

# Regulations and Market Function Japanese Government Bond Market

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# Central and Local Government Debt

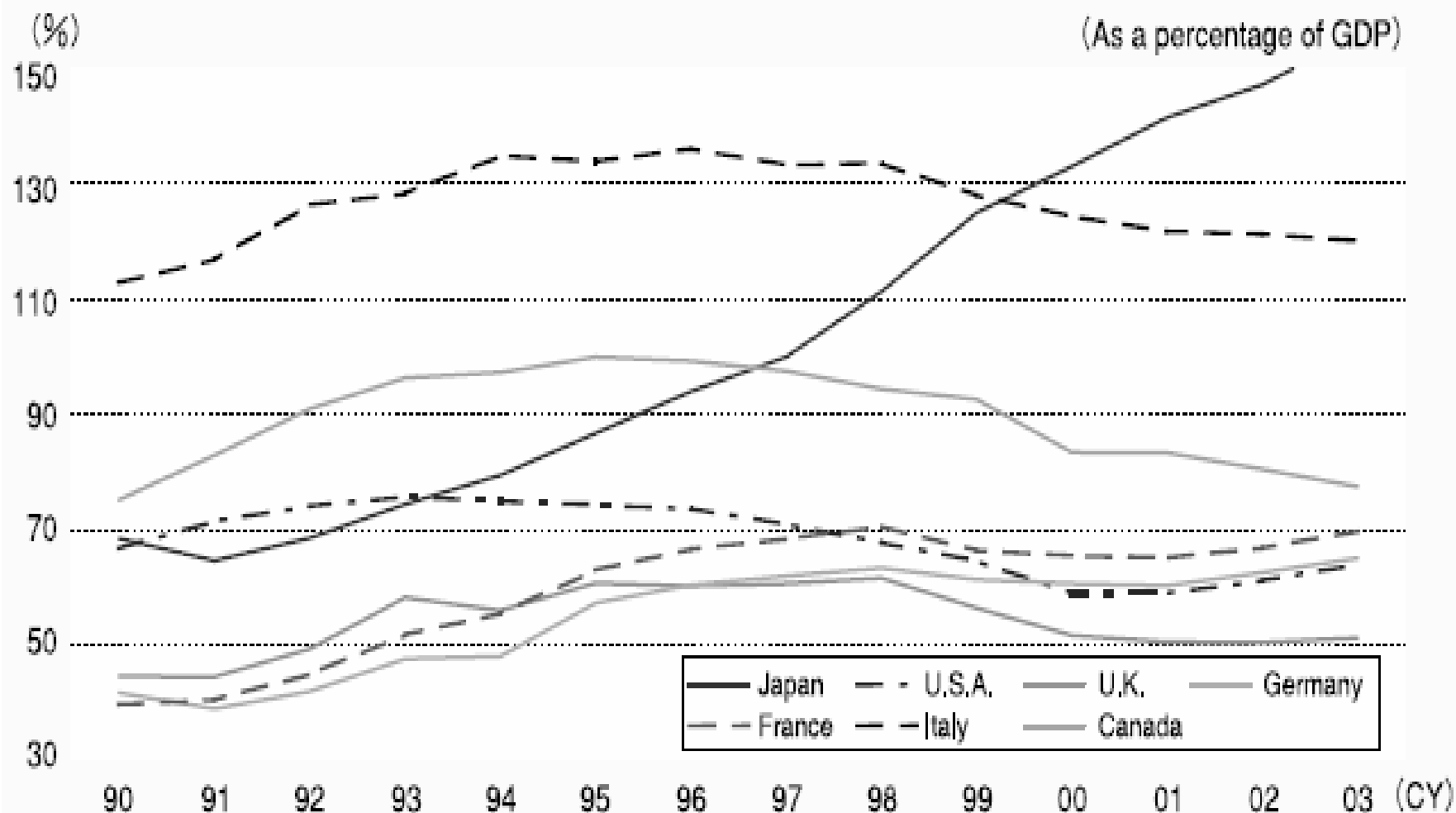
	<b>1994</b>	<b>1999</b>	<b>2002</b>	<b>2004</b>
<b>Central Gov.</b>	<b>269</b>	<b>449</b>	<b>557.8</b>	<b>598.0</b>
<b>Local Gov.</b>	<b>106</b>	<b>174</b>	<b>167.6</b>	<b>168.2</b>
<b>Ratio to GDP</b>	<b>74.8%</b>	<b>118.2%</b>	<b>144.3%</b>	<b>153.4%</b>

