

Monetary Policy Coordination

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I . Monetary policy in G20 meetings

- What were the discussions on monetary policy in G20 meetings?

1. Initiation of G20 meetings

	1 st meeting	Press release / Declaration (Excerpt)
G20 Finance Ministers and Central Bank Governors Meeting	1999.12.15-16 Berlin Germany	The G-20 was established to provide a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the discussions on key economic and financial policy issues among systemically significant economies and promote co-operation to achieve stable and sustainable world economic growth that benefits all.
G20 Summit	2008.11.15 Washington, D.C. US	We, the Leaders of the Group of Twenty, held an initial meeting in Washington on November 15, 2008, amid serious challenges to the world economy and financial markets. We are determined to enhance our cooperation and work together to restore global growth and achieve needed reforms in the world's financial systems.

2. Discussions on monetary policy

(1) From 2004.11 to 2006.11 (independence, normalisation)

Date	Place		Communiqué (Excerpt)
2004.11.21 *	Berlin Germany	S	Experience has shown that <u>central bank independence</u> helps to achieve the goal of price stability in the long run.
2005.10.15- 16	Xianghe, Hebei, China	F C	Bearing in mind our shared responsibilities, we are determined to implement the <u>necessary</u> fiscal, <u>monetary</u> and exchange rate <u>policies</u> , and accelerate structural adjustments to resolve these imbalances and overcome these risks.
2006.11. 8- 19	Melbourne Australia	F C	Maintaining strong world growth and containing inflation will require ongoing adjustments to monetary and fiscal policies while ensuring appropriate exchange rate flexibility and structural reform. [] Faced with potential inflationary pressures, the <u>normalisation of monetary policy</u> underway in many G-20 countries will need to continue.

S: Leaders Summit , FC: Finance Ministers and Central Governors Meeting

* Monetary policy is not mentioned in Communiqués of the previous meetings.

(2) From 2007.11 to 2008.11 (close communication)

Date	Place		Communiqué (Excerpt)
2007.11.17-18	Kleinmond South Africa	F C	Monetary authorities in G-20 countries will need to assess carefully the inflation outlook in light of both tight conditions in commodity markets and the downside risks to growth.
2008.10.11	Washington	F C	They committed to using all the economic and financial tools to assure the stability and well functioning of financial markets. They also committed to ensuring that <u>actions are closely communicated so that the action of one country does not come at the expense of others or the stability of the system as a whole.</u>
2008.11. 8-9	São Paulo Brazil	F C	We recognized the relevance of adopting sound monetary policies. The recent slowdown in world growth and consequent reduction of commodity prices have decreased inflationary pressures especially in advanced economies and permitted central banks to decide on <u>monetary easing.</u>

(3) From 2009.3 to 2009.9 (expansionary policy)

Date	Place		Communiqué (Excerpt)
2009.3.14	London UK	F C	Interest rates have been cut aggressively in most countries, and G20 central banks will maintain <u>expansionary policies</u> as long as needed, using the <u>full range of monetary policy instruments, including unconventional policy instruments</u> , consistent with price stability.
2009.4.2	London	S	Our central banks have also taken exceptional action. Interest rates have been cut aggressively in most countries, and our central banks have pledged to maintain <u>expansionary policies</u> for as long as needed and to use the <u>full range of monetary policy instruments, including unconventional instruments</u> , consistent with price stability.
2009.9. 4-5	London	F C	We will continue to implement decisively our necessary financial support measures and <u>expansionary monetary and fiscal policies</u> , consistent with price stability and long-term fiscal sustainability, until recovery is secured.

(4) From 2010.6 to 2010.11 (price stability, recovery)

Date	Place		Communiqué (Excerpt)
2010.6.5	Busan Korea	F C	Monetary policy will continue to be appropriate to achieve <u>price stability</u> and thereby contribute to the <u>recovery</u> .
2010.6.26- 27	Toronto Canada	S	
2010.10.23	Gyeongju Korea	F C	We are all committed to play our part in achieving strong, sustainable and balanced growth in a collaborative and coordinated way. Specifically, we will: <ul style="list-style-type: none"> ▪ continue with monetary policy which is appropriate to achieve <u>price stability</u> and thereby contributes to the <u>recovery</u>;
2010.11.11- 12	Seoul Korea	S	We reaffirm the importance of central banks' commitment to <u>price stability</u> , thereby contributing to the <u>recovery</u> and sustainable growth.

(5) From 2011.9 to 2012.2 (price stability, economic recovery)

Date	Place		Communiqué (Excerpt)
2011.9.22	Washington USA	F C	Monetary policies will maintain <u>price stability</u> and continue to support <u>economic recovery</u> .
2011.10.14-15	Paris France	F C	
2011.11.3-4	Cannes France	S	Monetary policies will maintain <u>price stability</u> over the medium term and continue to support <u>economic recovery</u> . As warranted by national circumstances, including medium term consolidation plans, monetary policy will respond to changes in economic and financial market conditions subject to their likely impact on the medium-term outlook for price developments.
2012.2. 25-26	Mexico City Mexico	F C	We agreed today to enhance monitoring and accountability to ensure that our commitments are achieved, including on fiscal, financial, structural, monetary and exchange rate, trade and development policies as mandated by our Leaders in Cannes.

(6) 2012.6 (concerns of emerging market countries)

Date	Place		Communiqué (Excerpt)
2012.6.18-19	Los Cabos Mexico	S	<p>Monetary policy will maintain <u>price stability</u> over the medium term while continuing to support the <u>economic recovery</u>.</p> <p>(The Los Cabos Growth and Jobs Action Plan) Monetary policies will remain focused on maintaining price stability and sustaining the global economic recovery. In this context, the actions taken by central banks in advanced economies have played an important role in promoting global economic growth and stability. Central banks will remain vigilant and take action as appropriate to achieve their objectives.</p> <p>(The Los Cabos Accountability Assessment) In advanced economies, monetary policies have played an integral role in supporting the recovery while maintaining price stability. In emerging market economies, inflationary pressures have generally eased, largely as a result of slower growth.</p> <p><u>Emerging market countries expressed concerns that the easing in monetary policies in advanced economies is contributing to an increase in both the level and variability of capital flowing to their economies and volatility in other financial variables, complicating macroeconomic policy management. Members generally recognised that domestic monetary policies of advanced economies are appropriately targeted to achieve domestic objectives while at the same time recognising the need to remain vigilant against possible negative spillovers of their policies.</u></p>

(7) From 2012.11 to 2013.4 (negative spillovers)

Date	Place		Communiqué (Excerpt)
2012.11.4-5	Mexico City Mexico	F C	Major central banks have taken further unconventional measures in line with their respective mandates which are welcomed.
2013.2.15-16	Moscow Russia	F C	Monetary policy should be directed toward domestic price stability and continuing to support economic recovery according to the respective mandates. We commit to <u>monitor and minimize the negative spillovers on other countries</u> of policies implemented for domestic purposes.
2013.4.18-19	Washington USA	F C	Monetary policy should be directed toward domestic price stability and continuing to support economic recovery according to the respective mandates of central banks. We will be <u>mindful of unintended negative side effects stemming from extended periods of monetary easing.</u>

(8) From 2013.7 to 2013.10 (mandates, communication)

Date	Place		Communiqué (Excerpt)
2013.7.19-20	Moscow Russia	F C	<p><u>Monetary policy</u> will continue to be directed towards <u>domestic price stability and supporting the economic recovery</u> according to the respective <u>mandates</u> of central banks. We recognize the support that has been provided to the global economy in recent years from accommodative monetary policies, including unconventional monetary</p>
2013.7.19-20 * Additional words in G20 LEADERS' DECLARATION, Saint Petersburg Summit	Saint Petersburg Russia	S	<p> <u>policies. We remain mindful of the risks and unintended negative side effects of extended periods of monetary easing.</u> * [We recognize that strengthened and sustained growth will be accompanied by an eventual transition toward the normalization of monetary policies. Our central banks have committed that] <u>future changes to monetary policy settings will continue to be carefully calibrated and clearly communicated.</u> </p>
2013.10.10-11	Washington USA	F C	<p>We will ensure that future changes to monetary policy settings will continue to be carefully calibrated and clearly communicated. We will <u>cooperate to make policies</u> implemented for supporting domestic growth also support global growth and financial stability and to <u>manage their spillovers on other countries.</u></p>

(9) 2014.2 (communication, impacts on the global economy)

