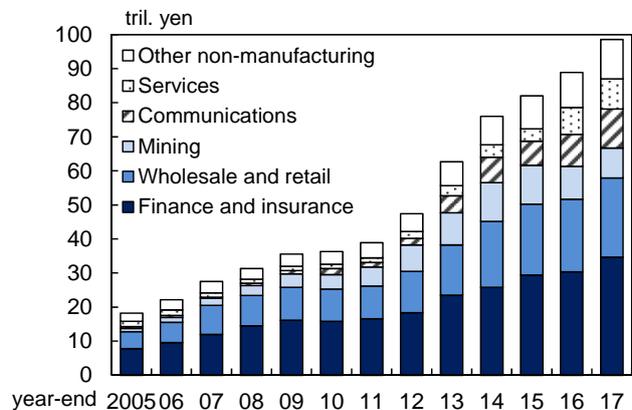
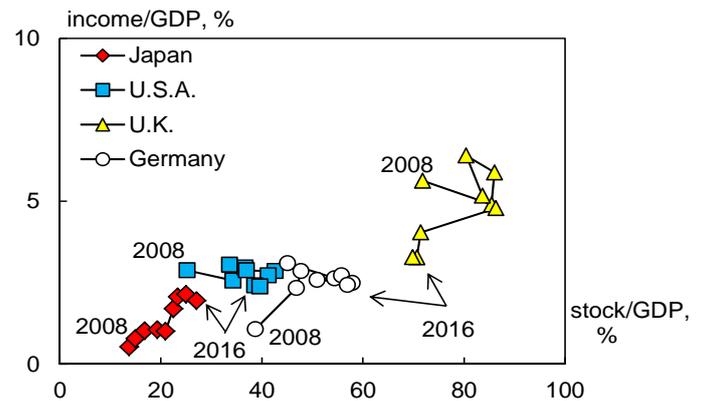


Figure 62: Non-Manufacturing Investment Position



(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 decreased mainly due to a decrease in short-term yen-denominated assets, while liabilities increased mainly due to an increase in short-term yen-denominated liabilities. Looking at foreign currency-denominated assets and liabilities by component, assets decreased mainly due to a decline in long-term debt securities and loans, while liabilities decreased mainly due to a decline 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 64: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity⁴

