

2 JGB Issuance Plan

Japan has the worst fiscal conditions among major developed countries, including outstanding general JGBs estimated at about 1,105.4 trillion yen for the end of FY2024 and outstanding long-term central and local government debts at 1,315 trillion yen. It is getting more important for the Japanese government to adequately implement JGB Management Policy to secure the market's stable absorption of JGBs.

(1) JGB Issuance Plan for FY2023

A. Revision under supplementary budget

On November 10, 2023, the Japanese government revised the JGB Issuance Plan for FY2023 in line with a Cabinet decision on the draft FY2023 supplementary budget.

Due to the FY2023 supplementary budget, the issuance amount of Newly-issued Bonds in the JGB Issuance Plan for FY2023 was increased by 8.9 trillion yen. On the other hand, the JGB Issuance Plan for FY2023 (Supplementary Budget) increased total issuance amount by 0.4 trillion yen from the level of initial budget to 206.1 trillion yen by decreasing the issuance amount of FILP Bonds by 7.0 trillion yen due to the previous fiscal year's Fiscal Loan Fund investment results, etc.

As for the breakdown by financing methods, due to the reduction of the amount of Front-loading issuance of Refunding Bonds (Refunding Bonds scheduled to be issued in FY2023 in advance to cover redemptions during FY2024), JGB Market Issuance (Calendar Base) has not changed.

Fig. 1-7 JGB Issuance Plan for FY2023

< Breakdown by Legal Grounds >						< Breakdown by Financing Methods >					
(Unit: billion yen)						(Unit: billion yen)					
	Initial (a)	Supplementary Budget (b)	Revised in December				Initial (a)	Supplementary Budget (b)	Revised in December		
			(c)	(b) – (a)	(c) – (b)				(c)	(b) – (a)	(c) – (b)
Newly-issued Bonds	35,623.0	44,498.0	44,498.0	8,875.0	—	JGB Market Issuance (Calendar Base)	190,300.0	190,300.0	191,300.0	—	1,000.0
Construction Bonds	6,558.0	9,068.0	9,068.0	2,510.0	—	Non-Price Competitive Auction II, etc.	6,963.0	6,402.7	6,227.2	▲ 560.3	▲ 175.5
Special Deficit-Financing Bonds	29,065.0	35,430.0	35,430.0	6,365.0	—	Adjustment between fiscal years	3,017.3	3,933.3	3,108.8	916.0	▲ 824.5
Reconstruction Bonds	99.8	—	—	▲ 99.8	—	Subtotal Financed in the Market	200,280.3	200,636.0	200,636.0	355.7	—
GX Economy Transition Bonds	506.1	1,547.8	1,547.8	1,041.6	—	Sales for Households	3,500.0	3,500.0	3,500.0	—	—
FILP Bonds	12,000.0	5,000.0	5,000.0	▲ 7,000.0	—	BOJ Rollover	2,000.0	2,000.0	2,000.0	—	—
Refunding Bonds	157,551.3	155,090.2	155,090.2	▲ 2,461.1	—	Total	205,780.3	206,136.0	206,136.0	355.7	—
Total	205,780.3	206,136.0	206,136.0	355.7	—						

Note 1: Figures may not sum up to the total because of rounding.

Note 2: Buy-back program in FY2023 is planned to be implemented based on market conditions and through discussions with market participants.

Note 3: The maximum amount of front-loading issuance of Refunding Bonds in FY2023 is 35 trillion yen.

Note 4: "Adjustment between fiscal years" refers to leveling-off of the issuance between fiscal years through front-loading issuance and deferred issuance during an accounting adjustment period. (Ref: II Chapter 1 1(1) "JGBs by Legal Grounds of Issuance" (P36)).

B. Revision in December 2023

On December 22, 2023, based on the following, the government revised the JGB Issuance Plan for FY2023 (JGB Market Issuance (Calendar Base)) in line with the public announcement of the JGB Issuance Plan for FY2024.

- Through the Meeting of JGB Market Special Participants and the Meeting of JGB Investors held on December 6, 2023, the issuance plan of Japan Climate Transition Bonds for FY2023 was determined.
- In the JGB Issuance Plan for FY2024, the issuance amount of 20-Year Bonds was reduced compared to the issuance amount for FY2023 based on investor needs, and this reduction started from January 2024 in advance (reducing monthly issuance from 1.2 trillion yen to 1.0 trillion yen).

Fig. 1-8 Market Issuance Plan by JGB Type for FY2023

(Unit: trillion yen)

	Initial · Supplementary Budget		Revised in December		
	(per time)	(total ; a)	(per time)	(total ; b)	(b)-(a)
40-Year	0.7 × 6 times	4.2	0.7 × 6 times	4.2	—
30-Year	0.9 × 12 times	10.8	0.9 × 12 times	10.8	—
20-Year	1.2 × 12 times	14.4	1.2 × 9 times 1.0 × 3 times	13.8	▲ 0.6
10-Year	2.7 × 12 times	32.4	2.7 × 12 times	32.4	—
5-Year	2.5 × 12 times	30.0	2.5 × 12 times	30.0	—
2-Year	2.9 × 12 times	34.8	2.9 × 12 times	34.8	—
TBs		50.7		50.7	—
10-Year Inflation-Indexed	0.25 × 4 times	1.0	0.25 × 4 times	1.0	—
Japan Climate Transition Bonds		—		1.6	1.6
Liquidity Enhancement Auction		12.0		12.0	—
Total		190.3		191.3	1.0

