



BOJ ***Reports & Research Papers***

Japan's Balance of Payments for 2009

June 2010

International Department

Bank of Japan

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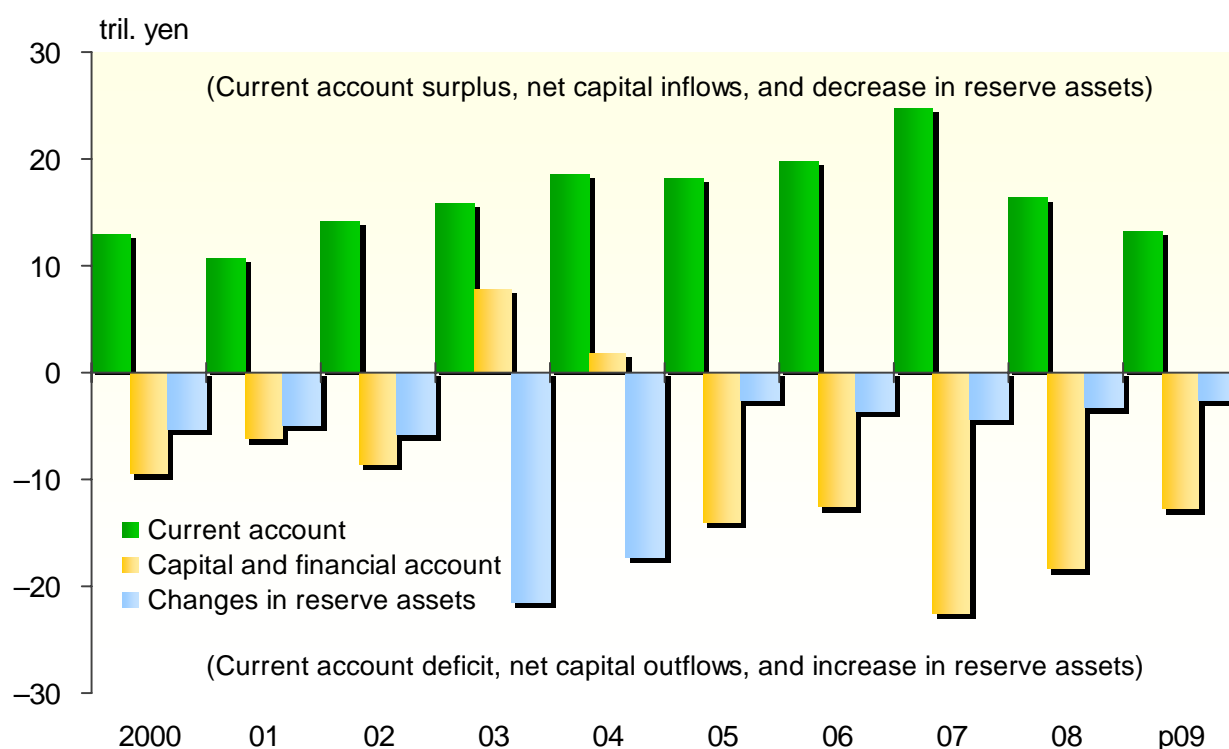
I. Summary

Japan's current account surplus decreased in 2009 for the second consecutive year to 13.3 trillion yen, down from 16.4 trillion yen in 2008, mainly due to a decrease in the income surplus. The capital and financial account deficit (net outflow) decreased to 12.7 trillion yen in 2009, down from 18.4 trillion yen in 2008. Reserve assets continued to increase, rising by 2.5 trillion yen in 2009 compared to an increase of 3.2 trillion yen in 2008. Balance of payments data for the whole of 2009 and the fourth quarter of 2009 in this report are preliminary unless otherwise stated.

In balance of payments statistics, the following relationship holds true at all times:

Current account + capital and financial account + changes in reserve assets + errors and omissions = 0. Japan's balance of payments for 2009 shows that the current account surplus earned is mirrored by reverse flows abroad in the form of a capital and financial account deficit (outflows) and an increase in reserve assets.

Figure 1: Balance of Payments



Note: "p" denotes preliminary data. The same applies to the remainder of the report.

Table 1: Japan's Balance of Payments

bil. yen

| | 2007 | 2008 | p2009 | Change from the previous year | Highlights |
|--|------------------|------------------|------------------|-------------------------------|---|
| Current account | 24,793.8 | 16,379.8 | 13,278.2 | -3,101.6 | The surplus decreased for the second consecutive year mainly due to a decrease in the income surplus. |
| Goods and services | 9,825.3 | 1,889.9 | 2,119.6 | +229.7 | The surplus increased. |
| Goods | 12,322.3 | 4,027.8 | 4,061.1 | +33.3 | The surplus was more or less unchanged from the previous year, while both exports and imports declined significantly. |
| Exports | 79,725.3 | 77,334.9 | 50,840.3 | -26,494.6 | Exports decreased for the second consecutive year, reflecting sluggish world economic conditions. |
| Imports | 67,403.0 | 73,307.1 | 46,779.1 | -26,528.0 | Imports decreased mainly due to a drop in prices of commodities such as crude oil and natural gas. |
| Services | -2,497.1 | -2,137.9 | -1,941.5 | +196.4 | The deficit decreased, with both credits and debits registering a decrease. |
| Income | 16,326.7 | 15,841.5 | 12,322.9 | -3,518.5 | The surplus decreased for the second consecutive year primarily due to a drop in receipts of portfolio investment income. |
| Current transfers | -1,358.1 | -1,351.5 | -1,164.3 | +187.2 | The deficit decreased mainly due to a decrease in tax payments to governments of oil-producing countries. |
| Capital and financial account | -22,538.3 | -18,389.5 | -12,732.3 | +5,657.2 | Net outflows decreased as inward investment in equity securities turned to a net inflow from a net outflow in the previous year. |
| Of which: | | | | | |
| Outward direct investment | -8,660.7 | -13,232.0 | -7,033.4 | +6,198.6 | The amount of net executions (outflows) dropped significantly mainly due to a lack of large-scale transactions as opposed to the previous year. |
| Inward direct investment | 2,655.2 | 2,524.6 | 1,119.2 | -1,405.3 | Net inflows decreased significantly due to a lack of large-scale investments seen in the finance and insurance sector in the previous year. |
| Outward portfolio investment | -12,929.8 | -13,978.2 | -16,267.4 | -2,289.1 | Net purchases (outflows) increased, primarily due to an increase in net purchases (outflows) of bonds and notes. |
| Equity securities | -2,957.6 | -6,414.9 | -3,026.2 | +3,388.7 | |
| Bonds and notes | -10,247.8 | -7,329.9 | -13,141.9 | -5,811.9 | |
| Money market instruments | 275.6 | -233.4 | -99.3 | +134.1 | |
| Inward portfolio investment | 24,922.6 | -10,343.6 | -4,820.0 | +5,523.6 | Net sales (outflows) decreased, primarily because investment in equity securities turned from net sales (outflows) to net purchases (inflows). |
| Equity securities | 5,444.2 | -7,464.1 | 1,100.6 | +8,564.6 | |
| Bonds and notes | 10,496.7 | -4,419.1 | -7,716.7 | -3,297.7 | |
| Money market instruments | 8,981.7 | 1,539.6 | 1,796.2 | +256.6 | |
| Financial derivatives | 324.9 | 2,456.2 | 987.2 | -1,469.0 | Net receipts (inflows) of funds decreased. |
| Other investment | -28,413.1 | 14,510.0 | 13,618.3 | -891.7 | Net inflows of fund persisted as banks collected the funds they had lent to their overseas branches. |
| Changes in reserve assets | -4,297.4 | -3,200.1 | -2,526.5 | +673.6 | Reserve assets continued to increase. |
| Errors and omissions | 2,041.9 | 5,209.8 | 1,980.6 | -3,229.2 | |
| Ratio of current account to nominal GDP (%) | 4.8 | 3.2 | 2.8 | | |

Notes: 1. Negative figures represent capital outflows. Negative figures in "changes in reserves assets" represent an increase in reserve assets.

2. Figures for portfolio investment and other investment exclude securities lending transactions.

II. Current Account

A. Summary

The current account surplus decreased for the second consecutive year, mainly due to a decrease in the income surplus. The trade surplus was more or less unchanged from the previous year, while both exports and imports declined significantly. The deficit in the balance of trade in services decreased, with a decrease in both credits and debits. The surplus in the balance of income decreased for the second consecutive year.

Figure 2: Current Account

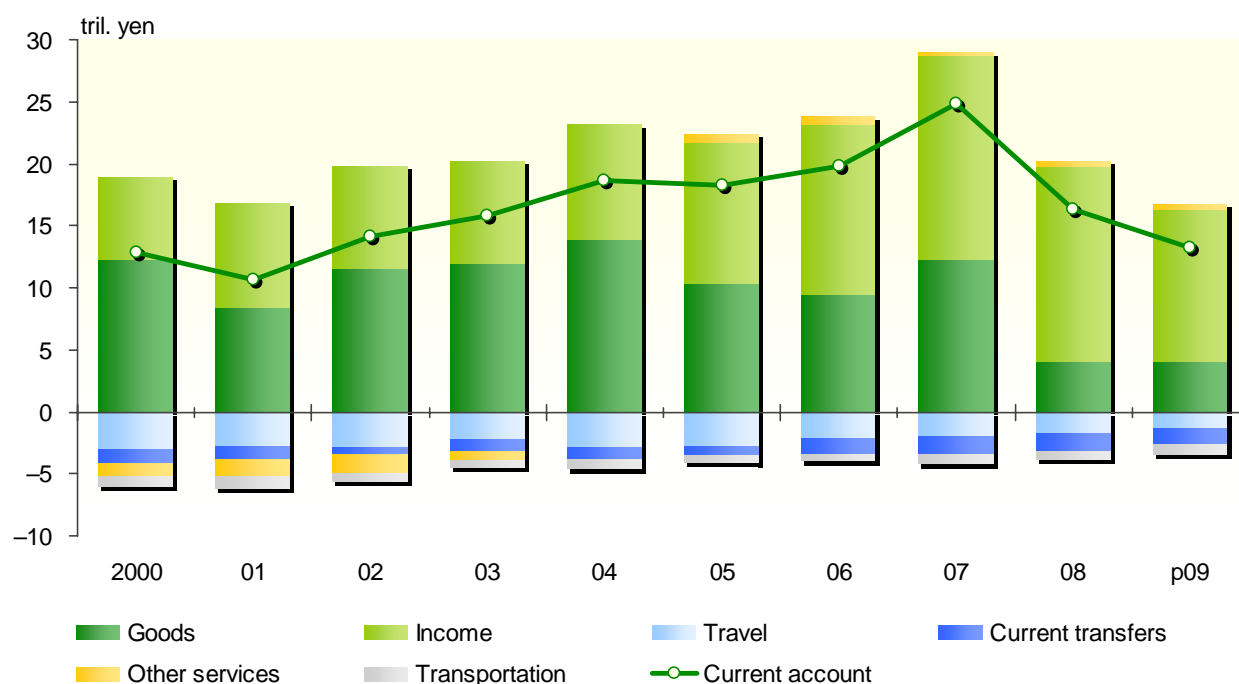


Table 2: Current Account

bil. yen

| | 2008 | p2009 | Change from the previous year |
|------------------------|-----------------|-----------------|-------------------------------|
| Current account | 16,379.8 | 13,278.2 | -3,101.6 |
| Goods and services | 1,889.9 | 2,119.6 | +229.7 |
| Goods | 4,027.8 | 4,061.1 | +33.3 |
| Exports | 77,334.9 | 50,840.3 | -26,494.6 |
| Imports | 73,307.1 | 46,779.1 | -26,528.0 |
| Services | -2,137.9 | -1,941.5 | +196.4 |
| Income | 15,841.5 | 12,322.9 | -3,518.5 |
| Current transfers | -1,351.5 | -1,164.3 | +187.2 |

B. Developments in the Main Components

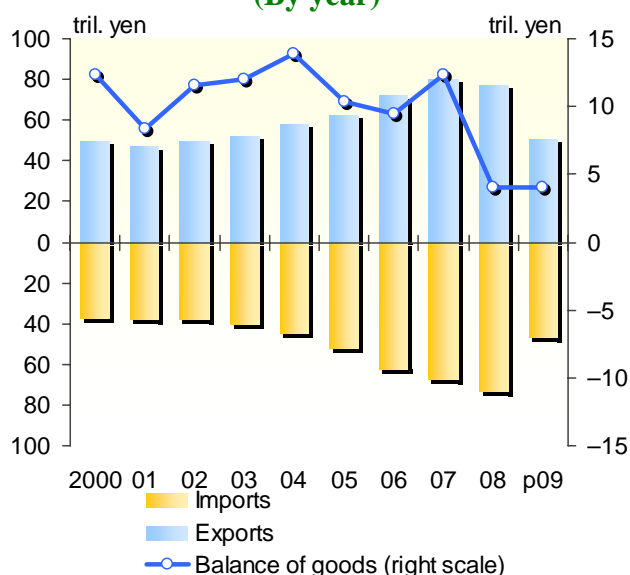
1. Goods

The balance of trade in goods in 2009 registered a surplus of 4.1 trillion yen, more or less unchanged from 4.0 trillion yen in 2008, while both exports and imports declined significantly. Exports decreased for the second consecutive year, while imports decreased for the first time in seven years.

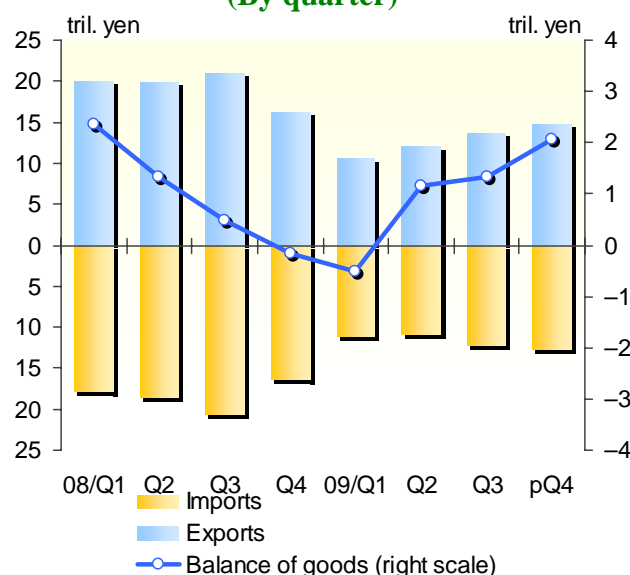
By quarter, the trade balance recorded a deficit in the first quarter, as it did in the fourth quarter of 2008, mainly due to the drop in exports reflecting sluggish world economic conditions. From the second quarter, exports recovered and the balance turned positive.

In this report, figures for exports and imports by region and type of goods are based on the *Trade Statistics of Japan*.¹

Figure 3: Exports and Imports
(By year)



(By quarter)



¹ Figures for exports and imports are based on the *Trade Statistics of Japan* (customs-clearance basis). The definitions of exports and imports in the balance of payments statistics differ from those of the merchandise trade statistics in the *Trade Statistics of Japan*. Balance of payments statistics are based on the change-of-ownership principle, while merchandise trade statistics are recorded on a customs-clearance basis. Therefore, certain adjustments are made to compile the balance of payments statistics. The major differences are as follows.

| | Merchandise Trade Statistics | Balance of Payments Statistics |
|-------------------|---|---|
| Price quoted | Exports: FOB Imports: CIF | Exports: FOB Imports: FOB |
| Coverage | Goods that have crossed the customs frontier of the reporting economy | Goods whose ownership has changed between residents and nonresidents (in principle) |
| Time of recording | Exports: When the ship or aircraft carrying the goods leaves the port Imports: When imported goods are officially recognized | When ownership changed |

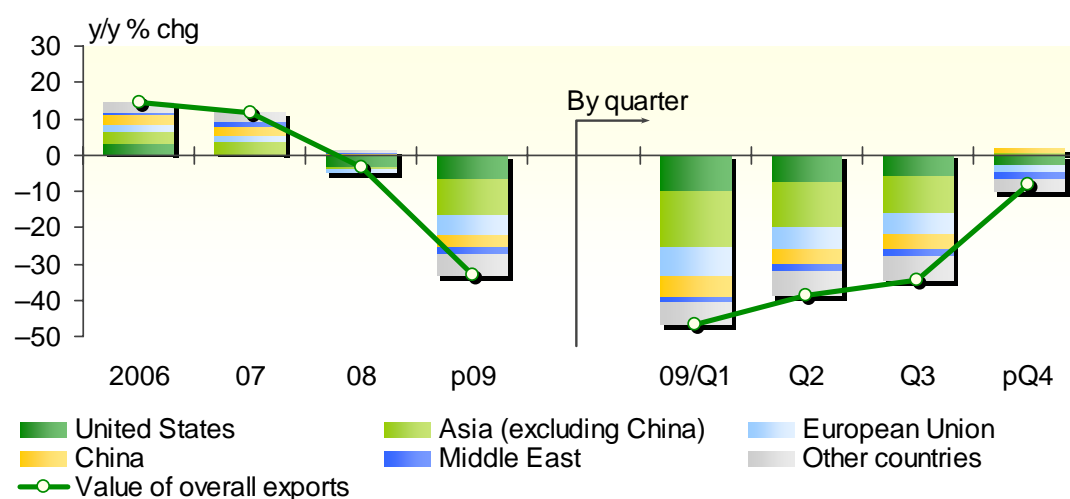
Note: FOB stands for "free on board" and CIF stands for "cost, insurance, and freight." On an FOB basis, the price of goods at the border of the exporting country is recorded. On a CIF basis, freight charges and insurance premiums are recorded in addition to the price of goods.

a. Exports

Exports decreased for the second consecutive year to 50.8 trillion yen, down from 77.3 trillion yen in 2008, reflecting sluggish world economic conditions. By region and by item, exports to all key regions dropped sharply and exports of all major goods including motor vehicles and related goods decreased.

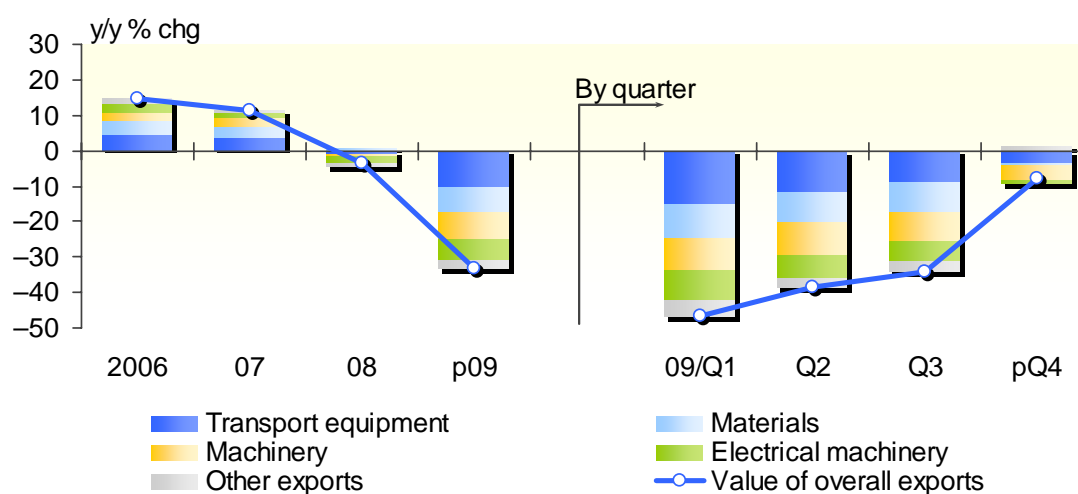
By quarter, exports fell significantly below the level of a year earlier in the first quarter, but the size of the decrease from a year earlier diminished thereafter. The size of the decrease in exports of motor vehicles and related goods to the United States and the European Union declined throughout the year; moreover, the amount of exports to China started to exceed the previous year's level in the third quarter, pushing the figure to a new all-time high for the second quarter in a row. Also, exports of chemicals to Asia, particularly to China, continued to recover, and exports of these goods to the whole world exceeded the previous year's level in the fourth quarter.

Figure 4: Contribution to Overall Export Growth by Region



Note: Figures for the European Union are compiled retroactively based on the increase in membership in 2007 to 27 countries.

Figure 5: Contribution to Overall Export Growth by Item



Note: Figures for materials represent the sum of figures for foodstuffs, raw materials, mineral fuels, chemicals, and manufactured goods.

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

Table 3: Exports by Region

%, % points

| | Total exports | United States | European Union | Asia | Of which: China | Middle East | Russia | Central and South America | Oceania | Africa |
|--|---------------|---------------|----------------|-------|-----------------|-------------|--------|---------------------------|---------|--------|
| Year-on-year change | -33.1 | -38.5 | -40.9 | -26.6 | -20.9 | -42.6 | -82.1 | -27.6 | -35.9 | -36.2 |
| (Contribution to overall export growth) | — | -6.8 | -5.8 | -13.1 | -3.3 | -1.8 | -1.7 | -1.4 | -1.0 | -0.6 |

Source: Ministry of Finance, *Trade Statistics of Japan*.**Table 4: Exports by Item**

%, % points

| | y/y change | Contribution to overall export growth | Major factors |
|----------------------|--------------|---------------------------------------|---|
| Total exports | -33.1 | — | — |
| Of which: | | | |
| Transport equipment | -41.0 | -10.2 | Exports of motor vehicles and related goods decreased significantly. By region, while exports to the United States and the European Union halved, those to China started to exceed the previous year's level in the third quarter, pushing the figure to a new all-time high for the second quarter in a row. |
| Machinery | -39.3 | -7.7 | Exports of construction machinery decreased by approximately 60 percent. Exports of computers and peripheral equipment to the United States and the European Union in particular, also decreased by approximately 40 percent. |
| Materials | -28.0 | -7.2 | While the quantity of exports of iron and steel products to Asia increased in the second half of the year, the value of such exports to the whole world decreased by approximately 40 percent due to a drop in prices. Exports of chemicals exceeded the previous year's level in the fourth quarter, reflecting the recovery in exports to Asia, notably to China. |
| Electrical machinery | -29.9 | -5.7 | Exports, particularly to Asia, recovered slowly throughout the year. However, on a year-on-year basis, the value of exports fell below the previous year's level because exports of semiconductors and electric parts of audio and visual apparatus decreased. |

Note: Figures for materials represent the sum of figures for foodstuffs, raw materials, mineral fuels, chemicals, and manufactured goods.

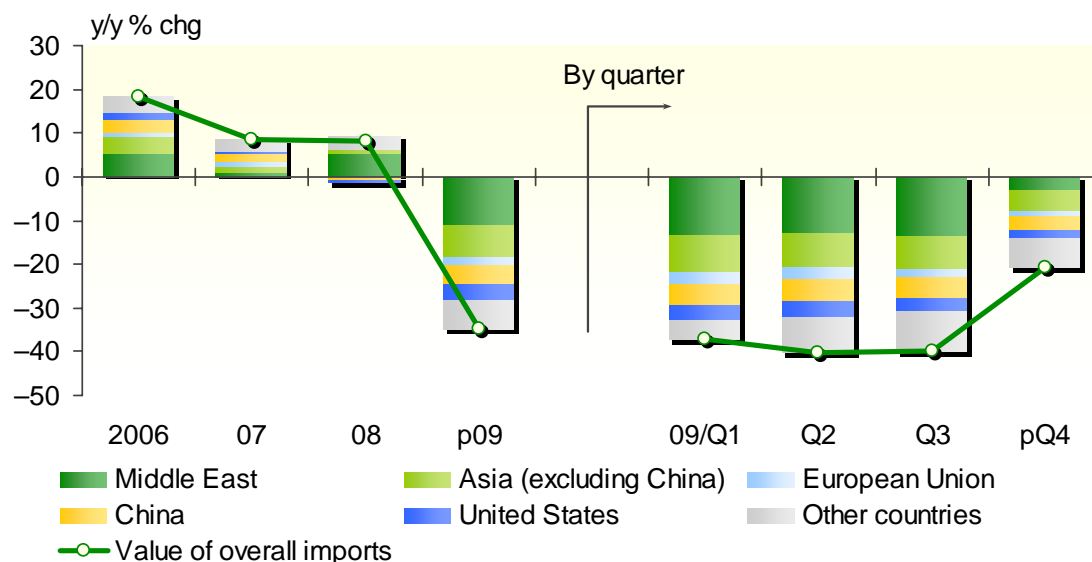
Source: Ministry of Finance, *Trade Statistics of Japan*.

b. Imports

Imports decreased for the first time in seven years to 46.8 trillion yen, down from 73.3 trillion yen in 2008, mainly due to a drop in prices of crude oil and liquefied natural gas as well as lower demand for coal, steel, and iron ore.

