Chapter 4 Debt Management in Foreign Countries

1 Debt Management Policies in Foreign Countries

(1) Debt Management Policy Frameworks

In Japan, the basic objectives of the debt management policy are set as: (1) ensuring the smooth and secure issuance of Japanese Government Bonds and (2) minimizing medium- to long-term fundraising costs. In line with these objectives, the government carefully pays attention to market conditions and makes efforts to manage JGBs based on investor needs and market trends. Basically, foreign countries also take almost the same stance on their debt management policies, but they have their unique characteristics.

Further, the JGB Issuance Plan is established in line with annual budget formulation and an annual planned issuance amount for each maturity and other data are published in Japan but methods for publishing such data also vary from country to country. At the end of each fiscal year, Germany publishes the total government bond issue amount and its breakdown by maturity for the following fiscal year. This method is considered similar to that of Japan. On the other hand, the U.S. determines and publishes necessary issuance amounts not on a fiscal year basis but on a quarterly basis, complying with the debt limit specified by law. In addition, the timing of information disclosure during the period from the announcement of a planned issuance amount to an actual auction for the issue also varies (Figs. 2-39 and 2-40).

Fig. 2-39 Debt Management Policies

	Japan	U.S.	U.K.	Germany	France
Debt Management Office	Financial Bureau, Ministry of Finance	Department of the Treasury, Office of Debt Management Department of the Treasury, Bureau of the Fiscal Service	HM Treasury, UK Debt Management Office (DMO)	Bundes ministerium der Finanzen, Bundesrepublik Deutschland - Finanzagentur GmbH (German Finance Agency)	Ministère de l'Économie et des Finances, Direction générale du Trésor, Agence France Trésor (AFT)
The Objective of Debt Management Policy	・Ensuring stable smooth issuance of JGBs ・Minimizing medium-to-long term financing costs	・To finance government borrowing needs at the lowest cost over time ・To issue debt in a regular and predictable pattern	・To minimise, over the long term, the costs of meeting the government's financing needs, taking into account risk, while ensuring that debt management policy is consistent with the aims of monetary policy.	・To keep interest costs as low as possible across a number of years and market phases while limiting the interest rate risks resulting from the portfolio structure.	・Raising sufficient funds on the markets to finance the State by keeping the debt burden to taxpayers down to a minimum under optimum conditions of security.
Fiscal Year	April to March next year	October previous year to September	April to March next year	January to December	January to December
Issuance Plan	・Announcement of total JGB issuance amount for the next fiscal year, breakdowns by maturity, and frequency of issuance, etc. in late-December each year.	・Announcement of planned issuance amounts by maturity, auction schedule, etc. on a quarterly basis (February, May, August and November).	・Announcement of total issuance amount for the next fiscal year, breakdowns by maturity, etc. in March each year. ・Announcement of specific details of issues and auction schedule on a quarterly basis.	・Announcement of planned issuance amounts by maturity, auction schedule, New issue/Reopening, etc. for the next fiscal year in December each year. Thereafter, announcement of auction schedule again on a quarterly basis.	・Announcement of total issuance amount for the next fiscal year in December each year. ・Specific issuance amounts are determined at a meeting with PD held in the week preceding the issuance date.

(Source) Relevant countries' debt management authorities

Fig. 2-40 Announcement Time of Issuance Amount and Auction Date

	Japan	U.S.	U.K.	Germany	France
In previous fiscal year	Total issuance amount Issues Planned auction amount		Total issuance amount Scheduled auction date	Total issuance amount Issues Planned auction amount Scheduled auction date	Total issuance amount Scheduled auction date
In previous quarter	Scheduled auction date * Auction date of each month is announced 3 months before.	Total issuance amount (*2) Issues Planned auction amount Scheduled auction date	Issues Scheduled auction date (*3)	Planned auction amount (*1) Scheduled auction date (*3)	
Approximately one week before	Planned auction amount (*1)	Planned auction amount	Planned auction amount		Issues Planned auction amount

Note 1: As for issuance lots per auction announced in the previous fiscal year, the fixed amounts are announced one week before in Japan and again every quarter in Germany.
Note 2: Planned quarterly amounts financed from the market.
Note 3: Scheduled auction date is announced again every quarter.
(Source) Relevant countries' debt management authorities

(2) Bond Types and Issuance Methods

Methods of issuing government bonds adopted in various foreign countries are divided into two types: offering to the market through auctions or other means (marketable bonds) and offering to retail investors without going through the market (non-marketable bonds).

