

**Statement by Hon. Shinichiro Furumoto
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1. Introduction

Madam Chair, Mr. President, distinguished Governors, ladies and gentlemen:

It is my great honor to have this opportunity to address at the 19th Annual Meeting of the European Bank for Reconstruction and Development as a representative of the Japanese Government. I would like to express my sincere gratitude for the warm welcome extended by the Government of Croatia and by the people of Zagreb.

Before I start, I would like to extend our sincerest condolences for the loss of His Excellency Lech Kaczynski, President of the Republic of Poland and his wife, Sławomir Skrzypek, President of the National Bank of Poland, and other delegate members in the tragic airplane accident on April 10th.

2. Japan's contribution to the economic development of Central and Eastern Europe and Central Asia

Recognizing the importance of democratization and transition to a market economy in Central and Eastern Europe and Central Asia, Japan, along with other major Western countries, has been supporting the region since the collapse of the Berlin Wall in 1989, despite geographic remoteness. Japan joined the EBRD at the time of its establishment in 1991 as a founding member, with its contribution of as much as 8.5% of EBRD's capital, which is comparable with other major European countries, based on Japan's economic presence at that time. Since then, Japan has continued to support EBRD's activities.

Nearly 20 years have passed since the establishment of the EBRD, and the process of democratization and transition to a market economy in the region has made solid progress. Some countries have become members of the European Union. The landscape of the global economy has also changed dramatically, epitomized by the stronger economic presence and greater voice of emerging economies. Reflecting these realities, I would like to emphasize the following three points concerning how assistance for the transition in Central and Eastern Europe and Central Asia should be provided in the future.

First, we should encourage the countries which have joined the EU and have graduated or are scheduled to graduate from the status of EBRD recipients to become a provider of assistance to the countries that are still in the process of transition. With their experience in transition and economic development, those graduates can provide valuable input and support for the countries that will follow in their footsteps.

Second, further focus should be placed on the assistance to Early Transition Countries, or ETCs, including Central Asian countries where transition efforts have lagged behind. Some ETCs are rich in resources, such as oil, natural gas, rare metals and rare earths. If these countries can utilize these resources efficiently and effectively, they will be able to not only develop their own economies but also make positive contributions to other countries in the world with scarce resources. At the same time, we should keep in mind that the EBRD should actively engage in assistance to countries with limited natural resource endowments or geographical disadvantages such as being located inland.

Third, Japan is willing to promote its cooperation with the region not only through the traditional financial contribution to the EBRD but also by providing our advanced technologies and human resources with expertise in the areas of energy and environment. Japan aims to build win-win relationships with countries in the region by transferring such technologies to help form the foundation of their mid- and long-term economic growth. In developing such mutually beneficial relationships, we hope that the EBRD will serve as a stronger partner with us. Furthermore, Japan wishes to make our financial contribution better balanced with our contribution through staffing to the EBRD, and I look forward to President Mirow's strong leadership in this regard.

3. Current economic and financial conditions in the region

The region of Central and Eastern Europe and Central Asia is stepping out from the economic and financial crisis after the Lehman shock. It is encouraging that their pace of recovery is faster than was expected at the Annual Meeting last year. On the other hand, however, due to the current situation triggered by the Greece's case, the global market has become interested keenly in the soundness of fiscal conditions, or sovereign risk. This is not an isolated issue for certain European countries, but the issue that has implications for the global economy and international finance, and therefore, the issue which all of us must address with a sense of urgency. In this respect, Japan strongly supports the internationally concerted response, including the measures by the EU and the ECB, the collaborative actions by central banks, and the assistance by the IMF in the hope that these efforts will make strong contributions to restoring financial stability and supporting continued global growth. To prevent the sovereign risk problem from pushing Central and Eastern Europe and Central Asia back to financial instability, Japan will call on the EBRD to closely monitor developments and provide necessary policy advice and other assistance to its member countries in the region.

In connection with the sovereign risk problem in Europe, and by touching upon Japan's experience, I would like to stress that stimulus packages relying heavily on fiscal measures to cope with economic stagnation caused by the burst of an asset bubble could result in serious problems later. Japan suffered the collapse of asset prices in the early 1990s, and severe economic conditions continued thereafter. During that period, Japan undertook significant fiscal expansion to counter economic downturn. However, asset price deflation remained, and land prices in Tokyo and stock prices fell to around one-third and one-quarter of their peaks, respectively. In addition, the expansion has aggravated the fiscal situation, resulting in a significant increase in long-term national government bonds outstanding by more than 400 trillion yen, and the ratio of long-term national and local government debt to GDP is expected to reach as high as 181% at the end of fiscal year 2010. Such a severe fiscal situation can never be sustainable. In Japan, reforms to remedy inflexible fiscal expenditure had not been seriously pursued until the change of government last fall. The Hatoyama administration is determined to make every effort to promote economic growth and fiscal consolidation, through a comprehensive reform of expenditure and revenue which the previous administrations had continuously put off.

4. Challenges of the EBRD

Next, I would like to discuss the challenges that the EBRD will be called on to address now.

(1) Review of the development model for Central and Eastern Europe, and the experience in Asia

While Central and Eastern Europe and Central Asia have made steady progress in transitioning to a market economy, the region has been among those most affected by the latest economic and financial crisis after the Lehman shock. Countries in the region took proactive responses, such as financial stabilization measures along with appropriate monetary and fiscal policies, with IMF assistance extended for some countries. In addition, financial institutions in Europe have agreed to roll over their financing to affected countries under the Vienna Initiative, which complements such country-level efforts. As a result, I am glad to note that the economic and financial stability in the region has begun to come back.

