Chapter 1 Government Bonds (JGBs), Borrowings

1 Government Bonds (JGBs)

1 Primary Market for Government Bonds

There are various types of JGBs and they are issued in accordance with each purpose for issuance. Also, the legal ground, the redemption methods, and the redemption resources are defined for each types of JGBs.

JGBs can be divided into three main categories: General Bonds, Fiscal Investment and Loan Program Bonds (FILP Bonds), and Financing Bills. Among these JGBs, the government mainly relies on tax revenue and other resources to redeem General Bonds, while the redemption and the interest payments on FILP Bonds are primarily covered by the collection of fiscal loans 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 (☞).

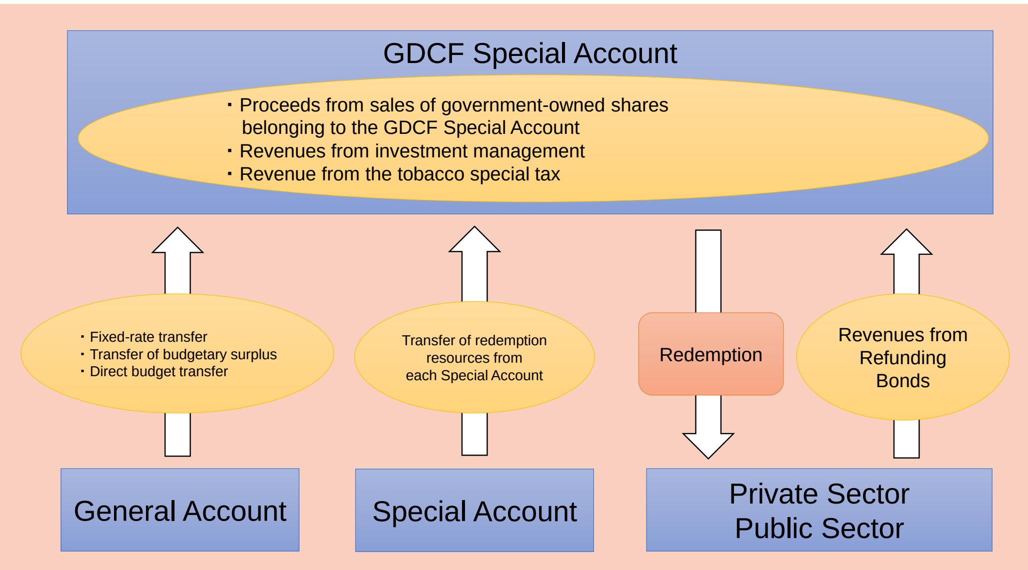
☞Among GX Economy Transition Bonds and their Refunding Bonds, those issued based on the framework that describes matters, such as the use of proceeds, are issued as labelled bonds "Japan Climate Transition Bonds."

Ref: Chapter 1, 1 1 (2) (Reference 2) "Japan Climate Transition Bonds" (P31)

Fig. 1-1 JGBs by Purpose for 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)	
	Financing Bills	

Fig. 1-2 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 Purposes for Issuance

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

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. The revenue from their issuance is reported as the government revenue of each Special Account (☞).

a. Construction Bonds, Special Deficit-Financing Bonds

① Legal Grounds for 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 sources other than government bonds or borrowings. But as an exception, the proviso to that 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 to 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 (☞).

・Special Deficit-Financing Bonds

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

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

☞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.

☞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 FY2026 to FY2030.

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 the following two revenue sources in accordance with applicable rules: cash from such sources as a fixed-rate transfer from the General Account and revenues from issuing Refunding Bonds. 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. 1-3 will give you an idea about how the 60-year redemption rule works.

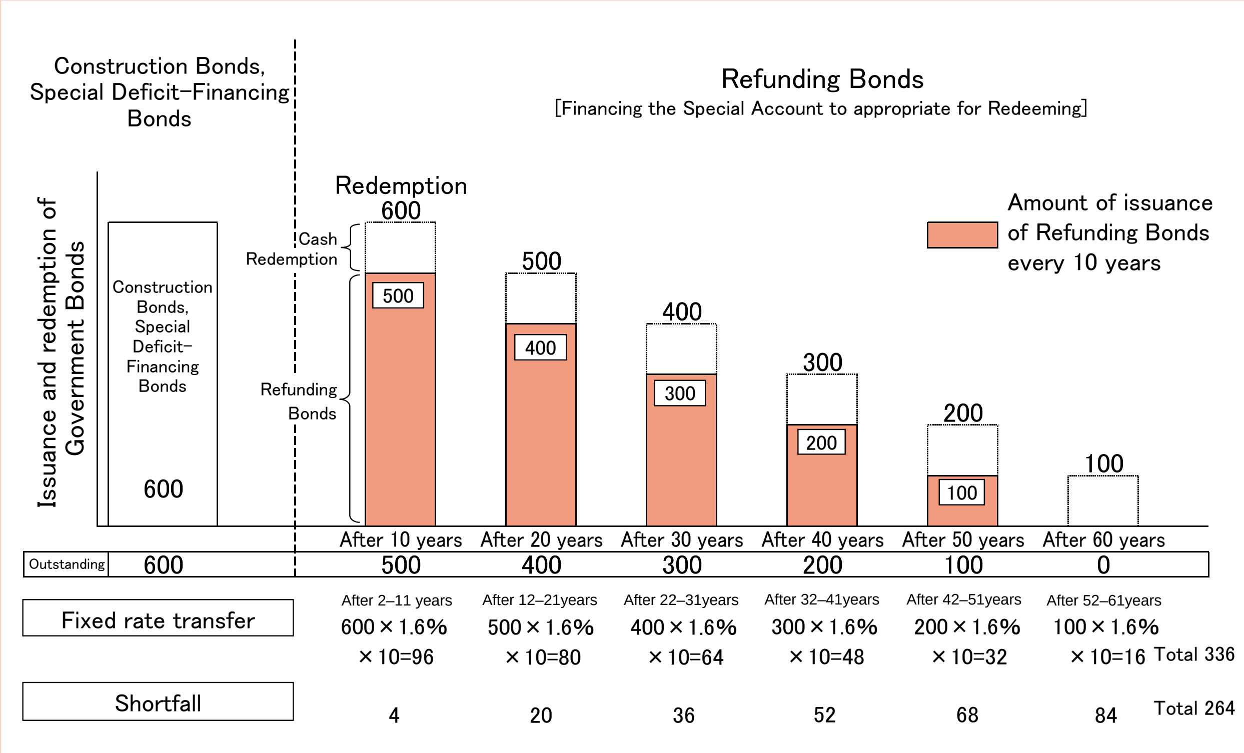
Suppose you issue 60 billion yen of debt in fixed-rate coupon-bearing 10-year bonds, at maturity (i.e., 10 years [equivalent to 1/6 of 60 years] from now) you will redeem 10 billion yen of them in cash (☞②)—equivalent to 1/6 of 60 billion yen—while issuing Refunding Bonds to cover the remaining 50 billion yen. Assuming that these Refunding Bonds will also be issued in fixed-rate coupon-bearing 10-year bonds, then you will redeem 10 billion yen in cash—1/6 of the initial issue amount of 60 billion yen—in another 10 years, while issuing Refunding Bonds to cover the remaining 40 billion yen. Repeat this 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. 1-3 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, an 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 and Special Deficit-Financing Bonds (excluding Special Bonds for Covering Public Pension Funding)) and Borrowings (excluding Temporary Borrowings, etc.) covered in the General Account, and their Refunding Bonds (☞).

