Chapter 1 Government Bonds (JGBs)

1 Debt Management Policy Frameworks

There are various types of JGB and they are issued in accordance with each legal ground of issuance. Also, redemption methods and redemption resources are defined by each.

JGBs can be divided into two main categories: General Bonds, and Fiscal Investment and Loan Program Bonds (FILP Bonds). While the government mainly relies on tax revenue and others to redeem General Bonds, the redemption and the interest payments on FILP Bonds are mainly covered by the collection of Fiscal Loan receivable. However, both General Bonds and FILP Bonds are jointly issued as JGBs with the same interest rate and maturity. They are the same financial instruments and are treated in the same manner on the market as well (☞)。

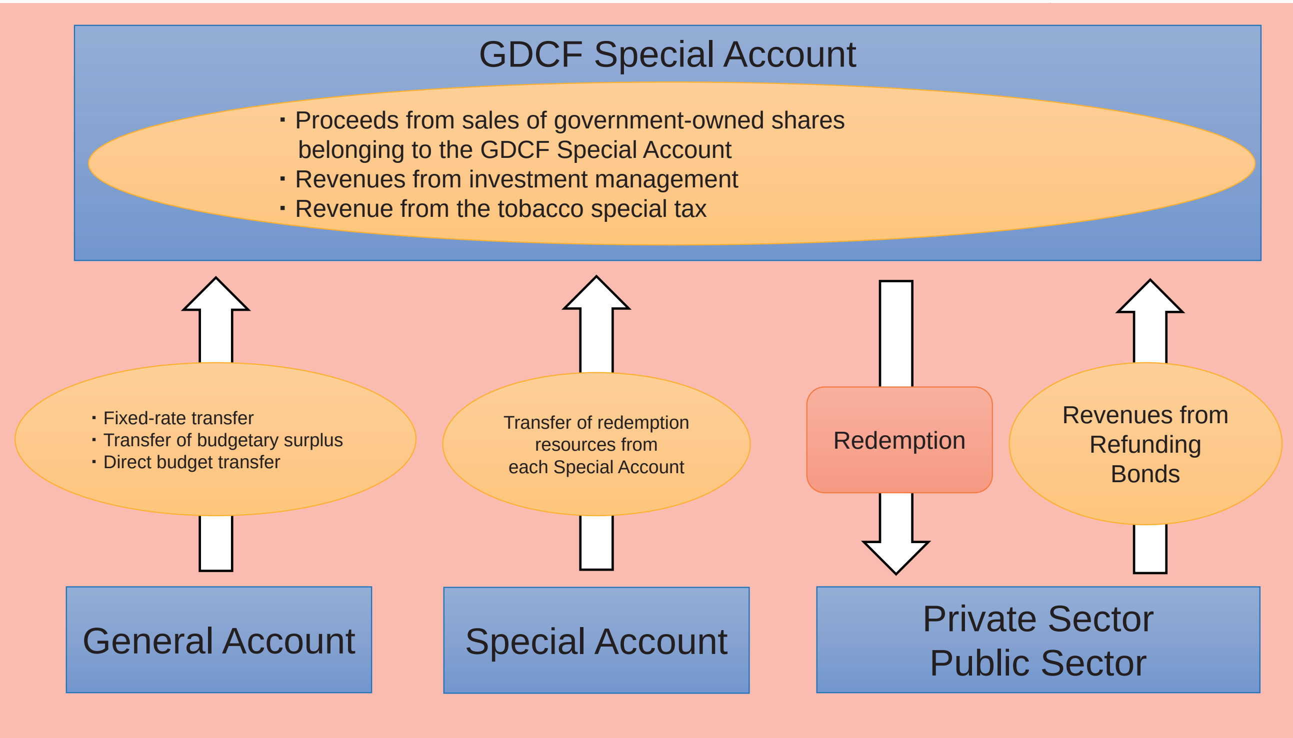
☞Among GX Economy Transition Bonds and their Refunding Bonds, those issued based on the framework that describes such as the use of proceeds are issued as labelled bonds "Japan Climate Transition Bonds."

Ref: II, Chapter 1, 2 (1) (Reference 2) "Japan Climate Transition Bonds" (P57)

Fig. 2-1 JGBs by Legal Grounds of Issuance

JGBs	General Bonds	Construction Bonds
		Special Deficit-Financing Bonds
		Reconstruction Bonds
		GX Economy Transition Bonds
		Children Special Bonds
		Semiconductors and AI Bonds
		Refunding Bonds
	Fiscal Investment and Loan Program Bonds (FILP Bonds)	

Fig. 2-2 Mechanism of Redemption



Note: Proceeds from sales of government-owned shares of Tokyo Metro Co., Ltd, and Japan Post Holdings Co., Ltd, etc. are appropriated for the redemption resources of Reconstruction Bonds.

