Overcoming Deflation: Theory and Practice

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Mechanism of Quantitative and Qualitative Monetary Easing (QQE)

Massive purchases of JGBs

Nominal interest rates Decrease

Inflation expectations Increase

Real interest rates Decrease

Economy Improve

Actual inflation rates Increase

Lending and capital market

Strong and clear commitment to achieve the price stability target of 2 percent
Scope for Additional Monetary Easing in Terms of Three Dimensions

Chart 2

Introduction of QQE (Apr. 2013)

Expansion of QQE (Oct. 2014)

Introduction of "QQE with a Negative Interest Rate" (Jan. 2016)

Expansion in the Monetary Base and JGB Holdings

tril. yen, end of period

Source: Bank of Japan
**Phillips Curve**

CPI (all items less fresh food and energy), y/y % chg.

- 1983/Q1-2013/Q1
- 2013/Q2-2016/Q1

A: 1983/Q1-2013/Q1
\[ y = 0.37x + 0.7 \]

B: 1983/Q1-1995/Q4
\[ y = 0.24x + 1.5 \]

C: 1996/Q1-2013/Q1
\[ y = 0.18x - 0.0 \]

Output gap (2-quarter lead, %)

Sources: Ministry of Internal Affairs and Communications; Cabinet Office, etc.

**Forward Guidance**

Policy rate

Commitment to maintaining a zero interest rate

Policy rate without the zero lower bound
Progress in Academic Research on Monetary Policy Rules

Standard Policy Measures

Consistent & Predictable Policy Actions

Increase in Policy Effectiveness

Unconventional Policy Measures

Response to Various Uncertainties & Complexities

→ Aspects of Incomplete Contracts

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Note: The potential growth rate is estimated by the Research and Statistics Department, Bank of Japan. Figures for the second half of fiscal 2015 are those of 2015/Q4.

Sources: Cabinet Office; Bank of Japan; Ministry of Internal Affairs and Communications; Ministry of Health, Labour and Welfare; Ministry of Economy, Trade and Industry; Research Institute of Economy, Trade and Industry.