

# **G7's Contributions to “Building Resilience and Reshaping Fiscal Policy”**

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# **G7 Finance Track – Priority Pillars**

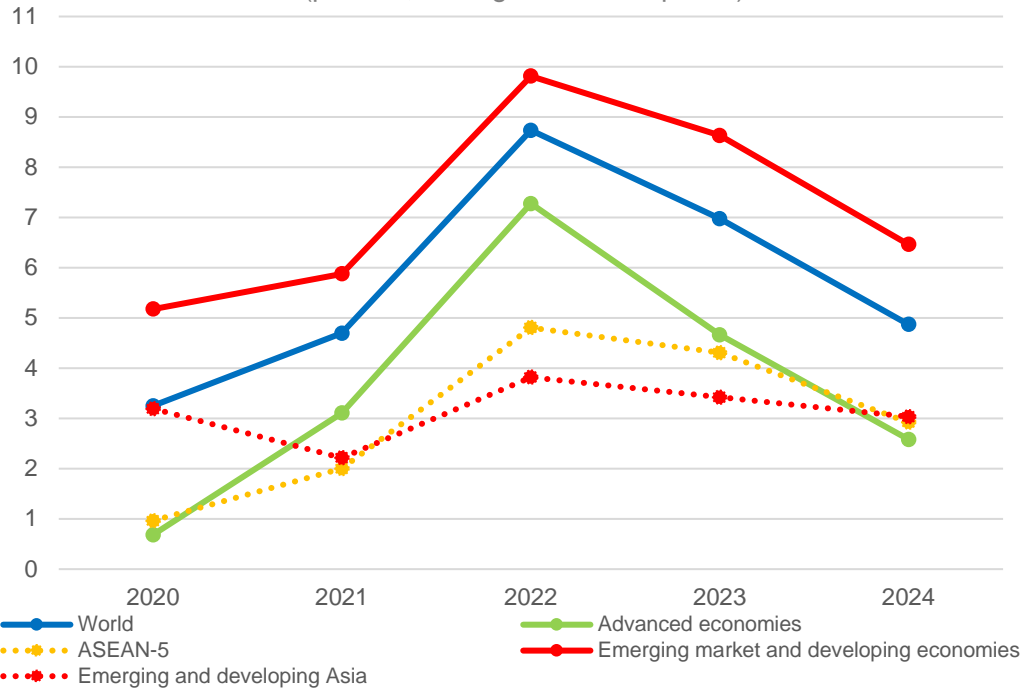
- 1. Tackling immediate global challenges**
- 2. Enhancing global economic resilience**
- 3. Economic Policies in Pursuit of Welfare**

# 1-1. Macroeconomic policy mix amid inflationary pressures

- ✓ *Fiscal policy should continue to provide, as appropriate, **temporary and targeted support to vulnerable groups** suffering from the increase in cost of living.*
- ✓ *The overall fiscal stance should ensure medium-term sustainability and be **coherent with the monetary policy stance amid inflationary pressures.***