JGBs are redeemed through the Government Debt Consolidation Fund (GDCF). To ensure stable redemption, redemption funds are transferred from each Account to the GDCF based on certain rules. In addition, revenues from Refunding Bonds, issued through the GDCF Special Account, are posted to the GDCF. Moreover, the proceeds from the sales of government-owned shares that belong to the GDCF Special Account are also transferred into the GDCF.

Simply put, fiscal resources for government bond redemption are all funneled through the GDCF – from reception and accumulation to disbursements (redemption system).

This section explains the framework of such debt management policies.

(1) JGBs by Legal Grounds

This section describes legal grounds of issuance, redemption methods, and resources for redemption in cash of each JGBs.

A. General Bonds

General Bonds consist of Construction Bonds, Special Deficit-Financing Bonds, Reconstruction Bonds, GX Economy Transition Bonds, Children Special Bonds, Semiconductors and AI Bonds and Refunding Bonds. Construction Bonds and Special Deficit-Financing Bonds are issued under the General Account and the revenue from their issuance is reported as the government revenue of the General Account.

On the other hand, Reconstruction Bonds are issued under the Special Account for Reconstruction from the Great East Japan Earthquake, GX Economy Transition Bonds and Semiconductors and AI Bonds under the Special Account for Energy Measures, Children Special Bonds under the Special Account for Child and Child-rearing Support, and Refunding Bonds under the GDCF Special Account and the revenue from their issuance is reported as the government revenue of each Special Account (☞).

☞In FY2011, Reconstruction Bonds were issued under the General Account, and in FY2024, Children Special Bonds were issued under the Special Account for Pensions.

a. Construction Bonds, Special Deficit-Financing Bonds

① Legal Grounds of Issuance

・Construction Bonds

Article 4, paragraph (1) of the "Public Finance Act" prescribes that annual government expenditure has to be covered in principle by annual government revenue generated from other than government bonds or borrowings. But as an exception, a proviso of the Article allows the government to raise money through bond issuance or borrowings for the purpose of public works, capital subscription or lending. Bonds governed by this proviso of Article 4, paragraph (1) are called "Construction Bonds."

The Article prescribes that the government can issue Construction Bonds within the amount approved by the Diet, and the ceiling amount is provided under the general provisions of the General Account budget (☞).

☞When intending to get approval for this ceiling amount, the government submits to the Diet a redemption plan that shows the redemption amount and the redemption periods for each fiscal year for reference.

・Special Deficit-Financing Bonds

When estimating a shortage of government revenue despite the issuance of Construction Bonds, the government can issue government bonds based on a special act (☞①) to raise money for the purpose of other than public works and the like. These bonds are

☞①The "Act on Special Provisions concerning Issuance of Public Bonds to Secure Financial Resources Required for Fiscal Management" allows Special Deficit-Financing Bonds to be issued for five years from FY2021 to FY2025.

generally called "Special Deficit-Financing Bonds."

As is the case with Construction Bonds, the government can issue Special Deficit-Financing Bonds within the amount approved by the Diet and the ceiling amount is provided under the general provisions of the General Account budget (☞②).

Special Deficit-Financing Bond issuance must be made in exceptional cases. Therefore, the government has to minimize the issuance amount as much as possible within the amount approved by the Diet, while taking into account the state of tax and other revenues (☞③).

☞② The government is also required to submit a redemption plan to the Diet for reference.

☞③ In this context, it is allowed to issue Special Deficit-Financing Bonds until the end of June in the next fiscal year (deferred issuance in the accounting adjustment term).

② Redemption Methods

The 60-year redemption rule is applicable to redeeming Construction Bonds and Special Deficit-Financing Bonds so that these JGBs, including their Refunding Bonds, will be entirely redeemed in a 60-year period (☞①). Redemption of JGBs is financed with two revenue sources: cash from such sources as a fixed-rate transfer from the General Account and revenues from issuing Refunding Bonds in accordance with applicable rules. The 60-year redemption rule is maintained in this way. When redeeming Special Deficit-Financing Bonds, the government will "strive to redeem these bonds as soon as possible" as set forth in its governing law.

Fig. 2-3 will give you an idea about how the 60-year redemption rule works.

