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Market Operations in Fiscal 2025

Financial Markets Department

Bank of Japan

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I. Summary

Throughout fiscal 2025, 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 0.5 percent as the guideline for money market operations until the December 2025 Monetary Policy Meeting (MPM). Thereafter, it decided to encourage this rate to remain at around 0.75 percent at the December MPM. At the June 2025 MPM, the Bank conducted an interim assessment of the plan for the reduction of its purchase amount of Japanese government bonds (JGBs). Based on the assessment, it decided to reduce the planned amount of its monthly purchases of JGBs by, in principle, about 400 billion yen each calendar quarter until January-March 2026, and by about 200 billion yen each calendar quarter from April-June 2026, so that it would be about 2 trillion yen in January-March 2027.

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 money market operations.

Money markets

In the money markets, the uncollateralized overnight call rate remained extremely stable at a level slightly below the applicable interest rate for the Complementary Deposit Facility (the interest rate on excess reserve balances at the Bank). This was attributed to the fact that regional banks and other financial institutions eligible for the Complementary Deposit Facility continued to borrow funds actively in the uncollateralized call market to engage in arbitrage between the interest rate on excess reserve balances and the uncollateralized overnight call rate. The general collateral (GC) repo rate generally remained stable at a level close to the interest rate on excess reserve balances. In particular, during the second half of fiscal 2025, the GC repo rate gradually rose from a level slightly below the interest rate on excess reserve balances to a level close to it, reflecting (1) an easing of supply and demand conditions for bonds and (2) somewhat reduced investment demand from overseas investors using FX swaps (i.e., U.S. dollar-yen conversion). Rate fluctuations, such as those at month-end, also became limited.

JGB market and outright purchases of JGBs

Long-term interest rates increased markedly throughout fiscal 2025, albeit with some fluctuations stemming from factors such as uncertainties surrounding U.S. trade policies and speculation over Japan's fiscal and monetary policies. This rise is attributable to (1) an increase in the Bank's policy rate to around 0.75 percent, (2) an upward revision in expectations of future policy rates among market participants, given Japan's solid economic and price indicators, and (3) vigilance against inflation in response to higher crude oil prices amid increased tension over the situation in the Middle East through the fiscal year-end. In late March 2026, long-term interest rates reached the 2.35-2.40 percent range, the highest level since February 1999.

Meanwhile, regarding the outright purchases of JGBs, the Bank cut down the monthly purchase amount by about 400 billion yen each calendar quarter in accordance with the plan for the reduction of the purchase amount of JGBs decided at the July 2024 and June 2025 MPMs. As a result, JGB purchases for the January-March 2026 quarter totaled 8.7 trillion yen (2.9 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 residual maturity and type, the Bank adopted as its basic principle prioritizing reductions in its purchases of maturity segments where the share of its purchases in the monthly issuance amount is high, from the standpoint of ensuring a certain degree of predictability. On this basis, the Bank determined the reduction amount each calendar quarter, taking also into account factors such as developments in the JGB market for each maturity zone and the underlying supply and demand conditions.

Securities Lending Facility

Regarding the Securities Lending Facility, the Bank maintained its daily operation of offering all available Japanese government securities (JGSs) held by the Bank. Furthermore, with respect to off-the-run issues of which the Bank holds a large share, the Bank expanded the JGB issues that are applicable to the relaxed conditions for the reduction in the Bank's repurchase amount under the Securities Lending Facility (a measure in which counterparties purchase securities they have borrowed from the Bank under the facility), in cases where the reduction is deemed to contribute to improving liquidity in the JGB market. This expansion of the applicable issues was implemented as an exceptional measure aimed at easing the tightness of supply and demand conditions, as the effects of a reduction in the Bank's JGB purchases do not easily extend to these off-the-run issues. In this situation, the amount of bids accepted and the number of JGB issues borrowed remained at low levels, against the backdrop of (1) an increase in the amount outstanding of JGBs in the market, mainly due to the Bank's progress in reducing its JGB purchases and to the reduction in the Bank's repurchase amount under the Securities Lending Facility, as well as (2) the stable rate formation in the repo market.

Other operations

Among funds-supplying operations, the outstanding balance of the Fund-Provisioning Measure to Stimulate Bank Lending declined significantly on the back of the termination of new loan disbursements. Conversely, the amount outstanding of the Funds-Supplying Operations to Support Financing for Climate Change Responses continued to grow, as eligible counterparties maintained active use of the facility with the outstanding balance of investment and loans eligible for these operations continuing to increase. Besides, the Bank sold to the market exchange-traded funds (ETFs) and Japan real estate investment trusts (J-REITs) from January 2026, in accordance with the guideline decided at the September 2025 MPM.

Number of operations

Based on the above market operations, the number of operations conducted by the Bank in fiscal 2025 was 799 (879 in the previous fiscal year). This figure was the lowest since fiscal 2013, the year that the Bank introduced QQE.

The remainder of this report describes the Bank's market operations during fiscal 2025. 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 examines developments in current account balances at the Bank and the Bank's balance sheet under market operations. Chapter IV outlines 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

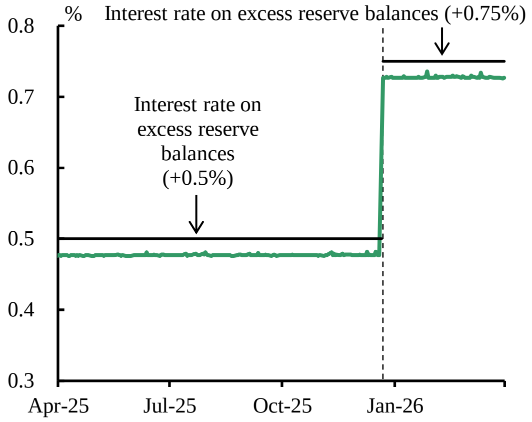
A. Developments in the Money Markets

1. Developments in the Uncollateralized Call Market

Throughout fiscal 2025, the uncollateralized overnight call market remained characterized by active borrowing by regional banks and other eligible financial institutions (the eligible counterparties) for the Complementary Deposit Facility. These eligible counterparties borrowed cash from investment trusts and other financial institutions (the non-eligible counterparties) that were not eligible for the Complementary Deposit Facility to engage in arbitrage between the interest rates applied to the Complementary Deposit Facility (the interest rate on excess reserve balances) and the uncollateralized overnight 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 (Chart 2-1).

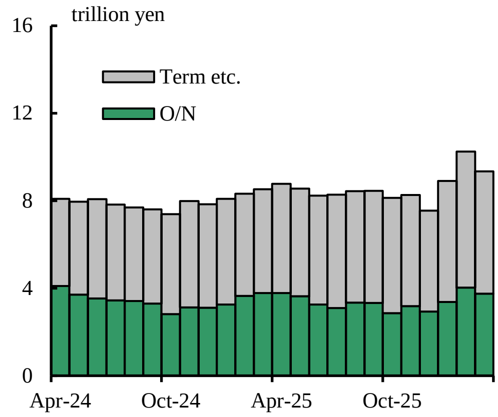
Looking at developments in the uncollateralized overnight call rate in detail, it remained in the 0.475-0.480 percent range from April 2025 through December 19 (an interest rate on excess reserve balances of 0.5 percent). Subsequently, following the policy rate hike in December 2025, the rate rose by the amount of the hike on December 22, the effective date of the new interest rate on excess reserve balances (an interest rate on excess reserve balances of 0.75 percent), and it stayed in the range of 0.725-0.730 percent from that date onward.

Chart 2-1: Uncollateralized Overnight Call Rate



Note: Weighted average. The vertical line represents the date when the new interest rate on excess reserve balances took effect.

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



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

Looking at the amount outstanding in the uncollateralized call market (intermediated by *tanshi* companies [money market brokers]) by term, transaction volume in the uncollateralized overnight call market was at around 3 to 4 trillion yen, albeit with some fluctuations due to changes in the surplus fund balances of investment trusts and other major lenders, as a wide range of sectors -- including regional banks, financial cooperatives, and securities firms -- borrowed cash (Chart 2-2). The amount outstanding in term transactions (intermediated by *tanshi* companies) rose to approximately 6 trillion yen from the beginning of 2026 as securities firms and other financial institutions borrowed cash more actively ahead of the fiscal year-end, mainly to comply with the liquidity coverage ratio (LCR) regulations.

Looking at changes in the entities in the uncollateralized call market, on the cash borrowing side, the borrower base expanded somewhat, primarily among regional banks, as they sought to diversify their cash borrowing sources and comply with liquidity regulations given a decline in the amount outstanding of the Stimulating Bank Lending Facility. Furthermore, on the cash lending side, some life and non-life insurance companies began new cash lending, as the investment attractiveness of uncollateralized call loans increased relative to deposits and other instruments due to the rise in policy interest rates.

Derivatives transactions (e.g., swaps) referencing the uncollateralized overnight call rate remained active. This was because, with positive interest rates taking hold, there was hedging demand against the risk of future interest rate increases and arbitrage trading based on the outlook for interest rates. In fact, the volume of yen overnight indexed swap (OIS) transactions (the amount of obligation assumed by the Japan Securities Clearing Corporation) continued to rise in fiscal 2025, following the trend of the previous fiscal year.

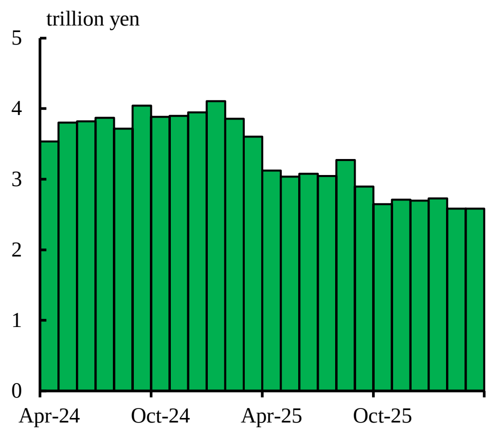
2. Developments in the Collateralized Call Market

Collateralized call transactions are classified into direct transactions (transactions between financial institutions and *tanshi* companies) and brokered transactions (transactions intermediated by *tanshi* companies). In the direct transactions, which comprise the majority of collateralized call transactions, financial institutions such as investment trusts and trust banks continued to lend cash to *tanshi* companies at rates below the interest rate on excess reserve balances, while *tanshi* companies, in turn, lent the funds they had raised to banks and other financial institutions at higher rates in the collateralized call market and the GC repo market.

The amount outstanding of transactions in the collateralized call market declined somewhat as some investment trusts on the cash lending side shifted their investments to the uncollateralized call market, where higher rates were expected, in order to enhance the competitiveness of their investment products; however, it remained stable at around 2.5 trillion yen during the second half of fiscal 2025 (Chart 2-3). Meanwhile, there were moves among market participants to resume transactions that had ceased since the introduction of the negative interest rate policy and to tentatively begin borrowing funds in the collateralized call market. These moves reflected (1) market participants being able to borrow cash at lower rates in that market than in the GC repo market and (2) the need to diversify cash borrowing sources in anticipation of, for example, the decline in the amount outstanding of the Stimulating Bank Lending Facility.

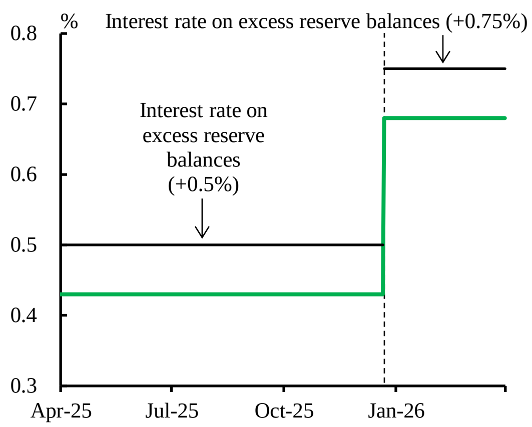
Although the volume of brokered transactions was small at around 150 billion yen per day, trading continued at rates somewhat below the interest rate on excess reserve balances (Chart 2-4).

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. Monthly average.

Chart 2-4: Collateralized Overnight Call Rate

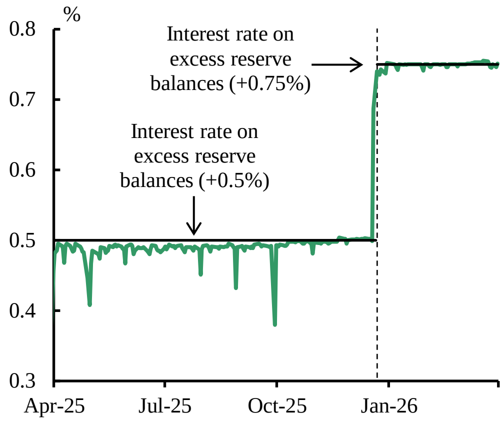


Note: Figures are weighted averages of overnight contracted rates for brokered transactions. The vertical line indicates the date when the new interest rate on excess reserve balances took effect.

3. Developments in the GC Repo Market

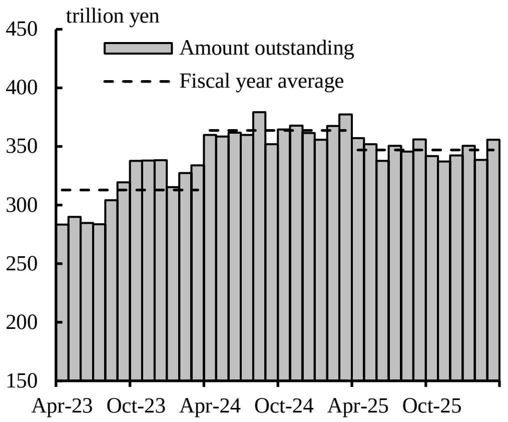
The GC tomorrow-next repo rate rose in tandem with the increase in the policy interest rate, and it generally remained stable at a level close to the interest rate on excess reserve balances (Chart 2-5).

Chart 2-5: GC Repo Rate



Note: The Tokyo Repo Rate (T/N). The vertical line indicates the date when the new interest rate 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.

A closer look at developments in the GC repo rate reveals that during the first half of fiscal 2025, the rate fluctuated slightly on a daily basis, depending on factors such as the level of inventory funding demand from securities firms (cash borrowing collateralized by bonds held as inventory).[1] In addition, the rate temporarily dropped somewhat sharply at times, such as the end of the month, when the supply and demand of bonds tend to tighten. That said, the rate generally remained at a level slightly below the interest rate on excess reserve balances, with banks and other financial institutions continuing to actively borrow cash in the repo market for arbitrage purposes against the interest rate on excess reserve balances by effectively utilizing their JGB holdings.

In the second half of fiscal 2025, the GC repo rate gradually rose to a level close to the interest rate on excess reserve balances, and rate fluctuations, such as those at month-end, also became limited (see Box 1 for the background to the GC repo rate stabilizing at a high level in the second half of fiscal 2025). This is attributable to the facts that (1) supply and demand conditions for bonds eased due to factors such as the Bank's progress in reducing its JGB purchases and somewhat reduced collateral demand reflecting the decrease in the amount outstanding of the Stimulating Bank Lending Facility, and (2) investment demand from overseas investors using FX swaps (i.e., U.S. dollar-yen conversion) declined

[1] In the bond market, securities firms engage in market-making activities in the secondary market through bond holdings as inventory and over-the-counter transactions with investors.

somewhat, driven by a narrowing trend in the U.S. dollar funding premium.[2]

Furthermore, immediately following the December 2025 MPM, amid growing expectations of a policy rate hike, there were concerns that the GC repo rate might fall significantly as it did immediately after the January 2025 MPM, when the policy rate was last raised.[3] However, the GC repo rate did not decline following the rate hike and instead generally stabilized in line with the increase in the policy rate, as (1) supply and demand conditions for bonds in the GC repo market had been easing and (2) market participants diversified the maturities of their term transactions.

The amount outstanding in the repo market fell somewhat below the level seen in fiscal 2024 (Chart 2-6). As mentioned earlier, although active cash borrowing by securities firms for inventory funding and by banks and other institutions for arbitrage purposes against the interest rate on excess reserve balances was observed amid the easing of the supply and demand of bonds, this effect was offset by reduced investment demand from overseas investors using FX swaps (i.e., U.S. dollar-yen conversion).

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[2] The narrowing trend in the U.S. dollar funding premium over a somewhat longer term appears to reflect (1) Japanese financial institutions diversifying their funding sources to maintain the stability of their foreign currency funding and (2) growing demand for conversion into yen amid increasingly active investment in JGSs by overseas investors.

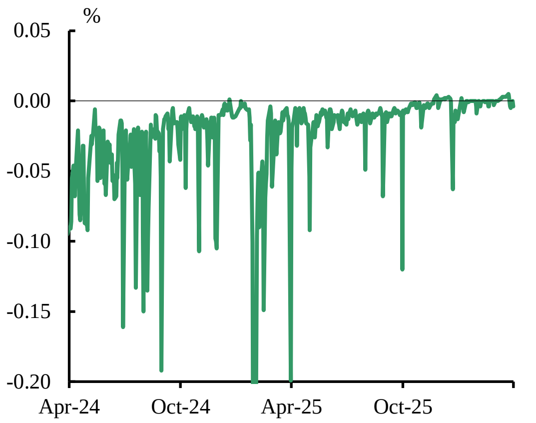
[3] Immediately following the January 2025 MPM, the GC repo rate temporarily experienced a significant decline. Amid rising expectations of a policy rate hike ahead of the meeting, repo transactions spanning the meeting period were held back, and the maturity of term repo transactions was concentrated on the day right after the meeting, resulting in an insufficient rollover of these transactions and a temporary tightening of supply and demand conditions for a wide range of JGB issues.

Box 1: Background to the Repo Rate Stabilizing at a High Level in the Second Half of Fiscal 2025

As noted in the main text, the GC tomorrow-next repo rate for fiscal 2025 generally remained at a level slightly below the interest rate on excess reserve balances during the first half of the fiscal year, albeit with some fluctuations; however, in the second half, it rose somewhat to a level close to the interest rate on excess reserve balances, even temporarily rising slightly above that rate (Box Chart 1-1). The following summarizes the background to the GC repo rate increasing somewhat from the perspectives of two factors, focusing on changes in the structure of the GC repo market.

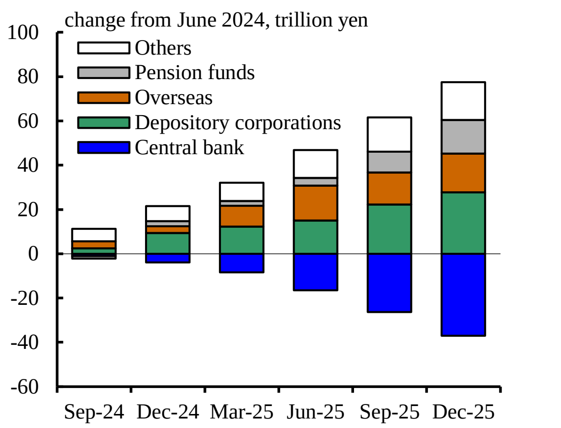
The first factor is the easing of supply and demand conditions for bonds in the repo market. Since August 2024, the Bank has been reducing its purchases of JGBs. In this context, while the amount outstanding of the Bank's JGB holdings declined, the amount outstanding in the market increased (Box Chart 1-2). When the GC repo rate fell below the interest rate on excess reserve balances, banks and other financial institutions borrowed cash more actively in the repo market for arbitrage purposes against the interest rate on excess reserve balances, by effectively utilizing their JGB holdings. This led to a rise in the GC repo rate.

Box Chart 1-1: 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).

