2 What is Debt Management Policy?

(1) Overview

Under the FY2026 budget (April–March), the central government plans to issue JGBs equivalent to 180.7 trillion yen, posting an increase of 3.8 trillion yen from the initial level for FY2025, and still at an extremely high level. Construction Bonds and Special Deficit-Financing Bonds to provide General Account revenues increase by 0.9 trillion yen from the initial level for the previous year to 29.6 trillion yen. Meanwhile, JGBs outstanding at the end of FY2025 totaled up to 1,195.2 trillion yen.

The government raises funds from Borrowings as well as JGBs. If Borrowings are included, outstanding government debts excluding government-guaranteed debt came to 1,343.8 trillion yen. Moreover, the government gives guarantees to Incorporated Administrative Agencies in order for them to carry out funding to implement public projects, with this government-guaranteed debt totaling 27.2 trillion yen (Figures are as of the end of FY2025).

The government’s fundraising amount or flow has become enormous. Outstanding debts on a stock basis have been increasing continuously. Government debt management affects not only choices of financial assets for economic entities such as corporations and households, but also the flow of funds on a macro-scale, which would eventually influence interest rates. In turn, changes to market interest rates influence government funding activities and the activities of all economic entities.

Based on these points, the government, while trying to mitigate fiscal burden, implements JGB issuance, absorption, distribution and redemption measures to allow government debts (JGBs, Borrowings, Government-Guaranteed Debt and Subsidy Bonds) to be smoothly accepted at each stage of the national economy. These measures represent “debt management policy.” In Japan, based on the following basic goals for the JGB Management Policy, the government carefully implements “communications with the market” through various meetings for the formulation and operation of the JGB Issuance Plan, tries to base JGB issuance fully on market needs, and tackles the diversification of JGB holders by:

(1) To ensure the smooth and secure issuance of JGBs
(2) To minimize medium- to long-term fundraising costs

Meanwhile, any excessive response to temporary or short-term changes in market demand could affect market transparency and predictability for market participants, leading to a rise in medium- to long-term fundraising costs. While a massive government debt issuance is expected in the future, the government will try to continue to issue JGBs in a stable and transparent manner by identifying medium- to long-term demand trends.

The “Guidelines for Public Debt Management,” published by the International Monetary Fund and the World Bank in 2001, describes sovereign debt management as “the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding” and the objective of sovereign debt management as being “to raise the required amount of funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.”

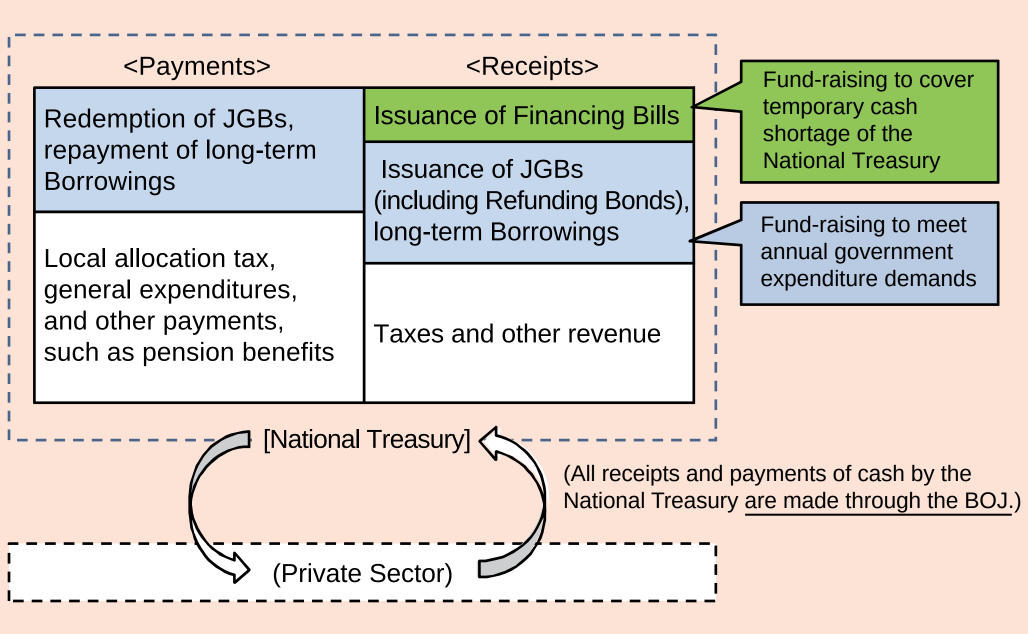
(2) Framework of "Government Funding Activities"

