

Daiwa's Economic View

JGB issuance plan outlook for FY25 supplementary budget, FY26 initial budget

- If comprehensive economic measures portion of FY25 supplementary budget amounts to Y18tn in expenditures, total JGB issuance will increase Y12-13tn; calendar-based market issuance amount may not increase, but increased issuance for 2yr/5yr JGBs and TBs possible
- As for FY26 initial budget, due to tax cuts, increased interest payments, free school tuition, and reflecting higher prices in expenditures, new JGB issuance likely to reach mid-Y30tn range; no increase in calendar-based market issuance, but increased issuance of 2yr/5yr JGBs and TBs possible

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A package of comprehensive economic measures is expected to be formulated in November with an estimated Y18tn in expenditures allocated for economic measures in the FY25 supplementary budget (see [our 13 Nov 2025 Daiwa's Economic View: Scale of comprehensive economic measures likely around Y18tn; some policies to be included in FY26 initial budget](#)). The total amount of JGB issuance is expected to increase by Y12-13tn.

Nevertheless, by utilizing the adjustment between fiscal years portion and the front-loaded issuance of refunding bonds, which we will explain later, the calendar-based market issuance amount could potentially be managed without increased JGB issuance. That said, increased issuance of 2-year/5-year JGBs and T-bills would not be surprising. That will depend on the requests for increased issuance from investors and primary dealers, as well as the stance taken by the fiscal authorities.

As for the FY26 initial budget, tax cuts will start to have an impact on the revenue side. On the expenditure side, we expect movements reflecting increased interest payments due to rising JGB yields, the introduction of free school education, and rising prices. New JGB issuance, which had fallen below Y30tn due to increased tax revenue driven by inflation, may now return to the mid-Y30tn range.

The calendar-based market issuance amount can still be maintained if the number of auctions and the issuance amount per auction for each maturity are not changed. That said, we would not be surprised if the issuance of 2-year/5-year JGBs and T-bills increased. That too will depend on the requests for increased issuance from investors and primary dealers, as well as the stance taken by the fiscal authorities.

FY25 supplementary budget: Calendar-based market issuance amount may remain unchanged or increase

The Y18tn forecast for the comprehensive economic measures may be too high, or it may not be as high as expected. In any case, the entire Y18tn amount will not be issued as new JGBs. Increased tax revenues and non-tax revenues, along with reductions in expenditures, will cover part of the funding sources.

Over the past few years, tax revenues have continued to increase significantly in supplementary budgets. However, corporate earnings are generally expected to decline in FY25. Downward revisions for corporate tax are possible. Furthermore, as the provisional gasoline tax rate is scheduled to be abolished in January, only three months' worth of the Y1.0tn annual tax reduction will be deducted from tax revenue.

New JGB issuance is expected to increase by roughly Y13tn (Chart 1).

Chart 1: Year-end Supplementary Budget in General Account: Actuals and Forecasts (Y bn)

	FY23 1st (Nov)	FY24 1st (Nov)	FY25 1st (Dec, forecasts)
Expenditures	13,199.2	13,943.3	18,200.0
Economic measures, etc.	13,127.2	13,931.0	18,000.0
Other expenses	1,485.1	176.8	100.0
Transfers to Government Debt Consolidation Fund	1,314.7	425.9	1,100.0
Local allocation tax grants	782.0	1,039.8	800.0
Compensation for reduced local allocation tax grants			
Reduction in previously approved expenses	-1,009.8	-1,630.3	-1,800.0
Contingency fund to cover coronavirus-related expenses and address high prices	-2,000.0		
Contingency fund for response to situation in Ukraine	-500.0		
Revenues	13,199.2	13,943.3	18,200.0
Tax revenues	171.0	3,827.0	1,200.0
Non-tax revenues	762.1	1,866.8	1,300.0
Others			
Surplus from previous fiscal year	3,391.1	1,559.5	2,700.0
Newly-issued bonds	8,875.0	6,690.0	13,000.0

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

The JGB issuance plan is displayed on MOF's website with two tables placed side by side. The left-side table is the "JGB Issuance Amounts by Legal Grounds in Issuance Plan," which indicates how much JGB issuance is required to cover the revenue for that fiscal year's budget.

