



# **International Monetary and Financial Committee**

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**Statement by Mr. Aso**



**Statement by the Honorable Taro Aso  
Deputy Prime Minister of Japan and Governor of the IMF for Japan  
at the Twenty-Seventh Meeting of the International Monetary and Financial Committee  
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**I. REVITALIZATION OF THE JAPANESE ECONOMY**

It is a welcome change that the risk of a further decline of the global economy has recently decreased, and economic conditions have generally improved given that the crisis in the euro area has subsided to some extent, and progress has been made in addressing the problem of the U.S. fiscal cliff. In addition, Asian economies are generally robust, supported by strong domestic demand and sound macroeconomic management, and they are acting as the driving force behind the global economy. We continue to look forward to further progress in euro area reforms and hope that measures for a comprehensive resolution will be agreed upon and implemented with regard to the U.S. fiscal situation. In the meantime, the new Government of Japan has worked out strong, and bold, measures to revitalize the Japanese economy so that our country can play an important role in the recovery and growth of the global economy.

As the economic environment within and outside of Japan has undergone major structural changes since the 1990s, stemming from intensified global competition and an aging population combined with a diminishing number of children at home, the Japanese economy has remained stuck in deflation for many years. Amid a continuing fall in wages and the sluggishness of private consumption and equipment investments, growth expectations have declined and deflationary expectations have become persistent. Deflation is indeed harmful as it discourages future investments; thus, it is a deeply-rooted problem that has weakened the Japanese economy.

To break through this situation and overcome deflation, the new government, which was inaugurated late last year, has resolved to promote the revitalization of the Japanese economy by aggressively implementing, in an integrated and forceful manner, three bazookas, namely: a “bold monetary policy,” a “flexible fiscal policy” and an “ambitious growth strategy.” This is a bold policy package of a different dimension compared with past policy packages.

The new government’s bold policy package has been welcomed by both the market and consumers. As a result, stock prices (as measured by the Nikkei stock average) have risen

more than 50 percent compared with last November, when the previous cabinet announced its intention to call for general elections (on November 14, the Nikkei stock average stood at 8,644 yen). Moreover, consumer sentiment has improved, and there are some encouraging signs in the private sector, including a growing move toward raising salaries and bonuses for employees given the anticipated improved business performance. It is important to take advantage of these encouraging moves to overcome deflation and ensure economic revitalization.

Regarding monetary policy, first of all, in January of this year, the government and the Bank of Japan announced a “joint statement,” which included a price stability target of 2 percent, with a view to overcoming deflation and achieving sustainable growth with price stability. Under an initiative from new Governor Kuroda, who took office on March 20, the Bank of Japan entered, on April 4, a new phase of monetary easing, in terms of both quantity and quality, in order to achieve the price stability target of 2 percent, at the earliest possible time, with a time horizon of about two years. Thus, the Bank of Japan will double the monetary base and the balance of its holdings of long-term government bonds. The enhancement of monetary easing is consistent with the policy recommendations that the Fund has so far made to Japan.

Next, regarding fiscal policy, in order to avoid a further economic decline, in January of this year, the government decided to adopt an emergency economic package. After enacting a large-scale supplementary budget, based on a February 26 decision, the government started to implement its measures, most of which are already under way. We expect that this emergency economic package will boost real GDP by around 2 percent. On the other hand, for Japan to secure confidence in its fiscal management, the government must draw up a credible mid-term fiscal consolidation plan, as pointed out by the IMF. Particularly, given that in the next two years the Bank of Japan will purchase a massive amount of JGBs in a new phase of bold monetary easing, a lack of steady steps and concrete results toward fiscal consolidation might erode market confidence in Japan’s fiscal sustainability and lead to the risk of a spike in interest rates. Therefore, the government has committed itself toward achieving a fiscal consolidation target of halving the primary deficit- to-GDP ratio of the central and local governments by FY2015, compared with the level in FY2010, and achieving a surplus by FY2020. As the first step toward achieving its fiscal consolidation targets, the government formulated an appropriately tightened FY2013 budget, with

projected tax revenues that, for the first time in four years, will surpass the revenue expected from the issuance of new bonds. From now on, we will work to formulate, around the middle of the year, a medium-term fiscal consolidation plan in order to achieve our fiscal consolidation targets. Also, last August, the Japanese Diet enacted a bill for the Comprehensive Reform of the Tax System. Under the new law, the consumption tax rate will be raised from the current rate of 5 percent to 8 percent in April 2014, and from 8 percent to 10 percent in October 2015. We are determined to facilitate the economic environment and to raise the consumption tax rate, as scheduled, based on the provisions of the Comprehensive Tax Reform Act.

As to the country's growth strategy, in order to strengthen the competitiveness and growth potential of the Japanese economy, the government will work out, around the middle of the year, an ambitious growth strategy that includes bold regulatory reforms. Currently, a study is ongoing to foster the creation of new industries through regulatory reforms in the fields of health and medical care, energy, and the environment. Also under study are measures to strengthen agricultural competitiveness and to enable young people and women to more actively participate in the economy and society. The strengthening of economic partnerships with other countries and regions is also important for the growth of the Japanese economy. In March, the government announced Japan's intention to participate in the negotiations of the TPP (Trans-Pacific Partnership). The bilateral consultations with the United States, which were just completed, indicate that great progress has been made toward our participation in the TPP. In addition, Japan has also agreed to start negotiations with the Japan-EU EPA (Economic Partnership Agreement) and has begun to negotiate in the Japan-China-Korea FTA (Free Trade Agreement).

