3 Challenges and Initiatives in Recent Government Debt Management Policy

(1) Challenges

A. Diversification of JGB Investor Base

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

Fig. 2-19 Plan for the Reduction of the Purchase Amount of JGBs (June 2025 MPM)

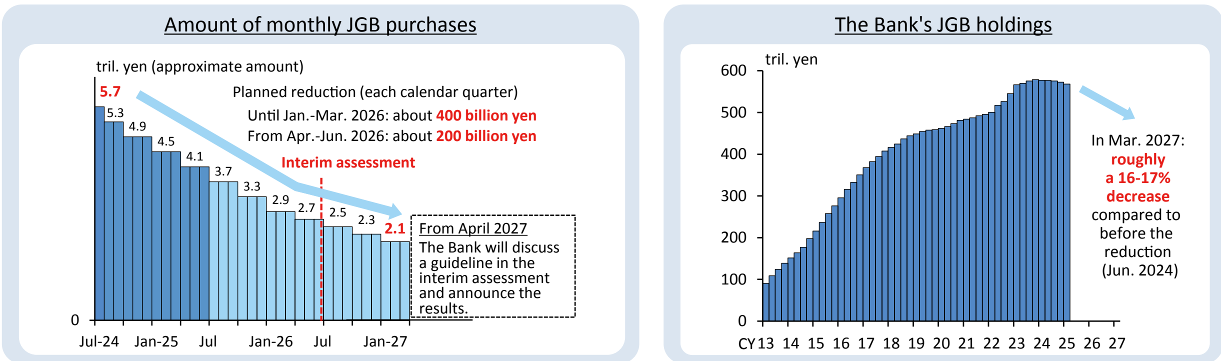
1. Long-term interest rates: to be formed in financial markets in principle
2. JGB purchases: appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, while allowing enough flexibility to support stability in the JGB markets

In principle, the Bank will reduce the planned amount of its monthly purchases of JGBs each calendar quarter as follows.

- Until January-March 2026 : about 400 billion yen (the reduction plan decided in July 2024 will be maintained)
- From April-June 2026 to January-March 2027 : about 200 billion yen

➢ The Bank will gradually reduce its purchase amount so that it can improve the functioning of the JGB markets in a manner that supports stability in the markets.

Reduction in a Predictable Manner



Allowing Enough Flexibility

1. The Bank will conduct an interim assessment of the plan at the June 2026 MPM.
2. In the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases.
3. The Bank is prepared to amend the plan at the MPMs, if deemed necessary.

Given this situation, it is becoming increasingly important for the debt management office to promote the holding of government bonds by a diverse range of investor classes to ensure smooth and secure issuance while continuing to minimize medium- to long-term procurement costs. Diverse investors' JGB holdings based on various investment needs are expected to stabilize the market by preventing transactions from going in a single direction even if market conditions change. Therefore, the MOF has made efforts to encourage JGB market participation and JGB holdings not only by domestic institutional investors, such as banks and life insurance companies, but also by a wide range of investors, both domestic and foreign.

Fig. 2-20 Breakdown by JGB and T-Bill Holders (December 2025, QE)

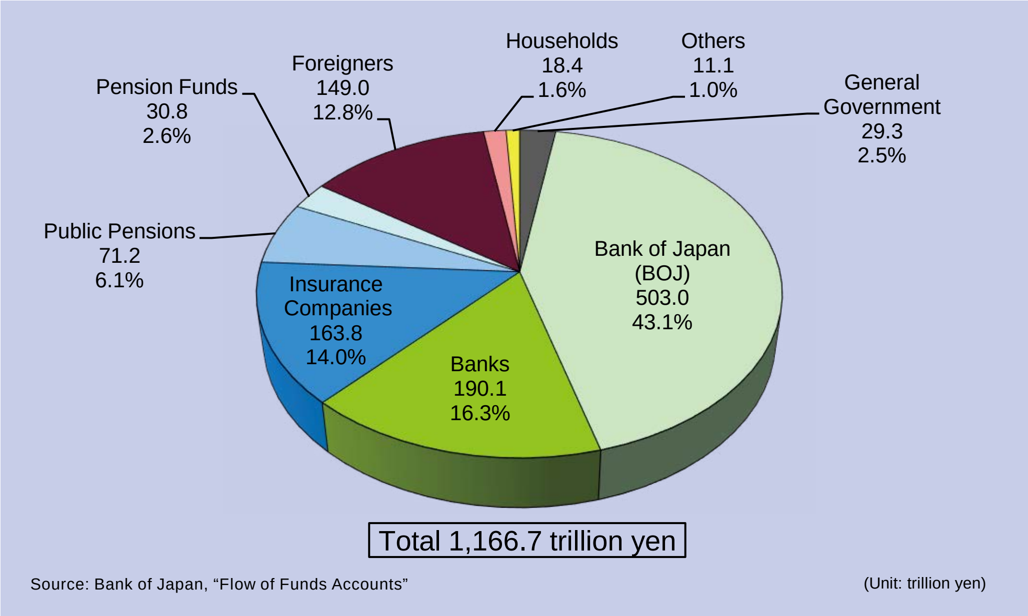


Fig. 2-21 Breakdown by JGB Holders (December 2025, QE)

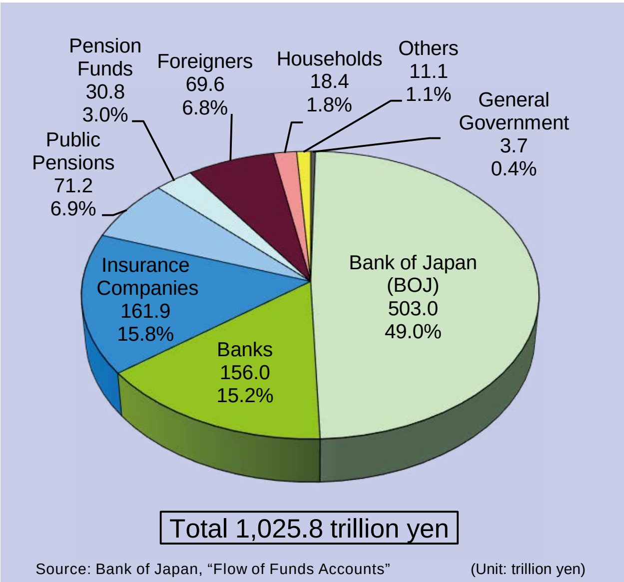
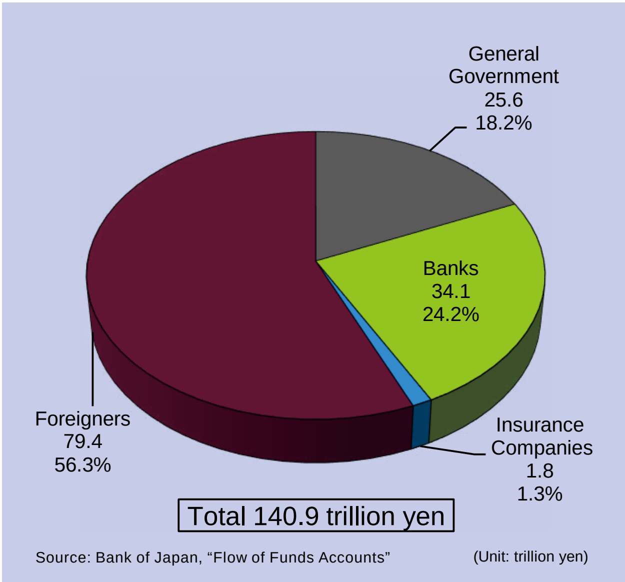


Fig. 2-22 Breakdown by T-Bill Holders (December 2025, QE)



Note 1: "T-Bill" is the sum of "Treasury Bills (TBs)" and "Financial Bills (FBs)" with a maturity of 1 year or less. TBs and FBs have been jointly issued since February 2009.
Note 2: "JGB" in the figures represents the outstanding balance of JGBs (including FILP bonds) excluding TBs maturing within 1 year or less.
Note 3: "Banks" includes "Japan Post Bank," "Securities investment trusts," "Securities companies," etc.
Note 4: "Insurance companies" includes "Life insurance," "Nonlife insurance," and "Mutual aid insurance."
Note 5: "General Government" excludes "Public Pensions."

