17:23 JST
11 September 2026

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Japan: FY27 new JGB issuance would be on par with FY25 and would not constitute a "shock"

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- **The Takaichi administration plans to invest more than JPY370trn through public-private partnerships by FY40 across 17 strategic fields. Public investment in these fields would be recorded under the "Strong and Prosperous Japan" investment framework, separate from ordinary expenditure. Assuming JPY18trn in additional fiscal expenditure comprising the transfer of spending from supplementary budgets to the initial budget and the general-account portion of the "Strong and Prosperous Japan" investment framework, we once again present a broad picture of JGB issuance in FY27.**

- **Assuming no further increase through an additional supplementary budget this fiscal year, new JGB issuance in FY27 would exceed the FY26 post-supplementary-budget figure of JPY32.7trn by around JPY8trn but would be broadly in line with the FY25 post-supplementary-budget figure of JPY40.3trn. Calendar-based market issuance is projected at JPY177.4trn. This would be around JPY9trn above this fiscal year's post-supplementary-budget figure of JPY168.5trn, but slightly below the FY25 post-supplementary-budget figure of JPY178.7trn.**

- **The FY26 budget was formulated on the basis of the Honebuto adopted last year under the Ishiba administration. As a result, the initial budget was restrained, while the ongoing transfer of permanent expenditure from supplementary budgets to the initial budget is expected to keep both expenditure and JGB issuance down. It would therefore be incorrect in our view to compare FY27 new JGB issuance and calendar-based market issuance on an initial-budget basis with FY26 and describe the resulting increase as a major expansion or a "shock". Given that issuance is projected to be slightly lower than on a FY25 post-supplementary-budget basis, it would by no means constitute a "shock" in our opinion.**

- **The Cabinet Office assumes that nominal GDP would increase by JPY27trn from the previous fiscal year in FY27, substantially exceeding net new JGB issuance of JPY21.5trn after subtracting debt-redemption expenditure. The debt-to-GDP ratio, the central target of fiscal management, would decline. The increase in GDP would also exceed the BoJ's annual JGB purchases of JPY24trn from April 2027 onwards. The BoJ's purchases could even be regarded as insufficient relative to the natural increase in private-sector money generated by economic growth. Even assuming that nominal GDP growth settles at around 3% from FY27 onwards, there would be no problem whatsoever in absorbing JGBs in the market.**

The Takaichi administration plans to invest more than JPY370trn through public-private partnerships by FY40 across 17 strategic fields. Public investment in these fields would be recorded under the "Strong and Prosperous Japan" investment framework, separate from ordinary expenditure. Assuming JPY18trn in additional fiscal expenditure comprising the transfer of permanent expenditure from supplementary budgets to the initial budget and the general-account portion of the "Strong and Prosperous Japan" investment framework, we once again present a broad picture of JGB issuance in FY27.

For FY27 general-account expenditure, we incorporate JPY18trn in additional fiscal expenditure, an increase corresponding to the Cabinet Office's nominal growth forecast, benefits equivalent to the 1% VAT rate on food, support for farmers and the food-service industry and compensation to local governments for lost tax revenue. On the revenue side, we apply a tax-revenue elasticity of 1.2 to the Cabinet Office's nominal growth forecast, while incorporating the revenue loss from the VAT cut and assuming JPY5trn in transfers from the Foreign Exchange Fund Special Account and other sources. The difference between expenditure and the sum of tax revenue and other revenue would constitute government bond proceeds and would be classified as new JGB issuance under the Ministry of Finance's JGB Issuance Plan. We forecast FY27 new JGB issuance at JPY40.4trn. Assuming no further increase through an additional supplementary budget this fiscal year, this would exceed the FY26 post-supplementary-budget figure of JPY32.7trn by around JPY8trn but would be broadly in line with the FY25 post-supplementary-budget figure of JPY40.3trn.

Assuming that issuance other than new JGBs remains broadly unchanged and setting bridge bond issuance for economic-security expenditure at JPY2trn, total JGB issuance is projected at JPY191.6trn. The "Strong and Prosperous Japan" investment framework, including expenditure through special accounts, would amount to JPY15trn. Bridge bonds would not be included in the outstanding debt because they would be financed with future revenue.