Government expenditures should fundamentally be covered by tax and other revenues for the year in which they are incurred. To satisfy expenditure demands that cannot be covered by these revenues, the government issues JGBs or carries out Borrowings (☞①). The government also issues Financing Bills (☞②) to cover temporary cash shortages for daily cash management of the National Treasury. The following discusses the framework of these government fundraising activities.

☞① Unlike JGBs, Borrowings are a form of funding that does not involve the issuing of securities.

☞② In this report, Financing Bills are explained as part of JGBs. However, on this page, they are distinguished from JGBs issued to satisfy expenditure demand, based on differences in their issuance purposes.

Fig. 1 National Treasury Receipts and Payments



The central government budget consists of the General Account and 14 Special Accounts (as of April 1, 2026), and all receipts and payments in these accounts are managed through the Bank of Japan (BOJ). The government smoothly implements spending within the budget by using JGBs and Borrowings to meet expenditure demand that cannot be covered by tax and other revenues and by issuing Financing Bills to cover temporary cash shortages of the National Treasury as follows.

A. JGBs and Borrowings to meet annual government expenditure demand

The government issues JGBs or carries out Borrowings to satisfy expenditure demand that cannot be covered by tax and other revenues and records funds raised through JGBs and Borrowings as revenues. The government smoothly implements budget spending as needed, by raising funds in this manner.

In addition to planning the government debt management policy, the Financial Bureau of the Ministry of Finance implements the policy by conducting auctions, issuance and redemption of JGBs, and auctions for Borrowings.

B. Financing Bills to cover temporary cash shortages for the National Treasury

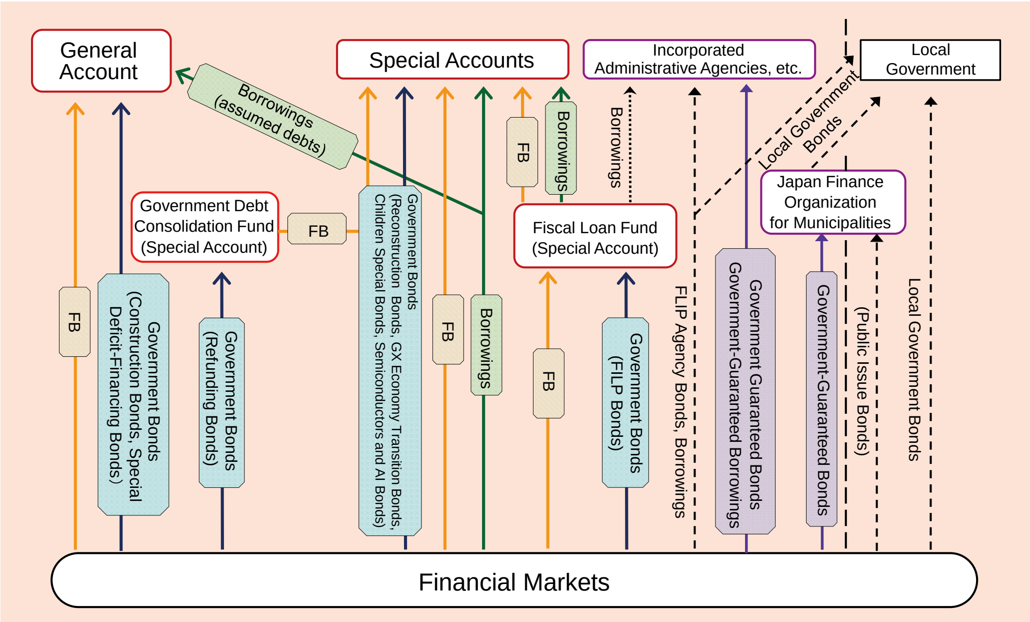
Government ministries, agencies, or special accounts carry out large quantities of fiscal activities each day. All receipts and payments are made through the BOJ, for integrated handling in the National Treasury. As explained in section A, the government raises funds with JGBs and Borrowings to meet expenditure demand that cannot be covered by tax and other revenues. However, the government encounters temporary cash shortages and surpluses due to lags for day-to-day receipts and payments of National Treasury funds. The Financial Bureau of the Ministry of Finance makes adjustments through the issuance of Financing Bills in the case of a shortage, and through the temporary use of treasury surplus in the case of a surplus ("Cash Management in the National Treasury") (☞).

