

Impact of the Bank of Japan's Reductions in JGB Purchases on the JGB Markets

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Since summer 2024, the Bank of Japan has been gradually reducing its outright purchase amount of long-term Japanese government bonds (JGBs), based on a plan decided at its Monetary Policy Meeting (MPM), so that the Bank can improve the functioning of the JGB markets in a manner that supports stability in the markets. While the impact of these reductions on interest rate formation has gradually realized, it is suggested that the recent rise in long-term interest rates has been driven, to a certain extent, by fundamental factors such as the rise in the underlying inflation. The functioning of the JGB markets has been steadily improving as the Bank makes progress in reducing its JGB purchases, with long-term interest rates being formed more freely in the financial markets. While Japanese investors such as banks and households have gradually increased their JGB holdings, such portfolio adjustments are likely to take some time. The Bank going forward will continue to carefully monitor developments in these portfolio adjustments as well as trends in the JGB markets and their functioning as such progress unfolds.

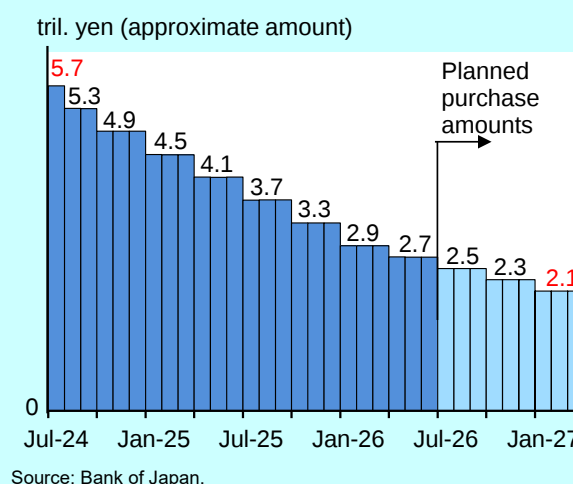
Introduction

As part of its large-scale monetary easing policy in the past, the Bank purchased large amounts of JGBs from the market. In line with the changes in the monetary policy framework in March 2024, however, the Bank the following July decided on a "Plan for the Reduction of the Purchase Amount of Japanese Government Bonds," and has since been gradually reducing outright purchase amounts. The Bank's aim in moving forward with the reductions is to improve the functioning of the JGB markets in a manner that supports stability in the markets, by scaling back the significant market presence the Bank had built up through past large-scale monetary easing, with the thinking that, in principle, long-term interest rates are to be formed in financial markets.

Under the plan, the Bank has been reducing its purchase amount of JGBs in a predictable manner while allowing enough flexibility to support stability in the JGB markets. In terms of predictability, the Bank has indicated in advance the monthly amount of JGB purchases (the pace of reductions) in its plan. Specifically, under the initial plan in July 2024, the Bank decided to reduce its monthly purchase amount, which had been nearly 6 trillion yen before reductions began, by around 400 billion yen each calendar quarter until March 2026. Under the new plan in June 2025, the Bank decided to reduce the purchase amount by about

200 billion yen each calendar quarter through March 2027 (Chart 1).¹ As a result, the monthly purchase amount as of March 2027 will be around 2 trillion yen, which is equivalent to about one-third of monthly purchases before the start of reductions. With regard to ensuring flexibility, meanwhile, the Bank decides specifics such as the purchase amount of JGBs by residual maturity on an operational level, taking account of market conditions at each point in time.² Moreover, in exceptional circumstances, such as a rapid rise in long-term interest rates in a manner that differs from normal market developments, the Bank

[Chart 1] The Bank's Purchase Amount of JGBs
(after Reductions Began in Summer 2024)



will make nimble responses to encourage stable interest rate formation in the markets by, for example, increasing the amount of JGB purchases.

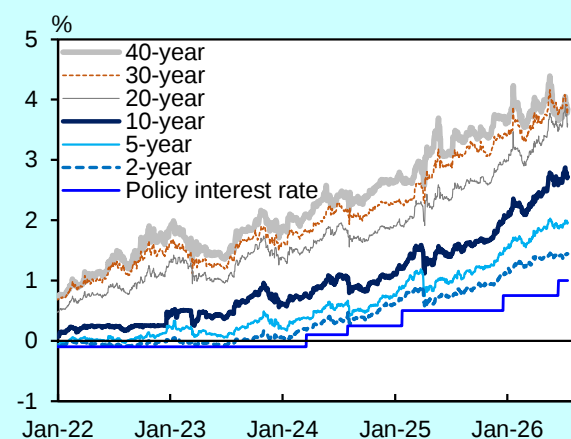
This paper considers the impact of the reductions in the Bank's JGB purchases on the JGB markets. Specifically, it quantitatively assesses the impact of the reductions on interest rate formation, and examines improvements in the functioning of the JGB markets and trends in the JGB holdings of investors as the reductions progress.

