International Monetary and Financial Committee

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Statement by the Honorable Taro Aso
Deputy Prime Minister, Japan

On behalf of Japan

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Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Thirtieth Meeting of the International Monetary and Financial Committee
(Washington, D.C., October 11, 2014)

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The Global Economy

The global economy as a whole is on a moderate recovery path, but the extent of the recovery is uneven. Moreover, we need to be mindful that downside risks such as geopolitical risks and risks from sudden reversals in financial conditions still exist. Against this backdrop, and in order to achieve a strong, sustainable and balanced growth, we need to push ahead with an optimal policy mix consisting of fiscal and monetary policy and structural reforms, taking into account the economic situation and policy space in each country. In addition to that, it is important to facilitate clear communication with regard to policy divergence across countries, which stems from different economic situation.

Revitalization of the Japanese Economy

As for the Japanese economy, the annualized real GDP growth rate from the previous quarter was 6 percent in the first quarter and minus 7.1 percent in the second quarter, primarily due to the effects of the accelerated demand hike and its rebound caused by the consumption tax rate increase in April this year. However, if we take the average of the real GDP in the first and second quarter of 2014 in order to focus on the fundamental trend of the economy, the average is 1.3 percent higher than that of the equivalent period in 2013. Likewise, if we look at each component, consumption is 0.4 percent and capital investment is 7.5 percent higher than those of the equivalent period in 2013, so we are of the view that Japan is on a moderate recovery path. Turning to price developments, the year-on-year rate of increase in the consumer price index (CPI, all items less fresh food), excluding the direct effects of the consumption tax hike, has been around 1 ¼ percent and on a path as the Bank of Japan expected. The Bank of Japan clearly states that it will continue with the quantitative and qualitative monetary easing, aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.

With regard to the economic outlook, we expect a moderate private-sector-led recovery, supported by steady improvement of employment and income conditions, which serve as the basis for household consumption, and by recovery of private investment. The jobs-to-applicants ratio is 1.1, the highest in 22 years, and per-capita nominal wage and the total wages have been increasing. In addition to that, the employment stability has been improved to such a degree that about 1 million non-regular workers turned into regular workers in the past three years. At the same time, planned capital investment suggests the recovery trend of the investment supported by significant increases in corporate profits last fiscal year, and some large companies start putting importance on domestic capital investment.

In order to foster these developments, steady implementation of growth strategy is essential. In particular, the "Japan Revitalization Strategy" revised in June this year puts strong emphasis on channeling Japanese companies' abundant financial resources into investment in growth sectors and wage increase, and on helping promote business restructuring, thereby improving productivity and profitability of Japanese companies. In this context, we are taking such measures as strengthening corporate governance including formulation of the "corporate governance code", and promoting provision of funds for growth through equity, mezzanine finance and medium- to long-term loans. To support efforts by Japanese companies to enhance "profitability", we will embark on corporate tax reform to be more growth-oriented and start to reduce the effective corporate tax rate from FY2015 with securing permanent revenues including through broadening the tax base.

We have also been implementing reforms on bedrock regulations in wide range of areas including energy, agriculture and healthcare. For instance, with respect to the electricity area, the bill was passed to fully open up retail business to new entrants. We will take further steps to require distributors be legally separated from suppliers. With regard to the agricultural sector, in addition to the efforts towards consolidating farmland to expand its size, we will review the "rice production adjustment" system that has been in place for more than 40 years. Moreover, in order to maintain labor force as well as improve labor productivity under an aging population, we are taking measures to promote further active social participations of women and foreign workers who have potential to support economic growth, and to reform working styles.

