

# Japan's Public Debt Management

A blurred background image of a large, multi-story building with many windows, likely a government or institutional building. The image is out of focus, showing architectural details like windows and a street lamp in the foreground.

Oct 2022

Financial Bureau, Ministry of Finance

# Outline

1. Fiscal Condition
2. Debt Management

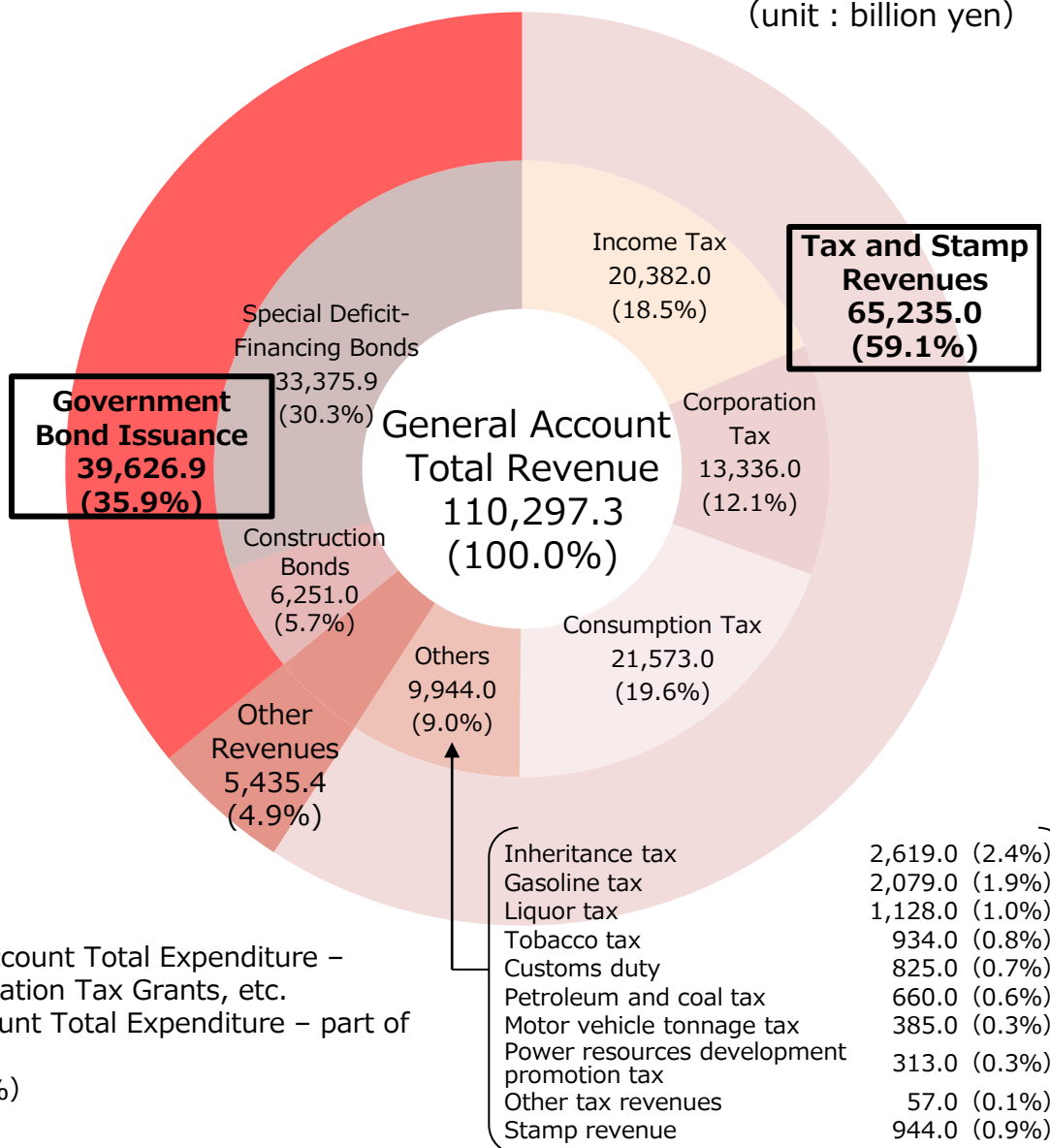
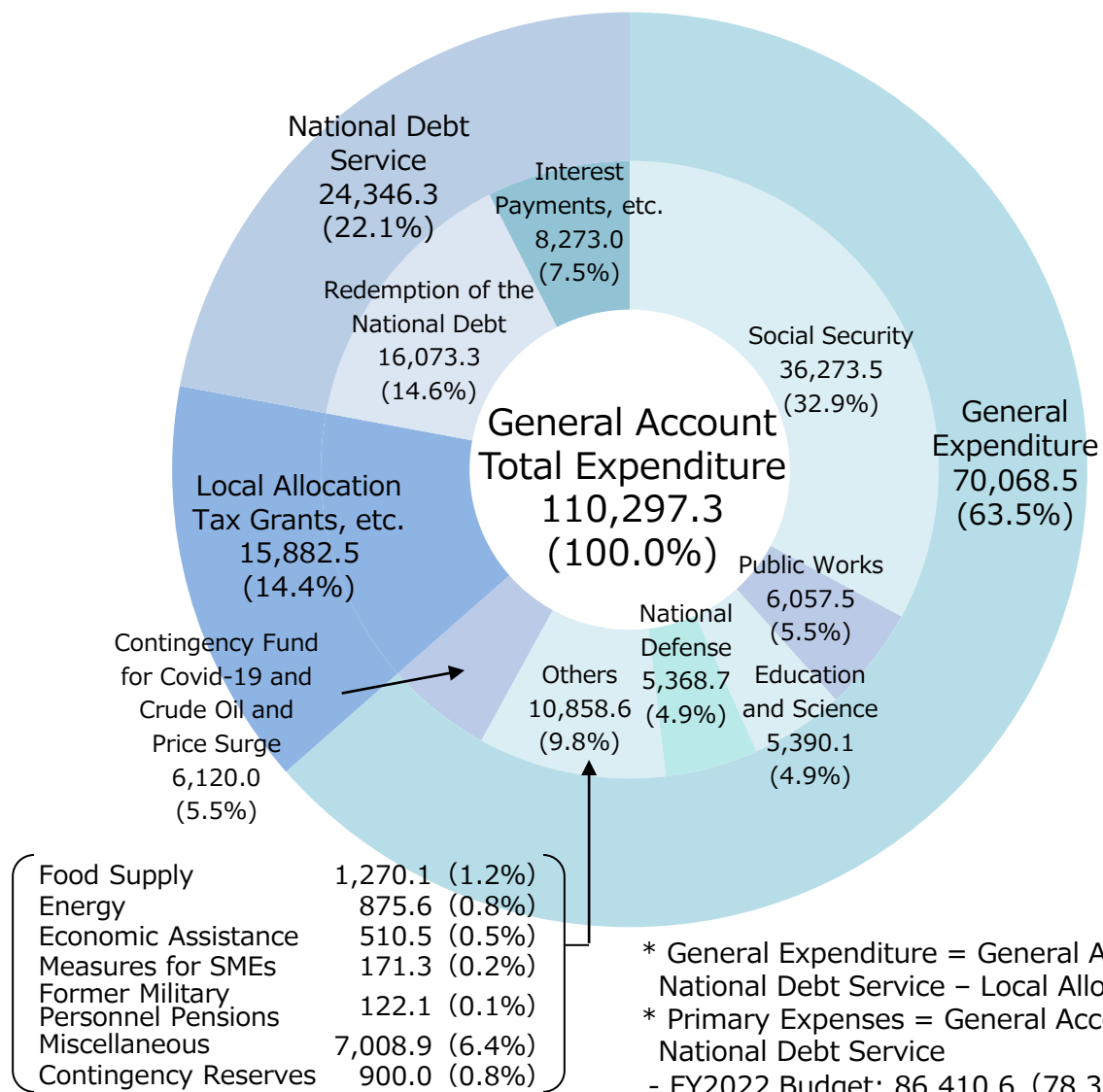
# 1. Fiscal Condition

