

# Mizuho Custody Newsletter

March 2025 | Japan

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## I. Market News

### 1. JGB Here Now

As part of its investor relations activities for foreign investors, the Ministry of Finance (MOF) publishes the "JGB Monthly Newsletter" on its website each month. According to the February issue, as of the end of September 2024, the Bank of Japan (BOJ) held 53% (569.3 trillion yen) of the total outstanding long-term Japanese government bonds (excluding T-Bills), amounting to JPY 1,081.5 trillion (approximately USD 7,210 billion). Since BOJ began its monetary easing policy in 2013, it has steadily increased its JGB purchases, buying about JPY 6 trillion (USD 40 billion) every month, making it the largest holder of JGBs in recent years. In March 2024, the BOJ decided to lift its negative interest rate policy, and in July, it announced plans to reduce its JGB purchases. BOJ aims to decrease its monthly JGB purchases by approximately JPY 400 billion (USD 2.7 billion) each quarter, targeting a reduction to about JPY 3 trillion (USD 20 billion) by January-March 2026. According to estimates by major domestic think tanks, BOJ's share as a JGB holder is expected to drop to 38% by the end of 2027.

BOJ's reduction of JGB holdings implies that unless other entities step in to purchase these bonds, the Japanese government may encounter difficulties in smoothly securing fiscal funds if the total outstanding

JGBs remain unchanged. Who will step up to buy these bonds in the future? Let's examine the characteristics of each potential investor.

Firstly, domestic banks hold about 12% (JPY 130.4 trillion) of long-term JGBs. Before the BOJ's monetary easing program began in 2013, domestic banks were the primary holders of JGBs. However, the introduction of interest rate risk regulations (IRRBB: Interest Rate Risk in the Banking Book) under Basel III in 2016 made it more challenging for banks to hold long-term JGBs. Depending on future revisions to the Basel regulations, banks might be compelled to sell rather than purchase additional JGBs. To encourage banks to hold more JGBs, the MOF is considering measures to mitigate interest rate risk in the JGB market, such as issuing shorter-term and floating-rate JGBs.

The life insurance sector holds 17.7% (191.8 trillion yen) of JGBs, primarily focusing on long-term and super long-term bonds. Due to their sale of long-term insurance products, such as whole life insurance, insurers tend to have longer liabilities on their balance sheets compared to other sectors. Although they have increased their foreign bond investments amid low domestic interest rates, they are shifting back to JGBs as yields rise. However, given Japan's demographic trends, insurers are unlikely to significantly increase their JGB holdings.

Households hold 1.3% (JPY 14.5 trillion) of long-term JGBs. At one point, they held as much as 15%, but in a low interest rate environment, household funds shifted to more liquid savings and deposits. With policy rates now positive and a growing interest in moving funds from deposits to investments, households are expected to become new buyers of JGBs.

Foreign investors hold 6.5% (JPY 70.5 trillion) of long-term JGBs and account for 53.3% of Japanese T-Bills. They once held as much as 73%, but investments have been in a rather wait-and-see mode since the BOJ began normalizing its monetary policy in spring 2024. Foreign investors, especially those holding US dollars,

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found Japanese T-Bills attractive because currency swaps allowed them to earn higher returns compared to US Treasuries. As central banks in Europe and the US start to cut rates, JGBs might become appealing again. The aforementioned domestic think tank suggests that sovereign wealth funds and pension funds would be ideal JGB holders due to their stable, long-term investment strategies. However, if the Japanese government relies heavily on foreign investors to absorb JGBs, it must pay greater attention to how economic and fiscal policies are perceived by the market, including the importance of maintaining or improving JGB ratings.

Maintaining the attractiveness of JGBs in the market is a critical issue for the Japanese government. MOF has been actively promoting JGBs among domestic investors and conducting overseas investor relations (IR) activities. In July 2024, coinciding with the BOJ's announcement to reduce JGB purchases, the MOF appointed 12 securities firms as "JGB Promoters" to enhance IR efforts abroad. These firms regularly participate in discussions with foreign central banks based in Tokyo and also travel overseas with MOF to meet foreign investors. Their discussions primarily focus on Japan's economy, fiscal policies, and government bond management.

