

**Statement by the Hon. Naoki Minezaki,
Temporary Alternate Governor of the Bank and the Fund for Japan,
at the Joint Annual Discussion**

I. Introduction

Mr. Chairman and Fellow Governors:

It is my great honor to have this opportunity today to address the World Bank-IMF Annual Meetings, representing the Government of Japan.

To begin, I would like to express my sincere respect to Mr. Robert B. Zoellick, President of the World Bank, and to Mr. Dominique Strauss-Kahn, Managing Director of the IMF, for their excellent leadership at their respective institutions.

II. Recognizing the Current Economic Situation and Japan's Policy Response

Although the world economy is showing some signs of recovery, they appear to contain various risks, thus we should remain cautious about future prospects.

With regard to the Japanese economy, while it is showing movements of picking up, we should cautiously monitor economic developments. For instance, for the first time since the first quarter of 2008, Japan's GDP returned to a positive growth, at an annual rate of 2.3 percent in real terms, and the Industrial Production Index has increased steadily for 6 consecutive months. At the same time, while the unemployment rate in August dropped slightly to 5.5 percent, it remains in a severe condition. Furthermore, although the downward pace has become moderate, in August, the rate of decline in exports was still as large as 36 percent compared to a year ago.

Under these circumstances, our basic thoughts for economic and fiscal management are as follows. First, it is critical to put the Japanese economy back on a track of firm recovery, thus we will continue to implement necessary fiscal and monetary policies. While it is necessary to discuss exit strategies, at this moment, their implementation is still premature. In addition, the priority of fiscal expenses will shift from public investments to support for household spending and human capital development, focusing on expenses for child rearing and education based on the idea that "putting people's lives first." Moreover, Japan has set a target for achieving a greenhouse gas emissions reduction of 25 percent by 2020, as compared to the 1990 level, based on the premise that all the major economies are part of a fair and effective international framework and are in agreement regarding their joint ambitious targets. In that context, we will foster new industries that contribute toward developing a low-carbon society. By all these measures, we will promote domestic demand-led and stable growth for the Japanese economy.

In addition to paying sufficient attention to the economic situation, we must clearly take a medium-to long-term policy stance to secure fiscal consolidation in a manner that builds market confidence. Hence it is necessary to set concrete targets regarding fiscal consolidation such as the ratio of public debt to GDP.

III. Strengthening the IMF and the World Bank to Secure Sustainable Economic Growth and Develop a Robust and Stable Global Financial System

Our present priority issues are to overcome the crisis, and to achieve balanced and sustainable growth, as well as to develop a robust and stable global financial system in order to prevent financial crises of this size from happening again. In addressing these issues, the roles that the IMF and the World Bank play are significant, and it is indispensable that the Fund's functions be strengthened. In what follows, I will present my thoughts on three important points regarding the strengthening of the Fund's functions: strengthening surveillance, supporting low-income countries, and reforming governance.

Strengthening IMF Surveillance

With regard to the Fund's surveillance, let me describe three key points to further enhance its effectiveness in the future, based on the idea that the current surveillance functions did not produce the desired effects on crisis prevention in the run-up to the current crisis.

First, in view of the significant impact on the global economy posed by problems in systemically important countries, it is important that the Fund enhance its capability to provide more elaborate analyses of the channels through which risks can transmit to other countries, and the impact they would pose by means of repeatedly conducting multilateral surveillance, with a focus on specific important issues, such as budget deficits and impaired assets held by financial institutions.

Additionally, in view of the significant impact on the macro economy posed by vulnerabilities derived from the financial sector, it is important to strengthen the Fund's analyses of the linkages between the macro economy and the financial sector, by effectively integrating into Article IV Consultation reports the findings vulnerabilities related to the financial sector that were recognized in the "Financial Sector Assessment Program."

Furthermore, with regard to the Early Warning Exercise carried out through the collaboration between the IMF and the Financial Stability Board (FSB), it should be aimed at achieving a mechanism that can forestall a crisis, by shaping a common understanding among policy makers in each country regarding its purpose and methodology in the course of repeated trials.

Supporting Low-Income Countries

The second issue is to support low-income countries. We must not forget that the current crisis has seriously affected low-income countries. The recent report of the World Bank presented an estimate that nearly 90 million people would plunge into poverty by the end of next year due to the impact of the current crisis. Under such circumstances, we need to strengthen our support to low-income countries.

