Expected Inflation Regimes in Japan[*]

Tatsuyoshi Okimoto[†]

Australian National University and RIETI

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Abstract

This paper examines the dynamics of expected inflation regimes in Japan over the last three decades based on the smooth transition Phillips curve model. We find that there is a strong connection between the expected inflation and monetary policy regimes. The results also suggest that the introduction of the inflation targeting policy, and quantitative and qualitative easing in the beginning of 2013 have successfully escaped from the deflationary regime, but might not be enough to achieve the 2% inflation target. Finally, our results indicate the significance of exchange rates in explaining the recent fluctuations of inflation, and the importance of oil and stock prices in maintaining the inflationary regime

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Key words: Hybrid Phillips curve, monetary policy, inflation targeting, qualitative and quantitative easing, smooth transition model