

**Annual Revision for FY2005
and the Retroactive Revision from 1996 of National Accounts
Notice on Usage**

1. The current National Accounts are compiled on the basis of the *System of National Accounts 1993 (1993 SNA)*—the international standards recommended by the United Nations in 1993.
2. In the compilation of national accounts for the most recent year, estimates for the previous year are revised to reflect source data that have become available after the estimation for the previous year. For the annual revision for FY 2005, figures for 2004 and 2005 were estimated as usual.
3. In addition to the usual revision, the figures from 1996 to 2003 were retroactively revised.
(Note 1) For the expenditure series, the figures are retroactively revised from 1994, so users must be careful about the consistency between the expenditure series and the production series (which were revised from 1996).
(Note 2) The weights used in the estimation of the basic unit deflators for 400-goods-and-services before 2000 were revised to the 2000 benchmark weights.
4. Major Changes in Compilation Methods
In addition to the incorporation of newly available source data, some compilation methods were modified, as stated below.

< For Production and Expenditure Series >

(1) Modification of the estimation method of trade and transport margins for changes in inventories for wholesale and retail trade

To estimate the changes in inventories for wholesale and retail trade in consumer prices, trade and transport margins must be added. Negative trade and transport margins occurred when the changes in inventories for wholesale and retail trade were negative. From this time, trade and transport margins were recorded as non-negative values in such cases.

(2) Modification of the estimation method for changes in inventories for wholesale and retail trade

The rate of changes in inventories to traded volume—which is used to estimate

changes in inventories for wholesale and retail trade—is estimated based on the stock of inventories (commodity stocks) and sales turnover recorded in the most recent Census of Commerce, extrapolated by the Current Survey of Commerce. Because the Current Survey of Commerce covers only large-scale stores, the regression-based estimation of changes in inventories of corporations with capitalizations of more than 10 million yen according to the “Financial Statements Statistics of Corporations” of the commodity stocks in the Current Survey of Commerce was used for the figures from 2000.

We examined how the above-mentioned method fits the Census of Commerce well; it turned out that the figures of large-scale stores in the Current Survey of Commerce reflect movement as a whole better than the above-mentioned method does. So the extrapolated figures using the Current Survey of Commerce will be used retroactively from 2000.

(3) Modification of the estimation method for the inventory valuation adjustment for the LIFO in the year 2000

The inventory valuation adjustment for the LIFO uses price data from the proceeding two years. In the benchmark revision last year, the adjustment of the year 2000 had been done with data only from 1999 and 2000. This time, the normal method was used.

(4) Modification of the estimation method of trade and transport margins for publishing and printing industries

To estimate the purchaser’s price, trade and transport margins must be added. In light of the 2000 I-O Table, we examined the trade and transport margins for the publishing and printing industries. The trade and transport margins for those industries are retroactively revised from the benchmark year 2000.

(5) Modification of the estimation method for value added between 1996 and 1999

In the benchmark revision last year, the value added by industry between 1996 and 1999 was directly estimated by interpolating the value added of the year 1995 and 2000. This time, these figures were estimated by interpolating the ratio of value added to the production of the years 1995 and 2000.

(6) Modification of the estimation method of basic unit deflators

When the basic unit deflators for 400-goods-and-services are made from 2000-goods-and-services price indicators, the Passche method was used for the goods and services, for which multiple detailed goods and services are included. This time, the chained-Fisher method was used instead.

(7) Improvement of the estimation method of “gross rent” in the 87-purpose classification of domestic final consumption expenditure of households

To estimate “gross rent,” we use as the benchmark the area of floor space and the rent by type of construction material, which are calculated from the “Housing and Land Survey (Ministry of Internal Affairs and Communications)” by type (area, construction material, year of construction). And we estimate forward “rent for rented dwellings” and “imputed service of owner-occupied dwellings” by using “Building Construction Started” (Ministry of Land, Infrastructure and Transport), “Consumer Price Index” (Ministry of Internal Affairs and Communications), etc.

In the benchmark revision last year, we conducted the estimation by using the newly (March 2005) published “Housing and Land Survey” as the benchmark. This time, we improved the estimation logic, and the figures from 2004 were revised.

(8) Detailed presentation of some items related to expenditure approach

The presentation of tables related to expenditure approach in quarterly estimates was detailed from the Secondly Preliminary for July-September 2006. The same detailed presentation was introduced.

To be more precise, goods and services at constant prices were separately presented for the import and export of the goods and services. (Supporting Table 20 in the Flow Section already presents the goods and services separately at current prices.)

Gross Domestic Capital Formation classified by type was newly presented on the basis of the modified-gross method, by which quantity was valued with prices excluding consumer taxes and excluding deductible ones. (On the basis of the gross method, Table 15 in the Flow Section already presents the Gross Domestic Capital Formation by type.)

< For Distribution Series >

(9) Improvement of the estimation method of the interest payable of the general government and public corporations

The figures of interest payable of the general government and public corporations, through the special account for government bonds consolidation fund, were retroactively revised by using new basic data.

< For Capital Accounts and Stocks >

(10) Change of estimation method with the privatization of four public corporations related to highways

In October 2005, the four public corporations related to highways (*1) were privatized.

Transfers of assets or liabilities from the four public corporations to the “Expressway Companies” (*2) (classified as public non-financial corporations), and the “Agency” (*3) (classified as general government) are recorded as capital transfers in the capital procurement account. This affects, as the purchases of land, the primary balance of the general government in 2005 (about 8 trillion yen).

In the legal sense of the word, highway assets are held by the “Agency.”

In the SNA, the economic situation is emphasized and they are attributed to “Expressway Companies.” On the other hand, the “Agency” holds financial assets, whose value is the same as the highway assets. “Expressway Companies” have the liability for the debt.

The values of the land assets under roads held by the old four public corporations and the “Expressway Companies” were retroactively estimated on the same concepts.

(*1) Japan Highway Public Corporation, Metropolitan Expressway Public Corporation, Hanshin Expressway Public Corporation and Honshu-Shikoku Bridge Authority. They were classified as public non-financial corporations.

(*2) The East-Nippon Expressway Company Limited, the Central-Nippon Expressway Company Limited, the West-Nippon Expressway Company Limited, the Metropolitan Expressway Company Limited, Hanshin Expressway Company Limited and the Honshu-Shikoku Bridge Expressway Company Limited.

(*3) Japan Expressway Holding and Debt Repayment Agency

(11) Inventories in Non-financial Assets

In the reconciliation accounts, the estimation methods to allocate the nominal holding gains/losses of inventories by type and by institutional sectors were improved.

(12) Reflection of the Retroactive Revision of the Flow of Funds Statistics

The figures of the financial accounts were revised backward, reflecting the retroactive revision of the Flow of Funds Statistics in March 2006.

(13) 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 are 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:

FY 2003	3,536.4 (billion yen)
FY 2004	5,385.4 (billion yen)
FY 2005	3,456.8 (billion yen)

(14) Estimation of inward direct investment and reinvestment to financial corporations in Japan

Because the Bank of Japan began publishing its “Industrial/Regional Breakdowns of Direct Investment” from 2005, inward direct investment in Japan by industry has become clearer. Inward direct investment to the finance and insurance industries in Japan, which had been recorded on non-financial corporations, will be recorded on financial corporations from now on.

Similarly, as the Bank of Japan starts publishing “Direct Investment Position by Region and Industry” from 2005, the reinvestment related to inward direct investment to financial corporations in Japan—which had been also recorded on non-financial corporations—would be recorded on financial corporations from this time, using the volume ratio for the finance and insurance industries.