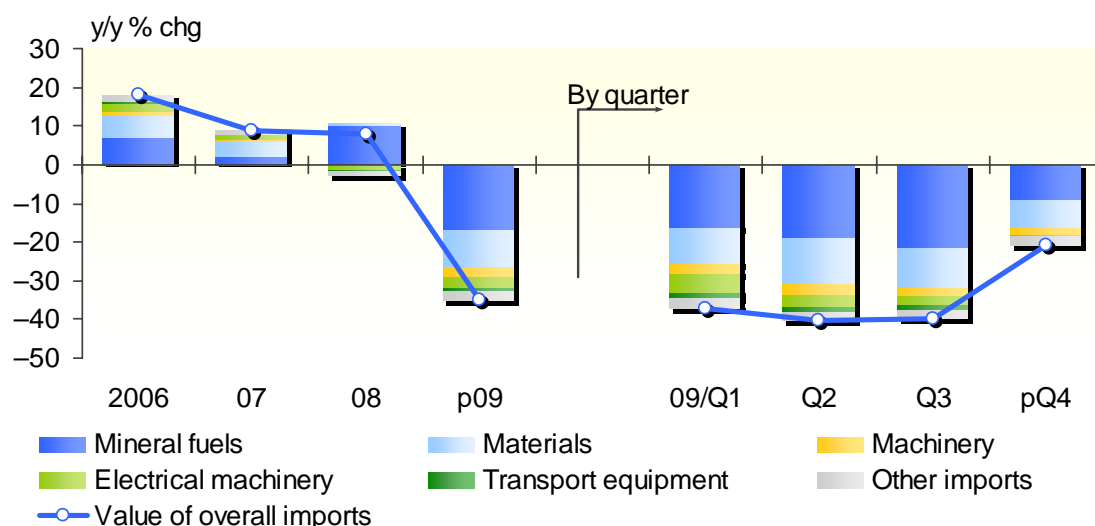
In the fourth quarter, however, the year-on-year decrease shrunk following a rally in crude oil prices.

Figure 6: Contribution to Overall Import Growth by Region



Note: Figures for the European Union are compiled retroactively based on the increase in membership in 2007 to 27 countries.

Figure 7: Contribution to Overall Import Growth by Item



Note: Figures for materials represent the sum of figures for foodstuffs, raw materials, chemicals, and manufactured goods.

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

Table 5: Imports by Region

%, % points

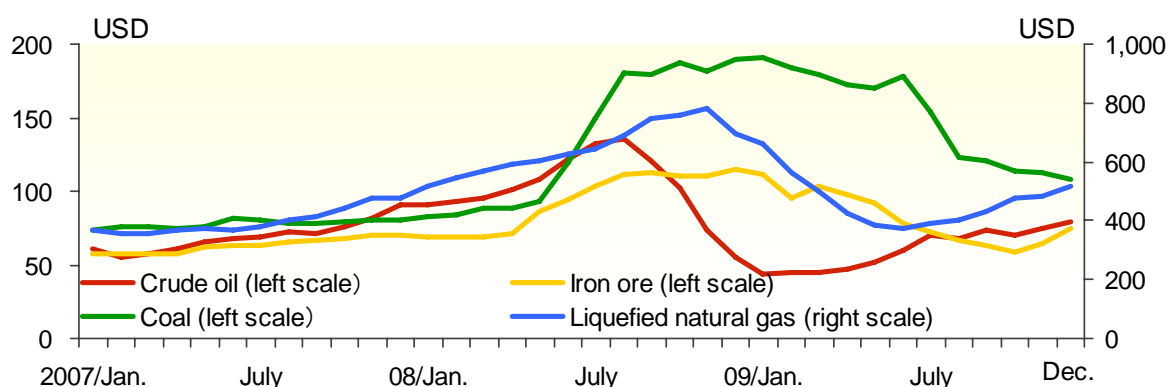
| | Total imports | United States | European Union | Asia | Of which: China | Middle East | Russia | Central and South America | Oceania | Africa |
|--|---------------|---------------|----------------|-------|-----------------|-------------|--------|---------------------------|---------|--------|
| Year-on-year change | -34.9 | -31.5 | -24.4 | -28.3 | -22.9 | -50.2 | -40.6 | -36.2 | -34.4 | -60.9 |
| (Contribution to overall import growth) | — | -3.2 | -2.3 | -11.5 | -4.3 | -11.0 | -0.7 | -1.3 | -2.3 | -1.7 |

Source: Ministry of Finance, *Trade Statistics of Japan*.**Table 6: Imports by Item**

%, % points

| | y/y change | Contribution to overall import growth | Major factors |
|----------------------|--------------|---------------------------------------|---|
| Total imports | -34.9 | — | — |
| Of which: | | | |
| Mineral fuels | -48.7 | -17.1 | Crude oil and natural gas imports decreased significantly due to the fall in prices, which had been elevated until the previous year. Imports of coal decreased in terms of both quantity and price due to a decline in steel production. |
| Materials | -30.7 | -9.6 | Imports of steel, iron ore, and nonferrous metals decreased due to sluggish demand and a fall in prices. |
| Electrical machinery | -24.6 | -2.7 | Imports of semiconductors and electric parts of audio and visual apparatus decreased due to sluggish demand and dropping prices. |
| Machinery | -30.5 | -2.3 | Imports of office machines and power generating machines decreased due to sluggish demand. |
| Transport equipment | -35.3 | -1.0 | Imports of motor vehicles and related parts decreased significantly from the previous year's level due to a slump in sales. |

Note: Figures for materials represent the sum of figures for foodstuffs, raw materials, chemicals, and manufactured goods.

Source: Ministry of Finance, *Trade Statistics of Japan*.**Figure 8: Import Prices of Crude Oil and Other Natural Resources**

Notes: 1. Import prices are obtained by dividing the value of imports by the volume as recorded at the time of import.
2. Crude oil in USD/barrel, other items in USD/ton.

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

(Reference) Developments in Foreign Exchange Rates in 2009

The average foreign exchange rates applied to the calculation of customs values² for 2009 were 93.52 yen per dollar (a 10.3 percent yen appreciation from 2008) and 130.14 yen per euro (a 15.4 percent yen appreciation from 2008).³ This appreciation of the yen contributed to the decrease in yen-denominated values of exports and imports.

Figure 1 for Reference: Foreign Exchange Rates Used for the Calculation of Customs Values (Annual Average Rates)

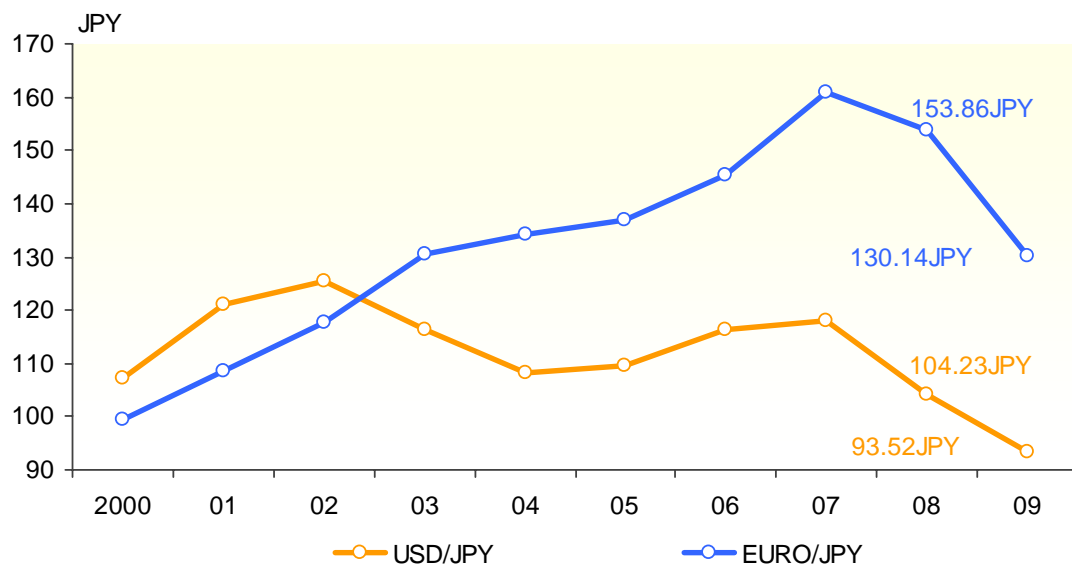
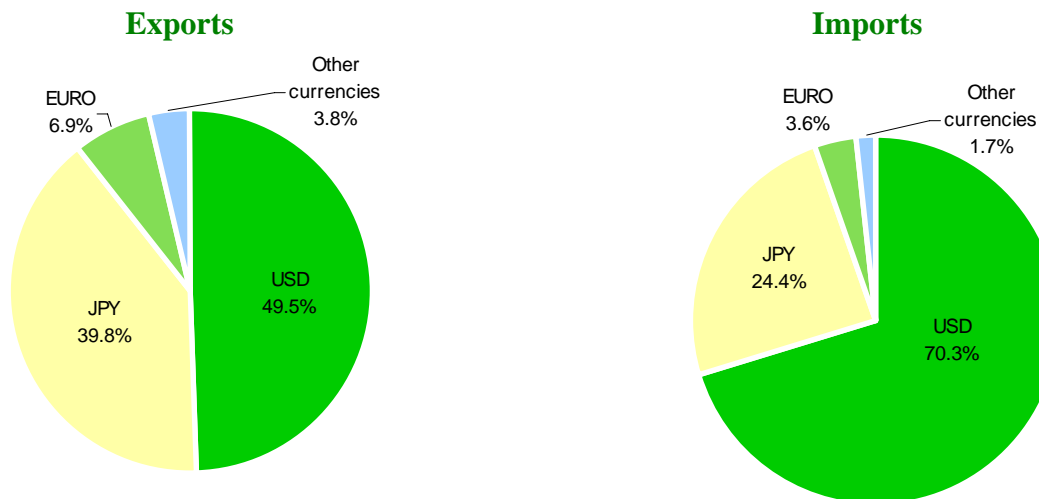


Figure 2 for Reference: Exports and Imports by Settlement Currency



Source: Ministry of Finance.

² The foreign exchange rates used for the calculation of customs values, which are released by customs pursuant to Article 4-7 of the Customs Act, are the weekly average inter-bank rates (central spot rates) on the Tokyo Foreign Exchange Market from two weeks earlier, and are posted weekly.

³ These average annual values were obtained by weighting the weekly posted rates by the number of days applicable.

2. Services

The deficit in the balance of trade in services decreased to 1.9 trillion yen from 2.1 trillion yen in 2008, with a decrease in both credits and debits.

Figure 9: Services



Table 7: Balance of Trade in Services

bil. yen

| | 2008 | p2009 | Change from the previous year | Major factors |
|-----------------|-----------------|-----------------|-------------------------------|---|
| Services | -2,137.9 | -1,941.5 | +196.4 | — |
| Transportation | -731.6 | -835.3 | -103.7 | Credits decreased against a backdrop of declines in cargo volumes and a fall in freight costs due to sluggish world economic conditions. |
| Travel | -1,763.1 | -1,419.2 | +344.0 | The deficit decreased due to a smaller number of Japanese traveling abroad and a drop in their per capita expenditures. |
| Other services | 356.9 | 313.0 | -43.9 | The surplus remained more or less unchanged from the previous year's level as receipts of "royalties and license fees" and payments for "miscellaneous business, professional, and technical services" decreased. |

a. Transportation

The deficit in the balance of transportation slightly increased to 0.8 trillion yen, up from 0.7 trillion yen in 2008. Both credits and debits dropped sharply due to sluggish cargo movements, a decrease in the number of travelers, and a fall in both freight and passenger transportation rates.

Sea freight credits dropped, with transportation between foreign countries being the main factor. Debits also decreased, especially with regard to the transportation of imports. In addition, terminal charges paid by Japanese shipping companies at overseas ports, which are included in other sea transport, also decreased due to sluggish cargo movements.

Regarding passenger air transport, fare payments by passengers to foreign airlines decreased, reflecting the smaller number of Japanese traveling abroad as well as a drop in fuel surcharges.

Figure 10: Transportation

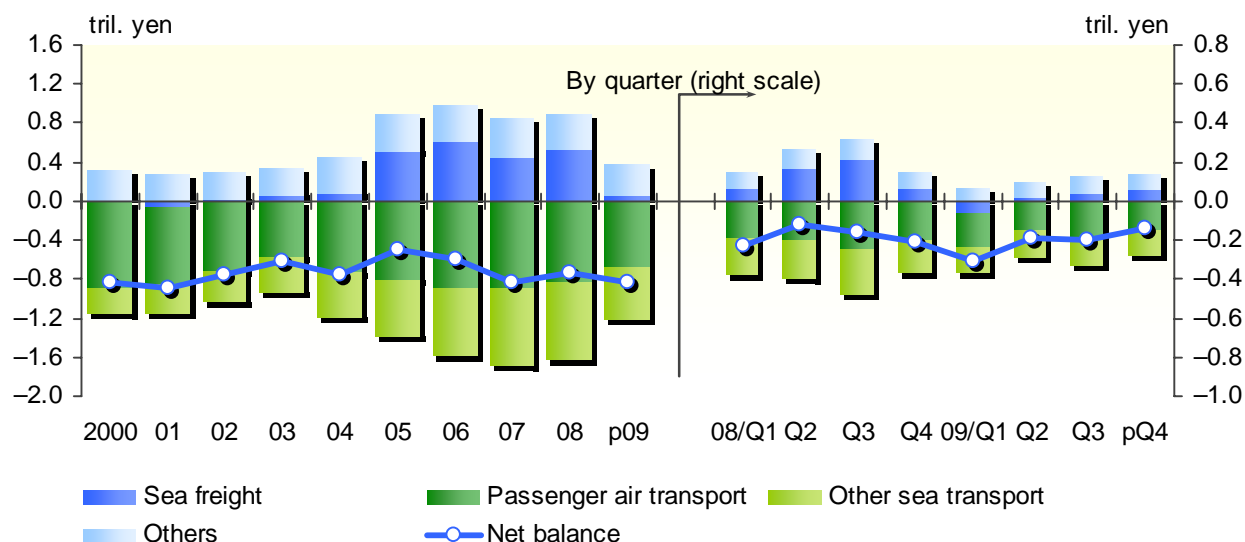


Table 8: Balance of Transportation

bil. yen

| | 2008 | p2009 | Change from the previous year | Major factors |
|-----------------------|---------------|---------------|-------------------------------|--|
| Transportation | -731.6 | -835.3 | -103.7 | — |
| Of which: | -260.7 | -481.2 | -220.5 | — |
| Sea transport | | | | |
| Freight | 523.5 | 58.7 | -464.8 | Credits dropped as freight receipts related to exports and transportation between foreign countries decreased reflecting a fall in cargo volumes and freight rates due to the sluggish world economy. Debits also dropped as payments for transportation of imports decreased. |
| Credit | 3,568.8 | 2,009.9 | -1,558.9 | |
| Debit | 3,045.3 | 1,951.2 | -1,094.1 | |
| Other sea transport | -779.9 | -536.1 | +243.8 | Debits dropped as terminal charges paid by Japanese shipping companies at overseas ports decreased due to sluggish cargo movements. |
| Credit | 257.5 | 200.7 | -56.8 | |
| Debit | 1,037.4 | 736.8 | -300.6 | |
| Air transport | -458.9 | -349.1 | +109.9 | — |
| Passenger | -834.5 | -674.6 | +159.9 | Both credits and debits dropped, because the number of Japanese traveling abroad and of foreign visitors to Japan decreased and at the same time fuel surcharges, which had remained at a high level in the previous year, fell significantly. |
| Credit | 305.1 | 205.2 | -99.8 | |
| Debit | 1,139.6 | 879.9 | -259.7 | |
| Freight | 100.4 | 79.1 | -21.3 | Both credits and debits dropped as a result of a fall in air cargo volumes and airfare rates. |
| Credit | 336.4 | 226.1 | -110.3 | |
| Debit | 236.1 | 147.1 | -89.0 | |
| Other air transport | 275.2 | 246.5 | -28.7 | Both credits and debits dropped as the agency fees that Japanese and foreign airlines paid their agents declined due to the decrease in the number of Japanese traveling abroad and of foreign visitors to Japan. |
| Credit | 383.0 | 299.3 | -83.7 | |
| Debit | 107.7 | 52.8 | -54.9 | |

b. Travel

The deficit in the balance of travel decreased for the fifth consecutive year to 1.4 trillion yen, down from 1.8 trillion yen in 2008, as payments by Japanese traveling abroad decreased.

The number of Japanese traveling abroad decreased due to the economic downturn and the spread of H1N1 influenza virus. The number was down 3.4 percent from the previous year, falling to the lowest level since 2003, the year of the outbreak of severe acute respiratory syndrome (SARS). Per capita expenditures of Japanese travelers also dropped, registering a decline of 16.1 percent from the previous year.

The number of foreign visitors to Japan dropped by 18.7 percent from the previous year reflecting sluggish world economic conditions, the appreciation of the yen, and the spread of H1N1 influenza virus in Japan. The number of visitors from Asia, particularly from South Korea and Taiwan, decreased.

Figure 11: Travel

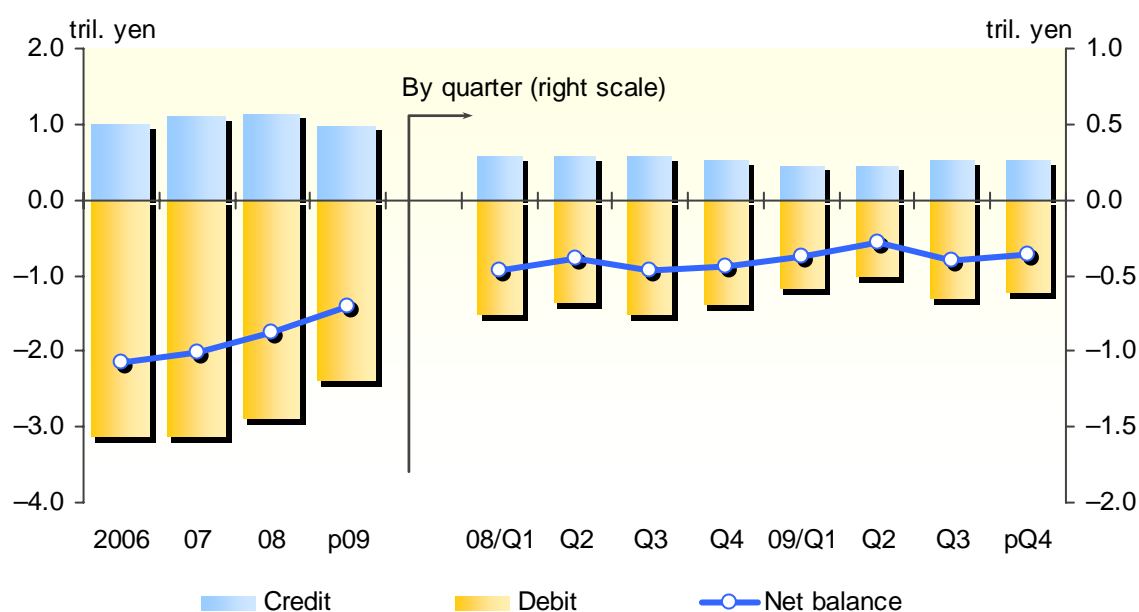
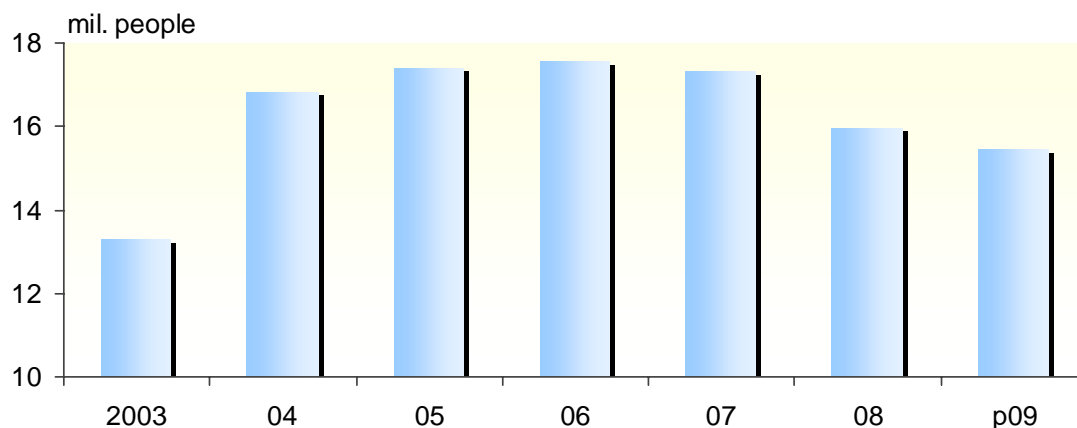


Table 9: Balance of Travel

| bil. yen | | | |
|---------------|-----------------|-----------------|-------------------------------|
| | 2008 | p2009 | Change from the previous year |
| Travel | -1,763.1 | -1,419.2 | +344.0 |
| Credit | 1,118.6 | 957.0 | -161.6 |
| Debit | 2,881.8 | 2,376.2 | -505.6 |

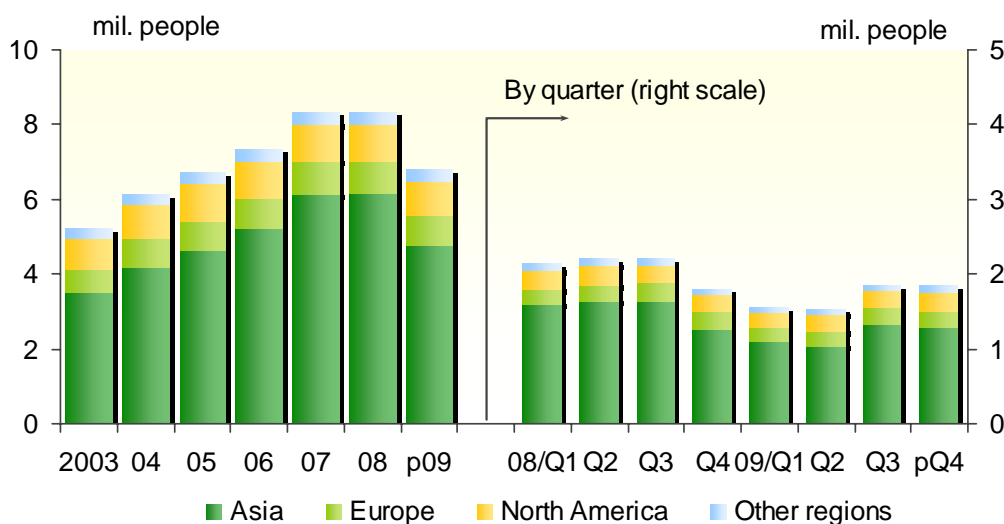
Figure 12: Number of Japanese Traveling Abroad



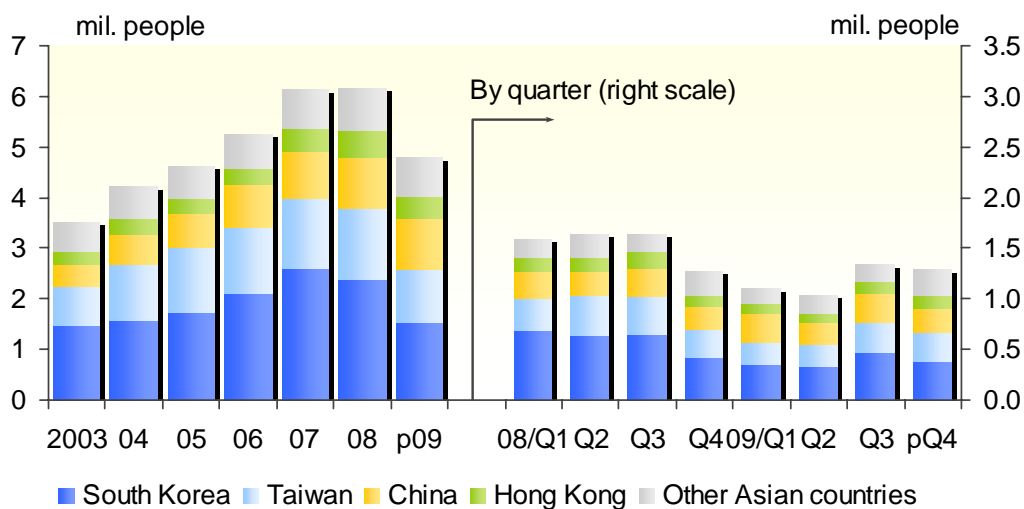
Source: Japan National Tourism Organization, *Visitor Arrivals and Japanese Overseas Travelers*.

Figure 13: Number of Foreign Visitors to Japan

Total Visitors



Visitors from Asia



Note: Figures for 2009 are estimated by the International Department of the Bank of Japan using the actual figures for January through October 2009.

