

Economic Commentary (JGB issuance plan)

Second supplementary budget expected to reduce total JGB issuance by Y5tn

- We expect the FY26 second supplementary budget to reduce total JGB issuance by Y5tn, while increasing retail JGB issuance by Y4tn
- Front-loading issuance of refunding bonds in FY26 could shift from utilization (reduction) to accumulation
- The increased scope to utilize front-loading issuance in FY27 leads us to revise down our forecast for the y/y increase in calendar-base JGB market issuance from Y12tn to Y10tn
- This further increases the likelihood that the increase can be absorbed primarily through higher TDB issuance

Koji Hamada

81-3-5555-8791
kouji.hamada@daiwa.co.jp

Daiwa Securities Co. Ltd.



Conclusion

We expect the FY26 second supplementary budget to reduce the combined issuance of newly-issued bonds and refunding bonds by Y5tn. Sales for households (retail JGB issuance) are expected to be revised upward by Y4tn. We expect calendar-base JGB market issuance to remain unchanged. Adjustment between fiscal years, which stood at +Y4.4tn after the first supplementary budget, is likely to turn negative, to -Y4.6tn, after the second supplementary budget. This would mean a shift from the utilization (reduction) of front-loading issuance of refunding bonds to the accumulation of such issuance.

In FY27, there will be greater scope to utilize front-loading issuance of refunding bonds. We revise down our forecast for the y/y increase in calendar-base JGB market issuance from Y12tn in our previous report to Y10tn. This further increases the likelihood that the y/y increase can be absorbed primarily through higher TDB issuance.

Chart 1: Scale and Schedule of Policy Expenditures in Supplementary Budgets Formulated in Nov–Dec

FY	Supplementary budget number	Policy expenditures (Y tn)	Cabinet approval date for supplementary budget	Cabinet approval date for following fiscal year's budget	Difference in days	Diet session	Date submitted to the Diet
2013	-	5.5	12-Dec	24-Dec	12	Ordinary session	24-Jan
2014	-	3.5	9-Jan	14-Jan	5	Ordinary session	26-Jan
2015	-	3.1	18-Dec	24-Dec	6	Ordinary session	4-Jan
2016	3rd	0.5	22-Dec	22-Dec	0	Ordinary session	20-Jan
2017	-	2.7	22-Dec	22-Dec	0	Ordinary session	22-Jan
2018	2nd	2.6	21-Dec	21-Dec	0	Ordinary session	28-Jan
2019	-	4.3	13-Dec	20-Dec	7	Ordinary session	20-Jan
2020	3rd	19.2	15-Dec	21-Dec	6	Ordinary session	18-Jan
2021	-	31.6	26-Nov	24-Dec	28	Extraordinary session	6-Dec
2022	2nd	29.1	8-Nov	23-Dec	45	Extraordinary session	21-Nov
2023	-	13.1	10-Nov	22-Dec	42	Extraordinary session	20-Nov
2024	-	13.9	29-Nov	27-Dec	28	Extraordinary session	9-Dec
2025	-	17.7	28-Nov	26-Dec	28	Extraordinary session	8-Dec
2026 (forecasts)	2nd	2.0	Mid-late Dec	Mid-late Dec	0~10	Ordinary session	Jan

Source: MOF; compiled by Daiwa.

Note: Because a general election was held in December 2014, FY14 supplementary budget and FY15 budget were approved by the Cabinet in January of the following year.

A “small-scale year-end supplementary budget” is the most likely scenario for the FY26 second supplementary budget

Even in fiscal years when the economy has expanded steadily and no large-scale supplementary budget has been required, a small-scale supplementary budget has been formulated at year-end. Previously approved expenses are reduced in line with budget execution during the fiscal year, and the tax revenue forecast is revised. Additional policy expenditures are kept to a minimum and limited to items such as disaster recovery expenditures.

During the 2010s, when the economy remained firm under Abenomics, “small-scale year-end supplementary budgets” were approved by the Cabinet either on the same day as the following fiscal year’s budget or a few days to around one week earlier.

In FY21–25, large-scale supplementary budgets were formulated in November in response to the COVID-19 pandemic and rising prices. Revisions to tax revenue forecasts and reductions in previously approved expenses were also included in those budgets.

Although the first FY26 supplementary budget was formulated in June to address rising prices, a second supplementary budget will be required at year-end. The Takaichi administration has been incorporating expenditures previously included in supplementary budgets into the initial budget, making it highly likely that additional policy expenditures will be kept to a minimum. The Yomiuri Shimbun reported on 7 October that the supplementary budget would be small in scale and limited to necessary programs, including disaster response measures. Cabinet approval is expected either on the same day as the FY27 budget, sometime after 20 December, or a few days to around one week earlier.

