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IMFC Statement by Taro Aso
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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-Three Meeting of the International Monetary and Financial Committee
(Washington, D.C., April 16, 2016)

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The Global Economy

Global recovery continues, but it remains uneven. Economic recovery continues to be modest in advanced economies, while the growth in emerging and developing economies continues to be weak. Although stability is being restored to the financial markets, downside risks still remain. At the same time, lower potential growth rates have now become the common challenge for both advanced and emerging market economies. Therefore, countries should steadily implement structural reforms to address their own challenges from a medium-term perspective. Furthermore, we need to continue to push ahead with an optimal policy mix consisting of fiscal and monetary policy and structural reforms, taking into account the economic situations and policy spaces in each country, in order to achieve a strong, sustainable and balanced growth.

Revitalization of the Japanese Economy

The Japanese economy continues to be on a moderate recovery with a 0.5% of real GDP growth rate in 2015. While consumer confidence appears to be pausing, there are some favorable signs in the circumstance of private consumption such as the positive year-on-year growth of compensation for employees in real terms, or the latest jobs-to-applicants ratio at 1.28, which was the highest in 24 years. In addition, positive developments can also be seen in the corporate sector, including positive growth of capital investment in two consecutive quarters. Amid improvements in employment and income conditions, a further extension of the virtuous circle of economy supported by implementation of the economic policy measures, and moderate improvement in terms of trade, the outlook of the Japanese economy is expected to recover, supported by robust private-sector demand.

The Global Policy Agenda emphasizes a three-pronged approach with monetary, fiscal, and structural policies. Conforming to this approach, Japan is making efforts in an integrated manner as "three arrows" consisting of bold monetary policy, flexible fiscal policy, and a growth strategy to promote private investment under the Abe Cabinet, and carrying out economic and fiscal policy management to achieve both economic revitalization and fiscal consolidation.

For the growth strategy, we are steadily making progress in implementation. We will further strengthen economic policies, encourage company earnings to lead to expansion of private consumption through wage increase and that of private investment, and further evolve the growth strategy. Through these efforts, Japan aims to attain 600 trillion yen of nominal GDP. To that end, we will utilize all the policies including the corporate tax reforms, fixed asset tax reduction for small and medium-sized corporates, active promotion of empowerment of women by expansion of child care facilities, support and regulatory reform of challenging research such as artificial intelligence, robot, and IoT (the Internet of Things), and the strengthening of competitiveness in agriculture through expansion in the size of farmland. In addition, we will work directly on the structural problems of aging that Japan is facing, by advancing measures such as ”desirable birthrate of 1.8” and ”no one forced to leave their jobs for nursing care”. Japan is aiming at "a Society in Which All Citizens are Dynamically Engaged" which maintains a population of a 100 million people after 50 years, and next May Japan will develop a concrete roadmap called "The Plan to Realize the Dynamic Engagement of All Citizens". Japan will also promote improvement of employment conditions of non-regular employees, and amend laws as necessary for the realization of equal pay for equal work in order to expand the work style choices for women and young people.

For the monetary policy, the Bank of Japan decided to introduce quantitative and qualitative monetary easing with a negative interest rate at the end of January, in order to achieve the price stability target of 2% at the earliest possible time. The Bank of Japan will continue with quantitative and qualitative monetary easing with a negative interest rate, aiming to achieve the price stability target of 2%, as long as it is necessary for maintaining that target in a stable manner. It will examine risks to economic activity and prices, and take additional easing measures in terms of three dimensions - quantity, quality, and the interest rate - if it is judged necessary for achieving the price stability target.

For the fiscal policy, we have been calibrating the fiscal policy in a flexible and timely manner. The FY2015 supplementary budget has been estimated to push up the real GDP growth rate by about 0.6%. Also, the recently enacted FY2016 budget is the largest-ever initial budget in size (96.7 trillion yen) which makes it the most powerful economic measures. We continue to implement FY2015 supplementary budget in a front-loaded manner and are going to implement FY2016 budget as much as possible in the first half of the fiscal year. More specifically, for public investment, we are planning to conclude around 80% of contracts by the end of September so that it takes effect early. Turning to the overall 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. The Japanese government formulated the “Plan to Advance Economic and Fiscal Revitalization” last year, and towards the target of achieving primary surplus in FY2020, we are going to: (i) continuously work on economic revitalization by steadily implementing the growth strategy; (ii) advance expenditure reforms along the benchmarks of the expenditure level indicated by the Plan; and (iii) evaluate the progress towards the target in FY2018, and if necessary, consider additional measures in expenditure and revenue. Under this strategy, Japan is committed to achieving both economic revitalization and fiscal consolidation, through which we will attain the target of achieving primary surplus in FY2020.

