



**ANNUAL
MEETINGS**
2019 | WASHINGTON DC
WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

Governor's Statement No. 16

October 18, 2019

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

Statement by the Hon. Taro Aso,
Governor of the Bank and the Fund for Japan

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The global economy has been growing, but momentum has been weakening since the latter half of 2018. In the next year, it is expected to pick up moderately, mainly due to the recovery in emerging economies. However, the global economy is now facing downside risks, such as the continuation of trade-related tensions, geopolitical concerns, and political uncertainties. To avoid these downside risks materializing, it is important that we renew our shared understanding of, and commitment to, multilateral cooperation, and step it up to the next level.

Against this backdrop, Japan has based its G20 presidency on our shared commitment to strengthen multilateralism. This is no more evident than in the issues we chose to prioritize this year - issues that call for open discussion among those invested in, and who benefit from, the multilateral framework, such as global imbalances, and debt transparency and sustainability. Above all, the G20 under Japan's leadership agreed on "G20 Principles for Quality Infrastructure Investment" and endorsed a "Programme of Work to Develop a Consensus Solution to the Tax Challenges Arising from the Digitalisation of the Economy" at the Summit in Osaka. These outcomes are a shining example of what multilateral cooperation can achieve, when we put in collective effort. I have said it before, and I will say it again – as a beneficiary of the multilateral system, Japan will continue to champion and safeguard its institutions.

In Japan, the economic fundamentals that support domestic demand, including the improvement in employment and income, and the high level of corporate earnings, remain robust. Accordingly, the Japanese economy is expected to continue to recover moderately.

Under these circumstances, Japan will continue to make steady efforts to achieve economic growth and fiscal consolidation simultaneously. To achieve this, we are responding to the declining birthrate and aging population. We have increased the consumption tax rate from 8 percent to 10 percent this month. Through this tax rate hike, we not only aim to achieve fiscal consolidation, but also enhance the social security

system and use some of the additional tax revenue to take countermeasures to respond to the falling birthrate. These measures are designed to realize strong, sustainable, balanced, and inclusive growth for Japan. Furthermore, we have taken measures to overcome the short-term economic impact of the consumption tax rate increase, including “Temporary and Special Measures”, to level the demand fluctuations associated with the rate change.

We will continue economic and fiscal policy management that uses all policy tools - fiscal, monetary and structural - individually and collectively. In this increasingly interconnected world, we must closely watch the downside risks the global economy faces, and in cases where those risks materialize, implement flexible macro-economic policies collectively, as needed and without hesitation.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

First, let me express Japan’s expectations for both organizations.

The last few years have witnessed a rapid public debt build-up in some low-income countries due to an increase in non-concessional borrowing owed to non-traditional creditors. Joint efforts undertaken by both borrowing countries and creditors, public and private, are vital to improve debt transparency and secure debt sustainability. We expect the IMF and World Bank to help borrowing countries develop their capacity through steady implementation of their multi-pronged approach. In addition, we look forward to their work to promote both borrowers and creditors’ understanding of the importance of securing debt sustainability.

Next, I will touch upon Japan’s expectations for the IMF.

IMF surveillance is essential to support member governments to understand current economic conditions, from both global and country-specific perspectives, and to take appropriate policy actions. Japan supports the IMF’s continued efforts to improve surveillance, such as the Comprehensive Surveillance Review scheduled for 2020. In addition, we expect the IMF to incorporate the G20 outcomes this year into their surveillance, and utilize surveillance findings in their lending and capacity development programs.

The IMF's lending function is a critical pillar of the global financial safety net (GFSN). At the same time, it plays an important role in fostering economic reforms in countries receiving support, as seen in the advancement of Angola's debt transparency and sustainability reforms. In addition, the Fund's closer cooperation with other components of the GFSN, including foreign reserves, bilateral swaps, and regional financing arrangements (RFAs), is critical to ensure a stronger GFSN. As for the ASEAN+3 region, the collaboration between the IMF and the Chiang Mai Initiative Multilateralization (CMIM), as well as the ASEAN+3 Macroeconomic Research Office (AMRO) which supports the implementation of the CMIM, should continue to play an important role in strengthening the GFSN in the region.

Japan supports the IMF to remain adequately resourced and at the center of the GFSN. Prompt action is required to support this function, as the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Arrangements (BBAs) will expire shortly. In that regard, we welcome the agreement on the 15th General Review of Quotas that ensures necessary resources through borrowed resources.

