Japan's Balance of Payments Statistics and International Investment Position for 2019

August 2020
International Department
Bank of Japan

This report is an English translation of the Japanese original released on July 8, 2020.

Japan's balance of payments statistics for 2019 -- the annually revised figures for the first through the third quarter of 2019 and the second preliminary figures for the fourth quarter of 2019 -- were released on April 8, 2020, by the Ministry of Finance and the Bank of Japan in the *Balance of Payments*.

Japan's international investment position at year-end 2019 was released on May 26, 2020, by the Ministry of Finance and the Bank as the *International Investment Position of Japan (End of 2019)*.

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Contents

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.

- In the Direct Investment by Region and Industry statistics, figures for investment flows and the investment position are compiled based on the directional principle, while those for investment income are 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 (hereafter the Foreign Exchange 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 annually releases a 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, including data underlying the figures in this report (data on Direct Investment by Region and Industry are provided in file format on the Bank's website). Information on the BOJ Time-Series Data Search as well as a list of the series codes of data used in this report are provided together with this report under "Statistical Reports and Supplementary Materials" on the Balance of Payments page of the Bank's website.

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. 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.

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(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

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)." In this report, if the net acquisition of financial assets minus the net incurrence of financial liabilities in the financial account is positive, this will be referred to as "net lending," and if it is negative, this will be referred to as "net borrowing." By definition, the following identity holds:

> Current account balance + Capital account balance – Financial account balance + Net errors and omissions = 0

In terms of the aforementioned examples, this means:

> Current account balance (+70) + Capital account balance (0) – 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."

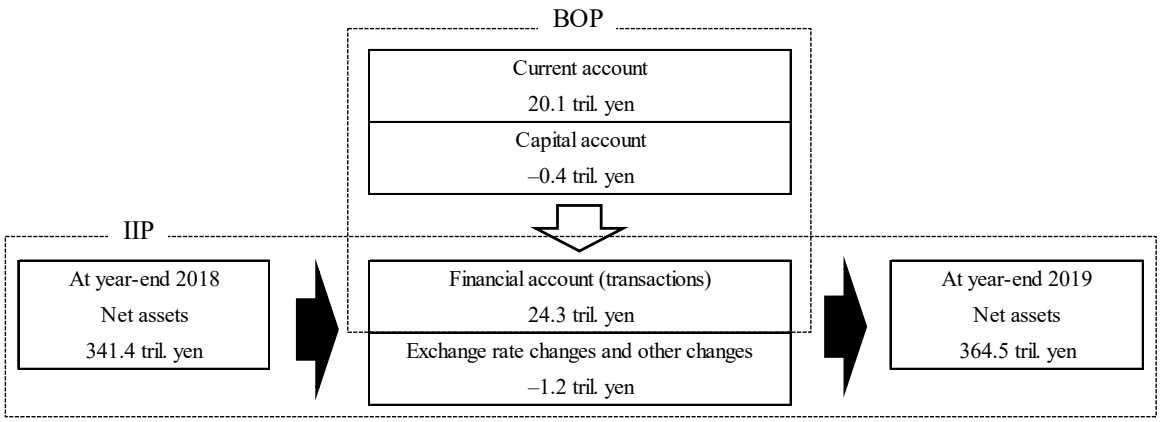
II. Developments in Japan's BOP and IIP for 2019

Overall developments

The overall current account surplus increased. Although the surplus on goods decreased due to a decline in exports reflecting the slowdown in overseas economies, the balance on services turned to a surplus, while primary income continued to register a stable surplus. Japan's financial account registered net lending, mainly due to net lending under direct investment. Japan's IIP registered an increase in net assets reflecting transactions in the financial account (particularly direct investment).

Figure 1: Japan's BOP and IIP for 2019

Overall Developments



BOP (Flows)

tril. yen

	2018	2019	y/y chg.
Current account	19.4	20.1	+0.7
Goods	1.1	0.4	–0.7
Services	–1.0	0.1	+1.1
Primary income	21.3	21.0	–0.3
Secondary income	–2.0	–1.4	+0.6
Capital account	–0.2	–0.4	–0.2
Financial account	20.0	24.3	+4.3
Direct investment	14.8	23.1	+8.3
Portfolio investment	10.1	9.3	–0.7
Financial derivatives (other than reserves)	0.1	0.4	+0.3
Other investment	–7.6	–11.3	–3.7
Reserve assets	2.7	2.8	+0.1
Net errors and omissions	0.8	4.6	—

IIP (Stocks)

tril. yen

		Assets			Liabilities		
		Year-end 2018	Year-end 2019	y/y chg.	Year-end 2018	Year-end 2019	y/y chg.
Total		1,018.0	1,097.7	+79.7	676.6	733.2	+56.6
	Direct investment	181.9	202.8	+21.0	30.7	33.9	+3.2
	Portfolio investment	450.9	503.1	+52.2	351.2	396.3	+45.1
	Financial derivatives (other than reserves)	32.1	34.3	+2.2	30.7	33.3	+2.6
	Other investment	212.8	212.9	+0.1	264.0	269.7	+5.7
	Reserve assets	140.3	144.5	+4.2	—	—	—
Net assets		341.4	364.5	+23.1			

Developments in major components of the BOP

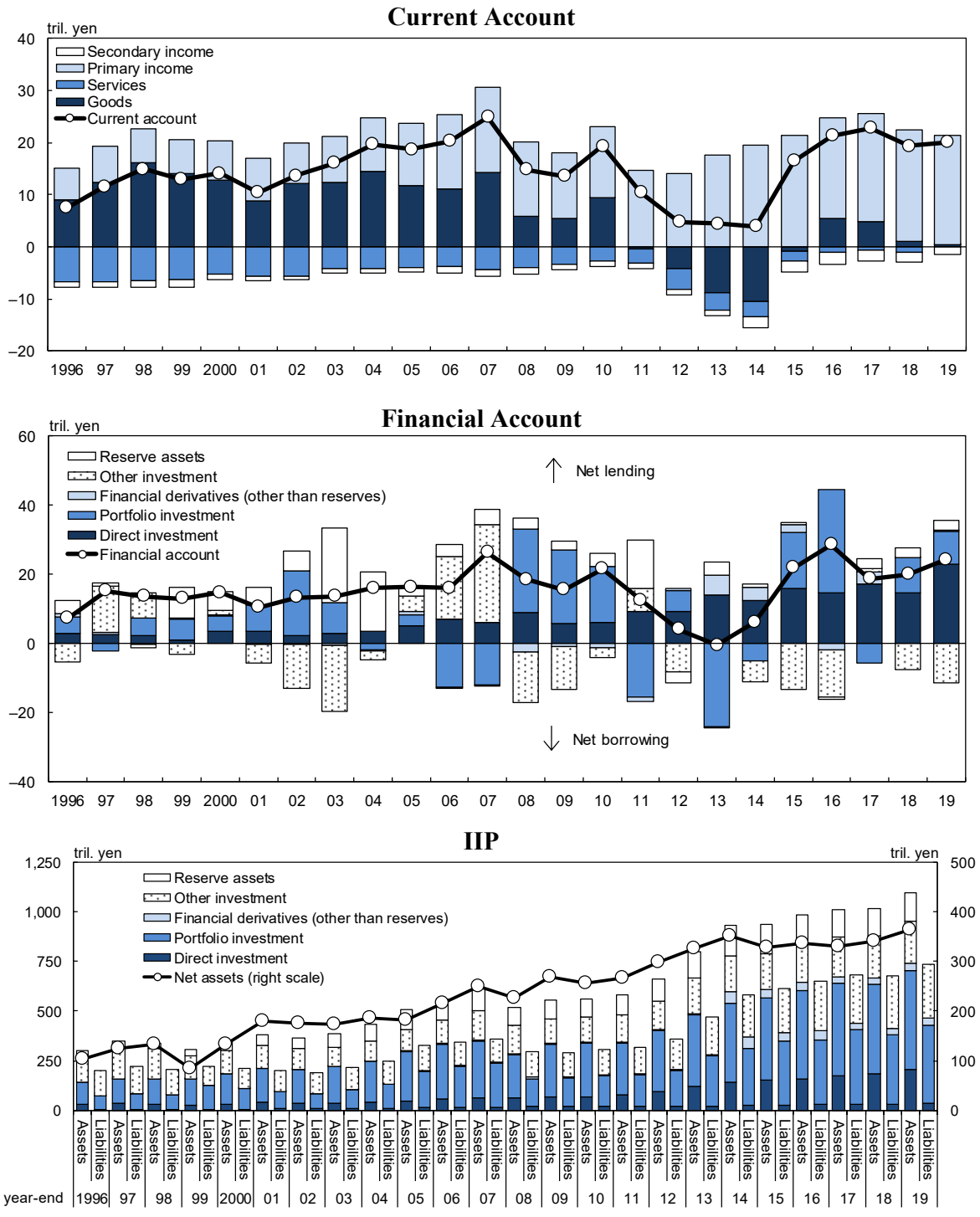
- The current account surplus increased.
    - The surplus on goods decreased as the decline in exports exceeded that in imports.
    - The balance on services registered a surplus for the first time since 1996, from when comparable data are available. In addition to an increase in the surplus on travel, this reflects the decline in the deficits on "other services" and transport. 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.
    - The surplus on primary income was more or less unchanged from the previous year. The surplus on direct investment income marked a record high since 1996, from when comparable data are available, primarily reflecting a rise in dividend receipts, particularly from overseas subsidiaries.
- The financial account registered net lending.
    - Net direct investment registered the largest net lending on record. Net acquisitions of direct investment assets also marked a record high, mainly due to active mergers and acquisitions (M&As) by Japanese firms.
    - Net portfolio investment registered net lending. Net purchases of foreign securities by Japanese investors decreased, mainly due to a decline in net purchases of foreign equity and investment fund shares. Meanwhile, net purchases of Japanese securities by foreign investors remained essentially unchanged from the previous year.

Developments in Japan's IIP

- Japan's IIP registered an increase in net assets.
    - Assets increased, mainly due to an increase in portfolio investment assets.
    - Liabilities increased, mainly due to an increase in portfolio investment liabilities.

- Japan's net asset position marked a record high. With the increase in portfolio investment liabilities offset by that in assets, the rise in net assets was mainly due to the increase in direct investment net assets. Among major countries that release IIP data, Japan at year-end 2019 continued to record the largest net asset position, which amounted to 364.5 trillion yen.

Figure 2: Japan's BOP and IIP



III. Developments in the Current Account in 2019

A. Goods

The surplus on goods decreased to 0.4 trillion yen in 2019 from 1.1 trillion yen in 2018 as the decline in exports exceeded that in imports.

Exports fell to 76.0 trillion yen in 2019 from 81.2 trillion yen in 2018 mainly due to a decline in exports of machinery (such as "semiconductor machinery etc.") to Asia. Imports fell to 75.6 trillion yen in 2019 from 80.1 trillion yen in 2018 mainly due to a decline in imports of mineral fuels (such as crude oil) from the Middle East as a result of the drop in crude oil prices.

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

Figure 3: Goods

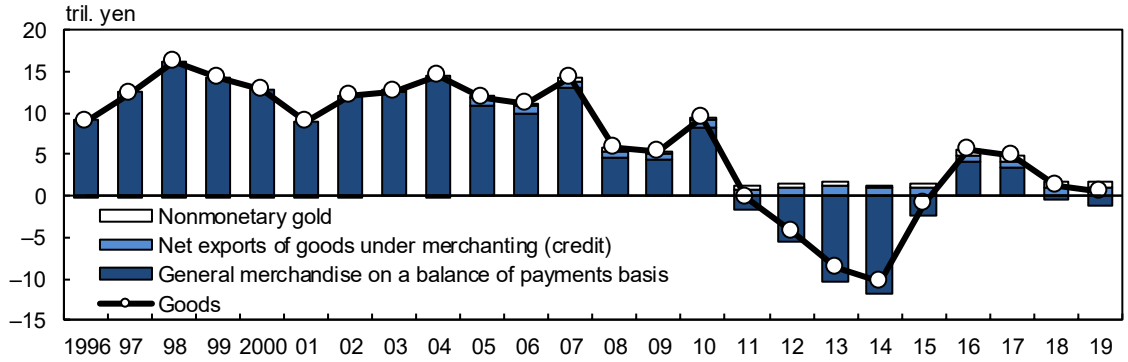


Figure 4: Goods by Region

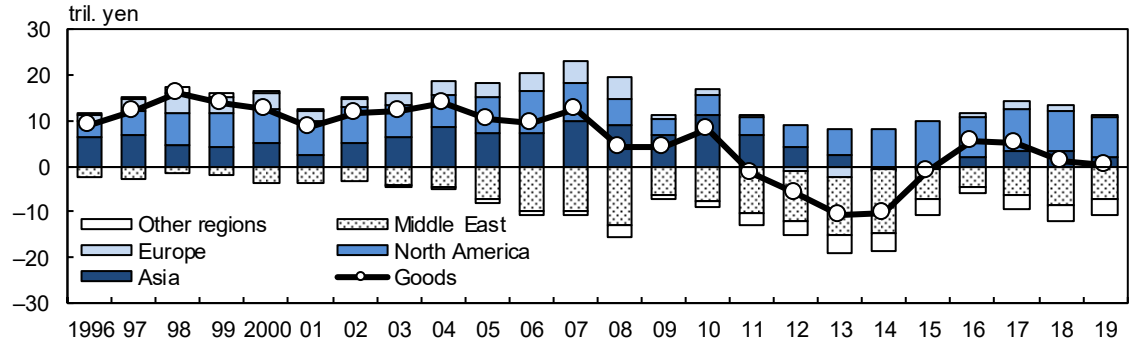


Figure 5: Exports by Region

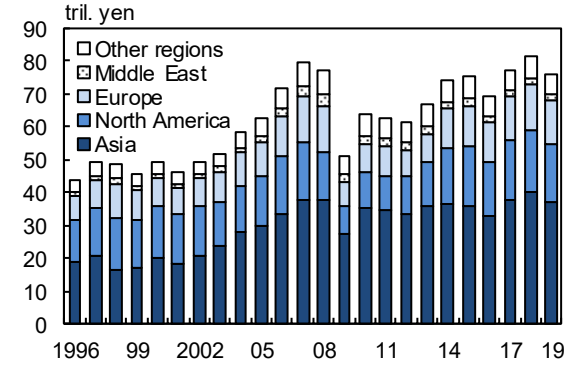


Figure 6: Imports by Region

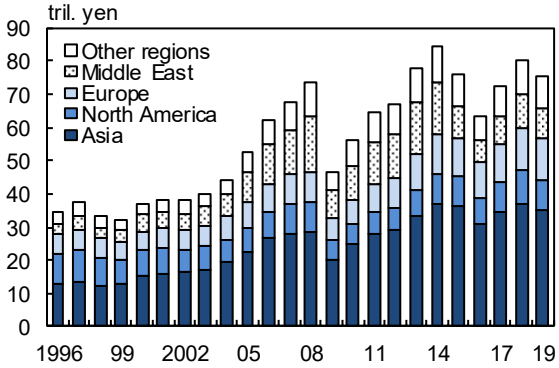
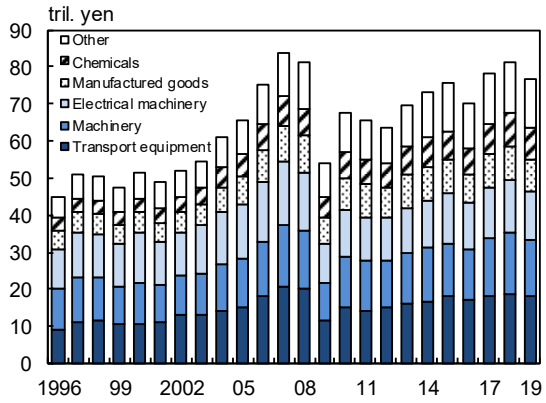
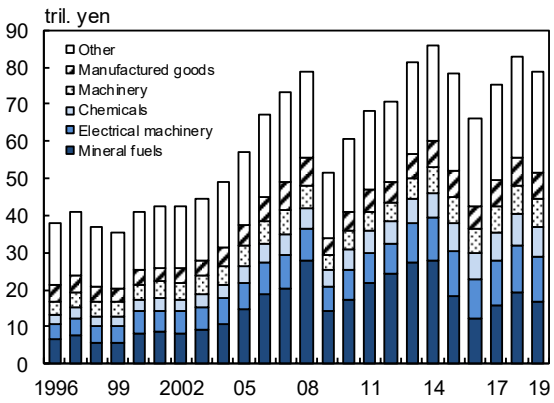