# The FY2022 Budget: Expenditure and Revenue

## General Account Expenditure

## General Account Revenue

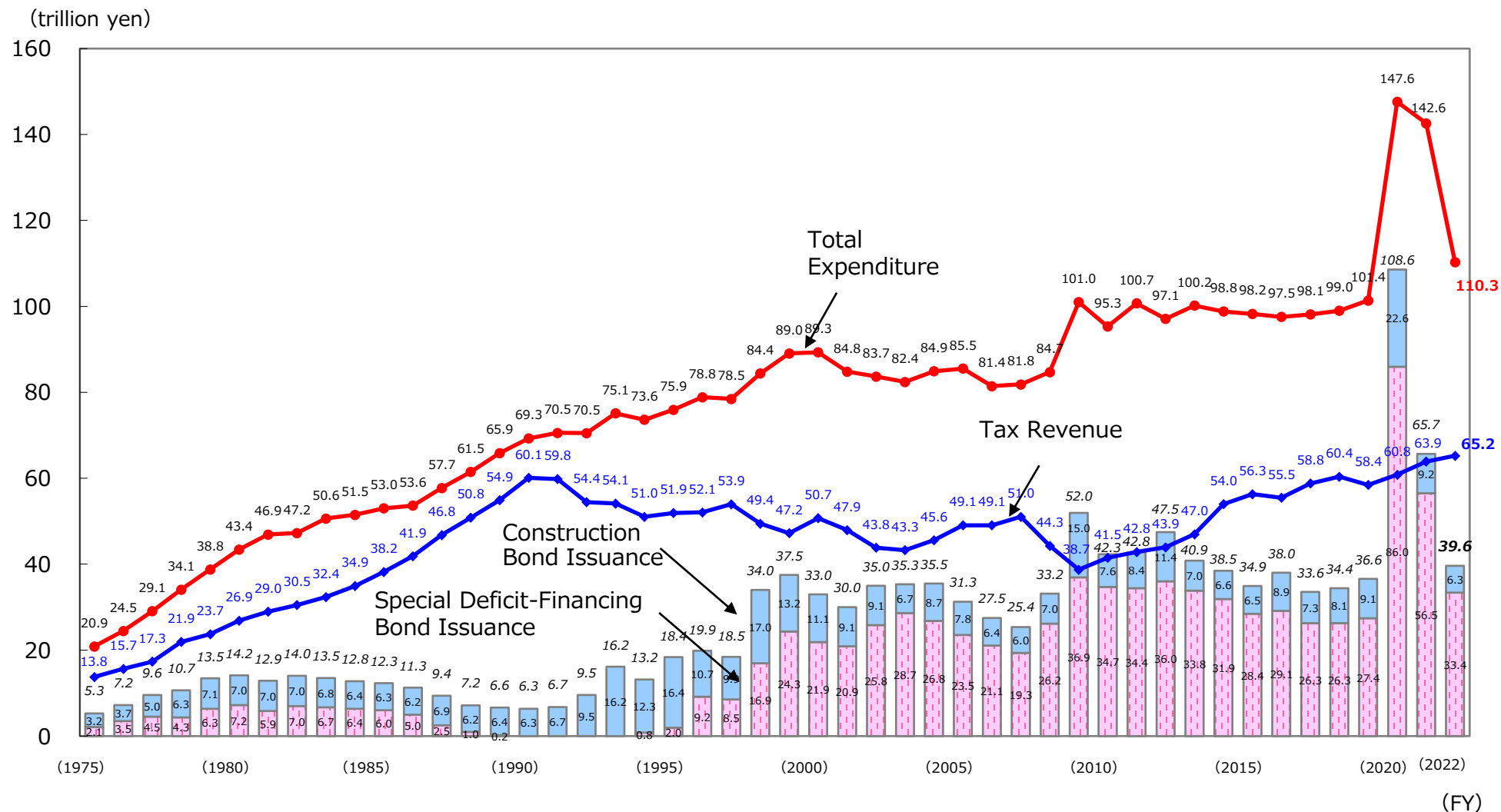
(unit : billion yen)



(Note 1) Figures may not add up to the total due to rounding.

(Note 2) Social security related expenditures account for 51.8% of the general expenditure.

# Trends in general account tax revenues and expenditures

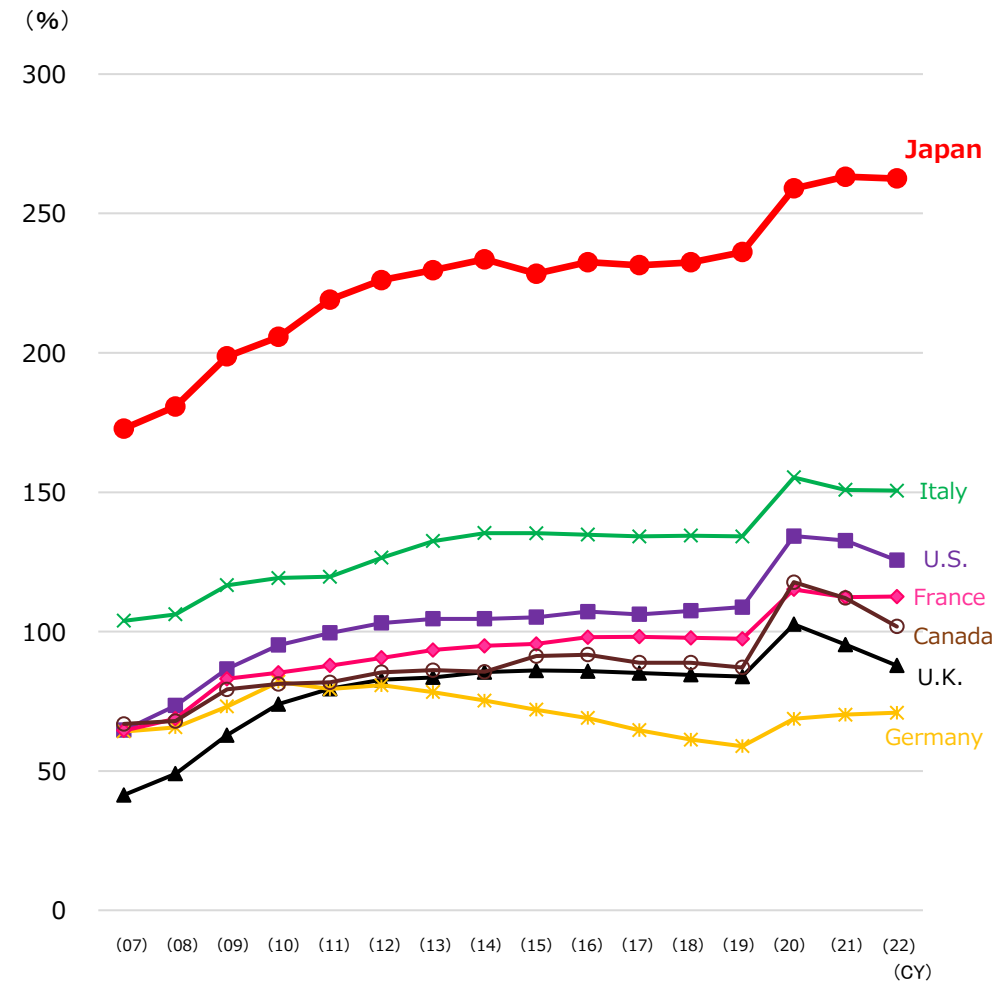


(Note1) FY1975 - FY2020 : Settled figures; FY2021 : Based on the supplementary budget; FY2022: Based on the supplementary budget  
 (Note2) Following bonds are excluded: Ad-hoc special deficit-financing bonds issued in FY1990 as a source of funds to support peace and reconstruction activities in the Persian Gulf Region; Tax reduction-related special deficit-financing bonds issued in FY1994-96 to make up for a decline in tax revenue due to a series of income tax cuts preceding consumption tax rate hike from 3% to 5%; Reconstruction bonds issued in FY2011 as a source of funds to implement measures for the reconstruction from the Great East Japan Earthquake, and; Pension-related special deficit-financing bonds issued in FY2012 and FY2013 as a source of funds to achieve the targeted national contribution to one-half of basic pension.

