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Statement by the Hon. **KAZUYOSHI AKABA**,  
Temporary Alternate Governor of the Fund and the Bank for **JAPAN**,  
at the Joint Annual Discussion



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## **I. Introduction**

Mr. Chairman and my fellow Governors:

At the outset, I would like to welcome and congratulate yesterday's adoption of the Resolution on Quota and Voice Reform by the IMF's Board of Governors. The international community has changed dramatically over the years, but this change has not been reflected in the IMF quota share. Japan has insisted that the IMF must change itself to be able to continue to play an effective role in the global economy by changing its governance structure so that members' quota shares are realigned with their economic weight in the global economy. The IMF management, the Executive Board, and all member countries should continue to endeavor to cooperate in carrying out the full package of the reform efforts within the specified time period.

## **II. Global Economy and Financial Markets - Outlook, Risks, and Policy Responses**

### ***World Economy***

I welcome the continuation of a broad-based expansion of the global economy, which has kept its highest pace in the last three decades. I am especially delighted that the Asian economies, including our host country, Singapore, have taken the lead in this growth. I expect this expansion to be sustained but concurrently we must all remain vigilant to the possible risk of rising inflationary expectations in some member countries, a further increase in already high oil prices against the background of ongoing geopolitical uncertainties, and a disorderly unwinding of global imbalances. Under these circumstances, each member should persist in striving vigorously to address its economic challenges and remaining vulnerabilities by taking advantage of the present favorable environment, while paying due attention to these risks.

In this connection, I commend the latest World Economic Outlook for analyzing the strong growth performance in Asia and identifying several key lessons drawn from the Asian experience over the past 60 years. Those lessons would be useful both for Asian countries themselves and for middle and low-income countries in other regions, who are expected to be the future leaders of the global economy. It is both timely and appropriate to consider the experiences and prospects for Asia during the meetings held in this region this year. Taking into consideration the strong growth in Asia during the past 30 years, the report concludes that a strong surge in productivity and a rapid accumulation of

human and physical capital resources, fostered by the robust institutional and policy environment, have been the major sources for strong sustainable growth. At the same time, along with the self-help efforts of the Asian economies themselves and the private sectors' initiatives in the area of trade and foreign direct investment, I am also convinced that development assistance by the developed countries, including Japan, focusing on infrastructure development provided in a coherent manner, has been effective and instrumental in bringing about sustainable growth in Asia.

### ***Japan's Economy***

Japan's economy has finally recovered and is expected to continue its sustainable growth, primarily supported by domestic private demand. Our economy has stagnated for nearly ten years after the burst of the bubble economy, suffering from bad loans in the financial sector. Persistent efforts were made toward progress in structural reforms under the premise, "No growth without reform." With these efforts, the target for a reduction in bad loans has been achieved, the corporate sector has strengthened, the financial system has stabilized and economic resilience has increased. This has enabled us to enjoy a steady recovery led by domestic private demand without relying on fiscal stimulus. Looking ahead, strong performance in the corporate sector has been spreading to the household sector amid a benign labor market, and the economic recovery is expected to persist.

Improvements in our economic circumstances have given us the opportunity to accelerate structural reforms to raise productivity that would bolster the growth potential of our economy that faces the challenges of a declining population and intensified global competition. In this regard, fiscal consolidation is a top priority, given the current severe fiscal conditions. The government will continue its efforts in this direction and make sure that the consolidated primary deficit of the central and local governments turns from a deficit of 3.3 percent of GDP in FY2005 into a surplus in FY2011. Moreover, after achieving the target for the primary balance, fiscal consolidation efforts will continue with a view to generate primary surpluses so as to attain a stable reduction in the debt-to-GDP ratio for these governments.

On monetary policy, in July, the Bank of Japan raised its operating target for the policy interest rate for the first time in six years. The Bank intends to formulate future monetary policy by carefully assessing economic circumstances and prices, and will continue to underpin Japan's economy toward realizing sustainable growth under price stability by maintaining an accommodative monetary environment.

