



Ministry of Finance Seminar on the Japanese Economy and Japanese Government Bonds

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Ministry of Finance of Japan



Japanese Government Bonds

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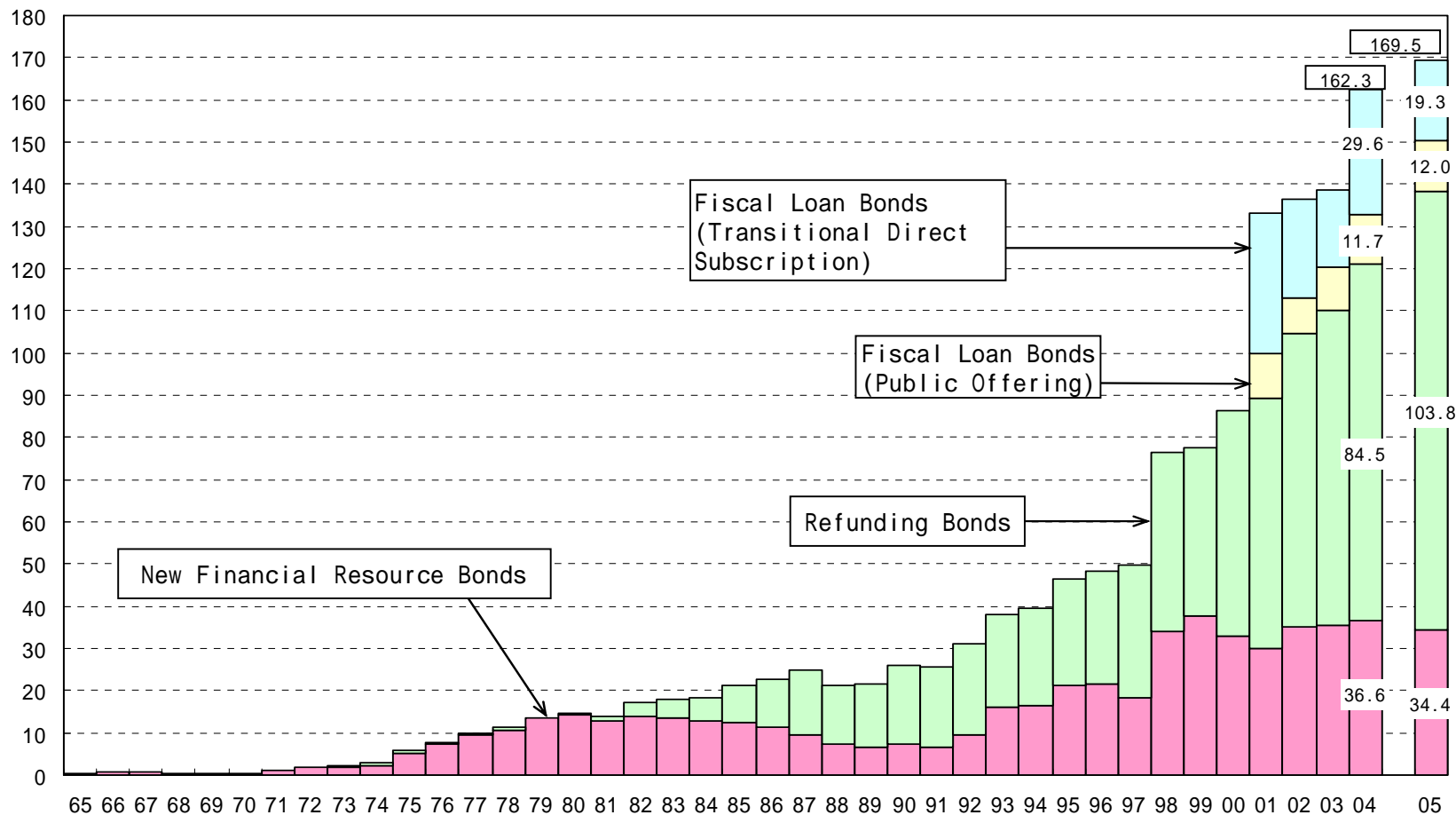
Section 1

Fiscal Condition and JGBs

JGB Issuance



(trillion yen)

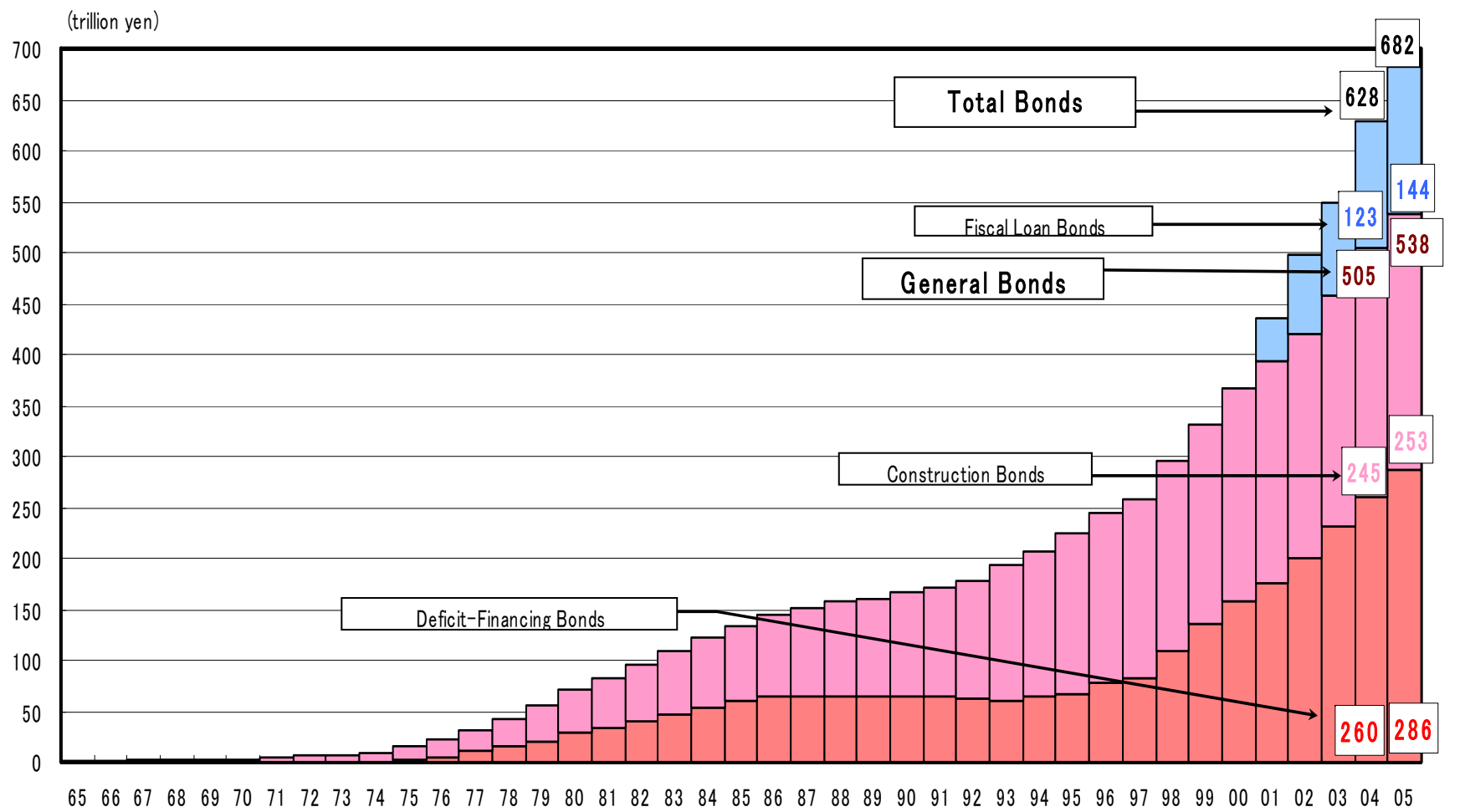


(Note) Bond issuance is based on a revenue basis. FY1965 ~ FY2003: Settlement, FY2004, FY2005: Initial Budget

(Fiscal Year)



Outstanding JGBs

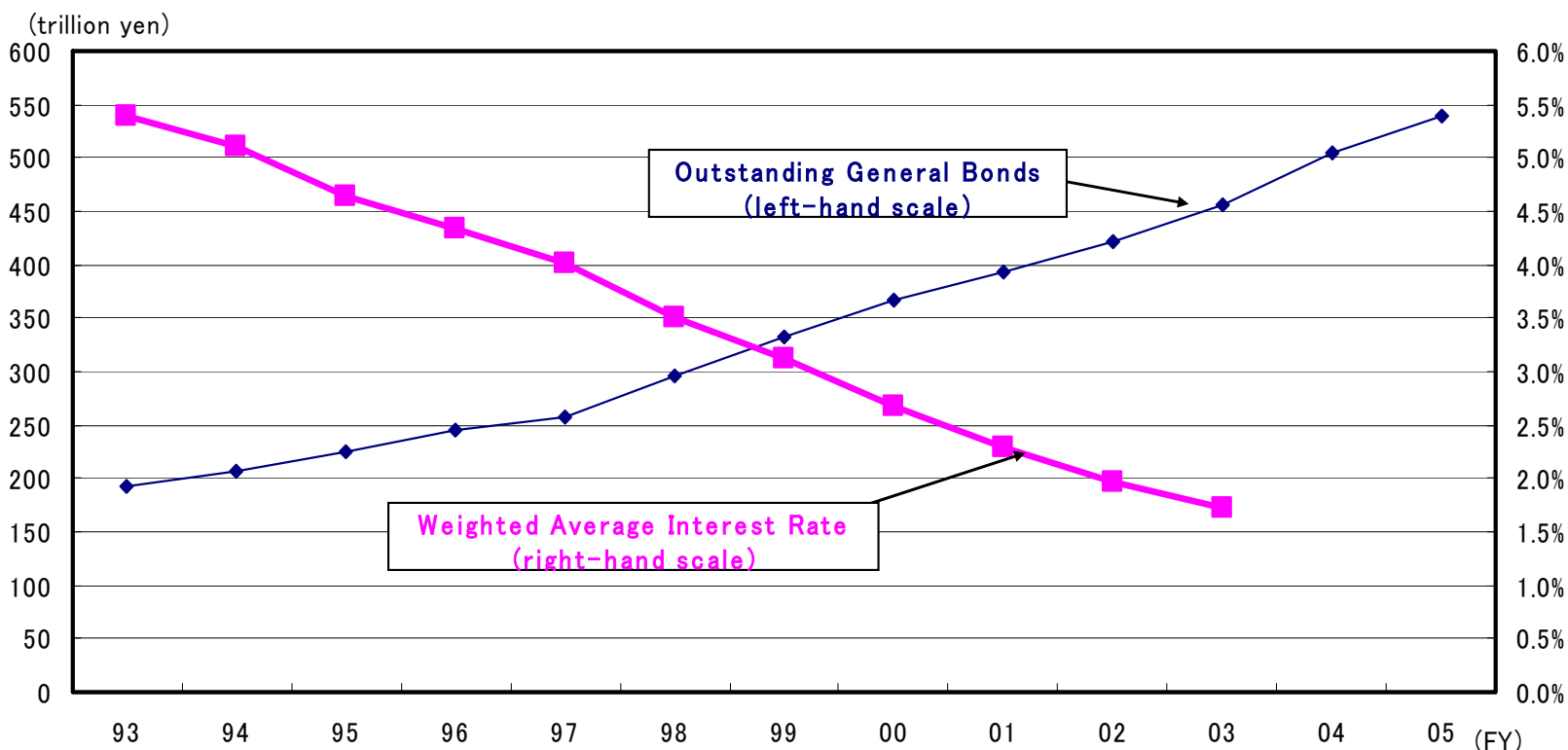


(Note) Figures are based on nominal amount. FY1965-FY2003: Actual, FY2004: Revised budget, FY2005: Forecast

(Fiscal Year)



Interest Payments



Average Remaining Years to Maturity	5y 8m	5y 7m	5y 7m	5y 8m	5y 9m	5y 10m	5y 4m	5y 2m	4y 11m	4y 11m	5y	-	-
Interest Payment (trillion)	10.6	10.7	10.7	10.7	10.6	10.8	10.5	10.0	9.4	8.6	7.8	8.1	8.9