Box Chart 1-2: Change in Amount Outstanding of Government Bond Holdings by Entity

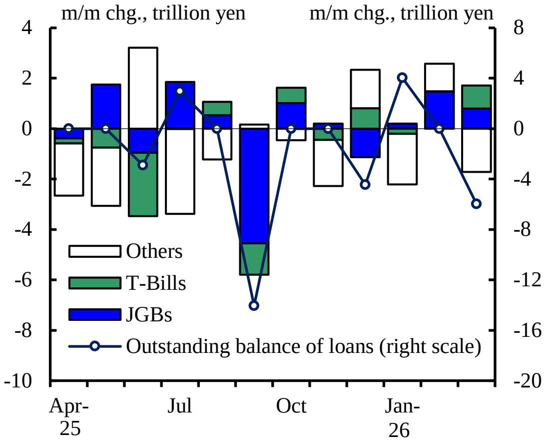


Note: Figures are the sum of central government securities and Fiscal Investment and Loan Program (FILP) bonds. Changes are the cumulative sum of the flow of each quarter.

In addition, demand for bonds as collateral declined somewhat, as new loan disbursements under the Stimulating Bank Lending Facility were terminated at the end of June 2025 and the amount outstanding of this facility accordingly decreased. Looking at changes in the amount outstanding of collateral accepted by the Bank, there were instances where JGBs and treasury discount bills (T-Bills) were withdrawn during this period. This move is also believed to have led to the easing of supply and demand conditions for bonds in the repo market (Box Chart 1-3). In fact, the rise in the GC repo rate was driven by banks borrowing cash in the repo market using JGBs and T-Bills that they had withdrawn from the Bank, as well as securities firms borrowing cash to fund their inventories of JGBs and T-Bills.

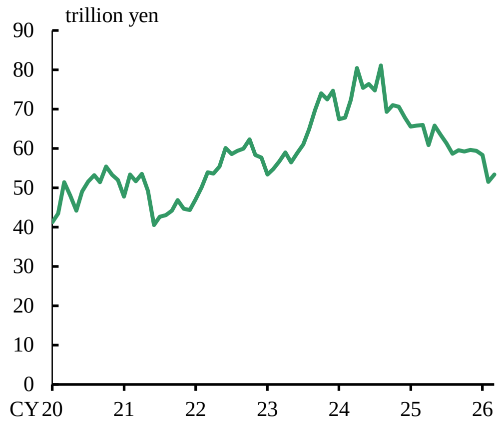
The second factor is reduced demand from overseas investors for investment in the repo market amid the narrowing trend in the U.S. dollar funding premium. When the attractiveness of yields based on the U.S. dollar funding premium increases, overseas investors raise yen-denominated funds by converting U.S. dollars into yen through transactions, such as FX swaps, and then invest those funds in the repo market through transactions with securities firms. With the U.S. dollar funding premium having been on a downward trend since the previous fiscal year, overseas investors' investment appetite waned somewhat due to the decline in the attractiveness of yields from U.S. dollar-yen conversion. This contributed to a rise in the GC repo rate through the decrease in overseas investors' cash lending in the repo market (Box Chart 1-4).

Box Chart 1-3: Amounts Outstanding of Collateral Accepted by the Bank



Notes: 1. Figures for the amounts outstanding of collateral are on a collateral value basis.
2. Figures for "Outstanding balance of loans" are loans by the Bank.

Box Chart 1-4: Amount Outstanding of Non-Residents' Cash Lending in the Japanese Repo Market

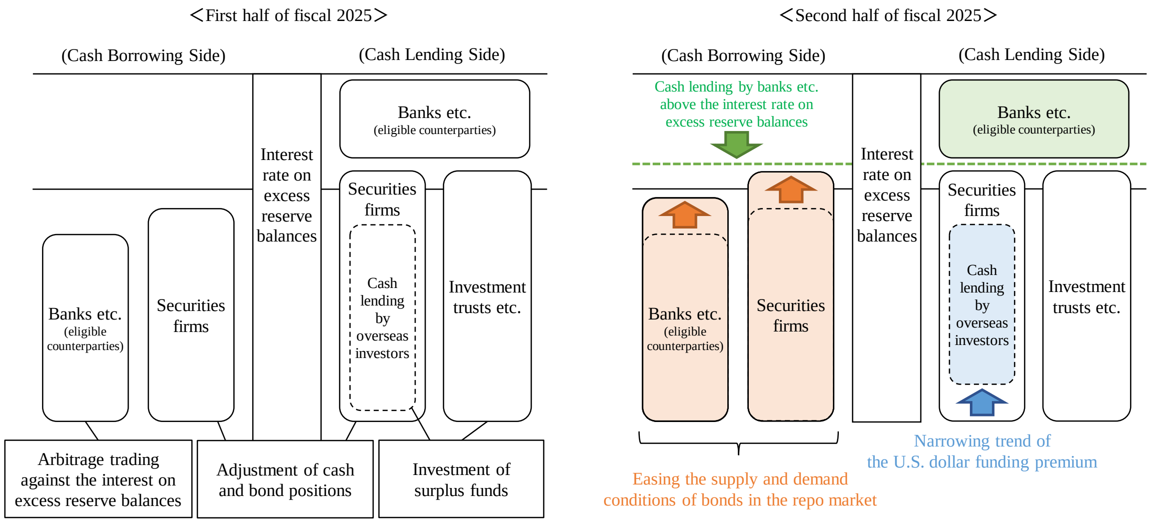


Note: Figures are the sum of overnight and term cash lending (GC repo transactions) at month-end, based on the Statistics on Securities Financing Transactions in Japan.

With the two factors mentioned above pushing up the GC repo rate, the rate temporarily exceeded the interest rate on excess reserve balances slightly in the second half of fiscal 2025. This occurred as multiple factors contributing to an increase in the rate coincided during a period when securities firms' bond positions build up and their demand for inventory funding tends to rise, such as immediately after the issuance of T-Bills and JGBs

(Box Chart 1-5). However, in such situations, banks and other financial institutions with substantial current account balances shifted to the cash lending side due to the attractiveness of the GC repo rate relative to the interest rate on excess reserve balances and actively lent cash. This prevented the GC repo rate from rising significantly above the interest rate on excess reserve balances.

Box Chart 1-5: Change in the Structure of the GC Repo Market

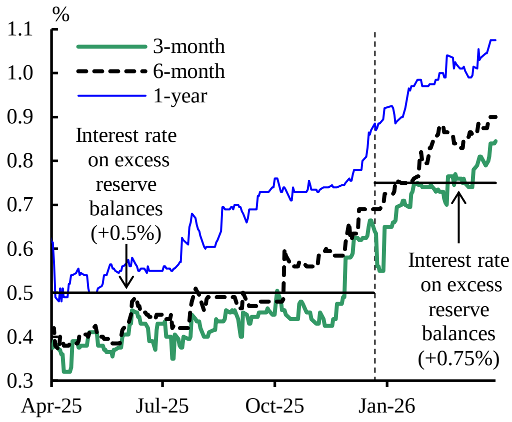


Note: Most overseas investors lend cash through securities firms in the repo market.

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

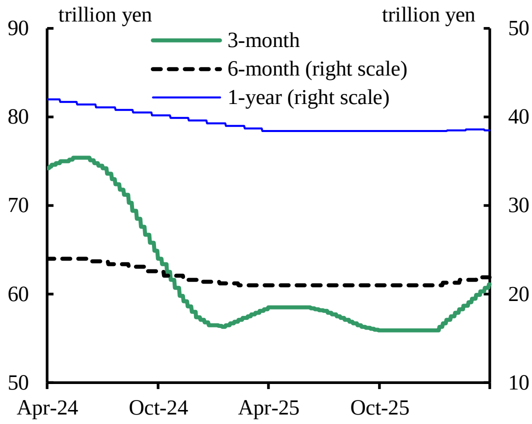
In fiscal 2025, yields on 3-month T-Bills rose, albeit with some fluctuations. This rise was driven by growing expectations of a policy rate hike by the Bank, as demand for collateral from banks and other financial institutions and investment demand from overseas investors weakened somewhat (Chart 2-7).

Chart 2-7: Yields on T-Bills



Note: The vertical line indicates the date when the new interest rate on excess reserve balances took effect.

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



Specifically, through the summer of 2025, yields on 3-month T-Bills remained at levels somewhat below the interest rate on excess reserve balances, driven by strong collateral demand from banks and other financial institutions, in addition to investment demand from non-eligible counterparties such as investment trusts[4] and from overseas investors using FX swaps (i.e., U.S. dollar-yen conversion). Subsequently, through November, (1) demand for collateral from banks and other financial institutions declined somewhat due to factors such as the decrease in the amount outstanding of the Stimulating Bank Lending Facility, and (2) investment demand from overseas investors diminished somewhat amid a narrowing trend in the U.S. dollar funding premium. In this situation, yields on 3-month T-Bills rose, albeit with some fluctuations, to levels close to the interest rate on excess reserve balances due to growing expectations of a policy rate hike by the Bank. Early in December, amid rising expectations of a policy rate hike at the December MPM, yields on 3-month T-Bills rose to around 0.6 percent, exceeding the interest rate on excess reserve balances. Following the rate hike to 0.75 percent, the yields temporarily declined due to factors such as year-end collateral demand; however, from January 2026 onward, they once again exceeded the

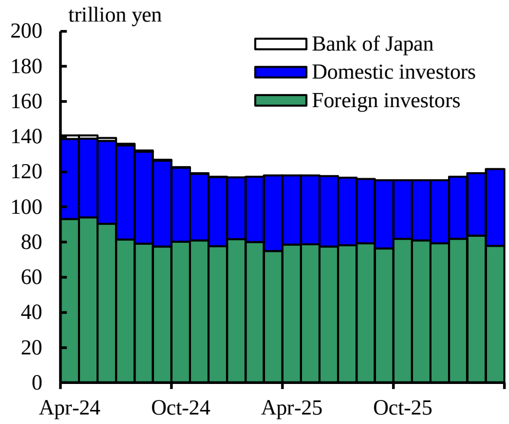
[4] Money reserve funds and some other investment trusts are required by regulation to include a certain amount of T-Bills in the assets they manage.

interest rate on excess reserve balances and rose to around 0.85 percent, amid growing expectations of further rate hikes by the Bank and driven in part by increased issuance (Chart 2-8).

Yields on 6-month T-Bills generally moved in tandem with those on 3-month T-Bills through the summer. Thereafter, however, as demand for collateral from banks and other financial institutions declined somewhat, the yields rose, reflecting growing expectations of a policy rate hike by the Bank. From October onward, they generally remained above the interest rate on excess reserve balances. Yields on 1-year T-Bills followed an upward trend, albeit with some fluctuations, in line with expectations of a policy rate hike and movements in JGBs with coupons and close remaining maturities.

Looking at the amount outstanding of T-Bill holdings by entity, there were no significant changes in the proportions held by domestic and overseas investors. As mentioned earlier, among domestic investors, investment demand from non-eligible counterparties continued, while demand for collateral from banks and other financial institutions declined somewhat. Among overseas investors, investment demand remained firm, although demand for investment using FX swap transactions declined somewhat. The amount outstanding held by the Bank remained at zero throughout fiscal 2025 as the Bank made no outright purchases of T-Bills (Chart 2-9).

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.

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

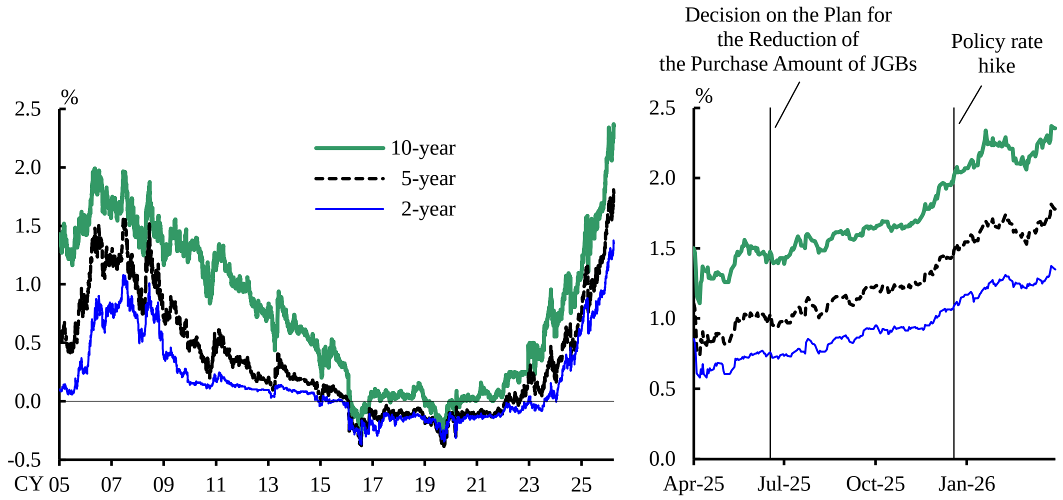
1. Developments in the JGB Market

Long-term interest rates

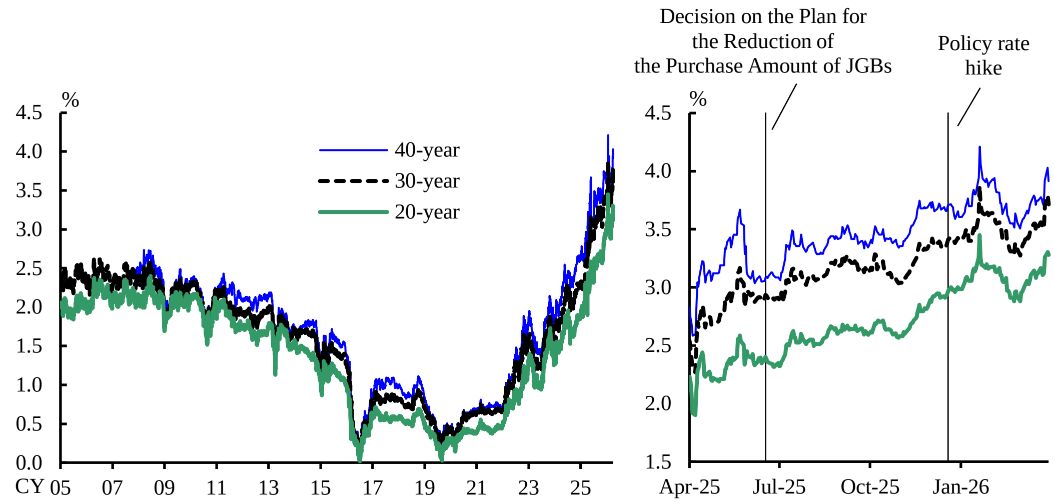
Looking at developments in long-term interest rates during fiscal 2025, they plummeted temporarily to around 1.1 percent, as expectations of a policy rate hike by the Bank receded significantly, reflecting a more cautious risk sentiment following the U.S. announcement of reciprocal tariffs in early April (Chart 2-10). Subsequently, as Japan's economic and price indicators remained solid and expectations of a policy rate hike gradually recovered amid progress in trade negotiations in each jurisdiction, long-term interest rates rose to around 1.7 percent through October. From November onward, market participants revised upward their expectations regarding the terminal policy rate, driven by the continued solid economic and price indicators in Japan and by the deprecation of the yen. These rates also moved in tandem with a rise in super-long-term interest rates against the backdrop of speculation over fiscal management. In this context, long-term interest rates rose at a somewhat faster pace, reaching the 2.30-2.35 percent range in mid-January 2026. They subsequently declined slightly in line with the yen appreciating somewhat and super-long-term interest rates decreasing. At the start of March, however, they began to rise again, mainly due to vigilance against inflation in response to higher crude oil prices amid increased tension over the situation in the Middle East, reaching the 2.35-2.40 percent range in late March, the highest level since February 1999.

Chart 2-10: 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.

Looking at the detailed developments in long-term interest rates, they plummeted temporarily to around 1.1 percent, as expectations of a policy rate hike by the Bank receded significantly, reflecting a more cautious risk sentiment following the U.S. announcement of reciprocal tariffs in early April 2025. Subsequently, long-term interest rates rose to around 1.3 percent due to factors such as the U.S. announcement of its decision to temporarily suspend the country-specific surcharges on reciprocal tariffs, but remained below the levels seen at the end of March.

Starting in early May, progress was made in trade negotiations in each jurisdiction, including an agreement between the United States and China to significantly reduce tariff rates. In addition, an agreement on U.S.-Japan tariff negotiations was announced in late July.

Against this backdrop of improving risk sentiment, expectations of a policy rate hike by the Bank gradually recovered, and long-term interest rates rose to around 1.6 percent through the end of July.

Through October, solid investor demand for long-term JGBs, as well as a decline in U.S. interest rates in response to growing expectations of a policy rate cut by the U.S. Federal Reserve Board caused by weak U.S. economic indicators and other factors, contributed to a decline in long-term interest rates. However, expectations of a policy rate hike by the Bank rose moderately, albeit with some fluctuations, reflecting Japan's solid economic and price indicators. Consequently, long-term interest rates rose gradually to around 1.7 percent.

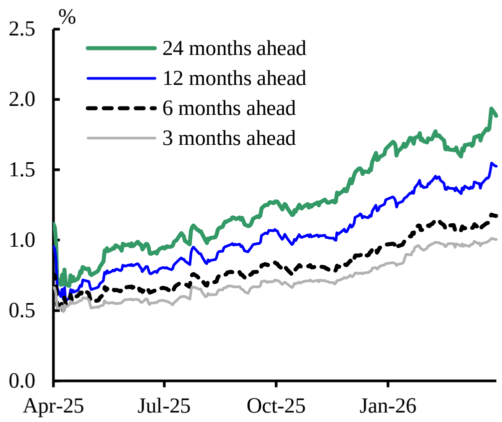
From November onward, (1) market participants revised upward their expectations regarding the terminal policy rate, driven by the continued solid economic and price indicators in Japan and by the deprecation of the yen (Chart 2-11). In addition, (2) in tandem with the rise in super-long-term interest rates discussed later, long-term interest rates rose at a somewhat faster pace, reaching around 2.0 percent in mid-December. Even after the policy interest rate was raised to 0.75 percent at the December MPM, long-term interest rates continued to rise as the depreciation of the yen persisted and as investors' wait-and-see attitude intensified reflecting their expectations of higher interest rates. They reached the 2.30-2.35 percent range in mid-January 2026.

Starting in early February, long-term interest rates declined slightly and remained in the range of 2.1-2.2 percent. This was driven by the following factors: (1) a pause in expectations of a policy rate hike by the Bank, reflecting the yen appreciating somewhat; (2) the decline in U.S. interest rates in response to growing expectations of a policy rate cut by the U.S. Federal Reserve Board caused by weak U.S. economic and price indicators and other factors; and (3) a decrease in super-long-term interest rates.

In early March, long-term interest rates fell on some occasions in response to risk sentiment becoming more cautious in the wake of the increased tension over the situation in the Middle East. However, these rates subsequently rose, as interest rates in the United States and Europe increased, driven by vigilance against inflation in response to higher crude oil prices. In late March, in addition to this development, long-term interest rates moved in tandem with selling of JGBs in the medium-term zone by investors who were looking ahead to the fiscal year-end. As a result, they reached the 2.35-2.40 percent range, the highest level since February 1999.