# International comparison of general government gross debt (% of GDP)

CY	2007-2014							
	2007	2008	2009	2010	2011	2012	2013	2014
Japan	172.8	180.7	198.7	205.7	219.1	226.1	229.6	233.5
U.S.	64.6	73.5	86.6	95.2	99.5	103.1	104.6	104.6
U.K.	41.4	49.0	62.8	74.0	79.5	82.7	83.6	85.5
Germany	64.2	65.7	73.2	82.0	79.4	80.7	78.3	75.3
France	64.5	68.8	83.0	85.3	87.8	90.6	93.4	94.9
Italy	103.9	106.2	116.6	119.2	119.7	126.5	132.5	135.4
Canada	66.9	67.9	79.3	81.2	81.8	85.4	86.1	85.6

CY	2015-2022							
	2015	2016	2017	2018	2019	2020	2021	2022
Japan	228.4	232.5	231.4	232.5	236.1	259.0	263.1	262.5
U.S.	105.1	107.2	106.2	107.5	108.8	134.2	132.6	125.6
U.K.	86.0	85.8	85.1	84.5	83.9	102.6	95.3	87.8
Germany	72.0	69.0	64.7	61.3	58.9	68.7	70.2	70.9
France	95.6	98.0	98.1	97.8	97.4	115.2	112.3	112.6
Italy	135.3	134.8	134.2	134.4	134.1	155.3	150.9	150.6
Canada	91.2	91.8	88.9	88.9	87.2	117.8	112.1	101.8

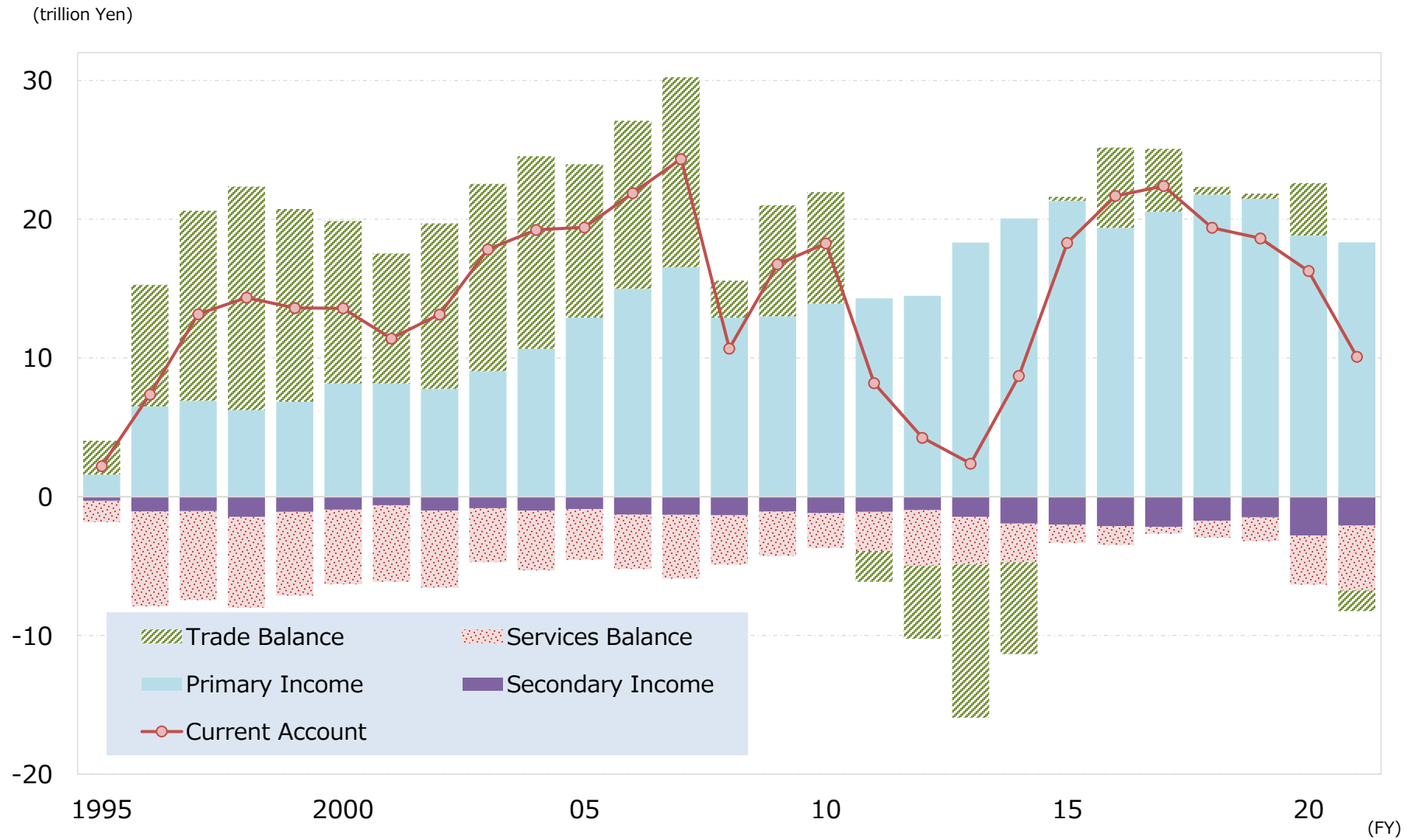


(Source) IMF "World Economic Outlook" (April 2022).

(Note1) Figures represent the general government-based data (the central/local governments and social security funds combined).

