

## Liquid Insight

## Q&amp;A on NISA and Japan's retail rebalancing

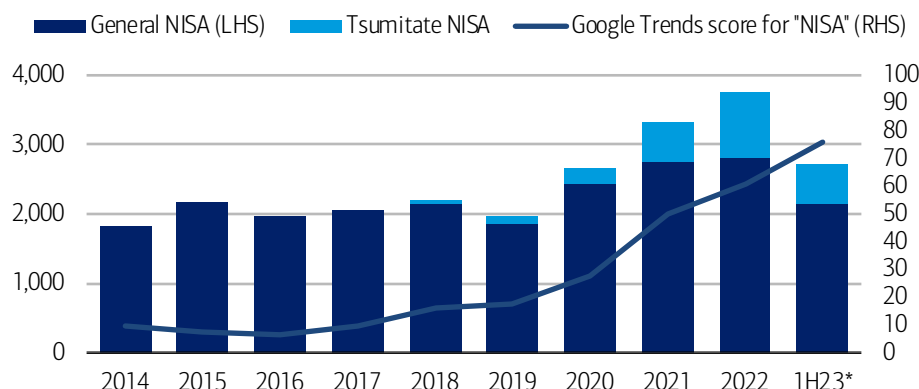
## Key takeaways

- In two months, Japan's NISA (tax-exempt investment scheme for retail investors) will be expanded.
- We answer NISA-related questions. We see expanded NISA as a potential negative catalyst for JPY and JGB.

## By Shusuke Yamada

**Chart of the day: Annual investment volume of NISA accounts at brokerage firms (¥bn) vs Google Trends Score for "NISA"**

NISA investment on track to reach a new high in 2023 with rising public interest



Source: JSDA, Google Trends, BofA Global Research

\*Location = Japan

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## NISA expansion to take effect in 2024

In January 2024, the expansion to Japan's NISA (Nippon Individual Savings Account) scheme will take effect. We believe this move can impact retail flow and asset prices in the coming years. In this note, we answer key questions asked by investors.

1. What is NISA? – Japan's tax-exempt investment scheme for retail investors.
2. How will NISA be expanded? – Increasing annual/total quota; making it permanent.
3. What have investors bought? – Possibly domestic stocks and foreign equity funds.
4. Who have been buying? – Increasingly younger investors for long-term investment.
5. FX/Rates implications for 2024? – Negative for JPY.
6. Long-term FX/Rates implications? – Uncertain, but risks skewed to a weaker yen and higher yields.

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Timestamp: 15 November 2023 01:33AM EST

15 November 2023

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## 1) What is NISA?

Japan's NISA is a scheme designed to promote investments by exempting the 20% tax levied on dividends and capital gains for individuals' security holdings. The scheme was launched in 2014 for the following reasons: (1) supporting the reallocation (diversification) of financial assets held by households, and (2) ensuring supply of risk money for economic growth. Two types of NISA accounts are available until 2023 for residents of Japan aged 18 or over; an investor can hold only one type of NISA account in a calendar year:

- **General NISA:** Investable products include domestic and foreign equities, domestic and foreign ETFs, and domestic and foreign REITs, investment trusts (including funds investing in foreign securities), ETNs and warrant bonds, offered by the financial institution where the account holder holds their NISA account.
- **Tsumitate (accumulation) NISA:** Investable products are limited to investment trusts suitable for long-term investments and approved by the government, offered by the financial institution where the account holder holds their NISA account. The account holder typically sets a specific daily or monthly dollar-cost-averaging program.

For more details, see: [FX Watch: Japan's push for retail investments – risk or opportunity for JPY? 16 December 2022](#).

