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# Challenges for monetary policy transmission —The case of Japan

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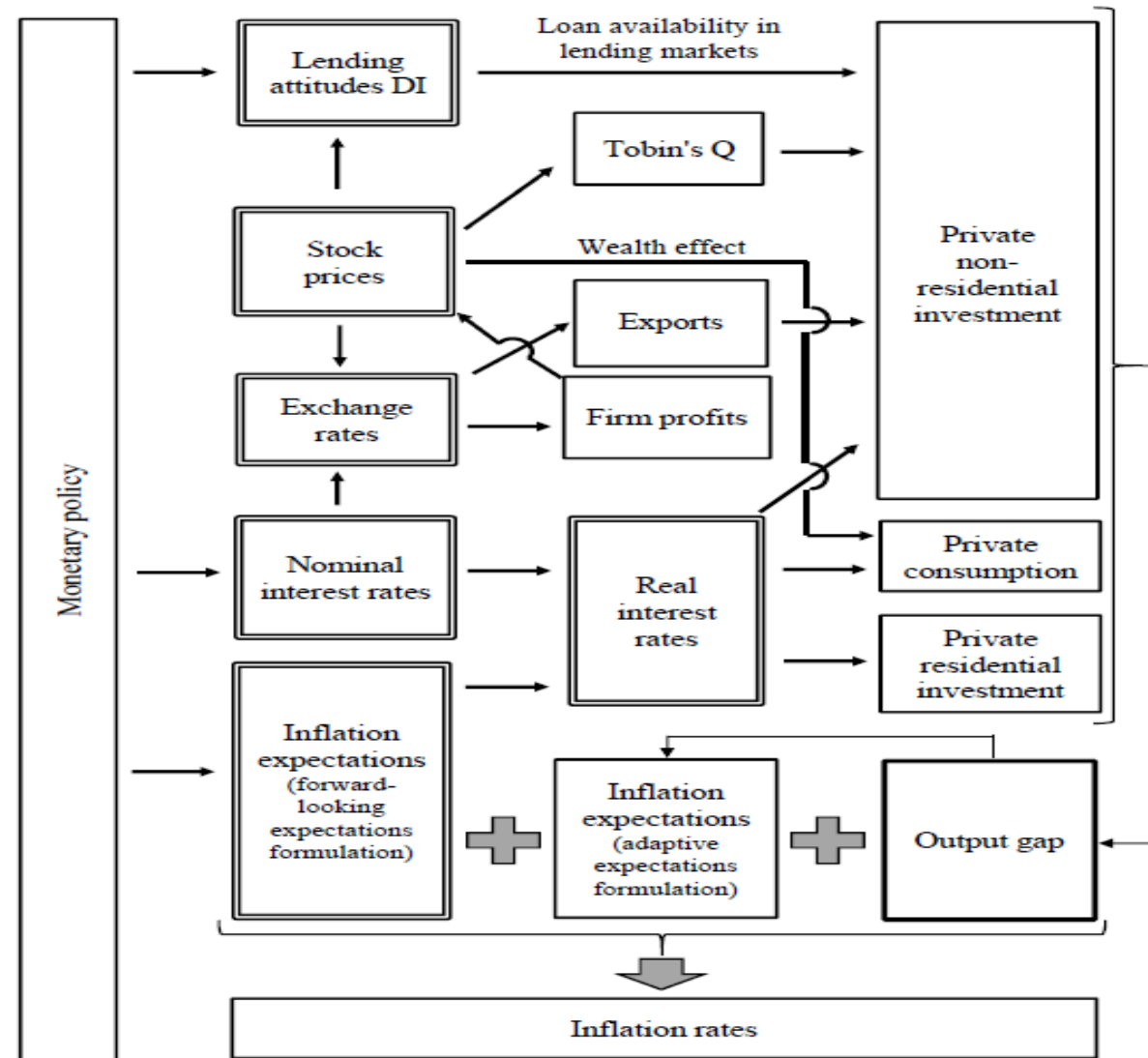
Deputy Director-General  
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CEBRA Annual Meeting in Boston  
August 8, 2025

