

Japan's Balance of Payments Statistics and International Investment Position for 2020

**August 2021
International Department
Bank of Japan**

This report is an English translation of the Japanese original released on July 8, 2021.

Japan's balance of payments statistics for 2020 -- the annually revised figures for the first through the third quarter of 2020 and the second preliminary figures for the fourth quarter of 2020 -- were released on April 8, 2021, by the Ministry of Finance and the Bank of Japan in the Balance of Payments.

Japan's international investment position at year-end 2020 was released on May 25, 2021, by the Ministry of Finance and the Bank as the International Investment Position of Japan (End of 2020).

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Balance of Payments Division,
International Department, Bank of Japan
E-mail: boj-bop@boj.or.jp

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Explanatory Notes

- Unless otherwise noted, the figures and charts in this report are based on data from the balance of payments related statistics, such as the Balance of Payments and the International Investment Position, jointly released by the Bank of Japan and the Ministry of Finance.
- Figures from 2014 onward are compiled based on the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) published by the International Monetary Fund (IMF).
- In principle, figures before 2014 in this report use "historical data rearranged based on the BPM6," in which figures that were originally compiled based on the fifth edition of the Balance of Payments Manual (BPM5) were rearranged in accordance with the BPM6 to the greatest extent possible. However, unless otherwise stated, figures by partner economy, including those by region, have been compiled based on the BPM5. For this reason, the totals may differ from corresponding data underlying the charts using "historical data rearranged based on the BPM6." Moreover, for figures for portfolio investment and "other investment" under the financial account, those compiled based on the BPM5 excluding securities lending transactions are used so that the data are comparable with the BPM6-based data.
- In the Direct Investment by Region and Industry statistics, figures for flows under the financial account and those for positions are compiled based on the directional principle, while those for income under primary income in the current account are compiled based on the asset and liability principle. For the difference between the two principles, see [Recording Principles of Direct Investment](#) on the Bank's website.

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 financial 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 and IIP (which together, including breakdowns by partner economy, are referred to as the "BOP related 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 statistics amounts to over 400 thousand a year. The BOP related statistics are employed as source data for the System of National Accounts statistics and the Flow of Funds Accounts statistics. 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 of Japan annually releases a report summarizing developments in Japan's BOP and IIP during the preceding year. The report 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 regarding the compilation and release of Japan's BOP related statistics as well as developments in international discussions are outlined in the appendixes.

Most of Japan's BOP related data are available in the Bank's online data portal, the BOJ Time-Series Data Search (except for data on Direct Investment by Region and Industry, which 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 on the Bank's website.

A comprehensive list of BOP related statistics and details on how they are released are provided on the [Balance of Payments Related Statistics \(Data Based on the BPM6\)](#) page of the Bank's website. See also [FAQs on the Balance of Payments Related Statistics](#) for more information.

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 equal amounts are recorded on the credit and the debit side.

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

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 comprises goods, services, primary income, and secondary income, while the financial account comprises 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 as well as receipts/payments of income.
Goods	Exports/imports of goods and intermediary trade (i.e., merchanting).
Services	Travel, transport, charges for the use of intellectual property, and other service transactions related to business activities.
Primary income	Receipts/payments of dividends paid out of earnings and interest on bonds.
Secondary income	Receipts/payments of insurance premiums/claims and compensation for damages, as well as contributions to international organizations.
Capital account	Debt forgiveness and transfer of assets through inheritances.
Financial account	Transactions involving the acquisition/disposal of external financial assets and incurrence/repayment of external liabilities.
Direct investment	Investments for the acquisition of firms and establishment of subsidiaries, as well as withdrawals.
Portfolio investment	Sales/purchases of equity as well as sales/purchases and issuances/redemptions of debt securities.
Financial derivatives (other than reserves)	Receipts/payments of forward trading gains/losses and notional exchange gains/losses on currency swaps.
Other investment	Loans, deposits, accounts receivable/payable resulting from the time difference between the contract date and settlement of securities.
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 liabilities. Conversely, the following are recorded as debits: imports of goods and services, income payments, transfer payments, increases in financial assets, and decreases in liabilities.

The following concrete transaction examples illustrate how the BOP statistics are compiled based on double-entry accounting:

- (1) Export of motor vehicles 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 liabilities)
Currency	100	(Debit – Increase in financial assets)

	Credit (Receipts)	Debit (Payments)	Net	Balance
Current account	80	10	+70	+70
Goods	80 ⁽¹⁾		+80	+80
Services			0	0
Primary income		10 ⁽²⁾	-10	-10
Secondary income			0	0
Capital account			0	0

	Assets			Liabilities			Balance
	Credit	Debit	Net	Credit	Debit	Net	
Financial account	50	220	+170	100	0	+100	+70
Direct investment		40 ⁽³⁾	+40			0	+40
Portfolio investment			0			0	0
Financial derivatives (other than reserves)			0			0	0
Other investment	10 ⁽²⁾ +40 ⁽³⁾	80 ⁽¹⁾ +100 ⁽⁴⁾	+130	100 ⁽⁴⁾		+100	+30
Reserve assets			0				0

Net errors and omissions		0
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Note: Example (3) assumes that the investment ratio (for voting rights) is 10 percent or more, while example (4) assumes that the investment ratio is less than 10 percent.

For instance, in example (1), the transaction will be recorded as a credit of 80 under "goods" in the current account, and the currency receipt of 80 will be recorded as a debit under "other investment (financial assets)" in the financial account. In example (4), the transaction will be recorded in the financial account as a credit of 100 under "loans" in "other investment (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 liabilities (credit minus debit)." In this report, if the net acquisition of financial assets minus the net incurrence of 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:

$$\text{Current account balance} + \text{Capital account balance} - \text{Financial account balance} + \text{Net errors and omissions} = 0$$

In terms of the aforementioned examples, this means:

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

Meanwhile, "net errors and omissions" are 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 2020

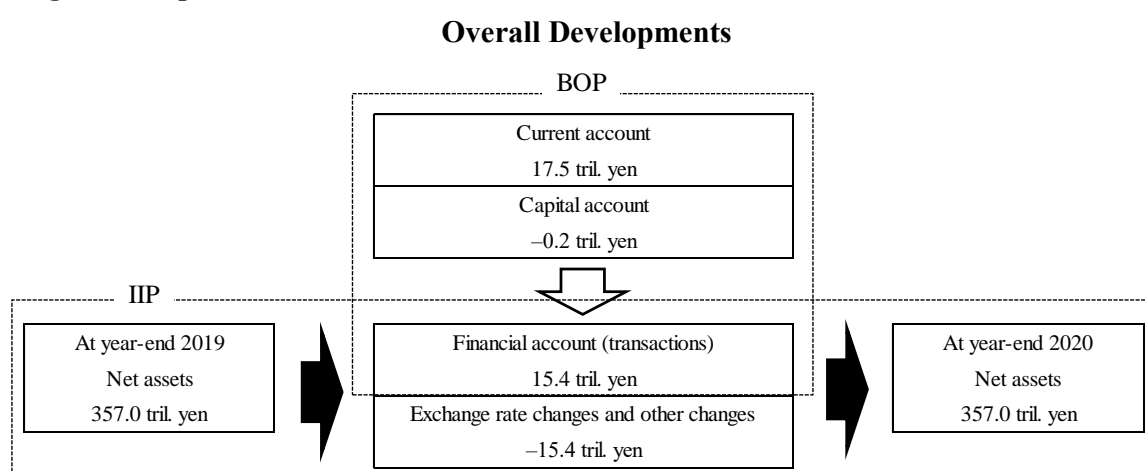
Overall developments

The overall current account surplus decreased. While the spread of the novel coronavirus (COVID-19) had a wide-ranging impact on the current account, the decrease in the current account surplus mainly reflects the increase in the deficit on services, largely due to the decline in the surplus on travel. The surplus on primary income also decreased, mainly due to a decline in the surplus on portfolio investment income. Meanwhile, the surplus on goods increased, reflecting the fact that although exports decreased due to the depression in overseas economies, imports fell even more.

Japan's financial account registered a decrease in net lending mainly due to a decline in net lending under direct investment.

Japan's net asset position remained essentially unchanged from the previous year.

Figure 1: Japan's BOP and IIP for 2020



BOP (Flows)

tril. yen	2019	2020	y/y chg.
Current account	19.3	17.5	-1.7
Goods	0.2	3.0	+2.9
Services	-1.1	-3.7	-2.7
Primary income	21.6	20.8	-0.8
Secondary income	-1.4	-2.5	-1.2
Capital account	-0.4	-0.2	+0.2
Financial account	24.9	15.4	-9.5
Direct investment	23.9	11.3	-12.6
Portfolio investment	9.4	4.2	-5.1
Financial derivatives (other than reserves)	0.4	0.9	+0.5
Other investment	-11.5	-2.2	+9.4
Reserve assets	2.8	1.2	-1.6
Net errors and omissions	6.0	-2.0	—

IIP (Stocks)

tril. yen

	Assets			Liabilities		
	Year-end 2019	Year-end 2020	y/y chg.	Year-end 2019	Year-end 2020	y/y chg.
Total	1,090.5	1,146.1	+55.6	733.5	789.2	+55.6
Direct investment	204.2	206.0	+1.8	34.3	39.7	+5.3
Portfolio investment	495.0	525.8	+30.8	396.2	426.0	+29.8
Financial derivatives (other than reserves)	34.3	44.7	+10.4	33.3	42.3	+9.0
Other investment	212.6	225.5	+12.9	269.7	281.1	+11.5
Reserve assets	144.5	144.2	-0.3	—	—	—
Net assets	357.0	357.0	-0.0			

Developments in major components of the BOP

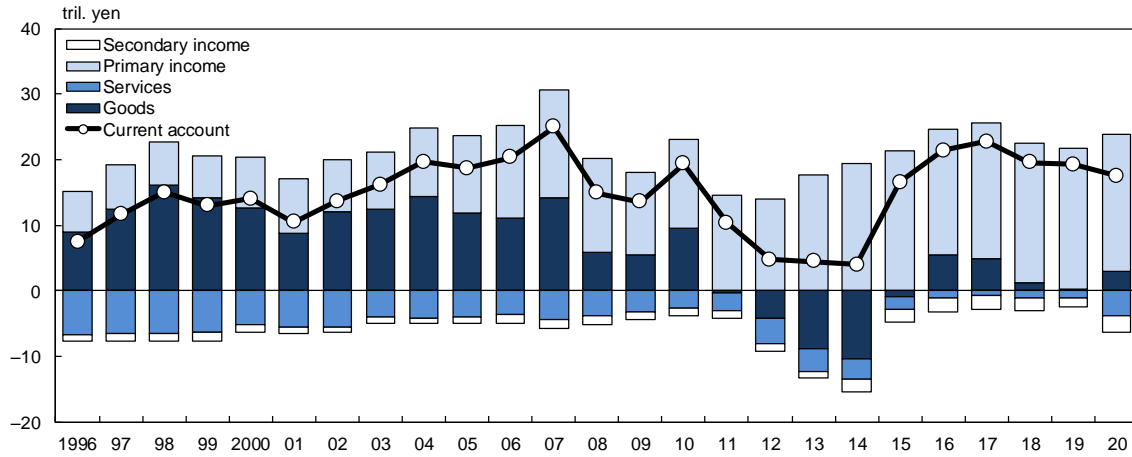
- The current account surplus decreased.
 - The surplus on goods increased as the decline in imports exceeded that in exports.
 - The deficit on services increased due to a large decline in the surplus on travel and a rise in the deficit on other services.
 - The surplus on primary income decreased mainly due to a decline in the surplus on portfolio investment income.
 - The deficit on secondary income increased mainly due to an increase in payments.
- The financial account registered a decline in net lending.
 - Net direct investment registered a decline in net lending. Net incurrence of direct investment liabilities marked a record high due to a rise in net incurrence of "debt instruments."
 - Net portfolio investment registered a decline in net lending. Net purchases of foreign securities by Japanese investors decreased. Net purchases of Japanese securities by foreign investors increased.

Developments in Japan's IIP

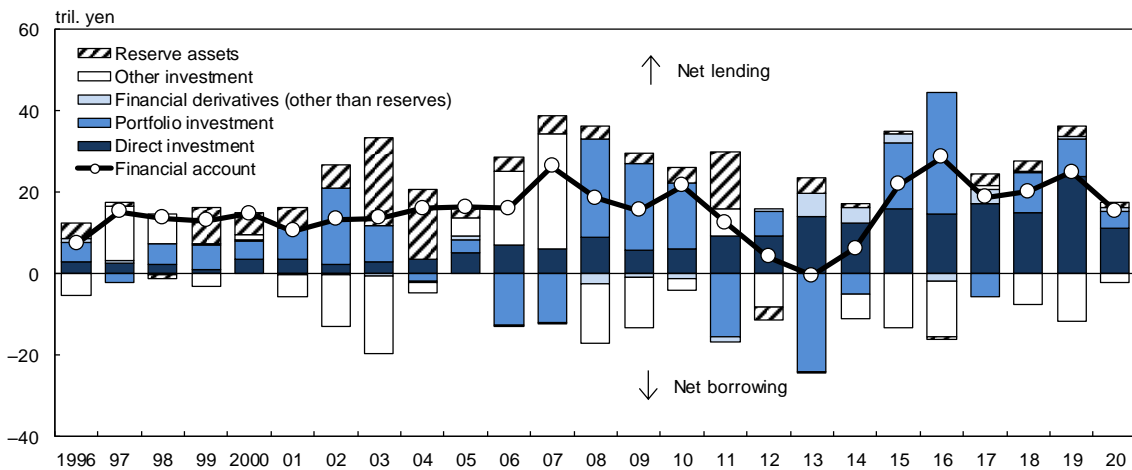
- Japan's net asset position remained essentially unchanged from the previous year.
 - Assets increased, mainly due to an increase in portfolio investment assets.
 - Liabilities increased, mainly due to an increase in portfolio investment liabilities.
 - Since the increase in assets was offset by that in liabilities, Japan's net asset position remained essentially unchanged from the previous year. Among major economies that release IIP data, Japan at year-end 2020 continued to record the largest net asset position, which amounted to 357.0 trillion yen.

Figure 2: Japan's BOP and IIP

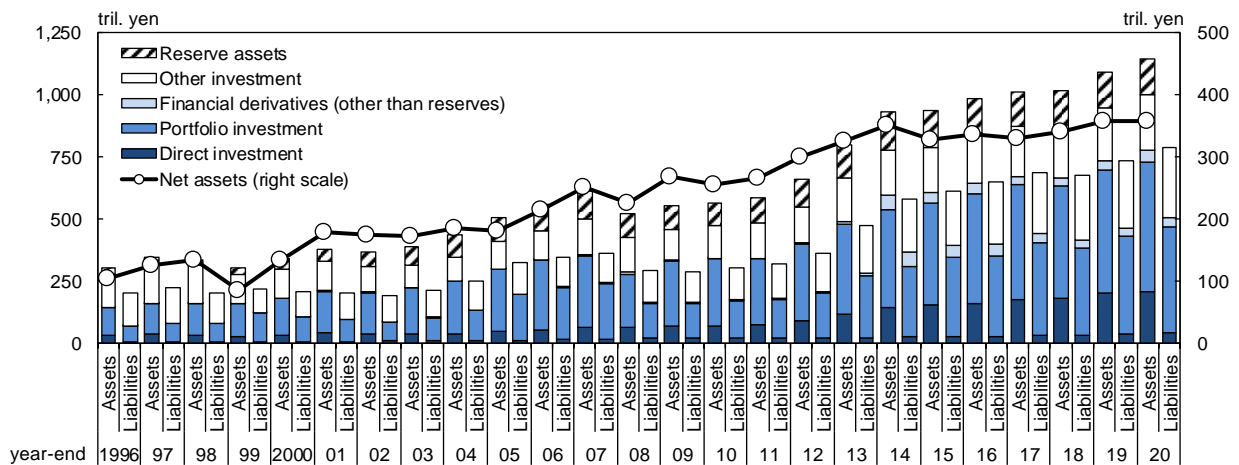
Current Account



Financial Account



IIP



III. Developments in the Current Account in 2020

A. Goods

The surplus on goods increased to 3.0 trillion yen in 2020 from 0.2 trillion yen in 2019 as the decline in imports exceeded that in exports.

Exports fell to 67.4 trillion yen in 2020 from 75.8 trillion yen in 2019 mainly due to a decrease in exports of transport equipment (such as motor vehicles) to Europe and North America. Imports fell to 64.4 trillion yen in 2020 from 75.6 trillion yen in 2019 mainly due to a decrease in imports of mineral fuels (such as crude oil) from the Middle East as a result of the drop in crude oil prices and a decline in fuel demand.

Breaking down changes in trade indexes into the contribution of changes in quantities and changes in prices shows that the decline in exports was mainly due to a decline in quantities, while the decline in imports was due to declines in both prices and quantities.

Figure 3: Goods

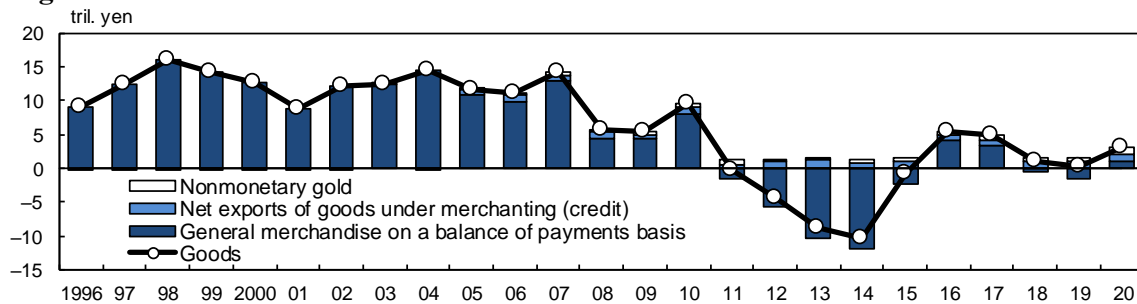


Figure 4: Goods by Region

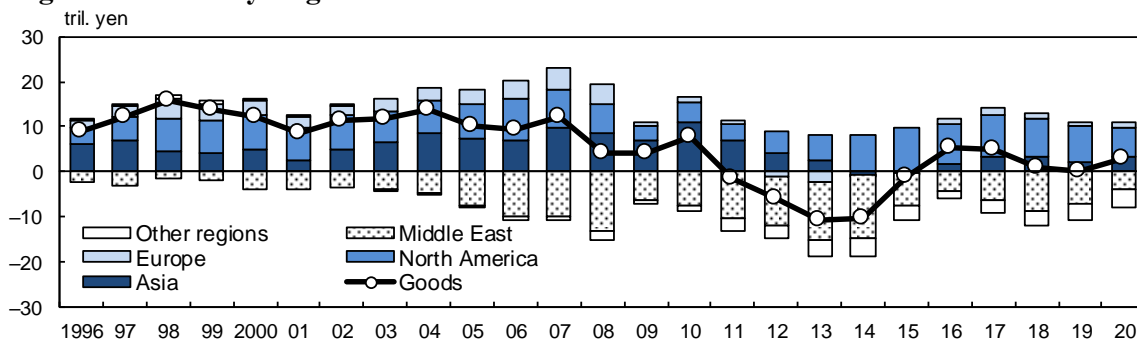


Figure 5: Exports by Region

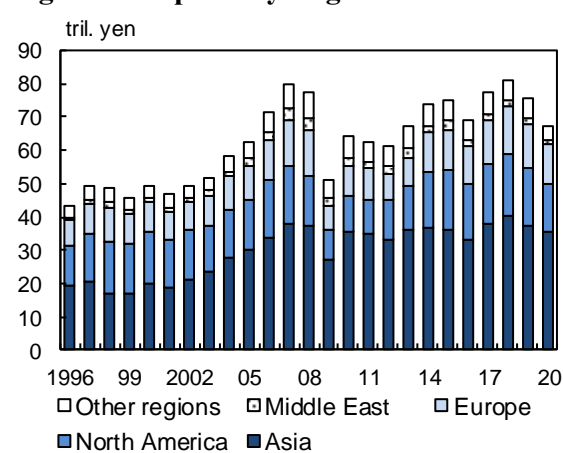


Figure 6: Imports by Region

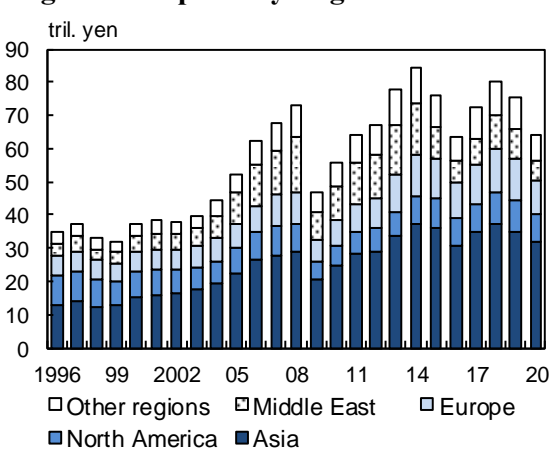
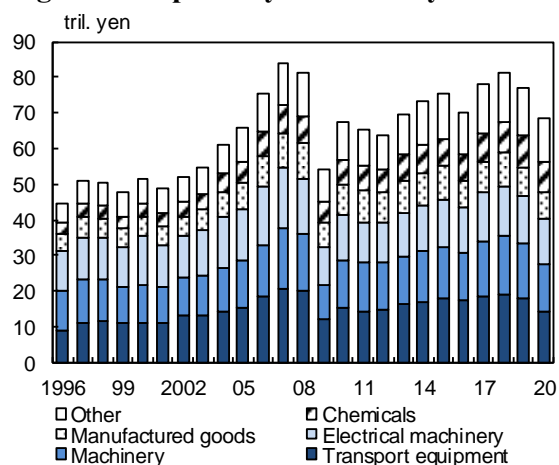
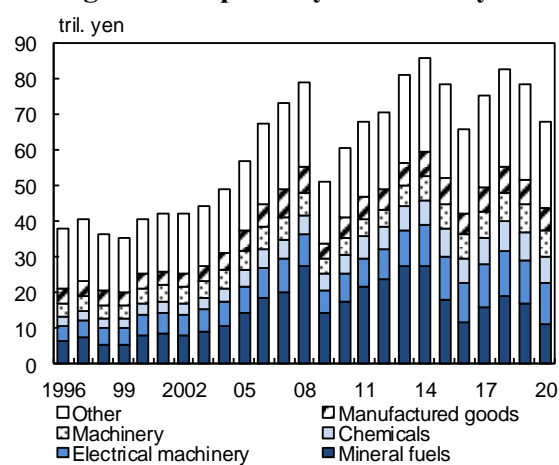


Figure 7: Exports by Commodity



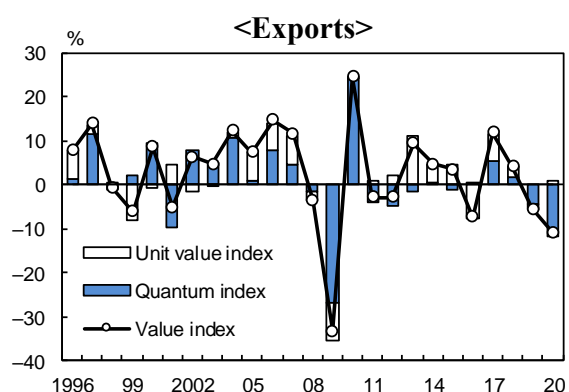
Source: Ministry of Finance, "Trade Statistics of Japan."

