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**Statement by Mr. Tanaka, Ms. Kashima, Mr. Naka, and Mr. Nagase on The Managing Director's Statement on the Work Program of the Executive Board
(Preliminary)
Executive Board Meeting
June 10, 2021**

We thank the Managing Director and staff for the update of the Work Program of the Executive Board. Thanks to the unprecedented policy response and progress of vaccinations, the global economy is steadily recovering, and in this regard, we would like to express our highest respect again for staff who have made great efforts to address the crisis. However, the global economy is still facing high uncertainty and great divergence, and the Fund is expected to continue to play a crucial role to help member countries tackle the crisis by utilizing strategically integrated surveillance, lending, and Capacity development (CD). As mentioned in the Managing Director's Buff, the Fund should continue to make every effort to achieve a durable exit from the crisis, minimize long-term scarring, and build a more sustainable, resilient, and inclusive economy. In this regard, **we support focusing the WP on activities with most critical importance to the member countries based on the priorities specified in the latest GPA and IMFC Communiqué.**

In order to utilize its utmost capacity and support the member countries effectively and efficiently, the Fund should continue its effort of prioritization and sequencing of its works and realizing synergies among them. On this point, we believe the Fund should continue to focus on its core areas, including macro-critical issues on fiscal, monetary and financial policies, and should promote the effective cooperation with and demarcation of roles between other international organizations. Based on this basic position, we would like to offer the following comments.

Surveillance

Priority should be placed on analyzing the impact of the pandemic on the global economy and providing necessary policy recommendations taking into account the

specific circumstances of each member country. Although there are signs of recovery in the global economy due to the increase of vaccination, the outlook is still uncertain. Under such circumstances, close monitoring of economic developments is essential. Further, policy advice should be tailored to enable member countries to safely exit from the crisis and realize a sustainable, resilient, and inclusive recovery.

Lending

In order to help member countries achieve both a durable exit from the crisis and a resilient recovery, it is critical for the Fund to smoothly pass the baton from pandemic-related emergency financing to Fund programs to address the medium- to long-term impacts of the crisis and structural issues. To this end, we reiterate that three elements — (i) the lending facilities, (ii) the members' financing needs and how to fill those, in consideration of the Fund's catalytic role, and (iii) the Fund's resources— should be examined comprehensively and simultaneously. Japan has been actively supporting the Fund's efforts to strengthen its support to LICs and is willing to make further contribution. On the other hand, it will be necessary to take the difficult fiscal situations of donor countries into account when we expect their additional financial contribution to the various financial needs. Especially on the PRGT subsidies, given the accountability to the taxpayers of donor countries, it is essential to consider all options, including the use of the Fund's internal resources. Regarding the Vaccine/Pandemic Financing Options, in light of the Fund's fundamental mandate and role of providing short-term liquidity supports to help member countries address their BOP needs, it would be necessary to deeply collaborate and discuss demarcation of roles with other international organizations which have expertise in this area as well.

Capacity Development (CD)

Improving policy implementation capacities is key to achieve a resilient and inclusive recovery and sustainable growth of member countries, and the Fund's CD can play a critical role on this front. We appreciate staff's effort to strengthen the engagement of the Board on this matter. We also welcome the Fund's plan to enhance CD by strategically integrating it with Surveillance and Fund's program. We encourage staff to make further effort to provide effective CD support to member countries, and regularly update the findings and development to the Board. As one of the longest and largest supporters of CD, Japan will continue to support the Fund's activities in this area.

Debt Issues

Tackling debt issues continue to be a key role of the Fund. We appreciate the Fund's support on the implementation of the DSSI and the Common Framework. We took note that a Board meeting to discuss this matter is planned to be held in September, but we ask staff to have it earlier. In addition, in order to enable the Board to timely grasp the progress and

challenges related to these issues and discuss them, we would like staff to regularly and frequently update the latest development to the Board. The current crisis has exposed the debt vulnerability of developing countries, which had been increasing before the pandemic due to the expansion of non-concessional borrowing and non-transparent borrowing. To tackle this problem, it is critical for the Fund to make further efforts to ensure the debt transparency and debt sustainability of the member countries through its various works such as the Multipronged Approach and the debt data provisioning. On this point, given the fact that debt transparency is an urgent issue, we would like to have relevant Board meetings much earlier as well, rather than in November and January 2021. In this regard, we support the Fund and the World Bank's proposal to the G20 on the debt data reconciliation initiative which helps us secure the transparency and accuracy of the debt data, and we ask staff to conduct this effort on a regular basis. In addition, we understand it is essential to secure the cooperation of creditor countries to address the debt issues, and we encourage the relevant countries to closely work together with the Fund and the World Bank. We recognize, unfortunately, that there are several creditor countries which seems reluctant to participate in the initiative; thus we think staff and the Board should more actively engage in this issue and accelerate the effort.

Fiscal Policy

We highly appreciate staff's effort to emphasize the importance of building a credible medium-term fiscal framework. We understand the necessity and usefulness of timely, targeted and well-calibrated fiscal policy to tackle the current pandemic and realize a resilient recovery. On the other hand, in order to maintain and enhance the credibility of fiscal sustainability which had been deteriorating before the crisis and has been worsened further in many countries due to the pandemic, it is necessary to build and steadily implement a credible fiscal consolidation plan. We strongly encourage staff to deepen their analysis on this front and continue to provide necessary policy recommendations.

