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## **Japan's Balance of Payments for 2013**

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**May 2014**

**International Department**

**Bank of Japan**

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## I. Summary

Japan's current account surplus decreased to 3.3 trillion yen in 2013 from 4.8 trillion yen in 2012, mainly due to an increase in the deficit on goods. The capital and financial account shifted to net inflows of 4.6 trillion yen in 2013 from net outflows of 8.2 trillion yen in 2012, mainly because portfolio investment shifted to net inflows as investments in foreign securities by Japanese investors shifted to net sales (inflows) and net purchases of Japanese securities by foreign investors (inflows) increased. Reserve assets increased by 3.9 trillion yen in 2013 after having decreased by 3.1 trillion yen in 2012. The *Balance of Payments (BOP)* data for 2013 and the fourth quarter of 2013 throughout this report are preliminary.

**Table 1: Japan's Balance of Payments**<sup>1,2</sup>

bil. yen, %		2009	2010	2011	2012	2013p	Highlights
<b>Current account</b>		13,735.6	17,887.9	9,550.7	4,823.7	3,306.1	The surplus decreased for the third consecutive year, mainly due to an increase in the deficit on goods. The surplus registered a record low since 1985, from when comparable data are available.
	Change from the previous year	-2,926.2	+4,152.3	-8,337.2	-4,727.1	-1,517.6	
	Year-on-year percent change	-17.6	+30.2	-46.6	-49.5	-31.5	
Goods and services		2,124.9	6,564.6	-3,378.1	-8,304.1	-12,234.9	The deficit increased for the second consecutive year.
	Change from the previous year	+234.9	+4,439.8	-9,942.7	-4,926.1	-3,930.8	
Goods		4,038.1	7,978.9	-1,616.5	-5,814.1	-10,639.9	The deficit increased for the second consecutive year.
	Change from the previous year	+10.3	+3,940.9	-9,595.4	-4,197.6	-4,825.8	
	Year-on-year percent change	+0.3	+97.6	Negative	3.6 times	+83.0	
Exports		50,857.2	63,921.8	62,724.8	61,442.1	66,969.4	Increased after decreasing the previous two years.
Imports		46,819.1	55,942.9	64,341.2	67,256.2	77,609.3	Increased for the fourth consecutive year.
Services		-1,913.2	-1,414.3	-1,761.6	-2,490.0	-1,595.0	The deficit decreased.
Transportation		-838.3	-662.3	-888.1	-1,211.9	-720.1	The deficit decreased.
Travel		-1,388.6	-1,287.5	-1,296.3	-1,061.7	-688.2	The deficit decreased for the second consecutive year.
Other services		313.7	535.6	422.9	-216.4	-186.7	The deficit decreased.
Income		12,774.2	12,414.9	14,038.4	14,272.3	16,531.8	The surplus increased for the third consecutive year.
Of which:							
Direct investment income		3,460.2	2,851.3	3,821.8	4,214.2	5,315.2	The surplus increased for the third consecutive year.
Portfolio investment income		8,792.2	8,993.0	9,538.6	9,396.0	10,541.7	The surplus increased.
Current transfers		-1,163.5	-1,091.7	-1,109.6	-1,144.5	-990.8	The deficit decreased.
<b>Capital and financial account</b>		-14,267.8	-17,697.1	1,172.2	-8,187.8	4,609.0	Shifted to net inflows.
Financial account <sup>3,4</sup>		-13,802.5	-17,263.0	1,144.0	-8,107.4	5,352.2	Shifted to net inflows.
Direct investment		-5,872.5	-5,048.7	-8,727.5	-9,640.1	-12,971.2	Net outflows increased for the third consecutive year.
Outward direct investment		-6,989.6	-4,938.8	-8,587.2	-9,778.2	-13,194.3	Net investments (outflows) increased for the third consecutive year.
Inward direct investment		1,117.1	-109.9	-140.3	138.2	223.2	Net investments (inflows) increased.
Portfolio investment		-21,254.9	-16,236.1	15,296.5	-6,116.0	23,939.9	Shifted to net inflows.
Outward portfolio investment		-16,303.6	-25,834.1	-6,122.8	-14,696.8	6,077.2	Shifted to net sales (inflows), mainly due to an increase in net sales of foreign equity securities and a decrease in net purchases of foreign bonds and notes (outflows).
Equity securities		-3,030.2	-2,057.4	-928.8	2,135.1	6,619.7	
Bonds and notes		-13,173.6	-24,040.6	-5,925.8	-17,048.4	-313.6	
Money market instruments		-99.7	263.8	731.8	216.5	-228.9	
Inward portfolio investment		-4,951.3	9,598.0	21,419.3	8,580.8	17,862.7	Net purchases (inflows) increased, mainly due to an increase in net purchases of Japanese equity securities.
Equity securities		964.2	2,919.7	550.7	2,351.2	17,011.8	
Bonds and notes		-7,711.7	437.5	4,175.2	2,719.5	-1,394.2	
Money market instruments		1,796.2	6,240.8	16,693.4	3,510.0	2,245.1	
Financial derivatives		948.7	1,026.2	1,347.0	-590.3	-5,513.9	Net outflows increased.
Other investment		12,247.2	2,995.4	-6,779.8	8,250.5	-103.2	Shifted to net outflows.
Assets		18,244.3	-8,412.0	-10,761.5	-4,733.3	-16,086.5	
Liabilities		-5,997.1	11,407.5	3,981.6	12,983.8	15,983.3	
Capital account		-465.3	-434.1	28.2	-80.4	-743.2	The deficit increased.
Of which:							
Capital transfers		-238.5	-328.5	37.5	17.2	-607.2	
<b>Changes in reserve assets<sup>3</sup></b>		-2,526.5	-3,792.5	-13,789.7	3,051.5	-3,850.4	Increased after decreasing the previous year.
<b>Errors and omissions</b>		3,058.7	3,601.7	3,066.9	312.6	-4,064.8	—

Notes: 1. As figures have been rounded to the nearest final digit, there may be slight discrepancies between the sums of the constituent items and the totals as shown.

2. Throughout this report, "p" in the tables and figures denotes preliminary data.

3. Negative figures in the financial account and changes in reserve assets represent financial outflows (i.e., increases in assets and decreases in liabilities).

4. Figures for portfolio investment and other investment in the financial account exclude securities lending transactions. Therefore, figures in the financial account do not add up to the total.