Figure 8: Imports by Commodity

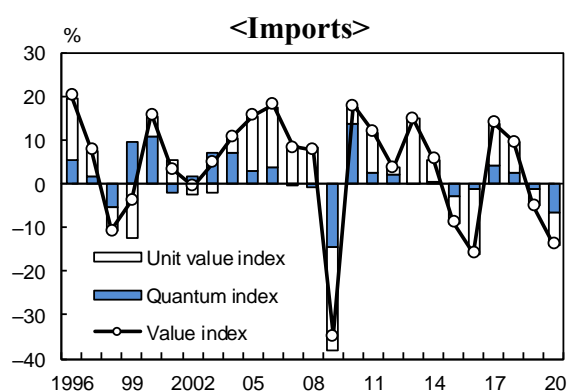


Source: Ministry of Finance, "Trade Statistics of Japan."

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 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 deficit on services increased to 3.7 trillion yen in 2020 from 1.1 trillion yen in 2019 due to a large decline in the surplus on travel and a rise in the deficit on other services. The deficit on services registered the largest increase since 1997, from when comparable data are available.

By region, the surplus vis-à-vis Asia decreased considerably.

Figure 10: Services¹

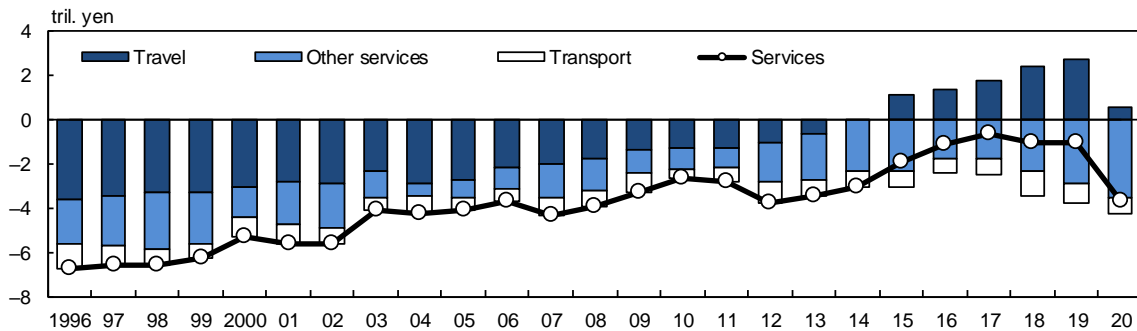


Figure 11: Services Credit and Debit

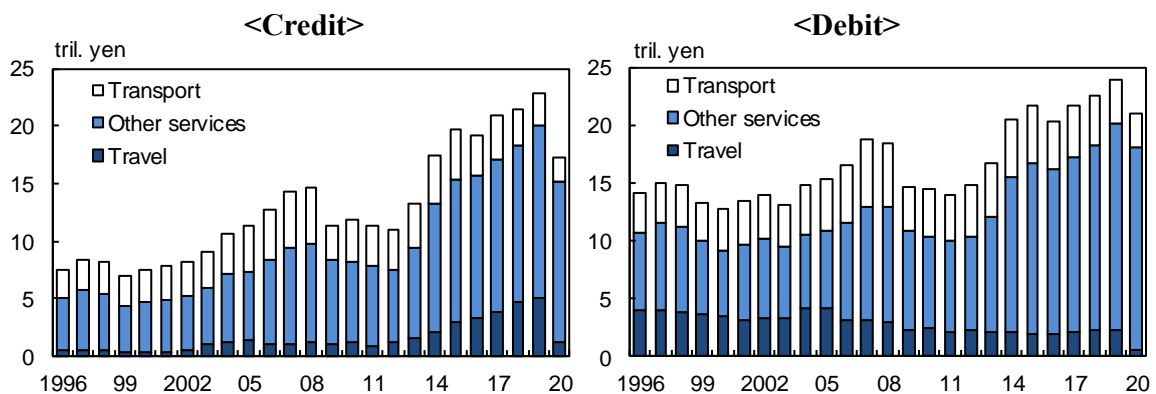
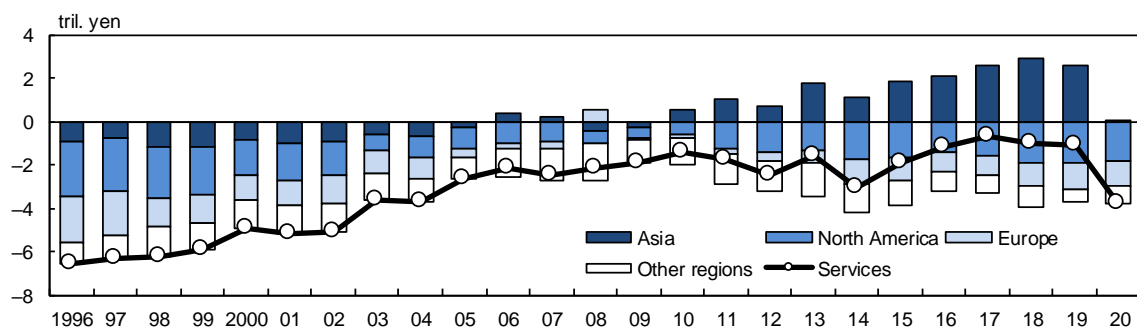


Figure 12: Services by Region



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

1. Travel

The surplus on travel declined to 0.6 trillion yen in 2020 from 2.7 trillion yen in 2019. While both receipts and payments decreased amid the global spread of COVID-19, the decrease in receipts exceeded that in payments, resulting in the decline in the surplus. The extent to which the travel balance operated in the direction of decreasing the current account surplus was the largest since 1997, from when comparable data are available.

Receipts fell to the lowest level since 2011 as the number of foreign visitors to Japan declined from all economies due to the entry and travel restrictions to contain the spread of COVID-19.

Payments also fell to the lowest level since 1996, from when comparable data are available, due to a decrease in the number of Japanese departures.

Figure 13: Travel

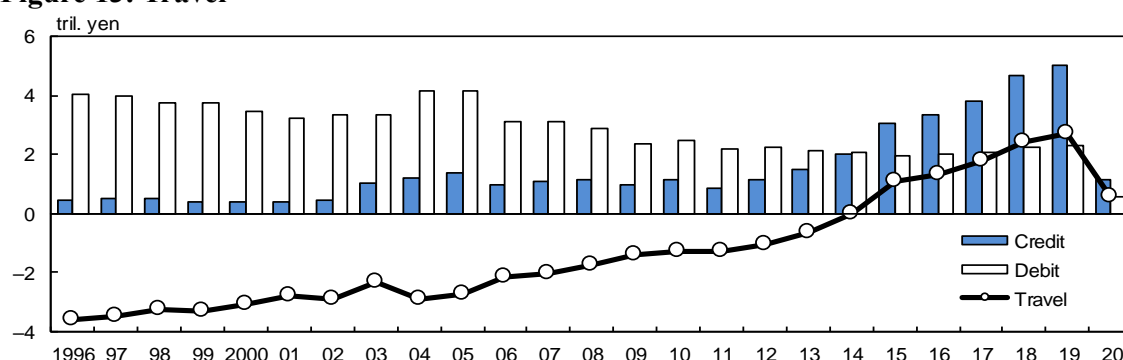


Figure 14: Travel by Partner Economy

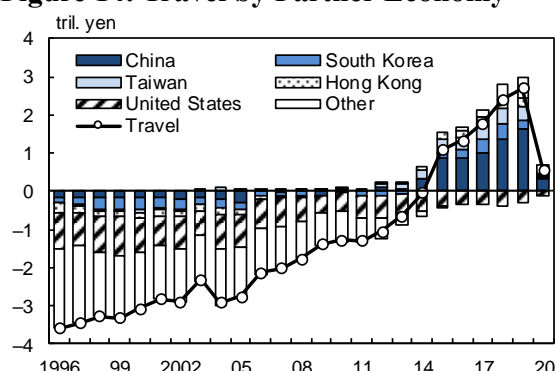


Figure 15: Credit by Partner Economy

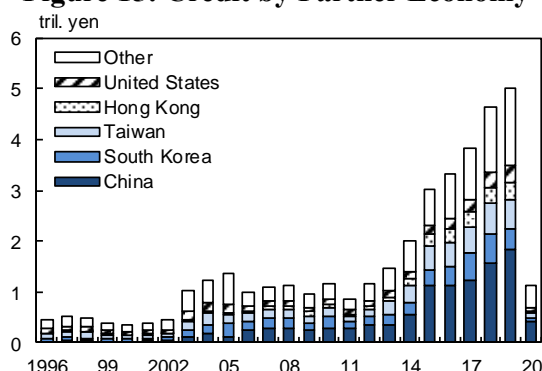
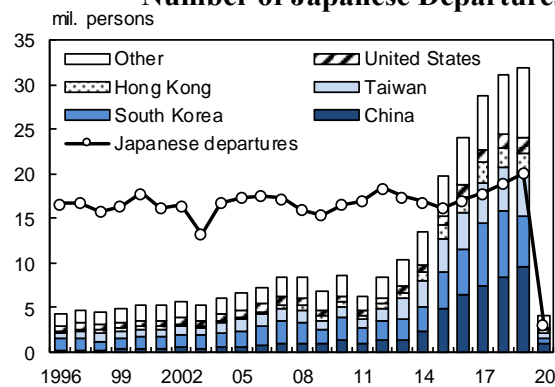
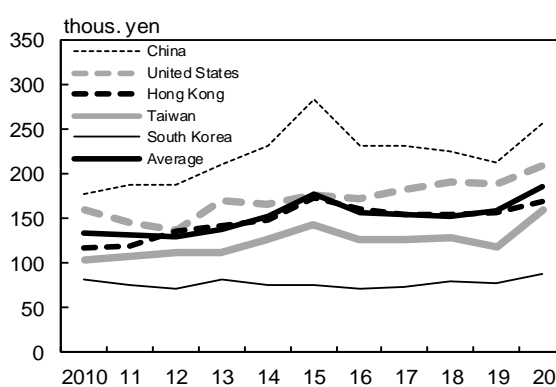


Figure 16: Number of Foreign Visitors to Japan by Partner Economy and Number of Japanese Departures



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."

11 Note: Figures for 2020 are estimated values.

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

The deficit on other services increased. Looking at charges for the use of intellectual property n.i.e., which were the main cause of the overall increase in the deficit, the surplus decreased to 1.6 trillion yen in 2020 from 2.2 trillion yen in 2019. This mainly reflects a decline in receipts of charges for the use of industrial property n.i.e. due to a decrease in production and sales of Japanese manufacturers' overseas affiliates.

A breakdown by region shows that the decrease in receipts of charges for the use of intellectual property n.i.e. was led by a fall in receipts from Asia and North America.

Figure 18: Other Services

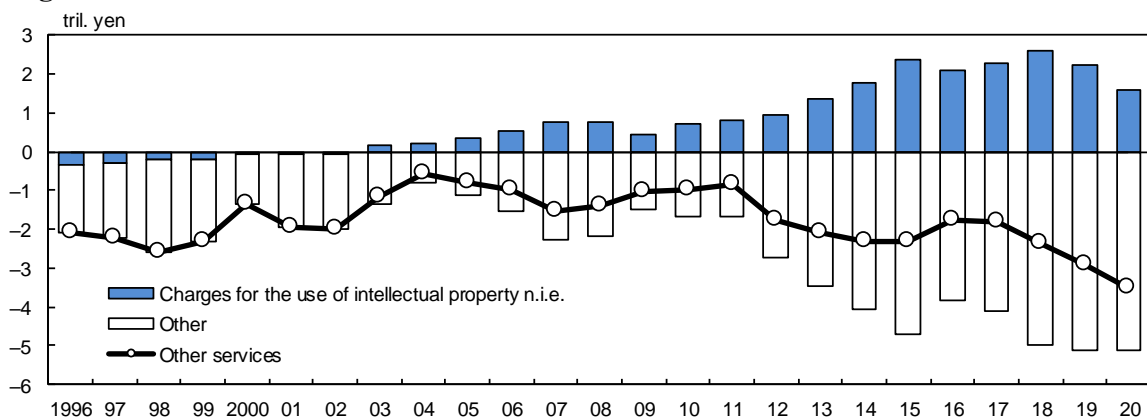


Figure 19: Charges for the Use of Intellectual Property n.i.e.

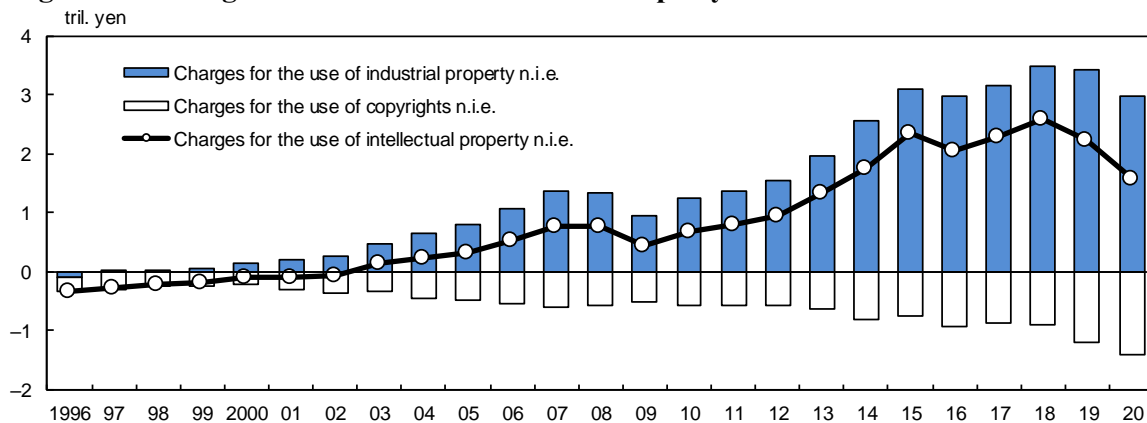
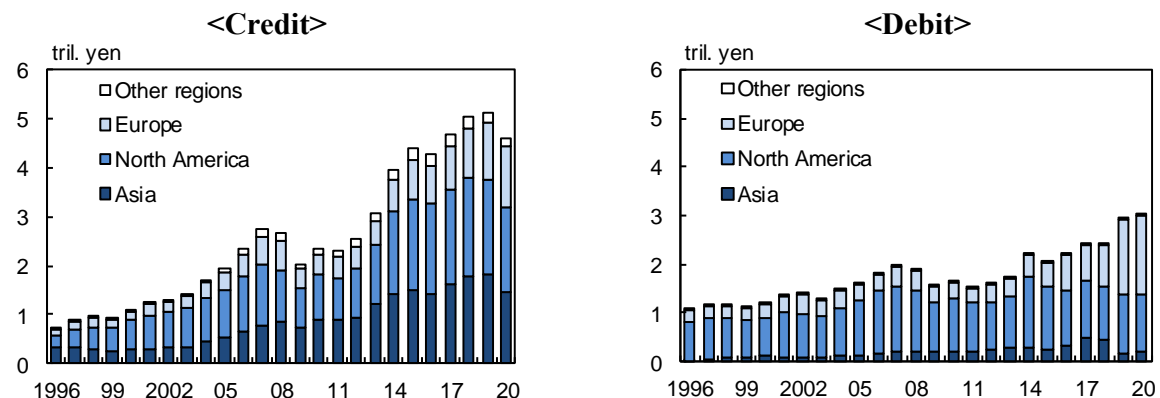


Figure 20: Charges for the Use of Intellectual Property n.i.e. by Region



C. Primary Income

The surplus on primary income decreased to 20.8 trillion yen in 2020 from 21.6 trillion yen in 2019. While the surplus on direct investment income was more or less unchanged from the previous year, the surplus on portfolio investment income declined.

Looking at portfolio investment income by component, the surplus on portfolio investment income declined mainly because receipts of interest decreased, reflecting the global decline in interest rates.

