International Monetary and Financial Committee

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Statement by the Honorable Taro Aso,
Deputy Prime Minister, Japan

On behalf of Japan

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Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Twenty-Ninth Meeting of the International Monetary and Financial Committee
(Washington, D.C., April 12, 2014)

I. THE GLOBAL AND JAPANESE ECONOMIES

The Global Economy

Global economic activities are gradually recovering, supported by steady growth in advanced economies. But risks still exist in some EMEs associated with the tightening of financial conditions as well as a rise in geopolitical risks. Against this backdrop, each country needs to strengthen its efforts at structural reforms to achieve strong and sustainable growth.

Recent progress in the U.S. Federal Reserve's tapering stem from the recovery of the U.S. economy and this trend should basically be welcomed. On the other hand, the effect of the Fed's tapering on EMEs and other economies should continue to be properly addressed. Many EMEs that have faced a tightening of financial conditions tend to have domestic economic weaknesses, such as high inflation and a large current account deficit. It is, therefore, important for these countries to tackle their structural issues as well.

In the euro area, there are stronger signs of economic recovery, but, as the IMF has pointed out, the risk of deflation should continue to be carefully monitored. Japan experienced a protracted period of deflation in recent years. Based on our experience, once a deflationary mindset takes hold, it is easy to fall into a vicious cycle, whereby people start to postpone consumption and investment, leading to further deflationary pressures. So, it is desirable to implement aggressive macroeconomic policies before the economy falls into deflation.

Efforts toward Japan's Revitalization

Supported by strong domestic demand, the Japanese economy continues to show steady growth, with real GDP recording positive growth for five consecutive quarters. We are also making steady progress toward achieving the 2 percent price stability target, with inflation expectations rising and the latest CPI (excluding fresh food) showing a 1.3 percent increase (Year-on-Year).

In order to bring the economy from the current recovery to sustainable growth over the longer term, the implementation of a growth strategy is essential. The Japanese government is vigorously implementing structural reforms in a wide range of areas, such as energy, agriculture and healthcare. The government will press ahead with further ambitious regulatory reforms, including the elimination of the limits on floor area ratios and the clarification of terms of employment with the aim of becoming a world-class business center as well as attracting global companies. Such reforms will be pursued by utilizing the newly designated six National Strategic Special Zones. In addition, further structural reform measures will be announced around the middle of this year.

In order for people to be able to feel the benefits of the economic recovery, a virtuous cycle should be created, whereby higher corporate profits will lead to wage hikes as well as increased employment opportunities, which lead to stronger consumption and investment which, in turn, will contribute to a further increase in corporate profits. Specifically, the government has expanded tax incentives to encourage firms to raise wages. Moreover, last December, the government reached an agreement with representatives of employers and labor unions on the need to increase wages. Thanks to these initiatives, many major firms have agreed to increase base wages and bonuses in this year's spring wage negotiations.

On the other hand, Japan's public debt is at a very high level and therefore, securing fiscal sustainability is essential toward achieving sustainable growth. On April 1st, Japan raised the consumption tax rate from 5 percent to 8 percent. In the FY2014 budget, the primary balance of the General Account of the national government will be improved by 5.2 trillion yen, more than the amount targeted in the "Medium-term Fiscal Plan," and, compared to last year, the number of newly-issued national government bonds will be reduced by 1.6 trillion yen. These efforts are significant steps toward achieving the fiscal targets of: halving the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010; achieving a primary surplus by FY2020; and thereafter steadily reducing the public debt-to-GDP ratio. To mitigate the negative reactionary effect of the consumption tax rate increase and address the downside risks to the economy, we are also implementing fiscal stimulus measures amounting to 1.1 percent of GDP (5.5 trillion yen). Through these efforts, Japan will do its best to realize both economic growth and fiscal consolidation.

II. EXPECTATIONS FOR THE IMF

Through its surveillance and reform-assisting roles, the Fund has been playing a central role in addressing both the global financial crisis and the European sovereign debt crisis. Japan has actively supported the Fund's efforts by taking such initiatives as providing the Fund with a credit line of 100 billion USD, in 2009, and 60 billion USD in 2012. Now, the global economy is gradually recovering with reduced tail risks. In countries that have faced crises, there are growing signs of improvement, including more stable financial markets. 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.

Quota and Governance Reform

In order to continue to play a central role in stabilizing the international monetary system, it is essential to enhance the Fund's legitimacy, effectiveness and credibility.

The ratification of the 2010 reform, which comprises the quota increase under the Fourteenth General Review of Quotas and the reform of the Executive Board, remains our highest priority and we hope for the early enactment of the 2010 reform. It is a matter of great regret that we have not been able to complete the Fifteenth Quota Review exercise by January 2014. Japan will actively contribute to discussions on the Fifteenth Quota Review, with the objective of completing this Review by the new deadline of January 2015.

Regarding the Fifteenth Quota Review exercise, Japan expects Fund staff to present credible estimates of the potential financing needs of member countries, bearing in mind facts, such as the doubling of Fund quotas as a result of the Fourteenth Quota Review. In addition, I would like to reiterate the importance of properly taking into account, within the quota review process, the records of financial contributions made by member countries.

Moreover, increasing the diversity of the Fund's staff is also important for the Fund to enhance its legitimacy, effectiveness, and credibility. Japan is ready to contribute to the Fund in terms of human resources as much as in terms of financial contributions.

Support for Ukraine

I welcome that the Fund has reached a staff-level agreement with the authorities of Ukraine on an economic reform program that can be supported by the Fund's Stand-By Arrangement. The Fund has a central role to play in supporting Ukraine's economic reforms. In line with the Fund's efforts, Japan has announced its assistance to Ukraine totaling around 1.5 billion USD by means of ODA loans for fiscal consolidation and infrastructure development, trade insurance underwriting, grant aid, and technical assistance.

Support for Low-Income Countries

We must not forget the importance of supporting low-income countries in Africa and other regions. In this respect, the Fund has an important role to play. In order to fully satisfy the future financing needs of low-income countries, it is necessary to strengthen the financial resource base of the Poverty Reduction and Growth Trust (PRGT). In February, Japan already completed the second-round of contributions of its share of profits resulting from the Fund's gold sales to the PRGT's Interest Subsidy Account. In addition, we strongly expect the Fund to, not only utilize the PRGT, but also fully utilize its capabilities, such as surveillance and technical assistance, in its support to low-income countries.

We welcome the progress of the discussions on the review of the IMF debt limits policy. Indeed, to ensure the debt sustainability of LICs, it is critically important to maintain consistency between the borrowing plan and the investment plan. The revised debt limits policy will need to provide a mechanism that ensures a sustainable supply of long-term concessional funds, considering the feature of the financing needs in LICs, such as infrastructure investment, which require huge initial capital investments and generate later-stage economic returns. We will continue to contribute to discussions toward a fruitful conclusion.