

A Macro-Financial Analysis of the Term Structure of Credit Spreads in Japanese Corporate Bond Market

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Abstract

This study aims to identify the global factor in individual credit spreads of major Japanese corporate bonds using the hierarchical factor model and examines the contribution of economic and monetary policy-related and financial factors in the determination of corporate bond spreads in the period 1997-2011. The results indicate that estimated global factors are important drivers of individual credit spreads. Overall, the economic and monetary policy-related and financial factors play a significant role in the determination of the corporate bond spreads. Monetary-policy related and financial factors are the dominant drivers in the short term while the importance of economic factors increases in the forecast variance as the forecast horizon increases.

JELCodes: C13,C32,E43

Keywords: Term Structure Model; Credit Spreads; Impulse response; Variance decomposition