☞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”).

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 (☞).

☞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 have been set aside as a resource for redemption of JGBs. Some Nippon Telegraph and Telephone Corporation (NTT) shares, some shares of Japan Tobacco Inc. (JT), an equity stake in Teito Rapid Transit Authority (☞), and some shares of Japan Post Holdings Co., Ltd. were transferred to the GDCF Special Account as JGB redemption resources in FY1985, FY1998, and FY2007, respectively. The MOF finished selling 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 in 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 disaster, the government is supposed to issue Reconstruction Bonds from FY2011 to FY2030 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 the 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 by 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 FY2047 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 the amount of the profit from sales of government-owned shares belonging to the GDCF Special Account, 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 FY2047.

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 2047 to impose an additional 2.1% income tax (an additional 1.1% income tax from 2027 onward). 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 FY2032 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 Tokyo Metro Co., Ltd. shares available for sale by selling about 160 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 2026).

☞③The government sold 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 1.06 billion shares (net proceeds at about 1,398.5 billion yen) in September 2017, about 1.3 billion shares (net proceeds at about 1,086.7 billion yen) in June and October 2021, about 100 million shares (net proceeds at about 105.7 billion yen) in August 2023, and about 80 million shares (net proceeds at about 125.4 billion yen) in September 2025. The government holds 35.9% of the total outstanding shares (as of the end of March 2026). 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 entirely redeemed 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)

The 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 Grounds for 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 an 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 the 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," income from the Child and Childrearing Support Levy system will be used for the redemption of Children Special Bonds in accordance with the "Child and Child Care Support Act."

e. Semiconductors and AI Bonds

① Legal Grounds for 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 to the GDCF Special Account, financed by the transfer from Investment Account of the FILP 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 Semiconductors and AI Bonds will be redeemed using a transfer from the Investment Account of the FILP Special Account to Special Accounts for Energy Measures.

f. Refunding Bonds

① Legal Grounds for Issuance

Ref: Chapter1, 1 I Government Bonds Fig. 1-2 "Mechanism of Redemption" (P16)

As for General Bonds, Refunding Bonds are issued in order to raise funds for refunding some 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 the 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 the Child and Child-rearing Support Levy. As for Semiconductor 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 the issuance of Refunding Bonds are reported as the government revenue of that Special Account.

In the issuance of Refunding Bonds, the government is not required to seek Diet approval for the maximum issuance amount. This is because, unlike 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 gained through 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 FY2012 as bridging finance until the receipt of tax revenues serving as the funding source for expenses associated with the increase of the Government's contribution to the basic national pension.

(Reference) Front-loading issuance of Refunding Bonds

As massive bond 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 bond redemption at maturity, to constrain the substantial volatility of JGB market issuance in each fiscal year, and to enable flexible issuance of Refunding Bonds in response to financial conditions and so on.

The front-loading issuance of Refunding Bonds is allowed 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 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 "the amount of scheduled front-loading 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 the front-loading issuance of Refunding Bonds.
In the accounting adjustment term, which is the 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 became applicable to JGBs redeemed from FY1985 onward. In addition, Gulf Special Deficit-Financing Bonds were redeemed in four 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 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 (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.

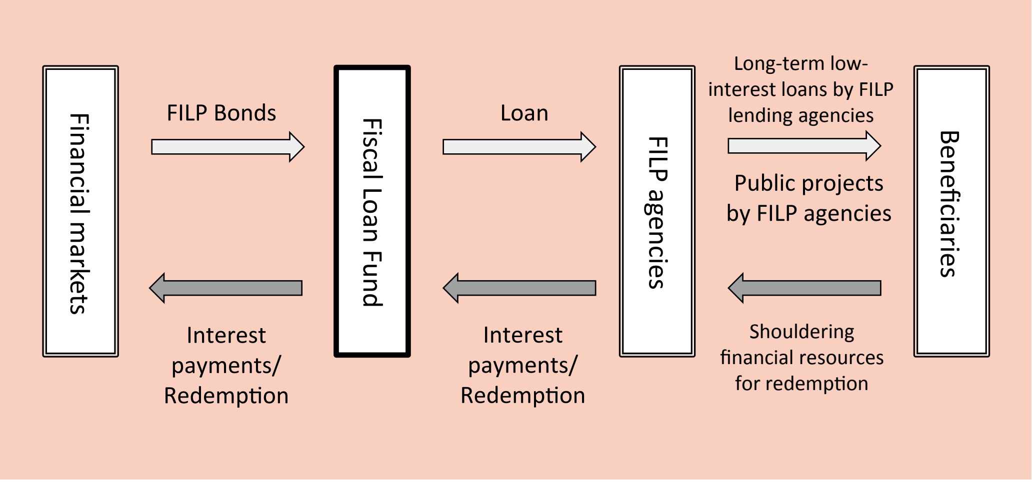
However, FILP Bonds are different from General Bonds, such as Construction Bonds and Special Deficit-Financing Bonds, in that while future taxes will be used to redeem Construction Bonds and Special Deficit-Financing Bonds, the redemption of FILP Bonds is covered by the collection of fiscal loans receivable. 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 the 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. 1-4 FILP Fund Flow Since FILP Reform (Conceptual Diagram)



C. Financing Bills

The central government can issue Financing Bills (FBs) to finance the National Treasury on a short-term basis or cope with a temporary fund shortage in special accounts. The government may issue Financing Bills for the General Account or some Special Accounts within parameters approved (☞①) by the Diet in accordance with the "Public Finance Act," "Act on Special Accounts," and some other legislation.

As Treasury Financing Bills issued to finance the National Treasury address the cash position within a fiscal year, they are redeemed with revenues in the same fiscal year (☞②).

☞①The budget's general provisions set forth the upper limit of Financing Bills for that fiscal year. This upper limit requires approval from the Diet.

☞② In principle, Financing Bills are issued to the market through public auction. If some Financing Bills remain unsold through public auction, or if unexpected cash needs emerge, the Bank of Japan may exceptionally accept Financing Bills. In this case, Financing Bills accepted by the BOJ are redeemed as quickly as possible by the cash raised through the revenue of Financing Bills at public auction.

