

**Statement by the Honorable Kato Katsunobu
Governor of the IMF for Japan
at the Fiftieth Meeting of the International Monetary and Financial Committee
(October 25, 2024)**

To begin with, Japan once again welcomes the selection of Dr. Kristalina Georgieva for her second term as Managing Director of the IMF. We will further strengthen our collaboration with the IMF under her leadership.

1. The Current Global and Japanese Economy:

While the global economy is recovering, the pace of recovery is divergent among countries. Inflation is on a declining trend in many countries, but risks remain, including where upward pressure on prices could strengthen again due to geopolitical tensions and other factors. We should be mindful of increased debt costs in many countries, including low-income countries, 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's support program 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.

2. Structural Transformation over the Global Economy:

The world economy is undergoing various structural transformations that generate prolonged impacts. For example, natural disasters, both in terms of their scale and frequency, have intensified because of climate change. While the scars of COVID-19 remain, fears of the next pandemic loom. Global demographic changes and disruptive technological innovations, including AI, are also underway. These changes disproportionately affect low-income populations and countries, as they are more vulnerable to shocks stemming from these transformations. Accordingly, inequality is widening. With significant changes in the external environment and the increasing uncertainty of the global economy, the sources of countries' balance of payment problems are more diverse, and resolving these issues is taking longer.

3. Reconsideration of the Role of the IMF:

In this context, the IMF has gradually evolved its role and instruments to support its member countries. As this year marks the 80th anniversary of the adoption of the Articles of Agreement at Bretton Woods, we consider it as a perfect opportunity to reconsider from a long-term perspective the IMF's future role and its characteristics.

In discussing these issues, we should always be conscious of the IMF's core mandate: focusing on macro-critical issues that affect countries' balance of payments and acting as a catalyst. Given this, we believe it necessary to deepen discussion among all IMF members on issues such as: "what roles should the IMF play in resolving mid- to long-term and structural issues, on top of its traditional role of addressing short-term balance of payment needs"; "how should the IMF prepare tools, together with the necessary foundation to appropriately serve such functions"; and "how should such tools and the foundation be linked to the IMF's decision-making mechanism." Japan is ready to actively participate in such discussions, which should be

initiated on the occasion of the 80th anniversary of Bretton Woods. Japan also believes it is essential for the IMF to further strengthen its role in addressing various ongoing issues. These are presented in the following statements, along with how Japan will commit to support the IMF across these various aspects.

4. The IMF's Roles to be Further Strengthened:

(i) Addressing Debt Issues:

Addressing ongoing debt issues is a prerequisite for members to deal with structural challenges. For low-income countries, implementation of the G20/Paris Club Common Framework in a predictable, timely, orderly, and coordinated manner is vital. For middle-income countries, experiences and lessons learned from the case of Sri Lanka, where the agreement was reached swiftly through a coordinated framework among various Paris Club and non-Paris Club creditors, led by France, India, and Japan, should be applied to possible future cases. For instance, it is important to provide debt restructuring based on the IMF's Debt Sustainability Analysis (DSA), and to ensure comparability among creditors, considering that creditors are more diversified and their composition is changing. Enhancing debt transparency including through the Data Sharing Exercise should also be addressed. As various challenges to global economic stability and development continue, we look forward to the IMF playing a central role in multilateral cooperation anchored by the rule of law and mutual trust. Among the current challenges for the IMF, Japan emphasizes that progress in the following issues would be particularly important.

In addition to these ongoing efforts, a recurrence of debt crises should be avoided. Historically, debt crises have repeatedly occurred, despite efforts such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). We call on the IMF to leverage its multi-surveillance to identify underlining global structural issues, including global excessive liquidity and trends in current account imbalances. We also expect the IMF to maximize the use of its global surveillance and convening power to promote dialogue and policy coordination among members, for enabling both creditor and debtor countries to recognize the underlying causes of debt issues, and to ensure that consideration to “debt sustainability” is rooted in lending practices.

(ii) Assistance to Countries Facing Difficulties from External Shocks:

As the external environment is changing drastically, an increasing number of countries could face liquidity issues despite their commitment to sound macroeconomic policies. These countries need a well-balanced combination of the following measures: strengthening domestic resource and private capital mobilization supported through advancing structural reforms; seeking capital flows from international financial institutions and others; and considering debt treatments when needed. These policies are emphasized in the IMF/World Bank proposal of the “three-pillar approach”. We appreciate the proposal 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 IMF's 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).

Recently, exogenous factors, including climate change, have been putting a long-term and structural strain on countries' balance of payments. The IMF should respond to these impacts of climate change, while targeting macro-critical issues, supporting members' reform efforts, and serving its catalytic role in mobilizing resources from other international organizations and private capital. From this perspective, we should consider how to position the “Resilience and Sustainability Facility” within the IMF's operations, including its funding mechanism, so that the facility can play an essential role in the future alongside the

traditional tools equipped for addressing short-term balance of payments issues.

