

International Financial Symposium

The Era of Uncertainty: Can Global Economy Recover Stability?

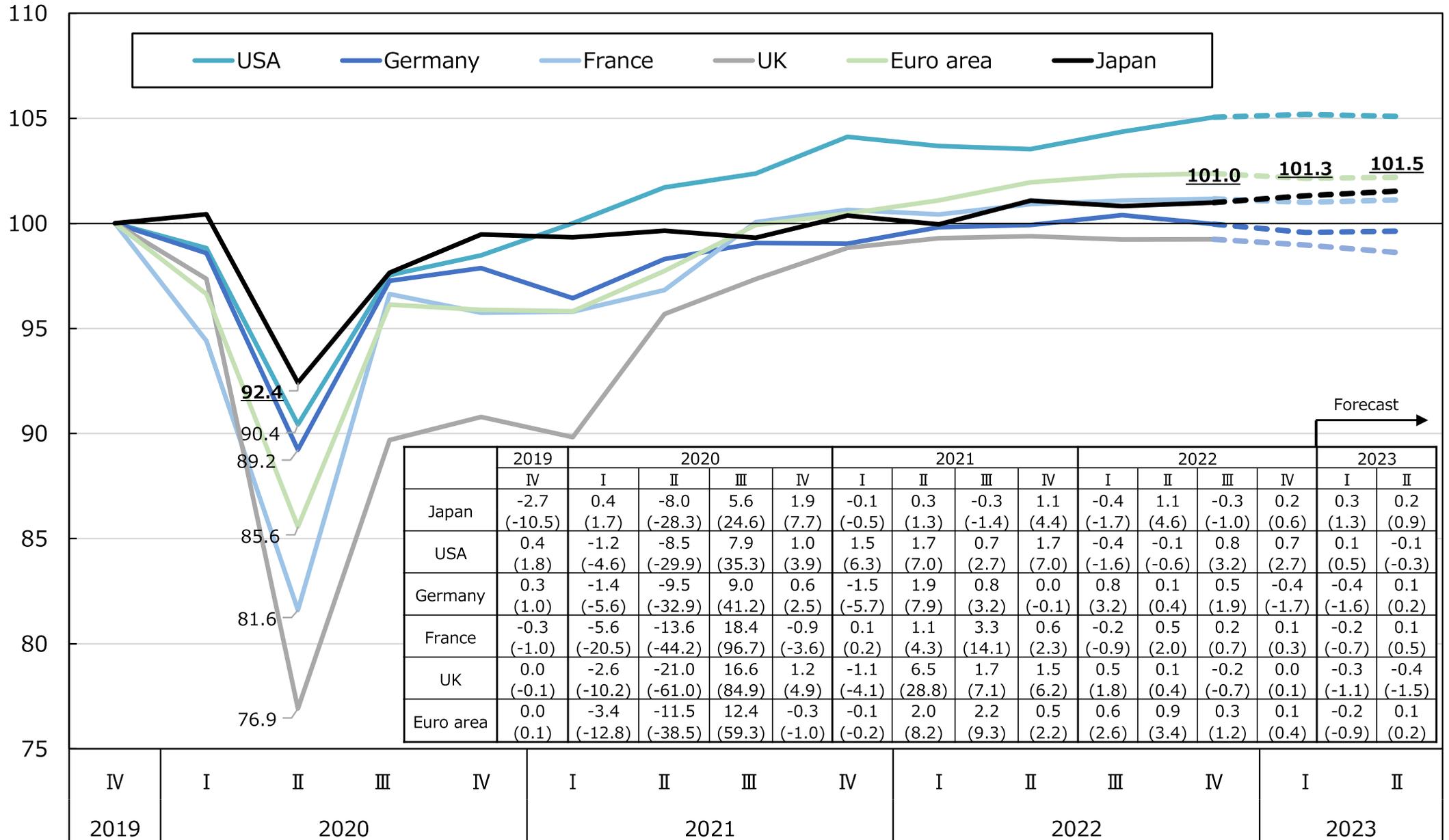
Vice-Minister of Finance for International Affairs

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March 9th, 2023

International Comparison of Real GDP

(2019 IV = 100)