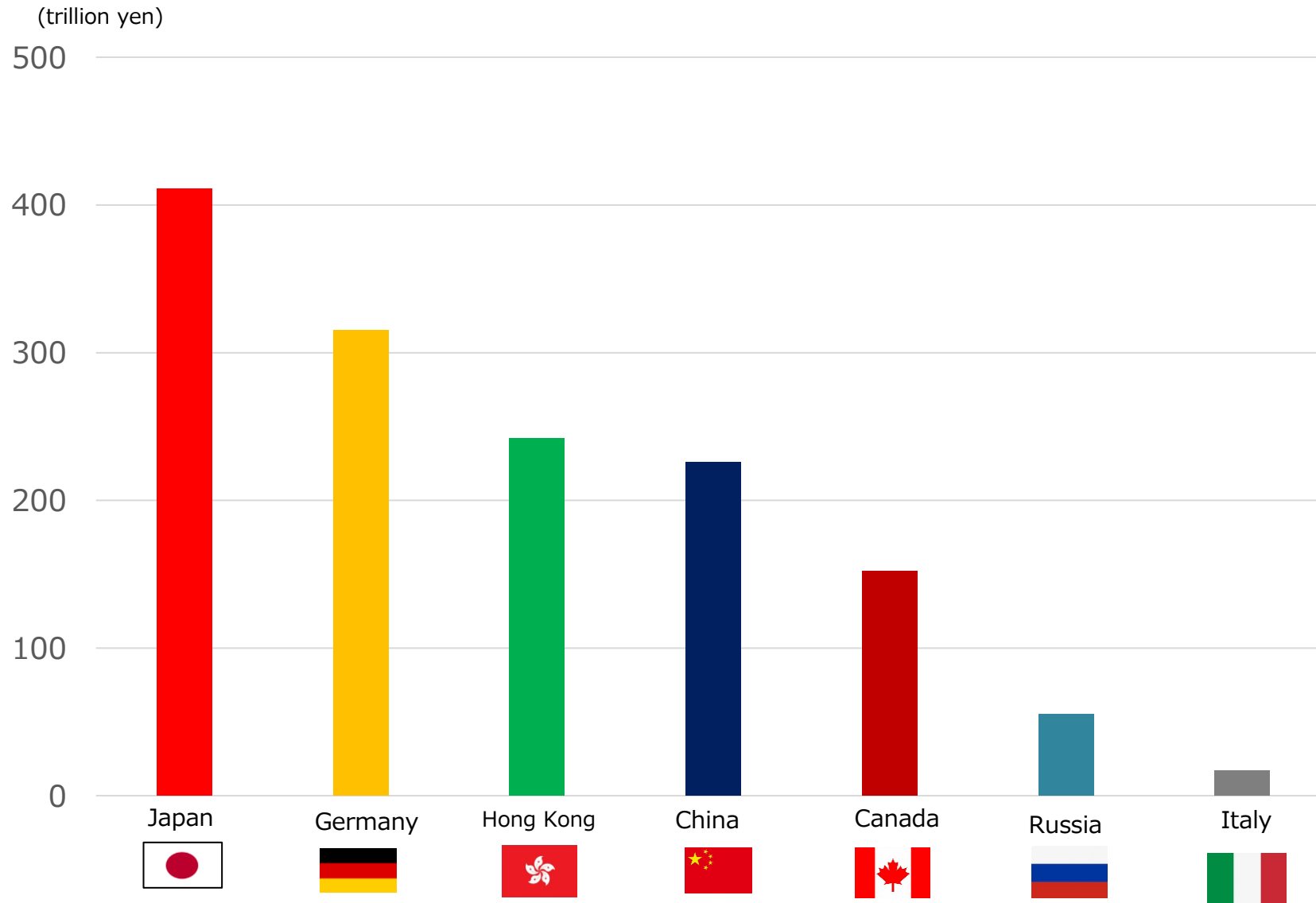
(Note2) 2021-2022 figures for Japan, U.S., Italy and 2022 figures for other countries are estimated figures.

# Current Account Balance



(Source) Bank of Japan "Flow of Funds"

# Net International Investment Position(End of 2021) –International Comparison-



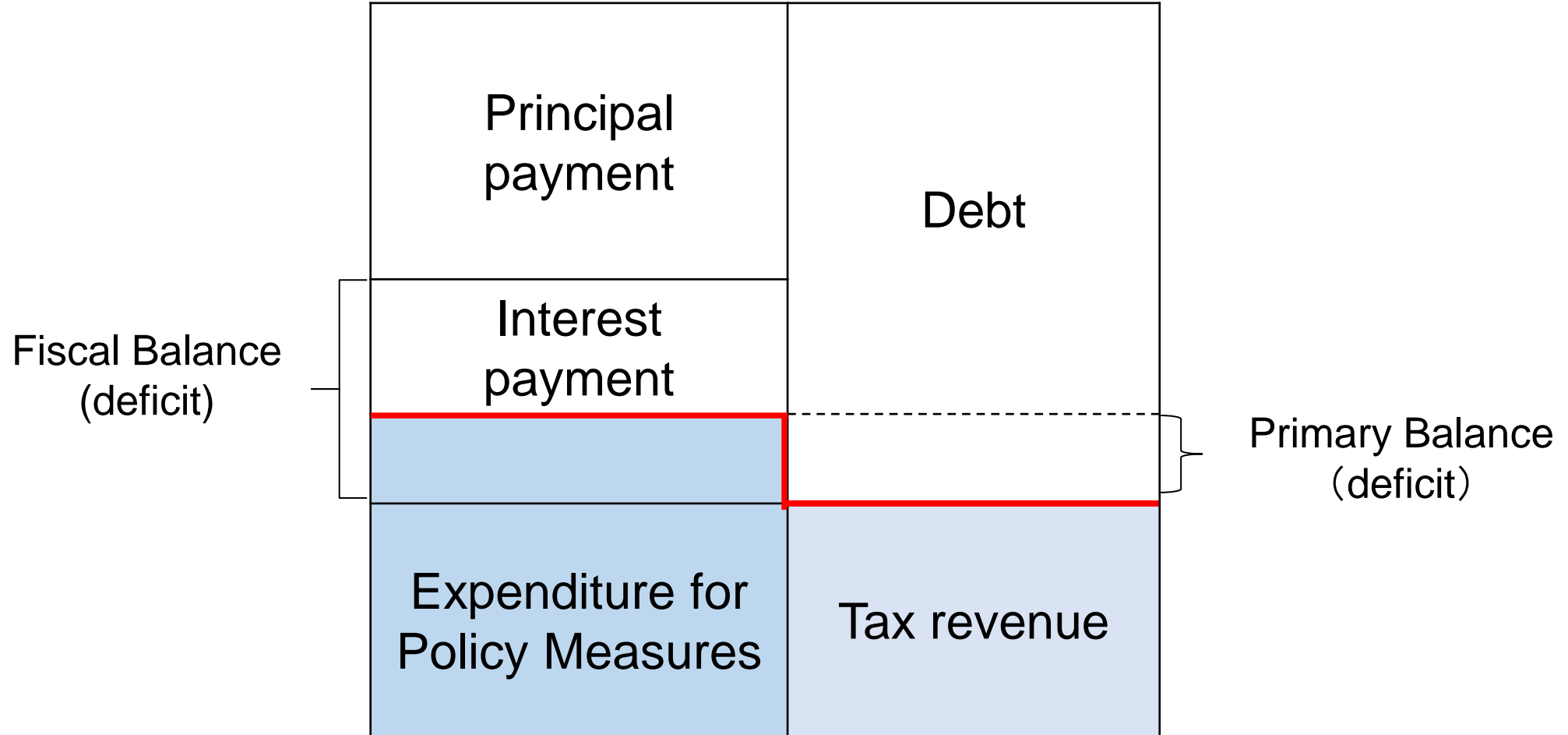
(Source) MOF(Japan), IMF(countries and regions except for Japan)

(Note1) Figures for countries and regions except for Japan are converted into yen at the year-end exchange rates published by IMF.

(Note2) Figures for certain countries/regions are not disclosed.



# Primary Balance



# Main Points of the "Basic Policy on Economic and Fiscal Management and Reform 2022" (Cabinet Decision on June 7)

Provisional Translation

## Fiscal Consolidation Target

**Continue to work on the existing fiscal consolidation targets without taking down the “flag” of fiscal consolidation.**

The economy is the foundation of public finances, and the current target year should not distort macroeconomic policy options depending on the situation. There is no contradiction between taking necessary policy measures and working on fiscal consolidation targets. We will continue to make efforts to revitalize the economy and achieve fiscal consolidation. However, it is necessary to continuously monitor the impact of infection and recent soaring prices, as well as other domestic and international economic conditions. **Therefore, necessary verification will be conducted depending on the situation.**

## Guiding Principles in Budget Formulation for FY2023

**In the FY2023 budget, the government will steadily promote integrated economic and fiscal reforms based on this policy and Basic Policy 2021.** However, it should not distort key policy options.

## Reference (Basic Policy 2021)

• The Government will firmly maintain the fiscal consolidation target of the Basic Policy 2018 (**To aim to achieve the gross PB surplus of the central and local governments in FY2025. At the same time, to aim for steady reduction of the public debt to GDP ratio.**).

