

3 Diversification of JGB Investor Base

At present, the outstanding amount of JGBs is enormous. Therefore, the promotion of JGB holdings by a wide range of investors has become important for stabilizing the market's absorption of JGBs and their holdings. Diverse investors' JGB holdings based on various investment needs are expected to stabilize the market by preventing transactions from going in a single direction even if market conditions change. Therefore, the MOF has made efforts to encourage JGB market participation and JGB holdings not only by domestic institutional investors, such as banks and life insurance companies, but also by foreign investors, and to promote JGB holdings by domestic retail investors.

Fig. 1-19 Breakdown by JGB and T-Bill Holders (December 2021, QE)

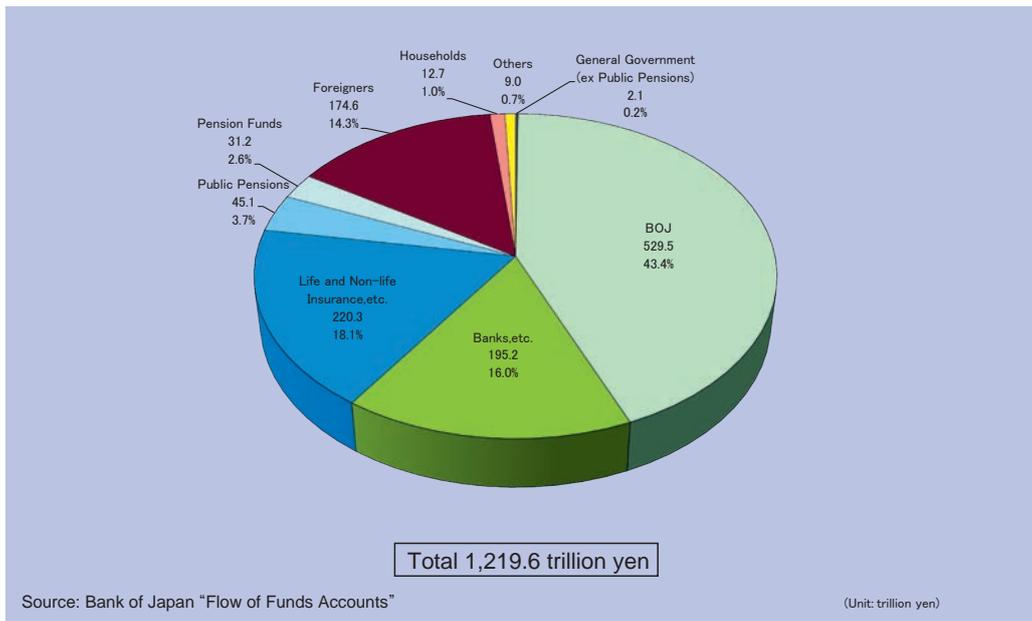


Fig. 1-20 Breakdown by JGB Holders (December 2021, QE)