In addition, in May and June of 2024, the "Study Group on Government Debt Management" (hereinafter referred to as the "Study Group") was convened to discuss, from a medium- to long-term perspective, how to ensure the stable issuance of government bonds. Experts engaged in these discussions, and on June 21, 2024, they compiled a document titled "Initiatives for Stable Issuance and Absorption of JGBs in the Future (Summary of Discussions)." In the "Summary of Discussions," the Study Group noted that the JGB Issuance Plan should be formulated taking into account changes in market conditions and investor demands, and also indicated initiatives that should be implemented in the future for the respective types of investors, namely, banks, life insurance companies and pension funds, retail investors, etc., and foreign investors, such as those listed in (Figure 2-23).

Fig. 2-23 Promotion of JGBs holdings by various investors

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

B. Enhancement of dialogue with market participants

At present, JGB Issuance Plans are formulated after holding dialogue with market participants at the Meeting of JGB Market Special Participants, etc., as described in Part II, Chapter 2 (3) JGB Issuance Plan for FY2026.

Meanwhile, the timing for revising a government bond issuance plan differs by country. For details, please see Part I, Chapter 4 (1). Japan currently announces the JGB Issuance Plan for the following fiscal year in December every year. However, regarding the JGB Issuance Plan for FY2025, for example, in light of signs of a significant interest rate rise observed for super long-term JGBs from April, immediately after the start of the fiscal year, as compared to that for other maturities, the issuance plan was revised to reduce the planned issuance amount for super long-term JGBs from July onward.

Generally speaking, a JGB Issuance Plan plays the role of indicating the annual market issuance amount and schedule in advance and increasing predictability for market participants. Thus, if the plan is revised by excessively responding to temporary or short-term changes in market demand, it could undermine predictability for market participants. On the other hand, it is also important for the debt management office to continue issuance that meets market needs, now that Japan has shifted to a positive policy interest rate environment. Therefore, achieving a balance between predictability and flexibility is a challenge. In the 9th Round of the Study Group as well, it was pointed out that "supply and demand trends should be investigated and assessed through periodic dialogue with market participants, and the plan should be revised when necessary."

(2) Initiatives

This section explains the debt management office's initiatives conducted to address the challenge mentioned in (1) above.

A. Issuance of floating-rate JGBs and the measure taken in the JGB Issuance Plan

a. Issuance of floating-rate JGBs

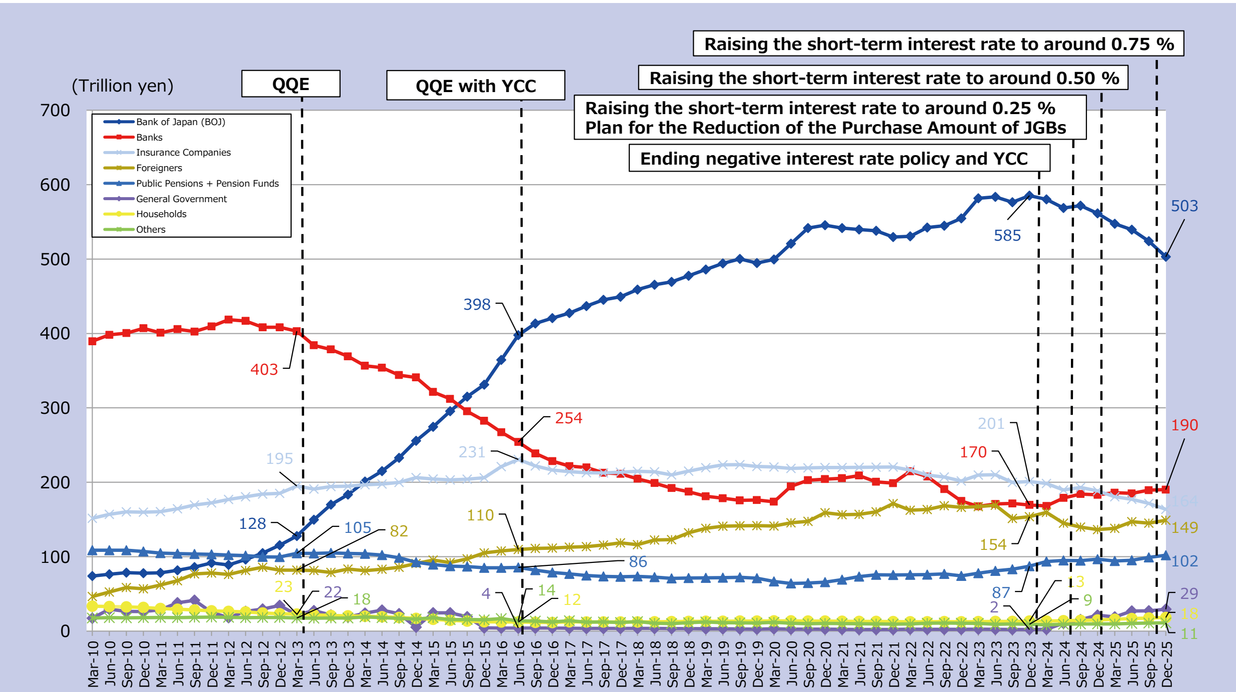
Before the BOJ introduced quantitative and qualitative monetary easing (QQE) in April 2013, banks were the largest JGB investors, but they have decreased the amount of their JGB holdings as interest rates have remained stably low (Figure 2-24).

However, as banks have structural needs to hold JGBs from the viewpoint of Asset Liability Management (ALM), there is room for banks to increase their JGB holdings to a certain extent, and therefore they are anticipated to play an important role in the stable absorption of JGBs in the future.

Meanwhile, there are restrictions on banks' JGB holdings, such as regulations on capital, etc. and risk management frameworks, including the gradual implementation of Basel III regulations from 2013. At the 3rd Round of the Study Group held on June 2, 2023, it was indicated that banks' "purchasing capacity is likely to be limited to a portion of the amount currently held by the BOJ." Also in the 9th Round of the Study Group, banks' JGB holding capacity was estimated, but they are not expected to hold JGBs to the same level as they did before.

A step that the debt management office could take to respond to such situation is to take a measure to enable banks to hold JGBs without hindrance within the scope of various regulations. Thus, while also taking into account the Study Group's "Summary of Discussions" shown in Figure 2-23, the debt management office plans to start issuing new floating-rate JGBs in January 2027 from the perspective of reducing interest rate risk in the market (Figure 2-25).

