



Panel Discussion “Causes and Consequences of Diverging Inflation Rates”

MARCH 10, 2023, CEPR-RIETI SYMPOSIUM, “TWO SPEED INFLATION: IMPLICATIONS FOR POLICY AROUND THE GLOBE”

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* The views expressed in this slide are those of myself and do not necessarily reflect the official view of the Bank of Japan or the Institute for Monetary and Economic Studies.

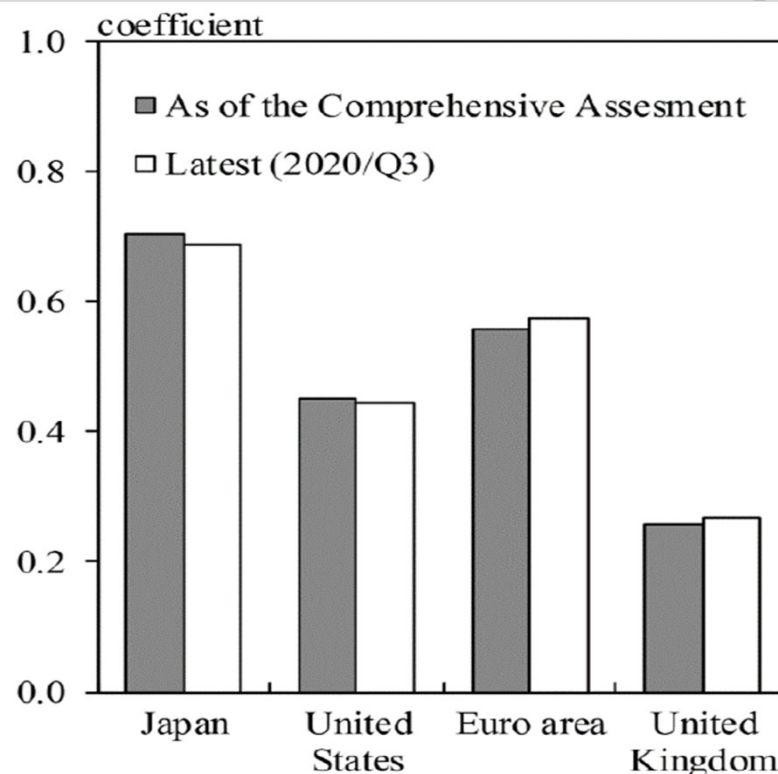
3. Differential inflation expectations across countries.

Different experiences or different expectations formation processes?

Equation (a): Contribution of observed inflation to inflation expectations 1 year ahead θ_1

Inflation expectations 1 year ahead = $\theta_1 \times$ Observed inflation (lagged 1 quarter)

+ $(1 - \theta_1) \times$ Inflation expectations 6-10 years ahead



Source: "Assessment for Further Effective and Sustainable Monetary Easing," the Bank of Japan, March 2021

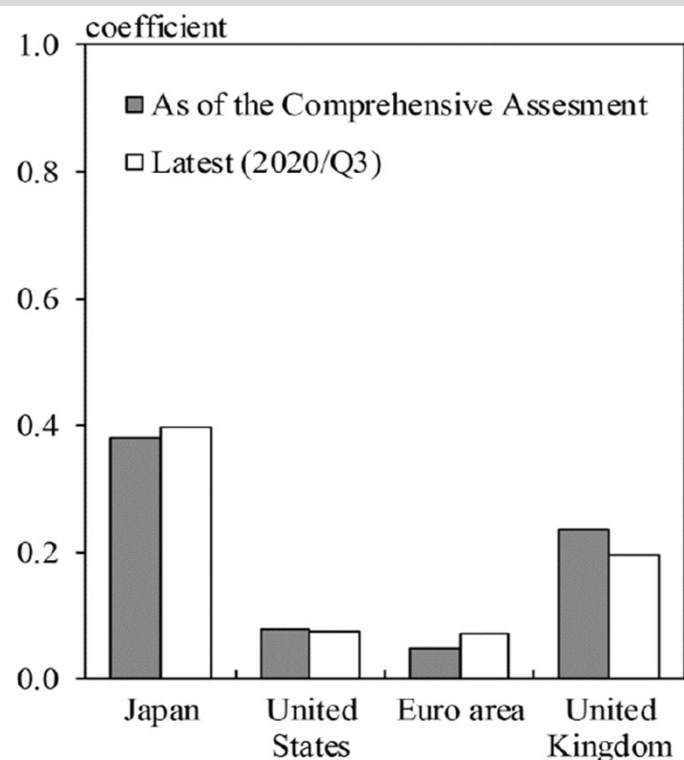
3. Differential inflation expectations across countries.

