

**Statement by the Honorable SUZUKI Shunichi**  
**Governor of the IMF for Japan**  
**at the Forty-Fourth Meeting of the International Monetary and Financial Committee**  
**(October 14<sup>th</sup>, 2021)**

## **1. The Global Economy and the Japanese Economy**

### **Global Economy**

The global economy is making steady recovery from the crisis, thanks to unprecedented policy responses and the spread of vaccines against the COVID-19. However, various risks and uncertainties remain significant, including the spread of new variants, delays in vaccination and accumulation of government debt. In addition, differences in the progress of vaccination have further increased the divergence of the global economic and social situation.

In order to achieve a stable economic recovery and sustainable growth, it is essential to mobilize all the policies that we can take for as long as required under the current situation. At the same time, we should take measures to raise the potential growth rate and to boost productivity through structural reforms, which look ahead to the post COVID-19. In addition, once the recovery is firmly established, it will be necessary to ensure the long-term sustainability of public finances. Member countries will be required to promote focused and comprehensive policies based on these medium- and long-term perspectives.

### **Japanese Economy**

Although the Japanese economy is still in a severe situation, it is steadily picking up, especially in export and capital investment. While we need to closely monitor domestic and international situations of the COVID-19 infections as well as volatility in capital markets, the economy is expected to recover as a result of progress in vaccinations and improvements in overseas economies. While paying attention to the soundness of the fiscal and financial sectors, we will implement new economic policies under the new administration formed on October 4. Through this, we will realize a virtuous cycle of growth and distribution, and will develop a post COVID-19 society.

## **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.

### **Health**

Distribution of vaccines to developing countries is critical to end the COVID-19 pandemic. In this regard, the Multilateral Leaders Task Force, in which the IMF participates, is playing an important role. Japan has so far pledged in total USD 1 billion of support through COVAX and bilateral cooperation frameworks. In addition, Japan provided approximately 23 million doses of vaccines to developing countries, which is the third biggest amount of support in the world. At the recent “Global COVID-19 Summit”, Japan also announced its support for additional doses of vaccines, aiming for 60 million in total in the future. Distribution of vaccines continues to be one of the most important policies for the stability of the global economy, and Japan expects that the IMF will play an active role by drawing on its strengths.

## **SDR**

We welcome the implementation of the new SDR allocation of USD650 billion in August, along with the introduction of measures to enhance transparency and accountability in the use of SDRs. Japan highly commends this new allocation, which responds quickly to the financing needs arising from the crisis.

Japan will contribute to SDR channeling that utilizes the newly allocated SDRs to support vulnerable countries, particularly low-income ones. Among the proposed options, scaling up of the Poverty Reduction and Growth Trust (PRGT) is Japan's priority. Based on the IMF's request, Japan will make a new contribution of SDR 2.8 billion (USD 4.0 billion) to the Loan Account, including the activation of SDR 1.8 billion (USD 2.6 billion) which was pre-announced in April last year, and SDR 56 million (USD 80 million) to the Subsidy Account. Through these contributions, Japan will continue to be responsible as the top donor of the PRGT.

We welcome the IMF's proposal of establishing the Resilience and Sustainability Trust (RST), which will address medium- and long-term structural challenges, including climate change and pandemic preparedness, within the IMF's mandate. For many member countries to contribute to this important initiative, it is essential to ensure the liquidity and safety of the SDR as foreign reserve assets. In this regard, it is critical to secure Preferred Creditor Status, which excludes RST lending from debt restructuring, as well as to adequately protect channeled SDRs from credit risks. We ask the IMF to work on the details of these fronts.

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

## **CCRT**

The Catastrophe Containment and Relief Trust (CCRT) has played an important role so far in providing debt service relief to low-income countries that have been affected by the COVID-19. It is important that the CCRT provides support through next April. For this reason, Japan recently made a contribution of an additional USD 50 million to the CCRT on top of the USD 100 million contributed last year. We encourage other donors to follow.

## **Debt issues**

Securing debt transparency and sustainability is indispensable for sustainable economic growth as well as sound macroeconomic management in developing countries.

