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## **Japan's Balance of Payments for 2012**

**July 2013**

**International Department**

**Bank of Japan**

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## I. Summary

Japan's current account surplus halved to 4.8 trillion yen in 2012 from 9.6 trillion yen in 2011, mainly due to an increase in the deficit on goods. The capital and financial account shifted to net outflows of 8.2 trillion yen in 2012 from net inflows of 1.2 trillion yen in 2011, mainly because portfolio investment shifted to net outflows due to a decrease in net purchases of Japanese securities by foreign investors (inflows) and an increase in net purchases of foreign securities by Japanese investors (outflows). Reserve assets decreased for the first time in 14 years, falling by 3.1 trillion yen in 2012, compared to an increase of 13.8 trillion yen in 2011. This was mainly because no foreign exchange interventions were conducted and some of the assets were employed in loans to the Japan Bank for International Cooperation, which are not classified as reserve assets.

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

bil. yen, %						
	2008	2009	2010	2011	2012	Highlights
<b>Current account</b>	16,661.8	13,735.6	17,887.9	9,550.7	4,823.7	The surplus decreased for the second 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	-8,272.4	-2,926.2	+4,152.3	-8,337.2	-4,727.1	
Year-on-year percent change	-33.2	-17.6	+30.2	-46.6	-49.5	
Goods and services	1,889.9	2,124.9	6,564.6	-3,378.1	-8,304.1	The deficit increased.
Change from the previous year	-7,935.3	+234.9	+4,439.8	-9,942.7	-4,926.1	
Goods	4,027.8	4,038.1	7,978.9	-1,616.5	-5,814.1	The deficit increased.
Change from the previous year	-8,294.6	+10.3	+3,940.9	-9,595.4	-4,197.6	
Year-on-year percent change	-67.3	+0.3	+97.6	Negative	3.6 times	
Exports	77,334.9	50,857.2	63,921.8	62,724.8	61,442.1	Decreased for the second consecutive year.
Imports	73,307.1	46,819.1	55,942.9	64,341.2	67,256.2	Increased for the third consecutive year.
Services	-2,137.9	-1,913.2	-1,414.3	-1,761.6	-2,490.0	The deficit increased for the second consecutive year.
Transportation	-731.6	-838.3	-662.3	-888.1	-1,211.9	The deficit increased.
Travel	-1,763.1	-1,388.6	-1,287.5	-1,296.3	-1,061.7	The deficit decreased.
Other services	356.9	313.7	535.6	422.9	-216.4	Turned to a deficit.
Income	16,123.4	12,774.2	12,414.9	14,038.4	14,272.3	The surplus increased for the second consecutive year.
Of which:						
Direct investment income	3,811.6	3,460.2	2,851.3	3,821.8	4,214.2	The surplus increased for the second consecutive year.
Portfolio investment income	11,327.8	8,792.2	8,993.0	9,538.6	9,396.0	The surplus decreased for the first time in three years.
Current transfers	-1,351.5	-1,163.5	-1,091.7	-1,109.6	-1,144.5	The deficit increased.
<b>Capital and financial account</b>	-18,389.5	-14,267.8	-17,697.1	1,172.2	-8,187.8	Shifted to net outflows.
Financial account <sup>2,3</sup>	-17,831.2	-13,802.5	-17,263.0	1,144.0	-8,107.4	Shifted to net outflows.
Direct investment	-10,707.4	-5,872.5	-5,048.7	-8,727.5	-9,640.1	Net outflows increased for the second consecutive year.
Outward direct investment	-13,232.0	-6,989.6	-4,938.8	-8,587.2	-9,778.2	Net investments (outflows) increased for the second consecutive year.
Inward direct investment	2,524.6	1,117.1	-109.9	-140.3	138.2	Shifted to net investments (inflows) for the first time in three years.
Portfolio investment	-24,321.8	-21,254.9	-16,236.1	15,296.5	-6,116.0	Shifted to net outflows.
Outward portfolio investment	-13,978.2	-16,303.6	-25,834.1	-6,122.8	-14,696.8	
Equity securities	-6,414.9	-3,030.2	-2,057.4	-928.8	2,135.1	Net purchases (outflows) increased, mainly due to an increase in net purchases of foreign bonds and notes.
Bonds and notes	-7,329.9	-13,173.6	-24,040.6	-5,925.8	-17,048.4	
Money market instruments	-233.4	-99.7	263.8	731.8	216.5	
Inward portfolio investment	-10,343.6	-4,951.3	9,598.0	21,419.3	8,580.8	
Equity securities	-7,464.1	964.2	2,919.7	550.7	2,351.2	Net purchases (inflows) decreased.
Bonds and notes	-4,419.1	-7,711.7	437.5	4,175.2	2,719.5	
Money market instruments	1,539.6	1,796.2	6,240.8	16,693.4	3,510.0	
Financial derivatives	2,456.2	948.7	1,026.2	1,347.0	-590.3	Shifted to net outflows for the first time in seven years.
Other investment	14,510.0	12,247.2	2,995.4	-6,779.8	8,250.5	
Assets	1,656.8	18,244.3	-8,412.0	-10,761.5	-4,733.3	Shifted to net inflows.
Liabilities	12,853.1	-5,997.1	11,407.5	3,981.6	12,983.8	
Capital account	-558.3	-465.3	-434.1	28.2	-80.4	
Of which:						
Capital transfers	-387.2	-238.5	-328.5	37.5	17.2	Shifted to net outflows.
<b>Changes in reserve assets<sup>2</sup></b>	-3,200.1	-2,526.5	-3,792.5	-13,789.7	3,051.5	Reserve assets decreased for the first time in 14 years.
<b>Errors and omissions</b>	4,927.9	3,058.7	3,601.7	3,066.9	312.6	—