Although there is no doubt that the IMF is a quota-based institution, it does not mean all resources need to be secured as quotas. Most importantly, it is neither necessary nor efficient to prepare for all risks, including tail risks, with quotas. Borrowed resources such as the NAB and the BBAs, which can be mobilized in a timely manner, should remain as critical components of the IMF resources. In addition, the IMF needs resources for its capacity development activities and its support for low-income countries. As such, these non-quota resources should not be of a temporary nature, but need to be relied on as permanent resources. In that respect, we have to strengthen the mechanism to provide a proper incentive for the membership to make voluntary contributions to these non-quota resources.

In addition to securing adequate resources, continued governance reform is crucial in order to preserve the legitimacy, effectiveness and credibility of the IMF. Our commitment to governance reform under the 15th GRQ should continue unweakened in the 16th GRQ. To ensure the reform continues, we welcome that a realistic and ambitious deadline was set for the 16th GRQ.

We look forward to the IMF making further contributions to the international community, especially in the following areas.

We expect the IMF to help implement the G20 QII Principles, especially with respect to maximizing economic efficiency and enhancing infrastructure governance, including on debt sustainability, putting its Public Investment Management Assessment and other analytical tools to full use.

While new payment systems derived from financial innovation, such as global stablecoins, may have the potential to enhance payment system efficiency, they also raise a broad set of concerns with regard to public policies and regulations. These risks need to be identified and appropriately addressed before global stablecoins and other similar arrangements with potential systemic footprints commence operation. We look forward to the robust analysis and resulting policy advice that the IMF will put together for us.

I will now turn to Japan's expectations for the World Bank Group (WBG).

First, infrastructure is a driver of economic growth and prosperity, and provides a solid basis for sustainable growth and development. When it comes to infrastructure investment, quality and quantity go hand in hand. Quality infrastructure investment (QII) brings about positive economic spillover effects on the economy and society in the long run, beyond the value of physical infrastructure itself. With this in mind, at the G20 Osaka Summit, Leaders endorsed the "G20 Principles for Quality Infrastructure Investment". The next step for us is to implement these principles by reflecting them in the design and implementation of projects executed in the field. Japan would like to see the WBG help advance the QII agenda.

Second, on global health. A robust health finance system is a prerequisite in achieving UHC, which is key to human capital development. We expect to help advance the UHC agenda in line with the "G20 Shared Understanding" that was put together at the G20 under Japanese presidency and stresses the importance of UHC finance in developing countries. Promoting UHC is helpful in responding to health emergencies, but more needs to be done in terms of prevention and preparedness. Let me touch upon briefly on the PEF (Pandemic Emergency Financing Facility), a landmark mechanism established at Japan's initiative, which provides quick and effective support utilizing an insurance scheme with private funding, in response to the outbreak of a pandemic. Harnessing the

benefits of an insurance scheme is important. The WBG should carefully consider how to structure the next phase of the PEF.

Third, harnessing disaster risk insurance is one of the important building blocks to enhance resilience against natural disasters. I am pleased that the Southeast Asia Disaster Risk Insurance Facility (SEADRIF), with Japan's support, is about to commence its operation for Lao PDR and Myanmar. Japan will continue to promote the wider use of disaster risk insurance among ASEAN countries and in other regions.

Fourth, Japan looks forward to an IDA19 that addresses such important development issues as QII, UHC financing, pandemics and debt sustainability. Regarding pandemics such as Ebola, making tireless efforts towards achieving UHC during non-crisis times is essential. In addition, establishing a mechanism that can provide a quick response in case of an outbreak, including the provision of necessary funds, is critically important. Addressing the multitudes of development needs that face low-income countries requires IDA19 to have an appropriate replenishment size. In this regard, IDA's continued access to financial markets is important. Also, Japan believes that mobilizing resources across traditional and emerging donors is essential so that IDA can continue playing a pivotal role in supporting low-income countries. Japan, on its part, will make an appropriate contribution to IDA19.

Lastly, the IBRD-IFC capital increase package aims at prioritizing resource allocation to countries with low per-capita income, while actively mobilizing private resources. Japan believes it important that the package be implemented steadfastly. Japan looks forward to the swift adoption of the relevant IFC Board of Governors resolutions at the earliest timing, following suit with the adoption of IBRD resolutions.

III. CLOSING

As the G20 Presidency this year, Japan has taken the lead in appropriately responding to changes in and challenges facing the global economy, in cooperation with the IMF and the WBG. We would like to express our respect for and gratitude to both organizations for the significant roles they have played in the global economy, and the contributions they have made to international society. We expect them to continue their efforts in addressing the increasingly difficult global challenges, achieving strong, sustainable, balanced and inclusive growth, and achieving poverty reduction.