

## **National Accounts for Fiscal 2003**

### **Notice on Usage**

1. The National Accounts for Fiscal 2003 were compiled on the basis of the System of National Accounts 1993 (1993 SNA)—the international standards recommended by the United Nations in 1993. The benchmark year for nominal values is 1995—the most recent year for which essential source statistics for compiling national accounts such as the "Input-Output Tables" and the "Population Census" are available simultaneously.
  
2. In the compilation of national accounts for the most recent year, figures for the previous year are revised to reflect source data that have become available after the estimation for the previous year. For the National Accounts for Fiscal 2003, figures for 2002 and 2003 were estimated as usual, using the available source data. In addition, the estimation methods were changed as stated below.

< For Production and Expenditure Series >

- (1) Application of the chain-linking method to the compilation of real GDP (expenditure) and its components (From January-March, 1994)

Official series of real GDP (expenditure) and its components for calendar years, fiscal years, and quarters were compiled with the chain-linking method (Part 1 Flow: Table 1 for Main Time Series). Figures were revised back to January-March, 1994. The chain indexes for figures in real terms are Laspeyres volume indexes based on previous calendar years and those for deflators are Paasche price indexes based on previous calendar years. The reference year (the year for which the deflators are expressed as equal to 100) was moved to the CY 2000.

Previously published real GDP (expenditure) and its components, compiled with the fixed-base year method (based on the CY 1995), are reported as a reference series (Part 1 Flow: Supplementary Table 1). Several supporting tables on detailed components of real GDP (expenditure) (Part 1 Flow: Supporting Tables 8, 12, 13, 14, and 16) are compiled with the fixed-base year method (based on the CY 1995) as before.

- (2) Modification of the compilation method of freights and wholesale/retail margins in the supply-side estimation of quarterly GDP (expenditure)

To incorporate the trends of freights and wholesale/retail margins more

appropriately, the allocation of margins in the commodity-flow method was revised. In the new method, margins for 90 different commodities are allocated proportionally to the product of the domestic supply multiplied by the freights and trade margin ratio.

Under the new method, nominal quarterly figures and real figures of GDP (expenditure) and its components were revised retroactively from January-March 1994, whereas production and capital series from 1994 through 2001 will be revised during the process of the 2000 benchmark revision, which is scheduled to be released at the end of 2005. This is why data for “gross (domestic) capital formation,” “gross fixed capital formation,” and “changes in inventories” in Table 1 of the Main Time Series and Supporting Table 16 in Part 1 Flow do not correspond with those of Supporting Tables 1 and 15 in the same Part from 1994 through 2001. For the same reason, data for “consumption taxes for gross capital formation” in Supporting Tables 1 and 2 in Part 1 Flow do not correspond with those of Supporting Table 1 in Part 2 Stock during the same period.

(3) Modification of the compilation method of demand-side auxiliary series for final consumption expenditure of households

The time series on “Survey of Household Economy”—which is carried out to complement the “Family Income and Expenditure Survey”—has now become long enough to estimate. Thus some items in “Family Income and Expenditure Survey,” which are used to estimate demand-side auxiliary series for final consumption expenditure of households, are replaced with the corresponding items on “Survey of Household Economy” from January-March, 2002.

(4) Modification of the compilation method of consumption expenditure of farm households used as demand-side auxiliary series for final consumption expenditure of households

The data on farm household expenditure in “Statistics on Trend of Farm Management and Economy (Monthly Report)” were used to estimate the final consumption expenditure of households. Since this survey was merged into another quarterly survey in January 2004, and the data are no longer available from the new survey, the estimation method of farm household expenditure was modified. From January 2004, the monthly expenditure per capita of farm household is estimated from the monthly expenditure data in the “Family Income and Expenditure Survey.” (This modification has already applied from the first preliminary GDP for Q1, 2004.)

(5) Recording adjustment premiums on health insurance managed by corporate health insurance entities

To maintain consistency with the treatment of other health insurance systems, the adjustment premiums\* on health insurance managed by corporate health insurance entities are recorded as social security contributions from fiscal 2002.

\* The adjustment premiums are collected by each corporate health insurance entity and contributed to the National Federation of Health Insurance Societies as a source of revenue for the works subsidized by the Federation. In principle, they are charged equally to employers and employees.

< For Capital Accounts and Stocks >

(6) Revisions to estimates for the stock of inventories, tangible fixed assets, and major consumer durables for households

Estimates for the stock of inventories, tangible fixed assets, and major consumer durables for households were revised back to 1990, due to the re-estimation of the corresponding data from 1980 through 1989 based on the national accounts data released in December, 2003.

(7) Revisions to estimates for the stock of tangible non-produced assets

For private financial corporations, the stock of land assets are estimated by multiplying unit land prices by the total area of owned land. "Securities Reports" of each corporation are the usual sources of data for the total land area. For this year's estimation, additional data were obtained from the questionnaires to each financial corporation, and estimates for the stock of land assets were revised back to 1990.

Reflecting these revisions, estimates for the stock of land assets of private non-financial corporations, which are compiled by deducting the stock of land assets of households and private financial corporations from the total stock of taxable land assets, were revised as well.

For public non-financial corporations, the stock of land assets is conventionally estimated based on the questionnaires to relevant organizations. For this year's estimation, answers to the questionnaires were inspected retroactively, and several assets, which should be excluded from the calculation, proved to be recorded as land assets. Therefore, estimates for the stock of land assets were revised back to 1990.

