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

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**I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY**

The global economy continues to present steady growth. Growth is projected to continue, although the growth momentum is moderating. Also, risks are skewed to the downside and some risks have materialized.

As the global capital market conditions tighten, a reversal of capital flows into emerging market economies is occurring. Although the negative impacts have not spread throughout the global economy, we should be more vigilant and move fast so that the international community can provide assistance when needed.

Trade tensions remain high. Trade conflicts aggravate market sentiment, increase financial vulnerabilities and discourage investments. Inward-looking policies with protectionist measures would not benefit any country. It is critical to accelerate global economic growth through free, fair, and rules-based trade, and we should pursue solutions through multilateral, rather than bilateral, frameworks to that end.

To deal with these downside risks, the commitment to use monetary, fiscal, and structural policies both individually and collectively continues to carry significance. In order to prepare for the future while the economic conditions are still favorable, we should rebuild fiscal buffers as necessary to create room for investment in high quality infrastructure and human capitals, and to ensure the debt-to-GDP ratio to be on a sustainable path.

As for Japan's economic situation, as a result of Abenomics, real GDP has been growing for three consecutive years and corporate earnings are record-high. The unemployment rate marked the lowest level in about 25 years, and wage is increasing at a high rate of about two percent in five consecutive years.

From the medium- to long-term perspective, Japan's biggest challenge is aging population with declining birthrate. As Japan is in a dire fiscal situation with its central and local government debt level reaching twice as large as its GDP, restraining increases in social security expenditure is an unavoidable challenge. Against this background, we set out a new fiscal reform plan in June, aiming for fiscal consolidation, and setting the target of achieving primary surplus by FY2025. As the baby boomers will have turned 75 years old or above by 2025, social security spending is expected to surge. We therefore need to solidify the path to fiscal consolidation in time. Through steady implementation of expenditure reforms according to the plan, we will ensure that we achieve the goal.

Regarding the consumption tax rate increase to ten percent planned in October 2019, the additional revenue will be spent in a well-balanced manner for both investment in child-caring generations and stabilization of social security. We expect this would go all the way to lessen anxiety of working generation, and to encourage consumption, in addition to fiscal consolidation.. We continue our efforts to realize an economic environment that would ensure the consumption tax rate hike as planned in October 2019.

## II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

First, let me express expectations for both organizations.

The last few years have witnessed rapid debt build-up in some developing countries stemming from debts owed to non-traditional creditors and non-concessional borrowings. Both borrowing countries and creditors, public and private, should work to enhance debt transparency and ensure debt sustainability. We expect the IMF and the World Bank to provide necessary capacity development support and encourage both borrowers and creditors to understand the importance of debt sustainability.

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

We highly value the IMF's long-standing efforts to enhance its surveillance capability and make full use of it to monitor the global economy, provide countries in need with swift loans, and boost economic growth through capacity development. The prompt agreement of the SBA for Argentina facing severe difficulties has impressed the international society once again with the IMF's role in preserving stability of the global economy. We continue to expect the IMF's contribution in analyzing and addressing challenges that the global economy faces.

Excessive global imbalances pose a risk to the global economy. Given that the current account balance of each country reflects its macroeconomic saving-investment balance, each country should carry out appropriate macroeconomic and structural policies to achieve a sustainable saving-investment balance, thereby endeavoring to help eliminate excessive global imbalances. It is essential to address this issue in a multilateral framework, and it is critically important for the IMF's surveillance to provide a common level playing field.

In this regard, we highly value the IMF's work regarding the External Sector Report that reviews its assessment model to more precisely capture demographic changes and generational differences in saving behavior. On the other hand, for many countries, the assessments linking exchange rates to current account balances are no longer valid. We believe that the IMF should use the assessment in line with its original motivation to identify excessive imbalances by analyzing the current account balance and to propose structural reforms to address them, instead of focusing too much on assessing exchange rates in reference to current account balances.

Now that rapid reversals of capital flows are observed in some emerging economies, policy responses to such capital flow reversals are important in both capital exporting and importing countries. Japan highly values the IMF's Institutional View on capital flows (IV) which indicates that capital flow management measures (CFMs) can be allowed under certain circumstances. We welcome that the IMF has compiled the cases of actual applications of the IV and encourage the IMF to continue the compilation further as it would provide a helpful guidance for policymakers.