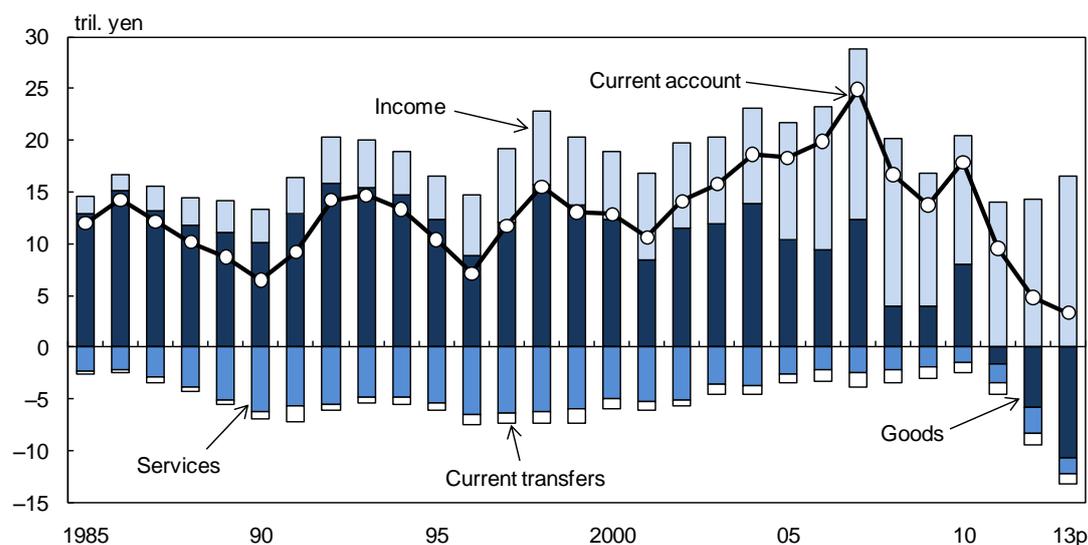
## II. Current Account

### A. Summary

The current account surplus decreased, mainly due to an increase in the deficit on goods.<sup>1</sup> The deficit on goods increased because the increase in imports exceeded that in exports. The deficit on services decreased because the deficits on transportation, travel, and other services decreased. The surplus on income increased because receipts of direct investment income and portfolio investment income increased. The deficit on current transfers decreased.

Monthly current account figures for 2013 show a deficit for three consecutive months since October of that year. Seasonally adjusted monthly figures show that -- when seasonal variations are removed -- Japan registered a deficit for four consecutive months starting in September, the first time a seasonally adjusted current account deficit for two or more consecutive months was recorded.<sup>2,3</sup>

**Figure 1: Current Account**

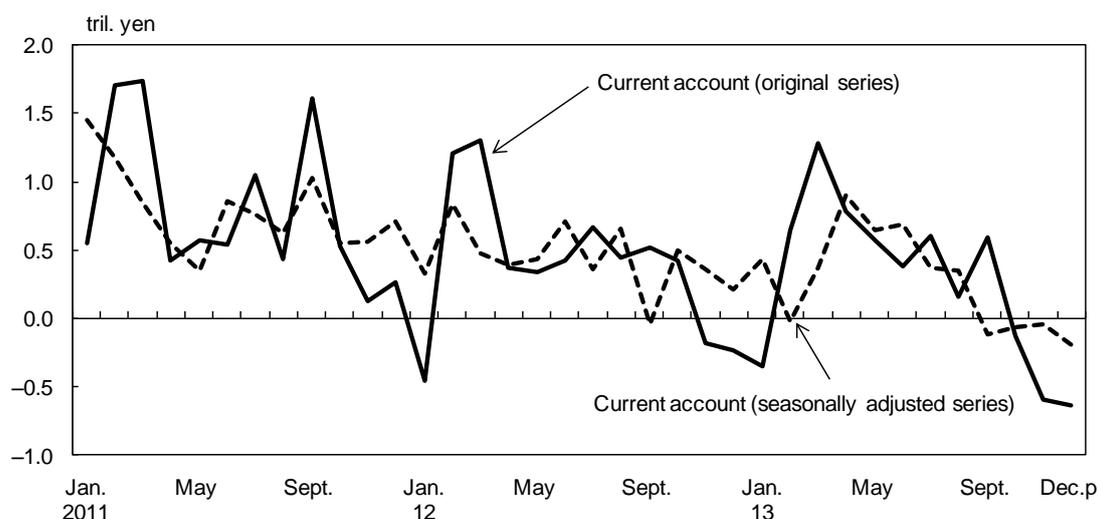


<sup>1</sup> The current account surplus for 2013 registered a record low since 1985, from when comparable data are available.

<sup>2</sup> For details on the seasonality of the current account, see Box 2, "Seasonality of the Current Account."

<sup>3</sup> Seasonally adjusted data are revised twice a year. Therefore, the data in this report are subject to retroactive revision.

**Figure 2: Current Account (Monthly)**



## B. Developments in the Main Components

### 1. Goods

Exports increased to 67.0 trillion yen in 2013 from 61.4 trillion yen in 2012 due to an increase in exports to North America and China as well as an increase in their yen value reflecting the yen's depreciation.<sup>4</sup> Imports -- led by rises in items such as mineral fuels and electrical machinery -- also increased to a record high, reaching 77.6 trillion yen in 2013 from 67.3 trillion yen in 2012, mainly because of the increase in their yen value reflecting the yen's depreciation. As the increase in imports exceeded that in exports, the deficit on goods increased significantly to 10.6 trillion yen in 2013 from 5.8 trillion yen in 2012.<sup>5</sup>

<sup>4</sup> On an annual average basis, the yen stood at 94.4 yen to the U.S. dollar, a depreciation of 19.5 percent compared to 2012, and at 124.4 yen to the euro, a depreciation of 21.8 percent compared to 2012. The exchange rates used in the conversion were determined in accordance with Article 35, item 2 of the ministerial ordinance concerning reports on foreign exchange transactions, etc. (referred to as "ministerial ordinance rates" hereafter).