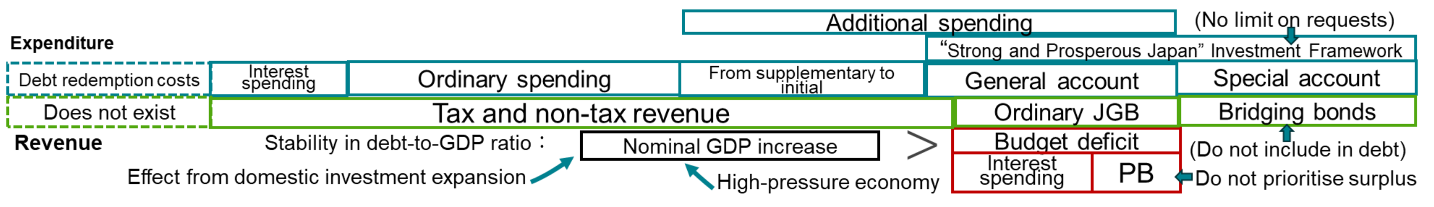
Reflecting the trend of increasing demand, we assume that issuance of JGBs for retail investors, which is included in issuance by absorption method, would increase by 50% from the previous fiscal year to around JPY9trn in FY27. This would put projected calendar-based market issuance at JPY177.4trn. The figure would be around JPY9trn above this fiscal year's post-supplementary-budget issuance of JPY168.5trn, but slightly below the FY25 post-supplementary-budget figure of JPY178.7trn.

The FY26 budget was formulated on the basis of the Honebuto adopted last year under the Ishiba administration. As a result, the initial budget was restrained, while the ongoing transfer of permanent expenditure from supplementary budgets to the initial budget is expected to keep both expenditure and JGB issuance down. It would therefore be incorrect in our view to compare FY27 new JGB issuance and calendar-based market issuance on an initial-budget basis with FY26 and describe the resulting increase as a major expansion or a "shock". Given that issuance is projected to be slightly lower than on a FY25 post-supplementary-budget basis, in our opinion it would by no means constitute a "shock".

We forecast new JGB issuance of JPY40.4trn in FY27 as the Takaichi administration expands strategic investment. However, debt-redemption expenditure under the 60-year JGB redemption rule, which is not consistent with global standards, is projected at JPY18.9trn. Pure new JGB issuance excluding refinancing – net new JGB issuance – would therefore be JPY21.5trn, slightly below the FY25 post-supplementary-budget level. As a share of nominal GDP, it would decline from 3.3% in FY25 to 3.0% in FY27.

The Cabinet Office assumes that nominal GDP would increase by JPY27trn from the previous fiscal year in FY27, substantially exceeding net new JGB issuance of JPY21.5trn after subtracting debt-redemption expenditure. The debt-to-GDP ratio, the central target of fiscal management, would decline. The increase in GDP would also exceed the BoJ's annual JGB purchases of JPY24trn from April 2027 onwards. The BoJ's purchases could even be regarded as insufficient relative to the natural increase in private-sector money generated by economic growth. Even assuming that nominal GDP growth settles at around 3% from FY27 onwards, in our view there would be no problem whatsoever in absorbing JGBs in the market.

Fig 1. Conceptual framework for radical reform of the government budget



Source: Crédit Agricole CIB

Fig 2. Image of JGB issuance based on the "Strong and Prosperous Japan" investment framework

＜Breakdown by Legal Grounds (JPYtrn)＞

Breakdown	FY25 initial	FY25 supplementary	FY26 initial	FY26 supplementary	FY27 initial (forecast)
Newly-issued bonds ①	28.6	40.3	29.6	32.7	40.4
Debt redemption costs ② (ex compensation bonds)	17.3	18.5	17.9	17.9	18.9
Net newly-issued bonds (1)=①-② (%GDP)	11.3 (1.7)	21.9 (3.3)	11.7 (1.7)	14.8 (2.1)	21.5 (3.0)
Growth strategy bridging bonds	-	-	-	-	2.0
Others	148.2	149.2	151.1	151.1	151.2
Total	176.9	189.6	180.7	183.8	191.6
Nominal GDP increase (2)		27.5		20.2	27.0
Debt issuance capacity (2-1)		5.6		5.4	5.5