Different experiences or different expectations formation processes?

Equation (b): Contribution of observed inflation to inflation expectations 6-10 years ahead θ_2

Inflation expectations 6-10 years ahead = $\theta_2 \times$ Observed inflation (lagged 1 quarter)

+ $(1 - \theta_2) \times$ Central bank price stability target (2%)



Source: “Assessment for Further Effective and Sustainable Monetary Easing,” the Bank of Japan, March 2021

3. Differential inflation expectations across countries. Different experiences or different expectations formation processes?

(2) Changes in Price Levels One Year from Now

	Average ¹	Median ²
Mar 2019	+4.3%	+3.0%
Jun 2019	+4.6%	+3.0%
Sep 2019	+4.5%	+3.0%

- Notes: 1. Calculated by excluding 0.5 percent of the highest and lowest figures, respectively, in order to avoid extremes. (The simple average of this survey is plus **4.7** percent, and that of the previous survey in June 2019 was plus **4.8** percent.)
2. The number that appears in the middle when the answers are listed in numerical order.



(2) Changes in Price Levels One Year from Now

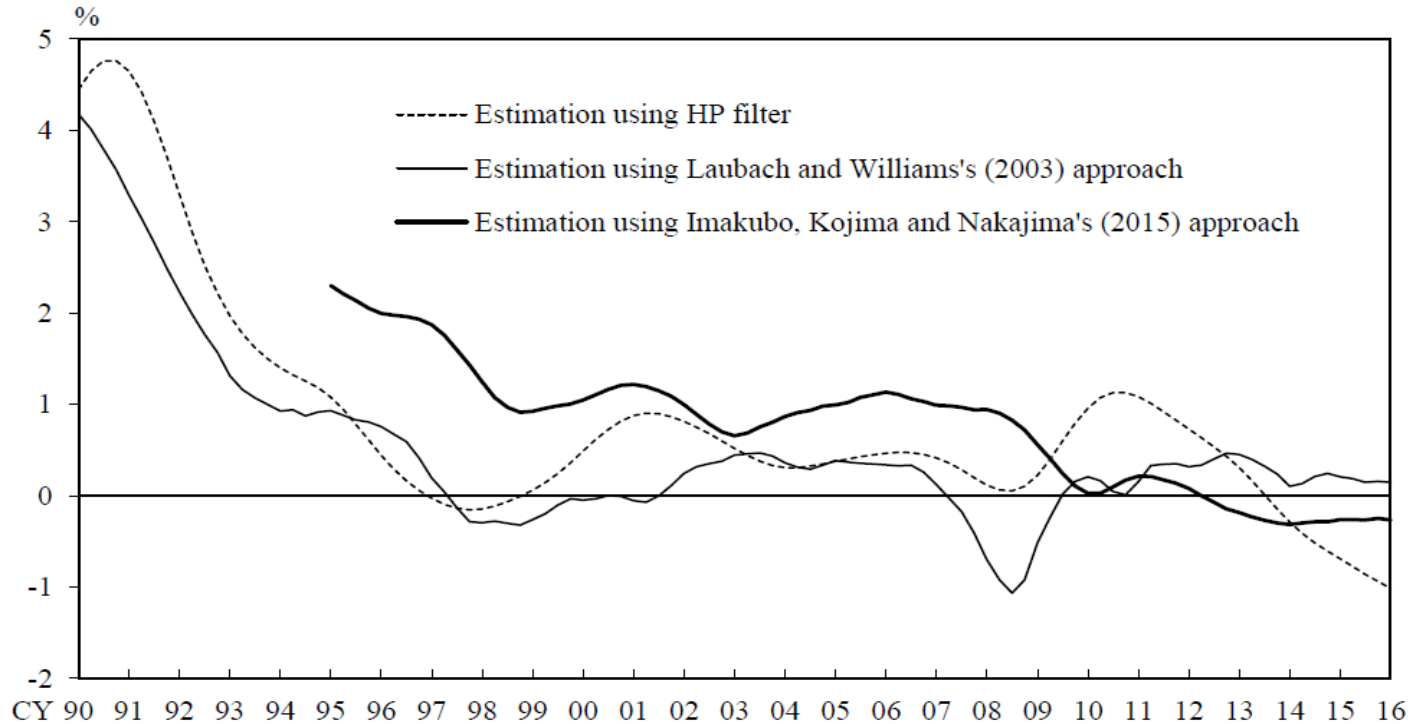
	Average ¹	Median ²
Jun 2022	+8.3%	+5.0%
Sep 2022	+8.5%	+5.0%
Dec 2022	+9.7%	+10.0%

