

RESEARCH REPORT

Japan's overseas income and the domestic spending connection

Japan's overseas earnings support national resources through retained profits, distributions and asset wealth. Actual external accounts and a cash-flow bridge explain why those gains need not produce equal domestic spending.

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An external surplus is not a household spending account

Japan's external position poses a question that a trade balance cannot answer. Residents can earn substantial income on assets held abroad while goods and services trade remains in deficit. That income increases the resources accruing to resident owners under the relevant accounts. It does not follow that the full amount arrives as cash in Japan, is exchanged for yen or becomes household consumption during the same period.

The distinction has practical consequences. A company can report strong foreign earnings while retaining the funds for an overseas operation. A pension institution can accrue foreign income while changing neither current benefits nor domestic investment. A household can benefit from a higher asset value while continuing to face rising living costs. These outcomes can coexist with a large current-account surplus without a statistical contradiction.

This report connects three accounts: income generated abroad, financial transactions and valuations, and expenditure by the domestic recipients. It uses actual Japanese balance-of-payments and international-investment-position observations, preserving their publication vintages. It then develops controlled examples to show which additional information is needed to estimate the domestic spending connection. The analysis concerns how residents allocate overseas income and capital across domestic and foreign uses.

The central finding is that overseas income supports domestic economic capacity through several routes with different timing. Reinvestment can strengthen future earnings, cash distributions can support domestic finance, and asset wealth can provide long-term benefits. The immediate effect on domestic demand depends on ownership, payout policy, conversion decisions, taxes and the uses of funds. A surplus alone does not identify those margins.

The observed income surplus exceeds the current-account surplus

Japan’s Statistical Handbook 2025 reports a current-account surplus of 29.3719 trillion yen for calendar 2024. Its table records goods and services at minus 6.4367 trillion, primary income at plus 40.4052 trillion and secondary income at minus 4.5965 trillion. These figures refer to the handbook’s statistical vintage; they are not presented as the latest revised 2024 series. [Statistics Bureau, Statistical Handbook 2025, Table 11.4.](#)

Current-account component, calendar 2024	Trillion yen, handbook vintage
Goods and services	−6.4367
Primary income	40.4052
Secondary income	−4.5965
Current account	29.3719

The displayed components sum to 29.3720 trillion, differing from the published total by 0.0001 trillion because of rounding. The arithmetic establishes that the primary-income surplus more than offsets the two negative balances. It does not establish the fraction distributed to households or the amount converted in the foreign-exchange market.

Primary income and exports belong to different parts of the account. Payment for a product produced in Japan is associated with domestic production and trade. Earnings attributable to a resident’s overseas investment concern income from production or assets abroad. Treating the latter as an additional Japanese export would misstate both location of production and the current-account classification.

A national-income account brings the production and ownership perspectives together, but it is not a cash ledger. A precise bridge to gross national income must use compatible national-accounts concepts and vintages. The balance-of-payments primary-income balance is informative, while a mechanical addition to a GDP number from another release can introduce valuation, coverage or timing differences. The analytical relationship should be established before a numerical bridge is published.

The overseas balance sheet has gross positions on both sides

The Ministry of Finance’s end-2025 international investment position records external assets of 1,805.634 trillion yen and liabilities of 1,243.884 trillion. Their difference is a net position of 561.750 trillion. The same release separates direct investment, portfolio investment, financial derivatives, other investment and reserves. These are end-period financial positions, rather than annual income flows. [Ministry of Finance, International Investment Position, end 2025](#).

A positive net position can coexist with large gross financing requirements. Assets and liabilities can differ in currency, maturity, liquidity and owner. A resident with a valuable foreign factory cannot necessarily use it immediately to meet another resident’s short-term external liability. Aggregate net wealth should therefore be supplemented with the gross exposures relevant to a particular payment or funding decision.

The composition also affects income. A bond coupon, a bank-loan interest receipt and a subsidiary’s operating earnings follow different contractual and accounting processes. Dividing total income by the closing net position mixes the returns on assets with the costs of liabilities and uses a denominator observed at only one date. A meaningful yield comparison should use the relevant gross category and an appropriate average position.

