2 JGB Issuance Plan

Regarding the fiscal conditions in Japan, outstanding general JGBs estimated at about 1,128.5 trillion yen for the end of FY2025 and outstanding long-term central and local government debts at 1,330 trillion yen. It is getting more important for the Japanese government to adequately oparate Debt Management Policy to secure the market's stable absorption of JGBs.

Ref. III Supplement (10) Lon-term Debt Outstanding of Central and Local Governments (P170)

(1) JGB Issuance Plan for FY2024 (Revision under supplementary budget)

On November 29, 2024, the Japanese government revised the JGB Issuance Plan for FY2024 in line with a Cabinet decision on the draft FY2024 supplementary budget.

Due to the FY2024 supplementary budget, the issuance amount of Newly-issued Bonds in the JGB Issuance Plan for FY2024 was increased by 6.7 trillion yen. Besides, increasing amount of GX Economy Transition Bonds and decreasing amount of FLIP Bonds, Refunding Bonds, etc, the total issuance amount was increased by 5.5 trilion yen from the level of initial budget to 187.5 trillion yen.

In response to the increase in the total JGB issuance of 5.5 trillion yen, and given the extremely tight supply-demand conditions in the short-term bonds market, the issuance of short-term government bonds has been increased by 2.4 trillion yen under JGB Market Issuance (Calendar Base) (☞) . Additionally, the MOF have increased the amount by 3.1 trillion yen to reflect the higher-than-expected sales of JGBs for Retail Investors.

☞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.

Fig. 1-7 JGB Issuance Plan for FY2024

<Breakdown by Legal Authority> (Unit: billion yen)

	Initial	Supplementary Budget	
	(a)	(b)	(b) - (a)
Newly-issued Bonds	35,449.0	42,139.0	6,690.0
Construction Bonds	6,579.0	9,659.0	3,080.0
Special Deficit-Financing Bonds	28,870.0	32,480.0	3,610.0
Reconstruction Bonds	146.1	26.0	▲ 120.1
GX Economy Transition Bonds	663.3	1,401.2	737.9
Children Special Bonds	221.9	221.9	–
FILP Bonds	10,000.0	9,500.0	▲ 500.0
Refunding Bonds	135,515.4	134,181.4	▲ 1,333.9
Total	181,995.6	187,469.5	5,473.9

<Breakdown by Financing Methods> (Unit: billion yen)

	Initial	Supplementary Budget	
	(a)	(b)	(b) - (a)
JGB Market Issuance (Calendar Base)	171,000.0	173,400.0	2,400.0
Non-Price Competitive Auction II, etc.	5,265.0	7,133.8	1,868.8
Adjustment between fiscal years	530.6	796.1	265.5
Subtotal Financed in the Market	176,795.6	181,329.9	4,534.3
Sales for Households	3,500.0	4,439.6	939.6
BOJ Rollover	1,700.0	1,700.0	–
Total	181,995.6	187,469.5	5,473.9

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.
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” (P43)).

Fig. 1-8 Market Issuance Plan by JGB Type for FY2024

(Unit: trillion yen)

	Initial (per time)	Initial (total ; a)	Supplementary Budget (per time)	Supplementary Budget (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	1.0 × 12 times	12.0	1.0 × 12 times	12.0	—
10-Year	2.6 × 12 times	31.2	2.6 × 12 times	31.2	—
5-Year	2.3 × 12 times	27.6	2.3 × 12 times	27.6	—
2-Year	2.6 × 12 times	31.2	2.6 × 12 times	31.2	—
TBs		38.4		40.8	2.4
10-Year Inflation-Indexed	0.25 × 4 times	1.0	0.25 × 4 times	1.0	—
Japan Climate Transition Bonds		1.4		1.4	—
Liquidity Enhancement Auction		13.2		13.2	—
Total	171.0		173.4		2.4

Figure. 1 Issuance for TBs

	Initial (a)	Supplementary Budget (b)	(b)-(a)
TBs (1-Year)	3.2 × 12 times 38.4	3.2 × 12 times 38.4	–
TBs (6-Month)	–	0.8 × 3 times 2.4	2.4

Figure. 2 Issuance for Japan Climate Transition Bonds

	Initial (a)	Supplementary Budget (b)	(b)-(a)
10-Year	0.35 × 2 times 0.7	0.35 × 2 times 0.7	–
5-Year	0.35 × 2 times 0.7	0.35 × 2 times 0.7	–

Figure. 3 Issuance by Zones for Liquidity Enhancement Auctions

	Initial (a)	Supplementary Budget (b)	(b)-(a)
15.5-39 Year	3.0	2.6	▲ 0.4
5-15.5 Year	7.2	7.6	0.4
1-5 Year	3.0	3.0	–

Note 1: The issuance of the fiscal year can be changed based on discussions with market participants in response to market circumstances and issuance conditions.
Note 2: The 40-year bond will be issued in May, July, September, November, January and March.
Note 3: Treasury Bills (TBs) are jointly issued with Financing Bills (FBs), under unified names of Treasury Discount Bills (T-Bills).
The maturity of TBs, its issuance, and the number of auctions may be adjusted in a flexible manner in response to market circumstances and demands of investors, thus the maturity and the issuance on the table (Figure 1) be subject to an adjustment.
Note 4: The 10-year inflation-indexed bond is 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 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 the table (Figure.2), and adjusted in a flexible manner in response to market circumstances and demands of investors based on discussions with market participants.
Note 6: 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, thus the issuance and zones on the table (Figure 3) be subject to an adjustment.