# BoJ's "Broad Perspective Review"

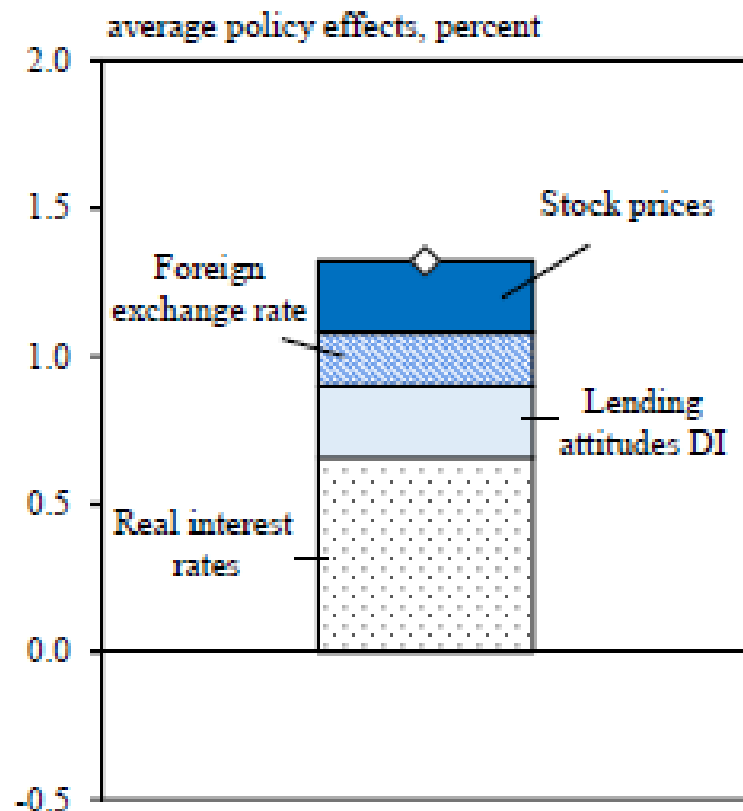
- Started in April 2023 and completed in December 2024.
- Assessment of monetary policy effects (and side effects) since the late 1990s, especially the effects of "Quantitative and Qualitative Easing (2013-24)".
- Result from counter-factual simulations using Q-JEM (model like FRB/US)  
*QQE pushed up economic activity and prices, but not as strongly as expected.*
- Result from counter-factual simulations using FMM (macro stress-test model)  
*QQE pushed up loans outstanding, but had negative impact on banks' profits.*
- Conclusion: If unconventional policies (like QQE) are needed again in the future, it will be important to weigh their benefits and costs.

