International Monetary and Financial Committee

Nineteenth Meeting
April 25, 2009

**Statement by Mr. Kyung-Wook Hur,
First Vice Minister, Ministry of Strategy and Finance, Korea
on behalf of the Hon. Jeung-Hyun Yoon,
Finance Minister of the Republic of Korea**

On behalf of Australia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Vanuatu

Statement by Mr. Kyung-Wook Hur,
First Vice Minister, Ministry of Strategy and Finance, Korea
on behalf of the Hon. Jeung-Hyun Yoon,
Finance Minister of the Republic of Korea
to the International Monetary and Financial Committee
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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 appreciation to the Managing Director, the Deputy Managing Directors and Fund staff for their sustained devotion to assisting the membership through the current economic turmoil.

2. The 2009 Spring Meetings are taking place in the midst of great instability, characterized by the worst global economic downturn and collapse in trade in many decades. The pace at which the world economy recovers depends primarily on the restoration of confidence, which will only be achieved through decisive policy action by national governments, cooperative international solutions and coordinated implementation. The Fund's mandate and global membership place it at the center of these efforts.

3. The Fund's crisis response role has come to the fore over the last year, mobilizing the institution's expertise and substantial financial resources to support the membership. The Fund has also made substantial progress on strengthening its lending toolkit and drawing initial lessons from the crisis. It is important that the IMFC build on this momentum by adding value to, and ensuring timely implementation of, the initiatives agreed by G-20 Leaders at the London Summit.

The Path Out of the Crisis

4. The priority at the April 2009 IMFC is to make progress towards a durable recovery in global economic activity. Achieving this depends critically on concerted and cooperative actions to restore financial sector health and on globally coordinated and sustained macroeconomic policy stimulus to boost demand.

5. The first steps towards restoring confidence in financial sector solvency and the flow of credit in major advanced economies are credible loss recognition for impaired assets and recapitalization of viable institutions. Policies and frameworks have been announced in major advanced countries for achieving these objectives, but substantive progress has been delayed in many cases by difficult technical and political considerations. The global

recovery rests on the resolution of these issues and we therefore strongly encourage authorities in major advanced economies to push ahead quickly and decisively. Korea's experience in overcoming the financial crisis in the late 1990s provides a useful benchmark for establishing pragmatic solutions for dealing with impaired assets. The agreed G-20 framework for restoring lending and repairing the financial sector also provides useful guidance in this regard.

6. Cooperative financial sector solutions are essential to avoid exacerbating cross-border strains and adverse international spillovers. The *Declaration on Strengthening the Financial System* commits G-20 countries, amongst other actions, to: reshaping regulatory systems to identify and take account of macro-prudential risks; expanding the perimeter of regulation and oversight to all systemically important financial institutions, instruments and markets; mitigating pro-cyclicality in prudential regulation; strengthening capital and risk management; implementation of new principles on executive remuneration; and improving standards on valuation and provisioning. Comprehensive implementation of commitments in the Declaration, together with vigorous supervision of regulated institutions, will address core weaknesses in existing regulatory frameworks and therefore we look forward to the progress report by the Fund and newly formed Financial Stability Board (FSB) to G-20 Finance Ministers and Central Bank Governors in November at their next meeting.

7. Globally coordinated and sustained macroeconomic stimulus is required to spur global growth, where the cumulative loss of output – and associated widening of output gaps - across advanced and developing economies has created a setting where the risks of doing too much at this juncture are clearly outweighed by the risks of doing too little. With policy interest rates in major advanced economies at or around the zero bound and central banks already expanding their balance sheets to inject substantial liquidity, fiscal policy has become the primary lever for providing additional stimulus in most advanced economies.

8. The case for substantial and coordinated fiscal action based on country-level assessments of fiscal space and with due regard to fiscal sustainability is compelling. In implementing fiscal stimulus packages, it is important that governments target measures with the maximum impact on economic activity and job creation, while taking full advantage of the opportunity to allocate additional resources to areas that will promote sustainable growth and development. G-20 Leaders called on the Fund to regularly assess the actions taken, and actions required, to accelerate a return to trend global growth and we encourage the Fund to prosecute this openly and critically.

