



# **INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE**

**Fortieth Meeting  
October 18–19, 2019**

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

**Statement by the Honorable Taro Aso**  
**Deputy Prime Minister of Japan and Governor of the IMF for Japan**  
**at the Fortieth Meeting of the International Monetary and Financial Committee**  
**(Washington, D.C., October 19, 2019)**

**I. IMF LEADERSHIP TRANSITION**

First of all, I would like to thank Madame Christine Lagarde for her excellent leadership as the Managing Director of the International Monetary Fund (IMF) for the last eight years. It was a great pleasure to have worked closely with her, particularly as the Chair of the G20 Finance Ministers' and Central Bank Governors' meetings this year. And here, let me extend my warmest welcome to Dr. Kristalina Georgieva as the new Managing Director of the IMF. Japan is eager to continue our close cooperation with the IMF under her leadership to ensure the stability of the international monetary system, as well as the sustainable and inclusive growth of the global economy.

**II. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

**Global Economy**

The global economy has been growing, but momentum has been weakening since the latter half of 2018. In the next year, it is expected to pick up moderately, mainly due to the recovery in emerging economies. However, the global economy is now facing downside risks, such as the continuation of trade-related tensions, geopolitical concerns, and political uncertainties. To avoid these downside risks materializing, it is important that we renew our shared understanding of, and commitment to, multilateral cooperation, and step it up to the next level.

Against this backdrop, Japan has based its G20 presidency on our shared commitment to strengthen multilateralism. This is no more evident than in the issues we chose to prioritize this year - issues that call for open discussion among those invested in, and who benefit from, the multilateral framework, such as global imbalances, and debt transparency and sustainability. Above all, the G20 under Japan's leadership agreed on "G20 Principles for Quality Infrastructure Investment" and endorsed a "Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy" at the Summit in Osaka. These outcomes are a shining example of what multilateral cooperation can achieve, when we put in collective effort. I have said it before, and I will say it again – as a beneficiary of the multilateral system, Japan will continue to champion and safeguard its institutions.

## **Japanese Economy**

In Japan, the economic fundamentals that support domestic demand, including the improvement in employment and income, and the high level of corporate earnings, remain robust. Accordingly, the Japanese economy is expected to continue to recover moderately.

Under these circumstances, Japan will continue to make steady efforts to achieve economic growth and fiscal consolidation simultaneously. To achieve this, we are responding to the declining birthrate and aging population. We have increased the consumption tax rate from 8 percent to 10 percent this month. Through this tax rate hike, we not only aim to achieve fiscal consolidation, but also enhance the social security system and use some of the additional tax revenue to take countermeasures to respond to the falling birthrate. These measures are designed to realize strong, sustainable, balanced, and inclusive growth for Japan. Furthermore, we have taken measures to overcome the short-term economic impact of the consumption tax rate increase, including “Temporary and Special Measures”, to level the demand fluctuations associated with the rate change.

We will continue economic and fiscal policy management that uses all policy tools - fiscal, monetary and structural - individually and collectively. In this increasingly interconnected world, we must closely watch the downside risks the global economy faces, and in cases where those risks materialize, implement flexible macro-economic policies collectively, as needed and without hesitation.

### **III. GRATITUDE FOR THE IMF’S CONTRIBUTION TO THE G20 THIS YEAR**

Let me express our gratitude to the IMF, in my capacity as the G20 Presidency this year. Among our G20 priorities, the IMF made significant contributions to deliver on the following issues on our agenda: global imbalances, population aging, and debt transparency and sustainability.

#### *Global Imbalances:*

The IMF’s intellectual work helped us deliver the following agreement on global imbalances at the G20 Finance Ministers and Central Bank Governors’ Meeting in Fukuoka in June, which we expect to be suitably reflected in the IMF’s surveillance activities:

“In assessing external balances, we note the importance of monitoring all components of the current account, including service trade and income balances. We share the view that, while some of the external imbalances may be in line with economic fundamentals, others may be excessive and pose risks. Factors underlying excessive imbalances may include excess corporate savings, miscalibrated fiscal policies, and barriers to trade in goods and services. We recognize that the composition of funding also should be carefully monitored as some forms (such as foreign direct investment) provide more stable funding than others.”