**1965 Central Government Debt was issued for the first time.**

**1966 Debt/GDP ratio 2.2%**

**1990 Debt/GDP ratio 37.0%**

# General Government Gross Debt (SNA Basis)



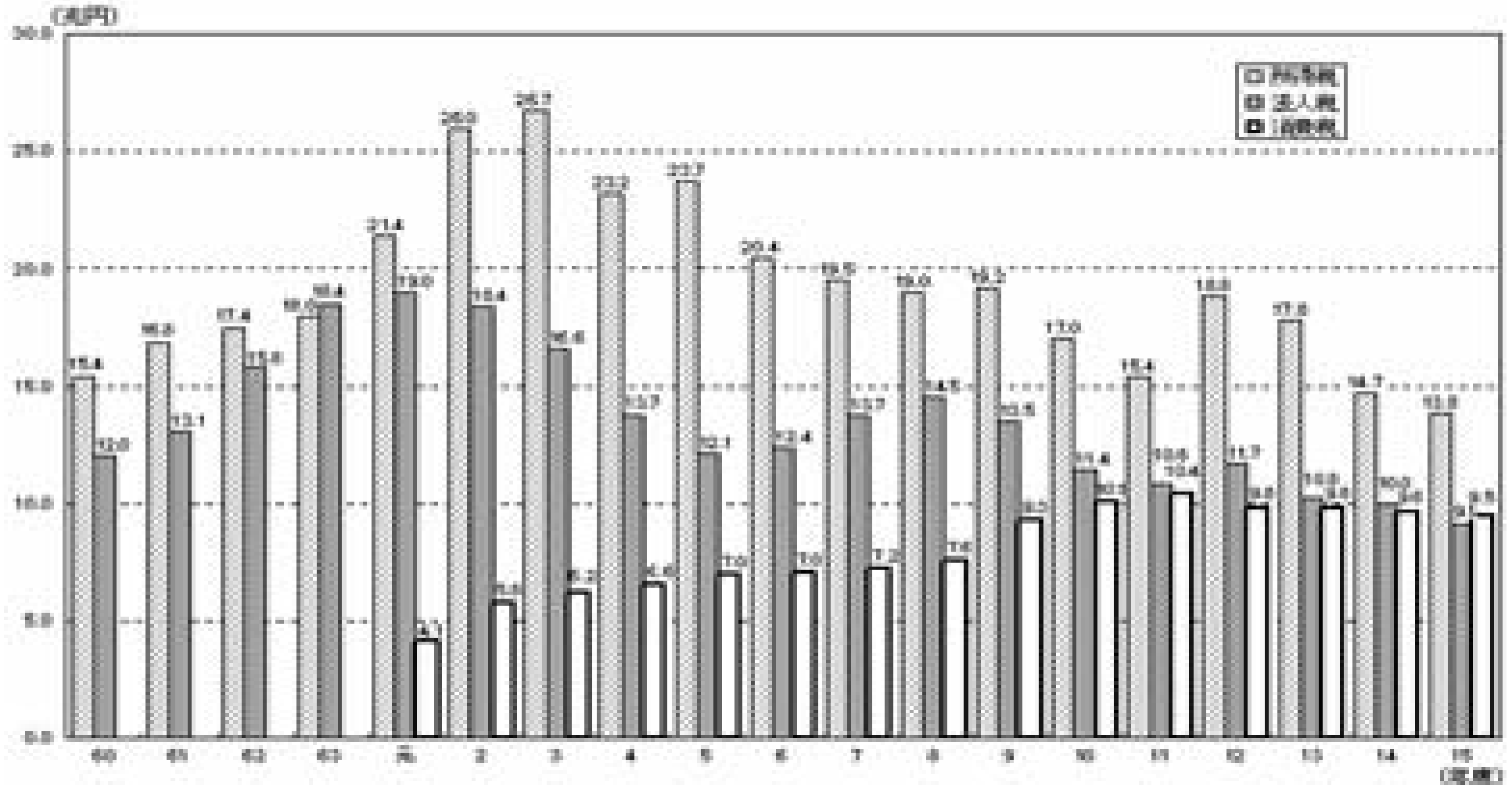
Source: OECD

# Growth rate of GDP and G/Y



# Changes in the Tax Revenue

国庫の主要税目の増減の割合



(注) 1. 平成13年度までは決算値、平成14年度は修正決算値、平成15年度は予備値による。  
 2. 平成13年度までの消費税分には特別会計分を含む。

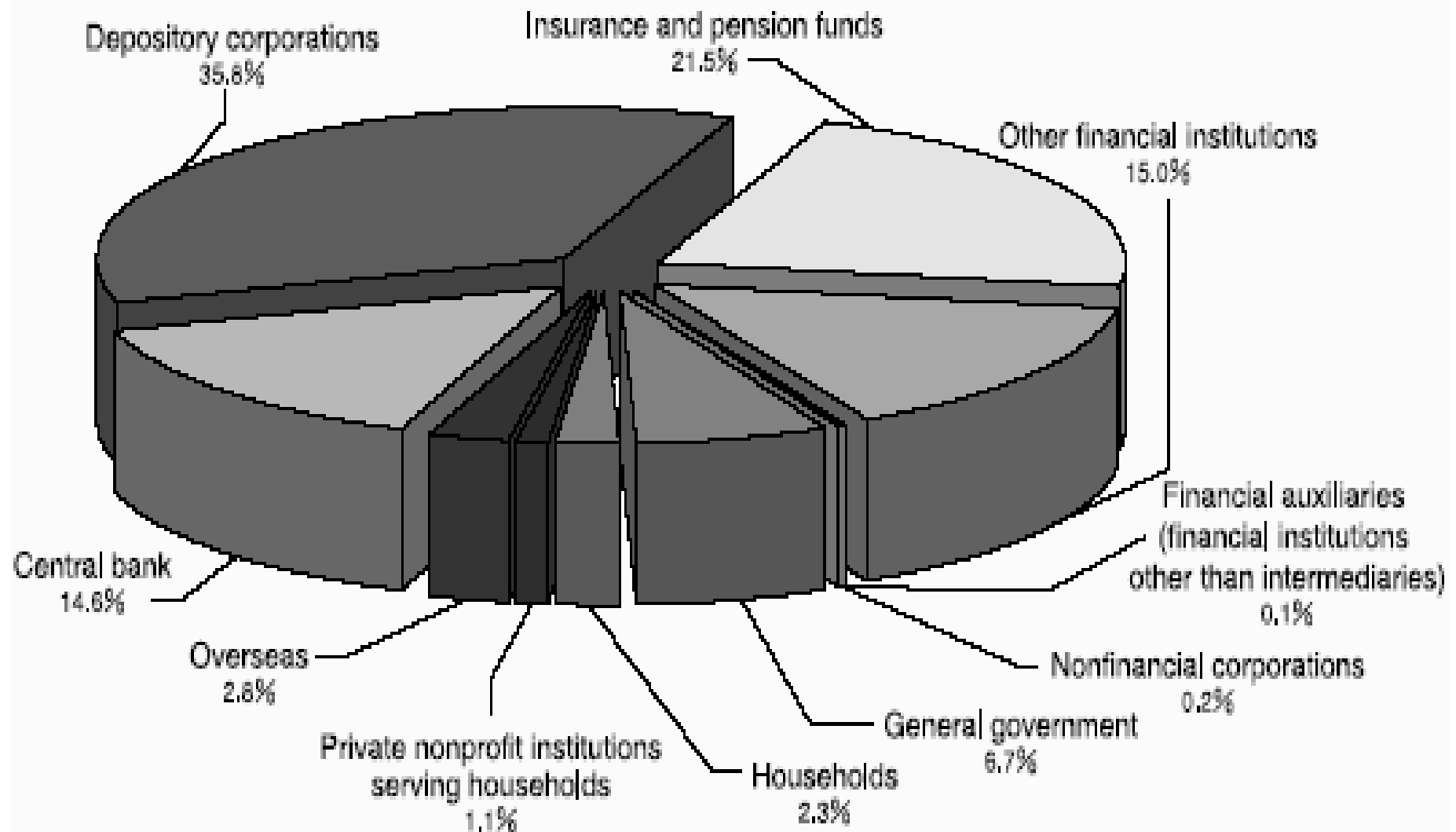
# Budget Expenditures (General Budget)

