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World Bank Governor's Statement No. 13

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

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

Japan conveys its deepest condolences to the victims and their families severely affected by the earthquake in the central part of the Kingdom of Morocco and western Afghanistan as well as the floods in the eastern part of the State of Libya. Japan also expresses its sincere gratitude to the Government of Morocco and the people of Marrakech for their warm hospitality in the immediate aftermath of the earthquake.

We continue to condemn Russia's illegal, unjustifiable, and unprovoked war of aggression against Ukraine. Russia's war has caused tragic loss of life, destruction of property and infrastructure, and exacerbated global economic challenges. We call for an immediate end of Russia's illegal war against Ukraine, which would address one of the largest uncertainties over the global economic outlook.

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

The global recovery remains slow due to Russia's war and energy and food insecurity. In addition, inflation has peaked but is persistently high. As many countries continue to tighten monetary policies to address inflation, the debt situation in low- and middle-income countries has become more severe.

In this context, we need to ensure fiscal sustainability by normalizing fiscal support while our support to vulnerable groups should be temporary and targeted.

Amid the continued global monetary tightening, we should note the risk of heightened volatility in financial markets, including the foreign exchange market. It is important that exchange rates move stably, reflecting fundamentals, and the excessive volatility is not desirable. We may need to take appropriate actions, depending on the circumstances.

Recent developments in global economy, including the repercussions of the COVID-19 pandemic and Russia's war, highlighted importance of achieving both economic efficiency and resilience in cross-border economic activities. The IMF's future analysis should properly take into account these new factors.

Amid the improving environment for employment and income, the Japanese economy is expected to continue to recover moderately, reflecting the effects of various policies. However, we need to pay close attention to the risk of a downturn in overseas economies putting downward pressure on the Japanese economy, and the effects of rising prices and fluctuations in financial and capital markets. Under these circumstances, Japan is formulating a package of comprehensive economic measures to further strengthen its economy, including through addressing the recent price hikes, sustaining wage increases and promoting domestic investments.

II. EXPECTATIONS FOR THE IMF AND THE WBG

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

Debt vulnerability is rising in low-income countries (LICs) and middle-income countries (MICs) alike. Restoration of debt sustainability is urgently needed, so that developing countries can free up their resources for addressing various development challenges in the medium to long term.

For LICs, swift and predictable debt restructuring processes must be ensured through the official creditor committees under the G20/Paris Club Common Framework. On the other hand, for MICs, we welcome that the significant progress has been made towards an agreement on debt treatment for Sri Lanka in the past half year since the launch of the creditor committee. We look forward to its swift resolution.

In order to prevent future debt crises, debt transparency and accuracy needs to be enhanced. Japan has led the Data Sharing Exercise, in collaboration with the WBG, in which creditor countries shared their granular lending data with the WBG. We commend the WBG's efforts on this exercise and encourage other creditors to participate in it, expecting the WBG to advance the further analysis. We call on the WBG and the IMF with their high expertise in this area to strengthen their analysis on debt transparency and to provide more assistance for borrowing countries to build their capacity, taking into account discussions at the Global Sovereign Debt Roundtable (GSDR) and other relevant fora. We look forward to the IMF advancing its reform options that are necessary to enhance the debt transparency. We expect these efforts will promote private creditors' work on debt transparency.

Furthermore, we expect the WBG and IMF to review the Debt Sustainability Analysis for LICs in close communications with each other.

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

The global economy is facing multiple crises. In order to help member countries respond to these challenges, the IMF should be further strengthened in terms of its size, function, and governance.

With regard to the size, it is essential to agree on a quota increase under the 16th General Review of Quotas by the December deadline this year. As the deadline is approaching, an equiproportional increase is the only feasible option to reach an agreement. Japan supports a 50 percent equiproportional increase.

It is also important to strengthen the function of the IMF. Japan welcomes improvements in precautionary arrangements, which will enhance the crisis prevention capability of member countries. In addition, we should consider raising access limits of the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT). To reduce the burden on borrowing countries, a temporary increase in the threshold of surcharges could also be considered.

To enhance the IMF's lending capacity through a quota increase, increase in resources for the PRGT would become even more important to continue providing strong support to low-income countries. Japan will make an additional contribution of around USD 410 million (around SDR 310 million) to the PRGT subsidy resources, including through channeling all the remaining amount of the pledged 40% of its newly allocated SDRs to the Deposit and Investment Account (DIA). This will make Japan's total contribution reach around USD 630 million (around SDR 480 million), which accounts for over 20% of the global fundraising target for subsidy resources set in July 2021. To ensure the long-term financial sustainability of the PRGT, we urge the IMF to further strengthen engagement with member countries for additional pledges as well as to accelerate consideration on the full range of funding options, including the use of the IMF's internal resources. If conditions such as ensuring the liquidity and safety of SDR as a foreign reserve asset were fulfilled, we would also consider the option of SDR channeling through MDBs.

Regarding governance reform, we support the creation of a 25th chair on the IMF Executive Board from Sub-Saharan Africa countries, to better reflect the voice of developing countries in decision making in the IMF. We are also prepared to consider adding a fifth Deputy Managing Director.

