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Feature Articles

This month's focus: Reconsideration of JGBs as a Safe Asset

Points to Note regarding Japanese Government Bonds from a Credit Perspective

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The Japanese government bond market has become conspicuously distorted due to the monetary policy of the Bank of Japan. But this is the market that reflects Japan's sovereign risk. One of the most pressing issues is whether funds will flow smoothly in this market.
We cannot ignore the problem of Japan's poor debt balance. But despite this, for some reason Japan's debt outstanding has not provoked a downgrade. Is it likely that the rating will be downgraded if the debt balance remains as it is?
It is often argued that even if the rating is lowered, it will not affect our lives that much. However, this is not the case. There is no question of whether the economy should come first or fiscal reconstruction should come first. It is self-evidently clear what is needed to rein in this loose fiscal discipline.
We therefore start by asking what sovereign risk is, and then look at the current rating of Japanese government bonds and provide an overview of the Japanese government bond market. Then we unpack the scheme of creditworthiness and rating assignment, and look at why Japan's rating should at least be maintained.
We thereby invite readers to take a comprehensive look at the country's debt problem, the direction of its rating, and the challenges it faces from the credit point of view.

The Lessons from the UK Gilt Market and Central Bank Reactions in 2022

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The turmoil seen in the UK bond market in the fall of 2022 was due to a special factor in the form of the management of liability-driven investment (LDI) funds, reiterating the importance of confidence in fiscal discipline. At the same time, it was confirmed that the purchase of government bonds, which the central bank has been using as a monetary policy tool, is effective as a measure for stabilizing the financial system. This paper provides an overview of the situation in the UK and examines the implications from the UK experience for Japan's fiscal and central bank policy management.

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How Has “Large-scale Monetary Easing” Affected Supply and Demand in the JGB Market?

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The main objective of the “ultra-easy monetary policy” adopted by the BOJ in 2013 was to encourage a decline in long-term interest rates, and its effect had an enormous influence on the supply-demand structure of JGBs and investor behavior. In particular, the collective share held by the banks that were the largest holders of JGBs before 2013 and the BOJ have almost inverted over the past decade. A major factor in the normalization process of the current easing policy going forward will be how smoothly the recovery of the banks’ holdings of JGBs progresses.

The BOJ’s “Quantitative and Qualitative Monetary Easing” (QQE) and Large-scale Purchases of JGBs: What is the Real Problem?

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The real problem with “QQE with yield curve control” (YCC) is that it raises the risk that the BOJ will be unable to wind up its massive purchases of JGBs and so will lead the country into a condition of fiscal dominance. Aiming to “break away from large-scale purchases of government bonds” rather than “break away from monetary easing,” new governor Kazuo Ueda needs to prove that the BOJ has not created a fiscal dominance situation. The BOJ should stop purchasing JGBs and the government should set a goal for fiscal consolidation before both become powerless to stop the rise in long-term interest rates due to the suspension of JGB purchases. This is the most important task for the long-term stability of the Japanese economy.

Articles

Recent Advances in Big Data Analyses Using Transaction Network Data

Daisuke Miyakawa

In this paper, we review the contributions of transaction data, which accounts for the activity measured for related parties, to big data analyses. Using transaction data, we can augment the variables employed in such analyses, examine new questions explicitly targeting the implications of transaction networks, and utilize advanced econometric techniques, taking care of unobservable attributes of parties.

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Articles

Boom in Passive Funds and Further Benchmark Index

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TOPIX has established itself as a benchmark for long-term investment as well as the underlying index tracked by passive funds. For further improvement of its functionality and convenience, JPX will reform TOPIX, starting with the transition to a new market classification system that began in April 2022. In the past, the introduction of the free float adjustment in October 2006 was used to adjust the composition of the index. This report examines the problem with the float adjustment and discusses the future direction of the benchmark index through a review of long-term data.