

Statement by the Honorable Kato Katsunobu
Governor of the International Monetary Fund and the World Bank Group for Japan

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

While the global economy is recovering, geopolitical tensions are significant downside risks. We should be mindful of increased debt costs in many countries, including Low-Income Countries (LICs), and high volatility in financial markets, including foreign exchange markets. Russia's war of aggression against Ukraine is the largest source of global economic uncertainty. Once again, we condemn Russia's war of aggression in the strongest terms, and we welcome the progress of the IMF and the World Bank Group (WBG)'s support for Ukraine.

The Japanese economy faces an opportunity to overcome deflation, as shown by the annual wage increase at the highest level in 33 years at the spring labor-management negotiations and record-high levels of business investment. We will bring about a growth-oriented economy driven by wage increases and investment while improving fiscal conditions, creating a dynamic economy along with public finances that are resilient to crises.

II. EXPECTATIONS FOR THE IMF AND THE WBG

This year marks the 80th anniversary of the agreement reached at Bretton Woods, New Hampshire, USA, to establish the IMF and the World Bank (International Bank for Reconstruction and Development - IBRD). The initial missions of both institutions, which were created based on the lessons learnt from the events leading up to the second World War, were to support the post-war reconstruction of their members. Namely, the IMF, by maintaining a fixed exchange rate system centered on the dollar, promoted global economic stability and trade expansion, while the World Bank played the role in bolstering the economic recovery of its members by lending long-term funds at low interest rates to rebuild infrastructure and other assets. Since then, the IMF and the World Bank have appropriately evolved their roles amidst the changes in the international economic and financial landscape.

As the international monetary system shifted to the floating exchange rate regime, the IMF assumed a role of addressing short-term balance of payments needs through financing reserve assets of members. Afterwards, the IMF's functions have expanded to include supporting LICs and enhancing members' resilience against the impacts of climate change. The World Bank has evolved to respond to the different development stages and the different financial needs of its member countries, through the International Development

Association (IDA) that supports LICs, and the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) that supports private capital mobilization in developing countries, in addition to the IBRD that supports middle-income countries (MICs). In recent years, the World Bank has played a critical role in addressing cross-border global challenges such as climate change and pandemics.

The world economy is undergoing various structural transformations: intensifying natural disasters, both in terms of their scale and frequency due to climate change; pandemics; heightened geopolitical tensions; global demographic changes; and disruptive technological innovations. In this context, and as this year marks the 80th anniversary of Bretton Woods, we consider it a perfect opportunity to deepen the discussion on the future role and characteristics of both institutions. Based on this, in the following sections, I will describe Japan's expectations for the IMF and the WBG respectively, and then present Japan's views on issues that should be addressed cooperatively by both institutions.

1) EXPECTATIONS FOR THE IMF

First of all, we believe that the importance of the IMF's core mandate of addressing issues that affect countries' balance of payments and its catalytic function to elicit engagement by other institutions remain unchanged into the future.

On top of that, the role of concessional support to LICs through the Poverty Reduction and Growth Trust (PRGT), established in the wake of the global financial crisis and then expanded during the pandemic, should be regarded as part of the IMF's core operations as its role is expected to become increasingly important in the future.

Japan has contributed to the PRGT over the years to support LICs. As a core function of the IMF, we need to establish a system to ensure it is funded smoothly and reliably. As an immediate step, all members should cooperate based on the agreement by the Executive Board in the PRGT review to restore the financial sustainability of the PRGT. In addition, we should discuss ways to allow a stable transfer of net income from the General Resource Account (GRA) to the PRGT subsidies, including through the amendment of the Articles of Agreement.

Along with lending and surveillance, capacity development (CD) is a core function of the IMF. Based on the recommendations of the Capacity Development Strategy Review, more efforts are needed to further enhance CD outcomes, including through strengthening integration with lending and surveillance.

In view of its importance, Japan has been proactively supporting the IMF's CD activities as a long-standing and largest partner. Given the ever-growing importance of CD as a core

function of the IMF, we should discuss the appropriate financing model going forward, including how Voluntary Financial Contributions (VFCs) should be positioned.

Adapting to technological innovation is also important. In particular, given that many countries, including developing countries, are progressing their discussion on the introduction of Central Bank Digital Currencies (CBDCs), it is critical to design and implement institutional and regulatory frameworks with due consideration to the potential impacts of CBDCs on financial stability, capital flows, and associated spillover effects on monetary policy and the international monetary system.

In this regard, Japan will continue to support the IMF's work on the CBDC Handbook so that it will be enriched and updated by incorporating cutting-edge knowledge and also contribute to assisting policymakers in each country regarding appropriate decision making and responses to risks.

To maintain the resilience and integrity of the international financial system, we should also be aware of the risks of structural problems of large members having negative spillovers on other members and the global economy through trade and investment channels. To enable members to resolve these issues through constructive dialogue, we expect the IMF, in coordination with other international institutions, to provide a springboard for objective discussions through surveillance.

Lastly, I will touch on the review of Quotas. Quotas are the IMF's foundation and embodies its mission. Therefore, the quota increase agreed at the 16th General Review of Quotas (GRQ) should be implemented steadily.

Also, in discussing approaches of the 17th GRQ, we should consider the financial contribution of members to support LICs and CD, which should be regarded as a core operation of the IMF, as previously mentioned in this Statement. Accordingly, the discussion should be conducted in a holistic manner in conjunction with the discussion on the IMF's role.