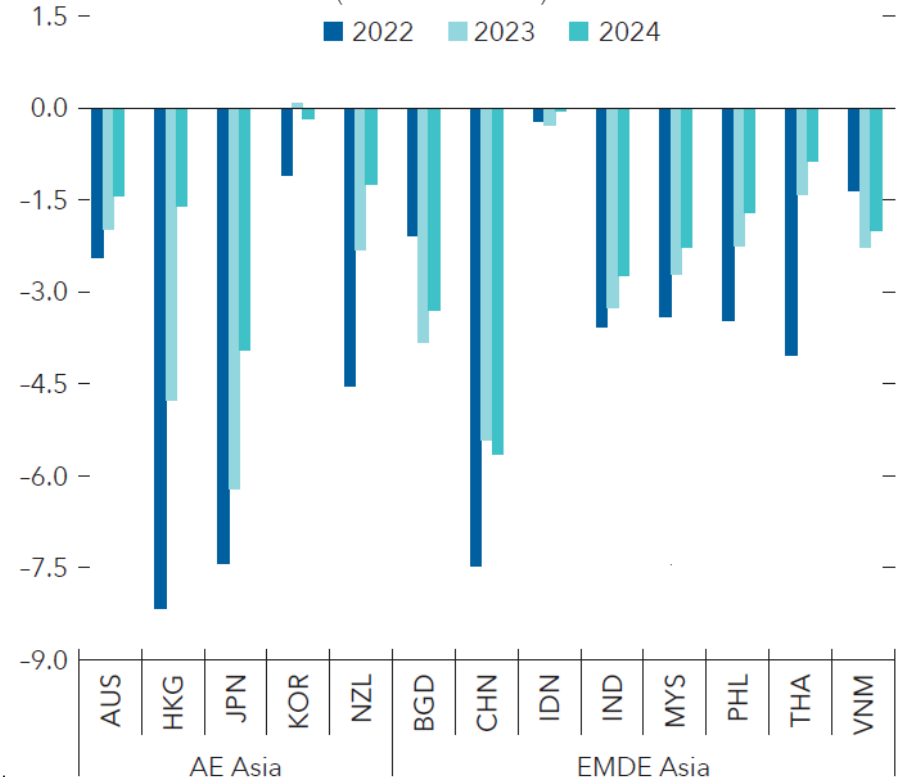
### Inflation Changes

(percent, average consumer prices)



### Cyclically Adjusted Primary Balance in Asia

(Percent of GDP)



Note: ASEAN-5 = Indonesia, Malaysia, Philippines, Singapore and Thailand.

Emerging and developing Asia = China, India, Indonesia, Thailand, Vietnam, Philippines, Malaysia, Bangladesh, Bhutan, Brunei Darussalam, Cambodia, Fiji, Kiribati, Lao P.D.R., Maldives, Marshall Islands, Micronesia, Mongolia, Myanmar, Nauru, Nepal, Palau, Papua New Guinea, Samoa, Solomon Islands, Sri Lanka, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

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Source: IMF, World Economic Outlook, April 2023

Source: IMF, Regional Economic Outlook for Asia and Pacific, May 2023

# 1-2. Targeted and temporary support

***Our temporary support in response to heightened energy prices should be well targeted to the most vulnerable and **phased out appropriately in order not to delay the transition to clean, safe and sustainable energy.*****

## Fiscal support by type of measure

(USD billions, calculated using 2022 bilateral exchange rates)



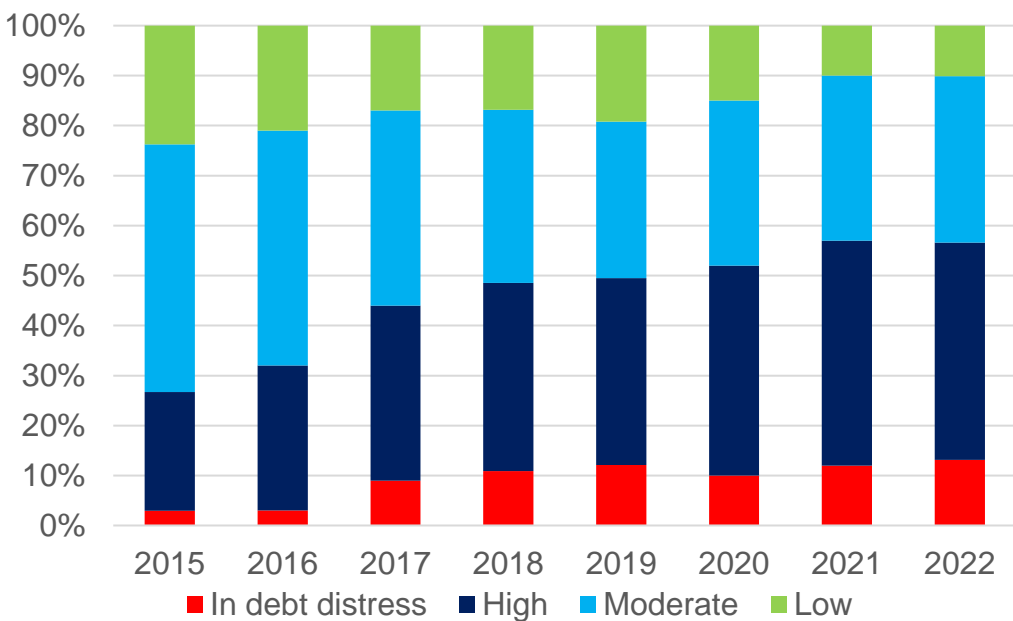
Note: Based on an aggregation of support measures in 42 countries. Support measures are in gross terms, i.e., not accounting for the effect of possible accompanying energy-related revenue-increasing measures, such as windfall profit taxes on energy companies. Where government plans have been announced but not legislated, they are incorporated if it is deemed clear that they will be implemented in a shape close to that announced. Measures classified as credit and equity support are not included. When a given measure spans more than one year, its total fiscal costs are assumed to be uniformly spread across months. For measures with no officially announced end-date, an expiry date is assumed and the fraction of the gross fiscal costs that pertains to 2022-23 has been retained.