Fig. 1-5 Financing Bills by Legal Grounds of Issuance

Financing Bills	Legal grounds	Main purpose
Treasury Financing Bills	Article 7, paragraph (1) of the Public Finance Act	Issued “when it is required to balance the National Treasury.”
Fiscal Loan Fund Financing Bills	Article 9, paragraph (1) of the Fiscal Loan Fund Act	Issued “when there is insufficient cash in the Fiscal Loan Fund”
Foreign Exchange Fund Financing Bills	Article 83, paragraph (1) of the Act on Special Accounts	Issued “when there is insufficient cash in the Foreign Exchange Fund”
Petroleum Financing Bills	Article 94, paragraph (2) and Article 95, paragraph (1) of the Act on Special Accounts	Issued “as necessary to provide revenue sources for purchase for national petroleum reserves, etc.” and “when there is insufficient cash for payment.”
Nuclear Damage Liability Facilitation Financing Bills	Article 94, paragraph (4) and Article 95, paragraph (1) of the Act on Special Accounts	Issued “as necessary to provide revenue sources for transfer to the Special Account for the Government Debt Consolidation Fund etc.” and “when there is insufficient cash for payment.”
Food Financing Bills	Article 136, paragraph (1) and Article 137, paragraph (1) of the Act on Special Accounts	Issued “when revenue sources are required for the purchase of foodstuffs, agricultural products, or imported livestock feed” and “when there is insufficient cash for payment.”

Note 1: Because these different bonds and Treasury Bills (mentioned later) are all issued as Treasury Discount Bills, there is no difference between them as financial instruments.
Note 2: This table shows the types of Financing Bills that have been issued in the past.

(2) Types of JGBs

Government bonds are the securities issued by the central government. The central government pays the bondholders interest on the securities on a semiannual basis except for short-term bonds, and redeems the principal amount at maturity (i.e., redemption). The JGBs planned to be issued in FY2026 can be classified into seven categories: short-term (3-Month, 6-Month and 1-Year Bonds); medium-term (2-Year and 5-Year Bonds); long-term (10-Year Bonds); super long-term (20-Year, 30-Year and 40-Year Bonds); Inflation-Indexed Bonds (10-Year Bonds); Japan Climate Transition Bonds (5-Year and 10-Year Bonds); and JGBs for Retail Investors (3-Year Fixed-Rate, 5-Year Fixed-Rate and 10-Year Floating-Rate Bonds) (☞①).

The short-term JGBs are all discount bonds, which are accompanied by no interest payment during their duration to maturity and redeemed at face value at maturity. As short-term JGBs, Financing Bills and Treasury Bills (TBs) are jointly issued under the unified name of Treasury Discount Bills (T-Bills), and these are circulated in the markets.

On the other hand, all medium-, long-, super long-term bonds, Japan Climate Transition Bonds and JGBs for Retail Investors (3-Year Fixed-Rate, 5-Year Fixed-Rate) are the bonds with fixed-rate coupons. With fixed-rate interest-bearing government bonds, the interest calculated by the coupon rate (☞②) determined at the time of issuance (☞③) is paid on a semiannual basis until the security matures and the principal is redeemed at face value.

Inflation-Indexed Bonds (JGBi) are securities whose principal amounts are linked to the consumer price index (CPI) (☞④). Thus, although their coupon rates are fixed, the interest payment also fluctuates. The principal amount of JGBi will be guaranteed at maturity (deflation floor). In case where the indexation coefficient (☞⑤) falls below 1 at maturity, the principal amount for the JGBi will be redeemed at face value.

JGBs for Retail Investors (10-Year Floating-Rate) are JGBs with coupon rates that vary over time according to certain rules.

☞① Starting from the issues offered in December 2026 (the January 2027 issues), the target customers for JGBs for Retail Investors will be expanded to also include some corporations and other entities. In line with this revision, the product name will be changed to "Retail Government Bonds Plus" (for details, see P101).

☞② The lower limit of the coupon rate was reduced from 0.1% to 0.005% for issues to be placed from FY2021.

☞③ In the case where the period of time between an issue date and the first interest payment date falls short of six months, accrued interest is generated. The accrued interest is an amount representing interest for the period of time where a JGB purchaser does not hold a JGB (six months minus the period of time where the purchaser actually holds the JGB). It is paid by the JGB purchaser upon JGB issuance for adjustment.

☞④ JGBi are indexed to the consumer price index (excluding perishables).

☞⑤ The indexation coefficient measures how much the CPI changed after an issue date.

☞ 15 Year Floating-Rate Bonds are JGBs with coupon rates that vary over time according to certain rules. However, issuance of these bonds has been suspended since their issuance in May 2008, and their redemption ended in May 2023.

Fig. 1-6 Types of JGBs

Maturity	Short-term 3-Month, 6-Month, 1-Year	Medium-term 2-Year, 5-Year	Long-term 10-Year
Type of issue	Discount bonds	Interest-bearing government bonds	
Min. face value unit	50,000 yen	50,000 yen	
Issuance method	Public offering	Public offering OTC sales (making offerings and accepting subscriptions)	
Auction method	Price-competitive auction/ Conventional-style auction	Price-competitive auction/ Conventional-style auction	
Non-price Competitive Auction	Non-Price Competitive Auction I	Non-Competitive Auction Non-Price Competitive Auction I Non-Price Competitive Auction II	
Transfer restrictions	Unrestricted	Unrestricted	

Maturity	Super long-term			Inflation-Indexed Bonds	Japan Climate Transition Bonds	JGBs for Retail Investors
	20-Year	30-Year	40-Year	10-Year	5-Year, 10-Year	3-Year Fixed-Rate, 5-Year Fixed-Rate, 10-Year Floating-Rate
Type of issue	Interest-bearing government bonds					
Min. face value unit	50,000 yen			100,000 yen	50,000 yen	10,000 yen
Issuance method	Public offering			Public offering	Public offering	OTC sales (making offerings and accepting subscriptions)
Auction method	Price-competitive auction/ Conventional-style auction		Yield-competitive auction/ Dutch-style auction	Price-competitive auction/ Dutch-style auction	Yield-competitive auction/ Dutch-style auction	—
Non-price Competitive Auction	Non-Price Competitive Auction I Non-Price Competitive Auction II		Non-Price Competitive Auction II	—(Note 1)	—	—
Transfer restrictions	Unrestricted			Unrestricted	Unrestricted	Restricted (Note 2)

Note 1: Non-Price Competitive Auction II of Inflation-Indexed Bonds has been suspended since May 2020.
Note 2: JGBs for Retail Investors can be transferred only to retail investors (including certain trust custodians).

