



# **International Monetary and Financial Committee**

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**Statement by Mr. Aso  
Japan**



**Statement by the Honorable Taro Aso  
Deputy Prime Minister of Japan and Governor of the IMF for Japan  
at the Thirty-Fourth Meeting of the International Monetary and Financial Committee  
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**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

**The Global Economy**

Global economic recovery continues, but growth is still weaker than desirable. Although the market turmoil after the referendum of the United Kingdom has calmed down, uncertainty still remains in the global economy. Against this backdrop, market stability is especially important. Excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability.

The current economic uncertainty is attributable to complex factors, including: still weak global outlook despite member countries' policy responses; potential vulnerabilities in emerging markets; geopolitical risks; and political uncertainty. Indeed in view of these circumstances, we must make utmost efforts to ensure sustainable growth and to avoid a vicious circle of the economy arising from excessive pessimism, in line with the commitment to using all policy tools – monetary, fiscal and structural – individually and collectively. Advanced economies need to tackle domestic economic and social challenges swiftly and properly under resolute leadership. Systemically important emerging market economies need to recognize their responsibility for the global economy and thus to address the vulnerabilities through appropriate policy responses. In particular, they should take all steps to maintain the soundness of financial systems, based on the examination whether sharp rises in credit outstanding could be leading to an unsustainable economic activity. Also, it is important for healthy development of the global economy to eliminate excess capacity, as the latest World Economic Outlook points to the possibility that industrial slack might be contributing to a global deflationary pressure through the fall in tradable goods prices. To achieve long-term growth of the global economy, countries need not only to take near-term policy responses but also to advance structural reforms to enhance potential growth and resolve vulnerabilities, taking into account country-specific circumstances.

**Revitalization of the Japanese Economy**

Japan's economic fundamentals are solid. Corporate earnings in 2015 hit the highest level in history, while the unemployment rate declined to the lowest level in almost 21 years. The Japanese economy is now gradually entering into a virtuous circle. Real GDP growth in the first and second quarters of this year was 2.1 percent and 0.7 percent annually, respectively, both of which are above potential.

Supported by favorable corporate earnings and a tight labor market, it is important to ensure that a virtuous circle in the economy continues to strengthen, which will lead to steady growth in consumption and investment. To achieve such a circle, sustained wage increases are crucial. The government continues to ensure an exit from deflation and achieve sustained economic growth.

This summer Japan put together an economic stimulus package with the fiscal component of 2.7 percent of GDP. This is a comprehensive and bold package that aims to accelerate structural reforms and investment for the future. For Japan, the priority is to raise potential growth by overcoming declining birth-rate and aging population, including through greater labor participation. Therefore, to promote labor participation of women and the elderly, the package includes work style reform such as rectifying the problem of working long hours. It also covers budget support for expanding childcare and nursing care capacity. In addition, the package focuses public investment on infrastructure that would lead to increased productivity, with the aim of encouraging private investment and laying the foundation for sustained growth.

Moreover, inclusive growth is important for sustained macroeconomic growth. The issue of shrinking middle class and labor market duality have been pointed out in Japan, too. Under these circumstances, we plan to take measures that would contribute to achieving inclusive growth, such as raising the minimum wages by 3 percent, which was implemented this month, and ensuring “equal pay for equal work”.

Although we decided to delay the consumption tax hike to 10 percent until October 2019, we maintain our commitment to achieving the primary balance in FY2020 and remain firmly committed to enhancing medium-term fiscal consolidation. We aim to realize economic growth by steadily implementing our growth strategy. At the same time, we will achieve the primary balance in FY 2020 and reduce the outstanding stock of public debt over the medium term in a stable manner, by implementing expenditure reform based on the fiscal consolidation plan and the comprehensive roadmap.

As for monetary policy, the Bank of Japan conducted last month a comprehensive assessment of the developments in economic activity and prices as well as policy effects since the introduction of quantitative and qualitative monetary easing (QQE). In light of the findings of the assessment, with a view to achieving the price stability target of two percent at the earliest possible time, the Bank decided to introduce "QQE with Yield Curve Control" as a means of strengthening the existing framework for monetary easing. The new policy framework consists of two major components. The first is "yield curve control" in which the Bank sets short-term and long-term interest rates as an operating target. The second is an "inflation-overshooting commitment" in which the Bank commits itself to maintaining an increase in the monetary base until the annual rate of increase in the observed CPI exceeds the price stability target of two percent and stays above the target in a stable manner. The Bank will pursue monetary easing in a more forceful manner under the new framework to achieve the price stability target of two percent at the earliest possible time.

In close cooperation, the Japanese government and the Bank of Japan will use monetary, fiscal, and structural policies in an integrated manner with a view to accelerating Abenomics.

## **II. EXPECTATIONS FOR THE IMF**

As we face a host of challenges in the global economy, the role of the IMF continues to be substantial. We look forward to the IMF's initiatives to resolve issues of the international monetary system.

