

Call for Papers for the Sixth Annual Conference of the Japan Economy Network
Hitotsubashi University - Tokyo, 21-22 March 2024

Enrico Pulieri¹ and Jan Toporowski²

The financial consequences of yield curve control in Japan

The complexity of the modern financial system requires a closer observation of the behavior of the Central Bank (CB) and the Debt Management Office (DMO) of the Ministry of Finance, to guarantee financial stability through the regulation of the liquidity in the financial markets.

Both the monetary policy authority (CB) and the public debt management authority (DMO) are able with their policies to regulate the liquidity in the financial system using the government securities. This paper analyses the strategies to control the liquidity in the financial system put in place by both the authorities through the Central Bank Open Market Operations and the government debt management operations. Among the developed economies, some European central banks and the Bank of Japan have used the Open Market Operations for an “aggressive” monetary policy through yield curve control management (Toporowski, 2024: forthcoming). The role played by the DMO remains relatively neglected.

This paper investigates how the open market operations are used for the yield curve control, looking at the case of Japan. In Japan, the yield curve control was used for monetary business cycle purposes, to try to force an economic recovery by making the yield on ten-year government bonds negative, in other words to reinforce near zero rates of interest in the short term. The yield curve control was not used for financial or monetary stability purposes. The Bank of Japan has now abandoned yield curve control.

Government securities constitute the lymph of liquidity in the financial system and its circulation has effects on financial stability. This paper argues that public debt management has not just an impact on public finance sustainability but also on financial stability, therefore the monetary policy cannot remain detached and completely independent from public debt management.

Two main contributions are offered. First, we analyse the operations of public debt management in Japan, with a particular focus on how the government securities affect the Japanese financial system. Second, we investigate the financial consequences of the yield curve control management in Japan.

¹ Department of Economics – SOAS University of London

² Department of Economics – SOAS University of London