(2) JGB Issuance Plan for FY2025

On December, 27, 2024, the Japanese government publicly announced the JGB Issuance Plan for FY2025 in line with a Cabinet decision on the draft FY2025 government budget.
When developing the JGB Issuance Plan for FY2025, where JGB issues including Refunding Bonds will total 176.9 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 FY2025 considering investor needs and market trends. Moreover, initiatives to increase JGB holdings were announced along with FY2025 JGB Issuance Plan.
Subsequently, on March 5, 2025, the JGB Issuance Plan for FY2025 was changed based on resolution for revised FY2025 Budget in the Lower House (March 4, 2025).

Ref. I Box4 “Challenges and Initiatives in Recent Government Debt Management Policy” (P28)

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 November, December, 2024 were as follows:

- Considering the overall balance, it seems appropriate to reduce the issuance amount in the super long-term zone, where supply-demand is easing, and redistribute those amounts to the medium- to long-term zones.
- Investor demand in the 30-Year and 40-Year maturity zones has significantly decreased due to the progress of regulatory compliance by life insurance companies. The steepening trend of the yield curve is continuing, and it is appropriate to reduce the issuance amount by 100 to 200 billion yen per auction for both maturities.
- It is understood that, while there are varying responses within the life insurance industry to 40-Year Bonds, there are no issues with a certain level of reduction. The issuance amounts of 20-Year and 30-Year Bonds are thought to be determined in balance with other factors, but we hope to maintain these issuance levels from our point of view. From the perspective of Asset Liability Management (ALM), it is expected to become a central investment product, indicating potential demand.
- The 20-Year Bonds have already been reduced starting from January 2024, and there continues to be significant asset swap demand from the banking sector. Therefore, as long as the Bank of Japan's interest rate hikes continue, it is desirable to maintain current levels to sustain demand.
- The Bank of Japan is expected to continue its gradual interest rate hikes next fiscal year. If interest rate adjustments persist, it may be possible to invest mainly in 5-Year and 10-Year Bonds toward the latter half of the next fiscal year, while utilizing hedge positions to prepare for rising interest rates.
- The primary focus of the increase will essentially be on the 2-Year and 5-Year Bonds in the medium-term zone. An increase in demand from deposit-taking financial institutions is expected in the future during times of rising interest rates.
- There is significant room for increasing the issuance of T-Bill, particularly for the 3-Month. The interest rate level for 3-Month T-Bill, although somewhat improved from previous periods, is still considered significantly low relative to the policy rate.
- Liquidity Enhancement Auctions in the remaining maturity of 15.5-39 years have

consistently attracted a reasonable level of demand with each auction. Therefore, it is highly desirable to restore the issuance amount to 500 billion yen per auction, the amount prior to the reduction in August this year.

- Regarding Japan Climate Transition Bonds, it is considered favorable to slightly reduce the amount or, at most, maintain it at the same level as this fiscal year. Please consider flexible issuance methods, including consolidated issuance.
- Regarding the issuance plan, the most critical and important aspects are engaging in dialogue with the market, and conducting issuances that are regular and predictable. JGBs are the most creditworthy and liquid of all financial assets within a country, and they must remain so.

B. Breakdown by legal grounds

The JGB issuance amount in FY2025 declines by 5.1 trillion yen from the initial level for FY2024 to 176.9 trillion yen but is still high.

Ref: II Chapter 1 1(1) “JGBs by Legal Grounds” (P43)

A breakdown of the FY2025 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 6.8 trillion yen from the initial level for FY2024 to 28.6 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 FY2025, the government is planning to issue Reconstruction Bonds worth 0.1 trillion yen. GX Economy Transition Bonds are issued as bridging finance 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 10 years from FY2023 through public-private partnerships, and in FY2025 the government is planning to issue GX Economy Transition Bonds worth 0.7 trillion yen. Children Special Bonds are issued depending on the need as bridging finance in order not to be short of financial resources until stable financial resources will be secured until FY2028, and in FY2025 the government is planning to issue Children Special Bonds worth 1.1 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. FILP Bonds are planned to be issued worth 10.0 trillion yen. Refunding Bonds are issued to refund the General Bonds that were issued in the past, and in FY2025, the Refunding Bonds are planned to be issued worth 136.2 trillion yen.

