

Japan's International Investment Position at Year-End 2005*

International Department
Bank of Japan

The international investment position (IIP) describes the balance sheet of the "stock" data of financial items (capital and financial account plus reserve assets) in the balance of payments ("flow" data) at a particular point. In the IIP, assets comprise the stock of external financial assets of residents in Japan (including offices of foreign companies and financial institutions in Japan), while liabilities comprise the stock of external financial liabilities of residents in Japan (assets, including equity securities, held in Japan by nonresidents). In order to present figures in the yen, the foreign currency amounts are converted at the exchange rate in effect at the year-end. The difference between assets and liabilities is the net IIP. At year-end 2005, Japan's assets exceeded liabilities, resulting in a net asset position.

* Japan's international investment position (IIP) statistics were made public in Japanese on May 26, 2006, by the Ministry of Finance and the Bank of Japan as the *Report on External Assets and Liabilities as of Year-End 2005*. The regional breakdown is posted on the Bank of Japan's web site (<http://www.boj.or.jp/en/index/htm>) and is also available in the April 2006 issue of the Bank's *Balance of Payments Monthly*. Other figures are estimates by the Balance of Payments Statistics Section of the International Department of the Bank of Japan.

In line with the trend of discussions at the International Monetary Fund (IMF) on how to deal with securities lending transactions, figures from the end of 1996 (from the end of 2000 for regional figures) exclude securities lending transactions in this paper.

I. Summary

Japan's international investment position (IIP) (the outstanding amount of external financial assets of residents in Japan minus the outstanding amount of external financial liabilities of residents in Japan) recorded a net asset position of 180.7 trillion yen at year-end 2005. This represents a decrease of 5.1 trillion yen or 2.7 percent from the previous year-end, but marks the second highest level on record after the historical high set at year-end 2004.

The small decrease in the net asset position is largely due to the comparatively large increase in liabilities reflecting the substantial rise in Japanese stock prices, although assets also increased as a result of the current account surplus.

Comparison with other major countries suggests that Japan has been the country with the largest net asset position for the 15th consecutive year since year-end 1991.

The major trends for each component were as follows.

(1) Direct investment (direct investment assets: 45.6 trillion yen; direct investment liabilities: 11.9 trillion yen)

Direct investment assets increased for the second consecutive year, rising by 7.0 trillion yen or 18.2 percent from year-end 2004. This was primarily due to (a) an increase in direct investments in North America and Asia by Japanese companies in order to expand existing business, and (b) an increase in the yen-denominated value of assets reflecting the depreciation of the yen against the U.S. dollar. Direct investment liabilities also increased by 1.8 trillion yen or 17.9 percent, reflecting direct investment mainly from the European Union (EU) and Asia.

(2) Portfolio investment (assets: 249.5 trillion yen; liabilities: 182.0 trillion yen)

Portfolio investment assets increased by 40.2 trillion yen or 19.2 percent from year-end 2004. This substantial increase was due to (a) an increase in investment by investment trusts in equity securities of emerging economies and real estate investment trusts (REITs), (b) an increase in investment by banks in bonds and notes, (c) an increase in the value of assets reflecting the depreciation of the yen against the U.S. dollar, and (d) an increase in the value of equity securities reflecting the rise in French and German stock prices. Portfolio investment liabilities also increased, by 61.9 trillion yen or 51.5 percent. This sharp increase was primarily due to (a) the continued purchase of Japanese equity securities by nonresident investors supported by a favorable outlook for the business performance of Japanese companies, and (b) an increase in the value of equity securities reflecting the rise in Japanese stock prices.

(3) Financial derivatives (assets: 3.1 trillion yen; liabilities: 3.9 trillion yen)

Both financial derivatives assets and liabilities increased from year-end 2004.

(4) Other investment (assets: 108.5 trillion yen; liabilities: 127.7 trillion yen)

Other investment assets increased by 10.8 trillion yen or 11.1 percent from year-end 2004, primarily due to the outflow of yen funds for the purchase of equity securities. Other investment liabilities also increased, by 11.0 trillion or 9.4 percent, marking

the sixth consecutive year of increase. The increase is attributable to a rise in borrowing from banks' overseas branches through their interoffice accounts.

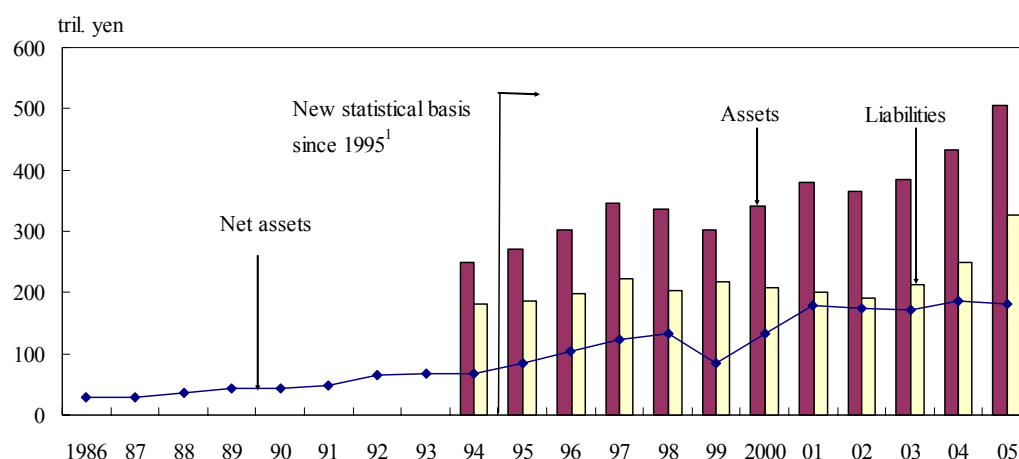
(5) Reserve assets (assets: 99.4 trillion yen)

Reserve assets rose for the seventh consecutive year, increasing by 11.7 trillion yen or 13.4 percent from year-end 2004. This was due to an increase in the value of assets reflecting the depreciation of the yen and an addition of interest accruing from bonds and notes to the reserve assets.

II. Developments in Japan's IIP

Japan's net asset position was 180.7 trillion yen at year-end 2005, a slight decrease of 5.1 trillion yen or 2.7 percent from year-end 2004. Still, this was the second highest level on record after the historical high set at year-end 2004.

Figure 1: International Investment Position (IIP)

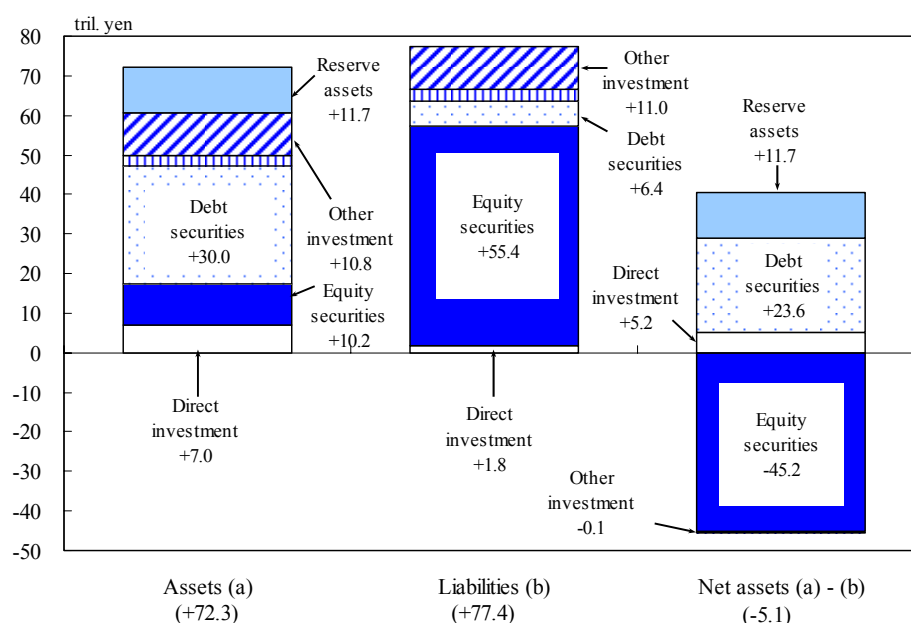


Note: 1. Figures from 1995 onward are calculated in accordance with the *Balance of Payments Manual* (Fifth Edition) issued by the International Monetary Fund (IMF). Figures prior to 1995 are compatible with the *Balance of Payments Manual* (Fourth Edition).

A. Developments in Assets and Liabilities by Component

The main factor contributing to the small decrease in net assets was the sharp increase in the value of equity securities liabilities reflecting the substantial rise in Japanese stock prices.

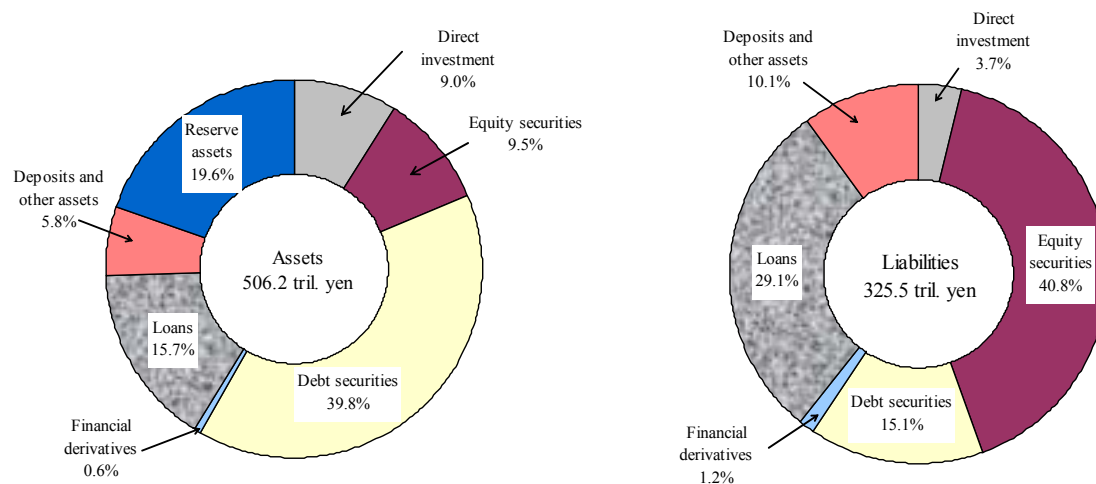
Figure 2: Contribution to Year-on-Year Changes by Component



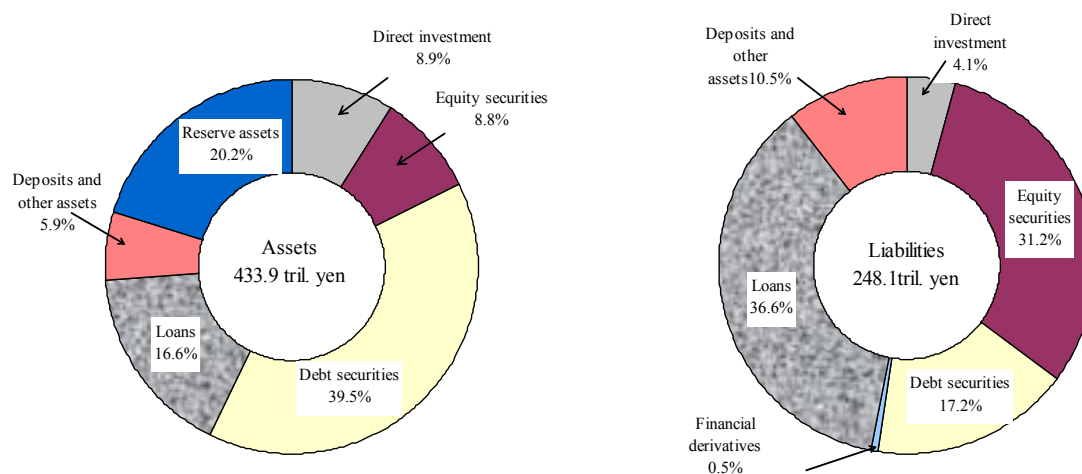
A breakdown of assets and liabilities by component shows that the percentage share of equity securities increased for both assets and liabilities.¹

Figure 3: Breakdown of Assets and Liabilities by Component

(1) At Year-End 2005



(2) At Year-End 2004



¹ Portfolio investment assets and liabilities are basically recorded on a market value basis, while direct investment assets and liabilities are recorded on a book value basis. For the estimated market value of direct investment assets and liabilities, see Box 1, "Estimating Direct Investment Assets and Liabilities on a Market Value Basis" on pages 35 to 36.

