【Fixed Income Commentary】

Overview of FY27 budget requests, implications for JGB issuance plan

(original Japanese report issued on September 1, 2026)

Key points

- General account requests for FY27 budget apparently swelled to record high of c. JPY143 trillion
- Focus now on how far government can curb new financing bond issuance by narrowing policy measures, finding funding
- Total JGB issuance in JPY190 trillion range in sight; more coupon-bearing JGBs needed if retail sales, TBs insufficient

General account budget requests set to hit record high of around JPY143 trillion

31 August was the deadline for FY27 budget requests. Media outlets reported that requests for the general account, including special requests, will swell to a record high of around JPY143 trillion. We review the budget requests below (Table 1) and set out what they imply for the FY27 JGB issuance plan.

Table 1: General-account budget requests for FY2027

(JPY trn)

	(a) FY26 Initial budget	(b) FY27 Requests	New investment framework	Difference b-a
Imperial Household Agency	0.0	0.0	0.0	- 0.0
National Diet	0.1			
Courts	0.3			
Board of Audit	0.0	0.0	0.0	+0.0
Cabinet Secretariat	0.1	0.3	0.2	+0.2
Cabinet Office	5.3	6.0	0.4	+0.8
Digital Agency	0.5	1.0	0.4	+0.5
Reconstruction Agency	0.0	0.1	0.0	+0.1
Ministry of Internal Affairs and Communications	21.3	21.9	0.5	+0.6
Ministry of Justice	0.8	0.9	0.0	+0.1
Ministry of Foreign Affairs	0.8	1.2	0.3	+0.4
Ministry of Finance	32.6	38.7	0.2	+6.1
Ministry of Education, Culture, Sports, Science and Technology	5.9	8.8	2.2	+2.9
Ministry of Health, Labour and Welfare	35.0	36.6	1.0	+1.5
Ministry of Agriculture, Forestry and Fisheries	2.1	3.1	0.4	+1.0
Ministry of Economy, Trade and Industry	0.9	5.0	4.5	+4.1
Ministry of Land, Infrastructure, Transport and Tourism	6.2	8.8	1.6	+2.6
Ministry of the Environment	0.3	0.6	0.3	+0.2
Ministry of Defense	9.0	8.9	0.0	- 0.1
Contingency reserve	1.0	-	-	-
Total	122.3	141.9	12.0	19.6

Note: Budget requests are compiled by MUMSS. Figures for the National Diet (House of Councillors) and the courts had not been released at the time of writing.
Source: MUMSS, from government ministries and agencies data

Total general account expenditure

Table 2 shows the general account picture from the Cabinet Office's Economic and Fiscal Projections for Medium to Long Term Analysis, released in July, which gives an overall sense of the general account budget. The projections set out what the accounts would look like if the government made additional fiscal outlays every year, on top of normal spending, in line with its “responsible and proactive fiscal policy.” They mechanically assume JPY10 trillion of additional spending in real terms each year. Total FY27 expenditure comes to JPY138.1 trillion in both the baseline case and the growth strategy implementation case, up JPY15.8 trillion from the FY26 initial budget. On the revenue side, tax revenue is JPY90.5 trillion (+JPY6.8 trillion), non-tax revenue JPY8.3 trillion (−JPY0.7 trillion), and bond proceeds (new financing bonds) JPY39.3 trillion (+JPY9.7 trillion), again versus the FY26 initial budget.

The roughly JPY143 trillion in total requests for FY27 exceeds the total expenditure in the Cabinet Office's projections. The higher assumed interest rate pushed debt-servicing costs up, and effective additional spending appears to have exceeded JPY10 trillion. Requests under the new investment framework for crisis management and growth investment, for instance, reached JPY12.0 trillion. The requests also include many item requests that name a policy but no amount, which is a source of uncertainty in the budget compilation process ahead. Defense spending may be added on top as well, given the accelerated revision of the three national security documents. Cutting the consumption tax is expected to reduce revenue. We therefore cannot rule out new financing bonds exceeding the JPY39.3 trillion projected by the Cabinet Office. In contrast, Prime Minister Sanae Takaichi indicated in an exclusive interview with the Yomiuri Shimbun on 28 August that she intends to hold FY27 new bond issuance to around JPY40 trillion. A key question will now be how far the government can curb new financing bond issuance by narrowing down policy measures and finding funding.

