

The Role of the Average Maturity in the Transmission of Quantitative Easing: Evidence from the Bank of Japan

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Abstract

This study investigates the transmission of the Bank of Japan's (BOJ) unconventional monetary policy by analyzing the maturity structure of its holdings of Japanese Government Bonds from 2001 to 2024. First, we document the distinct shifts in the BOJ's portfolio composition across different policy regimes, highlighting the strategic variations in maturity targeting. Second, using cointegration analysis, we identify a stable long-run equilibrium in which extending the average maturity significantly reduces the 10-year yield; regression analysis further reveals that this reduction operates through a dual channel, simultaneously compressing risk premia and lowering interest rate expectations. Finally, Local Projections reveal that maturity extension shocks lead to persistent increases in the price level and bank lending, alongside cyclical improvements in industrial production. Counterfactual simulations highlight a distinct contrast between policy regimes: During the Quantitative Easing Policy period, the concentration of purchases in relatively short-term bonds reduced the average maturity, thereby offsetting potential stimulative effects; conversely, the rapid maturity extension during the Quantitative and Qualitative Easing period significantly drove price growth and credit expansion.

Keywords: Unconventional monetary policy, Government bond purchases, Average maturity, Interest rates, Counterfactual simulation

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