Figure 21: Primary Income

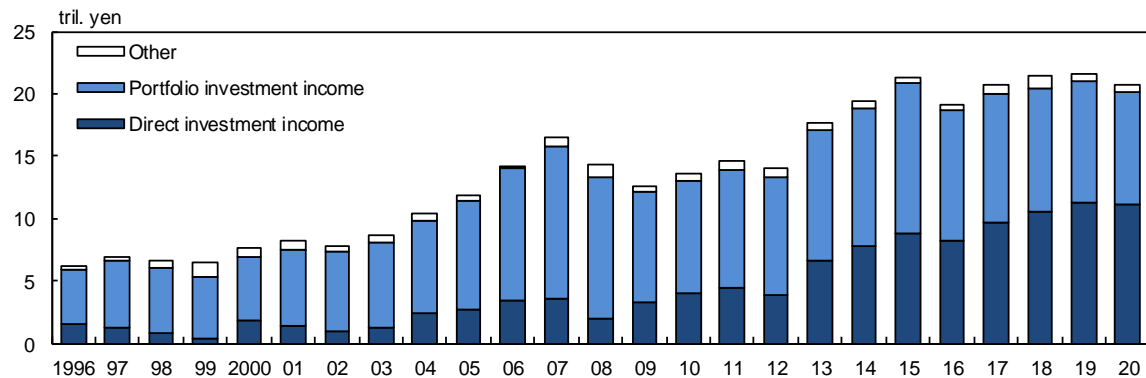


Figure 22: Direct Investment Income by Region

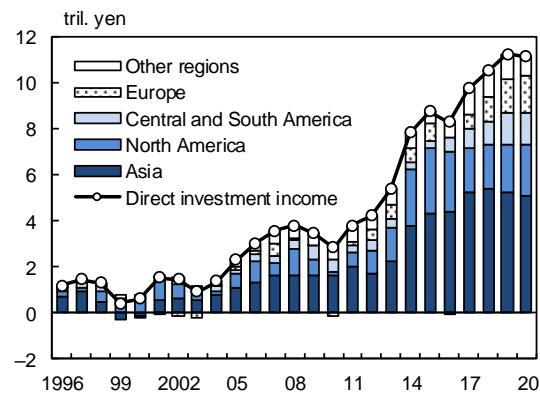


Figure 23: Direct Investment Income by Industry

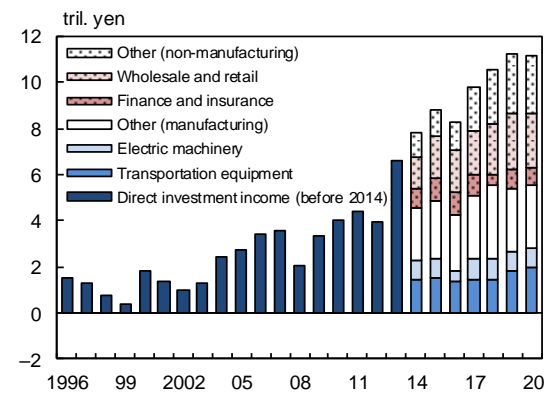


Figure 24: Portfolio Investment Income by Region

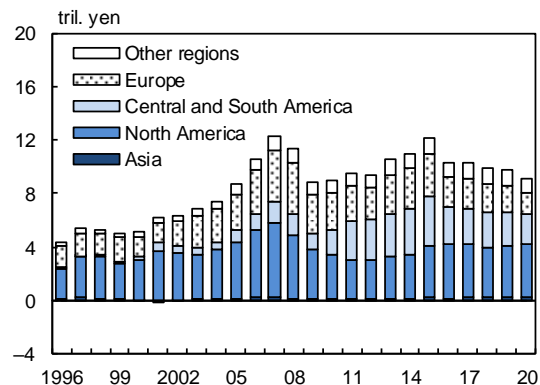
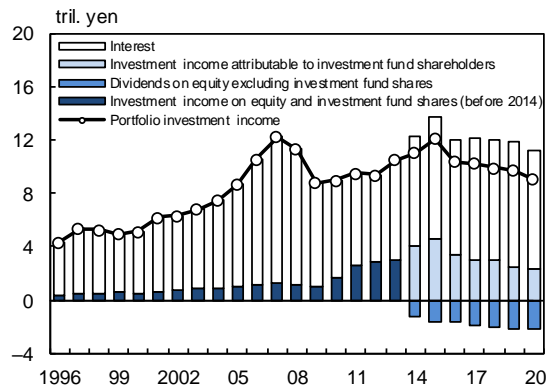


Figure 25: Portfolio Investment Income by Component



D. Secondary Income

As for secondary income, the deficit increased to 2.5 trillion yen in 2020 from 1.4 trillion yen in 2019, primarily reflecting large payments in the "financial corporations, nonfinancial corporations, households, and NPISHs" sector.² The deficit marked a record high since 1985, from when comparable data are available.

The deficit in the general government sector widened due to an increase in contributions to international organizations for COVID-19 responses.

Figure 26: Secondary Income

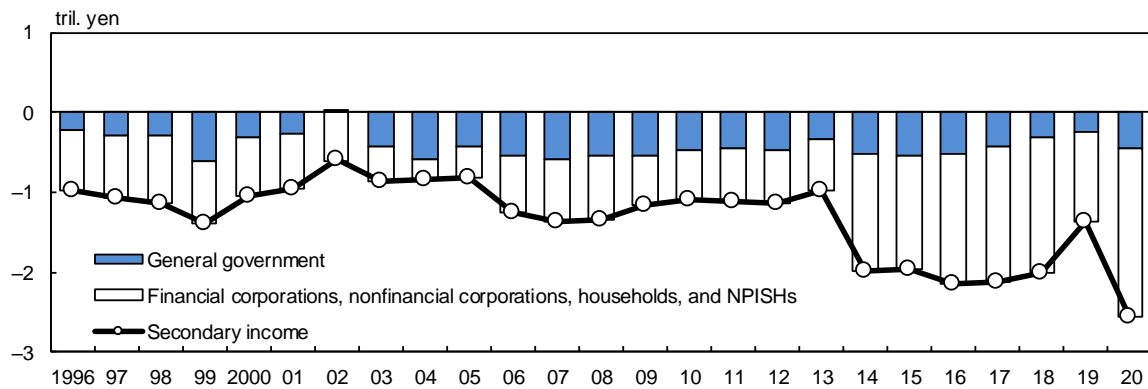
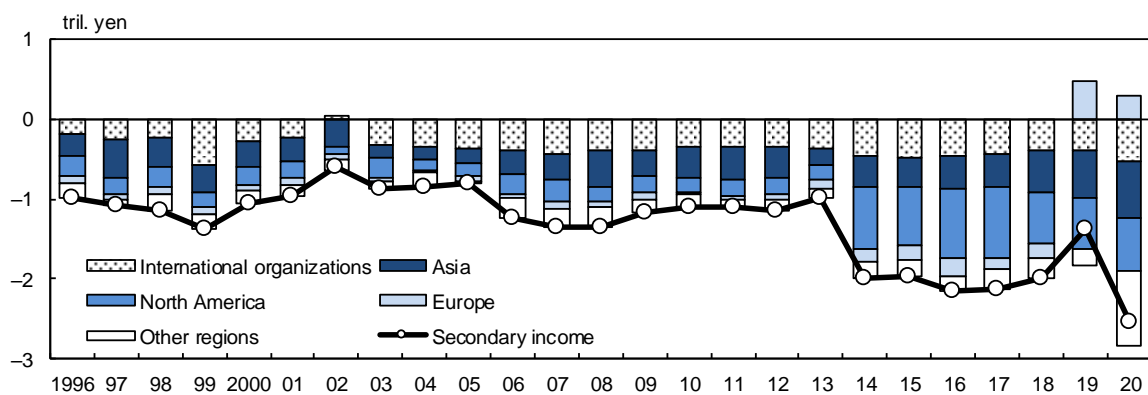


Figure 27: Secondary Income by Region



² "NPISHs" stands for "nonprofit institutions serving households."

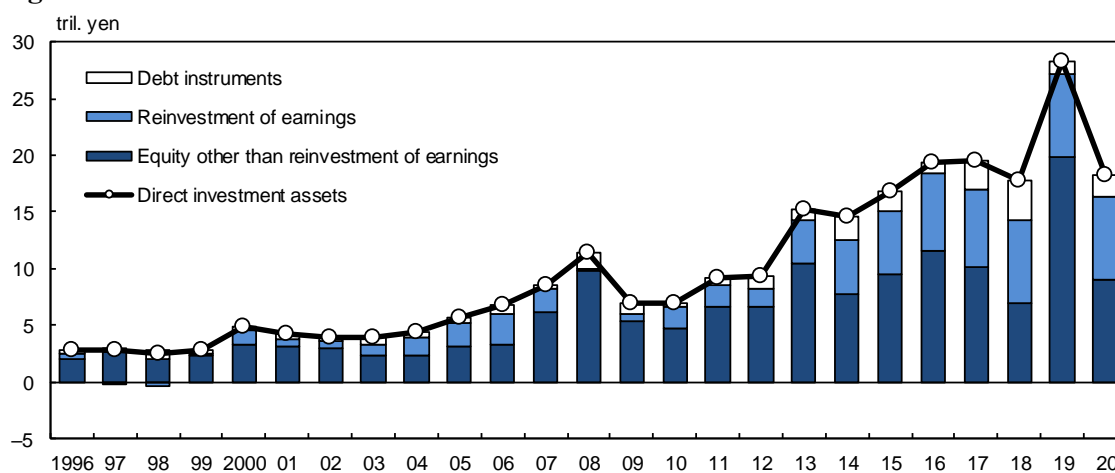
IV. Developments in the Financial Account in 2020

A. Direct Investment Assets (Outward Direct Investment)

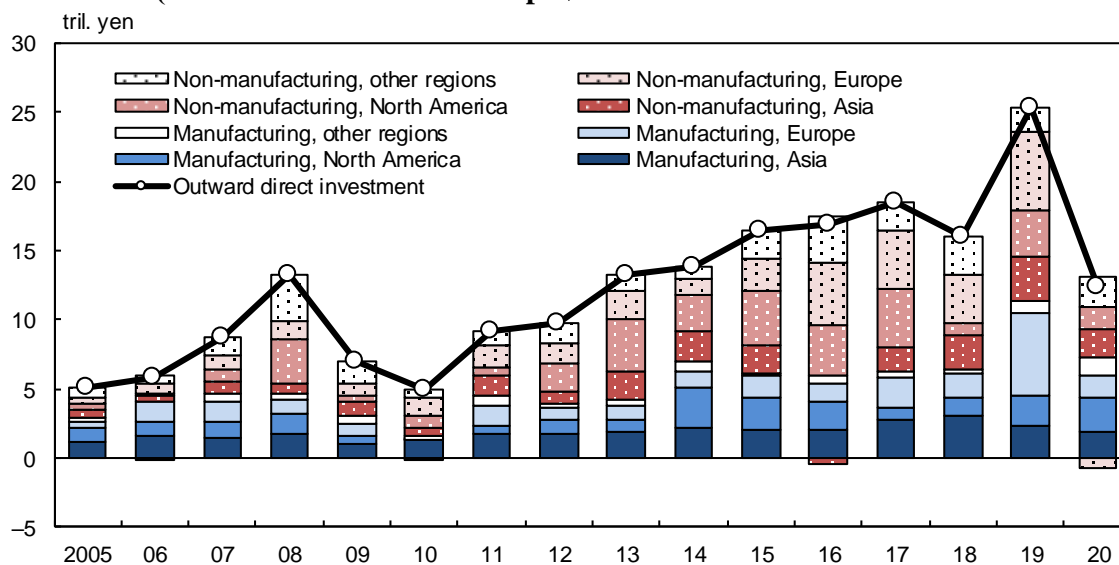
Net acquisitions of direct investment assets decreased to 18.3 trillion yen in 2020 from 28.2 trillion yen in 2019 due to a decline in net acquisitions of "equity other than reinvestment of earnings."

By region and industry, net outward investment decreased mainly because investment in the non-manufacturing sector in Europe shifted to net withdrawals.

Figure 28: Direct Investment Assets



**Figure 29: Outward Direct Investment by Region and Industry
(Based on Directional Principle)**



B. Direct Investment Liabilities (Inward Direct Investment)

Net incurrence of direct investment liabilities increased to 7.1 trillion yen in 2020 from 4.4 trillion yen in 2019, marking a record high, due to a rise in net incurrence of "debt instruments" led by an increase in loans from overseas subsidiaries.

On the other hand, based on the directional principle, net inward direct investment decreased. By region and industry, inward investment in the manufacturing sector from North America shifted to net withdrawals.

Figure 30: Direct Investment Liabilities

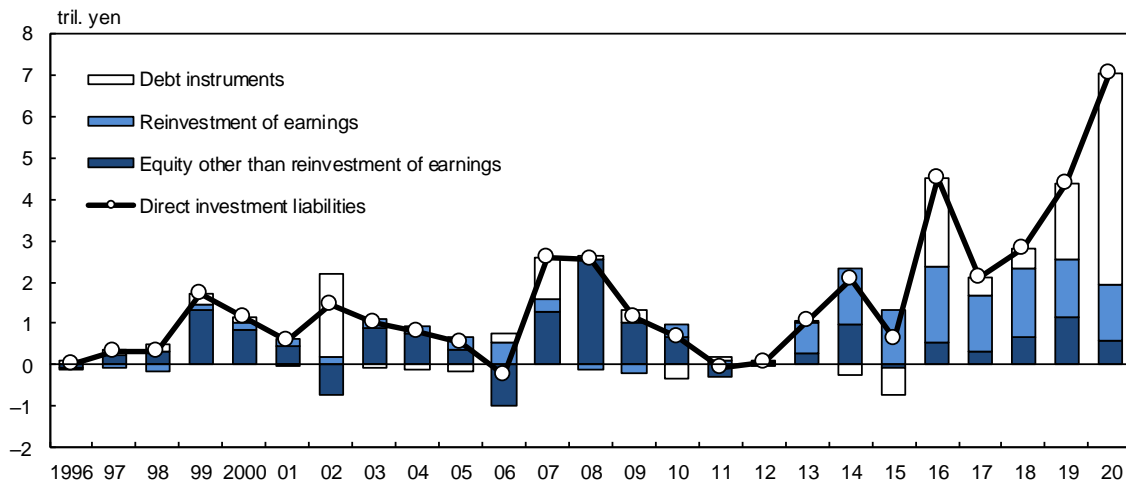
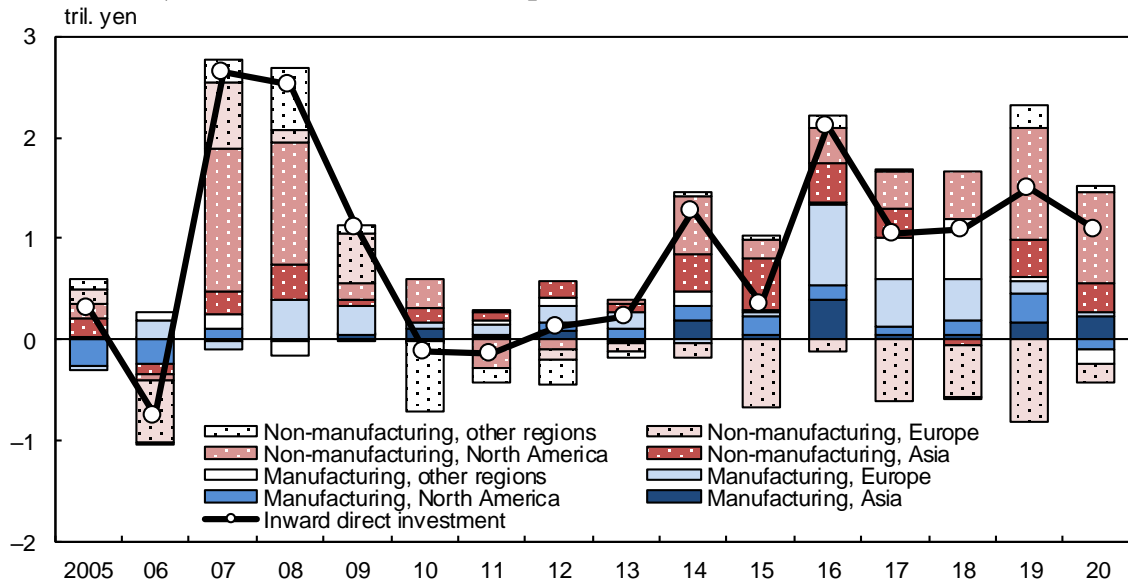


Figure 31: Inward Direct Investment by Region and Industry (Based on Directional Principle)



C. Portfolio Investment Assets

Net purchases of foreign securities by Japanese investors decreased to 17.2 trillion yen in 2020 from 20.2 trillion yen in 2019.

Looking at the breakdown, investment in foreign equity and investment fund shares shifted to net sales, mainly due to a rise in net sales of equity securities other than investment fund shares. By region, investment in Central and South American securities, which include securities issued by companies residing in the Cayman Islands, shifted to net sales. On the other hand, net purchases of long-term debt securities increased due to an increase in net purchases by "trusts."³ By partner economy, net purchases by Japanese investors of long-term debt securities issued by companies residing in "other" economies such as Australia increased.

Figure 32: Portfolio Investment Assets

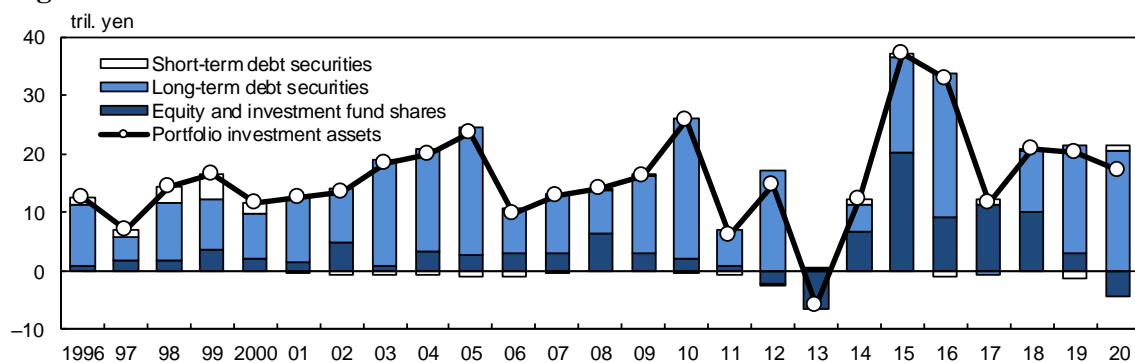


Figure 33: Equity and Investment Fund Shares by Component (Assets)

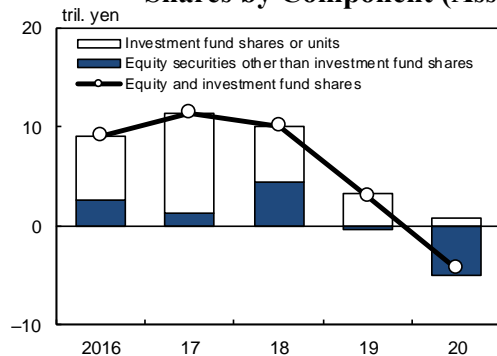


Figure 34: Equity and Investment Fund Shares by Region (Assets)

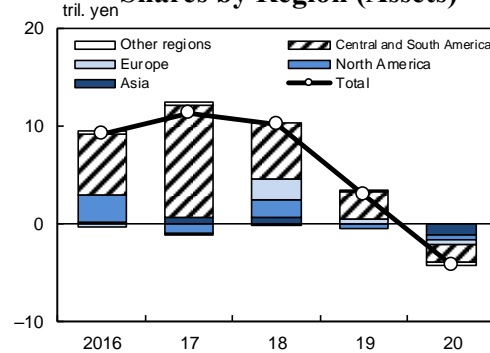


Figure 35: Long-Term Debt Securities by Type of Investor (Assets)

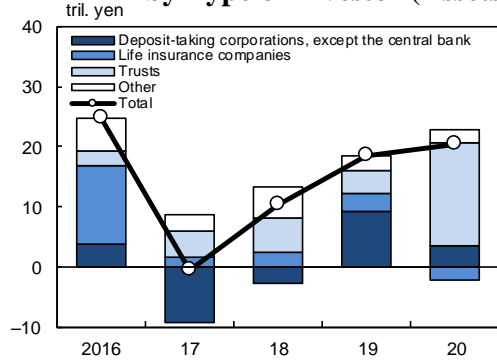
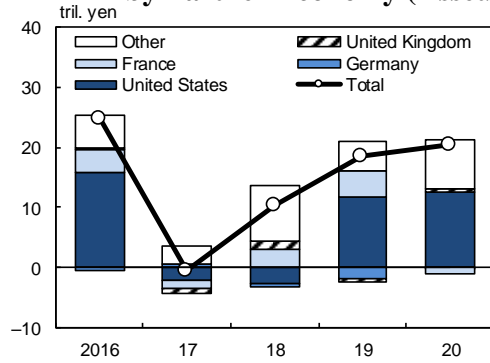


Figure 36: Long-Term Debt Securities by Partner Economy (Assets)



³ "Trusts" represent the sum of trust accounts of "banks" and "trust banks."

D. Portfolio Investment Liabilities

Net purchases of Japanese securities by foreign investors increased to 12.9 trillion yen in 2020 from 10.8 trillion yen in 2019, because investment in short-term debt securities shifted to net purchases.

Investment in Japanese equity and investment fund shares shifted to net sales, mainly because investment in equity securities other than investment fund shares shifted to net sales. Net purchases of Japanese long-term debt securities decreased.

