



# **International Monetary and Financial Committee**

Thirty-Seventh Meeting  
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**IMFC Statement by Taro Aso  
Deputy Prime Minister of Japan and Governor of the IMF for Japan  
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 Thirty-Seventh Meeting of the International Monetary and Financial Committee**  
**(Washington, D.C., April 21, 2018)**

**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

**The Global Economy**

The global economy continues to present solid recovery. We welcome the current broad-based economic growth, partly owing to growth-enhancing government policies. However, risks still remain. In particular, market volatility in early February despite sound fundamentals of the global economy is a reminder of current risks and vulnerabilities, of which we should continue to be vigilant.

As monetary policy gradually normalizes in advanced economies, we need to pay attention to risks associated with a snapback of sovereign yields as a result of a faster pickup in inflation in advanced economies. An abrupt rise of interest rates may reverse capital inflows to emerging economies. The impact of capital flow reversal could be amplified with accumulated foreign currency denominated debt.

In addition, geopolitical strains and cyber-terrorism are sources of uncertainty over the global economy. Moreover, recently-witnessed anxieties and discontent with globalization arise from the view that globalization is a driver of increasing income inequality within a country. However, protectionism cannot be beneficial for any country as it would only lead to contraction of the global economy as a whole. Therefore, we should enhance growth through free and fair trade in a way that each economy can leverage its comparative advantages.

In response to these risks, we should advance our efforts to address vulnerabilities to be prepared for a crisis, by leveraging current solid economic momentum. Specifically, it is appropriate to continue to use monetary, fiscal and structural policies to support strong, sustainable, balanced and inclusive growth. In particular, structural reforms are expected to play a greater role, as we need to raise potential growth from the perspectives of labor inputs and productivity.

**The Japanese Economy**

Japan's economic fundamentals are solid as Abenomics has made steady progress: real GDP has been growing for eight consecutive quarters; corporate earnings are record-high; and wage growth has been high for the past four years. A virtuous circle has started to roll, where favorable corporate earnings improve employment and income, which leads to an increase in consumption and investment.

Against this backdrop, we will make every effort to overcome our utmost challenge, that is, aging population with declining birthrates, and aim to enhance productivity, with a view to achieving strong, sustainable, balanced and inclusive growth. First, we aim to promote the labor participation of women and the elderly, by redressing long working hours, through “work-style reforms.” Second, we will reap the benefit of technological innovation such as robots, IoT (Internet of Things) and artificial intelligence through tax, budget and regulatory reforms. Third, investment in human capital is key. We seek to reduce economic burden of preschool and tertiary education and expand recurrent education program. We will also eliminate anxieties of working generations by securing nursing personnel and facilities of childcare. The FY 2018 budget, which was passed in the Diet last month with the total amount of 97.7 trillion yen (860 billion US dollars), will contribute to achieve these goals.

Japan is in a dire situation with its central and local government debt level reaching twice as large as its GDP. To ensure fiscal sustainability, we firmly maintain the target of achieving primary surplus and will set forth a detailed and highly effective plan toward the target by this summer. We remain committed to achieving both economic revitalization and fiscal consolidation by using all policy tools.

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

As risks for the global economy still remain, it is important to strengthen the function of the international financial architecture, which helps the member countries eliminate their vulnerabilities. We expect the IMF to unleash its strengths in various areas such as surveillance and capacity development.

### **Surveillance**

IMF surveillance plays a significant role in preventing crises to the extent possible. We highly value the IMF’s long-standing efforts to enhance its surveillance capability, and encourage further work in the following three areas:

#### *Global Imbalances:*

Global imbalances persists for the last few years and accumulated imbalances could pose a risk to the global economy. Given that the current account balance of each country is a mere reflection of its saving-investment balance in macroeconomic terms, each country should carry out appropriate macroeconomic and structural policies to achieve a sustainable saving-investment balance, which would lead to addressing global imbalances. We expect the IMF to provide appropriate policy advice from this point of view.

We find great value in the IMF having a multilateral monitoring tool for assessing countries’ external positions in a transparent and evenhanded manner. We expect the IMF to continue work in a way that the External Balance Assessment model and the External Sector Report win confidence of the stakeholders. In this context, we highly value the recent efforts by the staff to ensure objectiveness and

evenhandedness of the External Sector Assessment and expect appropriate implementation in the future.

However, we would like to raise fundamental questions regarding how the External Sector Assessment should be. Nowadays the link between the exchange rate and the current account balance has become weaker. Specifically, the share of income balance, which cannot be adjusted by change in the exchange rate, dominates the current account balance, particularly in advanced economies; on trade balances, expanded and deepened global value chains lower the trade elasticity to the exchange rate; and the size of capital transactions, which is no relevance to current transactions, has significantly increased and played a dominant role in the determination of the exchange rate.

Building on these findings, we wonder if the validity of assessing the exchange rate based on the current account balance may already have lost its ground. We therefore strongly urge the IMF to reconsider the necessity and logic of such assessment.