### **III. IMF's Medium-Term Strategy**

Following the sixtieth anniversary of the Bretton Woods Institutions, we are witnessing a growing momentum toward strategic reform of the IMF. Since its foundation, the IMF's fundamental objectives have been to stabilize the global economy and international

monetary and financial systems. In order to continue its meaningful contributions to international society, the IMF needs to further strengthen its efforts in improving its institutional capabilities and streamlining and prioritizing its operations in response to the dynamic development of the global economy. Moreover, reform of its governance structure has become a prerequisite for reforms in other areas.

In this regard, I am glad to observe achievements which reaffirm concrete steps toward substantive implementation of the IMF's Medium Term Strategy (MTS), especially in the areas of governance and surveillance. I would like to express my sincere appreciation for the strong leadership shown by the Managing Director Rodrigo de Rato, who has emphasized the importance of quota and voice reform in the MTS and made strenuous efforts to reach agreement on this issue at the Board before the Annual Meetings. I would also like to express my thanks to those member countries that share a common interest in pursuing this reform, which will benefit the entire membership and the global economy as a whole.

At this opportunity, I would like to comment on the following three issues that are of particular importance regarding the implementation of the MTS.

### ***Quotas and Voice Reform***

First, on governance reform, especially on the quota and voice issue. Quota reform is a strategically important issue with global implications to improve the governance structure of the IMF, enabling it to play an effective role in the global economy. At the same time, in Asia, where so many emerging market economies are growing rapidly, quota reform has its own meaning in regaining and strengthening the IMF's relevance and credibility in this region during the post-crisis years. As the momentum for strategic reform of the IMF gained its strength, Japan, along with other members who share the view that there is an urgency in addressing this issue, promoted the idea of granting ad hoc quota increases for member countries whose quota shares are significantly underrepresented. I am happy to note that, following extensive discussions at the IMF Board and elsewhere, a broad consensus has emerged to place this idea at the core of the total package of quota and voice reform.

The resolution is truly epoch-making. It clearly states its objectives and the specified timeframe for the steps to be taken to implement this reform. The IMF management, the Executive Board, and all member countries should endeavor to cooperate in carrying out this reform within the specified period. Japan supports this resolution wholeheartedly and emphasizes the following points:

- i) The Executive Board should begin discussions on a new quota formula soon after the Annual Meetings in Singapore and report progress made to the next IMFC meeting. The new quota formula should properly reflect members' relative positions in the world economy, and I believe that GDP should have significantly

- larger weight than in the current formula.
- ii) Based on a new formula, significant second stage ad hoc quota increases should be granted to a large number of underrepresented countries, with the aim of achieving meaningful adjustments in the quota share to properly reflect members' relative positions in the world economy, when the quota reform is finally completed. In order to ensure the voices of low-income countries in the IMF's decision-making process, the Board needs to discuss the issue of increases in basic votes concurrently with the second ad hoc increases. As for the increase in the basic votes, Japan supports an increase that is significantly more than the doubling of the current votes.
  - iii) Agreements on both the second stage ad hoc increases and increases in the basic votes should be reached by the 2007 Annual Meetings, and no later than those in 2008. With this timetable in mind, the Board should initiate its discussions on these issues as soon as possible.

### ***Strengthen surveillance***

Second, on IMF surveillance. Globalization has brought both opportunities and challenges to all nations. Bilateral, regional and multilateral surveillance are the fundamental functions of the IMF, with its deep knowledge and analytical ability in the area of macroeconomics. The IMF is expected to continue to make every effort to strengthen its ability, as well as streamline and prioritize its activities in this area in order to improve its effectiveness in surveillance.

In this respect, I welcome the progress made to date in realizing a new surveillance framework in the following aspects, having been initiated by the MTS and gaining momentum through the last IMFC Communiqué.

- i) To clarify the objectives and priorities of surveillance every few years;
- ii) To initiate multilateral consultation;
- iii) To assess the effectiveness of the surveillance function with regard to exchange rate policies, as well as the analytical capability of the IMF, and to review the 1977 Decision on surveillance over exchange rate policies including its possible revision.

Moreover, in redefining the area of surveillance, I believe it important to take into account the need to strengthen analyses in such areas as international capital flows and financial markets, which have not been included in the traditional expertise of the IMF. I also encourage the IMF to promote regional surveillance that appropriately reflects unique developments and characteristics of certain regions.

