

Daiwa's View

Speed of QT and importance of balancing JGB issuance and purchases

- Among JGBs currently held by BOJ, about 30% (Y163tn) will be redeemed within next two years and roughly 50% (Y273tn) will be redeemed within four years
- When BOJ redeems its JGBs, private sector holdings of JGBs will increase through refinancing by MOF; balance between issuance and purchase maturities over next few years will be significant from perspective of interest rate risk

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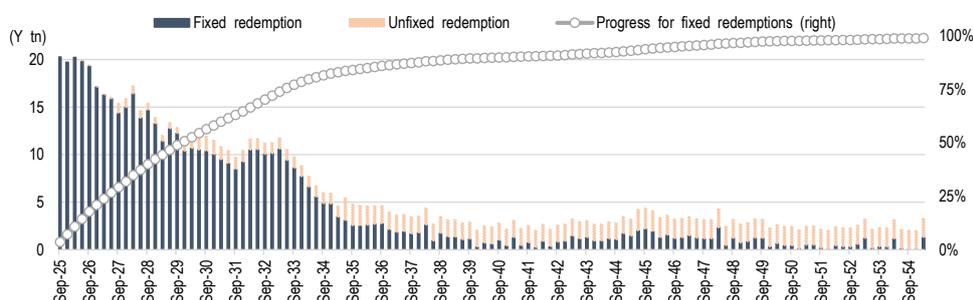
The pace of quantitative tightening (QT) by a central bank is determined not only by changes in the amount of government bond purchases, but also by the balance with the redemption amount during the period. We have conducted several simulations regarding the BOJ's QT in Daiwa's View reports. Behind these calculations, we have created figures based on our assumptions regarding the redemption schedule. In this report, we want to again focus on the redemption schedule, while attempting to derive the implications.

Redemption schedule for JGBs held by BOJ

The JGB redemption amount during the period can be broken down into two factors. One is the redemption amount for JGBs currently held by the BOJ, which is already a fixed figure (fixed redemption). The other is the redemption amount for JGBs that the BOJ will purchase in the future, which is an unfixed figure that is swayed by the maturity structure for JGB purchases (unfixed redemption).

Chart 1 plots future JGB redemption amounts for the next 30 years, based on assumptions regarding the maturity structure for JGB purchases. The data shows that approximately 30% (Y163tn) of the currently fixed redemptions will take place within the next two years, while approximately 50% (Y273tn) will take place within four years. The remaining weighted average maturity of JGBs held by the BOJ is approximately 6.4 years (as of the end-May). However, we should note that the redemption of JGBs will occur earlier than that imagined based on the average maturity¹.

Chart 1: Redemption Schedule for JGBs Held by BOJ



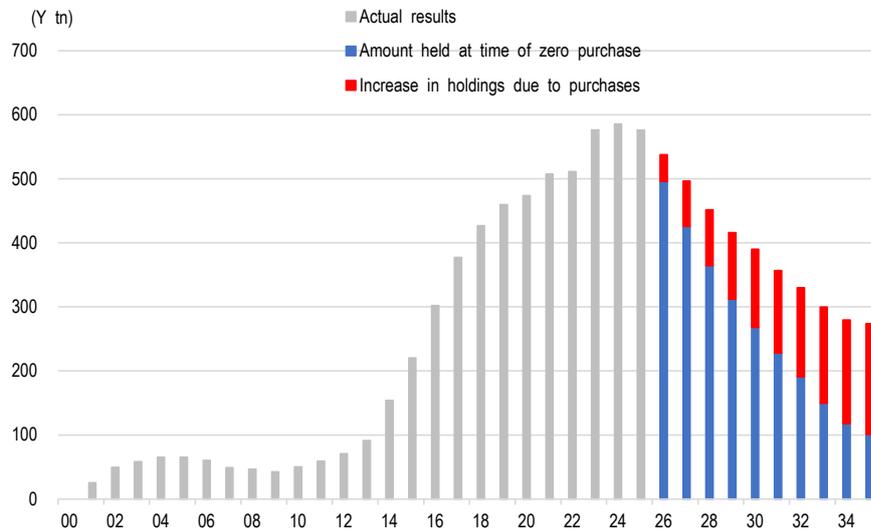
Source: BOJ; compiled by Daiwa.