9. The improvement in macroeconomic policy frameworks in low- and middle-income countries in recent years places these countries in a more favorable position to respond to the current crisis than in the past. For developing economies, the imperative of supporting aggregate demand through fiscal stimulus - while being attentive to medium-term fiscal sustainability - is equally important, although many face the additional challenge of

short-term external financing constraints. While central banks in most developing economies have lowered interest rates in response to the global downturn, they have been appropriately cautious in doing so to maintain incentives for capital inflows and to avoid disorderly exchange rate movements.

10. Nonetheless, emerging market and developing economies have experienced a substantial fall in trade and capital flows and the availability of private external financing is projected to remain highly curtailed, even though banking systems in many of these countries were largely unaffected by the initial turmoil. Consequently, large external financing gaps are emerging and calls on the Fund's resources are set to increase as the crisis unfolds.

Mobilizing Resources

11. This Meeting is a critical opportunity to make progress on boosting the IMF's resources, in line with *The Declaration on Delivering Resources Through the International Financial Institutions* by G-20 Leaders. We should be aiming to make substantive progress on expansion of the New Arrangements to Borrow (NAB), issuance of IMF bonds and increasing the Fund's concessional resources. We also look forward to urgent ratification of the 4th amendment to the Fund's Article of Agreement and the allocation of $US250 billion of additional SDRs, which are important for bolstering global liquidity. Bilateral borrowing arrangements, note issuance and expansion of the NAB are temporary solutions to achieve a substantial increase in resourcing during the period of the crisis. Over the medium-term, however, it is important that quota is restored as the primary basis of Fund lending and therefore we look forward to an ambitious outcome of the next general quota review within the timeframe established by G-20 Leaders.

IMF Surveillance

12. The current crisis has reaffirmed the importance of candid, even-handed and independent Fund surveillance. It has also 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. The joint Fund/FSB early warning exercise is an important vehicle in this regard. Done well, this work will provide a timely presentation of emerging economic and financial vulnerabilities and candid advice on how they should be addressed. It is incumbent on the membership to take heed of this work and respond accordingly.

13. The Statement of Surveillance Priorities (SSP) emphasizes the Fund's role in providing clear warning of risks to the global economy and assisting members to take mitigating actions. The four economic priorities – resolve financial market distress, strengthen the global financial system, adjust to sharp changes in commodity prices; and promote the orderly reduction of global imbalances – align with our views on where the Fund should be focusing its surveillance activities now and in the period ahead. We also reiterate our support for the four operational priorities identified in the SSP and the emphasis placed

on robust risk assessment, financial sector surveillance and real-financial linkages, bringing a multilateral perspective to bilateral surveillance and strengthened analysis of exchange rate policies and external stability risks.

14. While progress has been made prioritizing financial sector issues in the Fund's work, this remains the Fund's highest operational priority. The Fund must ensure that it has the right mix of people, with both financial markets and policy-making experience, recalibrating its skill mix to keep pace with financial innovation. It must also continue to develop and refine its financial surveillance toolkit, focusing in particular on improving the understanding of macro-financial linkages, strengthened risk identification and scenario analysis, in consultation with the FSB.

15. We look forward to the upcoming review of the Financial Sector Assessment Program (FSAP), with emphasis placed on making the assessments more vigorous, comprehensive and flexible as well as better integrating FSAP recommendations with Article IV surveillance. FSAPs also need to be updated more frequently, with prioritization targeted at systemically important countries and informed by the results of the early warning exercise. We welcome the commitment by all G-20 countries to undertaking a transparent FSAP process and again emphasise the importance of addressing risks and vulnerabilities that are exposed swiftly and decisively.

16. As policymakers focus on resolving the current economic crisis, looking beyond short-term considerations and drawing attention to medium-term policy objectives is another critical role of the Fund. In this regard, we welcome the focus in the *April 2009 World Economic Outlook* on the pace at which monetary stimulus will need to be withdrawn, the implications of the crisis and demographic trends for fiscal sustainability and the importance of establishing strengthened financial regulatory architecture. Related to the former, the Fund has a role in advising the membership on the coordination of exit strategies from crisis-related policies, including government deposit and wholesale guarantees. We also look forward to the Fund's engagement in the G-20's work on developing a charter for sustainable economic activity, which will provide the opportunity to engage on a broader set of medium- and long-term policy considerations.