Fig. 1-9 JGB Issuance Plan for FY2025 (Breakdown by Legal Grounds)

(Unit: billion yen)

	FY2024	FY2025			
	Initial (a)	Initial (b)	Revised in March (c)	(c) - (a)	(c) - (b)
Newly-issued Bonds	35,449.0	28,649.0	28,647.1	▲ 6,801.9	▲ 1.9
Construction Bonds	6,579.0	6,791.0	6,791.0	212.0	－
Special Deficit-Financing Bonds	28,870.0	21,858.0	21,856.1	▲ 7,013.9	▲ 1.9
Reconstruction Bonds	146.1	121.1	121.1	▲ 25.0	－
GX Economy Transition Bonds	663.3	725.8	725.8	62.5	－
Children Special Bonds	221.9	1,139.7	1,139.7	917.8	－
FILP Bonds	10,000.0	10,000.0	10,000.0	－	－
Refunding Bonds	135,515.4	136,223.1	136,223.1	707.7	－
Total	181,995.6	176,858.7	176,856.8	▲ 5,138.9	▲ 1.9

Note 1: Figures may not sum up to the total because of rounding.
Note 2: Buy-back program in FY2025 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 FY2025 is 55 trillion yen.

Fig. 1-10 Changes in JGB Issuance Amount

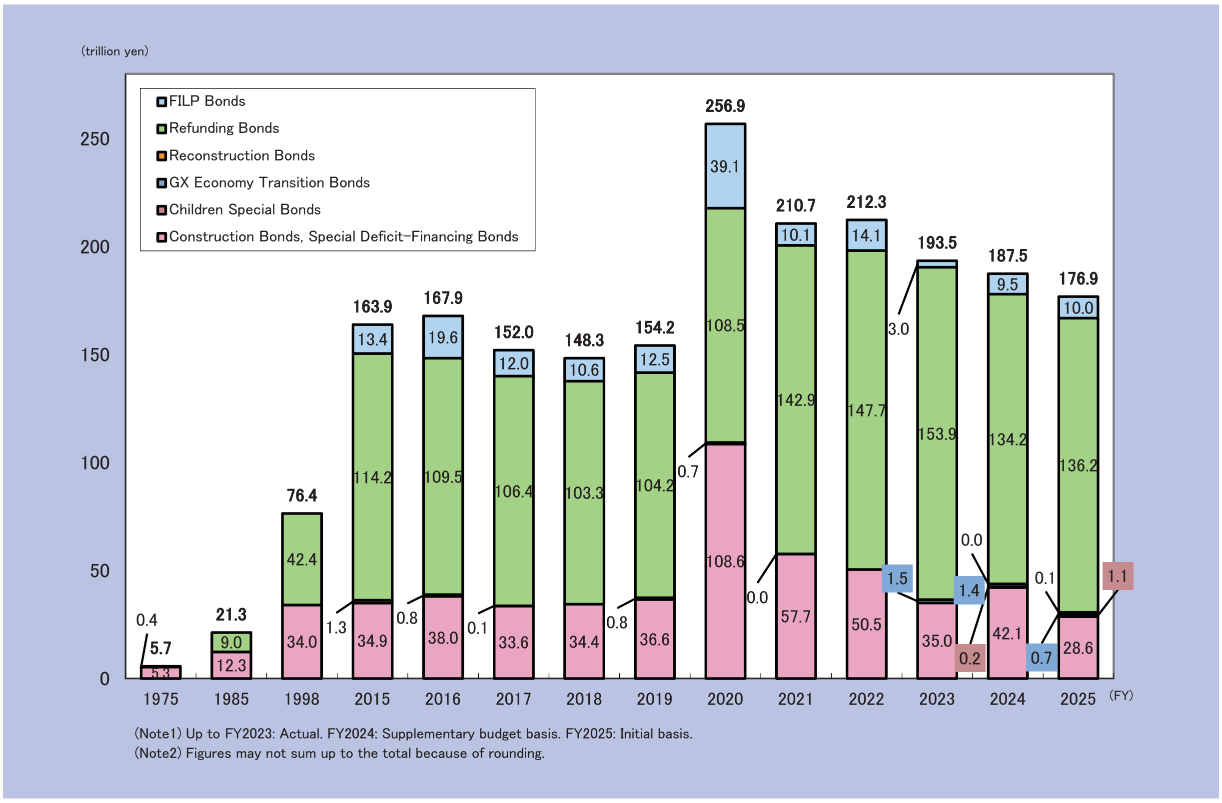
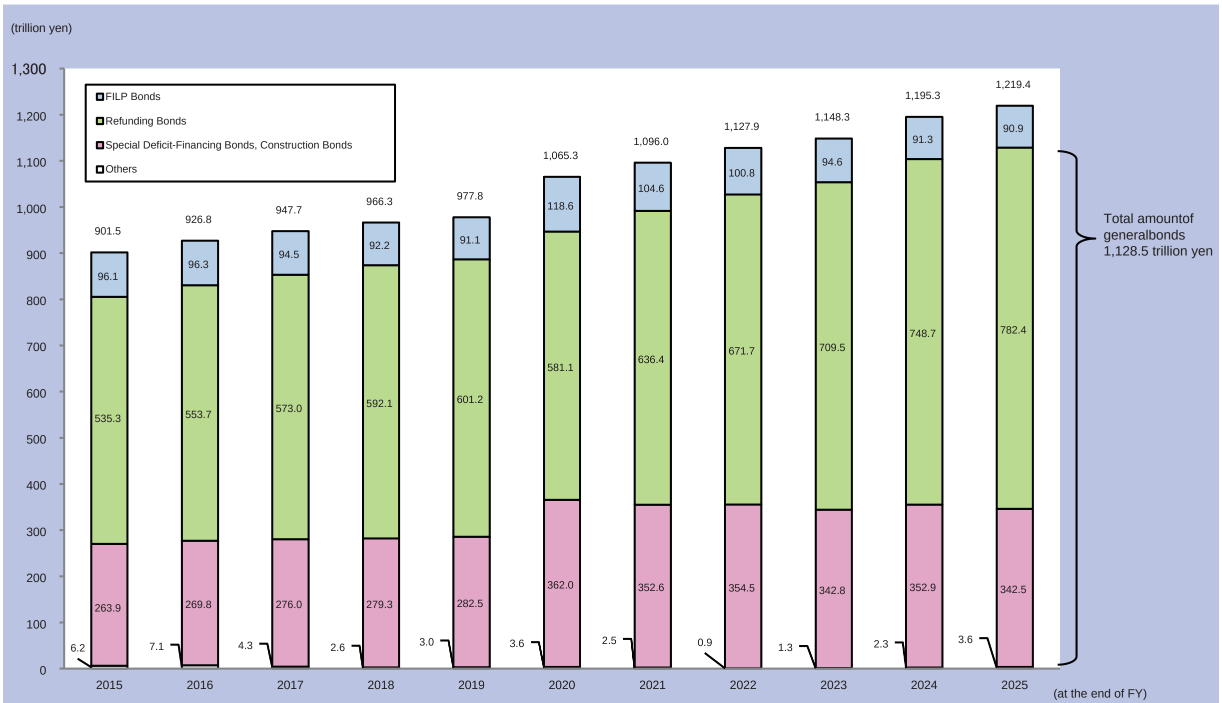


