

Daiwa's View

FICC Research Dept.

Impact of fiscal policy and QT on JGB term premium

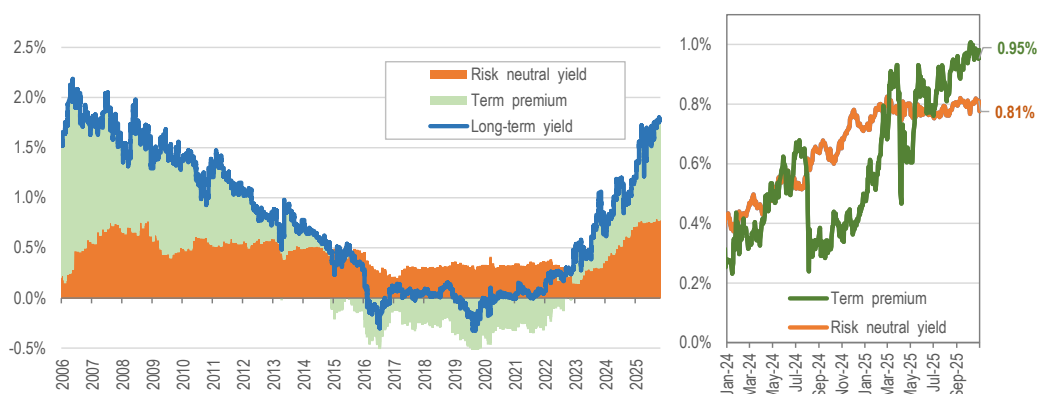
- Launch of Takaichi administration and JGB term premium
- Term premium is influenced by fiscal policy “stock” variables and QE/QT “flow” variables
- 1% deterioration in ratio of outstanding JGBs to GDP raises term premium by 1bp

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Launch of Takaichi Administration and term premium

The Takaichi administration, which advocates for “responsible expansionary fiscal policy,” has gotten off to a start. And, key cabinet members have made statements condoning increased issuance of JGBs to meet fiscal needs. This, in addition to discussions about increasing defense spending, is a key point of interest for bond investors. As for the administration’s relationship with the central bank, Prime Minister Sanae Takaichi has expressed the view that the government holds the ultimate responsibility for macroeconomic policy, including monetary policy. Leaving aside whether this conflicts with the sensitive issue of central bank independence, there is no doubt that the relationship between the government and the central bank is changing from what it used to be with the Kishida and Ishiba cabinets. In light of this situation, this report examines the impact of fiscal policy and central bank balance sheet policy (QE/QT) on the long-term yield, particularly the term premium.

Chart 1: Daiwa JGB Term Premium (10yr: DWJGTP10)

Source: Compiled by Daiwa.

Update to term premium model

In our *Daiwa Memorandum* in June 2024, we conducted a regression analysis on the Daiwa JGB Term Premium to quantitatively analyze the impact of the outstanding balance of JGBs and the BOJ's JGB holdings. We also presented a similar analysis at the MOF's Study Group on Government Debt Management in May 2025. This report is an improved version that incorporates discussions with experts from that study group.

In our June 2024 analysis, we used the logarithms of the outstanding JGB balance and the amount of the BOJ's JGB holdings as variables for fiscal policy and QE/QT. This time, however, we use their ratios to nominal GDP, which are more common when discussing fiscal policy, as explanatory variables. With these variables, both the balance (i.e., the stock) and the change in the balance (i.e., the flow) may have an impact on term premium simultaneously. Therefore, this time, by including both stock and flow variables in the estimation formula, we aim to gain a more detailed understanding of their respective impacts. For the flow variables, we use the y/y increase in the outstanding JGB balance and the increase in the BOJ's JGB holdings¹, each divided by nominal GDP. The other explanatory variables for the term premium, namely the JGB VIX and the US Treasury term premium, remain unchanged from the previous analysis.

Term premium is influenced by fiscal policy “stock” variables and QE/QT “flow” variables

Chart 2 shows the results of regression analyses that incorporate only stock variables, only flow variables, and both stock and flow variables as explanatory variables. First, looking at the stock variables, we find that the amount of BOJ JGB holdings is negatively significant in the model including both stock and flow variables, but the level of significance is not necessarily high. Moreover, the amount of BOJ JGB holdings is not significant at all in the “stock only” model. Meanwhile, the outstanding JGB balance is clearly and positively significant in both models (the “stock only” model as well as the model including both stock and flow variables).

Next, looking at the flow variables, we find that the increase in BOJ JGB holdings is negative in both models. However, the amount of JGBs issued has negative coefficients in both models. Their signs are contrary to expectations, and their significance is not high. Moreover, the results suggest that the amount of JGBs issued is not significant in the “flow only” model, and has no impact.

