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The Influence of the Abenomics Program's Monetary Policy on the Revival of the Japanese Economy: Japanification Economic Phenomenon as a Case in Point

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Abstract

Japan had entered a deflationary state during the 'lost decade'. The Bank of Japan set a 2 percent inflation target and specified concrete actions to achieve this goal by 2015(HAUSMAN and WIELAND). The measures in Abenomics included an aggressive monetary policy, fiscal stimulus and structural reforms. The conception of" Japanification" surfaced from the challenges faced by the slow- growing Japanese economy due to its deflation. To combat this economic recession, Prime Minister Shinzo Abe presented a comprehensive set of economic programs known as Abenomics("The Japanification of the World?").

Also, it considers the challenges faced by financial policy, particularly in the environment of the COVID-19 epidemic and its impact on the labour market. The review synthesises and analyses a range of scholarly articles, reports, and government publications to give a comprehensive overview of the content(Tsigaris et al.).

Keywords: Economics, Abenomics, Japan, Monetary policy, Fiscal Policy, Inflation, Deflation, Recession.

Literature review

Japan had entered a deflationary state during the 'lost decade'. The Bank of Japan set a 2 percent inflation target and specified concrete actions to achieve this goal by 2015(HAUSMAN and WIELAND). The measures in Abenomics included an aggressive monetary policy, fiscal stimulus and structural reforms. The conception of" Japanification" surfaced from the challenges faced by the slow- growing Japanese economy due to its deflation. To combat this economic recession, Prime Minister Shinzo Abe presented a comprehensive set of economic programs known as Abenomics("The Japanification of the World?").

Also, it considers the challenges faced by financial policy, particularly in the environment of the COVID-19 epidemic and its impact on the labour market. The review synthesises and analyses a range of scholarly articles, reports, and government publications to give a comprehensive overview of the content(Tsigaris et al.).

The paper will primarily focus on the history of Abenomics, the evolution of Abenomics and the contemporary impact of Abenomics politics. It will mainly focus on monetary policy and it's effect on the revival of the Japanese economy, however there will be a brief explanation of the other two arrows that equally contributed to the Economy.

The execution of aggressive monetary easing measures, similar as quantitative and qualitative easing(QQE), helped combat deflationary pressures by adding the plutocrat force and stimulating economic activity(Ito). It explores the impact of these steps on inflation rates and consumer spending. Yen Depreciation and Global Competitiveness Exchange Rate Policies Abenomics directed to weaken the yen to boost exports and make Japanese goods more competitive on the world market. It also discusses the unknown challenges posed by the COVID- 19 epidemic to Japan's monetary policy. It examines the government's response to the pandemic- induced economic downturn and the implications for inflation, interest rates, and fiscal stimulus. The review found that the monetary policy measures implemented under

Abenomics have contributed to the reversal of deflation in Japan. The increased money supply and low interest rates have boosted consumer spending and investment, leading to a phased rise in inflation rates. Moreover, the deliberate weakening of the yen has made Japanese exports more competitive on the global market, performing in a positive impact on the trade balance and attracting foreign direct investment(FDI) inflows(Fukuda). Abenomics, with its emphasis on monetary easing, has made significant strides in revitalising the Japanese economy and reversing deflation. The monetary policy measures implemented under Abenomics have had a positive impact on inflation rates, consumer spending, trade balance, and foreign investment. However, ongoing challenges, such as those posed by the COVID-19 pandemic, require continued adaptation and evaluation of these policies to ensure their long-term effectiveness and sustainability in promoting Japan's economic growth and global competitiveness(Tsigaris et al.).

