



**International Monetary and  
Financial Committee**

**Nineteenth Meeting  
April 25, 2009**

**Statement by H.E. Kaoru Yosano,  
Minister of Finance, Japan**

**On behalf of Japan**

**Statement by the Hon. Kaoru Yosano  
Minister of Finance of Japan  
and Governor of the IMF for Japan  
at the Nineteenth Meeting of the International Monetary and Financial Committee  
Washington, D.C., April 25, 2009**

**I. THE WORLD ECONOMIC OUTLOOK AND JAPAN'S STRENGTHENING OF ACTIONS**

The current world economic situation presents an increasingly severe global recession, in which the instability of the financial markets is spilling over to the real economy together with a substantial deterioration in the growth prospects of both advanced and emerging economies.

Each country has implemented decisive actions in a wide range of policy areas, including fiscal policy, monetary policy and financial policy measures. There are some signs among investors and consumers of improving confidence in the economic prospects. It is essential, however, that policy makers from each country continue to take action, without complacency and in a collaborative manner, until the recovery of the functioning of the global financial markets and economic activity has been ensured.

In response to the deterioration in the economic and financial situation, since last summer, the Japanese government has made economic recovery its first priority and, consequently, has adopted a series of packages of economic measures. By the end of 2008, the total size of these packages had reached ¥ 75 trillion including ¥ 12 trillion in fiscal stimulus measures. Various measures have also promptly been introduced on the monetary policy side; these include reducing the target over-night rate, providing abundant liquidity to stabilize financial markets, and supporting corporate financing. Nevertheless, since the end of last year, the Japanese economy has seen exports and output fall substantially further amid the global economic slowdown, and labor market conditions are rapidly deteriorating as well. Affected by the global credit crunch, financial conditions, including those of the corporate financing environment, are also severe. Also, in the medium to long term, Japan needs to grapple with structural challenges, such as addressing the aging of the population and establishing a low-carbon society, while transforming its economic structure from one that is dependent on external demand to one in which the country's growth is led by domestic growth.

Against the background of these economic and financial conditions, as well as the structural challenges faced by Japan, the Japanese government has decided to formulate an additional stimulus policy package, and announced on April 10, new economic measures, with a total size of ¥ 57 trillion, and national government expenditures amounting to ¥ 15 trillion, or the equivalent of 3 percent of the nominal GDP, the biggest in Japan's history.

The package was designed to avoid a negative spiral, and includes measures such as:

- (1) strengthening emergency measures to support employment, such as increasing subsidies for enterprises that maintain employment;
- (2) securing support for corporate financing by means of the expansion of guarantees and lending limits; and,
- (3) enabling the front-loaded implementation of public works projects.

It also includes measures geared toward ensuring medium- to long-term economic growth, through:

- (1) the promotion of a low-carbon revolution, which includes promoting solar power generation;
- (2) the revival of local medical care services and increased support for child-raising; and,
- (3) strengthening inter-regional cooperation and competitiveness through the development of infrastructure for ports and airports.

As to the comprehensive economic impact of the package, it is expected to boost real GDP growth by around 2 percent, and create about 400-500 thousand jobs for FY 2009.

From the viewpoint of securing fiscal sustainability, we will swiftly carry out the necessary revision of our medium-term fiscal program, taking into account the measures included in the series of economic policy packages.

## **II. THE FUTURE DIRECTION OF THE IMF**

During the last IMFC meeting, Japan strongly called for the Fund to play a positive role in supporting member countries' efforts toward crisis resolution as well as the prevention of future crises, and we presented concrete proposals relating to specific measures that the Fund should take as well as Japan's financial contribution to the Fund. Since then, thanks to a coordinated effort by the international community, the Fund has been equipped with various toolkits, such as strengthened financial resources, improved surveillance functions, and renewed lending facilities. In this sense, options for the Fund's reform have become much clearer than before. With these newly equipped toolkits, the Fund is now at a critical juncture in terms of how it can strengthen its functions as well as promote other reforms called for by the international community. I would like to take this opportunity to express my thoughts

regarding the future direction the Fund should take in response to heightened international expectations about its role.

