

# **Japan's Balance of Payments Statistics and International Investment Position for 2018**

**July 2019**  
**International Department**  
**Bank of Japan**

Japan's balance of payments statistics for 2018 -- the annually revised figures for the first through the third quarter of 2018 and the second preliminary figures for the fourth quarter of 2018 -- were released on April 8, 2019, by the Ministry of Finance and the Bank of Japan in the *Balance of Payments*.

Japan's international investment position at year-end 2018 was released on May 24, 2019, by the Ministry of Finance and the Bank as the *International Investment Position of Japan (End of 2018)*.

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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 the *BPM5* were rearranged in accordance with the *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 (excluding those in the appendixes) are listed in Section VI. "Notes."

## **I. Introduction**

### **A. Characteristics of This Annual Report**

The balance of payments (BOP) is a set of statistics that records 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. The report, in addition to recent developments in the BOP, contains a section entitled "Basic Knowledge on the BOP" to allow those looking at these statistics for the first time to gain a basic understanding. Moreover, recent efforts related to the compilation and release of Japan's BOP are outlined in the appendixes.

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 is a set of statistics that records various transactions of an economy with the rest of the world in a systematic manner. Speaking somewhat technically, the statistics 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 the *BPM6* and are compiled by recording equal amounts on the credit and the debit side, respectively.

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

### *Components of the BOP*

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

Current account	Transactions in goods and services, 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 asset 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 subsidiaries, 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 illustrate how 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 firm
  - 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 subsidiary
  - Currency         40        (Credit – Decrease in financial assets)
  - Shares            40        (Debit – Increase in financial assets)
- (4) Receipt in cash of a loan of 100 from an overseas bank
  - Loan              100       (Credit – Increase in financial liabilities)
  - Currency         100       (Debit – Increase in financial assets)

	Credit (Receipts)	Debit (Payments)	Net	Balance
Current account	80	10	+70	+70
Goods	80 <sup>(1)</sup>		+80	+80
Services			0	0
Primary income		10 <sup>(2)</sup>	-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 <sup>(3)</sup>	+40			0	+40
Portfolio investment			0			0	0
Financial derivatives (other than reserves)			0			0	0
Other investment	10 <sup>(2)</sup> +40 <sup>(3)</sup>	80 <sup>(1)</sup> +100 <sup>(4)</sup>	+130	100 <sup>(4)</sup>		+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:

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

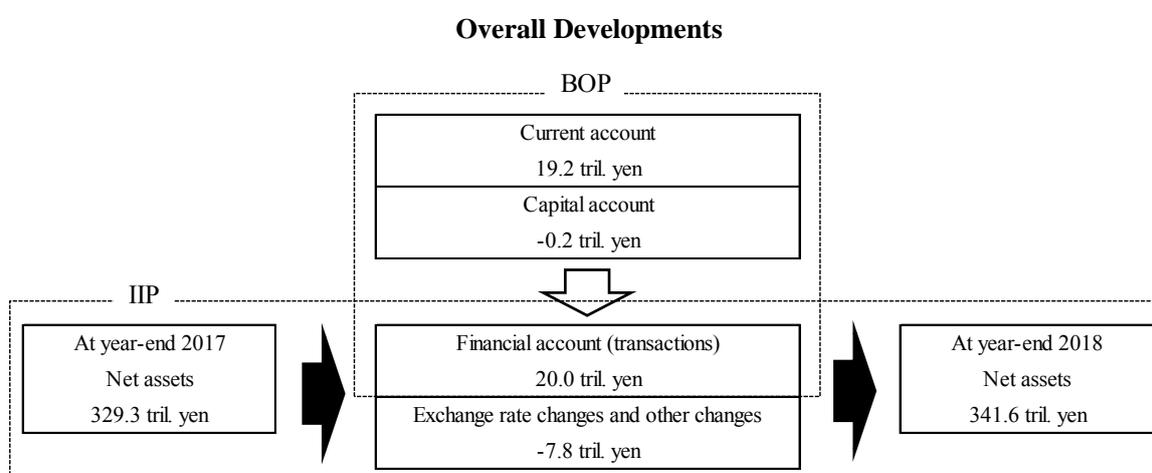
Meanwhile, "net errors and omissions" is an adjustment item to account for statistical errors. In compiling the actual BOP statistics, it is not always possible to collect information on the credit and debit side of a certain transaction within the same period, given that the vast number of transactions 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 2018

### Overall developments

The current account continued to register an overall surplus, although the surplus on goods decreased due to an increase in imports reflecting a rise in crude oil prices. Japan's financial account balance registered net lending, mainly due to net lending under portfolio investment. Japan's IIP registered an increase in net assets reflecting transactions in the financial account.

**Figure 1: Japan's BOP and IIP for 2018**



### BOP (Flows)

tril. yen

	2017	2018	y/y chg.
Current account	22.6	19.2	-3.4
Goods	4.9	1.2	-3.7
Services	-0.7	-0.8	-0.1
Primary income	20.5	20.9	+0.3
Secondary income	-2.1	-2.0	+0.1
Capital account	-0.3	-0.2	+0.1
Financial account	18.6	20.0	+1.4
Direct investment	17.2	14.7	-2.5
Portfolio investment	-5.7	10.0	+15.6
Financial derivatives (other than reserves)	3.5	0.1	-3.3
Other investment	0.9	-7.5	-8.4
Reserve assets	2.7	2.7	+0.0
Net errors and omissions	-3.7	1.0	—

## IIP (Stocks)

tril. yen

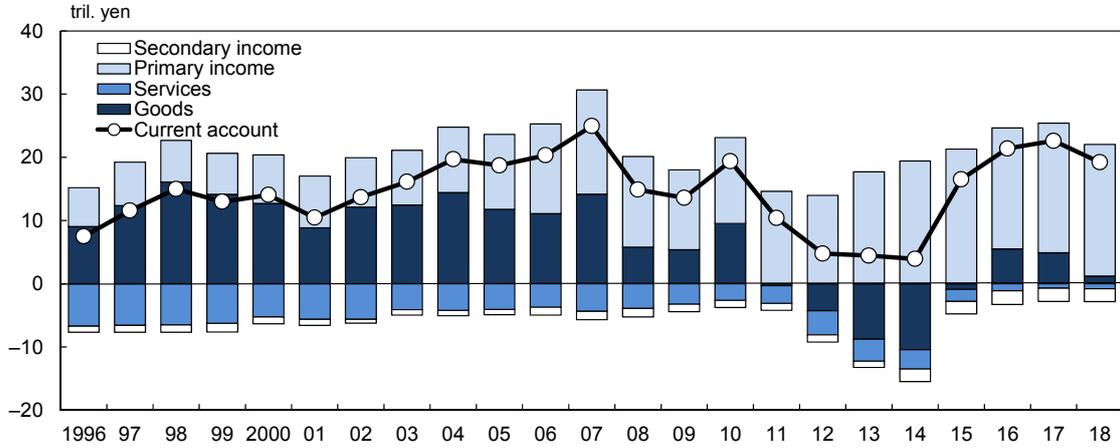
	Assets			Liabilities		
	Year-end 2017	Year-end 2018	y/y chg.	Year-end 2017	Year-end 2018	y/y chg.
Total	1,013.4	1,018.0	+4.7	684.1	676.5	-7.6
Direct investment	175.1	181.7	+6.6	28.9	30.7	+1.8
Portfolio investment	463.6	450.8	-12.8	376.7	351.3	-25.5
Financial derivatives (other than reserves)	33.9	32.2	-1.7	34.0	30.7	-3.2
Other investment	198.3	213.0	+14.7	244.4	263.8	+19.3
Reserve assets	142.4	140.3	-2.1	—	—	—
Net assets	329.3	341.6	+12.3			

### *Developments in major components*

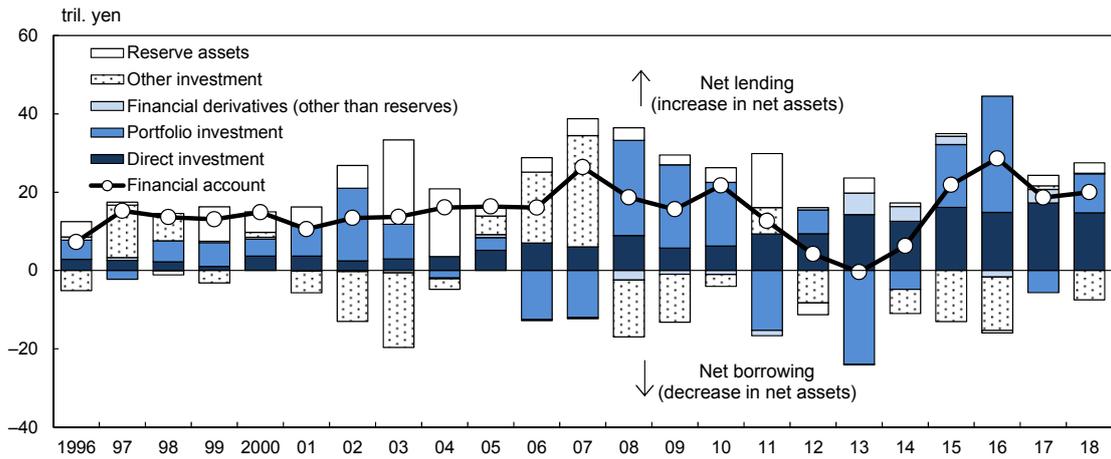
- The current account surplus declined.
  - o The surplus on goods decreased mainly due to an increase in mineral fuel imports.
  - o The deficit on services increased due to rises in the deficits on transport and other services. The surplus on travel marked a record high since 1996, from when comparable data are available, mainly reflecting a rise in the number of foreign visitors to Japan.
  - o The surplus on primary income increased, primarily reflecting a rise in dividend receipts from overseas subsidiaries in particular.
- The financial account registered net lending.
  - o Net direct investment registered net lending. Although net acquisitions of direct investment assets decreased, they were still the third largest on record, mainly due to active mergers and acquisitions (M&As) by Japanese firms.
  - o Net portfolio investment registered net lending. Net purchases of foreign securities by Japanese investors increased as long-term debt securities shifted to net purchases, while net purchases of Japanese securities by foreign investors decreased, mainly because investment in Japanese equity and investment fund shares shifted to net sales.
- Japan's IIP registered an increase in net assets.
  - o Assets increased mainly due to an increase in other investment assets.
  - o Liabilities decreased, mainly due to a decrease in portfolio investment liabilities primarily reflecting a drop in Japanese stock prices.
  - o Japan's net asset position registered the second-highest level on record. The net asset position increased reflecting an increase in external assets as well as a decrease in external liabilities. Among major countries that release IIP data, Japan at year-end 2018 continued to record the largest net asset position, which amounted to 341.6 trillion yen.

**Figure 2: Japan's BOP and IIP**

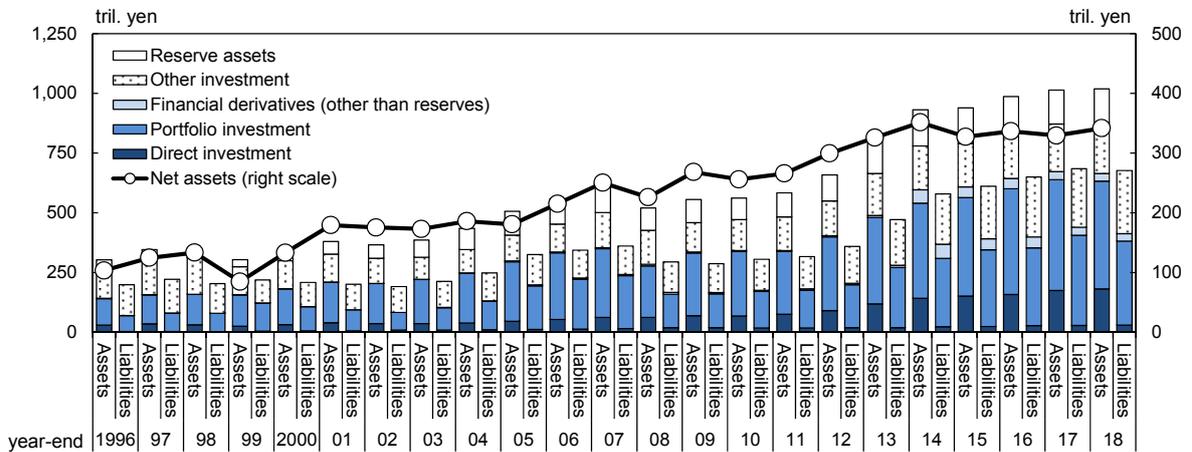
**Current Account**



**Financial Account**



**IIP**



### III. Developments in the Current Account in 2018

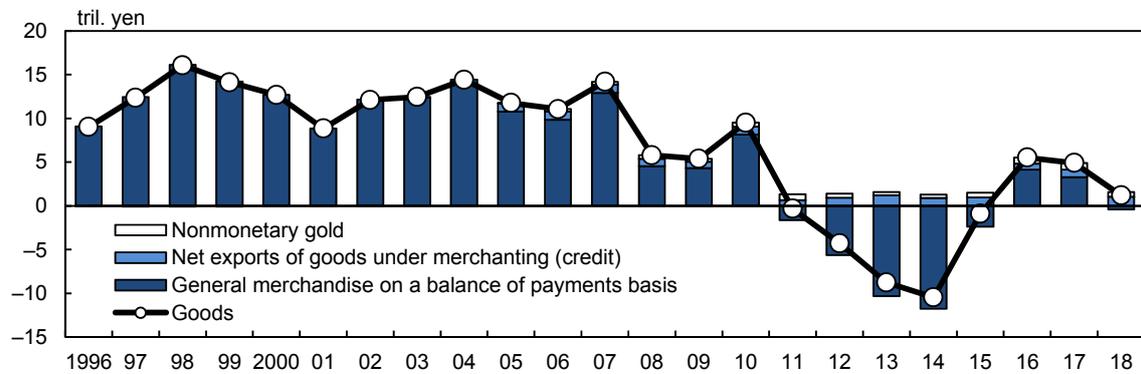
#### A. Goods

The surplus on goods decreased to 1.2 trillion yen in 2018 from 4.9 trillion yen in 2017 as the increase in imports exceeded that in exports.

