

Daiwa's Economic View

10yr JGB yield exceeding assumed interest rate; Are interest payments sufficient?

- Trends for 10yr JGB market yield, assumed interest rate for interest payment budget
- Focus on issuance months, number of interest payments within fiscal year

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The 10-year JGB market yield has been exceeding the assumed interest rate for the FY25 budget.

However, it is unlikely that interest payments in the FY25 budget will be insufficient. If market yields continue to surge even more, leeway in the FY26 budget for interest payments would become insufficient.

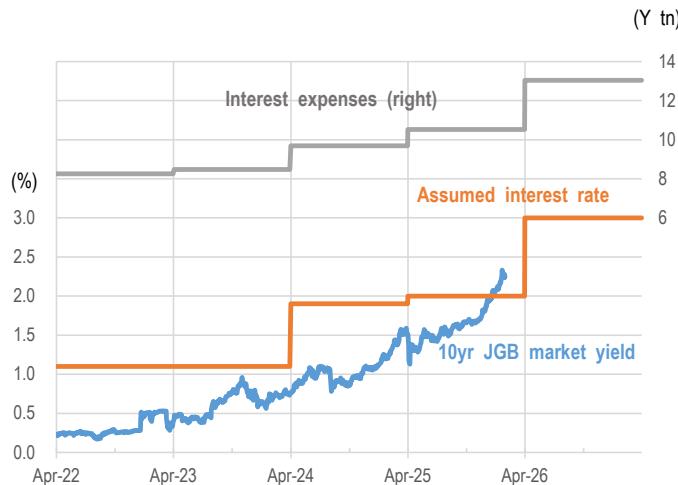
10yr JGB market yield exceeding assumed interest rate for FY25 budget

The 10-year JGB market yield continues to rise. MOF announced that the actual yield as of end-January 2026 stood at 2.252%.

The government sets the assumed interest rate for the fiscal year as a guideline for determining interest payments on JGBs during the budget compilation process. The assumed interest rate for 10-year JGB is set about 1% higher than the prevailing market rate to ensure interest payments remain sufficient even if yields spike during the fiscal year.

The assumed interest rate for 10-year JGBs in the FY25 budget is 2.0%. Meanwhile, the market yield has exceeded 2% since late December (Chart 1). Clearly, the current rise for yields is occurring at an unexpectedly rapid pace.

Chart 1: 10yr JGB Market Yield, Assumed Rate, and Interest Expenses in Initial Budget



Source: MOF, Nikkei; compiled by Daiwa.

If market yields continue to surge, FY26 budget interest payments would probably become insufficient

However, even if the 10-year JGB yield continues to surge sharply, it is unlikely that the FY25 budget will face a situation where interest payments cannot be made due to insufficient funds.

How many interest payments on JGBs issued in a given year are made during the year varies depending on the issuance month. Coupon-bearing JGBs issued in the Jan-Mar quarter have no interest payments within the fiscal year (Chart 2). Even if interest payments become insufficient, the reserve fund for FY26 will still have approximately Y860bn remaining, as of end-January 2026.

Chart 2: JGB Issuance Months, No. of Interest Payments Within Fiscal Year

| JGB issuance months | 2yr JGBs | Other coupon-bearing JGBs |
|---------------------|------------|---------------------------|
| Apr-Jun | 1 time | 2 times |
| Jul-Sep | | 1 time |
| Oct-Dec | Zero times | |
| Jan-Mar | | Zero times |

Source: MOF; compiled by Daiwa.

If an interest payment shortfall is expected, it would likely be in the FY26 budget. Interest payments on coupon-bearing JGBs issued in Jan-Mar 2026 will occur twice in FY26. That said, if the government had made provisions for interest payments on JGBs issued in Jan-Mar during the FY26 budget compilation in December 2025, taking into account the current rising yields, there should be no problems.

Interest payments in the FY26 budget include those for coupon-bearing JGBs to be issued in FY26. However, only coupon-bearing JGBs (other than 2-year JGBs issued between April and June) require interest payments twice a year (Chart 2).

The government had set the assumed interest rate for FY26 at 2.6% in its initial budget request at the end of August last year, but raised it to 3.0% during the budget compilation process in December (Chart 1). Interest payments will become difficult to manage if the sharp rise for market yields continues unabated and hovers around 3% from early-FY26.

The fiscal policies of the Takaichi administration could also become a major concern for the JGB market. If JGB yields continue to rise, interest payments will inevitably increase significantly. That said, we want to calmly assess the fiscal impact of each individual catalyst as they emerge.

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