International Monetary and Financial Committee

Twentieth Meeting
October 4, 2009

Statement by Jeung-Hyun Yoon
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On behalf of Australia, Micronesia, Kiribati, Korea,Rep.of , Marshall Islands, Micronesia, Federated States of , Mongolia, New Zealand, Palau, Papua New Guinea, Solomon Islands, Seychelles, Vanuatu, Samoa

Statement by Mr. Jeung-Hyun Yoon,
Minister of Strategy and Finance, Republic of Korea
to the International Monetary and Financial Committee
4 October 2009

On behalf of the constituency comprising Australia, Kiribati, Korea (Republic of), Marshall Islands (Republic of the), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, Samoa, Seychelles, Solomon Islands and Vanuatu

Introduction

1. On behalf of our constituency countries, I would like to express our appreciation to the Managing Director, the Deputy Managing Directors and Fund staff for their valuable support to the membership through these difficult economic times.

The Economic Outlook

2. There are positive signs that a slow, albeit fragile, global recovery has commenced, led by dynamic economies in the Asian region. This is supported by an improvement in global financial conditions and the apparent retrenchment of systemic stability risks.

3. While the focus is now shifting from crisis containment to sustaining the recovery, there is no room for complacency. The turn in the inventories cycle and extraordinary levels of public sector demand have succeeded in stabilizing activity in major advanced economies, but neither factor can support growth indefinitely. The outlook is for the recovery in private sector demand to be protracted in these economies as unemployment increases, households consolidate their balance sheets, and business investment remains subdued in the context of rising spare capacity. Credit growth is also expected to remain curtailed as the process of balance sheet repair and financial sector deleveraging continues.

4. In these circumstances, two factors are critical to the strength and sustainability of global economic recovery - the transition from public sector support to private sector demand, and the role that emerging market economies play as the engine of global growth.

Policies to Support the Recovery

5. The immediate priority is to follow through with announced policies to support confidence and restore growth. Premature exit from macroeconomic stimulus and financial support programs – before a sustained recovery in private sector activity takes hold - would place the sustainability of the recovery at risk.

6. While it would be premature for most countries to start unwinding macroeconomic and financial support measures, it is not too early to start articulating exit strategies. These strategies should be well-grounded in domestic conditions, recognizing that countries will emerge from the global recession at different speeds and strengths. Just as global coordination enhanced the effectiveness of national action when crisis measures were introduced, so will coordinated exit plans mitigate potential cross-border risks associated with their withdrawal, where we see a clear role for the Fund in facilitating coordination and monitoring the associated risks. For example, the Fund should work with other relevant bodies, especially the Financial Stability Board, in developing assessments of financial market normalization and transition paths for financial guarantees.

7. The rebuilding of financial sector balance sheets remains incomplete in many advanced economies and critical weaknesses in financial sector regulation revealed by the crisis are still being addressed. Greater progress in cleansing balance sheets and recapitalizing banks is critical for unlocking credit growth and lifting potential output. It is also important that the financial sector reforms necessary to lay the groundwork for strong and stable growth into the future are not jeopardized by difficult political dynamics or any false sense of security generated by the recovery in economic activity.

8. Progress in rebalancing demand - and addressing global imbalances - will shape the global economic landscape beyond the current crisis. The recent G-20 Leaders' Declaration asks the Fund to play an active role in this regard, by developing a forward-looking analysis of whether policies pursued by individual G-20 countries are collectively consistent with more sustainable and balanced growth trajectories to inform a process of mutual assessment. For current account surplus countries, growth strategies need to shift towards establishing the conditions for increased domestic demand. A large part of this adjustment must come from within Asia through policies that will promote a reduction in both corporate and household savings rates, promoting a shift in production to non-tradable sectors and supported by greater exchange rate flexibility. Equally, major current account deficit countries need to articulate credible strategies for achieving fiscal consolidation over the medium term and embark on productivity-enhancing structural reforms. In the absence of this, many major advanced economies will have little room to respond to future deteriorations in economic conditions. Further, to encourage emerging market economies to cooperate voluntarily in the rebalancing process, more active consideration should be given to strengthening bilateral and regional approaches for cushioning the impact of financial market volatility, including bilateral currency swap arrangements and regional currency cooperation.

9. The global recession has again raised the specter of protectionism and competitive currency devaluation. G-20 Leaders have reaffirmed their commitment to rejecting protectionism and restoring the flow of trade credit, calling on the WTO - together with other international bodies within their respective mandates - to monitor and report publicly on adherence to this undertaking. The Fund is one such body and therefore must play a pro-active role within its mandate to facilitate monitoring and reporting on these commitments,

providing candid assessments of instances of financial protectionism and competitive currency devaluation.

Program Support

10. The IMF has directly supported the economic recovery through the provision of substantial financial assistance and the allocation of SDRs. When we met in April, the IMFC agreed to increase the resources available to the IMF in support of both GRA and concessional lending. Significant progress has been made since then and our constituency countries are doing their share, with Korea pledging at least $US10 billion to the expanded New Arrangements to Borrow (NAB), and Australia $US7 billion. In terms of the Poverty Reduction and Growth Trust of the Fund, Korea has committed to delivering sizable contributions to both the loan and subsidy accounts in line with its quota share. However, more bilateral contributions are needed to meet the shortfall in the Fund's concessional resources and conclusion of the new NAB agreement remains elusive. Korea will take over from Japan as NAB chairman following the Annual Meetings and therefore we take this opportunity to thank Japan for their leadership and to pledge our commitment to finalising the expanded NAB agreement expeditiously.