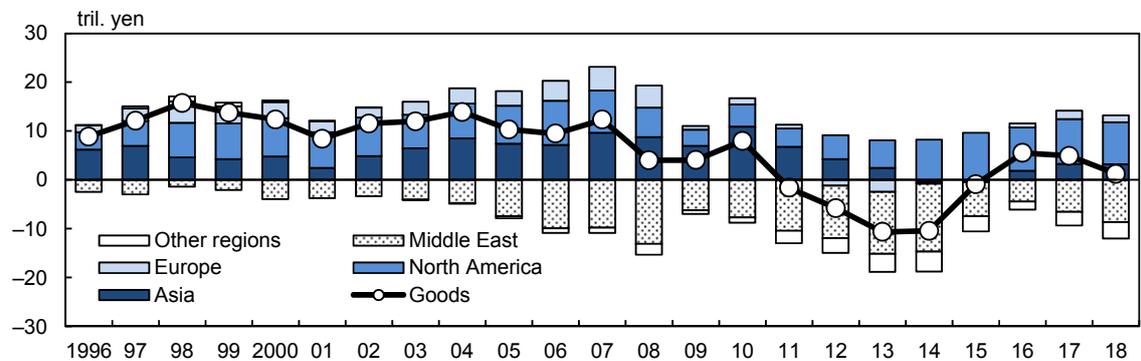
Exports increased to 81.2 trillion yen in 2018 from 77.3 trillion yen in 2017 mainly due to an increase in exports of machinery (such as semiconductor manufacturing equipment) to Asia. Imports increased to 80.0 trillion yen in 2018 from 72.3 trillion yen in 2017 mainly due to an increase in imports of 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 contributed to the increase in exports as well as imports.

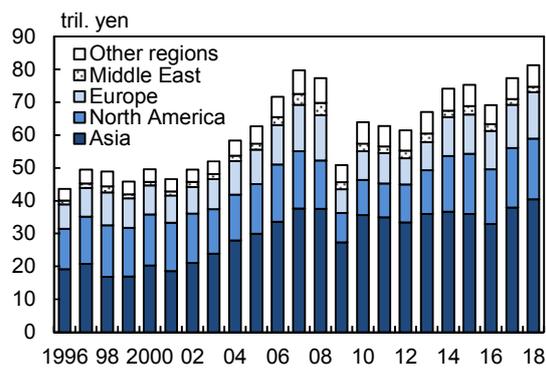
**Figure 3: Goods**



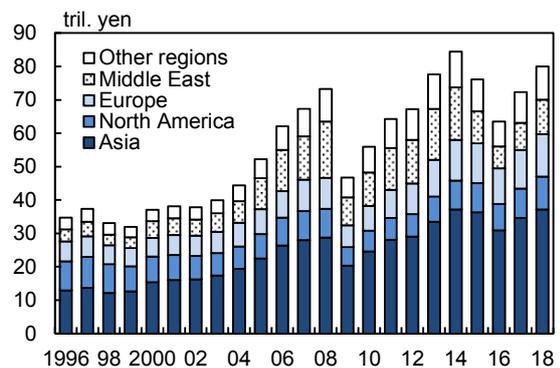
**Figure 4: Goods by Region**



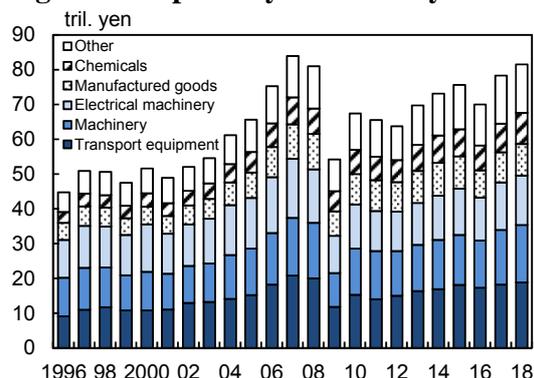
**Figure 5: Exports by Region**



**Figure 6: Imports by Region**

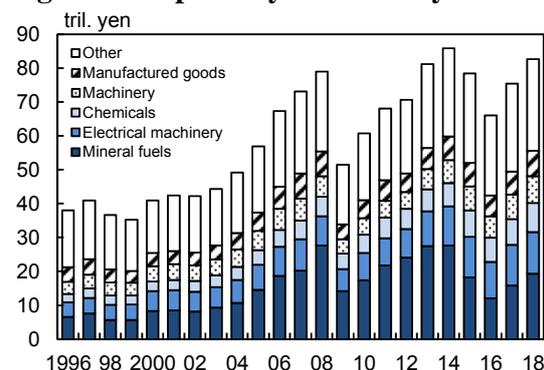


**Figure 7: Exports by Commodity**



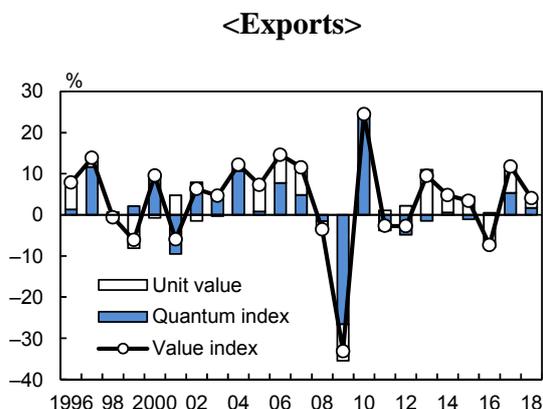
Source: Ministry of Finance, *Trade Statistics of Japan*.

**Figure 8: Imports by Commodity**

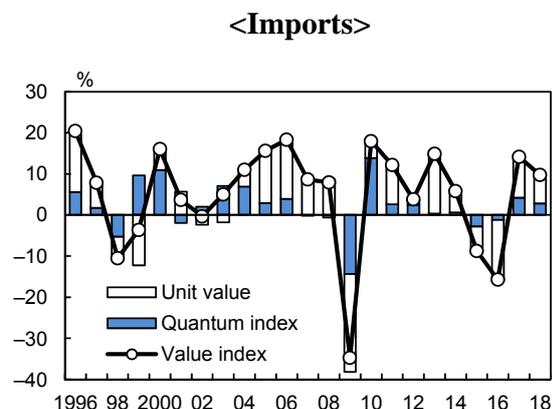


Source: Ministry of Finance, *Trade Statistics of Japan*.

**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:

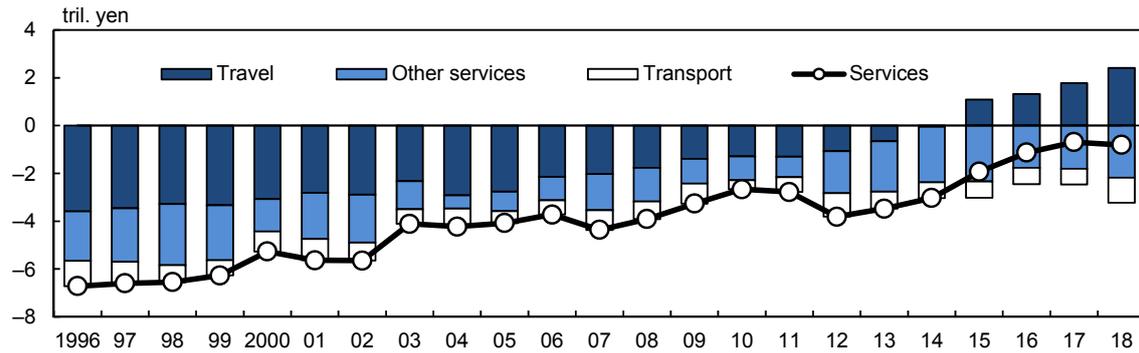
	<i>Trade Statistics of Japan</i>	Goods in the BOP
Valuation	Exports: FOB (Free on Board), i.e., the price of goods at the frontier of the exporting country is recorded. Imports: CIF (Cost, Insurance, and Freight), i.e., including insurance premiums and freight charges in addition to the price of goods.	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

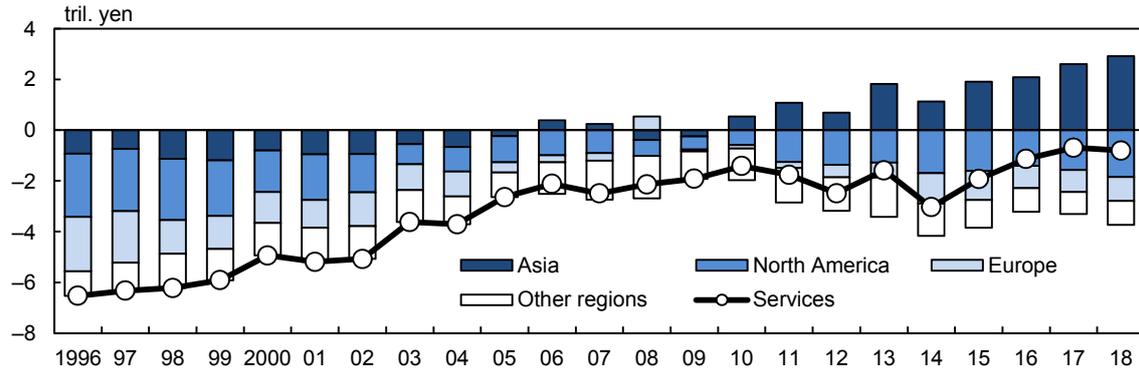
The deficit on services increased to 0.8 trillion yen in 2018 from 0.7 trillion yen in 2017 due to rises in the deficits on transport and "other services."

On both the credit and debit sides, the share of services in the total transactions in goods and services declined, as the increase in goods transactions exceeded that in services transactions.

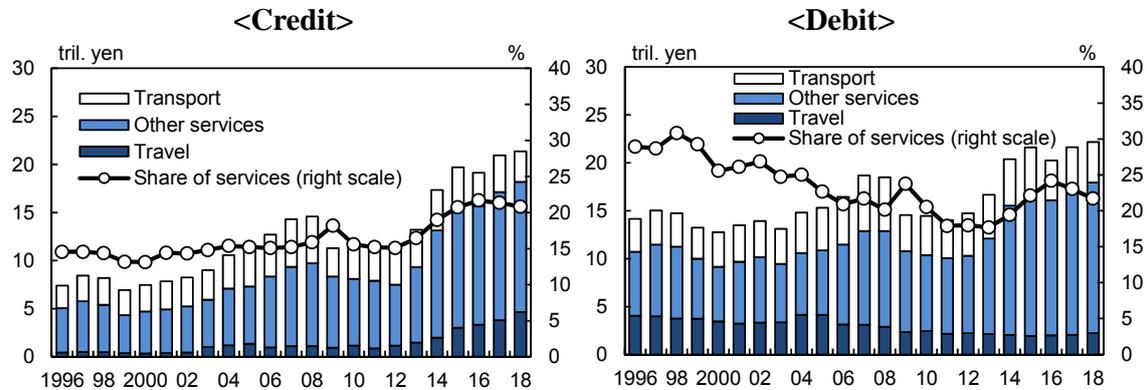
**Figure 10: Services**



**Figure 11: Services by Region**



**Figure 12: Share of Services in the Total Transactions in the Goods and Services Account<sup>1</sup>**

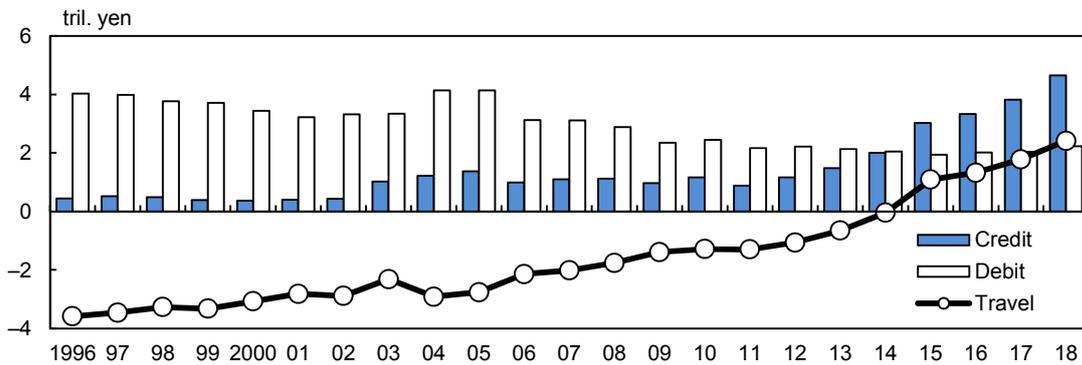


# 1. Travel

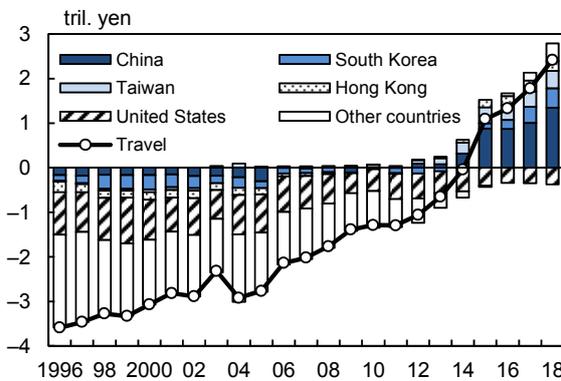
The surplus on travel increased to 2.4 trillion yen in 2018 from 1.8 trillion yen in 2017, marking a record high since 1996, from when comparable data are available, with the increase in receipts -- due mainly to a rise in the number of foreign visitors from Asia -- exceeding the increase in payments.

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 seventh year in a row.

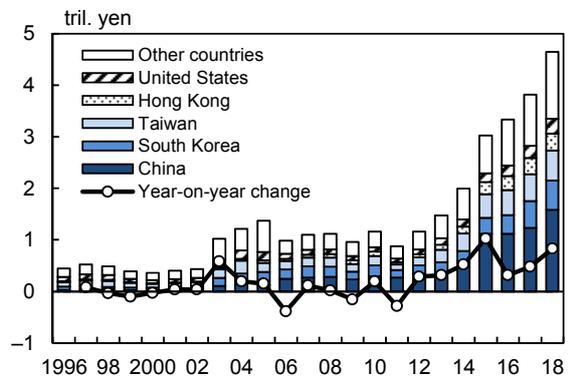
**Figure 13: Travel**



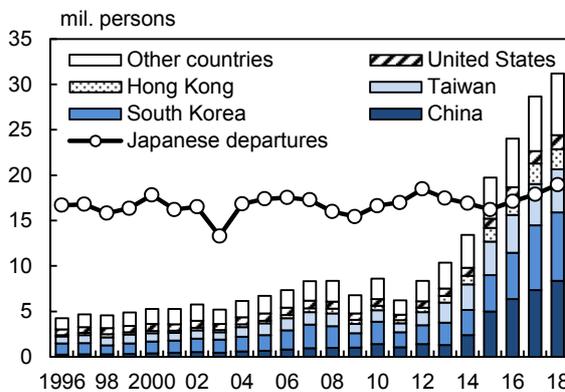
**Figure 14: Travel by Country**



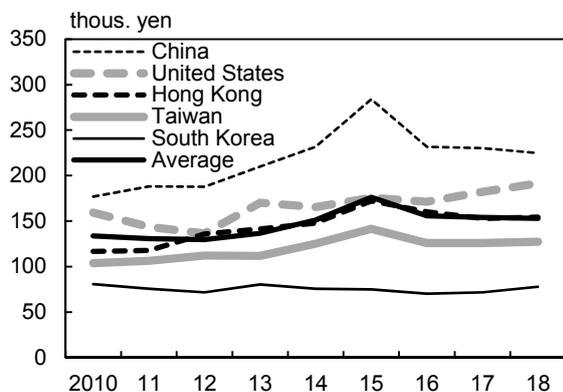
**Figure 15: Credit by Country**



**Figure 16: Number of Foreign Visitors to Japan by Country**



**Figure 17: Travel Expenditure per Foreign Visitor to Japan**



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

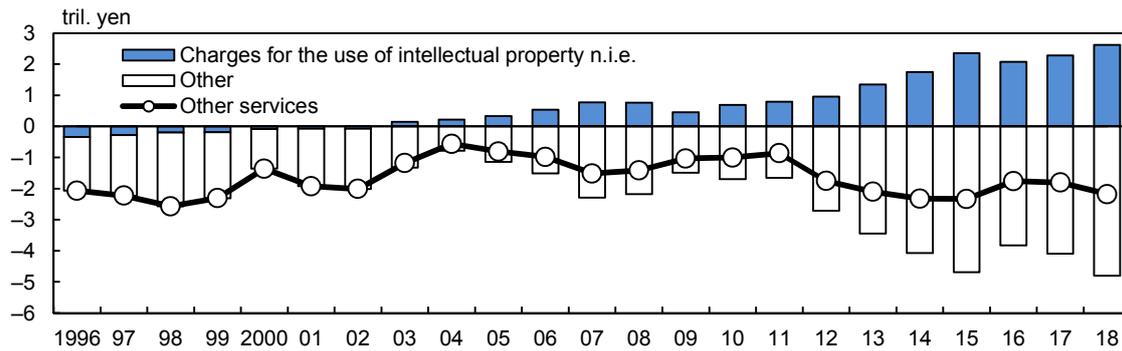
Source: Japan Tourism Agency, *International Visitor Survey*.