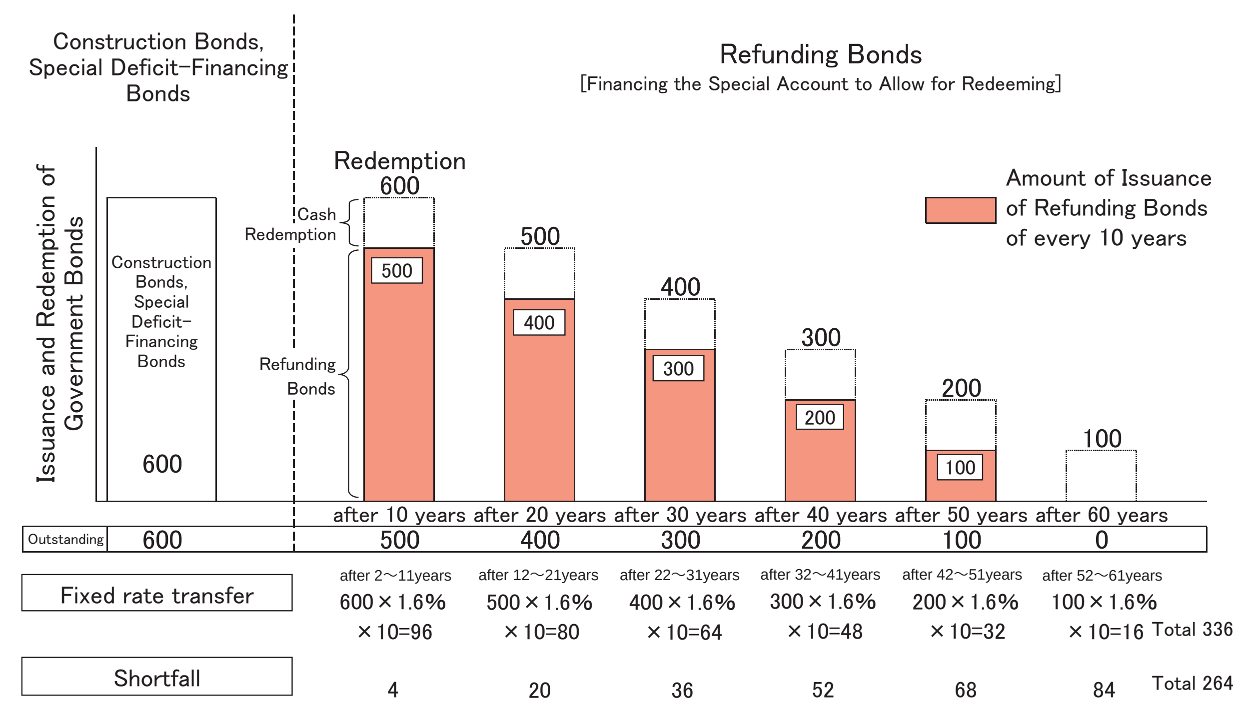
Suppose you issue 600 billion yen of debt in fixed-rate coupon-bearing 10-year bonds, at maturity (i.e., 10 years from now) you will redeem 100 billion yen of them in cash (☞②) – equivalent to 1/6 of 600 billion yen – while issuing Refunding Bonds to cover the remaining 500 billion yen. Assuming that these Refunding Bonds will also be issued in fixed-rate coupon-bearing 10-year bonds, then you will redeem 100 billion yen in cash – 1/6 of the initial issue amount of 600 billion yen – in another 10 years, while issuing Refunding Bonds to cover the remaining 400 billion yen. Repeat this for four more times, then, you'll be able to complete the cash redemption in 60 years from the first issuance.

As shown in the figure below, because annual fixed-rate transfer is calculated based on the JGB outstanding amount at the beginning of the previous fiscal year, it decreases along with the decrease in the JGB outstanding amount. Therefore, fixed-rate transfer will be insufficient to finance bond redemption in cash. For this reason, bond redemption will also be complemented with a transfer of budgetary surplus, a direct budget transfer, and proceeds from sales of government-owned shares.

☞① The rule stands on the fact that the average economic depreciation period of the assets purchased by the construction bonds is about 60 years. Deriving from this rule is the 1.6% ratio for fixed-rate transfer for each fiscal year, which is about equivalent to one-sixtieth.

☞② The term "cash" redemption in this context means that bond redemption is not financed with issuing Refunding Bonds. From the viewpoint of individual bond holders, their JGBs will always be redeemed with cash at maturity.

Fig. 2-3 Redemption via Refunding Bonds – "60-Year Redemption Rule"



③ Redemption Resources

(1) Transfer from the General Account

For government bond redemption, there are three ways to transfer fiscal resources from the General Account to the GDCF Special Account.

i Fixed-rate transfer (1.6% of total government bonds outstanding as of the beginning of the previous fiscal year)

The fixed-rate transfer is based on Article 42, paragraph (1) of the "Act on Special Accounts." Specifically, the amount equal to 1.6% of total government bonds (outstanding in face value) at the beginning of the previous fiscal year is transferred from the General Account to the GDCF Special Account based on the 60-year redemption rule. Those subject to the fixed-rate transfer are limited to Public Bonds (Construction Bonds, Special Deficit-Financing Bonds covered in the General Account (excluding Special Bonds for Covering Public Pension Funding)) and Borrowings (excluding Temporary Borrowings, etc.) and their Refunding Bonds (☞).

ii Transfer of a budgetary surplus (A minimum of half of the surplus in the General Account as a result of the settlement of the fiscal year)

Pursuant to Article 6, paragraph (1) of the "Public Finance Act," when surplus is generated in the General Account as a result of the settlement, at least half the surplus must be transferred to the GDCF Special Account within two fiscal years from the fiscal year in which the surplus was generated (☞).

