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Is the market for the Japanese Government Bonds still insulated from external forces?*

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Abstract

How effective are monetary policies in insulating domestic markets for government bonds from foreign pressures? This paper tries to address this question by studying the market for the Japanese Government Bonds (JGBs), where the Bank of Japan (BOJ) has been a dominant player since 2013. For that purpose, this paper utilizes a new data set on the BOJ's estimated daily holdings of the JGBs, classified by both their terms and issuance dates, to construct a daily measure of the BOJ's JGB market intervention. This allows me to estimate how daily changes in external market forces, represented by the US Treasury Bond yields, impact both the BOJ's bond purchases and the JGB yields. It is shown that the BOJ, when it chose to do so, could effectively shut out influences of foreign markets from the domestic bond market through aggressive bond purchases. On the flip side, the finding implies that, with the termination of the BOJ's unconventional monetary policies in 2024, the JGB market could now see enhanced influences of external forces.

* Key Words: Government Bonds, Financial Transmission, Monetary Policy, Quantitative Easing, Yield Curve Control. JEL Codes: E43, E44, E52, G12.

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