Date	Place		Communiqué (Excerpt)
2014.2.22-23	Sydney NZ	F C	<p>We recognise that <u>monetary policy needs to remain accommodative</u> in many advanced economies, and should <u>normalise in due course</u>, with the timing being conditional on the outlook for price stability and economic growth. This eventual development would be positive for the global economy and reduced reliance on easy monetary policy would be beneficial in the medium term for financial stability. In a transition phase, economic policy could help with measures to increase private sector demand, including investment. We all stand ready to take the necessary steps to maintain price stability, by addressing in a timely manner deflationary and inflationary pressures. All our central banks maintain their commitment that <u>monetary policy settings will continue to be carefully calibrated and clearly communicated, in the context of ongoing exchange of information and being mindful of impacts on the global economy.</u></p>

(10) 2014.9 (mandates, communication, impacts on the global economy)

Date	Place		Communiqué (Excerpt)
2014.9.20-21	Cairns Australia	F C	<p>Monetary policy in advanced economies continues to support the economic recovery, and should address, in a timely manner, deflationary pressures where needed, <u>consistent with central banks' mandates</u>. We are looking to achieve broad-based and robust growth and this will facilitate the eventual normalisation of monetary policy in advanced economies. We will continue to <u>clearly communicate</u> our actions in a timely way and <u>be mindful of impacts on the global economy</u> as policy settings are recalibrated. Major central banks have taken further unconventional measures <u>in line with their respective mandates</u> which are welcomed.</p>

(11) 2014.11 (mandates, manage spillovers)

Date	Place	Communiqué (Excerpt)
2014.11.15-16	Brisbane Australia	<p>S Our monetary authorities have committed to support the recovery and address deflationary pressures when needed, <u>consistent with their mandates</u>. We will be mindful of the global impacts of our policies and <u>cooperate to manage spillovers</u>. We stand ready to use all policy levers to underpin confidence and the recovery.</p> <p>(Brisbane Action Plan)</p> <p>We will ensure that our macroeconomic policy levers are appropriately calibrated to strengthen growth, create jobs and achieve global rebalancing. We are mindful of the global impact of our macroeconomic policies, understand their potential positive and negative spillovers within and outside the G20 and will cooperate to manage spillovers.</p> <p>We recognise the role that monetary policy has played in supporting demand and responding to <u>price stability pressures in a manner consistent with central banks' mandates</u>.</p> <p>Monetary policy normalisation in some advanced economies will reflect stronger economic growth and will be a positive sign for the global economy. We are also mindful of other potential impacts of such normalisation, such as excessive volatility in exchange rates and asset prices that can be damaging to growth.</p> <p>Our central banks have committed that monetary policy settings will continue to be carefully calibrated and clearly communicated.</p>

(12) From 2015.2 to 2015.4 (minimize negative spillovers)

Date	Place		Communiqué (Excerpt)
2015.2.9-10	Istanbul Turkey	F C	Prolonged low inflation alongside sluggish growth and protracted demand weaknesses in some advanced economies may increase the risk of persistent stagnation. Accordingly, we will continuously review our monetary and fiscal policy settings and act decisively, if needed.
2015.4.16-17	Washington USA	F C	In many advanced economies, accommodative monetary policies are needed to anchor inflation expectations and support recovery. In an environment of diverging monetary policy settings and rising financial market volatility, policy settings should be <u>carefully calibrated and clearly communicated to minimize negative spillovers.</u>

(13) 2015.9 (minimize negative spillovers)

Date	Place		Communiqué (Excerpt)
2015.9.4-5	Ankara Turkey	F C	<p>2. We reaffirm the role of macroeconomic and structural policies to support our efforts to achieve strong, sustainable and balanced growth. <u>Monetary policies will continue to support economic activity consistent with central banks' mandates, but monetary policy alone cannot lead to balanced growth. We note that in line with the improving economic outlook, monetary policy tightening is more likely in some advanced economies.</u> []</p> <p>3. We will <u>carefully calibrate and clearly communicate our actions, especially against the backdrop of major monetary and other policy decisions, to minimize negative spillovers, mitigate uncertainty and promote transparency.</u></p>

II . Objectives of monetary policy in US, EU and Japan

- What are the mandates of Central Banks?

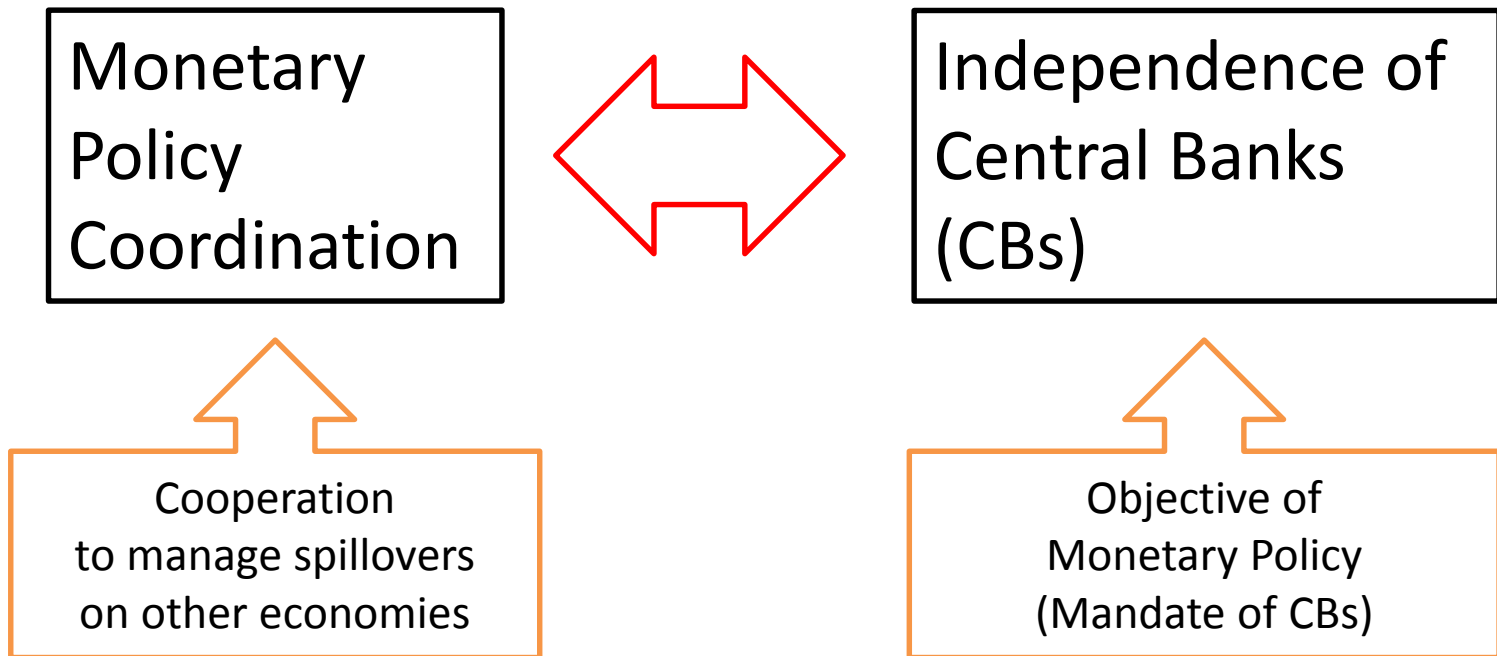
1. Objective of monetary policy (mandates of CBs)

Central Banks	Objectives
US Federal Reserve (Federal Reserve Act: Section 2A.)	The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy's long run potential to increase production, so as to promote effectively the goals of <u>maximum employment</u> , <u>stable prices</u> , and <u>moderate long-term interest rates</u> .
European Central Bank (The Treaty on the Functioning of the European Union: Article 127.1 (and 282.2))	The primary objective of the European System of Central Banks (hereinafter referred to as 'the ESCB') shall be to maintain <u>price stability</u> . Without prejudice to the objective of price stability, the ESCB shall <u>support the general economic policies</u> in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union. The ESCB shall act in accordance with the principle of an open market economy with free competition, favouring an efficient allocation of resources, and in compliance with the principles set out in Article 119.
Bank of Japan (Bank of Japan Act: Article 2)	Currency and monetary control by the Bank of Japan shall be aimed at achieving <u>price stability</u> , thereby contributing to the <u>sound development of the national economy</u> .

2. Independence of Central Banks

CBs	Independence
<p>European Central Bank (The Treaty on the Functioning of the European Union)</p>	<p>Article 130 When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, <u>neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body.</u> The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks.</p> <p>Article 282.3 It shall be independent in the exercise of its powers and in the management of its finances. Union institutions, bodies, offices and agencies and the governments of the Member States shall respect that independence.</p>
<p>Bank of Japan (Bank of Japan Act)</p>	<p>Article 3 The Bank of Japan's autonomy regarding currency and monetary control shall be respected.</p> <p>(Article 4 The Bank of Japan shall, taking into account the fact that currency and monetary control is a component of overall economic policy, always maintain close contact with the government and exchange views sufficiently, so that its currency and monetary control and the basic stance of the government's economic policy shall be mutually compatible.)</p>

3. Monetary policy coordination and CB's Independence



III. Monetary policy of the US Federal Reserve

- Does the US Fed care about spillover effects of normalization or tightening when it decides monetary policy?

