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Market Operations in Fiscal 2024

Financial Markets Department

Bank of Japan

Table of Contents

I. Summary

Throughout fiscal 2024, with a view to achieving the price stability target of 2 percent in a sustainable and stable manner, the Bank of Japan conducted monetary policy, guiding the short-term interest rate as a primary policy tool. Specifically, the Bank decided to encourage the uncollateralized overnight call rate, which is the policy rate, to remain at around 0 to 0.1 percent as the guideline for market operations until the July Monetary Policy Meeting (MPM). Thereafter, it decided to encourage this rate to remain at around 0.25 percent at the July MPM and around 0.5 percent at the January 2025 MPM, respectively. Regarding the purchase amounts of Japanese government bonds (JGBs), the Bank decided at the July 2024 MPM on a plan to reduce the amount of its monthly outright purchases by about 400 billion yen each calendar quarter, in principle, so that it would be about 3 trillion yen in January-March 2026.

The following is a summary of developments in the money markets and the JGB market, as well as key points in the conduct of the Bank's operations under the aforementioned guidelines for market operations.

Money markets

In the money markets, the uncollateralized overnight call rate remained extremely stable at a level slightly below the interest rate on excess reserve balances at the Bank (the applicable interest rate for the Complementary Deposit Facility), as regional banks and other financial institutions eligible for the Complementary Deposit Facility continued to borrow funds actively in the uncollateralized call market. The general collateral (GC) repo rate continued to experience relatively large daily fluctuations for some time after the start of fiscal 2024. From the summer onward, as positive rates took hold, banks and other financial institutions borrowed cash more actively in the repo market through the effective use of their JGB holdings. Against this background, the rate was lifted and stabilized, thereby moving closer to the level of the interest rate on excess reserve balances.

Outright purchases of JGBs and developments in the JGB market

Outright purchases of JGBs were around 6 trillion yen per month until July 2024. Starting in August, the purchase amount was reduced by about 400 billion yen every quarter, in line with the reduction plan decided in July. As a result, JGB purchases for the January-March 2025 quarter totaled 13.5 trillion yen (4.5 trillion yen per month), the lowest level since the introduction of the quantitative and qualitative monetary easing (QQE) in the April-June 2013 quarter. Regarding the reduction in purchase amounts by maturity segment, the Bank prioritized reducing purchases of JGBs with residual maturities of up to 10 years. This approach was based on the Bank's basic stance of prioritizing reducing its purchases of segments where the shares of its purchases in the monthly issuance amount are high, from the standpoint of ensuring a certain degree of predictability.

As the reduction of JGB purchases proceeded, long-term interest rates began to move more freely in financial markets. (1) The Bank raised its policy rate to about 0.5 percent, and (2) market participants expected further increases in the policy rate given Japan's solid economic and price indicators; therefore, long-term interest rates increased markedly throughout fiscal 2024. By late March 2025, they temporarily reached 1.59 percent, the highest level since October 2008.

Outright purchases of CP and corporate bonds

In line with the policy decided at the March 2024 MPM to gradually reduce the amount of purchases of CP and corporate bonds and discontinue these purchases in about one year, the amount was gradually reduced until these purchases were discontinued after the January 2025 auction. Because the pace of the reductions was gradual, the impact of the discontinuation on the CP and corporate bond markets was minimal.

Other funds-supplying operations

For other funds-supplying operations, the loans disbursed through the Fund-Provisioning Measure to Stimulate Bank Lending were changed to a floating rate basis, providing eligible counterparties with a reasonable level of incentive to borrow funds under the measure, taking into account economic and financial conditions. As a result, starting in September 2024, financial institutions generally became less inclined to use this facility, and the outstanding balance of the facility began to decline. Conversely, the amount outstanding of the Funds-Supplying Operations to Support Financing for Climate Change Responses continued to grow. This occurred because the outstanding balance of investment and loans eligible for these operations continued to increase, and eligible counterparties maintained active use of the facility to raise stable funding at low fixed interest rates, given growing expectations for higher interest rates.

Securities Lending Facility

Meanwhile, the usage amount of the Securities Lending Facility declined overall, mainly due to the increased amount of outstanding JGBs in the market resulting from the aforementioned reduction in the Bank's JGB purchases. However, usage remained constant for a certain number of JGB issues. Under these circumstances, the Bank maintained its daily operation of offering all available Japanese government securities (JGSs) held by the Bank. Furthermore, for the cheapest-to-deliver issues of which the Bank holds a significant share, the Bank also worked to ease excessive tightening in the supply and demand conditions of these issues. For example, the Bank clarified its policy that it would accept counterparties' requests to reduce the amount of the cheapest-to-deliver issues repurchased by the Bank under the facility if the reduction was deemed to contribute to improving the liquidity of the JGB market.

Number of operations

Based on the above market operations, the number of operations conducted by the Bank in fiscal 2024 declined, mainly in the JGB purchases, to 879 (down from 1,340 in fiscal 2023). This figure was the second lowest level since fiscal 2013, following fiscal 2013, the year that the Bank introduced QQE.

The remainder of this report describes the Bank's market operations during fiscal 2024. First, Chapter II describes the developments in financial markets, such as money markets and JGB markets, and the conduct of each measure in market operations. Chapter III describes developments in current account balances at the Bank and the Bank's balance sheet. Chapter IV explains the major changes in the frameworks related to market operations and others during the year. Finally, Chapter V presents the Bank's actions to enhance dialogue with market participants.

II. Developments in the Financial Markets and the Conduct of Market Operations

A. Developments in the Money Markets

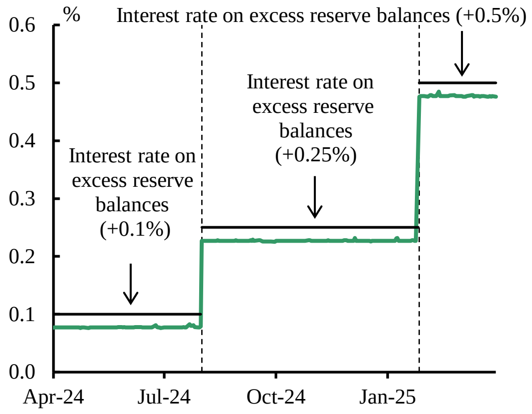
1. Developments in the Uncollateralized Call Market

Throughout fiscal 2024, the uncollateralized overnight call market remained characterized by active borrowing by regional banks and other eligible financial institutions for the Complementary Deposit Facility (the eligible counterparties). These eligible counterparties borrowed cash from investment trusts and other financial institutions that were not eligible for the Complementary Deposit Facility (the non-eligible counterparties) to engage in arbitrage between the interest rates applied to the Complementary Deposit Facility (the interest rate on excess reserve balances) and the uncollateralized call rate. As a result, the uncollateralized overnight call rate remained extremely stable at a level slightly below the interest rate on excess reserve balances (see Box 1 for details on the structure and developments of the uncollateralized call market under positive interest rates).

Looking at the detailed rate developments, when the policy interest rate was raised in July 2024 and January 2025, the uncollateralized call rate immediately increased by the amount of the rate hike on the day the new policy rate took effect. It was around 0.075-0.080 percent (vs. the interest rate on excess reserve balances of 0.1 percent) during April-July 2024, around 0.225-0.230 percent (vs. the interest rate on excess reserve balances of 0.25 percent) from August 2024 through January 24, 2025, and around 0.475-0.480 percent (vs. the interest rate on excess reserve balances of 0.5 percent) from January 27 through the end of fiscal 2024 (Chart 2-1).

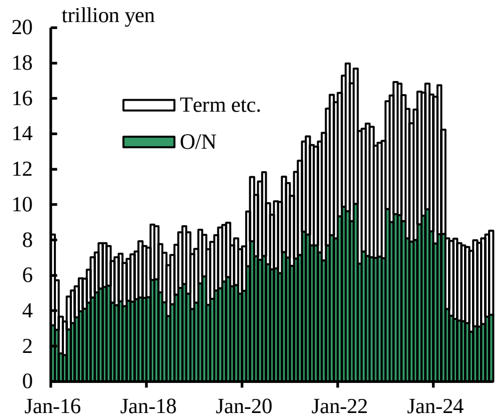
The amount outstanding in the uncollateralized call market (intermediated by *tanshi* companies [money market brokers]) declined sharply immediately after the termination of the negative interest rate policy, mainly due to the following two reasons (Chart 2-2). First, the interest rate on excess reserve balances was applied to the entire amount of the excess reserve balances in the current account at the Bank. In this context, in contrast to under the negative interest rate policy, which adopted a three-tier system, banks and other financial institutions ceased lending funds for the purpose of reducing their policy-rate balances, resulting in a significant decrease in transactions among eligible counterparties. Second, some financial institutions shifted from trading through *tanshi* companies to direct dealing. That said, the shift toward direct dealing broadly peaked by around April 2024; from May onward, trading volume in the uncollateralized overnight call market (intermediated by *tanshi* companies) remained stable at around 3 to 4 trillion yen.

Chart 2-1: Uncollateralized Overnight Call Rate



Note: Weighted average. The vertical lines represent the dates when the new interest rates on excess reserve balances took effect.

Chart 2-2: Amounts Outstanding in the Uncollateralized Call Market



Note: Transactions intermediated by *tanshi* companies. Monthly average. Overnight transactions delivered one or more business days after the trade date, such as T/N and S/N, are counted as "O/N" until December 2016 and as "Term etc." afterward.

2. Developments in the Collateralized Call Market

In the collateralized call market, trading volume declined sharply under the negative interest rate policy because trust banks (the major lenders of funds) were restricted from lending their entrusted funds at negative interest rates.[1] However, after the negative interest rate policy was terminated, the collateralized call rate recovered to positive territory, and some investment trusts resumed transactions. Under these circumstances, the outstanding balances rose moderately in fiscal 2024 (Chart 2-3).

Collateralized call transactions are classified into direct transactions (transactions between financial institutions and *tanshi* companies) and brokered transactions (transactions intermediated by *tanshi* companies). Looking at direct transactions, which comprise the majority of collateralized call transactions, on the cash lending side, investment trusts in particular gradually resumed lending funds, as the collateralized call rate remained in positive territory and market conditions permitted them to earn a certain profit from the transactions. Moreover, *tanshi* companies on the cash borrowing side engaged in transactions of lending funds they raised in the collateralized call market at a higher rate in the GC repo market.

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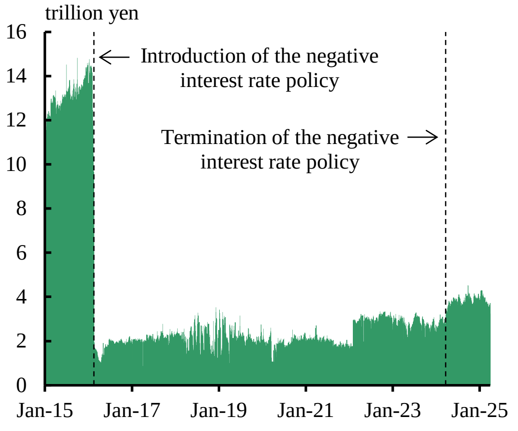
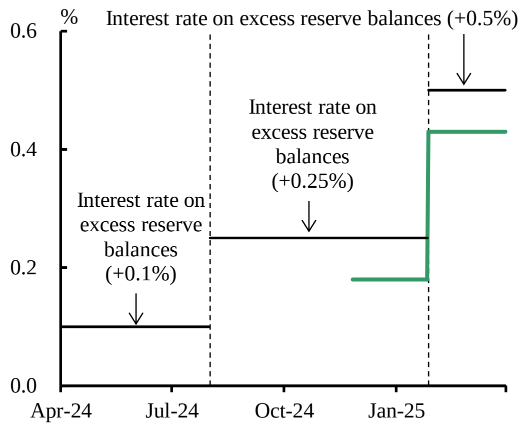
1 For details, see Financial Markets Department, Bank of Japan (2016), *Money Market Operations in Fiscal 2015*, in Box 4.

Chart 2-3: Amounts Outstanding in the Collateralized Call Market



Note: Figures are the sum of overnight and term transactions through brokered and direct transactions.

Chart 2-4: Collateralized Overnight Call Rate



Note: Figures are weighted averages of overnight contracted rates for brokered transactions. The vertical lines indicate the dates when the new interest rates on excess reserve balances took effect.

In addition, brokered transactions, which had not been conducted for as long as nearly eight years and seven months under the negative interest rate policy, also resumed in November 2024 for the first time. The collateralized overnight call rate was also resumed to be published (Chart 2-4). Subsequently, transactions were conducted at rates somewhat below the interest rate on excess reserve balances, while the volume remained small, ranging from around 40 billion to 130 billion yen per day.

Thus, as positive interest rates took hold, the amount outstanding of transactions in the collateralized call market increased somewhat; however, the pace of recovery in fiscal 2024 remained modest because (1) during the period of the negative interest rate policy, city banks and other financial institutions had shifted from collateralized call market transactions to repo transactions. Additionally, (2) the lending of surplus funds by trust banks, which were the primary cash lenders before the introduction of the negative interest rate policy, did not increase very much.

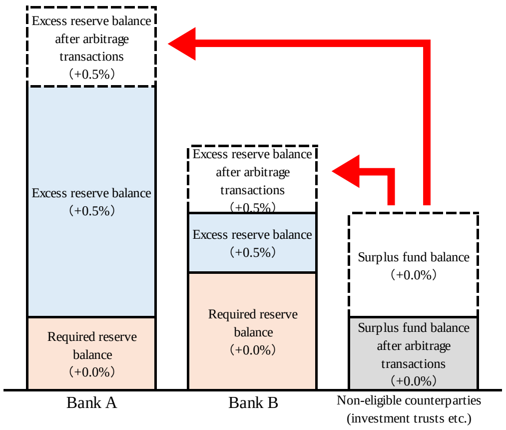
Box 1: Structure and Developments of the Uncollateralized Call Market under Positive Interest Rates

The uncollateralized overnight call rate (Tokyo Overnight Average Rate [TONA]) serves as the initial point of the yield curve, which means the starting point of the transmission channel for the effects of monetary policy. In recent years, it has also gained significance as a benchmark for interest rates. Given such a role of TONA, it is essential in the uncollateralized call market to (1) ensure a certain transaction volume through the participation of diverse entities and (2) enable stable rate formation. The following summarizes the structure and developments of the uncollateralized call market after the termination of the negative interest rate policy in March 2024.

When the Bank of Japan made changes in the monetary policy framework in March 2024, it set the uncollateralized overnight call rate as the policy rate. To achieve the guidance target for the uncollateralized call rate while excess reserves exist, as is the case with other central banks, such as those in the United States and European countries, arbitrage trading by financial institutions in the money markets plays a crucial role. Such arbitrage trading is induced by applying the interest rate on excess reserve balances to the entire amount of the excess reserve balances in the current account at the Bank. Specifically, financial institutions eligible to receive interest under the Complementary Deposit Facility (the eligible counterparties) have an incentive to borrow funds in the uncollateralized call market at a rate below the interest rate on excess reserve balances and park them in their current accounts at the Bank. Meanwhile, those not eligible to receive interest under the facility (the non-eligible counterparties) are incentivized to lend funds even at a rate below the interest rate on excess reserve balances. Consequently, transactions occur between eligible and non-eligible counterparties (Box Chart 1-1). On this point, while a certain number of non-eligible counterparties exist, such as investment trusts and insurance companies in Japan, the eligible counterparties consist of many financial institutions, including deposit-taking institutions, securities firms, and *tanshi* companies. In this situation, the level of interest on excess reserve balances becomes a de facto ceiling rate, and the uncollateralized overnight call rate (TONA) is anticipated to remain stable close to the interest rate on excess reserve balances.

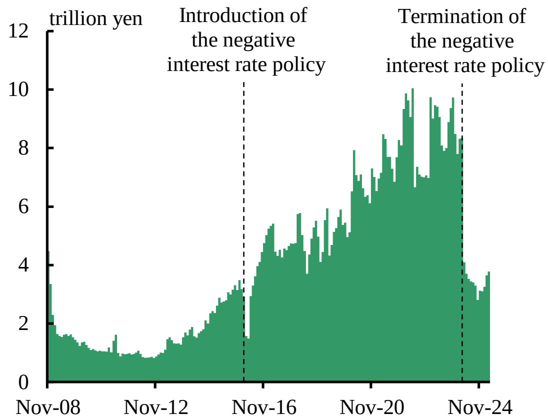
Looking back at how TONA has moved under positive interest rates, as pointed out earlier, it has remained extremely stable at a level slightly below the interest rate on excess reserve balances. Moreover, a shift from trading through *tanshi* companies to direct dealing occurred, immediately following the termination of the negative interest rate policy. As a result, the proportion of direct dealing transactions increased substantially in fiscal 2024 compared to the previous year. The rate for these direct dealing transactions refers to TONA, which is calculated and published based on transactions intermediated by *tanshi* companies. In the survey conducted by the Bank in August 2024 (the Tokyo Money Market Survey),[2] no significant differences were observed between TONA and the rate on the whole of overnight transactions, including direct dealing transactions, suggesting that TONA reflects market conditions.

Box Chart 1-1: Structure of the Uncollateralized Overnight Call Market



Note: The chart shows the case when the interest rate on excess reserve balances is +0.5 percent.

Box Chart 1-2: Amounts Outstanding in the Uncollateralized Overnight Call Market



Note: Transactions intermediated by *tanshi* companies. Monthly average. Figures up to December 2016 include overnight transactions delivered one or more business days after the trade date, such as T/N and S/N.

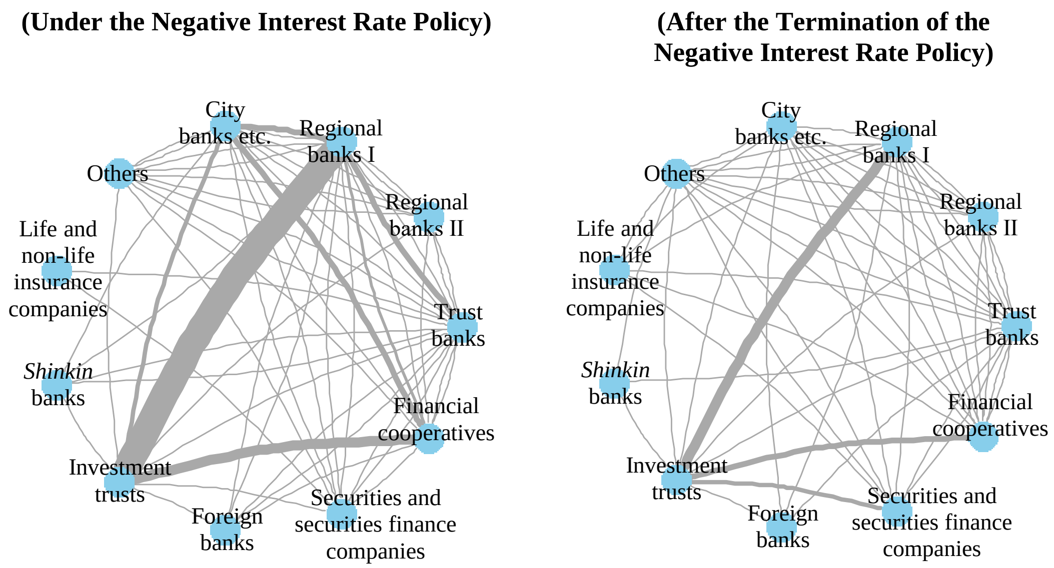
Next, regarding the scale of uncollateralized overnight call transactions (intermediated by *tanshi* companies), as noted earlier, daily transaction volumes remained at around 3 to 4 trillion yen during fiscal 2024, representing a significant decline from immediately before the termination of the negative interest rate policy. Under the three-tier system of current accounts at the Bank during the negative interest rate policy, the amount outstanding in the uncollateralized call market increased significantly. This increase was partly due to the effects of the Bank's measure, which added twice the amount outstanding of funds that counterparties receive under certain funds-supplying operations to their upper limit on the macro add-on balances, to which an interest rate of zero percent was applied. However, over a somewhat longer term, the transaction volumes of around 3 to 4 trillion yen in fiscal 2024 were almost

[2] See Financial Markets Department, Bank of Japan (2024), "Trends in the Money Market in Japan: Results of the Tokyo Money Market Survey (August 2024)."

the same as they were during the latter half of the period when the interest rate on excess reserve balances was applied to the entire amount of excess reserve balances (November 2008 through January 2016) as is the case at present. Therefore, it can be assessed that a fair volume was traded (Box Chart 1-2).[3]

Meanwhile, looking at entities in the uncollateralized call market, on the cash borrowing side, financial institutions from a broad range of sectors, including regional banks, financial cooperatives, and securities firms, continued to borrow funds. Under the three-tier system during the negative interest rate policy, the type of market participants was broadened. For instance, many regional banks that had not been active in the uncollateralized call market began transacting. As this transaction network is primarily maintained under a state of positive interest rates (Box Chart 1-3), it can be considered to exert a hysteresis effect as a

Box Chart 1-3: Networks of Uncollateralized Overnight Call Transactions



Note: Figures are based on transaction data by sector from "Statistics on Call Money Market." The width of the lines represents the relative size of transactions between sectors. The lines in the left-hand chart represent the daily average transaction volume from April 1, 2023, to March 20, 2024, under the negative interest rate policy, while those in the right-hand chart represent the daily average transaction volume from March 21, 2024, to March 31, 2025, after the termination of the negative interest rate policy.

foundation underpinning smooth market transactions.[4] Regarding the cash lending side, investment trusts remained the primary market participants among non-eligible

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[3] Considering the shift toward direct dealing after the termination of the negative interest rate policy, the transaction volume, including direct dealing in the uncollateralized overnight call market as of the end of July 2024, was slightly under 30 trillion yen. This total was only slightly lower than that of a year earlier, according to the results of the aforementioned Tokyo Money Market Survey.

[4] For details on the expansion of transaction networks under the negative interest rate policy, see Financial Markets Department, Bank of Japan (2024), "Developments in the Japanese Money Markets and Their Functioning with Excess Reserves."

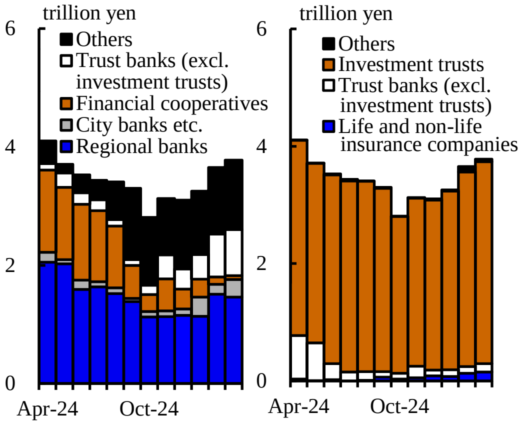
counterparties, but some new developments were observed toward the latter half of fiscal 2024. For example, some insurance companies resumed money market transactions and increased cash lending in the uncollateralized call market (Box Chart 1-4).

As discussed above, with positive interest rates taking hold, the market functioning of uncollateralized overnight call transactions intermediated by *tanshi* companies was firmly maintained, and TONA, which is calculated based on these transactions, appears to continue accurately indicating the level of prevailing market interest rates.

Given this situation, derivatives (e.g., swaps and futures) referencing TONA were actively traded, reflecting rising demand for hedging the risk of future interest rate increases. In fact, during fiscal 2024, the volume of yen overnight indexed swap (OIS) transactions (the amount of obligation assumed by the Japan Securities Clearing Corporation) followed an increasing trend, exceeding a milestone of 1,000 trillion yen in December 2024. The month-end amount outstanding of TONA 3-month interest rate futures contracts also rose significantly in fiscal 2024, reaching its highest level in February 2025 since its listing in 2023 (Box Chart 1-5).

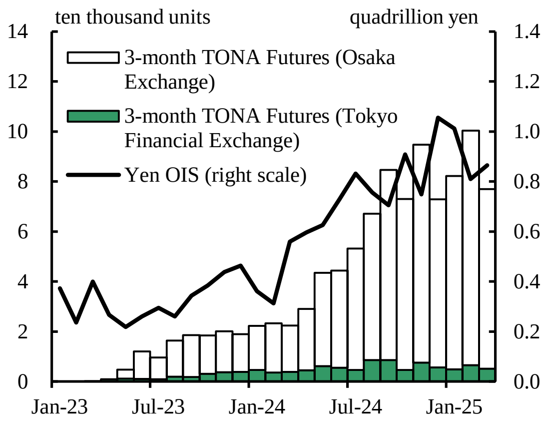
Box Chart 1-4: Amounts Outstanding in the Uncollateralized Overnight Call Market by Sector

(Cash Borrowing Side) (Cash Lending Side)



Note: Monthly average.

Box Chart 1-5: Amounts of Derivatives Contracts Referencing TONA

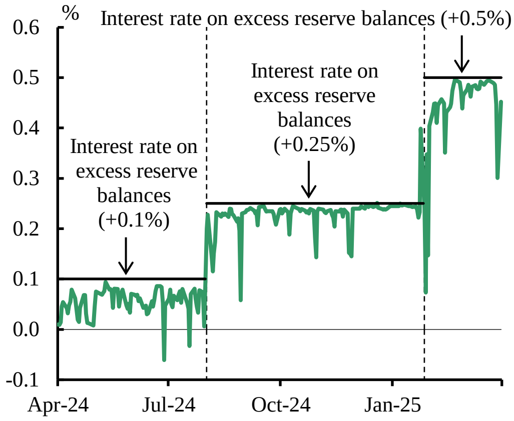


Note: Figures for "Yen OIS" represent the amount of obligation assumed by the Japan Securities Clearing Corporation. Figures for "3-month TONA Futures" are the amounts outstanding as of the end of each month.

3. Developments in the GC Repo Market

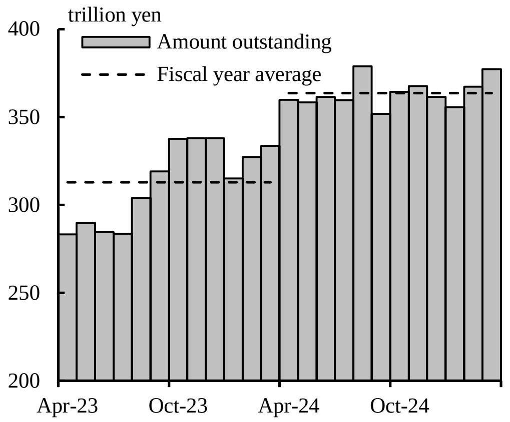
The GC tomorrow-next repo rate rose in tandem with the increase in the policy interest rate, and albeit with some fluctuations, it generally remained slightly below the interest rate on excess reserve balances (Chart 2-5).

Chart 2-5: GC Repo Rate



Note: The Tokyo Repo Rate (T/N). The vertical lines indicate the dates when the new interest rates on excess reserve balances took effect.

Chart 2-6: Amounts Outstanding in the Repo Market



Note: Figures are the sum of securities lending with cash collateral and securities sales with repurchase agreements.

Looking at the details, from April 2024, the GC repo rate increased from its level of minus 0.1 percent under the negative interest rate policy. However, due to collateral constraints for banks and other cash borrowers, its daily fluctuations remained relatively large, depending on factors such as the degree of demand from securities firms for inventory funding. In particular, the rate declined slightly more largely at month-end, when the supply and demand of bonds and bills tend to tighten, and even fell below 0 percent, especially at the end of June 2024.

