

October 2020
Ministry of Finance

**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"**

The Ministry of Finance (MOF) and the Bank of Japan, in response to the "Basic Policy for the Fundamental Reform of Economic Statistics," will (1) change the recording of reinvested earnings and (2) add new components under goods in Japan's balance of payments (BOP) statistics, beginning with the release of preliminary figures for September 2020 (scheduled for November 10, 2020).

I. Background

These changes are made as a specific response to the government's proposal to "improve economic statistics linked to the compilation of GDP statistics for an accurate assessment of economic conditions" in the "Basic Policy for the Fundamental Reform of Economic Statistics" put forth at the 22nd meeting of the Council on Economic and Fiscal Policy held on December 21, 2016.

This proposal requires the following three actions with regard to Japan's BOP statistics, one of the sets of fundamental statistics for the compilation of GDP statistics.

Actions Regarding the BOP Statistics

- (1) Consider ways to compile retrospective time-series data during the switchover to the new statistics in response to the next update of the *Balance of Payments and International Investment Position Manual (BPM)*.¹
- (2) In cooperation with the Cabinet Office, reconsider how reinvested earnings should be recorded, taking into account the harmonization with the System of National Accounts (SNA).
- (3) Consider making the difference between exports/imports of goods in the BOP statistics and the *Trade Statistics of Japan (the Trade Statistics)* clearer by disseminating data for "goods for resale through transactions between resident merchants" etc.

The 16th meeting of the Subcommittee for the Systematic Enhancement of SNA Statistics, held on June 14, 2019, approved concrete steps for actions (2) and (3) without objections. Following this approval, the MOF and the Bank have been preparing for the release of the new BOP statistics modified in accordance with these steps and will begin to do so with the release of preliminary figures for September 2020 (scheduled for November 10, 2020).²

¹ The *BPM*, published by the International Monetary Fund (IMF), provides international standards for the compilation of BOP statistics. Currently, the sixth edition, published in 2008, is being used.

² Of the three actions, consideration of ways to compile retrospective time-series data ((1) above) will be discussed in the course of the switchover to the new statistics based on the next update of the *BPM*.

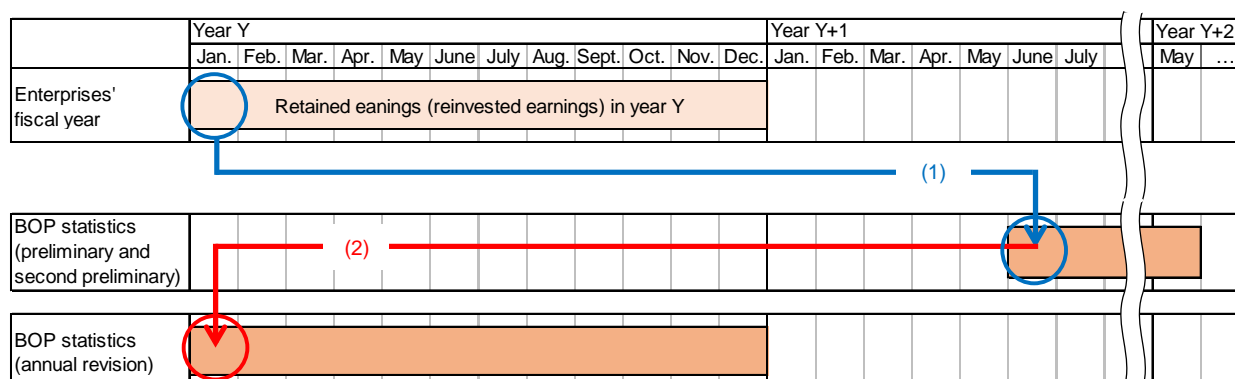
II. Overview of the Changes

A. Changes in the Recording of Reinvested Earnings

"Reinvested earnings" are one of the components of "primary income." Reinvested earnings are the direct investment enterprises' share of earnings that are not distributed as dividends to investors but accumulated as retained earnings. This share of earnings is regarded as accruing to the direct investors and recorded under "reinvested earnings."³

The data source for reinvested earnings is firms' financial statements, which are unavailable until the firms' accounts are settled. Therefore, up to now, the BOP statistics used figures for 17 months earlier as preliminary figures⁴ for reinvested earnings and replaced these preliminary figures with the actual figures for a particular accounting period when the annual revisions were released (see Figure 1).