Figure 37: Portfolio Investment Liabilities

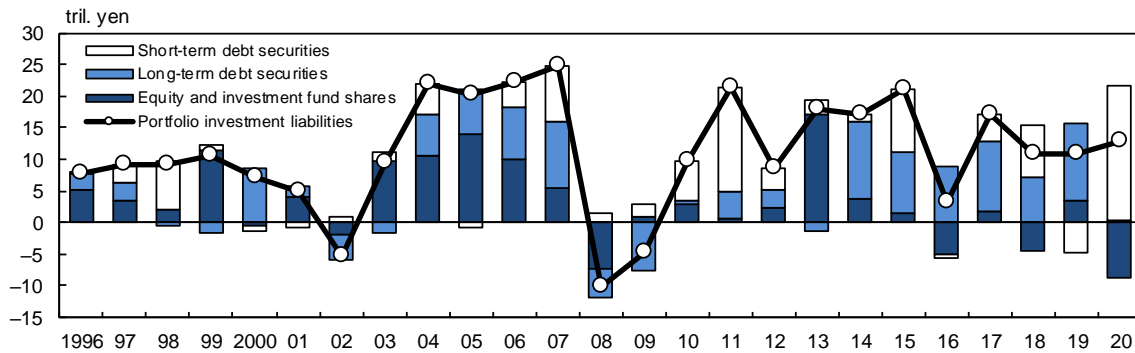


Figure 38: Equity and Investment Fund Shares by Component (Liabilities)

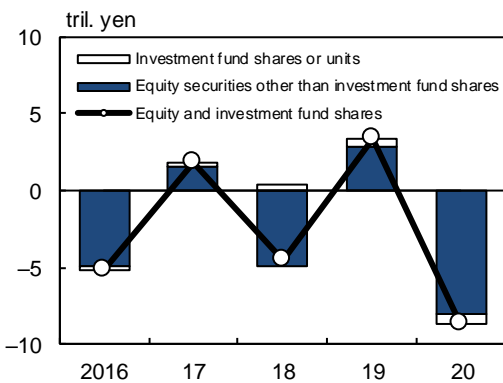


Figure 39: Equity and Investment Fund Shares by Region (Liabilities)

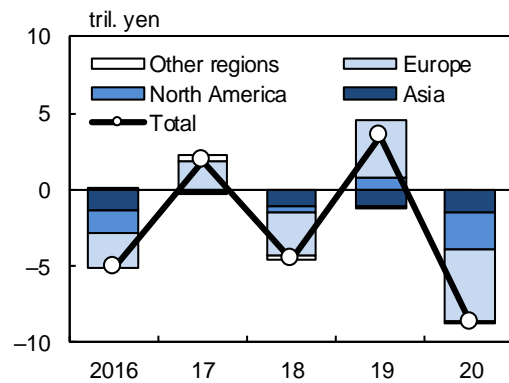


Figure 40: Long-Term Debt Securities (Changes in Liabilities by Region)⁴

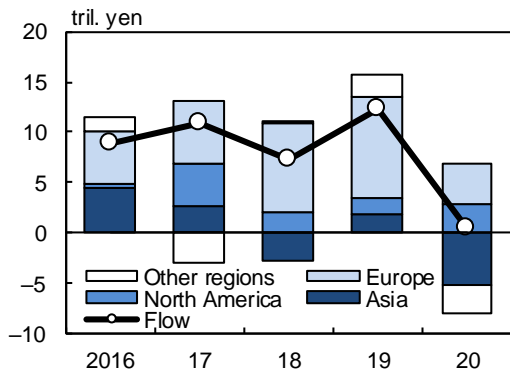
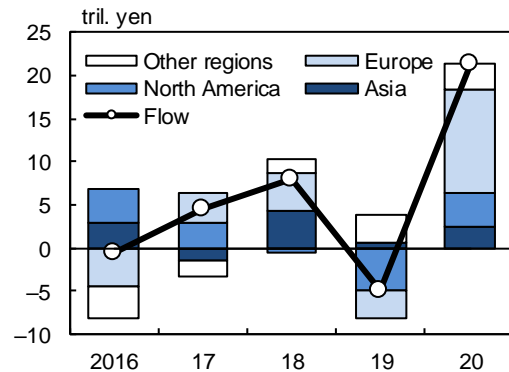


Figure 41: Short-Term Debt Securities (Changes in Liabilities by Region)⁴

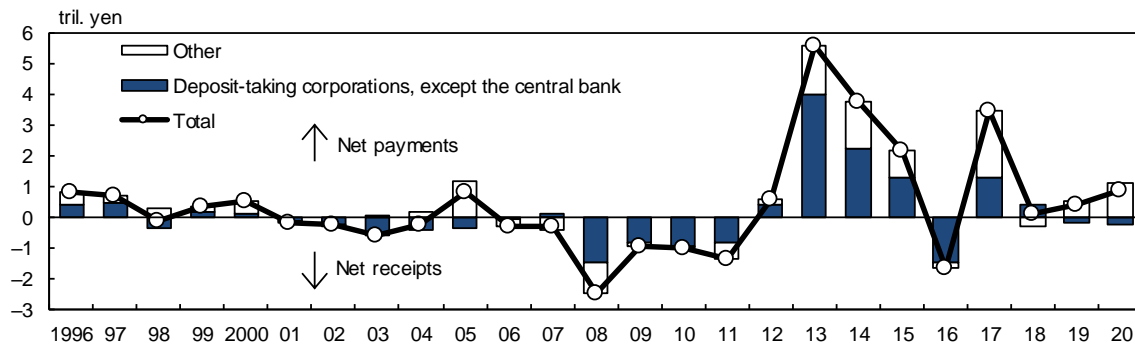


⁴ There are discrepancies between the flows and the sums of changes in liabilities by region.

E. Financial Derivatives (Other than Reserves)

Net payments of financial derivatives (other than reserves) increased to 0.9 trillion yen in 2020 from 0.4 trillion yen in 2019, due to a rise in net payments in sectors other than "deposit-taking corporations, except the central bank."

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



F. Other Investment

Net borrowing under other investment decreased to 2.2 trillion yen in 2020 from 11.5 trillion yen in 2019, mainly because transactions of "currency and deposits" turned to net lending.

Figure 43: Other Investment

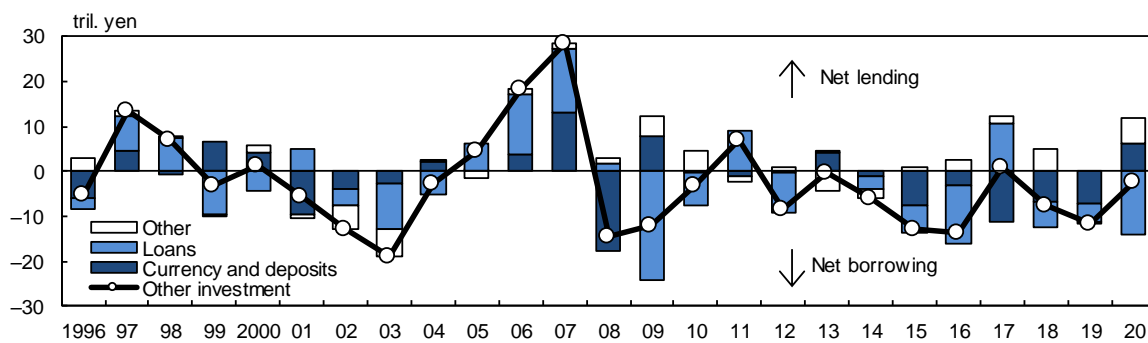


Figure 44: Currency and Deposits

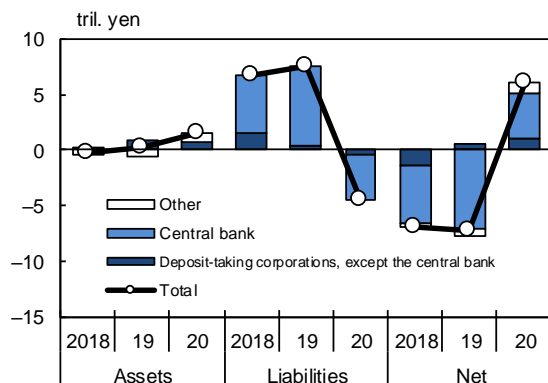
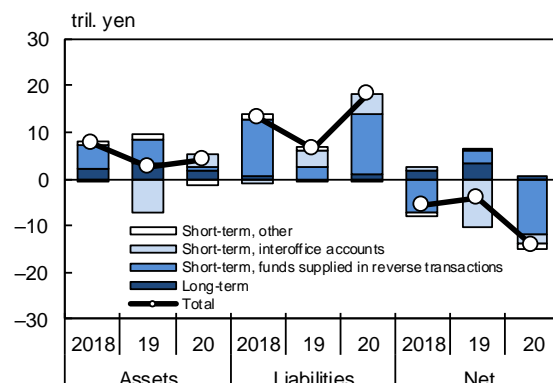


Figure 45: Loans



V. Japan's IIP at Year-End 2020

A. Summary

Japan's external financial assets and liabilities both increased, mainly due to increases in portfolio investment. External financial assets increased to 1,146.1 trillion yen at year-end 2020 from 1,090.5 trillion yen at year-end 2019, while liabilities increased to 789.2 trillion yen at year-end 2020 from 733.5 trillion yen at year-end 2019.

Japan's net asset position at year-end 2020 remained essentially unchanged from a year earlier at 357.0 trillion yen.

Figure 46: Assets

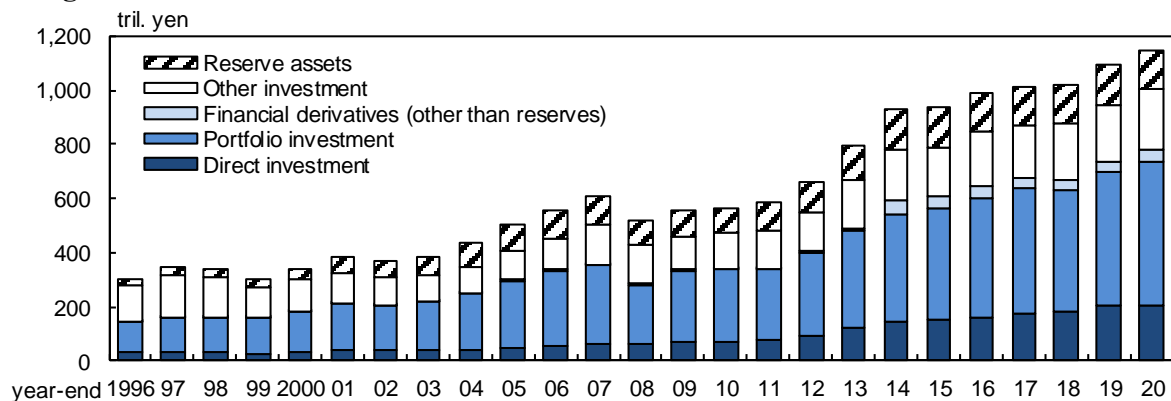


Figure 47: Liabilities

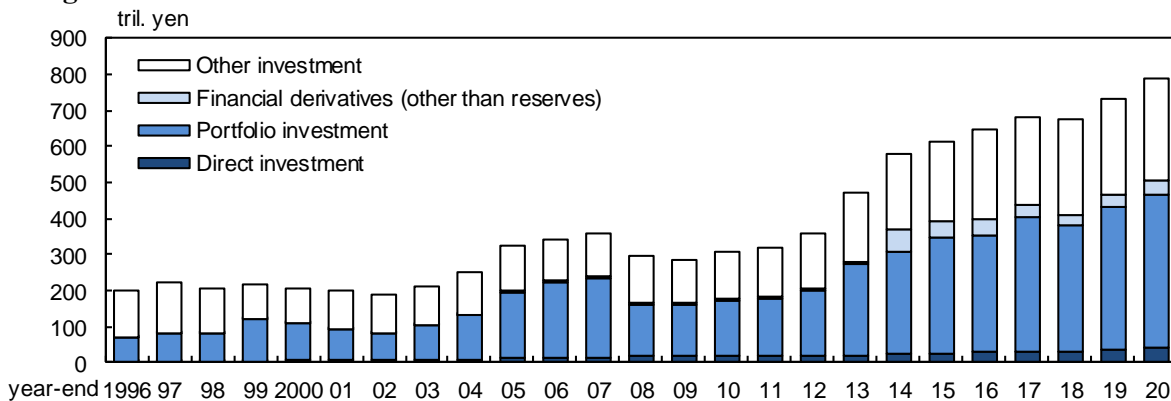
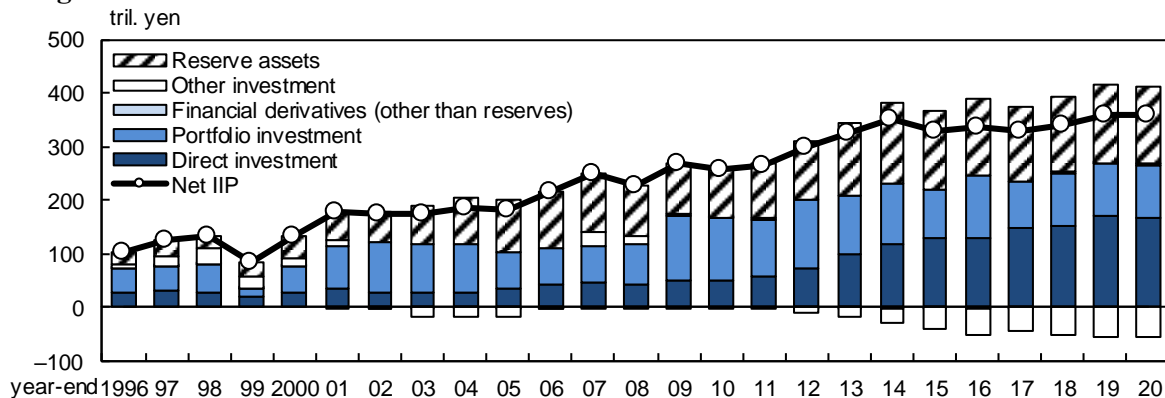


Figure 48: Net IIP



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

Looking at year-on-year changes in the IIP by component, increases in portfolio investment made the largest contribution to increases in both assets and liabilities. Since the increase in assets was offset by that in liabilities, net assets remained more or less unchanged from the previous year.

By factor, transactions operated in the direction of increasing net assets, while exchange rate changes operated in the direction of decreasing net assets. Meanwhile, other changes pushed up both assets and liabilities, which can primarily be attributed to valuation gains on portfolio investments driven by the rise in foreign stock prices.

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

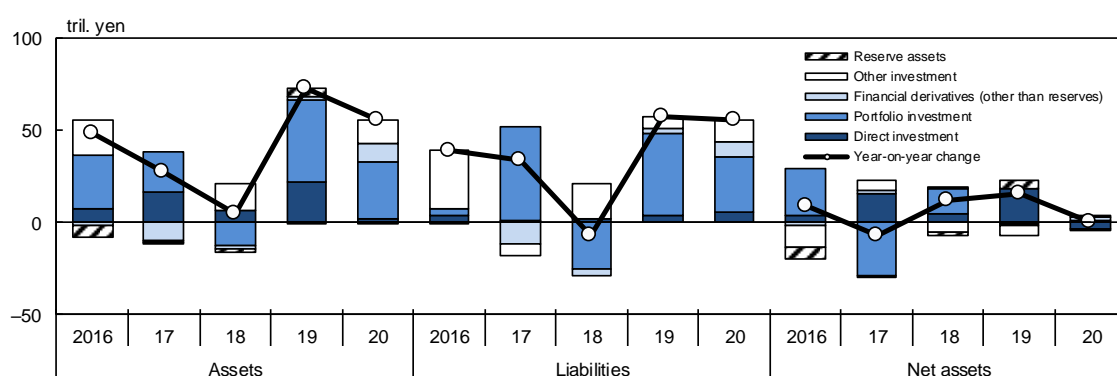
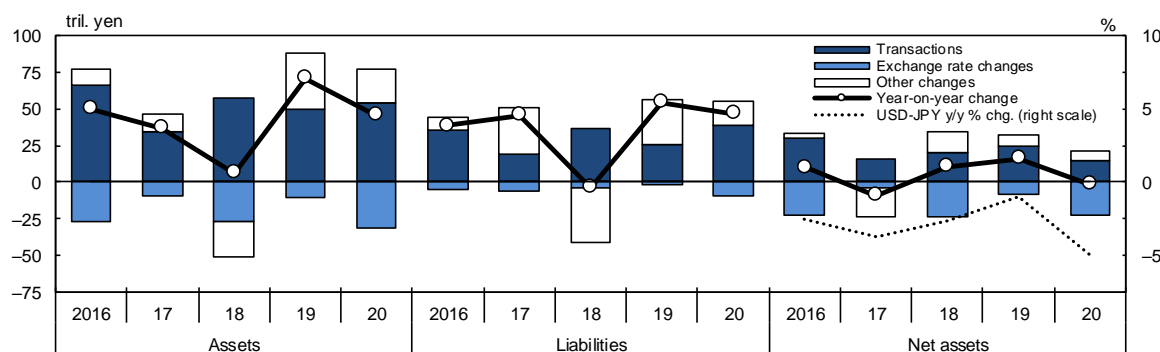


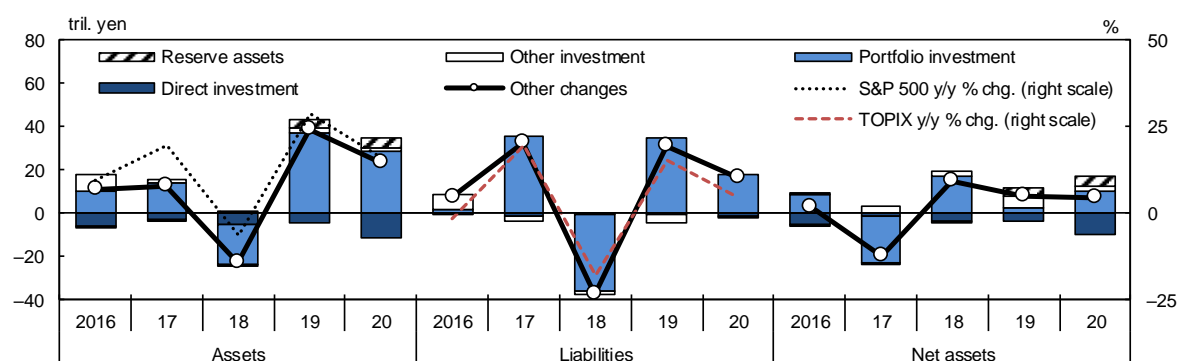
Figure 50: Year-on-Year Changes in the IIP by Factor⁵ excluding Financial Derivatives (Other than Reserves)⁶



⁵ Year-on-year changes in the IIP by factor before 2020 do not add up as the figures for "exchange rate changes" and "other changes" do not reflect annual revisions.

⁶ See footnote 4 in Appendix 6 for an explanation of why financial derivatives (other than reserves) are excluded.

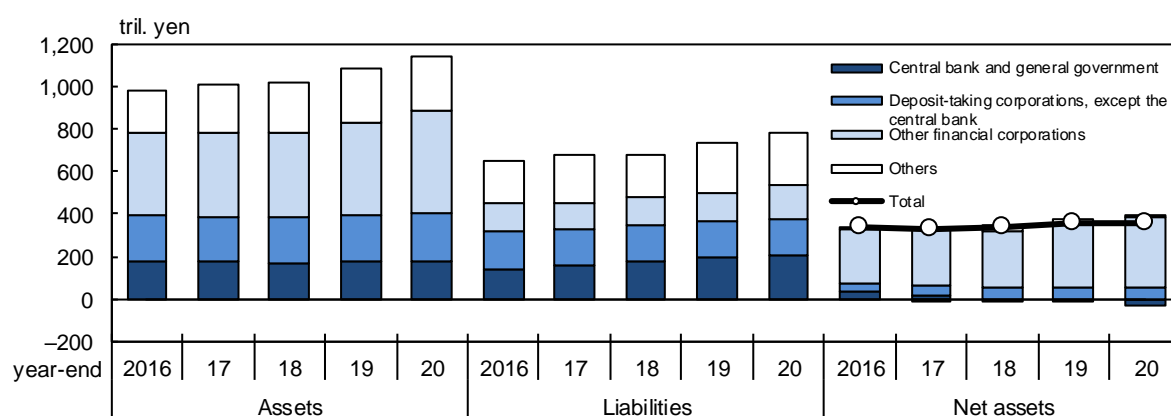
Figure 51: Other Changes by Component excluding Financial Derivatives (Other than Reserves)⁷



C. Japan's IIP by Sector

Looking at the IIP by sector, assets increased led by an increase in assets of other financial corporations. Meanwhile, increases in the liabilities of other financial corporations and of "others" made the largest contributions to the increase in liabilities overall.

Figure 52: IIP by Sector⁸



⁷ See footnote 4 in Appendix 6 for an explanation of why financial derivatives (other than reserves) are excluded.

⁸ All direct investment is included in "others."