Fig. 2-24 Historical Changes in JGB and T-Bill Holders



Source: Bank of Japan "Flow of Funds Accounts" (Preliminary Figures) (March 18, 2026)
Note 1: "JGB" includes "FILP Bonds."
Note 2: "Banks" includes "Japan Post Bank," "Securities investment trusts," "Securities companies," etc.
Note 3: "Insurance companies" includes "Life insurance," "Nonlife insurance," and "Mutual aid insurance."
Note 4: "General Government" includes "Fiscal Loan Fund," and excludes "Public Pensions."

Fig. 2-25 Basic Product Features of the New Floating-rate JGBs

	Main points of future direction of efforts
Coupon rate	Reference rate + Spread(Note 1) (The coupon rate is set in percentage with 3 decimal places and the lowest coupon rate is 0%.)
Reference rate(Note 2)	The 6-month T-Bill issue yield (Average issue yield of the 6-month T-Bill auction held immediately prior to the rate decision, rounded off to 4 decimal places.)
Issuance methods	Dutch-style competitive auction in which each competitive tender shall specify a spread (which can be positive, zero, or negative, expressed in 0.1 bp) and the issue price shall be 100 yen at par.
Tenor	2- or 5-Year
Maturity date	2-year bonds: the 1st day of the month of the issuance in the year of maturity 5-year bonds: the 20th day of the final month in the preceding quarter of the issuance date, namely March, June, September, or December, in the year of maturity(Note 3)
Interest payment dates	Every six months until maturity
Day count convention	Same as other JGBs
Min. face value unit	50,000 yen
STRIPS eligible	No
Reopening	To be decided
Other items	Non-Price Competitive Auction II is offered. Non-Competitive Auction, Non-Price Competitive Auction I, Liquidity Enhancement Auction, and Buy-back program are **NOT** offered. For the security codes of the new Floating-rate JGBs, please refer to the announcement (December 27, 2024) issued by the Securities Identification Code Committee. https://www.jpx.co.jp/sicc/securities-code/nlsgeu00000329ri-att/tuuti241227.pdf

(Note 1) Spread is set in the auction and stays until maturity.
(Note 2) The reference rate is determined before each interest calculation period starts and revised semi-annually.
(Note 3) The maturity date of the 5-year bonds may also be the 1st day of the month of the issuance, as with the 2-year bonds, depending on the issue frequency and issue amount.

b. Measure taken in the JGB Issuance Plan

As most of the liabilities held by life insurance companies are insurance reserves with an extremely long remaining term, life insurance companies have structural needs to hold super long-term JGBs from the viewpoint of ALM, and are positioned as purchasers of super long-term JGBs. In addition, they have increased their investment in JGBs in order to respond to a new regulation (the economic value-based solvency regulation [ESR regulation]).

On the other hand, life insurance companies' investment in super long-term JGBs has slowed down recently (see Figure 2-5). The cause for this includes the fact that the companies' "response to the ESR regulation has almost been completed" as indicated in the 9th Round of the Study Group.

In light of such circumstances, the debt management office decided to reduce the issuance amount of super long-term JGBs with maturities of 20 to 40 years by a total of 7.2 trillion yen in the JGB Issuance Plan for FY2026, after also taking into account the opinions given at two rounds of the Meeting of JGB Market Special Participants held at the end of 2025.

B. JGB Holdings by Retail Investors

To promote JGB sales to retail investors, since the introduction of "10-Year Floating-Rate Bonds for Retail Investors" in March 2003, we introduced "5-Year Fixed-Rate Bonds for Retail Investors" in January 2006 and "3-Year Fixed-Rate Bonds for Retail Investors" in July 2010, and launched the "New Over-The-Counter (OTC) Sales System" in October 2007.

In FY2025, JGBs for Retail Investors saw a substantial increase in sales, at approximately 6.2 trillion yen (approximately 4.5 trillion yen in FY2024), with sales through the "New Over-The-Counter (OTC) Sales System" growing as well to approximately 0.4 trillion yen (approximately 0.2 trillion yen in FY2024), and the outstanding balance of JGB holdings by households also increased.

The factors indicated as the cause for the growth of JGB holdings by retail investors include the rise in interest rates during FY2024. However, in the long term, the proportion of JGBs held by households in the total JGB issuance amount remains at a low level.

Fig. 2-26 Changes in the Issuance Amount of JGBs for Retail Investors

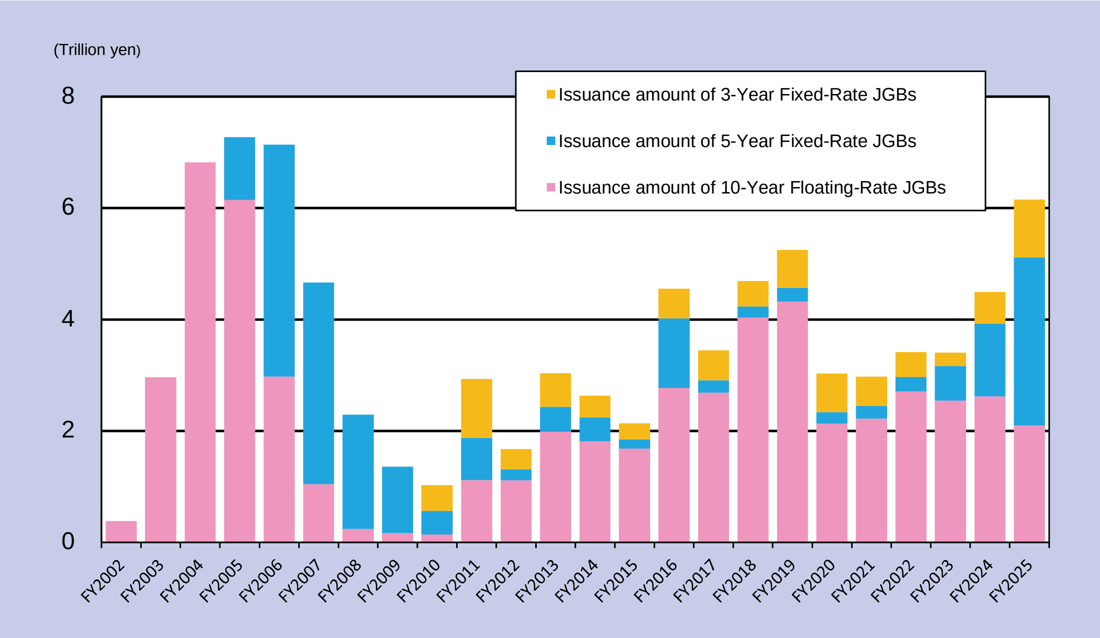


Fig. 2-27 Issuance, Redemption, and Outstanding Balance of JGBs for Retail Investors