Figure 1: Time of Recording of Reinvested Earnings



- (1) Data on earnings during a particular year (e.g. year Y) are reported once firms have settled their accounts. Figures of reinvested earnings for a month calculated on the reported value are recorded for one year (in this example, from June of year Y+1). As a result, figures from 17 months earlier (i.e., January of year Y in this example) are used as preliminary figures in the preliminary BOP statistics.
- (2) In the annual revision, preliminary figures (i.e., figures for 17 months earlier) are replaced with actual figures for the month in question (e.g., preliminary figures for January of year Y are replaced with actual figures, which were recorded as preliminary figures for June of year Y+1).

³ The same amount is recorded under "reinvestment of earnings" under "direct investment;" that is, investors are deemed to immediately reinvest retained earnings in the direct investment enterprises.

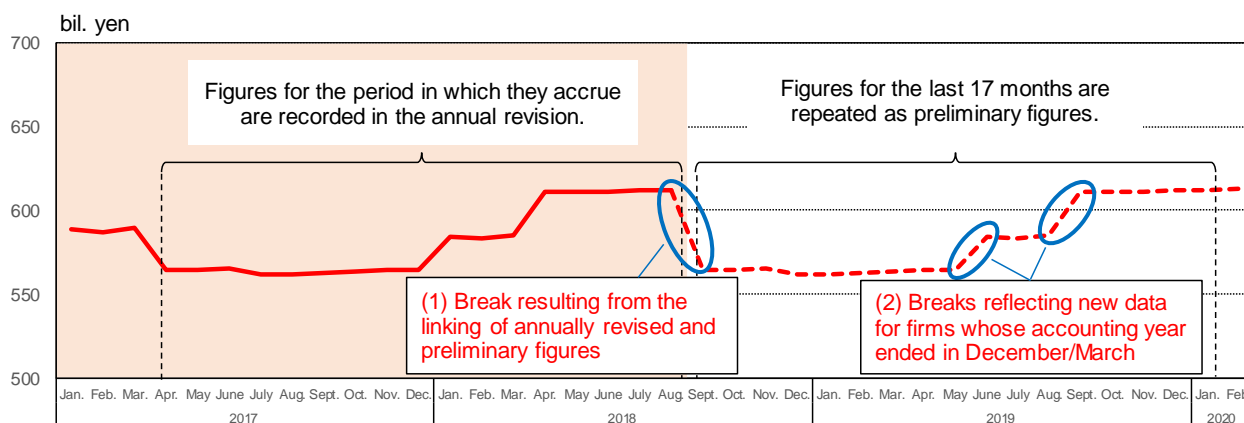
⁴ Preliminary and second preliminary figures are collectively referred to as "preliminary figures" in this section.

Under the current method, preliminary figures for the most recent 17-month period are identical to the annually revised figures for the 17-month period immediately preceding it (see Figure 2).

Specifically, in the annual revision in April of year T, data from September of year T-3 through August of year T-2 are adjusted to reflect the earnings accrued in the accounting period in question. As a result, figures for the last 17 months (i.e., figures from September of year T-2 through January of year T) are the same as the figures for April of year T-3 through August of year T-2.⁵

This method may lead to breaks (1) in the month where annually revised figures are linked with preliminary figures, and (2) in months where new accounting year data for firms start being reflected as preliminary figures in the BOP statistics.⁶

Figure 2: Recording under the Current Method (Reinvested Earnings, Credit^{1,2})



Notes: 1. Figures are as of the annual revision in April 2020.

