

JAPANESE GOVERNMENT BONDS

Quarterly Newsletter of the Ministry of Finance of Japan

July 2007

WHAT'S NEW

1. "The Committee on Yen Risk-free-rate Model Estimation" (2007/5~)

Last December, the Ministry of Finance Japan ("the Ministry") announced its intention to issue ultra-long-dated bonds (e.g. 40 years) to respond to the demand of global investors. The first such issuance is expected in November 2007 at the earliest.

In issuing of such new bonds, the Ministry intends to make sure that the issuance is fair both to taxpayers and investors.

To achieve this in the absence of an established secondary market beyond 30 years, the Ministry has started to construct a term structure model of the JGB yield curve. Although the primary purpose of the model is to estimate the 40-year yield which shall be used in auctions, the model, which will be made public when completed, is also expected to provide the public with the Japanese yen denominated risk-free yield curve.

In developing the model, a committee consisting of leading academics has been formed as follows:

Professors Kijima and Tanaka are currently working on the prototype model which will be examined by the committee. After the examination and necessary revisions, the model is expected to be completed in this summer.

The minutes of each meeting and the final report on the model will be made public.

<Committee Members>

• Chairman

- KARIYA, Takeaki Dean, Professor of Graduate School of Global Business, Meiji University
Visiting Professor of Institute of Economic Research, Kyoto University

• Members (in alphabetical order)

- DUFFIE, Darrell Dean Witter Distinguished Professor of Finance at Graduate School of Business, Stanford University
- FUJII, Mariko Professor of the Research Center for Advanced Science and Technology, the University of Tokyo
- KIJIMA, Masaaki Professor of Graduate School of Social Sciences, Tokyo Metropolitan University
Professor of Graduate School of Economics, Kyoto University
- KOBAYASHI, Takao Professor of Graduate School of Economics, the University of Tokyo
- KOGURE, Atsuyuki Professor, Faculty of Policy Management, Graduate school of Media and Governance, Keio University
- MERTON, Robert The John and Natty McArthur University Professor at the Harvard Business School, Harvard University
- TAKAHASHI, Akihiko Associate Professor of Graduate School of Economics, the University of Tokyo
- TANAKA, Keiichi Associate Professor, Graduate School of Social Sciences, Tokyo Metropolitan University
- YAMASHITA, Satoshi Associate Professor of Institute of Statistical Mathematics

The Ministry of Finance of Japan

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2. The report of JGB-IR in Middle East and Scandinavia / Russia

As illustrated in the chart on the right, overseas investors are inclined to take a different investment approach from that of domestic investors in Japan. For the purpose of ensuring stability in the JGB market, a significant task is to encourage foreign investors to hold JGBs.

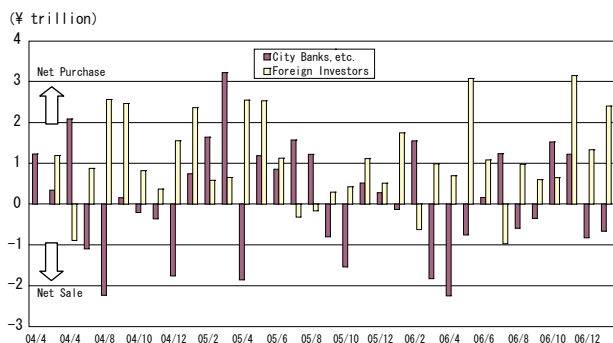
Since January 2005, we have held seminars on the Japanese economy and JGBs (JGB-IR), with an aim to develop a deeper understanding of JGB by overseas investors.

Such efforts have proven fruitful as shown in an increase in the amount of JGB in possession of foreign investors from ¥25.9 trillion at the end of December 2004 to ¥42.1 trillion at the end of March 2007.

In addition to North America, Europe, Asia/Oceania, we held the JGB Middle East tour and the JGB Scandinavian/Russian tour from April to June 2007.

The JGB-IR seminars held in the Middle East and Russia for the first time were equally supported by a greater awareness of local investors than we had expected as shown by the brisk exchange of questions and answers by attendees consisting of several government officials and those from the financial industry. The seminars successfully contributed to a deeper understanding of JGB by local investors. Participants viewed the seminars as highly beneficial.

JGB Investment Trend



(Note1) excluding FBs

(Note2) "City Banks, etc" means city banks, Aozora Bank and Shinseibank.

(Source) Japan Securities Dealers Associations

<JGB-IR seminar in Kuwait>



<JGB-IR seminar in Moscow>



The press conferences held in Abu Dhabi and Moscow were flooded by local media. TV crew waited as early as half an hour before the opening of the press conferences. The news on the seminars was subsequently released on TV and newspapers. These developments evidenced a growing level of awareness of the JGB-IR in these regions.