From the summer onward, when the policy rate rose to plus 0.25 percent, temporary fluctuations in the repo rate continued to be observed primarily at month-end; however, the repo rate rose somewhat and stabilized, moving closer to the interest rate on excess reserve balances. This situation occurred mainly because banks and other financial institutions borrowed cash more actively in the repo market by effectively utilizing their JGB holdings, as positive interest rates took hold (see Box 2 for the structure of the GC repo market and the characteristics of rate formation under positive interest rates).

Moreover, immediately following the January 2025 MPM, the GC repo rate temporarily experienced a significant decline. Amid rising expectations of a policy rate hike ahead of the meeting, repo transactions spanning the meeting period were held back, and the maturity of term repo transactions were concentrated on the day right after the meeting (January 27), resulting in insufficient rollover of these transactions and a temporary tightening of supply-demand conditions for a wide range of JGB issues. These tightened conditions affected that development in the GC repo rate. However, this situation was resolved in about one week as term transactions recovered.[5]

The amount outstanding in the repo market exceeded the level of fiscal 2023 (Chart 2-6). In addition to the aforementioned more active cash borrowing, particularly by banks, market participants' views about interest rates were more likely to converge as the GC repo rate stabilized. This situation is considered to have increased activity in the overall repo market, including arbitrage trading between the GC repo market and the SC repo market.

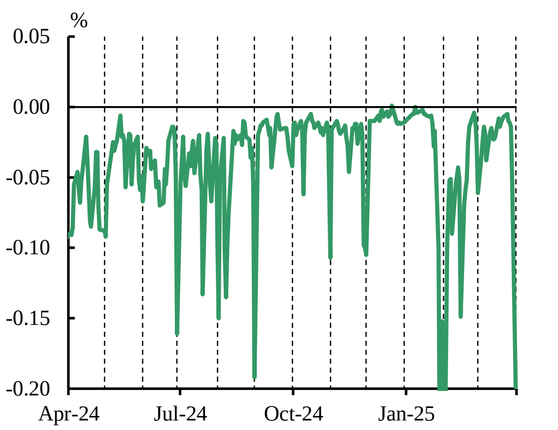
[5] In response to the tightened supply and demand conditions of JGBs in the repo market, the Bank announced measures to temporarily raise the upper limit on the number of JGS issues allowed for bidding in the Securities Lending Facility on January 24. For details, see section D, subsection 2 (Securities Lending Facility).

Box 2: Structure of the GC Repo Market and the Characteristics of Rate Formation under Positive Interest Rates

Following the termination of the negative interest rate policy in March 2024, the GC tomorrow-next repo rate deviated somewhat significantly from the interest rate on excess reserve balances for a while, and its daily volatility was also noticeable. From the summer of 2024 onward, the rate rose to a level close to that of excess reserve balances, and daily volatility diminished (Box Chart 2-1). The following summarizes the GC repo market's structure and the characteristics of rate formation under positive interest rates.

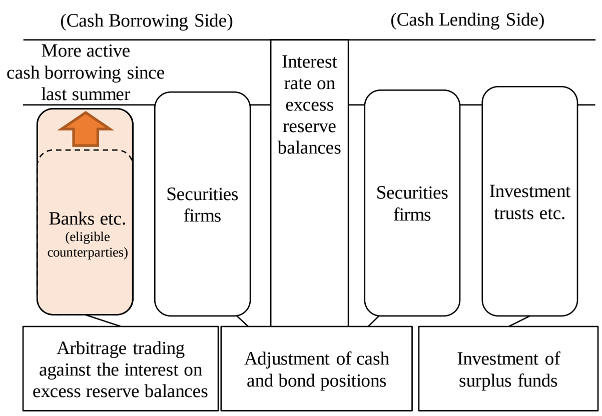
Participants in the GC repo market during positive interest rates comprise (1) those on the cash borrowing side, including securities firms that need inventory funding (to borrow funds using their inventories of bonds as collateral) and banks and other financial institutions that are arbitraging between the repo rate and the interest rates on excess reserve balances. They also include (2) participants on the cash lending side, including securities firms that need to borrow securities as well as investment trusts and other financial institutions that want to invest their surplus funds (Box Chart 2-2). On this point, because the securities firms' daily positions significantly fluctuate in response to changes in their JGS inventory levels stemming from JGS issuance and redemption, as well as outright purchases of JGBs by the Bank, the supply and demand for bonds (i.e., the supply and demand for funds) in the repo markets are easily altered. Under such circumstances, for some time after the termination of the negative interest rate policy, the amount of fund borrowing (bond lending) by banks and others was not always large due to their collateral constraints. Therefore, daily fluctuations

Box Chart 2-1: Spread between the GC Repo Rate and the Interest Rate on Excess Reserve Balances



Note: The GC repo rate is based on the Tokyo Repo Rate (T/N, starting date basis). The vertical lines represent the end of each month.

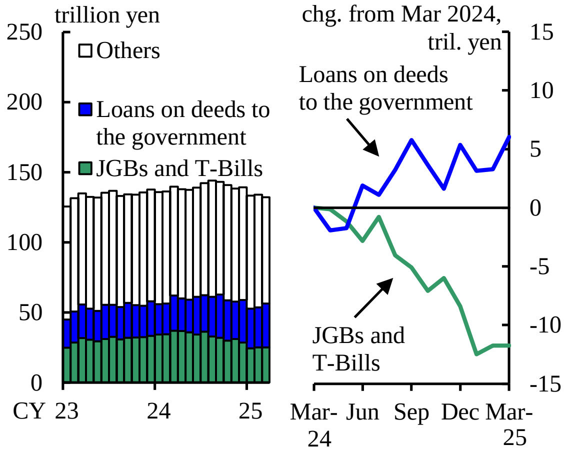
Box Chart 2-2: Structure of the GC Repo Market



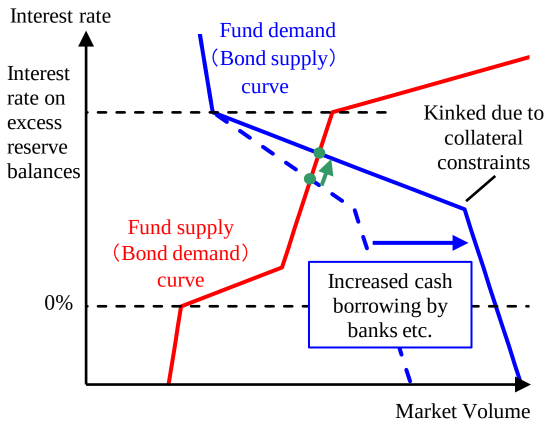
in the repo rate were noticeable, as the repo rate diverged from the interest rate on excess reserve balances, primarily at times of lower demand for inventory funding by securities firms.

However, starting in summer 2024, the effect of daily fluctuations in securities firms' supply and demand for bonds (i.e., supply and demand for funds) on rate formation began to diminish. This trend occurred because banks and others became actively bidding on loans on deeds to the government, with positive interest rates gradually taking hold, and funded such activity by borrowing cash in the repo market, effectively using the JGSs they already held. In this context, the repo rate rose almost to the level of the interest rate on excess reserve balances, and its daily volatility declined. Regarding the banks' effective use of JGSs, the composition of the collateral accepted by the Bank shows that financial institutions withdrew JGSs while pledging loans on deeds instead from mid-2024, and those JGSs seem to have been used for cash borrowing in the repo market (Box Chart 2-3). Additionally, around 9 trillion yen of 2-year term loans that the Bank provided in January 2023 under the Funds-Supplying Operations against Pooled Collateral matured in January 2025. Accordingly, collateral constraints on financial institutions were slightly eased, which also likely contributed to stabilizing the GC repo market.

Box Chart 2-3: Amounts Outstanding of Collateral Accepted by the Bank



Box Chart 2-4: Conceptual Demand and Supply Curves in the GC Repo Market



These increases in the GC repo rate level can be conceptualized through the relationship between the demand curve for funds (the supply curve of bonds) and the supply curve for funds (the demand curve for bonds) in the repo market. In other words, as shown in Box Chart 2-4, the demand curve of funds (the supply curve of bonds) in the repo market is kinked and sloped downward to the right when considering collateral constraints on banks and other financial institutions. From the summer of 2024, the demand curve for funds (the supply curve of bonds) shifted to the right due to increased cash borrowing by banks and other financial institutions, aimed at effectively utilizing their JGS holdings. As a result, the repo rate increased, as indicated by the shift to the upper right of the intersection of the demand and supply curves for funds (the supply and demand curves for bonds).

Therefore, with positive interest rates taking hold, the GC repo rate increased and gradually stabilized; however, partly because the amount outstanding of the Bank's JGB holdings remains high, the number of financial institutions that can actively borrow funds (lend bonds) in the Japanese repo market continues to be limited. The degree of concentration of transactions among cash borrowers in the repo market was in fact still high in fiscal 2024 (Box Chart 2-5). Given this situation, even in the second half of fiscal 2024, when the repo rate stabilized at a level close to the interest rate on excess reserve balances, the repo rate temporarily saw a steep decline (Box Chart 2-1), as some financial institutions with a significant presence as cash borrowers (bond lenders) needed to restrain borrowing funds for their month-end balance sheet adjustments or other reasons.

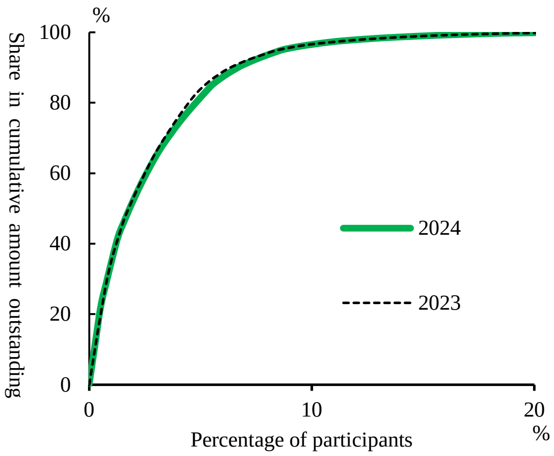
Looking ahead, attention should be given to whether the GC repo rate will further stabilize as (1) further reductions in the Bank's JGB purchases will lead to a gradual easing of the supply and demand for bonds. Moreover, (2) collateral constraints on financial institutions are expected to be gradually alleviated with the termination of new loan disbursements under the Fund-Provisioning Measure to Stimulate Bank Lending (the outstanding balance was 73 trillion yen as of the end of March 2025).

Meanwhile, looking at the case of the United States where the reduction in the size of the central bank's balance sheet has been preceded, the repo rate (the Secured Overnight Financing Rate [SOFR]) was lower than the interest rate for the Overnight Reverse Repo Facility (ON RRP) until around 2022, partly because of the tight supply and demand of bonds.[6] Thereafter, as the supply and demand conditions of bonds eased and the central bank reduced its supply of funds, the repo rate moved slightly higher than that for the ON RRP, and the upward deviation from the rate for the ON RRP was also expanded somewhat (Box Chart 2-6). In Japan, since excess reserve balances are still extremely large, eligible

[6] The ON RRP is a facility for a broad range of financial institutions, including non-eligible counterparties, in which the U.S. Federal Reserve System absorbs funds against collateral (financial institutions lend funds). When the repo rate is lower than the facility's interest rate, money market funds and other cash lenders opt to use this facility, losing incentives to lend funds in the repo market; thus, a soft floor for the repo rate is formed.

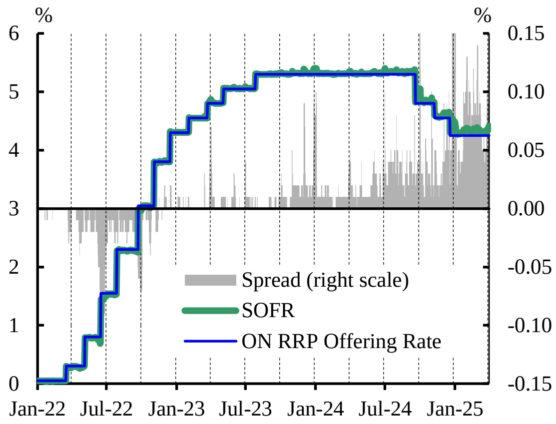
counterparties, such as banks, increase their cash lending when the GC repo rate exceeds the interest rate on excess reserve balances; the GC repo rate has thus never clearly exceeded the level of the interest rate on excess reserve balances. Nevertheless, from a medium- to long-term perspective, close monitoring is warranted on how a decline in excess reserve balances will affect the repo rate.

Box Chart 2-5: Degree of Concentration in the GC Repo Market



Note: Figures are for the cash borrowing side as of the end of every July.

Box Chart 2-6: Spread between SOFR and ON RRP Rate in the United States

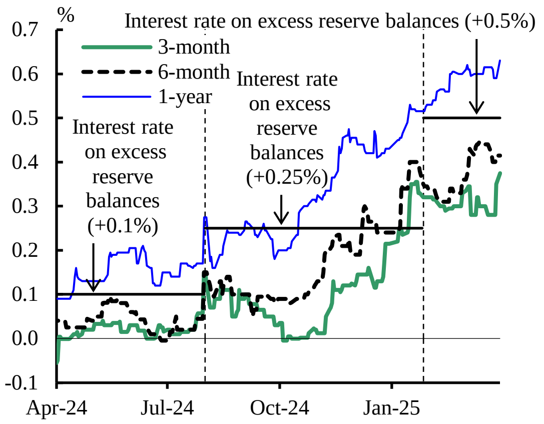


Note: The vertical lines represent the end of the quarter. "Spread" is SOFR minus the ON RRP rate.

B. Developments in the T-Bill Market and Outright Purchases of T-Bills

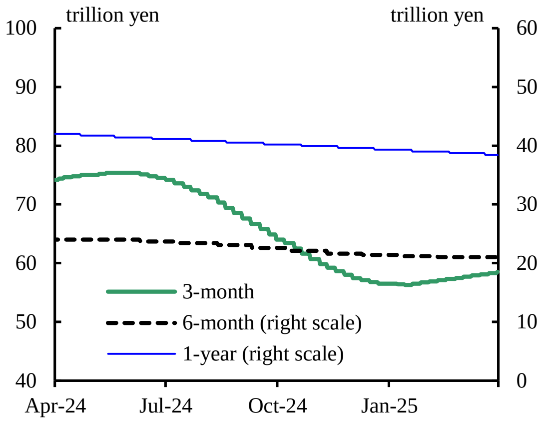
In fiscal 2024, yields on 3-month T-Bills rose in response to the increase in the policy rate; however, they mostly stayed below the level of the interest rate on excess reserve balances due to a decline in the amount outstanding and strong demand from a wide range of investors in Japan and overseas (Chart 2-7).

Chart 2-7: Yields on T-Bills



Note: The vertical lines indicate the dates when the new interest rates on excess reserve balances took effect.

Chart 2-8: Amounts Outstanding of T-Bills by Maturity Period



Looking at the detailed developments from April 2024 onward, yields on 3-month T-Bills remained somewhat below the level of the interest rate on excess reserve balances. This situation was attributed to (1) investment demand from overseas investors using FX swaps (i.e., U.S. dollar-yen conversion) owing to the existence of the U.S. dollar funding premium, (2) strong collateral demand from banks and other financial institutions, and (3) investment demand from non-eligible counterparties in Japan such as investment trusts[7] as positive interest rates took hold. In particular, the amount outstanding of 3-month T-Bills declined through October due to foreign exchange interventions in the first half of fiscal 2024 (Chart 2-8), and demand from overseas investors increased further, driven by a year-end seasonal decline in the FX swap-implied yen rate from the U.S. dollar. This situation caused a significant drop in yields on 3-month T-Bills to around 0 percent. Thereafter, the yields temporarily rose above the interest rate on excess reserve balances until mid-January 2025 due to a brief pause in overseas investors' demand with the dissipation of the year-end factor and to increasing speculation on the policy rate hike to 0.5 percent at the January MPM.

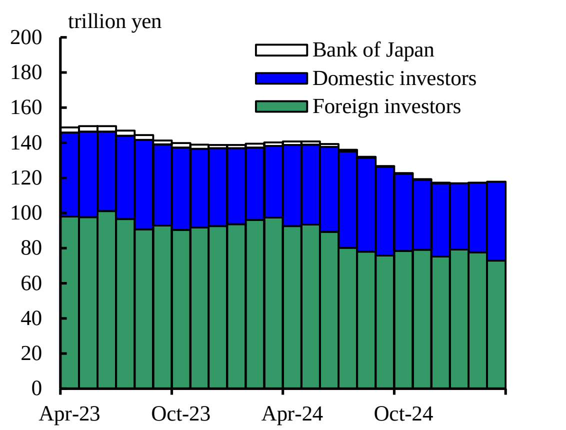
[7] Money reserve funds and some other investment trusts are required to include a certain amount of T-Bills in the assets they manage, following the regulations.

Following the rate hike to 0.5 percent, however, the yields dropped back down below the interest rate on excess reserve balances, remaining around 0.3 percent, on the back of firmness in collateral demand from banks and other financial institutions, as well as investment demand from non-eligible counterparties.

Yields on 6-month T-Bills moved largely in tandem with those of 3-month T-Bills and remained below the interest rate on excess reserve balances through almost the entire fiscal year, mainly due to strong collateral demand from banks and other financial institutions. Yields on 1-year T-Bills were generally higher than the interest rate on excess reserve balances, because their collateral and investment demand was not as substantial as that for 3-month and 6-month T-Bills.

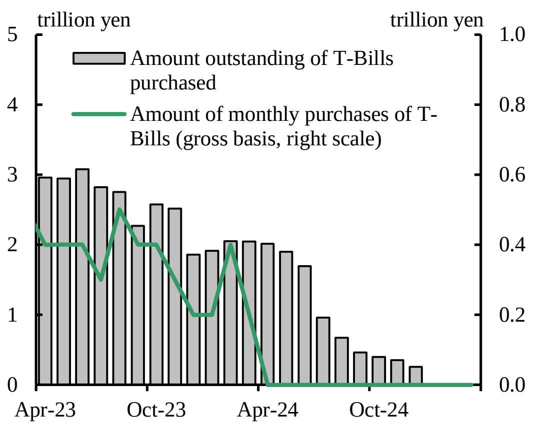
Looking at the amount outstanding of T-Bill holdings by entity, the share of holdings by domestic investors increased for a while after the termination of the negative interest rate policy in March 2024, due to the impact of the aforementioned resumption of investments by non-eligible counterparties. Conversely, from early autumn until the end of the year, the share of holdings by overseas investors increased due to the aforementioned year-end factor. The amount outstanding held by the Bank decreased with redemptions and reached zero in January 2025, as the Bank made no outright purchases of T-Bills amid sustained favorable supply-demand conditions (Charts 2-9 and 2-10).

Chart 2-9: Amounts Outstanding of T-Bill Holdings by Entity



Note: Figures exclude T-Bills held by the government and the Fiscal Loan Fund, as well as those underwritten by the Bank. Figures for the amount outstanding of foreign investors' T-Bill holdings are estimated by adding monthly net investment flows to the quarterly gross external debts (general government/short-term debt securities). Figures for domestic investors are calculated by deducting the amounts outstanding of T-Bills held by the Bank and foreign investors from the total amount outstanding.

Chart 2-10: Amounts Outstanding of T-Bills Purchased



C. Developments in the JGB Market and Outright Purchases of JGBs

1. Developments in the JGB Market

Long-term interest rates

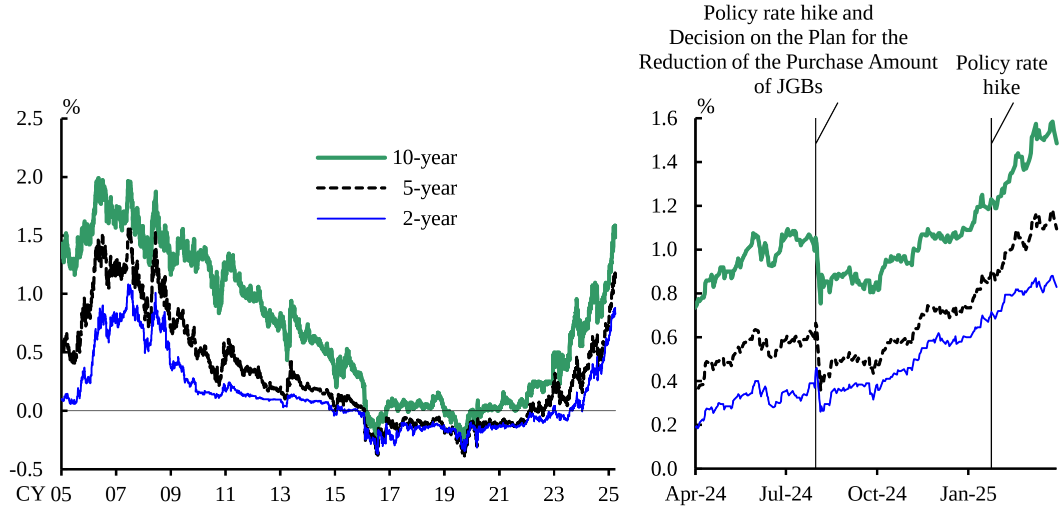
Looking at developments in long-term interest rates during fiscal 2024, they rose to around 1.1 percent toward the end of July due to increased expectations for further policy rate hikes and speculation about reductions in the Bank's outright purchases of JGBs. From early August, long-term interest rates fell rapidly to around 0.7 percent, due to a more cautious risk sentiment stemming from concerns over a slowdown in the U.S. economy. Thereafter, as the reductions in outright purchases of JGBs progressed, they rose to around 1.25 percent toward mid-January 2025, mainly due to higher U.S. interest rates and expectations for further policy rate hikes by the Bank. Even after the policy rate was increased to 0.5 percent at the January MPM, long-term interest rates continued on an uptrend and momentarily hit 1.59 percent in late March, its highest level since October 2008 (Chart 2-11). This trend occurred due to the upward revision in views among market participants on the terminal policy rate, reflecting Japan's solid economic and price indicators, coupled with investors' wait-and-see attitude toward the fiscal year-end.

Looking at the detailed developments, long-term interest rates rose to the 1.05-1.10 percent range until the end of May 2024. This increase occurred because (1) expectations for further policy rate hikes increased amid the yen's depreciation. Furthermore, (2) as the offer amount for each outright purchase of JGBs remained unchanged after the changes in the monetary policy framework in March 2024, the reduction in the amount of outright JGB purchases on May 13 (a reduction of 50 billion yen in the offered amount for the maturity zone of "more than 5 years and up to 10 years") was viewed as somewhat of a surprise, leading to a heightening of vigilance against future reductions in JGB purchases. Thereafter, toward the end of July, long-term interest rates increased to about 1.1 percent, as the view took hold that the plan for reducing the purchase amount of JGBs, scheduled to be decided at the July MPM, would be on a sizable scale.

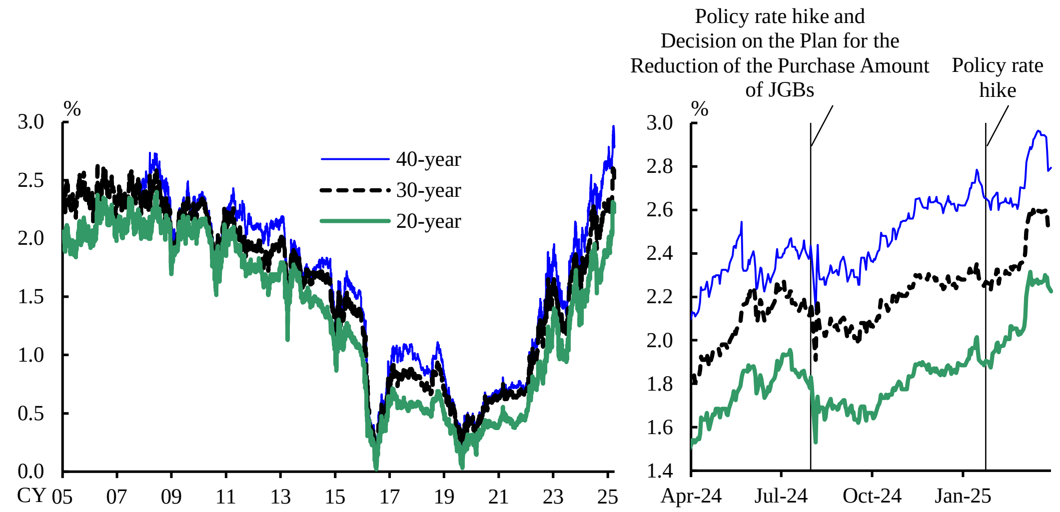
After the start of August, concern over a slowdown in the U.S. economy increased rapidly, triggered by weaker-than-expected U.S. employment statistics. As a result, Japanese stock prices fell sharply due to more cautious risk sentiment. In this situation, expectations for further rate hikes by the Bank retreated significantly for a while. In the bond market, short positions in JGBs, which had previously been held mainly by overseas investors, were unwound simultaneously, resulting in long-term interest rates temporarily falling to 0.755 percent.

Chart 2-11: Yields on JGBs

(Short-, Medium-, and Long-Term Zones)



(Super-Long-Term Zone)



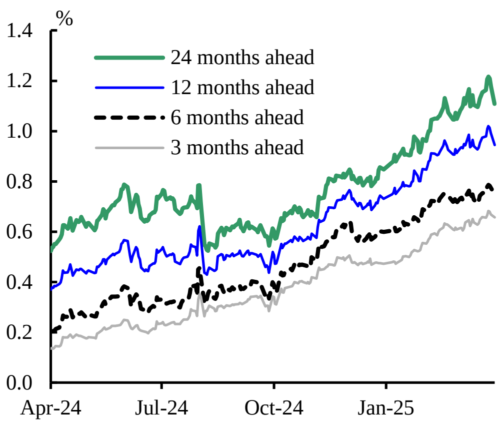
Note: Yields for 40-year JGBs are shown from November 2007, when they were first issued.

Starting in October, (1) U.S. interest rates rose as the U.S. economic indicators remained favorable and as there was speculation about the outcome of the U.S. presidential election. Moreover, (2) expectations reignited that the Bank would implement additional policy rate hikes, with the yen depreciating. These factors caused long-term interest rates to rise again to 1.1 percent in late December. After the beginning of 2025, prospects rose for an additional policy rate hike at the January MPM as economic and price indicators remained solid. Consequently, long-term interest rates increased to around 1.25 percent in mid-January.

Even after the policy rate rose to 0.5 percent at the January MPM, views among market participants on the terminal policy rate shifted upward (Chart 2-12), as economic and price indicators remained solid and the probability increased that the relatively high wage growth rate would be agreed upon at the annual spring labor-management wage negotiations. In this context, long-term interest rates rose in tandem with short- and medium-term interest rates, as discussed later, and temporarily reached 1.59 percent in late March, the highest since October 2008. The factor behind the somewhat rapid pace of interest rate increases from January was the weak trend of buying on dips, as evidenced by the fact that the results of JGB auctions were generally lackluster because more investors took a wait-and-see attitude toward the fiscal year-end, amid their expectations for higher interest rates.