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

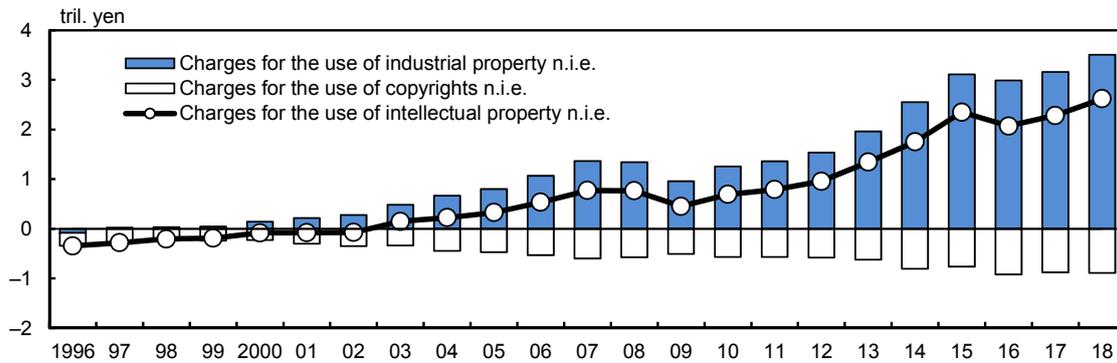
The surplus on charges for the use of intellectual property n.i.e., which are part of "other services," increased to 2.6 trillion yen in 2018 from 2.3 trillion yen in 2017 due to a rise in receipts, marking a record high since 1996, from when comparable data are available.

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

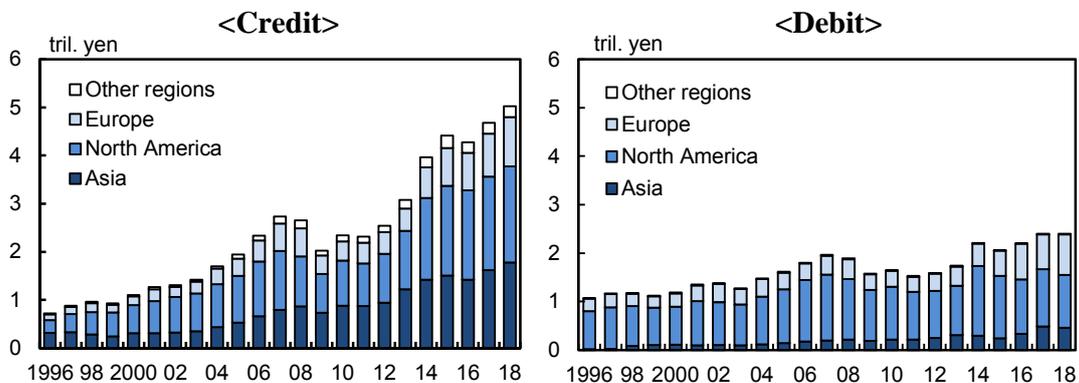
**Figure 18: Other Services**



**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**

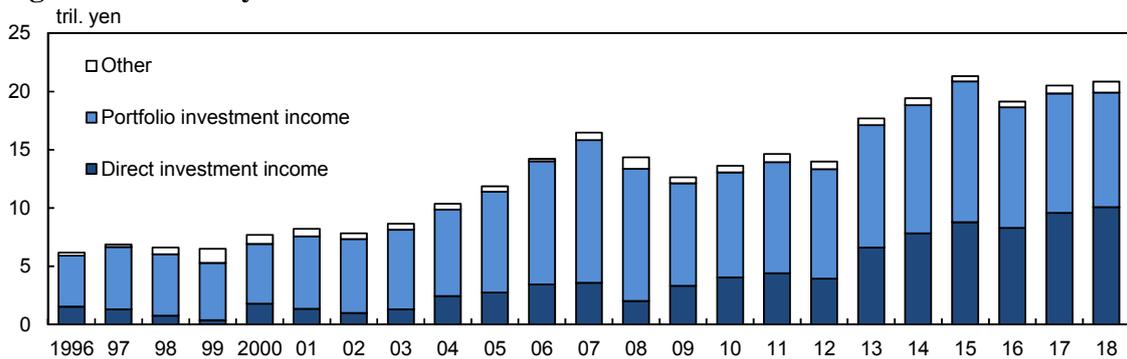


### C. Primary Income

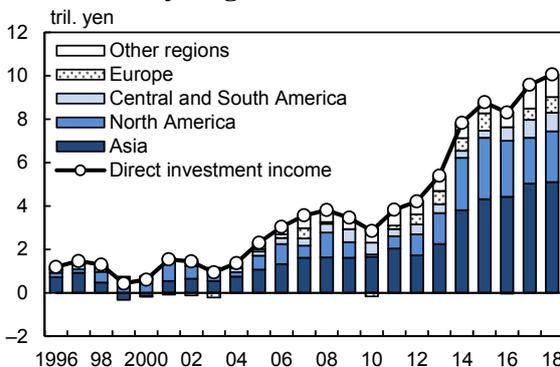
The surplus on primary income increased to 20.9 trillion yen in 2018 from 20.5 trillion yen in 2017, mainly reflecting the increase in the surplus on direct investment income. The surplus on direct investment income marked a record high since 1996, from when comparable data are available.

Looking at direct investment income by region, the surplus vis-à-vis regions such as North America increased. Looking at portfolio investment income by component, payments of dividends on equity excluding investment fund shares increased, so that the surplus on portfolio investment income declined.

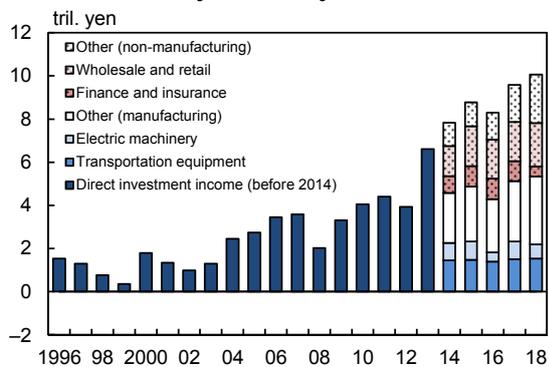
**Figure 21: Primary Income**



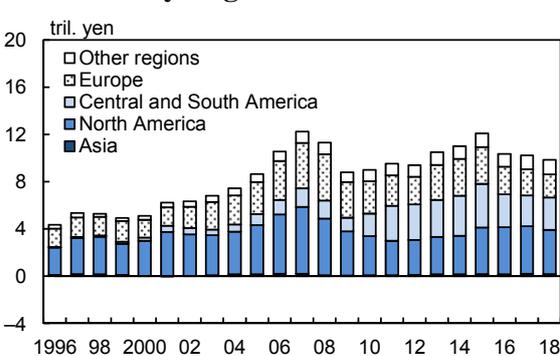
**Figure 22: Direct Investment Income by Region**



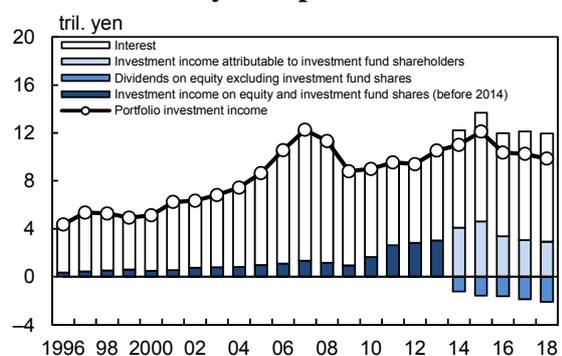
**Figure 23: Direct Investment Income by Industry**



**Figure 24: Portfolio Investment Income by Region**



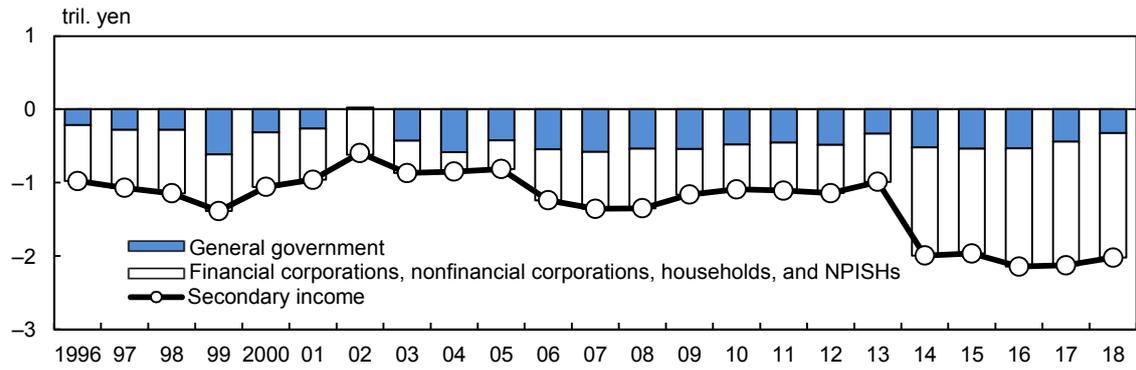
**Figure 25: Portfolio Investment Income by Component**



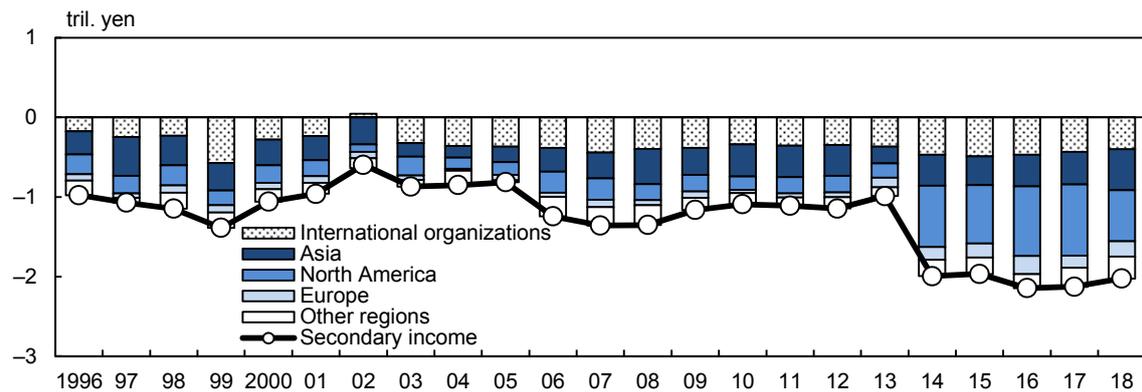
### D. Secondary Income

As for secondary income, the deficit decreased to 2.0 trillion yen in 2018 from 2.1 trillion yen in 2017, reflecting a decline in the deficit in the "general government" sector.

**Figure 26: Secondary Income**



**Figure 27: Secondary Income by Region**



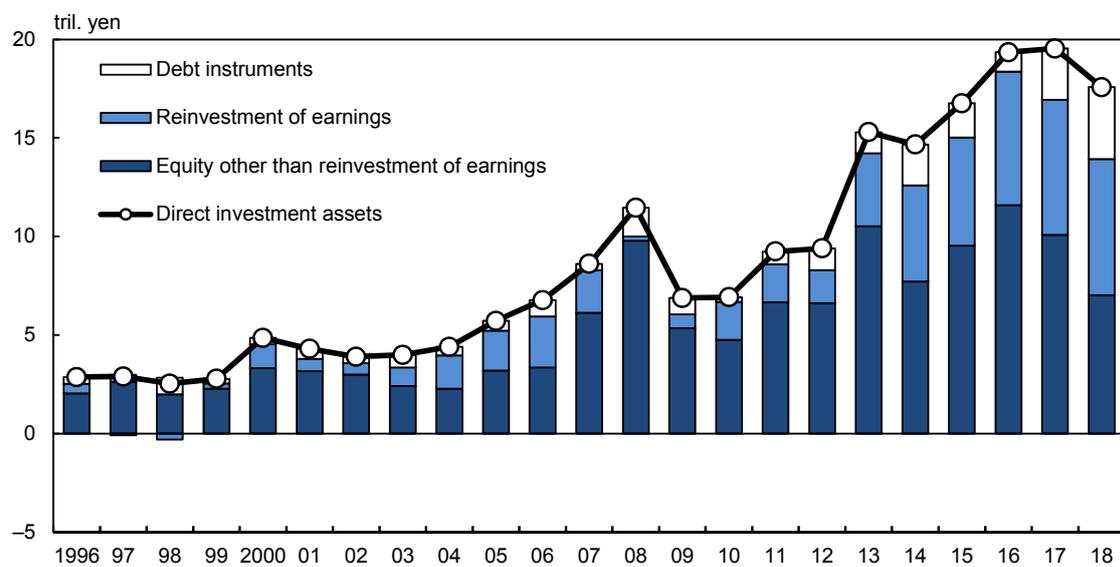
## IV. Developments in the Financial Account in 2018

### A. Direct Investment Assets

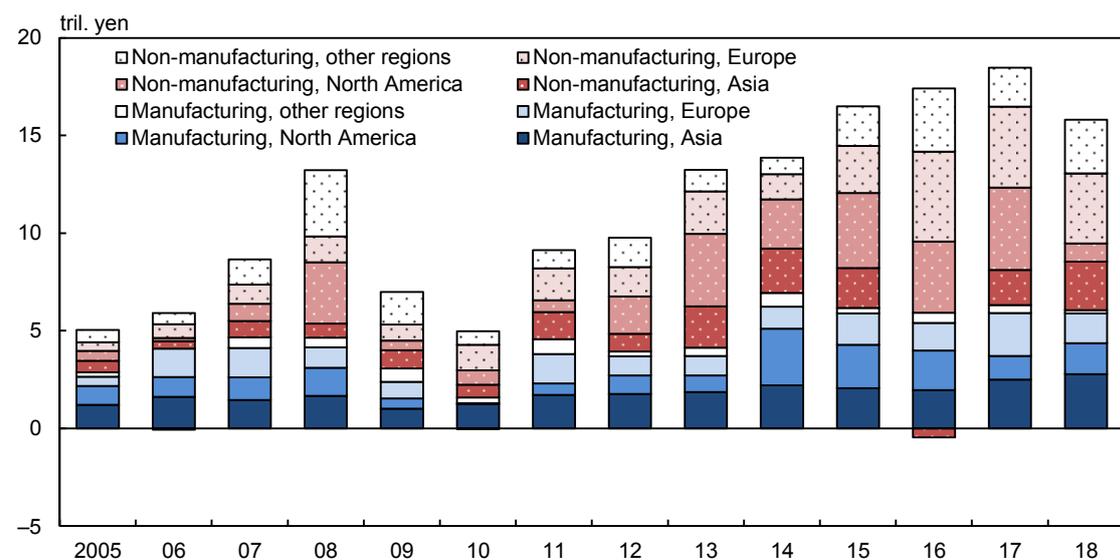
Net acquisitions of direct investment assets decreased to 17.6 trillion yen in 2018 from 19.5 trillion yen in 2017 due to a decline in net acquisitions of equity other than reinvestment of earnings.