Figure 7: Exports by Commodity



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

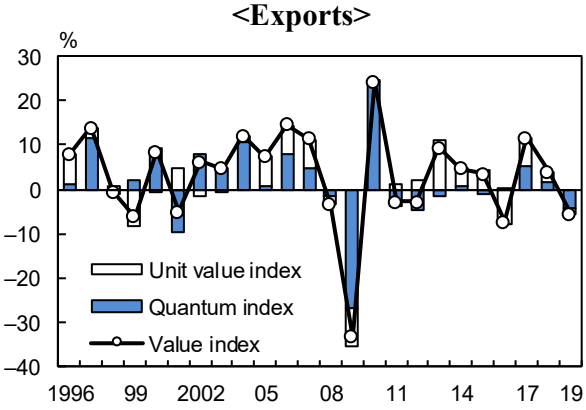
Figure 8: Imports by Commodity



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

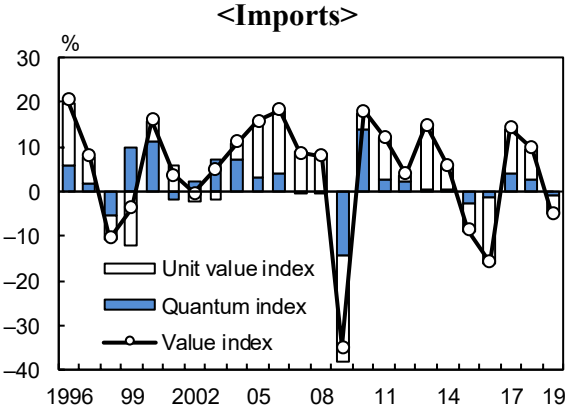
Figure 9: Year-on-Year Changes in Trade Indexes

<Exports>



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

<Imports>



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 as follows:

	Trade Statistics of Japan	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 balance on services registered a surplus for the first time since 1996, from when comparable data are available, shifting to a surplus of 0.1 trillion yen in 2019 from a deficit of 1.0 trillion yen in 2018. In addition to an increase in the surplus on travel, this reflects the decline in the deficits on "other services" and transport.

On both the credit and debit sides, the share of services in the total transactions in goods and services increased mainly due to the decline in goods transactions.

Figure 10: Services

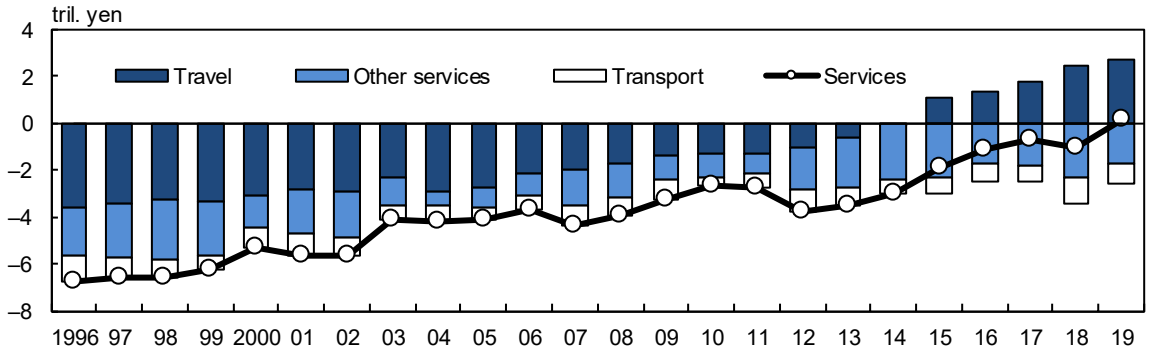


Figure 11: Services by Region

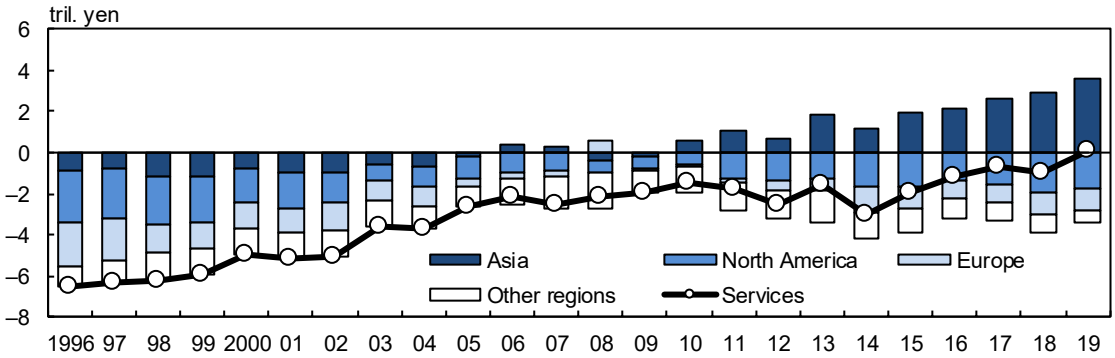
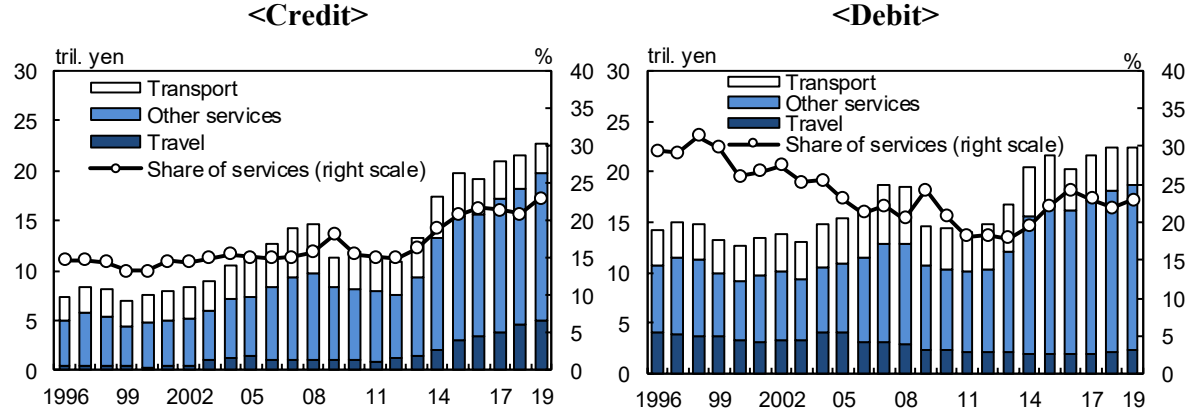


Figure 12: Share of Services in Total Goods and Services Transactions[1]



1. Travel

The surplus on travel increased to 2.7 trillion yen in 2019 from 2.4 trillion yen in 2018, 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 especially from China -- exceeding the increase in payments.

Factors contributing to the increase in receipts are that travel expenditure per foreign visitor to Japan increased for the first time in four years and that the number of foreign visitors rose for the eighth year in a row, mainly due to an increase in visitors from China.

Figure 13: Travel

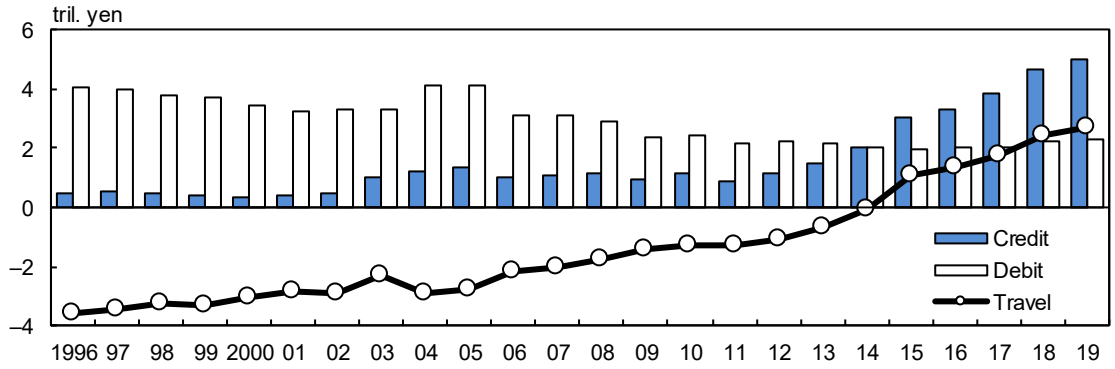


Figure 14: Travel by Country

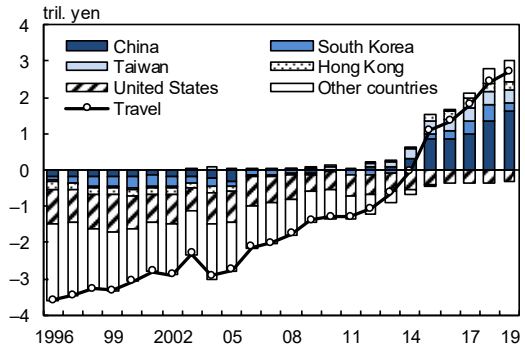


Figure 15: Credit by Country

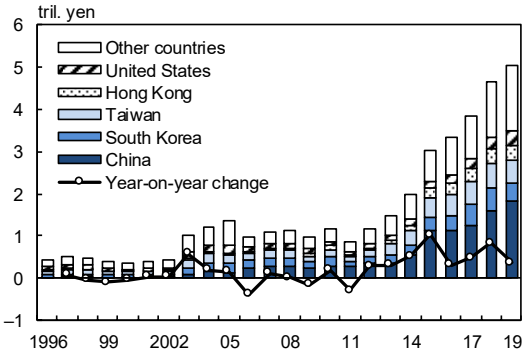
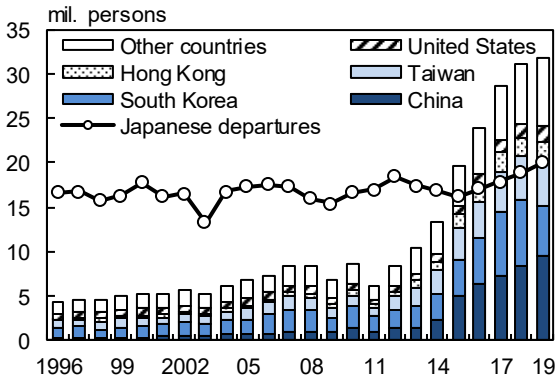
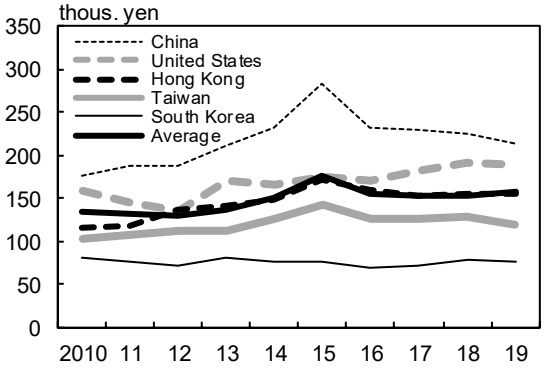


Figure 16: Number of Foreign Visitors to Japan by Country



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

Figure 17: Travel Expenditure per Foreign Visitor to Japan



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," decreased to 2.2 trillion yen in 2019 from 2.6 trillion yen in 2018, mainly due to an increase in payments of charges for the use of copyrights n.i.e.

A regional breakdown shows that the overall increase in payments from the previous year was led by payments to Europe.

Figure 18: Other Services

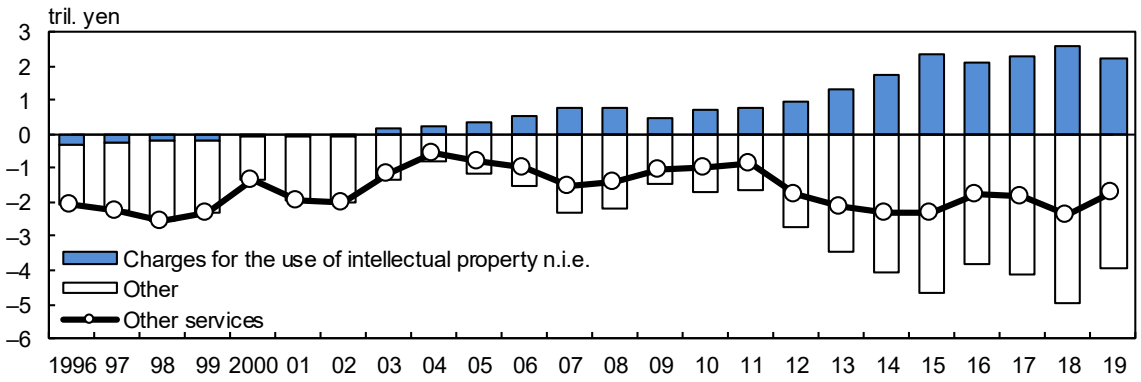


Figure 19: Charges for the Use of Intellectual Property n.i.e.

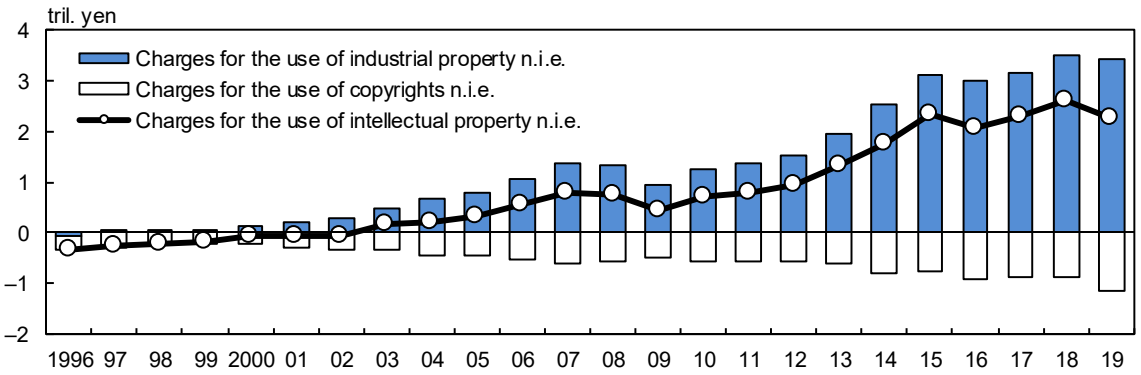
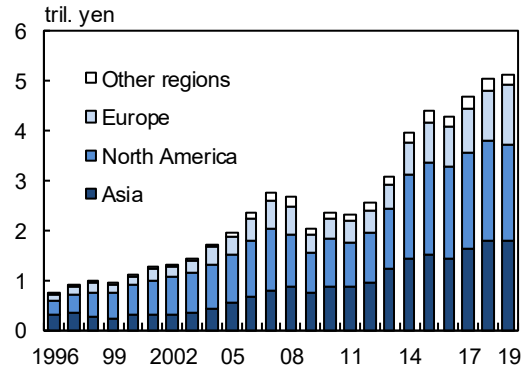
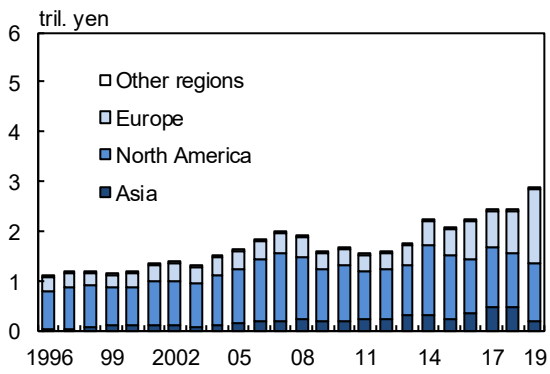


Figure 20: Charges for the Use of Intellectual Property n.i.e. by Region

<Credit>



<Debit>



C. Primary Income

The surplus on primary income was more or less unchanged from the previous year, registering 21.0 trillion yen in 2019 compared to 21.3 trillion yen in 2018. The surplus on direct investment income marked a record high since 1996, from when comparable data are available, primarily reflecting a rise in dividend receipts, particularly from overseas subsidiaries.