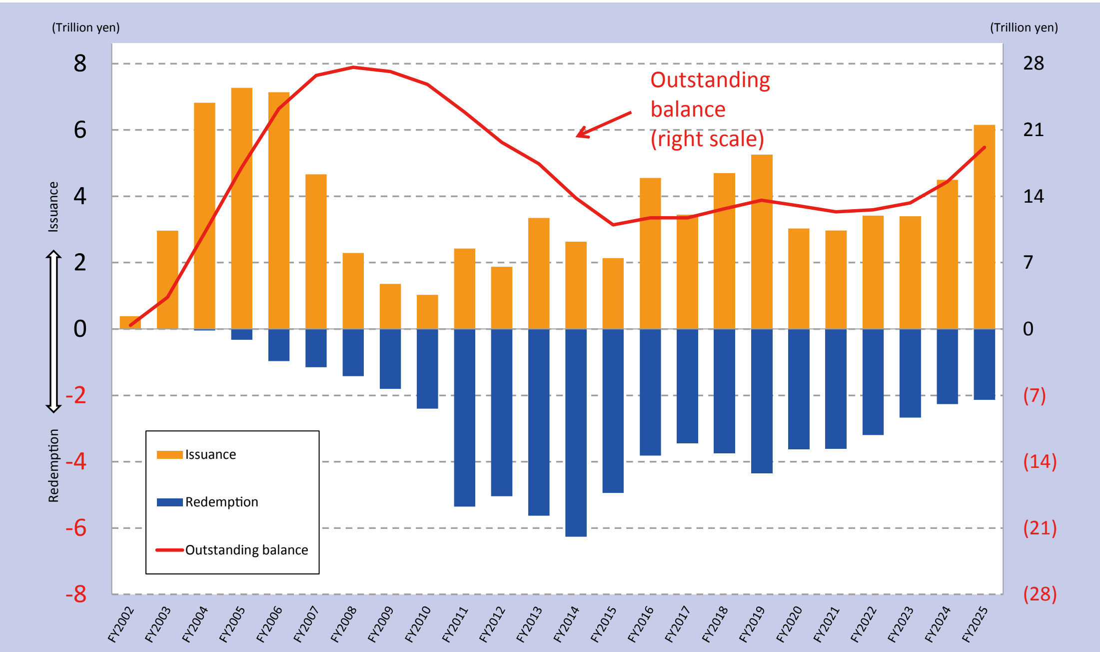
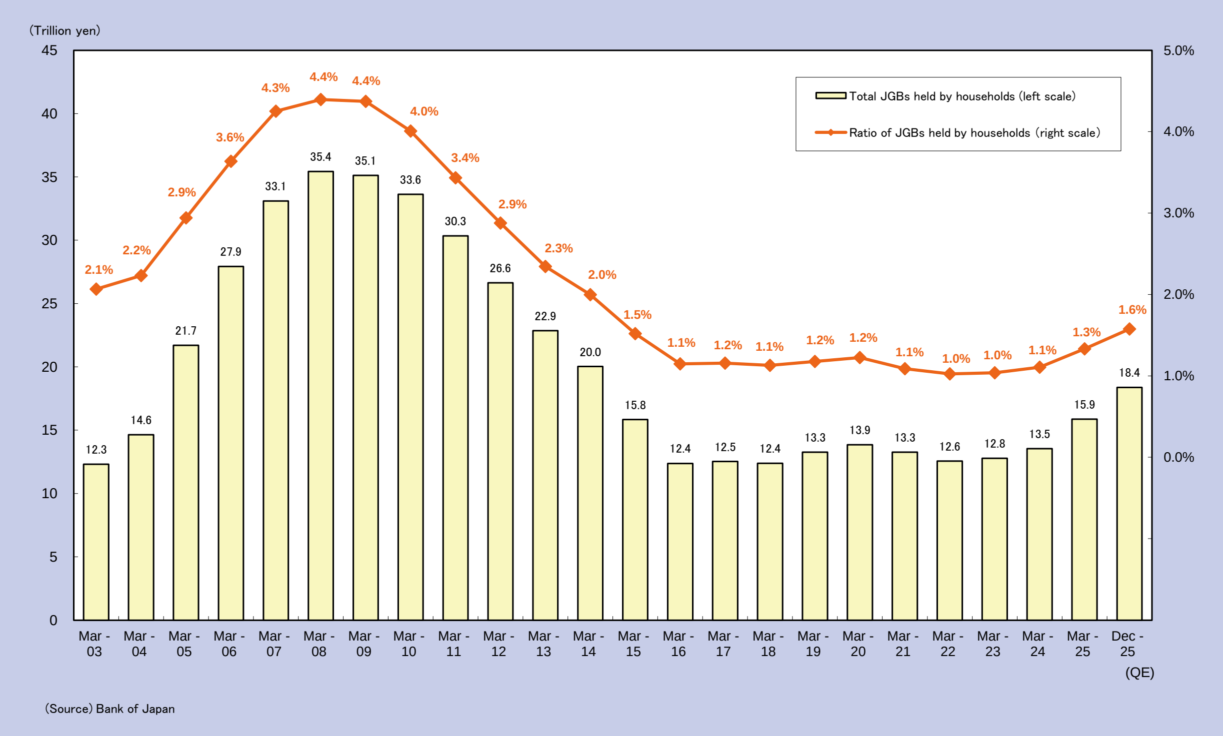


Fig. 2-28 JGB Holdings by Households



a. JGB advertising

In light of this situation, we are carrying out advertising campaigns aimed at expanding the medium- to long-term base of purchasers for JGBs for Retail Investors.

Specifically, in addition to using the characters "Koko-chan for JGBs for Retail Investors" and "Kokusai Sensei" (JGB teacher), we employed celebrities for internet advertising (such as banner ads), social media and video advertisements, newspaper ads, and TV commercials.

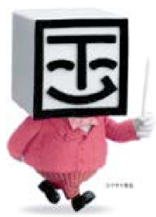
Until FY2025, the MOF has implemented JGB advertising mainly targeting the existing primary buyer demographic of those aged 50 and older, with an aim to encourage their purchasing decisions.

From FY2026, given that interest in asset management is growing in a wide range of generations and due to other factors, the MOF will implement JGB advertising mainly targeting relatively young working generations (people in their 20s and 30s) in order to expand the purchaser base from a medium- to long-term perspective. The MOF will implement advertising that conveys the reliability and accessibility of "JGBs for Retail Investors" in an easy-to-understand manner, thereby promoting understanding of their key features and leading to increased sales.

In addition, from the latter half of FY2026, the MOF plans to implement an advertising campaign to inform corporations and other entities newly becoming target customers of "JGBs for Retail Investors," which will be renamed "Retail Government Bonds Plus" as described below, that they will become eligible to purchase the JGBs and to encourage their purchasing decisions.

<Koko-chan>

<Kokusai Sensei>



b. Expansion of the target customers for "JGBs for Retail Investors" to corporations and other entities ("Retail Government Bonds Plus")

Regarding JGB holdings by retail investors, etc., it was indicated in discussions at the 6th Round of the Study Group on Government Debt Management held on June 21, 2024, that "it is important to increase JGB holdings by households, who are expected to be stable holders of JGBs in the context of future debt management policies." There was also an opinion that "entities such as non-profit corporations and privately managed unlisted corporations are expected to hold JGBs in a stable manner."

Based on these discussions, an examination was made from FY2024 regarding the expansion of the target customers for "JGBs for Retail Investors" to also include corporations and other entities from the viewpoint of expanding the stable investor base of JGBs. In the "Highlights of the JGB Issuance Plan for FY2025" published on December 27, 2024, expansion of the target customers for "JGBs for Retail Investors" was mentioned as part of "Initiatives to increase JGB holdings." At the 24th Meeting of JGB Top Retailers held on June 9, 2025, the MOF explained to JGB-selling financial institutions the concept of the corporations and other entities that would be target customers and other relevant matters. Subsequently, the MOF further examined the details of the system, and on January 7, 2026, created a page titled "Expansion of the target customers for JGBs for Retail Investors to corporations and other entities" on the MOF website, and published a FAQ explaining the details of the system.