Source: Japan National Tourism Organization, *Visitor Arrivals and Japanese Overseas Travelers*.

c. Other services

The balance of trade in other services recorded a surplus of 0.3 trillion yen, almost unchanged from the previous year's level (0.4 trillion yen), as receipts of "royalties and license fees" and payments for "miscellaneous business, professional, and technical services" both decreased.⁴

Figure 14: Other Services

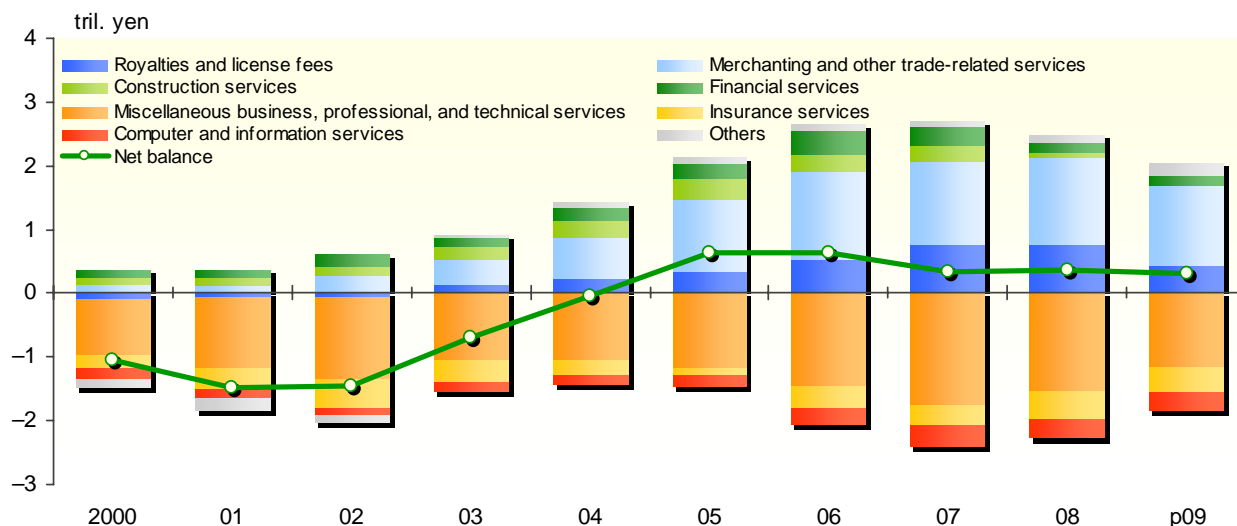


Table 10: Balance of Other Services

bil. yen

| | 2008 | p2009 | Change from the previous year | Major factors |
|---|-----------------|-----------------|-------------------------------|--|
| Other services | 356.9 | 313.0 | -43.9 | |
| Credit | 9,400.4 | 7,958.4 | -1,442.1 | — |
| Debit | 9,043.5 | 7,645.4 | -1,398.1 | |
| Of which: | | | | |
| Merchanting and other trade-related services | 1,350.0 | 1,235.6 | -114.3 | The surplus in merchanting decreased as consumption slowed due to sluggish world economic conditions. |
| Credit | 2,498.4 | 2,273.4 | -224.9 | |
| Debit | 1,148.4 | 1,037.8 | -110.6 | |
| Royalties and license fees | 764.4 | 452.3 | -312.1 | Credits dropped as royalties from overseas subsidiaries of Japanese car manufacturers decreased reflecting a fall in production. Debits also decreased as payments of royalties and software license fees for electronic machinery sector declined reflecting sluggish domestic production of electronic devices including personal computers and mobile phones. |
| Credit | 2,655.0 | 2,020.9 | -634.1 | |
| Debit | 1,890.6 | 1,568.6 | -322.0 | |
| Financial services | 152.3 | 172.4 | +20.0 | Credits decreased as commissions received from foreign investors for trading in Japanese securities decreased. However, debits also decreased as payments of M&A advisory fees, investment advisory fees to overseas investment companies, and structuring fees for structured bonds decreased. |
| Credit | 563.5 | 457.4 | -106.2 | |
| Debit | 411.2 | 285.0 | -126.2 | |
| Construction services | 247.9 | 100.0 | -147.9 | The surplus dropped primarily because receipts from the Middle East decreased. |
| Credit | 1,418.3 | 1,064.7 | -353.5 | |
| Debit | 1,170.3 | 964.7 | -205.6 | |
| Insurance services | -431.5 | -400.1 | +31.5 | The deficit continued due to payments of reinsurance premiums to foreign insurance companies. |
| Credit | 97.2 | 80.7 | -16.5 | |
| Debit | 528.8 | 480.7 | -48.0 | |
| Miscellaneous business, professional, and technical services | -1,530.0 | -1,160.4 | +369.6 | Debits dropped as payments for sales and administration, advertising, and research and development decreased reflecting sluggish sales and the cost reduction policies implemented by companies. |
| Credit | 1,452.6 | 1,394.9 | -57.7 | |
| Debit | 2,982.6 | 2,555.4 | -427.2 | |

⁴ For details, see Box 1, "Developments in the Overseas Activities of Japanese Companies Reflected in 'Other Services'."

3. Income

The surplus in the balance of income decreased for the second consecutive year to 12.3 trillion yen, down from 15.8 trillion yen in 2008. The surplus in the balance of direct investment income decreased for the first time in six years, with a decline in both credits and debits reflecting sluggish world economic conditions.⁵ The surplus in the balance of portfolio investment income continued to decline. Credit of income on debt dropped sharply reflecting a decline in interest rates, and both credits and debits of income on equity also decreased significantly due to the drop in corporate profits.

The substantial appreciation of the yen also contributed to the drop in the yen value of receipts.

Figure 15: Income

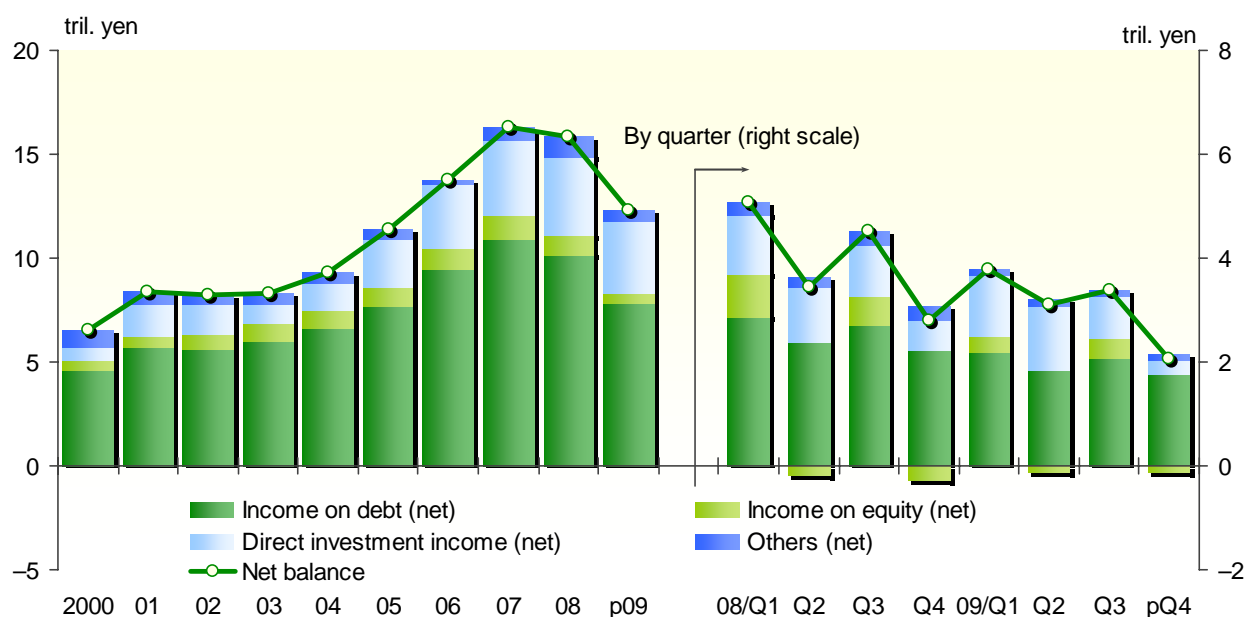


Table 11: Balance of Income

| bil. yen | 2008 | p2009 | Change from the previous year |
|------------------------------------|-----------------|-----------------|-------------------------------|
| Income | 15,841.5 | 12,322.9 | -3,518.5 |
| Of which: | | | |
| Direct investment income | 3,811.6 | 3,455.0 | -356.6 |
| Credit | 5,033.9 | 4,280.6 | -753.4 |
| Debit | 1,222.4 | 825.6 | -396.8 |
| Portfolio investment income | 11,045.9 | 8,342.5 | -2,703.4 |
| Income on equity | 888.1 | 507.7 | -380.4 |
| Credit | 3,016.3 | 1,869.3 | -1,147.0 |
| Debit | 2,128.2 | 1,361.5 | -766.6 |
| Income on debt | 10,157.8 | 7,834.8 | -2,323.0 |
| Credit | 11,233.2 | 8,749.6 | -2,483.6 |
| Debit | 1,075.3 | 914.8 | -160.5 |
| Other investment income | 986.5 | 529.1 | -457.4 |
| Credit | 2,684.9 | 1,515.3 | -1,169.6 |
| Debit | 1,698.4 | 986.2 | -712.1 |

⁵ For details, see Box 2, "Features of the Income from Outward Direct Investment in 2009."

Table 12: Long-Term Interest Rates (10-Year Government Bonds, Annual Average)

%, % points

| | 2007 | 2008 | 2009 | Q1 | Q2 | Q3 | Q4 |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| United States | 4.62 | 3.64 | 3.24 | 2.70 | 3.30 | 3.50 | 3.45 |
| Year-on-year change | -0.16 | -0.99 | -0.40 | -0.95 | -0.56 | -0.34 | +0.24 |
| Germany | 4.23 | 4.00 | 3.27 | 3.10 | 3.38 | 3.33 | 3.25 |
| Year-on-year change | +0.45 | -0.23 | -0.73 | -0.84 | -0.88 | -0.95 | -0.26 |
| United Kingdom | 5.01 | 4.49 | 3.60 | 3.38 | 3.60 | 3.72 | 3.70 |
| Year-on-year change | +0.50 | -0.52 | -0.88 | -1.09 | -1.22 | -0.98 | -0.26 |
| Australia | 5.99 | 5.82 | 5.04 | 4.22 | 5.03 | 5.45 | 5.46 |
| Year-on-year change | +0.40 | -0.18 | -0.77 | -1.93 | -1.34 | -0.52 | +0.68 |

Source: Bloomberg.

Table 13: Currency Exchange Rates (Annual Average)

yen, %

| | 2007 | 2008 | 2009 | Q1 | Q2 | Q3 | Q4 |
|---------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| USD/JPY | 118.75 | 106.33 | 94.33 | 92.67 | 96.67 | 96.00 | 92.00 |
| Year-on-year change | +1.8 | -10.5 | -11.3 | -16.0 | -6.5 | -9.4 | -12.9 |
| EUR/JPY | 159.50 | 159.22 | 128.76 | 121.61 | 126.03 | 133.44 | 133.97 |
| Year-on-year change | +10.7 | -0.2 | -19.1 | -24.8 | -20.4 | -19.7 | -11.1 |
| GBP/JPY | 235.52 | 206.61 | 145.64 | 138.17 | 139.54 | 154.56 | 150.29 |
| Year-on-year change | +11.6 | -12.3 | -29.5 | -38.0 | -31.8 | -26.1 | -20.8 |
| AUD/JPY | 97.54 | 94.60 | 70.82 | 61.94 | 65.57 | 75.94 | 79.83 |
| Year-on-year change | +11.9 | -3.0 | -25.1 | -36.5 | -31.2 | -24.9 | -5.4 |

Note: The exchange rates shown are the rates determined in accordance with Article 35, paragraph 2, of the Ministerial Ordinance Concerning Reports on Foreign Exchange Transactions, etc.

4. Current transfers

The deficit in the balance of current transfers amounted to 1.2 trillion yen, slightly decreasing from 1.4 trillion yen registered in 2008. The deficit reflects the following transactions: tax payments to governments of oil-producing countries, contributions to international organizations, and foreign workers' remittances to family members in their home countries. The deficit decreased due to a decline in tax payments to governments of oil-producing countries following the drop in crude oil prices.

Figure 16: Current Transfers

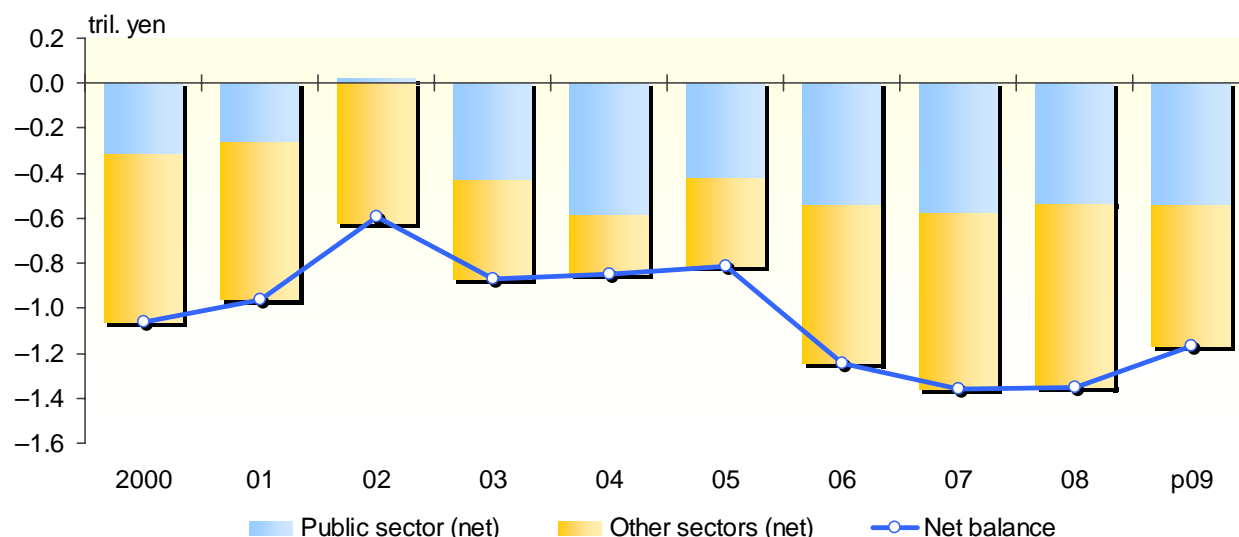


Table 14: Balance of Current Transfers

bil. yen

| | 2008 | p2009 | Change from the previous year | Major factors |
|-----------------------------|-----------------|-----------------|-------------------------------|---|
| Current transfers | -1,351.5 | -1,164.3 | +187.2 | — |
| Public sector | -538.5 | -541.3 | -2.8 | The deficit continued due to the contributions to international organizations. |
| Credit | 31.7 | 32.7 | +1.0 | |
| Debit | 570.2 | 574.0 | +3.8 | |
| Other sectors | -813.0 | -623.0 | +190.0 | The deficit decreased, mainly because tax payments to governments of oil-producing countries decreased. |
| Credit | 910.2 | 857.7 | -52.5 | |
| Debit | 1,723.3 | 1,480.7 | -242.5 | |
| Workers' remittances | -286.0 | -214.1 | +71.9 | The deficit decreased as foreign workers' remittances to family members in their home countries fell reflecting the sluggish economic conditions. |
| Credit | 160.3 | 132.9 | -27.4 | |
| Debit | 446.3 | 347.0 | -99.3 | |
| Other transfers | -527.1 | -409.0 | +118.1 | Tax payments to governments of oil-producing countries decreased following the drop in crude oil prices. |
| Credit | 749.9 | 724.8 | -25.1 | |
| Debit | 1,277.0 | 1,133.7 | -143.2 | |

III. Capital and Financial Account

A. Summary

The capital and financial account recorded a net outflow of 12.7 trillion yen in 2009, down from 18.4 trillion yen in 2008. The net outflows of direct investment and portfolio investment decreased. "Other investment" continued to record a net inflow.

Table 15: Capital and Financial Account

bil. yen

| | 2008 | | | p2009 | | |
|--|------------------|--|--|------------------|--|--|
| Current account | 16,379.8 | | | 13,278.2 | | |
| Capital and financial account | -18,389.5 | Assets (outward investment) | Liabilities (inward investment) | -12,732.3 | Assets (outward investment) | Liabilities (inward investment) |
| Financial account | -18,063.0 | | | -12,396.0 | | |
| Direct investment | -10,707.4 | -13,232.0 | 2,524.6 | -5,914.2 | -7,033.4 | 1,119.2 |
| Portfolio investment | -24,321.8 | -13,978.2 | -10,343.6 | -21,087.3 | -16,267.4 | -4,820.0 |
| Equity securities | -13,879.0 | -6,414.9 | -7,464.1 | -1,925.6 | -3,026.2 | 1,100.6 |
| Bonds and notes | -11,749.0 | -7,329.9 | -4,419.1 | -20,858.6 | -13,141.9 | -7,716.7 |
| Money market instruments | 1,306.2 | -233.4 | 1,539.6 | 1,696.9 | -99.3 | 1,796.2 |
| Financial derivatives | 2,456.2 | 27,922.7 | -25,466.5 | 987.2 | 31,299.2 | -30,312.0 |
| Other investment | 14,510.0 | 1,656.8 | 12,853.1 | 13,618.3 | 18,216.8 | -4,598.5 |
| Of which: | | | | | | |
| Interoffice account transactions of banks | -5,743.4 | -6,672.4 | 929.0 | 27,223.9 | 20,359.6 | 6,864.3 |
| Capital account | -558.3 | | | -465.3 | | |
| Changes in reserve assets | -3,200.1 | | | -2,526.5 | | |
| Errors and omissions | 5,209.8 | | | 1,980.6 | | |

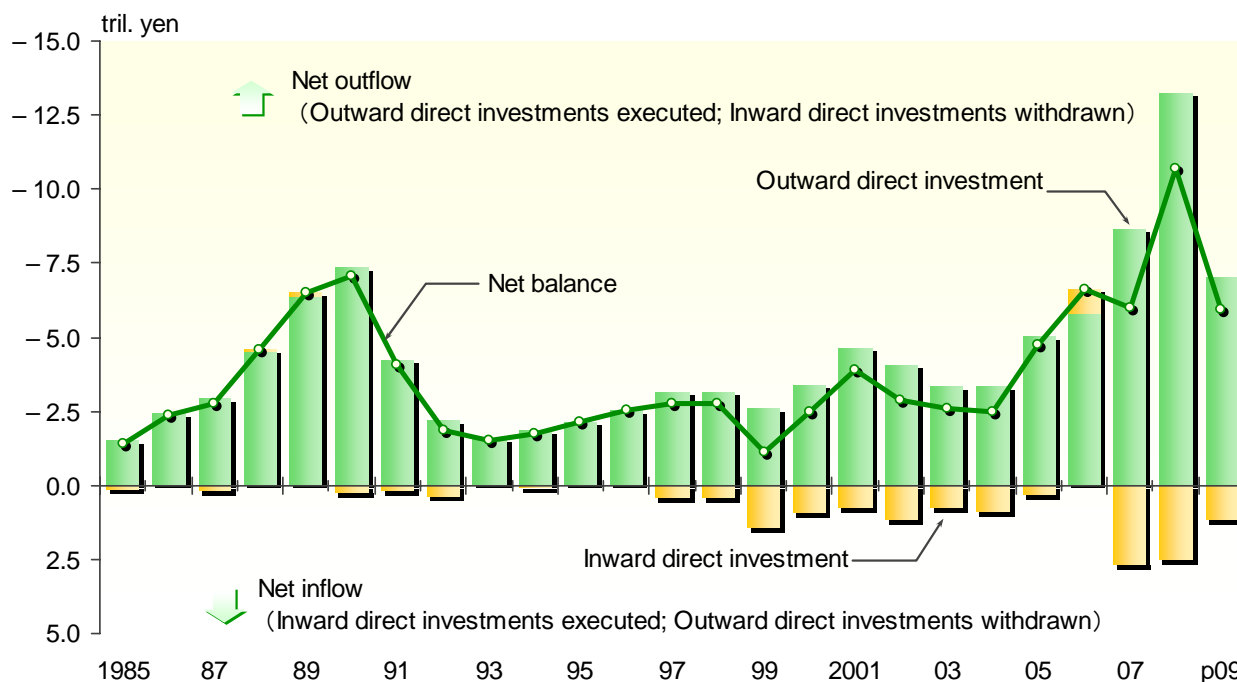
- Notes: 1. Negative figures represent capital outflows. Capital outflows are registered in the case of outward investments and loans by residents, withdrawals of inward investments and the collection of loans by nonresidents, and an increase in reserve assets.
2. Figures in this table exclude securities lending transactions. Figures for securities lending transactions are not included in the analysis in this report unless otherwise noted. The reason is that such transactions are large and volatile, and including them in portfolio investment or other investment in the capital and financial account would therefore make it difficult to grasp trends in securities transactions and loans.

B. Developments in the Main Components

1. Direct investment ⁶

Outward direct investment by residents⁷ decreased significantly, registering a net outflow of 7.0 trillion yen from 13.2 trillion yen in 2008, when it hit a record high. Inward direct investment by nonresidents⁸ also decreased significantly, registering a net inflow of 1.1 trillion yen, down from 2.5 trillion yen in the previous year.

Figure 17: Outward and Inward Direct Investment



a. Outward direct investment (assets)

Net outflows of outward direct investment dropped significantly. There were some large-scale acquisitions with the aim of expanding overseas business mainly in the food and pharmaceutical industries and investments to boost the capital of Japanese financial institutions.⁹ However, the total amount dropped significantly due to (1) a lack of large-scale transactions, which had been

⁶ For a classification of types of direct investment, see Box 3, "Classification of Direct Investment by Type of Investment."

⁷ Outward direct investment refers to direct investments by Japanese investors in foreign corporations (in which the Japanese investor has an ownership stake of at least 10 percent), such as initial capitalizations, capital increases, loan capital (excluding loans between financial companies), and reinvested earnings.

⁸ Inward direct investment refers to direct investments by foreign investors in Japanese corporations (in which the foreign investor has an ownership stake of at least 10 percent), such as initial capitalizations, capital increases, loan capital (excluding loans between financial companies), and reinvested earnings.

⁹ The latter took the form of participation certificates issued by overseas special purpose companies (SPCs) that are subsidiaries of Japanese financial institutions and underwritten by Japanese securities companies. In most cases, the participation certificates underwritten by Japanese securities companies are recorded under securities companies' direct investment in SPCs. Often, these participation certificates are sold to domestic financial institutions immediately after underwriting. Capital raised through the issuance of participation certificates is often used to make subordinated loans to, or to purchase subordinated bonds from, parent financial institutions. Those subordinated loans are recorded under "other investment," and subordinated bonds are recorded under "portfolio investment."

seen in the previous year, and (2) a plunge in reinvested earnings reflecting the deteriorating business performance of overseas subsidiaries.

Table 16: Outward Direct Investment

tril. yen

| | 2005 | 2006 | 2007 | 2008 | p2009 | Change from the previous year |
|----------------------------------|-------------|-------------|-------------|--------------|-------------|-------------------------------|
| Outward direct investment | -5.0 | -5.8 | -8.7 | -13.2 | -7.0 | +6.2 |
| Equity capital | -3.2 | -3.4 | -6.1 | -9.7 | -5.3 | +4.4 |
| Reinvested earnings | -1.5 | -1.9 | -2.3 | -2.5 | -1.2 | +1.3 |
| Other capital | -0.4 | -0.6 | -0.2 | -1.0 | -0.5 | +0.5 |

(1) Breakdown by region

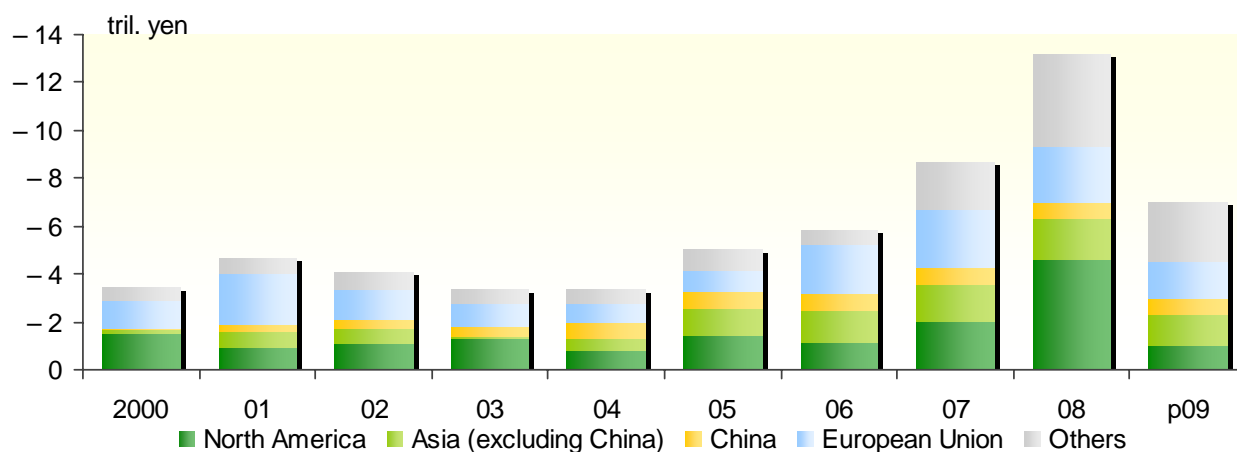
Net outflows to Asia in 2009 stood at 1.9 trillion yen, decreasing from 2.4 trillion yen in 2008. Notable investments include large-scale capital participations in the telecommunications and food industries with the aim of gaining access to local markets.

Net outflows to North America amounted to 1.0 trillion yen in 2009, down from 4.6 trillion yen in 2008. Investments in North America include acquisitions in the pharmaceutical industry to expand overseas distribution channels and investments for capital increases in the financial sector. However, net outflows dropped significantly as (1) reinvested earnings plunged reflecting the deteriorating business performance of overseas subsidiaries, and (2) massive capital participations were executed in the financial sector in the previous year, but not in 2009.