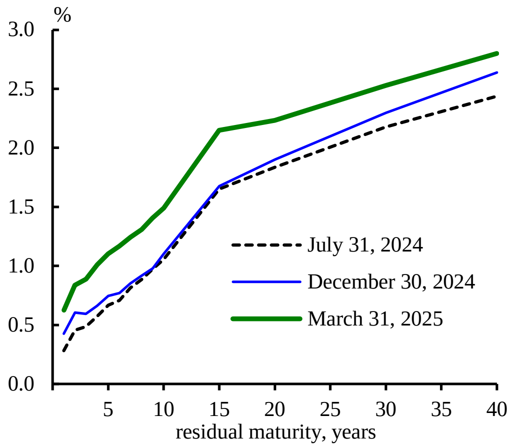
Meanwhile, the progress in reducing the Bank's outright purchases of JGBs since August 2024, as well as its implementation of reductions in the Bank's repurchase amount under the Securities Lending Facility since November (see Box 5 for details), appears to have helped ease supply and demand conditions, particularly for cash JGBs in the maturity zone of more than 7 years and up to 10 years. In fact, from the end of July through December 2024, interest rates for this maturity zone hardly rose, partly due to the aforementioned moves to cover short positions in August; thus, some had pointed to a sense of overvaluation for this zone. Nonetheless, as reductions in outright purchases of JGBs progressed, such overvaluation shown in the yield curve gradually dissipated (Chart 2-13).

Chart 2-12: Yen-OIS Forward Rates



Note: Figures for 3 and 6 months ahead are 3-month forward rates, those for 12 months ahead are the 6-month forward rate, and those for 24 months ahead are the 12-month forward rate.

Chart 2-13: JGB Yield Curve



Short- and medium-term interest rates

Short- and medium-term interest rates rose through the end of July against the backdrop of increasing expectations of additional policy rate hikes. Yields on 2-year JGBs climbed to around 0.45 percent, and those on 5-year JGBs increased to around 0.65 percent. When risk sentiment became cautious after the start of August, yields on both 2-year and 5-year JGBs briefly declined significantly; however, they resumed their upward trend from early autumn, due to expectations of additional policy rate hikes. Even after the policy rate rose to 0.5 percent in January 2025, market participants raised their expectations for the terminal policy rate, given solid economic and price indicators, and investors' moves of buying on dips were weak toward the end of the year, resulting in the continued uptrend on short- and medium-term interest rates. In March, yields on 2-year JGBs reached 0.85-0.90 percent, their highest level since June 2008. At the same time, yields on 5-year JGBs went up to 1.15-1.20 percent, their highest level since October 2008 (Chart 2-11).

Super-long-term interest rates

Super-long-term interest rates rose at a somewhat rapid pace through early autumn 2024, as evidenced by the widening spread with long-term interest rates. The background for this was a growing awareness of the easing of supply and demand conditions for super-long-term JGBs, reflecting a peak in regulation-driven investment demand from life insurance companies, which are the major investors in super-long-term JGBs. In November, yields on 30-year JGBs rose to about 2.3 percent, while those on 40-year JGBs increased to around 2.6 percent. Thereafter, the Ministry of Finance announced guidelines for reducing the issuance of 30-year and 40-year JGBs in its JGB issuance plan for fiscal 2025, unveiled at the end of December, and this induced prospects of improvement in supply and demand conditions. The upward trend in interest rates, therefore, paused temporarily. However, after early March 2025, super-long-term interest rates began increasing again due to concerns about weak supply and demand conditions, amid a surge in long-term interest rates in Germany driven by expectations of increased defense spending. In mid-March, yields on 30-year JGBs rose to the 2.60-2.65 percent level, the highest since June 2008, and those on 40-year JGBs reached an all-time high of 3.0 percent (Chart 2-11). That said, toward the end of the fiscal year, super-long-term interest rates began to decline, and the spread with long-term interest rates also diminished somewhat, partly because of the auction for 40-year JGBs in late March, which went well due to demand from investors who perceived these JGBs as undervalued.

Inflation-indexed JGBs

The break-even inflation (BEI) rate for inflation-indexed JGBs, which is calculated as the difference between yields on inflation-indexed JGBs and those on nominal bonds of the same maturity, rose to around 1.6 percent through the end of June 2024. This rise occurred because market participants perceived the upside risk to prices arising from higher import costs, given the depreciation of the yen. When risk sentiment became cautious after the start of August, selling pressure increased even on inflation-indexed JGBs, and at one point, the BEI rate dropped sharply to the 0.9 percent range. However, from October onward, it started to increase as the yen began to depreciate again. After that, the trend continued to increase, in light of Japan's solid wage and price developments, and remained at around 1.5-1.6 percent through the end of March 2025 (Chart 2-14).

Japan Climate Transition Bonds

Yields on Japan Climate Transition Bonds remained somewhat lower relative to those on JGBs with coupons of the same maturity for a while following the initial auction in February 2024. Subsequently, yields on both 5- and 10-year Japan Climate Transition Bonds remained higher than yields on JGBs with coupons of the same maturity, amid concerns among investors over the lesser liquidity of these bonds compared with standard JGBs (Chart 2-15).

Chart 2-14: Break-Even Inflation Rate

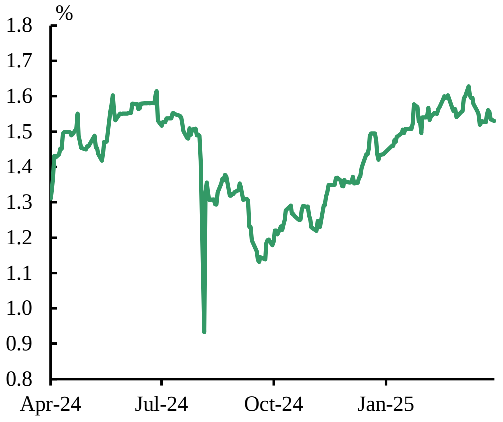
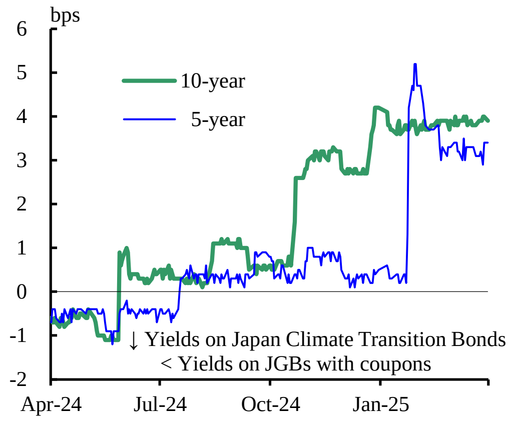


Chart 2-15: Yield Spread between Japan Climate Transition Bonds and JGBs with Coupons of the Same Maturity



2. Outright Purchases of JGBs

Summary

In "Changes in the Monetary Policy Framework," released in March 2024, the Bank of Japan decided that it would continue its JGB purchases with broadly the same amount as before (about 6 trillion yen per month). In addition, it decided to continue to announce the planned amount of JGB purchases with a certain range (range format) and conduct the purchases while taking account of factors such as market developments and supply and demand conditions for JGBs.

Thereafter, at the July MPM, the Bank decided on a plan for the reduction of its purchase amount of JGBs, based on its stance that long-term interest rates are to be formed in financial markets in principle. The reduction plan, which is based on the thinking that it is appropriate for the Bank to reduce its purchase amount of JGBs in a predictable manner, calls for reducing the planned amount of the monthly purchases so that it will be about 3 trillion yen in January-March 2026 by cutting down the amount of purchases by about 400 billion yen each calendar quarter in principle. Furthermore, the quarterly schedule of outright purchases by residual maturity changed from the range format that had been in use to a pinpoint format that would specify amounts.

Starting in August 2024, the purchase amount of JGBs was reduced in line with the above reduction plan. As a result, purchases in the January-March 2025 quarter totaled 13.5 trillion yen, the lowest level since the introduction of QQE in the April-June 2013 quarter (see Box 3 for an explanation of bond market functioning with the ongoing reductions in JGB purchases).

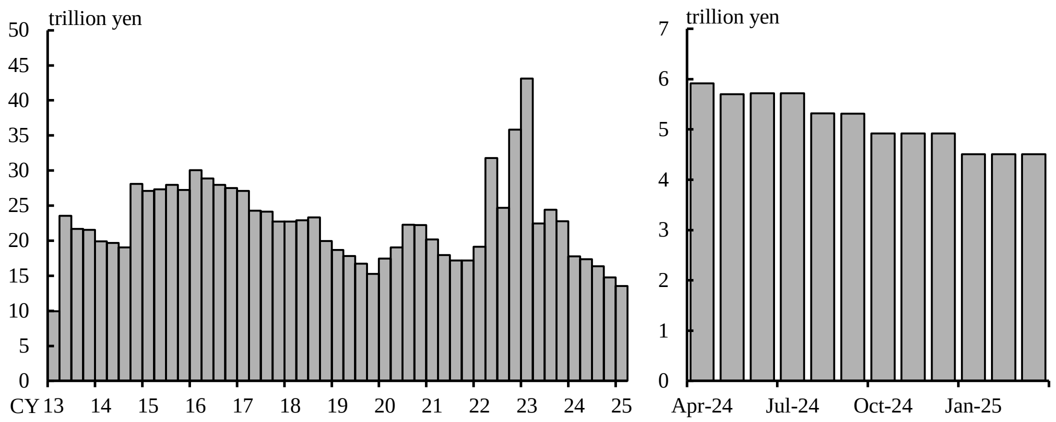
Furthermore, the reduction plan states that, to allow enough flexibility to support stability in the JGB market, in the case of a rapid rise in long-term interest rates, the Bank will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs, both of which can be done regardless of the monthly schedule of JGB purchases. That said, during fiscal 2024, no such nimble responses were carried out.

Developments in the amount of outright purchases

Looking at the developments in the purchase size of JGBs by the Bank (Chart 2-16), the offer amount for each outright purchase of JGBs remained unchanged in April 2024. The monthly purchase amount in April totaled 5.9 trillion yen, the same amount as each month during the January-March quarter. On May 13, the reduction was made for the first time since the changes in the monetary policy framework in March (a reduction of 50 billion yen in the purchase amount for the maturity zone of "more than 5 years and up to 10 years"). As stated, after the change in the framework in March, the following framework was adopted for JGB purchases: while continuing to make purchases at broadly the same amount as before (around 6 trillion yen per month), the Bank will conduct these purchases in consideration of factors such as market developments and supply and demand conditions for JGBs. Based on this, the Bank conducted the reduction given the relatively tight supply and demand conditions for JGBs in the maturity zone of "more than 5 years and up to 10 years" as there were some cases in the JGB purchase operations after March that the lowest accepted bid yields for JGBs in that zone ended up lower than the prevailing market yields. As a result, the monthly purchase amount for May through July was 5.7 trillion yen.

Chart 2-16: Amounts of JGB Purchases

(Quarterly) **(Monthly)**



From August onward, the Bank's purchase amount of JGBs was reduced by about 400 billion yen each calendar quarter, in line with the reduction plan decided at the July MPM. The monthly purchases were 5.3 trillion yen in August and September, 4.9 trillion yen in the October-December quarter, and 4.5 trillion yen in the January-March 2025 quarter.[8]

[8] When purchasing JGBs, the Bank continued to select eligible issues per auction, primarily considering the yield differences between other JGB issues with close remaining maturities, the amount outstanding in the market, and the supply and demand conditions in the repo market.

Looking at the reductions by maturity segment starting in August, when the Bank began reducing its JGB purchases (Chart 2-17), the Bank prioritized reducing purchases of JGBs with residual maturities of up to 10 years. This approach was based on the Bank's basic stance of prioritizing reducing its purchases of segments where the shares of its purchases in the monthly issuance amount (hereinafter referred to as the "purchase share") are high, from the standpoint of ensuring a certain degree of predictability. Specifically, for its JGB purchases in August-September, October-December 2024, and January-March 2025, the Bank reduced purchases by a total of about 400 billion yen in the three maturity zones: "more than 1 year and up to 3 years," "more than 3 years and up to 5 years," and "more than 5 years and up to 10 years."

As a result, the Bank's purchase share for three maturity zones of "up to 10 years" declined to around 50 percent, a close level to the share for the "more than 10 years and up to 25 years" zone. Given this situation, in the schedule of outright purchases of JGBs for April through June released at the end of March 2025, the Bank slightly reduced the purchase amount of the maturity zone of "more than 10 years and up to 25 years" as well in order that the reduction rate in the Bank's purchase share would be about the same as that for the other maturity zones. Meanwhile, the maturity zone of "more than 25 years" was not subject to reductions, as the Bank's purchase share was not high to begin with.

Outright purchases of inflation-indexed bonds were maintained at 60 billion yen until the October-December 2024 quarter, partly because the BEI dropped sharply when risk sentiment became cautious in early August. However, considering the facts that (1) the Bank's purchase share remained high, and (2) the share held by the Bank on a stock basis continued to increase, the Bank reduced its purchases by 10 billion yen in the January-March 2025 quarter.

Regarding Japan Climate Transition Bonds (5-year and 10-year bonds), as in the prior fiscal year, the Bank conducted outright purchases using the competitive auction method in the same manner as the purchases of already issued JGBs with coupons. For Climate Transition Bonds, adequate consideration must be given to market liquidity, as (1) issue amounts are limited, and (2) the amount outstanding of the market will not increase post-issuance through liquidity-enhancement auctions. From this perspective, the Bank, as before, set an upper limit on the total successful bid amount and made ineligible any further outright purchases of issues for which the Bank's holding share of that issue reached about 40 percent.

Chart 2-17: Amounts of JGB Purchases by Residual Maturity and Type

Start of the reduction in JGB purchases

100 million yen, %

Residual maturity/type	Jan-Mar 2024	Apr 2024	May-Jul 2024	Aug-Sep 2024	Oct-Dec 2024	Jan-Mar 2025	Apr-Jun 2025
-1Y	1,500	1,500 ＜－＞	1,500 ＜－＞	1,500 ＜－＞	1,500 ＜－＞	1,500 ＜－＞	1,000 ＜－＞
1-3Y	15,000	15,000 ＜57.7＞	15,000 ＜57.7＞	14,000 ＜53.8＞	13,000 ＜50.0＞	12,000 ＜46.2＞	11,000 ＜42.3＞
3-5Y	17,000	17,000 ＜73.9＞	17,000 ＜73.9＞	15,000 ＜65.2＞	13,000 ＜56.5＞	12,000 ＜52.2＞	11,000 ＜45.8＞
5-10Y	19,000	19,000 ＜73.1＞	17,000 ＜65.4＞	16,000 ＜61.5＞	15,000 ＜57.7＞	13,000 ＜50.0＞	12,000 ＜46.2＞
10-25Y	4,500	4,500 ＜45.0＞	4,500 ＜45.0＞	4,500 ＜45.0＞	4,500 ＜45.0＞	4,500 ＜45.0＞	4,050 ＜40.5＞
25Y-	1,500	1,500 ＜12.0＞	1,500 ＜12.0＞	1,500 ＜12.0＞	1,500 ＜12.0＞	1,500 ＜12.0＞	1,500 ＜14.3＞
Inflation-indexed bonds	600	600 ＜72.0＞	600 ＜72.0＞	600 ＜72.0＞	600 ＜72.0＞	500 ＜60.0＞	500 ＜60.0＞
Total	59,100	59,100	57,100	53,100	49,100	45,000	41,050

Scheduled purchase amounts announced in a range format

Scheduled purchase amounts announced in a pinpoint format by specifying the amount

Notes 1: For each cell, the top figures are the offered amounts of monthly purchases (in 100 million yen). The bottom figures in brackets represent the ratios of purchases to the issuance amount (in percent).
2: The ratio of purchases to the issuance amount is calculated using the issuance amounts of 2-year JGBs for "1-3Y," 5-year JGBs for "3-5Y," 10-year JGBs for "5-10Y," 20-year JGBs for "10-25Y," respectively, and the total issuance amounts of 30- and 40-year JGBs for "25Y-." The issuance amounts of 40-year JGBs and inflation-indexed bonds are converted to a monthly basis. The issuance amounts of inflation-indexed bonds do not take into account the amount of buy-backs by the Ministry of Finance.
3: The shaded areas indicate increases or decreases in the amounts of purchases from the prior month.
4: Figures within the bold frame are those for fiscal 2024.

Results of JGB outright purchase operations

Looking at the results of the Bank's JGB outright purchase operations in fiscal 2024, the bid-to-cover ratios remained stable at approximately 2 to 3 times for all zones, albeit with some fluctuations (Chart 2-18). Meanwhile, a significant upward shift in the yield curve took place during the January-March 2025 period, and the bid-to-cover ratio for the maturity zone of "more than 3 years and up to 5 years" increased to more than 3 times, indicating an increased need for selling from the counterparties of these operations.

Next, looking at the spread between the lowest accepted bid yields for JGB outright purchase operations and the prevailing market yields, it was typically the case that the lowest accepted bid yields were significantly below the prevailing market yields until the prior fiscal year. This situation meant that there was little need to sell bonds through these operations. However, starting in summer 2024, it became more common for these bid yields to be generally the same as the prevailing market yields, particularly in the maturity zones of up to 10 years (Chart 2-19). This development occurred partly because the tightness in the supply and demand for newly issued JGBs eased as the reductions in the Bank's outright JGB purchases progressed. Meanwhile, as stated, although an increased need for selling from counterparties was observed when interest rates rose in January-March 2025, there was no such move as fire sales of JGBs, the situation in which counterparties are forced to sell JGBs at yields significantly higher than the prevailing market yields.

Chart 2-18: Bid-to-Cover Ratios for JGB Purchase Operations

(Up to 10 years) **(More than 10 years)**

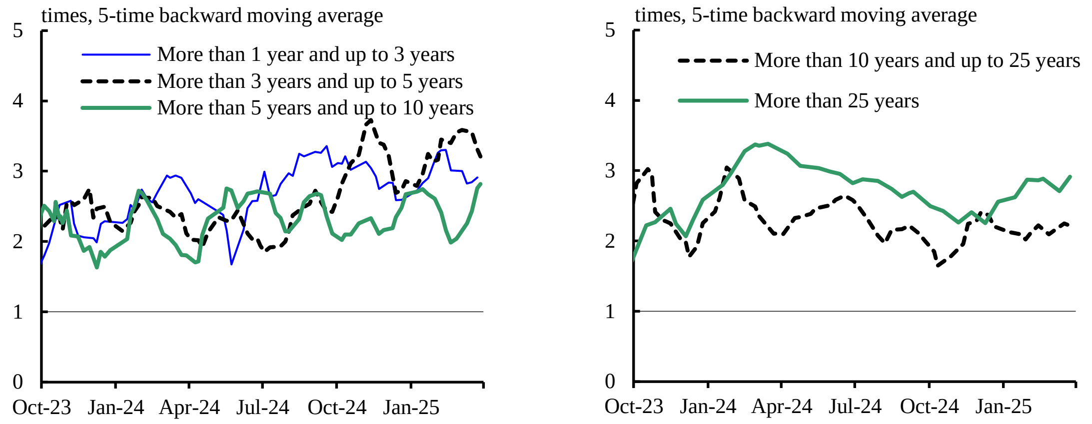
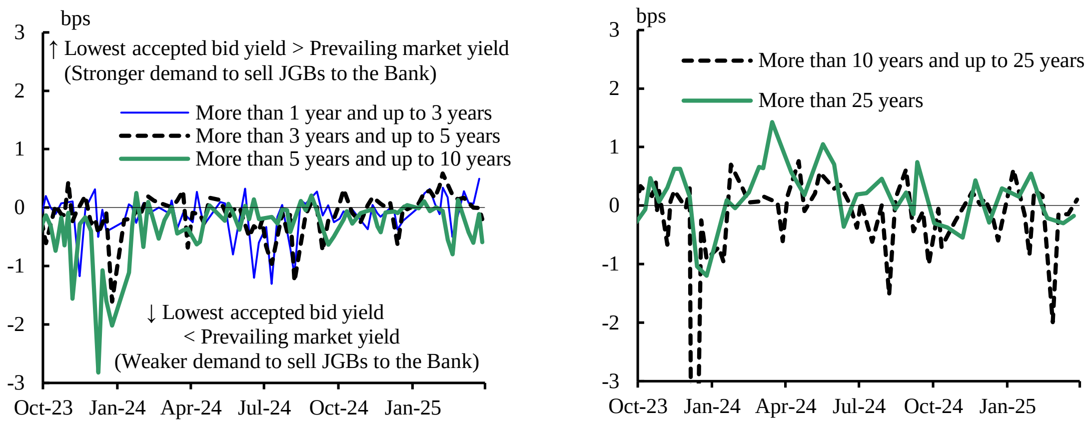


Chart 2-19: Spreads between the Lowest Accepted Bid Yield and the Prevailing Market Yield

(Up to 10 years) **(More than 10 years)**

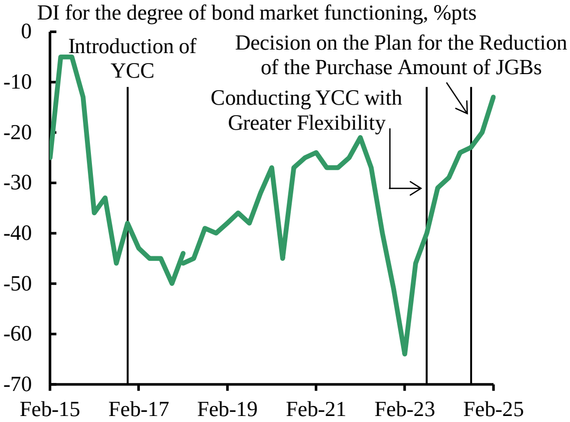


Note: The prevailing market yield is the weighted average of the quotes at the morning close of issues accepted as the lowest bid.

Box 3: Bond Market Functioning with the Ongoing Reductions in the Bank's JGB Purchases

The Bank proceeded with the reduction in its outright purchases of JGBs from last summer, in line with the reduction plan decided in July 2024, based on its thinking that long-term interest rates are to be formed freely in financial markets in principle. Starting in October, the Bank also worked to ease excessive tightening in the supply and demand conditions for the cheapest-to-deliver issues, of which the Bank holds a significant share,[9] by conducting a reduction in the Bank's repurchase amount under the Securities Lending Facility (see Box 5 for details). In this situation, the results of the Bank's *Bond Market Survey* indicate that the diffusion index (DI) for the degree of bond market functioning from the viewpoint of surveyed institutions improved for eight consecutive quarters, despite remaining negative, recovering to its level in the November 2015 survey (Box Chart 3-1). The following summarizes the improving trend in bond market functioning from the perspectives of transaction volumes and rate formation.

Box Chart 3-1: DI for the Degree of Bond Market Functioning



Notes: 1. The DI is calculated as follows: DI for the degree of current bond market functioning = "high" - "low."
2. Data from February 2018 onward include responses from additional respondents.

Box Chart 3-2: Share of 10-Year JGBs Held by the Bank by Issue

%

CY	22				23				24				25
Month	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan	Apr	Jul	Oct	Jan
10-yr JGB #365	1	40	64	83	83	83	84	84	84	84	84	83	82
#366		76	89	92	96	96	95	95	95	95	95	93	87
#367			29	76	106	92	90	90	90	90	90	90	88
#368				109	104	95	94	93	93	93	93	93	90
#369					111	90	89	89	89	89	89	89	89
#370						56	58	73	78	81	81	81	81
#371							44	52	56	58	60	63	64
#372								70	54	54	59	62	63
#373									17	29	36	43	44
#374										30	29	39	39
#375											20	18	26
#376												5	15
#377													12

Above 90%
80-90%
70-80%
60-70%
50-60%

Note: The bold frames indicate the month in which each issue was first issued. Figures are as of the end of each month.

First, the supply and demand conditions for on-the-run issues shifted clearly as reductions in JGB purchases progressed. Looking at the Bank's share of 10-year JGB holdings (Box Chart 3-2), during the period from mid-2022 through the first half of 2023, the Bank continued large-scale JGB purchases, such as by using the fixed-rate purchase operations. At this time, a situation arose in which the Bank held the majority of 10-year JGB issues immediately after

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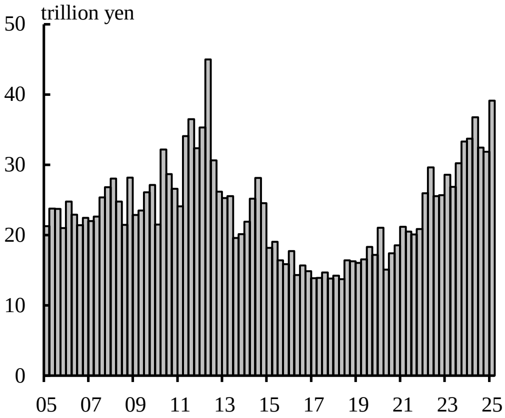
[9] This is the first and second cheapest-to-deliver issues for 10-year JGB futures in the nearest two contract months.

their issuance; however, with the reduction proceeding in fiscal 2024, the Bank's holding share of on-the-run issues remained relatively low.[10] Thus, as the amount outstanding of on-the-run issues in the market increased clearly, the volume of over-the-counter transactions of cash JGBs embarked on an improving trend and recovered almost to the level before the introduction of QQE in the latter half of fiscal 2024 (Box Chart 3-3).

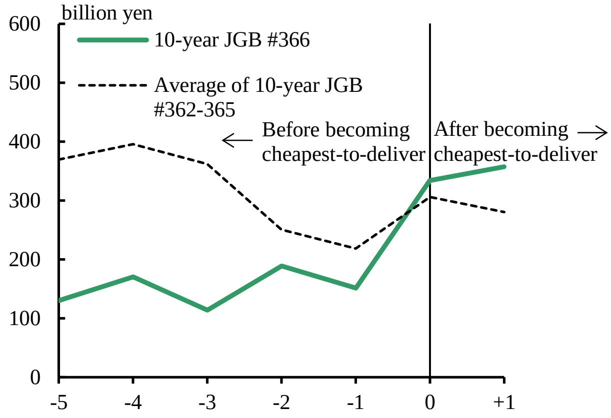
Next, the supply and demand conditions for the cheapest-to-deliver issues also improved somewhat due to the reduction in the Bank's repurchase amount under the Securities Lending Facility and liquidity enhancement auctions by the Ministry of Finance. For example, the amount outstanding in the market of 10-year JGBs #366, which was the cheapest-to-deliver issue for the March 2025 bond futures contract, was about 400 billion yen as of the end of September 2024, but increased to about 1 trillion yen before the rollover in mid-December. Meanwhile, inter-dealer transaction volume for this issue had long been low compared with prior issues due to low market liquidity; however, the volume recovered as the Bank reduced its repurchase amount under the Securities Lending Facility in response to requests from counterparties. The volume during the period when this issue was the cheapest to deliver (from mid-December 2024 through mid-March 2025) was approximately equivalent to that of past cheapest-to-deliver issues (Box Chart 3-4).

Box Chart 3-3: Monthly Transaction Volume for Cash JGBs: Gross Amount Purchased by Clients



Note: "Clients" include city banks, regional banks, investors (such as life and non-life insurance companies, trust banks, financial institutions for agriculture and forestry, investment trusts, and mutual aid associations of government agencies), and foreigners. Other institutions (the government, Bank of Japan, Japan Post Bank, Japan Post Insurance, business corporations, other financial institutions, etc.) are excluded from "clients."