Table 1: Assets and Liabilities by Component at End-2005
tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Total	506.2	+72.3	325.5	+77.4	180.7	-5.1
Direct investment	45.6	+7.0	11.9	+1.8	33.7	+5.2
Portfolio investment	249.5	+40.2	182.0	+61.9	67.5	-21.6
Equity securities	48.2	+10.2	132.8	+55.4	-84.6	-45.2
Bonds and notes	198.3	+30.7	41.4	+7.6	156.9	+23.1
Money market instruments	3.0	-0.7	7.7	-1.2	-4.7	+0.5
Financial derivatives	3.1	+2.5	3.9	+2.8	-0.8	-0.3
Other investment	108.5	+10.8	127.7	+11.0	-19.2	-0.1
Of which: Loans	79.2	+7.0	94.8	+4.0	-15.6	+3.0
Reserve assets	99.4	+11.7	—	—	99.4	+11.7

B. Factors Accounting for the Change in Net Assets

An analysis of the factors² underlying the decrease in Japan's net asset position by 5.1 trillion yen in 2005 shows the following. The transaction factor accounted for a net increase of 15.0 trillion yen due to an expansion on the asset side reflecting the large current account surplus for 2005. The exchange rate change factor increased the yen-denominated value of net assets by 24.1 trillion yen, primarily because of the depreciation of the yen by 13.2 percent against the U.S. dollar compared to year-end 2004. Other factors accounted for a net decrease of 44.2 trillion yen due to the rise in Japanese stock prices, which resulted in a 43.1 trillion yen increase in liabilities.

² The following three factors account for changes in the asset and liability position. The "transaction factor" indicates changes in financial assets and liabilities as a result of transactions between residents and nonresidents. This factor is equivalent to the sum of the financial and capital account and changes in the foreign reserves recorded in the balance of payments for the year. The "exchange rate change factor" indicates changes in the yen value of assets and liabilities resulting from fluctuations in exchange rates. And the "other factors" indicates factors other than the above two, such as changes in the value of assets and liabilities resulting from fluctuations in stock and bond prices.

Table 2: Change in Net Asset Position by Factor
tril. yen

	Change from end-2004	Transaction factor	Exchange rate change factor	Other factors
Net asset position	-5.1	+15.0	+24.1	-44.2
Assets	+72.3	+41.7	+31.8	-1.1
Liabilities	+77.4	+26.7	+7.7	+43.1

Table 3: Yen's Exchange Rates at Year-End

	2002	03	04	05
Yen/U.S. dollar ¹	119.37	106.97	103.78	117.48
Yen/euro ²	125.72	134.91	140.96	139.70

Notes: 1. Mid-rates based on offer and bid rates quoted by interbank market participants in the Tokyo market; as of 5 p.m. JST.

2. Arbitrage rate.

Source: Bank of Japan, *Bank of Japan Statistics*.

C. Developments by Sector

By sector,³ net assets in the public sector increased for the seventh consecutive year and were up 2.5 trillion yen compared to year-end 2004. The rise can be attributed primarily to an increase in reserve assets. Net assets of banks increased by 6.5 trillion yen as the growth in assets exceeded the growth in liabilities, primarily due to the acquisition of foreign bonds and notes by Japanese banks. Other sectors recorded a decrease in net assets of 14.1 trillion yen. While assets increased due to the purchase of foreign equity securities by investment trusts and others, this was more than offset by a larger increase in liabilities centered on investments in Japanese equity securities by foreign investors.

As a result of the above developments, as of year-end 2005, the percentage shares of each sector within total net assets were 45 percent for the public sector (including reserve assets; 42 percent at year-end 2004), 14 percent for banks (10 percent at year-end 2004), and 41 percent for other sectors (48 percent at year-end 2004).

³ This paper categorizes sectors into three. "Public sector" includes the general government, the monetary authorities, and governmental financial institutions. "Banks" includes commercial banks and other deposit-taking financial institutions, such as cooperative-type financial institutions. "Other sectors" includes trust accounts of trust banks, life and nonlife insurance companies, securities companies, general corporations, and individuals.

Assets/liabilities of each sector show the external assets/liabilities held by that sector (residents). In the "public sector," for example, assets are external assets, such as foreign currency denominated securities held by the Japanese public sector, and liabilities are external liabilities, such as debt securities issued by the Japanese public sector (e.g., Japanese government bonds [JGBs]) held by nonresidents.

Table 4: Assets/Liabilities and Net Assets by Sector¹
tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Total	506.2	+72.3	325.5	+77.4	180.7	-5.1
Public sector	123.8	+10.1	43.2	+7.6	80.6	+2.5
Banks	124.2	+22.7	98.5	+16.2	25.7	+6.5
Other sectors	258.2	+39.6	183.8	+53.7	74.4	-14.1

Note: 1. See Footnote 3 in the main text for the definition of each sector.

D. Features by Maturity

For both assets and liabilities, long-term instruments are those with an original maturity of more than one year, while short-term instruments are those with an original maturity of one year or less. Among liabilities, the percentage share of long-term instruments increased due to the sharp increase in the amount of equity securities held by foreign investors.

Table 5: Assets/Liabilities by Maturity
tril. yen

	Assets			Liabilities		
		Percentage share			Percentage share	
			y/y chg. (% points)			y/y chg. (% points)
Total	506.2	100.0	—	325.5	100.0	—
Long-term	338.2	66.8	+0.9	201.5	61.9	+6.7
Short-term	167.9	33.2	-0.9	124.0	38.1	-6.7

Note: The long- and short-term items are classified as follows. Equity securities are classified as long-term instruments because they are not redeemable.

Long-term: direct investment, equity securities, bonds and notes, loans (long-term), trade credits (long-term), and other assets/liabilities (long-term).

Short-term: money market instruments (MMIs), financial derivatives, loans (short-term), trade credits (short-term), currency and deposits, other assets/liabilities (short-term), and reserve assets.

E. International Comparison of Net Assets

Comparison with other major countries suggests that Japan has been the country with the largest net asset position for the 15th consecutive year since year-end 1991.

In Table 6, figures for year-end 2004 were used for countries for which figures for year-end 2005 were not available.

Table 6: Net Assets of Major Countries: An International Comparison^{1,2,3}

tril. yen

Year-end		Assets	Liabilities	Net assets	Ratio to nominal GDP (%)
Japan	2005	506.2	325.5	180.7	35.9
	2004	433.9	248.1	185.8	36.8
Switzerland	2004	206.4	157.6	48.9	119.1
Hong Kong	2004	143.3	99.1	44.2	255.7
China	2005	143.7	109.8	33.9	12.7
Germany	2004	482.5	454.5	28.0	8.9
France	2004	455.5	439.8	15.7	6.7
Belgium	2004	156.2	144.5	11.7	28.7
Russia	2004	40.9	40.5	0.4	0.7
Italy	2004	188.3	201.2	-12.9	-6.7
Canada	2005	101.7	119.5	-17.8	-12.9
United Kingdom	2005	977.0	1,020.8	-43.8	-17.8
Australia	2005	56.0	104.4	-48.4	-60.4
Spain	2005	156.7	214.7	-58.0	-46.2
United States	2004	1,038.4	1,303.1	-264.7	-21.7

Notes: 1. Yen-denominated figures for each country are calculated using the exchange rate at year-end as published in the *International Financial Statistics* of the IMF.

2. The countries and an area listed above are the G-8 nations and those with large net assets or liabilities.

3. In China, data on the country's international investment position were released for the first time on May 25, 2006, by the State Administration of Foreign Exchange.

Sources: Statistics Canada (for Canada); Office for National Statistics (for the United Kingdom); Banco de España (for Spain); IMF, *International Financial Statistics* (for other countries).

III. Developments by Component

A. Direct Investment

1. Direct investment assets

Direct investment assets increased for the second consecutive year to 45.6 trillion yen, rising by 7.0 trillion yen or 18.2 percent from year-end 2004. This represents a new record high.

The main factor underlying the changes in direct investment assets is the transaction factor, which accounted for a net increase of 5.0 trillion yen. The transaction factor⁴ by region was as follows. Net direct investment outflows to North America increased sharply due to buoyant investment in the electric machinery, wholesale and retail, and motor vehicle industries. Net outflows to the EU were virtually unchanged from the previous year due to large-scale borrowing (i.e., inflows) from subsidiary holding companies in the EU. Investment in Asia increased. Contributing factors include: (1) the high level of investment in China, led by the electric machinery and motor vehicle industries, with firms setting up or expanding production facilities; (2) acquisitions by financial and insurance companies with the aim of expanding business operations in Asia (excluding China); and (3) equity participation in a South Korean telecommunications company. Investment in Central and South America increased due to strong investment in corporate-type investment trusts primarily in the Cayman Islands by Japanese financial and insurance companies to exploit investment opportunities.

Apart from the transaction factor, the exchange rate change factor accounted for 3.2 trillion yen of the increase. This was primarily due to the depreciation of the yen against the U.S. dollar and the consequent increase in the yen-denominated value of external assets.

Table 7: Direct Investment Assets

bil. yen

	2003	04	05	y/y chg.			
					Transaction factor	Exchange rate change factor	Other factors
Direct investment assets at year-end	35,932 (-1.5%)	38,581 (+7.4%)	45,605 (+18.2%)	+7,025	+5,046	+3,182	-1,203

Note: Figures in parentheses indicate the change from the previous year.

The regions accounting for the largest share of Japanese direct investment assets at year-end 2005 were, in descending order, North America, the EU (led by the Netherlands and the United Kingdom), and Asia (led by China, Singapore, and Thailand). Among BRIC countries, China accounted the majority of direct investment assets. The countries with the most Japanese direct investment assets were, in descending order, the United States (17.6 trillion yen), the Netherlands (4.1

⁴ For details, refer to "Japan's Balance of Payments for 2005," released in August 2006 (available on the Bank of Japan's website <http://www.boj.or.jp/en/index/htm>).

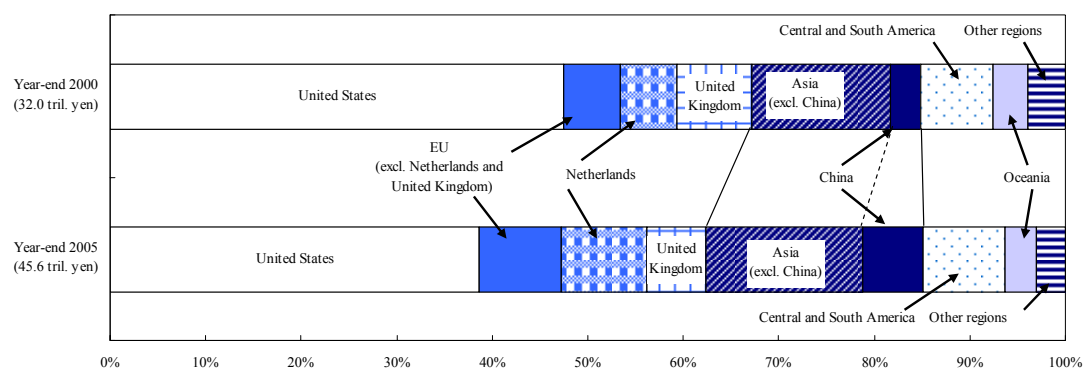
trillion yen), China (2.9 trillion yen), the United Kingdom (2.9 trillion yen), and the Cayman Islands (2.1 trillion yen). At year-end 2005, direct investment assets in China exceeded those in the United Kingdom. In terms of percentage share of total investment assets, China, the Netherlands, and Central and South America (including the Cayman Islands) all accounted for a larger share than at year-end 2000.

Table 8: Direct Investment Assets by Region at Year-End
bil. yen

	2003	04	05	y/y chg.	Share of total (%)
North America	15,338	15,252	18,349	+ 3,097	40.2
EU	9,177	10,525	10,825	+ 300	23.7
Of which:					
Netherlands	3,605	3,788	4,064	+ 276	8.9
United Kingdom	2,613	2,786	2,851	+ 65	6.3
Asia (including China and India)	6,875	7,931	10,360	+ 2,430	22.7
Of which:					
Singapore	1,051	1,160	1,387	+ 228	3.0
Thailand	818	1,028	1,372	+ 343	3.0
South Korea	543	685	969	+ 284	2.1
BRICs ¹	2,325	2,762	3,832	+ 1,070	8.4
Brazil	526	473	705	+ 232	1.5
Russia	2	9	18	+ 9	0.0
India	161	182	212	+ 30	0.5
China	1,636	2,097	2,897	+ 799	6.4
Central and South America	2,351	2,759	3,884	+ 1,125	8.5
Total (including other regions)	35,932	38,581	45,605	+ 7,025	100.0

Note: 1. "BRICs" is the total of Brazil, Russia, India, and China.

Figure 4: Changes in Share of Direct Investment Assets by Region



Note: The EU comprised 15 member countries at year-end 2000 and 25 member countries at year-end 2005. EU figures do not include those of the Netherlands and United Kingdom.