Introduction

'Japanification' is a term coined by the slow growing Japanese economy due to its ageing population, low interest rates and low inflation. While most of the world aimed for a low inflation rate Japan faced the complete opposite problem, deflation that continued for more than 15 years. This paper will explore the steps taken by the Japanese government, especially under the leadership of the prime minister, Shinzo Abe, in the revitalization of the Japanese economy. Abenomics, introduced by Prime Minister Shinzo Abe in 2012, aimed to break away from this economic stagnation through a combination of monetary, fiscal, and structural reforms. The comprehensive set of policies introduced by Prime Minister Shinzo Abe in 2012. The three arrows of Abenomics encompass monetary policy, fiscal stimulus, and structural reforms. We will explore the rationale behind each arrow and the goals they aimed to achieve. The paper will also provide an overview of the initial impact of Abenomics on the Japanese economy, by highlighting early signs of progress and areas that required further attention. Each of these measures influences inflation, interest rates and economic growth. The monetary policy in the abenomics program greatly influenced the value of the yen in the reversal of deflation and Japan's overall progress in its ability to participate on the global stage. Abenomics achieved several notable successes during its initial years. The economy was successfully revitalised with a positive GDP growth and a reversal of deflation. It also thrived in the stock market with the corporate profits increasing and bolstering business confidence. In addition to that, the structural reforms in increasing the female labour force and encouraging corporate government reforms flourished.

The Abenomic policies introduced had a significant impact on the value of the yen. As the Bank of Japan increased its fiscal stimulus, the yen gradually depreciated against other major currencies enabling a boost to Japanese exports and in return contributing to economic growth. With the depreciation of the yen, Japanese goods were available at a cheaper price on the market for international consumers leading to a rise in export volumes. Not only did exports increase but with a drop in the value of the yen. There was an inflow of foreign investment, this enhanced the country's competitiveness and improved the profitability of Japanese companies. However, Abenomics also faced significant challenges.

The COVID-19 pandemic dealt a severe blow to the Japanese economy, disrupting global supply chains, reducing consumption, and dampening investment. The subsequent economic downturn necessitated additional fiscal stimulus measures to support businesses and individuals. Furthermore, despite efforts to address labour market rigidities, Japan's shrinking and ageing population continued to pose long-term challenges to sustained economic growth.

The history of the abenomic policies

Abenomics was promoted as a way to break away from the Slow growing Japanese economy due to deflation. This dated back to the Lost Decade, from the 1990s to the 2000s, it was a period of economic stagnation which was also one of the longest-running economic crises in recorded history. Japan's economy flourished after world war 2, and it peaked in the 1980s with the largest per capita gross national product [GNP] in the world. Real GDP growth had averaged 1% a year for over a decade from 1993 till 2003("Japan's Lost Decade --- Policies for Economic Revival"). Moreover Japan experienced three recessions in the timeframe while other industrial countries faced milder and less frequent issues in the post war period. The nominal GDP of Japan had been underperforming when compared to the real GDP, the level of nominal GDP had almost been the same from 2001 and in 1995. the annualised growth rate of Japan's real gross domestic product (GDP) averaged only 1.2%, which is lower than all of the other G7 countries—Canada (3.4%), the United States (3.2%), the United Kingdom (2.7%), France (2.3%), Italy (1.8%), and Germany (1.4%)--as well as the Euro area average (2.2%) and less than half of all of the other larger OECD countries—Korea (5.3%), Australia (3.8%), Spain (3.3%), the Netherlands (2.9%), and Mexico (2.6%)--as well as the OECD-wide average (2.7%)(Horioka).

This issue can be traced back to the bursting of Japan's asset price bubble in the late 1980s, Japan experienced a period of rapid economic growth, and its real estate and stock market soared to unprecedented levels. However, the inflated asset prices did not last long enough and when the bubble burst, it triggered a severe financial crisis. This had a devastating impact on the Banking sector of Japan as several financial institutions shuddered with the exposure to the real estate loans and experienced significant losses. This led to an increase in redundancy of Banks reluctant to lend which further exacerbated the economic downturn. Companies faced difficulties in obtaining financing and investment, hence consumption declined sharply.

Stagnation of household consumption was primarily due to reduction in household disposable income. With a lesser income, increased uncertainty and decreased investment. Another reason for Japan's slow growing economy is the ageing population. It achieved the highest life expectancy in the world, however the retirement age is still 65. Japan's method for calculating wages was based on seniority and this type of wage system made it difficult for companies to hire elderly people. With the increase on government spending for the elderly it creates a great opportunity cost with an increase in budget deficit while also increasing the social welfare costs.