The MOF plans to expand the target customers for "JGBs for Retail Investors" to corporations and other entities starting from the issues offered in December 2026 (the January 2027 issues), and in line with this, it will change the product name from "JGBs for Retail Investors" to "Retail Government Bonds Plus." There is no change to the product lineup and the basic product features, etc., but the handling differs between individuals and corporations and other entities in some respects, including redemption before maturity and transfer (☞①).

From the viewpoint of ensuring the stability of holdings, corporations and other entities that will become target customers for "Retail Government Bonds Plus" are general investors as defined under the Financial Instruments and Exchange Act, excluding professional investors as defined under that Act, which include financial institutions and listed companies, etc. (Fig. 2-29)

☞① Redemption before maturity is not possible until one year passes from the date of issuance, in principle. However, redemption becomes possible even during that period as an exception if, for example, an individual dies or corporations and other entities are dissolved."
As for transfer, transfer from an individual to another individual will be possible as before; however, transfer from an individual to corporations and other entities, from corporations and other entities to an individual, or from corporations and other entities to each other will not be possible.

Fig. 2-29 Corporations and Other Entities That Will Become Target Customers of JGBs for Retail Investors

Corporations and other entities that will become target customers (general investors)

<Major examples>

- **Nonprofit corporations**
  <Specific examples>
  General incorporated associations, general incorporated foundations, incorporated educational institution, medical corporations, incorporated management associations, social welfare corporations, corporations engaging in specified non-profit activities, religious corporations, and tax accountancy corporations
- **Unlisted corporations**
  <Specific examples>
  Unlisted stock companies (having a stated capital of less than 500 million yen), limited liability companies, limited partnership companies, and general partnership companies
- **Others**
  <Specific examples>
  Condominium associations

Corporations and other entities that will not become target customers (professional investors)

① **The State** ② **The Bank of Japan**
③ **Qualified institutional investors (other than individuals)**
<Specific examples>
Financial instruments business operators, investment corporations, banks, insurance companies, Shinkin Banks, workers' credit unions, the Norinchukin Bank, money market brokers, credit cooperatives that have made notification to the Commissioner of the Financial Services Agency, and agricultural cooperative designated by the Commissioner of the Financial Services Agency
④ **Corporations specified by Cabinet Office Order**
<Specific examples>
Public corporations / incorporated administrative agencies, specified purpose companies, stock companies expected to have a stated capital of 500 million yen or more, listed stock companies, and foreign corporations

＊ Those listed as professional investors in Article 2 of the Financial Instruments and Exchange Act

C. JGB Holdings by Foreign Investors

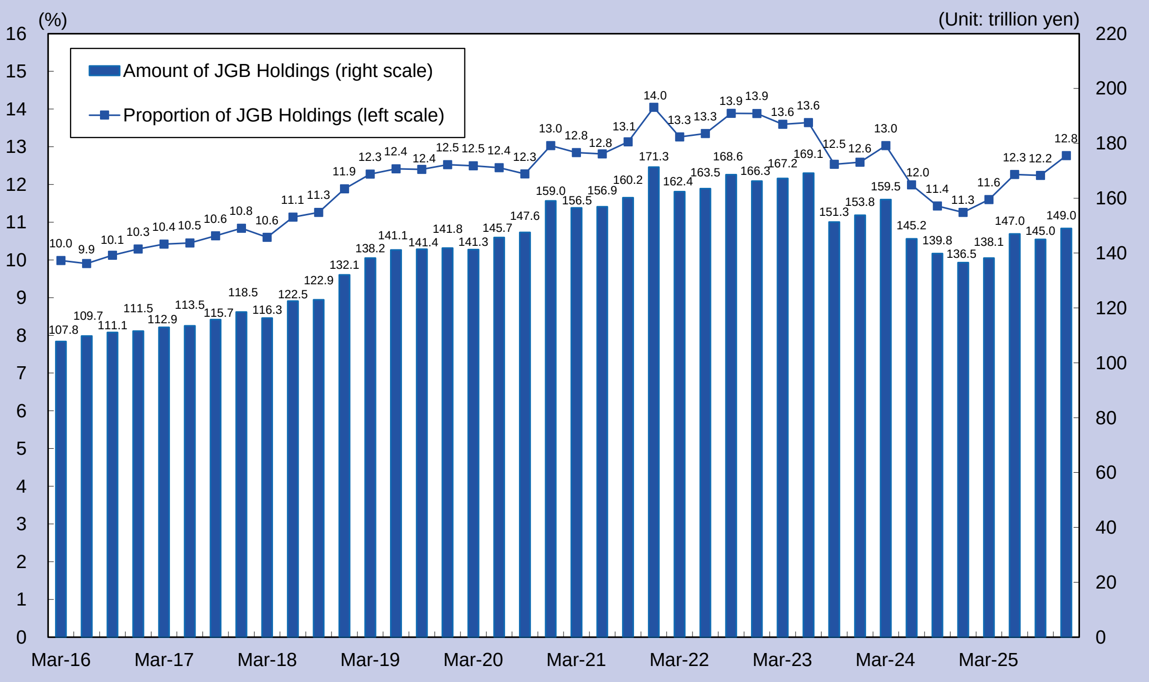
a. Foreign Investors' Presence

The status of JGB holdings by foreign investors can be found in the "Flow-of-Funds Accounts" published by the BOJ on a quarterly basis (Fig. 2-30).

In CY2025, the investment trends of foreign investors showed a continued net purchase of bonds for most of the period. Factors cited include rising interest rates and the growing appeal of JGBs as investment targets due to the steepening of yield curves. In addition, looking at medium- to long-term trends, the yen fundraising costs have continued to be low for foreign investors on the back of the tightening dollar supply-demand balance, and therefore by investing in JGBs by utilizing currency basis swaps, they have been able to gain higher yields after currency hedging than those of government bonds from other developed countries with the same maturities. Because of this, JGB holdings by foreign investors have remained stable. As investment utilizing currency basis swaps has high affinity with investment in T-Bills from the perspective of managing short-term funds and market liquidity, foreign investors' JGB investment has featured a focus on T-Bills. At the end of December 2025, they held 6.8% of outstanding JGBs (excluding T-Bills) and 56.3% of T-Bills (Fig. 2-31). Meanwhile, they held 12.8% of all outstanding JGBs, including T-Bills, and their amount of holdings totaled 149.0 trillion yen.

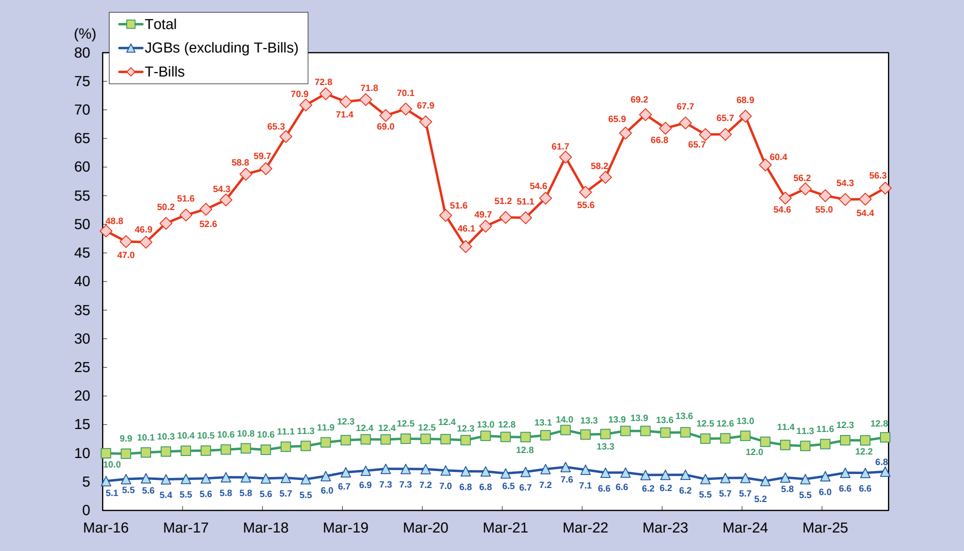
Foreign investors also feature active trading on the secondary market. Their share of secondary market transactions at the end of December 2025 reached 47.2% for spot trading and 72.7% for futures trading (Fig. 2-32). Foreign investors' presence on the secondary market is greater than indicated by their JGB holdings. We should keep an eye on trends in foreign investors' JGB holdings and investment behavior.

