



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

**Forty-Sixth Meeting
October 13–14, 2022**

**IMFC Statement by Shunichi Suzuki
Governor of the IMF for Japan**

Japan

Statement by the Honorable SUZUKI Shunichi
Governor of the IMF for Japan
at the Forty-Sixth Meeting of the International Monetary and Financial Committee
(October 14th, 2022)

At the outset, I would like to express my deep appreciation for the condolences expressed by many countries to the tragic passing of Former Prime Minister ABE Shinzo, and participation in the state funeral held the other day in Tokyo.

1. The Global Economy and the Japanese Economy

Firstly, Japan reiterates the strongest condemnation against Russia for its continued war of aggression against Ukraine. Russia's attempts to acquire territory by force, including its purported "incorporation" of some Ukrainian territory, are against international law, including the United Nations Charter. Such attempts are invalid and go diametrically against the principle of the rule of law in the international community. Moreover, the atrocities against civilians are breaches of international humanitarian law and war crimes. We reiterate that maintaining peace is indispensable for international economic and social cooperation, and Russia's acts in violation of this are absolutely intolerable.

Global Economy

Russia's war of aggression against Ukraine, along with severe humanitarian and food insecurity, is exacerbating global economic challenges. We emphasize that ending this war is the most direct action that can promote global economic stability. Countries are facing significant price increases, energy supply constraints, and supply chain disruptions, with some countries experiencing inflation levels not seen in decades. The debt situations in low- and middle-income countries are becoming more serious as the United States and other countries accelerated their pace of monetary policy tightening and the global financial environment becomes increasingly severe. As many countries have limited fiscal buffers against the background of policy responses to the pandemic for more than two and a half years, they need to carefully steer their policies and ensure coordination among various policies.

In this context, member countries are asked to respond flexibly to the current crisis, including through credible fiscal rules that create policy space, and support vulnerable households through temporary and targeted fiscal measures while addressing inflation through appropriate policy responses. Once the recovery is firmly established, taking concrete steps to ensure long-term fiscal sustainability is also essential.

We are deeply concerned about the rapidly increasing volatility in the foreign exchange market. Concerning the Japanese yen, we have seen unprecedentedly sharp and one-sided movements, with speculative activities behind such moves. Against this backdrop, we conducted foreign exchange intervention last month for the first time since 2011. In principle, exchange rates should be determined by markets. Still, as internationally agreed at the IMFC and in the G20/G7, "excessive volatility or disorderly movements in exchange rates can have adverse implications for economic and financial stability." The international community needs to pay close attention to the impact of recent exchange rate movements on inflation, capital flows, and debt problems, and to address these problems appropriately.

Japanese Economy

The Japanese economy is expected to show movements of picking up, supported by the effects of various policies, as the transition to a new phase of “with corona”. On the other hand, we need to pay close attention to the risk that a downturn in overseas economies may put downward pressure on the Japanese economy against the backdrop of global monetary tightening and other factors. The Government will quickly implement measures in response to price hikes in order to achieve a virtuous cycle of growth and distribution. In order to move forward with a new form of capitalism, the Government will also accelerate public and private sector investment with an emphasis on four key areas: (i) investment in people, (ii) investment in science, technology and innovation, (iii) investment in start-ups, and (iv) investment in green transformation (GX), and digital transformation (DX).

2. Our Expectations to the IMF: Responding to Challenges Member Countries are Facing

As challenges to global economic stability and development continue, we expect the IMF to play a central role in multilateral cooperation based on law and trust, and make further contributions to addressing the current adversities. Japan strongly supports the IMF strengthening its support for member countries facing multiple challenges, including medium- and long-term structural ones such as climate change and digitalization.

Food Insecurity

As global food insecurity continues, we commend the IMF’s establishment of the new Food Shock Window. We hope that the IMF will promptly provide financial support to vulnerable countries that are facing food insecurity and in need of assistance. In addition, as multiple international organizations are making various efforts to address current food situation, it is important that these supports are effectively coordinated to enhance their impacts. Japan will provide USD 300 million in coordination with the African Development Bank's emergency package to support an increase in food production. We will continue to work with international organizations to address food insecurity and malnutrition, and improve agricultural production capacity.

SDR Channeling and Resilience and Sustainability Trust (RST)

Japan welcomes initiation of the RST’s pilot operationalization. The IMF should promptly support low-income and vulnerable middle-income countries and enable them to address long-term structural challenges, including climate change and pandemics, even when they are facing multiple risks and their policy space is narrowing. Japan pledged to channel 20 percent of our newly allocated SDRs in the last spring. We have finalized the Contribution Agreement of USD 1 billion (SDR 0.8 billion) as an initial contribution and plan to contribute the remaining SDRs worth USD 5.4 billion (SDR 4.1 billion) to the RST to support its early full-fledged operationalization. We continue to call for further pledges from all willing and able countries.

Support for low-income countries (LICs) through the Poverty Reduction and Growth Trust (PRGT) is becoming increasingly important, including in responses to food insecurity. Japan contributed USD 80 million this April as a contribution to subsidy resources. We will continue to make a steadfast contribution to supporting LICs through the PRGT. In addition, we request the IMF strengthen its efforts in securing needed subsidy resources. We also encourage the IMF to consider options to use the IMF’s internal resources toward a comprehensive review of Concessional Financing and Policies that will discuss the PRGT funding strategy beyond 2025.