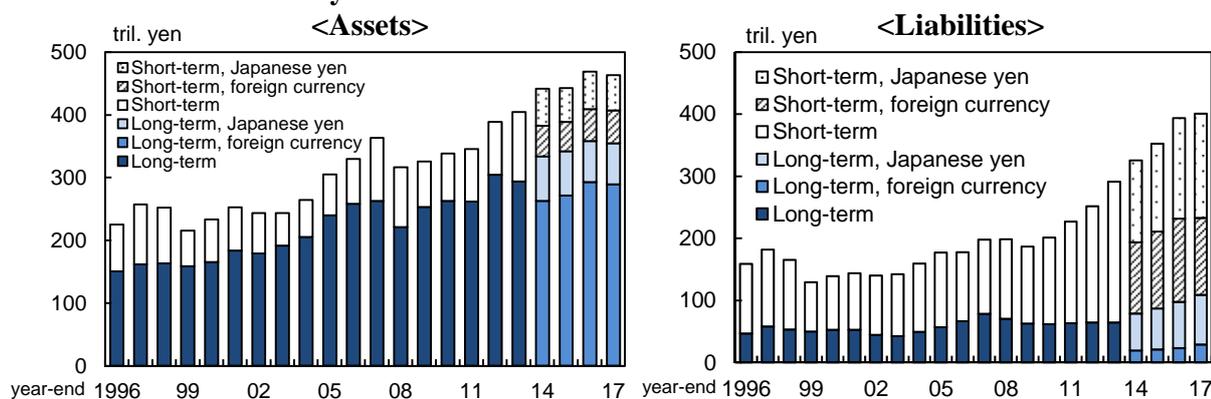


Figure 65: Foreign Currency-Denominated Debt Position by Component

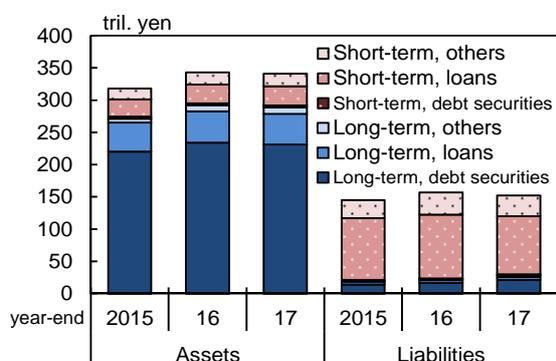


Figure 66: Debt Position by Currency (Foreign Currency/Japanese Yen) and Sector

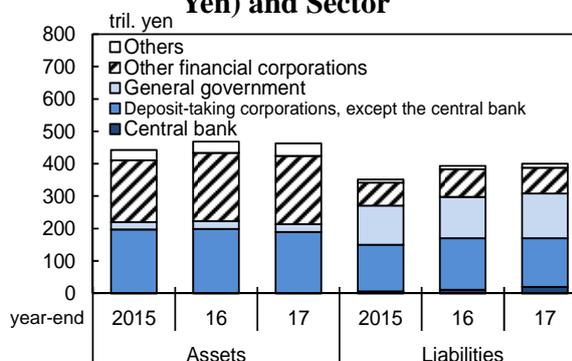
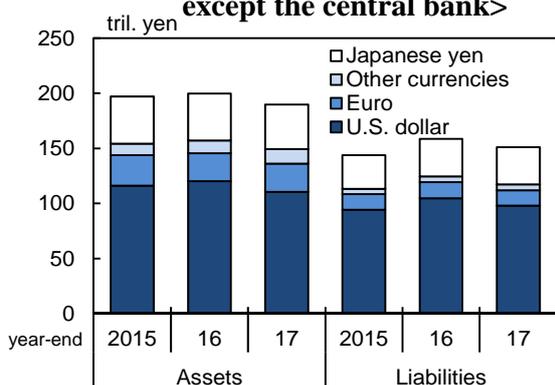
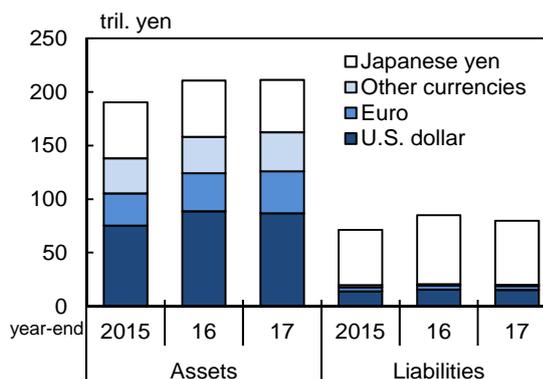


Figure 67: Debt Position by Currency <Deposit-taking corporations, except the central bank>