The World Bank Group should provide continuous support for the coming months by making available sufficient financial resources through the International Development Association (IDA), under IDA 15, and by accelerating the process of IDA 16 negotiations. We should mark a de facto launch of IDA 16 negotiations in conjunction with the mid-term review of IDA 15, as well as intensively discuss a post-crisis IDA strategy, and make efforts to reach conclusion of the negotiations as early as possible. I wonder if, before the official start of the IDA 16 period, some donor countries might be able to, and would wish to, make use of part of their commitment under IDA 16 even within the IDA 15 term.

The IMF should also play an active role in supporting low-income countries, and we welcome the Fund's recent decision to ease the conditions in order to more actively provide its support. I think each major member country, as a donor, should support such active efforts by the IMF. Japan, as the country that has been making the largest contribution to the Fund's lending program to low-income countries, commits to providing significant support both for loan and subsidy resources.

Moreover, Japan will continue to make contribution to the Fund's technical assistance to low-income countries in the field of macroeconomic policies. At the same time, it is important that, as a donor country, Japan's accountability to tax payers be sufficiently fulfilled.

Governance Reforms

The third issue that both the IMF and the World Bank need to address to effectively contribute to securing stable growth and preventing crises is governance reforms.

In this regard, it is necessary to put into effect the agreements, regarding IMF quota increases and raising basic votes reached in April 2008, and the first step of the World Bank voice reform, including the doubling of basic votes, agreed to in October 2008. Japan has already finalized its amendment of domestic laws and ratified the proposed amendment of the Articles of Agreement. I urge other countries to finalize their domestic procedures as soon as possible.

In terms of the next IMF quota review, due in January 2011, political guidance became clear in the Pittsburgh Summit. In line with this guidance, we need to accelerate the process, aiming to "a shift in quota share to dynamic emerging market and developing

countries of at least five percent from over-represented to under-represented countries,” so that quota shares appropriately reflect the current global economic reality.

With regard to the voice reform of the IBRD, the reform should aim at better reflecting the views of developing countries and transition countries on the management and operations of the World Bank Group. Needless to say, at the same time, the reform should ensure that those members that provide financial support to the World Bank Group continue to have an appropriate stake in its management and operations.

I would like to remind you that Japan has been a key major donor of the IDA for almost half a century, since it was established in 1960, having contributed more than 34 billion U.S. dollars. In the early days of the IDA, we were still in the process of reconstructing our country after World War II, and were far from being prosperous. We had to rely on external assistance, and were actually borrowing money from the IBRD. Despite this situation, the Japanese people, or I should say Japanese taxpayers, knew well, how important it is to help poor countries, and they made a serious decision to contribute to the IDA. The unremitting contributions by Japanese taxpayers have now formulated the solid and indispensable financial base of the IDA, accounting for as much as 19 percent of the IDA’s total resources.

Here, I would like to stress that voice reform should take into full consideration the cumulative contributions to the IDA of current major donors, as this would prove to be an appropriate acknowledgement of the long-standing will of donor countries’ taxpayers, and thus it is essential for the World Bank Group to continue to secure contributions from donors.

I firmly believe that voice reform will reach a conclusion which fully addresses these concerns. This conclusion will provide a supportive basis for Japan to increase its contributions to the general capital of the IBRD and the forthcoming 16th replenishment of IDA, when these occur.

Last but not least, in order for the IMF and the World Bank to become truly global institutions, securing geographically balanced diversity in the composition of senior management and staff is also important.

IV. Conclusion

Under the current global financial and economic situations, the IMF and the World Bank should address the issues stated above in order to play significant roles in preventing a recurrence of crises and securing balanced and sustainable growth. When addressing these issues, two institutions will face contentious problems among various member countries. Nonetheless, I would like to emphasize that we, as governors of these institutions, are the ones who have to deal with and resolve these problems. Let me conclude my speech by emphasizing that it is critically important for us to maintain a sense of ownership and to tackle with difficult challenges with a view to bringing benefits

to global society as a whole rather than pursuing individual interests. This would enable us to effectively utilize both institutions to achieve our shared goals under a rapidly changing global financial and economic situation.