Looking at direct investment income by region, the surplus vis-à-vis regions such as Asia increased. Looking at portfolio investment income by component, the surplus on portfolio investment income declined mainly because receipts of investment income attributable to investment fund shareholders decreased.

Figure 21: Primary Income

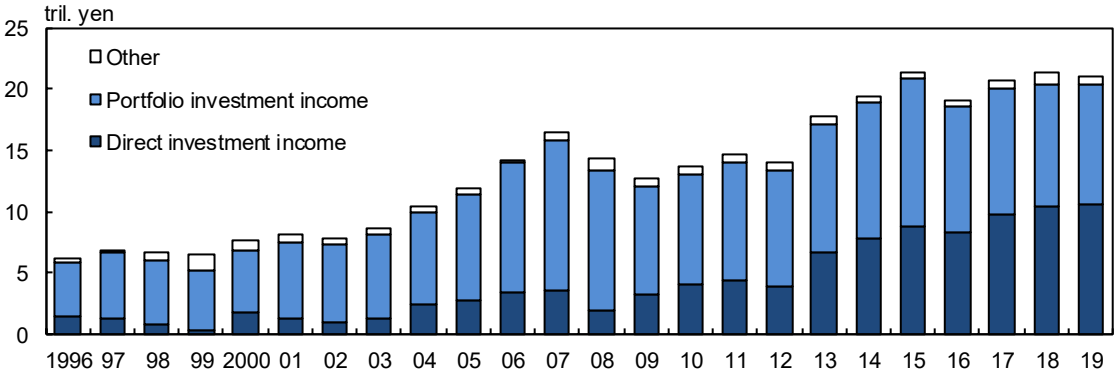


Figure 22: Direct Investment Income by Region

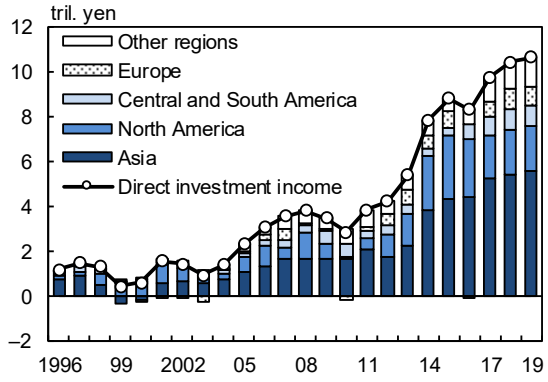


Figure 23: Direct Investment Income by Industry

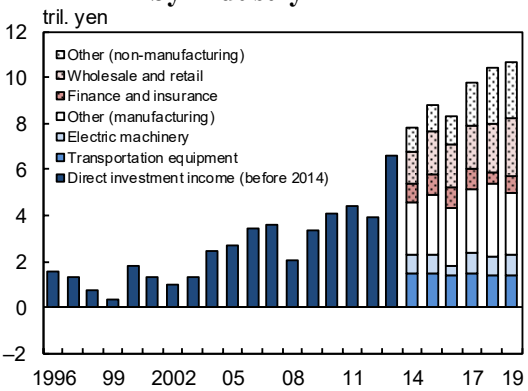


Figure 24: Portfolio Investment Income by Region

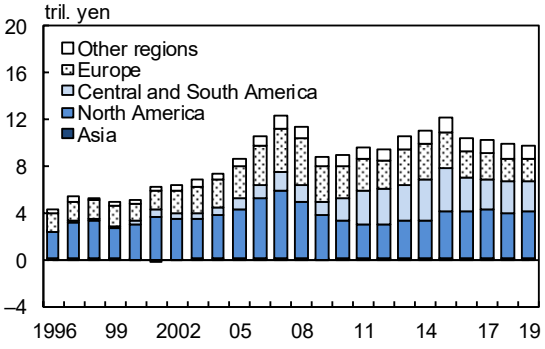
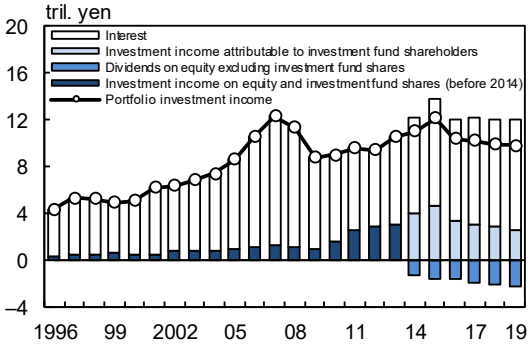


Figure 25: Portfolio Investment Income by Component



D. Secondary Income

As for secondary income, the deficit decreased to 1.4 trillion yen in 2019 from 2.0 trillion yen in 2018, primarily reflecting a decline in the deficit in the "financial corporations, nonfinancial corporations, households, and NPISHs" sector. By region, the balance vis-à-vis Europe turned to a surplus.

Figure 26: Secondary Income

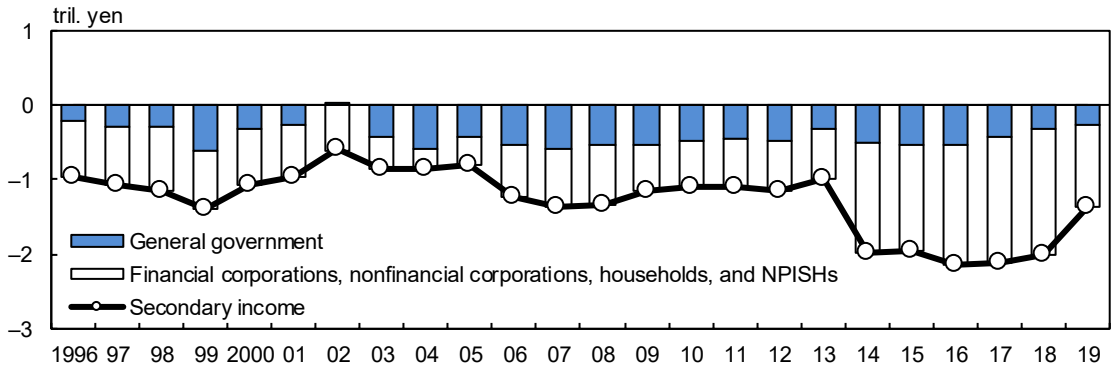
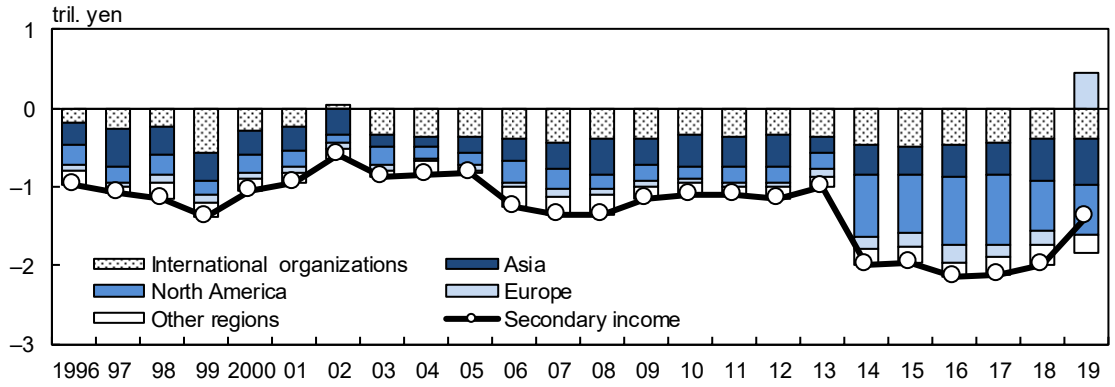


Figure 27: Secondary Income by Region



IV. Developments in the Financial Account in 2019

A. Direct Investment Assets

Net acquisitions of direct investment assets increased to 27.2 trillion yen in 2019 from 17.5 trillion yen in 2018, marking a record high, due to a rise in net acquisitions led by equity other than reinvestment of earnings.

By region and industry, net outward investment increased led by investment in the manufacturing sector in Europe.

Figure 28: Direct Investment Assets

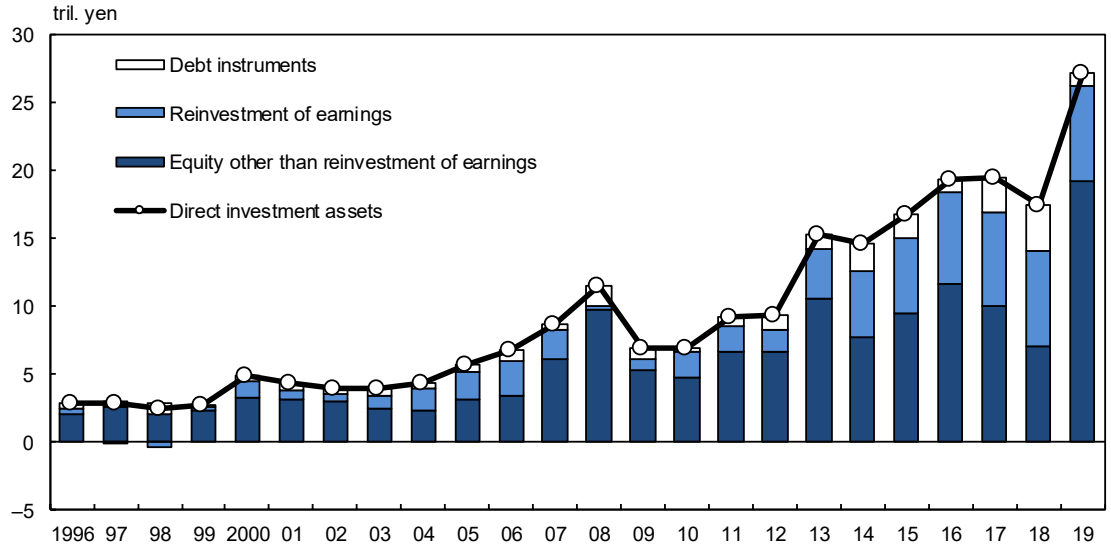
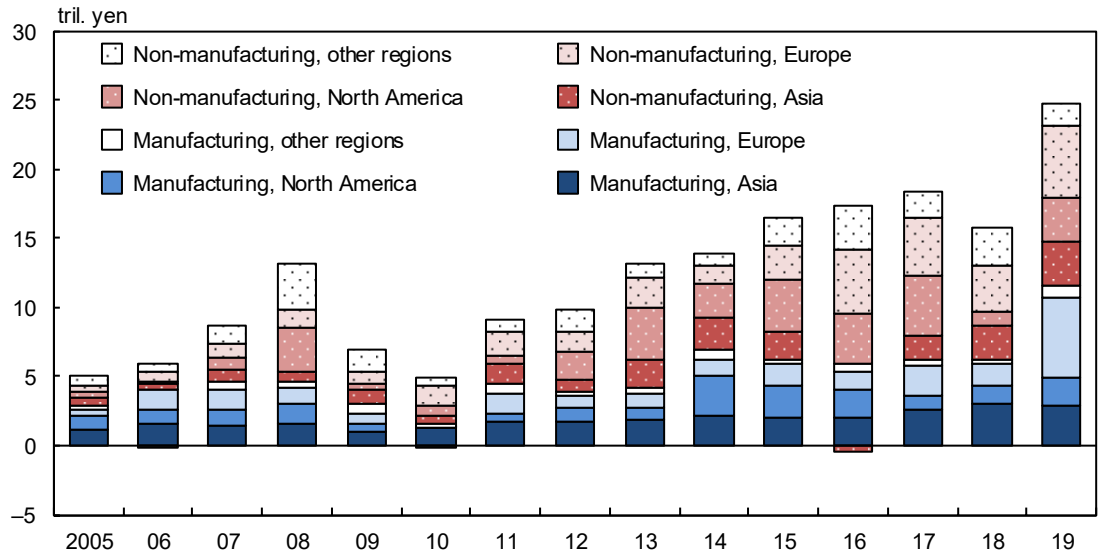


Figure 29: Outward Direct Investment by Region and Industry



B. Direct Investment Liabilities

Net incurrence of direct investment liabilities increased to 4.1 trillion yen in 2019 from 2.7 trillion yen in 2018, led by debt instruments.

Figure 30: Direct Investment Liabilities

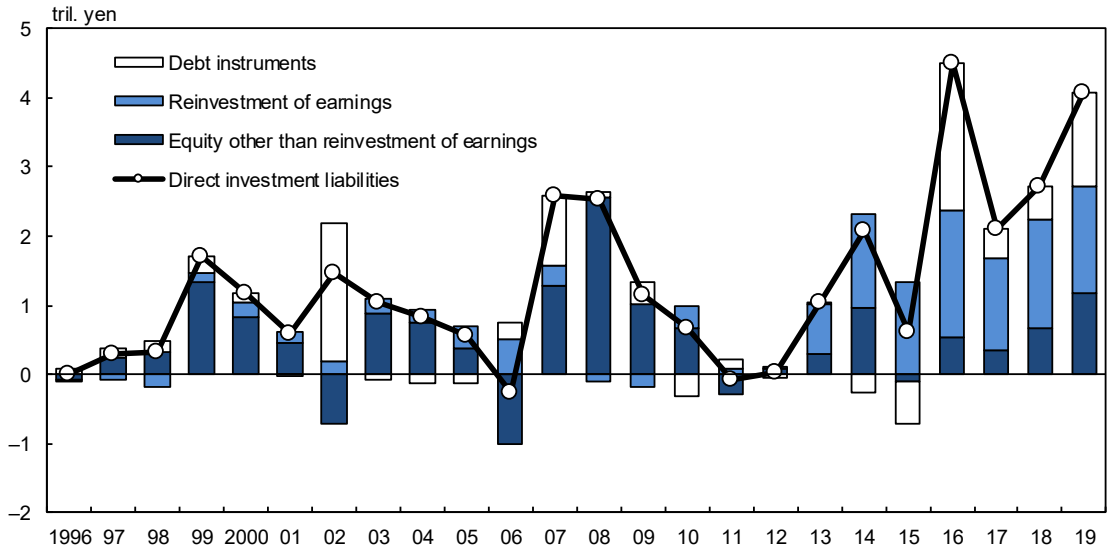
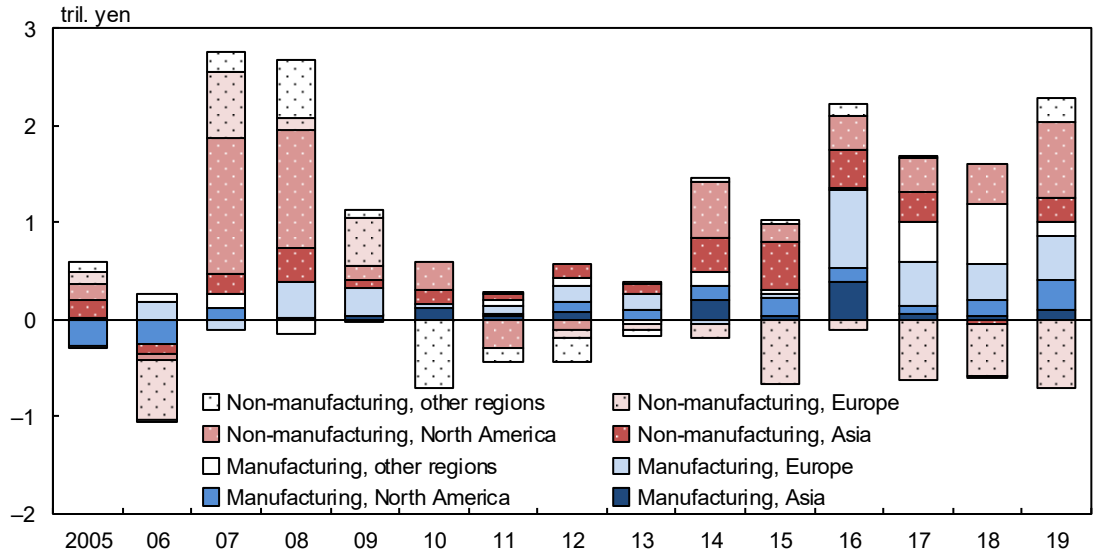


Figure 31: Inward Direct Investment by Region and Industry



C. Portfolio Investment Assets

Net purchases of foreign securities by Japanese investors decreased to 20.1 trillion yen in 2019 from 20.8 trillion yen in 2018.