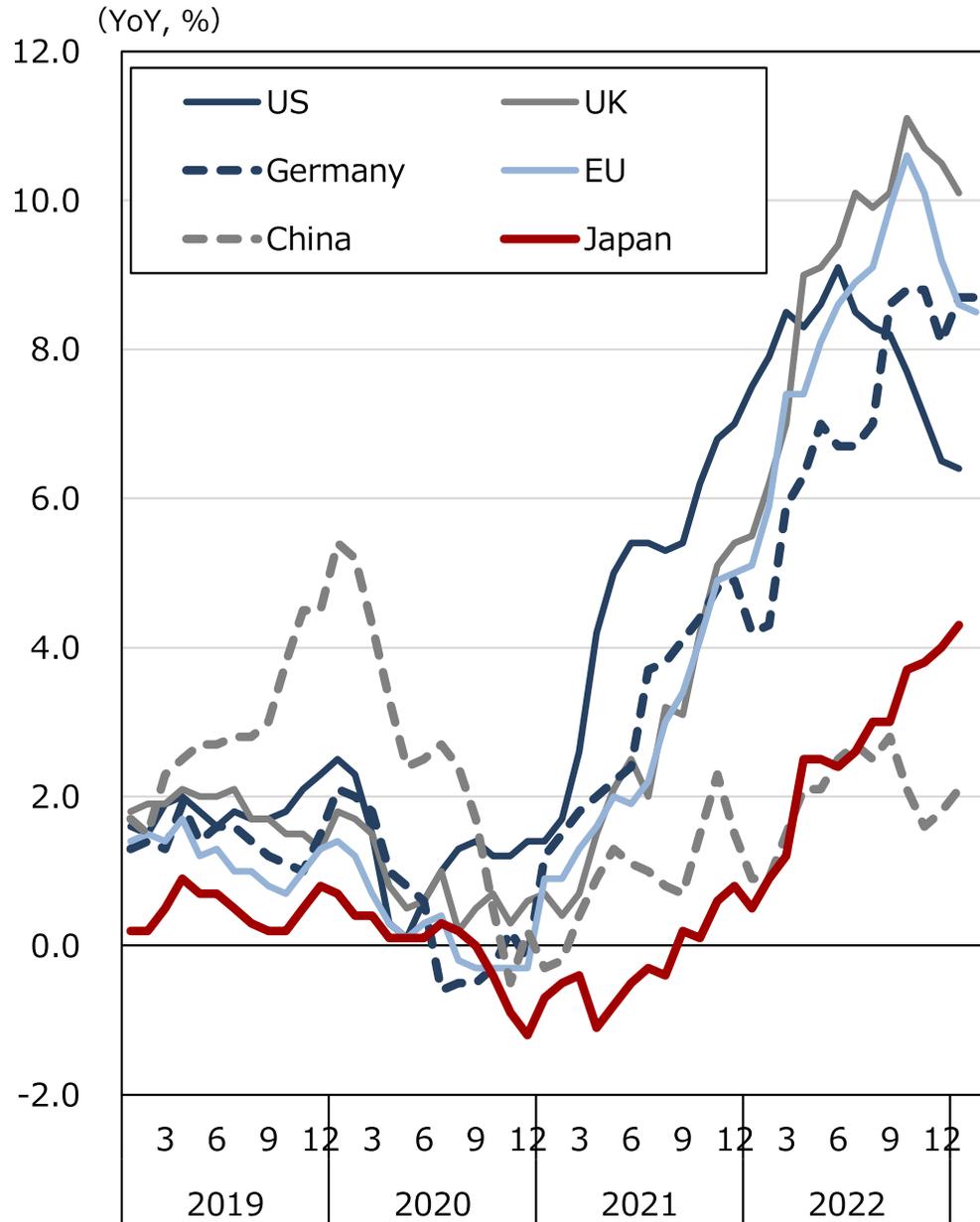


(Note) Projections are calculated using the 2022 Q4 outcomes and growth forecasts by Bloomberg (as of March 6) and ESP forecast for Japan (As of February 9)

(Source) Cabinet Office, Japan Center for Economic Research, Department of Commerce (USA), Congressional Budget Office, Federal Statistical Office Germany, Institut national de la statistique et des etudes economiques (France), European Commission, Bank of England,