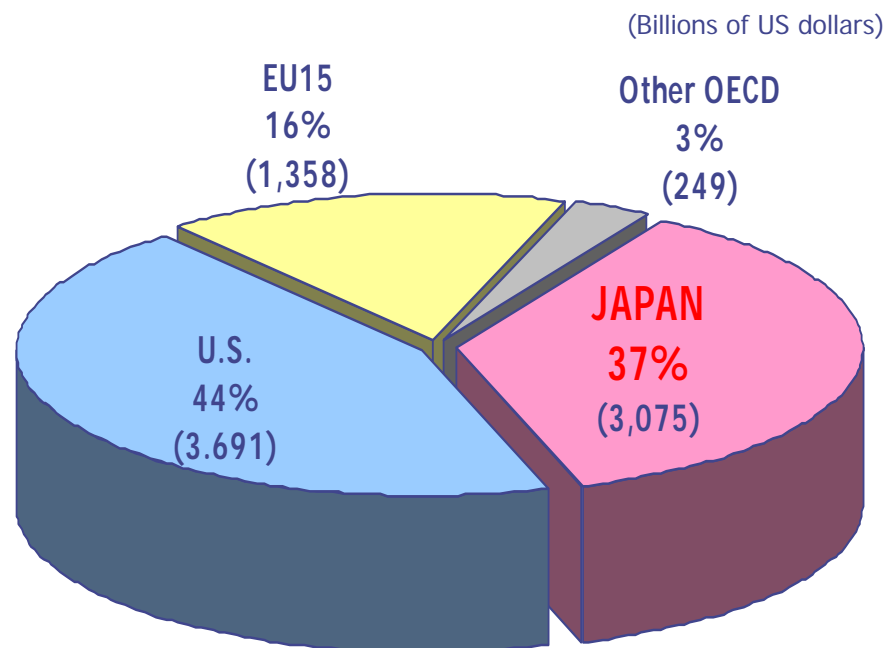
(Note) 1. outstanding General Bonds, average remaining years to maturity and weighted average interest rate; FY1993–FY2003: actual, FY2004: revised budget, FY2005: forecast

2. interest payment and discount; FY1993–FY2003: actual, FY2004: revised budget, FY2005: initial budget

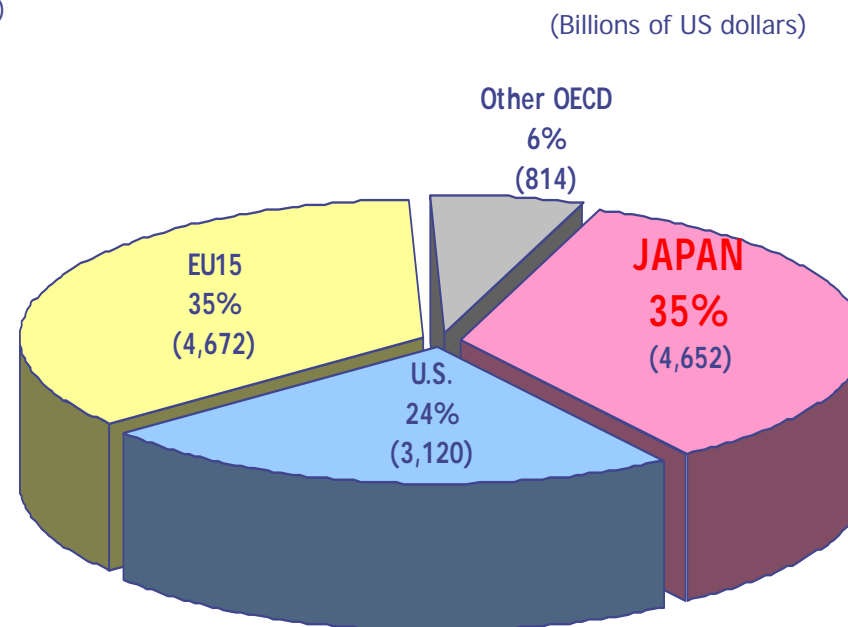


JGB — Global Share

Issuance(Gross,2002)



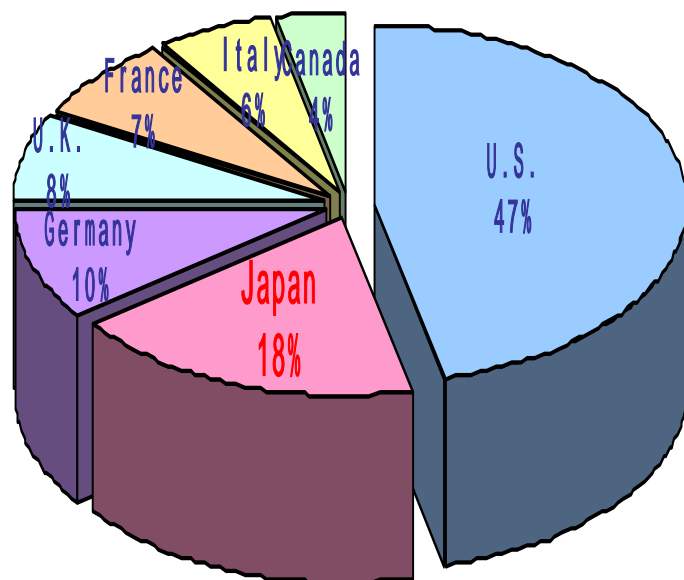
Amounts outstanding at the end of 2002





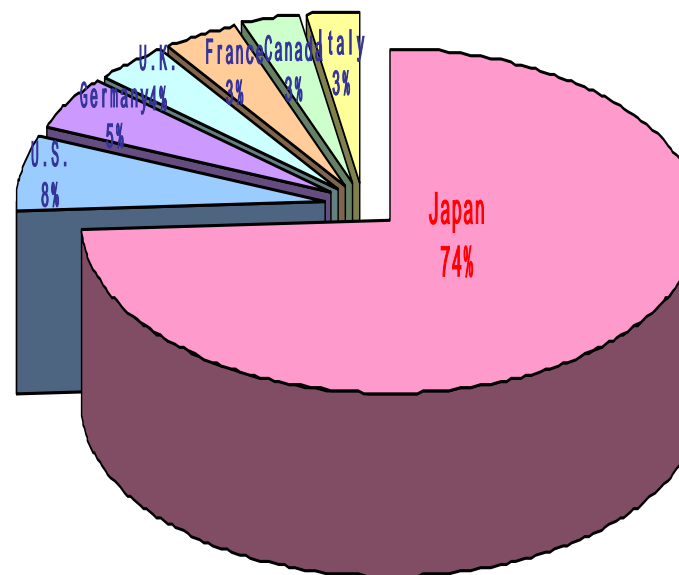
Japan's Share among G7 Nations

◆ GDP



Source: World Development Indicators database, World Bank, Sep. 2004.

◆ Foreign Currency Reserves (w/ Gold)



Source: International Financial Statistics, IMF, Feb. 2005.