☞ Due to the fact that Financing Bills, which are issued to manage the National Treasury, are not meant to meet the demands arising from the various levels of the State, and are redeemed with the revenue of the same fiscal year, they are consequently not counted as revenue.

(3) Debts with Public Characteristics

Besides government debt, there are several forms of public debt including local government bonds and the debts of Incorporated Administrative Agencies, etc. This public debt affects government debt management through the market interest rate formation mechanism.

Fig. 2 Public Debts (Conceptional Diagram)



Note 1: The highlighted area represents government debts.

Note 2: In this report, Financing Bills are explained as part of JGBs. However, in this figure, they are distinguished from JGBs issued to satisfy expenditure demand, based on differences in their issuance purposes.

Note 3: In addition to these debts, there are government bonds that are held by the Bank of Japan as a means of open market operations.

Note 4: The Government-Guaranteed Bonds issued by the Japan Finance Organization for Municipalities, are issued only for refunding of Government-Guaranteed Bonds converted from the former Japan Finance Corporation for Municipal Enterprises.

Based on the above, the chart below provides an overview of various elements of public debt and lists the relevant reference points in this report.

Fig. 3 Various Elements of Public Debts and Relevant Reference Points in This Report

			Topics inside this report (for details, please refer to Contents)		
			Ⅰ	Ⅱ	Ⅲ (Appendices)
Public Debts	Government Debts	General Bonds FILP Bonds Financing Bills	Chapter 1 ◆ 1 Government Bonds (JGBs) ■ 1 Primary Market for Government Bonds P16 ■ 2 Secondary Market for Government Bonds P41 ■ 3 Taxation of Government Bonds P55	◆ 1 Trends of the JGB Market in FY2025 P74 ◆ 2 JGB Issuance Plan P84 ◆ 3 Challenges and Initiatives in Recent Government Debt Management Policy P94	Chapter 1 ◆ 1 Government Bonds (JGBs) ■ 1 Primary Market for Government Bonds P120 ■ 2 Secondary Market for Government Bonds P143
Public Debts	Government Debts	Borrowings	◆ 2 Borrowings P59		◆ 2 Borrowings P153
Public Debts	Government Debts	Government-Guaranteed Debt	Chapter 2 ◆ 1 Government-Guaranteed Debt P62		Chapter 2 ◆ 1 Government-Guaranteed Debt P157
Public Debts	Government Debts	Subsidy Bonds	Chapter 2 ◆ 2 Subsidy Bonds P64		
Public Debts	Other Public Debts	Local Government Bonds	Chapter 3 ◆ 1 Local Government Bonds (LGBs) P66		Chapter 3 ◆ 1 Local Government Bonds (LGBs) P162
Public Debts	Other Public Debts	Debt of Incorporated Administrative Agencies, etc.	Chapter 3 ◆ 2 Debt of Incorporated Administrative Agencies, etc. P70		Chapter 3 ◆ 2 Debt of Incorporated Administrative Agencies, etc. P165