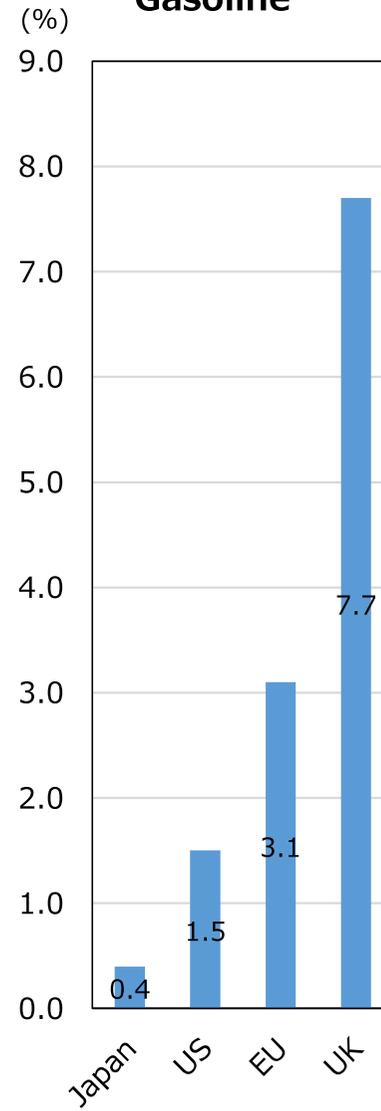
CPI: cross-country comparison

CPI

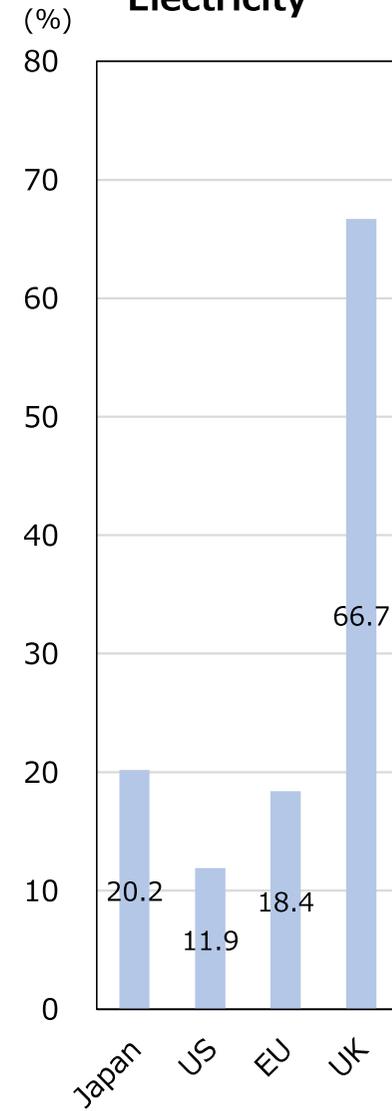


Inflation rates for major items (January 2023, YoY)

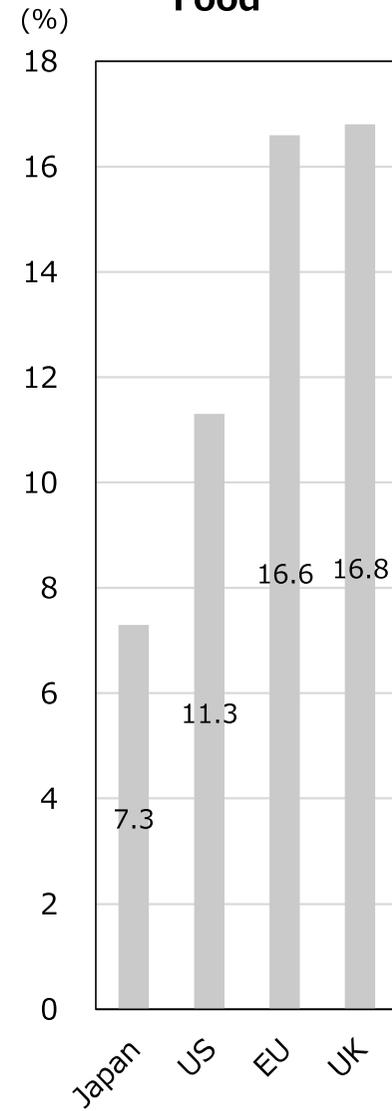
Gasoline



Electricity



Food



(Source) Bloomberg, Ministry of Internal Affairs and Communications, United States Department of Labor, Eurostat, Office for National Statistics (UK)

(1) Investment in and distribution to people

- Support upskilling and promote diverse workstyles
- High-quality education
- Promoting increase minimum hourly wages (at least 1,000 yen on a national weighted average)
- Doubling Asset-based Incomes Plan [formulated on November 28th, 2022]
 - Drastic expansion of NISA : the amount of account purchases to 56 trillion yen by 2027
(The new NISA system will start from January 2024, such as indefinite tax-exempt holding period)
 - Reform of iDeCo (e.g. Raising the eligibility age)

(2) Investment in science, technology and innovation

- Driving drastic expansion of investment in quantum technologies/AI/ biotechnology and medical care through public-private

(3) Investment in startups

- Startup Development Five-year Plan and its Roadmap [formulated on November 28th, 2022]
 - Increasing the scale of investment in startups to more than 10 trillion yen by 2027
 - Creating 100,000 startups to make Japan one of the world’s leading startup clusters

(4) Investment in green transformation (GX)

- Basic Policy for realizing GX [formulated on February 10th, 2023]
 - Issuing “GX Economy Transition Bonds” for 10 years starting in FY2023
 - Carbon Pricing to be phased in introducing “Carbon Surcharge” to companies importing fossil fuels from FY2028, and in starting auction in Emission Trading in FY 2033

(5) Investment in digital transformation (DX)

- Expanding the use of Individual Number Cards (“My Number Card”)
- Finalizing the policy for the review of 10,000 laws including analog regulations [December 21th, 2022]

IMF World Economic Outlook (published in January 2023)

(GDP growth rate yoy, unit : %)