To follow up on all of these issues, I call on the Executive Board to report concrete progress made in this area to the next IMFC meeting.

### ***Providing Crisis Prevention for Emerging Markets***

Third, on a new instrument for crisis prevention in emerging market economies. These countries have been growing rapidly, enjoying the benefits of globalization and increases in international capital flows. At the same time, they remain vulnerable to the rapid changes in these flows. The IMF needs to increase its credibility in these upcoming economies by broadening its toolkit so as to prevent capital account crises triggered by a large and rapid reversal of international capital flows, and also to respond appropriately and quickly to a crisis that has actually occurred.

In this context, I welcome the Board discussion on the well-balanced proposal on a new liquidity instrument for market access countries. I urge the Executive Board to expedite the discussions on this issue after the Annual Meetings and report further concrete progress to the next IMFC meeting.

### **IV. Development Issues**

In the field of development, Japan will continue to proactively contribute to achieving the Millennium Development Goals (MDGs) by steadily fulfilling the commitment to double the country's ODA to Africa in three years, as announced last year at the Asian-African Summit in Indonesia.

At the Annual Bank Conference on Development Economics (ABCDE) in Tokyo this May, which was the first ABCDE in Asia, we shed new light on the theme of "Rethinking Infrastructure for Development", namely infrastructure assistance in the future. As seen in Asian countries, infrastructure assistance as well as improvement in investment climate is important for developing countries to achieve sustainable growth and poverty reduction. I hope the discussion at this year's ABCDE that brought together cutting edge knowledge, both from theoretical and practical aspects, would foster further deliberation on infrastructure assistance, thus contributing to sustainable growth and poverty reduction in developing countries.

That said, in my remarks on development, I would like to focus on three issues that were discussed at the Joint Development Committee held yesterday.

### ***The Bank's engagement with IBRD Partner Countries***

In view of the fact that 70 percent of the world's poor live in middle income countries (MICs), it continues to be critical for the Bank to be actively engaged with MICs for poverty reduction. On the other hand, MICs have recently become more and more diverse. To respond appropriately to such diversity, the manner in which the Bank is engaged should be differentiated.

We have seen some MICs that have stable access to capital markets and ample domestic savings. These advanced MICs should seek to finance projects for poverty reduction and balanced growth primarily with resources they can acquire by themselves. In engaging with MICs with stable market access and a means to satisfy their own financing need, the Bank needs to bring their graduation in view and focus on non-lending services that supplement the recipient's own efforts, while lending services, if necessary, should be directed exclusively to climate change and other global public goods or to projects in a poverty area that would have a significant impact on poverty reduction.

Some MICs, that have been borrowers from the Bank, are getting positioned as lenders and donors to other lower income countries. I strongly urge them to act as responsible members of the international community, by collaborating with other lenders and donors and respecting internationally agreed frameworks.

For example, we have started to implement the Multilateral Debt Relief Initiative (MDRI) in which the International Development Association (IDA) and other multilateral institutions will cancel 100% of their debt claims on countries reaching the completion point. For this international financial support to remain effective and debt sustainability problems of developing countries not to recur, international coordination among all lenders, including emerging lenders, is essential so that no lending will be made without taking debt sustainability issues into account. Increased transparency of assistance by the emerging donors is also important.

The Bank is expected to share sufficient information with the Fund and to play an active part in ensuring that emerging lenders and donors take debt sustainability issues into account in all lending practices, increase aid transparency, and respect other internationally agreed frameworks, through strenuous discussions for Country Partnership Strategy (CPS) and other policy dialogue.

### ***Strengthening Bank Group Engagement on Governance and Anti-Corruption***

I welcome the initiatives to which the World Bank has committed to strengthening governance and anticorruption measures, based on the lessons learnt from its experience. Good governance of developing countries, which would be reinforced through the Bank's engagement, contributes to enhance effectiveness of aid and to improve the aid environment, and, thus, is in Japan's interest as a major bilateral donor. It also contributes to maintain our trust in development aid. It is apparent that in the long run good governance and anticorruption measures will have a positive impact on economic growth and poverty reduction. I hope the Bank will make these initiatives truly effective by respecting the ownership of recipient countries and promoting dialogue with broad stakeholders.

