



International Monetary and Financial Committee

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Statement by Jun Azumi, Minister of Finance, Ministry of Finance, Japan

On behalf of Japan

Statement by the Hon. Jun Azumi,
Minister of Finance of Japan
and Governor of the IMF for Japan
at the Twenty-Fourth Meeting of the International Monetary and Financial Committee
Washington D.C., September 24, 2011

I. THE JAPANESE ECONOMY AND THE GLOBAL ECONOMY

Six months have passed since the unprecedented earthquake and tsunami hit Japan. With the world's support, Japan is working to recover and rebuild.

Immediately after the earthquake, the Japanese economy faced three uncertainties: electrical power shortages, supply chain disruptions, and the response to the nuclear power plant accident. As a result of working on both supply and demand, we were able to overcome our electrical power problems in August, a month in which the tightest supply-demand condition was expected. Supply chain disruptions temporarily affected not only Japan but the global economy, but they recovered faster than was foreseen, and production activities are steadily returning to pre-earthquake levels. For the nuclear power plant, work has been proceeding steadily toward a cold shutdown of nuclear reactors in accordance with our roadmap for controlling the accident. Thus, these concerns have steadily been eliminated, which also contributes to improving consumer and business sentiment in Japan. With demand generated by reconstruction work, the Japanese economy is expected to start picking up in the second half of 2011.

In our fiscal management that has been a challenge faced by Japan for a long time, we will stick to the targets of the Fiscal Management Strategy we developed before the earthquake. We will endeavor to recover fiscal soundness by eliminating unnecessary expenditures, securing resources for earthquake reconstruction, and promoting a comprehensive reform of social security and tax. In terms of recovery/reconstruction, we will take all possible measures, with three supplementary budgets, to ensure the necessary expenditures. While continuing efforts to cut down other expenditures, we will fill the gap in fiscal resources for recovery/reconstruction which would still remain, by income tax and corporate tax measures mainly, so that we will not push the burden toward the future. On the other hand, to cope with the longer-term challenge of securing stable fiscal resources to match increasing/accumulating social security spending due to the aging, we will raise the consumption tax rate, from 5 percent (which is currently the lowest among advanced

economies) to 10 percent by the middle of the 2010's. We will move forward, with concrete discussions on the consumption tax, aiming to submit related bills within this fiscal year. If we fail to recover fiscal soundness, we will see the private sector's confidence deteriorate and fail to achieve solid economic growth.

As for monetary policy, the Bank of Japan will continue to make contributions as the central bank by pursuing powerful monetary easing through the comprehensive monetary easing, ensuring financial market stability, and providing support to strengthen the foundations for economic growth.

Recent disruption in financial markets, including the foreign exchange market and the stock market sparked by the global economic downturn and sovereign debt problems in Europe and the US, is creating new challenges for the entire world, including Japan which is working hard toward reconstruction. Concerns about growing sovereign debt problems in Europe and the resulting financial system vulnerability are the biggest sources of the current global financial instability. European countries should come together and take action responsibly. It is important that the IMF encourage efforts by European countries, while also cooperating appropriately with these countries. We expect the US to steadily implement their fiscal consolidation plans and employment measures.

On the other hand, in emerging market economies, inflation and overheating remain concerns. Meanwhile, these economies are negatively affected by the economic situation of advanced economies and capital flow volatility. Although these countries have been working to bring down inflation by allowing exchange rate appreciation and tightening monetary policies, they are facing situations which are difficult to control. High unemployment, especially job creation for the young, is also a serious universal problem.

II. EXPECTATIONS FOR THE IMF

Amidst increasing uncertainty about the global economy, it is important that the IMF provide surveillance and financial safety nets and contribute to international coordination. For the Fund to perform these functions more effectively, it should emphasize the following points, and work to strengthen its functions and legitimacy.

Surveillance

Surveillance is important for crisis prevention and stable growth of the global economy. It has been strengthened in response to the recent financial crises, but these initiatives should continue. In addition to enhanced surveillance in each country, initiatives to deepen the understanding of the global economy and finance are important. For example, Japan's earthquake demonstrated the insufficient understanding of spillover effects through international supply chains. Also, the analysis of international liquidity has just begun.