%	1955	1965	1975	1985	1995	2000	2001	2002	2003
<b>Social Welfare</b>	12.5	17.7	24.8	29.4	31.3	34.5	36.7	38.4	39.9
<b>Education</b>	14.5	16.3	16.7	14.9	13.6	13.6	13.7	14.1	13.6
<b>Military Pension</b>	10.3	5.7	4.8	5.7	3.9	3.0	2.8	2.7	2.5
<b>Defense</b>	16.4	10.3	8.4	9.6	10.6	10.3	10.2	10.4	10.4
<b>Public Works</b>	18.1	23.6	16.4	19.5	20.6	19.6	19.4	17.7	17.0
<b>ODA</b>	---	0.4	1.1	1.6	2.2	2.0	2.0	1.6	1.7
<b>Small Business</b>	----	0.7	0.8	0.7	0.4	0.4	0.4	0.4	0.4
<b>Energy</b>	----	----	----	1.9	1.5	1.3	1.3	1.2	1.2
<b>Food</b>	----	5.7	5.7	2.1	1.7	1.4	1.4	1.5	1.4
<b>Industry promotion</b>	----	0.4	0.4	---	2.9	0.3	0.3	0.3	0.3
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<b>Interest Payments for Government Bonds</b>	4.4	0.5	4.9	19.5	18.6	25.8	20.8	20.5	20.3
<b>Local Government</b>	13.5	19.6	20.7	16.5	18.6	17.0	20.4	20.9	20.9

# Securities' market excluding shares

	Size	Share (%)	
政府短期証券	496,034	5.9	Financial Bill
国債・財融債	4,226,435	49.9	Central government securities and "FILP" bonds
地方債	553,197	6.5	Local government securities
政府関係機関債	635,596	7.5	Public corporation securities
金融債	424,926	5.0	Bank debenture
事業債	545,756	6.4	Industrial securities
CP	175,170	2.1	Commercial Paper
投資信託受益証券	477,533	5.6	Investment trust beneficiary certificates
投資受益権	741,966	8.8	Trust beneficiary rights
債券流動化関連商品	190,951	2.3	Structured-financing instruments
抵当証券	5,218	0.1	Mortgage securities
合計	8472782	100	Total