<sup>5</sup> The deficit on goods for 2013 registered a record high since 1948. However, data series through 1984 are not directly comparable to the current data series because of differences in compilation methods. For details of Japan's largest surpluses and deficits on the current account and goods, see "Japan's Balance of Payments for 2012" released on July 24, 2013, available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

Developments by region and by commodity are as follows. Figures for both exports and imports are based on the *Trade Statistics of Japan* (the *Trade Statistics*).<sup>6</sup>

**Table 2: Exports by Region and by Commodity**

tril. yen

	2012	2013	Change from the previous year	Contribution to overall export growth (% points)
Total exports	63.7	69.8	+6.0	+9.5
Asia	34.9	37.9	+3.0	+4.7
Of which: China	11.5	12.6	+1.1	+1.8
North America	12.0	13.8	+1.8	+2.8
Central and South America	3.4	3.6	+0.1	+0.2
EU	6.5	7.0	+0.5	+0.8
Others	6.9	7.6	+0.6	+1.0
Machinery	12.8	13.4	+0.5	+0.8
Chemicals	6.4	7.5	+1.1	+1.8
Manufactured goods	8.4	9.2	+0.7	+1.2
Of which: Iron and steel products	3.5	3.8	+0.3	+0.5
Transport equipment	15.0	16.3	+1.4	+2.1
Of which: Motor vehicles	9.2	10.4	+1.2	+1.9
Others	21.1	23.4	+2.3	+3.6

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

<sup>6</sup> While the *Trade Statistics* are the main data source for goods in the *BOP*, the definitions of exports and imports of goods differ between the two statistics and certain adjustments are made to compile the *BOP*. The major differences are described below:

	<i>Trade Statistics</i>	Goods in the <i>BOP</i>
Valuation	Exports: FOB (Free on Board), i.e., the price of goods at the frontier of the exporting country is recorded. Imports: CIF (Cost, Insurance, and Freight), i.e., including insurance premiums and freight charges in addition to the price of goods.	Exports: FOB Imports: FOB
Coverage	Goods that have crossed Japan's customs frontier	In principle, goods whose ownership has changed between residents and nonresidents. Returned goods are excluded.
Time of recording	Exports: When the ship or aircraft carrying the goods leaves the port Imports: When import of the goods is permitted	When ownership changes

**Table 3: Imports by Region and by Commodity**

tril. yen

	2012	2013	Change from the previous year	Contribution to overall import growth (% points)
Total imports	70.7	81.3	+10.6	+15.0
Asia	31.3	36.0	+4.7	+6.6
Middle East	13.5	15.7	+2.1	+3.0
EU	6.6	7.6	+1.0	+1.4
North America	7.1	8.0	+0.9	+1.3
Others	12.1	14.0	+1.9	+2.7
Mineral fuels	24.1	27.4	+3.3	+4.7
Of which:				
Liquefied natural gas	6.0	7.1	+1.1	+1.5
Petroleum	12.2	14.2	+2.0	+2.8
Transport equipment	2.3	2.8	+0.5	+0.7
Of which:				
Aircraft	0.6	0.7	+0.1	+0.2
Motor vehicles	0.9	1.1	+0.2	+0.3
Electrical machinery	8.4	10.3	+1.9	+2.6
Of which:				
Telecommunications apparatus	2.1	2.7	+0.5	+0.7
Manufactured goods	5.5	6.2	+0.7	+1.0
Raw materials	4.8	5.4	+0.7	+0.9
Others	25.6	29.1	+3.5	+5.0

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

## 2. Services

The deficit on services decreased to 1.6 trillion yen in 2013 from 2.5 trillion yen in 2012, because the deficits on transportation, travel, and other services decreased.

**Table 4: Services**

bil. yen

	2012	2013p	Change from the previous year	Major factors
Services	-2,490.0	-1,595.0	+895.0	—
Transportation	-1,211.9	-720.1	+491.9	The deficit decreased due to an increase in receipts for sea transport.
Of which:				
Sea transport	-570.6	-139.9	+430.7	
Air transport	-632.7	-567.7	+65.0	
Travel	-1,061.7	-688.2	+373.5	The deficit decreased reflecting an increase in receipts due to an increase in the number of foreign visitors to Japan. <sup>1</sup>
Credit	1,163.1	1,457.4	+294.3	
Debit	2,224.8	2,145.6	-79.2	
Other services	-216.4	-186.7	+29.7	The deficit decreased due to increases in the surplus on merchanting and other trade-related services as well as on royalties and license fees.
Credit	7,248.8	8,963.5	+1,714.7	
Debit	7,465.2	9,150.2	+1,685.0	
Of which:				The surplus increased since receipts increased reflecting a rise in revenues on merchanting.
Merchanting and other trade-related services	598.9	1,151.8	+552.9	
Credit	1,422.1	2,168.2	+746.1	
Debit	823.3	1,016.5	+193.2	
Miscellaneous business, professional, and technical services	-1,543.6	-2,292.9	-749.3	The deficit increased as payments for other business/professional services increased.
Credit	1,311.5	1,539.6	+228.1	
Debit	2,855.1	3,832.5	+977.4	
Insurance services	-620.6	-609.4	+11.2	The deficit continued.
Credit	-31.5	17.2	+48.7	
Debit	589.1	626.6	+37.6	
Royalties and license fees	956.9	1,334.8	+377.9	The surplus increased as receipts of royalties in the transportation equipment and pharmaceuticals industries increased.
Credit	2,544.5	3,063.2	+518.7	
Debit	1,587.6	1,728.3	+140.8	

Note: 1. According to the Japan National Tourism Organization, the number of foreign visitors to Japan reached about 10.36 million in 2013, an increase of 24.0 percent from the previous year.

### 3. Income

The surplus on income increased to 16.5 trillion yen in 2013 from 14.3 trillion yen in 2012, because receipts of direct investment income and portfolio investment income increased, partly due to an increase in their yen value reflecting the yen's depreciation.<sup>7</sup>

<sup>7</sup> Specifically, the surplus on income for 2013 reached 16.53 trillion yen, the highest level since 1985, from when comparable data are available. The second highest level, 16.47 trillion yen, was registered in 2007.

**Table 5: Income**

bil. yen

	2012	2013p	Change from the previous year	Major factors
Income	14,272.3	16,531.8	+2,259.5	—
Of which:				
Direct investment income	4,214.2	5,315.2	+1,101.0	The surplus increased due to an increase in receipts of dividends and distributed branch profits.
Credit	5,433.6	6,650.4	+1,216.8	Total receipts increased because the business performance of overseas subsidiaries of Japanese companies improved and some Japanese companies, taking advantage of the yen's depreciation, withdrew surplus funds from their overseas subsidiaries in the form of dividends.
Of which:				
Dividends and distributed branch profits	3,265.6	4,773.6	+1,508.0	
Reinvested earnings	2,116.7	1,796.0	-320.7	
Debit	1,219.4	1,335.2	+115.8	Total payments increased due to an increase in payments of dividends and distributed branch profits, mainly reflecting an improvement in the business performance of Japanese subsidiaries of foreign companies.
Of which:				
Dividends and distributed branch profits	1,017.9	1,270.8	+252.9	
Reinvested earnings	172.1	40.5	-131.6	
Portfolio investment income	9,396.0	10,541.7	+1,145.8	The surplus increased due to an increase in receipts of income on equity and debt.
Income on equity	2,829.6	3,036.0	+206.4	The surplus increased because of an increase in receipts reflecting an increase in their yen value due to the yen's depreciation.
Credit	4,612.9	5,257.0	+644.1	
Debit	1,783.4	2,221.1	+437.7	
Income on debt	6,566.4	7,505.7	+939.3	The surplus increased because of an increase in receipts reflecting an increase in their yen value due to the yen's depreciation.
Credit	7,501.1	8,537.0	+1,035.9	
Debit	934.7	1,031.3	+96.6	

#### 4. Current transfers

The deficit on current transfers decreased to 1.0 trillion yen in 2013 from 1.1 trillion yen in 2012, as the deficit for the public sector decreased.

