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AJISS-Commentary

Economic policy in the Heisei Era

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In the Heisei economy that marked its start in January 1989, one problem after another which are of a sort that has never been seen before. I would like to give an overview of the Heisei period divided into five periods.

The first period is from 1989 to the early 90s when the bubble collapsed and so called "Japanese asset prices (stock and land prices) fluctuated wildly, with a dramatic rise in the dramatic decline. These developments comprise the so-called "birth of the bubble" and "c

As the bubble burst in the 1990s, economic performance began to deteriorate. After 19 downturn trend became prominent, economic stimulus from both fiscal and financial sides fiscal policy, economic measures have been repeated almost every year since 1992. As for monetary easing started in July 1991, and the official discount rate was successively reduced policies, the slump in the Japanese economy continued and it slid into the situation described 20 years."

The second period was the late 1990s when the financial crisis occurred and deflation began. The Hashimoto Cabinet which started in January 1996 devoted its energy toward struct

administrative reform, economic structural reform and financial system reform. As for fiscal consumption tax rate was raised from 3% to 5% in April 1997, and the Fiscal Structure Reform in November. However, the course of fiscal reconstruction is frustrated by the Asian currency crisis which started in 1997, and the Hashimoto Cabinet, which took over the Obuchi Cabinet, which took over the Hashimoto Cabinet.

Due to the Asian currency crisis which started in 1997, the financial condition of financial institutions deteriorated, and in November, Sanyo Securities, and the financial institutions such as Dai-ichi Kangyo Bank and Yamaichi Securities continued to collapse. The government took measures such as injecting capital since October 1998, the Long-Term Credit Bank of Japan and the Nippon Credit Bank were established that allows large-scale public funds to be invested in financial institutions barely in time to avert crisis conditions for Japanese finance.

The third period was the first half of the 2000s when structural reform and non-performing loan reform were implemented by the Koizumi Cabinet.

The structural reform under the Koizumi Cabinet, which was launched in April 2001, was "from the public to the private" and "from the government to the regions."

The Koizumi aimed at reducing non-performing loans held by major banks, and called for reform of financial institutions. Under these policies, the issue of the non-performing loans that had been a dead weight on the economy was finally and largely resolved.

To cope with deflation, the BOJ lowered the official discount rate nine times to reach the level of 0.5% by September 1995. Furthermore BOJ set the overnight call loan rate to 0.15%, and lowered it to 0.1% levels down. The result was the call rate stood at around 0.03% after March, making it close to a zero interest rate.

The policy was briefly lifted in August 2000 in brazen disregard of the government's opposition. Deflation continued. Consequently, in March 2001 the BOJ implemented a quantitative easing policy that went even farther beyond the zero interest rate policy. This changed the operational policy from call rates to the BOJ's current account balance. It served to increase the amount of government bonds to around ¥5 trillion through the purchase of long-term government bonds. Further adjustment would stay in place until the rate of increase in the consumer price index remained above zero. This was referred to as the "time-axis effect".

Furthermore, starting in October 2010 the BOJ also responded with a comprehensive easing policy called for the purchase of exchange-traded funds (ETF) and real-estate investment trusts (REITs). This policy had entered unprecedented realms.

The fourth period was the late 2000s and early 2010s when economy was shaken by the Lehman Shock.

The Democratic Party made an array of pledges in its election manifesto such as providing support for individual farmers, and making highways toll-free, but without sufficient necessary financial resources the only decision reached was to put something together by patching holes as they appeared. After all the government could not guarantee sufficient financial resources and it was facing a considerable deficit.

The Lehman shock occurred just before the start of the Democratic Party administration. Securities were thrown out and funds were canceled one after another as subprime loans collapsed. This disruption spread to financial institutions, and in September 2008, Lehman Brothers, investment bank in the US, finally broke down. This triggered simultaneous stock drops and massive turmoil in the financial markets.

When the Lehman Shock first occurred, it was thought that its impact on Japan would be in growth rates that occurred in Japan was considerably larger than that of US. This was a global financial crisis blunted world trade, which in turn caused a major downturn in Japan. The fifth period is after 2012 when Abenomics developed. Prime Minister Abe promoted his priority. That policy came to be referred to as "Abenomics," and while it has gradually changed place today.

The Abe Cabinet made overcoming deflation its overriding imperative. To accomplish this came up with "three arrows" in the forms of "bold monetary policy," "flexible management," and "a long-term strategy for stimulating private investment."

Monetary policy was the centerpiece of Abenomics. The first of those was the application. In January 2013, the government and the BOJ issued a joint statement declaring an inflation increase in the consumer price index.

The second effort was the so-called unprecedented quantitative/qualitative easing plan under the new BOJ governor Kuroda. This was an attempt at monetary easing of a different kind, both quantitatively and qualitatively. With (1) its object of achieving the objective of a 2% rise in the CPI as quickly as possible though with a two-year time frame in mind, it targeted (2) doubling by the end of the period the retained amount of both long-term government bonds and ETFs over that two-year period, and (3) doubling the average current maturity of long-term government bond purchases by double the length of the period.

Third was the negative interest rate policy adopted in January 2016. This is what led to the policy being referred to as "quantitative and qualitative easing with negative interest rates."

After carrying out "comprehensive verifications" with respect to the unprecedented qualitative easing policy that had been in place, in September 2016 the BOJ settled on a new monetary policy framework called for purchasing government bonds so that long-term interest rate would continue to increase the funds in circulation until consumer price index remained stably above 2%. For these reasons, the monetary policy would subsequently be described as one of "quantitative and qualitative easing with long-term interest rate controls."

Since then, the policy scope of Abenomics has continued to expand further. In June 2017, it introduced its "new three arrows" which were "a strong economy that creates hope," "support for children's dreams," and "social security that is connected to peace of mind."

This completes a brief sketch of the course of the Heisei economy. As before, numerous challenges persist into the post-Heisei era. Thanks to having pursued a radical monetary easing policy, the Japanese economy is finally in a state that may be termed "not deflation." However, it is not been a 2% rate of increase in the consumer price index. Despite the development of successive growth potential for growth has not increased. The public finances are still in a critical state, and fiscal reconstruction cannot be avoided for fiscal reconstruction are now being discussed.

As for the international trade around the world, the trend toward free trade that had on for decades has greatly abated owing to U.S. President Donald Trump's appearance. In response, Japanese leadership in pushing forward on a TPP without the US (TPP-11). Japan will need to work with other countries of Europe and Asia to protect the global free trade system.

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