Net outflows to the European Union amounted to 1.6 trillion yen in 2009, down from 2.3 trillion yen in 2008. Although there was a large-scale acquisition to expand overseas business by a food company, the total amount was below that for 2008 due to a plunge in reinvested earnings following the deterioration in the business performance of overseas subsidiaries and a decrease in the amount of capital increases in subsidiaries in the financial sector.

Net outflows to other regions amounted to 2.5 trillion yen in 2009, down from 3.9 trillion yen in 2008. There were large-scale acquisitions in the food industry in Oceania and acquisitions of participation certificates issued by special purpose companies (SPCs) in Central and South America set up by Japanese financial institutions for the purpose of strengthening their capital base. However, the total net outflow decreased as there were redemptions of participation certificates at maturity.

Figure 18: Outward Direct Investment (By Region)

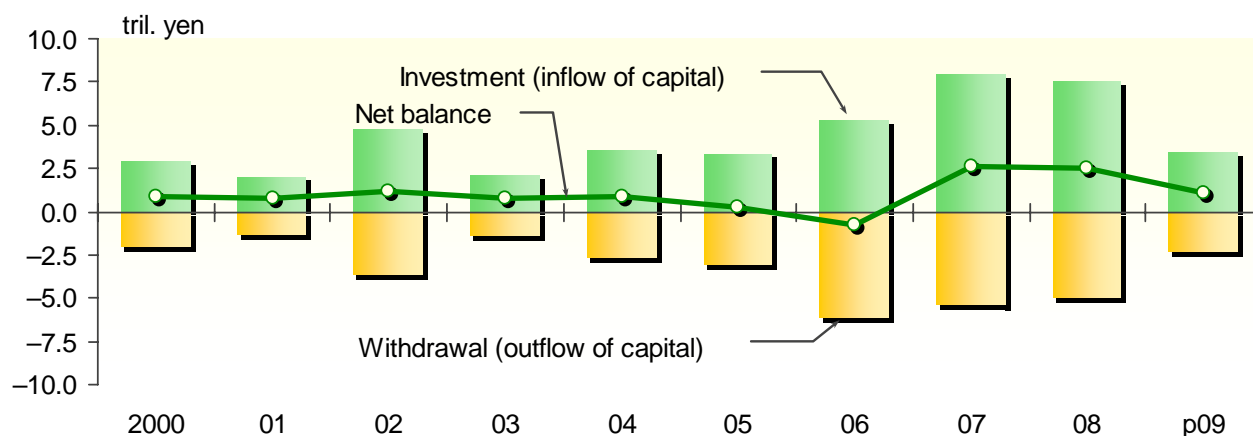


b. Inward direct investment (liabilities)

Net inflows of inward direct investment decreased significantly from the previous year. Although there were investments in the finance and insurance sector and the electrical machinery industry for the purpose of financial restructuring, the amount of investment was below that for 2008, when large-scale investments in the finance and insurance sector were executed.

The significant decrease in 2009 reflects the fact that foreign companies clearly refrained from making direct investments due to the global economic slowdown.

Figure 19: Inward Direct Investment



(1) Breakdown by region

Investment from North America decreased significantly to 0.2 trillion yen in 2009 from 1.2 trillion yen in 2008. Although there were investments for capital increases in the finance and insurance sector, the total amount was below that for 2008, when large-scale investments took place.

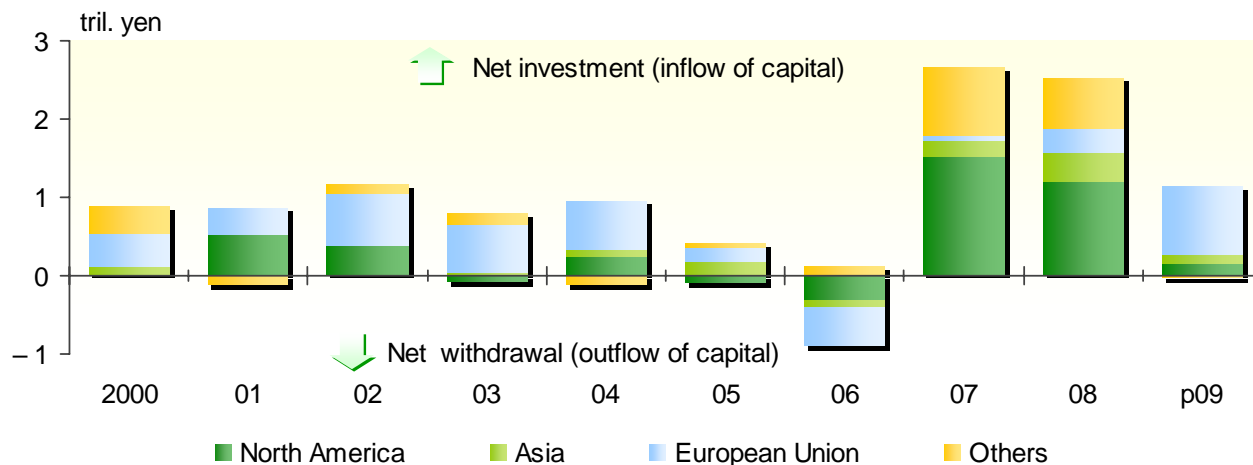
Investment from the European Union increased to 0.9 trillion yen in 2009, up from 0.3 trillion yen in 2008. The increase in net inflows reflects the fact that part of the public share offerings of Japanese financial institutions and in the electrical machinery industry were underwritten by securities companies residing in the European Union.¹⁰

Investment from Asia decreased to 0.1 trillion yen in 2009, down from 0.4 trillion yen in 2008, due to sluggish purchases of Japanese real estate by investment funds residing in the region.

Investment from other regions turned from a net inflow of 0.6 trillion yen in 2008 to a small net outflow of 13 billion yen in 2009, as there were no major investments similar to the capital participations in Japanese financial institutions or the large-scale lending to a wholesale and retail company seen in 2008.

¹⁰ While these foreign securities companies sell the equities to portfolio investors after underwriting them, for the purpose of balance of payments statistics, such transactions are recorded as inward direct investment when a security company underwrites 10 percent or more of the equities of the company which conducts the public offering.

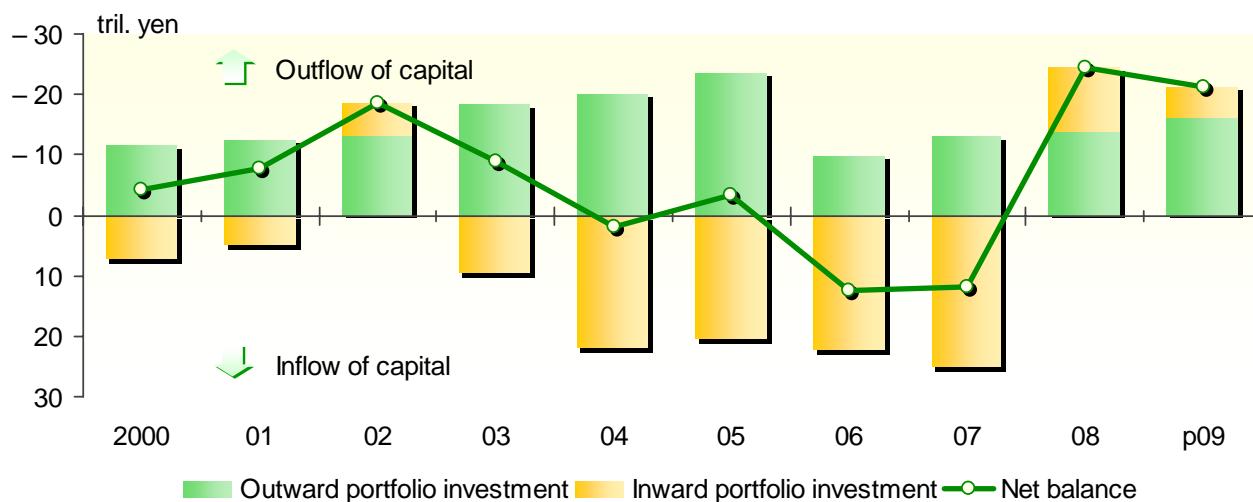
Figure 20: Inward Direct Investment (By Region)



2. Portfolio investment

Outward portfolio investment recorded an increase in net purchases (outflows) to 16.3 trillion yen in 2009 from 14.0 trillion yen in 2008. At the same time, inward portfolio investment recorded a decrease in net sales (outflows) to 4.8 trillion yen in 2009 from 10.3 trillion yen in 2008. As a result, there continued to be a large net outflow of portfolio investment amounting to 21.1 trillion yen compared with 24.3 trillion yen in the previous year.

Figure 21: Portfolio Investment

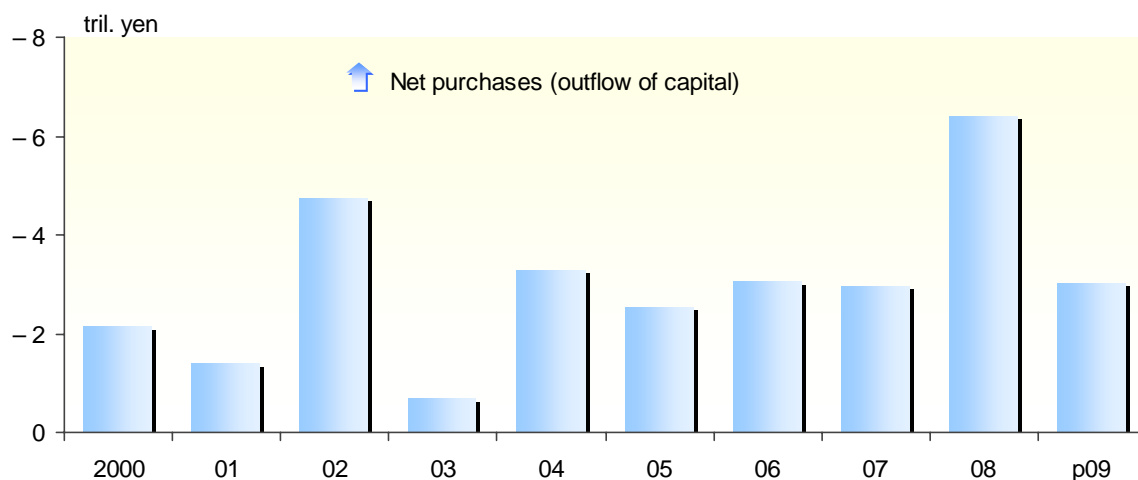


a. Outward portfolio investment (assets)

(1) Outward investment in equity securities (assets)

Net purchases (outflows) of equity securities decreased to 3.0 trillion yen in 2009, down from 6.4 trillion yen in 2008, due to a decrease in purchases of foreign equity securities by public and private pension funds through banks' trust accounts.

Figure 22: Outward Investment in Equity Securities

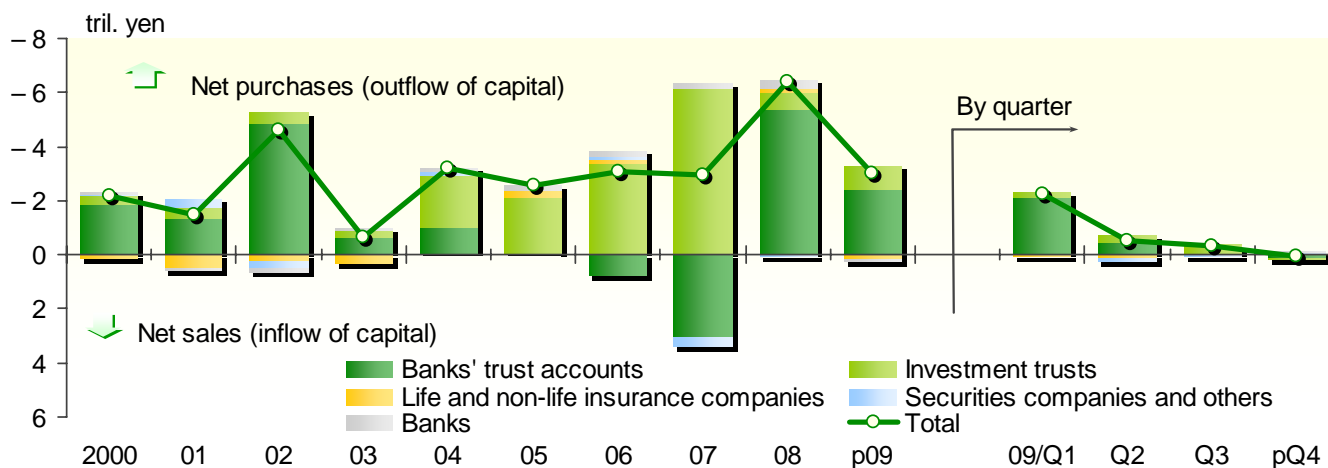


(a) Developments by investor category

Net purchases (outflows) through banks' trust accounts¹¹ decreased to 2.4 trillion yen in 2009 from 5.4 trillion yen in 2008, as pension fund purchases associated with rebalancing transactions¹² decreased amid the continued recovery in equity prices in the United States and Europe.

Outward investments in equity securities by investment trusts continued to record net purchases (outflows), increasing slightly to 0.8 trillion yen in 2009 from 0.6 trillion yen in 2008 as individual investors purchased investment trusts covering BRIC equities.¹³

Figure 23: Outward Investment in Equity Securities (By Sector)



Note: Figures for years through 2004 are from "Securities Investment at Home and Abroad," which were compiled on a settlement basis. Figures for 2005 and after are based on the balance of payments statistics, which are compiled on a contract basis. "Banks" is the sum of the banking accounts of banks and trust banks, while "banks' trust accounts" is the sum of the trust accounts of banks and trust banks.

¹¹ As pension funds often invest through banks' trust accounts, this item tends to reflect investments by pension funds.

¹² Public and private pension funds usually decide the weight of assets such as foreign equities and bonds and domestic equities and bonds in total assets prior to investment. To rebalance their portfolios in order to maintain the desired weighting, they purchase/sell those assets whose weight in total assets has declined/increased due to changes in asset prices or exchange rates.

¹³ For trends in outward investments by investment trusts, see BOX 4, "Recent Developments in Outward Portfolio Investment by Investment Trusts."

(b) Breakdown by region

Investment in U.S. and EU equities decreased as pension funds' purchases associated with rebalancing transactions decreased against the backdrop of the recovery in equity prices. On the other hand, net investment in Brazil increased significantly as a result of purchases made by individual investors through investment trusts. In addition, net purchases (outflows) of Chinese and other Asian equities also turned positive.

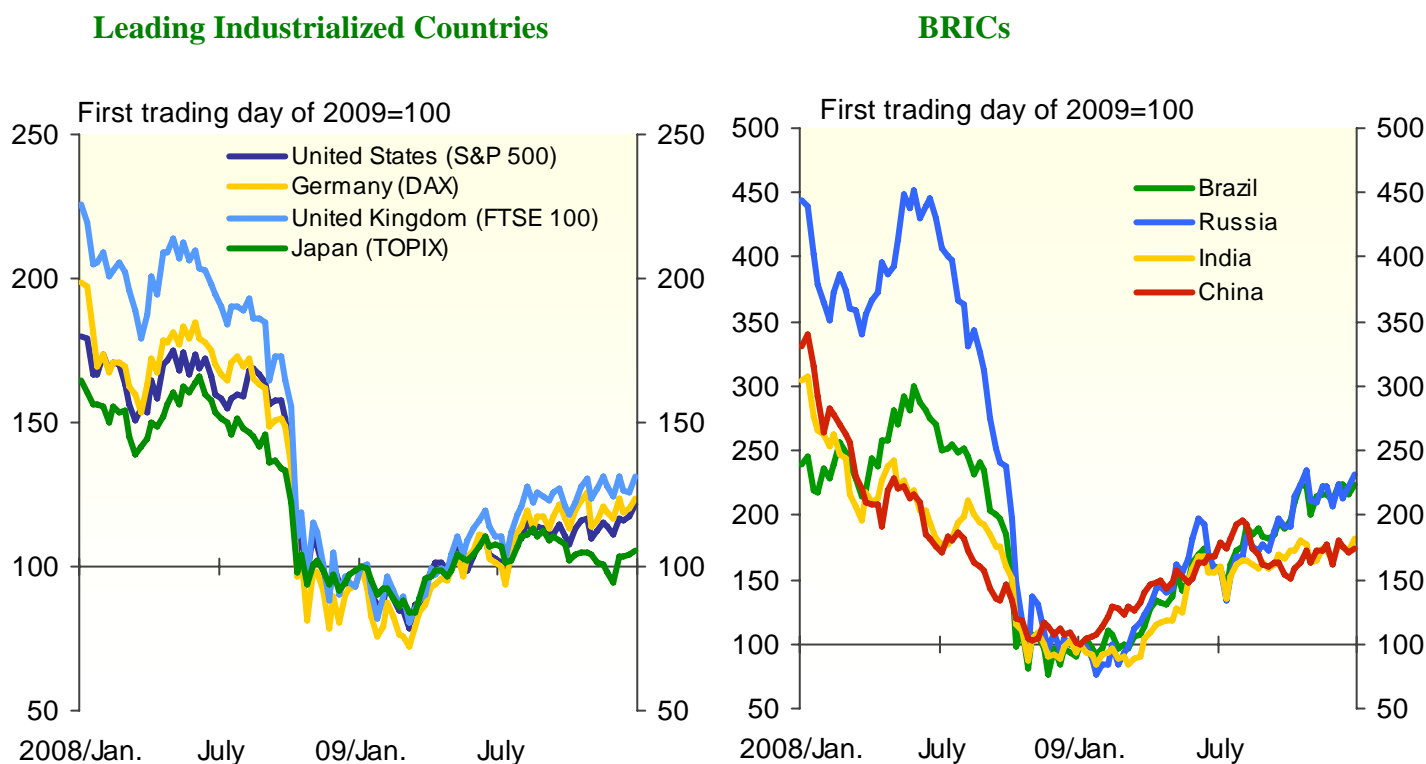
Table 17: Outward Investment in Equity Securities (By Region)

bil. yen

| | 2007 | 2008 | p2009 | IIP (end of 2008) |
|----------------------------------|-----------------|-----------------|-----------------|-------------------|
| United States | -161.7 | -3,444.0 | -1,541.3 | 14,444.1 |
| European Union | -1,286.7 | -1,737.4 | -740.1 | 9,660.1 |
| Of which: | | | | |
| United Kingdom | -451.3 | -895.3 | -350.3 | 3,213.7 |
| France | -208.8 | -394.3 | -159.8 | 1,578.6 |
| Germany | -264.0 | -148.8 | -71.8 | 1,241.7 |
| Asia | -454.1 | 352.8 | -373.8 | 2,698.4 |
| Of which: | | | | |
| China | 91.0 | 152.8 | -180.0 | 499.5 |
| Hong Kong | -91.7 | 99.6 | -99.8 | 808.9 |
| Korea | -49.5 | 57.2 | -44.8 | 617.3 |
| Singapore | -208.6 | 3.6 | -37.1 | 279.1 |
| Central and South America | -498.0 | -475.6 | 32.2 | 5,164.0 |
| Of which: | | | | |
| Brazil | -224.8 | -95.0 | -305.1 | 245.2 |
| Cayman Islands | -138.7 | -170.9 | 414.1 | 4,349.0 |
| Others | -557.1 | -1,110.6 | -403.3 | 3,850.0 |
| Of which: | | | | |
| Australia | -291.3 | -127.5 | -224.9 | 934.1 |
| Total | -2,957.6 | -6,414.9 | -3,026.2 | 35,816.6 |

Note: IIP stands for international investment position.

Figure 24: Equity Price Indices in Major Markets (Yen Basis)



Source: Bloomberg.

(2) Outward investment in bonds and notes (assets)

Net purchases (outflows) of foreign bonds and notes increased to 13.1 trillion yen in 2009, up from 7.3 trillion yen in 2008, primarily due to increased purchases by banks.

Figure 25: Outward Investment in Bonds and Notes

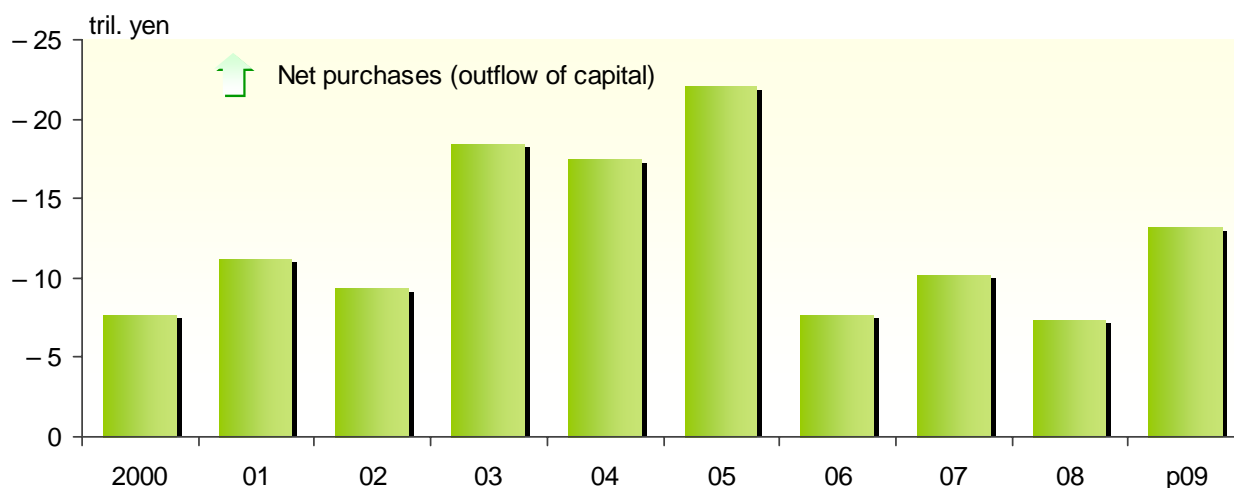
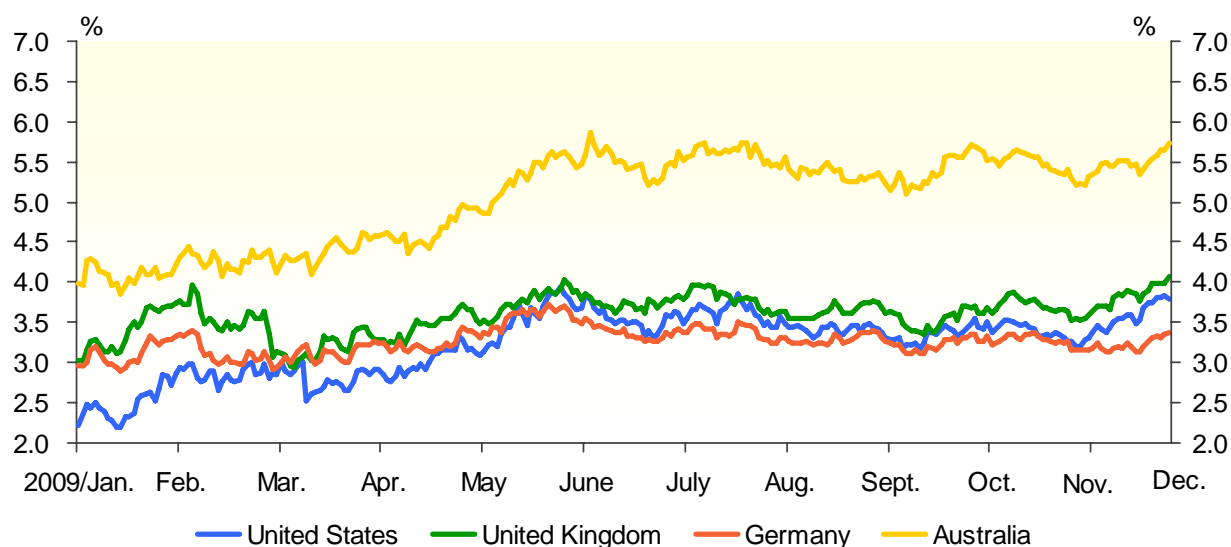


Figure 26: Long-Term Interest Rates in Major Markets (10-Year Government Bonds)



Source: Bloomberg.

(a) Developments by investor category

Net purchases (outflows) of foreign bonds and notes by banks, mainly of low-risk sovereign bonds and government-guaranteed bonds issued by financial institutions, increased significantly, reaching a record high of 7.8 trillion yen in 2009, up from 0.1 trillion yen in 2008. In the first quarter, banks built up new positions in U.S. Treasuries and German government bonds in the expectation of a fall in interest rates. In the second quarter, government-guaranteed bonds issued by overseas financial institutions were purchased. From the third quarter, banks tended to hold back from building up new positions due to concerns that interest rates might rise as a result of the economic recovery since spring. When interest rates declined in the fourth quarter, banks sold U.S. Treasuries and German government bonds to take profits.

