

**Statement by the Hon. Fukuhiro Nukaga
Minister of Finance of Japan
and Governor of the IMF for Japan
at the Seventeenth Meeting of the International Monetary and Financial Committee
Washington, D.C., April 12, 2008**

I. INTRODUCTION

I commend the strong leadership of the Managing Director, Mr. Dominique Strauss-Kahn, in implementing the reform of the IMF since he assumed his position. At the outset, I would like to stress the need for continuous reform, so that the IMF will maintain its *raison d'être*.

II. GLOBAL ECONOMY AND FINANCIAL MARKETS

Sub-prime loan problems in the United States brought about substantial losses to financial institutions in Europe and the United States, which weakens the functioning of financial markets and slows down the growth of advanced economies, especially that of the United States. As a result, the growth rate of the world economy is expected to decline, though emerging markets are expected to maintain their robust economic growth.

Since last summer, each country authority has closely collaborated and jointly responded to the current financial market turmoil. In particular, liquidity provisions by the central banks of advanced countries, and other measures taken to maintain financial market stability, are commendable for their contributions toward restoring financial market functions, thus stabilizing the world economy. Nonetheless, the risk of further financial market adjustments still remains, which calls for additional measures in order to improve market sentiments. To begin with, it is imperative for financial institutions to: (i) recognise losses based on appropriate valuation; (ii) disclose such losses in a full and prompt manner; and (iii) reinforce their capital base, where necessary.

In the Financial Stability Forum (FSF), we have discussed various measures to address the financial market structural problems that brought about the current financial turmoil. I expect that the FSF will reach useful conclusions in order to both strengthen market functioning and prevent additional turmoil. For instance, the report of the FSF refers to advanced practices of disclosure coverage for private financial institutions. I encourage relevant institutions to adopt such advanced practices.

Under the current circumstances, in order to secure the stability of the financial system, we need to avoid situations in which one institution's problems could lead to the collapse of a whole chain of financial market transactions. This reflects the fact that smooth financial flows throughout the markets have become an indispensable infrastructure of every economy. Indeed, Japan's experience in the 1990's presented a typical example of this type of new challenge to financial markets. In order to effectively address these challenges and mitigate or prevent financial crises, I call for further cooperation among authorities and international organizations.

III. IMF IN THE FUTURE

Surveillance

Facing rapid changes in the international economy, the IMF needs to redefine its core business and priorities. Rapid increases in international capital flows have enhanced the potential impact of changes in the financial market onto the real economy. We also have to face the fact that traditional macroeconomic policies may not always be able to address challenges arising from changes in financial conditions. For instance, overshooting frequently occurs in financial markets, and we have not yet found definite answers on an appropriate policy response capable of preventing its negative effects.

Such challenges reinforce the need for the IMF to play a front-runner role in this area, so as to strengthen its analysis on international financial flows and capital markets and further improve its economic analyses and policy recommendations. For example, prolonged accommodative macro-economic environments have proved one of the causes for the current financial market turmoil, which could have been recognised as such. Therefore, I believe it is important that the IMF identifies such potential vulnerabilities in the world economy, hold frank discussions with authorities regarding those issues, and communicate its analyses in a transparent manner at an early stage, while carefully considering the potential impact of such communications on financial markets.

As trends in international capital flows rapidly change, we recognize the higher presence of Sovereign Wealth Funds (SWF) in international financial markets. I support the IMF's action to make full use of its experience in monitoring movements in international capital flows, and formulate best practices in the areas of governance, institutional arrangements, and transparency. I believe these efforts will be beneficial to both SWFs and recipient countries by minimizing protectionism in recipient countries.

Governance Reform

I welcome that the Executive Board has reached an agreement on quota and voice reform within the timeframe agreed at the last IMFC meeting. I would like to commend the Managing Director, who has demonstrated his leadership throughout these difficult negotiations. Over many years, Japan has emphasized the need for quota shares to better reflect each member's relative position in the world economy. In order for the IMF to maintain its relevance and effectiveness in the fast-changing world economy of the 21st Century, it is indispensable that this reform become effective as soon as possible.. I urge my fellow Governors to vote for the draft resolution on quota and voice reform within the designated period.

In terms of improving the legitimacy of the IMF, it is also important to increase the diversity of IMF staff, which is currently disproportionately represented by a few specific regions.

Reform of the IMF's Finances

Regarding the IMF's financial situation, I am grateful that, under the strong leadership of the Managing Director, the Board recently agreed on both expenditure and income measures. Refocusing and streamlining the IMF's operations will contribute to achieving expenditure cuts amounting to about 100 million USD in FY 2011. Increased revenue generated by the expansion of the IMF's investment mandate, the investment of post-Second Amendment gold sale profits, and other measures will contribute toward closing the remaining gap in IMF finances of around 300 million USD.

By implementing the agreed measures on both expenditures and income, it is expected that the IMF's expanding deficit problem will be halted. However, the fiscal framework of the IMF would still not be entirely free from potential risks. The IMF should exercise sustained efforts to stabilize its financial situation by consistently reviewing the range of its core functions on the basis of its comparative advantage vis-à-vis other organizations. I would thus ask the Managing Director to continue to show strong leadership in order to ensure the financial sustainability of the IMF.

IV. CONCLUSION

In the midst of the current financial market turmoil, many voices call for the IMF's contribution toward addressing this adversity. In order to meet this expectation, the IMF

needs to make further progress in its reforms and keep up or even be ahead of international economic developments. Now that we have reached an agreement over discussions about internal governance, I expect that the Board and member countries will be able to hold candid discussions on the future role of the IMF.

I am fully convinced that the IMF is a prime institution that can continue to reform itself. And I truly hope that the IMF will take the lead toward achieving future stability for the international financial system.