11. The IMF has overhauled its general lending framework to make it better suited to country needs and streamlined conditions attached to loans. Foremost in these reforms was the introduction of two contingent credit facilities – the Flexible Credit Line (FCL) and High Access Precautionary Arrangements (HAPAs) – that provide insurance to members during periods of volatility. These are positive steps, but we must go further if we are to provide a credible alternative to inefficient and distortionary self-insurance policies. Therefore, we urge the Executive Board to consider the introduction of more flexible contingent credit options and further ways to strengthen the Fund's multilateral insurance role .

12. We also welcome recent reforms to the Fund's low-income lending facilities, reinforcing poverty reduction and growth as the basis of Fund concessional support while responding to the evolving needs of the Fund's low-income country membership. We call on the Fund to build on these reforms by strengthening its engagement with low-income countries that do not require the Fund's financial assistance. This includes the lower income Pacific Island countries within our constituency, where the populations have been hit hard by lower world demand and a decline in remittances. Surveillance and technical assistance within these countries can make a significant contribution to reducing vulnerability to external shocks and maintaining stability.

Surveillance

13. The current crisis has reaffirmed the importance of candid, even-handed and independent Fund surveillance. It has demonstrated the responsibility that member governments share for engaging constructively with the Fund through Article IV

consultations and financial stability assessments to first identify and then address emerging risks and vulnerabilities.

14. The joint Fund/FSB early warning exercise is an important vehicle in this regard and we therefore welcome its launch at these Annual Meetings. Done well, this work will provide a timely presentation of emerging economic and financial vulnerabilities and candid advice on how they should be addressed. We appreciate the efforts that have been made since the trial run at Spring Meetings to make the early warning exercise more forward-looking and dynamic, with a sharp policy focus. It is also important that the limits and potential dangers of relying too heavily on quantitative methods are recognized and therefore we underscore the need for a strong focus on overlaying the technical inputs with qualitative risk assessments, capitalizing on the FSB's expertise and the Fund's own bilateral surveillance activities. We see the early warning exercise as an important vehicle for strengthening the peer review mechanism at the political level.

15. We support the revised Statement of Surveillance Priorities (the Statement) and the increased emphasis on the design of exit strategies and policies required to sustain world growth. The three economic priorities – allow for an orderly unwinding of crisis-related policy interventions to ensure a sustained recovery; strengthen the global financial system; and promote a rebalancing of sources of global demand, so as to sustain world growth while keeping global imbalances in check - align with our views on where the Fund should be focusing its surveillance activities in the period ahead. Achieving these priorities requires strong ownership by policymakers and therefore we would favor explicit endorsement of the Statement by the IMFC.

16. We welcome the recent launch of the Financial Sector Assessment Program (FSAP) review and the emphasis placed on making the assessments more vigorous, comprehensive and flexible, while achieving better integration with Article IV surveillance. FSAPs are an important tool for promoting global financial stability. Therefore, greater emphasis should be placed on cross-border risks and updating the analysis more frequently, with prioritization targeted at systemically-important countries and informed by the results of the early warning exercise. The strengths of the joint Bank-Fund approach to the development elements, with strong client ownership, should also be preserved.

Governance

17. Integral to the Fund's effectiveness is its legitimacy. Therefore, it is crucial that the 14th General Review of Quotas achieve realignment of IMF voting shares with weight in the world economy. In this light, we welcome the recent agreement by G-20 leaders in Pittsburgh on a shift in IMF quota of at least 5 per cent from over-represented countries to under-represented countries, using the current quota formula as the basis to work from. The 14th General Quota Review is also an opportunity to restore quota as the basis of Fund lending, where recent analysis by IMF staff would support a substantial increase in the IMF's

permanent resources. The 2008 Board of Governors resolution on voice and participation provides the starting point for the 14^{th} General Quota Review and therefore we call on countries that are yet to finalize domestic legislative requirements to do so immediately.

18. Effective internal governance arrangements are also critical to the IMF's performance. The IEO and Eminent Persons Group reports showed that the IMF's corporate governance has not kept pace with international best practice and confirmed widespread dissatisfaction amongst stakeholders. These are complex, inter-connected and politically-charged issues. We are encouraged that these issues are now being discussed at the Executive Board and support the proposed reforms to IMFC processes and the call for a clear political commitment that IMF management will be selected independent of nationality. We look forward to making progress on issues related to voice and representation, such as voting shares and the size and composition of the Executive Board, during the current quota review. More broadly, we will continue to support reforms aimed at strengthening Ministerial engagement, re-orienting the Executive Board's surveillance activities towards cross-cutting and thematic issues, and establishing clearer lines of accountability between the Executive Board and Management.

19. We see merit in starting work towards a common vision of the Fund's role in the post-crisis global architecture. For example, we agree with the Managing Director that consideration should be given to broadening the IMF's formal surveillance mandate and placing greater emphasis on achieving macro-financial stability. We encourage the IMFC to consider how best to take the role and mandate issues forward following the Annual Meetings and look forward to substantive progress being made by the Spring Meetings.

20. Finally, on behalf of our constituency members, we extend our sympathy to the people of all the countries recently affected by natural disasters, including Samoa in this constituency, and call for support and assistance from the international community.