The same caution applies to ownership. The institution recording an external asset can be an intermediary for ultimate domestic savers. Adding its position to households’ claims on that intermediary can count the same underlying exposure twice. Conversely, attributing all externally earned income directly to households ignores the distribution and retention decisions occurring inside companies, funds and institutions.

The end-2025 release provides a more recent position vintage than the handbook’s end-2024 table. This report does not splice the handbook’s older position into the new release’s change calculation. The Ministry’s internally consistent end-2024 and end-2025 comparison is used for the stock bridge. That choice matters because revisions to a past position are not new investment undertaken during the later year.

What changed in the position is not identical to what was earned

The Ministry’s factor decomposition estimates the 2025 increase in the net position at 23.650 trillion yen. It attributes 29.684 trillion to transactions, 13.422 trillion to exchange-rate changes and minus 19.456 trillion to other changes. Its notes identify stock and bond price movements and compilation differences among the items in other changes. The source also notes rounding. [Ministry of Finance, 2025 position changes by factor](#).

Estimated contribution to the 2025 net-position change	Trillion yen
Transactions	29.684

Estimated contribution to the 2025 net-position change	Trillion yen
Exchange-rate changes	13.422
Other changes	-19.456
Total change	23.650

The contributions reconcile exactly at the displayed three-decimal precision. They demonstrate why a rise in foreign asset wealth cannot be interpreted as the same amount of newly saved income. Valuation and other adjustments can reinforce or offset transactions. A comparison using only the opening and closing stocks would leave those channels unresolved.

Income is another flow. An asset can pay interest while its market value falls, or produce no current distribution while its valuation rises. The position decomposition does not allocate the entire wealth change between household consumption and domestic investment. It identifies the financial movements to reconcile before those uses can be studied.

A hypothetical bond makes the distinction concrete. Suppose a resident buys a foreign bond for one hundred, receives a coupon of four and ends the year with a market value of ninety-four in the same currency. Income is four, while the holding loss is six. Ignoring other transactions, the combined financial return is minus two. Recording only the coupon overstates the wealth gain; recording only the price change omits the income received.

Currency conversion adds another layer without changing the classification. A rise in the yen value of the bond can reflect exchange translation rather than a higher foreign-currency price. A yen wealth gain is economically relevant to a yen-spending owner, but it is not an additional coupon or a new unit of production abroad. The income, valuation and transaction accounts must remain distinct.

Reinvested earnings are income without a matching cash distribution

International accounts attribute certain retained earnings of direct-investment enterprises to their owners and record a corresponding reinvestment in the financial account. The ECB's statistical methods explain this paired treatment and distinguish it from holding gains. This is the general accounting mechanism used in the illustration below, not a claim that every Japanese foreign investment has the same compilation details. [ECB, balance-of-payments methods, investment-income section](#).

Suppose a Japanese resident parent owns a foreign subsidiary that earns ten units attributable to that parent after the relevant costs. It distributes four and retains six. Under the stipulated direct-investment treatment, income attributable to the parent is ten, while cash dividends are four. The retained six has a matching

reinvestment entry. It does not require a cash transfer to Japan and a return transfer abroad to become economically meaningful income.

The accounting convention captures the owner’s claim on the retained resources. It should not be described as fictitious income merely because no cash crosses a border. At the same time, treating the full ten as immediately available cash would be incorrect. Its availability depends on distribution decisions, the subsidiary’s financing needs and the owner’s legal and economic ability to obtain resources.

Retention also does not reveal the final use. The six can finance equipment, repay a loan, accumulate deposits or meet working-capital requirements. Only some uses constitute new fixed capital formation, and that investment is located where the producing entity is resident. Reinvested earnings in a financial account cannot independently establish six of new Japanese domestic machinery investment.

Later distributions require a consistent time account. If the subsidiary distributes retained earnings in a subsequent year, the same underlying earnings should not be counted again as newly generated income merely because the cash moves. Statistical classification can depend on the nature of the distribution. An analyst should use the compiler’s treatment rather than add current profits and every cash dividend without reconciliation.

A three-stage bridge from earnings to domestic demand

The first stage identifies income accruing to residents, distinguishing receipts from payments and distributed from retained components. The second follows cash and financing: distributions, currency conversion, borrowing, asset sales and reinvestment. The third identifies the expenditure or financial use by the domestic recipient. Each stage answers a different question and requires different observations.