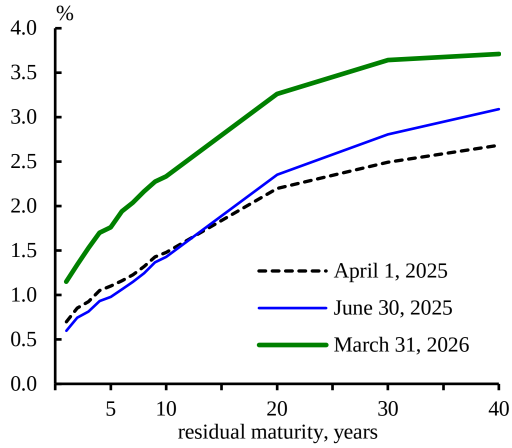
Meanwhile, the Bank's progress in reducing its outright purchases of JGBs and the reduction in the Bank's repurchase amount under the Securities Lending Facility, appears to have helped further ease supply and demand conditions, particularly for cash JGBs with residual maturities of around 7 years (see Box 3 for details). In fact, from July, as the Bank reduced its repurchase amount under the Securities Lending Facility in response to requests from counterparties, the sharp tightening in the supply and demand conditions observed in the past for cash JGBs with residual maturities of around 7 years was no longer evident. Furthermore, reflecting expectations of higher interest rates, the rise in the interest rate level in this zone over the course of the fiscal year was somewhat larger than that of the surrounding yields on 5-year and 10-year JGBs (Chart 2-12). With supply and demand conditions for bonds easing in this way, it appears that long-term interest rates are moving more freely in financial markets, reflecting Japan's economic and price indicators, as well as market participants' views on monetary policy and fiscal management.

Chart 2-11: 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 2-12: JGB Yield Curve



Note: Compound interest basis.

Short- and medium-term interest rates

Through early April 2025, short- and medium-term interest rates briefly declined significantly, with yields on 2-year JGBs dropping to the 0.55-0.56 percent range and those on 5-year JGBs to the 0.70-0.75 percent range, as risk sentiment became more cautious following the U.S. announcement of reciprocal tariffs (Chart 2-10). Subsequently, yields on both 2-year and 5-year JGBs rose moderately, as expectations of a policy rate hike by the Bank gradually recovered owing to the improvement in risk sentiment. From November onward, market participants revised upward their expectations regarding the terminal policy rate, driven by Japan's solid economic and price indicators and by the deprecation of the yen. In this context, these yields rose at a somewhat faster pace, reaching the 1.30-1.35 percent range for 2-year JGBs and the 1.70-1.75 percent range for 5-year JGBs in early February 2026. Subsequently, through the end of February, short- and medium-term interest rates fell temporarily due to the yen appreciating somewhat and other factors. However, these rates rose from the beginning of March, reflecting inflation concerns in response to higher crude oil prices and selling of JGBs by investors who were looking ahead to the fiscal year-end, with yields on 2-year JGBs reaching the 1.35-1.40 percent range and yields on 5-year JGBs reaching the 1.80-1.85 percent range.

Super-long-term interest rates

Super-long-term interest rates rose significantly through mid-April 2025 as investors unwound their positions (Chart 2-10). The background to this was that moves to sell off long-maturity bonds became widespread as market participants' risk tolerance declined amid heightened market volatility following the U.S. announcement of reciprocal tariffs. Even after those moves subsided in early May, super-long-term interest rates continued to rise at a somewhat fast pace, as shown by the fact that the spread between them and long-term interest rates followed a widening trend, amid renewed awareness of the structural easing of supply and demand conditions resulting from a peak in regulation-driven investment demand from life insurance companies, which had been major investors in super-long-term JGBs. From the summer onward, the spread with long-term interest rates followed a moderate narrowing trend, albeit with some fluctuations. This is attributable to the following factors: (1) the Ministry of Finance's revision of its JGB issuance plan for fiscal 2025 midway through the fiscal year and its decision to reduce the issuance of super-long-term JGBs; (2) purchases by pension funds as part of their asset allocation adjustments (rebalancing) in response to rising stock prices; and (3) growing demand from overseas investors who focused on the high interest rates on super-long-term JGBs and their relative undervaluation.

However, even during this period, there were repeated instances in which super-long-term interest rates rose significantly due to market participants' speculation regarding Japan's fiscal management. In particular, in mid-January 2026, as the fiscal year-end approached and against a backdrop of rising stock prices, domestic investors sold off-the-run JGBs with unrealized losses to offset gains from the sale of their stock holdings. With this selling activity also contributing to the rise in super-long-term interest rates, yields on 30-year and 40-year JGBs reached record highs of around 3.8 percent and around 4.2 percent, respectively. Super-long-term interest rates subsequently fell briefly through the end of February, but they rose again from the beginning of March due to risk-off moves among market participants reflecting increased tension over the situation in the Middle East and selling by investors who were looking ahead to the fiscal year-end (see Box 2 for details on developments in supply and demand conditions in the super-long-term zone).

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, followed a moderate uptrend, albeit with some fluctuations (Chart 2-13). Looking at the detailed developments, selling pressure on inflation-indexed JGBs increased when risk sentiment became cautious in early April 2025, causing the rate to drop sharply to around 1.1 percent. Thereafter, driven by Japan's solid wage and price developments and the yen's depreciation, the rate continued to rise, reaching around 1.9 percent at the end of January 2026. In February, the rate fell to around 1.6 percent, reflecting factors such as the yen appreciating somewhat, but increased again to around 1.8 percent from the beginning of March in response to higher crude oil prices.

Japan Climate Transition Bonds

For Japan Climate Transition Bonds, yields on both 5-year and 10-year Japan Climate Transition Bonds remained higher than those on JGBs of the same maturities during the first half of fiscal 2025, amid concerns among investors about lower liquidity of these bonds compared with standard JGBs (Chart 2-14). However, yields on both 5-year and 10-year Japan Climate Transition Bonds fell below those on JGBs of the same maturities in the second half of the fiscal year, due to demand from banks and overseas investors, focusing on the relative undervaluation of these bonds, and a growing awareness of the lower issuance volume relative to the previous fiscal year.

Chart 2-13: Break-Even Inflation Rate

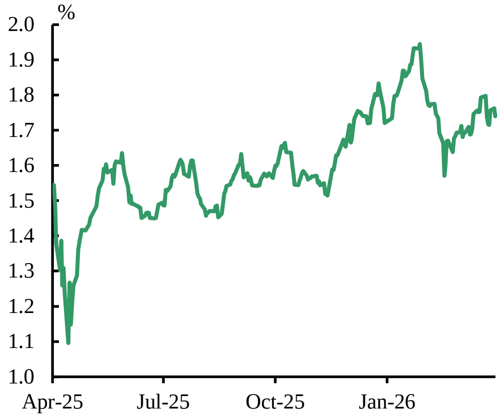
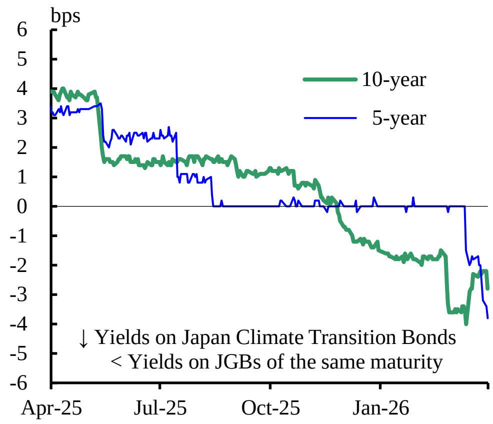


Chart 2-14: Yield Spread between Japan Climate Transition Bonds and JGBs of the Same Maturity



2. Outright Purchases of JGBs

Summary

In fiscal 2025, in accordance with the plan for the reduction of the purchase amount of JGBs,[5] which was decided at the July 2024 and June 2025 MPMs, the Bank cut down the monthly purchase amount by about 400 billion yen each calendar quarter. As a result, monthly purchases were 4.1 trillion yen for April-June, 3.7 trillion yen for July-September, 3.3 trillion yen for October-December, and 2.9 trillion yen for January-March 2026 (Chart 2-15).[6] The total amount of JGB purchases for the January-March 2026 quarter was 8.7 trillion yen, the lowest level since the introduction of QQE in the April-June 2013 quarter.

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, as was the case in the previous fiscal year, no such nimble responses were carried out during fiscal 2025.

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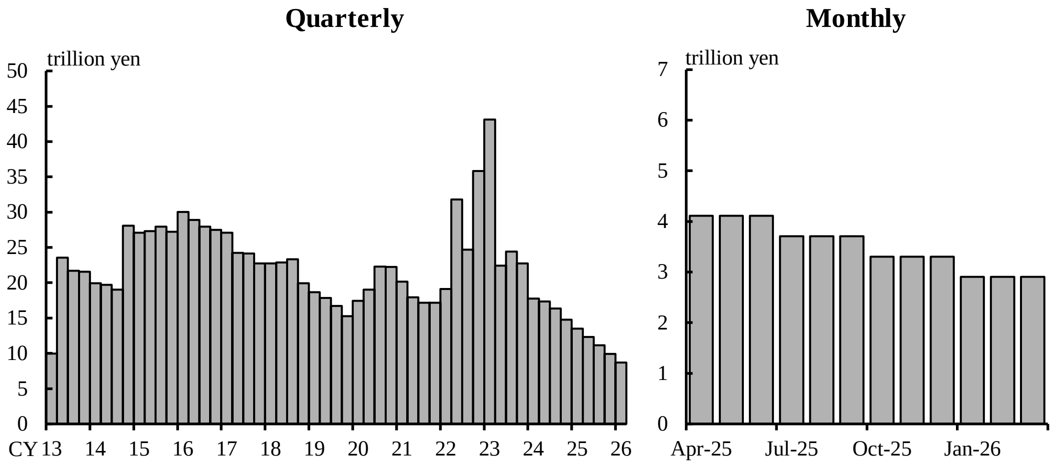
[5] For details, see IV. Major Changes in the Frameworks Related to Market Operations and Others.

[6] When purchasing JGBs, the Bank continued to select eligible issues per auction, mainly considering the yield differences between other issues of JGBs with close remaining maturities, the amount outstanding in the market, and the supply and demand conditions in the repo market. See Box 2 for the selection of super-long-term JGB issues ineligible for purchases.

Chart 2-15: Amounts of JGB Purchases



Developments in amounts of JGB purchases by residual maturity and type

With regard to the reduction in purchase amounts by residual maturity and type, the Bank adopted as its basic principle prioritizing reductions in its purchases of maturity segments where the share of its purchases in the monthly issuance amount (hereinafter referred to as the "purchase share") is high, from the standpoint of ensuring a certain degree of predictability. On this basis, the Bank determined the reduction amount, taking also into account factors such as developments in the JGB market for each maturity zone and the underlying supply and demand conditions (Chart 2-16). Specifically, as in the previous fiscal year, the Bank reduced its JGB purchases, primarily for the three maturity zones of "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." Furthermore, regarding the maturity zone of "more than 10 years and up to 25 years," given that the purchase share for this zone had approached that for the three zones mentioned above during January-March 2025, the Bank slightly reduced the purchase amount in its outright purchases for April-June so that the decline in the purchase share would be roughly on par with that in the other maturity zones. Subsequently, the Ministry of Finance revised its JGB issuance plan in June and reduced the issuance of super-long-term JGBs starting in July, leading to an increase in the purchase share for that zone. In light of this situation, the Bank continued to make modest reductions in purchases from October-December. Meanwhile, the maturity zone of "more than 25 years" was not subject to reductions as in the previous fiscal year, as the Bank's purchase share for this zone is lower than that for the other zones.

Furthermore, in the schedule of outright purchases of JGBs for April-June announced at the end of March 2026, the reduction amount of the monthly purchases was set at about 200 billion yen in accordance with the plan for the reduction of the purchase amount of JGBs decided at the June 2025 MPM, and the Bank decided to continue reducing purchases in the four maturity zones of "more than 1 year and up to 3 years," "more than 3 years and up to 5 years," "more than 5 years and up to 10 years," and "more than 10 years and up to 25 years."

With regard to inflation-indexed bonds, even after reducing the purchase amount by 10 billion yen in January-March 2025, the Bank reduced its purchases by 10 billion yen in January-March 2026, given that (1) the Bank's purchase share remained very high, and (2) the share held by the Bank on a stock basis had continued to rise.

Regarding Japan Climate Transition Bonds (5-year and 10-year bonds), as in the previous fiscal year, the Bank conducted outright purchases using the competitive auction method in the same manner as the purchases of already issued JGBs. For Climate Transition Bonds, adequate consideration must be given to market liquidity as (1) the issuance amounts are limited and (2) the amount outstanding in 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 once the Bank's holding share of that issue reached about 40 percent.

Frequency of monthly auctions

In order to avoid each auction amount becoming small as the Bank has been proceeding with the reduction in the amount of JGB purchases, the frequency of auctions was reduced from four to three times per month starting with the July 2025 auctions across the three maturity zones of "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" (Chart 2-16).

Chart 2-16: Amounts of JGB Purchases by Residual Maturity and Type

100 million yen, %

Residual maturity/type	Jan-Mar 2025	Apr-Jun 2025	Jul-Sep 2025	Oct-Dec 2025	Jan-Mar 2026	Apr-Jun 2026
-1Y	1,500 （1,500×1） ＜—＞	1,000 （1,000×1） ＜—＞	1,000 （1,000×1） ＜—＞	1,000 （1,000×1） ＜—＞	1,000 （1,000×1） ＜—＞	1,000 （1,000×1） ＜—＞
1-3Y	12,000 （3,000×4） ＜46.2＞	11,000 （2,750×4） ＜42.3＞	9,750 （3,250×3） ＜37.5＞	9,000 （3,000×3） ＜33.3＞	8,100 （2,700×3） ＜28.9＞	7,650 （2,550×3） ＜27.3＞
3-5Y	12,000 （3,000×4） ＜52.2＞	11,000 （2,750×4） ＜45.8＞	9,750 （3,250×3） ＜40.6＞	8,400 （2,800×3） ＜35.0＞	7,350 （2,450×3） ＜29.4＞	6,900 （2,300×3） ＜27.6＞
5-10Y	13,000 （3,250×4） ＜50.0＞	12,000 （3,000×4） ＜46.2＞	10,500 （3,500×3） ＜40.4＞	9,150 （3,050×3） ＜35.2＞	7,800 （2,600×3） ＜30.0＞	7,200 （2,400×3） ＜27.7＞
10-25Y	4,500 （1,500×3） ＜45.0＞	4,050 （1,350×3） ＜40.5＞	4,050 （1,350×3） ＜50.6＞	3,450 （1,150×3） ＜43.1＞	2,850 （950×3） ＜35.6＞	2,400 （800×3） ＜34.3＞
25Y-	1,500 （750×2） ＜12.0＞	1,500 （750×2） ＜14.3＞	1,500 （750×2） ＜16.7＞	1,500 （750×2） ＜16.7＞	1,500 （750×2） ＜16.7＞	1,500 （750×2） ＜20.0＞
Inflation-indexed bonds	500 （500×1） ＜60.0＞	500 （500×1） ＜60.0＞	500 （500×1） ＜60.0＞	500 （500×1） ＜60.0＞	400 （400×1） ＜48.0＞	400 （400×1） ＜48.0＞
Total	45,000	41,050	37,050	33,000	29,000	27,050

Notes: 1. For each cell, the top figures are the offered amounts of monthly purchases. The middle figures show the offered amounts in each auction and the number of monthly purchases. 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 quarter.

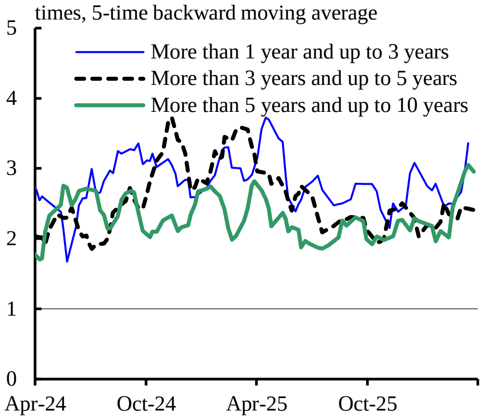
4. Figures within the bold frame are those for fiscal 2025.

Results of JGB outright purchase operations

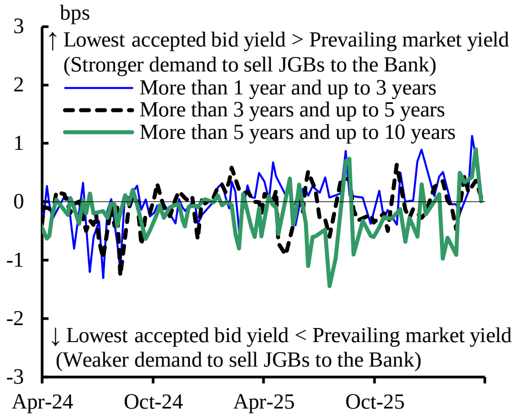
Looking at the results of the Bank's JGB outright purchase operations in fiscal 2025, the bid-to-cover ratios in the maturity zones of up to 10 years remained stable at approximately two to three times, albeit with some fluctuations (Chart 2-17). Looking at the spread between the lowest accepted bid yields for JGB outright purchase operations and the prevailing market yields, the lowest accepted bid yield for the maturity zone of "more than 5 years and up to 10 years" fell somewhat below the prevailing market yield (i.e., somewhat weak demand to sell JGBs to the Bank through the operations) on some occasions, particularly from summer through early autumn, when investor demand was solid. However, the bid yield generally remained the same as the prevailing market yield as the reduction in the Bank's outright JGB purchases progressed.

Chart 2-17: Results of JGB Purchase Operations (Up to 10 Years)

Bid-to-Cover Ratios



Spreads between the Lowest Accepted Bid Yield and the Prevailing Market Yield

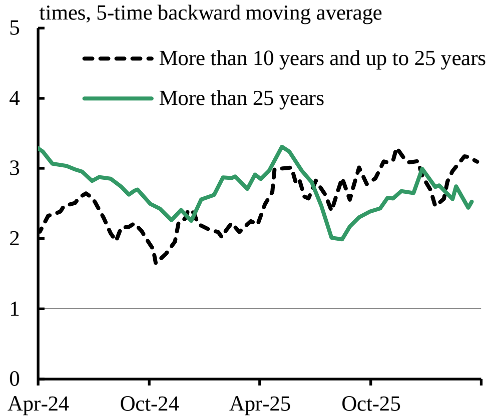


Note: The prevailing market yield is the weighted average of the quotes at the morning close of issues accepted as the lowest bid.

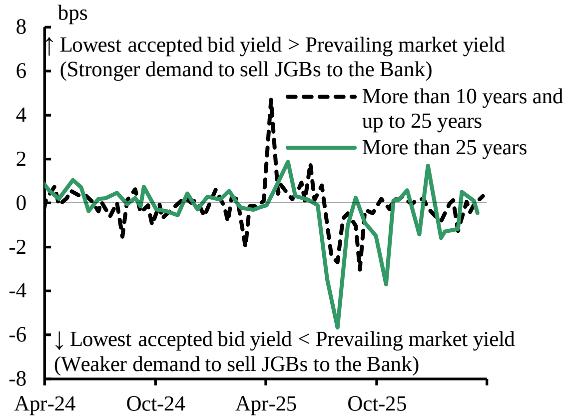
Next, in the maturity zones of over 10 years, the bid-to-cover ratios generally remained in the range of two to three times; however, during periods of significant increases in super-long-term interest rates, such as April-May 2025 and November 2025-January 2026, the ratios rose well above three times, indicating an increased need for selling from counterparties in JGB outright purchase operations (Chart 2-18). Looking at the spread between the lowest accepted bid yields for JGB outright purchase operations and the prevailing market yields, following the U.S. announcement of reciprocal tariffs in April 2025, counterparties rushed to sell JGBs at yields significantly higher than the prevailing market yields as risk sentiment became more cautious. Subsequently, reflecting the increased volatility in super-long-term interest rates, securities firms whose risk tolerance had diminished took a cautious stance on inventory management. Consequently, there were some periods when the lowest accepted bid yields remained significantly below the prevailing market yields (i.e., extremely weak demand to sell JGBs to the Bank through the operations). In the second half of fiscal 2025, the deterioration in supply and demand conditions came to a halt due to factors such as (1) progress in the Ministry of Finance's reduction in issuance of super-long-term JGBs and (2) rebalancing demand from pension funds and demand from overseas investors who focused on the relative undervaluation of JGBs. As a result, it became more common for these bid yields to be generally the same as the prevailing market yields.

