

Statement by the Honorable SUZUKI Shunichi
Governor of the IMF for Japan
at the Forty-Fifth Meeting of the International Monetary and Financial Committee
(April 21st, 2022)

1. The Global Economy and the Japanese Economy

Russia's aggression against Ukraine is a unilateral attempt to change the status quo by force and a blatant violation of international law that undermines the foundations of the international order. Moreover, atrocities against civilians are breaches of international humanitarian law and war crimes. Maintaining peace is indispensable for international economic and social cooperation, and Russia's acts in violation of this are absolutely intolerable. Japan vehemently condemns these acts.

To overcome the current challenges, multilateral cooperation based on law and trust is even more important. Japan expects the IMF to continue its central role in stabilizing the international monetary and financial system. We commend the IMF for its prompt disbursement of \$1.4 billion to Ukraine under the Rapid Financing Instrument (RFI) and strongly encourage the IMF to continue to fulfill its catalytic role as the lender of last resort, in cooperation with Multilateral Development Banks (MDBs).

Global Economy

Following the COVID-19 pandemic, government debt remains at historically high levels. There are also concerns about scarring to the global economy, which will reduce the potential growth rate of developing countries including through loss of human capital. Furthermore, Russia's aggression against Ukraine is causing significant negative impacts on the global economy. This includes further disruptions of supply chains, soaring prices of energy and food, destabilization of financial markets, and an increase in the number of evacuees and internally displaced people, in addition to security issues. These negative impacts make it even more difficult to advance our policy agenda that the international community has been tackling. For example, given soaring energy and commodity prices, countries with limited policy space find it more difficult to support vulnerable groups and rebuild fiscal buffers at the same time. Moreover, central banks face a trade-off between curbing inflation and recovery from the pandemic. There are also concerns that energy security issues will delay structural reforms that are essential for sustainable growth, including responses to climate change.

In this context, member countries are asked to respond flexibly to the current crisis, including through credible fiscal rules that create policy space, targeted fiscal policy that supports vulnerable households, and monetary policy that fosters price stability. Once the recovery is firmly established, ensuring long-term fiscal sustainability is also essential.

Japanese Economy

While the impact of the pandemic remains, for instance, in services consumption, the Japanese economy continues to pick up as corporate production and earnings improve amid the normalization of economic and social activities. This trend is expected to continue, but we need to pay close attention to downside risks due to the ongoing impact of COVID-19, and the situation in Ukraine. Against this backdrop, the government will compile comprehensive emergency measures to promote urgent and flexible responses that addresses the impact of soaring prices, including for oil and commodity, on people's lives and economic activities.

2. Our Expectations to the IMF: Responding to Challenges Developing Countries are Facing

In addition to the current challenges mentioned above, developing countries need to urgently address medium- to long-term structural challenges such as climate change and digitalization. Japan strongly supports the IMF to enhance its support to developing countries facing these complex challenges.

Debt Issues

Given even greater debt sustainability risks, developing countries need to ensure stable capital flows along with sound macroeconomic management to prevent future crises and achieve sustainable economic growth. In this regard, it is important to closely watch developing countries so that they do not borrow beyond their capacity to repay. For countries already facing debt vulnerabilities, we should implement debt treatments as swiftly as possible under the Common Framework. Japan strongly encourages the IMF to play its role in this, including by fostering an understanding among both creditor and debtor countries on the importance of our respective efforts.

To improve transparency and accuracy of debt data, we also urge the IMF and the World Bank to further strengthen capacity-building support for debtor countries, while encouraging creditor countries' cooperation to secure accurate debt data. These efforts enable more accurate Debt Sustainability Analyses and contribute to informed policy decisions by both debtor and creditor countries. Japan also looks forward to the work by the IMF and the World Bank to develop guidelines for the use of collateralized debt.

SDR Channeling and Resilience and Sustainability Trust (RST)

SDR channeling is an important means of supporting vulnerable countries. To further advance this global initiative, Japan pledges to channel 20% of our newly allocated SDRs. We also welcome the new establishment of the RST.

When addressing climate change and pandemic preparedness through the RST, close cooperation with the World Bank, with profound expertise in these areas, is important. Ensuring the liquidity and safety of the SDR as a foreign reserve asset is also necessary. In this regard, it is essential to secure Preferred Creditor Status (PCS) so that RST lending is excluded from debt restructuring.

If PCS is secured, Japan will contribute SDRs worth USD 1 billion and a proportional amount of reserves as an initial contribution to the RST.

Going forward, SDR channeling is expected to boost the demand for SDR trading. Member countries that channel SDRs should also contribute fairly to SDR transactions through the Voluntary Trading Arrangements. We look forward to the IMF's efforts to this end.

