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**Statement by Mr. Kato
Japan**

Statement by the Honorable Kato Katsunobu
Governor of the IMF for Japan
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To begin with, Japan appreciates Dr. Kristalina Georgieva's strong leadership for stabilizing the world economy. We also thank Saudi Arabian Finance Minister, Mr. Mohammed Al-Jadaan for promoting constructive and strategic dialogue among IMF member countries as the IMFC Chair.

1. View on the Recent Global and Japanese Economy

[Global Economy]

The global economy remained stable until the beginning of this year, despite facing long-term structural transformations, such as the progress of technological innovations including AI, intensified climate change, and demographic changes. However, uncertainties, caused by geopolitical problems such as Russia's war of aggression against Ukraine and conflicts in the Middle East, coupled with the spread of trade and industrial policies, including the recent tariff measures by the United States and countermeasures against them, have increased volatility in the financial and capital markets and downside risks to the overall economy, beginning to weigh on the real economy. In particular, it is concerning that higher financing costs and import prices, together with reduction in trade, and volatility in foreign exchange and interest rates could lead to higher debt servicing costs and further deterioration of debt situations in low-income countries (LICs) and fragile states.

Free, open, and rule-based international economic system should be maintained and expanded as an essential foundation for the growth of the global economy, including Japan. If countries pursue partial optimization without cooperation under the protectionism, efficiency would be significantly impaired, options that people can take would be reduced, and resolving global issues would be even more difficult. We need to urgently undo trade and industrial policies that would bring such situations and reduce the uncertainty caused by those policies. Japan remains committed to multilateralism and will contribute to the stability of the international financial and economic system, including through strengthening our partnership with the IMF.

Russia's protracted aggression has caused growing human and economic damage in Ukraine. Japan calls for an immediate end of the illegal aggression by Russia, which is one of the biggest causes of heightened uncertainty of the global economy. Japan commends the Ukrainian Government for its proactive engagement on reforms and for maintaining macroeconomic stability, despite the severe conditions of prolonged war, and welcomes the completion of the IMF's seventh review under the Extended Fund Facility (EFF).

[Japan's policy response]

Regarding the Japanese economic and fiscal management, the most important issue is to ensure sustained increase of wages and incomes for all generations. We will raise productivity and added value through the improvement of the environment for wage increases with measures such as supporting labor-saving investments and promoting investments in growth areas, thereby creating a mechanism to increase wages and incomes steadily.

At the same time, it is essential to build our fiscal foundations, as "the cornerstone of the state's credibility" from normal times, to respond appropriately to various issues surrounding Japan, and to protect Japan's credibility and the lives of its citizens even under unexpected situations. We will steadily advance fiscal reforms in both expenditure and revenue, and work to achieve fiscal consolidation, including the early

realization of a primary balance surplus.

2. Role of the IMF in an Era of Uncertainty and Structural Transformation

[Response to the Current Global Economic Situation]

As the world economy faces increasing uncertainty stemming from trade and industrial policies, and various structural transformations, the IMF's role through the pillars of its activity: surveillance, lending, and capacity building, has become even more important. Japan stresses the following as important perspectives on each of these activities.

(i) Surveillance:

The IMF's expertise and neutrality in providing bilateral and multilateral surveillance has become more important than ever, as debates over trade policies intensify. The IMF's surveillance helps countries objectively assess the impact of the trade measures on their own economies and the entire global economy, together with necessary policy responses. In addition, the IMF's objective analyses on the cross-border impacts of non-market policies and practices, overcapacity, and the domestic macroeconomic imbalances of some countries, together with policy recommendations that those countries should take, would be a useful foundation for objective and constructive discussions among IMF member countries.

(ii) Lending

The IMF's lending function, as the center of the Global Financial Safety Net (GFSN), is becoming increasingly important and urgent, as the world economy is facing heightened uncertainty. We expect the IMF to express its readiness to provide timely assistances to member countries facing various difficulties, thereby contributing to secure market confidence. In lending, the IMF should fully play its catalytic role in mobilizing financial resources from other stakeholders.

