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ANALYSIS OF THE IMPACT OF THE TRANSITION TO INDIRECT MONETARY POLICIES ON THE RATE OF ECONOMIC GROWTH IN JAPAN

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Abstract:
The quantitative easing policy is an unconventional monetary policy, which was followed by countries that suffered from economic deficits during certain periods. Direct monetary policies were not able to solve these deficits, which were represented by reaching that the basic interest rate reached zero and was unable to move credit in those countries so this forced those countries to use the policy of quantitative easing to get out of those deflations, especially Japan and the United States of America and other countries such as Britain and the European Union ... so has been used the phrase (quantitative easing) was used to refer to a shift from a focus on using quantitative variables, especially Purchasing government or banking securities to increase liquidity that brings commercial banks more amounts prepared for lending and at a zero or close to zero interest rate. Through the use of this policy, By using this policy Japan has been able to encourage borrowing and direct investors towards establishing new projects and thus achieving a certain level of economic recovery in Japan, The policy continued to be used to break out of the downturn in the global economy after the 2008 mortgage crisis, through a set of different measures taken by the central banks in those countries to increase the rate of economic growth in those countries.

Keywords: Quantitative easing policy , Economic growth , The impact of (QE) policy on the Japanese economy , Measures were taken by the Bank of Japan.

INTRODUCTION: -

Quantitative easing (QE) can be considered an unconventional monetary policy that was followed to achieve certain economic benefits, such as achieving a certain rate of economic recovery as a result of the downturns that occurred in most economies after the financial crisis in 2008, in addition to the possibility of reducing the rate of Unemployment, and controlling an acceptable rate of inflation through some measures, especially the measures taken by the central banks of a group of countries, particularly Japan, and other countries such as (the United States of America - Greece - England - the European Union).

These measures are to target a zero or close to zero interest rate on specific types of credits that are directed towards the productive sector by purchasing different debt securities (especially debt bonds that are in default), and the terms according to the nature of the economy and the types of bonds available in the money markets and the ability of the money markets To provide such bonds, and they are purchased through central banks to push investors towards more investments, and this, in turn, leads to an increase in the employment rate and thus a recovery in the rate of economic growth in any country that uses such unconventional economic measures to raise the rate of economic growth with the support of some Financial procedures and legal legislation.

The term (quantitative easing) has been used to refer to the shift from focusing on using quantitative variables, especially the purchase of government or banking securities, to increase liquidity that brings commercial banks more amounts prepared for lending and at a zero or close to zero interest rate. By using this policy, Japan has been able to encourage borrowing and direct investors towards establishing new projects, thus achieving a certain level of economic recovery in Japan, albeit gradually and in stages. In this regard, the researchers concluded that if central banks use this policy, they will generate a kind of recovery in the

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economy despite differences in the durability and strength of different economies of countries. that is, central bank governors need to improve the macro and partial precautionary measures to face some of the challenges arising from the use of some of these policies, especially the unconventional monetary policies that take different forms, including the quantitative easing policy.

The importance of the research:-

The importance of the research comes to clarify the role of policies, which are considered as one of the new monetary policy tools, and their ability to stimulate economic growth in the economies that have suffered from a deficit in their economies including Japan Which is considered the first country to use these policies to stimulate the growth of its economy through the permissibility of direct tools used by countries to solve economic problems and seek to achieve a growth rate that improves the economic reality of those countries.

The problem of the research:-

The research problem centered around the economic downturn that occurred in the Japanese economy in the nineties of the last century, as a result of several reasons, and traditional monetary policies were unable to overcome this problem.

The aim of the research: -

The research aims to demonstrate the importance of indirect monetary policies in overcoming the economic crisis that afflicted the Japanese economy in the nineties of the last century, forcing it to use that policy after direct monetary policies failed to solve the economic crisis that afflicted the Japanese economy as a result of multiple the reasons that led to the economic crisis in Japan.

The hypothesis of the research: -

A policy of quantitative easing formed the biggest challenge, as the Japanese government consumed all direct monetary measures and did not reach a solution except through the use of a new policy represented by the quantitative easing policy.

The structure of the research:-

The research consists of three sections, the first section is concerned with general concepts about quantitative easing policy, and the second section is concerned with general concepts about economic growth and how interconnected with quantitative easing policy, while The third section is concerned with the measures and policies implemented by the Central Bank of Japan to achieve its goal of economic growth.

Chapter 1 : Theoretical rooting of the concept of quantitative easing policy or unconventional monetary policies

Firstly: An introduction to monetary policies

the researcher in the economic field is what monetary policy is, which express the possibility of achieving a set of monetary goals down to achieve economic goals through the ability of the Central Bank to manage that file through the available tools that the Central Bank can deal with to achieve the required goals.

- Central banks have two types of tools that they can deal with in any country, namely quantitative tools and qualitative tools. Through these tools, the Central Bank aims to attract and raise the efficiency of available and disruptive cash resources in society and direct them in the right direction, that is, distribute them in a way that ensures that the cash sector accesses these savings quickly and easily. Central banks can ensure the effectiveness of these tools through their ability to quickly affect other economic sectors and achieve the objectives of the Central Bank by moving these tools to ensure the development of the economic situation of any country, as well as the flexibility of these tools through the ability of central banks to move in forms of policy from one tool to another as needed by the Central Bank of any country and directing those policies towards the desired goal of moving that tool or other tools available in the fields of monetary policy .