Consider an entirely hypothetical parent with foreign earnings of twenty. Twelve is retained abroad and eight is distributed. Of the distributed eight, assume three remains in a foreign-currency account and five is exchanged for yen. The parent then uses two to repay domestic debt, two for domestic capital purchases and one to distribute to resident households.

Stage in the invented bridge	Amount
Foreign earnings attributable to the parent	20
Retained abroad	12
Distributed cash	8
Distributed cash converted into yen	5
Domestic debt repayment	2

Stage in the invented bridge	Amount
Domestic capital purchases	2
Distribution to resident households	1

If households spend seventy percent of the final unit, the immediate additional consumption in the exercise is 0.7. The other 0.3 is saved. This is not an estimated Japanese spending propensity. It establishes that the original twenty, cash eight, conversion five, capital purchase two and consumption 0.7 describe different stages. Adding them as separate demand contributions would count resources repeatedly.

The example deliberately holds other behavior unchanged. In practice, the parent’s domestic investment could have been financed without the foreign distribution, while debt repayment could enable later borrowing. Households can change spending in anticipation of future income. The direct accounting bridge therefore defines observed uses; it is not a causal multiplier or a complete general-equilibrium assessment.

A further distinction concerns imports in capital purchases. If part of the two purchases imported equipment, domestic fixed capital formation rises by the acquisition under the relevant rules while the corresponding import enters the expenditure account. The immediate domestic production contribution is not automatically two. Financing origin, investment location and value-added origin must each be identified.

Conversion into yen is a choice, not a statistical identity

A resident can receive foreign currency and keep it abroad, transfer it to a domestic foreign-currency account or exchange it for yen. Those choices have different market implications even though the underlying income is attributable to the same resident. A current-account credit does not by itself identify the execution of a spot currency sale.

Hedging further changes the timing. A company can sell anticipated receipts forward before the earnings are distributed. An institution can hold a foreign asset while hedging part of its currency exposure. The later cash receipt can settle an existing arrangement rather than generate a new unanticipated market transaction. An explanation of exchange-rate behavior needs the contracts and timing, not only the current-account total.

Consider a separate illustrative receipt of one hundred foreign-currency units. At 140 yen per foreign unit, it is worth fourteen thousand yen before costs. At 150, the same foreign amount is worth fifteen thousand. The yen amount rises by approximately 7.14 percent without a higher foreign-currency receipt. A current-value growth comparison should distinguish this translation from higher foreign operating earnings.

Now suppose a forward agreement fixes the conversion at 145. The contract’s economic effect differs from converting the whole receipt at the later spot rate. The asset and hedge need to be assessed together, including any settlement or collateral conditions. Reporting the unhedged translation gain as the owner’s realized benefit would misstate the combined position.

These examples do not establish what drove the yen during a particular period. Interest differentials, risk conditions, portfolio choices and expected policy can also matter. The narrower finding is that a statistical income surplus is not a complete measure of currency supply. Estimating that supply requires distributed cash, conversion behavior and hedging alongside the broader capital flows.

The return after currency protection is a different quantity

Foreign assets can offer a stated yield that differs from the owner's return after financing, hedging and operating costs. The Ministry's end-2025 factor note reports foreign-currency assets of 1,350.7 trillion yen and foreign-currency liabilities of 284.9 trillion. Those gross currency positions describe denomination, not the extent of protection supplied by derivatives, matching income or other arrangements. Their difference should not be labeled the national unhedged exposure without a further reconciliation.

For a controlled example, value an investment and all settlements in the same domestic monetary unit. An initial asset of one hundred produces income of four and no price change before currency effects. Suppose the associated hedge requires a net settlement of three over the same interval. The combined gain is one before fees and funding costs. Reporting the asset's four-percent income yield as the protected return would omit an economically relevant cash flow.

A hedge can also reduce losses or stabilize a liability match. Its cost in one state is not a complete measure of its value over uncertain outcomes. Comparing hedged and unhedged portfolios should therefore specify the risk being held constant, not merely select the larger realized return afterward. The relevant alternatives may differ in duration, liquidity, credit exposure and ability to meet domestic obligations.

