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Chart of the week: Japanese monetary base and inflation [1]

Written by Gabriel Stein [2] | Tuesday 9 April 2013

Summary: Kuroda?s efforts may work through yen, not through monetary base

What the chart shows: The chart shows the Japanese monetary base and Japanese inflation, both set as an index with February 1993=100.

Why is the chart interesting: The new Governor of the Bank of Japan (BoJ), Mr Haruhiko Kuroda, has announced that the BoJ intends to double the monetary base? that is to say, notes and coins in circulation plus banks? reserves with the central bank? over the next two years. The hope is that this injection of money will finally cause inflation to rise to the new 2% target. Mr Kuroda?s policy also includes a substantial weakening of the yen, which? through higher import prices? should help boost Japanese inflation. This part may work. However, as the chart shows, the relationship between the monetary base and inflation is tenuous at the very best. Mr Kuroda should aimed at boosting broad money? essentially, the bank deposits held by the non-bank private sector? the relationship of which with inflation is much more clear.

Charts and comments provided by Stein Brothers (UK) www.steinbrothers.co.uk[3]

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