☞When calculating the outstanding amount of discount bonds, their issuance price is regarded as the face value (Article 42, paragraph (3) of the "Act on Special Accounts") . As to the difference between the issuance price and the face value (i.e., (the sum) equivalent to redemption profit), the difference divided by the number of years to maturity is additionally transferred to the GDCF Special Account every fiscal year (Article 42, paragraph (4) of the "Act on Special Accounts").

☞The supplementary provisions of the "Reconstruction Funding Act" call for using such surplus primarily for redeeming Reconstruction Bonds from FY2011 to FY2015.

iii Direct budget transfer (A discretionary transfer specified by the General Account budget when necessary)

In addition to the above transfer, to ensure smooth redemption of government bonds, Article 42, paragraph (5) of the "Act on Special Accounts" prescribes that a discretionary transfer, which is specified by the budget can be made as needed from the General Account to the GDCF Special Account.

(2) Others

i Proceeds from government-owned shares belonging to the GDCF Special Account

Proceeds from sales and dividends of government-owned shares that belong to the GDCF Special Account shall be set aside as a resource for redemption of JGBs. A part of Nippon Telegraph and Telephone Corporation (NTT) shares and a part of shares of Japan Tobacco Inc. (JT), an equity stake in Teito Rapid Transit Authority (☞) and a part of the shares of Japan Post Holdings Co., Ltd. were transferred to the GDCF Special Account as the JGB redemption resources in FY1985, FY1998 and FY2007, respectively. The MOF finished selling out NTT shares and JT shares (a portion held initially) in the GDCF Special Account in September 2005 and June 2004, respectively. Proceeds from the sale of shares currently belonging to the GDCF Special Account (including shares newly allocated to the GDCF Special Account in accordance with the "Reconstruction Funding Act") will be spent for redeeming Reconstruction Bonds.

☞As Teito Rapid Transit Authority was privatized and renamed Tokyo Metro Co., Ltd. in April 2004, Tokyo Metro shares were distributed to the government free of charge in proportion to the government's equity stake in Teito Rapid Transit Authority. Therefore, the equity stake has been replaced with shares.

ii Proceeds from allocation

The surplus of the GDCF can be invested into JGBs or deposited in the Fiscal Loan Fund. The MOF pursues efficient allocation, while taking into account the need to secure adequate levels of liquidity in order to ensure smooth implementation of large-scale redemption and refunding. Proceeds from the allocation are credited to the GDCF Special Account to be included in its revenues.

b. Reconstruction Bonds

① Legal Ground of Issuance

To recover from the Great East Japan Earthquake disasters, the government is supposed to issue Reconstruction Bonds from FY2011 to FY2025 in accordance with the "Act on Special Measures concerning the securing of financial resources to execute measures necessary for recovery from the Great East Japan Earthquake (Reconstruction Funding Act)." While necessary financial resources will be financed with revenues of Special Taxes for Reconstruction, the government will issue Reconstruction Bonds as bridging finance until these revenues are receivable to the government.

Reconstruction Bonds can be issued within the amount as approved by the Diet, and the ceiling amount is stipulated in the general provisions of the Special Account budget from FY2012 onwards.

② Redemption Methods

Reconstruction Bonds, including their Refunding Bonds, will be entirely redeemed in FY2037 at the latest. Therefore, the 60-year redemption rule will not be applicable to the redemption of Reconstruction Bonds. This is because "Basic Guidelines for Reconstruction in response to the Great East Japan Earthquake" states that the financial resources for recovery and reconstruction shall "basically be borne by the entire current generation, collectively sharing the financial burden by solidarity and not be left as cost of future generations" and redemption of these bonds will surely be financed with certain revenue resources.

Specifically, a portion of Reconstruction Bonds (including Refunding Bonds for Reconstruction Bonds) to be redeemed in each fiscal year will be redeemed with cash to the extent of the amount transferred from the Special Account for Reconstruction from the Great East Japan Earthquake to the GDCF Special Account, financed by the revenues from Special Taxes for Reconstruction, etc. and profit from sales of government-owned shares, etc., while the remaining portion will be entirely covered with Refunding Bonds.

The redemption of Reconstruction Bonds is planned to be finished by repeating cash-based redemption and Refunding Bond-based redemption every fiscal year by FY2037.

③ Redemption Resources

Redemption resources for Reconstruction Bonds are set forth as follows in the "Reconstruction Funding Act."

(1) Revenues from Special Taxes for Reconstruction

As tax measures to finance restoration and reconstruction from the Great East Japan Earthquake, the government created Special Taxes for Reconstruction that are additional income and corporation taxes for limited durations (Special Income Tax for Reconstruction and Special Corporation Tax for Reconstruction).

Specifically, the Special Income Tax for Reconstruction is a limited-duration measure from January 2013 to December 2037 to impose an additional 2.1% income tax. The Special Corporation Tax for Reconstruction is a limited-duration measure from FY2012 to FY2014 to impose an additional 10% corporation tax. However, the special corporation tax was terminated one year ahead of schedule under the FY2014 tax reform to encourage corporations to use earnings for raising wages.

