



# *Office Memorandum*

To: Members of the Executive Board

February 4, 2014

From: The Secretary

Subject: **Mr. Shinohara's Report to the Board on His Visit to Japan, January 23–24, 2014**

Attached for the **information** of Executive Directors is Mr. Shinohara's report to the Executive Board on his visit to Japan, January 23–24, 2014.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

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## Mr. Shinohara's Report to the Board on His Visit to Japan

January 23–24, 2014

During January 23-24, 2014, I participated in two seminars in Tokyo co-organized by the Fund, one jointly with the ASEAN+3 Macroeconomic Research Office (AMRO) and the other with Hitotsubashi University, and used the opportunity also to give a number of interviews to Japanese and international media.

The inaugural AMRO-IMF seminar was held on January 23, with participation of officials from ASEAN+3 countries and Fund staff. It followed last May's call by ASEAN+3 ministers of finance and central bank governors to further strengthen the Chiang Mai Initiative Multilateralisation (CMIM) and engage more closely with the IMF and other multilateral institutions. In their Delhi communiqué, ministers and governors reaffirmed their commitment "*...to further strengthening the CMIM as part of the regional financial safety net. Recognizing that enhancing the use of local currencies for settlement in trade, investment and capital transactions, and reducing the volatility of capital flows in and out of the region would help mitigate the impacts of external risks, [they] endorsed further studies on "Ways to Improve the Use of Local Currencies under the CMIM" and "Joint Response to the Capital Flows at the ASEAN+3 Level". [They] instructed the Deputies to consider ways to seek an effective cooperative relationship with the IMF and other multilateral financial institutions in the areas of surveillance, liquidity support arrangement and capacity development.*" In this context, ministers and governors "*also encouraged AMRO to further enhance cooperation with relevant multilateral and regional financial institutions including the Asian Development Bank (ADB), the IMF, and the Bank for International Settlements (BIS) particularly in areas which will be able to bolster institutional capacity of AMRO.*"

From the Fund's perspective, the AMRO-IMF seminar represented an important step forward in our cooperation with AMRO in the areas envisaged by ASEAN+3 ministers and governors. It also represents useful relationship-building during non-crisis times with AMRO, an important emerging regional institution, and with CMIM more broadly. The seminar covered policies to promote the use of local currencies, an under-researched but important topic for some ASEAN countries in transition, and with the experience with macroprudential policies in Asia. Participants concurred that de-dollarization needs to be gradual and market-driven, and should combine sound macro policy and market-friendly micro measures. In [my speech](#), I stressed that increased capital flow volatility will likely remain a preoccupation for policy makers in Asia. While the region has been at the forefront in applying macroprudential policies, looking ahead, further use of such tools would be important to reduce vulnerabilities. A key question will be how to enhance the effectiveness of macroprudential policies without undermining the efficient allocation of capital.

The third annual conference co-organized by Hitotsubashi University and the Fund's regional Office for Asia and the Pacific and funded by Japan, was held on January 23-24. The topic was "Unconventional Monetary Policies: Looking Ahead." Participants represented developing and emerging country central banks and regulatory agencies, the U.S. Fed and the Bank of Japan. By bringing together policy makers from UMP and non-UMP countries, the conference provided a platform for an engaged discussion. In [my opening remarks](#), I argued that the first positive effect of UMP came early, when aggressive liquidity provision by central banks restored market functioning. Beyond this, UMP has supported global economic activity. I argued that, on balance, UMP in advanced economies has been beneficial also for non-UMP countries. At the same time, financial stability can be undermined during a prolonged period of capital inflows and inexpensive foreign financing. Since last summer, signs of instability have indeed appeared, especially in response to the rising expectations of UMP exit by the Fed. A safe exit needs to be well planned, well communicated, and contingent on the strengthening of the economy. The ensuing discussion focused on the need to refine further forward guidance to affect expectations more effectively; the role of economic policies more broadly in achieving a sustained economic revival; and non-UMP countries' policy initiatives to reduce their vulnerability to spillovers from UMP exit.

The media questions centered on the Japanese economy and the outlook for "Abenomics." In that connection, I noted that further easing by the Bank of Japan would not be needed as long as inflation is rising toward 2 percent; that while the yen is moderately undervalued this would not be seen as problematic as long as a full package of reforms is implemented; and that a lowering of corporate tax rates would lend welcome support to Japan's economy.