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Japan's International Investment Position at Year-End 2006

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International Department

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Japan's international investment position (IIP) statistics were made public in Japanese on May 25, 2007, by the Ministry of Finance and the Bank of Japan as the *Report on External Assets and Liabilities as of Year-End 2006*. The regional breakdown is available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

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International Department, Bank of Japan

C.P.O. Box 203, Tokyo 100-8630, Japan

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I. Summary

Japan's international investment position (IIP) recorded a net asset position, the outstanding amount of external financial assets of residents in Japan minus the outstanding amount of external financial liabilities of residents in Japan, of 215.1 trillion yen at year-end 2006. This represents an increase of 34.4 trillion yen or 19.0 percent from the previous year-end, and marks a new record high since year-end 2004.

Comparison with other major countries indicates that Japan has been the country with the largest net asset position for the 16th consecutive year since year-end 1991.

The major trends for each component were as follows.

(1) Direct investment (assets: 53.5 trillion yen; liabilities: 12.8 trillion yen)

Direct investment assets increased for the third consecutive year, rising by 7.9 trillion yen or 17.3 percent from year-end 2005. This was primarily due to (a) an increase in direct investments in the European Union (EU) and Asia by Japanese companies with the aim of overseas business expansion, and (b) an increase in the yen-denominated value of assets reflecting the depreciation of the yen. Direct investment liabilities increased for the eighth consecutive year, rising by 0.9 trillion yen or 7.6 percent from year-end 2005.

(2) Portfolio investment (assets: 278.8 trillion yen; liabilities: 209.7 trillion yen)

Portfolio investment assets increased by 29.3 trillion yen or 11.7 percent from year-end 2005. This substantial increase was due to (a) active purchases of foreign debt and equity securities (including real estate investment trusts [REITs]) by investment trusts reflecting the inflow of funds from individual investors, and (b) an increase in the value of assets due to the depreciation of the yen. Portfolio investment liabilities also increased, by 27.7 trillion yen or 15.2 percent. This was mainly due to (a) continued purchases 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: 2.7 trillion yen; liabilities: 3.6 trillion yen)

Both financial derivative assets and liabilities decreased from year-end 2005.

(4) Other investment (assets: 116.7 trillion yen; liabilities: 116.9 trillion yen)

Other investment assets increased by 8.2 trillion yen or 7.5 percent from year-end 2005, primarily due to the outflow of yen funds reflecting demand from overseas. Other investment liabilities decreased for the first time in seven years, by 10.8 trillion yen or 8.4 percent from year-end 2005.

The decrease was attributable to banks' repayment of funds borrowed from their overseas branches for investment in foreign bonds and notes.

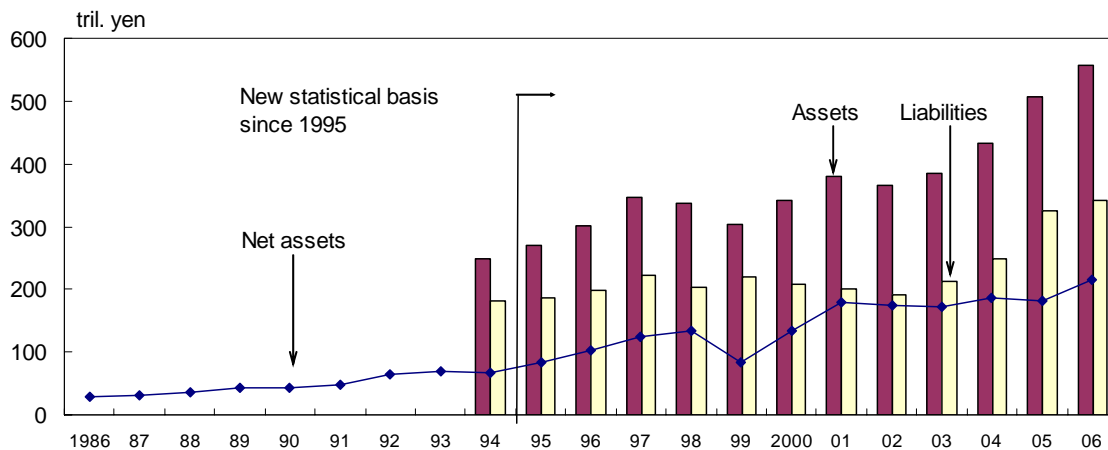
(5) Reserve assets (assets: 106.4 trillion yen)

Reserve assets rose for the eighth consecutive year, increasing by 7.0 trillion yen or 7.0 percent from year-end 2005. This was due to an addition of interest accruing from bonds and notes to the reserve assets and an increase in the value reflecting the depreciation of the yen.

II. Developments in Japan's IIP

Japan's net asset position amounted to 215.1 trillion yen at year-end 2006 -- a new record high since year-end 2004 -- as a result of a substantial increase of 34.4 trillion yen or 19.0 percent from the previous year-end (180.7 trillion yen).

Figure 1: International Investment Position (IIP)

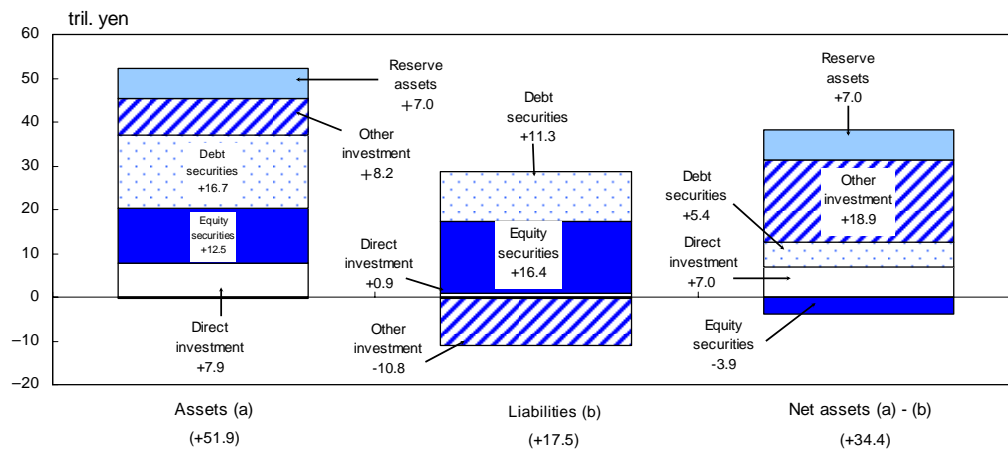


Note: Figures for 1995 and after are calculated in accordance with the *Balance of Payments Manual* (Fifth Edition) issued by the International Monetary Fund (IMF). Figures for years through 1994 are compatible with the *Balance of Payments Manual* (Fourth Edition).

A. Developments in Assets and Liabilities by Component

Factors contributing to the increase in net assets were banks' repayment of funds borrowed from their overseas branches (a decrease in other investment liabilities) and increases in reserve assets, direct investment assets, and debt securities assets.

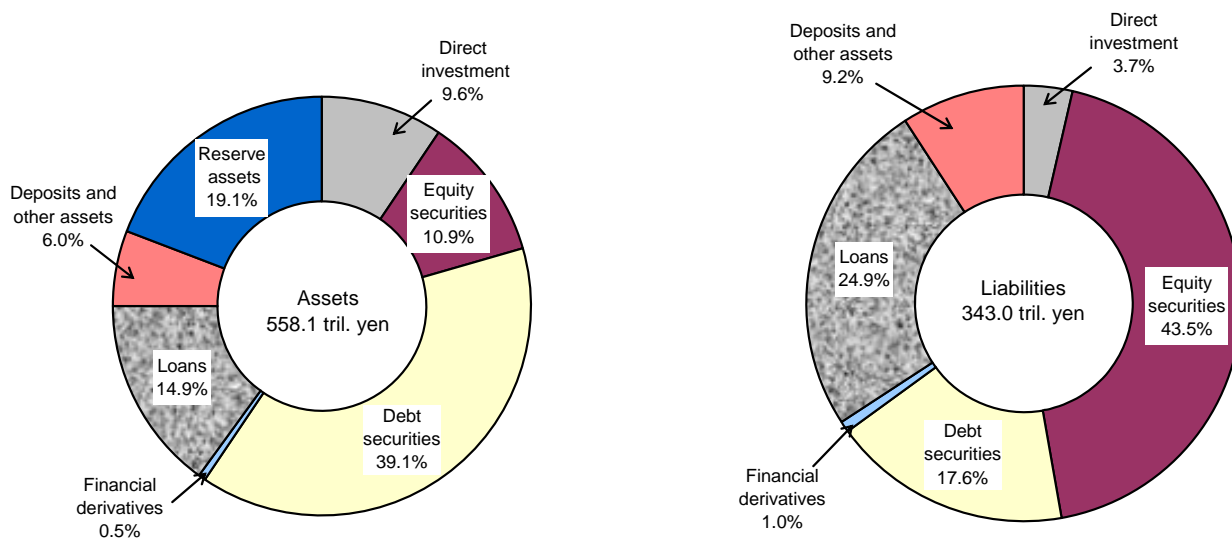
Figure 2: Contribution to Year-on-Year Changes by Component



A breakdown of assets and liabilities by components shows the following. For assets, the percentage share of each component was almost unchanged from year-end 2005. For liabilities, the percentage share of loans decreased, reflecting banks' repayment of funds borrowed from their overseas branches, while the percentage share of equity and debt securities increased due to nonresident investors' active purchases of Japanese equity securities.

