

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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INTERNATIONAL DEVELOPMENT ASSOCIATION
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Statement by the Hon. **OKYU KWON**,
Governor of the Fund for the **REPUBLIC OF KOREA**,
at the Joint Annual Discussion

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Opening remarks

Honorable Managing Director de Rato, Honorable President Zoellick, Mr. Chairman, Fellow governors, Distinguished guests.

It is my great honor and privilege to address you today on behalf of the Korean government. And I thank the US government for the excellent arrangements of this meeting. Let me join my fellow governors in welcoming Mr. Zoellick as the new head of the World Bank. His forward-looking vision and leadership will surely add new momentum to the Bank's continued progress, as a leading development institution.

I also take this opportunity to pay my tribute to Mr. de Rato for his outstanding commitment and progress he made in advancing the IMF reform agenda for the past three years.

Comments on the stability of the global economy

Ladies and gentlemen,

The global economy has exhibited solid growth for the past few years. Also, the international financial market showed exceptionally strong performance.

However, the recent sub-prime mortgage crisis has brought about significant turbulence and uncertainties in the global financial market. Following the outbreak of the crisis, major central banks exerted immediate efforts to relieve liquidity shortages. Nevertheless, the adverse effects of the recent market turmoil are expected to affect the real economy. Prospects for global economic growth of next year are also likely to deteriorate.

The crisis was mainly triggered by weakened credit discipline in the recent past. Universally low interest rates and financial innovation led to excessive lending and complacency about risks.

The latest episode of turbulence presents an opportunity for us to revisit some fundamental principles that we should bear in mind.

First, the importance of financial market transparency cannot be emphasized enough in all circumstances.

The market's failure to properly detect and assess risks of structured financial products such as CDO was one major factor behind this crisis. In this sense, improving transparency in credit derivatives and its off-balance sheet exposures should be our top priority. Only greater transparency can restore investors' trust in financial products and institutions.

Second, I see more room for improvement in the current credit ratings system. This is the same problem that was brought to global attention ten years ago during the Asian financial crisis. The credit ratings system should be improved in a way that it stimulates competition among credit rating agencies and eliminate moral hazard.

Also, separating assessment and advisory functions of these entities will minimize conflict of interests and help sharpen the expertise of individual agency.

Third, I welcome the healthy and open discussion on the possible impact of sovereign wealth funds. I think it is important to base our discussion on principles such as transparency, accountability and reciprocity. However, it is also necessary that we take a balanced view from all countries involved.

For one thing, we should not forget that many sovereign wealth funds play a stabilizing role in financial markets.

As for national security concerns, its concept needs to be more clearly defined and evenly applied to all investment funds weather they are public or private.

Comments on IMF reform agenda

Distinguished guests,

The past sixty years have seen the Bretton Woods system contribute greatly to global economic growth and stability.

However, in the face of ever-changing global economic context, the IMF and the World Bank are under constant pressures to take up new roles and priorities. In this sense, I highly welcome the ongoing reform efforts of these two institutions. But these two agencies need to seek broader consensus of member countries in fleshing out its reform initiatives.

Let me first talk about the reform of the IMF.

First and foremost, the IMF should accelerate its consensus-building efforts for the second-round ad hoc quota increase.

Emerging members with a large gap between their relative positions in the world economy and existing quota shares should be given significant quota increase.

And I call upon strong support of advanced member countries including the G-7 members which is crucial in this matter. Successful quota reform is a prerequisite for the Fund's enhanced legitimacy and a source of further momentum to pursue remaining reform initiatives.

Also, the Fund's recent efforts to strengthen its surveillance role can be pursued with due legitimacy with a fairer governance structure in place.

I believe the latest financial turmoil also reflects demand for more accurate analytical and predictive skills of the IMF staff.

In principle, Korea supports the Fund's continued development of new income model in order to ensure its fiscal sustainability. But expenditure reform is another area that the Management's keen interest is needed.

At this important juncture, we welcome the appointment of Mr. Strauss-Kahn who is highly respected for extensive knowledge, experience and insightful vision. I am confident that the Fund's reform efforts will further accelerate under the leadership of the new Managing Director.