

**Minutes of the Advisory Council on Government Debt Management
(54th Round)**

1. Date: Thursday, June 24, 2021 4:00 p.m. - 5:30 p.m.

2. Place: Special Conference Room 3 at the Ministry of Finance (held online)

3. List of Proceedings

1. Efforts so far and future issues on the debt management policy.

First, the Financial Bureau explained about "Efforts so far and future issues on the debt management policy". After that, the members exchanged opinions freely.

► The Financial Bureau's presentation has been summarized below:

(1. Introduction)

- We plan to set up a new forum for discussions in the future. Therefore, today's meeting is the last one held by the current members.
- After reviewing efforts on the debt management policy so far, it is necessary to proceed with discussions regarding the debt management policy with an eye on Japan's economic society in the post-COVID-19 era.

(2. Main efforts, and evaluations and challenges of the Debt Management Policy)

- Regarding "1. Strengthening of "Dialogue with the Market" and Improvement of the Auction System", the PD system started in October 2004 and has been reviewed appropriately according to the situation. We believe that this has enabled stable issuance and auctions of JGBs. We consider it important to continue such efforts in the future.
- We have held so far a variety of meetings on "Dialogue with the Market" including this Advisory Council on Government Debt Management and we will need to continue the efforts with the awareness of "regular and predictable" issuance.
- Regarding the recruitment from the private sector, we have made various efforts including establishment of a new position of "Special Officer for Analysis on Debt Market" in order to accumulate a variety of knowhow.
- Regarding the "Expansion of Disclosure", we have made efforts to disseminate information in various ways including issuing the "Debt Management Report".
- Regarding the efforts on "2. Maintenance and Improvement of JGB Market Liquidity

(Infrastructure Development),” since we introduced the “Liquidity Enhancement Auctions” in 2006, we have made efforts including revision and expansion of the size and target zone.

- Regarding “Buy-back Program,” we have revised the target of Buy-back as needed.
- We have also engaged in the “ Advance of reopening rule in principle”. And regarding “shortening the settlement cycle”, we have been making efforts to turn into T + 1 in principle
- Regarding “3. Diversification of JGB Products and JGB Investor Base,” we introduced 40-Year Bonds in 2007 with a view to “developing the ultra-long-term bond market” and their market issuance has been gradually increasing. At present, 40-Year Bonds are issued every other month. We continue to monitor the situation and we believe that their monthly issuance and changing their auction method into discriminatory auction method will be issues to be considered. The size of issuance of 30-Year Bonds has also been increasing.
- We understand that 20-year JGB Futures are hardly traded. However, we consider that activating their transaction is an issue in the future.
- Regarding the “Promotion of JGB Sales to Retail Investors,” we have introduced sequentially 10-Year Bonds, 5-Year Bonds and 3-Year Bonds as JGBs for Retail Investors. We believe it necessary to continue to improve public awareness and explore demands among citizens including young people. Therefore, we will continue to work on more strategic sales promotion and public relations activities.
- We have been actively engaged in overseas IR for “promoting JGB holdings by foreign investors.” So far, we have conducted overseas IR activities in a total of 43 countries. However, as face-to-face meetings have been restricted due to the COVID-19 infection expansion for the past one year, we have conducted online overseas IR activities. We plan to continue overseas IR activities strategically, especially focusing on foreign investors who are expected to stably hold JGBs over the long term, such as central banks, life insurance companies, pension funds, etc. We also believe it important to take advantage of online overseas IR activities.
- Regarding “4. The Average Maturity of JGBs,” it was our goal to gradually lengthen the average maturity in the past, and currently, the average maturity of JGBs level with that in foreign countries. Under these circumstances, it has been also argued at this Advisory Council that if too much attention is paid to lengthening of the flow-basis average maturity of each fiscal year, it would make it difficult to flexibly respond to demands. As a result, from several years ago, lengthening of the average maturity, especially the flow-basis one, has ceased to be our aim and JGBs have been issued in response to actual demands. However, since a large amount of the short-term bonds have been issued in response to the COVID-19 pandemic, we are aware that we need to correct the shortened average maturity in the future.
- Regarding the Cost-at-Risk analysis for “5. Advancement of Debt Management,” we believed that it was an achievement that both the cost and risk were presented quantitatively at the

Advisory Council in November 2020, which shows an impact of the COVID-19 pandemic on the average maturity significantly shortened, and the members discussed debt management based on the analysis at that council. We will continue to consider implementing various analyses in the future.