Box Chart 3-4: Inter-Dealer Transaction Volume for the Cheapest-to-Deliver Issues

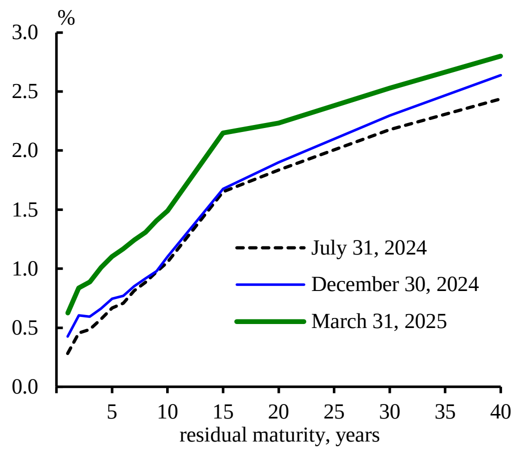


Note: Figures are the quarterly sum of transaction volumes. The vertical line indicates the quarter including the timing of rollover of the JGB futures contract for each issue.

[10] This development can also be confirmed for on-the-run issues of 2- and 5-year JGBs.

As the amount outstanding in the market of on-the-run JGB issues and the cheapest-to-deliver issues increased, and tight supply and demand conditions in the maturity zone of around 7 years (i.e., the futures zone) and up to 10 years eased somewhat, the overvaluation of issues in this zone, as shown in the yield curve, was gradually adjusted. Looking at changes in the yield curve, long-term interest rates remained relatively flat from the end of July through December 2024, even as short- and medium-term interest rates rose. However, long-term interest rates rose after the beginning of 2025, moving in tandem with the increases in short- and medium-term rates (Box Chart 3-5).

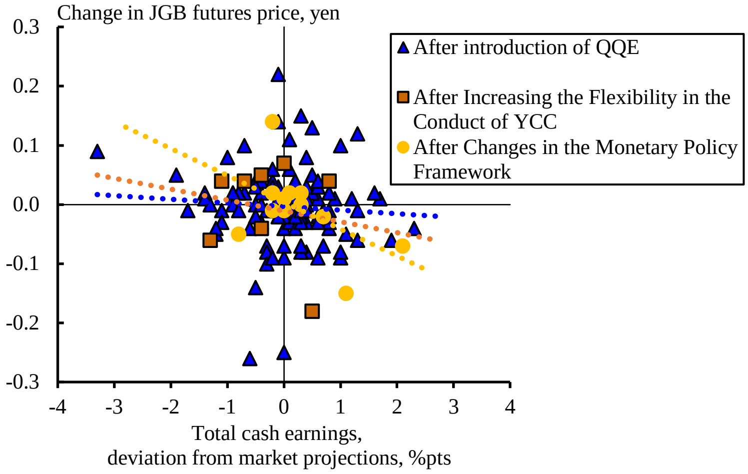
Box Chart 3-5: Changes in the JGB Yield Curve



As interest rates have begun to move more freely in financial markets, bond price movements seem to better reflect the state of Japan's economic indicators and market participants' views on future monetary policy, which take these indicators into account. For example, looking at the response to the results of the *Monthly Labor Survey*, a wage indicator, bond prices fell during the morning trading session after any announcement of the indicators exceeding market expectations as attention was drawn to wage trends for predicting the Bank's future monetary policy. This decline in bond prices suggests that these prices have recently begun to reflect economic indicators more closely than they did in the past (Box Chart 3-6).

As mentioned, bond market functioning has been following an improving trend, with the reduction in the Bank's JGB purchases proceeding; however, the improvement in market functioning is only partial, since the DI for the degree of bond market functioning remains in negative territory. The Bank will continue to closely monitor how market functioning changes as the reduction in its JGB purchases progresses.

Box Chart 3-6: Relationship between JGB Futures Prices and Wage Statistics



Notes: 1. "After introduction of QQE" indicates April 2013 through July 2023, "After Increasing the Flexibility in the Conduct of YCC" indicates August 2023 through March 2024, and "After Changes in the Monetary Policy Framework" indicates April 2024 through March 2025.

2. "Total cash earnings, deviation from market projections" refers to the deviation of the actual data of total cash earnings published in the *Monthly Labour Survey* (year-on-year rate of change) from Bloomberg economist forecasts.

3. "Change in JGB futures price" refers to the change in the JGB futures price between the opening of the morning session and the closing of the morning session of that day for figures until January 2019, and that between the closing of the previous night session and the opening of the following day's morning session for figures from February 2019 onward.

4. The dotted lines represent the regression lines using the least-squares method.

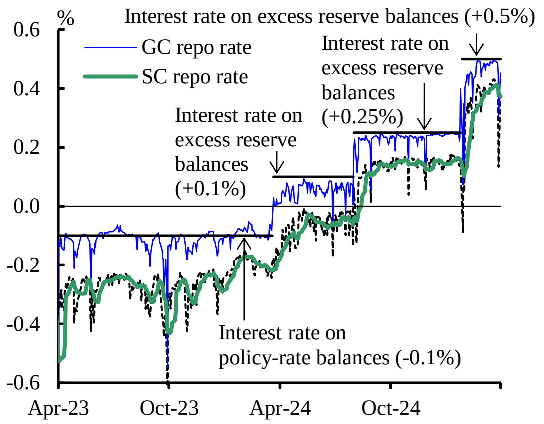
D. SC Repo Market and the Supply of JGBs

1. Developments in the SC Repo Market

During fiscal 2024, the SC repo rate generally moved in tandem with the GC repo rate. From summer onward, when daily fluctuations in the GC repo rate diminished, the SC repo rate was also more stable than before (Chart 2-20).

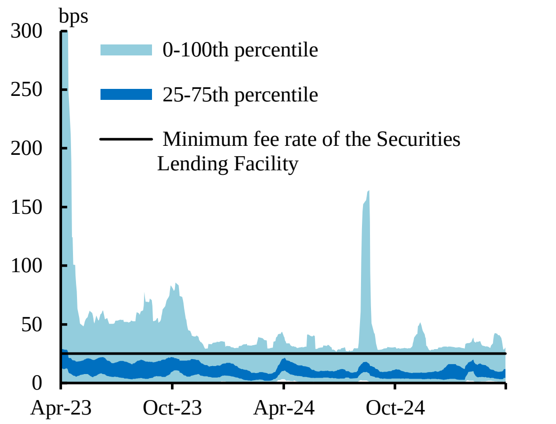
Looking at the GC-SC spread, the 50th percentile, which is considered the main transaction rate, declined slightly from the prior fiscal year (Chart 2-21), likely due to higher SC repo rates on most JGB issues. The rise in SC repo rates was attributed to the following two factors. First, the tight supply-demand conditions of JGBs became somewhat eased with the progress in reductions of the Bank's outright purchases of JGBs. Second, SC repo transaction volume increased as views about JGB rates became more converged between borrowers and lenders in the SC repo market through the stabilization of the GC repo rate from the summer onward. Furthermore, the 100th percentile of the GC-SC spread -- which shows transaction rates for issues with the tightest supply-demand conditions -- remained generally stable, despite a temporary widening, as the minimum fee rate of the Securities Lending Facility effectively functioned as an upper limit on this spread.

Chart 2-20: SC Repo Rate



Notes: 1. The SC repo rate and the GC repo rate are both T/N rates.
2. The dashed line indicates the volume-weighted average rate of all traded issues for SC repo trades. The bold green line indicates the 10-business-day backward moving average.

Chart 2-21: GC-SC Spreads



Notes: 1. For the GC repo rate, the Tokyo Repo Rate (T/N) is used.
2. The GC-SC spreads are calculated using all individual issues traded on the JBOND Repo System.
3. Each percentile is calculated using 10-business-day backward moving averages.
4. The minimum fee rate of the Securities Lending Facility is the lowest fee if it varies by issue.

2. Securities Lending Facility

The Bank held auctions of the Securities Lending Facility every business day in the morning and afternoon sessions, continuing to make offers for all JGB issues with coupons and T-Bills.

Looking at the development in the amount of bids accepted for the Securities Lending Facility, approximately 4 trillion yen was being auctioned per day at the beginning of fiscal 2024; however, this gradually and clearly declined to less than 1 trillion yen by October. After that, it temporarily increased on some occasions, such as immediately after the January 2025 MPM; however, through the end of the fiscal year, the average amount of accepted bids per day remained around several hundred billion yen (Chart 2-22). These significant declines in the acceptance of bids are attributed to (1) an increase in the amount outstanding of JGBs in the market with the Bank's reductions in its outright purchases of JGBs. Additional contributing factors include (2) changes in investors' positions and (3) the stabilization of rate formation in the repo market (see Box 4 for details).

Chart 2-22: Acceptance of Bids through the Securities Lending Facility

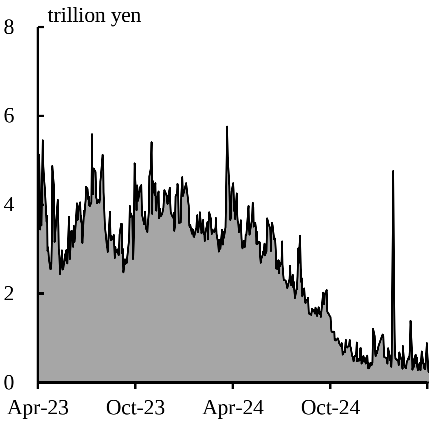
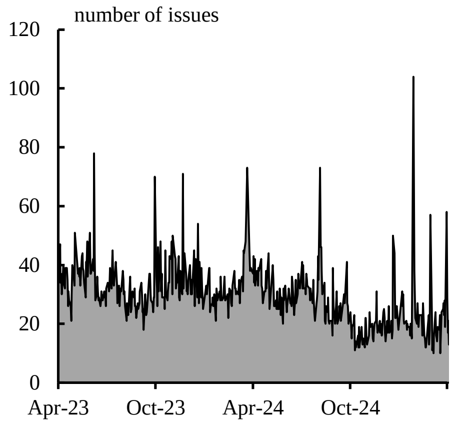


Chart 2-23: Number of JGB Issues Borrowed from the Securities Lending Facility



The number of issues borrowed declined somewhat as the amount of accepted bids was scaled back. However, usage remained constant for a certain number of JGB issues, as some issues, primarily 10-year JGBs with residual maturities of up to around eight years, continued to exhibit tight supply and demand conditions (Chart 2-23). Furthermore, immediately after the January 2025 MPM (as discussed in the "Developments in the GC Repo Market" subsection), supply and demand conditions tightened for a wide range of JGB issues in the repo market. In response to this situation, the Bank implemented measures to temporarily raise the upper limit on the number of JGB issues on which a counterparty was allowed to bid per auction from 30 to 50 under the Securities Lending Facility.[11] Immediately after this measure took effect on January 27, the Securities Lending Facility was utilized for a broad range of issues, and the number of issues reached a historical high of 104 (Chart 2-23).

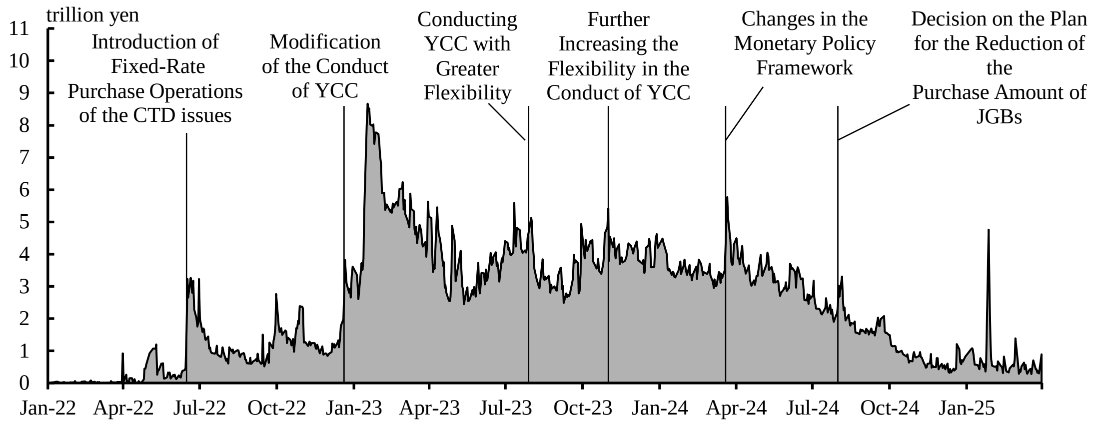
For the cheapest-to-deliver issues of which the Bank holds a significant share, the Bank worked to ease excessive tightening in the supply and demand conditions of these issues. For example, in October 2024, the Bank clarified its policy, stating that it would accept counterparties' requests to reduce the amount of the cheapest-to-deliver issues repurchased by the Bank under the Securities Lending Facility, if the reduction was deemed to contribute to improving the liquidity of the JGB market (see Box 5 for details).

[11] For details, see Financial Markets Department, Bank of Japan, "Relaxation of the Upper Limit on the Number of JGS Issues Allowed for the Submission of Bids for the Securities Lending Facility" (available only in Japanese) released on January 24, 2025.

Box 4: Background to Reducing the Usage Amount of the Securities Lending Facility

The usage amount of the Securities Lending Facility remained around 3 trillion yen for some time after the changes in the monetary policy framework in March 2024; however, it clearly fell after mid-year to about 300 billion yen in March 2025 (Box Chart 4-1). This reduction in usage is considered to reflect changes in supply and demand conditions in the JGB cash market and the repo market. The following describes three underlying reasons.[12]

Box Chart 4-1: Daily Developments in Borrowing from the Securities Lending Facility



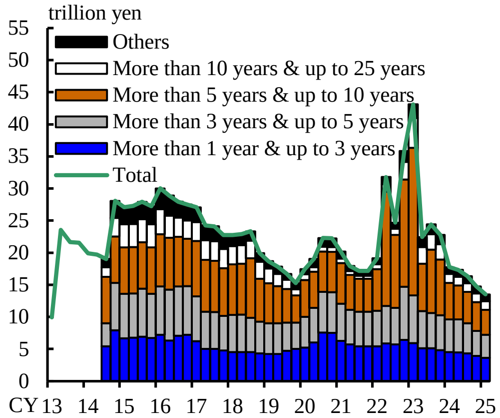
The first reason is that there is an increase in the amount outstanding of JGBs in the market with the progress in the Bank's reduction of its JGB purchases. From August 2024 onward, the Bank proceeded with the reduction, and the purchase amount for the January-March 2025 quarter accordingly reached its lowest level since the introduction of QQE in the April-June 2013 quarter (Box Chart 4-2). The decline in the share of the Bank's JGB purchases in the monthly issuance amount led to an increase in the amount outstanding of on-the-run issues in the market. Consequently, it became easier for market participants with short positions in on-the-run issues to tap the SC repo market for their bond borrowing needs. As a result, the usage of the Securities Lending Facility for those issues almost stopped.

Furthermore, regarding off-the-run issues of which the Bank had held a significant share, the amount outstanding in the market increased somewhat, albeit with some dispersion among issues. This increase was achieved through the Ministry of Finance's liquidity enhancement auctions and the reduction in the Bank's repurchase amount under the Securities Lending Facility. This situation led to a decrease in the usage of the Securities Lending Facility. For

[12] The information in this Box is based on the following: Ide, Masuda, and Takahashi, 2025, "Developments in the Functioning of the JGB Markets from the Perspective of the Usage of the Securities Lending Facility," *Bank of Japan Review Series*, no. 2025-E-3.

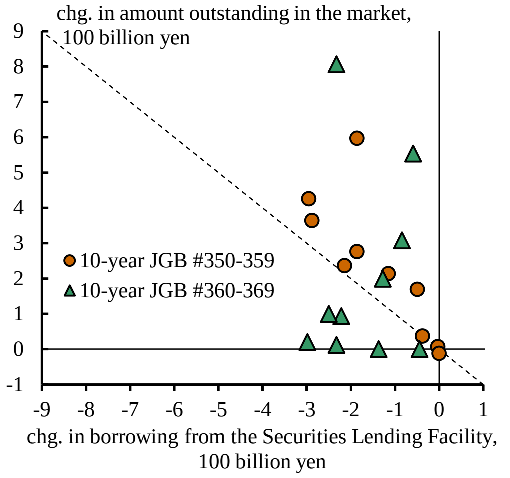
issues provided in significant quantities by the liquidity enhancement auctions and issues for which the Bank reduced its repurchase amounts under the Security Lending Facility in response to requests from counterparties, usage of the Securities Lending Facility declined as the amount outstanding in the market increased (Box Chart 4-3).

Box Chart 4-2: Amount of JGB Purchases by the Bank



Note: Figures include fixed-rate purchases. "Others" indicate the sum of purchases in the residual maturities zones of "up to 1 year" and "more than 25 years" and purchases of inflation-indexed bonds and floating-rate bonds. The breakdown is not shown for the period between 2013Q1 and 2014Q2 as the original data have different residual maturity segments.

Box Chart 4-3: Amounts Outstanding of 10-Year JGBs in the Market and Borrowing from the Securities Lending Facility

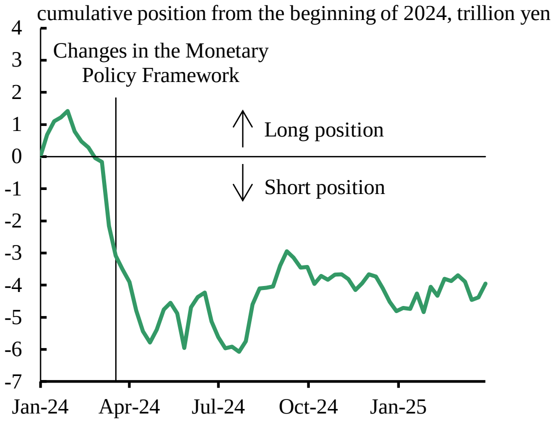


Note: Figures show changes from March 2024 to March 2025. Changes in the amount outstanding in the market are calculated using the month-end figures, while those in borrowing from the Securities Lending Facility are calculated using monthly averages. The dashed line represents the 45-degree line.

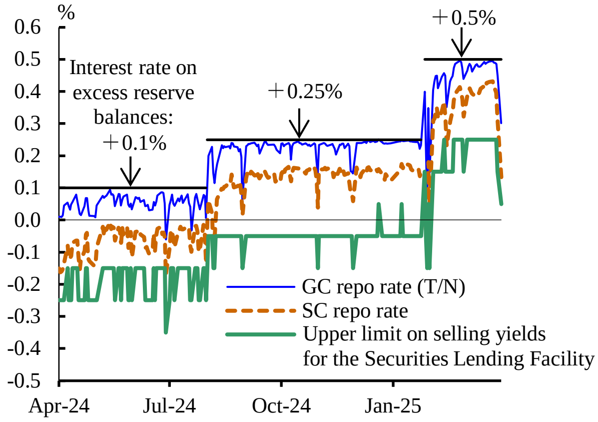
The second reason is the change in investors' positions. Looking at the transactions by overseas investors (the primary players in the bond futures market), short positions increased from early spring 2024. This growth was due to (1) speculation about the termination of the negative interest rate policy and abolition of the yield curve control, (2) expectations for additional policy rate hikes in response to the yen's depreciation, and (3) speculation about the reduction in the Bank's JGB purchases (Box Chart 4-4). However, starting in August, risk sentiment became cautious due to increased concern over a slowdown in the U.S. economy. At this time, the JGB markets, including the cash market and the swaps market, experienced a significant unwinding of short positions. This move likely decreased the usage of the Securities Lending Facility, resulting from decreased demand for borrowing bonds in the SC repo market.

Moreover, from early autumn 2024, Japan's economic activity and prices generally developed in line with the Bank's outlook, and expectations for further policy rate hikes increased. In this context, the building up of short positions resumed, particularly among overseas investors. Even in this situation, the usage amount of the Securities Lending Facility did not increase significantly as it had in the past. This inactivity was likely because, when creating new short positions in cash JGBs, investors became more likely to use on-the-run or adjacent off-the-run issues for which tight supply-demand conditions were eased amid the reduction in the Bank's JGB purchases, instead of using issues with tight supply-demand conditions resulting from the Bank's high holding share.

Box Chart 4-4: Developments in JGB Futures Trading by Overseas Investors



Box Chart 4-5: Repo Rates and the Upper Limit on Selling Yields for the Securities Lending Facility

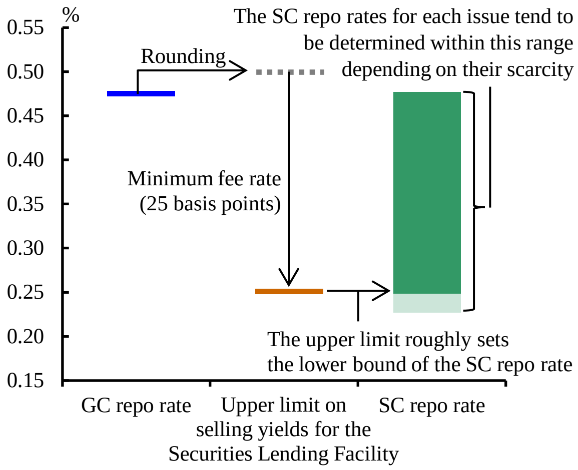


Note: Figures for the SC repo rate are volume-weighted averages of all traded issues for SC repo trades.

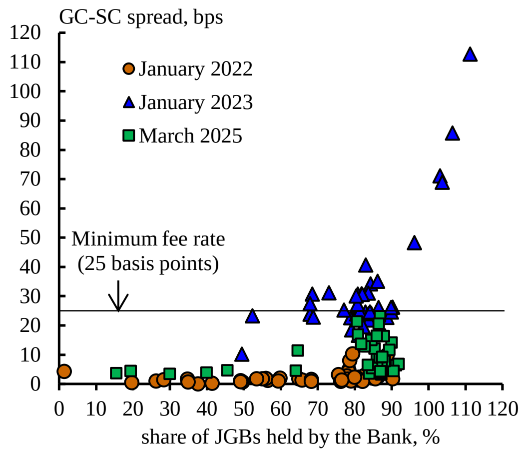
The third reason is the effect of stabilizing the rate formation in the repo market. As stated in Box 2, starting in summer 2024, the GC repo rate was holding steady near the interest rate on excess reserve balances. Accordingly, the upper limit on selling yields under the Securities Lending Facility, which is set by the Bank based on the GC repo rate, also stabilized (Box Chart 4-5). Furthermore, as market participants form their views about the SC repo rate by considering the upper limit on selling yields under the Securities Lending Facility, which is considered as a bond funding cost from the Bank, stability in the GC repo rate also stabilized the SC repo rate through the maximum selling yields under the facility (Box Chart 4-6). Market participants noted that the volume of SC repo transactions increased because the views of JGB borrowers and lenders regarding the SC repo rate were better aligned.

The reduction in the Securities Lending Facility's usage amount, based on the above three points, can be regarded as evidence that supply-demand conditions in the JGB market eased somewhat and the functioning of the repo market improved slightly compared with a while ago. However, some JGB issues remain, of which the Bank holds a significant share, especially 10-year JGBs with residual maturities of eight years or less. The GC-SC spread, which indicates the scarcity of individual issues, remained wide mainly for those issues compared with early 2022, when the Securities Lending Facility was almost unused (Box Chart 4-7). Under these circumstances, regular use of the Securities Lending Facility was maintained for a certain number of issues. Moreover, when supply and demand conditions in the repo market tightened temporarily in late January 2025, the Securities Lending Facility's usage amount and number of issues in use surged. In that sense, the Securities Lending Facility can be considered to have continued its role in supporting liquidity in the JGB market in fiscal 2024.

Box Chart 4-6: Rate Formation Mechanism in the JGB Repo Market



Box Chart 4-7: GC-SC Spreads and the Bank's Holding Share of 10-Year JGBs



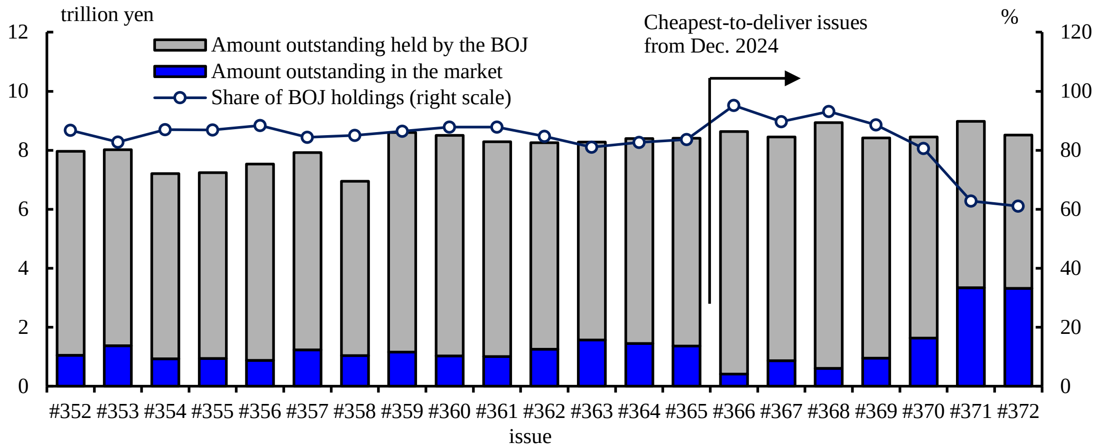
Note: Figures for the GC-SC spread are monthly averages. Figures for the Bank's holding shares of JGBs are as of the end of each month.

The Bank will continue to carefully monitor the functioning of the secondary market for JGBs, as reflected in the usage of the Securities Lending Facility, as well as the impact of the reduction in its JGB purchases on the supply and demand conditions for JGBs.

Box 5: Measures Taken for Issues with a Significant Holding Share of the Bank Becoming the Cheapest-to-Deliver Issues

In the bond market in fiscal 2024, as the time was approaching when the issues with a significantly low amount outstanding in the market due to large-scale purchases previously conducted by the Bank (i.e., 10-year JGBs #366-#369) became the cheapest-to-deliver (CTD) issues[13] among JGB futures (10-year JGBs #366 became the CTD issue in December 2024), there was a growing concern that supply and demand conditions for these issues would tighten excessively and give rise to a decline in liquidity in the bond futures market (Box Chart 5-1). Market participants' concerns were particularly high for 10-year JGBs #366 because, as of the end of September 2024, the Bank's holding share of the issues was significantly high at approximately 95 percent, while the amount outstanding in the market was minimal, at only about 400 billion yen. Given this concern, starting in October 2024, the Bank took steps to ease the tightness of supply and demand conditions for these issues. The following summarizes the Bank's measures and the subsequent market developments.

Box Chart 5-1: The Bank's Holding Share of 10-Year JGBs (As of the End of Sep. 2024)



Note: "Amount outstanding in the market" does not include the amount sold under the new over-the-counter sales system by the Ministry of Finance. The breakdown covers issues from #352 through #372.