Figure.1 Issuance for TBs

	Initial · Supplementary Budget			Revised in December		
	(a)			(b)		
TBs (1-Year)	3.5	× 12 times	42.0	3.5	× 12 times	42.0
TBs (6-Month)			8.7			8.7

Figure.2 Issuance by Zones for Liquidity Enhancement Auctions

	Initial · Supplementary Budget		Revised in December	
	(a)	(b)	(b)-(a)	
15.5-39 Year	3.0	3.0	—	
5-15.5 Year	6.0	6.0	—	
1-5 Year	3.0	3.0	—	

Note 1: The 40-year Bonds will be issued in May, July, September, November, January and March.

Note 2: Treasury Bills (TBs) are jointly issued with Financing Bills (FBs), under unified names of Treasury Discount Bills (T-Bills).

Note 3: The 10-year Inflation-Indexed Bonds are planned to be issued in May, August, November and February. The issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.

Note 4: The issuance of liquidity enhancement auction and its allocation among each zone may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.

Note 5: "Japan Climate Transition Bonds" means GX Economy Transition Bonds and its Refunding Bonds issued as new financial instruments based on a framework regulating the Use of Proceeds.

Its issuance amount in FY2023 (Revised in December) is set at 0.8 trillion yen in 10-Year and 0.8 trillion yen in 5-Year.

(2) JGB Issuance Plan for FY2024

On December 22, 2023, the Japanese government publicly announced the JGB Issuance Plan for FY2024 in line with a Cabinet decision on the draft FY2024 government budget.

When developing the JGB Issuance Plan for FY2024, where JGB issues including Refunding Bonds will total 182.0 trillion yen, the government held careful dialogues with market participants through the Meeting of JGB Market Special Participants, Meeting of JGB Investors and so on, and has formulated the JGB Issuance Plan for FY2024 considering investor needs and market trends.

Subsequently, on January 16, 2024, the JGB Issuance Plan for FY2024 was changed due to changes in the approximate figures for the draft FY2024 government budget. The JGB Issuance Plan for FY2024 was then updated on March 14, 2024 in line with the decision on the issuance schedule for Japan Climate Transition Bonds.

A. Overview of Discussions at Various Meetings

The main opinions at the Meeting of JGB Market Special Participants (primary dealers) and the Meeting of JGB Investors held on December 6, 2023 were as follows:

- Since the FY2020 supplementary budget, there has been a substantial increase in the issuance amount of JGBs, and, if the issuance amount for the coming fiscal year will be substantially decreased when compared to the current fiscal year, then we think that the reduction of Short-term Bonds should be taken as a basic policy. Similarly, we believe that there is room for a certain number of reductions in coupon-bearing bonds, which has increased in the past, in anticipation of a decline in demand due to rising interest rates and the issuance of Japan Climate Transition Bonds.
- It is difficult to predict the monetary policy trends and overseas interest rate movements for next year, and we must also keep refunding risks in mind, so, from a long-term perspective, we believe that it would be better to reduce the amount of Short-term Bonds, which were substantially increased in response to COVID-19.
- 6-month T-Bills were also issued as TBs during COVID-19, but we recognize that the current situation is in the process of normalization, and we believe that it would be natural to stop issuing TBs and return to FBs only.
- Our preference would be for 30-Year and 40-Year Bonds to remain unchanged. Although major investors are in the final stages of correcting duration mismatches towards 2025, we believe that latent demand from final investors is still strong in a phase where the market settles and interest rates rise.
- Because interest rates have risen, from the perspective of ALM management, interest in the medium- to long-term zone continues to be extremely high compared to the super-long-term zone in which investments have been invested until now, and, although it will depend on interest rate levels, we believe that demand for 20-Year Bonds is expected to decline.
- We recognize that 20-Year Bonds are the zone most affected by the flexible yield curve control operations. We believe that it would be desirable to move forward the reductions and implement them in FY2023, rather than in FY2024.
- As for 5-Year and 10-Year Bonds, we estimate that Japan Climate Transition Bonds will be issued as 5-Year and 10-Year Bonds next year as well, and in that case we believe that both maturities can be reduced.
- 2-Year Bonds have been issued smoothly, supported by the outlook that monetary easing will continue for a long time and the collateral need, but, with short-term interest rates likely to rise as early as January next year, we believe that collateral needs and investment needs will see a considerable relative fall, and as such reducing 2-Year Bonds issuance is high on our priority list.
- With regard to Liquidity Enhancement Auctions, we expect that the issuance amount of the remaining maturity of 5-15.5 years will be increased. Because there are many issues that are prone to being short on a regular basis, we believe that increasing them will facilitate market making and contribute to some improvement in market liquidity.
- Massive fiscal spending and financing via JGB issuance was conducted to address COVID-19, then we are very concerned that this level of inflated expenditure is becoming normalized and fiscal discipline is becoming loose.

Without fiscal sustainability, investors will not be likely to purchase JGBs, and volatility will increase. What is important is how to ensure fiscal sustainability.

Based on these discussions, the government has formulated the JGB Issuance Plan for FY2024.

