

Japanese government bond

- primary and secondary market -

October 2023

Takeharu Tominaga, Ministry of Finance

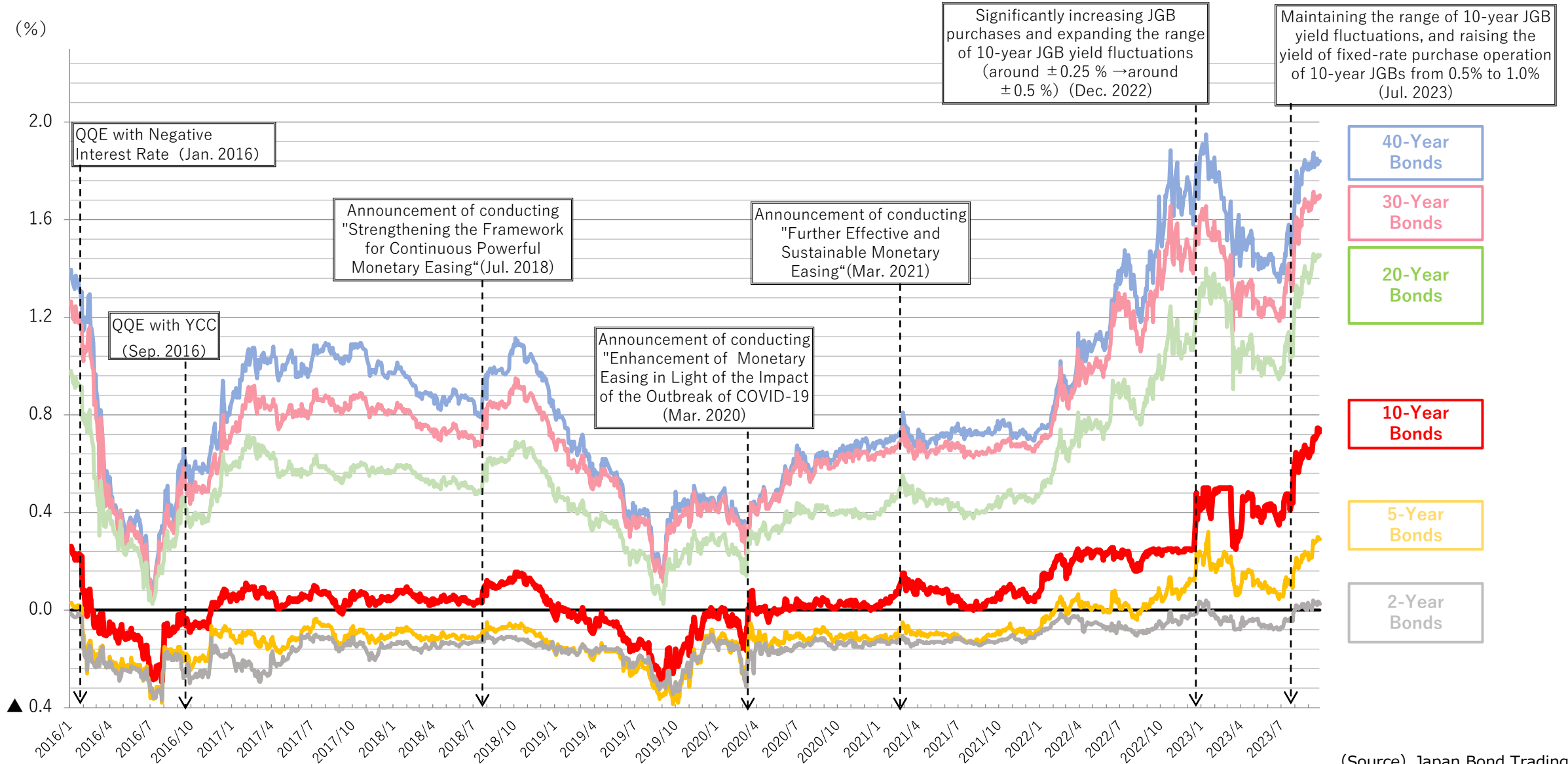
Outline

1. Overview of JGBs
2. Debt Management and JGB instruments
3. Liquidity of JGB market
4. Japan's Green Transformation (GX)
5. Appendix

1. Overview of JGBs

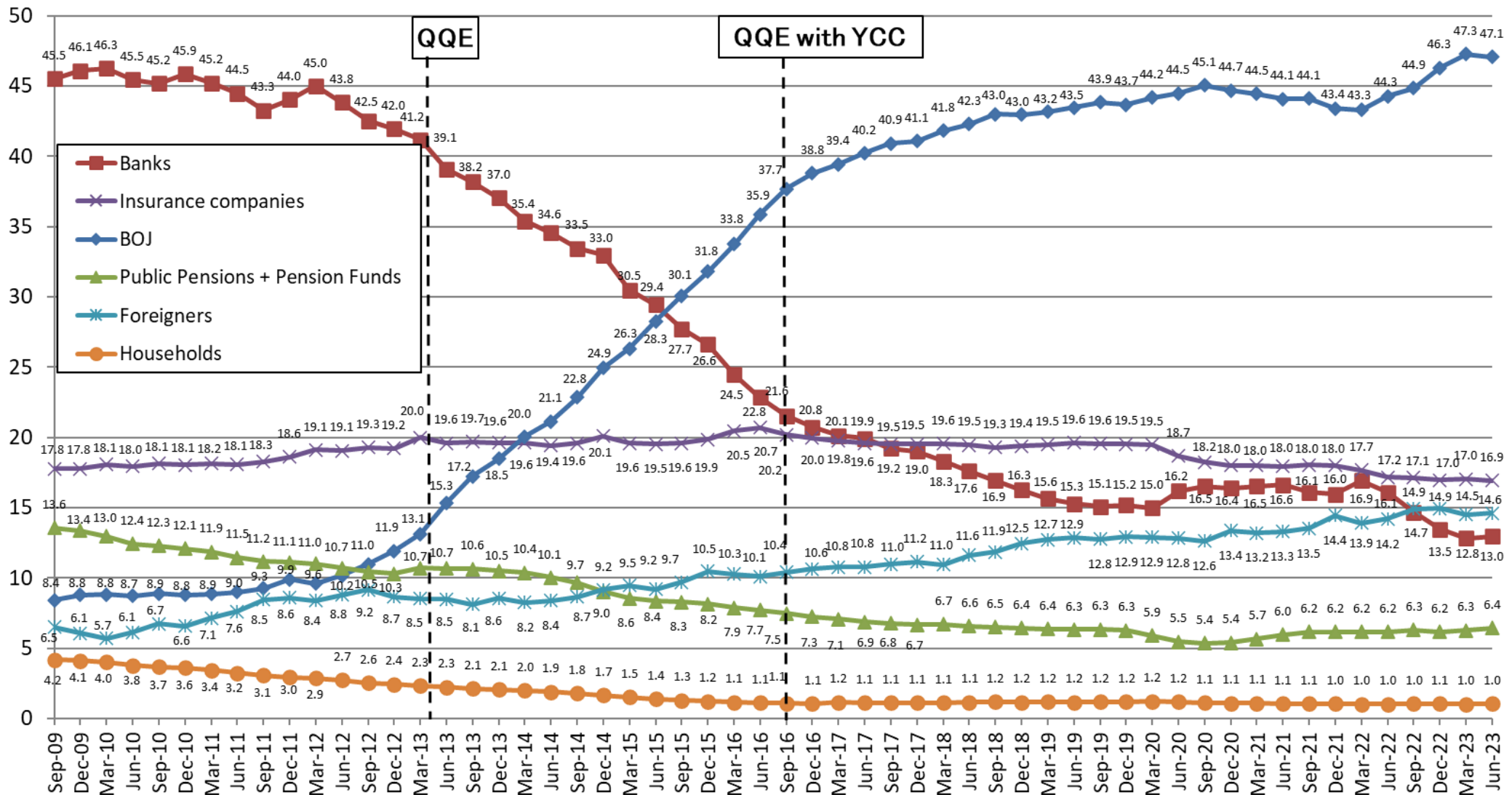
JGB Yield Trends by Maturity

The JGB interest rates across the tenors have risen to a level unseen after the adoption of QQE with a negative interest rate in 2016, while they remain relatively low compared with their peers.



Share of JGB and T-Bill – Breakdown by Holders-

Since BOJ adopted QQE in 2013, JGBs holdings by BOJ has increased while JGB holding by the banking sector has decreased.



Source: Bank of Japan "Flow of Funds Accounts (Preliminary Figures)"

Note1: "JGB" includes "FILP Bonds."

Note2: "Banks," include "Japan Post Bank," "Securities investment trusts," "Securities companies," etc.

Note3: "Insurance companies" include "Life insurance," "Nonlife insurance," and "Mutual aid insurance."

Japan's Sovereign Rating by Major Credit Rating Agencies

CRA's have divergent views on JGBs. The government maintains close dialogue with CRA's and ensure transparency.

(Long-term debt denominated in home currency on 18 July, 2023)

Moody's	S&P	Fitch	R&I	JCR
98.11.17 Aaa	01.2.22 AAA	00.6.29 AAA	11.12.21 AAA	00.10.31 AAA
00.9.8 Aa1	01.11.27 AA+	01.11.26 AA+	11.12.21 AA+	AA+
01.12.4 Aa2	02.4.15 AA	02.11.21 AA	AA	AA
09.5.18 Aa3	07.4.22 AA-	11.1.27 AA-	AA-	AA-
08.6.30 A1	15.9.16 A+	12.5.22 A+	A+	A+
14.12.1 A2	A	15.4.27 A	A	A
07.10.11 A3	A-	A-	A-	A-
Baa1	BBB+	BBB+	BBB+	BBB+
Baa2	BBB	BBB	BBB	BBB
Baa3	BBB-	BBB-	BBB-	BBB-

【Outlook】

Stable(1.Dec, 2014)	Stable(9.Jun, 2020)	Stable(25.Mar, 2022)	Stable(30.Aug, 2018)	Stable(9.Aug, 2018)
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2. Debt Management and JGB instruments

Debt Management Policy

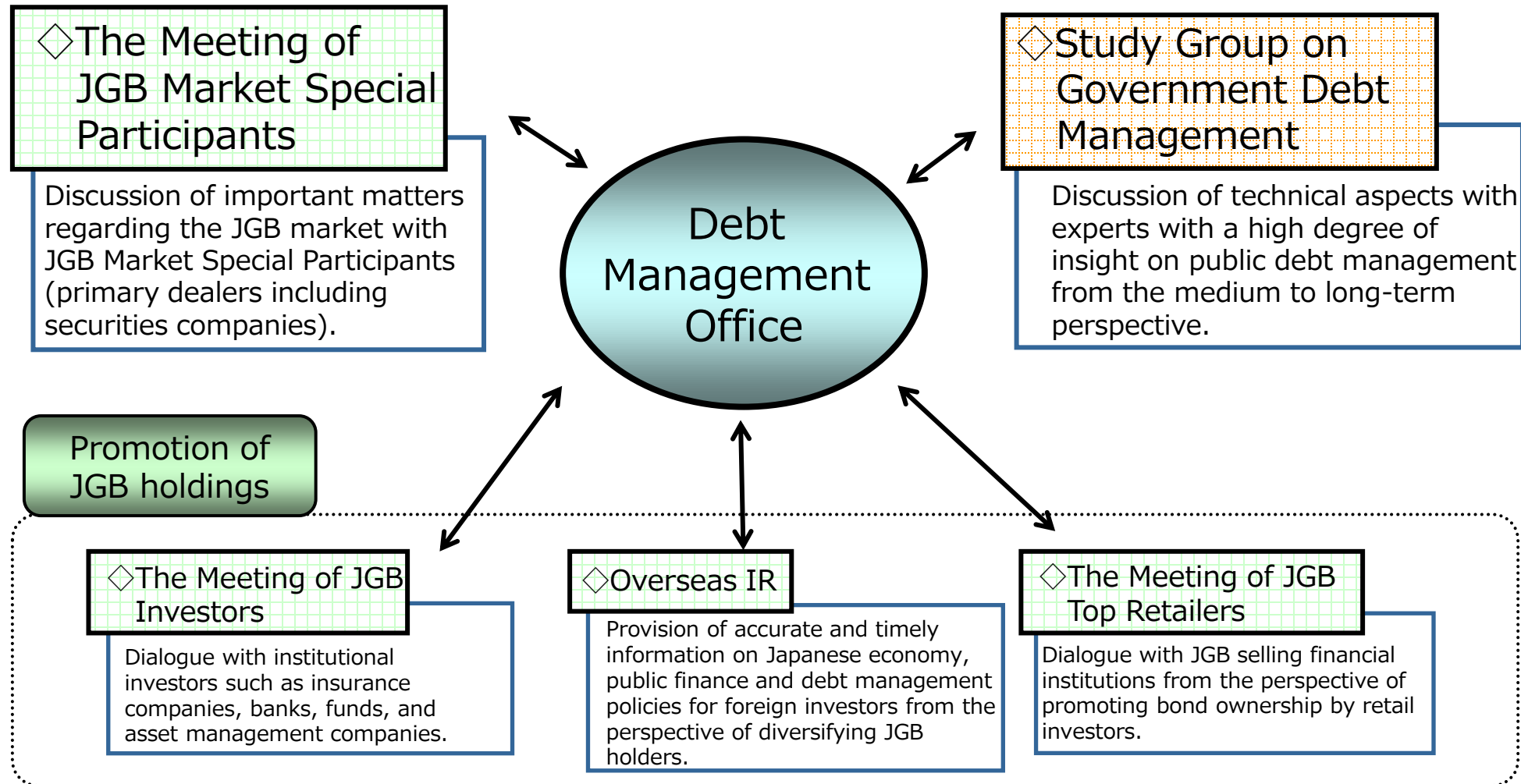
[Basic Objectives]

- 1. Implement Secure and Smooth Issuance
of Japanese Government Bonds**
- 2. Minimize Medium- to Long- Term Financing Costs**

- For the Basic Objectives of Debt Management Policy, JGB issuance plan should be formulated in line with market trends and needs. At the same time, securing predictability and transparency is needed to reduce risk of JGB investment.
- As for the maturity composition of the amount, the MOF promotes careful dialogues with the market through such forums as the Meeting of JGB Market Special Participants(PDs) to minimize the impact on the market.

