



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Aso
Japan**

Statement by the Honorable ASO Taro
Deputy Prime Minister of Japan and Governor of the IMF for Japan
at the Forty-second Meeting of the International Monetary and Financial Committee
(October 15th, 2020)

1. The Global Economy and the Japanese Economy

Global Economy

The global economy has faced the unprecedented crisis due to the COVID-19 pandemic. Countries have mobilized all possible policy tools to respond to their epidemic and economic challenges. These efforts are allowing the global economy to start gradually recovering from the sharp contraction.

However, uncertainty of global economic outlook remains unusually high. The recovery is uneven, with some economies picking up faster than anticipated, while others reinstating lockdowns due to a resurgence in infection. Debt levels are higher than ever, and restoring debt sustainability has become an urgent task in developing countries.

Japanese Economy

Despite headwinds, the Japanese economy is showing signs of improvement, including in private consumption and production, following gradual reopening of economic activities starting end-May. To keep infection under control and promote economic activities in tandem, the Japanese Government has taken large-scale measures over 230 trillion yen (approximately \$2.2 trillion), including two supplementary budgets and use of contingency funds. The new administration formed in September is making every effort to restore strong economic growth by addressing medium- to long-term challenges as well such as digitalization, regional revitalization, and declining birthrate and aging population.

2. Our Expectations for the IMF : Response to the COVID-19

Current Crisis Response

The IMF has played a critical role in responding to the unprecedented crisis. Japan highly values its various actions in a short period of time, including augmentation of the emergency instruments, establishment of a new facility, strengthening of lending support and debt service relief for low-income countries, and temporary increases in access limits.

Lending Toolkits

As the only institution with a mandate to support members' balance of payments, the IMF should keep its tools under review in a proactive manner so as to best serve members' needs. Japan welcomes the ongoing discussions at the Executive Board on strengthening lending toolkits. We look forward to considering various options, including a potential new facility. Further discussions would be helpful as to how well these options can address member countries' needs, and how we can ensure timely implementation of structural reforms aligned with disbursement of financial assistance. In view of uncertainty surrounding the global economy, Japan also welcomes the extension of the temporary increases in access limits of the emergency financing instruments for another six months.

Resource Mobilization

The IMF should be able to mobilize sufficient resources to discharge its function. Member countries should expedite their domestic procedures for the doubling of the New Agreements to Borrow (NAB) and the new round of Bilateral Borrowing Agreements (BBAs). Japan is pleased to report that the domestic processes for both the NAB and the BBA have been completed. Going forward, Japan supports a timely activation of the NAB when needed. Rapid and flexible borrowing resources play an important role, and thus should be integrated in the IMF's resources as a major funding source with due recognition in its governance structure.

Surveillances

The IMF's timely and appropriate economic analysis and policy advice under highly uncertain environment, including World Economic Outlook (WEO), provide valuable guidance to member countries in responding to the crisis effectively. We welcome that the IMF has resumed focused bilateral surveillance, via virtual format, given the increasing importance of analysis and policy advice tailored to each member's epidemic and economic situation.

Cooperation with Regional Financing Arrangements

In order to function as the center of the global financial safety net (GFSN), the IMF should continue to closely cooperate with key elements in the GFSN, including foreign reserves, bilateral swaps, and regional financing arrangements (RFAs). In this regard, we expect the operational mechanism for cooperation and collaboration between the Chiang Mai Initiative Multilateralization (CMIM) and the IMF to be further deepened, following the approval of the ad hoc amendment to the CMIM Agreement this year to make its activation smoother and swifter.

Assistance to Developing Countries

Developing countries have been severely affected by the crisis, facing financial needs, debt vulnerabilities and limited capacity.

Financial Assistance

Japan has been actively supporting the IMF's response. It includes the contribution of \$100 million to Catastrophe Containment and Relief Trust (CCRT) and the commitment to doubling its contribution to the Poverty Reduction and Growth Trust (PRGT) from the previous SDR 3.6 billion, of which the first SDR 1.8 billion was disbursed immediately. Japan looks forward to contributions from other donors.

Debt Issues

Heightened debt vulnerabilities in some low-income countries are serious concerns of the global community. Given the impact of the COVID-19, this problem has become even more serious. To ensure sustainable economic growth in developing countries, we need to take measures to structurally improve solvency of these countries, on top of liquidity support by the Debt Service Suspension Initiative (DSSI). We have taken two big steps forward: the G20's decision on the DSSI extension and the G20's agreement in principle on the "Common Framework for Debt Treatments beyond the DSSI". The G20 must finalize and publish the Common Framework at the G20 Finance Ministers and Central Bank Governors meeting in November

2020, to meet the expectations of developing countries and the global community.

All official bilateral creditors should implement the DSSI and participate in the debt treatment beyond the DSSI fully and in a transparent manner. Private creditors should also provide debt treatment at least as favorable for developing countries as that provided by official creditors. In addition, with a view to ensuring debt sustainability in developing countries, we expect the IMF to effectively support steady implementation of reforms by the authorities of these countries, through arranging IMF-supported programs.

Furthermore, we expect the IMF and World Bank to continue their work to enhance debt transparency and ensure accuracy of debt data and urge all official bilateral creditors to cooperate with them on their Debt Data Reconciliation.

Capacity Development

Developing countries facing deterioration in their debt situation are in need for knowledge assistance to better respond to the crisis. In this regard, Japan is pleased to announce a new contribution of \$10 million to the COVID-19 Crisis Capacity Development Initiative. We will continue to support capacity development activities in low-income countries, with a focus on debt management.

3. Our Expectations for the IMF : Response to the Post COVID-19

External Balance Assessment

Assessment of member countries' external balances and exchange rates is a core function of the IMF. Its assessment model is built on the assumption that exchange rates play a major role in current account adjustments. However, it is hardly the case in the short- and medium- term for countries that have large income balance, including Japan. In addition, exchange rates are increasingly subject to capital transactions, which are rapidly expanding and have little to do with current transactions, particularly in advanced economies such as Japan. We urge the IMF to fundamentally improve the model so that it properly reflects the structure of current account of each member country.

Digital Currency

Japan welcomes the IMF's intention to deepen its analysis on central bank digital currencies (CBDCs). Particular attention should be paid to the safety and soundness of CBDCs, focusing on design and issuer governance. Raising awareness of the benefits and risks of CBDCs would enable potential issuers and users to make informed decisions.

Capacity Development on Debt

With a view to ensuring debt transparency and sustainability in developing countries, Japan is pleased to announce its contribution of \$1.5 million to the World Bank's Debt Management Facility Phase III for its activities in Fiscal Year 2021, in which the IMF also plays a role. We also expect the IMF to make effective use of the Data for Decisions Fund.

Enhancing domestic revenue mobilization is particularly important for low-income countries to secure their revenue collection and address excessive dependence on external debt. Japan expects the IMF to continue to

collaborate with other developing partners through the Platform for Collaboration on Tax (PCT) and further strengthen technical assistance.

Staff Diversity

Lastly, well-qualified human resources have been Japan's key contribution to the IMF, in addition to financial resources and policy inputs. Global coverage of the IMF warrants staff composition to be more diversified with appropriate regional balance, which is key to promote more effective operations. Japan will continue to cooperate with and contribute to the IMF in this regard.