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Governor of the Fund and the Bank for **JAPAN**

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I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY: COMBATING DEFLATION

The global economy continues to grow, but there is uncertainty regarding its future. Concerns over the financial vulnerability of some countries—mainly advanced economies in Europe and the United States—and particular countries' sovereign risks are increasing the downside risks of the global economy.

The Japanese economy has been recovering, yet dealing with a tough challenge, that posed by deflation. Deflation keeps real interest rates at high levels and discourages companies from investing in technological innovations in the medium- to long-term perspectives. Households do not perceive improvements in their living standards because their nominal income has decreased, even though their real income has increased. This leads people to cut back on consumption. Deflation is also one of the factors behind the strong yen. The rapid appreciation of the yen, which has reached its highest level in 15 years, quells expectations for economic recovery and casts a shadow over the sentiments of both firms and households.

Under these circumstances, central banks have a very important role to play. The Bank of Japan will maintain an extremely accommodative financial environment, and, if judged necessary, will take policy actions in a timely and appropriate manner.

The Japanese government is also taking all the possible measures to deal with this situation. For the time being, the government will focus its efforts on ensuring an agile and flexible implementation of measures considered highly effective in terms of boosting demand and employment, which include preparing a supplementary budget, in order to deal with any downside economic risks that may result from factors including the strong yen, and overcome deflation as early as possible.

In order to end deflation, it is essential that Japan enhance its growth potential and eliminate concerns about its future, which would contribute to closing the GDP gap. By means of the New Growth Strategy and the Fiscal Management Strategy, we will bring about, in an integrated manner, a strong economy, strong public finances, and a strong social security system, thereby achieving steady economic growth and building sustainable fiscal and social security systems.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK GROUP

Now let me address our expectations for the IMF.

The IMF has responded with flexibility to the recent crisis, but in order to contribute more effectively to the international economy, it must keep improving itself.

The Fund needs to review its missions in light of the recent crisis. Indeed, a crisis in which

the problems of domestic financial systems destabilized the entire international financial system and the global economy could not have been envisaged when the Fund was founded. In response to the recent crisis, the IMF has established precautionary lending instruments and strengthened its financial sector surveillance. These efforts illustrate that the Fund's missions have already shifted. Thus, its missions need to be reviewed to include "financial stability" in the missions laid out in the Fund's Articles of Agreement.

Since the outbreak of the recent crisis, the Fund's role in the global economy has become more important. Against this background, in order for the Fund to further improve its functions and provide its members with financial assistance, its own credibility needs to be secured. To that end, the Fund must ensure that each member's voice is commensurate with its economic weight and it must enhance the ministerial engagement of its member countries in decision making regarding important issues.

In reinforcing the IMF's lending functions, in addition to the measures already taken, it is necessary that the Fund establish a mechanism through which it can promptly mobilize sufficient funds in order to prevent a contagion in a systemic crisis. I support a substantial quota increase on the grounds that the Fund's financial resources need to be increased. Furthermore, it is critical to enhance collaboration between the IMF and the frameworks of regional financial cooperation.

Next, I would like to talk about poverty alleviation and promoting development in developing countries.

Despite a series of efforts among the international community, millions of people are still living in grave poverty, especially in Sub-Saharan Africa and South Asia. In order to accelerate poverty reduction, we should seek to scale up both the volume of funds and the expertise concerned. However, the economic and fiscal situation, in which developed countries currently find themselves, is becoming increasingly aggravated. Therefore, in order to mobilize sufficient public finance under these conditions, it is critical that emerging donors make appropriate contributions corresponding to their place in the world economy. It is also essential to improve relevant public institutions and the investment environment through which private sector actors can easily be involved in economic development and poverty reduction in developing countries.

Continuous efforts are required to establish more effective and efficient development approaches that will maximize the impact of development activities and thereby deliver benefits to the most vulnerable people. Verification of the results of development projects is becoming much more important than before because donor countries now emphasize accountability to their taxpayers regarding public expenditures. The term verification, in this sense, does not mean merely measuring the impact of particular projects, but rather scrutinizing, with a long-term perspective, the interaction between the outcome of these projects and the changes in policies and institutions, economic development and the livelihood of the people in developing countries. Innovative knowledge and global experience are essential factors to carry out the challenging verification process mentioned above.

I really hope that the World Bank Group will take a strong leadership role in mobilizing finance, including the replenishment of the IDA 16, and providing the expertise necessary to reduce poverty and promote development in developing countries.

Finally, I would like to talk about the conservation of biological diversity. In two weeks, the Tenth Ordinary Meeting of the Conference of the Parties to the Convention on Biological Diversity will be held in Nagoya, Japan. It has been pointed out that insufficient recognition of the importance of biological diversity has led to a loss in biodiversity. I sincerely hope that the Conference in Nagoya will contribute to people's better understanding of various values, including the economic value, of biodiversity.