2. The figures for April through August 2017 were adjusted in the annual revision in April 2019.

⁵ The figures for April through August of year T-3 are adjusted in the annual revision in April of year T-1.

⁶ For example, in Japan, for the large majority of firms, the accounting year ends in March or December, resulting in breaks in the actual earnings data between March and April as well as between December and January of the next year. In the BOP statistics, data for the new accounting year are reflected as preliminary figures for September and June of the next year, respectively, and may cause substantial changes in the level of reinvested earnings for these months.

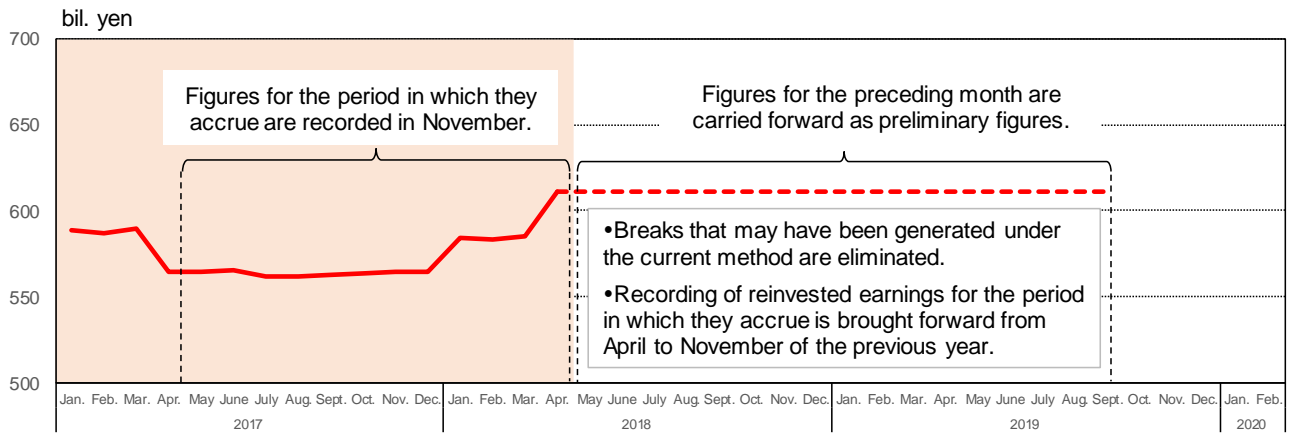
Under the new method, the recording of figures for reinvested earnings for the period in which they accrue will be brought forward by five months from April to November of the previous year. In addition, for the last 17 months, for which financial statements are not yet available, figures for the preceding month will be carried forward (see Figure 3).

This will eliminate any breaks that may have been generated under the current method.⁷

Specifically, figures from May of year T-2 through April of year T-1 will be adjusted in November of year T. Moreover, figures from May of year T-1 through September year T will be identical to the figures for April of year T-1.

As a result, regarding firms whose accounting year ends in March, which make up a substantial share of reporting firms, it will be possible to reflect reported data for the relevant period in which reinvested earnings accrue sooner than under the current method.

Figure 3: Recording under the New Method (Reinvested Earnings, Credit)



⁷ Delayed or corrected reports that were not reflected in the preliminary figures will, as before, be incorporated in the annual revisions in April.

B. Addition of New Components under Goods

The main data source for the trade in "goods" in the BOP statistics is the *Trade Statistics*. However, the coverage of transactions and time of recording differ between the two sets of statistics. Therefore, the BOP data on "goods" are compiled and disseminated after making certain adjustments to the *Trade Statistics* data (see Figure 4).

"Goods" in the BOP statistics consists not only of "general merchandise on a balance of payments basis," i.e., exports/imports of goods, but also of "net exports of goods under merchanting" and "nonmonetary gold." Moreover, for the compilation of "general merchandise on a balance of payments basis," *Trade Statistics* data are adjusted, for example, to include transactions not recorded in the *Trade Statistics*, such as goods for resale through transactions between resident merchants,⁸ which do not pass through Japanese customs.