By region and industry, net investments decreased, led by a decline in net investments in the non-manufacturing sector in North America.

**Figure 28: Direct Investment Assets**



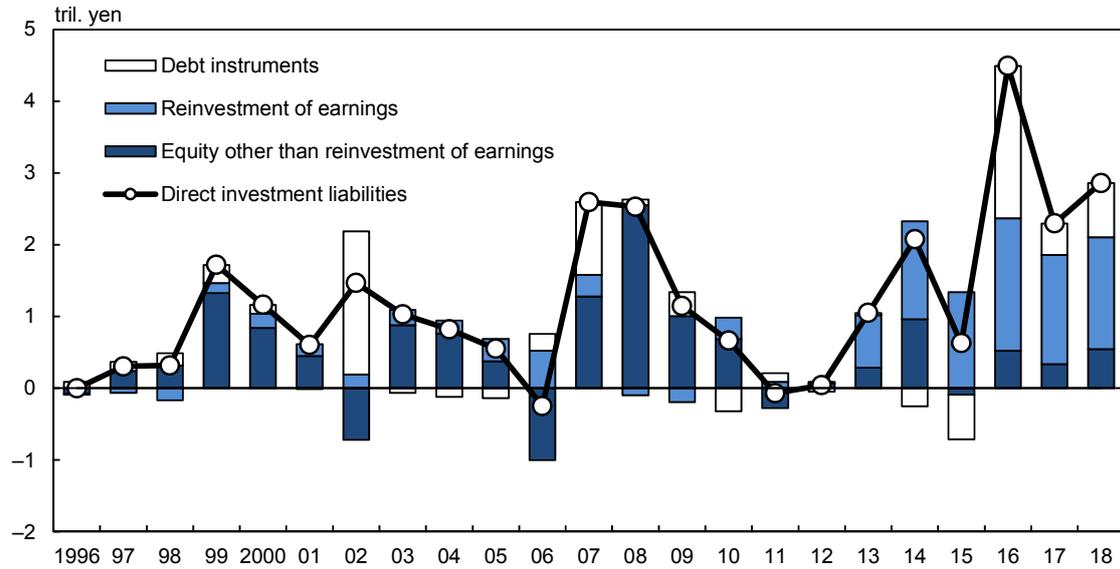
**Figure 29: Outward Direct Investment by Region and Industry**



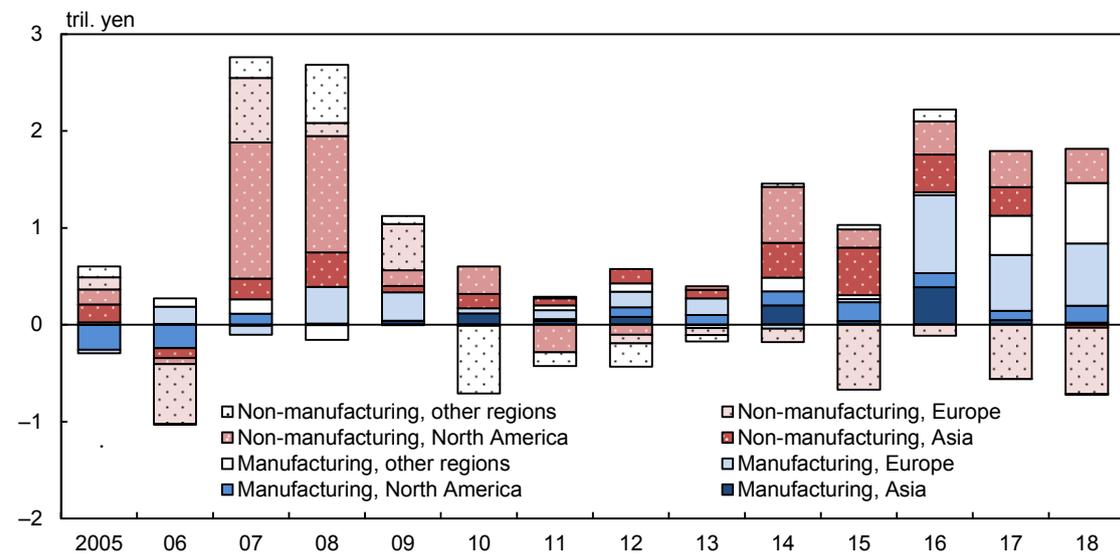
## B. Direct Investment Liabilities

Net incurrence of direct investment liabilities increased to 2.9 trillion yen in 2018 from 2.3 trillion yen in 2017, mainly due to a rise in the net incurrence of debt instruments.

**Figure 30: Direct Investment Liabilities**



**Figure 31: Inward Direct Investment by Region and Industry**

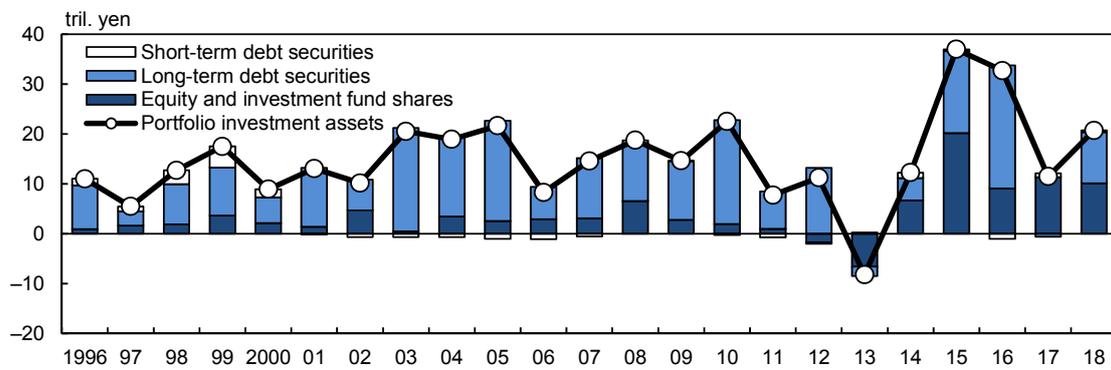


### C. Portfolio Investment Assets

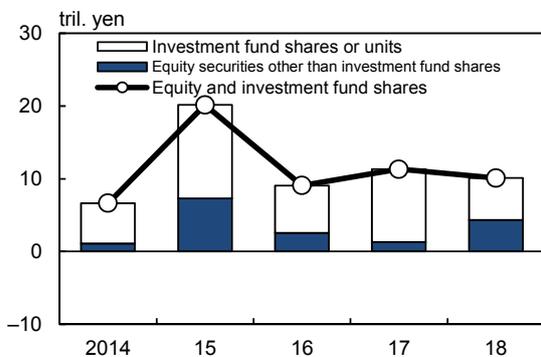
Net purchases of foreign securities by Japanese investors increased to 20.7 trillion yen in 2018 from 11.5 trillion yen in 2017, as long-term debt securities shifted to net purchases.

As for investment in foreign equity and investment fund shares, net purchases decreased due to a decrease in net purchases of investment fund shares or units. By region, net purchases of Central and South American securities (such as securities issued by companies residing in the Cayman Islands) decreased. Long-term debt securities shifted to net purchases, mainly because net sales by "deposit-taking corporations, except the central bank" decreased. By country, investment in French and other long-term debt securities by Japanese investors shifted to net purchases from net sales.

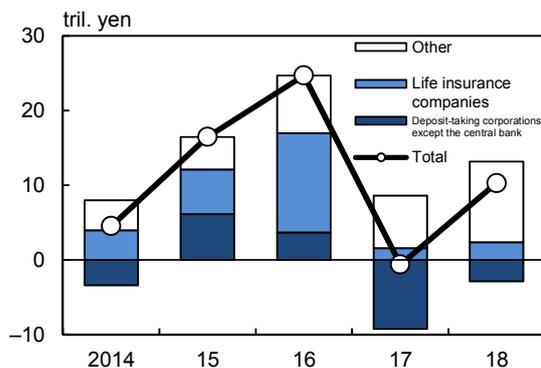
**Figure 32: Portfolio Investment Assets**



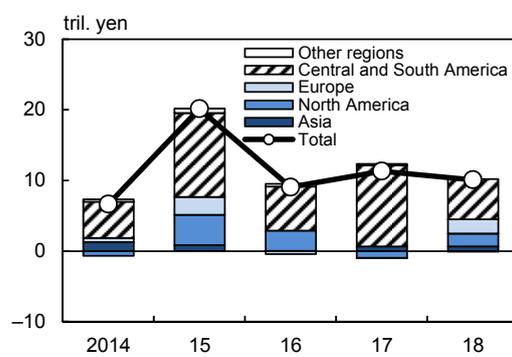
**Figure 33: Equity and Investment Fund Shares by Component (Assets)**



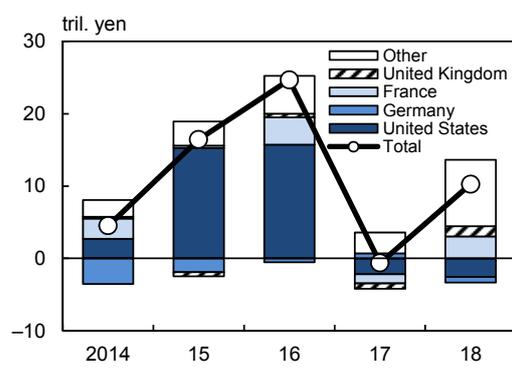
**Figure 35: Long-Term Debt Securities by Sector (Assets)**



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



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

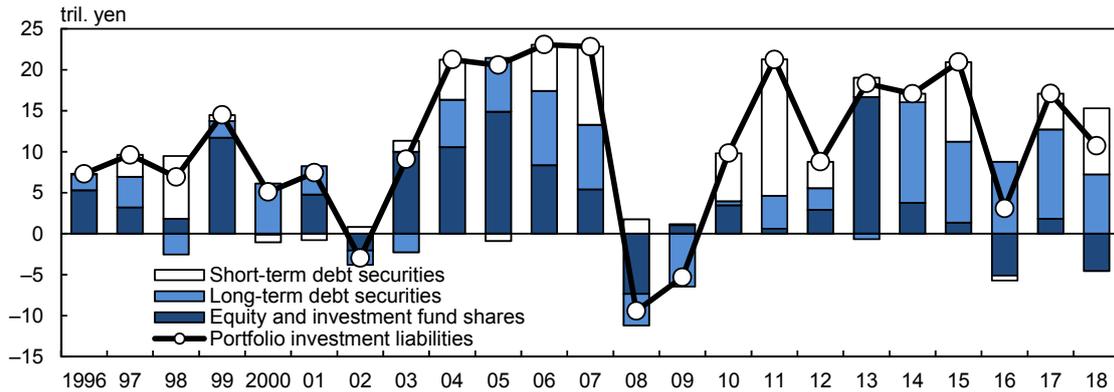


## D. Portfolio Investment Liabilities

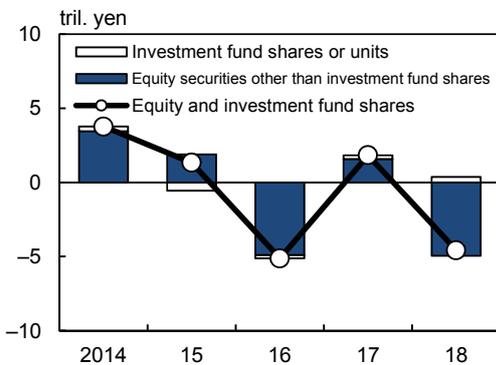
Net purchases of Japanese securities by foreign investors decreased to 10.7 trillion yen in 2018 from 17.1 trillion yen in 2017, mainly because investment in Japanese equity and investment fund shares shifted to net sales.

Investment in Japanese equity and investment fund shares shifted to net sales, as investment in equity securities other than investment fund shares shifted to net sales.

