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Statement by the Hon. **HUN-JAI LEE**,
Governor of the Fund for the **REPUBLIC OF KOREA**,
at the Joint Annual Discussion

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Mr. Chairman, Fellow Governors, Distinguished Guests, Ladies and Gentlemen,

Let me first welcome Mr. Rato to his new post of Managing Director of the IMF.

The Bretton Woods institutions have played an influential role in promoting financial stability and economic growth over the past six decades. They have done so despite the challenge of an ever-changing environment. Indeed, the past decade has seen financial crises in Latin America, Asia, and Russia, and the bursting of the IT bubble.

That said, so much has changed since the birth of these two institutions.

The time has come for these institutions to transform themselves, both substantially and quickly, to become better suited to face today's challenges.

In the new world, capital flows have increased exponentially, such that only 5 percent of these flows are now related to current account transactions. At the same time, the digital divide has become perhaps the greatest threat to our efforts to reduce income gaps.

These challenges are compounded by the existence of large economic imbalances that could start unwinding faster than expected and pockets of what may be called "housing bubbles", that could start deflating.

In this new world, trusty policymakers must continue to carry out prudent policies to maintain market confidence and stability.

Given present circumstances, patience in tightening monetary conditions will probably prove to be a virtue. At the same time, I do not think it wise to risk maintaining large imbalances and pressure points for too long. After all, while the market may be a voting machine in the short term, it is a weighing machine in the long term.

Given time, fundamentals will prevail. And in today's world, events can unfold and spread very quickly.

The IMF and the World Bank must respond vigorously to today's new challenges. They must each undertake major structural reforms.

The IMF must improve its effectiveness in surveillance and crisis prevention. This is particularly important now when huge, volatile capital flows can quickly give rise to crises, not only in the country of origin, but across the globe.

Concurrently, it is essential that the IMF enhance its financial resources to deal effectively with crises, once they develop.

The IMF must sizably increase its total quota. In this connection, I would also urge the membership to address imbalances in IMF quotas, where in some cases size of quota is clearly out of line with the economic weight and strength of particular member countries.

Beyond reform of the IMF, I would venture to suggest that the international community explore alternative means through which it can deal with problems that can stem from today's huge and volatile capital flows.

As for the World Bank, I believe there is a need to concentrate further the institution's efforts on reducing poverty around the world. Clearly, achieving the MDGs will be an essential element of this.

I believe we must make significant progress in both increasing financial support and improving aid effectiveness. So success of the IDA-14 Replenishment Meeting will be critical. So will be success in the implementation of the World Bank's agenda to improve aid effectiveness including through the Result-Based Management System.

In this connection, I have two specific recommendations regarding the Bank's poverty reduction efforts.

With continued advances in IT, overcoming the digital divide is likely to be a key factor in determining the success of poverty reduction efforts. So I believe the Bank should focus much more on bridging the digital divide, for example by focusing more on education aid.

Second, I believe aid effectiveness would be greatly improved if financing support became more user-oriented. Korea is ready to share its development experience, including its various e-experiences. At the same time, Korea is eager to expand the reach of its development aid.

Finally, Korea will shortly take an Executive Director seat at the IMF for the first time. Let me assure you that we will make maximum effort to properly represent all the members of our constituency.

Thank you.