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

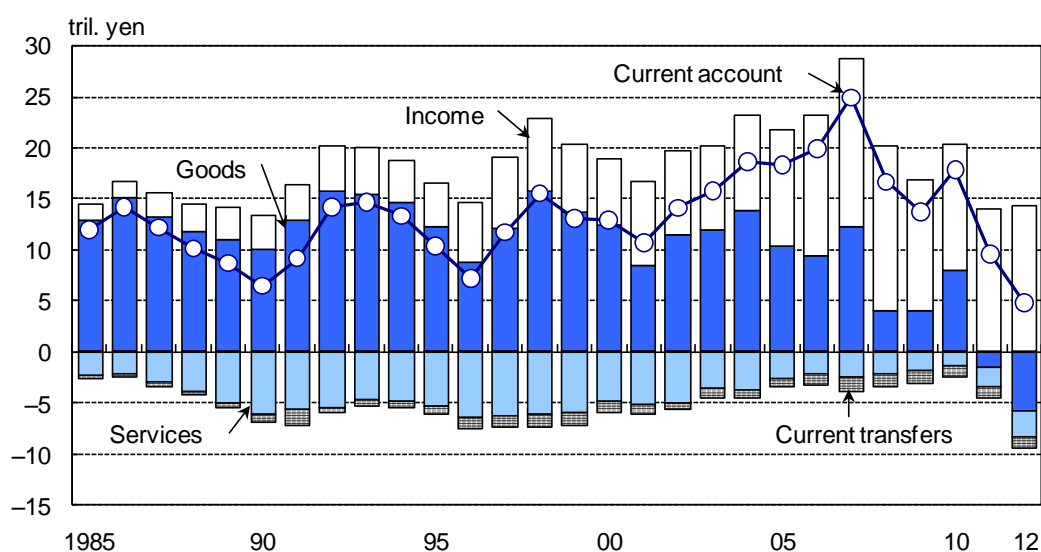
3. Figures for portfolio investment and other investment in the financial account exclude securities lending transactions. Therefore, figures in the financial account do not add up to the total.

## II. Current Account

### A. Summary

The current account surplus halved, mainly due to an increase in the deficit on goods. The deficit on goods increased significantly due to a decrease in exports and an increase in imports. The deficit on services increased because the balance on other services turned to a deficit and the deficit on transportation increased. The surplus on income increased due to an increase in direct investment income. The deficit on current transfers increased due to an increase in payments.

**Figure 1: Current Account**



### B. Developments in the Main Components

#### 1. Goods

Exports decreased to 61.4 trillion yen in 2012 from 62.7 trillion yen in 2011, due to a decrease in exports particularly to China, but also to the European Union (EU) -- with the latter reflecting the sluggish economic conditions due to the European debt problem. By contrast, imports increased to 67.3 trillion yen in 2012 from 64.3 trillion yen in 2011, led by items such as mineral fuels. As a result, the deficit on goods increased to 5.8 trillion yen in 2012 from 1.6 trillion yen in 2011.<sup>1</sup>

<sup>1</sup> The deficit on goods for 2012 registered a record high since 1948 (see Box 1, "Japan's Largest Surpluses and Deficits on the Current Account and Goods"). It should be noted, however, that data series through 1984 are not directly comparable to the current data series because of differences in compilation methods.

### Box 1 Japan's Largest Surpluses and Deficits on the Current Account and Goods

In response to the strong interest expressed by data users, the tables below show a ranking of Japan's largest surpluses and deficits on the current account and goods since 1948, the earliest year for which comparable data are available.

