

**E. Statement by Japan, at the 35th Meeting of the IMFC  
(Washington, D.C. / April 22, 2017)**

April 23, 2017



# **International Monetary and Financial Committee**

Thirty-Fifth Meeting  
April 21–22, 2017

Statement No. 35-19  
Revised

**Statement by Mr. Aso  
Japan**

**Statement by the Honorable Taro Aso  
Deputy Prime Minister of Japan and Governor of the IMF for Japan  
at the Thirty-Fifth Meeting of the International Monetary and Financial Committee  
(Washington, D.C., April 22, 2017)**

**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

**The Global Economy**

We welcome recent improvements in the global outlook, particularly in advanced economies. However, the global economy continues to face structural challenges, including raising potential growth, eliminating vulnerabilities, and achieving inclusiveness. Although these challenges become less obvious when the economy picks up, we should continue to address them without false confidence. With downside risks and uncertainty persisting, the stability of financial and exchange rate markets is especially important. Excess volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability.

Under these circumstances, we believe that it is appropriate for us to remain committed to using all policy tools – monetary, fiscal, and structural – individually and collectively, while enhancing economic and financial resilience. Monetary policy should continue to be used actively to support economic activity and ensure price stability. Moreover, it is a common challenge across economies to use growth-friendly fiscal policy that would lead to long-term growth and structural reforms, while ensuring debt sustainability. Each economy should therefore not only take short-term policy measures but also advance structural reforms to enhance potential growth and eliminate vulnerabilities, while taking into account country-specific circumstances.

Some point out that movements toward inward-looking policies observed recently in some parts of the world have been driven by those who cannot enjoy the benefits of free trade or a market economy. We should therefore strike the right balance between growth and inclusiveness through appropriate redistribution and structural measures to make sure that the benefits are shared more widely. In doing so, redistribution should not be an end in itself. It would be unsustainable without achieving economic growth and ensuring resources for such redistribution. At the same time, we should not oppose free trade on the pretext of achieving inclusiveness or addressing inequality. We would emphasize that free trade has contributed to economic prosperity in many economies.

**Revitalization of the Japanese Economy**

Japan's economic fundamentals are solid as Abenomics has made steady progress. Real GDP has been growing above its potential for four consecutive quarters. Wage growth has been at the highest level in this century for the past three years. The job-to-applicant ratio is the highest in 25 years. Going forward, supported by favorable corporate earnings and a tight labor market, it is important to strengthen the virtuous circle in the economy, which will lead

to steady growth in consumption and investment. To achieve such a virtuous circle, sustained and stable wage increases are crucial. In addition, Japan's priority is to overcome population aging and declining birthrates, and to raise potential growth, including through structural reforms. Japan has been advancing "work-style reform," which promotes the labor participation of women and the elderly and raises labor productivity. Last month we developed an action plan on this reform. This would contribute to sustainable and inclusive growth, which is a challenge for other economies as well. The government will continue to accelerate Abenomics by using all policy tools – monetary, fiscal, and structural – in cooperation with the Bank of Japan.

## **II. EXPECTATIONS FOR THE IMF**

The IMF's role continues to be substantial in international cooperation toward addressing policy challenges of the time in a changing global economy. We continue to expect the IMF to play a central role in the international monetary system.

### **Surveillance**

We continue to expect effective surveillance and policy recommendations by the IMF, which has excellent expertise in this area. It is beneficial for the IMF to provide policy analysis and recommendations from longer-term perspectives, given country authorities' tendency toward short-sighted policy implementation. The IMF also has comparative advantage in analysis focusing on cross-country linkages, such as spillover effects from systemically important countries. In a world where global integration is progressing, such linkages are difficult for each country to grasp in a comprehensive manner.

It remains a priority for the authorities of national governments world-wide to address significant increases in cross-border capital flows and their heightened volatility due to the integration of the global economy. While we welcome the IMF's review at the end of last year regarding recent country experiences to address capital flows, this is just a milestone towards a more comprehensive assessment. Building on the conceptual framework for capital flow management in the form of the "Institutional View," we need a framework for more granular and concrete assessment. We, therefore, continue to encourage the IMF to work on developing practical guidance that would serve as a basis for assessing the effectiveness and appropriateness of capital flow management measures.