Looking at the breakdown, net purchases of foreign equity and investment fund shares decreased mainly because investment in equity securities other than investment fund shares shifted to net sales. By region, net purchases of Central and South American securities (such as securities issued by companies residing in the Cayman Islands) decreased. On the other hand, net purchases of long-term debt securities increased mainly because investment by "deposit-taking corporations, except the central bank" shifted to net purchases. By country, investment in U.S. long-term debt securities by Japanese investors shifted to net purchases.

Figure 32: Portfolio Investment Assets

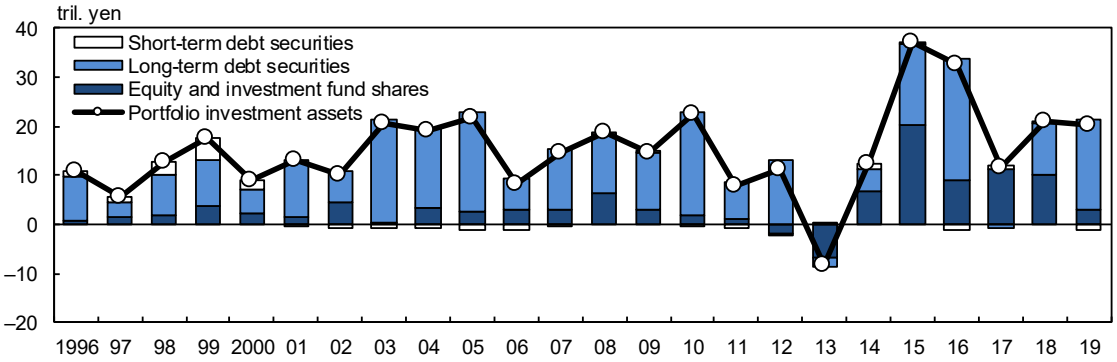


Figure 33: Equity and Investment Fund Shares by Component (Assets)

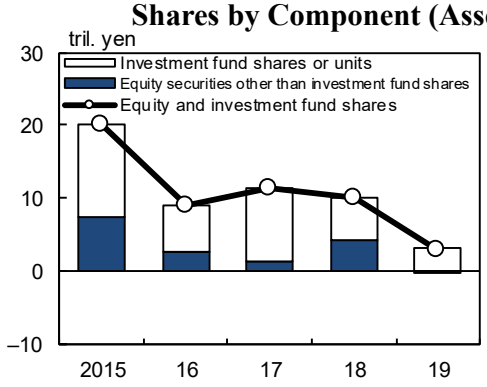


Figure 34: Equity and Investment Fund Shares by Region (Assets)

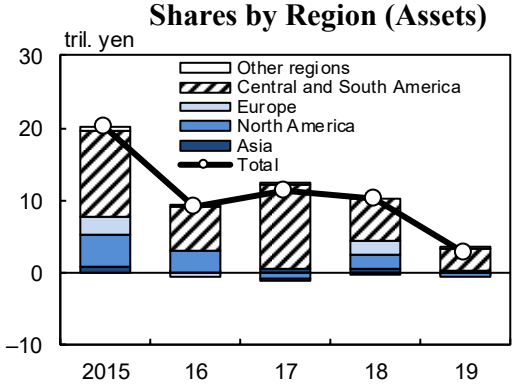


Figure 35: Long-Term Debt Securities by Sector (Assets)

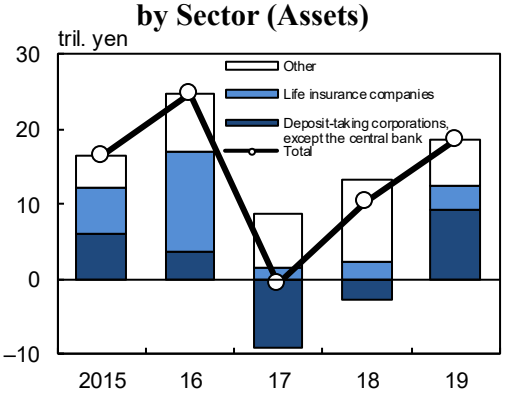
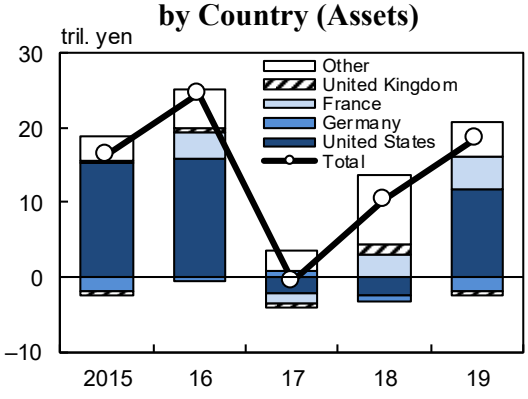


Figure 36: Long-Term Debt Securities by Country (Assets)



D. Portfolio Investment Liabilities

Net purchases of Japanese securities by foreign investors in 2019 remained essentially unchanged from 2018 at 10.8 trillion yen.

Investment in Japanese equity and investment fund shares shifted to net purchases, mainly because investment in equity securities other than investment fund shares shifted to net purchases. On the other hand, investment in Japanese short-term debt securities shifted to net sales.

Figure 37: Portfolio Investment Liabilities

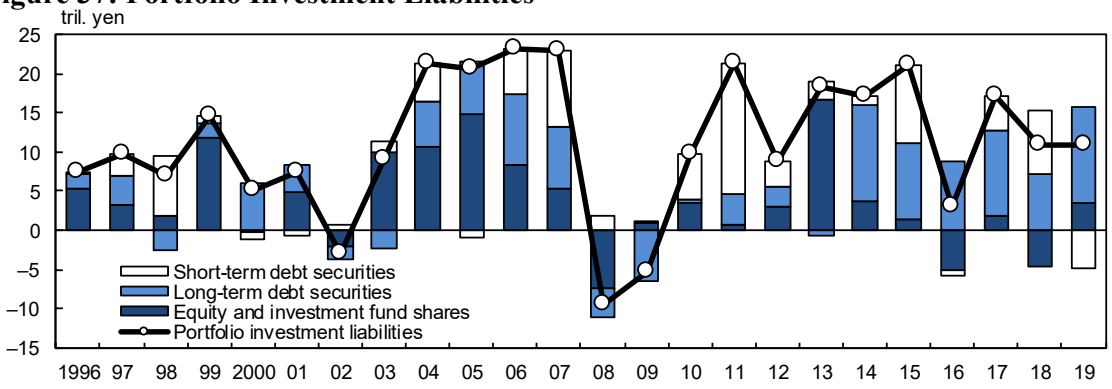


Figure 38: Equity and Investment Fund Shares by Component (Liabilities)

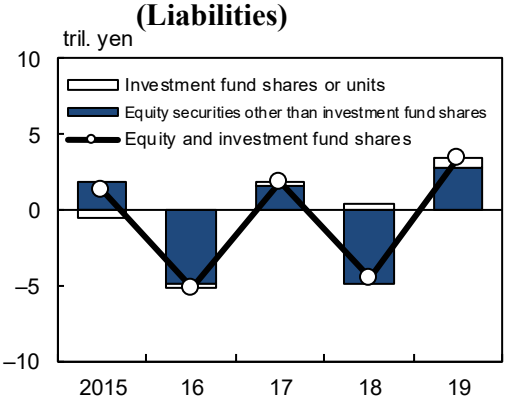


Figure 39: Equity and Investment Fund Shares by Region (Liabilities)

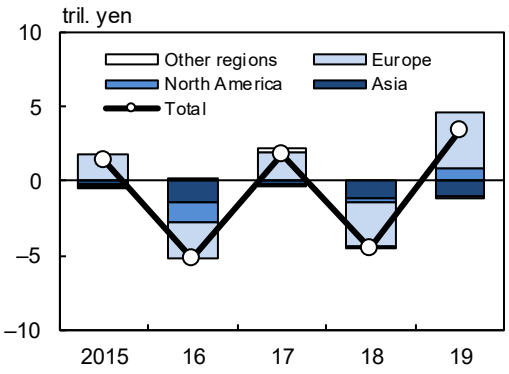


Figure 40: Long-Term Debt Securities (Changes in Liabilities by Region)[2]

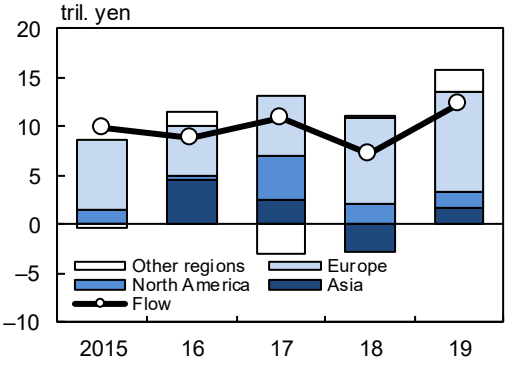
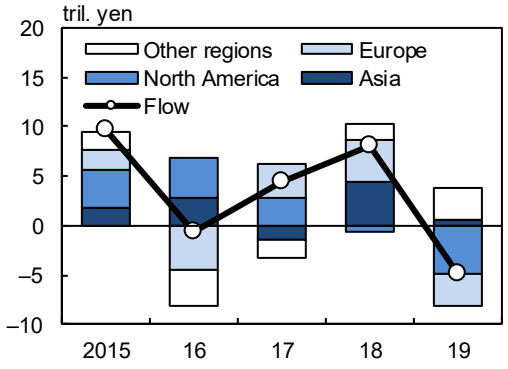


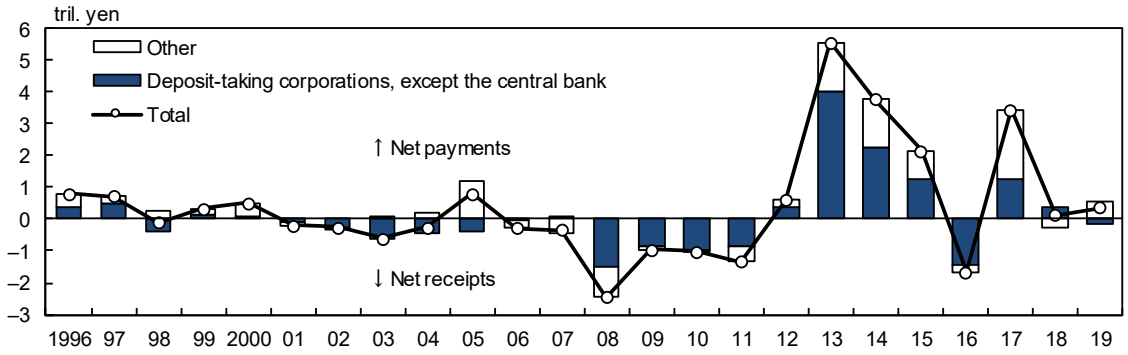
Figure 41: Short-Term Debt Securities (Changes in Liabilities by Region)[2]



E. Financial Derivatives (Other than Reserves)

Net payments of financial derivatives (other than reserves) increased to 0.4 trillion yen in 2019 from 0.1 trillion yen in 2018, because transactions in sectors other than "deposit-taking corporations, except the central bank" shifted to net payments.

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



F. Other Investment

Net borrowing under other investment increased to 11.3 trillion yen in 2019 from 7.6 trillion yen in 2018, as "other" (such as accounts receivable/payable) turned to net borrowing.

Figure 43: Other Investment

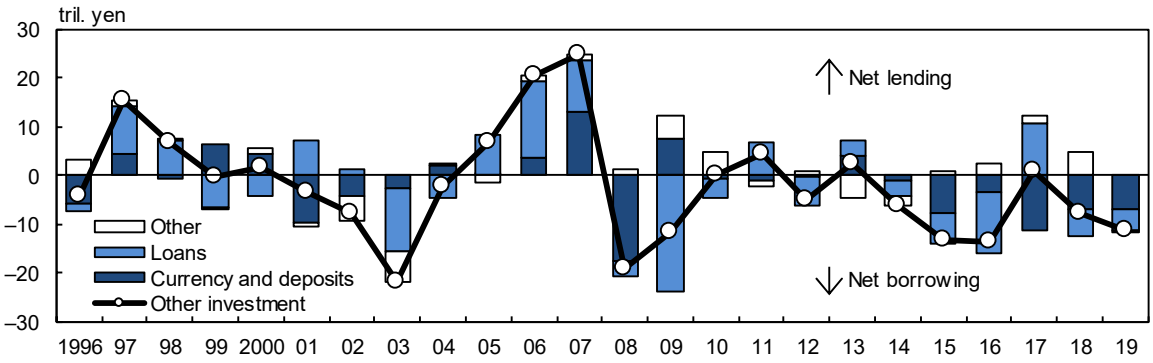


Figure 44: Currency and Deposits

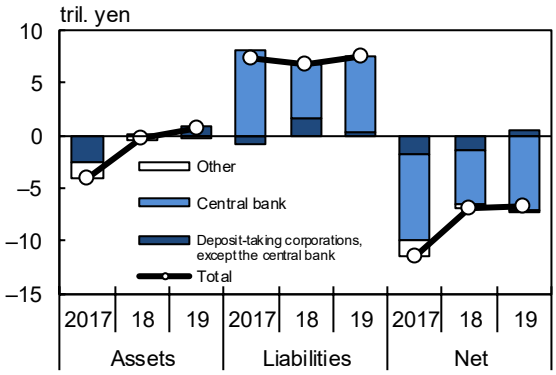
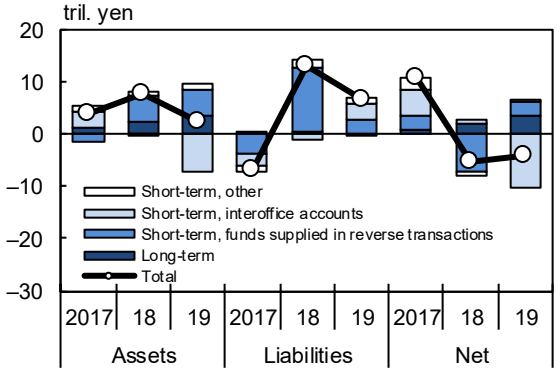


Figure 45: Loans



V. Developments in Japan's IIP at Year-End 2019

A. Summary

Japan's external financial assets increased to 1,097.7 trillion yen at year-end 2019 from 1,018.0 trillion yen at year-end 2018, mainly due to an increase in portfolio investment assets. Japan's external liabilities increased to 733.2 trillion yen at year-end 2019 from 676.6 trillion yen at year-end 2018, mainly due to an increase in portfolio investment liabilities.