# 1-3. Debt vulnerabilities and Common Framework

- ✓ We reiterate the **urgency of addressing debt vulnerabilities in low- and middle-income countries.**
- ✓ We fully support the G20's effort to improve the implementation of the **“Common Framework”** in a predictable, timely, orderly and coordinated manner, providing clarity to participants.

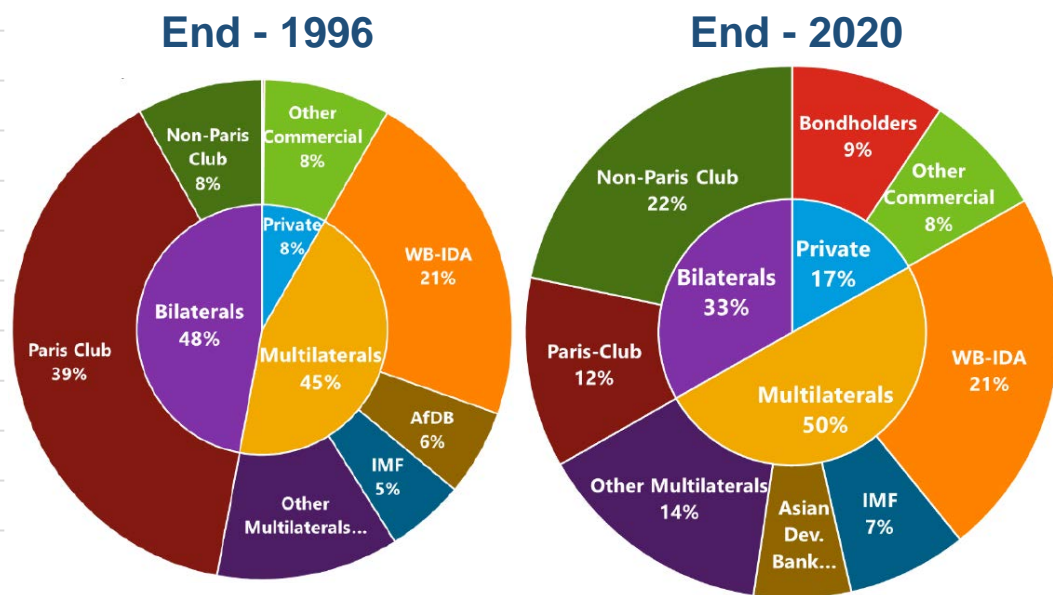
## Rising Debt Risks in Low-Income Countries

(percent of DSSI countries with LIC DSAs)



## External Creditors Landscape

(Distribution of PRGT Creditors, In percent of total PPG debt stock)

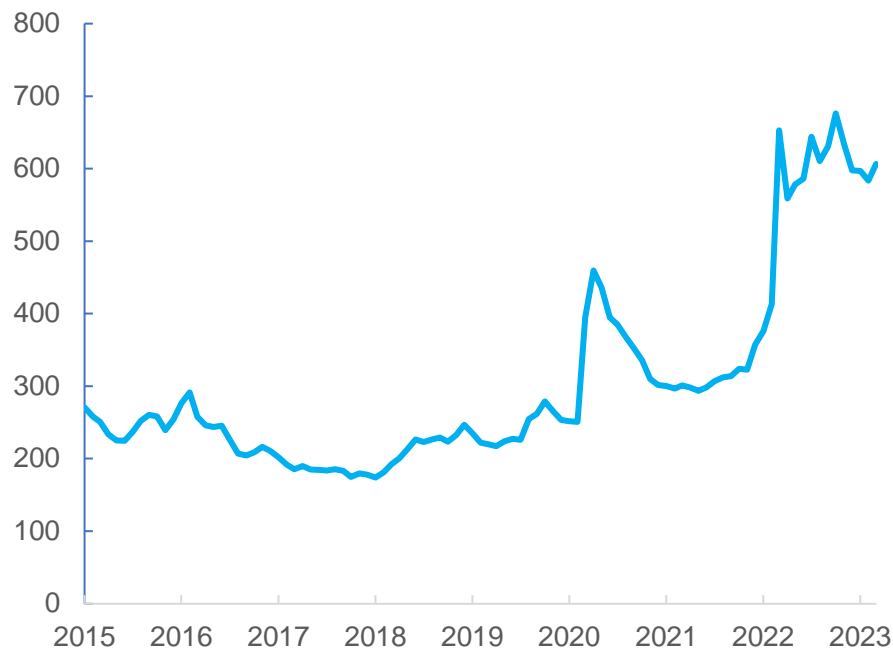


Note: As of March 31, 2022. DSSI = Debt service suspension initiative; LIC = Low-income countries; DSAs = Debt sustainability analyses.

