



# **International Monetary and Financial Committee**

Twenty-Eighth Meeting  
October 12, 2013

**Statement by the Honorable Taro Aso,  
Deputy Prime Minister of Japan**

On behalf of Japan



**Statement by the Honorable Taro Aso  
Deputy Prime Minister of Japan and Governor of the IMF for Japan  
at the Twenty-Eighth Meeting of the International Monetary and Financial Committee  
(Washington, D.C., October 12, 2013)**

**I. THE GLOBAL AND JAPANESE ECONOMIES**

**The Global Economy**

Global growth is still weak and our efforts to put the global economy on a stronger and more sustainable growth path are critically important.

Economic activities in advanced economies are strengthening as observed by the fact that: private consumption in the United States is on a rising trend; the Japanese economy is steadily recovering, and some European countries' economies are showing signs of recovery, although continuous reform efforts are still necessary for advanced economies. So as not to put a damper on these favorable trends, we look forward to seeing the debt ceiling debate in the United States resolved as soon as possible.

Recent discussions on the tapering of monetary easing in the United States stem from the recovery of the U.S. economy and job market; and these trends are to be welcomed. On the other hand, the U.S. tapering of quantitative easing could have potential spillover effects on emerging market economies; this would need to be properly addressed. It is of foremost importance that emerging market economies steadily implement appropriate macroeconomic policies, structural reforms, and appropriate micro- and macro-prudential supervision in order to make their economies more resilient to external shocks. At the same time, international cooperation is also important in order to maintain financial market stability.

From this standpoint, on September 6, Japan reached an agreement with India to expand the bilateral currency swap arrangement from 15 billion U.S. dollars to 50 billion U.S. dollars. Japan is also consulting with other Asian emerging market countries about expanding the currency swap arrangements. Through such efforts, Japan intends to continue to contribute to the stability of the global financial markets.

**Revitalization of the Japanese Economy**

Based on the recognition that the best contribution Japan can make to the global economy is the revitalization of our own economy, the Abe government has been vigorously and comprehensively implementing ambitious policies of different magnitudes, namely the "three arrows" of Abenomics comprising: (i) aggressive monetary easing; (ii) flexible fiscal policy; and (iii) growth strategy to promote private investment. With regard to monetary policy, the Bank of Japan introduced and has steadily been implementing quantitative and qualitative monetary easing since April, with the aim of achieving the price stability target of two percent at the earliest possible time with a time horizon of about two years. As to the fiscal policy, the government of Japan has taken all possible measures to hold up the

economy by formulating and executing, in an integrated manner, both the FY2012 supplementary budget and the FY2013 budget.

As these policies start to take effect, the Japanese economy has shown steady growth, with real GDP growth rates in the first and second quarters of 2013 recording annualized rates of 4.1 percent and 3.8 percent, respectively. More recently, as private consumption continues to recover and capital investment starts to increase, the economy is on a path toward a steady recovery. In addition, recent price developments indicate that deflation is coming to an end.

In order to bring the economy from its current recovery to a stage of sustainable growth, the growth strategy is extremely important. The government of Japan, last June, announced the “Japan Revitalization Strategy,” aimed at increasing capital investment from 63 trillion yen to 70 trillion yen, over the next three years, by taking such stimulative measures as bold regulatory and institutional reforms as well as the introduction of drastic tax incentives. The government will also address labor market reforms, including raising female labor force participation rates, as well as introducing reforms in the medical and health care sectors and the energy sector.

As the Fund has repeatedly pointed out, a credible medium-term fiscal consolidation plan is essential toward sustaining confidence in fiscal sustainability. In this regard, on August 8, the government formulated the “Medium-Term Fiscal Plan,” which demonstrates concrete steps to be taken toward fiscal consolidation. In the G20 Leaders’ Declaration at the September St. Petersburg Summit, this plan, together with those of other advanced economies, was acknowledged as a “credible, ambitious, and country-specific medium-term fiscal strategy.” In line with this plan, the government will make utmost efforts to achieve the fiscal targets of: halving the primary deficit-to-GDP ratio of the national and local governments by FY2015 from the ratio in FY2010; achieving a primary surplus by FY2020; and thereafter steadily reducing the public debt-to-GDP ratio.