2) EXPECTATIONS FOR THE WBG

Japan commends the efforts made by the WBG to aspire for a "better and bigger Bank," through bold initiatives such as the revision of its operating and financing models.

Regarding the operating model, Japan welcomes that the Crisis Preparedness and Response Toolkit was duly introduced and expects its widespread use, especially for the cases of fragile LICs. We also support the progress made on the Global Challenge Programs (GCPs) and the launch of the WBG Academy, which we expect will further

promote the One WBG approach. Building on these measures, we expect further progress to be made in the digital development area through the WBG's inaugural Digital Academy, to be held in Japan by the end of this year.

Regarding the financing model, continuation of the reforms in line with the recommendations of the Capital Adequacy Framework (CAF) review is the utmost priority, and Japan appreciates the efforts made by the WBG to date. Japan also appreciates the progress made on the Framework for Financial Incentives (FFI), including the Portfolio Guarantee Platform (PGP) and Livable Planet Fund (LPF), both of which Japan has committed its contribution. Moreover, in recognition of IDA's pivotal role in supporting LICs, Japan remains committed to make an appropriate contribution to IDA21.

Enhancing private capital mobilization is essential for developing countries achieving sustainable growth. We expect the IFC to strengthen its support for IDA countries and those in fragile and conflict-affected situations through its new vision, and MIGA to play a central role in the WBG Guarantee Platform by enhancing its human resources.

Next, on global health, we need to remain steadfast in our efforts to strengthen prevention, preparedness, and response (PPR) for the next possible pandemic. Such efforts must go in tandem with enhancing policies to augment health systems and move towards universal health coverage (UHC), because a well-functioning health system lays a solid foundation for pandemic PPR. The UHC Knowledge Hub, which is to be established in Tokyo next year, will serve as an international hub for achieving UHC by supporting capacity building of officials from finance and health ministries in developing countries, with a particular focus on health financing. We expect that the WBG and World Health Organization (WHO) will work together to expedite preparations.

Finally, on climate change, it is imperative that each country draws an ambitious but feasible transition path from both mitigation and adaptation perspectives, based on country-specific domestic circumstances, while being mindful of compatibility with its level of development. On mitigation, Japan looks forward to LICs and MICs strengthening their roles in supply chains of clean energy products through the RISE partnership, in pursuit of net zero. On adaptation, it is crucial to mainstream disaster risk management and strengthen infrastructure resilience to natural disasters. Japan will continue to support these agendas through the World Bank Tokyo Disaster Risk Management Hub and the Quality Infrastructure Investment Partnership.

3) STRENGTHENING THE COOPERATION BETWEEN THE IMF AND THE WBG

Lastly, I will present Japan's position on three issues which both institutions should work together on — addressing debt problems; supporting developing countries faced with

liquidity pressures; and strengthening Domestic Resource Mobilization (DRM).

Firstly, restoring debt sustainability should be addressed urgently for developing countries to deal with their development challenges over the mid- to long term. For LICs, implementation of the G20/Paris Club Common Framework in a predictable, timely, orderly, and coordinated manner is vital. For MICs, experiences and lessons learned from the case of Sri Lanka, where the agreement was reached swiftly through a coordinated framework among Paris Club and non-Paris Club creditors, led by France, India, and Japan, should be applied to possible future cases.

Also, enhancing debt transparency including through data sharing is another important issue to be addressed. In this respect, Japan has been working on the Data Sharing Exercise (DSE) to be running on a regular basis and inviting other creditors to participate in the exercise together with WBG.

In addition to these ongoing efforts, to prevent the recurrence of debt problems, we expect the IMF and the WBG to facilitate dialogue and policy coordination among members, such as at the Global Sovereign Debt Round Table (GSDR) and other initiatives to ensure that consideration to “debt sustainability” is rooted in lending practices.

Also, as the external environment is changing drastically, we appreciate the IMF/WBG proposal of the “three-pillar approach” for countries that are committed to sound macroeconomic policies but are faced with liquidity pressures, and look forward to the discussion progressing. In considering responses to specific cases in the future, we believe the following points are essential: using the Debt Sustainability Analysis (DSA) as a basis; being mindful of the moral hazard caused by easy financing that undermines the willingness to undertake structural reforms; and considering coordination with Regional Financing Arrangements (RFAs), such as the Rapid Financing Facility (RFF) established under the Chiang Mai Initiative Multilateralization (CMIM).

Lastly, for countries to solve structural problems and achieve self-sustained growth, DRM should be a particular focus. Japan appreciates the Joint Domestic Resource Mobilization Initiative (JDRMI) undertaken by the IMF and the WBG. Japan also expects the IMF and the WBG to take the lead in upgrading the role of the Platform for Collaboration on Tax (PCT), which consists of related international organizations, and further enhance the effectiveness and efficiency of technical assistance by sharing each organization’s strategies.

We encourage tax experts from member countries and non-state jurisdictions to undertake regular dialogues with the international organizations, for the purpose of identifying the challenges that countries are facing in the tax field and the needs for technical assistance.

III. CLOSING

Japan has been supporting the IMF and the WBG in the spirit of multilateralism, since its accession in 1952.

Japan is committed to leading the discussion on the reform of both the IMF and the WBG and contributing to achieving their respective missions, so that both institutions can adapt to the structural transformation of the global economy and resolve the global challenges and problems their members are facing. Japan will also continue to contribute its human resources to the IMF and the WBG.