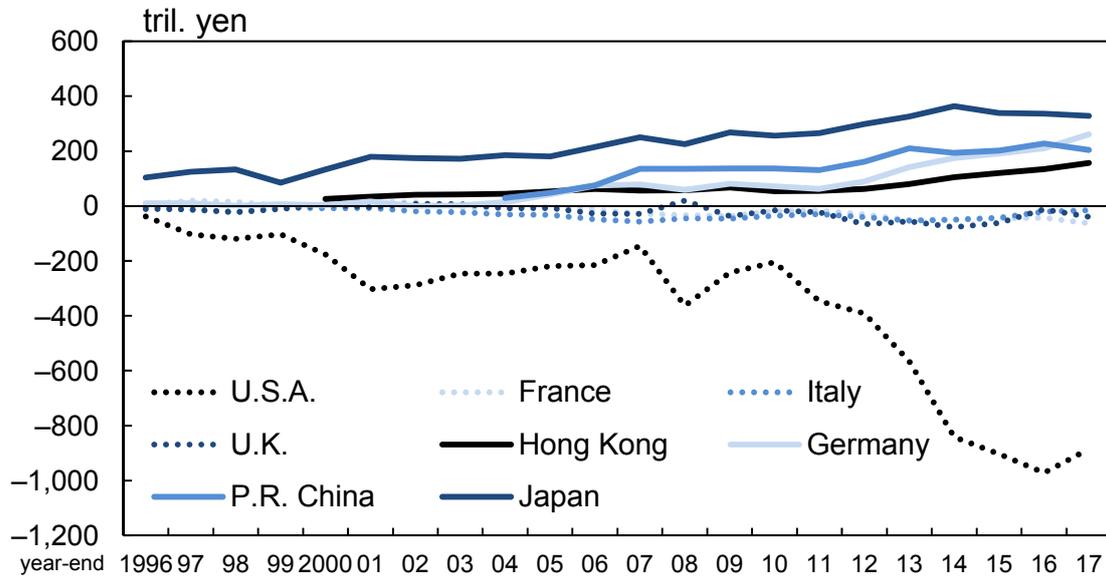
<Other financial corporations>



I. International Comparison of Net IIP

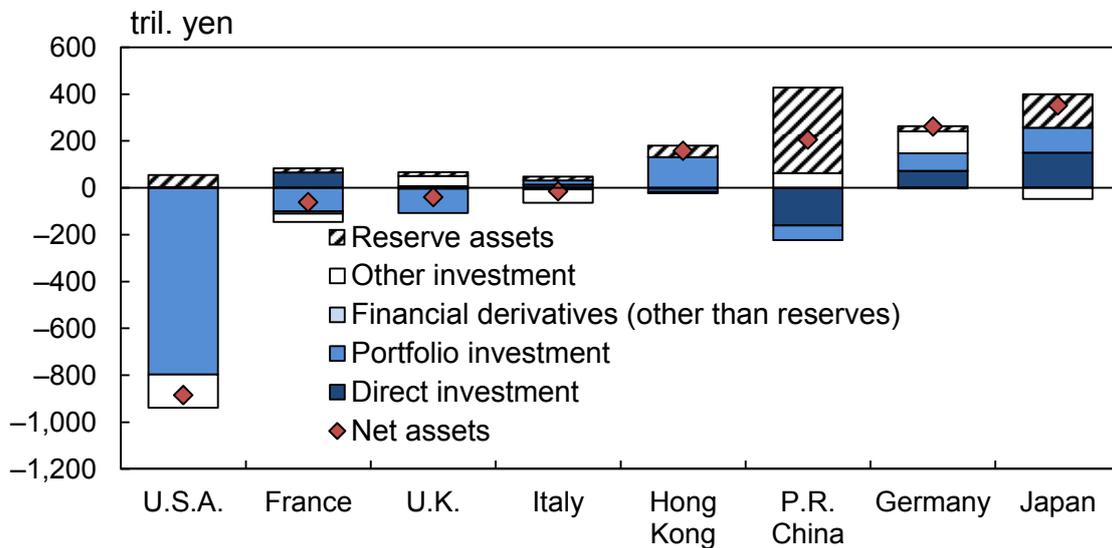
Among major countries that release IIP data, Japan at year-end 2017 continued to be the country with the largest net asset position, which amounted to 328.4 trillion yen.

Figure 68: International Comparison of Net IIP (Time Series)



Source: IMF.

Figure 69: International Comparison of Net IIP at Year-End 2017



Source: IMF.

VI. Notes

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

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

³ Year-on-year changes in the IIP by factor before 2017 do not add up due to annual revisions.

⁴ 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).

Appendix 1. Outline of BOP-Related Statistics and Release Schedule

Outline of BOP-related statistics

BOP-related statistics can be broadly divided into (1) flow data on various transactions and the associated financial flows and (2) stock data on financial assets and liabilities accumulated as a result of such transactions. In addition to the BOP (flow data) and the IIP (stock data), the Ministry of Finance and the Bank compile and release detailed data by region, industry, etc., based on the data collected for the compilation of the BOP and IIP.

Flow data are released, after a compilation period, on a monthly basis two months after the relevant transactions take place. However, more detailed statistics such as data by region are released on a quarterly basis. Since the International Transactions in Securities statistics are compiled based on daily reports from major financial institutions, weekly figures are released in the following week and monthly figures in the following month. Stock data on a calendar year basis are released annually. Moreover, for some stock data, estimates reflecting flows etc. after the end of the previous period are released on a quarterly basis.

The following is an overview of major BOP-related statistics.

	Statistics	Description
Flow data	Balance of Payments	Statistical statement that systematically summarizes the economic transactions of an economy with the rest of the world during a certain period.
	Regional Balance of Payments	Balance of payments by country (33 major countries) and region.
	Direct Investment by Region and Industry	Direct investment income and flows broken down by industry (22 industries) and region (country and region).
	International Transactions in Securities	Statistics on cross-border securities transactions, with an emphasis on timeliness, based only on reports from major financial institutions designated by the Minister of Finance.
Stock data	International Investment Position	Statistical statement that shows an economy's external financial assets, external financial liabilities, and the difference between them, i.e., the net position.
	Gross External Debt Position	Statistical statement that shows only debt instruments among liabilities in the IIP.
	Direct Investment Position	Direct investment position broken down (1) by region and (2) by region and industry.
	Portfolio Investment Position	Portfolio investment position broken down (1) by region, (2) by sector of resident holder and region, and (3) by currency and type of securities.

Data revision and release schedule

The BOP-related statistics are compiled from reports submitted under the Foreign Exchange and Foreign Trade Act, and major statistics are revised to incorporate reports that came in late or were revised after the release. Flow data are first released as preliminary data, followed by second preliminary data and annually revised data. Quarterly stock data are released as preliminary estimates using preliminary flow data, followed by revised estimates using second preliminary flow data, and are annually revised. As for annual calendar year-end stock data, after the first release, revised data reflecting the annual revisions are released in the following year.