Newly-issued bonds expected to be reduced by Y2.3tn

We forecast general account expenditures and revenues under the FY26 second supplementary budget. Newly-issued bonds are expected to be reduced by Y2.3tn.

Chart 2: Expenditures and Revenues in General Account Supplementary Budgets Formulated in Nov–Dec (Y tn)

FY	Total	Expenditure					Revenue			
		Policy expenditures	Other expenses	Local allocation tax grants	Transfer to National Debt Consolidation Fund	Reduction in previously approved expenses	Tax revenues	Non-tax revenues	Surplus from the previous fiscal year	Newly-issued bonds
2013	5.5	5.5	0.4	1.2	—	-1.5	2.3	0.4	2.8	0.0
2014	3.1	3.5	0.4	1.0	—	-1.8	1.7	0.1	2.0	-0.8
2015	3.3	3.1	0.4	1.3	—	-1.4	1.9	-0.3	2.2	-0.4
2016	0.2	0.5	0.1	0.0	—	-0.4	-1.7	0.1	—	1.9
2017	1.7	2.7	—	—	0.2	-1.2	0.0	0.1	0.4	1.2
2018	2.7	2.6	0.5	0.5	0.5	-1.3	0.8	0.1	0.7	1.0
2019	3.2	4.3	0.2	0.0	—	-1.3	-2.3	0.2	0.9	4.4
2020	15.4	19.2	0.0	0.4	—	-4.2	-8.4	0.7	0.7	22.4
2021	36.0	31.6	0.2	3.5	2.3	-1.6	6.4	1.4	6.1	22.1
2022	28.9	29.1	0.2	—	0.7	-1.1	3.1	0.7	2.3	22.9
2023	13.2	13.1	1.5	0.8	1.3	-3.5	0.2	0.8	3.4	8.9
2024	13.9	13.9	0.2	1.0	0.4	-1.6	3.8	1.9	1.6	6.7
2025	18.3	17.7	0.7	—	1.1	-1.2	2.9	1.0	2.7	11.7
2026 (forecasts)	2.5	2.0	—	1.3	—	-0.8	4.5	0.3	—	-2.3

Source: MOF; compiled by Daiwa.

Notes: 1) Because a general election was held in December 2014, FY14 supplementary budget and FY15 budget were approved by the Cabinet in January of the following year.

2) Reductions in previously approved expenses include reductions in contingency reserves.

Policy expenditures

As no total amount has been reported, we provisionally assume roughly Y2tn. We expect the breakdown to include disaster recovery, national resilience, defense, and personnel expenses.

Reductions in previously approved expenses

Most of the reductions are expected to come from interest payments. A larger amount is budgeted each fiscal year to provide for the possibility of a sharp rise in interest rates, but the amount actually required becomes clearer in November–December.

The 10-year market yield has continued to rise this fiscal year and exceeded the assumed interest rate of 3.0% in September. However, the government issued JGBs in the first half at yields below the assumed rate. Moreover, an increasing number of JGBs issued in the second half will not reach their first interest payment dates within the fiscal year. Reductions in previously approved expenses are therefore unlikely to approach zero, and we assume a reduction of around Y0.8tn (–Y1.2tn in FY25).

Tax revenue

The FY26 tax revenue estimate uses the FY25 budget after supplementary revisions as its starting point. However, actual FY25 tax revenue exceeded the revised budget estimate by Y3.5tn. As tax revenue growth has remained firm in FY26, we expect an upward revision of Y4.5tn.

Surplus from the previous fiscal year

Surpluses from the previous fiscal year have historically been incorporated into the current fiscal year's supplementary budget. Under the Public Finance Act, at least half must be transferred to the Government Debt Consolidation Fund, while the remainder has been used to finance supplementary budgets and defense expenditures.

However, the Y2.6tn net surplus recorded in the FY25 settlement may be incorporated into the FY27 initial budget, rather than the FY26 second supplementary budget. This is because the FY26 second supplementary budget will not require additional funding, whereas the FY27 budget will require substantial funding for measures including a consumption tax cut.

Newly-issued bonds

We forecast a Y2.3tn reduction, the first reduction since FY14–15. This would reflect the tax revenue upside generated by inflation and the smaller scale of policy expenditures resulting from the incorporation of supplementary-budget expenditures into the initial budget.

Lower total JGB issuance and higher sales for households to shift front-loading issuance of refunding bonds from “utilization” to “accumulation”

Under the FY26 second supplementary budget, we expect newly-issued bonds to be reduced by Y2.3tn and refunding bonds by Y2.7tn, resulting in a total reduction in JGB issuance of Y5tn.

We expect calendar-base JGB market issuance to remain unchanged, while sales for households (retail JGB issuance) will be increased by Y4tn and adjustment between fiscal years will be reduced by Y9tn. Adjustment between fiscal years would therefore decline from +Y4.4tn after the first supplementary budget to –Y4.6tn after the second supplementary budget, and front-loading issuance of refunding bonds would likely shift from “utilization” to “accumulation.”