II. EXPECTATIONS FOR THE IMF

Strengthening the International Financial System

In recent years, the amount and volatility of cross-border capital flows have been increasing due to the development of world economic integration. Against the backdrop of a recent significant decline in commodity prices, there are volatile market movements. We need to closely monitor the global financial conditions, including the economic outlook of emerging economies and the effects of monetary policy normalization in the United States, and continue our efforts to address various challenges regarding the international financial system. Strengthening safety nets for global financial stability continues to be an important task, and Japan expects the IMF to play a central role in this regard. Japan has actively supported the Fund's efforts by taking such initiatives as providing the Fund with a credit line of 100 billion U.S.Dollar in 2009, and 60 billion U.S.Dollar in 2012. We hope that the Fund will continue to play an essential role toward achieving both international financial stability and sustainable growth in the global economy.

For the IMF, we welcome the entry-into-effect of the 2010 Reforms that were agreed upon by all member countries 5 years ago, with a view to maintaining and augmenting its legitimacy, effectiveness, and credibility. As the 14th quota increase takes effect, the size of the quota has doubled, and the proportion of the quota resource in the Fund's overall resources has also increased considerably. Since we are not of the view that the Fund falls significantly short of its necessary resources for now, due consideration should be given to careful examination of the adequacy of the Fund's resources in the further review of the quota. We need to check whether there is any room for improving the IMF's existing lending framework including FCL and PLL, which are in limited use. In addition, it is important for the IMF and other financial safety nets to function in a holistic manner. While respecting the diversity among safety nets such as regional financial arrangements, it is desirable to establish a global financial safety net of which layers are in harmony as a whole by deepening the complementary relationship among of the layers.

Furthermore, given the heightened volatility in the global financial markets and the instability of capital flows around emerging countries that were recently observed, there is an urgent need to establish policy tools and frameworks to address challenges arising from large and volatile capital flows. Policy recommendations need to be developed with a sense of urgency, which provide specific guidance on how the authorities should address their challenges in a practical manner, rather than general prescriptions. We will encourage the acceleration of work on capital flows that is currently underway by the IMF.

Finally, it is also critical to enhance transparency, timeliness, and comprehensiveness of statistical data in order to have an objective and accurate grasp of the global economic and financial trends, and to prevent the next financial crisis. On this occasion, Japan commits to meeting higher standards of economic and financial statistical data, and will start publication of more comprehensive and internationally comparable data that conforms to the "Special Data Dissemination Standard (SDDS) plus" of the IMF. Towards the achievement of statistics with such high standards, each country should strive to improve its own statistical data.

Support for Low-Income Developing Countries and Financing for Development

Amid the declining price of crude oil and commodities, some of the low-income developing countries, whose trade structure is heavily dependent on these goods, are suffering from severe deterioration of the current account and fiscal balance. We believe that the IMF is now required to provide the most suitable assistance taking into account the circumstances each country faces, in cooperation with Multilateral Development Banks such as the World Bank, returning to its fundamental role of addressing member countries' urgent BOP problems, focusing on its comparative advantages in providing valuable advice on macroeconomic adjustments.

Towards attaining a goal of the 2030 Agenda for Sustainable Development which was adopted last year, Japan calls on the IMF to combine the provision of loans, surveillance, and technical assistance, thereby contributing to a solution to various policy challenges that developing countries face – which include, among others, (i) increasing tax revenue through strengthening governance and capacity in tax administration and (ii) mobilizing domestic resources through improvement in investment environment. In this context, we request the IMF to (i) make best use of its diagnostic results to the technical assistance in the field – this can be achieved through deepening dialogues with developing countries and by effectively applying the diagnostic tools to a wide range of countries so as to objectively understand the relative strengths and weaknesses of each country in the tax administration; (ii) deepen cooperation with other institutions such as the World Bank, the OECD and the United Nations by making best use of their respective comparative advantages; and (iii) expeditiously establish and effectively operate "tax platform" as a basic framework for their dialogue.

In order for the IMF to strengthen the technical assistance with an emphasis on these approaches, Japan will contribute to the "Revenue Mobilization Trust Fund (RMTF)" which the IMF will establish, through a new contribution of 600 million yen from the FY2016, and is prepared to engage actively in building up and administrating the "tax-platform".