Figure 3: Breakdown of Assets and Liabilities by Component

(1) At Year-End 2006



(2) At Year-End 2005

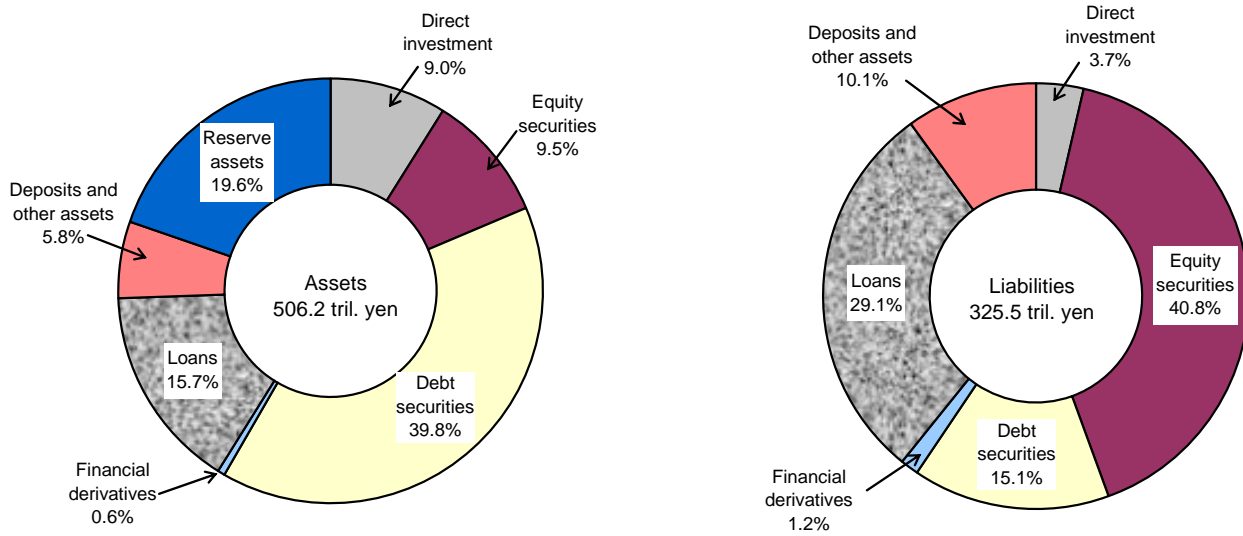


Table 1: Assets and Liabilities by Component at End-2006

tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Total	558.1	+51.9	343.0	+17.5	215.1	+34.4
Direct investment	53.5	+7.9	12.8	+0.9	40.7	+7.0
Portfolio investment	278.8	+29.3	209.7	+27.7	69.1	+1.5
Equity securities	60.7	+12.5	149.3	+16.4	-88.6	-3.9
Bonds and notes	215.5	+17.2	49.6	+8.2	166.0	+9.1
Money market instruments	2.5	-0.5	10.8	+3.2	-8.3	-3.6
Financial derivatives	2.7	-0.4	3.6	-0.3	-0.8	-0.0
Other investment	116.7	+8.2	116.9	-10.8	-0.2	+18.9
Of which:						
Loans	83.2	+3.9	85.4	-9.4	-2.2	+13.4
Reserve assets	106.4	+7.0	--	--	106.4	+7.0

(Reference) Direct Investment Assets and Liabilities Estimated on a Market Value Basis

tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Direct investment	102.3	+19.5	28.9	+2.7	73.4	+16.8

Note: Portfolio investment assets and liabilities are recorded on a market value basis, while direct investment assets and liabilities are recorded on a book value basis. For details, see Box 1, "Direct Investment Assets and Liabilities Estimated on a Market Value Basis," on pages 38 and 39 and Box 2, "Release of New Data and Change in Compilation Method," on page 40.

B. Factors Accounting for the Change in Net Assets

An analysis of factors¹ underlying the increase in Japan's net asset position by 34.4 trillion yen in 2006 shows the following. The transaction factor accounted for a net increase of 15.5 trillion yen reflecting the large current account surplus for 2006. The exchange rate change factor increased the yen-denominated value of net assets by 15.2 trillion yen, primarily due to the depreciation of the yen against the U.S. dollar and the euro by 1.2 percent and 12.4 percent, respectively. Other factors accounted for a net increase of 3.6 trillion yen due to the rise in the value of foreign equity securities held by Japanese investors.

Table 2: Change in Net Asset Position by Factor

tril. yen

	Change from			
	end-2005	Transaction factor	Exchange rate change factor	Other factors
Net asset position	+34.4	+15.5	+15.2	+3.6
Assets	+51.9	+27.7	+16.4	+7.8
Liabilities	+17.5	+12.2	+1.2	+4.1

¹ 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. Finally, "other factors" comprises 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 3: Yen's Exchange Rates at Year-End

	2003	04	05	06
Yen/U.S. dollar ¹	106.97	103.78	117.48	118.92
Yen/euro ²	134.91	140.96	139.70	156.98

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,² net assets in the public sector increased only slightly, by 0.5 trillion yen from year-end 2005. This was because an increase in reserve assets was mostly canceled out by an increase in the value of Japanese government bonds held by nonresident investors. Net assets of banks increased by 3.6 trillion yen, reflecting banks' repayment of funds borrowed from their overseas branches. Other sectors recorded a substantial increase in net assets of 30.3 trillion yen. This can be attributed to a rise in the amount of bonds and notes and foreign equity securities held by investment trusts and others.

As a result of the above developments, as of year-end 2006, the percentage share of each sector in total net assets was 38 percent for the public sector (including reserve assets; 45 percent at year-end 2005), 14 percent for banks (14 percent at year-end 2005), and 49 percent for other sectors (41 percent at year-end 2005).

² 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.

The 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) held by nonresidents.

Table 4: Assets/Liabilities and Net Assets by Sector

tril. yen

	Assets		Liabilities		Net assets	
		y/y chg.		y/y chg.		y/y chg.
Total	558.1	+51.9	343.0	+17.5	215.1	+34.4
Public sector	130.7	+6.9	49.6	+6.4	81.1	+0.5
Banks	124.2	+0.0	95.0	-3.6	29.3	+3.6
Other sectors	303.2	+45.0	198.5	+14.7	104.7	+30.3

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. For liabilities, the percentage share of long-term instruments increased due to the sharp increase in the amount of equity securities held by nonresident investors.

Table 5: Assets/Liabilities by Maturity

tril. yen

	Assets			Liabilities		
		Percentage share			Percentage share	
			y/y chg. (% points)			y/y chg. (% points)
Total	558.1	100.0	--	343.0	100.0	--
Long-term	377.6	67.6	+0.8	228.7	66.7	+4.8
Short-term	180.6	32.4	-0.8	114.3	33.3	-4.8

Note: Long- and short-term items are classified as follows:

Long-term: direct investment, equity securities (classified as long-term instruments because they are not redeemable), 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 indicates that Japan has been the country with the largest net asset position for the 16th consecutive year since year-end 1991.

In Table 6, figures for year-end 2005 were used for countries for which figures for year-end 2006 were not available.

Table 6: Net Assets of Major Countries: An International Comparison

tril. yen

	Year-end	Assets	Liabilities	Net assets	Ratio to nominal GDP (%)
Japan	2006	558.1	343.0	215.1	42.4%
	2005	506.2	325.5	180.7	36.0%
Germany	2006	690.4	602.5	87.9	24.3%
China	2006	193.5	114.7	78.8	24.7%
Hong Kong	2005	176.3	124.5	51.8	246.4%
Switzerland	2005	237.4	190.8	46.6	114.0%
Norway	2005	67.0	43.3	23.8	70.2%
France	2005	576.4	553.6	22.8	9.6%
Russia	2005	58.4	63.6	-5.2	-5.9%
Canada	2006	156.3	161.9	-5.6	-3.8%
Italy	2005	226.7	233.3	-6.6	-3.4%
Australia	2006	80.8	137.9	-57.1	-60.6%
United Kingdom	2006	1,232.6	1,294.6	-61.9	-20.6%
Spain	2006	204.4	293.0	-88.6	-57.9%
United States	2005	1,307.0	1,607.4	-300.4	-20.4%

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 (including an area) listed above are the G-8 nations and countries with large net asset or liability positions.

Sources: Deutsche Bundesbank (for Germany); Office for National Statistics (for the United Kingdom); Statistics Canada (for Canada); Australian Bureau of Statistics (for Australia); Banco de España (for Spain); the State Administration of Foreign Exchange (for China); IMF, *International Financial Statistics* (for other countries).

III. Developments by Component

A. Direct Investment

1. Direct investment assets

Direct investment assets increased for the third consecutive year, rising by 7.9 trillion yen or 17.3 percent from year-end 2005. This marked a new record high for the second consecutive year.

The main factor underlying the changes in direct investment assets was the transaction factor,³ which accounted for a net increase of 5.8 trillion yen. The transaction factor by region was as follows. Net direct investment outflows to Asia increased. This was due to (a) investments by electrical machinery and transportation equipment companies seeking to establish new production facilities and expanding existing ones and (b) a large-scale acquisition by an electrical machinery company seeking to expand its overseas business operations. Net outflows to the EU increased sharply. Contributing factors included (a) an acquisition by a glass and ceramics products company to expand its overseas business operations, (b) the purchase of additional equities by trading companies to increase the capital of holding companies involved in the development of oil and natural gas, and (c) the purchase of additional equities by a transportation equipment company accompanying the reorganization of its group companies. Net outflows to North America decreased. A large investment in the electrical machinery company and a rise in reinvested earnings in the transportation equipment and chemicals and pharmaceuticals companies were largely offset by a large-scale withdrawal in the movie and entertainment production business by an electrical machinery company. Net outflows to Central and South America increased by about the same amount as in the previous year, since acquisitions of participation certificates issued by special purpose companies (SPCs) established in the Cayman Islands by finance and iron and steel companies were largely offset by the transfer of stocks by a transportation equipment company accompanying the reorganization of its group companies.

Apart from the transaction factor, the exchange rate change factor accounted for 2.1 trillion yen of the increase. This was primarily due to the depreciation of the yen against the U.S. dollar and the euro and the consequent increase in the yen-denominated value of external assets.

On a market value basis, estimated direct investment assets increased by 19.5 trillion yen or 23.5 percent from year-end 2005, marking a new record high for the fourth consecutive year.

³ For details, refer to "Japan's Balance of Payments for 2006," released in August 2007, available on the Bank of Japan's website (<http://www.boj.or.jp/en/index.htm>).

