

The Future of Inflation Targeting

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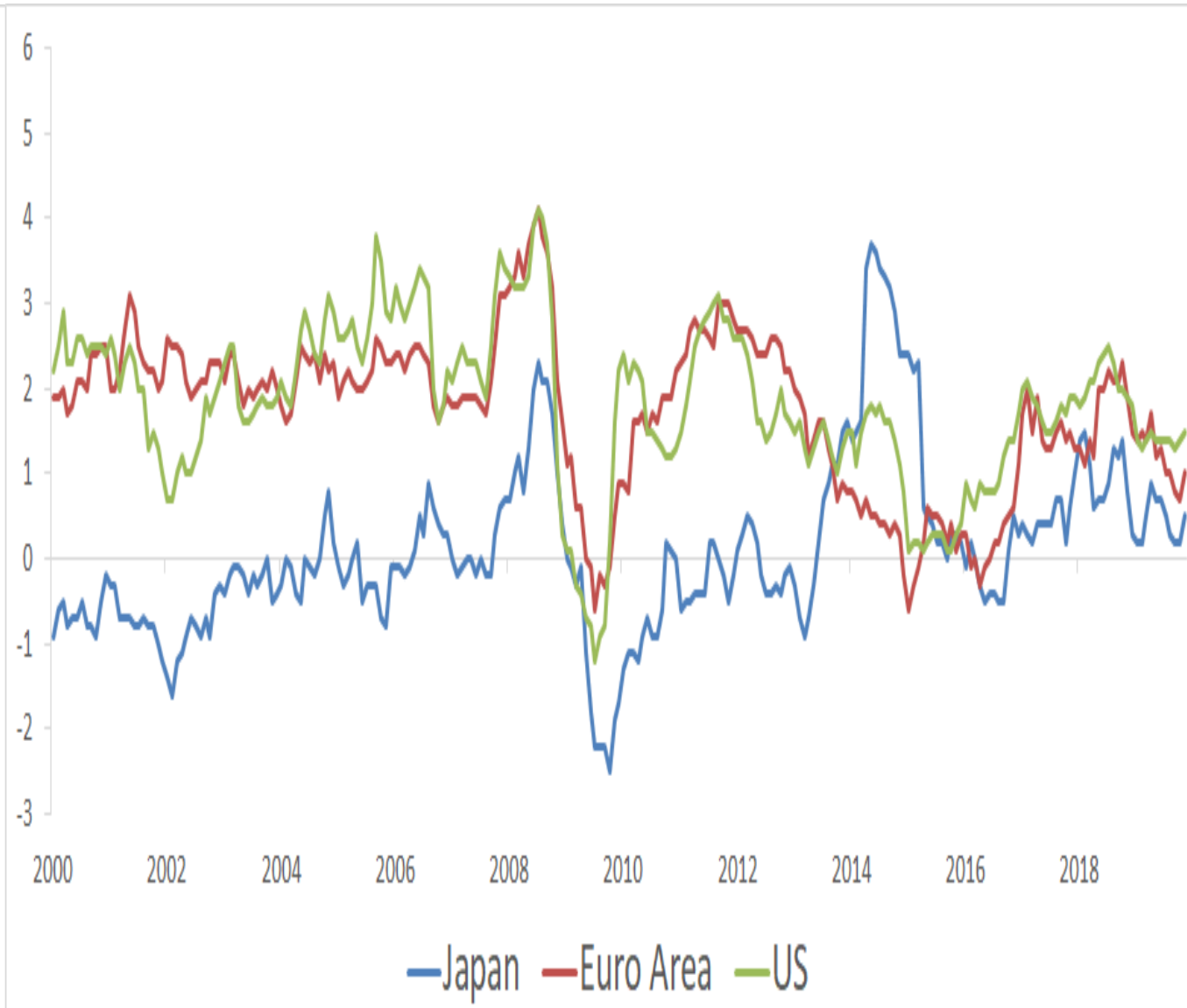
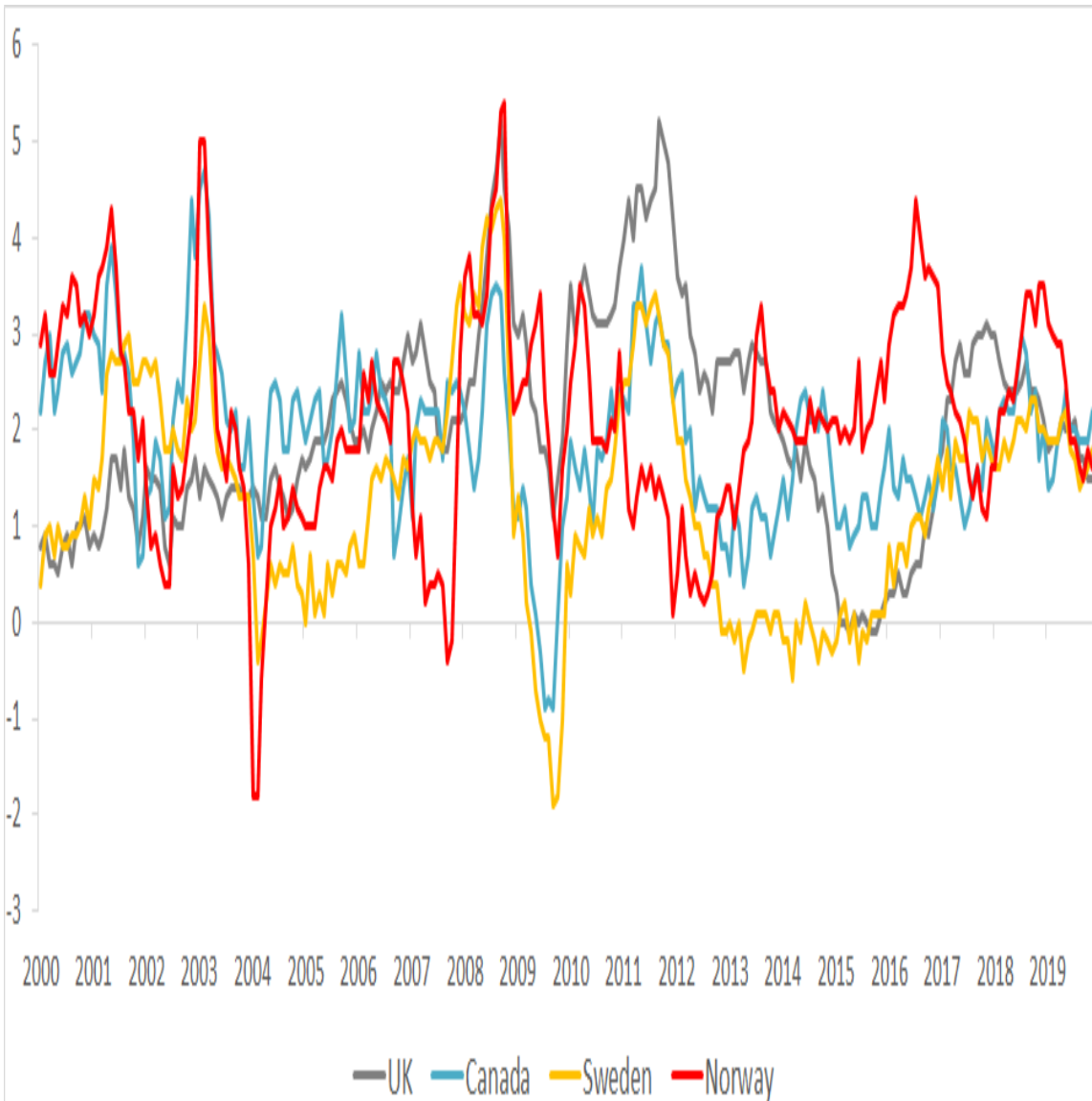
Keio University