**Table 6: Current Transfers**

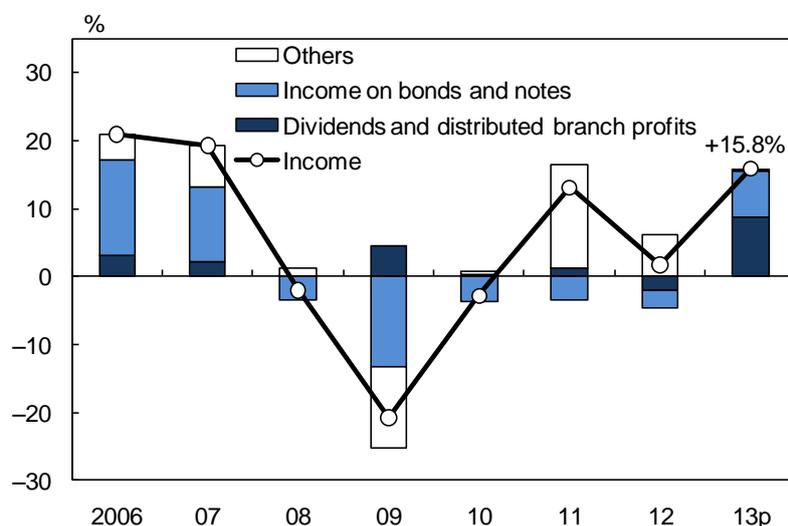
bil. yen

	2012	2013p	Change from the previous year	Major factors
Current transfers	-1,144.5	-990.8	+153.8	—
Public sector	-485.7	-330.8	+154.8	The deficit decreased.
Other sectors	-658.9	-659.9	-1.1	The deficit remained at around the previous year's level as receipts of workers' remittances increased and payments decreased, while payments of other transfers increased.
Workers' remittances	-114.7	-47.4	+67.2	
Other transfers	-544.2	-612.5	-68.3	

### Box 1 The Increase in the Surplus on Income and Developments in Foreign Exchange Rates

The surplus on income for 2013 registered a record high since 1985, from when comparable data are available. By item, increases in income on bonds and notes, which falls under income on debt under portfolio investment income, and in dividends and distributed branch profits, which fall under direct investment income, made a major contribution to the increase in the surplus (see Figure 1 for Box 1).

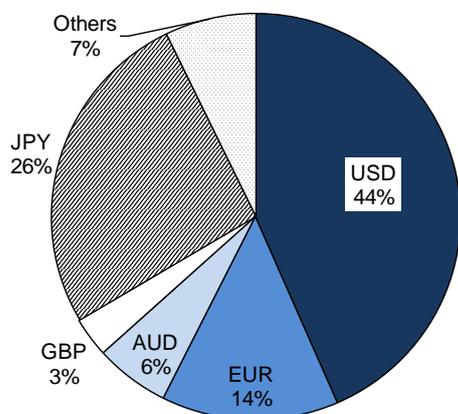
**Figure 1 for Box 1: Contribution to the Year-on-Year Rate of Change in the Surplus on Income**



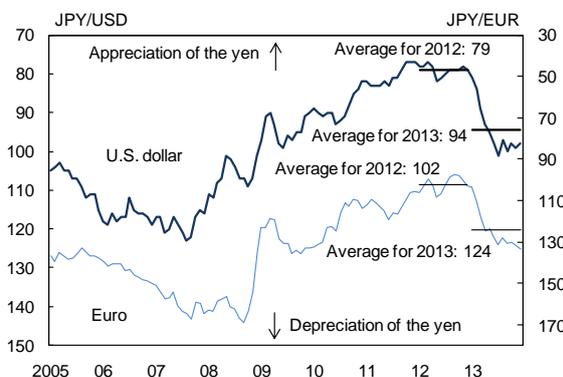
Looking at factors underlying the increase in each item shows that the yen's depreciation accounted for a major part.

Specifically, receipts of portfolio investment income increased by about 14 percent even though investments in foreign securities by Japanese investors recorded net sales (inflows). The increase in receipts resulted from an increase in the yen value of such receipts due to the yen's depreciation against major currencies in which portfolio investment assets are denominated (see Figures 2 and 3 for Box 1). For example, the yen depreciated by about 20 percent against the U.S. dollar and the euro in 2013. In addition to the exchange rate changes, the rise in long-term interest rates was another factor contributing to the increase in receipts (see Figure 4 for Box 1).

**Figure 2 for Box 1: Currency Composition of Portfolio Investment Assets at Year-End 2012**

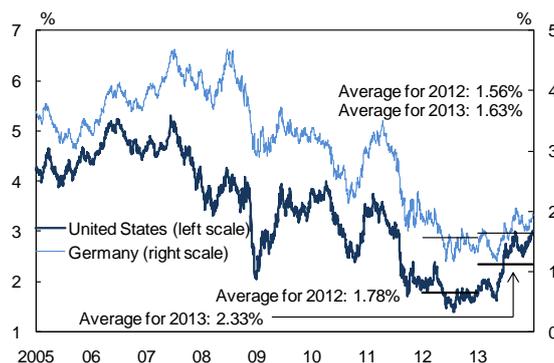


**Figure 3 for Box 1: Developments in Foreign Exchange Rates<sup>1</sup>**



Note: 1. Ministerial ordinance rates.

**Figure 4 for Box 1: Developments in 10-Year Interest Rates**



Source: Bloomberg.