The genesis of central banks can be traced back to the most important function performed by these institutions, which is to issue currency. Due to the seriousness of that task, banks that were authorized by governments to issue currency were nationalized. Central banks promised a government institution that monopolizes the right to issue currency. After those countries realized the danger of controlling the right to issue currency by non-governmental banking institutions, these countries began to nationalize these banks from the private sector and grant these powers to central banks, The French Bank was nationalized in 1945, and the Bank of England in 1946, after which the central banks began to break free from the private sector and make this institution a state banking institution concerned with all monetary business on behalf of the state (Awad Fadel Ismail Al-Dulaimi, 1990, p.27). There are many functions performed by the Central Bank at present, the most important of which are the following (Adib Qasim Shendi, 2010, pp. 122-12) :

- Central Bank as issuing bank.
- Central Bank (Government Bank).
- Bank of Banks.
- The central bank is responsible for monetary policy in any country.

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Central banks, by managing the monetary policy file of any country, seek to achieve a set of economic goals, including the following:

- Install the value of money.
- Specific usage level of playback.
- Determining the size of the insurance granted to the investment sectors.
- Encourage individuals to save and borrow by controlling interest rates whether nominal or real.
- And other goals that governments want to set (Adib Qasim Shendi, 2010, pp. 124-126.)

The most important aspect of monetary policy is the correlation between the high level of supply of the quantities of money, especially those intended for lending, and the improvement of the level of economic activity in any country. Naturally, interest rates will decrease with the increase in the money supply and the stability of demand for it, which leads to the encouragement of investment, which in turn leads to increased production and low unemployment rates, which are reflected in an improvement in the level of economic growth. On the other hand, the supply of money for lending has negative effects, as the increase in the money supply leads to an increase in the inflation rate, and in turn affects the minimum demanded by investors, if we know that the market value of the ordinary share is determined by relying on the current monetary value of the expected flows, through it, the high rate of return on investment due to the high inflation rate, which entails a decrease in the value of those shares (Adib Qasim Shendi, 2013, p. 164).

Secondly: The concept of unconventional monetary policies

The debate over new monetary policies raged in most countries, especially among economic thinkers in those countries about how to stimulate the economy after most large economies were hit by severe crises and waves of shrinkages traditional monetary policy was unable to find solutions to such problems that had never happened before, forcing a new form of monetary policy, and at that time it was called Non-traditional monetary policies ._Economic evidence indicates that Japan was the first country to use this type of unconventional monetary policy called a (Quantitative easing policy), and the reason is that it dealt with the explosion of deflationary pressures that followed 1990, It has been used by the Japanese authorities by influence the prices of short-term bonds thru open marketplace technique and with the aid of using shopping for securities from the banking gadget represented with the aid of using reserves of industrial banks and the crucial financial institution at everyday times. That those twists withinside the extent of reserves are simply a byproduct and doesn't the goal of the coverage itself, that is, fluctuations withinside the stage of reserves are a manner to gain the desired adjustments in interest rates in line with their preferred or deliberate extent (Michael Joyce, David Miles, 2012) . " The first written document of the word and idea of Quantitative easing coverage changed into attributed to economist Dr. Richard Werner, Professor of International Banking Operations at Southampton University School of Management (UK), who serves as Chief Economist at Jardin Fleming Securities Company in Asia and Tokyo specifically, and this expression was coined in 1994 during presentations to enterprise investors in Tokyo, an article published on May 2, 1995, in the Nihon Keizai Shinbun newspaper (NKN), in line with his author, become that the term used to propose a brand new shape of economic promoting coverage through the central bank which doesn't depend on interest rate reduction.(25/7/2017) " The list of unconventional measures used in the meantime was long and extended, there was quantitative easing or purchases of long-term government bonds, and when short-term interest rates become at zero, it was accompanied by credit easing, which was in the form of the central bank's purchase of private or semi-private assets such as mortgages, asset-backed securities, covered bonds, corporate bonds, and real estate credit funds, Even stocks through exchange-traded funds, the aim was to reduce credit differentials, especially (the difference between returns on assets and those government bonds with similar maturities), and to boost the prices of other risky assets such as stocks and real estate, either directly or indirectly.

Thirdly: The concept of quantitative easing policy:

Quantitative Easing (QE) is an unconventional monetary policy used by central banks to revitalize the national economy when traditional monetary policy becomes ineffective. Where the central bank buys financial assets to increase the amount of money predetermined in the economy of any country. This policy is characterized by the sale and purchase of financial assets in the financial portfolio for the interest rate to remain at the value of the set target" (William Poiter, 2009, p.3) .Quantitative easing may be seen as an enlargement of the central bank's balance sheet with out a intentional alternate in its composition, that is, the central bank conducts extra open marketplace operations with the intention of increasing the balances of financial institution reserves that the banking gadget must use to offer new loans and purchase extra securities to assist investment (Elizabeth the governor of Washington, 2009) . The definition of quantitative easing makes a speciality of the idea of principal banks that growth the dimensions in their stability sheets to

