International Monetary and Financial Committee

Twenty-First Meeting
April 24, 2010

Statement by Naoto Kan
Minister of Finance, Ministry of Finance
Japan

On behalf of Japan

Statement by the Hon. Naoto Kan
Minister of Finance of Japan
and Governor of the IMF for Japan
at the Twenty-First Meeting of the International Monetary and Financial Committee
Washington D.C., April 24, 2010

I. Recognition of the Current Economic Situation and Future Prospects

Although the global economy is showing some signs of recovery, there still seem to be risks that could disrupt the world economy and financial markets, such as high unemployment rates and increasing fiscal deficits in developed countries, as well as a surge of capital inflows to emerging market countries. Thus, we should remain cautious about future prospects.

The Japanese economy also seems to have had more of a chance to gradually overcome difficult situations, as indicated by the fact that, in March—for the first time in eight months—the government upgraded the country's economic outlook; however, the situation remains tough as shown by the persistently high unemployment rate.

Under these circumstances, for the time being, we need to maintain the economic stimulus measures to ensure recovery. In addition, Japan will formulate specific medium- to long-term measures designed to help the Japanese economy dig itself out of a 20-year sluggish growth and enable it to achieve sustainable and steady growth.

First, in June, we will design a "New Growth Strategy" for the Japanese economy, through the year 2020, aimed at attaining a self-reliant recovery by means of creating industries and jobs in new fields, such as the environment, energy, medical services and nursing care. In addition, we will present a medium-to-long-term path for fiscal consolidation by formulating a "medium-term fiscal framework" that will set the framework for expenditures for the next three years, as well as a "fiscal management strategy" that will define goals, both in terms of fiscal deficit and debt outstanding, so as to secure market confidence in fiscal sustainability.

II. Lessons Learned from the Crisis and a Review of the Mission and Mandate of the IMF

In order to prevent a recurrence of the global financial crisis and to achieve sustainable economic growth, it is important that we share the lessons learned from the crisis.

The current crisis showed that the stability of the financial system of each country is an important element for the stability and growth of the macro economy, and that a problem associated with one country's financial system can destabilize the entire international financial system, as well as the global economy. Furthermore, the effects of the crisis instantly spread throughout the world, and manifested themselves, not in the form of a traditional balance of payments crisis or a currency crisis, but in the form of a short-term dollar liquidity shortage and the collapse of the financial sector, which in terms of size, exceeds that of a single country.

Reflecting on these lessons, we need to redefine the mission and mandate of the IMF in order to make the Fund a truly functional organization at the core of the international monetary and financial system. In this regard, we need to revise Article I of the Fund's Articles of Agreement, which spells out the purpose of the IMF, and has not been amended since the Fund was established, so that the Article will clearly regard "financial stability" as a post-crisis mission of the IMF and provide the necessary mandate to enable the Fund to effectively carry out its mission. Additionally, with a view toward revising the Articles of Agreement, we should actively discuss enforceable reform ideas within the current framework and swiftly implement necessary reforms.

III. Strengthening Surveillance Functions

In order for the Fund to effectively fulfill its mission of stabilizing the financial system of each member country, a pressing issue is that of strengthening the IMF's surveillance functions as a pivotal tool for crisis prevention. In that regard, we need to provide the Fund with the necessary mandate and review the relevant obligations of member countries, so that the IMF can appropriately implement multilateral surveillance, focusing on the spillover effects of each country's macro-economic policies and the situation of financial systems on other countries. Furthermore, in order to strengthen Fund surveillance of financial systems, the stability of each country's financial system has to be an important component of Article IV Consultations, just as important as a country's fiscal and monetary policies.

For the Fund to focus on the stability of the financial system of member countries and strengthen its surveillance, it is important to clarify what perspective the IMF should have in working toward securing "macro prudence." The IMF's view should be that a stable financial system is an important factor for the macro economy. Meanwhile, an issue that the Financial Stability Board (FSB) should consider is whether the stability of the entire financial system, consisting of individual financial institutions, is being secured as a whole. We expect the IMF's role to be clarified with due consideration toward these differing perspectives as well as the organizational differences between the IMF and the FSB.

Moreover, in order to make financial stability one of the pillars of strengthened surveillance, we need to consider organizational changes, such as the creation of new divisions that would be in charge of surveillance of both financial regulation and supervision, and by actively securing professionals with ample experience in such fields.

IV. Reforming the IMF's Lending Role

During the current financial crisis, measures concerning crisis prevention, such as the Flexible Credit Line, and liquidity provision through currency swap arrangements between central banks, played a significant role, as did the IMF's conventional crisis response measures.

In reforming the IMF's lending role, the IMF needs to pursue crisis-prevention facilities that can provide large amounts of funding in a more flexible and prompt manner. In addition, it is important for the Fund to consider what role it can play in providing multilateral liquidity.

In the recent crisis, several emerging market countries in Asia faced difficulties such as the disruption of their financial markets. Still, they did not request access to IMF programs. This indicates that, in these countries, there is still a stigma attached to the Fund that elevates the political cost of accessing IMF lending programs. Thus, in considering IMF lending reforms, we believe it is important that the Fund take a new approach that will eliminate past stigma. Another important issue that the IMF needs to consider in order to overcome this stigma is finding ways through which it can collaborate with regional financial cooperation mechanisms, such as the Chiang Mai Initiative.

V. Reforming Fund Governance

Since the outset of the global financial crisis, the IMF's functions have been strengthened. Such reinforcement includes a massive expansion of the IMF's financial resources and the creation of a new lending facility. In order to enable the IMF to appropriately utilize its expanded functions in the future, it is important to reform its governance.

The primary issue related to this reform is the next quota review, which is due in January 2011. In order for the IMF to become a truly effective organization, at the core of a post-crisis international financial system, and to enhance its legitimacy, we need to reach an agreement by the given deadline. We should shift quota shares from over-represented to under-represented countries so that quota shares will appropriately reflect the current global economic reality evidenced by the existing quota formula. In addition, during the next quota review, due consideration must be given to avoid discouraging member countries from making financial contributions toward Fund support for low-income countries and technical assistance programs. In terms of the size of the IMF, we would like to stress the need for a significant increase that will enable the institution to continue to play an effective role in supporting member countries, both in terms of crisis prevention and crisis response.

In addition, in order to ensure speedy and appropriate decision making, amidst rapidly changing environments, ministerial-level involvement in important IMF decision making should be strengthened. The Fund also needs to enhance staff diversity in terms of geography and areas of specialization. For that purpose, we urge the Fund to clearly include each division's progress in diversity enhancement as an item in the annual performance evaluation of managerial staff.

VI. Supporting Low-Income Countries

We must not forget that the current crisis has seriously affected low-income countries. The Fund should play an active role in supporting these countries. We believe that, much like the wheels of a vehicle, IMF lending to low-income countries and technical assistance programs will maintain their importance. Japan, as the country that has been making the largest contribution to IMF lending to low-income countries, as in the past, will continue to provide support both toward loan and subsidy resources.

VII. Conclusion

The word “crisis” originates from the Greek word “krisis,” which means the turning point of a disease. What we are facing now is precisely this—a turning point. After experiencing a global financial crisis, we are making all-out efforts to build a stable international monetary and financial system to prevent a recurrence, rather than simply overcoming the crisis. In such challenging times, redefining the Fund’s mission and mandate, expanding its functions, and reforming its governance are crucial issues given the IMF’s role as the core institution of the international monetary and financial systems. In order to prevent a relapse into the disease, we must maintain our momentum to tirelessly review what kind of institution the Fund should be.