JGB Issuance Overview

<Breakdown by Funding Purpose>

(billion yen)

	FY2006 (initial)	FY2006 (supplementary budget)		FY2007 (initial)	
	(a)	(b)	(b) – (a)	(c)	(c) – (a)
New Financial Resource Bonds	29,973.0	27,470.0	▼ 2,503.0	25,432.0	▼ 4,541.0
Construction Bonds	5,484.0	6,415.0	931.0	5,231.0	▼ 253.0
Special Deficit-financing Bonds	24,489.0	21,055.0	▼ 3,434.0	20,201.0	▼ 4,288.0
Refunding Bonds	108,262.1	108,185.5	▼ 76.6	99,806.0	▼ 8,456.1
Fiscal Loan Bonds	27,200.0	27,200.0	—	18,600.0	▼ 8,600.0
Public Offering	12,000.0	12,000.0	—	11,000.0	▼ 1,000.0
Transitional Measures	15,200.0	15,200.0	—	7,600.0	▼ 7,600.0
TOTAL	165,435.1	162,855.5	▼ 2,579.6	143,838.0	▼ 21,597.1

< Breakdown by Issue Method and Maturity >

(billion yen)

	FY2006 (initial)	FY2006 (supplementary budget)		FY2007 (initial)	
	(a)	(b)	(b) – (a)	(c)	(c) – (a)
JGB Market Issuance (Calendar Base)	118,000.0	113,000.0	▼ 5,000.0	109,600.0	▼ 8,400.0
Non-price Competitive Auction II	2,658.0	3,358.0	700.0	2,586.0	▼ 72.0
Adjustment by Depleting Front-loaded Issuance	5,519.7	5,240.1	▼ 279.6	6,246.0	726.3
Subtotal Financed in the Market	126,177.7	121,598.1	▼ 4,579.6	118,432.0	▼ 7,745.7
JGBs for Individual Investors	5,300.0	7,300.0	2,000.0	6,330.0	1,030.0
OTC sales, etc	2,200.0	2,200.0	—	1,820.0	▼ 380.0
Subtotal for Households	7,500.0	9,500.0	2,000.0	8,150.0	650.0
Bank of Japan	16,557.4	16,557.4	—	9,656.0	▼ 6,901.4
Fiscal Loan Bonds	15,200.0	15,200.0	—	7,600.0	▼ 7,600.0
(Postal Savings)	(11,000.0)	(11,000.0)	(—)	(5,500.0)	(▼ 5,500.0)
(Pension Reserves)	(3,200.0)	(3,200.0)	(—)	(1,600.0)	(▼ 1,600.0)
(Postal Life Insurance)	(1,000.0)	(1,000.0)	(—)	(500.0)	(▼ 500.0)
Subtotal for Public Sector	31,757.4	31,757.4	—	17,256.0	▼ 14,501.4
Total	165,435.1	162,855.5	▼ 2,579.6	143,838.0	▼ 21,597.1

- 40-year ultra-long JGBs and other new maturity bonds may be issued on market demands with terms that the MOF considers fair.
- The amount of buy-back in FY2007 is ¥ 1.8 trillion.
- The limit of interest-rate swap transactions in FY2007 is ¥ 1.8 trillion (on notional principal basis).
- The limit of front-loaded issuance in FY2007 is ¥ 20 trillion.

Note 1: Figures may not sum up to the total because of rounding.

Note 2: JGB Market Issuance (Calendar Base) refers to JGBs issued by scheduled auctions from April to next March.

Note 3: "Non-price Competitive Auction II" is estimated at 3% of the primary auction.

Note 4: From FY2007, the amount of "OTC Sales, etc" is recategorized from "Public Sector" to "Households".

Auction Calendar for Jul. - Sep. 2007

Auction Date	Issue	Auction Date	Issue	Auction Date	Issue	Auction Date	Issue
7/ 3 (Tue)	10-year	7/31 (Tue)	2-year	8/22 (Wed)	FB (13-week)	9/13 (Thu)	Auction for Enhanced-liquidity
7/ 4 (Wed)	FB (13-week)	8/ 1 (Wed)	FB (13-week)	8/24 (Fri)	Auction for Enhanced-liquidity	9/20 (Thu)	FB (13-week)
7/ 5 (Thu)	FB (6-month)	8/ 2 (Thu)	10-year	8/28 (Tue)	20-year	9/20 (Thu)	20-year
7/10 (Tue)	5-year	8/ 7 (Tue)	FB (6-month)	8/29 (Wed)	FB (13-week)	9/26 (Wed)	FB (13-week)
7/11 (Wed)	FB (13-week)	8/ 7 (Tue)	10-year Inflation-Indexed	8/30 (Thu)	2-year	9/27 (Thu)	2-year
7/13 (Fri)	TB (1-year)	8/ 8 (Wed)	FB (13-week)	9/ 4 (Tue)	FB (6-month)		
7/13 (Fri)	Auction for Enhanced-liquidity	8/ 9 (Thu)	5-year	9/ 4 (Tue)	10-year		
7/18 (Wed)	FB (13-week)	8/10 (Fri)	FB (Approx. 2-month)	9/ 5 (Wed)	FB (13-week)		
7/18 (Wed)	30-year	8/14 (Tue)	TB (1-year)	9/11 (Tue)	5-year		
7/25 (Wed)	FB (13-week)	8/15 (Wed)	FB (13-week)	9/12 (Wed)	FB (13-week)		
7/26 (Thu)	20-year	8/21 (Tue)	15-year Floating-rate	9/13 (Thu)	TB (1-year)		

Note 1: The above calendar may be changed or added in light of changes in circumstances. In such cases, it will be announced in advance.

Note 2: Each issue amount will be announced about one week prior to each auction date.

Note 3: The issue date of the Financing Bills auctioned on August 10, 2007 is August 15, 2007 and, the maturity date is October 3, 2007.

