

FY22 JGB issuance plan

Progress toward the post-pandemic stage decreases issuance and lengthens maturity, with leeway to reduce issuance further

- Total JGB issuance is Y9.3tn lower than the total amount in the FY21 initial budget and supplementary budget. As the worst stage of the COVID-19 pandemic has passed, progress in normalization has led to decrease in issuance. There is leeway to reduce issuance further.
- Calendar-based market issuance is Y13.6tn lower than the total in the FY21 initial budget and supplementary budget. As TB issuance is reduced by the same amount, average maturity on a flow basis will lengthen again. If future decreases in issuance lead to reduction in TBs, average maturity is expected to lengthen further.

Strategic Memorandum DSTE450
FICC Research Dept.

Senior Fiscal Policy and Credit Analyst
Kouji Hamada
(81) 3 5555-8791
kouji.hamada@daiwa.co.jp

Strategist
Kazuya Sato
(81) 3 5555-8773
kazuya.sato@daiwa.co.jp

Daiwa Securities Co. Ltd

Decrease in JGB issuance as worst stage of COVID-19 infections has passed

The FY22 JGB issuance plan was announced on 24 December. Total JGB issuance is Y9.3tn lower than that in the FY21 initial budget and supplementary budget. Although responses to the COVID-19 pandemic are still continuing, the worst stage has currently passed. As the situation has made progress in normalization, JGB issuance amounts are decreased. If the situation normalizes further, there would be more leeway to reduce issuance, depending on the extent of infections.

Decrease in JGB issuance leads to reduction in TBs, which lengthens average maturity

The calendar-based market issuance is Y13.6tn lower than the total issuance in the FY21 initial budget and supplementary budget. Coupon-bearing JGB issuance is increased/decreased in some maturities to meet market needs, but the total amount remains flat. The total decrease in calendar-based market issuance is fully reflected in reduction in TBs, which is likely to lengthen the average maturity on a flow basis by 13 months compared to the average in FY20. If issuance is further decreased going forward, the average maturity is expected to lengthen again.

Chart 1: JGB Issuance Amounts by Legal Grounds in Issuance Plan (Y bn)

	FY21			FY22		
	Initial Amount	Total of initial budget and extra budget Amount	FY21 initial → After FY21 extra budget	Amount	FY21 initial → FY22 initial	After FY21 extra budget → FY22 initial
Newly-issued bonds	43,597.0	65,655.0	22,058.0	36,926.0	-6,671.0	-28,729.0
Reconstruction bonds	218.3	40.0	-178.3	171.6	-46.7	131.6
FILP bonds	45,000.0	15,000.0	-30,000.0	25,000.0	-20,000.0	10,000.0
Refunding bonds	147,192.9	143,663.3	-3,529.6	152,940.4	5,747.4	9,277.1
Total	236,008.2	224,358.3	-11,649.9	215,038.0	-20,970.3	-9,320.3

Source: Ministry of Finance (MOF); compiled by Daiwa Securities.

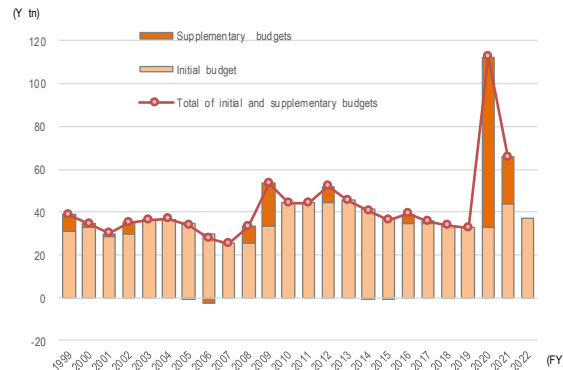
COVID-19 contingency reserves of Y5tn becoming unnecessary would serve as a factor in reducing newly-issued bonds

Newly-issued bonds amount to Y36.9tn, Y6.7tn lower than the amount in the FY21 initial plan (charts 1 and 2). There was contribution from tax revenues, which increased solidly and reached a record high partly thanks to policy support. Unlike the case in the economic measures in November, it appears that there was no pressure to expand the size of expenditures. Once COVID-19 infections come under control, COVID-19 contingency reserves worth Y5tn become unnecessary. This would serve as a factor in further reducing newly-issued bonds.

If part of expenditures for COVID-19 measures becomes unnecessary, this would be used as financial resources

A supplementary budget is expected again in FY22. A certain size is likely in order to avoid a sharp drop in fiscal support from the FY21 supplementary budget, and the upper house election is slated for July. That said, we imagine that the total of newly-issued bonds in the initial budget and supplementary budget in FY22 will decrease from FY21, although this depends on COVID-19 infections. In addition, once it turns out that a part of expenditures for COVID-19 measures, which have been already booked in budget, becomes unnecessary, this would be used as financial resources.