The timing of data revisions and the annual release schedule are as follows:

Timing of flow data revisions



Annual release schedule

	Release Date	Release Schedule											
		January	February	March	April	May	June	July	August	September	October	November	December
Balance of Payments													
Preliminary (Monthly)	Sixth business day of the month after next	November	December	January	February	March	April	May	June	July	August	September	October
Second preliminary (Quarterly)	Sixth business day of the following January, April, July, and October	July, August, and September			October, November, and December			January, February, and March			April, May, and June		
Annually revised	Sixth business day of April of the next year and the year after next				Two years earlier and a year earlier								
Regional (Quarterly)	Sixth business day of the following February, May, August, and November		3rd quarter			4th quarter			1st quarter			2nd quarter	
International Transactions in Securities													
	Sixth business day of the next month	December	January	February	March	April	May	June	July	August	September	October	November
International Investment Position of Japan & Gross External Debt Position of Japan													
Quarterly Data	Sixth business day of the following March, June, September, and December			Preliminary estimates for the end of December and revised estimates for the end of September			Preliminary estimates for the end of March and revised estimates for the end of December			Preliminary estimates for the end of June and revised estimates for the end of March			Preliminary estimates for the end of September and revised estimates for the end of June
Calendar Year Data (Annually revised)	End of May of the next year (End of May of the year after next)					Data for the end of December (Data for the end of December two years earlier)							

Provision of data to international organizations

Japan's BOP-related data are also provided to various international organizations and are analyzed and released by these organizations. Because the databases released by these international organizations present the data of individual countries in identical fashion, they can be used for international comparisons. For example, both the IMF and the OECD release BOP-related data for individual countries. Moreover, the Coordinated Direct Investment Survey (CDIS) and the Coordinated Portfolio Investment Survey (CPIS), which are conducted under the auspices of the IMF to capture cross-border direct and portfolio investment positions in detail, collect data on a large number of countries including Japan and make them available for use.¹

¹ See <http://data.imf.org/CDIS> and <http://data.imf.org/CPIS>.

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Appendix 2. Identifying Direct Investment Relationships

Identification of direct investment relationships in international standards

In *BPM6* published by the IMF, direct investment is defined as cross-border investment that is associated with a resident (direct investor) in one economy having control or a significant degree of influence on the management of an enterprise (direct investment enterprise) that is resident in another economy. Such direct investment relationships in which the direct investor is able to exercise control or a significant degree of influence include (1) immediate direct investment relationships in which the direct investor directly owns equity that entitles it to 10 percent or more of the voting power in the direct investment enterprise, (2) indirect direct investment relationships in which the direct investor exercises indirect control or influence through a chain of direct investment relationships, and (3) relationships between two enterprises that do not control or influence each other, but that are both under the control or influence of the same investor (i.e., fellow enterprises).

Based on these definitions, direct investment relationships in *BPM6* are identified according to the criteria of the Framework for Direct Investment Relationships (FDIR). The FDIR provides definitions of "control" and "influence" as described below, based on which the scope of direct investment relationships can then be determined following definitions (1) to (3) above. For instance, direct investment relationships of an enterprise can then be classified into (1) immediate direct investment relationships between the enterprise and a parent or a subsidiary/an associate, (2) indirect direct investment relationships between the enterprise and the parent of a parent, the subsidiary of a subsidiary, or the associate of the subsidiary of a subsidiary, or (3) relationships between the enterprise and other subsidiaries/associates of the same parent (i.e., fellow enterprises).

Relationship between Control/Influence and Voting Power Percentage under the FDIR

Control: Voting power of more than 50 percent (controlled enterprises [including branches] are called "subsidiaries")