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growth the quantity of credit score to be had to borrowers. To gain this, the principal financial institution troubles new cash (which makes them from nothing) and makes use of them to shop for belongings from different banks. The cash received via way of means of banks can then be loaned to borrowers' belongings. The concept is that via way of means of facilitating get right of entry to to loans, interest rate on clients and agencies will borrow and spend. In theory, better spending will increase consumption, which will increase demand for for items and services, promotes activity creation, and in the long run creates financial vitality, even as this collection of occasions appears to be a easy system for a easy interpretation of a complicated subject matter which is (Quantitative easing policy) (Liwa Smith, 2012). The quantitative easing technique also can observe the credit score facility technique in this window. Central banks use open marketplace operations to shop for public securities, specifically those with lengthy periods. The term quantitative easing is implemented to the purchases of public monetary property. The credit score facility is likewise used on purchases of personal securities, These buy outcomes are anticipated first: Expanding liquidity amongst business banks and the enterprise sector, and second: Securing a speedy fall in interest rates, that is anticipated to be carried out thru the rising demand for monetary property of various forms and increases of their prices (George Hatem George, / 2015,) Quantitative easing is the large enlargement of open marketplace operations through the Central Bank, that is, it's far used to stimulate the economic system through making it simpler for companies to borrow money. Thus, the Central Bank buys securities from its member banks to insert liquidity to capital markets. This has the equal impact as growing the supply of money. In return, the Central Bank issue credit to banks' reserves to shop for securities (Kimberly Amadeo, 30/7/2017). Due to some views that go to the weakness of the Eurozone bond market and that it is not very developed and there is a limited number of high-quality government bonds. It caused to shortage of bond supply and because of the shortage of property withinside the Eurozone and confined alternatives for the European Central Bank, now no longer handiest non-financing company bonds were listed, however additionally wholesale lending and sub-class sovereign debt were recorded additionally stocks may be bought directly. Some preferred perspectives see that the ECB is probable to undertake the stimulus method taken via way of means of the Central Bank of Japan, that is, that each one property may be bought to guide the inventory marketplace and the authorities bond marketplace. It is estimated that the size of assets amounted to about (19) trillion euros after the expansion of purchase by the European Central Bank (Wi Min and editor Lee Ming) The researcher also agrees with previous views on the concept of quantitative easing, which expresses the ability of central banks to expand their balance sheet to increase the money supply by entering the financial markets and buying various types of bonds for various terms, and other types of debt or other policies necessary to growth the money supply, which ends up in decrease interest rates, which encourages investors to invest more and then raise the level of employment that leads to increased production and moves the wheel of the economy, generating a rise in economic growth levels.

Fourthly: What is the working mechanisms of the quantitative easing policy:

When governments and central banks find themselves forced to resort to non-traditional monetary instruments to stimulate economic activity because traditional monetary instruments such as lower interest rates did not play the required role and could not achieve the required success, governments start to take certain measures by resorting to non-traditional monetary policies, the most important of which is the quantitative easing process, through which seeks to expand their portfolios of securities, which is to buy a wide portfolio of assets from banks such as bad loans and high-risk loans, as well as the purchase of government treasuries, which led to their price rise and thus low yields from them. Banks only found themselves forced to return to their basic activity in lending to individuals and companies because investing in treasuries no longer works because their returns are already low (NASDAQ blog, 2017) . The goal of governments that seek to implement this policy is to achieve a set of goals. These goals are represented in four forms of development, which may be padded and not announced to the public, but they are very clear to the researcher in this field, so by tracking researchers on this subject, they will find that these goals are very clear and they may be called (four in one) (Abdullah bin Arabian):

I. Strengthening internal investment policy: By increasing the money supply and lowering interest rates for investors to increase investment.
II. Encourage and increase internal spending rates: Internal spending can be encouraged by increasing production that is originally generated by increased investment and generates higher employment rates and generates an increase in internal spending.
III. Raise valued stocks: Raise the value of shares through the intervention of the Central Bank in

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the acquisition of bad shares or other bonds through the open market trading channel.

IV. Reducing the value of exports to others: This results from the use of the quantitative easing policy, which in turn generates a decrease in the value of the local currency of each country that uses this policy, as happened in most economies of the countries that used this policy, and then the devaluation of the local currency against the rest of the foreign currencies, which generates a decrease in the value of domestic products exported abroad against a (Reduced exchange rate) resulting from following this policy.

Chapter 2 : Frameworks for the interdependence between quantitative easing and stimulating economic growth

Firstly: Statement of the impact of the link between search variables:

Quantitative easing is one of the most popular and important forms of unconventional monetary policy , as this coverage turned into first carried out to Japan because of its managing the bursting of the actual estate bubble and the deflationary pressures that accompanied it in the Nineteen Nineties specifically, unconventional economic coverage works through influencing short-term interest rate quotes via open marketplace operations, both through shopping for or promoting securities from the banking gadget after which affecting the extent of reserves held through banks withinside the gadget at ordinary times. These fluctuations withinside the extent of reserves are only a byproduct and now no longer the point of interest or purpose of the coverage itself. Volatility in reserves also are a way of attaining what's required in modifications in interest rates , Therefore, has been entered the term quantitative easing to refer to the shift in attention in the direction of concentrated on quantitative variables with close to zero interest rates , and the Bank of Japan aims to follow this policy to buy government securities from the banking sector and thus strengthen the level of cash reserves in which banks hold with the banking system. The hope was that by targeting a high level of reserves, this will eventually extend to lending in the wider economy, helping to raise asset prices and remove deflationary forces (Michael Joyce, pdf, p274 p.) Therefore, (QE) is working to increase liquidity in banks by selling assets and bonds and converting them into cash, so banks believe that any increase in liquidity (cash reserves) in theory will be more willing commercial banks to lend to customers, so this lending will be important to increase investment and consumer spending. Any decrease in interest rates and buying assets reduces the interest rate. Low-interest rates on these securities may encourage banks to lend instead of holding securities that pay low interest. Here lending should help improve economic growth, so the goal of quantitative easing is to increase bank lending. This leads to higher investment, and this should stimulate economic growth to rise, and then the movement of the economy in general (Tejvan Pettinge, ,2018) Quantitative easing also can be an powerful device to weaken the currency, making imports and primary items extra expensive (inside the country that follows that policy), growing strain at the center class, even as a few say that it's far feasible to devalue domestically produced items as compared to imported items. History has now no longer been exceptional with international countries and empires that observed this path (i.e. devaluation policy). Countries that have followed strong and stable currency policies have generally achieved much better results in terms of economic growth such as Germany and Switzerland, unlike the United States before the seventies. British MP Steve Baker noted in a latest debate withinsude the House of Commons on quantitative easing, John Maynard Keynes as soon as defined how governments can secretly and unnoticeably confiscate through inflation an important part of its citizens' wealth, While this process loses the wealth of many, but makes others rich, and the scene of this random rearrangement of wealth is not limited to security but to confidence inequity in the current distribution of wealth (John Butler, /2018).