B. Breakdown by legal grounds

The JGB issuance amount in FY2024 declines by 23.8 trillion yen from the initial level for FY2023 to 182.0 trillion yen but is still extremely high.

A breakdown of the FY2024 JGB issuance plan shows that the amount of Construction Bonds and Special Deficit-Financing Bonds to provide revenues for the General Account Budget has been decreased by 0.2 trillion yen from the initial level for FY2023 to 35.4 trillion yen. Aiming at financing reconstruction projects for recovering from the Great East Japan Earthquake, Reconstruction Bonds are issued as bridging finance until Special Taxes for Reconstruction and other revenues are receivable to the government. In FY2024, the government is planning to issue Reconstruction Bonds worth 0.1 trillion yen. GX Economy Transition Bonds were established for the government to carry out bold upfront investment support of 20 trillion yen in order to realize more than 150 trillion yen of GX investment over the next 10 years through public-private partnerships, and in FY2024 the government is planning to issue GX Economy Transition Bonds worth 0.7 trillion yen. Children Special Bonds will be issued depending on the need as bridging finance in order not to be short of financial resources until stable financial resources will be secured, and in FY2024 the government is planning to issue Children Special Bonds worth 0.2 trillion yen. The FILP Bonds issuance amount is determined not only by the scale of new lending under the Fiscal Loan Program but also by the financial position of the overall Fiscal Loan Fund. The FY2024 FILP Bonds issuance amount is decreased by 2.0 trillion yen from the initial level for the previous year to 10.0 trillion yen. Refunding Bonds are issued to refund the General Bonds that were issued in the past and are accounting for a majority of total annual JGB issues. In FY2024, the Refunding Bonds issuance amount is planned to decrease by 22.0 trillion yen from the initial level of the previous year to 135.5 trillion yen.

Ref: II Chapter 1 1(1)
“JGBs by Legal Grounds
of Issuance” (P36)

Fig. 1-9 JGB Issuance Plan for FY2024 (Breakdown by Legal Grounds)

(Unit: billion yen)

	FY2023(Initial)	FY2023 (Supplementary Budget)	FY2023 (Revised in December)	FY2024(Initial)		
	(a)	(b)	(c)	(d)	(d) – (a)	(d) – (c)
Newly-issued Bonds	35,623.0	44,498.0	44,498.0	35,449.0	▲ 174.0	▲ 9,049.0
Construction Bonds	6,558.0	9,068.0	9,068.0	6,579.0	21.0	▲ 2,489.0
Special Deficit-Financing Bonds	29,065.0	35,430.0	35,430.0	28,870.0	▲ 195.0	▲ 6,560.0
Reconstruction Bonds	99.8	—	—	146.1	46.3	146.1
GX Economy Transition Bonds	506.1	1,547.8	1,547.8	663.3	157.1	▲ 884.5
Children Special Bonds	—	—	—	221.9	221.9	221.9
FILP Bonds	12,000.0	5,000.0	5,000.0	10,000.0	▲ 2,000.0	5,000.0
Refunding Bonds	157,551.3	155,090.2	155,090.2	135,515.4	▲ 22,036.0	▲ 19,574.9
Total	205,780.3	206,136.0	206,136.0	181,995.6	▲ 23,784.7	▲ 24,140.4

Note 1: Figures may not sum up to the total because of rounding.

Note 2: Buy-back program in FY2024 is planned to be implemented based on market conditions and through discussions with market participants.

Note 3: The maximum amount of front-loading issuance of Refunding Bonds in FY2024 is 44.5 trillion yen.