That being said, as mentioned in Japan's statement last year, the crisis has highlighted the shortcomings of the transition and development model that Central and Eastern Europe has depended on, where the bulk of their sizable current account deficit has been financed by short-term external bank borrowings in foreign currencies. The financial systems of Central and Eastern European countries became integrated into the advanced European system rapidly, without a sound banking system or capital market at home. This encouraged excessive exposure during normal times and an exodus of capital at the time of crisis. I believe that the revelation of such vulnerability was at the crux of the problem. Given this, Japan once again urges the EBRD to revisit the transition and development model and the role the EBRD played to support it, and to rectify any deficiencies identified therein.

In Asia, building upon the lessons learned from the Asian currency crisis in 1990s, we have been intensively working to promote regional financial cooperation. As a safety net against the risk of a currency crisis, the Chiang Mai Initiative, or CMI, has been established, under which thirteen countries of the ASEAN members, Japan, China, and Korea will mutually accommodate with foreign currency liquidity in dollar at times of crisis. We have recently agreed to establish a research office to undertake economic monitoring and analysis on the CMI member countries. We expect it to enable us to perform an early warning exercise as well as timely analysis of a crisis when it actually occurs.

As a medium- to long-term effort, we have been working on the Asian Bond Market Initiative, or ABMI, with the aim of developing local currency-denominated bond markets to mobilize savings within the Asian countries for use in local currencies. Even amid the current crisis, Asian countries managed to issue government bonds to finance their fiscal stimulus, which we believe was an achievement of our efforts in the ABMI.

I hope that the regional cooperation initiatives in Asia can help provide useful ideas to Central and Eastern European and Central Asian countries in their efforts to ensure financial stability building upon the lessons learned from the crisis after the Lehman shock.

(2) Strengthening of the financial sector

Securing the soundness of the financial sector is one of the key challenges that the crisis has posed globally. Among developed and major emerging countries, G20 and the Financial Stability Board, or FSB, have been leading this exercise. In Central and Eastern Europe and Central Asia, developing a financial sector that helps stable transition to a market economy will be the key to successful future development. Keeping an eye on the progress of the discussion at G20 and the FSB, the EBRD should play a central role in reforming and strengthening the financial sector in the region.

(3) Greater focus on climate change and economic diversification

The EBRD should review its focus in areas of assistance. Approximately 40% of the assistance provided by the EBRD in 2009 went to financial institutions. Recapitalization of

banks and securing funds for small- and medium-sized enterprises were indeed critically important in coping with the crisis. Moving forward, however, the EBRD should shift its focus to addressing various challenges that the region faces, in which the priority should be given particularly to climate change and economic diversification.

(i) Climate change

As climate change is a global issue, every country and region around the globe should contribute to its solution. Central and Eastern European and Central Asian countries are deemed carbon intensive regions by international standards, due to their energy-inefficient equipments that could be called a legacy of the communist economic system. Improving energy efficiency in these countries will be a key to the promotion of global efforts to address climate change.

However, ETCs have limited capacity to tap into private funding for investment in energy-efficient equipments for new installations or replacements. These investments are indeed critical elements in the economic transition process, and thus, Japan welcomes the EBRD's focus on this area.

At the COP15 meeting in December 2009, Prime Minister Hatoyama announced Japan's commitment to provide financial assistance to developing economies on climate change. We have followed through on this commitment with the international community by strengthening the function of the Japan Bank for International Cooperation, or JBIC: our Diet has passed an amendment to the relevant law in late March, which enables the JBIC to operate a wider range of business for providing assistance to anti-global warming and other environmental conservation efforts in developing countries. Making the most of this new function of the JBIC and utilizing the energy technologies that Japan has developed over years, we would like to work more closely with the EBRD for making greater contributions to address climate change issue in Central and Eastern Europe and Central Asia.

(ii) Diversification of the economy

The economic structure of the Central and Eastern European and Central Asia are highly vulnerable to external shocks, in that their exports depend on a few primary commodities and low value-added products and their trade partners are limited to major European countries: due to such vulnerabilities, the impacts of the crisis could be aggravated, and their economic recovery process could significantly hinge on the condition of commodity markets or export counterparts. Promoting industrial and export diversification in these economies is required to achieve sustainable and stable economic transition and development. Developing a new industry entails high risk. It is for this reason that we find a value in the EBRD, a public institution, and its proactive support for the task.

(4) Organization of the EBRD

(i) General capital increase

Japan welcomes the agreement on the EBRD's general capital increase reached among us the member countries, with the aim of ensuring that the institution will be able to effectively address the impacts of the crisis which still remains and other challenges mentioned earlier. While we support that the EBRD has sufficient capital to fulfill its mandate, we call for the EBRD's continued and relentless efforts in rationalizing costs and ensuring efficient operations.

(ii) Human resources

In addition to strengthening capital base, the EBRD should consolidate its organization to ensure that the limited resources can be funneled into prioritized activities. Japan finds it important to allocate more human resources to the operations in Central Asia, where progress in the transition to a market economy has lagged behind.

It is also important that the EBRD actively promotes the diversity of its staff members. In connection with this, Japan will step up its efforts to contribute to the EBRD even further through more staffing.

5. Conclusion

Madam Chair, Mr. President, distinguished Governors, ladies and gentlemen:

In closing, I would like to point out that, while its capital base will be strengthened through the general capital increase, we should continue to review the EBRD to ensure that it remains responsive to a rapidly changing global and regional economy and capable to address current and future challenges. Japan will continue to contribute to the EBRD, so that the institution will be able to keep fulfilling its missions in an effective and efficient manner in terms of its strategies, financing, organization and human resources.

Thank you for your attention.