



# **International Monetary and Financial Committee**

Tenth Meeting  
October 2, 2004

**Statement by Mr. Tanigaki**

**Statement by H.E. Sadakazu Tanigaki**  
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**and Governor of the IMF for Japan**  
**Tenth Meeting of the International Monetary and Financial Committee**  
**Washington, D.C., October 2, 2004**

**1. Global Economy and Financial Markets - Outlook, Risks, and Policy Responses**

**World Economy**

I welcome the continued recovery of the global economy at a faster pace and with more strength than expected, as more and more national economies become increasingly interrelated amid the evolving trend of globalization.

The current global recovery, initially driven by the United States and Asian countries, notably China, has now broadened its horizon to almost worldwide to include Latin America, the Middle East, Africa, and now Europe. It is hoped that the momentum of this recovery will continue.

While welcoming these developments, risks for the outlook remain. In addition to lingering geopolitical risks, uncertainties about the prospects for and the effects of rising oil prices, inflationary pressures, and the pace of rising interest rates clearly warrant continued vigilance. Against this backdrop, it is essential for each country to take advantage of the current favorable environment and to continue with a strong commitment their efforts to reduce remaining vulnerabilities, including structural reforms, so as to achieve sustainable growth.

The major challenges facing advanced economies are to pursue medium-term fiscal consolidation and social security reforms, and to implement structural reforms to increase the flexibility of the economy, against the backdrop of an increasingly aging population. In emerging market economies, it is important to strengthen their resilience to shocks and to cement market confidence by continuing to implement structural reforms, including on the fiscal front, and to improve their financial and capital markets. With respect to Argentina, where the debt restructuring process is under way, I hope that the authorities will, following good-faith negotiations, reach agreement with external creditors upon a comprehensive debt restructuring, thereby restoring the confidence of international markets.

**Asian Economy**

Owing to buoyant trade and investment, the Asian economy as a whole is projected to grow by 7.6 percent in 2004, higher than the world average. I applaud the fact that Asian countries have recovered successfully from the economic crises in the late 1990s and continue to increase their significance in the global economy. However, some concern has been expressed that increased capital inflows could induce overheating, which begs

our attention because of the increasing impact of the Asian economy on the global economy. Meanwhile, appropriately sequenced liberalization of capital transactions and a move to an exchange rate regime with greater flexibility would contribute to stable economic growth in the long term.

In addition, regional cooperation in East Asia has made progress centering on trade, and the move to conclude free trade agreements (FTAs) has now gained considerable momentum as in other regions. Concurrently, East Asian countries have recently been promoting their cooperation on the monetary and financial fronts, as evidenced by active regional policy dialogues, establishing a network of financing arrangements among countries to provide short-term liquidity on demand, and nurturing efficient and liquid bond markets. All of these regional initiatives complementing the international trade, monetary, and financial systems, are open to the outside world, and Japan is actively contributing to these initiatives.

### **Japanese Economy**

The Japanese government has made every effort to overcome prolonged deflation and revitalize the economy through reforms in the financial sector, as well as in regulatory, expenditure, and tax policies, and these efforts are gradually paying off. The impact of the improved profit situation in the corporate sector has increased business investments and has permeated the household sector through better labor market conditions and buoyant private consumption. The economic recovery led by domestic private demand is expected to continue.

Our government views the current recovery as a good opportunity to make further strides in structural reforms, which would lead to sustainable economic growth. We will pursue and accelerate vigorously structural reform efforts aimed at prompt resolution of major banks' nonperforming loan problems, a comprehensive review of the social security system, reform of the fiscal relationship between central and local governments, and privatization of the postal service.

On fiscal policy, we are implementing fiscal consolidation, aiming at achieving a primary surplus in the early 2010s. Given the expected expenditure increase stemming from acceleration of the aging population, this reform should be well balanced, giving due consideration to both the expenditure and revenue fronts.

Regarding monetary policy, the Bank of Japan (BoJ) continues to provide ample liquidity under its commitment to maintain the current quantitative easing framework until the year-on-year change in the consumer price index registers zero percent or higher on a sustainable basis. This aggressive monetary easing has given further impetus to private investment and expenditure as economic recovery unfolds. To support the private sector's efforts to move forward, the BoJ will maintain the current accommodative monetary conditions.

While persistent deflationary pressure has eased, overcoming deflation remains high on the policy agenda. Therefore, the government and the BoJ will continue to join together to ensure overcoming deflation during FY2005 and FY2006, periods defined as the “Concentrated Consolidation Period.”

## **2. IMF Surveillance and Crisis Prevention and Resolution**

While ensuring international financial stability and preventing crises first call for countries’ efforts to strengthen their policies and institutions with a view to reducing external vulnerabilities, IMF surveillance is expected to play an even more important role against the backdrop of increased interdependence among countries and a vast increase in international capital flows amid globalization. In this regard, I welcome the progress made by the IMF, including refinement of the framework for debt sustainability analysis and strengthened analysis of the financial sector. Also, I highly value the results of the IMF’s biennial review of surveillance earlier this year, where it undertook a candid assessment of the effectiveness of the current surveillance framework by listening to the views of member country authorities and market participants, and by engaging in discussions on a wide range of measures to strengthen surveillance. Overall, I believe that the current surveillance framework, including its organizational structure, is effective, and that the next step for the IMF at this stage should be to steadily implement measures to strengthen the existing framework.

