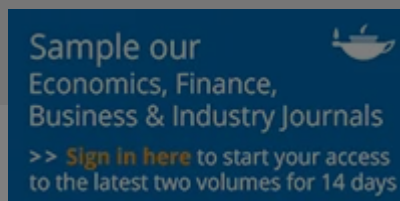
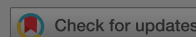


# Understanding the Low Yields of the Long-Term Japanese Sovereign Debt

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## Abstract

During the past two decades, chronic fiscal deficits have led to elevated and rising ratios of government debt to nominal GDP in Japan. Nevertheless, long-term Japanese government bonds' (IGBs) nominal yields initially declined, and have since stayed remarkably higher than short-term interest rates. This paper argues that short-term interest rates are low due to deflationary pressures, while long-term interest rates are high due to sovereign debt, and the resulting risk premium. The paper also discusses the role of monetary policy in driving these yields.

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