Note: Assuming that maturity structure for future JGB purchases remains unchanged from that for Jul-Sep 2025.

¹ Weighted median remaining maturity is 4.6 years (as of end-May 2025).

Early progress for redeeming JGBs does not necessarily lead to early progress for QT. Again, the pace of QT is determined by the balance between the purchase and redemption amounts during the period. In the coming years, the BOJ's purchases of JGBs will remain at a relatively high level (due to easing of reduction pace in Jun), providing a buffer against large JGB redemptions (Chart 2).

Chart 2: Future Estimates of JGBs Held by BOJ



Source: BOJ; compiled by Daiwa.

Note: Assuming that maturity structure for future JGB purchases remains unchanged from that for Jul-Sep 2025.

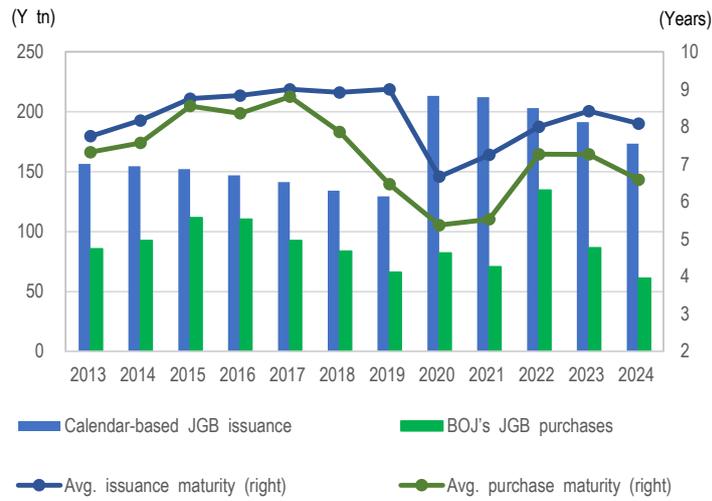
Relationship with JGB maturities

As mentioned above, the BOJ is expected to redeem more than Y273tn in JGBs within the next four years. That said, we believe that the market has already factored in to some extent a decline for these holdings (or so-called “stock effect” decline)². Meanwhile, amid the current phase in which the BOJ is scaling back its balance sheet, the flow aspect is likely to become more important. With JGB issuance expected to remain at a high level, the BOJ plans to reduce its purchases of JGBs to around Y42tn in FY25 and to just under Y30tn in FY26. Also, when looking at the average maturity based on the flow for both issuance and purchases, the two have generally fallen in line with each other since 2013. That said, in response to the rise in super-long JGB yield volatility since May, a reduction in super-long JGB issuance was proposed at the June meeting of JGB Market Special Participants (Primary Dealers meeting)³. Meanwhile, the BOJ is maintaining its purchase amount for maturities of “more than 10 years” under its QT. In response to market demand, there has been a shortening of issuance and a lengthening of purchases. Amid this phase in which the stock effect is declining and the amount of interest rate risk supplied to the market is expanding, the balance between issuance and purchases orchestrated by MOF and the BOJ will be significant for the interest rate market.

²[Daiwa's View: Impact of stock effect and QT on JGB market \(5 Jun 2025\)](#).

³[Daiwa's View: Unexpected plan to reduce issuance of 20-year JGBs \(23 Jun 2025\)](#).

Chart 3: MOF's JGB Issuance Amounts and BOJ's JGB Purchase Amounts



Source: MOF, BOJ; compiled by Daiwa.

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