



BOJ ***Reports & Research Papers***

Japan's Balance of Payments for 2010

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International Department

Bank of Japan

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Contents

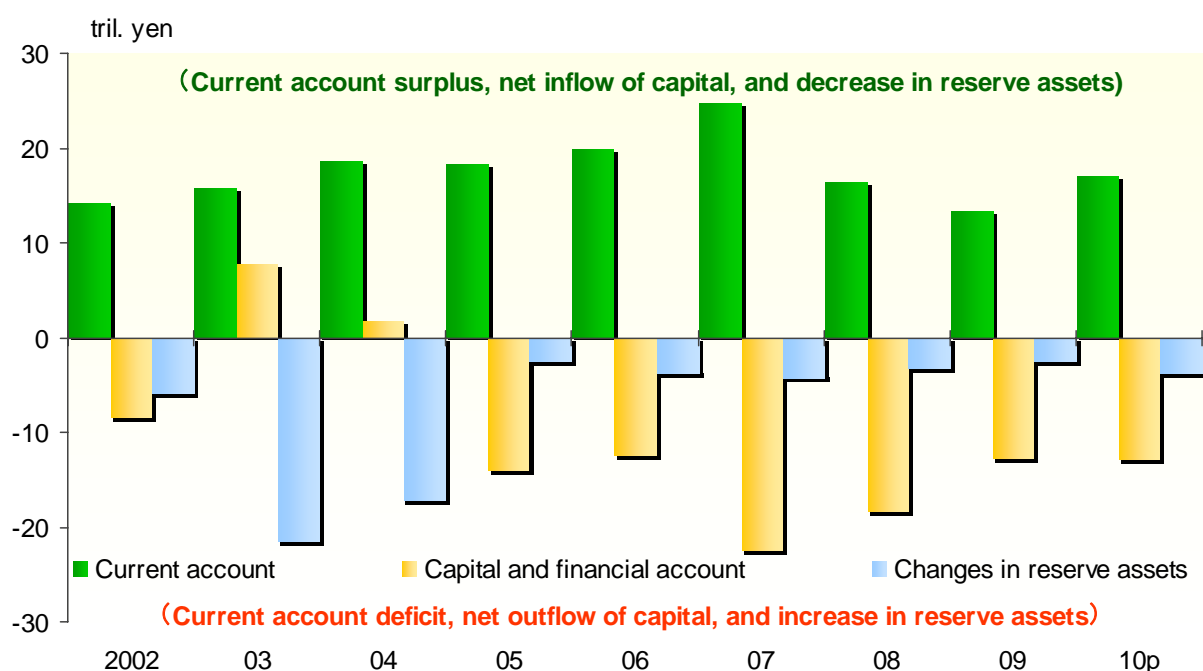
	Page
I. Summary	1
II. Current Account	3
A. Summary	3
B. Developments in the Main Components	4
1. Goods	4
a. Exports	5
b. Imports	7
2. Services	10
a. Transportation	11
b. Travel	12
c. Other services	14
3. Income	15
a. Direct investment income	16
b. Portfolio investment income	17
4. Current transfers	18
III. Capital and Financial Account	19
A. Summary	19
B. Developments in the Main Components	20
1. Direct investment	20
a. Outward direct investment (assets)	21
b. Inward direct investment (liabilities)	23
2. Portfolio investment	25
a. Outward portfolio investment (assets)	25
b. Inward portfolio investment (liabilities)	31
3. Financial derivatives	34
4. Other investment	35
Boxes	
Box 1	Factors for Discrepancies in Bilateral Trade Balance
Box 2	Developments in the Overseas Activities of Japanese Companies Reflected in "Other Services"
Box 3	Features of the Income from Outward Direct Investment in 2010
Box 4	Recent Trends in Workers' Remittances
Box 5	Cross-Border Flows of Funds in 2010
Reference	Data Underlying Figures in Boxes 2, 3, and 4

I. Summary

Japan's current account surplus increased for the first time in three years to 17.1 trillion yen in 2010, up from 13.3 trillion yen in 2009. The capital and financial account deficit (net outflows) was 12.9 trillion yen in 2010, more or less unchanged from 12.6 trillion yen in 2009. Reserve assets continued to increase, rising by 3.8 trillion yen in 2010, compared to an increase of 2.5 trillion yen in 2009, due to a resumption of the foreign exchange intervention operations and an increase in investment income on reserve assets. Balance of payments data for 2010 and the fourth quarter of 2010 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 2010 shows that the current account surplus earned is mirrored by reverse flows abroad in the form of a capital and financial account deficit (net outflows) and an increase in reserve assets.

Figure 1: Balance of Payments



Notes: 1. "p" denotes preliminary data throughout this report.

2. Preliminary figures of Japan's balance of payments for 2010 were made public on February 8, 2011.

Table 1: Japan's Balance of Payments

bil. yen

	2008	2009	2010p	Change from the previous year	Highlights
Current account	16,379.8	13,286.7	17,080.1	+3,793.4	The surplus increased for the first time in three years, mainly due to an increase in the trade surplus.
Goods and services	1,889.9	2,124.9	6,520.1	+4,395.3	The surplus increased, mainly due to an increase in the trade surplus.
Goods	4,027.8	4,038.1	7,996.9	+3,958.9	The surplus doubled due to an increase in exports reflecting a recovery in the world economy.
Exports	77,334.9	50,857.2	63,920.3	+13,063.2	Exports increased for the first time in three years, reflecting a recovery in the world economy.
Imports	73,307.1	46,819.1	55,923.4	+9,104.3	Imports increased for the first time in two years, due to a recovery in domestic production and a rise in natural resource prices.
Services	-2,137.9	-1,913.2	-1,476.8	+436.4	The deficit decreased for the third consecutive year.
Income	15,841.5	12,325.4	11,641.4	-684.0	The surplus decreased for the third consecutive year.
Current transfers	-1,351.5	-1,163.5	-1,081.4	+82.0	Continued to register a deficit.
Capital and financial account	-18,389.5	-12,644.7	-12,858.6	-213.9	Net outflows remained more or less unchanged from the previous year.
Of which:					
Outward direct investment	-13,232.0	-6,989.6	-4,979.2	+2,010.4	Net outflows of outward direct investment decreased, mainly due to a decrease in reinvested earnings.
Inward direct investment	2,524.6	1,117.1	-144.7	-1,261.8	Net inward direct investment turned slightly negative (outflows) due to a decrease in reinvested earnings and to withdrawals.
Outward portfolio investment	-13,978.2	-16,303.6	-25,796.8	-9,493.2	Net purchases (outflows) increased, primarily because net purchases of foreign bonds and notes reached a record high.
Equity securities	-6,414.9	-3,030.2	-2,015.3	+1,014.9	
Bonds and notes	-7,329.9	-13,173.6	-24,045.3	-10,871.7	
Money market instruments	-233.4	-99.7	263.8	+363.5	
Inward portfolio investment	-10,343.6	-4,951.3	9,608.4	+14,559.7	Turned to net purchases (inflows) because investment in bonds and notes in Japan turned positive (inflows) for the first time in three years and net purchases (inflows) of Japanese money market instruments increased.
Equity securities	-7,464.1	964.2	2,918.8	+1,954.6	
Bonds and notes	-4,419.1	-7,711.7	447.1	+8,158.7	
Money market instruments	1,539.6	1,796.2	6,242.5	+4,446.4	
Financial derivatives	2,456.2	948.7	1,041.3	+92.6	Continued to register net inflows.
Other investment	14,510.0	13,870.3	7,845.1	-6,025.3	Net inflows decreased, mainly because the collection of funds by banks from their overseas branches, which had been seen in the previous year, ceased.
Changes in reserve assets	-3,200.1	-2,526.5	-3,792.5	-1,266.0	Reserve assets continued to increase.
Errors and omissions	5,209.8	1,884.4	-429.0	-2,313.5	
Ratio of current account to nominal GDP (%)	3.2	2.8	3.6		

Notes: 1. Negative figures represent capital outflows. Negative figures in "changes in reserve 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 increased for the first time in three years, mainly due to an increase in the trade surplus. The trade surplus doubled due to an increase in exports reflecting a recovery in the world economy. The deficit in the balance of trade in services decreased for the third consecutive year. The surplus in the balance of income also decreased for the third consecutive year.

Figure 2: Current Account

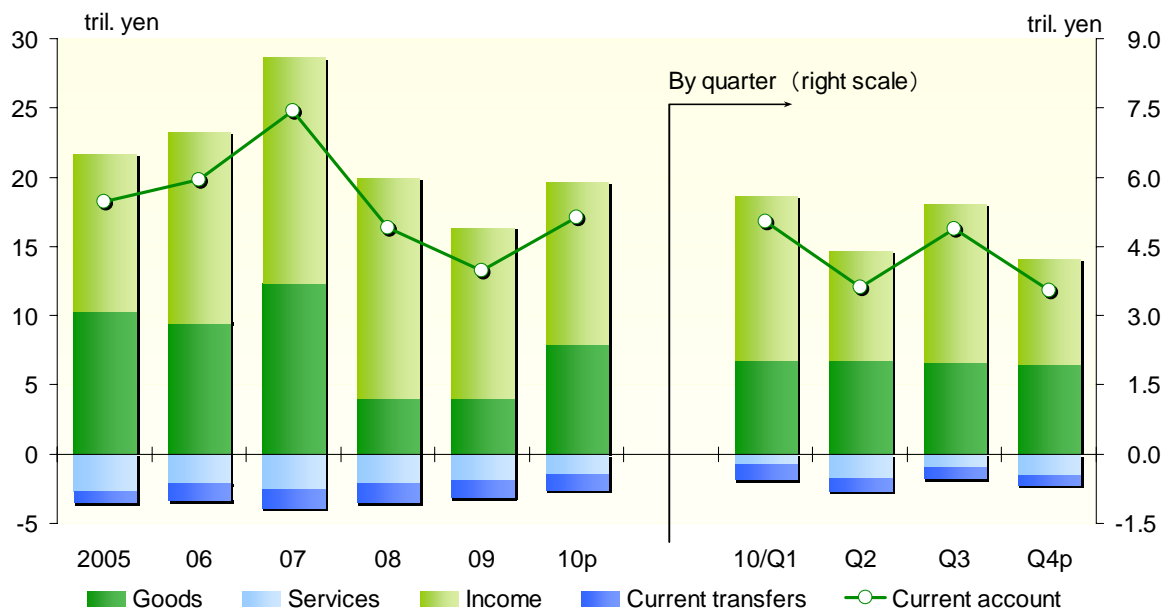


Table 2: Current Account

bil. yen			
	2009	2010p	Change from the previous year
Current account	13,286.7	17,080.1	+3,793.4
Goods and services	2,124.9	6,520.1	+4,395.3
Goods	4,038.1	7,996.9	+3,958.9
Exports	50,857.2	63,920.3	+13,063.2
Imports	46,819.1	55,923.4	+9,104.3
Services	-1,913.2	-1,476.8	+436.4
Income	12,325.4	11,641.4	-684.0
Current transfers	-1,163.5	-1,081.4	+82.0

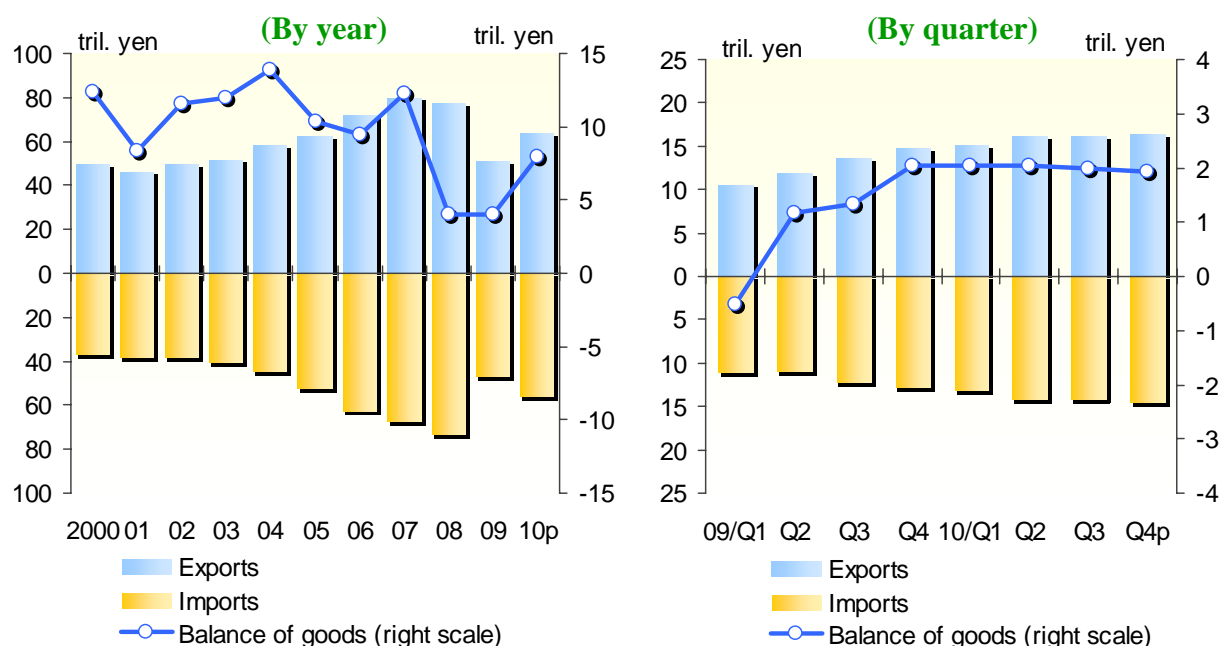
B. Developments in the Main Components

1. Goods¹

The trade surplus doubled to 8.0 trillion yen in 2010, up from 4.0 trillion yen in 2009, due to an increase in exports reflecting a recovery in the world economy. Exports increased for the first time in three years, while imports increased for the first time in two years.

In this report, figures for exports and imports by region and type of goods are based on the *Trade Statistics of Japan*.²

Figure 3: Exports and Imports



¹ See Box 1, "Factors for Discrepancies in Bilateral Trade Balance."

² 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	Exports: FOB
	Imports: CIF	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	When ownership changed
	Imports: When imported goods are officially recognized	

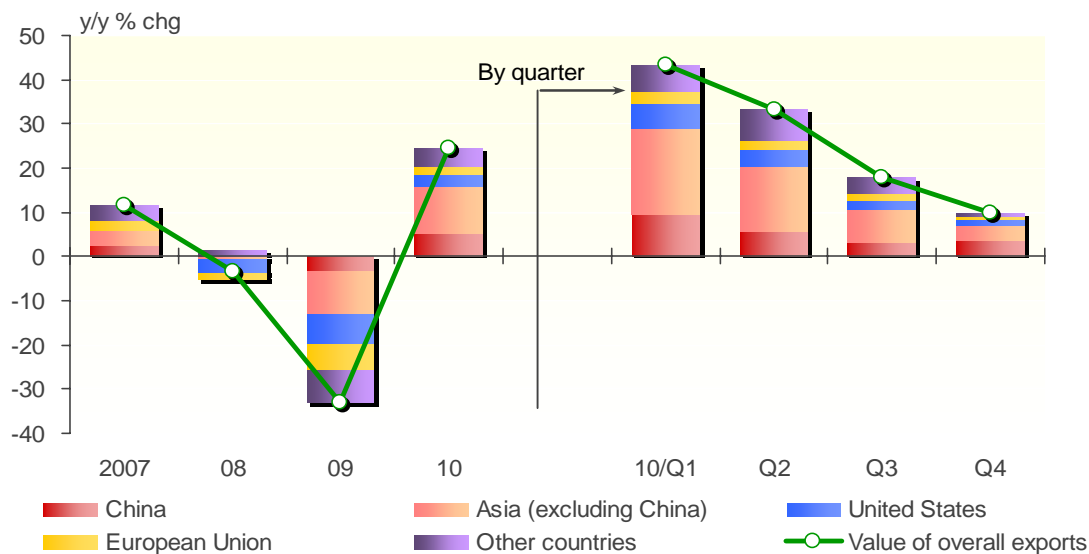
Note: FOB stands for "free on board" and CIF stands for "cost, insurance, and freight." On an FOB basis, the price of goods at the border of the exporting country is recorded. On a CIF basis, freight charges and insurance premiums are recorded in addition to the price of goods.

a. Exports

Exports increased for the first time in three years to 63.9 trillion yen in 2010, up from 50.9 trillion yen in 2009, reflecting a recovery in the world economy. By region, exports to Asia including China increased significantly, while exports to the United States and the European Union recovered.

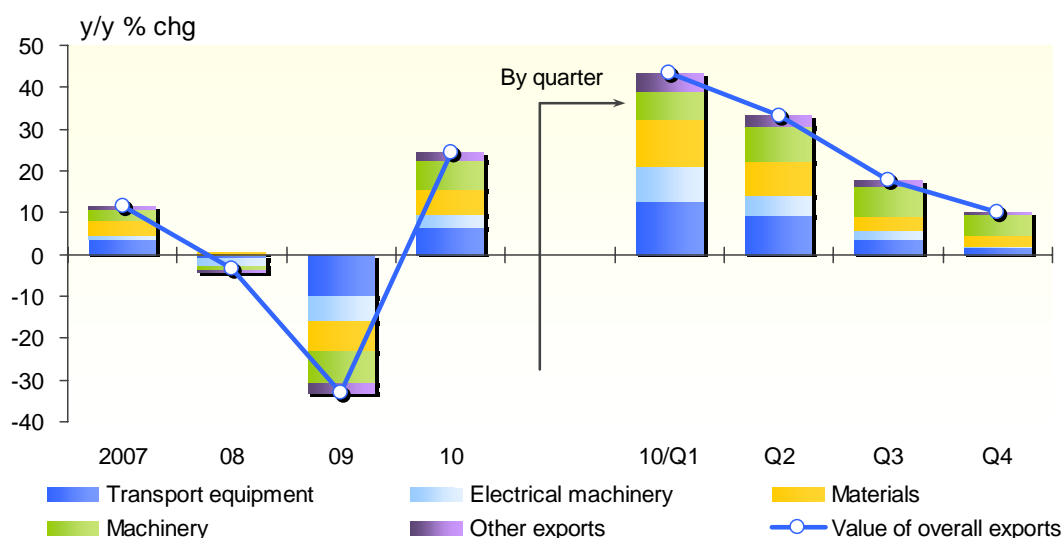
By item, exports of all major items increased. Exports of transport equipment increased significantly, reflecting growing markets in China and the ASEAN countries and a recovery in sales in the United States. Exports of machinery, particularly industrial machinery to Asia and construction machines to resource-rich countries, increased.

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	+24.4	+18.9	+12.9	+29.0	+27.9	+10.1	+128.6	+25.2	+27.3	+19.3
(Contribution to overall export growth)	—	+3.0	+1.6	+15.7	+5.3	+0.4	+0.7	+1.4	+0.7	+0.3

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

%, % points

	y/y change		Major factors
		Contribution to overall export growth	
Total exports	+24.4	—	—
Of which:			
Machinery	+37.7	+6.7	Exports of industrial machinery such as semiconductor machinery and metalworking machinery increased as investment in equipment rose in Asia. Moreover, with natural resource prices rising, exports of construction machines especially to resource-rich countries increased due to an increase in demand.
Transport equipment	+28.8	+6.3	Exports to the United States increased, mainly due to a recovery in local sales of motor vehicles. Exports of motor vehicles and parts of motor vehicles to China increased as its policy measures boosted the market.
Materials	+21.7	+6.0	Exports of iron and steel products and plastic materials for motor vehicles, especially to China and the ASEAN countries, increased.
Electrical machinery	+17.5	+3.5	Exports of electronic components (semiconductors etc. and electrical apparatus) to Asia, particularly to the NIEs and China, increased reflecting growing global demand for information and telecommunications apparatus and visual apparatus.

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

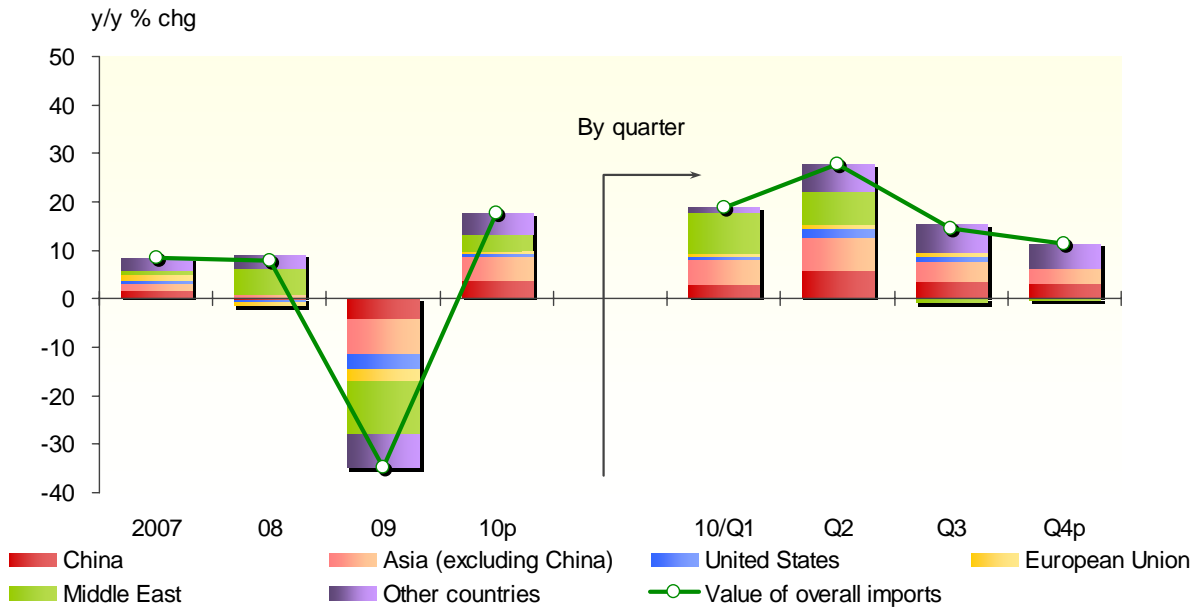
Source: Ministry of Finance, *Trade Statistics of Japan*.

b. Imports

Imports increased for the first time in two years to 55.9 trillion yen in 2010, up from 46.8 trillion yen in 2009, due to a recovery in domestic production and a rise in natural resource prices.