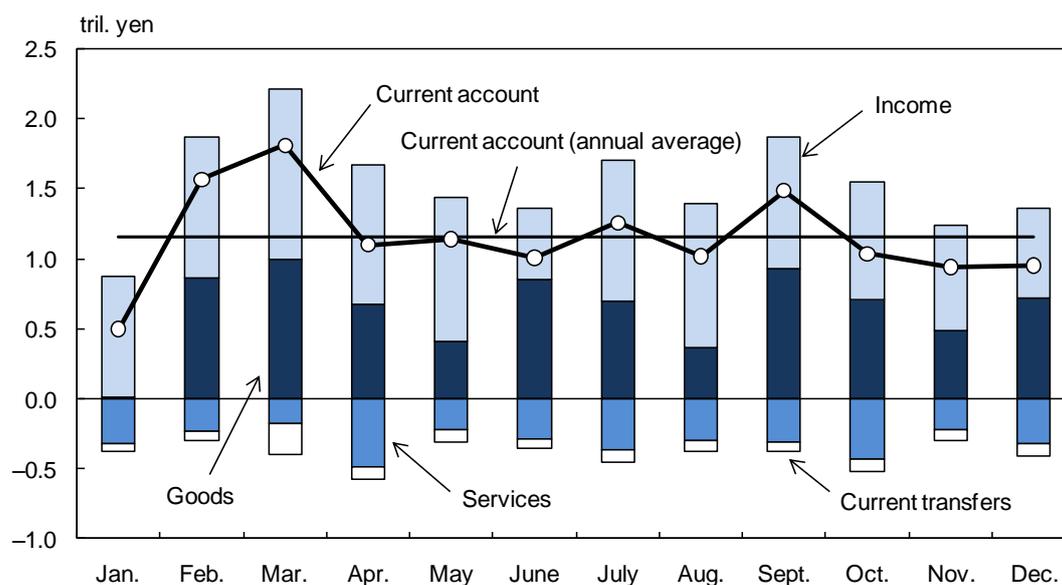
Receipts of direct investment income increased significantly by 22 percent, due to an increase in receipts of dividends and distributed branch profits. Payments/receipts of dividends related to direct investment greatly depend on individual companies' dividend policies. However, the yen's depreciation against the currencies of major direct investment locations such as the United States and Europe contributed to the increase in the yen value of receipts in 2013. In addition, in recent years, Japan has registered net outflows of outward direct investment, resulting in an increase in the outward direct investment position. This also contributed to the increase in receipts of dividends and distributed branch profits.

## Box 2 Seasonality of the Current Account

As figures in the current account are subject to seasonal variations, seasonally adjusted data are compiled for major current account items and disseminated together with the original data in order to make it possible to analyze data with seasonal variations removed.<sup>8</sup> This box examines the characteristics of this seasonality in the current account using data from 1996 through 2013 compiled on the basis of the fifth edition of the *Balance of Payments Manual*.

Looking at the overall developments in the current account by comparing the averages of monthly values and the average of annual values over this period shows that the current account surplus tends to decrease in January mainly due to a decrease in the surplus on goods, while it tends to increase in March mainly due to an increase in the surplus on income.

**Figure 1 for Box 2: Seasonality of the Current Account<sup>1,2</sup>**



Notes: 1. Monthly figures are the averages of monthly values from 1996 through 2013.

2. The annual average is one-twelfth the average of annual values from 1996 through 2013.

<sup>8</sup> Regarding the method of seasonal adjustment applied in this report, see "Revision of Seasonally Adjusted Balance of Payments Data" released on May 10, 2013, available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

Table 1 for Box 2 provides an overview of the characteristics of the seasonality of each of the major current account items.

**Table 1 for Box 2: Characteristics of the Seasonality of Major Current Account Items**

	Characteristic trends	Major factors
Goods	The surplus decreases in January, May, and August.	Exports decrease as manufacturing firms tend to close for holidays in January, May, and August. <sup>1</sup>
Services	The deficit decreases in March but increases in April and October.	Increases/decreases in other services
Other services	The deficit decreases in March but increases in April and October.	Receipts of "royalties and license fees" concentrate in March, at the end of the fiscal year. <sup>2</sup>  A large number of payments for "research and development" and "other business/professional services" are observed in April, at the beginning of the fiscal year as well as in October, at the beginning of the second half of the fiscal year. <sup>2</sup>
Travel	The deficit increases in August and September.	Payments increase in August and September, when the number of Japanese travelers abroad increases.
Income	The surplus increases in March but decreases in June and December.	Receipts of direct investment income concentrate in March, at the end of the fiscal year. <sup>2</sup>  Payments of portfolio investment income increase in June and December, the dividend payment months for Japanese companies that close their accounts in March. <sup>2</sup>
Current transfers	The deficit increases in March.	Payments of contributions to international organizations increase in March.

Notes: 1. Many factories close for several days in January following New Year's day. There is a string of national holidays around late April to early May. Many factories cease production around mid-August, a peak summer vacation period.

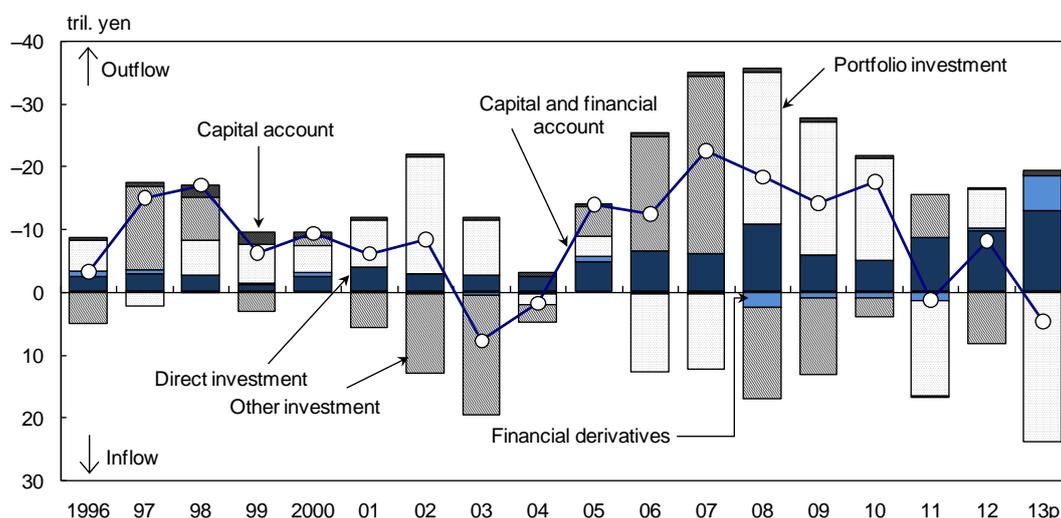
2. In Japan, the fiscal year starts in April and ends in March of the following year. The majority of companies set their accounting year in accordance with the government's fiscal year, and their business plans tend to be divided into half-year periods.

### III. Capital and Financial Account<sup>9,10</sup>

#### A. Summary

The capital and financial account shifted to net inflows of 4.6 trillion yen in 2013 from net outflows of 8.2 trillion yen in 2012, mainly because portfolio investment shifted to net inflows.<sup>11</sup> Net outflows of direct investment increased, mainly because net outward direct investment (outflows) increased. Portfolio investment shifted to net inflows, mainly because investments in foreign securities by Japanese investors shifted to net sales (inflows) and net purchases of Japanese securities by foreign investors (inflows) increased. Net outflows associated with financial derivatives increased. Other investment shifted to net outflows.