Secondly: Interpreting the mechanism of quantitative easing working

Quantitative easing is the massive expansion of open market operations by the central bank of any country, in which it is used to stimulate the economy by facilitating the process of borrowing money by companies. The financial institution buys securities from its member banks to feature liquidity to capital markets. This business has the identical impact as growing the supply of money. In return, the financial institution issue credit score to the reserves of business banks and helps lending operations, and herein lies the query of wherein do valuable banks acquire credit score to buy those assets? They definitely locate that cash both from the country's reserves or from the introduction of new money, that is, printing the currency and pumping it into the markets through the use of quantitative easing policy, or external borrowing from a group of countries or organizations such as the International Monetary Fund, the European's central Reserve Bank or others. Through the above, the central banks of any country can find those funds that can use in the mechanism of working for quantitative easing (QE) so only centrale banks have that particular power, and that is what

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human beings discuss with while speaking approximately the Federal Reserve or printing cash. The cause of this sort of expansionary financial coverage is to lessen interest rate charges and stimulate monetary growth. Naturally, low-interest rates charges permit banks to publish greater loans, inclusive of financial institution loans, to stimulate economic for via way of means of giving businesses money to amplify their production, in addition to granting customers credit score to shop for greater items and offerings via way of means of growing the cash supply, so the QE coverage maintains the price of the country's money low and this makes the country's stocks greater appealing to overseas traders and additionally makes exports cheaper (Kimberly Amadeo /2018). Japan was the first to use quantitative easing from 2001 to 2006 and resumed in 2012 with the election of (Shinzo Abe) as Prime Minister. The United States has made a successful quantitative easing effort through the Federal Reserve and has added nearly $2 trillion to the money supply. This is the largest expansion of any economic stimulus program in history. As a result, the debt on the Fed balance sheet doubled from $2,106 trillion in November 2008 to $4,486 trillion in October 2014. The European Central Bank adopted the quantitative easing in January 2015 after seven years of austerity measures, agreed to buy 60 billion euros of euro-denominated bonds, which reduced the value of the euro and thus increased exports of goods produced within the European Union. It also increased those purchases to (80 billion euros) per month in December 2016 and announced that it would reduce its purchases on the open market to (60 billion euros) per month in April 2017 (European Central Bank, 2016).

Thirdly: When can quantitative easing be used and when can it be measured:

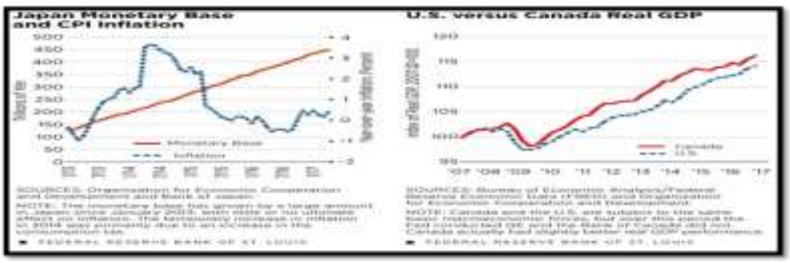
The first type of study uses data from the periods in which quantitative easing policy programs were running. Through this, a direct investigation can be conducted into the program itself , but that allows only daily data and other high-frequency data to be usable .The want for high-frequency records makes it hard to manipulate variables along with inflation and production, which might be anticipated to have an effect on bond rates. This trouble is decreased beneathneath regular instances whilst it displays the short-term interest rate set via way of means of policymakers. However, quantitative easing isn't used beneathneath regular instances however is used most effective whilst interest rate is on the minimal or close to zero and consequently not able to behave as a enough high-frequency statistical device for traits with inside the actual economy. Its incapacity to govern moves in inflation and manufacturing is a intense impediment to this sort of study. The 2d kind of econometrics look at in quantitative easing makes use of much less hesitational ancient records earlier than 2008, the usage of a more set of explanatory variables. This approach is usually studied in influencing changes in government stocks and bonds and bond rates in normal times, by increasing the response to relatively minor changes in the pre-crisis bond stock to reflect the larger movements observed during quantitative easing, or through large-scale quantitative mitigation programs. (Christopher Martin/2018).

Fourthly: Some of the Effects of Using Quantitative Easing (QE) Policies:

Quantitative easing is an unconventional monetary policy measure in a class with destiny steerage and negative nominal intereste rates. To recognize quantitative easing we first want to study how moenetary poelicy works.Traditional financial coverage issues the selection of the goal, that is the short-time period nominal hobby charge, and the way this intereste rates charge goal is primarily based totally on observations on macroeconomic performance. Officially, a few macroeconomists describe cenetrale banks adhering to the Taylor rule, which states that the nominal interest rates.