Rapid aging of population and decline in birthrates are observed not only in advanced countries but also in some emerging and developing countries. By 2050, the world population over sixty years old is projected to reach two billion. Aging population and declining birthrate affect wide-ranging areas such as reduction in labor force, intergenerational equity, and financial inclusion. To provide a common basis for countries to discuss these issues, we expect the IMF to analyze the effects of population aging and declining birthrate on macro economy, fiscal conditions, and finance.

In overcoming the Global Financial Crises, the global financial safety net (GFSN) has been strengthened in the multi-layered structure. The layers of the safety net function individually and collaboratively to improve the stability of the current international financial system in both crisis prevention and resolution.

In this sense, it is highly significant that the IMF is adequately resourced. As for the 15th General Review of Quotas, views remain greatly diverged among member countries on such core elements as the size of the Fund, the modality to strengthen it, and a quota formula. We should continue our discussions tenaciously at the IMF to reach consensus.

As a possible way forward, Japan emphasizes the usefulness and importance of borrowed resources as the IMF's resource. Japan took the lead to offer contribution of 100 billion dollars to the IMF, which gave great assurance to the markets and strengthen the Fund's resource. Bilateral loans from other countries followed to strengthen the IMF's resources, and as the European debt crisis became severer, another bilateral borrowing arrangements were agreed. In the current environment where the global economy faces downside risks and some emerging market economies are in dire predicaments, borrowed resources would play a similar role effectively should the IMF face an urgent need for resources.

Contributions from the member countries are essential also for the Poverty Reduction and Growth Trust (PRGT) which is a central framework for lending to LICs. As a mechanism to provide a proper incentive for member countries to make financial contributions, the element of "voluntary financial contribution (VFC)" should be reflected more prominently in the quota formula, thereby strengthening the incentive for members to contribute to further enhancements of the IMF's resources.

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

Japan welcomes the adoption of Governors Resolutions on the IBRD capital increases, and looks forward to early adoption of the Resolutions on the IFC capital increases. The Resolutions, however, are only a starting point of various reforms. The WBG should implement the agreed reform measures in the capital increase package in a timely manner.

Quality Infrastructure Investment, or QII, should be promoted for its contributions beyond its physical value. It will help further mobilize private capital, and foster self-sustained economic development. The importance of quality infrastructure investment is now shared by the international community: we should now move one step further by identifying what key elements QII should have, upgrading QII's common narratives, and fully operationalizing these elements and narratives. To deepen discussion on these issues, Japan expects contribution from the WBG based on its experience and knowledge.

Japan welcomes the launch of WBG's Human Capital Project and strongly agrees that education and health play a major role to promote economic growth. In this regard, it is crucially important to promote Universal Health Coverage (UHC) and build sustainable financing systems supporting UHC. For low income countries, Japan calls on the WBG to further prioritize these interventions in IDA19.

How prepared we are for health emergencies is a key question to protect human capital. In May 2018, the Pandemic Emergency Financing Facility (PEF), made its first-ever financial disbursement of US\$12 million grant in response to the Ebola outbreak in the Democratic Republic of the Congo. In order to manage wide range of pandemic risks for the future, Japan expects the WBG to enhance the capacity to respond to small- and

medium-scale pandemics and establish incentive mechanisms to strengthen preparedness for crisis response in the proposed second phase of PEF.

Japan expects WBG's continuous effort to mainstream disaster risk management, especially to promote disaster-resilient infrastructure. Japan looks forward to early launch of the regional catastrophe risk insurance pool for Lao PDR and Myanmar, the first product of SEADRIF, and new participation in SEADRIF from other ASEAN+3 members.

Global environmental issues, including biodiversity, chemicals and waste, climate change, land degradation, and international waters, are all important and must be addressed urgently. GEF has been working on these issue. We congratulate the successful conclusion of the GEF Seventh Replenishment (GEF-7) negotiations, where the total pledges surpassed in real terms those for the previous replenishment that was a historic high. We highly appreciate CEO Ishii her extraordinary efforts for the successful conclusion of the difficult negotiations and hope the GEF to continue to fulfill its mission with the outstanding leadership of Dr. Ishii.

### **III. CLOSING**

As the next year's G20 Presidency, Japan is determined to take the lead in appropriately responding to changes and challenges of the global economy in cooperation with the IMF and the WBG. We would like to express our respect for the both organizations for the significant roles they have played in the global economy and great contributions they have made to the international society. We expect them to continue their efforts in addressing ever-growing difficult global challenges and achieving strong, sustainable, balanced and inclusive growth and poverty reduction.