	2021					2022					2023					2024		
	22.07	22.10	23.01	gap from 22.07	gap from 22.10	22.07	22.10	23.01	gap from 22.07	gap from 22.10	22.07	22.10	23.01	gap from 22.07	gap from 22.10	22.10	23.01	gap from 22.10
Japan	1.7	1.7	2.1	0.4	0.4	1.7	1.7	1.4	▲ 0.3	▲ 0.3	1.7	1.6	1.8	0.1	0.2	1.3	0.9	▲ 0.4
US	5.7	5.7	5.9	0.2	0.2	2.3	1.6	2.0	▲ 0.3	0.4	1.0	1.0	1.4	0.4	0.4	1.2	1.0	▲ 0.2
Euro Area	5.4	5.2	5.3	▲ 0.1	0.1	2.6	3.1	3.5	0.9	0.4	1.2	0.5	0.7	▲ 0.5	0.2	1.8	1.6	▲ 0.2
Germany	2.9	2.6	2.6	▲ 0.3	0.0	1.2	1.5	1.9	0.7	0.4	0.8	▲ 0.3	0.1	▲ 0.7	0.4	1.5	1.4	▲ 0.1
Italy	6.6	6.6	6.7	0.1	0.1	3.0	3.2	3.9	0.9	0.7	0.7	▲ 0.2	0.6	▲ 0.1	0.8	1.3	0.9	▲ 0.4
UK	7.4	7.4	7.6	0.2	0.2	3.2	3.6	4.1	0.9	0.5	0.5	0.3	▲ 0.6	▲ 1.1	▲ 0.9	0.6	0.9	0.3
Advanced Economies	5.2	5.2	5.4	0.2	0.2	2.5	2.4	2.7	0.2	0.3	1.4	1.1	1.2	▲ 0.2	0.1	1.6	1.4	▲ 0.2
Asia	7.3	7.2	7.4	0.1	0.2	4.6	4.4	4.3	▲ 0.3	▲ 0.1	5.0	4.9	5.3	0.3	0.4	5.2	5.2	0.0
China	8.1	8.1	8.4	0.3	0.3	3.3	3.2	3.0	▲ 0.3	▲ 0.2	4.6	4.4	5.2	0.6	0.8	4.5	4.5	0.0
India	8.7	8.7	8.7	0.0	0.0	7.4	6.8	6.8	▲ 0.6	0.0	6.1	6.1	6.1	0.0	0.0	6.8	6.8	0.0
Emerging Market and Developing Economies	6.8	6.6	6.7	▲ 0.1	0.1	3.6	3.7	3.9	0.3	0.2	3.9	3.7	4.0	0.1	0.3	4.3	4.2	▲ 0.1
World	6.1	6.0	6.2	0.1	0.2	3.2	3.2	3.4	0.2	0.2	2.9	2.7	2.9	0.0	0.2	3.2	3.1	▲ 0.1

Japan's Financial Sanctions against Russia and Belarus

- In close cooperation with the international community, including the G7, the following measures were taken against Russia and Belarus

Measures in the Financial Sector

1. Prohibition for the Russian government from issuing and circulating new sovereign bonds in Japan
2. Add securities of specific Russian banks with shorter maturities (more than 30 days) to the list of the prohibition from issuing securities in Japan.
 - ✂The previous prohibition applied to securities of specific Russian banks with a redemption period exceeding 90 days.
3. Immobilizing the assets of the Russian Central Bank
4. Asset freeze targeting specific Russian and Belarusian financial institutions
 - 12 Russian: Bank Rossiya, Development Export-Economic Bank(VEB), Promsvyazbank, VTB, Bank Otkritie, Sovcombank, Novicombank, Sberbank, Alfa-bank, Credit Bank of Moscow, Russian Agricultural Bank, Rosbank
 - 4 Belarusian: Belagroprombank, Bank Dabrabyt, Development Bank of the Republic of Belarus, Belinvestbank
5. Request to VASP(Virtual Asset Service Providers) to pay attention to sanctions and to strengthen monitoring.
6. Prohibition of new FDI (Foreign Direct Investment) to Russia and projects associated with Russia
7. Partial Amendments to the Foreign Exchange and Foreign Trade Act (FEFTA)
(Strengthening the Effectiveness of Sanctions on Crypto Assets)
8. Prohibition on providing trust, accounting, and other services to Russia
9. Prohibition on imports of gold of Russian origin
10. Prohibition of providing related services which enable maritime transportation of Russian crude oil and petroleum products that are purchased above the price cap (Price Cap)

Asset Freeze Measures for Individuals and Entities

1. Russian persons: 921 individuals and 129 entities in total
 - ✂Including oligarch, officials from the eastern and southern regions of Ukraine, etc.
2. Belarusian persons: 19 individuals and 12 entities in total

G7 Finance Ministers and Central Bank Governors' Meeting (Bengaluru, February 23, 2023)

On the eve of the one-year mark of the start of the war (23 February, 2023) , G7 FMCBG was held in Bengaluru, reaffirming **G7 countries' unwavering support for Ukraine, unity in condemning Russia's war of aggression and the tragic loss of life and destruction of property resulting from it.**

[Unwavering support for Ukraine]

- Increasing the G7 countries' commitment of budget and economic support to \$39 billion for 2023
- Urging the IMF to deliver a credible, ambitious, fully financed and appropriately conditioned IMF program by the end of March 2023
- Continuing joint efforts to support and contribute to Ukraine's recovery and reconstruction

[Unity in condemning Russia's war of aggression]

- Re-emphasizing the G7 countries' shared commitment to their coordinated economic measures in response to Russia's war of aggression (*See the slide 5*)
- Preventing Russia from profiting from its war, while supporting stability in global energy markets:
 - Price caps are imposed for not only on seaborne Russian-origin crude oil, but also on petroleum products.