First, in October 2024, the Bank announced that it would continue to implement relaxation of the terms and conditions for the Securities Lending Facility for the CTD issues for the time being and confirmed that when the JGB issues of which the Bank holds a significant share became the CTD, the upper limit on the consecutive-day purchases of the same issue would be increased to enable the consecutive use of the Securities Lending Facility (SLF) until the

[13] Among deliverable issues when settling delivery of JGB futures transactions (those with residual maturities of 7 years or more but less than 11 years), the CTD issues are the cheapest to deliver for the delivering party (the seller of the bond futures). When interest rates are low, such issues are usually 10-year JGBs with a residual maturity of about 7 years.

delivery settlement date of the JGB futures. Furthermore, regarding the reduction in the Bank's repurchase amount under the SLF, the Bank announced the measure would continue to be implemented in the same manner so as not to hinder counterparties' use of this measure when necessary. The Bank clarified its policy of accepting counterparties' requests for a reduction in the amount of the CTD issues repurchased by the Bank, in principle, if the reduction is deemed to contribute to improving the liquidity of the JGB market.[14]

Thereafter, in January 2025, as the reduction in the Bank's repurchase amount under the SLF was being implemented, the Bank enhanced its transparency regarding the treatment of the reduction. This action followed increased inquiries about the Bank's criteria for how it judges whether a reduction would contribute to improving the liquidity of the JGB market. Specifically, the Bank (1) set the outstanding amount of the CTD issues in the market as an objective benchmark. The Bank also (2) clarified its policy that it would accept counterparties' requests in principle until the amount outstanding of each of the CTD issues in the market recovered to about 1.2 trillion yen, referencing the level of JGB futures positions on the last trading day in the past.[15]

Based on this series of measures, the reduction in repurchase amounts under the SLF was applied to 10-year JGBs #366, #367, #368, and #369. This approach, coupled with liquidity enhancement auctions by the Ministry of Finance, led to somewhat improved liquidity for the CTD issues. As a result, the amount outstanding of these issues in the market recovered to about 1.2 trillion yen for each, and the share of the Bank's holdings declined to about 85 percent (Box Chart 5-2). The SC repo rates for these issues had been moving in tandem with the upper limit on selling yields under the SLF before the Bank reduced its repurchase amounts under the SLF in response to counterparties' requests, indicating that supply and demand conditions remained tight. As some usage of the reduction occurred from late November 2024, the SC repo rate increased modestly, suggesting somewhat eased supply-demand conditions for these issues (Box Chart 5-3).

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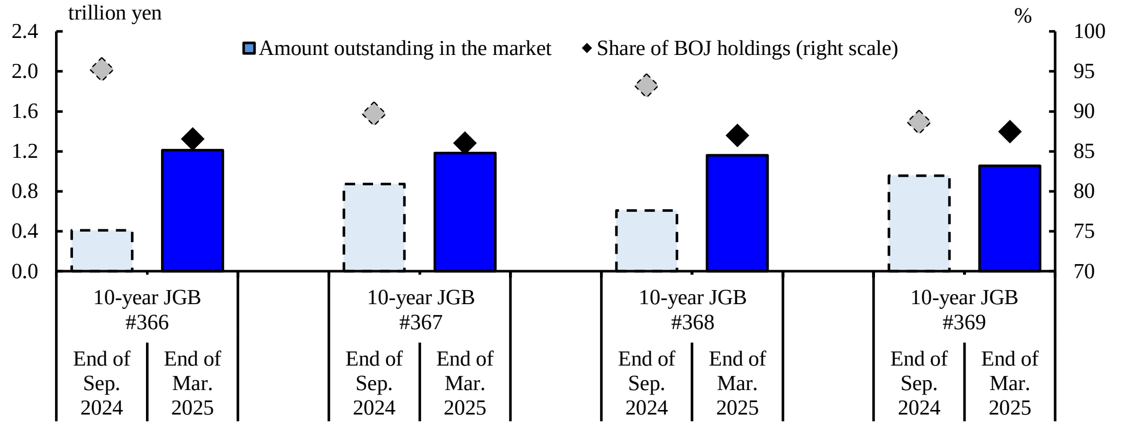
[14] For details, see Financial Markets Department, Bank of Japan, "Continuation of the Relaxation of the Terms and Conditions for the Securities Lending Facility for the Cheapest-to-Deliver Issues" released on October 16, 2024. To ensure market stability by easing excessive tightening in the supply and demand conditions of JGSs in the repo market, the Bank has implemented measures since June 2022 to relax the terms and conditions of the SLF for the CTD issues. The above press release reaffirms this.

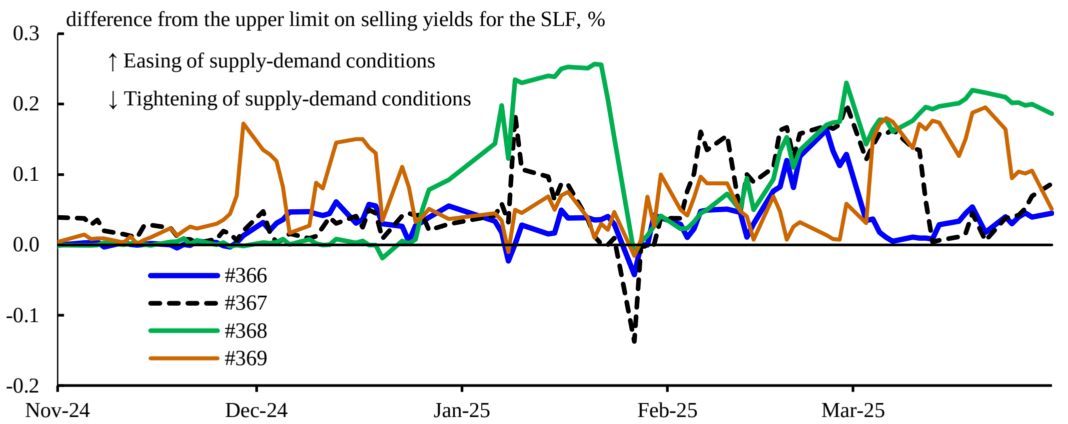
[15] For details, see Financial Markets Department, Bank of Japan, "Treatment of the Reduction in the Amount of the Cheapest-to-Deliver Issues Repurchased by the Bank of Japan under the Securities Lending Facility," released on January 16, 2025.

Box Chart 5-2: Amount Outstanding of the Cheapest-to-Deliver Issues in the Market



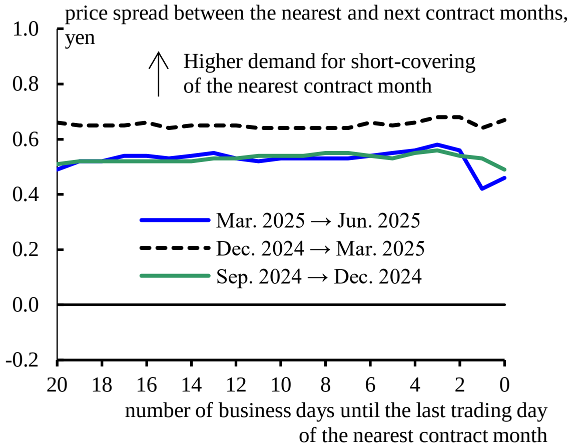
Note: "Amount outstanding in the market" does not include the amount sold under the new over-the-counter sales system by the Ministry of Finance.

Box Chart 5-3: SC Repo Rates for 10-Year JGBs with Coupons to Which Reductions in Repurchases Were Applied

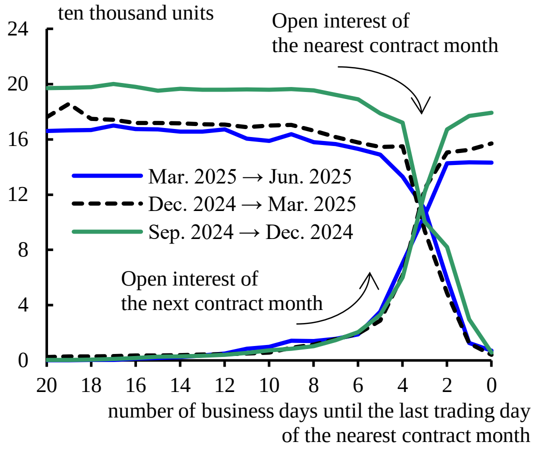


When the contract month rolled over in March 2025 (the CTD issue changing over from 10-year JGBs #366 for March 2025 contracts to 10-year JGBs #367 for June 2025 contracts), the calendar spread (the difference between the futures price for the most recent contract month and that for the next contract month) remained relatively stable. In this context, the shift to the next contract month for JGB futures was carried out smoothly (Box Charts 5-4 and 5-5); therefore, no confusion occurred before or after the contract rollover.

Box Chart 5-4: Calendar Spreads upon Rollover of JGB Futures Contracts



Box Chart 5-5: Open Interests in JGB Futures upon Rollover of JGB Futures Contracts

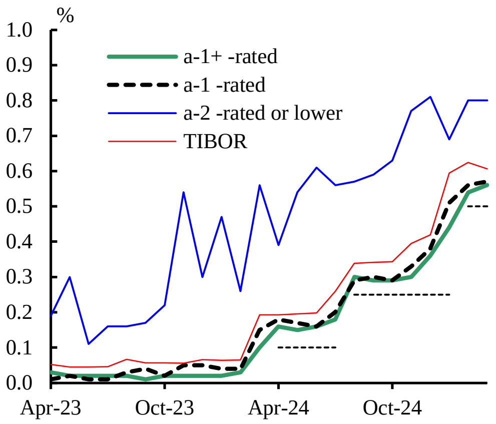


E. Developments in the CP and Corporate Bond Markets and Outright Purchases of CP and Corporate Bonds

1. Developments in the CP Market

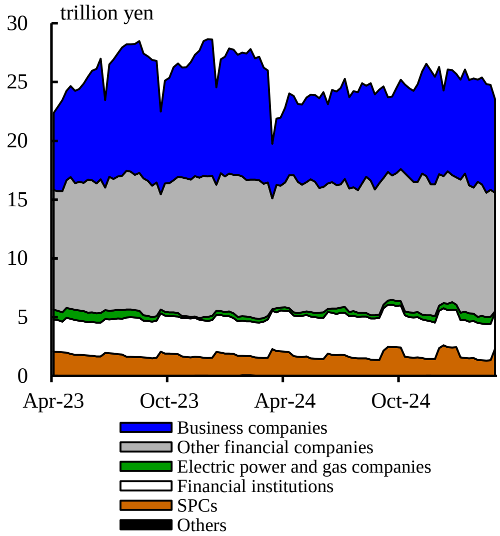
Looking at issuance rates for 1-month CP in fiscal 2024, as TIBOR and other short-term interest rates rose in response to the policy rate increase, issues with high ratings generally moved in the same direction. Specifically, after the termination of the negative interest rate policy in March 2024, these rates were around 0.15 percent. Following the policy rate increase to 0.25 percent at the end of July, they hovered around 0.3 percent; thereafter, it rose modestly due to speculation about further policy rate hikes. After the policy rate rose to 0.5 percent in January 2025, it remained around 0.6 percent (Chart 2-24). As explained later, the Bank's outright purchases of CP gradually reduced over this period, and the purchases were discontinued after the January 2025 auction; however, the impact on the CP market was minimal, partly because the pace of the reductions was gradual.

Chart 2-24: CP Issuance Rates



Notes: 1. 1-month rates.
2. Monthly data for CP issuance rates of business companies (including electric power and gas companies) and other financial companies (including leasing companies and nonbanks).
3. The dashed lines indicate the interest rate on excess reserve balances for each period.

Chart 2-25: Amounts Outstanding of CP



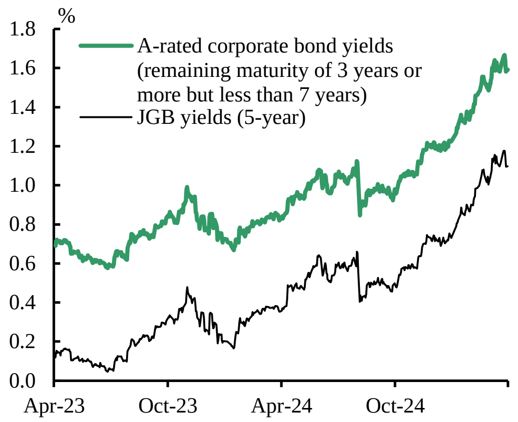
Note: "Business companies" excludes "Electric power and gas companies" and "Other financial companies."

The outstanding amount of CP was somewhat lower than that of the prior fiscal year, partly due to a decline in issues for preliminary financing purposes, which had been frequent under the negative interest rate policy, as rates on new issues increased. However, CP outstanding remained high due to vigorous demand for working capital, driven by Japan's gradual economic recovery (Chart 2-25). Meanwhile, demand mainly from domestic banks and investment trusts for CP to be used as collateral or to invest surplus funds remained strong. Supported by such investor demand, the issuance environment remained favorable.

2. Developments in the Corporate Bond Market

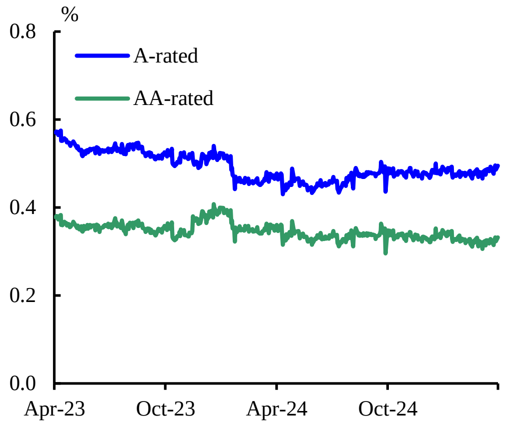
Corporate bond yields rose throughout fiscal 2024, generally in tandem with JGB yields, which serve as the base rates. The level of those yields increased further from January 2025, when the pace of increase in JGB yields accelerated somewhat (Chart 2-26). The yield spreads between corporate bonds and JGBs in the secondary market were essentially unchanged and remained steady, partly due to demand from investors pleased with the high absolute interest rates (Chart 2-27). As mentioned later, the Bank's outright purchases of corporate bonds gradually reduced over this period, and the purchases were discontinued after the January 2025 auction; however, the impact on the corporate bond market was minimal, as these reductions were gradual.

Chart 2-26: Yields on Corporate Bonds and JGBs



Note: Rated by R&I. The same applies to Chart 2-27.

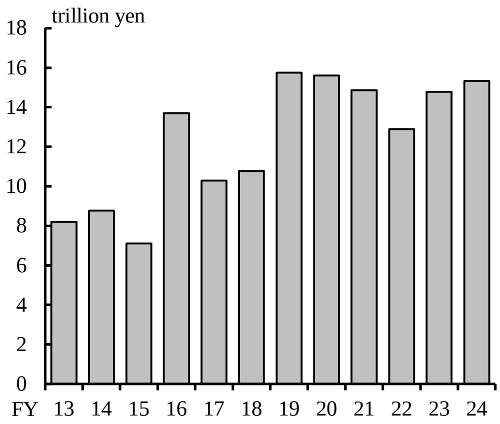
Chart 2-27: Yield Spreads between Corporate Bonds and JGBs



Note: Corporate bonds with residual maturities of 3 years or more but less than 7 years.

The cumulative issuance of corporate bonds for fiscal 2024 increased slightly from the previous fiscal year. This increase occurred because the issuance environment remained favorable, underpinned by vigorous investor demand, and some movement toward front-loading of issuance was observed due to expectations of rising interest rates (Chart 2-28).

Chart 2-28: Issuance Amounts of Straight Corporate Bonds



Note: On a nominal basis. Privately offered bonds are excluded.

3. Outright Purchases of CP and Corporate Bonds

Summary

Following the guideline to "gradually reduce the amount of purchases of CP and corporate bonds and discontinue the purchases in about one year," decided at the March 2024 MPM, the Bank gradually reduced its amount of outright purchases of CP and corporate bonds and discontinued purchases after the January 2025 auction. In the meantime, to improve predictability, the Bank continued to publish at the end of each month the schedule and amounts of outright purchases for the subsequent two months. At the end of November 2024, the Bank also announced in advance that it would discontinue outright purchases after the January 2025 auction.

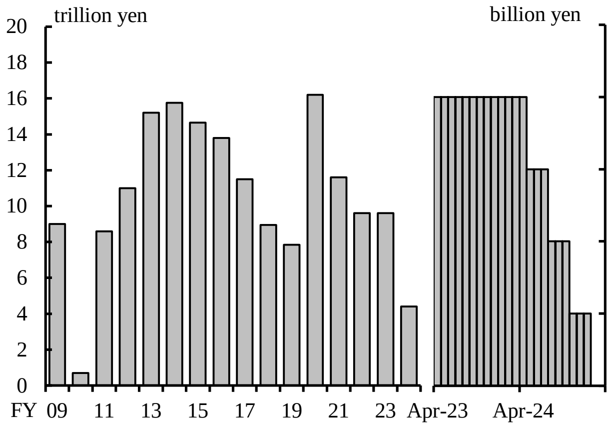
Outright purchases of CP

Regarding the auctioned amount of CP, the Bank reduced its monthly offers of outright purchases (which were 800 billion yen as of April 2024) by 200 billion yen each calendar quarter, in accordance with the aforementioned guideline. Monthly offers of outright purchases were 600 billion yen for the May-July quarter, 400 billion yen for the August-October quarter, and 200 billion yen for the November-January 2025 quarter. Outright purchases were discontinued after the January auction (Chart 2-29). From August 2024 onward, the frequency of auctions was reduced from twice to once per month.

The lowest accepted bid yields for outright purchases of CP continued on an uptrend as CP issuance rates increased in tandem with movements in short-term interest rates, despite occasional small declines due to seasonal factors. Specifically, for purchase operations from

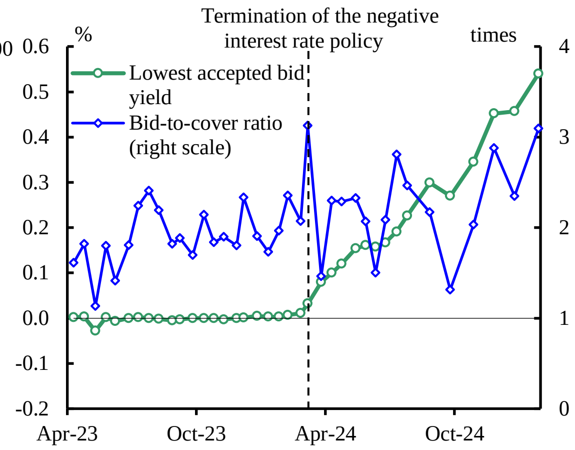
November 2024 onward, when the auction amount was changed to 200 billion yen, there were some aggressive bids on issues with high rates in anticipation of the termination of the Bank's CP outright purchases. In this context, the lowest accepted bid yields rose somewhat substantially, and the bid-to-cover ratio increased to approximately 3 times (Chart 2-30). At the same time, the Bank continued to set a lower limit on bid rates for each offer, aiming to induce appropriate pricing of CP and ensure financial market stability.

Chart 2-29: Offered Amounts of Outright Purchases of CP



Note: The left-hand chart displays the total amount offered in each fiscal year. Figures include CP purchased under the previous Principal Terms and Conditions for Outright Purchases of CP and through the Asset Purchase Program. The right-hand chart shows monthly offered amounts.

Chart 2-30: Lowest Accepted Bid Yields of Outright Purchases of CP and Bid-to-Cover Ratios



Outright purchases of corporate bonds

Regarding the auctioned amount of corporate bonds, the Bank reduced its monthly offers of outright purchases (which were 100 billion yen as of April 2024) by 25 billion yen each calendar quarter, in line with the aforementioned guideline. Monthly offers of outright purchases were 75 billion yen for the May-July quarter, 50 billion yen for the August-October quarter, and 25 billion yen for the November-January 2025 quarter. Outright purchases were discontinued after the January auction (Chart 2-31).

The lowest accepted bid yields for outright purchases of corporate bonds followed an upward trend, generally in tandem with JGB yields, which serve as the base rates. Furthermore, purchase operations in December 2024 and January 2025 were in small amounts of 25 billion yen, and there was some active bidding for issues with high rates; thus, the lowest accepted bid yields rose somewhat significantly, and the bid-to-cover ratio increased to about 4 times

(Chart 2-32). Meanwhile, the Bank continued to set a lower limit on bid rates for each offer, aiming to induce appropriate pricing of corporate bonds and ensure financial market stability.

Chart 2-31: Offered Amounts of Outright Purchases of Corporate Bonds

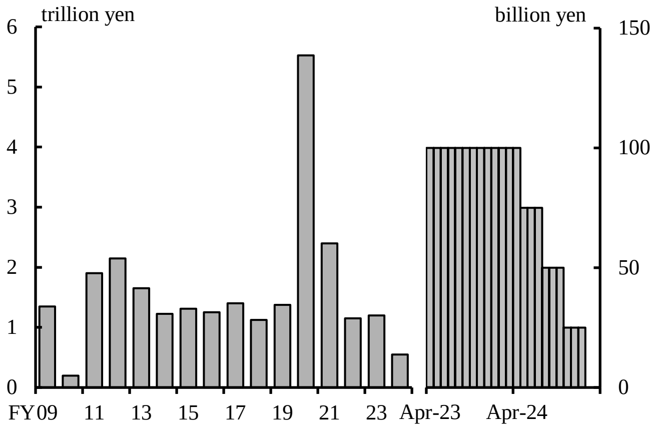
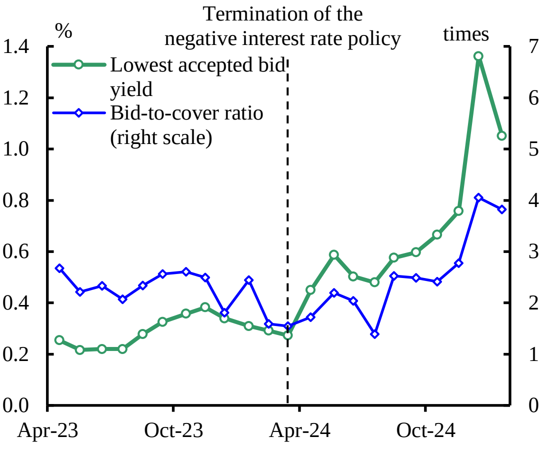


Chart 2-32: Lowest Accepted Bid Yield of Outright Purchases of Corporate Bonds and Bid-to-Cover Ratios

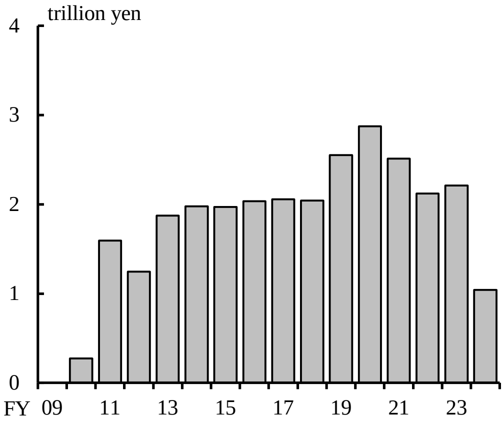


Note: The left-hand chart displays the total amount offered in each fiscal year. Figures include corporate bonds purchased under the previous Principal Terms and Conditions for Outright Purchases of Corporate Bonds and through the Asset Purchase Program. The right-hand chart shows monthly offered amounts.

Amount outstanding of outright purchases of CP and corporate bonds

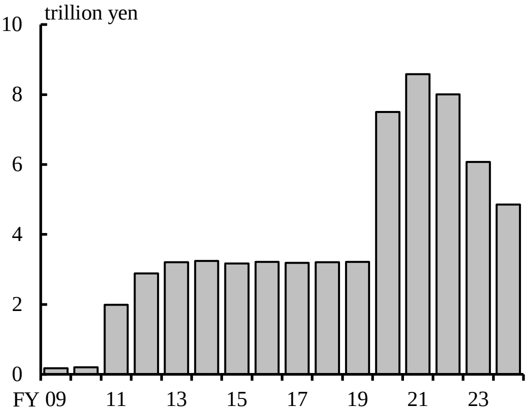
The amount outstanding of CP and corporate bonds gradually declined as reductions in outright purchases progressed. The outstanding amount at the end of March 2025 was 1.0 trillion yen for CP, a decrease of 1.2 trillion yen from the previous year, and 4.9 trillion yen for corporate bonds, a decrease of 1.2 trillion yen from the previous year (Charts 2-33 and 2-34). Since outright purchases were discontinued after the January 2025 auction, the outstanding amount of outright purchases is expected to decline to zero by the end of the second half of fiscal 2025 for CP and by the end of the second half of fiscal 2027 for corporate bonds.

Chart 2-33: Amounts Outstanding of CP Purchased



Note: Figures include CP purchased under the previous Principal Terms and Conditions for Outright Purchases of CP and through the Asset Purchase Program.

Chart 2-34: Amounts Outstanding of Corporate Bonds Purchased



Note: Figures include corporate bonds purchased under the previous Principal Terms and Conditions for Outright Purchases of Corporate Bonds and through the Asset Purchase Program.

F. Developments in the FX Swap Market and the Supply of U.S. Dollar Funds

1. Developments in the FX Swap Market

In the FX swap market in fiscal 2024, U.S. dollar funding costs (short-term FX swap-implied U.S. dollar rate from the yen) remained generally flat until July, as the U.S. Federal Reserve Board left its policy rate unchanged. After the start of August, funding costs declined, mainly driven by a decline in the U.S. dollar OIS. Market expectations of policy rate cuts by the Federal Reserve increased due to growing concerns over a slowdown in the U.S. economy. The Federal Reserve also cut its policy rate at three consecutive meetings held in September, November, and December (Chart 2-35).

Meanwhile, the U.S. dollar funding premium temporarily increased toward the end of 2024, partly due to concerns that some foreign banks might reduce their U.S. dollar fund supply, as they had in preceding years, to avoid increasing their balance sheets. That said, the premium's increase was somewhat smaller than a year earlier, as Japanese banks raised funds in advance toward the end of the year. After the start of 2025, the U.S. dollar funding premium diminished as year-end factors dissipated (Chart 2-36).

Chart 2-35: U.S. Dollar Funding Costs through Short-Term FX Swaps

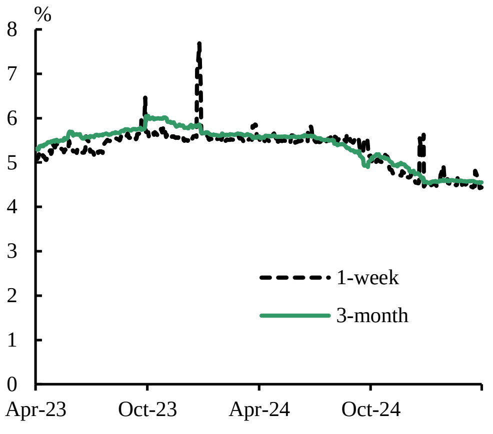
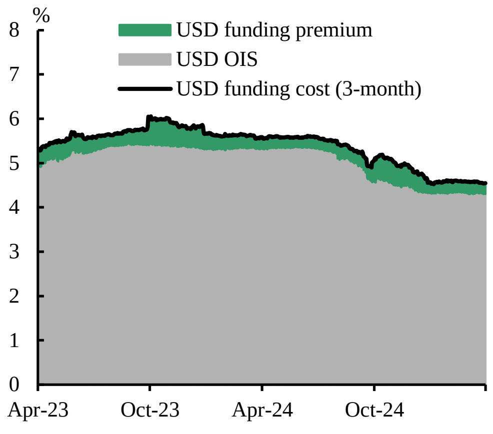


Chart 2-36: Breakdown of U.S. Dollar Funding Costs through Short-Term FX Swaps



Note: The U.S. dollar funding costs through short-term FX swaps represent the total funding costs incurred by raising yen at JPY OIS and converting the proceeds into U.S. dollar through FX swap transactions.