Fig. 1-10 Historical Changes in JGB Issuance Plan

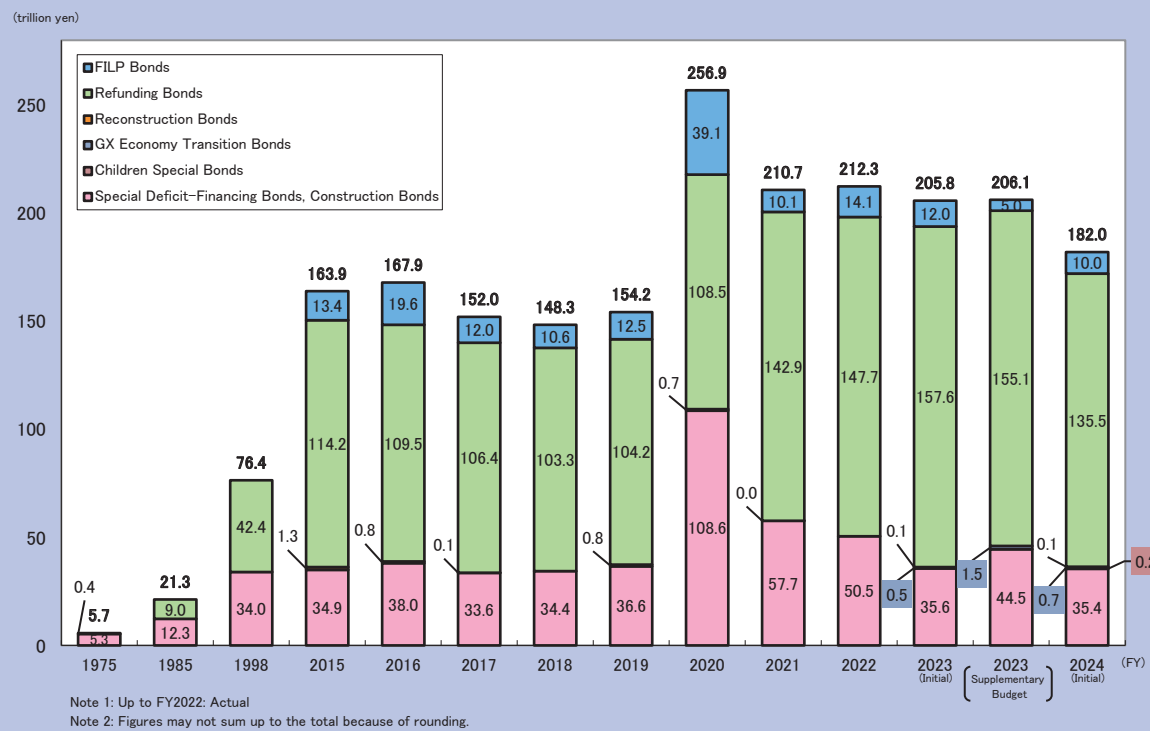
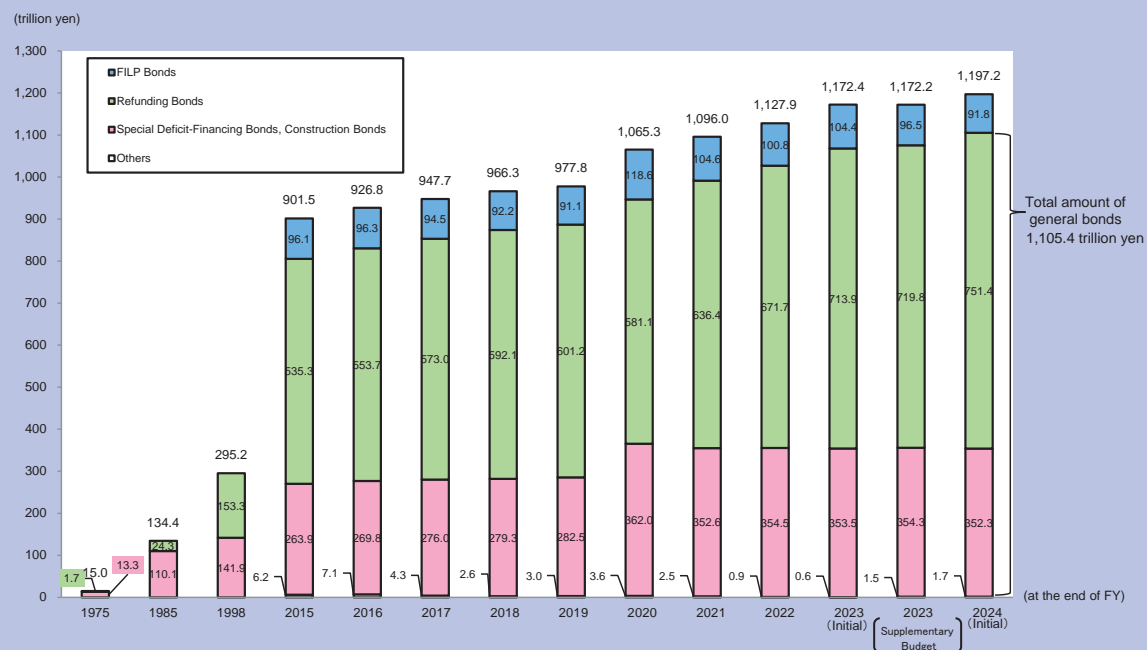


Fig. 1-11 Historical Changes in Outstanding Amount of JGB



Note 1: Up to FY2022: Actual

FY2023 (Initial): Estimate based on the JGB Issuance Plan for FY2023 (Initial), including 25 trillion yen of front-loading refunding bonds.

FY2023 (Supplementary Budget): Estimate based on the JGB Issuance Plan for FY2023 (Supplementary Budget), including 35 trillion yen of front-loading refunding bonds.

FY2024: Estimate based on the JGB Issuance Plan for FY2024 (Initial), including 44.5 trillion yen of front-loading refunding bonds.

Note 2: Figures may not sum up to the total because of rounding.

Note 3: "Others" includes the following JGBs.

• "Reconstruction Bonds" (from the end of FY2015 to the end of FY2024, excluding the end of FY2023 (Supplementary Budget))

• "Special Bonds for Covering Public Pension Funding" (from the end of FY2015 to the end of FY2022)

• "GX Economy Transition Bonds" (from the end of FY2023 (Initial) to the end of FY2024)

• "Children Special Bonds" (only the end of FY2024)

C. Breakdown by Financing Methods

The FY2024 JGB issuance amount of 182.0 trillion yen required for the budget as mentioned in the previous section is categorized by three financing methods: “JGB market issuance,” “Sales for Households” and “BOJ Rollover”.

Of the “JGB market issuance” accounting for most of the total JGB Issuance, the JGB Market Issuance (Calendar Base) (㊦①) is set at 171.0 trillion yen, down 19.3 trillion yen from the initial level for FY2023.