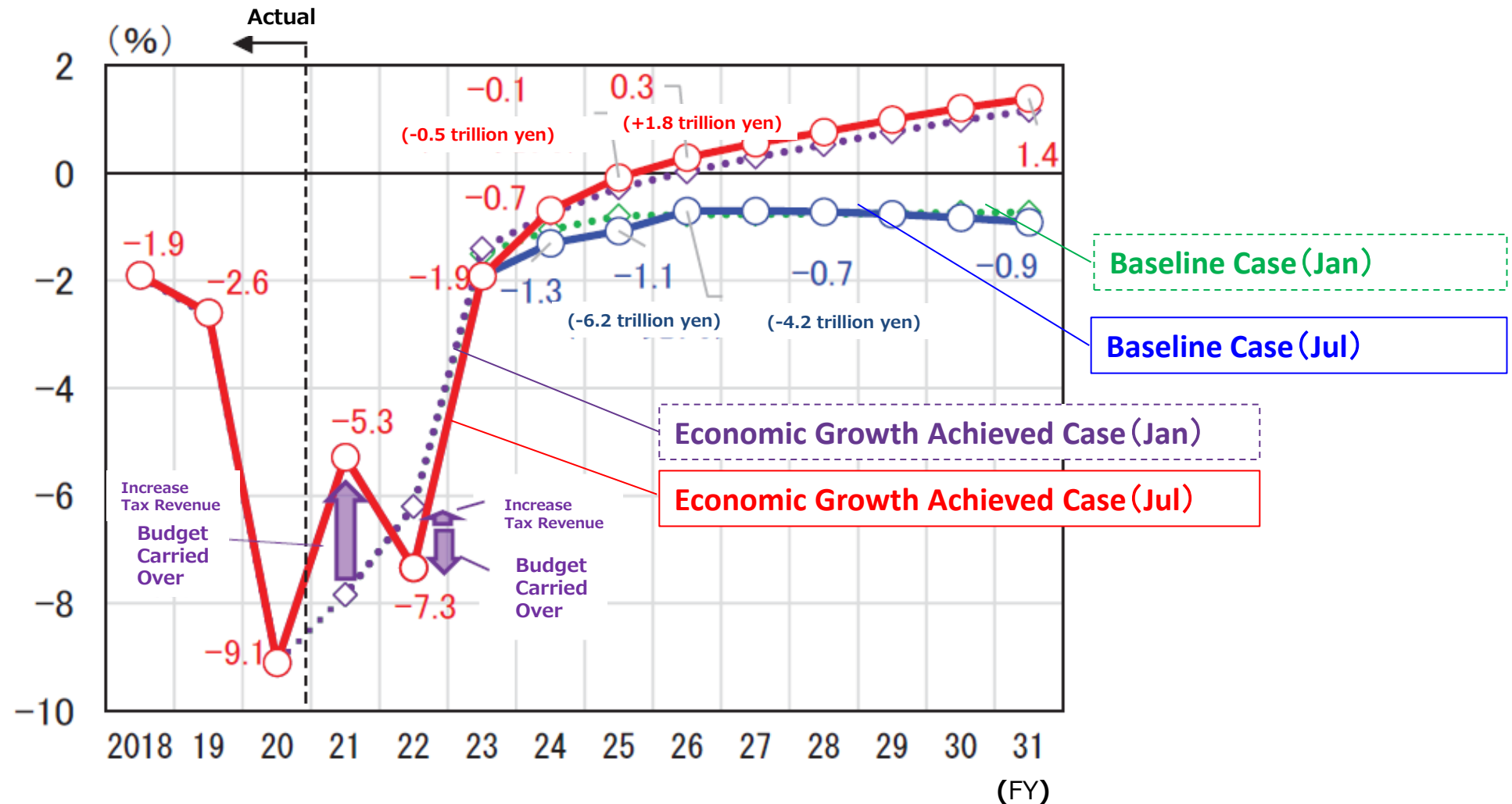
• The Government will continue the same efforts to reform government expenditures for three years from FY2022 to FY2024 as in the previous period, and will compile a budget in accordance with the following benchmarks<sup>※</sup>.

- ① **With regard to social security expenditures**, the policy is to aim to **keep the essential increase within the levels equivalent to the expected increase due to population aging** during the foundation-reinforcement period, and the policy will be continued based on the future economic situation and price movements and the like.
- ② **With regard to general expenditures other than social security expenditures**, the Government will **continue existing efforts to improve government expenditures**, with consideration of the future economic situation and price movements and other such factors.
- ③ **With regard to the level of local government expenditures**, while keeping in line with the efforts of the national government's general expenditures, the Government will ensure that **the total amount of general revenue sources** necessary for stable fiscal management of local governments, including those receiving local allocation tax grants, **shall be maintained substantially at the same level as that of the FY2021 Fiscal Plan of Local Governments**, and not below.

<sup>※</sup> In order to respond to the increase in fiscal demand that is truly necessary, the Government will continue to promote the measures stipulated in the New Plan to Advance Economic and Fiscal Revitalization, such as taking the measures for expenditure reform into consideration when permanent revenue increases are secured through institutional reforms. In doing so, the Government will refer to the fact that foreign countries, including the United Kingdom and the United States, are taking measures to finance their resources for fiscal spending.

# Cabinet Office “Economic and Fiscal Projections for Medium to Long Term Analysis” (July 2022)

Provisional Translation



- In the Economic Growth Achieved Case, without the expenditure reforms, the primary deficit is projected to be around 0.1% in FY2025, and turn to surplus in FY2026.
- If spending were to be streamlined based on the Basic Policy under this growth scenario, primary surplus will be achieved in FY2025.

