

World Economic Situation and Prospects

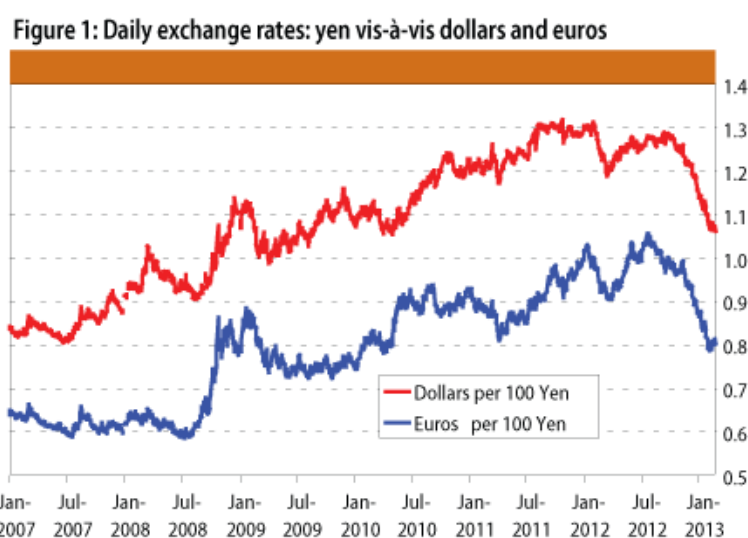
Weekly Highlights

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Sharp depreciation of Japanese yen causes international concerns

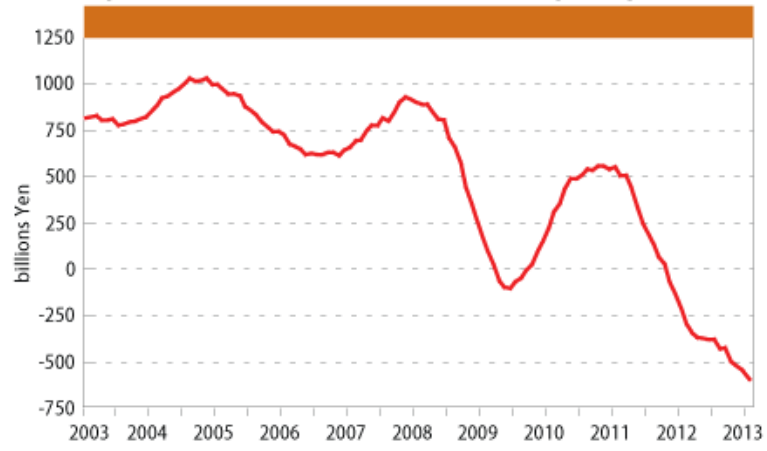
In July 2012, the Japanese yen started to depreciate vis-à-vis other major currencies and its value has fallen sharply in recent months (figure 1). The exchange rate of the yen against the United States dollar has declined by more than 16 per cent over the past seven months, and against the euro by about 24 per cent. Officials from many countries, both developed and developing, have expressed their concerns about the yen depreciation, particularly in connection with the new monetary easing adopted in Japan. In mid-February, statements from both G7 and G20 meetings reiterated that they would refrain from competitive devaluation. The exchange rate of the yen vis-à-vis the dollar has since fluctuated within a small range.



Source: UN/DESA, based on data from J.P. Morgan Chase.

Before July 2012, the yen had been on a steady upward trend against the dollar for about five years, appreciating by almost 40 per cent. The turnaround in mid-2012 coincided with the deterioration in the trade balance of Japan. The deficit in merchandise trade widened significantly over the summer of 2012 (figure 2). In late 2012, the depreciation accelerated after it became clear that the new Japanese Government would adopt a strong expansionary policy in both the fiscal and monetary dimensions, possibly adopting the same approach other policy options as well. The possibility of purchasing foreign bonds to drive down the exchange rate for the yen was indeed included in earlier discussions. On 19 February, however, the Japanese Minister of Finance ruled out this option in a statement.

Figure 2: Japan: trade balance (12-month moving average)



Source: UN/DESA, based on data from the Japanese Ministry of Finance.