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Macro View

How Close Is Japan's 10-Year JGB Yield to 3%?

- Japan's 10-year JGB yield has climbed into the low-2% range, but the primary driver has been the BoJ's policy normalization process that began in 2022.
- The "3%" level is increasingly discussed because, in long-run equilibrium, nominal rates are often viewed as broadly consistent with trend growth + trend inflation (i.e., trend nominal growth). With trend growth just under 1% and the inflation target at 2%, just under 3% serves as a rough benchmark.
- Further normalization should push long-term yields toward that benchmark. That said, with much of the policy-rate normalization already priced in, the next leg up is likely to be driven mainly by the stock effects of QT. Our estimates suggest BoJ balance-sheet normalization will take time—implying that a move toward just under 3% is, in the base case, a longer-run story.
- Upside risks include a higher fiscal premium and shifts in the economy-wide saving–investment (S–I) balance that could pull forward the move. Conversely, if the growth/inflation backdrop weakens and normalization is delayed, the rise in long-term yields should be more gradual.

Since the launch of the Takaichi administration last October, the pace of the rise in Japan's long-term interest rates (10-year JGB yields) has accelerated. In retrospect, the uptrend began in 2022, against the backdrop of a virtuous cycle between inflation and wage growth and the BoJ's shift toward policy normalization. Since December 2022, the BoJ has progressively widened and made more flexible the allowable range under Yield Curve Control (YCC). It exited negative rates in March 2024 and decided in July 2024 to begin reducing JGB purchases (quantitative tightening, QT). As economic conditions evolved and the policy regime shifted, long-term yields turned higher: the 10-year yield rose from 0.42% at end-2022 to 0.61% at end-2023, moved above 1% to 1.01% at end-2024, and climbed further to 1.65% at end-September 2025. The pace then quickened, with the yield ending 2025 above 2% at 2.07%, briefly reaching 2.36% on January 20, and remaining in the 2.2% range as of February 5 (Figures 1 and 2).

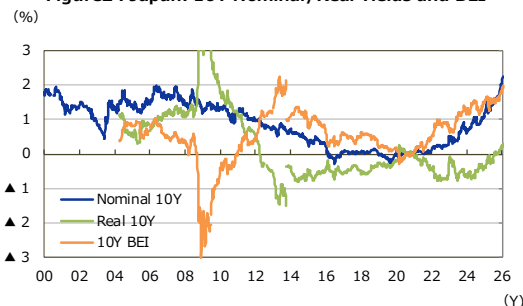
Figure1 : Japan: 10Y JGB Yield (Month-end)



Note: Monthly, Jan 1990–Jan 2026.

Source: SMDAM and Bloomberg

Figure2 : Japan: 10Y Nominal/Real Yields and BEI



Note: Weekly, Jan 7, 2000–Jan 30, 2026. Non-nominal series: from Apr 16, 2004.

Source: SMDAM and Bloomberg



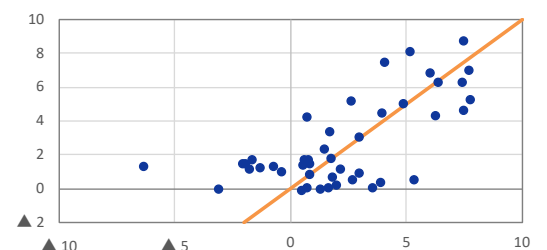
Is a 3% long-term yield imminent in Japan?

As the rise in long-term yields has gathered momentum, “3%” has increasingly become a focal point in the market. This report examines whether Japan’s long-term yield could reach 3%, and if so, whether that is a near-term possibility or a much longer-run outcome. In short, a move to 3% is possible in theory, but if yields move broadly in line with fundamentals, it is likely to be a longer-run development. That said, financial markets inevitably contain noise and frictions; if the fiscal premium were to rise persistently, a move to 3% in the nearer term cannot be ruled out.

Why is “3%” coming into focus?

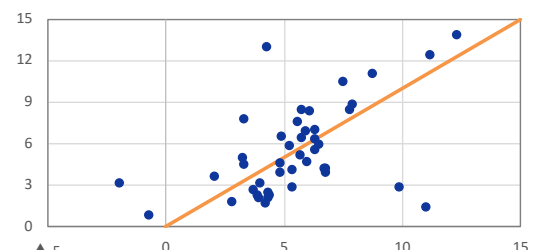
To understand why the market is increasingly focused on 3%, it is useful to start with basic rate decomposition. The Fisher relation implies that nominal interest rates are approximately equal to real rates plus expected inflation. In addition, long-term yields can be viewed as the expected path of future short-term rates plus a term premium that reflects supply–demand conditions and uncertainty. If one approximates the long-run real rate (the neutral real rate) with trend growth, then in an equilibrium in which the term premium has normalized, a reasonable benchmark for the nominal long-term yield becomes trend growth + trend inflation. Estimates by the Cabinet Office and the BoJ suggest trend growth is currently just under 1%. If one assumes the BoJ’s 2% inflation target is the anchor for longer-run inflation expectations, the post-normalization benchmark for the long-term yield is just under 3%. More broadly, it is reasonable to view trend nominal GDP growth as a reference point for equilibrium long-term yields. Indeed, since the 1980s, Japan’s long-term yields have displayed a clear positive relationship with nominal growth, even if not a one-to-one mapping (Figures 3 and 4).