It should be noted, though, that the current data series from 1985 onward and the previous data series through 1984 are not directly comparable mainly because of changes in the way Japan's balance of payments (BOP) statistics are compiled as a result of revisions to the *Balance of Payments Manual* (the *Manual*), which serves as the standard framework for the BOP statistics, and because the previous data series were compiled in U.S. dollars.<sup>2</sup>

**Table 1 for Box 1: Surpluses<sup>1</sup>**

bil. yen				
Rank	Current account		Goods	
1	2007	24,934.1	1992	16,762.1
2	2006	19,914.1	1998	15,752.6
3	2004	18,618.4	1993	15,736.0
4	2005	18,297.3	1986	15,643.2
5	2010	17,887.9	1994	14,916.6

**Table 2 for Box 1: Deficits<sup>1</sup>**

bil. yen				
Rank	Current account		Goods	
1	1980	-2,436.6	2012	-5,814.1
2	1979	-1,918.4	2011	-1,616.5
3	1974	-1,370.7	1953	-284.4
4	1961	-353.5	1961	-200.9
5	1963	-280.8	1954	-153.7

Note: 1. Figures originally disseminated in U.S. dollars are converted into yen using period average rates published by the IMF.

### Reference: Standard Framework for Japan's BOP Statistics

Data series <sup>1</sup>	Standard framework (publication)	Currency of compilation
1946-56	Second edition of the <i>Manual</i> (1950)	U.S. dollars
1957-78	Third edition of the <i>Manual</i> (1961)	U.S. dollars
1979-95	Fourth edition of the <i>Manual</i> (1977)	U.S. dollars <sup>2</sup>

Notes: 1. The starting years of the data series do not coincide with the publication of the *Manual* because data were retrospectively compiled in accordance with the corresponding edition of the *Manual* or there was a time lag between the publication of the *Manual* and the revision of Japan's BOP statistics in accordance with the new edition of the *Manual*.

2. From April 1987, monthly data were compiled and published both in yen and U.S. dollars. At the same time, monthly data from May 1984 through March 1987, originally compiled in U.S. dollars, were retrospectively converted to and published in yen.

<sup>2</sup> The current data series for Japan's BOP statistics are based on the fifth edition of the *Manual* published by the International Monetary Fund (IMF) and have been compiled and disseminated since 1996. Data series from 1985 through 1995 were originally compiled based on the fourth edition of the *Manual*, but have been converted to conform with the current data series and are available on the BOJ Time-Series Data Search web site ([http://www.stat-search.boj.or.jp/index\\_en.html](http://www.stat-search.boj.or.jp/index_en.html)).

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>3</sup>

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

tril. yen

	2011	2012	Change from the previous year	Contribution to overall export growth (% points)
Total exports	65.5	63.7	-1.8	-2.8
Asia	36.7	34.9	-1.8	-2.8
Of which:				
China	12.9	11.5	-1.4	-2.1
North America	10.7	12.0	+1.3	+1.9
Central and South America	3.5	3.4	-0.1	-0.2
EU	7.6	6.5	-1.1	-1.7
Others	7.0	6.9	-0.0	-0.1
Machinery	13.8	12.8	-1.0	-1.5
Chemicals	6.8	6.4	-0.4	-0.7
Manufactured goods	8.8	8.4	-0.3	-0.5
Of which:				
Iron and steel products	3.7	3.5	-0.2	-0.3
Transport equipment	14.0	15.0	+1.0	+1.5
Of which:				
Motor vehicles	8.2	9.2	+1.0	+1.6
Others	22.1	21.1	-1.0	-1.6

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

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

tril. yen

	2011	2012	Change from the previous year	Contribution to overall import growth (% points)
Total imports	68.1	70.7	+2.6	+3.8
Asia	30.4	31.3	+0.9	+1.3
Middle East	12.8	13.5	+0.7	+1.0
EU	6.4	6.6	+0.2	+0.3
North America	7.0	7.1	+0.1	+0.2
Others	11.5	12.1	+0.6	+0.9
Mineral fuels	21.8	24.1	+2.3	+3.3
Of which:				
Liquefied natural gas	4.8	6.0	+1.2	+1.8
Petroleum	11.4	12.2	+0.8	+1.2
Transport equipment	1.7	2.3	+0.6	+0.8
Of which:				
Aircraft	0.3	0.6	+0.3	+0.4
Motor vehicles	0.7	0.9	+0.2	+0.3
Electrical machinery	8.0	8.4	+0.4	+0.7
Of which:				
Telecommunications apparatus	1.6	2.1	+0.6	+0.8
Manufactured goods	6.1	5.5	-0.6	-0.8
Raw materials	5.3	4.8	-0.5	-0.7
Others	25.2	25.6	+0.3	+0.5

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

<sup>3</sup> While the *Trade Statistics* are the main data source for goods in the BOP statistics, the definitions of exports and imports of goods differ between the two statistics and certain adjustments are made to compile the BOP statistics. For the major differences, see Box 2, "Differences in the Definitions of Exports and Imports between the Trade Statistics and the BOP Statistics."

**Box 2 Differences in the Definitions of Exports and Imports between the Trade Statistics and the BOP Statistics**

The main data source for goods in the BOP statistics is the *Trade Statistics*. However, the definitions of exports and imports of goods in the BOP statistics are based on the *Manual*, and differ from those in the *Trade Statistics*. Therefore, the BOP statistics are compiled by making certain adjustments to the *Trade Statistics*.

