

**Statement by H.E. Sadakazu Tanigaki**  
**Minister of Finance of Japan**  
**and Governor of the IMF for Japan**  
**At the Ninth Meeting of the International Monetary and Financial Committee**  
**Washington, D.C., April 24, 2004**

## **1. The Global Economy and Financial Markets – Sustaining the Recovery**

### **World economy**

I welcome the strengthening and broadening of the global economic recovery, led by upturns in the United States and Asia. The uncertainty surrounding the international financial system also has receded substantially. While this recovery remains uneven, it is encouraging to see many countries, especially emerging-market economies, making strides in strengthening their economic fundamentals and in enhancing resilience to external shocks, supported in part by buoyant international capital flows.

Looking ahead, however, there are some risks: a heightening of geopolitical risks, a rise in oil prices, and higher market volatilities in both industrial and emerging-market economies stemming from the hiking of interest rates in tandem with the economic recovery. We should not be complacent about the current favorable economic environment. We should persevere in our efforts to implement policy measures from the medium-term perspective, to enhance communication between the authorities and the market, and to pursue structural reforms to reduce vulnerability, all of which are essential for achieving sustainable economic growth.

### **Japanese economy**

The Japanese government has been making every effort to pursue financial, regulatory, tax, and fiscal expenditure reforms aimed at overcoming prolonged deflation and revitalizing the economy. In part thanks to such efforts, our economy is continuing to recover steadily, as evidenced by the real GDP growth of 2.7 percent registered in 2003. The current recovery is led by buoyant business investment, supported by improved corporate profits and by growing exports to Asian countries in particular. Private consumption is also picking up.

Under these circumstances, the government expects to see the recovery, driven by private demand, to continue in fiscal year 2004.

In order to nurture the current movements of recovery to a sustainable growth, the government will, while working to expand the benefits of various reforms across the country, continue to pursue structural reforms, such as the resolution of nonperforming loan problems by March 2005, public pension reforms, reforms of the fiscal relationship between central and local governments, and the privatization of highway construction and postal services.

As Japan's economic outlook and its productivity are improving, price developments are also showing some favorable changes. Against this backdrop, the aggressive monetary easing by the Bank of Japan (BoJ), which is holding short-term interest rates at virtually zero through the ample provision of liquidity, is giving further impetus to private investment and expenditure. The BoJ will continue its current accommodative monetary policy, thereby supporting economic activity in the private sector.

There are some signs that deflation, which has been one of the daunting challenges for the Japanese economy, has been abating, as consumer and wholesale prices are leveling off. However, our economy remains in a mild deflationary phase, and the government and the BoJ will continue to work together to take comprehensive measures aimed at overcoming this deflation.

## **2. Priorities and Modalities for IMF Surveillance across the Membership and Crisis Prevention and Resolution**

As I mentioned earlier, progress has been made in efforts to strengthen policies and institutions in many countries with a view to reducing vulnerabilities to external shocks. However, taking into account economic and financial globalization and the increase in international capital flows, I expect IMF surveillance to play a more important role in ensuring international financial stability, as well as in preventing crises. I welcome the progress being made by the IMF on various fronts, including refinement of the framework for debt sustainability analysis, strengthening of the assessment of the financial sector, notably the Financial Sector Assessment Program (FSAP), and efforts to ensure the

objectivity of surveillance, particularly in program countries. In my view, what is needed for the IMF at this stage is to steadily implement the current surveillance mechanism that includes these elements, since it has evolved only in recent years. It is also important to assess its effectiveness thoroughly in the upcoming biennial review of surveillance in June.

I hope that the IMF will also continue its work on adapting precautionary arrangements for crisis prevention purposes, so that member countries with sound policies can use precautionary arrangements as a means of mitigating the risk of facing capital account crises caused by abrupt capital outflows.

With regard to crisis resolution, I welcome the introduction of collective action clauses (CACs) since last year by a large number of countries in their international sovereign bonds in the New York market where there had been no such market standard. I hope to see other countries follow suit by introducing CACs in their bond issues under foreign jurisdictions. I also hope that further progress will be made in the discussion on developing a Code of Conduct, with the participation of various related parties, such as debtor countries and the private sector.

Furthermore, it is essential for the IMF to maintain a sufficient level of financial resources with a view to ensuring effective crisis resolution. Changes in the world economy and the financial markets can be abrupt and difficult to predict. The IMF, therefore, should continue to examine quota issues and be prepared to act promptly whenever the need for a general quota increase arises. In the review of quotas, we should bear in mind that their distribution should reflect the current realities of the world economy as well as the relative positions of member countries' economies.

### **3. Enhancing IMF Support to Low-Income Members: Instruments and Financing; IMF – World Bank Collaboration; and Promoting Debt Sustainability**

I believe that the IMF should play, within its mandate, a significant role in economic development and poverty reduction in low-income countries, one of the most important objectives of the international community today. At the same time, the objective of the IMF's financial assistance is to respond to countries' temporary balance of payment needs; development banks and other relevant institutions should provide long-term and highly

concessional loans. In this sense, policy advice through surveillance and technical assistance to support capacity building should play a greater role in the IMF's engagement in low-income countries. While sharing common perspectives and consulting closely with the World Bank and other international organizations, it is crucial for the IMF to establish a clear division of labor with other institutions and focus its work on its core responsibilities, such as setting up macroeconomic frameworks and institution building in fiscal and monetary areas, where it has expertise and a comparative advantage.

In order to prevent low-income countries from facing debt problems, it is important to analyze their debt sustainability sufficiently and to utilize these analyses in designing the modalities of financial assistance by the IMF, the World Bank, and other donors, as well as low-income countries' borrowing strategies. In this context, I welcome the ongoing work by the IMF and the World Bank to develop a new framework for assessing debt sustainability in low-income countries. Furthermore, in view of the need to secure the efficient use of PRGF resources, I hope that the IMF will continue its work to consider appropriate forms of assistance, such as a non-borrowing program and a strengthened process of surveillance, corresponding to the different stages of development of low-income countries.

#### **4. Combating Money Laundering and the Financing of Terrorism**

The threat of terrorism remains serious. Therefore, it is all the more important for the international community to continue its efforts to combat the financing of terrorism. From this standpoint, I welcome the decisions of the IMF and the World Bank in March 2004 to endorse the revised FATF 40 and the eight special recommendations as the new international standard for preparing Reports on the Observance of Standards and Codes (ROSCs), to make Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) assessments a regular part of their work in the context of FSAPs and Offshore Financial Center (OFC) assessments, and to become fully accountable for AML/CFT assessments.

Based on the results of these assessments, technical assistance should be provided to help countries implement AML/CFT measures. Japan will continue to contribute to such assistance based on the needs of recipient countries.