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**Non-conventional, non-mainstream, and non-state**  
 ~Issues listed at the start of a new fiscal year~

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The first three months of the year have quickly fled and in Japan a new fiscal year has started. During the period, there was an array of turmoil in the political, economic and financial fronts domestically and globally. Their backdrops may be summarized in the three phenomena represented by non-conventional policies (monetary policies taken by major central banks), non-mainstream power (emergence of anti-establishment forces as symbolized by Mr. Trump fever) and non-state control of the world (ISIS as a bad case and innovation that has a global impact as a good case).

What can be said for sure as a result of unconventional monetary policies and their exit strategies that major central banks have been struggling with is that the high volatility of the market has become “as usual”. From this year the frequency of policy meetings of the three major central banks in Japan, the US and Europe has coincided with 8 times a year and timing for the meeting will be generally concentrated in more or less a week’s span. Thus a picture is taking hold that “the event week of the three major central bank meetings” will attract the greatest attention of the market 8 times a year, each time becoming an epicenter of high volatility in the market.

In the political world, it has become prevalent that non mainstream forces threaten the established values, as is symbolized by the Trump fever. The cases that new populist forces gain power by gathering critical votes against the current regime are not limited to the US but they are often seen in other places including Europe where the countries were forced to take significant budget tightening measures at a time of debt crisis. In the advanced countries a sense of stagnation has prevailed accompanied by the smaller and smaller share of the pie to be obtained. Political instability brought by the emergence of non-mainstream forces thus has become more than a temporary phenomenon.

A key word of non state relates to both of good and bad cases. Following the incident in Paris last November, Brussels, the de fact capital of the EU, was assaulted by another simultaneous multiple terrorist attacks in March of this year by non state extremist organization, pushing Europe into a kind wartime on high alert, only to add to a pile of issues it already has.

On the other hand, rapid progress of technical innovation is remarkable and its global impacts are enormous. For instance, the technical innovation in excavation of shale oil has been one of the backdrops for an upset of prolonged lower oil prices. The present challenge that most resource-dependent countries are facing with is also a result of the fact that the old business model has not caught up with the technical innovation (that is, a limitation of growth model that is based on high resource prices).

In this sense, China cannot be directly classified in these phenomena represented by a word with non. Although a phrase of “New Normal” is used in China, its present challenge is how to make a smooth shift of paradigm from high growth economy to stable growth economy based on the economic development theory. Active promotion of structural reforms indicates that China is in the middle of making efforts to break the barrier of so-called “middle income trap”. The policy responses have been established at the initiative of the Communist Party that still maintains a strong capability for leadership and actually a classic choice of expansion of budget expenditures was just endorsed at the People’s National Congress session recently held. Needless to say, China’s smooth shift to New Normal is the most crucial theme to the world economy. However, the arguments as if China has all the responsibilities for the current global difficulties show undeniably an attitude of a reliance on the others and buck-passing.

Of these three nons, what is most crucial to Japan will be the sense of an impasse on the non-traditional monetary policy taken by the central bank. Roughly speaking, it seems to be derived from the mismatch between purpose and means. Its effort itself is multiplying problems by introducing a price target of 2% that has been traditionally set as a global standard while trying forcibly to achieve the target in an unusually limited time span of two years. Needless to reiterate, exit from deflation cannot be achieved by monetary policy only. The main cause that the advanced countries are suffering from the three non-bearing situations is so to speak a structural constraint that old systems and tools have failed to function. The fact that the world has been surrounded by the phenomena which cannot be explained without adding a word non is a testament that the current systems and tools have lost their effectiveness and serves as a wake-up call for “accelerated structural reforms”. It is not only China that is needed a paradigm shift but many other countries also have been forced to make some sort of regime change.

Although the negative interest policy (NIRP) of the Bank of Japan has gotten a poor reputation, some positive aspects may come up when it is viewed as a mechanism that will trigger a paradigm shift. Some economists like Mr. Haldane, Chief economist of the Bank of England, and Mr. Buitert, former MPC member of the BOE, are advocating an introduction of digital currencies like bit coin, arguing that pursuit of NIRP will end up with the cashless world through abolishment of cash currency and replacement by digital money. NIRP may bring a chance to the financial business, which for long has had few occasions directly connected to a technological innovation, to accelerate the development of fintech that may offer alternatives to traditional loan business and settlement systems. Incidentally, the European financial institutions with advanced

experience in NIRP are reported to be eagerly promoting the development of fintech in order to cut the costs. For instance, Santander InnoVentures, an affiliate of Bank Santander, analyzes in its report titled “The Fintech 2.0” that the blockchain technology will enable the banking sector to reduce its infrastructure costs by \$15-20 billion annually from now to 2022. Also as a symbolic development in a series of such movements, comments by Mr. González, Chairman of the BBVA, that the future of the financial institutions can be seen in such software companies as Apple, Samsung, Google and Amazon rather than in banks themselves have attracted public attention (on the occasion of Mobile World Congress held in March 2015)

The fiscal year 2016 will be a crucial point, if not the third time luck, to monetary policy, the first arrow of Abenomics to see whether it will lose credibility as a broken arrow after three years’ experience or be eventually appreciated as a mechanism that has triggered a paradigm shift.