The Debt Service Suspension Initiative (DSSI) will expire at the end of 2021. In this context, the G20 has committed to implement the Common Framework in a timely, orderly, and coordinated manner. Japan expects the G20 to efficiently address debt vulnerabilities in developing countries under this framework. Debt treatments should be swiftly provided to the three countries which have already requested treatments under the Common Framework. Japan expects the Common Framework to effectively function in supporting

countries facing debt vulnerabilities more broadly.

To prevent future crises, Japan expects the IMF and the World Bank to step up their efforts of analyzing issues related to debt transparency and providing debt-related technical assistance. Furthermore, Japan calls for progress in debt data reconciliation (DDR) of debtor countries proposed by the IMF and the World Bank. It is important for debtor countries to understand accurate debt data and enhance capacity to properly manage their debt through DDR. At the same time, it is crucial to improve accuracy of IMF-World Bank's Debt Sustainability Analyses. To support debt related activities, Japan is pleased to announce its contribution of USD1.5 million to the World Bank's Debt Management Facility Phase III for its activities in Fiscal Year 2022, in which the IMF also plays a role. We also expect the IMF to make effective use of the Data for Decisions Fund.

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

#### **Adequacy of the General Resource Account (GRA)**

Japan underscores the following key points on the adequacy of the GRA.

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 New Arrangements to Borrow (NAB) and the Bilateral Borrowing Arrangements (BBAs). Such borrowed resources should be a permanent component of the IMF's resource structure. In addition, 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. Furthermore, the adequacy of the IMF resources discussions should take fully into account both the swiftness of new SDR allocation and the quantitative impact on global reserves including that from SDR channeling.

On review of quotas, we urge the quota formula to factor in voluntary financial contributions (VFCs) in order to ensure sufficient incentives for members to contribute. This is because borrowed resources and other financial resources, including for the PRGT or capacity development, are funded by VFCs from member countries. In addition, since the data after 2020 will be greatly affected by the COVID-19 crisis after 2020, we call for discussions on how to deal with them. We must ensure the data, the foundation of our discussion, will reflect the situation of each country's economy and therefore be highly reliable.

#### **Cooperation with Regional Financing Arrangements (RFAs)**

In order to function as the cornerstone of the global financial safety net (GFSN), the IMF should continue its close cooperation with bilateral swaps and RFAs. By strengthening the cooperation between the IMF and the Chiang Mai Initiative Multilateralization (CMIM), which has undergone amendments over the last two years to make its activation smoother and swifter, 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 to be further strengthened.

## **Climate Change**

On climate change, we support the IMF to respond to the needs of member countries and to play an active role in macro-critical area. Meanwhile, in its policy recommendations to member countries, the IMF should not focus on specific policy measures among various policy options. Rather, the IMF should support member countries' efforts to achieve net-zero by focusing on an overall appropriate policy mix, while taking into account country-specific factors.

With regard to the international carbon price floor (ICPF), we are concerned that setting differentiated floors among major emitters will exacerbate carbon leakage and will not promote changes in major emitters who should intensify their efforts. It goes without saying that the poorest countries and small island states should be excluded; however, from the perspective of efficiency, we believe that the floor should be uniformly applied at least to major emitters. In any case, the ICPF has not yet been sufficiently discussed among member countries, and we look forward to further discussions at the Board.

## **Digital Money and Capacity Development**

On Central Bank Digital Currencies (CBDCs) and other forms of digital money, Japan strongly supports the IMF to take up the topics as the core of its mandate given their possible impacts on the international monetary system. The IMF's surveillance and capacity building activities will lend critical support to members trying to properly develop or accept CBDCs and other forms of digital money. Since digital money is a rapidly-developing field and its use may expand across borders in a short period of time, we call on the IMF to swiftly implement and strengthen these efforts. Japan, as a leading donor of the IMF's capacity development for many years, stands ready to provide proactive support in this area.

## **External Balance Assessment (EBA)**

The 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.

On the review of the EBA methodology, we strongly urge the IMF to make revisions that appropriately take the effect of income account and capital transactions into account, and then 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. 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.