Fig. 1-11 Changes in Outstanding Amount of JGB



Note 1: Up to FY2023: Actual
FY2024: Estimate based on the JGB Issuance Plan for FY2024(Supplementary Budget), including44.5trillion yen of front-loading refunding bonds.
FY2025: Estimate based on the JGB Issuance Plan for FY2025 (Initial), including55trillion 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 FY2025)
・"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 to the end of FY2025)
・"Children Special Bonds" (from the end of FY2024 to the end of FY2025)

C. Breakdown by Financing Methods

Ref: II Chapter 1 1(2) "Methods of Issuance" (P58)

The FY2025 JGB issuance amount of 176.9 trillion yen required for the budget as mentioned in the previous section is categorized by following financing methods: "JGB market issuance," "Sales for Households".

Of the "JGB market issuance" accounting for most of the total JGB Issuance, the JGB Market Issuance (Calendar Base) (☞①) is set at 172.3 trillion yen, increasing 1.3 trillion yen from the initial level for FY2024.

The JGB issuance amount for Non-Price Competitive Auction II is put at 6.9 trillion yen for FY2025 as the planned amount for Non-Price Competitive Auction II (☞②, ③)

Sales for Households is set at 4.6 trillion yen, by increasing 1.1 trillion yen from the initial level for the previous year, with current sales conditions taken into account.

☞①The 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.

☞②Non-Price Competitive Auction II (Ref: II Chapter 1 2 (2) "Methods of Issuance" (P59).

☞③The issuance amount for Non-Price Competitive Auction II is put at 6.0% 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 FY2025 (Breakdown by Financing Methods)

< Breakdown by Financing Methods >

(Unit: billion yen)

	FY2024	FY2025			
	Initial (a)	Initial (b)	Revised in March (c)		
				(c) - (a)	(c) - (b)
JGB Market Issuance (Calendar Base)	171,000.0	172,300.0	172,300.0	1,300.0	–
Non-Price Competitive Auction Ⅱ	5,265.0	6,948.0	6,948.0	1,683.0	–
Adjustment between fiscal years	530.6	▲ 6,989.3	▲ 6,991.2	▲ 7,521.9	▲ 1.9
Subtotal Financed in the Market	176,795.6	172,258.7	172,256.8	▲ 4,538.9	▲ 1.9
Sales for Households	3,500.0	4,600.0	4,600.0	1,100.0	–
BOJ Rollover	1,700.0	–	–	▲ 1,700.0	–
Total	181,995.6	176,858.7	176,856.8	▲ 5,138.9	▲ 1.9

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" (P43)).