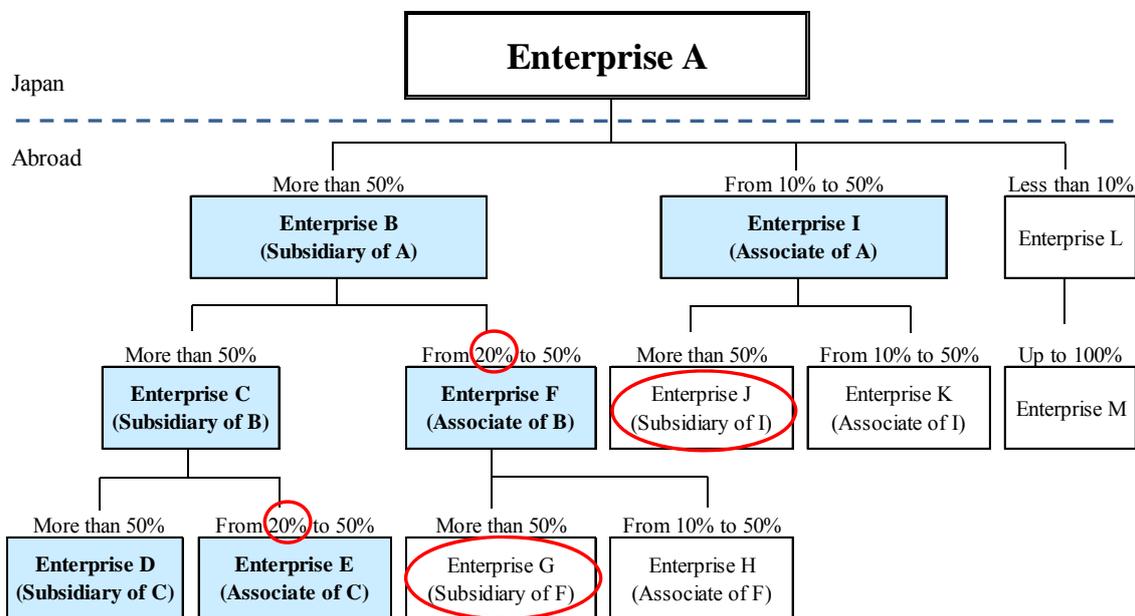
Influence: Voting power of at least 10 percent and no more than 50 percent (influenced enterprises are called "associates")

Identification of direct investment relationships in Japan's statistics (in the case of outward direct investment)

Although the identification of direct investment relationships in Japan's statistics is generally in line with the FDIR for both outward and inward direct investment, in consideration of the reporting burden, in practice identification procedures are designed to be in line with actual corporate accounting practices. The following explains the identification of direct investment relationships in the case of Japan's outward direct investment.

The figure below presents an illustration of the identification of various types of direct investment enterprises of a hypothetical Enterprise A in Japan. Immediate direct investment relationships are treated exactly as in the FDIR. On the other hand, indirect direct investment relationships are defined not on the basis of whether an investor holds voting power of 10 percent or more in the associate but on the basis of so-called equity method associates (in which case a significant degree of influence, in principle, implies that the investor holds voting power of 20 percent or more), and subsidiaries of associates are not counted as direct investment enterprises.

Examples of enterprises that have a direct investment relationship with Enterprise A in Japan (represented by shaded boxes)



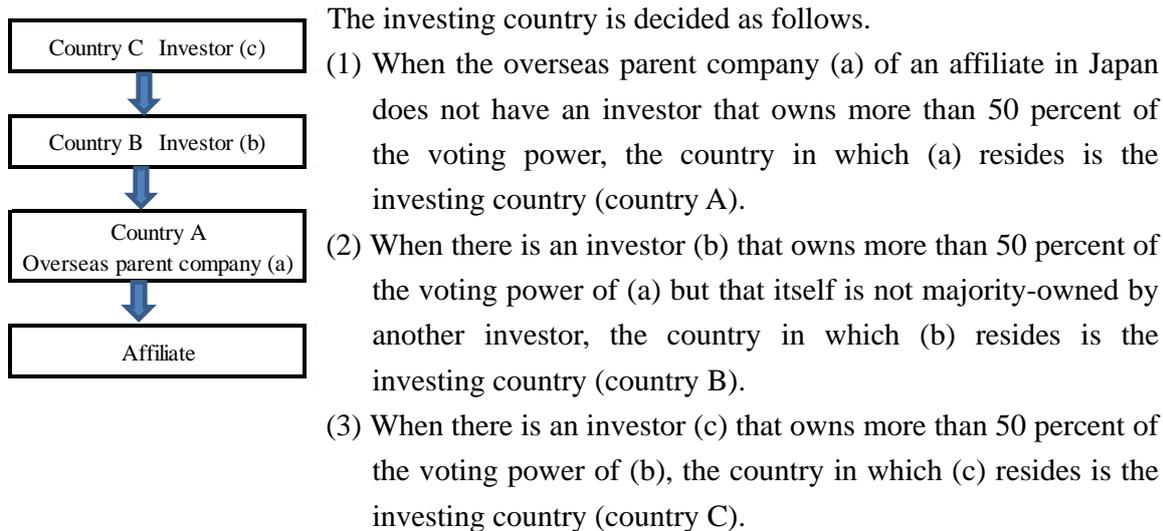
Note: Figures represent voting power percentages, with circles indicating main differences from the FDIR.