The JGB issuance amount for Non-Price Competitive Auction II, etc., which has included the planned amount for Non-Price Competitive Auction II (㊦②, ③) and the estimated revenue from JGB issuance at prices above par value, is put at 5.3 trillion yen for FY2024.

Sales for Households, which widely fluctuates depending on interest rate and other trends, is set at 3.5 trillion yen, the same amount from the initial level for the previous year, with current sales conditions taken into account.

“BOJ Rollover” is put at 1.7 trillion yen in FY2024, down 0.3 trillion yen from the initial level for the previous year, based on the total JGB issuance amount and market conditions.

Ref: II Chapter 1 1(3)
“Methods of Issuance”
(P43)

㊦① The JGB Market Issuance (Calendar Base) refers to the amount (par value) of JGBs planned to be regularly issued through scheduled auctions from April to next March.

㊦② Non-Price Competitive Auction II (Ref: II Chapter 1 1 (3) “Methods of Issuance” (P43).

㊦③ The issuance amount for Non-Price Competitive Auction II is put at 4.5% of the JGB Market Issuance (Calendar Base) amount for JGBs subject to the auction (40-Year, 30-Year, 20-Year, 10-Year, 5-Year and 2-Year Bonds).

Fig. 1-12 JGB Issuance Plan for FY2024 (Breakdown by Financing Methods)

< Breakdown by Financing Methods >

(Unit: billion yen)

	FY2023 (Initial)	FY2023 (Supplementary Budget)	FY2023 (Revised in December)	FY2024(Initial)		
	(a)	(b)	(c)	(d)	(d) – (a)	(d) – (c)
JGB Market Issuance (Calendar Base)	190,300.0	190,300.0	191,300.0	171,000.0	▲ 19,300.0	▲ 20,300.0
Non-Price Competitive Auction II , etc.	6,963.0	6,402.7	6,227.2	5,265.0	▲ 1,698.0	▲ 962.2
Adjustment between fiscal years	3,017.3	3,933.3	3,108.8	530.6	▲ 2,486.7	▲ 2,578.2
Subtotal Financed in the Market	200,280.3	200,636.0	200,636.0	176,795.6	▲ 23,484.7	▲ 23,840.4
Sales for Households	3,500.0	3,500.0	3,500.0	3,500.0	—	—
BOJ Rollover	2,000.0	2,000.0	2,000.0	1,700.0	▲ 300.0	▲ 300.0
Total	205,780.3	206,136.0	206,136.0	181,995.6	▲ 23,784.7	▲ 24,140.4

Note 1: Figures may not sum up to total because of rounding.

Note 2: “Adjustment between fiscal years” refers to leveling-off of the issuance between fiscal years through front-loading issuance and deferred issuance during an accounting adjustment period. (Ref: II Chapter 1 1(1) “JGBs by Legal Grounds of Issuance” (P36)).

D. Market Issuance Plan by JGB Types

The maturity composition of the JGB Market Issuance (Calendar Base) is determined with market demands and trends taken into account, covering maturities from the short-term to the super long-term, based on government debt management policy requirements.

The FY2024 JGB Issuance Plan reduces the JGB Market Issuance (Calendar Base) by 19.3 trillion yen from the initial level of the previous year to 171.0 trillion yen. Most of the reduction from FY2023(Initial) is used for the reduction of TBs. 6-Month TBs, which were not issued before the COVID-19 pandemic are totally decreased. In addition, by means of the reduction of 2-Year Bonds, 5-Year Bonds, 10-Year Bonds and 20-Year Bonds, the maturity structure is planned to be normalized.

Consequently, the calendar-base (flow basis) average maturity of JGBs for FY2024 is estimated at eight years and seven months.

Fig. 1-13 Market Issuance Plan by JGB Type for FY2024

(Unit: trillion yen)

	FY2023 (Initial · Supplementary Budget) (per time) (total ; a)		FY2023 (Revised in December) (per time) (total ; b)		FY2024 (Initial) (per time) (total ; c)		(c)-(a)	(c)-(b)
40-Year	0.7 × 6 times	4.2	0.7 × 6 times	4.2	0.7 × 6 times	4.2	—	—
30-Year	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.9 × 12 times	10.8	—	—
20-Year	1.2 × 12 times	14.4	1.2 × 9 times	13.8	1.0 × 12 times	12.0	▲ 2.4	▲ 1.8
10-Year	2.7 × 12 times	32.4	2.7 × 12 times	32.4	2.6 × 12 times	31.2	▲ 1.2	▲ 1.2
5-Year	2.5 × 12 times	30.0	2.5 × 12 times	30.0	2.3 × 12 times	27.6	▲ 2.4	▲ 2.4
2-Year	2.9 × 12 times	34.8	2.9 × 12 times	34.8	2.6 × 12 times	31.2	▲ 3.6	▲ 3.6
TBs		50.7		50.7		38.4	▲ 12.3	▲ 12.3
10-Year Inflation-Indexed	0.25 × 4 times	1.0	0.25 × 4 times	1.0	0.25 × 4 times	1.0	—	—
Japan Climate Transition Bonds		—		1.6		1.4	1.4	▲ 0.2
Liquidity Enhancement Auction		12.0		12.0		13.2	1.2	1.2
Total		190.3		191.3		171.0	▲ 19.3	▲ 20.3

Note 1: The 40-year Bonds will be issued in May, July, September, November, January and March.

