

## “Japan's Flow of Funds Accounts” (Dec. 2014)

The Bank of Japan releases the Flow of Funds Accounts Statistics (FFA) quarterly. The FFA is a matrix showing financial transactions among various economic entities, and corresponding stock data on financial claims and liabilities of them. It records movements of financial assets and liabilities among institutional units called sectors, such as financial institutions, corporations and households, for each financial instruments called transaction items e.g. deposits and loans. The data can be used for capturing the overall fund flows of the country by entities and by investment items. For instance, we can figure out what kind of financial assets household owns or to what kind of financial assets the entity transferred.

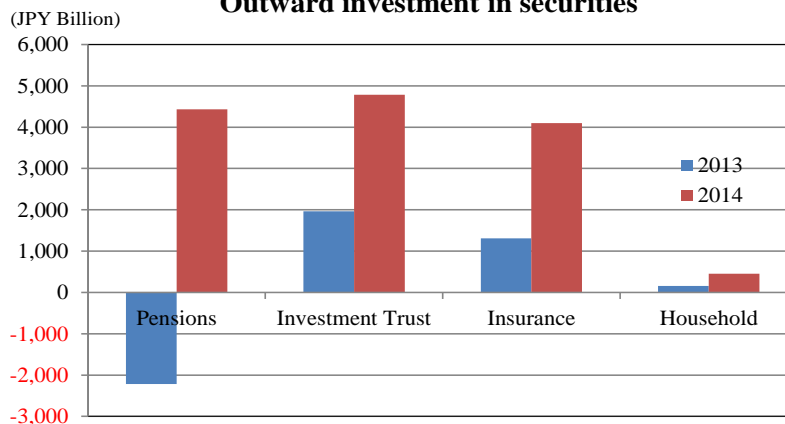
### Point 1

#### Foreign securities investment grew in 2014

**Due to low interest rate in Japan and rebalancing of asset allocation by government pension**

- The Bank of Japan released the FFA on March 18. The 2014 end data shows total of net purchase in foreign securities by pensions, investment trusts and insurers exceeded JPY13trillion, with each exceeding JPY4 trillion.
- The Government Pension Investment Fund (GPIF) started to rebalance its asset allocation on its new asset mix policy to raise foreign securities investment. This resulted in the increase of net assets in the fund flows for the pensions in 2014. Investment trusts and insurers were encouraged to look for higher yield securities in overseas markets than domestic bonds spurred by BOJ's additional quantitative monetary easing (QE).

#### Outward investment in securities



(Source) SMAM, based on BOJ data.

### Point 2

#### Household was a net buyer of investment trusts for 2014

**JPY3trillion inflows through “NISA” tax saving accounts**

- Household had a net buying in investment trust for JPY6.4trillion, but in foreign securities for only JPY450 billion, while the entity had a net sale in shares for JPY3 trillion.
- According to the Financial Services Agency (FSA) of Japan, the new tax saving investment accounts, so-called “NISA” that started in January 2014, totaled 8.24million accounts as of December 2014 and is estimated to be approximately JPY3trillion (preliminary data) invested at this moment. Some individuals invested in mutual funds using the “NISA” as the tax free investment accounts started.

## Corporate governance enhancement and profit growth support solid stock market

### ■ Public pensions and overseas investors were net buyer of Japanese equities

Japanese equities were net-bought of JPY1.7trillion in 2014. By investment entity, both public pensions and overseas investors were net buyers of JPY3.5trillion and JPY1.6trillion, respectively. On the other hand, household was a net seller of JPY3trillion. The stock market was supported by robust purchase by both domestic and overseas institutions for the year.

### ■ Key for Japanese equities is enhancement of corporate governance and profit growth

So-called, “the third arrow” of growth strategy by Abe government focuses on reinforcing corporate governance and earnings capability of Japanese companies. The strategy urges the companies to strengthen their corporate governance structure as well as lift profitability to increase corporate value in the long run and this would result to be a supporting factor for the Japanese equities.

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