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

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I. THE GLOBAL ECONOMY AND THE JAPANESE 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.

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.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

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

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 and World Bank to effectively support steady implementation of reforms by the authorities of these countries.

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.

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 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.

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.

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.

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.

Turning to developing countries, they have been severely affected by the crisis, facing financial needs, debt vulnerabilities and limited capacity.

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.

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.

Please let me discuss other key work of the IMF.

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.

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.

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.

Japan commends the WBG's prompt support for developing countries, especially low-income countries which need international support and are facing broader social and economic challenges with the global outbreak of the COVID-19.

From the perspective of Global Health, in order to contain the spread of the COVID-19, it is essential to accelerate the development, manufacturing and distribution of health and medical products including vaccines, medicines and diagnostics, and to ensure equitable and affordable access by all people to these products. Japan commends the WBG's support for manufacturing and distribution of vaccines and medicines. To support these WBG's efforts, Japan intends to provide \$10 million for International Finance Corporation (IFC). Moreover, promoting UHC is imperative for strengthening of prevention, preparedness and response to pandemic, and ensuring the sustainability of economic and social activities. To this end, Japan looks forward the WBG to continue to make efforts for promoting UHC by utilizing "Health Emergency Preparedness and Response Multi-Donor Trust Fund (HEPRTF)", which Japan, in coordination with the WBG, launched.

In the recovery stage, we should make efforts to further promote Quality Infrastructure Investment as well as to develop the new industry and to create employment, for developing countries to achieve inclusive and sustainable growth. Also, the COVID-19 showed the importance of building new supply chains with diversified production bases, and Japan calls on the WBG, with its expertise, to take a leading role in this area.

Finally, International Development Association (IDA), which supports low-income countries severely affected by the crisis, is frontloading its resources to FY21, and it is foreseeable that IDA will eventually fall short of its resources to meet the needs of low-income countries during the IDA19 period. Japan emphasizes the importance of starting the discussion immediately on IDA's financial capacity to secure that it will continue to meet the needs of low-income countries for sustainable recovery and growth.

III. CLOSING

We would like to express our respect for and gratitude to the IMF and the WBG 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.