# 1-5. Debt issues in middle income countries (MICs)

*We welcome the launch of the creditors' meeting for Sri Lanka under the three co-chairs, France (as chair of the Paris Club), India, and Japan, and look forward to a swift resolution as a successful model for future multilateral efforts to address MICs' debt issues.*

## Sovereign Spreads in Emerging and developing economies (basis points)



## Press Briefing - Launch of the Debt Restructuring Negotiation Process on Sri Lanka

(WBG IMF spring meeting 2023, Washington D.C., 13 April 2023)



Note: Emerging Markets Bond Index (EMBI) spreads, if available, or the government 10-year bond spread over US or German bonds. Averages are weighted by GDP in US dollars. Latest observation is March 1, 2023.

Source: IMF, Fiscal Monitor, April 2023

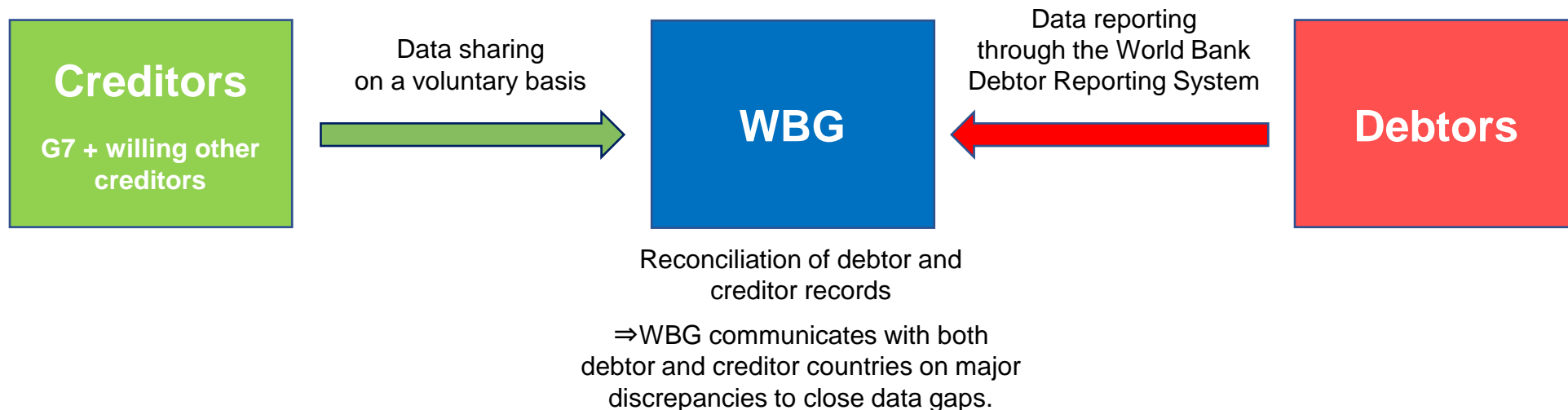
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# 1-6. Debt data accuracy and transparency

***Enhancing debt data accuracy and transparency is crucial to secure credible and effective debt sustainability assessments.***

- ✓ *A first data sharing exercise by providing granular lending data to the WBG for debt data reconciliation.*
- ✓ *This exercise initially identified data gaps amounting to 6.5 billion US dollars in total.*
- ✓ ***We invite all official bilateral creditors to join the data sharing exercise for debt data reconciliation.***

## Debt Data Sharing Exercise



## 2-1. Climate change (mitigation)

### G7's long standing position:

*We reaffirm the potential of high integrity carbon markets and carbon pricing to foster cost-efficient reductions in emission levels...*

### + G7 in Niigata (2023) under Japan's Presidency:

- ✓ *Noting that **policy mixes with carbon pricing and non-pricing mechanisms and incentives could vary reflecting country-specific circumstances,***
- ✓ *international cooperation requires **thorough mapping and assessment of diverse mitigation policy instruments.***

### Inclusive Forum on Carbon Mitigation Approaches (IFCMA)

#### Stocktaking

- The IFCMA will **take stock of mitigation policy instruments** that countries use to reduce carbon emissions and estimate the emissions that these instruments relate to (**mapping to the emissions base**).
- The IFCMA's stocktaking exercise will build on existing data gathering efforts at the OECD.