# Sectoral Holdings of JGB(Sep 2003)



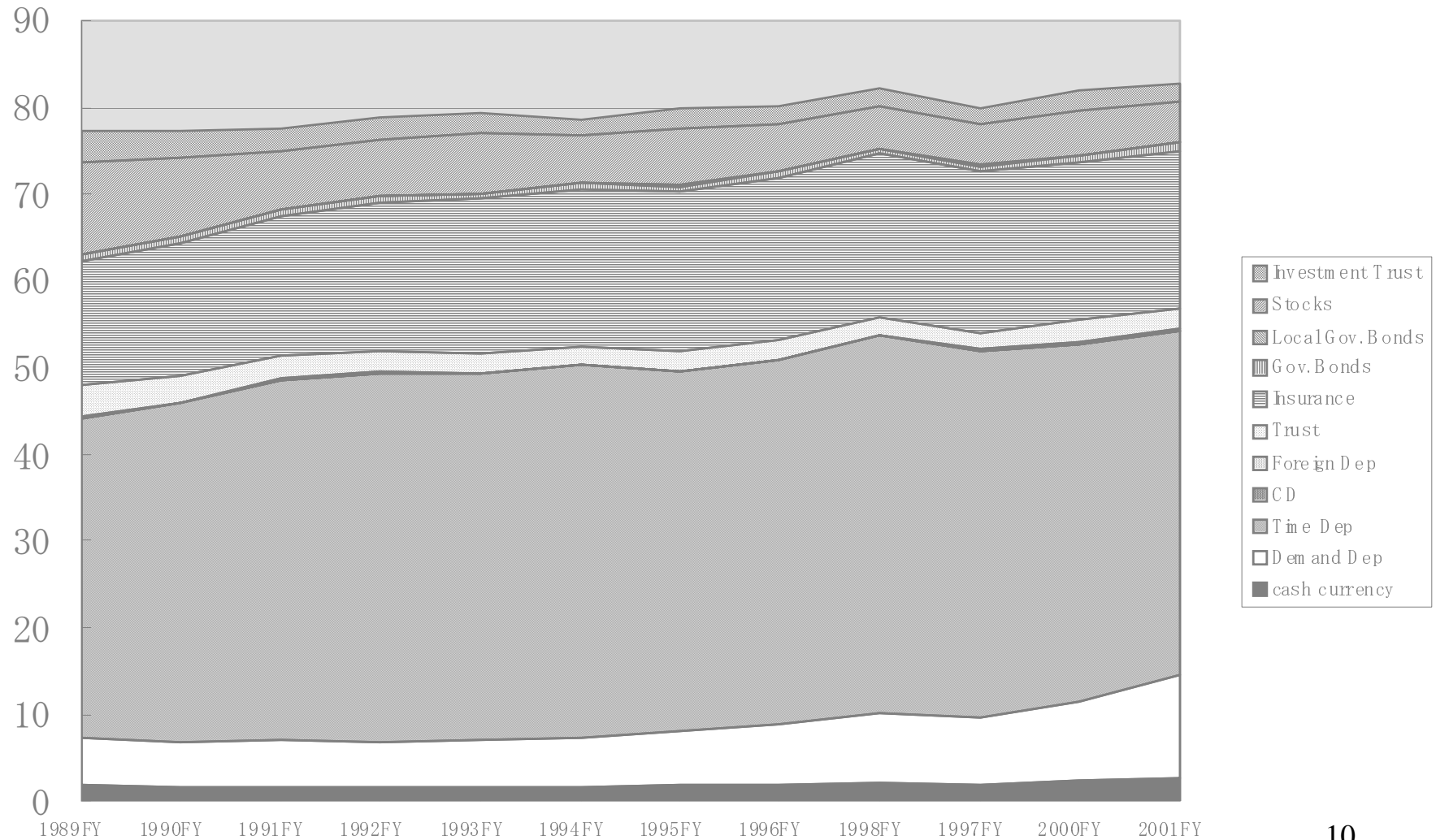
<Classification by Issuance Methods and Maturity>

(Billion yen)

	Planned Issuance for FY2003 Initial Budget (a)	Planned Issuance for FY2004 Initial Budget (b)	(b)-(a)
30-year Bonds	1,600.0	2,000.0	400.0
20-year Bonds	4,800.0	6,900.0	2,100.0
15-year Bonds	5,500.0	6,000.0	500.0
10-year Bonds	22,800.0	22,800.0	–
5-year Bonds	22,800.0	22,900.0	100.0
2-year Bonds	20,960.0	19,250.5	-1,709.5
Treasury Bills	34,170.9	34,170.9	–
Inflation-Indexed Bonds	100.0	600.0	500.0
<b>Total Amount in The Market (excluding Treasury Bills)</b>	112,730.9 (78,560.0)	114,621.4 (80,450.5)	1,890.5 (1,890.5)
Postal Savings	2,100.0	2,300.0	200.0
Bank of Japan	6,441.9	13,219.3	6,777.4
Fiscal Loan Fund	400.0	1,000.0	600.0
Fiscal Loan Fund Special Account Bonds (transitional measures)	18,550.0	29,600.0	11,050.0
Postal Savings	9,960.0	19,700.0	9,740.0
Pension Reserves	5,650.0	7,500.0	1,850.0
Postal Life Insurance	2,940.0	2,400.0	-540.0
<b>Total Amount in Public Sector</b>	27,491.9	46,119.3	18,627.4
<b>JGB for Individual Investors</b>	1,200.0	1,600.0	400.0
<b>TOTAL</b>	<b>141,422.8</b>	<b>162,340.7</b>	<b>20,917.9</b>

