Demand for and Supply of Government Bonds: Implications for the Bank of Japan's Bond Market Intervention[*]

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Abstract

Characterizing the demand for and supply of government bonds helps us understand the reaction of the yield curve to the large-scale intervention by central banks. Toward this end, we estimate the simultaneous equation system consisting of Japanese Government Bond (JGB) demand and supply functions by using monthly-frequency data for the transaction volume and yields of newly issued JGBs as well as the amounts of the interventions of BOJ during the zero-lower bound period from July 2001 to January 2016. Allowing for structural breaks of the parameters, we have obtained evidence that supports the preferred-habit hypothesis and inactive arbitrage transactions in the JGB markets. We have further found that the fiscal authorities actively engaged in debt management policy to save debt costs and to stabilize the debt maturities in response to the changes in the yield curve. The effects of the BOJ's large-scale intervention on JGB markets were substantially mitigated by the fiscal authorities' debt management policy.

Key Words: *Unconventional monetary policy; primary markets for sovereign debt; price elasticity of demand and supply; debt management policy*

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