**Minutes of the Meeting of JGB Market Special Participants**
**(102nd Round)**

1. Date: Friday, December 2, 2022, 4:00 p.m.- 5:00 p.m.
2. Place: Special Conference Room 3 at the Ministry of Finance
3. Contents:

1. Issuance size of Inflation-Indexed Bonds in the January-March 2023 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Inflation-Indexed Bonds in the January-March 2023 quarter.

・ As shown on page 3, according to the JGB Issuance Plan for FY2022, it is stipulated that there will be issuance of Inflation-Indexed Bonds four times a year at a size of 200 billion yen each time while it is stated that “The issuance may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.” In addition, as shown on page 4, it is stipulated about Buy-back Auctions that “It is planned to be implemented based on market conditions and through discussions with market participants.” Therefore, we would like to hear your opinions about the size of issuance in the January-March 2023 quarter at today’s meeting.

・ In the October-December quarter, as shown on page 5, we conducted an issuance auction of 250 billion yen in November and conducted Buy-back Auctions of 20 billion yen every month by considering market circumstances and exchanging opinions with market participants. The results of the issuance auction and of Buy-back Auctions are shown in pages 6 and 7, respectively.

・ The situation on the secondary markets is shown on pages 8 and 9. Looking at the past six months or so, the BEI has been affected by global trends and has fluctuated fairly significantly at times, but the BEI of the on-the-run issue has generally remained in the 80-90 bps range.

・ In this context, we asked for your opinions in advance, and while some commented that the results of the auction indicate that demand for the on-the-run issue remains favorable, but others commented that improvements in liquidity and the expansion of the investor base are still limited. All participants, including these, gave the opinion that since the current size of issuance and Buy-back Auctions are balanced, it is advisable to maintain the status quo.

・ Based on these circumstances and the opinions of participants, the proposals of the Financial Bureau are shown on page 10. Regarding the January-March 2023 quarter, as in the October-December quarter, we are considering a Buy-back Auction of ¥20 billion each month while having a single issuance auction of ¥250 billion.

・ As stated above, we explained the situation with the Inflation-Indexed Bonds market and the proposal for the planned issuance size for the January-March 2023 quarter based on this situation.
Regarding the issuance size for the January-March 2023 quarter, we will make a comprehensive decision based on the contents of today’s meeting, and we will ask your opinions again.
We believe that the development of the Inflation-Indexed Bonds market is an important issue for the Debt Management Policy. Therefore, we will continue to consider and make decisions carefully based on the auctions and other situations, market conditions, and your opinions.

▶ Summarized below are the views and opinions expressed by the attendees:

・ We agree with the proposal. With food prices and electricity prices continuing to rise and speculation that Japan's CPI will move higher than expected, November's auction was strong, with demand mainly from foreign investors. While there is a consensus that the government's comprehensive economic measures will push down the CPI by about 1.2% or more in the next fiscal year, there is an impression that the US CPI figure was lower than expected, which may have triggered a slight increase in selling interest, especially from foreign investors. Our impression is that many investors are selling a little early, and they are looking to sell around 100 bps on the BEI as the target.
・ We recognize that the supply-demand environment will remain a little bad for the time being, given the high bid-to-cover ratio and weak results of the Buy-back auctions and Outright Purchase of JGBs by the BOJ. We request the debt management office to maintain the current size of Buy-back auctions.

・ We would like to request that both the size of issuance and the size of Buy-back auctions be maintained at the current level.

・ Given the fact that there have not been many sustained offers and bids on the inter-dealer board, that there have been fairly weak results in the Buy-back auctions and Outright Purchase of JGBs by the BOJ, and that even though the inflation outlook has not changed, a small amount of selling causes the market to drop about one yen in a short period of time, we believe that the inflation-indexed bonds market remains quite fragile, and we believe that continued support from the debt management office and others is needed.

・ With the possibility of CPI peaking in the next fiscal year, in the unlikely event that the Bank of Japan (the BOJ) revises its yield curve control, we believe there is a risk that the market will break down because nominal interest rates will rise sharply, and real interest rates will also rise substantially. If market functionality and liquidity do not improve in the medium term, a reduction in the size of issuance could be on the table for discussion.