Dialogue with Market Participants

In order to secure stable financing and implement policies to enhance JGB market liquidity, the MOF promotes the dialogue with market participants through various channels.



Primary Dealers scheme

The Minister of Finance designates entities that play an important role in the primary and secondary JGB markets, cooperate in the formulation and implementation of JGB management policies, and have responsibilities/entitlements.

Aim	
<ul style="list-style-type: none">● Stable issuance of JGBs● Maintaining and enhancing the liquidity ,efficiency ,competitiveness ,transparency, stability of the JGB markets	
Responsibility	Entitlement
<ul style="list-style-type: none">● Bidding responsibility¹● Purchasing responsibility²● Responsibility in the secondary market (providing sufficient liquidity to the JGB secondary market)● Provision of Information to the MOF	<ul style="list-style-type: none">● Participation in the Meeting of JGB Market Special Participants● Participation in Non-Price Competitive Auctions I & II● Participation in Liquidity Enhancement Auctions● Participation in Auctions for Buy-backs● Applying for the separating and integrating STRIPS Bonds

Note1: 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. Rate 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 (%) = $100/n \times n$ "n" is the number of the Special Participants

Note2: The Special Participants shall purchase at least a specified share of the planned total issue amount (0.5% for short-term zone; and 1% for other zones) in each of the super long term, long-term, medium-term, and short-term zones in auctions for preceding two quarters.

JGB Primary Dealers (Market Special Participants) and rankings

B The Meeting of JGB Market Special Participants

<Members>

Barclays Securities Japan Limited
BNP Paribas Securities (Japan) Limited
BofA Securities Japan Co., Ltd.
Citigroup Global Markets Japan Inc.
Credit Agricole Securities Asia B.V.
Credit Suisse Securities (Japan) Limited
Daiwa Securities Co. Ltd.
Deutsche Securities Inc.
Goldman Sachs Japan Co., Ltd.
JPMorgan Securities Japan Co., Ltd.
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
Mizuho Bank, Ltd.
Mizuho Securities Co., Ltd.
Morgan Stanley MUFG Securities Co., Ltd.
Nomura Securities Co., Ltd.
Okasan Securities Co., Ltd.
SMBC Nikko Securities Inc.
Societe Generale Securities Japan Limited
Sumitomo Mitsui Banking Corporation
Tokai Tokyo Securities Co., Ltd.

1. 令和5年4月～9月における落札総額（デュレーション換算値）上位10社
Top 10 institutions for the amount of successful bids weighted by duration from April to September 2023

1 三菱UFJモルガン・スタンレー証券株式会社 | Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

2 大和証券株式会社 | Daiwa Securities Co. Ltd.

3 野村証券株式会社 | Nomura Securities Co., Ltd.

4 シティグループ証券株式会社 | Citigroup Global Markets Japan Inc.

5 みずほ証券株式会社 | Mizuho Securities Co., Ltd.

6 JPモルガン証券株式会社 | JPMorgan Securities Japan Co., Ltd.

7 ドイツ証券株式会社 | Deutsche Securities Inc.

8 SMBC日興証券株式会社 | SMBC Nikko Securities Inc.

9 ゴールドマン・サックス証券株式会社 | Goldman Sachs Japan Co., Ltd.

10 岡三証券株式会社 | Okasan Securities Co., Ltd.

(注) デュレーション換算値とは、各社の各年限落札・引受総額に、財務省が2四半期ごとに公表するデュレーションを乗じて得た値をいう。(「国債市場特別参加者制度運営基本要領」第4・4(4))

(Note) The values used for the league table above are obtained by multiplying the institutions' total purchasing amount of each bond by respective duration the MOF publishes every half year.

JGB instruments

JGB offers various instruments to cater the need of investors as well as to ensure stable financing.

Short-term to long-term JGBs

Maturity	Short-term		Medium-term	Long-term
	6-Month	1-Year	2-Year, 5-Year	10-Year
Type of issue	Discount bonds		Coupon-bearing bonds	
Min. face value unit	50,000 yen		50,000 yen	
Issuance method	Public offering BOJ Rollover		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	

Super long-term JGBs and Inflation-Indexed

Maturity	Super long-term			Inflation-Indexed Bonds
	20-Year	30-Year	40-Year	10-Year
Type of issue	Coupon-bearing bonds			
Min. face value unit	50,000 yen			100,000 yen
Issuance method	Public offering			Public offering
Auction method	Price-competitive auction/ Conventional-style auction	Yield-competitive auction/ Dutch-style auction		Price-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

Futures (listed at Osaka Stock Exchange)

	5-year JGB Futures	10-year JGB Futures	mini 20-year JGB Futures	mini 10-year JGB Futures (Cash-Settled)
Opening Date	Feb. 16, 1996	Oct. 19, 1985	Apr. 7, 2014	Mar. 23, 2009
Contract	Standardized 3%, 5-year JGB	Standardized 6%, 10-year JGB	Standardized 3%, 20-year JGB	Price of standardized 6%, 10-year JGB
Deliverable Grade	Interest-bearing 5-year JGBs with 4 years or more but less than 5.25 years.	Interest-bearing 10-year JGBs with 7 years or more but less than 11 years.	Interest-bearing 20-year JGBs with 19 years 3 months or more but less than 21 years.	—

Inflation-indexed Bonds

JGBi's principal would be recalculated in line with the change in core consumer price index. Following the suspension of their issuance in October 2008 due to a sharp demand decline, the government resumed JGBi issuance with the principal guarantee upon maturity in October 2013.

Fig. 2-4 Conceptual Scheme of Inflation-Indexed Bonds

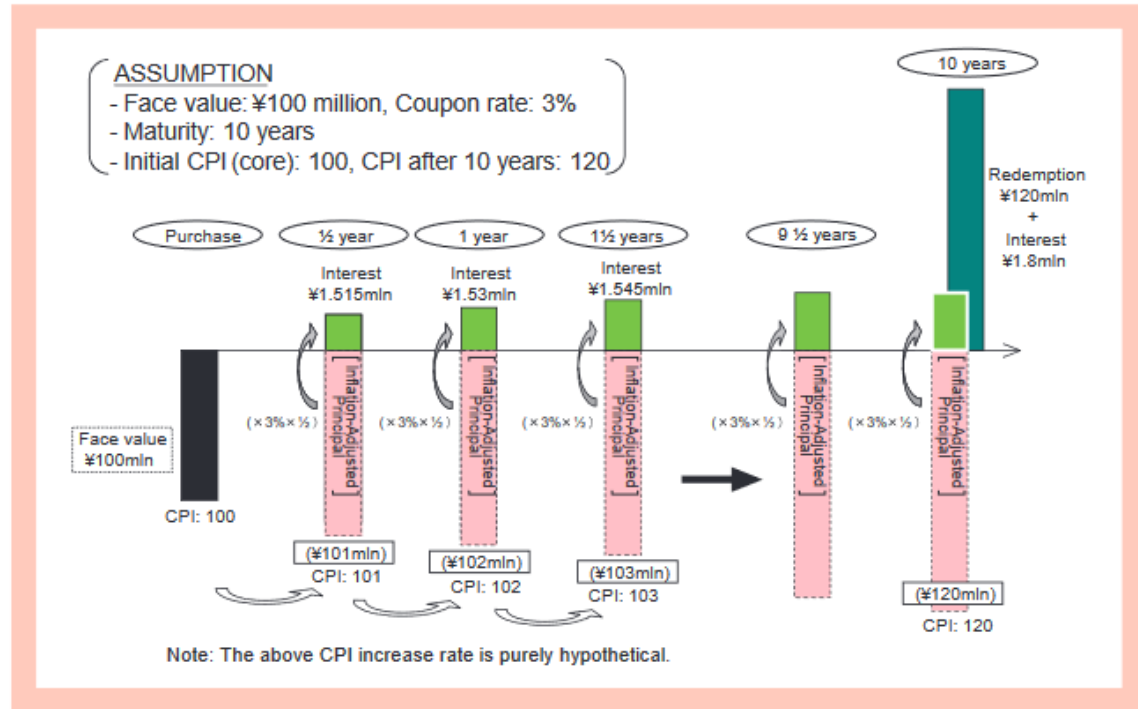
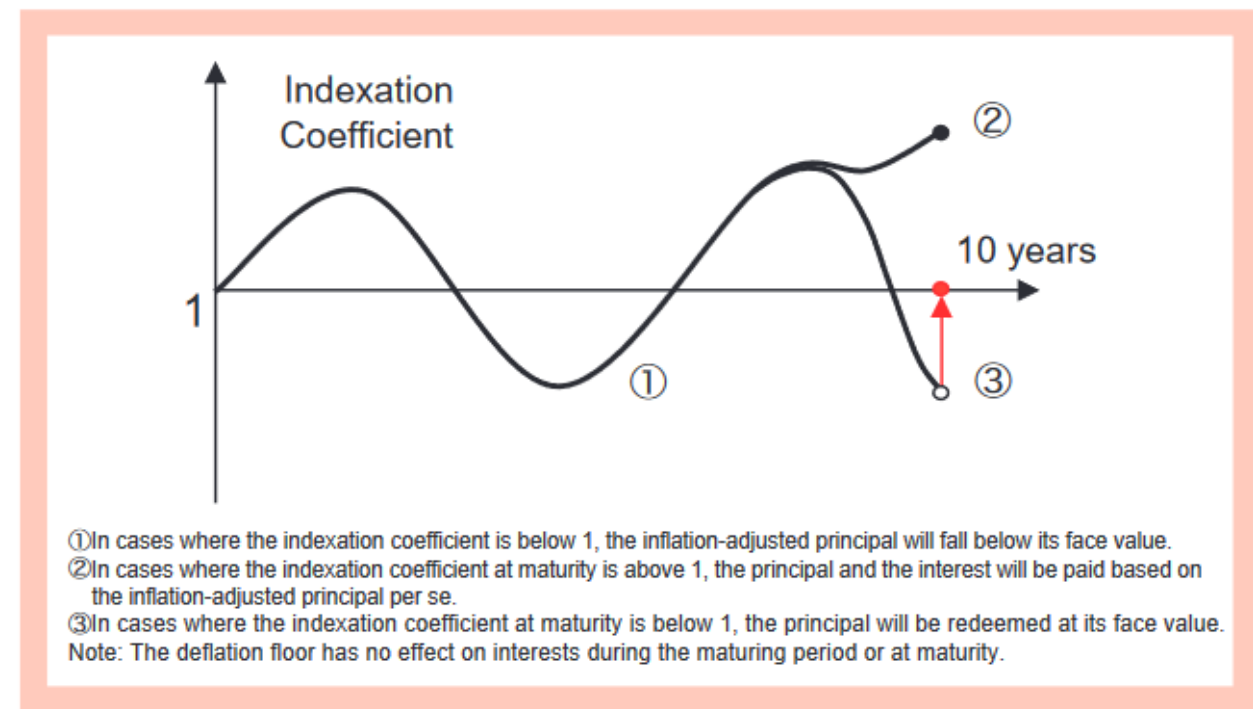


Fig. 2-5 Deflation Floor (Conceptual Diagram)



JGB for retail investors

In March 2003, issuance was started on 10-Year FRN for Retail Investors, which are designed not to lose principal, in order to promote JGB holdings among individuals. Subsequently, the government has introduced 5-Year and 3-Year Fixed-Rate Bonds.