Against this backdrop, the government has taken significant steps to secure the sustainability of the social security system as well as achieve its fiscal consolidation targets. Based on the “Act for the Fundamental Reform of the Tax System,” the government decided, on October 1, to increase the consumption tax rate from 5 percent to 8 percent as of April 1, 2014. At the same time, the government formulated an economic policy package aimed at: addressing the downside risks to the economy by mitigating an expected reactionary dip in consumption; enhancing the growth potential and creating a virtuous cycle, thereby achieve sustainable growth. More specifically, the package aims to strengthen efforts toward overcoming deflation and reviving the economy by taking on such growth-enhancing policies as the implementation of the growth strategy and the introduction of tax incentives to stimulate investment on top of the 5 trillion yen stimulus measures. Furthermore, the government is preparing legislation on social security reforms based on the recently-decided outline of the direction and timelines of social security reforms. Through the implementation of these measures, the government seeks to achieve both sustainable economic growth and fiscal consolidation.

The International Olympic Committee awarded Tokyo the chance to host the Summer

Olympic and Paralympic Games in 2020. Taking advantage of this opportunity to host the Olympics and Paralympics, we will also pursue the revitalization of the Japanese economy.

## **II. EXPECTATIONS FOR THE IMF**

Five years have passed since the outbreak of the global financial crisis in 2008. During this period, there have been active discussions at international fora such as the G20 and the IMFC on how to strengthen the Fund's surveillance functions. As a result, important progress has been made, including greater consolidation of country-specific bilateral surveillance and multilateral surveillance that covers regions or the global economy. If the Fund is to continue to play an essential role in supporting sustainable growth in the global economy, as well as restoring its resilience, it is important that the IMF further improve the quality of its surveillance and address policy agenda items in a timely and appropriate manner. Japan sincerely hopes that the Fund will continue to put forth its best efforts to strengthen its surveillance functions based on holding constructive dialogues with member countries.

### **Quota and Governance Reform**

To enhance its legitimacy, effectiveness and credibility, it is essential that the Fund make continuous efforts to complete its own governance reforms, including the quota review.

The 15th Quota Review Exercise should be conducted bearing in mind facts, such as, the doubling of Fund quotas as a result of the 14th Quota Review; the expansion of the New Arrangements to Borrow (NAB) and bilateral loan arrangements, both of which complement the quota; the improvement of the global economy and financial markets resulting from the easing of, for instance, the euro-zone crisis; and the ongoing development of regional safety nets, especially in Europe and Asia. Therefore, Japan expects Fund staff to present credible estimates of the potential financing needs of member countries.

In addition, I would like to reiterate the importance of properly taking into account within the Quota Review process the records of financial contributions made by member countries. We should not forget the fact that the Fund's essential activities, such as, responding to recent global crises, supporting low-income countries, and providing technical assistance, could not have been properly conducted without the voluntary financial contributions of member countries. In light of these facts, and given the need to provide incentives to member countries to continue to provide voluntary financial contributions so as to secure stable financial resources for the Fund, the records of financial contributions by member countries should be properly taken into account. Indeed, Japan believes that due consideration to the records of financial contributions, and to the quota shares of emerging and developing countries, are mutually compatible issues. Furthermore, it is also important to appropriately protect the voice of least developed countries.

With these points in mind, Japan is willing to proactively contribute to the discussions of the Quota Review and sincerely hopes that member countries will reach an agreement as soon as possible.

Moreover, increasing the diversity of the Fund's staff is also important for the Fund to enhance its legitimacy, effectiveness, and credibility. Japan is ready to contribute to the Fund in terms of human resources as much as in terms of financial contributions.

### **Support for Low-Income Countries**

We must not forget the importance of supporting low-income countries in Africa and other regions. In this respect, the Fund has an extremely important role to play. In fact, the Fund has been providing concessional loans to low-income countries through the Poverty Reduction and Growth Trust (PRGT). In order to fully satisfy the future financing needs of low-income countries, a further strengthening of the financial resource base of the PRGT is called for. From such a standpoint, in December 2012, Japan announced its commitment to a second-round of contributions of its share of the profits resulting from the Fund's gold sales to the PRGT's interest subsidy account. We welcome that member countries have made necessary commitments during the Annual Meetings to proceed to the transfer of windfall profits.

We strongly expect the Fund to, not only utilize the PRGT, but also fully utilize its capabilities, such as surveillance and technical assistance, in its support to low-income countries. For example, as Myanmar has been making continuous efforts toward democratization, national reconciliation and economic reform since last year, with the aim of returning to the international community, the Fund has been actively involved in supporting its reform of macroeconomic policies through the Staff Monitored Program (SMP). The Fund has also been actively providing technical assistance to the Central Bank of Myanmar. Japan, as the largest financial contributor to the Fund's technical assistance program, has been actively supporting these efforts through the Japan Subaccount for Selected Fund Activities (JSA). It is critically important that the international community closely coordinate among international organizations and donor countries to provide support to low-income countries that are making serious efforts toward achieving policy reform. In this context, we strongly expect the Fund to continue to play a critical role in this area by fully utilizing its comparative advantage.