Table 7: Direct Investment Assets

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Direct investment assets at year-end	38,581 (+7.4%)	45,605 (+18.2%)	53,476 (+17.3%)	+7,871	+5,846	+2,145	-120

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

The regions accounting for the largest share of Japanese direct investment assets at year-end 2006 were, in descending order, North America, the EU (led by the Netherlands and the United Kingdom), and Asia (led by China, Thailand, and Singapore). Among the BRIC countries, China accounted for the majority of direct investment assets. The countries with the most Japanese direct investment assets were, in descending order, the United States (18.6 trillion yen), the Netherlands (5.4 trillion yen), the United Kingdom (3.8 trillion yen), China (3.6 trillion yen), and the Cayman Islands (2.5 trillion yen). At year-end 2006, the United Kingdom returned to the third position, replacing China.

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

bil. yen

	2004	05	06	y/y chg.	Share of total (%)
North America	15,252	18,349	19,411	+1,062	36.3
EU	10,525	10,825	14,134	+3,309	26.4
Of which: Netherlands	3,788	4,064	5,401	+1,337	10.1
United Kingdom	2,786	2,851	3,760	+909	7.0
Asia (including China and India)	7,931	10,360	12,802	+2,442	23.9
Of which: Thailand	1,028	1,372	1,765	+393	3.3
Singapore	1,160	1,387	1,697	+310	3.2
South Korea	685	969	1,269	+299	2.4
Central and South America	2,759	3,884	4,673	+788	8.7
Oceania	1,566	1,523	1,640	+118	3.1
Total (including other regions)	38,581	45,605	53,476	+7,871	100.0
(Reference) BRICs ¹	2,762	3,832	4,842	+1,011	9.1
Brazil	473	705	931	+226	1.7
Russia	9	18	31	+12	0.1
India	182	212	275	+64	0.5
China	2,097	2,897	3,605	+709	6.7

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

A breakdown of direct investment assets by region and industry reveals the following patterns. Direct investment assets in North America are concentrated in the transportation equipment sector, mainly reflecting investment by the automobile-related industry. In the case of the EU, direct investment assets in finance and insurance account for a high percentage share. Direct investment assets in Asia are increasing as a result of growing direct investment in China, led by companies from the electric machinery and transportation equipment (primarily

automobile-related) sectors. In Central and South America, direct investment assets in finance and insurance account for a substantial share, mainly due to investments in corporate-type investment trusts⁴ domiciled in the Cayman Islands and the acquisition of participation certificates.

Table 9: Direct Investment Assets by Region and Industry

bil. yen

	Finance and insurance	Transportation equipment	Electric machinery	Wholesale and retail	Chemicals and pharmaceuticals	Total (including other industries)
Total	9,625	9,550	6,844	5,986	4,973	53,476
North America	2,320	5,080	2,563	2,630	2,284	19,411
EU	2,517	1,979	1,614	1,768	1,141	14,134
Of which: Netherlands	408	777	1,242	432	467	5,401
United Kingdom	1,462	171	133	568	222	3,760
Asia	1,218	1,817	2,592	1,184	1,274	12,802
Of which: China	213	538	777	391	282	3,605
Thailand	224	471	326	68	132	1,765
Singapore	201	110	278	187	332	1,697
Central and South America	3,193	478	51	109	64	4,673
Oceania	95	80	24	247	54	1,640
Other regions	282	118	1	48	158	816

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

2. Direct investment liabilities

Direct investment liabilities increased by 0.9 trillion yen or 7.6 percent from year-end 2005,

⁴ Investments in corporate-type investment trusts are recorded as direct investment when an investor holds 10 percent or more of the firm's equity.

marking a new record high for the eighth consecutive year since 1999.

As for the factors responsible for changes in direct investment liabilities, the transaction factor accounted for a net decrease of 0.8 trillion yen. The transaction factor by region was as follows. Direct investment from the EU recorded a net outflow as large inflows, through, for example, capital participations in the transportation equipment sector, were offset by a large-scale withdrawal from a Japanese communications company. Net outflows in direct investment from North America increased, mainly because (a) a parent company withdrew from its investments, selling shares of a transportation equipment company in order to reduce the ownership percentage as part of a wider restructuring program and (b) companies in the financial sector withdrew capital from a subsidiary in Japan in order to utilize capital more efficiently. Direct investment from Asia turned to a net outflow, as foreign securities companies withdrew capital from local branches in Japan in line with the incorporation of those branches.

Apart from the transaction factor, another reason for the increase is the inclusion in the statistics of the capital reserves of companies closing their accounts in December.^{5,6} This inclusion is due to the change in the reporting system introduced at year-end 2005 and contributed 1.7 trillion yen.

On a market value basis, estimated direct investment liabilities increased for the fifth consecutive year, rising by 2.7 trillion yen or 10.1 percent from year-end 2005. This marked a new record high for the fourth consecutive year.

⁵ For details, refer to Box 2 "Release of New Data and Change in Definition of Some IIP Items" in "Japan's International Investment Position at Year-End 2005" released on August 18, 2006, available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

⁶ Withdrawal of capital from Japanese subsidiaries and former local branches in Japan also contributed to the increase. Due to data constraints, direct investments are recorded on a book value basis, whereas withdrawals of capital from Japanese subsidiaries and former local branches in Japan are reported and recorded on a market value basis.

Table 10: Direct Investment Liabilities

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Other factors
Direct investment liabilities at year-end	10,098 (+5.1%)	11,903 (+17.9%)	12,803 (+7.6%)	+900	-757	+1,657

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

The regions accounting for the largest share of direct investment liabilities at year-end 2006 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 5.0 trillion yen of Japanese direct investment liabilities, followed by the Netherlands (1.4 trillion yen), France (1.4 trillion yen), the Cayman Islands (1.0 trillion yen), and the United Kingdom (0.6 trillion yen).

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

bil. yen

	2004	05	06	y/y chg.	Share of total (%)
North America	4,766	5,607	5,265	-342	41.1
EU	3,996	4,201	4,712	+511	36.8
Of which:					
Netherlands	1,475	1,369	1,448	+79	11.3
France	1,421	1,266	1,373	+107	10.7
United Kingdom	240	356	593	+236	4.6
Central and South America	312	966	1,442	+476	11.3
Asia	611	787	981	+193	7.7
Oceania	66	56	59	+2	0.5
Total (including other regions)	10,098	11,903	12,803	+900	100.0

A breakdown of direct investment liabilities by region and industry reveals the following patterns. Liabilities vis-à-vis North America are concentrated in the electric machinery and finance and insurance industries. Liabilities vis-à-vis the EU are dominated by those in the transportation equipment (mainly automobile-related) and finance and insurance industries. As for Central and South America, the finance and insurance industry 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	Chemicals and pharmaceuticals	Transportation equipment	Wholesale and retail	Communications	Total (including other industries)
Total	4,329	2,028	1,482	1,390	953	827	12,803
North America	1,782	1,851	444	123	296	323	5,265
EU	1,078	134	897	1,247	338	391	4,712
Central and South America	960	34	103	4	95	83	1,442
Asia	370	9	8	2	129	23	981
Oceania	10	0	1	0	10	4	59
Other regions	129	0	30	13	86	3	345

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

3. Japan's direct investment position in international perspective

At year-end 2006, the ratio of Japan's direct investment assets to GDP was 10.5 percent, while that of direct investment liabilities was 2.5 percent. Both ratios are lower than those registered in other major countries but higher than at the previous year-end (direct investment assets: 9.1 percent; direct investment liabilities: 2.4 percent).

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	4,496	10.5	1,076	2.5
United States	35,245	28.3	27,972	22.5
United Kingdom	12,960	61.4	8,630	40.9
France	14,885	73.9	9,570	47.5
Germany	8,014	30.3	6,604	25.0

Note: Figures for direct investment assets and liabilities are as of year-end 2006 for Japan (converted to U.S. dollars using exchange rates at year-end); and as of year-end 2005 for the United States, the United Kingdom, France, and Germany.

Source: IMF, *International Financial Statistics*.

B. Portfolio Investment

1. Equity securities (assets)

Equity securities assets (foreign equity securities held by residents) increased for the fourth consecutive year, rising by 12.5 trillion yen or 26.0 percent from year-end 2005. This marked a new record high for the third consecutive year.

By sector, assets held by banks increased only marginally, while assets held by "other sectors" increased sharply. With regard to assets held by "other sectors," banks' trust accounts recorded net sales as pension funds rebalanced⁷ their portfolios, but this was more than offset by purchases by investment trusts of the following assets, reflecting active investment by individual investors: European and U.S. corporate equities; Asian and other emerging market equities; and U.S. and Australian REITs.

Among factors underlying changes in equity securities assets, the transaction factor was responsible for an increase of 3.1 trillion yen. The transaction factor by region⁸ showed the following pattern. Investment levels in the United States remained high, virtually unchanged

⁷ Public and corporate pension funds usually decide the weight of each asset in total assets prior to investment. To rebalance portfolios in order to maintain the desired weighting, they purchase/sell those assets whose weight in total assets has declined/increased due to changes in asset prices or exchange rates.

⁸ Equity securities assets by region are classified by the nationality of the stock issuer.

from the previous year as money continued to flow into funds that invest in corporate equities and U.S. REITs. Investment in the EU increased only slightly. Although investment in U.K. and French stocks increased, this was mostly offset by sales of corporate-type investment trusts domiciled in Luxembourg. Equity securities assets increased both in Asia and Central and South America. The increase in Asia reflects the establishment of new funds investing in corporate equities, while the increase in Central and South America reflects investment in corporate-type investment trusts domiciled in the Cayman Islands and the acquisition of participation certificates issued by Japanese SPCs. As for investments in BRIC countries, transactions involving Indian equities turned from net purchases in the previous year to net sales, while investments in China and Brazil increased from the previous year.

Apart from the transaction factor, the exchange rate change factor and other factors accounted for increases of 2.8 trillion yen and 6.6 trillion yen, respectively. These increases reflect the depreciation of the yen and the worldwide rise in stock prices.

