



Institute for Monetary and Economic Studies,  
Bank of Japan

# IMES Newsletter

June 2017

The Institute for Monetary and Economic Studies (IMES) was founded in 1982 as an internal organ of the Bank of Japan, in commemoration of the Bank's centennial. The IMES conducts a wide range of studies on the theoretical, institutional, and historical aspects of monetary and economic issues. The IMES also collects, conserves, and exhibits historical materials related to monetary and economic issues.

## Highlight of This Issue

2017 BOJ-IMES Conference

- ✓ Opening remarks
- ✓ Mayekawa Lecture
- ✓ Keynote speech
- ✓ Policy panel discussion

The IMES Newsletter aims to provide information about the IMES' activities and major events held by the IMES on a timely basis.

## 2017 BOJ-IMES Conference

*The Institute for Monetary and Economic Studies (IMES) of the Bank of Japan (BOJ) held the 2017 BOJ-IMES Conference, titled "Monetary Policy: Lessons Learned and Challenges Ahead," on May 24–25, 2017 at the BOJ Head Office in Tokyo.*

The conference attracted about ninety participants from academia, central banks, and international organizations. They discussed lessons learned from past experience with unconventional monetary policies and clarified challenges in the future.

The conference began with the opening remarks delivered by BOJ Governor Haruhiko Kuroda. In his opening remarks, he raised three major research topics at the frontier of monetary economics and monetary policy making: (i) inflation and its expectations dynamics; (ii) the declining trend of the natural rate of interest; and (iii) heterogeneous agent macroeconomics and distributional effects of monetary policy.



BOJ Governor Haruhiko Kuroda delivers his opening remarks (Photo: Shoichi Nose).

Thereafter, referring to the words of Professor Maurice Obstfeld,\* "[the BOJ-IMES Conference is] a venue in which abstract monetary theory and practical policy questions can comfortably be discussed

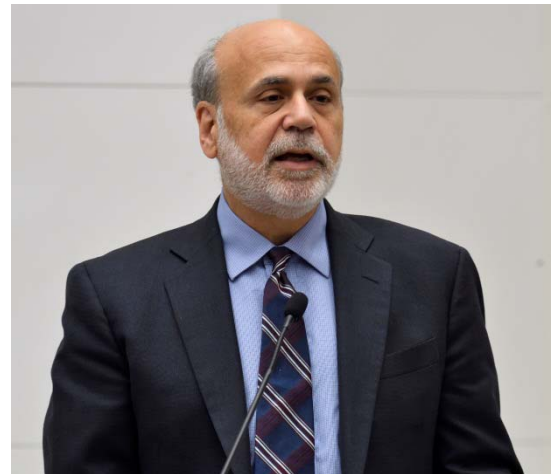
\* Currently Chief Economist of the International Monetary Fund, and a former Honorary Adviser at the IMES.



Conference participants (Photo: Shoichi Nose)

in full depth and side by side,” Governor Kuroda expressed his hope that this year’s conference would produce further insights into more effective central bank policymaking as in previous conferences.

In the Mayekawa Lecture, Dr. Ben S. Bernanke (The Brookings Institution) reviewed his past advice on the BOJ’s monetary policy management to see how it had stood the test of time. He then reaffirmed the importance of the BOJ’s continued pursuit of its two percent inflation goal. Considering some features of the Japanese economy that made reaching the Bank’s inflation target difficult even under the very aggressive policies, he also discussed a more explicit coordination of monetary and fiscal policies as one of the contingency options in case a tremendous adverse shock hit the economy.



Dr. Ben S. Bernanke (The Brookings Institution) delivers the Mayekawa Lecture (Photo: Shoichi Nose).



Professor Mark Gertler (New York University, Honorary Adviser at the IMES) delivers the keynote speech.

In the keynote speech, Professor Mark Gertler (New York University, Honorary Adviser at the IMES) argued that the process of reflation from a liquidity trap had taken much longer than expected even with state-of-the-art monetary policy since Governor Kuroda was appointed in March 2013. He also pointed that by introducing hybrid adaptive/rational expectations formation, the theoretical model could produce slow reflation. He concluded that because of the absence of history of inflation anchored by the target, individuals needed to see some inflation to believe it and that the best course was to continue aggressive monetary policy.



