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## Role of the Yield Curve in Predicting Business Cycles in Korea and Japan

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In this study, the role of the yield curve in predicting business cycles in Korea and Japan was analyzed using Granger causality and impulse response functions based on a VEC model. The results of the Granger causality analysis showed that the level factor and term spread of the yield curve in both countries had significant Granger causal relationships with business cycles. The results of the impulse response function analysis revealed that domestic business cycles showed a statistically significant positive response to a rising shock in the term spread in Korea. However, in Japan, domestic business cycles exhibited a statistically significant negative response to a rising shock in the term spread. Moreover, domestic business cycles showed significant positive responses to rising shocks in the leading composite index in both countries. These results indicate that the predictive power of the term spread for business cycles is valid, and that the predictive result of the yield curve for business cycles in Japan is in the reverse direction. The different predictive result of the yield curve for business cycles between Japan and Korea is interpreted as being due to the prolonged yield curve control (YCC) policy in Japan.

**Keywords:** Yield curve, Term spread, Business cycle, Monetary policy

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