



# JGB Market

Yoichi Takahashi

Department of Economics

Toyo University

October 8, 2008

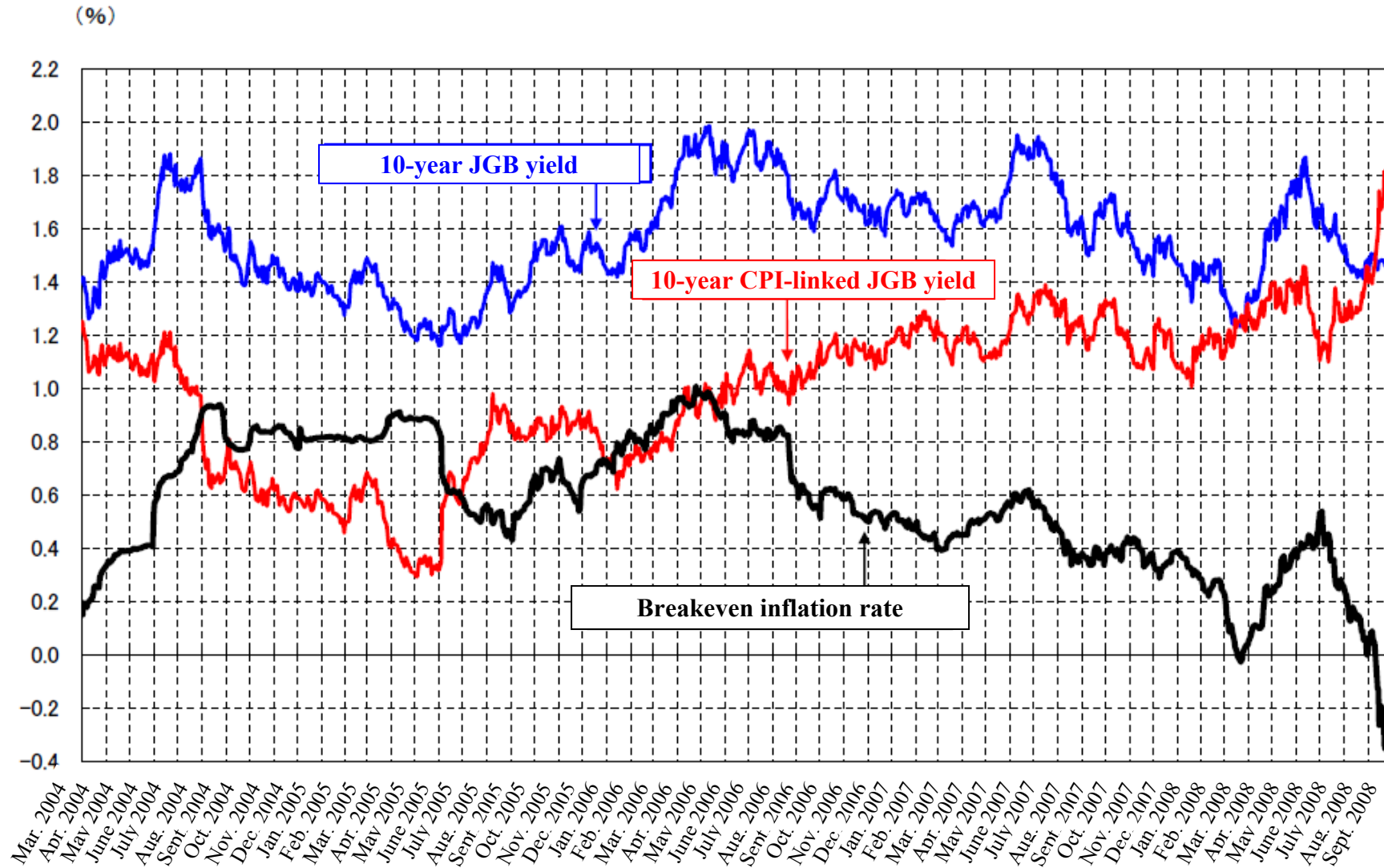


# CPI-Linked JGB

- Measures to cope with deflation must be taken urgently. (February 27, 2002)
- As a means to understand the price trends properly, a wide range of measures should be studied including introduction of CPI-linked bonds, which have been issued in US and UK and which are considered useful in understanding what the market view is about future prices. The current method of compiling price statistics and analytic methodologies should be reviewed as well.