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 FY2025 JGB Issuance Plan reduces the JGB Market Issuance (Calendar Base) to 172.3 trillion yen. Regarding the specific maturity structure, taking into account market needs, the issuance of short-term bonds, which are in extremely tight supply-demand conditions and 5-year bonds, for which demand from banks is expected were increased. Conversely, the issuance of 40-year and 30-year bonds were decreased, considering the declining demand from life insurance companies, which are the main investors.

Fig. 1-13 Market Issuance Plan by JGB Type for FY2025

(Unit: trillion yen)

	FY2024 (Initial) (per time)	(total ; a)	FY2024 (Supplementary Budget) (per time)	(total ; b)	FY2025 (Initial) (per time)	(total ; c)	(c)-(a)	(c)-(b)
40-Year	0.7 × 6 times	4.2	0.7 × 6 times	4.2	0.5 × 6 times	3.0	▲ 1.2	▲ 1.2
30-Year	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.8 × 12 times	9.6	▲ 1.2	▲ 1.2
20-Year	1.0 × 12 times	12.0	1.0 × 12 times	12.0	1.0 × 12 times	12.0	—	—
10-Year	2.6 × 12 times	31.2	2.6 × 12 times	31.2	2.6 × 12 times	31.2	—	—
5-Year	2.3 × 12 times	27.6	2.3 × 12 times	27.6	2.4 × 12 times	28.8	1.2	1.2
2-Year	2.6 × 12 times	31.2	2.6 × 12 times	31.2	2.6 × 12 times	31.2	—	—
TBs		38.4		40.8		40.8	2.4	—
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		1.4		1.4		1.2	▲ 0.2	▲ 0.2
Liquidity Enhancement Auction		13.2		13.2		13.5	0.3	0.3
Total	171.0		173.4		172.3		1.3	▲ 1.1

Note 1: The issuance of the fiscal year can be changed based on discussions with market participants in response to market circumstances and issuance conditions.
Note 2: The 40-year bond will be issued in May, July, September, November, January and March.
Note 3: Treasury Bills (TBs) are jointly issued with Financing Bills (FBs), under unified names of Treasury Discount Bills (T-Bills).
The maturity of TBs, its issuance, and the number of auctions may be adjusted in a flexible manner in response to market circumstances and demands of investors, thus the maturity and the issuance on the table (Fig. 1-14) be subject to an adjustment.
Note 4: The 10-year inflation-indexed bond is 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 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.
10-Year Japan Climate Transition Bonds will be issued in October and March, and 5-Year Japan Climate Transition Bonds will be issued in July and January.
The issuance is assumed to be implemented according to the table (Fig. 1-15), and adjusted in a flexible manner in response to market circumstances and demands of investors based on discussions with market participants.
Note 6: 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, thus the issuance and zones on the table (Fig. 1-16) be subject to an adjustment.

Fig. 1-14 Issuance for TBs

(Unit: trillion yen)

	FY2024 (Initial) (a)		FY2024 (Supplementary Budget) (b)		FY2025 (Initial) (c)		(c)-(a)	(c)-(b)
TBs (1-Year)	3.2 × 12 times	38.4	3.2 × 12 times	38.4	3.2 × 12 times	38.4	–	–
TBs (6-Month)		–	0.8 × 3 times	2.4	0.4 × 6 times	2.4	2.4	–

Fig. 1-15 Issuance for Japan Climate Transition Bonds

(Unit: trillion yen)

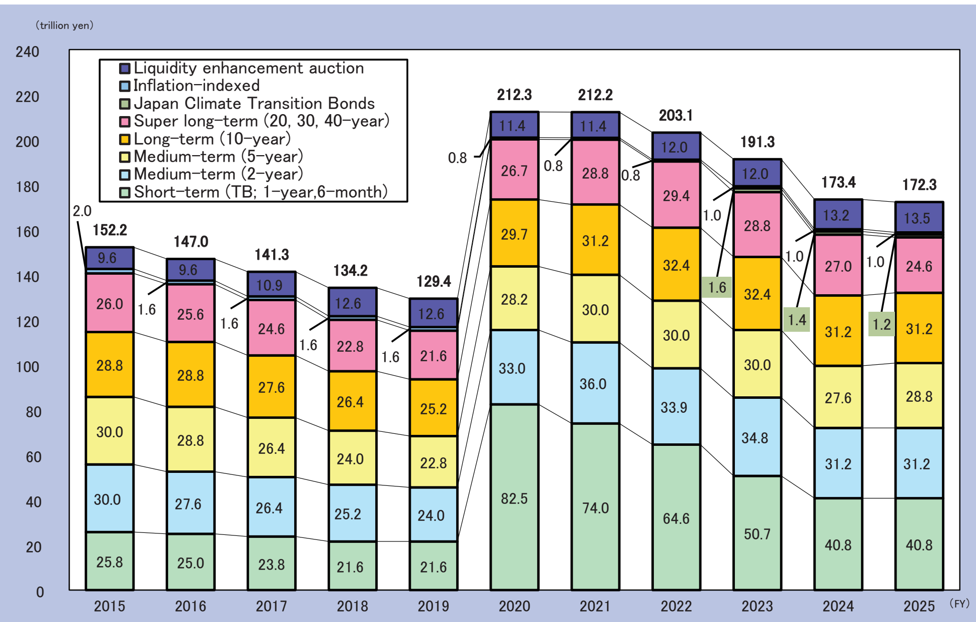
	FY2024 (Initial) (a)		FY2024 (Supplementary Budget) (b)		FY2025 (Initial) (c)		(c)-(a)	(c)-(b)
10-Year	0.35 × 2 times	0.7	0.35 × 2 times	0.7	0.3 × 2 times	0.6	▲ 0.1	▲ 0.1
5-Year	0.35 × 2 times	0.7	0.35 × 2 times	0.7	0.3 × 2 times	0.6	▲ 0.1	▲ 0.1

