International Monetary and Financial Committee

Thirty-First Meeting
April 18, 2015

IMFC Statement by the Honorable Taro Aso
Deputy Prime Minister and Minister of Finance
Japan

On behalf of Japan

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Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Thirty-First Meeting of the International Monetary and Financial Committee
(Washington, D.C., April 18, 2015)

I. INTRODUCTION

Let me begin this statement by expressing my sincere appreciation to Mr. Tharman for his excellent leadership as Chairman of the IMFC, and extending our warmest welcome to Mr. Carstens, who succeeds Mr. Tharman as Chairman. Given Mr. Carstens' profound knowledge and wide experience, I am confident that the IMFC will become an even more important and beneficial forum.

II. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The Global Economy

The global economy is on a moderate recovery path, but the extent of the recovery remains uneven. We have observed some changes surrounding the global economy since the last IMFC meeting, such as declining oil prices and increasing market volatility. Moreover, as the World Economic Outlook has pointed out, a lower potential growth rate has now become the common challenge for both advanced and emerging market economies. Against this backdrop, we need to press ahead with an optimal policy mix, taking into account the impact of these changes, as well as the economic situation and policy space in each country, so as to achieve strong, sustainable and balanced growth. At the same time, clear communication with regard to divergence in policy responses across countries stemming from different economic surroundings needs to be facilitated.

Revitalization of the Japanese Economy

The Japanese economy is on a moderate recovery path and, in FY2015, is expected to grow at around 1.5 percent and around 2.7 percent in real and nominal terms, respectively, supported by robust private demand. Japanese corporate earnings, amounting to approximately 18 trillion yen for 2014 4Q, are at record high levels. According to the Bank of Japan's Tankan Survey (March survey), planned business investment in FY2014 has increased for three consecutive years, and its short-term forecast is also expected to rise, mainly reflecting improvements in corporate earnings. Also, monthly pay hikes announced by Japanese leading companies are above the level of last year, which was the highest in 15 years. As such, there is a definite change in the mind-set of Japanese corporations, and we can observe many positive developments. The government is determined to implement macroeconomic policies so that these trends will lead to an increase in consumption and a virtuous economic cycle.

As mentioned earlier, increasing its potential growth rate is a common challenge for all countries and Japan will steadily implement its growth strategy to address this challenge. In order to maintain its labor force and improve labor productivity in an aging society, it is of utmost importance to promote the active participation of women in the workforce and utilize foreign human resources. The government is taking various measures, including increasing the number of childcare facilities, and we have already observed some positive developments, such as an increase in the labor participation rate of women between the ages of 25-44, from 70.9 percent at the end of 2012, to 74.3 percent at the end of 2014. Furthermore, we are trying to improve labor productivity by converting the current wage system into a new one providing more weight to employee job descriptions, roles and degree of contribution. In order to raise potential growth, it is also important to direct the abundant financial resources held by Japanese corporations toward productive investments. To this end, we are taking various measures, such as strengthening corporate governance including the formulation of the corporate governance code, providing funds for growth and introducing capital investment tax reductions. In addition, we have embarked on a corporate tax reform aimed at reducing the effective corporate tax rate by more than 3 percent while securing permanent revenues through broadening the tax base and so forth. The government is also steadily implementing changes in so-called bed rock regulations, such as those in the areas of energy and agriculture, and will revise the growth strategy by the middle of this year to further promote these efforts.

Regarding monetary policy, in October of last year, the Bank of Japan decided to expand the quantitative and qualitative monetary easing. This decision was made to pre-empt manifestation of the risk that lower inflation rates due to a decline in oil prices would delay the conversion of the deflationary mindset. As a result of this prompt response, inflation expectations have maintained an upward trend. The decline in crude oil prices is expected to contribute to improvements in the output gap by increasing the purchasing power of households and by reducing costs for the corporate sector. The Bank of Japan views that, as the effects of the decline in oil prices dissipate, the inflation rate rises again and is likely to reach around 2 percent in or around FY2015.