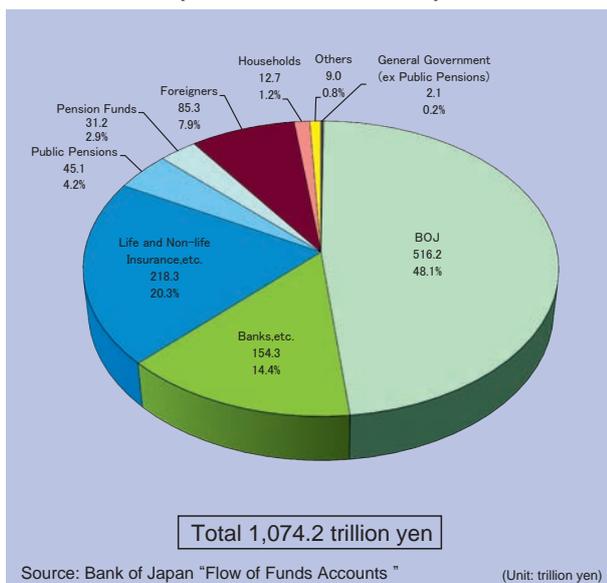
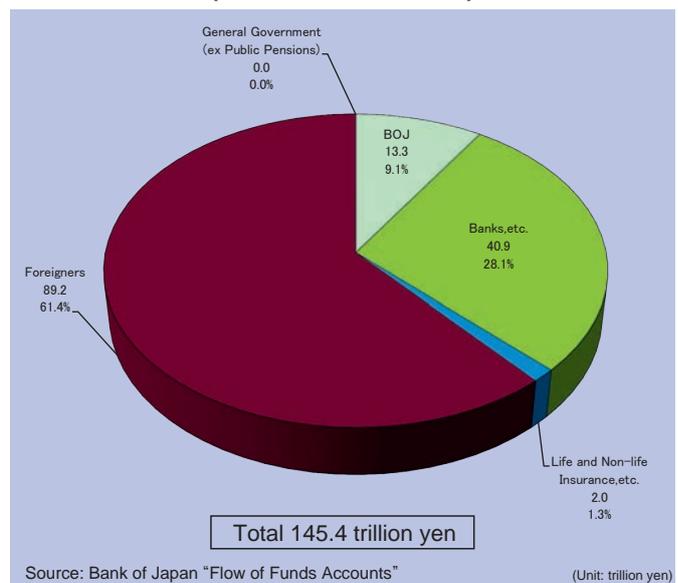


Fig. 1-21 Breakdown by T-Bill Holders (December 2021, QE)



(Note 1) "T-Bill" is the sum of "Treasury Bills (TBs)" and "Financial Bills (FBs)" with a maturity of 1 year or less and TBs and FBs have been jointly issued since February 2009.

(Note 2) "JGBs" in the figures represent the outstanding balance of JGBs (including FILP bonds) excluding TBs maturing within one year or less.

(Note 3) "Banks, etc." includes "Japan Post Bank", "Securities investment trust" and "Securities Companies."

(Note 4) "Life and Non-life insurance" includes "Japan Post Insurance."

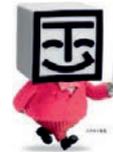
(1) JGB Holdings by Retail Investors

To promote JGB sales to retail investors, the government introduced 10-Year Floating-Rate Bonds for Retail Investors in March 2003, 5-Year Fixed-Rate Bonds for Retail Investors in January 2006 and 3-Year Fixed-Rate Bonds for Retail Investors in July 2010, and launched the new Over-The-Counter (OTC) sales system in October 2007.

JGB sales to retail investors were sluggish due to the impacts of factors such as the COVID-19 infection in FY2021, totaling about 3 trillion yen.

Over the long term, households’ share of JGB ownership has remained low. Given such trend, the government has developed advertisements to expand the scope of purchasers of JGBs for Retail Investors over the medium to long term. In FY2021, the government tried to increase the awareness of JGBs among young people and women (including those who have never purchased financial instruments). Specifically, JGB promotion characters Kokochan for JGBs for Retail Investors and Kokusai Sensei (JGB teacher) were used for banner, YouTube and other Internet ads, in-train video ads, digital signs at major railway stations and other outdoor transportation ads, magazine ads, newspaper ads, and posters and leaflets, as well as regional campaigns and seminars in Ishikawa, Shizuoka, Okinawa, and other prefectures. In FY2022, the government plans to promote ads to convey the characteristic attractiveness of JGBs for Retail Investors to people who have experienced and who have not experienced financial instrument purchases in an easy-to-understand manner, without narrowing down promotion targets by generation or gender.