Impact of the Bank's Purchase Reductions on Interest Rate Formation

Factors influencing long-term interest rates

Long-term interest rates are assumed to be formed in theory by adding a term premium, which corresponds to various risks associated with holding government bonds, to expected short-term interest rates. They fluctuate to some extent, reflecting market views on future developments in economic activity and prices, as well as monetary and fiscal policies, in addition to changes in overseas interest rates. Looking at trends in long-term interest rates (10-year government bond yields) in recent years, as Japan's economy continues to recover moderately and as a mechanism for moderate wage and price increases has taken root, long-term yields have trended upward, and are currently in the upper 2 percent range (Chart 2).

[Chart 2] Long-Term Yields in Japan

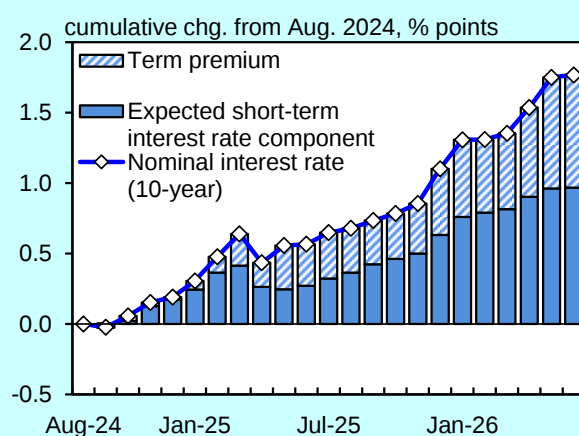


Source: Bloomberg.

Breaking down this rise in long-term yields into the factors underlying the rise in the aforementioned expected short-term interest rate component and the expansion of the term premium, it is estimated that, from summer 2024, when the Bank began reducing its JGB purchases, up to the present, both factors have contributed to roughly the same degree (Chart 3).³ Of the two, the rise in the expected short-term interest rate

component is considered to be due to the fact that market participants increasingly are upwardly revising their views on the peak level of the policy interest rate, against the backdrop of changes in fundamental factors such as the gradual rise in underlying inflation in Japan and the increase in people's inflation expectations. On the other hand, the expansion of term premiums is thought to be influenced by a variety of factors, including supply and demand conditions in the JGB markets, market views on uncertainties surrounding fiscal and monetary policies, and trends in overseas interest rates, and the impact of the Bank's reductions in JGB purchases is included among these factors.

[Chart 3] Decomposition of Long-Term Yields into Factors



Notes: 1. Data are as of end-June 2026.

2. Estimates based on the term structure model in Imakubo and Nakajima (2015).

Sources: Bank of Japan; Bloomberg; Consensus Economics Inc., "Consensus Forecasts."

Relationship between term premiums and JGB purchases

In what follows, this paper considers the relationship between term premiums and the Bank's purchases of JGBs. The mechanism by which a central bank's purchases of government bonds influence long-term interest rates through term premiums is often conceptually divided into stock and flow effects. The stock effect refers to the anticipated impact when a central bank's large-scale holdings of government bonds lessen the amount of interest rate risk in the market, thereby pushing down interest rates as market participants take on new risks. The flow effect, meanwhile, refers to the anticipated impact when a central bank purchases government bonds through open market operations, directly influencing supply and demand in the secondary bond markets and thereby pushing down interest rates.

Many empirical studies in recent years have pointed

out that the stock effect is more persistent to interest rate formation.⁴ In Japan as well, the Bank's December 2024 Review of Monetary Policy from a Broad Perspective presents estimates indicating that the downward pressure on interest rates resulting from the Bank's large-scale JGB purchases gradually intensified—driven primarily by the stock effect—following the 2013 introduction of Quantitative and Qualitative Monetary Easing (QQE) and that, since the 2016 introduction of Yield Curve Control (YCC), its JGB purchases exerted downward pressure on interest rates by up to about one percentage point.⁵

Estimates of the impact of purchase reductions

With these points in mind, the following section provides a quantitative assessment of the extent to which the Bank's reductions in JGB purchases have impacted the recent rise in long-term interest rates.