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

(Unit: trillion yen)

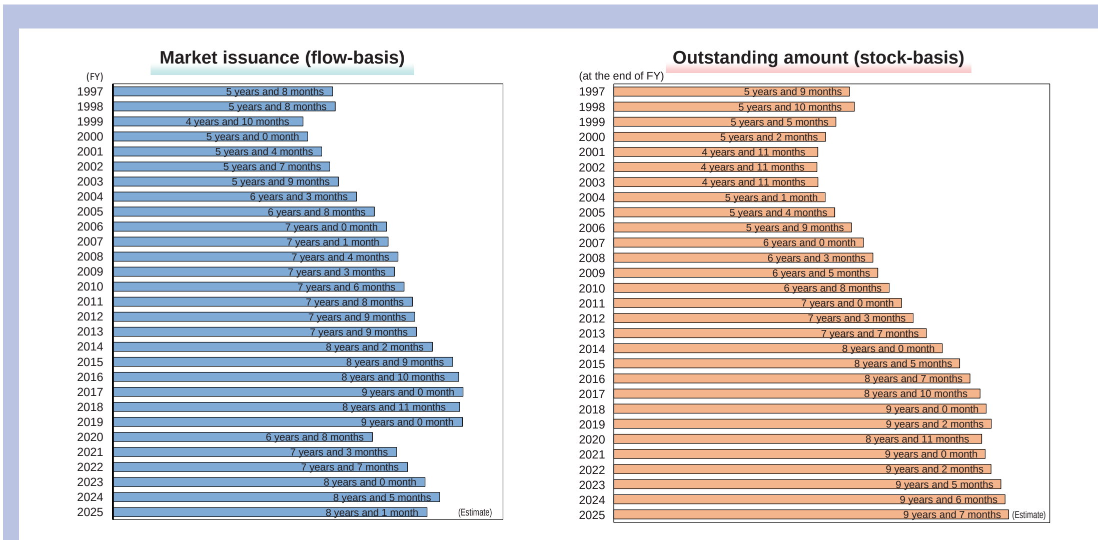
	FY2024 (Initial)	FY2024 (Supplementary Budget)	FY2025 (Initial)		
	(a)	(b)	(c)	(c)-(a)	(c)-(b)
15.5-39 Year	3.0	2.6	2.7	▲ 0.3	0.1
5-15.5 Year	7.2	7.6	7.8	0.6	0.2
1-5 Year	3.0	3.0	3.0	–	–

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



Note: Up to FY2024: Last revised basis. FY2025: Initial basis.

Fig. 1-18 Average Maturity of JGBs



Note: Up to FY2024: Actual. FY2025: Initial basis

Note: Outstanding amount of general bonds.
Up to FY2024: Actual. FY2025: Initial basis.

Box 3 Cost-at-Risk Analysis

❶ 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.

❷ 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

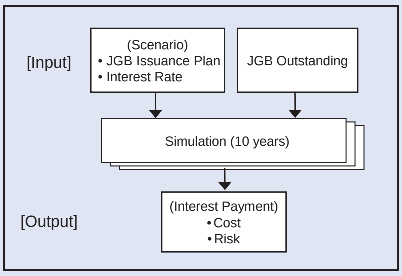
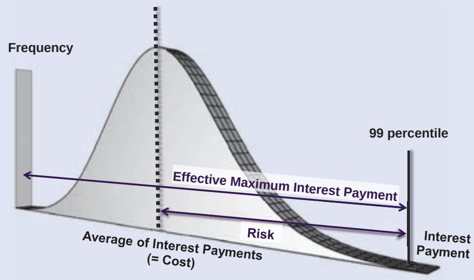


Fig. B3-2 Distribution of Interest Payments (Conceptual Diagram)

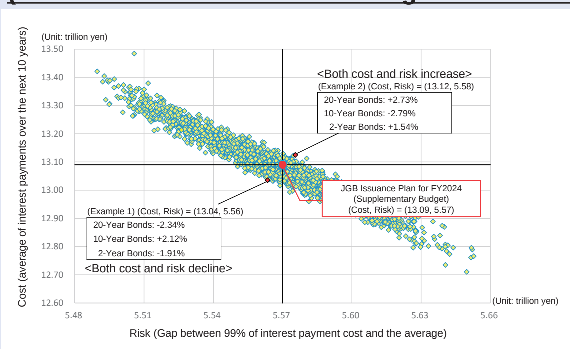


❸ Cost and Risk Trend

Fig. B3-3 is from a document the Ministry of Finance presented at the Meeting of JGB Market Special Participants on December 11, 2024.