Refunding bonds

We expect a reduction of Y2.7tn. Actual TB issuance in FY25 was substantially below the revised plan following the supplementary budget. The amount of JGBs scheduled to mature in FY26 will therefore be lower than planned, reducing refinancing requirements. Refunding bond issuance was also reduced by Y1.3–2.5tn in each of the supplementary budgets formulated in November–December of FY23–25.

Existing bridge bonds

In past supplementary budgets formulated in November–December, issuance of existing bridge bonds, including GX Economy Transition Bonds, was increased to finance economic measures. For FY27, however, issuance amounts broadly in line with previous post-supplementary levels were included in the budget requests as a result of the incorporation of supplementary-budget expenditures into the initial budget. We therefore expect no additional issuance under the FY26 second supplementary budget.

Sales for households (retail JGB issuance)

The FY26 plan was Y5.9tn both in the initial plan and after the first supplementary budget. However, sales have been strong, with Y6.2tn already issued between April and October. As we expect issuance to continue at a faster pace than assumed in the initial plan, we assume an upward revision of Y4.0tn.

Adjustment between fiscal years

A positive “adjustment between fiscal years” primarily indicates the utilization of front-loading issuance of refunding bonds through a reduction in issuance, while a negative figure indicates an increase in issuance.

Adjustment between fiscal years in FY26 was +Y1.2tn in the initial budget. Under the first supplementary budget, newly-issued bonds were increased by Y3.1tn, but adjustment between fiscal years was increased by the same amount, leaving calendar-base JGB market issuance unchanged. Adjustment between fiscal years therefore stood at +Y4.4tn after the first supplementary budget.

We also expect calendar-base JGB market issuance to remain unchanged under the second supplementary budget. The Y5tn reduction in total JGB issuance and the Y4tn increase in sales for households (retail JGB issuance) would result in a Y9tn reduction in adjustment between fiscal years. After the second supplementary budget, adjustment between fiscal years would therefore turn negative, to –Y4.6tn, and front-loading issuance of refunding bonds would shift from “utilization” to “accumulation.”

Chart 3: JGB Issuance Plan (actual results and forecasts, Y tn)

Category	FY25	FY26					FY27	
	Post-supplementary budget	Initial plan	First supplementary budget	Post-first supplementary budget	Second supplementary budget*	Post-second supplementary budget*	Initial plan*	Difference from the FY26 initial plan*
JGB issuance plan (by legal grounds)								
Newly-issued bonds	40.3	29.6	3.1	32.7	-2.3	30.4	42.0	12.4
Bridge bonds for economic security	0.0	—	—	—	0.0	—	5.0	5.0
Reconstruction bond	0.0	0.0	—	0.0	0.0	0.0	0.0	-0.0
GX economy transition bond	1.4	1.0	—	1.0	0.0	1.0	1.6	0.6
Children special bonds	1.1	0.5	—	0.5	0.0	0.5	0.4	-0.1
Semiconductor and AI bonds	0.0	0.8	—	0.8	0.0	0.8	0.5	-0.3
FILP bonds	12.0	13.0	—	13.0	0.0	13.0	10.0	-3.0
Refunding bonds	134.7	135.8	—	135.8	-2.7	133.1	136.7	0.9
Total	189.6	180.7	3.1	183.8	-5.0	178.8	196.2	15.5
JGB issuance plan (by financing methods)								
Calendar-base JGB market issuance	178.7	168.5	—	168.5	0.0	168.5	178.5	10.0
Non-price competitive auctions II	5.5	5.0	—	5.0	0.0	5.0	5.6	0.6
Fiscal year adjustment	-0.0	1.2	3.1	4.4	-9.0	-4.6	3.1	1.9
Sales for households	5.4	5.9	—	5.9	4.0	9.9	9.0	3.1

Source: MOF; compiled by Daiwa.

* indicates forecasts.

Negative “adjustment between fiscal years” in FY26 to affect the FY27 plan

If adjustment between fiscal years turns negative after the FY26 second supplementary budget, front-loading issuance of refunding bonds will increase. If the additional front-loading issuance is carried over in full to the following fiscal year, the scope to utilize front-loading issuance in FY27 will also increase.

In our 7 October report, we forecast FY27 adjustment between fiscal years at +Y1.1tn. In this report, we raise the forecast by Y2tn to +Y3.1tn. This would involve utilizing in FY27 part of the -Y4.6tn in adjustment between fiscal years after the FY26 second supplementary budget.

In conjunction with this revision to adjustment between fiscal years, we lower our forecast for the y/y increase in calendar-base JGB market issuance in FY27 from Y12tn to Y10tn. This further increases the likelihood that the y/y increase can be absorbed primarily through higher TDB issuance.

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