



# **International Monetary and Financial Committee**

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

**Statement by the Honorable Taro Aso**  
**Deputy Prime Minister of Japan and Governor of the IMF for Japan**  
**at the Thirty-Ninth Meeting of the International Monetary and Financial Committee**  
**(Washington, D.C., April 13, 2019)**

**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

**Global Economy**

The global economy has shown signs of slowing down since the latter half of 2018. In the second half of this year, it is expected to improve due to an accommodative monetary environment, the disappearance of one-off factors underlying the economic slowdown, and the effects of economic stimulus measures. However, it continues to face downside risks, such as weaker-than-expected global economic growth, tightening of the monetary environment, and continuation of trade-related tensions.

Despite the expected improvement in global economic growth, if economic slowdowns in major economies feed into other economies, the prospects for growth might deteriorate, bringing uncertainty across the entire global economy. In advanced economies, concerns remain over the accumulation of corporate debt and risk-taking in financial markets given low interest rate environments. In emerging market economies, a reversal of capital flows remains to be a risk as external debts accumulate. Under these circumstances, if the monetary environment tightens rapidly, the slowdown of the global economy may be exacerbated. Moreover, the prolonging of trade tensions and policy uncertainties pose a serious risk to the global economy by undermining private investment, disrupting global supply chains and weakening productivity growth. However, these risks are not expected to materialize immediately, as each country is taking policy responses for the risks it faces.

If these risks were to materialize, they would affect the entire global economy. Thus we need to seek solutions based on multilateralism, in addition to the responses by each country. In this regard, Japan, as the G20 Presidency this year, has prioritized risk surveillance of the global economy, global imbalances, and debt transparency and sustainability, while leading discussions on them within a multilateral framework. Japan will continue to make efforts to deliver concrete results by the G20 Summit in Osaka in June.

**Japanese Economy**

In an increasingly interconnected world, Japan is no exception, equally tied to the risks the global economy faces. For example, the slowdown of global economic growth is affecting the Japanese economy through a negative contribution of external demand to its growth. However, its economic fundamentals that support personal consumption and capital investment, including the improvement

in employment and income and the high level of corporate earnings, remain robust. Accordingly, the Japanese economy as a whole continues to recover moderately, primarily led by domestic demand.

We will increase the consumption tax rate from 8 percent to 10 percent this October. Through this tax rate hike, we will not only achieve fiscal consolidation over the medium- to long- term, but also realize inclusive growth by using some of the additional tax revenue to provide free early childhood education and enhance the social security system. We will take sufficient measures to overcome its economic impact, including “Temporary and Special Measures” to level demand fluctuations associated with the consumption tax rate hike. We will continue economic and fiscal policy management that uses all policy tools - fiscal, monetary and structural - individually and collectively.

## **II. EXPECTATIONS FOR THE IMF**

For the global economy facing downside risks, the importance of the IMF’s surveillance, lending and capacity development functions is growing.

### **Surveillance**

Surveillance is essential in understanding the current economic situations of the world and individual countries, and considering appropriate measures to be taken. Japan supports the IMF’s continued effort to improve surveillance, such as the Comprehensive Surveillance Review scheduled for 2020.

### **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 fostering economic reforms in countries receiving its support, as seen in the case of Argentina, which experienced a crisis last year.

Also, cooperation with other components of the GFSN is of significance to ensure a strong GFSN. The GFSN is a multi-layered structure composed of foreign reserves as the unilateral layer, bilateral swap arrangements as the bilateral layer, regional financing arrangements (RFAs) as the regional layer, and the IMF as the global layer. The collaboration between the IMF and the Chiang Mai Initiative Multilateralization (CMIM) continues to play an important role in strengthening the GFSN.

#### *IMF Resources and Governance:*

Japan supports the IMF to remain adequately resourced at the center of the GFSN. Particularly, as the New Arrangement to Borrow (NAB) and the Bilateral Borrowing Arrangements (BBAs) are expiring in a short period of time, a prompt response is needed. We call for efforts by the membership to reach an agreement on ensuring necessary resources through borrowed resources, including the expansion of the NAB.

In case the expansion of the NAB falls short of the necessary resources, a new set of BBAs should play a supplementary role. Although there is no doubt that the IMF is a quota-based institution, there is no need to prepare for all the risks, including tail risks with quotas. Borrowed resources such as the NAB and the BBAs, which can be mobilized in a timely manner, remain necessary in the long term. In addition, the IMF needs resources for its capacity development activities and its support for low-income countries. A mechanism to provide a proper incentive for the membership to make voluntary contributions to these non-quota resources is needed.

Continuation of governance reform is crucial in order to preserve the legitimacy of the IMF as an international organization embodying multilateralism. The 15<sup>th</sup> General Review of Quotas (GRQ) needs to be concluded expeditiously to secure the IMF resources, but the 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, it would be useful to set a realistic and ambitious deadline for the 16<sup>th</sup> GRQ. We strongly expect the membership to continue their efforts to swiftly reach a concrete agreement.

