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

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**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

Global economic recovery continues, but growth is still weaker than desirable. Although the market turmoil after the referendum of the United Kingdom has calmed down, uncertainty still remains in the global economy. Against this backdrop, market stability is especially important. Indeed in view of these circumstances, we must make utmost efforts to ensure sustainable growth and to avoid a vicious circle of the economy arising from excessive pessimism, in line with the commitment to using all policy tools—monetary, fiscal and structural—individually and collectively. Advanced economies need to tackle domestic economic and social challenges swiftly and properly under resolute leadership. Systemically important emerging market economies need to recognize their responsibility for the global economy and thus to address the vulnerabilities through appropriate policy responses. To achieve long-term growth of the global economy, countries need not only to take near-term policy responses but also to advance structural reforms to enhance potential growth and resolve vulnerabilities, taking into account country-specific circumstances.

Japan's economic fundamentals are solid. Corporate earnings in 2015 hit the highest level in history, while the unemployment rate declined to the lowest level in almost 21 years. The Japanese economy is now gradually entering into a virtuous circle. Real GDP growth in the first and second quarters of this year was 2.1 percent and 0.7 percent annually, respectively, both of which are above potential.

Supported by favorable corporate earnings and a tight labor market, it is important to ensure that a virtuous circle in the economy continues to strengthen, which will lead to steady growth in consumption and investment. To achieve such a circle, sustained wage increases are crucial. The government continues to ensure an exit from deflation and achieve sustained economic growth.

This summer Japan put together an economic stimulus package with the fiscal component of 2.7 percent of GDP. This is a comprehensive and bold package that aims to accelerate structural reforms and investment for the future. For Japan, the priority is to raise potential growth by overcoming declining birth-rate and aging population, including through greater labor participation. Therefore, to promote labor participation of women and the elderly, the package includes work style reform such as rectifying the problem of working long hours. It also covers budget support for expanding childcare and nursing care capacity. In addition, the package focuses public investment on infrastructure that would lead to increased productivity, with the aim of encouraging private investment and laying the foundation for sustained growth. Moreover, the package also includes raising the minimum wages by 3 percent, which was implemented this month, and ensuring “equal pay for equal work”.

As for monetary policy, the Bank of Japan conducted last month a comprehensive assessment of the developments in economic activity and prices as well as policy effects since the introduction of quantitative and qualitative monetary easing (QQE). In light of the findings of the assessment,

with a view to achieving the price stability target of two percent at the earliest possible time, the Bank decided to introduce "QQE with Yield Curve Control" as a means of strengthening the existing framework for monetary easing. The new policy framework consists of two major components. The first is "yield curve control" in which the Bank sets short-term and long-term interest rates as an operating target. The second is an "inflation-overshooting commitment" in which the Bank commits itself to maintaining an increase in the monetary base until the annual rate of increase in the observed CPI exceeds the price stability target of two percent and stays above the target in a stable manner. The Bank will pursue monetary easing in a more forceful manner under the new framework to achieve the price stability target of two percent at the earliest possible time.

In close cooperation, the Japanese government and the Bank of Japan will use monetary, fiscal, and structural policies in an integrated manner with a view to accelerating Abenomics.

## **II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK**

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

As we face a host of challenges in the global economy, the role of the IMF continues to be substantial. We look forward to the IMF's initiatives to resolve issues of the international monetary system.

In recent years, we have observed a significant increase in cross-border capital flows and their heightened volatility because of the advance in the integration of the world economy. In today's international monetary and financial system, it is crucial for each country to carefully monitor capital flows and, under specific circumstances, manage capital flows in an appropriate manner. We therefore strongly welcome the IMF's ongoing work on capital flows, and call on the IMF to provide practical guidance that is helpful for members' policy making.

The global financial safety net, as a backstop for stabilizing the international financial system, continues to play a key role from the standpoint of maintaining market confidence. Although the global financial safety net has remarkably expanded in terms of their size, including by accumulation of international reserves by individual countries as well as expansion of bilateral swap lines and regional financing arrangements, it is important for each layer of the safety net to function effectively and bring about synergies with others. From this standpoint, we welcome the implementation of a joint test run between the IMF and Chiang Mai Initiative Multilateralisation, and look forward to similar work between the IMF and other regional financing arrangements. We also expect the IMF to strengthen the cooperation with AMRO (ASEAN+3 Macroeconomic Research Office) at the operational level, including exchange of information.

For years, Japan has taken leadership in strengthening the IMF's financial resources in the face of the global financial crisis and the euro area crisis through borrowing agreements. In addition to traditional, current account crises the IMF had been assumed to address at the time of foundation, we have seen the emergence of a new type of balance of payment crises that involve rapid capital outflows and inflows. In light of the experience with recent crises, it is debatable that the IMF quotas need to cover all of the enormous amount of potential financing needs,

including those stemming from systemic, capital account crises, which are difficult to predict and rarely occur but highly probable to cause serious damage once they materialize. Rather, it is reasonable for the IMF to deal with idiosyncratic crises with sufficient amount of quotas and to prepare for systemic crises through borrowed resources, including the New Arrangements to Borrow and bilateral agreements. In recognition of this indispensable role of borrowed resources as a reasonable funding base for the IMF, Japan has just agreed to extend the borrowing agreement with the IMF. Taking into account the key role of borrowed resources in the IMF's funding base, it is essential that the voluntary financial contributions by members to the IMF's borrowed resources be duly acknowledged in the distribution of quotas, which is the core of the governance of the IMF.

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

The world confronts a wide-range of complicated development challenges, and expectation for the World Bank has been growing. In this context, we call for the WBG under the leadership of Dr. Kim in his second term to take a leading role to achieve twin goals of ending extreme poverty and promoting shared prosperity.

We welcome that the Forward Look, which sets out the medium- to long-term vision of the WBG's role, underscores the importance of a holistic approach to crisis preparedness, prevention and response. Also, we highly value the direction to enhance IBRD's allocation to lower middle-income countries. We call for the WBG to steadily implement these policies. Regarding a capital increase of IBRD, we need to discuss this issue, together with the role IBRD is expected to play as well as the impact of income-improving measures including an increase in loan pricing.

Furthermore, we welcome the agreement on the dynamic formula, as this is an important step forward. Nevertheless, we are still faced with more important issues of how to use the agreed formula and implement a selective capital increase. Since realignment of shareholdings can only proceed on the basis of very broad support, Japan is of the view that it is essential to take concrete measures to avoid abrupt shifts in shareholding, both upwards and downwards.

Regarding IDA 18 replenishment currently under negotiation, Japan highly values the introduction of innovative financing tool of debt financing in the capital markets. Furthermore, Japan welcomes the current direction of discussion which puts special emphasis on the importance of preparedness and prevention for natural disasters and pandemics. In the upcoming discussion, we call for the WBG to provide practical and sufficient transition support to IDA graduates. Japan is committed to make an appropriate contribution to IDA, given the IDA's pivotal role in supporting low-income countries.

The world is expected to continue facing various development challenges. Japan is committed to supporting developing countries, in cooperation with the WBG, in various areas such as prevention, preparedness and response for a wide range of crises including natural disasters, pandemics and refugee crises, and quality infrastructure investment.

### **III. CLOSING**

In closing, I would like to express my respect toward the great roles that the two institutions have played in the international community and their major contributions in this regard. I also expect them to address ever-increasing difficult global challenges and thus help achieve strong, sustainable and balanced growth as well as poverty reduction.