With regard to *the External Sector Report*, which assesses the current state of global imbalances, we believe that there is room for further improvement in the methodology to assess exchange rates. As for the discussion on global imbalances, mere existence of current account surplus and deficit itself is not a problem, as they just reflect each economy's structure and cyclical positions. In cases where "excessive" imbalances exist, they should be addressed by a package of macroeconomic and structural policy measures; adjustment through changes in the exchange rate is not necessarily required. There are limitations to an exchange rate assessment for Japan in terms of addressing current account imbalances. This is because, as the IMF itself suggests, the effect of the exchange rate on Japan's trade balance

has declined, and most of Japan's current account surplus consists of surplus in the income balance. Furthermore, the assessment model has room for improvement by adding granularity in the analysis with a view to capturing country-specific characteristics, such as a gap between rates of return for investment from and to abroad.

### **Global financial safety net**

Economic crises, and policy responses to address them, can take various forms. Recognizing this, the IMF should strengthen cooperation with regional financing arrangements (RFAs), sharing a common goal of ensuring financial and monetary stability while respecting the diversity of each RFA. Continual and close cooperation, such as information sharing, is needed not only at the time of crises, but also at normal times. As a co-chair of the ASEAN+3 Financial Cooperation Process of 2017, Japan will continue to lead the discussions on further enhancing cooperation between the IMF and Chiang Mai Initiative Multilateralisation (CMIM) or its surveillance unit, ASEAN+3 Macroeconomic Research Office (AMRO), including through joint test-runs and exchange of information.

We welcome the IMF's constant review of its lending toolkit in response to changing global financial markets and the needs of members. In the review, we consider it essential to ensure that IMF resources continue to be used in a disciplined manner and that the IMF makes proper assessment of borrowing members. We look forward to further discussions based on a detailed and concrete proposal by the IMF.

Regarding the quota review, it is essential that members' voluntary financial contributions to the IMF's borrowed resources be duly acknowledged in the distribution of quotas, which is the core of the governance of the IMF. Distribution of quotas is supposed to seek to sufficiently capture members' ability to contribute usable resources as well as their potential need to borrow from the Fund. From the standpoint of reflecting financial contribution, we believe that the contributions towards borrowed resources have recently become even more important for the IMF's operations. While the amount of IMF resources necessary to respond to a crisis may have increased as the nature of financial crises has changed, IMF quotas do not need to cover all of the enormous amount of potential financing needs, including those stemming from crises which rarely occur but are highly probable to cause serious damage once they materialize. It is more reasonable for members to set credit lines to the Fund in preparation for infrequent crises than to have their reserves kept at the IMF. As a variable to be included in the quota formula, the track record of contribution toward borrowed resources is appropriate because it can fully take into account each member's will and feasibility to contribute borrowed resources to the IMF.

### **Support for Low-Income Countries and Financing for Development**

The IMF is expected to play an important role in capacity development as huge demand exists in many policy areas. Japan, as a major donor, will continue to contribute to capacity development activities of the IMF.

In these activities, we welcome the IMF's move toward outcome-oriented evaluation through the Results-Based Management (RBM) framework. Capacity development requires effective implementation based on a rigorous assessment and examination of outcome. These days, results-based management has become increasingly important in terms of fulfilling accountability to donors, as IMF capacity development activities rely more heavily on external donor financing than before.

We expect the IMF, as a global institution, to identify real needs of capacity development in every part of the world and deliver assistance without geographical bias. We think that capacity development is particularly important in areas, including statistics that provide basic data to design, plan, and evaluate public policies; financial regulation and supervision frameworks; public financial management and debt management as a basis for sustainable development.

Furthermore, the IMF should continue its focus on strengthening tax systems and enhancing governance in tax administration in low-income countries (LICs). This focus aims to enhance domestic resource mobilization (DRM) in LICs, which is a prerequisite for achieving the Sustainable Development Goals.

In this context, it is essential to make use of the Revenue Mobilization Trust Fund (RMTF) to strengthen DRM in LICs. To this end, the IMF should utilize the expertise and information shared at the Platform for Collaboration on Tax that was established by the IMF and other relevant institutions. Japan will continue to take an active role in this initiative.