



International Monetary and Financial Committee

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**IMFC Statement by Taro Aso
Deputy Prime Minister
Japan**

On behalf of Japan

**Statement by the Honorable Taro Aso
Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Thirty-Sixth Meeting of the International Monetary and Financial Committee
(Washington, D.C., October 14, 2017)**

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

Global Economy

We welcome the continued moderate recovery of the global economy and a firming of its near-term outlook. While being lower than historical average, the outlook has been revised upwards in many of both advanced countries and emerging market and developing economies (EMDEs). Investment, trade, and employment continue to expand. However, wage growth has been subdued in advanced countries, despite strong corporate earnings and low unemployment rates below or equal to the level before the Global Financial Crisis. This poses a serious conundrum for policy-makers. Furthermore, risks still remain skewed toward the downside, particularly in the medium term. Financial vulnerabilities have continued to build up, including excess credit and an increase of foreign currency denominated debt in some EMDEs. Those countries with accumulated financial vulnerabilities could become the weak link in the global financial markets and most susceptible to spillovers from monetary policy normalization of some advanced economies. We should pay close attention to these spillover risks. Moreover, low interest rates and low market volatility in financial markets seem to be an underlying factor at play for a sustained increase in asset valuation in capital markets, mainly in advanced economies. In this regard, we should avoid complacency and be vigilant of market developments, because there is the possibility that the current financial environment may change rapidly.

In addition, non-traditional risks such as geopolitical risks and cyber-terrorism are also sources of uncertainty. In particular, North Korea is the most significant geopolitical risk to the global economy at this juncture. Against this backdrop, market stability is especially important. We should reaffirm that excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. From the viewpoint of strong and sustainable growth and investment, we also stress the importance of stability of exchange rates, reflecting underlying fundamentals and founded on sound policies and international monetary system.

The current global economic upswing gives a window of opportunity for us to address medium-term downside risks and raise potential growth by tackling important policy challenges faced by each country. Avoiding complacency with the cyclical recovery and myopic focus on short-term GDP growth, we should work hard toward achieving sustainable and inclusive growth. At the same time, while this growth goal is common among all countries, the economic situation and available policy space vary across countries. Therefore, our commitment to use all policy tools—monetary, fiscal and structural – individually and collectively, remains important.

Revitalization of the Japanese Economy

Japan's economic fundamentals are solid as Abenomics has made steady progress. Real GDP has been growing above its potential for six consecutive quarters. Wage growth has been at the highest level in this century for the past four years. The job-to-applicant ratio is the highest in almost 50 years. Going forward, supported by favorable corporate earnings and tight labor markets, it is important to strengthen the virtuous circle in the economy, which will lead to steady growth in consumption and investment. To achieve such a virtuous circle, sustained and stable wage increases are crucial.

In addition, to make the current recovery and growth of Japanese economy more sustainable, we are resolved to press forward structural reforms and overcome Japan's greatest challenge—population aging and declining birthrates. Among other things, we have been advancing a “work-style reform” as a key agenda of structural reforms, which aims to promote the labor participation of women and the elderly and raise labor productivity.

Going forward, we will further enhance Japan's economic potential through taking new, revolutionary approaches. We will promote harnessing cutting-edge technologies such as artificial intelligence, Internet of Things, and robotics to raise productivity across all industries and sectors. Moreover, thinking ahead of a society in which many people live one hundred years, we are keenly aware of the need to ensure that the labor force has the adequate skills for future jobs. We will therefore upgrade our investment in human capital, including through reducing the financial burden related to early childhood as well as advanced education, and championing recurrent and life-long education. With a view to achieving sustainable and inclusive growth, the government will accelerate Abenomics by all policy tools—monetary, fiscal, and structural—in cooperation with the Bank of Japan.

II. EXPECTATIONS FOR THE IMF

Twenty years have passed since the financial crisis that spread around the Asian region from the summer of 1997. Since then, we have witnessed a variety of developments in the global economy and financial markets, including the Global Financial Crisis of 2008-09. Japan highly values the efforts made to date by the IMF, based on the lessons learned from the experience with the Asian Financial Crisis, to strengthen its surveillance/policy advice and financial assistance, which have enabled to fulfill a central role in the international monetary system. As a good example, we welcome the IMF for playing a pivotal role in the recent formulation of a large-scale international financing package for Mongolia in May this year. Japan has consistently supported these efforts and has extended assistance to IMF activities, including through support to strengthen its financial resources. Moreover, we commend the IMF's Regional Office for Asia and the Pacific, which was established amid the Asian Financial Crisis and celebrates its 20th anniversary this year, for having contributed greatly to monitoring of the regional economy and financial markets, and capacity development activities in the region.

