

JCTB: latest auction shows greenium is back

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On 25 May 2026, the 9th Japan Climate Transition Bond (JCTB) was auctioned. These bonds have their proceeds designated for Japan's GX transformation programme, and can therefore be considered sustainable investments. In previous issuances there has been a notable lack of 'greenium', where green bonds are priced at tighter yields to equivalent vanilla bonds.[1]

In this auction however, the new bond priced at around 4bps greenium to the existing traditional bond of the same coupon and tenor. The bonds also had a larger bid/cover ratio than previous tranches, at around 4.6 times indicating increased investor demand (although it is worth noting the issue size was smaller at JPY250bn, equivalent to about USD1.57bn). Full details of Japan's JCTB issuance and primary market greenium is shown in Table 1.

A lower issuance yield could imply emerging demand for JCTBs. We offer two observations that could potentially explain some of this demand, despite the smaller issue size :

- Recent increases in the JGB yield may have reduced the preferred duration for investors, thus increasing demand for this risk bucket.
- Collateral eligibility rules mean these bonds can be posted to BoJ which may lower the hurdle rate for such investments.

Either way, where thematic-labelled bonds can be issued at tighter yields than vanilla products, this suggests increased investor demand for such projects. And for the issuer, it offers attractive funding for transition projects.

Table 1. Greeniums of JCTBs at issue. Source: Bloomberg Finance L.P., accessed 2 Jun 2026.

ISIN	JCTB	Issue Date	Cpn (%)	Amt (JPY Bn)	Maturity	Bid/ Cover	Equiv JGB	ISIN	Yield at issue date JGB	Yield at issue date JCTB	Greenium (bps)
JP1480011Q23	10-yr	15/2/24	0.7	799.5	20/12/33	2.90	NA	NA	NA	NA	NA
JP1470011Q24	5-yr	28/2/24	0.3	799.8	20/12/28	3.39	0.328	JP1051651Q27	0.35	0.339	1.10
JP1480021Q54	10-yr	29/5/24	1	699.6	20/3/34	3.31	NA	NA	NA	NA	NA
JP1470021Q71	5-yr	19/7/24	0.5	699.4	20/6/29	3.19	0.529	JP1051721Q98	NA	0.595	NA
JP1470031R78	5-yr	16/7/25	1	299.8	20/6/30	3.98	1 30	JP1051791R76	1.074	1.098	-2.40
JP1480031RA4	10-yr	22/10/25	1.6	299.8	20/9/35	3.56	NA	NA	NA	NA	NA
JP1470041S18	5-yr	26/1/26	1.6	299.9	20/12/30	3.49	1.630	JP1470041S18	1.675	1.684	-0.90
JP1480041S33	10-yr	16/3/26	2.1	299.9	20/12/35	3.42	2.135	JP1103811S13	2.203	2.195	0.80
JP1470051S56	**5-yr**	**26/5/26**	**1.9**	**250.0**	**20/3/31**	**4.62**	**1.931**	**JP1201271B58**	**1.982**	**1.941**	**4.10**

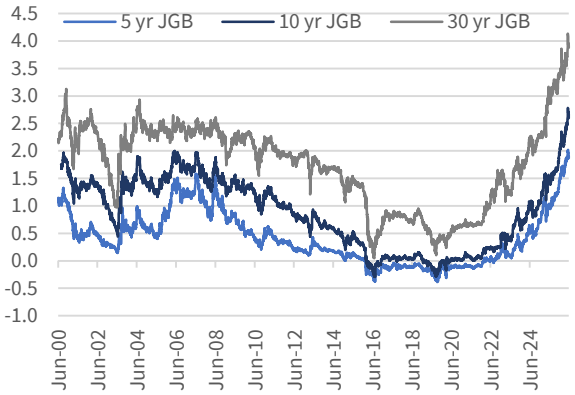
[1] For earlier analysis please see "Latest 5yr JCTB auction receives warm reception despite market volatility", AFII, 18 Jul 2025 and "Twin bonds: recap ahead of Denmark's EuGB issuance", AFII, 19 Sep 2025.