External Sector Assessment

A drastic review of the External Balance Assessment methodologies is warranted. Today, a growing number of countries, in particular advanced countries, have a large proportion of their current accounts comprised of income balances for which the exchange rate adjustment mechanisms are not effective. In addition, capital transactions unrelated to current transactions are expanding, and they have caused a large impact on exchange rates. Therefore, as we have emphasized in previous Board meetings, we are of the view that the underlying assumption behind the current assessment methodologies which links the evaluation of exchange rates with that of the current account no longer holds, and it is necessary for the Fund to fundamentally reconsider the methodologies. On this point, we took positive note of the plan to review the methodologies as expressed in the Spring 2021 Global Policy Agenda, and we look forward to hearing the staff's proposal.

Institutional View (IV)

There is a risk that capital flows of emerging countries can be volatile due to the recent appreciation of the dollar and rising interest rates in the U.S. To enable the emerging countries to flexibly respond to such changes in the global market, we encourage staff to conduct the review of the IV to make it more practical, even-handed and feasible by utilizing the implications and findings of their analysis. In this regard, we welcome the progress of the staff's analysis of the Integrated Policy Framework (IPF), but we should keep in our mind that the basis of policy recommendations of the Fund on the capital flow management (CFM) is IV and we should promote the operationalization of IPF through the IV review, rather than sticking to the theoretical refinement of the IPF.

Climate Change

The Fund's new effort to integrate climate change into bilateral surveillance is welcome. Given the impact of climate change on the global economy and the international financial system, it is paramount for the Fund to contribute to the global effort to tackle this issue by utilizing its macro-economic expertise. We strongly encourage staff to make close collaboration with relevant international organizations, such as the World Bank, to tackle this issue to avoid duplication and to complement the necessary skills making good use of external expertise. In addition, when we address this matter, it is important to consider not only mitigation measures, but also adaptation measures to ensure member countries' smooth transitions to a low-carbon economy. In this sense, we encourage staff to provide well-tailored policy advice to countries based on close dialogues with the authorities to enable them to implement necessary and feasible policy responses based on their individual energy situations, institutional constraints and existing policies, avoiding a one-size-fits-all approach. While we acknowledge the usefulness of carbon pricing, it would be important for us to comprehensively analyze and discuss the various policy options such as implicit carbon pricing and regulatory measures to provide feasible and calibrated solutions to member countries.

Digital Currencies

We welcome the Fund's effort to accelerate its works related to digital currencies, including Central Bank Digital Currencies (CBDCs), by placing this issue as its core-mandate. As pointed out by the Managing Director in previous Board meetings, digital currencies can cause a negative impact on the international monetary system and financial stability if undesirable *de facto* standards are built by early movers. For example, due consideration is warranted about data collection and utilization regarding CBDCs, from various perspectives including AML/CFT and privacy concerns. The Fund needs to deepen its analysis as early as possible, and we believe the Fund can contribute to the discussion by utilizing its macro-economic expertise. We would also like to emphasize the importance of

providing necessary policy advice to the developing countries which are the potential users of digital currencies in order to avoid the spread of undesirable *de facto* standards. Japan is willing to provide further support, including financing contributions to CD, on this front.

Special Drawing Rights (SDR)

We reiterate our support on the proposal of the general allocation of SDR. We expect the new allocation to be put in place together with concrete measures to secure transparency and accountability as early as possible. In addition, we would like staff to further elaborate on their comprehensive analysis and views on the background regarding the long-term global need and future implications of the new allocation in the Board meeting later this month. We also support the staff's plan to discuss voluntary post-allocation channeling in parallel with the new allocation. In this regard, Japan is of the view that scaling-up the PRGT should be considered as a top priority. We are open to consider other options, but it is important for us to keep in mind that we should secure the liquidity and safety of the SDR as foreign reserves in any case. As to the plan to lend SDR to MDBs like the World Bank, Japan will not be able to participate because we cannot use foreign reserves for development support purposes.

Resource of the Fund and Fund's Budget

We attach great importance to the discussion on GRQ, in light of the Quota's critical role for the Fund as a quota-based institution. However, we would like to reiterate that the Fund should make further use of its borrowed resources, which are more flexible and agile resources for the Fund, and to incorporate such resources into its governance framework. While the new allocation of SDR will enable the Fund to rapidly provide international liquidity under the current crisis situation, such prompt responses are difficult to achieve merely by the Quota increase. Therefore, in the discussions of the GRQ, it is important to take into account the "rapidness" as well as the "amount" of the international liquidity increase.

On the budget of the Fund, we welcome that the FY2022 budget is maintained within the flat real budget envelope. When we consider the temporary increase of the budget to tackle the crisis, it is necessary to make every effort to reprioritize and reallocate the budget first, and staff should clearly explain the necessity of the increase to the Board with reasonable and objective rationale.

Diversity

Ensuring diversity within the Fund is crucial in providing effective support to member countries and enhancing its traction, especially under the current crisis. In this regard, we welcome the plan to have a discussion on the "Diversity and Inclusion Report" in early 2022.