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Statement by the Hon. **JUN AZUMI**,
Governor of the Bank and the Fund for **JAPAN**

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I. THE JAPANESE ECONOMY AND THE GLOBAL ECONOMY

Six months have passed since the unprecedented earthquake and tsunami hit Japan. With the world's support, Japan is working to recover and rebuild. My home town is Ishinomaki City, in Miyagi Prefecture; it was one of the cities most severely damaged by the earthquake and tsunami. The home where I was born was totally destroyed, and my parents both had to stay in a refuge center for about six weeks. This way I have personally experienced this terrible disaster, and thus, I would like to express my deepest gratitude for all your support.

Immediately after the earthquake, the Japanese economy faced three uncertainties: electrical power shortages, supply chain disruptions, and the response to the nuclear power plant accident. As a result of working on both supply and demand, we were able to overcome our electrical power problems in August, a month in which the tightest supply-demand condition was expected. Supply chain disruptions temporarily affected not only Japan but the global economy, but they recovered faster than was foreseen, and production activities are steadily returning to pre-earthquake levels. For the nuclear power plant, work has been proceeding steadily toward a cold shutdown of nuclear reactors in accordance with our roadmap for controlling the accident. Thus, these concerns have steadily been eliminated, which also contributes to improving consumer and business sentiment in Japan. With demand generated by reconstruction work, the Japanese economy is expected to start picking up in the second half of 2011.

In our fiscal management that has been a challenge faced by Japan for a long time, we will stick to the targets of the Fiscal Management Strategy we developed before the earthquake. We will endeavor to recover fiscal soundness through eliminating unnecessary expenditures, securing resources for earthquake reconstruction, and promoting a comprehensive reform of social security and tax. In terms of recovery/reconstruction, we will take all possible measures, with three supplementary budgets, to ensure the necessary expenditures.

While continuing efforts to cut down other expenditures, we will fill the gap in the fiscal resources for recovery/reconstruction which would still remain, by income tax and corporate tax measures mainly, so that we will not push the burden toward the future. On the other

hand, to cope with the longer-term challenge of securing stable fiscal resources to match increasing/accumulating social security spending due to the aging, we will raise the consumption tax rate from 5 percent (which is currently the lowest among advanced economies) to 10 percent by the middle of the 2010's. We will move forward, with concrete discussions on the consumption tax, aiming to submit related bills within this fiscal year. If we fail to recover fiscal soundness, we will see the private sector's confidence deteriorate, and fail to achieve solid economic growth.

Recent disruption in financial markets, including the foreign exchange market and the stock market sparked by the global economic downturn and sovereign debt problems in Europe and the US, is creating new challenges to the entire world, including Japan which is working hard toward reconstruction. Concerns about growing sovereign debt problems in Europe and the resulting financial system vulnerability are the biggest source of the current global financial instability. European countries should come together and take action responsibly. It is important that the IMF encourage efforts by European countries, while also cooperating with these countries appropriately. We expect the US to steadily implement their fiscal consolidation plans and employment measures.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK GROUP

Amidst increasing uncertainty about the global economy, it is important that the Fund and the World Bank Group provide appropriate economic analysis, financial safety nets, and development funds, and that they both contribute to international coordination. Trust by member countries is necessary for both institutions to more effectively perform these functions. Reforms are progressing to have each country's voice match their economic weight, but there remains much room for improvement in their staff composition. Japan quickly completed its procedures to approve quota/capital increases for the IMF and the World Bank Group, as agreed in 2010, but in addition to the funding aspects of our contribution, we would like to contribute to their human resources.

We ask that the Fund continue its work on improvements in the international monetary system. To this end, first of all, enhanced quality and traction of surveillance are important. Emerging market economies need appropriate advice from the Fund on how to handle capital inflows, which generate concerns about exchange rate appreciation and inflation. Advanced economies also need the Fund's advice on how to formulate policies that will lead to sustainable development, while paying attention to their effect on the global economy.

Also, the IMF has enhanced its capacity for crisis prevention and resolution, but its lending facilities must be strengthened further. As global trade and finance become more interconnected, mechanisms to effectively prevent the contagion of crises should be institutionalized quickly.

Next, I will address our expectations for the World Bank. As shown by Japan's earthquake, one can say that a country's response to natural disasters is an essential element of sustainable development. The disaster prevention knowledge and lessons learned from this earthquake, and the corresponding recovery process, will be shared by Japan as an international public resource. In this regard, we would like to work with the World Bank to actively contribute to raising awareness of the importance of developing disaster prevention policies, and promoting stronger initiatives.

We would also like to actively contribute to actions taken in response to both global environmental and climate changes, in cooperation with the World Bank and the international community. Regarding the "Green Fund" for climate change funding, which is currently being discussed, it is important to design a system that can efficiently mobilize private capital. Countries vulnerable to climate change must also be supported. While utilizing tools such as the Global Environment Facility (GEF), we also intend to actively strengthen support systems and capacity building.

III. THE ANNUAL MEETINGS 2012 IN TOKYO

Finally, we are grateful for the opportunity to host the Fund/Bank Annual Meetings next year in Tokyo. Taking this opportunity, we will organize an international conference on disaster prevention together with the World Bank, in Sendai, a city that was struck by the recent great earthquake. We look forward to showing you the shape of Japan's post-earthquake recovery.

Next year will be the 60th anniversary of Japan's membership in the IMF and World Bank, and 48 years will have passed since the previous Annual Meetings held in Tokyo. During this period, the global economy has achieved tremendous growth and advancement, with dramatic increases in trade and capital flows, the growth of developing countries and the expansion of market economies, as well as a shift toward floating exchange rate system and the birth of the euro. On the other hand, poverty reduction and climate change remain to be big challenges and prevention and resolution of repeated international financial crises needs to be provided appropriately. At the Annual Meetings in Tokyo, we intend to set up fora to

discuss the future of the global economy and the international monetary system. We would appreciate your cooperation toward success in the Annual Meetings in Tokyo, and we will put forth our best efforts.