



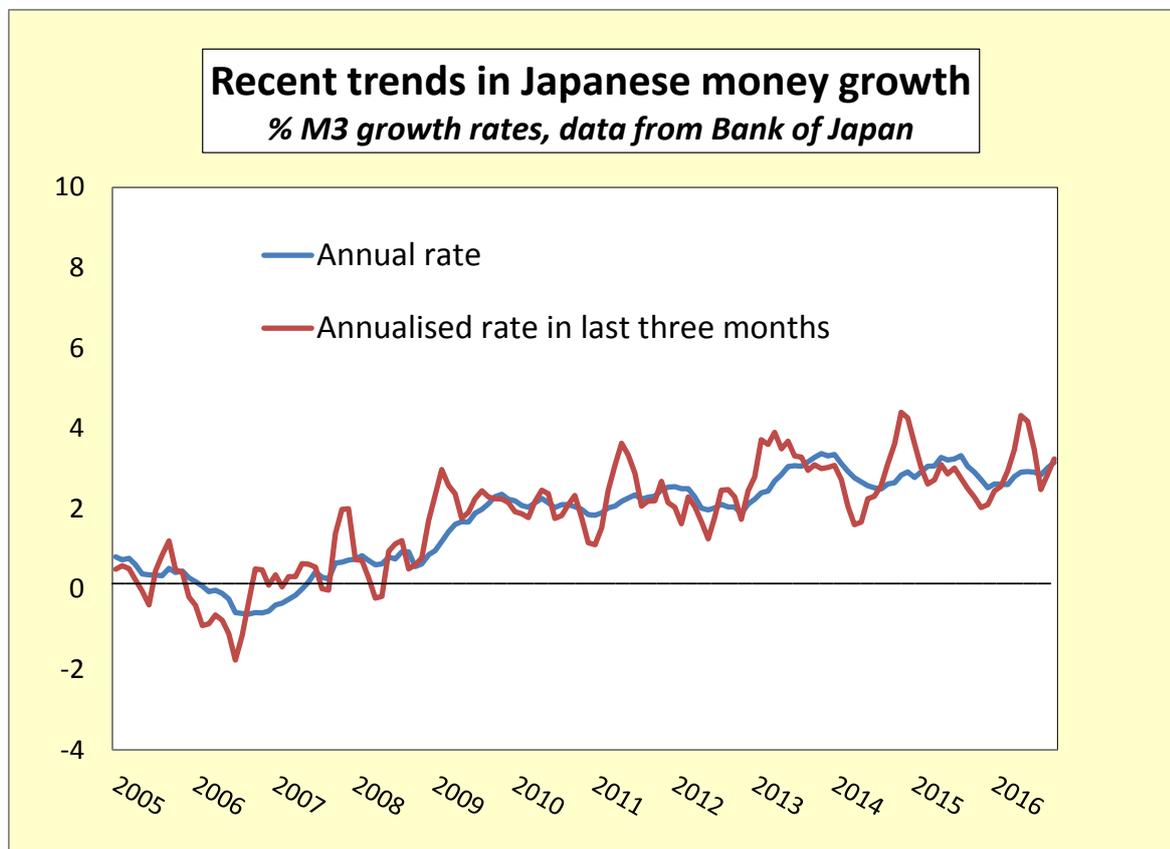
**INSTITUTE OF
INTERNATIONAL
MONETARY RESEARCH**

Analysis and insight into trends in money and banking,
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Japan

	% annual/annualised growth rate:	
	M3	Nominal GDP
1971- 2015	6.3	4.3
Five years to 2015	2.7	0.4
Year to October 2016	3.2	n/a
Three months to October 2016 at annualised rate	3.2	n/a

Sources: Bank of Japan for M3 and IMF for GDP



Broad money growth improves slightly, but still moderate

Summary: In the three months to October Japanese M3 grew at an annualised rate of 3.2%. This is similar to the growth rate in the previous three month and somewhat higher than in early 2016. The larger message is that Japanese broad money growth is stable at a rate consistent with a roughly constant price level. There has been much sound and fury about the arrows of Abenomics, and so-called ‘qualitative and quantitative easing’. In fact, not much happened to the rate of growth of broad money in recent years. As the chart shows, since 2010 broad money has increased steadily at an annual rate between 2% and 3½%.

It is now over three years since the Bank of Japan launched its programme of so-called “quantitative and qualitative easing”, consisting mostly in central bank asset purchases. Seeking to stimulate the economy (and inflation) further, it then additionally brought in a policy of “negative interest rates” at the start of 2016. September saw the introduction of yet another measure, known as “yield curve control”, whereby the BOJ will buy as many 10-year government bonds as necessary to keep yields at their current level of 0%. (Apparently the BOJ thinks that this measure will stimulate bank lending, although to many observers the approach is baffling.)

Both the minutes of the September’s BOJ Monetary Policy Meeting and a recent quarterly struck an upbeat note. Once again, Governor Kuroda is adamant that the BOJ is determined to hit the 2% inflation target, although the previous target date of 2017 has been abandoned in favour of a vaguer commitment to reach its goal “at the earliest possible time”. The minutes hinted that further stimulatory measures remain a possibility, although given that yield curve control has only just been launched, any new development introduced hot on its heels would surely be interpreted as an admission of failure. The inflation target remains as elusive as ever. Annual consumer price inflation rate turned negative in March, after two months at zero. It has remained in negative territory ever since, with prices falling by 0.5% in the year to August, the most recent month for which statistics are available.

The BoJ has viewed boosting the monetary base as the key to reaching its inflation target. The monetary base has indeed soared since the inception of the latest QQE programme in April 2013, but the quantity of money as such (i.e., the broadly-defined M3 measure) has responded less than might have been expected. As has been pointed out in these notes before, 80 trillion yen of asset purchases each month ought to boost M3 by about 6% a year. A proportion of the 80 trillion yen asset purchases is indeed from non-banks, which directly boosts M3. But much of the bond buying is from banks, with no immediate effect on non-banks’ deposits (i.e., M3 money). The excess bank cash reserves created by QQE have not resulted in any significant increase in bank lending. In fact, growth in the stock of bank loans to the private sector has slowed since the start of 2016, standing at 2.2% in September compared with 2.5% or more in the second half of 2015,

Tim Congdon and John Petley

11th November, 2016

	% annual growth rate:	
	M3	Nominal GDP
1981 – 1990	9.2	6.2
1991 - 2000	2.4	1.3
2001 - 2010	1.1	-0.5
Five years to 2015	2.7	0.4