- Regarding “6. Strengthening the Business continuity planning arrangements,” we have established a system that allows temporary borrowings from the Bank of Japan (BOJ) in case of emergency. In addition, we believe we need to develop in various kinds of arrangements to allow us to ensure stable JGB auctions and other JGB issuance operations even in case of emergency, on top of those countermeasures for the COVID-19 pandemic.

(3. Consideration of Debt Management Policy with an eye on the post-COVID-19 era)

- In the future, we think it particularly important to bear in mind the following four points in the discussion of the Debt Management Policy with an eye on the post-COVID-19 era. (1) “Correction of the Shortened Average Maturity of JGBs.” At present, it is necessary to correct the shortened average maturity of JGBs. It was pointed out in a member’s presentation at the Advisory Council in November 2020, that there are examples which a relatively large shock occurred in the middle of an attempt to lengthen the shortened average maturity in response to a crisis. We have to bear this in mind to consider our future responses.

- (2) “Impact of the BOJ’s Monetary Policy on the JGB Market.” Under the current Quantitative and Qualitative Monetary Easing Policy by the BOJ, JGB yields remain very stable and low. If the monetary policy is changed, however, it is possible that the JGB market will be also affected. It is necessary to take this into consideration.

- (3) “Maintenance and Improvement of JGB Market Liquidity and Functionality.” Recently, it has been pointed out that liquidity and functionality of the JGB market have declined and there are concerns about the outflow of human resources from the JGB market. If this situation persists, the market function will be weakened further. As the issuing authority, we need to consider what we can do in order to maintain and improve market liquidity and functionality.

- (4) “Necessity of More Multifaceted Discussions.” There are a number of major changes in social conditions surrounding the JGB market which may affect the Debt Management Policy, such as global financial risk, natural disaster risk, geopolitical risk, cyber-attack, and development of financial technology including utilization of AI and big data. Therefore, we will need to discuss and consider the Debt Management Policy from more multifaceted perspectives in the future bearing all these in mind.

▶ Views expressed by the members have been summarized (by the Financial Bureau) below:

- I believe that HFT (High Frequency Trading) is probably utilized in the short-term financial market, such as the T-Bills. I assume that the Financial Services Agency conducts analysis of HFT in the stock market. It would be advisable that the analysis of HFT was also carried out in the foreign exchange market and JGB market.
- When considering the JGB market, it is necessary to think in advance how to deal with the worst-case scenario. I believe that one of the bad scenarios is that the rating is downgraded from Single A to Triple B or to Double B when the monetary easing policy ends and monetary tightening starts. Under this circumstance, it is necessary to prepare for the worst-case scenario where the situation cannot be mitigated even by the purchase of JGBs by the central bank.
- Regarding green bonds, a wide variety of bonds can be called green bonds on the current European standards. I think it is necessary to provide a clear definition of a green bond in Japan or in Asia so as to create an environment where Japanese people can invest more capital in green bonds.
- In terms of demand for JGBs, foreign investors' holding is currently increasing, especially in the T-Bills market. Greek Debt Crisis and other cases showed that foreign investors were quick to sell out. Although foreign investors hold a large portion of JGBs only in the T-Bills market at the moment, I think that market instability will increase when the foreign investors' holding exceeds a certain level. Therefore, it is hoped to maintain stable demand for JGBs by domestic investors.
- I believe that the Advisory Council on Government Debt Management was basically established for the purpose of dialogue with the market and that this dialogue with the market has historically undergone four different stages. The first stage was the time when the Meeting on the Japanese Government Bond Market was established in 2000 as a result of a crisis, such as the Trust Fund Bureau shock in 1998, the FILP reform, and issuance of a large amount of JGBs. The second stage was the time when there were a variety of crises, such as downgrade by Moody's in 2002, the VaR shock in 2003, etc. and, at the same time, the JGB Market Special Participants Scheme was established in response to the review of the government bond syndicate underwriting system. Both of these stages corresponded to major crises.