Fig. 1-7 Comparison of Treasury Bills and Financing Bills

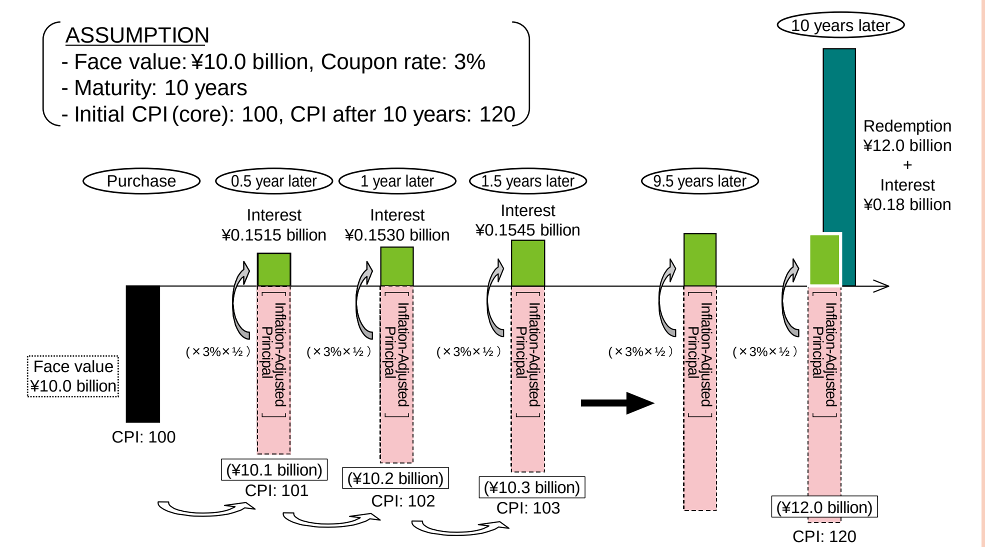
	TBs	FBs
Official name	Treasury Bills	Financing Bills
Purpose of issue	To finance fiscal expenditures (the same as JGBs with other maturities)	To finance the National Treasury on a short-term basis, or cover a temporary fund shortage in a special account
Manner of issue	Issued at a discount	
Maturities	6 months, 1 year	3 months, 6 months, 1 year
Method of issue	・In principle, by public auction (Price-competitive auction / Conventional-style auction) ・Jointly issued under the name of "Treasury Discount Bills" since February 2009	

(Reference 1) Inflation-Indexed Bonds

The Inflation-Indexed Bonds (JGBi) are bonds whose principal (and relevant interests) fluctuates in line with the core consumer price index (Fig. 1-8). The government began to issue JGBi in March 2004 and suspended their issuance in October 2008 due to a sharp demand decline accompanying the global financial crisis and other changes. In October 2013, the government resumed JGBi issuance with the principal guarantee upon maturity (Fig. 1-9).

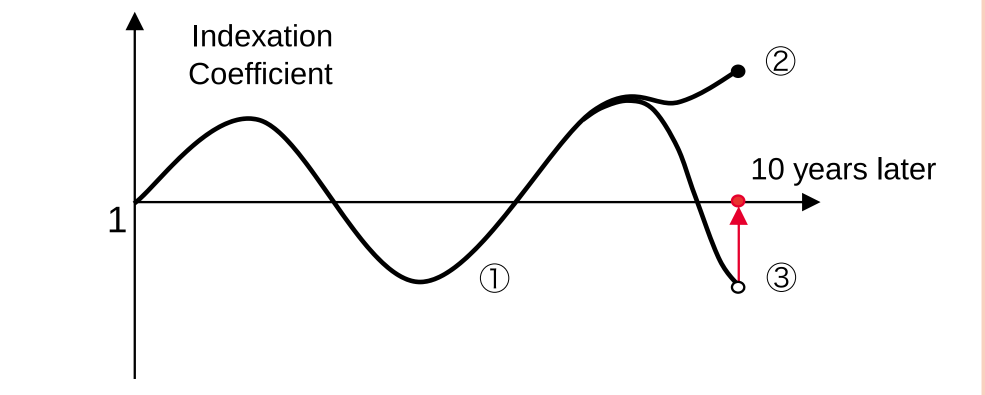
The development of the JGBi market has remained a key to address market environment changes after overcoming deflation and to diversify JGB products.

Fig. 1-8 Conceptual Scheme of Inflation-Indexed Bonds



Note: The above CPI increase rate is purely hypothetical.

Fig. 1-9 Deflation Floor (Conceptual Diagram)



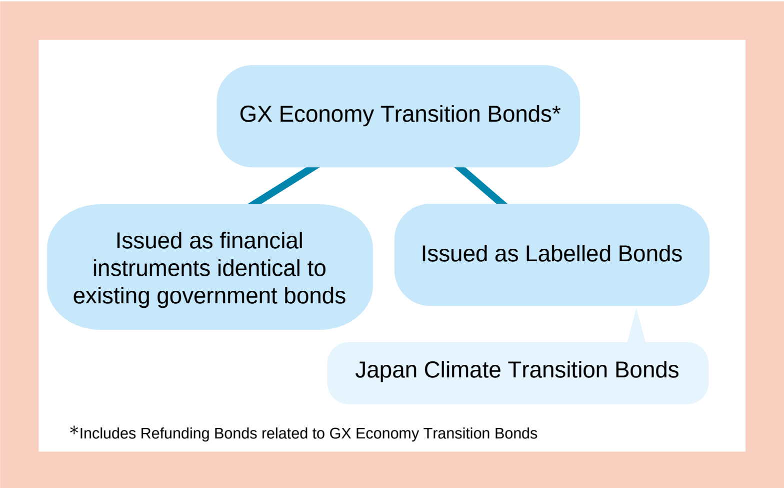
①In cases where the indexation coefficient is below 1, the inflation-adjusted principal will fall below its face value.
②In cases where the indexation coefficient at maturity is above 1, the principal and the interest will be paid based on the inflation-adjusted principal per se.
③In cases where the indexation coefficient at maturity is below 1, the principal will be redeemed at its face value.
Note: The Deflation Floor has no effect on interest during the maturing period or at maturity.

(Reference 2) Japan Climate Transition Bonds

a. Issuance of labelled bonds

GX Economy Transition Bonds and their Refunding Bonds are not limited to be issued as financial instruments identical to existing government bonds (including Construction Bonds, Special Deficit-Financing Bonds and Reconstruction Bonds). Starting from February 2024, they are issued as labelled bonds “Japan Climate Transition Bonds”, the world’s first sovereign transition bonds based on the Japan Climate Transition Bond Framework (the “Framework”), for which second party opinion have been obtained from external reviewers for compliance with international standards. (Fig. 1-10).

Fig. 1-10 Issuance of GX Economy Transition Bonds



b. Overview of the Framework

The Framework describes details such as the issuer's transition strategy, the use of proceeds, the process for project evaluation and selection, the management of proceeds, and post-issuance reporting (published in November 2023 and revised in June 2025).