Marketable bonds are normally offered mainly through the public auction method which uses both competitive and noncompetitive auctions. As for competitive auctions, notable is the fact that the U.K., Germany and France employ the multiple price (conventional) method (☞①) for almost all maturities as is the case of Japan while the U.S. employs the single price (Dutch-style) (☞②) method for all maturities. In addition, the U.K. and France use the syndication method. Germany used the syndication method in 2020 for the first time in five years and did so in 2021 as well.

☞①Auction method by which each winning bidder purchases the security at one's bidding price (or yield).

☞②Auction method by which all winning bidders pay the lowest accepted bid price regardless of their original bid prices (or yields).

Fig. 2-41 Marketable Bond Types and Issuance Methods

	Japan	U.S.	U.K.	Germany	France
Short-term	3-month 6-month, 1-year (Note 2)	4-week, 8-week, 13-week, 26-week, 52-week, CMB (Note 3)	1-month, 3-month, 6-month, 12-month (Note 4)	3-month, 5-month, 6-month, 9-month, 11-month, 12-month	Less than or equal to 1-year
Medium-term	2-year, 5-year	2-year, 3-year, 5-year, 7-year	over 1 ~ 7-year	2-year, 5-year, 7-year (Note 5)	2 ~ 8.5-year
Long-term	10-year	10-year	over 7 ~15-year	10-year	over 8.5 ~ 50-year
Super Long-term	20-year, 30-year, 40-year	20-year, 30-year (Note 5)	over 15 ~ 55-year	15-year, 30-year (Note 5)	
Others	･Inflation-Indexed Bonds (10-year)	･Inflation-Indexed Bonds (5-year, 10-year, 30-year) ･Floating-Rate Bonds (2-year)	･Inflation-Indexed Bonds (5 ~ 55-year) ･Green Bonds (12-year, 32-year) (Note 6)	･Inflation-Indexed Bonds (5-year, 10-year, 30-year) ･Green Bonds (5-year, 10-year, 30-year) (Note 7)	･Inflation-Indexed Bonds (2 ~ 30-year) ･Green Bonds (18 ~ 23-year) (Note 8)
Issuance Method	Multiple price (conventional) method (40-year, Inflation- Indexed Bonds: single price/yield (Dutch-style) method)	Single price (Dutch-style) method	Multiple price (conventional) method (Inflation-Indexed Bonds: single price (Dutch-style) method) (Note 9)	Multiple price (conventional) method (Note 9)	Multiple price (conventional) method (Note 9)

Note 1: As of March 2022
Note 2: 3-month issues are limited to Financing Bills.
Note 3: CMBs (Cash Management Bills) are issued according to short-term cash flow needs.
Note 4: 12-month issues are institutionally made available for issuance but have never been issued.
Note 5: The U.S. issued a 20-year issue in May 2020 for the first time in 34 years since 1986. Germany issued 7-year and 15-year issues in May 2020 for the first time ever.
Note 6: The U.K. placed two Green Bond issues: a 12-year issue worth 10 billion pounds in September 2021 and a 32-year issue worth 6.1 billion pounds in October 2021.
Note 7: Germany placed four Green Bond issues: a 10-year issue worth 8 billion euros (including reopening) in September 2020, a 5-year issue worth 5 billion euros in November 2020, a 30-year issue worth 6 billion euros in May 2021 and a 10-year issue worth 6.5 billion euros (including reopening) in September 2021.
Note 8: France placed two Green Bond issues: a 22-year issue worth 30.94 billion euros (including reopening) in January 2017 and a 23-year issue worth 14.19billion euros (including reopening) in March 2021.
Note 9: The U.K., Germany and France use syndication for issuing some bonds.
(Source) Relevant countries' debt management authorities

Representative non-marketable bonds are bonds for holdings only by households and other retail investors (savings-type bonds), issued in Japan, the U.S. and the U.K. The U.K. features unique non-marketable bonds, including Premium Bonds that offer a monthly prize draw instead of earning interest, as well as Green Savings Bonds (fixed-interest 3-year bonds). Germany and France issued government bonds for retail investors in the past but have discontinued the issuance.