Fig. 2-30 JGB Holdings by Foreign Investors



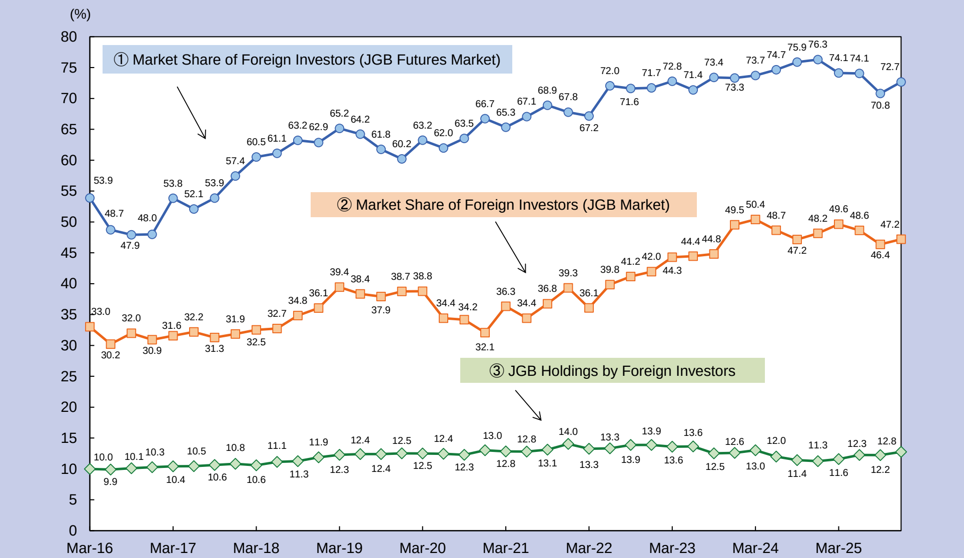
Note: "JGB" includes "FILP Bonds" and "T-Bills."
(Source) Bank of Japan, " Flow of Funds Accounts"

Fig. 2-31 JGB (Including T-Bills) Holdings by Foreign Investors



(Source: Bank of Japan)

Fig. 2-32 JGB Holdings and Trading by Foreign Investors



Note 1: "JGB" includes T-Bills. Figures on ② exclude dealer's transaction.
Note 2: Figures on ① and ② indicate the market share during each quarter.
(Sources) Bank of Japan, Japan Securities Dealers Association, Japan Exchange Group, Inc.

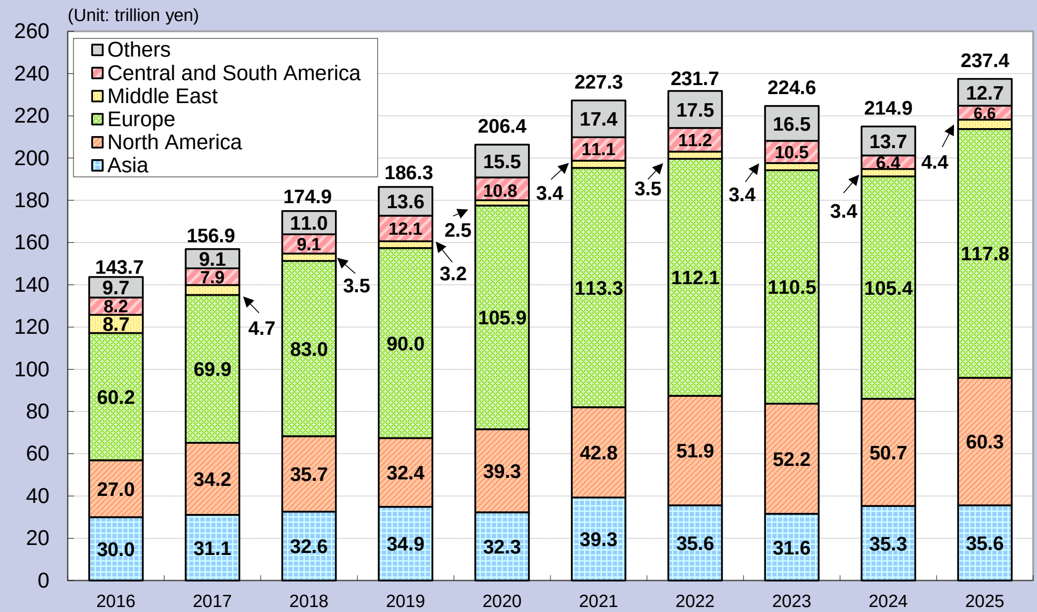
b. Breakdown of Foreign Investors

There are various foreign investors, including "real money" institutional investors (such as central banks managing foreign exchange reserves, international financial institutions, investment institutions managing pension funds, life insurance companies, and asset management firms) and hedge funds.

Generally, it is said that "real money" institutional investors give greater priority to safety, liquidity, and stable long-term holdings, while hedge funds mainly invest in a relatively short-term period utilizing derivatives and so on. However, some "real money" institutional investors conduct relatively short-term investment, while some hedge funds implement relatively long-term investment. As shown above, there is a variety of investment styles.

As for a region-by-region breakdown of foreign investors, the Ministry of Finance and the BOJ release statistics (Regional Portfolio Investment and Financial Derivatives Position (Liabilities)). According to these statistics, JGB and other Japanese bond holdings total (1) 117.8 trillion yen in Europe, (2) 60.3 trillion yen in North America (3) 35.6 trillion yen in Asia, (4) 6.6 trillion yen in Central and South America, and (5) 4.4 trillion yen in the Middle East (Fig. 2-33). A country-by-country breakdown of Japanese bonds held overseas indicates that the five largest holders of these bonds are (1) the U.S., with 58.0 trillion yen, (2) Belgium, with 47.8 trillion yen, (3) Luxembourg, with 29.1 trillion yen, (4) the U.K., with 15.9 trillion yen, and (5) China, with 14.8 trillion yen.

Fig. 2-33 Foreign Investors' Bond Holdings by Region (Custodian Base)



Note: In addition to JGBs, all of the bonds issued by residents in Japan, such as Local Government Bonds and corporate bond, are included. Given that these statistics provide a region-by-region breakdown of Japanese bond holders, including custodians (financial institutions that take custody of and manage securities, including shares and bonds, on behalf of investors), we must take note of the fact that the breakdown does not necessarily give a region-by-region breakdown of final investors.

(Sources) Ministry of Finance, Bank of Japan

c. Efforts for 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. Please refer to the Preface for further details.

D. Holding of "Mid-Year Interviews"

The debt management office has decided to hold "Mid-Year Interviews" from FY2026.