**Figure 3: Capital and Financial Account**



#### B. Developments in the Main Components

##### 1. Direct investment

Net outward direct investment (outflows) increased to 13.2 trillion yen in 2013, registering the second highest level since 1985, from when comparable data are available, after a

<sup>9</sup> In this report, figures for portfolio investment and other investment in the financial account exclude securities lending transactions, because they are large in volume and differ in nature from portfolio investment and other investment; therefore, including securities lending transactions would make it difficult to grasp trends in securities transactions and loans respectively.

<sup>10</sup> Negative figures in the financial account represent financial outflows (i.e., increases in external assets held by residents and decreases in liabilities to nonresidents).

<sup>11</sup> The capital and financial account in 2013 registered the second highest level of net inflows since 1985, from when comparable data are available, after a record high of 7.7 trillion yen in 2003.

record high of 13.2 trillion yen in 2008. Net inward direct investment (inflows) increased to 0.2 trillion yen in 2013.

**Table 7: Direct Investment**

bil. yen

	2012	2013p	Change from the previous year	Major factors
Direct investment	-9,640.1	-12,971.2	-3,331.1	—
Outward direct investment	-9,778.2	-13,194.3	-3,416.1	Net investments (outflows) increased led by investments in the communications industry, M&A type transactions and capital increases by financial institutions, as well as investments in the natural resource industry.
Investments (-)	18,136.9	23,271.2	+5,134.3	
Withdrawals	8,358.7	10,076.9	+1,718.2	
Inward direct investment	138.2	223.2	+85.0	Net investments (inflows) increased because the decrease in withdrawals exceeded that in new investments.
Investments	3,173.0	2,700.5	-472.5	
Withdrawals (-)	3,034.9	2,477.3	-557.6	

### Box 3 Developments in Direct Investment by Type of Investment<sup>12</sup>

In the tables below, direct investment in equity capital from 2005 through 2013 is classified into five types of investment<sup>13</sup> (only large-value transactions of 10 billion yen or over are classified into (1), (2), (3), or (4)):

- (1) M&A type transactions: investment for the acquisition of existing shares of ultimate investee enterprises;
- (2) greenfield investment: investment for the acquisition of shares of newly established enterprises or investment that increases tangible fixed assets, such as factories and other facilities, in the ultimate investee enterprises;
- (3) investment for financial restructuring: investment for debt repayment;
- (4) investment in corporate type investment trusts and acquisition of participation certificates; and
- (5) investment of less than 10 billion yen.

Regarding outward direct investment, both large-value M&A type transactions and greenfield investments increased in 2013, with the former showing a particularly large rise. By contrast, regarding inward direct investment, large-value M&A type transactions continued to decrease in 2013 and no large-value greenfield investments were registered for the fifth consecutive year.

<sup>12</sup> For details of the types of investment, see "Japan's Balance of Payments for 2005" released on August 18, 2006, available on the Bank's web site (<http://www.boj.or.jp/en/index.htm>).

<sup>13</sup> Investment here refers to the gross investments in equity capital.

**Table 1 for Box 3: Outward Direct Investment by Type of Investment On a Gross Value Basis**

bil. yen

	(1) M&A type transactions	(2) Greenfield investment	(3) Investment for financial restructuring	(4) Investment in corporate type investment trusts, etc.	(5) Investment of less than 10 billion yen
2005	1,114.6	147.0	35.9	443.1	2,846.9
2006	1,433.8	236.0	247.9	599.9	3,411.5
2007	3,120.3	295.9	382.8	1,151.7	4,476.8
2008	4,731.7	441.9	632.2	2,291.6	3,238.9
2009	2,317.7	46.1	484.5	1,697.9	3,137.8
2010	2,545.3	192.9	112.1	583.8	2,847.1
2011	5,153.4	228.2	222.2	297.4	4,687.0
2012	3,932.0	443.9	233.0	64.1	5,110.7
2013p	6,585.8	728.9	435.2	273.8	4,390.9

**Table 2 for Box 3: Inward Direct Investment by Type of Investment On a Gross Value Basis**

bil. yen

	(1) M&A type transactions	(2) Greenfield investment	(3) Investment for financial restructuring	(4) Investment in corporate type investment trusts, etc.	(5) Investment of less than 10 billion yen
2005	650.6	—	31.3	59.7	1,159.2
2006	1,623.5	10.0	39.0	33.3	1,279.7
2007	2,710.4	21.7	86.7	12.0	1,330.2
2008	1,740.0	10.0	193.1	—	2,315.5
2009	722.3	—	182.1	—	813.3
2010	2,074.7	—	180.7	—	1,262.3
2011	862.9	—	47.0	—	780.7
2012	465.0	—	270.5	35.5	1,202.7
2013p	229.6	—	276.6	68.2	916.8

## 2. Portfolio investment

### a. Outward portfolio investment (assets)

Investments in foreign securities by Japanese investors shifted to net sales (inflows) of 6.1 trillion yen in 2013 from net purchases (outflows) of 14.7 trillion yen in 2012, due to an increase in net sales of foreign equity securities and a decrease in net purchases of foreign bonds and notes.<sup>14</sup>

<sup>14</sup> Investments in foreign securities by Japanese investors shifted to net sales (inflows) for the first time since 1996, from when comparable data are available.

Net sales of foreign equity securities (inflows) increased to 6.6 trillion yen in 2013 from 2.1 trillion yen in 2012, due to an increase in net sales by banks and trust banks via their trust accounts.<sup>15</sup>

By region, net sales of North American and European equity securities (inflows) registered 4.2 trillion yen and 1.4 trillion yen, respectively.

**Table 8: Outward Investment in Equity Securities**

bil. yen

	2011	2012	2013p	Change from the previous year
Outward investment in equity securities	-928.8	2,135.1	6,619.7	+4,484.5
Of which: Banks (trust accounts) <sup>1</sup>	-896.9	660.8	4,583.8	+3,923.0
Investment trust management companies	-171.4	1,468.4	1,160.2	-308.2
Asia	273.1	171.1	569.6	+398.5
North America	-1,197.6	1,251.8	4,235.9	+2,984.1
Of which: U.S.A.	-1,132.5	1,147.6	3,968.1	+2,820.5
Europe	28.3	550.1	1,365.2	+815.1
Of which: U.K.	28.4	275.4	642.5	+367.2
France	-4.4	106.4	214.5	+108.1
Others	-32.5	162.2	449.0	+286.8

Note: 1. Trust accounts of banks and trust banks.