A breakdown of direct investment assets by region and industry⁵ reveals the following patterns. Direct investment assets in North America are concentrated in automobile-related transportation equipment and electric machinery industries. In the case of the EU, direct investment assets in finance and insurance account for a high percentage share reflecting a high level of investment in financial holding company subsidiaries. Direct investment assets in Asia are increasing as a result of growing direct investment in China, which is centered on the establishment of new production facilities and the expansion of existing business operations in such industries as transportation equipment (primarily automobile-related) and electric machinery. In Central and South America, direct investment assets in finance and insurance account for a substantial share, mainly due to investments in investment trusts domiciled in the Cayman Islands.⁶

Table 9: Direct Investment Assets by Region and Industry

bil. yen

	Transportation equipment	Finance and insurance	Electric machinery	Wholesale and retail	Chemicals and pharmaceuticals	Total (including other industries)
Total	8,130	7,847	6,753	5,023	4,225	45,605
North America	4,638	2,085	3,067	2,314	2,028	18,349
EU	1,343	1,913	1,700	1,291	748	10,825
Asia	1,423	1,034	1,930	1,011	1,207	10,360
Of which: China	394	161	634	342	243	2,897
Central and South America	595	2,526	40	92	52	3,884
Oceania	56	92	16	257	41	1,523
Other regions	74	196	0	60	148	665

Note: Holding companies are classified by the industry of affiliated enterprises.

2. Direct investment liabilities

Direct investment liabilities amounted to 11.9 trillion yen, up 1.8 trillion yen or 17.9 percent from year-end 2004.

As for the factors responsible for changes in direct investment liabilities, the transaction factor accounted for a marginal net increase of 0.3 trillion yen. The transaction factor by region was as follows. Direct investments from North America recorded a net outflow as a U.S. motor vehicle manufacturer dissolved its capital alliances with a Japanese subsidiary. Net inflows from the EU decreased sharply as a

⁵ Breakdowns of direct investment assets by region and industry were made available beginning with the release of data for year-end 2005. For details, see Box 2 "Release of New Data and Change in the Definition of Some IIP Items."

⁶ Investments in corporate-type investment trusts are recorded as direct investment when an investor holds 10 percent or more of the firm's equity. For details on the compilation of data on investments in investment trusts, see Box 3 "Statistical Treatment of Investments in Investment Trusts."

large-scale capital increase to improve the financial situation of a transportation equipment subsidiary in Japan was more than offset by capital withdrawals from Japanese subsidiaries (financial institutions) by subsidiaries of U.S. investment funds. Investments from Asia, on the other hand, increased significantly. This was mainly due to a large-scale capital investment undertaken by a Hong Kong-based securities company as part of transforming its Japanese branch into a corporation registered in Japan.

Apart from the transaction factor, other factors accounted for an increase of 1.5 trillion yen, largely as a change in the reporting system introduced at year-end 2005 whereby capital reserves were included in the statistics.

Table 10: Direct Investment Liabilities

bil. yen

	2003	04	05	y/y chg.		
					Transaction factor	Other factors
Direct investment liabilities at year-end	9,610 (+2.6%)	10,098 (+5.1%)	11,903 (+17.9%)	+1,805	+306	+1,499

Note: Figures in parentheses indicate the change from the previous year.

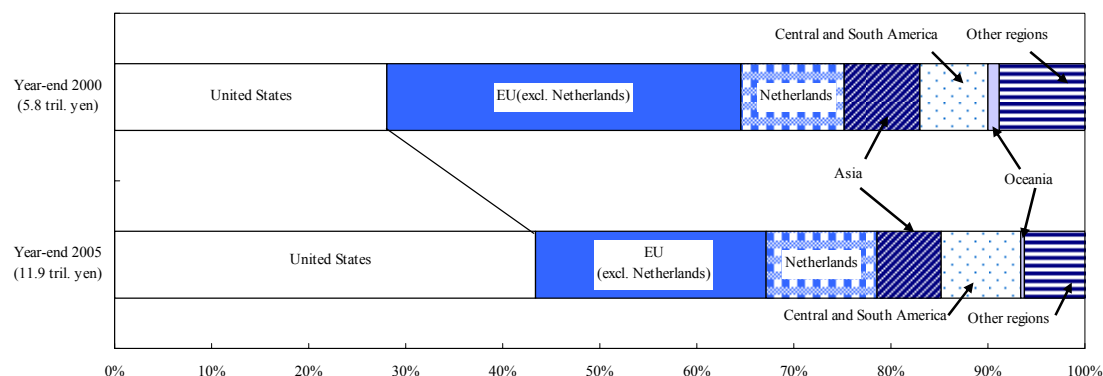
The regions accounting for the largest share of Japanese direct investment liabilities at year-end 2005 were, in descending order, North America, the EU (led by the Netherlands and France), and Central and South America (primarily the Cayman Islands). Looking at individual countries, the United States accounted for 5.2 trillion yen of Japanese direct investment liabilities, followed by the Netherlands (1.4 trillion yen), France (1.3 trillion yen), Germany (0.7 trillion yen), and the Cayman Islands (0.7 trillion yen).

Table 11: Direct Investment Liabilities by Region at Year-End

bil. yen

	2003	04	05		
				y/y chg.	Share of total (%)
North America	4,303	4,766	5,607	+ 842	47.1
EU	3,910	3,996	4,201	+ 205	35.3
Of which:					
Netherlands	1,449	1,475	1,369	-106	11.5
France	1,318	1,421	1,266	-155	10.6
Central and South America	510	312	966	+ 654	8.1
Asia	525	611	787	+ 176	6.6
Total (including other regions)	9,610	10,098	11,903	+ 1,805	100.0

Figure 5: Changes in Share of Direct Investment Liabilities by Region



- Notes: 1. The EU comprised 15 member countries at year-end 2000 and 25 member countries at year-end 2005. EU figures do not include those of the Netherlands.
2. The share of direct investment of the United States increased because stocks of existing Japan-based subsidiaries of U.S. companies were re-valued by market price when the stocks were transferred to their newly-established subsidiary holding companies to reorganize their group companies in Japan.

A breakdown of direct investment liabilities by region and industry reveals the following patterns. Liabilities to North America are concentrated in the finance and insurance and electric machinery industries. Liabilities to the EU are dominated by those in automobile-related transportation equipment industry. As for Central and South America, finance and insurance accounts for a large share of liabilities, reflecting investments in Japan via investment subsidiaries domiciled in the Cayman Islands.

Table 12: Direct Investment Liabilities by Region and Industry

bil. yen

	Finance and insurance	Electric machinery	Transportation equipment	Communications	Chemicals and pharmaceuticals	Total (including other industries)
Total	3,465	2,111	1,602	917	847	11,903
North America	2,030	1,962	320	250	229	5,607
EU	536	135	1,261	580	595	4,201
Central and South America	587	11	13	63	16	966
Asia	215	4	1	18	6	787
Oceania	8	0	0	4	1	56
Other regions	91	0	8	2	1	286

Note: Holding companies are classified by industry of affiliated enterprises.

3. Japan's direct investment position in international perspective

At year-end 2005, the ratio of Japan's direct investment assets to GDP was 9.1 percent, while that of direct investment liabilities was 2.4 percent. Both ratios are lower than those registered in other major countries.

Table 13: Ratio of Direct Investment Assets and Liabilities to Nominal GDP
US\$ bil.

	Direct investment assets		Direct investment liabilities	
		Ratio to nominal GDP (%)		Ratio to nominal GDP (%)
Japan	388.2	9.1	101.3	2.4
United States	3,287.4	28.0	2,686.9	22.9
United Kingdom	1,248.2	59.9	836.8	40.1
France	1,391.0	62.0	932.5	41.5
Germany	754.6	25.0	675.6	22.4

Note: Figures for direct investment assets and liabilities are as of year-end 2005 for Japan (converted to the U.S. dollar using exchange rates at year-end) and the United Kingdom; and as of year-end 2004 for the United States, France, and Germany.

Source: IMF, *International Financial Statistics*.

B. Portfolio Investment

1. Equity securities (assets)

Equity securities assets (nonresidents' equity securities held by residents) amounted to 48.2 trillion yen, an increase of 10.2 trillion or 26.9 percent from year-end 2004. The year 2005 was the third consecutive year of increase, and equity securities assets marked a new record high.

By sector, assets held by banks increased only marginally. Assets held by "other sectors" increased sharply as investments by investment trusts grew, largely as a result of the active establishment of funds that invest in REIT funds and equity securities of emerging economies. Throughout the year 2005, public pension funds also invested actively in foreign equities through the trust accounts of trust banks.

Among the factors underlying changes in equity securities assets, the transaction factor was responsible for an increase of 2.5 trillion yen. The transaction factor by region⁷ showed the following pattern. Investment levels in the United States remained high, virtually unchanged from the previous year due to the active establishment of funds investing in U.S. REITs. Investment in the EU increased due to steady flows of investment in corporate-type investment trusts domiciled in

⁷ Equity securities assets by region are classified by the nationality of the stock issuer.

Luxembourg. Among other regions, investment in the Cayman Islands decreased. This was due to a slowdown in the acquisition of preferred shares issued by Japanese special purpose companies (SPCs). The following developments were seen regarding investment in BRIC countries. Compared to the previous year, Indian, Russian, and Brazilian equity securities were actively purchased, while purchases of Chinese equity securities decreased somewhat due to the decline in stock prices.

Apart from the transaction factor, the exchange rate change factor, which was responsible for an increase of 3.5 trillion yen. Other factors accounted for an increase of 4.2 trillion yen. These trends reflect the depreciation of the yen against the U.S. dollar and the rise in European (primarily German and French) stock prices.

Table 14: Equity Securities (Assets)^{1,2}
bil. yen

	2003	04	05	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	29,395 (+16.3%)	37,972 (+29.2%)	48,200 (+26.9%)	+10,228	+2,541	+3,519	+4,168
Of which:							
Banks	552	609	809	+200	+199	+63	-62
Other sectors	28,840	37,363	47,390	+10,028	+2,339	+3,457	+4,232

Notes: 1. Foreign equity securities issued by nonresidents held by each sector.

2. Figures in parentheses indicate the percent change from the previous year.

Figure 6: Developments in Equity Securities (Assets)

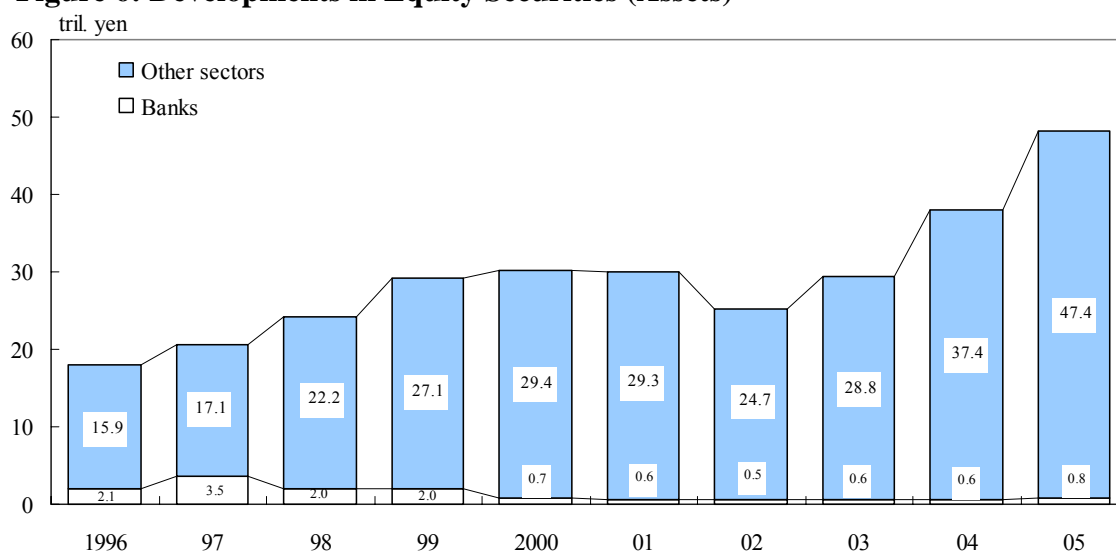


Table 15: Stock Price Indices in Major Countries

	Year-end 2004	Year-end 2005	y/y % chg.
Dow Jones Industrial Average (United States) ¹	10,783	10,718	-0.6%
NASDAQ (United States) ²	2,175	2,205	+1.4%
S&P500 (United States) ²	1,212	1,248	+3.0%
FTSE 100 (United Kingdom) ²	4,814	5,619	+16.7%
DAX (Germany) ²	4,256	5,408	+27.1%
CAC40 (France) ²	3,821	4,715	+23.4%
Hang Seng (Hong Kong) ²	14,230	14,876	+4.5%

Notes: 1. The Dow Jones Industrial Average is in the U.S. dollar.