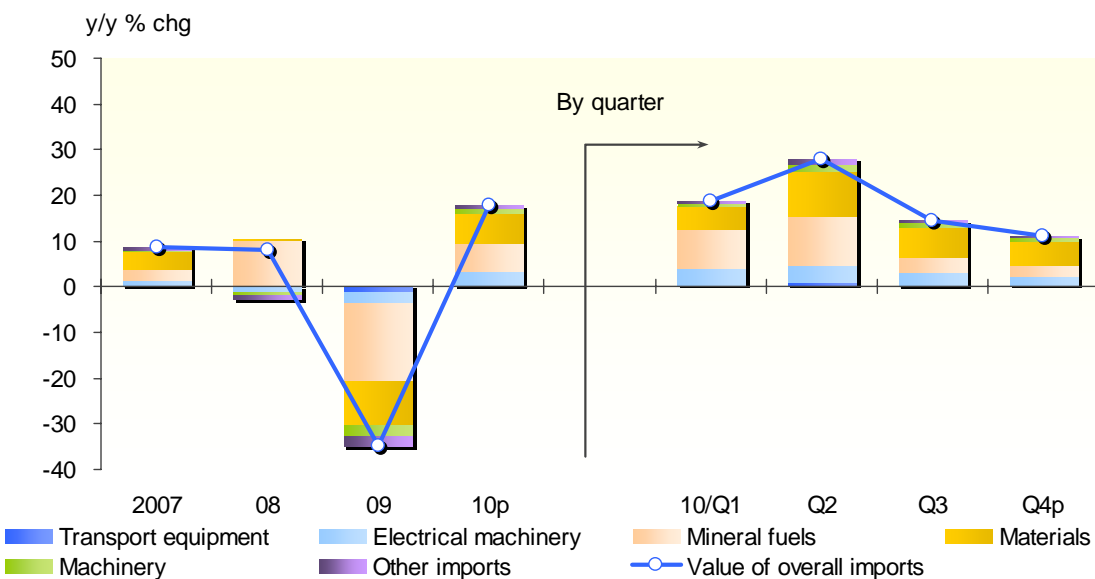
Imports of materials including iron and steel products and nonferrous metals increased reflecting a recovery in domestic production. Imports of mineral fuels including crude oil also increased reflecting a rise in natural resource prices.

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

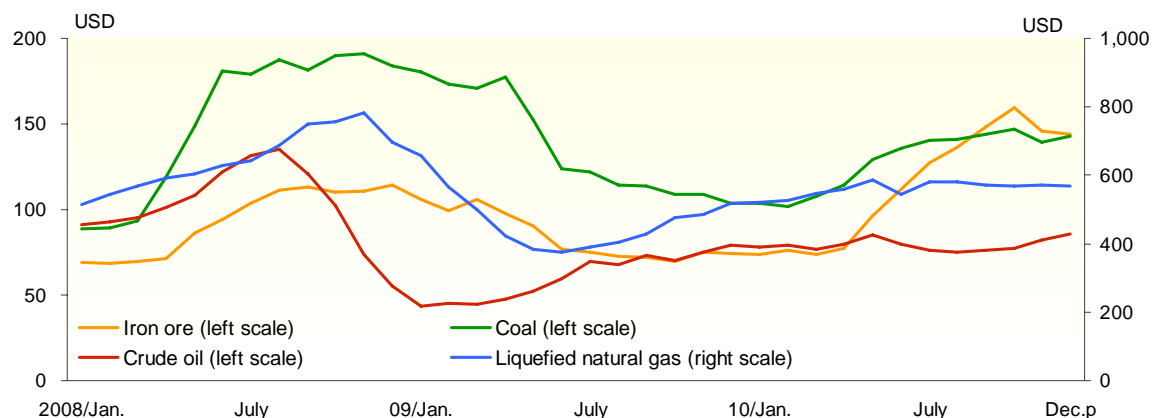
	Total imports	United States	European Union	Asia	Of which: China	Middle East	Russia	Central and South America	Oceania	Africa
Year-on-year change	+17.7	+7.2	+5.4	+19.5	+17.3	+20.2	+70.7	+31.3	+21.0	+20.6
(Contribution to overall import growth)	—	+0.8	+0.6	+8.7	+3.8	+3.4	+1.1	+1.1	+1.4	+0.3

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	+17.7	—	—
Of which:			
Materials	+19.2	+6.5	Imports of "iron ore and concentrates" and nonferrous metals increased due to a recovery in domestic production reflecting growing domestic and overseas demand. In addition, a rise in natural resource prices contributed to the increase in the value of overall imports.
Mineral fuels	+22.2	+6.1	Imports of crude oil, liquefied natural gas, and coal increased due to a rise in natural resource prices as well as growing energy demand as a result of the recovery in domestic production.
Electrical machinery	+24.4	+3.1	Imports from China and the ASEAN countries increased due to growing domestic demand for visual apparatus. Imports of telecommunications apparatus from China and the NIEs also increased due to growing demand for high-end mobile phones.
Machinery	+14.2	+1.2	Imports of computers and units, including tablet computers, and parts of computer increased.

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 2010

The average foreign exchange rates applied to the calculation of customs values³ for 2010 were 88.09 yen per dollar (a 5.8 percent yen appreciation from 2009) and 117.25 yen per euro (a 9.9 percent yen appreciation from 2009).⁴ The yen's appreciation 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)

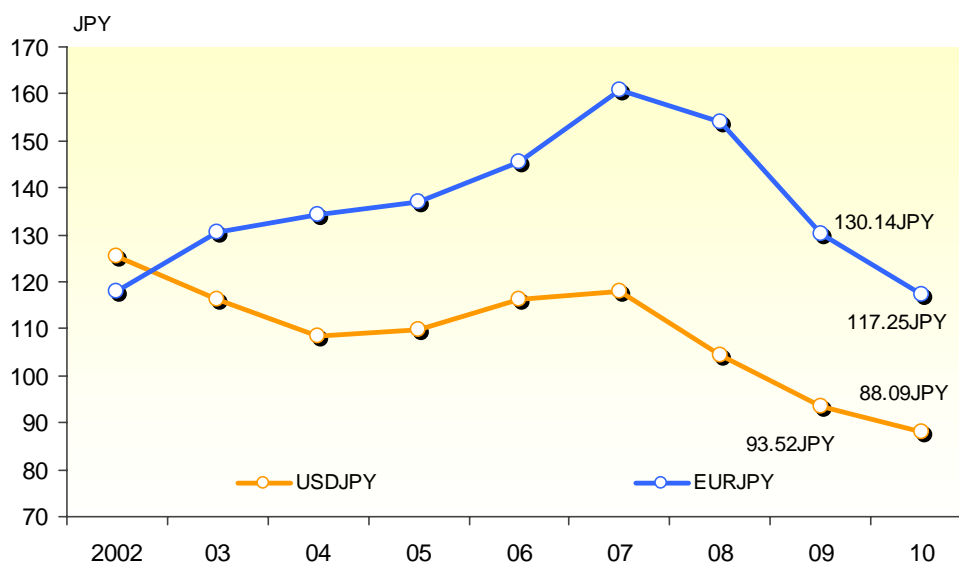
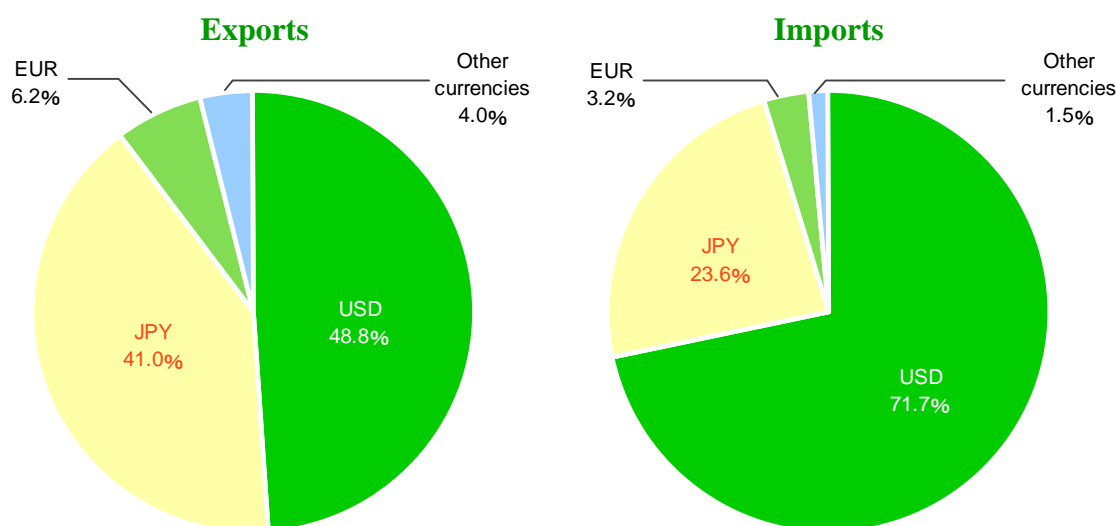


Figure 2 for Reference: Exports and Imports by Settlement Currency



Source: Ministry of Finance.

³ 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 averages of foreign exchange rates for the week which corresponds to two weeks before the date of import declaration, and are posted weekly.

⁴ 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 for the third consecutive year to 1.5 trillion yen in 2010, down from 1.9 trillion yen in 2009. Every component, that is, transportation, travel, and other services contributed to the decrease in the deficit.

Figure 9: Services

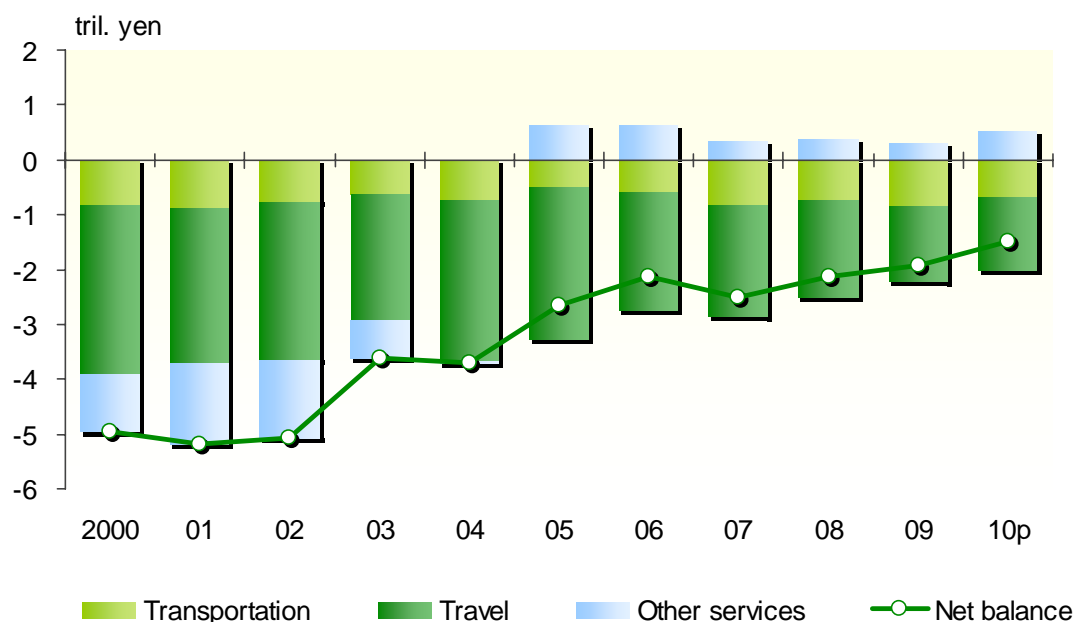


Table 7: Balance of Trade in Services

bil. yen

	2009	2010p	Change from the previous year	Major factors
Services	-1,913.2	-1,476.8	+436.4	—
Transportation	-838.3	-671.2	+167.2	The deficit decreased since sea freight receipts for exports and transportation between foreign countries increased reflecting the recovery in cargo movements.
Travel	-1,388.6	-1,332.9	+55.7	The deficit decreased amid an increase in both credits and debits as the number of both foreign visitors to Japan and Japanese traveling abroad increased, with the number of foreign visitors reaching a record high.
Other services	313.7	527.2	+213.5	The surplus increased mainly due to an increase in credits of royalties and license fees.

a. Transportation

The deficit in the balance of transportation decreased to 0.7 trillion yen in 2010, down from 0.8 trillion yen in 2009, mainly due to an increase in the surplus in sea freight.

Sea freight receipts for exports and transportation between foreign countries increased throughout the year, reflecting the recovery in cargo movements, while payments for imports increased consistently from early spring. As a result, the surplus in sea freight increased in 2010.

Regarding passenger air transport, fare payments by passengers to foreign airlines increased, reflecting the larger number of Japanese traveling abroad. On the other hand, receipts decreased reflecting a decrease in the number of flights offered by Japanese airlines.

Figure 10: Transportation

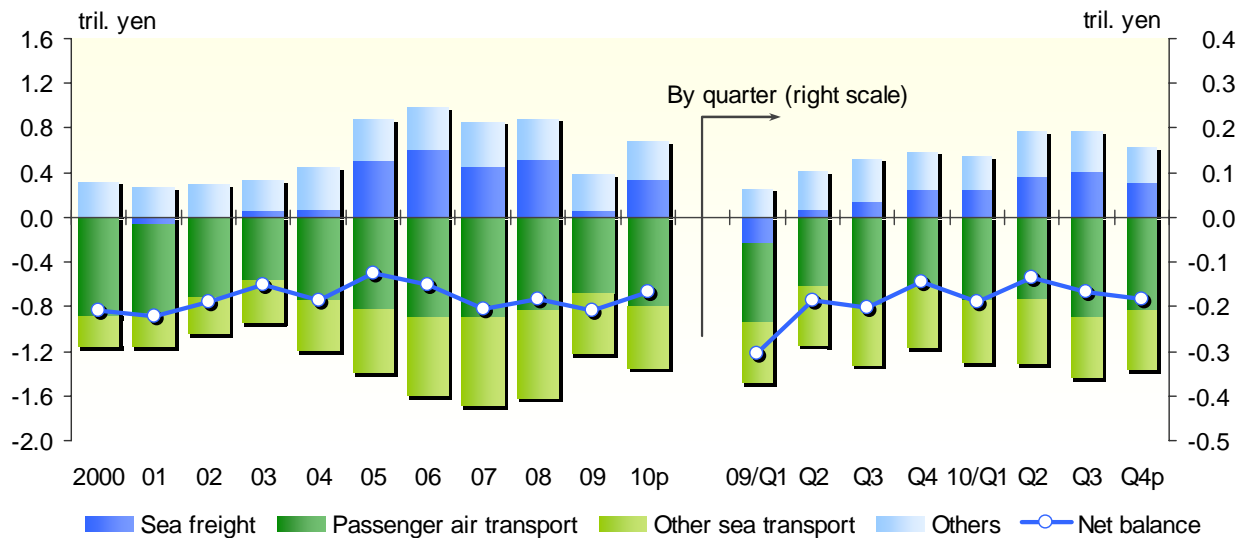


Table 8: Balance of Transportation

bil. yen

	2009	2010p	Change from the previous year	Major factors
Transportation	-838.3	-671.2	+167.2	—
Of which:				
Sea transport	-479.3	-211.6	+267.7	—
Of which:				
Freight	60.4	338.3	+277.9	Receipts for exports and transportation between foreign countries as well as payments for imports increased as cargo movements picked up reflecting the recovery in world economic conditions.
Credit	2,011.5	2,412.5	+401.0	
Debit	1,951.1	2,074.2	+123.0	
Other sea transport	-535.7	-547.1	-11.4	Debits increased as terminal charges paid by shipping companies at ports increased due to the recovery in cargo movements.
Credit	201.3	225.4	+24.1	
Debit	736.9	772.4	+35.5	
Air transport	-354.0	-452.5	-98.4	—
Passenger	-685.9	-801.2	-115.3	Payments to foreign airlines increased reflecting the larger number of Japanese traveling abroad. Receipts decreased reflecting the decrease in the number of flights offered by Japanese airlines.
Credit	205.3	186.1	-19.2	
Debit	891.2	987.3	+96.1	
Freight	79.1	77.6	-1.5	Both credits and debits increased reflecting the increase in air cargo volumes and the rise in air freight rates due to an upward adjustment in fuel surcharges.
Credit	226.1	252.1	+25.9	
Debit	147.1	174.5	+27.4	
Other air transport	252.8	271.2	+18.4	The surplus increased as the agency fees that foreign airlines paid their agents in Japan increased due to the increase in the number of foreign visitors to Japan.
Credit	305.6	334.3	+28.7	
Debit	52.8	63.2	+10.4	

b. Travel

Credits of travel increased for the first time in two years and debits increased for the first time in four years,⁵ as the number of both Japanese traveling abroad and foreign visitors to Japan increased. Against this background, the deficit decreased to 1.3 trillion yen, down from 1.4 trillion yen in 2009, as the number of foreign visitors registered a record high in 2010.

Figure 11: Travel

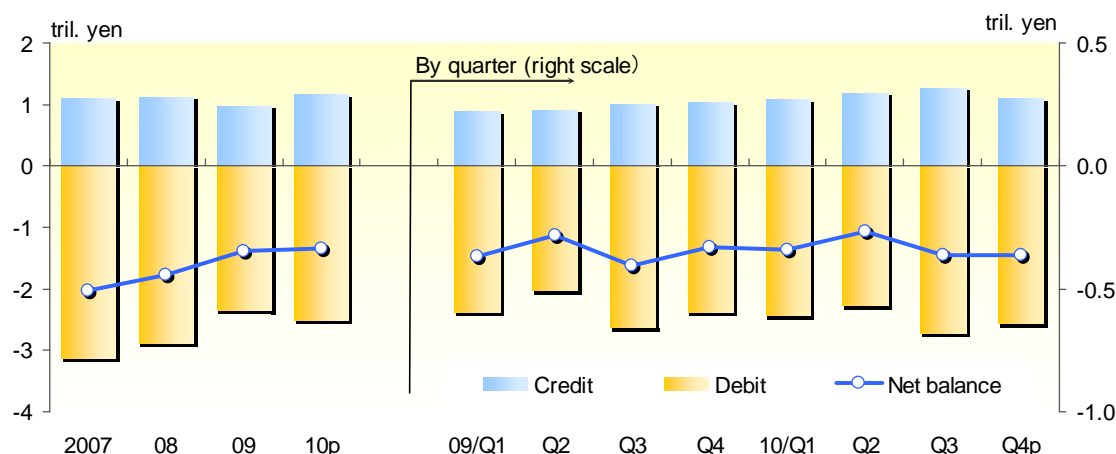


Table 9: Balance of Travel

bil. yen			
	2009	2010p	Change from the previous year
Travel	-1,388.6	-1,332.9	+55.7
Credit	964.1	1,158.2	+194.1
Debit	2,352.7	2,491.1	+138.4

The number of foreign visitors registered a record high.⁶ In addition to a rebound from the decrease in the previous year (due to the spread of the H1N1 influenza virus), this reflects an increase in visitors especially from Asia (led by visitors from South Korea and China) due to the relaxation of requirements for visa issuance to Chinese individual tourists and the launch of regular international flights to and from Haneda Airport. In addition, tourism in regional cities became increasingly popular, reflecting popularity abroad of television dramas and movies filmed in certain locations in Japan.

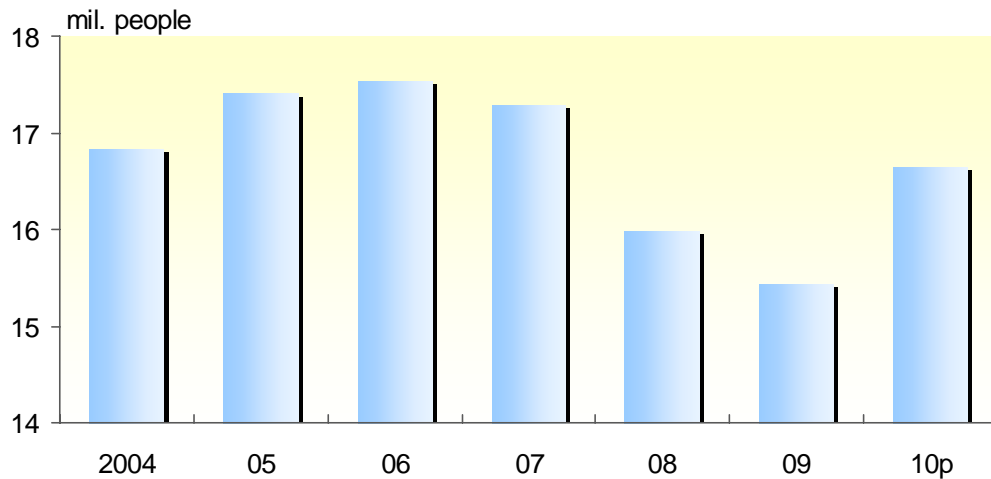
The number of Japanese traveling abroad increased⁷ due to an increase in demand for travel abroad reflecting the yen's appreciation and economic recovery, as well as a rebound from the reluctance to travel in the previous year owing to the spread of the H1N1 influenza virus.

⁵ The travel data between 2005 and 2006 are discontinued due to a revision to the compilation method implemented in 2006. However, figures for 2005 estimated by the present method showed that debits increased in 2010 for the first time in four years. For details, see "Japan's Balance of Payments for 2006," released on March 19, 2007, on the Bank of Japan's web site (<http://www.boj.or.jp/>).

⁶ According to the Japan National Tourism Organization (JNTO), the number of foreign visitors to Japan reached 8.61 million in 2010, an increase of 26.8% from the previous year.