<Kokusai Sensei>



<Kokochan>



Fig. 1-22 Household JGB Holdings Trend

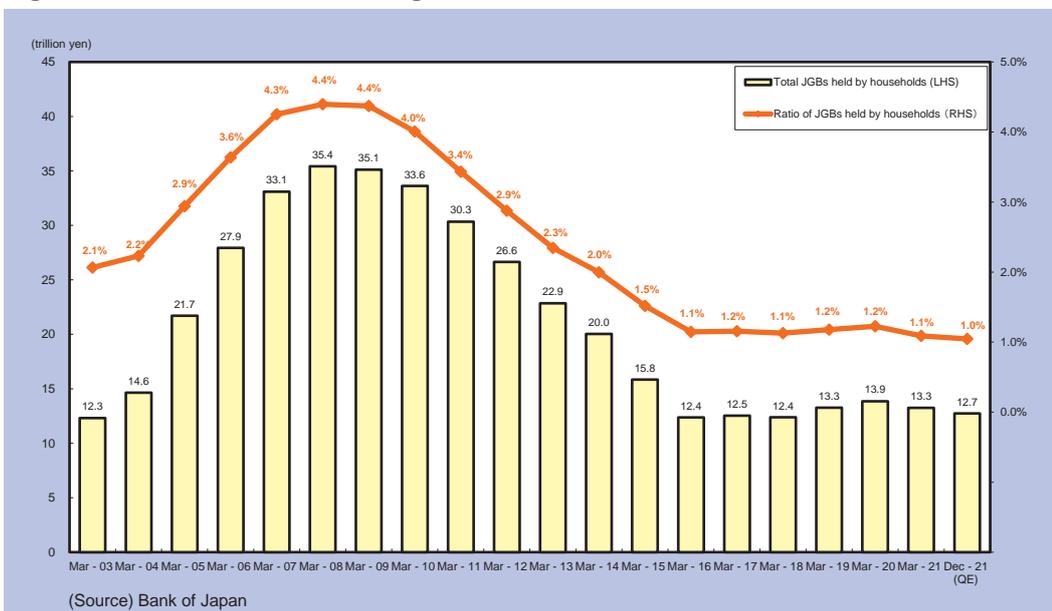


Fig. 1-23 Issuance and Redemption of JGBs for Retail Investors

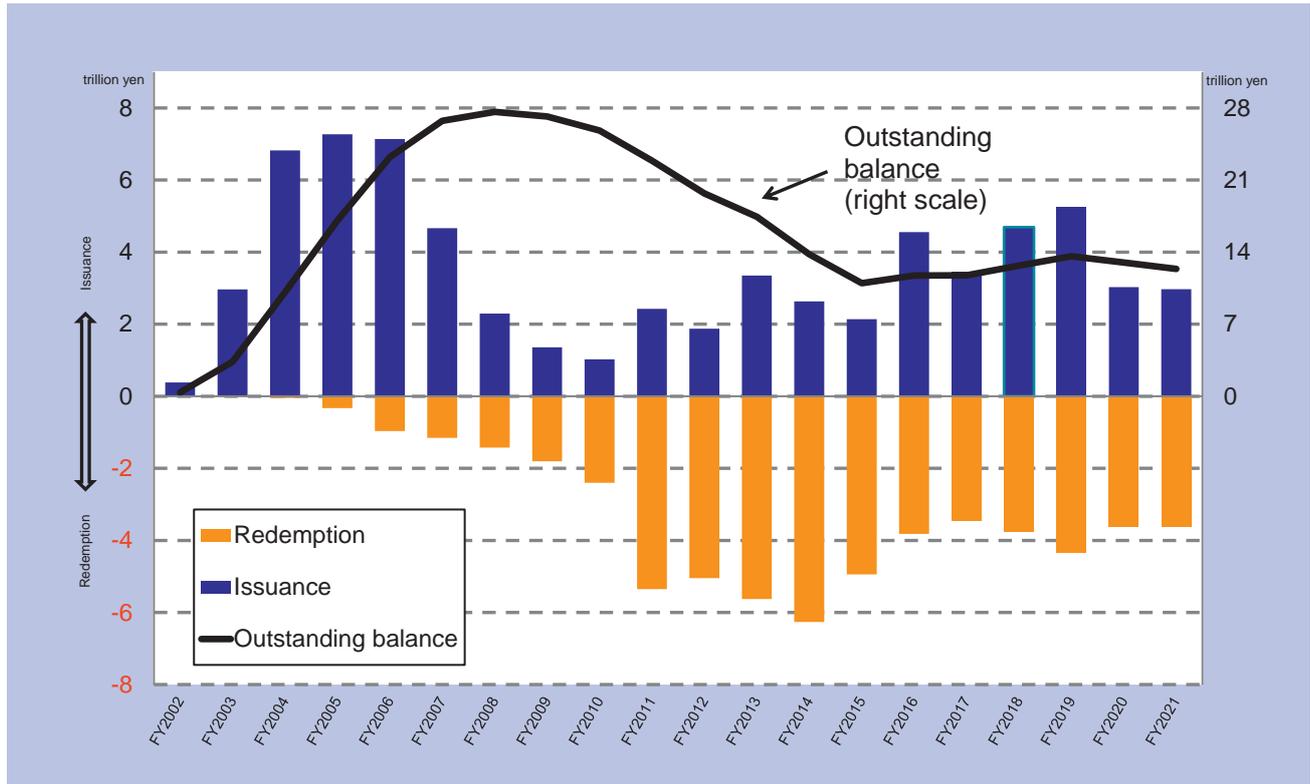
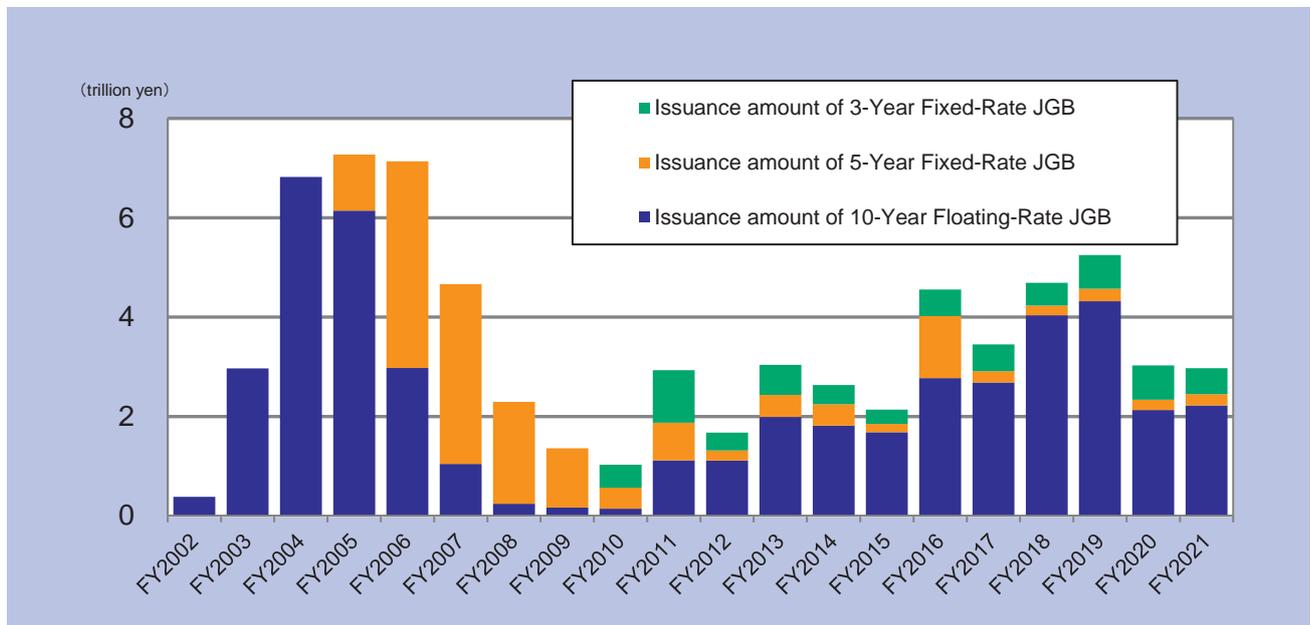


Fig. 1-24 Outstanding JGBs for Retail Investors



(2) JGB Holdings by Foreign Investors

A. Foreign Investors' Presence

The status of JGB holdings by foreign investors can be found in the “Flow-of-Funds Accounts” published by the BOJ on a quarterly basis (Fig. 1-25).

Foreign investors temporarily reduced JGB holdings as JGB volatility headed higher just after the BOJ’s decision at its Monetary Policy Meeting in April 2013 to introduce the Quantitative and Qualitative Monetary Easing policy. Nevertheless, foreign investors’ JGB holdings turned upward as JGB yields remained stable at low levels due to destabilization factors in emerging and other foreign countries.

