It is my honor and pleasure to welcome you to the Tokyo Fiscal Forum. I would like to thank the Policy Research Institute of Japan’s Ministry of Finance, the Asian Development Bank Institute, and my colleagues at the IMF for preparing this conference.

The Tokyo Fiscal Forum aims to facilitate exchanges among high-level Asian policy makers and academics on key fiscal policy issues affecting Asian economies. Let me explain why we think this initiative is timely and important by starting with the global economic outlook and then examining some of the issues on the agenda of this conference.

The Global Outlook

Nearly eight years after the global financial crisis, global growth is still modest. Despite a boost to growth from the decline in oil prices, the Fund’s April World Economic Outlook saw the world economy expanding by only 3.5 percent this year, picking up to 3.8 percent in 2016.

Although growth this year should be stronger than in 2014, medium-term prospects are less optimistic for some advanced economies, and especially for emerging markets, where economic activity has been slowing since 2010. Of course, this includes some of the big emerging market countries in this region. Nonetheless, the outlook for Asia remains positive, and the region is expected to remain the fastest growing the world.

So far, many Asian countries have shared the experiences of successful export-led industrialization and buoyant domestic demand. This has been supported by sound macroeconomic management that has maintained fiscal balances. However, aging populations and falling birth rates are shrinking labor forces in more and more countries, and this will cause economic growth to drop. Sound fiscal management becomes more challenging in the face of these demographic changes because increased spending for aging populations and shrinking tax bases will undermine fiscal soundness. Our host country, Japan, has been struggling with sluggish growth and high public debt, in part, for this reason, and South Korea, Hong Kong SAR, Singapore, and China are facing similar challenges.
Therefore, to sustain growth momentum and long-term prosperity, policy makers in Asia will need to put greater emphasis on growth-friendly fiscal policy. This means taking the design of both public spending and revenue policies more seriously.

**Growth-Friendly Fiscal Policy**

On the spending side, it is a given the governments to make ends meet by controlling spending, but we also need to recognize the benefits of allocating public resources to essential public spending. There are close links between inclusive growth and spending in the areas of infrastructure, education, healthcare and social safety nets. They can lift long-term growth by increasing physical and human capital and enhancing productivity. To reap the full benefits requires these additional resources to be spent efficiently.

On the revenue side, well-designed tax structures can enhance growth by minimizing distortions to work and investment. The common elements should include shifting to the least distortionary taxes, with a focus on consumption and property, and broadening tax bases.

**Key Conference Themes**

These elements of growth-friendly fiscal policy are relevant to all of the delegations in the room today, and they lead to some key themes that will be addressed during our forum that I would like to address briefly.

The first concerns social spending. In most Asian countries, coverage of public pensions and healthcare services is limited, and widening coverage has been the subject of debate. Setting adequate rules to keep fiscal soundness is prerequisite, and it is also important to design social spending to achieve long-term inclusive growth, by minimizing distortions to work and enhancing human capital accumulation.

A second issue relates to revenue mobilization. In many Asian countries, tax revenues are at low levels compared with other regions. This does not mean that additional revenue mobilization will be easy, especially as demographic changes will eventually affect the size of the tax base. So, the key
issue should be to implement strategic measures to realize well-designed tax structures under aging societies.

Efficient public spending, especially in the area of infrastructure, is the third crucial issue. In some emerging countries, including India, infrastructure bottlenecks are not just medium-term concerns. They have been recognized as constraints on near-term growth. In low-income countries, poor infrastructure remains an impediment to development. While closing infrastructure gaps is a key policy priority, there is also substantial scope for improving the efficiency of such spending. The primary reason for inefficiency is weak public investment management processes. The IMF has designed a new diagnostic tool for Public Investment Management Assessment to evaluate the strength of management practices. In scaling up public investment, more efforts will be needed to improve efficiency by strengthening the institutions.

The fourth and final point relates to anchoring fiscal policies and managing fiscal risks, including at the sub-national levels. To contain fiscal risks at the national level, it becomes more pressing to have a well-designed fiscal anchor at different levels within a country. We need to improve the monitoring and management of fiscal risks by sophisticating monitoring methods and intergovernmental relationship. This will help to preserve the soundness of the overall fiscal system.

**Conclusion**

I hope that this conference can offer you greater insight into these issues in order to support your efforts to design and improve fiscal policy once you return home. The IMF is committed to cooperating with all Asian economies on this front, and we look forward to ongoing interactions in future gatherings as well as our bilateral discussions. I would like to thank you again for your participation, and wish you two fruitful days at the 2015 Tokyo Fiscal Forum.