Figure 4: Differences and Adjustments Between the *Trade Statistics* and the BOP Statistics (General Merchandise on a Balance of Payments Basis)

	<i>Trade Statistics</i>	General merchandise on a balance of payments basis in the BOP	Adjustments
Valuation	Exports: FOB ¹ Imports: CIF ²	Both exports and imports: FOB ¹	Insurance premiums and freight charges are deducted from imports.
Coverage	Goods that have crossed Japan's customs frontier regardless of changes in ownership	Goods whose ownership has changed between residents and nonresidents	Certain additions and deductions are made to/from exports and imports in the <i>Trade Statistics</i> depending on whether there have been changes in ownership.
Time of recording	Exports: When the ship or aircraft carrying the goods leaves the port Imports: When import of the goods is permitted	Both exports and imports: When ownership changes	

Notes: 1. Stands for "free on board." The price of goods at the frontier of the exporting country is recorded. Excludes insurance premiums and freight charges incurred after the goods have been loaded on board.

2. Stands for "cost, insurance, and freight." Includes insurance premiums and freight charges in addition to the price of goods.

⁸ In cases where goods are purchased from country A and resold to country B involving two or more residents, the goods are shipped from country A to country B without passing through Japanese customs and therefore such transactions are not recorded in the *Trade Statistics*. By contrast, in the BOP statistics, which focus on changes in ownership, the above-mentioned transactions are recorded as imports from country A and exports to country B.

From November 10, 2020, figures for "additions" and "deductions" under "general merchandise on a balance of payments basis" -- i.e., adjustments to goods in the *Trade Statistics* data -- as well as major components of these "additions" and "deductions" will be newly released (see Figure 5). These new components should be useful to users as they will make it clearer where the differences with the *Trade Statistics* arise.

Figure 5: Addition of New Components

		Dissemination	
		Current	New
Goods =	General merchandise on a balance of payments basis	○	⇒ ○
	Goods on a <i>Trade Statistics</i> basis	○ ¹	⇒ ○ ¹
	+		
	Additions	×	⇒ ○
	Of which: Goods not passing through Japanese customs ²	×	⇒ ○
	-		
	Deductions	×	⇒ ○
	Of which: Re-export goods ³	×	⇒ ○
	Of which: Re-import goods ³	×	⇒ ○
	+		
Net exports of goods under merchanting	○	⇒ ○	
+			
Nonmonetary gold	○	⇒ ○	

Notes: 1. The *Trade Statistics* are disseminated by the Customs and Tariff Bureau, MOF.

2. This component includes goods for resale through transactions between resident merchants.

3. This component includes returned goods.

III. Statistics and Periods Subject to the Changes

The statistics and periods subject to the changes when the preliminary figures for September 2020 are released (scheduled for November 10, 2020) are as follows.⁹

The data of the newly added components will be available in the BOJ Time-Series Data Search (https://www.stat-search.boj.or.jp/index_en.html).

A. Statistics

- Reinvested earnings:¹⁰ *Balance of Payments* and *Regional Balance of Payments*
- Goods: *Balance of Payments*

B. Period

- Reinvested earnings:¹¹ from September 2018
- Goods: from January 2014

⁹ Other statistics will incorporate these changes when they are released once the preliminary figures for September have been published on November 10, 2020.

¹⁰ For the *Direct Investment by Region and Industry* statistics, only figures for the calendar year (annual totals) will be adjusted.

¹¹ Specifically, reinvested earnings from September 2018 through April 2019 will be adjusted, while for May 2019 through September 2020 the figures for April 2019 will be carried forward. As 2020 represents a transitional period, figures from May through August 2018 were already adjusted in April 2020. From 2021, figures from May two years earlier through April one year earlier will be adjusted in November of the current year.