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WBG Governor's Statement No. 4

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Statement by the Hon. **SHUNICHI SUZUKI**,  
Governor of the Bank for **JAPAN**

**Statement by the Hon. Shunichi Suzuki,**  
Governor of the Bank for Japan

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

The global economy is making steady recovery from the crisis, thanks to unprecedented policy responses and the spread of vaccines against the COVID-19. However, various risks and uncertainties remain significant, including the spread of new variants, delays in vaccination and accumulation of government debt. In addition, differences in the progress of vaccination have further increased the divergence of the global economic and social situation.

In order to achieve a stable economic recovery and sustainable growth, it is essential to mobilize all the policies that we can take for as long as required under the current situation. At the same time, we should take measures to raise the potential growth rate and to boost productivity through structural reforms, which look ahead to the post COVID-19. In addition, once the recovery is firmly established, it will be necessary to ensure the long-term sustainability of public finances. Member countries will be required to promote focused and comprehensive policies based on these medium- and long-term perspectives.

Although the Japanese economy is still in a severe situation, it is steadily picking up, especially in export and capital investment. While we need to closely monitor domestic and international situations of the COVID-19 infections as well as volatility in capital markets, the economy is expected to recover as a result of progress in vaccinations and improvements in overseas economies. While paying attention to the soundness of the fiscal and financial sectors, we will implement new economic policies under the new administration formed on October 4. Through this, we will realize a virtuous cycle of growth and distribution, and will develop a post COVID-19 society.

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

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

Securing debt transparency and sustainability is indispensable for sustainable economic growth as well as sound macroeconomic management in developing countries.

We have yet to see any debt treatment provided since the agreement by the G20 and Paris Club on the Common Framework last year. The Debt Service Suspension Initiative (DSSI) will expire at the end of 2021. In this context, the G20 has committed to implement the Common Framework in a timely, orderly, and coordinated manner. Japan expects the G20 to efficiently address debt vulnerabilities in developing countries within predictable timeframes by setting deadlines under this framework. Debt treatments should be swiftly provided to the three countries which have already requested treatments under the Common Framework. Japan expects the Common Framework to effectively function in supporting countries facing debt vulnerabilities more broadly.

To prevent future crises, Japan expects the World Bank and the IMF to step up their efforts of analyzing issues related to debt transparency and providing debt-related technical assistance. Furthermore, Japan calls for progress in debt data reconciliation (DDR) of debtor countries proposed by the World Bank and the IMF. It is important for debtor countries to understand accurate debt data and enhance capacity to properly manage their debt through DDR. It is also crucial for both debtor countries and creditor countries that accurate Debt Sustainability Analyses will be conducted based on already-reconciled debt data.

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

Developing countries have been severely affected by the pandemic. Japan highly commends that the IMF has been playing a critical role in supporting them.

We welcome the implementation of the new SDR allocation of USD 650 billion in August, along with the introduction of measures to enhance transparency and accountability in the use of SDRs. Japan highly commends this new allocation, which responds quickly to the financing needs arising from the crisis.

Japan will contribute to SDR channeling that utilizes the newly allocated SDRs to support vulnerable countries, particularly low-income ones. Among the proposed options, scaling up of the Poverty Reduction and Growth Trust (PRGT) is Japan's priority. Based on the IMF's request, Japan will make a new contribution of SDR 2.8 billion (USD 4.0 billion) to the Loan Account, including the activation of SDR 1.8 billion (USD 2.6 billion) which was pre-announced in April last year, and SDR 56 million (USD 80 million) to the Subsidy Account. Through these contributions, Japan will continue to be responsible as the top donor of the PRGT.

We welcome the IMF's proposal of establishing the Resilience and Sustainability Trust (RST), which will address medium- and long-term structural challenges, including climate change and pandemic preparedness, within the IMF's mandate. For many member countries to contribute to this important initiative, it is essential to ensure the liquidity and safety of the SDR as foreign reserve assets. In this regard, it is critical to secure Preferred Creditor Status, which excludes RST lending from debt restructuring, as well as to adequately protect channeled SDRs from credit risks. We ask the IMF to work on the details of these fronts.

It is also expected that SDR channeling will boost the demand for SDR trading. Member countries that channel SDRs should also contribute fairly to SDR transactions through Voluntary Trading Arrangements. We look forward to the IMF's efforts to this end.

The Catastrophe Containment and Relief Trust (CCRT) has played an important role so far in providing debt service relief to low-income countries that have been affected by the COVID-19. It is important that the CCRT provides support through next April. For this reason, Japan recently made a contribution of an additional USD 50 million to the CCRT on top of the USD 100 million contributed last year. We encourage other donors to follow.

