


## Flash Economics

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### It has to be recognised that none of the predicted disasters has occurred in Japan

Caution is called for when predicting financial crises, as the experience of Japan shows that financial crises that seem inevitable may not occur:

- The surge in debt ratios has not led to a debt crisis in Japan;
- The fact that interest rates remain zero no longer generates asset price bubbles;
- The massive increase in the size of the central bank's balance sheet has not led to a currency crisis;
- The fact that inflation on average has been negative has not led to a disaster in terms of growth.

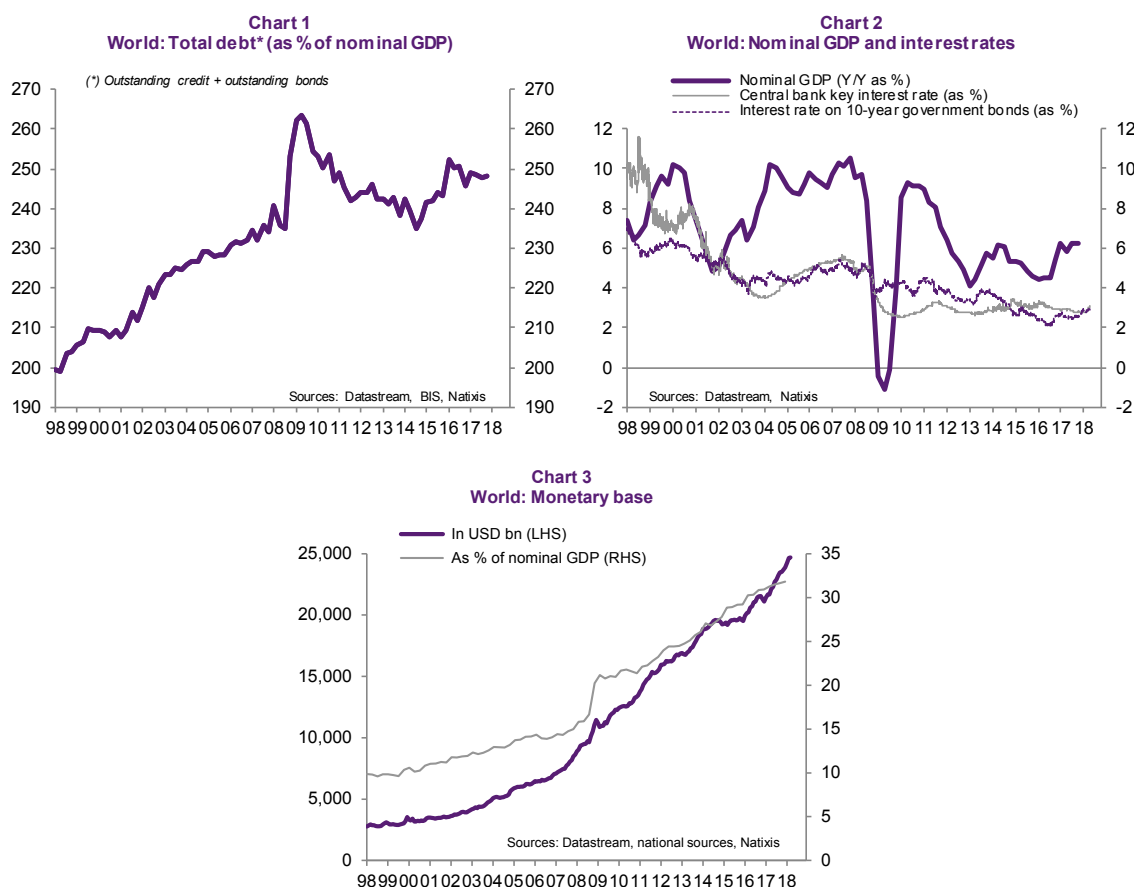
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## There is now concern that another financial crisis will break out

Many analysts are now concerned that another financial crisis will break out, triggered by (we look at the global situation):

- **The rise in debt ratios (Chart 1);**
- **The abnormally low interest rates (Chart 2),** which could lead to asset price bubbles;
- **The surge in the monetary base** (the size of central banks' balance sheet, **Chart 3**).



So it is tempting to believe that there will be a debt crisis and asset price bubbles, a "flight from money" as a result of the excessive money creation.