Ref: Chapter 1 1 (3) B “JGBs and sales system for Retail Investors” (P43)

The U.K. and France are characterized by issuing coupon-bearing marketable government bonds with flexible maturity setting in rough ranges instead of setting specific maturities. The U.S. issues a large amount of non-marketable bonds intended for government accounts including government entities and pension funds, which account for over 20% of its entire government debt outstanding.

(Reference) Green Bonds

Green Bonds in Fig. 2-41 are issued by business corporations, local governments and other entities to raise funds for renewable energy and other projects that contribute to resolving global warming and other environmental problems. The global Green Bond market, including Japanese issues, has grown at the initiative of the private sector.

Government Green Bonds have been issued in 22 countries (as of March 2022), including France and other European countries, since Poland became the first country to issue such bonds in 2016. France initiated a government Green Bond issue worth 7 billion euros in January 2017 and has reopened the issue multiple times annually. Its balance of outstanding government Green Bonds was the highest in the world. No government Green Bonds have been issued in the U.S., China and Japan as of March 2022.

Regarding government Green Bonds, measures should be taken to prevent such debt issue from being criticized as "greenwashing" If government Green Bonds are to be issued separately from other government bonds, it will have to be cautiously considered that their liquidity could decline and cause a rise in fundraising costs.

(3) Liquidity Maintenance/Enhancement Measures

Countries use various methods to maintain and enhance liquidity of government bond markets. Japan annually reopens four issues each of 20- and 30-Year JGBs and one issue of 40-Year and Inflation-Indexed JGBs in principle. It also reopens four 10-Year JGB issues annually unless yields fluctuate wildly (the gap between the market yield and the coupon on a new issue exceeds 30 basis points). Japan thus tries to maintain and enhance liquidity by securing a sufficient outstanding value for each issue. Through liquidity enhancement auctions, Japan also reopens issues that have structural liquidity shortages or temporary liquidity shortages caused by expanding demand.

Among foreign countries, the U.S. and Germany have adopted reopening for on-the-run issues (excluding 7-year or shorter issues in the U.S.) in principle. In the U.K. and France, the debt management authorities discretionarily reopen any issues whether they are on- or off-the-run (Fig. 2-42).

In Germany, meanwhile, the authority reserves part of each debt issue and gradually sells such reserves or uses them for the repo market in consideration of secondary market conditions.

Fig. 2-42 Reopening Issuances

	Japan	U.S.	U.K.	Germany	France
Reopening	・5-year (Note 1) ・10-year (Note 2) ・20-year ・30-year ・40-year ・Inflation-Indexed Bonds (10-year)	・10-year ・20-year ・30-year ・Floating-Rate Bonds (2-year) ・Inflation-Indexed Bonds (5-year, 10-year, 30-year)	・Medium-term (over 1 ~ 7-year) ・Long-term (over 7 ~ 15-year) ・Super Long-term (over 15 ~ 55-year) ・Inflation-Indexed Bonds (5 ~ 55-year)	・2-year ・5-year ・7-year ・10-year (note 3) ・15-year ・30-year ・Inflation-Indexed Bonds (5-year, 10-year, 30-year)	・Medium-term (2 ~ 8.5-year) ・Long-term, Super Long-term (over 8.5 ~ 50-year) (Note 3) ・Inflation-Indexed Bonds (2 ~ 30-year)
Without reopening	・2-year	・2-year ・3-year ・5-year ・7-year	–	–	–

Note 1: Reopening issuance only in case nominal coupon and interest payment date are the same as that of the previous issue.
Note 2: "Reopening method in principle" except in case of significant change in market environments.
Note 3: Green Bonds are included.
(Source) Relevant countries' debt management authorities

(4) Primary Dealer System

Primary dealers (PDs) originally referred to government-certified dealers in the U.S. Candidates for PD designation are examined beforehand for their market-making capabilities, financial conditions, government securities auction participation records, etc. Companies designated as PDs are entitled to directly trade with the Federal Reserve Bank of New York when it conducts open market operations and to participate in periodic meetings with the authorities for the exchange of opinions. At the same time, they are obliged to bid for government bonds in auctions, to conduct market-making services and to provide information to the authorities. In this way, companies with special qualifications and responsibilities in regard to government bond markets are designated as PDs to ensure that government bond market liquidity, efficiency and stability are maintained and improved. Such a system is generally called the PD system.