	JGBs for Retail Investors		
	10-Year Floating-Rate	5-Year Fixed-Rate	3-Year Fixed-Rate
Maturity	10-year	5-year	3-year
Frequency of issuance	Monthly (12 times per year)		
Purchase units/purchase value limits	Minimum purchase of 10 thousand yen in 10 thousand yen units/No upper limit		
Sales price	100 yen per 100 yen of face value (the same as the redemption)		
Purchasers	Limited to retail investors		
Interest rate	Floating-rate	Fixed-rate	
Minimum interest rate	Present (0.05%)		
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 are deducted immediately preceding redemption (pre-tax) x0.79685.		
Introduction (1st issuance)	March, 2003	January, 2006	July, 2010

Fig. 1-22 Issuance and Redemption of JGBs for Retail Investors

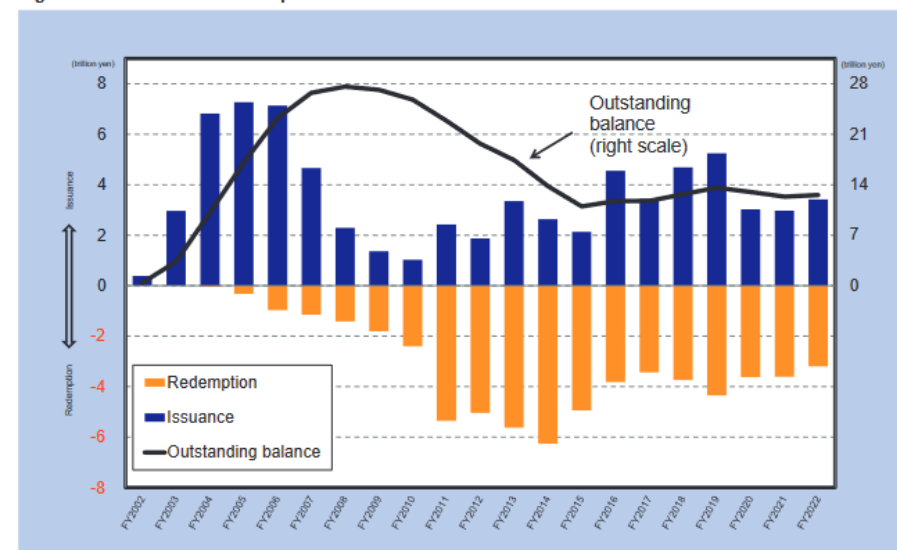
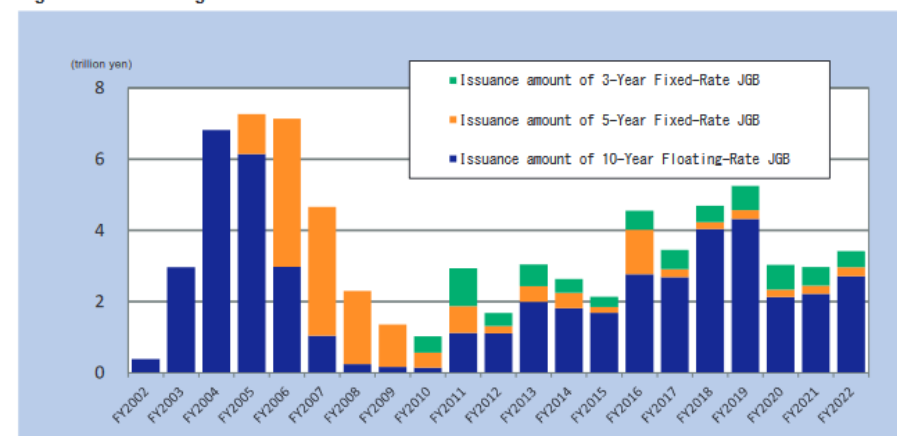


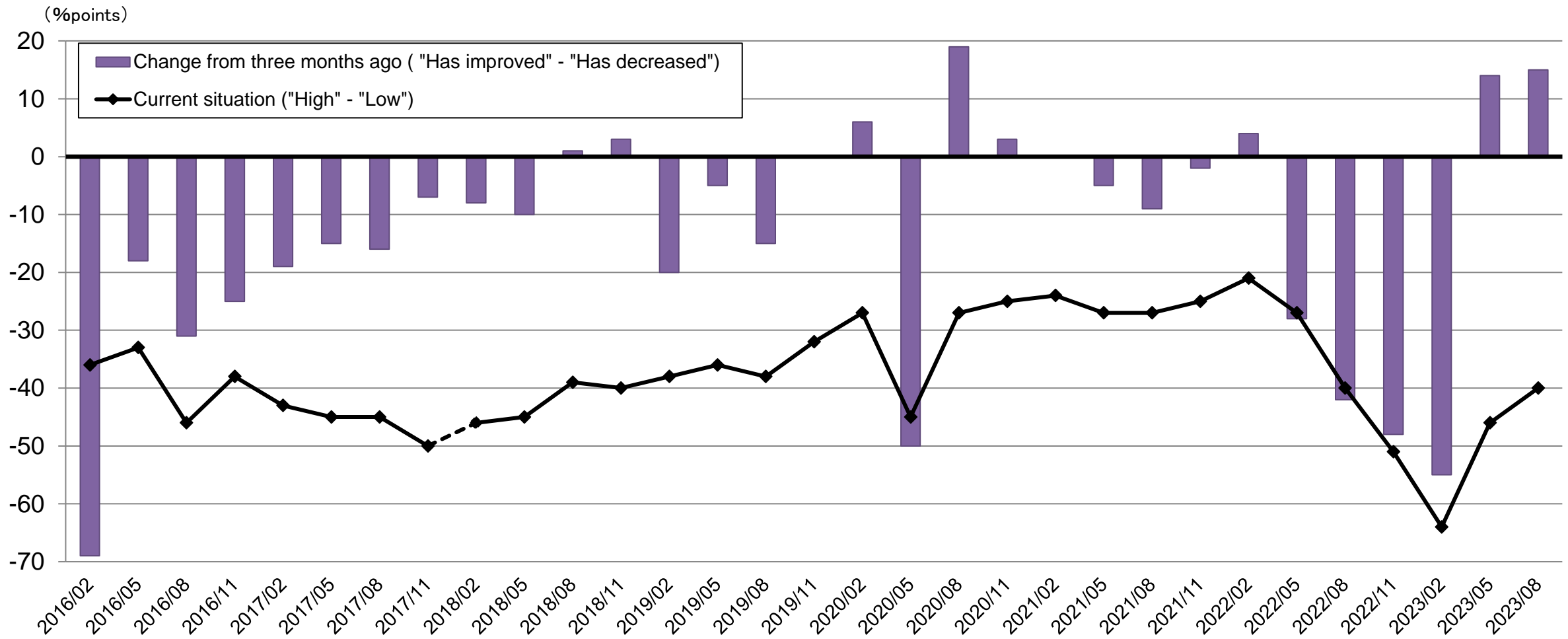
Fig. 1-23 Outstanding JGBs for Retail Investors



3. Liquidity of JGB market

Market participants' perception of JGB market functionality

According to BOJ's survey, market participants' perception of JGB market functionality marked its worst record in February 2023, but since then it has been gradually improving.

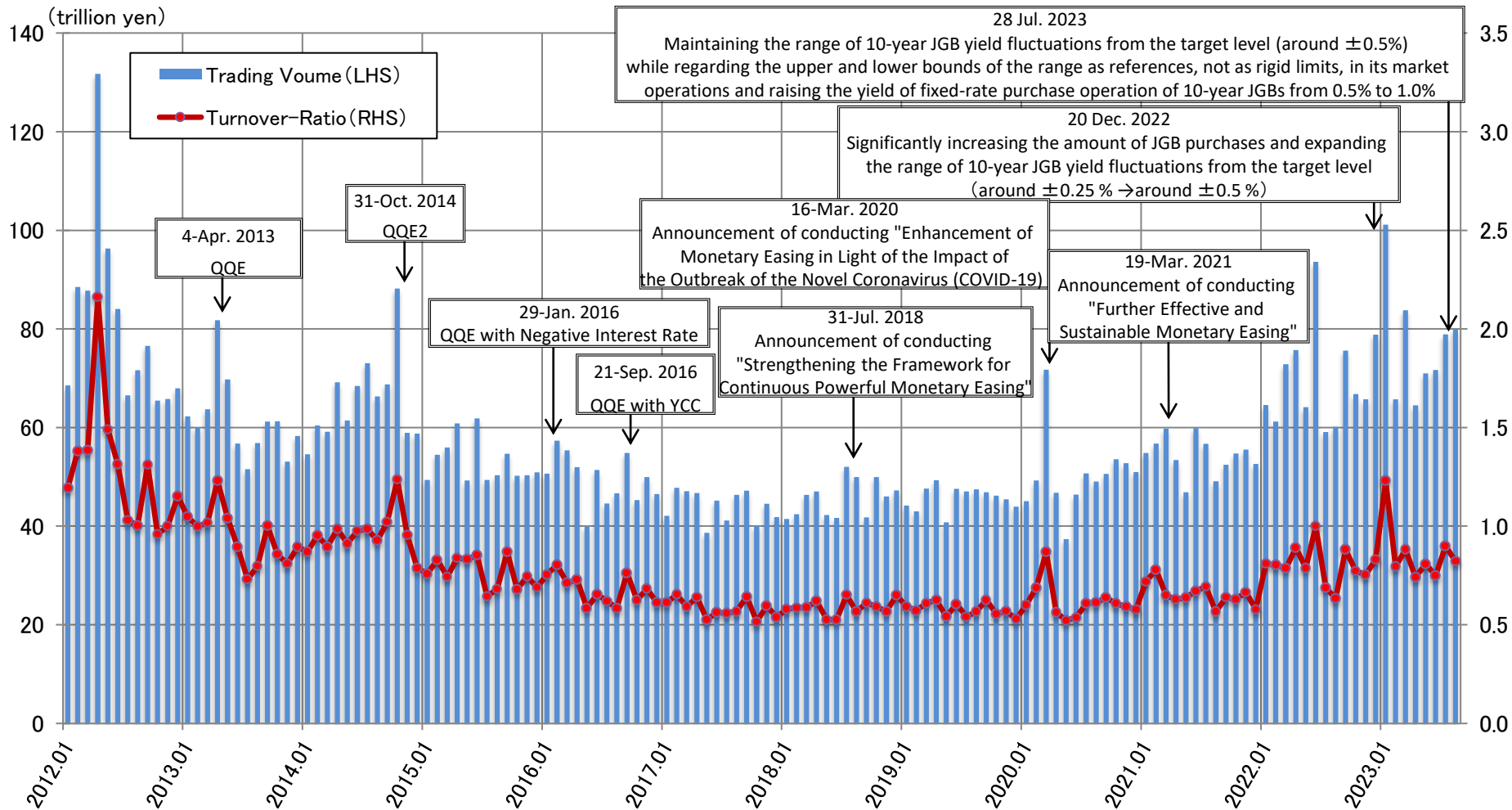


(Source) Bank of Japan "Bond Market Survey"

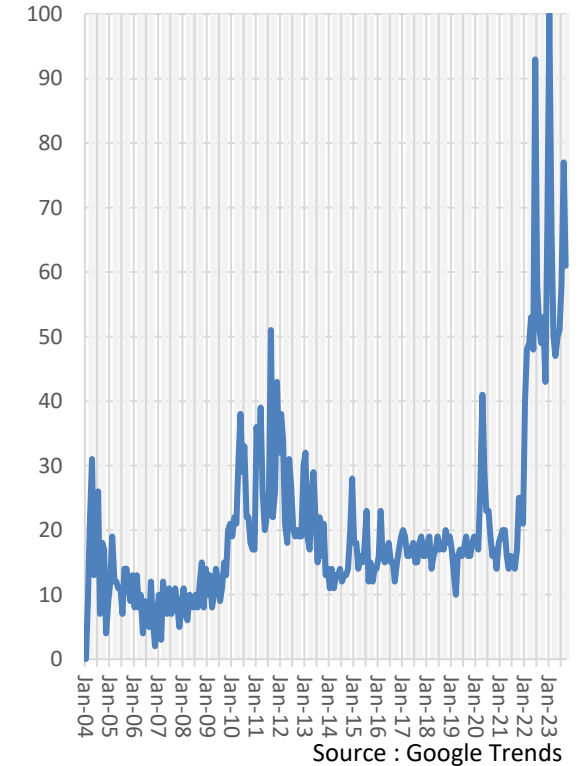
(Note) The survey from February 2018 onward includes responses from major insurance companies, asset management companies, etc., in addition to those from eligible institutions for the Bank's outright purchases and sales of JGBs.

Trading Volume and Turnover Ratio

In the past 1-2 years, the trading volume and turnover ratio of JGB have reverted back to the level seen in the pre-QQE2 period.



Search interest on the word "Japanese government bond" (Worldwide)



Source : Google Trends

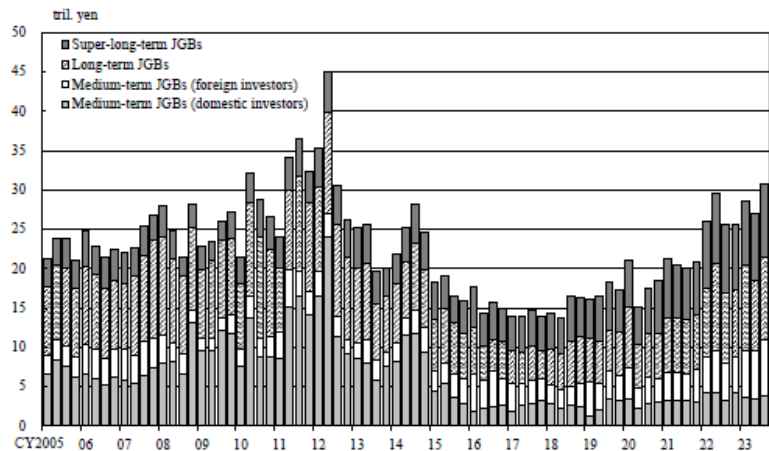
(Sources) Japan Securities Dealers Association "Trading Volume of Over-the-Counter (OTC) Bonds", Bank of Japan "Issuance, Redemption, and Outstanding of Public and Corporate Bonds"
 (Note 1) JGB does not include T-Bills.
 (Note 2) "Trading Volume" is the total of "Outright Transactions" excluding those of bond dealers. "Turnover Ratio" is the annualized figure calculated by dividing the monthly "Trading Volume" by the outstanding JGBs at the end of the month.

Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term.

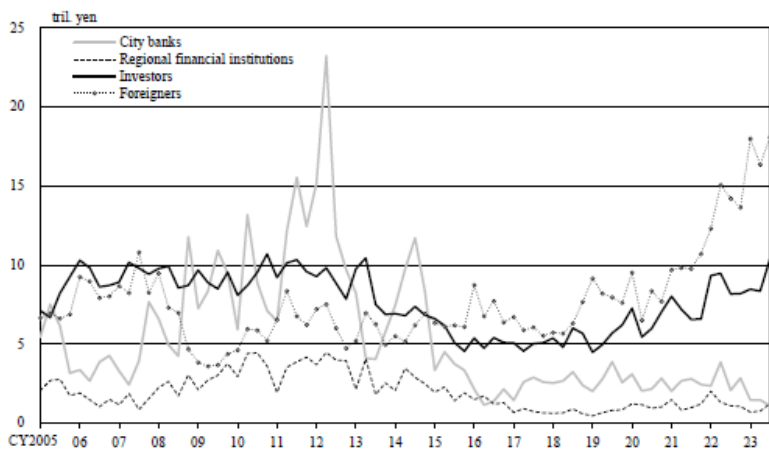
JGB market liquidity indicators (1)

JGB Cash Market:
Dealer-to-client Transaction Volume

(1) Monthly Transaction Volume (Gross Amount Purchased by Clients)



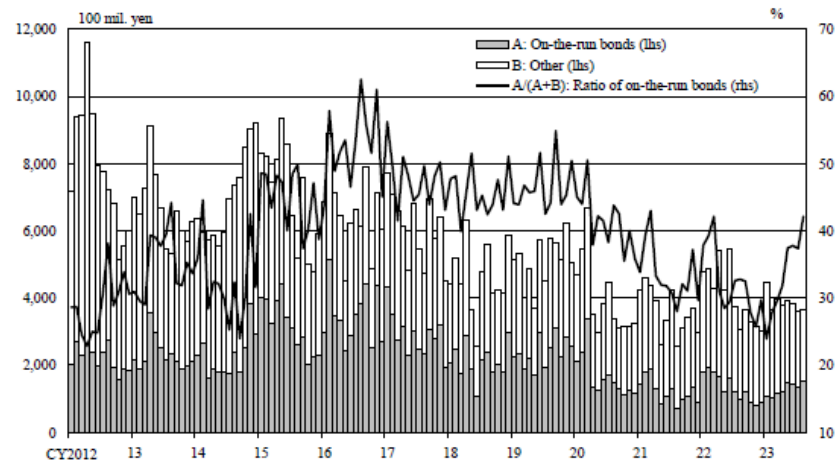
(2) Monthly Transaction Volume by Clients (Gross Amount Purchased by Clients)



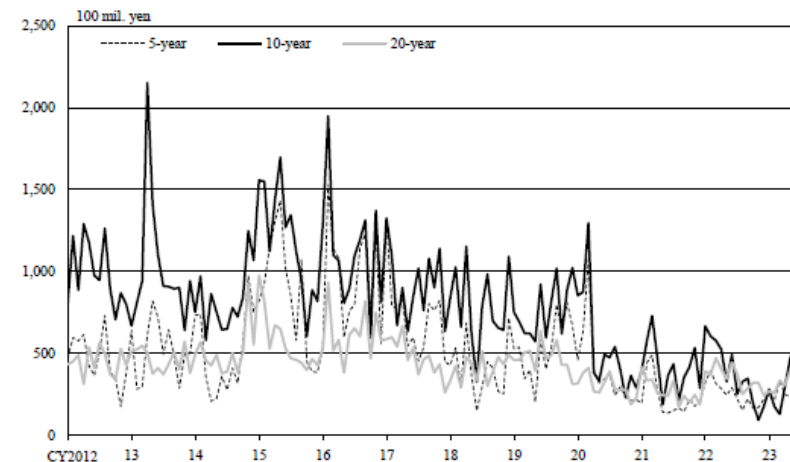
Notes: 1. Treasury Discount Bills, etc. are excluded from the transaction volume.
 2. "Clients" include city banks, regional financial institutions, investors, and foreigners. Other institutions (government, Bank of Japan, Japan Post Bank, Japan Post Insurance, business corporations, other financial institutions, etc.) are excluded from "clients."
 3. Latest data as at July-August 2023.
 Source: Japan Securities Dealers Association.

JGB Cash Market:
Inter-dealer Transaction Volume

(1) Daily Transaction Volume



(2) Daily Transaction Volume of On-the-run Bonds by Maturity

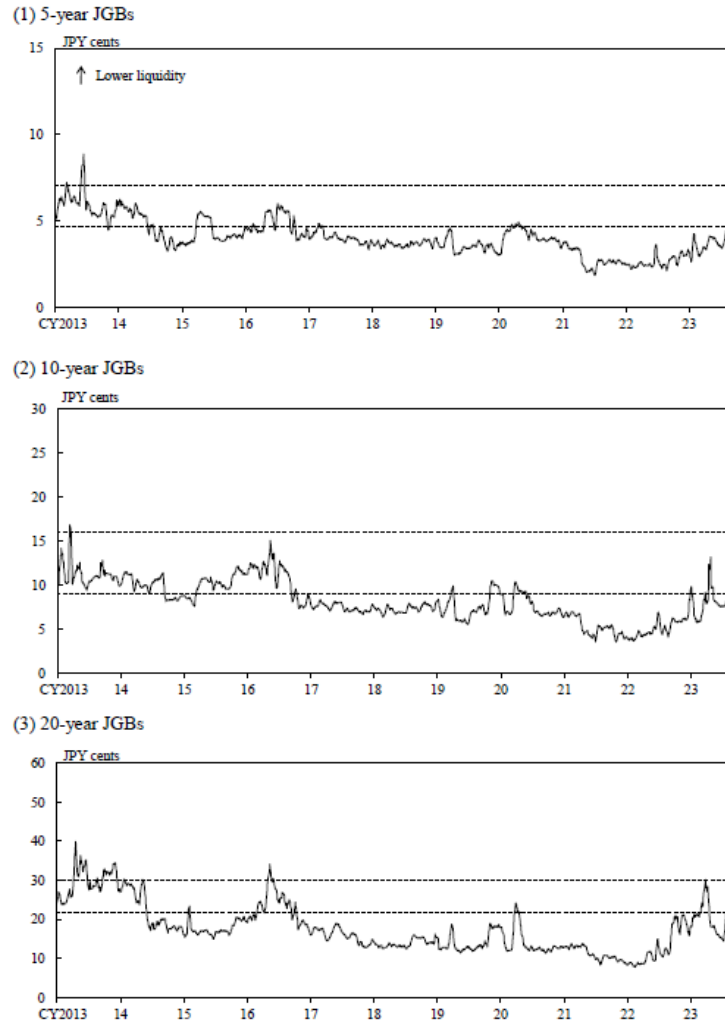


Notes: 1. Daily transaction volume in (1) is the sum of 2-year, 5-year, 10-year, 20-year, 30-year, and 40-year JGBs via Japan Bond Trading.
 2. Latest data as at August 2023.
 Sources: QUICK; Japan Bond Trading.

JGB market liquidity indicators (2)

Chart 5

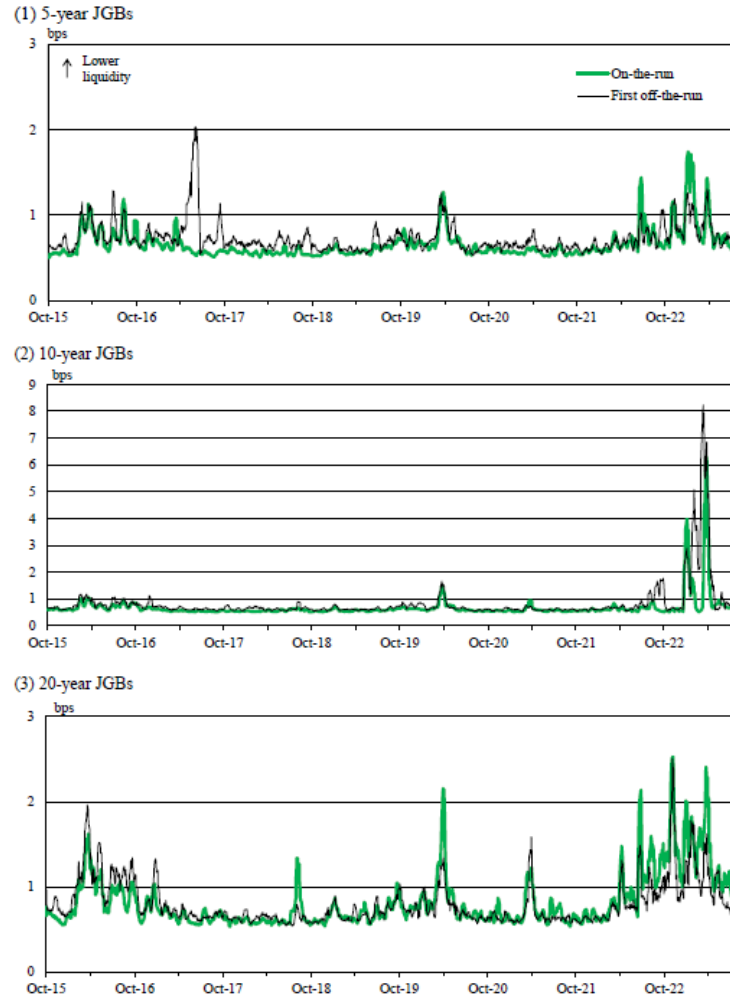
JGB Cash Market:
Bid-ask Spreads of Dealer-to-client Transactions



Notes: 1. Quotations through Tradeweb as of 3:00 p.m. Dotted lines indicate the first/third quartile spreads between January 2010 and March 2013.
2. 10-day backward moving average. Latest data as at end-August 2023.
Source: Eikon from Refinitiv.

Chart 6

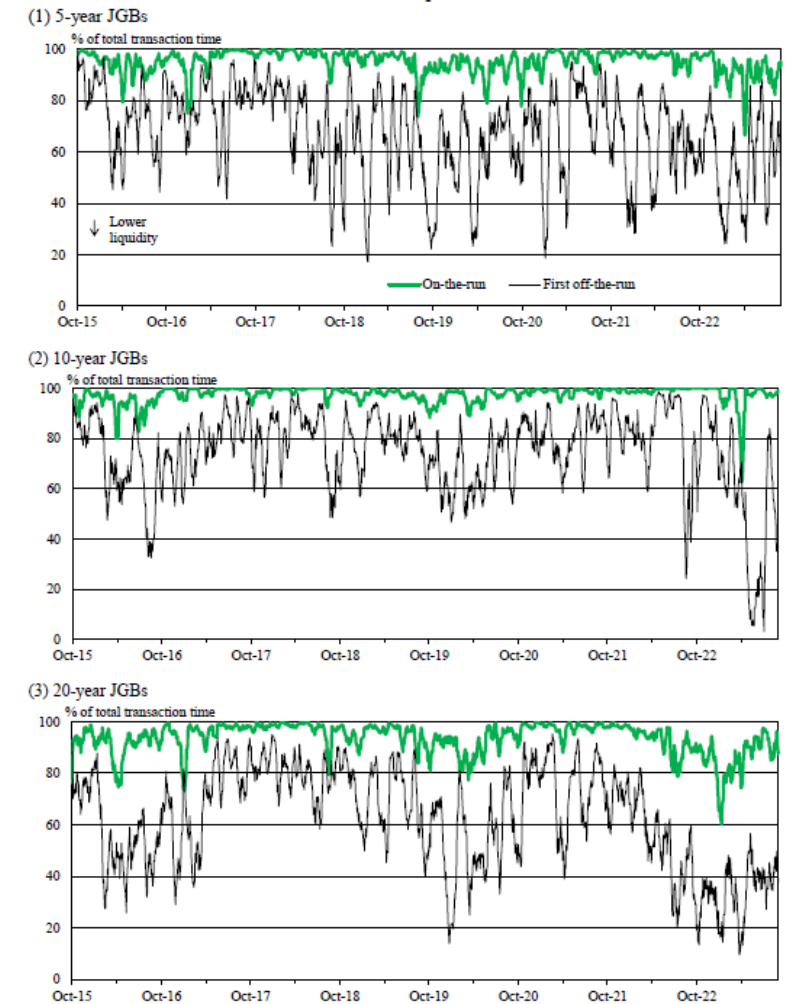
JGB Cash Market:
Bid-ask Spreads of Inter-dealer Transactions



Notes: 1. Figures indicate the average of bid-ask spreads with a 1-second frequency.
2. Bid-ask spreads are calculated only for time periods in which both best-bid and best-ask prices were submitted.
3. 10-day backward moving average. Latest data as at end-August 2023.
Source: Japan Bond Trading.

