【Fixed Income Commentary】

Differences of opinion among central bank policymakers and implications for term premia

(original Japanese report issued on September 3, 2026)

Key points

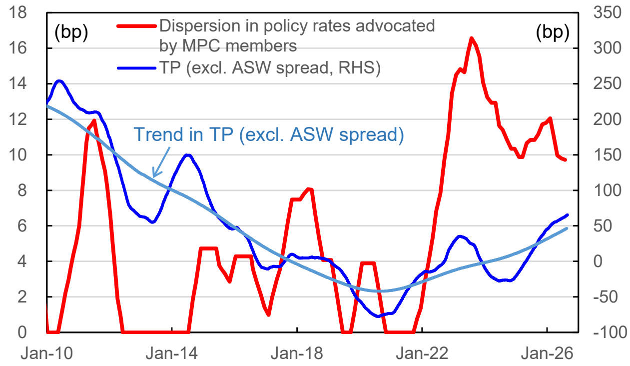
- Recent monetary policy meetings in major economies have revealed internal differences of opinion at central banks, reflecting the heavy uncertainty they face
- We believe that internal policy divisions are linked to size of term premia, with split votes tending to result in steeper yield curve
- Attention at upcoming BoJ meetings should focus not only on whether Bank hikes but also on number of votes for and against decision and distribution of inflation forecasts

Relationship between term premia and internal differences of opinion at July monetary policy meetings

Recent central bank meetings in the major economies revealed differences of opinion among monetary policymakers. The FOMC left the policy rate on hold when it met on July 28-29, but three members argued in favor of a rate hike, resulting in a 9-3 vote. The Bank of England's Monetary Policy Committee, which announced its decision on July 30, also kept the policy rate steady, but its vote was split 6-3. The ECB Governing Council unanimously decided to leave policy on hold on July 23, but ECB President Christine Lagarde explained at her press conference that some members had asked themselves whether a rate hike should be considered at the meeting. The Bank of Japan also kept the policy rate unchanged at its July 30-31 Monetary Policy Meeting in an 8-1 vote. Even though the Bank had raised rates at the previous meeting, in June, one member argued in favor of another hike. The substantial variance in Policy Board members' inflation forecasts (as presented in the Outlook Report) also drew attention at Governor Kazuo Ueda's press conference.

In this report, we analyze the relationship between government bond yields and differences of opinion over monetary policy decisions. We conclude that such disagreements are linked to term premia via the mechanism of uncertainty. When projecting the level of government bond yields and the shape of the yield curve, we think it is important to evaluate not only policy decisions themselves but also the degree of internal disagreement, as indicated by the number of votes for and against the decision and the distribution of policymakers' inflation forecasts.

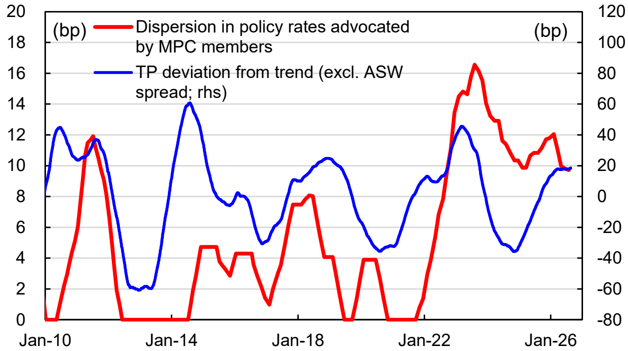
Graph 1: Relationship between dispersion in policy rates advocated by BoE MPC members and the term premium (TP)



Note: TP (excluding ASW spread) is the 250-day (one-year) moving average. Dispersion in policy rates advocated by MPC members is the eight-meeting (one-year) moving average of the standard deviation of their advocated policy rates (12-meeting moving average before 2016). The trend in TP (excluding ASW spread) is calculated using an HP filter.

Source: MUMSS, from Bloomberg data

Graph 2: Relationship between dispersion in policy rates advocated by BoE MPC members and TP deviation from trend



Note: TP deviation from trend (excluding ASW spread) is the difference between the 250-day (one-year) moving average of TP (excluding ASW spread) and the trend calculated using an HP filter (Graph 1). Dispersion in policy rates advocated by MPC members is as described in the note to Graph 1.