Figure3 : Japan: 10Y Yield vs. Nominal GDP Growth (CY)
10Y Yield (%)



Note: CY1981–CY2024.
Source: SMDAM, Cabinet Office and Bloomberg

Figure4 : U.S.: 10Y Yield vs. Nominal GDP Growth (CY)
10Y Yield (%)



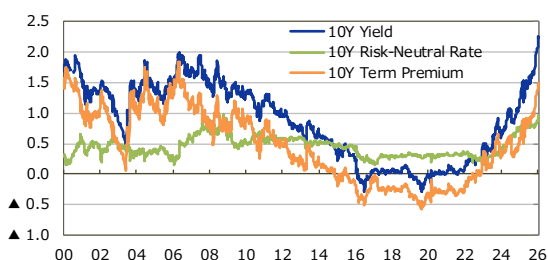
Note: CY1981–CY2024.
Source: SMDAM, BEA and Bloomberg

The core driver: policy normalization amid economic normalization

Why, then, has the rise in long-term yields accelerated since the Takaichi administration began? One factor is that markets are increasingly concerned about the administration's proactive fiscal stance, potentially lifting the term premium (Figure 5). However, the underlying uptrend in long-term yields predates the administration: it began as the economy and the BoJ moved into a normalization phase. As economic normalization advances, markets tend to price a higher expected path for future policy rates, pushing up long-term yields through the term structure. At the same time, QT-driven balance-sheet shrinkage helps normalize a term premium that had been compressed under large-scale easing, adding further upward pressure on long-term yields.

Based on our long-term yield model—which incorporates both the policy-rate channel and the balance-sheet channel—the current fair value for the 10-year yield is 2.04%, up steadily from 0.66% at end-2023 and 1.15% at end-2024 (both model-implied; Figure 6). If the residual gap between the model and the market is interpreted, for convenience, as a “Takaichi premium,” it is around 20 bp, which remains within a noise range. The main story is therefore the normalization process toward equilibrium; looking ahead, what matters most is how far and how fast the BoJ's policy normalization proceeds alongside economic normalization.

Figure5 : Japan: 10Y Risk-Neutral Rate and Term Premium
(%)

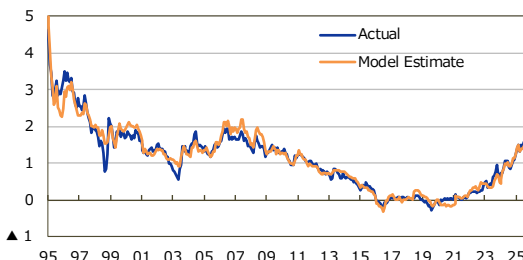


Note: Weekly, Jan 7, 2000–Jan 30, 2026.

Risk-neutral rate and term premium: Daiwa Securities estimates using the ACM model.

Source: SMDAM, Daiwa Securities and Bloomberg

Figure6 : Japan: 10Y Yield (Model Estimate vs. Actual)
(%)



Note: Monthly, Jan 1995–Jan 2026.

Model: $JPN\ 10Y = 0.624 + 0.136 \times US\ 10Y + 0.782 \times JPN\ 3Y\ rate\ 2Y\ forward - 0.025 \times BoJ\ JGB\ holdings\ ratio + 0.217 \times D1 + 0.431 \times D2 + 0.568 \times D3 + 0.700 \times D4$. $R^2=0.987$. Estimation: Sep 1990–Nov 2025. D1: 2016–Jun 2018 (YCC); D2: Jul 2018–Dec 2020; D3: Jan 2020–Feb 2024; D4: Mar 2024– (normalization).

