



International Monetary and Financial Committee

Twenty-Third Meeting
April 16, 2011

**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-Third Meeting of the International Monetary and Financial
Committee
Washington D.C., April 16, 2011

I. Expression of Japan's Gratitude for the International Assistance Received in Response to the Earthquake Disaster and its Resolve to Achieve Reconstruction

It has been one month since the earthquake and tsunami disaster that caused unimaginable damage to Japan, mainly to the Tohoku region. First of all, I would like to express my gratitude for the assistance and sympathy extended to Japan by over 130 countries and regions, nearly 40 international organizations and people around the world. We also received words of encouragement from representatives of many IMF member countries that have ongoing IMF programs and are dealing with their own difficulties, and from those that are in the midst of reconstruction efforts in the wake of their own natural disasters. Furthermore, I would like to cordially thank the Fund's Managing Director, Mr. Dominique Strauss-Kahn, for the sympathy he expressed to Japan during his visit to the country, immediately after the earthquake, and the more than 1,000 donors during the charity drive held at the IMF.

The number of people killed or missing as a result of this disaster has reached around 28,000, and approximately 140,000 people are still living in shelters. The Cabinet Office has estimated, based on various assumptions, that the loss of housing, social infrastructure, private plants and equipment and other stock hovers around the range of 3 to 5 percent of GDP. Thus, the direct damage is enormous, and the Government of Japan is quickly carrying out recovery work with the support of rescue teams and relief goods from abroad. Japanese society has maintained order and cohesion. Regarding the condition of the country's infrastructure, the Tohoku Expressway, the main highway of the Tohoku region, has reopened to traffic and almost all airports and seaports in the region have also reopened. The Tohoku Shinkansen bullet train gradually resumed service in areas where recovery work has been completed.

While the extent of the direct damage is becoming clear, uncertainty still remains. First, since the Fukushima nuclear power plant was damaged by the tsunami, the affected nuclear reactors need to be cooled and stabilized. Japan is making every effort to contain the problem and settle it promptly with the collaboration of technical and personnel support from overseas. Indeed, the nuclear problem could affect the energy and environmental policies of, not only Japan, but also other countries around the world. Therefore, it is Japan's responsibility to accurately share its experience with the international community. As Japan will continue to provide accurate and prompt information on the nuclear situation with the greatest possible transparency, I would like to ask all countries to undertake level-headed responses that are firmly grounded in scientific facts. Second, there are concerns that a reduction in the supply of electricity could affect corporate production and investment activities. In order to

minimize the impact, the government, households and companies are working together to close the gap between electricity supply and demand.

All of us in Japan are firmly united, with strong determination to overcome these daunting challenges, complete the reconstruction process and build a country that is stronger than before. I would greatly appreciate the international community's continued support for Japan.

II. Impact of the Earthquake Disaster on the Japanese and Global Economies and Japan's Response to the Disaster

1. Impact of the Earthquake Disaster on the Japanese Economy and Japan's Response to the Disaster

Japan's financial system as a whole remains intact and its financial markets have regained stability. After the earthquake, the Nikkei stock average dropped by about 20 percent but, as of April 15, recovered about 13 percent. Long-term interest rates have remained stable and financial institutions have maintained stable business operations. Although the yen temporarily experienced a rapid appreciation in foreign exchange markets, the concerted G7 intervention proved effective in restraining excess volatility and disorderly movements in exchange rates. I believe that the international community's coordinated response, geared toward stabilizing the market is greatly significant.

The real economy is expected to weaken temporarily as a result of the damage, including that inflicted on production facilities. However, given the expected increase in investments necessary for post-disaster reconstruction, the economy will likely rebound as the reconstruction process moves into full swing. This observation was valid in the aftermath of the Great Hanshin-Awaji Earthquake of 1995, and is a view shared by the Fund. However, we need to keep a close watch on the economic impact of the nuclear problem and constraints on the supply of electricity.

Immediately after the earthquake, the Government of Japan went into action to best support the affected people and regions, including through the use of its reserve funds. The Bank of Japan has also been prompt in implementing both monetary easing and liquidity provision. While continuing these efforts, we are now preparing to start the reconstruction process, in which we will aim to go beyond the mere restoration to the previous state. We will carry out plans to create a marvelous Tohoku region and a marvelous Japan. While these efforts will not require a permanent increase in government expenditures, the necessary amount of funds will not be small. Notwithstanding, achieving fiscal consolidation in the medium term will continue to be one of Japan's most critical tasks.

2. Implications for the Global Economy

This earthquake disaster could affect both the global economy and employment, to some extent, if there are lingering effects on the demand-side caused through trade channels, and on the supply-side stemming from the fact that Japan is deeply integrated into global supply

chains as a provider of high-value added products. Companies are making serious efforts to quickly restore production facilities in the disaster-stricken regions, or tap into alternative production capacity in Japan. The Government has also resolved to provide companies with as much support as possible.