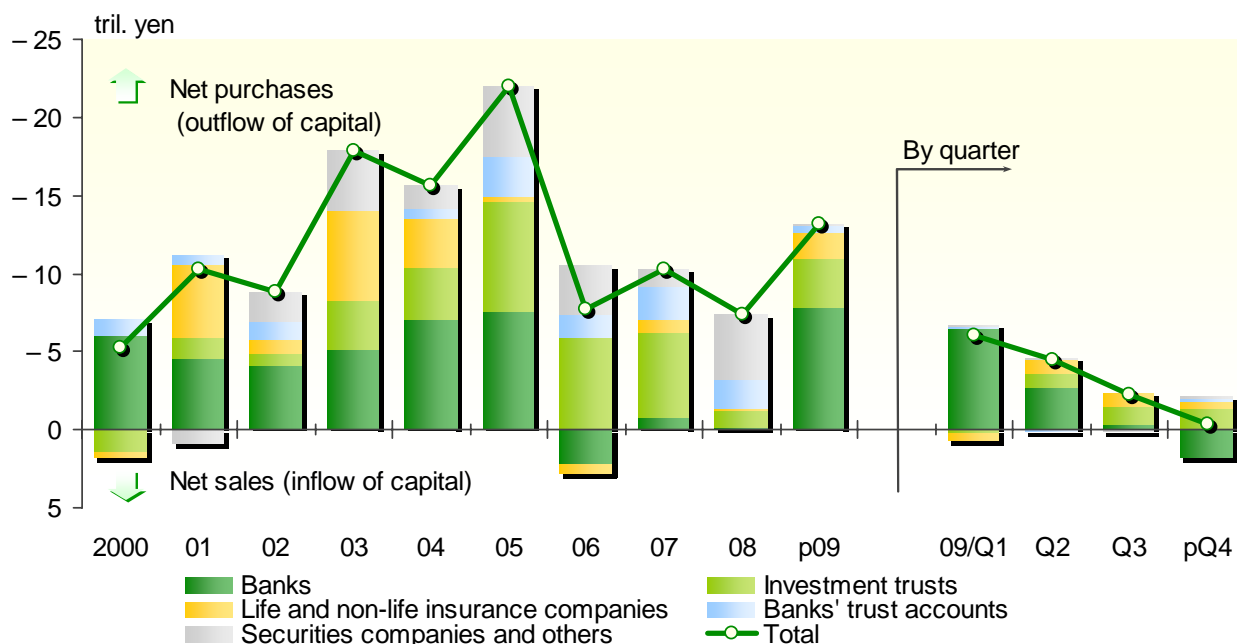
Net purchases (outflows) of foreign bonds and notes by investment trusts increased to 3.2 trillion yen in 2009 from 1.1 trillion yen in 2008, as investments made by individual investors in currency-selective-type investment trust funds and funds covering bonds issued in countries with high-yielding currencies grew.

Net purchases (outflow) of foreign bonds and notes by life and non-life insurance companies increased to 1.7 trillion yen in 2009 from 0.1 trillion yen in 2008. They purchased foreign bonds and notes with currency hedging, considering these to be more attractive investments than yen-denominated bonds given the decline in hedging costs due to low U.S. and European short-term interest rates.

Outward investment in bonds and notes through banks' trust accounts decreased to 0.4 trillion yen in 2009 from 1.9 trillion yen in 2008, reflecting a decrease in purchases by pension funds.

Net purchases (outflows) of bonds and notes by securities companies and others decreased to 0.1 trillion yen in 2009, down from 4.1 trillion yen in 2008, reflecting the cautious investment stance of Japanese investors, especially individual investors.

Figure 27: Outward Investment in Bonds and Notes (By Sector)



Note: Figures for years through 2004 are from "Securities Investment at Home and Abroad," which were compiled on a settlement basis. Figures for 2005 and after are based on the balance of payments statistics, which are compiled on a contract basis. "Banks" is the sum of the banking accounts of banks and trust banks, while "banks' trust accounts" is the sum of the trust accounts of banks and trust banks.

(b) Breakdown by region

Net purchases of U.S. and EU bonds and notes increased, mainly due to purchases by banks, while net purchases of Oceanian and South American bonds and notes increased mainly due to purchases by investment trusts.

Table 18: Outward Investment in Bonds and Notes (By Region)

bil. yen

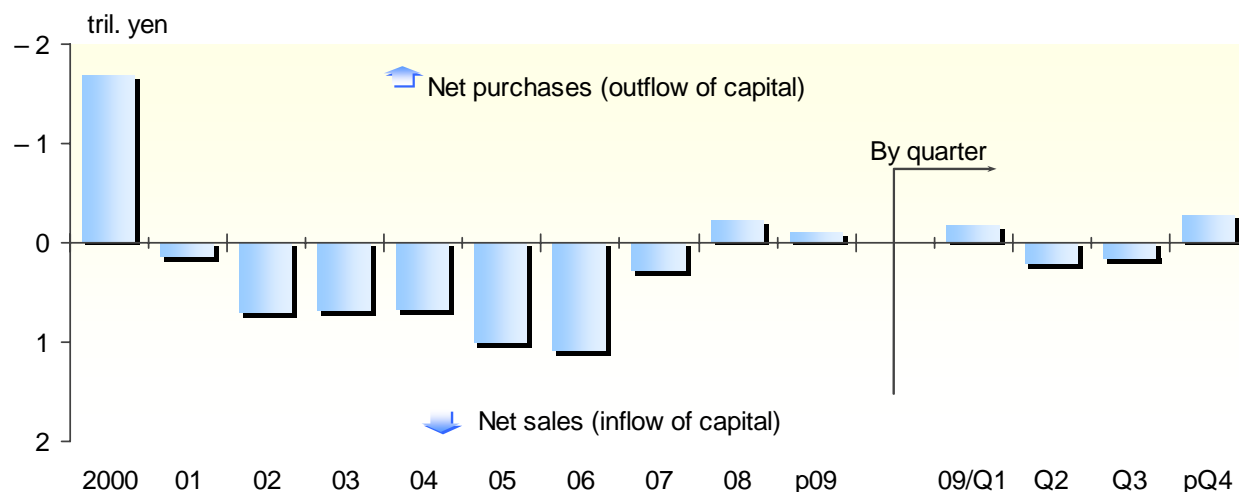
| | 2007 | 2008 | p2009 | IIP (end of 2008) |
|----------------------------------|-----------|----------|-----------|-------------------|
| United States | -372.4 | -2,151.6 | -6,436.3 | 54,117.9 |
| European Union | -3,889.8 | -1,521.5 | -3,555.0 | 66,392.6 |
| Of which: | | | | |
| Germany | 216.2 | -901.9 | -295.5 | 15,086.1 |
| United Kingdom | -2,101.1 | -1,731.4 | -963.1 | 10,472.7 |
| France | -95.3 | 986.9 | -502.7 | 10,486.4 |
| Oceania | -884.0 | -1,308.3 | -2,131.7 | 5,170.1 |
| Of which: | | | | |
| Australia | -846.9 | -1,353.3 | -2,178.9 | 4,820.5 |
| Asia | -579.0 | -221.1 | -58.1 | 1,910.5 |
| Central and South America | -3,584.1 | -100.3 | -517.0 | 31,326.1 |
| Of which: | | | | |
| Brazil | -39.4 | -548.6 | -585.1 | 555.5 |
| Cayman Islands | -3,235.3 | 658.6 | 241.6 | 28,173.8 |
| Others | -938.5 | -2,027.2 | -443.7 | 18,287.1 |
| Total | -10,247.8 | -7,329.9 | -13,141.9 | 177,204.3 |

Note: IIP stands for international investment position.

(3) Outward investment in money market instruments (assets)

Net purchases (outflows) of money market instruments, reflecting continued purchases by securities companies for sales to individuals, businesses, and institutional investors, amounted to 0.1 trillion yen, down slightly from 0.2 trillion yen in 2008.

Figure 28: Outward Investment in Money Market Instruments



b. Inward portfolio investment (liabilities)

(1) Inward investment in equity securities (liabilities)

Inward investment in equity securities turned to net purchases (inflows) of 1.1 trillion yen in 2009 from net sales of 7.5 trillion yen in 2008.

In the first quarter, sales of equity securities intensified reflecting concerns over the worsening business outlook for Japanese companies due to sluggish world economic conditions. In the second quarter, foreign investors became net purchasers of Japanese equities, reflecting expectations of financial stability and a global economic recovery. As a whole, inward investment in equity securities turned slightly positive in 2009.

By industry, in the first quarter, sales by foreign investors concentrated on equities of export-related firms such as those from the electrical machinery and banking industries, with the latter reflecting the gloomy outlook for the financial sector. From the second quarter, when foreign investors became net purchasers, equities of firms from the electrical machinery, banking, and securities and commodity futures industries were purchased, reflecting expectations of a global economic recovery as well as subscriptions to publicly offered shares issued by Japanese companies seeking to increase their capital.

Figure 29: Inward Investment in Equity Securities

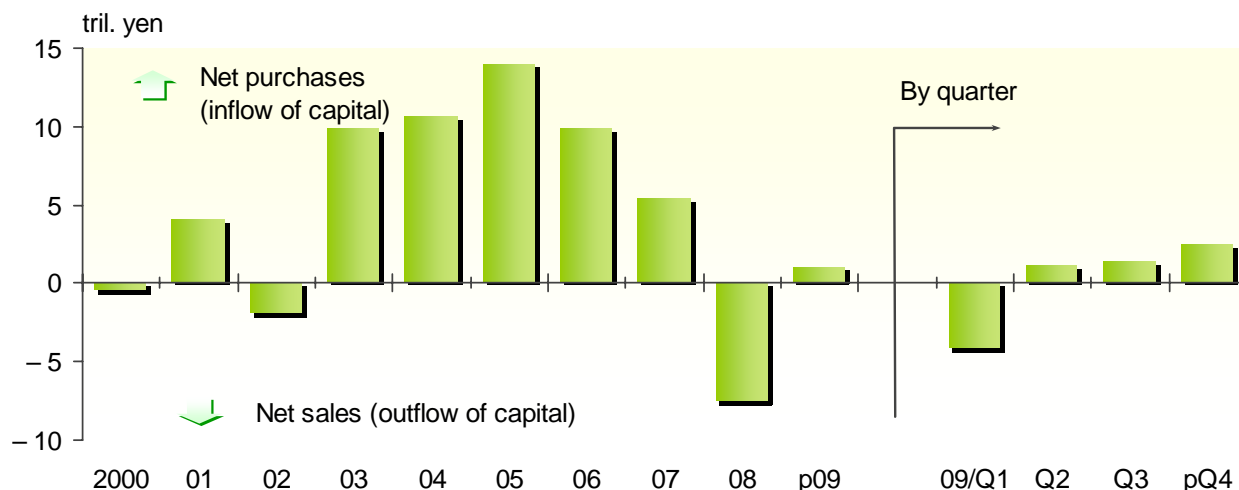
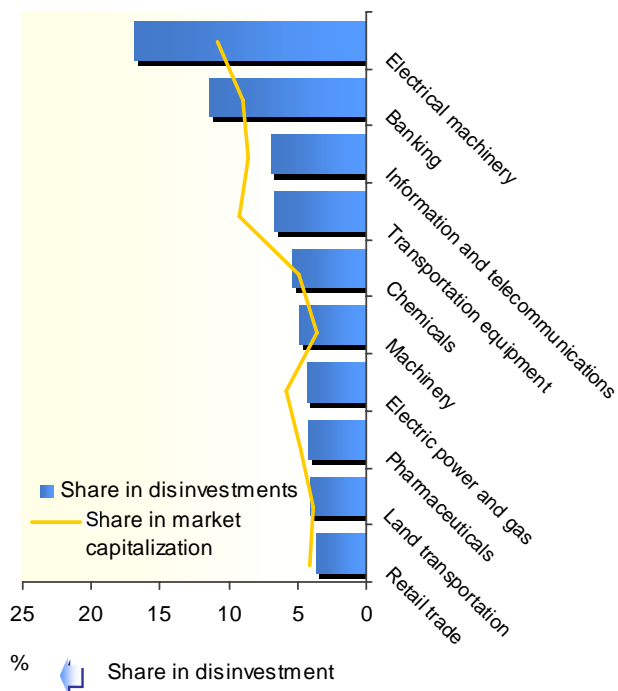
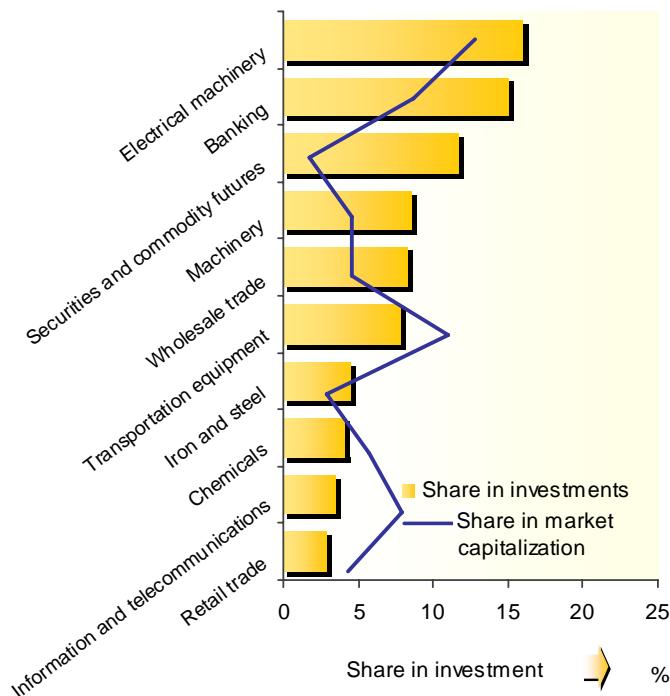


Figure 30: Inward Investment in Equity Securities: Investment and Disinvestment by Industry (Share in Percent)

From January to March 2009



From April to December 2009



Note: The share in market capitalization is calculated using the average for the year of the end-of-month market capitalization of each industry on the First Section of the Tokyo Stock Exchange. The share in disinvestments is calculated using the amount of net purchases and sales by foreign investors.

Figure 31: TOPIX (U.S. Dollar Basis)



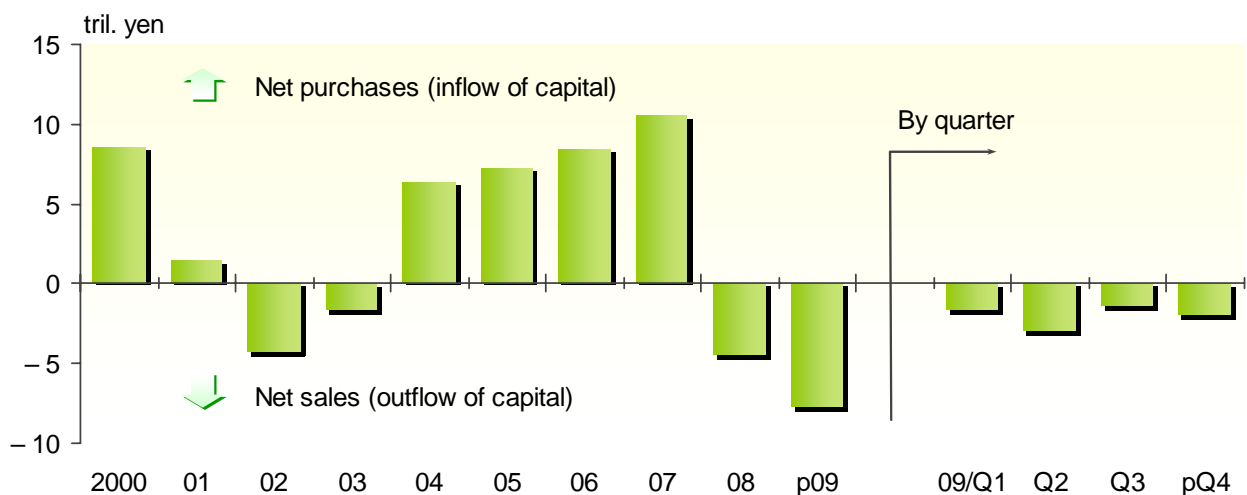
Source: Bloomberg.

(2) Inward investment in bonds and notes (liabilities)

Net sales of inward investment in bonds and notes reached a record high, rising to 7.7 trillion yen in 2009 from 4.4 trillion yen in 2008.

Foreign investors closed their positions during the first half of the year as yen funding conditions tightened. In addition, foreign investors closed their positions in inflation-indexed bonds and floating rate bonds throughout the year.¹⁴

Figure 32: Inward Investment in Bonds and Notes

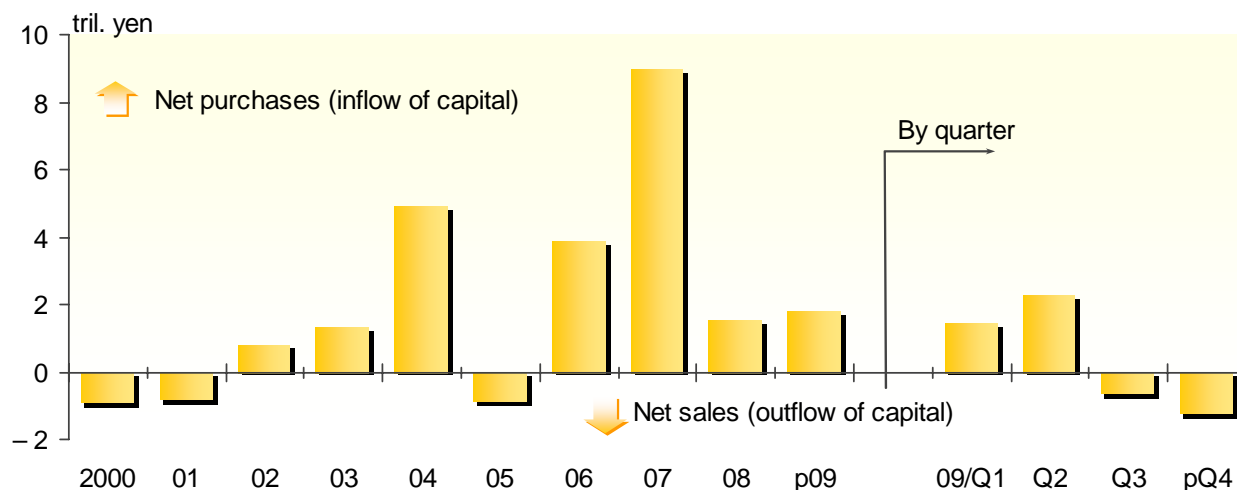


¹⁴ For developments in inward investment in bonds and notes, see BOX 5, "Developments in Inward Investment in Bonds and Notes and Transaction with Repurchase Agreements."

(3) Inward investment in money market instruments (liabilities)

Net purchases (inflows) of Japanese money market instruments by foreign investors continued increasing slightly to 1.8 trillion yen in 2009 from 1.5 trillion yen in 2008. While purchases increased in the first half of the year reflecting a preference for liquid instruments after the financial crisis, the second half saw net sales as financial markets stabilized.

Figure 33: Inward Investment in Money Market Instruments



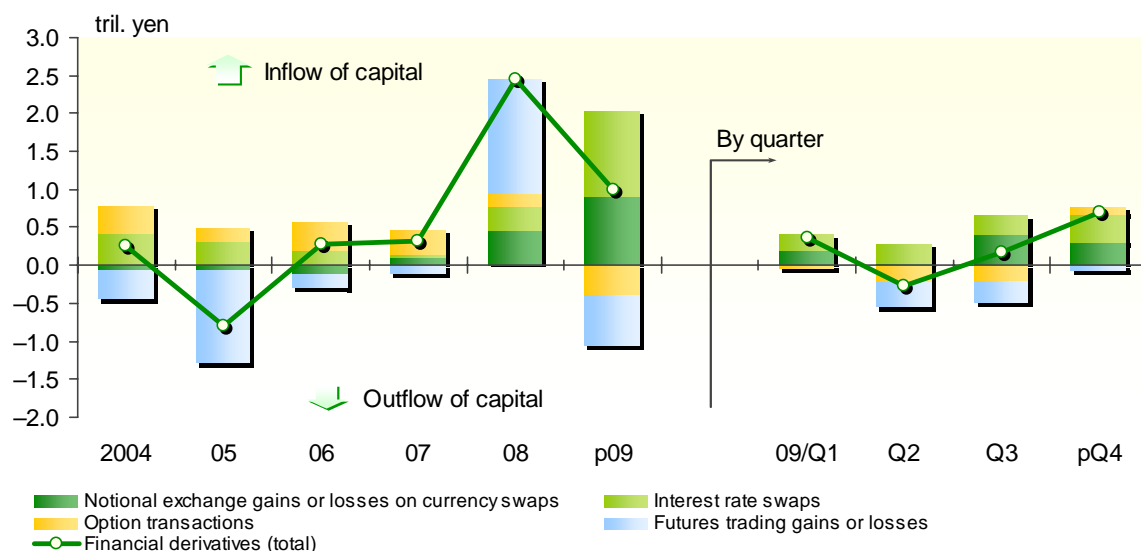
3. Financial derivatives

Financial derivatives transactions accounted for a net inflow of 1.0 trillion yen in 2009, down from 2.5 trillion yen in 2008.

On the assets side, Japanese financial institutions that had raised U.S. dollars through currency swaps saw an increase in foreign exchange gains on such swaps, reflecting the appreciation of the yen against the U.S. dollar, which continued throughout the year. In addition, net receipts from interest rate swaps by Japanese financial institutions increased as a result of the decline in short-term interest rates both at home and abroad.

On the other hand, payments for realized losses on Japanese stock price index futures by Japanese securities brokers to foreign investors increased as Japanese stock prices recovered toward the middle of the year. As a result, losses exceeded gains from futures trading, and this contributed to the decrease in overall net inflows.

Figure 34: Financial Derivatives

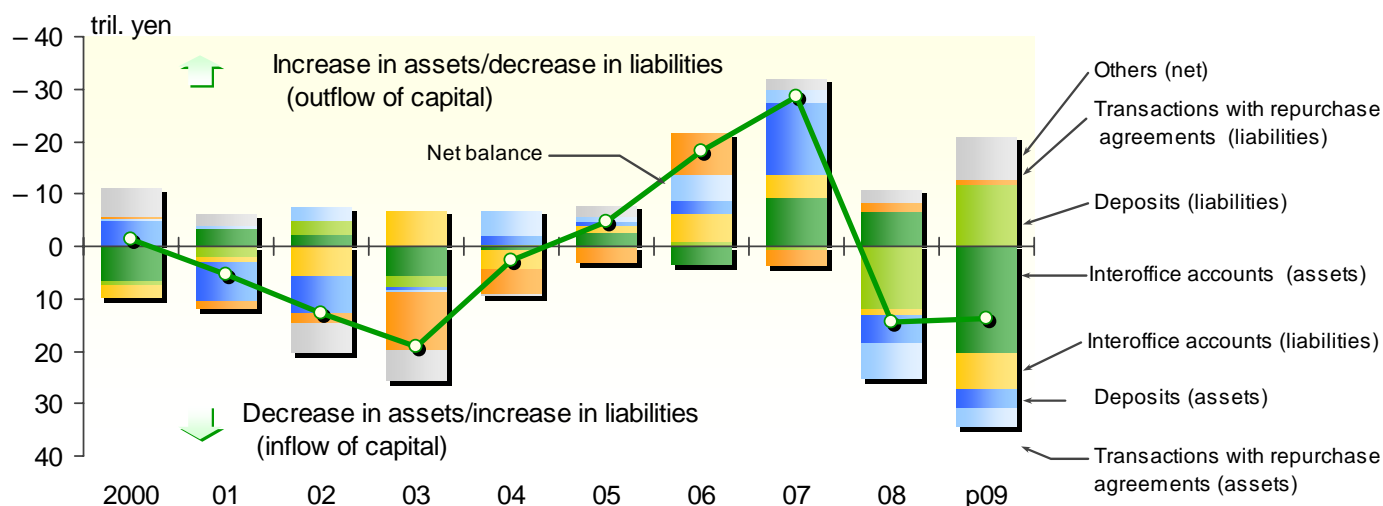


Note: "Financial derivatives (total)" includes transactions other than those listed and therefore does not equal the sum of the individual categories of financial derivatives.

4. Other investment

Net inflows persisted, registering 13.6 trillion yen in 2009 after 14.5 trillion yen in 2008.¹⁵

Figure 35: Other Investment (Assets and Liabilities)



On the asset side, net inflows increased significantly, reflecting the fact that, in response to the improvement in the environment for raising foreign currency funds, yen funds used for currency swaps, as well as foreign currency funds -- both of which had previously been lent to overseas branches through interoffice accounts -- were withdrawn. In addition, because certain foreign investors reduced their positions in Japanese government bonds (JGBs), there continued to be net inflows associated with repurchase agreements into which foreign investors had previously entered to fund their JGB purchases.

¹⁵ For details on the flow of funds including "other investments," see BOX 6 "Cross-Border Flows of Funds in 2009."