The FY25 supplementary budget may include a slight downward revision for refunding bonds. This is because the last fiscal year's six-month T-bill issuance results were slightly below the planned amount. Assuming the issuance amounts of other JGBs remain unchanged, the total amount of JGB issuance in the supplementary budget increases Y12.6tn (Chart 2).

Chart 2: JGB Issuance Plan for FY25-26 by Legal Grounds: Actuals and Forecasts (Y tn)

	FY25			FY26		
	Initial (revised)	Total of initial budget and extra budget (forecasts)		Initial (forecasts)		
	(a)	(b)	(b)-(a)	(c)	(c)-(a)	(c)-(b)
Newly-issued bonds	28.6	41.6	13.0	35.0	6.4	-6.6
Reconstruction bonds	0.1	0.1	0.0	0.1	0.0	0.0
GX economy transition bonds	0.7	0.7	0.0	0.7	0.0	0.0
Children special bonds	1.1	1.1	0.0	1.1	0.0	0.0
FILP bonds	10.0	10.0	0.0	10.0	0.0	0.0
Refunding bonds	136.2	135.8	-0.4	135.9	-0.3	0.1
Total	176.9	189.5	12.6	182.9	6.0	-6.6

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

In the two tables arranged side by side in the JGB issuance plan, the right-side is the "JGB Issuance Amounts by Financing Methods in Issuance Plan." This shows how the total amount of JGBs issued by the "JGB Issuance Amounts by Legal Grounds in Issuance Plan" will be financed (Chart 3).

The most noteworthy item is the “adjustment between fiscal years portion.” A deficit of Y6.9tn was booked for FY25. This indicates that based on the current calendar-based market issuance amount, Y6.9tn more than the amount required under the budget will be raised. Conversely, a positive “adjustment between fiscal years portion” indicates that the budget-required issuance amount has not been secured through the calendar-based market issuance amount. The procurement shortfall will be covered by drawing down the so-called “front-loaded bonds.”

Refunding bonds can be issued in advance in the previous fiscal year up to the limit set by the budget. This is referred to as “front-loading issuance of refunding bonds” or “front-loaded bonds.” The front-loaded refunding bonds issued in FY24 for the FY25 portion came to Y24.9tn. If the same Y24.9tn amount of refunding bonds is issued in FY25 for the FY26 portion, the resulting impact on the calendar-based market issuance amount would be neutral.

Meanwhile, if the issuance is less than Y24.9tn, the remaining calendar-based market issuance amount will be allocated toward increasing the total issuance amount. This is known as the “draw down of front-loaded bonds.”

Assuming that the overall JGB issuance in the FY25 supplementary budget increased Y12.6tn (Chart 2), the adjustment between fiscal years portion would increase from -Y6.9tn to +Y5.8tn provided that all calendar-based market issuance amounts and sales to individual investors are unchanged. This means that Y5.8tn in front-loaded bonds will be drawn down (Chart 3).

Chart 3: JGB Issuance Plan for FY25-26 by Financing Methods: Actuals and Forecasts (Y tn)

	FY25			FY26		
	Initial (Jun)	Total of initial budget and extra budget (forecasts)		Initial (forecasts)		
	(a)	(b)	(b)-(a)	(c)	(c)-(a)	(c)-(b)
Calendar-based market issuance	171.8	171.8	0.0	172.3	0.5	0.5
Non-price competitive auctions II	6.8	6.8	0.0	6.8	0.0	0.0
Fiscal year adjustment	-6.9	5.8	12.6	-1.3	5.6	-7.1
Subtotal financed in market	171.7	184.4	12.6	177.8	6.1	-6.6
Sales to individual investors	5.1	5.1	0.0	5.1	0.0	0.0
Public sector (BOJ rollovers)	0.0	0.0	0.0	0.0	0.0	0.0
Total	176.9	189.5	12.6	182.9	6.0	-6.6

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

The amount of front-loaded bonds issued in FY24 was Y24.9tn. Even after drawing down Y5.8tn from that amount, MOF can still issue Y19.1tn in front-loaded bonds in FY25. Historically speaking, there have been cases in which the amount was even lower. This is not necessarily a large amount, but it's not necessarily a small amount either. There is room to draw down front-loaded bond issuance.