Panelists and a moderator (from left): Director-General Economics Frank Smets (European Central Bank, panelist), Deputy Governor Hiroshi Nakaso (BOJ, panelist), and President and Chief Executive Officer Charles L. Evans (Federal Reserve Bank of Chicago, panelist), and Professor Marvin Goodfriend (Carnegie Mellon University, Honorary Adviser at the IMES, moderator)

The policy panel discussion, moderated by Professor Marvin Goodfriend (Carnegie Mellon University, Honorary Adviser at the IMES), had three panelists: President and Chief Executive Officer Charles L. Evans (Federal Reserve Bank of Chicago), Director-General Economics Frank Smets (European Central Bank), and Deputy Governor Hiroshi Nakaso (BOJ). They presented their recent experience with unconventional monetary policies and discussed lessons learned and challenges ahead.

Deputy Governor Nakaso touched on the lessons learned from the BOJ's monetary policy since 2013: from "Quantitative and Qualitative Monetary Easing (QQE)" to "QQE with Yield Curve Control." He took up three challenges ahead and suggested that we should deepen our understanding of: (i) how to raise inflation expectations that fell once to an undesirably low level, (ii) optimal levels

and shapes of the yield curve, and (iii) the influence of yield curve control on market functioning.

President Evans discussed three lessons from the aftermath of the Global Financial Crisis. The first was that outcome-based policies, including forward guidance, became even more critical during crises. The second was that a symmetric inflation target was a challenging objective for a conservative central bank. The third was that, given the risk of facing the zero lower bound, the risk management perspective would provide a key basis for policy decision-making in the foreseeable future.

Director-General Smets described the European Central Bank's overall strategy of implementing multi-dimensional instruments after the crisis. He exemplified that the various instruments, reinforcing each other, had been able to activate different channels,



and concluded that multi-dimensionality was particularly important in a partially segmented interbank market.

In the paper presentation sessions, four papers, related to the three topics raised by Governor Kuroda's opening remarks, were presented by professors and central bank economists and discussed by conference participants.



Dr. Jeffrey C. Fuhrer (Federal Reserve Bank of Boston, left) presents his paper, "Japanese and U.S. Inflation Dynamics in the 21<sup>st</sup> Century." Professor Mototsugu Shintani (University of Tokyo, right) makes his comments.



Professor Kenneth D. West (University of Wisconsin-Madison, left) presents his paper, "Some Evidence on Secular Drivers of U.S. Safe Real Interest Rates." Dr. Piti Disyatat (Bank of Thailand, right) makes his comments.



Dr. Ryo Kato (BOJ, left) presents his paper, "Market Concentration and Sectoral Inflation under Imperfect Common Knowledge." Dr. John McDermott (Reserve Bank of New Zealand, right) makes his comments.



Professor Benjamin Moll (Princeton University, left) presents his paper, "Monetary Policy According to Heterogeneous Agent New Keynesian (HANK) Models." Mr. Boris Cournède (Organisation for Economic Co-operation and Development, right) makes his comments.

## Recent Publications from the IMES

### *IMES Discussion Paper Series*

- No. 2017-E-3** “Guiding the Economy Toward the Target Inflation Rate: An Evolutionary Game Theory Approach” by Yasushi Asako and Tatsushi Okuda, May 2017
- No. 2017-E-2** “Banking Crises and the Japanese Legal Framework” by Ignacio Tirado, Mar. 2017
- No. 2017-E-1** “Term Structure Models with Negative Interest Rates” by Yoichi Ueno, Mar. 2017
- No. 2016-E-13** “Market Liquidity and Systemic Risk in Government Bond Markets: A Network Analysis and Agent-Based Model Approach” by Toshiyuki Sakiyama and Tetsuya Yamada, Oct. 2016
- No. 2016-E-12** “Quantitative Easing and Liquidity in the Japanese Government Bond Market” by Kentaro Iwatsubo and Tomoki Taishi, Oct. 2016
- No. 2016-E-11** “Durations at the Zero Lower Bound” by Richard Dennis, Aug. 2016
- No. 2016-E-10** “Sustainable International Monetary Policy Cooperation” by Ippei Fujiwara, Timothy Kam, and Takeki Sunakawa, Aug. 2016
- No. 2016-E-9** “Simultaneous Estimation of Cost of Equity and Expected Earnings of Individual Firms with the Residual Income Model” by Tetsuya Adachi, Takashi Asano, and Tatsushi Okuda, Aug. 2016

### *Monetary and Economic Studies Vol.34 / November 2016*

- “Simultaneous Estimation of Cost of Equity and Expected Earnings of Individual Firms with the Residual Income Model” by Tetsuya Adachi, Takashi Asano, and Tatsushi Okuda
- “Upstreamness in the Global Value Chain: Manufacturing and Services” by Kenji Suganuma
- “The Intraday Market Liquidity of Japanese Government Bond Futures” by Naoshi Tsuchida, Toshiaki Watanabe, and Toshinao Yoshida

#### **IMES Newsletter June 2017**

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