Chart 2-18: Results of JGB Purchase Operations (More than 10 Years)

Bid-to-Cover Ratios



Spreads between the Lowest Accepted Bid Yield and the Prevailing Market Yield



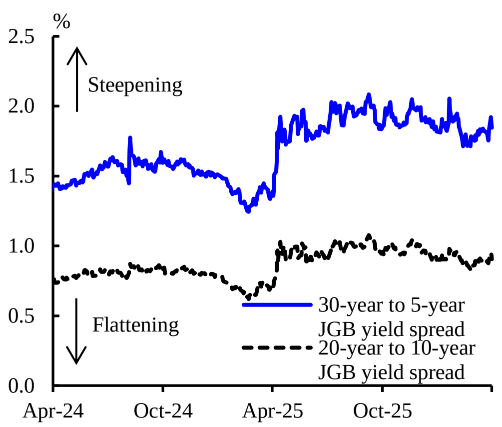
Note: The prevailing market yield is the weighted average of the quotes at the morning close of issues accepted as the lowest bid.

Box 2: Developments in Supply and Demand Conditions in the Super-Long-Term Zone

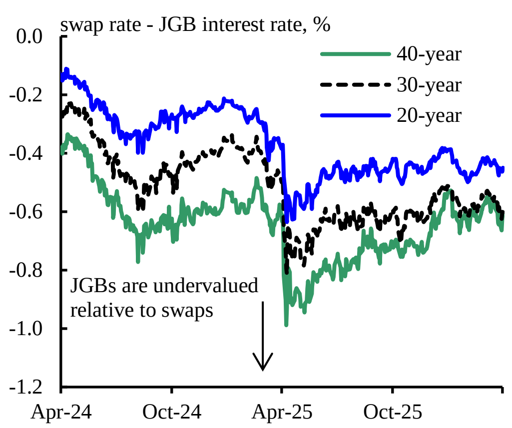
As noted in the main text, super-long-term interest rates for fiscal 2025 rose significantly following the U.S. announcement of reciprocal tariffs in April 2025, but subsequently fell briefly in response to the Ministry of Finance's revision of its JGB issuance plan; thereafter, however, they continued to rise relatively significantly, reflecting market participants' speculation over Japan's fiscal management. The following reviews the changes in supply and demand conditions in the super-long-term zone that underlie these interest rate developments, as well as the characteristics of trading trends of various entities.

Following the U.S. announcement of reciprocal tariffs in April, moves to sell off long-maturity bonds became widespread as investors' risk tolerance declined amid heightened market volatility. In this context, supply and demand conditions for super-long-term JGBs deteriorated rapidly. For instance, the yield curve steepened rapidly, and the swap spreads (the difference between swap rates and JGB interest rates) widened significantly into negative territory (Box Charts 2-1 and 2-2). Looking at trading trends during this period, amid concerns over structurally weak investor demand due to a peak in regulation-driven investment demand from life insurance companies, which had been major investors in super-long-term JGBs, (1) the flattener positions (short positions in short- and medium-term JGBs and long positions in super-long-term JGBs) and asset swaps (purchases of super-long-term cash JGBs and swap payments) that banks and overseas investors in particular had established prior to the announcement of reciprocal tariffs were rapidly unwound. In addition, (2) selling flows also increased as pension funds rebalanced their portfolios in response to falling stock prices.

Box Chart 2-1: JGB Yield Spreads



Box Chart 2-2: Swap Spreads



From late May onward, as the aforementioned position unwinding and rebalancing selling peaked, overseas investors and other entities who focused on high interest rates purchased super-long-term JGBs. Expectations of an improvement in supply and demand conditions also grew, following the Ministry of Finance's revision of its JGB issuance plan. As a result, super-long-term interest rates fell briefly, and the negative swap spreads narrowed somewhat (Box Chart 2-2).

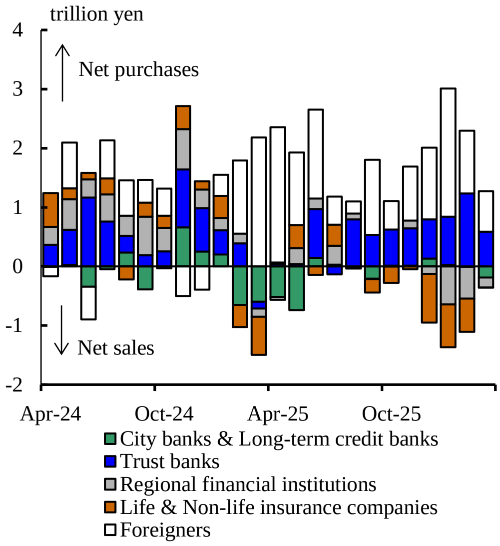
From July onward, super-long-term interest rates rose relatively significantly on some occasions, reflecting the effect of the steepening of the global yield curve and market participants' speculation over Japan's fiscal management. That said, JGB auctions and the Bank's JGB outright purchase operations continued to go relatively well overall, and there were no signs of a significant disruption in supply and demand conditions for super-long-term JGBs. The factors behind this include: (1) a reduction in the issuance of super-long-term JGBs by the Ministry of Finance since July; (2) rebalancing purchases by pension funds in response to rising stock prices; and (3) continued buying by overseas investors who focused on the high interest rates on these JGBs and their relative undervaluation. In fact, looking at trading trend by investor type, "foreigners" and "trust banks" -- which include trust accounts such as those of pension funds -- remained net buyers. Supported by buying flows from these entities, the deterioration in supply and demand conditions came to a halt (Box Chart 2-3).[7]

That said, market participants remained concerned about structurally weak investor demand for super-long-term JGBs. While maintaining a restrained stance toward increasing holdings of super-long-term JGBs, life insurance companies continued to engage in trading, replacing off-the-run JGBs in the super-long-term zone with on-the-run ones to improve the yields on their bond holdings (Box Chart 2-4). Furthermore, as the fiscal year-end approached with stock prices remaining firm, they accelerated the sale of JGB holdings in the 25-year maturity zone and other zones, where unrealized losses had increased, to offset gains from the sale of their stock holdings. Meanwhile, some of them did not sell their JGB

[7] Market participants pointed out that, in February 2026, the following two factors supported supply and demand conditions for off-the-run JGBs in the super-long-term zone: (1) the Japanese Institute of Certified Public Accountants announced a proposal to revise the accounting treatment of life insurance companies, under which impairment procedures would no longer be required for policy-reserve-matching bonds, and (2) there were market expectations that the Ministry of Finance was considering changes to maturity segments in liquidity enhancement auctions.

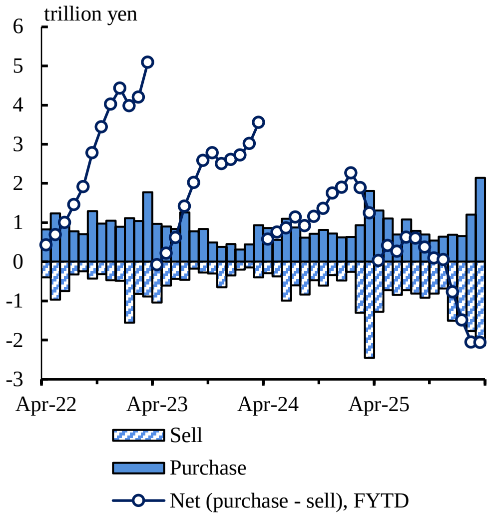
holdings in the 35-year maturity zone and other zones with unrealized losses, instead increasing their holdings of the same issues in an effort to lower their book value and avoid recognizing impairment losses on their holdings. Regional financial institutions also reduced their positions of JGBs in the 15-year maturity zone and other zones toward the fiscal year-end in the face of growing unrealized losses on super-long-term JGBs, which they had accumulated during the low interest rate environment (Box Chart 2-3).

Box Chart 2-3: Trading Trends of Major Investors



Note: Figures are the sum of over-the-counter trading volumes of super-long-term JGBs. "Regional financial institutions" includes regional banks, regional banks II, *shinkin* banks, and financial institutions for agriculture and forestry.

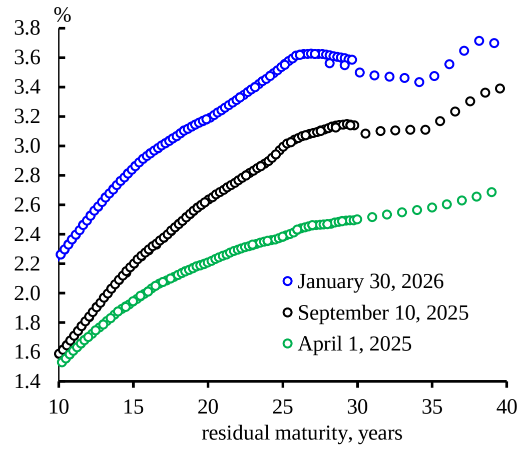
Box Chart 2-4: Trading Trends of Life and Non-Life Insurance Companies



Note: Figures are the sum of over-the-counter trading volumes of super-long-term JGBs. Net purchase amount (FYTD) is based on the period from April to March.

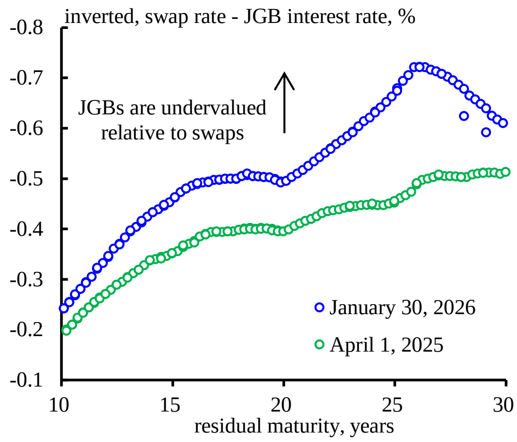
In response to such investment behavior of life insurance companies and other entities, as well as other investors' trading influenced by them, the supply-demand gap widened among JGB issues in the super-long-term zone. Specifically, supply and demand conditions deteriorated, mainly for off-the-run JGBs with residual maturities of around 15 or 25 years, causing them to be undervalued. In contrast, conditions tightened for on-the-run 20-year and 30-year JGBs, as well as some off-the-run 40-year JGBs. This resulted in a distortion in the shape of the yield curve (Box Charts 2-5 and 2-6). In addition, many market participants pointed to the tightening of supply and demand conditions for these specific issues. In light of these circumstances, starting with the outright purchase operations of JGBs on September 11, 2025, the Bank excluded certain off-the-run 40-year JGBs for which supply and demand conditions had tightened from the scope of its outright purchases (see footnote 6 for the criteria for selecting eligible issues for the Bank's outright purchases).

Box Chart 2-5: JGB Yield Curve



Note: Compound interest basis. 20-year, 30-year, and 40-year JGBs with a remaining maturity of more than 10 years as of each day are displayed.

Box Chart 2-6: Term Structure of Swap Spreads



As described above, the supply and demand structure in the super-long-term zone is changing. Overseas investors and pension funds are playing an increasingly prominent role as buyers, as regulation-driven investment demand from life insurance companies has peaked. In this regard, overseas investors tend to make significant short-term adjustments to their positions in response to factors such as domestic and international interest rate conditions. Pension funds' rebalancing demand is also easily influenced by stock price developments. Given this, super-long-term interest rates may continue to experience heightened volatility, depending on market conditions. The Bank will continue to closely monitor the effect of various entities' investment behavior on the supply and demand conditions of JGBs, as well as the impact of the reduction in its JGB purchases, with a view to conducting appropriate market operations.

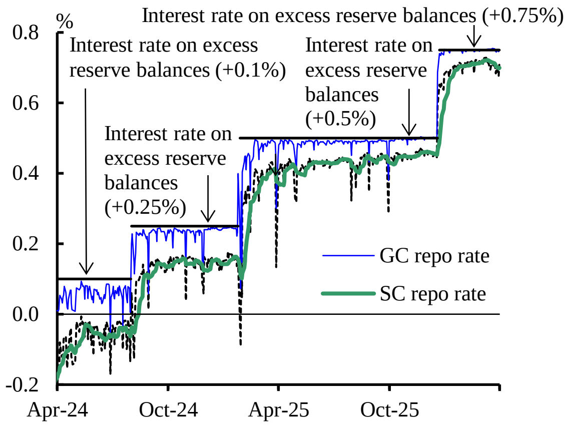
D. SC Repo Market and the Supply of JGBs

1. Developments in the SC Repo Market

During fiscal 2025, the special collateral (SC) repo rate generally moved in tandem with the GC repo rate. In the second half of fiscal 2025, when the GC repo rate stabilized close to the interest rate on excess reserve balances, the SC repo rate was also more stable than before, as shown by, for example, smaller daily fluctuations (Chart 2-19).

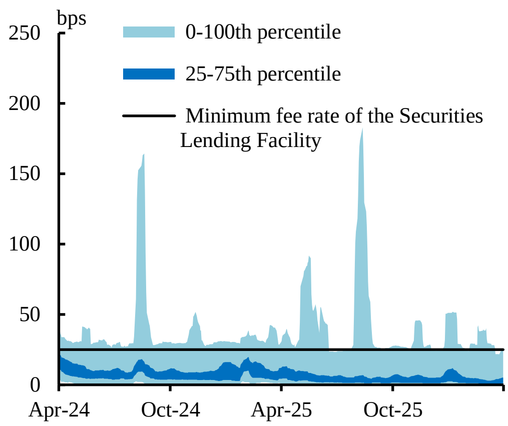
Looking at the GC-SC spread, the main transaction rate (the 25-75th percentile) followed a downward trend, albeit with some fluctuations, as supply and demand conditions for JGBs in the repo market eased, reflecting the Bank's progress in reducing its JGB purchases and the reduction in the Bank's repurchase amount under the Securities Lending Facility (a measure in which counterparties purchase securities they have borrowed from the Bank under the facility) (Chart 2-20). Furthermore, looking at the 100th percentile of the GC-SC spread, which shows transaction rates for issues with the tightest supply-demand conditions, the spread remained generally stable overall. However, with the Bank's reduction in outright purchases of JGBs progressing, the spread temporarily widened as the minimum fee rate of the Securities Lending Facility does not effectively function as an upper limit on this spread for certain issues with a short period since issuance and the Bank's extremely low share of holdings.

Chart 2-19: 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 2-20: 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.

2. Securities Lending Facility

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

Looking at the usage of this facility for fiscal 2025, both the amount of bids accepted and the number of JGB issues borrowed continued on a decreasing trend through the summer (Charts 2-21 and 2-22). This is attributable to (1) the increase in the amount outstanding of JGBs in the market resulting from the continued decline in the Bank's share of JGB holdings, mainly through the Bank's progress in reducing its JGB purchases and the reduction in the Bank's repurchase amount under the Securities Lending Facility, and (2) the stable rate formation in the repo market. Subsequently, a certain amount of usage continued, driven by incidental demand for bond borrowing arising from settlement failures and other factors, as well as demand for covering the short position of the cheapest-to-deliver (CTD) issues amid expectations of higher interest rates.

Chart 2-21: Acceptance of Bids through the Securities Lending Facility

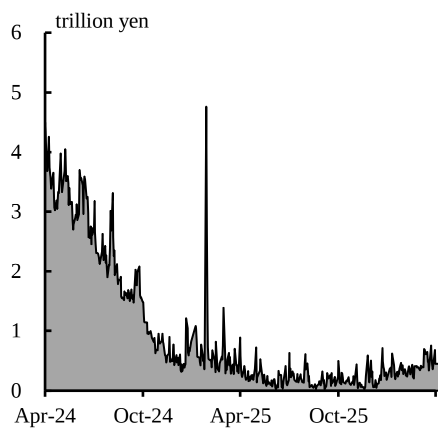
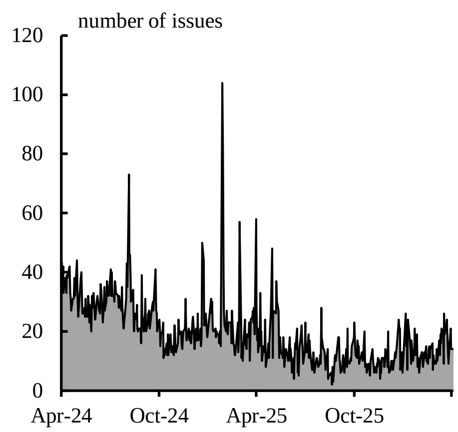


Chart 2-22: Number of JGB Issues Borrowed from the Securities Lending Facility



Meanwhile, regarding the reduction in the Bank's repurchase amount under the Securities Lending Facility in cases where the reduction is deemed to contribute to improving liquidity in the JGB market, the Bank decided to implement the following measures in June 2025: (1) to expand the scope of applicable JGB issues from the previous CTD issues[8] to include 10-year JGB issues maturing in or after 2031 of which the Bank's share of holdings in the

[8] This is the first and second CTD issues for 10-year JGB futures in the nearest two contract months.

market exceeds 80 percent, and (2) to increase the upper limit for the amount outstanding of each of the applicable issues in the market, the level up to which the Bank accepts counterparties' requests for the reduction, from about 1.2 trillion yen to about 1.5 trillion yen. Through these measures, it worked to ease the tightness of supply and demand conditions for issues of which the Bank holds a high share (for details, see Box 3 and IV. Major Changes in the Frameworks Related to Market Operations and Others). Against this backdrop, starting in July, the monthly utilization limit of about 200 billion yen for the reduction was reached every month. As a result, coupled with successful bids in the Ministry of Finance's liquidity enhancement auctions, the amount outstanding in the market of each issue applicable to the relaxed conditions for the reduction in the Bank's repurchase amount under the Securities Lending Facility reached the upper limit on the reduction of approximately 1.5 trillion yen in February 2026.

Furthermore, regarding the increased upper limit on the consecutive-day purchases of the same issue under the Securities Lending Facility for the CTD issues, in light of the overall easing of supply and demand conditions for JGSs, the Bank had gradually narrowed the scope of applicable JGB issues since September 2025. From March 2026 onward, it decided to apply regular conditions -- which, in principle, limit duration to a maximum of 50 business days -- to the CTD issues.

Box 3: Improved Liquidity in Off-the-Run 10-Year JGBs Reflecting the Reduction in the Bank's Repurchase Amount under the Securities Lending Facility

In fiscal 2025, the Bank continued to reduce its repurchase amount under the Securities Lending Facility as an exceptional measure aimed at easing the tightness of supply and demand conditions for issues with a low amount outstanding in the market due to its past large-scale outright purchases of JGBs. The following reviews the Bank's initiatives implemented since fiscal 2024 and the progress made in improving liquidity in the JGB market.