Table 14: Equity Securities (Assets)

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	37,972 (+29.2%)	48,200 (+26.9%)	60,714 (+26.0%)	+12,515	+3,055	+2,837	+6,623
Of which: Banks	609	809	1,216	+407	+160	+35	+212
Other sectors	37,363	47,390	59,498	+12,108	+2,892	+2,802	+6,414

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

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

Figure 4: Developments in Equity Securities (Assets)

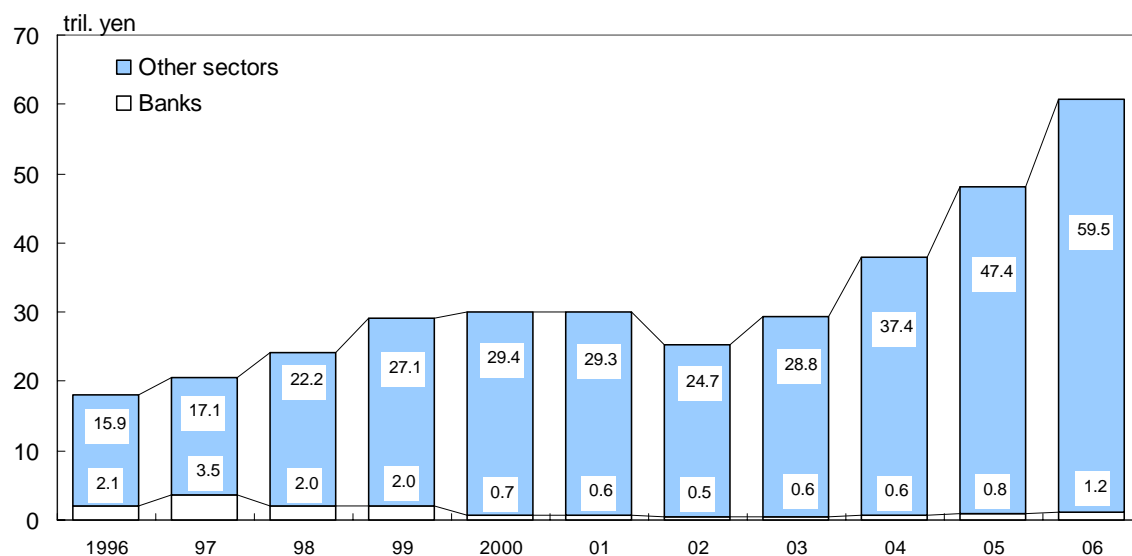


Table 15: Stock Price Indices in Major Countries

	Year-end 2005	Year-end 2006	y/y % chg.
Dow Jones Industrial Average (United States) ¹	10,718	12,463	+16.3%
NASDAQ (United States) ²	2,205	2,415	+9.5%
S&P500 (United States) ²	1,248	1,418	+13.6%
FTSE 100 (United Kingdom) ²	5,619	6,221	+10.7%
DAX (Germany) ²	5,408	6,597	+22.0%
CAC40 (France) ²	4,715	5,542	+17.5%
Hang Seng (Hong Kong) ²	14,876	19,965	+34.2%

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

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 2006 were composed as follows. Equity securities of the United States accounted for the largest share, followed by those of the EU (led by the United Kingdom, France, and Germany), and those of Central and South America. Holdings of equity securities of BRIC countries increased markedly from the previous year, and the total amount of equity securities of the four BRIC countries together (2.1 trillion yen) exceeded that of Germany (1.9 trillion yen).

Table 16: Equity Securities by Region (Assets)

bil. yen

	2004	05	06	y/y chg.
United States	18,345	22,721	26,661	+3,940
EU	11,404	13,730	18,152	+4,423
Of which:				
United Kingdom	4,596	4,665	6,198	+1,533
France	1,541	1,974	2,862	+889
Germany	1,061	1,366	1,891	+525
Luxembourg	614	1,065	1,379	+314
Netherlands	769	894	1,244	+350
Asia (including China and India)	1,837	2,451	4,347	+1,895
Central and South America	3,273	4,701	5,125	+424
Of which:				
Cayman Islands	2,384	3,508	3,791	+283
Total (including other regions)	37,972	48,200	60,714	+12,515
(Reference) BRICs ¹	479	917	2,127	+1,210
Brazil	14	61	248	+186
Russia	6	100	257	+156
India	21	324	451	+126
China	437	431	1,172	+741

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

2. Bonds and notes (assets)⁹

Assets in bonds and notes (foreign bonds and notes held by residents) increased by 17.2 trillion yen or 8.7 percent from year-end 2005, marking a new record high for the seventh consecutive year.

By sector, banks decreased their assets by 0.2 trillion yen from year-end 2005. They significantly

⁹ "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."

reduced their foreign bonds and notes positions, selling in particular European and U.S. government bonds and U.S. government-sponsored enterprise (GSE) bonds against the background of rising interest rates there during the first half of 2006. They also sold investment funds established in the Cayman Islands in order to reduce risks. Assets held by "other sectors" increased sharply, rising by 17.6 trillion yen from year-end 2005. This was primarily due to the increase in purchases of bonds and notes by investment trusts and securities companies against the background of individual investors' strong interest in foreign bonds and notes.

Among factors underlying changes in assets in bonds and notes, the transaction factor was responsible for an increase of 7.7 trillion yen. The transaction factor by region was as follows. Investment in the United States and the EU declined significantly, due to the aforementioned sales of bonds and notes by banks. Among other regions, investment in the Cayman Islands fell sharply reflecting a decrease in the issue of asset-backed securities (ABSs) by Japanese financial institutions and corporations.

Among factors other than the transaction factor, the exchange rate change factor was responsible for an increase of 7.8 trillion yen, reflecting the depreciation of the yen.

Table 17: Bonds and Notes (Assets)

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	167,635 (+11.2%)	198,321 (+18.3%)	215,536 (+8.7%)	+17,215	+7,725	+7,751	+1,739
Of which: Banks	51,156	66,683	66,445	-238	-2,218	+1,896	+84
Other sectors	114,806	130,769	148,330	+17,561	+9,958	+5,841	+1,761

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

Figure 5: Developments in Bonds and Notes (Assets)

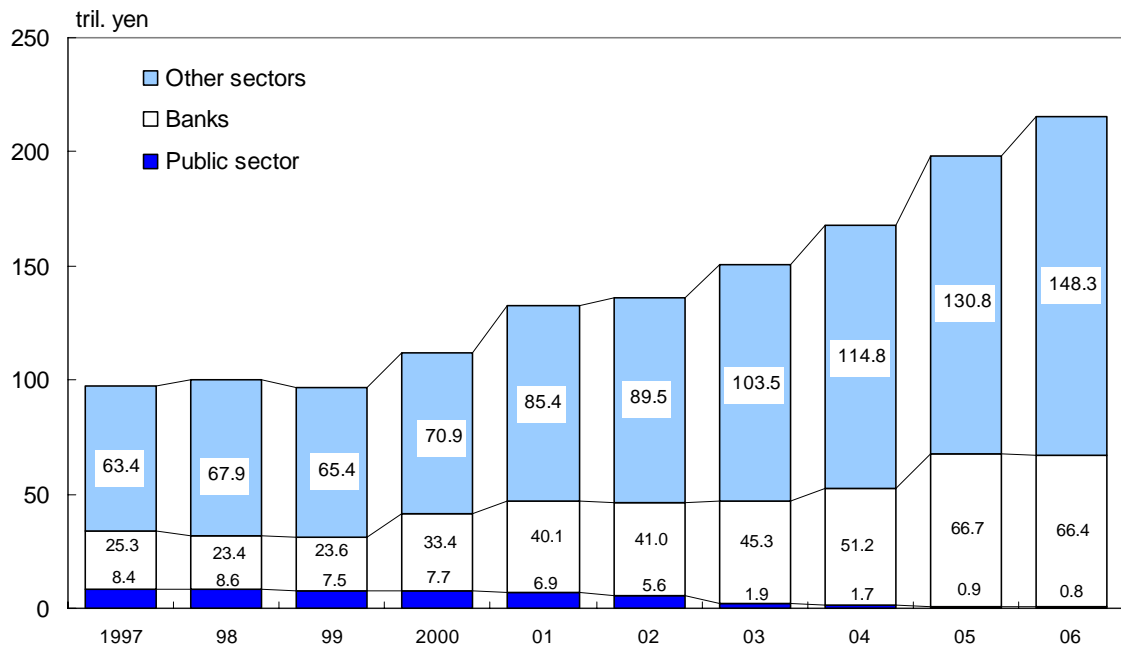
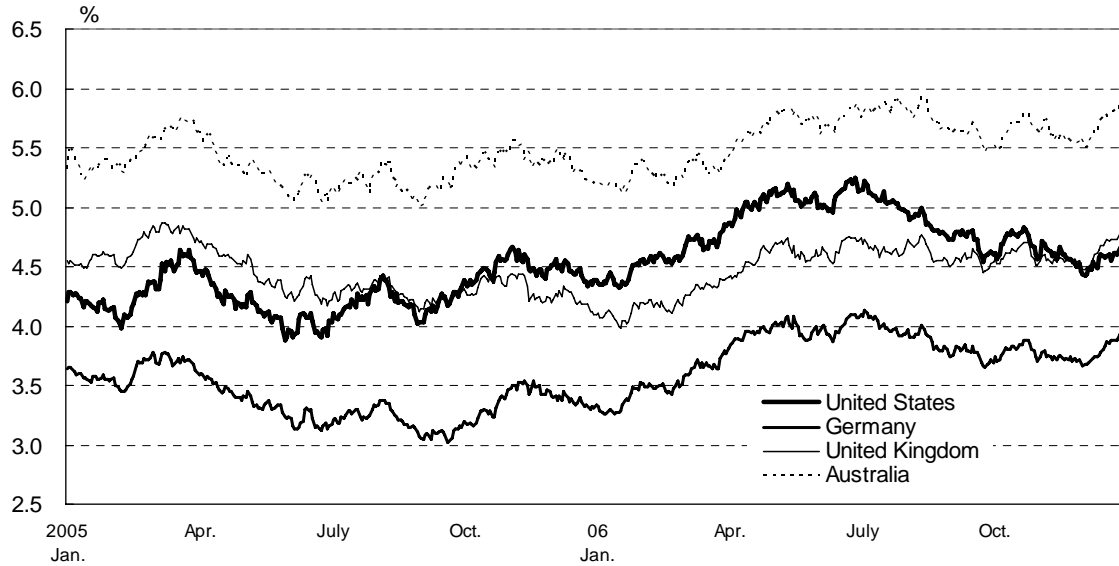


Figure 6: Developments in Yields on U.S. and European Government Bonds



Note: Yields on 10-year government bonds.