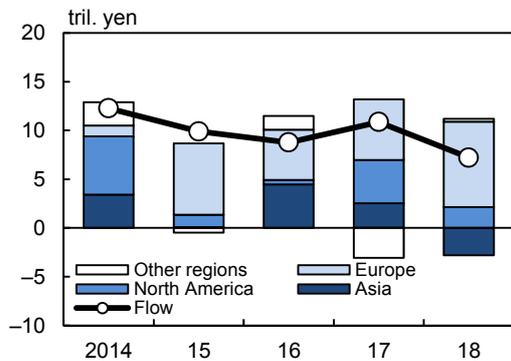
**Figure 37: Portfolio Investment Liabilities**



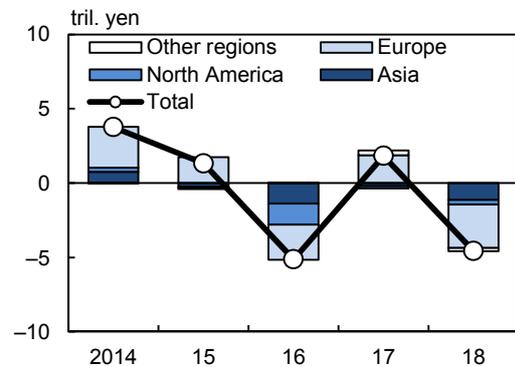
**Figure 38: Equity and Investment Fund Shares by Component (Liabilities)**



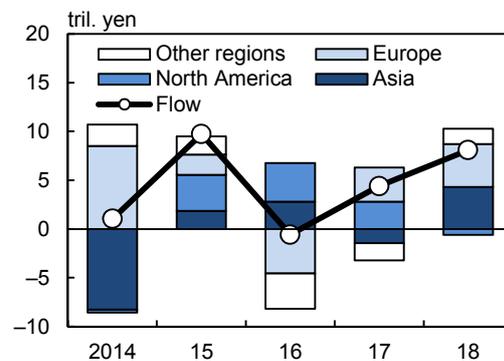
**Figure 40: Long-Term Debt Securities (Changes in Liabilities by Region)<sup>2</sup>**



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



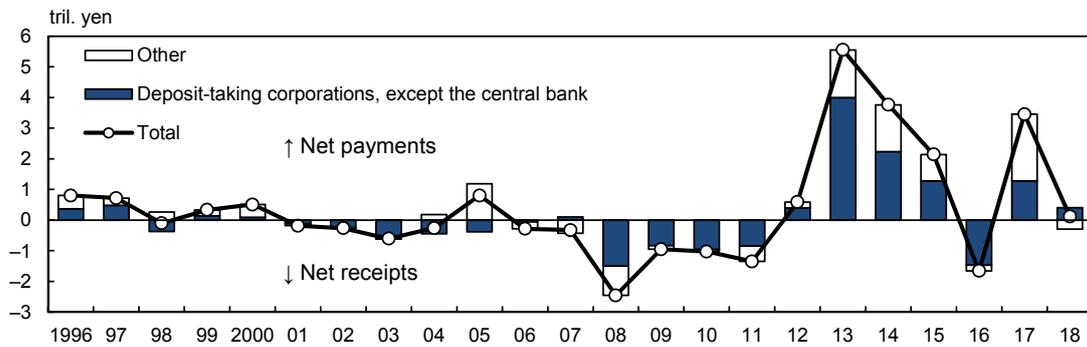
**Figure 41: Short-Term Debt Securities (Changes in Liabilities by Region)<sup>2</sup>**



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

Net payments of financial derivatives (other than reserves) decreased to 0.1 trillion yen in 2018 from 3.5 trillion yen in 2017, mainly because transactions in sectors other than "deposit-taking corporations, except the central bank" shifted to net receipts.

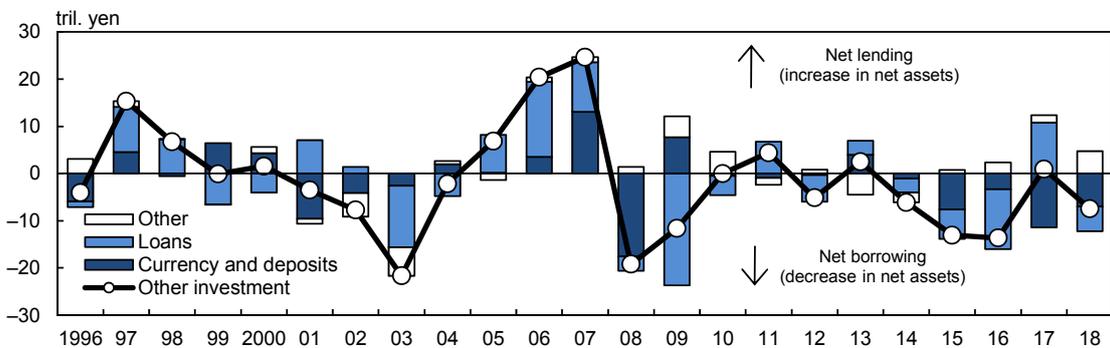
**Figure 42: Financial Derivatives (Other than Reserves) by Sector**



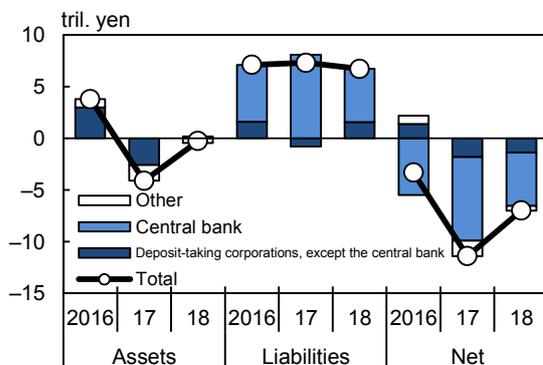
### F. Other Investment

Other investment turned to net borrowing of 7.5 trillion yen in 2018 from net lending of 0.9 trillion yen in 2017, as loans turned to net borrowing.

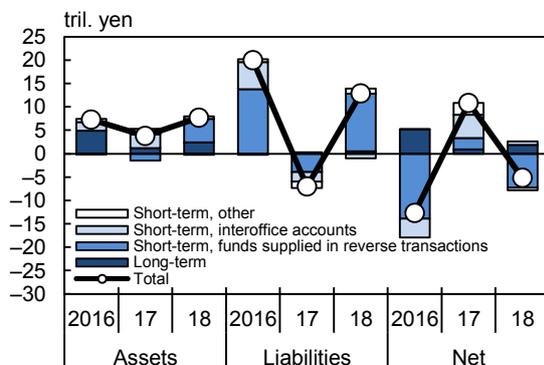
**Figure 43: Other Investment**



**Figure 44: Currency and Deposits**



**Figure 45: Loans**



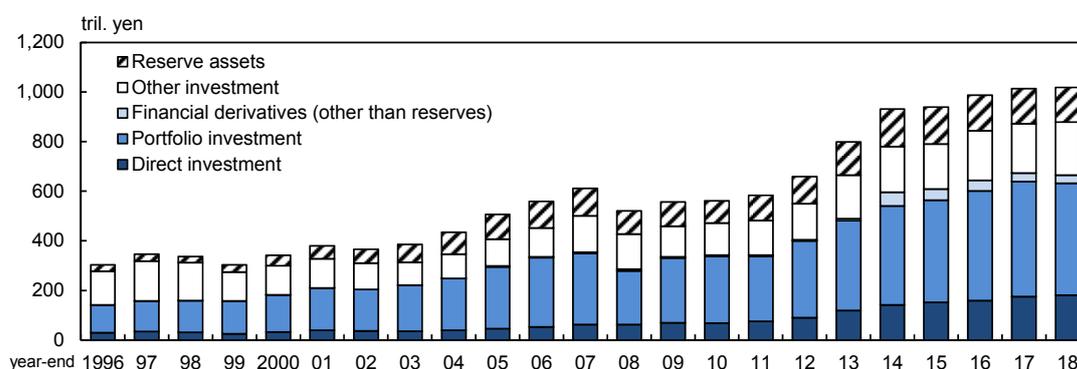
## V. Developments in Japan's IIP at Year-End 2018

### A. Summary

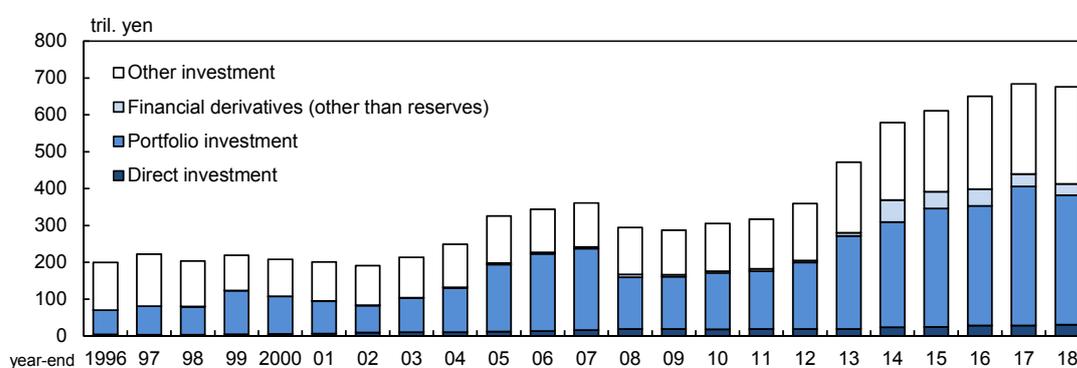
Japan's external financial assets increased to 1,018.0 trillion yen at year-end 2018 from 1,013.4 trillion yen at year-end 2017, mainly due to an increase in other investment assets. Japan's external liabilities decreased to 676.5 trillion yen at year-end 2018 from 684.1 trillion yen at year-end 2017, mainly due to a decrease in portfolio investment liabilities.

Japan's net asset position increased to 341.6 trillion yen at year-end 2018 from 329.3 trillion yen at year-end 2017, reflecting an increase in assets as well as a decrease in liabilities.

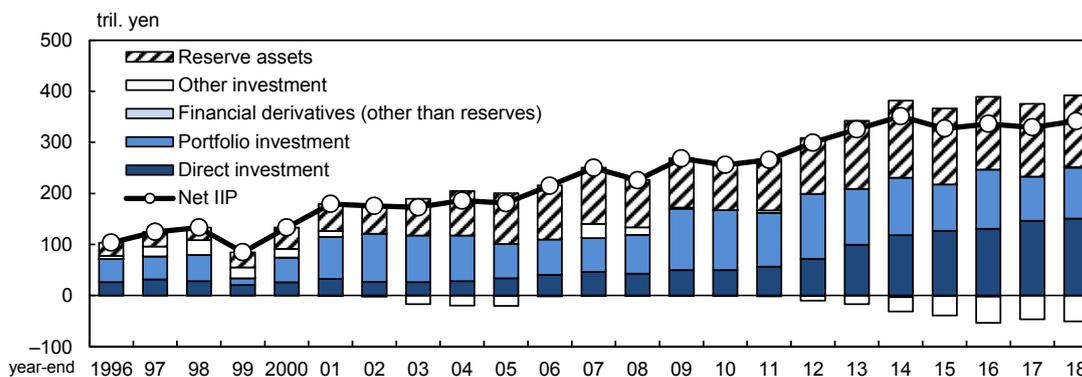
**Figure 46: Assets**



**Figure 47: Liabilities**



**Figure 48: Net IIP**

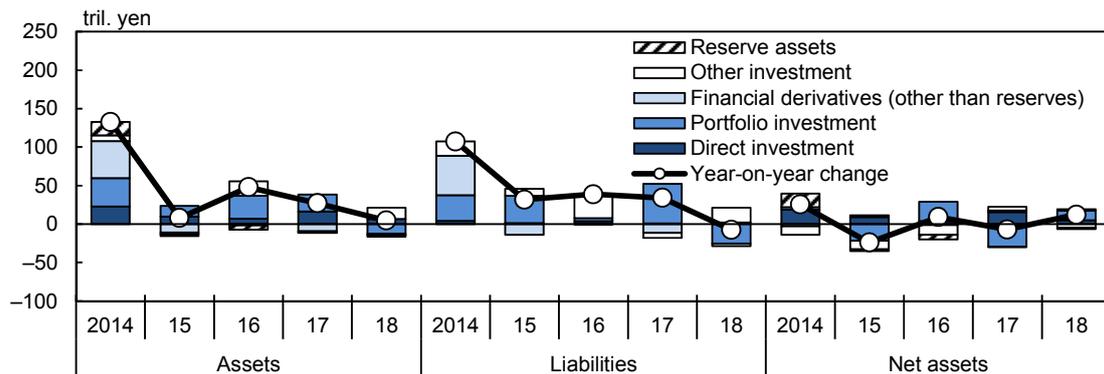


## B. Year-on-Year Changes in Japan's IIP

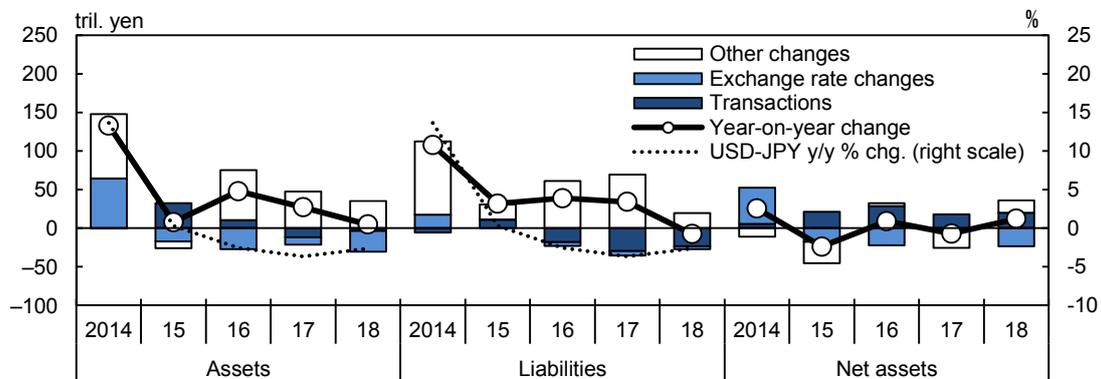
Looking at year-on-year changes in the IIP by component, net assets increased mainly reflecting a decrease in portfolio investment liabilities.

By factor, transactions made the largest contribution to the decrease in external liabilities, which in turn led to the increase in net assets. Meanwhile, looking at a breakdown of other changes, the decrease in external liabilities was led by a decline in the value of portfolio investment liabilities due to the drop in Japanese stock prices.