Source: SMDAM, BOJ and Bloomberg

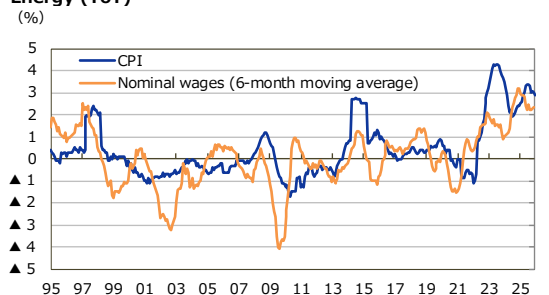
Economic normalization is well advanced

As economic normalization progresses, upward revisions to the expected policy-rate path tend to push long-term yields higher through the term structure. Recent data show inflation has remained above 2% for three and a half years, and wage growth has also stayed above 2% (Figure 7). With wage momentum expected to continue in this year's spring wage negotiations, we view economic normalization as approaching. On the government side, a private-sector member of the Council on Economic and Fiscal Policy recently suggested preparing for a formal declaration of an exit from deflation. The BoJ also expects underlying inflation to reach 2% on a sustained basis in the second half of FY2026 through FY2027 (i.e., full exit from deflation).

Markets have largely priced policy-rate normalization

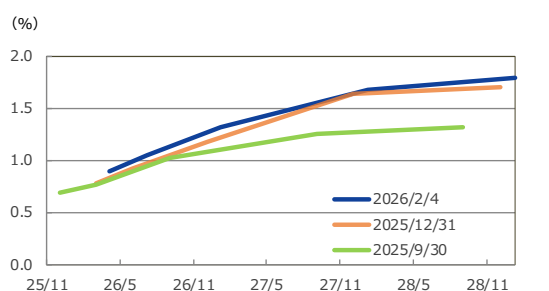
On the policy side, the BoJ raised the policy rate to 0.75% last December, marking the first move above 0.5% in roughly 30 years (since 1995). Markets are currently pricing the policy rate at around 1.50%–1.75% in two years' time (Figure 8). In other words, as economic normalization nears, markets have already priced a substantial portion of policy-rate normalization, and that is reflected in long-term yields. Put differently, from here, the incremental lift to long-term yields from further policy-rate normalization alone is likely to be limited.

Figure7 : Japan: Nominal Wages and CPI ex Fresh Food & Energy (YoY)



Note: Monthly, Jan 1995–Dec 2025. Wages: through Nov.
Source: SMDAM, MIC and MHLW

Figure8 : Market Pricing of the BoJ Policy Path



Note: OIS-implied expectations as of each date.
Source: SMDAM and Bloomberg

BoJ balance-sheet normalization will take time

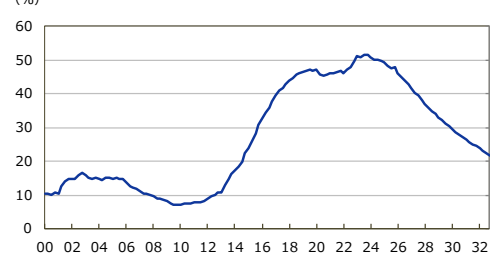
By contrast, BoJ balance-sheet normalization is likely to be a lengthy process. Focusing on JGB holdings, under former Governor Kuroda's Quantitative and Qualitative Easing (QQE), the BoJ expanded JGB purchases aggressively. As a result, the BoJ's share of outstanding JGBs rose from 10.7% in Q4 2012 to a peak of 51.5% in Q3 2023. After QT began under Governor Ueda, this share started to decline, but it remained elevated at 47.4% as of Q3 2025.

Assuming (i) the BoJ reduces purchases as currently announced through Q1 2027 and continues at the same pace thereafter, and (ii) the path for government outstanding debt follows the Cabinet Office's January 2026 medium-term projections under the "Growth Transition" scenario, our estimates suggest the BoJ's JGB-holdings ratio falls by 5 pp per year in 2026–27, 4 pp in 2028, and 3 pp per year in 2029–32, reaching roughly 20% by end-2032. While this does not return to the pre-QQE level near 10%, it would represent substantial normalization (Figure 9).

As QT stock effects unwind, yields may converge toward 3% by 2032

BoJ studies and our own estimates suggest that a 1 pp rise (fall) in the BoJ's share of outstanding JGBs exerts roughly a 0.02–0.025 percentage point downward (upward) pressure on long-term yields. Applying this relationship, the increase in the holdings ratio from Q4 2012 to Q3 2023 implies a 0.8–1.0 percentage point suppression of long-term yields via stock effects. Conversely, since QT began in August 2024, the decline in the ratio is estimated to have pushed up long-term yields by about 0.1 percentage point over the past year. Looking ahead, the projected decline in the holdings ratio implies an additional 0.5–0.7 percentage point upward pressure on long-term yields through 2032, bringing the yield materially closer to the "just under 3%" benchmark (Figure 10).

