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Statement by the Hon. **KYU SUNG LEE**,
Governor of the Fund and the Bank for **KOREA**,
at the Joint Annual Discussion

Korea.s Progress: Implications for Global Financial Stability

**The Honorable Kyu-Sung Lee
Governor
Republic of Korea**

Mr. Chairman, Governors, Ladies and Gentlemen:

Allow me first to extend my warmest welcome to the Republic of Palau as a new member to the Fund and the Bank. I would also like to express my appreciation for all the assistance extended to Korea by the IMF, World Bank, and member countries.

Ten months or so into the IMF program, Korea has made remarkable progress in economic reform, and will continue to do so. Our reform strategy is to establish soundness with economic restructuring, and to enhance efficiency with economic liberalization and market discipline.

Most recently, Korea completed the first major round of financial sector restructuring. Korean banks cleaned up their balance sheets and were recapitalized to obtain a sound bank status, with BIS ratios of 10 to 13%. The Korean government has supported these rehabilitation efforts by means of fiscal resources of approximately US\$ 27 billion.

The capital market, including foreign direct investment, has been dramatically liberalized. Also, foreign exchange transactions will be progressively deregulated starting in April of next year, and full liberalization will be completed by the year 2000.

As to the corporate sector, firms are taking steps to reduce debt leverage, and are working with their creditor banks to devise corporate workouts, most of which will be completed by the end of this year. Internationally accepted standards in corporate governance, transparency, and accountability have already been instituted.

On the labor front, labor market flexibility was legally enacted, while the social safety net was correspondingly expanded. A tripartite dialogue among labor, business, and government has enhanced business-labor relations and ensured fair burden sharing.

All of this reform progress will help mitigate the severe credit crunch and economic contraction, which have been our greatest challenges. The greatly improved soundness of the banking sector and the ongoing corporate restructuring will help normalize credit flows. Korea.s current flexible interest rate policy and fiscal expansion will cushion economic contraction. In light of this, the Korean economy is expected to bottom out next year with mild positive growth, and from the year 2000, will have restored growth potential.

Governors, Ladies and Gentlemen:

Simply listing our recent accomplishments belies the difficulties we may have to face up ahead. The current financial turmoil threatens not only the health of financially sound nations but world economic growth as well, potentially making it even more difficult to contain the crisis at hand.

For this reason, immediate steps in macroeconomic policy coordination must be taken at the global level. In this regard, Korea highly welcomes the recent interest rate cut by the United States, as well as the emphasis that other leading countries are placing on sustainable growth policies. And, we hope that Japan's fiscal stimulus package will soon turn around its economy and promote recovery in the region.

Equally important is that we expand the options for afflicted countries in dealing with liquidity shortages. Given that the IMF has limited resources, we need to supplement its capacity for liquidity support. Specifically, we need new arrangements that enable crisis-hit nations to quickly regain access to the capital market.

President Clinton's new proposal is a positive step forward in this regard. Also, the New Miyazawa Initiative will help countries in the Asian region by providing much needed capital.

In the medium term, the international financial architecture must be updated for greater global stability and soundness. Enhanced surveillance, improved standards in transparency, and an effective early warning system will all go far toward warding off risks of contagion. We must also address the intrinsic instability associated with short-term capital flows.

Korea fully supports the efforts made by the IMF along these lines, and endorses the current discussions by diverse fora on such issues of global concern. It is imperative though, that relevant policy decisions are balanced so as to reflect the experiences of crisis-hit nations.

In closing, I must say that the IMF and IBRD have been an integral part of Korea's progress to date. The case being such, I feel particularly justified in supporting proposals for strengthening the Bretton Woods institutions.

Let us now put our best efforts together not only to quickly overcome the current crisis but also to enter the new millenium with a healthier and more stable global financial system.

Thank you.