## Breakeven Inflation Rate



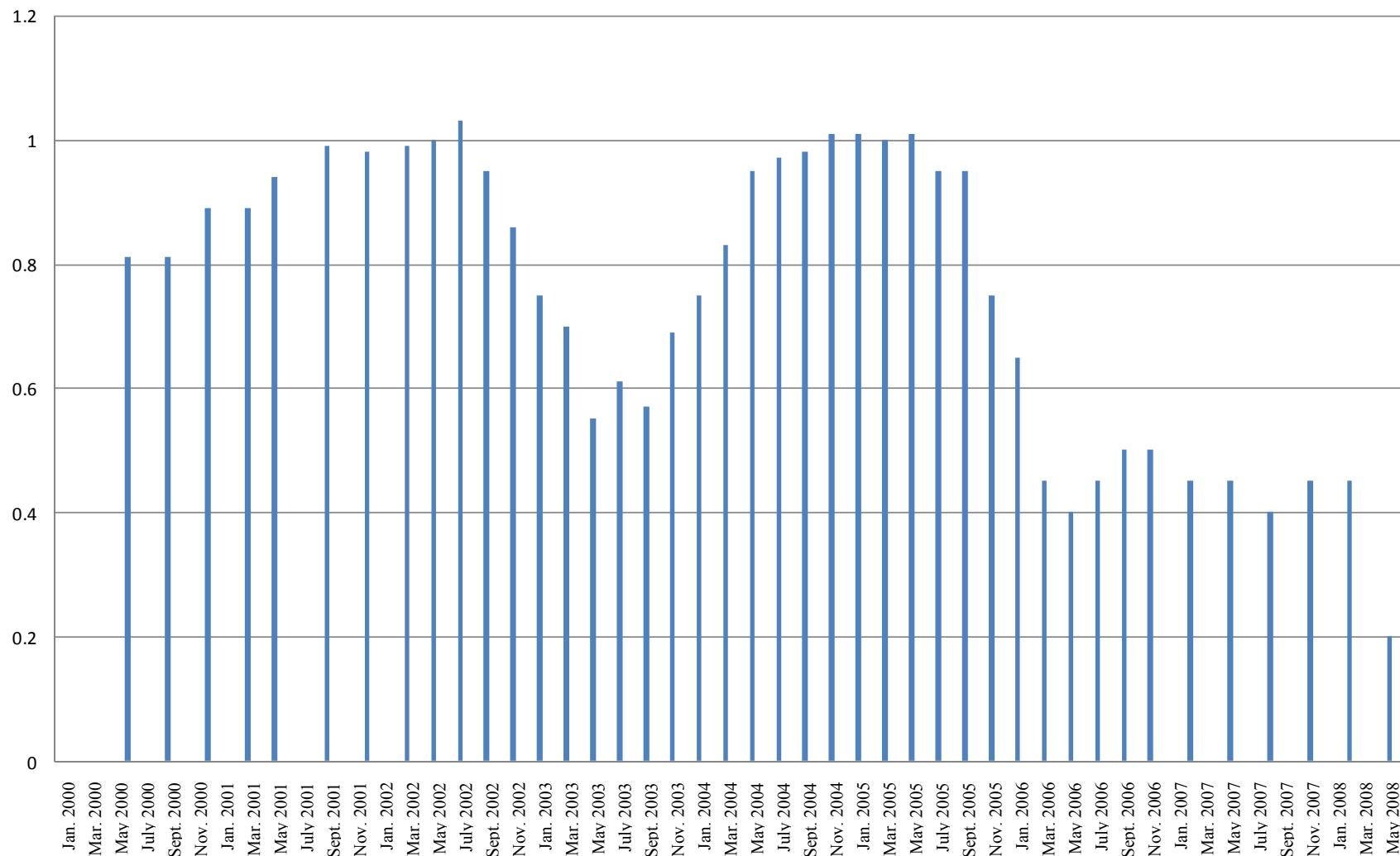


# Product Characteristics of 10-year Floating-rate JGB for Individuals

- Eligible buyers: Individuals only
- Minimum face value: 10,000 yen
- Maturity: 10 years
- Interest rate: Floating rate, to be reset semiannually according to the prevailing interest rate
- The annualized interest rate applicable to each interest payment period is calculated by subtracting 0.80% from the reference rate, subject to a minimum rate of 0.05%.