First, we attempt to estimate the stock effect. Here, drawing on the regression model used in the Review of Monetary Policy from a Broad Perspective,⁶ the dependent variable is set as the term premium of the 10-year bond yield, and the explanatory variables include primary economic and financial variables and

a variable capturing the stock effect of JGB purchases (specifically, forecasts of the Bank's share of JGB holdings). The estimation results show that the variable capturing the stock effect is statistically significant. This suggests that a waning of the stock effect due to the Bank's reductions of its JGB purchases is affecting long-term interest rates through an expansion of term premiums (Chart 4(1)). In terms of the degree of impact, however, by estimating the contribution to the rise in long-term interest rates since the start of the purchase reductions, we find that the impact is modest, at around 10 basis points (left panel of Chart 4(2)).⁷ In light of this, despite the gradual reductions in JGB purchases starting in summer 2024, given that the Bank's JGB holdings remain substantial, the stock effect, viewed as a whole, is likely to continue exerting downward pressure on term premiums.

Next, we look at the flow effect. Recent empirical analyses highlight the importance of recognizing that the impact on term premiums of the amount of government bond purchases on a flow basis may differ depending on the context—between a phase involving large-scale government bond purchases by a central bank, where the amount outstanding of its holdings is

[Chart 4] Impact of the Bank's Purchase Reductions on Interest Rates

(1) Estimation results: long-term interest rate models

			(a)	(b)	
				Model I	Model II
Dependent variable:			10-year term premium		
Stock effect	Expectation of changes in BOJ's share of JGB holdings in 2 years		-0.017 ***	-0.008 **	-0.023 ***
Flow effect	Share of the Bank's JGB purchases to issuance	A		0.002	
		B		-0.010 ***	
	Monthly changes in the Bank's share of JGB holdings	A			0.154
		B			-0.616 **
Constant			0.431 ***	0.557 ***	0.406 ***
Adjusted R-squared			0.842	0.823	0.841
Estimation period			January 2009 to June 2026		

In the above table:

A: Phase where the Bank's JGB holdings are increasing.

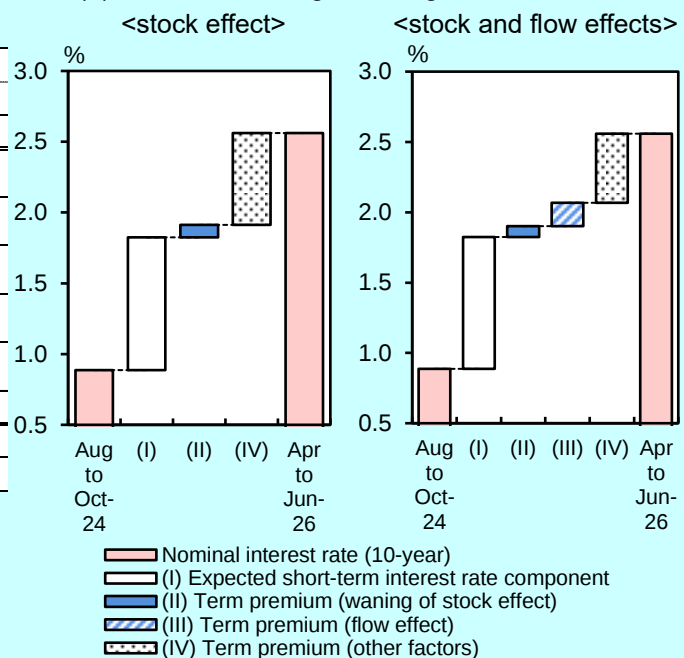
B: Phase where the Bank's JGB holdings are decreasing.

Notes: 1. Regarding the table (1), (a) presents estimates based on a model built on Nakazawa and Osada (2024), and (b) presents estimates based on a model built on Nakazawa and Osada (2024), which is extended to account for the asymmetry of flow effects over time by incorporating dummies for the period of QQE and the period of the Bank's reductions in its JGB purchases. Model I provides estimation results focusing on gross amounts purchased by the Bank, while Model II provides estimation results focusing on changes in the share of JGB holdings by the Bank. U.S. long-term interest rates, inflation rates, and other variables are used as control variables. *** and ** denote statistical significance at the 1% and 5% levels, respectively.

2. The charts in (2) provide decompositions of the factors affecting long-term yield fluctuations after July 2024 (the Bank announced the plan to reduce its JGB purchases), based on the estimation results of (1). In (2) the left chart is calculated using (a), while the right chart is calculated using the average of contributions estimated by Models I and II in (b). The decompositions into the expected short-term interest rate component and the term premium are based on the term structure model in Imakubo and Nakajima (2015).

Sources: Bank of Japan; Ministry of Finance; Bloomberg.