In the subsequent third stage, various measures were taken, especially about the Inflation-Indexed Bonds and 15-Year Floating Rate Bonds in response to the Global Financial Crisis and the appreciation of the yen in a major macroeconomic crisis. This third stage leads to the fourth stage in which the Quantitative and Qualitative Monetary Easing policy in 2013 and the subsequent YCC were introduced. I think that, in this fourth stage, the dialogue with the market has changed into the dialogue with the BOJ significantly. Rather than the dialogue with the market, the situation turned to non-marketization which the market function fell into an

anesthetized state, and such a situation has continued to today.

I believe that the current market situation has turned around from a state where there was a great deal of tension in the JGB market, like the so-called bond vigilantes in the U.S., to a state where there is almost no tension at all. Under the circumstance, I think that we are currently at a turning point.

- As a bond analysts, I have been saying that JGBs has a very important substituting function for excessive debt. I believe that there are three factors that contribute to the stability of JGBs. The first factor is current account stability. The second factor is the large home country bias in case of Japan. The third factor is the minimum level of fiscal discipline. I referred to them as the “love for the market” and I believe that such love has supported the market so far.

- I think that the Debt Management Policy is similar to disaster prevention in a sense under the circumstance where some kinds of ends appear for the various issues: first, how long the current account balance can remain stable as a structural problem in Japan; second, if the home country bias may gradually change in the situation where the current anxiety about the strong yen disappears; third, from the perspective of fiscal discipline, how long the JGBs market condition remain under the BOJ’s strong anesthesia. With regard to these points, I think it important to always think about how to prepare for the crisis that will come one day.

- Although the government bond syndicate underwriting system had been not used, there was a function in the dialogue with the market which allows to draw a certain cooperative solution, and thus it is important to know in what form the cooperation will function when a crisis occurs. In addition, as the number of new participants in the JGB market is decreasing, I believe it is necessary to prepare a kind of playbook or a reserve role that can participate in the JGB market in times of crisis.

- I believe that the Debt Management Policy has changed in many ways due to the BOJ’s monetary policy. While the debt management office and the BOJ are now heading in the same direction in terms of reducing the financing costs, I think that various issues have emerged in terms of liquidity and functioning of the market which require a diversity of investors, and I feel that the relationship between fiscal policy and monetary one has become very ambiguous.

- Recently, a large amount of JGBs have been issued to respond to the COVID-19 pandemic and the average maturity of JGBs have been significantly shortened. As mentioned in the presentation at the previous meeting, we need to carefully watch the market and correct the average maturity and I think that this is a very important issue in the short term.

- I believe that it is necessary to comprehensively review the Debt Management Policy from a variety of perspectives. It is necessary not only to restore the market function, but also tackle fiscal reconstruction at the same time in the process of normalizing monetary policy. However,

since there is no warning about fiscal discipline from the market, I believe that it is necessary to consider how to promote fiscal reconstruction as an issue for all of Japan. In this sense, I think it is important to continue to discuss various issues, such as how the 60-year redemption rule should be considered.

- Looking back at the current market environment, we find ourselves in a unique situation in which while the central bank's exceptionally monetary easing policies are restricting the market function, fiscal burden is increasing at an unprecedented pace. From the perspective of pressure on the bond market, we are seeing a gradual accumulation of risk in the markets worldwide.