**Table 1 for Box 2: Differences in Definitions and Adjustment Factors**

Adjustment factors	Trade Statistics	Goods in the BOP Statistics	Adjustments and effects
Valuation	Exports: FOB <sup>1</sup> Imports: CIF <sup>2</sup>	Both exports and imports: FOB	In the BOP statistics, insurance premiums and freight charges are deducted from imports; therefore, figures for imports in the BOP statistics are smaller than those in the <i>Trade Statistics</i> .
Coverage	Goods that have crossed Japan's customs frontier regardless of changes in ownership	In principle, goods whose ownership has changed between residents and nonresidents. Returned goods are excluded.	In the BOP statistics, certain additions and deductions are made to/from exports and imports in the <i>Trade Statistics</i> depending on changes in ownership. <sup>3</sup>
Time of recording	Exports: When the ship or aircraft carrying the goods leaves the port Imports: When import of the goods is permitted	Both exports and imports: When ownership changes	In the BOP statistics, transactions for both exports and imports tend to be recorded earlier than in the <i>Trade Statistics</i> .

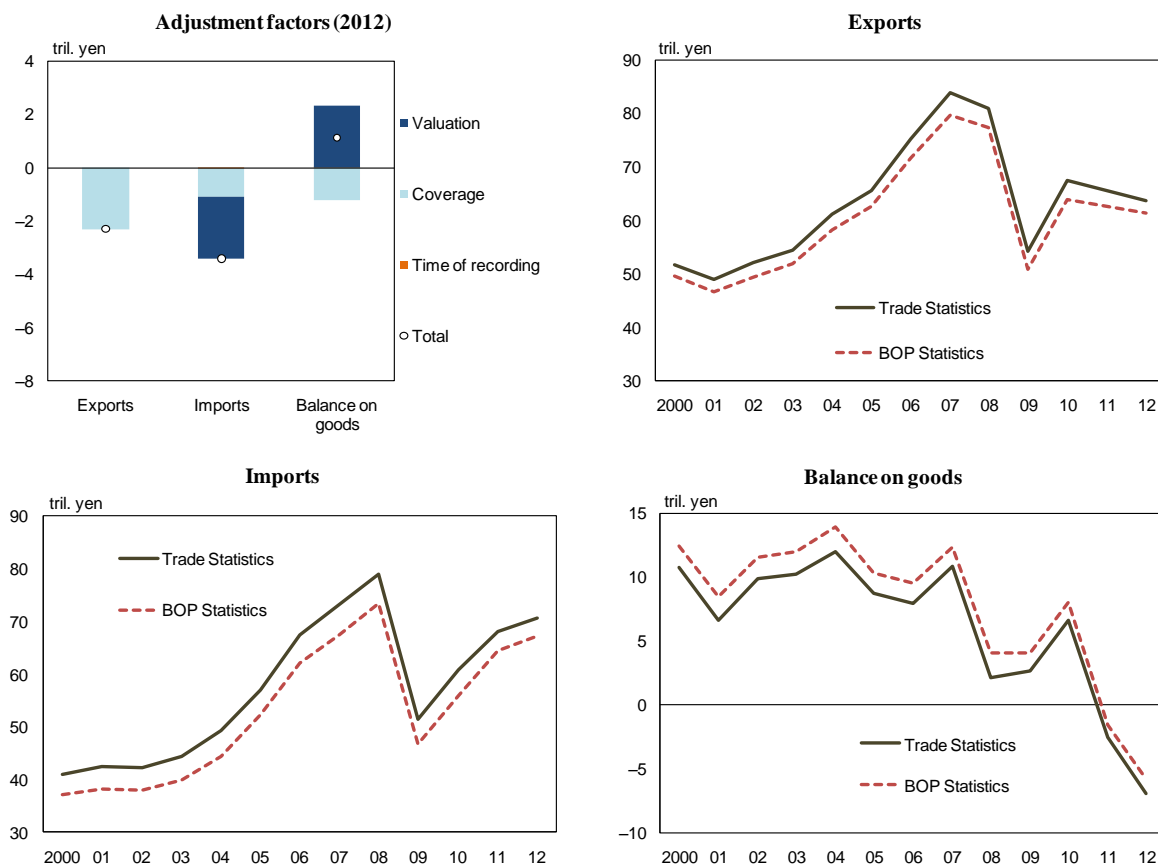
- Notes: 1. Stands for "free on board." The price of goods at the frontier of the exporting country is recorded. Excludes insurance premiums and freight charges incurred after the goods have been loaded on board.
2. Stands for "cost, insurance, and freight." Includes insurance premiums and freight charges in addition to the price of goods.
3. To compile the BOP statistics, the *Trade Statistics* are adjusted by (1) adding goods whose ownership has changed but which did not cross the customs frontier (e.g., goods traded abroad and to be used abroad) and (2) deducting goods whose ownership has not changed but which crossed the customs frontier (e.g., returned goods).

