Daiwa Securities

Public Finance Watch

FICC Research Dept

FY24 JGB issuance plan, draft budget, timing for issuing CT bonds

- MOF plans to issue Y1.7tn in CT bonds with decisions on maturities/issuance timing expected around Mar; likely options are one issuance (Apr-Jun) or two (Apr-Jun + from Jul)
- Calendar-based JGB market issuance plan cut by almost Y20tn; flow-based avg maturity has lengthened to about same level as before coronavirus
- Draft budget supports public sector wage hikes; goal of returning spending to normal remains difficult due to many issues other than coronavirus; breaking from 30 years of deflation seen as essential

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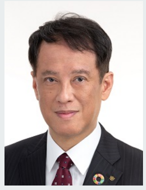


The FY24 draft budget and JGB issuance plan were set on 22 December.

MOF is planning to issue Y1.7tn in closely-watched Japan Climate Transition Bond (CT bonds) between April 2024 and March 2025. The issuance timing and maturities are expected to be determined around March 2024. At this juncture, the most likely options are to issue the entire amount at one time in Apr-Jun or conduct two issuances, specifically in Apr-Jun and from July.

The JGB issuance plan includes an almost Y20tn decrease for the calendar-based JGB market issuance due in part to a big decrease for refunding bonds. The flow-based average maturity has lengthened to about the same level as that before the coronavirus outbreak. We expect a slowing effect for interest expense growth, even if yields rise.

The draft budget realizes support for public sector wage increases. The policies of the Kishida administration have consistently pursued the goal of breaking Japan free from 30 years of deflation. The goal of returning spending to normal involves reducing the contingency reserves from Y5.0tn to Y1.0tn. However, there are many other issues that need to be addressed besides the coronavirus and the scale of expenditures has not returned to pre-coronavirus levels. Overcoming 30 years of deflation is essential for achieving fiscal consolidation.

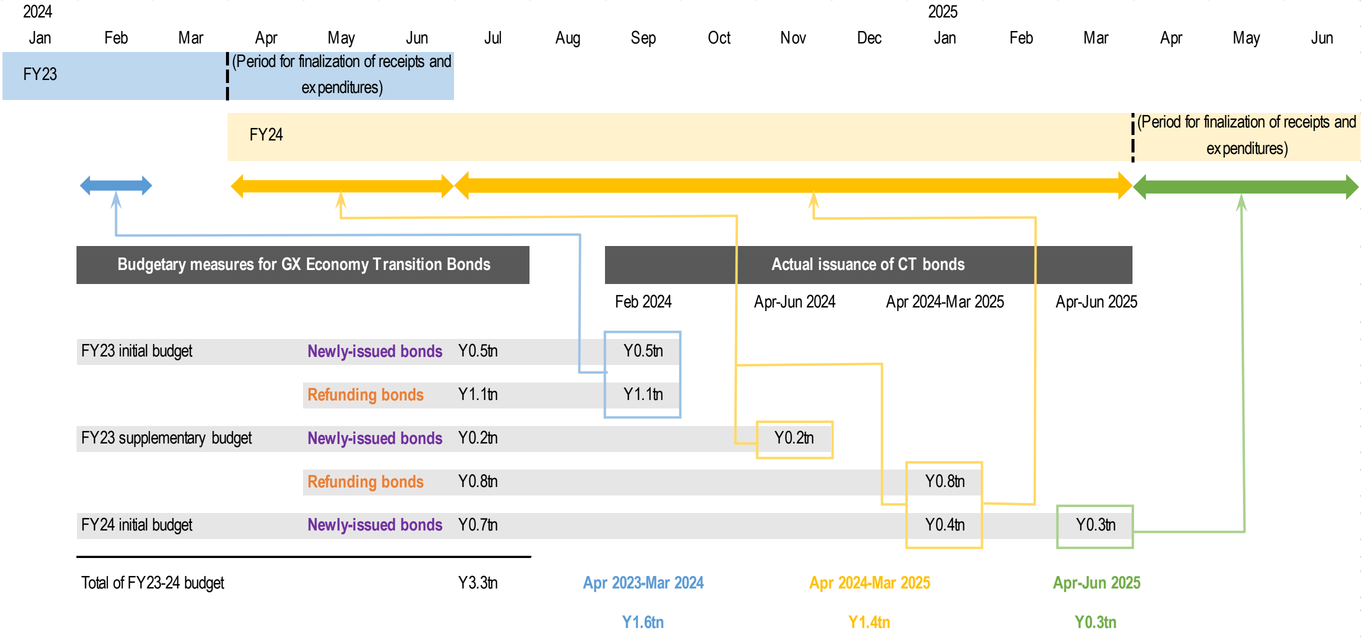
Issuance of Y1.7tn in CT bonds; likely options are one issuance (Apr-Jun) or two (Apr-Jun + from Jul)