(2) Non-tax Revenues

i Utilizing Reserves in the FILP Special Account

It was stipulated that from the reserves in the Fiscal Loan Fund Account of the FILP Special Account, an amount designated in the annual budget could be used for redeeming Reconstruction Bonds from FY2012 to FY2015, and from revenues from assets in the Investment Account of the FILP Special Account, an amount designated in the annual budget could be used for the same purpose from FY2016 to FY2022.

ii Proceeds from government-owned shares

Regarding JT shares (excluding the government's mandatory shareholding (☞①)), shares of Tokyo Metro Co., Ltd. (☞②) and shares of Japan Post Holdings Co., Ltd. (excluding the government's mandatory shareholding (☞③)) belonging to the GDCF Special Account, proceeds generated from the sale of those shares no later than FY2027 will be spent for redeeming Reconstruction Bonds.

☞①According to the "Reconstruction Funding Act," the mandatory government's shareholding in JT has been reduced from "1/2 or more" of the total shares outstanding to "more than 1/3". As a result, during the period from February to March 2013, the government sold a portion that could be sold (1/6 of the shares outstanding). (The amount of net proceeds from the sale is approximately 973.4 billion yen.)

☞②The government sold out Tokyo Metro Co., Ltd. shares available for sale by selling about 1,600 million shares (net proceeds at about 182.9 billion yen) in October 2024. The government holds 26.7% of the total outstanding shares (as of the end of March 2025).

☞③The government sold out JP shares available for sale by selling about 880 million shares (net proceeds at about 1,411 billion yen) in November and December 2015, about 1,060 million shares (net proceeds at about 1,398.5 billion yen) in September 2017, about 1,300 million shares (net proceeds at about 1,086.7 billion yen) in June and October 2021, and about 100 million shares (net proceeds at about 105.7 billion yen) in August 2023. The government holds 36.0% of the total outstanding shares (as of the end of March 2025). The government is required to hold more than one-third of the total outstanding shares.

(3) Utilizing Settlement Surplus

The supplementary provisions of the "Reconstruction Funding Act" stipulate that, if settlement surplus in the General Account revenues and expenditures from FY2011 to FY2015 is utilized to finance redemption of Public Bonds or repayment of borrowings, the government is supposed to put a higher priority on the redemption of Reconstruction Bonds.

c. GX Economy Transition Bonds

① Legal Ground of Issuance

To support upfront investment toward the realization of the "Strategy to Promote Transition to the Decarbonized Growth Economic Structure," (☞) the government is supposed to issue GX Economy Transition Bonds as bridging finance from FY2023 to FY2032, which amount to approximately 20 trillion yen in accordance with the "Act on Promoting Transition to the Decarbonized Growth Economic Structure (GX Promotion Act)."

The bonds will be redeemed with future revenues coming from the introduction of a carbon pricing mechanism.

GX Economy Transition Bonds can be issued within the amount approved by the Diet, and the ceiling amount is stipulated in the general provisions of the Special Account budget.

☞This is a strategy to comprehensively and systemically promote GX based on the GX Promotion Act.

② Redemption Methods

Considering that the target year for achieving carbon neutrality is 2050, GX Economy Transition Bonds, including their Refunding Bonds, will be redeemed by FY2050.

Specifically, a portion of GX Economy Transition Bonds (including Refunding Bonds for GX Economy Transition Bonds) to be redeemed in each fiscal year will be redeemed with cash to the extent of the amount transferred from the Special Account for Energy Measures to the GDCF Special Account, financed by the revenues from GX Surcharge (surcharge on fossil fuel supply) and GX-ETS (Emissions Trading Systems) Auction while the remaining portion will be entirely covered with Refunding Bonds. While repeating cash-based redemption and Refunding Bond-based redemption, GX Economy Transition Bonds are planned to be redeemed as a whole by FY2050.

③ Redemption Resources

Redemption resources for GX Economy Transition Bonds are set forth as follows in the "GX Promotion Act."

(1) GX Surcharge (surcharge on fossil fuel supply)

GX Surcharge (surcharge on fossil fuel supply), a type of carbon pricing, is scheduled to be collected as one of the mechanisms to give business operators an incentive to start working on GX initiatives early.

Specifically, from FY2028, the GX Surcharge will be imposed on fossil fuel importers, etc. according to the amount of carbon dioxide that is derived from the fossil fuels they import. This income will then be used for the redemption of GX Economy Transition Bonds.

(2) Revenues from GX-ETS (Emissions Trading Systems) Auction

Similar to the GX Surcharge, GX-ETS (Emissions Trading Systems), a type of carbon pricing, is also scheduled to be introduced.

Specifically, from FY2033, a portion of carbon dioxide emission quotas will be allocated to power generators through auction and a charge based on these quotas will be collected. This income will then be used for the redemption of GX Economy Transition Bonds.

d. Children Special Bonds

① Legal Ground of Issuance

For strengthening Policies supporting children and child-rearing, the government is supposed to issue Children Special Bonds depending on the need as bridging finance from FY2024 to FY2028 in accordance with the "Child and Child Care Support Act" in order not to be short of financial resources until stable financial resources will be secured by FY2028.