Figures for exports and imports are smaller in the BOP statistics than in the *Trade Statistics* due to differences in valuation and coverage. Compared to the *Trade Statistics*, a larger surplus or smaller deficit on goods is recorded in the BOP statistics, mainly due to a difference in valuation -- that is, the deduction of insurance premiums and freight charges from imports in the BOP statistics.



Adjustments due to the time of recording, seen over the year, tend to be small because there are relatively few cases where there is a long time lag between the time that transactions are recorded in the *Trade Statistics* and in the BOP statistics.

**Figure 1 for Box 2: Comparison of the Trade Statistics<sup>1</sup> and the BOP Statistics**



Note: 1. Figures for the *Trade Statistics* from 2000 through 2011 are "fixed" data, while for 2012, those from January through September are "detailed" data and those from October through December are "fixed" data. (Trade data are first released as "provisional" data for a month, followed by "detailed" data in the next month, while monthly "fixed" data for a year are released in the next year.)

## 2. Services

The deficit on services increased to 2.5 trillion yen in 2012 from 1.8 trillion yen in 2011, because the balance on other services turned to a deficit and the deficit on transportation increased.

**Table 4: Services**

bil. yen

	2011	2012	Change from the previous year	Major factors
Services	-1,761.6	-2,490.0	-728.4	—
Transportation	-888.1	-1,211.9	-323.8	The deficit increased due to an increase in sea freight payments.
Of which:				
Sea transport	-322.4	-570.6	-248.1	
Air transport	-560.5	-632.7	-72.2	
Travel	-1,296.3	-1,061.7	+234.6	The deficit decreased reflecting an increase in receipts due to an increase in the number of foreign visitors to Japan.
Credit	875.2	1,163.1	+287.9	
Debit	2,171.6	2,224.8	+53.2	
Other services	422.9	-216.4	-639.2	Turned to a deficit due to a decrease in the surplus on merchanting and other trade-related services.
Credit	7,679.1	7,248.8	-430.3	
Debit	7,256.2	7,465.2	+208.9	
Of which:				The surplus decreased since receipts decreased reflecting a fall in revenues on merchanting.
Merchanting and other trade-related services	914.9	598.9	-316.0	
Credit	1,903.8	1,422.1	-481.6	
Debit	988.9	823.3	-165.6	
Miscellaneous business, professional, and technical services	-1,200.4	-1,543.6	-343.2	The deficit increased as payments for other business/professional services increased.
Credit	1,434.5	1,311.5	-123.0	
Debit	2,634.9	2,855.1	+220.2	
Insurance services	-410.9	-620.6	-209.7	The deficit increased as receipts for insurance services decreased, mainly due to an increase in payments of reinsurance claims following the flooding in Thailand. <sup>1</sup>
Credit	132.3	-31.5	-163.8	
Debit	543.2	589.1	+45.9	
Royalties and license fees	790.1	956.9	+166.8	The surplus increased as receipts of royalties increased reflecting an increase in overseas production in the transportation equipment industry.
Credit	2,319.0	2,544.5	+225.4	
Debit	1,528.9	1,587.6	+58.6	

Note: 1. Receipts for insurance services are calculated by deducting payments of claims for various kinds of insurance provided by resident insurers to nonresident customers from receipts of premiums under these contracts. By contrast, payments for insurance services are calculated by deducting receipts of claims for various kinds of insurance provided by nonresident insurers to resident customers from payments of premiums under these contracts. Therefore, when large claims are paid in response to a major disaster such as an earthquake, negative receipts or payments may be recorded for insurance services.

### 3. Income

The surplus on income increased to 14.3 trillion yen in 2012 from 14.0 trillion yen in 2011. The surplus on direct investment income increased due to an increase in receipts of reinvested earnings.<sup>4</sup> The surplus on portfolio investment income decreased mainly due to a decrease in receipts of income on debt.

**Table 5: Income**

bil. yen

	2011	2012	Change from the previous year	Major factors
Income	14,038.4	14,272.3	+234.0	—
Of which:				
Direct investment income	3,821.8	4,214.2	+392.3	The surplus increased due to an increase in receipts of reinvested earnings.
Credit	4,701.2	5,433.6	+732.4	Total receipts increased because receipts of reinvested earnings increased reflecting a recovery in the business performance of overseas subsidiaries of Japanese companies.
Of which:				
Dividends and distributed branch profits	3,237.4	3,265.6	+28.2	
Reinvested earnings	1,420.6	2,116.7	+696.2	
Debit	879.3	1,219.4	+340.1	Total payments increased due to an increase in payments of dividends and distributed branch profits from the Japanese subsidiaries and branches of foreign companies to their parent companies.
Of which:				
Dividends and distributed branch profits	690.6	1,017.9	+327.3	
Reinvested earnings	155.4	172.1	+16.6	
Portfolio investment income	9,538.6	9,396.0	-142.6	The surplus decreased due to a decrease in receipts of income on debt.
Income on equity	2,621.6	2,829.6	+207.9	The surplus increased due to an increase in receipts reflecting increases in Japanese-owned assets in foreign investment trusts and the distribution of profits from such trusts.
Credit	4,364.1	4,612.9	+248.8	
Debit	1,742.5	1,783.4	+40.9	
Income on debt	6,916.9	6,566.4	-350.5	Receipts decreased reflecting decreases in the amount of Japanese-owned assets and in the yen value of receipts due to the yen's appreciation.
Credit	7,816.5	7,501.1	-315.4	
Debit	899.5	934.7	+35.2	