Figure 36: Other Investment Assets

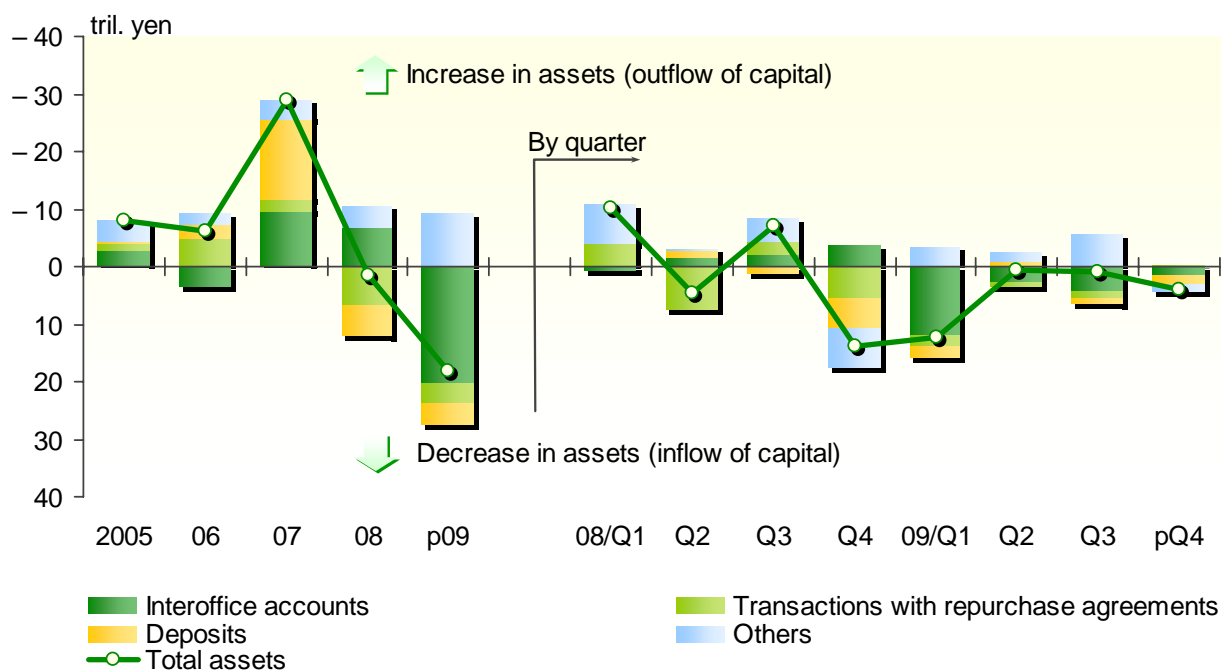
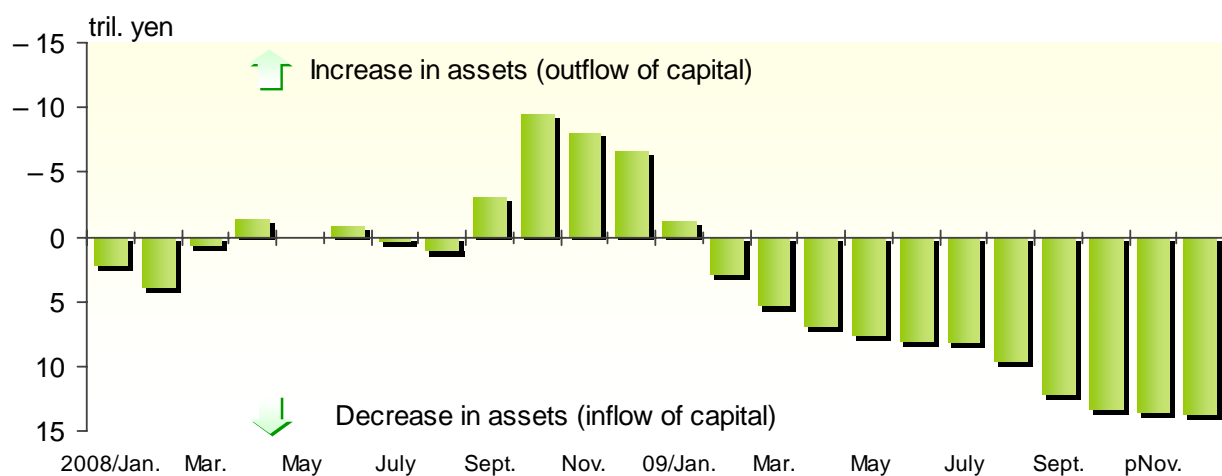


Figure 37: Interoffice Accounts (Assets) (Calculated on a Cumulative Basis since January 2008)



On the liability side, reflecting the improvement in the environment for raising U.S. dollars, repayments of deposits from the Federal Reserve Bank of New York associated with the U.S. dollar funds-supplying operations conducted by the Bank of Japan continued, resulting in net outflows in 2009, after net inflows in the previous year.

Figure 38: Other Investment Liabilities

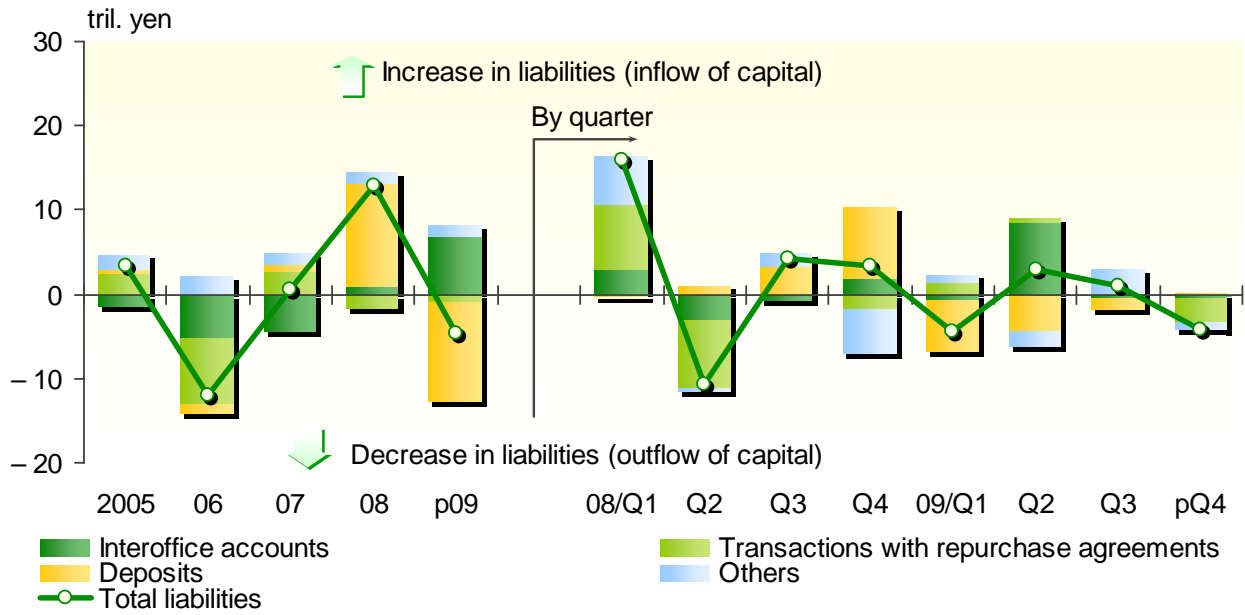
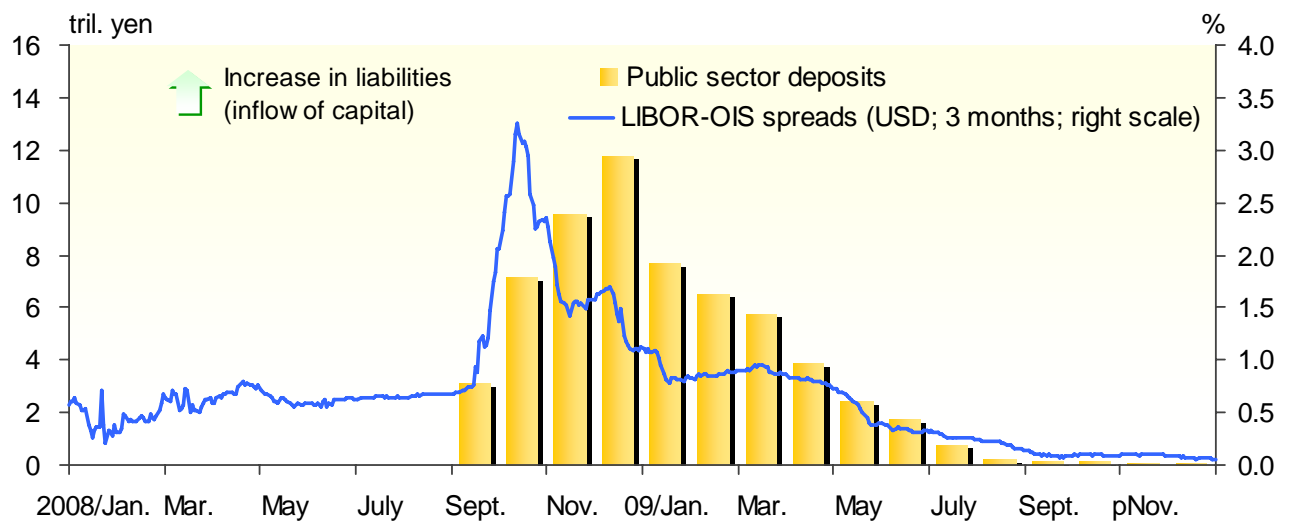


Figure 39: Public Sector Deposits (Liabilities) (Calculated on a Cumulative Basis since January 2008)



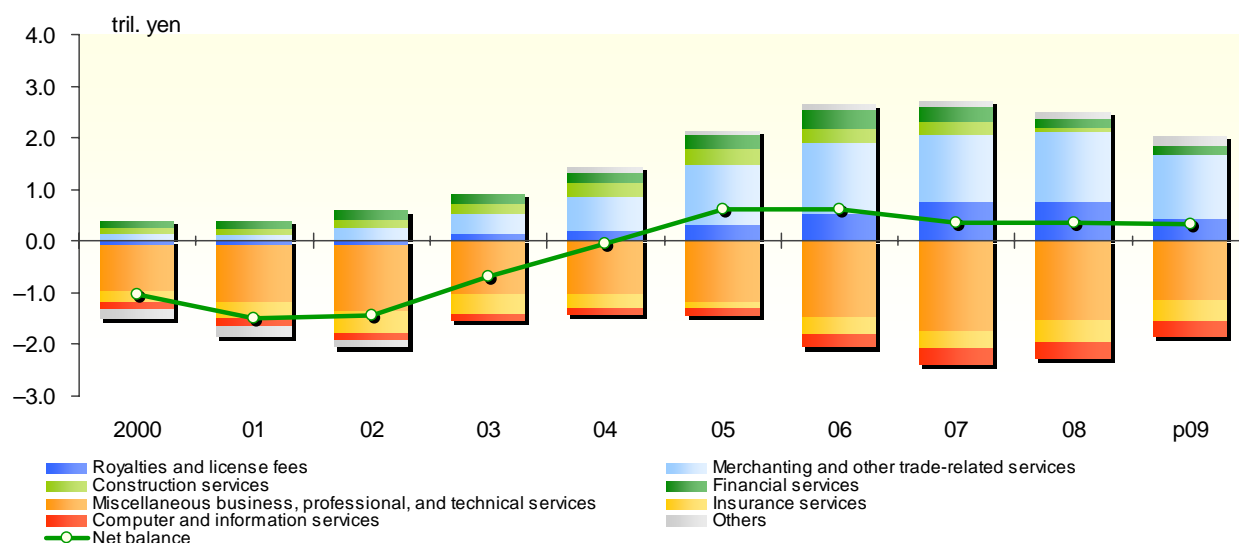
Note: LIBOR-OIS spreads reflect trends in counterparty risk in the interbank market and are regarded as an indicator of the funding environment for financial institutions.

Box 1. Developments in the Overseas Activities of Japanese Companies Reflected in "Other Services"

Balance of payments statistics reflect various economic activities associated with the overseas presence of Japanese companies. Exports and imports by Japanese companies are reflected in the "goods" account, and income earned from their overseas subsidiaries is recorded under credits in the "income" account. Receipts and payments of royalties and license fees as well as expenses for research and development and marketing are recorded under "other services."

A breakdown of "other services" shows that receipts of "royalties and license fees" and payments for "miscellaneous business, professional, and technical services" by Japanese companies have declined due to sluggish world economic conditions.

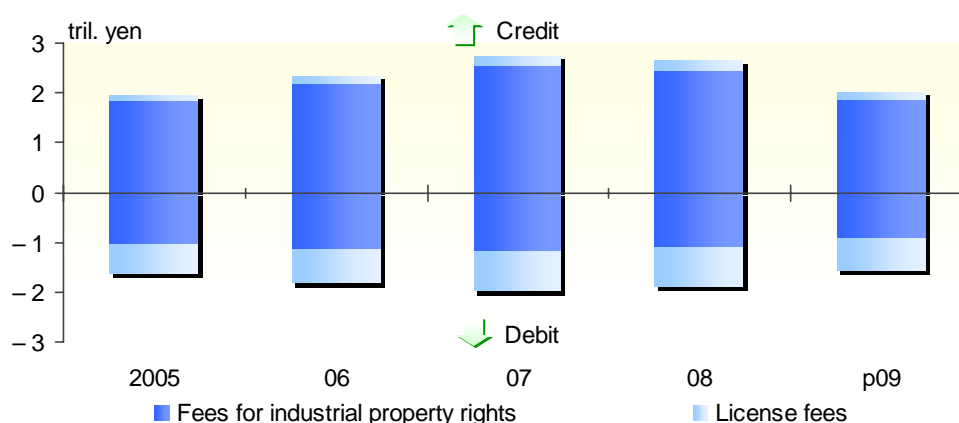
Figure 1 for Box 1: Balance of Other Services



1. Royalties and License Fees

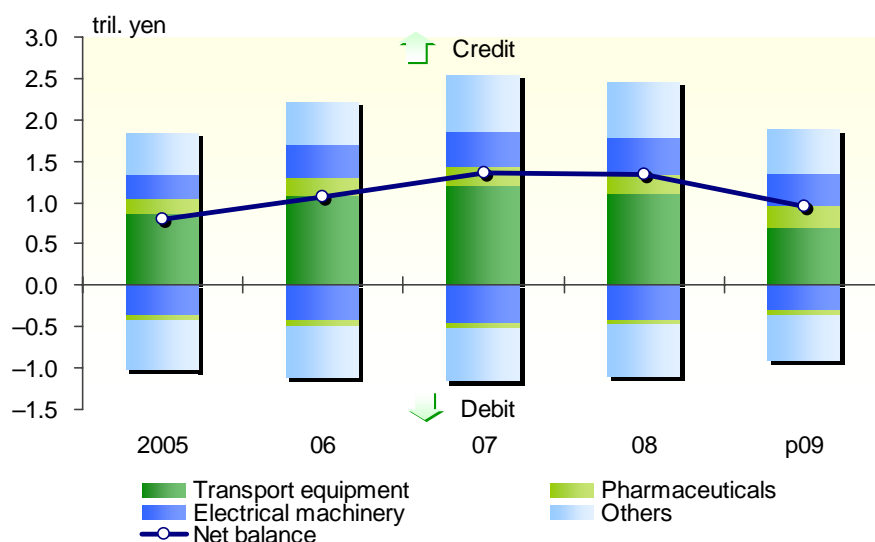
"Royalties and license fees" consists of "industrial processes, franchises, etc." (hereafter "fees for industrial property rights"), which include fees received by companies for the licensing of their technology (royalties), and "license fees," which are charges for the use of copyrighted materials such as computer software and animation. In recent years, Japan has registered a surplus in "fees for industrial property rights" and a deficit in "license fees."

Figure 2 for Box 1: Royalties and License Fees



By type of industry, receipts and payments of "fees for industrial property rights" have been roughly in balance for the electrical machinery industry, while receipts by the transport equipment industry have been the primary contributor to Japan's overall surplus in "royalties and license fees." This reflects the fact that Japanese car manufacturers receive royalties from their overseas production subsidiaries in proportion to the volume of local production. However, in 2009, receipts of "fees for industrial property rights" decreased by 23.6 percent, reflecting the drop in overseas production by car manufacturers.

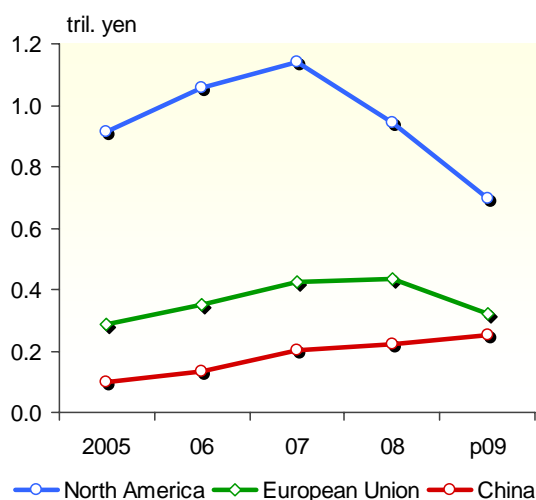
Figure 3 for Box 1: Fees for Industrial Property Rights by Industry



Note: In this Box, figures by industry are estimated by the International Department of the Bank of Japan based on actual figures of large-scale transactions reported.

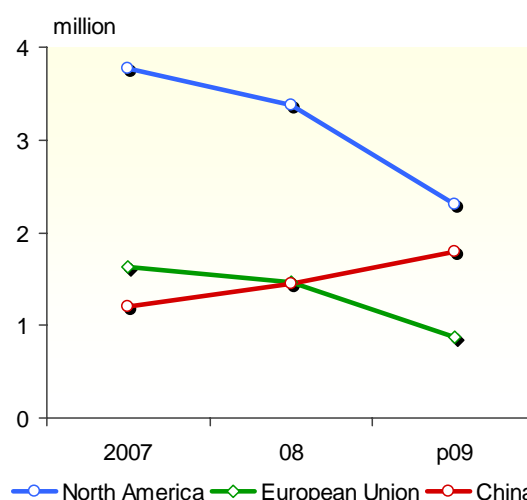
By region, "fees for industrial property rights" received from North America and the European Union decreased significantly due to the fall in local production by Japanese car manufacturers. In contrast, receipts from China increased along with the growth in their local production.

Figure 4 for Box 1: Receipts of "Fees for Industrial Property Rights" by Region



Note: In this Box, figures for 2009 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September.

Figure 5 for Box 1: Number of Cars Manufactured Abroad by Three Major Japanese Companies

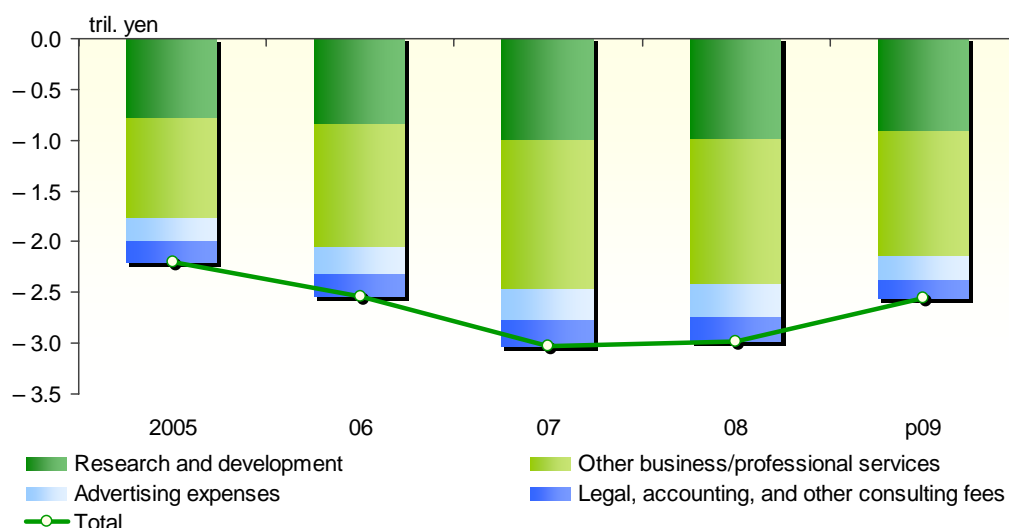


Note: Figures are estimated by the International Department of the Bank of Japan based on the financial statements of the companies.

2. Miscellaneous Business, Professional, and Technical Services

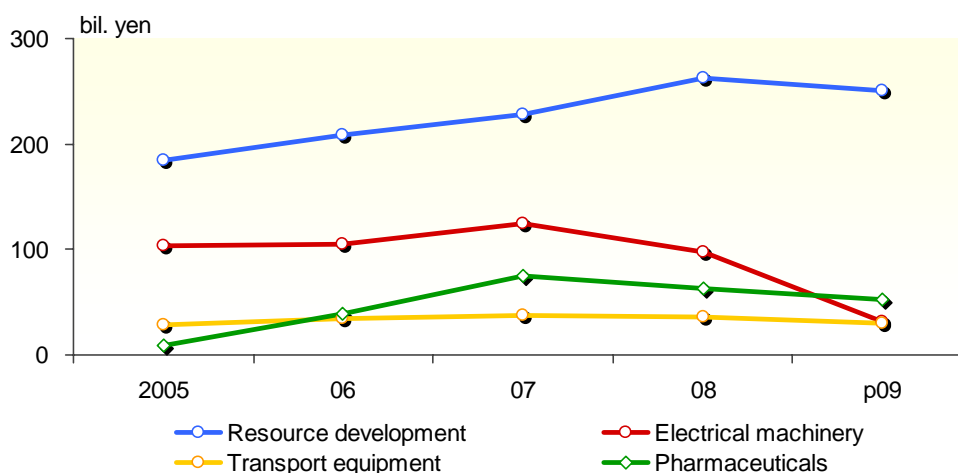
"Miscellaneous business, professional, and technical services" include "advertising expenses," "research and development," and "other business/professional services" such as mineral exploration/mining costs and sales and administration expenses. In 2009, payments for "miscellaneous business, professional, and technical services" decreased by 14.3 percent in total.

Figure 6 for Box 1: Breakdown of Payments for "Miscellaneous Business, Professional, and Technical Services"



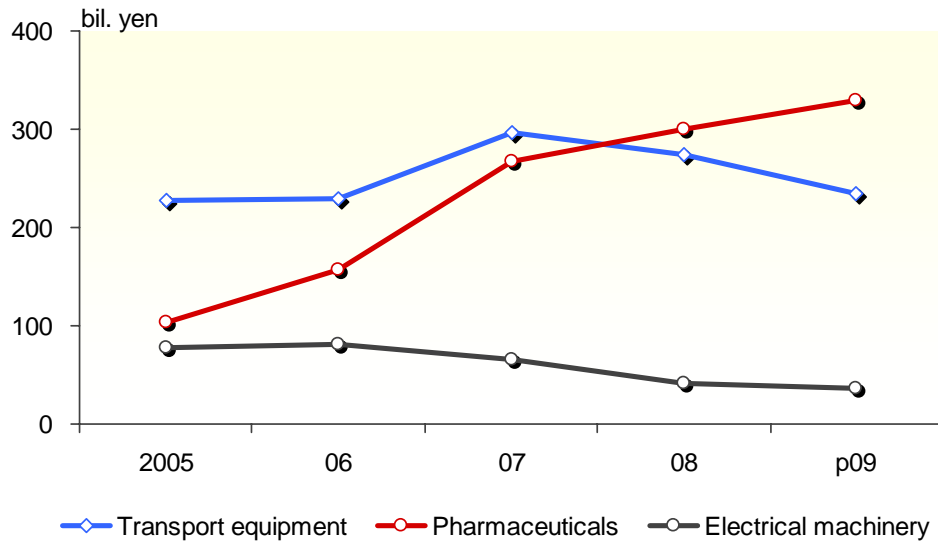
The category that saw the largest decrease in payments among "miscellaneous business, professional, and technical services" is "other business/professional services," and developments by industry therein show that the electrical machinery industry registered a decrease in sales and administration expenses (sales commission, etc.) due to sluggish sales, while the resource development industries experienced a decrease in drilling and related costs as major projects moved from the exploration to the mining stage.

Figure 7 for Box 1: Payments for "Other Business/Professional Services" by Industry



Developments in payments for "research and development" by industry show that while payments made by the pharmaceutical industry increased as companies proceeded with the development of new medicines in the United States and other countries, payments made by the transport equipment and electrical machinery industries decreased due to the sluggish economic conditions.