Asian Development Bank Institute

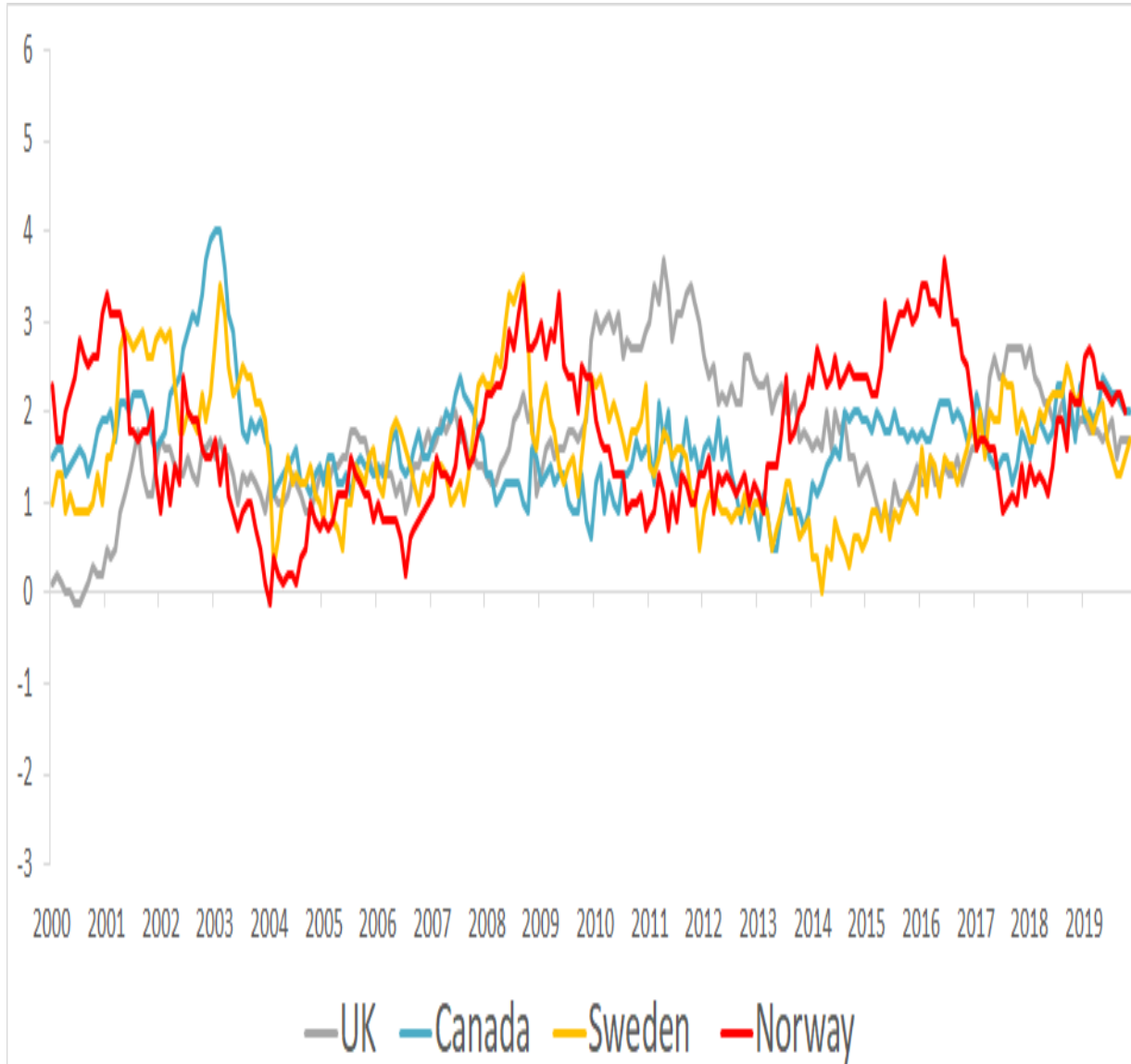
Former Bank of Japan Board Member

**Low Inflation is Not Yet
a Universal Phenomenon
in Advanced Economies.**