- FY27: General account expenditures include an additional expenditure of JPY18trn (transfer from supplementary to initial + general account increase from "Strong and Prosperous Japan" investment framework), plus an additional amount to cover nominal economic growth.
- "Strong and Prosperous Japan" investment framework includes 13trn from general account, 2trn from special account
- Tax revenue + other income is estimated using the nominal GDP growth forecast (with 1.2 tax elasticity) and 5trn from FX fund special account
- The projected decrease in VAT revenue (JPY5trn) is 3.4trn for national government and 1.6trn transfer to local governments to offset tax decrease.

＜Breakdown by Financing Methods (JPYtrn)＞

Breakdown	FY25 initial	FY25 supplementary	FY26 initial	FY26 supplementary	FY27 initial (forecast)
JGB market issuance (calendar base)	171.8	178.7	168.5	168.5	177.4
(T-Bills)	40.8	49.2	40.8		
Others	5.6	10.9	12.1	15.3	14.2
Total	176.9	189.6	180.7	183.8	191.8
Total (%GDP)	-	28.3	-	26.6	26.8

＜General account expenditure and revenue (JPYtrn)＞

General account budget	FY25 initial	FY25 supplementary	FY25 actual	FY26 initial	FY26 supplementary	FY26 actual (forecast)	FY27 initial (forecast)
General account expenditure	115.2	133.5	131.4	122.3	125.4	-	147.3
Tax	78.4	80.7	84.2	83.7	83.7	91.3	92.5
Other revenues	8.5	9.7	10.7	9.0	9.0	9.0	14.4
Bond issuance	28.6	40.3	33.7	29.6	32.7	-	40.4

Note: FY25 supplementary + FY26 initial general account expenditure was 141trn

- New issuance and calendar-based market issuance are expected to be around the same level after supplementary budget for FY25.

Source: MoF, Cabinet Office, Crédit Agricole CIB

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Note: The content is a personal opinion and does not necessarily reflect the government's view.

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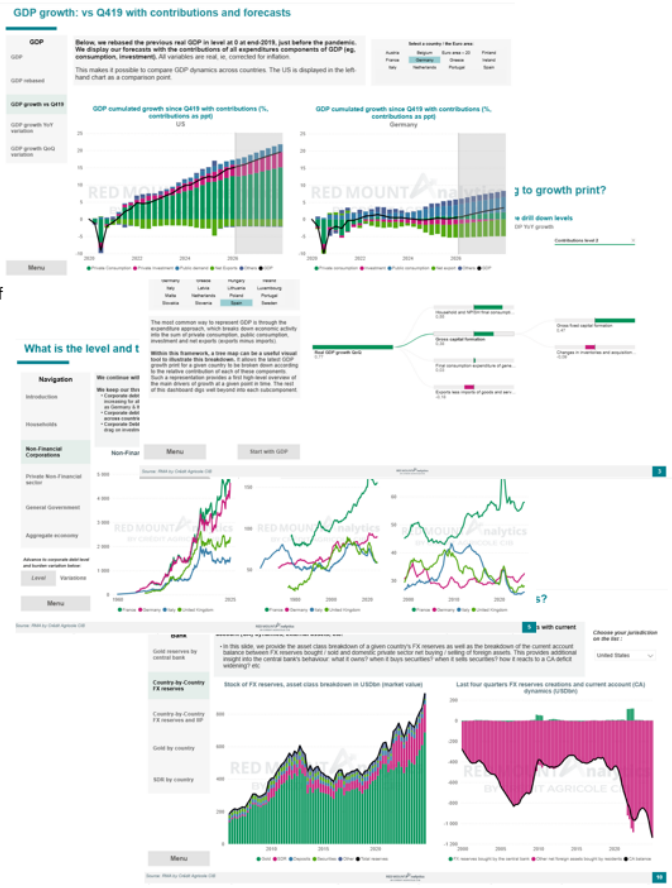

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