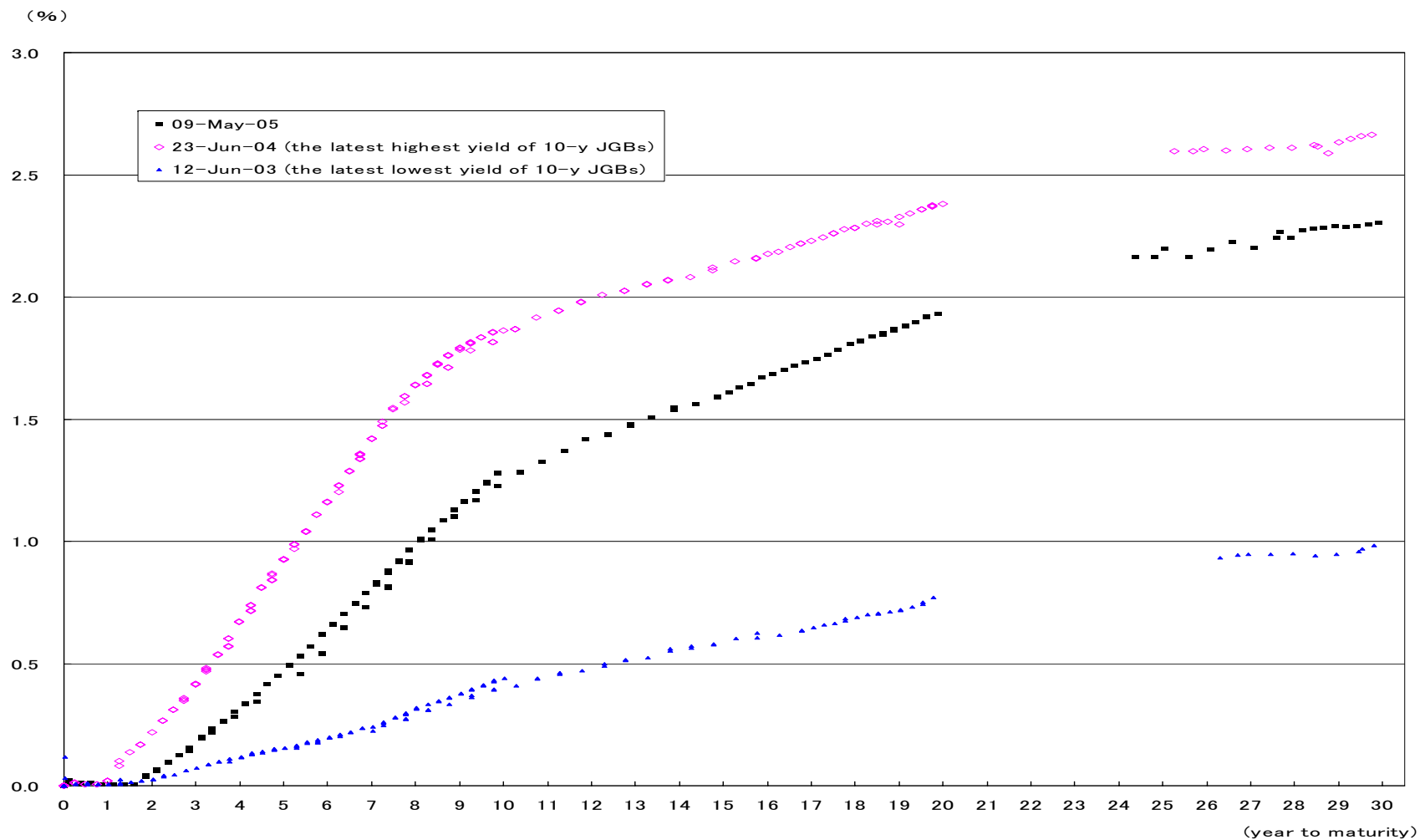


Section 2

JGBs in Bond Market



JGBs Yield Curve





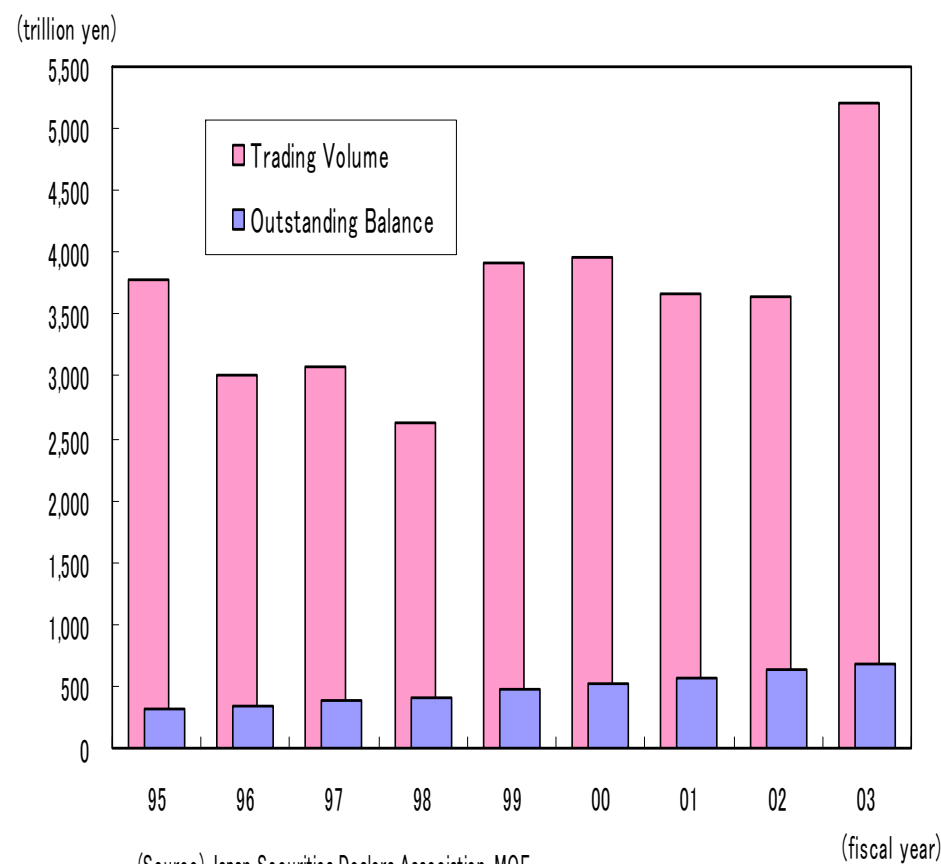
Interest Rates on JGBs





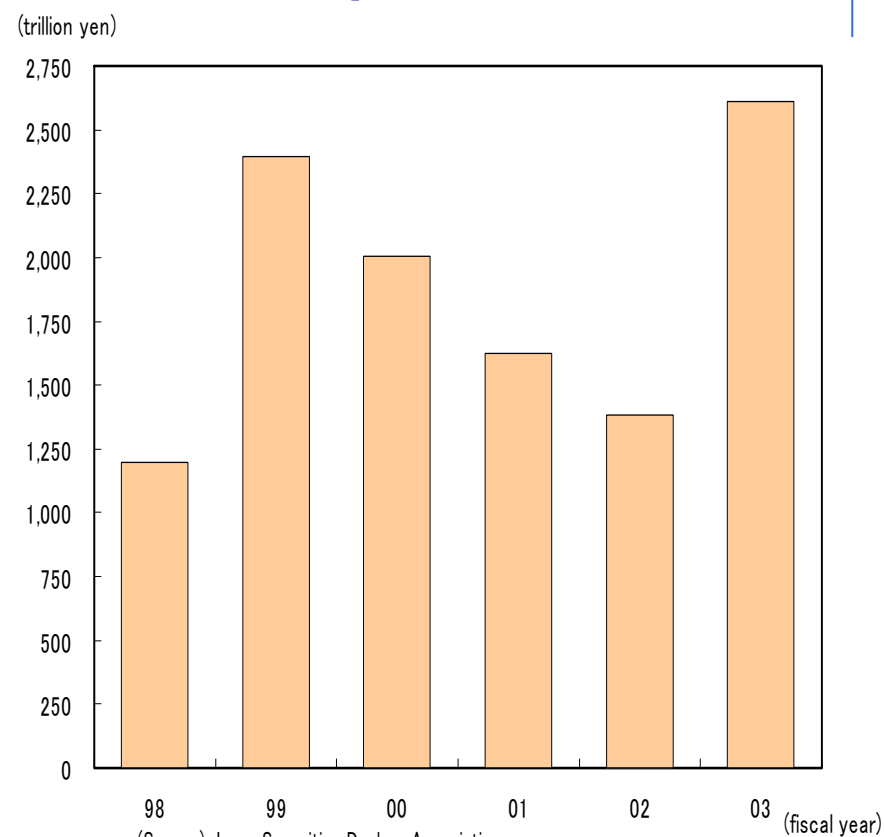
Well-developed Secondary Market (1)

Trade Volume



(Source) Japan Securities Dealers Association, MOF
(Notes) JGB includes FB.

Repo Volume



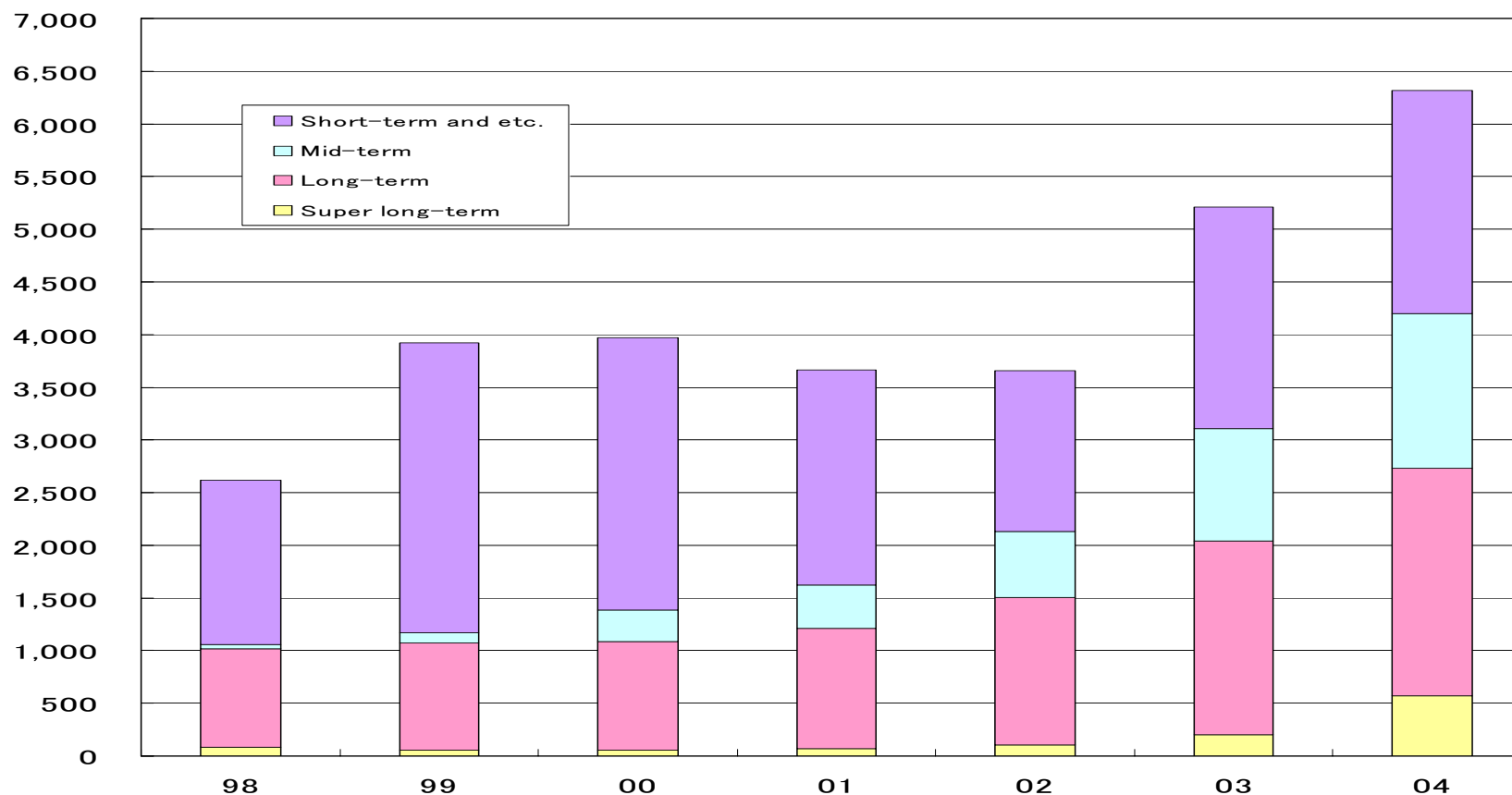
(Source) Japan Securities Dealers Association
(Notes) JGB includes FB.



Well-developed Secondary Market (2)

Trading by JGB categories

(trillion yen)

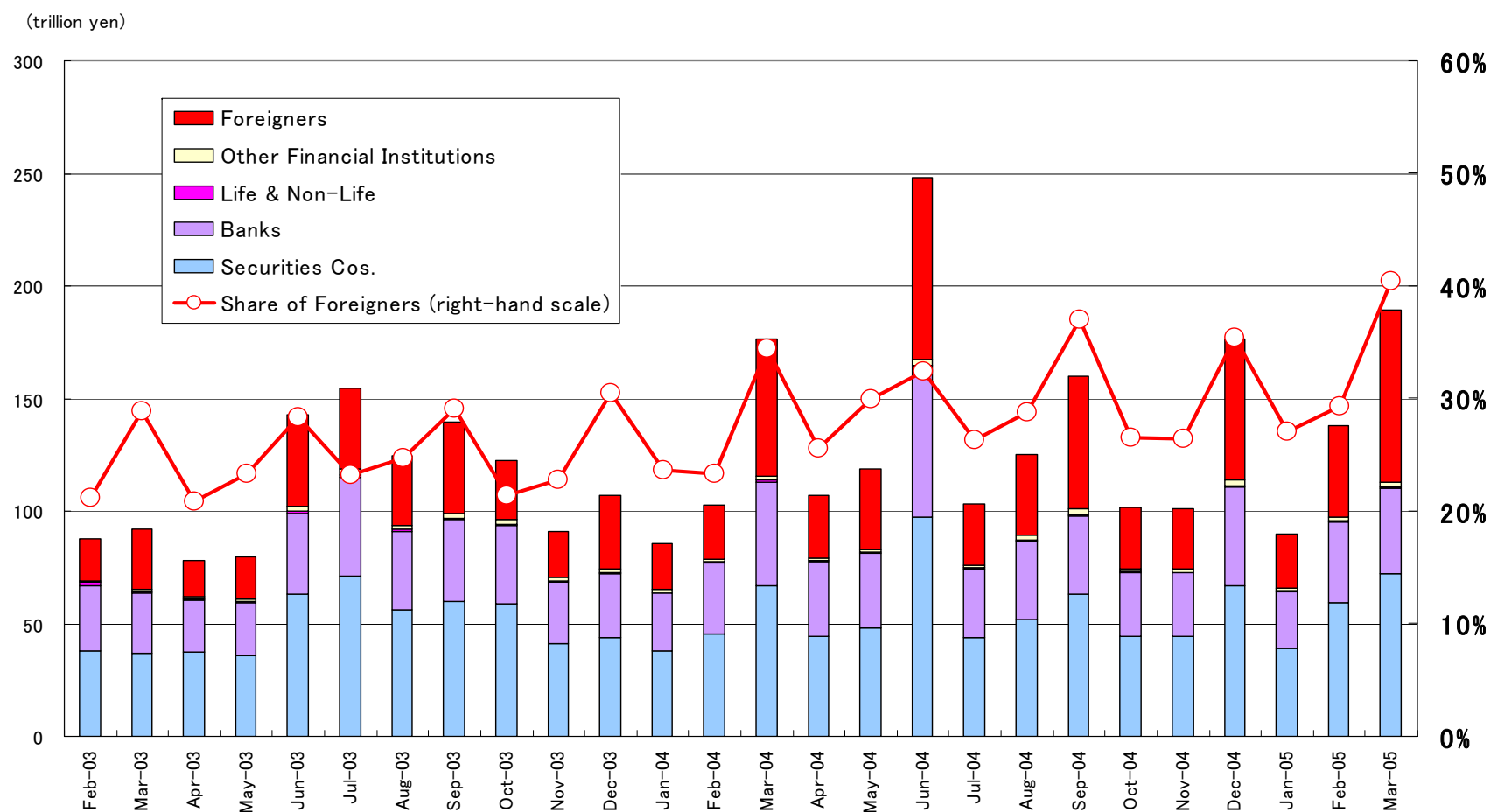


(source) Japan Securities Dealers Association

(fiscal year)