Surveillance must respond to policy issues in a timely and appropriate manner. Currently, emerging market economies require appropriate advice on how to handle capital inflows that generate concerns about exchange rate appreciation and inflation. Advanced economies also need advice on how to formulate policies that will lead to sustainable development, while paying attention to their effects on the global economy.

Global Financial Safety Nets (GFSN)

The Fund's lending facilities should be strengthened to enhance its capacity for crisis prevention and resolution. It is necessary to institutionalize mechanisms to prevent the contagion of crises through channels of international trade and finance. Specifically, I propose that the Fund establish a facility capable of swiftly providing the necessary liquidity to member countries that are good performers. Also, given that this new facility could lead the Fund to temporarily face a large amount of financial needs, it might be worthwhile to consider enhancing the Fund's financial resources by mobilizing the unused portion of its 2009 SDR allocation of USD 250 billion, and retrieving the anticipated decrease in commitments under the renewed NAB, which corresponds to the quota increase agreed last year. In view of the currently unstable international financial conditions, such strengthening of lending facilities must be achieved quickly.

Along with the improvement of the Fund's lending facilities, strengthened regional financial cooperation and its collaboration with the IMF are important elements of a strengthened GFSN. As Co-Chairs of this year's ASEAN+3 Finance Ministers Meeting, Japan and Indonesia are working to strengthen the Chiang Mai Initiative Multilateralization (CMIM). To this end, the Operational Guidelines for Enhancing Effectiveness of the CMIM were approved at the ASEAN+3 meeting held last May. These Guidelines contributed to the quick and smooth activation of the CMIM agreement, including the CMIM's activation process in

relation to the existence of IMF programs. It was also agreed to start a study on the design of possible crisis prevention function for the CMIM, and these studies moved forward, for example, at the July seminar held in Tokyo. Surveillance was also strengthened in the ASEAN+3, for example, by establishing this year the ASEAN+3 Macroeconomic Research Office (AMRO). The AMRO's Cooperation with the Fund is expected to contribute toward enhancing the quality and traction of surveillance in the Fund and the ASEAN+3.

It is important to ensure that the collaboration between the IMF and regional financial arrangements, such as the CMIM and the European Financial Stability Facility, be tailored to region-specific circumstances and the characteristics of the regional financial arrangements, while encouraging the ownership of each regional financial arrangement.

Revising the Articles of Agreement

Along with these initiatives to enhance the Fund's capacity for crisis prevention and resolution, by means of the strengthening of surveillance and lending facilities, the IMF should consider adding global financial stability to the purposes of the Fund's Articles of Agreement. The Fund should adapt further to the current environment in which financial stability has become increasingly important for stable growth of the global economy, as cross-border capital flows are increasing. The amendment of its Articles of Agreement will increase the legitimacy of the Fund's current work toward financial stability as well as contribute to the future enhancement of its functions.

Staff Diversity

The IMF should continually work toward enhancing its credibility among member countries. Reforms are progressing to have each country's voice and quota match its economic strength, but much room for improvement remains regarding staff composition. Achieving staff diversity with respect to countries, academic backgrounds and work experience, etc., will contribute to further enhance the IMF's legitimacy, effectiveness, and credibility.

III. CONTRIBUTIONS TO THE IMF

Japan is the second largest contributor in quotas to the IMF, and it strives to continue to make contributions in terms of financial resources. Indeed, Japan was the first member to consent to the 2010 quota increase. I would like to take this opportunity to urge faster progress from

countries that have not completed their procedures to approve the quota increase and the amendment of the Fund's Articles of Agreement. After the crisis, Japan was the first member to announce its financial contributions to the IMF, establishing a 100 billion dollar lending facility which is the largest among member countries, and represents approximately 18 percent of the current NAB.

Regarding the Fund's concessional lending program to low-income countries, Japan also has made the largest contribution among member countries. In September 2010, as an additional contribution to loan resources, Japan concluded a Note Purchase Agreement with the IMF, totaling SDR 1.8 billion. In terms of subsidy resources, Japan intends to make an additional contribution of SDR 28.8 million by 2014.

Finally, Japan would also like to contribute in terms of Fund human resources, making them equal to our financial resource contributions. As I mentioned earlier, boosting staff diversity is important for the IMF, and I call for specific measures to do so.