<sup>4</sup> Reinvested earnings are direct investors' shares of earnings that subsidiaries do not distribute as dividends but accumulate as retained earnings. In the BOP statistics, reinvested earnings are recorded under income as if they were distributed as dividends, and the same amount is recorded under direct investment with the opposite sign, as if this amount was reinvested in the enterprise as a direct investment. As Japan's BOP statistics are compiled based on the annual financial statements of companies, data on companies' earned income for the accounting year are not available and are therefore recorded in the statistics after a certain period of time has passed once their accounts have been settled. For example, changes in the retained earnings of overseas subsidiaries recognized in parent companies' financial statements for the fiscal year ending March 2012 are reflected in Japan's BOP statistics from September 2012 through August 2013.

#### 4. Current transfers

The deficit on current transfers remained at around 1.1 trillion yen, registering a slight increase in 2012, as the deficit for the public sector increased.

**Table 6: Current Transfers**

bil. yen

	2011	2012	Change from the previous year	Major factors
Current transfers	-1,109.6	-1,144.5	-35.0	—
Public sector	-453.1	-485.7	-32.6	The deficit increased.
Other sectors	-656.5	-658.9	-2.4	The deficit remained at around the previous year's level as receipts of workers' remittances increased and payments decreased, while receipts of financial donations <sup>1</sup> related to the Great East Japan Earthquake in other transfers have fallen off.
Workers' remittances	-185.8	-114.7	+71.2	
Other transfers	-470.7	-544.2	-73.5	

Note: 1. Includes relief money to be handed to disaster victims, overseas relief funds for operations sent to the Japanese Red Cross Society from Red Cross and Red Crescent Societies abroad, and other charitable contributions related to the earthquake.

### III. Capital and Financial Account<sup>5,6</sup>

#### A. Summary

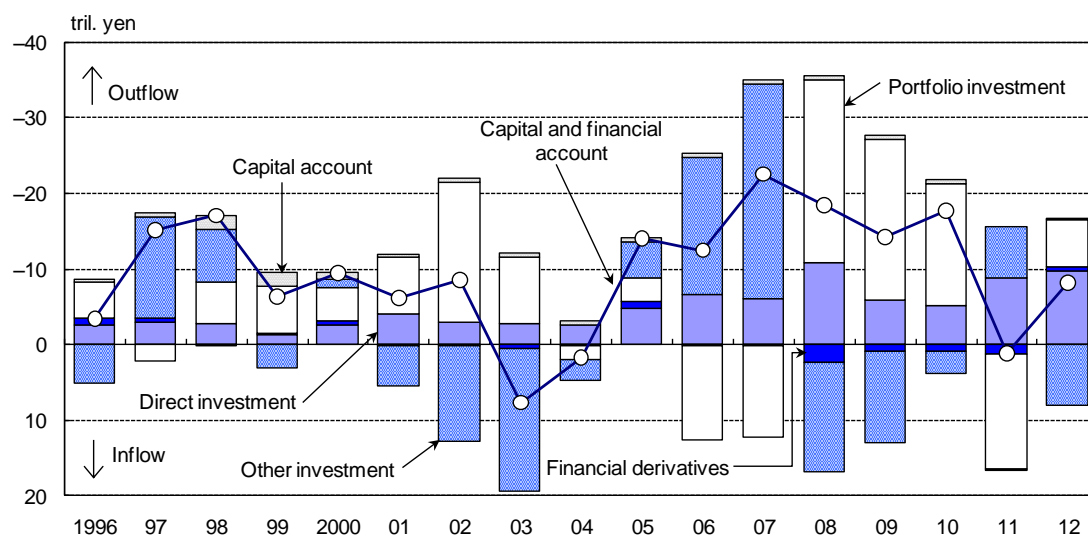
The capital and financial account shifted to net outflows of 8.2 trillion yen in 2012 from net inflows of 1.2 trillion yen in 2011, registering net outflows for the first time in two years. Net outflows of direct investment increased, mainly because net investments of outward direct investment (outflows) increased. Portfolio investment shifted to net outflows for the first time in two years, mainly due to a decrease in net purchases of Japanese money market instruments by foreign investors (inflows) and an increase in net purchases of foreign securities by Japanese investors (outflows). Financial derivatives shifted to net payments (outflows) for the first time in seven years. Other investment shifted to net inflows for the first time in two years.