Regarding fiscal policy, we have implemented fiscal stimulus measures in FY2013 supplementary budget and this year's budget in a front-loaded manner in order to mitigate negative impacts of the consumption tax rate increase and to address downside risks to the economy. Also, we need to achieve both economic recovery and fiscal consolidation. We will determine by the end of this year whether to raise the consumption tax rate from 8 percent to 10 percent in October 2015, taking into account the economic conditions and other factors in a comprehensive manner. Having said that, even with the assumption of a 10 percent consumption tax rate, the primary balance deficit-to-GDP ratio in FY2020 is projected to be minus 1.8 percent. In order to achieve the target of a primary surplus by FY2020, we will advance the consideration of a clear trajectory without delay while taking into account the compilation of the national budget for FY2015, etc.

II. EXPECTATIONS FOR THE IMF

Strengthening International Financial System

The volatility in the financial market has been lowered recently. However, there is a risk that the market will be tightened more than expected, triggered by the events such as worsening geopolitical tensions and the process of normalizing monetary policy in the U.S. Against this backdrop, the IMF needs to be well-prepared to address possible crises through securing robust financial resources and strengthening its global safety net.

In the context of strengthening the IMF's financial resources, the ratification of the 2010 reforms remains our highest priority, especially with a view to maintain and enhance its legitimacy, effectiveness and credibility. Japan, ahead of other countries, provided the IMF with a credit line of 100 billion USD immediately after the global financial crisis, and thereby took a lead in strengthening the Fund's financial resources in a flexible and swift manner through the NAB (New Arrangements to Borrow) and bilateral loan arrangements. We would like to stress that these measures were very effective in strengthening the IMF's ability and responding to the financial crisis.

For the IMF to play its role, strengthening its financial resources is not enough, but strengthening its global safety net is also needed, so as to provide the necessary support in a timely manner. From this standpoint, we welcome that the IMF has expanded tools for crisis prevention and response through the introduction of precautionary facilities, and has been reviewing them on a regular basis. On the other hand, these facilities have not been utilized as expected. In this regard, the "stigma" attached to the IMF has been seen as the main reason. In order to resolve this "stigma", we would like to call for the Fund to take more concrete actions to enhance its legitimacy, effectiveness and credibility including through further expanding its outreach activities on lending facilities reforms implemented along with lessons from the Asian currency crisis and the global financial crisis. 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.

Regional financial safety net has been strengthened through such measures as the enhanced Chiang Mai Initiative (CMI) in the Asia region and bilateral currency swap arrangements in the form of complementing the IMF. In this regard, Japan has been actively promoting these initiatives. Looking forward, Japan is ready to work together with the IMF to explore ways to enhance and strengthen safety nets in order to make assurance doubly sure on crisis prevention and response.

In addition to strengthening financial safety net, it is critically important to make continuous efforts to ensure financial stability in each country, including the efforts to prevent systemic risks followed by rapid outflows and inflows of foreign capital from emerging countries. In this regard, it is appropriate that the surveillance review conducted this year indicates the policy to place more emphasis on aspects of macro-prudence, and we look forward to a deeper discussion on this.

In the event of sovereign debt crises, smooth sovereign debt restructuring, when necessary, would be crucially important in maintaining the stability of the international financial system. The litigation against Argentina revealed that further efforts, including strengthening the contractual approach, are necessary to ensure effective sovereign debt restructuring. We welcome in depth discussions by the Fund on these efforts, consulting wide range of stakeholders including market participants.

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 important role to play. We expect that the ongoing discussion on the review of the debt limit policy will bear fruit in establishment of a system which contributes to the improvement of the debt sustainability and the stability of the countries in which Fund's programs are implemented.

Addressing Ebola Epidemic

The Ebola virus, whose outbreak has intensified sharply mainly in western African countries, is causing political and social disruption and taking an extremely heavy toll on the economy. The economies have been slowing sharply, the food and labor supply has been deteriorated, and the poor and fragile have suffered seriously. We are sure that global supports working with international community are necessary to tackle these problems. In this respect, we welcome the Fund's emergency lending to three countries, Guinea, Liberia and Sierra Leone. Japan has expressed further assistance including financial assistance of more than 45 million USD and medical experts dispatch. Japan will continue to contribute to controlling the epidemic of the Ebola virus.