2. Issuance size of Liquidity Enhancement Auctions in the January-March 2023 quarter

▶ The Financial Bureau gave the following explanation about the issuance size of Liquidity Enhancement Auctions in the January-March 2023 quarter:

・ As shown on page 12, according to the JGB Issuance Plan for FY2022 regarding Liquidity Enhancement Auctions,
(1) while it is assumed that a total of 12.0 trillion yen will be issued for the year, including 3.0 trillion yen for bonds with a remaining maturity of 1 to 5 years and for bonds with a remaining maturity of 15.5 to 39 years, and 6.0 trillion yen for bonds with a remaining maturity of 5 to 15.5 years,
(2) finally, “They may be adjusted in a flexible manner in response to market circumstances and demands of investors, which will be determined based on discussions with market participants.”
Today, in response to this plan, we would like to hear participant’s opinions regarding the size of issuance for each zone for the January-March 2023 quarter.

・ As shown on page 13, in the October-December quarter, we decided to issue 500 billion yen each in the odd-numbered month of November for bonds with a remaining maturity of 1 to 5 years, monthly for bonds with a remaining maturity of 5 to 15.5 years, and in the even-numbered months of October and December for bonds with a remaining maturity of 15.5 to 39 years. These results are as shown on pages 14 to 16.

・ In this context, we asked for your opinions in advance about the liquidity enhancement auctions for the January-March 2023 quarter, and received opinions from some participants that the balance between the supply and demand remained tight for some bonds and that the auctions for bonds with a remaining maturity of 15.5 to 39 years sometimes resulted in weak auctions. However, these participants and all others responded that it is appropriate to maintain the current size of issuance because the balance between the supply and demand has not changed significantly enough to necessitate a change in the balance of issuance between different zones.

・ In response to this, we prepared the proposal of the issuance size for each zone in the January-March 2023 quarter, as shown on page 17. We are considering issuing 500 billion yen each in the odd-numbered months of January and March for bonds with a remaining maturity of 1 to 5 years, monthly for bonds with a remaining maturity of 5 to 15.5 years, and in the even-numbered month of February for bonds with a remaining maturity of 15.5 to 39 years.

・ Regarding the issuance size for each zone for Liquidity Enhancement Auctions for the January-March 2023 quarter, we will make a comprehensive decision based on the contents of today’s meeting, and we will ask your opinions again.

▶ Summarized below are the views and opinions expressed by the attendees:

・ There is buying demand for off-the-run issues of investors and short-covering demand of vendors for all maturities. We recognize that liquidity enhancement auctions are necessary given the expected continuation of the Outright Purchase of JGBs by the BOJ. Since the total size of the liquidity enhancement auctions has remained constant, we do not believe that it is necessary to adjust the balance between the supply and demand for any maturities in the near future, and therefore, we agree with the proposal to maintain the status quo for the period from January to March 2023.

・ We support the proposal. Especially for the bonds with a remaining maturity of 7 to 10 years, the Outright Purchase of JGBs by the BOJ has had an impact, and we believe that the liquidity enhancement auctions for bonds with a remaining mature of 5 to 15.5 years could be increased. On the other hand, if the size of issuance for the current fiscal year is 12.0 trillion yen, increasing bonds with this maturity would mean that bonds with other maturities would have to be reduced. Given the balance between the supply and demand and the auction results, it would be better to reduce the ultra-long-term zone, but it is difficult to reduce it because January-March is the period when life insurance companies increase their purchases of the ultra-long-term zone. We support the proposal because there are no bond maturity ranges that can be reduced, and therefore none that can be increased.

3. Current status and issues for the formulation of the JGB Issuance Plan for FY2023

▶ The Financial Bureau gave the following explanation about the current status and issues for the formulation of the JGB Issuance Plan for FY2023.

・ First, we will explain the current status of the Debt Management Policy in terms of the revision of the JGB Issuance Plan for the Second Supplementary Budget for FY2022. While Newly-Issued bonds increased by about 22.9 trillion yen, total JGB issuance increased by about 9.7 trillion yen to about 227.5 trillion yen as a result of such factors as an 8.5 trillion yen reduction in FILP bonds due to adjustments based on the investment results of the Fiscal Loan Fund in the previous fiscal year.