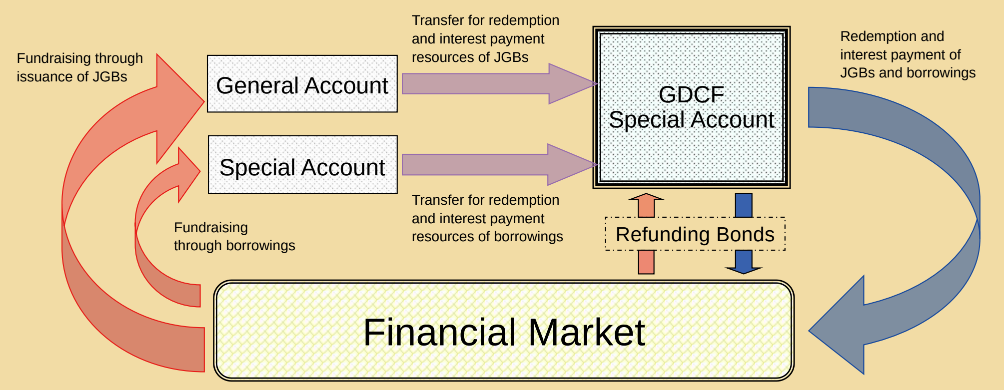
(4) GDCF Special Account

Ref: I Chapter 1, 1 1 Fig. 1-2 “Mechanism of Redemption” (P16)

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.

Fig. 4 Mechanism of the GDCF Special Account

The GDCF Special Account centrally conducts accounting for redemption and interest payments for public bonds and borrowings, using fiscal transfers from the General Account and other special accounts.



a. Basic roles

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

b. Secondary roles

The GDCF plays the following secondary roles.

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 of 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 about 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. 5 Changes in Outstanding Amount of GDCF

FY2023 (Actual)	FY2024 (Actual)	FY2025 (Estimate)
3,008.5 billion yen	3,031.3 billion yen	3,003.2 billion yen

Ref: I Chapter 1, 1 1 (1) A (Reference) Front-loading issuance of Refunding Bonds (P24)

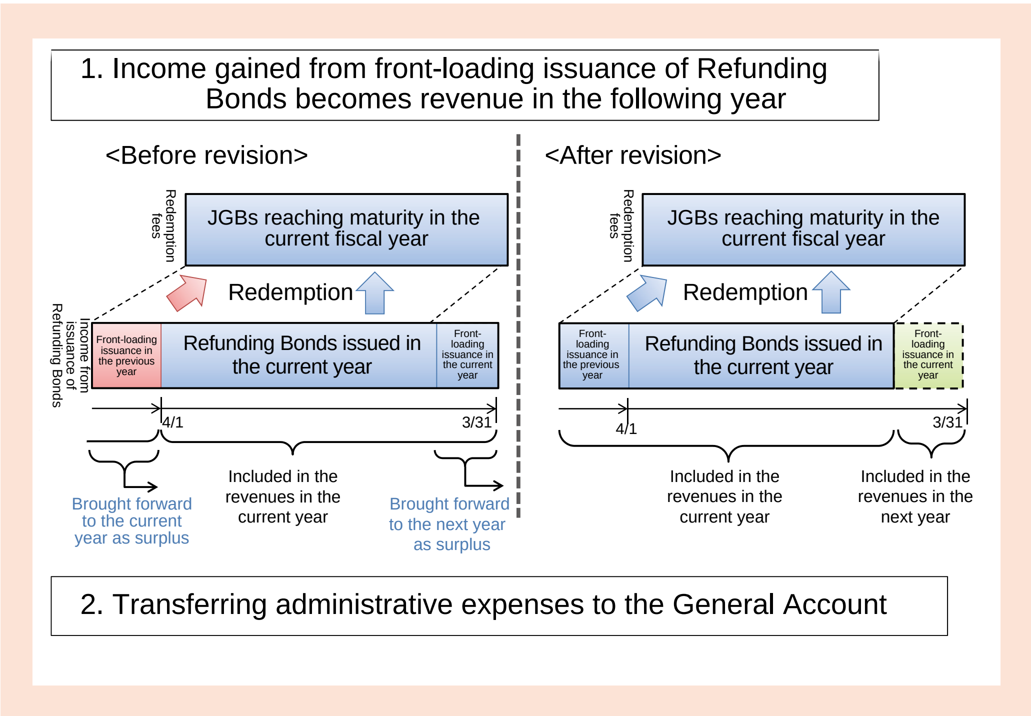
d. Revised Act on Special Accounts

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 to conduct the following from the FY2014 budget:

① To book revenues from the front-loading issuance of Refunding Bonds not for the issuance year but for the next fiscal 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.

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



(5) Dialogue with Market Participants

In order to secure stable financing and to implement appropriate policies to enhance market liquidity of JGBs, the MOF Financial Bureau engages in close dialogue with markets and ensures confidence in Debt Management Policy through various forums, including the following:

A. Study Group on Government Debt Management

The MOF has hosted the Study Group on Government Debt Management, which has discussions on technical aspects, to receive opinions and advice from experts with a high degree of insight on public debt management from the medium- to long-term perspective.

B. The Meeting of JGB Market Special Participants

Since the introduction of the JGB Market Special Participants (☞) scheme in October 2004, the MOF also has hosted the Meeting of JGB Market Special Participants to exchange opinions between members and the MOF concerning important topics relating to the bond market.

The MOF hosts the meeting every quarter to deal mainly with methods for implementing Liquidity Enhancement Auctions and Buy-backs, and JGB market trends. In addition, the MOF calls the meeting to receive opinions from market participants for formulating and revising an annual JGB Issuance Plan.

☞ Auction participants who carry out responsibilities essential to debt management policies, such as active participation in JGB auctions, are called JGB Market Special Participants (Primary Dealers). (Ref: I Chapter 1, 1 (4) "JGB Market Special Participants Scheme" (P36))

C. The Meeting of JGB Investors

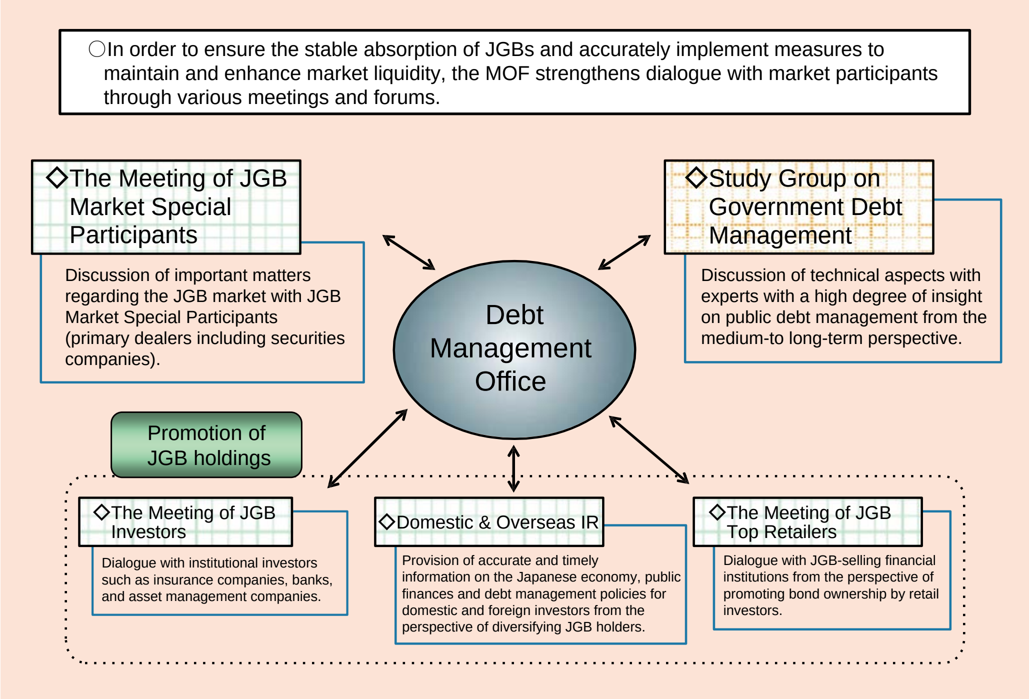
The MOF has hosted the Meeting of JGB Investors since April 2002, to directly and continually share ideas with JGB investors. This meeting consists of major institutional investors such as banks, life insurance companies and asset management companies.