(iii) Supporting Low-Income Countries:

Concessional support to low-income countries (LICs) through the Poverty Reduction and Growth Trust (PRGT), established in the wake of the global financial crisis and then expanded during the pandemic, is an example of the IMF appropriately adjusting its role in response to the structural transformation of the global economy. Japan has contributed to the PRGT over the years to support LICs. However, the current financing model that relies heavily on voluntary financial contributions (VFCs) from donors is not sustainable. Based on the agreement by the Executive Board in the PRGT review, all members should cooperate in a timely manner to facilitate the generation of PRGT subsidies through utilizing net income and/or reserves of the General Resource Account (GRA). Until the necessary financial resources are assured, the trust should be operated within the currently available financial envelope.

In addition, further steps are needed to make the support through the PRGT more predictable and sustainable, so as to appropriately support LICs at the time of any future pandemics and natural disasters. From this perspective, we should clarify how the IMF's support for LICs is positioned within the IMF's operations, thereby securing its financial self-sustainability, including through the amendment of the Articles of Agreement to allow direct transfers of GRA net income to the PRGT. Given the high uncertainty in the global economy, transfers of net income should be limited to the level that can maintain the financial soundness of the GRA. In addition, support for LICs through the PRGT should be carefully designed to effectively resolve structural problems affecting eligible countries' balance of payments while limiting its scope to macro-critical areas and making use of the IMF's catalytic function.

(iv) Capacity Development for Resolving Structural Issues:

To sustainably resolve structural challenges that are behind balance of payments issues, capacity building of member governments is essential. 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, and through catalyzing engagement by other partners.

Japan has been proactively supporting the IMF's CD activities as a long standing and largest partner. Given the ever-growing importance of capacity development, we should discuss the appropriate financing model going forward, including how VFCs should be positioned.

In order for countries to build a robust balance of payments, solve structural problems, and achieve self-sustained growth, Domestic Resource Mobilization (DRM) through strengthening the domestic tax system and tax institutional capacity should be a particular focus of the IMF's capacity development operations. Japan appreciates the Joint Domestic Resource Mobilization Initiative (JDRMI) undertaken by the IMF and the World Bank. Japan also expects the IMF and the World Bank to take the lead in upgrading the role of the Platform for Collaboration on Tax (PCT), which consists of related international organizations, and further enhancing the effectiveness and efficiency of technical assistance by sharing each organization's tax-related strategies. We also 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.

(v) Adapting to Technological Innovation and Maintaining the Resilience and Integrity of the International Financial System:

Currently, ever more people are enjoying the fruits of innovative digital technologies, including in the field of finance and currency. At the same time, we cannot ignore the growing risks arising from technological innovation, such as fragmentation of payment systems, currency substitution, and money laundering. The IMF should address these new challenges, and we expect surveillance and capacity development to be strengthened in these areas.

In particular, given that many countries, including developing countries, are making progress toward the introduction of Central Bank Digital Currencies (CBDCs), it is critical to design 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 supports the IMF's work in developing the CBDC Handbook. Japan will continue to support its work so that the CBDC Handbook 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.

We should also be aware of the risks that the structural problems of large members could have 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.

5. Strengthening the IMF's Organizational Foundation:

(i) Strengthening Human Capital:

Given the ongoing various structural transformations in the global economy, greater diversity of staff, which is the IMF's greatest asset, in terms of nationality, race, gender, and expertise, is vital to enhance the IMF's ability to support members facing various structural challenges. Japan will continue cooperating with and contributing to the IMF with well-qualified staff and candidates with various expertise.

(ii) Review of Quotas:

Quotas form the basis of the IMF's funding and define access limits, Special Drawing Rights (SDR) allocations, and voting shares. They are essential for the IMF to achieve its mission effectively. Therefore, swift implementation of the quota increase agreed at the 16th General Review of Quotas (GRQ) is the highest priority. Japan has completed its domestic procedures for the 16th GRQ and the "New Arrangements to Borrow (NAB)" rollback.

The IMF Executive Board's ongoing work to develop by June 2025 possible approaches as a guide for further quota realignment, including through a new quota formula, under the 17th GRQ, should be conducted in conjunction with the discussion on IMF's future role and characteristics, as raised in this Statement. In considering future quota share realignment, we should consider the contribution of members to the IMF's role in the current context: supporting LICs including from the perspective of addressing long-term and structural challenges; capacity development by the IMF to help members solve structural problems; and maintaining the resilience and integrity of the international financial system.

6. Conclusion:

Since the adoption of the Articles of Agreement 80 years ago, the IMF has evolved its role in accordance with the remarkable changes in the international economic and financial environment. Since its accession in 1952, Japan has been supporting the IMF in the spirit of multilateralism. At the opportunity of the 80th

anniversary of Bretton Woods, for the IMF to continue to adapt to the structural transformation of the global economy and resolve the problems its members are facing, Japan is committed to leading the discussion on the IMF's future role, its operations, and organizational foundation. The IMFC is the ideal forum for such discussions, and we support the initiative of Saudi Arabia as Chair.