Japan's net asset position marked a record high, rising to 364.5 trillion yen at year-end 2019 from 341.4 trillion yen at year-end 2018, mainly due to an increase in direct investment net assets.

Figure 46: Assets

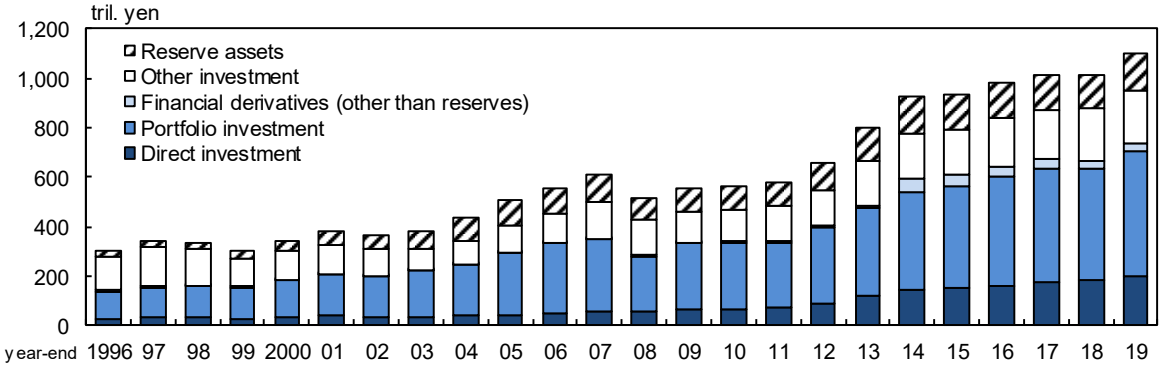


Figure 47: Liabilities

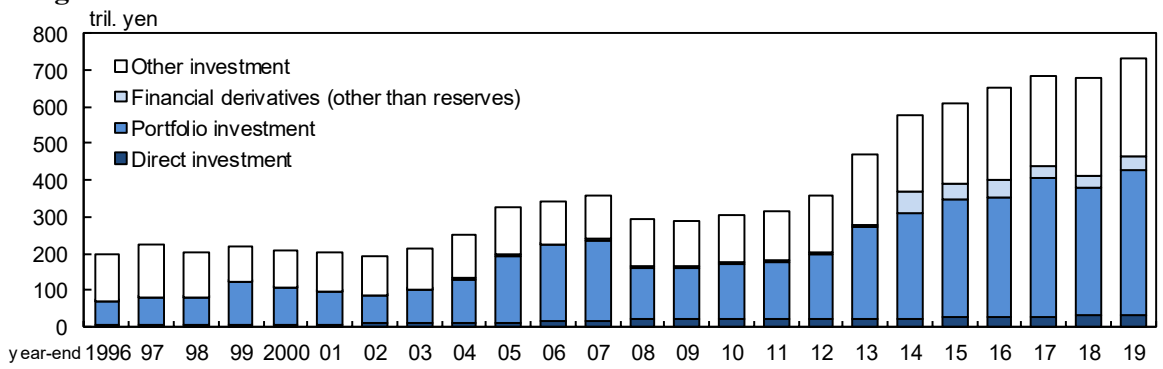
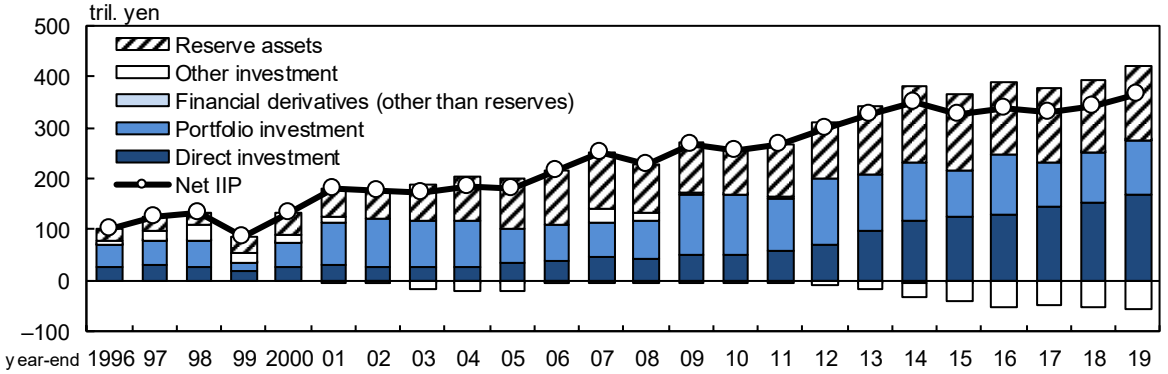


Figure 48: Net IIP



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 an increase in direct investment assets.

By factor, transactions made the largest contribution to the increase in net assets. Meanwhile, other changes pushed up both assets and liabilities, primarily reflecting valuation gains on portfolio investments driven by the rise in foreign stock prices.

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

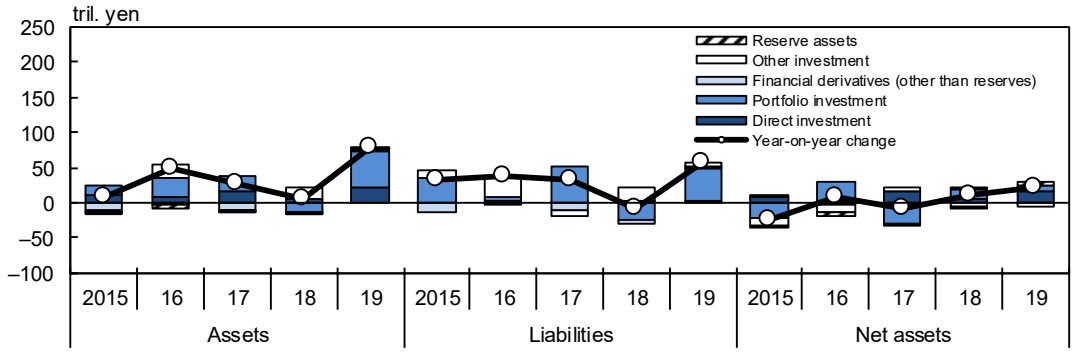


Figure 50: Year-on-Year Changes in the IIP by Factor[3]

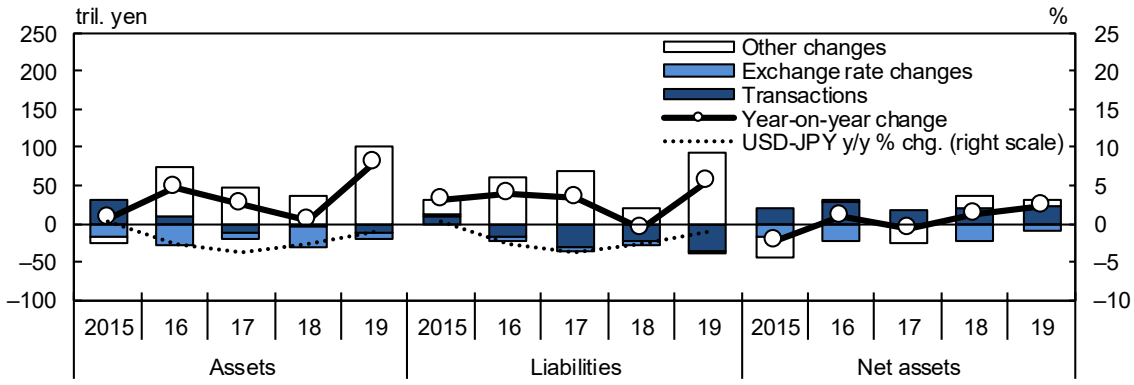
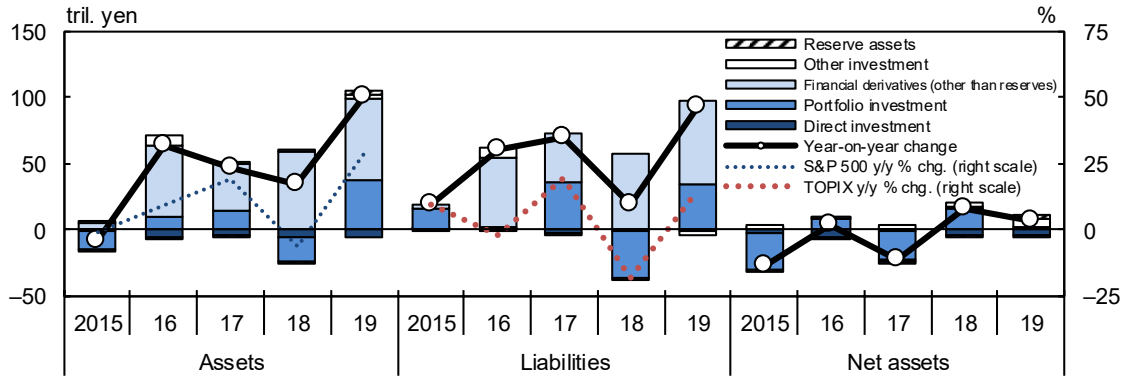


Figure 51: Other Changes by Component



C. Japan's IIP by Sector

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

Figure 52: IIP by Sector

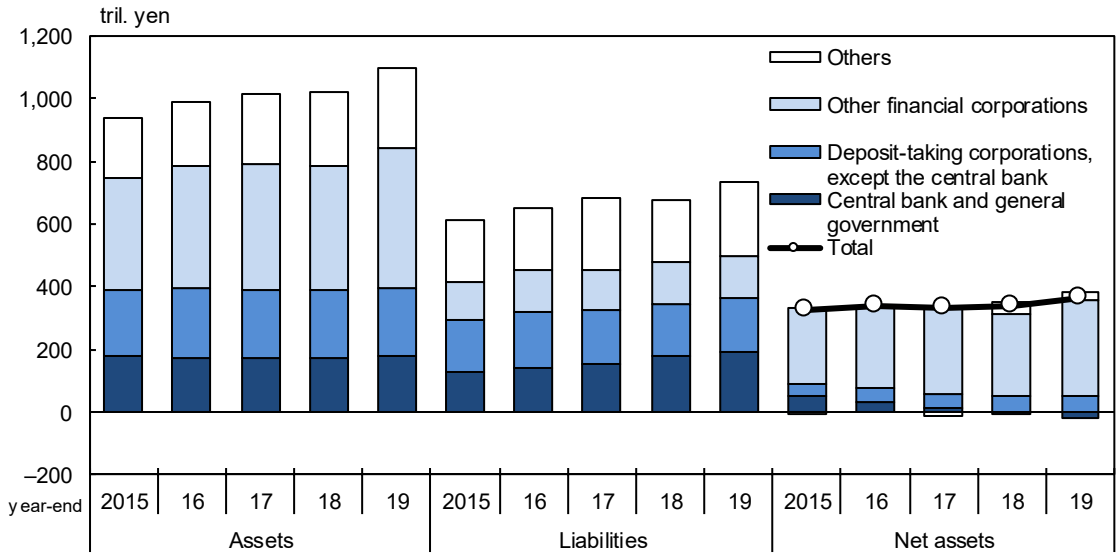
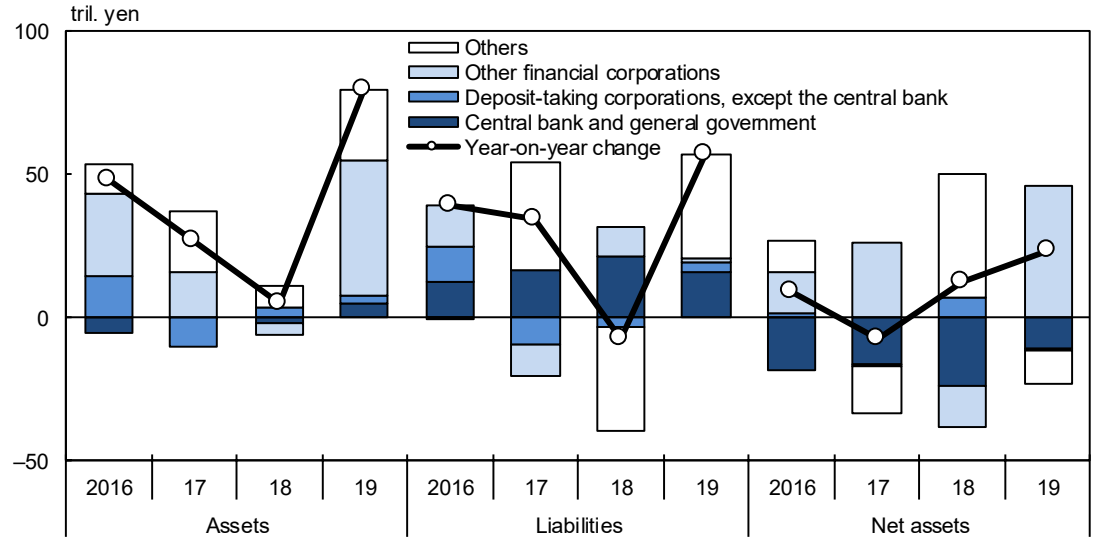


Figure 53: Year-on-Year Changes in the IIP by Sector



D. Direct Investment Position and Portfolio Investment Position by Region

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

Figure 54: Direct Investment Position by Region

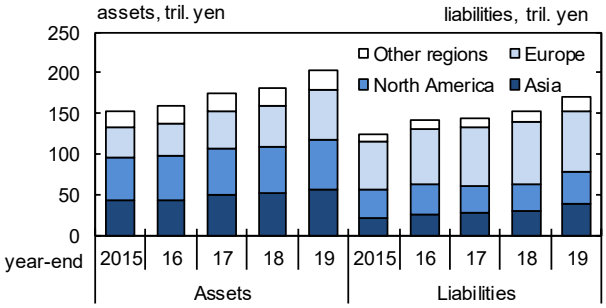
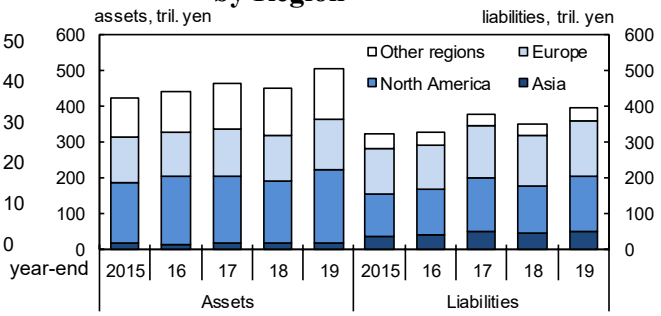


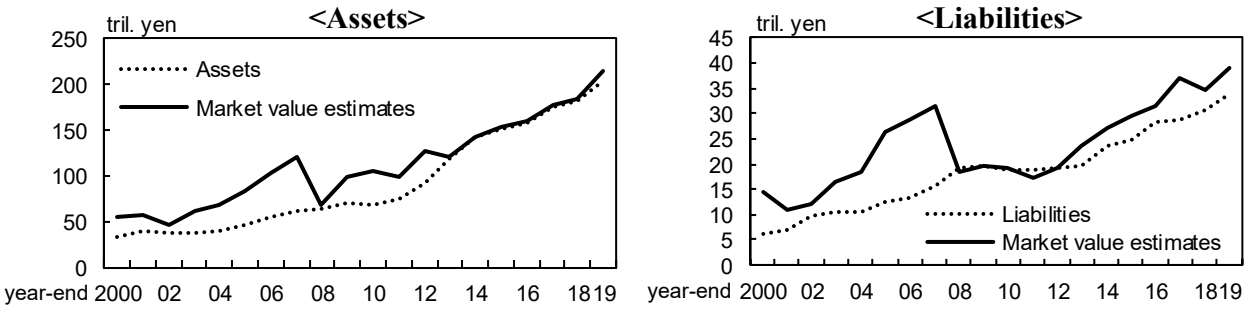
Figure 55: Portfolio Investment Position by Region



E. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 214.1 trillion yen and 39.1 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 202.8 trillion yen and 33.9 trillion yen, respectively).