(2) Factors for changes in long-term interest rates



increasing, and a phase involving reductions in the purchase of government bonds, where the amount outstanding of its holdings is decreasing.⁸

In making specific estimates, and taking this asymmetry into account, we added variables capturing the flow effect to the aforementioned regression model: in Model I, the share of the amount of the Bank's JGB purchases to the amount of JGBs issued; and in Model II, the month-on-month difference in the Bank's share of JGB holdings. We then used dummy variables for both phases, where the amount outstanding of the Bank's JGB holdings is increasing and where it is decreasing.⁹ The results show that, in the phase where JGB holdings are increasing, it does not hold that the increase in purchases affects term premiums—the flow effect is not statistically significant. However, in the phase where JGB holdings are decreasing, the results suggest that the reductions in purchases act to push up term premiums—the flow effect is statistically significant (aforementioned Chart 4(1)). Nonetheless, even when considering this flow effect together with the aforementioned stock effect, the contribution to the rise in long-term interest rates since the start of reductions has been about 25 basis points (right panel of aforementioned Chart 4(2)).

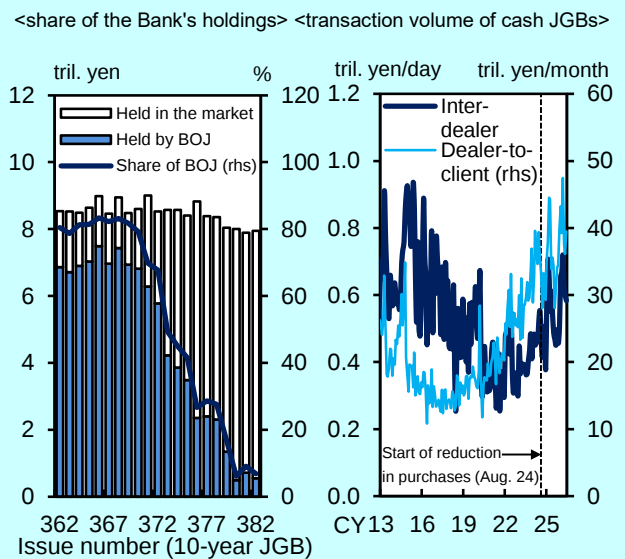
Estimates in this paper are merely attempts based on a simple regression model, and the results should be interpreted with some latitude. Nevertheless, the impact of the Bank's reductions in JGB purchases on the rise in long-term interest rates through the expansion of term premiums appears to be relatively small to date.

Improvements in the Functioning of the JGB Markets

Next, we examine the extent to which the functioning of the JGB markets has improved as the Bank makes progress in reducing its JGB purchases, looking at various data.¹⁰

First, there has been a clear shift in supply and demand conditions for on-the-run government bond issues. Looking at the share of the Bank's holdings of 10-year bonds by issue, during the period when it was conducting large-scale JGB purchases, the Bank purchased the majority of on-the-run issues from the market immediately after issuance. As the Bank reduces its JGB purchases, however, the share of its holdings of on-the-run issues has decreased significantly (Chart 5). Under these circumstances, the transaction volume for cash JGBs has followed a clear increasing trend, driven primarily by on-the-run issues.

[Chart 5] Share of the Bank's JGB Holdings and Transaction Volume

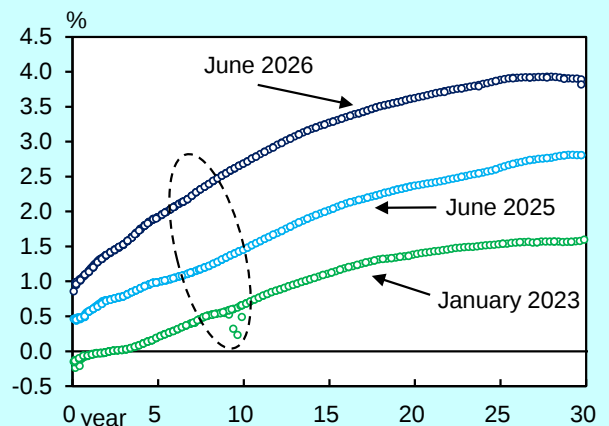


Notes: 1. Data in the left chart are as of end-June 2026.

2. The dealer-to-client transaction volume in the right chart is the gross amount purchased by city banks, regional financial institutions, investors, and foreigners. The inter-dealer transaction volume is the daily sum of 2- to 40-year JGBs. Data in the right chart are as of June 2026.

Sources: Bank of Japan; Japan Securities Dealers Association; Japan Bond Trading.

[Chart 6] Shape of the Yield Curve in Japan



Note: Yield curves at the end of each month, on a compound interest basis.