Chart 7

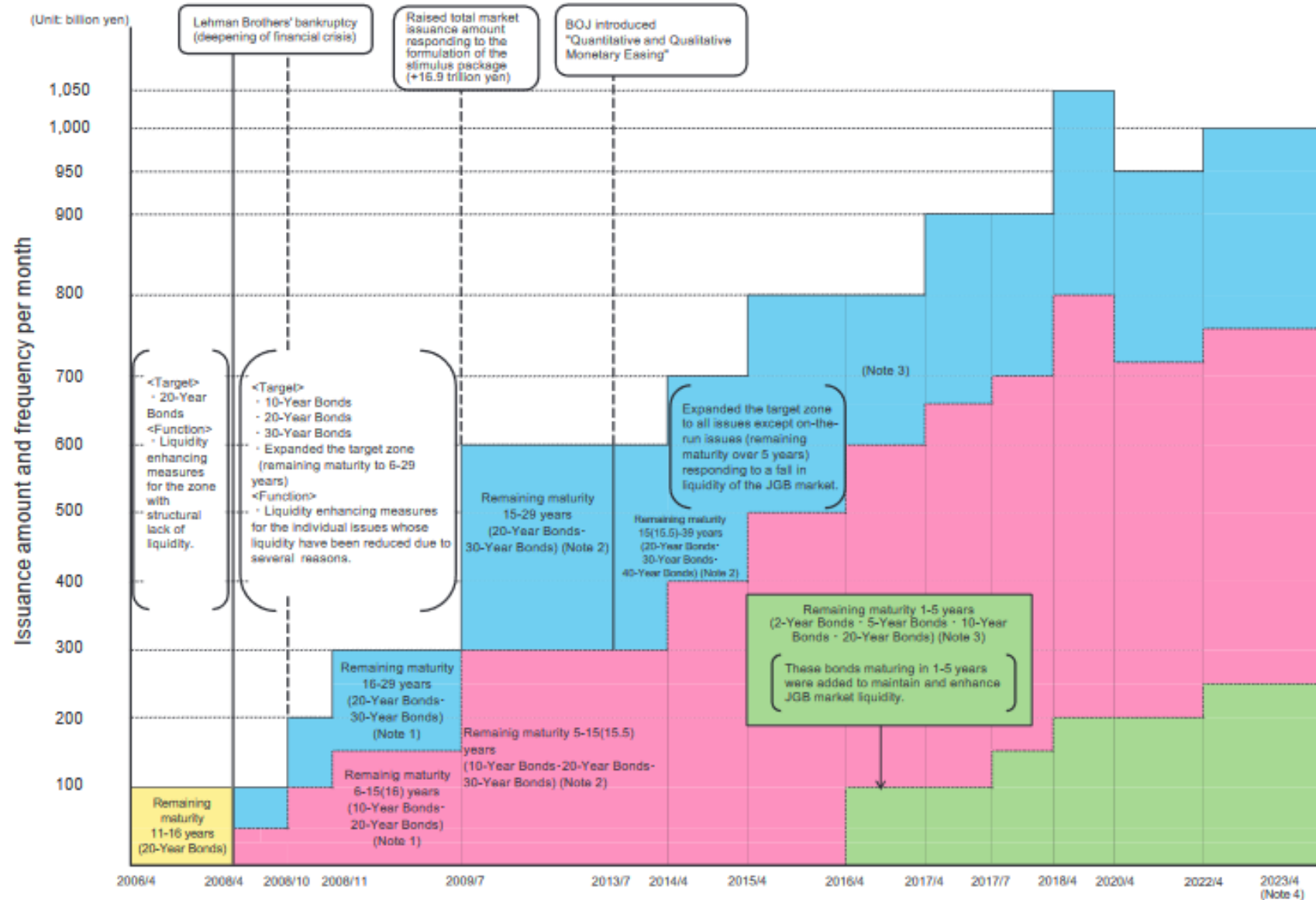
JGB Cash Market:
Total Observation Time of Bid-ask Spreads of Inter-dealer Transactions



Notes: 1. Figures indicate the total length of time (as percentage of total trading hours) in which both best-bid and best-ask prices were submitted. Total trading hours per day were shortened from 7h to 5h 20min, from 20th August 2018.
2. 10-day backward moving average. Latest data as at end-August 2023.
3. Note that moving average figures for 20-30th August 2018 include data both prior to and after the change in trading hours.
Source: Japan Bond Trading.

Liquidity Enhancement Auctions

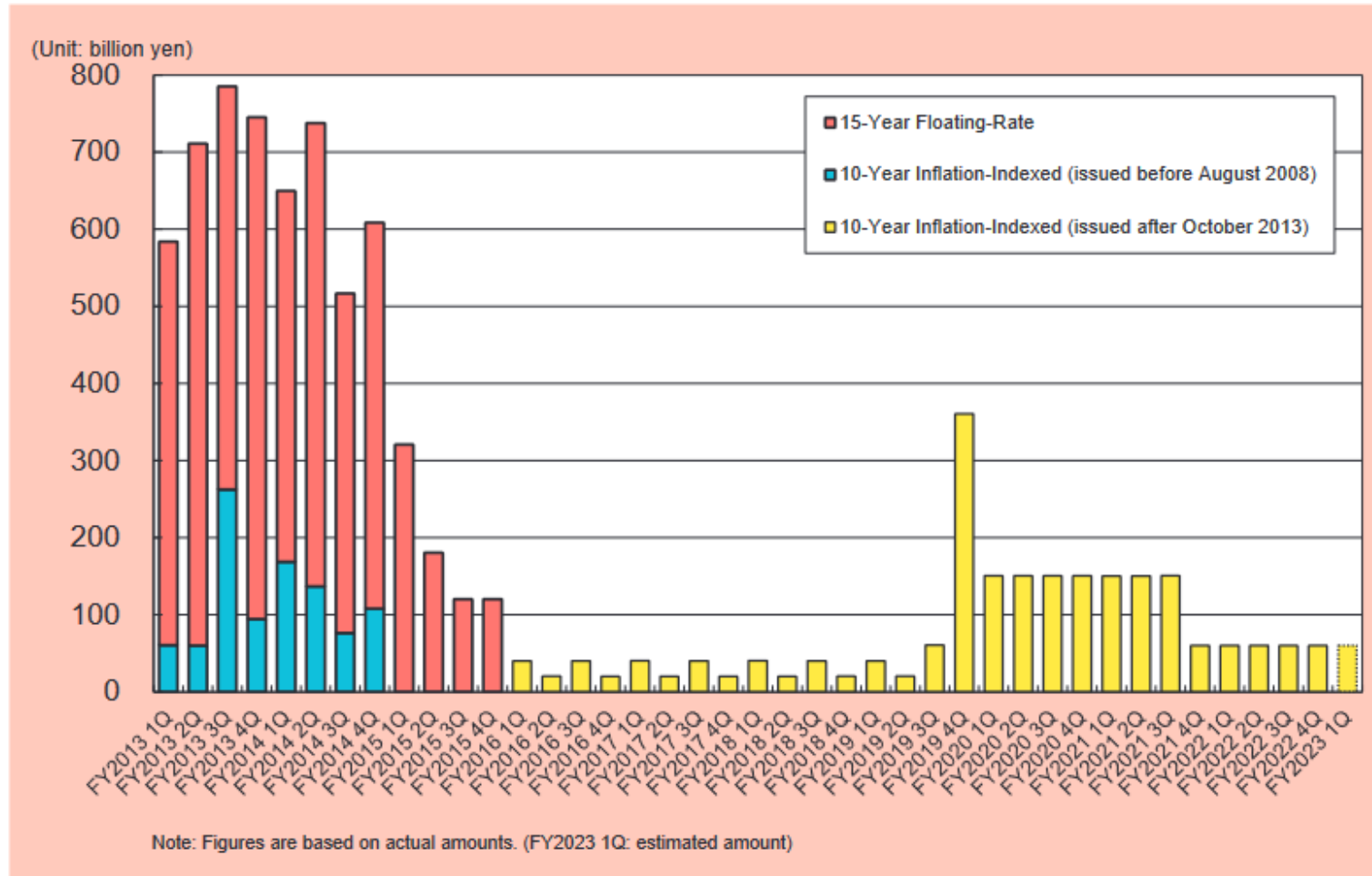
Tap issuance of JGBs, which have structural liquidity shortages or temporary liquidity shortages due to expanding demand.



Buy-back Program

A scheme for the government as the issuer of JGBs to retire debt by purchasing existing bonds.

Fig. 2-25 Transition of the Buy-back Program



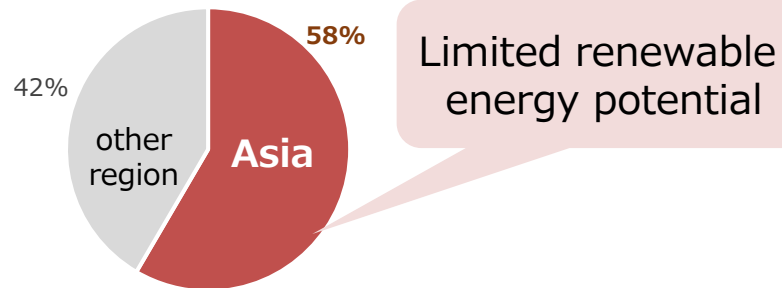
4. Japan's Green Transformation (GX)

The Importance of Transition Finance

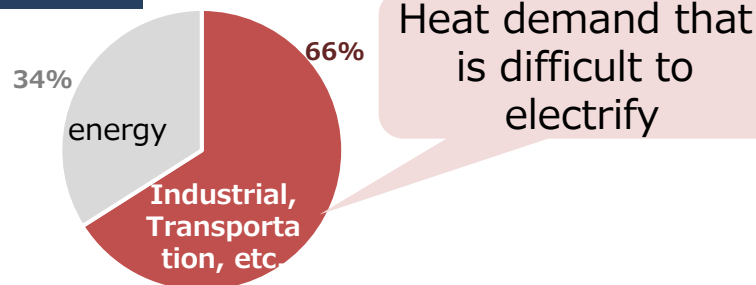
- Green finance covers initiatives such as renewable energy and electrification, which are currently emitting zero and low emissions. In addition to them, transition finance also targets efforts to promote gradual emission reductions through the development of new technologies.
- Emissions in Asia, where the potential for introducing renewable energy is limited, account for the majority of the world's total, and electrification is difficult by sector. While emissions from the industrial and transportation sectors account for the majority, transition finance is attracting renewed attention.

Global CO2 Emissions Breakdown

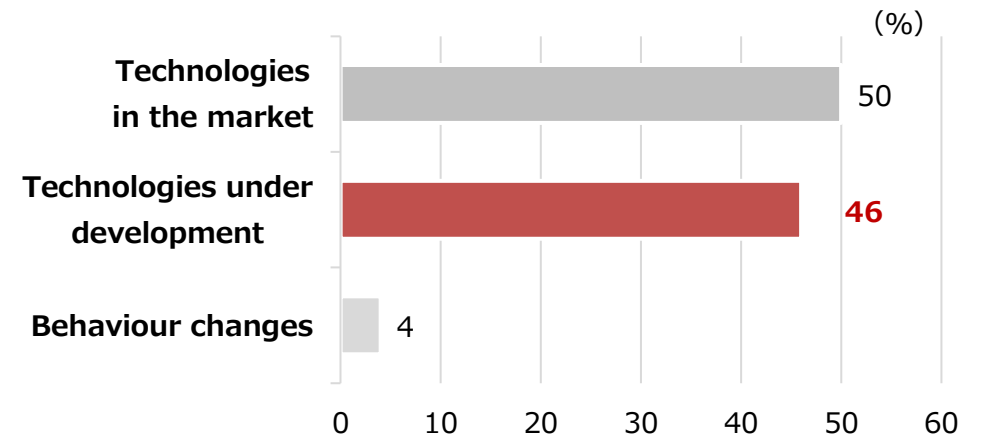
By Region



By Sector



Percentage of CO2 reduction factors leading the world to net zero



"Transition finance plays an important role in driving the decarbonization of the economy as a whole"
(G7 Hiroshima Summit Leaders' Communiqué)

GX Bonds (New government bonds)

- In order to achieve carbon neutrality by 2050 while strengthening industrial competitiveness and realizing economic growth, the government of Japan aims for more than 150 trillion yen of public and private investment for 10 years starting from this year.
- In order to facilitate Green Transformation (GX) investment, the government will issue GX bonds on the scale of maximum 20 trillion yen
- The government will formulate a framework that indicates use of proceeds and reporting methods, etc. and obtain a second-party opinion (SPO) from an external review provider for compliance with international standards

Green Bond Principles: Four core components

1. Use of proceeds
2. Process for evaluating and selecting projects for which funds will be used
3. Appropriate tracking, transparency, and internal control of proceeds
4. Reporting

※In addition, external reviews are an important recommendation.

Climate Transition Finance Handbook: Four key elements

1. Fundraiser Climate Transition strategy and governance
2. Environmental Materiality (Importance) in Business Models
3. Science-Based Climate Transition Strategies (Goals and Pathways)
4. Transparency of implementation

Selection of an external review provider

2023

End of July: Request for Proposal

End of August: Application Deadline

Early September: Mandate

The government will issue GX bonds by the end of March 2024

Use of Proceeds: Overview

- Japan will provide government support of sufficient scale and duration, taking into account trends in investment support in other countries and the results of past government support. 20 trillion yen of support will be reviewed as necessary, based on the progress and effects of projects and so on.