Net purchases of foreign bonds and notes (outflows) decreased to 0.3 trillion yen in 2013 from 17.0 trillion yen in 2012, mainly because investments by banks shifted to net sales (inflows).

By region, investments in North American bonds and notes shifted to net sales (inflows) of 1.5 trillion yen, while net purchases of European bonds and notes (outflows), especially French bonds and notes, decreased.

<sup>15</sup> Net sales of foreign equity securities (inflows) in 2013 registered a record high since 1996, from when comparable data are available. The second highest level, 2.1 trillion yen, was registered in 2012.

**Table 9: Outward Investment in Bonds and Notes**

bil. yen

	2011	2012	2013p	Change from the previous year
Outward investment in bonds and notes	-5,925.8	-17,048.4	-313.6	+16,734.8
Of which: Banks <sup>1</sup>	-1,314.6	-8,813.2	2,380.1	+11,193.3
Life and non-life insurance companies	604.5	-3,850.3	-994.4	+2,855.9
Investment trust management companies	-491.3	43.5	-2,943.2	-2,986.8
Asia	-577.6	-660.6	-533.6	+127.0
North America	-457.7	-2,938.1	1,547.5	+4,485.6
Of which: U.S.A.	-580.8	-2,839.1	1,679.2	+4,518.3
Central and South America	-3,526.1	-3,684.5	-2,260.5	+1,424.0
Of which: Cayman Islands	-3,477.5	-3,082.4	-2,082.2	+1,000.3
Oceania	-1,337.4	-490.4	785.0	+1,275.4
Europe	465.4	-7,890.5	-2,056.6	+5,833.9
Of which: France	477.2	-5,068.2	-1,913.4	+3,154.8
Netherlands	-740.9	-2,099.5	-935.5	+1,164.0
Germany	2,021.7	-532.4	-874.9	-342.5
Spain	-0.9	213.5	-304.5	-517.9
Italy	1,000.9	453.3	60.2	-393.2
U.K.	-1,602.3	951.0	315.9	-635.1
Others	-492.4	-1,384.3	2,204.6	+3,588.9

Note: 1. Banking accounts of banks and trust banks.

**b. Inward portfolio investment (liabilities)**

Net purchases of Japanese securities by foreign investors<sup>16</sup> (inflows) increased to 17.9 trillion yen in 2013 from 8.6 trillion yen in 2012, due to an increase in net purchases of Japanese equity securities.

Net purchases of Japanese equity securities (inflows) increased to 17.0 trillion yen in 2013 from 2.4 trillion yen in 2012, mainly due to an increase in investments from Europe, North America, and Asia.<sup>17</sup>

<sup>16</sup> The regional classification of inward portfolio investment is based on the location of the counterparty to the transaction, not the location of the ultimate investor. For example, an inward portfolio investment by a French investor through a securities company in the United Kingdom would be recorded as an investment from the United Kingdom, not from France. As a result, countries with large financial markets such as the United Kingdom and the United States tend to account for a large amount of investments.

<sup>17</sup> Net purchases of Japanese equity securities (inflows) in 2013 registered a record high since 1996, from when comparable data are available. The second highest level, 14.0 trillion yen, was registered in 2005.

**Table 10: Inward Investment in Equity Securities**

bil. yen

	2011	2012	2013p	Change from the previous year
Inward investment in equity securities	550.7	2,351.2	17,011.8	+14,660.6
Asia	-10.1	236.5	3,847.1	+3,610.6
Of which: Singapore	81.7	177.2	353.4	+176.2
Hong Kong	-88.3	70.9	3,496.1	+3,425.3
North America	574.7	374.8	5,249.1	+4,874.4
Of which: U.S.A.	575.8	384.1	5,252.5	+4,868.4
Europe	47.5	1,738.8	7,979.6	+6,240.7
Of which: U.K.	363.5	1,112.3	6,630.6	+5,518.2
France	-352.9	736.9	1,450.0	+713.1
Others	-61.3	1.1	-64.0	-65.1

Investments in Japanese bonds and notes shifted to net sales (outflows) of 1.4 trillion yen in 2013 from net purchases (inflows) of 2.7 trillion yen in 2012, mainly due to an increase in net sales by Asian investors and a decrease in net purchases by European investors.

**Table 11: Inward Investment in Bonds and Notes**

bil. yen

	2011	2012	2013p	Change from the previous year
Inward investment in bonds and notes	4,175.2	2,719.5	-1,394.2	-4,113.8
Asia	290.9	-199.8	-2,084.1	-1,884.3
Of which: Singapore	138.3	-617.1	538.6	+1,155.6
P.R. China	541.4	373.5	-2,376.6	-2,750.1
North America	1,149.0	1,502.9	1,782.5	+279.6
Of which: U.S.A.	1,072.5	1,473.0	1,761.6	+288.6
Europe	3,403.6	2,343.2	211.1	-2,132.1
Of which: U.K.	3,124.8	2,959.5	395.4	-2,564.0
Belgium	653.6	196.9	272.1	+75.3
Luxembourg	-425.4	-239.2	-214.6	+24.7
France	506.0	-255.9	-486.5	-230.6
Russia	-364.5	-263.6	-85.6	+178.0
Middle East	-287.8	-536.1	-625.6	-89.4
Of which: Iran	0.0	-312.0	-303.0	+9.0
Saudi Arabia	-250.0	-186.7	-307.1	-120.4
Others	-380.5	-390.6	-678.2	-287.6

Net purchases of Japanese money market instruments (inflows) decreased to 2.2 trillion yen in 2013 from 3.5 trillion yen in 2012.

**Table 12: Inward Investment in Money Market Instruments (MMIs)**

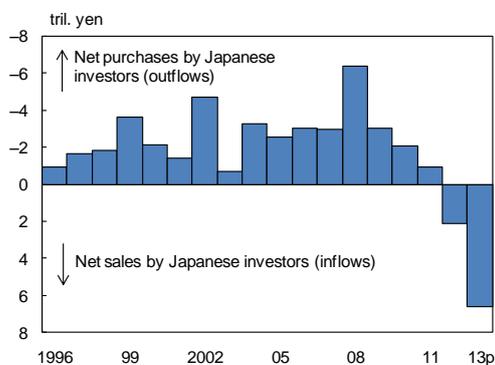
bil. yen

	2011	2012	2013p	Change from the previous year
Inward investment in MMIs	16,693.4	3,510.0	2,245.1	-1,264.9
Asia	-7,470.5	-11,069.8	-5,440.0	+5,629.8
Of which: Singapore	-2,054.6	-5,800.4	-4,242.1	+1,558.3
Hong Kong	193.4	-2,111.4	-1,077.1	+1,034.2
North America	-7,512.2	-6,935.4	-250.1	+6,685.3
Of which: U.S.A.	-7,456.6	-6,595.4	-247.3	+6,348.2
Europe	43,831.1	39,679.6	30,561.6	-9,118.0
Of which: U.K.	64,901.7	75,792.4	73,436.1	-2,356.3
France	-13,755.4	-15,143.1	-11,981.6	+3,161.5
Luxembourg	-4,411.5	-18,057.6	-26,065.8	-8,008.2
Middle East	-6,885.1	-6,377.0	-9,062.4	-2,685.4
Of which: U.A.E.	-6,182.8	-5,395.0	-7,529.8	-2,134.9
International organizations	-4,184.8	-8,468.4	-8,264.7	+203.8
Others	-1,085.1	-3,319.0	-5,299.3	-1,980.3