As JGBs have looked attractive to foreign investors due to the low yen fundraising costs on the back of the tightening dollar supply-demand balance in recent years, their JGB holdings have followed an uptrend. Some foreign investors hold JGBs in favor of their stable yields. At the end of December 2021, foreign investors’ share of outstanding JGBs totaled 174.6 trillion yen, or 14.3%.

Foreign investors’ JGB investment has featured a focus on short-term issues. At the end of December 2021, they held 7.9% of outstanding JGBs (excluding T-Bills) and 61.4% of T-Bills (Fig. 1-26). Foreign investors also feature their active trading on the secondary market. Their share of secondary market transactions at the end of December 2021 reached 39.3% for spot trading and 67.8% for futures trading (Fig. 1-27). Foreign investors’ presence on the secondary market is greater than indicated by their JGB holdings. We should keep an eye on the presence of foreign investors.

Fig. 1-25 JGB Holdings by Foreign Investors

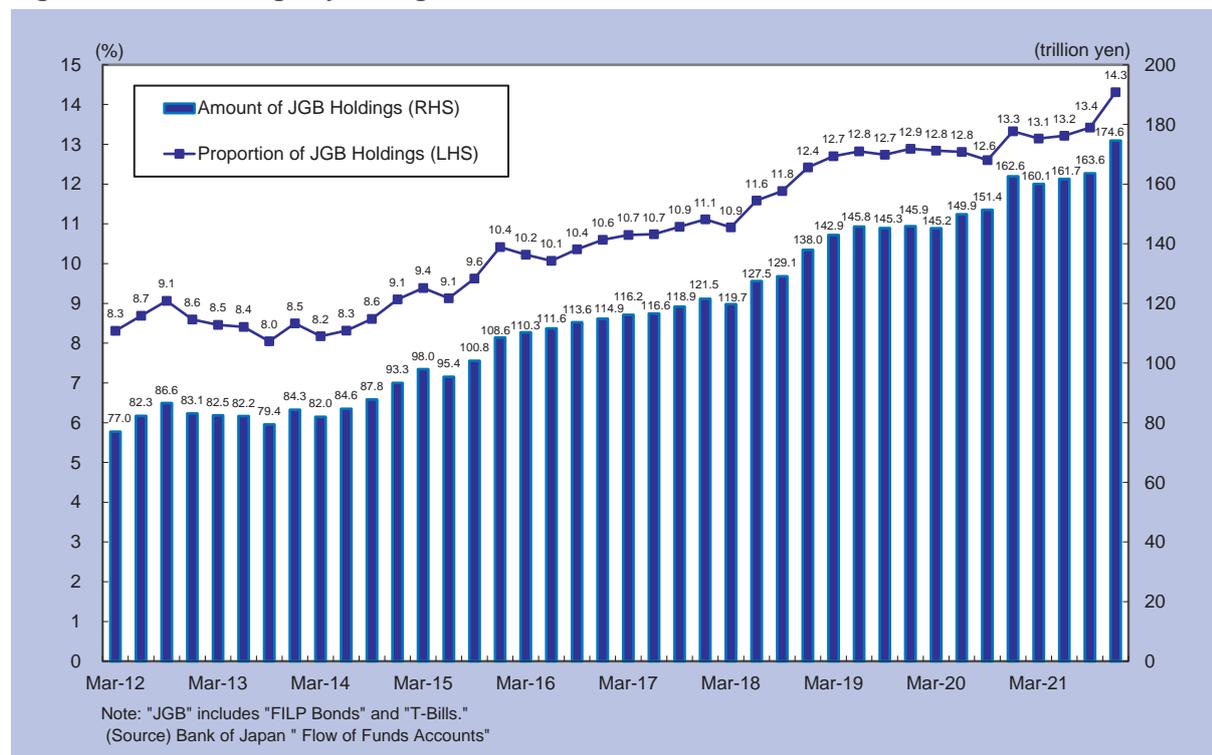


Fig. 1-26 JGB Holdings by Foreign Investors (including T-Bills)

