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Statement by the Hon. **TARO ASO**,
Governor of the Fund and the Bank for **JAPAN**

Statement by the Honorable, Mr. Taro Aso
Governor of the International Monetary Fund and the World Bank for Japan

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The global economy as a whole is on a moderate recovery path, but the extent of the recovery is uneven. Moreover, we need to be mindful that downside risks such as geopolitical risks and risks from sudden reversals in financial conditions still exist. Against this backdrop, and in order to achieve a strong, sustainable and balanced growth, we need to push ahead with an optimal policy mix consisting of fiscal and monetary policy and structural reforms, taking into account the economic situation and policy space in each country. In addition to that, it is important to facilitate clear communication with regard to policy divergence across countries, which stems from different economic situation.

With regard to the Japanese economy, the annualized real GDP growth rate fluctuated greatly in the first and the second quarter of 2014, primarily due to the effects of the consumption tax rate increase in April this year. However, if we take the average of the real GDP in the first and second quarter of 2014 in order to focus on the fundamental trend of the economy, the average is 1.3 percent higher than that of the equivalent period in 2013, so we are of the view that Japan is on a moderate recovery path.

In order to ensure the strength of the recovery, steady implementation of growth strategy is essential. In particular, the “Japan Revitalization Strategy” revised in June this year puts strong emphasis on channeling Japanese companies’ abundant financial resources into investment in growth sectors and wage increase, and on helping promote business restructuring, thereby improving productivity and profitability of Japanese companies. In this context, we are taking such measures as strengthening corporate governance including formulation of the “corporate governance code”, and promoting provision of funds for growth through equity, mezzanine finance and medium- to long-term loans. To support efforts by Japanese companies to enhance “profitability”, we will embark on corporate tax reform to be more growth-oriented and start to reduce the effective corporate tax rate from FY2015 with securing permanent revenues including through broadening the tax base.

We have also been implementing reforms on bedrock regulations in wide range of areas including energy, agriculture and healthcare. For instance, with respect to the electricity area, the bill was passed to fully open up retail business to new entrants. We will take further steps to require distributors be legally separated from suppliers. With regard to the agricultural sector, in addition to the efforts towards consolidating farmland to expand its

size, we will review the “rice production adjustment” system that has been in place for more than 40 years. Moreover, in order to maintain labor force as well as improve labor productivity under an aging population, we are taking measures to promote further active social participations of women and foreign workers who have potential to support economic growth, and to reform working styles.

Regarding fiscal policy, we have implemented fiscal stimulus measures in FY2013 supplementary budget and this year’s budget in a front-loaded manner in order to mitigate negative impacts of the consumption tax rate increase and to address downside risks to the economy. Also, we need to achieve both economic recovery and fiscal consolidation. We will determine by the end of this year whether to raise the consumption tax rate from 8 percent to 10 percent in October 2015, taking into account the economic conditions and other factors in a comprehensive manner. In order to achieve the target of a primary surplus by FY2020, we will advance the consideration of a clear trajectory without delay while taking into account the compilation of the national budget for FY2015, etc.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

Now, I will address Japan’s expectations for the IMF.

The volatility in the financial market has been lowered recently. However, there is a risk that the market will be tightened more than expected, triggered by the events such as worsening geopolitical tensions and the process of normalizing monetary policy in the U.S. Against this backdrop, the IMF needs to be well-prepared to address possible crises through 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, especially with a view to maintain and enhance its legitimacy, effectiveness and credibility. Japan, ahead of other countries, provided the IMF with a credit line of 100 billion USD immediately after the global financial crisis, and thereby took a lead in strengthening the Fund’s financial resources in a flexible and swift manner through the NAB (New Arrangements to Borrow) and bilateral loan arrangements. We would like to stress that these measures were very effective in strengthening the IMF’s ability and responding to the financial crisis.

Also, the IMF has strengthened its global safety net by expanding tools for crisis prevention and response through the introduction of precautionary facilities. However, the “stigma” attached to the IMF has not been resolved yet and these tools have not been utilized enough. We would like to call for the Fund to take further efforts to enhance its legitimacy, effectiveness and credibility. Against this backdrop, regional financial safety

net has been strengthened through such measures as the enhanced Chiang Mai Initiative (CMI) in the Asia region and bilateral currency swap arrangements in the form of complementing the IMF. In this regard, Japan has been actively promoting these initiatives. Looking forward, Japan is ready to work together with the IMF to explore ways to enhance and strengthen safety nets in order to make assurance doubly sure on crisis prevention and response.

Next, I will express what we expect for the World Bank Group.

We highly appreciate the strong leadership that the World Bank has displayed in the provision of concerted support by international organizations and governments to the West African Countries where the Ebola epidemic is spreading. Japan has also announced financial assistance of more than 45 million USD as well as other form of assistance such as dispatch of medical experts. Japan will continue to contribute to containing the Ebola epidemic.

All individuals can continue to contribute to economic and social development by exercising their abilities while maintaining their health. To make that possible, it is necessary to develop a health system that can address all healthcare needs, including individual non-infectious diseases. Japan, in collaboration with the World Bank, will provide technical assistance to help developing countries achieve sustainable Universal Health Coverage that will ensure that every person receives appropriate healthcare services.

Natural disasters have tended to be increasing in scale due to the effects of climate change in recent years. They can instantly destroy many years of development efforts and achievements. In cooperation with the World Bank Disaster Risk Management (DRM) Tokyo Hub, launched in February this year, Japan will support developing countries with utilizing the abundant knowledge and experience accumulated over many years in the field of DRM.

Meeting growing infrastructure needs is necessary to enable developing countries to achieve sustainable growth. Japan will actively contribute to the Global Infrastructure Facility (GIF), in designing an effective framework so that it can work as a catalyst for infrastructure development in utilizing private funds, while maintaining high standards in terms of environmental and social safeguards.

III. CLOSING

Global economy faces various challenges derived not only from economic issues, such as geopolitical tension and epidemic. To close my speech, I would like to express my hope

that both the Fund and the Bank will continue their efforts to address these challenges in a world where politics and economy are becoming more interconnected, thereby achieving strong, sustainable and balanced growth and poverty reduction.