2. Index values. Base values are as follows:

100 for the NASDAQ, based on prices on February 5, 1971;

10 for the S&P 500, based on the average for 1941-43;

1,000 for the FTSE 100, based on prices on January 3, 1984;

1,000 for the DAX, based on prices at year-end 1987;

1,000 for the CAC40, based on prices at year-end 1987; and

100 for the Hang Seng, based on price at the end of July 1964.

Source: Bloomberg.

By region, Japanese equity securities assets at year-end 2005 were composed as follows. United States equities accounted for the largest share, followed by EU equities (led by the United Kingdom, France, and Germany) and Central and South American equities. By country, the shares were as follows: the United States, followed by the United Kingdom and Cayman Islands. Although holdings of equity securities from BRIC countries increased substantially in 2005, BRIC countries still account for a much smaller share than other countries.

Table 16: Equity Securities by Region (Assets)

bil. yen

	2003	04	05	
				y/y chg.
United States	15,294	18,345	22,721	+4,377
EU	8,570	11,404	13,730	+2,325
Of which:				
Germany	933	1,061	1,366	+304
France	1,271	1,541	1,974	+433
United Kingdom	3,522	4,596	4,665	+69
Netherlands	624	769	894	+125
Luxembourg	402	614	1,065	+451
Ireland	344	653	1,047	+394
Asia (including India)	1,211	1,837	2,451	+614
Of which:				
China	224	437	431	- 6
Central and South America	2,052	3,273	4,701	+1,429
Of which:				
Cayman Islands	1,687	2,384	3,508	+1,124
Other	2,268	3,113	4,596	+1,483
Of which:				
Brazil	11	14	61	+47
Russia	6	6	100	+94
India	11	21	324	+303
Total (including other regions)	29,394	37,972	48,200	+10,228

Note that investment in the Cayman Islands, as in the case of other tax havens such as Luxembourg and Ireland, mostly consists of investments in investment trusts domiciled in these countries and areas (see Box 3).

Table 17: Share of Corporate-Type Investment Trusts in Equity Securities at Year-End (Assets)

bil.yen

	2004		05	
		Of which: Corporate-type investment trusts		Of which: Corporate-type investment trusts
Cayman Islands	2,384	1,276	3,508	1,822
Luxembourg	614	521	1,065	972
Ireland	653	325	1,047	859
United States	18,345	406	22,721	759

Source: International Department, Bank of Japan.

2. Bonds and notes (assets)⁸

Assets of bonds and notes (nonresidents' bonds and notes held by residents) amounted to 198.3 trillion yen, an increase of 30.7 trillion yen or 18.3 percent from year-end 2004. The year 2005 marked the sixth consecutive year of increase.

Assets of bonds and notes by sector showed the following developments. Assets held by banks increased by 15.5 trillion yen. This was mainly due to active investment in government-sponsored enterprise (GSE) bonds with relatively high yields and continued purchases of European and U.S. government bonds and notes. Assets held by "other sectors" increased sharply, rising by 16.0 trillion yen from year-end 2004. This was primarily due to active investment in bonds denominated in high interest rate currencies by investment trusts, reflecting the inflow of individual investors' funds into foreign bond funds.

Among factors accounting for changes in assets of bonds and notes, the transaction factor was responsible for an increase of 22.0 trillion yen. The transaction factor by region was as follows. Investment in the United States decreased somewhat from the previous year. While banks actively invested in U.S. government and GSE bonds and notes, this was exceeded by the sale of exchange-risk-hedged bonds by life insurance companies. Investment in the EU increased from the previous year, reflecting active purchases of European government bonds and notes during the first half of the year when the prices of bonds and notes rose. Among other regions, investment in the Cayman Islands, mainly comprising purchases of asset-backed securities (ABSs) and investment trust beneficiary certificates, remained at a high level.

Among other factors, the exchange rate change factor was responsible for an increase of 10.9 trillion yen, reflecting the depreciation of the yen against the U.S. dollar.

Table 18: Bonds and Notes (Assets)

bil. yen

	2003	04	05	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	150,708 (+10.7%)	167,635 (+11.2%)	198,321 (+18.3%)	+30,686	+22,025	+10,897	-2,236
Of which:							
Banks	45,298	51,156	66,683	+15,527	+7,567	+4,583	+3,377
Other sectors	103,485	114,806	130,769	+15,964	+14,495	+6,301	-4,832

Note: Figures in parentheses indicate the percent change from the previous year.

⁸ "Bonds and notes" are debt securities with a maturity (at issuance) of more than one year. Debt securities with a maturity of one year or less are defined as "money market instruments."

Figure 7: Developments in Bonds and Notes (Assets)

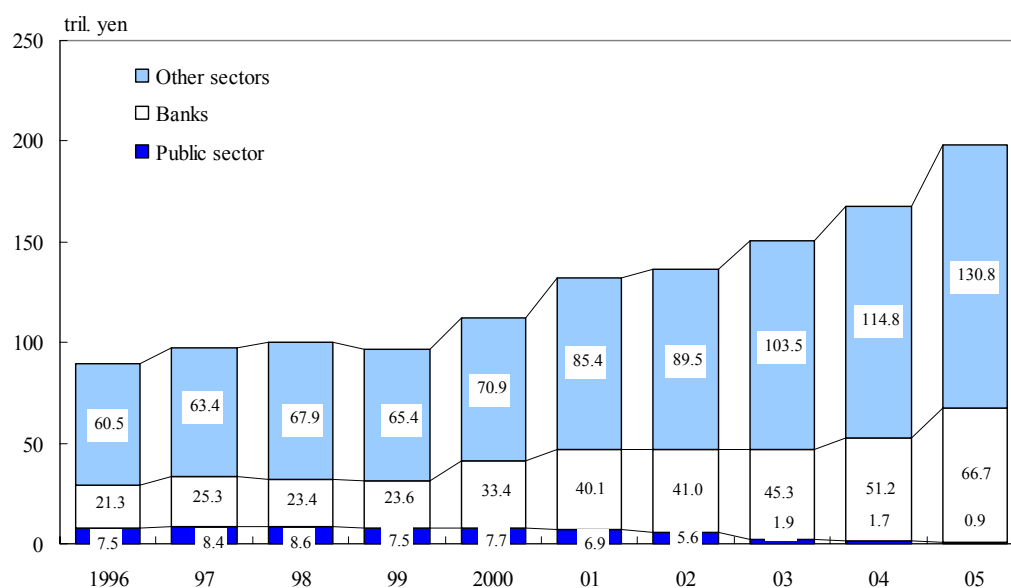
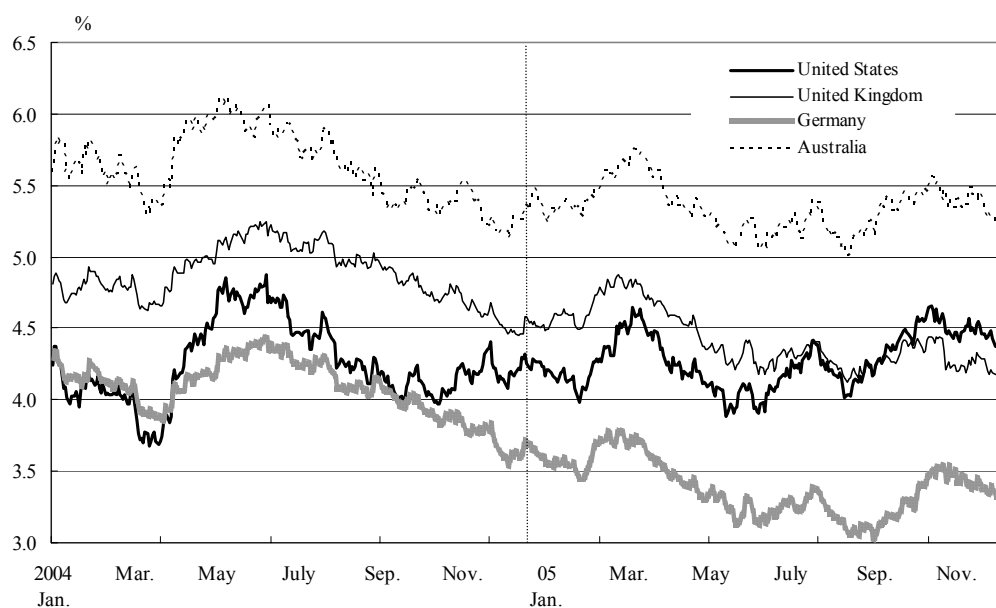


Figure 8: Developments in Yields on U.S. and European Government Bonds¹



Note: 1. Yields on 10-year government bonds.

Source: Bloomberg.

The regions with the largest assets of bonds and notes at year-end 2005 were, in descending order of percentage share, the EU (led by Germany, France, and the United Kingdom, followed by Luxembourg and Ireland where many of the issuers of ABSs and other instruments are domiciled), the United States, and the Cayman Islands. The bonds and notes of international organizations also accounted for a certain percentage share, reflecting active investment in bonds and notes denominated in Australian and New Zealand dollars issued by international organizations. The countries with the largest assets of bonds and notes were, in descending order of percentage share, the United States, the Cayman Islands, and Germany.

Table 19: Bonds and Notes by Region (Assets)

bil.yen

	2003	04	05	y/y chg.
United States	49,625	52,663	64,394	+11,731
EU	58,912	66,428	74,662	+8,234
Of which:				
Germany	15,533	15,204	17,220	+2,016
France	8,291	11,228	12,760	+1,531
United Kingdom	6,557	8,044	8,571	+527
Netherlands	5,659	6,422	7,123	+700
Luxembourg	5,303	6,800	7,883	+1,083
Ireland	3,235	3,133	3,264	+131
Asia	1,176	1,151	1,383	+232
Of which:				
China	45	55	50	- 5
Other regions	31,395	37,111	46,483	+9,371
Of which:				
Cayman Islands	19,071	24,426	30,645	+6,219
International organizations	9,601	10,282	11,399	+1,118
Total (including other regions)	150,708	167,635	198,321	+30,686

A breakdown of assets of bonds and notes by currency of denomination reveals the following pattern. In addition to bonds and notes denominated in the U.S. dollar, the euro, and other major currencies, roughly 25-30 percent of the assets are denominated in the yen. This is due to the fact that a major portion of ABSs and other instruments issued in tax havens such as the Cayman Islands are denominated in the yen. Among other currencies, the percentage share of assets of bonds and notes denominated in such high interest rate currencies as Australian and New Zealand dollars increased. These two currencies account for roughly 60-70 percent of assets denominated in other currencies.

Figure 9: Bonds and Notes by Currency (Assets)

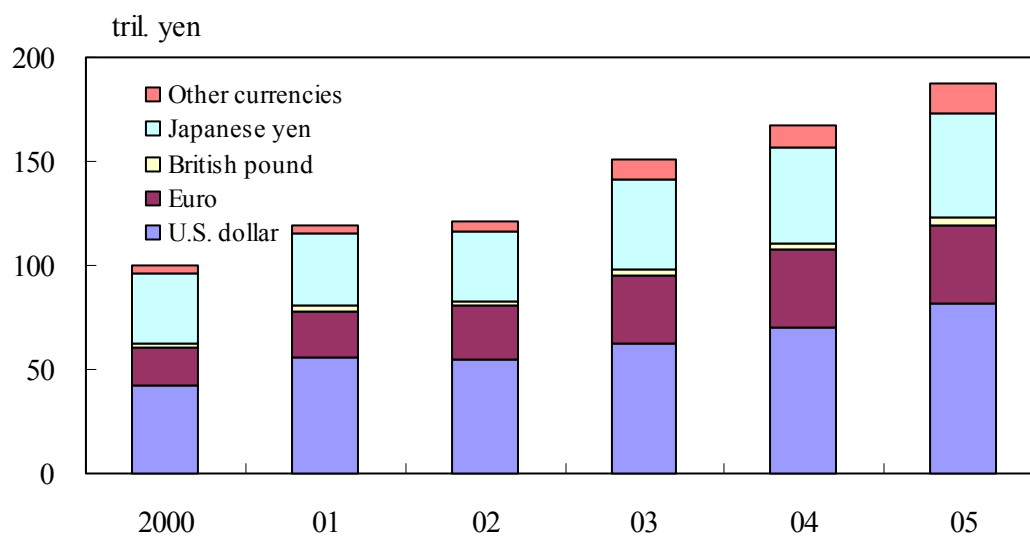
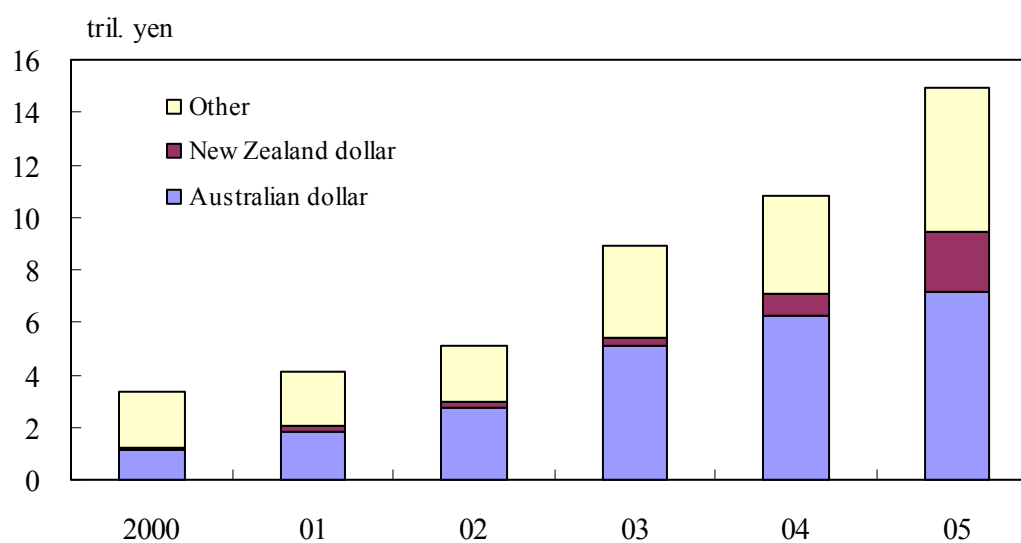


Figure 10: Breakdown of "Other Currencies"



Source: International Department, Bank of Japan.