Auction Results Bonds and Treasury Bills

Auction Date	Type of Security	Issue Number	Maturity Date	Nominal Coupon (*)	Amounts of Competitive Bids (billion yen)	Amounts of Bids Accepted (billion yen)	Yield at the Lowest Accepted Price	Yield at the Average Price	Amounts of Non-competitive Bids Tendered/Accepted (billion yen)	Amounts of Bids Accepted at the Non-price-competitive Auction I (billion yen)	Amounts of Bids Accepted at the Non-price-competitive Auction II (billion yen)
6/26/2007	2-year	258	7/15/2009	1.0%	5,449.90	1,520.20	1.025%	1.022%	22.277	156.40	99.70
6/21/2007	20-year	95	6/20/2027	2.3%	2,831.30	728.40	2.296%	2.289%	-	70.80	-
6/14/2007	TB (1-year)	422	6/20/2008	-	5,576.10	1,316.24	0.8849%	0.8789%	-	83.75	-
6/12/2007	5-year	64	6/20/2012	1.5%	6,238.60	1,814.00	1.553%	1.549%	17.350	167.90	163.10
6/ 7/2007	10-year Inflation-Indexed	12	6/10/2017	1.2%	2,420.10	499.40	1.280%	-	-	-	8.60
6/ 5/2007	10-year	286	6/20/2017	1.8%	5,481.90	1,713.30	1.810%	1.809%	10.390	175.30	-
5/29/2007	2-year	257	6/15/2009	1.0%	8,165.90	1,526.20	0.974%	0.973%	21.481	151.20	43.40
5/24/2007	20-year	94	3/20/2027	2.1%	2,989.20	729.20	2.135%	2.130%	-	70.20	5.20
5/22/2007	15-year Floating-rate	45	5/20/2022	-0.45%	4,187.00	913.80	-	-	-	85.20	17.50
5/15/2007	5-year	63	3/20/2012	1.2%	6,851.00	1,801.20	1.248%	1.246%	15.437	182.40	-
5/15/2007	TB (1-year)	421	5/20/2008	-	6,016.50	1,310.43	0.7424%	0.7353%	-	89.54	-
5/ 8/2007	10-year	285	3/20/2017	1.7%	6,922.60	1,718.00	1.653%	1.650%	5.689	175.80	118.00
4/26/2007	2-year	256	3/20/2009	0.9%	6,628.10	1,529.10	0.869%	0.866%	20.981	149.30	7.00
4/24/2007	20-year	94	3/20/2027	2.1%	2,666.90	734.30	2.110%	2.097%	-	65.50	-
4/17/2007	30-year	26	3/20/2037	2.4%	2,342.50	549.60	2.354%	2.351%	-	49.70	49.10
4/17/2007	TB (1-year)	420	4/21/2008	-	5,084.30	1,281.67	0.6629%	0.6599%	-	118.32	-
4/12/2007	5-year	63	3/20/2012	1.2%	7,746.00	1,803.90	1.204%	1.202%	16.119	178.80	164.90
4/ 5/2007	10-year Inflation-Indexed	11	3/10/2017	1.2%	1,742.30	499.70	1.270%	-	-	-	4.70
4/ 3/2007	10-year	285	3/20/2017	1.7%	5,377.40	1,718.50	1.658%	1.656%	7.984	172.80	25.70

Note : (*) This column for 15-year Floating-rate bonds indicates the spread from the reference rate.

Financing Bills

Auction Date	Type of Security	Issue Number	Maturity Date	Amounts of Competitive Bids (billion yen)	Amounts of Bids Accepted (billion yen)	Yield at the Lowest Accepted Price	Yield at the Average Price	Amounts of Bids Accepted at the Non-price-competitive Auction I (billion yen)
6/27/2007	13-week	458	10/ 1/2007	15,511.60	3,951.63	0.6576%	0.6541%	286.3
6/20/2007	13-week	457	9/26/2007	13,700.80	3,911.08	0.6359%	0.6331%	328.8
6/13/2007	13-week	456	9/18/2007	12,255.90	3,939.89	0.6368%	0.6246%	299.1
6/12/2007	Approx. 2-month	455	8/ 2/2007	10,175.40	2,799.67	0.5553%	0.5486%	200.3
6/ 6/2007	13-week	454	9/10/2007	14,466.50	3,921.95	0.5940%	0.5916%	314.9
6/ 5/2007	6-month	453	12/10/2007	7,691.30	1,896.43	0.6965%	0.6925%	103.5
5/30/2007	13-week	452	9/ 3/2007	13,436.10	3,934.62	0.5721%	0.5689%	306.3
5/23/2007	13-week	451	8/27/2007	14,442.30	3,914.70	0.5621%	0.5605%	324.2
5/16/2007	13-week	450	8/20/2007	16,022.10	3,891.37	0.5621%	0.5613%	344.5
5/11/2007	13-week	449	8/13/2007	15,100.70	3,923.84	0.5645%	0.5632%	313.0
5/ 9/2007	13-week	448	8/ 6/2007	15,157.60	3,938.22	0.5611%	0.5581%	301.7
5/ 8/2007	6-month	447	11/12/2007	6,210.20	1,865.14	0.6102%	0.6062%	134.8
4/24/2007	13-week	446	7/30/2007	14,200.50	3,954.39	0.5829%	0.5798%	285.4
4/18/2007	13-week	445	7/23/2007	13,379.10	3,917.74	0.5721%	0.5689%	313.19
4/11/2007	13-week	444	7/17/2007	12,221.30	3,839.19	0.5679%	0.5647%	352.7
4/10/2007	Approx. 2-month	443	6/ 4/2007	8,624.40	2,857.51	0.5548%	0.5465%	142.4
4/ 6/2007	13-week	442	7/ 9/2007	12,355.70	3,918.27	0.5482%	0.5437%	320.6
4/ 5/2007	6-month	441	10/10/2007	8,800.50	1,838.05	0.5689%	0.5649%	161.9
4/ 3/2007	13-week	440	7/ 2/2007	13,604.73	3,910.93	0.5607%	0.5582%	332.0