Figure 8 for Box 1: Payments for "Research and Development" by Industry



(Reference) Industrial Property Rights and License Fees (By Region)

Table 1 for Box 1: Fees for Industrial Property Rights, by Region

bil. yen

| | Total | | | Asia | | | North America | | | European Union | | |
|-------|--------|--------|--------|--------|-------|-------|---------------|-------|---------|----------------|-------|--------|
| | Credit | Debit | Net | Credit | Debit | Net | Credit | Debit | Net | Credit | Debit | Net |
| 1996 | 677.6 | 760.9 | - 83.3 | 292.8 | 16.4 | 276.5 | 257.2 | 549.3 | - 292.1 | 97.5 | 165.7 | - 68.2 |
| 1997 | 790.9 | 771.0 | 19.9 | 303.0 | 23.2 | 279.7 | 343.2 | 553.0 | - 209.8 | 110.3 | 164.3 | - 54.0 |
| 1998 | 871.4 | 839.3 | 32.1 | 266.8 | 82.2 | 184.6 | 409.7 | 568.0 | - 158.3 | 151.8 | 157.9 | - 6.2 |
| 1999 | 871.1 | 821.4 | 49.6 | 232.4 | 99.1 | 133.3 | 471.4 | 534.1 | - 62.6 | 131.0 | 153.8 | - 22.7 |
| 2000 | 1043.0 | 900.8 | 142.2 | 299.3 | 59.9 | 239.5 | 543.8 | 605.1 | - 61.3 | 159.4 | 184.1 | - 24.7 |
| 2001 | 1198.3 | 979.6 | 218.7 | 298.0 | 27.6 | 270.4 | 617.0 | 676.4 | - 59.4 | 224.8 | 231.9 | - 7.1 |
| 2002 | 1232.0 | 955.1 | 276.9 | 309.2 | 30.0 | 279.2 | 689.0 | 614.2 | 74.8 | 167.7 | 253.5 | - 85.7 |
| 2003 | 1342.1 | 859.0 | 483.1 | 340.3 | 19.5 | 320.8 | 737.1 | 590.9 | 146.2 | 187.7 | 209.2 | - 21.5 |
| 2004 | 1599.2 | 933.1 | 666.2 | 427.8 | 23.9 | 404.0 | 831.6 | 626.1 | 205.5 | 252.3 | 243.9 | 8.4 |
| 2005 | 1840.5 | 1038.7 | 801.8 | 514.6 | 34.4 | 480.3 | 915.1 | 726.9 | 188.2 | 286.9 | 234.1 | 52.9 |
| 2006 | 2204.0 | 1138.1 | 1065.9 | 650.4 | 59.6 | 590.7 | 1055.9 | 796.9 | 259.1 | 349.0 | 236.0 | 113.1 |
| 2007 | 2539.6 | 1171.6 | 1368.0 | 771.3 | 62.0 | 709.3 | 1138.7 | 797.5 | 341.2 | 423.0 | 256.1 | 166.9 |
| 2008 | 2450.4 | 1110.4 | 1340.0 | 847.3 | 68.8 | 778.6 | 942.7 | 729.6 | 213.1 | 433.1 | 258.4 | 174.7 |
| p2009 | 1872.8 | 913.7 | 959.1 | 725.4 | 54.1 | 671.3 | 698.2 | 618.9 | 79.3 | 319.0 | 180.8 | 138.2 |

Table 2 for Box 1: License Fees, by Region

bil. yen

| | Total | | | Asia | | | North America | | | European Union | | |
|-------|--------|-------|---------|--------|-------|---------|---------------|-------|---------|----------------|-------|--------|
| | Credit | Debit | Net | Credit | Debit | Net | Credit | Debit | Net | Credit | Debit | Net |
| 1996 | 48.2 | 307.6 | - 259.4 | 22.5 | 2.8 | 19.7 | 13.4 | 232.9 | - 219.5 | 10.4 | 63.3 | - 52.9 |
| 1997 | 93.1 | 392.4 | - 299.3 | 26.2 | 4.1 | 22.1 | 39.5 | 303.0 | - 263.4 | 23.3 | 75.2 | - 51.9 |
| 1998 | 94.4 | 331.3 | - 236.8 | 17.8 | 2.2 | 15.6 | 53.3 | 255.1 | - 201.8 | 22.0 | 61.5 | - 39.4 |
| 1999 | 60.0 | 299.9 | - 239.9 | 12.4 | 2.0 | 10.3 | 29.7 | 240.2 | - 210.5 | 17.4 | 50.3 | - 32.9 |
| 2000 | 59.4 | 285.5 | - 226.1 | 10.6 | 50.7 | - 40.1 | 41.4 | 179.4 | - 138.0 | 7.1 | 48.1 | - 40.9 |
| 2001 | 70.6 | 369.4 | - 298.8 | 15.1 | 72.7 | - 57.6 | 44.6 | 229.3 | - 184.7 | 9.7 | 57.4 | - 47.7 |
| 2002 | 74.5 | 424.6 | - 350.2 | 14.4 | 76.7 | - 62.3 | 46.5 | 270.0 | - 223.5 | 12.3 | 61.1 | - 48.8 |
| 2003 | 80.9 | 414.8 | - 333.9 | 13.9 | 74.2 | - 60.3 | 41.9 | 255.8 | - 213.9 | 22.6 | 68.2 | - 45.6 |
| 2004 | 98.3 | 541.3 | - 443.1 | 11.5 | 91.9 | - 80.4 | 56.9 | 359.1 | - 302.2 | 29.1 | 81.4 | - 52.2 |
| 2005 | 101.4 | 574.2 | - 472.9 | 14.3 | 105.7 | - 91.4 | 54.8 | 385.6 | - 330.9 | 30.2 | 76.9 | - 46.7 |
| 2006 | 134.1 | 664.1 | - 530.1 | 16.0 | 119.3 | - 103.3 | 75.1 | 468.8 | - 393.6 | 40.8 | 67.4 | - 26.5 |
| 2007 | 195.1 | 790.2 | - 595.1 | 22.1 | 136.6 | - 114.5 | 85.4 | 557.6 | - 472.2 | 84.2 | 86.2 | - 2.0 |
| 2008 | 204.6 | 780.2 | - 575.6 | 22.5 | 149.7 | - 127.3 | 95.2 | 512.8 | - 417.6 | 81.9 | 108.9 | - 27.1 |
| p2009 | 148.1 | 654.9 | - 506.8 | 14.2 | 147.6 | - 133.4 | 80.3 | 405.9 | - 325.6 | 50.2 | 94.6 | - 44.4 |

Note: Figures for October through December 2009 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2009.

Box 2. Features of the Income from Outward Direct Investment in 2009

Receipts of direct investment income recorded under the income account fell below the previous year's level for the second consecutive year, as a result of the sluggish business performance of overseas subsidiaries reflecting the stagnant global economy. However, although receipts from the United States and the European Union decreased significantly from the previous year, receipts from China increased for the sixth consecutive year.

Direct investment income includes not only dividends received by direct investors from their subsidiaries and interest accrued on loans between parent companies and subsidiaries, but also reinvested earnings. Reinvested earnings are direct investors' shares of earnings that subsidiaries do not distribute as dividends but accumulate as internal reserves. In the balance of payments, reinvested earnings are recorded under the income account in the current account, and an offsetting entry with the opposite sign is made under direct investment in the capital and financial account. This treatment is based on the assumption that the internal reserves are paid out to direct investors as dividends and then reinvested in the subsidiaries.

Figure 1 for Box 2: Direct Investment Income Receipts (By Region)

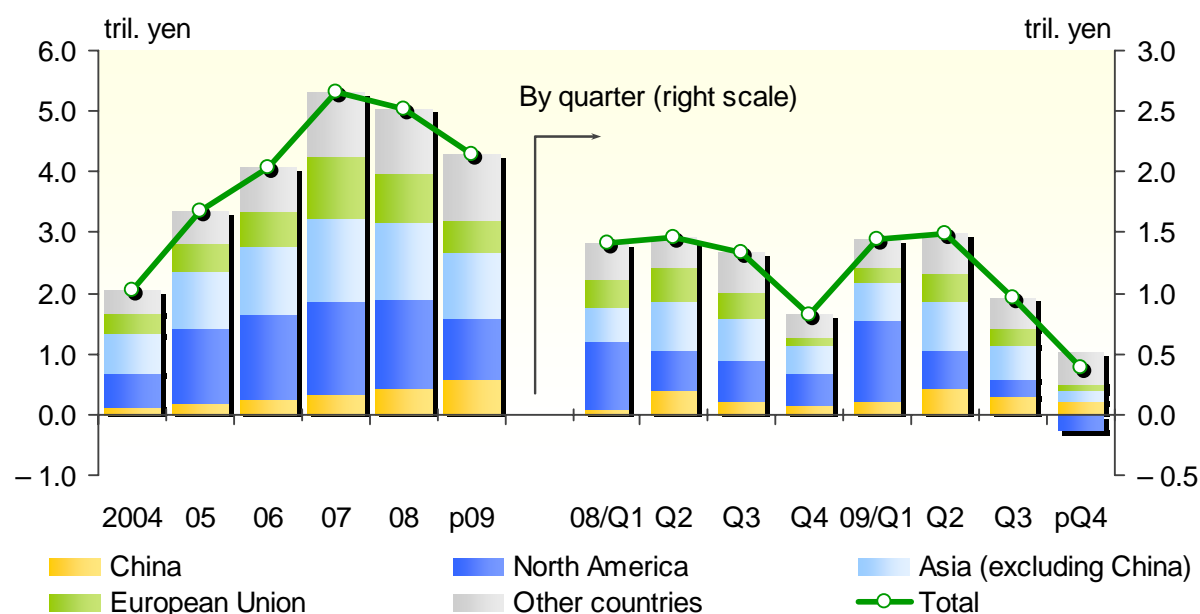


Table 1 for Box 2: Direct Investment Income Receipts (by Region)

| bil. yen | | | |
|----------------|----------------|----------------|-------------------------------|
| | 2008 | p2009 | Change from the previous year |
| Total | 5,033.9 | 4,280.6 | -753.4 |
| of which: | | | |
| North America | 1,482.2 | 992.5 | -489.8 |
| European Union | 801.6 | 543.6 | -258.0 |
| Asia | 1,689.3 | 1,674.7 | -14.6 |
| of which: | | | |
| China | 424.5 | 582.3 | +157.8 |

Note: In this Box, figures for 2009 by region are estimated by the International Department of the Bank of Japan based on the actual figures for January through September 2009.

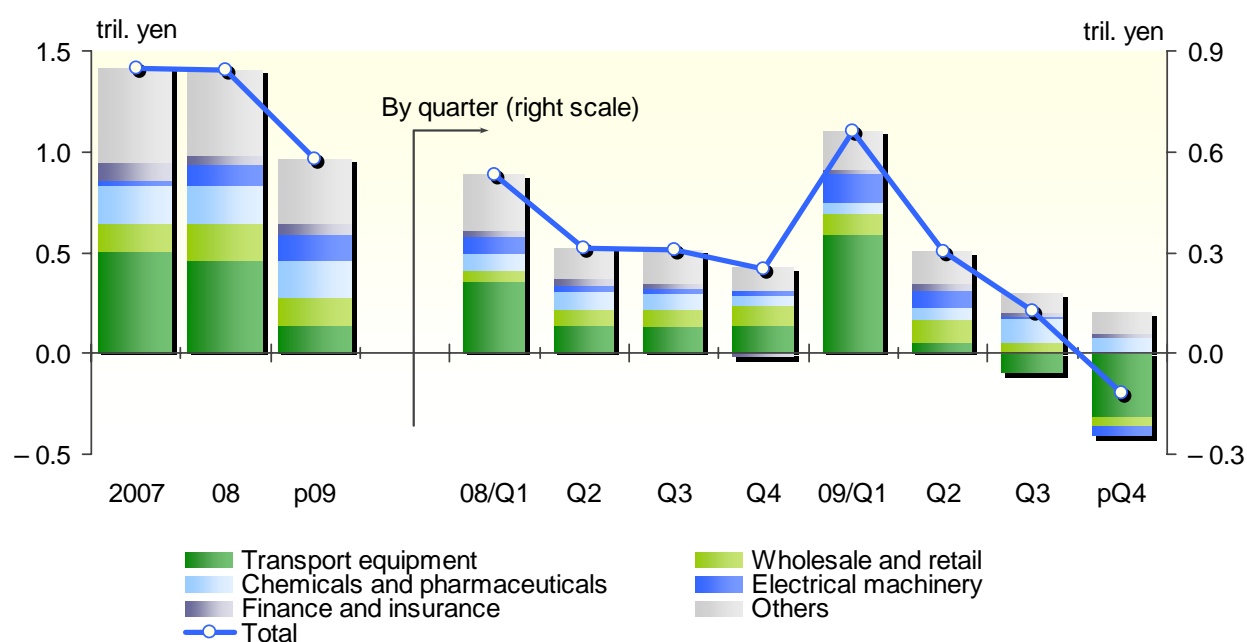
Direct investment income from subsidiaries in the United States

Receipts in the transport equipment industry fell significantly from the previous year due to a drop in receipts from car manufacturers and wholesalers/retailers, which include car dealerships, reflecting the fall in car sales.

Taking a more detailed look, receipts increased considerably in the first quarter of 2009 as parent companies drew down the retained earnings of their U.S. subsidiaries to pay themselves dividends upon the closing of their annual accounts. On the other hand, income receipts turned negative in the fourth quarter primarily reflecting the fall in the retained earnings of subsidiaries as a result of the payments of dividends in the first quarter.

Note: Due to limitations in the raw data used for the statistics, decreases in retained earnings of overseas subsidiaries are reflected with a time lag. For example, the decrease in retained earnings of overseas subsidiaries reflected in parent companies' financial statements for the fiscal year ending March 2009 is, in the balance of payments statistics, divided into twelve equal portions that are recorded as negative income for the twelve months from September 2009.

Figure 2 for Box 2: Direct Investment Income Receipts from Subsidiaries in the United States (By Industry)



Note: In this Box, figures by industry are estimated by the International Department of the Bank of Japan based on actual figures reported. Dividends of less than 1 billion yen in direct investment income are classified as "others."

Direct investment income from subsidiaries in the European Union

Receipts from the United Kingdom turned negative primarily because the retained earnings of overseas subsidiaries of financial institutions decreased following the turmoil in global financial markets in early fall 2008. In addition, the business performance of transport equipment and electrical machinery industries also deteriorated due to the sluggish economic conditions and receipts from many countries decreased.

Table 2 for Box 2: Direct Investment Income Receipts from Subsidiaries in the European Union

bil. yen

| | 2008 | p2009 | Change from the previous year |
|-----------------------|--------------|---------------|-------------------------------|
| European Union | 801.6 | 543.6 | -258.0 |
| of which: | | | |
| United Kingdom | 50.9 | -117.7 | -168.5 |
| Belgium | 129.0 | 60.0 | -69.0 |
| Sweden | 73.3 | 5.9 | -67.4 |
| Germany | 96.5 | 41.4 | -55.1 |
| France | 55.4 | 22.5 | -32.9 |
| Netherlands | 361.8 | 509.6 | +147.9 |

Direct investment income from subsidiaries in Asia

While receipts from Asia as a whole were almost unchanged from the previous year, those from China rose significantly.

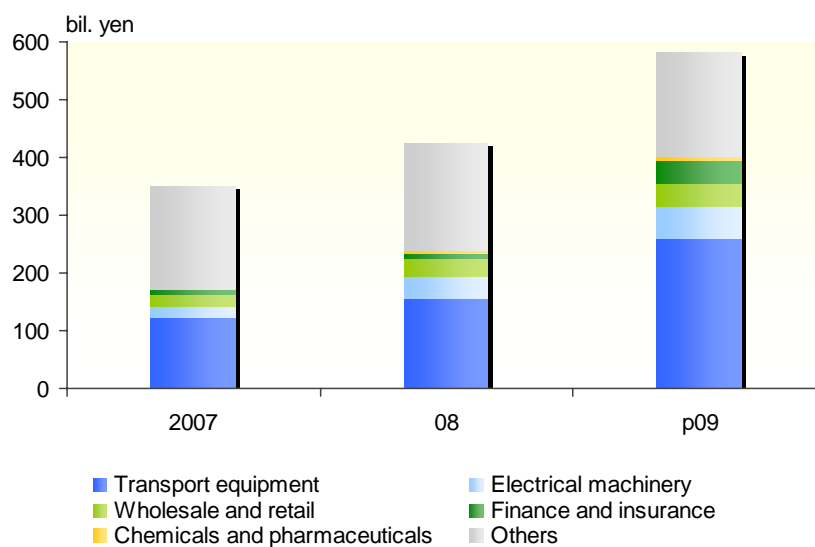
Table 3 for Box 2: Direct Investment Income Receipts from Subsidiaries in Asia

bil. yen

| | 2008 | p2009 | Change from the previous year |
|--------------|----------------|----------------|-------------------------------|
| Asia | 1,689.3 | 1,674.7 | -14.6 |
| of which: | | | |
| China | 424.5 | 582.3 | +157.8 |
| Thailand | 296.6 | 329.3 | +32.7 |
| Philippines | 46.0 | 49.7 | +3.7 |
| Singapore | 222.3 | 223.8 | +1.5 |
| Vietnam | 23.5 | 16.3 | -7.2 |
| Indonesia | 94.2 | 82.6 | -11.6 |
| Taiwan | 80.3 | 60.5 | -19.8 |
| Hong Kong | 161.6 | 139.8 | -21.9 |
| India | 57.8 | 26.0 | -31.8 |
| Malaysia | 98.1 | 56.1 | -42.0 |
| South Korea | 146.2 | 84.9 | -61.3 |

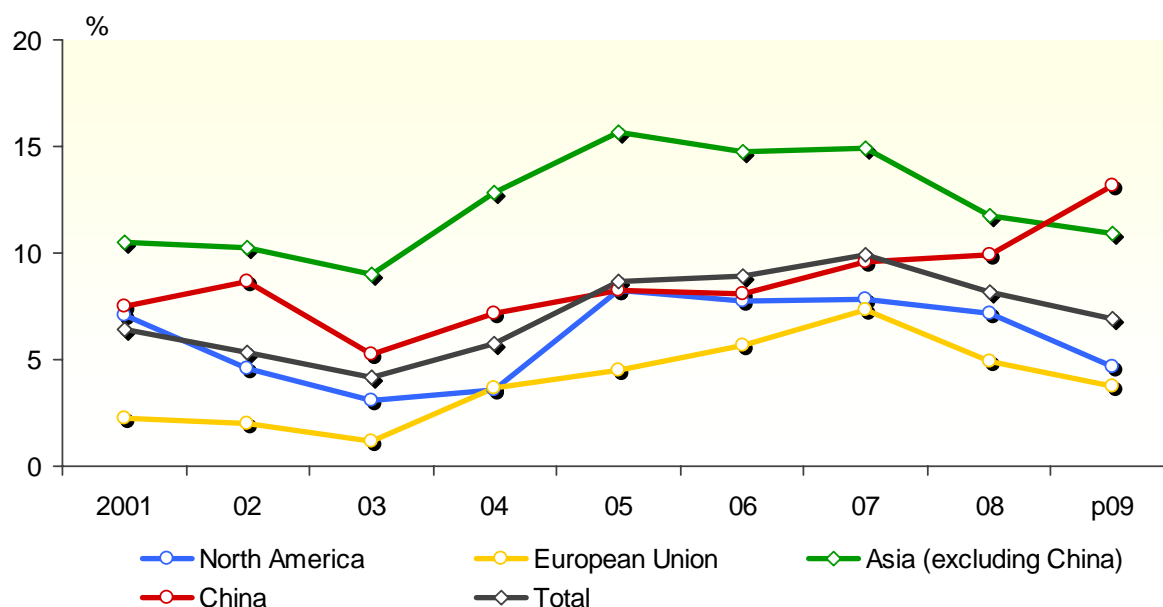
Looking at receipts from China by industry, those in the transport equipment industry have been increasing, reflecting the growth in local production and sales of cars and car-related parts by local subsidiaries of Japanese car manufacturers.

Figure 3 for Box 2: Direct Investment Income Receipts from Subsidiaries in China (By Industry)



Comparing the rates of return on direct investment across regions, the rate rose for China, but fell for all other major regions.

Figure 4 for Box 2: Rate of Return on Outward Direct Investment (By Region)



Note: The rate of return on outward direct investment is calculated as direct investment income receipts in a year divided by the outward direct investment position as of the end of the previous year.

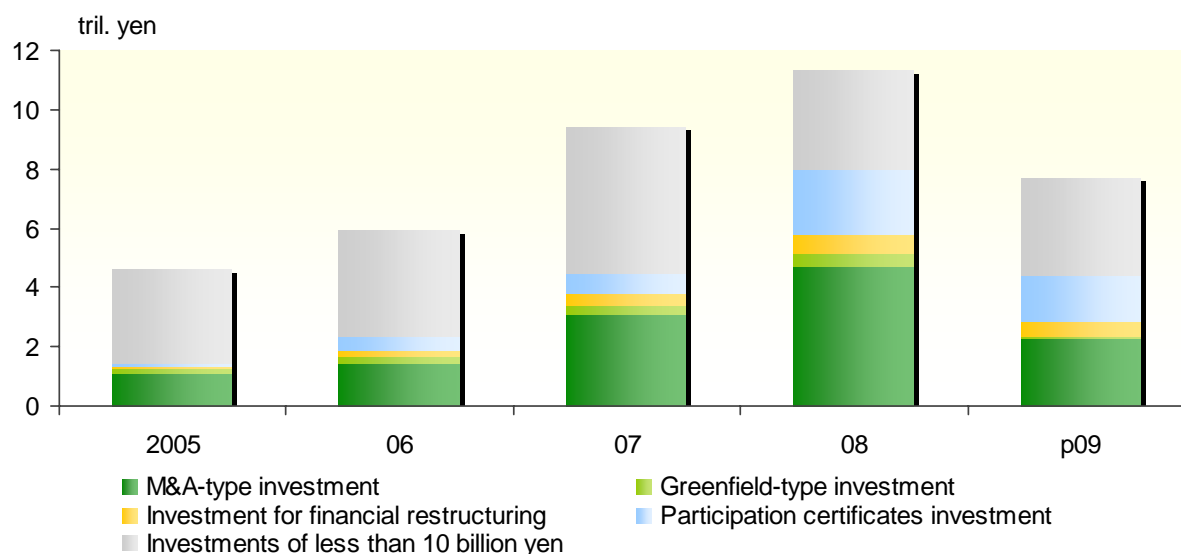
Box 3. Classification of Direct Investment by Type of Investment

In order to clarify the purposes of direct investments, it is useful to focus on how the invested capital is ultimately used.^{16 17} To this end, direct investments made in 2009 are classified into the following categories: (1) "greenfield-type investment," that is, investments that increase tangible fixed assets such as factories and other facilities in the ultimate investee enterprises; (2) "M&A-type investment," that is, investments that do not increase tangible fixed assets, such as the acquisition of shares; and (3) "investment for financial restructuring," that is, investments used to repay debts.

Features of Outward Direct Investment in 2009

- (1) Outward direct investments made by Japanese companies (transaction value)¹⁸ decreased by about 30 percent on a year-on-year basis reflecting the global economic slowdown.
- (2) Regarding M&A-type investments, while some acquisitions by food and pharmaceutical industries were observed, capital participations by financial institutions and investments in the mining industry by trading companies decreased significantly on a year-on-year basis.
- (3) In addition, investments in participation certificates (issued by overseas SPCs for the purpose of boosting capital into Japanese financial institutions) remained at a high level.

Figure 1 for Box 3: Outward Direct Investment by Type of Investment (On a Transaction Value Basis)



Note: Investments of 10 billion yen or more accounted for 31.4 percent (on a transaction value basis) of total outward direct investment in 2005, 40.1 percent in 2006, 47.7 percent in 2007, 70.6 percent in 2008, and 57.8 percent (preliminary) in 2009.

¹⁶ For details of the definitions of types of investment, see "Japan's Balance of Payments for 2005" released on August 18, 2006, on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

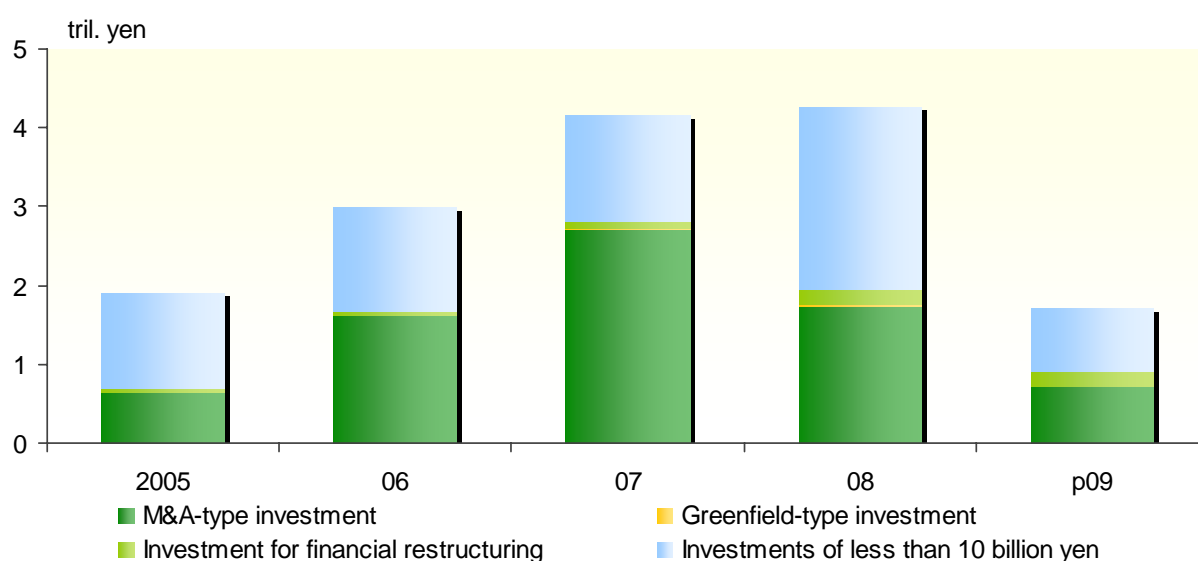
¹⁷ It should be noted that because the analysis in this Box focuses on investments of at least 10 billion yen in equity capital, results should be interpreted allowing for a margin error. Investments in corporate-type investment trusts and participation certificates are included in direct investment.