2. The Supply of U.S. Dollar Funds

The U.S. Dollar Funds-Supplying Operations are to be used as a backstop for such cases as when heightened tensions in the U.S. dollar money markets make it difficult for market participants to obtain U.S. dollars despite adequate efforts to do so in the markets, or cause a substantial rise in the U.S. dollar funding rate. In fiscal 2024, the Bank offered 1-week operations on a weekly basis in principle. Turning to the use of these operations, as no particular problems were seen in Japanese banks' U.S. dollar funding, counterparties only used the operations in very small sums for training purposes throughout the fiscal year.

Meanwhile, the framework of the Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations was used only sporadically in small sums for the purpose of verifying administrative preparedness.

G. Other Operations

1. Funds-Supplying Operations against Pooled Collateral

The Bank continued to offer the Funds-Supplying Operations against Pooled Collateral with a fixed interest rate once every two weeks, offering 800 billion yen of 2-week loans each time. Based on the guideline for market operations, the loan rate was set at the same level as the interest rate on excess reserve balances on the auction date.

The bid-to-cover ratio for the usage of the Funds-Supplying Operations against Pooled Collateral remained around 1 times until summer 2024. Thereafter, it followed a moderate uptrend as securities firms became more active in bidding for general bond funding, including municipal and corporate bonds. It then rose to about 2 times by the end of March 2025 (Chart 2-37). Meanwhile, immediately before the MPMs in December 2024 and January 2025, some counterparties that sensed the possibility of further policy rate hikes were bidding actively; therefore, the bid-to-cover ratio temporarily experienced a significant increase.

Furthermore, although no upper limit was set initially on the bid amount per counterparty, starting with the December 24, 2024, auction, a maximum bid amount of 200 billion yen per counterparty was set to avoid any significant skewing of each financial institution's bids accepted for the facility, considering the increasing trend in the bid-to-cover ratio.

As the Funds-Supplying Operations against Pooled Collateral for 2-year term loans, which the Bank offered in January 2023, came due, the outstanding balance of these operations declined significantly to 7.8 trillion yen at the end of March 2025, a decrease of 10.7 trillion yen from the previous year (Chart 2-38).

Chart 2-37: Bid-to-Cover Ratio of the Funds-Supplying Operations against Pooled Collateral

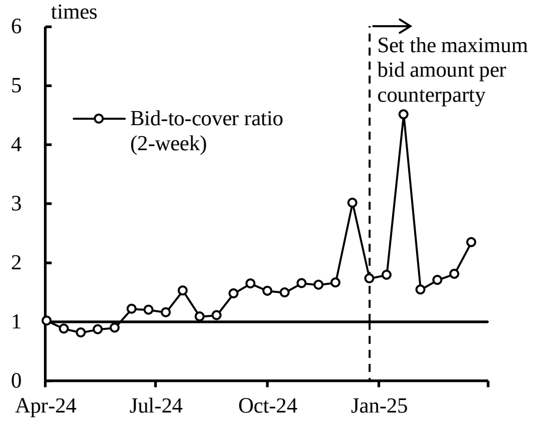
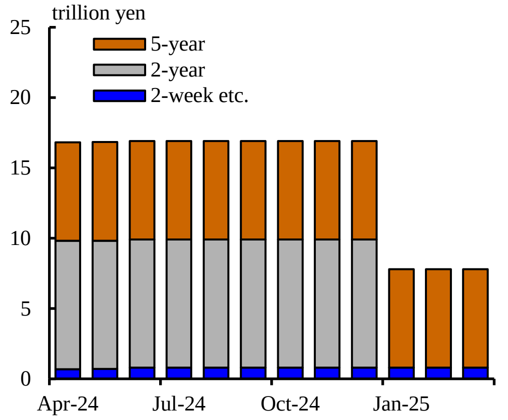


Chart 2-38: Amounts Outstanding of the Funds-Supplying Operations against Pooled Collateral



2. Stimulating Bank Lending Facility

During fiscal 2024, the Bank disbursed loans once a quarter, for a total of four times, under the Stimulating Bank Lending Facility (Chart 2-39). Turning to the use of the facility, until June 2024, when loans were offered on a fixed-rate basis, regional banks, in particular, were actively using the facility to raise funds at low fixed interest rates, given expectations for interest rate increases, and outstanding amounts continued to increase on a trend. However, after the Bank decided to provide loans for the facility on a floating-rate basis at the July 2024 MPM, a growing trend emerged to refrain from using the facility. Beginning with the September loans, the facility's outstanding balance began to decline. As a result, the outstanding balance as of the end of March 2025 was 73.0 trillion yen, a decline of 5.3 trillion yen from the previous year (see Box 6 for details).

Meanwhile, at the January 2025 MPM, the Bank decided that new loan disbursements would not be made after June 30, 2025. As a transitional measure to facilitate the smooth termination of the measure, the Bank decided to allow counterparties to roll over up to 50 percent of the amount of loans maturing between July 1 and December 31, 2025, into one-year loans.

Chart 2-39: Loan Disbursement under the Stimulating Bank Lending Facility

100 million yen

Jun. 2024 (Jun. 17)	Sep. 2024 (Sep. 11)	Dec. 2024 (Dec. 11)	Mar. 2025 (Mar. 13)
67,646	121,454	33,838	18,695
790,646	783,814	771,475	730,190

Note: The date in parentheses is the offer day. While the value in the upper row denotes new loans, that in the lower row represents the outstanding balance of loans as of the end of the month.

3. Growth-Supporting Funding Facility

During fiscal 2024, the Bank conducted only rollovers of loans under the special rules for the U.S. dollar lending arrangement for investments and loans denominated in foreign currencies introduced in April 2012 (Chart 2-40).[16]

At the end of March 2025, the outstanding balance of loans under the main rules was 1.7 trillion yen, a decrease of 1.1 trillion yen from the previous year. The outstanding balance of

[16] The Bank had discontinued new loan disbursements in June 2022 under the special rules for the U.S. dollar lending arrangement, as well as under the main rules, which had been introduced in June 2010 and revised in October 2019.

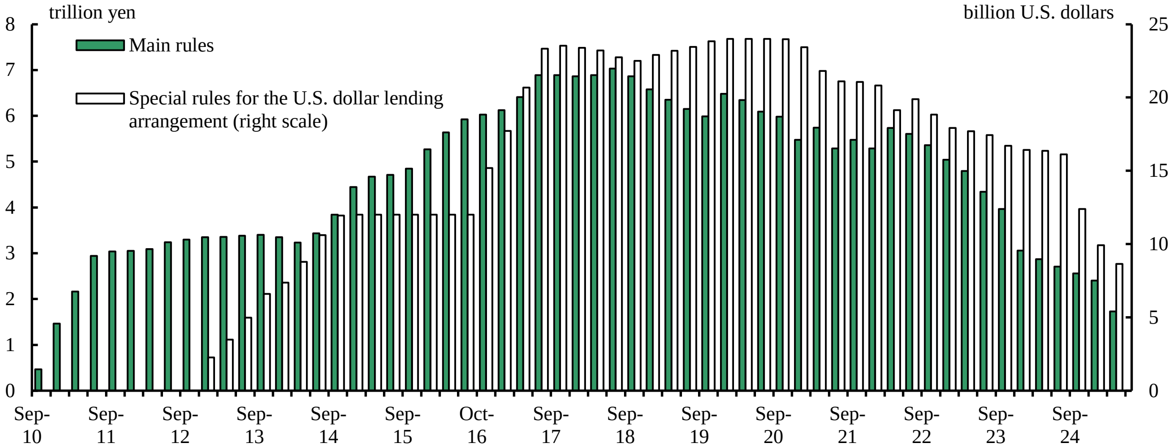
loans under special rules for the U.S. dollar lending arrangement was 8.7 billion U.S. dollars, a decrease of 7.7 billion U.S. dollars from the previous year (Chart 2-41).

Chart 2-40: Loan Disbursement under the Growth-Supporting Funding Facility

100 million yen Main rules (as of end-Mar. 2025)	million U.S. dollars Special rules for the U.S. dollar lending arrangement (as of end-Mar. 2025)
17,307 (3,493)	8,651

Note: The value in parentheses below the outstanding balance of loans under the main rules is the outstanding balance of loans to financial institutions that are members of central organizations (financial institutions that do not hold current accounts at the Bank).

Chart 2-41: Amounts Outstanding of the Growth-Supporting Funding Facility



4. Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

During fiscal 2024, the Bank offered the operations once a quarter, for a total of four times (Chart 2-42). The outstanding balance stood at 51.7 billion yen at the end of March 2025, a decrease of 48.4 billion yen from the previous year, due to repayment of existing loans.

Chart 2-42: Loan Disbursement under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

100 million yen

24th (May 15, 2024)	25th (Aug. 15)	26th (Nov. 14)	27th (Feb. 13, 2025)	Outstanding balance of loans (as of end-Mar. 2025)
0	279	57	0	517

Note: The date in parentheses is the offer day, and the value denotes new loans.

5. Funds-Supplying Operations to Support Financing for Climate Change Responses

During fiscal 2024, the Bank offered the operations once every six months, for a total of twice (Chart 2-43). The amount outstanding of investment and loans eligible for the operations continued to increase. In this context, eligible counterparties continued to actively utilize the operations to raise stable funding at low fixed interest rates, given expectations for interest rate increases, and the outstanding balance of the loans continued to increase (see Box 6 for details). As a result, the outstanding balance reached 14.2 trillion yen at the end of March 2025, an increase of 6.0 trillion yen from the previous year.

Chart 2-43: Loan Disbursement under the Funds-Supplying Operations to Support Financing for Climate Change Responses

100 million yen

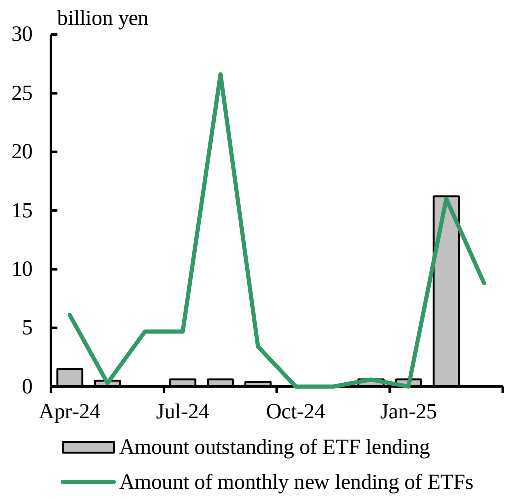
6th (Jul. 18, 2024)	7th (Jan. 29, 2025)	Outstanding balance of loans (as of end-Mar. 2025)
72,361	69,704	142,065

Note: The date in parentheses is the offer day, and the value denotes new loans.

6. ETF Lending Facility

The Bank lent its holdings of ETFs a total of 35 times during fiscal 2024, and the amount outstanding of ETF lending at the end of March 2025 stood at zero. The amount of monthly new lending (based on trade date) was less than 10 billion yen in most months, although usage of the facility temporarily increased somewhat. For instance, the amount of new lending reached approximately 25 billion yen in August, when Japanese stock prices dropped sharply due to a more cautious risk sentiment stemming from increased concerns over a slowdown in the U.S. economy (Chart 2-44).

Chart 2-44: Amounts Outstanding of ETF Lending and Amounts of Monthly New Lending of ETFs

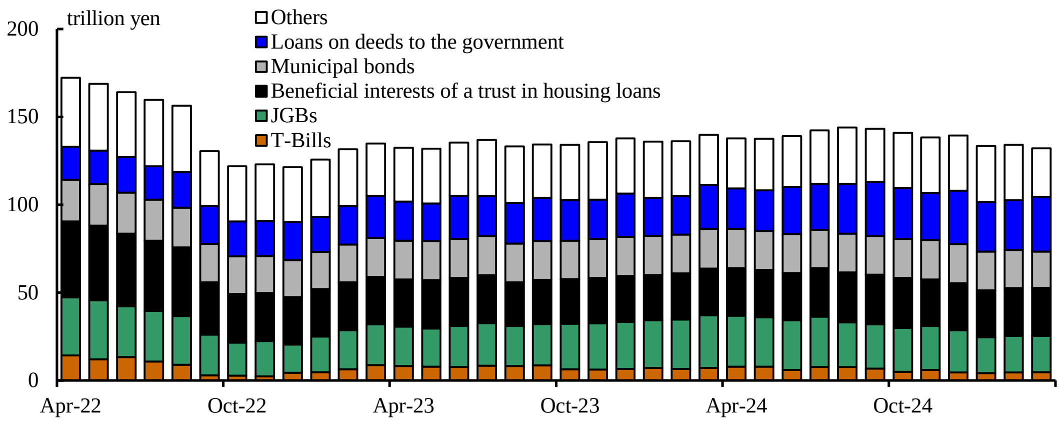


Note: "Amount of monthly new lending of ETFs" is based on the trade date.

7. Collateral Pledged to the Bank of Japan

The amount outstanding of collateral pledged to the Bank by financial institutions increased slightly from April through August 2024, due to factors such as the previously mentioned increased use of the Stimulating Bank Lending Facility and the Climate Response Financing Operations. It subsequently declined somewhat from September, as usage of the Stimulating Bank Lending Facility decreased and the outstanding balance of the Funds-Supplying Operations against Pooled Collateral declined in January 2025 (Chart 2-45). Looking at the breakdown of collateral pledged to the Bank, from summer 2024, the outstanding amount of loans on deeds increased. Conversely, the outstanding amount of JGBs declined due to a growing movement toward more efficient use of JGBs as collateral when raising funds in the GC repo market.

Chart 2-45: Amounts Outstanding of Collateral Pledged to the Bank



Box 6: Usage of the Stimulating Bank Lending Facility and the Climate Response Financing Operations

The Fund-Provisioning Measure to Stimulate Bank Lending (Stimulating Bank Lending Facility) and the Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations) both provide funds for one year. As of the end of March 2025, their outstanding loan balances were 73.0 trillion yen and 14.2 trillion yen, respectively (Box Chart 6-1). As discussed, in fiscal 2024, the amount outstanding of loans at the Stimulating Bank Lending Facility declined due to the facility's modification, while the amount outstanding at the Climate Response Financing Operations continued to increase. The following subsection summarizes usage by financial institutions of the Stimulating Bank Lending Facility and the Climate Response Financing Operations in fiscal 2024.

Box Chart 6-1: Outline of the Stimulating Bank Lending Facility and the Climate Response Financing Operations

	Stimulating Bank Lending Facility (introduced in December 2012)	Climate Response Financing Operations (introduced in September 2021)
Purpose	To stimulate bank lending, with a view to promoting private financial institutions' aggressive action and helping increase proactive credit demand of firms and households.	To support financing of the private sector for their efforts on climate change.
Loan rates	Floating rate (the average interest rate applied to the Complementary Deposit Facility during the period in which the loans are extended)	Fixed rate (the interest rate applied to the Complementary Deposit Facility as of the date of loan disbursement)
Duration of loans	One year	One year
Outstanding balance of loans	73.0 trillion yen	14.2 trillion yen
Number of eligible counterparties	217	83

Note: "Loan rates," "Outstanding balance of loans," and "Number of eligible counterparties" are as of the end of March 2025.

Stimulating Bank Lending Facility

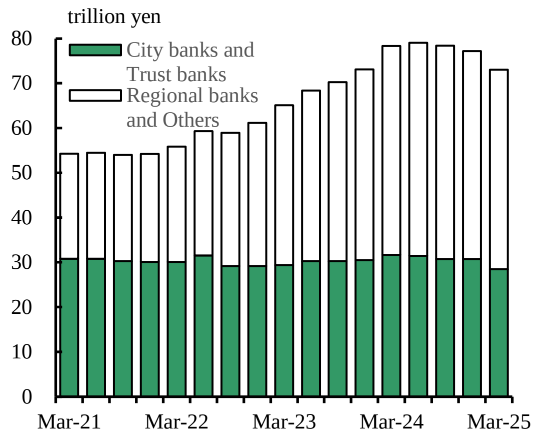
Starting in March 2024, the terms and conditions of the Stimulating Bank Lending Facility were revised in stages to provide eligible counterparties with a reasonable level of incentive to borrow funds under the measure, taking into account economic and financial conditions (Box Chart 6-2). Specifically, (1) the loan term, which had been four years, was shortened to a duration of one year in March, and (2) in July, the Bank decided to provide the loans on a floating rate basis. In January 2025, given the economic and financial conditions to date, the Bank decided that new loan disbursements would not be made after June 30, 2025. It also decided on a transitional measure aimed at facilitating the smooth termination of the facility.

Considering usage amid these changes, some financial institutions decided to forgo the use of the facility during the loan disbursement conducted in June 2024, in response to the shortening of the loan duration. Nonetheless, overall usage remained strong, as funds could be borrowed at low fixed interest rates, given expectations for interest rate increases, and loans outstanding continued to increase (Box Chart 6-3).

Box Chart 6-2: Modifications of the Operation Scheme since March 2024 (Stimulating Bank Lending Facility)

	Modifications made at the MPM
Mar-2024	The Bank will provide new loans with an interest rate of 0.1 percent and a duration of one year (instead of the previous rate of 0 percent and duration of four years). The maximum amount of funds that each eligible counterparty can borrow will be equivalent to the net increase in its amount outstanding of loans (instead of the previous amount that is twice as much as the net increase in its amount outstanding of loans).
Jul-2024	The Bank will provide new loans on a floating rate basis (instead of the previous 0.1 percent).
Jan-2025	New loan disbursements will not be made after June 30, 2025. With the aim of facilitating the smooth termination of the measure, the Bank decided, as a transitional measure, the Bank will allow counterparties to roll over loans.

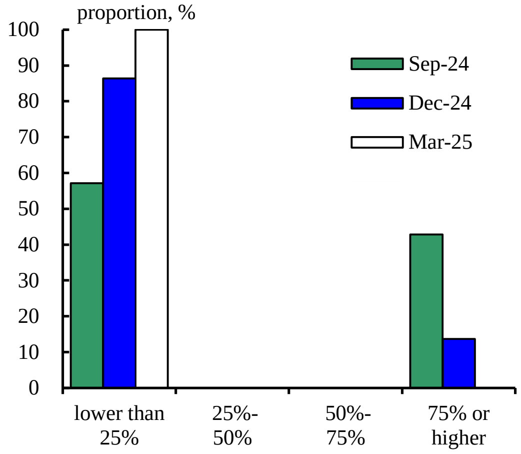
Box Chart 6-3: Amounts Outstanding of Loans by Sector (Stimulating Bank Lending Facility)



For loan disbursements from September 2024, usage, especially by regional banks, gradually decreased as the incentive to use the facility declined with the change to floating-rate loans, and thus the outstanding balance of loans began to decline. Nevertheless, some financial institutions continued to actively use the facility, considering its impact on the net stable funding ratio (NSFR) and the increased competition to acquire deposits. Therefore, the outstanding balance of loans remained at a high level of 73.0 trillion yen as of the end of March 2025, a decrease of 5.3 trillion yen from the previous year. Concerning the shifts in usage stance, developments of the rollover ratio for the loans among regional banks for the Stimulating Bank Lending Facility (the ratio of loans rolled over to loans approaching maturities) show that the ratio of less than 25 percent started increasing in September 2024, and the rollover ratio among all counterparties was less than 25 percent for loans made in March 2025. This change suggests that regional banks became less eager to use the facility overall (Box Chart 6-4).

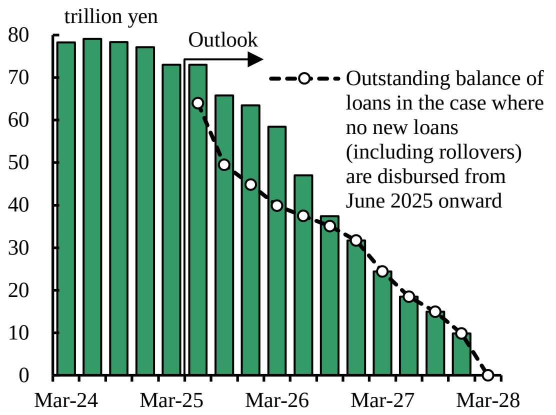
Looking ahead, the outstanding balance of these loans is expected to decline gradually, although the pace will depend on usage amounts during the transitional measure period that began in July 2025. The balance is anticipated to be zero by March 2028 (Box Chart 6-5).

Box Chart 6-4: Distribution of Regional Banks by Rollover Ratio (Stimulating Bank Lending Facility)



Note: The rollover ratio is calculated for each regional bank by determining the ratio of loans rolled over to loans approaching maturities in each of the three latest loan disbursements. The figures show the proportion of reginal banks in each category based on their rollover ratio to the total number of reginal banks with maturing loans.

Box Chart 6-5: Outlook for Outstanding Balance of Loans (Stimulating Bank Lending Facility)



Note: The bar for June 2025 in the chart represents the outstanding balance of loans in the scenario where all borrowing counterparties maintain their existing loan balances. The bars during the transitional measure period represent the outstanding balance of loans in the scenario where 50 percent of all maturing loans eligible for rollover are rolled over. Prepayment from June 2025 onward is assumed to be zero.

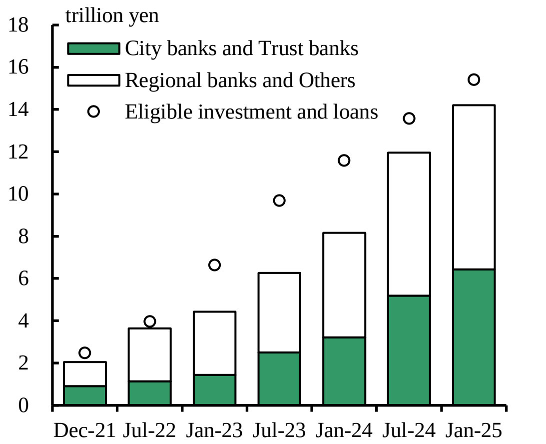
Climate Response Financing Operations

The interest rate applied to the Climate Response Financing Operations was lifted in line with the decisions to raise the interest rate on excess reserve balances made at the MPMs in March 2024, July 2024, and January 2025. However, the framework of fixed-rate loans was maintained, and funds continued to be supplied at fixed rates, considering the facility's objective to support the private sector's efforts to address climate change.

Looking at usage, as the outstanding balance of investment and loans eligible for these operations continued to increase steadily, a broad range of sectors maintained active use of the operations to raise stable funding at low fixed interest rates, given growing expectations for higher interest rates. As a result, the amount outstanding of loans continued to increase to 14.2 trillion yen after the recent loan disbursement in January 2025, representing a 2.2 trillion yen increase from the loan disbursement in July 2024 (Box Chart 6-6).

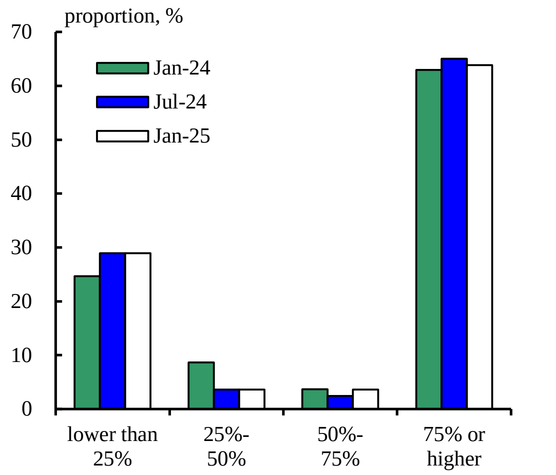
Furthermore, looking at the results of the three recent loan disbursements to assess how much these operations are utilized relative to the amount outstanding of counterparties' eligible investment and loans, the ratio of new loans in each counterparty's lending limit[17] was 75 percent or more for approximately 60 percent of the counterparties. This situation appears to suggest that many eligible counterparties continued to engage in climate-related investments and loans based on the premise that they utilize these operations, while promoting climate change responses as a key area of management focus (Box Chart 6-7). The Bank will continue to support financing of the private sector for their efforts on climate change by conducting the Climate Response Financing Operations, and carefully monitor the usage of the operations.

Box Chart 6-6: Amounts Outstanding of Loans by Sector (Climate Response Financing Operations)



Note: The bars in the chart show the outstanding balance of loans by sector. "Eligible investment and loans" refer to the total amount outstanding for all sectors.

Box Chart 6-7: Distribution of Counterparties by Usage Ratio (Climate Response Financing Operations)



Note: The usage ratio is calculated as the ratio of new loans provided in each of the three latest loan disbursements to the maximum amount for the corresponding counterparty. The figures show the proportion of counterparties in each category based on their usage ratio to the total number of eligible counterparties.

[17] This is the amount outstanding of eligible investment and loans less the amount outstanding of loans extended under the operations (excluding those repaid on the auction day). Eligible counterparties can take out loans up to the lending limit.

H. Complementary Lending Facility

During fiscal 2024, the use of this facility remained at an extremely low level. This situation reflected strong perceptions of abundant liquidity in money markets, with current account balances at the Bank being maintained at an extremely high level overall.

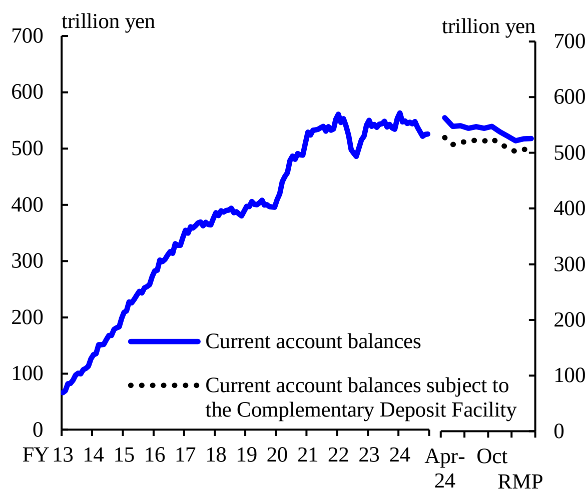
III. Developments in Current Account Balances at the Bank and the Bank's Balance Sheet

A. Developments in Current Account Balances at the Bank

1. Summary

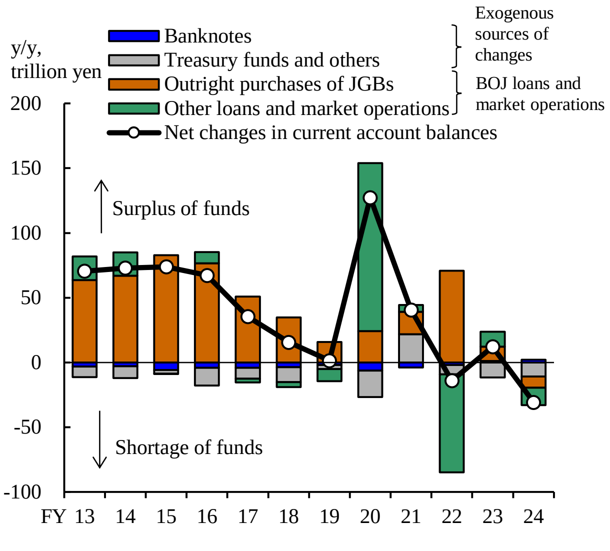
In fiscal 2024, the outstanding balance of current accounts at the Bank, while remaining very high, declined modestly toward the second half of the fiscal year on the back of the market operations discussed in Chapter II, reaching 530.4 trillion yen at the end of March 2025, a decline of 30.7 trillion yen from the previous year (Chart 3-1). Looking at the sources of changes in the current account balances at the Bank,[18] a contribution from "BOJ loans and market operations" turned negative due to the reduction of the Bank's JGB purchases and lower outstanding balances in the Stimulating Bank Lending Facility and the Funds-Supplying Operations against Pooled Collateral. A contribution from "exogenous sources of changes," comprising changes in treasury funds and others and those in banknotes, remained negative (Chart 3-2). Moreover, the outstanding balance of current accounts, which are subject to the interest rate under the Complementary Deposit Facility, moved generally in tandem with developments in the overall current account balances, declining modestly toward the latter half of the fiscal year.