Debt Issues

Amid the severe disruptions in the global economy, not only low-income countries (LICs) but also some middle-income countries (MICs) are facing serious debt issues.

For LICs, it is crucial that the creditor committees swiftly implement debt treatments under the Common Framework. For vulnerable MICs, on the conditions of debtor countries' own reform efforts, all creditors and donors including private creditors should coordinate and work together to restore debt sustainability.

It is essential to improve debt data transparency and accuracy in order to prevent future debt crises. In this context, we expect the IMF to present reform options necessary to enhance debt transparency and fill data gaps. In addition, given the growing concern on the opaqueness of some collateralized debts, we expect the IMF, together with the World Bank, to conduct analysis and promote best practices for this type of financing tools.

Climate Change

Climate change remains a pressing issue that all countries must address with a sense of urgency. We call on the IMF to collaborate with other international organizations, while leveraging their respective comparative advantage, involve many countries, including major emitters, and conduct its analysis that would contribute to accelerating efforts by member countries to achieve net zero by 2050.

Given that the ultimate goal of the international community is to reduce greenhouse gas emissions to net zero, the focus of analysis and comparison should be on the outcome of carbon intensity reductions, not on the burden of policy instruments. Accordingly, we ask the IMF, first, to deepen its intellectual contribution that helps member countries choose the best mix of mitigation policies among various options, reflecting respective national circumstances; second, in surveillance, to strengthen its analysis that would contribute to adaptation in light of increasingly severe natural disasters; and third, to support member countries with a combination of various tools including lending through the RST, capacity development, and data management.

Digital Money and Capacity Development

For the International Monetary System (IMS) to be more efficient and resilient, each country needs to design and regulate central bank digital currencies (CBDCs) and other forms of digital money in due consideration of their spillover effects to other countries' monetary policy and the IMS, as well as their impact on financial stability and capital flows.

Japan established the "Digital Money Window" under the Japan Subaccount for Selected Fund Activities (JSA) and contributed USD 15 million early this year to support the IMF's capacity development activities for developing countries. Japan looks forward to the IMF utilizing this window and actively supporting the introduction of CBDCs by member countries through preparation of a handbook for practitioners and capacity development activities, as well as stocktaking of member countries' considerations on CBDCs and risk analysis.

In addition, Japan supports the IMF's efforts to further integrate its capacity development with its surveillance and lending activities to support member countries in implementing crisis responses, addressing vulnerabilities, and strengthening institutional capacity. Appropriate prioritizations among various needs and ownership of

recipient countries remain critical to improve the effectiveness of capacity development. We also expect that the IMF will analyze and assess the effectiveness of its activities to date and challenges going forward in the review of the Capacity Development Strategy, with the aim to further improve capacity development in the future. Japan, as a leading donor of the IMF's capacity development for many years, stands ready to act proactively in this area.

3. Our Expectations to the IMF: Other Important Policy Matters

The 16th General Review of Quotas (GRQ)

In the discussions of the 16th GRQ, Japan will continue to contribute constructively and pragmatically. To this end, we emphasize the following points.

Even in the emergency situations since the pandemic, thanks to activation of various layers of the global financial safety net (GFSN) and strong policy responses, even the New Arrangements of Borrow (NAB) has not been activated. This clearly demonstrates the sufficiency of Fund resources.

The demands for Fund's financial resources significantly fluctuate depending on conditions of the global economy. If member countries were to cover tail risk exclusively through quota, they would need to allocate valuable resources to the Fund even under ordinary conditions, which is inefficient. In this regard, borrowed resources should continue to play an important role.

The current quota formula has many shortcomings, and we need to push forward with its reform. In order to secure financial resources for the IMF to support member countries, in particular for LICs, we urge to institutionalize incentive mechanisms for contributions by adding a variable of voluntary financial contributions in the quota formula.

Finally, the 16th GRQ should be agreed upon as a package, including the points above.

Cooperation with Regional Financing Arrangements (RFAs)

To function as the center of the GFSN, the IMF should continue its close cooperation with bilateral swaps and the RFAs. By enhancing cooperation between the IMF and the Chiang Mai Initiative Multilateralization (CMIM), which is the regional financial safety net in Asia, including through CMIM test runs, and by further deepening the coordination between the IMF and ASEAN+3 Macroeconomic Research Office (AMRO), which supports the CMIM operation and undertakes regional macroeconomic surveillance, we expect the GFSN will be further strengthened.

External Balance Assessment (EBA)

The EBA methodology is based on the concept that assumes a link between the exchange rate and the current account balance.

However, as we have emphasized previously, we should keep in mind the following:

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

In addition, we should even more seriously reevaluate the validity of this proposition as consumption behaviors and allocation of factors of production have not necessarily changed while many countries are currently facing the depreciation of their currencies against the U.S. dollar. Going forward, we urge the IMF to review the EBA methodology so that it appropriately considers the nature of the income account and the effect of capital transactions, and to reconsider the concept of linking exchange rates to the assessment of current account balances.

Staff Diversity

Lastly, well-qualified human resources have been Japan's key contribution to the IMF, in addition to financial resources and policy inputs. The IMF's global coverage warrants its staff composition to be more diversified with appropriate regional balance, which is key to promoting more effective operations. Japan will continue to cooperate with and make wider contributions to the IMF.