

# Abenomics: Notes for UPSC Economics

Abenomics is a blend of words, “Abe” and “Economics. It refers to the economic policies advocated by Shinzō Abe, the Japanese Prime Minister since his election as the Prime Minister of Japan for the second term in 2012.

Concepts such as these are an important topic in the Economics section of the IAS Exam.

## What is Abenomics?

It is a combination of monetary policy, fiscal policy and economic growth strategies to encourage private investment. Abenomics is based on “three arrows” of

- Monetary policy easing
- Fiscal stimulus
- Structural reforms

Specific policies such as inflation targeting at a 2% annual rate, correction of the excessive yen appreciation, setting negative interest rates, radical quantitative easing, expansion of public investment, buying operations of construction bonds by Bank of Japan (BOJ), and revision of the Bank of Japan Act are adopted as a part of this policy. Abenomics aimed at ending the deflation which continued for more than 15 years since 1997, focusing on massive monetary stimulus to build up self-sustaining expectations of moderate inflation.

## Why was Abenomics vital to the Japanese Economy?

The Japanese government raised consumption tax rates from 3% to 5% in 1997, which had worsened the ongoing recession deflated the economy. The government raised the consumption tax in 1997 for the purpose of balancing its budget, and then the government revenue decreased by 4.5 trillion yen because consumption declined. The country recorded a GDP growth rate of 3 percent in 1996, but after the tax hike the economy sank into recession. The nominal GDP growth rate was below zero for most of the 5 years after the tax hike.

Japan's averaged annual wages grew during 1992-1997, but the wages started to decrease after the consumption tax hike came into effect in 1997. After 1997, the wages decreased faster than the nominal GDP.

Thus a new policy that was more specific in nature was needed.

## How significant is Abenomics for the Economy of Japan?

This growth strategy is a hyper easy monetary policy and is significant to Japan as:

1. The policy intends to make Japan less reliant on the United States of America for its defense needs in addition to providing a strong counterweight to China in the Asia-Pacific region.
2. It strategizes to encourage private investment.
3. The Japanese economy is in stagnation. The inflation remains at around zero percent which reflects unattractive aggregate demand. Abenomics aims at bringing about significant changes in the positive direction.
4. Fall in the unemployment rate, weakening of Japanese currency (intended outcome), increased volume of exports etc in order to rectify the prolonged recession faced by Japan are some of the outcomes of the implementation of policy.
5. The International Monetary Fund (IMF) has characterized the program as "a unique opportunity to end decades-long deflation and sluggish growth and reverse the rise of public debt," but argued that "all three arrows need to be launched for the policies to succeed. However, uncertainty about the ambition of fiscal and structural reforms is adding to underlying risks.