Japan's Unconventional Monetary Policy and Initiatives toward Ensuring Stability of the Global Financial System

Remarks at an Economic Policy Symposium
Held by the Federal Reserve Bank of Kansas City

August 24, 2013

Haruhiko Kuroda
Governor of the Bank of Japan

Outline

1. Unconventional monetary policy in Japan

2. Unconventional monetary policy, real interest rates, and natural rate of interest

3. Unconventional monetary policy and global financial markets
Quantitative and Qualitative Monetary Easing (QQE)

- Achieve price stability target of 2% in 2 years
- "Quantitative" increase
- "Qualitative" changes

Monetary Base and JGB Holdings

Source: Bank of Japan.
Assessment to Date:
Three Favorable Turns

- Financial markets and corporate finance
- Expectations
- Economic activity and prices

Chart 5

Stock Prices and Long-Term Interest Rates

Stock Prices

Long-Term Interest Rates

Source: Bloomberg.
**Chart 6**

**Inflation Expectations of Market Participants**

![Chart showing BEI (Break-Even Inflation) trends]

Note: BEI is the yield spread between fixed-rate coupon-bearing JGBs and inflation-indexed JGBs. Figures are calculated using yield data for the inflation-indexed JGBs with the longest maturity at each period that corresponds to 5 years recently.

Source: Bloomberg.

**Chart 7**

**Private Consumption and Prices**

![Chart showing Private Consumption and Consumer Prices trends]

Sources: Cabinet Office; Ministry of Internal Affairs and Communications.
Unconventional Monetary Policy, Real Interest Rates, and Natural Rate of Interest

• Lowering real interest rates

• Increase in the natural rate of interest

Unconventional Monetary Policy and Global Financial Markets

• Unconventional monetary policy and cross-border capital flows

• International coordination among central banks