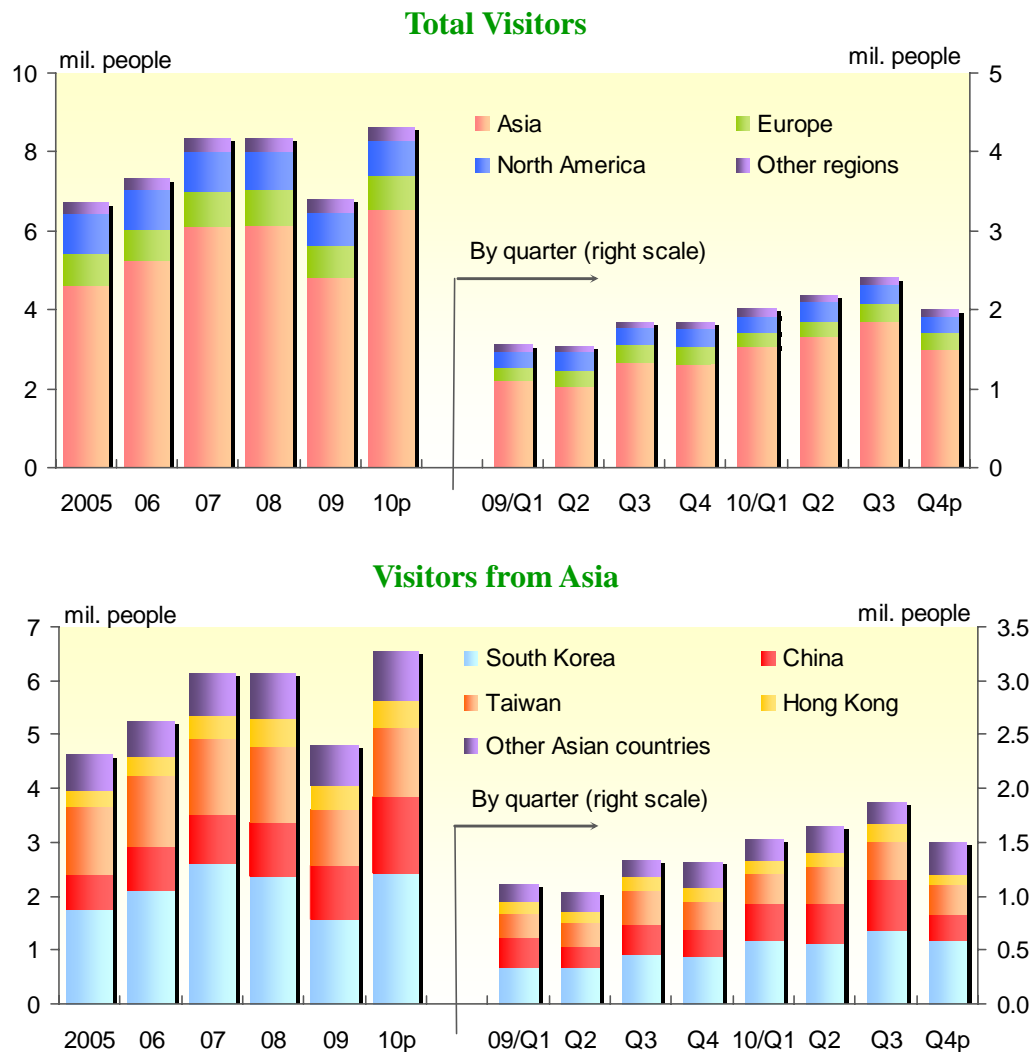
⁷ According to the JNTO, the number of Japanese traveling abroad reached 16.64 million in 2010, an increase of 7.7% from the previous year.

Figure 12: Number of Japanese Traveling Abroad



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

Figure 13: Number of Foreign Visitors to Japan



Note: Figures for 2010 and the fourth quarter of 2010 by region are estimated by the International Department of the Bank of Japan using provisional figures for January through November 2010 published by the JNTO.

Source: JNTO, *Visitor Arrivals and Japanese Overseas Travelers*.

c. Other services

The surplus of trade in other services increased to 0.5 trillion yen in 2010, up from 0.3 trillion yen in 2009, mainly due to an increase in credits of royalties and license fees reflecting a recovery in overseas production of Japanese companies.⁸

Figure 14: Other Services

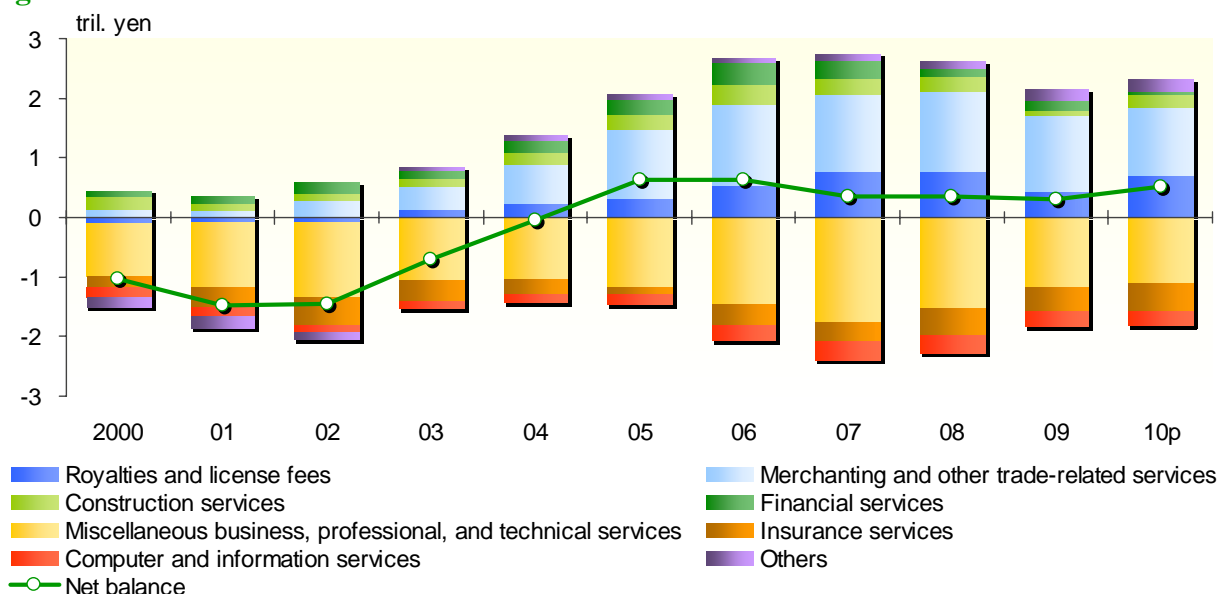


Table 10: Balance of Other Services

bil. yen

	2009	2010p	Change from the previous year	Major factors
Other services	313.7	527.2	+213.5	
Credit	8,082.8	7,721.4	-361.4	
Debit	7,769.1	7,194.1	-574.9	
Of which:				
Merchanting and other trade-related services	1,249.1	1,142.9	-106.2	The surplus decreased since receipts due to price adjustments decreased from the previous year when imported resource prices had fallen.
Credit	2,290.0	2,089.1	-200.9	
Debit	1,040.9	946.2	-94.8	
Royalties and license fees	452.7	700.1	+247.4	Credits increased as royalties from overseas subsidiaries of Japanese car manufacturers increased reflecting a rise in production. Debits also increased as payments of software license fees increased reflecting a rise in domestic shipments of personal computers.
Credit	2,027.6	2,340.3	+312.8	
Debit	1,574.9	1,640.2	+65.4	
Construction services	94.5	218.0	+123.5	The surplus increased as—with both credits and debits decreasing due to a decrease in the amount of construction orders and the amount of construction work on hand—the decrease in debits exceeded the decrease in credits.
Credit	1,164.4	823.2	-341.2	
Debit	1,069.9	605.2	-464.7	
Insurance services	-399.4	-483.3	-83.9	Continued to register a deficit due to payments of reinsurance premiums to foreign insurance companies.
Credit	81.2	111.8	+30.6	
Debit	480.6	595.1	+114.5	
Miscellaneous business, professional, and technical services	-1,163.8	-1,092.9	+70.9	Payments for research and development decreased especially in the transportation equipment industry.
Credit	1,399.1	1,378.6	-20.5	
Debit	2,562.9	2,471.5	-91.4	

⁸ For details, see Box 2, "Developments in the Overseas Activities of Japanese Companies Reflected in 'Other Services'."

3. Income

The surplus in the balance of income decreased for the third consecutive year to 11.6 trillion yen in 2010, down from 12.3 trillion yen in 2009. The surplus in the balance of direct investment income decreased for the second consecutive year due to a significant decrease in credits of reinvested earnings. The surplus in the balance of portfolio investment income continued to decrease. However, the decrease in the surplus was small as a decrease in credits of income on debt was partly offset by an increase in credits of income on equity.

Figure 15: Income

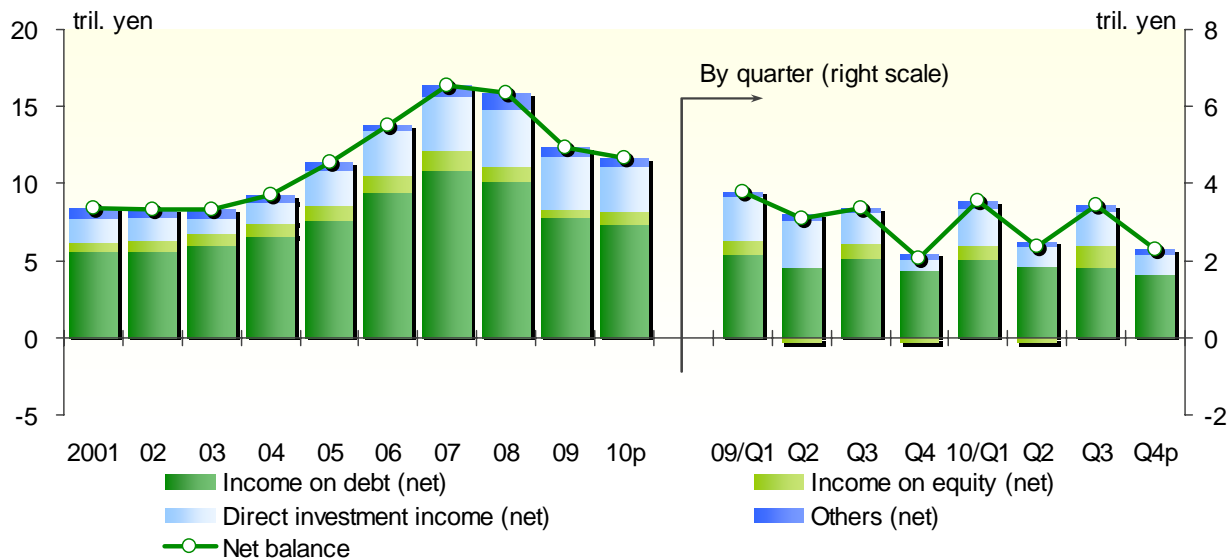


Table 11: Balance of Income

	2009	2010p	Change from the previous year
Income	12,325.4	11,641.4	-684.0
Of which:			
Direct investment income	3,460.2	2,846.3	-613.9
Credit	4,286.8	3,354.2	-932.6
Of which:			
Income on equity	3,028.0	3,128.0	+100.0
Reinvested earnings	1,159.4	153.2	-1,006.1
Debit	826.6	507.9	-318.7
Of which:			
Income on equity	655.3	726.6	+71.3
Reinvested earnings	116.8	-257.6	-374.4
Portfolio investment income	8,343.4	8,225.1	-118.3
Income on equity	508.7	873.8	+365.0
Credit	1,870.5	2,379.7	+509.2
Debit	1,361.8	1,505.9	+144.1
Income on debt	7,834.7	7,351.3	-483.4
Credit	8,756.3	8,221.6	-534.7
Debit	921.6	870.3	-51.3
Other investment income	525.3	574.5	+49.2
Credit	1,514.5	1,208.9	-305.5
Debit	989.1	634.4	-354.7

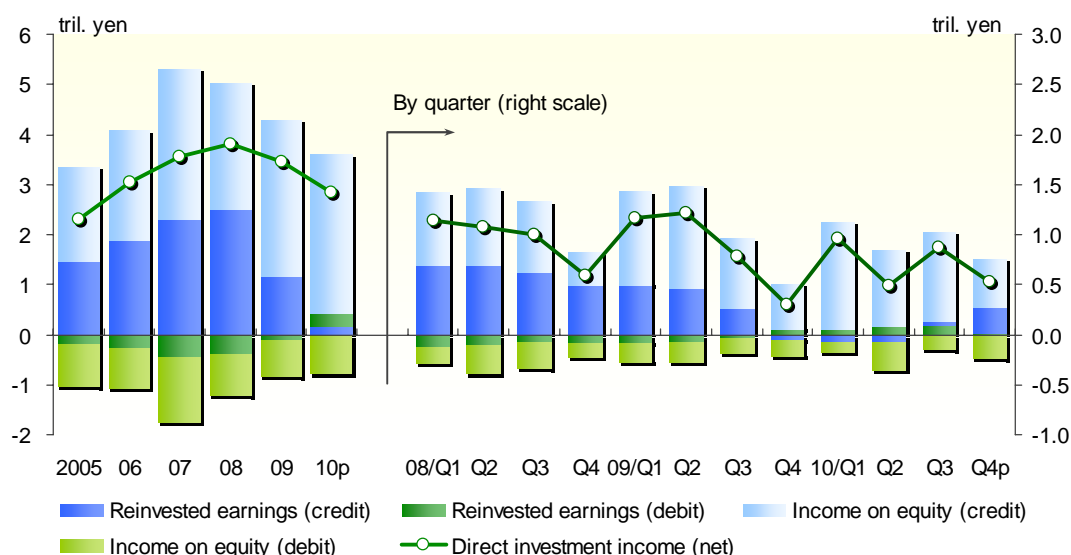
a. Direct investment income⁹

The surplus in the balance of direct investment income decreased for the second consecutive year to 2.8 trillion yen in 2010, down from 3.5 trillion yen in 2009. Credits of income on equity increased slightly, while credits of reinvested earnings¹⁰ decreased significantly, so that credits of direct investment income overall decreased. Debits of direct investment income also decreased as debits of reinvested earnings turned negative, although debits of income on equity increased for the first time in three years.

Credits of income on equity increased slightly. Receipts from subsidiaries in the natural resources and motor vehicle-related industries located in Oceania and Asia increased, while receipts from subsidiaries in the finance and insurance and the electric machinery industries residing in the European Union decreased.

Credits of reinvested earnings remained negative until August 2010¹¹ reflecting a decrease in retained earnings of overseas subsidiaries for the fiscal year ending March 2009. As a result, credits of reinvested earnings decreased significantly in 2010. Since September 2010, however, credits of reinvested earnings have been positive reflecting a recovery in the business performance of overseas subsidiaries for the fiscal year ending March 2010.

Figure 16: Direct Investment Income



⁹ For details on direct investment income by region, see Box 3, "Features of the Income from Outward Direct Investment in 2010."

¹⁰ Reinvested earnings are direct investors' shares of earnings that subsidiaries do not distribute as dividends but accumulate as retained earnings. In the balance of payments, reinvested earnings are recorded under the income account. At the same time, the same amount with the opposite sign is recorded under the direct investment account, as this amount is deemed to be reinvested in the enterprise as a direct investment. As Japan's balance of payments statistics are compiled based on annual financial statements of companies, business performances of overseas subsidiaries are reflected with a time lag. For example, the changes in retained earnings of overseas subsidiaries recognized in parent companies' financial statements for the fiscal year ending March 2010 are reflected in Japan's balance of payments statistics from September 2010 to August 2011.

¹¹ This is attributable to (1) a decrease in retained earnings of overseas subsidiaries in the United States and the European Union for the fiscal year ending March 2009, reflecting the financial turmoil and sluggish world economic conditions since September 2008 and (2) withdrawals by Japanese parent companies of retained earnings of their overseas subsidiaries to pay themselves dividends upon the closing of their annual accounts. The decrease in retained earnings for the fiscal year ending March 2009 was allocated equally to each month from September 2009 to August 2010 as negative credits of reinvested earnings and thus has exerted a significant impact on the figures in 2010.

b. Portfolio investment income

The surplus in the balance of portfolio investment income decreased for the third consecutive year to 8.2 trillion yen, down from 8.3 trillion yen in 2009. However, the size of the decrease in the surplus diminished year on year, since credits of income on equity increased throughout the year, while credits of income on debt continued to decrease.

Credits of income on debt decreased for the third consecutive year reflecting a decrease in the yen value of such income due to the yen's appreciation as well as lower interest rates than in the previous year.

Credits of income on equity increased throughout the year reflecting a recovery in corporate results and the improved performance of investment funds.

(Reference) Long-Term Interest Rates and Currency Exchange Rates

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

%, % points

	2008	2009	2010	Q1	Q2	Q3	Q4
United States	3.64	3.24	3.19	3.70	3.47	2.77	2.86
Year-on-year change	-0.99	-0.40	-0.05	+1.00	+0.17	-0.73	-0.59
Germany	4.00	3.27	2.78	3.20	2.84	2.45	2.64
Year-on-year change	-0.23	-0.73	-0.49	+0.10	-0.54	-0.88	-0.61
United Kingdom	4.49	3.60	3.53	4.00	3.73	3.16	3.23
Year-on-year change	-0.52	-0.88	-0.08	+0.62	+0.13	-0.56	-0.47
Australia	5.82	5.04	5.37	5.56	5.54	5.04	5.35
Year-on-year change	-0.18	-0.77	+0.33	+1.34	+0.51	-0.41	-0.11

Source: Bloomberg.

Table 13: Currency Exchange Rates (Annual Average)

yen, %

	2008	2009	2010	Q1	Q2	Q3	Q4
USDJPY	106.33	94.33	88.75	90.00	91.00	90.33	83.67
Year-on-year change	-10.5	-11.3	-5.9	-2.9	-5.9	-5.9	-9.1
EURJPY	159.22	128.76	119.81	131.38	123.44	113.19	111.22
Year-on-year change	-0.2	-19.1	-7.0	+8.0	-2.1	-15.2	-17.0
GBPJPY	206.61	145.64	138.25	146.99	139.53	134.85	131.62
Year-on-year change	-12.3	-29.5	-5.1	+6.4	-0.0	-12.8	-12.4
AUDJPY	94.60	70.82	80.42	82.02	82.74	78.28	78.63
Year-on-year change	-3.0	-25.1	+13.6	+32.4	+26.2	+3.1	-1.5

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 1.1 trillion yen, a slight decrease from 1.2 trillion yen registered in 2009. The deficit reflects the following transactions: contributions to international organizations, foreign workers' remittances to family members in their home countries,¹² and tax payments to governments of oil-producing countries. The deficit decreased due to a decrease in contributions to international organizations reflecting a cutback in the ODA budget.

Figure 17: Current Transfers

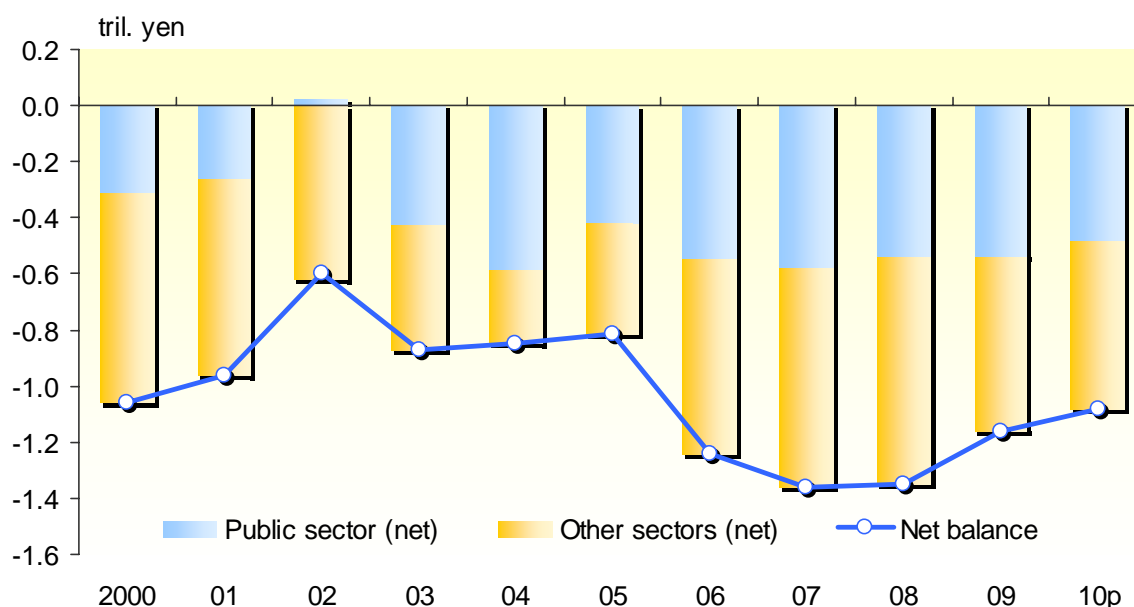


Table 14: Balance of Current Transfers

bil. yen

	2009	2010p	Change from the previous year	Major factors
Current transfers	-1,163.5	-1,081.4	+82.0	—
Public sector	-541.3	-482.7	+58.6	The deficit decreased due to a decrease in debits reflecting a cutback in the ODA budget.
Credit	32.7	37.0	+4.3	
Debit	574.0	519.7	-54.3	
Other sectors	-622.2	-598.7	+23.4	The deficit decreased due to a decrease in debits of other transfers, while debits of workers' remittances increased.
Credit	858.3	846.2	-12.1	
Debit	1,480.5	1,445.0	-35.5	
Workers' remittances	-214.0	-228.1	-14.1	The deficit increased as remittances to China increased.
Credit	133.0	132.1	-0.9	
Debit	347.0	360.2	+13.1	
Other transfers	-408.2	-370.6	+37.5	The deficit decreased due to the absence of payments of penalties for withdrawals from business and compensation for damages, which had been seen in the previous year.
Credit	725.3	714.1	-11.2	
Debit	1,133.5	1,084.8	-48.7	

¹² For details on foreign workers' remittances to family members in their home countries, see Box 4, "Recent Trends in Workers' Remittances."

III. Capital and Financial Account

A. Summary

The capital and financial account recorded net outflows of 12.9 trillion yen in 2010, slightly up from 12.6 trillion yen in 2009. The net outflows of direct investment and portfolio investment decreased, while the net inflows of "other investment" also decreased.

