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Japan**

**Statement by the Honorable KATAYAMA Satsuki
Governor of the IMF for Japan
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To begin with, Japan expresses its appreciation to IMF Managing Director Kristalina Georgieva for her strong leadership in fulfilling the IMF's mission. Japan also commends Saudi Arabian Finance Minister Mohammed Al-Jadaan for his dedicated efforts as the Chair of the IMFC to facilitate dialogue among member countries.

1. Global Economic Developments and Japan's Economic and Fiscal Policies:

The global economy is facing heightened uncertainty stemming from intensified geopolitical tensions. The current situation in the Middle East has triggered supply shocks, causing high volatility particularly in energy and financial markets. Japan is closely monitoring these developments with a very high degree of vigilance. We must also stay vigilant against their broader implications for macroeconomic conditions and the financial system.

We also need to note that the impact of conflicts on each country and region differs by a range of factors, including income levels. For example, in parts of Asia with high dependence on oil and liquefied natural gas from the Middle East, some countries have already been forced to curb economic and social activities. There is a concern that, if the situation prolongs, shortages of oil and other inputs could trigger secondary supply shocks, significantly constraining the supply of a wide range of goods and services, including through shortages of raw materials and reductions in total working hours.

Against this backdrop, Japan's Prime Minister Takaichi just announced the "Partnership On Wide Energy and Resources Resilience Asia (POWERR Asia)". Through financial support and other measures of about USD 10 billion, Japan will undertake two sets of actions for Asian economies. First, as an emergency response, Japan will provide financial support for these economies to procure oil and other essential materials and strengthen supply chains. Second, as structural measures, Japan will help enhance capacity for energy and resource supply, with financial and technical support. Based on the view that ensuring stability and growth of partner countries through such support will, in turn, strengthen the global economy, including Japan, we will remain committed to contributing to stability in the Asian and global economy.

The global economy is also facing heightened uncertainty surrounding trade policies. For example, export restrictions introduced by some countries on rare earths and other critical minerals pose risks that could affect entire global supply chains. In this regard, Japan strongly welcomes the IMF's latest *World Economic Outlook*, for quantifying the severe global impact of supply chain disruptions caused by export controls on rare earth.

We must bear in mind that, even after more than four years since Russia launched its aggression against Ukraine, human and economic costs in Ukraine continue to grow. In December last year, Japan announced support totaling approximately USD 6 billion and is steadily disbursing this assistance. We remain firmly committed to supporting Ukraine, centered on the new IMF program approved in February, and will continue to back Ukraine's domestic reform efforts in collaboration with like-minded partners.

In a global economy facing high uncertainty and multiple risks, governments are required to strengthen efforts to enhance their “economic resilience” not only by addressing immediate challenges, but also by responding to a range of structural challenges. These include accelerated technological innovations such as AI, increasingly frequent and severe extreme weather events and natural disasters, and demographic shifts. The Japanese government is promoting “strategic investments that enhance resilience against potential crises” to minimize various risks, including those related to economic security, food security, and energy and resource security, under the concept of “responsible and proactive public finances.” Japan will also advance “growth-oriented investment” to foster cutting-edge industries, including AI, semiconductors, and shipbuilding. Through these initiatives, Japan aims to strengthen its supply capacity and build a strong Japanese economy. While thoroughly pursuing wise spending, Japan will steadily reduce the outstanding government debt to GDP and ensure the sustainability of public finances and trust from the markets.

2. Strengthening the IMF’s Functions and Roles:

As the global economy faces heightened uncertainty and multiple risks, the IMF’s role as the center of the Global Financial Safety Net (GFSN) is becoming more critical than ever. While upholding its core mandate of addressing Balance of Payment (BOP) issues of member countries, the IMF must continue to review its functions in order to adapt to the evolving external environment and meet the diverse needs of its membership. We emphasize the following points regarding the IMF’s three core functions:

(i) Surveillance:

As countries face increasingly complex policy challenges, the IMF’s analyses underpinned by its neutrality and expertise, together with its candid policy recommendations, are becoming even more critical. Surveillance should focus on “macro-critical” areas, which have direct impacts on member countries’ BOP. Japan considers the following three themes especially important: global imbalances, industrial and trade policies, and digital issues.

Excessive and persistent global imbalances risk escalating trade tensions or triggering disorderly adjustments in financial markets. Therefore, IMF surveillance is essential in assessing these imbalances, identifying their drivers, and recommending corrective measures. It is also important that the IMF encourages its members to review their domestic policies that contribute to excessive imbalances and to address structural issues underlying such imbalances without resorting to trade measures. To this end, we expect the IMF to incorporate candid policy advice to the External Sector Report, Article IV Consultation reports, and related discussions, as well as to monitor the implementation status of their advice through discussions at the Executive Board and fora such as the G7 and the G20.

On industrial and trade policies, further analysis is needed to assess their effects on countries’ current accounts and spillovers to other economies. Especially, overcapacity driven by non-market policies and practices in some countries can affect prices and employment, leading to “macro-critical” challenges. The IMF’s analysis on negative spillovers from such policies and policy advice that contributes to their correction is critical.

In the digital sector, the importance of IMF surveillance is also growing as member countries are struggling to balance the benefits of more efficient payment systems and the need to mitigate associated risks. For instance, in countries with weak institutions, the spread of foreign-currency-denominated stablecoins could lead to currency substitution, circumvention of capital flow management, and increased illicit financial flows. To prevent such problems, Japan expects the IMF to deepen its research and analysis, taking into account the latest technological developments.