Figure9 : BoJ JGB Holdings as a Share of Outstanding JGBs (%)

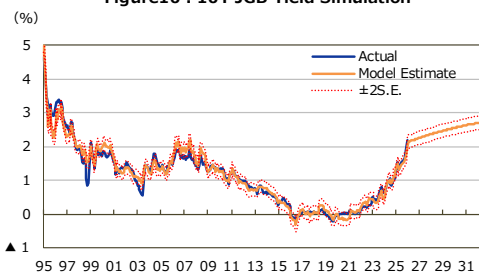


Note: Quarterly, Q1 2000–Q4 2032. From Q4 2025 onward:

SMDAM forecasts.

Source: SMDAM and BOJ

Figure10 : 10Y JGB Yield Simulation (%)



Note: Monthly, Jan 1995–Dec 2032. From Feb 2025 onward: extended using the model in Fig. 6 and the forecast path in Fig. 9.

Source: SMDAM and Bloomberg

In sum, the path toward 3% is likely to be driven primarily by term-premium normalization via QT, implying a gradual rise in the base case. This is a model-based baseline under the assumption that the underlying economic structure is broadly unchanged. In practice, various frictions and sources of noise may cause market yields to deviate from equilibrium during the transition.

Upside risks to yields

If long-term yields were to overshoot to the upside, fiscal concerns would be a leading candidate. Prime Minister Takaichi campaigned on “responsible proactive fiscal policy,” but also proposed a two-year, time-limited cut of the consumption tax on food to zero. Since the consumption tax is a stable revenue source, identifying credible offsetting funding is not straightforward. How the administration reconciles these priorities will be closely watched.

In addition, shifts in the S–I balance could matter. If an economy’s saving surplus deepens, interest rates face downward pressure to equilibrate saving and investment; conversely, a move toward saving shortfall implies upward pressure on rates. As normalization proceeds, corporate investment may strengthen and the corporate sector’s saving surplus may shrink, raising upward pressure on long-term yields through the S–I balance. The Cabinet Office’s January 2026 medium-term projections under the “Growth Transition” scenario assume the corporate saving surplus shrinks and turns into a saving shortfall by 2032 (Figure 11).

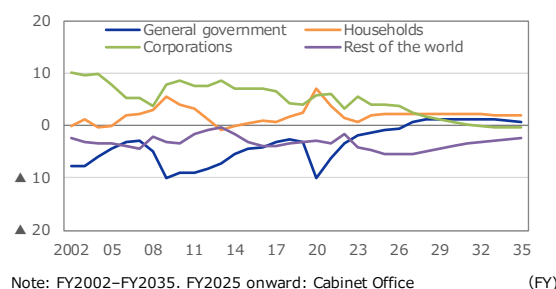
Downside risks to yields

If the normalization process itself takes longer—delaying BoJ policy normalization—long-term yields may rise more slowly. A failure to achieve durable normalization cannot be ruled out. However, even in that case, long-term yields may not fall mechanically; if tax revenues weaken and fiscal concerns intensify, higher fiscal risk premia could instead keep long-term yields from declining.

Could the “just under 3%” benchmark itself change?

Finally, the “just under 3%” benchmark itself could change. If trend growth changes, the equilibrium level of long-term yields would also shift (Figure 12). While the administration emphasizes strategic and growth investment, the shift in capital spending from tangible to intangible assets could accelerate depreciation and limit measured capital deepening. Intangible investment may lift productivity, but labor-force decline is likely to continue, and further large gains in participation rates are difficult to assume. As a result, while a sharp decline in trend growth is not our baseline, neither is a sharp acceleration; large shifts in the benchmark appear unlikely at this stage.

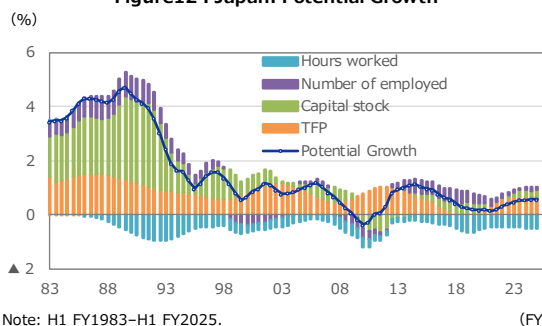
Figure11 : Japan: Sectoral S-I Balances (Share of Nominal GDP)
(%)



Note: FY2002–FY2035. FY2025 onward: Cabinet Office
“Growth Transition” scenario.
Source: SMDAM and Cabinet Office

(FY)

Figure12 : Japan: Potential Growth



Note: H1 FY1983–H1 FY2025.
Source: SMDAM and BOJ

(FY)

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