Table 15: Capital and Financial Account

bil. yen

	2009			2010p		
Current account	13,286.7			17,080.1		
Capital and financial account	-12,644.7	Assets (outward investment)	Liabilities (inward investment)	-12,858.6	Assets (outward investment)	Liabilities (inward investment)
Financial account	-12,308.4			-12,425.9		
Direct investment	-5,872.5	-6,989.6	1,117.1	-5,123.8	-4,979.2	-144.7
Portfolio investment	-21,254.9	-16,303.6	-4,951.3	-16,188.4	-25,796.8	9,608.4
Equity securities	-2,066.0	-3,030.2	964.2	903.5	-2,015.3	2,918.8
Bonds and notes	-20,885.3	-13,173.6	-7,711.7	-23,598.3	-24,045.3	447.1
Money market instruments	1,696.4	-99.7	1,796.2	6,506.3	263.8	6,242.5
Financial derivatives	948.7	31,237.6	-30,288.9	1,041.3	35,435.2	-34,393.9
Other investment	13,870.3	18,244.3	-4,374.0	7,845.1	-8,868.8	16,713.9
Of which:						
Interoffice account transactions of banks	27,223.9	20,359.6	6,864.3	4,235.3	-1,814.3	6,049.6
Capital account	-465.3			-432.9		
Changes in reserve assets	-2,526.5			-3,792.5		
Errors and omissions	1,884.4			-429.0		

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.

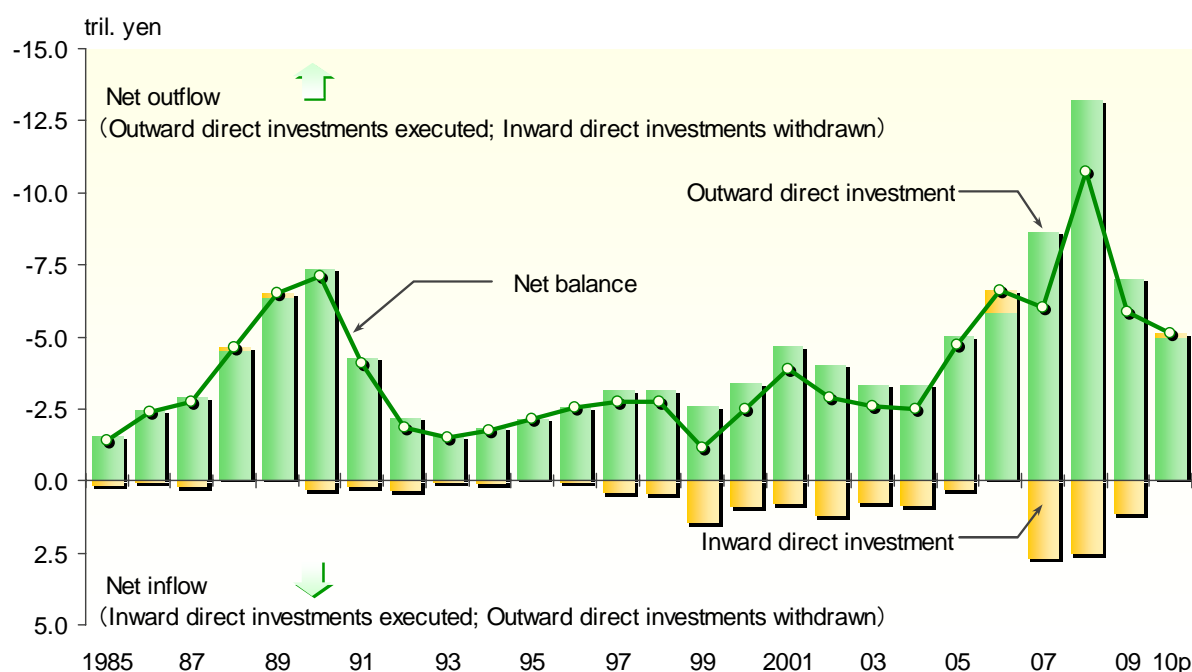
2. Figures in this table exclude securities lending transactions. Figures for securities lending transactions are not included in the analysis in this report unless otherwise noted. The reason is that such transactions are large and volatile, and including them in portfolio investment or other investment 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

Outward direct investment by residents¹³ registered net outflows of 5.0 trillion yen in 2010, decreasing for the second consecutive year since the record high set in 2008. Inward direct investment by nonresidents¹⁴ decreased for the third consecutive year, turning to net outflows of 0.1 trillion yen from net inflows of 1.1 trillion yen in 2009.

Figure 18: Outward and Inward Direct Investment



¹³ Outward direct investment refers to direct investments by resident investors in nonresident corporations (in which the resident investor has an ownership stake of at least 10 percent), such as initial capitalization, capital increase, loan capital (excluding loans between financial corporations), and reinvested earnings.

¹⁴ Inward direct investment refers to direct investments by nonresident investors in resident corporations (in which the nonresident investor has an ownership stake of at least 10 percent), such as initial capitalization, capital increase, loan capital (excluding loans between financial corporations), and reinvested earnings.

a. Outward direct investment (assets)

Large-scale acquisitions for the expansion of overseas business were seen in the telecommunications industry and the chemicals and pharmaceuticals industry. However, net outflows of outward direct investment decreased in 2010 because of a decrease in reinvested earnings reflecting the deteriorating business performance of overseas subsidiaries, and because, unlike in the last few years, there were no large-scale investments to boost the capital of Japanese financial institutions.¹⁵

The gross value of equity capital investments (outflows), excluding purchases of participation certificates and investments in corporate-type investment trusts, was more or less unchanged from the previous year's level.

Table 16: Outward Direct Investment

tril. yen

	2006	2007	2008	2009	2010p	Change from the previous year
Outward direct investment	-5.8	-8.7	-13.2	-7.0	-5.0	+2.0
Equity capital	-3.4	-6.1	-9.7	-5.3	-4.8	+0.6
Reinvested earnings	-1.9	-2.3	-2.5	-1.2	-0.2	+1.0
Other capital	-0.6	-0.2	-1.0	-0.5	-0.1	+0.4

(1) Breakdown by region

Net outflows to Asia stood at 1.9 trillion yen in 2010, almost unchanged from 2009. Major investments include (1) acquisitions by food companies with the aim of gaining access to local markets, (2) capital injections by banks reflecting increased demand for funds from Japanese-affiliated firms in Asia, and (3) capital participations by iron, non-ferrous, and metals companies.

Net outflows to North America decreased to 0.8 trillion yen in 2010 from 1.0 trillion yen in 2009. The decrease is due to (1) decreased reinvested earnings reflecting the deteriorating business performance of overseas subsidiaries and (2) the withdrawal of loans to subsidiaries. Major investments include (1) acquisition by a telecommunications company with the aim of capital participation in another Japanese company in the same industry, (2) acquisition by telecommunications companies of information system companies for the purpose of entering overseas markets, and (3) acquisition by a chemicals and pharmaceuticals company to expand overseas distribution channels.

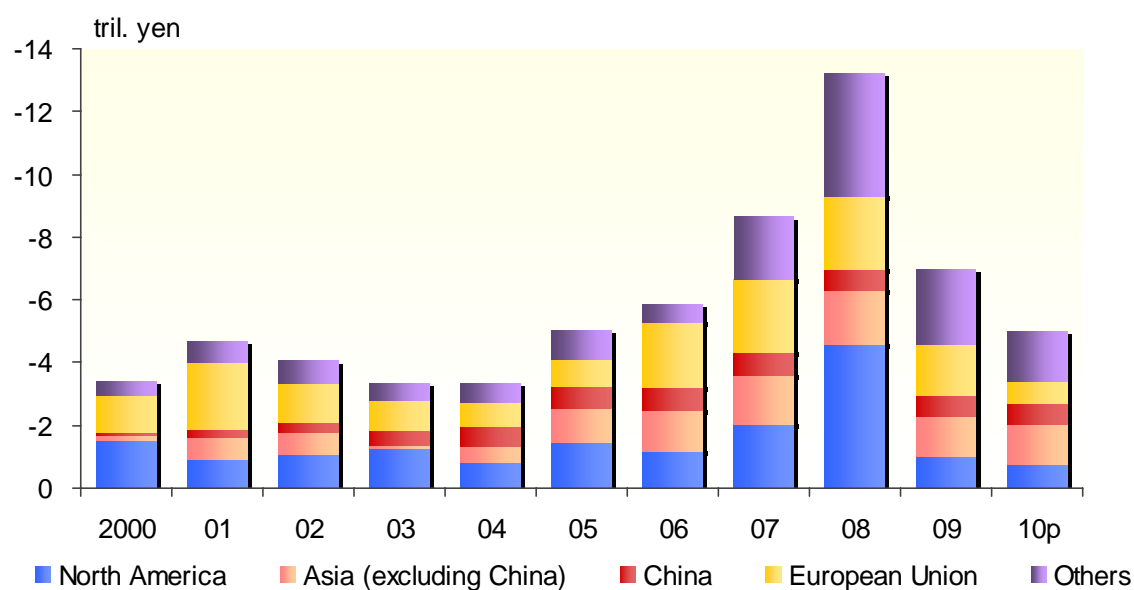
Net outflows to the European Union amounted to 0.7 trillion yen in 2010, down from 1.6 trillion yen in 2009. The reasons for the decrease are that (1) reinvested earnings decreased following the

¹⁵ These 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."

deterioration in the business performance of overseas subsidiaries and (2) the provision of working capitals to subsidiaries ceased. Major investments include an acquisition by a telecommunications company of information system company for the purpose of expanding overseas business.

Net outflows to other regions amounted to 1.6 trillion yen in 2010, down from 2.4 trillion yen in 2009. The decrease is partly due to the absence of large-scale acquisitions of participation certificates issued by special purpose companies (SPCs) in Central and South America set up by Japanese banks to strengthen their capital base, which were seen during 2008 and 2009.

Figure 19: Outward Direct Investment (By Region)

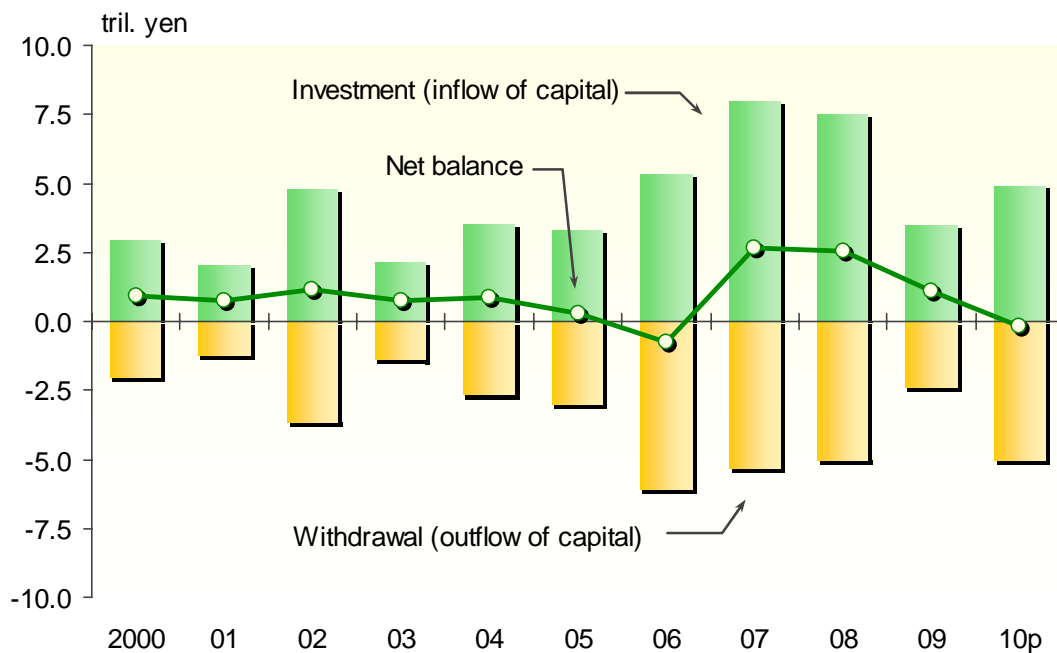


b. Inward direct investment (liabilities)

In 2010, net inward direct investment turned slightly negative (outflows) for the first time in four years. The decrease is due to (1) a decrease in reinvested earnings reflecting the deteriorating business performance of subsidiaries in Japan, and (2) withdrawals in the finance and insurance industry and the telecommunications industry.

The gross value of equity capital investments (inflows) doubled compared with the previous year.

Figure 20: Inward Direct Investment



(1) Breakdown by region

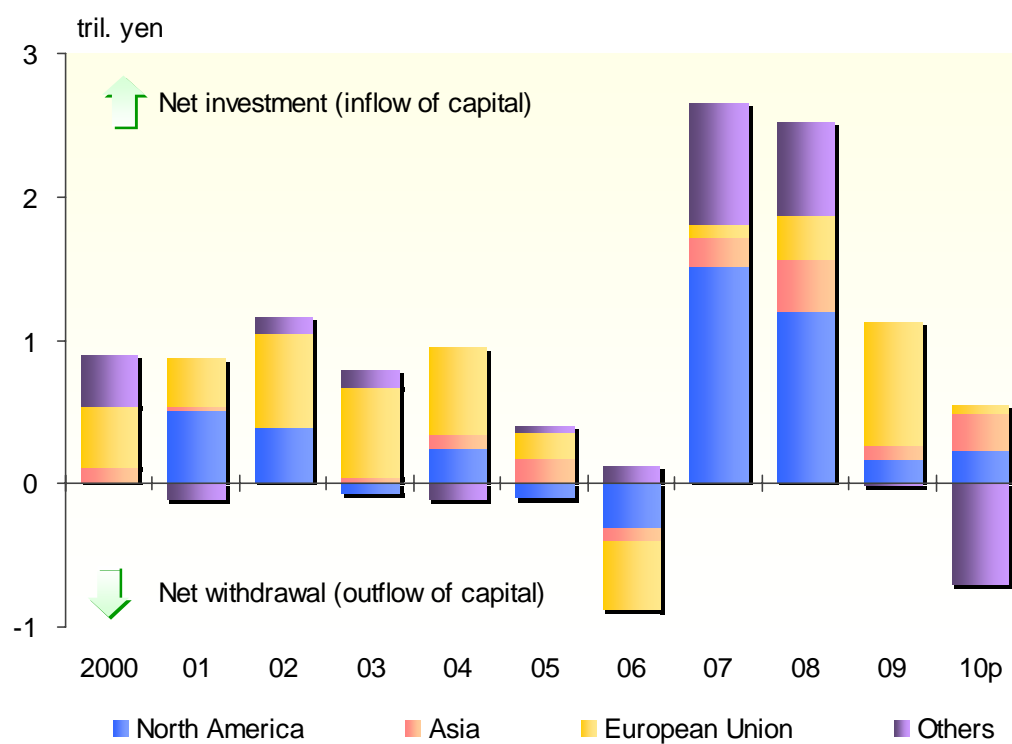
Net investments (inflows) from North America stood at 0.2 trillion yen in 2010, more or less unchanged from the previous year. Although there were some investments to boost the capital of subsidiaries in Japan, particularly in the finance and insurance industry, there were no large-scale investments as in the previous year.

Net investments from the European Union decreased to 0.1 trillion yen in 2010 from 0.9 trillion yen in 2009. Although there were investments in the finance and insurance industry to strengthen subsidiaries' capital bases, the amount of investment was below that for 2009 due to a withdrawal in the telecommunications industry and a decrease in reinvested earnings reflecting the deteriorating business performance of subsidiaries in Japan.

Net investments from Asia increased to 0.3 trillion yen in 2010 from 0.1 trillion yen in 2009 due to investments in the finance and insurance industry for the acquisition of tangible fixed assets.

Net withdrawals (outflows) of investment from other regions increased to 0.7 trillion yen in 2010 from 12 billion yen in 2009, mainly due to large-scale withdrawals in the finance and insurance industry.

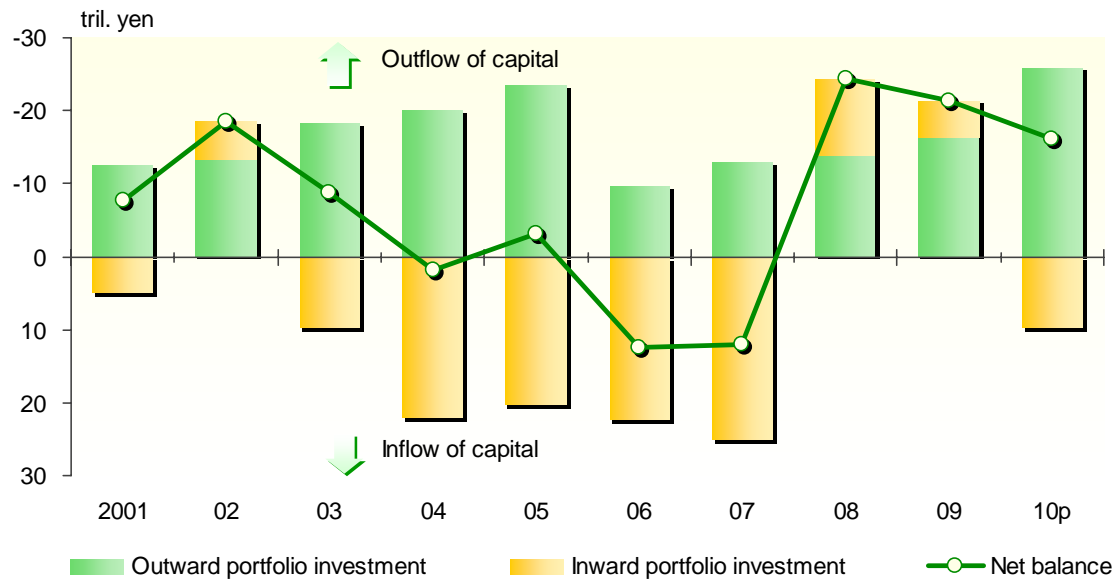
Figure 21: Inward Direct Investment (By Region)



2. Portfolio investment

Outward portfolio investment recorded an increase in net purchases (outflows) to 25.8 trillion yen in 2010 from 16.3 trillion yen in 2009. On the other hand, inward portfolio investment turned to net purchases (inflows) of 9.6 trillion yen in 2010 from net sales (outflows) of 5.0 trillion yen in 2009. As a result, the balance of portfolio investment recorded net outflows of 16.2 trillion yen in 2010, down from 21.3 trillion yen in 2009.

Figure 22: Portfolio Investment

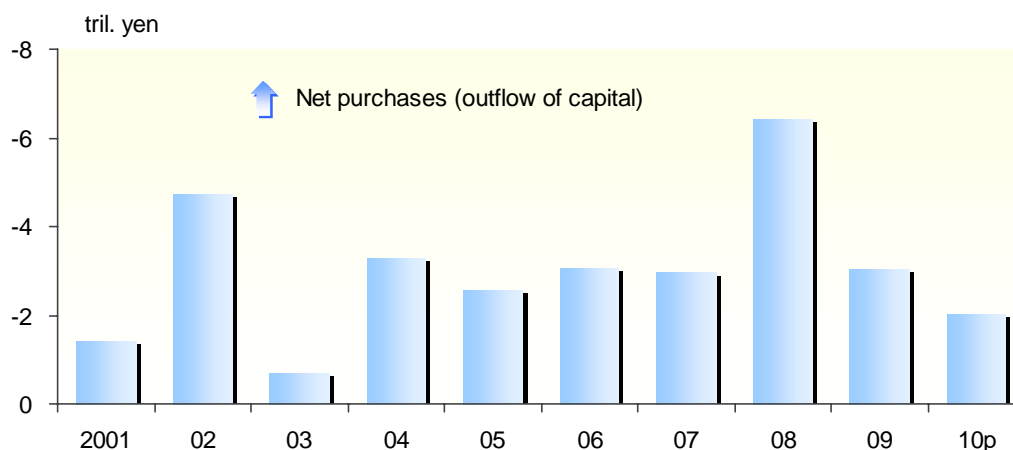


a. Outward portfolio investment (assets)

(1) Outward investment in equity securities (assets)

Net purchases of equity securities (outflows) decreased for the second consecutive year to 2.0 trillion yen in 2010, down from 3.0 trillion yen in 2009.

Figure 23: Outward Investment in Equity Securities



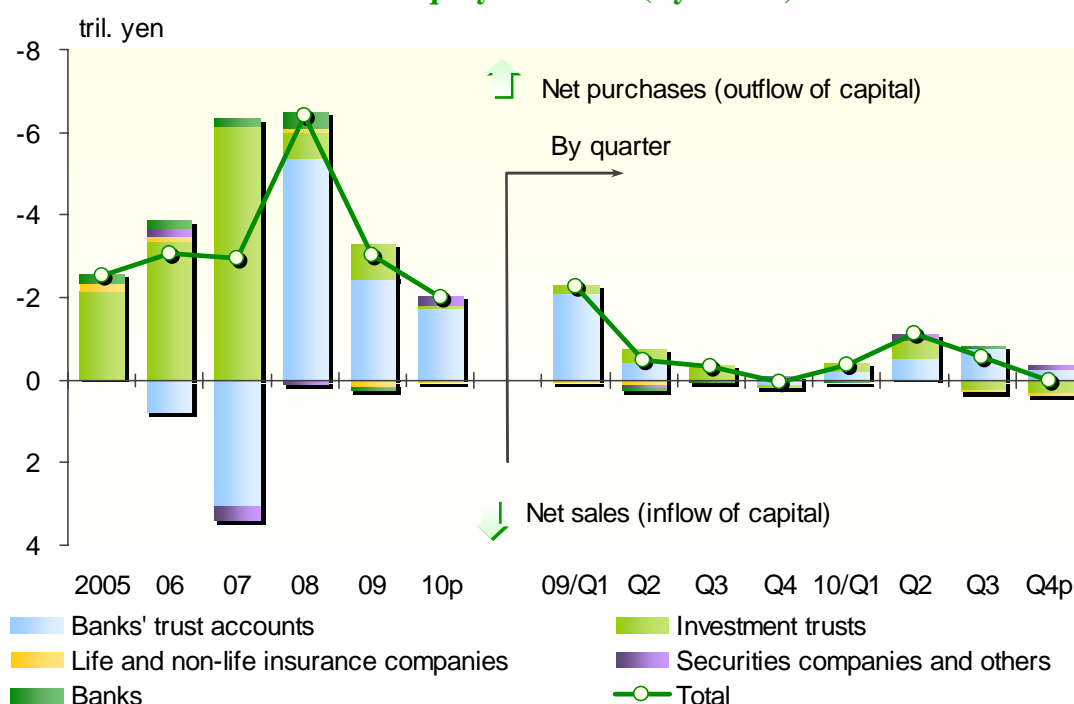
(a) Developments by investor category

Net purchases through banks' trust accounts¹⁶ (outflows) decreased to 1.7 trillion yen in 2010 from 2.4 trillion yen in 2009, as purchases by pension funds associated with rebalancing transactions¹⁷ decreased.