Children Special Bonds can be issued within the amount approved by the Diet, and the ceiling amount is stipulated in the general provisions of the Special Account budget.

② Redemption Methods

Children Special Bonds, including their Refunding Bonds, will be entirely redeemed by FY2051.

Specifically, a portion of Children Special Bonds (including Refunding Bonds for Children Special Bonds) to be redeemed in each fiscal year will be redeemed with cash to the extent of the amount transferred from the Special Account for Child and Child-rearing Support to the GDCF Special Account, financed by Child and Child-rearing Support Levy, while the remaining portion will be entirely covered with Refunding Bonds. The redemption of Children Special Bonds is planned to be finished by repeating cash-based redemption and Refunding Bond-based redemption by FY2051.

③ Redemption Resources

In order to secure financial resources for measures related to dramatically strengthening the Policies supporting children and child-rearing outlined in the "Acceleration Plan for Child and Child-rearing Support," Child and Child-rearing Support Levy system will be introduced from FY2026. In accordance with the "Child and Child Care Support Act," this income will then be used for the redemption of Children Special Bonds.

e. Semiconductors and AI Bonds

① Legal Ground of Issuance

Semiconductors and AI Bonds are issued on the need as bridging finance from FY2025 to FY2030, under the provisions of the "Act on Facilitation of Information Processing," to secure funding for measures related to advanced semiconductors and artificial intelligence technologies.

The issuance of these Semiconductors and AI Bonds is permitted within the amount approved by the Diet, and their issuance cap is stipulated in the general provisions of the Special Account budget.

② Redemption Methods

Regarding Semiconductors and AI Bonds, including their Refunding Bonds, it is stipulated that they will be redeemed by FY2050.

Specifically, of the Semiconductors and AI Bonds maturing each fiscal year (including the portions related to Refunding Bonds for Semiconductors and AI), the portion funded by transfer from Special Accounts for Energy Measures from the Investment Account of the FILP Special Account to the GDCF Special Account will be redeemed in cash. Any amount exceeding this will be covered by issuing Refunding Bonds. The plan is to conclude all redemptions by FY2050 through a combination of cash redemptions and refunding.

③ Redemption Resources

Regarding the redemption resources for Semiconductors and AI Bonds, the "Act on Facilitation of Information Processing" stipulates that they will be redeemed by transfer from the Investment Account of the FILP Special Account to Special Accounts for Energy Measures.

f. Refunding Bonds

① Legal Ground of Issuance

Ref: Chapter1 1 (1) Fig. 2-2 "Mechanism of Redemption"(P42)

As for General Bonds, Refunding Bonds are issued in order to raise funds for refunding part of matured JGBs. Among General Bonds, as for Construction Bonds and Special Deficit-Financing Bonds, the issuance amount of Refunding Bonds is determined basically in accordance with the 60-year redemption rule. Regarding Reconstruction Bonds, Refunding Bonds are issued depending on the amount of the revenues from Special Taxes for Reconstruction and profit from sales of stocks, which are considered to be financial resources for reconstruction. As for GX Economy Transition Bonds, Refunding Bonds are issued depending on the amount of the revenues from GX Surcharge (surcharge on fossil fuel supply) and GX-ETS (Emissions Trading Systems) Auction. With respect to Children Special Bonds, the issuance amount of Refunding Bonds will be determined depending on the amount of revenue from Child and Child-rearing Support Levy. (☞) As for Semiconductors and AI Bonds, the issuance amount of Refunding Bonds will be determined depending on transfer from the Investment Account of the FILP Special Account.

Refunding Bonds are the JGBs issued through the GDCF Special Account. Revenues from Refunding Bonds are directly posted to the fund.

In the issuance of Refunding Bonds, the government is not required to seek the Diet approval for the maximum issuance amount. This is because unlike in the case of bonds issued to secure new revenue resources such as Construction Bonds and Special Deficit-Financing Bonds, issuing Refunding Bonds does not lead to an increase in the total amount of outstanding debt.

☞In line with tax revenues through the consumption tax increases after FY2014, Refunding Bonds are issued for Special Bonds for Covering Public Pension Funding, which were issued in FY2012 and FY2013 based on the special law for Special Deficit-Financing Bonds legislated in FY 2012 as bridging finance until tax revenues are assured for the finance of the increase of the Government's contribution to the basic national pension.

(Reference) Front-loading issuance of Refunding Bonds

As massive bonds redemption at maturity is expected to continue, the government is allowed to front-load the issuance of Refunding Bonds in order to mitigate the impact of concentration of bonds redemption at maturity, to control substantial volatility of JGB market issuance in each fiscal year and to enable flexible issuance of them in response to financial conditions and so on.