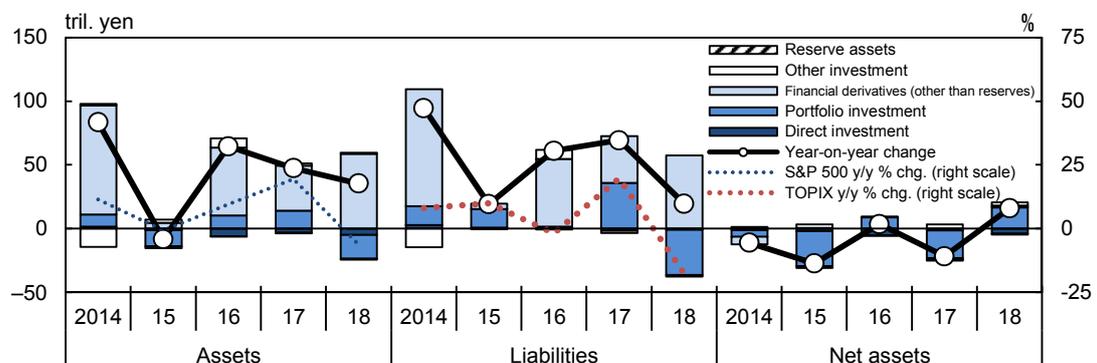
**Figure 49: Year-on-Year Changes in the IIP by Component**



**Figure 50: Year-on-Year Changes in the IIP by Factor<sup>3</sup>**



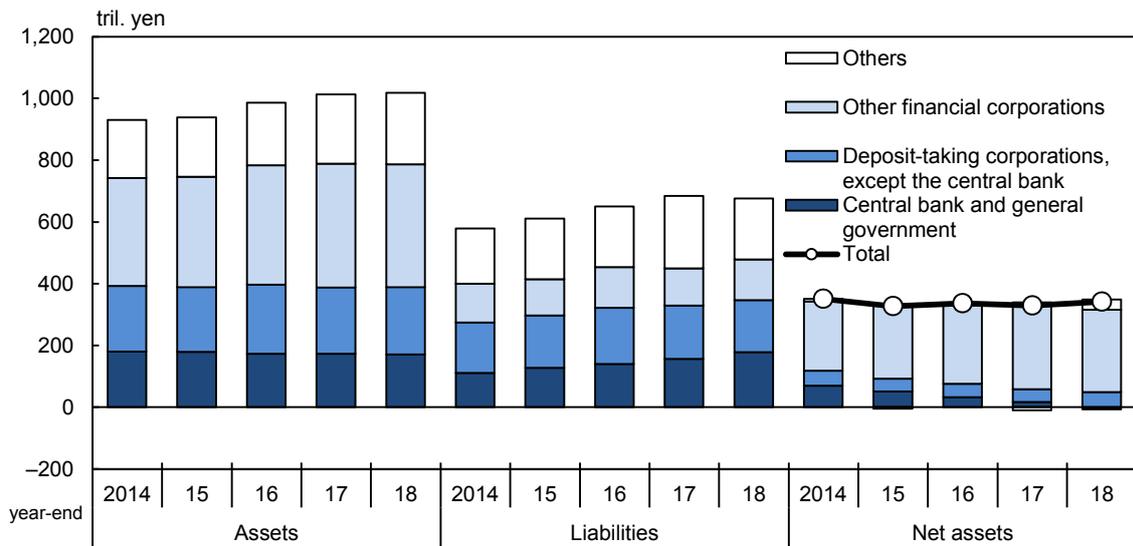
**Figure 51: Other Changes by Component**



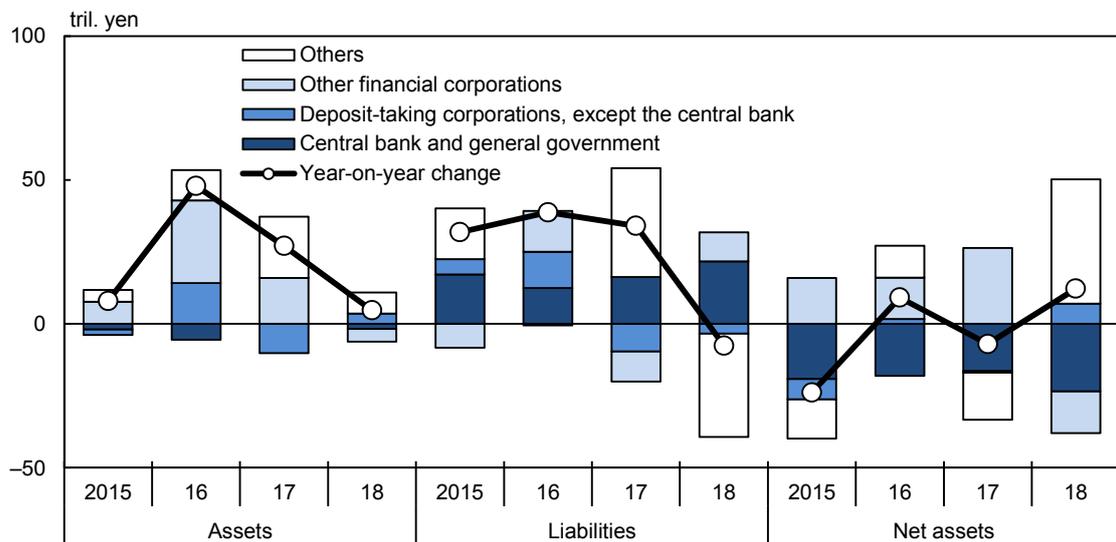
### C. Japan's IIP by Sector

Looking at year-on-year changes in the IIP by sector, the decline in liabilities of "others" made the largest contribution to the increase in net assets overall.

**Figure 52: IIP by Sector**



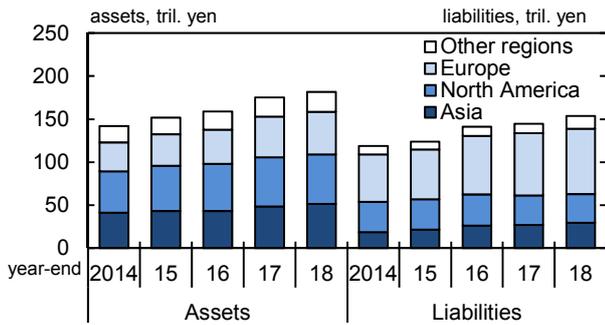
**Figure 53: Year-on-Year Changes in the IIP by Sector**



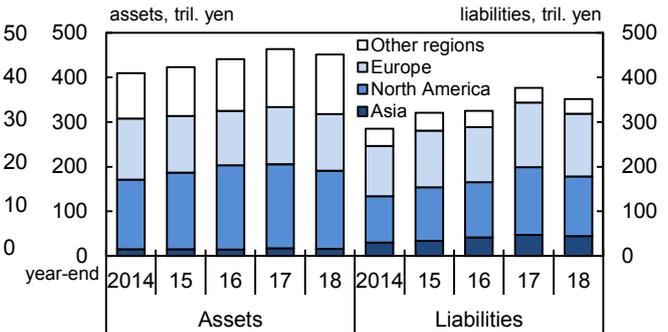
### D. Direct Investment Position and Portfolio Investment Position by Region

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

**Figure 54: Direct Investment Position by Region**



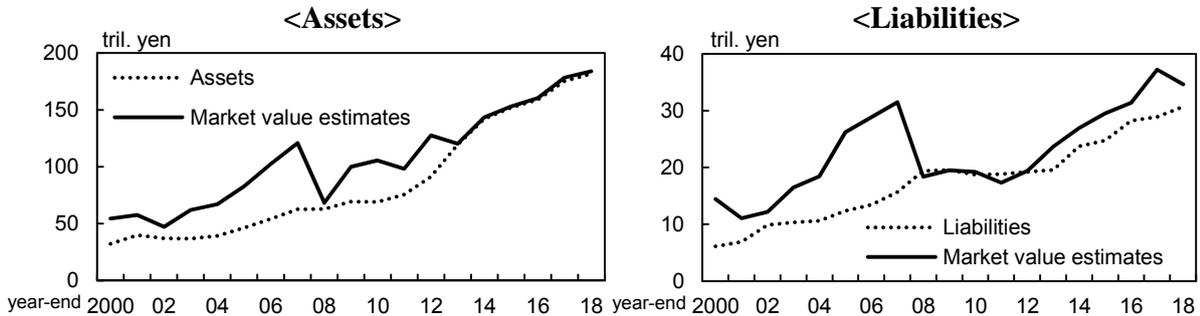
**Figure 55: Portfolio Investment Position by Region**



### E. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 183.9 trillion yen and 34.7 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 181.7 trillion yen and 30.7 trillion yen, respectively).

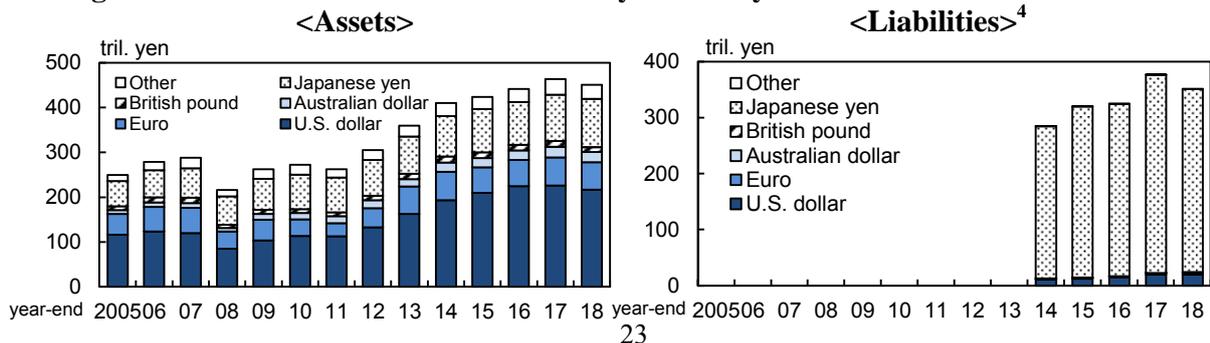
**Figure 56: Market Value Estimates of Direct Investment Position**



### F. Portfolio Investment Position by Currency

Looking at the portfolio investment position by currency, the decrease in portfolio investment assets was mainly due to a decrease in Japanese investors' holdings of U.S. dollar-denominated long-term debt securities, while the decrease in portfolio investment liabilities was mainly due to a decrease in overseas investors' holdings of yen-denominated equities.

**Figure 57: Portfolio Investment Position by Currency**

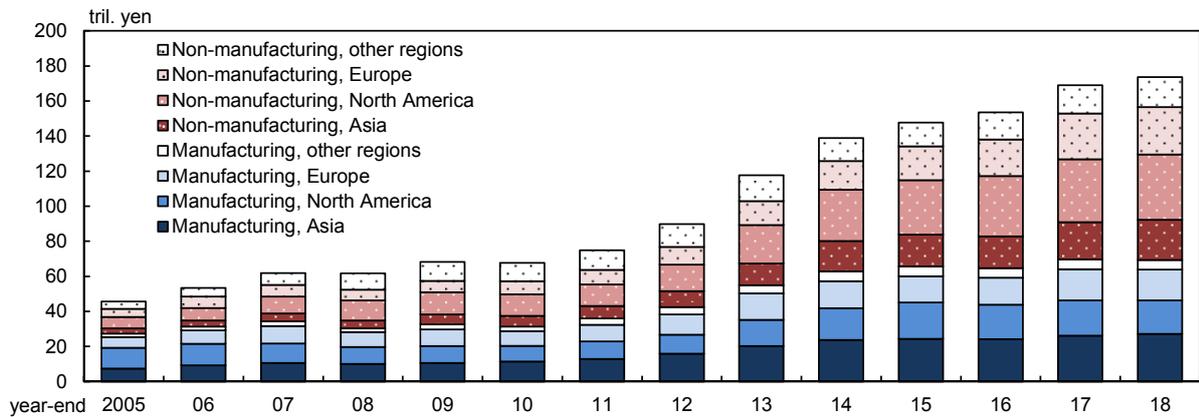


## G. Outward Direct Investment Position by Region and Industry

Looking at the outward direct investment position by region and industry, the investment position particularly in the non-manufacturing sector in Asia increased. By industry, the investment position in the manufacturing sector decreased in 2018 after an increase in 2017, while that in the non-manufacturing sector increased for the 13th year in a row since statistics started to be compiled.

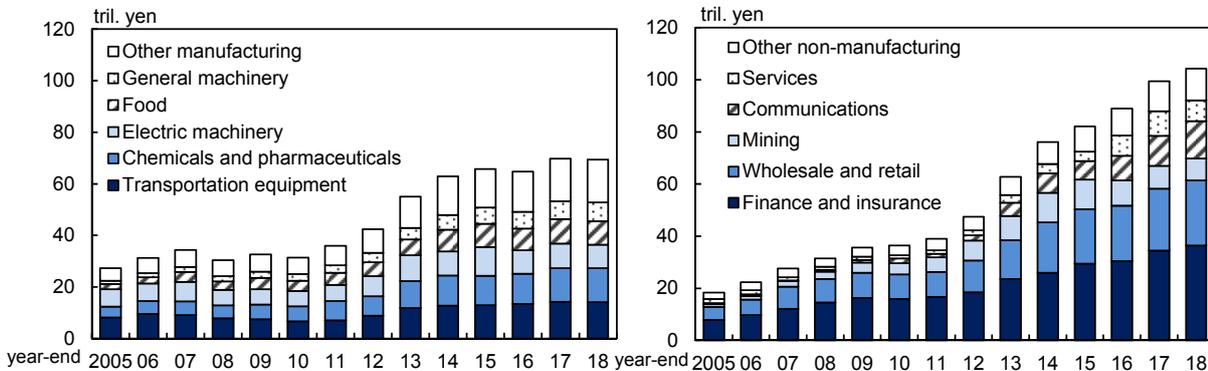
Looking at the rate of return, this was high in the manufacturing sector, particularly in Asia, whereas that in the non-manufacturing sector in regions such as North America was relatively low.

**Figure 58: Outward Direct Investment Position by Region and Industry**



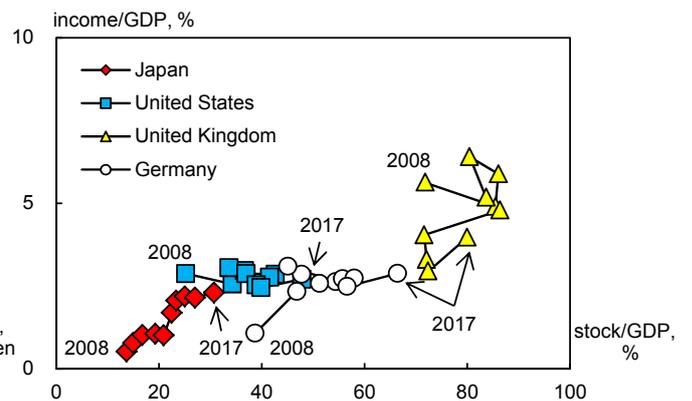
**Figure 59: Manufacturing Investment Position**

**Figure 60: Non-Manufacturing Investment Position**



**Figure 61: Investment Position and Income by Region and Industry for 2018**

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



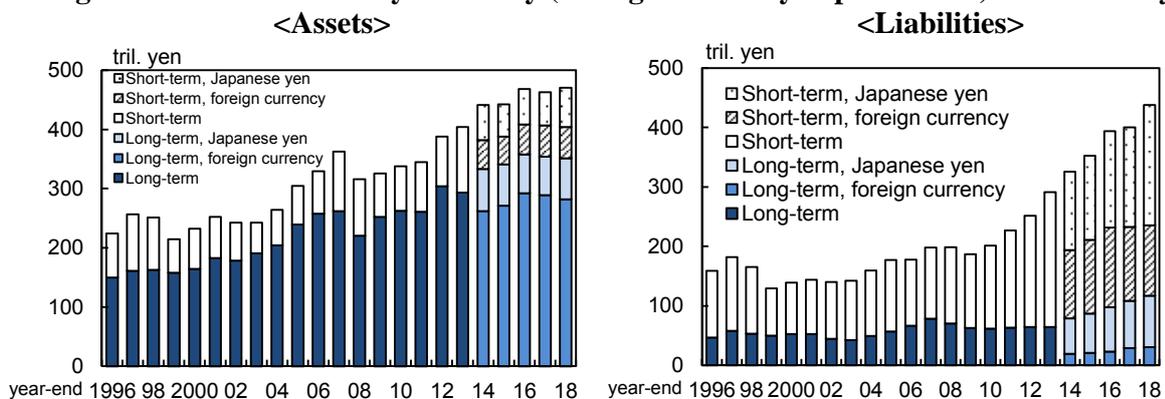
Source: IMF.