#### *Support for Low-income Countries:*

The Poverty Reduction and Growth Trust (PRGT), which is operated separately from the General Resources Account, continues to play an important role as the IMF's main lending tool for Low-income Countries (LICs). Japan has made the largest financial contribution to the PRGT among IMF members, and continues to place importance on the PRGT. Japan's cumulative contribution comprises one fourth to the Loan Account of the PRGT, and 13 percent of donors' total contribution to the Subsidy Account. We welcome that the proposed reform package under ongoing PRGT review including a generalized access increase and measures to support fragile countries is designed to address the needs of LICs, while preserving the PRGT's self-sustainability.

#### **Capacity Development**

Given the huge and long-standing demands for capacity development that exist especially in LICs today, the role that the IMF plays through its capacity development activities and its importance have been continuously increasing. 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 issues, it is essential to enhance Domestic Revenue Mobilization (DRM), which is included in the Sustainable Development Goals (SDGs), and build a fiscal structure without excessively relying on financial supports from other

countries. In addition to coordination among the IMF's technical assistance projects, including through the Revenue Mobilization Thematic Fund (RMTF) and the Tax Administration Diagnostic Assessment Tool (TADAT), collaboration with other developing partners is needed 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 plans to make 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, as a key to DRM.

## **Contribution to the G20 under the Japanese Presidency**

Let me express my expectations for the IMF, from the G20 Presidency's perspective this year. Japan shares the IMF's recognition, indicated in the Managing Director's Global Policy Agenda, that global imbalances, population aging, debt, financial technology innovation, and natural disasters are among the concrete challenges faced by the global economy. The G20, under the Japanese Presidency, has chosen to tackle these challenges as priority items. The IMF has been making significant contributions, particularly in the following fields.

### *Global Imbalances:*

Excessive global imbalances are a challenge that should be addressed through multilateral cooperation, rather than bilateral trade measures, and consider all components of the current account balance, including services trade and income from external assets. It is also essential to understand the structural factors that affect the saving-investment balance, such as excessive corporate savings and population aging. As input from the IMF is important for the analysis of those factors, we appreciate the IMF's contributions, including its co-hosting of a joint seminar with the G20 on April 10<sup>th</sup>.

### *Population Aging:*

Population aging is a common challenge that all countries will face sooner or later. Multilateral discussions and knowledge sharing are needed on the macroeconomic challenges posed by population aging, including to fiscal and monetary policy and financial inclusion, and policy responses to mitigate the negative impact of aging. We appreciate the IMF's continued contributions, which provide a basis for discussion at the G20.

### *Debt:*

Public debt has risen rapidly in some LICs due to an increase in non-concessional borrowing owed to non-traditional creditors. In addition, new forms of debt that lack transparency, such as collateralized sovereign debt, are increasingly being used. These situations have led to concerns about debt sustainability in these countries.

Both borrowing countries and creditors, public and private, need to make joint efforts to improve debt transparency and ensure debt sustainability. Such efforts will eventually lead to steady investment

inflows to borrowing countries, thereby serving as a solid basis for their economic growth. To this end, they need to disclose accurate data on their debt, while the international community should help them develop their capacity. In this regard, Japan supports implementation of the multi-pronged approach for addressing debt vulnerabilities by the IMF, together with the World Bank. We expect the IMF to deliver tangible outcomes in this area through its steady implementation of this approach.

Creditors are also expected to ensure sustainable financing by taking into account debt sustainability in borrowing countries. Japan expects the IMF to support efforts by the international community to promote sustainable financing through the stocktaking of creditors' financing practices and identification of best practices among them.

#### *Financial Innovation:*

While crypto-assets can raise issues with respect to consumer and investor protection, market integrity, tax evasion, money laundering and terrorist financing, there is a potential that technological innovations, including those underlying crypto-assets, will deliver significant benefits to the financial system and the broader economy. In light of this, it is important to consider how we can best make use of these new technologies. The Bali Fintech Agenda, proposed at the IMF Annual Meeting in October 2018, attempts to address both these risks and opportunities. We are delighted that the Japanese G20 Presidency, the IMF and the FATF co-hosted a special joint session titled "Financial Innovation and AML/CFT - Opportunities and Challenges" at the IMF Fintech Roundtable on April 2<sup>nd</sup>. We welcome the IMF's updates on the Bali Fintech Agenda, as well as the wide ranging discussion on the implications of financial innovation for AML/CFT oversight. We plan to host a seminar to discuss the opportunities and risks of financial innovation on June 8<sup>th</sup>, at which input from the IMF is expected. We look forward to the IMF's ongoing contributions in this area.

### **III. 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. For instance, while Japan has been actively providing assistance to the IMF's capacity development activities, we will provide even more proactive support to the areas where further activities are warranted. In particular, we will expand our contributions further to priority areas under Japan's G20 agenda. Regarding debt issues, we, as part of Japan's contribution to the multi-pronged approach, will contribute 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 will contribute US\$2 million to the IMF's Infrastructure Governance Facility for its first year, to improve infrastructure governance in LICs.

Finally, Japan has been actively supporting the IMF by providing not only financial resources and policy inputs, 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.