Climate Change

Among responses to ongoing difficult challenges, climate change remains a pressing issue that all countries must address with a sense of urgency. Japan asks the IMF to support member countries' efforts in achieving net zero by 2050, in collaboration with other international organizations while leveraging their respective

comparative advantage.

Given that the ultimate goal of the international community is to reduce greenhouse gas emissions to net zero, the focus of analysis and comparison should be on the impact of mitigation measures on carbon intensity, not the cost imposed by mitigation measures. Accordingly, we urge the IMF to deepen its intellectual contribution that helps member countries choose the best mix of mitigation policies under various circumstances, instead of prejudging or promoting particular policy measures such as a carbon tax. We also ask the IMF to support member countries with a combination of various tools including lending through the RST, surveillance, capacity development, and data management.

Capacity Development – Digital Money and Fragile and Conflicted-Affected States (FCS) –

Without proper design and regulation, Central Bank Digital Currencies (CBDCs) and other forms of digital money can be a risk to financial stability and the international monetary system, as well as a source of concern for money laundering and sanctions evasion. In this context, Japan strongly supports the IMF's work in this field as part of its core mandate. Accordingly, Japan established the Digital Money Window under the Japan Subaccount for Selected Fund Activities (JSA) and has made a new contribution of USD 15 million. We will utilize this window mainly to (1) identify high-risk countries/regions and provide necessary capacity building after stocktaking member countries' considerations on CBDCs and degree of digital money penetration, and (2) deepen the analytical work that the IMF should undertake in line with its mandate.

Furthermore, Japan supports the IMF's efforts to further integrate its capacity development with its surveillance and lending activities, while remaining agile to support members in implementing crisis-related responses, addressing vulnerabilities, and strengthening institutional capacity. Japan, having been actively supporting FCS, values the importance of the country-tailored approach, which is highlighted in the newly approved IMF FCS strategy. Japan, as a leading donor of the IMF's capacity development for many years, will continue to provide proactive support in this area.

3. Our Expectations to the IMF: Other Important Policy Matters

The 16th General Review of Quotas (GRQ)

On the discussions of the 16th GRQ, Japan's priorities are the following five points.

First, it should be noted that even in an emergency situation like the current pandemic, the New Arrangements to Borrow (NAB) have not been activated due to support from MDBs and policy responses by member countries. Given this, when estimating the demand for financing needs, the IMF should make realistic estimates rather than drawing on overly pessimistic scenarios.

Second, the IMF's financing gaps fluctuate considerably depending on the situation (non-crisis or mid-crisis) and the scale of the crisis. If the IMF uses only quota resources to cover all the financing gaps, member countries will be required to inefficiently set aside part of their reserves for quotas even in normal times. Therefore, the IMF should respond to tail risks with borrowed resources and include them as a permanent

component of the IMF's resource structure.

Third, we urge for the quota formula to factor in voluntary financial contributions (VFCs) in order to institutionalize sufficient incentive mechanisms for member contributions. This is because financial resources including for low-income countries, which are of particular importance at the current juncture, are funded by the VFCs from member countries.

Fourth, we call for a deeper discussion to ensure that the data, on which the quota review is based, reflect the reality of each country's economy and are highly accurate and credible.

Finally, the 16th GRQ should be agreed as a package, including on the points above.

Cooperation with Regional Financing Arrangements (RFAs)

To function as the center of the Global Financial Safety Net (GFSN), the IMF should continue its close cooperation with bilateral swaps and the RFAs. By enhancing cooperation between the IMF and the Chiang Mai Initiative Multilateralization (CMIM) including through CMIM test runs, and by deepening the coordination between the IMF and ASEAN+3 Macroeconomic Research Office (AMRO), which supports the CMIM operation and undertakes regional macroeconomic surveillance, we expect the GFSN will be further strengthened.

External Balance Assessment (EBA)

The EBA methodology is based on the concept that assumes a link between the exchange rate and the current account balance. However, this link has been losing its ground due to the followings:

- the share of the income balance, which is not subject to exchange rate movements, accounts for a dominant portion of the current account balance, particularly in advanced economies; and
- exchange rates are greatly affected by capital transactions that are expanding and have little to do with current account transactions.

Going forward, we urge the IMF to review the EBA methodology so that it appropriately considers the nature of the income account and the effect of capital transactions, and to eventually reconsider the concept of linking exchange rates to the assessment of current account balances.

Staff Diversity

Lastly, well-qualified human resources have been Japan's key contribution to the IMF, in addition to financial resources and policy inputs. The IMF's global coverage warrants its staff composition to be more diversified with appropriate regional balance, which is key to promote more effective operations. Japan will continue to cooperate with and contribute to the IMF in this regard.