- I believe that the exit policy is becoming important as the direction of the macroeconomic policy in developed countries is gradually deviating among advanced economies. It is likely that Japan will be the last country to exit from monetary easing among developed countries and I predict a possibility of unexpected risks in the JGB market. I expect that a variety of measures that have been taken so far, for example, diversification of JGBs, measures to improve liquidity and, in particular, overseas IR activities will be effective.

- While the issue related to COVID-19 has been raised, I think that the multifaceted discussion listed as the fourth issue will be important in the future. There are various agendas, such as climate change, geopolitical risk, cyber-attack, and development of financial technology, etc. In my opinion, since the public nature not only of the financial industry, but also of the financial market will become irreversibly more important, it is necessary to continue active research on various themes in the future, including ESG, SDGs, and green bonds.

- Regarding the primary market, I believe that it is very important for the primary dealer, to control and level the issuance every fiscal year. The size of the front-loading refunding bonds issuance which was approximately 52 trillion yen about 2 years ago is currently about 10 trillion yen. It was argued at the time whether the amount was excessive. However, most of the amount disappeared in a blink of an eye due to such an event that happens once in several years. I think that they were very useful for the last two years. I would like to see a discussion on the appropriate size of front-loading refunding bonds.

- Regarding the secondary market, I believe it is essential to ensure liquidity. It is true that, in operating the monetary policy within a large framework, the BOJ holds over 40% of JGBs but that it holds almost 50% excluding T-Bills. Even if the direction of monetary easing do not change for a while, the JGB market is surely affected by any subtle changes in the monetary policy. In my opinion, the dialogue between the market and the monetary authority is essential.

It is true that the liquidity and functionality of the JGB market has declined due to the prolonged ultra-low interest rates, and the price discovery function has also declined

accordingly. If this matter is left unresolved, the number of market participants will gradually decrease, resulting in the biggest risk of increasing issuance costs. Therefore, we should keep an eye on the matter.

- The market benchmark has shifted from 10-Year Bonds called long-term bonds to 20-Year Bonds. On the other hand, it remains true that 10-year JGB Futures are still the biggest hedging means against rising interest rates in the market. Actually, the entire yield curve is hedged only by JGBs maturing in seven years. The swap and derivatives markets have become much larger. In addition, 20-year JGB Futures were also discussed in this council. I believe that the hedge methods has been somewhat diversified, however I believe it is important to continue to provide support to the secondary market. Since the primary market and the secondary market are two sides of the same coin, I think that it is necessary to keep a close eye on them.

- It would be difficult to issue new kinds of bonds immediately, such as green bonds. However, I believe that we need to consider their issuance, including that of JGBs for retail investors.

- It is true that the market function is anesthetized. I also believe it is a very important issue to lengthen the flow-basis average maturity of JGBs, and I feel the same way about the indication that the boundary between fiscal policy and monetary policy has become increasingly ambiguous.

A large amount of JGBs was issued and there is a challenge in Japan of lengthening the average maturity of JGBs from now on. On the other hand, talking about the policy direction, the possibility that the U.S. plans to increase in interest rates for the future has been raised, and the international market environment is expected to change. In these circumstances, I am very concerned about leaving the current situation as it is where market function is declining.

- We have exchanged opinions and shared information with the BOJ so far and, normally, it is natural that monetary policy and fiscal policy can influence each other in an economic cycle sense. However, decline in market function has become a big structural problem. I believe it necessary to strengthen exchange of opinions and cooperation with the BOJ beyond the existing framework in the future. Although I understand the problem of being too much close to BOJ in terms of institutional framework, I believe that different ways of approaches for information sharing and coordination are exceptionally required for the restoration of the market function.

- Regarding “3. Consideration of Debt Management Policy with an eye on the post-COVID-19 era,” the first point of (1) “Correction of the Shortened Average Maturity of JGBs” is the issue we are currently facing and needs to be addressed. I believe that a more important message is the third paragraph of the item (1). JGBs were issued more than ever before and the amount of interest rate risk of financial institutions has also increased sharply. Under these conditions, I

believe that it will be necessary in the short term to prepare for a situation in which we will be required more efforts than ever to respond to unpredictable events such as making financial system instable due to deepening the Fed's discussions on tapering.