Net purchases by investment trusts (outflows) decreased to 0.1 trillion yen in 2010, down from 0.8 trillion yen in 2009, reflecting the selling of investment trusts by individual investors.

In the first half of the year, individual investors purchased investment trusts with specific themes covering BRIC equities or U.S. REITs. In the second half of the year, investment trusts, particularly those covering BRIC or European equities, were sold.

Figure 24: Outward Investment in Equity Securities (By Sector)



Note: "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 investments in U.S. and EU equities decreased as pension funds' purchases associated with rebalancing transactions decreased. In addition, net investments in Brazilian and Chinese equities turned negative due to the selling of investment trusts by individual investors.

¹⁶ As pension funds often invest through banks' trust accounts, this item tends to reflect investments by pension funds.

¹⁷ Public and private pension funds usually fix the weight of assets such as foreign equities and bonds and domestic equities and bonds in total assets for a certain period. 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.

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

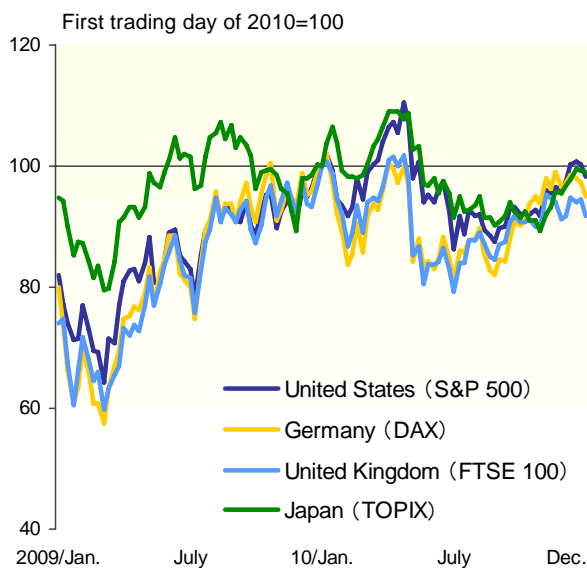
bil. yen

	2008	2009	2010p	Change from the previous year	IIP (end of 2009)
United States	-3,444.0	-1,541.3	-1,205.7	+335.6	21,205.3
European Union	-1,737.4	-740.1	-318.4	+421.8	14,255.6
Of which:					
Germany	-148.8	-71.8	-149.5	-77.7	1,702.0
France	-394.3	-159.9	21.2	+181.1	2,346.5
United Kingdom	-895.3	-350.3	26.2	+376.5	4,422.6
Asia	352.8	-373.3	-96.1	+277.2	4,423.9
Of which:					
Korea	57.2	-43.8	-47.4	-3.6	415.1
Singapore	3.6	-37.1	-29.6	+7.5	557.9
Hong Kong	99.6	-99.8	-9.7	+90.1	1,385.8
China	152.8	-180.0	111.7	+291.8	1,160.2
Central and South America	-475.6	27.7	-265.9	-293.6	8,081.5
Of which:					
Cayman Islands	-170.9	409.1	-244.0	-653.1	6,359.4
Brazil	-95.0	-305.1	31.3	+336.4	989.3
Others	-1,110.6	-403.3	-129.2	+274.1	6,720.7
Of which:					
Australia	-127.5	-224.9	-74.6	+150.3	1,964.2
Total	-6,414.9	-3,030.2	-2,015.3	+1,014.9	54,687.0

Note: IIP stands for international investment position.

Figure 25: Equity Price Indices in Major Markets (Yen Basis)

Leading Industrialized Countries



BRIC Countries



Source: Bloomberg.

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

Net purchases of foreign bonds and notes (outflows) reached a record high of 24.0 trillion yen in 2010, up from 13.2 trillion yen in 2009, primarily due to active purchases by banks.

Figure 26: Outward Investment in Bonds and Notes

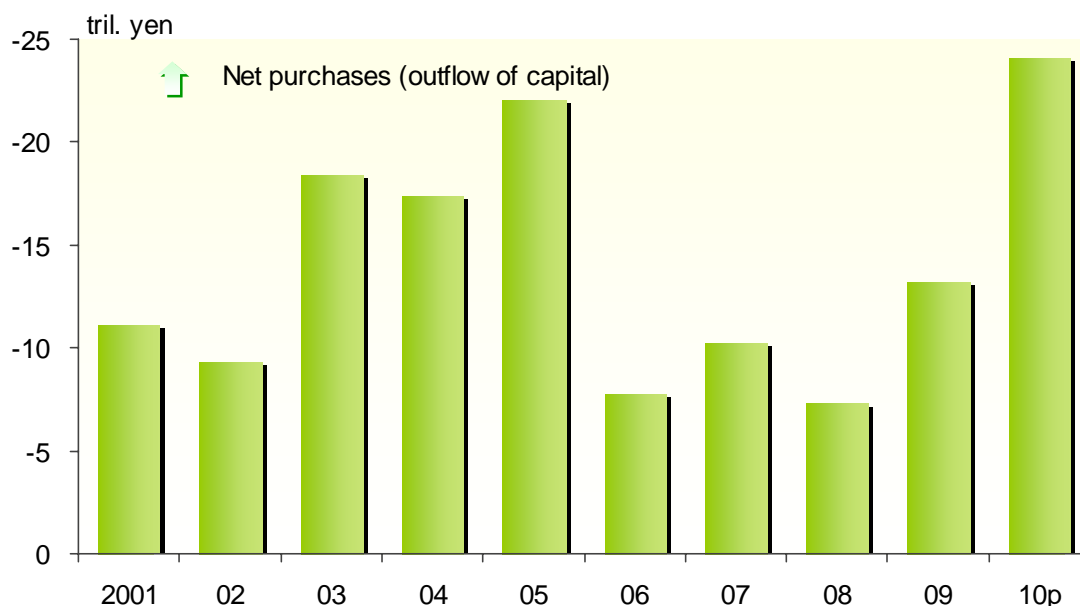
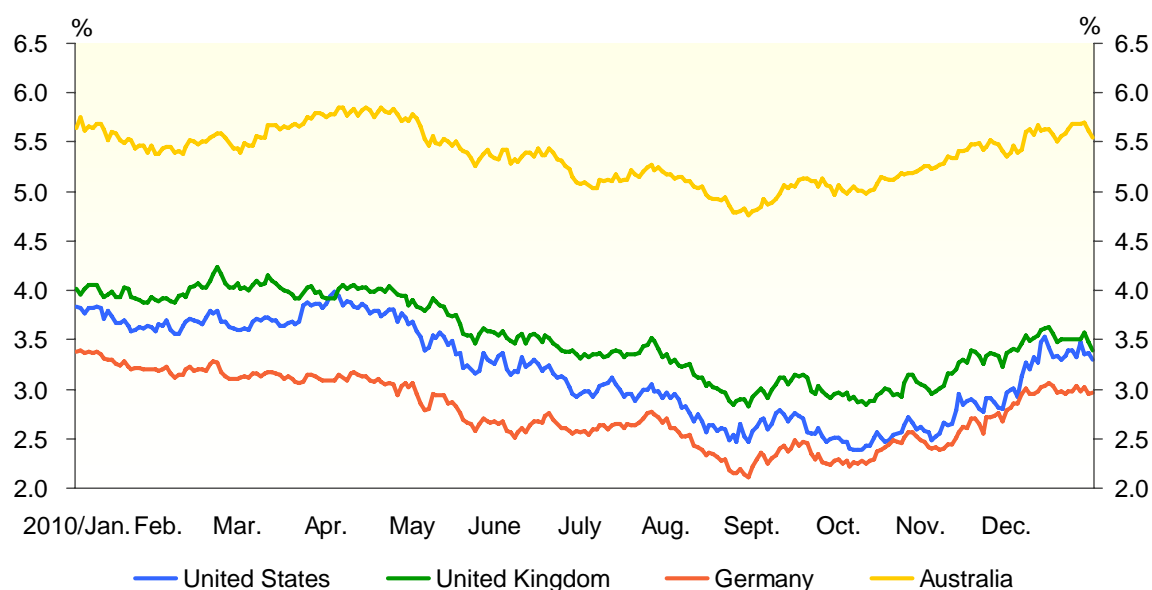


Figure 27: Long-Term Interest Rates (10-Year Government Bonds)



Source: Bloomberg.

(a) Developments by investor category

Net purchases by banks (outflows), mainly of U.S. Treasuries, increased significantly, reaching a record high of 10.8 trillion yen in 2010, up from 7.8 trillion yen in 2009.

By quarter, the first three quarters saw net purchases. Particularly in the third quarter, banks actively built up positions in U.S. Treasuries and agency bonds in the expectation of a fall in interest rates as a result of monetary easing in the United States. In addition, they repurchased credit products, including corporate bonds that had been sold after the failure of Lehman Brothers. On the other hand, in the fourth quarter, when interest rates rose worldwide, they reduced positions in U.S. Treasuries and European government bonds which they had built up since the beginning of 2010.

Net purchases by investment trusts (outflows) increased to 5.0 trillion yen in 2010 from 3.2 trillion yen in 2009.

While net sales of European bonds and notes by investment trusts (inflows) increased in response to the fiscal problems in some peripheral European countries, currency-selective-type investment trust funds covering high-yield bonds attracted funds of individual investors throughout the year. As in the previous year, funds targeting investment yields on underlying assets and currency hedging premiums on high-yield currencies were purchased as interest rates in developed countries remained low.

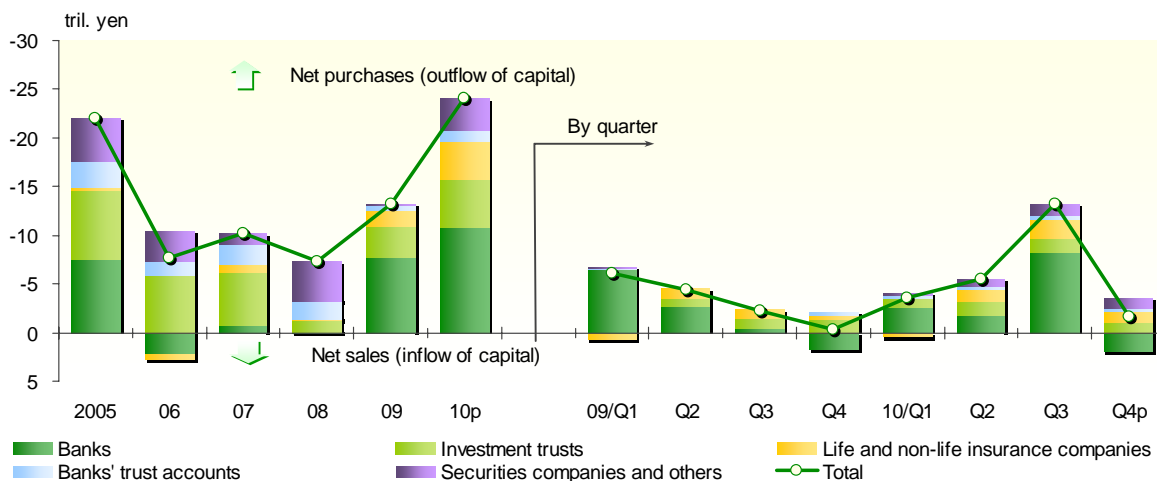
Net purchases by life and non-life insurance companies (outflows) increased to 3.8 trillion yen in 2010 from 1.7 trillion yen in 2009.

In the first quarter, life and non-life insurance companies sold European government bonds in response to the fiscal problems in some peripheral European countries. On the other hand, from the second to the fourth quarter, they purchased assets such as U.S. Treasuries, after selling Japanese government bonds (JGBs).

Net purchases by banks' trust accounts (outflows) increased to 1.3 trillion yen in 2010 from 0.4 trillion yen in 2009, reflecting increased purchases of U.S. Treasuries associated with rebalancing of portfolios by pension funds.

Net purchases by securities companies and others (outflows) increased to 3.2 trillion yen in 2010 from 0.1 trillion yen in 2009, reflecting increased purchases of newly issued bonds to resell to individual investors.

Figure 28: Outward Investment in Bonds and Notes (By Sector)



Note: "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

Japanese net purchases of bonds and notes in the United States increased, mainly due to purchases by banks; net purchases of bonds and notes in Central and South America also increased, due to increased investments in the Cayman Islands by investment trusts and banks. In contrast, net purchases of bonds and notes in the European Union decreased, partly due to fiscal problems in some peripheral European countries.

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

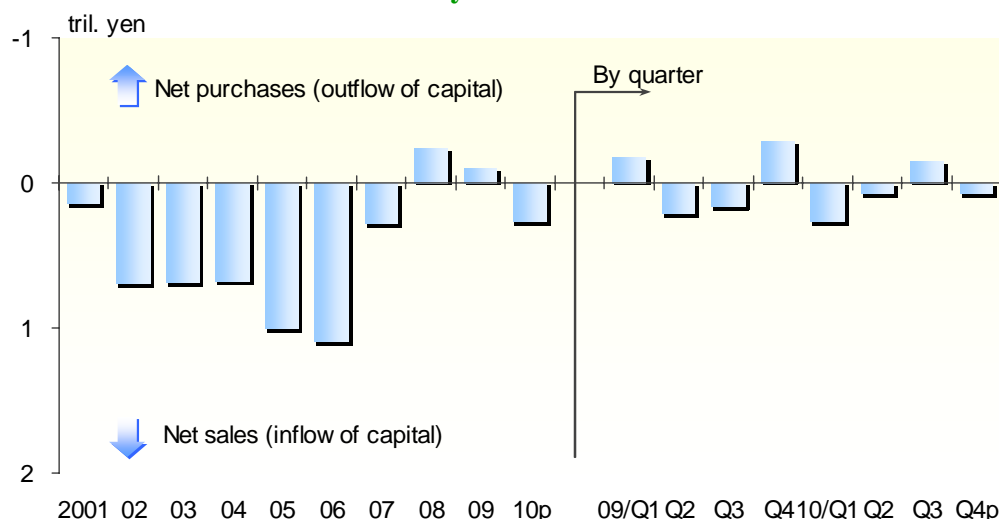
bil. yen

	2008	2009	2010p	Change from the previous year	IIP (end of 2009)
United States	-2,151.6	-6,440.3	-12,763.7	-6,323.4	62,748.6
European Union	-1,521.5	-3,549.2	-1,407.3	+2,141.9	76,153.8
Of which:					
United Kingdom	-1,731.4	-951.8	-1,332.1	-380.3	12,103.0
Germany	-901.9	-297.9	-132.2	+165.6	16,896.8
Italy	307.4	-442.3	-127.7	+314.6	6,387.8
Portugal	2.9	-243.0	133.2	+376.2	498.0
Spain	624.1	-701.5	378.4	+1,079.9	2,691.6
Greece	45.3	-71.7	538.7	+610.3	755.3
France	986.9	-503.2	746.4	+1,249.6	11,685.6
Oceania	-1,308.3	-2,134.4	-1,368.0	+766.4	8,328.7
Of which:					
Australia	-1,353.3	-2,181.6	-1,331.5	+850.1	7,952.9
Asia	-221.1	-78.3	-290.2	-212.0	1,957.2
Central and South America	-100.3	-518.2	-6,994.9	-6,476.8	35,017.6
Of which:					
Cayman Islands	658.6	240.5	-5,925.2	-6,165.7	30,367.7
Brazil	-548.6	-585.1	-932.0	-346.9	1,377.0
Others	-2,027.2	-453.3	-1,221.1	-767.8	20,606.0
Total	-7,329.9	-13,173.6	-24,045.3	-10,871.7	204,811.9

Note: IIP stands for international investment position.

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

Outward investment in money market instruments turned to net sales (inflows) of 0.3 trillion yen in 2010 from net purchases (outflows) of 0.1 trillion yen in 2009.

Figure 29: Outward Investment in Money Market Instruments

b. Inward portfolio investment (liabilities)

(1) Inward investment in equity securities (liabilities)

Net purchases of equity securities (inflows) increased to 2.9 trillion yen in 2010 from 1.0 trillion yen in 2009.

In the first quarter, there were net purchases of equity securities reflecting increased expectations for a recovery in the global economy and in corporate results in Japan. However, in the second quarter, net foreign investment in equity securities turned negative reflecting increased risk aversion due to the fiscal problems in some peripheral European countries. In the fourth quarter, net foreign investment in equity securities turned positive again, with Japanese equity prices rising against the background of rising U.S. equity prices and a pause in the yen's appreciation.

By industry, foreign purchases were particularly notable in the mining industry, where there was a public offering, and in the insurance industry, where there was a new listing. There were also active purchases of bank shares as measures by banks to increase their capital shifted from the issuance of participation certificates through overseas SPCs to the issuance of common shares in Japan. Another industry attracting net purchases was machinery, reflecting the good business performance in Asia. On the other hand, the electrical appliance industry saw net sales as shares were sold during phases of yen appreciation and in response to takeover offers by Japanese firms.

Figure 30: Inward Investment in Equity Securities

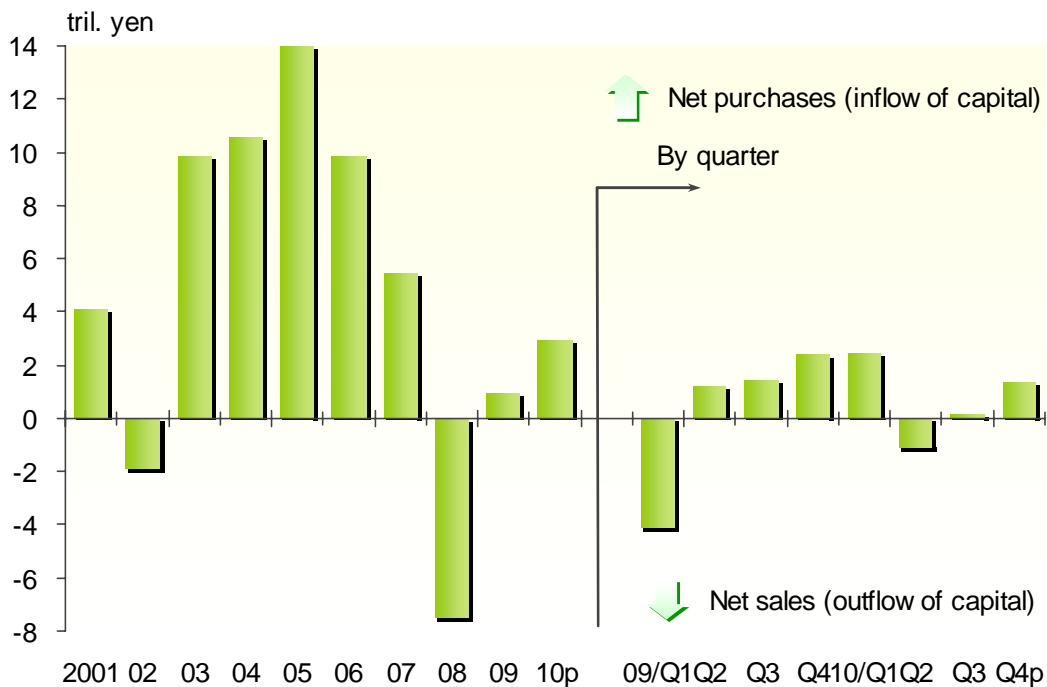
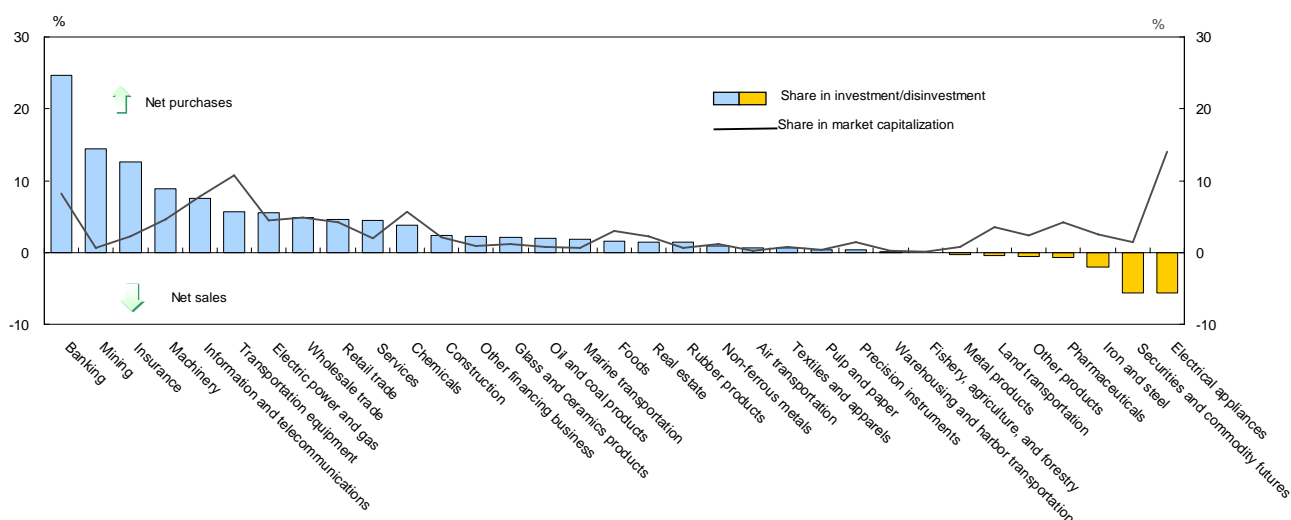


Figure 31: Inward Investment in Equity Securities: Investment and Disinvestment by Industry (Share in Percent)



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 investment and disinvestment is calculated using the amount of net purchases and sales of inward investment in equity securities.

Source: Tokyo Stock Exchange.