Source: MUMSS, from Bloomberg data

Why we assume internal differences of opinion at central banks are linked to term premia

We assumed that internal differences of opinion over monetary policy decisions are linked to term premia for the following reasons. First, substantial disagreements suggest that monetary policy is facing a highly uncertain environment. Moreover, such internal differences of opinion may themselves heighten uncertainty. Even if the ultimate policy decision is the same, investors are likely to perceive greater uncertainty in future monetary policy conduct when the vote is split rather than unanimous. A well-known theory in political science holds that when making collective decisions, substantial differences of opinion among the decision-makers can make it difficult to reach an optimal decision and potentially delay the process (Scharpf, 1988).[1] This may also apply to monetary policy decision-making. In the context of monetary policy, we think differences of opinion among policymakers could raise term premia by fueling concerns about the central bank falling behind the curve and by creating greater uncertainty about the inflation outlook.

Changes in internal differences of opinion easier to visualize in UK

We used the UK as a case study to confirm that disagreements within a central bank are linked to term premia. Why the UK? Unlike at other central banks, it is relatively easy to visualize changes in differences of opinion over policy decisions at the Bank of England (BoE). BoE policymaking is described as “individualistic” (Blinder, 2007, 2009; Demertzis et al., 2022; Ehrmann & Fratzscher, 2009).[2,3,4,5] In other words, BoE policymakers tend to express their own views independently and are relatively unlikely to be influenced by the opinions of other members. There

[1] Scharpf, F. W. (1988). The Joint-Decision Trap: Lessons from German Federalism and European Integration. *Public Administration, 66*(3), 239-278. doi:10.1111/j.1467-9299.1988.tb00694.x.

[2] Blinder, A. S. (2007). Monetary policy by committee: Why and how? *European Journal of Political Economy, 23*(1), 106–123.

[3] Blinder, A. S. (2009). Making monetary policy by committee. *International Finance, 12*(2), 171–194.

[4] Demertzis, M., Martins, C., & Viegi, N. (2022). An analysis of central bank decision-making. *Bruegel Policy Contribution, 12/2022*. Bruegel.

[5] Ehrmann, M., & Fratzscher, M. (2009). Communication by central bank committee members: Different strategies, same effectiveness? *Journal of Money, Credit and Banking, 41*(4), 719–741.

have even been instances in which the BoE governor took a position contrary to the policy decision. The number of votes for and against a decision can therefore be assumed to fairly accurately reflect internal differences of opinion. At the opposite end of the spectrum is the European Central Bank (ECB), where the policymaking process has been described as “collegial” (Blinder, 2007, 2009; Ehrmann & Fratzscher, 2009). ECB policymakers place considerable importance on building consensus when making decisions. Even when members disagree, the final decision typically receives unanimous or near-unanimous (“broadly agreed”) support. The Bank therefore does not disclose voting results, but even if it did, we think those results would be unlikely to accurately reveal differences of opinion among policymakers. In the US, the literature suggests that whether policymaking at the Federal Reserve is “individualistic” or “collegial” depends on the chair (Blinder, 2007; Chappell et al., 2005).[6] The situation is therefore not amenable to empirical analysis using long-term time-series data. To our knowledge, the BoJ has not been systematically classified in the literature as being either “individualistic” or “collegial.” Even if it were considered individualistic, the prolonged period of extremely low term premia at a time of deflation and low interest rates would also make it unsuitable for long-term time-series analysis, regardless of the degree of internal dissent.

We compared term premia net of ASW spreads with standard deviation of policy rates advocated by individual policymakers

To examine the relationship between the dispersion of voting outcomes within the BoE and term premia, we deducted the government bond asset swap (ASW) spread at a given maturity from the corresponding term premium. ASW spreads reflect fiscal (credit) risk and government bond liquidity risk (Schnabel, 2023).[7] Internal differences of opinion are unlikely to be directly related to such risks, in our view. The term premium net of the corresponding ASW spread reflects monetary policy and inflation risks (Schnabel, 2023), which we think are directly related to differences of opinion within the central bank. Dispersion in BoE voting outcomes was measured using the standard deviation of policy rates advocated by individual policymakers.