Note 2: Treasury Bills (TBs) are jointly issued with Financing Bills (FBs), under unified names of Treasury Discount Bills (T-Bills).

Note 3: The 10-year Inflation-Indexed Bonds are planned to be issued in May, August, November and February. The issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.

Note 4: The issuance of liquidity enhancement auction and its allocation among each zone may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.

Note 5: "Japan Climate Transition Bonds" means GX Economy Transition Bonds and its Refunding Bonds issued as financial instruments based on a framework regulating the Use of Proceeds.

The issuance amount in FY2024 showed on the table above takes account of the issuance as Refunding Bonds and deferred issuance during an accounting adjustment period of FY2023 and FY2024.

10-Year Japan Climate Transition Bonds will be issued in May and October, and 5-Year Japan Climate Transition Bonds will be issued in July and January.

The issuance is assumed to be implemented according to Fig. 1-15, and adjusted in a flexible manner in response to market circumstances and demands of investors based on discussions with market participants.

Fig. 1-14 Issuance for TBs

(Unit: trillion yen)

	FY2023 (Initial · Supplementary Budget) (a)		FY2023 (Revised in December) (b)		FY2024(Initial) (c)		(c)-(a)	(c)-(b)
TBs (1-Year)	3.5 × 12 times	42.0	3.5 × 12 times	42.0	3.2 × 12 times	38.4	▲ 3.6	▲ 3.6
TBs (6-Month)		8.7		8.7		—	▲ 8.7	▲ 8.7

Fig. 1-15 Issuance for Japan Climate Transition Bonds

(Unit: trillion yen)

	FY2023 (Initial · Supplementary Budget) (a)		FY2023 (Revised in December) (b)		FY2024 (Initial) (c)		(c)-(a)	(c)-(b)
10-Year		—	0.8 × 1 time	0.8	0.35 × 2 times	0.7	0.7	▲ 0.1
5-Year		—	0.8 × 1 time	0.8	0.35 × 2 times	0.7	0.7	▲ 0.1

Fig. 1-16 Issuance by Zones for Liquidity Enhancement Auctions

(Unit: trillion yen)

	FY2023 (Initial · Supplementary Budget)	FY2023 (Revised in December)	FY2024 (Initial)		
	(a)	(b)	(c)	(c)-(a)	(c)-(b)
15.5-39 Year	3.0	3.0	3.0	—	—
5-15.5 Year	6.0	6.0	7.2	1.2	1.2
1-5 Year	3.0	3.0	3.0	—	—

Fig. 1-17 Historical Changes in JGB Market Issuance by JGB Type

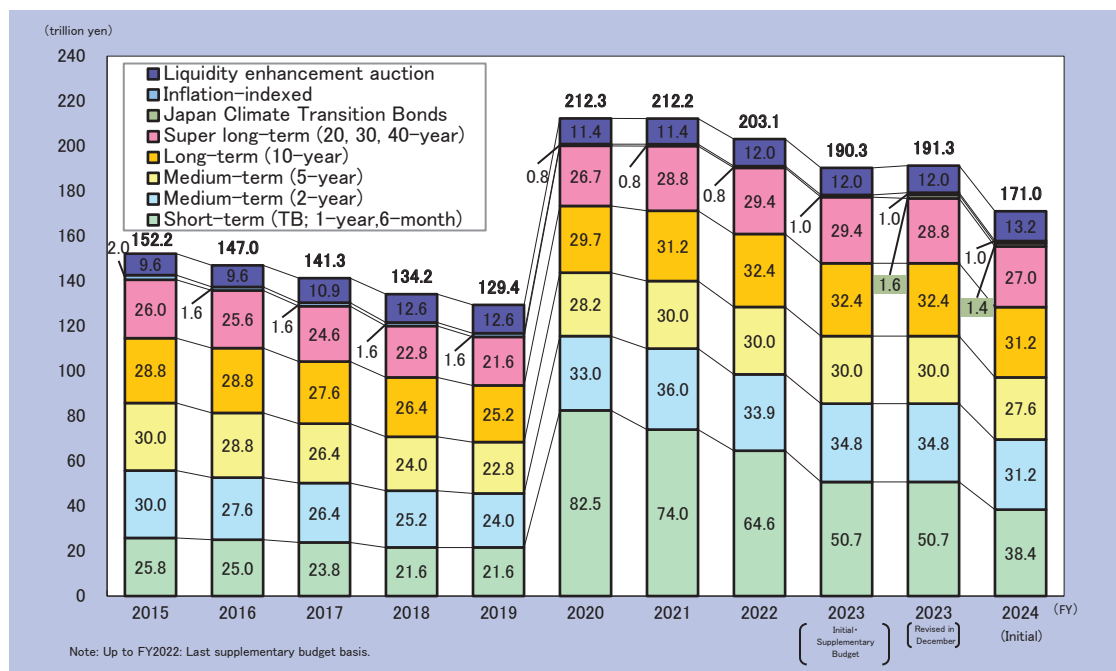
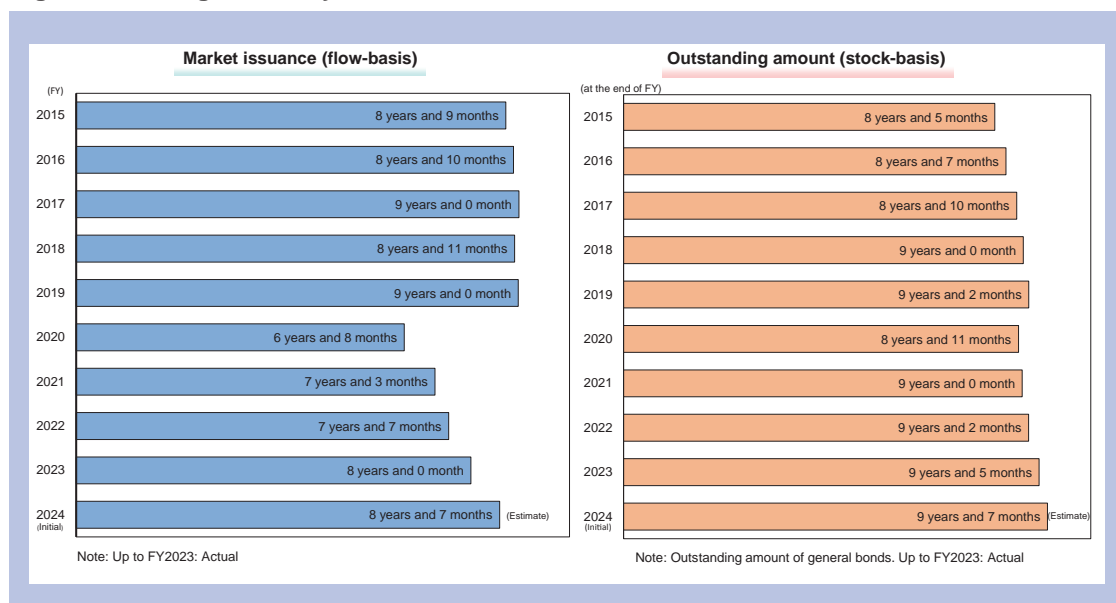