JGB Market Issuance (Calendar Base) will be increased mainly in short-term maturities in light of market conditions, with 2-year bonds worth 300 billion yen and 6-month T-Bills worth 4.2 trillion yen, for a total increase of 4.5 trillion yen.

・ Looking at JGB Market Issuance (Calendar Base) by issue, the percentage of short-term bonds issued was less than 20% in FY2019, but increased to about 40% after the Third Supplementary Budget for FY2020 due to increased issuance of JGBs during the COVID-19 pandemic. However, it has recently declined to about 30%. For the Second Supplementary Budget for FY2022 increased the issuance mainly of short-term bonds, but the general trend is that the percentage of short-term bonds issued has been shrinking.

・ As for the outstanding amount of JGBs, the estimated amount of outstanding General Bonds at the end of FY2022 is 1,042.4 trillion yen, which is expected to exceed 1,000 trillion yen for the first time at the end of FY2022.

・ Looking at it on a flow base, the average maturity of JGBs is estimated 7 years and 7 months after the Second Supplementary Budget, slightly shorter than the 7 years and 9 months after the First Supplementary Budget, but still longer than the 7 years and 3 months for FY2021. The situation is similar on a stock base, remaining in the 9-year range.

・ The basic approach of the Debt Management Policy is (1) to ensure smooth fundraising through issuance, and (2) to minimize medium- to long-term fundraising costs. Therefore, we are in the process of carefully conducting a dialogue with the market. These basic approaches will be maintained going forward.

・ Based on the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis, and assuming that the maturities breakdown ratio in the JGB Issuance Plan for the Second Supplementary Budget for FY2022 is maintained from FY2023 onward, we estimated the future size of JGB issuance, excluding FILP bonds and reconstruction bonds. It should be noted that the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis are based on figures as of July this year. According to the estimates, the size of JGB issuance is expected to gradually decline through FY2024 and then remain relatively stable.

・ Looking at current interest rate trends, overseas interest rates are rising against the backdrop of monetary policies in various countries and other factors.

・ The JGBs market is also following, with interest rates rising mainly in the ultra-long-term zone, and the situation requires continued close monitoring.

・ Looking at the yield curve, we can see that the curve is steepening.

・ It is also important to keep in mind the impact of The BOJ's approach to monetary policy and the Outright Purchase of JGBs on the JGBs market and interest rates. The BOJ purchases JGBs mainly with maturities of more than 1 year and 10 years or less, and in some cases, the ratio of JGB purchases exceeds 100% of the total size of issuance.

・ While the BOJ has been increasing its share of JGB holdings, banks, etc. have been decreasing their share of JGB holdings in recent years. The fact that the share of JGB holdings of banks, etc. have been on the rise since FY2020 is likely due to increased demand for collateral, but changes accompanying the termination of the BOJ's Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus should be kept in mind.

・ Life insurance companies continue to purchase JGBs in the ultra-long term zone in order to reduce the duration gap between assets and liabilities. Their JGB holdings are on the rise, and by maturity, holdings of JGBs with more than 10 years remaining to maturity are increasing. We believe that there will continue to be a certain level of demand for JGBs in the ultra-long-term zone, but we believe that the progress of duration reduction by each company should be kept in mind.

・ JGB holdings of regional banks have been on a downward trend, but have generally bottomed out, and JGB holdings with maturities of more than 10 years have been increasing.

・ Looking at trends in JGB holdings of households, households' holdings as a percentage of the outstanding amount of JGBs have been around 1% in recent years. The level was higher when interest rates were high, but it has not grown to that level now.

・ The JGB issuance plan for FY2023 will be discussed in light of these market conditions and investor trends , and the basic approach of the debt management office at this time is as follows.
Although, we will continue to monitor various economic conditions, if it becomes possible to reduce the total size of JGB issuance, the debt management office is considering reducing JGB Market Issuance (Calendar Base), mainly of short-term bonds, to correct the financing structure that relies on short-term bonds while keeping the total size of coupon-bearing bond issuance at the current level.

