Opening Remarks

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I. Introduction

Good morning, ladies and gentlemen. It is my great honor to say a few words at the beginning of the 22nd BOJ-IMES Conference. On behalf of my colleagues at the Bank of Japan and myself, I would like to express my sincere welcome to all of you.

At last year's conference titled "Monetary Policy in a Post-Financial Crisis Era," we had active discussions on fundamental issues of monetary policy during the period of slow economic growth following the global financial crisis. Since then, there has been further progress in research on the effects of unconventional monetary policy in academic and central bank circles. Besides, growing attention has been paid to renewed debate over the slow recovery after the financial crisis, as represented by the thesis of secular stagnation. Against the backdrop of these factors, we have selected "Monetary Policy: Its Effects and Implementation" as the theme of this year's conference. The aim is not only to keep monetary policy at the center of the discussion, but also to put greater emphasis on implications for policy conduct in practice. I hope that, in light of the progress in monetary policy research and the recent developments in the global economy, we will have frank and lively discussions on the monetary policy challenges that we central bankers currently face. To kick things off, I would like to raise some issues relevant to these challenges.

II. Global Economic Conditions and Current Issues concerning the Conduct of Monetary Policy

Over the past year, the global economy as a whole has been recovering moderately. However, we have observed considerable differences in developments of economic activity and prices among countries and regions. In reflection of these differences, diverging directions of monetary policy among the United States, Europe, and Japan have become increasingly apparent. This certainly was a major feature of monetary policy in the global context for the past year. Meanwhile, headline inflation rates dropped globally, due primarily to a plunge in crude oil prices. With these significant developments in mind, I would like to raise three current issues concerning the conduct of monetary policy.

The first issue concerns the effects of unconventional monetary policy and its transmission channels. In terms of monetary policy implementation, the European Central Bank launched the expanded asset purchase programme in January, and many of the major central banks have now adopted quantitative easing (QE). On the research front, academic and central bank circles have accumulated studies on unconventional policy that have been conducted vigorously to date. These studies have demonstrated that unconventional measures, such as QE and forward guidance, have been generating monetary easing effects, primarily through influencing long-term interest rates and asset prices, as well as inflation expectations. I believe that it will be meaningful if we can further promote a common understanding on unconventional policy by sharing the various insights obtained from both implementation and academic research of monetary policy.

The second issue pertains to inflation expectations and the decline in crude oil prices. The plunge in crude oil prices since 2014 has posed a new challenge for the conduct of monetary policy. In October 2014, the Bank of Japan decided to expand quantitative and qualitative monetary easing (QQE). This policy decision aimed at maintaining the improving momentum of expectation formation and at pre-empting manifestation of a risk that the decline in the inflation rate, even though caused by the oil price decline, could delay conversion of the deflationary mindset, which had been progressing steadily under QQE. The background to the policy decision is that, unlike the United States and other countries where medium- to long-term inflation expectations have been well anchored, Japan is in the midst of drastically changing the deflationary mindset; namely, re-anchoring inflation expectations to the price stability target of 2 percent. Inflation expectations are obviously one of the most important variables for the conduct of monetary policy. Therefore, it is a major policy concern for central bankers to gain a better understanding of how to measure inflation expectations, how such expectations actually affect firms' price- and wage-setting behavior, as well as households' consumption decisions, and how to evaluate the degree to which inflation expectations are anchored. I hope that further progress will be made in research in this field.

The third issue is how to deal with the international spillovers induced by the diverging directions of monetary policy among advanced economies. In emerging economies, monetary authorities have paid more attention to developments in foreign exchange rates and international capital flows that are influenced by major central banks' policy actions and announcements of their future directions of policies. In addressing these international spillovers, how to use monetary policy, macro-prudential policy, and capital flow management policy in combination has come to be a crucial issue, particularly for countries that have financial system vulnerability.

III. Policy Issues concerning Slow Post-Financial Crisis Recoveries

Thus far, I have explained the three issues central banks now face in the conduct of monetary policy. Next, I would like to raise some policy issues from a longer-term perspective. In the wake of the global financial crisis, economic recoveries around the world have been modest relative to past recoveries despite the implementation of unconventional monetary policy. For the past year or so, academic and central bank circles have actively discussed how to interpret this fact. Such discussions have been initiated by Lawrence Summers' revisit to the "secular stagnation thesis" advocated originally by Alvin Hansen in the late 1930s. Various views have been raised regarding the causes of slow post-financial crisis recoveries; for example, the persistent weakness on the demand side of the economy and the low productivity on the supply side.

There have been wide-ranging interpretations and views on secular stagnation. In light of the discussions over slow post-financial crisis recoveries, I would like to raise three policy issues.

The first issue is to what extent central banks should consider the impact on the supply side of the economy in conducting monetary policy. As a backdrop of the slow recoveries following the global financial crisis, it has been pointed out that the interaction between demand and supply has gained importance. That is, the weakness in demand impairs the supply side mainly by discouraging workers from participating in the labor market and dampening firms' investment in capital stock and in research and development. Furthermore, a decline in expectations about future economic growth may cause insufficiency of demand. That said, the conventional view takes the supply side, such as the potential growth rate and the natural rate of unemployment, as a given in the conduct of monetary policy. How would the mechanism of slow recoveries affect such a conventional view?

The second issue is with regard to what monetary policy tools are desirable under a low natural rate of interest. If the natural rate remains at a relatively low level over the medium to long term, compared with in the past, as suggested by the secular stagnation thesis, then the nominal interest rate is likely to stay around zero. Furthermore, even after the normalization of interest rates, the nominal rate might fall back to zero or to a very low level. In that case, would unconventional monetary policy continue to be important even "beyond the exit"? Moreover, would it eventually be regarded as conventional in an economy under the "new normal"?

The third issue concerns the optimal policy mix for an economy undergoing medium- to long-term stagnation with a low natural rate of interest. What would be the best policy mix among monetary policy, fiscal policy, and structural reform in such a situation? Are there any constraints to the implementation of the best policy mix, such as mounting government debts or constraints under a common currency area? What alternative mix of policies could be considered as a second best choice?

IV. Concluding Remarks

Every word and deed of central banks around the globe has been drawing more attention as the diverging directions of monetary policy among advanced economies become apparent. The issues I have raised so far are all complex, and there are no quick, definitive solutions for them. Nevertheless, I strongly believe that, at this one-and-a-half day conference, we will address the issues we currently face and find our way forward through lively discussions. I trust that many of you are familiar with the story of Peter Pan, in which it says, "the moment you doubt whether you can fly, you cease forever to be able to do it." Yes, what we need is a positive attitude and conviction. Indeed, each time central banks have been confronted with a wide range of problems, they have overcome the problems by conceiving new solutions. I am sure that we all can share a conviction backed by our collective experience and wisdom. I would like to close my remarks now as we ready ourselves for discussion.

Thank you for your attention.