Front-loading issuance of Refunding Bonds can be issued within the upper limit approved by the Diet in accordance with Article 47, Paragraph (1) of the "Act on Special Accounts." The limit is provided in the general provisions of the Special Account budget in each fiscal year. The gap between "the amount of the front-loading issuance of Refunding Bonds that had been scheduled in the previous fiscal year for this fiscal year" and "those that are scheduled front-loading in this fiscal year for the next fiscal year" can be used as part of this fiscal year's financial resources under the government debt management policy. This is called "adjustment between fiscal years (☞)" in terms of issuance type in the JGB Issuance Plan.

☞The adjustment includes the difference in the amount of issuance in the accounting adjustment term between the current and the previous fiscal years besides that of front-loading-issuance of Refunding Bonds.
In the accounting adjustment term, which means a period from April to June, some of the Special Deficit-Financing Bonds and others for the previous fiscal year can be issued.

g. Other JGBs

① Redemption Methods

General Bonds subject to redemption methods other than those above include Special Deficit-Financing Bonds issued by FY1984, Gulf Special Deficit-Financing Bonds issued in FY1990, Tax Cut Special Deficit-Financing Bonds issued between FY1994 and FY1996 and Special Bonds for Covering Public Pension Funding issued in FY2012 and FY2013. As Special Deficit-Financing Bonds were prohibited from being redeemed with refinancing in the past, the 60-year redemption rule was not applicable to Special Deficit-financing Bonds issued up until FY1984. For this reason, the 60-year redemption rule did not apply to JGBs redeemed by FY1984 (☞①), but the rule becomes applicable to JGBs redeemed from FY1985 onward. In addition, Gulf Special Deficit-Financing Bonds got redeemed in 4 years ending in FY1994 as initially scheduled. Of Tax Cut Special Deficit-Financing Bonds, those set to be redeemed in 20 years (☞②) were all redeemed by FY2017. Special Bonds for Covering Public Pension Funding and relevant Refunding Bonds will be redeemed by FY2033.

☞① All JGBs redeemed in FY1984 were redeemed by cash and the 60-year redemption rule was not applied even though they could be redeemed with refunding based on the rule.

☞② Tax Cut Special Deficit-Financing Bonds were issued in line with special income tax reduction and other measures (excluding the abolition of special corporation and automobile consumption taxes) implemented between FY1994 and FY1996 and redeemed in 20 years from FY1998 to FY2017.

② Redemption Resources

(1) Special Tobacco Tax Revenues

The government has created the Special Tobacco Tax in accordance with the “Act on Special Measures for Securing Necessary Financial Resources Incidental to Transfer of Debt to General Account” in order to cover a cost increase for the General Account to take over the Japanese National Railway (JNR) Settlement Corporation’s long-term debt and the National Forest Service’s accumulated debt. Special Tobacco Tax revenues are directly transferred to the GDCF Special Account to repay principals and interests of the JNR Settlement Corporation’s long-term debt and the National Forest Service’s accumulated debt.

(2) Others (Public Pension Funding)

Among General Bonds, Special Bonds for Covering Public Pension Funding are set to be redeemed with a tax revenue increase through the implementation of the revised Consumption Tax Act from FY2014.

B. Fiscal Investment and Loan Program Bonds (FILP Bonds)

Ref: "FILP Report" at the MOF website

Since the FY2001 reform of the FILP (Fiscal Investment and Loan Program) that abolished the requirement for all postal savings and pension fund reserves to be deposited at the Fiscal Loan Fund, the government has issued Fiscal Investment and Loan Program Bonds (so-called FILP Bonds) to raise financial resources as necessary for the Fiscal Loan Fund. FILP Bonds are issued integrally with General Bonds based on the credit of the government and treated as the same financial instrument as General Bonds. As is the case with other types of JGBs, FILP Bonds are issued up to the amount approved by the Diet. The FILP Bond issuance ceiling is provided under the general provisions of the Special Account Budget (Article 62, paragraph (2) of the "Act on Special Accounts") (☞①). Revenues from the FILP Bonds issuance are allotted to the annual revenue for the FILP Special Account.