Source: Bloomberg.

By region, the EU accounted the largest share, led by Germany, France, and the United Kingdom (in that order), followed by Luxembourg, where many investment trusts are domiciled and ABSs are issued. The United States accounted for the second-largest share, followed by Central and South America. 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.

Table 18: Bonds and Notes by Region (Assets)

bil. yen

	2004	05	06	y/y chg.
United States	52,666	64,394	67,017	+2,623
EU	66,428	74,662	83,638	+8,976
Of which:				
Germany	15,204	17,220	18,706	+1,486
France	11,228	12,760	13,944	+1,184
United Kingdom	8,044	8,571	10,784	+2,213
Luxembourg	6,800	7,883	9,213	+1,329
Netherlands	6,422	7,123	7,821	+698
Asia	1,151	1,383	1,603	+220
Of which:				
South Korea	545	628	684	+56
Singapore	138	234	373	+139
China	55	50	49	-1
Central and South America	27,160	33,682	37,480	+3,798
Of which:				
Cayman Islands	24,426	30,645	34,320	+3,674
International organizations	10,282	11,399	11,446	+47
Other regions	9,948	12,801	14,353	+1,552
Total	167,635	198,321	215,536	+17,215

A breakdown of bonds and notes assets by currency of denomination reveals the following pattern. The currencies of bonds and notes held were, in descending order, the U.S. dollar (90.8 trillion yen), the yen (56.0 trillion yen), and the euro (45.1 trillion yen). These three currencies accounted for about 90 percent. The amount of bonds and notes assets denominated in high interest rate currencies such as the Australian and New Zealand dollars was higher than at year-end 2005.

Figure 7: Bonds and Notes by Currency (Assets)

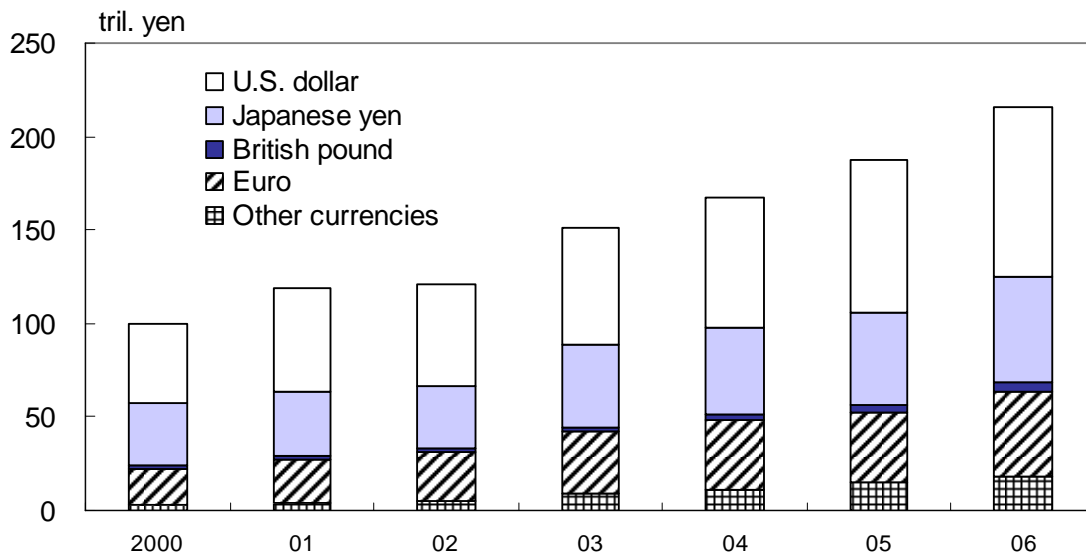
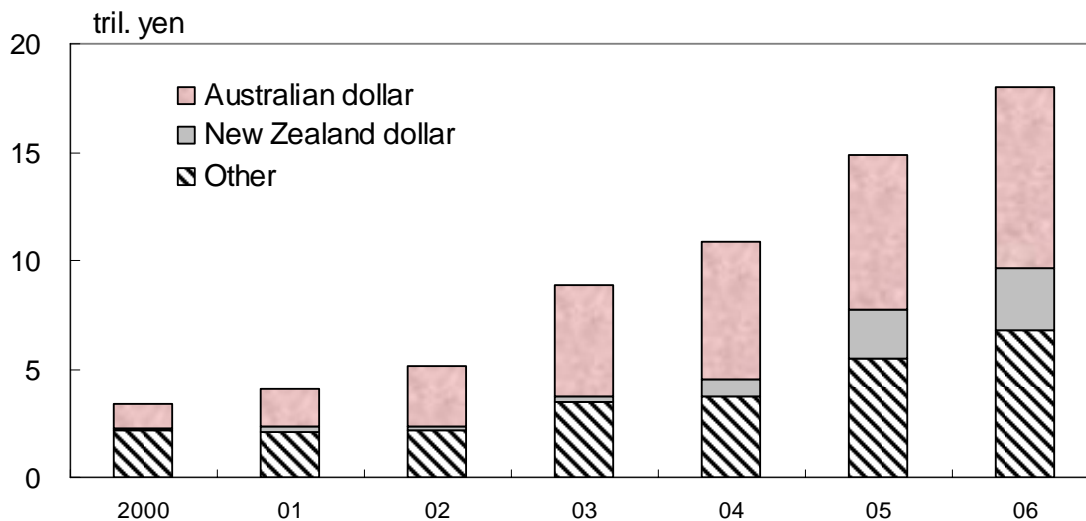


Figure 8: Breakdown of "Other Currencies"



Source: International Department, Bank of Japan.

3. Money market instruments (assets)

Assets in money market instruments (MMIs) (foreign MMIs held by residents) decreased by 0.5 trillion yen from year-end 2005, reflecting the large amount of redemptions of CP issued by nonresidents.

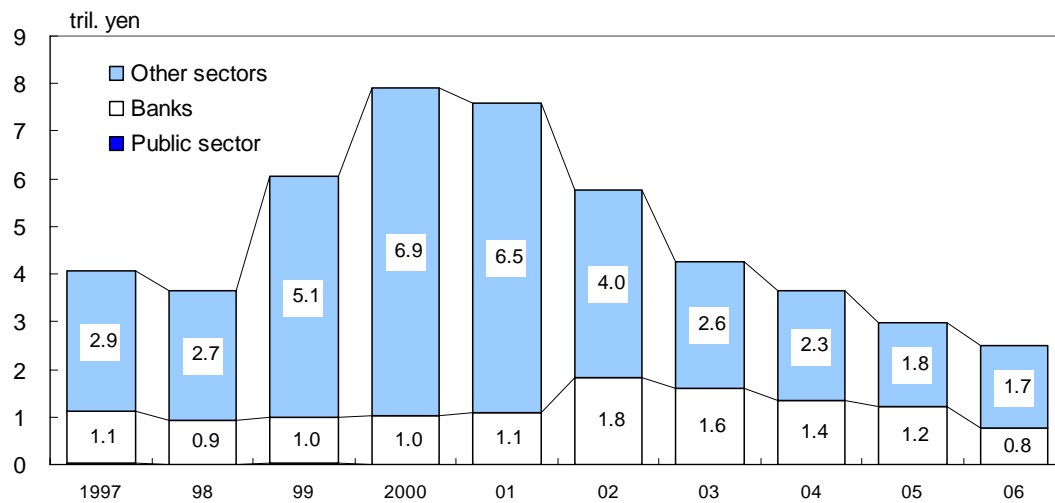
Table 19: MMIs (Assets)

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	3,641 (-14.3%)	2,973 (-18.3%)	2,507 (-15.7%)	-466	-1,091	+33	+593
Of which: Banks	1,353	1,201	760	-441	-342	+8	-107
Other sectors	2,281	1,770	1,744	-26	-750	+25	+699

Notes: 1. Assets in MMIs held by each sector.

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

Figure 9: Developments in MMIs (Assets)**4. Equity securities (liabilities)**

Liabilities in equity securities (domestic equity securities held by nonresidents) increased for the fourth consecutive year, rising by 16.4 trillion yen or 12.4 percent from year-end 2005. This marked a new record high for the second consecutive year.

Among factors responsible for changes in equity securities liabilities, the transaction factor accounted for an increase of 9.9 trillion yen. Nonresidents' purchases of equity securities increased reflecting (a) expectations of a continuation of the economic recovery in Japan, (b) a rise in U.S. stock prices, and (c) expectations of better-than-projected business results for Japanese companies due to the depreciation of the yen.

Other factors contributed 6.6 trillion yen to the increase, primarily due to the rise in Japanese stock prices.

Table 20: Equity Securities (Liabilities)

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Other factors
Total	77,393 (+28.8%)	132,842 (+71.6%)	149,277 (+12.4%)	+16,434	+9,855	+6,579
Banks	6,385	12,030	13,094	+1,065	+1,809	-744
Other sectors	71,007	120,813	136,182	+15,370	+8,047	+7,323

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 percentage change from the previous year.

