

Fiscal Sentiment and Long-Term Interest Rates

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Abstract

This study analyzes the relationship between long-term interest rates and a fiscal sentiment index originally developed by conducting textual analysis of newspaper articles from January 1, 1980, to March 24, 2017—a total of 134,742 articles. Daily frequency regression shows that the fiscal sentiment has significant effects on long-term interest rates as suggested by the conventional wisdom. Considering the literature which employs lower frequency data and concludes that fiscal conditions have statistically insignificant effects on interest rates or raises them by a statistically significant but economically modest amount, our method and results are quite novel.

JEL Classification: E62, H62, H63

Keywords: Budget Deficit, Government Debt, Interest Rate, Fiscal Sentiment, Textual Analysis.

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