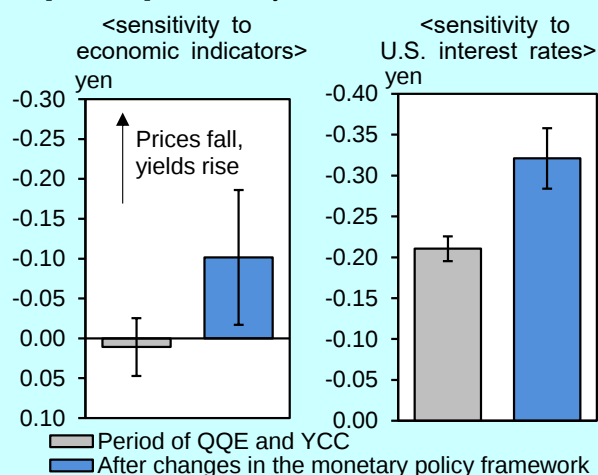
Source: Japan Securities Dealers Association.

Even for off-the-run issues, where the effects of the Bank's reductions in JGB purchases are less direct, improvements in market functioning are being observed. Looking at the shape of the yield curve, while there was previously a dip in yields in the 7-10 year zone, where the share of the Bank's holdings was particularly high, this distortion has recently largely dissipated, in part because the Bank took steps to reduce the repurchase amount of JGBs under the Securities Lending Facility (SLF), which contributed to an increase in the amount of cheapest-to-deliver issues available in the market (Chart 6).^{11,12} In this way, as

the Bank scaled back its market presence in terms of both on-the-run and off-the-run issues, the usage amount of the SLF by market participants has also recently been at low levels.¹³

As long-term interest rates come to be more freely formed in the financial markets, market views on future developments in economic activity and prices, as well as changes in overseas interest rates, are more readily reflected in day-to-day developments in interest rates. In fact, looking at the relationship between Japan's economic indicators and the prices of government bond futures, unlike during the period of the Bank's large-scale JGB purchases, bond prices now clearly react by falling (pushing yields up) when economic indicators are released that exceed market expectations (Chart 7). This movement can be seen as one part of evidence that the JGB markets are regaining the price-discovery function they are originally expected to perform.

[Chart 7] Sensitivity of Bond Futures Prices



Note: The left chart shows price changes in response to a 1 point increase in the Economic Surprise Index. The right chart shows price changes in response to a 0.1% point rise in U.S. interest rates. The price change in bond futures is measured from the morning session open to the morning session close on the same day for the left chart, and from the previous night session open to the morning session open on the current day for the right chart. Regarding the Economic Surprise Index, outliers defined as the top and bottom 5% of changes from the previous business day in the index are excluded. The period of QQE and YCC indicates April 2013 to March 2024, and the period after changes in the monetary policy framework indicates April 2024 to March 2026. Bands show the 90% confidence intervals.

Sources: QUICK; Bloomberg.

Trends in Investor Holdings of JGBs

While the functioning of the JGB markets is steadily improving, it is necessary to keep an eye on the stability of the markets, assuming that the amount of JGBs held by market participants will increase in line with the Bank's reductions of its purchases. With this in mind, we examine below how the landscape for investors' holdings of JGBs has shifted over the past few years.

First, the amount outstanding of the Bank's JGB

holdings decreased by 49 trillion yen as of the end of March 2026 compared to the end of June 2024—prior to the start of reductions—as the amount of redemptions continues to exceed the amount of purchases. Over the same period, as the outstanding balance of JGBs issued by the government increased by 46 trillion yen, the amount outstanding of JGB holdings by market participants rose by 95 trillion yen (Chart 8).¹⁴ Among market participants, JGB holdings by banks and other domestic depository corporations, pension funds, foreign investors, and—albeit to a lesser extent—households (individual investors) have all increased.

[Chart 8] JGB Holdings by Investor Type

	Mar. 13	Jun. 24 (A)	Mar. 26 (B)	tril. yen Jun. 24 to Mar. 26 (B)-(A)
Outstanding balance	768	1,104	1,150	+ 46
Held by the Bank	90	577	528	▲ 49
Held in the market	678	527	623	+ 95
Depository corporations	307	127	163	+ 36
Insurance, pension	272	297	312	+ 15
Insurance	172	196	190	▲ 5
Pension	100	101	122	+ 20
Others	99	104	148	+ 45
Households	23	14	20	+ 6
Overseas	41	67	94	+ 27

Note: The outstanding balance is the sum of general bonds and converted government bonds. The breakdown by investor type is an estimate based on the Flow of Funds.

Source: Bank of Japan.