Figure 32: TOPIX (U.S. Dollar Basis)



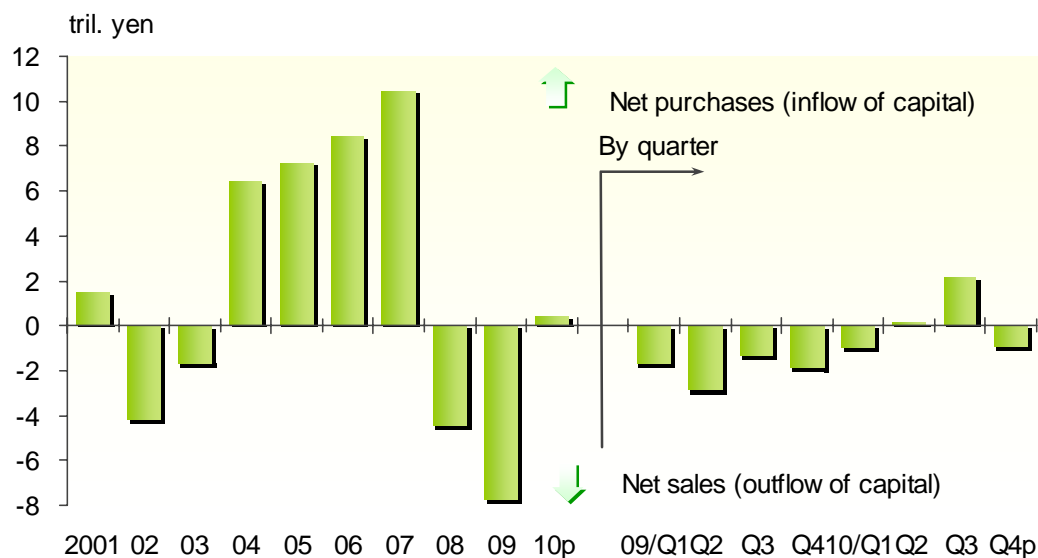
Source: Bloomberg.

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

Inward investment in bonds and notes turned positive (inflows) in 2010 for the first time in three years, registering net purchases of 0.4 trillion yen after net sales of 7.7 trillion yen in 2009.

In the third quarter, foreign investors purchased substantial amounts of JGBs reflecting the flight to quality due to the fiscal problems in some peripheral European countries and the yen's appreciation.

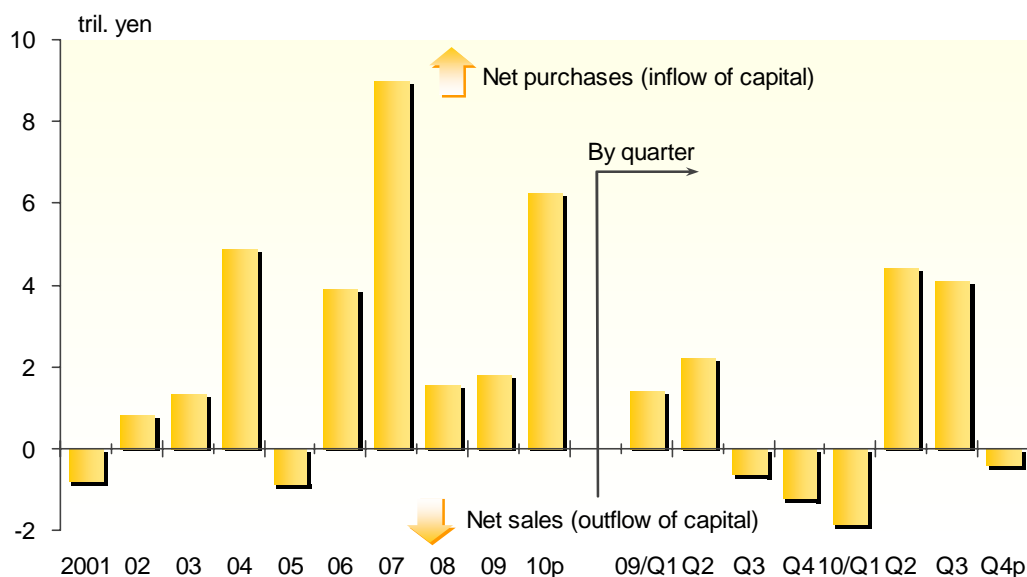
Figure 33: Inward Investment in Bonds and Notes



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

Net purchases of Japanese money market instruments by foreign investors (inflows) increased to 6.2 trillion yen in 2010 from 1.8 trillion yen in 2009 due to substantial net purchases in the second and third quarters.

Figure 34: Inward Investment in Money Market Instruments



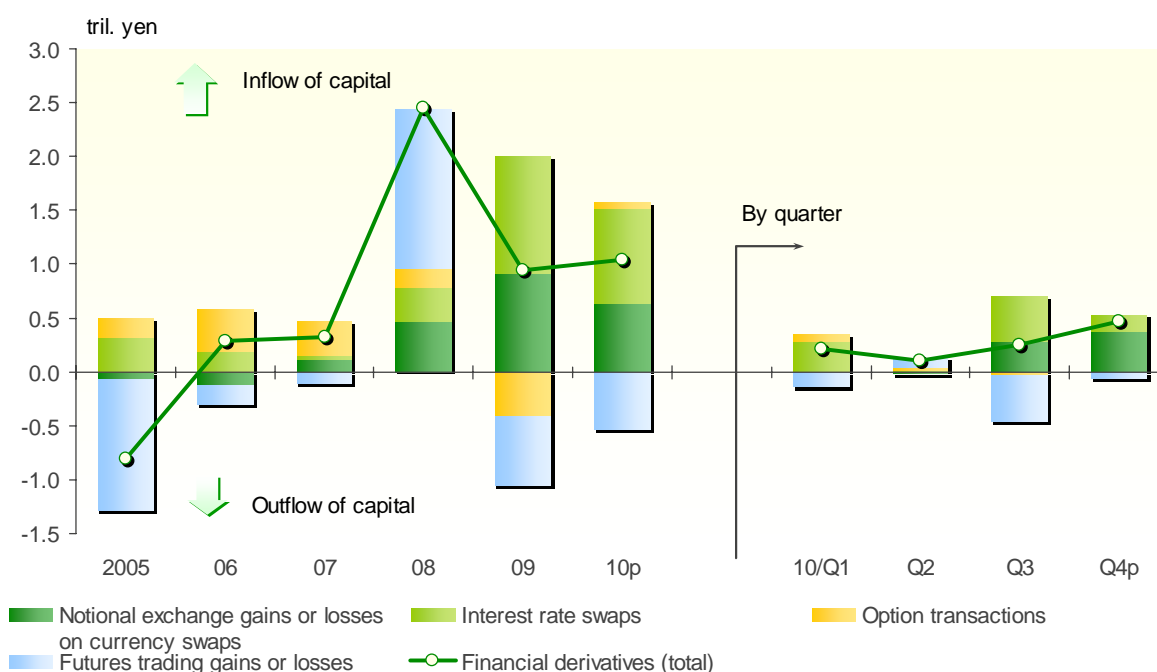
3. Financial derivatives

Net inflows associated with financial derivatives transactions increased to 1.0 trillion yen in 2010, up from 0.9 trillion yen in 2009.

There continued to be net receipts from interest rate swaps by Japanese financial institutions as short-term interest rates remained low throughout the year in Japan and abroad. Foreign exchange gains on currency swaps (net inflows) also continued to be registered, reflecting the yen's appreciation from the third quarter to the first half of the fourth quarter.

On the other hand, losses (net outflows) continued to be registered from futures trading, reflecting payments to foreign investors for realized losses on foreign stock price index futures, etc.

Figure 35: Financial Derivatives

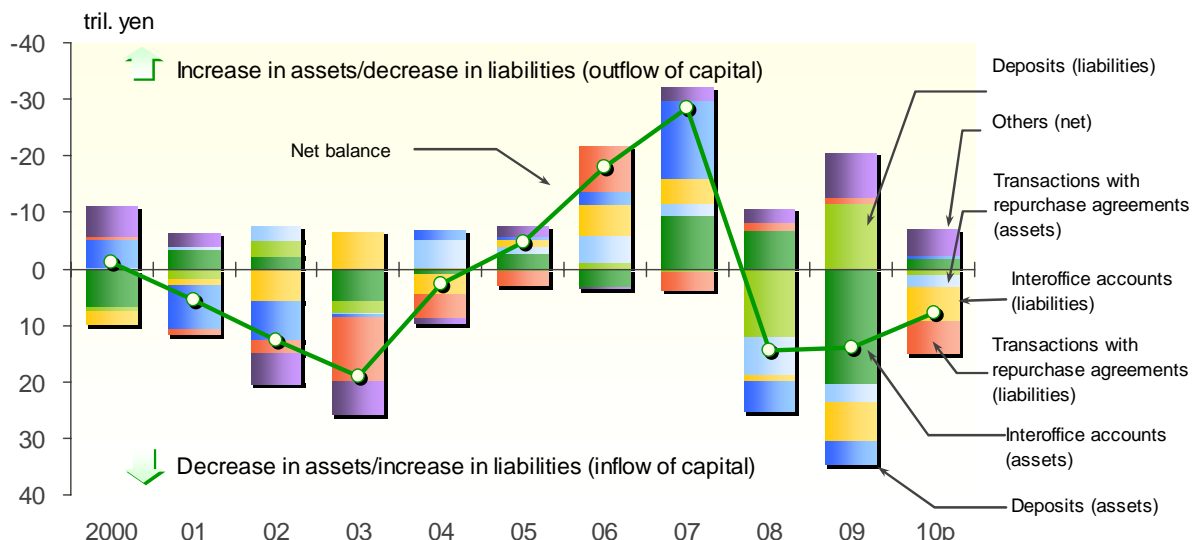


Note: "Financial derivatives (total)" includes transactions other than those listed and therefore does not equal the sum of the individual categories of financial derivatives.

4. Other investment

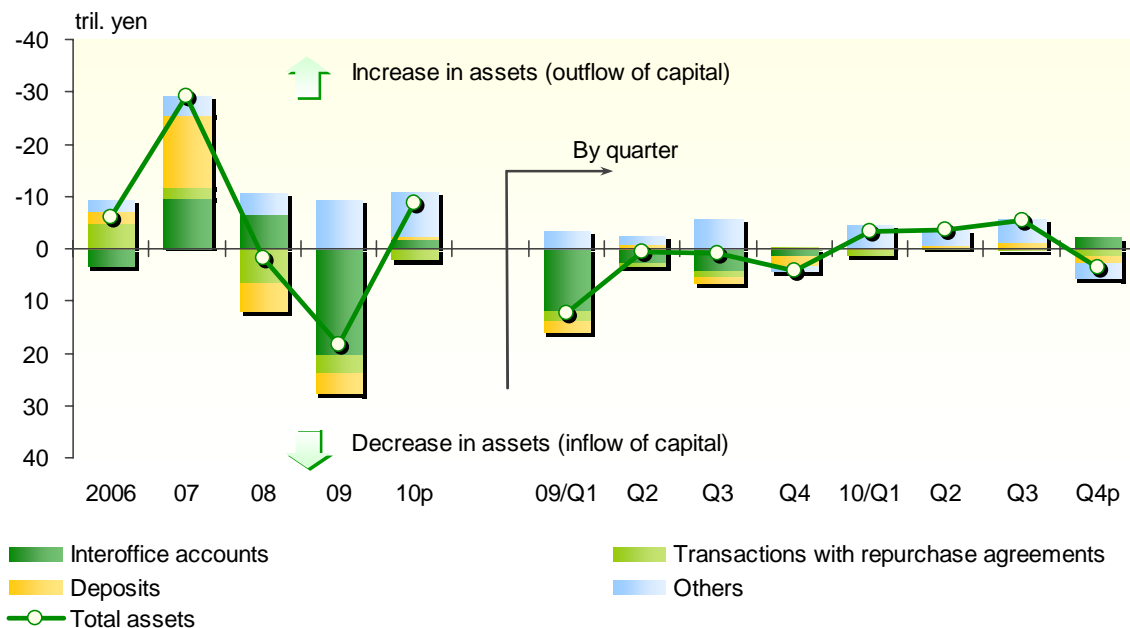
Net inflows of other investment decreased to 7.8 trillion yen in 2010 from 13.9 trillion yen in 2009.

Figure 36: Other Investment (Assets and Liabilities)



On the asset side, other investment overall turned positive (net outflows), mainly because interoffice accounts turned positive.

Figure 37: Other Investment (Assets)



On the liability side, other investment turned positive (net inflows). In the first three quarters, Japanese banks actively obtained foreign currency funds through transactions with repurchase agreements, etc., to invest in foreign bonds and notes. Moreover, in the third quarter, foreign banks obtained yen funds from their overseas offices through interoffice accounts, reflecting the decline in yen funding costs in foreign exchange swap markets.

Figure 38: Other Investment (Liabilities)

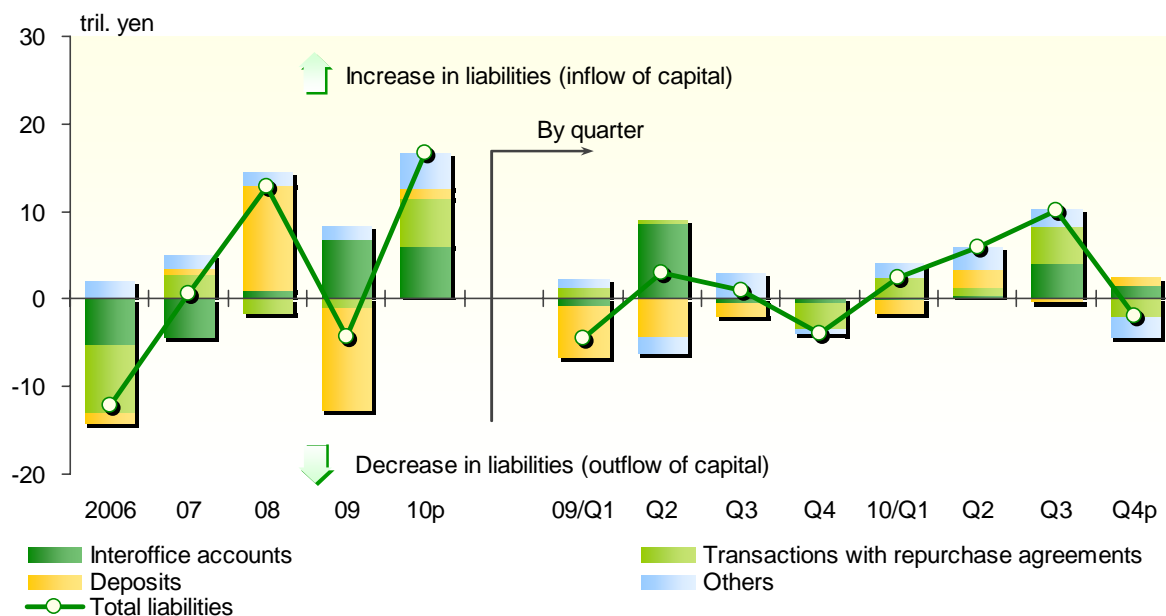
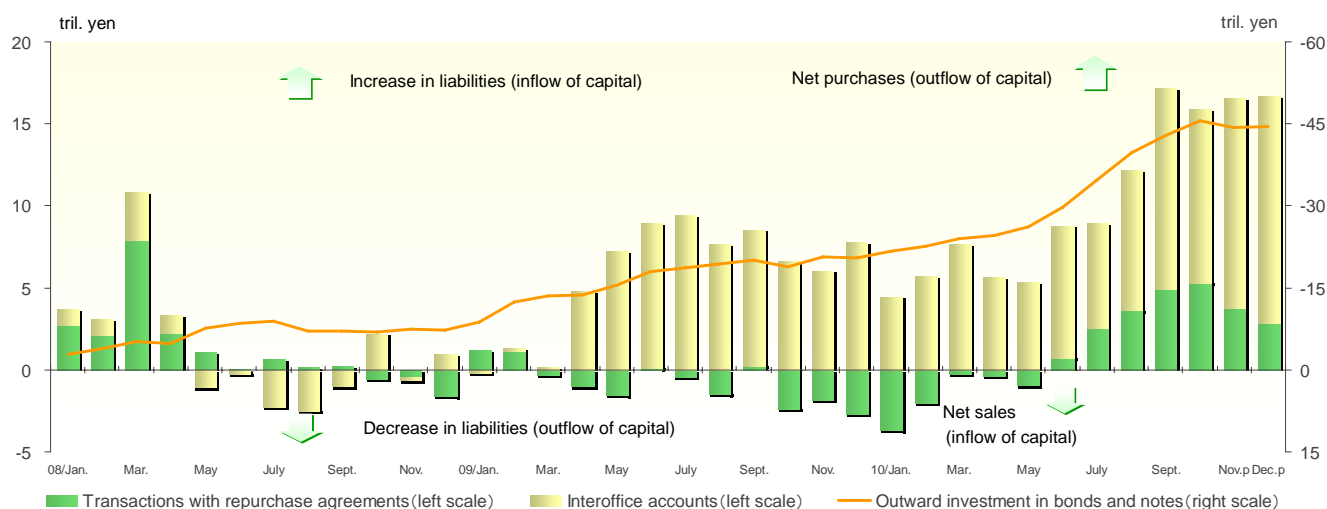


Figure 39: Interoffice Accounts and Transactions with Repurchase Agreements (Liabilities) (Calculated on a Cumulative Basis since January 2008)

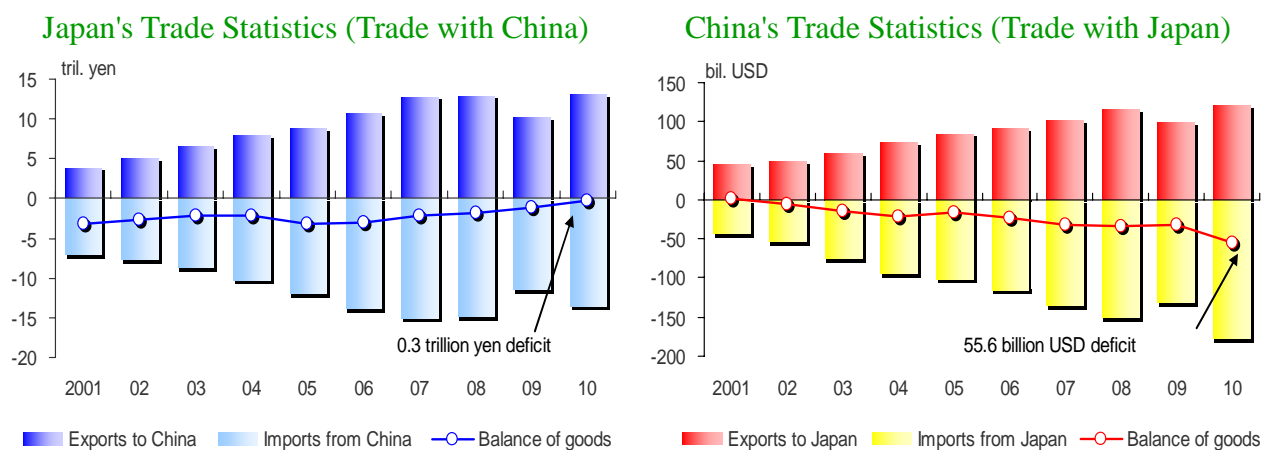


Box 1 Factors for Discrepancies in Bilateral Trade Balance

In balance of payments statistics, a transaction of Japan with country A is recorded as an opposite transaction for the same amount in country A's statistics. For example, Japan's exports to country A are recorded as imports from Japan in country A's statistics. In many cases, however, the transaction amount recorded in Japan is inconsistent with that recorded in country A because of differences in the way transactions are identified.

Looking, for example, at the trade between Japan and China on a customs-clearance basis, both countries record a trade deficit with each other (Figure 1 for Box 1). The main reason for this is that the recording methodology for trade via third countries differs for exports and imports. Another reason is differences in the basis on which exports and imports are valued. The following provides a more detailed examination of the factors for discrepancies in the trade balance between two countries.

Figure 1 for Box 1: Trade Balance



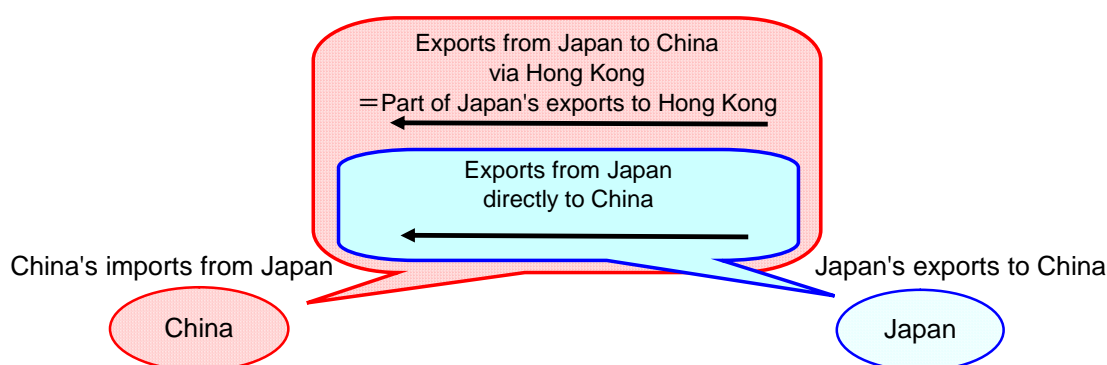
Source: Ministry of Finance, *Trade Statistics of Japan*.

Source: Bloomberg.

1. Differences in the Methodology of Recording Exports and Imports in Trade via Third Countries

In trade statistics, the country of destination is the partner country for exports and the country of origin is the partner country for imports. When Japan exports goods to China via Hong Kong, Japan records the transaction as exports to Hong Kong, while China records it as imports from Japan (Figure 2 for Box 1).

Figure 2 for Box 1: Coverage of China's Imports from Japan and Japan's Exports to China



As a result, China's imports from Japan exceed Japan's exports to China by the amount of Japan's exports to China via Hong Kong. Specifically, China's imports from Japan correspond roughly to Japan's exports to China plus 40–70 percent of Japan's exports to Hong Kong,¹⁸ adjusted for differences between the basis on which exports and imports are valued (see [2] below).