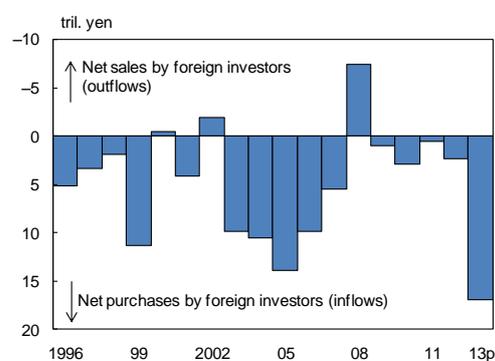
**Box 4 Characteristics of Outward and Inward Investments in Equity Securities in 2013**

Net inflows of outward and inward investments in equity securities in 2013 both registered record highs since 1996, from when comparable data are available (see Figures 1 and 2 for Box 4).

**Figure 1 for Box 4: Outward Investment in Equity Securities**



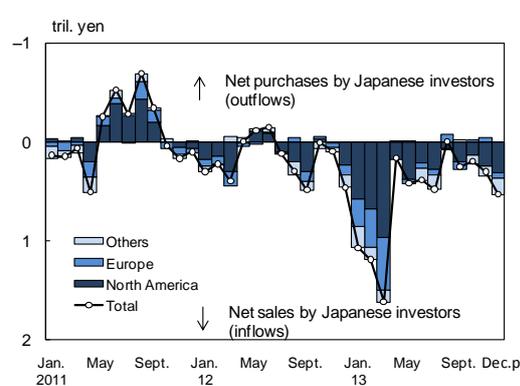
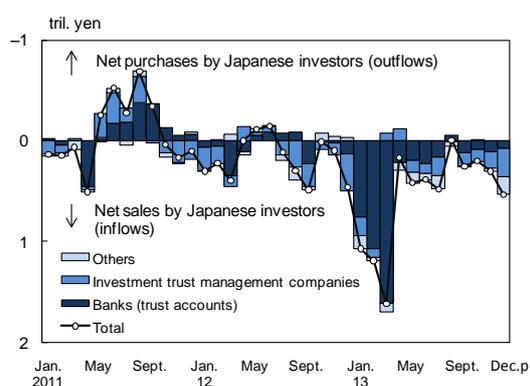
**Figure 2 for Box 4: Inward Investment in Equity Securities**



Looking at the monthly figures for outward investment in equity securities shows that net sales (inflows) in January, February, and March 2013 recorded the third highest, second highest, and highest level since 1996, from when comparable data are available. By sector, net sales by banks and trust banks via their trust accounts contributed significantly. By region, net sales of North American equity securities accounted for the majority (see Figures 3 and 4 for Box 4). These developments suggest that pension funds, which entrust the management of their funds to banks and trust banks via their trust accounts, sold foreign equity securities, in which they had become overweight due to the increase in the yen value of such securities reflecting the yen's depreciation and the rise in U.S. equity prices.

**Figure 3 for Box 4: Outward Investment in Equity Securities by Sector**

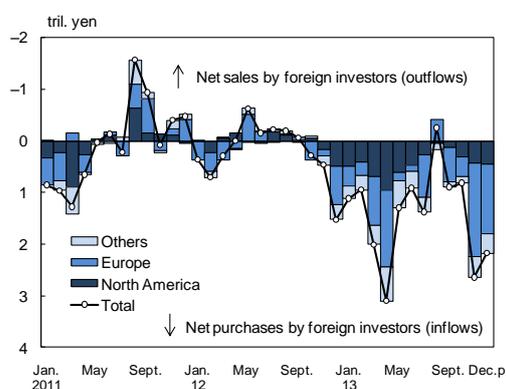
**Figure 4 for Box 4: Outward Investment in Equity Securities by Region**



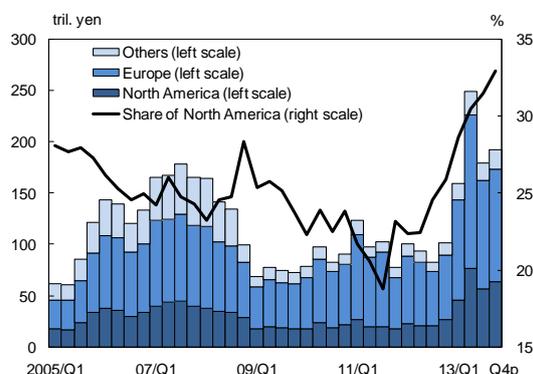
Looking at the monthly figures for inward investment in equity securities shows that net purchases (inflows) in April and November 2013 recorded the highest and third highest level since 1996, from when comparable data are available, indicating that foreign investors purchased a large amount of Japanese equity securities (see Figure 5 for Box 4). By region, North American and European investors accounted for the majority of net purchases.

In addition, April and May 2013 saw the second highest and highest turnover in inward investment in equity securities (that is, the sum of purchases and sales) on record, showing that foreign investors actively traded Japanese equity securities (see Figure 6 for Box 4). By region, turnover was driven primarily by North American and European investors, with North American investors accounting for a growing share.

**Figure 5 for Box 4: Inward Investment in Equity Securities by Region on a Net Value Basis**



**Figure 6 for Box 4: Turnover in Inward Investment in Equity Securities by Region on a Gross Value Basis**



### 3. Financial derivatives

Net outflows associated with financial derivatives increased to 5.5 trillion yen in 2013 from 0.6 trillion yen in 2012, because residents who had entered into yen-U.S. dollar swap arrangements on the yen-payments side paid supplementary principal reflecting the yen's depreciating trend.<sup>18</sup>

### 4. Other investment

Other investment shifted to net outflows of 0.1 trillion yen in 2013 from net inflows of 8.3 trillion yen in 2012 due to an increase in funds provided abroad through interoffice accounts.

<sup>18</sup> Net outflows associated with financial derivatives in 2013 registered a record high since 1996, from when comparable data are available. The second highest level, 0.8 trillion yen, was registered in 2005.