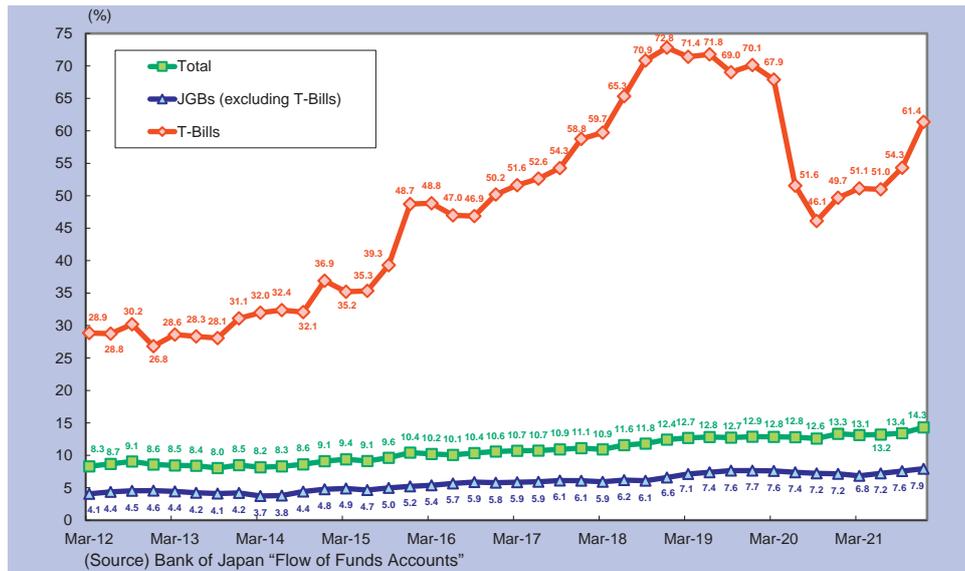
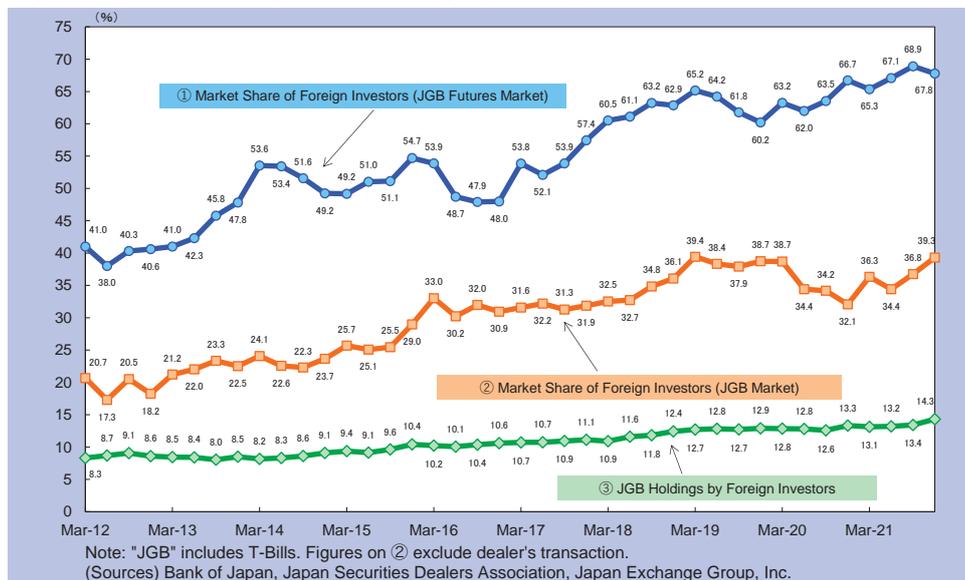


