

Minutes of the 24th Round of the "Bond Market Group" Meetings

1. Outline

(1) Date	Commercial banks group	May 21 at 3:45 pm
	Securities firms group	May 21 at 5:30 pm
	Buy-side group	May 22 at 4:00 pm

(2) Place The Head Office of the Bank of Japan

(3) Participants

- Persons in charge of bond market issues in financial institutions including those who participate in the "Bond Market Survey"
- Director-General of the Financial Markets Department, Head of Coordination and Market Analysis Division, Head of Market Operations Division, Head of Market Infrastructure Division

2. Introduction by the Bank of Japan

- The Bank explained to each group (1) recent developments in the financial markets and market operations, (2) liquidity in the JGB market, and (3) the results of the "Bond Market Survey," and presented (4) participants' views collected before the meeting.

3. Views provided by participants

- The Bank asked participants their views on (1) recent trends in and the functioning of the JGB market given the reduction of the Bank's purchase amount of JGBs and the operation of the Securities Lending Facility (SLF) thus far, (2) the current plan for the reduction, (3) the Bank's JGB purchases from April 2027, and (4) other related issues. Views provided by participants, including those collected prior to the meeting, are as follows.

Recent trends in the Japanese government bond market

- Interest rates have risen across the yield curve since March, with expectations of continued policy rate hikes by the Bank being factored into the market, as well as concerns over uncertainties surrounding developments in economic activity and prices at home and abroad. This situation is attributable to growing inflation concerns driven by higher crude oil prices, reflecting increased tension over the situation in the Middle East.
- Interest rates -- particularly in the long- and super-long-term zones -- rose at a fast pace in mid-May, amid the continued impact of the situation in the Middle East, combined with factors such as global interest rate increases and speculation over future monetary and fiscal policies.
- In the short- to medium-term zone, supply and demand conditions have remained stable, as continued demand from investors, such as domestic banks, has been observed.
- In the long-term zone, supply and demand conditions have eased compared with a while ago, due to factors such as an increase in the amount of JGBs available in the market and domestic investors' cautious investment stance, reflecting their expectations of further interest rate increases.
- In the super-long-term zone, supply and demand conditions have shown some improvement, reflecting factors such as the successive reductions in JGB issuance since the previous fiscal year and the change in maturity segments in the liquidity enhancement auctions. However, supply and demand conditions have remained prone to instability amid weak demand from domestic investors.

Functioning of the Japanese government bond market

- As the Bank's purchase amount of JGBs has been reduced in a gradual and predictable manner, the reduction has not caused any market disruptions or increases in volatility and has therefore been implemented smoothly.
- The liquidity and functioning of the market have been on an improving trend, driven by an increase in the amount of JGBs available in the market owing to the reduction in the Bank's purchases. Interest rates are moving more freely in the market -- as seen in, for example, the fast pace of interest rate increases in mid-May -- reflecting views on economic and financial conditions.

- The reduction in the Bank's JGB purchases and the series of measures concerning the SLF have contributed to an easing of tight supply and demand conditions, particularly for the cheapest-to-deliver (CTD) issues.
- In the medium- to long-term zone, while the market's price discovery function has been improving moderately as the Bank proceeds with the reduction in its JGB purchases, the improvement in liquidity and market functioning remains incomplete, particularly for issues of which the Bank holds a significant share.
- In the super-long-term zone, market fluctuations have remained prone to amplification, partly due to low liquidity for the off-the-run issues and the growing presence of foreign investors.

The current plan for the reduction of the Bank's purchase amount of JGBs

- The Bank should continue with the current plan to ensure predictability and the stability of the JGB market.
- Given the scale of the reduction under the current plan, the resulting increase in the amount of JGBs available in the market can be absorbed without disruption. Therefore, there is no need to modify the current plan.
- It is undesirable for the Bank to slow the current pace of the reduction, as this could send a misleading signal such that the Bank is trying to curb the increase in long-term interest rates.
- Although accelerating the pace of the reduction could contribute to further improvement in market functioning and liquidity, such acceleration is undesirable as it would increase market volatility. Therefore, it is appropriate for the Bank to maintain the current plan.
- An early improvement in market functioning is unlikely under the current slow pace of the reduction, with the stock effects of the Bank's JGB holdings remaining. Thus, the Bank should accelerate the pace of the reduction to 400 billion yen per calendar quarter from July 2026.
- The fast pace of interest rate increases in mid-May could be partly attributed to concerns over supply and demand conditions, particularly in the long-term zone. Should this situation persist, there may be room to consider revising the current plan.