#### Measuring effects of policies on emission reductions

- The IFCMA will develop and apply a **consistent methodology to assess the effects of carbon mitigation policies and policy packages** on emission reductions at the country level.
- **New methodological approaches** for computing the carbon intensity of goods or sectors will also be investigated.

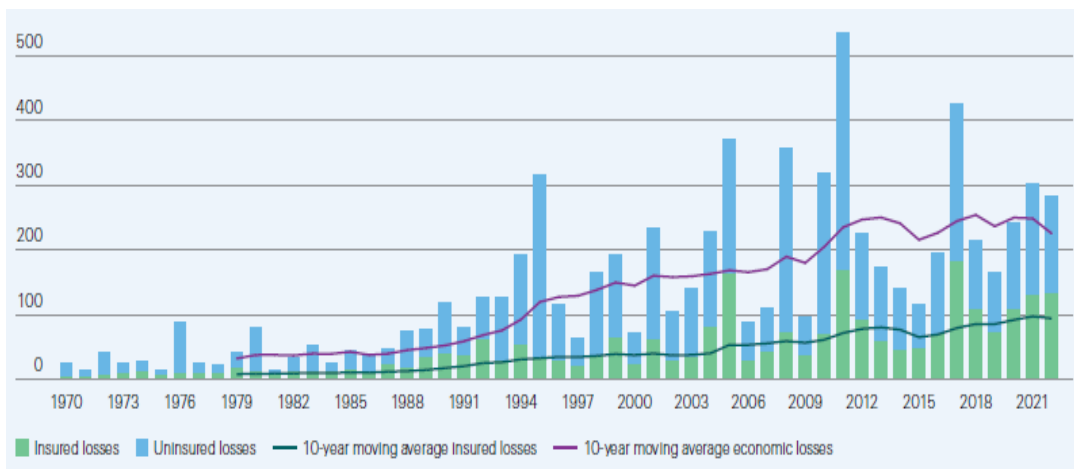


## 2-2. Climate change (disaster risk finance)

*Given increased frequency and severity of natural disasters that are exacerbated by climate change, **enhanced coordination by the private and public sectors, especially for vulnerable countries, is critical in promoting disaster risk finance, including insurance, in order to narrow protection gaps.***

### Insured and uninsured losses, 1970-2022

(USD billion at 2022 prices)



### Concrete initiatives

- ✓ International Association of Insurance Supervisors (IAIS)'s work **on addressing protection gaps**
  - ✓ Promoting **Climate-Resilient Debt Clauses** for loan agreements
  - ✓ Enhancing preparedness through **Global Shield against Climate Risks**
- + Regional initiatives
- ✓ **SEADRIF** (focus on Southeast Asia, through ASEAN+3)
  - ✓ **PCRAFI** (focus on Pacific islands)