3. Money market instruments (assets)

Assets of money market instruments (MMIs) (nonresidents' MMIs held by residents) amounted to 3.0 trillion yen at year-end 2005, a decrease of 0.7 trillion yen from the previous year-end. While the depreciation of the yen increased the value of MMIs, this was exceeded by net decline in the issuance of *samurai* CP by nonfinancial corporations and banks through foreign affiliates and an increase in the redemption of such CP.

Table 20: MMIs (Assets)^{1,2}

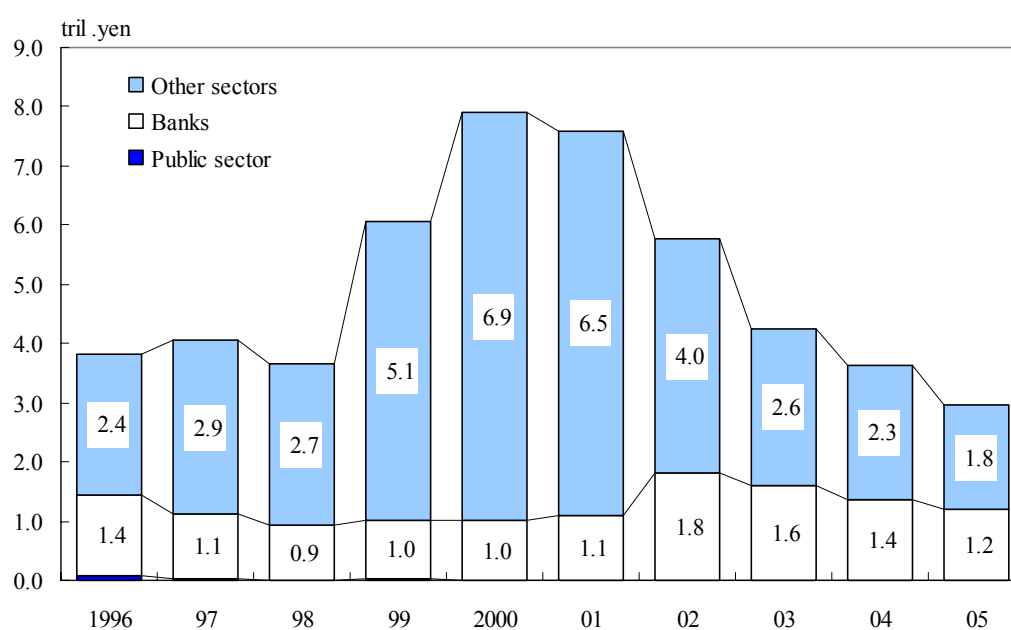
bil. yen

	2003	04	05	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	4,250 (-26.4%)	3,641 (-14.3%)	2,973 (-18.3%)	-667	-998	+111	+219
Of which:							
Banks	1,602	1,353	1,201	-152	-558	+26	+380
Other sectors	2,636	2,281	1,770	-510	-440	+86	-156

Notes: 1. The assets of MMIs held by each sector.

2. Figures in parentheses indicate the percent change from the previous year.

Figure 11: Developments in MMIs (Assets)



4. Equity securities (liabilities)

Liabilities of equity securities (residents' equity securities held by nonresidents) amounted to 132.8 trillion yen. This marked a significant increase of 55.5 trillion yen or 71.6 percent from year-end 2004.

A breakdown by issuers shows a sharp increase for banks and "other sectors," reflecting the following trends in the purchase of Japanese equity securities by foreign investors. Purchases by foreign investors were not concentrated in any specific industry or issue, but showed a strong tendency toward the purchase of a broad range of Japanese stocks. Stock prices of a broad range of industries and issues rose throughout the year.

Among factors responsible for changes in equity securities liabilities, the transaction factor accounted for an increase of 14.0 trillion yen. This reflected the relatively favorable outlook for the business performance of Japanese companies. The transaction factor by region was as follows. Investment from the United States increased as the inflow of funds into U.S. foreign equities investment trusts increased and purchases of Japanese equities by U.S. investors, such as pension funds, accelerated. Investment from the EU also increased, reflecting active purchases of Japanese equity securities by both EU final investors and non-EU investors with funds deposited with custodial institutions domiciled in the EU (such as Middle Eastern "oil money" investors).

Among factors other than the transaction factor, "other factors" registered an increase of 41.5 trillion yen. This was primarily due to the sharp increase in the value of equity securities reflecting the rapid rise in the prices of Japanese stocks (roughly 40 percent over the year).

Table 21: Equity Securities (Liabilities)^{1,2}
bil. yen

	2003	04	05	y/y chg.	Transaction factor	Other factor
Total	60,086 (+47.4%)	77,393 (+28.8%)	132,842 (+71.6%)	+55,450	+13,979	+41,471
Banks	3,368	6,385	12,030	+5,644	+1,450	+4,194
Other sectors	56,717	71,007	120,813	+49,805	+12,528	+37,277

Notes: 1. Figures for Japanese equity securities held by nonresidents are classified into two sectors (banks and other sectors) according to their issuers. The public sector does not issue equity securities.

2. Figures in parentheses indicate the percent change from the previous year.

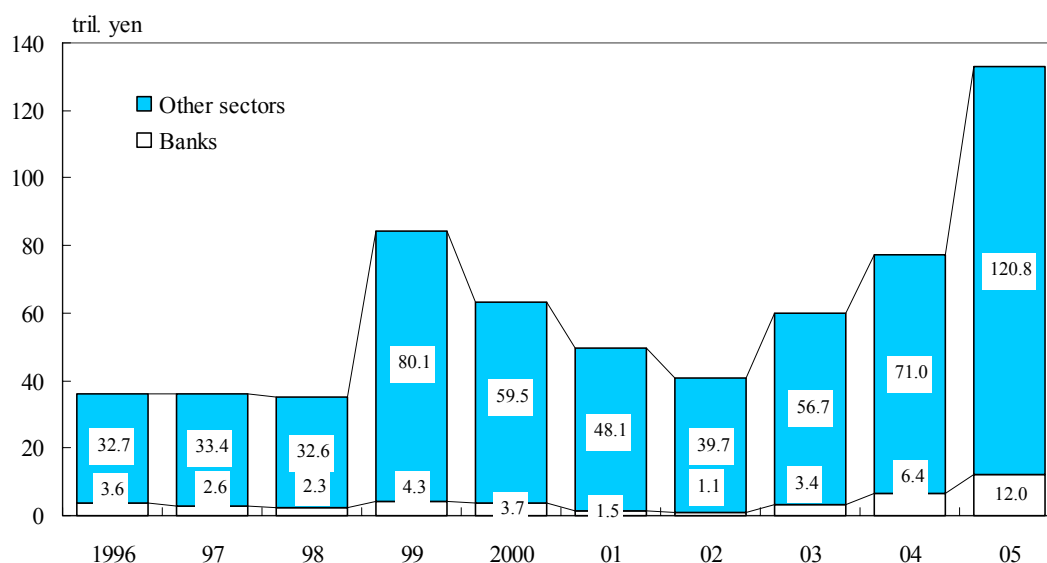
Table 22: Japanese Stock Price Indices at Year-End

	2004	05	y/y chg.
TOPIX ¹	1,149.63	1,649.76	+43.5%
Nikkei 225 Stock Average ²	11,488.76	16,111.43	+40.2%

Notes: 1. Has a base value of 100 as of January 4, 1968.

2. In the yen.

Source: Bloomberg.

Figure 12: Developments in Equity Securities (Liabilities)

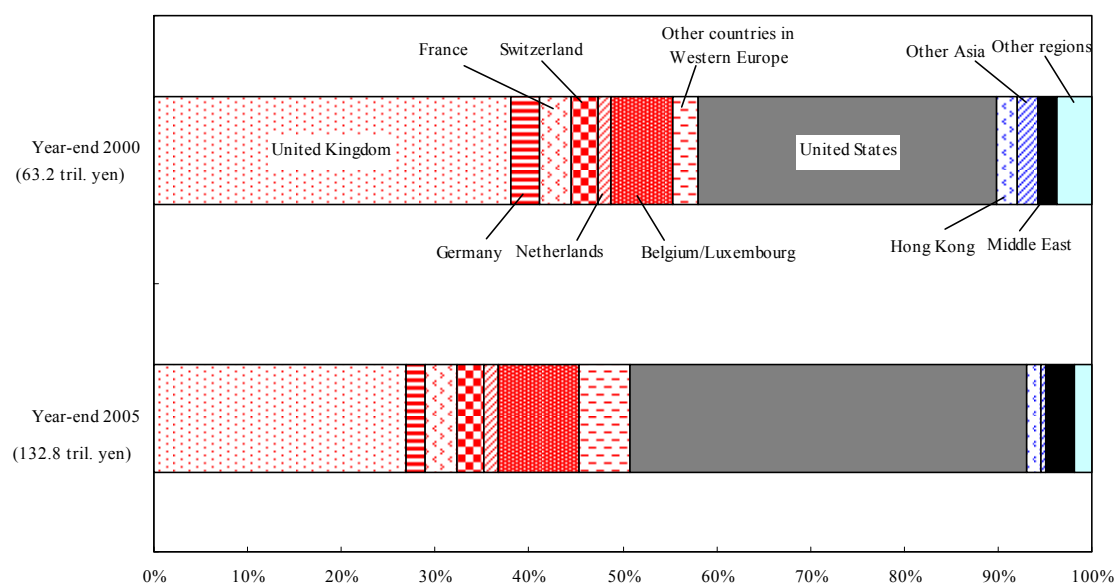
By region, the EU (led by the United Kingdom and Luxembourg) and the United States accounted for the largest shares of equity securities liabilities. This can be attributed to two factors. First, pension funds, hedge funds, and other leading final investors are domiciled in these regions. Second, major custodial institutions are also domiciled in these regions.⁹ Looking at changes in the regional breakdown over the past five years, the percentage share of holdings by investors in the Middle East as well as the United States and Belgium increased. By country, the United States, the United Kingdom, and Luxembourg accounted for the largest share of Japanese equity securities liabilities.

⁹ When foreign investors make purchases through third-country custodial institutions, banks, and others, the purchase of securities issued by residents of the country compiling the statistics is recorded as liabilities to the country of the custodial institutions, not that of the final investors.

Table 23: Equity Securities by Region (Liabilities)

bil.yen

	2003	04	05	y/y chg.
United States	25,100	31,535	55,833	+24,297
EU	28,221	36,277	62,067	+25,790
Of which:				
United Kingdom	18,590	21,059	35,355	+14,296
Luxembourg	3,088	4,119	7,638	+3,519
Belgium	380	2,374	3,716	+1,342
France	1,385	2,110	4,564	+2,454
Middle East	1,817	2,288	4,018	+1,731
Asia	1,186	1,444	2,662	+1,218
Total (including other regions)	60,086	77,393	132,842	+55,450

Figure 13: Changes in the Share of Equity Securities Liabilities by Region

5. Bonds and notes (liabilities)

Liabilities of bonds and notes (residents' bonds and notes held by nonresidents) amounted to 41.4 trillion yen, up 7.6 trillion yen or 22.4 percent from year-end 2004. This marked the second consecutive year of increase.

