

# Stock Effects of Bank of Japan Equity Holdings

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Abstract

The Bank of Japan (BoJ) has purchased equity index ETFs, including Nikkei 225 ETFs, since 2010. The BoJ terminated its purchases of Nikkei 225 ETFs in 2021, but still holds a large amount. Because the Nikkei index is not value-weighted, the BoJ's indirect stock holdings are distorted. The baseline cross-sectional regressions of cumulative returns suggest that the distributional effect of BoJ holdings is large and persistent. A stock's return is higher by around 5 (7 to 8) percentage points as the BoJ share in market capitalization of free float (shares outstanding) is higher by 1 percentage point. The BoJ holdings generated annualized return differences of more than 10 percentage points within Nikkei 225 members. There is little evidence for a return reversal after the termination of Nikkei 225 ETF purchases. The large effect may be attributable to the semipermanent nature of BoJ holdings.

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