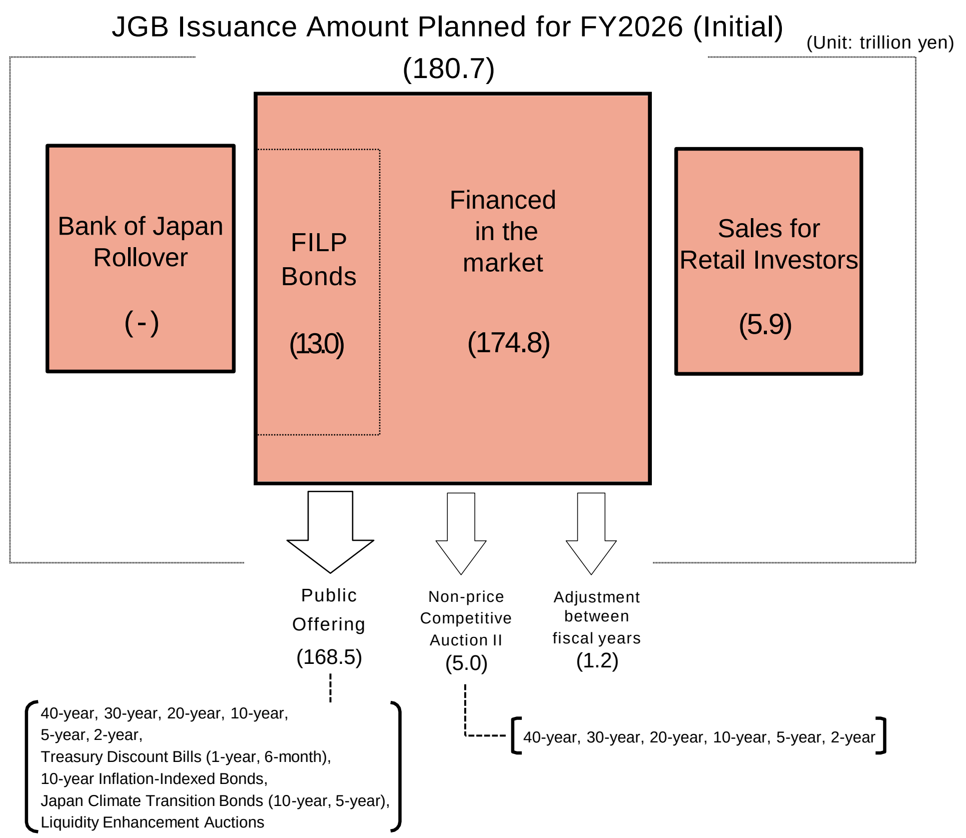
Use of proceeds: Typical use of proceeds include the dissemination of energy-efficient equipment, development and introduction of innovative technologies, such as hydrogen reduction for steelmaking, and introduction and dissemination of clean energy vehicles, next-generation aircrafts, zero-emission ships, etc.

Reporting: After issuance, (1) allocation reporting (summarizing the allocation status of proceeds to GX budget projects) and (2) impact reporting (summarizing environmental improvement effects and key achievements, etc.) are reported on an annual basis.
Regarding (2), reports are published within two years from issuance, as it may take some time to determine the effects and impacts of the projects.

(3) Methods of Issuance

Methods of issuing JGBs are basically divided into three: offerings to the market, sales to retail investors, and offerings to the public sector.

Fig. 1-11 JGB Issuance Amount Planned for FY2026 (Initial) (by Methods of Issuance)



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

A. Offering to the market

JGBs are principally issued in public auctions on market-based issue terms.

a. Auction method

① Price/yield-competitive auction

Price/yield-competitive auction is a method in which each auction participant (☞①) submits a bidding price (or yield) and bidding amount in response to the issue terms (e.g., issuance amount, maturity, coupon rate (☞②)) presented by the MOF, and the issuance price and amount will then be determined based on the bids.

In this type of auction, the issuing authority starts selling first to the highest price bidder in descending order (or to the lowest yield bidder in ascending order) till the cumulative total reaches the planned issuance amount. In Japan, the auction method varies by type of security. One is the conventional (multiple price) method by which each winning bidder purchases the security at their bidding price (or yields); and the other is the Dutch-style (single price/yield) method by which all winning bidders pay the lowest accepted bid price (yield at the lowest accepted price) regardless of their original bid prices (or yields) (☞③).

☞① Auction participants are designated according to Article 5, paragraph (2) of the Order of the Ministry of Finance on Issuance, etc. of National Government Bonds. As of April 1, 2026, there were 220 auction participants.

☞② No coupon rate of new 40-Year and Japan Climate Transition Bonds is given in advance as it is determined based on the result of a yield-competitive auction.

☞③ Price-competitive auctions / conventional-style auctions are used for all JGB issues, excluding 40-year Bonds and Japan Climate Transition Bonds subject to yield-competitive Dutch auctions and Inflation-Indexed Bonds subject to price-competitive Dutch auctions.

② Non-competitive auction

Besides competitive auctions, 2-Year, 5-Year, and 10-Year Bonds are also issued through non-competitive auctions. This approach is to take into account small and medium market participants who tend to submit a smaller bid than their larger counterparts. Biddings for a non-competitive auction are offered at the same time as for the price-competitive auction, and the price offered equals the weighted average accepted price of the price-competitive auction. A participant can bid in either a price-competitive auction or a non-price competitive auction.

The maximum issuance amount is 10% of the planned issuance amount. Each participant is permitted to bid up to 1 billion yen (☞).

☞The ceiling amount to bid is not applied to the Shinkin Central Bank, the Shinkumi Federation Bank, the Rokinren Bank, and the Norinchukin Bank.

③ Non-Price Competitive Auction I & II

Non-Price Competitive Auction I is a type of auction in which biddings are offered at the same time as for a price-competitive auction. The maximum issuance amount is set at 25% of the total planned issuance amount and the price offered is equal to the weighted average accepted price of the price-competitive auction. Only JGB Market Special Participants are eligible to bid in a Non-Price Competitive Auction I. Each participant is allowed to bid up to the amount set based on the result of its successful bids during the preceding two quarters. Inflation-Indexed Bonds are not subject to a Non-Price Competitive Auction I.

Non-Price Competitive Auction II is a type of auction carried out after the competitive auction is finished. The price offered is equal to the weighted average accepted price in the competitive auction by the conventional method or issuance price in a Dutch-style competitive auction. Only JGB Market Special Participants are eligible to bid in this auction. Each participant is allowed to bid up to the amount set based on the result of its bids during the preceding two quarters (☞). Inflation-Indexed Bonds, Japan Climate Transition Bonds, and Treasury Discount Bills are not subject to a Non-Price Competitive Auction II.

☞Each participant is allowed to bid up to 10% of their total successful bids in a competitive auction and Non-Price Competitive Auction I.

b. Reopening rule

In March 2001, the immediate reopening rule was introduced for the purpose of the enhancement of JGB liquidity, etc. The rule treats a new JGB issue as an addition to an outstanding issue immediately from the issuance day, in principle, if the redemption date and the coupon rate for the new issue are the same as those for the outstanding issue (☞①).

From the viewpoint of securing the market supply of each issue, 5, 10, 20, 30, and 40-Year Bonds and Inflation-Indexed Bonds in FY2026 are subject to the following rule, which is more advanced than the immediate reopening rule (☞②).