### *Population Aging:*

Population aging is a common challenge that all countries will face sooner or later. It also has international implications, through changes in the saving-investment balances of countries, as well as cross-border labor and capital movements. At the G20 Finance Ministers and Central Bank Governors' Meeting in Fukuoka in June, we held multilateral discussions and shared knowledge on the macroeconomic challenges posed by population aging. The discussion included fiscal and monetary policy, financial inclusion, and policy responses to mitigate the negative impacts of aging. The IMF's contributions provided the basis for this discussion and valuable inputs to the communique, which Ministers and Governors agreed.

### *Debt:*

The recent increase in non-concessional public debt in some low income countries (LICs), including collateralized sovereign debt, is posing risks to their sustainable development, as well as to the growth and stability of the global economy and global finance. Joint efforts by both borrowing countries and creditors, public and private, are vital to improve debt transparency and secure debt sustainability in these countries, and in this context, Japan appreciates the IMF's contribution to the joint efforts promoted by the G20, including the implementation of the IMF-WBG multipronged approach.

## **IV. OUR EXPECTATIONS FOR THE IMF**

With the global economy facing downside risks, the IMF's core functions, namely surveillance, lending, and capacity development, are increasingly important.

### **Surveillance**

IMF surveillance is essential to support member governments to understand current economic conditions, from both global and country-specific perspectives, and to take appropriate policy actions. Japan supports the IMF's continued efforts to improve surveillance, such as the Comprehensive Surveillance Review scheduled for 2020. In addition, we expect the IMF to incorporate the G20 outcomes this year into their surveillance, and utilize surveillance findings in their lending and capacity development programs.

### **Lending**

The IMF's lending function is a critical pillar of the global financial safety net (GFSN). At the same time, it plays an important role in fostering economic reforms in countries receiving support, as seen in the advancement of Angola's debt transparency and sustainability reforms. In addition, the Fund's closer cooperation with other components of the GFSN, including foreign reserves, bilateral swaps, and regional financing arrangements (RFAs), is critical to ensure a stronger GFSN. As for the ASEAN+3 region, the collaboration between the IMF and the Chiang Mai Initiative Multilateralization

(CMIM), as well as the ASEAN+3 Macroeconomic Research Office (AMRO) which supports the implementation of the CMIM, should continue to play an important role in strengthening the GFSN in the region.

*IMF Resources and Governance:*

Japan supports the IMF to remain adequately resourced and at the center of the GFSN. Prompt action is required to support this function, as the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Arrangements (BBAs) will expire shortly. In that regard, we welcome the agreement on the 15<sup>th</sup> General Review of Quotas that ensures necessary resources through borrowed resources.

Although there is no doubt that the IMF is a quota-based institution, it does not mean all resources need to be secured as quotas. Most importantly, it is neither necessary nor efficient to prepare for all risks, including tail risks, with quotas. Borrowed resources such as the NAB and the BBAs, which can be mobilized in a timely manner, should remain as critical components of the IMF's resources. In addition, the IMF needs resources for its capacity development activities and its support for low-income countries. As such, these non-quota resources should not be of a temporary nature, but need to be relied on as permanent resources. In that respect, we have to strengthen the mechanism to provide a proper incentive for the membership to make voluntary contributions to these non-quota resources.

In addition to securing adequate resources, continued governance reform is crucial in order to preserve the legitimacy, effectiveness and credibility of the IMF. Our commitment to governance reform under the 15<sup>th</sup> GRQ should continue unweakened in the 16<sup>th</sup> GRQ. To ensure the reform continues, we welcome that a realistic and ambitious deadline was set for the 16<sup>th</sup> GRQ.

*Support for Low-income Countries:*

To address the vulnerabilities of LICs, including debt transparency and sustainability, while addressing their growing financing needs, we welcome the Review of Facilities for LICs. In particular, we welcome the introduction of a generalized access increase, while preserving the PRGT's self-sustainability. Japan has made the largest financial contribution to the PRGT among IMF members, making a cumulative contribution comprising 23 per cent of the Loan Account of the PRGT, and 13 per cent of donors' total contribution to the Subsidy Account. We expect the PRGT will continue to play an important role as the IMF's main lending tool for LICs.