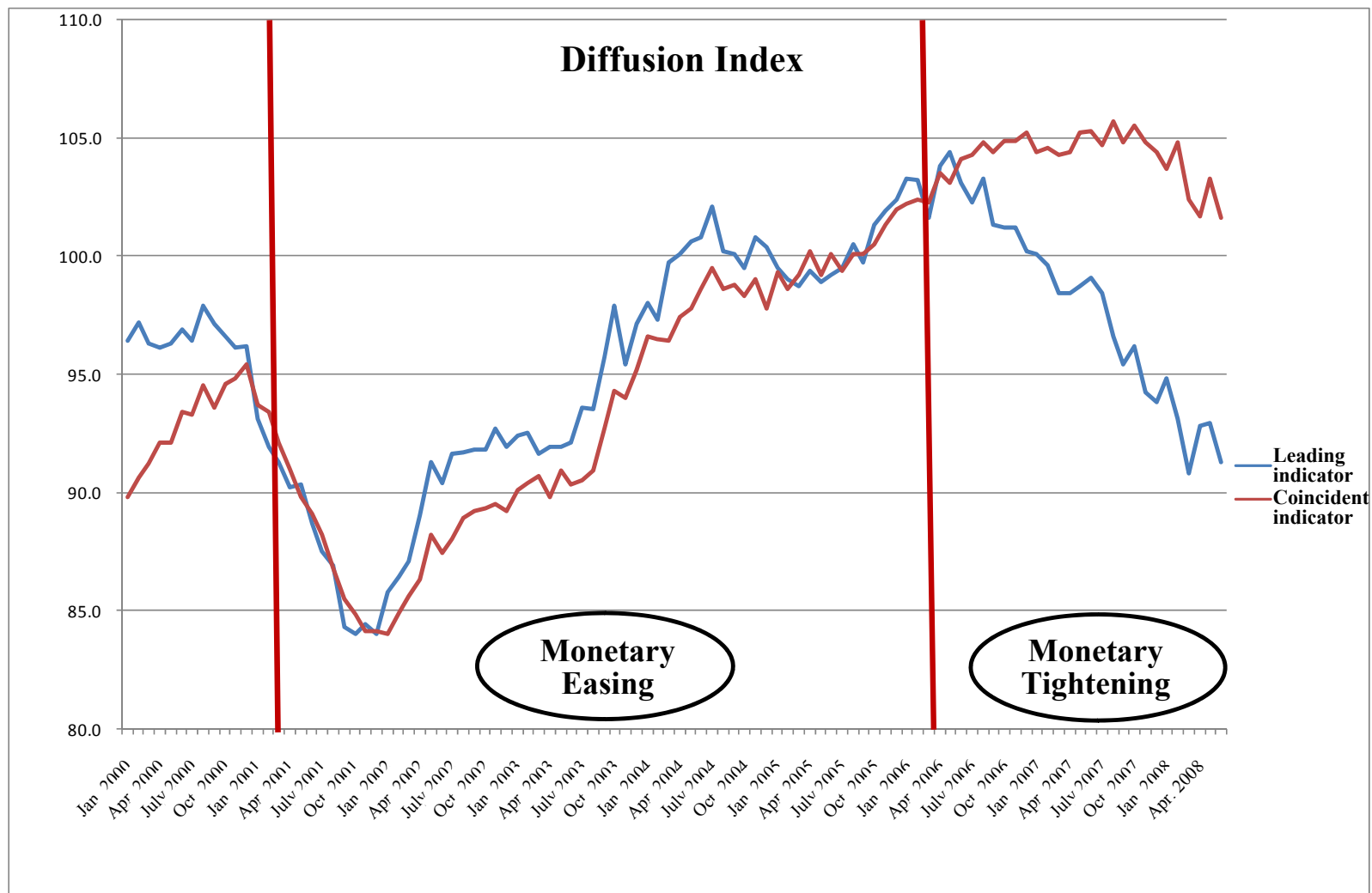


## Spread between 15-year Floating-rate JGB and Reference Interest Rate





# Economic Climate and Monetary Policy





# Desired Economic Policy

- Monetary policy > Tax cuts > Government spending for specific industries
- Japan currently has deflation at home (GDP deflator: -1.6%)
- It is a mystery that the monetary policy is not being discussed.  
Quantitative easing and reduction of the interest rate back to 0% will suffice.  
This will have the impact to boost the nominal GDP by around 1%.
- Purchases of JGBs using the “hidden treasure” (reserves in the special account) will have the same effect as the monetary policy.
- Monetary easing & purchases of JGBs using the hidden treasure & additional measures (tax cuts and government spending on an individual basis)