Appendix 3. Release of the Inward Direct Investment Position on an Ultimate Investor Basis

Overview

In July 2018, the Bank started to release the "Regional Direct Investment Position (Inward investment) (Ultimate investor)" by country (33 countries) and region -- for which data beginning from year-end 2015 are available -- as reference figures for the IIP of Japan (Calendar Year Data) in the BOJ Time-Series Data Search.

For the "Regional Direct Investment Position (Inward investment) (Ultimate investor)," data by country and region for the investment position of overseas parent companies in affiliated companies in Japan (inward direct investment position) are compiled by regarding the country in which the ultimate investor holding ultimate control resides as the investing country (i.e., partner country).



International standards recommend the compilation of the inward direct investment position on an ultimate investor basis as such statistics are useful for obtaining a better grasp of cross-border direct investment. The Bank provided an overview and explained the compilation method of these statistics and made estimates of the related data for year-end 2015 and year-end 2016 available in *Japan's Balance of Payments Statistics and International Investment Position for 2016* released in July 2017. In July 2018, data for year-end 2015, year-end 2016 (annually revised figures), and year-end 2017 were made available in the BOJ Time-Series Data Search.

Recording principles and corresponding statistics

Statistics on direct investment are compiled on the basis of two different recording principles. Direct investment statistics in the IIP of Japan (Calendar Year Data) are recorded on the basis of the asset and liability principle, while Direct Investment by Region and Industry statistics are recorded on the basis of the directional principle.² The Inward Direct Investment Position on an ultimate investor basis is compiled on the basis of the directional principle. 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">▪ Balance of Payments▪ Regional Balance of Payments▪ Direct Investment by Region and Industry 1. Direct Investment Income	<ul style="list-style-type: none">▪ Direct Investment by Region and Industry 2. Direct Investment Flows
Stock data	<ul style="list-style-type: none">▪ International Investment Position of Japan▪ Regional Direct Investment Position -- by country (33 countries) and region▪ Regional Direct Investment Position (Assets) (All regions) -- all countries and regions for which positions are available	<ul style="list-style-type: none">▪ Direct Investment by Region and Industry 3. Direct Investment Position ▪ Regional Direct Investment Position (Inward investment) (Ultimate investor)

Aggregate results for year-end 2017

Comparing Japan's inward direct investment position at year-end 2017 using the figures on an ultimate investing country basis released in July 2018 and figures on an immediate investing country basis shows that, on an ultimate investor basis, direct investment from the Netherlands, the United Kingdom, the Cayman Islands, and Singapore was smaller than on an immediate investor basis, while direct investment from the United States, 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, the Cayman Islands, and Singapore) that provide tax advantages.

² For details, see "Recording Principles of Direct Investment" and *Japan's Balance of Payments Statistics and International Investment Position for 2016*, which was released in July 2017, both available on the Bank's website.

Appendix Figure 3.1 Inward Direct Investment Position by Country of Immediate Investor and Ultimate Investor³

