International Monetary and Financial Committee

Twenty-First Meeting
April 24, 2010

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On behalf of Australia, Micronesia, Kiribati, Rep.of Korea , Marshall Islands, 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
24 April 2010

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

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 the valuable and sustained support that they have provided to the membership through these difficult economic times.

Sustaining the Global Recovery

2. Since late 2008, the global economy has been in systemic crisis. This crisis has differed from earlier episodes in several dimensions, notably in its origin in financial problems in large advanced economies and the strength of its transmission across the globe. Nonetheless, with the help of internationally-collaborated policy support, led by the IMFC and G20, the global recovery has evolved better than expected - albeit in an uneven fashion across economies.

3. While it seems that the worst of the crisis is now behind us, the outlook for global economic activity remains highly uncertain. In particular, as policy support subsides, the key question is whether private demand will take its place. Risks are generally tilted to the downside, mainly arising from the incomplete financial sector recapitalization and reform process and weak public and household balance sheets in some large economies. Thus, the current focus of economic policy is to ensure that the recovery is sustained and strengthened. There are five elements that I would identify as critical in this regard:

4. The first element is the rebalancing of demand necessary to ensure sustainable global growth. This will require the close cooperation of monetary, fiscal, and financial sector policymakers, along with substantial structural reforms, to ensure a smooth transition of demand from the government to the private sector and from economies with excessive external deficits to those with excessive surpluses.

5. Second, the crisis has given rise to a large increase in public sector debt. To guard against rising real interest rates, many countries need to adopt credible medium-term fiscal consolidation strategies to first contain the rise in public debt and then bring it down to more prudent levels. To be credible, these strategies should establish clear timeframes for delivering fiscal consolidation. One of the messages of the IMF's Spring 2010 World Economic Outlook is that a well-designed and credible fiscal reform program can support growth over the medium-term.

6. Third, credit channels will remain disrupted until the health of the financial sector is restored. As crisis response measures are being unwound, there is a need to move more decisively towards rebuilding financial sector balance sheets and completing the regulatory reform agenda toward a safer, more resilient and dynamic global financial system.

7. Fourth, even as economic activity recovers, some countries will experience high unemployment for an extended period, with higher economic and social costs than the headline unemployment statistics suggest. Policy makers must focus on reducing the potential for temporary joblessness to turn into long-term unemployment, with implications for potential output growth. It is also essential that we continue to resist protectionist pressures, both trade and financial.

8. Finally, it is clear that the appropriate timing, pace and mode of exit strategies depends on the pace of recovery, the government debt position and the health of the financial system in each individual country. Whereas many fast-growing emerging market economies are experiencing strong private sector demand, this is not the case for many major advanced economies, where fiscal and monetary stimulus will remain a key driver of growth through 2010

9. We look to the IMF to play a key role in addressing these challenges based on rigorous and candid surveillance.

Financial Regulatory Reforms

10. As the world economy stabilizes, there is a danger that financial market practices could return to the behaviors that precipitated the global crisis. Thus, I reiterate the importance of maintaining the momentum for financial regulation reforms, through continued development and calibration of regulatory standards and timely implementation of finalized and agreed international standards. International cooperation is essential, and it is also important that revised standards are flexible enough to take into account domestic circumstances.

11. There are inter-linkages between the issues being progressed by the different bodies contributing to the regulatory reform agenda, such as: the work of the Basel Committee on Banking Supervision on enhancing capital requirements; measures to deal with systemically important financial institutions by the FSB; and financial sector burden sharing by the IMF. Collaboration between the Fund, the FSB and the various regulatory bodies is essential to ensure the coherence and consistency of financial reform measures and to assess the cumulative costs and benefits of the proposed reforms so that they can be calibrated to each other.

12. Significant progress has been achieved already, with agreement reached in a number of key areas, including: strengthening of bank capital requirements for certain risky assets; reforming remuneration practices in the financial sector; and the establishment of supervisory colleges. Several other issues are still being worked on internationally, including how regulators (supervisors) can better address systemic risk, the too-big-to-

fail problem and how to ensure that financial institutions make a fair and substantial contribution to the costs of Government interventions to resolve financial crises. We are committed to playing a constructive role in reaching a timely and practical conclusion to these issues.

13. The Fund's principal roles in this area are to reinforce sound financial sector policies through surveillance and collaborate with the international standard setting bodies in drawing out macro-financial linkages. It must also continue to develop and refine its financial sector surveillance toolkit, focusing in particular on strengthened risk identification and scenario analysis, working in close collaboration with the FSB.

IMF Mandate

14. We look forward to a comprehensive debate on the Fund's mandate that generates broad agreement on the Fund's role in the modern world and the responsibility of both the institution and its members for system-wide stability.