Headline Inflation

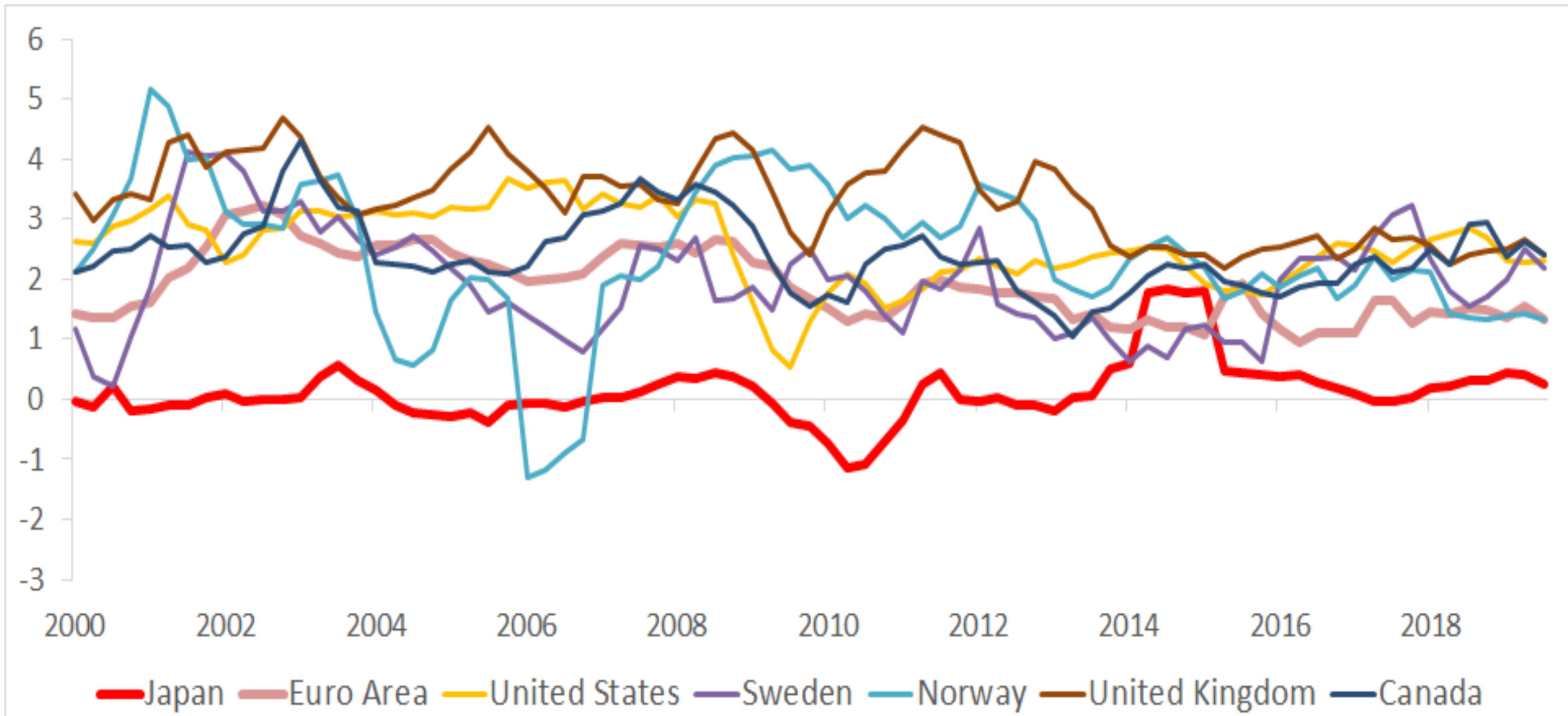


Core Inflation



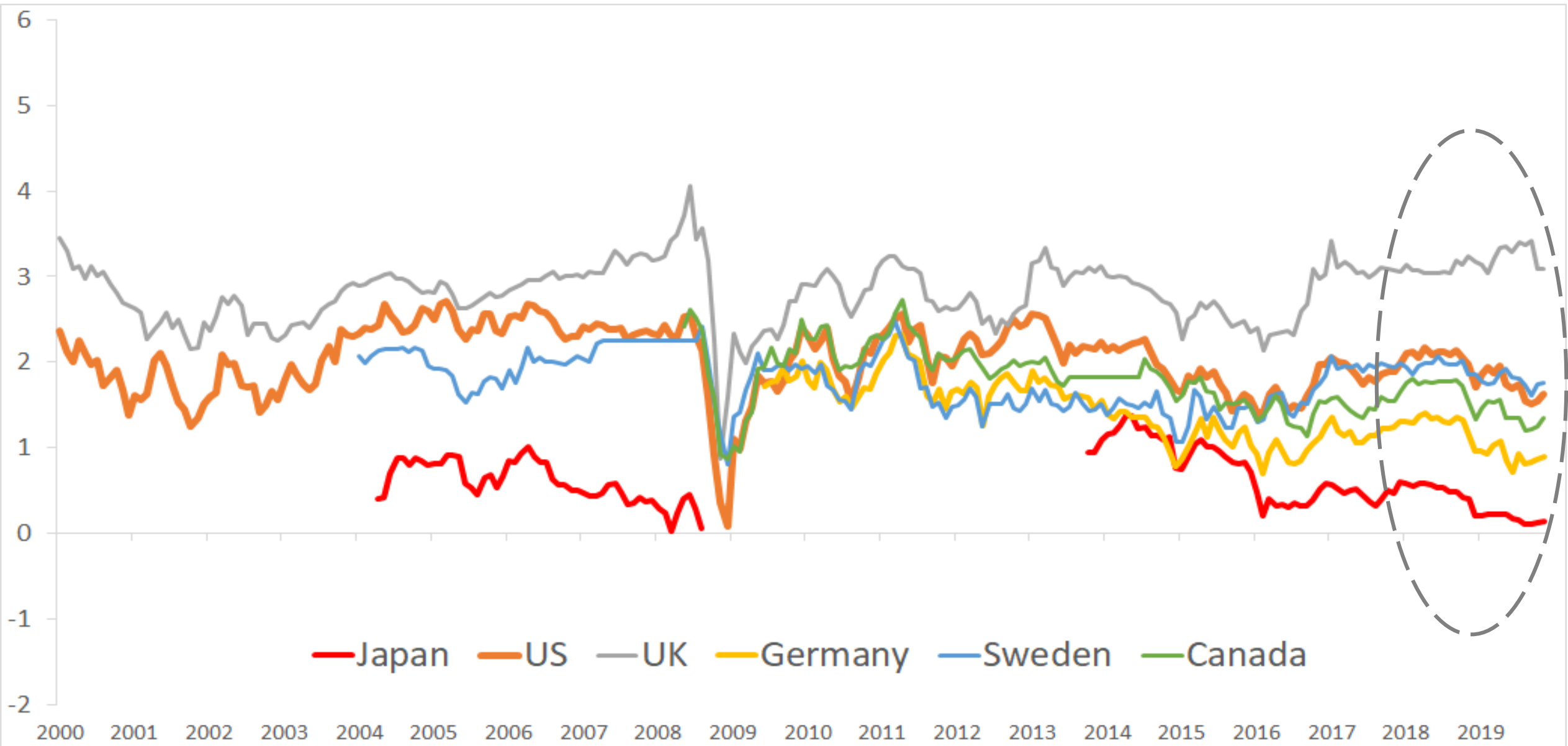
Key Factor Contributing to the Sustainable Inflation?