Issues Re-opened through the Recent Auction for Enhanced-liquidity

Auction Date	Securities	Issue Numbers											
		Re-opened Amounts (billion yen, face value)											
6/14/2007	20-year	#39	#40	#42	#43	#44	#45	#46	#48	#49	#50	#53	#57
		42.9	27.5	12.3	0.2	5.3	5.0	1.7	0.3	0.2	0.9	3.0	0.4
5/10/2007	20-year	#42	#43	#44	#45	#46	#47	#48	#50	#51	#53	#55	#56
		25.2	8.2	1.0	4.0	1.0	2.0	1.7	13.4	1.3	8.0	21.1	2.7
4/19/2007	20-year	#42	#43	#44	#45	#46	#47	#48	#49	#53	#55	#58	
		9.4	6.8	16.1	5.3	2.3	17.6	20.3	3.6	0.3	7.1	10.5	

Buy-back Results

(billion yen)

Remaining Years to Maturity	~ 1yr	1yr ~ 5yr	5yr ~ 10yr	10yr ~ 20yr	20yr ~	Total
June 2007	90.1	-	15.0	44.8	-	149.9
May 2007	44.9	33.1	42.6	-	32.2	152.8
April 2007	58.9	5.6	4.3	60.3	21.3	150.4

Swaps Concluded from October 2006 to March 2007

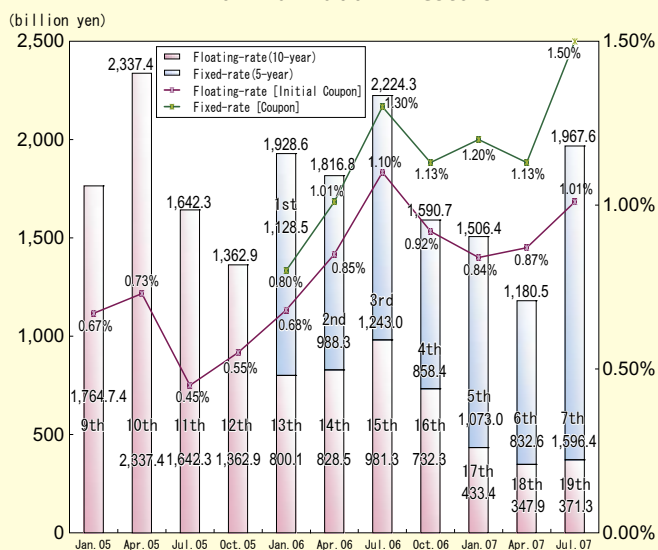
Receive/Pay	Frequency	Receive	Frequency	Pay
		Notional principal amount (billion yen)		Notional principal amount (billion yen)
up to 3 year	2	100	-	-
3 year to 7 year	2	100	-	-
7 year to 10 year	-	-	4	200
beyond 10 year	4	80	-	-
Sum	8	280	4	200

Outstanding Notional Principal Amount (as of the end of March, 2007)

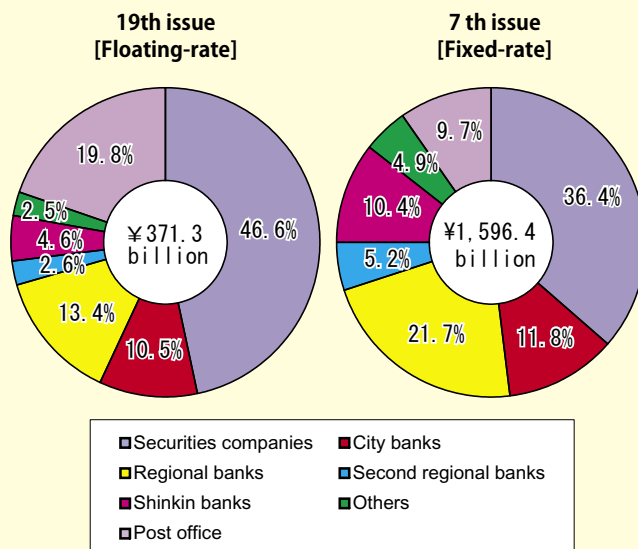
Receive/Pay	Receive	Pay
Remaining years to maturity		
up to 3 year	100	-
3 year to 7 year	100	-
7 year to 10 year	-	600
beyond 10 year	80	-
Sum	280	600

(billion yen)