As the issues with a particularly low amount outstanding in the market (i.e., 10-year JGBs #366-#369) became the CTD issues in the bond futures market from December 2024 onward, concerns had been growing that supply and demand conditions for these issues would tighten excessively, potentially leading to a decline in liquidity in the bond futures market. Given these concerns and to facilitate the settlement of bond futures, the Bank announced in October 2024 that it would continue to relax the terms and conditions for the Securities Lending Facility for the CTD issues for the time being. It also clarified its policy of accepting counterparties' requests for a reduction in the amount of the CTD issues repurchased by it, in principle, if the reduction was deemed to contribute to improving the liquidity of the JGB market. Subsequently, in January 2025, with a view to enhancing transparency in the treatment of the reduction, the Bank clarified its policy that it would, in principle, accept counterparties' requests 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.[9]

Following these measures, in fiscal 2025, in conjunction with the interim assessment of the plan for the reduction of the purchase amount of JGBs and with a view to further easing the tightness of supply and demand conditions for off-the-run issues to which the effects of the reduction in the Bank's JGB purchases do not easily extend, the Bank implemented measures, including an expansion of JGB issues applicable to the relaxed conditions for the

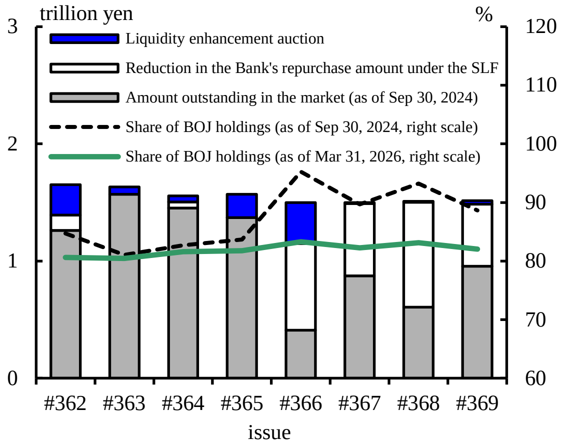
[9] For details, see Financial Markets Department, Bank of Japan, "Continuation of the Relaxation of the Terms and Conditions for the Securities Lending Facility for the Cheapest-to-Deliver Issues," released on October 16, 2024; Financial Markets Department, Bank of Japan, "Treatment of the Reduction 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; and Box 5 in Financial Markets Department, Bank of Japan (2025), *Market Operations in Fiscal 2024*.

reduction in its repurchase amount in June 2025. In doing so, the Bank selected applicable issues on the premise that reducing its repurchase amount was strictly an exceptional transaction, taking into account factors such as the tendency for supply and demand conditions in the repo market to tighten non-linearly once its share of holdings exceeds approximately 80 percent. Specifically, the Bank (1) selected as applicable issues 10-year JGBs with a residual maturity of approximately 6 to 8 years, a maturity zone where no on-the-run issues are issued and the tightness of supply and demand conditions does not easily ease, and for which the share of the Bank's holdings in the market exceeds 80 percent. It also (2) announced its stance that it would accept counterparties' requests in principle until the amount outstanding of each of the applicable issues in the market recovered to about 1.5 trillion yen.[10]

Owing to steady progress in the usage of a series of the expanded reduction in the Bank's repurchase amount, coupled with successful bids in the Ministry of Finance's liquidity enhancement auctions, the amount outstanding of these issues in the market recovered to about 1.5 trillion yen, and the Bank's share of holdings in the market fell to about 80 percent (Box Chart 3-1). As a result, the usage amount of the Securities Lending Facility for these issues declined markedly. Furthermore, looking at the SC repo rates for these issues, the GC-SC spread remained wide prior to the implementation of the reduction in the Bank's repurchase amount under the Securities Lending Facility, with the rates moving in tandem with the upper limit on selling yields under the Securities Lending Facility. However, reflecting the usage of the reduction, the spread followed a narrowing trend (Box Chart 3-2). These changes indicate that supply and demand conditions for these issues eased somewhat, and that the reduction had a certain effect on improving liquidity.

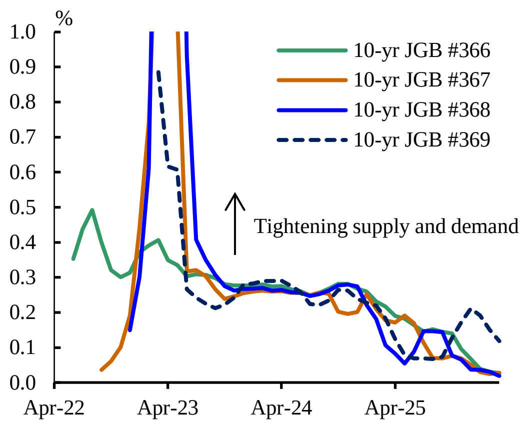
[10] For details, see Financial Markets Department, Bank of Japan, "Change in the Treatment of the Reduction in the Bank of Japan's Repurchase Amount under the Securities Lending Facility," released on June 17, 2025.

Box Chart 3-1: Usage of Liquidity Enhancement Auction and Reduction in the Bank's Repurchase Amount under the Securities Lending Facility



Note: The issuance amounts for liquidity enhancement auctions for each security are from October 2024 onward. "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 3-2: GC-SC Spreads

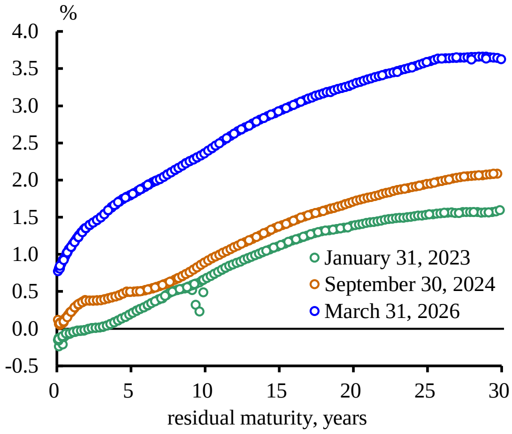


Note: The GC-SC spreads are calculated using 3-month backward moving averages.

This easing in the supply and demand conditions for JGBs can also be seen in the shape of the yield curve. In early 2023, strong downward pressure on yields emerged in 10-year JGB issues, which had become eligible for fixed-rate purchase operations under large-scale JGB purchases. Subsequently, as these issues moved into the futures zone, the yield curve distorted downward, leading to overvaluation in that zone; however, as the tightness of supply and demand conditions eased somewhat reflecting the use of the reduction in the Bank's repurchase amount, the perception of overvaluation largely dissipated recently (Box Chart 3-3).

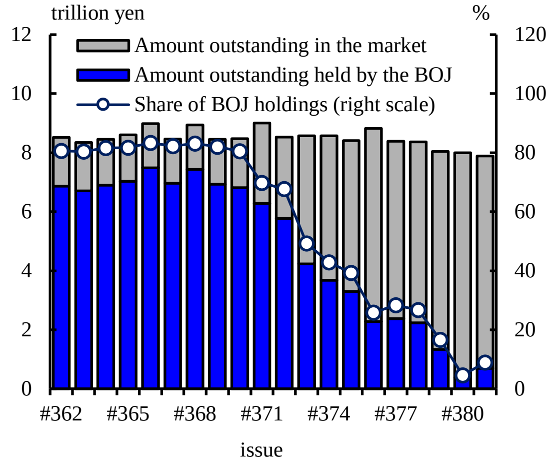
Looking at the Bank's share of 10-year JGB holdings, the proportion of the CTD issues is expected to decline markedly (Box Chart 3-4). Furthermore, regarding off-the-run JGB issues for which the share of the Bank's holdings remains relatively high, additional issuances through liquidity enhancement auctions are more likely as their residual maturities shorten. Thus, it appears that the need for and usefulness of exceptional measures, such as the reduction in the Bank's repurchase amount under the Securities Lending Facility, are diminishing.

Box Chart 3-3: JGB Yield Curve



Note: Compound interest basis.

Box Chart 3-4: The Bank's Holding Share of 10-Year JGBs



Notes: 1. "Amount outstanding in the market" does not include the amount sold under the new over-the-counter sales system by the Ministry of Finance. Figures are as of the end of March 2026.

2. The 10-year JGB #371 became the cheapest-to-deliver issue for the June 2026 bond futures contract.

E. 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 2025, 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 (Charts 2-23 and 2-24). From August, these costs decreased, mainly driven by a decline in the U.S. dollar OIS. Market expectations of policy rate cuts by the Federal Reserve increased due to factors such as heightened downside risks to U.S. employment. The Federal Reserve also cut its policy rate at three consecutive meetings held in September, October, and December.

Meanwhile, the U.S. dollar funding premium temporarily increased toward the end of 2025, 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 remained modest, as Japanese banks raised funds in advance toward the end of the year (Chart 2-24). Although the premium temporarily rose somewhat in March 2026 as risk sentiment became cautious in the wake of the increased tension over the situation in the Middle East, the extent of the increase was limited.

Chart 2-23: U.S. Dollar Funding Costs through Short-Term FX Swaps

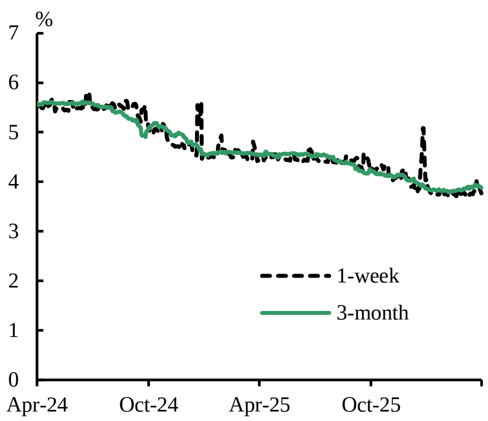
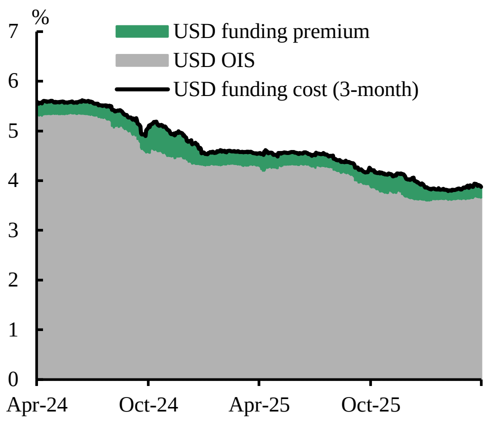


Chart 2-24: Breakdown of U.S. Dollar Funding Costs through Short-Term FX Swaps



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. dollars 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 2025, 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. The framework of the Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations was also used only sporadically in small sums for the purpose of verifying administrative preparedness.

F. 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 money 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 generally remained stable at around 2 times, with securities firms bidding for general bond funding, including municipal and corporate bonds (Chart 2-25). Meanwhile, immediately before the MPMs in October and December 2025 and March 2026, some counterparties that sensed the possibility of policy rate hikes by the Bank were bidding actively; therefore, the bid-to-cover ratio temporarily experienced a significant increase.

Under the aforementioned offers, the outstanding balance of these operations remained at 7.8 trillion yen throughout the fiscal year (Chart 2-26).

Chart 2-25: Bid-to-Cover Ratio of the Funds-Supplying Operations against Pooled Collateral

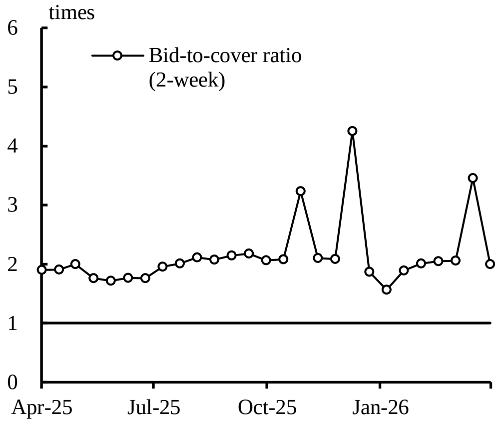
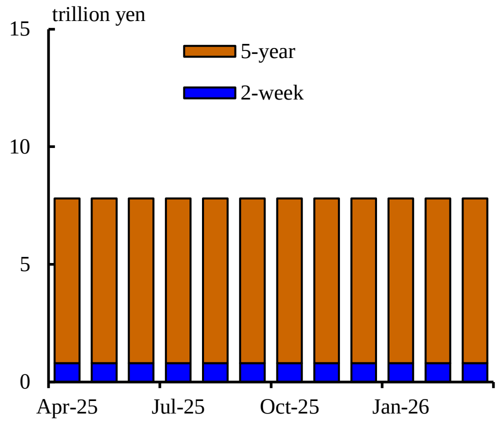


Chart 2-26: Amounts Outstanding of the Funds-Supplying Operations against Pooled Collateral



2. Stimulating Bank Lending Facility

During fiscal 2025, in accordance with the decision made at the January 2025 MPM, (1) new loan disbursements and rollovers of loans were made in June, and (2) as a transitional measure, rollovers into one-year loans were carried out in September and December for up to 50 percent of the amount of loans maturing. With these operations, all loan disbursements ceased (Chart 2-27). Against the backdrop of the termination of new loan disbursements, the outstanding balance decreased significantly to 48.5 trillion yen at the end of March 2026, a decrease of 24.5 trillion yen from the previous year (see Box 4 for details). Looking ahead, only prepayments and repayments upon maturity occur.

Chart 2-27: Loan Disbursement under the Stimulating Bank Lending Facility

100 million yen

	Jun. 2025 (Jun. 16)	Sep. 2025 (Sep. 10)	Dec. 2025 (Dec. 11)	As of end-Mar. 2026
New loans	70,188	10,693	5,876	—
Outstanding balance of loans	710,030	575,775	535,328	485,331

Note: The date in parentheses is the offer day (loan disbursements ceased in December 2025). The outstanding balance of loans is as of the end of the month.

3. Growth-Supporting Funding Facility

During fiscal 2025, the Bank conducted in June 2025 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 2-28).[11] With this, the Bank terminated loan disbursements under the Growth-Supporting Funding Facility, including rollovers of loans.

At the end of March 2026, the outstanding balance of loans under the main rules was 0.3 trillion yen, a decrease of 1.5 trillion yen from the previous year. The outstanding balance of loans under the special rules for the U.S. dollar lending arrangement was 2.4 billion U.S. dollars, a decrease of 6.3 billion U.S. dollars from the previous year (Chart 2-29).

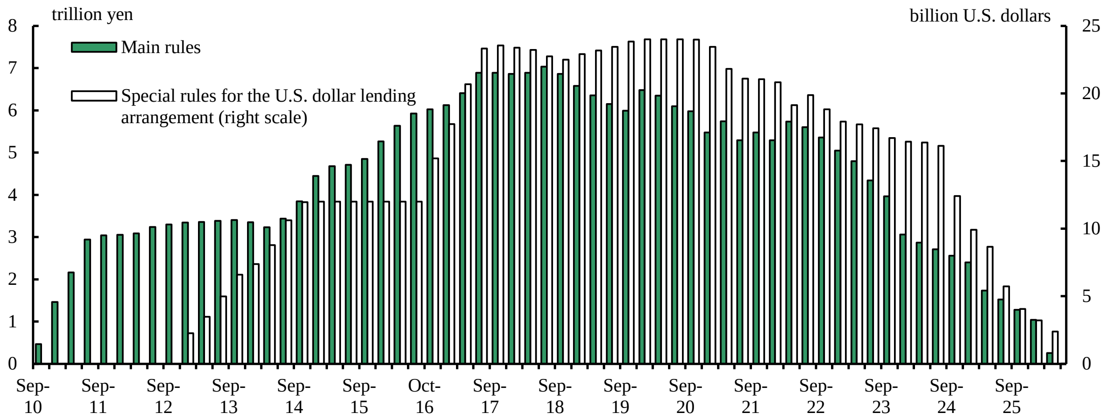
[11] The Bank discontinued new loan disbursements in June 2022 under the special rules for the U.S. dollar lending arrangement, as well as under the main rules, which were introduced in June 2010 and revised in October 2019.

Chart 2-28: Amount Outstanding of the Growth-Supporting Funding Facility

100 million yen	million U.S. dollars
Main rules (as of end-Mar. 2026)	Special rules for the U.S. dollar lending arrangement (as of end-Mar. 2026)
2,556 (848)	2,384

Note: The value in parentheses under 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 2-29: Amounts Outstanding of Loans from the Growth-Supporting Funding Facility



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

During fiscal 2025, the Bank offered the operations once a quarter, for a total of four times (Chart 2-30). The outstanding balance stood at 13.0 billion yen at the end of March 2026, a decrease of 38.7 billion yen from the previous year, due to repayment of existing loans.

Chart 2-30: Loan Disbursement under the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas

100 million yen

28th (May 8, 2025)	29th (Aug. 14)	30th (Nov. 13)	31st (Feb. 12, 2026)	Outstanding balance of loans (as of end-Mar. 2026)
0	130	0	0	130

Note: The date in parentheses is the offer day. The value is of new loans.

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

During fiscal 2025, the Bank offered the operations once every six months, for a total of twice (Chart 2-31). 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, and the outstanding balance of the loans continued to increase (see Box 4 for details). As a result, the outstanding balance reached 21.1 trillion yen at the end of March 2026, an increase of 6.9 trillion yen from the previous year.

Chart 2-31: Loan Disbursement under the Funds-Supplying Operations to Support Financing for Climate Change Responses

100 million yen

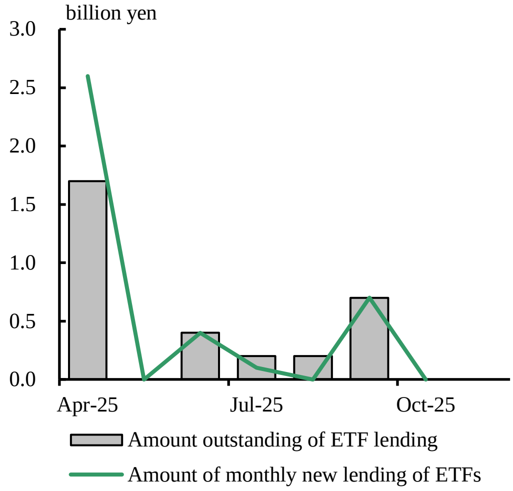
8th (Jul. 17, 2025)	9th (Jan. 29, 2026)	Outstanding balance of loans (as of end-Mar. 2026)
101,594	109,552	211,146

Note: The date in parentheses is the offer day. The value is of new loans.

6. ETF Lending Facility

During fiscal 2025, the Bank lent its holdings of ETFs a total of nine times through mid-September. The amount of monthly new lending (based on trade date) was small, at a maximum of 2.6 billion yen (Chart 2-32). Subsequently, at the September MPM, the Bank decided to discontinue the ETF lending facility. As a result, the amount outstanding of ETF lending reached zero at the end of October 2025.

Chart 2-32: Amounts Outstanding of ETF Lending and Amounts of Monthly New Lending of ETFs



Note: "Amount outstanding of ETF lending" represents the month-end balance. "Amount of monthly new lending of ETFs" is the monthly total based on the trade date.

7. Disposal of ETFs and J-REITs

The Bank decided at the September 2025 MPM to sell its holdings of ETFs and J-REITs to the market in accordance with the Basic Principles for Disposal of ETFs and J-REITs (for details, see IV. Major Changes in the Frameworks Related to Market Operations and

Others). Based on this decision, the sales of ETFs and J-REITs were conducted from January 19, 2026.

Consequently, the amount outstanding of the Bank's holdings as of the end of March 2026 amounted to 37.1 trillion yen for ETFs and 653.7 billion yen for J-REITs (both on a book value and settlement amount basis) (Chart 2-33).