As a host of challenges in the global economy and financial markets continue to linger, it remains essential to strengthen the international financial architecture that takes a leading role in crisis prevention and response. Towards the stability of the global economy and financial

markets, we expect the IMF to continue its active contribution to surveillance, the global financial safety net (GFSN), support for low-income countries and capacity development.

Surveillance

IMF surveillance is of critical importance for preventing crises to the extent possible and enabling the wider range of the population to reap the benefits of stable global growth. Although the IMF's long-standing engagements in enhancing surveillance function are highly valued, we encourage the IMF to do further work on the following three areas:

First, given that spillovers to emerging market economies from monetary policy normalization in advanced economies is a downside risk, it remains a priority to respond to volatility of cross-border capital flows. Japan supports “the Institutional View” on capital flows and welcomes the progress so far regarding capital flow management measures, including on the review of experience with the Institutional View and conceptual framework in relation to macro-prudential measures. We also welcome plans by the Fund to continue its work for effective and consistent implementation of the Institutional View. Building on this progress, we continue to call on the Fund to develop more granular and practical guidance in order to ensure consistent and appropriate application of the Institutional View.

Second, we expect the IMF to provide appropriate policy advice tailored to country-specific circumstances in response to emerging policy challenges that each economy faces. Anxiety and dissatisfaction against job losses and widening income inequality seem to be an underlying reason for the recent rise of protectionist movements and inward-looking policies in many countries. Under such circumstances, an important challenge for the current global economy is to achieve inclusive growth while, at the same time, raising productivity through structural measures such as labor market reforms. Furthermore, maintaining sustainability of social security and fiscal policy is another priority, particularly when population aging is progressing in many countries around the globe. We commend the IMF for having conducted timely analysis on these challenging issues in multilateral surveillance; we expect the IMF to conduct in-depth analysis on these issues and provide beneficial policy advice in bilateral surveillance as well.

Third, we welcome the forthcoming review of the External Sector Assessment and expect the IMF to engage national authorities in the review process in a proactive manner. The refined model should capture the characteristics of countries' economic structures more precisely, such as the difference between trade and income balances and difference of propensity to consumption and savings across countries. In addition, in order to strengthen the accountability for adjustments made to model results, a procedure should be established to ensure their theoretical underpinnings and evenhandedness.

Global Financial Safety Net

It is important to continue strengthening the global financial safety net (GFSN), with the IMF at its center, to enhance the effectiveness of crisis prevention and response, thereby ensuring

and maintaining the stability of the international financial system. In this regard, more intense deliberations should be explored, particularly on the following issues:

First, we expect an accelerated discussion on the 15th General Review of Quotas to narrow gaps between the members, given the agreed time frame that the review should be completed by the 2019 Spring Meetings and no later than the 2019 Annual Meetings. Japan supports the premise that the IMF should be adequately resourced in order to fully play an expected role at the center of the GFSN. However, while quotas are the core resource for the IMF's financing structure, the importance of the borrowed resources as a permanent funding base, the existence of which also has positive impact in terms of market confidence and crisis prevention, should be acknowledged. We emphasize that Japan's commitment to lend up to an equivalent of US\$100 billion under a bilateral borrowing agreement in the midst of the Global Financial Crisis had significant positive effects in overcoming the crisis and that the bilateral borrowing, which was subsequently incorporated into the New Arrangements to Borrow, continues to play an important role as the second line of defense for the IMF's financial resources.

A priority is to agree upon a quota formula reflecting the three elements it has typically sought to capture: namely, countries' relative position in the global economy, financing needs, and financial strength and ability to contribute usable resources. Among these elements, "financial strength and ability to contribute" is understated in the current formula, despite the fact that voluntary financial contribution from members is indispensable for any of IMF operations, including the Poverty Reduction and Growth Trust (PRGT) and technical assistance. We therefore believe that the incentives to contribute to the IMF's financial resources should be strengthened by putting more weight on the element of the financial strength and ability to contribute in the forthcoming formula.

In assessing the appropriate size of the IMF, further discussion is necessary, including on how to take into account strengthened international financial regulatory reforms after the Global Financial Crisis and an expansion of the GFSN outside of the IMF.