Chart 3-1: Amounts Outstanding of Current Account Balances at the Bank



Note: "Current account balances subject to the Complementary Deposit Facility" are shown on the right-hand chart only. RMP stands for the Reserve Maintenance Period.

Chart 3-2: Sources of Changes in Current Account Balances at the Bank



Note: "Treasury funds and others" and "BOJ loans and market operations" are shown after repayment adjustments. For details on repayment adjustments, see "3. Developments in Exogenous Sources of Changes in Current Account Balances at the Bank."

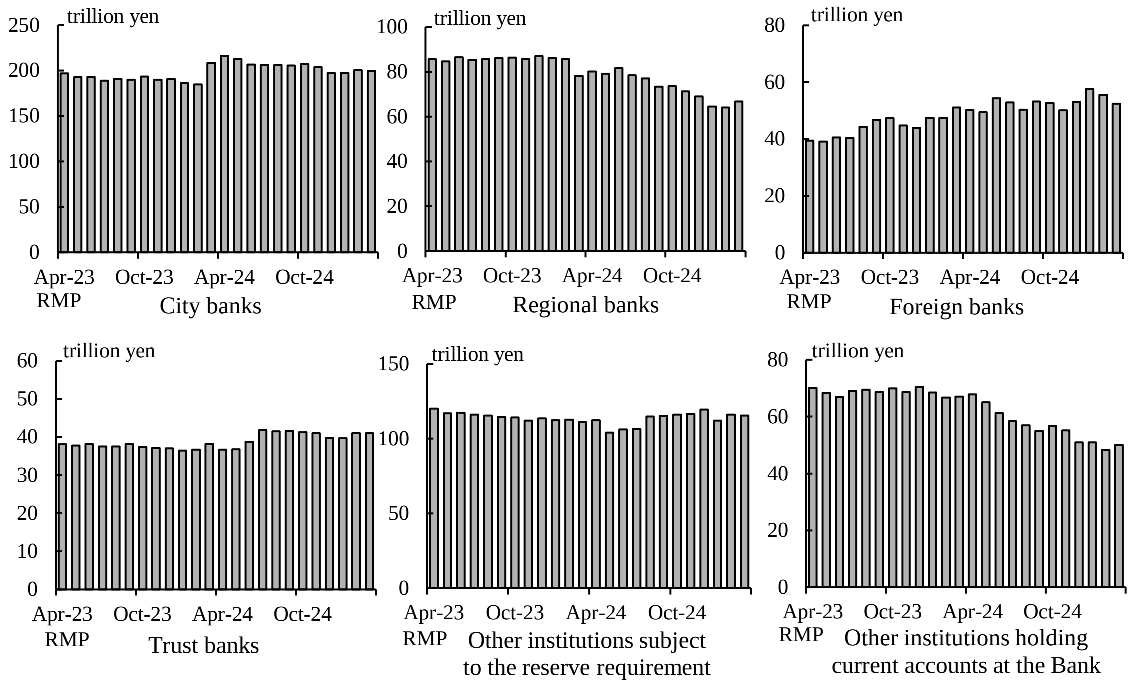
[18] Current account balances at the Bank change in accordance with market operations, as well as with exogenous factors (receipts and payments of banknotes and treasury funds between financial institutions and the Bank or the government).

2. Developments in Current Account Balances at the Bank by Sector

Developments in current account balances at the Bank in fiscal 2024 varied by sector (see Box 7 for details).

The balances of city banks increased in the first half of the fiscal year and were subsequently more or less unchanged, because those banks (1) stopped lending funds to shrink policy-rate balances, which had occurred under the three-tier system, due to the termination of the negative interest rate policy. Those banks also (2) more aggressively raised funds, for example, in the repo market to arbitrage the interest rate on excess reserve balances, as a positive interest rate was being applied to the entire amount of excess reserve balances (Chart 3-3). Furthermore, foreign banks increased their balances throughout the fiscal year. Those banks actively converted U.S. dollar funds into yen and added them to their current account balances at the Bank during the reserve maintenance period in June 2024, when the yen continued to depreciate, and during the period of the heightened attractiveness of conversion to yen.

Chart 3-3: Amounts Outstanding of Current Account Balances at the Bank by Sector



Notes: 1. "Other institutions subject to the reserve requirement" include the following: *Shinkin* Banks (with deposits of more than 160 billion yen); PayPay Bank; Seven Bank; Sony Bank; Rakuten Bank; SBI Sumishin Net Bank; au Jibun Bank; AEON Bank; Daiwa Next Bank; ORIX Bank; Custody Bank of Japan; SBI Shinsei Bank; Aozora Bank; Shinhan Bank Japan; The Resolution and Collection Corporation; The Norinchukin Bank; Japan Post Bank; Lawson Bank; GMO Aozora Net Bank; Minna Bank; and UI Bank.

2. "Other institutions holding current accounts at the Bank" include the following: securities companies; *tanshi* companies (money market brokers); securities finance companies; Shinkin Central Bank; *Shinkin* Banks (with deposits of 160 billion yen or less); The Shoko Chukin Bank; The Shinkumi Federation Bank; The Rokinren Bank; Japanese Bankers Association; Japanese Banks' Payment Clearing Network; Tokyo Financial Exchange; Japan Securities Clearing Corporation; JASDEC DVP Clearing Corporation; CLS BANK International; Development Bank of Japan; Japan Finance Corporation; Japan Bank for International Cooperation; and Deposit Insurance Corporation of Japan.

In contrast, regional banks reduced their balances in the Bank's current account throughout the fiscal year. While regional banks had been the principal recipients of funds provided mainly by city banks in the uncollateralized call market under the three-tier system during the negative interest rate policy, they were no longer borrowing funds from them in response to such lending needs after negative interest rates were terminated. The decline in their current account balances was also attributable to the narrowing of their loan-deposit gap, which shows the difference between deposits and loans. Other institutions holding current accounts with the Bank, mainly those not eligible for the Complementary Deposit Facility, reduced their balances throughout the fiscal year as they resumed market investments with positive interest rates taking hold in the market.

3. Developments in Exogenous Sources of Changes in Current Account Balances at the Bank

Financial institutions' current account balances at the Bank change along with market operations, as well as receipts and payments of banknotes and treasury funds between financial institutions and the Bank or the government. Changes in current account balances at the Bank resulting from factors other than market operations are called "exogenous sources of changes in current account balances at the Bank." These changes are categorized into (1) "changes in banknotes" resulting from exchanges of banknotes for deposits in the current accounts, and (2) "changes in treasury funds and others" mainly resulting from exchanges of funds between the current accounts and government deposits.

During fiscal 2024, exogenous sources of changes in current account balances at the Bank resulted in a decrease of 80.4 trillion yen in current account balances, due to a larger impact from changes in treasury funds and others, while changes in banknotes contributed to an increase in the balances. The amount of the decrease was less than the 92.3 trillion yen decline in fiscal 2023.

Changes in banknotes

In fiscal 2024, the outstanding balance of banknotes issued continued to decrease on a trend, albeit at a slower pace, primarily due to the increasing adoption of cashless payments. The balance stood at 118.7 trillion yen at the end of March 2025, a 1.8 percent decrease from the previous year (Chart 3-4). Reflecting this development, changes in banknotes in fiscal 2024 continued to be a source of increase in current account balances at the Bank, as net redemptions increased to 2.2 trillion yen, from 1.1 trillion yen in fiscal 2023.

Regarding the cumulative changes in banknotes from the start of fiscal 2024, seasonal changes in issuance and redemption generally followed the same pattern as in fiscal 2023. As fiscal 2024 marked the first time in 20 years that a new series of Bank of Japan notes was issued, there was a large-scale increase in banknote issuance on July 3, the day the new banknotes entered circulation. Around the time of the issuance of new banknotes, there was a move to return the old banknotes to the Bank, reflecting preparations of receiving the new ones and exchanges of the old banknotes for the new ones (Chart 3-5).[19]

Chart 3-4: Outstanding Balance of Banknotes Issued

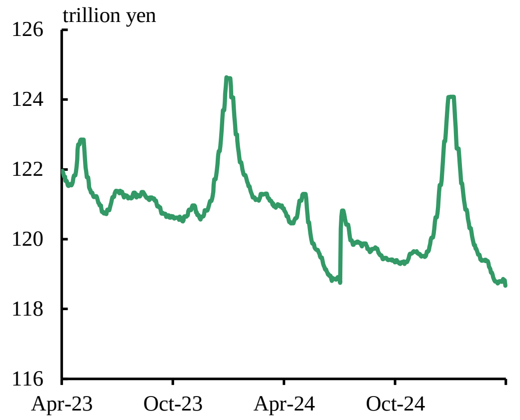
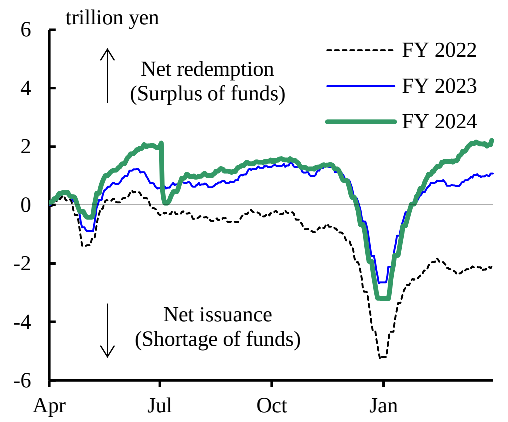


Chart 3-5: Cumulative Changes in Banknotes from the Start of the Fiscal Year



Changes in treasury funds and others

In fiscal 2024, changes in treasury funds and others amounted to net receipts of 82.6 trillion yen (a decrease in current account balances at the Bank), which was a decline from net receipts of 93.3 trillion yen in fiscal 2023 (Chart 3-6). Changes in treasury funds and others include payments to financial institutions associated with the redemption of JGBs and T-Bills. When the Bank purchases these instruments as part of its market operations, the repayment amount to financial institutions declines, becoming a factor in the decrease of payments in changes in treasury funds and others.[20] Looking at changes in treasury funds and others based on both the impact of these market operations and the adjustment that excludes this impact

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[19] The development in "changes in banknotes" before and after the issuance of new banknotes generally followed the same trend as during the previous issuance of a new series of notes in November 2004. Specifically, because of the ongoing decline in receipts and payments due to such factors as the growing use of cashless payment instruments in recent years, changes in banknotes stemming from the issuance of new series (net issuance on the date of the new banknotes' issuance and net redemption around that time) were slightly smaller than at the time of the previous issuance of new series.

[20] The net amount of JGBs and T-Bills issued (or redeemed) is registered as changes in treasury funds and others, provided that the Bank does not engage in market operations. If the Bank purchases JGBs and T-Bills from financial institutions and holds them to maturity, these positions are not netted out. Specifically, the Bank records receipts for changes in treasury funds and others (decrease in current account balances at the Bank) when JGBs and T-Bills are issued by the government. The current account balances do not see a change upon redemption of the securities. As a result, changes in treasury funds and others record substantial net receipts (decreases in current account balances at the Bank) due to the Bank's market operations, although receipts and payments for changes in treasury funds and others are assumed to be largely commensurate with one another.

(hereinafter referred to as the "repayment adjustment")[21] (Charts 3-7 and 3-8), the impact of market operations was net receipts of 71.7 trillion yen, a 10.0 trillion yen decrease from net receipts of 81.7 trillion yen in fiscal 2023. Changes in treasury funds and others, after repayment adjustments, also resulted in net receipts of 10.9 trillion yen, a decrease of 0.7 trillion yen from the net receipts of 11.6 trillion yen in fiscal 2023. The contribution to the decline in current account balances at the Bank, therefore, diminished. Reasons for this include a decrease in net issuance of JGBs with maturities of more than one year and T-Bills.

Chart 3-6: Cumulative Changes in Treasury Funds and Others from the Start of the Fiscal Year

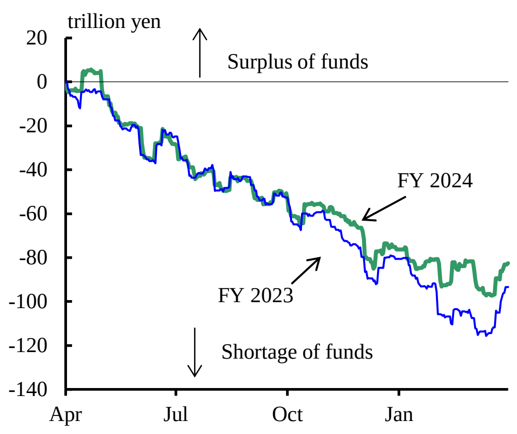
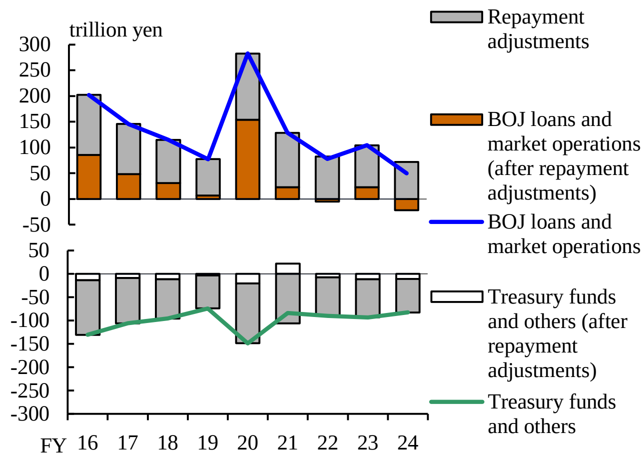


Chart 3-7: Impact of Treasury Funds and Others and BOJ Loans and Market Operations on Current Account Balances at the Bank



In other words, among the changes in treasury funds and others (after repayment adjustments), net issuance of JGBs with maturities of more than one year and T-Bills (after repayment adjustments) declined, as their issuance amounts in fiscal 2024 were lower than in fiscal 2023 (Chart 3-9). In contrast, "net fiscal payments" declined overall. This was because tax revenues, primarily from corporation tax and consumption tax, rose in response to the economic recovery and a gradual improvement in the employment and income situation, although a large-scale budget was implemented, similar to that of the prior fiscal year (Chart 3-10). Meanwhile, net receipts of "foreign exchange" grew as the receipts of yen-denominated funds

[21] With "repayment adjustments," regarding JGBs and T-Bills redeemed from the government to the Bank, adjustments are made to treat these as if the Bank, as part of market operations, sold them to financial institutions just before redemption and financial institutions received the redemptions from the government. For this reason, after repayment adjustments are carried out, there are changes in the amount of fluctuation for JGBs (with a residual maturity of more than 1 year) and T-Bills from among changes in treasury funds and others, as well as in purchases of JGBs and T-Bills as part of market operations (Charts 3-7 and 3-8).

increased due to U.S. dollar selling/yen purchasing foreign exchange interventions conducted in April, May, and July 2024 (Chart 3-8).[22]

Chart 3-8: Sources of Changes in Current Account Balances at the Bank

trillion yen

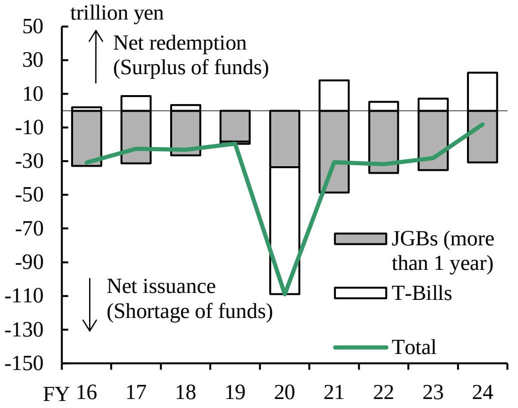
	Before repayment adjustments			After repayment adjustments		
	FY 2023	FY 2024	Year-on-year	FY 2023	FY 2024	Year-on-year
Banknotes	1.1	2.2	1.1	1.1	2.2	1.1
Treasury funds and others	-93.3	-82.6	10.7	-11.6	-10.9	0.7
Net fiscal payments	26.0	21.5	-4.4	26.0	21.5	-4.4
JGBs (more than 1 year)	-111.7	-100.3	11.4	-35.3	-30.6	4.7
T-Bills	1.9	20.5	18.6	7.2	22.5	15.3
Foreign exchange	-0.3	-15.5	-15.2	-0.3	-15.5	-15.2
Others	-9.1	-8.9	0.3	-9.1	-8.9	0.3
Surplus/shortage of funds	-92.3	-80.4	11.9	-10.5	-8.7	1.8
BOJ loans and market operations	104.4	49.7	-54.7	22.6	-22.1	-44.7
Outright purchases of JGBs	87.6	61.1	-26.5	11.2	-8.6	-19.8
Outright purchases of T-Bills	4.1	0.0	-4.1	-1.3	-2.0	-0.8
Special Operations in Response to COVID-19	-6.0	—	6.0	-6.0	—	6.0
Funds-Supplying Operations to Support Financing for Climate Change Responses	3.7	6.0	2.3	3.7	6.0	2.3
Funds-Supplying Operations against Pooled Collateral	4.5	-10.7	-15.2	4.5	-10.7	-15.2
Loan Support Program	11.3	-6.4	-17.7	11.3	-6.4	-17.7
Other loans and market operations	-0.9	-0.4	0.5	-0.9	-0.4	0.5
Net change in current account balances	12.1	-30.7	-42.9	12.1	-30.7	-42.9

Notes: 1. For banknotes, negative figures represent a net increase in banknotes. For treasury funds and others, negative figures represent net receipts of the treasury. For BOJ loans and market operations, positive figures represent the supply of funds.
2. The shaded areas indicate increases or decreases in figures after repayment adjustments.

Developments in yen-denominated deposits received by the Bank from foreign central banks and international institutions, which are included in the "others" of "treasury funds and others," also affect the current account balances at the Bank. In fiscal 2024, net receipts of "others" decreased as the scale of the increase in the balance of yen-denominated deposits received by the Bank was smaller than in the previous year, despite the balance continuing to grow.

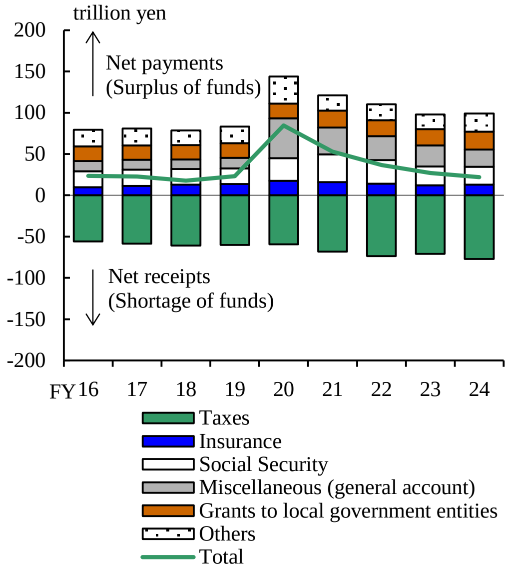
[22] See Box 1 in Financial Markets Department, Bank of Japan (2023), *Market Operations in Fiscal 2022* for details on the impact of foreign exchange intervention operations on current account balances at the Bank.

Chart 3-9: Impact of Issuance and Redemption of JGBs and T-Bills on Current Account Balances at the Bank



Notes: 1."Net issuance" is negative. "Net redemption" is positive.
2. The figures are after repayment adjustments.

Chart 3-10: Receipts and Payments of Treasury Funds with the Private Sector



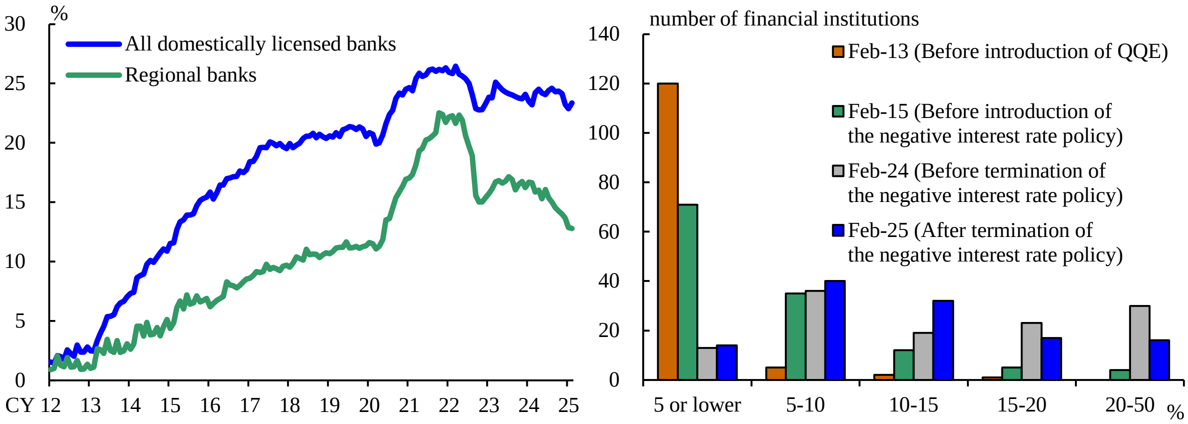
Box 7: Distribution of Current Account Balances at the Bank

Current account balances at the Bank started to decline in fiscal 2024; however, these declines differed by sector, as discussed earlier. These differences by sector likely reflected the distribution of current account balances at the Bank for each financial institution based on its asset-liability management (ALM). The following examines the distribution of current account balances at the Bank after the termination of the negative interest rate policy.

First, looking back at the developments in the size of domestic banks' current account balances at the Bank over a somewhat extended period, the ratio of current account balances at the Bank to total assets among domestic banks increased substantially on the whole, due to the large-scale supplies of funds by the Bank following the introduction of QQE in 2013 (Box Chart 7-1, left side). At the same time, the divergence in the share for each domestic bank expanded (Box Chart 7-1, right side). Furthermore, developments over the past year since the termination of the negative interest rate policy indicate that as the outstanding balance of current accounts at the Bank started to decline overall, the number of financial institutions with a relatively high ratio (over 20 percent) of their current account balances at the Bank to their total assets decreased. On the other hand, the number of financial institutions with a relatively low ratio (between 5 percent and 15 percent) increased.

Box Chart 7-1: Ratio of Current Account Balances at the Bank to Total Assets

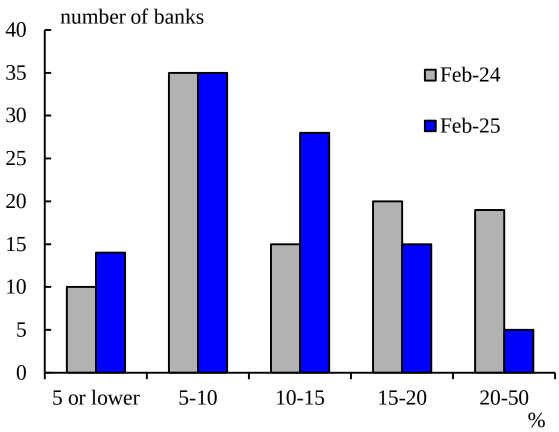
(Time series) **(Changes in the ratio to total assets)**



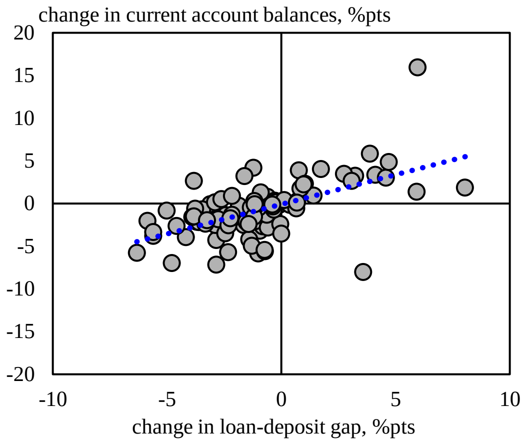
Note: "All domestically licensed banks" excludes trust bank subsidiaries, foreign trust banks, and internet-only banks affiliated with regional banks.

The above development after the termination of the negative interest rate policy is considered to primarily reflect trends in regional banks. In this regard, the distribution of the ratio of current account balances at the Bank to total assets among regional banks indicates that the ratio shifted downward overall (Box Chart 7-2). As stated, this was likely attributed to (1) a decline in cash borrowing in the uncollateralized call market. Another probable factor was (2) a narrowing of the loan-deposit gap due to households' shift of their funds toward assets under custody from bank deposits and increased competition with other sectors to acquire deposits, amid generally firm growth in loans. Looking at the relationship between individual financial institutions' current account balances at the Bank and their loan-deposit gap (Box Chart 7-3), it is evident that the greater the narrowing of the loan-deposit gap, the greater the decline in current account balances at the Bank.

Box Chart 7-2: Ratio of Current Account Balances at the Bank to Total Assets Before and After the Termination of the Negative Interest Rate Policy (Regional Banks)



Box Chart 7-3: Correlation between Current Account Balances at the Bank and Loan-Deposit Gaps (Regional Banks)

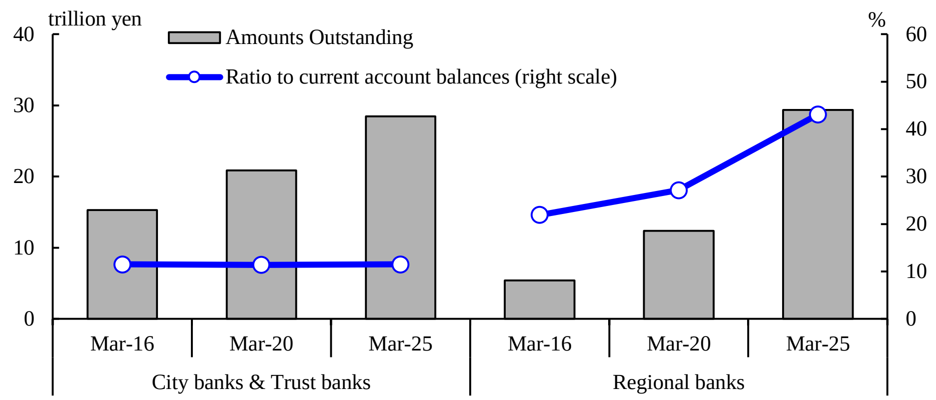


Notes: 1. Current account balances at the Bank are the figures before trading in the call market.
2. "Loan-deposit gap" is the difference between loans and deposits.
3. Both the vertical and horizontal axes show the year-on-year change in the ratio to total assets at the end of February 2025.
4. The dotted line represents the regression line using the least-squares method.