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<sup>5</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>6</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).

**Figure 2: Capital and Financial Account**



**B. Developments in the Main Components**

**1. Direct investment**

Net investments of outward direct investment (outflows) increased to 9.8 trillion yen in 2012, registering the second highest level since 1985, from when comparable data are available, after a record high of 13.2 trillion yen in 2008. Inward direct investment shifted to net investments (inflows) of 0.1 trillion yen in 2012, registering net inflows for the first time in three years.

**Table 7: Direct Investment**

bil. yen

	2011	2012	Change from the previous year	Major factors
Direct investment	-8,727.5	-9,640.1	-912.6	—
Outward direct investment	-8,587.2	-9,778.2	-1,191.1	Net outflows increased due to a decrease in withdrawals, while investments remained at approximately the same level as in the previous year, led by M&A type transactions and capital increases by financial institutions as well as investments in the natural resource industry.
Investments (-)	17,951.8	18,136.9	+185.1	
Withdrawals	9,364.6	8,358.7	-1,005.9	
Inward direct investment	-140.3	138.2	+278.5	Shifted to net investments (inflows), due to a decrease in withdrawals despite a decrease in new investments.
Investments	3,342.4	3,173.0	-169.4	
Withdrawals (-)	3,482.7	3,034.9	-447.9	

### Box 3 Developments in Direct Investment by Type of Investment<sup>7</sup>

In the tables below, direct investment in equity capital from 2005 through 2012 was classified into five types of investment<sup>8</sup> (only large-value transactions of 10 billion yen or over were 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.

For outward direct investment, large-value M&A type transactions remained at a high level in 2012, reflecting the yen's appreciating trend. By contrast, for inward direct investment, large-value M&A type transactions continued to decrease in 2012, while no large-value transaction of greenfield investment has been registered for the fourth consecutive year.

**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

<sup>7</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 of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

<sup>8</sup> Investment here refers to the gross investments in equity capital.

**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

## 2. Portfolio investment

### a. Outward portfolio investment (assets)

Net purchases of foreign securities by Japanese investors (outflows) increased to 14.7 trillion yen in 2012 from 6.1 trillion yen in 2011, mainly due to an increase in net purchases of foreign bonds and notes.

Investments in foreign equity securities shifted to net sales (inflows) of 2.1 trillion yen in 2012 from net purchases (outflows) of 0.9 trillion yen in 2011.

By region, net sales of North American and European equity securities (inflows) registered 1.3 trillion yen and 0.6 trillion yen, respectively.

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

bil. yen

	2010	2011	2012	Change from the previous year
Outward investment in equity securities	-2,057.4	-928.8	2,135.1	+3,063.9
Of which: Banks (trust accounts) <sup>1</sup>	-1,736.8	-896.9	660.8	+1,557.6
Investment trust management companies	-68.9	-171.4	1,468.4	+1,639.8
Asia	-96.2	273.1	171.1	-102.0
North America	-1,284.4	-1,197.6	1,251.8	+2,449.4
Of which: U.S.A.	-1,205.9	-1,132.5	1,147.6	+2,280.1
Europe	-208.4	28.3	550.1	+521.8
Of which: U.K.	26.2	28.4	275.4	+247.0
France	21.2	-4.4	106.4	+110.8
Others	-468.4	-32.5	162.2	+194.8

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

Net purchases of foreign bonds and notes (outflows) increased to 17.0 trillion yen in 2012 from 5.9 trillion yen in 2011, mainly because net purchases by banks increased.

By region, net purchases of North American bonds and notes increased, while investments in European bonds and notes shifted to net purchases as investments in French and German bonds and notes shifted to net purchases.

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

bil. yen

	2010	2011	2012	Change from the previous year
Outward investment in bonds and notes	-24,040.6	-5,925.8	-17,048.4	-11,122.6
Of which: Banks <sup>1</sup>	-10,831.5	-1,314.6	-8,813.2	-7,498.6
Life and non-life insurance companies	-3,806.7	604.5	-3,850.3	-4,454.9
Investment trust management companies	-4,950.1	-491.3	43.5	+534.8
Asia	-290.2	-577.6	-660.6	-83.0
North America	-13,080.9	-457.7	-2,938.1	-2,480.4
Of which: U.S.A.	-12,759.5	-580.8	-2,839.1	-2,258.3
Central and South America	-6,994.9	-3,526.1	-3,684.5	-158.4
Of which: Cayman Islands	-5,925.2	-3,477.5	-3,082.4	+395.1
Oceania	-1,368.0	-1,337.4	-490.4	+847.0
Europe	-1,916.2	465.4	-7,890.5	-8,355.9
Of which: France	746.4	477.2	-5,068.2	-5,545.4
Netherlands	-306.8	-740.9	-2,099.5	-1,358.6
Germany	-132.2	2,021.7	-532.4	-2,554.0
Spain	378.4	-0.9	213.5	+214.3
Italy	-127.6	1,000.9	453.3	-547.6
U.K.	-1,331.6	-1,602.3	951.0	+2,553.3
Others	-390.3	-492.4	-1,384.3	-891.9

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

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

Net purchases of Japanese securities by foreign investors<sup>9</sup> (inflows) decreased to 8.6 trillion yen in 2012 from 21.4 trillion yen in 2011 due to a decrease in net purchases of Japanese money market instruments.