### **Strengthening the International Monetary System**

In recent years, we have observed a significant increase in cross-border capital flows and their heightened volatility because of the advance in the integration of the world economy. In today's international monetary and financial system, it is crucial for each country to carefully monitor capital flows and, under specific circumstances, manage capital flows in an appropriate manner. We therefore strongly welcome the IMF's ongoing work on capital flows, and call on the IMF to provide practical guidance that is helpful for members' policy making.

The global financial safety net, as a backstop for stabilizing the international financial system, continues to play a key role from the standpoint of maintaining market confidence. Although the global financial safety net has remarkably expanded in terms of their size, including by accumulation of international reserves by individual countries as well as expansion of bilateral swap lines and regional financing arrangements, it is important for each layer of the safety net to function effectively and bring about synergies with others. From this standpoint, we welcome the implementation of a joint test run between the IMF and Chiang Mai Initiative Multilateralisation, and look forward to similar work between the IMF and other regional financing arrangements. We also expect the IMF to strengthen the cooperation with AMRO (ASEAN+3 Macroeconomic Research Office) at the operational level, including exchange of information.

We welcome the IMF's constant review of its lending toolkit in response to the needs of the times. At the same time, careful consideration should be given to whether the toolkit is equipped with appropriate conditionality and whether it has a robust incentive structure to encourage disciplined usage of the IMF's resources by borrowers. Building on these considerations, one should ascertain whether demand exists for the potential new instruments. Also, the review should take into account the past experiences with the streamlining of special facilities.

For years, Japan has taken leadership in strengthening the IMF's financial resources in the face of the global financial crisis and the euro area crisis through borrowing agreements. In addition to traditional, current account crises the IMF had been assumed to address at the time of foundation, we have seen the emergence of a new type of balance of payment crises that involve rapid capital outflows and inflows. In light of the experience with recent crises, it is debatable that the IMF quotas need to cover all of the enormous amount of potential financing needs, including those stemming from systemic, capital account crises, which are difficult to predict and rarely occur but highly probable to cause serious damage once they materialize. Rather, it is reasonable for the IMF to deal with idiosyncratic crises with sufficient amount of quotas and to prepare for systemic crises through borrowed resources, including the New Arrangements to Borrow and bilateral agreements. In recognition of this indispensable role of borrowed resources as a reasonable funding base for the IMF, Japan has just agreed to extend

the borrowing agreement with the IMF. Taking into account the key role of borrowed resources in the IMF's funding base, it is essential that the voluntary financial contributions by members to the IMF's borrowed resources be duly acknowledged in the distribution of quotas, which is the core of the governance of the IMF.

### **Support for Low-Income Countries and Financing for Development**

Macroeconomic stability is essential for low-income countries (LICs) to make steady progress towards attaining goals of the 2030 Agenda for Sustainable Development. The IMF, which has comparative advantage in advising on macroeconomic adjustment, should constantly improve its support tools to extend effective assistance to LICs with an appropriate combination of lending, surveillance, and technical assistance. It is also important to ensure that the IMF continues to be equipped with adequate resources to meet the demands for assistance from LICs.

With regard to lending, the Poverty Reduction and Growth Trust (PRGT) should continue to provide sufficient financial resources to LICs. In view of the current challenge of replenishing the loan resources of the PRGT, Japan, the largest donor to the PRGT, is willing to provide additional loan resources amounting to SDR 1.8 billion for commitments to be made by the PRGT through 2020.

Given the unpredictable nature of external shocks, particularly large-scale natural disasters and pandemics, the Catastrophe Containment and Relief (CCR) Trust should be well prepared in advance to provide sufficient resources to meet LICs' urgent financial needs stemming from these external shocks. In support of assisting LICs hit by exogenous shocks, the Japanese government will, subject to approval by the Diet, make grant contributions of USD 20 million to the CCR Trust, including the amount transferred from the Multilateral Debt Relief Initiative-II Trust.

Regarding surveillance work, we welcome the ongoing considerations to refine the Debt Sustainability Framework (DSF), which is a critical tool for LICs in managing debt and mobilizing external resources. Japan will be actively engaged in the upcoming discussions on the review of the DSF.

As for technical assistance work, the IMF should continue its efforts to tailor its assistance according to unique circumstances each LIC faces, which would help them have ownership in addressing their challenges. We expect the IMF to contribute to institutional building, including in the area of financial supervision, to ensure that economies and financial systems in Asian countries remain resilient in cases of increased volatility in global financial markets. The IMF should also continue its focus on enhancing governance and capacity in tax systems and tax administration in LICs, given that improvement in domestic resource mobilization (DRM) in LICs is a prerequisite for achieving the Sustainable Development Goals. In this context, Japan will increase its financial and intellectual contribution to the Revenue Mobilization Trust Fund to allow the IMF to benefit expertise and information shared by "the Platform for Collaboration on Tax", which was established by the IMF and other concerned institutions in an effort to improve DRM in LICs.