Chart 2-33: Amounts Outstanding of ETF and J-REIT Holdings

100 million yen

	as of end-Mar. 2025	as of end-Mar. 2026
ETFs	371,861	371,214
J-REITs	6,554	6,537

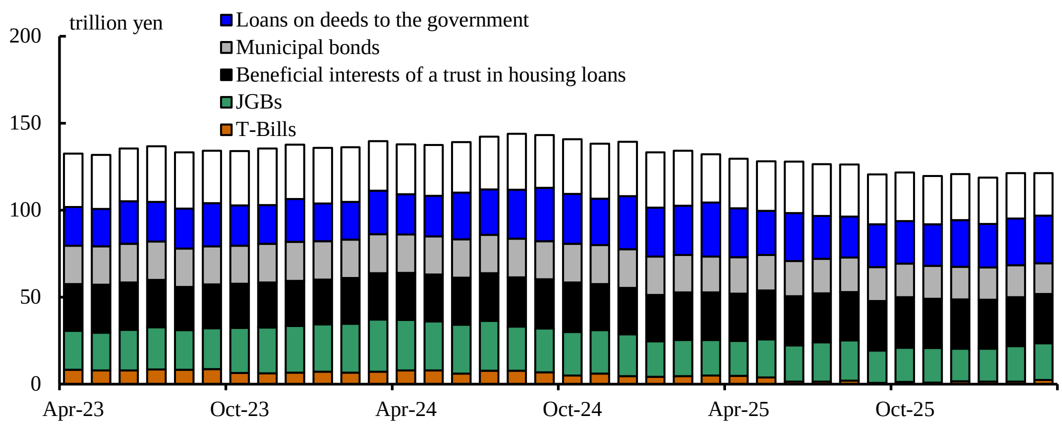
Note: The amount outstanding of J-REIT holdings excludes accrued dividends receivable.

8. Collateral Pledged to the Bank of Japan

The amount outstanding of collateral pledged to the Bank by financial institutions decreased, mainly due to a decline in the outstanding balance of the usage of the Stimulating Bank Lending Facility (Chart 2-34).

Looking at the breakdown of collateral pledged to the Bank, the outstanding amount of loans on deeds to the government declined. The outstanding balance of municipal bonds and T-Bills also decreased as counterparties withdrew these assets to use them as collateral for raising funds in the repo market and to improve liquidity ratios (see Box 4 for details).

Chart 2-34: Amounts Outstanding of Collateral Pledged to the Bank

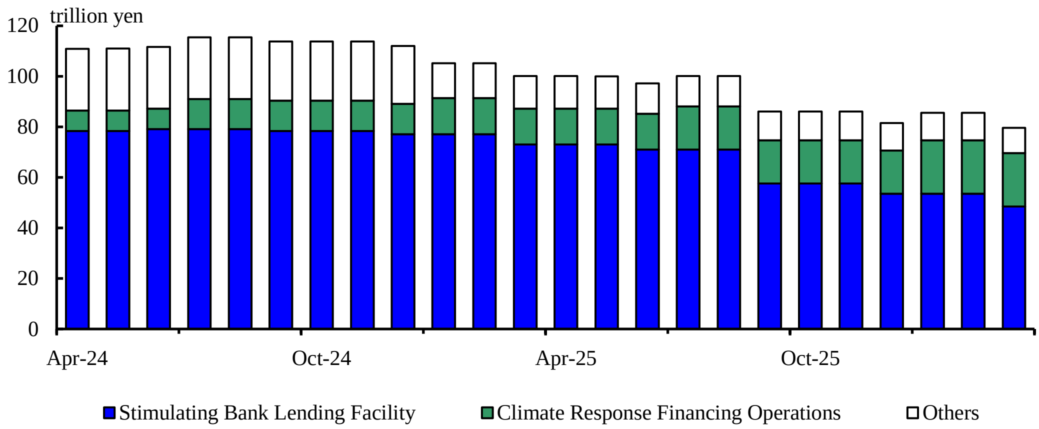


Note: On a collateral value basis.

Box 4: Usage of Funds-Supplying Operations and Status of Collateral Accepted by the Bank

During fiscal 2025, the outstanding balance of loans from the Bank's funds-supplying operations decreased overall as the decline in the Fund-Provisioning Measure to Stimulate Bank Lending (Stimulating Bank Lending Facility) outweighed the increase in the Funds-Supplying Operations to Support Financing for Climate Change Responses (Climate Response Financing Operations) (Box Chart 4-1). The following subsections summarize the usage by financial institutions of the Stimulating Bank Lending Facility and the Climate Response Financing Operations in fiscal 2025, as well as the status of collateral accepted by the Bank reflecting the decline in the outstanding balance of loans.

Box Chart 4-1: Amounts Outstanding of Loans of the Bank



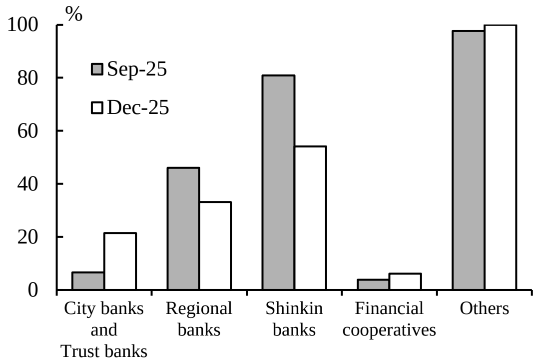
Note: "Others" includes the Funds-Supplying Operations against Pooled Collateral, the Growth-Supporting Funding Facility, the Funds-Supplying Operation to Support Financial Institutions in Disaster Areas, and the Complementary Lending Facility.

Stimulating Bank Lending Facility

In accordance with the decision made at the January 2025 MPM, new loan disbursements under the Stimulating Bank Lending Facility were terminated in June. In September and December, as a transitional measure, rollovers into one-year loans were carried out for up to 50 percent of the amount of loans maturing. With these operations, all loan disbursements ceased. After switching to loans on a floating rate basis in July 2024, counterparties became less inclined to use this facility due to a decline in the attractiveness of such loans. Consequently, the majority of roll-over transactions did not take place in September and December 2025 as well, and the outstanding balance of loans as of the end of March 2026 markedly decreased to 48.5 trillion yen. However, some counterparties, particularly small financial institutions, viewed this facility as a useful means of raising stable funding at low interest rates and improving liquidity ratios (the LCR and the net stable funding ratio

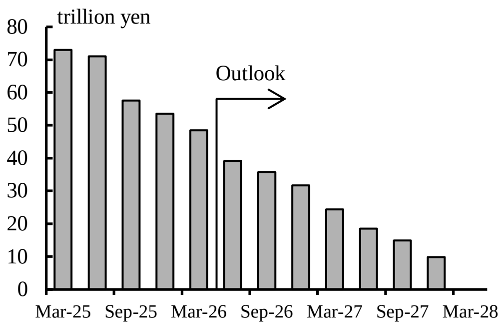
[NSFR]) and actively rolled over their loans to maintain a buffer of cash on hand and prepare for potential declines in deposit levels. Under these circumstances, the rollover ratio by sector varied (Box Chart 4-2). Looking ahead, as loans mature in stages, the outstanding balance of loans is expected to gradually decrease and reach zero by March 2028 (Box Chart 4-3).

Box Chart 4-2: Rollover Ratio by Sector (Stimulating Bank Lending Facility)



Note: The rollover ratio is the ratio of loans rolled over to the maximum amount eligible for rollover. "Financial cooperatives" includes the following: Shinkin Central Bank; The Shinkumi Federation Bank; The Rokinren Bank; and The Norinchukin Bank. "Others" includes online banks.

Box Chart 4-3: Outlook for Outstanding Balance of Loans (Stimulating Bank Lending Facility)



Note: Prepayment from June 2026 onward is assumed to be zero.

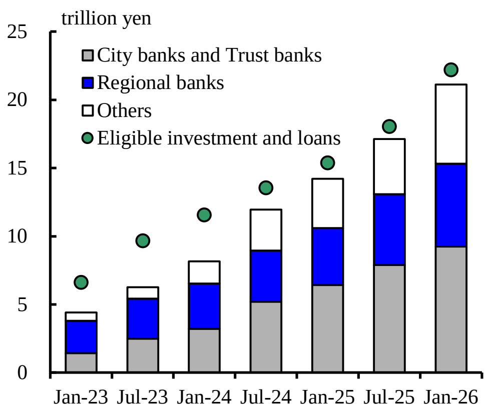
Climate Response Financing Operations

As the outstanding balance of investment and loans eligible for the Climate Response Financing Operations increased, these operations were used even more actively across a wide range of sectors, with the outstanding balance of loans reaching 21.1 trillion yen as of the end of March 2026 (Box Chart 4-4). Regarding how much these operations are used relative to the amount outstanding of counterparties' eligible investment and loans, the ratio of new loans in each counterparty's lending limit [12] was 75 percent or more for approximately 80 percent of the counterparties in the January 2026 operations. This situation appears to suggest that many eligible counterparties continued to utilize these operations and engage in climate-related investment and loans, while promoting climate change responses as a key area of management focus (Box Chart 4-5). In addition, regarding the reasons behind this active use, some counterparties noted that with the

[12] 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.

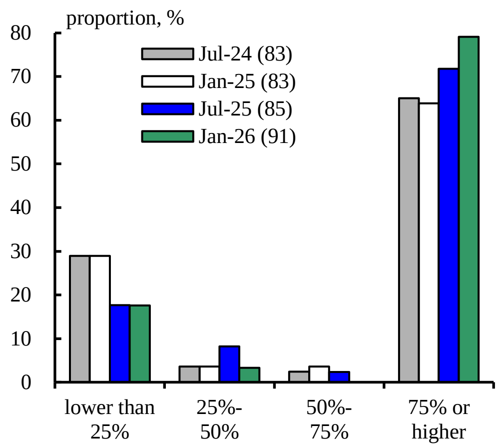
continued provision of funds with a fixed rate and a duration of one year, they were recognizing the attractiveness of this facility as a means of raising stable funding at low interest rates and improving liquidity ratios. Against this backdrop, the borrower base continued to expand throughout fiscal 2025. For instance, primarily among online banks and regional banks, new eligible counterparties and those who had previously been less active in using these operations began to adopt them.

Box Chart 4-4: 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" refers to the total amount outstanding for all sectors.

Box Chart 4-5: Distribution of Counterparties by Usage Ratio (Climate Response Financing Operations)



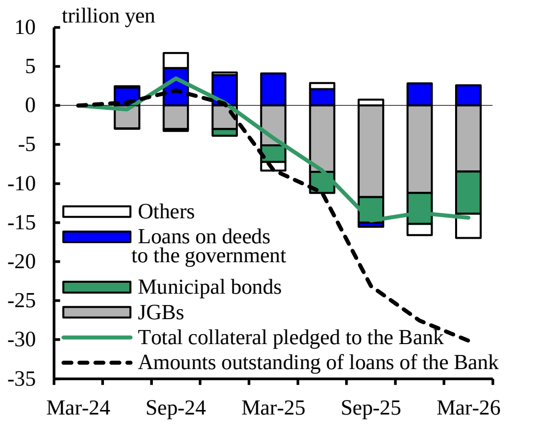
Note: The usage ratio is calculated as the ratio of new loans in the lending limit for the corresponding counterparty. The figures show the proportion of counterparties in each category based on their usage ratio to the total number of eligible counterparties. The value in parenthesis is the number of eligible counterparties.

Collateral accepted by the Bank

The amount outstanding of collateral accepted by the Bank (based on collateral value) declined, reflecting the move to withdraw excess collateral due to the decrease in the outstanding balance of loans mentioned above (main text Chart 2-34). A detailed look at collateral pledged to the Bank by counterparties holding the amount outstanding of loans from the Stimulating Bank Lending Facility (116 institutions as of the end of March 2025) shows a trend, particularly among city banks and regional banks, of withdrawing JGSs (including T-Bills) and municipal bonds from their excess collateral (Box Chart 4-6). The aim of such withdrawals was to (1) utilize the assets as collateral for repo transactions and foreign currency funding and (2) count them as eligible liquid assets for the calculation of liquidity ratios. As discussed earlier, these developments led to an increase in the GC repo rate and a rise in T-Bill yields in the second half of fiscal 2025 (see II.A. Developments in the Money Markets, Box 1, and II.B. Developments in the T-Bill Market and Outright Purchases of T-Bills).

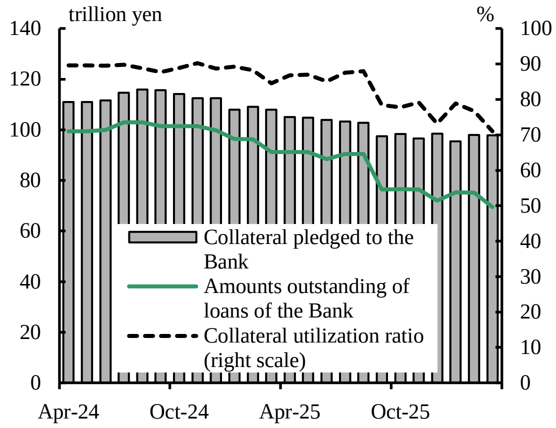
However, since the decline in collateral accepted by the Bank remained smaller than that in the outstanding balance of loans, the collateral utilization ratio for eligible counterparties fell to around 70 percent (Box Chart 4-7). In this regard, some counterparties noted that they were maintaining their amount outstanding of collateral at a relatively high level in anticipation of its use in future operations, such as the Climate Response Financing Operations.

Box Chart 4-6: Changes in Collateral Pledged to the Bank (Institutions with Amounts Outstanding of Loans from the Stimulating Bank Lending Facility)



Notes: 1. Cumulative quarterly changes since the end of March 2024, aggregated from 116 institutions with the amounts outstanding of loans from the Stimulating Bank Lending Facility as of the end of March 2025.
2. Collateral pledged to the Bank is on a collateral value basis.
3. "JGBs" includes T-Bills.

Box Chart 4-7: Changes in Utilization of Collateral (Institutions with Amounts Outstanding of Loans from the Stimulating Bank Lending Facility)



Note: Aggregated from 116 institutions with the amounts outstanding of loans from the Stimulating Bank Lending Facility as of the end of March 2025. "Collateral utilization ratio" is the ratio of amounts outstanding of loans of the Bank to the value of collateral pledged to the Bank.

G. Complementary Lending Facility

During fiscal 2025, the use of this facility remained at an extremely low level, with current account balances at the Bank being maintained at high levels overall.

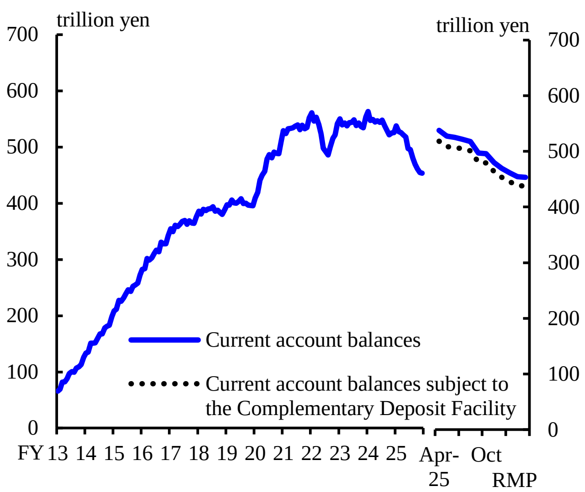
III. Developments in Current Account Balances at the Bank and the Bank's Balance Sheet

A. Developments in Current Account Balances at the Bank

1. Summary

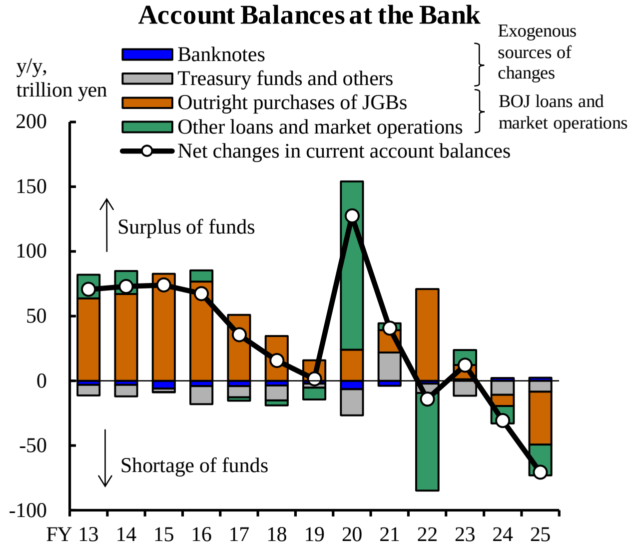
In fiscal 2025, the outstanding balance of current accounts at the Bank, while remaining high, continued to decline on the back of the market operations discussed in Chapter II, reaching 459.7 trillion yen at the end of March 2026, a decline of 70.7 trillion yen from the previous year (Chart 3-1). Looking at the sources of changes in current account balances at the Bank (after repayment adjustments),[13] a negative contribution from "BOJ loans and market operations" increased from the previous fiscal year due to the reduction of the Bank's JGB purchases and lower outstanding balances in the Stimulating Bank Lending Facility. A contribution from "exogenous sources of changes," comprising changes in banknotes and those in treasury funds and others, also remained negative (Chart 3-2). Meanwhile, current account balances subject to the interest rate under the Complementary Deposit Facility continued to decrease, moving generally in tandem with developments in the overall current account balances (Chart 3-1).

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



Note: "Current account balances subject to the Complementary Deposit Facility" is shown on the right-hand side of the chart only. RMP denotes 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.

[13] 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). For repayment adjustments, see subsection C, "Developments in Exogenous Sources of Changes in Current Account Balances at the Bank" of this section.

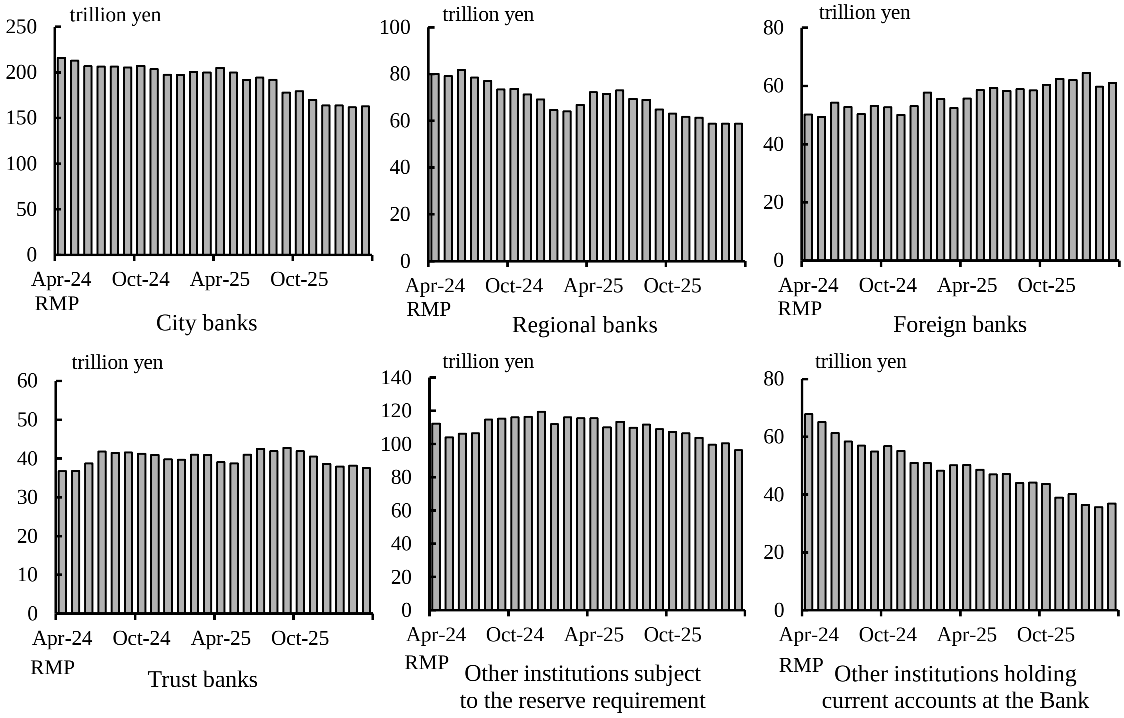
2. Developments in Current Account Balances at the Bank by Sector

Looking at developments in current account balances at the Bank in fiscal 2025 by sector, the balances of foreign banks increased, while those of other sectors decreased (Chart 3-3).