The evolution of Japanese monetary policy

Deflation occurs when the economy's capacity, as indicated by the position of the aggregate supply curve, grows at a faster rate than the aggregate demand. The aggregate demand is the total demand for goods and services within a market. The leftward shift of the aggregate demand shifts the equilibrium down, decreasing the prices. To regulate the price, the aggregate demand shifts back to the right or the short run aggregate supply shifts to the left. However, as business and consumer confidence in the economy declines, the aggregate demand falls causing a recession.

The first arrow of the abenomics policy is the unconventional monetary policy that was aimed to recover Japan from the deflation that persisted for about 15 years. The government used quantitative easing to help increase liquidity in the economy. The monetary policy is utilised by central banks to adjust the supply of money, usually through buying or selling securities in the open market(International Monetary Fund). These actions usually effect interest rates in the short run and economic activity in the long run. The growth of an economy declines, such as in this case, the bank drops the interest rates to stimulate aggregate demand by dropping loans and increasing consumer spending. This scenario can be used to battle deflation. Japan employed the expansionary monetary policy which can lead to a decrease in unemployment and sluggish consumer spending.Beginning in November 2012, then - candidate Shinzo Abe blamed the Bank of Japan for not doing enough monetary easing and not increasing the target inflation rate thus causing deflation and low growth.

Shinzo Abe, after being elected, threatened to revise the law that enabled the Bank of Japan to enjoy its freedom if they didn't agree to the 2 percent inflation target at a meeting on January 22, 2013(Ito). Despite these efforts, the monetary policy single-handed lay could reach the target inflation of 2 percent. However, the introduction of these policies helped pull the nation out of deflation and also had strong macro performances. The second part of the first arrow is the quantitative and qualitative easing measures that were announced in April 2013 in order to achieve the 2 percent target in 2 years. This was done through doubling the monetary base in 2 years. The bank of Japan started a large scale asset purchase program that bought assets worth $660 billion annually so that the amounts will increase(McBride and Xu). They also purchased Japanese government bonds so that the outstanding balance will increase by about 50 trillion yen annually. They also lightened the average maturity age of BOJ's Japanese government bonds from less than 3 years to about 7 years.

Fiscal consolidation mainly addressed the budget deficit and Japan's national debt. The implementation of the first supplementary budget in February 2013, with a size of 13.1 trillion yen under the instruction of Prime Minister Abe, exemplifies the flexible use of discretionary counter-cyclical fiscal policy. This budget, combined with inflation targeting and QQE, resulted in strong economic growth, an increase in the inflation rate, and a decrease in unemployment during the summer of 2013. These outcomes demonstrate the stimulative effects of employing flexible fiscal policies. During the economic recovery phase, Prime minister Shinzo Abe, reiterated in October 2013 that the consumption tax rate would be raised in April 2014 as originally planned. Economists expected an increase in purchases before the tax hike, and then a decline in consumption, especially in relation to durable and semi durable foods, and then a subsequent V- shape recovery.

The initial predictions regarding the surge and decline were very largely accurate, however, the expected V - shaped recovery did not happen. Consumption did not return to the pre - tax hike levels and the economic activity remained subdued throughout 2014. This outcome raised concerns prompting the Prime minister to postpone the second planned tax rate hike which was initially scheduled for October 2015. Eventually, the second tax rate hike was postponed and took place in October 2019. To mitigate its impact, a portion of the increased revenue generated by the tax hike was allocated to finding free college education and providing a free kindergarten place for low-income families. Along with this, a reduced tax rate of 8% was introduced for food items. Finally, the structural reform with the goal of revitalising the country's competitiveness. This program encompasses several key measures, including the reduction of business regulations, liberalisation of the labour Market and the agricultural sector, corporate tax cuts and the promotion of workforce diversity. By slashing business regulations, the Japanese govern,met aimed to create a more favourable and attractive place to invest for business. The Liberalisation of the labour market seeks to promote flexibility and productivity by removing barriers of employment, such as excessive regulations and rigid employment practices.