Fig. 1-18 Average Maturity of JGBs



Box 3 Cost-at-Risk Analysis

1 Objective

Government debt management must deal with various future risks. It is important to properly assess and manage these risks in order to minimize fundraising costs in the medium-to-long term.

When drafting the annual JGB Issuance Plan, the Ministry of Finance engages in a dialogue with market participants and additionally uses the results of the Cost-at-Risk (“CaR”) analysis for quantitative examination purposes.

Drafting of the JGB Issuance Plan should not be based solely on CaR analysis and other quantitative analyses. It is vital that the JGB Issuance Plan is formulated from a basis of comprehensive judgment covering investor demand based on dialogue with market participants, the need for maintaining and enhancing market liquidity, and other factors.

2 CaR Analysis

The CaR analysis simulates future chronological interest rate fluctuations using a probabilistic interest rate model and measures and assesses the distribution of future interest payments arising from JGB Issuance Plans and the outstanding amount of JGBs. The analysis estimates the average of interest payments (cost) over the next 10 years and the degree of their fluctuations (risk).

Fig. B3-1 Framework of CaR Analysis

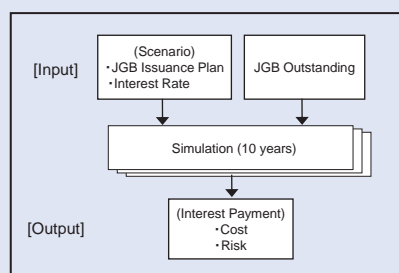
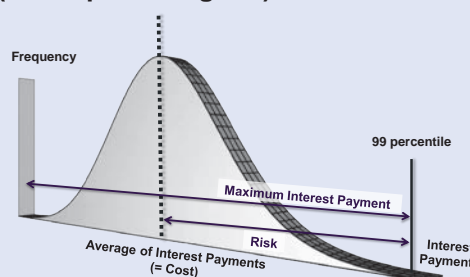


Fig. B3-2 Distribution of Interest Payments (Conceptual Diagram)

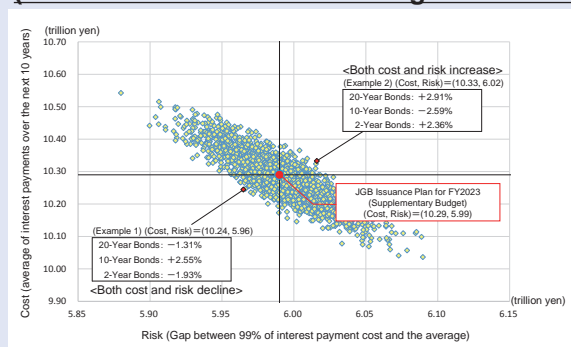


3 Cost and Risk Trend

Fig. B3-3 is from a document the Ministry of Finance presented at the Meeting of JGB Market Special Participants on December 6, 2023.

Based on the maturity composition of the JGB Issuance Plan for FY2023 (Supplementary Budget), 2,000 patterns of the coupon-bearing JGB maturity composition have been randomly generated to analyze the cost-risk relationship. This indicates that both cost and risk decline for 20- and 2-Year JGB issues through a cut in their shares of the composition from the JGB Issuance Plan for FY2023 (Supplementary Budget) and for 10-Year issues through an increase in their share of the composition.