Table 2: Cabinet Office projections for the central government general account

	FY26 budget		July 2026 estimates			Difference
(JPY trillion)	Initial	Supple-mentary	FY27	FY28		Versus initial FY27 budget
				Baseline	Growth strategy	
	a	b	c	d	e	c-a
Expenditure	122.3	125.4	138.1	144.3	144.9	+15.8
Social security-related expenditure	39.1	39.1	40.0	40.9	41.0	+0.9
Local allocation tax grants, etc.	20.9	20.9	23.5	24.3	24.4	+2.6
National debt service	31.3	31.3	32.9	36.5	36.6	+1.6
Other expenditures	**31.0**	**34.1**	**41.7**	**42.6**	**42.9**	**+10.7**
Tax and other revenue	92.7	92.7	98.8	101.8	102.4	+6.1
Tax revenue	83.7	83.7	90.5	93.5	94.0	+6.8
Other revenue	9.0	9.0	8.3	8.4	8.4	-0.7
Government bond issuance (expenditure - tax revenue)	**29.6**	**32.7**	**39.3**	**42.5**	**42.5**	**+9.7**

Note: The FY27 figures are identical under the growth strategy cases 1 and 2, and the baseline projection case. The FY28 figures are identical under growth strategy cases 1 and 2.
Source: MUMSS, from Cabinet Office materials

Total JGB issuance: issuance by legal grounds

Table 3 sets out issuance by legal grounds, to give a sense of the FY27 JGB issuance plan. We compiled the FY27 figures from the estimates for each special account that were disclosed alongside the budget requests. Some uncertainty attaches to these figures. Fiscal Investment and Loan Program (FILP) bonds, for instance, are “provisionally set at the same amount as the initial budget.” Despite this, the figures give a broad sense of the scale of issuance. On this basis, no large change from FY26 is expected for the existing bridge bonds in (III) to (VII) or for the refunding bonds in (VIII). Total FY27 JGB issuance will therefore hinge mainly on the amount of (I) new financing bonds and (II) the bridge bonds issued to fund the separately managed portion of the new investment framework. On (II), the government plans to secure funding across multiple fiscal years for areas of particular importance to economic security, among others. That funding would be managed as a separate line within a special account. The budget request guidelines this time said only that this would be considered during the budget compilation process. Ministries and agencies therefore appear to have built up their requests on a general account basis, and some portion may be shifted to the special account during the budget compilation process. In that case, we would expect part of the new investment framework requests to be funded by bridge bonds. Given all this, the scale is hard to gauge at this point. But (I) and (II) together look likely to run roughly JPY10 trillion to JPY20 trillion above the FY26 initial plan, which points to total JGB issuance in JPY190 trillion range.

Table 3: JGB issuance plan by legal grounds

(JPY trn)

	FY25		FY26		FY27	Difference
	Initial	Supple-mentary	Initial	Supple-mentary		
	(a)	(b)	(c)	(d)	(e)	(c-a)
Total JGB issuance	**176.9**	**189.6**	**180.7**	**183.8**	**190s?**	**?**
(I) New deficit-financing bonds	28.6	40.3	29.6	32.7	40?	Around +10?
(II) Bridge bonds?	-	-	-	-	?	?
(III) GX Economy Transition Bonds	0.7	1.4	1.0	1.0	1.6	+0.5
(IV) Special bonds for child-related policies	1.1	1.1	0.5	0.5	0.4	- 0.1
(V) Semiconductor and AI bonds	0.0	0.0	0.8	0.8	0.5	- 0.3
(VI) Reconstruction Bonds	0.1	0.0	0.0	0.0	-	-
(VII) FILP bonds	10.0	12.0	13.0	13.0	13.0	0.0
(VIII) Refunding bonds	136.2	134.7	135.8	135.8	136.7	+0.9

Source: MUMSS, from government ministries and agencies data

Table 4: JGB issuance plan by financing method

(JPY trn)