شكل (3)القاعدة النقدية في اليابان ومؤشر اسعار التضخم للمستهلك

شكل (4) الناتج المحلي الاجمالي الحقيقي لكندا والولايات المتحدة الامريكية



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goal of the primary financial institution have to increase if inflation exceeds the inflation goal set via way of means of the centrale bank (2% for the Federal Reserve) and that the nominal interest rates goal have to fall if GDP (measured by actual GDP) falls under what the economic system can afford, however there are limits to how low the short-terme nominal intereste rate or The so-referred to as powerful minimal, withinside the US this real minimal can be basically zero , however in a few different international locations the real minimal is negative , as primary banks in Sweden, Denmark, Switzerland, and the eurozone have applied bad short-term interest rates. Traditionally, the Fed's interest rate goal is the federal finances charge. Suppose the federal finances charge goal is zero however inflation is under the Federal Reserve's 2% goal and GDP is under ability If the real minimal isn't a binding constraint, the Fed will select to decrease the federal finances charge goal however cannot. The Fed confronted this sort of situation in 2008 at some point of the economic disaster and resorted to the unconventionale monetary poelicy such as a chain of quantitative easing experiments that lasted till late (Stephen D. Williamson /2014) Other centrale banks have actively participated in quantitative faciliteies since that economic disaster, a few in a extra manner than the Federal Reserve. In December 2016, the Bank of Japan had a balance sheet of 88% of GDP, Switzerland had a price range representing 115% of GDP, Swedish Central Bank had a price range representing 19% of GDP, and a financial institution had England is a price range that bills for 24% of GDP. In May 2013 the Bank of Japan (BoJ) introduced that it might pursue a 2% inflation goal, and in July 2013 a quantitative and qualitative economic easing software become introduced aiming to obtain the 2% goal inside two years, from 2013 to early 2016 the nominal interestes rate become The forecast is near zero , and has been negateive due to the since early 2016, as proven in **Figure (2)**, which indicates the extent of inflation in Japan ,As it become referred to that the economic base in Japan (a degree of the overall liabilities of the financial institution of Japan) elevated by approximately 3 instances from the start of 2013 to April 2017 ,If quantitative easing become certainly powerful in growing inflation and that it's ultimate the remaining purpose of the BOJ , then inflation is meant to have picked up in reaction to this huge quantitative easing programme , however **Figure (3)** indicates that this become now no longer the case, if we have a take a observe the Consumer Price Index (CPI) Japan's CPI virtually rose in 2014 in large part because of a 3 percent factor boom in Japan's intake tax in December 2014 which become entered at once into the CPI measurement, however from mid-2015 to July 2017 the common inflation in Japan is close of zero and definitely properly underneath the 2% goal.

Since the financial crisis, the central bank's interest rate policy has been slightly different in Canada than in the United States, but the Bank of Canada has not participated in quantitative easing over this period, while the Federal Reserve has given a promise from September 2016, With the balanece sheet of the Bank of Canada which is 5.1% of GDP in comparison to 23.6% of the Federal's GDP, Canada, and america are commonly issue to comparable monetary shocks because of their proximity to the extent of monetary improvement and comparable levels, so if quantitative easing is powerful in stimulating macroeconomic activity, we need to see a fantastic distinction in monetary overall performance withinside the United States relative to Canada because the monetary crisis. Figure (3) suggests actual GDP in Canada and america, Each country's GDP extended withinside the first quarter of 2007, and this parent suggests that there has been little distinction from 2007 to the fourth quarter of 2016 in actual GDP overall performance withinside the countries. In fact, for the primary quarters of 2007, Canada's actual GDP withinside the fourth quarter of 2016 become 2% better than actual GDP withinside the United States, reflecting an growth in the cumulative boom rate notwithstanding the supposedly much less adaptive economic policy. Hence in this two naturale experiments, there appears to be no proof that quantitative easing will increase inflation. If we look at the Japanese case or increase real GDP if we compare Canada with the US, this study is from the point of view of opponents of applying quantitative easing policy. It is difficult to assess the effects of monetary policy even in the case of traditional interest rate policy with unconventional monetary policy as the difficulty amplifies and the reason lies in the lack of economic theory and there is a small amount of data available for empirical evaluation regarding quantitative easing**.** (Stephen. D. Williamson)

Chapter 3 : Japan's experience in raising the rate of economic growth as a result of the use of quantitative easing policy

Firstly: The nature of the Japanese economy before using quantitative easing policy

In Japan and after second world war is The beginning of the economic transformation began early to rebuild lost industrial capacity. Large investments were made in electric power, coal and steel production, and petrochemical industries. By the mid-1950 production corresponded to pre-war levels, resulting in the reconstruction of the lost economy, which led to higher

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growth rates, achieving higher growth rates than previous stages. Between 1953 and 1965, GDP extended through greater than 9% annually , manufacturing, mining through 13%, construction through 11%, and infrastructure through 12%. In 1965, those sectors hired greater than 41% of the work force, as 26% remained in agriculture (Yamamura Cuzu, 1987, p2). Japan's highly acclaimed post-war education system has made a significant contribution to the process of economic development, achieved the highest literacy rate in the world, and higher education standards are among the primary motives for Japan's fulfillment in accomplishing a technologically superior economy. Japanese colleges have additionally recommended discipline, self-reliance, and creating a spirit of competition to achieve creative innovations for the development of society. most of all, instilling the spirit of patriotism in students above all to do their best to develop the homeland. The mid-1960s initiated a brand new kind of commercial improvement because the economic system opened itself to worldwide opposition in a few industries and advanced heavy and chemical industries, even as textiles and mild producers have maintained their profitability internationally, different merchandise inclusive of automobiles, electronics, ships, and device equipment received new importance, value-brought to production and mining accelerated via way of means of 17% yearly among 1965 and 1970 , growth rates fell to about 8% and fell between the industrial and service sectors between 1970-1973 such as retail, finance, real estate, information technology and other industries (Richard Katz, Japanese Phoenix, 2002, p.267). Japan confronted a extreme economice challenge withinside the mid-1970s, and the 1973 oil disaster stunned an economic system that have become depending on imported oil. Japan experienced its first decline in commercial manufacturing in this era with sharp charge inflation. The healing that accompanied the primary oil disaster revived the optimism of most commercial enterprise leaders, however keeping commercial boom withinside the face of growing power prices calls for shifts withinside the commercial structure.