(iii) Capacity Development (CD)

CD is extremely important in enhancing IMF member countries' ability to respond to various challenges and in achieving their sustainable economic growth. CD also contributes to resolving issues identified through surveillances and to backing reforms through IMF supported programs. Japan has been supporting the IMF's CD activities as a long standing and largest partner. In light of the current economic environment, Japan considers the following issues as particularly important.

(1) Strengthening Domestic Resource Mobilization (DRM):

Given the tight and unstable financial environment and limitation of donor funding, CD for strengthening DRM is an urgent issue. From this perspective, Japan agrees with the objective of the Joint Domestic Resource Mobilization Initiative (JDRMI) undertaken by the IMF and the World Bank. In this context, Japan further expands bilateral supports through the Japan Sub-Account for implementing suitable tax policies and necessary legislations, primarily focusing on Asia and Pacific Island countries, and continues supporting the activities of the Global Public Finance Partnership (GPFP).

To enhance the effectiveness of CD, cooperation among international organizations is also important. In this respect, we also expect the IMF and the World Bank to take the lead in upgrading the role of the Platform for Collaboration on Tax (PCT), which consists of related international organizations, and further enhancing the effectiveness and efficiency of technical assistances by sharing each organization's tax-related strategies.

In particular, regular dialogues among tax experts from member countries and non-state jurisdictions, together with the international organizations, for identifying the challenges and the needs for technical assistances properly, would be beneficial. Japan is ready to contribute to holding such dialogues organized by the PCT.

(2) Adaptation to Technological Innovation:

Digital innovation is underway, new payment systems are being developed, and the introduction of Central Bank Digital Currencies (CBDCs) is being discussed around the world. In such situations, we expect the IMF to strengthen CD to enable countries to reap the benefits of digitalization, while identifying and mitigating risks such as fragmentation of payment systems and currency substitution.

For example, it is important to develop and update the CBDC Handbook by incorporating cutting-edge knowledge and to conduct CD based on the Handbook, so that countries can implement appropriate institutional and regulatory frameworks with due consideration to the potential impact of CBDCs on their financial stability, capital flows, and associated spillover effects on other countries' monetary policies and the international monetary system.

(3) Solving Debt Issues:

Improving debt management capacity and debt transparency is essential to restore debt sustainability and to prevent future debt crises. Japan continues to support the next phase of the Debt Management Facility managed by the IMF and the World Bank to help improve debt transparency and sustainability of LICs.

Japan has supported D4D (Data for Decisions) since its launch, based on the idea that accurate statistics, including debt-related data, are essential as a foundation for appropriate policy management, and continues to support the new phase beginning this May. Furthermore, to address the deteriorating debt vulnerabilities in African countries, Japan will expand support for Africa Regional Technical Assistance Centers (AFRITACs).

In order to provide timely debt restructuring to countries with debt issues, it is important to strengthen the implementation of the G20/Paris Club Common Framework (CF) for LICs including by setting a timeline. To this end, a user manual and a debt restructuring playbook, that include targets for debt restructuring timelines, should be developed. We expect the IMF to contribute to improving the implementation of the CF, including through discussions at the Global Sovereign Debt Roundtable (GSDR). We also expect the IMF to address the debt issues of vulnerable middle-income countries through multilateral efforts, drawing on the experiences and lessons learned from debt restructuring of Sri Lanka and other countries. At the same time, the Debt Sustainability Analysis (DSA) provided by the IMF with the World Bank is an indispensable foundation to promote collaboration to solve debt issues among all concerned parties with the same perspective. Regarding the ongoing LIC-DSF review, it is important to keep in mind that the framework can appropriately help LICs avoid future debt crises and restore debt sustainability.

[IMF Reforms under Structural Transformations in the Global Economy]

If current various issues, such as the trade policies and geopolitical problems are to be prolonged, they could cause changes in the behavior of countries and companies. These changes, combined with the long-term and global trends, such as climate change, technological innovation, and demographic changes, may bring significant structural transformations in the global economy.

In this context, we should constantly review the roles and characteristics of the IMF, so that the institution can continue to meet member countries' various needs, as the center of the GFSN. Especially, as this year marks the historical 80th anniversary of the establishment of the IMF, now is the opportune time to contemplate the Fund for the Future (FFF) with a long-term and "out of the box" perspectives, without being bound by existing frameworks.