The stock of subsoil assets is estimated by deducting the stock of net fixed assets of the mining industry (calculated with the benchmark-year method, using the results of the National Wealth Survey of Japan in 1970 as the benchmark) from the total stock of subsoil assets calculated with the capitalization method. For this year's

estimation, the life of mines as a parameter in the formula for the total stock of subsoil assets was changed so that it corresponds with actual conditions in working mines (of gold, silver, and copper). As a result, estimates for the stock of subsoil assets were revised back to 1990.

(8) Revisions to estimates for the net purchase of land

For this year's estimation of the net purchase of land by private non-financial corporations, data for changes in the book value of land with the introduction of the system of "forced devaluation of real estate for sale" and the "Law Concerning Revaluation of Land" were obtained from the questionnaires and other sources, and the estimates were revised back to the year when these systems had been introduced.

For private financial corporations, estimates for the net purchase of land, which are compiled based on data for their stock of land assets, were revised, reflecting the revisions mentioned in the above section (7). Estimates for the net purchase of land by households—which are compiled by deducting those of other institutional sectors from the sum total of land purchase—were revised, reflecting the revisions to estimates for private financial and non-financial corporations.

(9) Reflection of the retroactive revision of the "Flow of Funds" statistics

The Bank of Japan retroactively revised the "Flow of Funds" statistics in September, 2004. Reflecting these revisions, (a) financial accounts in Part 1 Flow and (b) closing balance sheet accounts and reconciliation accounts in Part 2 Stock were revised back to 1990 and to 1989, respectively.

(10) Recording of the return of the public part of pension reserves from employee pension funds to the government (so-called "*Daiko Henjo*")

Since 2003, transactions have taken place in which employee pension funds return the public part of pension reserves to the Welfare Insurances Special Account of the state. These transactions were treated as capital transfers from employee pension funds (private financial corporations) to the Welfare Insurances Special Account of the state (social security fund).

The amounts of capital transfers concerning these transactions are as follows:

CY 2003	428.5 (billion yen)
FY 2003	3,496.5 (billion yen)

< For Others >

(11) Classification of government-related institutions by institutional sector

Government-related institutions, including Japan Post and several independent administrative institutions established in fiscal 2003, are classified by institutional sector, as shown in the attached table.

3. The following correction has been undertaken concerning taxes and duties on imports.

(1) Reasons for the correction

In calculations that use the commodity flow method—which is used for the estimation of final consumption expenditure of households, gross fixed capital formation (GFCF), and other data—the amounts of consumption tax on imports (an item of the Japanese national accounts since 1989) have been calculated by an incorrect process. Although the amounts should have been calculated by multiplying imports including import duties by the consumption tax rate, we have multiplied imports not including import duties. Furthermore, the consumption tax rate has been left at 3 percent in our original calculation, even though had been raised to 5 percent in April, 1997.

(2) Effect of the correction

The correction affects data from 1989 forward, after the consumption tax was introduced.

A directly affected item is “taxes and duties on imports.” Indirectly, it affects items related to final consumption expenditure of households, GFCF, and changes in inventories, including the savings ratio, balance of saving and investment, private non-residential investment, and closing stocks of non-financial assets, including gross domestic expenditure (GDE).

Since the sum total of consumption tax, imports, and exports are independently estimated based on tax statistics and balance of payments statistics, they are not affected.

(3) Scope of the correction

Since we are now in the middle of the 2000 benchmark revision, which is scheduled to be released at the end of 2005, only significantly affected series—production series (Part 1 Flow: Table 3 for Main Time Series, Supporting Tables 1, 2, 4, 5, etc.) and distribution series (Part 1 Flow: Table 2 for Main Time

Series, Income and Outlay Accounts Classified by Institutional Sectors, etc.)—were, for the moment, corrected back to 1995 (Note 1). The other series will be corrected during the process of the 2000 benchmark revision (Note 2).

(Note 1) For the major components of the expenditure series, corrected data that reflect revisions to the source data after the original annual estimation were released on May 17, 2005 as the 1st Preliminary Quarterly Estimates of GDP for Jan.-Mar. 2005.

(Note 2) Data before 1995 will be revised during the process of the long-term retroactive revisions after the 2000 benchmark revision.

#### (4) Impact of the correction

Estimates for taxes and duties on imports were corrected as shown in the following table.

(billions of yen)

CY	1995	96	97	98	99	2000	01	02	03
Before correction*	2859.7	3008.5	3165.0	2928.9	2940.9	3165.0	3242.9	3157.3	3278.5
After correction	2889.4	3036.7	3824.2	3710.9	3581.5	3871.7	3980.3	3892.3	4036.2
Difference**	29.7	28.2	659.2	782.0	640.6	706.7	737.3	735.0	757.7

\* Data released on January 14, 2005.

\*\* Because of rounding off to one decimal place, figures shown in the line “Difference” may not correspond with the actual difference between figures before and after the correction.

#### (Note) Impact on Gross Domestic Product (GDE)

GDE estimates were not corrected during the annual estimation of the National Accounts for Fiscal 2003. According to the corrected data released as the 1st Preliminary Quarterly Estimates of GDP for Jan.-Mar. 2005, which reflect revisions to source data after the original annual estimation, nominal GDE were revised upward around 20 billion yen for 1995 and 1996, and around 300 billion yen from 1997 and onward.