## **Capacity Development**

Given the huge and lasting demands for capacity development, especially in LICs today, the IMF's role in capacity development activities is even more important. As recommended in the IMF's Capacity Development Strategy Review last year, we welcome the IMF's efforts to enhance the effectiveness of its capacity development activities through precisely identifying regional demands, promoting

information sharing within the IMF, coordinating more closely with stakeholders, and pursuing outcome-oriented evaluations based on the Results-Based Management (RBM) framework.

Moreover, in order to fundamentally solve debt sustainability problems, it is essential to enhance domestic revenue mobilization (DRM), and build a fiscal structure without excessively relying on financial support from external donors. In addition to further strengthening the IMF's internal coordination among its technical assistance projects, including the Revenue Mobilization Thematic Fund (RMTF) and the Tax Administration Diagnostic Assessment Tool (TADAT), the Fund's collaboration with other developing partners needs enhancement to make the most of limited resources and provide effective assistance. The Platform for Collaboration on Tax (PCT) is an important framework for such collaboration, to which Japan has made a financial contribution. We expect the IMF to cooperate actively with partners through the PCT, including on the development and implementation of medium-term revenue strategies, which is key to effective DRM.

### **Further contributions to the G20**

Of these core tasks, some have relevance in the G20 context as well. We look forward to the IMF making further contributions to G20 discussions, especially in the following areas.

#### *Debt:*

On debt issues, we expect the IMF, as a leading institution in this area, to support continued global efforts. When working with borrowers, we expect the IMF to help them secure debt transparency and sustainability by developing their capacity to manage their debt properly and to collect and disclose debt data accurately, including collateralized sovereign debt. Steady implementation of the multipronged approach, together with the World Bank, is indispensable for this purpose. When working with creditors, we expect the IMF to enhance outreach to help accelerate our collective work to ensure sustainable financing practices.

#### *Quality Infrastructure Investment:*

We expect the IMF to help implement the G20 QII Principles, especially with respect to maximizing economic efficiency and enhancing infrastructure governance, including on debt sustainability, putting its Public Investment Management Assessment and other analytical tools to full use.

#### *Financial Innovations:*

While new payment systems derived from financial innovation, such as global stablecoins, may have the potential to enhance payment system efficiency, they also raise a broad set of concerns with regard to public policies and regulations. These concerns include: legal certainty; anti-money laundering / countering financing of terrorism (AML/CFT) compliance; market integrity; cyber and other operational risks; tax compliance; consumer protection; data protection; fair competition; financial stability; monetary policy transmission; currency substitutions; and international monetary system

issues. These risks need to be evaluated and appropriately addressed before global stablecoins and other similar arrangements with potential systemic footprints can commence operation. During this year's Annual Meetings, G20 Finance Ministers and Central Bank Governors, under Japan's leadership, asked the IMF to examine, building on its ongoing work, the macroeconomic implications including monetary sovereignty issues in its member countries, taking into account country characteristics. We look forward to the robust analysis and resulting policy advice that the IMF will put together for us.

## **V. JAPAN'S CONTRIBUTION TO THE IMF**

Japan will proudly continue to provide necessary support to the IMF, which plays a critical role in stabilizing the global economy. Japan has been actively providing assistance to the IMF's capacity development activities bilaterally or through multilateral funds such as the RMTF and TADAT.

Regarding debt issues, and to support the multi-pronged approach, Japan has committed US\$5.0 million over five years to the IMF's Data for Decisions Fund, which represents the largest contribution among donor countries, and US\$1.5 million to the World Bank's Debt Management Facility III for its initial year, in which the IMF also plays a role. Both are expected to play primary roles in borrowing countries' capacity development. In addition, we have contributed US\$2 million to the IMF's Infrastructure Governance Facility for its first year, to support infrastructure investment plans while ensuring, among others, debt sustainability. We look forward to the IMF delivering tangible results from these supported activities.

Finally, Japan has been actively supporting the IMF by providing not only financial resources and policy input, but also well-qualified human resources. It is critically important for the IMF to enhance its efforts to diversify its staff, with special focus on regional balance, given the wide range of services provided to the diverse membership. We will continue to provide these contributions in a more proactive manner.