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Japan yield moves

The first point for consideration is movements in the overall yields.

Figure 1. JGB historical yields (2000-2026). Source: Bloomberg Finance L.P., accessed 2 Jun 2026.



The 5-year JGB yield has almost approached 2%, which is a yield not seen since prior to 2000 and could be seen as an inflection point for some demand (see Figure 1).

The JGB yield curve has been shifting higher and under pressure, especially since last year.

Inflation risk premium is driving part of the yield surge, fueled by the Middle East war, concerns on fiscal discipline under Takaichi's administration, and risks that the Bank of Japan could be behind the curve on raising rates.

The term premium has also continued to rise for 10 years and above maturity JGBs, reflecting JGB supply-demand dynamics. The Bank of Japan (BoJ) has been gradually reducing the pace of its JGB purchases, and they have held about 49% of the JGB market.[2]

This heightens a risk of further sell-off in yen rates. JCTBs are currently offered in the 5 and 10 year maturity buckets and the 10-year maturity is more vulnerable in that scenario.

Thus, 5-year JCTBs should be the duration of choice for duration sensitive buyers, and also the sweet spot for banks' investments.

Collateral eligibility considerations

Secondly, there is a factor which is not new, but may be receiving increased attention, the fact that JCTBs can count towards eligible climate-related collateral for the Bank of Japan's climate-response financing operations.

Table 2. Loan disbursements under the "Funds-supplying operations to support financing for climate change responses (2024-2026)

Auction announced	Total amount of loans to be disbursed (bn JPY)	Outstanding balance of loans (bn JPY)
29/1/2026	10,955.2	21,114.6
17/7/2025	10,159.4	17,129.8
29/1/2025	6,970.4	14,206.5
18/7/2024	7,236.1	11,962.6
29/1/2024	4,726.8	8,166.6

Eligible investments are entitled to the effective funding rate under this facility, and are conducted via an auction-style process, with 1 year maturity, but rollovers are granted during the implementation period which is until FY2030.[3]

This funding operation, announced since 2021, is used to support the financing of the private sector for climate change activities, through which the BoJ provides loans against eligible collateral. The BoJ approach differs slightly from the ECB collateral framework that penalises climate risk by adding a climate factor adjusting down the collateral valuation, discouraging

[2] "Japanese Government Bonds", Ministry of Finance, Japan, May 2026.
[3] "Fund-Provisioning Measure to Support Efforts on Climate Change", Bank of Japan, Jan 2021.

lending to assets with high climate transition risk.[4] The BoJ instead rewards banks with cheaper funding linked to the climate-related assets on the bank balance sheet. This allows JCTBs to become more widely usable and valued as collateral and more attractive for banks to hold. JCTBs are also qualified as green investments to contribute to addressing climate change.

Under this facility, the amounts disbursed have gradually increased from 2024 to the most current reported on Jan 29, 2026. Please see Table 2 (on the previous page) for details. The auctions have been conducted on a bi-annual basis. Although there is no description of the collateral being posted for this facility, it is nevertheless encouraging to see an increasing amount of loans to be disbursed and outstanding under this facility. This could potentially provide an additional, policy-linked source of demand for JCTBs.

Conclusions

Sovereign green bonds in developed markets and Japan Climate Transition Bonds have historically priced with only a small greenium (if any) of around 1–2 bps at primary issuance (including Denmark's EuGBs in 2025). However, the latest JCTB priced with a notably larger greenium of about 4 bps.

This could suggest a meaningful pocket of investor demand, with buyers demonstrably willing to accept a lower yield on JCTBs relative to comparable JGBs. **This pricing dynamic should support ongoing issuance.**

Version Log

Date	Comment
04 June 2026	Document published
15 June 2026	Document updated to reflect that eligible investments are entitled to the effective loan rate, rather than 0% for the facility. Added statement on JCTB qualifying as green investments to contribute to addressing climate change.

[4] Please see AFII's paper on ECB collateral, "The reformed SSA trader: Please shower before entering the pool", AFII, 15 Aug 2025.

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