From the bond management perspective, the primary goal for the Japanese government is to "secure sufficient and smooth fiscal funding while keeping long-term interest payment burdens low." Identifying buyer needs and setting appropriate maturities and issuance amounts are essential. Maintaining liquidity in the secondary market is also important. Above all, confidence in JGBs is crucial. If JGB ratings were to drop, it could lead to a sell-off and a hike in interest rates. Fortunately, the BOJ will only gradually reduce its JGB holdings. While there is still some time, Japan must take decisive steps to achieve a healthier fiscal condition.

*Compiled from Nikkei Shimbun and Mizuho research.*

*The headline comes from the name of the panel discussion MOF held during an investor relations event in London last year.*

*MOF's monthly newsletters are available from the below website:*

<https://www.mof.go.jp/english/policy/jqbs/publication/newsletter/index.htm>

## 2. New rules for MBOs

On March 3, this year's "Japan Securities Summit" convened in New York, drawing market participants and investors from across the United States to showcase the appeal of Japanese stocks. This annual event alternates between New York and London and marked its 14th edition, attracting around 200 investors. In a video message to the attendees, Prime Minister Shigeru Ishiba highlighted the efforts of the former Fumio Kishida administration in promoting Japan as a leading asset management center, which have garnered widespread acclaim from both domestic and international investors. He also announced plans to establish a comprehensive government framework to further advance these initiatives.

Mr. Ishiba also highlighted the widespread adoption of the tax-free small investment system, known as NISA (Nippon Individual Savings Account), noting, "Now, one in four citizens over the age of 18 holds a NISA account." He emphasized the need to continue enhancing the convenience of both NISA and iDeCo, the individual-type defined contribution pension plan. The Chairman of the Japan Securities Dealers Association underscored the importance of "advancing the shift from savings to investment" through further promotion of NISA and financial education.

In his speech at the event, the CEO of Japan Exchange Group (JPX) shared that around 300 investors he met over the past two years have expressed optimism about the Japanese market's outlook. "The Japanese market was once overlooked by global investors, but it is now attracting significant international attention," he remarked. The driving force behind the rise in Japanese stocks up to 2024 has been the high expectations for corporate governance reforms led by the Tokyo Stock Exchange (TSE), a subsidiary of JPX.

The reforms implemented by TSE pose significant challenges for listed companies, forcing them to reassess the value of remaining public. As a result, a notable number of firms have opted to go private through management buyouts (MBOs). In 2024 alone, 18 companies chose to delist their shares via MBOs, a figure that may continue to rise.

TSE is planning to introduce new regulations regarding management buyouts (MBOs), requiring companies to

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explain the terms of their buyout transactions, including the acquisition price. As the number of MBOs continues to rise, there are numerous instances where the interests of minority shareholders are neglected. Information asymmetry between management and minority shareholders is a persistent issue in MBOs. Management, as buyers, has access to insider information, placing them in an advantageous position, while minority shareholders, as sellers, lack such access. This disparity may incentivize management to depress the stock price before initiating a buyout. Under the new rules, companies will need to obtain opinions from outside directors, confirming that the buyout transaction is fair to both minority and general shareholders.

A university professor specializing in corporate governance highly praises TSE's plan to change the rules, stating, "Japan has an exceptionally high number of listed companies compared to overseas markets. However, many companies see their stock prices lag after their IPOs. If it becomes common for such companies to exit when their stock prices are low, it could potentially lead to an increase in executives with distorted motives—selling high at the IPO and buying back cheaply through MBOs. This scenario would prevent ordinary shareholders from investing with confidence, effectively forcing them into a 'loser's game.' To maintain trust in our capital markets, we must rigorously protect the stock market as a public good. These stricter rules play a significant role in achieving that."

In recent MBOs, disputes have emerged between ordinary shareholders and companies over the buyout price. To prevent suspicions, proactive protection of minority shareholders is essential. Establishing a minority shareholder protection system that meets international standards is crucial for enhancing trust in Japan's stock market.

*Compiled from Nikkei Shimbun and Mizuho research.*

### 3. BOJ maintains policy unchanged in March

On March 19, the Bank of Japan (BOJ) unanimously voted to maintain its policy interest rate target, the uncollateralized overnight call rate, at 0.5%, keeping its monetary policy unchanged. At a press conference following the meeting, Governor Ueda stated, "the current real interest rate is extremely low," and

emphasized, "if the economic and price outlook materializes, we will continue to raise policy rates."

The press conference saw a flurry of questions related to tariffs imposed by the U.S. President Mr. Trump. Governor Ueda remarked, "We will scrutinize the impact on the U.S., global, and Japanese economies before making policy decisions." However, he cautioned, "The scope and pace of the U.S. tariff policy have expanded rapidly. We won't have more clarity until April. There is a significant level of uncertainty."