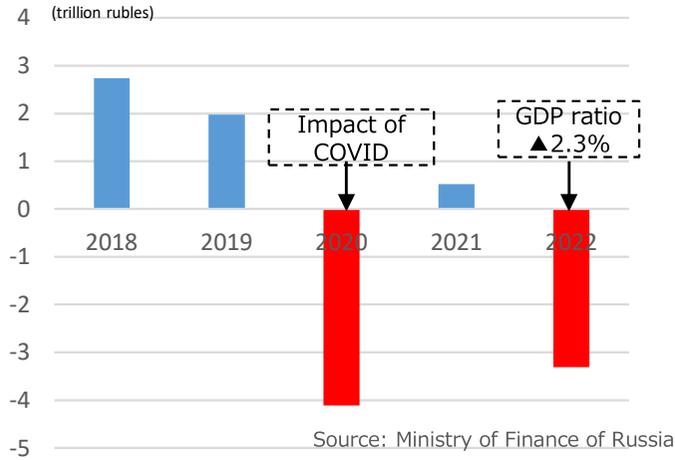
[Impact of Russia's war on the global economy]

- Russia's prolonged war of aggression has exacerbated global economic challenges. Noting that low- and middle-income countries are disproportionately affected by Russia's war of aggression and associated global challenges, we commit to step-up our efforts and contribute to the G20 agenda to support them.

Economic situation in Russia (1)

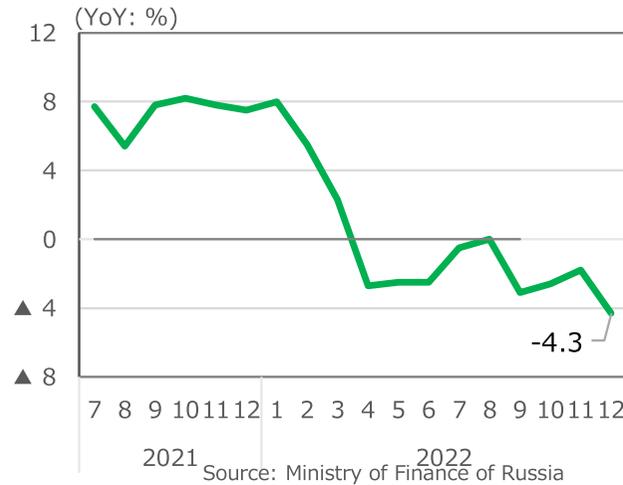
Fiscal Balance

○ The budget deficit increased due to an increase in wartime-related expenditures and a decrease in tax revenues due to a decline in oil prices and an economic slowdown.



Industrial production

○ A downward trend compared to the same month of the previous year



Retail sales

○ Persistently low compared to the same month of the previous year



GDP forecasts by major international organizations

○ The IMF has revised its Russian GDP growth forecast for 2023 upward (-2.3% → 0.3%). This is partly due to the expansion of wartime-related spending pushing up GDP.

engine	Publicati on Date	2022	2023
IMF	2023.1	▲2.2%	▲2.3% (October) ⇒ 0.3%
World Bank	2023.1	▲3.5%	▲3.3%
OECD	2022.11	▲3.9%	▲5.6%
Russia Ministry of Economy	2022.9	▲2.9%	▲0.8%
Bank of Russia	2022.10	▲3.0%-▲3.5%	▲1.0%-▲4.0%

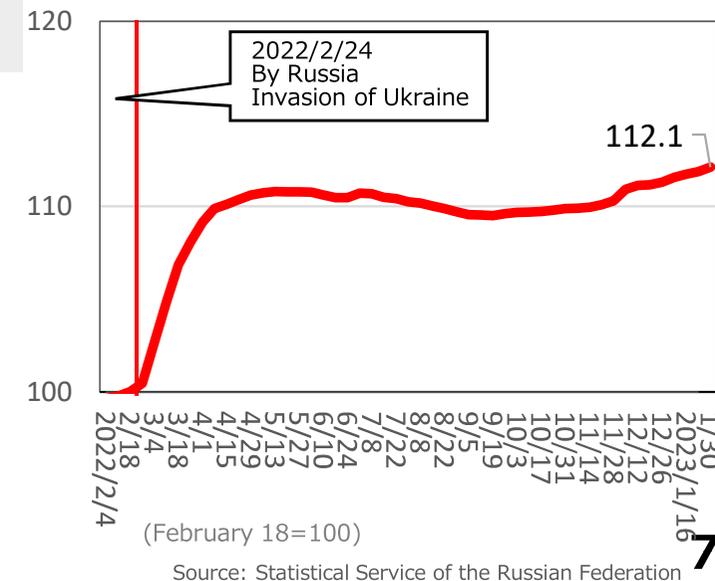
Trends in automobile production

○ Domestic automobile production in 2022 has decreased by 67% from the previous year, hitting the lowest since the collapse of the Soviet Union.