Meanwhile, depending on investor and primary dealer requests for increased JGB issuance and the stance taken by fiscal authorities, there is a possibility that the issuance of 2-year/5-year JGBs and T-bills may be increased starting in January.

FY26 initial budget: New JGB issuance may increase again to mid-Y30tn range

In the FY25 initial budget, increased tax revenues due to inflation resulted in new JGB issuance totaling Y28.6tn, falling below the mid-Y30tn range that had persisted until then. However, there could be a return to the mid-Y30tn range, specifically Y35tn, in FY26. The reasons include a significant increase in interest payments, the impact of inflation on expenditure items, gasoline tax cuts, and the effects of free school education (Chart 4).

Chart 4: Initial Budget for National Government's General Account: Actuals and Forecasts (¥ tn)

	2022	2023	2024	2025	2026 (forecasts)	25—26
Expenditures	107.6	114.4	112.6	115.2	123.3	8.1
Social security	36.3	36.9	37.7	38.3	38.9	0.6
National defense	5.4	10.2	7.9	8.7	10.0	1.3
Other general expenditures	20.2	20.2	20.1	20.4	21.8	1.3
National debt service	24.3	25.3	27.0	28.2	31.3	3.0
Redemption of national debt	16.1	16.8	17.3	17.7	18.2	0.5
Interest payments, etc.	8.2	8.5	9.7	10.5	13.0	2.5
Local allocation tax grants, etc.	15.9	16.4	17.8	18.9	20.9	2.0
Special contingency reserves	5.0	5.0	1.0	0.0	0.0	0.0
Contingency reserves	0.5	0.5	1.0	0.7	0.5	-0.2
Revenues	107.6	114.4	112.6	115.2	123.3	8.1
Tax revenues	65.2	69.4	69.6	77.8	79.5	1.7
Other revenues	5.4	9.3	7.5	8.7	9.0	0.3
Newly-issued bonds	36.9	35.6	35.4	28.6	35.0	6.4

Source: MOF; compiled by Daiwa.

Note: Totals may not add up correctly due to rounding.

Social security expenditures will increase as usual due to Japan's aging population. Defense expenditures will maintain the 2% of GDP level in FY26, as the government's new three strategic defense documents will be implemented starting in FY27. Other general expenditures include education/science-related expenses and public works costs, but price increases may be reflected. As for public works bidding, it appears that unsuccessful bids, where the bid amount falls below the client's estimated price, are increasing nationwide. In terms of JGB costs, the ¥2.5tn increase in interest expenses stands out. Local allocation tax increases in line with growth in tax revenues.

For the FY26 "JGB Issuance Amounts by Legal Grounds in Issuance Plan," please refer to Chart 2. New JGBs are projected to increase by ¥6.4tn compared to the FY25 initial plan. Our forecast for refunding bonds incorporates the amount of budgetary request and the June T-bill increase. Our forecasts for other JGBs remain flat. The total JGB issuance amount is expected to increase by ¥6.0tn compared to the FY25 initial plan.

For the JGB issuance amounts by financing methods in the FY26 JGB issuance plan, please refer to Chart 3. The calendar-based market issuance amount comes to ¥172.3tn, assuming the issuance amount per offering and issuance frequency for each maturity, which were changed in June, are maintained for one year. The adjustment between fiscal years portion is -1.3tn, maintaining a negative figure. However, this will not be enough to cover the ¥5.8tn draw down from the FY25 supplementary budget.

While it would not be unreasonable to maintain the issuance amounts per offering for each maturity and number of issues, it would also not be unreasonable to increase the issuance of 2-year/5-year JGBs and T-bills. That too seems likely to be a delicate balancing act that will depend on requests from primary dealers and investors for increased issuance, as well as the stance taken by fiscal authorities.

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