- Notes: 1. Calculated by excluding 0.5 percent of the highest and lowest figures, respectively, in order to avoid extremes. (The simple average of this survey is plus **10.5** percent, and that of the previous survey in September 2022 was plus **8.9** percent)
2. The number that appears in the middle when the answers are listed in numerical order.

Source: “Opinion Survey on the General Public’s View and Behavior,” the BOJ, November 2019 and December 2022)

5. What is new in inflation this time? What is it that we do not understand, if any?

(2) Estimates of the Natural Rate of Interest



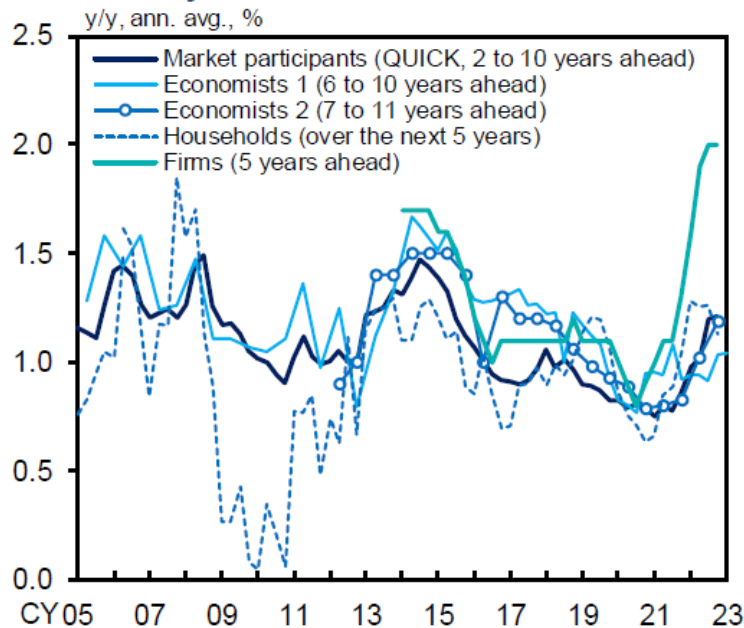
Sources: Consensus Economics Inc., "Consensus Forecasts"; Ministry of Internal Affairs and Communications; Cabinet Office; Bloomberg, etc.

Source: "Comprehensive Assessment: Developments in Economic Activity and Prices as well as Policy Effects since the Introduction of Quantitative and Qualitative Monetary Easing (QQE) ," the Bank of Japan, September, 2016.

5. What is new in inflation this time? What is it that we do not understand, if any?

Chart 45: Inflation Expectations

1. Survey



Sources: Bank of Japan; QUICK, "QUICK Monthly Market Survey <Bonds>"; JCER, "ESP Forecast"; Consensus Economics Inc., "Consensus Forecasts."

- Notes: 1. "Economists 1" shows the forecasts of economists in the *Consensus Forecasts*. "Economists 2" shows the forecasts of forecasters surveyed for the *ESP Forecast*.
 2. Figures for households are from the *Opinion Survey on the General Public's Views and Behavior*, estimated using the modified Carlson-Parkin method for a 5-choice question.
 3. Figures for firms show the inflation outlook of enterprises for general prices (all industries and enterprises, average) in the *Tankan*.

Source: "Outlook for Economic Activity and Prices," January 2023, the Bank of Japan.

Thank you!