Breakdown of government support over the next decade funded by **GX Economy Transition Bond**

20 trillion yen

Expansion of non-fossil energy	6~8 trillion yen	<u>Research and development of new technologies related to renewable energy</u> <u>Support for demand expansion of hydrogen and ammonia</u>
Transformation of industrial structure on both supply and demand sides & Drastic reinforcement of energy saving	9~12 trillion yen	<u>Energy conservation and fuel conversion for structural reform and improving profitability in the manufacturing industry</u> <u>Achieve drastic energy savings nationwide measures addressing domestic energy demands</u>
Resource recycling and carbon fixation technologies etc.	2~4 trillion yen	<u>R&D and implementation of new technologies</u>

Overall public and private investment over the next decade

150 trillion yen

60 trillion yen~	Massive introduction of renewable energy Nuclear energy (R&D of innovative reactors, etc.) Hydrogen and ammonia
80 trillion yen~	Energy saving and fuel conversion in the manufacturing industry (e.g., steel, chemicals, cement) Digital investment for decarbonization Establishment of battery industry Structural transformation of ship and aircraft industries Next-generation automobiles Zero-emission Housing and Buildings
10 trillion yen~	Resource recycling industry Bio manufacturing CCUS, CCS

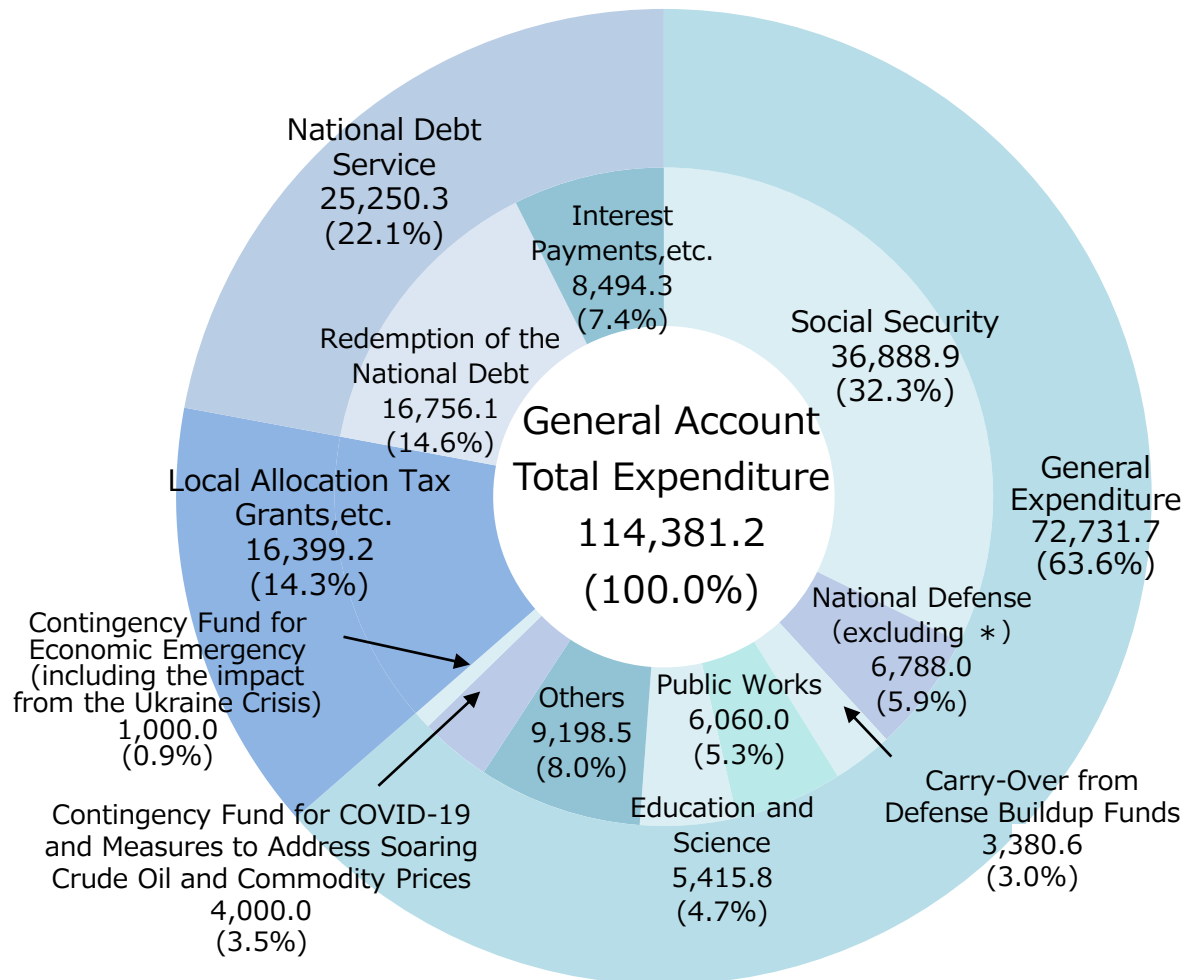


Appendix

The FY2023 Budget: Expenditure and Revenue

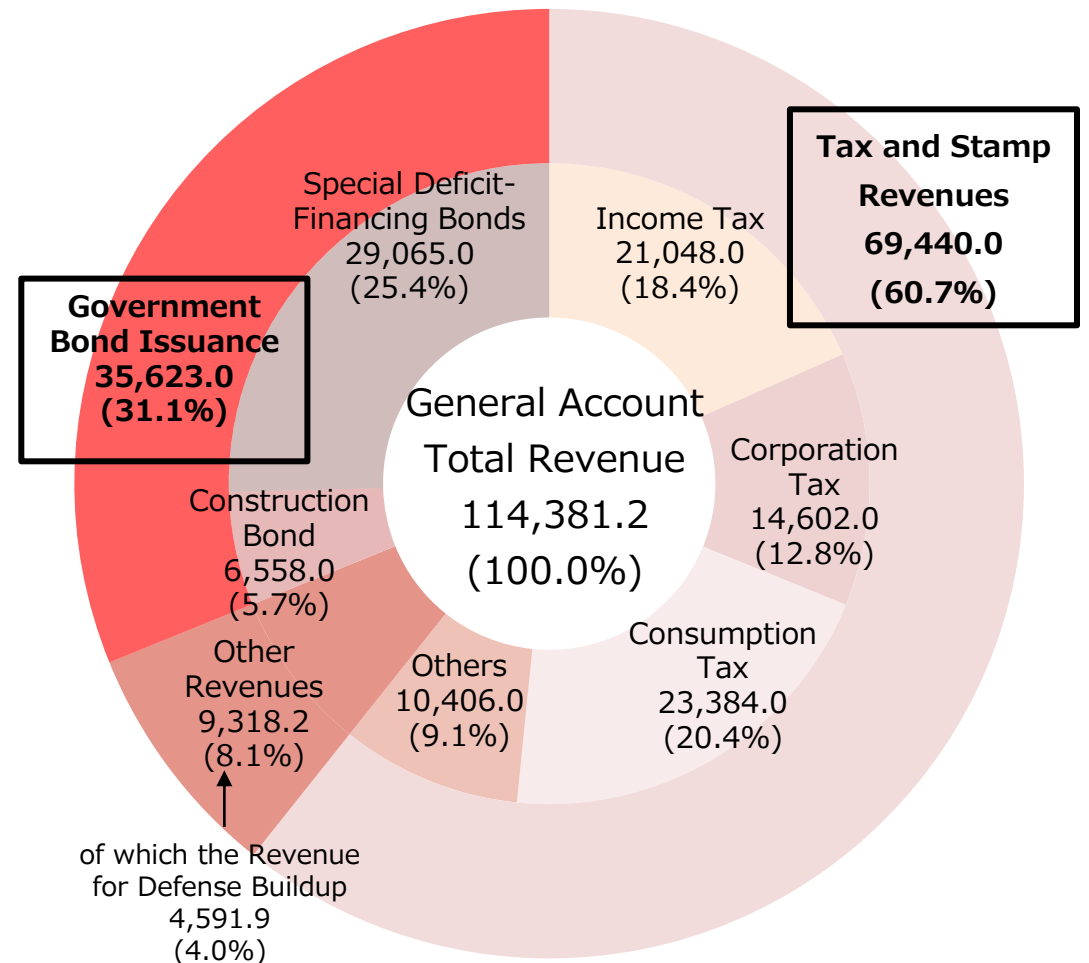
Social security expenditures, local allocation tax grants, and debt servicing costs account for more than two-thirds of the total expenditure, while tax revenue would only cover 60.7% of total expenditure in FY 2023.

General Account Expenditure



General Account Revenue

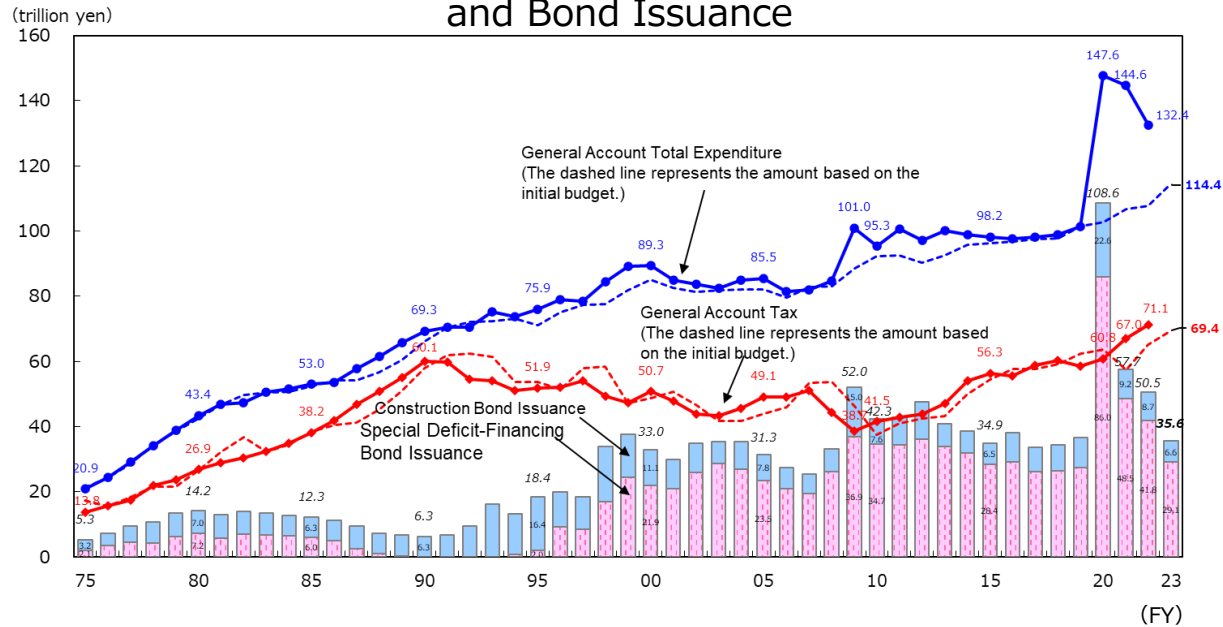
(unit : billion yen)



Government expenditure, revenue and gross debt

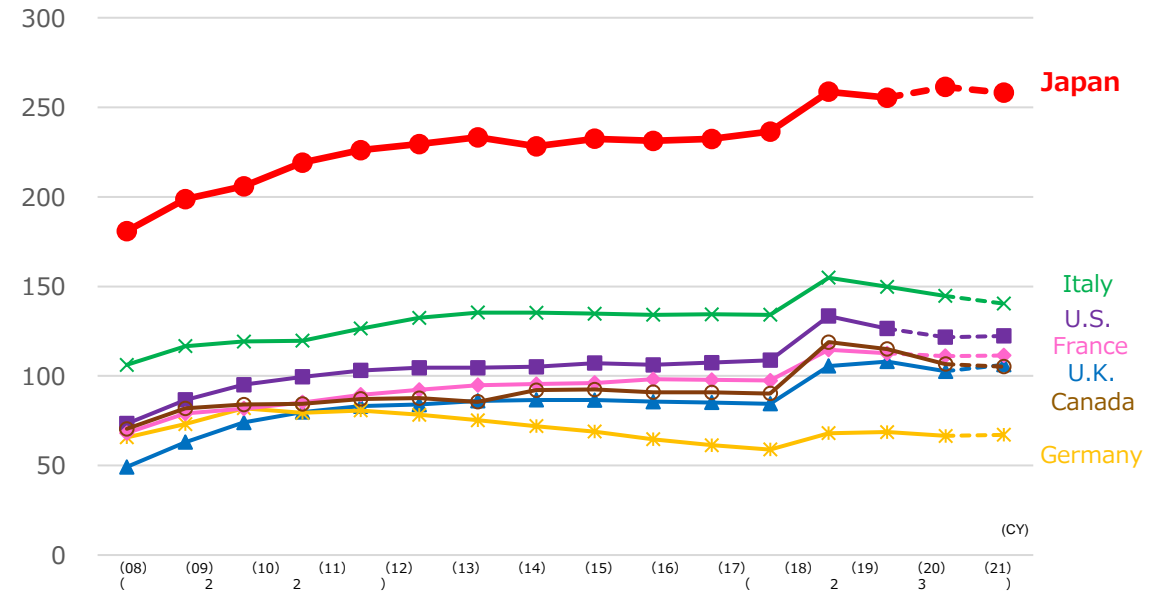
Although tax revenue grew steadily through pandemic times, the gap between expenditure and tax revenues went wide open again after spending increased sharply after the COVID-19 pandemic.