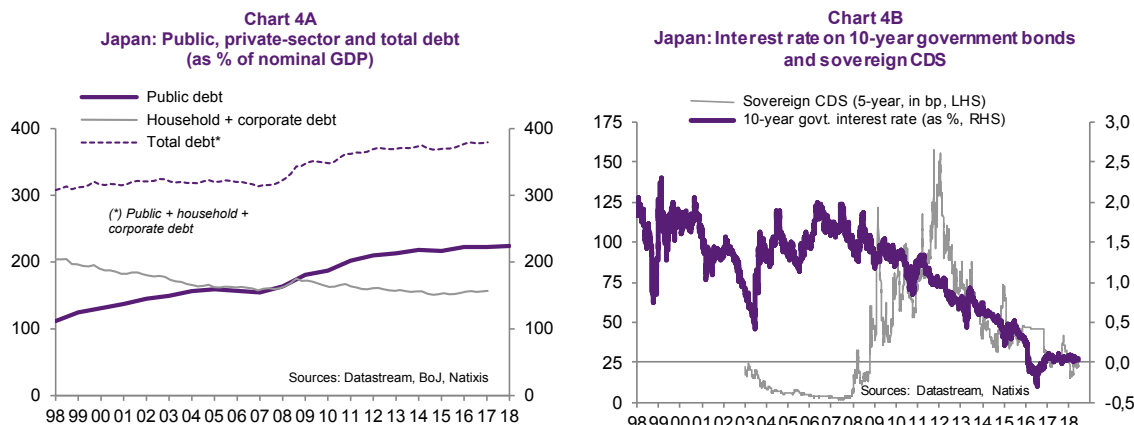
**But the example of Japan may lead to a revision of these views.**

## Crises that seem inevitable have not (yet) occurred in Japan

### 1- The surge in debt ratios in Japan has not triggered a debt crisis

The public debt ratio and the total debt ratio continue to grow in Japan (Chart 4A).

Yet, no debt crisis has appeared there, as shown by the low level of long-term interest rates and sovereign CDS (Chart 4B).



### 2- The persistently low (zero) interest rates in Japan no longer trigger asset price bubbles

In the second half of the 1980s, Japan experienced bubbles both in equities and real estate prices, which burst in the early 1990s (Chart 5A).

But the very low interest rates since the banking crisis in the late 1990s (Chart 5B) have not given rise to a noticeable asset price bubble (Charts 5A and C).

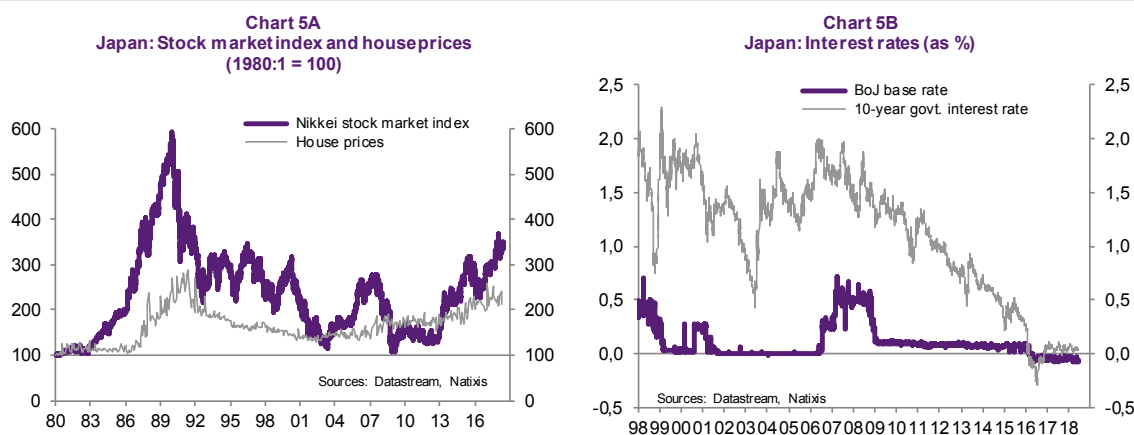
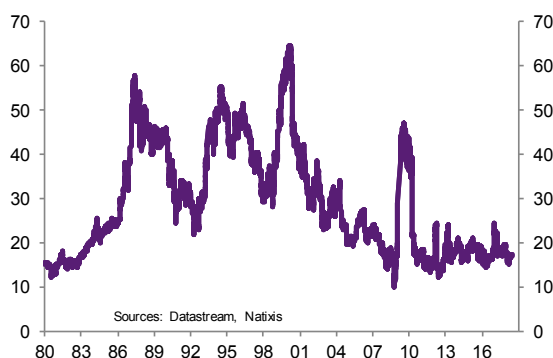


Chart 5C  
Japan: Forward PER



**3- The massive increase in the size of the central bank's balance sheet has not led to a currency crisis**

The size of the Bank of Japan's balance sheet has increased considerably (Chart 6A).