1. Policy Statement (FOMC 2015.7.29) (Excerpts) ①

(Basic stance on FF rate)

- Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability.
- To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that the current 0 to 1/4 percent target range for the federal funds rate remains appropriate.
- In determining how long to maintain this target range, the Committee will assess progress--both realized and expected--toward its objectives of maximum employment and 2 percent inflation.

2. Policy Statement (FOMC 2015.7.29) (Excerpts) ②



- This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and **international developments.**

3. Policy Statement (FOMC 2015.7.29) (Excerpts) ③

(Removal of Policy accommodation)

- The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction.
- When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent.

- What were the discussions on international developments?

4. Minutes of FOMC (Excerpts) ① (spillovers from China)

Participants' Views on Current Conditions and the Economic Outlook

- Although many continued to see some downside risks arising from economic and financial developments abroad, participants generally viewed the risks to the outlook for domestic economic activity and the labor market as nearly balanced.
- Overall, most contacts viewed the recent slow-down in manufacturing as likely to prove temporary and remained optimistic about future demand, even though the recent decreases in oil prices and the possibility of **adverse spillovers from slower economic growth in China** raised some concerns.

5. Minutes of FOMC (Excerpts) ② (divergence in interest rates)

Participants' Views on Current Conditions and the Economic Outlook

- In their discussion of the foreign economic outlook, participants generally viewed the risks from the fiscal and financial problems in Greece as having diminished somewhat, although it was observed that Greece still faced many challenges and that Greek economic progress was likely to be limited over the near term. While the recent Chinese stock market decline seemed to have had limited implications to date for the growth outlook in China, several participants noted that a material slow-down in Chinese economic activity could pose risks to the U.S. economic outlook. Some participants also discussed the risk that a possible **divergence in interest rates in the United States and abroad** might lead to further appreciation of the dollar, extending the downward pressure on commodity prices and the weakness in net exports.

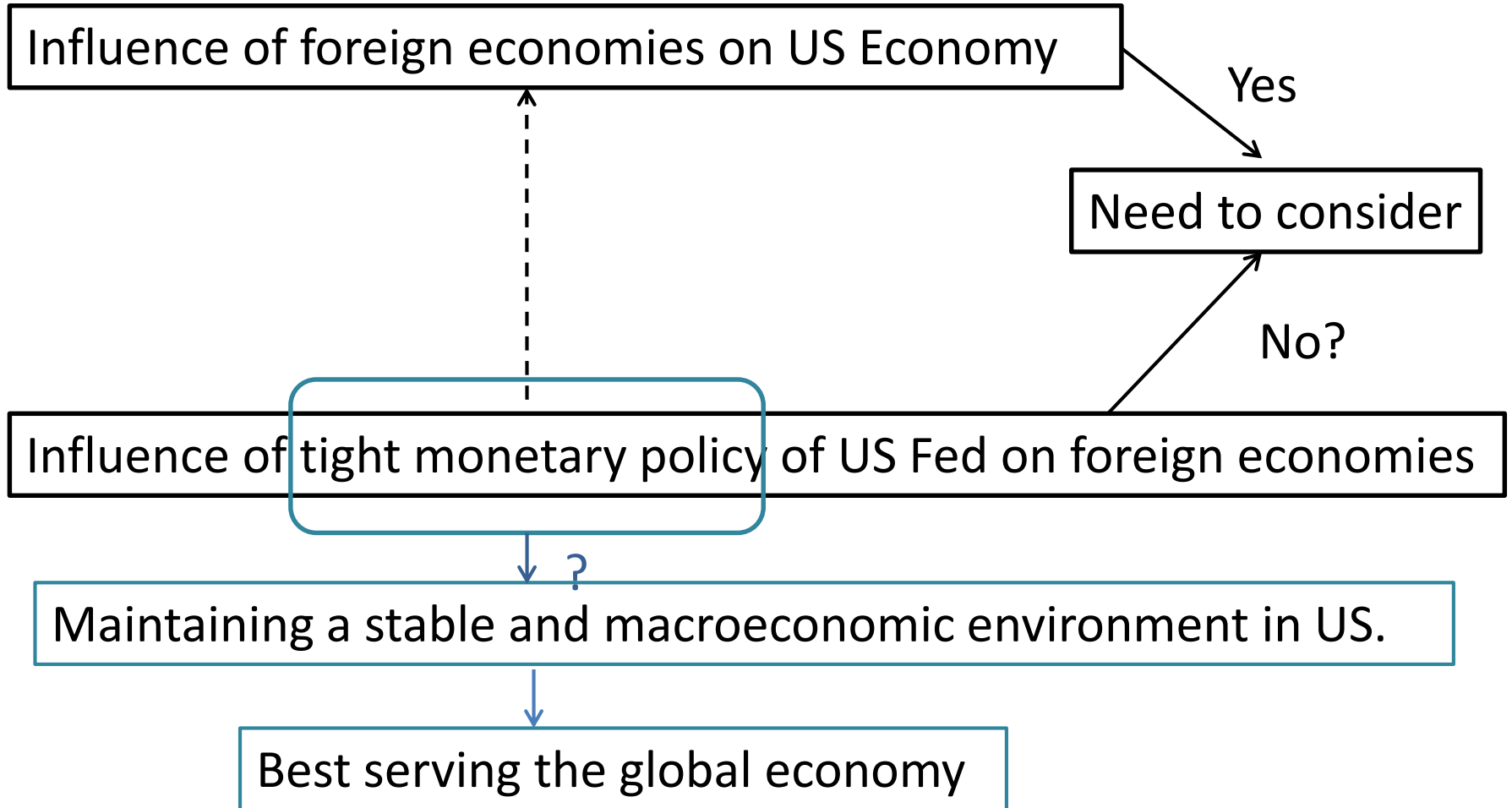
- How the US Fed care about foreign economy ?

6. Speech by Vice Chairman Stanley Fischer (Excerpts)

(At the Federal Reserve Bank of Kansas City Economic Symposium, Jackson Hole, Wyoming, 2015.8.29)

- In making our monetary policy decisions, we are interested more in where the U.S. economy is heading than in knowing whence it has come. That is why we need to consider the overall state of the U.S. economy as well as the influence of foreign economies on the U.S. economy as we reach our judgment on whether and how to change monetary policy. That is why we follow economic developments in the rest of the world as well as the United States in reaching our interest rate decisions. At this moment, we are following developments in the Chinese economy and their actual and potential effects on other economies even more closely than usual.
- Finally, while I have been talking today about some international influences on economic conditions in the United States, I am well aware that, when the Federal Reserve tightens policy, this affects other economies. The Fed's statutory objectives are defined in terms of economic goals for the economy of the United States, but I believe that by meeting those objectives, and so maintaining a stable and strong macroeconomic environment at home, we will be best serving the global economy as well.

7. Interpretation of the speech by VC Stanley Fisher



IV. Experience of monetary policy coordination in G7

- What was the experience of monetary policy coordination of G7 in the late 1980s?

1. Announcement by G5

Date		Statement (Excerpts)
1985. 1.17	Announcement by G5 Ministers and Governors	<p>The Ministers of Finance and Central bank Governors of France, Germany, Japan, the United Kingdom, and the United States announced today that they had met to discuss a range of international economic and financial issues. The meeting, <u>part of a regular series of consultations among these countries on economic and financial matters of mutual interest</u>, also involved IMF Managing Director de Larosiere for a discussion of the economic policies and prospects of the major industrial countries.</p> <p>The Ministers and Governors, noting the recent developments in the exchange markets, expressed their commitment to work toward greater exchange market stability. Toward this end, the Ministers and Governors:</p> <ul style="list-style-type: none">- Reaffirmed their commitment to <u>pursue monetary and fiscal policies that promote a convergence of economic performance at non-inflationary, steady growth.</u>

2. Plaza Agreement (appreciation of non-dollar currencies)

Date		Statement (Excerpts)
1985. 9.22	Announcement of the Ministers of Finance and Central Bank Governors of France, Germany, Japan, the United Kingdom, and the United States (“Plaza Agreement”)	<p>10. These positive economic developments notwithstanding, there are <u>large imbalances in external positions</u> which pose potential problems, and which reflect a wide range of factors. [] In particular, the <u>United States has a large and growing current account deficit, and Japan, and to a lesser extent Germany, large and growing current account surpluses.</u></p> <p>11. The U.S. current account deficit, together with other factors, is now contributing to protectionist pressures []</p> <p>18. The Ministers and Governors agreed that exchange rates should play a role in adjusting external imbalances. In order to do this, exchange rates should better reflect fundamental economic conditions than has been the case. They believed that agreed policy actions must be implemented and reinforced to improve the fundamentals further, and that in view of the present and prospective changes in fundamentals, <u>some further orderly appreciation of the main non-dollar currencies against the dollar is desirable.</u> They stand ready to cooperate more closely to encourage this when to do so would be helpful.</p>

