GDP-linked Bonds in Japan and Their Implications on Public Pension Policy

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【Abstract】

In the first half of this paper, we consider the possibility of GDP-linked bonds in Japan. After considering the detailed plan of GDP-linked bonds in Japan, we consider the effects of GDP-linked bonds to the debt limit. We find that introduction of GDP-linked bonds raises the debt limit significantly in Japan. However, since risk premium and novelty premium can be very large now, the gradual approach to GDP-linked bonds is recommended.

In the second half of the paper, we point out that NDC (notional defined contribution pension) is similar to non-tradable GDP-linked bonds, so NDC is effective to keep fiscal sustainability of public pension. At the same time, NDC may not provide fair return rate since it does not include risk premium demanded by tradable GDP-linked bonds holders. The “”macroeconomic indexation” adjustment of the current Japanese public pension has similar characteristic to temporal NDC. The fundamental pension reform proposal replacing Japanese existing public pension by funded defined contribution pension and smoothing the double burden by issuing ordinary government bonds may damage fiscal sustainability.

Since GDP-linked bonds have important implications for Japanese fiscal and public pension policy, further study is desirable.