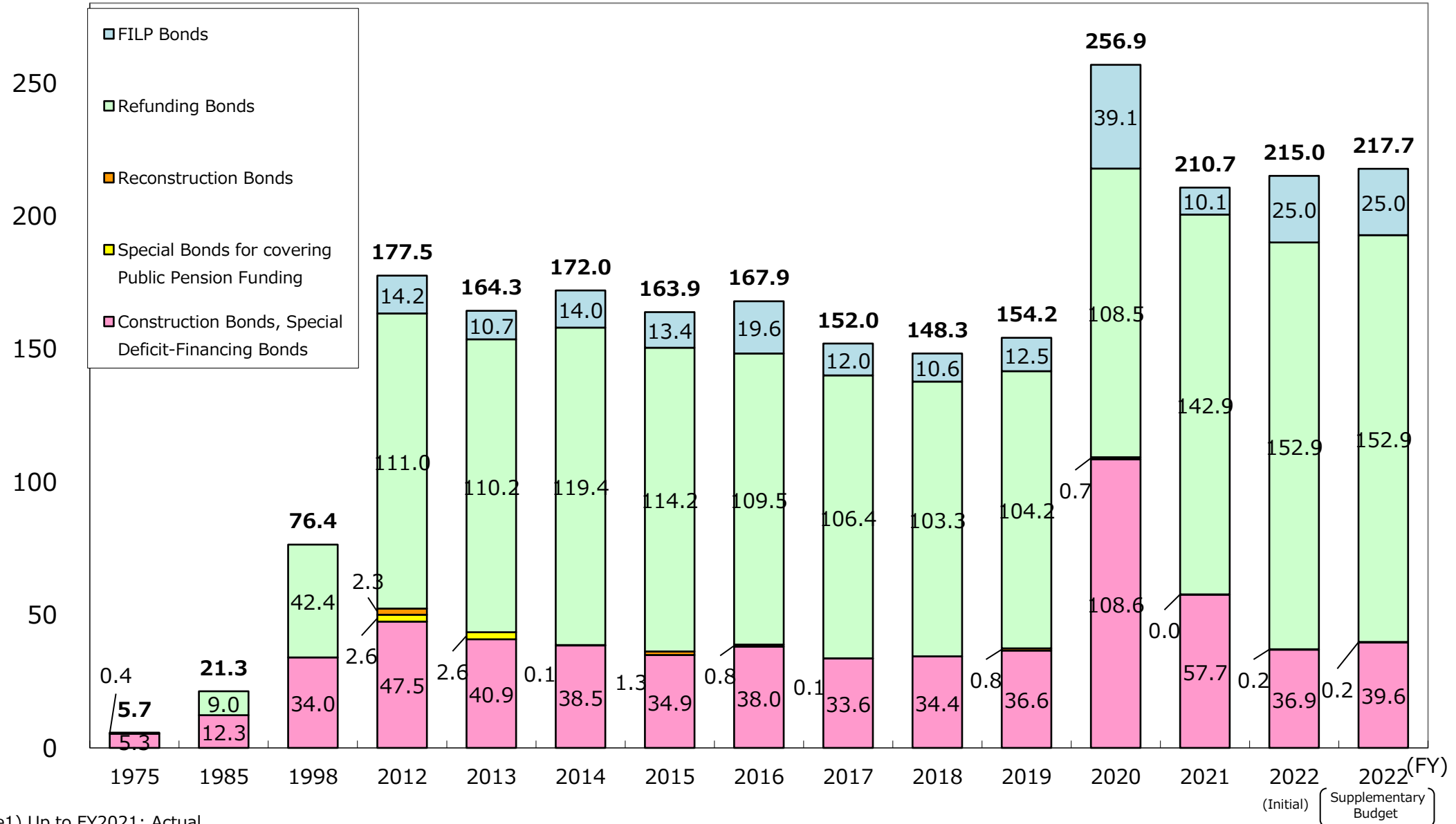
(Source) Cabinet Office

(Note) Excluding the expenditures and the fiscal resources for the recovery and reconstructions measures.

## 2. Debt Management

# Historical changes in JGB Issuance Plan

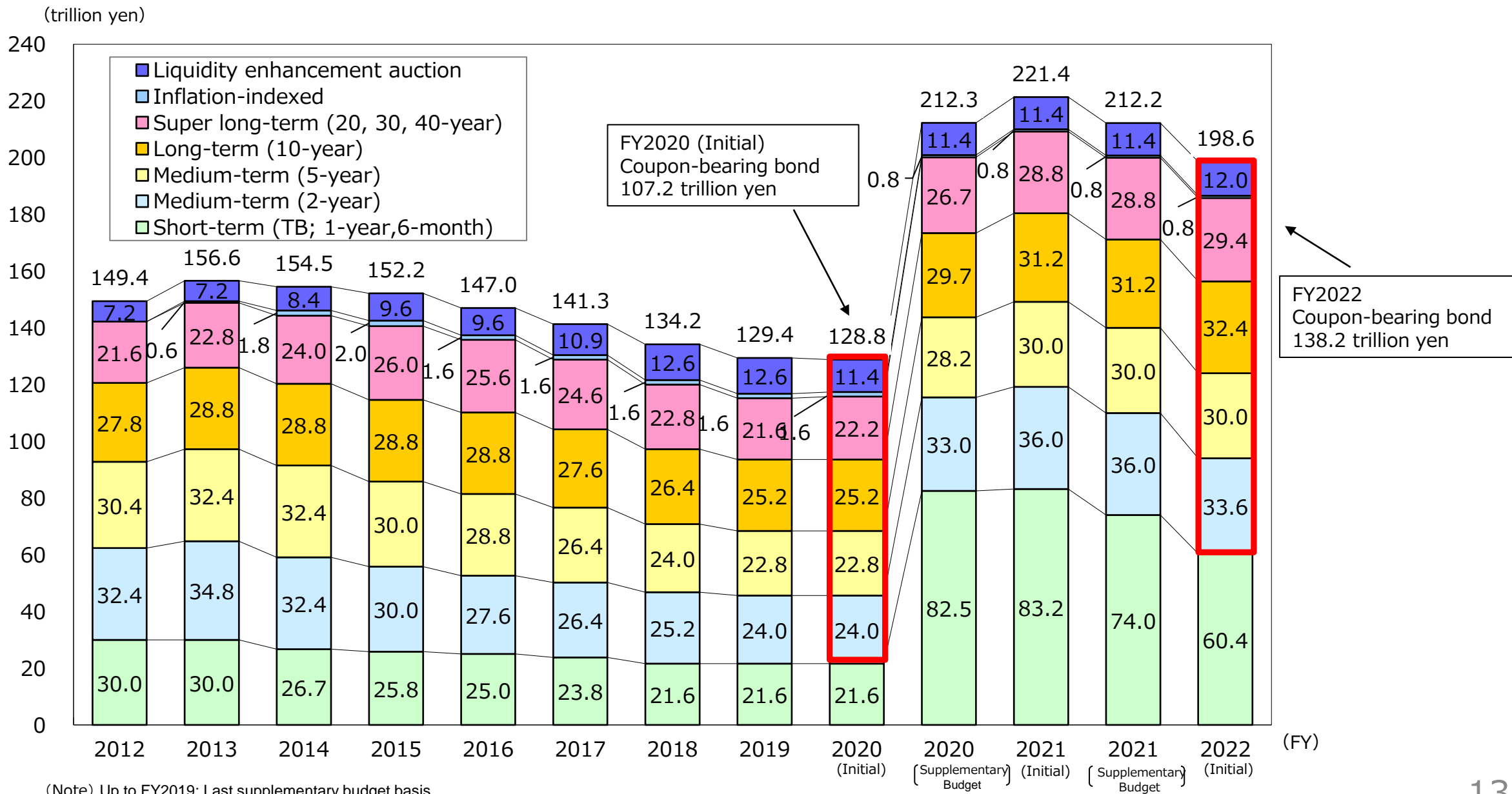
(trillion yen)



(Note1) Up to FY2021: Actual

(Note2) Figures may not sum up to the total because of rounding.

# Market Issuance Plan by Issue



# Highlights of FY2022 JGB Issuance Plan

- Regarding the FY2022 JGB issuance plan, the total amount will decrease by 9.3 trillion yen and the market issuance by 13.6 trillion yen respectively, compared with FY2021 (Supplementary Budget). This is because a decrease in the size of Newly-Issued Bonds will exceed an increase in that of FILP Bonds and Refunding Bonds due to their increases in issuance of 2-year bond in FY2020, which will mature in FY2022.
- The JGB market issuance depends largely on the short-term bonds (74 trillion yen in FY2021 (Supplementary Budget), about 35% of the total), which makes our financing plan vulnerable to interest rate volatility. Therefore, it is important to reduce the issuance of the short-term bonds (by the same amount as the decrease in the JGB market issuance of 13.6 trillion yen);

while reflecting current market demands;

- the amount of 40-year bond will increase by 0.6 trillion yen, 10-year bond by 1.2 trillion yen, and liquidity enhancement auction by 0.6 trillion yen, based on higher demand in the market
- the amount of 2-year bond will decrease by 2.4 trillion yen, considering lower demand and its shorter maturity

and correct the shortened average maturity of JGBs in response to the Covid-19 pandemic (from 7 years 1 month (FY2021 (Supplementary Budget)) to 7 years 9 months (FY2022)).