These situations in Japan are creating uncertainty regarding global economic prospects. Therefore, it is critical that the Fund conduct analyses in a timely and appropriate manner, and share its results with member countries. It is now more important than before, that the global economy cooperate to realize strong, sustainable and balanced growth and, needless to say, Japan will continue to make its contributions to the international community.

III. Expectations regarding the IMF: Strengthening its Crisis-Response Capability

From this perspective, the Japanese Diet deliberated a bill required to provide consent to increase capital for the Fund (in accordance with the 14th Review), as well as that for the IBRD, the IFC and the IDA. This bill was enacted and Japan notified the Fund of its consent to increase capital on March 31, 2011. I understand that Japan was the first member country to make such a notification to the Fund. Until this capital increase takes effect, as a major contributor to the New Arrangements to Borrow (NAB), and by means of maintaining its contract with the Fund on loans equivalent to up to 100 billion U.S. dollars, Japan intends to fully support efforts to ensure the availability and expansion of the Fund's financial resources. Additionally, Japan has provided strong support for the full and early activation of the NAB which was recently implemented. Japan has strongly resolved to continue to contribute to the stability of the global economy and the financial system and is expecting the Fund to play a more active role toward this goal.

1. Enhancing Global Financial Safety Nets (GFSNs)

One of the lessons learned from the earthquake disaster is the importance of preparing for crises. This lesson also applies to the global economy and financial system. Following last year's discussions, we need to make continued efforts to strengthen GFSNs.

The Flexible Credit Line (FCL), refined last year, and the Precautionary Credit Line (PCL), which was established last year, are lending schemes designed to prepare for potential external shocks that even countries with sound policy management would not be able to cope with on their own. These lending tools represent significant progress in terms of efforts to strengthen the crisis response capability of the international community. However, when responding to a systemic crisis, similar to that of 2008, it is necessary to promptly provide sufficient funds in order to prevent a crisis contagion. From this perspective, it is important to establish a mechanism, similar to the Short-term Liquidity Line (SLL) proposed by the Fund last summer, which would provide short-term liquidity. Toward this end, I believe that, by the next meeting of the IMFC, a conclusion should be reached on this matter.

Another important task is that of strengthening collaboration between the Fund and regional financial cooperation. In Asia, based on the lessons of the Asian currency crisis that hit the region in 1997 and 1998, the Chiang Mai Initiative was promoted in order to deal with short-

term liquidity problems in the region and supplement the existing international framework. However, this initiative has not necessarily adapted well to the changed situation that followed the crisis of 2008. Japan, as this year's co-chair of the ASEAN+3, will contribute to the improvement of the international monetary system by promoting debate on the strengthening of collaboration between the Fund and Asia's regional financial framework and the enhancement of this framework's crisis prevention capability.

2. Strengthening Surveillance

Unlike natural disasters, it is possible to reduce the incidence of financial crises. To do so, I believe that it is important for the Fund to continue its efforts to strengthen surveillance. This year, surveillance is scheduled to be reviewed and, as a new initiative, spillover reports will start. As one of five systemic countries and regions for which reports will be issued, Japan intends to actively contribute to these surveillance efforts.

I hope that strengthened surveillance will enable the Fund to provide an in-depth analysis on the cross-border trade and financial linkages and the spillover effects of policies and shocks spread through those linkages. I believe that strengthening international cooperation through these efforts will, not only lead to higher global growth, but will also enhance the Fund's crisis prevention and resolution capability, thereby improving the international monetary system.

3. Enhancing the IMF's Legitimacy, Credibility and Effectiveness

I would like to stress again that now is a good opportunity to discuss an amendment to the Fund's Articles of Agreement. The purposes of the Fund, in the Articles of Agreement, have not undergone any revision despite the significant changes that have occurred in the global economic and financial systems since the Fund was founded. Now that the recent global financial crisis that originated in the financial sector and affected the whole world has highlighted the importance of financial stability, and that the magnitude and volatility of international capital flows are posing policy challenges, it is high time to consider adding "global financial stability" to the purposes stated in the Articles of Agreement, reviewing the articles concerning surveillance, and giving the Fund a clear mandate in the area of capital flows. These actions would increase the legitimacy of the Fund's current activities as well as the future enhancement of its functions. Although reforms should, of course, be pursued even while this review process is ongoing, given that the review of the Articles of Agreement takes time, we should now advance our consideration of this matter from a long-term perspective.

Lastly, it is necessary for the Fund to enhance staff diversity so that it can make more effective contributions to global economic and financial stability. I would like to call for specific measures to do so. In addition, member countries should accelerate the procedures required for their consent to increase capital in order for this increase to take effect in the near future.