Based on the maturity composition of the JGB Issuance Plan for FY2024 (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 FY2024 (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 112th Meeting of JGB Market Special Participants (December 11, 2024))



[Assumptions]

- ・Target bonds: General Bonds (excluding Special Bonds for Covering Public Pension Funding, Reconstruction Bonds, GX Economy Transition Bonds and Children Special Bonds)
- ・Analysis period: 10 years from FY2024
- ・Newly-Issued Bonds: Data for the Transferring to a New Economic Stage Case in the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis (July 2024)
- ・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 Transferring to a New Economic Stage 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 Transferring to a New Economic Stage 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 2024).

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

Box 4 Challenges and Initiatives in Recent Government Debt Management Policy

❶ Current Situation of the JGB Market

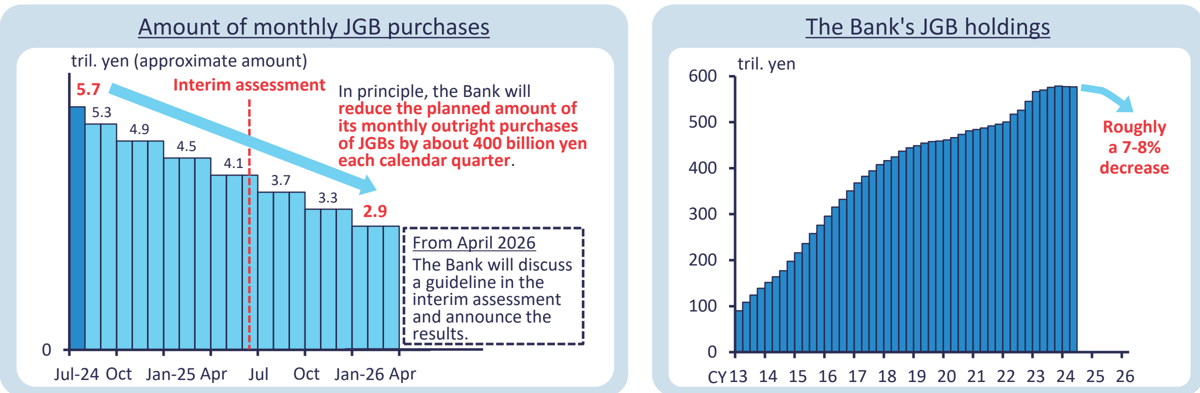
In March 2024, the Bank of Japan reviewed its monetary policy framework, and in July of the same year, it decided on a plan to reduce the purchase of long-term government bonds. These changes, along with shifts in domestic and international trends, are significantly altering the environment surrounding government bonds. Please refer to Part I, Section 1 (1) for further details.

Fig. B4-1 Plan for the Reduction of the Purchase Amount of JGBs (July 31, 2024, Bank of Japan)

The concept of the plan for the reduction until March 2026

1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

Reduction in a Predictable Manner



Allowing Enough Flexibility

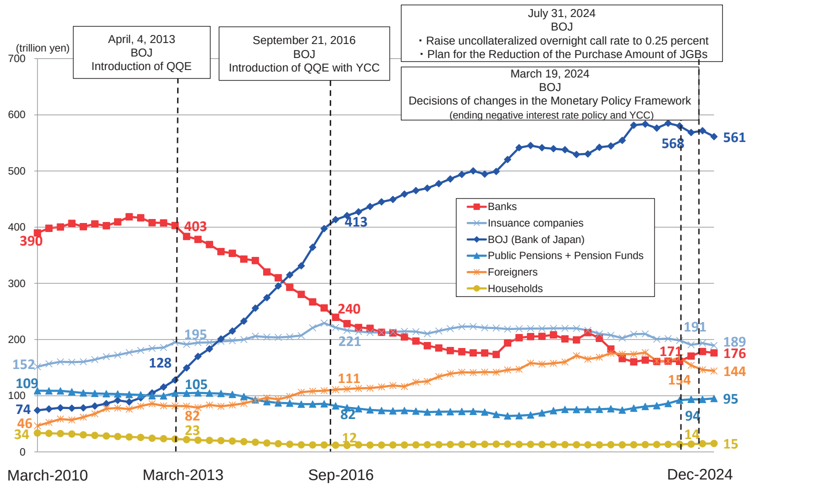
1. The Bank will conduct an interim assessment of the plan at the June 2025 MPM.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

❷ Initiatives for Stable Issuance and Absorption of JGBs in the future (Discussions in the "Study Group on Government Debt Management")

Given this situation, as the debt management office, it becomes increasingly important to promote the holding of government bonds by a diverse range of investor classes to ensure the smooth and secure issuance while continuing to minimize medium- to long-term procurement costs (see reference chart: Figure 2). In May and June of 2024, the "Study Group on Government Debt Management" (hereinafter referred to as the "Study Group") was convened to discuss, from a mid-to-long-term perspective, how to ensure the stable issuance of government bonds. Experts engaged in these discussions and on June 21 of the previous year, they compiled a document titled "Initiatives for Stable Issuance and Absorption of JGBs in the future (Summary of Discussions)."