# Asset Allocation of Households

Very high share of Time Deposits and Insurance



# Share of Postal Savings in Japan

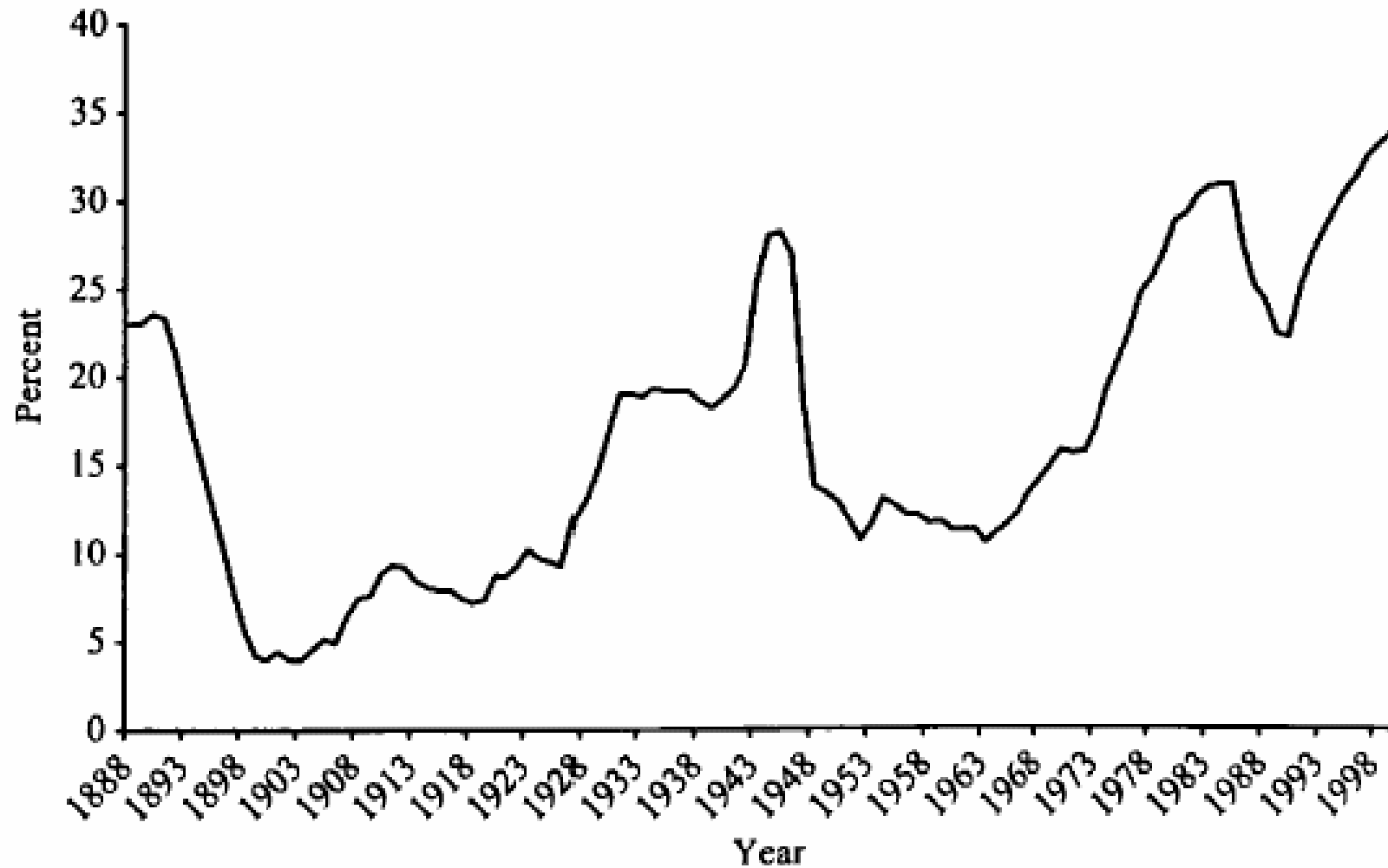


Figure 2.1. *Postal deposits as percentage of total deposits, 1888–1999.*

# Reasons for the Choice of Financial Institutions (convenience, health, branch network)

Table 9: Reasons why people choose specific financial institutions  
金融機関の選択理由, 2002年、日本銀行金融広報中央委員会

(1) Close and Convenience 利便性 80.4%	(2) Nationwide Branch Network 全国的な店舗展開 25.8%	(3) Various financial products are prepared 2.4%	(4) Rate of return is higher 2.9%	(5) Kindly consult with the customers 4.0%
(6) Healthy Financial Institution 安全な金融機関 40.0%	(7) Very friendly and kind atmosphere 8.3%	(8) TV commercial and other Advertisement 1.4%	(9) Not specific reasons 10.10%	

# Changes in the FILP System in 2001

## (1) Before 3/31, 2001



## (2) After 4/1, 2001

	Domestic		Overseas		Short-term Investment
	Bonds	Stocks	Bonds	Stocks	
<b>Postal Savings</b>	80%	5%	5%	5%	5%
<b>Public Pension Reserves</b>	68%	12%	7%	8%	5%

Public Corporation  
Government Banks  
Local Government

→

(i) Government Bonds  
(ii) Government Agency Bonds  
(iii) Government Guaranteed Bonds

# **Privatization of Post Office**

- 1, Important sales channel to sell JGB for Individual Investors**
- 2, Existing holdings of Government Bonds by Postal Savings  
(Approximately 80% of new funds are directed to JGB holdings by Postal Savings)**

# Syndicated Group in JGB Market

## 10 year JGB Market

	<b>Syndicated Group</b>	<b>Market Transaction</b>
<b>1966</b>	<b>100%</b>	
<b>1987</b>	<b>80%</b>	<b>20%</b>
<b>1988</b>	<b>60%</b>	<b>40%</b>
<b>2002</b>	<b>38%</b>	<b>62%</b>
<b>2003</b>	<b>20%</b>	<b>80%</b>