Changes in prices in Russia

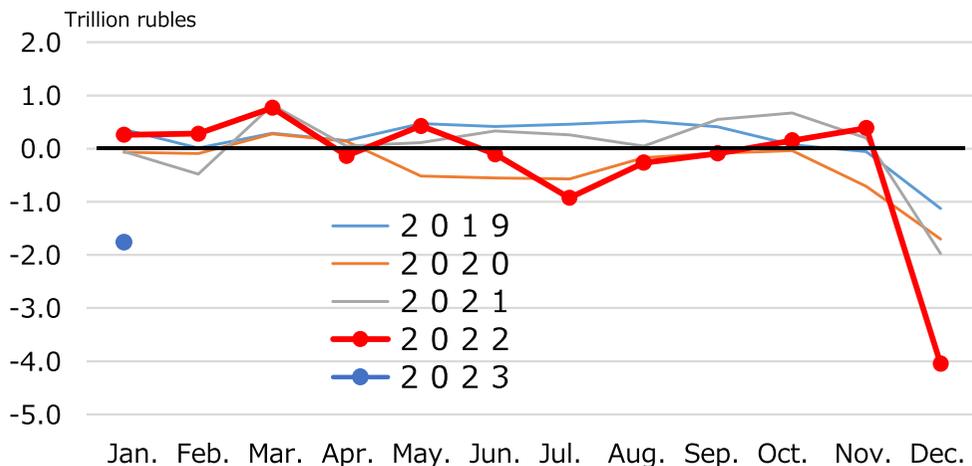
○ The consumer price index remains high.



Economic Situation in Russia (2) (Public Finance)

Fiscal Balance

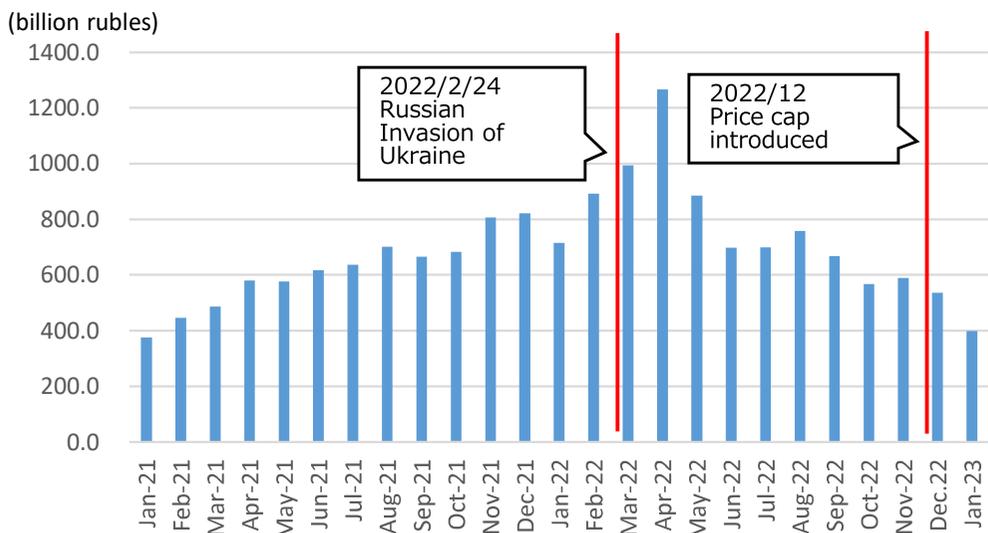
○ The budget deficit is expanding since the end of 2022.



Source: Created by the Ministry of Finance based on data from the Ministry of Finance of Russia

Oil revenues in Russia

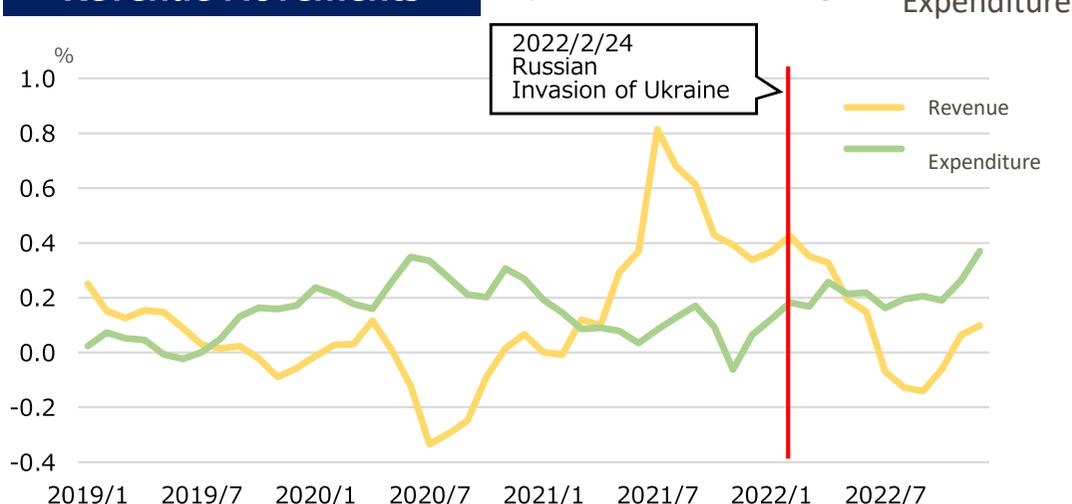
○ Since the introduction of the price cap, Russia's oil revenues have been declining.