The Bank's purchases of JGBs from April 2027

- The necessity for the Bank to further reduce its monthly purchases from 2.1 trillion yen is not high. This is because, with this level of JGB purchases, it is unlikely that interest rate formation in the market will be distorted. In addition, the level of purchases is roughly comparable to that observed before the introduction of the quantitative and qualitative monetary easing, and the Bank's JGB holdings will also decrease at a decent pace.
- Even with the Bank's JGB purchases of 2.1 trillion yen per month, the outstanding balance of current accounts at the Bank is expected to decline considerably over the medium to long term, which could put stress on the money markets. Therefore, further reduction in JGB purchases is unnecessary.
- It is appropriate for the Bank to maintain its monthly JGB purchases at 2.1 trillion yen, given supply and demand conditions of JGBs that could be affected by factors such as constraints related to interest rate risk in the banking book (IRRBB) and the narrowing loan-to-deposit gap at depository institutions.
- To supply currency aligned with economic growth, the Bank should continue with a certain scale of JGB purchases.
- The Bank should proceed with the reduction of its JGB purchases; however, considering its impact on supply and demand conditions of JGBs, it is appropriate for the Bank to slow the reduction pace to 100 billion yen per calendar quarter and aim at the level of the monthly purchase amount at about 1.7 trillion yen.
- The Bank should proceed with the reduction of its monthly purchases of JGBs, targeting around 1 to 2 trillion yen, the level before the Bank greatly increased the purchases.
- Given the role of the Bank's JGB purchases under the previous monetary policy framework came to an end, the Bank should maintain the pace of the reduction at 200 billion yen per calendar quarter and aim at the level of its monthly purchases at about 1.3 trillion yen, the level before the Global Financial Crisis, when the main operating target for money market operations was the uncollateralized overnight call rate.
- From the perspective of restoring market functioning, the Bank should continue reducing the amount of its monthly purchases all the way to zero, while

conducting regular reviews.

- The reduction pace of the Bank's JGB holdings is moderate, and its holdings relative to the outstanding amount remain higher than those of other major central banks. Given this situation, it is desirable for the Bank to continue reducing its purchases in order to improve market functioning soon.
- While continuing the reduction is important, the Bank should outline and communicate its views on the size of the balance sheet when considering the amount of its JGB purchases.
- In conducting JGB purchase operations, the Bank should ensure predictability and flexibility, by establishing regular opportunities to review developments in and the functioning of the JGB market.
- It is desirable for the Bank to proceed with the reduction in an autopilot manner toward a pre-announced level. Looking ahead, there is no need for the Bank to conduct periodic reviews of the plan, such as interim assessments.

Views on other related issues

(Views on the amount of the Bank's JGB purchases by maturity segment, approach to defining maturity segments, the purchase frequency, the conduct of nimble JGB purchase operations, and others)

- From the perspective of predictability, it is desirable for the Bank to continue prioritizing reduction in the purchases of zones where the share of its purchases in the issuance amount is high.
- In the super-long-term zone, supply and demand imbalances between on-the-run and off-the-run issues have caused distortions in the yield curve. In determining the amount of the Bank's monthly purchases for this zone, we would like the Bank to make a careful decision, including the option of slowing down or suspending the reduction in purchases.
- To mitigate the impact of the Bank's JGB purchases on the market while taking into account supply and demand conditions, primarily those in the super-long-term zone, the Bank should consider consolidating and/or revising the maturity segments, as well as the purchase frequency, in line with the reduction in the purchase amount.
- Adjusting supply and demand conditions in the JGB market is not the role of the

Bank in the first place. Therefore, giving special consideration to the conditions in the super-long-term zone is unnecessary as the Bank reduces its JGB purchases.

- When determining the amount of the Bank's JGB purchases by maturity segment, the Bank should take into account that the maturity composition of its JGB purchases affects the amount outstanding of its JGB holdings and the size of its balance sheet in the future.
- Regarding inflation-indexed bonds, the Bank's presence is significant in terms of both the share of its purchases in the issuance amount and the share of its holdings in the outstanding amount.
- When the JGB market becomes unstable, we would like the Bank to make nimble responses as necessary by, for example, conducting unscheduled purchases of JGBs.
- We would like the Bank to carefully examine the impact on the money markets with its balance sheet shrinking.

(Views on the operation of the SLF)

- As issues of which the Bank's holdings are small are becoming the CTD issues, the role of the series of measures regarding the SLF implemented thus far by the Bank is gradually diminishing.
- Given the current usage of the SLF and other factors, the phase for reviewing the series of relaxations of its terms and conditions may be approaching.
- Particularly in the medium- to long-term zone, there remain certain issues with tight supply and demand conditions due to the Bank's high share of holdings. Therefore, we would like the Bank to further enhance market liquidity through an additional increase in the upper limit on the reduction in its repurchase amount under the SLF.