bil. yen

	Year-end 2016			Year-end 2017		
	By country of immediate investor (A)	By country of ultimate investor (B)	Difference (B) – (A)	By country of immediate investor (A)	By country of ultimate investor (B)	Difference (B) – (A)
Total	22,964.5	22,964.5	+0.0	22,601.8	22,601.8	+0.0
Asia	4,396.2	3,390.2	-1,006.0 ↓	4,301.3	3,852.3	-449.0 ↓
P.R. China	96.8	169.0	+72.3	150.4	180.1	+29.7
Hong Kong	995.2	614.9	-380.3	870.5	740.3	-130.2
Taiwan	682.2	529.5	-152.8	607.5	677.8	+70.3
R. Korea	399.3	515.7	+116.4	434.6	514.5	+79.9
Singapore	2,113.5	1,493.2	-620.3	2,091.8	1,647.1	-444.7
Thailand	22.7	10.3	-12.4	28.1	15.3	-12.9
Indonesia	10.5	7.6	-3.0	31.9	3.1	-28.8
Malaysia	59.5	30.9	-28.6	61.3	33.1	-28.2
Philippines	7.4	7.6	+0.3	9.4	7.3	-2.2
Viet Nam	0.1	-0.5	-0.6	0.0	0.2	+0.1
India	8.8	7.2	-1.7	9.9	18.6	+8.7
North America	6,340.3	9,429.9	+3,089.6 ↑	5,734.5	8,163.6	+2,429.1 ↑
U.S.A.	6,185.2	9,239.9	+3,054.7	5,577.1	8,007.6	+2,430.6
Canada	155.1	190.0	+34.9	157.4	156.0	-1.5
Central and South America	1,409.1	933.5	-475.6 ↓	1,672.7	830.4	-842.3 ↓
Mexico	0.3	27.8	+27.5	0.3	26.6	+26.3
Brazil	3.9	-102.2	-106.0	3.6	-136.3	-139.8
Cayman Islands	1,120.6	835.1	-285.5	1,401.2	830.5	-570.6
Oceania	295.5	175.0	-120.4 ↓	294.3	132.4	-161.9 ↓
Australia	251.9	126.9	-124.9	252.5	75.4	-177.1
New Zealand	35.4	40.6	+5.3	33.3	38.3	+5.0
Europe	10,473.3	8,757.6	-1,715.7 ↓	10,546.6	9,341.1	-1,205.4 ↓
Germany	472.6	1,012.3	+539.7	418.1	896.0	+477.9
U.K.	1,486.8	828.6	-658.2	1,546.4	719.7	-826.8
France	3,309.9	4,433.7	+1,123.8	3,397.8	4,416.2	+1,018.4
Netherlands	2,588.0	654.3	-1,933.7	2,918.2	908.3	-2,009.9
Italy	118.3	71.6	-46.7	135.7	71.4	-64.3
Belgium	73.8	50.9	-22.9	81.3	146.9	+65.5
Luxembourg	863.2	434.4	-428.8	851.3	518.4	-332.9
Switzerland	1,220.9	1,137.3	-83.6	750.3	1,107.3	+357.0
Sweden	196.4	71.1	-125.3	234.2	47.9	-186.3
Spain	92.9	-7.8	-100.7	93.0	-22.0	-115.0
Russia	6.0	5.7	-0.3	6.1	5.8	-0.3
Middle East	30.4	209.6	+179.2 ↑	31.6	143.2	+111.6 ↑
Saudi Arabia	3.0	-29.3	-32.3	2.8	-91.3	-94.1
U.A.E.	5.8	166.6	+160.8	5.8	162.0	+156.3
Iran	—	—	—	—	—	—
Africa	15.9	10.2	-5.6 ↓	17.0	10.5	-6.6 ↓
R.South Africa	0.1	0.2	+0.1	0.1	0.4	+0.4

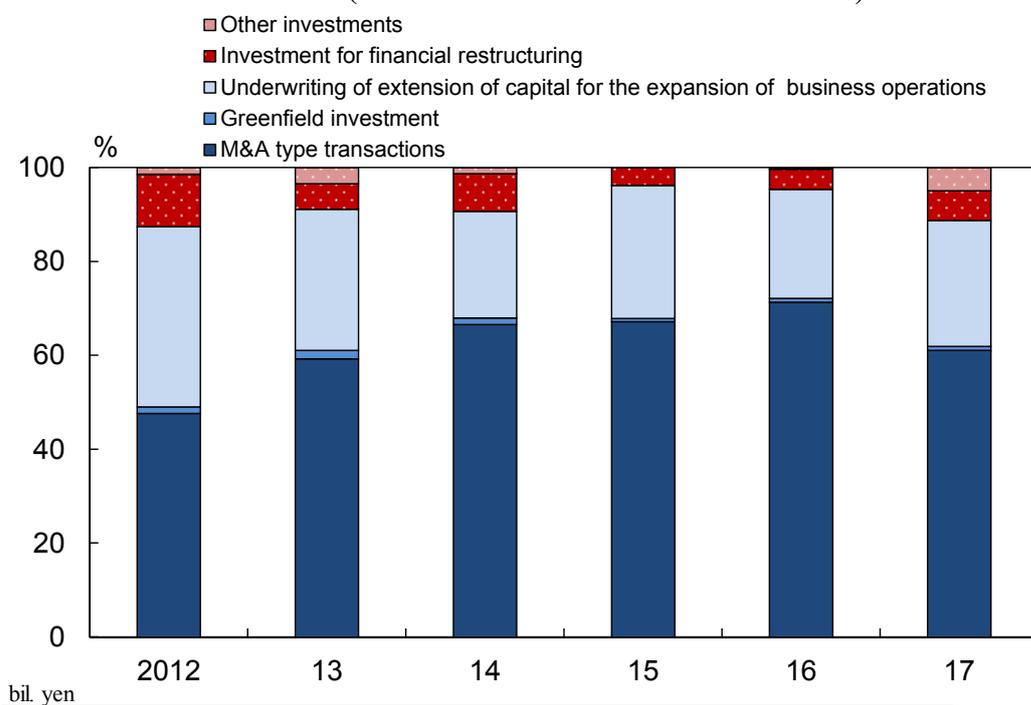
³ Arrows in the figure indicate when (B) is larger (↑) or smaller (↓) than (A).

