



**ANNUAL
MEETINGS**
2017 | WASHINGTON DC
WORLD BANK GROUP
INTERNATIONAL MONETARY FUND

Governor's Statement No. 14

October 13, 2017

Statement by the Hon. **HARUHIKO KURODA**,
Alternate Governor of the Bank and the Fund for **JAPAN**

Statement by the Hon. Haruhiko Kuroda,
Alternate Governor of the Bank and the Fund for Japan

I. THE GLOBAL ECONOMY AND THE JAPANESE ECONOMY

We welcome the continued moderate recovery of the global economy and a firming of its near-term outlook. While being lower than historical average, the outlook has been revised upwards in many of both advanced countries and emerging market and developing economies (EMDEs). Investment, trade, and employment continue to expand. However, wage growth has been subdued in advanced countries, despite strong corporate earnings and low unemployment rates below or equal to the level before the Global Financial Crisis. This poses a serious conundrum for policy-makers. Furthermore, risks still remain skewed toward the downside, particularly in the medium term. Financial vulnerabilities have continued to build up, including excess credit and an increase of foreign currency denominated debt in some EMDEs. Moreover, low interest rates and low market volatility in financial markets seem to be an underlying factor at play for a sustained increase in asset valuation in capital markets, mainly in advanced economies. In this regard, we should avoid complacency and be vigilant of market developments, because there is the possibility that the current financial environment may change rapidly.

In addition, non-traditional risks such as geopolitical risks and cyber-terrorism are also sources of uncertainty. In particular, North Korea is the most significant geopolitical risk to the global economy at this juncture.

The current global economic upswing gives a window of opportunity for us to address medium-term downside risks and raise potential growth by tackling important policy challenges faced by each country. Therefore, our commitment to use all policy tools—monetary, fiscal and structural – individually and collectively, remains important.

Japan's economic fundamentals are solid as Abenomics has made steady progress. Real GDP has been growing above its potential for six consecutive quarters. Wage growth has been at the highest level in this century for the past four years. The job-to-applicant ratio is the highest in almost 50 years. Going forward, supported by favorable corporate earnings and tight labor markets, it is important to strengthen the virtuous circle in the economy, which will lead to steady growth in consumption and investment. To achieve such a virtuous circle, sustained and stable wage increases are crucial.

In addition, to make the current recovery and growth of Japanese economy more sustainable, we are resolved to press forward structural reforms and overcome Japan's greatest challenge—population aging and declining birthrates. Among other things, we have been advancing a “work-style reform” as a key agenda of structural reforms, which aims to promote the labor participation of women and the elderly and raise labor productivity.

Going forward, we will further enhance Japan's economic potential through taking new, revolutionary approaches. We will promote harnessing cutting-edge technologies such as

artificial intelligence, Internet of Things, and robotics to raise productivity across all industries and sectors. Moreover, thinking ahead of a society in which many people live one hundred years, we are keenly aware of the need to ensure that the labor force has the adequate skills for future jobs. We will therefore upgrade our investment in human capital, including through reducing the financial burden related to early childhood as well as advanced education, and championing recurrent and life-long education. With a view to achieving sustainable and inclusive growth, the government will accelerate Abenomics by all policy tools—monetary, fiscal, and structural—in cooperation with the Bank of Japan.

II. EXPECTATIONS FOR THE IMF AND THE WORLD BANK

Now, I will address Japan's expectations for the IMF.

Twenty years have passed since the financial crisis that spread around the Asian region from the summer of 1997. Since then, we have witnessed a variety of developments in the global economy and financial markets, including the Global Financial Crisis of 2008-09. Japan highly values the efforts made to date by the IMF, based on the lessons learned from the experience with the Asian Financial Crisis, which have enabled to fulfill a central role in the international monetary system. We welcome the IMF for playing a pivotal role in the recent formulation of a large-scale international financing package for Mongolia in May this year.

As a host of challenges in the global economy and financial markets continue to linger, it remains essential to strengthen the international financial architecture that takes a leading role in crisis prevention and response. Towards the stability of the global economy and financial markets, we expect the IMF to continue its active contribution.

Given that spillovers to emerging market economies from changes in global financial conditions is a downside risk, it remains a priority to respond to volatility of cross-border capital flows. Japan supports “the Institutional View” on capital flows and welcomes the progress so far regarding capital flow management measures, including on the review of experience with the Institutional View and conceptual framework in relation to macro-prudential measures. We also welcome plans by the Fund to continue its work for effective and consistent implementation of the Institutional View. Building on this progress, we continue to call on the Fund to develop more granular and practical guidance in order to ensure consistent and appropriate application of the Institutional View.