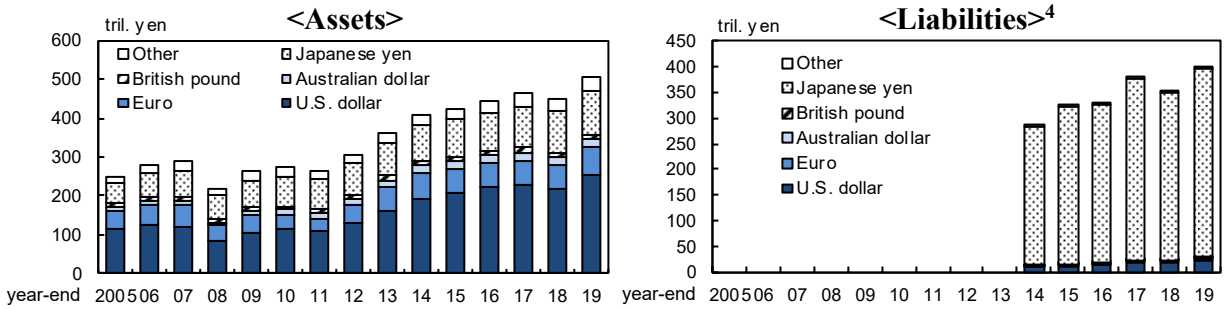
Figure 56: Market Value Estimates of Direct Investment Position



F. Portfolio Investment Position by Currency

Looking at the portfolio investment position by currency, the increase in portfolio investment assets was mainly due to an increase in Japanese investors' holdings of U.S. dollar-denominated long-term debt securities, while the increase in portfolio investment liabilities was mainly due to an increase 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 manufacturing sector in Europe increased. By industry, the investment position in the manufacturing sector rose again reflecting increases in industries such as chemicals and pharmaceuticals, while the investment position in the non-manufacturing sector increased for the 14th 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

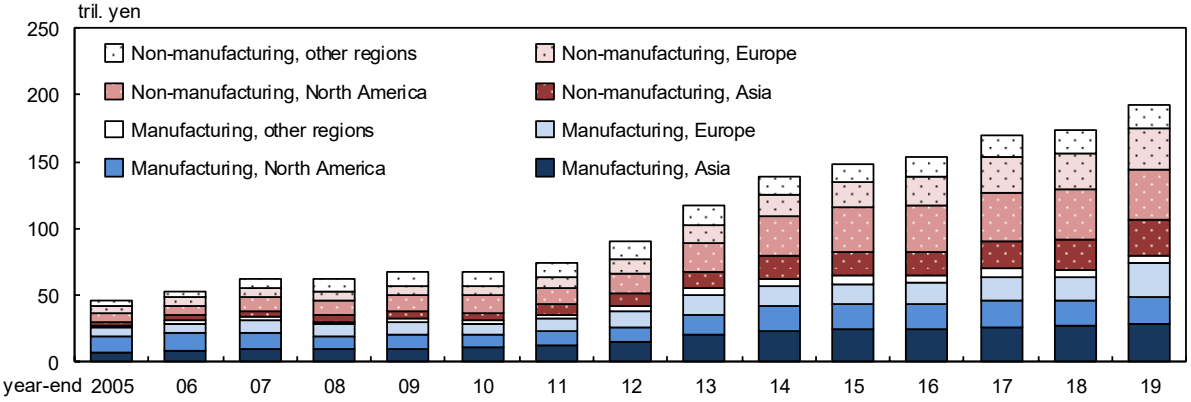


Figure 59: Manufacturing Investment Position

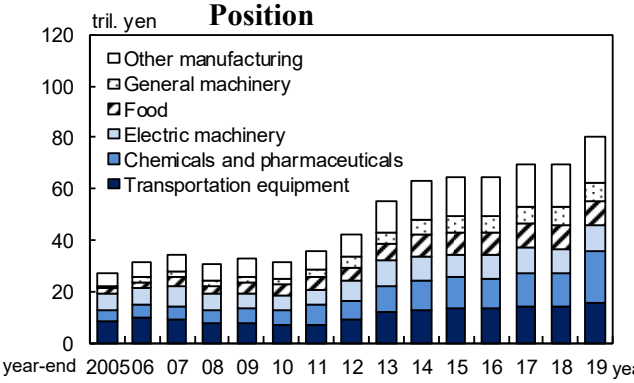


Figure 60: Non-Manufacturing Investment Position

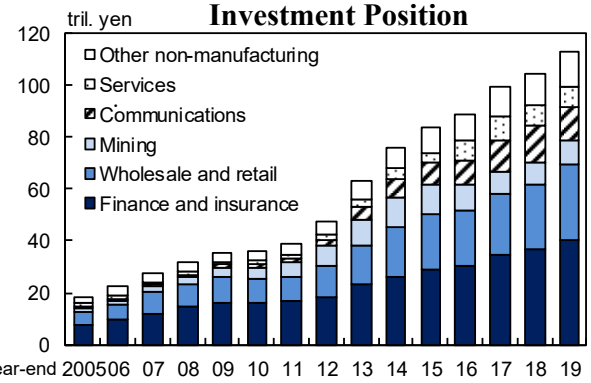
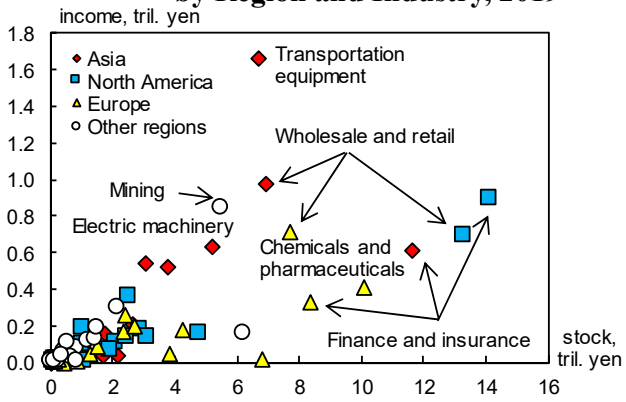
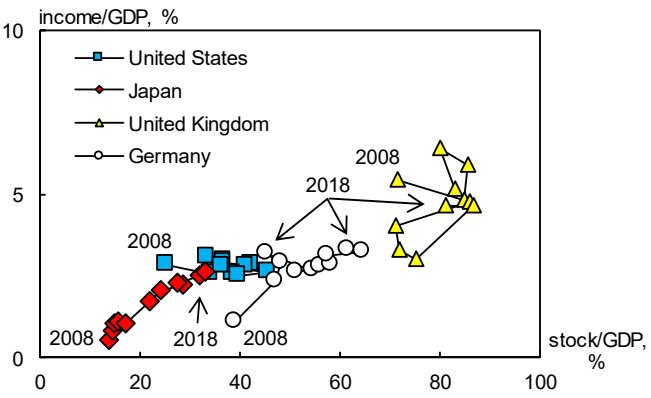


Figure 61: Investment Position and Income by Region and Industry, 2019



(Reference) International Comparison of Investment Position and Income



Sources: IMF; Office for National Statistics (U.K.).

H. Debt Position (Assets/Liabilities) by Currency[5]

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

Figure 62: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity[6]

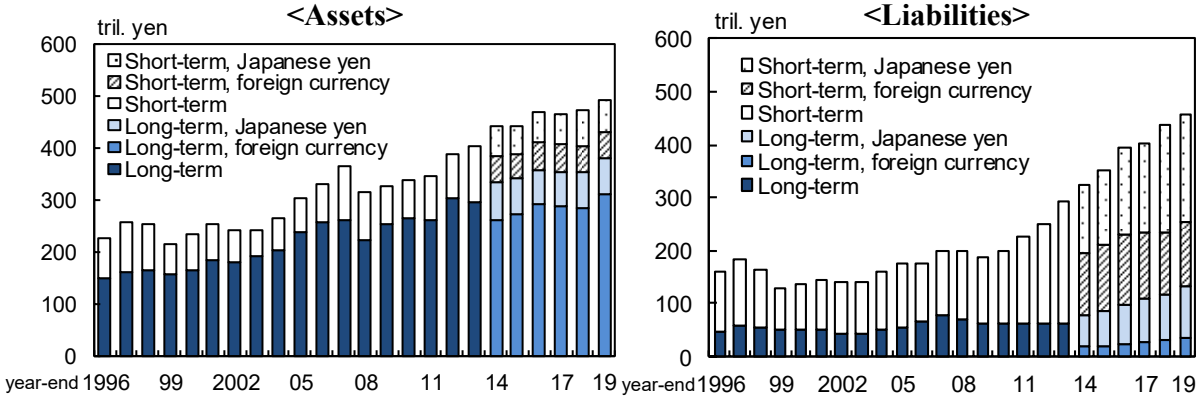


Figure 63: Foreign Currency-Denominated Debt Position by Component

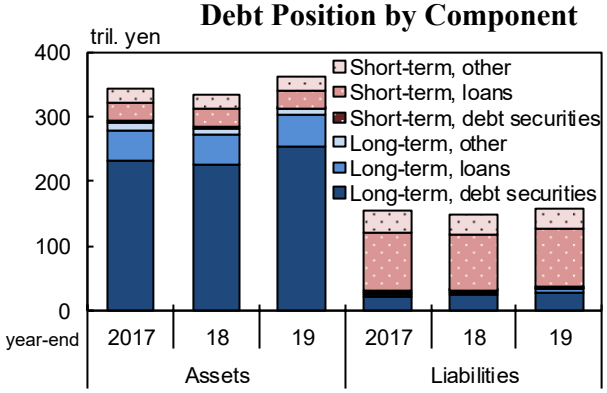


Figure 64: Debt Position by Sector[7]

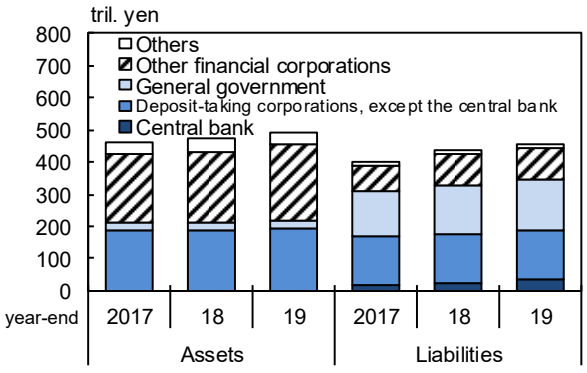
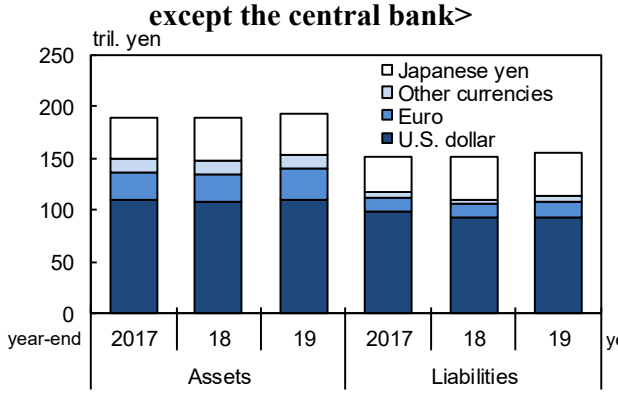
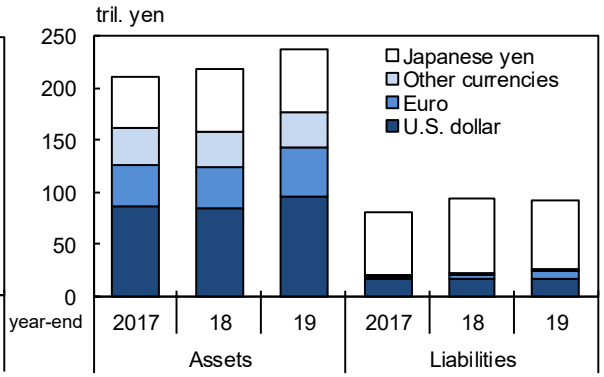


Figure 65: Debt Position by Currency

<Deposit-taking corporations, except the central bank>



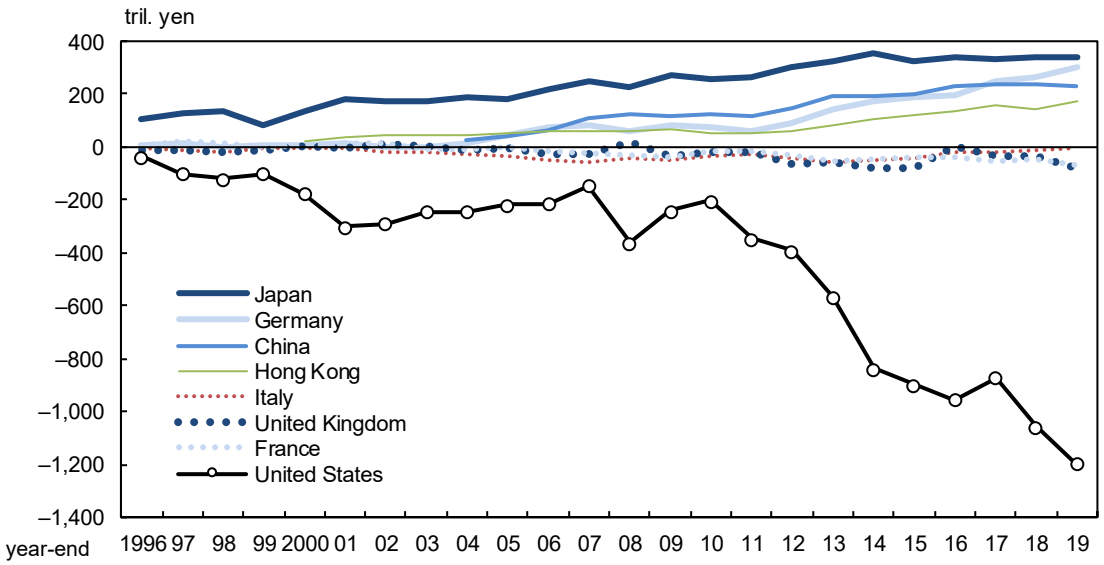
<Other financial corporations>



I. International Comparison of Net IIP

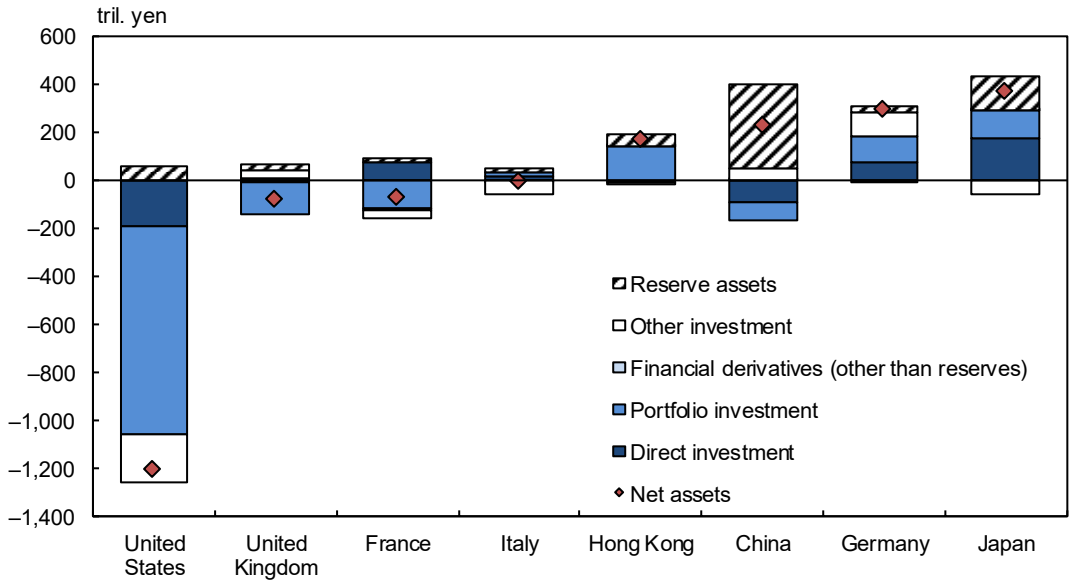
Among major countries that release IIP data, Japan at year-end 2019 continued to record the largest net asset position, which amounted to 364.5 trillion yen.