Services Inflation

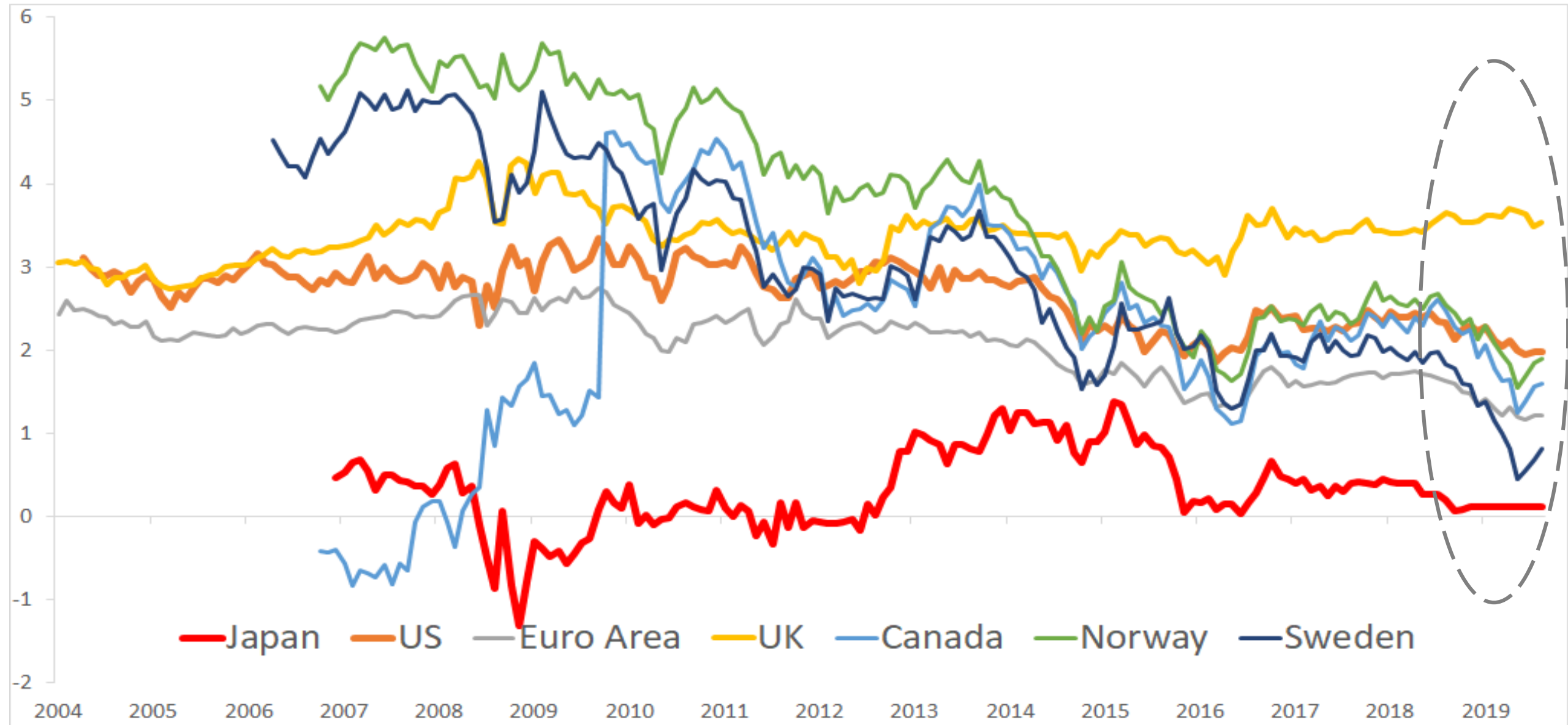


**Is the Behavior of
Long-term Inflation Expectations
Well Understood?**

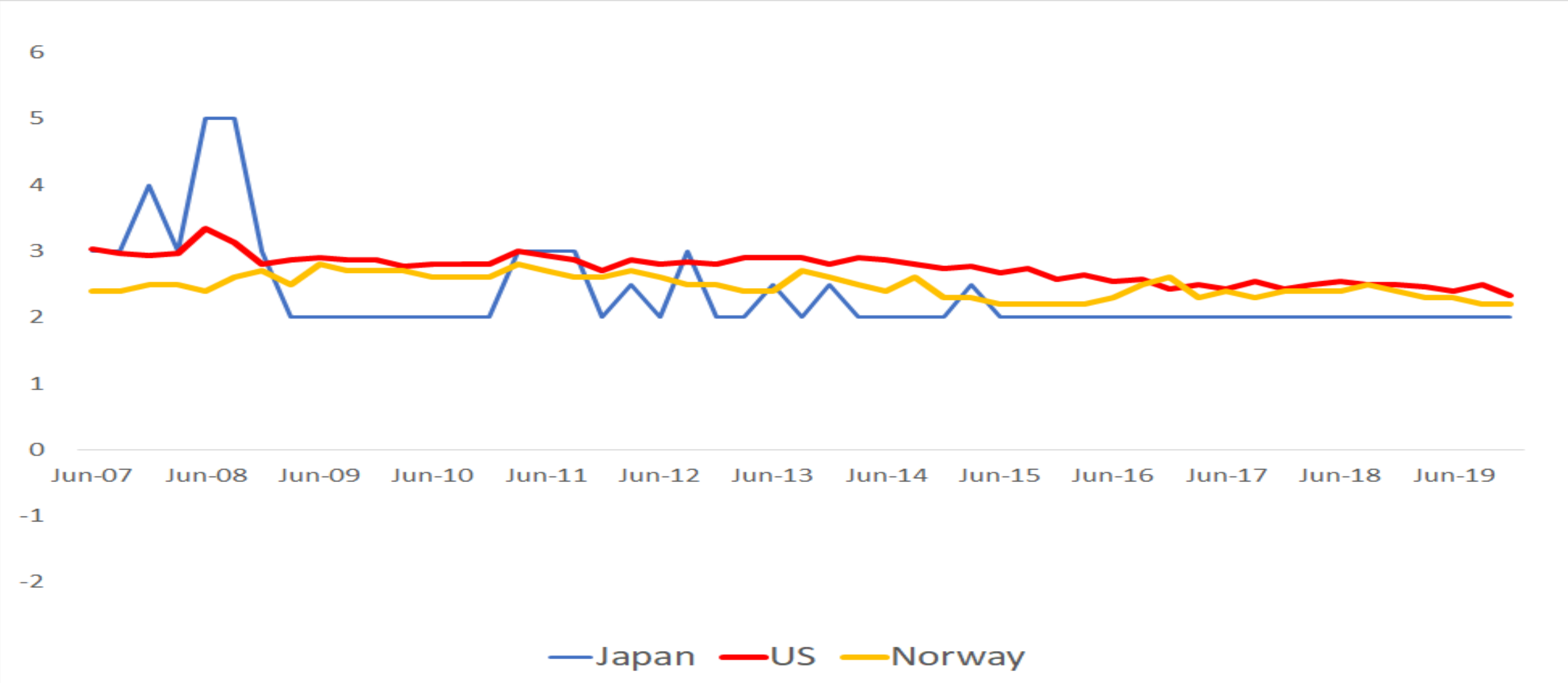
10-Year Break Even Inflation Rates



5 Year 5 Inflation Swap Rate



Households' Inflation Expectations (Next 5 Years)



Asymmetry in Inflation Targeting

(1) Achieving **low, stable inflation** has been **proven successful**.