・ We would like to start our considerations with the premise that there has been no major change in the current situation. If there has been a major change in market conditions, we do not rule out a flexible re-examination of our stance.

・ We will be considering the issuance plan based on the feedback we receive from all of you, and we hope that you will engage in lively discussions today.

▶ Summarized below are the views and opinions expressed from attendees:

・ The size of issuance should remain unchanged for all maturities.

・ The situation is that in the previous fiscal year, nearly 100 billion yen was issued in bonds with remaining maturities of more than 30 years in the Liquidity Enhancement Auctions, but this fiscal year it is about 50 billion yen each time, a significant decrease due to the increase in the size of issuance of 40-year bonds to 700 billion yen. The spread between 30-year yield and 40-year yield has also been basically stable at around 10 bps, with no significant tightening phase as seen last year. Although there has been an extreme steepening in the vicinity of the on-the-run issue, this was also seen in the previous fiscal year, and we do not believe it is particularly unusual. While the low liquidity on the secondary markets makes it difficult to increase the size of issuance, we also do not sense the need to reduce it, and therefore, we prefer to leave the size of issuance of 40-year bonds unchanged.

・ The 30-year bonds are the largest issuance ever with a size of 900 billion yen. Liquidity on the secondary markets has dropped significantly due to the declining buying demand of life insurance companies compared to the previous fiscal year, as well as a significant increase in volatility in the ultra-long-term zone. The balance between the supply and demand deteriorated noticeably in the first half of this fiscal year, with the yield spread between the 20-year and the 30-year also exceeding 40 bps at times. However, with the rise in absolute interest rates, the increase in the Outright Purchase of JGBs, and the reversal of the upward trend in interest rates in Europe and the US, life insurance companies are now firmly back in the market, and if their purchases continue toward the end of the fiscal year, the size of issuance should be left unchanged.

・ The size of issuance per auction of 20-year bonds is already large at 1.2 trillion yen, and the situation is such that buying demand from all types of businesses have significantly decreased compared to the previous fiscal year due to increased volatility in the ultra-long-term zone. The difference with 30-year bonds is that the current fiscal year has seen increased asset swap trading activity, and we recognize that a minimum level of liquidity has been maintained in this environment. The impact of the large increase in the Outright Purchase of JGBs by the BOJ at the end of September and October in the ultra-long-term zone, especially in bonds with remaining maturities of 10 to 25 years, is uncertain since only one month has passed, but at present we believe that the size of issuance should be left unchanged.

・10-Year Bonds are the most stressful maturity when monetary policy is revised, so changes in their issuance amount should be carefully considered.

・ We had thought that there was some room for an increase in 5-year bonds as interest rates have been rising, but with the recent rise in the CPI, there has been a great deal of headlines related to monetary policy revisions. The interest rate range we were considering of 0 to 10 bps has to be revised upward by about 5 bps to 5 to 15 bps. We believe that it is prudent to be cautious about the 5-year bond, given the possibility of monetary policy revisions in the future.

・ Although collateral demands for 2-year bonds have decreased compared to the previous fiscal year, recent auctions have been very strong. We believe that both increases and decreases can be handled, but basically there is no problem with leaving it unchanged.

・ The issuance size of 1-year T-Bill should remain at the current level. The details of the issuance of six-month T-Bills from January onward have not yet been finalized, but we understand that both increases and decreases can be handled.

・ We believe that the size of issuance for the next fiscal year should be maintained at about the current level. The current situation is that overseas interest rates have stopped rising, and foreign investors' selling that would present a challenge for the BOJ has stopped to a large extent. Against this backdrop, demand from life insurance and non-life insurance companies is recovering, and the balance between the supply and demand for ultra-long-term interest rates is recovering due to the increased Outright Purchase of JGBs by the BOJ. If there had been no change in the Outright Purchase of JGBs by the BOJ, it might have been necessary to reduce the size of issuance in the next fiscal year with some awareness of the decline in demand associated with the end of regulatory compliance by life insurance and non-life insurance companies, but in the current environment, we do not believe a reduction is necessary, especially since the Outright Purchase of JGBs by the BOJ has increased enough to offset the decline in demand by life insurance and non-life insurance companies. As for the next fiscal year, we believe we are in a situation with a potential policy revision by the BOJ, but we don't know if it will happen or not. Therefore, we don't believe the debt management office should act with any preconceptions about the issuance of JGBs. We believe it would be appropriate to maintain the current level to some extent, but be flexible to respond to any problems that arise and come to attention.