3. Tokyo Summit (a new group of Seven Finance Ministers)

Date		Statement (Excerpts)
1986. 5.6	Tokyo Economic Declaration	<p>7. At the same time, it is important that there should be close and continuous coordination of economic policy among the seven Summit countries. We welcome the recent examples of improved coordination among the Group of Five Finance Ministers and Central Bankers, which have helped to change the pattern of exchange rates and to lower interest rates on an orderly and non-inflationary basis. We agree, however, that additional measures should be taken to ensure that procedures for effective coordination of international economic policy are strengthened further. To this end, the Heads of State or Government:</p> <p>- <u>Agree to form a new group of Seven Finance Ministers, including Italy and Canada</u>, which will work together more closely and more frequently in the periods between the annual Summit meetings.</p>

4. G7 and Louver Accord ① (international adjustment)

Date		Statement (Excerpts)
1986. 9.27	Statement of the Group of Seven Finance Ministers	<p>7. In the circumstances, the Ministers agreed that the policies of all countries during the period immediately ahead would be formulated with the following objectives in mind:</p> <ul style="list-style-type: none"> - To <u>continue to follow sound monetary policies supporting non-inflationary growth and contributing to international adjustment</u> in order to help maintain the conditions for business confidence and for lower interest rates.
1987. 2.22	Louvre Accord (G6 Communiqué)	<p>4. These positive developments notwithstanding, the Ministers and Governors recognize that the large trade and current account imbalances of some countries pose serious economic and political risks. They agreed that <u>the reduction of the large unsustainable trade imbalances is a matter of high priority</u>, and that the achievement of more balanced global growth should play a central role in bringing such a reduction.</p>

5. Louvre Accord ② (strengthen domestic demand, reduce external surpluses, BOJ reduce ODR)

Date		Statement (Excerpts)
1987 .2.22	Louvre Accord (continued)	<p>7. The Ministers and Governors agreed to intensify their economic policy coordination efforts in order to promote more balanced growth and <u>to reduce existing imbalances</u>. <u>Surplus countries committed themselves to follow policies designed to strengthen domestic demand</u> and to reduce their external surpluses while <u>maintaining price stability</u>. Deficit countries committed themselves to follow policies designed to encourage steady, low-inflation growth while reducing their domestic imbalances and external deficits. To dis end, each country has agreed to the following undertakings. []</p> <p><u>The Government of Japan will follow monetary and fiscal policies which will help to expand domestic demand and thereby contribute to reducing the external surplus</u>. The comprehensive tax reform, now before the Diet, will give additional stimulus to the vitality of the Japanese economy. Every effort will be made to get the 1987 budget approved by the Diet so that its early implementation be ensured. A comprehensive economic program will be prepared after the approval of the 1987 budget by the Diet, so as to stimulate domestic demand, with the prevailing economic situation duly taken into account. <u>The Bank of Japan announced that it will reduce its discount rate by half percent on February 23.</u></p>

6. Louvre Accord ③ and G7 (stability of exchange rates)

Date		Statement (Excerpts)
1987 .2.22	Louvre Accord (continued)	<p>10. The Ministers and Governors agreed that the substantial exchange rate changes since Plaza Agreement will increasingly contribute to reducing external imbalances and have now brought their currencies within ranges broadly consistent with underlying economic fundamentals, given the policy commitments summarized in this statement. <u>Further substantial exchange rate shifts among their currencies could damage growth and adjustment prospects in their countries.</u> <u>In current circumstances, therefore, they agreed to cooperate closely to foster stability of exchange rates around current levels.</u></p>
1987 .4.8	Statement of the Group of Seven	<p>2. The Ministers and Governors reaffirmed the commitment to the cooperative approach agreed at the recent Paris meeting, and noted the progress achieved in implementing the undertakings embodied in the Louvre Agreement. They agreed, however, that further actions will be essential to resist rising protectionist pressures, sustain global economic expansion, and reduce trade imbalances. In this connection <u>they welcomed the proposals just announced by the governing Liberal Democratic Party in Japan for extraordinary and urgent measures to stimulate Japan's economy through early implementation of a large supplementary budget exceeding those of previous years,</u> as well as unprecedented front-end loading of public works expenditures.</p>

7. Policy coordination / Reduction of official discount rate

Effective date	ODR (%)	Notes
March 10, 1986	4.5→4.0	The announcement date was the same as that for the reduction of official discount rate by the FRB and Bundesbank.
April 21, 1986	4.0→3.5	The effective date was the same as that for the reduction of official discount rate by the FRB.
November 1, 1986	3.5→3.0	A joint announcement on the stability of foreign exchange rates by Finance Minister Miyazawa and Treasury Secretary Baker* was published when the BOJ's reduction of official discount rate was put into effect.
February 23, 1987	3.0→2.5	The Louvre Accord was agreed on the announcement date of the BOJ's reduction of official discount rate.

< Source: "The Asset Price Bubble and Monetary Policy: Japan's Experience in the Late 1980s and the Lessons" Background Paper by Kunio Okina, Masaaki Shirakawa, and Shigenori Shiratsuka, Monetary and Economic Studies/February 2001, Bank of Japan >

*Baker-Miyazawa Joint Communiqué 1986.10.31 (excerpt)

They agreed that action by the key industrial countries is critical at this time to promoting world economic growth, reducing imbalances, and resolving international debt problems.

In this connection, Minister Miyazawa outlined the following actions being taken by Japan to help fulfill its responsibilities in the world economy.

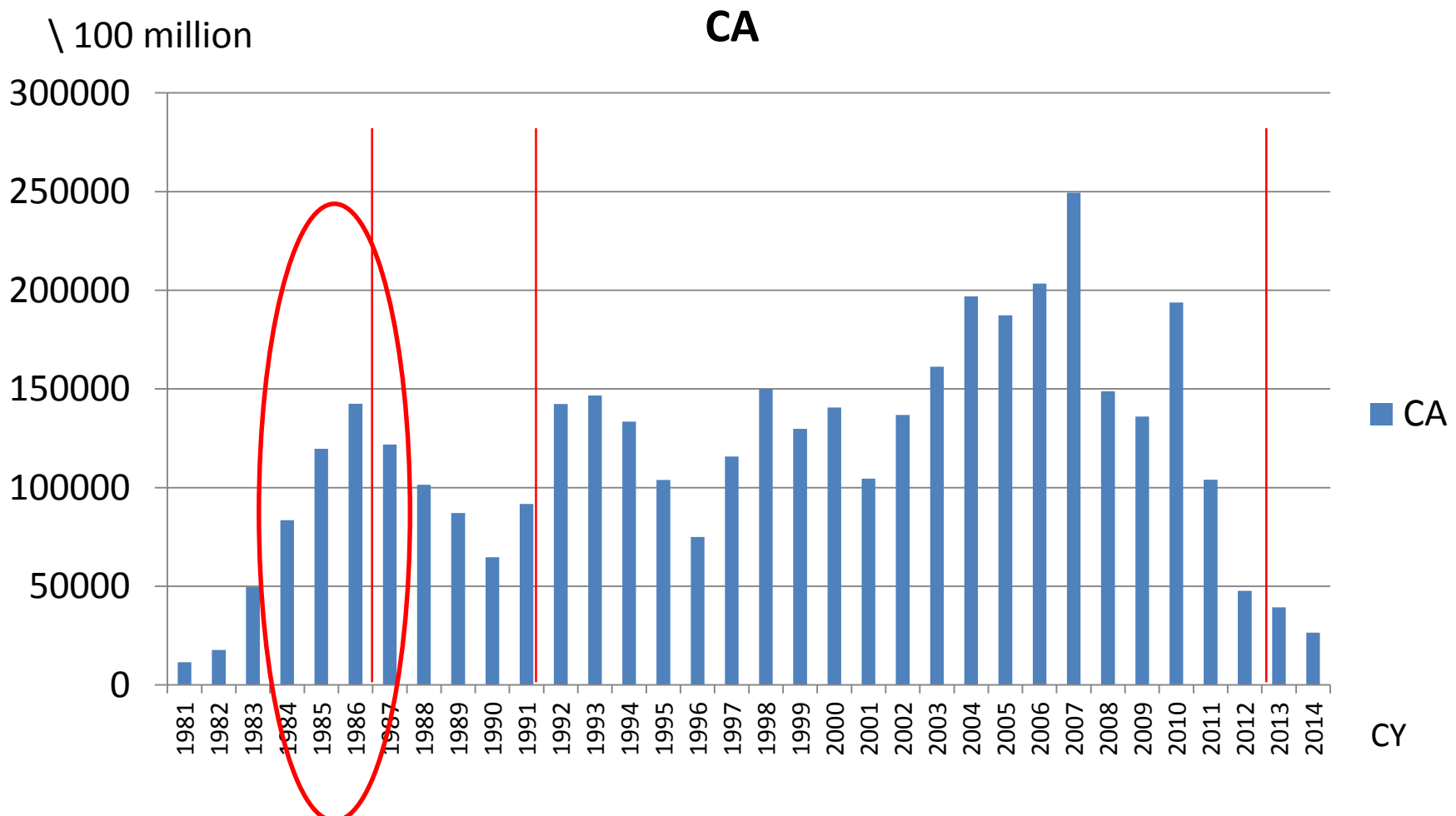
- The Government of Japan (GOJ) has decided today to submit to the Diet a supplementary budget in order to implement the 3.6 trillion yen package announced in September, designed to provide a substantial stimulus to the Japanese economy. []

