

# Daiwa Memorandum

## Previewing BOJ's interim assessment of JGB purchases

- BOJ to keep planned JGB purchase reductions through March 2027
- Expect BOJ to cut monthly purchases by ¥100bn per quarter from April 2027
- BOJ JGB holdings, current account balances pose no obstacle to further reductions

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The Bank of Japan (BOJ) will conduct an interim assessment of its plan to reduce JGB purchases at the June Monetary Policy Meeting (MPM). It has already published planned JGB purchase amounts through March 2027, and it will be some time before the plan from April 2027 (to be set as part of this interim assessment) actually impacts JGB supply-demand. That said, the major potential size of this impact makes the interim assessment a growing focus of attention, and in this report we therefore lay out our current expectations for it.

To gauge how the market views reductions in JGB purchases, we turn first to the minutes of the most recent Bond Market Group meeting, held in December 2025. Most participants expressed positive views, for instance that the reduction has been "conducted in a gradual and predictable manner, without surprises, and has not generated unnecessary volatility." Some participants also noted that "the moves reflect views on fundamentals and on monetary and fiscal policy, and likely represent the market's price-discovery function working as intended." There seem to have been few negative views on the reductions even in the context of rising yields.

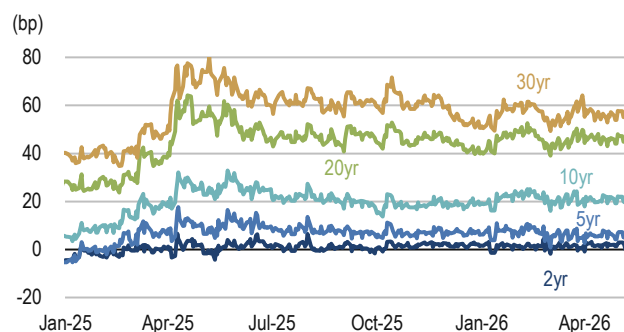
If anything, many participants see the reduction in purchases as supporting the recovery of JGB market functioning. One comment was that "to restore the market's price-discovery function and liquidity, the amount held by the market needs to rise further." Naturally, a situation could emerge in which the JGB market destabilizes to the point of harming the real economy and it is no longer appropriate for the BOJ to continue reducing purchases. At present, however, volatility is rising but has not reached extreme levels (Chart 1), and the asset-swap (ASW) spread (which captures cash-bond-specific supply/demand conditions) also remains stable (Chart 2). We think the market's positive view of the reduction policy per se remains largely unchanged at this point.

Chart 1: S&P/JPX JGB VIX Index



Source: Bloomberg; compiled by Daiwa.

Chart 2: JGB ASW Spreads



Source: Bloomberg; compiled by Daiwa.

The minutes of the May 2025 Bond Market Group meeting, held just before the previous interim assessment in June 2025, included the view that "from the standpoint of preserving predictability, the current plan should be maintained, without revisions such as accelerating the reduction or making a large one-off cut." Preserving predictability while conducting balance-sheet reductions (quantitative tightening, QT) is critical to maintaining market stability, and we think the BOJ is very likely to retain its published purchase plan through March 2027 at the upcoming interim assessment.

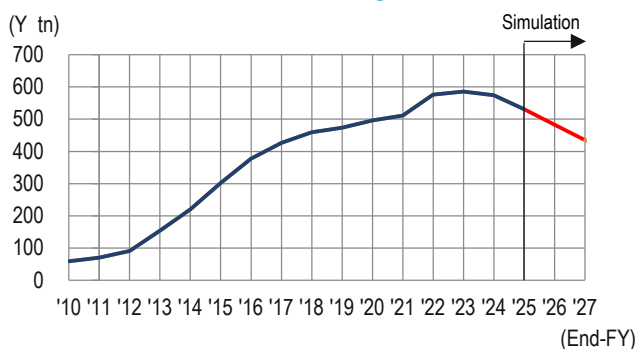
The May 2025 minutes also inform our view on the pace of reductions from April 2027. Discussions on the eventual level of monthly purchases diverged, with some advocating cutting them to zero while others argued for halting reductions at around Y3tn. On the whole, however, many participants saw monthly purchases of around Y1–2tn as the rough benchmark, with one noting that "monthly purchases should be reduced to the Y1–2tn level that prevailed before JGB purchases were sharply increased."

Given that monthly purchases are already scheduled to shrink to Y2.1tn in Jan–Mar 2027, the view that reductions should halt at around Y3tn has clearly not been adopted. We think the BOJ has (for now) Y1–2tn in mind as the rough target for monthly purchases. A drop to Y2.1tn would reach the upper bound of that range, but given the size of the BOJ's JGB holdings, we think reductions will continue somewhat further.