D. Direct Investment Position and Portfolio Investment Position by Component

Looking at the direct investment position by component, assets increased led by an increase in equity other than reinvestment of earnings, while liabilities increased mainly due to an increase in debt instruments. As for the portfolio investment position, assets increased led by an increase in long-term debt securities, while liabilities increased led by an increase in short-term debt securities.

Figure 53: Direct Investment Position by Component⁹

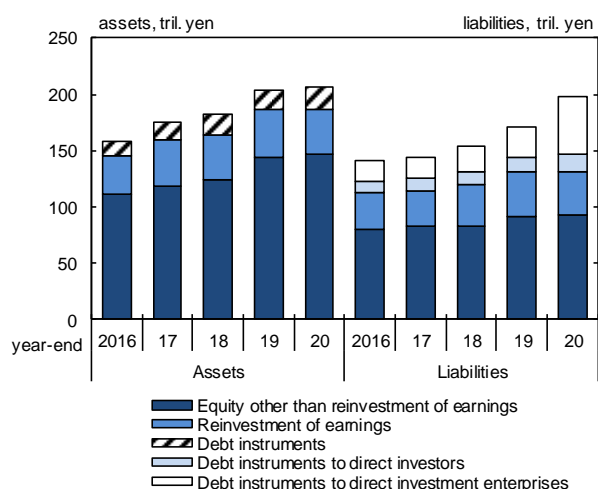
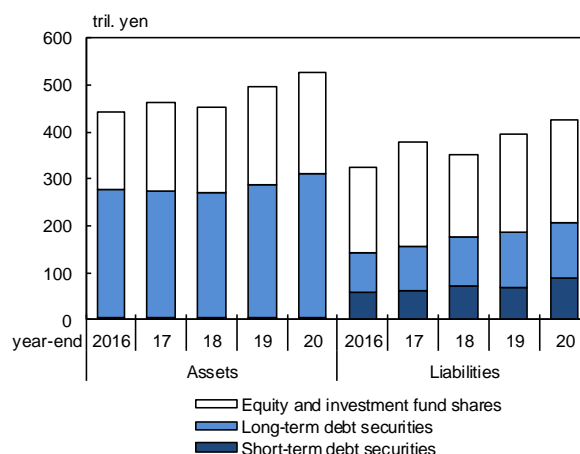


Figure 54: Portfolio Investment Position by Component



E. Direct Investment Position and Portfolio Investment Position by Region

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

Figure 55: Direct Investment Position by Region

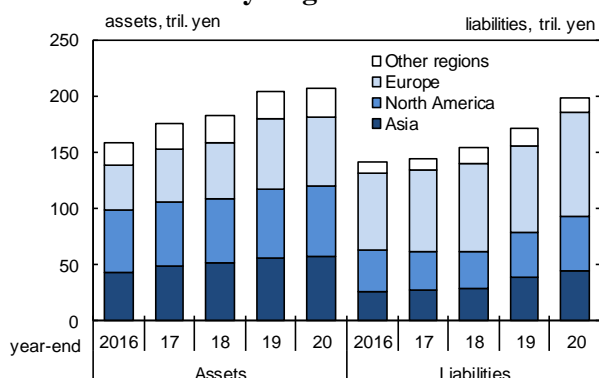
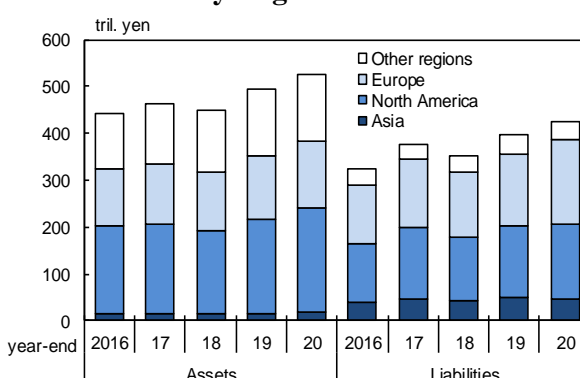


Figure 56: Portfolio Investment Position by Region

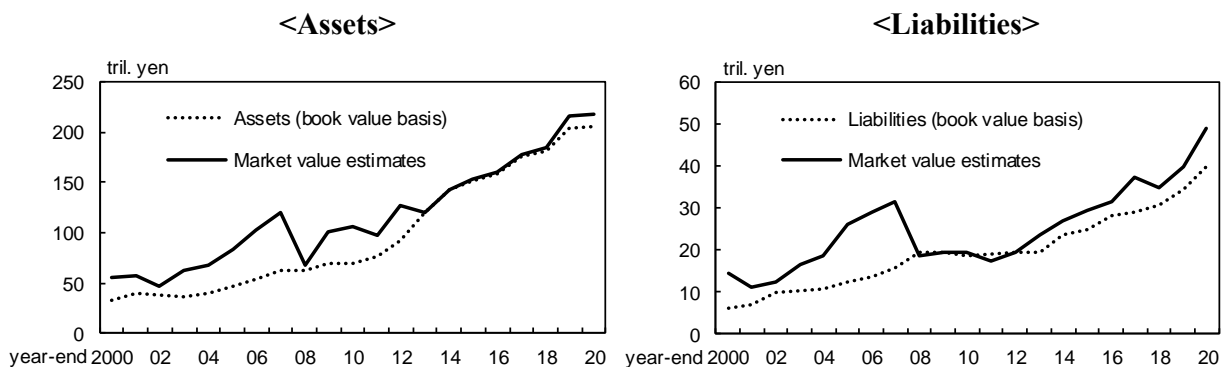


⁹ On the liabilities side, debt instruments to direct investors represent liabilities vis-à-vis overseas parent companies (direct investors) etc., while debt instruments to direct investment enterprises represent liabilities vis-à-vis overseas subsidiaries etc.

F. Market Value Estimates of Direct Investment Position

Looking at the direct investment position estimated using market values, assets and liabilities stood at 218.1 trillion yen and 48.9 trillion yen, respectively (on a book value basis, assets and liabilities amounted to 206.0 trillion yen and 39.7 trillion yen, respectively).

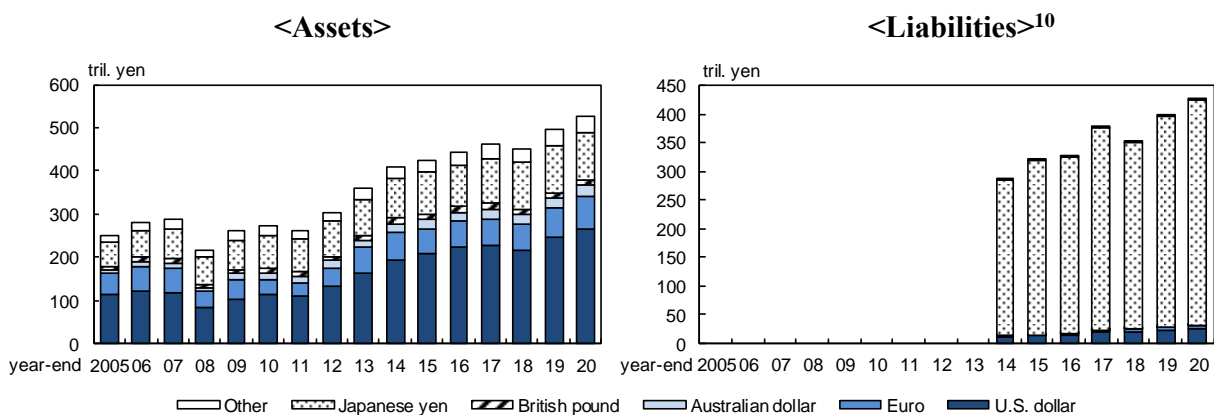
Figure 57: Market Value Estimates of Direct Investment Position



G. 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. Meanwhile, the increase in portfolio investment liabilities was mainly due to an increase in overseas investors' holdings of yen-denominated equities.

Figure 58: Portfolio Investment Position by Currency



¹⁰ Figures for the portfolio investment position (liabilities) by currency have been released starting with those for year-end 2014.

H. Debt Position (Assets/Liabilities) by Currency¹¹

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

Figure 59: Debt Position by Currency (Foreign Currency/Japanese Yen) and Maturity

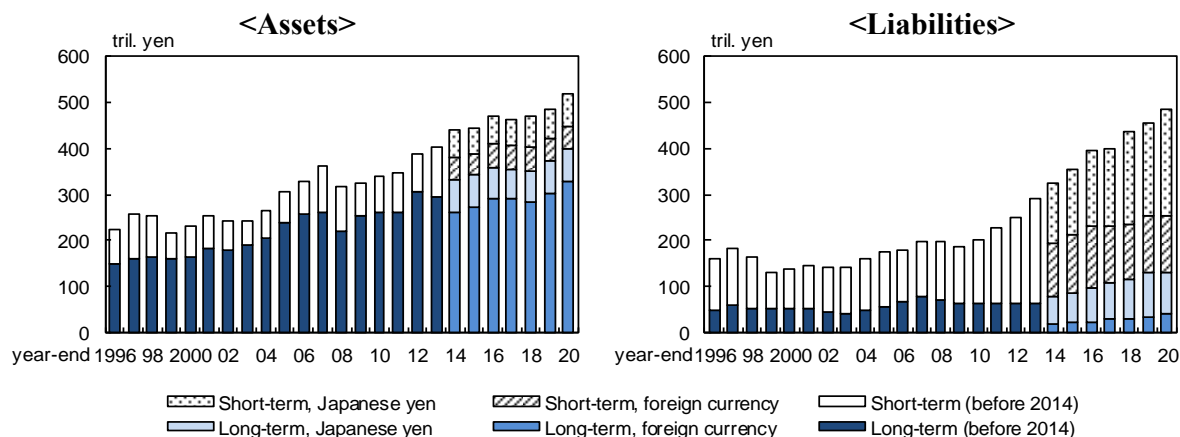


Figure 60: Foreign Currency-Denominated Debt Position by Component

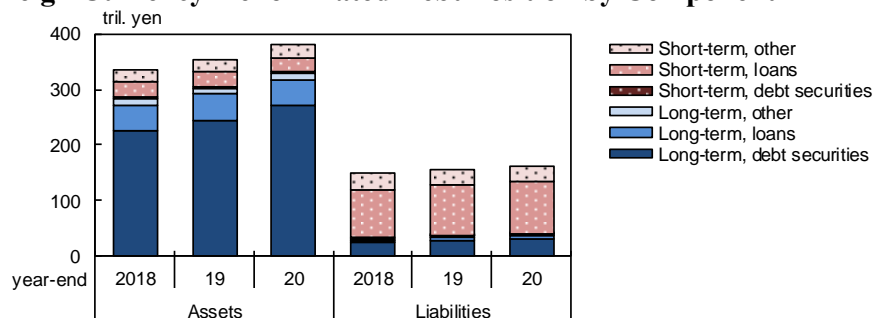
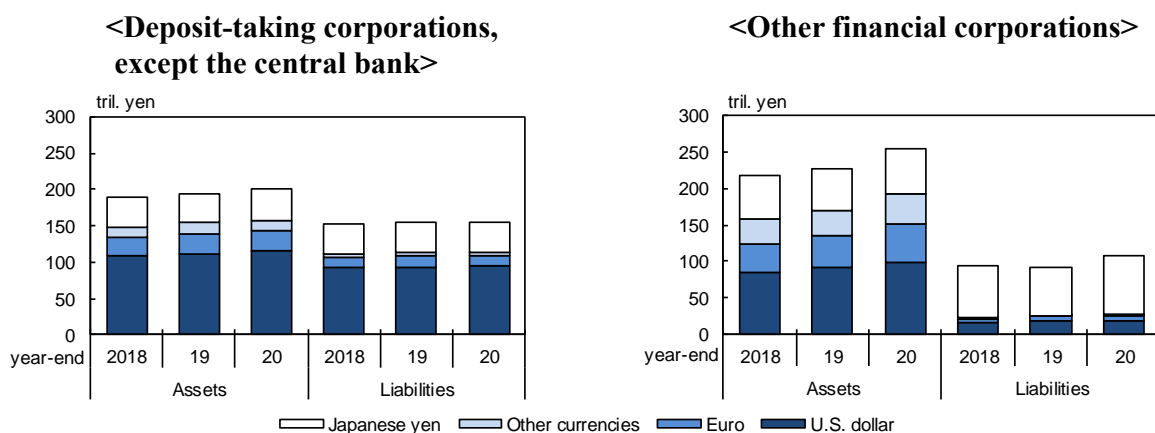


Figure 61: Debt Position by Currency



¹¹ 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.

I. Outward Direct Investment Position (Based on Directional Principle)

The outward direct investment position based on the directional principle decreased. By region and industry, a major reason for the decrease was the decline in the investment position in the manufacturing sector in Europe.

By industry, the investment position in the manufacturing sector decreased, mainly due to a decline in "chemicals and pharmaceuticals." That in the non-manufacturing sector decreased for the first time since 2006, from when comparable data are available, mainly due to a decline in communications.

Figure 62: Outward Direct Investment Position by Region and Industry

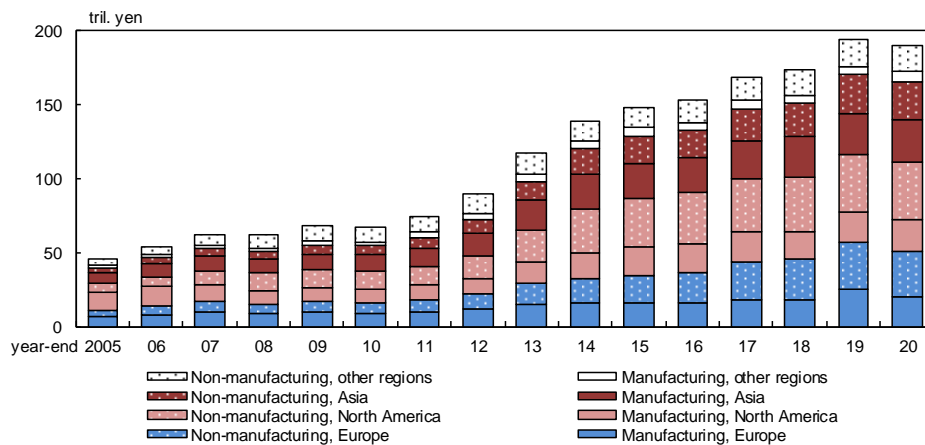


Figure 63: Outward Investment Position in the Manufacturing Sector

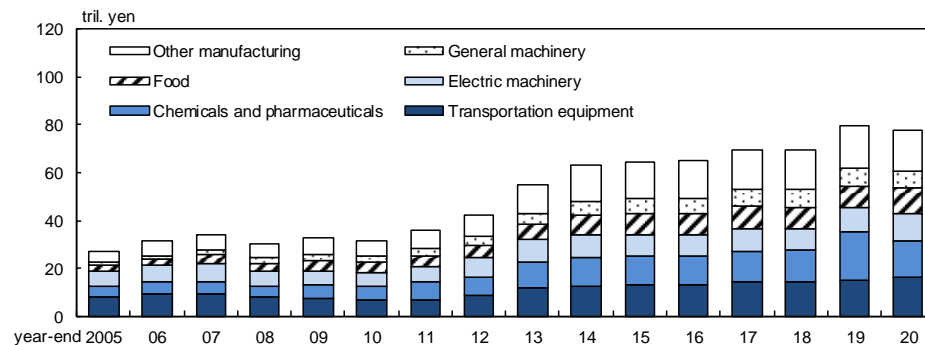
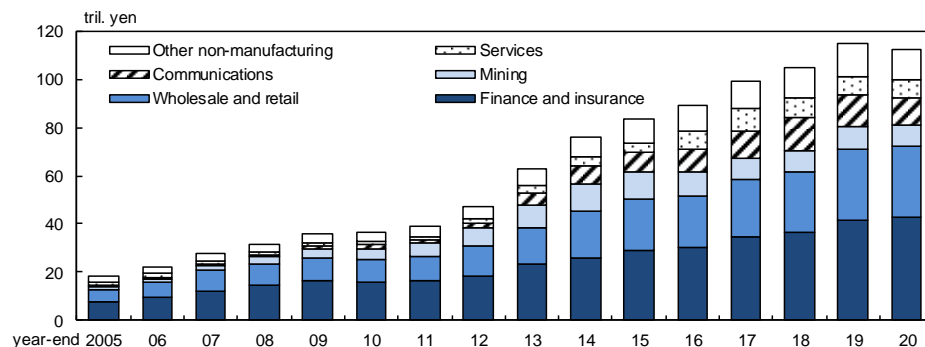


Figure 64: Outward Investment Position in the Non-Manufacturing Sector



J. Inward Direct Investment Position (Based on Directional Principle)

The inward direct investment position based on the directional principle decreased. By region, a major reason for the decrease was the decline in the investment position vis-à-vis Europe.

By industry, the investment position in the manufacturing sector decreased, mainly due to a decline in transportation equipment, while that in the non-manufacturing sector increased, mainly due to an increase in "finance and insurance."

Figure 65: Inward Direct Investment Position by Region and Industry

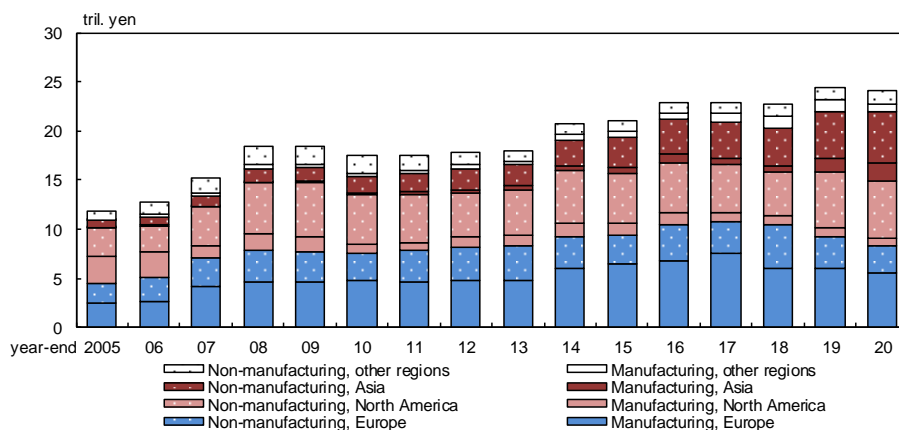


Figure 66: Regional Direct Investment Position (Ultimate Investor Basis¹²)

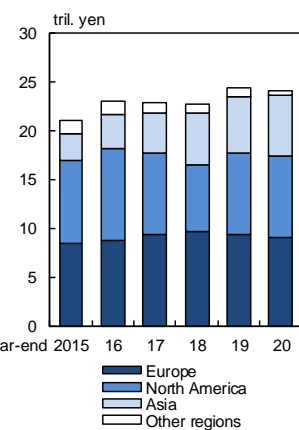


Figure 67: Inward Investment Position in the Manufacturing Sector

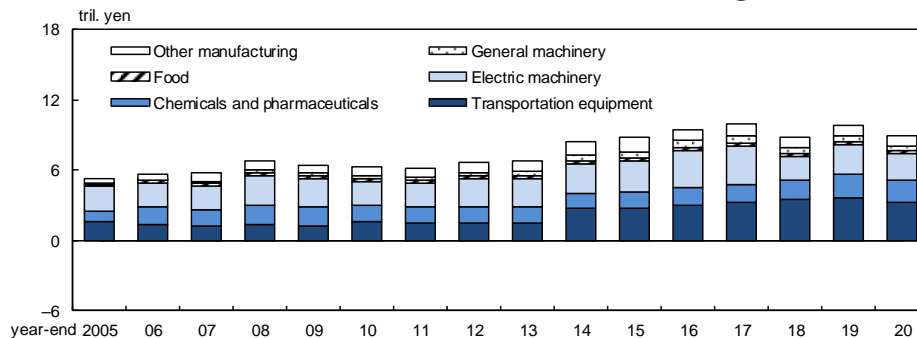
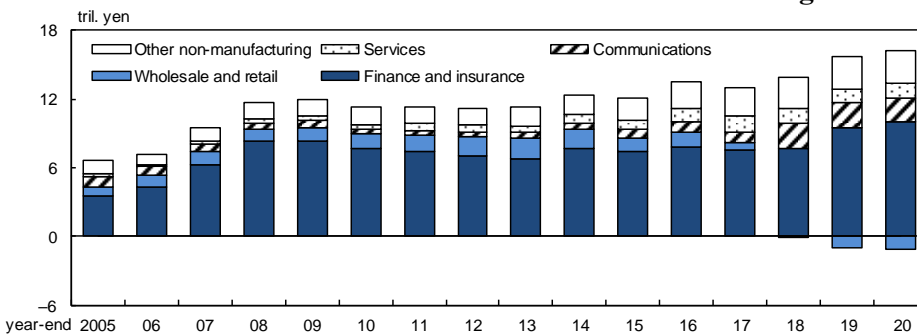


Figure 68: Inward Investment Position in the Non-Manufacturing Sector

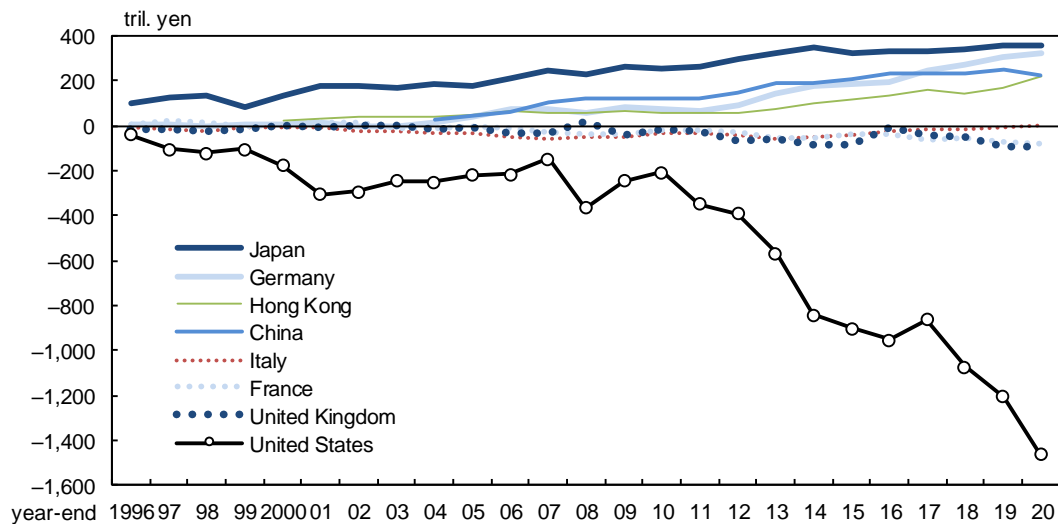


¹² Data by economy for the investment position of overseas parent companies in affiliated companies in Japan are compiled by regarding the economy in which the ultimate investor holding ultimate control resides as the partner economy.

