



Institute for Monetary and Economic Studies,
Bank of Japan

IMES Newsletter

June 2018

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

2018 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.

2018 BOJ-IMES Conference

The Institute for Monetary and Economic Studies (IMES) of the Bank of Japan (BOJ) held the 2018 BOJ-IMES Conference, titled "Central Banking in a Changing World," on May 30–31, 2018 at the BOJ Head Office in Tokyo.

The conference attracted about one hundred participants from academia, central banks, and international organizations. It focused on central bank policies and operations that have been influenced by global structural changes in recent years.

The conference began with the opening remarks delivered by BOJ Governor Haruhiko Kuroda. He emphasized that global structural changes in recent years have influenced not only central bank policies, but also central bank operations. He then raised three important issues: (i) the recent sluggish growth in wages and prices despite the significant improvements in real economy,



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

a phenomenon of "missing (wage) inflation"; (ii) developments in the shadow banking sector and the low profitability of financial institutions; and (iii) advances in information and communication technologies and their application to the financial business, or "FinTech."



Conference participants (Photo: Shoichi Nose)

Thereafter, Kuroda expressed his hope that this year's conference would activate discussion from a variety of perspectives and also deepen our understanding of the issues faced by central banks.

In the Mayekawa Lecture, Professor Raghuram G. Rajan (University of Chicago) explained why we need banking regulation by elaborating on its theoretical background. He reviewed how micro-prudential measures were developed in the literature. He also pointed out the importance of regulatory incentives that could affect the financial system. He thereby introduced three specific topics: (i) addressing financial stability with monetary policy, (ii) macro-prudential regulations, and (iii) regulatory harmonization across borders. He closed his lecture by emphasizing the importance of systemic regulation and the need for implementing broad, robust and timely regulations across national financial systems.



Professor Raghuram G. Rajan (University of Chicago) delivers the Mayekawa Lecture (Photo: Shoichi Nose)



Professor Athanasios Orphanides (Massachusetts Institute of Technology, Honorary Adviser to the IMES) delivers the keynote speech.

In the keynote speech, Professor Athanasios Orphanides (Massachusetts Institute of Technology, Honorary Adviser to the IMES) reviewed the BOJ's monetary policy that has been implemented since the mid 1990's and discussed practical implications of central bank independence. He argued that the BOJ's experience showed the necessity for an independent central bank to clarify (i) the definition of price stability and (ii) the legitimacy of assuming risks on its balance sheet. He then insisted that the "Joint Statement of the Government and the Bank of Japan" in 2013 made those clarifications, and enabled the BOJ to pursue "Quantitative and Qualitative Monetary Easing." He concluded by highlighting the benefits obtained from the coordination of monetary and fiscal policy.



Panelists and a moderator (from left): President James Bullard (Federal Reserve Bank of St. Louis, panelist), Deputy Governor David Ramsden (Bank of England, panelist), and Professor Kazuo Ueda (Kyoritsu Women's University and University of Tokyo)

In the policy panel discussion moderated by Kazuo Ueda (Kyoritsu Women's University and University of Tokyo), James Bullard (Federal Reserve Bank of St. Louis) and David Ramsden (Bank of England) discussed the causes and consequences of “missing (wage) inflation” and central banking under the FinTech revolution.

In relation to missing inflation, President Bullard argued that the improvement of monetary policy during the inflation targeting era from early 1990's had caused a flattening of empirical Phillips curves in advanced economies. By employing a theoretical model with a structural Philips curve, he showed under successful monetary policy the slope of an empirical Philips curve could disappear. He pointed out that today's monetary policymakers were unlikely to glean a reliable signal for monetary policy based on empirical Phillips curve slope estimates.

Deputy Governor Ramsden raised four possible explanations for “missing wage inflation” in the U.K. (i) weak productivity

growth, (ii) the decline in the structural unemployment rate, (iii) the lag between a decrease in unemployment and an increase in wage growth, and (iv) the reduction of workers' bargaining power due to technological developments. He concluded that the stance of monetary policy would be judged based not only on labor market indicators such as wage growth and unit labor costs but also a wider range of indicators on demand and supply conditions.

In relation to the FinTech revolution, Deputy Governor Ramsden stated that the Bank of England's approach to the FinTech revolution could be expressed using one word, “open.” He then argued that the financial authorities could choose to isolate, regulate, or integrate these changes, taking into account the balance between potential benefits and risks. Finally, he emphasized the need to think about broader consumer and societal preferences, i.e., the trends towards a more autonomous approach that could raise questions for increased central bank authority.

President Bullard argued that the recent cryptocurrency wave entailed a risk of changing a locally uniform currency system in each country toward something more like an international non-uniform currency system with various drawbacks. He stated that the value of cryptocurrencies would inevitably be volatile without credible promises for limits on future issuance, and hence a non-uniform

currency system with cryptocurrencies would reduce the efficiency of market transactions.

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



Professor Hélène Rey (London Business School, left) presents her paper, "Global Real Rates: A Secular Approach." Dr. Marianne Nessén (Sveriges Riksbank, right) makes her comments.



Professor Klaus Adam (University of Mannheim, left) presents his paper "Optimal Trend Inflation." Professor Dr. Jan Marc Berk (De Nederlandsche Bank, right) makes his comments.



Professor Andrew T. Levin (Dartmouth College, left) presents his paper "Central Bank Digital Currency and the Future of Monetary Policy." Professor Hiroshi Fujiki (Chuo University, right) makes his comments.



Dr. Ichiro Muto (Bank of Japan, left) presents his paper "Missing Wage Inflation? Estimating the Natural Rate of Unemployment in a Nonlinear DSGE Model." Dr. Óscar Arce (Banco de España, right) makes his comments.

Recent Publications from the IMES

IMES Discussion Paper Series

- No. 2018-E-6** “Speed Limit Policy and Liquidity Traps” by Taisuke Nakata, Sebastian Schmidt, Paul Yoo, June 2018
- No. 2018-E-5** “A Survey-based Shadow Rate and Unconventional Monetary Policy Effects” by Hibiki Ichiue, Yoichi Ueno, June 2018
- No. 2018-E-4** “The Effects of the Bank of Japan's Corporate and Government Bond Purchases on Credit Spreads” by Kenji Suganuma, Yoichi Ueno, June 2018
- No. 2018-E-3** “The Implied Bail-in Probability in the Contingent Convertible Securities Market” by Masayuki Kazato, Tetsuya Yamada, May 2018
- No. 2018-E-2** “Central Bank Policy Announcements and Changes in Trading Behavior: Evidence from Bond Futures High Frequency Price Data” by Koichiro Kamada, Tetsuo Kurosaki, Ko Miura, and Tetsuya Yamada, March 2018
- No. 2018-E-1** “Does Sovereign Risk in Local and Foreign Currency Differ?” by Marlene Amstad, Frank Packer, and Jimmy Shek, March 2018

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- “Monetary Policy: Lessons Learned and Challenges Ahead
Summary of the 2017 BOJ-IMES Conference Organized by the Institute for Monetary and Economic Studies of the Bank of Japan” by Ko Nakayama, Shigenori Shiratsuka
- “Opening Remarks of the 2017 BOJ-IMES Conference Organized by the Institute for Monetary and Economic Studies of the Bank of Japan” by Haruhiko Kuroda
- “The Mayekawa Lecture: Some Reflections on Japanese Monetary Policy” by Ben S. Bernanke
- “Rethinking the Power of Forward Guidance: Lessons from Japan” by Mark Gertler
- “Fiscal Conditions and Long-term Interest Rates” by Koji Nakamura, Tomoyuki Yagi

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