Fig. 1-27 JGB Holdings and Trading by Foreign Investors



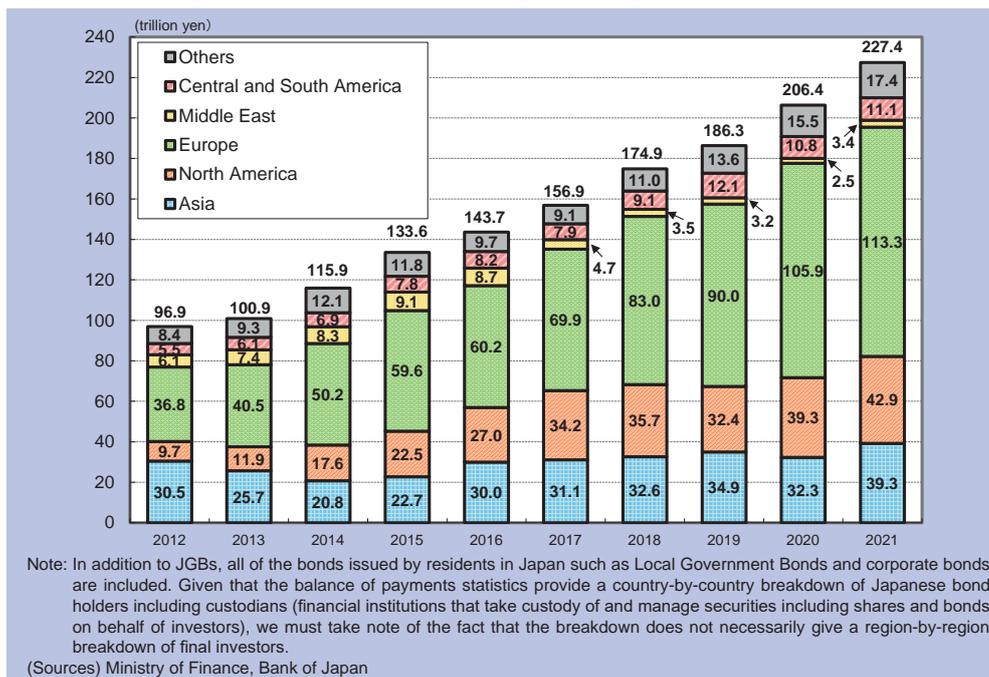
B. Breaking down Foreign Investors

There are various foreign investors, including “real money” institutional investors (such as central banks managing foreign exchange reserves, international financial institutions, pension funds, life insurance companies and asset management firms) and hedge funds.

Generally, it is said that “real money” institutional investors give greater priority to safety, liquidity and stable long-term holdings, while hedge funds mainly invest in relatively short-term period utilizing derivatives and so on. However, some “real money” institutional investors conduct relatively short-term investment, while some hedge funds implement relatively long-term investment. As shown above, there are a variety of investment styles. Recently, a wide range of foreign investors have intensified investment in short- to medium-term JGBs by taking advantage of basis swaps.

As for a region-by-region breakdown of foreign investors, the Ministry of Finance and the BOJ release a nationality-by-nationality breakdown of foreign investors’ Japanese bond holdings including JGBs in the balance of payments statistics (Regional Portfolio Investment and Financial Derivatives Position (Liabilities)). According to the balance of payments statistics, JGB and other Japanese bond holdings total (1) 113.3 trillion yen in Europe, (2) 42.9 trillion yen in North America, (3) 39.3 trillion yen in Asia, (4) 11.1 trillion yen in Central and South America, and (5) 3.4 trillion yen in the Middle East (Fig. 1-28). A country-by-country breakdown of Japanese bonds held overseas indicates that the five largest holders of these bonds are (1) the U.S. with 40.9 trillion yen, (2) Belgium with 35.3 trillion yen, (3) Luxembourg with 34.9 trillion yen, (4) China with 24.2 trillion yen, and (5) the U.K. with 14.0 trillion yen.

Fig. 1-28 Foreign Investors' Bond Holdings by Region (Custodian Base)



C. Overseas Investor Relations (IR) Efforts

The Ministry of Finance has made efforts to enhance relations with foreign investors in JGBs.

a. Introduction of Overseas IR Efforts

In 2005, the Ministry of Finance launched overseas IR efforts to diversify the JGB investor base, including foreign investors, for the purpose of stabilizing the JGB market and providing accurate information on a timely basis that meets investors' needs for the purpose of encouraging them to hold JGBs longer and more stably. Through overseas IR efforts, the MOF has accurately grasped foreign investors' trends and needs. The MOF has also given back the information to the government debt management policy.