Nonetheless, regional banks, including those that experienced somewhat significant reductions in their current account balances at the Bank, continue to maintain ample liquidity. In fiscal 2024, they made no particular moves, such as (1) increasing their bidding in the Funds-Supplying Operations against Pooled Collateral or (2) increasing their borrowing of funds using term instruments in the money markets.

In the future, the amount outstanding of current account balances at the Bank is expected to continue to decline generally in fiscal 2025 and thereafter, as the reduction in the Bank's JGB purchases progresses further and the Stimulating Bank Lending Facility is terminated. In particular, since regional banks have relatively large usage amounts of the Stimulating Bank Lending Facility, it is anticipated that the termination of the facility will further reduce their current account balances at the Bank (Box Chart 7-4). The Bank will continue to closely monitor developments in current account balances at the Bank, taking into account the distribution among financial institutions, as well as developments by sector.

Box Chart 7-4: Amounts Outstanding of Loans from the Stimulating Bank Lending Facility and its Ratio to Current Account Balances at the Bank



B. The Bank's Balance Sheet

As a result of the market operations described in Chapter II, the Bank's balance sheet shrank in fiscal 2024 (Chart 3-11).

The Bank's balance sheet stood at 729.8 trillion yen at the end of March 2025, a decrease of 26.7 trillion yen from the previous year. Meanwhile, the monetary base amounted to 653.8 trillion yen at the end of March 2025, a decrease of 33.0 trillion yen from the previous year.

On the asset side, a wide range of items decreased against the backdrop of the changes in the monetary policy framework. Specifically, in accordance with the plan for the reduction of the purchase amount of JGBs, as decided in July 2024, the reduction began in August, resulting in JGBs declining to 574.2 trillion yen, a decrease of 11.4 trillion yen from the previous year. Furthermore, around 9 trillion yen of 2-year term loans that the Bank provided two years prior under the Funds-Supplying Operations against Pooled Collateral matured in January 2025, resulting in a balance of 7.8 trillion yen for this facility, a decline of 10.7 trillion yen from the previous year. Purchases of CP and corporate bonds were discontinued in January 2025. Accordingly, CP dropped to 1.0 trillion yen, a decline of 1.2 trillion yen from the previous year, and corporate bonds decreased to 4.9 trillion yen, a decline of 1.2 trillion yen from the previous year. The Loan Support Program also declined to 74.7 trillion yen, a decrease of 6.4 trillion yen from the previous year, due to a trend toward discontinuing usage, mainly reflecting the Bank's decision to provide loans on a floating rate basis under the Fund-Provisioning Measure to Stimulate Bank Lending. Meanwhile, the Climate Response Financing Operations continued to rise to 14.2 trillion yen (an increase of 6.0 trillion yen from the previous year) as a broad range of counterparties continued to utilize the facility actively.

On the liability side, current account balances at the Bank decreased to 530.4 trillion yen, a decline of 30.7 trillion yen from the previous year. Banknotes also decreased to 118.7 trillion yen, a decline of 2.2 trillion yen from the previous year. Payables under repurchase agreements increased to 12.8 trillion yen, a rise of 8.6 trillion yen from the previous year, as positive market interest rates took hold and the sales of JGBs to the government under repurchase agreements resumed for the first time in nine years, since 2015. In contrast, deposits of the government decreased to 3.9 trillion yen, a decline of 11.8 trillion yen from the previous year (Chart 3-12).

Chart 3-11: The Bank's Balance Sheet

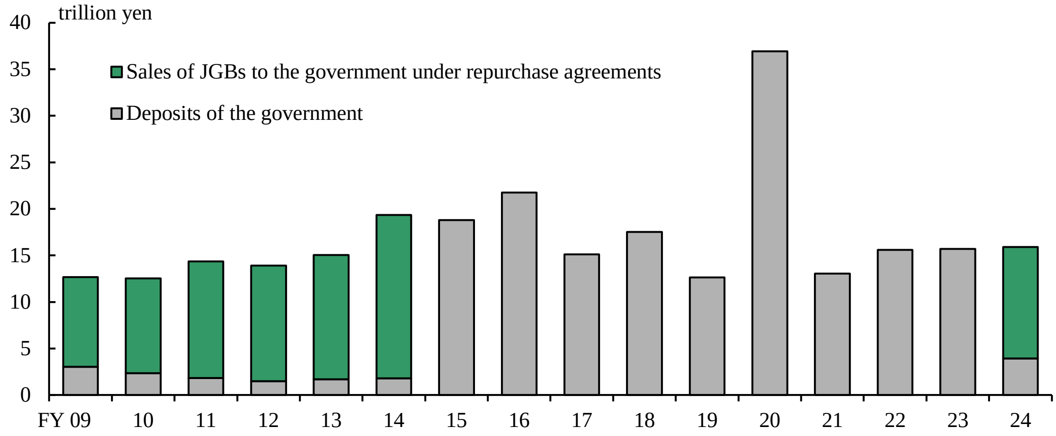
trillion yen

	End-Mar.2020	End-Mar.2021	End-Mar.2022	End-Mar.2023	End-Mar.2024	End-Mar.2025	Year-on-year
JGBs	473.5	495.8	511.2	576.2	585.6	574.2	-11.4
CP	2.6	2.9	2.5	2.1	2.2	1.0	-1.2
Corporate bonds	3.2	7.5	8.6	8.0	6.1	4.9	-1.2
ETFs	29.7	35.9	36.6	37.0	37.2	37.2	-0.0
J-REITs	0.6	0.7	0.7	0.7	0.7	0.7	-0.0
Loan Support Program	49.2	60.0	61.6	69.9	81.2	74.7	-6.4
Outright purchases of T-Bills	10.2	34.2	12.7	3.3	2.0	0.0	-2.0
Funds-Supplying Operation to Support Financial Institutions in Disaster Areas	0.5	0.5	0.5	0.2	0.1	0.1	-0.0
Special Operations in Response to COVID-19	3.4	64.8	86.8	6.0	-	-	-
Funds-Supplying Operations to Support Financing for Climate Change Responses	-	-	2.0	4.4	8.2	14.2	+6.0
Funds-Supplying Operations against Pooled Collateral	1.2	0.5	0.5	14.0	18.5	7.8	-10.7
Foreign currency assets	26.0	7.7	8.3	9.1	10.7	11.2	+0.4
Total assets (including others)	604.5	714.6	736.3	735.1	756.4	729.8	-26.7
Banknotes	109.6	116.0	119.9	122.0	120.9	118.7	-2.2
Current account balances	395.3	522.6	563.2	549.1	561.2	530.4	-30.7
Other deposits	51.8	26.8	26.6	28.9	37.8	47.0	+9.2
Deposits of the government	12.6	36.9	13.0	15.6	15.7	3.9	-11.8
Payables under repurchase agreements	24.1	0.6	0.9	5.4	4.3	12.8	+8.6
Total liabilities and net assets (including others)	604.5	714.6	736.3	735.1	756.4	729.8	-26.7

Monetary base	509.8	643.6	688.0	675.8	686.8	653.8	-33.0

Notes: 1. "Loan Support Program" does not include the Special Rules for the U.S. Dollar Lending Arrangement to Enhance the Growth-Supporting Funding Facility.
2. "Outright purchases of T-Bills" does not reflect changes in the amount of T-Bills induced by, for example, the Bank's transactions with the government.
3. "Funds-Supplying Operation to Support Financial Institutions in Disaster Areas" includes the funds-supplying operation to support financial institutions in disaster areas of the Great East Japan Earthquake and of the 2016 Kumamoto Earthquake before they were abolished.
4. "Special Operations in Response to COVID-19" at end-March 2020 is the balance of the Special Funds-Supplying Operations to Facilitate Corporate Financing regarding the Novel Coronavirus (COVID-19).
5. "Foreign currency assets" is the sum of foreign currency-denominated assets held by the Bank, foreign currency loans by the U.S. Dollar Funds-Supplying Operations against Pooled Collateral, and other assets.
6. "Other deposits" represents deposits such as those held by foreign central banks.
7. "Payables under repurchase agreements" includes the Securities Lending Facility, sales of JGSs with repurchase agreements, and the Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations.

Chart 3-12: Amounts Outstanding of Sales of JGBs to the Government under Repurchase Agreements and Deposits of the Government



IV. Major Changes in the Frameworks Related to Market Operations and Others

A. The Guideline for Money Market Operations and the Interest Rate Applied to the Complementary Deposit Facility

At the MPM held on July 30 and 31, 2024, the Bank decided to encourage the uncollateralized overnight call rate to remain at around 0.25 percent, and in accordance with this change in the guideline for money market operations, to set the interest rate applied to the Complementary Deposit Facility (the interest rate applied to current account balances held by financial institutions at the Bank, excluding required reserve balances) at 0.25 percent.[23] With a view to further facilitating money market operations, the Bank also decided that it would introduce a fixed-rate method for sales of JGSs with repurchase agreements.

At the MPM held on January 23 and 24, 2025, the Bank decided to encourage the uncollateralized overnight call rate to remain at around 0.5 percent, and in accordance with this change in the guideline for money market operations, to set the interest rate applied to the Complementary Deposit Facility (same as the foregoing) at 0.5 percent.[24]

B. Plan for the Reduction of the Purchase Amount of JGBs

At the MPM held on July 30 and 31, 2024, the Bank decided on a plan for the reduction of its purchase amount of JGBs, taking into consideration the views provided by market participants, including those expressed during the special session of the Bond Market Group Meeting held on July 9 and 10. For the reduction plan, the Bank decided to conduct outright purchases of JGBs until March 2026 as follows, based on its view that long-term interest rates are to be formed in financial markets in principle, and that it is 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.

(a) The Bank will reduce the planned amount of its monthly purchases of JGBs so that it will be about 3 trillion yen in January-March 2026. The amount will be cut down by about 400 billion yen each calendar quarter in principle.

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[23] The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and to the Funds-Supplying Operations to Support Financing for Climate Change Responses were set at 0.25 percent.

[24] The interest rates applied to the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas and to the Funds-Supplying Operations to Support Financing for Climate Change Responses continued to be the same as those applied to the Complementary Deposit Facility.

(b) At the June 2025 MPM, the Bank will conduct an interim assessment of the plan for the reduction of its purchase amount of JGBs. In principle, the Bank intends to maintain the plan for the reduction after the assessment, while it may modify the plan as appropriate, if deemed necessary after reviewing the developments in and functioning of the JGB markets. At the meeting, it will also discuss a guideline for its JGB purchases from April 2026 and announce the results.

(c) In the case of a rapid rise in long-term interest rates, it will make nimble responses by, for example, increasing the amount of JGB purchases and conducting fixed-rate purchase operations of JGBs -- both of which can be done regardless of the monthly schedule of JGB purchases -- and the Funds-Supplying Operations against Pooled Collateral.

(d) The Bank is prepared to amend the plan for the reduction of its purchase amount of JGBs at the MPMs, if deemed necessary.

C. Fund-Provisioning Measure to Stimulate Bank Lending

At the MPM held on July 30 and 31, 2024, regarding the Fund-Provisioning Measure to Stimulate Bank Lending, the Bank decided to provide the loans on a floating rate basis (the interest rate on the loans would be the average of the interest rates applied to the Complementary Deposit Facility during the period in which the loans were extended).

Subsequently, at the MPM held on January 23 and 24, 2025, the Bank decided that new loan disbursements would not be made after June 30, 2025, as scheduled. With the aim of facilitating the smooth termination of the measure, the Bank also decided, as a transitional measure, to allow counterparties to roll over up to 50 percent of the amount of loans maturing between July 1 and December 31, 2025, into one-year loans.

D. Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

At the MPM held on April 25 and 26, 2024, the Bank decided to remove the 2016 Kumamoto Earthquake from the category of designated disasters specified in the "Principal Terms and Conditions for the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas." It was deemed that the purpose of the operation, which supported efforts toward restoration and reconstruction made by financial institutions in the disaster area, had been achieved.

E. Other Changes in Frameworks

1. Relaxation of the Terms and Conditions for the Securities Lending Facility for the Cheapest-to-Deliver Issues

On October 16, 2024, the Bank announced that, given that the JGB issues of which the Bank holds a significant share were expected to become the CTD after mid-December 2024, it would continue to implement relaxation of the terms and conditions for the Securities Lending Facility for the CTD issues in the same manner as before for the time being. The Bank also clarified that it would, in principle, accept counterparties' requests for a reduction in the amount of the CTD issues repurchased by the Bank under this facility, if the reduction was deemed to contribute to improving the liquidity of the JGB market.

Subsequently, on January 16, 2025, the Bank announced that, given that the measures for the reduction in the repurchase amount of the CTD issues had been introduced with the aim of easing concerns over the delivery of JGBs on the final settlement day of JGB futures, it would mainly take into account the amount outstanding of the CTD issues in the market when it judged whether the reduction contributed to improving the liquidity of the JGB market. Specifically, in light of the level of JGB futures positions on the last trading day in the past, the Bank decided that it would accept counterparties' requests in principle until the amount outstanding of each of the CTD issues in the market recovered to about 1.2 trillion yen.

2. Relaxation of the Upper Limit on the Number of JGS Issues Allowed for the Submission of Bids for the Securities Lending Facility

On January 24, 2025, the Bank decided to temporarily raise the upper limit on the number of JGS issues on which a counterparty was allowed to bid per auction from 30 to 50 for the Securities Lending Facility to be offered between January 27 and 31, 2025. This measure aims to ensure stability in the repo market by easing excessive tightening in the supply and demand conditions of JGSs in the market.

3. ETF Lending Facility and the Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations

In accordance with the changes in the guideline for money market operations decided upon at the MPM held on July 30 and 31, 2024, the Bank decided that, starting August 1, 2024, it would set the interest rate on cash collateral submitted by eligible counterparties of the ETF

Lending Facility by taking into account the level of the uncollateralized overnight call rate.

Furthermore, the Bank decided that, from August 1, 2024, it would determine the upper limit on selling yields for the Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations by taking into account the level of the uncollateralized overnight call rate.

V. Actions to Enhance Dialogue with Market Participants

In conducting market operations in line with the guidelines decided at MPMs, the Bank carefully examines the developments and functioning of financial markets, as well as the impacts of its market operations. The Bank also conducts daily market monitoring and various market surveys, such as the Bond Market Survey and the Tokyo Money Market Survey, with a view to further deepening dialogue with market participants.

Utilizing these survey results, the Bank's Financial Markets Department undertook various initiatives related to dialogue with market participants, as follows. In particular, following the decisions made at the June 2024 MPM, a special session of the Bond Market Group Meeting was convened in July to collect market participants' views on the conduct of outright purchases of JGBs by the Bank going forward.

1. Holding of the Meeting on Market Operations

The Meeting on Market Operations, which, in principle, is held twice a year with eligible counterparties for market operations, was held on October 16, 2024, and February 20, 2025. At these meetings, the Bank explained and exchanged opinions with participants on (1) recent developments in financial markets and market operations, (2) liquidity in and functioning of the JGB markets, and (3) the results of the Tokyo Money Market Survey and topics in the short-term money markets.[25]

2. Holding of the Bond Market Group Meeting

The Bond Market Group Meeting, which, in principle, is held twice a year with bond market participants, was held three times: June 4 and 5, July 9 and 10, and December 5 and 6, 2024.[26]

At the June and December meetings, the Bank explained and exchanged views with participants on (1) the results of the Bond Market Survey, (2) liquidity in the JGB market, and (3) recent developments in financial markets and market operations.

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[25] For summaries of the meetings held in fiscal 2024, see:
The October 2024 meeting
https://www.boj.or.jp/en/paym/market/mkt241017a.pdf.
The February 2025 meeting
https://www.boj.or.jp/en/paym/market/mkt250221a.pdf.

[26] For details, see
https://www.boj.or.jp/en/paym/bond/index.htm.

The July meeting was a special session held in response to the decisions made at the June 2024 MPM, to collect market participants' views on the conduct of outright purchases of JGBs by the Bank going forward. The Bank explained the background and purpose of the meeting and those participants' views collected before the meeting and then exchanged views with participants on (1) the amount and pace of the reduction in its JGB purchases, (2) the guidance on the reduction, and (3) how to proceed with the reduction in each maturity segment, among other related topics.

3. Dialogue with the Study Group for Activation of Short-Term Money Markets

The Bank participated in the Study Group for Activation of Short-Term Money Markets, comprising representatives of businesses that conduct short-term money market transactions, and actively supported the deliberations and initiatives by market participants for the activation of short-term money markets. Moreover, on November 18, 2024, the Bank hosted a working-level meeting, which, in principle, is held once a year with the Study Group for Activation of Short-Term Money Markets. The Bank exchanged opinions, mainly on developments in and functioning of the short-term money markets.

Reference 1: Number of Auctions and Eligible Counterparties for Market Operations

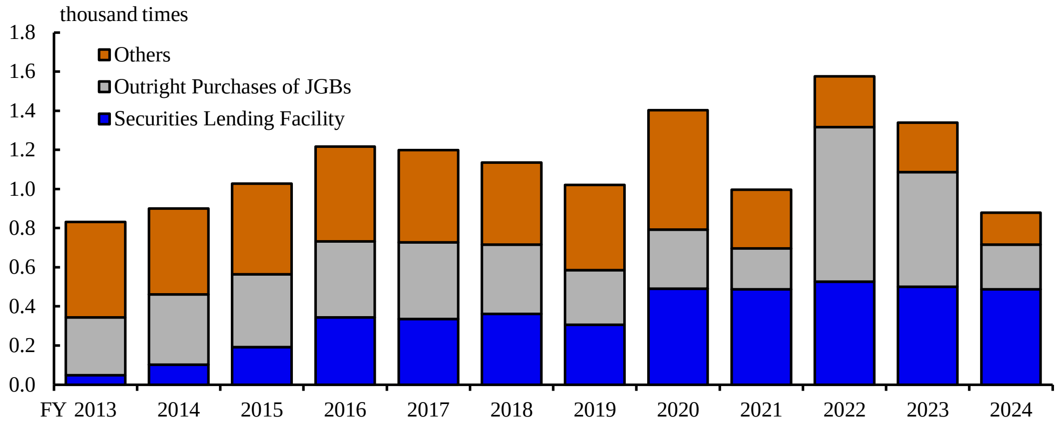
numbers

	Fiscal 2021	Fiscal 2022	Fiscal 2023	Fiscal 2024	Number of eligible counterparties
Outright purchases of JGBs	208	790	585	228	59
Outright purchases of T-Bills	43	44	41	0	54
Outright purchases of CP and corporate bonds	48	36	36	24	—
Outright purchases of ETFs	8	7	1	—	—
Outright purchases of J-REITs	2	1	0	—	—
Lending of ETFs	55	39	44	35	11
Funds-Supplying Operations against Pooled Collateral	27	36	29	27	349
Growth-Supporting Funding Facility	20	14	9	5	158
Stimulating Bank Lending Facility	4	4	4	4	217
Funds-Supplying Operation to Support Financial Institutions in Disaster Areas	6	4	4	4	36
Special Operations in Response to COVID-19	12	12	—	—	—
Funds-Supplying Operations to Support Financing for Climate Change Responses	1	2	2	2	83
Purchases of JGSs with repurchase agreements	8	0	8	0	54
Sales of JGSs with repurchase agreements	0	0	0	0	54
U.S. Dollar Funds-Supplying Operations	62	57	66	51	88
Securities Lending Facility	488	526	501	488	59
Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations	5	4	10	11	50
Total	997	1,576	1,340	879	—

Notes: 1. The number of auctions (excluding outright purchases of ETFs and J-REITs and lending of ETFs) is the number of the Bank's notifications of auction guidelines (offers) to eligible counterparties.

2. The number of eligible counterparties is as of the end of March 2025. The number of eligible counterparties for the Funds-Supplying Operations against Pooled Collateral is that for the Funds-Supplying Operations against Pooled Collateral at all offices (of which 42 counterparties are also eligible for the Funds-Supplying Operations against Pooled Collateral at the Head Office).

Reference 2: Number of Auctions for Market Operations



List of Data Sources and Referenced Materials

Chart 2-1:	Bank of Japan, "Call Money Market Data (Updated Every Business Day)."
Chart 2-2:	Bank of Japan, "Amounts Outstanding in the Call Money Market."
Chart 2-3:	Bank of Japan, "Call Money Market Data (Updated Every Business Day)."
Chart 2-4:	Bank of Japan, "Call Money Market Data (Updated Every Business Day)."
Chart 2-5:	Japan Securities Dealers Association, "Tokyo Repo Rate."
Chart 2-6:	Japan Securities Dealers Association.
Chart 2-7:	Japan Bond Trading.
Chart 2-8:	Ministry of Finance.
Chart 2-9:	Ministry of Finance; Bank of Japan.
Chart 2-10:	Bank of Japan, "Market Operations by the Bank of Japan," "Monetary Base and the Bank of Japan's Transactions."
Chart 2-11:	Japan Bond Trading.
Chart 2-12:	LSEG.
Chart 2-13:	Bloomberg.
Chart 2-14:	QUICK.
Chart 2-15:	Japan Securities Dealers Association.
Chart 2-16:	Bank of Japan, "Market Operations by the Bank of Japan."
Chart 2-17:	Ministry of Finance; Bank of Japan.
Chart 2-18:	Bank of Japan.
Chart 2-19:	Bank of Japan; Tradeweb.
Chart 2-20:	JBOND Totan Securities; Japan Securities Dealers Association, "Tokyo Repo Rate."
Chart 2-21:	JBOND Totan Securities; Japan Securities Dealers Association, "Tokyo Repo Rate."
Chart 2-22:	Bank of Japan, "Market Operations by the Bank of Japan."
Chart 2-23:	Bank of Japan, "Market Operations by the Bank of Japan."
Chart 2-24:	Japan Securities Depository Center; JBA TIBOR Administration.
Chart 2-25:	Japan Securities Depository Center.
Chart 2-26:	Bloomberg; Japan Securities Dealers Association; QUICK.
Chart 2-27:	Bloomberg; Japan Securities Dealers Association; QUICK.
Chart 2-28:	Japan Securities Depository Center.
Chart 2-29:	Bank of Japan, "Market Operations by the Bank of Japan."
Chart 2-30:	Bank of Japan, "Market Operations by the Bank of Japan."

Chart 2-31: Bank of Japan, "Market Operations by the Bank of Japan."

Chart 2-32: Bank of Japan, "Market Operations by the Bank of Japan."

Chart 2-33: Bank of Japan, "Monetary Base and the Bank of Japan's Transactions."

Chart 2-34: Bank of Japan, "Monetary Base and the Bank of Japan's Transactions."

Chart 2-35: Bloomberg.

Chart 2-36: Bloomberg.

Chart 2-37: Bank of Japan, "Market Operations by the Bank of Japan."

Chart 2-38: Bank of Japan, "Market Operations by the Bank of Japan," "Monetary Base and the Bank of Japan's Transactions."

Chart 2-39: Bank of Japan, "Loan Disbursement under the Fund-Provisioning Measure to Stimulate Bank Lending."

Chart 2-40: Bank of Japan, "Loan Disbursement under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth."

Chart 2-41: Bank of Japan, "Loan Disbursement under the Fund-Provisioning Measure to Support Strengthening the Foundations for Economic Growth."

Chart 2-42: Bank of Japan, "Loan Disbursement under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas."

Chart 2-43: Bank of Japan, "Loan Disbursement under the Funds-Supplying Operations to Support Financing for Climate Change Responses."

Chart 2-44: Bank of Japan, "New Lending of ETFs," "Outstanding Balance of ETF Lending at Month-End."

Chart 2-45: Bank of Japan.

Chart 3-1: Bank of Japan, "BOJ Current Account Balances by Sector."

Chart 3-2: Bank of Japan.

Chart 3-3: Bank of Japan, "BOJ Current Account Balances by Sector."

Chart 3-4: Bank of Japan.

Chart 3-5: Bank of Japan, "Sources of Changes in Current Account Balances at the Bank of Japan and Market Operations (Updated Every Business Day)."

Chart 3-6: Bank of Japan, "Sources of Changes in Current Account Balances at the Bank of Japan and Market Operations (Updated Every Business Day)."

Chart 3-7: Bank of Japan.

Chart 3-8: Bank of Japan, "Sources of Changes in Current Account Balances at the Bank of Japan and Market Operations (Final Figures)."

Chart 3-9: Bank of Japan.

Chart 3-10:	Ministry of Finance, "Receipts and Payments of Treasury Funds with the Private Sector."
Chart 3-11:	Bank of Japan, "Monetary Base and the Bank of Japan's Transactions," "Bank of Japan Accounts (Every Ten Days)."
Chart 3-12:	Bank of Japan, "Monetary Base and the Bank of Japan's Transactions."
Box Chart 1-1:	Bank of Japan.
Box Chart 1-2:	Bank of Japan.
Box Chart 1-3:	Bank of Japan.
Box Chart 1-4:	Bank of Japan.
Box Chart 1-5:	Osaka Exchange; Tokyo Financial Exchange; Japan Securities Clearing Corporation.
Box Chart 2-1:	Japan Securities Dealers Association, "Tokyo Repo Rate."
Box Chart 2-2:	Bank of Japan.
Box Chart 2-3:	Bank of Japan.
Box Chart 2-4:	Bank of Japan.
Box Chart 2-5:	Bank of Japan, "Trends in the Money Market in Japan: Results of the Tokyo Money Market Survey (August 2024)."
Box Chart 2-6:	U.S. Federal Reserve System.
Box Chart 3-1:	Bank of Japan.
Box Chart 3-2:	Ministry of Finance; Bank of Japan.
Box Chart 3-3:	Japan Securities Dealers Association.
Box Chart 3-4:	Japan Bond Trading.
Box Chart 3-5:	Bloomberg.
Box Chart 3-6:	QUICK; Bloomberg.
Box Chart 4-1:	Bank of Japan, "Market Operations by the Bank of Japan."
Box Chart 4-2:	Bank of Japan, "Market Operations by the Bank of Japan."
Box Chart 4-3:	Ministry of Finance; Bank of Japan.
Box Chart 4-4:	Osaka Exchange.
Box Chart 4-5:	Bank of Japan; Japan Securities Dealers Association; JBOND Totan Securities.
Box Chart 4-6:	Bank of Japan.
Box Chart 4-7:	Ministry of Finance; Bank of Japan; Japan Securities Dealers Association; JBOND Totan Securities.
Box Chart 5-1:	Ministry of Finance; Bank of Japan.
Box Chart 5-2:	Ministry of Finance; Bank of Japan.
Box Chart 5-3:	JBOND Totan Securities; Bank of Japan.

Box Chart 5-4:	QUICK.
Box Chart 5-5:	Osaka Exchange.
Box Chart 6-1:	Bank of Japan.
Box Chart 6-2:	Bank of Japan.
Box Chart 6-3:	Bank of Japan.
Box Chart 6-4:	Bank of Japan.
Box Chart 6-5:	Bank of Japan.
Box Chart 6-6:	Bank of Japan.
Box Chart 6-7:	Bank of Japan.
Box Chart 7-1:	Bank of Japan.
Box Chart 7-2:	Bank of Japan.
Box Chart 7-3:	Bank of Japan.
Box Chart 7-4:	Bank of Japan.

Reference 1:	Bank of Japan.
Reference 2:	Bank of Japan.