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



Source: IMF.

Figure 67: International Comparison of Net IIP at Year-End 2019



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 2019 do not add up due to annual revisions.

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

[5] 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.

[6] 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 the *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).

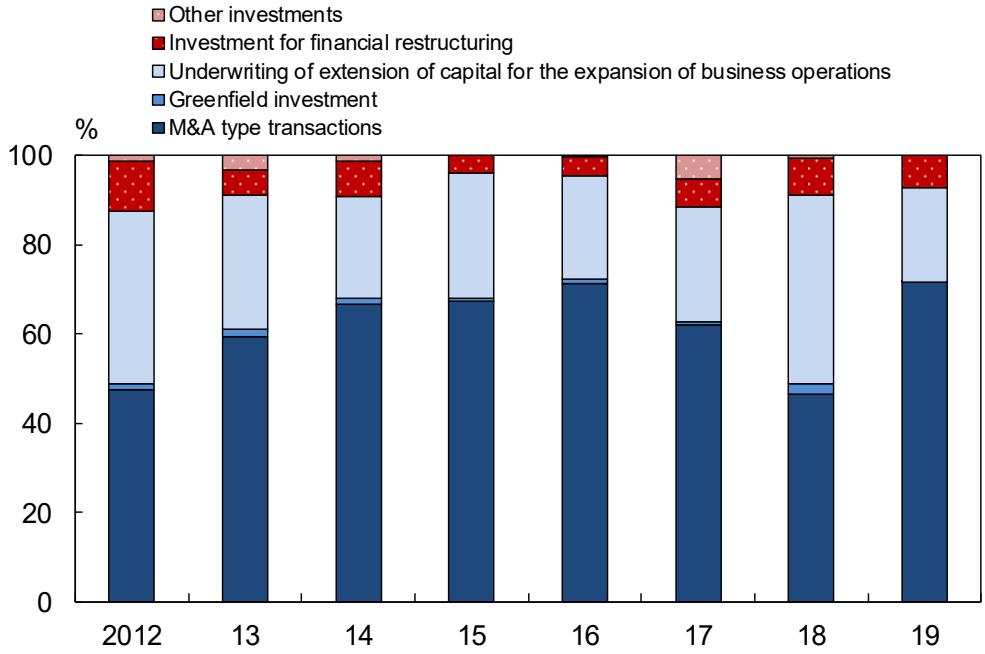
[7] Based on the Debt Position (Assets/Liabilities) by Currency (Foreign Currency/Japanese Yen).

Appendix 1. Developments in Direct Investment by Type of Investment[1,2,3]

Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, in 2019, the share of M&A type transactions consisting of the acquisition of foreign firms by Japanese firms increased, reflecting the impact of large-scale acquisitions. The second-largest share was accounted for by the underwriting of extension of capital for the expansion of overseas business operations. Greenfield investment -- in which new enterprises are established by investors -- continued to be low.

On the other hand, investments under direct investment liabilities continued to be low compared to those under direct investment assets. A breakdown by type of investment shows that while M&A type transactions continued to account for a significant share, the share of the underwriting of extension of capital for the expansion of business operations increased substantially in 2019.

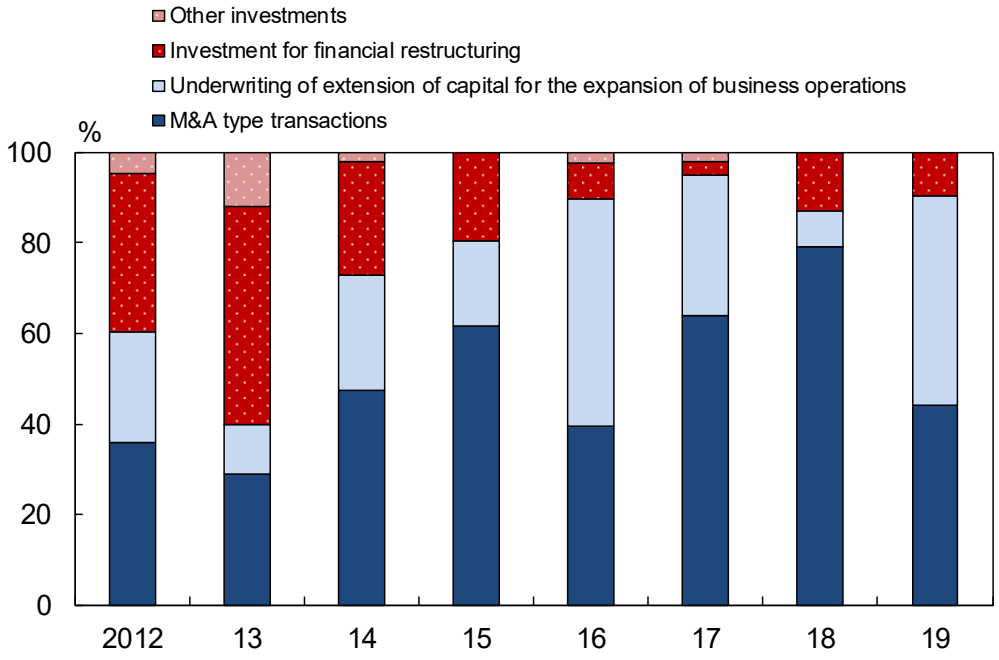
Appendix Figure 1.1: Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



bil. yen

Direct investment assets	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	(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	5,798.5	77.7	2,375.5	594.2	497.9	15,233.4
2018	3,391.3	172.9	3,096.0	600.7	38.6	19,572.6
2019	12,844.4	52.0	3,778.4	1,288.1	—	33,909.8

Appendix Figure 1.2: Direct Investment Liabilities by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



bil. yen

Direct investment liabilities	M&A type transactions	Greenfield investment	Underwriting of extension of capital for the expansion of business operations	Investment for financial restructuring	Other investments	(Reference) Gross investments in equity capital
2012	277.3	—	187.7	270.5	35.5	1,973.7
2013	165.8	—	63.8	276.6	68.2	1,496.4
2014	656.9	—	351.1	345.3	29.5	4,202.8
2015	577.1	—	177.2	183.4	—	2,028.8
2016	403.8	—	513.1	83.3	22.3	2,122.7
2017	736.4	—	358.5	35.2	21.7	2,393.1
2018	936.2	—	91.4	154.4	—	2,892.8
2019	821.3	—	864.9	178.4	—	3,479.9

[1] 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 of ultimate investee enterprises; and (5) other investments: other investments including investment in corporate type investment trusts.

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

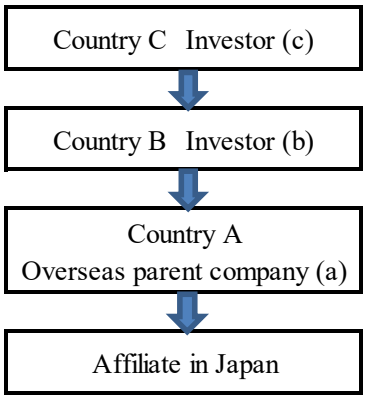
[3] Figures before 2014 based on the fifth edition of the *Balance of Payments Manual (BPM5)* have been retroactively revised as far back as possible and have been reclassified to the extent possible for comparability following current international standards.

Appendix 2. Enhancement of the Statistics on 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 as reference figures for the IIP of Japan (Calendar Year Data) in the BOJ Time-Series Data Search.[4]

In the statistics, 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 (i.e., the ultimate investing country) as the partner country.[5] 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 ultimate investing country is decided as follows.

(1) When the overseas parent company (a) of an affiliate in Japan does not have an investor that owns more than 50 percent of the voting power, the country in which (a) resides is the ultimate investing country (country A).

(2) When there is an investor (b) that owns more than 50 percent of the voting power of (a) but that itself is not majority-owned by another investor, the country in which (b) resides is the ultimate investing country (country B).

(3) When there is an investor (c) that owns more than 50 percent of the voting power of (b), the country in which (c) resides is the ultimate investing country (country C).

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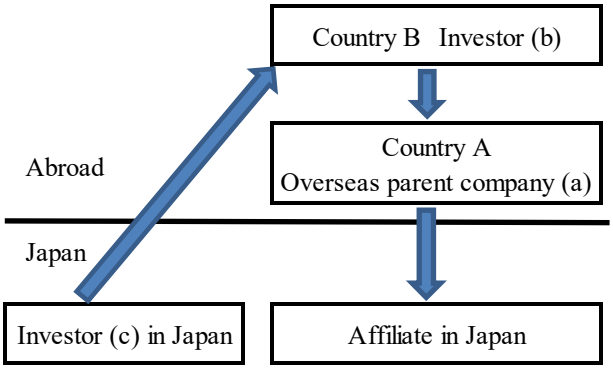
[4] Statistics on direct investment are compiled on the basis of two recording principles: (1) the asset and liability principle and (2) the directional principle. The IIP of Japan (Calendar Year Data) is compiled on the basis of the asset and liability principle, while the Direct Investment Position by Region and Industry and the "Regional Direct Investment Position (Inward investment) (Ultimate investor)" are compiled on the basis of the directional principle. For details, refer to the "Recording Principles of Direct Investment" as well as *Japan's Balance of Payments Statistics and International Investment Position for 2016* released in July 2017, both available on the Bank's website.

[5] For details on the compilation method, see the references cited in footnote 4.

Enhancement of the statistics

In June 2020, the Bank added Japan to the country breakdown of the "Regional Direct Investment Position (Inward investment) (Ultimate investor)." The data for Japan represent so-called round-tripping, that is, flows of funds where the investee and its ultimate investor reside in the same country. They involve the channeling abroad of funds by investors residing in Japan (ultimate investors) and the subsequent return of these funds to affiliates in Japan (investees) from their overseas parent companies in the form of direct investment.



To give an example of round-tripping, consider the case of a country that provides preferential treatment for equity investment from foreign countries. Under these circumstances, a firm from that country, in order to take advantage of such preferential treatment, may channel investment through an overseas affiliate to invest in its own country and hence "round-trip" those funds.[6]

Position at year-end 2019

Regarding the inward direct investment position at year-end 2019, on an ultimate investor basis, direct investment from the United Kingdom, the Netherlands, and the Cayman Islands was smaller than on an immediate investor basis, while investment from the United States and France was larger.

Looking at the round-tripping investment position of ultimate investors residing in Japan, although some transactions can be observed, their share in the overall inward direct investment position is small.

[6] A comprehensive overview of incentives for round-tripping can be found in Annex 3 of the *BD4*.

Appendix Figure 2.1: Inward Direct Investment Position by Country of Immediate Investor and Ultimate Investor[7]

bil. yen

	Year-end 2018			Year-end 2019		
	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	22,667.4	22,667.4	0.0	24,092.0	24,092.0	0.0
Asia	4,442.8	5,304.0	+861.3 ↑	5,518.2	5,687.1	+168.9 ↑
Japan	—	41.0	+41.0	—	40.8	+40.8
P.R. China	186.4	259.2	+72.9	221.9	289.7	+67.8
Hong Kong	908.8	845.4	–63.4	1,038.8	1,027.1	–11.7
Taiwan	661.7	976.8	+315.1	758.0	1,052.7	+294.8
R. Korea	718.5	750.4	+32.0	791.0	963.6	+172.6
Singapore	1,834.6	2,330.9	+496.3	2,556.5	2,207.0	–349.5
Thailand	28.1	13.5	–14.6	30.1	19.2	–10.9
Indonesia	15.2	2.9	–12.3	15.5	4.6	–10.8
Malaysia	62.0	34.0	–28.0	73.6	24.6	–48.9
Philippines	11.0	10.7	–0.3	15.0	12.9	–2.2
Viet Nam	0.3	0.4	+0.2	0.4	0.4	+0.0
India	9.4	21.0	+11.6	9.7	21.8	+12.1
North America	5,373.1	6,708.7	+1,335.5 ↑	6,499.2	8,479.3	+1,980.1 ↑
U.S.A.	5,231.6	6,555.0	+1,323.4	6,353.0	8,309.1	+1,956.1
Canada	141.5	153.7	+12.1	146.3	170.3	+24.0
Central and South America	1,880.7	813.1	–1,067.7 ↓	2,157.8	721.8	–1,435.9 ↓
Mexico	0.3	28.8	+28.5	0.3	28.0	+27.7
Brazil	4.5	–348.9	–353.3	4.5	–305.5	–309.9
Cayman Islands	1,643.1	998.8	–644.3	1,903.9	846.5	–1,057.4
Oceania	325.4	161.1	–164.3 ↓	340.9	158.5	–182.3 ↓
Australia	282.0	101.9	–180.1	297.2	101.1	–196.1
New Zealand	32.7	37.9	+5.2	30.8	34.2	+3.4
Europe	10,445.5	9,724.6	–720.8 ↓	9,301.7	9,085.9	–215.8 ↓
Germany	404.9	1,151.0	+746.1	285.5	1,142.5	+857.0
U.K.	1,600.4	322.9	–1,277.5	1,584.0	–369.4	–1,953.4
France	3,635.2	4,956.2	+1,321.0	3,797.9	4,954.1	+1,156.1
Netherlands	2,713.2	728.6	–1,984.6	2,069.6	707.5	–1,362.1
Italy	132.0	63.8	–68.2	141.2	82.4	–58.8
Belgium	83.2	97.7	+14.5	83.8	336.8	+253.1
Luxembourg	740.2	530.9	–209.3	720.7	533.9	–186.8
Switzerland	626.7	1,150.4	+523.7	226.7	1,096.4	+869.7
Sweden	279.6	54.9	–224.7	305.9	68.2	–237.8
Spain	73.0	–97.7	–170.7	74.2	–23.2	–97.4
Russia	6.3	5.8	–0.5	6.7	6.0	–0.7
Middle East	178.5	–57.9	–236.3 ↓	190.3	–55.3	–245.6 ↓
Saudi Arabia	2.8	–350.1	–352.9	2.9	–438.5	–441.4
U.A.E.	12.0	62.4	+50.5	26.3	58.2	+31.9
Iran	—	—	—	—	—	—
Africa	17.6	10.3	–7.4 ↓	80.2	11.3	–69.0 ↓
R.South Africa	0.1	0.5	+0.4	0.1	0.6	+0.5

[7] Arrows in the figure indicate whether (B) is larger (↑) or smaller (↓) than (A).