Trends in General Account Tax Revenues, Expenditures, and Bond Issuance



(Note 1) FY1975 - FY2022: settled figures ; FY2023: based on the budget
 (Note 2) The following bonds are excluded: Ad-hoc special deficit-financing bonds issued in FY1990 as a source of funds to support peace and reconstruction activities in the Persian Gulf region, Tax reduction-related special deficit-financing bonds issued in FY1994 - FY1996 to make up for decline in tax revenue due to a series of tax cuts preceding consumption tax hike from 3% to 5%, Reconstruction bonds issued in FY2011 as a source of funds to implement measures for the reconstruction from the Great East Japan Earthquake and Pension-related special deficit-financing bonds issued in FY2012 and FY2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.
 (Note 3) The general account total expenditure of FY2023 includes the carry-over (3.4 trillion yen) to Defense Buildup Funds which is the resource for the national defense expenditure for FY2024 and years after.

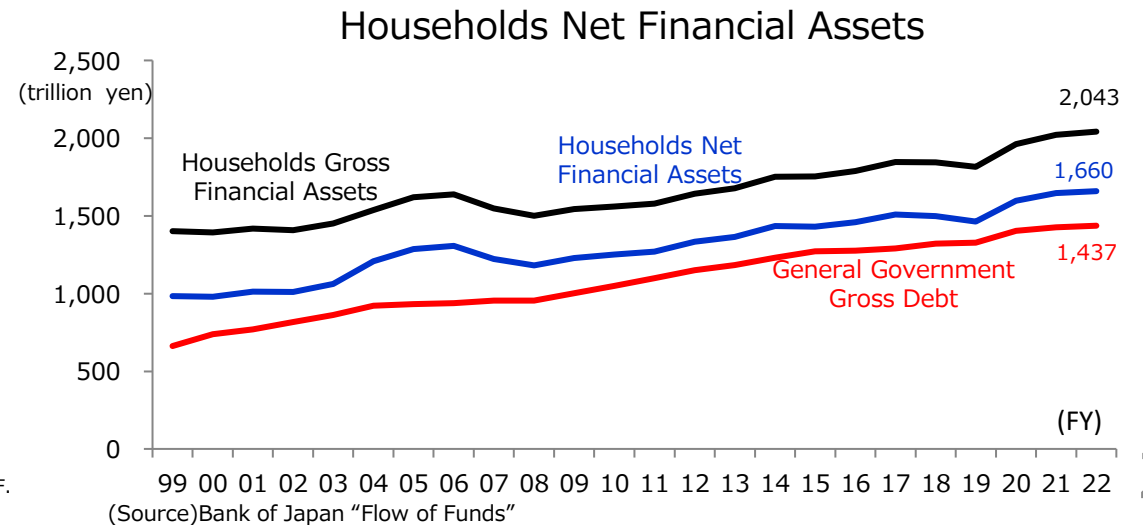
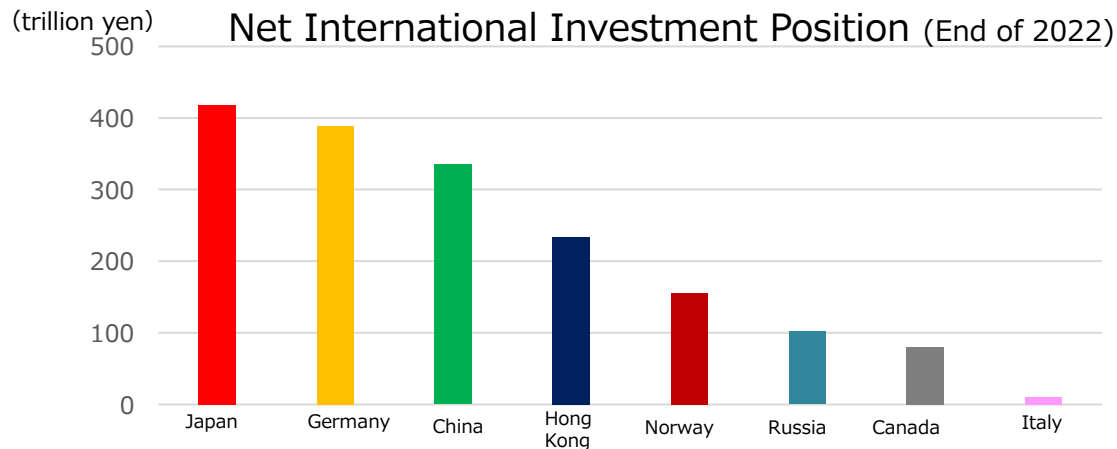
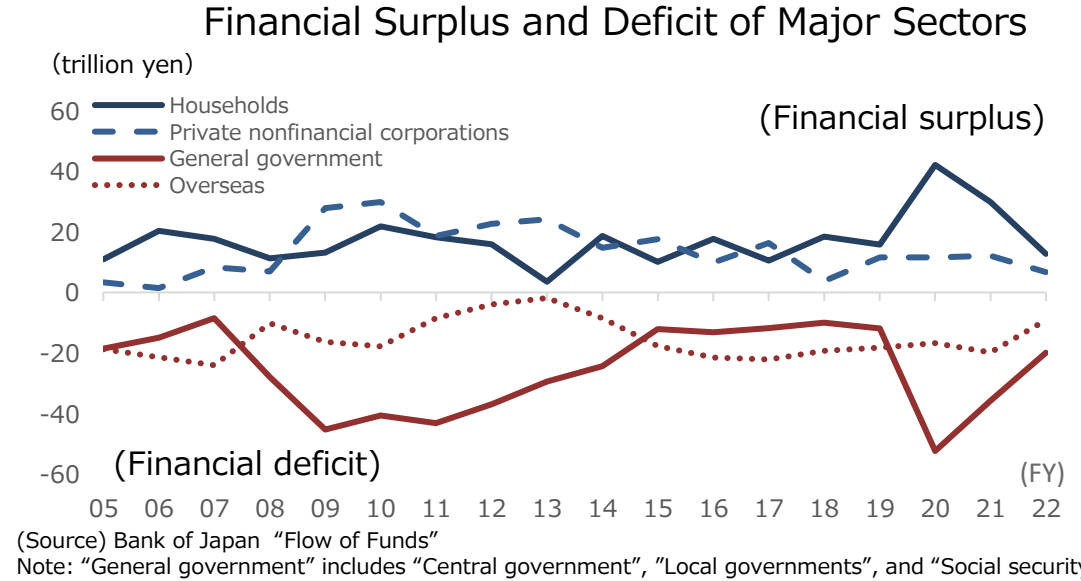
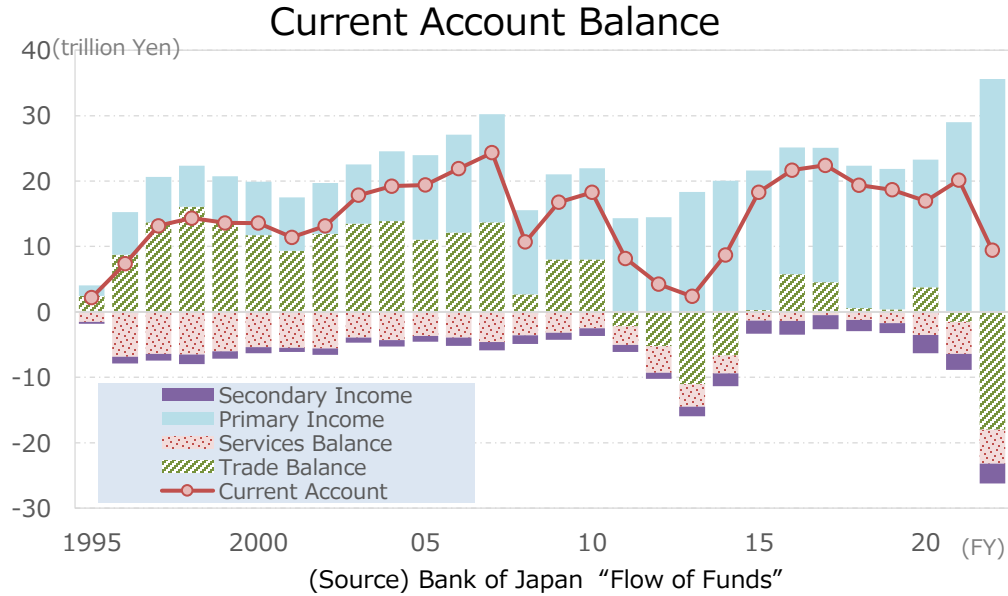
General Government Gross Debt (% of GDP)



(Source) IMF "World Economic Outlook" (April 2023).
 (Note1) Figures represent the general government-based data (the central/local governments and social security funds combined).
 (Note2) 2022-2023 figures for Japan, U.S. and France and 2023 figures for the other countries are estimated figures.

External sector and domestic assets

Japan's external sector has strong balance mainly due to the highest net International Investment position.
Abundant household's financial assets help absorb the deficits of government sector.

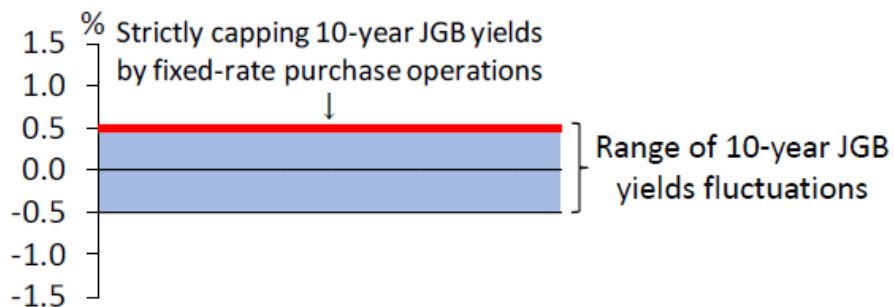


(Source) MOF(Japan), IMF(countries and regions except for Japan)
(Note1) Figures for countries and regions except for Japan are converted into yen at the year-end exchange rates published by IMF.
(Note2) Figures for certain countries/regions are not disclosed.

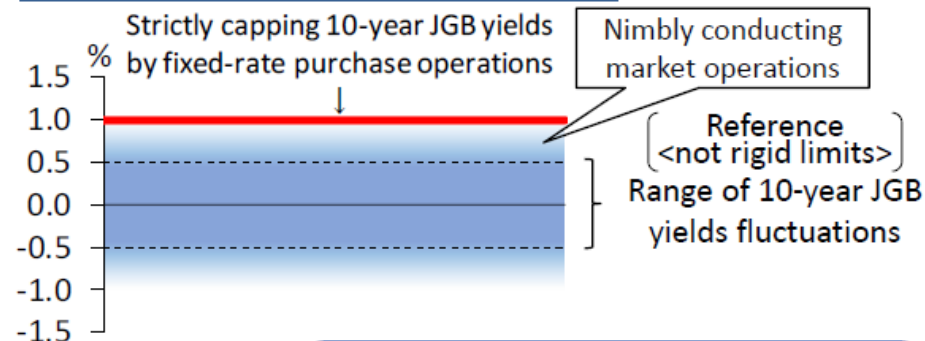
- 22 Jan. 2013** The introduction of “the price stability target at 2 percent”
- 4 Apr. 2013** Quantitative and Qualitative Monetary Easing (QQE)
- 29 Jan. 2016** The introduction of a negative interest rate
 - The Bank will apply a negative interest rate of minus 0.1 percent to current accounts that financial institutions hold at the Bank
- 21 Sep. 2016** Introduction of “Yield curve control”
- 31 Jul. 2018** Enhancing the sustainability of “QQE with YCC”
- 27 Apr. 2020** Enhancement of Monetary Easing in response to COVID-19
- 19 Mar. 2021** Assessment for Further Effective and Sustainable Monetary Easing
- 10 Feb. 2022** Announcement on the Conduct of Fixed-Rate Purchase Operations
 - This is the first Fixed-Rate Purchase Operations in 2022.
- 28 Apr. 2022** Statement on Fixed-Rate Purchase Operations for Consecutive Days
- 15 Jun. 2022** Announcement on the Conduct of Fixed-Rate Purchase Operations of the Cheapest-to-Deliver Issue for Consecutive Days
- 17 Jun. 2022** Relaxation of the Terms and Conditions for the Securities Lending Facility of the Cheapest-to-Deliver Issues
- 20 Dec. 2022** Modification of the Conduct of Yield Curve Control
- 28 Jul. 2023** Conduct of Yield Curve Control (YCC) with Greater Flexibility

- The Bank judges that sustainable and stable achievement of the price stability target of 2 percent has not yet come in sight, and thus patiently continues with monetary easing.
- With extremely high uncertainties for economic activity and prices, the Bank enhances the sustainability of monetary easing by conducting YCC with greater flexibility.