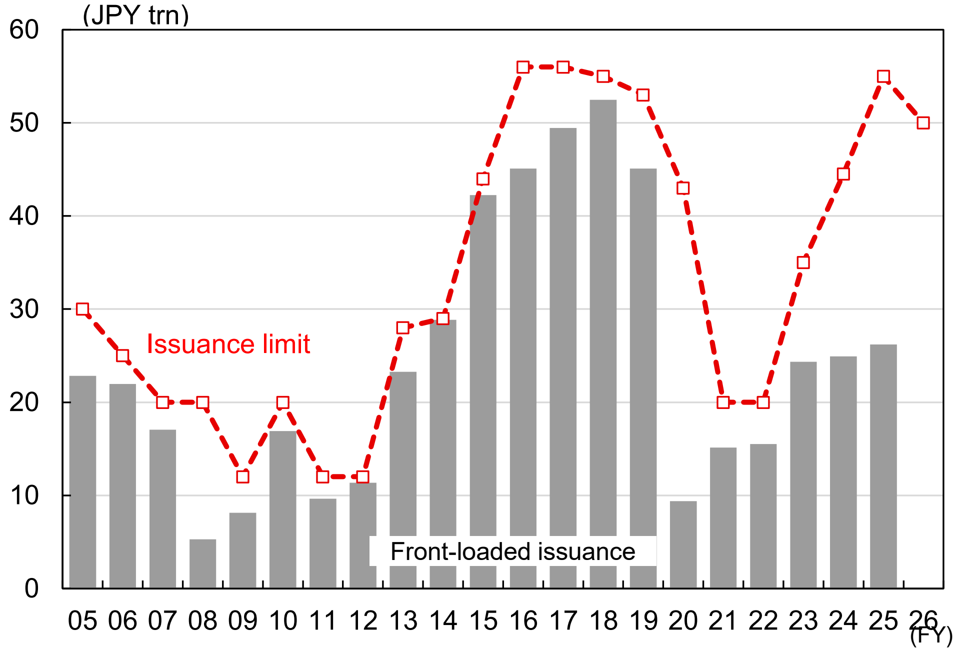
	FY25				FY26	
	Initial	(per auction)	Supple-mentar	(per auction)	Initial	(per auction)
Total JGB issuance	176.9		189.6		180.7	
Market issuance	172.3		184.2		174.8	
Calendar-based market issuance	172.3		178.7		168.5	
40-year JGBs	3.0	0.5 × 6	2.5	0.5 × 1 0.4 × 5	1.8	0.3 × 6
30-year JGBs	9.6	0.8 × 12	8.7	0.8 × 3 0.7 × 9	7.2	0.6 × 12
20-year JGBs	12.0	1.0 × 12	10.2	1.0 × 3 0.8 × 9	8.4	0.7 × 12
10-year JGBs	31.2	2.6 × 12	31.2	2.6 × 12	31.2	2.6 × 12
5-year JGBs	28.8	2.4 × 12	29.1	2.4 × 9 2.5 × 3	30.0	2.5 × 12
2-year JGBs	31.2	2.6 × 12	32.1	2.6 × 6 2.7 × 3 2.8 × 3	33.6	2.8 × 12
10-year inflation-indexed JGBs	1.0	0.25 × 4	1.0	0.25 × 4	1.0	0.25 × 4
Climate Transition Bonds	1.2		1.2		1.0	
Treasury discount bills	40.8		49.2		40.8	
Liquidity-enhancement auctions	13.5		13.5		13.5	
Non-price-competitive auction II	6.9		5.5		5.0	
Front-loading adjustment	- 7.0		- 0.0		+1.2	
BoJ rollovers	0.0		0.0		0.0	
Sales to retail investors	4.6		5.4		5.9	

Source: MUMSS, from MoF data

Total JGB issuance: Issuance by financing method

Table 4 above sets out issuance by financing method. If total JGB issuance does exceed JPY190 trillion (JPY10-20 trillion above the FY26 initial plan), how would the additional issuance be absorbed? The strongest candidate is retail sales (JGBs for retail investors plus new over-the-counter sales). Issuance through August this fiscal year totaled JPY4.2 trillion, or about 72% of the annual plan. Demand has picked up as interest rates have risen, and the range of eligible purchasers is set to widen from next year. Tax reform and other measures are also expected to make the products more attractive, which should leave relatively ample scope for increased issuance. The next candidate is Treasury bills (TBs). MoF has cut TB issuance in recent years in line with the decline in total JGB issuance. Given that the recent FX intervention by MoF and the BoJ is expected to reduce issuance of financing bills (FBs), there looks to be some scope to increase TB issuance. However, we would note that more TB issuance would push up refunding bond volumes in later fiscal years and would raise refinancing risk by shortening the maturity profile. Frontloaded issuance (the inter-year adjustment component) is another possible candidate. Frontloaded issuance was JPY26.2 trillion in FY25 (Graph 1). It has acted as a buffer against sudden swings in market issuance caused by supplementary budgets, among other things. If the government does move away from its reliance on supplementary budgets, there may be some scope to draw this down. However, using frontloaded issuance is only a temporary measure and does not secure funding permanently. If retail sales, TBs and the inter-year adjustment cannot absorb the pressure to increase total issuance, more coupon-bearing JGB issuance would become unavoidable.

Graph 1: Front-loaded bond issuance



Source: MUMSS, from MoF data

Conclusion

General account requests swelled to a record size this time, exceeding the total expenditure assumed in the Cabinet Office's projections. Several points will be worth watching in the budget compilation process. The current requests spell out neither the item requests that carry no amount nor the treatment of the separately managed portion of the new investment framework. The possibility of cutting the consumption tax and of raising defense spending will also be in focus. Interest rates have been rising recently, and heavier interest payments could put further strain on the management of public finances. The key questions will be how far the government can curb new financing bond issuance by narrowing down policy measures and securing funding, and how it maintains market confidence. If new financing bond issuance does stay at around the JPY40 trillion Ms. Takaichi indicated, we think total JGB issuance could reach the JPY190 trillion range, which would serve as a rough benchmark. We would expect the increase to be absorbed by higher retail sales and TB issuance and by drawing on frontloaded issuance, among other routes. If those are insufficient, it would open up the possibility of more coupon-bearing JGB issuance. The FY27 budget's final shape is likely to remain hard to see for some time. Markets are likely to stay wary about higher government spending and increased JGB issuance. Debate over the size of expenditure and the composition of funding will likely be an important market driver.

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Appendix A

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