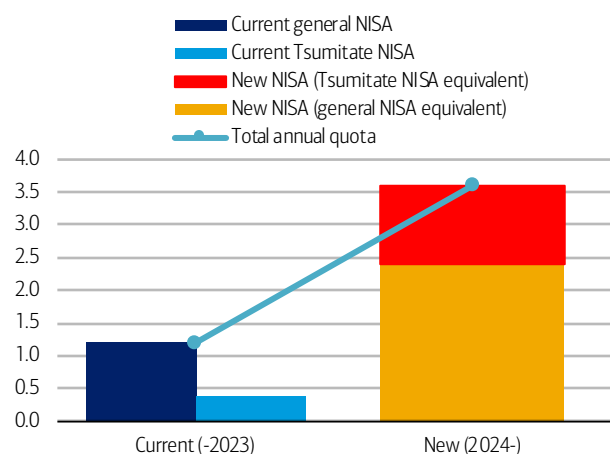
## 2) How will NISA be expanded in 2024?

The gov't has approved legislations to expand the scheme during the 2023 ordinary Diet session. The expansion will take effect in January 2024 and consists of following:

- **Combine general NISA and Tsumitate NISA:** New NISA would combine general NISA (to be called "growth quota") and Tsumitate NISA ("Tsumitate quota") into one scheme. Under the existing scheme, an investor can only hold one type of account in a single year.
- **Expand annual quota from ¥1.2mn to ¥3.6mn:** New NISA will allow an account holder to invest up to ¥2.4mn per year for general NISA equivalent (vs. ¥1.2mn current) and ¥1.2mn for Tsumitate NISA equivalent (vs. ¥0.4mn current) for a total of ¥3.6mn (Exhibit 1).
- **Expand total quota from ¥8mn to ¥18mn:** The quota on investment balance would rise to ¥18mn combined with a separate ¥12mn cap on general NISA equivalent (Exhibit 2). If an account holder sells assets held in NISA, it would free a tax-exempt bracket by that amount. The current scheme has a ¥6mn cap on general NISA and an ¥8mn cap on Tsumitate NISA.
- **Make investment and tax-exempt periods permanent:** Current NISA limits the investment and tax-exempt periods (5 years for general NISA and 20 years for Tsumitate NISA). New NISA would make them permanent.

**Exhibit 1: Annual quota in current and new NISA accounts (¥mn)**

Annual quota would rise to ¥3.6mn (¥2.4 general + ¥1.2 Tsumitate) from current ¥1.2mn (general) or ¥0.4mn (Tsumitate)

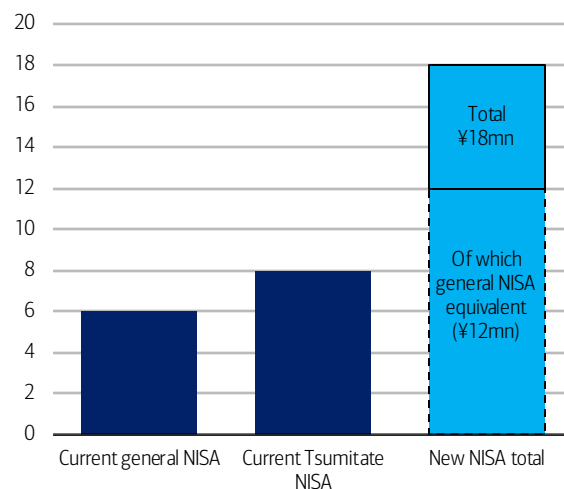


Source: BofA Global Research

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**Exhibit 2: Quota on total balance in NISA account under current and new NISA (¥mn)**