With regard to fiscal policy, we have been flexibly responding to economic developments. For example, the government decided to postpone the consumption tax rate increase to 10 percent for 18 months to April 2017 taking into account economic conditions and other factors in a comprehensive manner. In addition, the government has been implementing fiscal stimulus measures amounting to around 0.7 percent to GDP (3.5 trillion yen). On the other hand, given that Japan's public debt-to-GDP ratio exceeds 200 percent, Japan's fiscal situation is extremely severe. Therefore, in order to, not only achieve sustainable growth, but also enable the Bank of Japan to smoothly proceed with its current monetary easing policies, the government needs to steadily take policy measures toward fiscal consolidation. From this standpoint, the FY2015 budget, which is the largest-ever budget amounting to 96.3 trillion yen, aims at realizing both economic revitalization and fiscal consolidation and will enable Japan to achieve the fiscal target of halving the primary deficit-to-GDP of central and local governments. In addition, in order to ensure the confidence from markets and the international community, we are firmly committed to the target of achieving a primary surplus by FY2020 and will formulate a concrete fiscal consolidation plan for this target by this summer.

Through these efforts, we will achieve fiscal consolidation in tandem with economic revitalization.

III. EXPECTATIONS FOR THE IMF

Strengthening the International Financial System

The volatility in the financial markets has risen from historically low levels, and the burden of foreign-currency-denominated debt has been increasing associated with local currency depreciations for some emerging market economies. Against this backdrop, the IMF should stand ready to prevent and resolve possible crises by securing robust financial resources and strengthening its global safety net.

In the context of strengthening the IMF's financial resources, the ratification of the 2010 reforms remains our highest priority, with a view to maintain and enhance its legitimacy, effectiveness and credibility. On the other hand, given the delay in the 2010 reforms, we need to advance discussions on an "interim step" toward the 2010 reforms. In this regard, Japan believes it necessary to ensure that any option, taken as an interim step, will facilitate the early ratification of the 2010 reforms and will not go beyond nor substitute the outcome of the 2010 reforms. In addition, increasing the diversity of the Fund's staff is also important for the Fund to enhance its legitimacy, effectiveness, and credibility. Japan is ready to contribute to the Fund in terms of human resources as much as in terms of financial contributions.

For the Fund to play its role adequately, the strengthening of its financial resources is not enough, it must also strengthen its global safety net so as to provide necessary support in a timely manner. From this standpoint, we highly appreciate that, in its latest Global Policy Agenda (GPA), the Fund has expressed its intention to work on further enhancing the global financial safety net. Japan has contributed in this area by making various proposals, such as the introduction of a flexible lending facility for crisis prevention, as well as expanding its efforts toward resolving the "stigma" attached to the IMF. We will continue to actively contribute to these discussions.

We welcome that, as an example of these efforts, the IMF is considering ways to enhance the flexibility of its lending framework to ensure that the debt sustainability problems of member countries are effectively addressed. At the same time, Japan thinks it is important for the Fund to be able to swiftly and sufficiently respond to crises if tail risks to the stability of international financial markets were to materialize. We expect the Fund to give careful consideration with a view toward maintaining such an important function within its mechanisms.

In addition, this year the IMF will conduct its quinquennial review of the Special Drawing Rights (SDRs). It is of importance that the SDR maintain, and improve, its attractiveness as an official reserve asset as well as its stability as a currency unit; therefore, we expect discussions to rest on principles well-established in past discussions.

Support for Low-Income Developing Countries and Financing for Development

We should keep in mind the importance of supporting Low-Income Developing Countries in Africa and other regions. In this respect, the Fund has an important role to play. This year, in particular, will be an important year in mobilizing financing for development, as represented by the Third Financing for Development Conference planned for July.

First, we welcome the debt limits policy reforms agreement; these reforms will help Low-Income Developing Countries mobilize financing for development while maintaining and improving debt sustainability.

Also, we strongly support the establishment of the Catastrophe Containment and Relief Trust (CCR), with the aim of assisting West African economies that were severely affected by the Ebola virus and strengthening the support system for future emergency cases in the area of global health. With regard to the proposal of transferring balances from the MDRI-II into the CCR Trust, as the largest bilateral donor of the MDRI-II, Japan would like to support this proposal and stress the significance of this contribution.

We expect the IMF to continue playing its necessary role, in line with its mandate and expertise, while cooperating with relevant organizations.