

Statement by the Honorable SUZUKI Shunichi
Governor of the IMF for Japan
at the Forty-Ninth Meeting of the International Monetary and Financial Committee
(April 19th, 2024)

Firstly, Japan welcomes the selection of Dr. Kristalina Georgieva for her second term as Managing Director of the IMF, as the role of the IMF becomes even more important in helping its members respond to ongoing multiple challenges.

1. Global and Japanese Economy

Global Economy

While the global economic recovery is resilient and global inflation is declining, a series of geopolitical tensions including Russia's war of aggression against Ukraine and the situation in the Middle East are major downside risks to the outlook.

We continue to condemn Russia's illegal, unjustifiable, and unprovoked war of aggression against Ukraine, which has been continuing for more than two years. The aggression has exacerbated global economic challenges and is one of the largest uncertainties over the global economic outlook. We call for an immediate end of Russia's illegal war against Ukraine.

As the international community unites and continues its economic assistance to Ukraine, we welcome the completion of the IMF's third review under the Extended Fund Facility (EFF) in March, and look forward to the successful completion of the upcoming fourth review.

Borrowing costs remain elevated worldwide, and the debt situation in low- and middle-income countries has become more severe. Regarding fiscal policy, we need to ensure fiscal sustainability by normalizing fiscal support introduced during the crisis, while retaining targeted support to vulnerable groups.

In financial markets, there are growing interests in the timing and pace of policy shifts towards less a restrictive monetary stance in the U.S. and Europe. Uncertainty and market speculation over these developments have heightened volatility in financial markets, including foreign exchange markets. It is important that foreign exchange rates move stably reflecting fundamentals, and excessive volatility is not desirable. We would take appropriate actions against excessive movements.

The Japanese Economy

The Japanese economy is expected to continue recovering at a moderate pace with the improving employment and income situation, supported by the effects of various policies. However, slowing down of overseas economies is downside risk of the Japanese economy. Also, full attention should be given to price increases, the situation in the Middle East and fluctuations in the financial and capital markets.

In November last year, the Government economic measures that include budgetary, tax measures, and institutional and regulatory reforms to improve the environment for wage increases and corporate productivity. These economic measures aim to support ongoing positive trends such as the highest level of wage increases in 30 years and strong appetite for capital investments by corporates. In addition, the current fiscal year's budget, which was approved last month, includes a number of measures to promote sustainable wage increases that exceed price increases, and a flat-amount cut of personal income tax and individual

resident tax will be implemented in June in order to support disposable income. Through these policies, the Japanese Government will work to dispel the deflationary mindset and improve corporate productivity, aiming for a full exit from deflation and toward sustainable economic growth.

Regarding monetary policy, the Bank of Japan changed its monetary policy framework in March. The Bank judged that it came in sight that the price stability target of 2% would be achieved in a sustainable and stable manner toward the 2025 fiscal year. With the price stability target of 2%, the Bank will conduct monetary policy as appropriate, guiding the short-term interest rate as a primary policy tool, in response to developments in economic activity and prices as well as financial conditions from the perspective of the sustainable and stable achievement of the target.

2. Our Expectations to the IMF

As various challenges to global economic stability and development continue, we look forward to the IMF playing a central role in multilateral cooperation anchored by the rule of law and mutual trust. Among the current challenges for the IMF, Japan emphasizes that progress in the following issues would be particularly important.

The Role as the Global Financial Safety Net

The IMF, as the center of the Global Financial Safety Net (GFSN), should continue to be strengthened in order to help its members respond to ongoing multiple challenges.

(Quotas)

We welcome the agreement to an increase in quotas of 50% under the 16th General Review of Quotas. The swift implementation of the quota increase is the highest priority. In Japan, the Diet has passed a bill related to the IMF accession, which allows the government to increase Japan's quota. We urge other members to complete their necessary domestic procedures. Regarding the 17th General Review of Quotas, various possible approaches, including through a new quota formula, should be developed by June 2025, taking into account the diverse views of members.

(Review of the Lending Facilities)

It remains important to strengthen the IMF's functions through the review of its lending facilities. We welcome the extension until the end of this year of the temporary increase in the normal access limit under the General Resources Account in order to respond to the uncertain global economic environment and to ensure a smooth transition to the comprehensive review later this year. We look forward to the comprehensive review to properly consider the needs of members and other factors. In addition, the review of surcharges should preserve its role in providing members with incentives to avoid high and long-term borrowing.

(Support for Low-income Countries)

To ensure the long-term sustainability of the Poverty Reduction and Growth Trust (PRGT), which provides critical financial support for low-income countries (LICs), further efforts to increase its resources remain crucial. As a longstanding supporter of the PRGT, Japan has made a significant contribution to subsidy resources, which accounts for over 20% of the global fundraising target achieved last year. We call for economically stronger members to make their expected contribution as early as possible. We also look

forward to the timely completion of the ongoing PRGT review before the IMF/World Bank Annual Meetings this year, based on constructive discussion by exploring all options, including the use of the IMF's internal resources and reform of lending policies, such as the interest rate structure.