〈Breakdown by Legal Grounds〉

(trillion yen)

	FY2022		
		Changes from FY2021 (Initial)	Changes from FY2021 (Supplementary Budget)
Newly-Issued Bonds (Construction Bonds and Special Deficit-Financing Bonds)	36.9	▲6.7 (43.6)	▲28.7 (65.7)
Reconstruction Bonds	0.2	▲0.0 (0.2)	+0.1 (0.0)
FILP Bonds	25.0	▲20.0 (45.0)	+10.0 (15.0)
Refunding Bonds	152.9	+5.7 (147.2)	+9.3 (143.7)
<b>Total</b>	<b>215.0</b>	<b>▲21.0</b> (236.0)	<b>▲9.3</b> (224.4)

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〈Breakdown by Financing Methods〉

(trillion yen)

	FY2022		
		Changes from FY2021 (Supplementary Budget)	
Market Issuance by Periodic Auctions	198.6	▲13.6 (212.2)	
Others (for Retail Investors, etc.)	16.4	+4.3 (12.2)	
<b>Total</b>	<b>215.0</b>	<b>▲9.3</b> (224.4)	

〈Market Issuance Plan by Issue〉

(trillion yen)

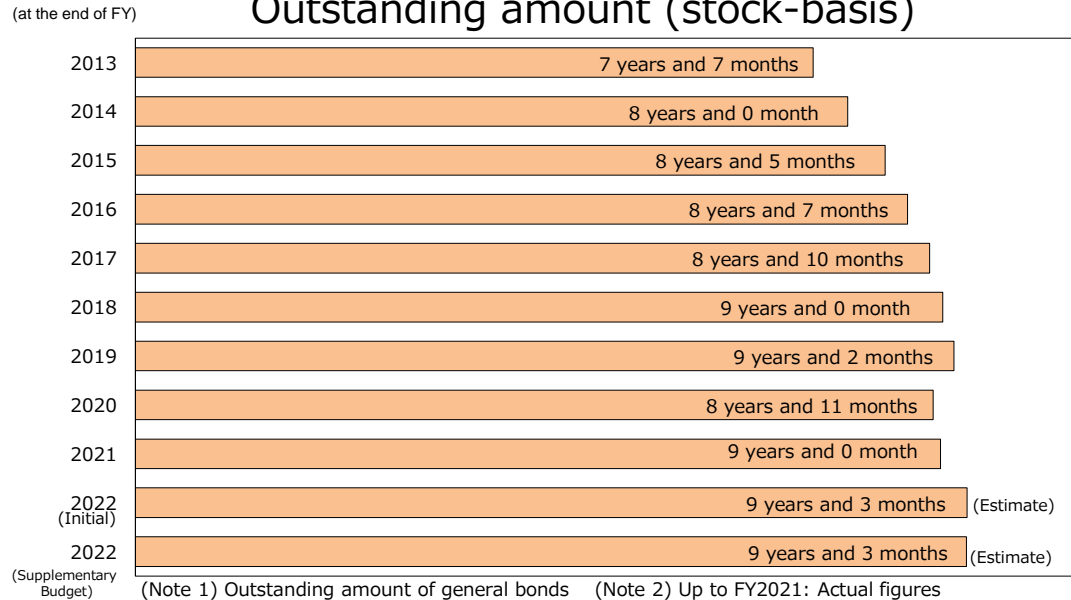
	FY2022		
		Changes from FY2021 (Supplementary Budget)	
40-Year	4.2	+0.6	
30-Year	10.8	—	
20-Year	14.4	—	
10-Year	32.4	+1.2	
5-Year	30.0	—	
2-Year	33.6	▲2.4	
TBs(6-Month, 1-Year)	60.4	▲13.6	
10-Year Inflation-Indexed	0.8	—	
Liquidity Enhancement Auction	12.0	+0.6	
<b>Total</b>	<b>198.6</b>	<b>▲13.6</b>	

# Weighted average maturity of JGB and JGB Yield Trends by Maturity

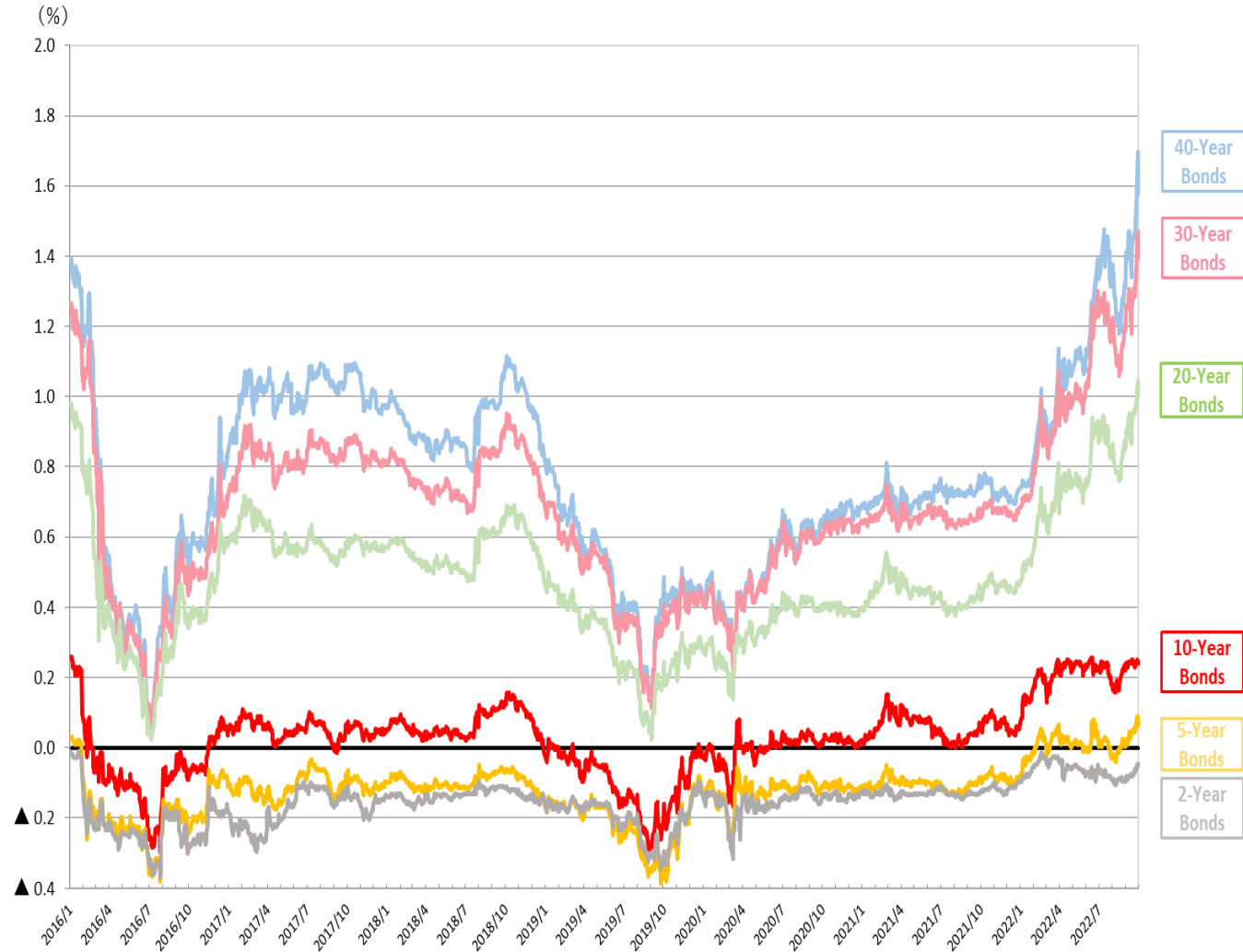
## Market issuance (flow-basis)