Many energy-intensive industries succeeded in reducing their dependence on oil in the late 1970s and 1980s and boosted their productivity. Advances withinside the manufacture of small waves and semiconductors withinside the overdue Nineteen Seventies and Eighties brought about the emergence of recent boom industries in purchaser electronics and computer systems and expanded productiveness in formerly installed industries, The result has been increased energy efficiency in manufacturing, an expansion of knowledge-intensive industries, and an increasingly broad post-industrial economy. However, structural monetary modifications have been not able to confirm the slowdown in monetary boom because the financial system matured withinside the overdue Nineteen Seventies and Eighties, with an annual boom fee of handiest four to 6%, however those prices have been superb cheaper oil markets and in a country which has few natural resources. Japan's boom fee of 5% withinside the overdue Eighties, for example, changed into a lot better than the boom fee withinside the United States of 3.8%, regardless of the growth in oil expenses in 1979, the power of the Japanese financial system clear, and Japan skilled a slowdown in boom withinside the mid-Eighties, however in expanded call for and monetary prosperity from the stop of the Eighties revived many afflicted and lagging industries after which raised the fee of Japanese monetary boom throughout that period.

Secondly: The problem that called on Japan to use the quantitative easing policy:

Aside from the potentialities of the short-time period financial outlook, the maximum vital difficulty for the Japanese economic system lies withinside the medium-term and long-term growthe prospects . In this regard, we will enjoy the overview of the economic system during the last quarter-century. To reap this goal, we want to emphasise the subsequent 5 factors as information withinside the Japanese economy:

I. Japan's real GDP growth rate, has steadily declined, and Japan was one of the first developing countries in terms of GDP growth in the G7 countries (Developed Economy Countries) in the 1980s , as the same time as it indured to lose momentum through the 1990s, that is, growth rates have fallen unprecedentedly and without noticing the main reasons that generated this slowdown in growth and remained in this subgroup (Group of the least developed countries) in the first decade of the twenty-first century (Speech by Governor 2011 /201).

II. Japan's GDP according to capita persevered to develop at a excessive tempo in comparison to the economies of the Group of Seven (Group of Least Growing Countries) in the first decade of the twenty-first century, although this slowed significantly compared to the 1980s. GDP growth per capita in Japan, in particular, remained at the top of this group (i.e. Group II), but It changed into barely decrease than that of the United States if the growth rates if compared between Japan on the one hand and the United States on the other in that period.

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III. After the bursting of the bubble of demographic changes (i.e. the beginning of the contraction in the 1990s), the Japanese financial system took a long term to renew its growth, The extended of vulnerable economice overall performance is now referred to as the misplaced decade, The Japanese financial system resumed its growth in 2004, Incidentally, it may be visible that once the bubble burst withinside the 1990s, the decline in Japan's boom fee turned was relatively mild as compared to the declines withinside the United States and European nations after the crumble of worldwide credit score bubbles in 2007-2008

IV. A sharp contraction in the Japanese economy following the instability of monetary systems, one event became the failure of (Yamichi Securities, in 1997), and the opposite became the shock of Lehman Brothers Japan, in the latter case the contraction was more severe than the first

V. Japan faces some other sharp drop in monetary activity because of the Great East Japan Earthquake. (Speech by Governor 2011/2017)

It is diagnosed that the worldwide economic disaster that happened at the start of the ultimate decade of the ultimate century, together with the 5 data referred to above, left us no preference to how little we knew approximately macroeconomic dynamics, towards this background, the ensuing economic disaster bubble was placed on the research agenda , together with lots of discussions which have been plagued via worldwide economic crises, we want to make extra development on this context. The second issue is the monetary and social results of massive demographic adjustments consisting of populace decline and aging. The third problem is the repercussions of natural disaster on monetary activity. The 2d and 3d problems may also appear a far from monetary policy and financial system , however have their obvious influence as is thought on this regard. The decline withinside the population leads in an specific decline withinside the natural interest rate and this can result in the restrictions of economic policy via way of means of the minimal zero interest rates. Economies are consequently faltering at an early degree of the healing and withinside the wake of the 2 bubbles (Barro, Robert pp. 243-264, 2009) That is, one in Japan in 1990 and the second in the United States at the end of 2007, both GDP growth rates and inflation show similar paths in both cases. Distorted balance sheets can be detected as the main factors hindering economic recovery, while we also need to emphasize the link to low productivity growth and insufficient resource allocations resulting from disruptive credit intermediation to promote economic growth.

It is important to maintain economic metabolism by seamlessly redistributing economic resources to sectors with higher growth potential, in this regard, economists at the Bank of Japan estimated that distortion in the credit markets could fall by 3.6% in the GDP growth rate over the six years following the explosion of the bubble (mortgage crisis). (Bernanke, Ben S pp. 257-276, 1983) Further research will be needed an efftoclarify the effects of deteriorating banks' balance sheets and protracted zero interest rates on the efficiency of resource allocation. And that inflation is always and everywhere a monetary phenomenon and this is Friedman's well-known view of pumping (Friedman, Milton, Paper 33, 1970) and here a simple question can be asked that is whether the term inflation can be replaced by the term deflation. The validity of this seemingly symmetrical proposal can be explained as providing evidence of a better understanding of how the financial crisis reacts to deflation, but the issue is not as simple as it seems. This proposal revolves around ardestabilizingising financial systems that significantly shrink the stock of funds leading to deflation.