Fig. B3-3 Cost-at-Risk Analysis
(Document for the 107th Meeting of JGB Market Special Participants (December 6, 2023))



[Assumptions]

- Target bonds: General Bonds (excluding Special Bonds for Covering Public Pension Funding, Reconstruction Bonds, and GX Economy Transition Bonds)
- Analysis period: 10 years from FY2023
- Newly-Issued Bonds: Data for the Economic Growth Achieved Case in the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis (July 2023)
- Refunding Bonds: Estimated with consideration given to the utilization of surplus in the Special Account of Government Debt Consolidation Fund
- Interest rates: A total of 3,000 interest rate paths generated by the probabilistic interest rate model (the HJM model [Note 1]) are adjusted as follows for each case:

(10-Year JGB Yield) The average at each time point is identical to the relevant nominal long-term interest rate level for the Economic Growth Achieved Case in the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis.

(Other JGB yields) The averages at each time point are identical to the relevant estimates based on a simple linear regression model [Note 2] and the relevant nominal long-term interest rate level for the Economic Growth Achieved Case in the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis.

Note 1: The HJM model generates interest rate paths based on the current yield curve as the standard, and volatility over the past 20 years (the current yield curve is as of the end of March 2023).

Note 2: The simple linear regression model is estimated from 10-year and other JGB yields in the past 20 years.

Box 4 Initial Issuance of “Japan Climate Transition Bonds”

① “Japan Climate Transition Bonds” as labelled bonds for GX Economy Transition Bonds

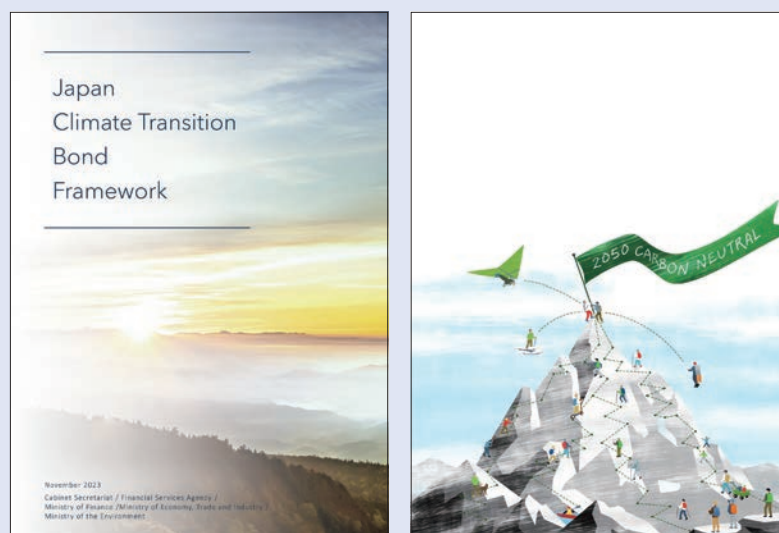
“Japan Climate Transition Bonds”, which are labelled bonds for GX Economy Transition Bonds, were issued as the world's first transition bonds by a sovereign issuer. In addition to procuring funds for GX investments from a wide range of investors, the aim of these bonds are to foster understanding of GX policies and to promote the expansion of transition finance, both domestically and internationally.

For the initial issuance of Japan Climate Transition Bonds, discussions started in earnest since around the summer of 2023 via the Government-Related Ministries and Agencies Liaison Conference on GX Economy Transition Bonds Issuance and the GX Implementation Council etc., and relevant ministries and agencies also started to prepare for formulating a framework that summarizes use of proceeds etc., and obtaining opinions from external reviewers for alignment with international standards (second party opinion).

In November 2023, the framework for the bonds was released, and second party opinions were obtained from external reviewers. Subsequently, based on discussions with market participants, the timing, size, and other details of the issuance were announced in December 2023, followed by IR activities to a wide range of market participants both in and outside of Japan, which were conducted through public and private cooperation. In February 2024, the bonds were certified by the Climate Bonds Initiative (CBI), an international NPO, stating that the bonds meet the Climate Bond Standards that have been established by the CBI.

After these preparations, in February 2024 auctions for Japan Climate Transition Bonds were held as the world's first sovereign transition bonds. About 800.0 billion yen of 10-Year bonds and 800.0 billion yen of 5-Year bonds were issued, raising a total of about 1.6 trillion yen as planned.

Fig. B4 Japan Climate Transition Bond Framework



② IR focused on GX

In preparation for the initial issuance of Japan Climate Transition Bonds, since the framework was publicized in November 2023, we have conducted intensive investor meetings focused on GX through the cooperation with the Ministry of Economy, Trade and Industry, securities companies, and external reviewers targeted market participants of both in and outside of Japan. In Japan, a number of seminars have been held both in person and online, with a total of about 800 companies and about 1,500 market participants attending. Outside of Japan, we visited Europe and the U.S. for one week each from late January to early February 2024 where we held discussions with a total of about 40 market participants including opinion leaders in the ESG industry.

In addition, we met with market participants outside of Japan, by visiting Asia, the Middle East, and other regions, as well as taking advantage of international conferences in Japan, to explain the status of Japan's fiscal and macroeconomic environment, and to convey our efforts on GX. Please refer to Part I, 3 (2) C “Overseas IR Initiatives” (P31).