As JGB yields rise, domestic depository corporations are gradually increasing their JGB holdings. As of the end of March 2026, the amount outstanding of their JGB holdings increased by 36 trillion yen compared to before the Bank's reductions began. Although depository corporations were the largest buyers of JGBs before the Bank initiated large-scale JGB purchases in 2013, the pace of recovery in their holdings has so far been moderate. On a related note, regarding these institutions' capacity to hold JGBs going forward, it will also be necessary to monitor the implications of Interest Rate Risk in the Banking Book (IRRBB) regulations.¹⁵

During the period when the Bank was conducting large-scale JGB purchases, the JGB holdings of pension funds remained more or less flat, at around 100 trillion yen, but this level has recently increased. Pension funds, in general, maintain a constant asset composition in managing their asset holdings from a risk management perspective. In the last fiscal year in

particular, amid a sharp rise in stock prices, the pension funds appear to have stepped up purchases of government bonds for so-called rebalancing purposes—selling stocks that increased as a percentage in their portfolio and buying JGBs that decreased as a percentage in their portfolio. Meanwhile, life insurance companies significantly increased their holdings of super-long-term bonds over the period from fiscal 2022 to fiscal 2024 to comply with the economic value-based solvency ratio regulations,¹⁶ but these moves have already run their course. Since last fiscal year, with life insurance companies taking a cautious stance toward increasing their holdings of super-long-term bonds, the amount outstanding of their JGB holdings has decreased by 5 trillion yen compared to before the Bank's reductions began.

The JGB holdings of overseas investors had already been trending upward from the time when the Bank was conducting large-scale JGB purchases, but the pace has picked up further in recent years, rising by 27 trillion yen compared to the period before the Bank began reducing its purchases. Looking at their holdings by residual maturity, the increase is notable for super-long-term bonds, which is attributed in part to the heightened investment appeal of bonds of that maturity. In other words, the yield curve in JGB markets in Japan has become steeper, and as a result, the investment yield on super-long-term JGBs, after factoring in currency hedging, is higher than the yield on super-long-term government bonds of the same maturity in the United States and Europe. Overseas investors also actively trade JGBs in secondary markets—as of the end of December 2025, they accounted for just under 50 percent of cash JGB market transactions and over 70 percent of the JGB futures transactions, evincing their steadily growing presence in the Japanese markets. It is essential to carefully monitor these developments, including their impact on interest rates.

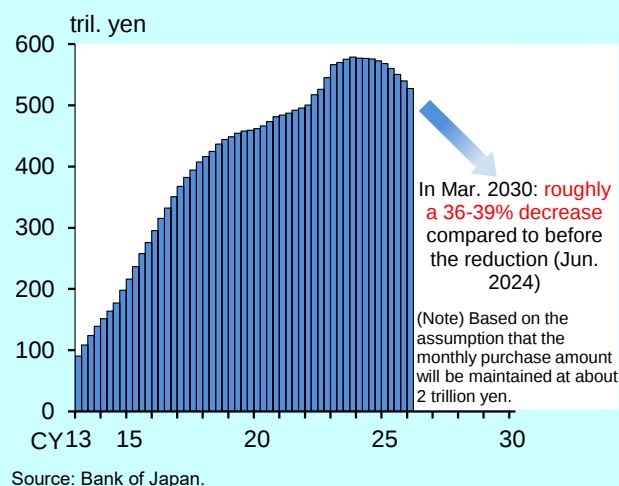
Meanwhile, although on a smaller scale than other investors, households' JGB holdings have recently increased. At present, three types of JGBs for retail investors are available: fixed-rate 3-year and 5-year bonds, and variable-rate 10-year bonds. The recent rise in interest rates has sparked a significant increase in sales of fixed-rate JGBs for retail investors. As a result, households' holdings of JGBs have increased by 6 trillion yen compared to before the Bank's reductions began. JGBs currently account for about 1 percent of overall household financial assets (approximately 2,400 trillion yen), while households' holdings account for less than 2 percent of the outstanding amount of JGBs issued. Going forward, however, if the shift from

savings to investment gains momentum and JGBs come to be preferred as safe, yield-generating assets, it is conceivable that households could eventually become a major holder of these instruments. In this regard, there has been growing momentum recently to establish new investment trusts that include JGBs. The government has also indicated its intention to move forward with reviewing the product characteristics of JGBs for retail investors, as plans for expanding the domestic investor base by heightening the appeal of JGBs for retail investors were stated in this year's Basic Policy on Economic and Fiscal Management and Reform.