#### *Capital flows:*

We should make steady efforts to be prepared for the risk of abrupt capital flow reversals. In response to reversals, capital flow management measures (CFMs) could be implemented in certain circumstances. Japan highly values the IMF's "Institutional View" on capital flows (IV), which makes clear that the use of CFMs can be appropriate under certain circumstances, while noting that a key role needs to be played by macroeconomic policies. In this connection, the IMF needs to make firm assessments whether countries implement CFMs in line with the IV.

Since there are cases where national authorities and the IMF have diverged views in the application of the IV, greater clarification is warranted regarding cases where the use of CFMs is judged appropriate, with a view to helping staff on the ground who conduct assessment of CFMs according to the IV. We expect steady efforts by the IMF to develop a note which will illustrate how specific CFMs are assessed and in what circumstances the introduction of CFMs can be considered appropriate.

Moreover, in the case of a surge in asset prices and excess credit, deploying macroprudential measures (MPMs) as needed, while being cautious not to slow down current favorable growth momentum, is beneficial to contain systemic risks. In this regard, we welcome the work by the IMF to compile a macroprudential policy database, as this will benefit country authorities in deploying MPMs based on country-specific circumstances.

#### *Emerging issues:*

In principle, we support the IMF's continued contribution to analysis of non-traditional new themes, including inequality, gender and climate change, when social values are changing and technological innovation and economic integration continue to evolve. Nevertheless, with IMF's resource constraints in mind, we strongly encourage the IMF to focus strictly on macro-critical issues, depending on

country-specific circumstances. Moreover, when the IMF does not possess adequate expertise, cooperation between the IMF and other international organizations with more expertise is critical.

### **Support for Low-Income Countries and Capacity Development**

In view of accumulated public debt in low-income countries (LICs) arising from an increase in non-concessional loans, enhancing debt transparency would enable third parties to verify LICs' debt sustainability, which would bring sustainable inflows of investment financing and therefore serve as an important basis for their growth.

To this end, LICs, as debtors, should disclose their debt data accurately. For countries that lack sufficient capacity, the international community should strengthen assistance of their capacity development. We expect the IMF to strengthen capacity development support in this area, which would enable LICs to collect and disclose high-quality debt data.

Moreover, if LICs are to ensure debt sustainability by themselves, sound fiscal management is essential and, to this end, enhanced capacity for expenditure management and revenue mobilization is necessary. In this regard, it is particularly important to achieve domestic resource mobilization in an effective and efficient manner. We expect the IMF to strengthen information sharing and collaboration with other development partners through the Platform for Collaboration on Tax, and to provide regular updates on its activity.

In addition, the Debt Sustainability Framework for LICs by the IMF and the World Bank, which was refined last year, is scheduled to be operationalized this July. This framework is an important tool to help LICs conduct prudent debt management and mobilize external financing. Japan expects that implementation of this framework will help further to ensure debt sustainability of LICs.

Furthermore, we should engage with creditors to encourage sufficient disclosure of terms and conditions, which would lead to enhanced debt transparency. Given the change in the composition of creditors to LICs, as lending from emerging creditor countries and private creditors has increased, it is necessary to encourage these new creditors to take actions. We expect the IMF to make constructive contribution to this effort, based on discussions in the international arena.

### **Global Financial Safety Net**

To strengthen the multi-layered global financial safety net (GFSN), composed of foreign reserves, bilateral swap arrangements, regional financing arrangements (RFAs) and IMF's lending toolkit, it is important to enhance capability of each layer of the safety net as well as strengthen collaboration between the layers.

To this end, it is critical that the IMF solidify collaboration with each RFA by developing close cooperation, not just in a crisis but in normal times. In this connection, we highly value that the IMF has conducted joint test-runs with the Chiang Mai Initiative Multilateralization (CMIM) for a multiple of times, based on realistic assumptions.

Regarding the 15th General Review of Quotas, Japan is of the view that the IMF should be adequately resourced to fulfill its role at the center of the GFSN. What should be acknowledged is the critical roles that borrowed resources play as IMF's funding base, in addition to quotas.

Any of the IMF activities is supported by not just quotas but also these borrowed resources and contributions from members to support LICs and capacity development. However, we view it a huge problem that these types of financial support or "voluntary financial contribution" to the IMF have not been reflected in the calculation of members' quotas. With a view to ensuring the adequacy of IMF's financial resources, it is critical to strengthen incentives for members to contribute to the resources by reflecting voluntary financial contribution in this quota review.

The most important issue in the ongoing review is to agree upon "what are the financial resources the IMF needs to be equipped with so that it can fully function an expected role at the center of the GFSN." This core question at issue includes: the composition of IMF's financial resources; the entire size of these resources; and the necessary size of the quota increase, if any.

In completing the review, the agreement should be sought as a package, including on the quota formula. However, views remain diverged among the membership on core elements, including the necessity of the quota increase. We should continue discussions tenaciously at the Committees of the Whole to reach consensus.

## **IMF Governance**

In order to continue to fulfill an important role for a stable global economic growth, the IMF should gain the credit that its activity is beneficial for the whole membership. In this regard, the diversity of the staff is important and we expect the IMF to make continuous efforts in this area.