- The Bank of Japan has decided today to reduce its discount rate from 3.5 percent to 3 percent, effective November 1, 1986. []

They expressed their mutual understanding that with the actions and commitments mentioned above, the exchange rate realignment achieved between the yen and the dollar since the Plaza Agreement is now broadly consistent with the present underlying fundamentals and reaffirmed their willingness to cooperate on exchange market issues.

8. Trends of Current Account

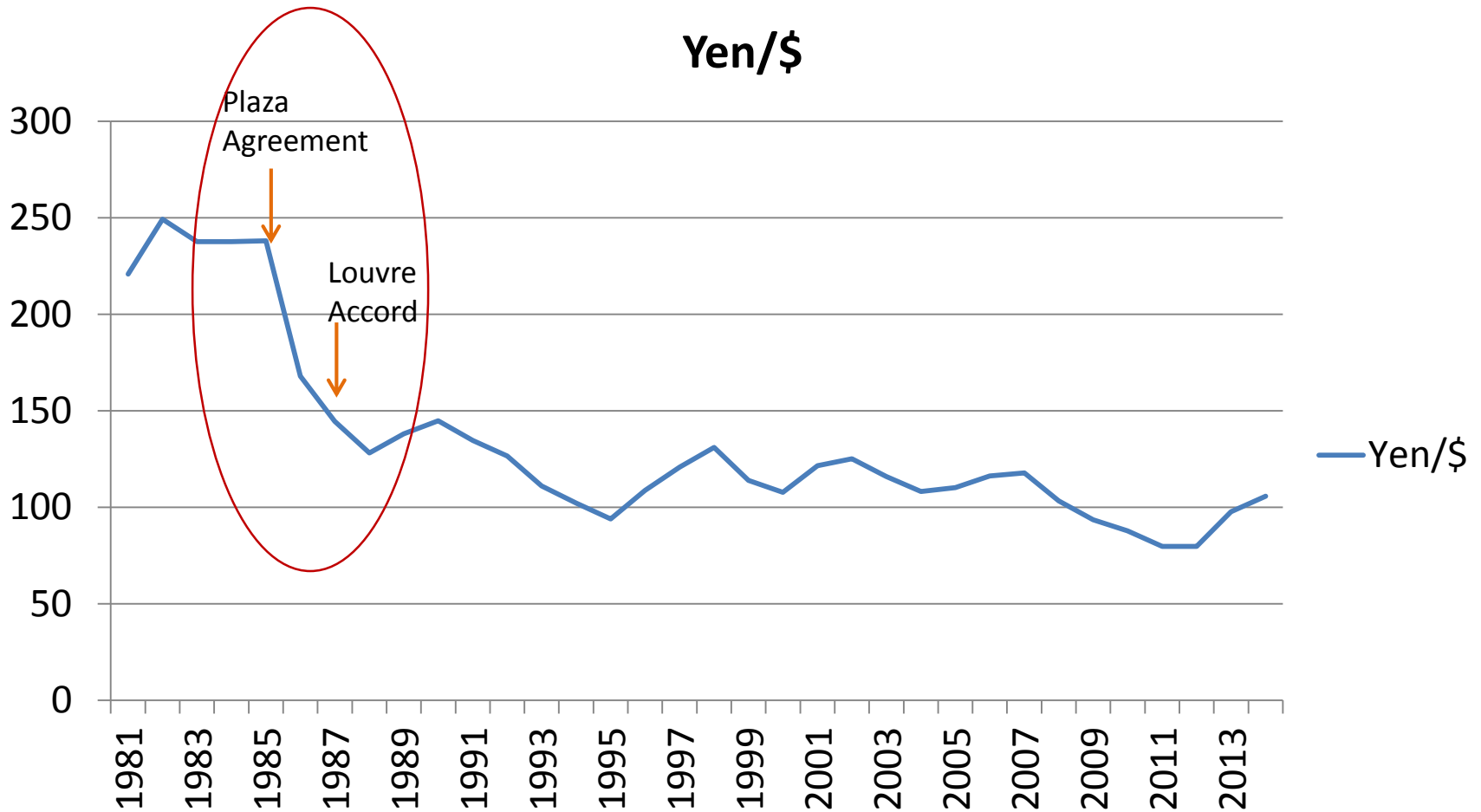
Current account surplus of Japan peaked in 1986 and US protectionist pressure intensified.



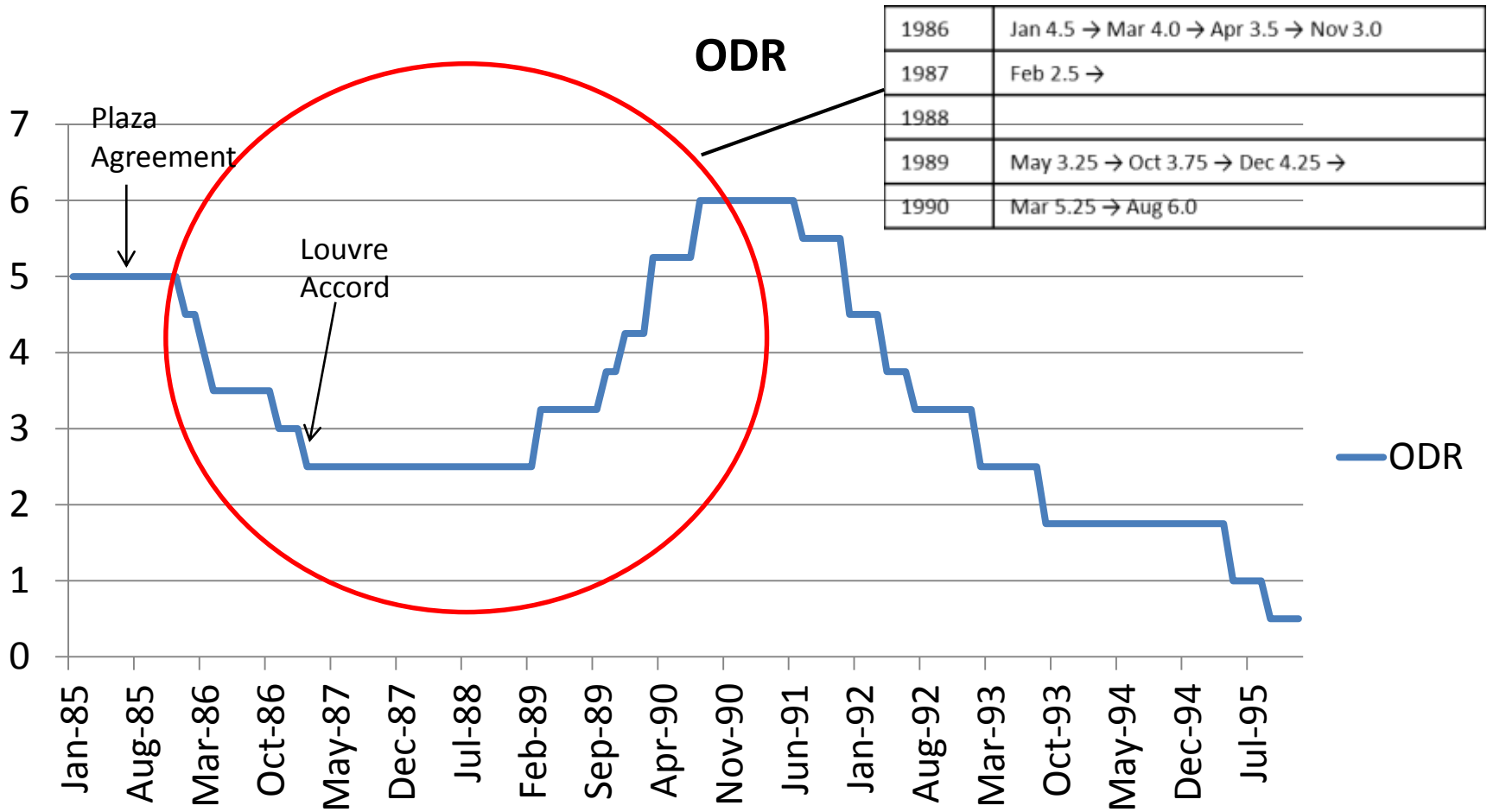
(Source: Cabinet Office / Ministry of Finance)

9. Trends of Yen-Dollar rate

After Plaza Agreement, yen appreciated sharply.