Total quota on NISA to rise to ¥18mn from ¥8mn



Source: BofA Global Research

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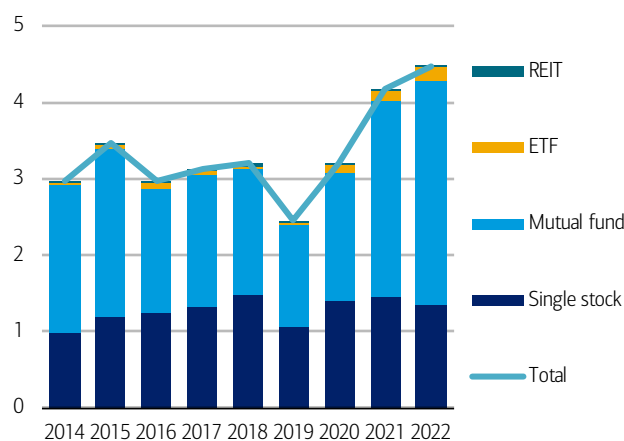
**3) What have retail investors been buying through NISA?**

Mutual funds and single stocks have been popular product types in NISA investment (Exhibit 3). In 2022, retail investors bought ¥2.9tn in mutual funds and ¥1.3tn in single stocks through NISA accounts. We believe mutual fund investment through Tsumitate NISA is particularly popular among the young and new investors who may not have as much time for investment analysis or as much investment experience and tend to use NISA for long-term investments.

Japan's investment trusts have been consistently buying foreign equities since 2014 while they have not added Japan equities (Exhibit 4). This implies a significant portion of mutual fund investment through NISA may have gone into foreign assets.

**Exhibit 3: Annual investment volume by NISA accounts by product type (¥tn)**

Mutual funds are most popular

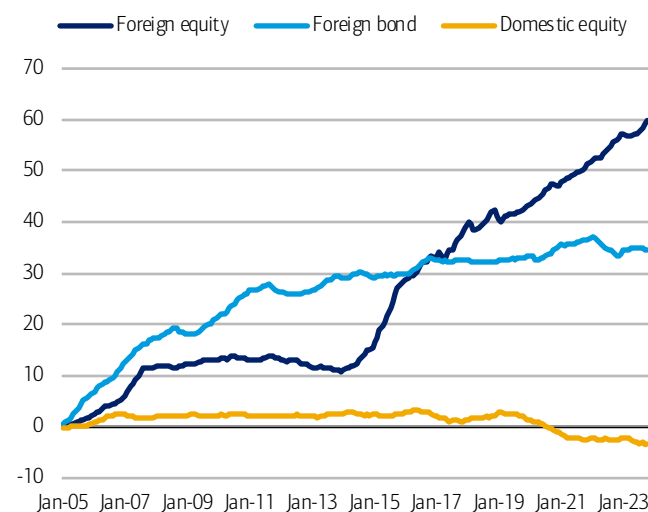


Source: FSA

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**Exhibit 4: Cumulative investment by Japanese investment trusts (¥tn)**

Japan investment trusts have been adding foreign equities



Source: BofA Global Research, Haver

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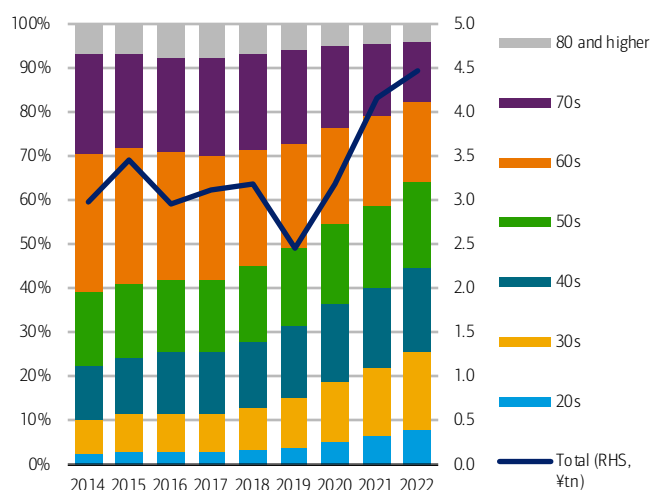
#### 4) Who have been buying financial products through NISA and why?

When the program started in 2014, the elderly were the main investors, presumably as they had more investment experience and wealth (Exhibit 5). However, NISA has become increasingly popular among the younger cohorts. In 2014, the 60-years' old and older cohort accounted for 61% of NISA investment. In 2022, this number was 36%, and the share of 30s and 40s has risen instead.