Conclusion

As this paper points out, the functioning of the JGB markets is steadily improving since the Bank continues to reduce its JGB purchases. Thus, the need for further improvement to market functioning through reductions in purchases is gradually subsiding. Meanwhile, with increased interest rates making JGBs more appealing as an investment, banks, households, and other Japanese investors have been gradually expanding their JGB holdings, but it will take some time for these investors to smoothly increase JGB holdings. Considering this context, the Bank at its June 2026 MPM decided to halt reducing its JGB purchase amount from April 2027, and to purchase around 2 trillion yen worth of JGBs per month. This monthly purchase amount of 2 trillion yen corresponds to just under 20 percent of the amount of JGBs issued monthly, roughly on a par with the share prior to the 2008 global financial crisis. When making this decision, the Bank also showed projections for its future JGB holdings to ensure predictability. Specifically, even if the Bank maintains a monthly purchase amount of 2 trillion yen, the amount of redemptions will exceed that level. Consequently, the Bank projects the amount outstanding of its JGB holdings in March 2030 to be around 36–39 percent lower than the level in June 2024, before the Bank started reducing its purchases (Chart 9).¹⁷

[Chart 9] The Bank's JGB Holdings



Regarding the impact of reductions on the formation of long-term interest rate, the influence on interest rate formation stemming from purchases on a

¹ Under the new plan for reducing its JGB purchases in June 2025, the Bank decided that, to balance the two needs of improving market functioning and supporting stability in the JGB markets, it would be appropriate to slow the pace of its reduction in JGB purchases from April 2026 onward, from around 400 billion yen to around 200 billion yen per calendar quarter.

² Regarding the amount of purchases by residual maturity, the Bank has been prioritizing reductions in the maturity zones where its purchase shares relative to the amount of JGBs issued are high. Specifically, at the outset, reductions mainly focused on the three zones of "more than 1 year and up to 3 years," "more than 3 years and up to 5 years," and "more than 5 years and up to 10 years." After the purchase shares for these zones approached that of the "more than 10 years and up to 25 years" zone, the Bank began reducing purchases in the latter zone. During this time, the Bank maintained a certain level of purchases in the "more than 25 years" zone, taking into account that its purchase share in this zone is lower than that of other zones.

³ For details on the term structure model used in the factor decomposition of long-term yields, see the following reference.

Imakubo, K. and Nakajima, J. (2015), "Estimating Inflation Risk Premia from Nominal and Real Yield Curves Using a Shadow-Rate Model," Bank of Japan Working Paper Series, No. 15-E-1.

⁴ For example, see the following references.

Bernanke, B. S. (2020), "The New Tools of Monetary Policy," *American Economic Review*, Vol. 110(4), pp. 943-983.

Sudo, N. and Tanaka, M. (2021), "Quantifying Stock and Flow Effects of QE," *Journal of Money, Credit and Banking*, Vol. 53(7), pp. 1719-1755.

⁵ For details, see Appendix 8 of the Bank of Japan (2024).

Bank of Japan (2024), "Appendix 8: Impact of Large-Scale JGB Purchases on the Formation of the Yield Curve," in *Review of Monetary Policy from a Broad Perspective* (December 19, 2024).

⁶ For the method of analysis, see Nakazawa and Osada (2024).

Nakazawa, T. and Osada, M. (2024), "The Bank of Japan's Large-Scale Government Bond Purchases and the Formation of Long-Term Interest Rates," Bank of Japan Working Paper Series, No. 24-E-10.

⁷ The estimates of this paper, like those in the Bank's Review of

flow basis is expected to subside as the Bank halts reducing its JGB purchase amount in April 2027. Going forward, on the other hand, while the amount outstanding of the Bank's JGB holdings will decline, given the fact that its holdings will still be substantial, the waning of downward pressure on interest rates generated by its holdings on a stock basis is considered to be gradual.

The Bank will continue to closely monitor the progress of Japanese investors in adjusting their portfolios, as well as resulting trends in the JGB markets and their functioning. While the Bank will not conduct interim assessments of the plan for the outright JGB purchases, the Bank intends to maintain close communication with market participants regarding its conduct of JGB purchases and other matters, taking opportunities of "Bond Market Group" meetings and other occasions.

Monetary Policy from a Broad Perspective, assume that market participants project the Bank's JGB holdings up to two years ahead. It should be noted that, if market participants project the Bank's JGB holdings over a longer period, the extent of the decrease in the stock effect may be somewhat greater.