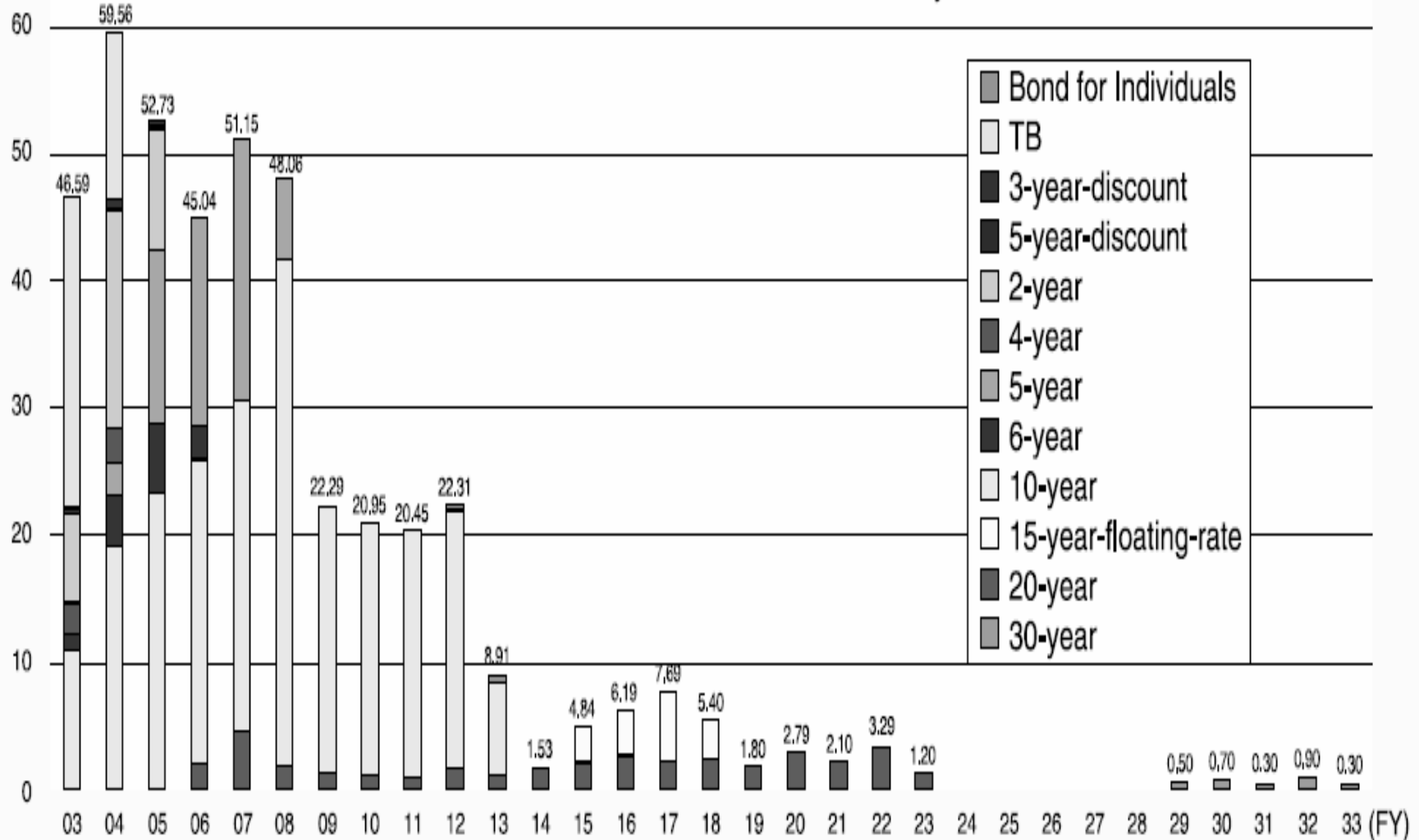
**Syndicated Group consists of banks, insurance  
and Securities companies (total 1302)**

## Time-to-maturity Structure of Outstanding JGB (September 2003)

(trillion yen)

70

Average remaining years to maturity:  
4 years and 11 months



# **Development of JGB Market**

- 1, Buy Backs (to smoothen, 2002/June)**
- 2, Interest rate Swaps, RTGS (2001/1), WI (2004)**
- 3, Floating Interest Bond (15 years, 2000/June)**
- 4, Strips Bonds (2003/Jan.) Re-opening (2001/March)**
- 5, JGB for Individual Investors (2003/March)**
- 6, Inflation Indexed Bonds (2003)**
- 7, Collection of Market Information, Transparency**
  - 7-1, JGB Market Participants' Meeting (2000/9)**  
**(24 top financial institutions) → Primary dealers**
  - 7-2, JGB Long Term Investors' Meeting**  
**(9 financial institutions) (2002/4)**
- 8, Public Debt Management Study Group Report**  
**(2003 by MOF Japan)**