Please let me discuss other key work of the IMF.

As the introduction of CBDC is still in initial stages or under consideration in many countries, the IMF's CBDC Handbook is a critically important initiative as a practical guidance for policymakers. We welcome the steady progress of its work, including the publication of the IMF's Fintech notes, which will serve as the basis for the Handbook. We look forward to the prompt publication of the Handbook and expect that the IMF will continue to develop the Handbook in cooperation with other international organizations and national authorities, based on further analysis and actual cases of introduced CBDCs.

Furthermore, the IMF should continue providing capacity development in traditional areas such as debt management and revenue mobilization to meet the growing needs of fragile and conflict-affected states (FCS) and low-income countries. Japan has decided to contribute to the Ukraine Capacity Development Fund to support capacity development activities in domestic revenue mobilization to help Ukraine ensure economic stabilization and promote post-war reconstruction. Japan, as a longstanding leading partner, will continue to proactively support the IMF's capacity development activities.

I will now turn to Japan's expectations for the WBG.

First, let me address the WBG Evolution.

Japan commends the progress so far, including the comprehensive review of the WBG's vision and mission, operating model and financial model. We look forward to the remaining issues being discussed further toward the 2024 Spring Meetings.

Japan welcomes that the new vision and mission maintain the long-established twin goals of "ending extreme poverty" and "promoting shared prosperity", while clarifying their mutually reinforcing relationships with the other goal of addressing global challenges.

To achieve the new vision and mission, Japan requests the WBG to enhance the One

World Bank approach, accelerate its efforts to promote Domestic Resource Mobilization (DRM) and Private Capital Mobilization (PCM) and augment the Corporate Scorecard with a specific focus on outcomes. Strengthening DRM is crucial for securing financial resources for self-sustained growth and require the countries to enhance their tax structure and tax administrative capacity. Japan requests the WBG to conduct a Public Finance Review by tailoring the policy advice to country-specific circumstances and to strengthen collaboration with partners including the IMF, the ADB and the OECD.

Financing for development needs to be strengthened for addressing global challenges. For this purpose, it is essential for the WBG to increase its financial capacity. The efficient use of the balance sheets based on recommendations of the Capital Adequacy Framework (CAF) review should be the first step in this regard. Japan is preparing to contribute to the Portfolio Guarantee Platform (PGP), which will boost the IBRD's lending capacity by a few billion US dollars.

Concessional resources provide financial advantages to beneficiary countries, and hence can be used as incentive for investing in global public goods with cross-border externalities. However, such resources are finite and often scarce, warranting prioritization. Specifically, they should be allocated to vulnerable MICs with low income per capita and limited market access, as well as LICs. From this perspective, Japan welcomes the ongoing discussion on the concessionality principles and looks forward to the allocation framework of concessional resources to be proposed by the Board of Directors. Moreover, Japan is firmly committed to making a sufficient contribution to the International Development Association (IDA), given the IDA's pivotal role in supporting LICs.

In light of an increasing amount of development needs, public money alone cannot help developing countries, requiring the mobilization of private sector resources. The roles of the International Finance Corporation (IFC) and MIGA are becoming increasingly important in this regard. We expect that MIGA will continue to develop effective guarantee programs to facilitate further PCM, in close coordination with the newly established Private Sector Investment Lab.

Secondly, I would like to address global health. We need to strengthen our capacity to respond to future pandemics, along with strengthened prevention and preparedness policies. Japan welcomes the Report on Mapping Pandemic Response Financing Options and Gaps, developed by the G20 Joint Finance Health Task Force this August, together

with the WBG and WHO. We look forward to the finalization of the report by the end of this year. To address the gaps of the existing financing mechanisms identified by the report, an innovative mechanism needs to be developed to deploy the necessary financing quickly and efficiently in response to outbreaks. Japan will advance the further work in close collaboration with the WBG and other relevant partners. Furthermore, Japan is preparing to contribute US\$10 million to a newly proposed multi-donor trust fund, once it is established, with a view to helping client countries build resilient health systems.

Third, I would like to address climate change issues. Japan, together with the WBG, has led the development of the Partnership for RISE (Resilient and Inclusive Supply-chain Enhancement) and co-hosted the launch event of RISE on October 11 with the WBG. Japan will continue to work closely with the WBG, other key institutions, and like-minded countries to help both LICs and MICs diversify the supply chains of clean energy products and enhance value-addition of their domestic products as part of the global efforts to achieve net zero.

Lastly, digitalization can be a major source of future global economic growth. It can also enable various social services to be extended to a wider population, thereby making growth more inclusive. Japan expects the WBG to support for (i) developing robust governance to improve reliability of data and promote the further use of digital technology, (ii) applying digital solutions to various sectors in a cross-cutting manner, including health, disaster risk management, education and transportation, and (iii) addressing the digital divide.

III. CLOSING

We would like to express our respect for and gratitude to the WBG and the IMF 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 WBG and the IMF while properly sharing roles according to comparative advantages, within their respective mandates.