・ The UK bond market was in turmoil, and for a while the yen interest rate was unstable in the ultra-long-term zone with very large interest rate hikes. Currently, as overseas interest rates have stabilized, we believe that the main trend is that the ultra-long-term

zone of yen interest rates is regaining stability. If overseas interest rates rise again, we anticipate that the BOJ's increased purchases in the ultra-long-term zone will provide some support, although it is not impossible for the ultra-long-term zone to become unstable with rising interest rates in a situation where the 10-year rate is pinned down by yield curve control. While the ultra-long-term zone is a candidate for reducing the size of interest-bearing bonds issued, assuming that the total size of interest-bearing bonds issued will remain unchanged, reducing the ultra-long-term zone would require increasing other maturities. Although the medium- to long-term zone can be increased on the assumption that yield curve control will continue, we believe that the medium- to long-term zone should not be impulsively increased due to the possibility that yield curve control may change in the future. Ultimately, we believe that maintaining the issuance size in both the medium- to long-term and ultra-long-term zones is a good position to stabilize at.
On the other hand, regarding Liquidity Enhancement Auctions, especially in the ultra-long-term zone, the supply-demand gap between on-the-run issues and off-the-run issues is widening. For example, we believe it might be worth considering increasing the issuance for Liquidity Enhancement Auctions for bonds with remaining maturities of more than 15.5 years while reducing current bonds in the ultra-long-term zone. Regarding the issuance of T-Bills, in the Outright purchases of T-Bills by the BOJ, there are many issues with remaining maturities close to one year, and there seems to be a considerable demand for collateral for 6-month bills. Therefore, if they were to reduce the size of issuance, the debt management office should prefer the issuance of 1-year T-Bills.

・ The most important point is what to do about the issuance size in the ultra-long-term zone. Interest rates on 30-year and 40-year bonds rose markedly, but the balance between the supply and demand improved significantly due to an increase in the Outright Purchase of JGBs by the BOJ. With the possibility of a change in the BOJ's policy, the current Outright Purchase of JGBs by the BOJ will not last forever, and one scenario is that demand from life insurance companies may decline in the future, therefore we believe that a reduction of the issuance size in the ultra-long-term zone should be considered. On the other hand, since the debt management office said that the size of issuance of interest-bearing bonds will remain constant, we believe it would be a good idea to increase the size of issuance for the medium-term zone by the amount that the ultra-long-term zone is reduced.

・ Basically, we believe that each maturity bond should be left unchanged, but we believe that we can handle a slight increase or decrease in any zone. In the current situation, it is possible to slightly increase or decrease the issuance of bonds with a maturity of 10 years or less, but we believe the best course of action is to reduce the issuance size of T-bills to the extent that the issuance size of T-Bills has increased from previous years.

・ The interest rates in the ultra-long-term zone are rising, but we believe the BOJ is adjusting the scale of its Outright Purchases of JGBs accordingly, so we believe it's fine to leave it unchanged.

・ Basically, it is better not to change the issuance size so much. In particular, we believe it's better not to change the issuance size of interest-bearing bonds so much. The supply and demand for 40-year bonds was not very strong, but since the issuance size of 40-year bonds was just increased this fiscal year and we understand that we should develop 40-year bonds market from a medium- to long-term perspective. Therefore we believe it is better to maintain the status quo for the next fiscal year.

・ The 30-year bond was a little weak in the on-the-run issues while some off-the-run issues were strong. Therefore, one idea would be to reduce the issuance size of the 30-year bonds and increase the issuance size of a Liquidity Enhancement Auction of the bonds with a remaining maturity of over 15.5 years or increase the issuance size of Liquidity Enhancement Auctions of both of the bonds with a remaining maturity of 5 to 15.5 years and the bonds with a remaining maturity of over 15.5 years. We believe that both increases and decreases in the issuance size of JGBs of other maturities can be accommodated. The outlook for the 20-year bond is not as pessimistic as for the 30-year and 40-year bonds, although we believe that, depending on market trends, demand for the 20-year bond will decline next year if interest rates rise again under foreign bonds market’s influence, and conversely, demand may increase if interest rates fall. The 10-year bond is the most fraught sector in the event of a yield curve control revision. Therefore, we believe the debt management office should be very cautious with both increases and decreases of this issuance size.