## Outstanding amount (stock-basis)



## JGB Yield Trends by Maturity

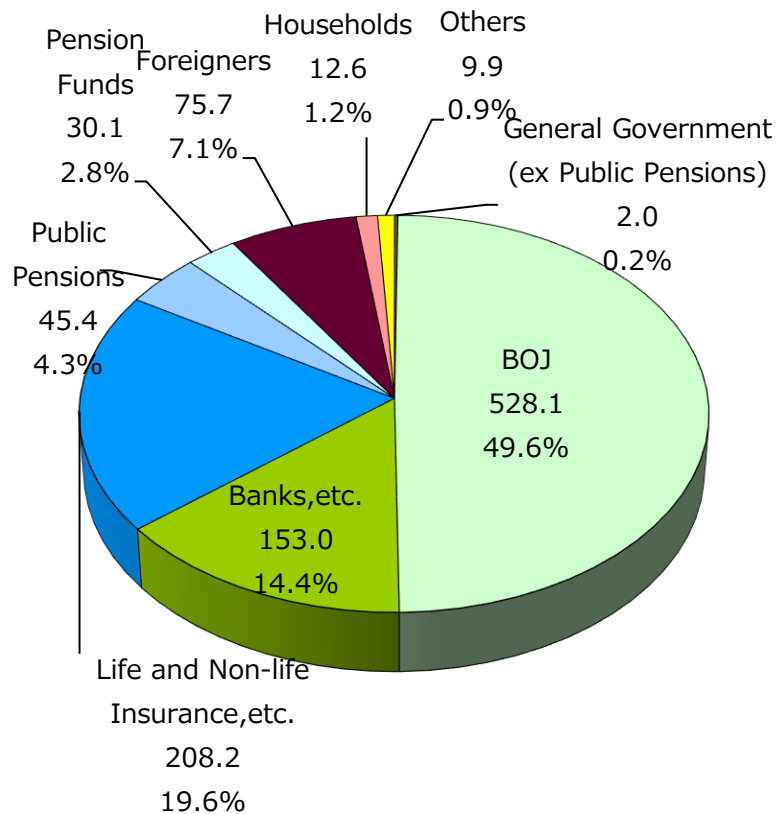


(Source) Japan Bond Trading Co.



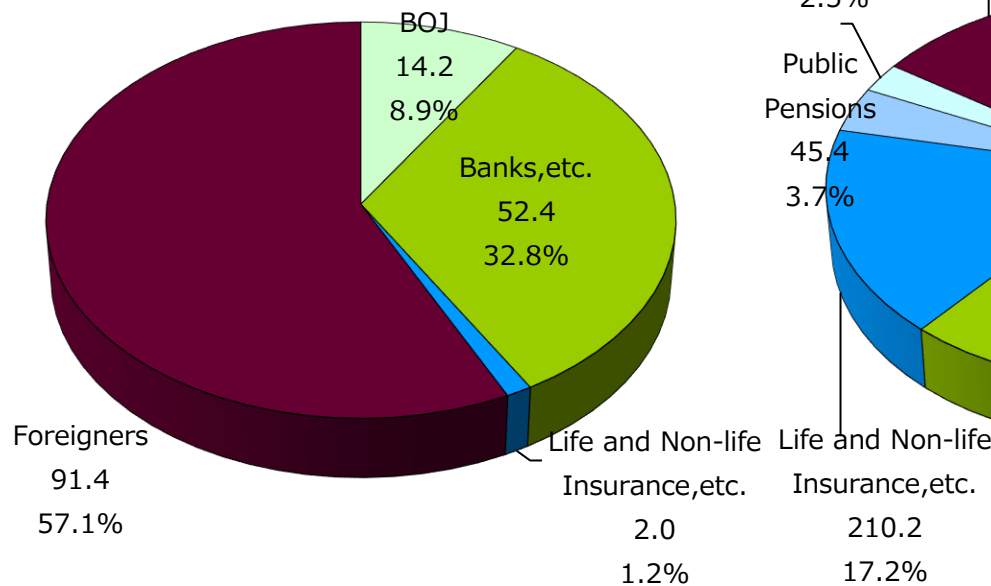
# Breakdown by JGB and T-Bill Holders (Jun. 2022, Preliminary Figures)

JGB Holders



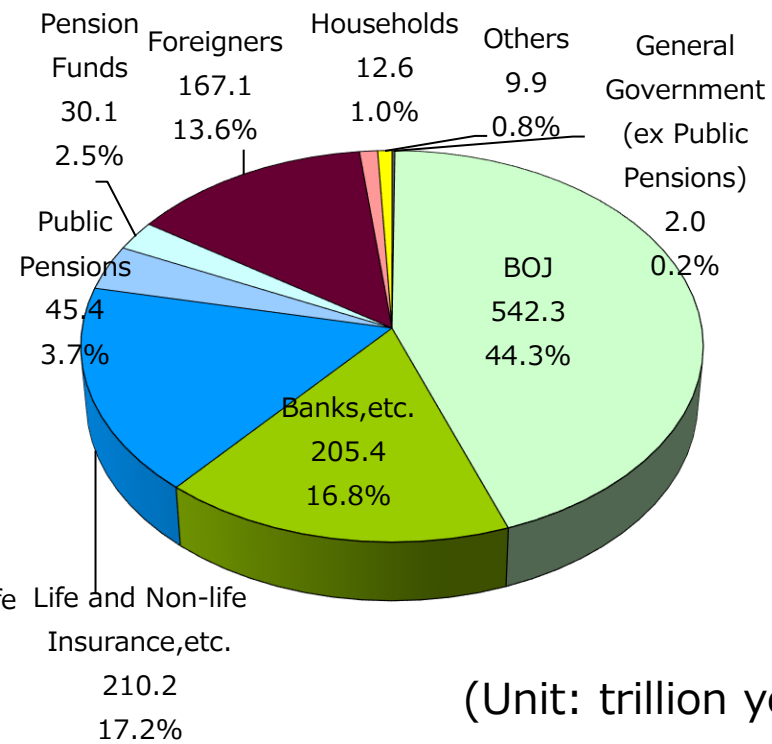
Total 1,065.0 trillion yen

T-Bill Holders



Total 160.0 trillion yen

JGB and T-Bill Holders



(Unit: trillion yen)

Total 1,225.0 trillion yen

(Source) Bank of Japan "Flow of Funds Accounts (Preliminary Figures)"

(Note1) "JGB" includes "FILP Bonds."

(Note2) "Banks, etc." includes "Japan Post Bank", "Securities investment trust" and "Securities companies."

(Note3) "Life and Non-life insurance, etc." includes "Japan Post Insurance."

# The 54th meeting of the Advisory Council on Government Debt Management (Jun.24,2021)

Provisional Translation

3. Consideration of the Debt Management Policy with an eye on the the post-COVID era.
  - (1) Correction of the Shortened Average Maturity of JGBs.
  - (2) Impact of the BOJ's Monetary Policy on the JGB Market.
  - (3) Maintenance and Improvement of JGB Market Liquidity and Functionality.
  - (4) Necessity of More Multifaceted Discussions.
    - ✓ There are a number of major changes in social conditions surrounding the JGB market which may affect the Debt Management Policy, such as global financial risk, natural disaster risk, geopolitical risk, cyber -attack, and development of financial technology including utilization of AI and big data.
    - ✓ Therefore, we will need to discuss and consider the Debt Management Policy from more multifaceted perspectives in the future bearing all these in mind.

# The first meeting of Study Group on Government Debt Management (Jun.13,2022)

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## Main Topics of Discussion regarding Debt Management Policy

- ( 1 ) Quantitative Analysis of Future Interest Payments on JGB  
(Cost-at-Risk (“CaR”) Analysis)
- ( 2 ) Analysis of Liquidity in the JGB Market
- ( 3 ) Infrastructure Development of the JGB Market  
(Including BCP Action)
- ( 4 ) Analysis of the Demand Trend and the Holding Structure of JGB

# Debt Management Policy

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## [ Basic Objectives ]

- 1. Implement Secure and Smooth Issuance  
of Japanese Government Bonds**
- 2. Minimize Medium- to Long- Term Financing Costs**

- For the Basic Objectives of Debt Management Policy, JGB issuance plan should be formulated in line with market trends and needs. At the same time, securing predictability and transparency is needed to reduce risk of JGB investment.
- As for the maturity composition of the amount, the MOF promotes careful dialogues with the market through such forums as the Meeting of JGB Market Special Participants(PDs) to minimize the impact on the market.

# Dialogue with market participants

- In order to secure stable financing and accurately implement policies to enhance JGB market liquidity, the MOF promotes the dialogue with market participants through various forums.