Chart 2: Trends of Newly-issued JGBs

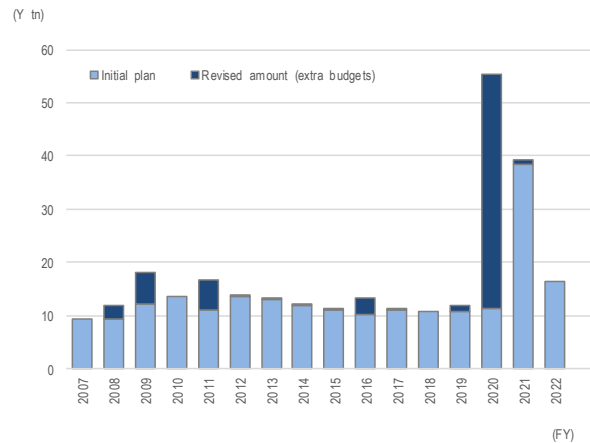


Source: MOF; compiled by Daiwa Securities.
 Note: Newly-issued bonds include special bonds for covering public pension funding.

FY22 FILP bond plan is substantially decreased as actual fiscal investments/loans were almost at normal levels

FILP bonds amount to Y25tn, Y20tn lower than the FY21 initial plan (Chart 1). In order to support financing at pandemic-hit companies, the size of policy finance programs in the FILP expanded unprecedentedly. However, as actual fiscal investments/loans in FY21 have calmed down to a level equivalent to normal times, the FY22 plan is substantially decreased (Chart 3).

Chart 3: Trends of Fiscal Loans in FILP



Source: MOF; compiled by Daiwa Securities.

University fund no longer needs booking, leaving room to further reduce policy finance in response to pandemic

From FY22 onwards, the FILP will not book Y4.9tn in the university fund. If the pandemic comes under control, there would be room to reduce policy finance in response to the pandemic by around Y1tn. Currently, cash and deposits in the Fiscal Loan Fund amount to Y18.5tn, much larger than around Y5tn during the pre-pandemic period, in order to have leeway in financing. This means the existence of room for withdrawal. Both serve as factors in further reducing FILP bonds.

Impact of large-scale supplementary budgets in the past makes it difficult to decrease refunding bonds, even after normalization

Refunding bonds are Y152.9tn, Y5.7tn higher than the FY21 initial plan and Y9.3tn higher than the total of the initial and supplementary budgets (Chart 1). This is because of an increase in the redemption of 2-year JGBs and TBs, both of which were additionally issued in large-scale supplementary budgets in FY20 and FY21. It can be said that the outstanding amounts of JGBs in the general account are rolled over via refunding bonds. Even if the amount of newly-issued bonds is decreased further as the pandemic calms down, it would be difficult to decrease refunding bonds unless the outstanding amounts of JGBs decline.

Issuance is decreased further due to front-loading issuance of refunding bonds

FY22 calendar-based market issuance

Calendar-based market issuance is decreased by Y13.6tn from the total in the FY21 initial and supplementary budgets. Due to utilization of Y3tn in front-loading issuance of refunding bonds, the reduction exceeds total issuance (Chart 4)

Chart 4: JGB Issuance Amounts by Financing Methods in Issuance Plan (Y bn)

	FY21			FY22		
	Initial	Total of initial budget and extra budget		Initial	After FY21 extra budget	
	Amount	Amount	FY21 initial → After FY21 extra budget	Amount	FY21 initial → FY22 initial	After FY21 extra budget → FY22 initial
Calendar-based market issuance	221,400.0	212,200.0	-9,200.0	198,600.0	-22,800.0	-13,600.0
Non-price competitive auctions II	8,230.0	7,031.9	-1,198.1	8,297.0	67.0	1,265.1
Fiscal year adjustment	78.2	85.9	7.7	3,041.0	2,962.8	2,955.1
Subtotal financed in market	229,708.2	219,317.8	-10,390.4	209,938.0	-19,770.2	-9,379.8
Sales to individual investors	4,100.0	2,840.5	-1,259.5	2,900.0	-1,200.0	59.5
Public sector (BOJ rollovers)	2,200.0	2,200.0	-	2,200.0	0	0
Total	236,008.2	224,358.3	-11,649.9	215,038.0	-20,970.2	-9,320.3

Source: MOF; compiled by Daiwa Securities.

Except for an increase in issuance of 10-year JGBs, issuance plan for coupon-bearing JGBs is in line with consensus

Regarding coupon-bearing JGBs, issuance is increased for 40-year and 10-year JGBs, as well as for liquidity enhancement auction in the 1- to 5-year zone, while issuance is reduced for 2-year JGBs (Chart 5). This was almost in line with the consensus. Some argued that 40-year JGBs should be issued monthly at a size of Y400bn, but the bimonthly issuance at Y700bn/auction is unchanged. The MOF appears to have judged that the market should be fostered gradually. While there was an opinion that 10-year JGBs would have no impact irrespective of an increase or a decrease in the issuance amount, there were requests for an increase. The increase in issuance of 10-year JGBs and the decrease in 20-year JGBs contribute to lengthening of the average maturity. In addition, the cost-at-risk analysis in the JGB Market Special Participants meeting's materials showed that such changes had merit. This appears to be one of background factors.