Source: Ministry of Finance of Russia

Appropriations and Revenue Movements

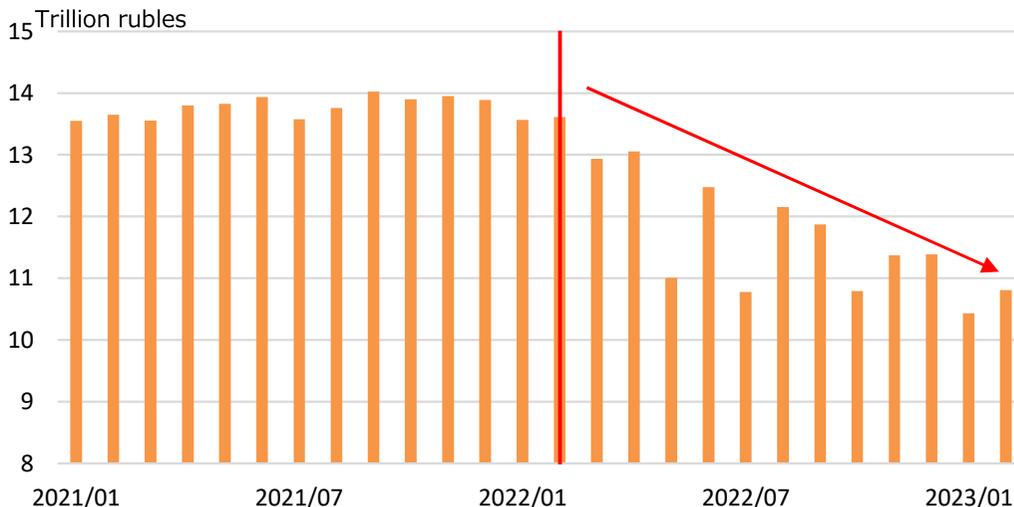
(YoY, 3-month moving average)



Source: Created by the Ministry of Finance based on data from the Ministry of Finance of Russia

Changes in sovereign wealth funds (national welfare funds)

○ In order to compensate the budget deficit, the government sells the assets of its rainy-day's fund (National Welfare Fund) it reserved from past energy revenues.



Source: Ministry of Finance of Russia

G20 Finance Ministers and Central Bank Governors' Meeting (Bengaluru, 24-25 February 2023)

- ◆ All members except for Russia and China agreed on the paragraphs on the war in Ukraine (negative impact on the economy, condemnation of Russia, refusal to use or threaten nuclear weapons), which was taken from the G20 Bali Leaders' Declaration.
- ◆ The other paragraphs were agreed upon by all G20 finance ministers and central bank governors.

MDBs : Strengthening MDBs, given the scope and complexity of transboundary challenges and the resultant increase in demand on their lending resources

IMF SDR channeling: Welcoming the pledges of \$87 billion to meet the total global ambition of \$100 billion

Debt

- Recognizing the urgency to address debt vulnerabilities in low and middle-income countries
- Stepping up the implementation of the Common Framework in a predictable, timely, orderly and coordinated manner
- Calling for a swift conclusion/progress of individual treatment for Zambia, Ethiopia and Ghana, Sri Lanka
- Working towards enhancing debt transparency and looking forward to the results of the voluntary stocktaking exercise of data sharing with IFIs * *All members agreed (in October 2022, one member emphasized the importance of MDBs participating in debt relief)*

Infrastructure investment : Developing a set of voluntary and non-binding principles that reflect a shared understanding for financing the cities of tomorrow