Why are younger people investing more? A survey done by JSDA shows about half of investors in their 20s, 30s, and 40s have been buying mutual funds as long-term investment (Exhibit 6). We could infer that younger Japanese have been buying financial assets – especially foreign equity funds – for asset building to hedge the future. With an aging and shrinking population, expectations for the tax and social security burden to rise in the future are widely held. We believe the recent rise in inflation could accelerate the trend as younger investors try to protect their purchasing power in the future (see: [Liquid Insight: Yen's 2024 problem 17 July 2023](#)).

**Exhibit 5: Annual NISA investment volume by age group (% , ¥tn)**

Younger people are driving the rise in NISA investment

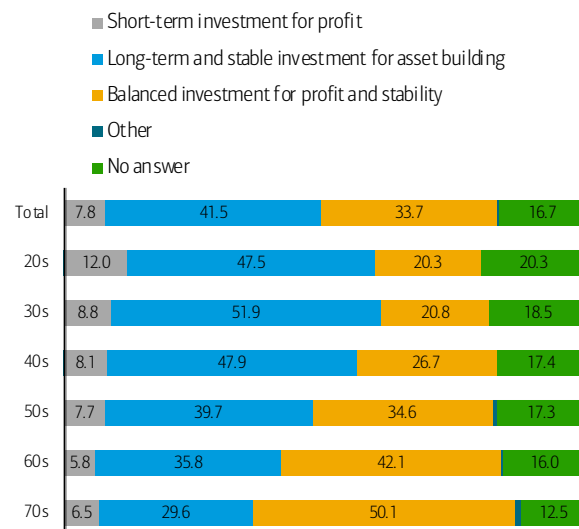


Source: FSA

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**Exhibit 6: Reason for purchasing mutual funds by age group (%)**

Younger investors buy mutual funds as long-term investment



Source: JSDA

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#### 5) What are the implications for FX and rates in 2024?

We believe the expansion of the NISA scheme will be negative for JPY near term, as retail investors would increase investment in foreign equity mutual funds. If we assume half of NISA investment has gone into foreign assets and the annual NISA investment will double, net annual outflow related to NISA may rise from ¥2-3tn to ¥4-6tn in the next few years. This would not be a decisive factor for JPY, but NISA can broaden the retail investor base and the impact would be amplified. Retail investors' outward investment would add to existing structural outflow in FDI (see: [Liquid Insight: Japan's outward FDI behind yen's sticky weakness 22 May 2023](#)).

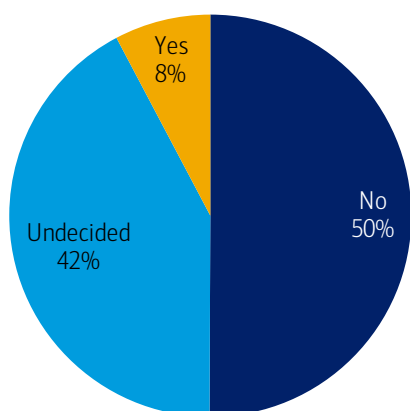
That said, there is a high uncertainty as to how many new investors will come in and how much existing NISA investors will increase investment. The timing of any increase in investment is also uncertain. According to our latest Japan Consumer Survey, 50% of those who currently do not own a NISA account do not plan on opening the account, while 42% is undecided (Exhibit 7, see: [Japan Watch: Japan Consumer Survey \(October 23\) 15 November 2023](#)).

We believe direct implications for the rates market would be limited as yen liquidity would be ample in 2024, but a weaker yen and higher equities can lead to higher yields.

Lastly, as investors cannot roll over existing holdings in NISA accounts to new NISA accounts, some investors may decide to sell existing holdings into year-end and buy them back or buy other assets through new NISA accounts after new year, though we do not expect these technical flows around year-end would impact the FX market much.