Later we can reaffirm that the sharp contraction was accompanied by financial crises. Friedman pointed out in his writings, including "Monetary History of the United States" that during 1929-1933, the balance of money contracted by 31% and the price level decreased by 25% due to the failure of the Federal Reserve to act as a lender and last resort, and that the contradiction is sharp in the US experience in 1930, which helped these lessons from history to act strongly as a lender and last resort (Keynes, John M., pp. 13-17, 1937) As a result of which the cash stock contraction was narrowed and the price level decreased by only 0.5% per year maximum. It should be noted that since 1998 the price level has not decreased to less than 3%, which is very different from the US experience in the year 1930. On the opposite hand, if the thought is interpreted in the sort of manner that centrale banks can improve costs at will via way of means of flooding the economy system with the monetary base, the thought is at the least incompatible with current reports in Japan, in addition to the United States. In Japan among 1997 and 2010, the economic base rose via way of 90%, while as economic shares rose via way of 30%, the American revel in among 2008 and 2010 truly indicates that the economic base rose via way of 140%, while as cash rose via way of 10%, and although the monetary base reduced the level of consumer prices in Japan by 3.7% percent over the thirteen years by the end of the year

2010, U.S. patron rate base inflation has fallen with more than one point in spite of the growth withinside the financial base, so summarising massive will increase withinside the financial base have now no longer caused a tremendous growth in cash inventory or inflation let alone relative will increases , so economic system will offer a key to better know the proposal (Nakakuki, Masayuki, pp. 71-99, 2004).

Thirdly: How policymakers dealt with Japan's economic downturn

It is very important to meet the challenges posed by policymakers to strengthen Japan's economy, provide financial and monetary support to the economy and develop a comprehensive framework to address banking problems. To deal with the instsnt problems caused via way of means of the present economic downturn, can be agreed upon in the visions two basic needs (Remarks by Michel Camdessus, 18, May 1999)

I. The fiscal side should take measures to implement and sustain fiscal stimulus until private demand recovers and returns to normal, and on the monetary side to maintain a very broad political position through the use of quantitative easing policies adopted by Japan's central bank during the downturn.

II. By preserving abreast and fixing the issues of the banking sector and primarily based totally at the tangible development already made via the use of (QE), that is the important thing withinside the firm implementation of the policy path already in place, and moving forward with steps to fully calculate the existing loans and problems and restore profitability and banking work well helps to support the Japanese economy to achieve rates of economic growth. Policymakers in Japan have identified the need to aggressively advance Structural reform to growth the power of the economy and lay the muse for lasting recovery, The Big Bang of financial sector reform has made massive development for the duration of this period, Some businesses have lately introduced wonderful restructuring plans, These efforts might be supported increased through transferring ahead with different reforms which have been located at the agenda, Such as:

1. Reform bankruptcy law to facilitate more rapid arrangements for corporate debt.
2. Enter reforms on the tax system to encourage reduced overcapacity and increased labor mobility.
3. Other measures to improve corporate governance.

Japan's policymakers are absolutely conscious when trying to looking to future Japan can not get away the truth of an growing aging population. Once the restoration is nicely established, the Japanese government will ultimately be able to return fiscal consolidation program and go back to Japan's instinctive choice for prudent monetary policy. To facilitate this consolidation whilst the time comes, it is going to be right move to transport ahead without delay to put a few present constructing blocks. These efforts can concentration on reforming socialtr protection and pension systems, strengthening task choice and implementation tactics for public investment, and restructuring public administration. By managing those problems, a few issues will get up to be able to be unique in Japan, however others could have a clean resonance in different societies dealing with the equal problems of demographic change, but it will be in a slightly longer time frame. Many people are looking for the reality of the solutions reached by Japanese thinkers to test and integrate them with the reality experienced by other countries, and can these solutions be effective solutions to change the Japanese economy, Can these countries benefit from Japan's experience in using quantitative easing policy and its impact to revive economies that are being Contractions by financial and monetary problems and the effects of the globalization of the world and make it a small village where the other can be easily contacted?

Fourthly: Some monetary measures are taken by the BOJ:-

At the monetary policy meetings held by the Central Bank of Japan, the Bank of Japan approved the following measures to ensure smooth corporate financing. Overall results and deliberations and thorough follow-up to the discussion reports in the Ministry of Planning and Economy show that :

I. Accept a wide range of loans on securities as eligible collaterals.

II. Acceptance of loans on securities whose original maturity exceeds more than five years and up to ten years as eligible collaterals.