To date, a JGB Issuance Plan formulated at the end of the previous year was revised if necessary at the timing of announcement of the government draft of a supplementary budget or based on market trends, etc. When revising a JGB Issuance Plan, it is important to examine a balance between predictability and flexibility. Regarding this point, an issue was raised at the 9th Round of the Study Group that "although there is a trade-off between predictability and flexibility, it is possible to restrain a decline in predictability if an assessment period has been decided in advance."

Given such discussions and other factors, the debt management office has decided to introduce an opportunity for a periodic inspection in FY2026 by holding "Mid-Year Interviews" to hear market participants' opinions regarding the issuance plan for the relevant fiscal year, indicating around June as the approximate timing, while continuing to respond flexibly as before if necessary.

Box 4 About 20-year JGB Futures

Highly liquid long-term JGB futures are widely used as a hedge for yen interest-rate exposure. However, following the heightened volatility in super long-term yields seen in April 2025 and a weakening in the correlation between moves in the cash JGB and interest-rate swap markets, market participants—including banks and other financial institutions—have reaffirmed the need for super-long-term JGB futures with 20-year coupon-bearing JGBs as eligible deliverables, and trading demand for such contracts has become increasingly evident.

Trading resumed on July 2, 2025, with 100 contracts (1 billion yen in face value) executed for the first time in nearly three years, and trading activity continued thereafter. Monthly volume reached 12,099 contracts in July, the highest since the market was relaunched in conjunction with the 2014 derivatives market integration. Activity expanded further in August, with monthly volume rising to 41,795 contracts, the highest since 20-year JGB futures were listed in 1988. Monthly volume continued to set fresh records thereafter, reaching 52,318 contracts in December and 121,979 contracts in March 2026. Annual volume for 2025 also climbed to 196,682 contracts, marking the highest level since the market's inception.

By investor type, trading since the market's relaunch in July 2025 has been driven primarily by market participants, including banks and other financial institutions. As the market has expanded, however, the share of foreign investors—including hedge funds—has steadily increased, exceeding the 10% mark in March 2026. Domestic asset managers as well as life and non-life insurers have also entered the market.

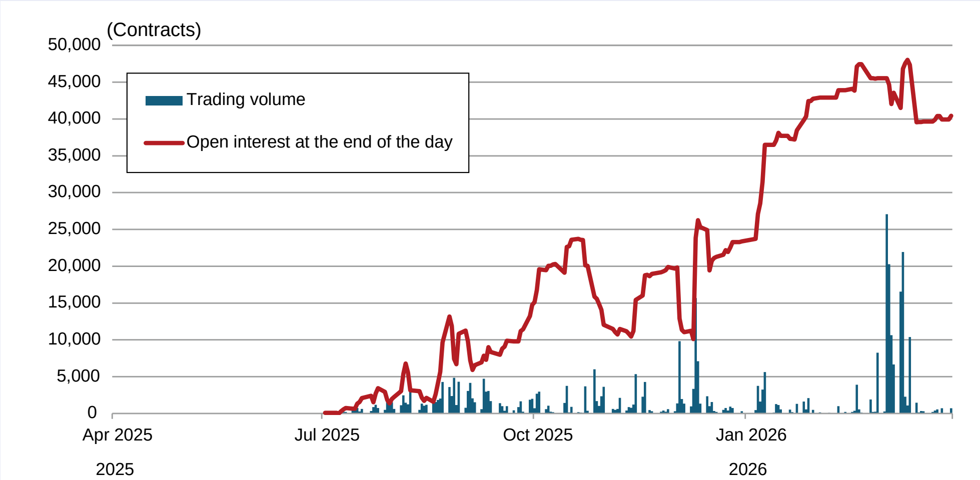
Open interest also continued to expand after reaching 10,000 contracts in August 2025. Following the smooth rollover from front-month to next-month positions in September, open interest rose to around 23,000 contracts by year-end and exceeded 40,000 contracts as of the end of March 2026.

Against the backdrop of improving market liquidity, the use of super long-term JGB futures has gradually broadened, both as a hedge for interest-rate risk in the super-long-end and in trading strategies involving cash JGBs. Physical delivery volumes have also increased steadily, rising from 957 contracts in September 2025 to 6,372 in December and 8,496 in March 2026.

Historically, futures trading in Japan has been concentrated in long-term JGB futures, for which 10-year coupon-bearing JGBs serve as eligible deliverables. However, if futures across a broader range of maturities—including super long-term JGBs—become established as new market instruments and trading becomes available at multiple points along the yield curve, this could enhance market participants' flexibility, such as facilitating curve-shape trading strategies, and contribute to a broader and more diversified investor base for JGBs.

As Japan's rates market emerges from a prolonged low-rate environment amid monetary-policy normalization and rising volatility since 2024, attention at home and abroad is focused on how far it can adapt by embracing new hedging tools.

Fig. B4-1 Trading Volume of 20-Year JGB Futures and Open Interest at the End of the Day



(Source) Japan Exchange Group

Box 5 Strategic Investment Initiative

The MOF recognizes that, as attention on JGBs grows, a broader range of themes related to the Debt Management Policy is attracting interest. This box explains the Strategic Investment Initiative (Japan-U.S. investments) of the governments of Japan and the United States as one such theme. Hopefully, this will be useful for readers' understanding.

❶ Strategic Investment Initiative

In July last year, as part of the agreement reached between Japan and the United States with respect to the U.S. tariff measures, the two countries came to the understanding that Japan would invest 550 billion dollars in the United States in such sectors as semiconductors, pharmaceuticals, and energy. The planned investments in the United States are expected to advance Japan-U.S. mutual interests, expand cooperation toward ensuring economic security, and promote Japan's economic growth.

Regarding funds related to Japan-U.S. investments, capital subscriptions and loans by Japan Bank for International Cooperation (hereinafter referred to as "JBIC") and loan guarantees provided by Nippon Export and Investment Insurance (hereinafter referred to as "NEXI") to private-sector financial institutions will be used. In light of the achievements of JBIC and NEXI for businesses in the United States in FY2022–FY2024, it is assumed that the ratio of investments associated with JBIC to investments associated with NEXI will be roughly 1 to 2. The fiscal measures so far taken on behalf of JBIC and NEXI under that premise are as follows:

❷ JBIC

For JBIC, it has been decided to strengthen its financial foundation through industrial investments using dividend income from NTT and JT shares as fund sources and to prepare funds necessary for capital subscriptions and loans through fiscal loans financed by means of the issuance of FILP Bonds, as well as through government guarantees.

In FY2025 and FY2026, JBIC will be able to make investments worth 21.5 trillion yen in total out of the FILP funds and its own funds, including borrowings from the Foreign Exchange Fund Special Account. For 5,397.7 billion yen's worth of the total, fiscal loans have been provided, and the amount of FILP Bonds to be issued to finance part of those loans was recorded in the JGB Issuance Plan.

❸ NEXI

In order to steadily implement the Strategic Investment Initiative of the governments of Japan and the United States, capital subscriptions worth 100 billion yen have been prepared under the FY2025 supplementary budget so as to strengthen the financial foundation of NEXI and thoroughly secure funds for payments of insurance benefits. In addition, it has been decided to allow the issuance of Subsidy Bonds for allocation to NEXI through the amendment of the International Trade and Investment Insurance Act.