Calendar-based issuance of CT bonds in FY24 (Apr 2024 to Mar 2025) is set at Y1.7tn (Chart 2). The issuance timing and maturities are still undetermined. First, Y0.8tn each of 5-year and 10-year bonds will be issued in February 2024 as the initial bonds. Based on the results, decisions will be made in March after holding discussions at the Meeting of JGB Investors and the Meeting of JGB Market Special Participants.

Strictly speaking, not all GX Economy Transition Bonds will be issued as CT bonds. This is because administrative and interest expenses are not included in how the CT bonds are used. However, in FY23-24, there are still a few uncovered expenses and it is likely that almost all of the GX Economy Transition Bonds will be issued as CT bonds.

The timing for issuing CT bonds can be predicted to some extent depending on whether the GX Economy Transition Bonds, for which budgetary measures were taken, are new issuance or refunding bonds (Chart 1). Between April 2024 and March 2025, the most likely options are just one issuance in Apr-Jun or two issuances, specifically in Apr-Jun and from July.

Chart 1: Budgetary Measures for GX Economy Transition Bonds and Anticipated Timing for CT Bond Issuance



Source: MOF; compiled by Daiwa.

The initial budget for FY23 included Y1.6tn in GX Economy Transition Bonds, consisting of newly issued and refunding bonds. This Y1.6tn in CT bonds will be issued in February 2024.

The FY23 supplementary budget added Y1.0tn in GX Economy Transition Bonds. Of that amount, Y0.2tn are newly issued bonds, so they must be issued by the end of the FY23 period for the finalization of receipts and expenditures (Apr-Jun 2024). That is, in FY24, MOF must issue Y0.2tn in CT bonds in Apr-Jun.

Of the Y1.0tn in GX Economy Transition Bonds added in the FY23 supplementary budget, the remaining Y0.8tn are refunding bonds, so they can be issued at any time in FY24. The Y0.7tn in GX Economy Transition Bonds in the initial FY24 budget are all newly issued bonds. Of that amount, Y0.4tn is likely to be issued by March 2025. There is the option to issue the sum of both (Y0.8tn + Y0.4tn = Y1.2tn) along with Y0.2tn in Apr-Jun 2024 for the entire amount. Another option is to issue part of the amount, specifically the Y0.2tn amount in Apr-Jun and then issue the remainder separately at some time from July. Discussions will be held in March to determine which option is better.

Of the Y0.7tn in GX Economy Transition Bonds included in the initial FY24 budget, the remaining Y0.3tn are also newly issued bonds. This issuance is currently scheduled for the FY24 period for the finalization of receipts and expenditures (Apr-Jun 2025).

A supplementary budget for FY24 may be compiled and the issuance of GX Economy Transition Bonds could increase. In that case, the timing for the CT Bond issuance, maturities, and amounts would be reexamined.

JGB issuance plan lengthens average maturity

The amount of refunding bonds in the FY24 JGB issuance plan is Y22.0tn less versus the initial plan for FY23. As a result, calendar-based market issuance also declined by Y19.3tn.

Bidding for 20-year bonds has been weak, so the issuance of this maturity will be cut (by Y0.2tn/auction) a bit earlier than that for other maturities, from January 2024. From FY24, issuance amounts per auction will be reduced by Y0.1tn for the 10-year bond, Y0.2tn for the 5-year bond, and Y0.3tn for each the 2-year bond and 1-year TB, with larger reductions for the shorter maturities. There will be no issuance of 6-month T-bills.

