

JFC to issue short-term JGGBs

JGGB issuance plan upsized due to emergency economic package; no increase in FILP agency bonds

- Owing to emergency economic package to cope with COVID-19, FILP plan upped by ¥10.2tn
- No increase in issuance amount of FILP agency bonds
- While JBIC and DBJ boosted issuance amount of foreign currency-denominated JGGBs, JFC and DBJ raised maximum issuance amount of bonds of less than 5 years
- JFC set to issue short-term JGGBs with maturity of less than 1 year and outstanding amount limit of ¥500bn; such bonds issued also after global financial crisis over several months soon after release of economic measures

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Gov't decided on emergency economic package to cope with COVID-19, alongside addition to FILP plan of ¥10.2tn

At a Cabinet meeting on April 7, the government decided on an emergency economic package to cope with COVID-19 and its financial resources of the FY20 first supplementary budget, alongside the addition to the FY20 FILP (Fiscal Investment and Loan Program) plan. The addition was made to cope with financing at SMEs and large companies, totaling ¥10.1877tn, of which ¥9.37tn was allocated to Japan Finance Corporation (JFC) and the rest to Okinawa Development Finance Corporation, the Welfare and Medical Service Agency, the Development Bank of Japan (DBJ), and the Japan International Cooperation Agency.

No increase in issuance of FILP agency bonds

That said, the main source of fundraising at FILP agencies are fiscal loans from the Ministry of Finance (MOF). In particular, in an addition in the middle of the fiscal year, like this case, the issuance amount of FILP agency bonds is not usually increased. This time, financial resources are also mainly raised by fiscal loans, without an increase in the issuance of FILP agency bonds

JBIC and DBJ increased issuance of foreign currency-denominated JGGBs, JFC and DBJ raised maximum issuance amount of bonds of less than 5 years, JFC set limit to short-term JGGBs

Meanwhile, there was addition to the issuance plan of government-guaranteed bonds (JGGB), including those with maturity of less than five years that are not included in the FILP plan. Chart 1 shows the breakdown by maturity and agency. Regarding foreign currency-denominated bonds, the issuance amount was increased by ¥1tn for the Japan Bank for International Cooperation (JBIC) and by ¥100bn for the DBJ. While bonds with maturity of less than five years are issued in line with progress of business operations, the JFC and the DBJ raised the maximum issuance amount by ¥500bn and ¥100bn, respectively. Moreover, ¥500bn in the limit of the outstanding amount of short-term bonds with maturity of less than one year was newly set at the JFC.

Chart 1: Revision to FY20 JGGB Issuance Plan (¥ bn)

		Initial	Addition	Revised amount
Foreign-currency denominated bonds	Japan Bank for International Cooperation	1,902.5	1,000.0	2,902.5
	Development Bank of Japan	200.0	100.0	300.0
Maximum issuance amount of bonds with maturity of less than 5 years	Japan Finance Corporation	100.0	500.0	600.0
	Development Bank of Japan	100.0	100.0	200.0
Limit of outstanding amount of short-term bonds (with maturity of less than 1 year)	Japan Finance Corporation	0.0	500.0	500.0

Source: MOF; compiled by Daiwa Securities.

Note: Only agencies with revised plan.

Limit of outstanding amount of JFC's short-term JGGBs also set after global financial crisis and Great East Japan Earthquake

As shown in the upper rows of Chart 2, a limit to the outstanding amount of JFC's short-term JGGBs was also set after the global financial crisis and the Great East Japan Earthquake. In FY08, a limit of Y2tn was added in the middle of the fiscal year. In FY09 and FY10, the initial issuance plan was Y2tn and Y500bn, respectively. In FY11, the initial plan was zero, but Y200bn was added later. In FY12 and FY13, the initial amount was Y200bn each.

Issuance of 3-month bonds and 1-month bonds during Feb-Jul 2009 via seven launches totalled Y640bn

Meanwhile, the actual issuance amounts are shown in the lower rows of Chart 2. In FY08, the issuance plan was added in December, and thus a three-month bond worth Y300bn was issued once in February. In FY09, three-month bonds and one-month bonds were launched during Apr-Jul, totaling six launches. The issuance amounted to Y340bn (Y100bn x 2 times, Y50bn x 1 time, and Y30bn x 3 times). In FY08 and FY09, the maximum outstanding amount was Y500bn. Since then, JFC's short-term JGGBs have not been actually issued, although the issuance plan was set. For reference, these are all discounted bonds.

After global financial crisis, funds raised over several months soon after release of economic measures

After the global financial crisis, the JFC raised a large amount of funds over several months soon after the announcement of the government's economic packages, such as "Emergency measures to protect livelihoods" in December 2008 (worth around Y37tn on project basis, incl. Y1tn in expansion of JFC's loan facility to cope with emergency) and "Measures to address the economic crisis" in April 2009 (around Y56.8tn on project basis, incl. Y3tn in expansion of safety net loan facility at JFC). It then stopped issuing bonds. This is the characteristic at that time. We presume that JFC first raised sufficient cash on hand, and then shifted to fundraising with longer maturities while checking the actual loan conditions. This time, the aforementioned emergency economic package to cope with COVID-19 was announced in April. Similar to past cases, the bond issuance may start in the near future.

Chart 2: Issuance Plan and Actual Results of Short-term JGGBs at JFC (Y bn)

	FY08			FY09			FY10			FY11			FY12			FY13		
	Initial			Initial			Initial			Initial			Initial			Initial		
Plan	0			2,000			500			0			200			200		
※Limit of outstanding amount	Addition	2,000		Addition	0		Addition	0		Addition	200		Addition	0		Addition	0	
	After addition	2,000		After addition	2,000		After addition	500		After addition	200		After addition	200		After addition	200	
Actual results	Terms decided on	Term	Issue amount	Terms decided on	Term	Issue amount	Terms decided on	Term	Issue amount	Terms decided on	Term	Issue amount	Terms decided on	Term	Issue amount	Terms decided on	Term	Issue amount
	25-Feb-09	3 months	300	22-Apr-09	3 months	100												
				19-May-09	1 month	100												
				26-May-09	3 months	50												
				05-Jun-09	3 months	30												
				17-Jun-09	3 months	30												
				15-Jul-09	3 months	30												
		Total	300	Total	340	Total	0	Total	0	Total	0	Total	0	Total	0	Total	0	Total

Source: MOF; compiled by Daiwa Securities.

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[Standard & Poor's]

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