・ For the ultra-long-term zone, we believe that both increases and decreases can be handled with a certain degree of latitude. Regarding the long-term and the medium-term zone, if the BOJ's policy is to continue for some time, we believe it will be possible to increase or decrease the issuance size.

・ We request that the size of issuance remain unchanged. The on-the-run issues in the ultra-long-term zone have spreads from the off-the-run issues, but if the BOJ revises its policy, the curve will flatten, and we can expect changes in investment behavior in a phase

of rising interest rates. Therefore, we believe the size of issuance should be left unchanged.
・ We request the debt management office to increase the issuance size of a Liquidity Enhancement Auction for the ultra-long-term zone. Normally, when there is a distortion in the curve, transactions that attempt to correct it are identified; however, with liquidity declining, there are few such transactions, and the distortion is growing. In extreme terms, each bond is traded in such a way that there is no connection between bonds, like individual stocks. We believe that it is most important to eliminate this problem in order to improve the liquidity of the market, and in particular, we request the debt management office to change the issuance frequency from bimonthly to monthly and to increase the issuance size of Liquidity Enhancement Auctions for bonds with a remaining maturity of more than 15.5 years to 400 billion yen. Although switching to monthly issuance may involve scheduling problems, we believe it would be possible to do it on the same day as the issuance of other maturities of JGBs, like the Outright Purchase of JGBs by the BOJ.

・ There is no particular objection to the policy of reducing the size of issuance of mainly short-term bonds and keeping the total size of interest-bearing bonds at the current level. From the perspective of lengthening the duration of procured funds, we believe that the direction of reducing the issuance of short-term bonds is correct.
・ However, if the change of the BOJ's governor and deputy governors and the stabilization of foreign interest rate trends cause yen interest rates to stabilize to some extent and the coupons for the ultra-long-term zone to decline, demand for the on-the-run issues will increase. It's really difficult to decide, but we believe the demand for the on-the-run issues will increase compared to this year, so we believe the debt management office should maintain the size of issuance.

4. Latest JGB market situation and future outlook

○ Summarized below are the views and opinions from attendees:

・ Regarding GX Economy Transition Bonds (tentative name), the impact on the market will be very limited if issued in a unified issues. On the other hand, if issued in their own issues, liquidity may differ from existing normal issues depending on the size of issuance or maturity, so we imagine there will be concerns about stable issuance.
・ Since we use Bond code for bond management, we will need to modify the system only if GX Economy Transition Bonds (tentative name) are issued with a maturity that has not

been issued so far. In that case, we believe that a preparation period will be necessary before issuance. On the other hand, we believe that there is a large number of companies that manage bonds using ISIN codes, therefore we would like the debt management office to handle the situation with caution, listening to their opinions.

・ Liquidity in the JGB market has improved somewhat compared to the worst period, but it continues to be at a very low level, making it an unfavorable situation. Looking ahead, the divergence with foreign rates may continue, as yen rates have underperformed even as foreign interest rates have declined since the release of the Ku-area of Tokyo CPI, so caution should be exercised with regard to this point.

・ Regarding the GX Economy Transition Bonds (tentative name), we understand that they are intended to raise funds on the order of 20 trillion yen, which will be used as a catalyst to attract 130 trillion yen in private investment, and the bonds will be redeemed by carbon pricing. We are aware that green sovereign bonds have been issued in all but a few developed countries, and this year they are being issued in Canada and New Zealand. We would like Japan to clarify the concept and roadmap of how and in which sectors the funds from the GX Economy Transition Bonds (tentative name) will be used to invest.

・ Regarding merchantability, we strongly believe that it is necessary to take into account established international rules and to avoid being labeled as greenwashing since the government issues the bonds.