Usually, the MOF convenes the meeting to receive opinions from investors for formulating and revising the annual JGB Issuance Plan.

D. The Meeting of JGB Top Retailers

From the perspective of promoting bond ownership by retail investors, since June 2007 the MOF has convened the meetings once or twice a year with top JGB retail brokers to report on the initiatives of financial institutions that are actively offering JGBs for retail investors. The meetings also allow for a mutual exchange of views and opinions between JGB selling agencies and the MOF on the further promotion of JGB sales to retail investors.

Fig. 7 Dialogue with the Markets



(6) JGB Investor Relations

The Ministry of Finance has been making efforts to enhance relations with domestic and foreign investors in JGBs (IR: Investor Relations). These efforts aim to stabilize the JGB market by diversifying the investor base. Furthermore, we provide precise and timely information that meets investors' needs, encourage long-term stable holding of JGBs, and accurately identify the trends and needs of both domestic and foreign investors to implement appropriate Debt Management Policy based on them. As part of these efforts, the Office of Debt Management and JGB Investor Relations was established within the Debt Management Policy Division of the Financial Bureau in July 2014. By collaborating with research and analysis divisions, the office has enhanced our information dissemination system to implement more effective and efficient IR. In IR, we provide detailed information to domestic and foreign investors with various attributes, tailored to meet the specific needs of each type of investor.

In light of a decrease in the amount of government bond purchases by the BOJ in line with monetary policy normalization from March 2024, there is a need to encourage a wide range of domestic and foreign investors to maintain long-term stable holdings of JGBs.
Additionally, regarding Japan Climate Transition Bonds, which began to be issued in 2024, it is crucial to stimulate demand from both domestic and foreign investors, as they represent the world's first sovereign transition bonds issued by a national government.

To this end, from July 2024, as part of the public-private partnership efforts in IR, we have designated "JGB/GX Promoters" from among securities companies that are JGB Market Special Participants (Primary Dealers) to further strengthen the domestic and oversea IR of JGBs, including Japan Climate Transition Bonds (13 companies have been designated as JGB/GX Promoters for the period from July 2025 to June 2026).

In order to advance efforts toward the stable absorption of JGBs, we plan to issue new floating-rate JGBs and expand the target customers for JGBs for Retail Investors in 2027. We will continue to exert efforts in IR, including publicizing these measures planned for 2027.

A. Efforts for Overseas IR

a. The Introduction and Evolution of Overseas IR

Since initiating efforts for overseas IR in 2005, we have incorporated methods tailored to investor needs, taking into account trends among foreign investors, changes in market conditions, and feedback from meetings related to government debt management. Initially, we implemented overseas IR mainly in the form of seminars with the aim of increasing awareness of JGBs, but in recent years, in addition to one-on-one visits to investors, we have also strengthened efforts to broaden our investor engagement through online formats. Direct dialogue with investors enables us not only to well understand and respond to investors' needs, but also to further enhance investors' understanding of JGBs and the Japanese economy, and thereby maintaining a close relationship with investors.

Additionally, the Ministry of Finance is striving to conduct overseas IR activities more effectively and efficiently, drawing on more than 20 years of accumulated experience in this area. For example, we prepare explanatory materials focused on past inquiries and the interests of foreign investors before conducting meetings with foreign investors. We then organize information on investors' new interests and investment trends obtained as a result, and incorporate these findings in subsequent Debt Management Policy including IR. In this manner, we engage in efforts based on a PDCA cycle aimed at building better relationships.