III. Raise the implied value ratios of loans on bonds with an original maturity of third years and less.

IV. Meeting ABCP standards as qualifying guarantees and effective exceptional and temporary measures through the end of March 2005, through offering markets with enough funds, the bank gets rid of worries approximately liquidity financing, which contributes to the advent of an permitting surroundings for economic establishments to offer loans. In addition, the bank performs its position in securing easy financing for organizations through accepting company debt as qualified guarantees and accomplishing marketplace operations to buy business securities Under the repurchase agreement,

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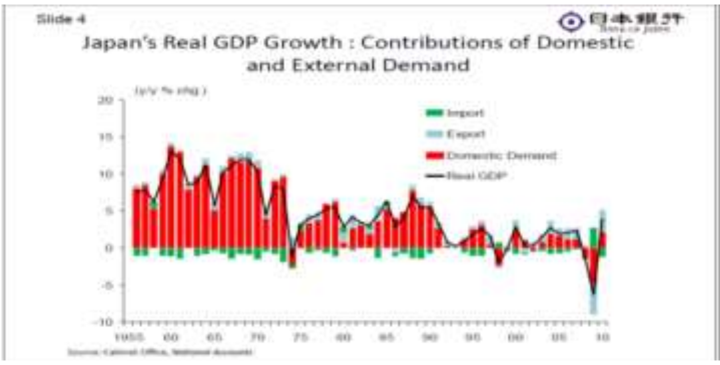
The financial institution expects those choices to facilitate refinancing (ABCP) and company loans to businesses, facilitating easy company finance in addition to the improvement of the (ABCP) marketplace, The bank additionally expects to check diverse institutional frameworks to promote the improvement of secured product markets such as (ABCP) and asset-sponsored securities, The bank will maintain to carefully reveal traits in company finance, together with the effect of acceleration the disposal of non-performing loans, **Figure (8)** shows the plans for Japan's economic growth in the coming period as shown in **Figure (8)** which shows the ability of the Japanese economy and the available possibilities provided by policymakers to access them and then to find out the developments that may arise as a result of the facts presented and the statistics available in order to develop acceptable solutions that address these problems.

Figure (8) US economic growth rate and domestic demand during the period (1955-2010)



Source: Remarks at the Bank of Finland, 200th Anniversary Conference, The Transition from High Growth to Stable Growth: Japan' Experience and Implications for Emerging Economies, Bank of Japan, M a y, 5 , 2 0 1 1.

THE CONCLUSIONS:

1. Controversy over new monetary policies raged in most countries, especially among economic thinkers in those countries about how to stimulate the economy. After most large economies were hit by severe crises and waves of shrinkage. Traditional monetary policy was unable to find solutions to such problems that had never happened before, forcing a new form of monetary policy, and at the time it was called unconventional.
2. Economic growth is the increase in goods and services produced by an economy, which is also an increase in growth over a long period, measured as a percentage of the increase in real GDP, which expresses GDP adjusted by inflation. GDP is the marketplace fee of all very last items and offerings produced in a particular economy.
3. The purpose of this type of expansionary monetary policy is to reduce interest rates and stimulate economic growth, and naturally, low-interest rates allow banks to provide more loans, including bank loans, to stimulate demand by giving companies money to expand their production, in addition to granting customers credit score to shop for extra items and offerings via way of means of growing the cash supply. So the QE coverage keep the fee of the country's low and this makes the country's shares extra appealing to overseas traders and additionally makes exports cheaper.
4. The central bank of Japan put a set of solutions and based on the three pillars, The government prepared a list of public policy about 40 items, and in November 2002 set a timetable for the implementation of that program, and the schedule for the implementation of the plan for each item (a total of 40 items) derived from the three pillars, to achieve high growth rates.
5. The use of indirect monetary policies, whether it is quantitative easing or other policies applied in various countries of the world to promote and raise economic growth rates, shows that they are different policies from one country to another depending on the strength of the economy in that country, according to the strength of the crisis to which that country was exposed, and the type of tools through which these crises can be addressed, And other things on which the economic downturns that occur in most economies of the world depend as a result of the many and large problems that can move from one country to another easily and easily

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as a result of the multiplicity of financial and economic tools available in developed countries, through which they can control those tools and then reach a program to dismantle those crises, bring those economies to safety and be able to raise the rate of economic growth and return to the normal economic situation that prevails stability.

THE RECOMMENDATIONS:

1. New policies must be pursued to raise the rate of economic growth to stimulate economic activities in various fields that can be used to increase production and improve its quality, reduce the prices of products domestically and reach external competition with foreign products with neighboring countries and close to us, Achieving a level of competition based on solid scientific foundations and assets of raw materials and energy. Iraq is one of the richest countries in these natural assets and capabilities provided by God Almighty to serve the people of this country, but the failure to manage these assets well led to a waste of those natural resources through long stages of Iraq's history.
2. Work under its current rentier conditions is in need of an economic role to the state facilitates purchasing and integrating with private activity, through intellectual and economic arrangements that represent a return to the new economic marginality and the promotion of the ideologies of market-creating activities or the so-called freedom advocates of joint venture activity - consisting of state ownership and individual ownership together, In order to form a partnership between the overt sector , and the private sector in order to sustain and develop production, especially the industrial and agricultural establishment, the management of these facilities by the private sector and their support by the state various possibilities, whether at the level of legislation, providing subsidies or loans until this establishment is able to stand on its feet and its ability to sustain production and follow up its work alone and compete with imported products for its share of markets, And then leave it within the free economy system.
3. The rise in oil prices and the consequent increase in the supply of the quantities of foreign currency is one of the most prominent known reasons for the increase and rise in the real exchange rate of the local currency, which generates the decline in industrial exports and thus the decrease in the production of traded goods. Among how it can confront the decline in traded goods below the required level is to take efficient measures and necessary measures to reduce the real exchange rate of the national currency. These policies may succeed in preventing the decline of commodity production, developing the industrial base, and developing
4. Urge applied and modern studies that emphasize the close relationship linking high growth rates with the modernity and development of capital markets in any country. It can also be stressed that capital markets and their degree of development drive growth and economic development by performing many functions such as mobilizing savings raising the rate of investment productivity and increasing the volume of those investments by mobilizing national savings and directing them towards investment areas to achieve the national economy and increase the well-being of citizens.

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