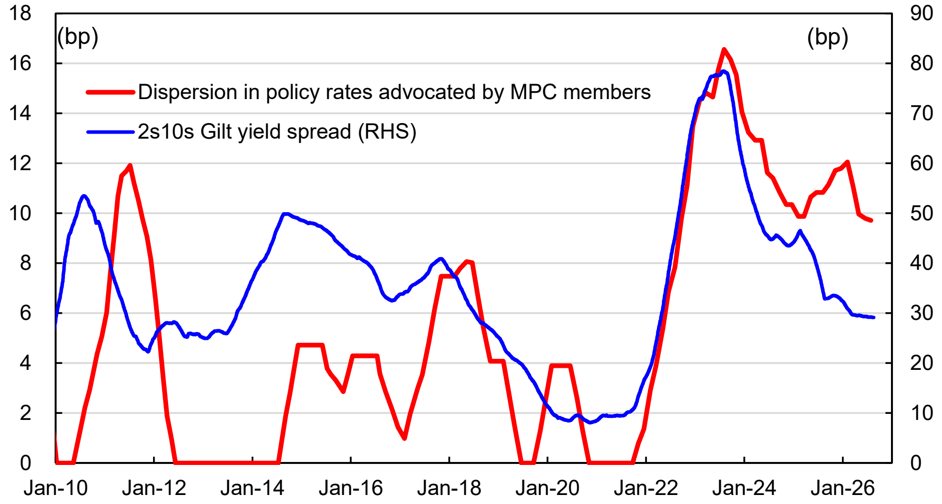
Differences of opinion within central banks linked to both term premia and shape of yield curve

A time-series comparison of (1) the standard deviation of policy rates advocated by individual policymakers and (2) term premia net of ASW spreads suggests that the two generally track each other (Graphs 1 and 2). The relationship is especially strong when (1) is compared with the deviation of (2) from its trend (Graph 2). Notably, there are periods when (1) appears to lead (2) and others when it appears to lag. This seems to reflect the bidirectional relationship we initially assumed. In other words, uncertainty can lead to differences of opinion in central bank policy decisions, and that disagreement itself may also heighten uncertainty. The standard deviation of policy rates advocated by individual policymakers is closely linked not only to term premia but also to the 2s10s yield spread (Graph 3). We suspect term premia tend to be more volatile at longer maturities. This also has implications when considering the future shape of the yield curve.

[6] Chappell, H. W., Jr., McGregor, R. R., & Vermilyea, T. A. (2005). Committee decisions on monetary policy: Evidence from historical records of the Federal Open Market Committee. MIT Press.

[7] Schnabel, I. (2023, March 2). Quantitative tightening: Rationale and market impact [Speech]. European Central Bank.

Graph 3: Dispersion in policy rates advocated by BoE MPC members and the 2s10s Gilt yield spread



Note: The 2s10s Gilt yield spread is the 250-day (one-year) moving average. Dispersion in policy rates advocated by MPC members is the eight-meeting (one-year) moving average of the standard deviation of their advocated policy rates (12-meeting moving average before 2016).
Source: MUMSS, from Bloomberg data

Attention should focus not only on policy decisions themselves but also on differences of opinion, as indicated by number of votes for and against

With term premia recently making a substantial contribution to movements in interest rates, it is important not only to monitor monetary policy decisions themselves but also to assess the degree of uncertainty surrounding those decisions. Based on the above analysis of the relationship between internal central bank disagreements and term premia, we think that at future BoJ meetings investors should focus not only on whether the Bank hikes but also on the number of votes for and against the decision and the distribution of inflation forecasts. And with US Treasury Secretary Scott Bessent's recent remarks on BoJ monetary policy attracting so much attention, we think market participants should keep a close eye on differences in views and policy stances not only within the Bank, but also between the Bank and the Japanese government, and between the Japanese and US governments.

Takahiro Otsuka
Senior Fixed Income Strategist
8:00 JST, September 3, 2026

Appendix A

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