<sup>9</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.



Net purchases of Japanese equity securities (inflows) increased to 2.4 trillion yen in 2012 from 0.6 trillion yen in 2011, mainly due to an increase in investments from Europe.

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

bil. yen

	2010	2011	2012	Change from the previous year
Inward investment in equity securities	2,919.7	550.7	2,351.2	+1,800.5
Asia	103.9	-10.1	236.5	+246.6
Of which: Singapore	99.4	81.7	177.2	+95.5
Hong Kong	0.7	-88.3	70.9	+159.2
North America	1,156.5	574.7	374.8	-199.9
Of which: U.S.A.	1,155.1	575.8	384.1	-191.7
Europe	1,727.7	47.5	1,738.8	+1,691.3
Of which: U.K.	1,983.1	363.5	1,112.3	+748.8
France	-193.7	-352.9	736.9	+1,089.8
Others	-68.4	-61.3	1.1	+62.5

Net purchases of Japanese bonds and notes (inflows) decreased to 2.7 trillion yen in 2012 from 4.2 trillion yen in 2011, mainly due to a decrease in investments from Europe.

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

bil. yen

	2010	2011	2012	Change from the previous year
Inward investment in bonds and notes	437.5	4,175.2	2,719.5	-1,455.7
Asia	122.6	290.9	-199.8	-490.7
Of which: Singapore	-184.5	138.3	-617.1	-755.4
P.R. China	-37.4	541.4	373.5	-167.9
North America	676.7	1,149.0	1,502.9	+353.8
Of which: U.S.A.	676.7	1,072.5	1,473.0	+400.5
Europe	162.9	3,403.6	2,343.2	-1,060.4
Of which: U.K.	118.5	3,124.8	2,959.5	-165.3
Belgium	249.4	653.6	196.9	-456.7
Luxembourg	-108.9	-425.4	-239.2	+186.1
France	-55.6	506.0	-255.9	-761.9
Russia	-333.8	-364.5	-263.6	+100.9
Middle East	-7.4	-287.8	-536.1	-248.3
Of which: Iran	262.7	0.0	-312.0	-312.0
Saudi Arabia	-245.0	-250.0	-186.7	+63.3
Others	-517.3	-380.5	-390.6	-10.1

Net purchases of Japanese money market instruments (inflows) decreased to 3.5 trillion yen in 2012 from 16.7 trillion yen in 2011.

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

bil. yen

	2010	2011	2012	Change from the previous year
Inward investment in MMIs	6,240.8	16,693.4	3,510.0	-13,183.4
Asia	-2,860.5	-7,470.5	-11,069.8	-3,599.3
Of which: Singapore	-763.1	-2,054.6	-5,800.4	-3,745.8
Hong Kong	31.5	193.4	-2,111.4	-2,304.8
North America	-3,902.1	-7,512.2	-6,935.4	+576.8
Of which: U.S.A.	-3,836.2	-7,456.6	-6,595.4	+861.2
Europe	20,371.5	43,831.1	39,679.6	-4,151.5
Of which: U.K.	38,011.8	64,901.7	75,792.4	+10,890.8
France	-15,437.9	-13,755.4	-15,143.1	-1,387.7
Luxembourg	-602.7	-4,411.5	-18,057.6	-13,646.2
Middle East	-1,206.8	-6,885.1	-6,377.0	+508.1
Of which: U.A.E.	-1,135.1	-6,182.8	-5,395.0	+787.8
International organizations	-5,675.1	-4,184.8	-8,468.4	-4,283.7
Others	-486.2	-1,085.1	-3,319.0	-2,233.9

### 3. Financial derivatives

Financial flows associated with financial derivatives shifted to net outflows of 0.6 trillion yen in 2012 from net inflows of 1.3 trillion yen in 2011, registering net outflows for the first time in seven years. This was because residents who had entered into yen-U.S. dollar swap arrangements on the yen-payments side paid supplementary principal as a result of the yen's depreciation toward the fourth quarter of 2012.

### 4. Other investment

Other investment shifted to net inflows of 8.3 trillion yen in 2012 from net outflows of 6.8 trillion yen in 2011, registering net inflows for the first time in two years, due to an increase in foreign currency funds raised through interoffice accounts.