⁸ Jiang and Sun (2024) point out that, because it takes time for investors who hold government bonds for the long term to adjust their portfolios, the rapid pace of reductions in government bond purchases by central banks could lead to an increase in government bond holdings by securities firms and hedge funds that demand high premiums, thus increasing the risk of a significant rise in interest rates. Furthermore, Ellington et al. (2026), using data from periods when the Bank of England (BOE) increased and decreased the amount of its government bond purchases in the United Kingdom, point out that the impact of the BOE's government bond purchases on interest rates varies in a state-contingent manner, depending on conditions in the real economy and financial markets.

Jiang, Z. and Sun, J. (2024), "Quantitative Tightening with Slow-Moving Capital," NBER Working Paper, No. 32757.

Ellington, M., Milas, C., and Thomas, R. (2026), "Are the Effects of Quantitative Easing and Tightening State Contingent?" Bank of England Staff Working Paper, No. 1185.

⁹ While the Bank's Review of Monetary Policy from a Broad Perspective used the month-on-month difference in the Bank's share of JGB holdings as a variable for capturing the flow effect in its estimation, this paper also used the share of the amount of the Bank's JGB purchases to the amount of JGB issued as such a variable.

¹⁰ At the "Bond Market Group" meetings held by the Bank's Financial Markets Department on May 21–22, 2026, many attendees expressed their views that the functioning of the JGB markets has been steadily improving as the Bank makes progress in reducing its JGB purchases. For details, see the following minutes.

Bank of Japan, Financial Markets Department (2026), "Minutes of the 24th Round of the 'Bond Market Group' Meetings," (June 2, 2026).

¹¹ The Bank offers the Securities Lending Facility (SLF) with a view to contributing to enhancing liquidity and maintaining the smooth functioning of the JGB markets. Under this facility, the Bank provides JGBs it holds to market participants as a

temporary and secondary source. The reduction in the repurchase amount of JGBs under the SLF is a measure that allows financial institutions to settle JGBs borrowed from the Bank in cash if they are unable to return them. In June 2025, among other matters, the Bank decided to expand the JGB issues to which this measure is applicable to ease the tight supply and demand conditions for off-the-run issues in which the share of the Bank's holdings is significantly high. For details, see the following release.

Bank of Japan, Financial Markets Department (2025), "Change in the Treatment of the Reduction in the Bank of Japan's Repurchase Amount under the Securities Lending Facility," (June 17, 2025).

¹² For details on the improvement in liquidity of off-the-run issues, see Box 3 of Bank of Japan, Financial Markets Department (2026).

Bank of Japan, Financial Markets Department (2026), "Box 3: Improved Liquidity in Off-the-Run 10-Year JGBs Reflecting the Reduction in the Bank's Repurchase Amount under the Securities Lending Facility," in *Market Operations in Fiscal 2025* (June 4, 2026) (available in Japanese as of the release date of this paper).

¹³ For trends in the usage amount of the Securities Lending Facility, see Ide et al. (2025).

Ide, J., Masuda, T., and Takahashi, M. (2025), "Developments in the Functioning of the JGB Markets from the Perspective of the Usage of the Securities Lending Facility," Bank of Japan Review Series, No. 2025-E-3.

¹⁴ Looking at the government's JGB issuance plan (calendar-based market issuance amount of fixed-rate bonds with maturities of 2-40 years), the annual amount of JGBs issued for fiscal 2026 is 112.2 trillion yen, a 1.6 trillion yen decrease from the previous fiscal year's 113.8 trillion yen (after the supplementary budget). For fiscal 2026, following a mid-term review in the previous fiscal year, the government reduced the amount of super-long-term JGB issuance. In line with this shortening of issuance maturities, the annual amount of JGBs

issued, viewed in terms of the amount of interest rate risk, is at a similar level as in the early 2010s.

¹⁵ Under the Interest Rate Risk in the Banking Book (IRRBB) regulations, banks are required to keep the amount of interest rate risk they incur from holding government bonds and other securities within a certain proportion of their capital. At present, the regulations do not appear to significantly restrict banks' holdings of government bonds, but it is important to note that if banks going forward increase the amount outstanding of their government bond holdings, their capacity to hold government bonds vis-à-vis the regulations could contract.

¹⁶ Many life insurance companies, anticipating the introduction of economic value-based solvency ratio regulations in fiscal 2025, sought to improve their financial soundness by reducing the duration gap between their assets and liabilities, and actively increased their holdings of super-long-term bonds to match their long-term liabilities in the form of insurance contracts.

¹⁷ The size of the Bank's balance sheet as of the end of June 2026 was around 95 percent of nominal GDP, significantly exceeding that of central banks in the United States and Europe. However, it is projected to steadily decrease at a pace comparable to that of those central banks as, for example, the monthly amount of JGB redemptions continues to exceed the monthly amount of purchases by the Bank.

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