City banks' balances in the Bank's current account decreased significantly throughout the fiscal year, reflecting (1) a rise in payments of fiscal funds, associated with, for example, the receipts of taxes and pension insurance premiums, and (2) the gradual decrease in outstanding balances in the Stimulating Bank Lending Facility. In addition, regional banks reduced their balances, due to the decrease in outstanding balances in the Stimulating Bank Lending Facility and the narrowing of their loan-deposit gap, which shows the difference between deposits and loans (see Box 5 for the impact of the termination of lending under the Stimulating Bank Lending Facility on the outstanding balance of current accounts at the Bank by sector). Other institutions holding current accounts at the Bank decreased their balances throughout the fiscal year. This decline is mainly attributable to the facts that (1) they continued to actively engage in market investments with positive interest rates taking hold in the market, and (2) participating institutions shifted collateral accepted by settlement institutions from cash to JGBs and other securities.

Foreign banks' balances, by contrast, remained on an increasing trend as they actively converted U.S. dollar funds into yen and added them to their current account balances at the Bank and as the yen continued to depreciate.

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



Notes: 1. "Other institutions subject to the reserve requirement" includes 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; UI Bank; and 01Bank.

2. "Other institutions holding current accounts at the Bank" includes 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; Deposit Insurance Corporation of Japan; and Wise Payments Japan.

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 2025, exogenous sources of changes in current account balances at the Bank (before repayment adjustments) resulted in a decrease of 87.4 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 (Chart 3-4, left-hand side). In contrast, on a repayment-adjusted basis, current account balances decreased by 6.2 trillion yen due to changes in treasury funds and others, while changes in banknotes contributed to an increase in the balances (Chart 3-4, right-hand side). Compared to the previous fiscal year (when a "shortage of funds" of 8.7 trillion yen was recorded), the decline narrowed due to a smaller negative contribution from changes in treasury funds and others.

The following describes the background to adjustments to figures for the redemption of JGBs and T-Bills (hereinafter referred to as "JGBs etc."), made in order to assess the sources of changes in current account balances at the Bank. Among changes in treasury funds and others, looking at the treatment of changes related to JGBs etc., current account balances at the Bank decrease when JGBs etc. are issued, as private financial institutions purchase them from the government. Therefore, this is recorded as a decrease in treasury funds and others (correspondingly, government deposits increase). Subsequently, at the time of redemption of these JGBs etc., the reverse transaction takes place. As the government makes repayments to private financial institutions, current account balances at the Bank increase. This is thus recorded as an increase in changes in treasury funds and others (correspondingly, government deposits decrease). As a result, looking at the process from issuance to redemption of an issue of JGBs etc., the effects of its issuance and redemption on the balances are netted out within changes in treasury funds and others.

When the Bank purchases JGBs etc. as part of its market operations, the effects on current account balances at the Bank are recorded differently from the aforementioned case. Similar to the above case, when JGBs etc. are issued, the entire issuance amount is recorded as a decrease in treasury funds and others with respect to current account balances at the Bank (correspondingly, government deposits increase). Next, when the Bank purchases some of JGBs etc. from private financial institutions, current account balances at the Bank grow. This is recorded as an increase in BOJ loans and market operations. Subsequently, at the time of redemption of these JGBs etc., (1) those in the market are recorded as an increase in treasury funds and others, as repayments by the government to private financial institutions result in an increase in current account balances at the Bank. On the other hand, (2) JGBs etc. purchased by the Bank do not change the balances because the redemptions are received by the Bank, and they are not recorded under changes in treasury funds and others, which reflect transactions between the government and private financial institutions. Therefore, looking at the process from issuance to redemption of an issue of JGBs etc., when the Bank conducts outright purchases, the effects of its issuance and redemption on current account balances at the Bank are only partially netted out. As a result, observing figures for changes in treasury funds and others without making any adjustments leads to an overly negative assessment of the effects of its issuance and redemption on the balances.

It is considered appropriate to revise the above handling and restructure the recording method for the sources of changes, so that the effects of the issuance and redemption of JGBs etc. are directly observable as changes in treasury funds and others. Specifically, at the time of redemption of JGBs etc., those purchased by the Bank are treated as if they were sold to the market just before redemption. In this case, the net amount obtained by offsetting the JGBs the Bank purchased against the JGBs to be redeemed is recorded under "outright purchases of JGBs" of BOJ loans and market operations. Comparing the figures before and after repayment adjustments in Chart 3-4, outright purchases of JGBs after the adjustments are negative, reflecting that redemptions exceed outright purchases of JGBs. In contrast, under changes in treasury funds and others, the redeemed amount of JGBs etc. held by the Bank is additionally recorded. Accordingly, the figures after repayment adjustments in Chart 3-4 extend less into negative territory. This is because private financial institutions receive additional redemption funds from the government that correspond to the amount of JGBs etc. they purchased from the Bank under the aforementioned assumption. Notably, this reclassification of items between treasury funds and others and BOJ loans and market operations does not affect the change in the overall current account balances (in Chart 3-4, the changes in the balances are identical before and after repayment adjustments).

Chart 3-4: Sources of Changes in Current Account Balances at the Bank

trillion yen

	Before repayment adjustments			After repayment adjustments		
	FY 2024	FY 2025	Year-on-year	FY 2024	FY 2025	Year-on-year
Banknotes (a)	2.2	2.4	0.1	2.2	2.4	0.1
Treasury funds and others (b)	-82.6	-89.7	-7.1	-10.9	-8.5	2.3
Net fiscal payments	21.5	17.8	-3.7	21.5	17.8	-3.7
JGBs (more than 1 year)	-100.3	-103.5	-3.2	-30.6	-22.3	8.3
T-Bills	20.5	-2.9	-23.4	22.5	-2.9	-25.4
Foreign exchange	-15.5	-0.6	14.9	-15.5	-0.6	14.9
Others	-8.9	-0.5	8.3	-8.9	-0.5	8.3
Exogenous sources of changes (a)+(b)	-80.4	-87.4	-7.0	-8.7	-6.2	2.5
BOJ loans and market operations	49.7	16.7	-33.0	-22.1	-64.5	-42.4
Outright purchases of JGBs	61.1	40.5	-20.6	-8.6	-40.7	-32.1
Outright purchases of T-Bills	0.0	0.0	0.0	-2.0	0.0	2.0
Funds-Supplying Operations to Support Financing for Climate Change Responses	6.0	6.9	0.9	6.0	6.9	0.9
Funds-Supplying Operations against Pooled Collateral	-10.7	0.0	10.7	-10.7	0.0	10.7
Loan Support Program	-6.4	-26.0	-19.5	-6.4	-26.0	-19.5
Other loans and market operations	-0.4	-4.8	-4.4	-0.4	-4.8	-4.4
Net change in current account balances	-30.7	-70.7	-39.9	-30.7	-70.7	-39.9

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 figures affected by repayment adjustments.

Changes in banknotes

In fiscal 2025, the outstanding balance of banknotes issued continued on a moderate declining trend, primarily due to the increasing adoption of cashless payments. The balance stood at 116.3 trillion yen at the end of March 2026, a 2.0 percent decrease from the previous year (Chart 3-5). Reflecting this development, changes in banknotes in fiscal 2025 were generally on par with the previous year's level, resulting in net redemptions of 2.4 trillion yen (an increase in current account balances at the Bank) (Chart 3-4).

Regarding the cumulative changes in banknotes from the start of fiscal 2025, seasonal changes in issuance and redemption generally followed the same pattern as previous years. That said, the cumulative changes as a whole shifted toward net redemption, as the amount of net issuance continued to decrease before Golden Week (the period from late April to early May that includes several national holidays) and at the year-end (Chart 3-6).

Chart 3-5: Outstanding Balance of Banknotes Issued

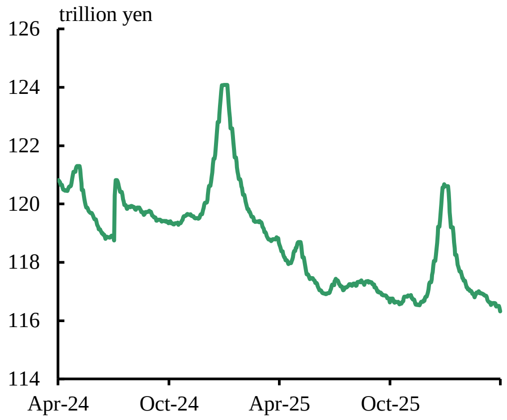
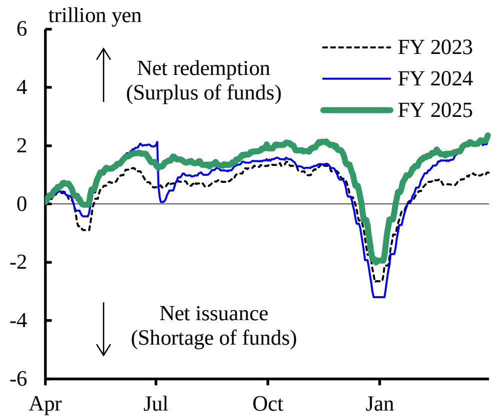


Chart 3-6: Cumulative Changes in Banknotes from the Start of the Fiscal Year



Changes in treasury funds and others

In fiscal 2025, changes in treasury funds and others (before repayment adjustments) amounted to net receipts of 89.7 trillion yen (a decrease in current account balances at the Bank), which was an increase from net receipts of 82.6 trillion yen in the previous year (Charts 3-4 and 3-7). In contrast, after repayment adjustments, they resulted in net receipts of 8.5 trillion yen, a decrease of 2.3 trillion yen from the net receipts of 10.9 trillion yen in the previous year. The contribution to the decline in current account balances at the Bank, therefore, diminished (Charts 3-4 and 3-8). When comparing each item of changes in treasury funds and others with the previous fiscal year, the shift to net issuance of T-Bills and the decline in "net fiscal payments" (both exerting downward pressure on current account balances at the Bank) were exceeded by the decline in net issuance of JGBs with maturities of more than one year and by the decrease in net receipts of "foreign exchange" and "others" of "treasury funds and others" (both exerting upward pressure on current account balances at the Bank).

Looking at the individual sources of changes, the redemption amount of T-Bills in fiscal 2025 decreased from the previous fiscal year, resulting in a shift to net issuance (Chart 3-9). In contrast, net issuance of JGBs with maturities of more than one year declined, mainly due to lower issuance amounts than in the previous fiscal year (Chart 3-9). "Net fiscal payments" declined overall (Chart 3-10). This was because tax revenues, primarily from income tax, 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 previous fiscal year. Net receipts of "foreign exchange" declined due to a dissipation of the effects of U.S. dollar selling/yen purchasing foreign exchange interventions conducted in the previous fiscal year (Chart 3-4).[14] Net receipts of "others" of "treasury funds and others" decreased as the scale of the increase in the balance of yen-denominated deposits received by the Bank from foreign central banks and international institutions was smaller than in the previous year, despite the balance continuing to grow (a decrease in current account balances at the Bank) (Chart 3-4).

Chart 3-7: Cumulative Changes in Treasury Funds and Others from the Start of the Fiscal Year

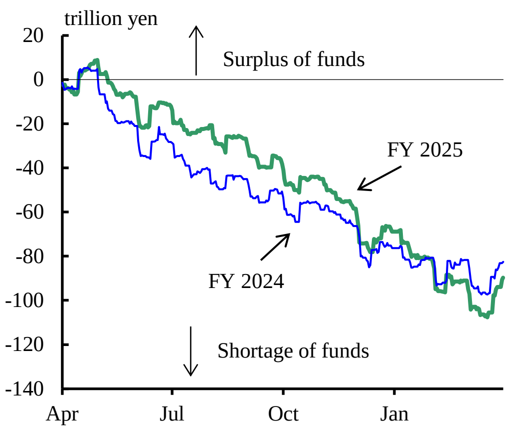
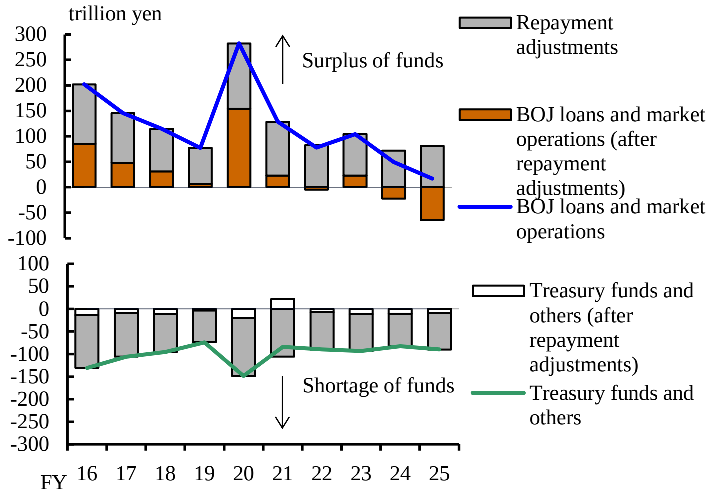
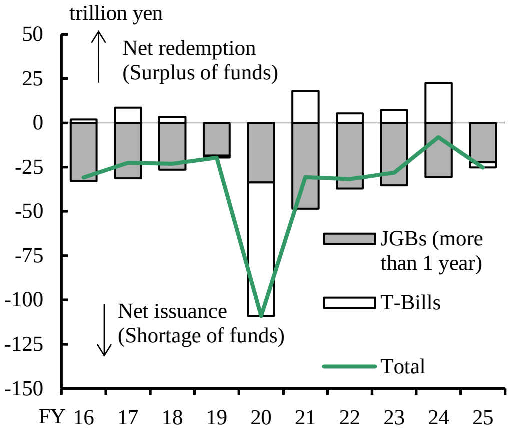


Chart 3-8: Impact of Treasury Funds and Others and BOJ Loans and Market Operations on Current Account Balances at the Bank



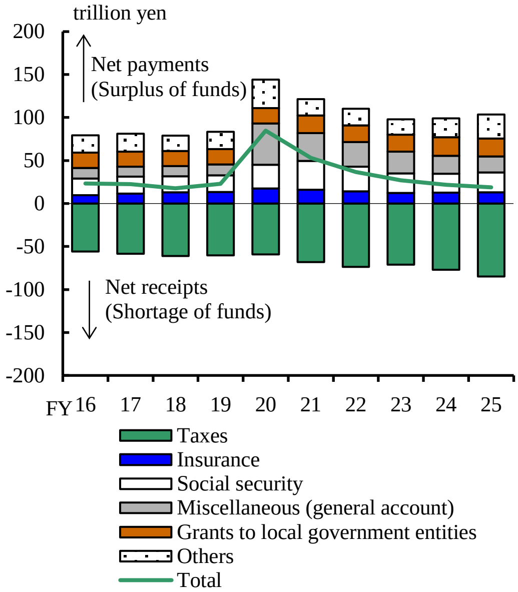
[14] For the impact of foreign exchange intervention operations on current account balances at the Bank, see Box 1 in Financial Markets Department, Bank of Japan (2023), *Market Operations in Fiscal 2022*.

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

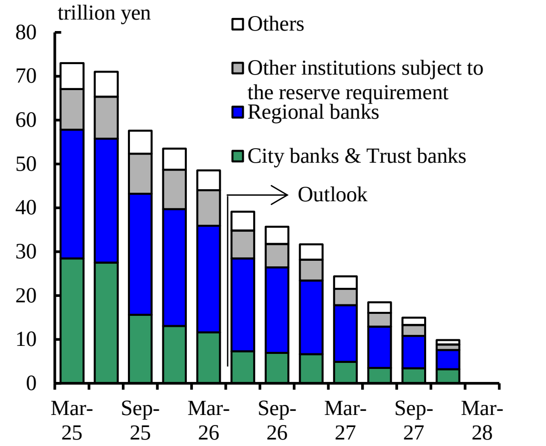


Box 5: Impact of the Termination of Lending under the Stimulating Bank Lending Facility on the Outstanding Balance of Current Accounts at the Bank

The outstanding balance of current accounts at the Bank is expected to continue to decline, reflecting the Bank's progress in reducing its JGB purchases and the termination of lending under the Fund-Provisioning Measure to Stimulate Bank Lending (Stimulating Bank Lending Facility). At the same time, the distribution of individual financial institutions' current account balances at the Bank is expected to widen somewhat due to factors such as their asset-liability management (ALM). The following examines how the outstanding balance of current accounts at the Bank is affected by the termination of lending under the Stimulating Bank Lending Facility, the usage of which differs significantly across sectors and among individual borrowers.

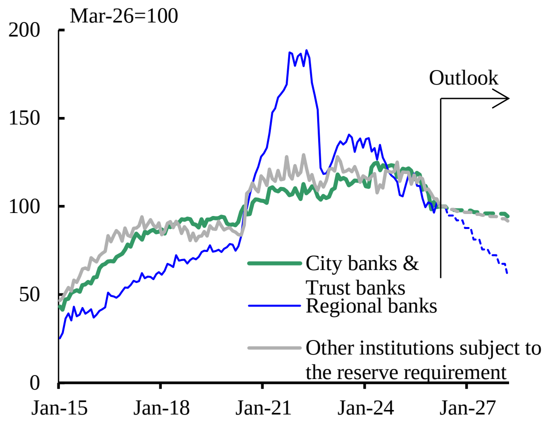
First, looking at the amount outstanding of loans from the Stimulating Bank Lending Facility by sector, the decline in the outstanding balance of loans for regional banks was smaller than that for city banks and trust banks, where the decline was pronounced during fiscal 2025. As a result, the outstanding balance of loans for regional banks was relatively larger as of the end of fiscal 2025 (Box Chart 5-1). As loans gradually mature due to the termination of lending under the Stimulating Bank Lending Facility, the total outstanding balance of loans is expected to reach zero by the end of March 2028. Particularly for regional banks, the future decline in the outstanding balance of loans is expected to lead to a more significant reduction in their current account balances at the Bank (Box Chart 5-2).

Box Chart 5-1: Amounts Outstanding of Loans from the Stimulating Bank Lending Facility



Note: Prepayment from June 2026 onward is assumed to be zero.