In the "Summary of Discussions", the Study Group noted that the JGB Issuance should be formulated taking into account changes in market conditions and investor demands, and also indicated initiatives for stable issuance and absorption of JGBs in the future, such as those listed in Chart 3.

Fig. B4-2 Outstanding Amount of JGBs and T-Bills (Breakdown by Holder)



(Source) Bank of Japan "Flow of Funds Accounts"
Note 1: "JGB" includes "FILP Bonds."
Note 2: "Banks" includes "Japan Post Bank," "Securities investment trusts," "Securities companies," etc.
Note 3: "Insurance companies" includes "Life insurance," "Nonlife insurance," and "Mutual aid insurance."

Fig. B4-3 Promotion of JGB holdings by various investors

	Mainpointsoffuturedirectionofefforts
Banks	・There is a certain opportunity for banks to increase their JGB holdings to a certain extent, and therefore they are anticipated to play an important role in the stable absorption of JGBs in the future. However, there are restrictions such as capital and other kinds of regulations and risk management frameworks, including the gradual implementation of Basel III regulations from 2013. ・From the viewpoint of promoting banks' holdings of JGBs, it is expected that measures will need to be taken in the future to mitigate the amount of interest rate risk to the market, such as shortening the maturity of issuance and issuing floating-rate bonds, taking into account market conditions and needs. ・However, since the shortening of the issuance maturity and introduction of floating rate bonds would mean that the government would bear refinancing and interest rate risks, there were also opinions suggesting that it might be important to expand new investors to hold JGBs as much as possible.
Life Insurance Companies / Pension Funds	・Given the progress of regulatory compliance and Japan's demographics and other structural constraints, it is unlikely that life insurance companies will significantly increase their holdings of JGBs in the medium to long term. The MOF has so far increased the issuance amount of ultra-long-term bonds in consideration of the needs of life insurance companies, but it is necessary to adjust the issuance amount of ultra-long-term bonds while closely monitoring actual investment trends.
Households and others	・Going forward, the "From Savings to Investment" trend could potentially affect JGBs investment by financial institutions through a decline in household savings. It is important to increase JGB holdings by households, who are expected to be stable holders of JGBs in the context of future debt management policies. ・In other countries, various purchase promotion strategies have been implemented, including JGBs for Retail Investors with tailored features and the application of tax incentives. To formulate future measures, it is essential to consider examples from these other countries. ・Entities such as non-profit corporations and privately managed unlisted are considered to have surplus funds available for investment, which are expected to hold JGBs in a stable manner. Among these entities, there are those that tend to avoid investing in financial instruments where the principal is not guaranteed, and therefore the availability of JGBs that meet their needs could encourage them to hold more JGBs.
Foreign Investors	・If Japan becomes more reliant on foreign investors to absorb JGBs in the future, it will be increasingly important to be aware of how Japan's economic and fiscal management is perceived by the market, including foreign investors. This will heighten the importance of maintaining the market's confidence in JGBs, including preserving or improving their credit ratings. ・Including the GX Economy Transition Bonds, future overseas IR efforts should not be limited to individual visits to foreign investors, which have been the main focus. Instead, it is necessary to conduct IR activities effectively and efficiently by also utilizing online seminars and implementing initiatives in collaboration between the public and private sectors.

❸ Initiatives to Increase JGB Holdings

Based on the discussions at these study meetings and subsequent reviews, on December 27, 2024, we announced initiatives to promote government bond holdings in conjunction with the formulation of the JGB Issuance Plan for FY2025, and reported on the progress at the study meeting held on May 8, 2025.

Taking into account the investment demand from banks and other financial institutions, we have announced the basic features of Floating-Rate JGBs linked to short-term interest rates. Given that it will take a certain period for authorities and market participants to update systems and establish frameworks, we anticipate that the earliest issuance could begin in January 2027. However, the actual timing of the issuance will be considered further, taking into account future market trends and the opinions of market participants.

Additionally, we have decided to consider including non-profit organizations and unlisted corporations as potential buyers of JGBs for Retail Investors, in order to expand the stable investor base. After exchanging opinions with financial institutions and related industry groups, we announced the specific scope and the expected start time for the expansion of sales, aiming for the issuance in January 2027.