

In the paper titled “Defying Gravity: Can Japanese sovereign debt continue to increase without a crisis?” in *Economic Policy* (January 2014, 5-44), Takatoshi Ito and I argued that low yields on Japanese government bonds (JGBs) despite exploding government debt cannot last long. Even if the situation has been supported by large private sector domestic savings that are invested predominantly domestically, the favorable conditions cannot last because the household saving rate has been declining as a result of aging. Several years after the analysis of Hoshi and Ito (2014), the Japanese government bond still seems to defy gravity. The debt to GDP ratio continues to soar but the JGB yields continue to decline. Where did we go wrong? We underestimated the persistence of expectation of future fiscal consolidation before the government debt reaches the ceiling of private sector domestic savings. It is still the case, however, that a debt crisis will happen when the expectation changes.