- The second point is the importance of preparing for possible scenarios. Although I recognize that the debt management office has responded appropriately to various environmental changes and risks so far, I think it is very important to create scenarios beforehand and consider countermeasures rather than cope with unexpected situations. In addition, I agree with the view that the situation may change from the past one where monetary policy and the Debt Management Policy have taken the same direction along with the normalization of monetary policy of the BOJ. Although the size of the BOJ's assets has increased from the last time to end its quantitative easing policy, I believe it is important to pay more attention to the fact that the fiscal situation has significantly deteriorated. Also, as aging of population gets worse, the reversal of government debt and net financial assets held by households is one of the predictable changes in the medium to long term. If this occurs, the percentage of foreign investors' holding of JGBs will increase. Furthermore, the earthquake risk mentioned in the item (4), no one knows when it will occur, but the probability is high according to a government report.

- Looking back on the COVID-19 pandemic, the importance of the "Community Medical Care Concept" has long been talked about, but the current situation exposes the lack of functional differentiation and coordination of medical care. In order to avoid making the same kind of mistake in debt management policy, I believe it is important as part of the debt management policy and the government's crisis management to draw up several scenarios including the worst-case scenario, and to prepare countermeasures in case of such a scenario.

- I think that it is one of the key points to consider how to relate to other committees in terms of how to develop discussions on this council. In my opinion, what is discussed here overlaps considerably with that at the Fiscal System Council. Although we view matters from the point of the market in this Council I believe we should consider the relation with the Fiscal System Council.

We have generally thought of fiscal deterioration as an increase in fiscal deficit. However, I believe this is slightly insufficient for defining fiscal deterioration. In other words, even if fiscal deficit is large, there is no major problem if the budget is used appropriately in terms of purpose and project.

Therefore, I think that there are many new issues in terms of how to spend the money in the post-COVID19 era. For instance, a large amount of capital investment is required for DX and decarbonization. If social security is left as it is now, capital investment for DX and decarbonization will be impossible. Therefore, I believe that we need to discuss DX and

decarbonization together with social security.

- Regarding the role of public finance, for example, productivity increases as DX advances. In that sense, DX can be seen as a savior. If DX goes forward, macro-economically speaking, the supply curve will shift to the right, which is good, but I have no idea about whether the demand curve will shift to the right or to the left. DX can contribute to the rightward shift of the demand curve because DX generates a lot of capital investment, but it can also contribute to the leftward shift because it causes job destructions along the way. As the demand curve shifts to the left, we must build the next economy while supporting the relearning of employees. Therefore fiscal policy and government expenditures must be formed to work for the structure of social security, DX and decarbonization, etc. Although this is not directly related to JGB issuance which is the main theme of this Council, I suggest that the content of discussion be determined according to the purpose of making necessary investments.

- I think that information on the maturity structure of JGBs and the duration is important. Initially, an issuance plan that shows the maturity structure of JGBs is published based on budget deficit and this is important from the macroeconomic perspective. I reinforced my conviction that the maturity structure is very important. For example, if we adopt the “preferred habitat theory” (the theory that investors' preference for maturity influences the yield curve), the interest rate of the economy is determined by the maturity structure of supply and demand. According to the FTPL (Fiscal Theory of the Price Level), inflation expectations are determined by the maturity structure.

- There is an issue of correcting the shortened average maturity of JGBs in the post-COVID-19 era. It is true that there is a risk that the long-term risk premium may rise in the COVID-19 shock period in which the economy is expected to deteriorate significantly. Therefore, shortening of average maturity may be justified during a crisis. However, I believe it important to bring it back to normal in the future.