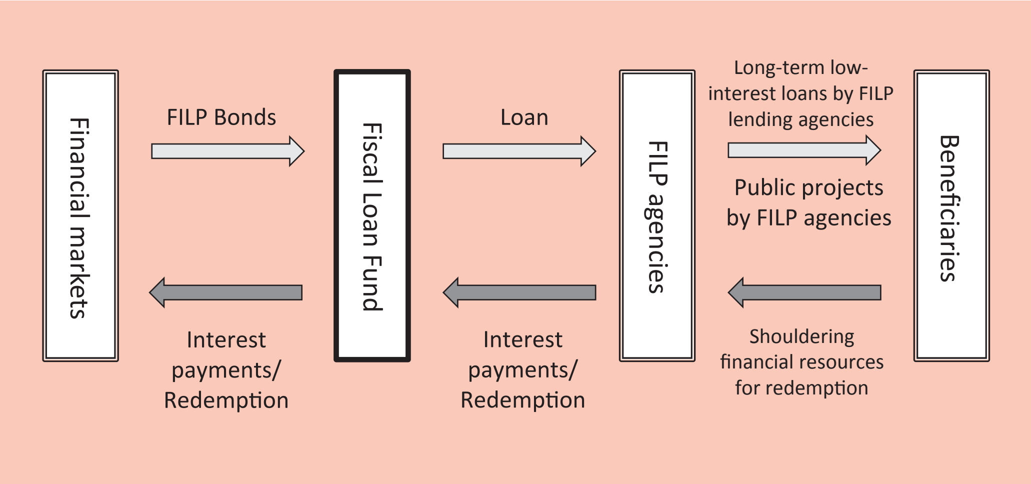
However, the FILP Bonds are different from Construction Bonds and Special Deficit-Financing Bonds on one account. While future taxes will be used to redeem Construction Bonds and Special Deficit-Financing Bonds, the redemption on the FILP Bonds are covered by the collection of Fiscal Loan receivable. Therefore, when publishing outstanding debt, FILP Bonds are treated differently from General Bonds (☞②).

As for the redemption measure of FILP Bonds, the government transfers necessary redemption funds from the FILP Special Account to the GDCF Special Account every fiscal year.

☞① As with Construction Bonds and Special Deficit- Financing Bonds, the government is required to submit a redemption plan to the Diet for reference.

☞②Also in the System of National Accounts (SNA), which is created by the United Nations for each country to create economic statistics based on a common standard, FILP Bonds are not classified as debt of the general government.

Fig. 2-4 FILP Fund Flow Since FILP Reform (image)



(2) GDCF Special Account

Ref: Chapter1 1(1) Fig. 2-2 "Mechanism of Redemption" (P42)

The GDCF Special Account is an independent account created for the purpose of clarifying the status of the country's total debt management, centered on the government debt issued under the General Account. It is a special account for the payment of the principals and interests of JGBs, funded through fiscal transfer from the General Account and other special accounts.
A portion of the funds transferred from each account in the form of the fixed-rate transfer, etc., to the GDCF Special Account is accumulated as the GDCF, which serves as a sinking fund to finance the redemption of JGBs.

a. Basic roles

To redeem Construction and Special Deficit-Financing Bonds, which account for most of JGBs, and their Refunding Bonds in accordance with the 60-year redemption rule, the GDCF temporarily accumulates resources for secure redemption. In addition, by making sure steady redemption, the fund also plays a role in maintaining market confidence in JGBs.

b. Secondary roles

The GDCF plays the secondary roles as follows.

① Contributing to financing the National Treasury

The GDCF serves to smoothly finance the National Treasury by underwriting Financing Bills.

② Compensating for deficit in the General Account

The GDCF will compensate for deficits in the General Account by transferring some funds to the Account Settlement Adjustment Fund. If the GDCF transfers some funds to the Account Settlement Adjustment Fund, the funds will be transferred back to the GDCF from the General Account by the first fiscal year after the fiscal year including the day for the transfer, avoiding any JGB redemption resource shortage.

c. Level of GDCF Balance (☞)

The GDCF is annually accumulated in the GDCF Special Account under a certain framework to respond to lags of redemption and transfer.
When formulating the FY2013 JGB Issuance Plan, the government was allowed to use temporary borrowings from the BOJ for covering operational risks and reduced the GDCF balance to 3 trillion yen, equivalent to the level required to prepare for accidental underbidding in JGB auctions, which cannot be covered by such borrowings, taking into account the maximum bid amount of coupon-bearing JGBs per auction, etc. The equivalent to the reduction was used for redeeming JGBs to hold down Refunding Bond issuance.

☞The GDCF balance had been maintained at approximately 10 trillion yen using an issuance amount of approximately one week as a guide in order to prepare for operational risks and other emergencies (possibilities that Refunding Bonds cannot be issued due to reasons such as large-scale disasters or system failure) until FY2012.

Fig. 2-5 Changes in Outstanding Amount of GDCF

FY2022 (Actual)	FY2023 (Actual)	FY2024 (Estimate)
3,004.4 billion yen	3,008.5 billion yen	3,003.1 billion yen

Ref Chapter 1 1 (1) A (Reference) Front-loading issuance of Refunding Bonds (P50)

d. Revised Act on Special Accounts

Based on a report on special account reform (as compiled by the Administrative Reform Promotion Council on June 5, 2013), the government submitted to the Diet a bill to revise part of the “Act on Special Accounts” on October 25, 2013, and won its passage through the legislature on November 15, 2013. The revision allows the government:

① To book revenues from the front-loading issuance of Refunding Bonds for the next fiscal year rather than for the issuance year instead of booking such revenues for the issuance year and carrying them over as a surplus to the next fiscal year, and

② To transfer relevant administrative costs to the General Account from the FY2014 budget.

Fig. 2-6 Changes in the GDCF Special Account Through the Revision of the Act on Special Account