We welcome the forthcoming review of the External Sector Assessment and expect the IMF to engage national authorities in the review process in a proactive manner. The refined model should capture the characteristics of countries' economic structures more precisely, such as the difference between trade and income balances and difference of propensity to consumption and savings across countries. In addition, in order to strengthen the accountability for adjustments made to model results, a procedure should be established to ensure their theoretical underpinnings and evenhandedness.

We expect an accelerated discussion on the 15th General Review of Quotas to narrow gaps between the members, given the agreed time frame that the review should be completed by the

2019 Spring Meetings and no later than the 2019 Annual Meetings. Japan supports the premise that the IMF should be adequately resourced in order to fully play an expected role at the center of the GFSN. However, while quotas are the core resource for the IMF's financing structure, the importance of the borrowed resources as a permanent funding base, the existence of which also has positive impact in terms of market confidence and crisis prevention, should be acknowledged. We emphasize that Japan's commitment to lend up to an equivalent of US\$100 billion under a bilateral borrowing agreement in the midst of the Global Financial Crisis had significant positive effects in overcoming the crisis and that the bilateral borrowing, which was subsequently incorporated into the New Arrangements to Borrow, continues to play an important role as the second line of defense for the IMF's financial resources.

A priority is to agree upon a quota formula reflecting the three elements it has typically sought to capture: namely, countries' relative position in the global economy, financing needs, and financial strength and ability to contribute usable resources. Among these elements, "financial strength and ability to contribute" is understated in the current formula, despite the fact that voluntary financial contribution from members is indispensable for any of IMF operations, including the Poverty Reduction and Growth Trust (PRGT) and technical assistance. We therefore believe that the incentives to contribute to the IMF's financial resources should be strengthened by putting more weight on the element of the financial strength and ability to contribute in the forthcoming formula.

In assessing the appropriate size of the IMF, further discussion is necessary, including on how to take into account strengthened international financial regulatory reforms after the Global Financial Crisis and an expansion of the Global Financial Safety Net outside of the IMF.

I will now turn to Japan's expectation on the World Bank Group (WBG).

Japan would like to see the WBG's continued efforts to address wide-ranging development challenges, including investment in quality infrastructure, disaster risk management and crisis response, global health, education, gender, and climate change towards Sustainable Development Goals (SDGs).

In order to promote UHC, it is indispensable that all stakeholders, including the WBG, the United Nations (UN), the World Health Organization (WHO) and other IOs, strengthen their global leadership jointly through closer cooperation, and implement collaborative work at a country level by building platforms to promote UHC in countries concerned. To accelerate the momentum, Japan, together with the WBG, the WHO and other key organizations, will host "UHC Forum 2017" in Tokyo in the coming December. In addition, Japan and the WBG have been making progress in establishing model of such collaboration cases through supporting pilot countries under the Japan-World Bank Joint UHC Initiative agreed upon in January this year.

Japan welcomes the launch of Women Entrepreneurs Finance Initiative (We-Fi) at the G20 Hamburg Summit, to which donors have pledged over 325 million US dollars including Japan for 50 million US dollars. We are committed to building a society in which all women shine, and We-Fi is an important vehicle to facilitate economic inclusion of women in developing

countries. Japan will host the World Assembly for Women (WAW!) in Tokyo in November this year, where participants will actively discuss ideas to further empower women and promote their social and economic participation.

For the past 70 years, major shareholders including Japan have placed high expectation on the WBG's core role in multilateral collaboration for development assistance, and made significant contributions to strengthening its financial base, particularly through IDA replenishments. The WBG deserves to be supported by these shareholders who appreciate the importance of financial support to the WBG, as a global public good.

In realigning voting power, which is the fundamental shareholders' right in the WBG's governance, these responsible shareholders' contributions to the IDA should be appropriately recognized and fully reflected in their voice. We welcome an increase in voting power of developing and transition countries (DTCs), reflecting their weight in the world economy, under an on-going shareholding realignment exercise. Here we would like to stress that shareholding realignment should be done gradually, reflecting historical contributions to the IDA, which we believe is the way the WBG's governance should be.

To address global challenges including crowding-in private finance and endeavors for SDGs, the WBG should have a sufficient financial capacity. The WBG's own effort to undertake internal measures, including ones for balance sheet optimization, is the first step. Japan welcomes progress to date of such self-help and encourages further efforts on this front. When we are presented a strong case for capital increase with sufficient internal measures, Japan is ready to support. Another important prerequisite for successful capital increase for the IBRD and the IFC is that they will be agreed under a new governance structure after appropriate shareholding realignments.

III. CLOSING

In closing, I would like to express my respect toward the great roles that the two institutions have played in the international community and their major contributions in this regard. I also expect them to address ever-increasing difficult global challenges and thus help achieve strong, sustainable and balanced growth as well as poverty reduction.