15. ***Surveillance.*** Financial sector policies and multilateral surveillance are two key areas where the Fund's surveillance mandate requires clarification. The Fund has made significant strides in the integration of financial sector analysis into bilateral surveillance, consistent with the Fund's mandate to advise members on "financial policies toward the objective of fostering orderly economic growth with reasonable price stability" under Article IV. However, the Fund's role in fostering 'system-wide' stability is not well-defined and therefore we consider clarification of the Fund's remit in this area to be one of the key objectives of the mandate review. For our part, we favor a collaborative approach to improving the identification and analysis of systemic financial risks and strengthening peer review over related policies that recognizes the mandate and expertise of the Fund and bodies such as the FSB and BIS. We also see considerable scope to improve the effectiveness of the Fund's multilateral surveillance activities, including through greater focus on the most pressing systemically-important economic policy challenges and through procedures designed to enhance country buy-in. The challenge is to conduct the Fund's multilateral surveillance activities in a way that promotes the involvement of policy makers, complements bilateral surveillance and initiatives such as the G20 Mutual Assessment Process, along with forums such as the FSB. New processes and procedures will also require improving the candor and traction of the Fund's advice.

16. ***Lending.*** Alongside surveillance, an effective global financial safety net is an important backstop for the preservation of global economic and financial stability. The safety net was strengthened significantly during the recent crisis through reform of the IMF's facilities (including the introduction of the FCL), the US Federal Reserve's temporary swap lines and the commitment to treble IMF resources. However, more needs to be done. At their Pittsburgh Summit, G20 Leaders called on the Fund to strengthen its capacity to help members cope with financial volatility, reducing the economic disruption from sudden swings in capital flows and the perceived need for excessive reserve accumulation, thereby promoting a more balanced distribution of global demand. We

look forward to the Fund's work in this area, and the parallel work stream of the G20 experts group on financial safety nets, coming to fruition towards the end of this year

17. ***International monetary system.*** We also look forward to constructive dialogue on ideas for strengthening the international monetary system in the longer term. This should include an assessment of the flexibility and broader role of the SDR.

IMF Governance Reform

18. Aligning quota shares with weight in the world economy is the IMF's principal governance challenge. In the absence of a substantive realignment, the legitimacy of the IMF's voting structure will continue to be called into question, undermining the institution's credibility and effectiveness. Progress was achieved in reducing under-representation through the 2008 agreement on quota and voice and we urge all remaining countries to finalize implementation. The 14th General Quota Review is an opportunity to make further substantial progress and therefore we look forward to an ambitious outcome that achieves the objectives set by the IMFC and G20, namely: realigning voting share with weight in the world economy, based on current quota formula; achieving at least a 5 per cent shift to dynamic EMDCs from over-represented to under-represented countries, as an outcome of the quota review; and protecting the voice of the Fund's poorest members. These objectives frame the negotiations, providing the basis for reaching the deadline.

19. The outcome of the 14th General Quota Review should also leave the Fund with adequate resources to fulfill its mandate. The Fund's existing quota resources were not sufficient to support the Fund's global stability mandate during the recent crisis, requiring recourse to bilateral loan agreements and prompting an expansion of the NAB. More generally, the Fund's quota-based resources have not kept pace with developments in the world economy, including the significant expansion of global GDP, trade and capital flows since the last general quota increase more than a decade ago. In these circumstances, the case for a substantial increase in the Fund's quota-based resources is compelling, where we favor at least a doubling.

20. 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 look forward to progress on fundamental questions relating to the Fund's formal governance structures (e.g. Ministerial engagement and improving Board effectiveness), voice (e.g. voting majorities) and representation (e.g. Board size and composition) in parallel with the quota review, consistent with the IMFC's call for the Executive Board to continue to examine the full range of governance options.

21. A key deliverable for these Spring Meetings is the IMFC's adoption of an open, merit-based and transparent process for the selection of IMF management. The merit of current and previous Managing Directors is not in question. The problem is that their selection

was not independent of their nationality, undermining the legitimacy of their appointment and calling into question the Fund's preparedness to modernise. We are disappointed by the Executive Board's failure, to date, to agree to a process for the open, transparent and merit-based selection of management which addresses this concern. Moreover, reforming the process will achieve little in the absence of a political commitment to breaking the historical convention that the IMF Managing Director is a Western European. Therefore, we call for a statement by the IMFC that this convention will no longer apply and that, in future, the appointment of IMF Managing Directors will be made purely on merit, without reference to nationality or geographic preference.

Developments in the Pacific Island Countries

22. Economic growth fell sharply in most Pacific Island Countries (PICs) as the full impact of the global economic crisis hit trade flows. A few PICs have also experienced devastating natural disasters, adding to the economic and social pressures arising from the crisis. This confluence of shocks has reinforced the need for strengthened macroeconomic frameworks and structural changes to improve the resilience of these small island economies. Some PICs are taking important steps in this direction with the assistance of the Fund, such as through the ongoing work of PFTAC and the Fund's response to the tsunami in Samoa in 2009. We look forward to the Fund further building on the partnership with its PIC members in the period ahead.

Conclusion

23. The global crisis has levied an enormous economic and social cost. However, out of this crisis comes hope that the strength of international coordination during these difficult times will continue as we build the platform for strong, sustainable and balanced global growth. The joint dinner between the IMFC and G20 immediately preceding these Spring Meetings has reinforced this spirit of collaboration. As a member of the IMFC and the chair of the G20 Finance Ministers' process this year, I will strive to deepen international cooperation on matters central to the strength of the global economy in the period ahead.