# Transmission mechanism in Q-JEM

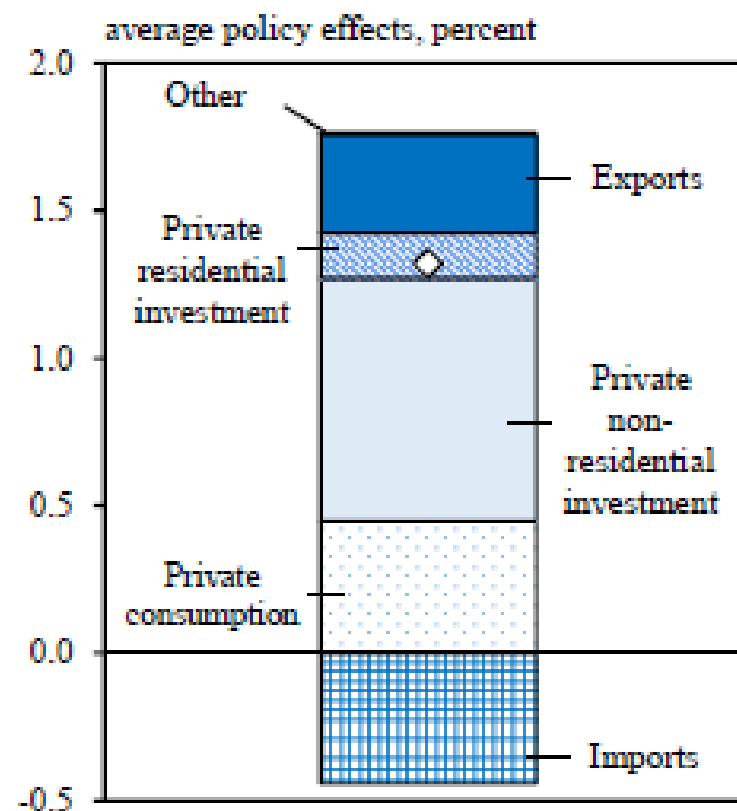


# QQE's effects on real GDP in Q-JEM

▽ by Transmission Channels

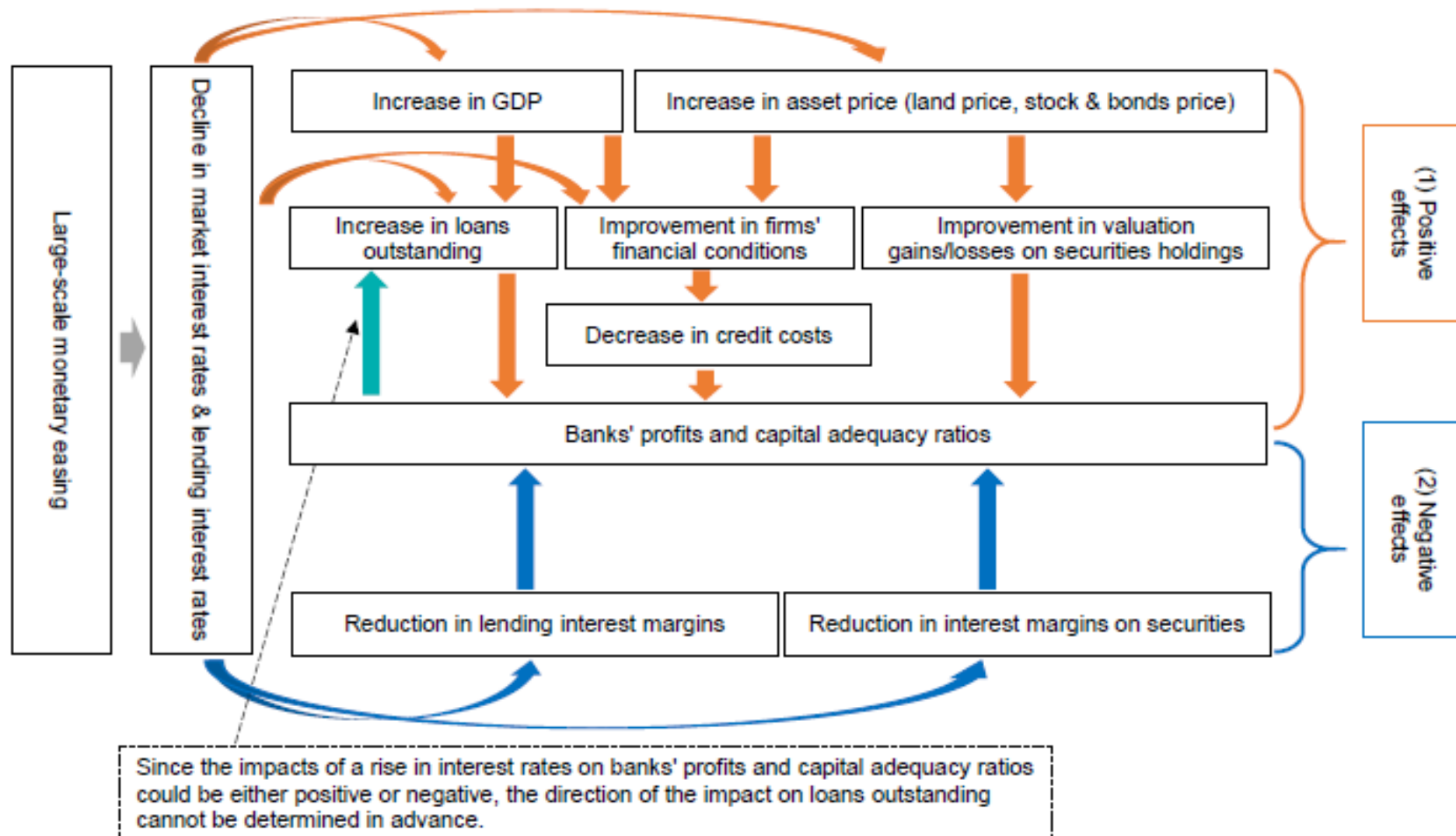


▽ by Expenditure Components

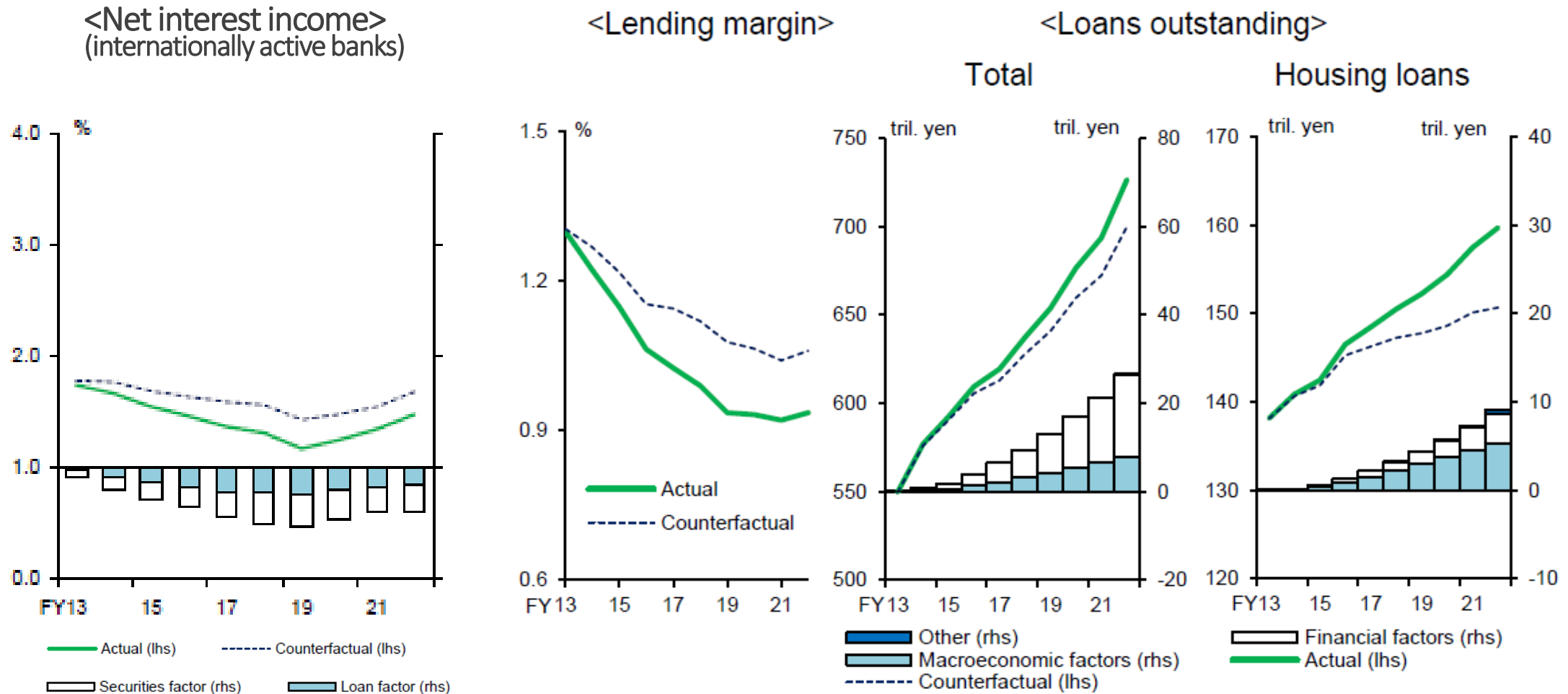


Reference: Haba et al. (2025) "Measuring Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE): An Analysis Using the Macroeconomic Model Q-JEM," Bank of Japan Working Paper Series, No. 25-E-2.

# QQE's positive and negative effects in FMM



# Counter-factual simulations using FMM



Reference: Abe et al. (2024) "Counterfactual Simulation of the Effect of Large-Scale Monetary Easing on Japan's Financial System," Bank of Japan Working Paper Series, No.24-E-8.

# Interest rate sensitivity of capital investment

- Empirical analysis using Japanese firm-level data (1994-2022)
- Local projection with instrumental variables
- Impulse response of investment/capital to 3-5 year interest rate shock
- Result on intangible assets