Chart 2: FY24 JGB Issuance Plan

＜Breakdown by Legal Grounds＞

(Y tn)	2023 Initial (a)	2023 Total of initial budget and extra budget (b)	2024 Initial (c)	(c)-(a)	(c)-(b)
Newly-issued bonds	35.6	44.5	34.9	-0.7	-9.5
Reconstruction bonds	0.1	0.0	0.1	0.0	0.1
GX Economy Transition Bonds	0.5	1.5	0.7	0.2	-0.9
Children special bonds	0.0	0.0	0.2	0.2	0.2
FILP bonds	12.0	5.0	10.0	-2.0	5.0
Refunding bonds	157.6	155.1	135.5	-22.0	-19.6
Total	205.8	206.1	181.5	-24.3	-24.6

＜Breakdown by Financing Methods＞

(Y tn)	2023 Initial (a)	2023 Total of initial budget and extra budget (b)	2023 After revision in Dec (c)	(c)-(b)	2024 Initial (d)	(d)-(a)	(d)-(c)
JGB market issuance (calendar base)	190.3	190.3	191.3	1.0	171.0	-19.3	-20.3
Non-price competitive auction Ⅱ, etc.	7.0	6.4	6.2	-0.2	5.3	-1.7	-1.0
Adjustment between fiscal years	3.0	3.9	3.1	-0.8	0.0	-3.0	-3.1
Subtotal financed in the market	200.3	200.6	200.6	0.0	176.3	-24.0	-24.3
Sales for households	3.5	3.5	3.5	0.0	3.5	0.0	0.0
BOJ rollover	2.0	2.0	2.0	0.0	1.7	-0.3	-0.3
Total	205.8	206.1	206.1	0.0	181.5	-24.3	-24.6

＜Calendar-based Market Issuance Amounts)

(Y tn)	2023 Total of initial budget and extra budget*	(Total: a)	2023 After revision in Dec	(Total: b)	2024 Initial	(Total: c)	(c)-(a)	(c)-(b)
40-year	0.7 × 6 times	4.2	0.7 × 6 times	4.2	0.7 × 6 times	4.2	0.0	0.0
30-year	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.0	0.0
20-year	1.2 × 12 times	14.4	1.2 × 9 1.0 × 3 times	13.8	1.0 × 12 times	12.0	-2.4	-1.8
10-year	2.7 × 12 times	32.4	2.7 × 12 times	32.4	2.6 × 12 times	31.2	-1.2	-1.2
5-year	2.5 × 12 times	30.0	2.5 × 12 times	30.0	2.3 × 12 times	27.6	-2.4	-2.4
2-year	2.9 × 12 times	34.8	2.9 × 12 times	34.8	2.6 × 12 times	31.2	-3.6	-3.6
TBs		50.7		50.7		38.4	-12.3	-12.3
10-year inflation-indexed	0.25 × 4 times	1.0	0.25 × 4 times	1.0	0.25 × 4 times	1.0	0.0	0.0
Japan Climate Transition Bonds				1.6		1.4	1.4	-0.2
Liquidity Enhancement Auction		12.0		12.0		13.2	1.2	1.2
Total	190.3		191.3		171.0		-19.3	-20.3

(Y tn) TBs	2023 Total of initial budget and extra budget*	(Total: a)	2023 (After revision in Dec)	(Total: b)	2024 Initial	(Total: c)	(c)-(a)	(c)-(b)
1-year	3.5 × 12 times	42.0	3.5 × 12 times	42.0	3.2 × 12 times	38.4	-3.6	-3.6
6-month		8.7		8.7		0.0	-8.7	-8.7

Source: MOF; compiled by Daiwa.
**Same as initial budget.*

From a “return to normalcy” perspective, we compared the calendar-based market issuance in the initial plan for FY24 with that for FY20, which was compiled before the coronavirus outbreak, and FY21, when total issuance peaked (Chart 3). The total issuance amount has decreased by Y50tn from FY21. However, this is still Y42.0tn more compared to FY20. By maturity, 6-month T-bills returned to zero issuance, while issuance for the 1-year T-bill, 2-year bond, and 5-year bond increased by Y16.8tn, Y7.2tn, and Y4.8tn, respectively. That said, issuance of long-term and super-long-term bonds has also increased by a combined Y10.8tn.