Table 21: Japanese Stock Price Indices at Year-End

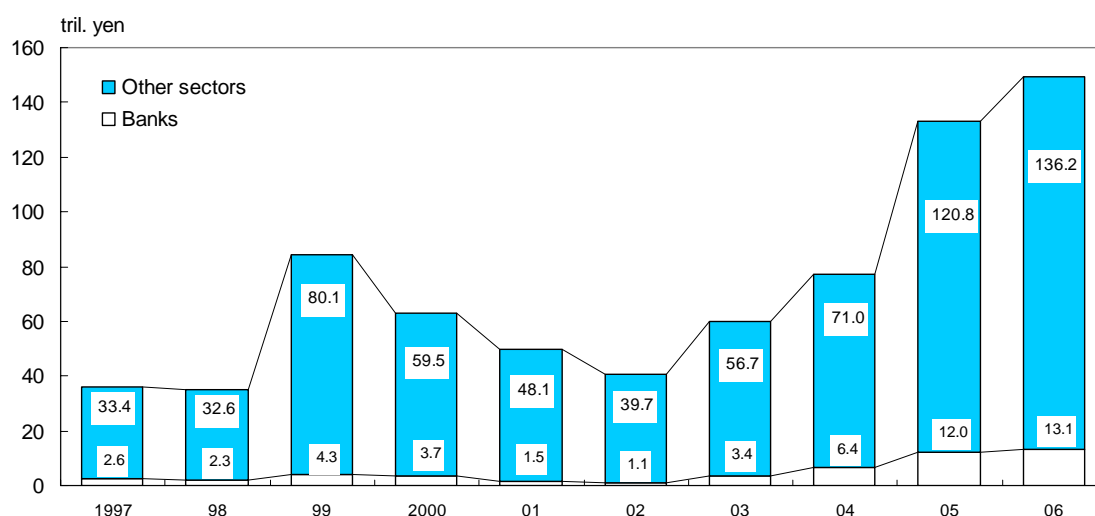
	2005	06	y/y % chg.
TOPIX ¹	1,649.76	1,681.07	+1.9%
Nikkei 225 Stock Average ²	16,111.43	17,225.83	+6.9%

Notes: 1. Base value = 100, based on prices on January 4, 1968.

2. In yen.

Source: Bloomberg.

Figure 10: Developments in Equity Securities (Liabilities)



By region, the EU (led by the United Kingdom and Luxembourg) and the United States together accounted for by far the largest share of equity securities liabilities. This can be attributed to two factors. First, pension funds, hedge funds, and other leading financial investors are domiciled in these regions. And second, major custodial institutions are also domiciled in these regions.¹⁰ By country, the largest investor is the United States, followed by the United Kingdom and Luxembourg.

Table 22: Equity Securities by Region (Liabilities)

bil. yen

	2004	05	06	y/y chg.
United States	31,535	55,833	61,926	+6,093
EU	36,277	62,067	70,238	+8,171
Of which:				
United Kingdom	21,059	35,355	39,619	+4,264
Luxembourg	4,119	7,638	8,758	+1,120
France	2,110	4,564	6,229	+1,665
Belgium	2,374	3,716	4,233	+517
Middle East	2,288	4,018	4,816	+798
Asia	1,444	2,662	2,976	+314
Total (including other regions)	77,393	132,842	149,277	+16,434

¹⁰ When foreign investors make purchases through third-country custodial institutions and banks, the purchase of securities issued by residents of the country compiling the statistics is recorded as liabilities to the country of the custodial institution, not that of the final investor.

5. Bonds and notes (liabilities)

Liabilities in bonds and notes (domestic bonds and notes held by nonresidents) increased for the fourth consecutive year, rising by 8.2 trillion yen or 19.7 percent from year-end 2005. This marked a new record high for the third consecutive year.

Among factors contributing to changes in bonds and notes liabilities, the transaction factor accounted for most of the changes, contributing 8.5 trillion yen to the total increase. In January and May, when swap spreads narrowed, hedge funds and foreign banks took on new arbitrage positions combining cash bond purchases with yen-yen interest rate swaps with fixed rate payments. In the second half of the year, European and U.S. pension funds and foreign monetary authorities purchased inflation-indexed bonds.

Table 23: Bonds and Notes (Liabilities)

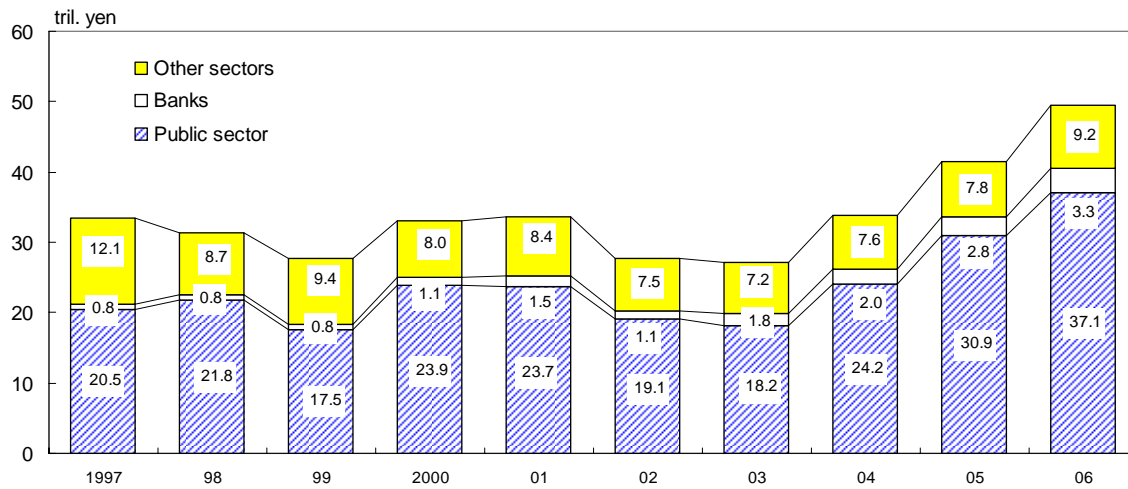
bil. yen

	2004	05	06	y/y chg.	Transaction factor
Total	33,846 (+24.9%)	41,428 (+22.4%)	49,579 (+19.7%)	+8,151	+8,460
Public sector	24,158	30,879	37,075	+6,195	+6,286
Banks	2,041	2,754	3,343	+589	+572
Other sectors	7,647	7,795	9,161	+1,366	+1,602

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 percentage change from the previous year.

Figure 11: Developments in Bonds and Notes (Liabilities)



By region, the EU (led by the United Kingdom, France, and Luxembourg) accounted for 55 percent of total liabilities, reflecting the fact that major custodial institutions are domiciled in this area. Asia accounted for the second largest share due to investments by Asian monetary authorities.

Table 24: Bonds and Notes by Region (Liabilities)

bil. yen

	2004	05	06	y/y chg.
United States	2,861	4,071	6,278	+2,206
EU	19,832	22,820	27,191	+4,371
Of which:				
United Kingdom	13,726	16,568	21,388	+4,820
France	974	1,803	2,377	+574
Luxembourg	1,472	1,043	1,295	+252
Switzerland	1,044	672	980	+308
Asia	5,429	6,752	7,049	+297
Of which:				
Singapore	1,825	2,391	2,787	+395
China	1,355	1,878	2,104	+226
South Korea	1,538	1,655	1,160	-496
Middle East	865	1,678	2,132	+454
Of which:				
Saudi Arabia	468	1,193	1,670	+477
UAE	294	342	263	-79
Central and South America	1,387	2,869	3,142	+272
Of which:				
Cayman Islands	1,001	2,588	2,700	+112
Total (including other regions)	33,846	41,428	49,579	+8,151

6. MMIs (liabilities)

Liabilities in MMIs (domestic MMIs held by nonresidents) increased by 3.2 trillion yen or 41.0 percent from year-end 2005, marking a new record high since 1998.

Among factors contributing to changes in liabilities in MMIs, the transaction factor accounted for an increase of 3.9 trillion yen. This reflected active purchases of MMIs by foreign banks and overseas monetary authorities against a background of rising interest rates in the April-June period.

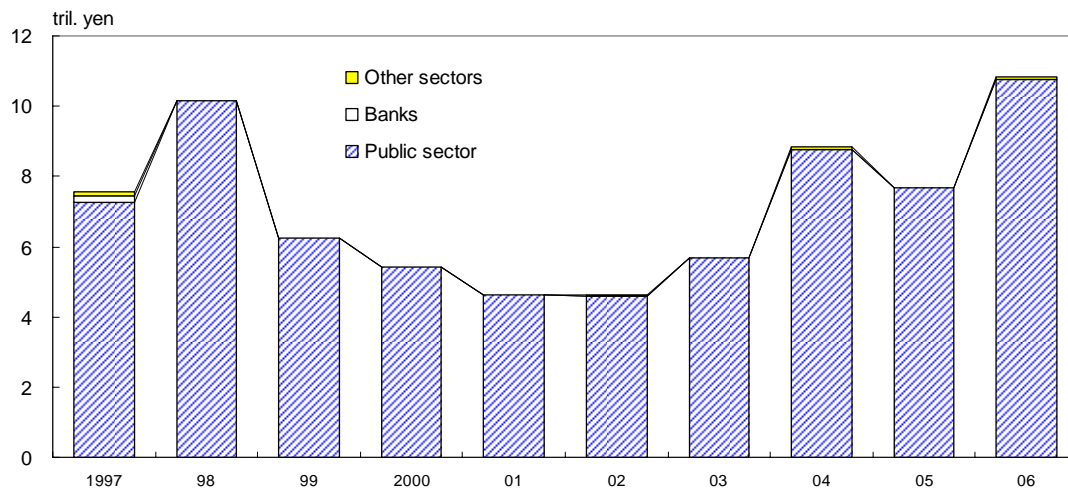
Table 25: MMIs (Liabilities)

bil. yen

	2004	05	06	y/y chg.	Transaction factor
MMI liabilities at year-end	8,852 (+55.8%)	7,689 (-13.1%)	10,840 (+41.0%)	+3,151	+3,883

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

Figure 12: Developments in MMIs (Liabilities)



By region, the EU (led by France and the United Kingdom) accounted for the largest share of liabilities in MMIs, followed by international organizations and Asia. The countries accounting for the largest holdings at year-end 2006, in descending order, were France, the United Kingdom, and Hong Kong.

Table 26: MMIs by Region (Liabilities)

bil. yen

	2004	05	06	y/y chg.
United States	1,916	389	114	-275
EU	3,706	2,831	4,065	+1,233
Of which:				
France	765	446	1,432	+986
United Kingdom	416	408	1,417	+1,010
Asia	722	769	1,931	+1,162
Of which:				
Hong Kong	146	358	1,126	+767
Thailand	259	219	356	+138
China	0	0	241	+241
Oceania	0	539	1,042	+503
Of which:				
Australia	0	539	1,021	+482
International organizations	2,448	3,009	3,411	+402
Total (including other regions)	8,852	7,689	10,840	+3,151

C. Financial Derivatives¹¹

Financial derivatives assets and liabilities both decreased, to 2.7 trillion yen and 3.6 trillion yen, respectively. This was mainly due to the decline in the amount outstanding of stock price index futures.