(ii)Lending:

As the global economy faces heightened uncertainty and various structural transformations, the BOP challenges that countries need to address are becoming increasingly diverse. These challenges range from immediate to medium- and long-term, as well as actual to potential, stemming from exogenous factors or domestic structural issues. The IMF must therefore continuously review its lending instruments to help member countries effectively respond to these various challenges. In doing so, it is essential to design well-targeted conditionality to support domestic reform efforts and prevent moral hazard.

The IMF should also place emphasis on its catalytic role in mobilizing financial resources from a variety of institutions. The IMF and Regional Financing Arrangements (RFAs) together constitute the GFSN, while playing complementary roles. For example, the Chiang Mai Initiative Multilateralization (CMIM) can provide timely liquidity support based on its deep knowledge of regional circumstances. The IMF and the CMIM should continue building the framework for collaboration, so that they can respond to member countries' financing needs by leveraging each of their comparative advantages. Japan also expects the IMF and the ASEAN+3 Macroeconomic Research Office (AMRO) to deepen their cooperation, including in the areas of surveillance and capacity development.

(iii)Capacity Development:

Japan believes that capacity development (CD) should be further strengthened from three perspectives: (1) promoting "Integration" with surveillance and lending; (2) ensuring "Sustainability" of outcomes; and (3) enhancing "Visibility" globally through external communication of outcomes and lessons.

To this end, it is important to enhance synergies among the IMF's various CD tools such as technical assistance, training, peer-to-peer learning, and scholarship, and to strengthen collaboration with other international organizations. In the Asia-Pacific region, Japan expects the IMF's Regional Office for Asia and the Pacific (OAP) to play a role in promoting synergies and cooperation.

Priority areas for CD include debt management, domestic resource mobilization (DRM), and support for adaptation to digitalization. Each of these is essential to strengthening countries' self-help efforts and enhancing their resilience to external shocks.

Regarding debt management, the IMF should expand support for improving the accuracy and transparency of debt-related statistics, as well as for strengthening government debt management policy and developing domestic bond markets.

On DRM, as stated in the Concluding Statement of the "Tax and Development Conference" held in Tokyo last March, we should enhance support in international taxation and continue our engagement with fragile and small island developing states.

For digital issues, it is important to swiftly develop and update the CBDC Handbook supported by Japan and to utilize it for CD. Japan also expects countries to enhance cross-border payments, while recognizing the relative strengths and challenges of various technologies, as well as mitigating risks arising from such payment instruments. Through the Japan Subaccount (JSA)'s Digital Money Window, Japan will provide an additional financial contribution of USD 7.2 million to support countries' initiatives in the digital area, including efforts to address correspondent banking challenges faced by Pacific Island Countries.

3. Strengthening the IMF's Institutional Foundations:

For the IMF to advance its functions as outlined above and better respond to evolving members' needs, strengthening its institutional foundations through quota and governance reforms is imperative. In this regard, the agreement on the *Diriyah Guiding Principles* represents a major step, and we commend the Saudi Arabian Chair's leadership. Looking ahead, both the positions and the ways to strengthen financial foundations of IMF's support for low-income and vulnerable countries, which has become increasingly important in recent years, should be treated as one of the core issues in future discussions on quota and governance reforms.

Today, the number of lending programs for low-income and vulnerable countries financed through the Poverty Reduction and Growth Trust (PRGT) exceeds those financed through the General Resources Account (GRA). In addition, within the IMF country operations spending, the share of spending on CD, whose primary beneficiaries are low-income and vulnerable states, are now roughly equivalent to those of lending and surveillance. Taken together, it is obvious that support for low-income and vulnerable countries, including both lending and CD, constitutes a core function of the IMF.

Against this backdrop, when we look at the financing of these core functions, the lending resources and interest subsidy resources of the PRGT rely entirely on Voluntary Financial Contributions (VFCs) from donors, and around two-thirds of the budget for CD is also supported by VFCs. On the other hand, decision-making on PRGT lending for low-income countries, including access limits, is determined by quota shares, and the IMF's CD budget is approved by the Executive Board based on quota shares. Such situations present "inconsistencies" in the IMF governance, in that while the primary sources of financing at the "entry" of support for low-income and vulnerable countries are mainly provided through VFCs, these contributions are not taken into account at the "exit," where decisions are made solely based on quota shares.

To address such "inconsistencies" embedded in the IMF's governance and to make the IMF a truly "quota-based institution," it is natural, from an institutional perspective, to take VFCs into consideration in quota adjustments. This would enable the IMF to continue its support for low-income and vulnerable countries as a core function in a sustainable manner, while also enabling donor countries that underpin such support to fulfill their accountability to domestic taxpayers. Furthermore, over the medium- to long-term, one possible option would be to establish a stable funding mechanism to strengthen these core functions, for example by allowing direct transfers of GRA net income and reserves to the PRGT through amendments to the Articles of Agreement.

In parallel with such governance reforms, it is also necessary to enhance the diversity and expertise of the IMF's staff, which constitutes the institution's greatest asset. Japan will continue to make proactive human resource contributions to the IMF.

4. Conclusion:

We are gathering today as the IMFC members with a grave and challenging responsibility for navigating economic policy amid heightened uncertainty and the fluid global economic order. Although concerns about “decoupling,” “de-globalization,” and “deepening fragmentation” persist, no country can thrive in isolation. Therefore, we must continue our efforts in building a new order through cooperation at bilateral, regional, and multilateral levels, while encouraging self-help efforts, supporting one another, and seeking rules that transcend differences in values. We need to strengthen the IMF’s functions and governance that lies at the center of these efforts. Japan remains committed to continuing to support such reinforcement of the IMF and to contributing to global economic stability and sustainable growth, together with the IMF under the leadership of Managing Director Kristalina Georgieva.