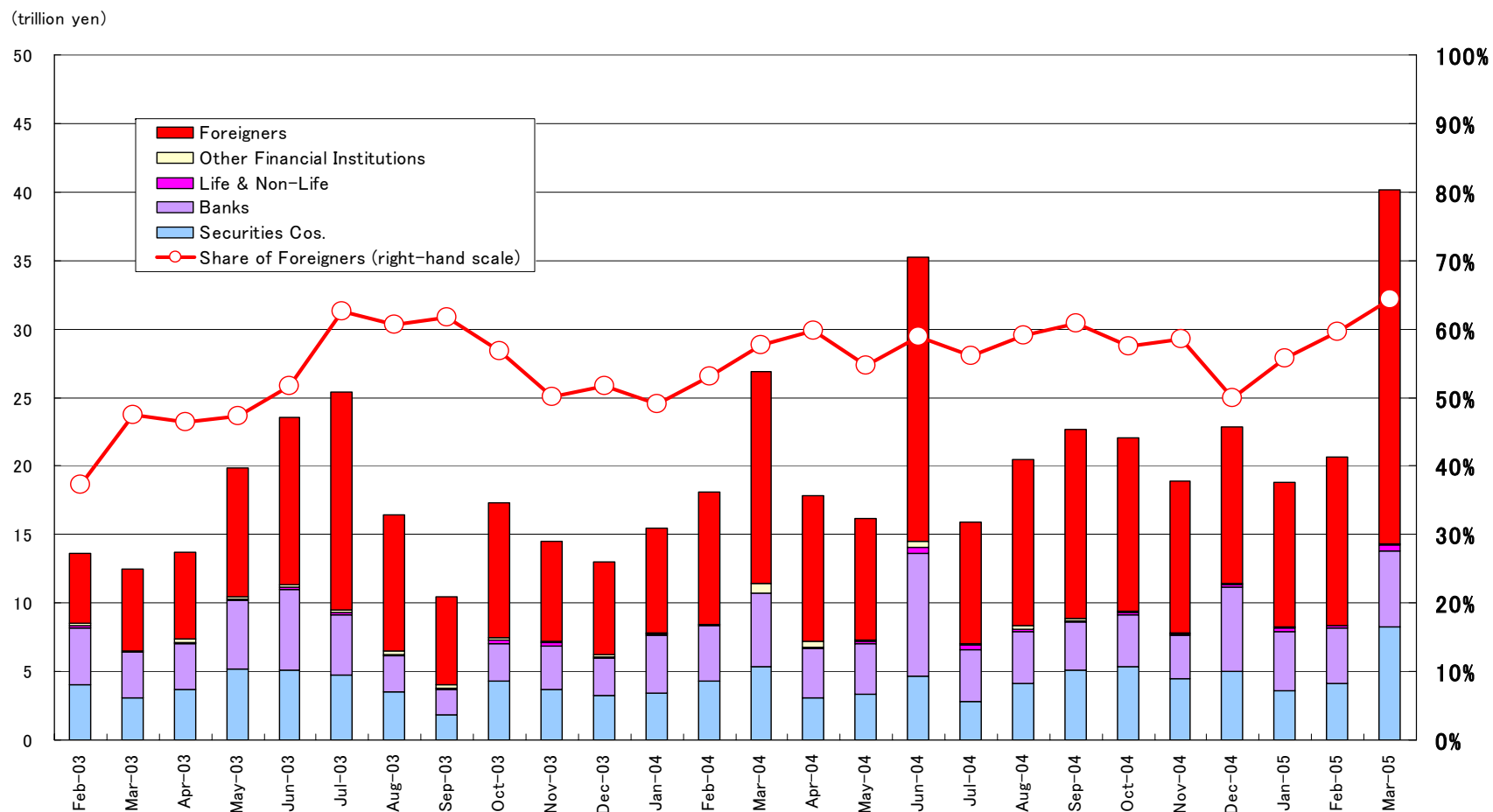


Foreign investors in the JGB Futures market



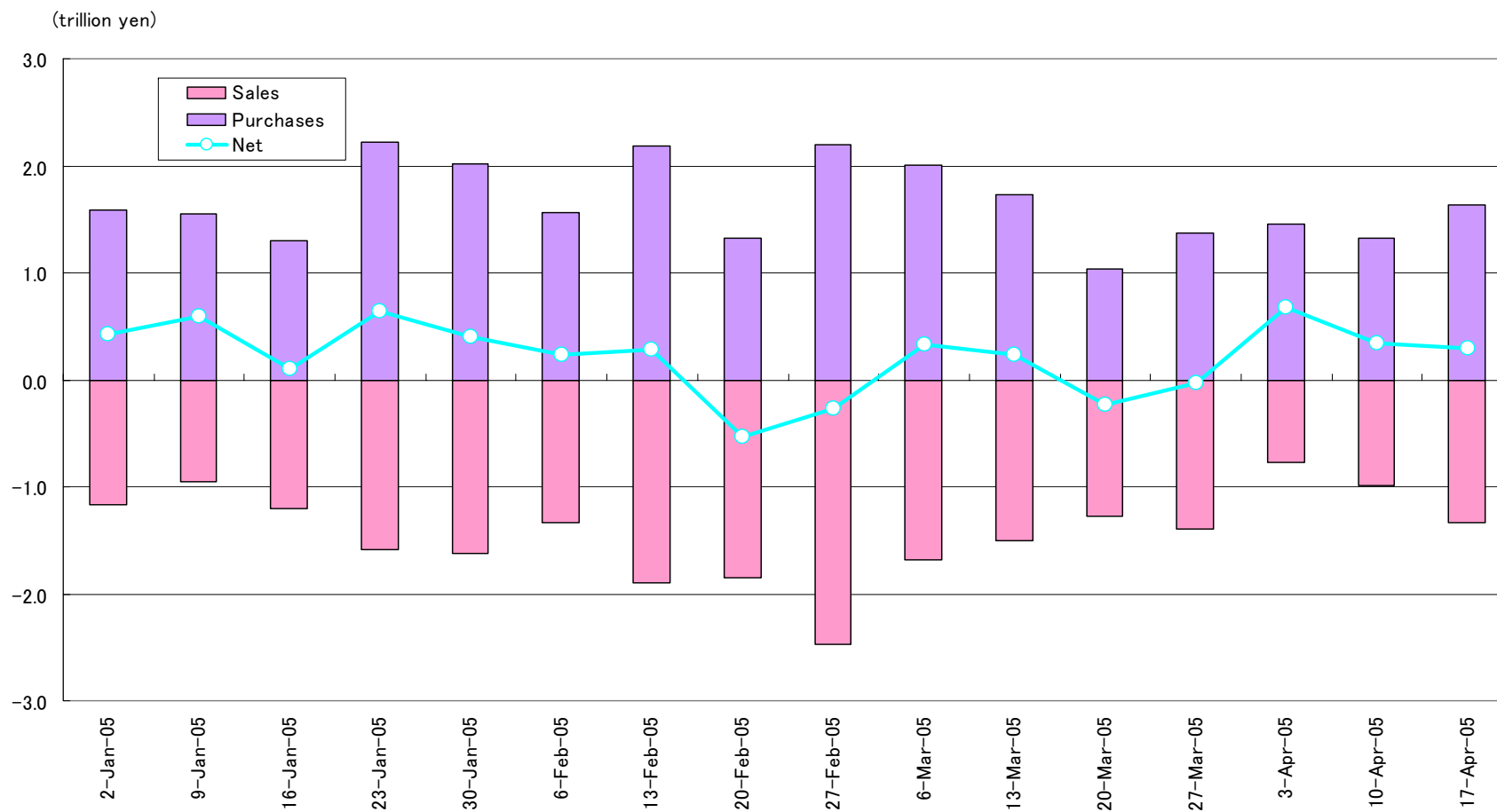
(source) Tokyo Stock Exchange, Inc.

Foreign investors in the JGB derivative market - (JGB Futures Options, Put & Call) -



(source) Tokyo Stock Exchange, Inc.

Bonds and Notes purchases by Non-Residents



(source) Ministry of Finance, of Japan



Section 3

JGB Management



Debt Management Strategy

Goals of Debt Management Policies

- ① To ensure smooth and stable financing
- ② To minimize medium- to long-term financing cost

- ◆ Improvement of market infrastructure

- ◆ Diversification of products

 - 15-year Floating-rate bond

 - Inflation-indexed bond

- ◆ Enhancing investor relations

- ◆ Enhancing dialogue with market participants

 - Introduction of JGB Market Special Participant Scheme



Section 3-1

Improvement of Infrastructure



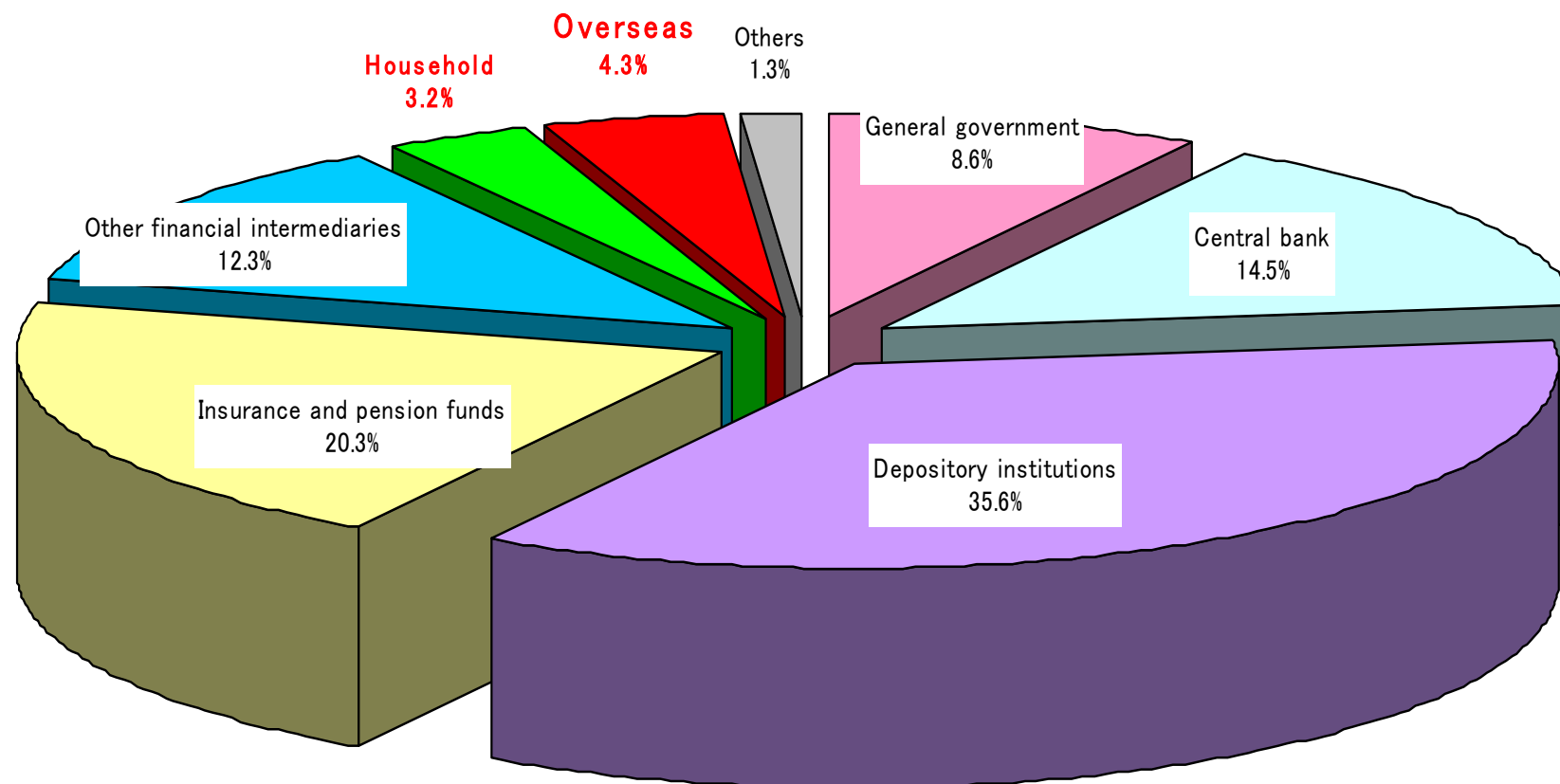
Improvement of Market Infrastructure

To establish a more efficient JGB market and to ensure smooth and stable financing, market infrastructures has been improved.

- ◆ Introduction of WI trading (2004-)
- ◆ Paperless trading of JGBs by the new book-entry transfer system (2003-)
- ◆ Shortening the term between auction and issue date (2003-)
- ◆ Reopening (2001-)
- ◆ Real time gross settlement (2001-)
- ◆ Shortening the time between auction bids and result announcement
- ◆ Netting & Settlement service (2005-)
- ◆ Multi-dealer price quoting service on the internet (2001-)



Holdings of JGBs by Sectors



(Note) Figures are at the end of Dec. 2004

(Source) Bank of Japan

Breakdown of Holders of Government Securities



	Government		Central Bank		Financial institutions		Overseas		Households		Others		Total
		Share		Share		Share		Share		Share		Share	
Japan (as of Dec. 04) (¥ 100million)	2,526,352	40.8%	895,684	14.5%	2,231,141	36.0%	269,160	4.3%	197,583	3.2%	77,989	1.3%	6,197,909
U.S.A. (excluding Intragovernmental holdings) (as of Sep. 04) (\$ 100million)	5884	13.5%	7178	16.4%	5992	13.7%	18703	42.8%			5961	13.6%	43718
U.S.A. (including Intragovernmental holdings) (as of Sep. 04) (\$ 100million)	36,223	49.1%	6,963	9.4%	6,938	9.4%	18,862	25.6%			4,804	6.5%	73,790
U.K. (as of Mar. 02) (£ 100million)	112	4.0%	153	5.5%	1,913	68.6%	339	12.2%	268	9.6%	3	0.1%	2,788
Germany (as of Sep. 04) (€ 100million)	4	0.0%	44	0.3%	5,574	39.0%	5,706	39.9%			2,964	20.7%	14,292
France (as of Dec. 03) (€100million)	38	0.3%	7	0.0%	9,844	68.0%	3,790	26.2%	438	3.0%	362	2.5%	14,479

(Note)1. The breakdown of government securities in each debts is as follows. Japan: General bonds, FILPs bonds, U.S.A.:Treasury securities, U.K.: Gilts, Germany: whole public debts including government bonds, France: whole marketable long-term bonds including Euro denominated bonds and local-government bonds)

2. Government in Japan includes Fiscal Loan Funds, Postal Savings and Postal Life Insurance. There are differences in government bonds.
3. U.S.A: nominal value, the others: market value
4. Figures may not sum up to the total because of rounding.

(Source) Japan:Flow-of-Funds Statistics (BOJ), U.S.A.:Flow of Funds Account for the United States(FRB), Treasury Bulletin (MOF)

U.K.: Bank of England Quarterly Bulletin, Bank Return (BOE), Germany: Deutsche Bundesbank Monthly Report, France: Financial Accounts (Banque de France)



Promotion of JGB Holdings in Nonresidents (1)

◆ Bonds (Interests)

	Nonresident individual	Foreign Corporation	Trust Fund
Financial Institution on the BOJ Book-entry	1999	1999	2002
Qualified Foreign Intermediary e.g. Global Custodian	2001	2001	2002

◆ TBs/FBs (Redemption profits)

	Nonresident individual	Foreign Corporation	Trust Fund
Financial Institution on the BOJ Book-entry	-	1999	(2005)
Qualified Foreign Intermediary e.g. Global Custodian	-	2004	(2005)

(note) Figures mean the time of introduction of each tax exemptions.