Last but not least, the IMF should build close cooperative relationship with regional financing arrangements (RFAs) and strengthen collaboration, among others, on information sharing, surveillance and financial assistance, taking into account specific circumstances of the respective RFA. Such cooperation should not be limited to crisis times but should be in place on a continual basis. In this regard, we welcome the operational principles/modalities developed by IMF staff that are applicable to all RFAs, despite the fact that collaboration between the IMF and European RFAs during the Global Financial Crisis and the euro area debt crisis account for most of the past experience with such cooperation. As a co-chair of ASEAN+3 Financial Cooperation Process in 2017, Japan has taken the lead in strengthening the cooperation between the IMF and the Chiang Mai Initiative Multilateralization (CMIM), including more realistic joint test-runs. Building on this, we welcome the conclusion of the Memorandum of Understanding (MoU), including on information and staff exchanges between the IMF and the ASEAN+3 Macroeconomic Research Office (AMRO), the macroeconomic surveillance unit of this region. We expect the IMF to make further efforts to build more effective collaboration with other RFAs.

Support of Low-Income countries and Capacity Development

As low-income countries (LICs) have faced various challenges—such as integration into the global economy, volatile commodity prices, poverty, environmental problems—, the IMF should continue to be engaged in support to LICs toward achieving the Sustainable Development Goals. We believe that the following four points are crucial for the IMF's support to LICs:

The first point is comprehensive review of the Poverty Reduction and Growth Trust (PRGT), which is the IMF's main lending tool for LICs. Amid increasing interdependence among nations and also regions, we are convinced that the IMF's support for macroeconomic stability and sound development in LICs contributes to steady growth and development in not only the global economy, and ultimately the Japanese economy. Against this background, Japan has made largest financial contribution to the PRGT among IMF members—Japan's cumulative contribution to the Loan Account of the PRGT comprises one fourth of the entire contribution by donors. Japan's contribution to the Subsidy Account also amounts to 13 percent of donors' total contribution.

The ultimate goal of the IMF's support under the PRGT is that LICs realize stable economic circumstances, which are a prerequisite for their poverty reduction and sustainable growth. PRGT should be a framework that encourages users to make steady progress on its domestic reforms and ultimately to graduate from concessional borrowing.

Toward a comprehensive review of the PRGT planned in 2018, we expect the IMF to assess whether: the lending framework under the PRGT and the design of PRGT-supported programs encourage LICs to implement reforms and contribute to stability and growth of the economy of borrowing members; and the PRGT does not include incentives or elements of moral hazard that might discourages these members from graduating from PRGT support. Following this assessment and Executive Board discussions, we request that the IMF amend the PRGT lending framework as necessary, while maintaining the PRGT's self-sustaining capacity for concessional lending.

The second point is debt sustainability of LICs. Recently, accumulated debt in some LICs arising mainly from market financing or borrowing on non-concessional terms, are emerging as a new problem. Efforts by the international community are necessary to tackle this issue. From this standpoint, we welcome the latest review of the Debt Sustainability Framework for LICs (LIC-DSF) by the IMF and the World Bank. We expect the IMF to operationalize this refined LIC-DSF in a manner that fully respects the purpose of this latest review, i.e., enhancing the functionality and effectiveness of the LIC-DSF.

Borrowing countries and lending countries should cooperate with each other by sharing data on debt to ensure both sound borrowing by borrowers and responsible lending by creditors, including emerging market countries that have increased their presence as lenders to LICs recently.

Capacity development (CD) on statistics, particularly in the area of public finances and public

debt, is crucial because proper analysis based on accurate macroeconomic and debt statistics is indispensable to ensure this cooperation is effective.

The third point is strengthening domestic resource mobilization (DRM). We expect the IMF to implement CD activities utilizing the Revenue Mobilization Trust Fund, with a view to strengthening tax systems and enhance the governance of tax and customs authorities. In order to maximize the impact of these CD activities, it is also important for the IMF to deepen the cooperation with other international organizations such as the World Bank and the OECD by using the Platform on Collaboration on Tax.

The fourth point is strengthening the effectiveness of the PDCA cycle of CD activities. In this context, we appreciate the IMF's efforts to progress outcome-oriented evaluation and enhance transparency on its CD activities through the Result-Based Management (RBM). As the IMF increasingly relies on external financing from donors for its CD activities, we think that steady implementation of the RBM is all the more important.