

# Economic Outlook Committee

- 19<sup>th</sup> February 2010 -

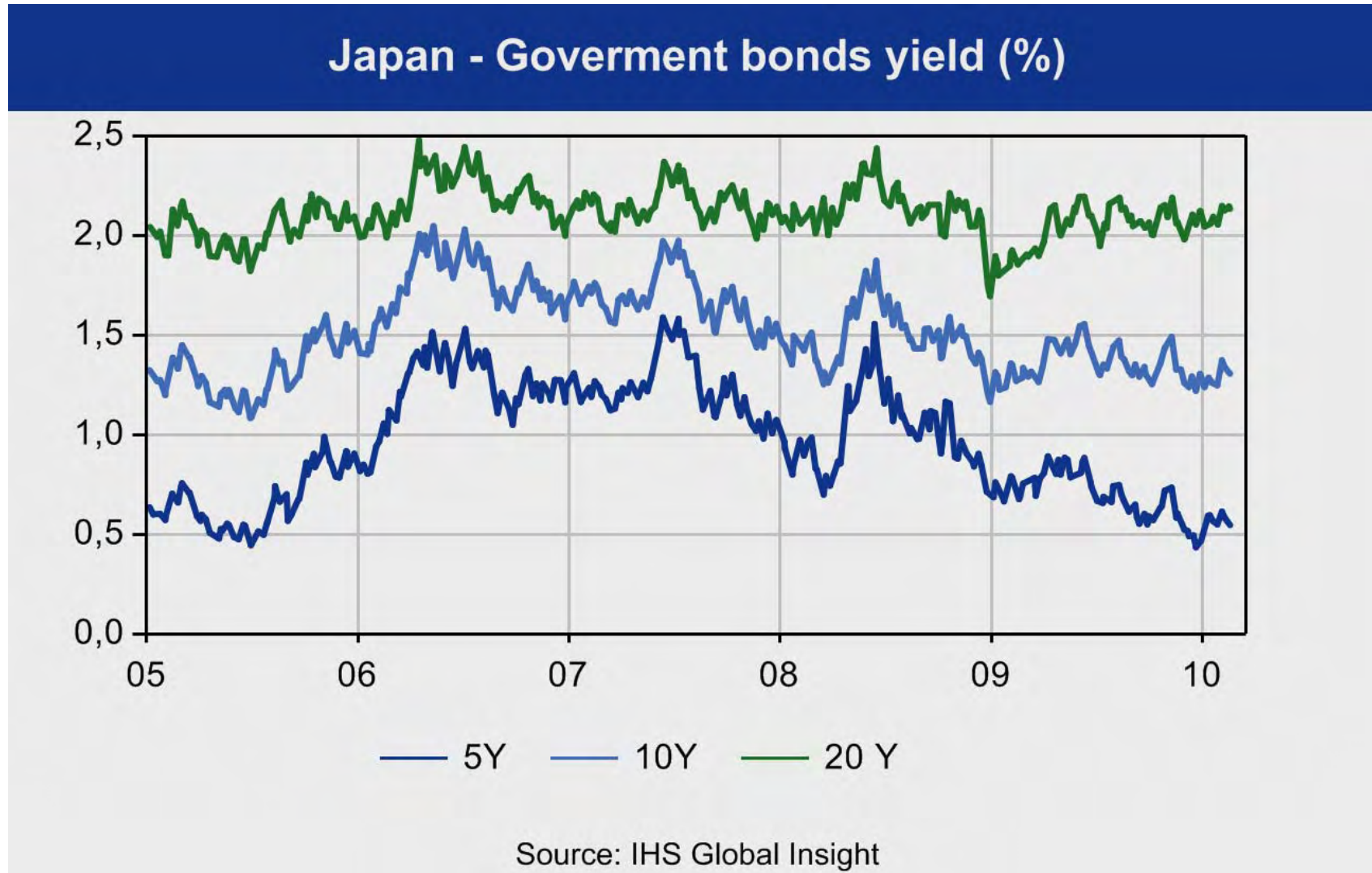
*Hélène Baron*

*Guilhem Bentoglio*

