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Statement by the Hon. **TARO ASO**,
Governor of the Bank and the Fund for **JAPAN**

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I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The global economic recovery remains moderate, while downside risks still exist mainly in emerging and commodity-exporting economies. In emerging economies, there is limitation for further accommodative monetary policies due to depreciating pressure on their currencies, while room for fiscal expansion is also small in some economies, thus limiting policy options for stimulating demand. In addition, amid concerns over the slowdown in China's economy and uncertainty of macroeconomic policies in advanced economies, volatility in financial markets is increasing. Under such economic circumstances, well-calibrated policy management as well as smoother communication with market participants is essential in order to mitigate uncertainty and enhance transparency.

The Japanese economy remains on a moderate recovery path, with an improving trend in employment and income situation, and the picking up of private demands including business investment. Regarding the outlook of the Japanese economy, it is expected that an increasing number of non-regular workers will continue turning to regular ones, while the household consumption will recover gradually supported by the improvement in the income environment. Furthermore, we project a gradual increase in capital investment with the corporate earnings at their highest level. These factors will help achieve a gradual recovery of the Japanese economy. Japanese corporations are holding massive retained earnings amounting to 354 trillion yen in FY2014, which is 8% higher than the previous year and equivalent to 72.2% of GDP. The government is encouraging corporations to put their positive profits into dividends, wages, and capital investment. It is also determined to implement macroeconomic policies vigorously to ensure that these trends will lead to a virtuous economic cycle.

Thanks to the three arrows of Abenomics, employment and income environment has improved, and we are only a step away from overcoming the deflation. However, Japan still need to overcome long-standing structural challenges of low fertility and population ageing. Hence we have set up new three arrows comprising: (i) resilient economy aiming at 600 trillion yen of nominal GDP; (ii) childcare support to increase the birth rate to 1.8; and (iii) social security system to make it unnecessary for anyone to quit their jobs for the purpose of long-term care of one's family members. The original three arrows represented methods of economic policies, while the new three arrows represent specific goals of economic policies. We will continue to conduct our economic and fiscal policies to achieve these policy goals.

In order to achieve strong, sustainable and balanced growth, one of the top priorities in the growth strategy that was revised at the end of June, is to enhance labor productivity through pro-active investment, in view of the declining working age population. More specifically, Japan is now

strengthening its corporate governance in order to promote pro-active business investment, through the Corporate Governance Code and the Stewardship Code. By strengthening corporate governance, it is envisaged to pave the way for enhancement of profitability. As for labor supply, the Japanese government is committed to encourage more female and foreign labor participation. For example, the Diet passed a bill to promote empowerment of women, while the number of female senior corporate executives is increasing. Through these efforts, the Japanese government is strongly pushing for enhancement of productivity.

Turning to the fiscal situation, Japan is facing serious challenges, with its outstanding stock of public debt exceeding 200% of GDP. Therefore, we need to make a steady progress toward fiscal consolidation. Against this backdrop, the Japanese government released the annual “Basic Principles for Economic and Fiscal Management and Structural Reform” in this June, in which we adhere to the target of achieving primary surplus in FY2020. As a mid-term benchmark of our reform efforts, we aim to bring the primary deficit down to 1% of GDP in FY2018 by maintaining the past three-year trend of growth in general policy expenses until the same fiscal year. At the same time, the government stands ready to take additional expenditure and revenue measures, if needed, thereby making the fiscal plan more resilient to changes in the economic environment.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

Now, I will address Japan’s expectations for the IMF.

As volatility in the recent financial market can be observed, we need to closely monitor the global financial conditions, and continue our efforts to address various challenges regarding the international financial system. Amid concerns over the reversal of capital flows brought into emerging economies by accommodative monetary policies globally, correlation of global asset prices is now being heightened. Against this backdrop, individual approach where each country cares about its own business will not be sufficient. Rather, strengthening safety nets for global financial stability will become an ever more important task. Japan expects the IMF’s initiative in this regard and will actively participate in ongoing discussions.

On strengthening the IMF’s financial resources, the 2010 Reforms are the one and only existing package that was agreed by all member countries, and its realization is critical. However, on concrete options of the “interim solution”, which are discussed due to the delay in activating the 2010 reforms, Japan firmly believes that it is critical that the quota shares of members under the “interim solution” fall within the vicinity of the final results of the 2010 Reforms. After the global financial crisis, Japan took a lead by setting the credit line for the IMF worth of 100 billion dollar. We have also taken the leadership in strengthening flexible and swift financial resources by the NAB and the bilateral loan agreement. We strongly believe that the IMF will duly assess Japan’s effort to date and special attention will be paid to our opinion concerning the “interim solution”.

With regard to the review of the Special Drawing Rights (SDRs) currency basket of this year, while we need to wait for technical assessment by the IMF based on objective data before deciding on inclusion of a new currency in the SDR basket, we expect discussions to rest on principles well-established in past discussions.

Next, I will express what we expect for the World Bank Group.

This September, the 2030 Agenda for Sustainable Development was adopted at the United Nations Summit. It is essential to intensively discuss the challenges on which the World Bank Group (WBG) should focus, the role it should play, and how it can secure the necessary funds to work on the 2030 Agenda. This needs to be done, while paying attention to the WBG's Twin Goals, of ending extreme poverty by 2030 and boosting shared prosperity, as well as to its comparative advantage and mutual complementarity with other international organizations.

The 2030 agenda is comprehensive and wide-ranging. It is important to identify the areas to be emphasized and provide support in a focused and continuous manner in order to effectively utilize limited financial resources for development. Japan specifically focuses on the global health, disaster risk management, quality infrastructure, and global environmental issues.

The WBG should appropriately play the role that the international community expects. Japan supports the WBG's initiatives to develop a solid financial base and financial tools necessary for that purpose. Japan will make active contributions to discussions about the effective use of existing funds through optimization of the balance sheet, the IDA 18th replenishment, and the capital increase of IBRD/IFC, which will be held along with the efforts to mobilize private and domestic funds in developing countries.

It is important to consider them in an integrated and comprehensive manner since all of them are intended to secure funds necessary for the WBG to fulfill its role. At the same time, it is necessary to carefully examine and analyze developing countries' specific financial needs in relation to the WBG. It is also indispensable to pay sufficient attention to the debt sustainability of developing countries amid changes in the global economic conditions surrounding them, such as the slowdown of emerging economies and lower prices of oil and other commodities.

Japan urges the WBG to continue efforts to form a consensus through ongoing dialogue with various stakeholders, including donors and clients, as discussions about the WBG's role in realizing the 2030 Agenda begin in earnest at this meeting.

III. CLOSING

70 years have passed since the establishment of the IMF and the World Bank. During this period, global economic climate has changed in a dynamical manner, posing a number of new policy challenges to the both institutions. In closing, I would like to express my respect toward the great

roles that the two institutions have played in the international community and their major contributions in this regard. I also expect them to address ever-increasing difficult global challenges and thus help achieve strong, sustainable and balanced growth as well as poverty reduction.