Appendix 3. Recent Discussions on the Treatment of Digital Trade in the BOP Statistics

In response to the increase in digital trade in recent years, there have been active discussions at conferences held by such institutions as the IMF and the OECD on how to record such trade in the BOP statistics. This appendix presents some of the ongoing international discussions surrounding digital trade.

In 2020, the OECD, the World Trade Organization (WTO), and the IMF compiled and published the *Handbook on Measuring Digital Trade, Version 1* (hereafter the Handbook) for national authorities in charge of compiling BOP statistics, to help capture digital trade transactions. In the Handbook, digital trade is defined as "all trade that is digitally ordered and/or digitally delivered."[8,9] Among such trade, transactions via digital intermediation platforms (hereafter "platforms") in particular have been increasing in recent years and have become a major topic at, for example, international conferences.

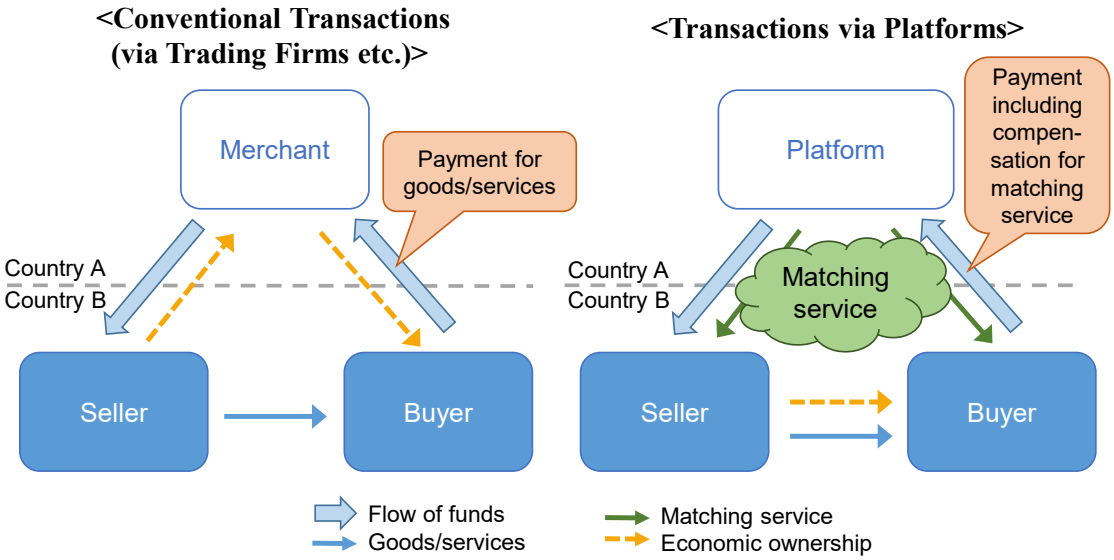
Appendix Figure 3.1 compares transactions via conventional channels with transactions via platforms. The left part of the figure shows conventional intermediary trade in which a merchant in country A acts as an intermediary between a seller and a buyer that both reside in country B. In the case of conventional intermediary trade, while goods are often passed directly from the seller to the buyer, the merchant enters into individual sales contracts with the seller and the buyer. As a result, ownership of the goods is first transferred from the seller to the merchant, and then from the merchant to the buyer.

On the other hand, while transactions via platforms -- shown in the right part of Appendix Figure 3.1 -- are identical to transactions via conventional channels in that the goods themselves move directly from the seller to the buyer, they differ in that ownership of the goods is not transferred via the platform but passes directly from the seller to the buyer. Thus, the platform provides a matching service for which it receives compensation.

[8] Examples of trade that is digitally ordered include online purchases of daily necessities or international flight tickets.

[9] Examples of trade that is digitally delivered include downloading of music and streaming of video content.

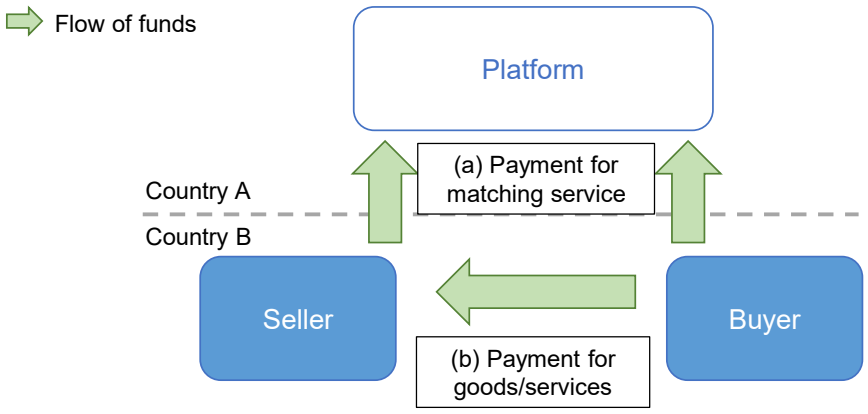
Appendix Figure 3.1: Comparison between Conventional Intermediary Trade and Digital Trade



In compiling statistics, capturing such transactions via platforms is not easy. Reasons include the following: (1) digitalization has spread so widely that transactions via platforms are used even for personal e-commerce transactions. In Japan, for example, under the Foreign Exchange Act, only transactions worth more than 30 million yen need to be reported, so that many small transactions, especially those conducted by individuals, are excluded from reporting requirements. In addition, (2) the compensation for the matching service -- shown as (a) in Appendix Figure 3.2 -- which should be recorded in the BOP, is difficult to estimate precisely without the cooperation of the platform, as there are no market transactions that can be used for reference to estimate the compensation; and (3) due to the fact that these are electronic transactions, it is difficult to identify the location (residence) of each entity involved in the transaction, which is essential for compiling the BOP statistics.

Countries are beginning to make efforts to capture the digital economy overall. The Handbook provides such examples as the estimation of the market size using big data and the implementation of questionnaire surveys for households.

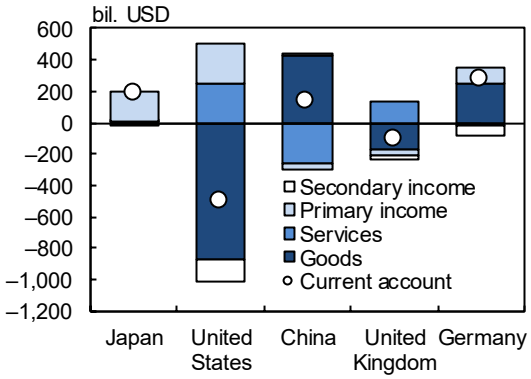
Appendix Figure 3.2: How Digital Trade Would Ideally Be Recorded



Appendix 4. International Comparison of Current Accounts

Comparing the current accounts of five major countries (Japan, the United States, China, the United Kingdom, and Germany) reveals key features of each economy. As of 2019, the main reason for Japan's current account surplus was the surplus on primary income, while for the four other countries the current account surplus or deficit was led by goods (Appendix Figure 4.1). However, the components responsible for fluctuations in the current account balance differ across these four countries. The following sections present key features of the current accounts of the four countries other than Japan.

Appendix Figure 4.1: Current Account of Five Major Countries, 2019



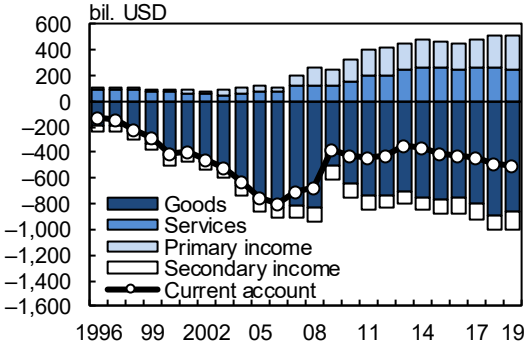
Source: IMF.

(1) United States

The United States continues to register a current account deficit, mainly due to the deficit on goods (Appendix Figure 4.2[a]). By country, China, Mexico, and Canada are the top three in terms of U.S. imports (Appendix Figure 4.2[b]).

Appendix Figure 4.2: United States

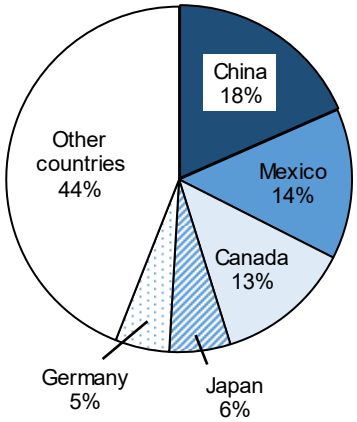
(a) Current Account



Source: IMF.

Note: Figures before 1999 are compiled based on the *BPM5*.

(b) Imports by Country, 2019

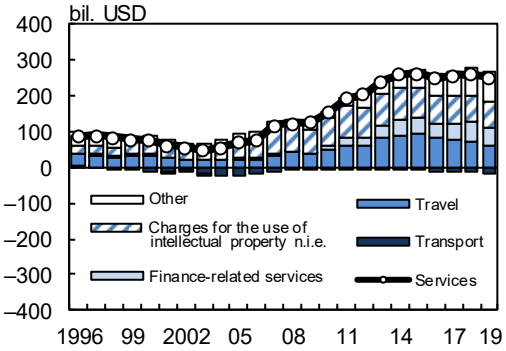


Source: United Nations.

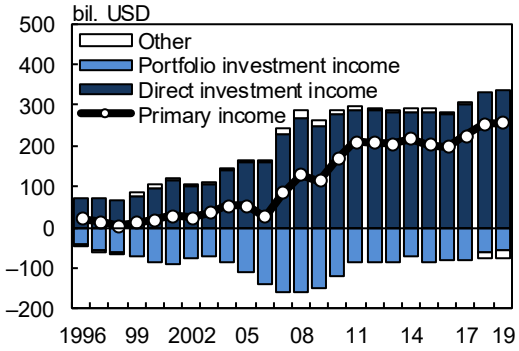
On the other hand, the United States continues to register a surplus on services and primary income. A breakdown of services shows that a key feature is the large contribution of charges for the use of intellectual property n.i.e. (Appendix Figure 4.2[c]). Looking at Japan's payments of charges for the use of intellectual property n.i.e., payments to the United States account for about 40 percent of overall payments, mainly reflecting royalty payments for

software. As for primary income, direct investment income accounts for almost all of the surplus (Appendix Figure 4.2[d]).

(c) Services



(d) Primary Income



Source: IMF.

Notes: 1. Figures before 1999 are compiled based on the *BPM5*.

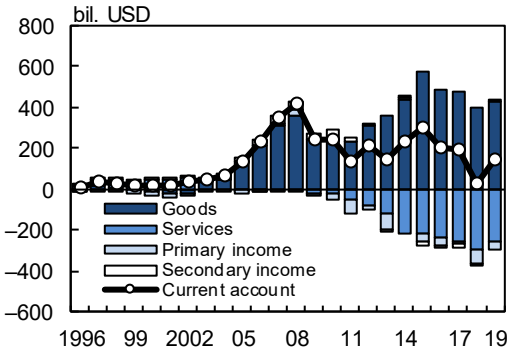
2. "Finance-related services" is the sum of figures for financial services and "insurance and pension services." The same applies to the figures below.

(2) China

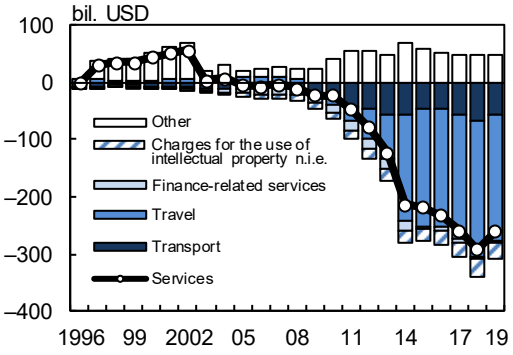
Although China continues to register a current account surplus mainly due to the surplus on goods, the deficit on services has increased considerably in recent years, narrowing the current account surplus (Appendix Figure 4.3[a]). A breakdown of services shows that the deficit on travel has expanded considerably (Appendix Figure 4.3[b]). This is due to the substantial increase in payments for travel as a result of the increase in overseas travel mainly reflecting the rise in incomes and the relaxation of visa requirements for Chinese travelers. This increase in China's payments for travel has contributed to the increase in Japan's travel receipts (see Figure 15 in the main text).

Appendix Figure 4.3: China

(a) Current Account



(b) Services



Source: IMF.

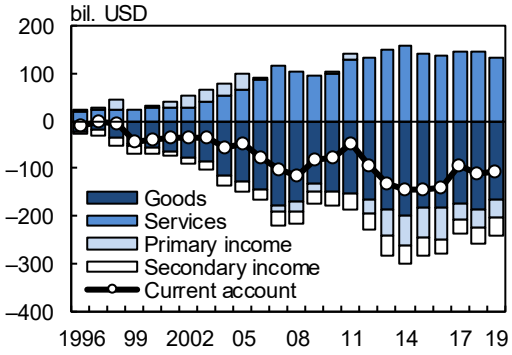
Note: Figures before 2005 are compiled based on the *BPM5*.

(3) United Kingdom

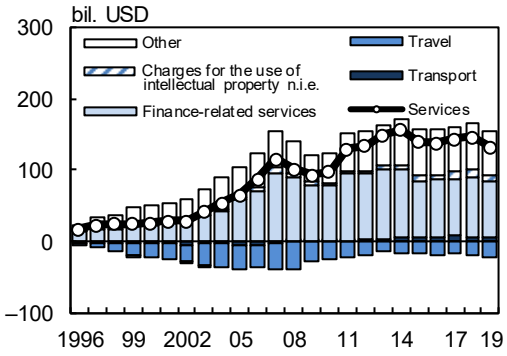
A key feature of the United Kingdom is that while it continues to register a current account deficit mainly due to the deficit on goods, it runs a relatively large surplus on services (Appendix Figure 4.4[a]). Looking at a breakdown of services, the country has a large surplus on finance-related services through its role as a global financial center (Appendix Figure 4.4[b]). Among Japan's payments for finance-related services, the United Kingdom accounts for about 20 percent.

Appendix Figure 4.4: United Kingdom

(a) Current Account



(b) Services



Source: IMF.

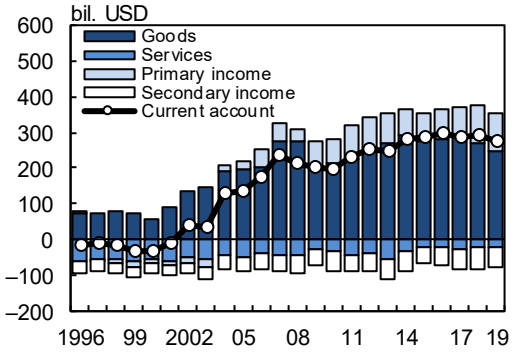
Note: Figures before 1999 are compiled based on the *BPM5*.

(4) Germany

Germany continues to register a current account surplus, mainly due to the surplus on goods (Appendix Figure 4.5[a]). Looking at exports by country and region, a key feature is that exports within the European Union (EU) account for more than 50 percent. As for exports outside the EU, the United States and China account for large shares (Appendix Figure 4.5[b]).

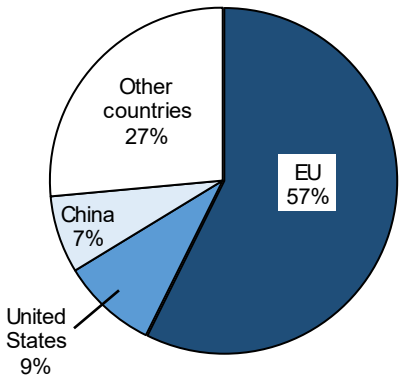
Appendix Figure 4.5: Germany

(a) Current Account



Source: IMF.

(b) Exports by Country/Region, 2019



Source: United Nations.