

Release of the Market-Value Estimate of the Direct Investment Position

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Ministry of Finance

Bank of Japan

The Ministry of Finance and the Bank of Japan today released the estimated market value of the direct investment position at year-end from 1999 to 2006 as reference data concerning "Japan's International Investment Position at Year-End 2006."

In "Japan's International Investment Position," direct investment is evaluated at book value. However, the fifth edition of the International Monetary Fund'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 compilation and dissemination methods in other countries as well as user needs, the Ministry of Finance and the Bank of Japan have decided to release market-value estimates of the direct investment position as reference data.

Reference: Method for Estimating Market Value

The direct investment position comprises equity capital, reinvested earnings, and other capital. Of these components, equity capital is estimated at market value to calculate the new reference data.

Direct investment position = equity capital + reinvested earnings + other capital

↳ estimated at market value

Notes:

- Equity capital comprises shares in direct investment enterprises, equity in branches, and other capital contributions.
- Reinvested earnings comprise the direct investor's share of earnings not distributed by direct investment enterprises and earnings of branches not remitted to the direct investor.
- Other capital comprises capital transactions between direct investors and direct investment enterprises that are not included in the two components above, such as borrowing and lending of funds and transactions of securities other than equities.

1. Outward Direct Investment Position (Assets)

a. Estimate for the initial year (1999)

The price of a share can be calculated as the dividend per share divided by the dividend yield. By applying this relationship, equity capital for each country/area at market value is estimated by dividing the amount of dividends received from direct investment enterprises by the dividend yield. These are then added up to estimate the world total.

$$\text{Equity capital (at market value)} = \sum_{\text{country/area}} \frac{\text{dividend received}}{\text{dividend yield}}$$

b. Estimate for the second year and onward (from 2000)

Equity capital at market value is calculated by adding/subtracting the year-end market value of investments/withdrawals during a particular year to/from the equity capital at market value as of the end of the previous year.

2. Inward Direct Investment Position (Liabilities)

Equity capital at market value is estimated as follows. First, the ratio of total market value to total book

value for the stocks of each listed direct investment enterprise residing in Japan is calculated. Next, the weighted average of the ratios of all listed direct investment enterprises is calculated using the amount of equity capital at book value as weights. Finally, equity capital at market value is estimated by multiplying the equity capital at book value of all direct investment enterprises that reside in Japan, including non-listed enterprises, by the calculated weighted average.