Historical Changes in Sales of JGBs for Individual Investors

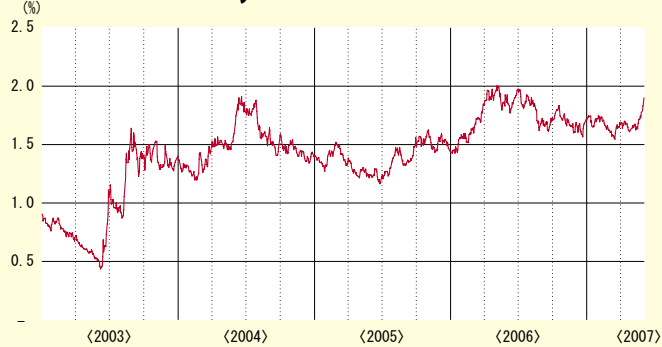


Sales Breakdown of JGBs for Individual Investors

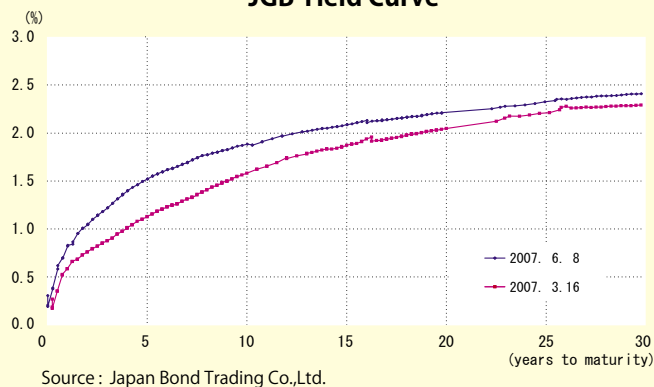


JAPANESE FINANCIAL MARKET

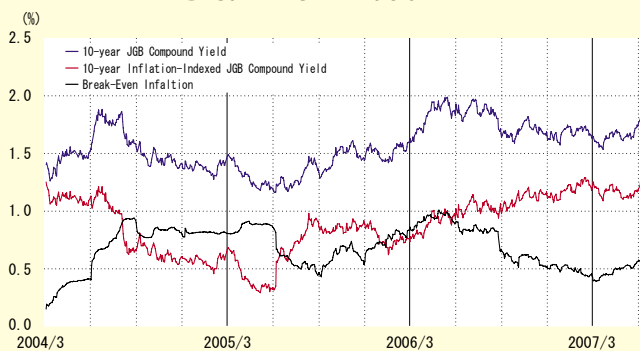
10-year JGB Yield



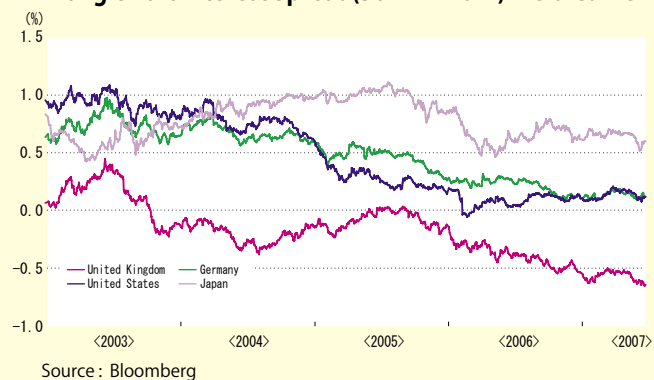
JGB Yield Curve



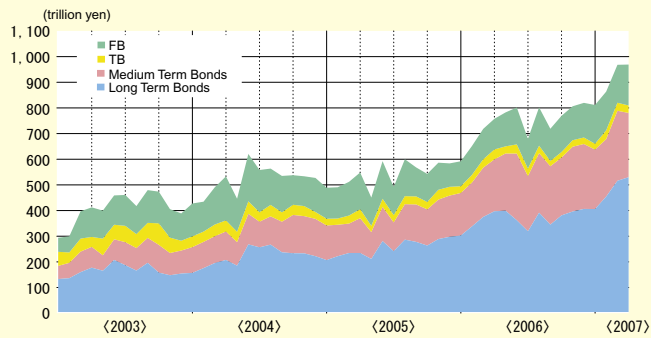
Break-Even Inflation



Long-Short Interest Spread(30Yr - 10Yr) Yield Curve

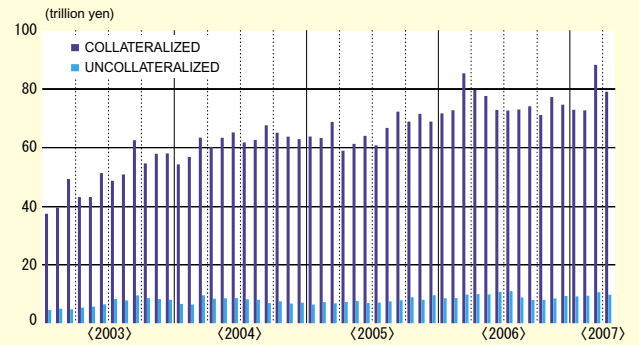


JGB Trading Volume of Over-the-Counter(Tokyo)



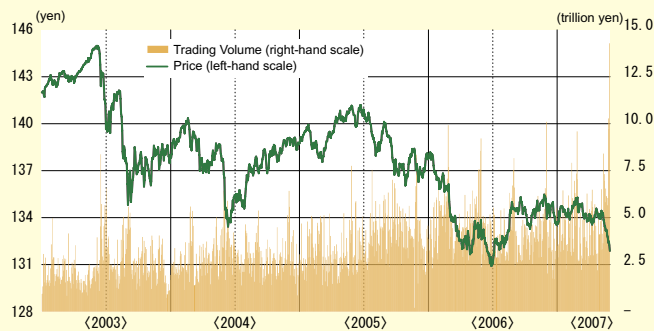
Source : Japan Securities Dealers Association

Transactions of Bond Margin Loan (Open Interest of Bond Borrowed)