(2) Achieving **higher inflation (at around 2%)** is not yet proven.

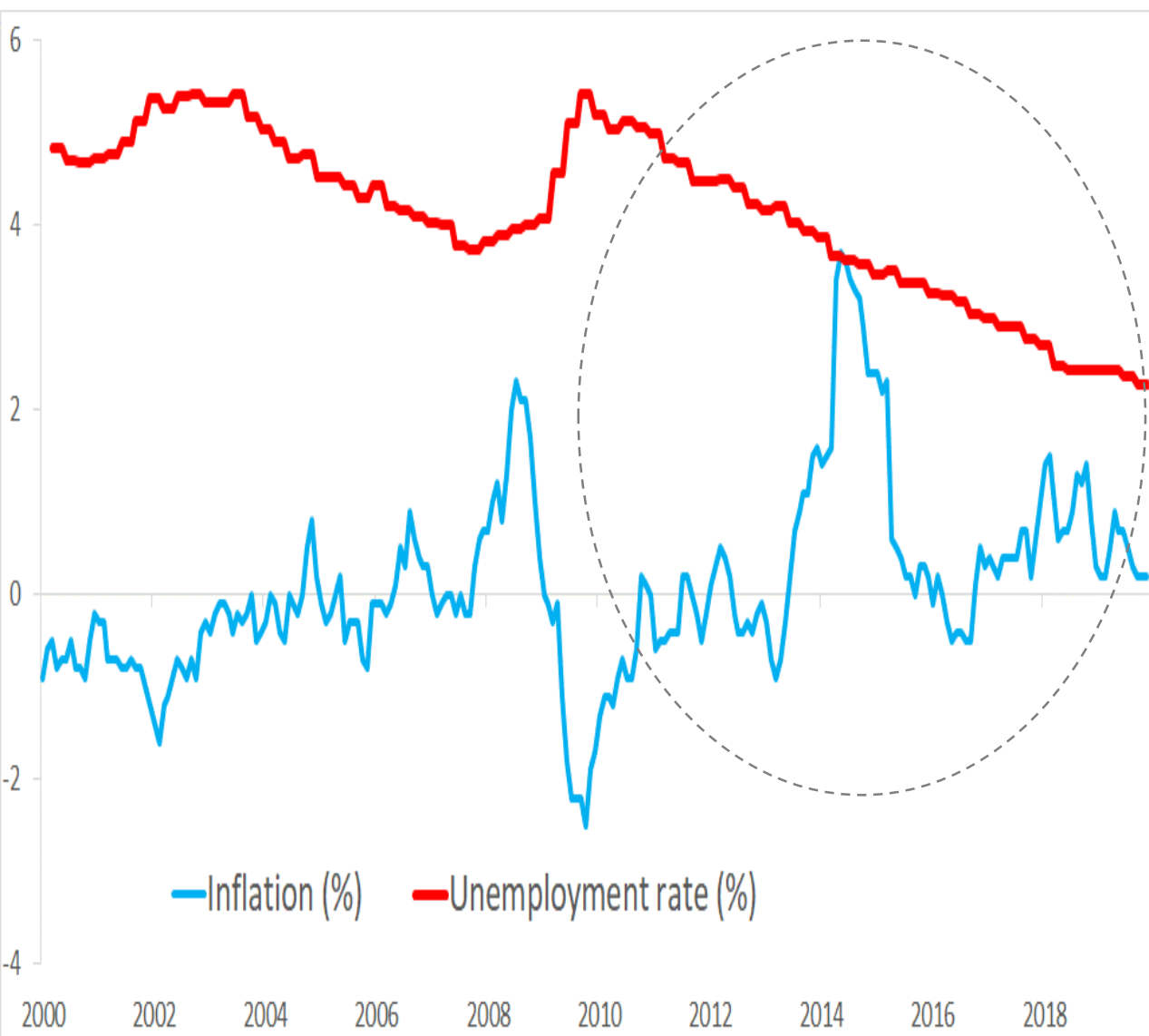
- **Why achieving inflation is so challenging?**

(Q) Is it because of **the effective lower bound**?