The Policy Monitoring Arrangement (PMA), which was recently discussed at the IMF Board, could be worth considering as an instrument to serve the member countries, if any, that have no need for IMF resources but that seek close IMF engagement in promoting sound economic policies, or to obtain the IMF’s external signaling on the strength of these policies. I expect the IMF to examine thoroughly whether the demand for such a mechanism actually exists among members, and whether the chosen IMF signaling would actually meet the needs of multilateral and official bilateral creditors or donors. In doing so, it is critical to distinguish clearly between the new mechanism and the existing instruments in order to avoid overlap with various existing IMF instruments, and to ensure that introduction of a new instrument would not hinder members’ access to IMF resources via existing arrangements.

In this connection, I believe that precautionary arrangements would be an effective and practical means for member countries with sound policies to cope with potential capital account crises stemming from sudden changes in capital flows. Therefore, I hope that the IMF will continue its work on adapting precautionary arrangements for crisis prevention purposes, regardless of whether a PMA is introduced.

Regarding crisis resolution, I welcome the introduction of collective action clauses (CACs) begun last year by many countries issuing their international sovereign bonds in the New York market where there had been no such market standard. I hope to see other countries follow suit by introducing CACs in their bond issues under foreign jurisdictions. I also hope that further progress will be made in reaching agreement on

developing a Code of Conduct, following further discussions among various related parties, such as debtor countries and the private sector.

Two years have passed since the IMF's Conditionality Guidelines were revised in 2002, in order to make IMF conditionality more streamlined and focused. It is imperative that the IMF examine in the upcoming biennial review whether those guidelines have been implemented steadily, and whether they have contributed to enhancing the effectiveness of IMF-supported programs and to promoting country ownership.

In order to play its expected role in crisis prevention and resolution effectively, it is essential for the IMF to maintain a sufficient level of financial resources, thereby underpinning market credibility. Changes in the world economy and financial markets can be abrupt and difficult to predict. The IMF, therefore, should continue to examine quota issues and be prepared to act promptly whenever the need for a general quota increase arises. In the review of quotas, their distribution should reflect the current realities of the world economy as well as the relative positions of member countries' economies.

### **3. Enhancing International Support for Low-Income Members**

The IMF's assistance to low-income countries should focus mainly on establishing macroeconomic frameworks and institution building in the fiscal and monetary areas through provision of policy advice in the context of surveillance and technical assistance. The objective of the IMF's financial assistance, even that extended to low-income countries, is to support member countries that confront balance of payments difficulties, and multilateral development banks (MDBs) should, in principle, continue to play the role of providing long-term and highly concessional development funds. Therefore, in order to maximize the efficiency and effectiveness of the IMF's financial assistance, in particular to low-income countries, it is essential to further strengthen collaboration with other international organizations, including the World Bank, while establishing a clear division of labor. That said, I would like to reaffirm that low-income countries themselves are primarily responsible for continuing their efforts toward macroeconomic stability and strengthening of institutions, and that the role of the IMF is to support these efforts.

In this context, I believe the Poverty Reduction Strategy (PRS) process has played a useful role as the framework in which low-income countries formulate their own comprehensive strategies to progress toward the Millennium Development Goals (MDGs), and the IMF supports such strategies. However, four years after its inception, the challenges facing the PRS process have become increasingly clear. I believe that the MDGs should be customized or "localized" further in the PRS process according to specific circumstances of individual countries, and that the IMF should play a major role in providing adequate advice in areas of its core expertise such as countries' medium-term expenditure framework (MTEF). It is also essential to explore further how the resources of the Poverty Reduction and Growth Facility (PRGF), which plays a central role in the IMF's financial assistance to low-income countries, could be used more

efficiently, while securing resources sufficient to cope with the demand from low-income countries that are truly in need of these resources.

In addition, I would like to emphasize the importance of thorough debt sustainability analyses to prevent low-income countries' debt problems. These analyses should be utilized adequately to frame lending decisions by creditors, including the IMF and the World Bank, and to help debtor countries formulate their borrowing strategies. In this regard, I would urge the IMF and the World Bank to move promptly to examine further the level of debt thresholds and to explore the concrete modalities for using the World Bank's Country Policy and Institutional Assessment (CPIA) as indicators to assess a country's policies and institutions, with a view to making the proposed assessment framework operational. Japan stands ready to take an active role in such efforts. In this connection, I would emphasize my view that caution is warranted about augmenting grants to low-income countries, given the characteristics of MDBs as lending institutions and the need to avoid causing moral hazard on the part of low-income countries.

#### **4. Combating Money Laundering and the Financing of Terrorism**

While three years have passed since the tragic events of September 11, 2001, recent terrorist attacks in several countries remind us that the threat of terrorism remains serious. It is, therefore, paramount for the international community to continue its efforts to combat the financing of terrorism.

In this regard, it is important for member countries to steadily implement the international standard for anti-money laundering and combating the financing of terrorism (AML/CFT). Japan will continue to provide technical assistance in this area, based on the needs of recipient countries.