The 5-Year Bonds are integrated into four issues unless the gap between the coupon rate of the issue with the same maturity and the market interest rate on the auction day is more than 0.10%. The 10-Year Bonds are integrated into four issues unless the gap between the coupon rate of the issue with the same maturity and the market interest rate on the auction day is more than 0.30%. 20-Year and 30-Year Bonds are issued through reopenings with four issues per year in principle (April, May, and June issuance as April bonds. July, August, and September issuances as July bonds. October, November, and December issuances as October bonds. January, February, and March issuances as January bonds). The 40-Year Bonds are issued through reopenings with one issue (May, July, September, November, January, and March issuances as May bonds) per year in principle. Inflation-Indexed Bonds

☞① As redemption dates for 2-Year Bonds differ from auction to auction, 2-Year Bonds are not effectively subjected to the immediate reopening rule (Ref: III Chapter 1, 1 [1] (7) "Principal/Coupon Payment Corresponding to Days of Issuance in FY2026" (P133)).

☞② Regarding Japan Climate Transition Bonds in FY2026, all of them will be issued as new bonds.

are issued through reopenings with one issue (May, August, November, and February issuances as May bonds) per year in principle.

B. JGBs and sales system for Retail Investors

Ref: Part II, 3 (2) B "JGB Holdings by Retail Investors" (P99)

a. JGBs for Retail Investors

In March 2003, issuance was started on 10-Year Floating-Rate Bonds for Retail Investors (☞①) in order to promote JGB holdings among individuals. Moreover, in order to respond to retail investors' various needs and to promote further sales, the government has been improving product features by introducing 5-Year Fixed-Rate and 3-Year Fixed-Rate Bonds. Furthermore, starting from the issues offered in December 2026 (the January 2027 issues), the target customers for JGBs for Retail Investors will be expanded to also include some corporations and other entities. In line with this revision, the product name will be changed to "Retail Government Bonds Plus."

Issuance of JGBs for Retail Investors rests on handling and distribution by their handling institutions comprised of securities companies, banks, and other financial institutions as well as post offices (about 880 institutions). The handling institutions are commissioned by the government to accept purchase applications and to sell this type of JGBs to retail investors. Handling institutions are paid a commission by the government corresponding to the handled issuance amounts (☞②).

☞①JGBs for Retail Investors are designed not to lose principal. The minimum interest rate of 0.05% is set to prevent the rate from falling to zero or becoming negative.

☞②For JGBs for Retail Investors from the October 2020 issue (offered in September 2020), the government cuts the sales commission (to 0.08 yen per 100 yen nominal par for 3-Year Fixed-Rate Bonds, to 0.11 yen for 5-Year Fixed-Rate Bonds, and to 0.14 yen for 10-Year Floating-Rate Bonds) and pays 0.02% of the balance of the participant's account at the time of interest payment on this type of JGBs as an account management fee.

b. New Over-The-Counter (OTC) sales system for selling marketable JGBs

In addition to JGBs for Retail Investors, in October 2007 a new OTC sales system for marketable JGBs was introduced in order to increase retail investors' purchase opportunities with regard to JGBs (2-Year, 5-Year, and 10-Year Bonds).

With regard to this new OTC sales system, it allows private financial institutions to engage in subscription-based OTC sales of JGBs in a manner previously exclusive to post offices. This development allows retail investors to purchase JGBs easily and almost always at numerous financial institutions. Depending on market yield conditions, however, the acceptance of subscriptions may be suspended.

As with JGBs for Retail Investors, for the new OTC sales system, the government has commissioned financial institutions (about 560 institutions) to conduct subscriptions and sales of JGBs. Note that while these financial institutions are required to accept subscription and sell JGBs at prices defined by the MOF for a certain period of time, they are not required to purchase any unsold JGBs.

Fig. 1-12 Comparison of JGBs for Retail Investors and New Over-The-Counter (OTC) Sales System

	JGBs for Retail Investors			New OTC JGBs		
	10-Year Floating-Rate	5-Year Fixed-Rate	3-Year Fixed-Rate	10-Year Marketable Fixed-Rate Bonds	5-Year Marketable Fixed-Rate Bonds	2-Year Marketable Fixed-Rate Bonds
Maturity	10-year	5-year	3-year	10-year	5-year	2-year
Frequency of issuance	Monthly (12 times per year)			Monthly (12 times per year)		
Purchase units / purchase value limits	Minimum purchase of 10 thousand yen in 10 thousand yen units / No upper limit			Minimum purchase of 50 thousand yen in 50 thousand yen units / Maximum value of 300 million yen per individual application		
Sales price	100 yen per 100 yen of face value (the same as the redemption)			Determined by MOF for each issue. (It is possible to sell at any time on the market. However, the price may change if the bonds are sold before maturity.)		
Purchasers	Limited to retail investors (Note)			No restrictions (can also be purchased by corporate entities, condominium associations, etc.)		
Interest rate	Floating-rate	Fixed-rate		Fixed-rate		
Minimum interest rate	Present (0.05%)			Absent		
Redemption before maturity	Once one year has elapsed since issuance, redemption before maturity due to government buy-back shall be possible at any time (there is no principal loss risk). The two interest payments immediately preceding redemption (pre-tax) × 0.79685 are deducted .			Can be sold at any time on the market (however, because the price at time of sale shall be the market price at that time, loss/profit shall occur on sale (there is a principal loss risk). Furthermore, there is no scheme for the government to buy back these bonds before maturity.)		
Introduction (1st issuance)	March, 2003	January, 2006	July, 2010	October, 2007		

(Note) Starting from the issues offered in December 2026 (the January 2027 issues), the target customers for JGBs for Retail Investors will be expanded to also include some corporations and other entities. (for details, see P101)

Fig. 1-13 Major Improvements in Features of JGBs for Retail Investors

Implementation timing	Improvements
March 2003	10-Year Floating-Rate Bonds launched
January 2006	5-Year Fixed-Rate Bonds launched
October 2007	New OTC sales system introduced
July 2010	3-Year Fixed-Rate Bonds launched
July 2011	Interest rate-setting formula revised for 10-Year Floating-Rate Bonds (Standard rate – 0.80% → Standard rate × 0.66)
April 2012	Period changed for a ban on pre-maturity redemption of 5-Year Fixed-Rate Bonds (2 years → 1 year)
December 2013	Monthly subscription and issuance launched for 10-Year Floating-Rate and 5-Year Fixed-Rate Bonds
May 2016	First interest rate adjustment amount revised

C. Offering to the public sector (Bank of Japan Rollover)

While Article 5 of the "Public Finance Act" prohibits the BOJ from underwriting government bonds, a proviso to the Article allows the BOJ to extend credit to the government, up to an amount authorized by the Diet, in exceptional cases. In practice, such cases are limited to the underwriting of Refunding Bonds within the amount of JGBs that are held by the BOJ and have reached maturity (often referred to as "Bank of Japan Rollover").