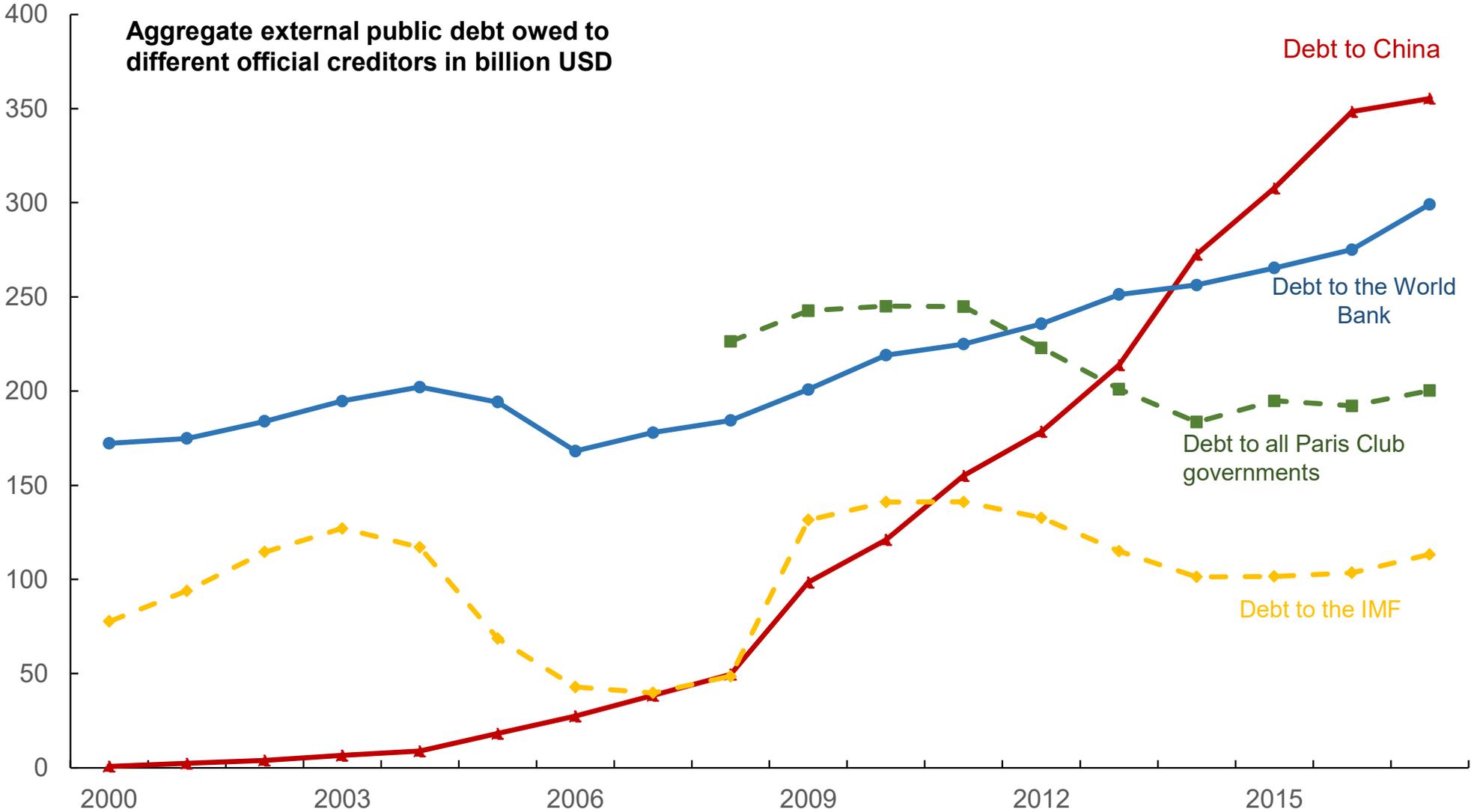
Sustainable Finance : Calling for further efforts to advance actions in sustainable finance, including areas such as transition finance framework

Global Health : Developing a strategy of Joint Finance and Health Task Force to support a global response to future pandemics (e.g. a report on best practices and exploring how surge financing mechanisms)

International taxation : Reaffirming our commitment to the swift implementation of the OECD/G20 two-pillar international tax package

Financial sector : Welcoming ongoing work by the FSB and international standard setters to ensure that the crypto-assets ecosystem is closely monitored and subject to robust regulation, supervision, and oversight to mitigate potential risks to financial stability

Official creditors of aggregate external public debts



Source: Figure 9 from Horn, Reinhart and Trebesch (2021) 'China's Overseas Lending' *Journal of International Economics* vol 133.

▲ Debt to China
 ■ Debt to Paris Club governments
 ◆ Debt to IMF
 ● Debt to World Bank

Current situations on debt issues in low- and middle-income countries

Background

- **The Paris Club**, a group of advanced economies, had previously taken a leading role to address debt issues of developing countries. With an increased lending to low-income countries (LICs), **China, today's largest creditor**, has replaced it. Involvement of China in debt treatments is crucial to address LICs' debt issues.

Note: Some research institutes point out that China's opaque loan contracts include clauses that prevent disclosure of information and debt treatment on a fair burden sharing. It is also reported that, in some cases, China secured profits from natural resources, infrastructure, and other assets of debtors that fell in arrears (debt trap).

- **The G20 and the Paris Club** agreed on **the Common Framework for debt treatments** in November 2020, under which creditors, including China, address LICs' debt issues in a coordinated manner. **Chad, Ethiopia, Zambia, and Ghana** have requested debt treatments under the Common Framework (CF).
- **Sri Lanka** (non-CF eligible country) **has suspended payments of its external debt** since April 2022, given the deteriorating economic situations.

Current Situations

- **Zambia**: The Creditor Committee (CC) for Zambia provided **financing assurances to the IMF-supported program in July 2021** followed by approval of the program at the IMF. This case is still under discussion at CC.
- **Sri Lanka**: The IMF staff and the authorities reached **a staff-level agreement** of the IMF-supported program **in September 2022**.
- **Chad**: CC for Chad **concluded an agreement on a contingent debt treatment in November 2022**. It provides protection against downside risks in the future, including lower oil prices.
- **The paragraph on debt issue was agreed by the G20 FMCBG in February 2023**. In the paragraph, the Chair summarizes that the G20:
 - steps up the **implementation of the Common Framework in a predictable, timely, orderly and coordinated manner**.
 - calls for a swift **conclusion of the debt treatments for Zambia and Ethiopia, and looks forward to the rapid formation for Ghana and to a swift resolution to Sri Lanka's debt situation**.
 - welcomes joint efforts by all stakeholders, including private creditors, to continue working towards **enhancing debt transparency** and look forward to **the results of the voluntary stocktaking exercise of data sharing with IFIs**.

Thank you for your attention.