- During the Global Financial Crisis, shortening of average maturity also progressed. After that, policies were introduced for their correction. I believe that the debt management office has accumulated a variety of knowledge to deal with this situation including the relationship with the direction of monetary policy and the issues that had to be taken into account when extending the average maturity. I would like the debt management office to consider correcting the shortened average maturity of JGBs in the future by using such knowledge.

- The Meeting on the Japanese Government Bond Market which was the predecessor of this Advisory Council was established after the so-called Trust Fund Bureau Shock occurred between the end of 1998 and beginning of 1999 and the 10-Year JGB yield soared from 0.7% to

2.5%. The debt management office came to think that they would need to listen to opinions of market participants based on these events. I remember that the first round of the Meeting on the Japanese Government Bond Market in September 2000. According to the minutes of the first meeting, there is a comment on the importance of promoting fiscal consolidation as a prerequisite as well as debt management policies. Twenty-one years ago, someone commented that the JGB issuance was too large in the first place.

The outstanding amount of interest-bearing JGBs as of September 2000 was approximately 377 trillion yen. According to the latest data, it was 1,043 trillion yen including FILP bonds as of last December, which means that it nearly triples. Meanwhile, the BOJ's holding ratio have increased nearly fivefold, from only 11.3% as of September 2000 to 48.3% as of last December. The reason why interest rates have hardly moved even though the JGB issuance has increased is the BOJ's Yield Curve Control policy. In other words, this is because the BOJ owns 50% of interest-bearing bonds. Therefore, both flow and stock effects are large. I believe that this is probably not normal, and I would say that the situation will change some time. Under a circumstance that allows the BOJ to proactively seek an exit strategy, it will be welcome and it may lead to revitalizing the economy and a favorable increase in interest rates.

- The problem occurs when the BOJ cannot handle the situation. There are three major risks for the JGB market in the future, as referred to in the last section. The first problem is the further progress of the declining birthrate and aging population. The second problem is the large natural disaster, such as the Major Nankai Trough earthquake and the Tokyo Inland Earthquakes. And the third problem is the trade friction between the United States and China. In short, I do not believe that there is no possibility of geopolitical risks that could have a very direct impact on Japan. Since the possibilities of occurring the Major Nankai Trough earthquake and the Tokyo Inland Earthquakes are 74% and 70% within 30 years respectively, they may occur during our life time.

In addition, the declining birthrate and aging population have become an even more urgent issue, and the number of births has decreased significantly due to the impact of this pandemic, dropping to 840,000 last year. There is even a possibility that it may fall below 800,000 this year because the impact will be observed throughout the year. On the other hand, the number of deaths in Japan last year decreased from the previous year, and even under the pandemic, the average life expectancy has increased significantly. The declining birthrate and aging population is advancing significantly, and its impact on pensions and social security will become more serious in the future. Therefore, the next biggest theme is what to do when the BOJ can no longer hold JGBs, and I hope the debt management office will be well prepared for the situation in the future.

- As the outstanding amount of JGBs and the amount of JGBs purchases by the BOJ have increased, I reaffirmed how the debt management office has been making efforts to ensure stable issuance of JGBs and maintain liquidity of the JGBs markets. These efforts need to be maintained in future. However, I believe that the essential problem for stable issuance and maintenance of liquidity is to prevent increase of the outstanding amount of JGBs. On the other hand, I believe that since the current domestic monetary policy has already reached its limit in the same manner as those overseas, we resort to fiscal policy more frequently whenever economic stresses occurs in the future.

In this context, regarding fiscal policy, I believe that it will be very important from a medium- to long-term perspective that policy and measures are designed to increase the potential growth rate. We need to consider measures to counter the declining birthrate and promote employment of the elderly. I believe it is also important to promote policies related to green and digitalization from a long-term perspective.

- I think that the growth potential of companies has increased since the introduction of both the Corporate Governance Code and the Stewardship Code in the private sector. However, companies still have excess savings. I believe that it is important for companies to make investments for further growth by taking risks that will create demand.