K. International Comparison of Net IIP

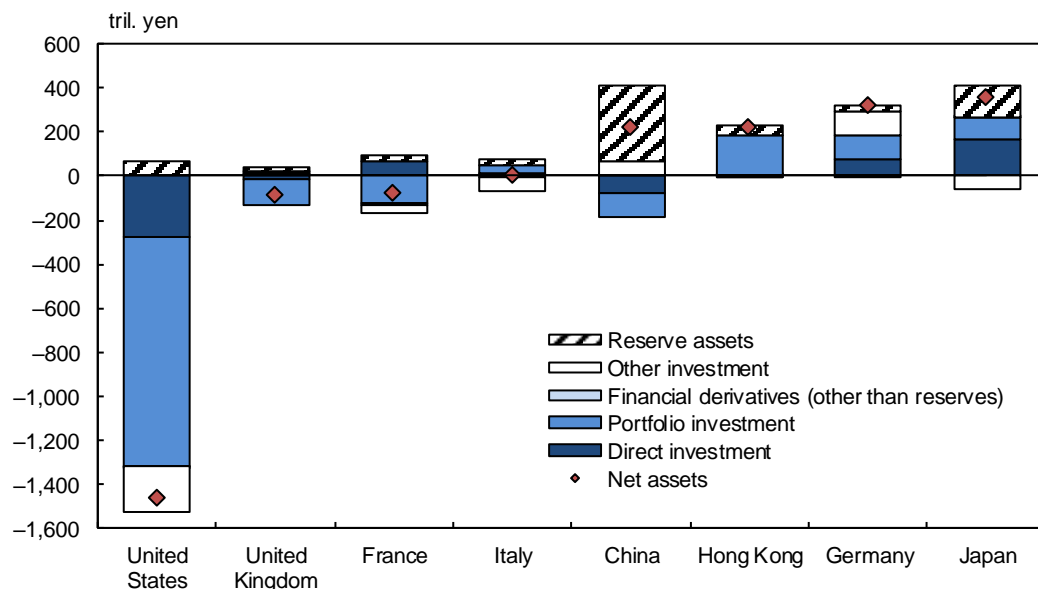
Among major economies that release IIP data, Japan at year-end 2020 continued to record the largest net asset position, which amounted to 357.0 trillion yen.

Figure 69: International Comparison of Net IIP (Time Series)



Source: IMF.

Figure 70: International Comparison of Net IIP at Year-End 2020

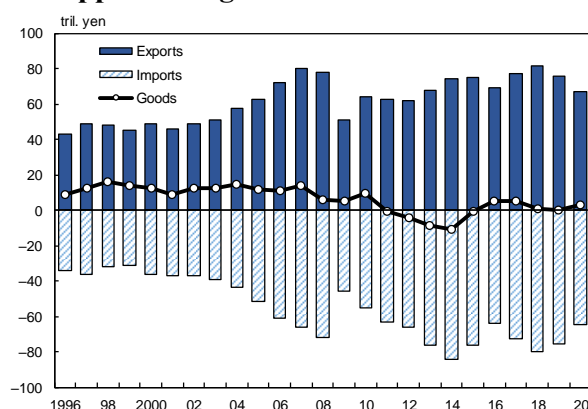


Source: IMF.

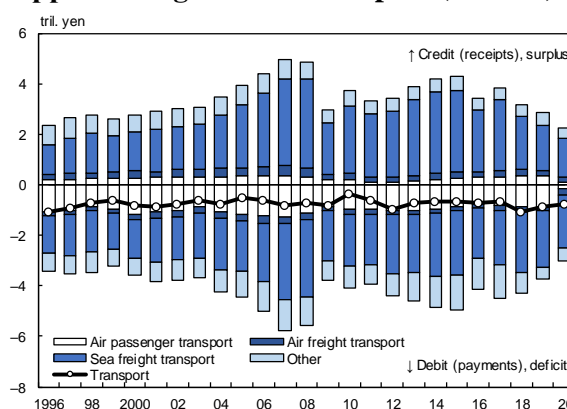
Appendix 1. Impact of the Spread of COVID-19 on Goods and Transport

While Japan in 2020 registered an increase in the surplus on goods, on a gross basis, both exports and imports fell substantially. The decline in exports was the largest since 2009 in the wake of the Global Financial Crisis, and the second largest since 1997, from when comparable data are available. The decline in imports also was the largest after the drops in 2009 and 2016.¹ As the spread of COVID-19 restricted the movement of people and goods, there was a decline in both receipts and payments for passenger and freight transport. This appendix examines the impact of the spread of COVID-19 by looking at monthly developments in exports and imports, as well as developments in individual items of transport.

Appendix Figure 1.1: Goods



Appendix Figure 1.2: Transport (Annual)



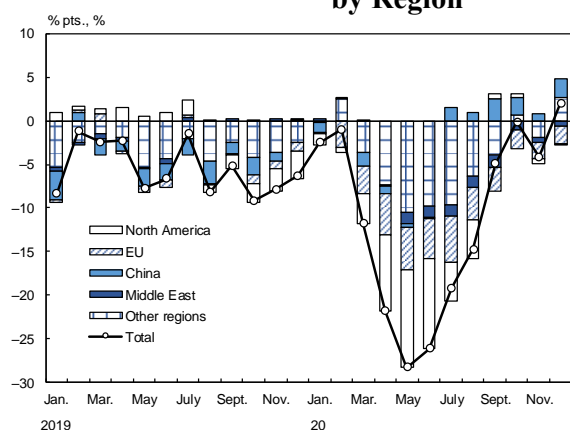
Goods

Monthly developments in exports during 2020 show that the year-on-year rate of decline accelerated from around February to May but then decelerated toward the end of the year amid the economic stimulus measures taken by economies around the world, so that in December the year-on-year rate of change turned positive. Exports of transport equipment to North America and the European Union (EU) played a major role in these developments. However, differences were seen in the pace of recovery in exports to the two regions. Specifically, while exports to North America by the end of 2020 had generally returned to the same level as in 2019, the pace of recovery in exports to the EU was slower than that to North America, and exports by the end of 2020 had not recovered to the previous year's level, as preventive measures against COVID-19 such as lockdowns were still being taken in the second half of the year. Meanwhile, as for exports to China, the decline in the first half of the year was small as COVID-19 subsided early in China, and in the second half of the year, the year-on-year rate of change in exports turned positive, led by exports of motor vehicles and "semiconductor machinery etc."

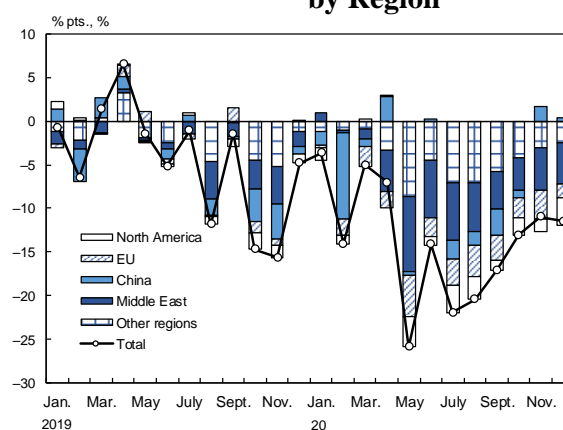
¹ The decline in imports in 2016 was mainly due to the drop in crude oil prices.

Turning to imports, overall imports decreased mainly reflecting the decrease in imports of mineral fuels from the Middle East. Moreover, the pace of recovery in imports was slower than that in exports, as the effects of the drop in crude oil prices and a decline in fuel demand lingered throughout the year, so that the year-on-year change in imports remained negative through the end of 2020.

Appendix Figure 1.3: Year-on-Year Changes in Exports by Region



Appendix Figure 1.4: Year-on-Year Changes in Imports by Region



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

Transport

The decrease in exports and imports of goods as well as the decrease in the number of travelers seen in travel also had an impact on transport.

As for the movement of people, in 2020, the number of travelers both entering and leaving Japan decreased by more than 80 percent compared to the previous year, and air passenger transport receipts decreased by 75 percent while payments declined by 84 percent. The larger decline in payments, coupled with the fact that payments have historically outstripped receipts, meant that the net deficit declined.

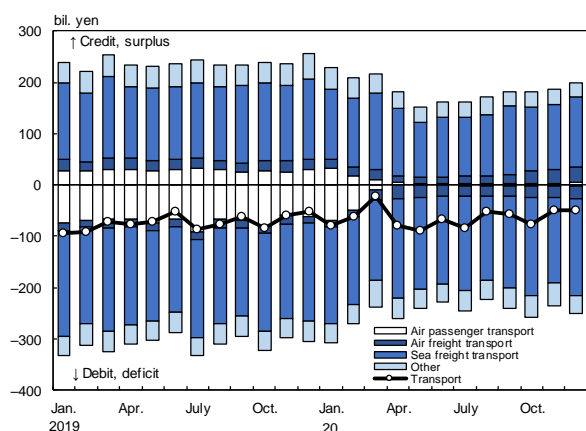
As for the movement of goods, the decrease in exports and imports affected receipts and payments for freight transport. In the BOP statistics, since importers are regarded to bear not only the cost of goods but also the cost of freight charges, freight charges received by Japanese carriers for exports from Japan are recorded as receipts, and freight charges paid to foreign carriers for imports into Japan are recorded as payments.² In addition, freight transport receipts/payments also include receipts/payments of charter fees for freight ships and aircraft.

² Payments to foreign carriers are estimated by dividing the receipts of Japanese carriers for imports by the share of Japanese carriers.

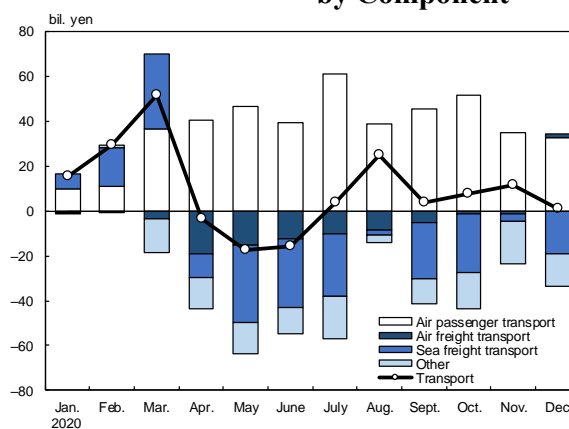
Looking at developments in freight transport during 2020, sea transport, which accounts for the majority of freight transport, saw a decline in receipts around May, when exports fell substantially, followed by a gradual recovery. On the other hand, as imports continued to decline, payments were below the previous year's level throughout the year, albeit with monthly fluctuations.

While payments and receipts for air freight transport are relatively small, amounting to only about 10 percent of those for sea freight transport, receipts increased clearly from around October after a temporary decrease around April, and in December reached the highest level since 2008. Payments were also significantly higher year-on-year from March onward and for 2020 as a whole were up 30 percent over the previous year. One likely reason for this is a shift from sea transport to air transport. Due to the spread of COVID-19, containers were held up, and sea transport supply capacity became tight, causing container freight rates to soar. Under these circumstances, firms switched from shipping goods previously transported by sea to shipping by air, which led to an increase in the volume of air freight and a rise in the unit price of air freight. These developments are reflected in the statistics for transport.

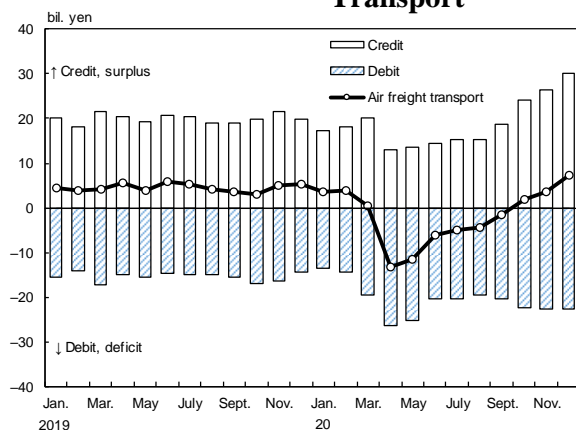
Appendix Figure 1.5: Transport (Monthly)



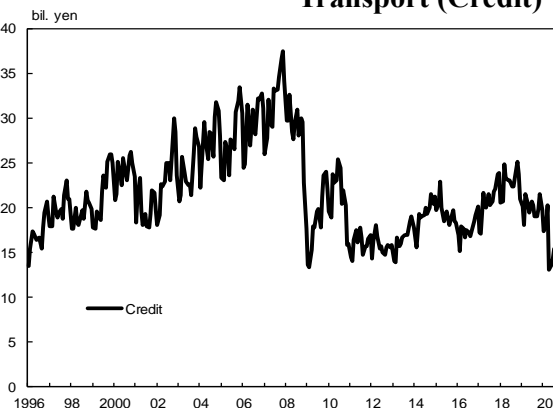
Appendix Figure 1.6: Net Year-on-Year Changes in Transport by Component



Appendix Figure 1.7: Air Freight Transport



Appendix Figure 1.8: Air Freight Transport (Credit)



Appendix 2. Components under Goods

While the Trade Statistics of Japan (the Trade Statistics) are the main data source for "goods" in Japan's BOP statistics, the coverage of transactions and the time of recording differ between the BOP statistics and the Trade Statistics. The Trade Statistics record goods that have crossed Japan's customs frontier, regardless of whether ownership of the goods has changed. On the other hand, the BOP statistics record goods whose ownership has changed between residents and nonresidents, regardless of whether they have crossed Japan's customs frontier. The BOP data on "goods" therefore are compiled and disseminated after necessary adjustments to the Trade Statistics data have been made, such as making certain additions to and deductions from exports and imports depending on whether there have been changes in ownership.¹

In response to the government's "Basic Policy for the Fundamental Reform of Economic Statistics," which calls for a clarification of the differences between exports/imports of goods in the BOP statistics and the Trade Statistics, the BOP statistics released from November 2020 onward include a breakdown of adjustments to figures in the Trade Statistics.² Looking at components under goods in the BOP statistics makes it possible to understand and analyze developments in trade that cannot be ascertained using the Trade Statistics alone. The following is an overview of (1) the newly released additions to and deductions from the Trade Statistics and (2) developments in merchanting.

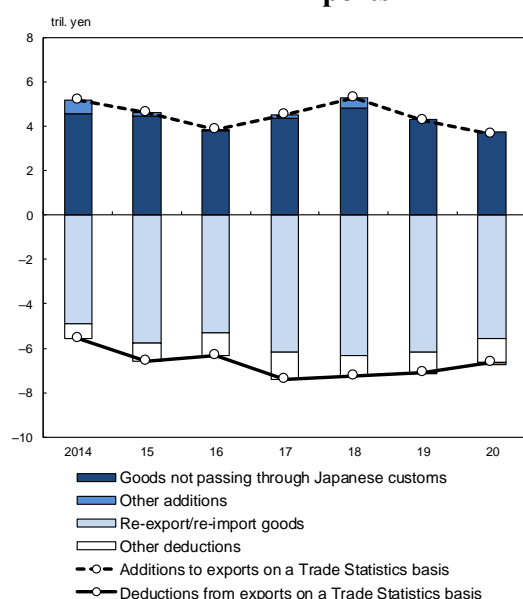
(1) Additions to and deductions from the Trade Statistics

Looking at additions to and deductions from exports and imports shows that deductions exceed additions for both exports and imports.

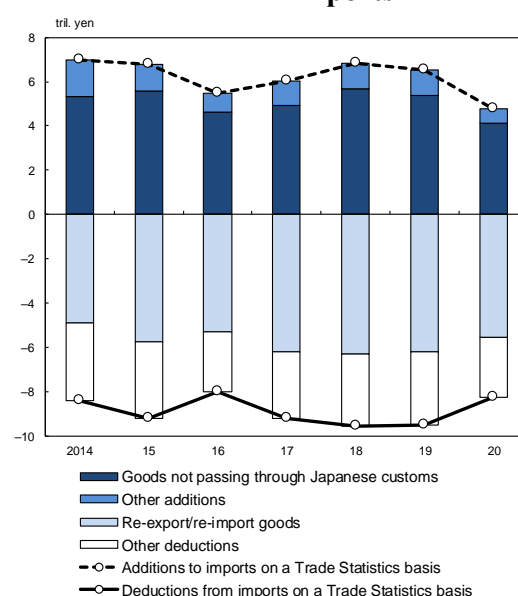
¹ For an overview of the differences between the BOP statistics and the Trade Statistics, see the reference table in Section III. A.

² For details, see "Changes in the Compilation and Dissemination of the Balance of Payments Statistics in Response to the 'Basic Policy for the Fundamental Reform of Economic Statistics'" (October 2020).

Appendix Figure 2.1: Adjustments to Exports



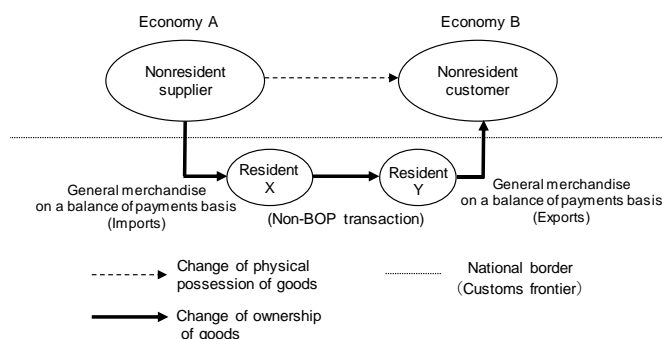
Appendix Figure 2.2: Adjustments to Imports



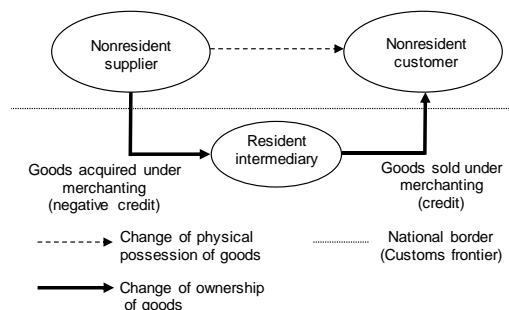
The bulk of deductions is for "re-export/re-import goods." These include goods that cross the customs frontier but are returned without change of ownership. In addition, figures from the Trade Statistics are adjusted by deducting freight charges and insurance premiums from imports. "Goods not passing through Japanese customs," which account for the bulk of additions, include goods for resale through transactions between resident merchants that are traded without passing through Japan. For example, a transaction in which resident X purchases goods from country A, sells them to resident Y, who then resells the goods to country B, so that the actual goods never pass through Japan, is not recorded in the Trade Statistics because the goods do not cross Japan's customs frontier; however, the transaction is included in the BOP statistics because ownership changes between residents and nonresidents.³

³ Such transactions are very similar to the merchandising described below. However, because at the time of purchase, resident X does not know whether resident Y will resell the goods purchased from country A to another country, the sixth edition of the IMF's Balance of Payments and International Investment Position Manual (BPM6) treats such transactions as general merchandise trade rather than merchandising.