Given the above, we expect the BOJ to announce a plan at the June MPM that again slows the pace of reductions from Apr–Jun 2027, cutting monthly purchases by Y100bn per quarter. That would mean purchases in Jan–Mar 2028 fall to Y1.7tn, approaching the midpoint of the Y1–2tn benchmark range. We think the BOJ will conduct another interim assessment in mid-2027 and decide on the purchase policy from April 2028 while checking market conditions.

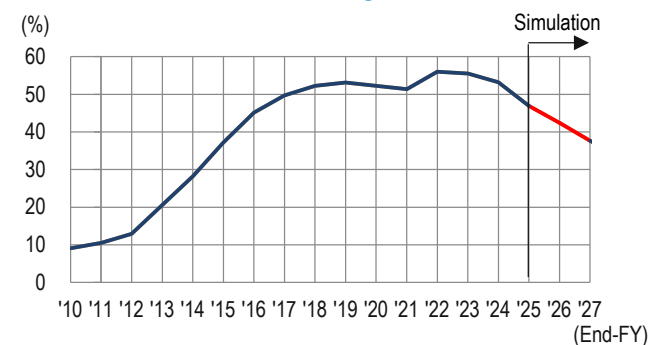
If JGB purchases proceed as we assume, we estimate that the BOJ's holdings will shrink to around Y430tn by end-FY27 (Chart 3). Using the past-projection case in the Cabinet Office's medium- to long-term economic and fiscal projections as the assumption for outstanding JGB issuance, we also estimate that the BOJ's share of outstanding JGBs will fall to 35–39% by end-FY27 (Chart 4).

**Chart 3: Amount of BOJ's JGB Holdings**



Source: BOJ, MOF, Cabinet Office; compiled by Daiwa.

**Chart 4: BOJ's Share of Outstanding JGBs**



Source: BOJ, MOF, Cabinet Office; compiled by Daiwa.

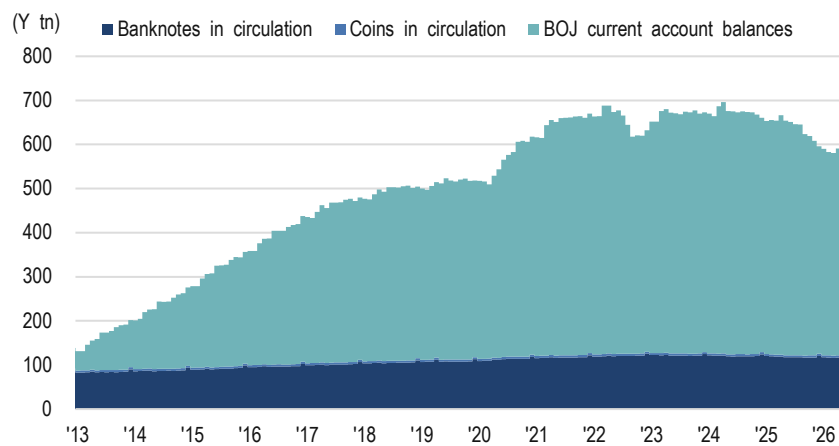
While the BOJ's JGB holdings are set to decline, we think the high level relative to overseas central banks (whose holdings are roughly 10–30% of outstanding issuance) will ensure market stability from a stock perspective despite the reduction in purchases. From a flow perspective, BOJ JGB purchases as a percentage of issuance will keep falling unless JGB issuance drops sharply from FY27; but as long as that pace remains gradual and considerate of market conditions, it is unlikely to undermine market stability.

On a slightly different subject, we also think the BOJ will be monitoring current account balances as a gauge of financial system stability. These totaled around Y470tn at end-April, roughly 70% of 2025 nominal GDP (Chart 5), far above the 8–10% that the Fed used as its rough threshold for

balance-sheet reductions under its ample-reserve regime. Direct Japan/US comparisons may not be entirely appropriate, but it does not alter the conclusion that Japan's current account balances are very large. Even if they contract as the BOJ's JGB holdings decline, the gradual downtrend implied by our estimates (around Y50tn per year) means that balances will likely remain elevated for some time, even if we factor in a decline in operational balances outside JGB purchases.

Based on trends in BOJ JGB holdings and current account balances, we see no major obstacles to continuing to reduce JGB purchases from Apr–Jun 2027. On that basis, our current assumption is that monthly purchases will be cut by Y100bn per quarter from Apr–Jun 2027. The BOJ's response could of course shift depending on subsequent market developments, and we will initially be watching the discussion at the Bond Market Group meeting scheduled for 21–22 May.

**Chart 5: Monetary Base (amount outstanding)**



Source: BOJ; compiled by Daiwa.

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