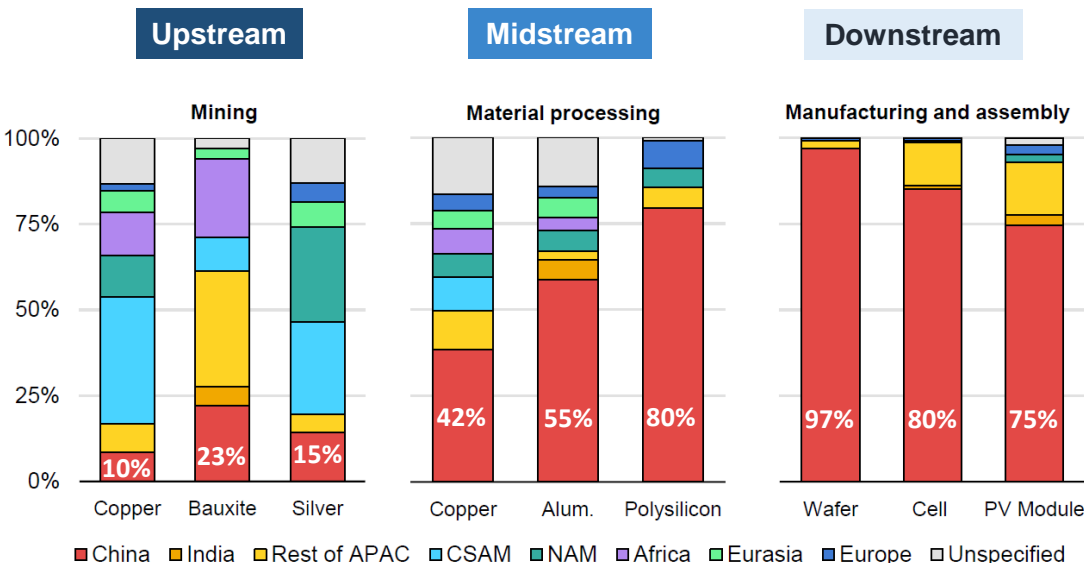
## 2-3. Clean energy supply chains

*“High-level Policy Guidance for Public Finance Tools to Build Resilient Supply Chains in the Era of Decarbonization” recognizes the urgent need to address existing vulnerabilities within the highly concentrated supply chains of important products for clean energy.*

*Diversification of supply chains can contribute to safeguarding energy security and help us to maintain macroeconomic stability.*

### Geographic concentration of the solar PV module supply chain

(supply chain stage and country/region, 2021)



### High-level Policy Guidance for Public Finance Tools to Build Resilient Supply Chains in the Era of Decarbonization

We commit to **strengthening collaboration** among G7 members and potential partners, in particular low- and middle-income countries, **through the effective use of public finance tools such as tax incentives, subsidies, guarantees and public loan and investment.**

- ✓ Providing a fair, productive, and enabling business environment
- ✓ Enhancing environmental protection and reducing greenhouse gas emissions along supply chains
- ✓ Building skilled workforce, quality and decent jobs, and good governance
- ✓ Encouraging joint R&D
- ✓ Supporting low- and middle-income countries

### Partnership for RISE (Resilient and Inclusive Supply-chain Enhancement)

To turn the guidance into specific actions, we are currently developing RISE with the aim of its launch by the end of this year at the latest.

## 2-4. Pandemic response

***Financing for pandemic “response” requires particular attention.***

- ✓ *work with the G20 JFHTF and our international partners to thoroughly assess how the existing financing sources can be used in pandemic “response”*
- ✓ ***explore a “surge” financing framework that allows us to complement existing mechanisms and deploy necessary funds quickly and efficiently in response to outbreaks***

### **Lessons learned from the COVID-19 pandemic**

- Setting aside resources in normal times has a significant opportunity cost
- Market-based disaster or emergency risk financing has been shown to be insufficient
- Creating a new mechanism or fundraising calls after an outbreak occurs takes time, with financing being provided too late and/or too limited for any meaningful action due to the lack of pre-agreed actions.

## 2-5. International taxation

*We re-emphasize our strong political commitment towards the swift global implementation of the OECD/G20 Inclusive Framework Two-Pillar Solution.*

- ✓ *reaffirm our commitment to the swift completion of the negotiation so that the **Pillar 1 Multilateral Convention (MLC) can be ready for signature within the agreed timeline***
- ✓ *welcome **the progresses in domestic legislation** toward the implementation of **Pillar 2***

### Issues

- *Increasing number of companies conducting business in market jurisdictions without permanent establishments (PEs).*
- *Several jurisdictions have tried to attract foreign business by low corporate income tax rates or tax incentives.*

### **Two-pillar solution agreed at the OECD/G20 Inclusive Framework of BEPS (October 2021)**

- **Pillar One: Allocation of new taxing rights to market jurisdictions**
- **Pillar Two: Global Minimum Tax**

### 3. Economic policies in pursuit of welfare

- ✓ *Our economic and social structures have undergone dynamic and fundamental transformation.*
- ✓ *Policymakers need to follow **multidimensional indicators for measuring welfare** and explore operational tools to **reflect such indicators in policymaking**.*

#### Background

**Economic and social transformation underscores the multidimensional aspects of welfare that cannot be captured by a single aggregated indicator such as GDP.**

- Economic activities that are not fully captured: Free digital services
- Externalities and sustainability: Intensified and frequent extreme weather events
- Distribution: Inequality of income, consumption and wealth between households, which could potentially lead to social fragmentation

#### Policy implications

**Improving policymaking in the face of multi-dimensional goals**

- Consider how multidimensional indicators can be brought into policy making in a practical and effective manner.
- Share best practices and deepen policy deliberation