Appendix Figure 2.3: Resale through Transactions between Resident Merchants



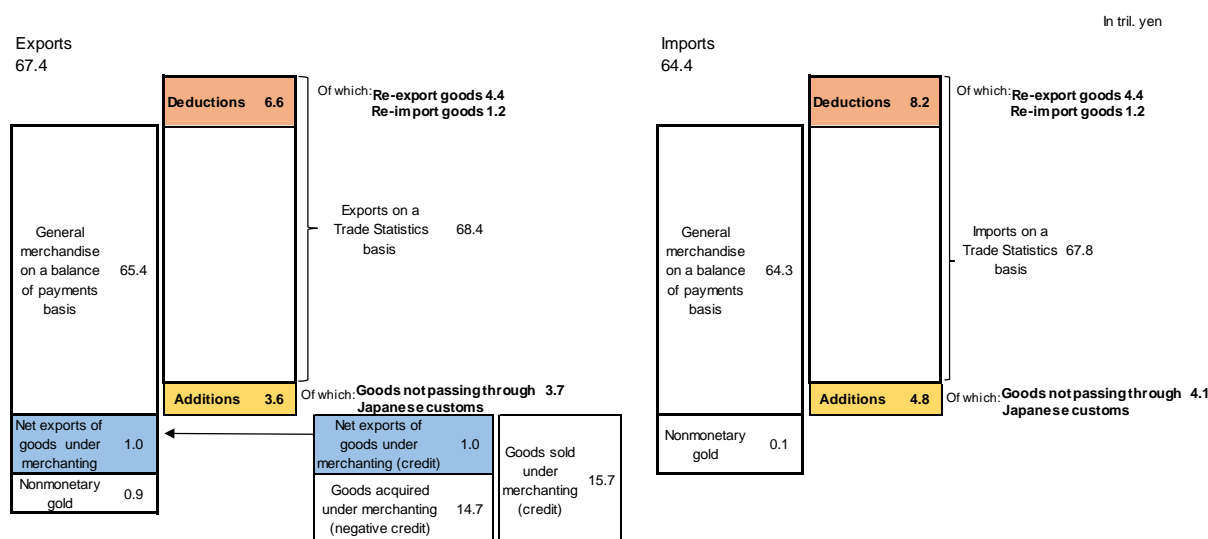
Appendix Figure 2.4: Merchanting



(2) Developments in merchanting

Goods in the BOP statistics include not only "general merchandise on a balance of payments basis" -- for which certain additions to and deductions from the Trade Statistics are made as described above -- but also "net exports of goods under merchanting." "Net exports of goods under merchanting" consist of transactions in which a resident purchases goods from a nonresident and resells the goods to another nonresident, but the goods do not pass through Japan.⁴ Although "net exports of goods under merchanting" do not account for a large share of exports, the gross value of "goods sold under merchanting" in 2020 was equivalent to more than 20 percent of total exports.

Appendix Figure 2.5: Adjustment of Components under Goods (Data for 2020)



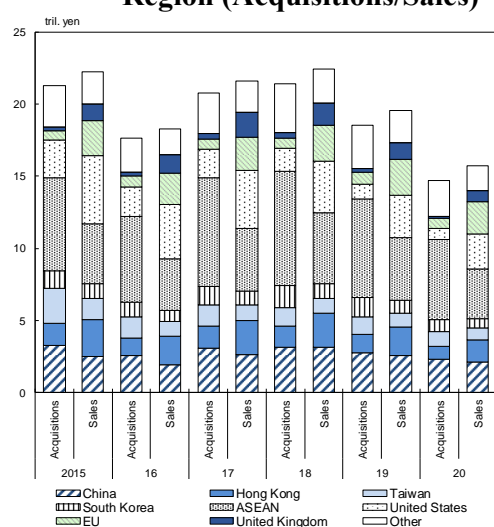
⁴ In line with the BPM6, purchases from nonresidents are recorded as "goods acquired under merchanting (negative credit)," resales are recorded as "goods sold under merchanting," and the difference is recorded as "net exports of goods under merchanting," all on the export side.

Looking at merchenting by partner economy, merchenting overall largely consists of the purchase of goods from economies such as the ASEAN countries, China, Taiwan, and South Korea, as well as the resale of such goods to Europe and the United States at a profit.

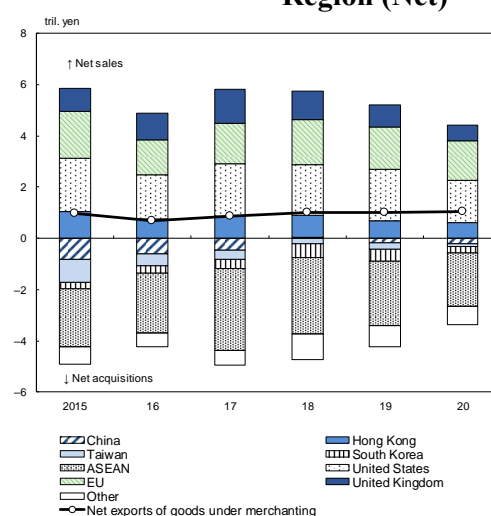
Developments in merchenting in recent years show that the ratio of goods sold under merchenting to exports has been on a gradual downward trend. In merchenting, the difference between the value of goods sold and the costs of acquiring them is regarded as the merchenting margin, and looking at the ratio of this margin to the value of goods acquired (the margin ratio) shows that it has been on an upward trend in recent years.

One possible explanation for this trend is that merchenting may be shrinking due to (1) strategic withdrawal from transactions with low margins and (2) the fact that, as merchants change their business practices, some of the transactions that used to fall under merchenting are no longer subject to inclusion in the BOP statistics, such as transactions among nonresidents.

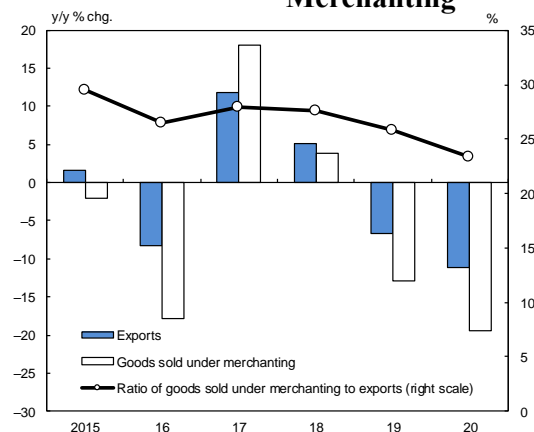
Appendix Figure 2.6: Merchenting by Region (Acquisitions/Sales)



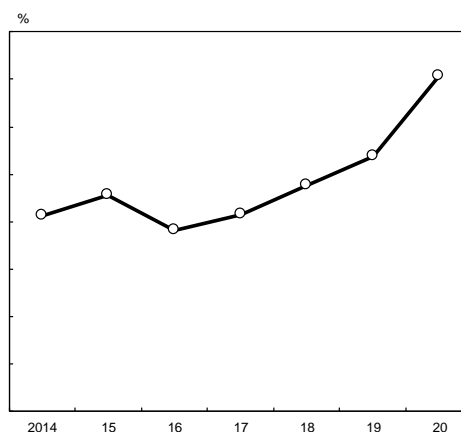
Appendix Figure 2.7: Merchenting by Region (Net)



Appendix Figure 2.8: Exports and Merchenting



Appendix Figure 2.9: Margin Ratio

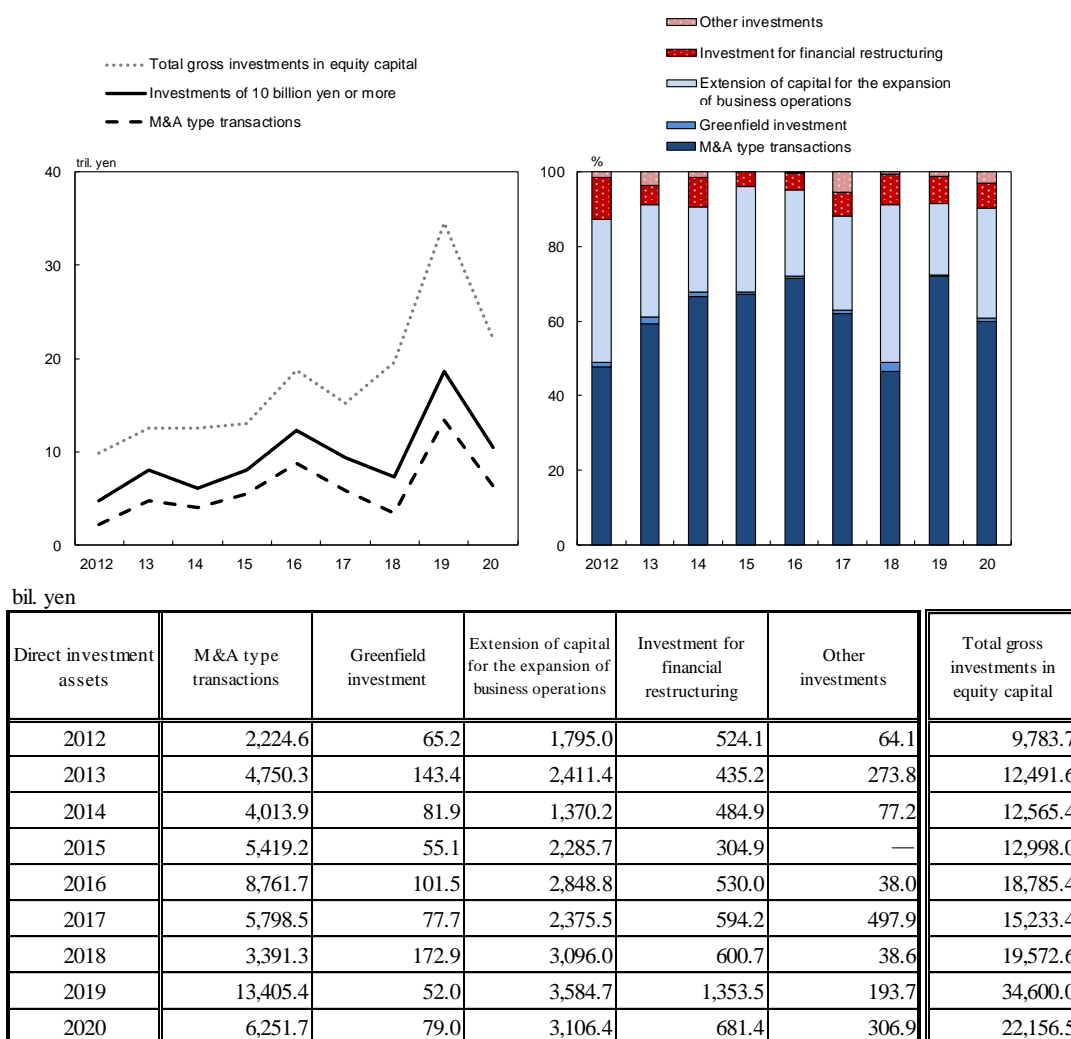


Appendix 3. Developments in Direct Investment by Type of Investment^{1,2,3}

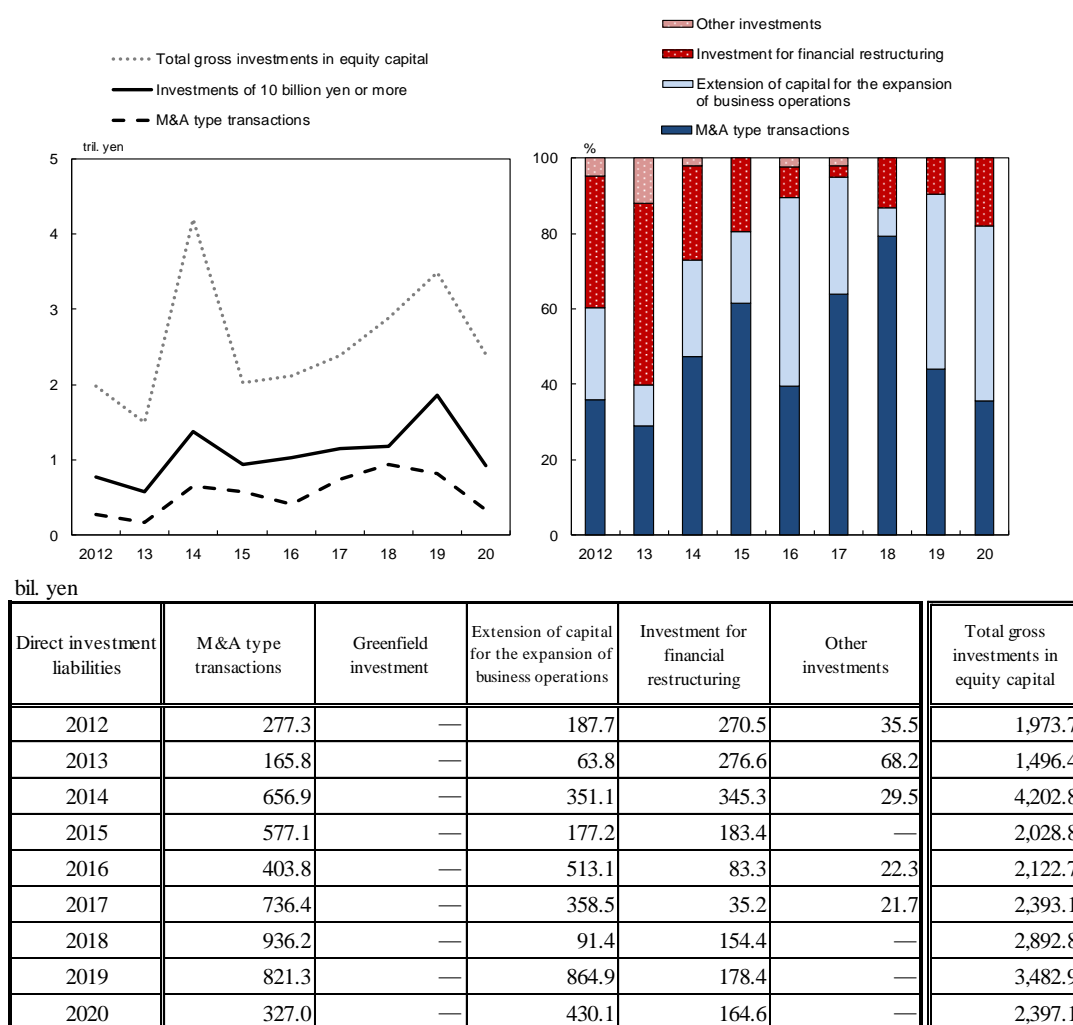
Developments in direct investment classified by type of investment show the following. Starting with direct investment assets, in 2020, M&A type transactions consisting of the acquisition of foreign firms continued to account for a significant share. The second-largest share was accounted for by the extension of capital for the expansion of overseas business operations. Greenfield investment -- in which new enterprises are established by investors -- continued to be low.

On the other hand, investments under direct investment liabilities continued to be low compared to those under direct investment assets. A breakdown by type of investment shows that while the extension of capital for the expansion of business operations continued to account for a significant share, the share of investment for financial restructuring increased in 2020.

Appendix Figure 3.1: Direct Investment Assets by Type of Investment on a Gross Value Basis (Investments of 10 Billion Yen or More)



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



Note: Total gross investments in equity capital include investments below 10 billion yen.

¹ In accordance with the BPM6 and the OECD Benchmark Definition of Foreign Direct Investment, Fourth Edition (BD4), 2008, direct investment transactions (gross investments in equity capital) are classified into the following five types of investment based on the purpose of investment in the ultimate investee enterprises: (1) M&A type transactions: investment for the acquisition of existing shares; (2) greenfield investment: investment for the establishment of new enterprises; (3) extension of capital for the expansion of business operations: investment for the expansion of business operations; (4) investment for financial restructuring: investment for debt repayment or loss reduction; and (5) other investments: other investments including investment in corporate type investment trusts.

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.

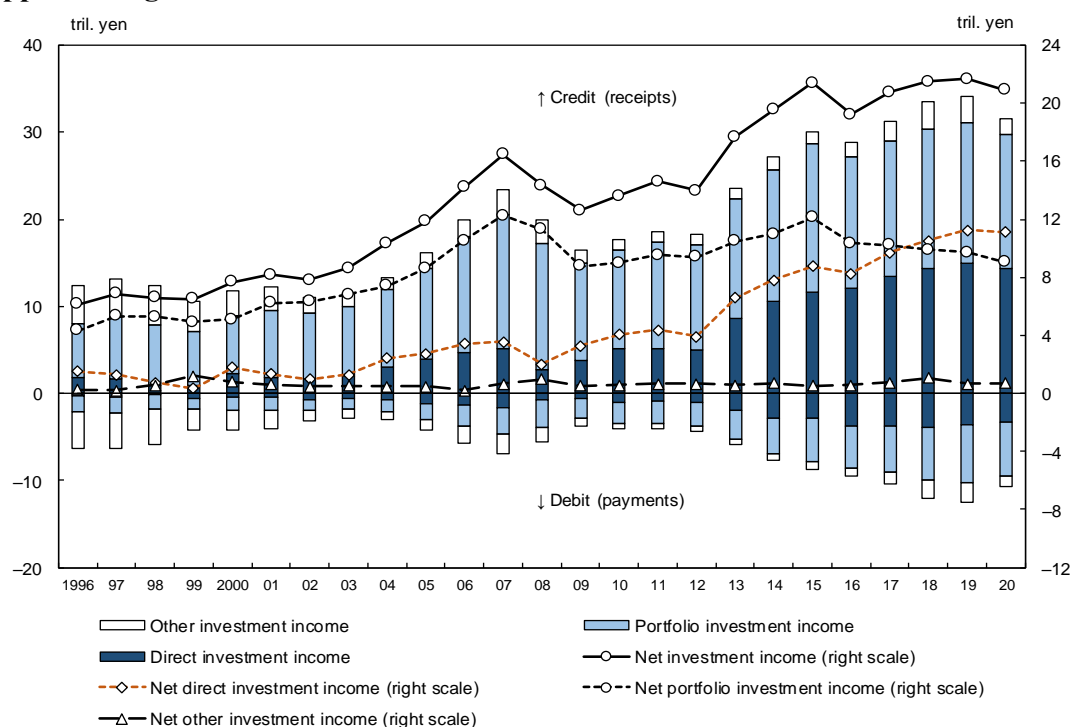
Appendix 4. Developments in Direct Investment Income and Its Recording Method

Since the latter half of the 2000s, the surplus on primary income, especially the surplus on investment income, has been a major contributor to Japan's current account surplus. However, while the surplus on investment income recorded a peak in 2015 and subsequently remained more or less unchanged, in 2020, it decreased for the first time in four years.

Developments in investment income by component¹

Looking at investment income by component, although the surplus on direct investment income had followed an increasing trend, it decreased slightly in 2020. In contrast, the surplus on portfolio investment income continued to decrease from 2016, as payments followed an increasing trend. As a result, direct investment income overtook portfolio investment income in 2018, and the gap has been widening since. While the surplus on other investment income remained more or less unchanged, both receipts and payments decreased substantially in 2020 due to a decline in interest rates.

Appendix Figure 4.1: Investment Income



¹ Investment income is classified into income on direct investment, portfolio investment, and other investment depending on the functional category of the principal. Income from reserve assets, however, only falls into either portfolio investment income or other investment income, depending on the type of instrument (for example, interest on U.S. government bonds is included under "interest" in portfolio investment income).

Understanding developments in direct investment income

Unlike investment income on equity and investment fund shares under portfolio investment income, income on equity and investment fund shares under direct investment income records not only dividends and withdrawals from income of quasi-corporations (hereafter "dividends etc.") distributed to investors but also earnings retained by subsidiaries as reinvested earnings.