Previous Conduct of YCC



Conduct of YCC with Greater Flexibility

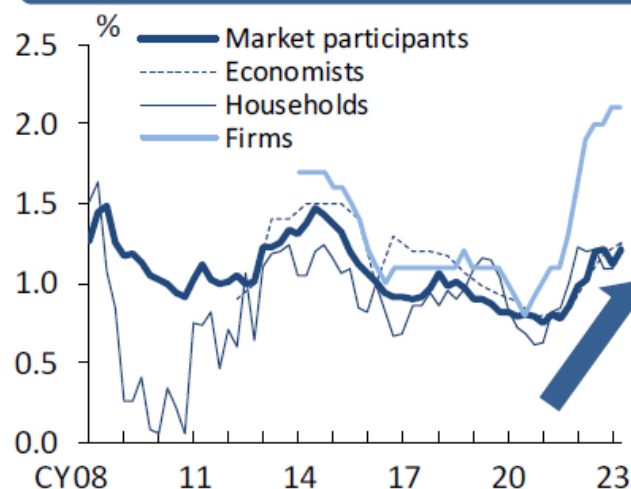


Outlook for Prices

	y/y % chg.	
	CPI (all items less fresh food)	(Reference) CPI (all items less fresh food and energy)
Fiscal 2023	+2.5	+3.2
Forecasts made in Apr. 2023	+1.8	+2.5
Fiscal 2024	+1.9	+1.7
Forecasts made in Apr. 2023	+2.0	+1.7
Fiscal 2025	+1.6	+1.8
Forecasts made in Apr. 2023	+1.6	+1.8

Note: Figures indicate the medians of the Policy Board members' forecasts (point estimates).

Inflation Expectations



Note: Figures for market participants, economists, households, and firms are from "QUICK Monthly Market Survey," "ESP Forecast," "Opinion Survey on the General Public's Views and Behavior," and "Tankan," respectively.

Enhancing the sustainability of monetary easing by conducting YCC with greater flexibility

- If upside risks to Japan's economic activity and prices materialize

- Decline in real interest rates
- Mitigating the effects on the functioning of bond markets, etc.

- If downside risks to Japan's economic activity and prices materialize

- Decline in long-term interest rates

Weighted Average Maturity of JGB

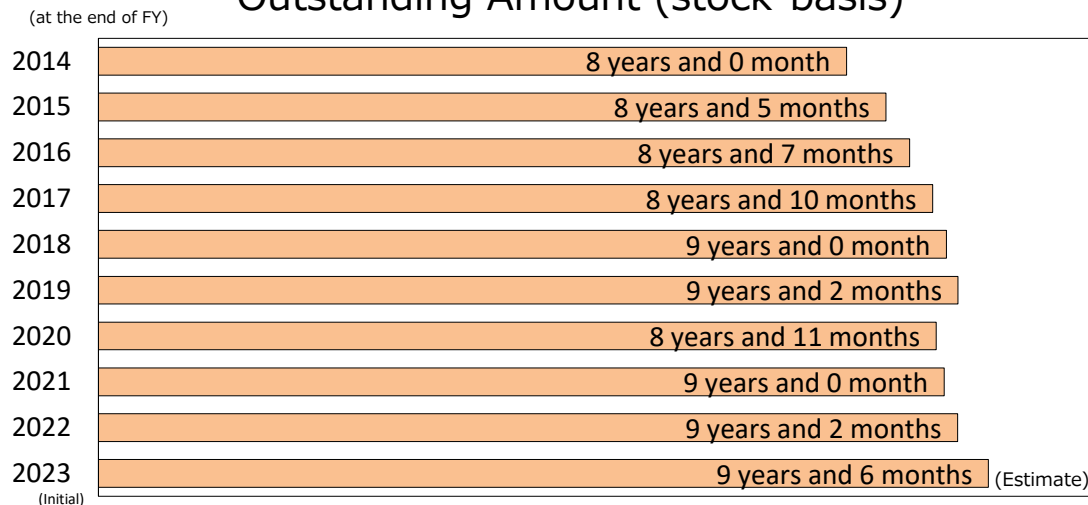
Average maturity of outstanding JGB stands at 9 years and 6 months, which is longer than that of other countries such as France, Germany, and U.S.

Market Issuance (flow-basis)



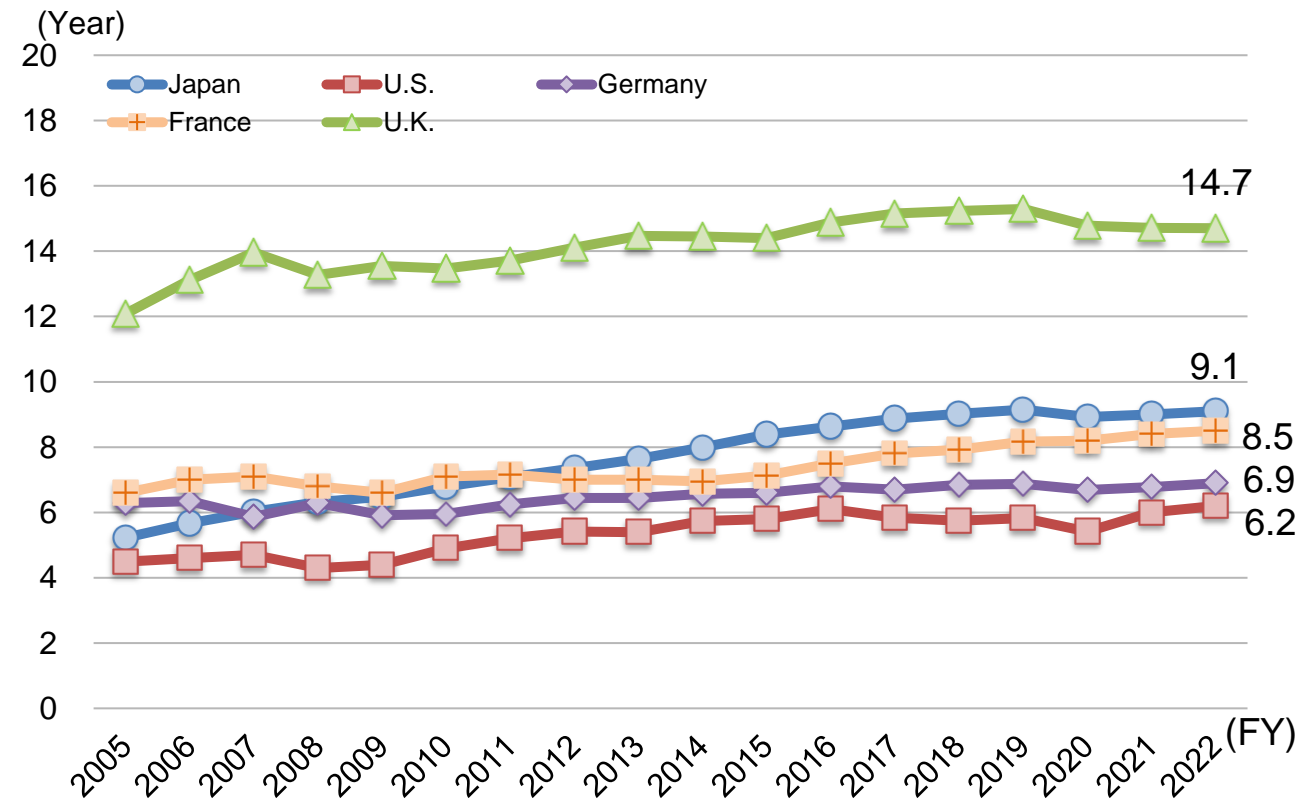
(Note) Up to FY2022: Actual

Outstanding Amount (stock-basis)



(Note) Outstanding amount of general bonds. Up to FY2022: Actual

Average maturity -International Comparison-



(Source) OECD, Relevant countries' debt management authorities

(Note1) Data for Japan represent the average weighted maturity of outstanding General Bonds including Treasury Bills and excluding Financing Bills.

Data for other countries include short-term (one-year and shorter) bills. However, data for U.K. excludes short-term bills for cash management purposes.

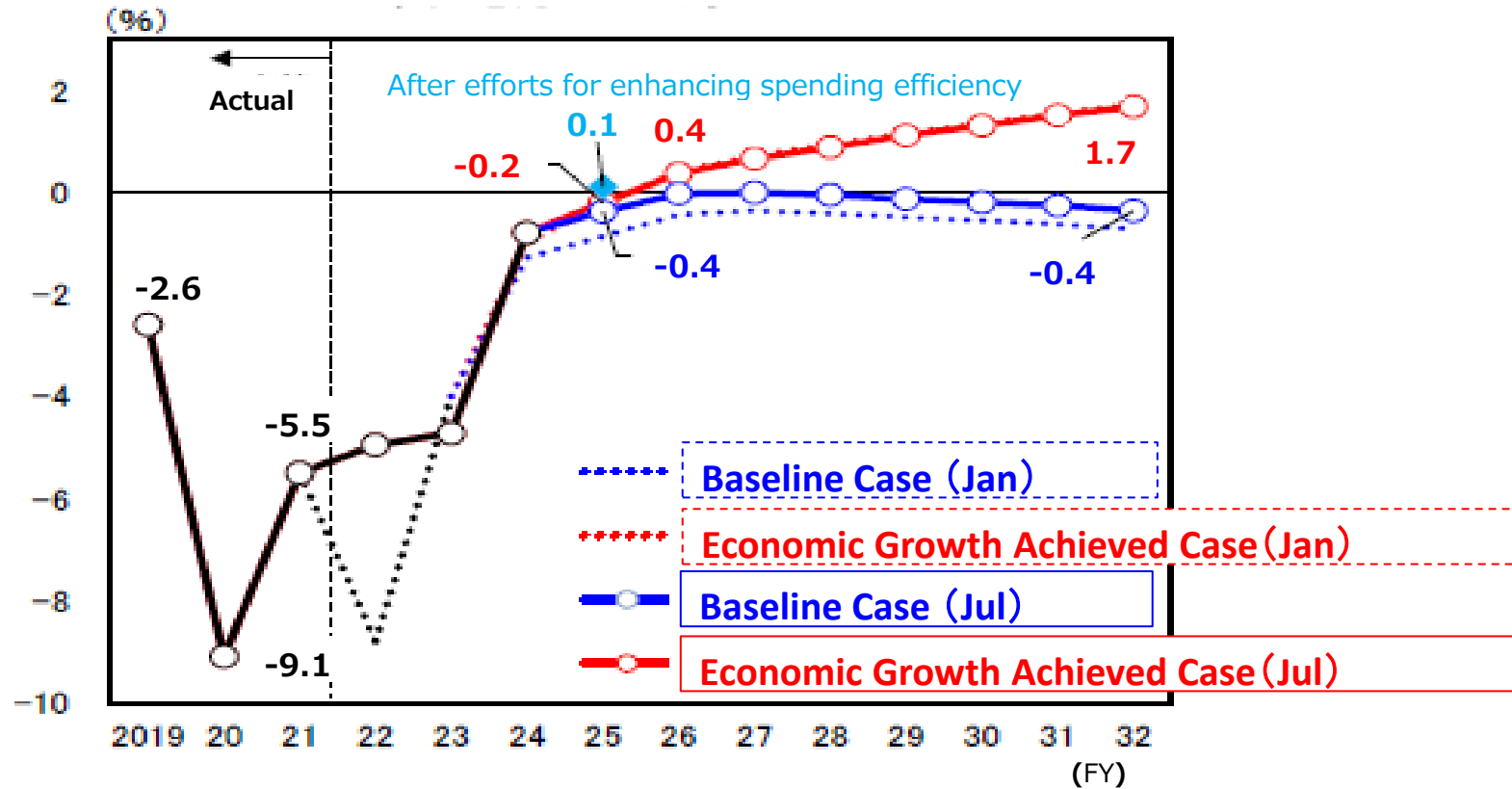
(Note2) Data are calculated on a stock basis. Non-marketable bonds are excluded.

(Note3) Data for each year are as of March next year for Japan alone and as of December for other countries.

Economic and Fiscal Projections for Medium to Long Term Analysis

(Cabinet Office, July 2023)

When Japanese economy achieves around 3% of nominal growth in the long term, it is estimated that the budget-balancing target in FY 2025, if combined with further spending cut measures.



- In the Economic Growth Achieved Case, without the expenditure reforms, the primary deficit is projected to be around 0.2% in FY2025, and turn to surplus in FY2026.
- If spending were to be streamlined based on the Basic Policy under this growth scenario, primary surplus will be achieved in FY2025.

(Source) Cabinet Office

(Note1) Including the effects of measures to "the defense buildup packages", "Five-Year Acceleration Plan for Disaster Prevention, Disaster Mitigation, and Building National Resilience"(up to FY2025 execution) and excluding the effect of "the Children's Future Strategy Policy".

(Note2) Excluding the expenditures and the fiscal resources for the recovery and reconstructions measures.

Concept of Pro-growth Carbon Pricing

- In order to achieve carbon neutrality by 2050 while strengthening industrial competitiveness and realizing economic growth, the Government of Japan aims for more than 150 trillion yen of public and private investment for 10 years starting from this year.
- To promote the GX investment above, "Pro-Growth Carbon Pricing Concept" will be embodied and implemented.
 - ① **Government support for bold upfront investment by issuing new government bonds***
 - * **20 trillion yen will be issued from FY2023-2032**
 - ② Introduction of carbon pricing to give incentives for GX investment
 - (1) Full-scale operation of emissions trading system in high emission industries [**from FY2026**].
 - + Allowance auctioning to be phased in gradually to power generation companies [**from FY2033**]
 - (2) Introduction of a GX-Surcharge on fossil fuel supply [**from FY2028**]
 - ③ Strengthen financial support through public-private partnership