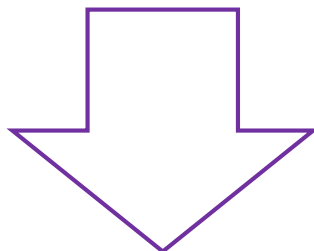
10. Trends of Official Discount rate



11. Change of monetary policy instruments

Traditional (old) instruments

- 1) Official discount rate (ODR)
- 2) Window guidance
- 3) Reserve requirements*



Deregulation of interest rates (Completed in 1994)
Development of short-term money markets

Recent instruments (1995.3-)

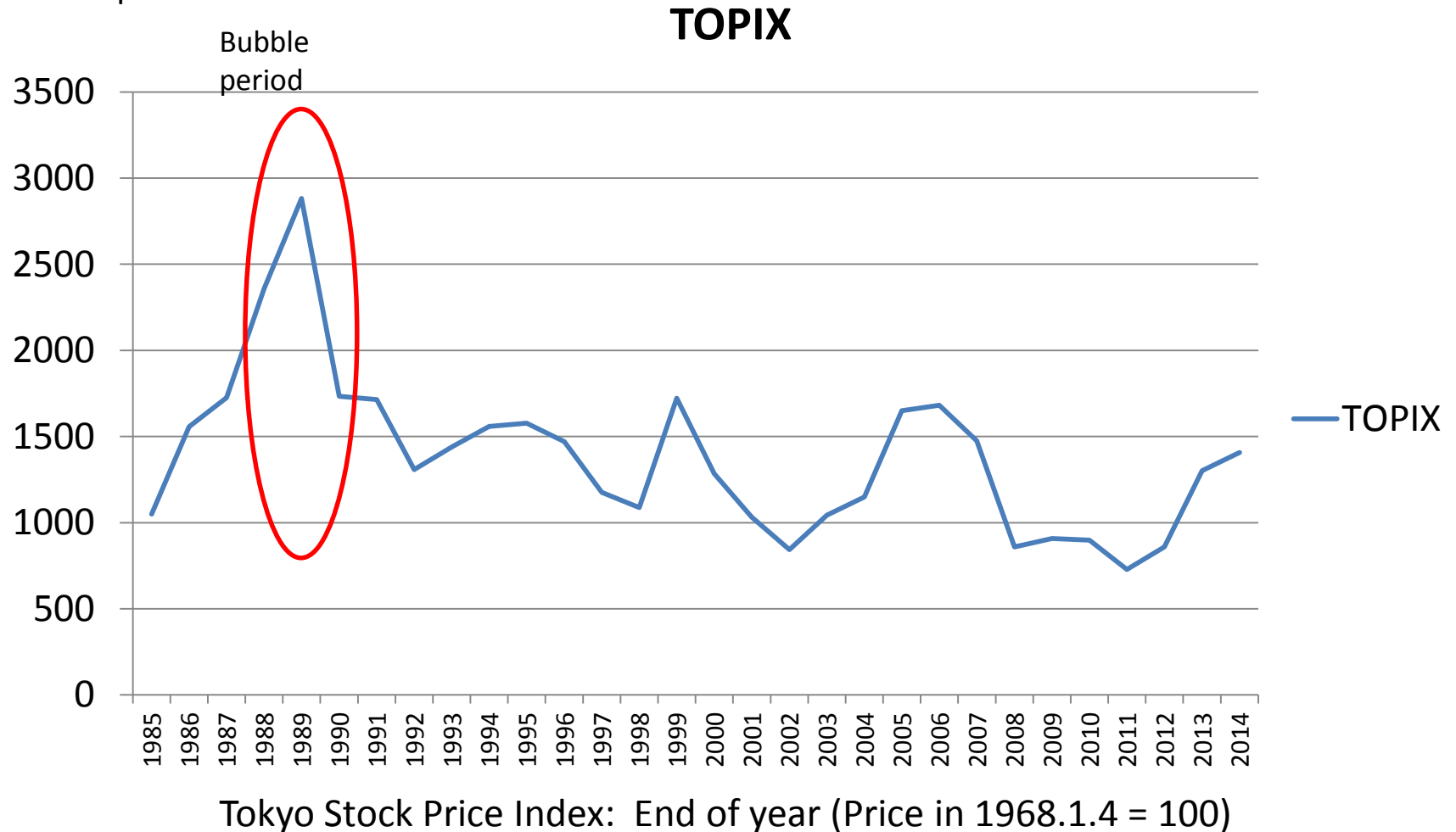
Money Market Operations

Overnight call rates
(1995.3-2001.3)
(2006.3-2013.4)

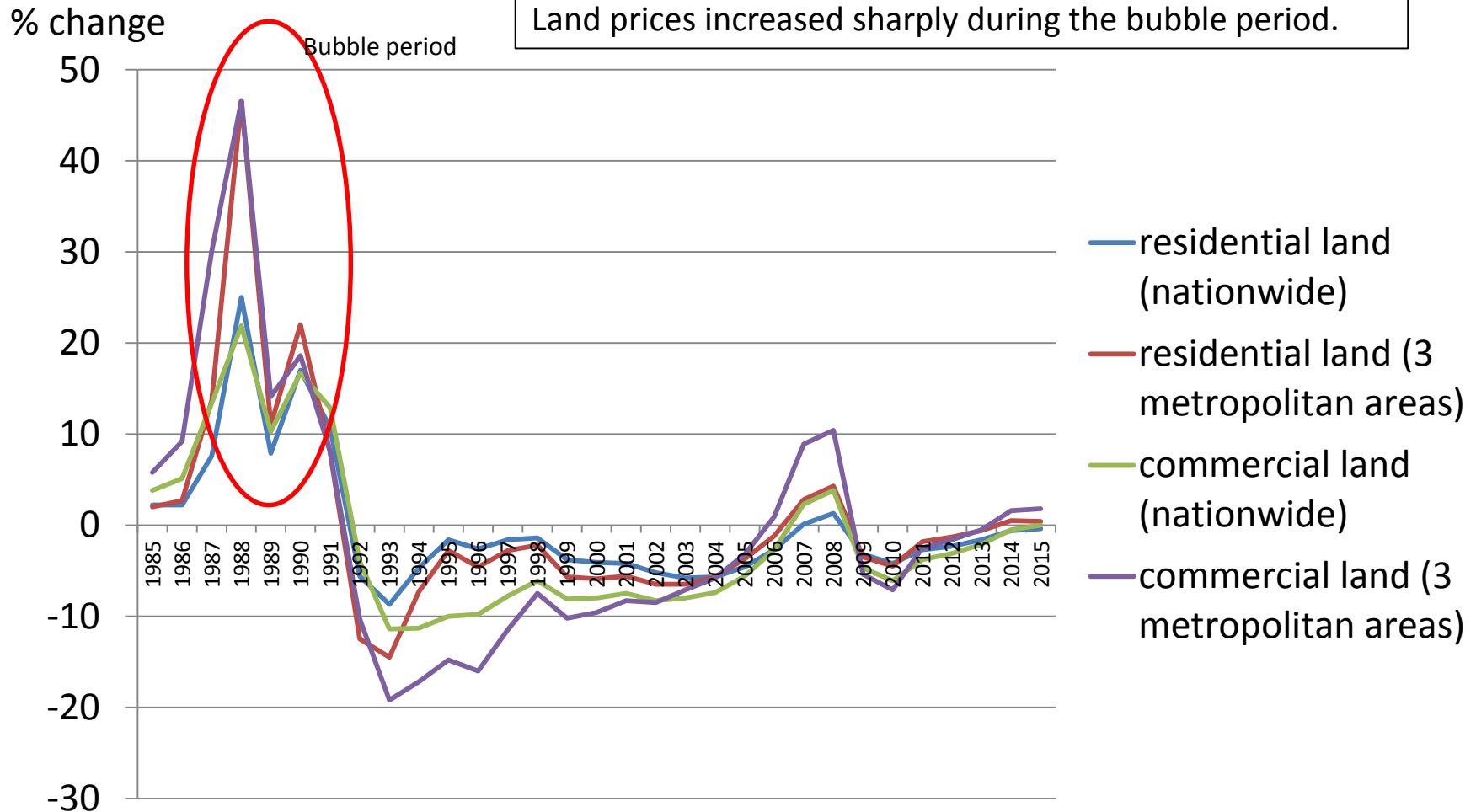
Monetary base
Quantitative easing (2001.3-2006.3)
Quantitative and Qualitative easing (2013.4-)

12. Trends of Stock Prices

Stock prices increased to historically high level during the bubble period.