# Debt Management

**1,Debt Management Office (DMO)**

**2,MOF (in Japan)**

**→ Japan's Case : DMO is in MOF but separate division**

**3,Central Bank (New Central Bank Law 1998)**

**→ Control Inflation (Price level target, Clear Objective)**

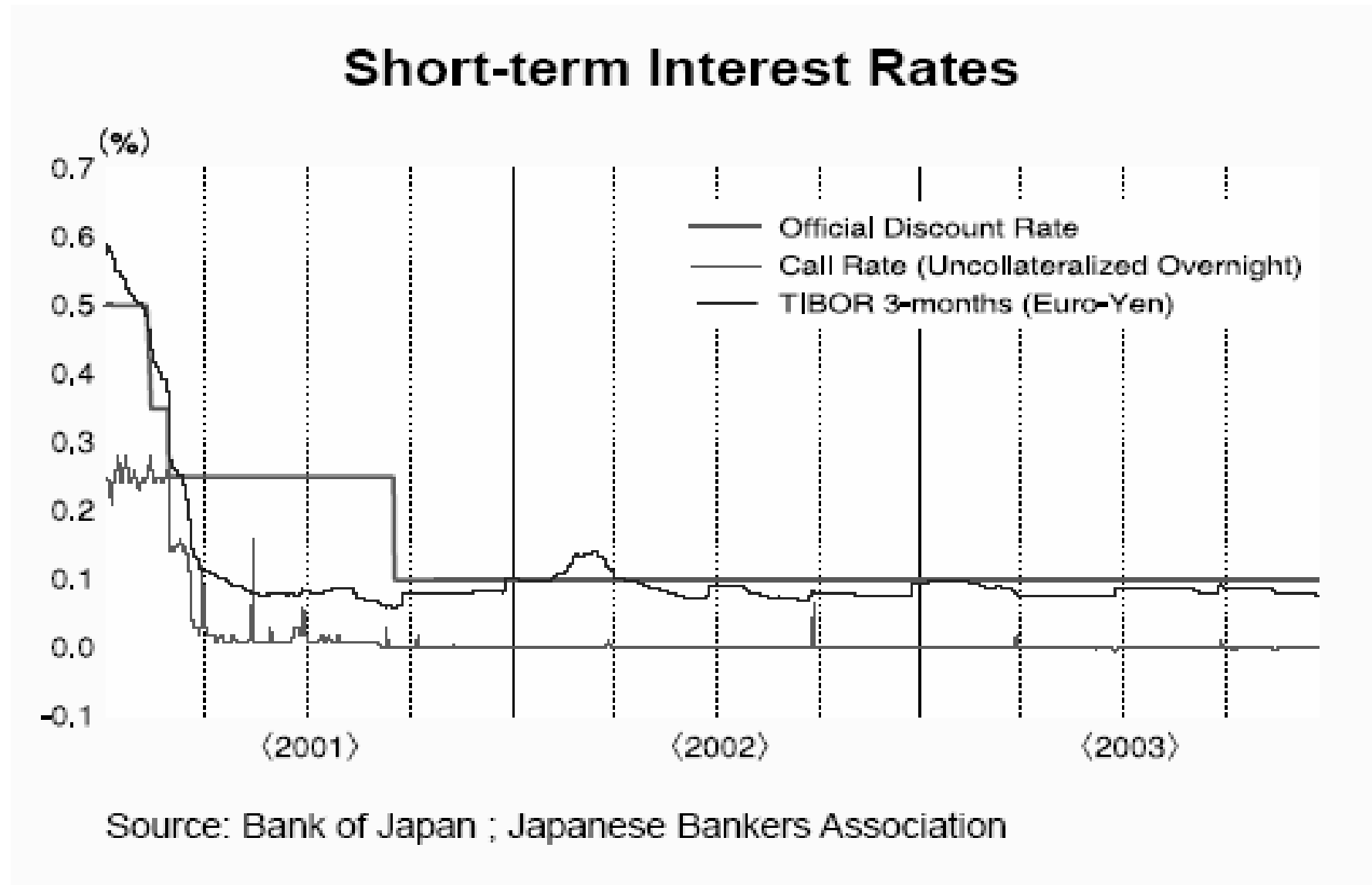
**→ Stability of the financial market (rising interest rate)**

**→Open Market Operations, Bank Supervision**

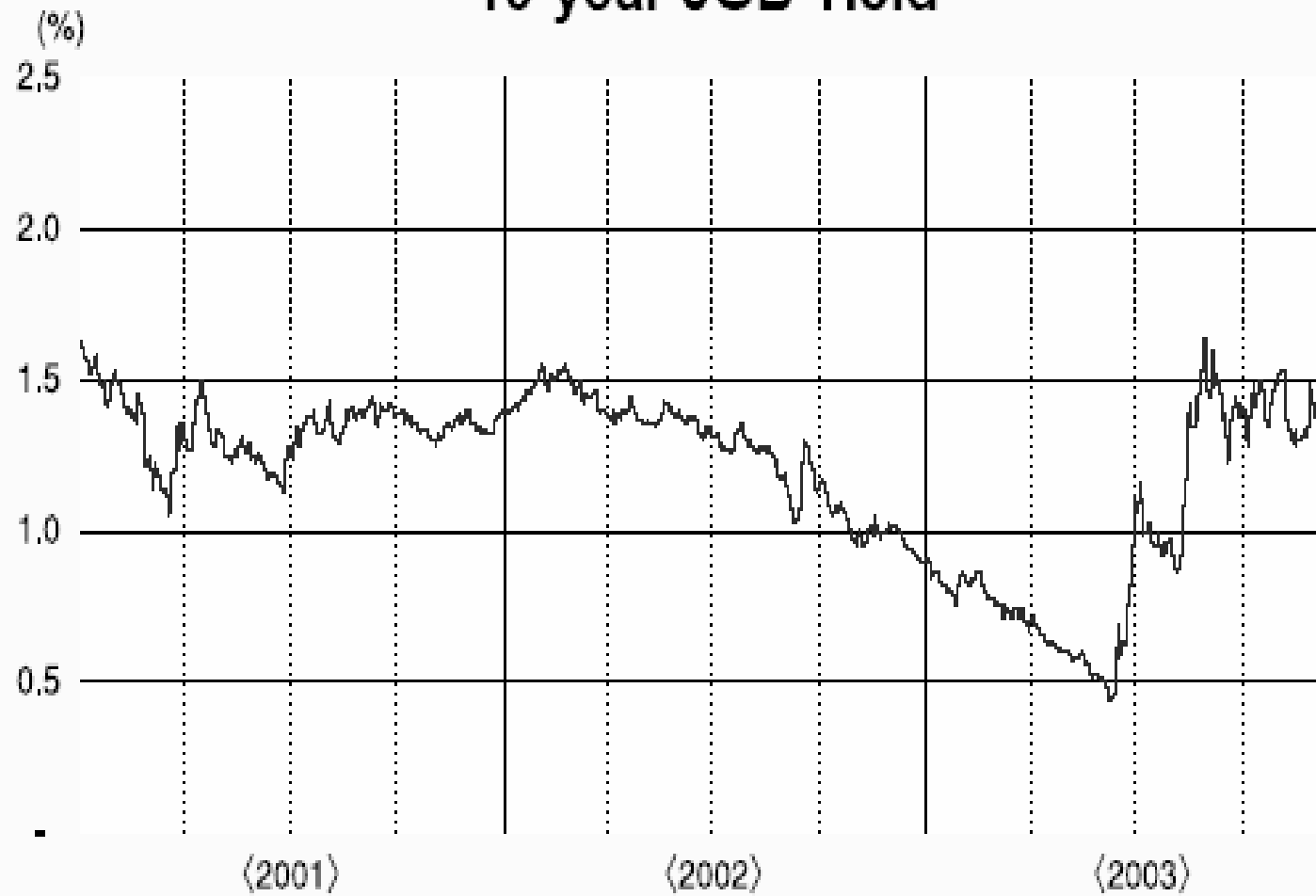
**© Rising Interest Rate in these weeks**