Moreover, we also strive to enhance information dissemination by publishing a monthly “JGB Newsletter” in English for both domestic and foreign market participants, while taking into account various inquiries and opinions received through such overseas IR.

b. Overseas IR in FY2025

In FY2025, following on from FY2024, in addition to traditional overseas IR, we also conducted overseas IR aimed at enhancing the understanding of Japan Climate Transition Bonds among both domestic and foreign investors. Since the aforementioned designation of “JGB/GX Promoters,” we have been further strengthening overseas IR for JGBs, including Japan Climate Transition Bonds, as part of public-private partnership efforts, by obtaining cooperation from JGB/GX Promoters for the following:

1. Arranging individual meetings, etc. in and outside Japan with foreign investors
2. Organizing, introducing, and speaking at seminars for foreign investors
3. Providing information related to domestic and international market environments, supporting the revision of materials used in IR, etc.

Specifically, we conducted overseas IR activities 13 times throughout the fiscal year, visiting 22 cities in 15 countries across North America, Europe, Asia, the Middle East, and Oceania, with a focus on key locations where many investors are based, such as New York, London, Paris, Singapore, and Hong Kong. Additionally, we continue to enhance our information dissemination not only by holding meetings with local investors and debt management authorities, but also by speaking at a JGBs seminar attended by numerous investors.

As part of our domestic efforts, we actively conducted individual meetings with foreign investors visiting Japan, in addition to speaking at seminars hosted for foreign investors.

Through such efforts, we conducted a total of 217 meetings with foreign investors in FY2025 (Fig. 8). Foreign investors have shown significant interest and raised numerous questions regarding Japan’s Debt Management Policy, the direction of Japan’s fiscal management, macroeconomic trends such as Japan’s wage and price conditions, and the GX policy.

Fig. 8 Number of Meetings with Foreign Investors

	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Number of Meetings	82	76	130	185	204	217

Note 1: The figures are limited to meetings arranged by the Debt Management Policy Division.
Note 2: The numbers include face-to-face meetings in Japan or abroad and online meetings.

In this way, overseas IR activities play a role in directly and clearly conveying accurate information on Japan’s debt management and economic policies to investors, in order to meet the needs for extensive and in-depth information not only about JGBs but also about the economy and fiscal matters.

B. Efforts for Domestic IR

a. Strengthening Domestic IR Activities

Traditionally, domestic IR for JGBs was limited to information dissemination through this report and meetings with a limited number of investors. As previously mentioned, the importance of IR targeting domestic investors is increasingly significant for diversifying the investor base. We are strengthening our domestic IR efforts through seminars and individual meetings with a wide range of domestic investors, in cooperation with JGB/GX Promoters, etc. Our aim is to better understand the diverse potential needs of these investors.

b. Domestic IR in FY2025

In FY2025, we undertook the following activities:

1. Speaking at seminars co-hosted with various Regional Finance Bureaus, primarily targeting investors within the jurisdiction of each regional finance bureau
2. Speaking at various seminars for investors nationwide, hosted by industry associations and JGB/GX Promoters
3. Individual meetings with financial institutions, business corporations, non-profit corporations, etc.

In the seminars, we disseminated information widely on the current trends surrounding the JGB market and Debt Management Policy, including Japan Climate Transition Bonds, etc. In individual meetings, we made efforts to accurately understand investors' interests. Additionally, we are actively engaging to diversify the investor base by conducting group discussions with a small number of investors, as well as hosting seminars and individual meetings for non-profit corporations, such as educational institutions and public interest corporations, while also using the online format.

In these domestic IR activities, domestic investors raised many questions and opinions regarding the future direction of Debt Management Policy, the status of GX policy, and the interests of foreign investors as discussed in the aforementioned overseas IR activities.

Fig. 9 Number of Seminars and Meetings for Domestic Investors

	FY2023	FY2024	FY2025
Number of Seminars	16	17	12

	FY2023	FY2024	FY2024
Number of Meetings	52	70	78

Note 1: The numbers of seminars and meetings targeting domestic investors conducted by the Debt Management Policy Division
Note 2: The numbers include online meetings.