Through its market operations, the BOJ holds a large amount of government bonds. If the BOJ tried to have its JGB holdings redeemed in cash, the MOF would be required to issue Refunding Bonds in the market to raise the fund needed for redemption. In this case, it could invite a fund shortage in the private sector, thus obliging the BOJ to provide the private sector with funds by purchasing a substantial amount of the Refunding Bonds from private sector. To avoid such a roundabout process, the BOJ is exceptionally allowed to underwrite only up to the amount necessary to roll over its maturing bonds.

In terms of Debt Management Policy, the amount of BOJ rollover allows the MOF to level the effects of fluctuations in the annual JGB redemption amount and fiscal demand on fluctuations in the amount of JGB market issuance through usual auctions.

(4) JGB Market Special Participants Scheme

Amid expectations that JGB issuance in large volumes will continue, the "JGB Market Special Participants Scheme" was introduced in Japan in October 2004 to promote the market's stable absorption of JGBs and to maintain and enhance the liquidity of the JGB market.

This scheme is designed based on the so-called "Primary Dealer System" introduced in major European countries and the U.S. To achieve the above-mentioned purposes of the scheme, the MOF grants special entitlements to certain auction participants who carry out responsibilities essential to debt management policies, such as active participation in JGB auctions.

The following is an outline of the scheme.

A. Responsibilities of JGB Market Special Participants

- Bidding responsibility:
  In every auction, the Special Participants shall bid for an adequate amount (at least the planned issuance amount multiplied by the rate of bidding responsibility) at reasonable prices (☞①).
- Purchasing responsibility:
  The Special Participants shall purchase at least a specified share of the total issuance amount (☞②) (0.5% for short-term zone; and 1% for other zones) for each of the following zones: short-term, medium-term, long-term, and super long-term zone in auctions for any two consecutive quarters.
- Responsibility in the secondary market:
  The Special Participants shall provide sufficient liquidity to the JGB secondary market.
- Provision of Information:
  The Special Participants shall provide information on JGB markets and related transactions to the MOF.

☞①Rate of bidding responsibility is calculated by the formula shown below (any fraction less than one rounded up to the nearest whole number).

Rate of bidding responsibility (%) = 100/n
"n" is the number of the Special Participants

☞②The total issuance amount in JGB auctions (excludes the issuance amount through Non-Price Competitive Auction II and Liquidity Enhancement Auctions).

B. Entitlements of JGB Market Special Participants

- Entitlement to participate in the Meeting of JGB Market Special Participants:
  The Special Participants may participate in the Meeting of JGB Market Special Participants to exchange opinions with the MOF.
- Entitlement to participate in Non-Price Competitive Auctions I & II:
  The Special Participants may participate in Non-Price Competitive Auction I held concurrently with a normal competitive auction and in Non-Price Competitive Auction II held after a normal competitive auction. These auctions enable Special Participants to obtain JGBs at the weighted average accepted price in a competitive auction (or at the issuance price in a Dutch-style auction) up to the maximum amount preset for each Special Participant on the basis of the amount of past successful bids (Non-Price Competitive Auction I) and past bids (Non-Price Competitive Auction II) in auctions for the preceding two quarters.
- Entitlement to participate in Liquidity Enhancement Auctions:
  The Special Participants may participate in Liquidity Enhancement Auctions that are designed to maintain and enhance the liquidity of the JGB market.
- Entitlement to participate in Auctions for Buy-backs:
  The Special Participants may participate in Auctions for Buy-backs.
- Entitlement to apply for separating and integrating STRIPS Bonds:
  The Special Participants may apply for the separation and integration of STRIPS Bonds.

Ref: Chapter 1, 1 2 (6) "STRIPS" (P51)

C. History of the Scheme

- October 2004: JGB Market Special Participants Scheme was introduced, including the designation of Special Participants, holding the first round of Meeting of JGB Market Special Participants, and launch of Non-Price Competitive Auction II.
- April 2005: Non-Price Competitive Auction I was launched.
- January 2006: Interest Rate Swap Transaction was introduced (☞①).
- March 2006: JGB syndicate underwriting system was abolished.
- April 2006: Liquidity Enhancement Auction was launched.
- January 2009: The maximum bid for Non-Price Competitive Auction II was raised from "10% of one's total successful bids" to "15%" (☞②).
- April 2015: The maximum amount of bidding by each auction participant was reduced from "100% of the planned issuance amount" to "50% of the amount" and the minimum bidding responsibility amount was raised from "3% of the planned issuance amount" to "4% of the amount."
- July 2017: The maximum issuance amount for Non-Price Competitive Auction I was raised from "10% of the total planned issuance amount" to "20% of the amount" and the minimum bidding responsibility amount from "4% of the planned issuance amount" to "5% of the amount."
- January 2020: The maximum bid for Non-Price Competitive Auction II was lowered from "15% of one's total successful bids" to "10%" (☞②).
- April 2020: Non-Price Competitive Auction II for the Inflation-Indexed Bonds was canceled.
- March 2022: The bidding responsibility amount was changed from "at least 5% of the planned issuance amount" to "at least 100/n%."
- April 2024: The maximum issuance amount for Non-Price Competitive Auction I was raised from "20% of the total planned issuance amount" to "25% of the amount."

☞① An interest rate swap transaction is a transaction in which different types of interest payments (e.g. floating-rate and fixed-rate) are exchanged for a specific period of time. The MOF introduced interest rate swap transaction in connection with JGBs in February 2006, following the amendment of the "Act for the Special Account for the GDCF" in June 2002. No new transactions have been implemented since the second half of FY2009.

☞② The maximum amount of bidding would not exceed the amount obtained by multiplying the planned issuance amount by the Reference Bidding Coefficient for each Special Participant (amounts less than 100 million yen shall be discarded).

(5) Government Bond Administration

A. Government Bond Operations Handled by the Bank of Japan

The government does not directly undertake JGB-related administrative work, such as issuance and redemption, but delegates most of the work to the BOJ based on Article 1, paragraph (2) of the "Act on National Government Bonds." This delegated work is as follows (☞).

- Issuance: The BOJ receives bids in auctions, notifies amounts of successful bids, collects payments, issues the securities, and receives and handles revenues.
- Redemption/interest payment: The BOJ pays a principal and interest on JGBs, receives and handles funds to be used for redemption, and makes their disbursement.

☞The BOJ provides these government bond-related services through its head office and branches, and through agent financial institutions.

B. The Bank of Japan government bond network system

The BOJ operates the Bank of Japan Financial Network System (BOJ-NET) JGB Services (☞①) to efficiently and safely implement JGB issuance, redemption, and other administrative tasks as explained above and the settlement of JGB transactions with its customer financial institutions.

Banks, securities companies, money market brokers, insurance companies, etc. participate in the BOJ-NET JGB Services that implement JGB issuance, redemption, and other administrative tasks online.

