

Statement by the Honorable ASO Taro
Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Forty-third Meeting of the International Monetary and Financial Committee
(April 8th, 2021)

1. The Global Economy and the Japanese Economy

Global Economy

The global economy is recovering at a faster pace, thanks to unprecedented policy responses and the rollout of the COVID-19 vaccination campaigns. However, the recovery is uneven and divergent across countries, particularly between advanced and developing countries. Given the high uncertainty, we should remain vigilant.

To respond to downside risks, including delays in vaccine deployments, resurgence of infection, and long-lasting of scarring, we should avoid premature withdrawal of emergency support. In parallel, we should shift our policy measures from broad-based to targeted, as the recovery proceeds, promote structural transformation of economy, and tackle pre-existing structural issues.

Japanese Economy

In Japan, the infection has been controlled relatively well, with less-stringent restrictions to economic activities. Together with proactive crisis responses, economic contraction was milder, and the IMF projects that Japan's output will return to the pre-pandemic level within this year. This economic condition enables the government to take targeted short-term support, focusing on those in need such as low-income households.

Japan has been facing long-standing structural challenges such as low potential growth rate driven by acute population aging, even before the pandemic. In order to boost potential growth rate, the government has been undertaking measures to facilitate reallocation of labor and capital for green and digital transformation. These measures are included in the economic package over 73.6 trillion yen (approximately \$0.7 trillion) approved last December, as well as the FY2021 Budget over 107 trillion yen (approximately \$1 trillion) approved in March. We will implement these measures in a steady manner.

On monetary policy, the Bank of Japan introduced several policy actions to enhance the sustainability and nimbleness of the current policy framework (Quantitative and Qualitative Monetary Easing with Yield Curve Control). With a view to achieving the price stability target of 2 percent, the Bank will continue with powerful monetary easing under this framework.

2. Our Expectations to the IMF : Strengthening its Support to Developing Countries

Developing countries have been severely affected by the pandemic. Japan highly commends that the IMF has been playing a critical role in supporting them.

New SDR Allocation

We welcome the broad support for a new SDR allocation of \$650 billion at the informal board meeting in March. We commend the IMF on making such significant progress in a short period of time. The new

allocation demonstrates that the IMF is the one and only institution that can provide international liquidity swiftly in the face of crisis.

In allocating new SDRs, we welcome that specific measures will be introduced to enhance transparency and accountability in the use of SDRs. It is also important to encourage wider participation in the Voluntary Trading Arrangements (VTAs). In channeling SDRs for the benefit of low-income countries, Japan believes that the Poverty Reduction and Growth Trust (PRGT) is the best option.

Going forward, the adequacy of the IMF resources discussions should take fully into account the new SDR allocation; particularly its swift and quantitative impact on global reserves.

Debt Issues

The impact of the COVID-19 has exacerbated debt situations in developing countries. Securing debt transparency and sustainability is essential to ensure their sustainable growth.

Given the significant financing needs of developing countries, we welcome the G20 and Paris Club's agreement on the final extension of the Debt Service Suspension Initiative (DSSI). Japan expects that the extension as the final one would incentivize developing countries to move towards structural solutions of their debt issues through the Upper Credit Tranche IMF-supported programs and, as needed, debt treatments under the Common Framework.

We think it important that all creditors who are implementing the DSSI will participate in debt treatments under the Common Framework in a full and transparent manner, while other official bilateral and private creditors will fully implement debt treatments in line with the comparability principle. The Common Framework should be operationalized through launch of the Creditor Committee as early as possible.

To secure steady investment inflows to developing countries, it is critical for these countries as well as creditors and investors to have a precise picture of the debt situations in normal times. To this end, we encourage the IMF, together with the World Bank, to ensure debt data transparency and accuracy through debt data reconciliation. We also expect the IMF to accelerate its capacity building assistance to improve debt management and transparency of developing countries

PRGT and CCRT

Japan believes that the IMF, the core institution at the center of the international monetary and financial system, should be equipped with adequate tools and resources for sufficient support to low-income countries. In this context, Japan supports raising access limits and removing hard caps on exceptional access, which have been presented as options under ongoing PRGT reforms discussions. Japan looks forward to specific measures, such as strengthening the exceptional access criteria, to adequately mitigate additional risks to the IMF.