The Ministry of Finance established the Office of Debt Management and JGB Investor Relations at the Debt Management Policy Division of the Financial Bureau in July 2014 to enhance information arrangements to implement more effective and efficient IR activities in cooperation with research and analysis divisions. In overseas IR activities, we provide various types of investors with information meeting their needs in a fine-tuned manner. For example, we frequently discuss practical topics, such as macroeconomic trends, various government policy measures, JGB issuance plans, and JGB market trends.

b. Overseas IR Activity Methods

We have adopted overseas IR activity methods fulfilling investors' needs, based on trends of overseas investors and market environment changes as well as opinions at such forums as the Advisory Council on Government Debt Management (ACGDM). Initially, we mainly sponsored seminars to improve foreign investors' awareness of JGBs. In response to improvements in foreign investors' awareness of JGBs through seminars, we have enhanced not only seminars but also direct visits to investors in recent years. We believe that our visits to foreign investors for direct talks allow us to grasp and respond to their needs in a fine-tuned manner, to promote their understanding of JGBs and the Japanese economy and to build close relations with them. As face-to-face meetings were restricted due to the expansion of COVID-19 starting FY2020,

The council pointed out that it would be important to discuss and consider a medium- to long-term Debt Management Policy from more multifaceted perspectives. The MOF has decided to launch a Study Group on Government Debt Management (Ref: Box 4 "Review of Advisory Council on Government Debt Management and Its Successor" (P26)).

we have conducted online overseas IR activities without visiting foreign countries. Online meetings allow us to contact various overseas investors without distance constraints, but, at the same time, entail problems including limited opportunities to meet for some regions due to the time difference.

The MOF has taken advantage of accumulated experiences with these IR activities over more than 10 years to implement more effective and efficient IR activities. For example, we prepare presentation materials based on foreign investors' past questions and matters of interest and have meetings with the foreign investors. Then, we sort out and accumulate information regarding matters of interest to foreign investors and their investment trends. Thus, we try to build better relations with them based on the PDCA (plan-do-check-act) cycle.

Through these IR activities, we have received various questions and opinions from foreign investors. These opinions are reflected in our debt management and other policies and used effectively. We have also established a question-and-answer column in the "JGB Newsletter" (English version) in an effort to develop better communications with investors.

c. Overseas IR Activities in FY2021

In FY2021, we conducted online overseas IR activities as in the previous year. Online meetings allowed us to interview a wide range of foreign investors not only in North America, Europe and Asia but also in Latin America and other regions where we have fewer opportunities for direct visits to local investors. In the year, we implemented a total of 50 online interviews with foreign investors (Fig. 1-29). Foreign investors indicated their interests in Japan's government debt management policy, its target year for achieving a primary balance surplus and its economic trends, including prices.

In the future, we will further enhance our overseas IR activities while utilizing online meetings. We will also consider resuming direct visits to overseas investors while watching the COVID-19 situation.

Separately from overseas IR activities, we usually provide lectures in foreign countries. As most international conferences were canceled in FY2021, however, we failed to provide lectures overseas.

In Japan, we also proactively provide lectures at seminars where foreign investors are invited to attend and interview foreign investors visiting Japan. In FY2021, lectures for and interviews with foreign investors were mostly implemented on an online basis. However, some of them were done in the form of direct face-to-face meetings with sufficient measures taken to prevent COVID-19 infection.

Fig.1-29 Number of Foreign Investors Subjected to Overseas Interviews

| | FY2016 | FY2017 | FY2018 | FY2019 | FY2020 | FY2021 |
|----------------------|--------|--------|--------|--------|--------|--------|
| Number of interviews | 98 | 131 | 139 | 60 | 52 | 50 |

Note 1: The figures are limited to meetings arranged by Office of Debt Management and JGB Investor Relations.

Note 2: The numbers from FY2020 and onward are of online interviews with overseas investors.

In this way, the overseas IR activities play a role in directly providing investors with accurate information on Japanese government debt management and economic policies while responding to wide-ranging and deep needs for information not only on JGBs but also on the economy and fiscal situation.