¹⁸ The gross value of equity capital transactions, from which withdrawals are not deducted; therefore, figures given in this Box do not match those in the main text (III B. 1. Direct investment).

Features of Inward Direct Investment in 2009

- (1) Inward direct investments by foreign companies (transaction value) decreased by approximately 60 percent from the previous year.
- (2) The transaction value of M&A-type investments dropped significantly due to a lack of the kind of large-scale investments by financial institutions with the aim of expanding their business seen in the previous year.
- (3) While the transaction value of investments dropped in general, investments for financial restructuring remained at the previous year's level, reflecting capital injections in a wide range of industries including finance and insurance, and electrical machinery.

Figure 2 for Box 3: Inward Direct Investment by Type of Investment (On a Transaction Value Basis)



Note: Investments of 10 billion yen or more accounted for 35.9 percent (on a transaction value basis) of total inward direct investment in 2005, 56.0 percent in 2006, 67.7 percent in 2007, 45.6 percent in 2008, and 52.7 percent (preliminary) in 2009.

(Reference) Definitions of the Classification of Foreign Direct Investment by Investment Type

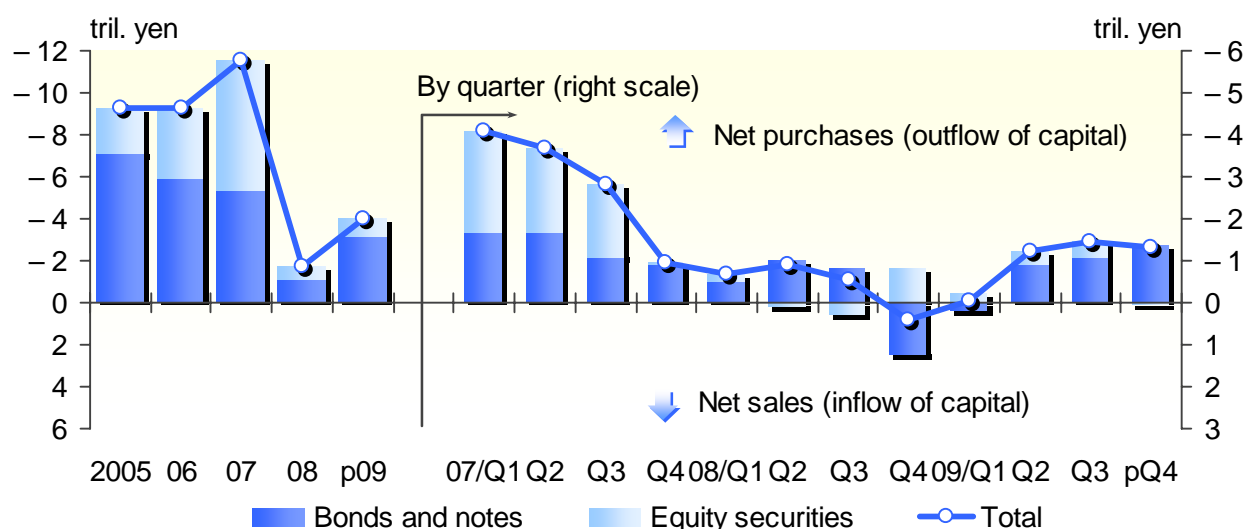
| Type | Definition | |
|---|---|---|
| (a) Initial M&A-type investment | It is a first-time investment by a direct investor in a direct investment enterprise, and . . . | . . . the invested capital is used for the acquisition of shares issued by an existing enterprise. |
| (b) Initial greenfield-type investment | | . . . the invested capital is used for the acquisition of shares issued by a newly established enterprise. |
| (c) Additional M&A-type investment | It is not a first-time investment by a direct investor in a direct investment enterprise, and . . . | . . . the invested capital is not used for the acquisition of tangible fixed assets of an enterprise (or, it is used for the acquisition of shares already issued by an existing enterprise). |
| (d) Additional greenfield-type investment | | . . . the invested capital is used for the acquisition of tangible fixed assets of an enterprise. |
| (e) Investment for financial restructuring | | . . . the invested capital does not increase the asset base of the enterprise and is used for debt repayment. |

Box 4. Recent Developments in Outward Portfolio Investment by Investment Trusts

Outward portfolio investment (in both equity securities and bonds and notes) by investment trusts recorded significant net purchases from 2005 through 2007, concentrating on the United States and the European Union against the background of rising foreign equity prices and the depreciation of the yen. However, in the fourth quarter of 2007, equity prices plunged globally as the subprime mortgage problem deepened and the yen started to appreciate. Individual investors' risk appetite declined considerably, and net purchases of foreign equity securities and bonds and notes by investment trusts dropped significantly in and after the fourth quarter of 2007. Furthermore, in the fourth quarter of 2008, after the failure of Lehman Brothers, net purchases turned negative.

After the beginning of 2009, as individual investors' confidence improved somewhat, buoyed by the global recovery in equity prices, individual investors started to purchase newly established funds. Against this background, outward portfolio investment turned positive again in the second quarter.

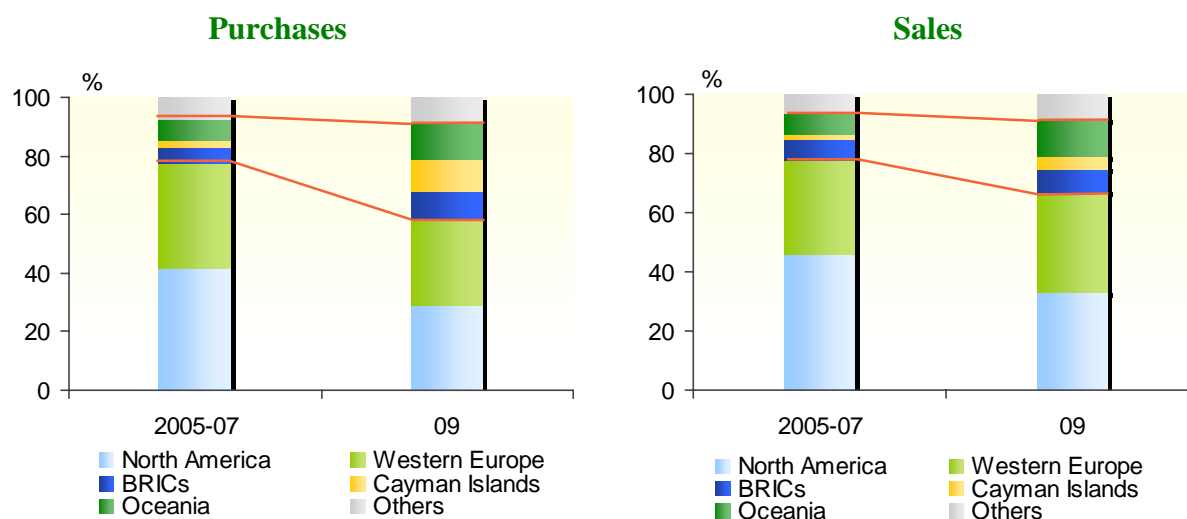
Figure 1 for Box 4: Outward Portfolio Investment by Investment Trusts (Equity Securities and Bonds and Notes)



The regional composition of purchases and sales by investment trusts in 2009 shows that the share of investments in the BRICs, Oceania, and the Cayman Islands increased as a result of active investments in those regions made by newly established emerging market funds, while investments in the United States and Europe contracted.

The following is a summary of trends in outward investment in equity securities and bonds and notes by region in 2009.

Figure 2 for Box 4: Regional Breakdown of Purchases and Sales by Investment Trusts (Equity Securities and Bonds and Notes)



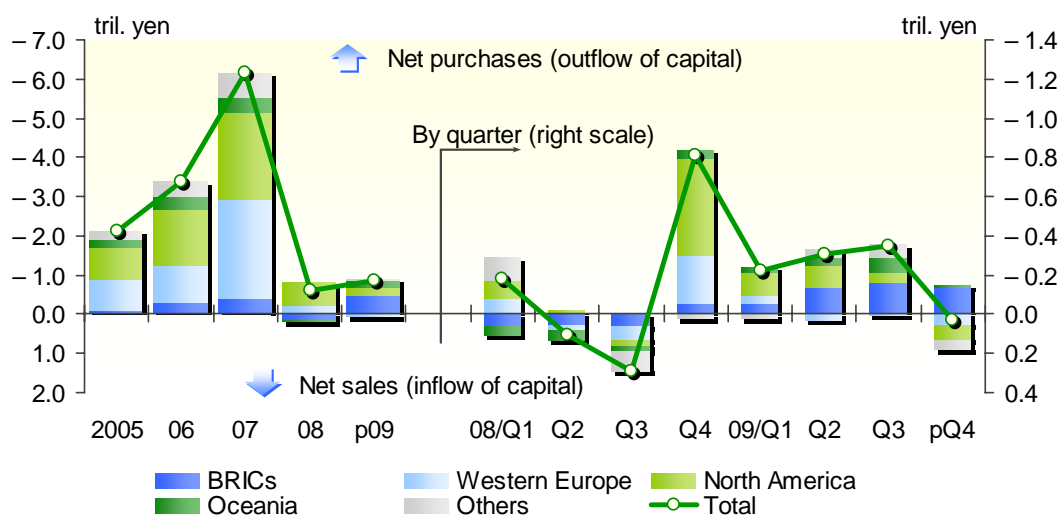
Note: Regional figures are estimated by the International Department of the Bank of Japan.

1. Outward Investment in Equity Securities

In the first quarter of 2009, net outward investment in equity securities turned positive, primarily because purchases by balanced investment funds of U.S. and European equities -- which picked up from the fourth quarter of 2008 against the background of the fall in global equity prices and the appreciation of the yen following the financial crisis -- continued. In the second and third quarters, net purchases increased, primarily due to investments made by newly established funds whose holdings included BRIC equities, REIT funds investing in developed countries, and funds investing in equities of a particular sector such as the financial and pharmaceutical industries.

However, while purchases of BRIC equities continued in the fourth quarter, net purchases of U.S. and European equities turned negative as a result of profit-taking and a shift by individual investors to currency-selective-type investment trust funds (assets purchased by currency-selective-type investment trust funds are recorded under "outward investment in bonds and notes").

Figure 3 for Box 4: Outward Investment in Equity Securities by Investment Trusts (By Region)



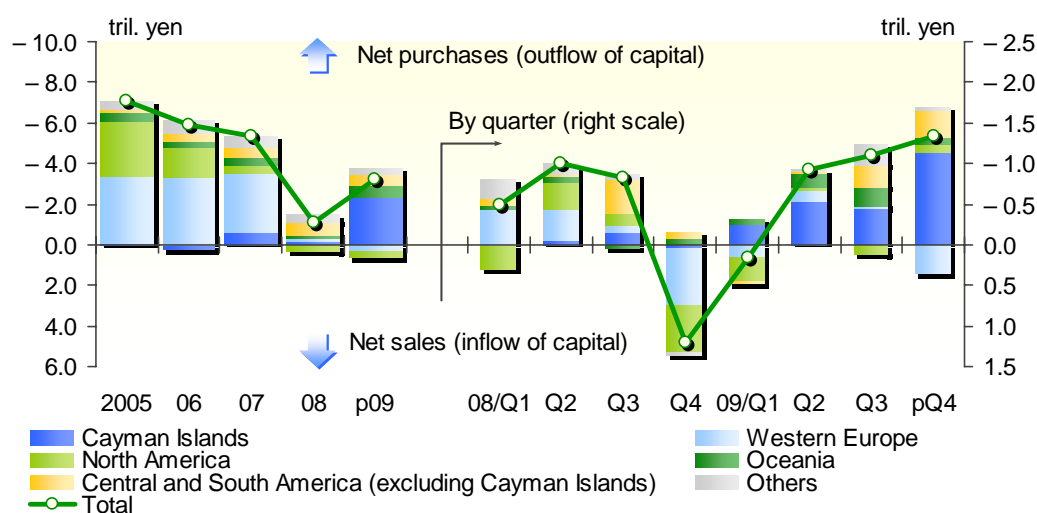
Note: Regional figures are estimated by the International Department of the Bank of Japan.

2. Outward Investment in Bonds and Notes

In the first quarter of 2009, net investment in bonds and notes by investment trusts turned negative, mainly because individual investors cancelled contracts with investment trusts investing in U.S. treasuries and European government bonds and also because some funds switched from foreign bonds to JGBs. However, from the second quarter, net investment in bonds and notes turned positive again and continued to increase, with funds flowing mainly to the Cayman Islands, other Central and South American countries, and Oceania.

With interest rates in developed countries low, individual investors, searching for higher returns, started to opt for currency-selective-type investment trust funds,¹⁹ which, in addition to the investment yield on the underlying asset, seek to earn currency hedge premiums on high-yielding currencies. Similarly, there were substantial purchases of funds investing in bonds in countries with high-yielding currencies such as emerging and commodity exporting countries.

Figure 4 for Box 4: Outward Investment in Bonds and Notes by Investment Trusts (By Region)



Note: Regional figures are estimated by the International Department of the Bank of Japan.

¹⁹ Many of these funds invest in mother funds registered in the Cayman Islands.

Box 5. Developments in Inward Investment in Bonds and Notes and Transaction with Repurchase Agreements

With tensions in global financial markets easing and the funding environment starting to stabilize after the beginning of 2009, net inward investment in equity securities and net outward portfolio investment through investment trusts also resumed. On the other hand, net inward investment in bonds and notes remained negative almost throughout until the end of 2009, when the funding environment further stabilized (Figure 1 for Box 5). In addition, the share of trading volume in Japanese bonds accounted for by foreign investors decreased significantly (Figure 2 for Box 5).

Commenting on this situation, participants of the Japanese bond market noted that highly leveraged transactions by foreign investors remained particularly slack. A representative investment strategy that foreign investors had been pursuing was to raise funds far in excess of their own capital and seek to make large profits by taking advantage of movements of bond prices toward their theoretical value when these were over- or undervalued relative to their theoretical value or of the widening or narrowing of price differences among bond issues that move in parallel (for details on some of the strategies pursued by foreign investors, see "Japan's Balance of Payments for 2003," Box 7).

The above-mentioned funding activities by foreign investors are also reflected in the balance of payments statistics.

Figure 1 for Box 5:
Inward Investment in Bonds and Notes (On a Cumulative Basis from January 1996)

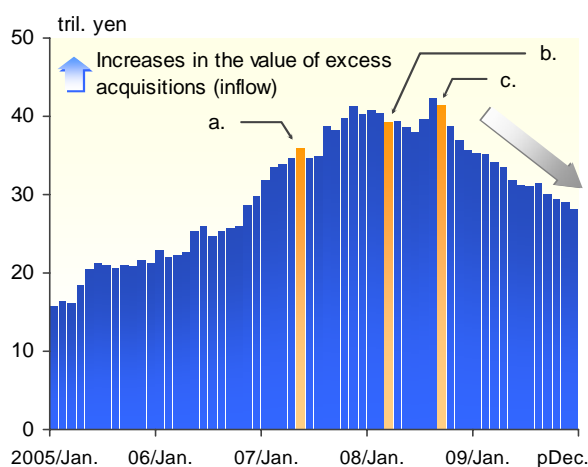
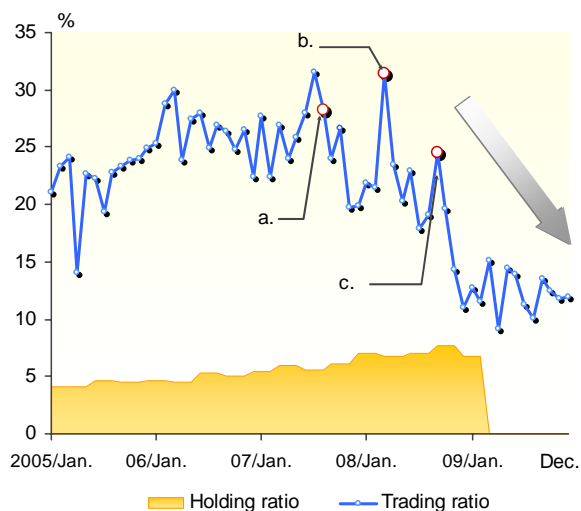


Figure 2 for Box 5:
Percentage of the Value of Japanese Bonds Traded by Foreign Investors



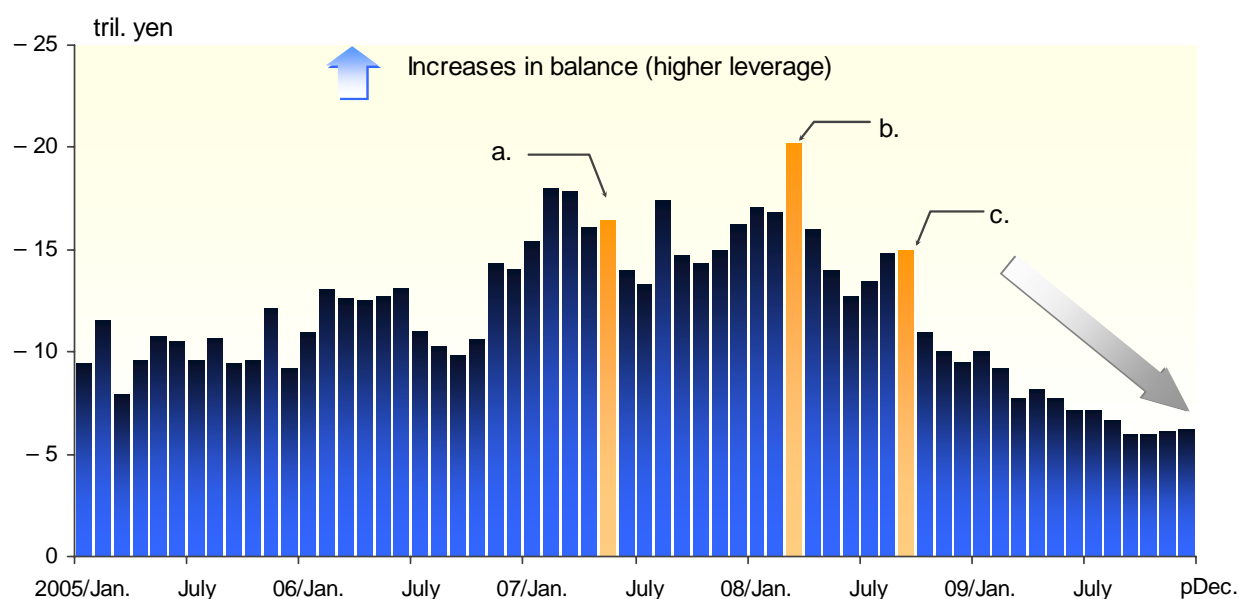
Note: The letters in the chart correspond to the following events:

- a. A major European bank stopped accepting customers' cancellation of contracts with some of the funds under its management.
- b. A major U.S. investment bank went effectively bankrupt.
- c. A major U.S. investment bank went bankrupt.

Sources: Ministry of Finance; Japan Securities Dealers Association (percentages do not include trading by bond dealers).

Foreign investors, when raising funds, often use repurchase agreements (repos) in order to increase their leverage. Foreign investors' repo transactions are reflected in the balance of payments statistics under "transactions with repurchase agreements (assets)," a subcomponent of "other investment," based on reports made by resident counterparties, mostly Japanese securities companies. "Transactions with repurchase agreements (assets)" had been at a high level from 2005, but have plunged since 2008 (Figure 3 for Box 5).

Figure 3 for Box 5: Transactions with Repurchase Agreements (Assets) (On a Cumulative Basis from January 1996)



Note: Including transactions relating to foreign currency-denominated securities, the amount of which is insignificant.

The global risk aversion that arose after the financial crisis gradually eased throughout 2009. As a result, both inward investment in equity securities on which adequate returns were expected with relatively low leverage, and outward portfolio investment by individual investors with ample funds at hand have started to show signs of recovery. On the other hand, the use of investment strategies mentioned above -- which require high leverage to yield adequate returns -- declined as part of the continuing global deleveraging, and this seems to have been a cause for the slowdown in inward investment in bonds and notes by foreign investors.

Financing Through Repurchase Agreements

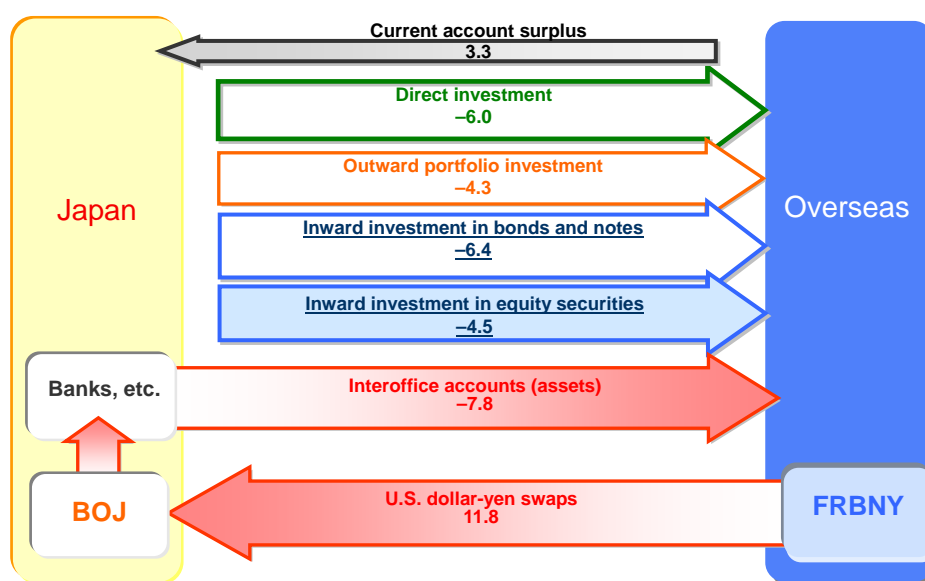
There are several methods that investors can use to raise funds, such as borrowing and bond issuance. A repurchase agreement is one such method, which is generally used to increase leverage. Under a repurchase agreement, securities are purchased outright and are sold with a buy-back agreement at the same time. For such a transaction, the investor only needs to have in hand the amount of funds equal to the haircut (collateral margin) required to sell the securities under the repurchase agreement. Through a repurchase agreement, the investor can raise investment funds in multiples of his/her funds at hand to build up large positions. On the other hand, the supplier of the funds, which is generally a securities company, enters into the repurchase agreement as a buyer to satisfy the investor's demand for funds. Therefore, repurchase agreements are considered to have a close association with leverage trends.

Box 6. Cross-Border Flows of Funds in 2009

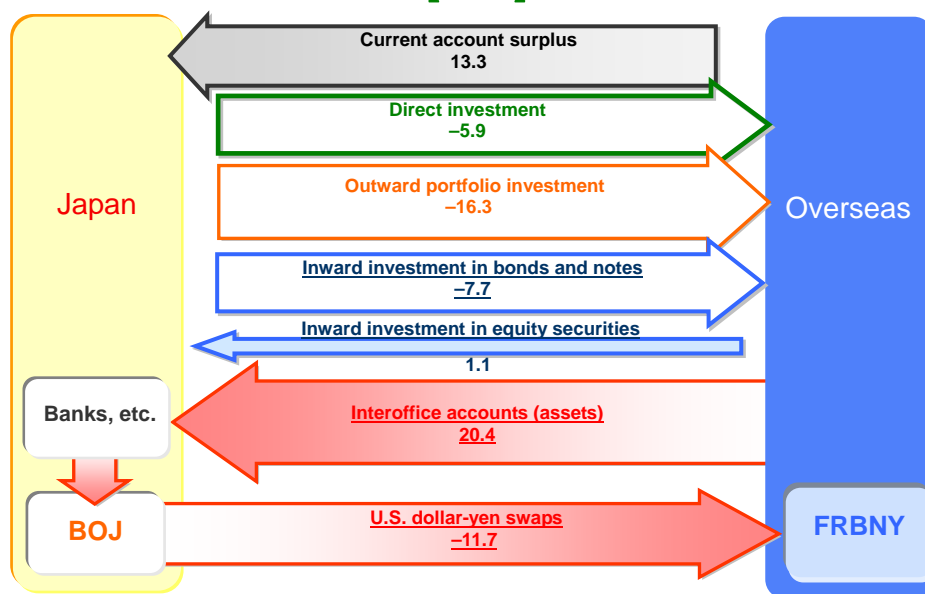
Developments in major balance of payments items during 2009 indicate that the tensions that had heightened sharply in the financial markets since the fall of 2008 have eased.

As conditions for obtaining U.S. dollar funds improved, banks started to withdraw funds (inflow) they had supplied to their overseas branches through interoffice accounts. In addition, some foreign investors started to invest in risk assets again and net investment in Japanese equity securities by foreign investors turned positive (inflow), albeit by a small margin.

【Sept.–Dec. 2008】



【2009】



Notes: 1. Unit: trillion yen.

2. The arrows indicate the net flow of funds (inflow/outflow). Underlined items indicate a net reduction in assets or liabilities. The figures for the U.S. dollar-yen swaps are based on public sector deposits (including deposits other than those of the Federal Reserve Bank of New York [FRBNY]).

However, regarding inward portfolio investments, the value of Japanese equity securities purchased by foreign investors was still lower than in 2007 and the net sale of bonds and notes, which was already seen in 2008, continued.

Also, the surpluses in the goods and services and income accounts decreased significantly.