Chart 3: Calendar-based Market Issuance Amounts by Maturity in FY20, FY21, and FY24 (initial plans)

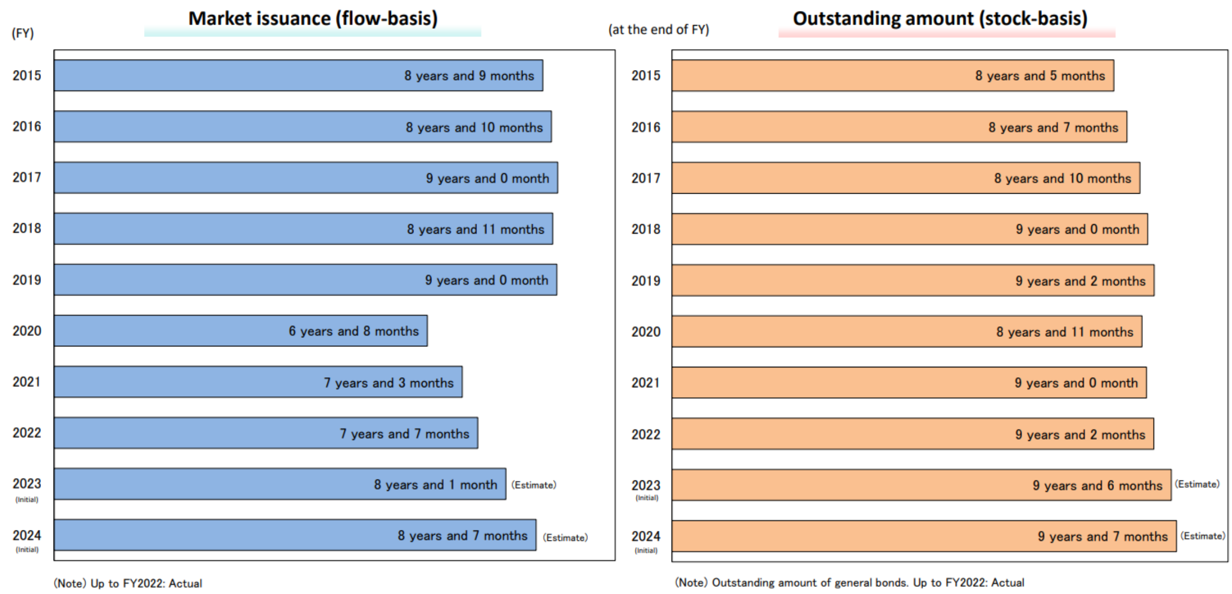
(Y tn)	2020					2021					2024						
	(per auction)				(Total: a)	(per auction)				(Total: b)	(per auction)				(Total: c)	20→24	21→24
40-year	**0.5**	×	6	times	3.0	**0.6**	×	6	times	3.6	**0.7**	×	6	times	4.2	1.2	0.6
30-year	**0.7**	×	12	times	8.4	**0.9**	×	12	times	10.8	**0.9**	×	12	times	10.8	2.4	0.0
20-year	**0.9**	×	12	times	10.8	**1.2**	×	12	times	14.4	**1.0**	×	12	times	12.0	1.2	-2.4
10-year	**2.1**	×	12	times	25.2	**2.6**	×	12	times	31.2	**2.6**	×	12	times	31.2	6.0	0.0
5-year	**1.9**	×	12	times	22.8	**2.5**	×	12	times	30.0	**2.3**	×	12	times	27.6	4.8	-2.4
2-year	**2.0**	×	12	times	24.0	**3.0**	×	12	times	36.0	**2.6**	×	12	times	31.2	7.2	-4.8
TBs																	
1-year	**1.8**	×	12	times	21.6	**3.5**	×	12	times	42.0	**3.2**	×	12	times	38.4	16.8	-3.6
6-month					**0.0**					**41.2**					**0.0**	0.0	-41.2
10-year inflation-indexed	0.4	×	4	times	1.6	0.2	×	4	times	0.8	0.25	×	4	times	1.0	-0.6	0.2
Japan Climate Transition Bonds					0.0					0.0					1.4	1.4	1.4
Liquidity Enhancement Auction					11.4					11.4					13.2	1.8	1.8
Total	128.8					221.4					171.0					42.2	-50.4

Source: MOF; compiled by Daiwa.