The regional breakdown of transaction flows shows that purchases increased in many regions. The following trends are notable. Hedge funds and banks in the EU and the United States were actively engaged in arbitrage transactions involving Japanese government bonds (cash bond purchases and yen-yen interest rate swaps with fixed rate payments) as the swap spread narrowed. Moreover, as a result of growing

expectations of rises in prices and interest rates, the monetary authorities and some banks of Asian and Middle Eastern countries were actively engaged in purchasing inflation-indexed and floating-rate bonds.

Table 24: Bonds and Notes (Liabilities)^{1,2}

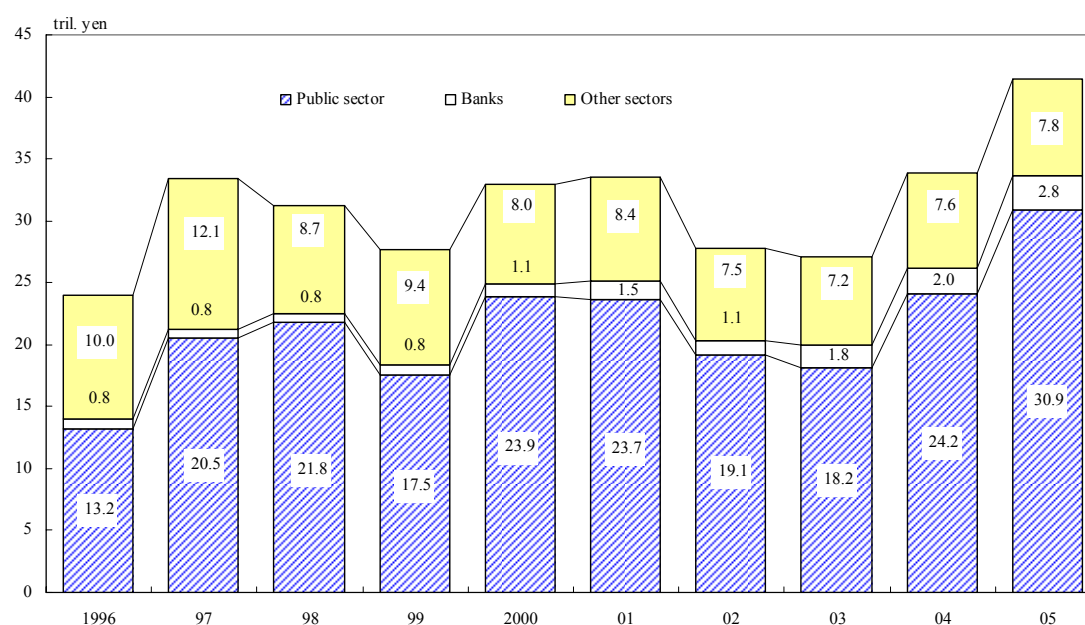
bil. yen

	2003	04	05	y/y chg.
Total	27,108 (-2.5%)	33,846 (+24.9%)	41,428 (+22.4%)	+7,582
Public sector	18,160	24,158	30,879	+6,721
Banks	1,759	2,041	2,754	+713
Other sectors	7,188	7,647	7,795	+148

Notes: 1. Figures for securities held by nonresidents are classified into three sectors (public sector, banks, and other sectors) according to their issuers. Figures include securities issued by residents in overseas markets.

2. Figures in parentheses indicate the percent change from the previous year.

Figure 14: Developments in Bonds and Notes (Liabilities)



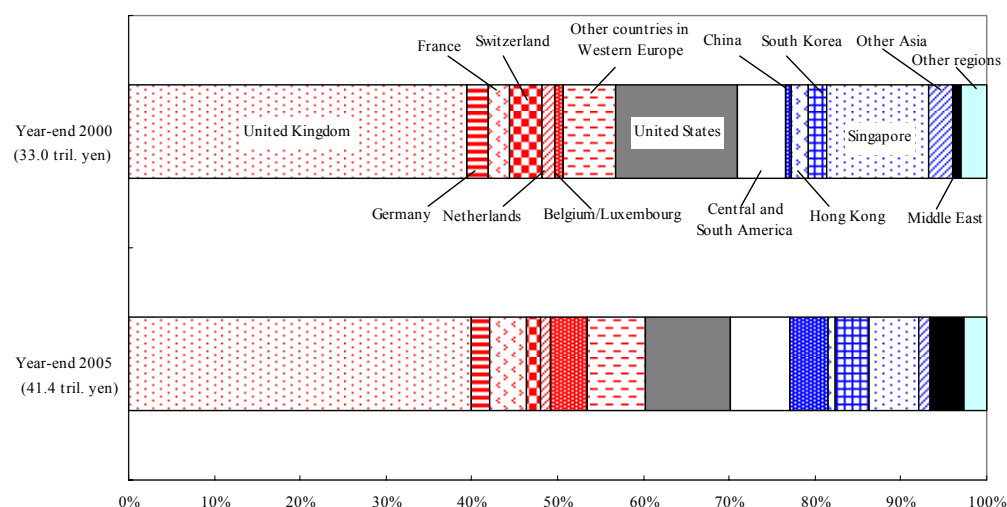
The regions accounting for the largest share of liabilities of bonds and notes at year-end 2005, in descending order, were the EU (led by the United Kingdom, France, and Luxembourg), partly because major custodial institutions are domiciled in the EU, and Asia as monetary authorities from that region have gradually become more active in investing in foreign bonds and notes. A review of changes in the regional breakdown over the past five years indicates that the shares of China and the Middle East have increased. The countries accounting for the largest share of liabilities of bonds and notes were, in descending order, the United Kingdom, the United States, and the Cayman Islands.

Table 25: Bonds and Notes by Region (Liabilities)

bil. yen

	2003	04	05	
				y/y chg.
United States	2,332	2,861	4,071	+1,210
EU	15,397	19,832	22,820	+2,987
Of which:				
United Kingdom	9,973	13,726	16,568	+2,842
France	1,053	974	1,803	+829
Luxembourg	1,365	1,472	1,043	- 429
Switzerland	1,275	1,044	672	- 372
Asia	4,450	5,429	6,752	+1,323
Of which:				
Singapore	1,549	1,825	2,391	+566
South Korea	995	1,538	1,655	+117
China	904	1,355	1,878	+523
Middle East	347	865	1,678	+814
Of which:				
Saudi Arabia	47	468	1,193	+725
UAE	218	294	342	+48
Central and South America	1,230	1,387	2,869	+1,482
Of which:				
Cayman Islands	1,120	1,001	2,588	+1,587
Total (including other regions)	27,108	33,846	41,428	+7,582

Figure 15: Changes in the Share of Bond and Notes Liabilities by Region



6. MMIs (liabilities)

Liabilities of MMIs (residents' MMIs held by nonresidents) amounted to 7.7 trillion yen, down 1.2 trillion yen or 13.1 percent from year-end 2004. This was mainly because the redemption of Japanese government financing bills (FBs) and treasury bills (TBs), acquired during 2004 with low cost yen funds, exceeded new purchases.

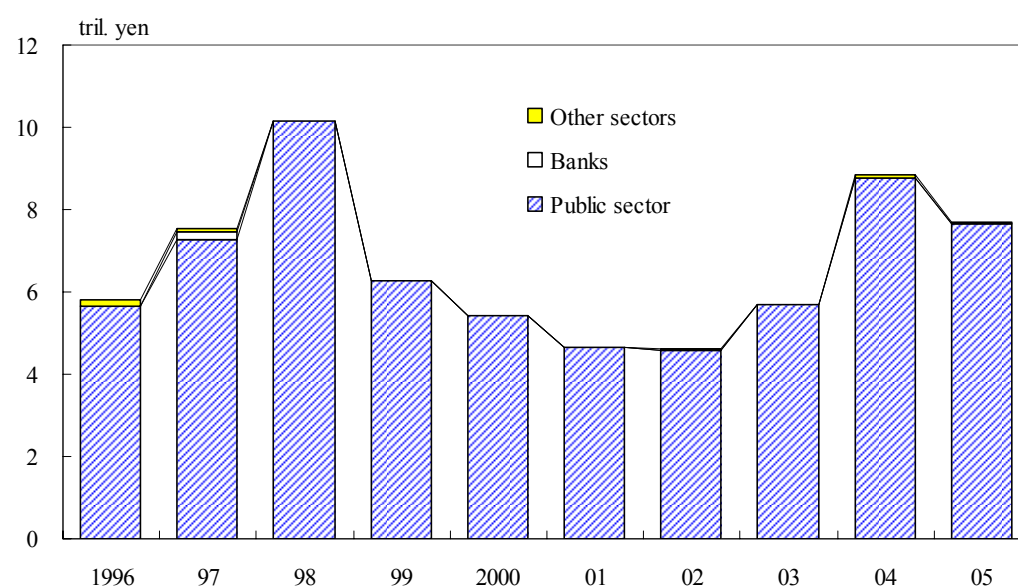
The regional breakdown of transaction flows shows that purchases by the EU and the United States decreased, while purchases by Asia and international organizations increased.

Table 26: MMIs (Liabilities)
bil. yen

	2003	04	05	y/y chg.
MMI liabilities at year-end	5,680 (+22.6%)	8,852 (+55.8%)	7,689 (-13.1%)	-1,163

Note: Figures in parentheses indicate the percent change from the previous year.

Figure 16: Developments in MMIs (Liabilities)



International organizations, the EU (led by Germany and France), and the United States, in that order, accounted for the largest share of liabilities of MMIs at year-end 2005. At year-end 2004, the United States led all countries (excluding international organizations) in MMI holdings, but these holdings had sharply declined by year-end 2005 due to redemptions. As a result, the countries accounting for the largest holdings at year-end 2005, in descending order, were Germany, Australia, and France.

Table 27: MMIs by Region (Liabilities)

bil. yen				
	2003	04	05	y/y chg.
United States	1,610	1,916	389	- 1,527
EU	1,082	3,706	2,831	- 875
Of which:				
Germany	7	909	1,107	+198
France	173	765	446	- 319
Asia	510	722	769	+47
Of which:				
Hong Kong	98	146	358	+212
Thailand	261	259	219	- 41
Singapore	118	236	154	- 82
Oceania	1	0	539	+539
Of which:				
Australia	0	0	539	+539
International organizations	2,028	2,448	3,009	+561
Total (including other regions)	5,680	8,852	7,689	- 1,163

C. Financial Derivatives¹⁰

Financial derivatives assets increased by 3.1 trillion yen, while liabilities increased by 3.9 trillion yen. Both developments reflect the increase in premiums on currency option transactions and on stock price index option transactions in banks and other sectors.

Table 28: Financial Derivatives

bil. yen				
	2003	04	05	y/y chg.
Total assets	524 (+29.7%)	599 (+14.2%)	3,104 (+5.2 times)	+2,506
Total liabilities	727 (+63.4%)	1,121 (+54.2%)	3,921 (+3.5 times)	+2,799

Note: Figures in parentheses indicate the rate of change from the previous year.

D. Other Investment¹¹

Other investment assets (e.g., loans and deposits) amounted to 108.5 trillion yen, an increase of 10.8 trillion yen or 11.1 percent from year-end 2004. Other investment liabilities (e.g., loans payable and bank deposits received) increased for the sixth consecutive year and recorded 127.7 trillion yen, up 11.0 trillion yen¹² or 9.4 percent.

1. Loans (assets)

Loans to nonresidents amounted to 79.2 trillion yen at year-end 2005, marking a 7.0 trillion yen of year-on-year increase which was larger than the increase in the previous year. Following a decline in the previous year, loan assets of banks showed a sharp increase of 4.7 trillion yen. The rise reflects an increase in yen lending to overseas branches by Japanese banks through their interoffice accounts as a result of active investment in foreign bonds and notes as well as an increase in the value of loan assets due to the depreciation of the yen. Loan assets of "other sectors"

¹⁰ Beginning with the release of data for year-end 2005, the IIP statistics were improved to include the outstanding balances of options, futures, and advance deliveries by revising the reporting format. As a result, data on financial instruments listed under "financial derivatives" in the balance of payments statistics and those in the IIP statistics, which differed up to year-end 2004, became consistent. In the former, "financial derivatives" data, a component of the financial account, included payments and receipts on options, futures, warrants, and currency and interest rate swap transactions. In the latter, "financial derivatives" only included the amount outstanding that can be identified, i.e., the premium on options (total premium paid and received on options that have not expired yet, remain unexercised, or have not been reverse traded) and warrants.