Chart 5: Calendar-based Market Issuance Amounts in JGB Issuance Plan (Y tn)

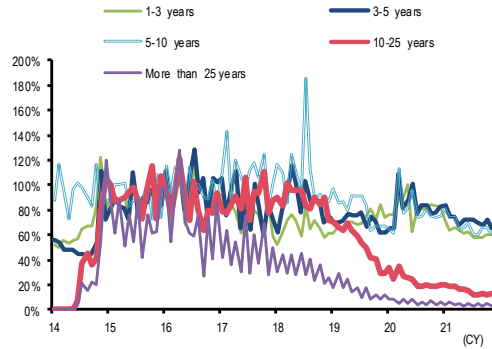
	FY21					FY22				
	Initial	(Annual issuance amount; :a)	After extra budget	(Annual issuance amount; :b)	(b)-(a)	Initial	(Annual issuance amount; :c)	(c)-(a)	(c)-(b)	
40-yr JGBs	0.6 × 6 times	3.6	0.6 × 6 times	3.6	0.0	0.7 × 6 times	4.2	0.6	0.6	
30-yr JGBs	0.9 × 12 times	10.8	0.9 × 12 times	10.8	0.0	0.9 × 12 times	10.8	0.0	0.0	
20-yr JGBs	1.2 × 12 times	14.4	1.2 × 12 times	14.4	0.0	1.2 × 12 times	14.4	0.0	0.0	
10-yr JGBs	2.6 × 12 times	31.2	2.6 × 12 times	31.2	0.0	2.7 × 12 times	32.4	1.2	1.2	
5-yr JGBs	2.5 × 12 times	30.0	2.5 × 12 times	30.0	0.0	2.5 × 12.0 times	30.0	0.0	0.0	
2-yr JGBs	3.0 × 12 times	36.0	3.0 × 12 times	36.0	0.0	2.8 × 12.0 times	33.6	-2.4	-2.4	
TBs		83.2		74.0	-9.2		60.4	-22.8	-13.6	
10-yr JGB linkers	0.2 × 4 times	0.8	0.2 × 4 times	0.8	0.0	0.2 × 4.0 times	0.8	0.0	0.0	
Liquidity enhancement auction		11.4		11.4	0.0		12.0	0.6	0.6	
Total		221.4		212.2	-9.2		198.6	-22.8	-13.6	

Source: MOF; compiled by Daiwa Securities.

BOJ would keep purchase amounts in Jan-Mar unchanged, but may adjust amounts in Apr-Jun

We are focusing on BOJ's operations based on the latest JGB issuance plan. However, the Jan-Mar purchase amounts to be released on 27 December are expected to be unchanged. As the auction amounts are changed from April, the BOJ is unlikely to respond to such changes in advance. However, in terms of maintenance of the JGB purchase ratio (vs. issuance, Chart 6), the BOJ may adjust the Apr-Jun purchase amounts to be released at end-March in line with the latest changes in the issuance amounts.

Chart 6: BOJ's JGB Purchase Ratio (purchases/issuance amount)

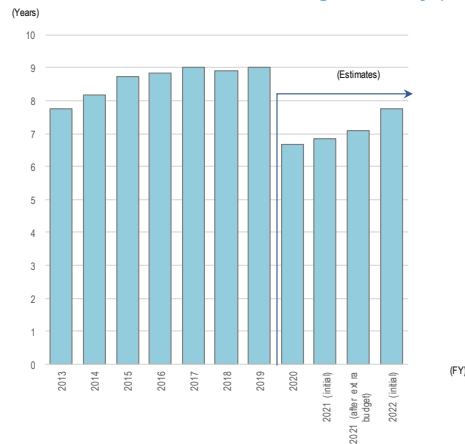


Source: BOJ, MOF; compiled by Daiwa Securities.

Once pandemic comes under control, average maturity could lengthen more

In FY20, the calendar-based average maturity on a flow basis shortened to six years and eight months due to a large increase in TB issuance. However, the average maturity in the initial FY22 budget is expected to lengthen to seven years and nine months, which is the same level as in FY13 (Chart 7). There would be leeway to lengthen more if a further decrease in JGB issuance due to an end to the pandemic leads to reduction in TBs, although the timing and the extent are unclear at this moment.

Chart 7: Calendar-based Average Maturity (on flow basis) in JGB Issuance Plan



Source: MOF; compiled by Daiwa Securities.

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