The Catastrophe Containment and Relief Trust (CCRT) has played an important role in providing debt service relief to low-income countries. However, there remains a funding gap of about \$190 million to complete the scheduled assistance up to April 2022. Japan made a contribution of \$100 million so far and stands ready to consider additional support. We strongly encourage other donors to contribute to this important assistance.

3. Our Expectations to the IMF : Discussion on General Resource Account (GRA)

Resource Mobilization on GRA

We welcome the effectiveness of the doubling of the New Arrangements to Borrow (NAB) and of the new round of bilateral borrowing agreements (BBAs) on January 1, 2021. Going forward, Japan supports a timely activation of the NAB and the BBAs when needed.

Japan would like to raise the following key points on the 16th General Review of Quotas (GRQ) discussions.

First, the financing gap the IMF should address varies considerably depending on the situation (non-crisis or mid-crisis) and the scale of crisis. If the IMF is to cover all financing gaps only from quota resources, member countries are required to set aside part of their reserves for quotas, even in normal time, which is not efficient for their reserve management. Therefore, Japan strongly believes that the IMF should respond to tail risks with borrowed resources, namely by the NAB and the BBAs. Such borrowed resources should be a permanent component of the IMF's resource structure.

Second, borrowed resources should be able to be activated in a flexible and agile manner to respond to tail risks without delay. Japan calls for discussions on this point.

Third, borrowed resources, and other financial resources including for the PRGT or capacity development, are voluntary financial contributions (VFCs) from member countries. To incentivize members to contribute, Japan urges the quota formula to factor in VFCs.

Cooperation with Regional Financing Arrangements

In order to function as the center of the global financial safety net (GFSN), the IMF should continue to closely cooperate with bilateral swaps and regional financing arrangements (RFAs). In this regard, we expect the operational mechanism for cooperation and collaboration between the Chiang Mai Initiative Multilateralization (CMIM) and the IMF to be further deepened, following the approval of the ad hoc amendment to the CMIM Agreement last year to make its activation smoother and swifter.

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

External Balance Assessment

The External Balance Assessment (EBA) methodology is based on the proposition that assumes link between exchange rate and current account balance. However, this proposition has been losing its ground since:

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

This has been long-standing argument of Japan. We note that the latest Global Policy Agenda (GPA) includes work on review of the EBA methodology, and urge the IMF to overhaul this proposition.

Digital Currency

On Central Bank Digital Currencies (CBDCs), Japan welcomes the proposal in the GPA to ramp up its work on their implications as the core of the IMF's mandate with respect to their possible effects on the international monetary system. There are opportunities and risks associated with wide-spread cross-border use of a stablecoin or a CBDC. Developing countries should be able to weigh them from the long-term perspective. In this regard, Japan encourages the IMF to take up CBDC issues in its surveillance and capacity development activities more actively. In addition, we look forward to the IMF's report on digital money, as called upon by the G20 leaders at the Riyadh Summit.

Capacity Development

Strengthening the capacity of developing countries for debt and public financial management is indispensable to ensure debt transparency and sustainability. Japan welcomes the progress in project formulation in these areas under the COVID-19 Crisis Capacity Development Initiative, to which Japan made a contribution of \$10 million.

Japan will also continue to support the World Bank's Debt Management Facility Phase III, in which the IMF also plays a role, and the Data for Decisions Fund.

Also, Japan expects the IMF to continue to collaborate with other developing partners through the Platform for Collaboration on Tax (PCT) and further strengthen technical assistance.

Staff Diversity

Lastly, well-qualified human resources have been Japan's key contribution to the IMF, in addition to financial resources and policy inputs. Global coverage of the IMF warrants 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.