**(partly due to increase in stock price and bank loans)**

# Short term Interest Rates of Japan

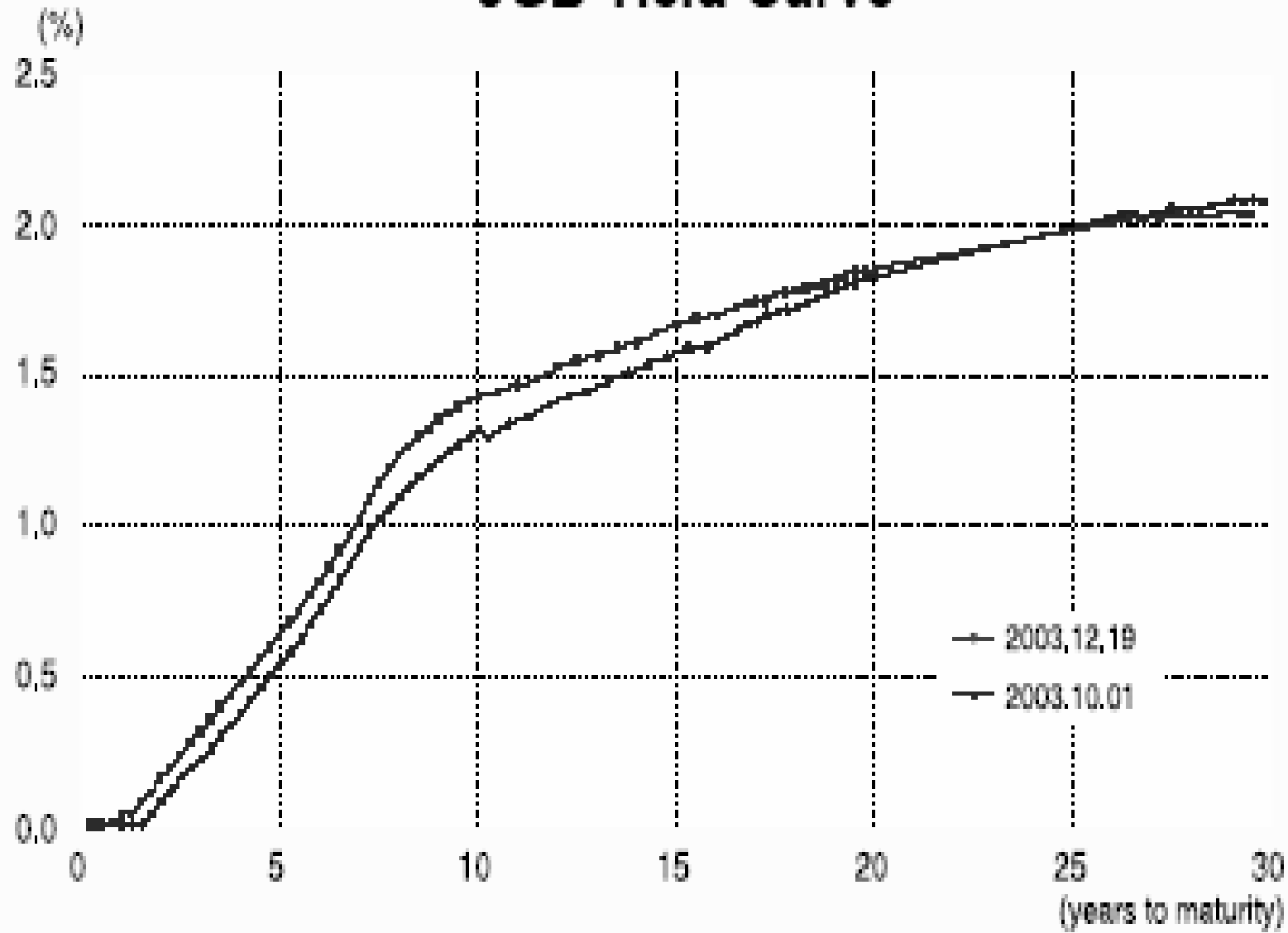


## 10-year JGB Yield



Source: Japan Bond Trading Co.

# JGB Yield Curve



# **Broadly Defined Government Debts**

## **1, Ordinary Government Bonds**

**(Marketable government bonds)**

## **2, Non-marketable Government Bonds**

## **3, Contingent Liabilities**

**(Explicit and Implicit**

**Government Guarantee)**

## **4, Debt of the State Owned Enterprises**

## **5, Local Government Debt**

**(Public Debt Management Policy Study Group,  
Report by MOF, Japan (2003))**

# **Various Kinds of Government Liabilities**

**(FY 2003.4-2004.3) (G=80trillion yen)**

<b>New Issues</b>	<b>36.4 (trillion yen)</b>
<b>Redemptions</b>	<b>74.9</b>
<b>FILP Bonds</b>	<b>30.0</b>
<b>Government Guaranteed Bonds</b>	<b>28.9</b>
<b>(Local Public Enterprises, Japan Deposit Insurance Corporation)</b>	
<b>Special Budget Borrowing</b>	<b>16.2</b>
<b>FB (short term bills)</b>	<b>48.2</b>
<b>Government Guaranteed Borrowing</b>	<b>19.0</b>