¹¹ In the IIP statistics up to year-end 2004, "other investment" in the IIP did not cover the following: (1) the outstanding balance of loans extended by insurance companies and (2) outstanding balances of receivables/payables and unrealized profits/losses in the banking sector. Data for year-end 2005 (and onward) were improved to comprise (1) and (2) by revising the reporting formats.

¹² The increase in other investment liabilities is partly due to the fact that the banking sector's yen-denominated outstanding balances of receivables/payables and unrealized profits/losses were newly included in this component in the data for 2005.

increased by 2.5 trillion yen, mainly due to the lending of funds to overseas affiliates for investments in equity securities.

Table 29: Loans (Assets)

bil. yen

	2003	04	05	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	70,358 (-13.5%)	72,215 (+2.6%)	79,241 (+9.7%)	+7,026	+5,383	+2,950	-1,308
Public sector	16,895	16,477	16,311	-166	-259	+273	-180
Banks	41,289	39,128	43,864	+4,736	+2,650	+2,463	-376
Other sectors	12,174	16,609	19,065	+2,456	+2,993	+214	-751
Long-term	34,462	32,141	32,768	+627	+453	+1,085	-911
Short-term	35,896	40,073	46,473	+6,399	+4,931	+1,865	-397

Note: Figures in parentheses indicate the percent change from the previous year.

2. Deposits made by residents to nonresidents (assets)

Assets in deposits amounted to 9.4 trillion yen, up 1.1 trillion yen from year-end 2004. This was primarily due to an increase of 1.7 trillion yen in "other sectors," reflecting an increase in collateral deposits related to equity securities lending transactions bolstered by the heightened level of transactions in Japanese stocks.

Table 30: Deposits Made by Residents to Nonresidents (Assets)

bil. yen

	2003	04	05	y/y chg.
Total	6,862 (-12.7%)	8,327 (+21.3%)	9,406 (+13.0%)	+1,079
Banks	4,340	5,420	4,791	-629
Other sectors	2,522	2,907	4,615	+1,708

Note: Figures in parentheses indicate the percent change from the previous year.

3. Loans payable (liabilities)

Loan liabilities amounted to 94.8 trillion yen, up 4.0 trillion yen from year-end 2004. The rise reflects increases in the liabilities of banks and the public sector. Loan liabilities of banks rose as Japanese banks increased their borrowing from overseas branches through their interoffice accounts to increase their investments in foreign bonds and notes. Loan liabilities of the public sector increased due to an inflow of funds from foreign central banks for repurchase transactions (sales of securities under repurchase agreements).

Table 31: Loans Payable (Liabilities)

bil. yen

	2003	04	05	y/y chg.
Total	83,665 (-0.1%)	90,776 (+8.5%)	94,805 (+4.4%)	+4,029
Public sector	0	1,585	3,696	+2,111
Banks	49,874	52,845	56,866	+4,021
Other sectors	33,791	36,346	34,243	-2,103
Long-term	14,791	14,853	12,692	-2,161
Short-term	68,874	75,923	82,113	+6,190

Note: Figures in parentheses indicate the percent change from the previous year.

4. Deposits made by nonresidents to residents (liabilities)

Liabilities in deposits amounted to 11.1 trillion yen, marking an increase of 0.6 trillion yen from year-end 2004. This was primarily due to an increase in the value of foreign currency denominated deposits resulting from the depreciation of the yen.

Table 32: Deposits Made by Nonresidents to Residents (Liabilities)

bil. yen

	2003	04	05	y/y chg.
Total	10,979 (+18.2%)	10,416 (-5.1%)	11,061 (+6.2%)	+645
Banks	2,002	567	468	-99
Other sectors	8,978	9,848	10,592	+744

Note: Figures in parentheses indicate the percent change from the previous year.

E. Reserve Assets

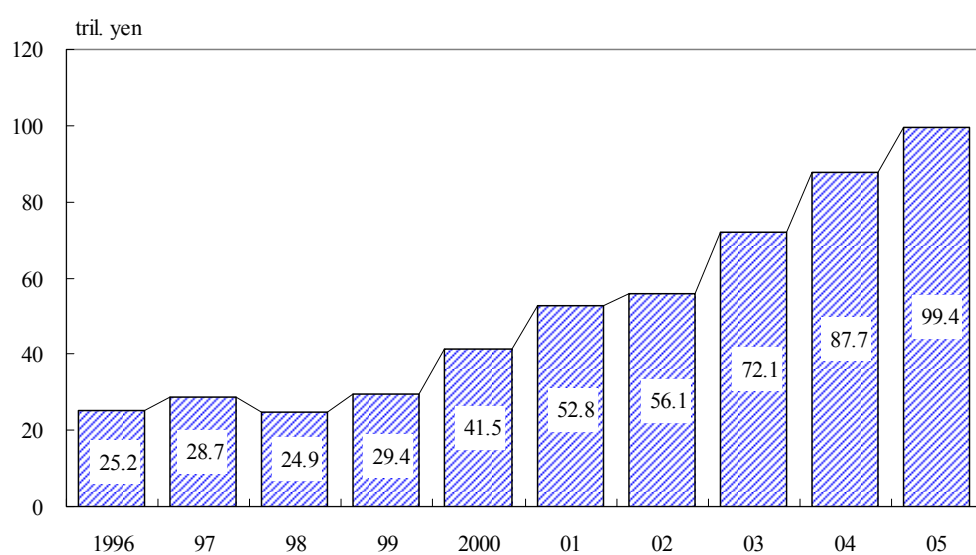
Reserve assets amounted to 99.4 trillion yen, an increase of 11.7 trillion yen from the previous year. The rise was due to an increase in the value of reserve assets reflecting the depreciation of the yen and an addition of interest accruing from bonds and notes to the reserve assets.

Table 33: Reserve Assets

bil. yen

	2003	04	05	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Reserve assets at year-end	72,083 (+28.6%)	87,720 (+21.7%)	99,444 (+13.4%)	+11,724	+2,456	+9,832	-565

Note: Figures in parentheses indicate the percent change from the previous year.

Figure 17: Developments in Reserve Assets

Box 1: Estimating Direct Investment Assets and Liabilities on a Market Value Basis

Direct investment assets and liabilities estimated on a market value basis both greatly exceeded those on a book value basis, with the difference between market and book values increasing from the previous year-end. On a market value basis, assets amounted to 82.8 trillion yen, exceeding the book value by 37.2 trillion yen, whereas they exceeded the book value by 28.5 trillion yen at year-end 2004. Liabilities amounted to 26.2 trillion yen, exceeding the book value by 14.3 trillion yen, whereas they exceeded the book value by 8.4 trillion yen at year-end 2004. Assets on a market value basis increased by 15.7 trillion yen from year-end 2004, reflecting the rise in stock prices worldwide and the depreciation of the yen. Liabilities on a market value basis also increased, by 7.8 trillion yen, as a result of the rise in Japanese stock prices.

Figures on a market value basis were estimated as follows. Direct investment is comprised of equity capital, reinvested earnings, and other capital. Of these components, equity capital was estimated at market value, to which book values of reinvested earnings and other capital were added.

When the resulting figure was introduced into the overall international investment position, Japan's net asset position at year-end 2005 amounted to 203.6 trillion yen, a decrease of 2.3 trillion yen from the previous year-end.

Appropriate methods to estimate direct investment assets and liabilities at market value are being explored at international conferences organized, for example, by the OECD. Japan aims to improve its estimation methods by following these discussions.

Table 1 for Box 1: Direct Investment Assets and Liabilities: Comparison between Market Value and Book Value

tril. yen

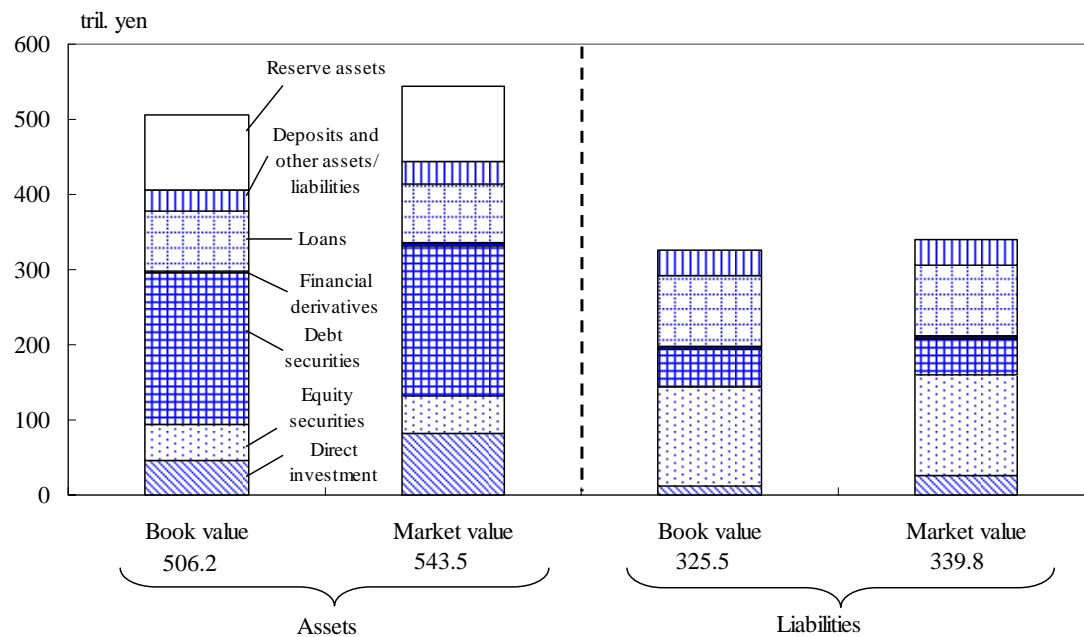
	Year-end 2004		Year-end 2005	
	Market value (estimates)	Book value	Market value (estimates)	Book value
Direct investment assets	67.1	38.6	82.8	45.6
Direct investment liabilities	18.5	10.1	26.2	11.9

Table 2 for Box 1: Net Assets: Comparison between Market Value and Book Value

tril. yen

	Year-end 2004		Year-end 2005		y/y chg.	
	Market value (estimate)	Book value	Market value (estimate)	Book value	Market value (estimate)	Book value
Net assets	205.9	185.8	203.6	180.7	-2.3	-5.1

Figure 1 for Box 1: Breakdown of Assets and Liabilities by Component at Year-End 2005 (on Book and Market Value Bases)



Box 2: Release of New Data and Change in Definition of Some IIP Items

Beginning with the release of the IIP statistics for year-end 2005, new data were made available and the definitions of some items were changed.¹

Item	Description of change
Direct investment	Capital reserves were newly included in direct investment liabilities.
Portfolio investment	A breakdown of portfolio investment assets by currency and by type of securities was newly made available.
Financial derivatives	The market value of financial futures and forward positions were newly included in financial derivatives assets and liabilities.
Other investment	Items such as accounts receivable/payable and bank's unrealized profits/losses denominated in the yen were newly included in other investment assets and liabilities.
Regional statistics	
Of which: Direct investment	A breakdown of direct investment assets and liabilities by region and by industry was newly made available.
Portfolio investment	A breakdown of portfolio investment assets by region and by sector was newly made available.

A. Direct Investment

Prior to the change, direct investment liabilities in Japan's IIP statistics included equity capital but did not include capital reserves. This did not comply with the provisions² of the IMF *Balance of Payments Manual* (Fifth Edition) (hereinafter referred to as BPM5), the international guideline for balance of payments statistics. Therefore, capital reserves were newly included in direct investment liabilities beginning with the release of the data for year-end 2005.³

B. Portfolio Investment

In view of user needs, a breakdown of portfolio investment assets data by currency and by type of securities was newly made available.

¹ For details, see "Revision of Balance of Payments Related Statistics" (released in December 2004 and available at the Bank of Japan's website: <http://www.boj.or.jp/en/index.htm>).

² Paragraph 369 states: "Equity capital comprises equity in branches, all shares in subsidiaries and associates...and other capital contributions."

³ Basic data needed for this change became available as a result of a revision of the Ministerial Ordinance concerning Reports on Foreign Exchange Transactions, etc. (hereinafter referred to as the Ministerial Ordinance) and its Annexed Form No. 52, "Report on the Internal Reserves of Direct Investment Enterprises in Japan." Capital reserves have been included in direct investment assets.