Under the "Act on Book-Entry Transfer of Corporate Bonds and Shares," JGBs are paperless. JGB transfers are done in the form of transfers on accounts managed by the transfer institution (the BOJ) (☞②).

The BOJ-NET JGB Services allow the following procedures to be completed online:

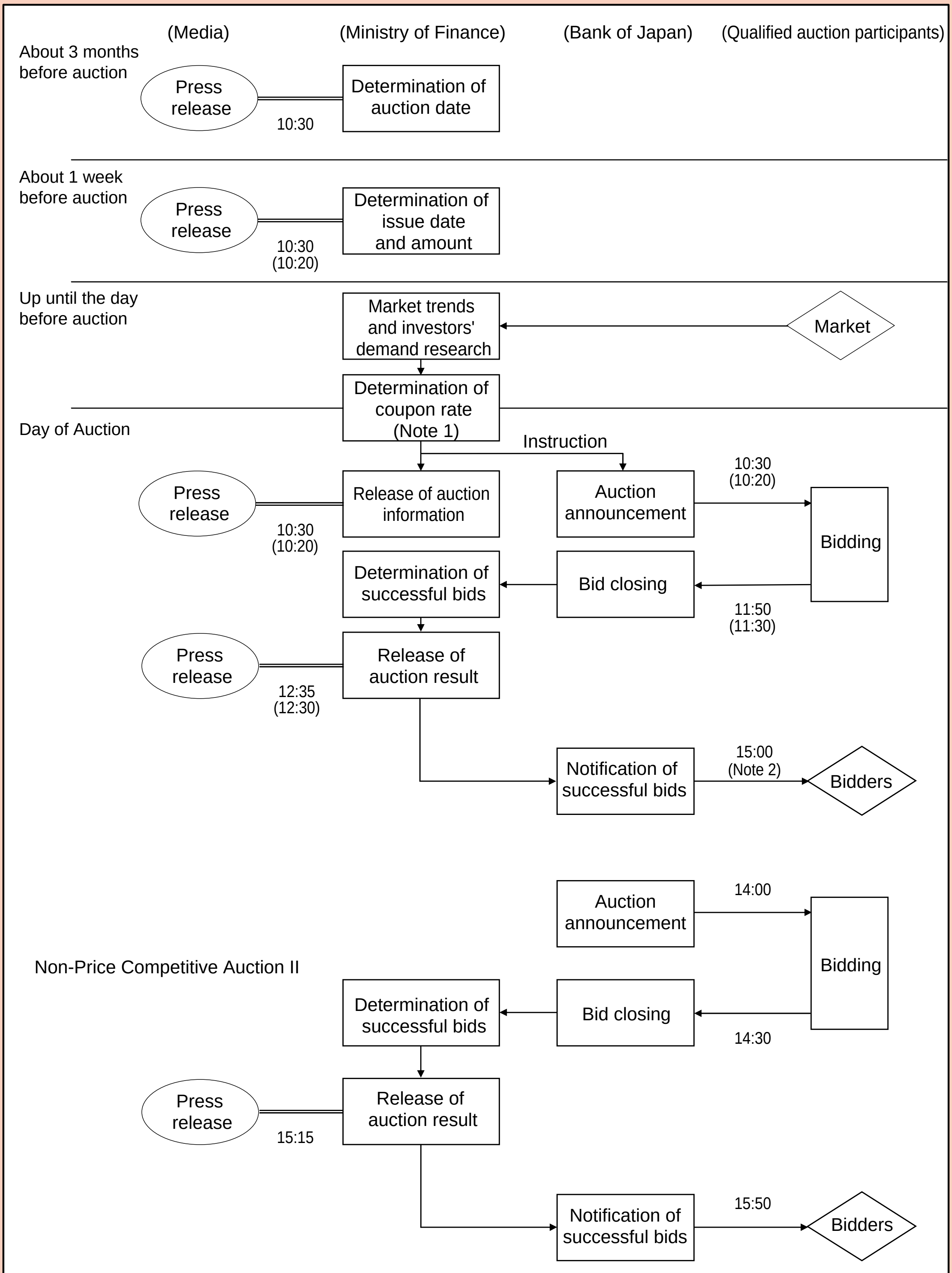
- Notification of offering (from the BOJ to auction participants)
- Bidding (from bidders to the BOJ)
- Aggregating bids and reporting to the MOF on their status
- Notification of accepted/allocated bids (from the BOJ to bidders)
- Issuance and payment (from the BOJ to successful bidders / from successful bidders to the BOJ)

☞①The BOJ-NET includes the BOJ-NET current account system as a fund settlement system and the BOJ-NET JGB Services as a JGB settlement system.

☞②JGBs for this mechanism are called Book-Entry Transfer JGBs, representing those whose ownership is determined by descriptions or records in book-entry accounts as provided by the "Act on Book-Entry Transfer of Corporate Bonds and Shares" (JGB certificates are not issued.).

C. Auction Procedures for Public Offering Auction

Fig. 1-14 Auction Procedures for Public Offering Auction



Note 1: Treasury Discount Bills are issued at a discount so they do not carry any coupon rate. No procedure to determine coupon rates is required for reopening and liquidity enhancement auctions for interest-bearing bonds. When a new issuance of 40-Year Bonds and Japan Climate Transition Bonds is offered, the coupon rate is determined according to the yield-competitive auction result.
Note 2: Successful bids from the Liquidity Enhancement Auction are notified at 14:30.
Note 3: Times in parenthesis refer to the times for Treasury Discount Bills.
Note 4: Non-Price Competitive Auction II is not conducted for Inflation-Indexed Bonds, Japan Climate Transition Bonds and Treasury Discount Bills (As of April, 2026).

D. Shortening of Settlement Cycles in Primary JGB Market

Ref: Chapter 1, 1 2 (3) C "Shortening of settlement periods" (P47)

In line with the shortening of the settlement cycle to T+1 for the secondary JGB market, the JGB settlement cycle (between auction and issue date) was shortened from T+2 to T+1 in principle for auctions as of May 1, 2018.

At the same time, the JGB settlement cycle for interest-bearing bonds (5-to 30-Year Bonds) issued in massive redemption months (March, June, September, and December) and 2-Year Bonds issued every month were shortened.

① Interest-bearing (5- to 30-year) JGB Issues in Massive Redemption Months

Although the issue date of interest-bearing bonds (5- to 30-year) JGBs in massive redemption months (March, June, September, and December) had been unified into the 20th day of each month (the next business day if the 20th day fell on a holiday) irrespective of auction dates, settlement cycles were shortened to T+1, with their issuance set to come on the next business day after the auction, as of May 1, 2018.

② Monthly 2-year JGB issue

Although the issue date of monthly 2-year JGBs had been set at the 15th day (the next business day if the 15th day fell on a holiday) of the month after an auction month irrespective of the auction date, the issuance date was set at the first day (the next business day if the first day falls on a holiday) of the month after an auction month as of May 1, 2018. The interest payment and redemption dates were also changed to the first day of each month.