

Japan. Abenomics and the BoJ Run Out Of Options.

Japan is a cautionary tale of what happens when an export dependent economy has an inadequate domestic demand base.

The Bank of Japan appears to have run out of options. QE on its own can exert pressure on interest rates and boost output but on the fiscal policy side, tax hikes have the ability to further depress interest rates but suppressing output. The result can be a serious liquidity trap where interest rates become irrelevant and output stagnates.

After chronic deflation and recession, inflation might finally finish off the Japanese economy.