17. The specter of protectionism and competitive currency devaluation looms large during the current crisis, as it has during previous global recessions. The Leaders Declaration from the April Summit reaffirmed the G-20's 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 we look forward to the Fund playing a pro-active role, focusing on the avoidance of financial protectionism - a particular concern for emerging market and developing economy members - and complementing the Fund's firm surveillance of exchange rates.

18. The 2007 Decision on Bilateral Surveillance reaffirmed the central importance of exchange rate analysis to bilateral surveillance. The Fund is now at the forefront of exchange rate analysis, with the technology improving substantially over a relatively short period of time. Over time, the 2007 Decision's emphasis on external stability has also translated into a greater focus on exchange rate policies and the implications for associated domestic policy frameworks, addressing one of our previous concerns. However, the requirement to arrive at explicit judgments on the exchange rate has complicated Article IV processes enormously and led to unreasonable delays in the surveillance of systemically important countries. There is a need to re-think implementation of the 2007 surveillance decision to restore the credibility of commitments under Article IV.

IMF Lending Facilities

19. We commend the Managing Director for his leadership in delivering substantial, and long over-due, reforms of the Fund's lending facilities and conditionality framework. Introduction of the Flexible Credit Line (FCL) and clarifying the terms of High Access Precautionary Stand-By Arrangements (HAPAs) have improved the Fund's capacity to help members prevent, and respond to, modern-day capital account crises. It is important for the credibility of these two instruments that the FCL and HAPA qualification framework are applied in a robust and even-handed manner. The FCL and HAPAs are permanent reforms that will help to contain the current crisis and contribute to the prevention of future crises.

20. To be effective, financing arrangements – precautionary and otherwise - must commit sufficient resources to supporting confidence in a country's capacity to meet its external obligations in the most challenging circumstances, as recognized in the absence of a hard cap on access under the FCL, the doubling of access limits under the GRA and recent refinements to the exceptional access criteria. Ensuring that the Fund can continue to meet members' financing needs will, in the first instance, require a sizable expansion of the NAB. Over the medium-term, however, it is important from both a governance and balance sheet perspective that quota is restored as the primary basis of Fund lending.

21. We welcome the recent doubling of financing limits for low-income countries under the Poverty Reduction and Growth Facility (PRGF) and Exogenous Shocks Facility (ESF) and the increased emphasis placed on the Debt Sustainability Framework. The next step is the reform of concessional lending instruments, where the Executive Board has clearly signaled support for a lending framework comprising three facilities: the PRGF; a concessional short-term financing facility similar to a Stand-By Arrangement; and a unified concessional emergency lending facility to address exogenous shocks and post-conflict situations. We look forward to the Executive Board taking decisions in this area in June.

IMF Governance

22. Providing the Fund with the resources and lending instruments to address the deepening global crisis can not proceed independently of longer term reforms to boost the

Fund's governance and legitimacy. An important element is realignment of IMF quota shares with weight in the world economy to enhance the Fund's legitimacy and effectiveness and therefore we encourage those members who are yet to ratify the April 2008 quota and voice package to do so swiftly. Achieving the January 2011 deadline set by G-20 Leaders for completion of the next general quota review will require work to start immediately. Therefore, we call on the Executive Board to move swiftly in establishing a timetable for the next round of quota and voice reforms and ask the Managing Director to report on progress at the 2009 Annual Meetings.

23. Effective internal governance arrangements are also critical to the IMF's performance. The *Independent Evaluation Office (IEO) Report on the Evaluation of Aspects of IMF Corporate Governance – Including the Role of the Executive Board* showed that the IMF's corporate governance has not kept pace with international best practice and confirmed widespread dissatisfaction amongst stakeholders with matters relating to the current roles and accountabilities of Management, the Executive Board and the IMFC. More than a year after receiving the IEO's report, the Executive Board has made no progress on the substance of the recommendations. Therefore we call on the IMFC to kick-start a credible process of corporate governance reforms by calling for the Executive Board to define a clear timetable for addressing the serious concerns captured by the IEO and look forward to a progress report by the Managing Director at the 2009 Annual Meetings.

24. Close cooperation between the IMF and the World Bank Group remains a key necessity, particularly in current circumstances when the skills and resources of the international financial institutions must be harnessed to ensure their effectiveness in addressing the present crisis.