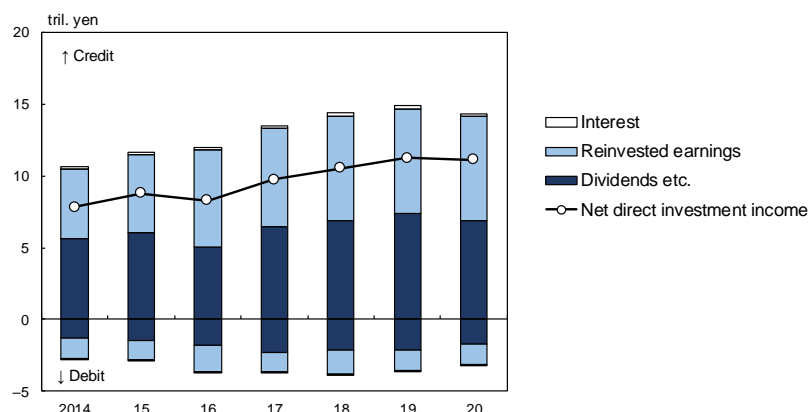
With direct investment, there are many cases in which dividend payments are irregular depending on the financial strategy of the parent company and profits for several years are distributed all at once. In the BOP statistics, profits earned by a subsidiary in a particular period (excluding holding gains and losses) are recorded under income on equity and investment fund shares, since they are considered as profits that belong to the parent company regardless of whether they are distributed or not.^{2,3}

Looking at recent developments in direct investment income, receipts continued to increase until 2019 on the back of an increase in the position of direct investment assets. Even in 2016, when receipts of "dividends etc." decreased amid the appreciation of the yen, receipts of reinvested earnings increased sufficiently to make up for this decrease. Turning to payments, from 2016 to 2019, they remained more or less unchanged, and the rate of return, calculated as investment income divided by the direct investment position at the previous year-end, declined. The reason is that although the position of direct investment liabilities increased, changes in payments of "dividends etc." were offset by those in reinvested earnings payments. While in 2020 both receipts and payments declined due to a decrease in "dividends etc.," it should be noted that figures for reinvested earnings are currently provisional (figures for April 2019 are carried forward for May 2019 onward), as described in the following section.

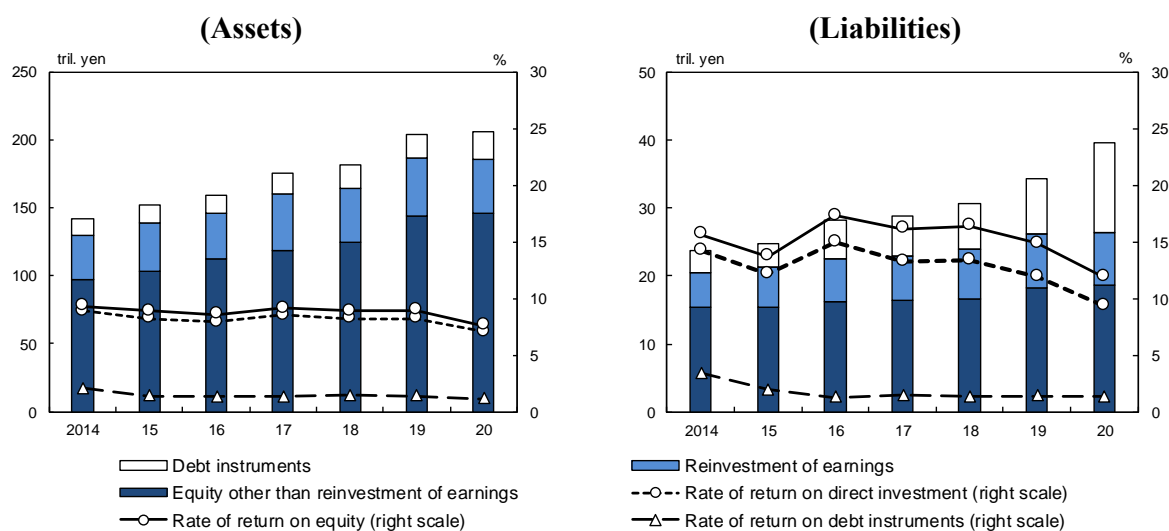
² For BOP recording purposes, it is assumed that earnings are distributed to the parent company and immediately reinvested by the parent, and the same amount is recorded for both direct investment income (reinvested earnings) and direct investment under the financial account (reinvestment of earnings).

³ There are cases in which dividend payments from a subsidiary to its parent company exceed the profits earned in a particular period. Such transactions are essentially withdrawals of the investment by the parent company from the subsidiary. In Japan's BOP statistics, such payments in principle are first recorded as payments of "dividends etc.," and the same amounts are then reflected as negative values in reinvested earnings and reinvestment of earnings.

Appendix Figure 4.2: Direct Investment Income



Appendix Figure 4.3: Direct Investment Position and Rate of Return⁴



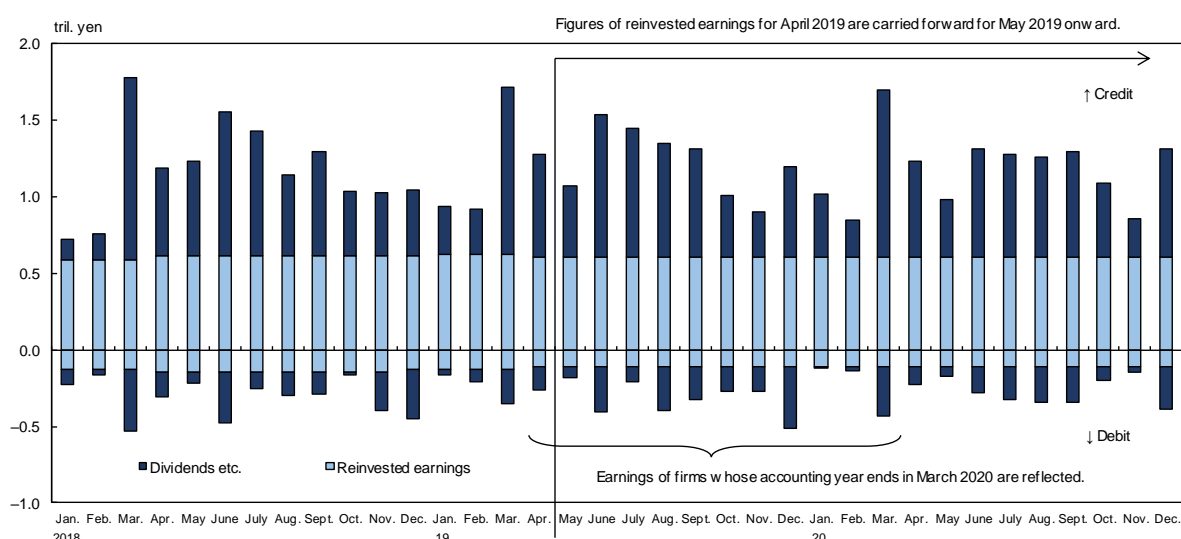
⁴ The rate of return is calculated by dividing the annual investment income receipts/payments by the asset/liability position at the previous year-end. However, the rate of return on equity is calculated by dividing income on equity and investment fund shares (the sum of "dividends etc." and "reinvested earnings") by the shareholders' equity position (the sum of "equity other than reinvestment of earnings" and "reinvestment of earnings").

Method of recording and revising reinvested earnings

In Japan, figures for reinvested earnings are prepared using reports based on firms' financial statements.⁵ Until financial statements data become available for the statistics, figures reflecting the amounts reported by firms whose accounting year ends in March -- which constitute the large majority in Japan -- are carried forward (at present, these are figures for April 2019, which are the first to reflect the reports of firms whose accounting year ended in March 2020). Then, in November each year, reported amounts are aggregated and the figures are replaced with the data for the relevant period in which the earnings accrue.⁶

The financial statements of firms whose accounting year ended in March 2021, which show the impact of COVID-19, will be reflected in the figures for April 2020 onward in the revision in November 2021.

Appendix Figure 4.4: Reflection of Accrued Earnings in the Recording of Reinvested Earnings



⁵ One twelfth of the annual total of retained earnings are recorded as reinvested earnings for each month, as retained earnings for a certain accounting year are deemed to be earned equally over that year.

⁶ For details, see "FAQs on the Balance of Payments Related Statistics" on the Bank's website. In the past, data from 17 months earlier were recorded as preliminary figures until the actual figures from firms' financial statements became available. The actual figures were then used to replace the preliminary figures when the annual revisions were released. In November 2020, the way in which reinvested earnings are recorded and revised was changed in line with the government's "Basic Policy for the Fundamental Reform of Economic Statistics," which called for a reconsideration of the recording of reinvested earnings for harmonization with the System of National Accounts. For details, see "Changes in the Compilation and Dissemination of the Balance of Payments Statistics in Response to the 'Basic Policy for the Fundamental Reform of Economic Statistics'" (October 2020).

Appendix 5. Update of the IMF's Balance of Payments and International Investment Position Manual

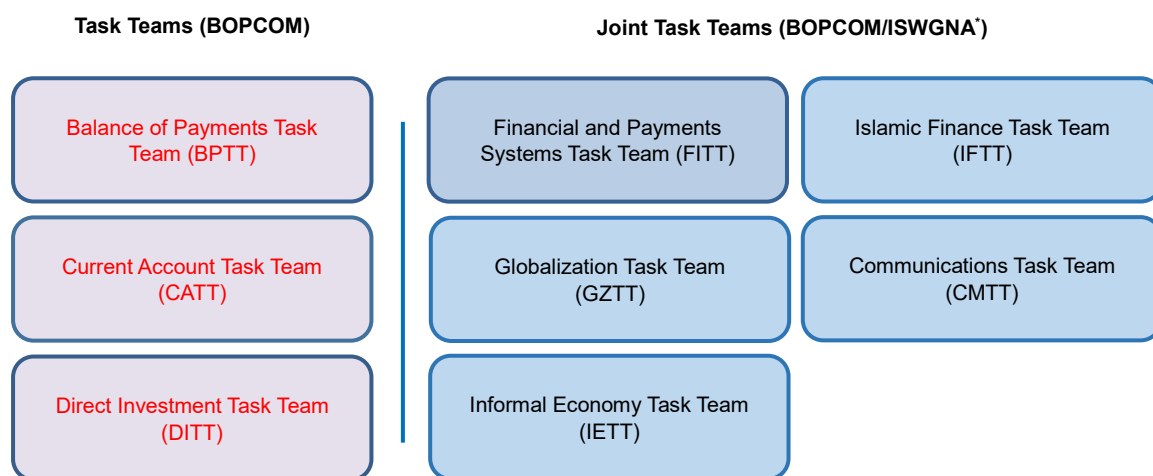
The International Monetary Fund (IMF) requires its member countries to provide balance of payments (BOP) related information under the Articles of Agreement of the IMF. It publishes the Balance of Payments and International Investment Position Manual (BPM), which serves as the international standard for the compilation of the BOP statistics and provides guidelines for reporting the BOP data to the IMF. Japan's BOP statistics are compiled based on the latest version, which is the BPM6 published in 2008.

Many economies around the world also compile their BOP statistics based on the BPM6, enabling international aggregation and comparison of the data. However, considerable time has passed since its publication, making it necessary to address issues that the BPM6 framework does not fully capture, such as (1) the closer trade and financial ties between economies, mainly through multinational enterprises, and (2) the growing need for data to analyze financial interconnections and vulnerabilities in the aftermath of the Global Financial Crisis.

In 2020, the United Nations Statistical Commission launched discussions on the update of the System of National Accounts (SNA) targeting a release of the revised standard in 2025. At the same time, the IMF Committee on Balance of Payments Statistics (BOPCOM) -- consisting of national compilers of BOP statistics and officials of international organizations -- endorsed the launch of the process for updating the BPM6 with a view to ensuring consistency between the statistical standards for macroeconomic statistics.

Technical expert groups, such as the Balance of Payments Task Team, the Current Account Task Team, the Direct Investment Task Team, and the Financial and Payments Systems Task Team, have been set up by BOPCOM, and these groups are currently discussing issues to be considered for the BPM update. Based on the proposals by these groups, BOPCOM will decide on the direction of the update and the manual will be revised for release in 2025.

Appendix Figure 5: Task Teams for the BPM6 Update



* The Intersecretariat Working Group on National Accounts.

Source: IMF.

Appendix 6. Issues regarding Developments in the International Investment Position by Factor and Challenges Ahead for Japan's Statistics

Discussions toward the Update of the IMF's Balance of Payments and International Investment Position Manual (BPM)

In recent years, the external assets and liabilities of many countries have increased to record levels. Along with this, the gap between changes in the international investment position (IIP) and the financial account of the balance of payments (BOP) -- which shows flows arising from transactions -- has been widening for many countries, and reconciliation between them has become of particular interest from an analytical and policy perspective. In response to this, in the discussions for the next version of the BPM (BPM7), it has been proposed to place an integrated IIP statement comprising the "beginning of period IIP," "changes in the IIP by factor," and the "end of period IIP" at the center of the BPM7 and elevate "changes in the IIP by factor" to a third element on par with the BOP and IIP.

Specifically, the proposal is to break down changes in positions not resulting from transactions into (1) "revaluations," which consist of "exchange rate changes" and "other price changes," and (2) changes in volume other than through transactions referred to as "other changes in volume" and to include these items as additional standard components in the BPM7. The proposal would also encourage the dissemination of "write-offs and cancellations" and "reclassifications," which form part of "other changes in volume," as supplementary items.¹

Appendix Figure 6.1: Proposed Integrated IIP Statement and Data Availability in Japan

	Beginning of period IIP	Changes in the IIP by factor (accumulation accounts)							End of period IIP
		Transactions from BOP's financial account	Revaluations		Other changes in volume				
			Exchange rate changes	Other price changes		Of which: Write-offs and cancellations	Of which: Reclassifications		
Proposal for BPM7*	◎	◎	◎	◎	◎	◎	○	○	◎
Dissemination in Japan	●	● Transactions	—	● Exchange rate changes	● Other changes		—	—	●

*The proposal recommends dissemination at the same level of detail as the IIP.

Legend: ◎ Standard components

○ Supplementary items (dissemination encouraged)

● Items currently available in Japan's statistics

Current Practice of and Challenges Ahead for the Compilation of IIP Statistics in Japan

In Japan, estimates on year-on-year changes in the IIP by factor are disseminated for calendar year-end positions. Specifically, estimates under "exchange rate changes" are obtained by

¹ See "B.4 Reconciliation between Flows and Stocks" available on the Approved Guidance Notes page of the IMF website.

multiplying positions denominated in foreign currencies at year-end and changes in exchange rates (calculated by currency). Estimates under "other changes" are obtained by subtracting changes classified under "transactions" and "exchange rate changes" from the changes in positions and include (1) changes due to fluctuations in stock, bond, and other market prices excluding exchange rates, (2) reclassifications,² and (3) changes due to differences in the way the BOP and IIP are compiled.³

However, these estimates have certain limitations. While changes due to exchange rate changes are calculated based on the assumption that reports submitted under the Foreign Exchange and Foreign Trade Act -- from which the IIP are compiled -- use the underlying currency, the actual reports do not always use the underlying currency. For example, while the source data for portfolio investment and outward direct investment are in principle reported in the underlying currency, those for inward direct investment and financial derivatives are reported in yen.

To compile data for Japan for the proposed integrated IIP, it would first be necessary to break down changes due to "other changes" into those due to "other price changes" and "other changes in volume." Regarding the estimation of changes due to price changes, while one idea would be to use market information, compilers at national statistical offices are currently sharing insights and working together to discuss possible approaches. Other issues to be examined in Japan include (1) the collection of position data for items for which source data are not available in the current reporting system and that are compiled by cumulating transaction flows and (2) a switchover from reporting in yen terms to reporting in the underlying currency.

(Reference) Developments in Japan's IIP by Factor

Looking at changes in Japan's IIP excluding financial derivatives (other than reserves) by factor since 1997 shows that transactions have generally made a positive contribution to the increases in both assets and liabilities.⁴ On the other hand, factors other than transactions

² For example, when additional investment establishes a direct investment relationship, prior positions under portfolio investment are reclassified as direct investment.

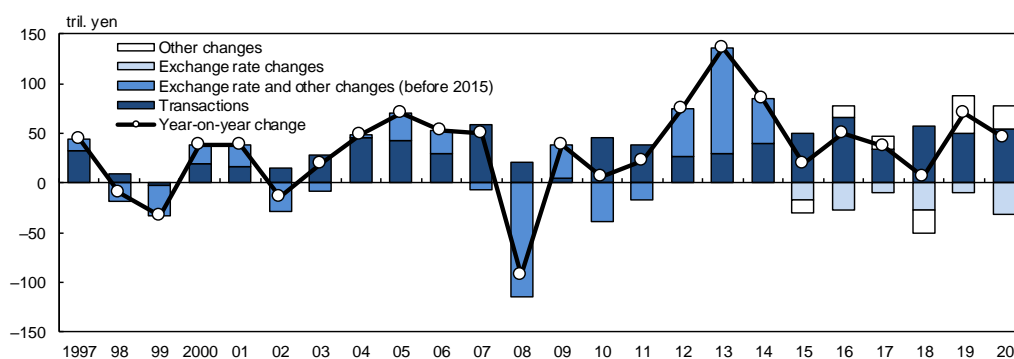
³ For example, "other changes" include differences between actual and provisional figures for the reinvestment of earnings under direct investment, particularly until reinvested earnings actually earned are reflected in the financial account (see Appendix 4). Moreover, "other changes" also include changes related to tax payments (i.e., reinvestment of earnings is calculated before tax in the financial account while it is calculated after tax in the IIP).

⁴ Except for items such as the payment of the option premium, financial derivatives at their inceptions generally do not involve transactions that are recorded in the financial account, and investment positions change during the contract period as prices in the underlying assets change. Since the settlement of positions is recorded in the financial account as a reduction in assets and liabilities,

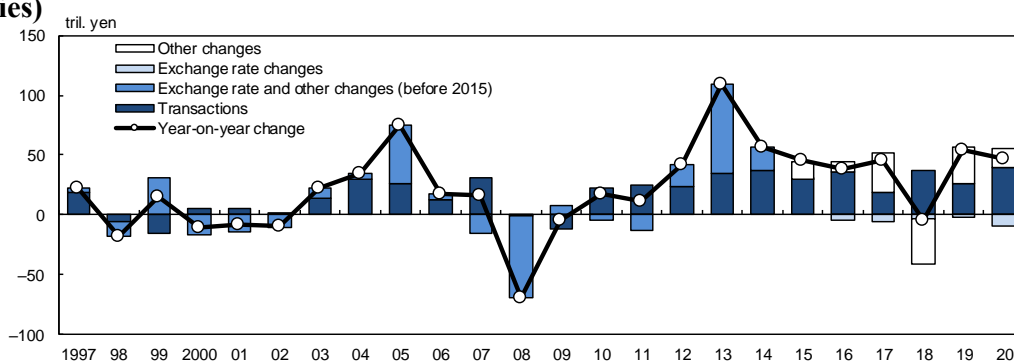
have made positive contributions in some years and negative contributions in others and therefore are the main reason for fluctuations in changes in the IIP. From 2015 onward, changes due to factors other than transactions can be divided into changes due to exchange rate changes and those due to other changes. This shows that, as a result of the appreciation of the yen, exchange rate changes have worked in the direction of reducing both the asset and the liability position, but particularly the asset position, reflecting the fact that a large share of assets is foreign currency-denominated (at year-end 2020, 73 percent of assets and 22 percent of liabilities were foreign currency-denominated). Changes due to other changes largely reflect developments in stock prices.⁵

Appendix Figure 6.2: Year-on-Year Changes in Japan's IIP by Factor⁶ excluding Financial Derivatives (Other than Reserves)

(Assets)



(Liabilities)



increases in the financial derivatives positions are in principle due to "other changes" and decreases due to transactions. (Meanwhile, changes due to exchange rate changes are generally zero since the main source data are reported in yen terms.) Therefore, since the impact of price changes differs from that for other functional categories, this report presents changes in Japan's IIP by factor excluding financial derivatives.

⁵ See V. B. in the main text for developments in "other changes" by component.

⁶ Data before 2014 are compiled using "historical data based on the BPM6," in which figures for "exchange rate changes" and "other changes" are not available. Figures for "exchange rate and other changes" for 2014 include changes due to changes in compilation methods with the switchover to the BPM6-based statistics. Year-on-year changes in the IIP by factor from 2015 to 2019 do not add up as the figures for "exchange rate changes" and "other changes" do not reflect annual revisions.