Trade between Japan and China has increased over the past decade. However, while Japan's direct exports to China have increased considerably (column labeled "China (B)" in Table 1 for Box 1), Japan's exports to Hong Kong have remained more or less flat (column labeled "Hong Kong (C)"); therefore, the discrepancy in the trade balance between Japan and China has not grown much (column labeled "Difference (A)-(B)").

Table 1 for Box 1: Japan's Exports to China and to Hong Kong and China's Imports from Japan

tril. yen

	China's imports from Japan (CIF) (A)	Japan's exports (FOB) (B+C)	China (B)	Hong Kong (C)	Difference (A)-(B)-(C)	Difference (A)-(B)
2001	5.2	6.6	3.8	2.8	-1.4	+1.4
02	6.7	8.2	5.0	3.2	-1.4	+1.8
03	8.6	10.1	6.6	3.5	-1.5	+2.0
04	10.2	11.8	8.0	3.8	-1.6	+2.2
05	11.0	12.8	8.8	4.0	-1.8	+2.2
06	13.5	15.0	10.8	4.2	-1.6	+2.7
07	15.8	17.4	12.8	4.6	-1.6	+3.0
08	15.7	17.1	12.9	4.2	-1.4	+2.8
09	12.2	13.2	10.2	3.0	-1.0	+2.0
10	15.6	16.8	13.1	3.7	-1.2	+2.5

Note: China's imports from Japan were converted to yen by the International Department of the Bank of Japan using the foreign exchange rates used for the calculation of customs values.

Sources: Ministry of Finance, *Trade Statistics of Japan* (for Japan); Bloomberg (for China).

The same phenomenon is observed in the opposite direction. That is, Japan's imports from China also exceed China's exports to Japan because Japan's imports from China include those via Hong Kong (Table 2 for Box 1).

Table 2 for Box 1: Japan's Imports from China and China's Exports to Japan

tril. yen

	Japan's imports from China (CIF) (A)	China's exports to Japan (FOB) (B)	Difference (A)-(B)
2001	7.0	5.5	+1.6
02	7.7	6.1	+1.6
03	8.7	6.9	+1.8
04	10.2	8.0	+2.2
05	12.0	9.2	+2.8
06	13.8	10.7	+3.1
07	15.0	12.0	+3.0
08	14.8	12.1	+2.7
09	11.4	9.2	+2.3
10	13.4	10.7	+2.7

Note: China's exports to Japan were converted to yen by the International Department of the Bank of Japan using the foreign exchange rates used for the calculation of customs values.

Sources: Ministry of Finance, *Trade Statistics of Japan* (for Japan); Bloomberg (for China).

¹⁸ Calculations using *Hong Kong External Merchandise Trade* for December 2010 released by the Census and Statistics Department, Hong Kong Special Administrative Region, People's Republic of China, show that about 60 percent of Hong Kong's imports from Japan were re-exported to China.

2. Differences in the Basis on which Exports and Imports are Valued

In trade statistics, imports are valued on a CIF (cost, insurance, and freight) basis, while exports are valued on an FOB (free on board) basis.¹⁹ Therefore, country A's imports from Japan exceed Japan's exports to country A by the amount of freight charges and insurance premiums (Figure 3 for Box 1). Because in the balance of payments statistics, imports are valued on an FOB basis, Japan's trade balance with China in the balance of payments statistics differs from that in the merchandise trade statistics by about 0.5 trillion yen a year on average (Table 3 for Box 1).

Figure 3 for Box 1: FOB Basis and CIF Basis

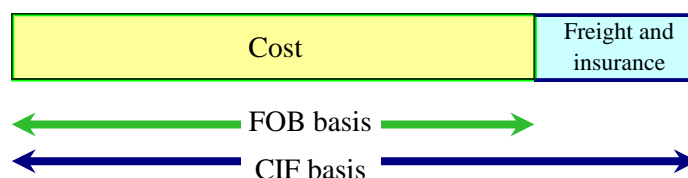


Table 3 for Box 1: Japan's Trade Balance with China

tril. yen	2006	2007	2008	2009	2010p
Balance of payments statistics	-2.5	-1.6	-1.3	-0.8	0.1
Merchandise trade statistics	-3.0	-2.2	-1.9	-1.2	-0.3

Note: Figures for 2010 in the balance of payments statistics above are estimated by the International Department of the Bank of Japan based on figures from the *Trade Statistics of Japan*.

Sources: Balance of Payments; Ministry of Finance, *Trade Statistics of Japan*.

3. Other Factors

Other factors for discrepancies in trade balance data between two countries include (1) fluctuations in the foreign exchange rates used for compiling the trade statistics, (2) differences in the definition of economic territories covered in the statistics, (3) differences in the threshold for low value shipments which are exempted from a customs declaration, and (4) differences in the time of recording (i.e., imports may be recorded by the importing country's customs authorities in the next period due to transportation time).

Concerning low value shipments, goods valued 0.2 million yen or less are not recorded in the *Trade Statistics of Japan*, while no such threshold is used in China.

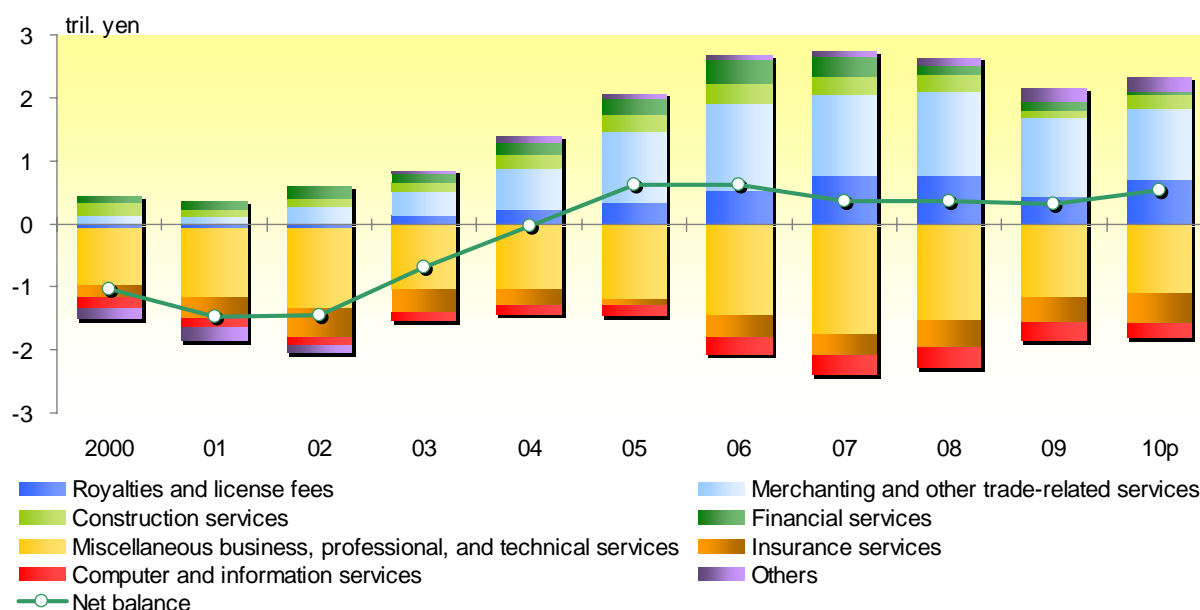
¹⁹ For details, see footnote 2 on p.4.

Box 2 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. Credits and debits of royalties and license fees as well as expenses for research and development and marketing are recorded under "other services."

The surplus in the balance of trade in other services increased in 2010, as credits of royalties and license fees increased and debits of miscellaneous business, professional, and technical services continued to decrease.

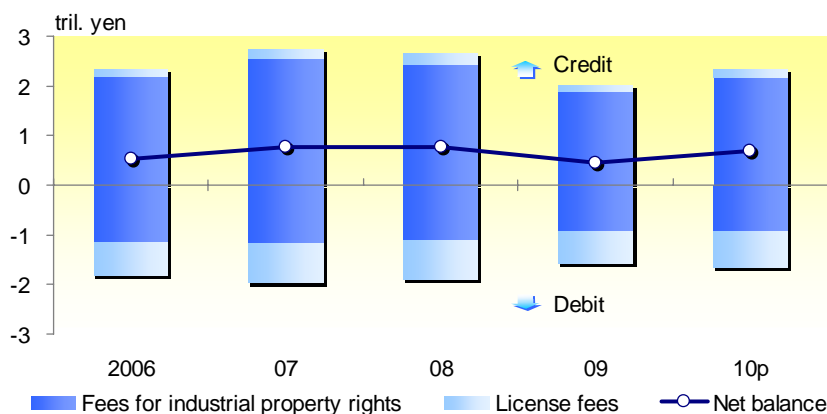
Figure 1 for Box 2: Balance of Other Services



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, a deficit in license fees, and a surplus in royalties and license fees overall (Figure 2 for Box 2).

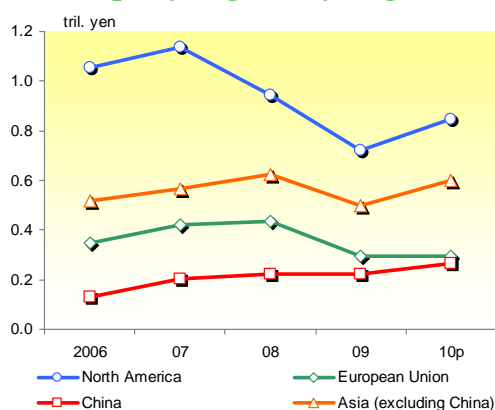
Figure 2 for Box 2: Royalties and License Fees



The surplus in fees for industrial property rights reflects the fact that Japanese car manufacturers receive royalties from their overseas production subsidiaries in proportion to the volume of local production. In 2010, receipts of fees for industrial property rights increased by 16.1 percent, reflecting the increase in overseas production by Japanese car manufacturers.

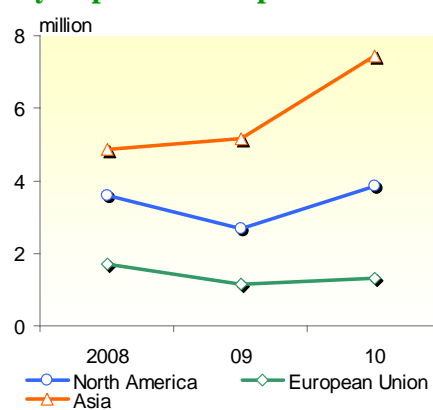
By region, reflecting continued growth or recovery in local production by Japanese car manufacturers, receipts of fees for industrial property rights from China, North America, and Asia (excluding China) all increased, with receipts from the latter two turning positive from the previous year.

Figure 3 for Box 2:
Receipts of Fees for Industrial Property Rights (By Region)



Note: Figures for 2010 are estimated by the International Department of the Bank of Japan based on the actual figures for the first three quarters of 2010.

Figure 4 for Box 2:
Number of Cars Manufactured Abroad by Japanese Companies



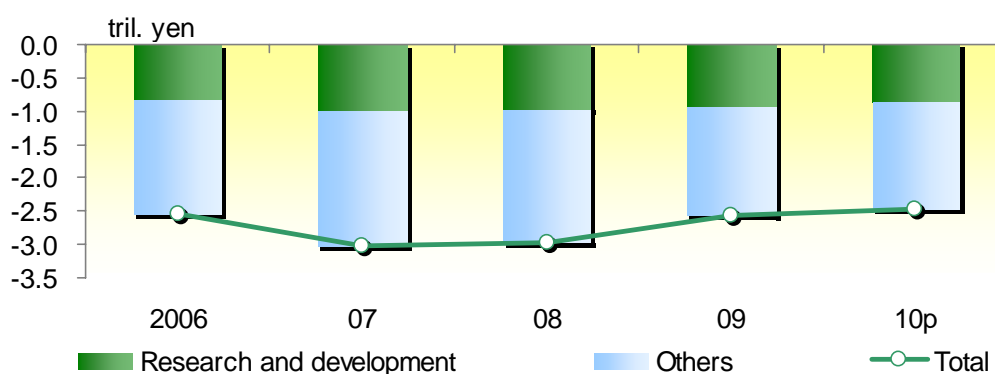
Note: Figures for 2010 are estimated by the International Department of the Bank of Japan based on the year-on-year rate of change for the first three quarters of 2010.

Source: Japan Automobile Manufacturers Association, Inc., *Overseas Productions*.

2. Miscellaneous Business, Professional, and Technical Services

Miscellaneous business, professional, and technical services include advertising expenses, research and development, and other business and professional services such as mineral exploration and mining costs and sales and administration expenses. In 2010, debits of miscellaneous business, professional, and technical services overall decreased by 3.6 percent in total due to a 6.7 percent decrease in payments for research and development reflecting a reduction of development expenses in the transportation equipment industry.

Figure 5 for Box 2: Breakdown of Payments for Miscellaneous Business, Professional, and Technical Services



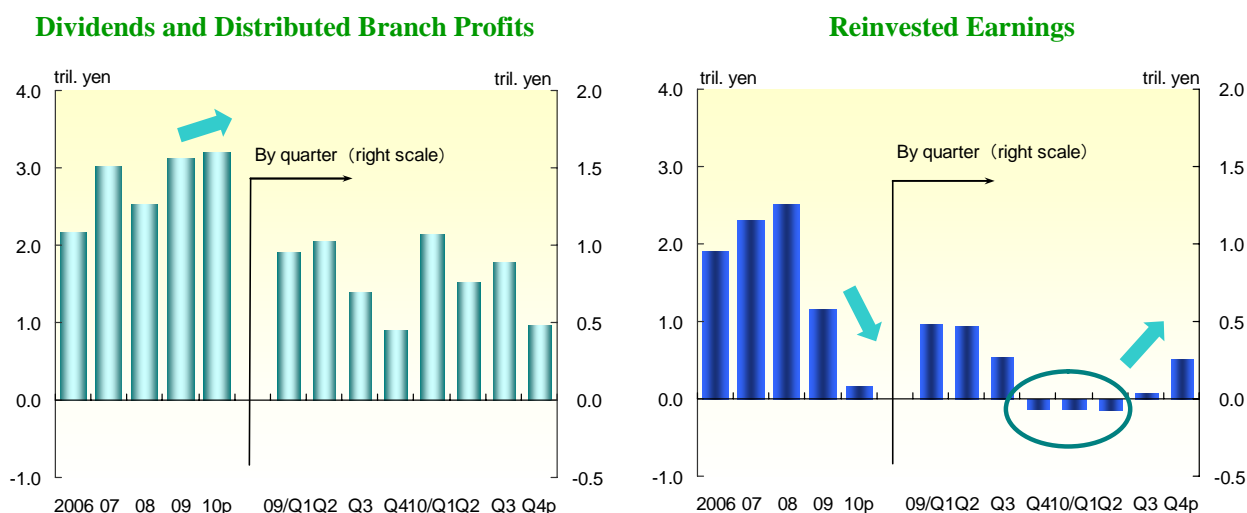
Box 3 Features of the Income from Outward Direct Investment in 2010

Receipts of direct investment income recorded under the "income" account fell below the previous year's level for the third consecutive year. The reason is that although receipts of dividends and distributed branch profits increased slightly due to the recovery in the business performance of overseas subsidiaries, receipts of reinvested earnings decreased significantly.

Reinvested earnings are imputed transactions for the earnings that subsidiaries do not distribute as dividends but accumulate as retained earnings. Such retained earnings are deemed to be paid out to direct investors as dividends and then reinvested in the overseas subsidiaries; thus they are recorded as income and direct investment. In Japan's balance of payments, changes in retained earnings of overseas subsidiaries are reflected with a time lag.²⁰

Receipts of reinvested earnings dropped significantly in 2010. Receipts, from the United States and the European Union in particular, remained negative until August 2010, reflecting (1) a decrease in the retained earnings of overseas subsidiaries due to their lackluster business performance in the fiscal year ending March 2009, and (2) the strategic withdrawal by Japanese parent companies of the retained earnings of their overseas subsidiaries. In September 2010, however, receipts turned positive reflecting a recovery in the business performance of overseas subsidiaries for the fiscal year ending March 2010.

Figure 1 for Box 3: Breakdown of Direct Investment Income



By region, receipts from the United States and the European Union decreased to 30–40 percent of the previous year's level. Receipts from Asia remained more or less unchanged from the previous year's level, while receipts from Oceania increased by about 50 percent from the previous year.

1. Direct Investment Income from Subsidiaries in the United States

Receipts fell significantly from the previous year as reinvested earnings turned negative. This reflects a decrease in the retained earnings of overseas subsidiaries (in the motor vehicle-related industry) due to their lackluster business performance in the fiscal year ending March 2009.

²⁰ For example, the changes in retained earnings of overseas subsidiaries recognized in parent companies' financial statements for the fiscal year ending March 2009 are, in the balance of payments statistics, allocated equally to each month from September 2009 to August 2010. For details on the definition and treatment of reinvested earnings, see footnote 10 on p.16.

2. Direct Investment Income from Subsidiaries in the European Union

Receipts fell significantly from the previous year as dividends decreased and reinvested earnings turned negative.

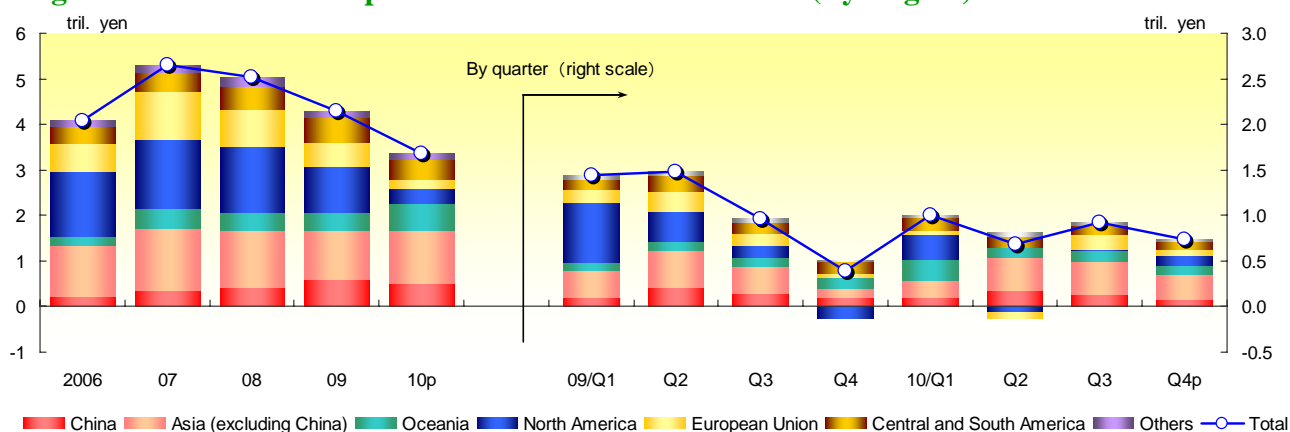
3. Direct Investment Income from Subsidiaries in Asia

Receipts from Asia remained more or less unchanged from the previous year. Receipts from the ASEAN countries (Singapore, Thailand, Indonesia, Malaysia, etc.), especially from subsidiaries in the motor vehicle-related and natural resources industries, increased. Receipts from China decreased slightly due to the reverse following large-scale dividend receipts seen in the previous year.

4. Direct Investment Income from Subsidiaries in Oceania

Receipts increased by about 50 percent from the previous year reflecting the good business performance of subsidiaries in the natural resources industry.

Figure 2 for Box 3: Receipts of Direct Investment Income (By Region)

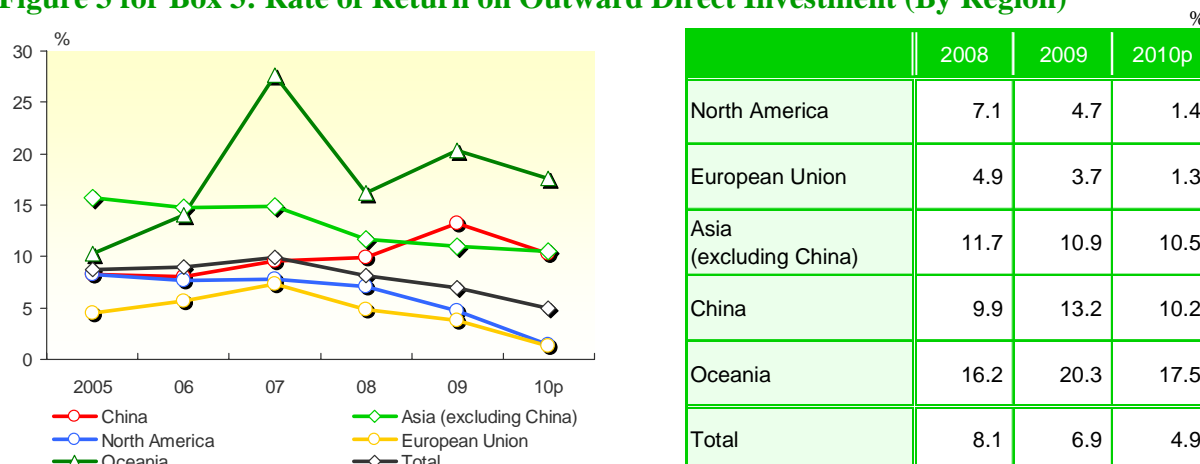


Note: Figures for 2010 and the fourth quarter of 2010 by region above are estimated by the International Department of the Bank of Japan.

5. Rate of Return on Outward Direct Investment by Region

The rates of return on outward direct investment by region reflect the developments described above.

Figure 3 for Box 3: Rate of Return on Outward Direct Investment (By Region)



Note: The rate of return on outward direct investments is calculated by dividing the annual direct investment income receipts by the outward direct investment position as of the end of the previous year.

Box 4 Recent Trends in Workers' Remittances

In balance of payments statistics, data on workers' remittances are disseminated as a sub-component of "current transfers" under the current account. Workers' remittances is defined as current transfers by migrants who are employed in new economies and considered residents there.

On a global basis, workers' remittance flows outweigh ODA flows (128.6 billion U.S. dollars in 2008). According to calculations by the World Bank, workers' remittances to developing countries, which had stood at 85 billion U.S. dollars in 2000, exceeded 300 billion U.S. dollars in 2008 (Table 1 for Box 4).

