International Monetary and Financial Committee

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On behalf of Japan
I. Recognition of the Current Economic Situation and Japan’s Policy Response

Although the world economy is showing some signs of recovery, they appear to contain various risks, thus we should remain cautious about future prospects.

With regard to the Japanese economy, while it is showing movements of picking up, we should cautiously monitor economic developments. For instance, Japan’s GDP returned to positive growth, at an annual rate of 2.3 percent in real terms for the first time since the first quarter of 2008, and the Industrial Production Index has increased steadily for six consecutive months. At the same time, while the unemployment rate in August dropped slightly to 5.5 percent, it is still in a severe condition. Furthermore, although the downward pace has become moderate, the rate of decline in exports, in August, was still as large as 36 percent compared to one year ago.

Under these circumstances, our basic thoughts regarding economic and fiscal management are as follows. First, it is critical to put the Japanese economy back on a track of firm recovery; thus, we will continue to implement the necessary fiscal and monetary policies. While it is necessary to discuss exit strategies, at this moment, their implementation is still premature. Additionally, the priority of fiscal expenses will shift from public investments to support for household spending, focusing on expenses such as child rearing and education, based on the idea that “putting people’s lives first.” Japan also seeks to promote domestic demand-led and stable growth through measures such as fostering new industries that contribute toward developing a low-carbon society.

In addition to paying sufficient attention to the economic situation, we must clearly take a medium-to long-term policy stance to secure fiscal consolidation in a manner that builds market confidence. Hence it is necessary to set concrete targets regarding fiscal consolidation such as the ratio of public debt to GDP.
II. Strengthening the IMF to Secure Sustainable Economic Growth and Develop a Robust and Stable Global Financial System

Our present priority issues are to overcome the crisis, and to achieve balanced and sustainable growth, as well as to develop a robust and stable global financial system in order to prevent financial crises of this size from happening again. In addressing these issues, the roles that the IMF plays are significant, and it is indispensable that the Fund’s functions be strengthened. In what follows, I will present my thoughts on three important points regarding the strengthening of the Fund’s functions: strengthening surveillance, reforming governance, and supporting low-income countries.

**Strengthening Surveillance Functions**
With regard to surveillance, let me describe three important points to further enhance its effectiveness in the future, based on the idea that the current surveillance functions did not produce the desired effects on crisis prevention in the run-up to the current crisis.

First, in view of the significant impact on the global economy posed by problems in systemically important countries, it is important that the Fund enhance its capability to provide more elaborate analyses of the channels through which risks can transmit to other countries and the impact they would pose, by means of repeatedly conducting multilateral surveillance, focusing on specific important issues such as budget deficits and impaired assets held by financial institutions.

Additionally, in view of the significant impact on the macro economy posed by vulnerabilities derived from the financial sector, it is important to strengthen the Fund’s analysis of the linkages between the macro economy and the financial sector, by effectively integrating into Article IV Consultation reports the findings about vulnerabilities related to the financial sector, which were recognized in the “Financial Sector Assessment Program.”

Furthermore, with regard to the “Early Warning” exercise carried out through the collaboration between the IMF and the Financial Stability Board (FSB), it should be aimed at achieving a mechanism that can forestall a crisis, by shaping a common understanding among policy makers in each country regarding its purpose and methodology in the course of repeated trials.

**Reforming Governance**
The second issue is that of governance reform. In this regard, it is necessary to put into effect the agreements, regarding IMF quota increases and raising basic votes reached in April 2008.
Japan has already finalized its amendment of domestic laws and ratified the proposed amendment of the Articles of Agreement. I urge other countries to finalize their domestic procedures as soon as possible.

In terms of the next quota review, due in January 2011, political guidance became clear in the Pittsburgh Summit. In line with this guidance, we need to accelerate the process, aiming to “a shift in quota share to dynamic emerging market and developing countries of at least five percent from over-represented to under-represented countries,” so that quota shares appropriately reflect the current global economic reality.

Furthermore, in order for the IMF to become a truly global institution, securing geographically balanced diversity in the composition of senior management and staff is also important.

**Supporting Low-Income Countries**

The third issue is to support low-income countries. We must not forget that the current crisis has seriously affected low-income countries. The IMF should play an active role in supporting these countries, and we welcome the Fund’s recent decision to ease the conditions in order to more actively provide support. I think each major member country, as a donor, should support such active efforts by the IMF.

Japan, as a country that has been making the largest contribution to the Fund’s lending program to low-income countries, commits to providing significant support both for loan and subsidy resources.

Moreover, Japan will continue to make contributions to the Fund’s technical assistance to low-income countries in the field of macroeconomic policies. At the same time, it is important that, as a donor country, accountability to tax payers be sufficiently fulfilled.

After going through the financial storm, I expect that the IMF will play increasingly important roles to effectively develop a more solid and stable global financial system in the world following the crisis.