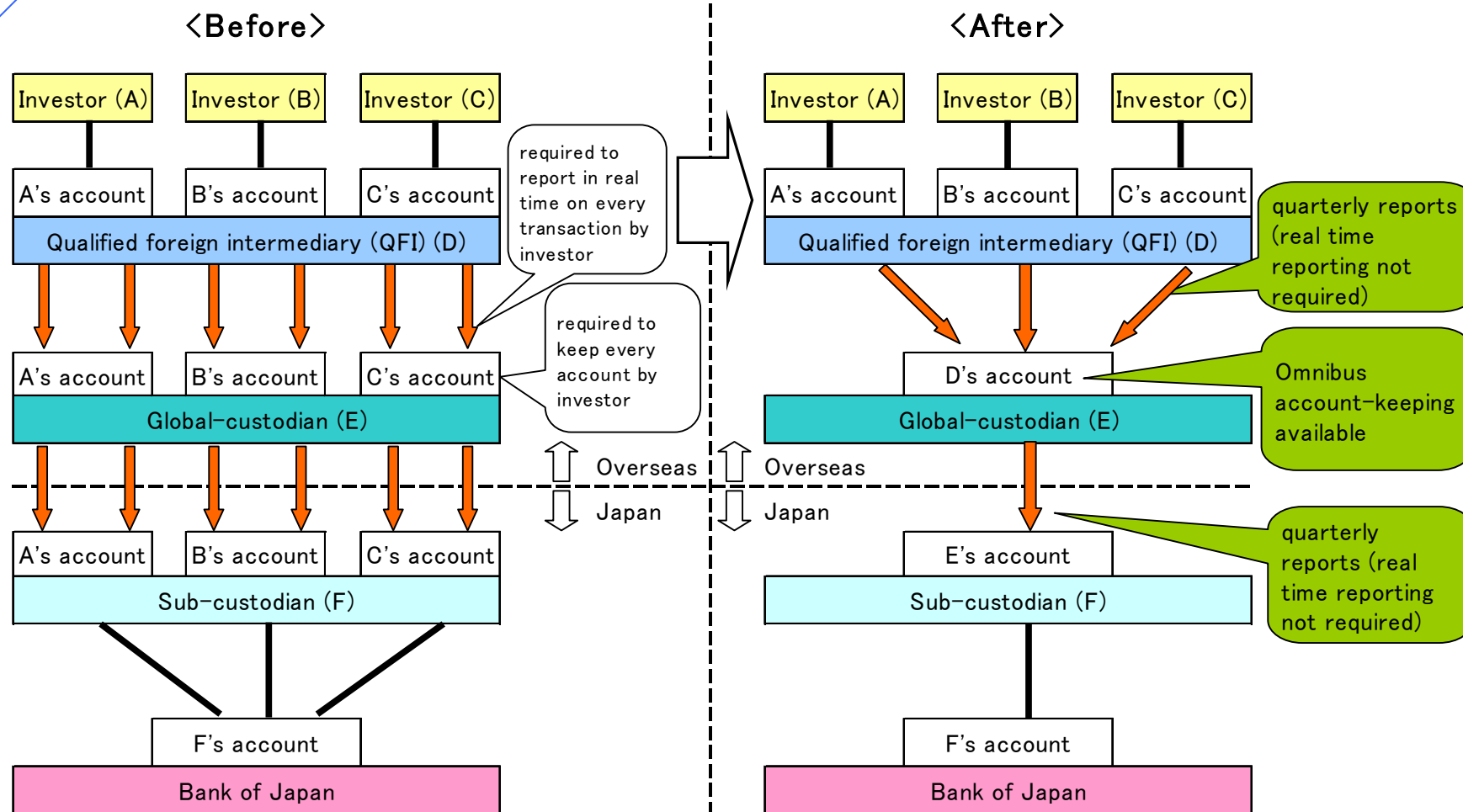
Promotion of JGB Holdings in Nonresidents (2)

The Outline of Tax reform for FY2005

- ◆ Foreign corporations and trust funds become eligible to hold Inflation-Indexed bonds.
- ◆ The required procedures and documentation relating to tax exemptions for foreign investors are simplified.



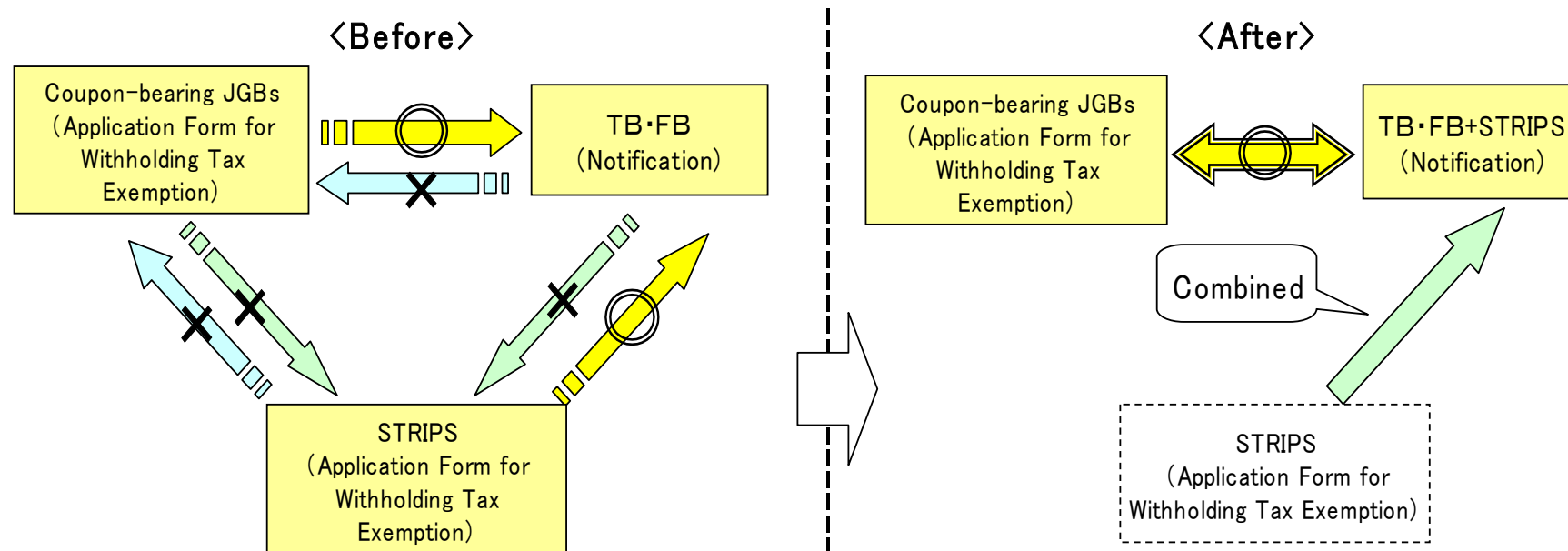
Promotion of JGB Holdings in Nonresidents (3) Simplification of Procedure to Deal with JGBs



(note) available to choose current procedure



Promotion of JGB Holdings in Nonresidents (4) Simplification of the tax-exempt procedure and documentation



※ Different procedure and documentation are required for interest-bearing JGBs, TB·FB, STRIPS respectively.

※ In case that the Application Form for Withholding Tax Exemption for coupon-bearing JGBs or STRIPS is filed, Notification for TB·FB is not required. In the other cases, Application or Notification is required to file separately.

※ The procedures for TB·FB and for STRIPS are combined.

※ Once one document is filed at the first transaction, the other documents are not required to be filed.

Promotion of JGB Holdings in Nonresidents (5) Format for Tax Exemption



振替国債の利子課税の特例に関する非課税適用申告書 (subject to change) Application Form for Withholding Tax Exemption based on the Special Taxation Measures Law Article 5-2, paragraph 1	
平成 年 月 日 Date	
日本橋税務署長殿 To: The District Director of Nihombashi Tax Office	
フリガナ住所等 (注1) Address of the applicant (Note1)	Your address
フリガナ氏名又は名称 Name of the applicant	Your name
適格外国証券投資信託の名称 (注2) Name of the eligible collective investment scheme (Note2)	(Name of the collective investment scheme)
<p>下記の特定振替機関等又は適格外国仲介業者から振替記載等を受けている振替国債の利子につき租税特別措置法第5条の2第1項の規定の適用を受けたいので、この旨申告します。 We hereby file for tax-exemption based on the Special Taxation Measures Law Article 5-2, paragraph 1 and the relevant regulations thereunder, with regard to Japanese Government Bonds deposited in the Bank of Japan Book-entry System through a Sub-custodian or Qualified Foreign Intermediary(QFI) stated as below.</p>	
特定振替機関等の営業所等又は適格外国仲介業者の特定国外営業所等の名称及び所在地 Name and Address of the Sub-custodian or specified foreign branch of the QFI	Name and address of your sub-custodian or QFI
適格外国仲介業者の特定国外営業所等 (の長) による署名及び受理日付 Signature of the qualified person at the QFI's specified foreign branch and Date of receipt by it	QFI's signature
納税管理人の氏名及び住所 Name of Address of the applicant's tax agent (if any)	
摘要 (注3) Remarks (Note3)	Headquarter in your own country
特定国外営業所等が確認した確認書類の名称 Name of the ID Document by which the QFI's specified foreign branch identified the applicant	The name of your ID documents
特定振替機関等の受理日付 Date of receipt by the Sub-custodian	



Promotion of JGB Holdings in Nonresidents (6)

“Identification document” means one of the documents listed below

- ◆ Nonresident individual
Foreign resident registration card; photocopy of the ledger of the foreign resident registration; or a certificate of entry in the foreign resident registration ledger
 - ◆ Foreign juridical person
 - Certificate of entry in the registration as a corporation
 - Certificate of a seal impression
 - ◆ Nonresident individual and foreign juridical person
 - Receipt for national or local tax payment; or tax payment certificate
 - Receipt for payment of social insurance premium
 - Document issued by the government or other public office, etc.
- ※1 In the case of a trustee of a qualified foreign securities investment trust (if TB / FB or STRIPS bonds are held, a foreign investment trust) these documents or the prospectus or similar document of the qualified foreign securities investment trust.
- ※2 Must have been issued within 6 months preceding the date of its submission.
- ※3 Must show the name (in the case of a trustee of qualified foreign securities investment trusts, the name of the trustee and the names of the qualified foreign securities investment trusts with which the trust accounts are held) and address of the nonresident individual or foreign juridical person.



Section 3-2

Diversification of Products



Diversification of JGBs

Diversification of JGBs to meet diversified needs of investors

Recent Introduction:

- ◆ 15-year Floating-rate (2000-)
- ◆ 10-year Inflation-indexed (2004-)
- ◆ JGBs for Individual Investors (2003-)



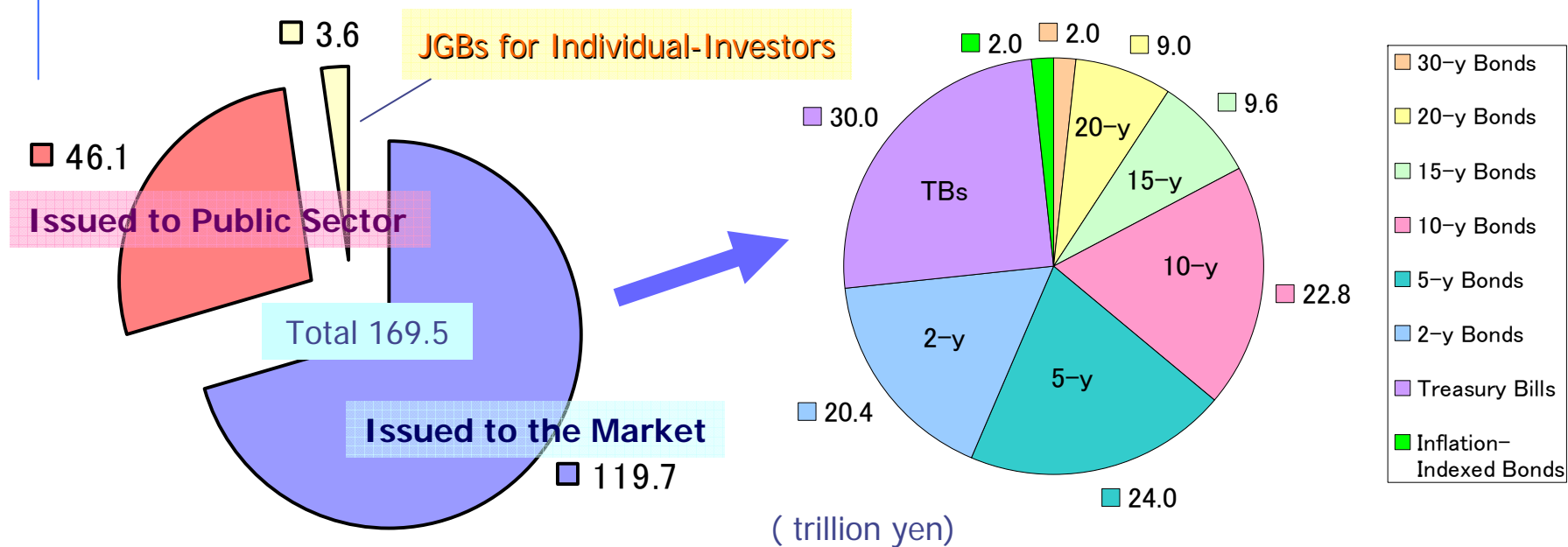
Issuing Types of Government Bonds

- ◆ Fixed-rate: 2Y, 5Y, 10Y, 20Y, 30Y
- ◆ Zero-coupon: Treasury Bills (1Y, 6M),
Financing Bills (13w)
- ◆ Floating-rate: 15Y
- ◆ Inflation-Indexed: 10Y



Planned Bond Issuance for FY2005

- ◆ The plan seeks to achieve optimum composition of bonds types, meeting both the market's needs and the Government's financing needs.
- ◆ 20-year bonds, 15-year floating-rate bonds and Inflation-Indexed bonds will be increased to meet strong demand in the market.