The average maturity in FY24 will lengthen to just under nine years on a calendar basis (flow), which is roughly the same as that before the coronavirus outbreak. The average maturity also continued to lengthen on an outstanding amount (stock) basis. As such, a “return to normalcy” has been realized.

If JGB yields rise, an increase in interest expenses is inevitable over the long run. However, the longer the average maturity, the slower the pace of growth for interest expenses due to the slower pace for replacing bonds with higher yields.

Chart 4: Weighted Average Maturity of JGBs



Source: Excerpted from MOF materials.

Initial budget proposal for FY24 also supports wage increases

The Kishida administration has called on Japan's business community to increase wages to realize the goal of income growth exceeding price inflation in FY24 in order to break Japan free from 30 year of deflation.

The initial budget for FY24 revises the official prices set by the government for the medical and welfare sectors, including medical/nursing care reimbursements. This includes better compensation (salary, other considerations) for medical and nursing care workers. The official prices set by the government for childcare will increase in order to improve compensation (salary, other considerations) for childcare workers. The government significantly increased its contribution to the national budget for compulsory education and the salaries of public elementary and junior high school teachers/staff were increased.

Widening the base of wage increases for those whose wages are determined by the government's official prices and budgets should encourage the expansion of private sector wage hike efforts. The Kishida administration's policy goals on this front are clear and consistent.

Medical care, welfare, childcare, education, and other such services are essential to people's lives, but salaries in those fields are low relative to the hard work involved. Also, labor shortages have become a pressing issue. This improvement in worker compensation (salary, other considerations) is likely to help alleviate these issues.

Despite ending coronavirus-related outlays, spending yet to return to normal

Spending to address the coronavirus outbreak has run its course and the government's "Basic Policies for Economic and Fiscal Management and Structural Reform" specifies that the spending structure will return to normalcy.

During the coronavirus outbreak, the FY20 supplementary budget included reserves for responding to the pandemic (maximum of Y11.5tn). Y5.0tn was allocated in the initial budget for FY21. Since then, the government has continued to use the contingency reserves of Y5tn, changing its utilization in order to respond to rising prices and wage increases. The amount was finally reduced to Y1.0tn in the FY24 budget (Chart 5).

Chart 5: Expenditure and Revenue Items of FY24 General Account Initial Budget (Y tn)

		2023	2024	Change
Expenditures	Total	114.4	112.1	-2.3
	Social security	36.9	37.7	**0.9**
	National defense (carry-over to defense build-up funds)	3.4	0.0	-3.4
	National defense (others)	6.8	7.9	**1.1**
	Contingency reserves to address inflation and wage hikes	5.0	1.0	-4.0
	Local allocation tax grants, etc.	16.4	17.8	1.4
	National debt service	25.3	27.0	**1.8**
	Redemption of national debt (fixed-rate transfer)	15.7	16.3	**0.6**
	Interest of public debt, etc.	8.4	9.6	**1.2**
	Other expenditures	20.7	20.6	-0.1
Revenues	Total	114.4	112.1	-2.3
	Tax revenues	69.4	69.6	0.2
	Other revenues	9.3	7.5	-1.8
	Newly-issued bonds	35.6	34.9	-0.7

Source: MOF; compiled by Daiwa.

However, total spending in the initial budget remains roughly the same with an increase of more than Y10tn vs. FY19-20 (pre-coronavirus). In addition to the growing social security costs due to the aging of the population, the government has also begun to address soaring prices, ending 30-years of deflation, increased defense spending, and the declining birthrate. Interest expenses have also increased due to higher yields. Even after ending the coronavirus response, returning to the pre-pandemic expenditure scale is becoming more difficult.

The FY24 budget secured some of the financial resources for new policy responses by reworking expenditures. In addition to these efforts, the government must also devise ways to keep fiscal stimulus to a minimum, while still breaking Japan free from 30 years of deflation and increasing tax revenues. Over the long term, halting the declining birthrate will be one key to realizing better fiscal health.

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