## **II. IMF'S ROLE AND CHALLENGES**

### **Quota and Governance Reform**

For the IMF to play an important role in supporting the stable growth of the global economy, as well as preventing and responding to crises in an effective manner, it needs to enhance member countries' confidence in its legitimacy, effectiveness and credibility. To do so, it is essential that the Fund make constant efforts in governance reforms, including the quota review.

The 15th Quota Review Exercise should be conducted bearing in mind facts such as that: the IMF has strengthened the basis of its financial resources by the doubling of the quota resulting from the 14th Quota Increase and through the NAB (New Arrangements to Borrow) and bilateral loan arrangements that complement the quota; the circumstances surrounding the global economy and financial markets have improved due to a reduction in tail risks, such as the euro-zone crisis; and the development of regional safety nets are already underway, especially in Europe and Asia. As the first step of the next quota review, I hope that IMF staff will present highly reliable estimates of the Fund's financing needs.

In addition, I would like to reiterate the importance of properly reflecting the records of financial contributions made by member countries. We must not underestimate the fact that the IMF's main activities, such as, responding to the recent global crises, supporting low-income countries and providing technical assistance, could not have been financed without voluntary financial contributions made by member countries. In light of this reality, and in order to increase the incentives to member countries to make voluntary contributions and secure stable financial resources for the Fund, the records of financial contributions made by member countries should be properly reflected.

Some argue that if these records of financial contributions are reflected, the quota shares of emerging and developing economies would be unduly lowered. I would like to respond to this concern by stating that it is indeed possible to reflect the records of financial contributions while extending due consideration to the quota shares of emerging and developing countries. Of course, it is also important to appropriately protect the voices of least developed countries.

Moreover, increasing the diversity of the IMF's staff is also important in order to enhance the Fund's legitimacy, effectiveness, and credibility. Japan is ready to contribute to the IMF as much in terms of human resources as it does in terms of financial resources.

### **Surveillance on Monetary Policy and Capital Flows**

As was confirmed at the G-20 Meeting of Finance Ministers and Central Bank Governors, monetary policy should be directed toward achieving domestic price stability and continuing to support economic recovery. In addition, the commitment from G-20 countries to avoid targeting exchange rates for competitive purposes, and to resist all forms of protectionism and keep markets open is a fundamental principle of economic policy management that

should be respected by all IMF member countries.

The unconventional monetary easing measures, taken by the central banks of advanced economies in recent years, are intended to stabilize financial markets and to support economic growth by achieving price stability under the zero interest rate constraint or in a very low interest rate environment. I believe that, if such monetary easing succeeds in avoiding financial crises and placing advanced economies on the path of recovery, it will produce positive effects for the entire global economy, including emerging and developing economies, by stabilizing financial markets and increasing trade through an expansion of domestic demand. When we consider the spillover effects of monetary easing in advanced economies, I believe, first and foremost, that it is important to fully acknowledge such a positive aspect.

Meanwhile, some people have pointed out that there is a risk that monetary easing in advanced economies may trigger volatility in capital flows to emerging economies, which could cause distortions in financial markets. For emerging and developing economies to deal with this risk, it is naturally important to conduct appropriate macroeconomic policies as well as financial supervision through both micro-prudential and macro-prudential approaches. On top of these measures, when further steps become necessary, capital flow management measures should also be recognized as useful. Based on the lessons learned from the Asian currency crisis and other financial crises thereafter, the IMF recently adopted an “institutional view” on capital flow management, which recognizes its usefulness in certain circumstances, and this marks an important step forward. To create an environment in which a free capital market brings greater benefits to member countries, I look forward to seeing the IMF conduct further studies to develop a deeper understanding of the costs and benefits of capital flow management measures.

### **Support for Low-Income Countries**

We must not forget the importance of supporting low-income countries in Africa and other regions. I encourage the IMF to continue to play an important role in the international community’s coordinated assistance to Africa. For many years, Japan has also supported development in Africa, for example by launching in 1993 the TICAD (Tokyo International Conference on African Development) process. In June of this year, Japan will host the TICAD V. Indeed, to make Africa’s recent economic growth more sustainable and robust, Japan, partnering with international organizations, will enhance assistance for, and

cooperation with, African countries, particularly focusing on strengthening the private sector as well as improving business environments through infrastructure development and the strengthening of legal institutions.

Regarding the PRGT (Poverty Reduction and Growth Trust), Japan has been steadily implementing the agreement so as to strengthen the PRGT's financial resources. Regarding the first-round of contributions from the windfall profits from IMF gold sales to the PRGT's interest subsidy account, Japan already contributed its share of the profits to the IMF in March of this year. As to the second-round of contributions, Japan announced last autumn its intention to contribute its share of profits. I strongly hope that those countries that have not yet expressed an intention to contribute their share of profits will quickly commit themselves to contribute so that the profits can be transferred to the IMF as soon as possible.

### **III. CONCLUSION**

In October of last year, Japan hosted the 2012 Annual Meetings of the IMF and the World Bank and brought them to a successful conclusion. I would like to express my renewed heartfelt appreciation for the contributions made by the staff of the IMF and the World Bank Group and for the cooperation provided by member countries to the Tokyo meetings. Our hosting of the Annual Meetings, for the first time in 48 years, has deepened in Japan our understanding of the IMF. Looking forward, Japan, as a good partner of the IMF, will make continued efforts to contribute to the global economy and international financial stability.