With the aim of making the IMF more effective, such discussions also pave the way for finding necessary guidance for the IMF's governance reform including quota realignment. As the first step in proceeding these

discussions, it is important to reaffirm member countries' common view on the core-mandate of the IMF. Japan believes that the IMF's core-mandate is solving macro-critical issues that affect each country's Balance of Payment (BOP) by playing a catalytic role in mobilizing necessary financial resources from a variety of institutions, which should remain unchanged. Bearing the point above in mind as a foundation, Japan would like to present the following three perspectives that we consider as especially important in considering the FFF:

(i) Putting the low-income and vulnerable small island states at one of the central focuses:

First, we should put low-income and vulnerable small island states that have been prone to exogenous shocks as one of the central focuses of the IMF operations. These countries are often not covered by facilities other than the IMF, such as Regional Financing Arrangements (RFAs) or bilateral swaps. Given such situations, the IMF's lending as a catalyst to mobilize financial resources from a variety of institutions, such as Development Institutions, as well as CD and Surveillance to strengthen the resilience of these countries, are significantly important. The Poverty Reduction and Growth Trust (PRGT) and CD, which have high demands from these countries, should be positioned as "core functions" of the IMF. At the same time, we should ask ourselves whether or not the current fundamental setting of the IMF is still relevant to the needs of these countries. LICs and vulnerable small island states are facing a paradoxical situation, where their smaller economic size, which is the major cause of their vulnerability to exogenous shocks, works against their access to solutions, given that member countries' access to the IMF's financial support is linked with the quotas, which mainly reflect their relative size of the economy. Therefore, we believe that it is worth squarely discussing whether, for example, it is possible to partially delink the quotas from access limits for IMF lending.

(ii) Covering the full spectrum of BOP needs:

Given the various structural transformations undergoing around the world, the BOP needs countries face will become increasingly diverse, including from immediate to medium- and long-term, as well as from actual to potential, stemming from exogenous factors or domestic structural issues. The IMF should constantly review its tools, so that it could respond to such various BOP issues. In doing so, it is important to consider more effective collaboration and division of roles with RFAs. In addition, it is necessary to consider an immediate disbursement mechanism for countries facing near-term liquidity challenges whose debt is sustainable, in line with the three-pillar approach proposed by the World Bank and the IMF, while also taking into account the perspective of mitigating moral hazard and safeguarding the IMF's resources.

(iii) Strengthening financial footing of all core functions of the IMF:

If supporting LICs and vulnerable small island states is to be positioned as one of the core functions of the IMF, ensuring its financial sustainability is essential. To this end, further utilization of internal resources of the IMF should be considered. From this perspective, the agreement made last October: transferring the GRA net income and reserves to the PRGT through the newly established Interim Placement Administered Account: is an important first step. Japan pledges to contribute its distributed amount to the PRGT subject to domestic budgetary procedures. In addition, we should consider further measures, such as the utilization of gold sales profits. In the long run, the direct transfer of GRA net income/reserves to the PRGT by amending the Articles of Agreement should be pursued. Furthermore, if lending through PRGT and CD are to be positioned as "core functions", it is a matter of course as a governance of an organization in general that current and past voluntary financial contributions by member countries to support these "core functions" are reflected to the voice in the IMF. Greater diversity of staff in terms of nationality, race, gender, and expertise is also increasingly important for the IMF to adapt to various structural transformations and to meet member countries' different needs. Japan continues to put a high priority on contributing to the IMF with its well-qualified human resources.

3. Conclusion

In closing, in times of uncertainty and structural transformation, the role of the IMFC is significantly important as a forum, where the Governors of member countries gather to discuss the IMF's future roles and characteristics with long-term and "out of the box" perspectives. From this viewpoint, Japan strongly supports the initiative by the Saudi Arabian Chair to strengthen the functions of the IMFC.

In the spirit of multilateralism, which Japan has consistently practiced since its accession in 1952, Japan will continue to strengthen its partnership with the IMF and contribute to global economic and financial stability, together with other member countries.