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Bank of Japan

**Opening Remarks at the 2018 BOJ-IMES Conference**

**Hosted by the Institute for Monetary and**

**Economic Studies, Bank of Japan**

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## **I. Introduction**

Good morning. I am honored to welcome distinguished guests from academia and central banks to the 24th International Conference hosted by the Institute for Monetary and Economic Studies. On behalf of conference organizers, I thank all of you here who have kindly taken time out of your busy schedules to participate in this one-and-a-half-day conference in Tokyo.

The topic of this year's conference is "Central Banking in a Changing World." Over the past few years, our conferences focused on monetary policy issues, yielding important insights and suggestions for the conduct of monetary policy after the Global Financial Crisis. This year's conference expands its scope from monetary policy to "central banking," that is to say, central bank policies and operations on the whole. Behind this is the fact that global structural changes in recent years influence not only central bank policies such as monetary and prudential policies, but also central bank operations such as the issuance of currency and the operation of payment and settlement systems, which provide basis for the conduct of central bank policies.

As these changes span a wide range of areas, I think it is helpful to briefly outline recent changes in the global economic and financial environment, especially which are deemed important for central banks.

## **II. A Changing World and Central Banks**

In recent years, the global economic and financial environment surrounding central banks has changed significantly. Global trade activity has gathered strength again following years of lackluster growth in the wake of the Global Financial Crisis. Against the backdrop of the favorable global economic environment, investment activity by financial institutions and other investors around the world has become increasingly active. Along with these developments, economic and financial linkages between countries have been strengthening. This increased interconnectedness is, of course, desirable for the global economy, as it reflects ongoing globalization. But at the same time, partly due to the recent dynamics of political economy and geopolitics, the size of global shocks has been increasing, and the spread of global economic shocks has been presenting a great challenge for central banks.

Regarding the conduct of monetary policy, changes in price and wage dynamics have attracted keen attention in both academia and central banks, especially those in advanced economies. As the adverse effects from the Global Financial Crisis subside, the unemployment rate has dropped in many countries and the real economy has improved substantially, partly due to the effects of large-scale macroeconomic policies. Despite these improvements in the real economy, prices and wages have remained sluggish. This phenomenon has recently been labeled the "missing inflation" or "missing wage inflation" puzzle. Looking back on the discussions at our conference last year, adaptive elements in inflation expectations formation were highlighted as a possible factor behind the missing inflation. It is urgent that we explore the mechanism behind the changes in price and wage dynamics especially in advanced economies.

Turning to the financial system, after ten years since the outbreak of the Global Financial Crisis, the robustness of the global financial system has been enhanced through the efforts of financial authorities, which include the finalization of Basel III, and those of financial institutions to strengthen their risk management practice. However, it is necessary to pay attention to developments in the so-called shadow banking sector, which is not sufficiently covered by conventional supervision and regulations. Moreover, in recent years, the low profitability of financial institutions, especially in advanced economies, has come to pose a new challenge for global financial stability. As such, central banks are faced with new challenges in terms of financial stability as well.

From a longer perspective, central banks are faced with an important challenge posed by innovations in information and communication technology. We see remarkable progress in a wide range of technologies, such as artificial intelligence, big data analysis, and distributed ledger technology. We also see the rapid development of smartphones, social network services, and e-commerce. The application of these technologies in the field of financial business, typically dubbed "FinTech," has already brought about drastic changes in the way payments are made in many countries. These developments are expected to continue in the future, promoting further changes in business models at financial institutions.

Of course, over the past several decades, central banks -- in their role as the "bank of banks" -- have made various efforts to improve the safety and efficiency of payment and settlement systems, for example by introducing real-time gross settlement, simultaneous settlement of funds and securities, and simultaneous foreign exchange settlement. Furthermore, with regard to currency issuance, a fundamental role of central banks, some central banks are now exploring the possibility of issuing central bank digital currency.

Thus, in the long-run, an era of major transformation may lie ahead even in the core operations of central banking, such as the "issuer of banknotes" and the "bank of banks."

### **III. Conclusion**

In sum, central banks are facing new challenges both in terms of policies and operations as a result of wide-ranging structural changes in the global economic and financial environment. I hope we will have lively discussions on these challenges and their implications at this conference.

Following my remarks, this year's Mayekawa lecture will be given by Professor Raghuram Rajan of the University of Chicago. I am looking forward to learning from his extensive knowledge of banking theory as well as his experiences as Chief Economist of the International Monetary Fund and Governor of the Reserve Bank of India. For the keynote speech, Professor Athanasios Orphanides of the Massachusetts Institute of Technology, our new Honorary Adviser to IMES, will share his views on policy issues, based on his experience both as a former central bank governor and an academic.

The paper presentations will focus on the four topics: (1) the sustainability of the low interest rate environment under globalization, (2) the impact of the issuance of central bank digital currency on the effectiveness of monetary policy, (3) the impact of productivity changes on optimal trend inflation, and (4) the mechanism behind missing wage inflation. The final and concluding session will be the policy panel discussion, moderated by the IMES Chief Councillor Kazuo Ueda. As panelists, we welcome James Bullard, President and CEO of the Federal Reserve Bank of St. Louis, and David Ramsden, Deputy Governor of the Bank of England. I hope that this panel will help deepen our understanding on "Central Banking in a Changing World" from both a theoretical and a practical perspective.

Of course, compared with the wide range of issues to be discussed, our available time at this conference -- one-and-a-half days -- might be too short. Based on this limitation, the items in the program, especially the paper presentation sessions, are necessarily selective. Nevertheless, by combining paper presentations, lectures, and panel discussions, I hope that the conference as a whole will activate discussion from a variety of perspectives and will deepen our understanding of the issues facing central banks.

Thank you for your attention.