C. Financial Derivatives

Prior to the change, assets and liabilities of financial derivatives in Japan's IIP statistics only covered premiums on options transactions and warrants, while financial futures and forward positions were not included. As this did not comply with the provisions⁴ of BPM5, the market value of financial futures and forward positions was newly included in financial derivatives assets and liabilities beginning with the release of the data for year-end 2005.⁵

D. Other Investment

Prior to the change, assets and liabilities of other investments did not include items such as accounts receivable/payable and banks' unrealized profits/losses denominated in the yen. As this did not comply with the provisions⁶ of BPM5, these items were newly included in assets and liabilities of other investments beginning with the release of the data for year-end 2005.⁷

E. Regional Statistics

(a) Direct investment

In view of user needs, a breakdown of regional data by industry (assets and liabilities for each region by industry) cross-classified with existing regional statistics was newly made available.

(b) Portfolio investment

In view of user needs, data on portfolio holdings by the public sector, banks, and other sectors (assets for each region by sector) cross-classified with existing regional statistics were newly made available.

⁴ The Supplement to BPM5 concerning financial derivatives (published in 2000; paragraph 470) stipulates that assets and liabilities in futures and forward positions in financial derivatives should be included in the IIP.

⁵ Basic data needed for this change became available as a result of a revision of the Ministerial Ordinance and its Annexed Form No. 27, "Report on Derivatives Transactions."

⁶ Paragraph 413 stipulates that miscellaneous accounts receivable and payable are to be included in "other investment."

⁷ Basic data needed for this revision became available as a result of a revision of the Ministerial Ordinance and its Annexed Form No. 26, "Report on Assets and Liabilities Position of Banks, etc."

Box 3: Statistical Treatment of Investments in Investment Trusts

Currently, the treatment of investments in investment trusts in Japan's IIP statistics differs according to the type of investment trust concerned and the equity participation ratio of investors. Specifically, investments in contract-type investment trusts are classified as portfolio investment. Investments in corporate-type investment trusts are classified as direct investment or portfolio investment based on the "10 percent rule." That is, investments involving an equity participation ratio of 10 percent or more are assumed to be intended for management control and are thus classified as direct investment, while investments involving an equity participation ratio of less than 10 percent are assumed to be intended for earning investment returns and are thus classified as portfolio investment.⁸ In Japan's IIP at year-end 2005, corporate-type investment trusts with equity participation ratios of 10 percent or more accounted for 2.6 percent of direct investment assets, while contract-type and corporate-type investment trusts with equity participation ratios of less than 10 percent accounted for 15.7 percent of portfolio investment assets.

Table 1 for Box 3: Breakdown of Investments in Investment Trusts by Investment Category

bil. yen, percent

	Year-end 2004	Year-end 2005	y/y % chg.
Direct investment assets	38,581	45,605	+ 18.2
Of which:			
Corporate-type investment trusts	837 (2.2%)	1,174 (2.6%)	+ 40.3
Portfolio investment assets	209,247	249,494	+ 19.2
Of which:			
Corporate-type investment trusts	3,588 (1.7%)	5,798 (2.3%)	+ 61.6
Contract-type investment trusts	25,307 (12.1%)	33,249 (13.3%)	+ 31.4
Total of direct investment and portfolio investment assets	247,828	295,099	+ 19.1
Of which:			
Corporate-type investment trusts	4,425 (1.8%)	6,972 (2.4%)	+ 57.6
Contract-type investment trusts	25,307 (10.2%)	33,249 (11.3%)	+ 31.4
Total of corporate-type and contract-type investment trusts	29,732 (12.0%)	40,221 (13.6%)	+ 35.3

Notes: 1. Figures in parentheses indicate the share in the total.

2. Figures for investments in contract-type investment trusts classified under direct investment assets are based on the sum of assets at the end of the accounting period plus transaction flows (exceeding 10 billion yen) occurring after the end of the accounting period during 2005.

Source: International Department, Bank of Japan.

BPM5 stipulates that investment trusts should be included in portfolio investment (paragraph 388), but it is not clear as to whether investments in corporate-type investment trusts can be classified as direct investment based on the 10 percent rule.

⁸ Paragraph 362 of BPM5 contains the following definition: "A direct investment enterprise is defined...as an incorporated or unincorporated enterprise in which a direct investor, who is resident in another economy, owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise)."

In Japan's statistics, the 10 percent rule is applied to investments in corporate-type investment trusts on the grounds that these investments take the form of acquisition of equity capital in a company.

However, contract-type investment trusts and corporate-type investment trusts are generally not intended for management control as both are geared toward earning investment returns. Therefore, it is useful to combine these two types of investment trusts in trying to understand the investment behavior of Japanese investors in investment trusts.

As shown in Table 1 for Box 3, the sum of these two types of investment trusts amounted to 40.2 trillion yen, up 35.3 percent from year-end 2004. By region, investments in both types of investment trusts posted sharp increases in the Cayman Islands (up 48.4 percent from year-end 2004) and Ireland (up 14.1 percent), tax havens offering simple procedures for the establishment and management of funds, and in Luxembourg (up 21.9 percent), one of the world's leading offshore financial centers.

A comparison of assets in contract-type investment trusts and corporate-type investment trusts shows that assets in the former outweigh assets in the latter in all regions. This can be attributed to the following factors: procedures for the establishment and management of contract-type investment trusts are simpler than those for corporate-type investment trusts; and accounting procedures for contract-type investment trusts are simpler for investors because such investment trusts are not subject to consolidated accounting.

Table 2 for Box 3: Investments in Investment Trusts in Direct Investment Assets and Portfolio Investment Assets by Region

bil. yen

	Year-end 2004			Year-end 2005		
		Corporate -type	Contract -type		Corporate -type	Contract -type
Central and South America	16,094	2,468	13,626	23,943	3,458	20,486
Of which: Cayman Islands	14,979	1,951	13,029	22,235	2,842	19,394
EU	10,308	1,266	9,043	12,448	2,218	10,230
Of which: Luxembourg	6,400	539	5,861	7,800	989	6,811
Ireland	2,550	407	2,143	2,910	888	2,022
North America	2,020	419	1,601	2,363	811	1,552
Of which: United States	2,013	413	1,600	2,327	776	1,551
Total (including other regions)	29,732	4,425	25,307	40,221	6,972	33,249

Source: International Department, Bank of Japan.

These findings have given rise to a discussion on the possibility of combining and analyzing contract-type investment trusts and corporate-type investment trusts (regardless of the equity participation ratio) under a single heading. This discussion is still ongoing at international conferences dealing with the definition of direct investment. Quite a few participants hold the view that all investments in investment trusts should be recorded under portfolio investment regardless of equity participation ratios, putting forth the following arguments: (1) investment funds are intended for the earning of investment returns and are unlike direct investment, which is based on a long-term interest in a firm and intended for management control, and (2) the usefulness of direct investment statistics will be undermined if part of the investments in investment trusts are classified under direct investment.

Appendix: Japan's International Investment Position

Assets

bil. yen

Assets	2000	01	02	03	04	05
1. Direct investment	31,993	39,555	36,478	35,932	38,581	45,605
2. Portfolio investment	150,115	169,990	167,203	184,353	209,247	249,493
Equity securities	30,133	29,965	25,277	29,394	37,972	48,200
Public sector	0	0	0	3	0	0
Banks	735	636	541	552	609	809
Other sectors	29,397	29,329	24,736	28,840	37,363	47,390
Debt securities	119,982	140,025	141,926	154,959	171,275	201,294
Bonds and notes	112,086	132,443	136,149	150,708	167,635	198,321
Public sector	7,718	6,948	5,626	1,926	1,673	868
Banks	33,425	40,098	40,989	45,298	51,156	66,683
Other sectors	70,943	85,396	89,533	103,485	114,806	130,769
MMIs	7,897	7,582	5,777	4,250	3,641	2,973
Public sector	3	8	13	13	7	2
Banks	1,022	1,094	1,800	1,602	1,353	1,201
Other sectors	6,872	6,480	3,964	2,636	2,281	1,770
3. Financial derivatives	381	395	404	524	599	3,104
Public sector	0	0	0	0	0	0
Banks	282	249	230	310	321	899
Other sectors	99	146	174	214	278	2,206
4. Other investment	117,239	117,069	105,792	92,645	97,718	108,544
Loans	74,581	81,448	81,353	70,358	72,215	79,241
Public sector	18,739	19,615	19,105	16,895	16,477	16,311
Banks	43,929	49,528	48,819	41,289	39,128	43,864
Other sectors	11,912	12,305	13,429	12,174	16,609	19,065
[Long-term]	41,297	41,109	37,042	34,462	32,141	32,768
[Short-term]	33,284	40,340	44,310	35,896	40,073	46,473
Trade credits	4,756	4,317	4,332	5,129	5,271	6,111
Public sector	892	918	907	1,329	1,266	1,374
Other sectors	3,865	3,399	3,426	3,800	4,005	4,736
[Long-term]	2,573	1,995	1,651	2,070	1,857	2,123
[Short-term]	2,184	2,322	2,682	3,059	3,414	3,988
Currency and deposits	21,731	15,005	7,859	6,862	8,327	9,406
Public sector	0	0	0	0	0	0
Banks	13,468	8,854	3,905	4,340	5,420	4,791
Other sectors	8,263	6,151	3,953	2,522	2,907	4,615
Other assets	16,171	16,298	12,248	10,295	11,905	13,787
Public sector	4,517	4,763	4,804	6,280	6,527	5,768
Banks	3,411	3,230	5,626	2,282	3,563	5,966
Other sectors	8,243	8,305	1,818	1,733	1,815	2,053
[Long-term]	13,226	12,255	8,638	8,420	7,943	11,232
[Short-term]	2,945	4,043	3,610	1,875	3,962	2,555
5. Reserve assets	41,478	52,772	56,063	72,083	87,720	99,444
Total assets	341,206	379,781	365,940	385,538	433,864	506,191

Note: Figures are as of the end of the year. Portfolio investment and other investment exclude securities lending transactions.

Liabilities

bil. yen

Liabilities	2000	01	02	03	04	05
1. Direct investment	5,782	6,632	9,369	9,610	10,098	11,903
2. Portfolio investment	101,609	87,752	73,189	92,873	120,091	181,959
Equity securities	63,222	49,563	40,757	60,085	77,393	132,842
Banks	3,712	1,492	1,061	3,368	6,385	12,030
Other sectors	59,510	48,071	39,697	56,717	71,007	120,813
Debt securities	38,387	38,189	32,432	32,788	42,699	49,117
Bonds and notes	32,981	33,546	27,799	27,108	33,846	41,428
Public sector	23,872	23,651	19,135	18,160	24,158	30,879
Banks	1,068	1,520	1,138	1,759	2,041	2,754
Other sectors	8,041	8,375	7,527	7,188	7,647	7,795
MMIs	5,406	4,643	4,633	5,680	8,852	7,689
Public sector	5,406	4,643	4,582	5,680	8,772	7,664
Banks	0	0	0	0	1	0
Other sectors	0	0	50	0	79	25
3. Financial derivatives	366	467	445	727	1,121	3,921
Public sector	0	0	0	0	0	0
Banks	256	325	330	401	632	1,277
Other sectors	111	143	115	326	490	2,643
4. Other investment	100,402	105,673	107,628	109,510	116,756	127,709
Loans	76,212	79,538	83,757	83,665	90,776	94,805
Public sector	0	0	0	0	1,585	3,696
Banks	50,772	54,299	57,500	49,874	52,845	56,866
Other sectors	25,440	25,239	26,257	33,791	36,346	34,243
[Long-term]	19,123	18,408	15,934	14,791	14,853	12,692
[Short-term]	57,089	61,130	67,823	68,874	75,923	82,113
Trade credits	1,090	1,149	1,334	1,111	1,377	1,888
Public sector	0	0	0	0	0	0
Other sectors	1,090	1,149	1,334	1,111	1,377	1,888
[Long-term]	122	123	123	2	126	155
[Short-term]	968	1,026	1,211	1,108	1,250	1,733
Currency and deposits	9,801	12,647	9,291	10,979	10,416	11,061
Public sector	17	924	1,370	2,002	567	468
Banks	9,784	11,723	7,921	8,978	9,848	10,592
Other liabilities	13,299	12,339	13,246	13,755	14,187	19,955
Public sector	1,112	1,075	630	550	494	468
Banks	8,826	7,970	8,881	9,876	10,593	14,993
Other sectors	3,361	3,295	3,735	3,329	3,101	4,494
[Long-term]	175	388	435	122	565	2,503
[Short-term]	13,124	11,951	12,810	13,633	13,622	17,452
Total liabilities	208,159	200,524	190,631	212,720	248,067	325,492
Total net assets	133,047	179,257	175,308	172,818	185,797	180,699
Public sector	42,939	54,732	60,800	72,136	78,095	80,592
Private sector	90,107	124,525	114,508	100,682	107,702	100,107
Of which: Banks	21,856	26,360	25,082	21,417	19,205	25,701

Note: Figures are as of the end of the year. Portfolio investment and other investment exclude securities lending transactions.