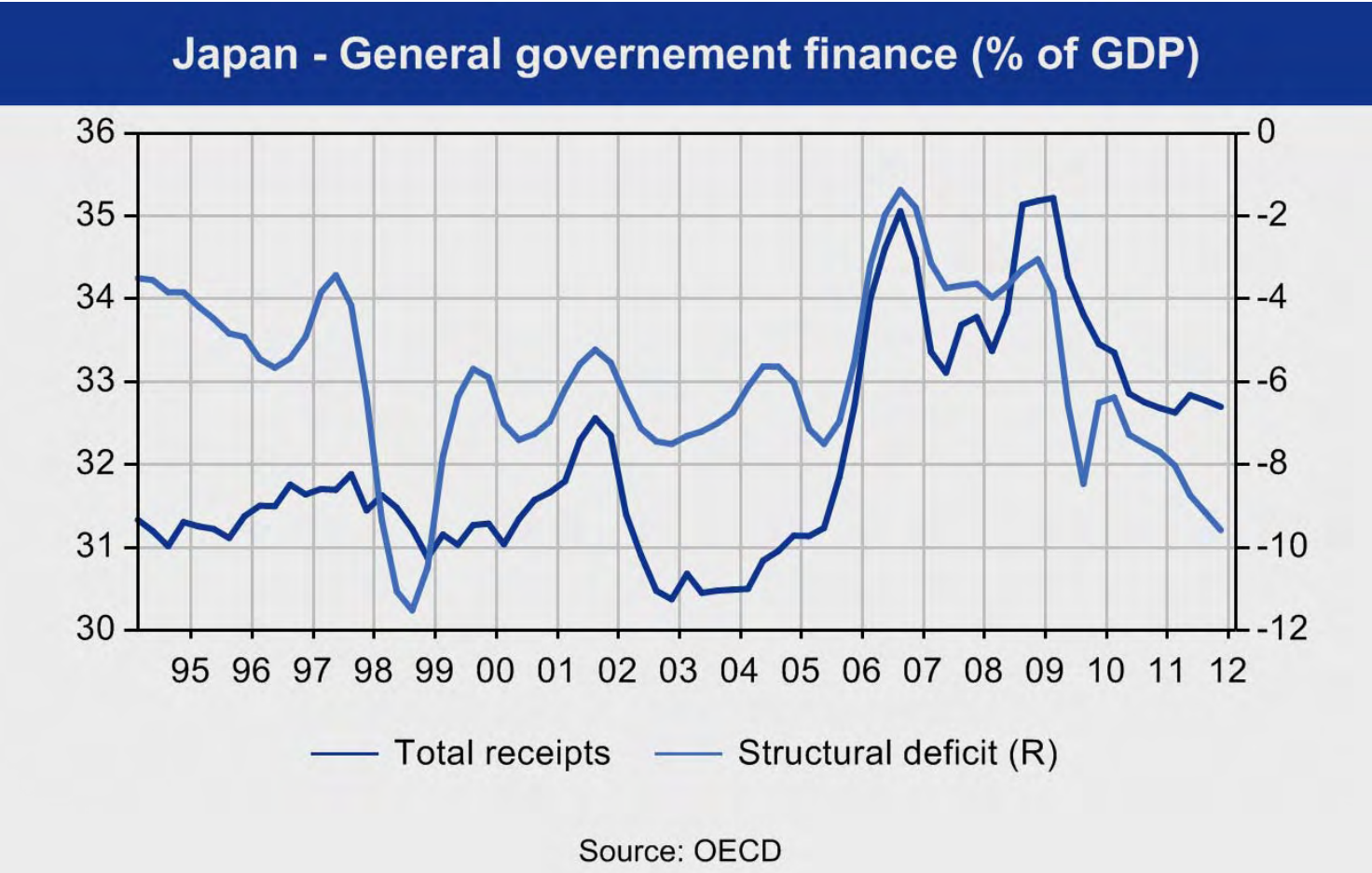
*Guillaume Guidoni*

# Japan – The worst public finances and the lowest interest rates

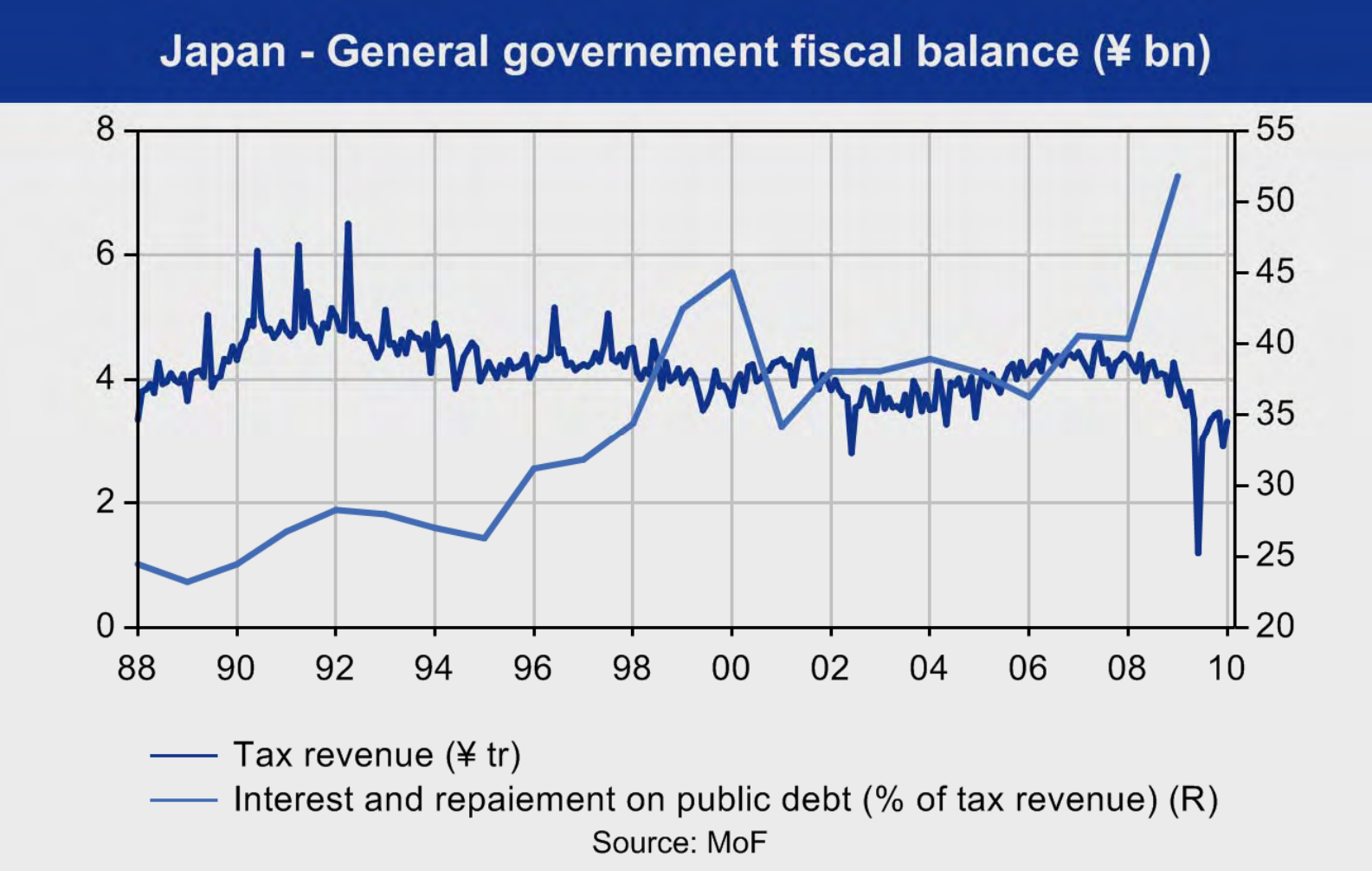
Last January 26, S&P placed Japan under negative watch (current rating AA) but – on the contrary to the PIGS – bond market did not react



