



## **International Monetary and Financial Committee**

Twenty-Seventh Meeting  
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Statement by Oh-Seok Hyun, Deputy Prime Minister and Minister of Strategy  
and Finance, Ministry of Strategy and Finance, 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, Tuvalu, Uzbekistan, Vanuatu

**Statement by Mr. Oh-Seok Hyun,  
Deputy Prime Minister and Minister of Strategy and Finance, Republic of Korea  
to the International Monetary and Financial Committee**

**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,  
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**GLOBAL OUTLOOK AND POLICY PRIORITIES**

**Policy makers are taking unprecedented steps to alleviate near term risks and secure conditions for sustained recovery.** The *World Economic Outlook* contains welcome expectations of modest improvements in global economic and financial conditions, albeit with different levels of improvement across different regions: While Asia continues to exhibit robust growth and signs are emerging that a stronger recovery is taking hold in the US, conditions remains weak in Europe. The different growth speeds warrant flexible and tailored policy responses that should cover both structural reforms and risk management.

**While policy makers have acted to avoid the sharpest risks, other sources of vulnerability are growing and medium term challenges are significant.** These include weak and at times overleveraged balance sheets; high structural unemployment; and disorderly exits from unconventional monetary policy. Increases in global liquidity and growing risk appetite have made it easier to finance current account deficits, issue local currency bonds, and invest in fixed assets such as housing. Fragile market sentiment could quickly reverse and financial instability may recur if economic outcomes are on the downside. Growth risks also stem from the adjustment processes in household and corporate sectors. Breathing space created by unconventional monetary easing must be effectively used to address root causes of vulnerabilities in the global economy.

**Exceptionally accommodative monetary policy in key advanced economies has helped support demand, but has also raised the risk of volatile capital flows and spillovers for some economies.** The IMF should closely monitor the impact of unconventional monetary policy on emerging market economies. The IMF has been engaged in the formation of best-practice policy principles around the management of increasingly volatile capital flows. We welcome the new institutional view on capital flows, which includes recognition of the potential role that capital flow measures can play in managing unwelcome capital flow volatility, particularly where macroeconomic and financial stability could be threatened. Ongoing work on the interaction of monetary and macro-prudential policies has also found a role for effective macro-prudential policy in mitigating emerging risks to financial stability.

**While repair of the financial system is underway in a number of countries, more progress is needed in others.** This is notably the case within Europe, where further progress towards banking union, which would weaken the link between sovereigns and

banks, would be a useful part of an integrated package of measures to strengthen the resilience of the euro. The Global Financial Crisis has demonstrated the difficulties of regulating cross-border Global Systemically Important Financial Institutions, and the need to expand the regulatory perimeter to areas which have not previously been regulated. In this context, the Fund's work in support of the global regulatory reform agenda, and steps towards greater international cooperation on this front, are welcome. We strongly support the work agenda covering the "too-big-to-fail" problem, reform of over-the-counter derivatives, consistent accounting standards, and shadow banking regulations.

**Unwinding high public debt will have implications for fiscal policy and growth.** We welcome the advice on fiscal institutions to build credibility around policy over the medium term. Work on fiscal multipliers should help inform the composition and pace of fiscal adjustments. Growth potential might also have been lowered by persistent structural unemployment, with society's most vulnerable being disproportionately affected. As such, we strongly support the Fund's focus on jobs and growth. The Fund's role on macro-critical aspects of job creation and inclusive growth should be strengthened, which include greater diagnostic analysis and systematic policy advice, in collaboration with the efforts of the OECD, ILO and World Bank.

**We support the Fund's collaborative efforts to further strengthen financial safety nets,** including through a coordinated development of Regional Financial Arrangements, and work to develop global liquidity indicators with the BIS and G20. We also welcome the Fund's analysis of the underlying factors that determine reserve adequacy, which adopts a tailored approach is for country-specific surveillance.

**The new Integrated Surveillance Decision (ISD) will underpin the IMF's multilateral surveillance work.** It is appropriate that the Fund ask members to give due regard to the cross-country spillover effects of domestic policies, given that countries are increasingly vulnerable to external developments.

**It remains urgent to ratify the 2010 IMF Quota and Governance Reform,** and to complete the 15<sup>th</sup> General Review of Quota by January 2014 as agreed. Governance arrangements that reflect the changing global economic weights are essential to the Fund's legitimacy and effectiveness.

**The IMF must continue to take steps towards self improvement, in order to remain a relevant and trusted advisor.** The effectiveness of Independent Evaluation Office should be further enhanced so that it can bring in independent and objective views and better support the governance and transparency of the Fund. In addition, we strongly endorse efforts to fostering staff diversity throughout the institution, as also crucial to safeguarding the balanced views of the IMF.

## **DEVELOPMENTS IN THE PACIFIC ISLANDS**

**The Pacific Islands economies are committed to improving their economic frameworks** to deliver inclusive growth and integrate themselves into the global economy. Good progress is being made, with commitment from policy-makers and assistance from the international community. The Fund and the World Bank can play a pivotal and effective role in the Pacific, through high-quality surveillance that catalyzes donors, and the provision of much needed technical assistance – alongside the Fund’s own Pacific Financial Technical Assistance Center (PFTAC).

**We commend the Fund’s efforts to enhance understanding of the issues of small states.** This work paid special attention to the Fund’s Pacific Island members, where key challenges continue to be the threat of natural disaster and exposure to global climate change, geographic isolation, low economies of scale, and dependence on a narrow export base to name a few.

**We welcome the adjustments which have been made to the framework governing the Fund’s concessionary financing facilities,** funded through the Poverty Reduction and Growth Trust (PRGT). The package of changes will increase the flexibility of these facilities for the Fund’s most vulnerable members, while at the same time contributing to the sustainability of these resources. The introduction of a new “micro-state” category for eligibility to PRGT financing is particularly welcome, which will bring access to concessionary finances at the IMF into line with the World Bank, and has resulted in PRGT eligibility for three members of our constituency (Tuvalu, Marshall Islands, and Federated States of Micronesia). **We encourage the IMF to continue its proactive engagement in the Pacific,** including through leveraging regional conferences and meetings that provide opportunities to overcome the challenges of distance.