Box Chart 5-2: Projection of Amounts Outstanding of Current Account Balances at the Bank



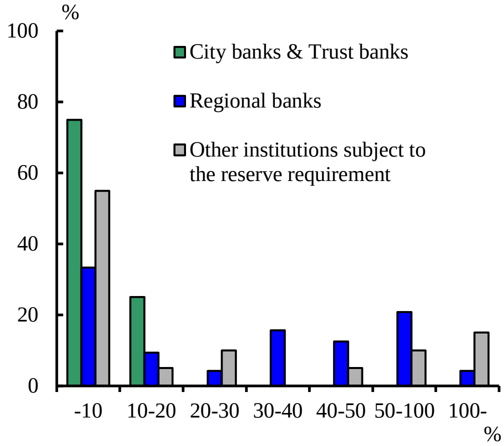
Note: Figures show amounts outstanding at the end of each month. Projected figures in the outlook (from April 2026 onward) mechanically reflect the decrease in the amounts outstanding due to the maturing of loans under the Stimulating Bank Lending Facility (assuming no prepayment). Projected figures do not take into account other sources of changes in current account balances at the Bank.

Furthermore, looking at the ratio by financial institution of the amount outstanding of loans from the Stimulating Bank Lending Facility to current account balances at the Bank, this ratio is 20 percent or less for all city banks and trust banks, while some regional banks and other institutions subject to the reserve requirement have higher ratios (Box Chart 5-3). In such institutions with higher ratios, a decline in the outstanding balance of loans from the Stimulating Bank Lending Facility could also have a corresponding impact on their current account balances at the Bank.

Meanwhile, as positive interest rates have taken hold, changes have been observed in banks' deposit-taking and lending activities as a whole. For example, with overall lending at regional banks continuing to grow steadily, their loan-deposit gap is narrowing due to factors such as increased competition with other sectors to acquire deposits and households' shift of their funds toward assets under custody from bank deposits (Box Chart 5-4). In this context, an increasing number of banks focus more than ever on attracting deposits. In addition, at regional banks and other institutions subject to the reserve requirement, daily fluctuations in current account balances at the Bank tend to be significant, reflecting trends in large deposits and other factors (Box Chart 5-5). While financial institutions continue to hold ample liquidity on hand, an increasing number are taking steps to strengthen their cash flow management and ALM operations in light of these changes in deposit-taking and lending activities. In fact, in the money markets, the cash borrower base in the call market --

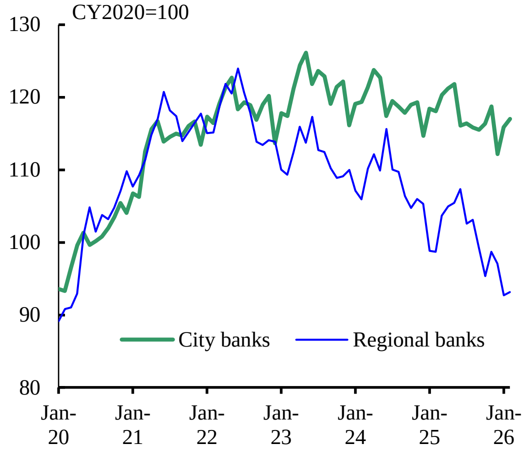
including term instruments -- expanded somewhat in fiscal 2025, as market participants sought to diversify their funding sources (see II.A. Developments in the Money Markets).

Box Chart 5-3: Ratio of Amounts Outstanding of Loans from the Stimulating Bank Lending Facility to Current Account Balances at the Bank



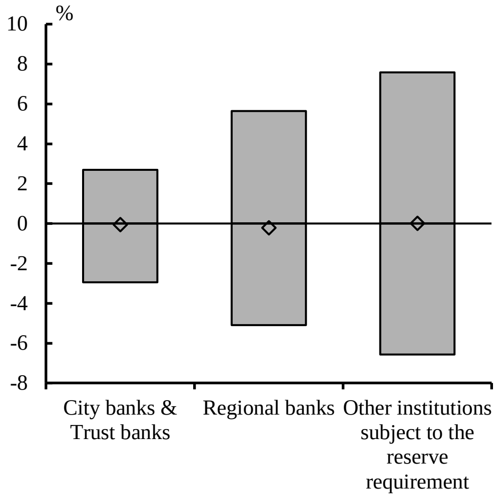
Notes: 1. As of the end of March 2026.
2. The vertical axis shows the ratio to the total number of institutions for each sector. Figures aggregate data from institutions with current account balances at the Bank.
3. "City banks & Trust banks" excludes trust bank subsidiaries and foreign trust banks. "Other institutions subject to the reserve requirement" excludes *shinkin* banks.

Box Chart 5-4: Loan-Deposit Gaps



Note: The loan-deposit gap is the difference between loans and deposits (including certificates of deposit).

Box Chart 5-5: Daily Fluctuation Rate of Current Account Balances at the Bank



Notes: 1. Figures represent the sample of daily fluctuation rates (for each institution on each business day in 2025) of current account balances at the bank for each sector, showing the median (marker) and 10-90th percentile range (band). Figures aggregate data from institutions with current account balances at the Bank.
2. "City banks & Trust banks" excludes trust bank subsidiaries and foreign trust banks. "Other institutions subject to the reserve requirement" excludes *shinkin* banks.

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 2025 (Chart 3-11).

The Bank's balance sheet stood at 663.0 trillion yen at the end of March 2026, a decrease of 66.7 trillion yen from the previous year. Meanwhile, the monetary base amounted to 580.7 trillion yen at the end of March 2026, a decrease of 73.1 trillion yen from the previous year.

On the asset side, a wide range of items, mainly JGBs and the Loan Support Program, decreased, while the Climate Response Financing Operations increased. Specifically, JGBs declined to 530.9 trillion yen, a decrease of 43.4 trillion yen from the previous year, as the reduction in the Bank's purchases progressed in accordance with the plan for the reduction of the purchase amount of JGBs decided at the July 2024 and June 2025 MPMs. Furthermore, the Loan Support Program also declined to 48.8 trillion yen, a decrease of 26.0 trillion yen from the previous year, reflecting the termination of all loan disbursements -- including rollovers as a transitional measure -- under the Stimulating Bank Lending Facility. Regarding risky assets, purchases of CP and corporate bonds were discontinued in January 2025. As a result of redemptions, the amount outstanding of CP reached zero, and corporate bonds decreased to 2.2 trillion yen, a decline of 2.7 trillion yen from the previous year. As for ETFs and J-REITs, the Bank started selling in January 2026 in accordance with the guideline decided in September 2025.

Meanwhile, the Climate Response Financing Operations rose to 21.1 trillion yen, an increase of 6.9 trillion yen from the previous year, as eligible counterparties maintained active use of the facility with the outstanding balance of investment and loans eligible for these operations increasing.

On the liability side, current account balances at the Bank decreased to 459.7 trillion yen, a decline of 70.7 trillion yen from the previous year, while banknotes declined to 116.3 trillion yen, a decrease of 2.4 trillion yen from the previous year. Payables under repurchase agreements increased to 18.0 trillion yen, a rise of 5.2 trillion yen from the previous year, reflecting an increase in the sales of JGBs to the government under repurchase agreements. In contrast, deposits of the government decreased to 2.2 trillion yen, a decline of 1.8 trillion yen from the previous year (Chart 3-12).

Chart 3-11: The Bank's Balance Sheet

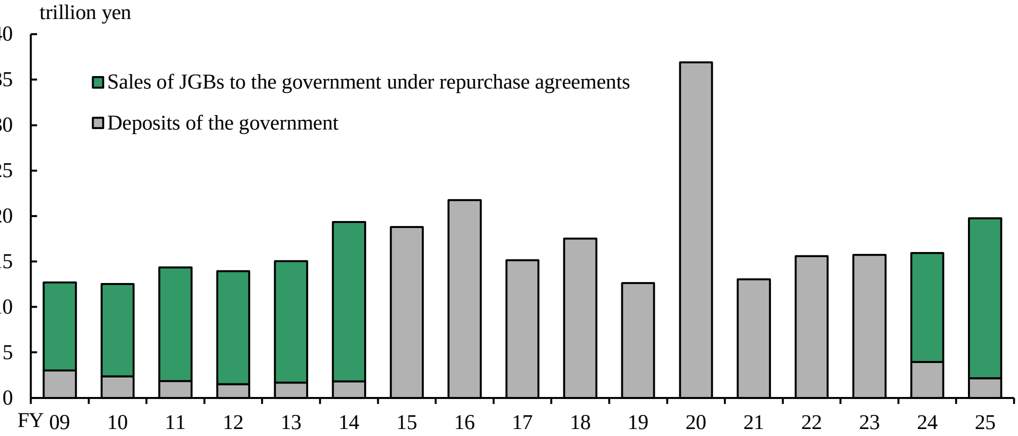
trillion yen

	End-Mar.2021	End-Mar.2022	End-Mar.2023	End-Mar.2024	End-Mar.2025	End-Mar.2026	Year-on-year
JGBs	495.8	511.2	576.2	585.6	574.2	530.9	-43.4
CP	2.9	2.5	2.1	2.2	1.0	-	-1.0
Corporate bonds	7.5	8.6	8.0	6.1	4.9	2.2	-2.7
ETFs	35.9	36.6	37.0	37.2	37.2	37.1	-0.1
J-REITs	0.7	0.7	0.7	0.7	0.7	0.7	-0.0
Loan Support Program	60.0	61.6	69.9	81.2	74.7	48.8	-26.0
Outright purchases of T-Bills	34.2	12.7	3.3	2.0	0.0	0.0	0.0
Funds-Supplying Operation to Support Financial Institutions in Disaster Areas	0.5	0.5	0.2	0.1	0.1	0.0	-0.0
Special Operations in Response to COVID-19	64.8	86.8	6.0	-	-	-	-
Funds-Supplying Operations to Support Financing for Climate Change Responses	-	2.0	4.4	8.2	14.2	21.1	+6.9
Funds-Supplying Operations against Pooled Collateral	0.5	0.5	14.0	18.5	7.8	7.8	-0.0
Foreign currency assets	7.7	8.3	9.1	10.7	11.2	12.3	+1.1
Total assets (including others)	714.6	736.3	735.1	756.4	729.8	663.0	-66.7
Banknotes	116.0	119.9	122.0	120.9	118.7	116.3	-2.4
Current account balances	522.6	563.2	549.1	561.2	530.4	459.7	-70.7
Other deposits	26.8	26.6	28.9	37.8	47.0	49.7	+2.7
Deposits of the government	36.9	13.0	15.6	15.7	3.9	2.2	-1.8
Payables under repurchase agreements	0.6	0.9	5.4	4.3	12.8	18.0	+5.2
Total liabilities and net assets (including others)	714.6	736.3	735.1	756.4	729.8	663.0	-66.7

Monetary base	643.6	688.0	675.8	686.8	653.8	580.7	-73.1

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 operations to support financial institutions in disaster areas of the Great East Japan Earthquake and of the 2016 Kumamoto Earthquake before they were abolished.
4. "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.
5. "Other deposits" represents deposits such as those held by foreign central banks.
6. "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 Change in the Interest Rate Applied to the Complementary Deposit Facility

At the MPM held on December 18 and 19, 2025, the Bank decided to encourage the uncollateralized overnight call rate to remain at around 0.75 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 0.75 percent.[15]

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

At the MPM held on June 16 and 17, 2025, the Bank conducted an interim assessment of the plan for the reduction of its purchase amount of JGBs -- which was determined at the July 2024 MPM -- and decided on a new reduction plan, covering the period until March 2027. For the reduction plan, the Bank decided to conduct the outright purchases of JGBs until March 2027 as follows, based on its previous 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 2 trillion yen in January-March 2027. The amount will be cut down, in principle, by about 400 billion yen each calendar quarter until January-March 2026, and by about 200 billion yen each calendar quarter from April-June 2026.

(b) At the June 2026 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

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

2027 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. Change in the Treatment of the Reduction in the Bank's Repurchase Amount under the Securities Lending Facility

On June 17, 2025, from the viewpoint of improving liquidity in the JGB market, the Bank decided to change the treatment of the reduction in the Bank's repurchase amount under the Securities Lending Facility as follows.

1. JGB Issues Applicable to the Relaxed Conditions for the Reduction in the Repurchase Amount under the Securities Lending Facility

The Bank decided to expand the JGB issues that are applicable to the reduction in the repurchase amount under the Securities Lending Facility in cases where the reduction is deemed to contribute to improving liquidity in the JGB market. Specifically, the applicable issues were broadened from the previous CTD issues to include 10-year JGB issues maturing in or after 2031 of which the Bank's share of holdings in the market exceeds 80 percent.

2. Upper Limit on the Reduction of the Repurchase Amount under the Securities Lending Facility

The Bank decided to continue to mainly take into account the amount outstanding of the applicable issues in the market, when judging whether the reduction in the repurchase amount contributes to improving liquidity in the JGB market. It also decided to increase the upper limit for the amount outstanding of each of the applicable issues in the market, the level up to which the Bank accepts counterparties' requests for the reduction in principle, from about 1.2 trillion yen to about 1.5 trillion yen.

In addition, taking into account the impact on the supply and demand conditions of JGBs, the upper limit on the reduction upon request was set at about 200 billion yen per month when the Bank approves the reduction that contributes to improving liquidity in the JGB market.

Consequently, the amount outstanding in the market of each issue applicable to the relaxed conditions had reached the upper limit on the reduction of 1.5 trillion yen by February 27, 2026.[16]

D. Termination of the Consecutive-Day Purchases of the Same Issue under the Securities Lending Facility for the CTD Issues

In order to ensure stability in the market by easing excessive tightening in supply and demand of JGSs in the repo market, the Bank had been increased the upper limit on the consecutive-day purchases of the same issue under the Securities Lending Facility for the CTD issues since June 17, 2022. Specifically, the upper limit had been increased from a maximum of 50 business days in principle under the regular conditions to the number of days that enables the consecutive use of the facility until the delivery settlement date of the JGB futures. Meanwhile, supply and demand in JGS markets, including the repo market, had been eased on the whole. Given this, the Bank had gradually narrowed the scope of the JGB issues applicable to the relaxed conditions for the facility since September 2025; it thereafter decided to apply regular conditions to new transactions of the CTD issues made on and after March 2, 2026.

E. Disposal of ETFs and J-REITs

The Bank sets its fundamental principles for the disposal of its holdings of ETFs and J-REITs as follows: the Bank should (1) dispose these assets for adequate prices, taking into account the situation such as the condition of the ETF or J-REIT market, (2) avoid incurring losses as much as possible, and (3) avoid inducing destabilizing effects on the financial markets as much as possible. At the MPM held on September 18 and 19, 2025, based on these fundamental principles and its experience of the smooth conduct of sales of the

[16] Given the remaining maturity of 10-year JGBs #362 approaching five years, it was removed from the list of issues that are applicable to the relaxed conditions from January 2026 onward (released on November 28, 2025).

"stocks purchased from financial institutions," the Bank decided to sell ETFs and J-REITs for the time being at a scale generally equivalent to that of the sales of the "stocks purchased from financial institutions" (the sales amounts of ETFs and J-REITs would account for about 0.05 percent of the trading values in the markets) as described below.[17]

(a) The Bank will sell ETFs to the market at a pace of about 330 billion yen per year (on a book value basis), based on the prices formed in the exchange market.

(b) The Bank will sell J-REITs to the market at a pace of about 5 billion yen per year (on a book value basis), based on the prices formed in the exchange market.

(c) Under the pace of sales described above, the Bank will sell each ETF and J-REIT at the amount approximately proportionate to the share of each asset in its holdings, with consideration to spreading out the timing of the sales.

Thereafter, the Bank selected a trustee, who would conduct the disposal of ETFs and J-REITs. Once the necessary operational preparations were completed, the disposal of these assets began on January 19, 2026.

[17] The Bank also decided to discontinue the ETF lending facility, given factors such as the current usage of the facility.

V. Actions to Enhance Dialogue with Market Participants

In conducting market operations in line with the guidelines decided at MPMs, the Bank carefully examines developments in 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 the following various initiatives related to dialogue with market participants during fiscal 2025. It will continue to further deepen such dialogue.

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, 2025, and February 26, 2026. 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.[18]

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 on May 20 and 21 and December 8 and 9, 2025.[19]

The Bank collected views from market participants at the May meeting, prior to conducting an interim assessment of the plan for the reduction of the purchase amount of JGBs, decided at the July 2024 MPM. Specifically, the Bank explained (1) recent developments in the financial markets and market operations, (2) liquidity in the JGB market, (3) the results of

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[18] For summaries of the meetings held in fiscal 2025, see:
The October 2025 meeting
https://www.boj.or.jp/en/paym/market/mkt251017a.pdf.
The February 2026 meeting
https://www.boj.or.jp/en/paym/market/mkt260227a.pdf.
[19] For details, see
https://www.boj.or.jp/en/paym/bond/index.htm.

the Bond Market Survey, and (4) participants' views collected before the meeting. It then exchanged views with participants on topics such as recent trends in and the functioning of the JGB market given the reduction of the Bank's purchase amount of JGBs thus far, the current plan for the reduction, and the Bank's JGB purchases from April 2026.

At the December meeting, 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.

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 20, 2025, 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

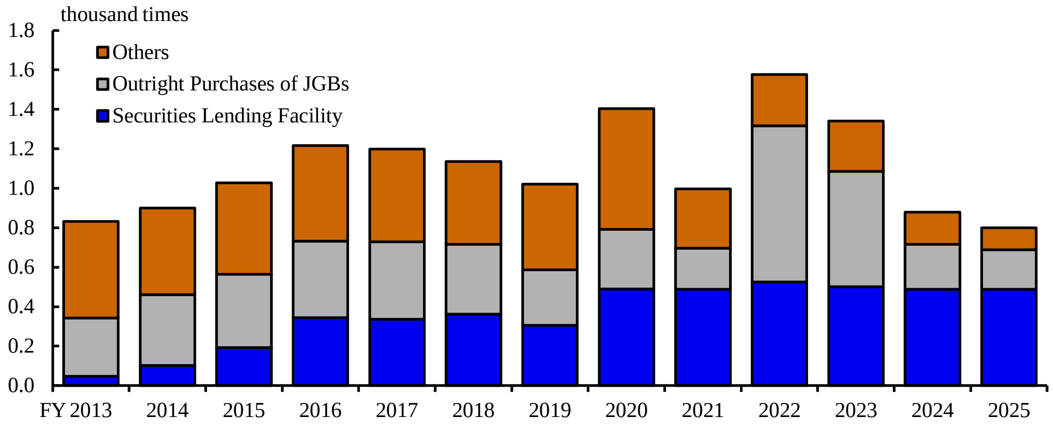
numbers

	Fiscal 2022	Fiscal 2023	Fiscal 2024	Fiscal 2025	Number of eligible counterparties
Outright purchases of JGBs	790	585	228	201	59
Outright purchases of T-Bills	44	41	0	0	54
Outright purchases of CP and corporate bonds	36	36	24	—	—
Outright purchases of ETFs	7	1	—	—	—
Outright purchases of J-REITs	1	0	—	—	—
Lending of ETFs	39	44	35	9	—
Funds-Supplying Operations against Pooled Collateral	36	29	27	28	348
Growth-Supporting Funding Facility	14	9	5	1	156
Stimulating Bank Lending Facility	4	4	4	3	217
Funds-Supplying Operation to Support Financial Institutions in Disaster Areas	4	4	4	4	35
Special Operations in Response to COVID-19	12	—	—	—	—
Funds-Supplying Operations to Support Financing for Climate Change Responses	2	2	2	2	91
Purchases of JGSs with repurchase agreements	0	8	0	0	54
Sales of JGSs with repurchase agreements	0	0	0	0	54
U.S. Dollar Funds-Supplying Operations	57	66	51	52	87
Securities Lending Facility	526	501	488	488	59
Securities Lending to Provide JGSs as Collateral for the U.S. Dollar Funds-Supplying Operations	4	10	11	11	50
Total	1,576	1,340	879	799	—

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 2026. 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



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