・ We understand that it is difficult to issue in unified issues if they are to be issued as green bonds, but it is necessary to thoroughly discuss how they should be issued, including whether they should be transition bonds, and whether they should be certified by a third party. It will be a good opportunity to garner acclaim and trust not only from domestic market participants but also from foreign market participants, therefore we would like to thoroughly discuss this matter.

・ Green bonds and transition bonds require the involvement of various stakeholders, not just the procurement department of the issuer. Even in the projects we were involved in, it was difficult to issue them without very strong leadership from the top. It is very important that the bonds will be highly appreciated by domestic and foreign market participants as a sigh of Japan’s seriousness in promoting GX, in order to attract private investment, which is estimated to be 130 trillion yen. In order to promote this, we believe it is important to have strong top-down leadership, especially political leadership.

・ How far we, as special participants in the JGB market, will be involved in the issuance and secondary markets will depend on future discussions, but we hope that the opinions of domestic and foreign investors and others will be taken into account, and that the project will thrive under strong leadership.

・ While internationally, interest rates have generally been falling as inflation seems to have peaked, attacks on yield curve control have resurfaced through the upward swing of November's Ku-area of Tokyo CPI and recent statements by the BOJ officials. Japan is an economy where the speed of price adjustment is very slow, and the structure of the economy is such that prices to be raised next spring are announced now, which we believe will intensify the attacks on yield curve control.

・ Will there be upward pressure on interest rates as the BOJ may change its monetary policy next year in light of the change of governor and deputy governors? On the other hand, looking at the current situation, it seems that Europe and the U.S. are quite certain to go into recession, and it is doubtful that the BOJ can really move to revise its policy in an environment where the Fed will cut rates in the second half of next year, for example.

・ Will interest rates rise or fall next year? Perhaps the most likely scenario is that they will remain unchanged, but I venture that it wouldn’t be surprising to see the 10-year bonds interest rate in negative territory next year.

・ Regarding GX Economy Transition Bonds (tentative name), if issued in unified issues, there is almost no problem with the scale of 2 trillion yen per year. In this case, we don't believe it's necessary to limit the use of funds or track them, but we believe it's probably difficult to issue in unified issues, and we believe the bonds will be issued in their own issues as green bonds.

・ Judging from foreign cases, there may not be any major problems in the end, but at the moment, the content is not ripe enough for discussion. There are uncertainties such as restrictions on the use of funds, tracking, external certificates, and whether future redemptions are guaranteed by carbon pricing. Next year's issuance will potentially fall through because it will not be issued unless these matters are cleared, but we believe there will be an issuance from January to March the year after next. If the issuance size is 2 trillion yen, three months is enough time to issue all of it.

・ We don't believe we can discuss liquidity and investor demand now, but we believe that the details need to be finalized, as we believe that the maturities will be determined more by the use of the funds than by the maturities preferred by investor demand.

・ With regards to the system, we hear internally that there is not much of a problem if the attributes are the same as those of other bonds.

・ The JGB market has stabilized after the peak in global interest rates around October, but the pricing of JGBs has remained weak and unchanged even as the dollar/yen exchange rate has returned to its earlier level. Observations about a potential exit from the BOJ's monetary policy persist in the market. When we simulate how much interest rates may fall and how much they may rise, respectively, it is understandable that many market participants would be more wary of a rise in interest rates by taking s short position. Therefore, we do not expect this environment to change in the near term.

・ In any case, the most important thing for Japan's monetary policy is the country's fundamentals. Therefore, we will spend some time closely watching the trends in Japanese economic fundamentals, and when the outlook for monetary policy becomes clearer, we will see in which direction the domestic bond market is moving. At that time, we hope that the debt management office will review the issuance plan, if necessary.

・ Regarding the GX Economy Transition Bonds (tentative name), the details are currently not clear, but whether or not there is an exit from the BOJ's monetary policy, the JGB market is to some extent dependent on the Outright Purchase of JGBs by the BOJ, and liquidity has been in part restricted by the public sector, so if we also consider how to trade the bonds in the secondary markets, we believe that issuance in unified issues would better guarantee the liquidity of the bonds.

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