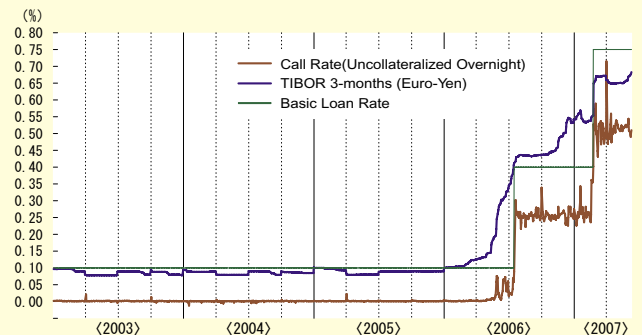
Source : Japan Securities Dealers Association

10-year JGB Futures



Source : Tokyo Stock Exchange

Short-term Interest Rates



Source : Bank of Japan ; Japanese Bankers Association

JAPANESE ECONOMY

Economic Indicator

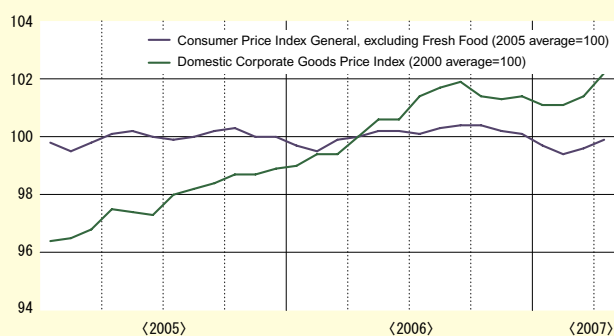
	FY2004	FY2005	FY2006	2006				2007
				Jan-Mar.	Apr.-Jun.	Jul.-Sep.	Oct.-Dec.	Jan-Mar.
Real GDP (chained 2000)	2.0	2.4	1.9	0.6	0.4	0.1	1.3	0.8
Domestic Demand	(1.4)	(1.9)	(1.3)	(0.5)	(0.5)	(-0.3)	(1.2)	(0.3)
Private Consumption	1.3	1.9	0.8	-0.1	0.6	-1.0	1.1	0.8
Residential Investment	1.7	-1.0	0.4	0.9	-1.9	-0.3	2.2	-0.5
Non-Resi. Investment	6.3	5.8	7.9	4.0	2.9	1.1	2.7	0.3
Public Investment	-12.7	-1.4	-9.6	-2.1	-6.2	-4.7	3.7	-1.2
Net Exports	(0.5)	(0.5)	(0.8)	(0.1)	(-0.1)	(0.4)	(0.2)	(0.5)
Index of Industrial Production (2000 av.=100)	4.0	1.6	4.8	0.4	1.3	1.3	2.2	-1.3
Unemployment Rate	4.6	4.4	4.1	4.2	4.1	4.1	4.0	4.0

Note 1: Percent changes from previous period (quarterly figures are seasonally adjusted).

Note 2: The figures in () indicate the contribution to change in GDP.

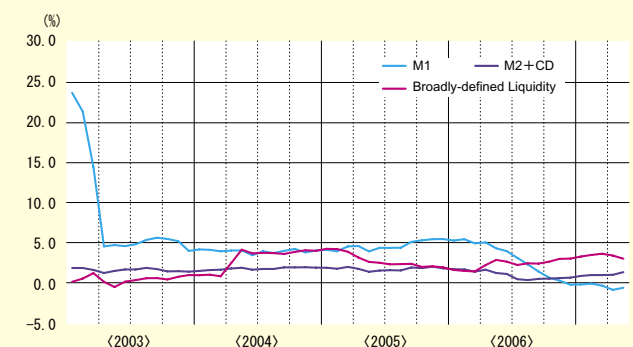
Source : Cabinet Office; Ministry of Economy, Trade and Industry; Ministry of Internal Affairs and Communications

Prices



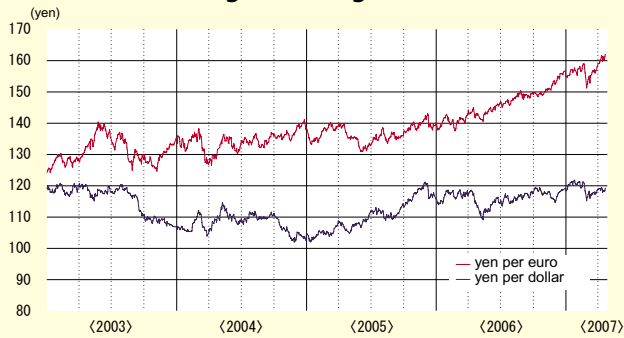
Source : Ministry of Internal Affairs and Communications; Bank of Japan