### **Surveillance**

In order for the Fund to more effectively carry out its crisis prevention functions, it is important that it strengthen its surveillance, in particular, by focusing more on the linkage between macro-economy and the financial markets and the soundness of the financial sector of its member countries. From this viewpoint, the pilot Early Warning Exercise, which was conducted in close collaboration with the Financial Stability Board (FSB), is of critical importance. In order to fulfill its early warning capabilities, the Fund should not be content with simply collecting and analyzing various data. The Fund should conduct, on each occasion, an analysis focused on the truly important risks surrounding the world economy, thereby establishing a mechanism, by which the Fund can provide policy advice worthy of the attention of the international community.

### **Strengthening the Fund's Financial Resources**

With respect to the Fund's financial resources, last November, Japan argued that the Fund's financial resources needed to be increased to enable it to play an active role in crisis prevention and resolution in both emerging economies and smaller countries. To this end, as an interim measure, Japan expressed its readiness to lend the Fund up to USD100 billion. In February 2009, Japan concluded a lending agreement with the Fund, and we now stand ready to provide financial assistance through the Fund, if necessary. After that, European countries, as well as Canada, announced their intention to lend to the Fund and, at the London Summit, participating countries agreed to significantly expand the New Arrangements to Borrow (NAB).

We welcome the fact that significant progress has been made toward increasing the Fund's financial resources through voluntary efforts taken by various member countries, including those from emerging market economies. We see an urgent need for prompt consideration of the early realization of the expansion and increase of the NAB, its enhanced flexibility, and the allocation of a new SDR. Japan is prepared to actively contribute toward an early agreement on the expansion and increase of the NAB.

In the longer term, a quota increase will be necessary to increase the Fund's financial resources; thus, consideration of the next review of quotas should be initiated early with the aim of completing the review by January 2011.

### **The Fund's Lending Facilities**

In order for the Fund to fulfill its expected roles, it is of foremost importance that the Fund provide timely and effective assistance to member countries in need by making use of its

strengthened financial resources. At the last meeting, Japan stressed the Fund's responsibility toward flexibly responding to the budgetary needs of member countries, as they provide public financial assistance, such as capital injections, in order to ensure the stability of the financial system. In this context, Japan called for the Fund to seriously consider the measures it could use to fulfill such responsibilities.

With regard to the Fund's lending facilities, we welcome that progress has been made, in particular, based on the lessons that originated from the experience of the Asian financial crisis. The lending facilities reform aims at the streamlining and simplification of the Fund's conditionality, including the abolition of the structural performance criteria. Japan has also been advocating for the introduction of a more flexible lending facility for crisis prevention. In this context, we welcome the establishment of the Flexible Credit Line (FCL), which replaced, with improved features, the Short-Term Liquidity Facility (SLF). We also welcome the approval of Mexico's FCL program.

### **Supporting Low-Income Countries and Technical Assistance**

At present, many low-income countries have been significantly impacted by the negative effects of the global financial and economic crisis, which include a fall in commodity prices, a drop in demand for their exports, and a drop in foreign direct investment and remittances. In supporting low-income countries suffering from such a negative impact, the Fund is expected to provide effective assistance, in close collaboration with multilateral development banks. We welcome the progress that is being made in both the doubling of the Fund's concessional lending capacity for low-income countries and the doubling of access limits by utilizing additional proceeds from the sale of the Fund's gold, as agreed during the London Summit. In addition to providing financial assistance, it is also important that the Fund provide the technical assistance needed by developing countries. In this context, we expect the Fund to provide effective technical assistance, by means of results-focused project management under the Fund's reformed technical assistance policy. Japan stands ready to continue to play an important role in the technical assistance activities of the Fund, through the "Administered Account for Selected Fund Activities-Japan."

### **Governance Reform**

Finally, I would like to touch upon the Fund's governance reform. First of all, the quota increase agreed in April 2008 should become effective as early as possible. In this regard, in Japan, the legislation for the quota increase was enacted on March 31, and its consent notice was already sent to the Fund. I expect that other member countries that have not yet given their consent will proceed with domestic procedures as early as possible. Furthermore, in order to ensure the legitimacy of the Fund as a truly global institution, it is important to achieve diversity among the Fund's management and staff members, avoiding any disproportionate representation of a few specific regions. Japan is ready to make an active contribution to the Fund with respect to human resources as well.