(note) Figures are based on initial budget.



Planned Bond Issuance for FY2005

JGBs offered for the Market ; 118.6 trillion yen

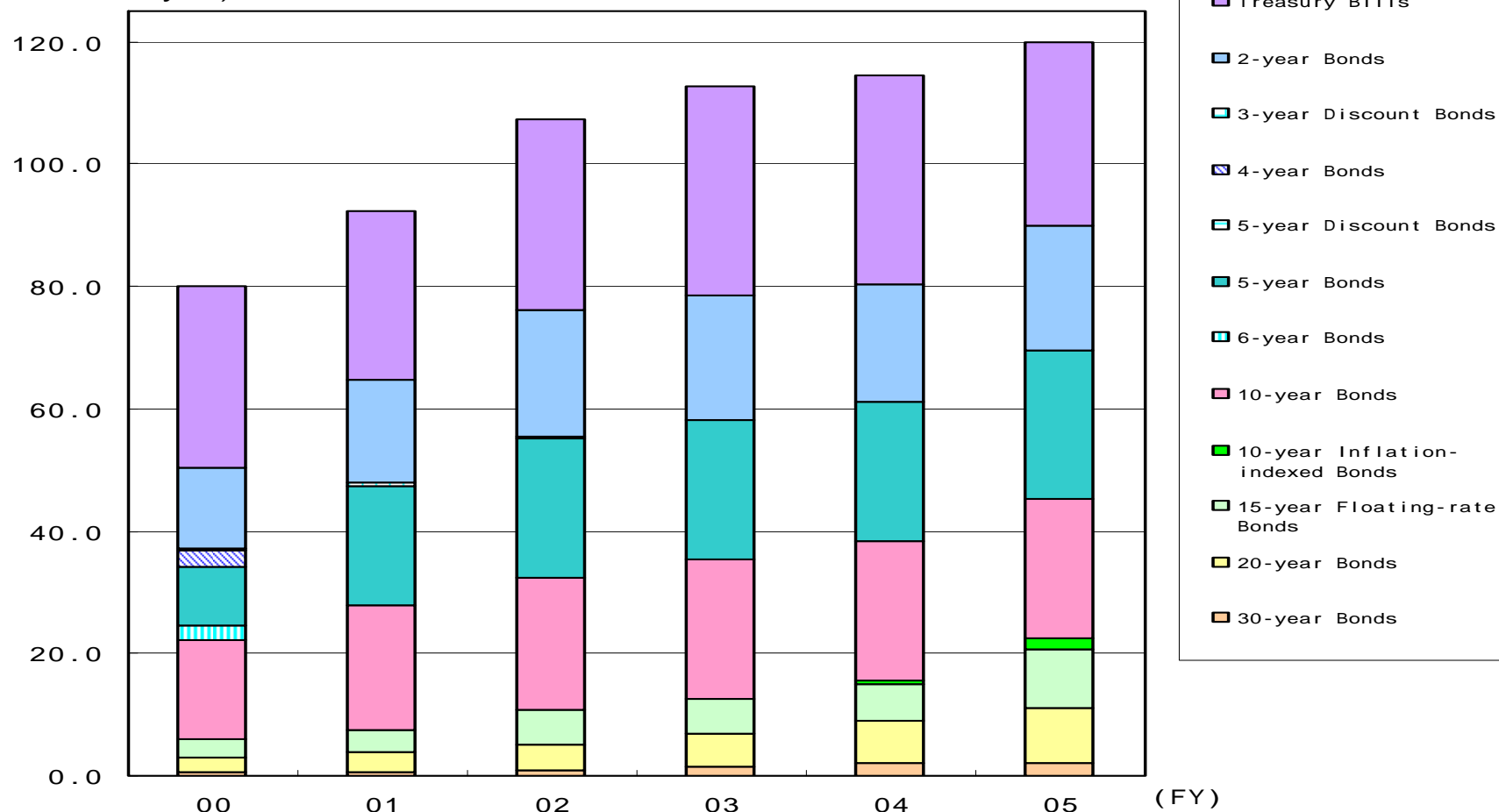
(billion yen)

Type of Security	Lot	Frequency in FY05	Total
30-year	500	× 4	2,000
20-year	700	× 12	8,400
15-year floating-rate	1,500	× 6	9,000
10-year	1,900	× 12	22,800
10-year Inflation-Indexed Bonds	500	× 4	2,000
5-year	2,000	× 12	24,000
2-year	1,700	× 12	20,400
Treasury Bills (1-year)	1,500	× 12	18,000
Treasury Bills (6-months)	2,000	× 12	12,000
Total	118,600		



Issuance Breakdown by JGB types

(trillion yen)



(Note) FY2003 is based on revised budget. FY2004 and FY2005 is based on initial budget.



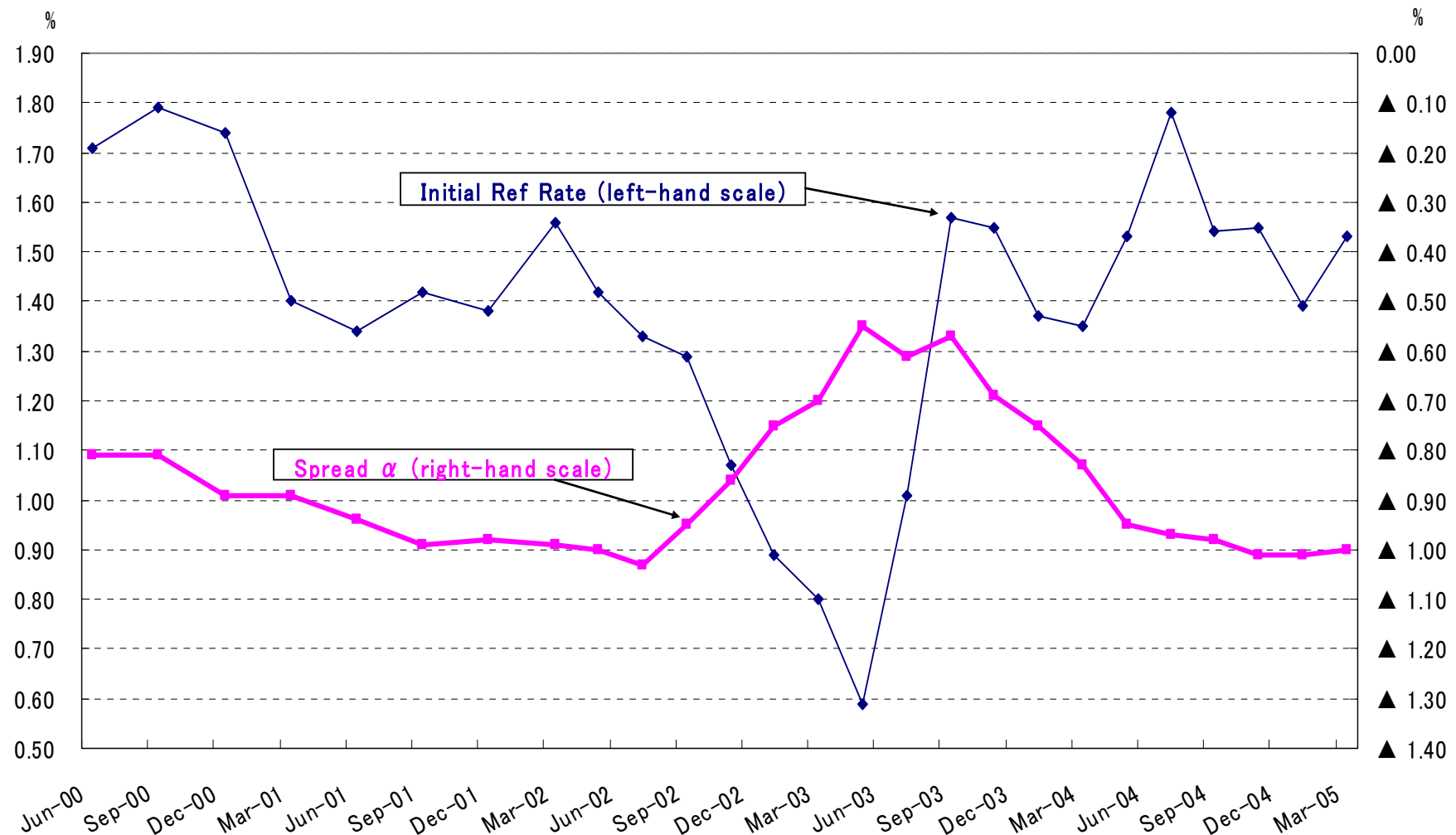
15-year Floating-rate (1)

- ◆ Floating-rate pegged, with a spread to the 10-year JGB (“reference rate”), at the time of semi-annual interest payment.
- ◆ Auctioned in terms of a spread (minus α) from the reference rate.

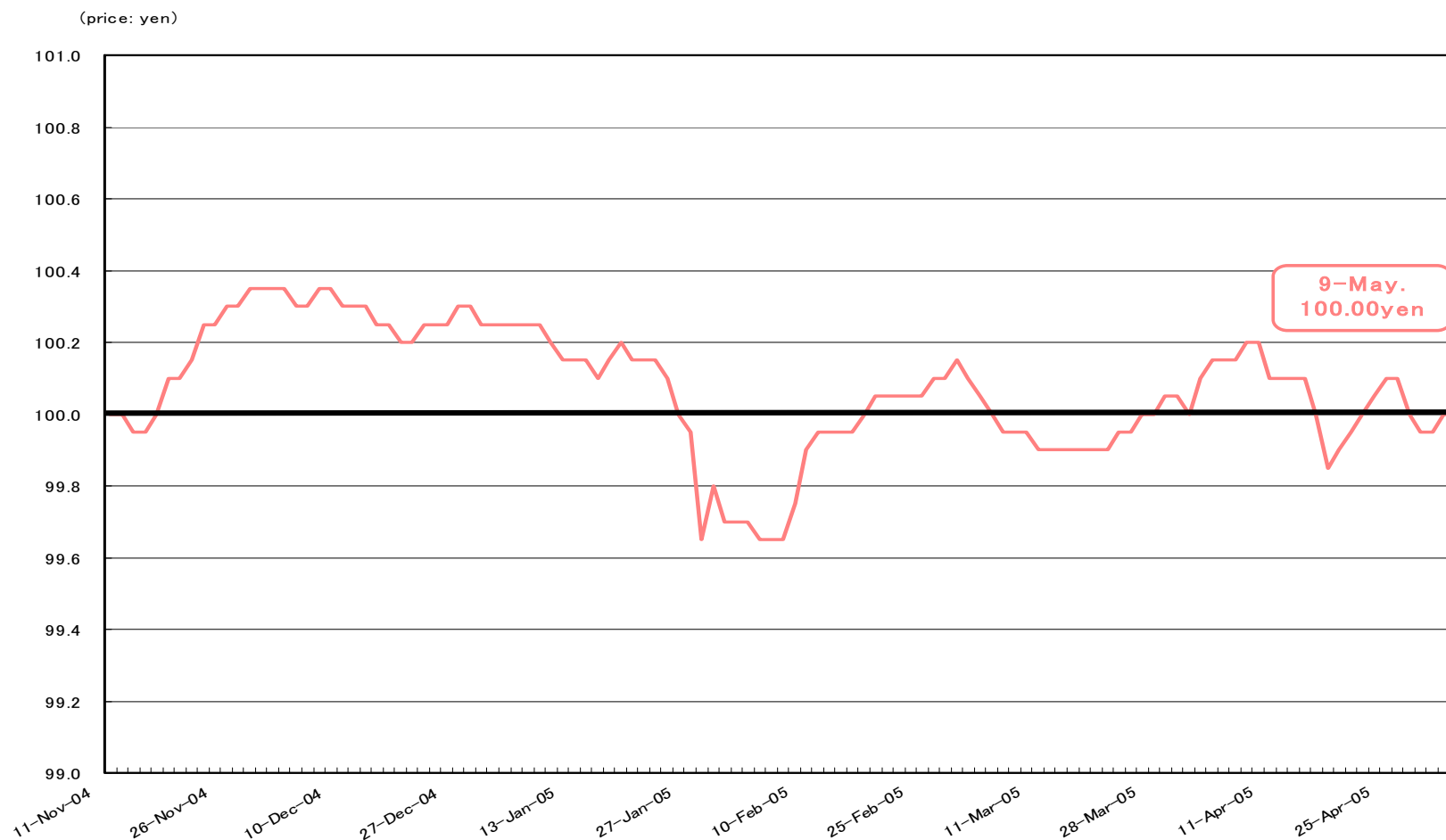


15-year Floating-rate Bonds (2)