## H. Debt Position (Assets/Liabilities) by Currency<sup>5</sup>

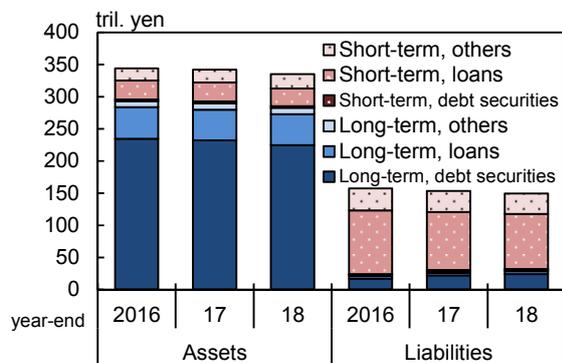
Looking at the debt position by currency in terms of foreign currency and Japanese yen, the increase in assets mainly reflected a rise in short-term yen-denominated assets, while the increase in liabilities mainly reflected a rise in short-term yen-denominated liabilities. Looking at foreign currency-denominated assets and liabilities by component, assets decreased mainly due to a decline in long-term debt securities, while liabilities decreased mainly due to a decline in short-term loans.

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

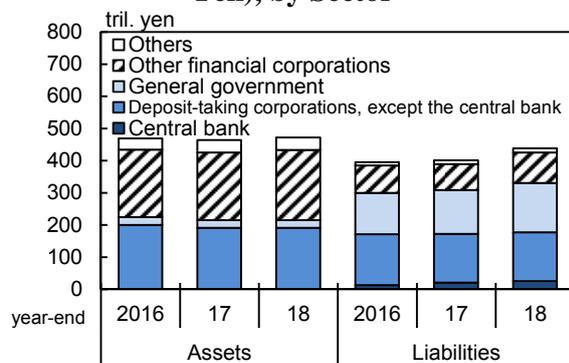
**Figure 62: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity<sup>6</sup>**



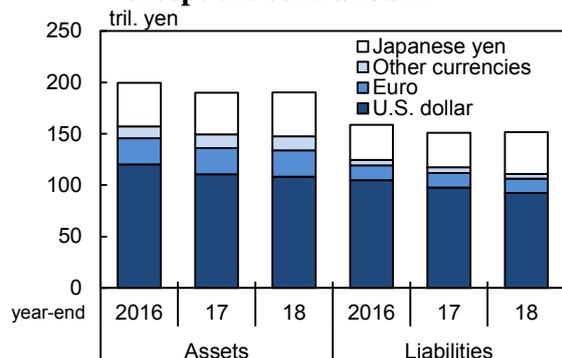
**Figure 63: Foreign Currency-Denominated Debt Position by Component**



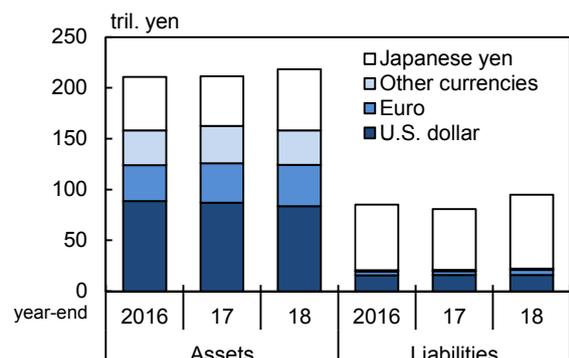
**Figure 64: Debt Position by Currency (Foreign Currency/Japanese Yen), by Sector**



**Figure 65: Debt Position by Currency <Deposit-taking corporations, except the central bank>**



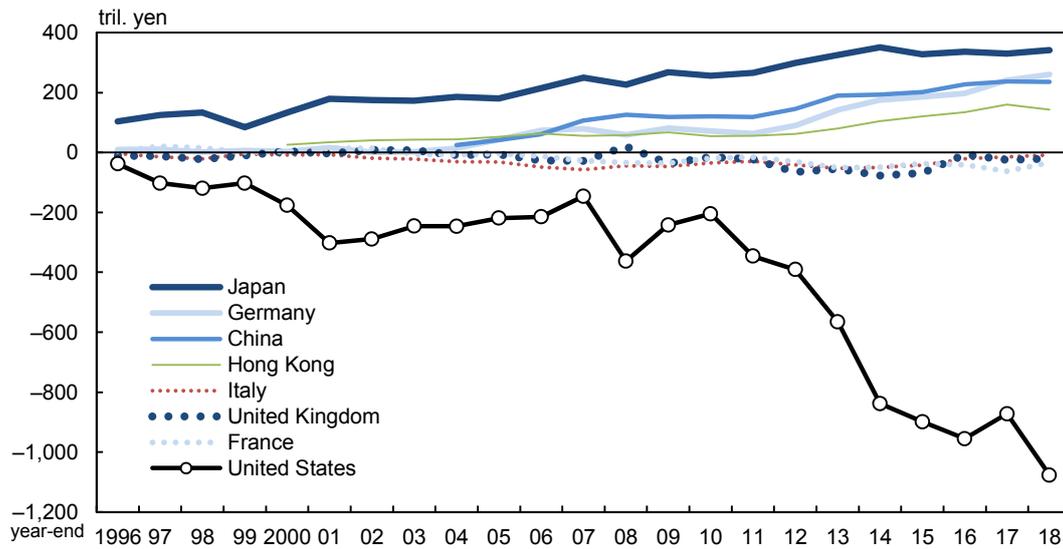
**<Other financial corporations>**



## I. International Comparison of Net IIP

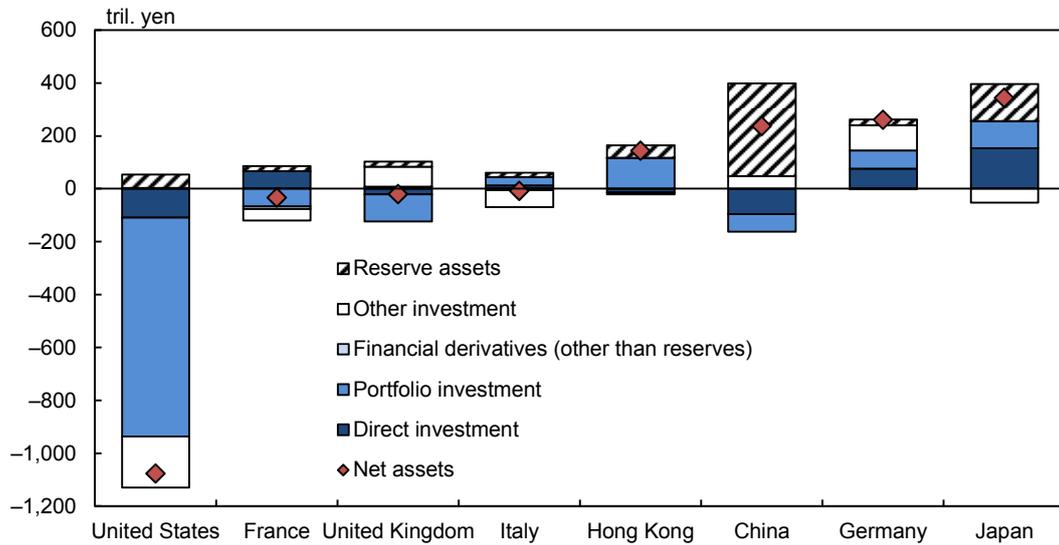
Among major countries that release IIP data, Japan at year-end 2018 continued to record the largest net asset position, which amounted to 341.6 trillion yen.

**Figure 66: International Comparison of Net IIP (Time Series)**



Source: IMF.

**Figure 67: International Comparison of Net IIP at Year-End 2018**



Source: IMF.

## VI. 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> Year-on-year changes in the IIP by factor before 2018 do not add up due to annual revisions.
- <sup>4</sup> Figures for the portfolio investment position (liabilities) by currency have been released starting with those for year-end 2014.
- <sup>5</sup> Figures in the Debt Position (Assets/Liabilities) by Currency (Foreign Currency/Japanese Yen) and Debt Position (Assets/Liabilities) by Currency include debt instruments under "portfolio investment" and "other investment." That is, equity instruments are excluded.
- <sup>6</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*."

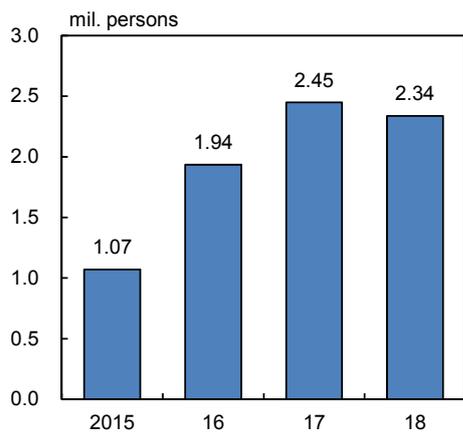
Long-term: debt securities (long-term); loans (long-term); trade credit and advances (long-term); other accounts receivable/payable (long-term); and special drawing rights.

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).

## Appendix 1. Start of Recording of Foreign Cruise Travelers' Expenditure in Travel

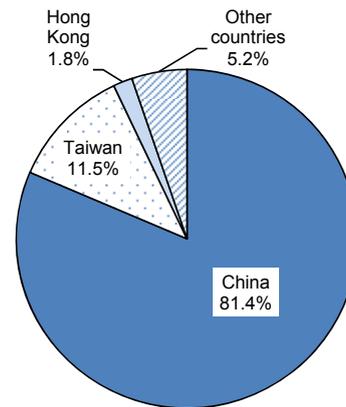
In recent years, amid the increasing range of foreign visitors to Japan, in addition to the number of visitors arriving by plane (hereafter "general visitors"), there has been an increasing trend in the number of foreign visitors coming to Japan on cruise ships (hereafter "cruise passengers"), particularly from China.

**Appendix Figure 1.1:**  
Number of Cruise Passengers



Source: Ministry of Justice, *Statistics on Legal Migrants*.

**Appendix Figure 1.2:**  
Share of Cruise Passengers by Country, 2018



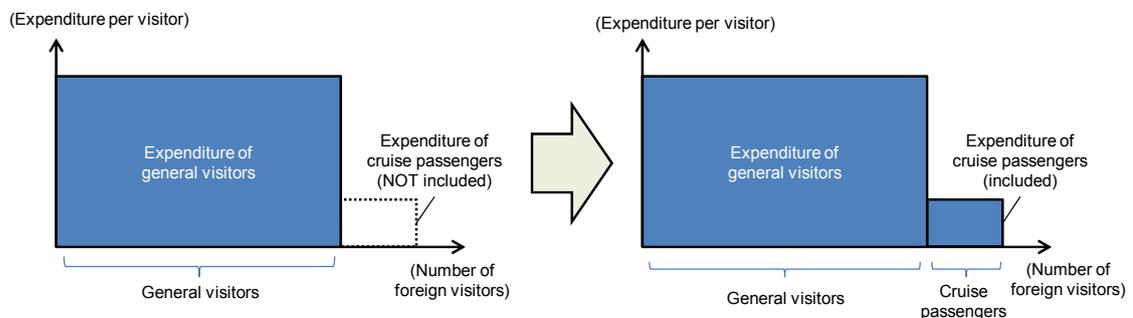
Source: Ministry of Justice, *Statistics on Legal Migrants*.

Against this background, the Japan Tourism Agency expanded the coverage of the *International Visitor Survey* (hereafter "the Survey") and started to publish figures on the travel expenditure of cruise passengers last year. Given this, the Ministry of Finance and the Bank started to record the travel expenditure of cruise passengers under receipts in travel in Japan's BOP statistics, commencing with figures for January 2018.<sup>1</sup>

**Appendix Figure 1.3: Composition of Travel (Receipts)**

<Previously>

<After the Start of the Recording of Cruise Passengers' Expenditure>

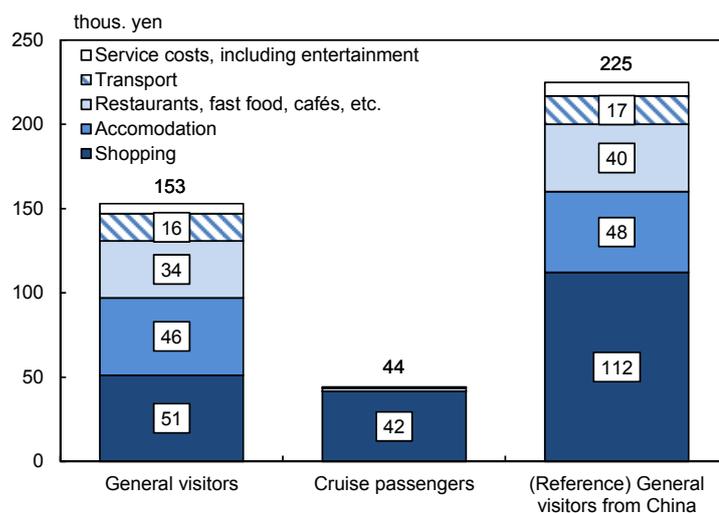


<sup>1</sup> Specifically, expenditure of cruise passengers started to be recorded in the preliminary figures for August 2018, in the second preliminary figures for April 2018, and in the annually revised figures for January 2018.

According to the Survey, travel expenditure per foreign visitor in the case of cruise passengers, at around 40 thousand yen, is small compared to that of general visitors, which is around 150 thousand yen on average. Taking into account the share of cruise passengers in total foreign visitors to Japan -- which stood at 8.3 percent in 2018, according to the *Statistics on Legal Migrants* -- inclusion of the expenditure of cruise passengers is likely to have only a limited impact on the travel balance overall, although this will contribute to an increase in travel receipts.

While the expenditure per visitor of general visitors from China is relatively high, the expenditure per visitor of cruise passengers -- most of whom are from China -- is relatively low. Reasons that have been pointed out include the following: (1) usually, expenses for accommodation, food and beverages, and other such services provided on cruise ships are already included in cruise fares (which fall outside travel);<sup>2</sup> and (2) the length of cruise passengers' stay in each port of call is short.

**Appendix Figure 1.4: Travel Expenditure per Foreign Visitor to Japan, 2018**



Source: Japan Tourism Agency, *International Visitor Survey*.

<sup>2</sup> While cruise fares to Japan are recorded under transport if the cruise operator is Japanese, they are not recorded in Japan's BOP statistics if the cruise operator is from abroad, since in this case they represent transactions between nonresidents.

## Appendix 2. Developments in Other Services

Despite the shift in travel to a surplus in recent years, services continue to register an overall deficit. The main reason for this is the deficit on "other services" (see Figure 10 in the main text). This appendix provides an overview of "other services," which is generally regarded as difficult to understand, and examines factors underlying the continued deficit.

