



International Monetary and Financial Committee

Twenty-Second Meeting
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Statement by Yoshihiko Noda, Minister of Finance, Ministry of Finance, Japan

On behalf of Japan

**Statement by the Hon. Yoshihiko Noda
Minister of Finance of Japan
and Governor of the IMF for Japan
at the Twenty-Second Meeting of the International Monetary and Financial
Committee
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I. GLOBAL ECONOMY

While the post-crisis global economy has shown a steady recovery owing to aggressive policy responses, outputs in Japan and Europe remain significantly lower than those of pre-crisis levels and the U.S. economic recovery has recently decelerated. Also, unemployment rates in many countries remain stuck at high levels. On the other hand, emerging countries, particularly in Asia, have increased their presence due to a robust expansion of domestic demand. Under these circumstances, new policy challenges have surfaced.

In the midst of the financial crisis of 2008, developed countries boosted fiscal expenditures to support their economy and implemented drastic monetary easing policies and measures to achieve financial stability. Then, in response to the economic recovery witnessed from the latter half of 2009, these policy measures were gradually withdrawn and efforts toward fiscal consolidation intensified. Amid such conditions, optimistic prospects for the global economy had temporarily emerged. However, after a while, concerns over financial vulnerability and sovereign risks, specifically those in certain developed European countries, heightened the downside risks of the global economy, thus resulting in uncertain prospects. Each country has been obliged to determine on which policy they should place more emphasis, either that of maintaining fiscal consolidation or that of boosting the economy in the near term. Under these circumstances, monetary easing measures need to be maintained.

Nevertheless, we must not overlook the fact that such movement has brought new risks to the global economy. A massive flow of funds from developed countries into emerging markets has caused the appreciation of local currencies and a surge in asset prices in emerging markets. Furthermore, the situation is that these emerging markets are unable to implement

monetary easing policies out of fear of renewed inflation.

These are the policy challenges that the global economy is currently facing. It is not sustainable that certain countries achieve growth while imposing costs on other countries. Now it is critical that the international society work together to resolve these problems.

II. EXPECTATIONS FOR THE IMF

The global financial crisis and the subsequent sovereign debt crisis had a major impact on the whole world, and massive resources were required to address these crises. It is reasonable that the IMF, as a resource-rich global institution, played a central role in responding to these crises. Although the IMF has worked flexibly in response to the recent crises, including its implementation of unprecedented massive-scale lending, further efforts are required in order to contribute more effectively to the international economy.

First, the Fund must focus on its quota and other governance reforms to further enhance its legitimacy. In the quota review currently under negotiation, it is necessary to appropriately reflect in the quota distribution the relative weights of its members in the world economy and realize the five-percent shift in quota shares “to dynamic emerging market and developing countries” and “from over-represented to under-represented countries”, as agreed at the G20 Summit. Furthermore, during the quota review, due consideration must be given to avoid reducing incentives toward making financial contributions to the Fund’s support for low-income countries and technical assistance.

In addition, the IMF must enhance the ministerial engagement of its members in decision making regarding important issues. This procedure would allow the Fund to act more decisively under the direct guidance of ministers. The Fund also needs to enhance staff diversity in terms of geography in order to gain members’ confidence that the Fund is working for the benefit of all its members. I call for specific measures to achieve this goal.

The second focus for the Fund should be to strengthen its surveillance functions. To prevent

crises from occurring, it is required that member countries adopt and maintain sound policies. The Fund's surveillance is a tool to support and encourage these sound policies, and therefore, it should be further strengthened. In particular, strengthening financial sector surveillance is a pressing issue, and I welcome the Fund's efforts, including consolidation of the financial sector stability assessments, a part of the Financial Sector Assessment Program (FSAP), into Article IV Consultations. It is very important that the Fund implement these efforts steadily, and flexible consideration should be given toward reviewing the Fund's resource allocation.

The Fund's third focus should be the enhancement of its lending functions. It is critical to establish a mechanism that allows the Fund to respond quickly, and with a sufficient amount of funds, to any case in which a country with sound policy management is faced with a crisis. From this perspective, I welcome the strengthening of the Fund's precautionary lending instruments through the improvement of the Flexible Credit Line (FCL) and the establishment of the Precautionary Credit Line (PCL). Furthermore, in order to more effectively prevent a contagion in the event of systemic crises, a mechanism is required to enable the Fund to mobilize sufficient funds more promptly. As a result, the global financial safety net would be further enhanced.

In addition, the Fund's financial resources need to be increased in order to support its enhanced lending functions. Against this background, Japan supports a substantial quota increase. It is also an important issue to promote specific measures to enhance collaboration between the IMF and the frameworks of regional financial cooperation.

Finally, I would like to talk about the need to clarify in the Fund's Articles of Agreement the roles expected of the Fund amid these changes.

This global financial crisis originated in the financial sector of some countries and rapidly spread, affecting many countries. As a result, we are now clearly aware that problems in a domestic financial system can destabilize the entire international financial system as well as the global economy. Furthermore, it has become apparent that the international financial system, as a whole, can be threatened by a depletion of foreign currency liquidity of financial

institutions, and by collapse of major financial institutions, not by traditional balance of payments crises. This situation could not have been envisaged when the Fund was founded more than 60 years ago. In response to the global financial crisis, as I mentioned earlier, the Fund has created and reinforced precautionary lending facilities and strengthened its surveillance, including its financial sector surveillance. These efforts illustrate that the roles expected of the IMF have been expanding. The Fund needs to define its working range clearly before it further promotes those initiatives. Specifically, taking advantage of the opportunity of the current IMF reforms, I propose adding “financial stability” to the purposes laid out in Article I of the Fund’s Articles of Agreement. Needless to say, we must continue to discuss these matters in order to help the Fund meet its members’ changing needs in a more effective manner.