



Institute for Monetary and Economic Studies,
Bank of Japan

IMES Newsletter

June 2019

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

2019 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.

2019 BOJ-IMES Conference

The Institute for Monetary and Economic Studies (IMES) of the Bank of Japan (BOJ) held the 2019 BOJ-IMES Conference, titled "Central Bank Design under a Continued Low Inflation and Interest Rate Environment," on May 29–30, 2019 at the BOJ Head Office in Tokyo.

The conference attracted about one hundred participants from academia, central banks, and international organizations. It covered a wide range of issues regarding the implementation and effects of central bank policies under a continued low inflation and interest rate environment.

The conference began with opening remarks by BOJ Governor Haruhiko Kuroda. He pointed out that both inflation and nominal interest rates had been low and had not returned to levels prior to the Global Financial Crisis in most advanced economies. He then reviewed the four policy agenda related to this environment: (i) monetary policy framework; (ii) monetary policy instruments; (iii) the relationship between price stability and financial stability; and (iv) spillovers to emerging and developing economies. He concluded his speech by expressing his hope that the



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



Conference participants (Photo: Shoichi Nose)

conference would contribute to a deeper understanding of central bank design under a continued low inflation and interest rate environment.

In the Mayekawa Lecture, Mr. Jean-Claude Trichet, former President of the European Central Bank, reviewed the performance of the euro area economy since the introduction of the euro and discussed future policy issues. He first stated that the euro had been successful in terms of international credibility, domestic price stability, and resilience against turbulent times, and pointed out that the real growth per capita in the euro area was comparable to that in the U.S. He then argued that stronger economic, fiscal and financial governance was essential to achieve macroeconomic convergence among member countries. Regarding monetary policy-making, he pointed out that central banks in the advanced economies, including the European Central Bank, had become closer to each other.



Mr. Jean-Claude Trichet, former President of the European Central Bank, delivers the Mayekawa Lecture (Photo: Shoichi Nose).



Professor Carl E. Walsh (University of California, Santa Cruz, Honorary Adviser to the IMES) delivers the keynote speech.

In the keynote speech, Professor Carl E. Walsh (University of California, Santa Cruz, Honorary Adviser to the IMES) discussed whether the widespread framework of inflation targeting (IT) should be replaced with alternatives such as price-level targeting (PLT) and average inflation targeting (AIT). He showed simulation results below: (i) the social loss under PLT was the smallest in basic New Keynesian models, but (ii) in the presence of both wage stickiness and productivity shocks, PLT performed worse than IT and AIT, and (iii) when inflation expectations were well anchored, the advantage of PLT disappeared.



Panelists and a moderator (from left): Assistant Governor Christian Hawkesby (Reserve Bank of New Zealand, panelist), Principal Adviser to the Director General Economics Klaus Masuch (European Central Bank, panelist), Deputy Governor Masazumi Wakatabe (BOJ, panelist), and Professor Athanasios Orphanides (Massachusetts Institute of Technology, Honorary Adviser to the IMES, moderator)

The policy panel discussion, moderated by Professor Athanasios Orphanides (Massachusetts Institute of Technology, Honorary Adviser to the IMES), had three panelists from central banks: Assistant Governor Christian Hawkesby (Reserve Bank of New Zealand: RBNZ), Principal Adviser to the Director General Economics Klaus Masuch (European Central Bank), and Deputy Governor Masazumi Wakatabe (BOJ). They discussed the credibility of central banks under a low interest rate environment.

Mr. Hawkesby explained recent revisions of the monetary policy framework at RBNZ to maintain its credibility. First, he stated that RBNZ had moved from the single objective of price stability to a dual mandate where both the target inflation rate and the maximum sustainable employment were pursued, considering that employment was closely related to the wellbeing of the people. Second, he pointed out that the introduction

of Monetary Policy Committee was intended to enhance diversity and transparency in the monetary policy decision-making process.

Mr. Masuch focused on the interaction between monetary policy and other policies, based on the experience in the euro area economy. He emphasized the importance of using appropriate fiscal and financial policies in coordination with monetary policy to support the resilience of the economy in times of crisis when the policy rate was close to the effective lower bound. He also argued that, in addition to the fiscal and financial policies conducted by each member country, institutional framework for promoting policy coordination in the euro area as a whole was also needed.