Money Stock



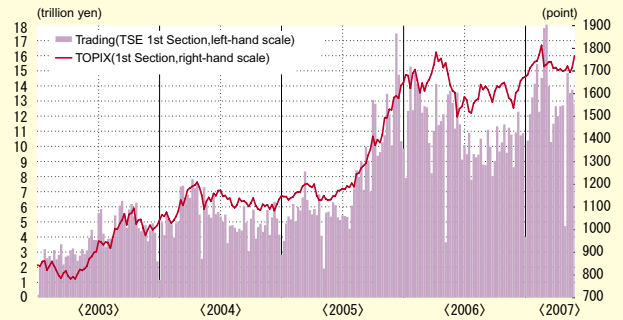
Source : Bank of Japan

Foreign Exchange Rates



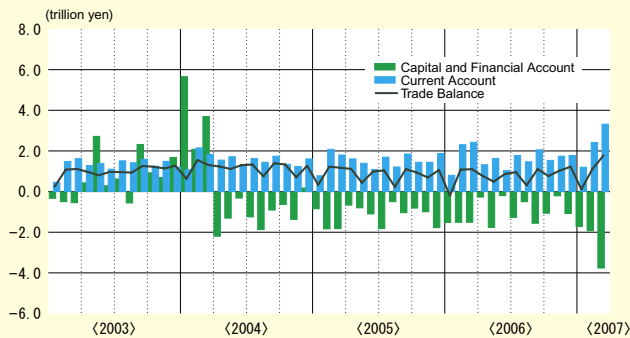
Source : Bank of Japan

Stock Market



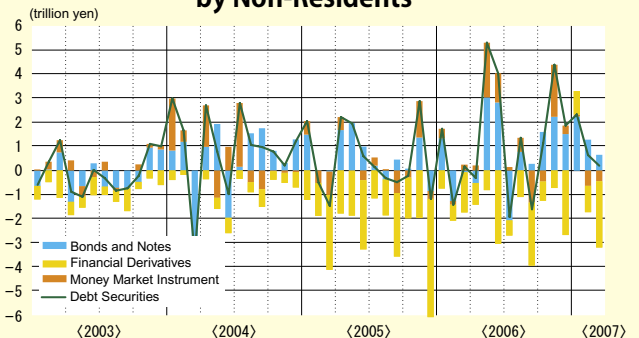
Source : Tokyo Stock Exchange

Balance of Payments



Source : Ministry of Finance

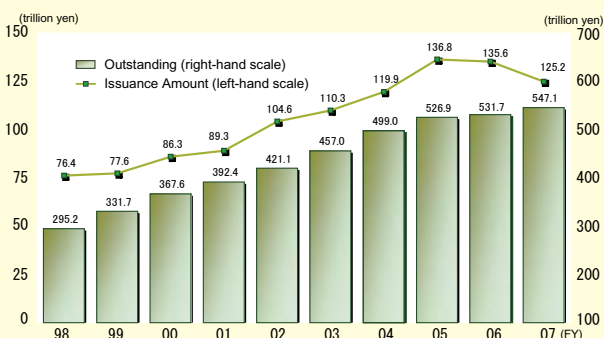
Debt Securities Investment in Japan by Non-Residents



Source : Ministry of Finance

JGB OUTSTANDING

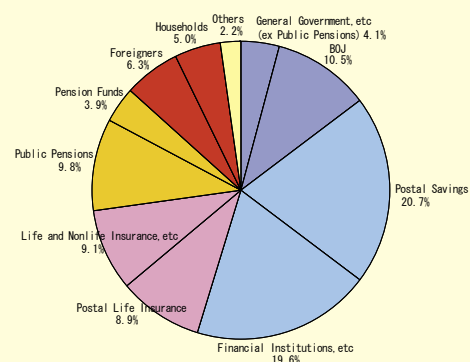
General Bonds Issuance Amount and Outstanding



Note 1: Issuance Amount: revenue basis, FY1998-2006: actual, FY2007: initial.

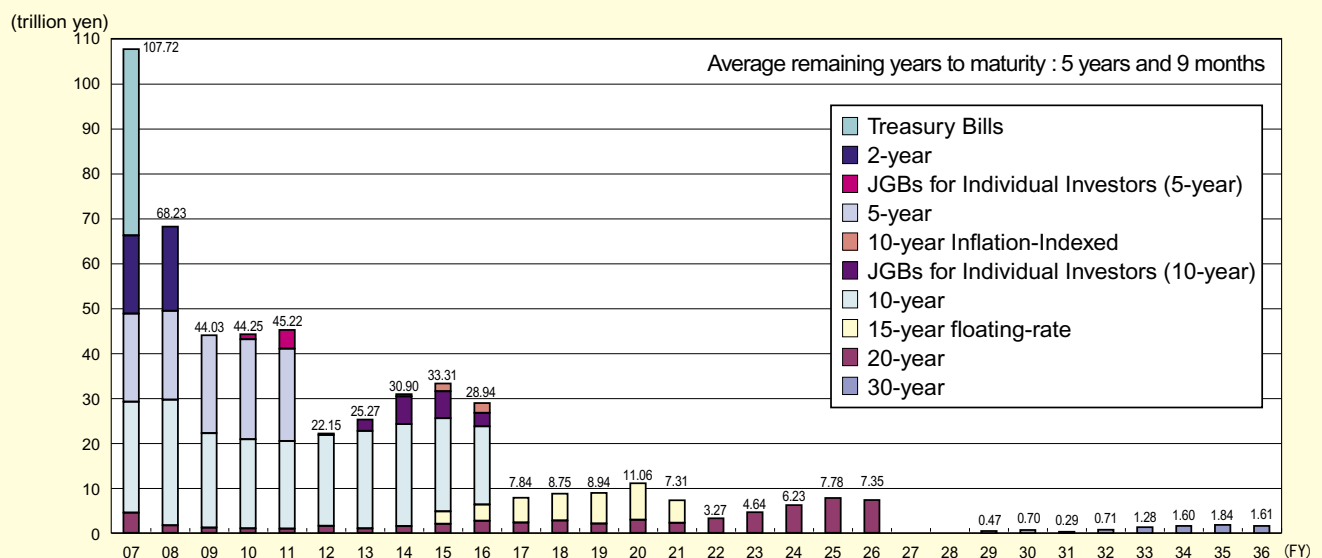
Note 2: Outstanding: nominal basis, FY1998-2006: actual, 2007: estimates.