Currency protection does not eliminate every foreign risk. A forward arrangement addressing exchange movements does not guarantee the foreign borrower's payment or preserve an equity's market price. Similarly, a domestic asset can have substantial economic exposure to foreign demand even when denominated in yen. Contract denomination, operating exposure and final risk bearing are related classifications that should remain visible separately.

For domestic-demand analysis, the combined net cash flow is more informative than the foreign coupon alone. An institution can receive greater foreign income while paying more for protection or funding, leaving little additional capacity for distributions. That is a testable competing explanation for a weak spending connection. It requires the matched asset, hedge and funding records rather than an assumed national hedge cost.

Foreign earnings can support investment on either side of the border

A parent may retain earnings abroad because foreign demand, operating scale or regulatory needs make reinvestment attractive. It may distribute them because domestic projects have better expected returns or shareholders prefer a payout. The location decision depends on relative opportunities and constraints. High overseas earnings do not establish that domestic investment has been displaced by an equal amount.

Two causal directions are plausible. Attractive foreign opportunities can draw capital outward. Weak domestic investment opportunities can also lead firms to build foreign assets. Observing outward investment and subdued domestic capital spending does not distinguish the directions. A serious assessment needs project-level expected returns, demand and financing conditions, rather than treating the financial outflow itself as proof of domestic crowding out.

There can also be complementarity. A foreign sales or production network may increase demand for domestic design, management, components or research. Alternatively, it may substitute for activities previously performed at home. The net effect depends on the tasks and supply relationships. The parent's consolidated foreign sales do not locate each activity or establish the counterfactual domestic employment path.

An evaluation should therefore separate the foreign affiliate's own production, purchases from Japan and transactions within the corporate group. It should then trace wages, investment and productivity in domestic units. Intragroup payments require attention to valuation and consolidation. Adding the parent's revenue to every affiliate's sales can exaggerate the group's economic activity before the location question is even considered.

Domestic capital constraints can limit the transmission even when finance is abundant. A shortage of suitable sites, specialist workers, permits or commercially viable demand can prevent additional funds from becoming operating assets. Those constraints should be documented for the relevant sector. Calling all unused financing a savings surplus does not establish which investment would become feasible if the funding were redirected.

Who receives the income determines the household connection

A primary-income surplus is an aggregate across resident recipients. Household purchasing power depends on what reaches households through wages, distributions, pensions, transfers and asset income after applicable obligations. Income retained within a corporation can strengthen the household owner's wealth indirectly without increasing current disposable cash by the same amount.

Pension and insurance arrangements introduce a longer horizon. Foreign returns can improve an institution's ability to meet future commitments or reduce the funding required from sponsors. The benefit can appear through greater security or later payments. It should not automatically be assigned to current consumption.

Conversely, current benefits can be paid from a diversified pool without a one-for-one link to that month's foreign earnings.

Distribution also matters within households. The marginal spending response of a recipient facing immediate liquidity needs can differ from that of a recipient holding substantial financial assets. A national average cannot establish how the foreign-income gain is distributed across those groups. An empirical estimate should combine ownership or benefit exposure with income and spending information, preserving confidentiality and sample limitations.

A controlled distribution example shows the issue. Suppose ten units of additional cash income accrue to two groups. If eight goes to a group spending twenty percent of the increment and two to a group spending eighty percent, additional consumption is 3.2. Reversing the allocation raises consumption to 6.8 with the same total income. These assumed responses are not estimates for Japan. They demonstrate why the aggregate income gain cannot determine the aggregate spending response independently of distribution.

The welfare interpretation is broader still. Retained foreign assets can provide insurance against future domestic shocks. Spending every current receipt is not inherently superior to saving it. The relevant question is whether households obtain resources and risk protection consistent with their needs, and whether the allocation of capital supports valuable production. A larger current consumption response is one outcome, not a complete measure of economic success.

Yen translation and domestic purchasing power can move in opposite directions

The domestic value of foreign income depends on the exchange rate, while what that income buys depends on domestic prices and the recipient's expenditure basket. A weaker yen can raise the translated value of foreign earnings and simultaneously increase the local cost of some imports. The net household effect depends on the distribution of asset income and consumption costs.