Chart 2: Results of Regression Analysis

Explanatory variables		Explained variable JGB term premium (TP_JGB)		
		Only stock variables	Only flow variables	Both stock and flow variables
JGB VIX		11.71 *** (0.000)	9.60 *** (0.000)	9.68 *** (0.000)
UST term premium		0.33 *** (0.000)	0.23 *** (0.000)	0.29 *** (0.000)
BOJ's JGB holdings/GDP ratio	BOJ/GDP	-0.11 (0.411)		-0.33 ** (0.018)
Outstanding JGBs/GDP ratio	JGB/GDP	0.79 *** (0.003)		1.14 *** (0.000)
Increase in BOJ's JGB holdings/GDP ratio	D_BOJ/GDP		-2.29 *** (0.000)	-1.85 *** (0.000)
Increase in JGB Issuance/GDP ratio	D_JGB/GDP		0.43 (0.436)	-1.45 ** (0.039)
Constant term	Intercept	-152.96 ** (0.000)	-9.75 ** (0.048)	-171.80 *** (0.000)
Determination coefficients		0.7858	0.8244	0.838

Source: BOJ, Bloomberg; compiled by Daiwa.

Notes: (1) One, two, and three stars indicate statistical significance at the 10%, 5%, and 1% level, respectively.

(2) P-value shown in parentheses.

(3) Monthly data from Jan 2008 to Jun 2025.

(4) Used our estimates for JGB term premium.

¹ BOJ policy board member Hajime Takada also emphasizes the y/y change in the amount of outstanding JGBs in the market, which is the total outstanding balance of JGBs excluding the amount held by the BOJ. Details are given in his speech on 20 Oct 2025 entitled “[Economic Activity, Prices, and Monetary Policy in Japan: Japan as a Leading Asset Management Center.](#)”

All in all, with regard to the outstanding balance of JGBs, the stock (as a ratio to GDP) has an impact on the term premium, but the impact of the flow is minimal. In contrast, with regard to BOJ JGB holdings, the flow has a larger impact than the stock. Indeed, as the MOF smooths out JGB issuance by utilizing front-loading refunding bonds and other measures, the impact of the flow seems to be limited. Conversely, with regard to BOJ JGB purchases, due to flexible adjustments to the amounts purchased, the flow may have a greater impact than the stock, which had previously been said to have a greater impact.

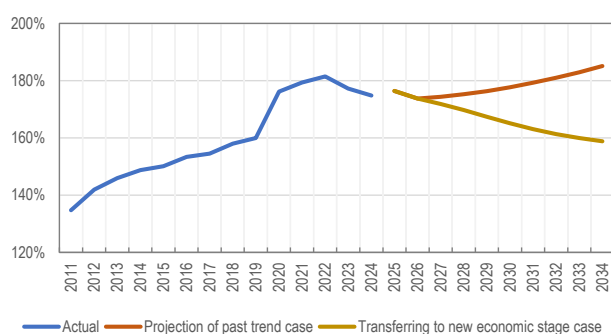
Impact of fiscal policy and QT on term premium

To get a picture of the situation in quantitative terms, we confirm the coefficients of the model, incorporating both stock and flow, and find that a 1% deterioration in the ratio of outstanding JGBs to nominal GDP pushes up the term premium by about 1bp. Meanwhile, a y/y 1% increase in the ratio of BOJ JGB holdings to nominal GDP pushes down the term premium by about 2bp.

Reviewing the Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis" shows that the national government debt-to-GDP ratio in "the projection of past trend case" is expected to rise from the recent level of around 175% to about 185% over the next ten years. In contrast, in the "transferring to a new economic stage case," although the debt balance itself does not change significantly, the debt ratio is projected to decline to about 160% due to an increase in nominal GDP, resulting in a 25% difference between the two scenarios. Applying this to our model would serve as a factor that could bring about a 25bp change in the term premium. The level of the fiscal premium will differ depending on whether the growth strategy envisioned by the Takaichi administration leads to actual growth.

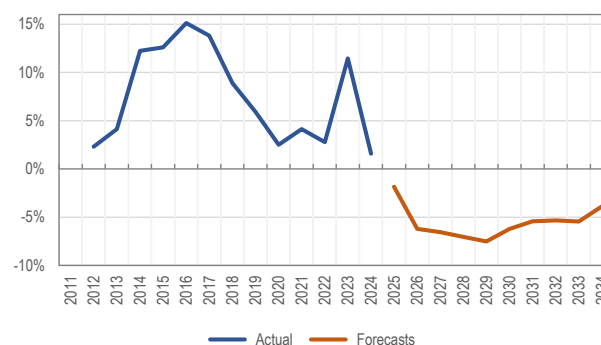
Furthermore, based on the QT simulation introduced in a previous report², projecting the future ratio of BOJ JGB holdings to GDP shows that it will decrease at a pace of about 5% to 7.5% per year from 2026 onwards. Applied to our model, this would serve as a factor that raises the term premium by about 10bp to 15bp. While the market already appears to have priced in QT itself to some extent, any change in its perception of the situation will likely affect the long-term yield via the term premium.

Chart 3: Outstanding Government Debt/GDP Ratio



Source: Cabinet Office's "Economic and Fiscal Projections for Medium to Long Term Analysis;" compiled by Daiwa.

Chart 4: Change in BOJ's JGB Holdings/GDP Ratio



Source: BOJ; compiled by Daiwa.

² This time, we used the "QT continuation scenario," which is the more intermediate case among the three scenarios shown in our report [Daiwa's View: BOJ's quantitative tightening and optimal balance sheet debate](#) on 21 Oct 2025.

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