Breakdown by JGB Holders (March 2007)



Source : Bank of Japan

Time-to-maturity Structure of Outstanding JGB (March 2007)



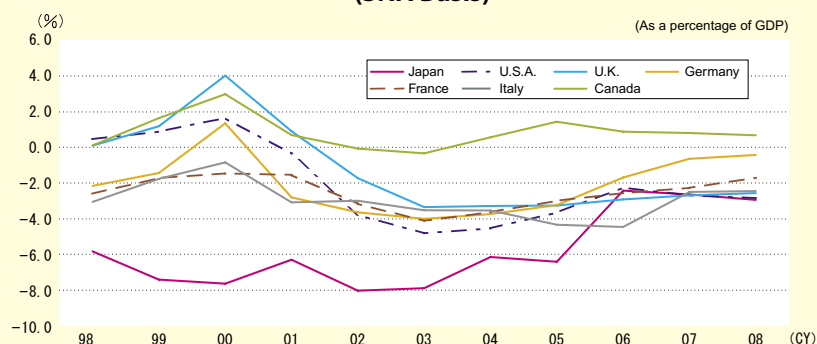
Central Government Debt Outstanding

(trillion yen)

Category	Amount			
	Mar. 2005	Mar. 2006	Dec. 2006	Mar. 2007
Government Bonds	626.4	670.6	676.3	674.1
General Bonds	499.0	526.9	534.4	531.7
Long-term (10 years or more)	317.2	337.3	343.9	344.7
Medium-term (from 2 to 6 years)	135.1	138.3	144.1	145.5
Short-term (one year or less)	46.6	51.4	46.4	41.5
Fiscal Loan Bonds	121.6	139.4	138.2	138.9
Long-term (10 years or more)	56.8	70.3	78.9	83.5
Medium-term (from 2 to 5 years)	64.8	69.0	59.4	55.4
Subsidy Bonds	0.3	0.4	0.5	0.6
Subscription/Contribution Bonds	2.1	2.1	2.3	2.4
Government Bonds converted from Japanese National Railways Settlement Corporation Bonds	3.3	1.8	0.9	0.6
Borrowings	59.1	59.3	59.5	59.3
Long-term (over one year)	7.1	6.1	5.4	5.3
Short-term (one year or less)	52.0	53.2	54.1	54.0
Financing Bills	96.1	97.6	96.5	101.0
TOTAL	781.6	827.5	832.3	834.4

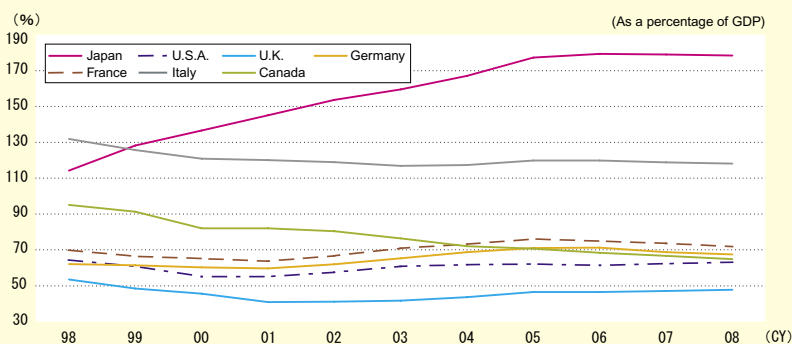
Note: Figures do not sum up to the total because of rounding.

GENERAL GOVERNMENT FINANCIAL BALANCE AND GROSS DEBT

General Government Financial Balances
(SNA Basis)

Note: For Japan and the USA, where pension systems are based on a Modified Funded System, the figures exclude social security funds, which are regarded as future liabilities in real terms.

Source: OECD "Economic Outlook No. 81"

General Government Gross Debt
(SNA Basis)

Source: OECD "Economic Outlook No. 81"

JGB MARKET SPECIAL PARTICIPANTS

- ABN AMRO Securities (Japan) Limited
- Barclays Capital Japan Limited
- BNP PARIBAS Securities (Japan) Limited, Tokyo Branch
- Calyon Capital Markets Asia B.V.
- Credit Suisse Securities (Japan) Limited
- Daiwa Securities SMBC Co., Ltd.
- Deutsche Securities Inc.
- Goldman Sachs Japan Co., Ltd.
- JPMorgan Securities Japan Co., Ltd.
- Lehman Brothers Japan Inc.
- Merrill Lynch Japan Securities Co., Ltd.
- Mitsubishi UFJ Securities Co., Ltd.
- Mizuho Bank, Ltd.
- Mizuho Corporate Bank, Ltd.
- Mizuho Investors Securities Co., Ltd.
- Mizuho Securities Co., Ltd.
- Morgan Stanley Japan Securities Co., Ltd.
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- NOMURA SECURITIES CO., LTD.
- Okasan Securities Co., Ltd.
- Shinko Securities Co., Ltd.
- Sumitomo Mitsui Banking Corporation
- The Bank of Tokyo-Mitsubishi UFJ, Ltd.
- Tokai Tokyo Securities Co., Ltd.
- UBS Securities Japan Ltd.

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