Suppose a recipient's foreign cash income rises from fourteen thousand to fifteen thousand yen solely through the exchange movement in the earlier example. If the relevant consumption basket becomes ten percent more expensive, the income's purchasing power relative to the initial basket is about thirteen thousand six hundred thirty-six yen. Nominal yen income has risen, but this isolated real-income comparison falls by approximately 2.60 percent.

Those parameters are hypothetical. They do not describe Japanese inflation or estimate exchange-rate pass-through. Their purpose is to keep the translation and price adjustments explicit. A different household basket or hedge can change the result. Applying a national consumer-price index to a particular institution's investment income would not automatically measure the institution's relevant real return.

At the aggregate level, terms-of-trade changes add another distinction. The volume of domestic output and the purchasing power of income generated by that output need not move identically when export and import prices change. Overseas income offers another resource flow, but it does not make those price effects

disappear. An analysis of living standards should use consistent real-income measures and identify the adjustments rather than substitute nominal GNI for real household income.

This connection explains why strong foreign earnings and household pressure can coexist. It does not establish that one caused the other. Establishing causality requires tracing the exchange, price and income channels across recipients, including domestic earners without material foreign assets. A distributional account is more informative than treating Japan as a representative resident owning the average external portfolio.

Measurement revisions are part of the research design

The Bank of Japan explains that reinvested-earnings-related figures undergo a distinct revision process and are fixed only in a later annual revision. Its release methodology also distinguishes preliminary monthly data, subsequent revisions and annual position estimates. Researchers should preserve the information available at the date of a claim rather than treat every historical observation as final when first published. [Bank of Japan, BOP release and revision methods.](#)

This matters for high-frequency interpretation. A monthly retained-earnings estimate may rely on information not yet observed for that month and later be revised when underlying reports arrive. Apparent smoothness or a sudden revision need not represent a new distribution decision by companies in that month. The compiler's estimation and allocation process belongs in the interpretation.

The report's actual tables deliberately use identified releases for separate purposes. The handbook supplies a transparent current-account composition for 2024. The Ministry's end-2025 release and factor table supply a consistent stock reconciliation. No annual yield is calculated by combining the handbook income flow with the later position or an unrevised earlier stock. That would require a matched average balance and consistent coverage.

A replicable dataset should store source date, reference period, units, seasonal adjustment, revision status and the distinction between credits, debits and net balances. Gross receipts are especially important when comparing reinvestment or payout ratios. Dividing a gross retained-earnings amount by a net primary-income balance can create a ratio with no straightforward interpretation when payments to foreign investors are material.

A corporate financial statement is useful corroborating evidence, but its consolidated profit should not be substituted directly for a resident-sector income flow. The group can include several countries, eliminate internal transactions and apply accounting treatments that differ from the external accounts. A bridge should identify the resident parent, overseas entities, ownership shares and relevant adjustments before company results are aggregated. This preserves the additional detail in corporate disclosures without claiming that a collection of headline profits reproduces the national statistical series.

Testing the domestic-demand connection

An empirical study should begin with the recipient rather than infer behavior from the national surplus. For corporations, link foreign earnings and distributions to domestic cash flow, debt repayment, capital expenditure and shareholder payouts. For financial institutions, examine income, hedge costs, funding obligations and benefit payments. For households, identify the exposure through direct holdings or intermediaries before estimating spending responses.

A credible corporate comparison would distinguish firms with similar domestic opportunities but different exposure to a foreign-income change. Foreign demand shocks, exchange-rate translation and changes in payout rules are possible sources of variation, but none is automatically exogenous. A firm with expanding foreign operations may also have stronger management or products, making a simple foreign-versus-domestic comparison misleading.

The timing should follow earnings, declaration, payment, conversion and final use. An event study centered only on an earnings announcement can capture information about future profitability rather than an immediate liquidity shock. A study centered on cash receipt can miss anticipated spending. Examining both dates and pre-existing plans helps separate those mechanisms.