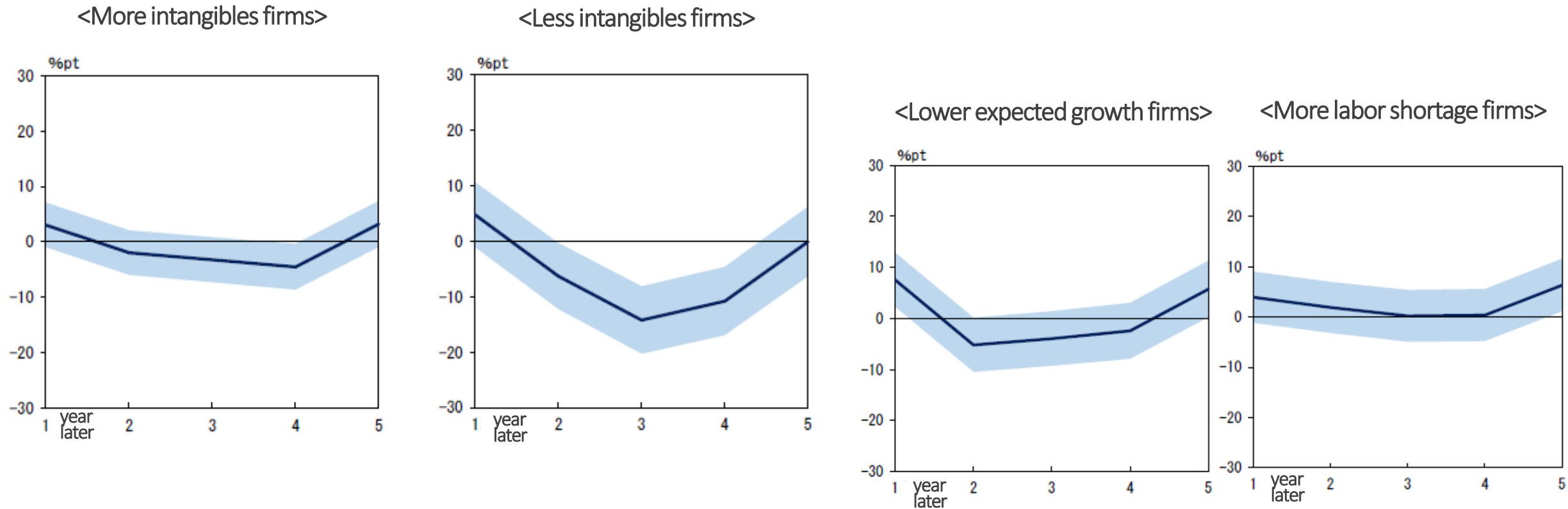
*Investment of firms with more intangibles is less sensitive to interest rate.*

- Results on expected growth and labor shortage

*Investment of firms with lower expected growth is less IR sensitive.*

*Investment of firms with more labor shortage is less IR sensitive.*

# Interest rate sensitivity of capital investment



Reference: Hirata, Kato, and Takahashi (2025) "Interest Rate Sensitivity of Capital Investment in Japan: An Analysis Using Panel LP-IV,"  
Bank of Japan Working Paper Series, forthcoming.



# Transmission to service price inflation

- Basic facts from item-level consumer prices data

*The share of zero-inflation items has been elevated since the late 1990s.*

- Simulation analysis using a state-dependent pricing model that incorporates asymmetric menu cost and kinked demand curve

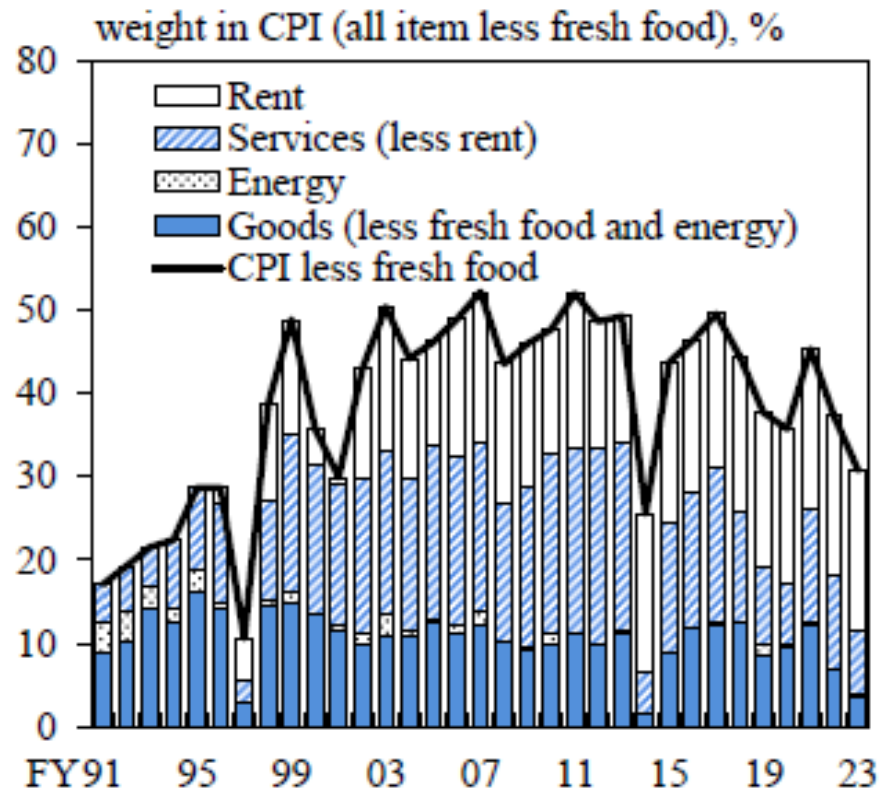
- Results:

*Estimated menu costs and the kinkedness of demand curve were larger during the deflationary period, then became smaller after the 2010s.*

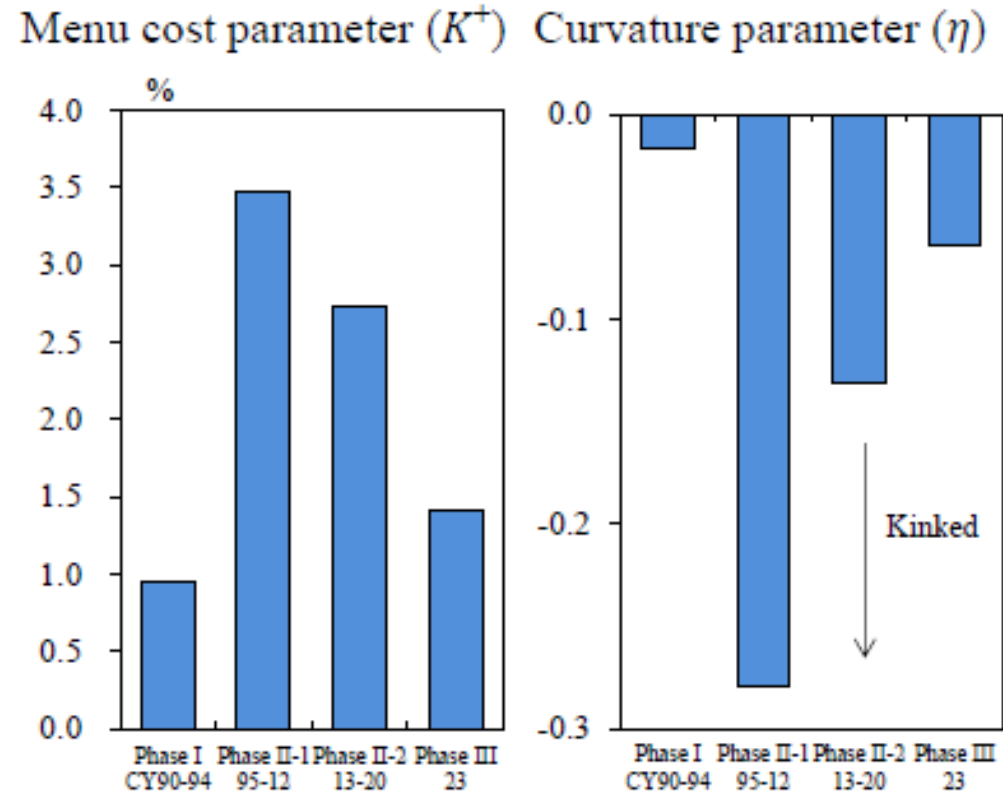
*Most recently, in 2023, they declined to a level close to the early 1990s.*

# Transmission to service price inflation

<Share of zero-inflation items>



<Model simulation>



Reference: Furukawa et al. (2024) "On the Zero-Inflation Norm of Japanese Firms," IMES Discussion Paper Series, 2024-E-15, Institute for Monetary and Economic Studies, Bank of Japan.

# Some remaining and emerging challenges

- Stock and flow effects of government bond purchases on nominal long-term interest rates still remain.
- Real interest rate is still negative, but GDP growth continues to be moderate.
- Service prices are still sluggish, so we judge that the underlying inflation is still below 2 percent.
- Banks' profits are expected to improve as interest rates gradually increase. Meanwhile, non-banking sector may play an increasingly important role in monetary transmission.
- Relative importance of the exchange rate channel and the stock prices channel may increase while the real interest rate channel is becoming less effective.
- Goods prices (especially food prices) continue to be volatile in response to frequent supply shocks. Do they spill over to the underlying inflation?

# Japan's core CPI inflation