¹¹ 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 until 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 yet expired, remain unexercised, or have not been reverse traded) and warrants.

Table 27: Financial Derivatives

bil. yen

	2004	05	06	y/y chg.
Financial derivatives	-523 (+2.6 times)	-816 (+56.2%)	-848 (+3.9%)	-32
Assets	599	3,104	2,739	-365
Liabilities	1,121	3,921	3,587	-334

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

D. Other Investment¹²

Other investment assets (e.g., loans and deposits) amounted to 116.7 trillion yen as a result of an increase of 8.2 trillion yen or 7.5 percent from year-end 2005 -- the third consecutive annual increase. Other investment liabilities (e.g., loans payable and bank deposits received) amounted to 116.9 trillion yen as a result of a decrease of 10.8 trillion yen or 8.4 percent -- the first decline in seven years.

1. Loans (assets)

Loans to nonresidents increased by 3.9 trillion yen. Loan assets of "other sectors" increased by 6.1 trillion yen. Institutions in this category provided yen funds through repurchase agreements to meet increased demand for yen funds from overseas. Banks decreased their loan assets by 2.3 trillion yen. Japanese banks collected yen funds that had been lent to their overseas branches through their interoffice accounts.

¹² In the IIP statistics for the years through 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 after were improved to comprise (1) and (2) by revising the reporting formats.

Table 28: Loans (Assets)

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Total	72,215 (+2.6%)	79,241 (+9.7%)	83,165 (+5.0%)	+3,924	+3,200	+407	+317
Public sector	16,477	16,311	16,473	+162	-9	+73	+98
Banks	39,128	43,864	41,569	-2,295	-2,672	+275	+102
Other sectors	16,609	19,065	25,123	+6,057	+5,881	+59	+117
Long-term	32,141	32,768	33,854	+1,086	+617	+197	+272
Short-term	40,073	46,473	49,311	+2,838	+2,583	+210	+45

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

2. Foreign deposits made by residents (assets)

Assets in foreign deposits increased by 2.8 trillion yen. By sector, assets of "other sectors" increased by 1.8 trillion yen, due to an increase in deposits related to cash collateral of equity securities lending transactions. Assets of banks increased by 1.0 trillion yen, partly because they deposited yen funds with banks overseas to meet strong demand for yen funds there.

Table 29: Foreign Deposits Made by Residents (Assets)

bil. yen

	2004	05	06	y/y chg.
Total	8,327 (+21.3%)	9,406 (+13.0%)	12,229 (+30.0%)	+2,823
Banks	5,420	4,791	5,797	+1,005
Other sectors	2,907	4,615	6,432	+1,818

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

3. Loans payable (liabilities)

Loan liabilities decreased in all three sectors, i.e., the public sector, banks, and other sectors, and the total decrease amounted to 9.4 trillion yen. Banks repaid the funds that they had raised for investments in foreign bonds and notes in the previous year through repurchase agreements and interoffice accounts.

Table 30: Loans Payable (Liabilities)

bil. yen

		2004	05	06	y/y chg.
Total		90,776 (+8.5%)	94,805 (+4.4%)	85,356 (-10.0%)	-9,449
	Public sector	1,585	3,696	1,268	-2,428
	Banks	52,845	56,866	52,196	-4,670
	Other sectors	36,346	34,243	31,892	-2,351
	Long-term	14,853	12,692	14,646	+1,954
	Short-term	75,923	82,113	70,709	-11,404

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

4. Deposits in Japan made by nonresidents (liabilities)

Liabilities in deposits decreased by 1.0 trillion yen. This was due to the following two reasons: first, a shift of funds deposited with banks to MMIs due to the rise in yields on short-term instruments (accounting for a decline of 0.6 trillion yen); and second, a decline in the amount of deposits of overseas public organizations at the Bank of Japan, which is categorized in the public sector (accounting for a decline of 0.5 trillion yen).

Table 31: Deposits in Japan Made by Nonresidents (Liabilities)

bil. yen

		2004	05	06	y/y chg.
Total		10,416 (-5.1%)	11,061 (+6.2%)	10,023 (-9.4%)	-1,038
	Public sector	567	468	16	-452
	Banks	9,848	10,592	10,007	-586

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

E. Reserve Assets

Reserve assets increased by 7.0 trillion yen or 7.0 percent from year-end 2005, marking the eighth consecutive annual increase and breaking the 100 trillion yen barrier for the first time. The rise was due to an addition of interest accruing from bonds and notes to the reserve assets and an increase in value reflecting the depreciation of the yen.

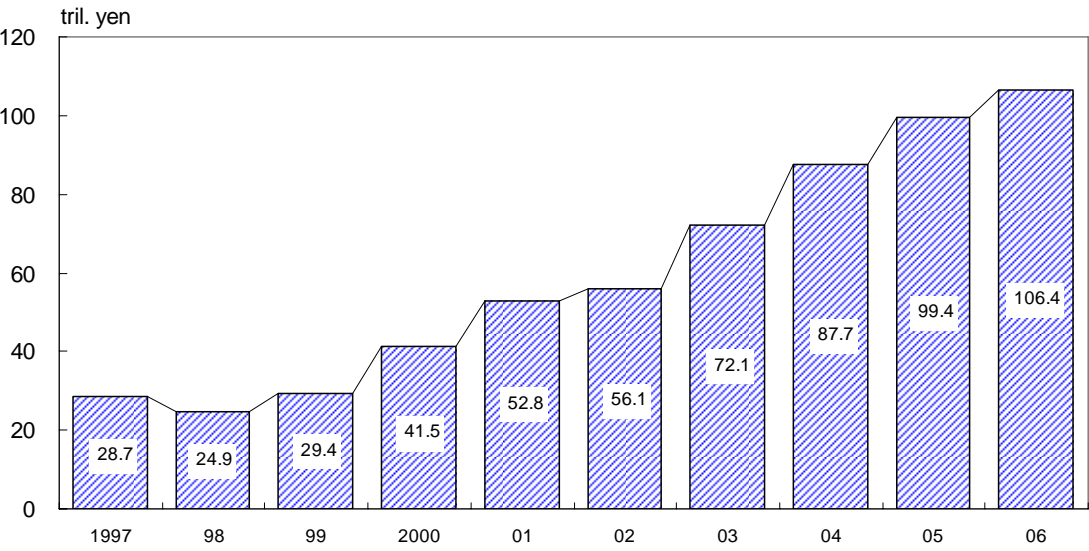
Table 32: Reserve Assets

bil. yen

	2004	05	06	y/y chg.	Transaction factor	Exchange rate change factor	Other factors
Reserve assets at year-end	87,720 (+21.7%)	99,444 (+13.4%)	106,435 (+7.0%)	+6,992	+3,720	+2,919	+354

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

Figure 13: Developments in Reserve Assets



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

On a market value basis, estimated direct investment assets and liabilities amounted to 102.3 trillion yen and 28.9 trillion yen, respectively (Table 1 for Box 1).

Direct investment assets and liabilities estimated on a market value basis both exceeded those on a book value basis, with the difference between market and book values increasing from the previous year-end. The market value of assets exceeded the book value by 48.8 trillion yen (37.2 trillion yen at year-end 2005), while that of liabilities exceeded the book value by 16.1 trillion yen (14.3 trillion yen at year-end 2005). Assets on a market value basis increased by 19.5 trillion yen from year-end 2005, reflecting the rise in stock prices worldwide and the depreciation of the yen. Liabilities on a market value basis also increased, by 2.7 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 is introduced into the overall international investment position, Japan's net asset position at year-end 2006 amounts to 247.8 trillion yen, an increase of 44.2 trillion yen from the previous year-end.

Table 1 for Box 1: Direct Investment Assets and Liabilities Estimated on a Market Value Basis

tril. yen

	2005		06	
		Book value		Book value
Direct investment assets	82.8	45.6	102.3	53.5
Direct investment liabilities	26.2	11.9	28.9	12.8

Table 2 for Box 1: Net Assets with Direct Investment Estimated on a Market Value Basis

tril. yen

	2005		06		y/y chg.	
		Book value		Book value		Book value
Net assets	203.6	180.7	247.8	215.1	+44.2	+34.4

**Figure 1 for Box 1: Breakdown of Assets and Liabilities by Component at Year-End 2006
(on Book and Market Value Bases)**

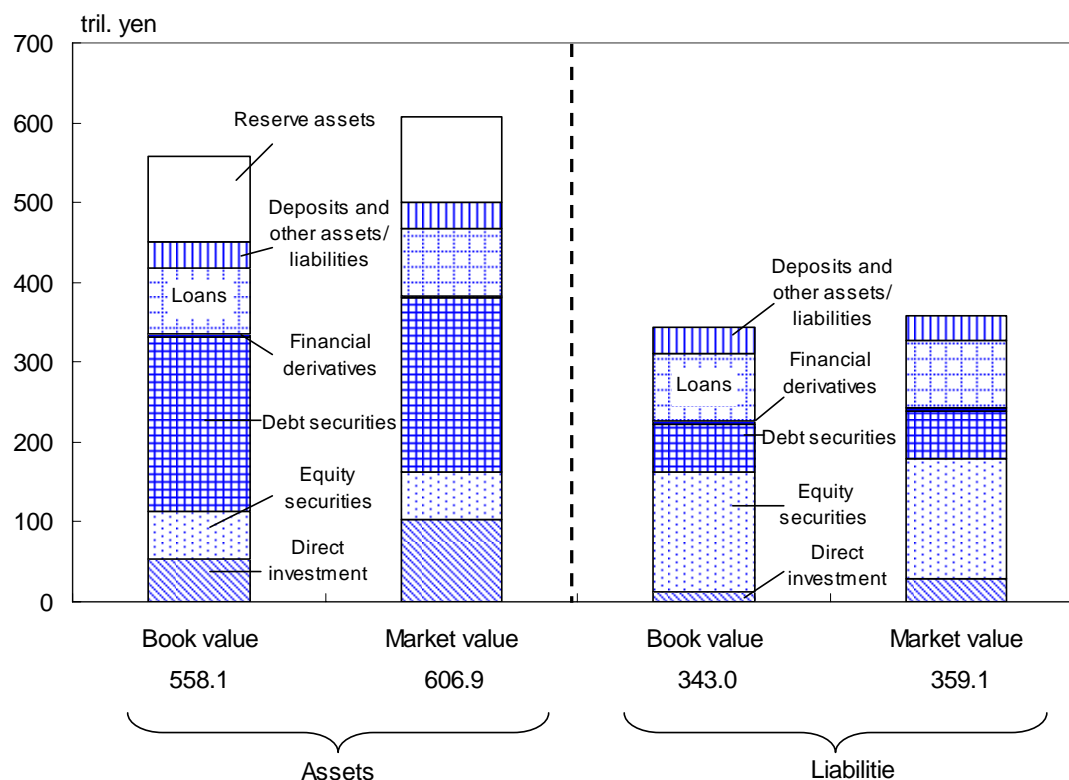


Table 3 for Box 1: Assets and Liabilities with Direct Investment Estimated on a Market Value Basis