When money creation is too strong, there is concern that economic agents may "flee" the country's currency and transfer their savings to foreign currencies, resulting in a currency crisis with a steep depreciation of the country's exchange rate.

Chart 6B shows that this has not been the case with Japan.

Chart 6A  
Japan: Monetary base (as % of nominal GDP)

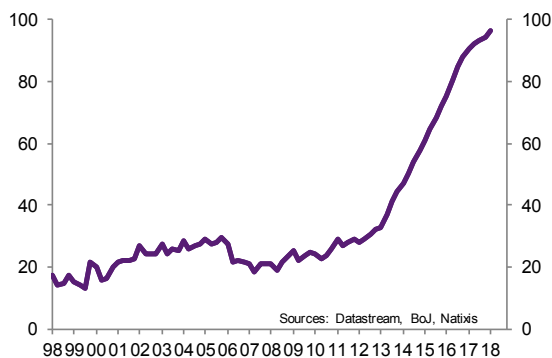
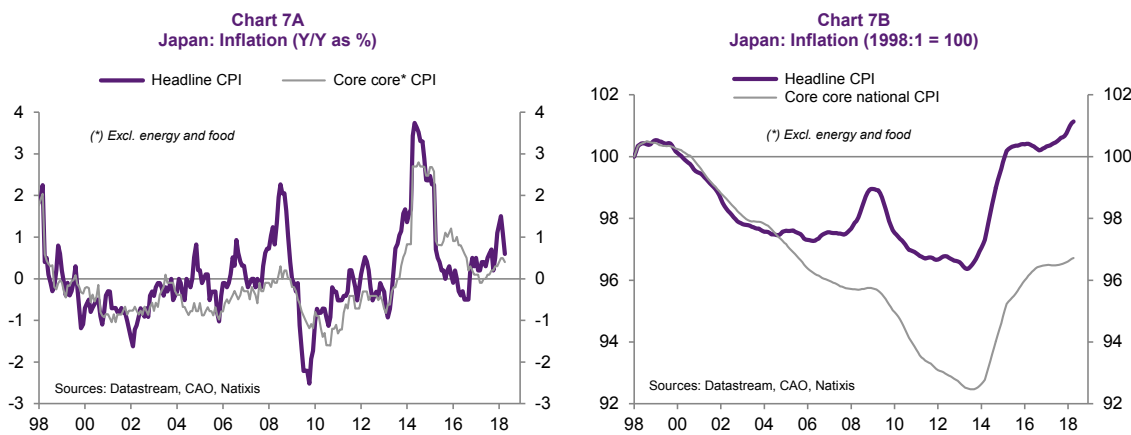


Chart 6B  
Japan: Yen/dollar exchange rate (USD 1 = JPY...)



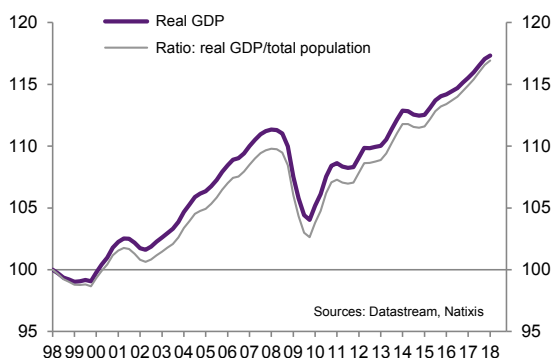
**4- The negative inflation has not led to a disaster in terms of growth**

Inflation in Japan has been zero on average (Charts 7A and B).



Growth is normally expected to be very low in such a context of deflation. **Chart 7C** shows that in reality, per capita growth has been 1.2% per year, which is decent.

**Chart 7C**  
Japan: Real GDP and population (1998:1 = 100)



**Conclusion: The example of Japan teaches us to be cautious before announcing that a financial crisis is going to break out**

High debt, abnormally low interest rates and rapid liquidity growth often lead to announcements that a global financial crisis is about to break out.

But the example of Japan teaches us to be cautious:

- The very high debt ratio has not triggered a debt crisis;
- The very low interest rates have not given rise to asset price bubbles;
- The very rapid liquidity growth has not triggered a currency crisis;
- The negative inflation has not led to a permanent recession.

These crises will perhaps break out in the future, but the example of Japan shows that there is no automaticity in this.

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