The contemporary evolution of Japanese monetary policy and its impact on the Japanese economy

Since the inception of the Abenomics policies in 2012, it was still yet to achieve the goals it set out to reach. Several critics believe that the policies have not contributed much while only slightly pulling up the inflation rate and still keeping Japan at about one quadrillion yen. In 2017, there was a modest growth in high tech electronics, turning to robotics and other labour saving technology to combat the country's labour shortage by boosting productivity. There was also an increase in tourism that helped strengthen the national economy. The nominal GDP went up by 48.4 JPY tn, the number of female employees increase by 4.4mn, corporate pre-tax profit went up by 42.1 JPY tn, unemployment rate dropped by 2.4%, private non -residential investment increased by 16.2 JPY tn, tax revenue increased by 16.2 JPY tn. There was a considerable change in the nominal GDP from the year 2011 till 2019(The Government of Japan). The dependency ratio on Japanese government bonds has also decreased from the year 2011 till the year 2019. Despite these results, the original goal of the abenomic policies was not achieved, hence it had critics dispute over the risks of abenomics. Several critics argued that the introduction of such a policy may lead to hyperinflation while the others claimed it would have little to no desirable change.

"Japan suddenly began to see an increased inflation rate in April 2022. It was at 2.5 per cent in May 2022. The growth has been sustained over a period of no less than nine months. Food and energy costs are rising significantly, not because of the demand but due to the pandemic-induced market disruption and the Ukraine war. The Yen has touched a two-decade low against the US dollar causing serious worries to Japanese business. As of now, it is difficult to judge the repercussions on Abenomics. Whatever could be the outcome, Abe experimented and explored the possibilities to make Japan reach the top economically," said Girish Linganna, director, ADD Engineering Components India Limited("Shinzo Abe Will Always Be Remembered for His "Abenomics""). The recent Covid pandemic toppled the economic stability of the world with rising inflation rate, Japan's inflation rose to 3% and the value of the yen greatly depreciated. The Ukraine - Russia war increased the prices of resources that increased the prices of consumer imports in Japan(“With Yen at 50-Year Low, Bank of Japan Tweaks Monetary Easing Policy: Premature to Tighten Monetary Policy like Other Major Advanced Economies - Discuss Japan”).

However, due to COVID-19, Japan's GDP decreased by 4.5% in 2020 from 0.7% in 2019. The economy increased by 1.7% in 2021, had stagnated at 1.4% in 2022(Tsigaris et al.).

Conclusion

The influence of Abenomics on the revival of the Japanese economy has been thoroughly examined in this research paper, with particular emphasis on its monetary policy component. Abenomics was implemented as a solution to Japan's economic problems, which included deflation, a slow-growing economy, and an ageing population(“Shinzo Abe’s Economic Legacy: A Glass Half Full”). Understanding the fundamental factors contributing to Japan's economic stagnation and the necessity for an all-encompassing plan for economic resuscitation was the study's primary goal. An ageing population and rigid wage regimes, as well as the fall of the asset price bubble in the late 1980s and the ensuing financial crisis, all played a part in Japan's protracted period of low growth and deflation. Abenomics used a three-pronged strategy to try to end this stalemate. Evaluation of the monetary policy component of Abenomics' ability to revive the Japanese economy was the study's second goal.

The paper includes the different era of the Abenomics policies and their effects during that time. It covered the history of Abenomics and the root of the problem that led to the revolutionary introduction of such policies. One of the main points of this paper is the effect of the policies in contemporary time especially with the outbreak of the pandemic in 2019 that negatively affected every economy. However, in order to ensure the long-term success and sustainability of its economic policies, Japan must continue to assess and modify them. To encourage long-term economic growth, ongoing issues like an ageing population and the requirement for structural reforms need to be further addressed. The effects of external issues, such as international and regional geopolitical developments, on the Japanese economy should also be monitored and addressed by the government.

In conclusion, Abenomics policies played a crucial role in overturning the fate of the Japanese economy by bringing theory to life. Abenomics has substantially stimulated the Japanese economy and overturned deflation thanks to its concentration on monetary easing. Inflation rates, consumer spending, trade balance, and foreign investment have all prospered from the monetary policy reforms made under Abenomics. To ensure these policies' continued effectiveness and viability in fostering Japan's economic growth and global competitiveness, continuous challenges, like those brought on by the COVID-19 epidemic, require continual modification and evaluation. Abenomics has generally established the stage for Japan's economic recovery, but more work and modifications to policy will be necessary to handle emerging problems and ensure a sustainable and successful future for the Japanese economy.

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