**Exhibit 7: Do you plan on opening a NISA account in the future?  
(Respondents currently do not hold any NISA account)**

42% of respondents undecided on opening a NISA account



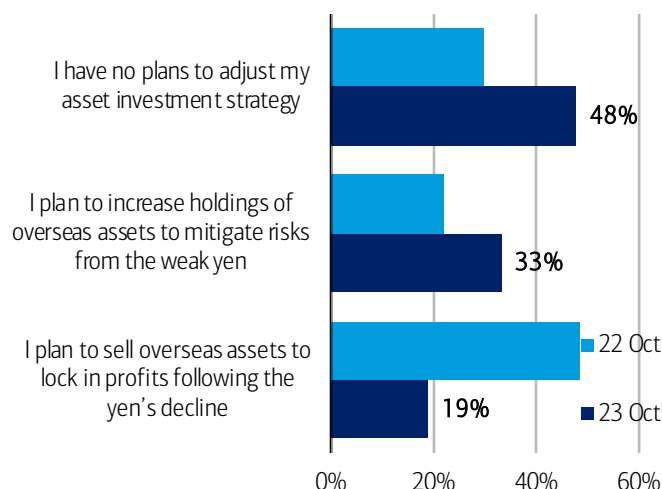
Source: RIWI, BofA Global Research; Respondents: 1,844; Survey period: 10/26-11/1

See: [Japan Watch: Japan Consumer Survey \(October 23\) 15 November 2023](#)

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**Exhibit 8: Do you plan to adjust your asset investment strategy over the next 12 months in response to the weak yen?  
(Respondents currently own foreign assets)**

More investors plan to increase foreign investment in response to the weak yen



Source: RIWI, BofA Global Research; Respondents: 424; Survey period: 23 Oct = 10/26-11/1, 22 Oct = 10/4-10/14

See: [Japan Watch: Japan Consumer Survey \(October 23\) 15 November 2023](#)

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## 6) What are the long-term implications?

Long-term implications would depend on many factors, including how the new NISA can contribute positively to Japan's economy and equity market. If retail money flows into the domestic equity market, reduces the cost of capital for Japan companies, and Japan companies are able to capitalize on cheaper funding to accelerate innovation, the yen could rise and JGBs could be supported on lower fiscal risk.

However, we believe the risk is skewed to a weaker JPY and higher JGB yields:

- The percentage of cash and deposit equivalents in Japan's household assets (54%) remain much higher than that of the US (13%) and European households (36%), according to the BoJ's flow of funds statistics. Given rising inflation, the asset mix of Japan households can converge to western standards over time.
- With Japan's demographic constraints, younger investors may be incentivized to hedge the home country risk and diversify into foreign assets. According to our latest Japan Consumer Survey, retail investors may be seeing the weak yen as more structural today. More respondents said that they planned to take profits on foreign assets following the yen's decline one year ago, while more currently plan to increase foreign assets to mitigate risks from further yen weakness (Exhibit 8).
- The hurdle for the government to reform macroeconomic policy in response to rising inflation may be high, and policymakers may continue to run a loose fiscal

policy and keep real interest rates low to manage public debt, damping the value of the yen and reducing demand for JGBs.

## Notable Rates and FX Research

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- **Global Rates, FX & EM Year Ahead 2023** – [Year Ahead 2023: Pivot ≠ Peak](#), 20 Nov 2022
- [Turning point](#), **Global FX Weekly**, 10 Nov 2023
- **Bond fairy tails**, **Global Rates Weekly**, 10 Nov 2023
- [USD sell-off can extend](#), **Liquid Cross Border Flows**, 6 Nov 2023

## Rates, FX & EM trades for 2023

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For a complete list of our open trade recommendations, as well as our trade recommendations closed over the past 12 months, see the reports below:

[Global FX weekly: Turning point 10 November 2023](#)

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