Initial Ref Rate and Spread α per Issue



15-year Floating-rate Bond (3) Price of Issue No.31



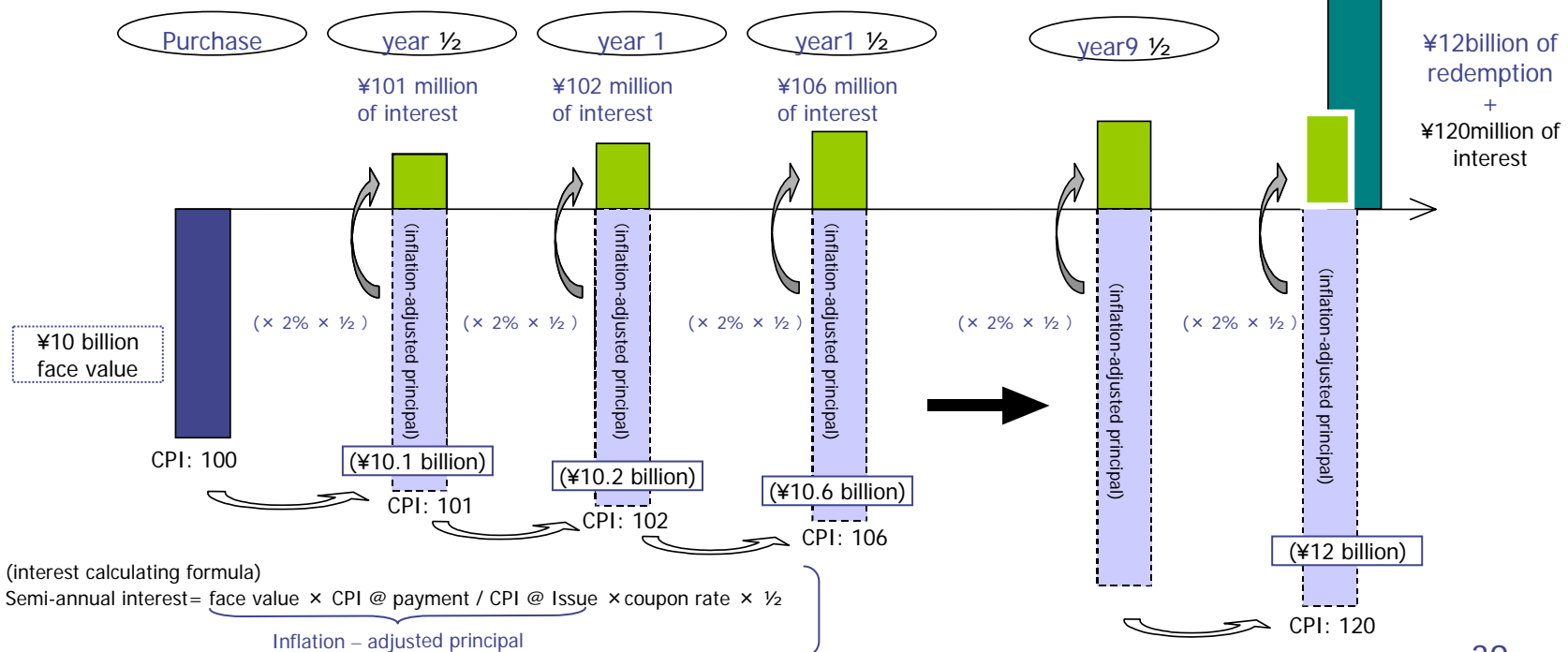
(Note) Issue No.31 was issued at 22 Nov. 2004.



Inflation-indexed Bonds

< assumption >

- Face value: 10 billion yen; coupon rate: 2%
- CPI: 2% p.a.



(Note) The above CPI increase ratio and coupon rate are purely hypothetical.



Auction Results of Inflation-Indexed Bonds

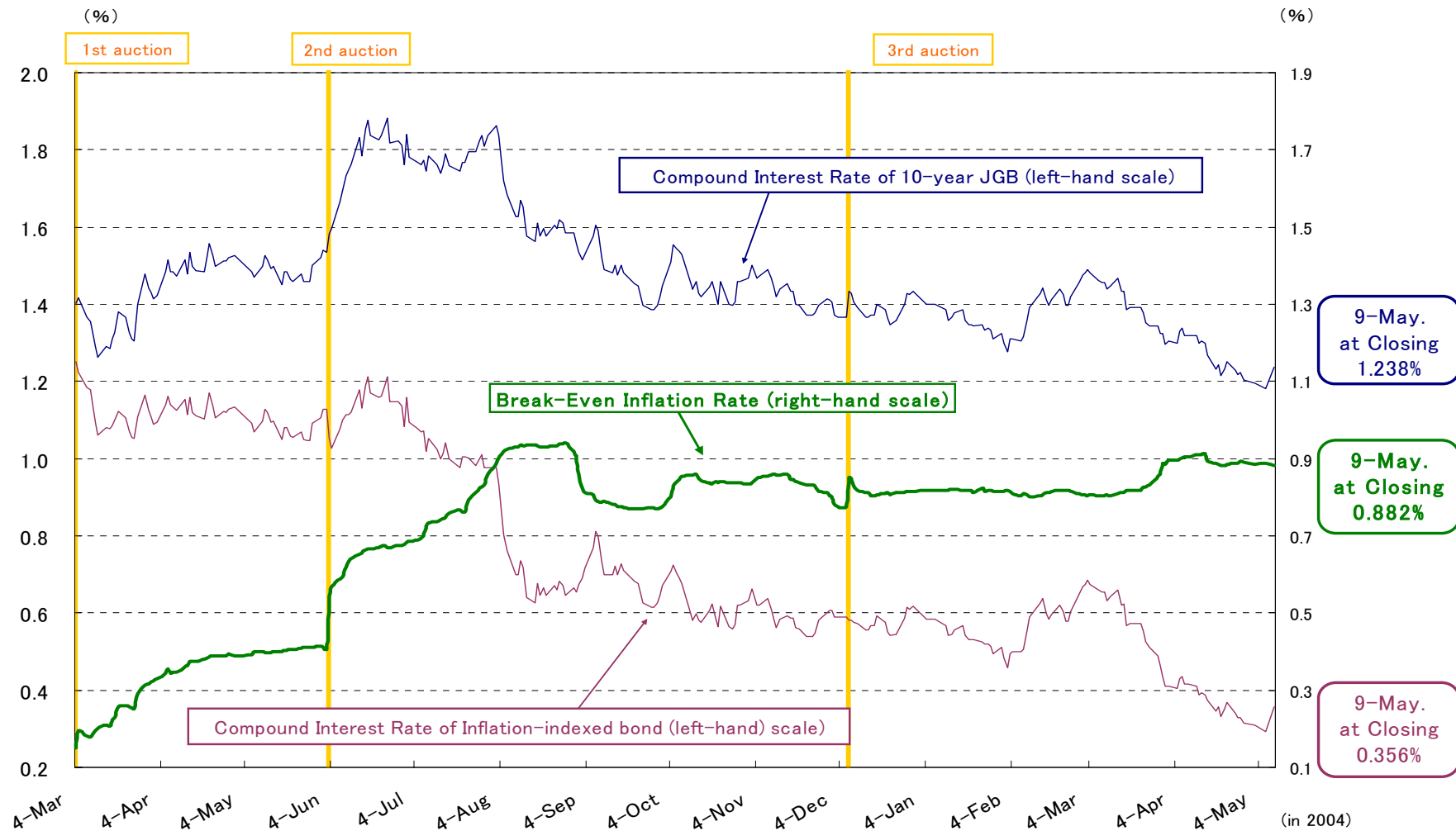
Auction date	Issue Number	Coupon (%)	Offering amount (billion yen)	Bid-to-cover ratio	Yield at the lowest price (%)
4-Mar-04	1	1.2	100	4.84	1.295
3-Jun-04	2	1.1	300	7.50	1.100
7-Dec-04	3	0.5	500	3.58	0.580

Planned Issue for FY2005

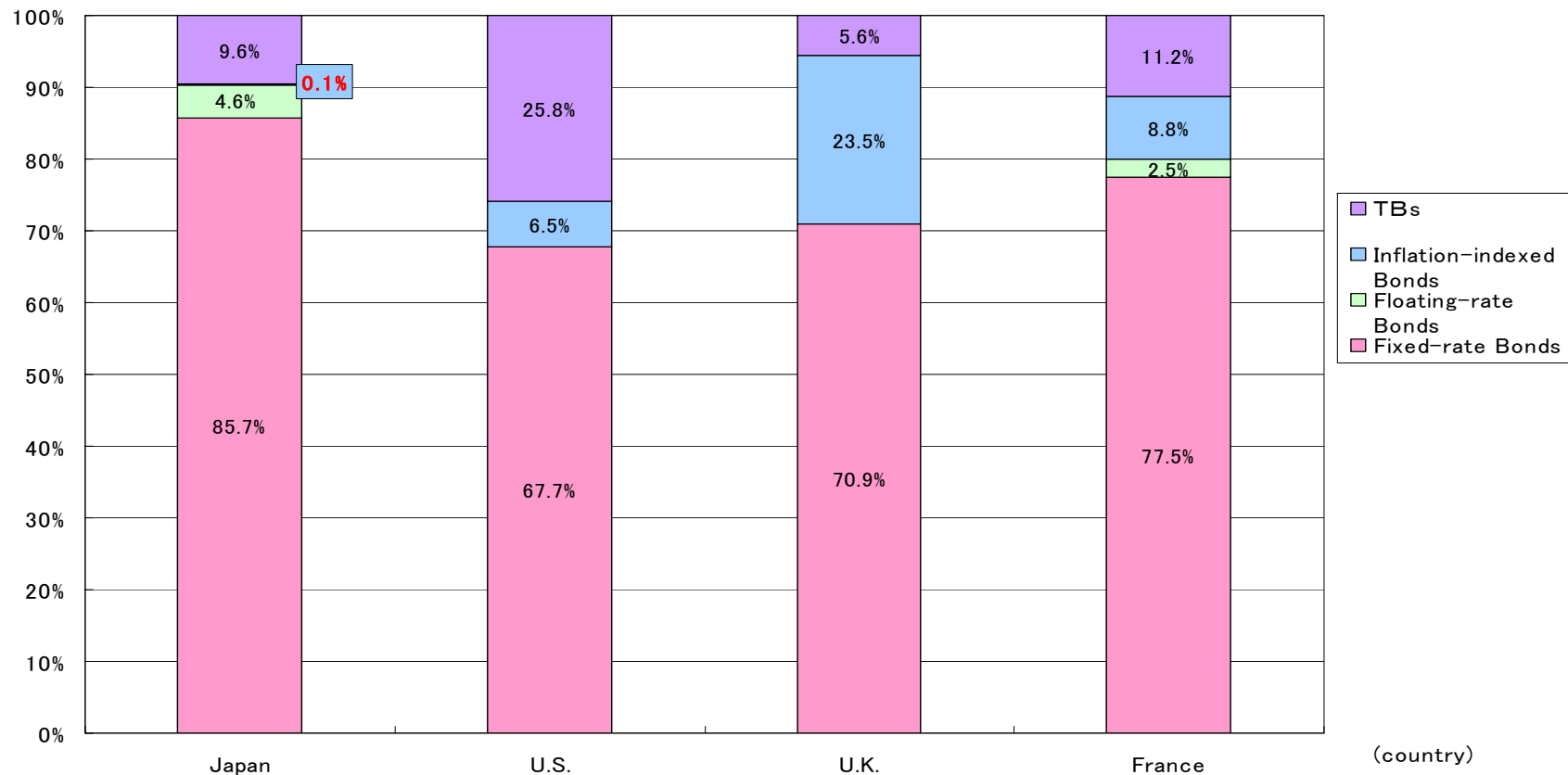
- ◆ Total Issue Amount : ¥ 2 trillion
(up from ¥ 0.8 trillion in FY2004)
- ◆ Issue per auction : ¥ 500 billion
- ◆ Frequency : Quarterly



Break-even Inflation Rate and Compound Interest Rate of 10-year and Inflation-Indexed JGB



Floating-rate as a proportion of total Outstanding Debts



(Note) The figures of Japan are as of December 2004, U.S. as of March 2005, U.K. as of April 2005 and France as of February 2005. Marketable bonds are counted. The outstanding debt of Japan is General bonds excluding JGBs for Individual Investors.

