



International Monetary and Financial Committee

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**IMFC Statement by the Honorable Taro Aso
Deputy Prime Minister of Japan and
Governor of the IMF for Japan**

On behalf of Japan

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Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Thirty-Second Meeting of the International Monetary and Financial Committee
(Lima, Peru, October 9, 2015)**

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The Global Economy

The global economic recovery remains moderate, while downside risks still exist mainly in emerging and commodity-exporting economies. In emerging economies, there is limitation for further accommodative monetary policies due to depreciating pressure on their currencies, while room for fiscal expansion is also small in some economies, thus limiting policy options for stimulating demand. In addition, amid concerns over the slowdown in China's economy and uncertainty of macroeconomic policies in advanced economies, volatility in financial markets is increasing. Under such economic circumstances, well-calibrated policy management as well as smoother communication with market participants is essential in order to mitigate uncertainty and enhance transparency.

Revitalization of the Japanese Economy

The Japanese economy remains on a moderate recovery path, with an improving trend in employment and income situation, and the picking up of private demands including business investment. After two consecutive quarters of positive growth for 2014 Q4 and 2015 Q1, the estimate of the quarter-to-quarter growth rate for 2015 Q2 was minus 1.2 % on an annual basis. Primary reasons for this negative figure include a lagged adverse impact of the slowing global growth around the beginning of this year on our economy and tepid domestic demand due to bad weather such as heavy rains, both of which are believed to be short-lived. Hence, the Japanese economy is expected to recover moderately in the coming quarters.

Regarding the outlook of the Japanese economy, it is expected that an increasing number of non-regular workers will continue turning to regular ones, along with the tightening of the labor market, while the household consumption will recover gradually supported by the improvement in the income environment given the significantly positive result of the Spring wage negotiation. Furthermore, we project a gradual increase in capital investment with the corporate earnings at their highest level in 2015 Q2. These factors will help achieve a gradual recovery of the Japanese economy. On the basis of a FY2014 survey, Japanese corporations are holding massive retained earnings amounting to 354 trillion yen, which is 8% higher than the previous year and equivalent to 72.2% of GDP. It is important to encourage corporates to put their positive profits into dividends, wages, and capital investment. The government is determined to implement macroeconomic policies vigorously to ensure that these trends will lead to a virtuous economic cycle.

Thanks to the three arrows of Abenomics, employment and income environment has improved, and we are only a step away from overcoming the deflation. However, Japan still need to overcome long-standing structural challenges of low fertility and population ageing. Hence we have set up new three arrows comprising: (i) resilient economy aiming at 600 trillion yen of nominal GDP; (ii) childcare support to increase the birth rate to 1.8; and (iii) social security system to make it unnecessary for anyone to quit their jobs for the purpose of long-term care of one's family members. The original three arrows represented methods of economic policies, while the new three arrows represent specific goals of economic policies. We will continue to conduct our economic and fiscal policies to achieve these policy goals.

In order to achieve strong, sustainable and balanced growth, it is essential to increase capital stock, maintain a stable labor supply, and raise productivity through innovation. In the growth strategy that was revised at the end of June, one of the top priorities is to enhance labor productivity through pro-active investment, in view of the declining working age population. More specifically, Japan is now strengthening its corporate governance in order to promote pro-active business investment, through the Corporate Governance Code and the Stewardship Code. By strengthening corporate governance, it is envisaged that more profits will be channeled to capital investment, innovation and human resource development, paving the way for enhancement of profitability. As for labor supply, in order to overcome labor supply bottleneck and boost labor productivity, the Japanese government is committed to encourage more female and foreign labor participation. For example, the Diet passed a bill to promote empowerment of women, while the Japanese government is supporting women in achieving a balance between work and childcare. The number of female senior corporate executives is increasing. Furthermore, as far as bedrock regulations are concerned, relevant bills to turn agriculture into growth industries was approved in this August, and reform efforts in other areas, such as healthcare and employment, are also underway. Through these efforts, the Japanese government is strongly pushing for enhancement of productivity.

Turning to the fiscal situation, Japan is facing serious challenges, with its outstanding stock of public debt exceeding 200% of GDP. Therefore, we need to make a steady progress toward fiscal consolidation. Against this backdrop, the Japanese government released the annual "Basic Principles for Economic and Fiscal Management and Structural Reform" in this June, in which we adhere to the target of achieving primary surplus in FY2020. As a mid-term benchmark of our reform efforts, we aim to bring the primary deficit down to 1% of GDP in FY2018 by maintaining the past three-year trend of growth in general policy expenses until the same fiscal year. At the same time, the government stands ready to take additional expenditure and revenue measures, if needed, thereby making the fiscal plan more resilient to changes in the economic environment. Through these efforts, Japan is committed to achieve both economic revitalization and fiscal consolidation, which will help attain the target of achieving primary surplus.