Against this background, focusing on the role of workers' remittances as funding sources for poverty reduction and economic growth in developing countries, the international community has been promoting action to remove various obstacles to remittances and to improve relevant statistics.²¹

Table 1 for Box 4: Inflows of Workers' Remittances to Developing Countries

bil. USD

	2000	2007	2008	2009	2010e
Total developing countries	85	278	325	307	325
East Asia and Pacific	17	71	85	86	91
Europe and Central Asia	13	39	46	35	37
Latin America and Caribbean	20	63	65	57	58
Middle-East and North Africa	13	32	36	34	35
South Asia	17	54	72	75	83
Sub-Saharan Africa	5	19	21	21	21

Note: "e" denotes estimate by the World Bank.

Source: World Bank, *Migration and Development Brief*.

The following provides an overview of workers' remittances to and from Japan in recent years.

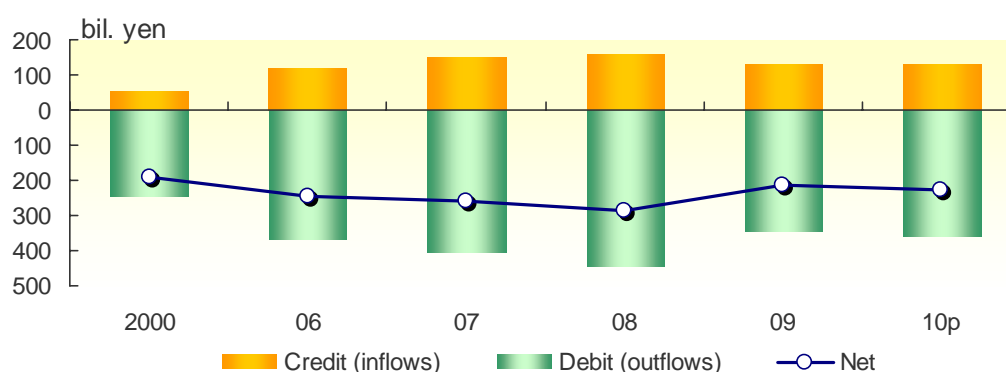
1. Overall Trend

In Japan's balance of payments, workers' remittances are defined as living expense remittances by foreigners employed in Japan to family members in their home country (debit/outflows) and living expense remittances by Japanese employed abroad to family members in Japan (credit/inflows). In Japan, outflows have been consistently exceeding inflows.

Outflows of workers' remittances steadily increased until 2008. However, in 2009, outflows decreased significantly as the employment situation in Japan worsened. In 2010, outflows picked up again reflecting the economic recovery and the yen's appreciation (Figure 1 for Box 4). The balance of workers' remittances registered a deficit of 228.1 billion yen in 2010.

²¹ To improve relevant statistics, national statistical agencies and international organizations collaborated to prepare and publish a compilation guide. In addition, the G8 Global Remittance Working Group was established in 2009, under which discussions have been proceeded to improve data on remittances.

Figure 1 for Box 4: Workers' Remittances



2. Developments by Country

In Japan, data on workers' remittances by country are available from 2006.²² Since then, remittances to China have been on the rise, although they dipped slightly in 2009. China has been the largest recipient country since 2007. From 2006 to 2010, outflows to China more than doubled, while outflows to other major countries remained unchanged or fell dramatically.

Table 2 for Box 4: Outflows of Workers' Remittances by Country (Top 5 Recipient Countries)

bil. yen

	2006	2007	2008	2009	2010p	Percentage change from 2006 to 2010
Total	366.6	406.6	446.3	347.0	360.2	-1.8%
China	77.6	97.5	132.2	130.7	162.3	+109.1%
United States	70.1	92.4	92.7	54.9	45.8	-34.7%
Brazil	81.4	79.2	73.5	40.8	32.4	-60.2%
Philippines	28.6	32.4	33.5	28.7	29.4	+2.9%
United Kingdom	12.9	11.4	13.7	13.0	7.6	-40.9%

Note: Figures for 2010 by country are estimated by the International Department of the Bank of Japan based on actual figures for the first three quarters of 2010.

Features of workers' remittances to China, Brazil, the United States, and the United Kingdom, all of which are among the top five recipient countries of remittances from Japan, are summarized below.

²² Given the international need for more accurate data on workers' remittances, the source data on workers' remittances were expanded and data on workers' remittances by country and region started to be disseminated in January 2006 in Japan's balance of payments statistics.

(1) China

Looking at the number of registered foreign nationals residing in Japan, the number of registered foreign nationals from China is increasing steadily (Table 3 for Box 4). Chinese nationals also account for the largest share (44.2 percent) of foreign employees (Figure 2 for Box 4).

Reflecting such developments, remittance flows to China continued to increase significantly up to 2008. Although remittances decreased slightly in 2009, they recovered in 2010, making up nearly 50 percent of total remittance outflows.

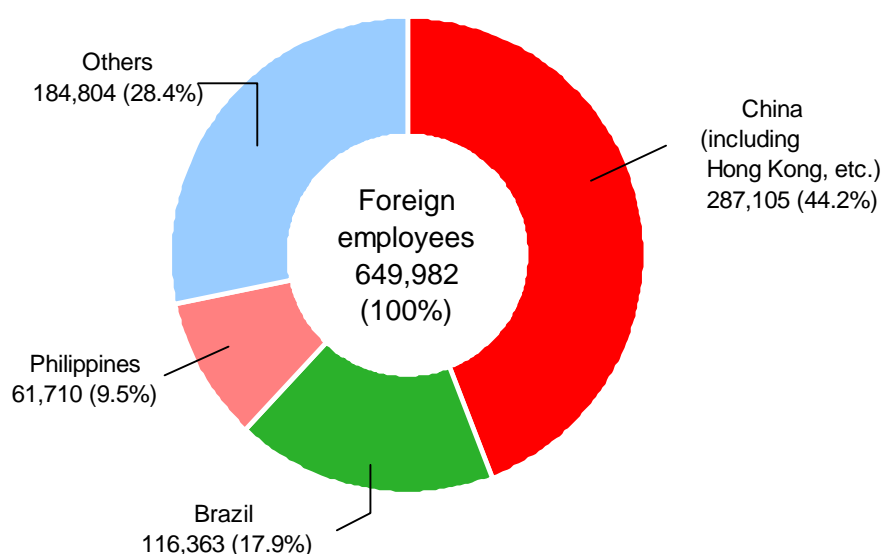
Table 3 for Box 4: Number of Registered Foreign Nationals from China

thousand people							year-end
		2004	2005	2006	2007	2008	2009
China		488	520	561	607	655	681
	Change from the previous year	+5.4%	+6.6%	+7.9%	+8.2%	+8.0%	+3.8%

Source: Ministry of Justice.

Figure 2 for Box 4: Share of Foreign Employees by Nationality

(as of October 31, 2010)

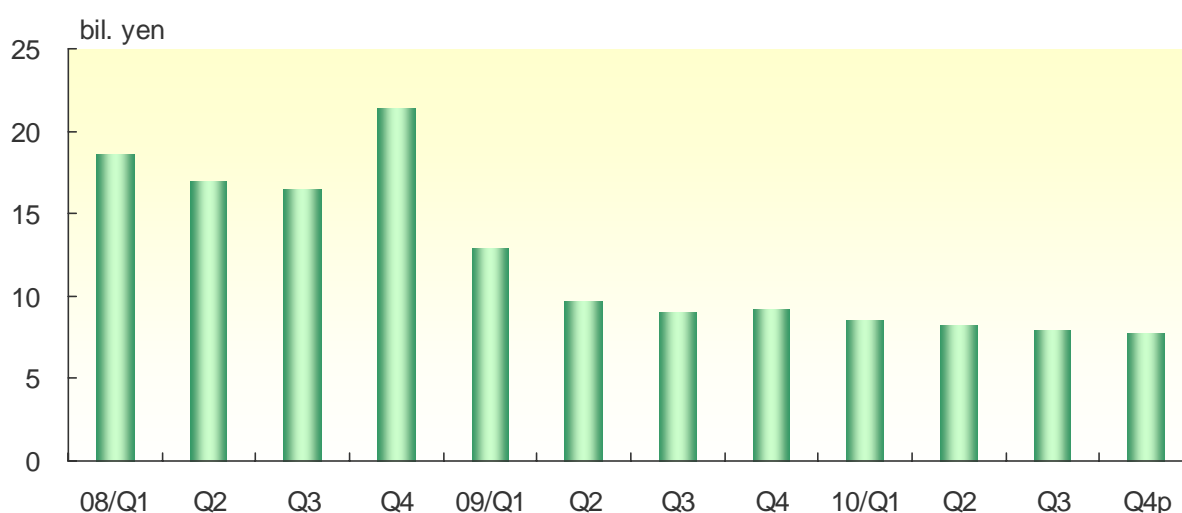


Source: Ministry of Health, Labour and Welfare.

(2) Brazil

Brazil was the major recipient country of remittances from Japan in 2006, with residents that had come to Japan to work for a long term, including third-generation Japanese Brazilians, making up the main group of remitters. However, the number of residents who have been settled in Japan for a long term has been decreasing moderately since 2007. Moreover, as the employment situation in Japan worsened due to the financial crisis in the fall of 2008, the number of migrants returning to Brazil increased. Although remittance flows to Brazil increased temporarily in the fourth quarter of 2008 as the returning migrants sent money before going home,²³ remittances have continued to be on a declining trend, reflecting sluggish economic conditions in Japan. Flows dropped significantly in 2009 and remained on a downtrend in 2010 (Figure 3 for Box 4).

Figure 3 for Box 4: Workers' Remittances to Brazil



Note: Remittances for the fourth quarter of 2010 are estimated by the International Department of the Bank of Japan based on the actual figures for the first three quarters of 2010.

(3) United States and United Kingdom

Most of the remittances to the United States and the United Kingdom are made by companies on behalf of their officers and staff. Specifically, the head office or the human resource department abroad provisionally disburses the salaries of officers and staff that have been temporarily transferred from the head office to an affiliate in Japan, and the affiliate then reimburses an equivalent amount of money to the head office or the human resource department. Since such funds tend to be used for the living expenses of the transferred officers and staff's family members in the home country, they are recorded in Japan's balance of payments statistics as remittance outflows.

Remittances to the two countries have become considerable because pay levels of Western companies are generally high and whole salaries are usually remitted.

²³ Given the severe job market situation, the Ministry of Health, Labour and Welfare (Foreign Workers' Affairs Division, Employment Security Bureau) offered a fixed amount of monetary aid to unemployed foreigners of Japanese descent who had decided to give up looking for another job in Japan and return home. The amount was 300,000 yen per person for workers and 200,000 yen per person for dependents. The money was intended to help with the return, for example, to cover the cost of air tickets, and those interested had to apply between April 2009 and March 2010. The number of applicants was about 22,000 and the total amount of money provided reached several billion yen.

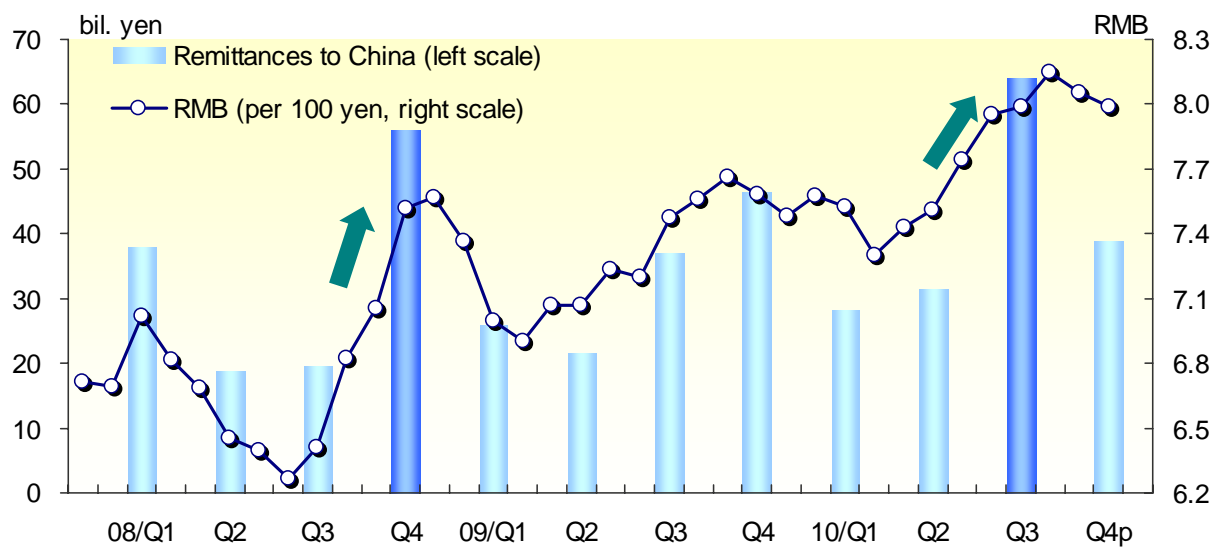
3. Recent Features of Workers' Remittances to China

In general, workers' remittances occur in small amounts, constantly throughout the year, because they are essentially allowances for family members in the home country.

However, the pattern of workers' remittances to China differs somewhat from this. Specifically, remittances tend to be linked to developments in the foreign exchange market; that is, remittances tend to be large and concentrated in specific periods when the yen appreciates to the RMB.

The relationship between remittance flows to China and the RMB/yen exchange rate shows that flows increased sharply in the fourth quarter of 2008 and in the third quarter of 2010, both of which were periods when the yen especially appreciated against the RMB (Figure 4 for Box 4).

Figure 4 for Box 4: Workers' Remittances to China and the RMB/Yen Exchange Rate



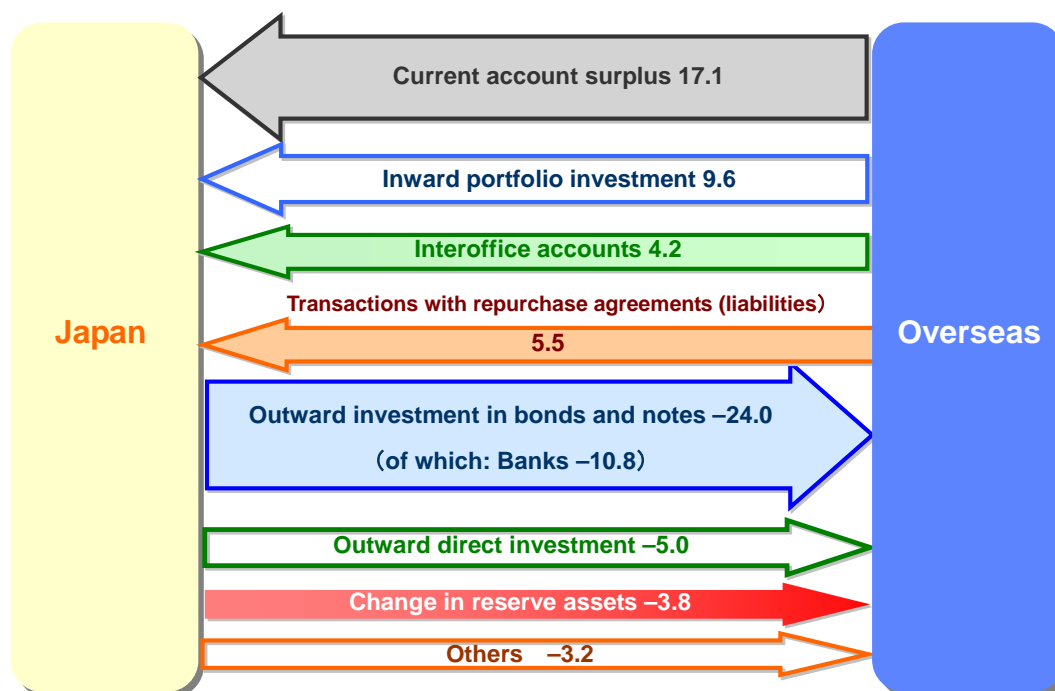
Note: Remittances for the fourth quarter of 2010 are estimated by the International Department of the Bank of Japan based on the actual figures for the first three quarters of 2010.

Source: Bloomberg (for the exchange rate).

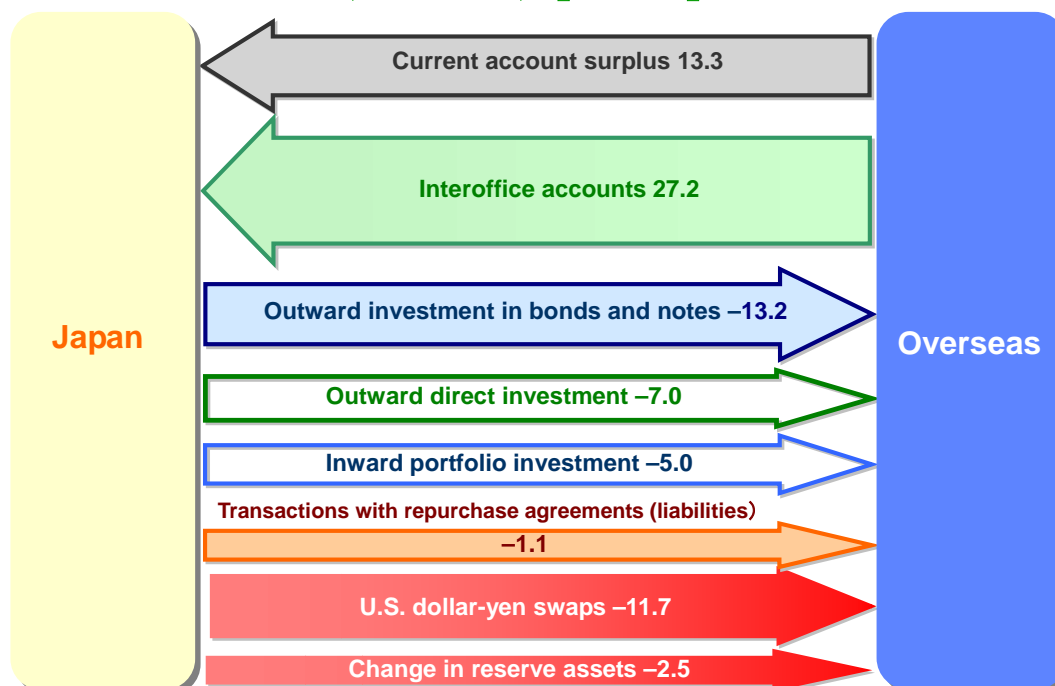
Box 5 Cross-Border Flows of Funds in 2010

Looking at developments in major balance of payments items in 2010, net outward investment in bonds and notes (outflows) marked a record high, primarily due to active purchases by banks, while foreign currency funds for such purchases were obtained through transactions with repurchase agreements and interoffice accounts.

【 2010 】



(Reference) 【 2009 】



Notes: 1. Unit: trillion yen.

2. The arrows indicate the net flow of funds (inflows/outflows). 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).

Reference Data Underlying Figures in Boxes 2, 3, and 4

For reference, the following tables provide data used for some of the figures shown in Boxes 2, 3, and 4.

Data for Figure 3 for Box 2: Receipts of Fees for Industrial Property Rights (By Region)

bil. yen

	North America	European Union	China	Asia (excluding China)
2006	1,055.9	349.0	131.1	519.3
07	1,138.7	423.0	203.5	567.8
08	942.7	433.1	222.9	624.5
09	723.1	296.3	220.9	498.0
10p	845.2	295.2	268.1	601.4

Note: Figures for 2010 are estimated by the International Department of the Bank of Japan based on the actual figures for the first three quarters of 2010.

Data for Figure 2 for Box 3: Receipts of Direct Investment Income (By Region)

bil. yen

	Total	China	Asia (excluding China)	Oceania	North America	European Union	Central and South America	Others
2006	4,082.6	233.0	1,103.5	214.9	1,417.4	610.1	364.4	139.3
07	5,309.3	346.2	1,373.3	452.4	1,513.4	1,035.3	432.0	156.7
08	5,033.9	424.5	1,264.8	359.6	1,482.2	801.6	486.7	214.5
09	4,286.8	583.9	1,093.0	396.9	991.8	544.9	540.5	135.8
10p	3,354.2	518.8	1,164.7	584.8	319.7	215.9	437.5	112.9
09/Q1	1,438.0	104.0	304.7	71.2	670.7	137.2	118.8	31.5
Q2	1,488.5	218.8	400.9	106.3	313.2	234.4	174.3	40.8
Q3	968.1	158.1	284.2	102.0	132.7	131.2	113.0	46.9
Q4	392.2	102.9	103.3	117.5	-124.7	42.2	134.5	16.6
10/Q1	1,005.3	102.2	183.0	242.6	267.5	54.1	125.2	30.7
Q2	687.9	183.2	359.5	118.3	-61.1	-67.3	119.6	35.6
Q3	922.8	142.0	356.2	120.6	13.1	161.0	100.4	29.6
Q4p	738.3	91.4	265.9	103.3	100.2	68.1	92.4	17.0

Note: Figures for 2010 and the fourth quarter of 2010 by region above are estimated by the International Department of the Bank of Japan.

Data for Figure 3 for Box 3: Rate of Return on Outward Direct Investment (By Region)

%

	Total	China	Asia (excluding China)	North America	European Union	Oceania
2005	8.7	8.3	15.7	8.2	4.5	10.2
06	9.0	8.0	14.8	7.7	5.6	14.1
07	9.9	9.6	14.9	7.8	7.3	27.6
08	8.1	9.9	11.7	7.1	4.9	16.2
09	6.9	13.2	10.9	4.7	3.7	20.3
10p	4.9	10.2	10.5	1.4	1.3	17.5

Note: The rate of return on outward direct investments is calculated by dividing the annual direct investment income receipts by the outward direct investment position as of the end of the previous year.

Data for Figures 3 and 4 for Box 4: Workers' Remittances to Brazil and China

bil. yen

	Brazil	China
08/Q1	18.6	37.9
Q2	17.0	18.8
Q3	16.5	19.6
Q4	21.4	55.9
09/Q1	12.9	25.9
Q2	9.7	21.5
Q3	9.0	36.9
Q4	9.2	46.5
10/Q1	8.5	28.1
Q2	8.2	31.3
Q3	7.9	63.9
Q4p	7.8	39.0

Note: Remittances for the fourth quarter of 2010 are estimated by the International Department of the Bank of Japan based on the actual figures for the first three quarters of 2010.