Japan has also been actively contributing to SDR channeling to support low-income and vulnerable countries, and already delivered the entire pledged 40% of its newly allocated SDRs. We call for a broader set of member countries to contribute to the PRGT and the Resilience and Sustainable Trust (RST) through SDR channeling. If conditions such as ensuring the liquidity and safety of SDRs as foreign reserve assets were met, we would also consider the option of SDR channeling through MDBs. We look forward to further discussion in this regard at the Executive Board.

(The creation of an additional chair at the IMF Executive Board from Sub-Saharan African countries)

With regard to governance reform, we welcome the progress being made in discussions among African countries on the creation of a 25th chair on the IMF Executive Board from Sub-Saharan African countries, to better reflect the voice of developing countries in decision making in the IMF. We look forward to this reform being delivered in the election of the Executive Directors this year.

(Regional Financial Arrangements (RFAs))

In order for the GFSN to function effectively, we should also continue strengthening RFAs, in addition to strengthening the IMF. Japan is promoting further enhancement of the regional financial safety net through ASEAN+3 financial cooperation, while collaborating with the IMF. Specifically, at their meeting last December under Japan's co-chairing, ASEAN+3 Finance and Central Bank Deputies agreed on the establishment of the Rapid Financing Facility (RFF), with the aim of enhancing the effectiveness of the Chiang Mai Initiative Multilateralization (CMIM). Japan will continue proactively advancing the discussion in cooperation with member countries towards the early establishment of the RFF.

Debt Issues

Various developing countries, both low-income countries (LICs) and MICs alike, suffer from debt vulnerabilities. Restoring debt sustainability is a *sine qua non* for freeing up their resources and addressing the medium-to-long term development challenges they are facing.

For low-income countries, securing timely and predictable debt restructuring processes through the official creditor committees under the G20/Paris Club Common Framework remains critical. We also welcome that Sri Lanka and its Official Creditor Committee (OCC) have agreed on the main parameters of a debt treatment. This achievement, led by France, India, and Japan, came around half a year after the launch of the OCC, which duly involves both Paris Club and non-Paris Club creditors. We aim to reach the swift finalization of the MoU. We welcome the IMF policy reform to promote the IMF's capacity to support countries undertaking swift debt treatments while encouraging creditors to take appropriate actions.

In order to prevent future debt crises, debt transparency and data accuracy need to be enhanced. It is also essential to conduct a rigorous analysis on debt sustainability as a basis for appropriate borrowing plans. In this regard, we expect further improvements of the Fund's policies through the implementation of the Multi-Pronged Approach on Debt Vulnerabilities for enhancing debt transparency by the IMF, together with the World Bank and the ongoing review of the Debt Sustainability Framework for Low-income Countries (LIC-DSF). Last year, Japan led the Data Sharing Exercise during its G7 Presidency, which contributed to enhance debt transparency and helped well-informed decision-making by both borrowers and creditors, based on debt sustainability. We look forward to the continuation of this exercise and the participation of all major

official bilateral creditors.

Digital Money

Many countries, including developing countries, are advancing their deliberation to introduce Central Bank Digital Currencies (CBDCs). In introducing CBDCs, it is critical to design institutional and regulatory frameworks with due consideration to the potential impacts on financial stability, capital flows, and associated spillover effects on other countries' monetary policy and the international monetary system. We expect that the IMF's CBDC Handbook, of which the initial chapters were published last year to address these issues, will continue to be developed and updated to incorporate the latest findings and contribute to appropriate decisions and risk responses by policy makers in each country.

Capacity Development

Japan, as the longstanding leading partner of the IMF's capacity development (CD), has been proactively supporting the IMF's CD activities to help LICs implement effective fiscal and monetary policies, and will continue to do so. Based on the recommendations of the CD Strategy Review completed this April, we look forward to the timely implementation of concrete measures to keep enhancing development impacts, including through further integrating CD activities with surveillance and lending, and strengthening project monitoring by utilizing the Results-Based Management (RBM) framework.

In addition, Japan will host the 10th Pacific Islands Leaders Meeting (PALM) in Tokyo this July to further strengthen partnerships with the Pacific Island countries (PICs) and the region. We have been supporting the IMF's CD activities for PICs regarding debt management capacity through the Pacific Financial Technical Assistance Centre (PFTAC). Japan has decided to make an additional contribution of USD 6 million to the PFTAC to strengthen our cooperation, including in the area of public financial management.

Diversification of Staff

Japan has been contributing to the IMF not only through financial resources and policy inputs, but also well-qualified Fund staff. The IMF's global coverage warrants its staff composition to be more diversified with appropriate balance in their countries of origin, which is key to promoting more effective operations. In this regard, we look forward to the IMF's further efforts to accelerate the recruitment and promotion of staff from significantly under-represented countries.

We welcome the newly established collective and voluntary targets for progressing gender diversity at the Executive Board. It is important for all offices of Executive Directors to share values of gender diversity and work collaboratively to achieve the targets towards closing the gender gap at the Board. Japan will continue to cooperate with and contribute to the IMF with diverse and well-qualified staff.

Lastly, Japan looks forward to the continued leadership of Dr. Kristalina Georgieva on the IMF's policy issues, including on the priorities mentioned above, and will remain in close cooperation with the IMF.