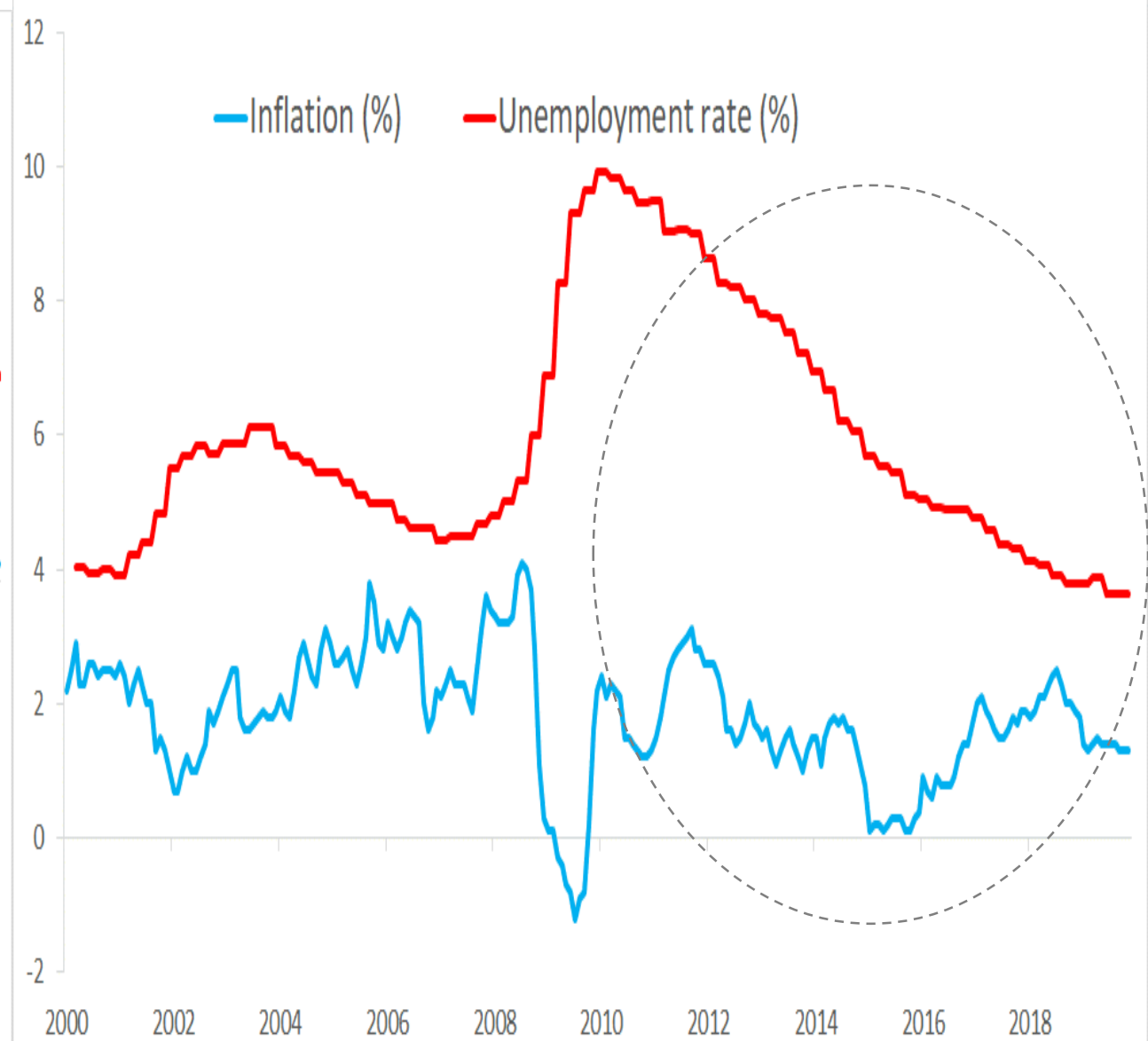
(Q) Is it because **unconventional monetary easing** has not been so effective?

(Q) Is it because of **structural reasons** (aging, IT revolution, weakened labor union, globalization)?

Japan



US



Alternative Monetary Frameworks

Three Approaches to Mitigate the Asymmetry

(1) Average Inflation Targeting

(2) Price-Level Targeting

(3) Nominal GDP Targeting

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- **All approaches have pros and cons**
 - **Do central banks have sufficient tools?**