tril. yen

	Assets		Liabilities		Net assets	
		Direct investment		Direct investment		Direct investment
1999	337.7	59.6	224.1	10.0	113.6	49.6
2000	363.7	54.5	216.8	14.4	146.9	40.1
01	397.6	57.4	204.9	11.1	192.7	46.4
02	376.5	47.1	193.5	12.2	183.1	34.9
03	411.4	61.8	219.6	16.4	191.9	45.4
04	462.4	67.1	256.4	18.5	205.9	48.6
05	543.4	82.8	339.8	26.2	203.6	56.6
06	606.9	102.3	359.1	28.9	247.8	73.4

Box 2: Release of New Data and Change in Compilation Method

Beginning with the release of the IIP statistics for year-end 2006, new data were made available and the method for compiling the direct investment position was changed.

A. Release of Market-Value Estimates¹

In Japan's IIP statistics, direct investment is evaluated at book value. However, the fifth edition of the IMF's *Balance of Payments Manual* (BPM5), the international guideline for compiling balance of payments statistics, states that all external financial assets and liabilities should be measured at current market prices.

Taking into account the compilation and dissemination methods in other countries as well as the needs of users, market-value estimates of the direct investment position are now available in the IIP papers as reference data.²

B. Change in the Method for Compiling the Direct Investment Position³

The direct investment position is compiled by supplementing the source data on the direct investment position reported by companies with data on investments and withdrawals. The previous method had the shortcoming that part of the data on investments and withdrawals of companies that was not subject to the reporting of source data on the direct investment position was not reflected in the statistics.

The new method includes a wider range of data on investments and withdrawals to supplement the basic data on the direct investment position with the aim of improving the accuracy of the statistics.

¹ For details, see "Release of the Market-Value Estimate of the Direct Investment Position," released on May 25, 2007 and available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

² Estimated market values for 1999 and after are also available (see Box 1, "Direct Investment Assets and Liabilities Estimated on a Market Value Basis"). The figures had in fact been released in the boxes of the previous issues of the IIP papers released by the International Department of the Bank of Japan.

³ For details, see "Change in the Method for Compiling Direct Investment Position," released on May 25, 2007 and available on the Bank of Japan's web site (<http://www.boj.or.jp/en/index.htm>).

Appendix: Japan's International Investment Position

Assets

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Assets	2000	01	02	03	04	05	06
1. Direct investment	31,993	39,555	36,478	35,932	38,581	45,605	53,476
2. Portfolio investment	150,115	169,990	167,203	184,353	209,247	249,493	278,757
Equity securities	30,133	29,965	25,277	29,394	37,972	48,200	60,714
Public sector	0	0	0	3	0	0	0
Banks	735	636	541	552	609	809	1,216
Other sectors	29,397	29,329	24,736	28,840	37,363	47,390	59,498
Debt securities	119,982	140,025	141,926	154,959	171,275	201,294	218,043
Bonds and notes	112,086	132,443	136,149	150,708	167,635	198,321	215,536
Public sector	7,718	6,948	5,626	1,926	1,673	868	760
Banks	33,425	40,098	40,989	45,298	51,156	66,683	66,445
Other sectors	70,943	85,396	89,533	103,485	114,806	130,769	148,330
MMIs	7,897	7,582	5,777	4,250	3,641	2,973	2,507
Public sector	3	8	13	13	7	2	3
Banks	1,022	1,094	1,800	1,602	1,353	1,201	760
Other sectors	6,872	6,480	3,964	2,636	2,281	1,770	1,744
3. Financial derivatives	381	395	404	524	599	3,104	2,739
Public sector	0	0	0	0	0	0	0
Banks	282	249	230	310	321	899	1,504
Other sectors	99	146	174	214	278	2,206	1,235
4. Other investment	117,239	117,069	105,792	92,645	97,718	108,544	116,698
Loans	74,581	81,448	81,353	70,358	72,215	79,241	83,165
Public sector	18,739	19,615	19,105	16,895	16,477	16,311	16,473
Banks	43,929	49,528	48,819	41,289	39,128	43,864	41,569
Other sectors	11,912	12,305	13,429	12,174	16,609	19,065	25,123
[Long-term]	41,297	41,109	37,042	34,462	32,141	32,768	33,854
[Short-term]	33,284	40,340	44,310	35,896	40,073	46,473	49,311
Trade credits	4,756	4,317	4,332	5,129	5,271	6,111	6,242
Public sector	892	918	907	1,329	1,266	1,374	934
Other sectors	3,865	3,399	3,426	3,800	4,005	4,736	5,308
[Long-term]	2,573	1,995	1,651	2,070	1,857	2,123	1,581
[Short-term]	2,184	2,322	2,682	3,059	3,414	3,988	4,661
Currency and deposits	21,731	15,005	7,859	6,862	8,327	9,406	12,229
Public sector	0	0	0	0	0	0	0
Banks	13,468	8,854	3,905	4,340	5,420	4,791	5,797
Other sectors	8,263	6,151	3,953	2,522	2,907	4,615	6,432
Other assets	16,171	16,298	12,248	10,295	11,905	13,787	15,063
Public sector	4,517	4,763	4,804	6,280	6,527	5,768	6,047
Banks	3,411	3,230	5,626	2,282	3,563	5,966	6,954
Other sectors	8,243	8,305	1,818	1,733	1,815	2,053	2,062
[Long-term]	13,226	12,255	8,638	8,420	7,943	11,232	12,394
[Short-term]	2,945	4,043	3,610	1,875	3,962	2,555	2,669
5. Reserve assets	41,478	52,772	56,063	72,083	87,720	99,444	106,435
Total assets	341,206	379,781	365,940	385,538	433,864	506,191	558,106

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	06
1. Direct investment	5,782	6,632	9,369	9,610	10,098	11,903	12,803
2. Portfolio investment	101,609	87,752	73,189	92,873	120,091	181,959	209,696
Equity securities	63,222	49,563	40,757	60,085	77,393	132,842	149,277
Banks	3,712	1,492	1,061	3,368	6,385	12,030	13,094
Other sectors	59,510	48,071	39,697	56,717	71,007	120,813	136,182
Debt securities	38,387	38,189	32,432	32,788	42,699	49,117	60,419
Bonds and notes	32,981	33,546	27,799	27,108	33,846	41,428	49,579
Public sector	23,872	23,651	19,135	18,160	24,158	30,879	37,075
Banks	1,068	1,520	1,138	1,759	2,041	2,754	3,343
Other sectors	8,041	8,375	7,527	7,188	7,647	7,795	9,161
MMIs	5,406	4,643	4,633	5,680	8,852	7,689	10,840
Public sector	5,406	4,643	4,582	5,680	8,772	7,664	10,775
Banks	0	0	0	0	1	0	0
Other sectors	0	0	50	0	79	25	65
3. Financial derivatives	366	467	445	727	1,121	3,921	3,587
Public sector	0	0	0	0	0	0	0
Banks	256	325	330	401	632	1,277	1,957
Other sectors	111	143	115	326	490	2,643	1,630
4. Other investment	100,402	105,673	107,628	109,510	116,756	127,709	116,938
Loans	76,212	79,538	83,757	83,665	90,776	94,805	85,356
Public sector	0	0	0	0	1,585	3,696	1,268
Banks	50,772	54,299	57,500	49,874	52,845	56,866	52,196
Other sectors	25,440	25,239	26,257	33,791	36,346	34,243	31,892
[Long-term]	19,123	18,408	15,934	14,791	14,853	12,692	14,646
[Short-term]	57,089	61,130	67,823	68,874	75,923	82,113	70,709
Trade credits	1,090	1,149	1,334	1,111	1,377	1,888	2,421
Public sector	0	0	0	0	0	0	0
Other sectors	1,090	1,149	1,334	1,111	1,377	1,888	2,421
[Long-term]	122	123	123	2	126	155	255
[Short-term]	968	1,026	1,211	1,108	1,250	1,733	2,166
Currency and deposits	9,801	12,647	9,291	10,979	10,416	11,061	10,023
Public sector	17	924	1,370	2,002	567	468	16
Banks	9,784	11,723	7,921	8,978	9,848	10,592	10,007
Other assets	13,299	12,339	13,246	13,755	14,187	19,955	19,138
Public sector	1,112	1,075	630	550	494	468	430
Banks	8,826	7,970	8,881	9,876	10,593	14,993	14,358
Other sectors	3,361	3,295	3,735	3,329	3,101	4,494	4,351
[Long-term]	175	388	435	122	565	2,503	2,126
[Short-term]	13,124	11,951	12,810	13,633	13,622	17,452	17,013
Total liabilities	208,159	200,524	190,631	212,720	248,067	325,492	343,024
Total net assets	133,047	179,257	175,308	172,818	185,797	180,699	215,081
Public sector	42,939	54,732	60,800	72,136	78,095	80,592	81,089
Private sector	90,107	124,525	114,508	100,682	107,702	100,107	133,993
Of which: Banks	21,856	26,360	25,082	21,417	19,205	25,701	29,290

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