"Other services" comprises all services other than travel and transport and can be broadly broken down into 10 components.<sup>3</sup>

**Appendix Figure 2.1: Components of Other Services**

bil. yen		Components	Transactions
1.		Manufacturing services on physical inputs owned by others (-474.5)	Services that are associated with the processing, assembly, etc. of goods commissioned by the resident owner of goods to nonresidents and by the nonresident owner of goods to residents.
2.		Maintenance and repair services n.i.e. (-496.8)	Services that are associated with the maintenance and repair of goods commissioned by the resident owner of goods to nonresidents and by the nonresident owner of goods to residents.
3.		Construction (+119.1)	Services that are associated with construction work abroad undertaken by residents and such work undertaken by nonresidents in Japan.
4.		Insurance and pension services (-518.0)	Insurance and pension services as well as auxiliary services to those services.
5.		Financial services (+367.0)	Financial intermediary and auxiliary services.
6.		Charges for the use of intellectual property n.i.e. (+2,622.0)	(1) Charges for the use of industrial property n.i.e. (+3,510.1)
			(2) Charges for the use of copyrights n.i.e. (-888.1)
7.		Telecommunications, computer, and information services (-1,238.0)	Services related to information technology.
8.		Other business services (-2,859.0)	(1) Research and development (R&D) services (-1,441.4)
			(2) Professional and management consulting services (-547.8)
			(3) Technical, trade-related, and other business services (-869.8)
9.		Personal, cultural, and recreational services (-3.3)	Services for individuals as well as services related to cultural and recreational activities.
10.		Government goods and services n.i.e. (+300.7)	The expenditures of embassies, consulates, and military bases as well as service transactions of governments or international organizations that are not included in other categories.

Note: Figures in parentheses indicate net balances in 2018 (+: surplus, -: deficit).

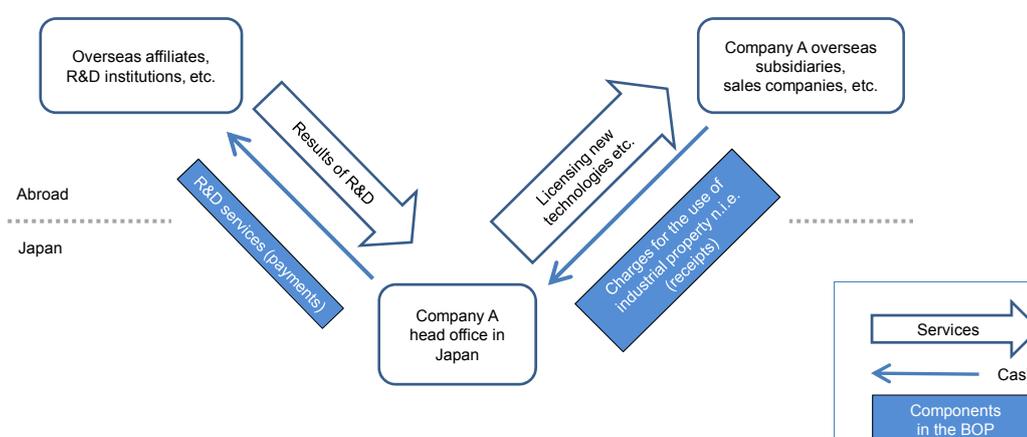
<sup>3</sup> For "charges for the use of intellectual property n.i.e." and "other business services," which make up a large share of "other services," developments in each of the subcomponents are examined.

## (1) Link to the Globalization of Japan's Manufacturing Sector

Among the components of other services, in addition to "charges for the use of industrial property n.i.e.," components such as "R&D services," "manufacturing services on physical inputs owned by others," and "maintenance and repair services n.i.e." are closely linked to the globalization of Japan's manufacturing sector.

In recent years, Japan's manufacturing sector has outsourced not only production activities overseas but also R&D activities. Moreover, in industries such as pharmaceuticals, there are cases in which Japanese firms make payments for R&D expenses to overseas firms that have become affiliates through M&As. At the same time, the results of R&D activities in Japan are extended to overseas affiliates in the form of new products and production processes, for which Japanese firms receive funds by charging royalties ("charges for the use of industrial property n.i.e.") as compensation.

**Appendix Figure 2.2: Link between R&D Services (Payments) and Charges for the Use of Industrial Property n.i.e. (Receipts)**



Moreover, components such as "manufacturing services on physical inputs owned by others" and "maintenance and repair services n.i.e." include the outsourcing by Japanese manufacturing firms of processing and assembly work, as well as of after-sales services such as repairs to overseas subsidiaries and the like; therefore, globalization tends to result in an increase in payments overseas under these components.

## (2) Growing Use of IT-Related Services

Meanwhile, "telecommunications, computer, and information services" and "charges for the use of copyrights n.i.e." -- components that apart from the ones mentioned in Section (1) make up a large share of "other services" -- are closely linked to firms' growing use of information technology (IT).

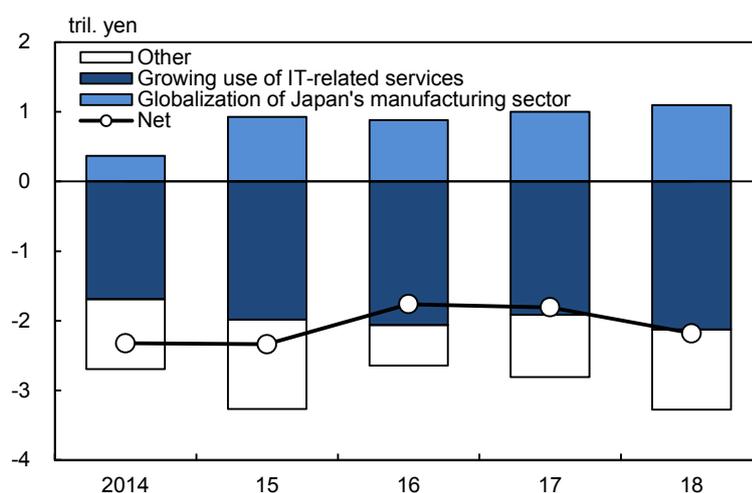
Payments for "telecommunications, computer, and information services" largely consist of payments by IT firms for the outsourcing of development to their overseas operations. "Charges for the use of copyrights n.i.e." primarily consists of royalty payments for software.

Therefore, payments under these components are likely to increase as Japanese firms increase their use of overseas IT-related services.

## (3) Overall Pattern regarding Developments in Other Services

Based on the above characteristics, the overall pattern regarding the recent trend in figures for other services is as follows: (1) amid the advancing globalization of Japan's manufacturing sector, receipts of royalties and other charges from abroad operate in the direction of an overall surplus in other services; (2) however, these are outweighed by payments for IT-related services to overseas firms, so that the balance is in deficit.

**Appendix Figure 2.3: Developments (by Factor) in Other Services (Net)**



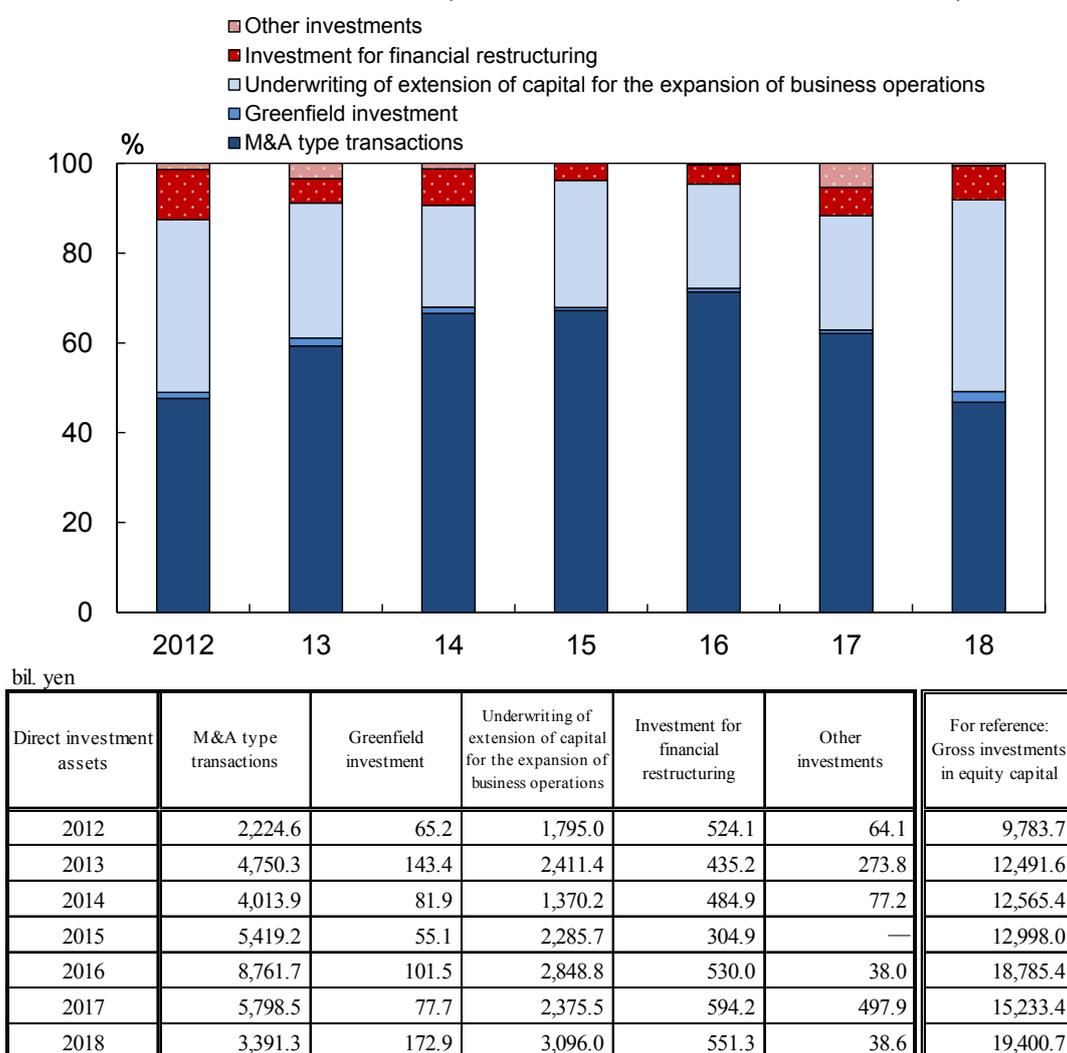
Note: For the analysis in this appendix, components of other services are categorized as follows.

Factors	Components
Globalization of Japan's manufacturing sector	(1) Manufacturing services on physical inputs owned by others; (2) maintenance and repair services n.i.e.; (3) charges for the use of industrial property n.i.e.; and (4) R&D services.
Growing use of IT-related services	(1) Charges for the use of copyrights n.i.e. and (2) telecommunications, computer, and information services.
Other	(1) Construction; (2) insurance and pension services; (3) financial services; (4) professional and management consulting services; (5) technical, trade-related, and other business services; (6) personal, cultural, and recreational services; and (7) government goods and services n.i.e.

### Appendix 3. Developments in Direct Investment by Type of Investment<sup>4,5,6</sup>

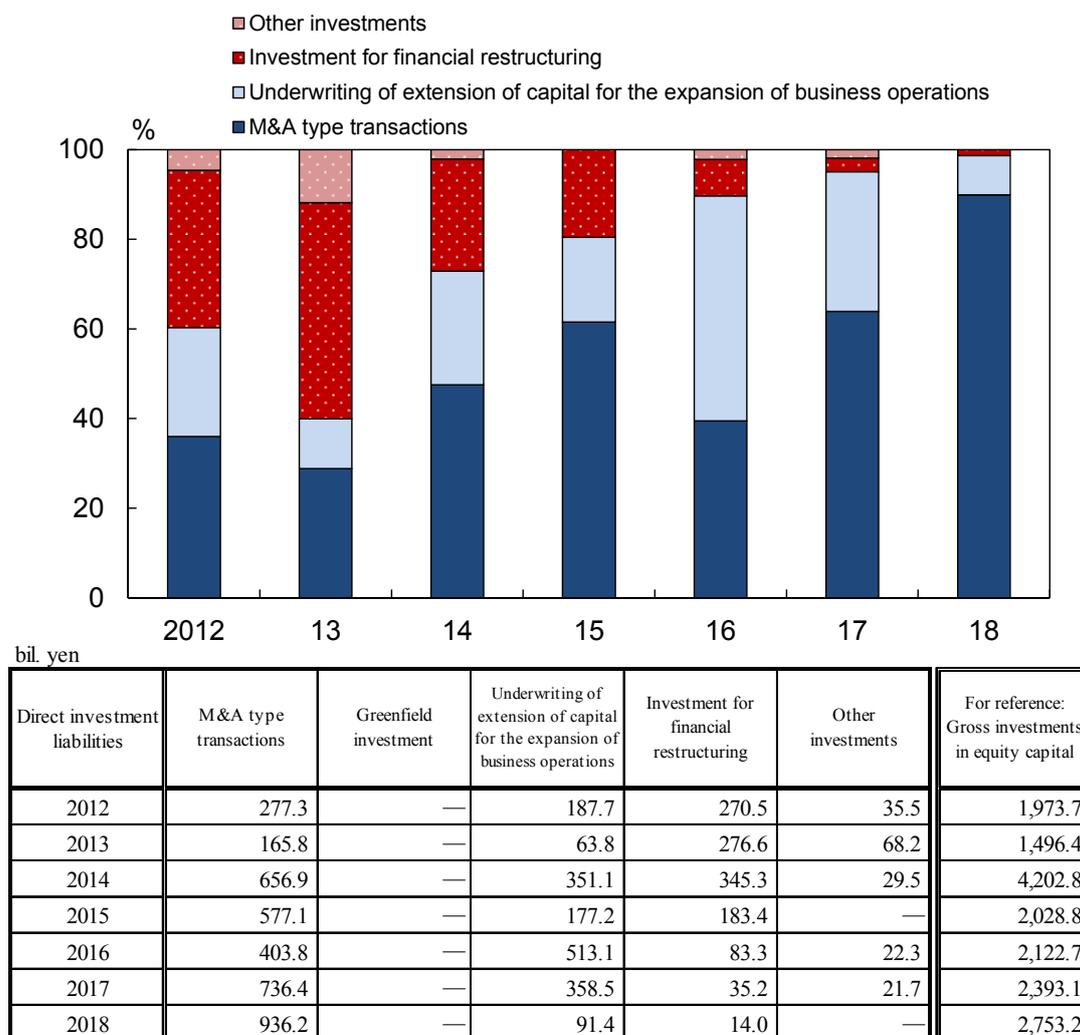
Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, M&A type transactions consisting of the acquisition of foreign firms by Japanese firms as well as underwriting of extension of capital for the expansion of overseas business operations accounted 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 3.1: Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)**



Transactions in direct investment liabilities continued to be low compared to those in direct investment assets. A breakdown by type of investment shows that M&A type transactions accounted for a large share.

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



<sup>4</sup> In accordance with the *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.

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

<sup>6</sup> 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.