Quantitative and qualitative monetary easing (QQE) has been exerting its intended effects, and the Bank of Japan will continue QQE, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.

II. EXPECTATIONS FOR THE IMF

Strengthening the International Financial System

As we face a host of challenges in international finance arena, the role of the IMF has increasingly expanded. We need to closely monitor the global financial conditions, including economic outlook of emerging economies and effects of monetary policy normalization in the United States, and continue our efforts to address various challenges regarding the international financial system. Heightened volatility in the recent financial market, stemming from the Shanghai stock market, along with a drop in commodity prices, could lead to a rapid deterioration of market risk sentiments. Amid concerns over the reversal of capital flows brought into emerging economies by accommodative monetary policies globally, correlation of global asset prices is now being heightened. Against this backdrop, individual approach where each country cares about its own business will not be sufficient. Rather, strengthening safety nets for global financial stability will become an ever more important task. As global safety nets are also referenced in the latest Global Policy Agenda (GPA), Japan expects the IMF's initiative in this regard and will actively participate in ongoing discussions.

Strengthening the IMF's financial resources is a precondition for IMF to be fully prepared for crisis prevention and resolution. In this regard, the ratification of the 2010 reforms remains our highest priority, with a view to maintaining and augmenting its legitimacy, effectiveness, and credibility. The 2010 Reforms are the one and only existing package that was agreed by all member countries, and its realization is critical. However, given the delay in activating the 2010 reforms, we are obliged to discuss the "interim solution" on earnest. Japan firmly believes that, in order to obtain broad support from the membership to concrete options of the "interim solution", it is critical that the quota shares of members under the "interim solution" fall within the vicinity of the final results of the 2010 Reforms.

Whenever challenging situations emerged in the global financial market, for instance during the global financial crisis and the European debt crisis, crisis prevention and resolution mechanisms were conceived under the IMF initiative. We highly appreciate the IMF's efforts in stabilizing the global financial system, and will continue to participate in exploring a better mechanism for the global financial stability. After the global financial crisis, Japan took a lead by setting the credit line for the IMF worth of 100 billion dollar. We have also taken the leadership in strengthening flexible and swift financial resources by the NAB and the bilateral loan agreement, as showcased by our recent consent to the NAB activation and the extension of our bilateral loan agreement. Turning back to the issue of quota reforms, we strongly believe that the IMF will duly assess Japan's effort to date and special attention will be paid to our opinion concerning the "interim solution".

In addition, this year the IMF will conduct its quinquennial review of the Special Drawing Rights (SDRs). While we need to wait for technical assessment by the IMF based on objective data before deciding on inclusion of a new currency in the SDR basket, we expect discussions to rest on principles well-established in past discussions.

Support for Low-Income Developing Countries and Financing for Development

While downside risks persist in the outlook of global economy, IMF plays an important role in supporting vulnerable low-income countries. Japan welcomes a number of commitments in the Third International Conference on Financing for Development, including 50% expansion of access for the concessional facility, as effective efforts to support sustainable growth in low-income countries in a stable manner.

For developing countries to achieve sustainable development, they need to enhance capacity to address risks that are difficult to be self-managed, such as epidemics and natural disasters. As health management and responses to natural disasters and pandemics attract much attention in recent years, how to build a global health system, both in peacetime and emergency, is actively discussed in the World Health Organization, the World Bank, and the United Nations. In this respect, Japan strongly supports the establishment of the Catastrophe Containment and Relief Trust (CCR) in this February, with a mandate to assist West African economies that were severely affected by the Ebola virus and strengthen the support system in case of future emergency situations in the global health area.

This year marks the turning point for the international community in dealing with issues on a global scale, such as poverty, inequality, and climate change. Towards the achievement of the 2030 Agenda for Sustainable Development which was recently adopted, Japan calls on the IMF to combine provision of loans, surveillance, and technical and assistance, thereby contributing to solution of various policy issues including, among others, (i) increasing tax revenue through reinforcement of governance and capacity in tax administration and (ii) mobilizing private resources through improvement in investment environment. In this context, we request IMF to (i) develop diagnostic tools that can be used to understand country specific situations and needs as objectively as possible; (ii) cooperate with other institutions which have comparative advantages in different areas; and (iii) properly monitor the outcomes of assistance, with emphasis on dialogues to encourage developing countries to take political ownership. Japan stands ready to continue to provide active contributions in terms of knowledge, human resources, and funding, so that IMF can strengthen its technical assistance focusing on these approaches and collaborate more closely with other relevant institutions.