# Japanese public finances are beyond deterioration



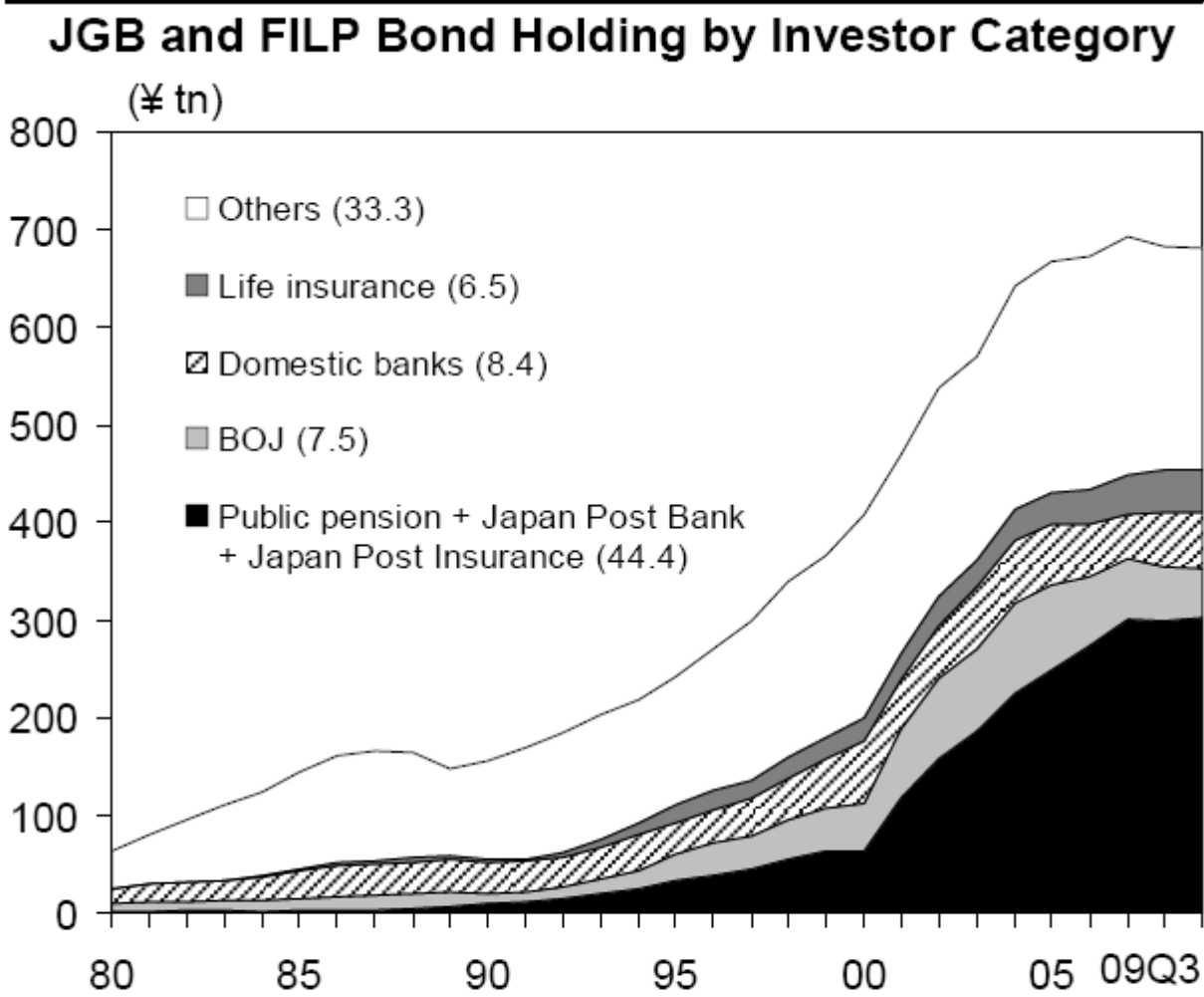
Tax revenue is shrinking (deflation) and debt service is now above 50% of it



## Some clue for understanding the absence of market reaction

- **The JGB market is dominated by domestic investor** (only 6% of public debt hold by foreigners)
  - 52% of holders are public institutions or the BoJ and 15% are banks and life insurance
- **Those participants are carrying major interest rate risks on their portfolio:**
  - No incentive to attack the debt for private investors
- **The demand remain strong for JGB:**
  - Large current account surplus
  - Postal bank is guiding the Japanese savings to JGB
  - JGB real interest rate offer descent yield
  - BoJ JGB purchases represent 13% of 2010 planned emissions
- Moreover, **if the public debt should come under pressure, the BoJ would have no difficulty to rise the amount of its purchases** (low level of JGB yield is an important tool in fighting deflation).

# Public institutions are main holders of JGB



Source: BOJ.