- A large amount of JGBs has been issued. It will be a big issue to level the size of issuance which short-term bonds have the majority now. When I look back at the past, a large stress event often came out in such a situation. Therefore, it is important to have close communication among the three major players: the Ministry of Finance, the BOJ and investors.

- Issuance of digital securities is also an issue to be considered from a multifaceted perspective in the future. We have no idea about how CBDC will develop in the future, but it is highly likely that use of digital technology will advance. There is a problem in terms of circulation and so on, when the private sector issues digital securities. However, I believe that the issuance of JGBs in the form of digital security will lead to gaining momentum for solving these issues.

- At the moment, a large amount of JGBs has been issued to meet fiscal needs, and money in circulation is increasing. But unfortunately this does not seem to be stimulating the economy. Deposits are concentrated in banks and then gathered at the BOJ, which does not work for stimulating the economy. Focusing on how to use money, I feel that it is important to issue bonds that limit the way to use proceeds, such as green bonds, in terms of an effective use of money.

- The increase of the JGBs issuance in the last fiscal year was concentrated in short-term bonds, causing interest rates to rise and the yield curve to steepen. I believe that the market is not in a

crisis. However, in my opinion, the need for debt management policies with careful communication will increase in the future when we correct the shortened average maturity of JGBs as the presentation by a member in the last meeting.

- I believe that the needs of investors are taken into consideration on the JGB size of issuance by each maturities as well as the process for its decision. As a member of the primary dealers, however, I sometimes feel uneasy about our ability to instantaneously absorb the supply in auctions and we are involved in the secondary market with a sense of tension every day. Although the degree of the BOJ's involvement is increasing, I would like the debt management office to continue to consider how to flexibly change the issuance plan, etc. and the issuance method, based on careful dialogue with the market.

- In addition to the various efforts of the Financial Bureau as the debt management office, I believe that it is important to work together with other bureaus of the MOF, Ministries on the spending side, and members of the Council on Economic and Fiscal Policy so that they can have correctly understanding of the current situation of the JGB market in order to contribute not only to stabilization of the JGB market but also to careful debt management. I would like the debt management office to consider this point in setting up a new forum to discuss how the Debt Management Policy should be in the post-COVID-19 era.

- Since the resumption of the JGB issuance, in order to minimize interest payment, the issuance of JGBs had been conducted through underwritten issuance by syndicates. The JGB market was inconvenient and incomplete at that time. In particular, for 10 years from 1966, the banking syndicate group was requested to refrain from selling undertaken JGBs, and the situation at the time was as if the market did not exist. In 1977, those restraint was mitigated and the market expanded significantly. However, it occurred many times that when the market interest rate rose, the JGBs issuance was suspended. This continued until around 1984. Twenty years later, the PD system almost identical to that of the U.S. was introduced in Japan. Under the “regular and predictable” JGB issuance plan based on dialogue with the market, all JGBs have been issued by public offering auctions, which enhances liquidity of the JGB market and results in stable capital procurement and reducing long-term debt-related expenditures. Based on this idea, all JGBs are currently issued by public offering auctions under the BOJ's quantitative and qualitative monetary easing policy.

- Although the number of people who insist on reducing debt-related expenditures is fewer, the idea of helicopter money also emphasizes reducing debt-related expenditures. What is important is to curb the total JGB issuance, including supplementary budgets. Many members referred to the issue of a sudden increase in the amount of short-term JGBs in the last fiscal year. I believe that since the size of issuance suddenly increased by the supplementary budget in the middle of

the fiscal year, the debt management office was obliged to rely on the issuance of short-term JGBs in addition to the use of Front-loading Refunding Bonds in order to level the regular JGB issuance by public offering auctions. Of course, I think that it is important to consciously lengthen the average maturity of JGBs.

