The Estimation of Monetary Policy Reaction Function in a Data-Rich Environment: the Case of Japan

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Abstract

This paper reports the estimates of a monetary policy reaction function for the Bank of Japan in a data-rich environment. There are two main findings. First, a weak identification problem arises in the estimates under the specification that some previous works employ. On the other hand, in a data-rich environment, it may be possible to avoid this problem. Second, the evidence from the estimates in a data-rich environment suggests that the Bank of Japan was only responding to the output gap to the extent that it had predicted inflation, and implemented the implicit inflation forecast 'only' targeting policy over the period from November 1988 through February 2001.

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