Subsidy Bonds to be allocated to NEXI at this time are bonds to be issued in place of monetary payments by the government. The bonds can be converted into cash only in cases where the need to pay a huge amount of insurance benefits has arisen and it is considered to be difficult to raise funds from private-sector financial institutions in a timely manner even if government guarantee is used. Under the International Trade and Investment Insurance Act, it is stipulated that the upper limit on the total issuance amount of Subsidy Bonds should be 3 trillion yen. In the FY2026 Budget, the upper limit on the allocation amount has been set at 1.78 trillion yen under the general provisions of the budget.

Under the same Act, it is stipulated that NEXI should promptly return the portion of unredeemed Subsidy Bonds that is recognized as unnecessary. When the Subsidy Bonds have been redeemed, NEXI should promptly make payments equivalent to the redemption amount to the National Treasury out of revenues such as its insurance premium obtained from projects under this initiative. When there is any remaining Subsidy Bond at the time of the abolition of the account associated with this measure, NEXI should make payments to the National Treasury.

Box 6 Most Recent Fiscal Management

❶ Japan's Fiscal Conditions

This box explains the most recent fiscal management as a theme related to Debt Management Policy.

The Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis, published in January 2026, show that the public finances of the central and local governments will steadily improve in the scenario where the transition to a growth-oriented economy is realized. To be specific:

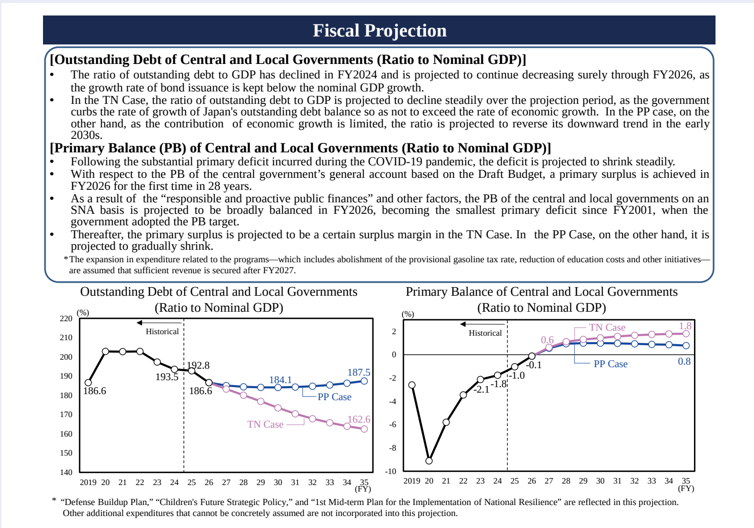
• the ratio of outstanding debt to GDP is projected to decline steadily from FY2025 into FY2026 and beyond.

• the primary balance of the central and local governments on an SNA basis will continue improving, with the primary balance in FY2026 becoming the smallest deficit since FY2001, when the government adopted the primary balance target, and being broadly balanced. Thereafter, the primary balance is projected to be a certain surplus margin.

These projections indicate that the fiscal situation is improving steadily. (Reference: Fig. B6-1)

Although fiscal conditions are expected to continue improving steadily, the debt-to-GDP ratio remains at a high level. We will continue to carry out economic and fiscal management based on the concept of "responsible and proactive public finances," pursue integrated economic and fiscal reforms throughout the duration of the "Economic and Fiscal Plan for New Stage," and lower Japan's ratio of outstanding government debt to GDP. This will bring about the sustainability of public finances and ensure that we gain trust from the markets.

Fig. B6-1 Executive Summary: Economic and Fiscal Projections for Medium to Long Term Analysis (January 2026) (Cabinet Office)



Fiscal Projection

[Outstanding Debt of Central and Local Governments (Ratio to Nominal GDP)]

- The ratio of outstanding debt to GDP has declined in FY2024 and is projected to continue decreasing surely through FY2026, as the growth rate of bond issuance is kept below the nominal GDP growth.
- In the TN Case, the ratio of outstanding debt to GDP is projected to decline steadily over the projection period, as the government curbs the rate of growth of Japan's outstanding debt balance so as not to exceed the rate of economic growth. In the PP case, on the other hand, as the contribution of economic growth is limited, the ratio is projected to reverse its downward trend in the early 2030s.

[Primary Balance (PB) of Central and Local Governments (Ratio to Nominal GDP)]

- Following the substantial primary deficit incurred during the COVID-19 pandemic, the deficit is projected to shrink steadily.
- With respect to the PB of the central government's general account based on the Draft Budget, a primary surplus is achieved in FY2026 for the first time in 28 years.
- As a result of the "responsible and proactive public finances" and other factors, the PB of the central and local governments on an SNA basis is projected to be broadly balanced in FY2026, becoming the smallest primary deficit since FY2001, when the government adopted the PB target.
- Thereafter, the primary surplus is projected to be a certain surplus margin in the TN Case. In the PP Case, on the other hand, it is projected to gradually shrink.

*The expansion in expenditure related to the programs—which includes abolishment of the provisional gasoline tax rate, reduction of education costs and other initiatives—are assumed that sufficient revenue is secured after FY2027.

* "Defense Buildup Plan," "Children's Future Strategic Policy," and "1st Mid-term Plan for the Implementation of National Resilience" are reflected in this projection. Other additional expenditures that cannot be concretely assumed are not incorporated into this projection.

Note 1: In the Transferring to a New Economic Stage (TN) Case, the growth rate of TFP (Total Factor Productivity) is assumed to steadily go up to around 1.1%, which is the average rate for the last 40 years in Japan. The real and nominal GDP growth rates are projected to be stably above 1% and around 3%, respectively, over the medium- to long-term. It is pivotal to enhance the potential growth rate, transitioning to a growth-oriented economy driven by expansion in investment and productivity improvements.

Note 2: In the Projection of Past Trend (PP) Case, the growth rate of TFP is assumed to stay around 0.6%, which is the average from the most recent business cycle to the present. The GDP growth rate is projected to be around mid-0% in real terms and around 1% in nominal terms in the medium-to long-term.

❷ Economic and fiscal management for the moment

Characterizing "responsible and proactive public finances" as "a fiscal policy that gives due consideration to fiscal sustainability," Prime Minister Takaichi provided the following explanations (a question-and-answer session in the Diet on February 24, 2026): "We will not implement a profligate fiscal policy that would undermine the market's confidence. Indeed, under the initial budget for FY2026 as well, we are striving to realize a strong economy through such measures as making bold investments in areas that require investment under the concept of responsible and proactive public finances. In addition, while implementing prioritizations across the entire budget, we have given due consideration to fiscal sustainability, for example by keeping the issuance amount of new JGBs below 30 trillion yen for the second consecutive year in the central government's general account and lowering the dependence on public bonds. Going forward, while constantly keeping a close watch on day-to-day market movements, including interest rate and exchange rate movements, we will continue to conduct economic and fiscal management based on the concept of responsible and proactive public finances and steadily reduce the government debt-to-GDP ratio by keeping the rate of expansion of government debt in check so as not to exceed our rate of GDP growth. In this way we will bring about fiscal sustainability and ensure that we maintain the confidence of the market."

Minister of Finance Katayama also provided the following explanations (the Davos Meeting [Annual Meeting of the World Economic Forum] on January 20, 2026): "The concept of 'responsible and proactive public finances' represents a forward-looking and proactive approach to fiscal policy— and it is by no means an indiscriminate pursuit of expansion for its own sake. We are determined to achieve both the building of a 'strong Japanese economy' and the 'sustainability of public finances' in a well-balanced manner, thereby fulfilling our responsibility to the people living today and to future generations."