Please let me discuss other key work of the IMF.

Japan underscores the following key points on the adequacy of the General Resource Account (GRA).

First, the financing gap the IMF should address varies considerably depending on the situation (non-crisis or mid-crisis) and the scale of crisis. If the IMF is to cover all financing gaps only from quota resources, member countries are required to set aside part of their reserves for quotas, even in normal time, which is not efficient for their reserve management. Therefore, Japan strongly believes that the IMF should respond to tail risks with borrowed resources, namely by the New Arrangements to Borrow (NAB) and the Bilateral Borrowing Arrangements (BBAs). Such borrowed resources should be a permanent component of the IMF's resource structure. In addition, borrowed resources should be able to be activated in a flexible and agile manner to respond to tail risks without delay. Japan calls for discussions on this point. Furthermore, the adequacy of the IMF resources discussions should take fully into account both the swiftness of new SDR allocation and the quantitative impact on global reserves including that from SDR channeling.

On review of quotas, we urge the quota formula to factor in voluntary financial contributions (VFCs) in order to ensure sufficient incentives for members to contribute. This is because borrowed resources and other financial resources, including for the PRGT or capacity development, are funded by VFCs from member countries. In addition, since the data after 2020 will be greatly affected by the COVID-19 crisis after 2020, we call for discussions on how to deal with them. We must ensure the data, the foundation of our discussion, will reflect the situation of each country's economy and therefore be highly reliable.

On Central Bank Digital Currencies (CBDCs) and other forms of digital money, Japan strongly supports the IMF to take up the topics as the core of its mandate given their possible impacts on the international monetary system. The IMF's surveillance and capacity building activities will lend critical support to members trying to properly develop or accept CBDCs and other forms of digital money. Since digital money is a rapidly-developing field and its use may expand across borders in a short period of time, we call on the IMF to swiftly implement and strengthen these efforts. Japan, as a leading donor of the IMF's capacity development for many years, stands ready to provide proactive support in this area.

The External Balance Assessment (EBA) methodology is based on the proposition that assumes link between exchange rate and current account balance. However, this proposition has been losing its ground since:

- the share of income balance, which is not subject to exchange rate movements, accounts for dominant portion of current account balance, particularly in advanced economies; and
- exchange rates are increasingly affected by capital transactions, which are rapidly expanding and have little to do with current transactions.

On the review of the EBA methodology, we strongly urge the IMF to make revisions that appropriately take the effect of income account and capital transactions into account, and then

reconsider the concept of linking exchange rates to the assessment of current account balances.

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

First, Japan commends the timely support by the WBG. It is essential to promote prevention and preparedness against future health crises as well as overcoming the crisis. In this respect, Japan calls for WBG to deepen the efforts for global health, including towards achieving universal health coverage (UHC), which Japan has been promoting. Moreover, Japan expects the WBG to play a core secretariat role towards the establishment of a Global Health and Finance Board for Pandemic Prevention, Preparedness and Response.

From the viewpoint of strengthening human capital, the nutritional aspect needs to be considered when promoting the UHC. Towards the Nutrition for Growth Summit to be hosted by Japan in December this year, Japan will contribute to supporting developing countries to improve nutrition situation in cooperation with the WBG.

It is essential to make collective efforts to reduce greenhouse gas emissions in developing countries, especially in major emitting countries, to the maximum extent possible. In this regard, Japan welcomes the WBG Climate Change Action Plan 2021-2025 (CCAP). Japan expects the WBG to support each developing country to develop and implement energy plan, and continuously monitor the implementation. On that basis, with regard to individual projects, the most efficient measure should be implemented in light of reducing cumulative greenhouse gas emissions. Based on these ideas, Japan announces "Japan's Proposal on MDBs' Support in the Energy Sector." Japan will support developing countries' response to climate change issues through contributions to trust funds and other means, so as to make coordination with the WBG's support consistent with this proposal.

Digital development is now essential in every aspect of our lives including for critical infrastructure and social service. In order to ensure that the advantage of such digital development will be properly demonstrated and its benefits will not be lost, it is absolutely necessary to assure cybersecurity and data privacy. The WBG should mainstream this perspective in its various support programs.

Finally, continuous support by the WBG is vital for low income countries, which have been severely affected by the COVID-19 pandemic. It is important for the international community to work together towards the final meeting to be held in Tokyo in December this year.

### **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, in collaboration between the IMF and the WBG while properly sharing roles according to comparative advantages, within their respective mandates.