The market anticipates BOJ's next rate hike to occur in June or July. A survey shows the highest market-implied probability at 33% for the June meeting, followed by 28% for the July meeting.

The timing of the rate hikes is heavily influenced by the USD/JPY exchange rate. Currently, the yen is slightly appreciating, but the BOJ remains concerned about potential yen depreciation. If tariffs under Mr. Trump reignite inflation and the Federal Reserve is unable to cut rates, narrowing the U.S.-Japan interest rate gap will be challenging. According to the U.S. Treasury, a 10% tariff could push the dollar up by 4%, making tariffs a factor in dollar strength. If the yen continues to weaken, the BOJ may be compelled to advance its rate hike schedule.

Political events may also influence the timing. BOJ rarely alters its policy before major elections. The June meeting falls just before the Tokyo Metropolitan election, which is viewed as a precursor to July's House of Councilors election. Government officials believe that "a rate hike in June might be difficult due to its potential impact on the election outcome."

Although the timing is hard to predict, the market has already priced in an additional rate hike this year. Attention is now shifting to the BOJ's terminal rate and whether they will continue raising rates into 2026.

The BOJ's decision to hike rates in January was primarily based on the expectation of "underlying inflation (excluding temporary fluctuations)." They forecast that the inflation target (price stability goal) will be met by 2026. A major domestic think tank argues that sustained wage increases and the pass-through of wage costs into prices are necessary for continued "underlying inflation." This means companies need to raise the prices of their goods and services to fund

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wage increases.

The BOJ's January meeting highlighted that "a positive turn in real wages is necessary for a sustained uptrend in personal consumption." Since the 2010s, Japan has faced a structural labor shortage unrelated to economic conditions, attributed to a declining population due to low birth rates and reduced working hours from workstyle reforms. While the employment of women expanded in the mid-2010s, the pace of increase slowed in the 2020s, and labor input has fallen and hasn't recovered post-pandemic. Companies have been compelled to secure labor through wage hikes, and this pressure is likely to continue.

Were companies able to pass on the wage increases to their prices? Since 2022, rising import costs and nominal wages have driven higher inflation, but initially, companies struggled to pass most of these sudden cost increases onto prices. Increased costs exceeded the price hikes, forcing companies to absorb the impact by reducing their profit margins. Price pass-through has gradually improved, and by 2023, with reduced import costs, the rate of cost pass-through had risen.

The aforementioned think tank predicts that the spring wage negotiations ("shunto") in 2025 will result in a higher wage increase rate than in 2024. Even if the current pass-through rate remains unchanged, wage-driven inflation is expected to reach the 2% price stability target in 2025. If significant wage hikes are anticipated starting in 2026, the BOJ might continue its rate hikes through that year. However, additional U.S. tariffs could reignite U.S. inflation, driving up U.S. long-term rates and potentially further depreciating the yen. Increased import costs from a weaker yen could cause companies to reconsider their wage hikes.

When asked about the likelihood of achieving the economic and price scenarios essential for rate hike decisions, BOJ Governor Ueda stated, "We will consider revisions once the U.S. tariff policy becomes clearer around early April."

*Compiled from Nikkei Shimbun and a report written by Mizuho Research & Technologies and Mizuho research.*

## II. New Equities Listing Approvals

Listing Date	Name of Company	ISIN Code	MKT
Mar-11	ZEAL Associate Corp.	JP3386950004	P
Mar-17	TECHNOSMILE,INC.	JP3545310009	P
Mar-27	ZenmuTech,Inc.	JP3430200000	G
Mar-28	TOYOKOH Inc.	JP3632670000	G
Mar-28	PROGRESS TECHNOLOGIES GROUP,Inc.	JP3833890001	G
Mar-31	zig-zag,Inc.	JP3386960003	G
Apr-07	IACE TRAVEL Corporation.	JP3100660004	S
Apr-22	DIGITAL GRID Corporation	JP3549120008	G
Apr-24	LIFE CREATE Co.,Ltd.	JP3472120009	G

*\*Information compiled based on postings from the Prime (PR), Standard (ST), Growth (G), Tokyo Pro Market (P), NSE (N), FSE (F) & SSE (S).*

*\*\*Board lot size is unified to 100*

## III. Foreign Ownership Limit Ratio

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