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Appendix 4. Developments in Direct Investment by Type of Investment^{4,5,6}

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 continued to make up the largest share as a result of large-scale acquisitions. Underwriting of the extension of capital for the expansion of overseas business operations also continued to account for a relatively large share. On the other hand, greenfield investment -- in which new enterprises are established by investors -- continued to be low.

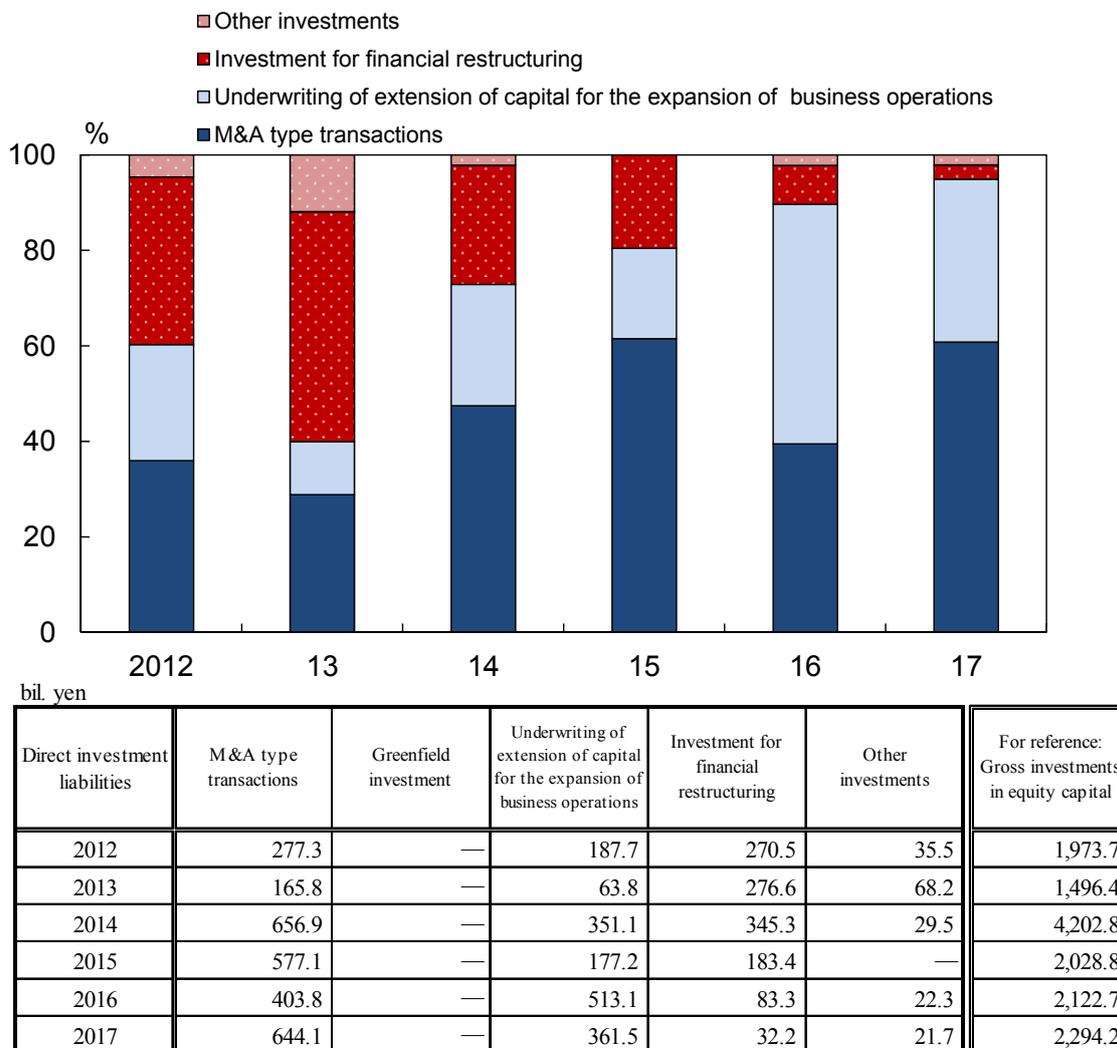
Appendix Figure 4.1 Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



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: 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	5,781.6	77.7	2,544.4	594.2	467.6	15,072.9

Direct investment liabilities continued to be low compared to direct investment assets. The breakdown by type of investment shows that M&A type transactions and underwriting of the extension of capital for the expansion of business operations accounted for a large share.

Appendix Figure 4.2 Direct Investment Liabilities by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



⁴ In accordance with *BPM6* and the *OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4)*, 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; and (5) other investments: other investments including investment in corporate type investment trusts.

⁵ Reference figures. The classification is applied only to direct investment transactions (gross investments in equity capital) of 10 billion yen or more.

⁶ 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.