

# Exit from yield curve control: how did Japanese stock markets respond to monetary policy announcements?

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## Abstract

On 20 December 2022, the Bank of Japan announced a policy change to allow long-term interest rates to fluctuate by up to around 0.5%. The policy change indicates that the Bank of Japan struggles to exit from yield curve control. We examine how Japanese firm stock returns respond to the monetary policy announcements, and what are the main determinants of Japanese firms' response to the monetary policy announcements.

Our findings can be summarized as follows. First, the results from the event study analyses show that stock returns negatively react to the monetary policy announcements not only in the manufacturing industries but also in the non-manufacturing industries. Specifically, the negative reaction varies with industry. Second, in the regression models where the dependent variables are cumulative abnormal returns, larger and older firms with more tangible assets have positive reactions to the announcements. By contrast, firms with more growth potential, more leverage, and substantial foreign operations have negative reactions to the announcements.

This study contributes to the existing literature in several ways. First, this is the first paper to examine the reaction of Japanese firms to the monetary policy announcements, and the cause of the heterogeneity in the firm's response. Second, we analyze the impact of recent changes in Japanese monetary policy on the stock of Japanese firms.