- In the post-COVID-19 era, Japan is by no means disconnected with emergence of potential risks for economic crisis, large-scale natural disasters, and national security. Therefore, in the future, discipline will be required not only for the initial budget but also for supplementary budgets. If the international credibility for JGBs declines further, not only Japanese companies, financial institutions, foreign currency financing costs, and overseas business development will be greatly affected, but also the BOJ's monetary easing policy may lose its effect.

For the past 30 years, interest rates have been declining, and an environment in which the market can hardly issue warnings has continued for a long time. In order for the market to regain its normal function and minimize interest payments in the long run, it is necessary that we do not go back to the time when interest rates were regulated or succumb to the idea of helicopter money. I believe that what is important for market participants is to comply with the PD system and “regular and predictable” JGB issuance by public offering auctions. In addition, in my opinion, it is necessary for each companies to maintain their review systems in preparation for the coming day. As JGBs history teaches us, there is no secret or surprising way in Debt Management Policy. Therefore, it is important for us to follow the high road.

- I am concerned about the difference between the dynamism in the U.S. economy and the current situation in Japanese economy which lacks dynamism significantly. In this regard, what the BOJ will deal with secondary prices of JGBs and why mechanism to reduce fiscal spending does not work should be discussed. For example, in the U.S., we have seen a new movement in the labor market for the past month or so that has also affected the secondary market price of government bonds. Most interestingly, while we are coming to the end of the COVID-19 pandemic, the percentage of workers leaving their jobs for personal reasons has risen rapidly this year. There are many reasons for this, but the biggest reason is to advance their career. In the midst of the pandemic, we got to work from home and to think their career for the next phase after the COVID-19. This results in resigning jobs for their own reasons and spending their time for re-training and re-skilling. After that, they can use, for example, the LinkedIn and understand the information from the demand side, such as companies, in their own way, they will know where they can apply. A large number of people left their jobs and a large change occurred in April.

Of course, this will affect the supply and demand for labor, which results in affecting how wages are determined, expected inflation rate, and, as a result, the secondary market price of the

government bonds.

In the market place there are different views on the future. However, the most important thing is that each people who is capable and has a plan for the future is taking action on their own and as a result, they will affect the macroeconomic supply and demand in the labor market, expected inflation rate and secondary market price of government bonds. Workers take their own risk to take new actions. This is unlikely to occur in Japan, unfortunately.

Regarding China, despite the attempt not to raise consumer prices by the Communist Party of China, the “Producer Price Index (PPI)” which is equivalent to wholesale prices is out of hand. Since it is not possible to intervene in the prices of materials that are in short supply worldwide, such as energy prices, downward pressure on profits due to high raw material prices and low product prices is becoming the norm for private companies. I am of the view that the future is more difficult for them.

In the US, each person makes decisions. In Japan as well, each individual should think for themselves and make decisions with will and responsibility. In other words, we need to rethink the macroeconomic approach to change the state of our country. I may think that if people in Japanese society express their opinions with actions that they would take if they were in charge, the situation in which the secondary market of JGBs has not shown any signs so far may change. I believe that we should not confine our discussion to the framework of controlling prices, interest rates and wages.

→ (Explanation provided by the Financial Bureau)

- We think that what all members share in common is that we will need to consider matters from a variety of perspectives or to take into consideration the worst scenario.
- We share the same view of the issue and we believe it is necessary for us to consider various scenarios and take proper measures in response to the monetary policy of the BOJ.
- We believe that the HFT supervision will be under control of the Financial Services Agency and the debt management office will continue to keep a close eye on the market.
- As mentioned in this meeting in November last year, we are not considering issuing green bonds for the moment. However, we will continue to pay attention to overseas development.
- The importance of restoring the market function and the need for our coordination with the BOJ in this matter were also pointed out. In this regard, we have been focusing on our dialogue with the market and we will continue to do so including with JGB Market Special Participants and JGB investors. In addition, we believe it is important to keep in close communication with the BOJ.

► Finally, Mr. Oshika, Director-General of the Financial Bureau, greeted the members.