13. Trends of land prices

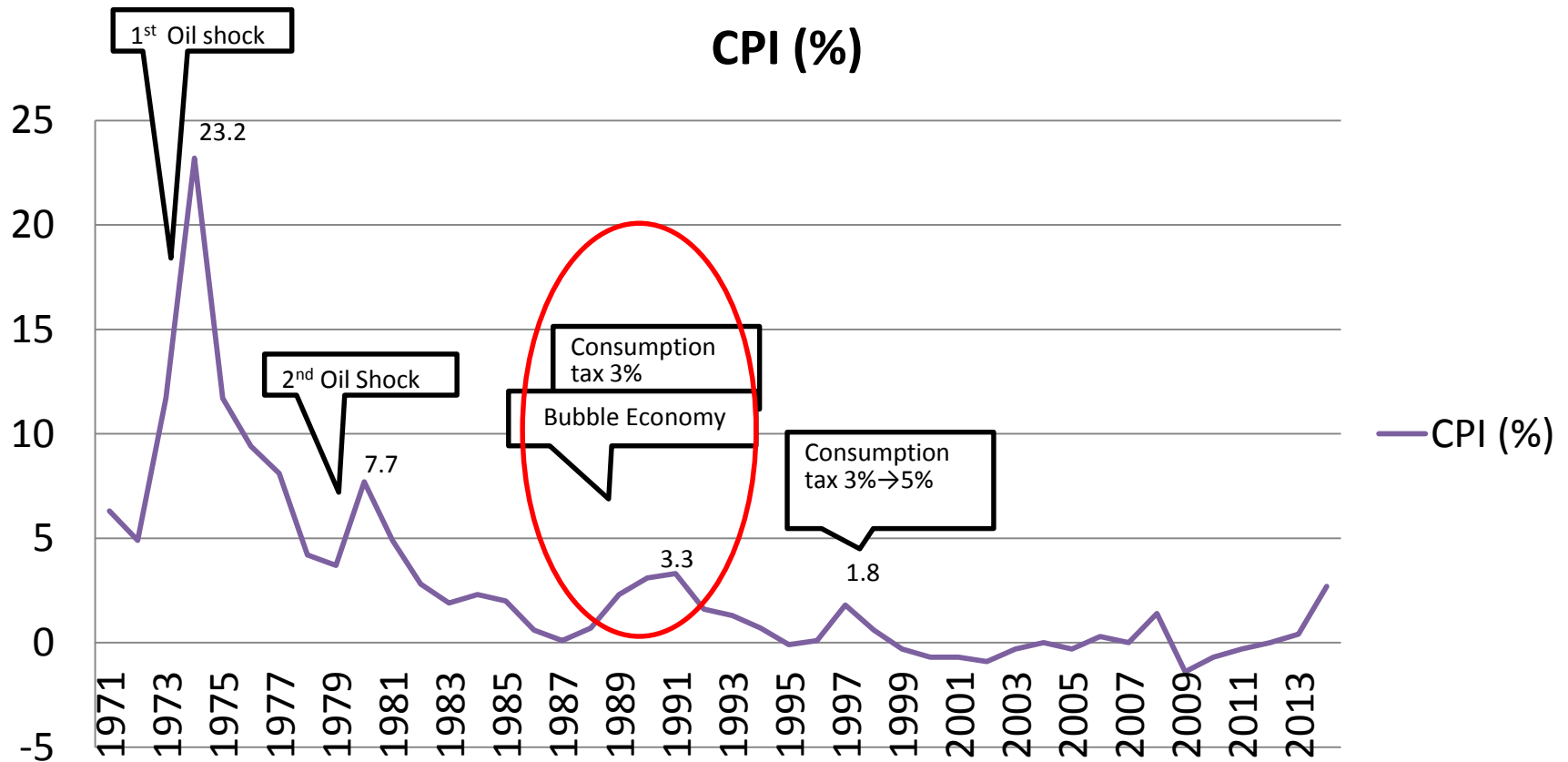


(note) Figures are as of January 1. Three metropolitan areas are the Tokyo, Osaka, and Nagoya areas.
<Ministry of Land, Infrastructure, Transport and Tourism, "Land Market Value Publication">

14. Trends of year-on-year rates of change of CPI

Prices remained stable during the bubble economy.

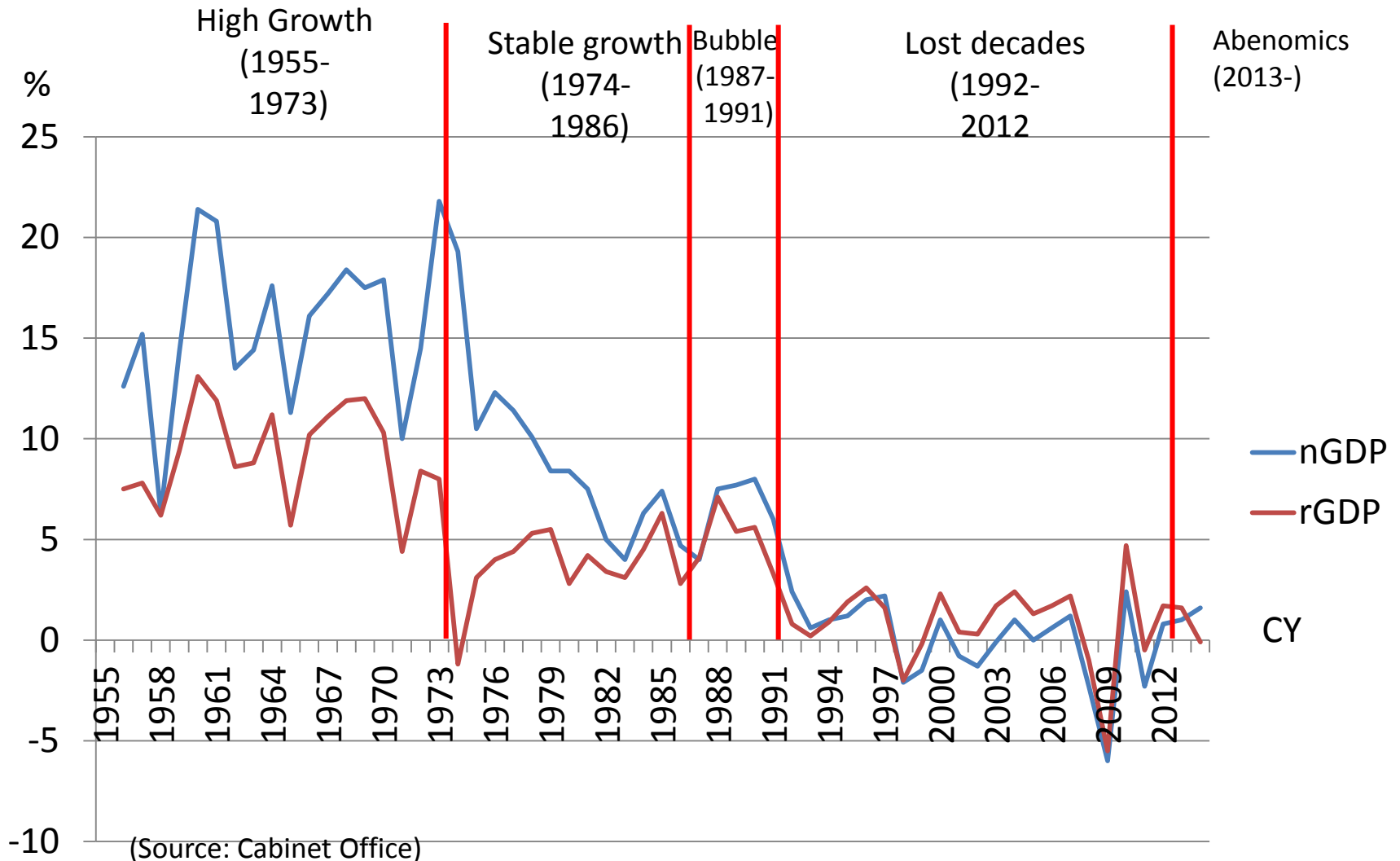
⇒ Monetary tightening was said to be delayed.