### ***Investment Framework for Clean Energy and Development***



For decades, Japan has actively addressed global environmental issues. First, it was in response to serious environmental issues faced during the 1950s and the 1960s, then to the so-called oil shock in the 1970s. More recently, Japan has been trying hard to achieve the Kyoto Protocol targets.

Climate change is a global issue with an impact that transcends national boundaries, and efficient use of energy is also indispensable, particularly to development. Thus, clean energy and development need to be discussed from a practical point of view and beyond national-level interests by all countries, whether developed or developing. In this respect, the Bank is expected to play a vital role both in financial and technical assistance.

That said, I would like to comment the three pillars of the Investment Framework for Clean Energy and Development.

First, regarding the issue of energy for development and access to the poor, I welcome the approach putting an emphasis on infrastructure for poverty reduction, which Japan has been consistently advocating.

When discussing the action plan for electricity access for the poor in Sub-Saharan Africa, not only grant but also utilization of multilateral and bilateral loans and private capital needs to be elaborated, in view of its expected contribution to growth and substantial funding needs. If assistance which utilizes loans combined with proper energy sector reform consulted by donors is successful, it will contribute as well to enhance credit culture in this region.

Second, regarding the transition to a low-carbon economy, development of new technology is admittedly one of the key aspects of achieving a low carbon economy. However, in view of the limited resources available to the Bank, it is imperative for the Bank to focus on deployment of existing commercially available technology, particularly for energy efficiency, so that the Bank can maximize use of the resources. I believe such an approach will eventually lead to a shift to a low-carbon economy. Based on this, it is necessary to have discussions focusing on how to make the most of private capital and existing financing instruments. Mainstreaming efficient use of energy in CPS and other policy dialogues while utilizing knowledge of other institutions such as International Energy Agency (IEA) is also important, particularly for emerging economies which are major gas emitting countries as well.

Furthermore, when discussing the subject from the perspective of beyond 2012 towards the ultimate goal of the Framework Convention on Climate Change, it is essential not to fix the current framework, under which only certain developed countries are obliged to mandatory reductions of carbon gases. We need to have discussions leading to the establishment of a more effective future framework, which would not only facilitate

maximum effort of major green house gas emitting countries for its reduction, but also encourage all countries to contribute in line with their ability for the ultimate goal of Framework of Convention on Climate Change.

Let me also add that Japan has the world's highest levels of expertise and experience in the field of energy saving. When measured by carbon dioxide emissions, for example, Japan's GDP per capita emissions are almost half the average of OECD countries. Japan stands ready to make the best use of such expertise and experience for the transition to a low-carbon economy, by fully cooperating with improvements in energy efficiency.

Third, regarding the challenges for climate change adaptation, Japan has made active contributions as a bilateral donor to help prevent disasters, such as floods and droughts. Japan would like to share the expertise that has been accumulated through these activities with the Bank and other donors. Japan would also like to continue to proactively contribute in this field.

## **V. Conclusion**

Since the establishment of the IMF and the World Bank sixty-one years ago, the economic and social environment has experienced a dramatic change particularly in the process of globalization. Because what is taking place is dynamic and structural, the reforms to be taken by these institutions need to be comprehensive. A piecemeal and ad hoc approach will not work and would not meet the concerns and requirements held by the member countries, who are both customers and shareholders. Efforts should be made to keep our institutions relevant to all members. It will be a challenge but one that I am confident we can meet. Both institutions need to clarify their responsibilities based on the central objectives of their institutions. They need to strengthen their effort to improve their institutional capabilities and streamline and prioritize their operations, such as surveillance, crisis prevention and development assistance. The governance reform will promote these efforts.

I would like to conclude my remarks by extending my best wishes to both institutions in making continuous endeavor to play a significant role in promoting the stability and sustainable development of the world. The challenge ahead of us calls further efforts by management, staffs and member countries' wisdom, persistence and cooperation.