Mr. Wakatabe presented the lessons for central bank credibility from the Japanese experience, which include: (i) a low natural rate of interest, (ii) difficulty in re-anchoring inflation expectations, (iii) interplay between financial stability and monetary policy, and (iv) revision of the institutional framework.

Reviewing the BOJ's words and deeds, he emphasized that the introduction of price stability target in January 2013 and Quantitative and Qualitative Easing had contributed to improving inflation and growth performance. He closed his remarks by concluding that both words and deeds were

important for maintaining credibility.

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.



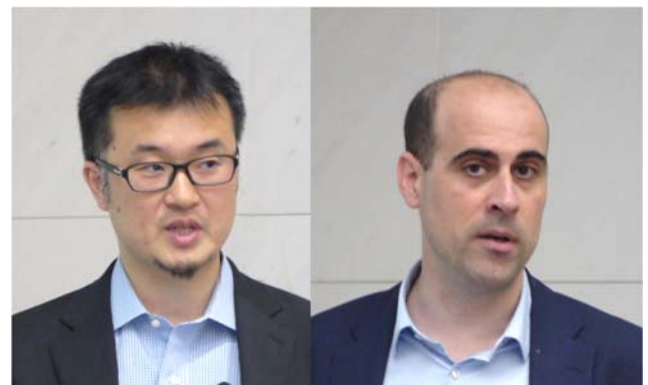
Professor Giancarlo Corsetti (University of Cambridge, left) presents his paper, "Exchange Rate Misalignment, Capital Flows and Optimal Monetary Policy Trade-offs." Mr. Paolo Pesenti (Federal Reserve Bank of New York, right) discusses the paper.



Professor Enrique G. Mendoza (University of Pennsylvania, left) presents his paper, "Tight Money-Tight Credit: Coordination Failure in the Conduct of Monetary and Financial Policies." Professor Kosuke Aoki (University of Tokyo, right) discusses the paper.



Professor Markus K. Brunnermeier (Princeton University, left) presents his paper, "The Reversal Interest Rate." Ms. Meredith Beechey (Sveriges Riksbank, right) discusses the paper.



Mr. Nao Sudo (Bank of Japan, left) presents his paper, "Prolonged Low Interest Rates and Banking Stability." Mr. Carlos Thomas (Banco de España, right) discusses the paper.

Recent Publications from the IMES

IMES Discussion Paper Series

- No. 2019-E-6** “The Reversal Interest Rate” by Markus K. Brunnermeier, Yann Koby, June 2019
- No. 2019-E-5** “Security Analysis of Machine Learning Systems for the Financial Sector” by Shiori Inoue, Masashi Une, May 2019
- No. 2019-E-4** “Foreign Reserve Accumulation, Foreign Direct Investment, and Economic Growth” by Hidehiko Matsumoto, March 2019
- No. 2019-E-3** “State Dependence in Labor Market Fluctuations: Evidence, Theory, and Policy Implications” by Carlo Pizzinelli, Konstantinos Theodoridis, and Francesco Zanetti, February 2019
- No. 2019-E-2** “Negative Interest Rate Policy and the Influence of Macroeconomic News on Yields” by Rasmus Fatum, Naoko Hara, and Yohei Yamamoto, February 2019

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- “Central Banking in a Changing World
Summary of the 2018 BOJ-IMES Conference Organized by the Institute for Monetary and Economic Studies of the Bank of Japan” by Shigenori Shiratsuka
- “Opening Remarks of the 2018 BOJ-IMES Conference Organized by the Institute for Monetary and Economic Studies of the Bank of Japan” by Haruhiko Kuroda
- “The Mayekawa Lecture: Whither Bank Regulation; Current Debates and Challenges” by Raghuram G. Rajan
- “The Boundaries of Central Bank Independence: Lessons from Unconventional Times” by Athanasios Orphanides
- “The Implied Bail-in Probability in the Contingent Convertible Securities Market” by Masayuki Kazato, Tetsuya Yamada

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