(Source: Cabinet Office)

15. Trends of GDP growth rate

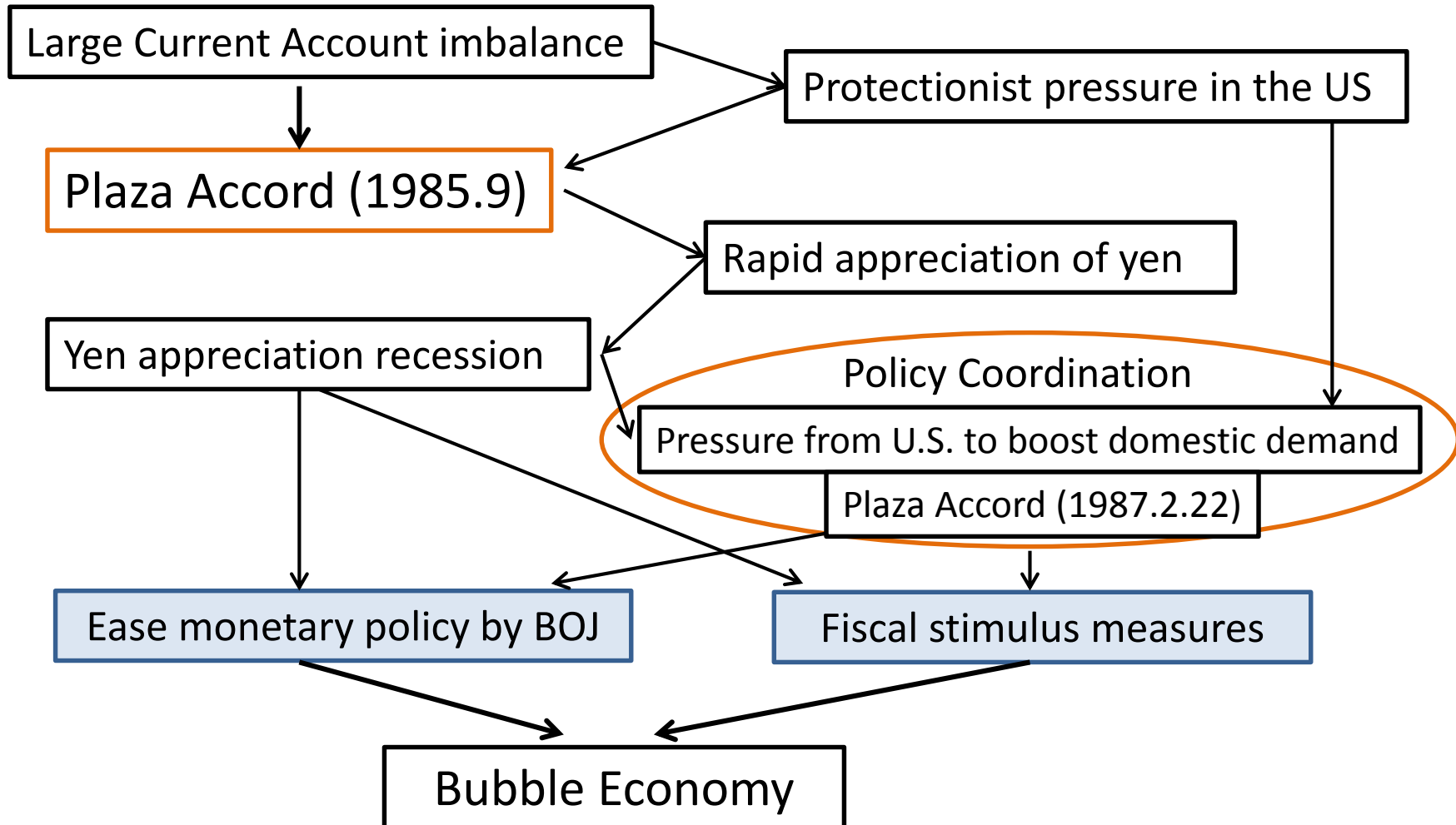
After burst of the bubble economy, Japan experienced 20 years of low or negative GDP growth.



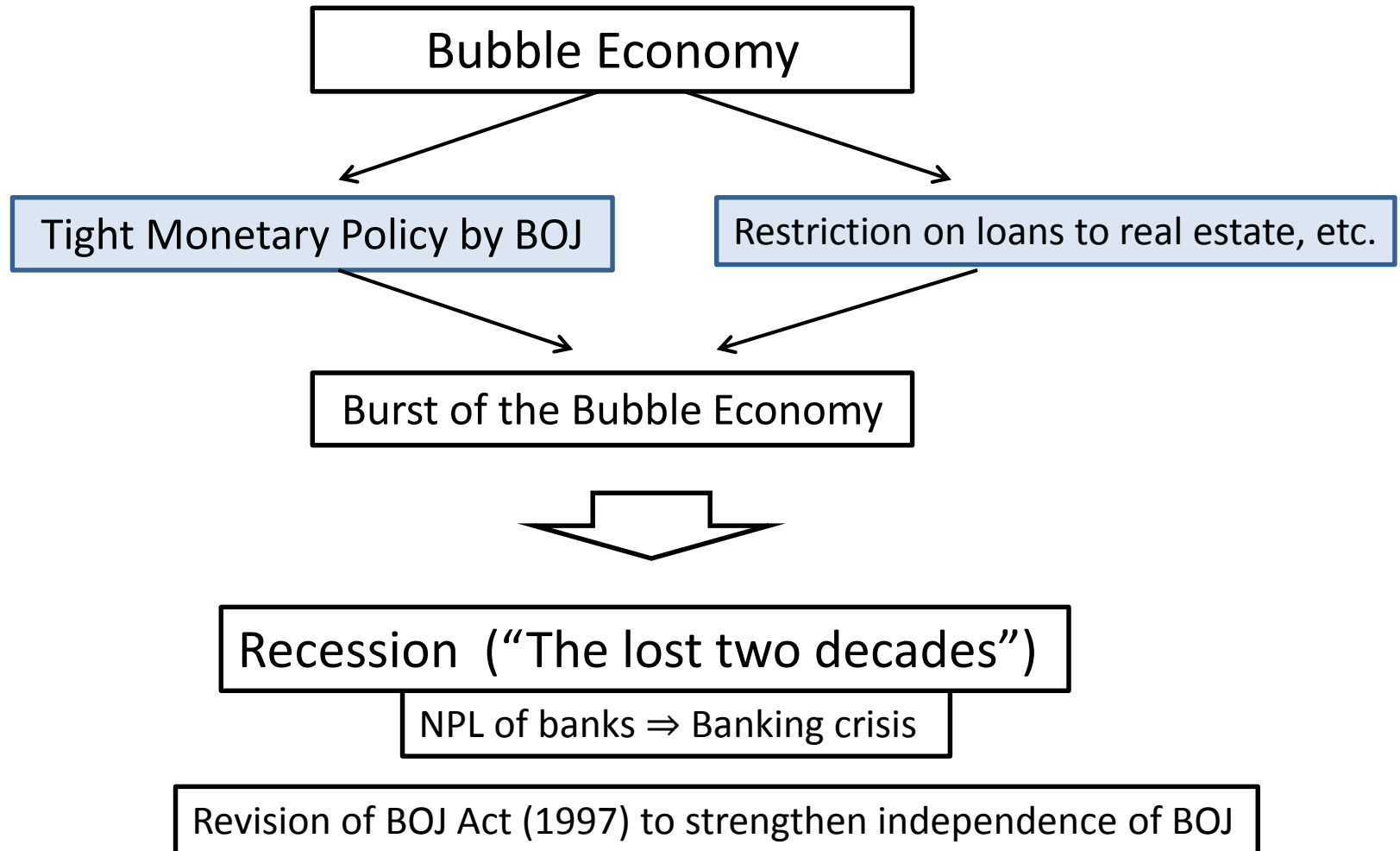
(Source: Cabinet Office)

(note) 1955-1980: 68SNA, 1981-1994: 93SNA, 1995-: Quarterly Estimates of GDP Jan.-Mar. 2014 (2nd preliminary)

16. Creation of Bubble Economy



17. Burst of Bubble Economy



V. Summary

- In G20 Finance Ministers and Central Bank Governors meetings, monetary policy coordination to manage spillovers on other countries is repeatedly mentioned.
- However,
 - a) independence (mandates) of central banks, and
 - b) monetary policy coordinationmay not be compatible.
- To what extent the US Fed takes into account the spillover effect of tight monetary policy is questionable.
- The experience of G7 shows that monetary policy coordination can work under certain condition.
- However, the Japanese experience of monetary policy coordination in the late 1980s ended up in unfavorable outcome.