Nowadays, various countries have similar PD systems, including Japan's JGB Market Special Participant Scheme. But PDs' responsibilities and qualifications vary from country to country as shown below (Fig. 2-43).

Fig. 2-43 Primary Dealer System

		Japan	U.S.	U.K.	Germany (Note 1)	France
Name		JGB Market Special Participants	Primary Dealers	Gilt-edged Market Makers (GEMMs)	Bietergruppe Bundesemissionen (Bund Issues Auction Group)	Spécialistes en Valeurs du Trésor (SVT)
Introduction time		2004	1960	1986	1990	1987
Number of members (as of April 2022)		20 companies	25 companies	17 companies	32 companies	15 companies
Responsibilities	Bidding	・Participation in all auctions ・At least 100/n% of the planned issuance amount * "n" refers to the number of JGB Market Special Participants.	・Participation in all auctions ・Total planned issuance amount/the number of PDs	・Participation in all auctions ・5% or more of total issuance amount over a rolling 6-month period	—	・Participation in all auctions
	Purchasing	<Short-term> 0.5% or more of total planned issuance amount in auctions for the preceding two quarters. <Excluding Short-term> 1% or more of the said amount in auctions for the preceding two quarters.	—	2% or more of total issuance amount over a rolling 6-month period	0.05% or more of total issuance amount for a year	2% or more of total issuance amount of each sector (short-term, medium-term, long-term and super long-term, and inflation-indexed bonds) for the preceding year (Note 2)
	Market making	Providing sufficient liquidity to the JGB secondary market	Maintain a share of Treasury market making activity of at least 0.25 percent.	Having a 2% or more share in the secondary market	—	Having a 2% or more share in the secondary market for the preceding year
	Information provision	Report to the MOF	Report to the New York Fed	Report to the DMO	—	Report to the AFT
Qualifications	Exclusive participation in auction	・Non-Price Competitive Auction I (Up to 20% of total issuance amount) ・Non-Price Competitive Auction II (Up to 10% of total amounts of bids accepted in the competitive auction and Non-Price Competitive Auction I) ・Liquidity Enhancement Auction ・Buy-back Auctions, etc.	—	・Competitive Auctions ・Buy-back Auctions ・Syndication, etc.	・Competitive Auctions ・Non-Competitive Auctions ・Buy-back Auctions, etc.	・Competitive Auctions ・Non-Competitive Auctions (Up to 25% of amounts of bids accepted in the competitive auction) ・Syndication, etc.
	Regular meeting, etc.	・Meeting with the MOF (About 5 times a year)	・Meeting with the New York Fed (annually) ・Meeting with U.S. Department of the Treasury (quarterly)	・Meeting with the HM Treasury (annually) ・Meeting with the DMO (quarterly)	—	・Meeting with the AFT (periodically)

Note 1: Germany's "Bund Issues Auction Group" is similar to the primary dealer system in other countries in that only the group members are allowed to participate in government debt auctions. However, the only required qualification for a Bund Issues Auction Group member is a financial institution based in the European Union, and each member, though required to purchase a certain part of each issue, is free from any obligation to make bids in auctions or have consultations with the authorities. Therefore, the German group is viewed as different from the PD group in other countries.

Note 2: Conditions other than those in the table for France's bidding responsibilities include "2% or more of the total issuance amount over the last one year for three of four sectors (short-term, medium-term, long-term and super long-term, and inflation-indexed bonds) and the average for the four sectors at 3% or more of the total issuance amount over the last one year."

(Source) Relevant countries' debt management authorities