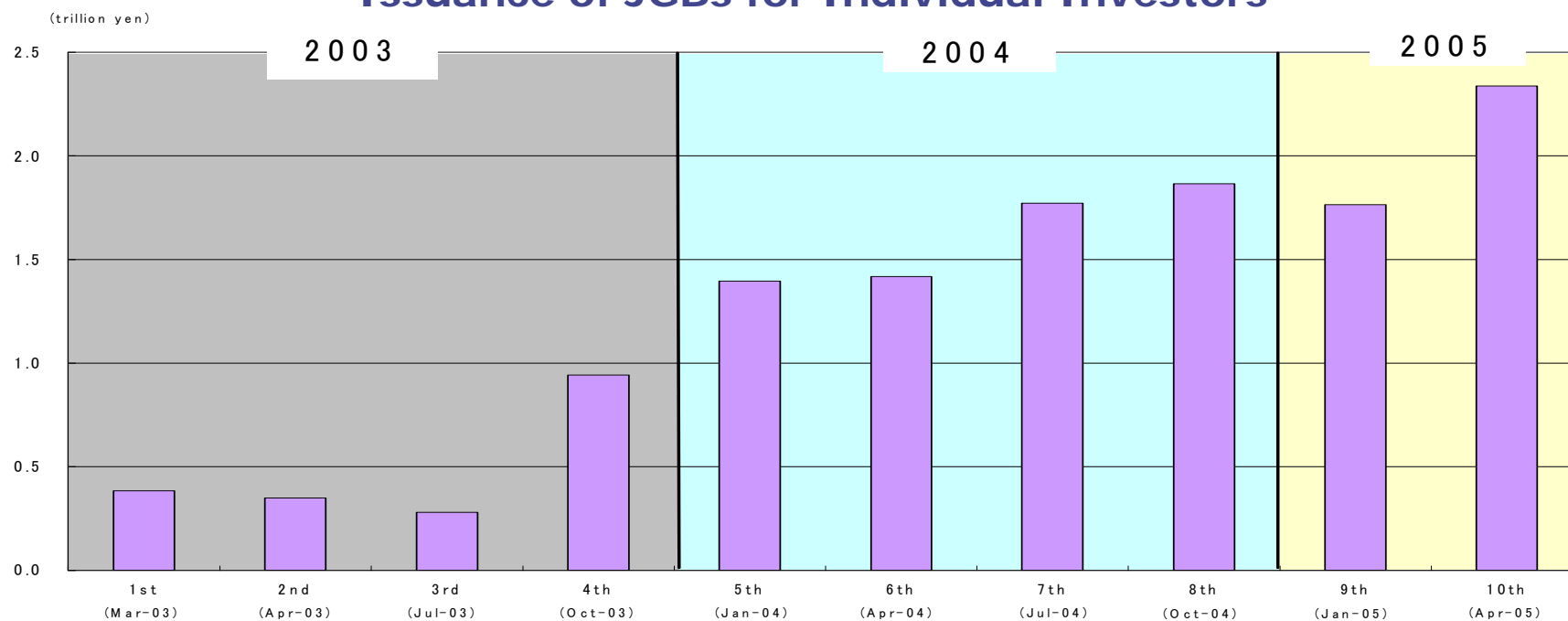
(Source) the website of relevant governments.



JGBs for Individual Investors

- ◆ 10 year. Adjustable rate pegged to 10 year JGB.
- ◆ Reached ¥ 12 trillion in cumulative sales in 2years.
- ◆ Fixed-rate type to be introduced in December 2005.

Issuance of JGBs for Individual Investors





Section 3-3

Investor Relations



Enhancing Investor Relations (1)

Information available on MOF website

English Publications on JGBs	Frequency	Availability
Auction Announcements	Each Auction	Real-time ie: at the same time as Japanese version
Auction Results of Bonds and Treasury Bills	Each Auction	
Auction Results of Financing Bills	Each Auction	
Auction Results of Government Guaranteed Bonds	Each Auction	
Auction Results of Buy-back	Each Auction	
Auction Calender	Monthly	
Date of Payment and Coupon Rate of 15-Year Floating Rate Bonds	Monthly	
Ref Index and Indexation Coefficient applicable to Inflation-Indexed Bonds	Monthly	
Outstanding STRIPS	Monthly	
State of Stripping of STRIPS	Monthly	
Central Government Debt "Outstanding Government Bonds and Borrowings"	Quarterly	
Newsletter "Japanese Government Bonds"	Quarterly	
Planned Bond Issuance	Annual	
"Guide to Japanese Government Bonds"	Annual	
"Debt Management Report"	Annual	
Minutes of the Advisory Council on Government Debt Management	Each Meeting	
Minutes of the Meeting of JGB Market Special Participants	Each Meeting	
Minutes of the Meeting on the JGB Market	Each Meeting	



Enhancing Investor Relations (2)

◆ Website:

<http://www.mof.go.jp/english/jgb-e.htm>

◆ E-mail:

JGB-IR@mof.go.jp



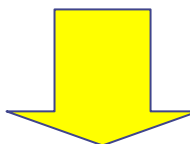
Enhancing Investor Relations (3) Information Flow Chart to Buy JGBs

◆ **Dec.20** : Planned Issuance for FY2005



▪ Amounts and frequencies

◆ **End of a month** : Auction Calendar for the third month after the ending month



▪ Auction Dates by Type of JGBs

◆ **1 week before auction** : Auction announced



▪ Issue Date, Auction Date, Maturity Date, Offering Amount

◆ **The Day of Auction**

10:30 JST (1:30 GMT) : Bidding starts

▪ Coupon Rate, Issue Amount released

12:00 JST (3:00 GMT) : Bidding Closes

13:00 JST (4:00 GMT) : Auction Results announced



Section 3-4

Dialogue with Market Participants



Enhancing Dialogue with Market Participants

- ◆ “Trust Fund Bureau Shock” in December 1998
- ◆ The Meetings on the JGB Market, consisted of market participants, started in Sep. 2000
- ◆ Participants selected according to auction results since Oct. 2002



“JGB Market Special Participant” scheme (1)

◆ Objectives

- (1) to promote stable financing
- (2) to maintain and improve JGB market liquidity

◆ Outline

MOF grants privileges to qualified auction participants in return for fulfilling responsibilities.



“JGB Market Special Participant” scheme (2)

◆ Special Participant Privileges

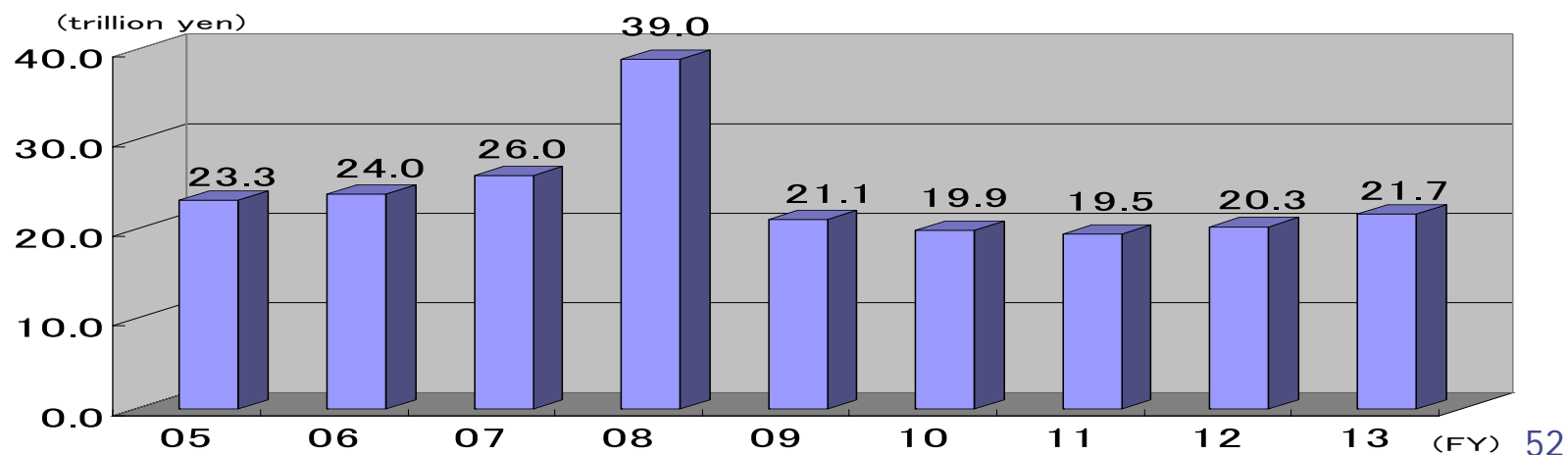
- (1) Participation in regular meetings
- (2) Participation in buy-back auctions
- (3) Stripping and reconstruction operations of STRIPS
- (4) Participation in Non-price Competitive Auction I & II for JGB Market Special Participants
- (5) Preferred Participation in interest rate swap transactions
- (6) Participation in Liquidity Supply Auctions



Introduction of Interest-rate SWAPs

- ◆ Planned for introduction in Q1 2006
- ◆ Starting with small amount: ¥300 billion in FY2005
- ◆ Application
 - To reduce interest rate risks for FY2008 refinancing
 - Receiving fixed rate swaps maturing before FY2008 (mid-term)
 - Paying fixed rate swaps maturing after FY2008 (long-term)
 - To make minor adjustments in response to market conditions

Redemption Amount of 10-year JGBs





“JGB Market Special Participant” scheme (3)

◆ Responsibilities of Special Participants

- (1) Bidding (min. 3% in every auction)
- (2) Purchasing (min. 1%* in per quarter in each category)

* 0.5% for short-term instruments

- (3) Improving and maintaining liquidity in secondary market
- (4) Reporting



The Meeting of JGB Market Special Participants -member (Apr. 2005)

- ABN AMRO Securities (Japan) Limited
- Barclays Capital Japan Limited Tokyo Branch
- BNP PARIBAS Securities (Japan) Limited, Tokyo Branch
- Calyon Capital Markets Asia B.V.
- CREDIT SUISSE FIRST BOSTON SECURITIES (JAPAN) LIMITED
- Daiwa Securities SMBC Co. Ltd.
- Deutsche Securities Limited, Tokyo Branch
- Dresdner Kleinwort Wasserstein (Japan) Limited, Tokyo Branch
- Goldman Sachs (Japan) Ltd.
- J.P. Morgan Securities Asia Pte. Limited
- Lehman Brothers Japan Inc.
- Merrill Lynch Japan Securities Co., Ltd.
- Mitsubishi Securities Co., Ltd.
- Mizuho Bank, Ltd.
- Mizuho Corporate Bank, Ltd.
- Mizuho Investors Securities Co., Ltd.
- Mizuho Securities Co., Ltd.
- Morgan Stanley Japan Limited (Tokyo Branch)
- Nikko Citigroup Limited
- NOMURA SECURITIES CO., LTD.
- Okasan Securities Co., Ltd.
- Shinko Securities Co., Ltd.
- Sumitomo Mitsui Banking Corporation
- The Bank of Tokyo-Mitsubishi, Ltd.
- Tokai Tokyo Securities. Co., Ltd.
- UBS Securities Japan Ltd
- UFJ Bank Limited
- UFJ Tsubasa Securities Co., Ltd.



The Meeting with Japanese Government Bond Investors –member (Apr. 2005)

◆ Investors

- Mizuho Bank, Ltd.
- Nippon Life Insurance Company
- Shinkin Central Bank
- The National Mutual Insurance Federation of Agricultural Cooperatives
- The Norinchukin Bank
- The Toho Bank, Ltd.
- Tokio Marine & Nichido Fire Insurance Co., Ltd.
- The Mitsubishi Trust and Banking Corporation
- The Yachiyo Bank Ltd.

◆ Academics

- Hideki Kanda (Professor of Law, Graduate School of Law and Politics, University of Tokyo)
- Minoru Nakazato (Professor of Law, Graduate School of Law and Politics, University of Tokyo)
- Naoyuki Yoshino (Professor of Economics, Keio University)
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