Competing explanations should be tested explicitly. If domestic investment remains weak despite larger cash receipts, constrained demand or operating inputs may matter more than finance. If distributions rise but household spending does not, ownership concentration, saving or debt adjustment may explain the difference. If yen conversion remains limited, overseas liquidity management and hedging may be relevant. Each outcome narrows the mechanism without invalidating the entire income account.

A national assessment would then aggregate verified responses with appropriate weights and account for offsets. Domestic spending can raise imports; payouts can be received by nonresident shareholders; retained funds can support future foreign earnings. A partial-equilibrium response at one firm cannot be labeled the national multiplier without those adjustments. The framework permits a disciplined estimate when data support it and an explicit limit when they do not.

National saving and domestic investment supply a consistency check

A current-account surplus can also be examined through national saving and domestic capital formation, provided the relevant income and transfer definitions are aligned. This perspective is useful as an accounting check. It does not mean that a surplus independently measures desired saving, the quality of domestic investment or a policy optimum. Changes in the underlying components require their own economic explanation.

Take an invented economy with GDP of six hundred, net primary income of forty and net current transfers of minus five. Gross national disposable income is six hundred thirty-five under these simplified assumptions. If total final consumption is five hundred, national saving is one hundred thirty-five. Domestic capital formation of

one hundred leaves thirty-five of saving beyond domestic investment, corresponding to the current-account surplus in the restricted example. Capital transfers and other complications are excluded explicitly.

Now suppose net foreign primary income rises by ten while consumption rises by two and investment is unchanged. Saving rises by eight and the current-account surplus by eight. Domestic consumption has increased, but by less than foreign income. The larger surplus is consistent with that outcome; it does not show that the entire gain was spent. If domestic investment instead rises by fifteen with other flows unchanged, the initial surplus falls from thirty-five to twenty. The lower surplus can accompany more productive domestic investment rather than weaker national capacity.

The identity cannot determine whether the new investment is worthwhile. It does not establish how much additional consumption would be sustainable either. Those questions require returns, risks, distribution and future obligations. The accounting check prevents a mistaken inference in either direction: a larger surplus is not automatically a demand success, and a smaller surplus is not automatically a loss of economic strength.

For Japan, a complete empirical version should use consistent national accounts and external-account vintages, reconcile capital-account adjustments where relevant and retain statistical discrepancies. The example is a logical bridge, not a replacement for that dataset. It helps locate the further evidence needed to connect overseas income with domestic absorption, while keeping the distinction between an accounting equality and a behavioral explanation intact.

Implications for economic and corporate analysis

For macroeconomic assessment, the primary-income surplus should be reported beside goods and services, not folded into a narrative based only on export competitiveness. The external position should be shown with gross assets, gross liabilities and valuation contributions. Domestic demand should then be assessed through the recipients' disposable resources and spending choices.

For corporate planning, foreign earnings should be connected to accessible cash, distribution restrictions, funding needs and the currency of planned expenditure. Consolidated profitability can support financial strength while leaving a domestic project dependent on separate approvals or financing. Treasury management, capital allocation and operating investment should therefore be analyzed together without treating them as the same decision.

For public policy, the relevant objective is to improve valuable domestic opportunities and the transmission of income to residents, rather than assume that moving funds physically across a border creates output. Measures affecting investment incentives, corporate distributions or household resources should be assessed against a counterfactual and their fiscal or risk costs. A change in the current-account balance alone cannot establish their success.

Japan's external wealth and income provide substantial economic resources, as the official accounts demonstrate. Their domestic contribution is best understood through a sequence: income accrues to a resident, financial resources are retained or distributed, exposures are converted or hedged, and recipients

choose consumption, investment or saving. Following that sequence recognizes the value of overseas income while explaining why its domestic spending effect can differ markedly from the headline surplus.

Source addresses

The links below retain the source addresses cited in the analysis. References should be read within their stated periods and scope.

<https://www.stat.go.jp/english/data/handbook/pdf/2025all.pdf>

https://www.mof.go.jp/english/policy/international_policy/reference/iip/e2025.htm

https://www.mof.go.jp/policy/international_policy/reference/iip/data/2025_g1.pdf

<https://www.ecb.europa.eu/press/pubbydate/2025/html/ecb.bopiiipbook202507.en.html>

https://www.boj.or.jp/en/statistics/br/bop_06/index.htm