

# Daiwa's View

## Y370tn investment and JGB market uncertainty: Growth, fiscal policy divergence

- Government has finalized Y370tn growth investment plan
- Cabinet Office touching on medium/long-term estimates, bridge JGBs
- Investments entail future uncertainties

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### Growth Strategy Council and Y370tn investment

On 24 June, the government held its [Council on Economic and Fiscal Policy](#) meeting and its Japan Growth Strategy Council meeting. Here, a plan to invest a total of Y370tn from both the public and private sectors across 17 strategic sectors by FY40 was finalized. Even though the figure of Y370tn had been reported since last week, it was officially announced this time at these formal government meetings.

### Cabinet Office presented medium/long-term economic/fiscal estimates reflecting fiscal spending

At the Growth Strategy Council meeting, the Cabinet Office presented its “Estimates on the Medium- to Long-Term Economic and Fiscal Outlook Under Japan’s Growth Strategy” (hereinafter referred to as “estimates”), which reflects the fiscal expenditures associated with this investment plan. The estimates assume additional fiscal spending of Y10tn in FY27 (with subsequent increases in real terms) and presents trends for GDP, capital investments, and government debt up to FY40 under three scenarios: (1) Growth Strategy Realization Scenario 1, (2) Growth Strategy Realization Scenario 2, and (3) Current Projection Scenario. (1) is a scenario in which TFP (total factor productivity) rises due to the effects of growth investment, causing the potential growth rate to rise to nearly 2%, (2) is a scenario in which the potential growth rate is in the mid-1% range, partly reflecting investment uncertainty, and (3) is a scenario in which the desired investment returns are not achieved and the potential growth rate declines slightly from its current level.

The outstanding debt-to-GDP ratio (including national and local government debt) estimated based on the above assumptions would decline from the current level of approximately 190% to 175% in scenarios (1) and (2) and stabilize from the mid-2030s onward. Meanwhile, under Scenario 3, this ratio would rise again towards 200%. Also, in terms of the flow effect, a primary balance surplus is expected to be ensured for both scenarios (1) and (2). In other words, if growth investments raise the potential growth rate, fiscal sustainability will be maintained. However, if this investment does not lead to growth, the risk of debt spiraling out of control (increasing) would grow. The estimates show a structure in which fiscal sustainability hinges on whether or not growth is achieved.

## “New investment framework” and bridge JGBs

From the perspective of JGB investment metrics, there are certain points to note regarding these estimates. The additional fiscal spending included in these estimates does not include the portion to be issued as bridge JGBs, for which funding has been secured over multiple fiscal years as part of a “new investment framework.” Due to their nature as a tool for temporary financing, bridge JGBs are not included in the government’s officially reported outstanding debt. However, bridge JGBs are no different from regular JGBs in terms of the total volume of JGBs supplied to the market. In other words, in terms of the flow effect, fiscal spending through bridge JGBs is expected to result in an increase in fiscal spending of more than ¥10tn. As for the stock effect, we assume that the outstanding amount of issued JGBs on the market will increase beyond the estimated outstanding amount of government debt.

## Implications for JGB market

Considering the above points, the government’s recent announcement of growth investments is expected to have a somewhat negative impact on the JGB market. At the time of the initial ¥370tn reporting, we had anticipated annual fiscal spending of approximately ¥4.0tn and expected this to push up the 10-year JGB yield by about 6.5bp in terms of the stock effect and 16bp to 20bp in terms of the flow effect<sup>1</sup>. However, the estimates presented this time assume government spending of around ¥10tn, to which the amount of JGBs issued to finance that spending will be added.

The grand design presented by the Growth Strategy Council (= Japanese economy to grow robustly through proactive public-private investment) could very well be recognized as a sound growth strategy. However, the estimate results indicate that while government debt will stabilize if growth-oriented investments bear fruit, the risk of debt increasing (spiraling out of control) could grow if the government fails to drive growth. The JGB market is not good at pricing in future figures, such as investment returns, and this uncertainty is reflected in market prices as risk premium. From a broader perspective, there are various debates regarding private capital and public involvement.

On 24 June, WTI crude oil futures fell below \$70/bbl on the New York market, approaching levels seen just before the conflict with Iran started. As inflation concerns have eased, the 10-year UST yield has also fallen by about 10bp, dropping below 4.40% for the first time since early May. The easing of inflation concerns following the end of the conflict and the decline in energy prices will also provide a tailwind for the JGB market. However, in light of the significant fiscal impacts described above, we want to remain on guard for any rising JGB yields.

Chart 1: Daiwa JGB Term Premium (10yr)



Source: Compiled by Daiwa.

<sup>1</sup> Shun Otani (22 Jun 2026). [Daiwa's View: ¥370tn in growth investments and impact on JGB market.](#)

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