



**2012 TOKYO  
ANNUAL MEETINGS**

**INTERNATIONAL MONETARY FUND  
WORLD BANK GROUP**

Governor's Statement No. 20

October 12, 2012

Statement by the Hon. **JAEWAN BAHK**,  
Governor of the Fund for the **REPUBLIC OF KOREA**



**Statement by the Hon. Jaewan Bahk,  
Minister of Strategy and Finance**

**I. Greetings**

Let me begin by congratulating World Bank President Jim Yong Kim again for his inauguration. I am assured that his knowledge and experience will enable the Bank to successfully fulfill its mission of eradicating poverty and promoting economic growth.

I would also like to express my gratitude to IMF Managing Director Christine Lagarde for her excellent leadership in these challenging times, particularly in augmenting IMF resources and countering the recent global crisis.

Last but not least, I deeply thank the Government of Japan and the staff of the IMF and World Bank for successfully organizing this important event.

**II. Global Economic Conditions and Challenges**

Time and again, the global community made collective efforts to tackle global economic and financial crises.

Early this year, the ECB injected liquidity to the European banking system through Long-Term Refinancing Operations (LTRO). The IMF also joined efforts to build a larger global firewall by securing additional resources. More recently, the ECB decided to engage in Outright Monetary Transactions (OMT), while the Fed announced a third round of quantitative easing (QE3). I am heartened to see such continuous series of bold and decisive measures.

That being said, however, downside risks continue to loom large. The prolonged Eurozone crisis, coupled with economic slowdowns in the emerging world, is weighing on the global economic recovery. As a result, global economic recovery is proving slower than expected.

Meanwhile, the Eurozone financial market remains fragile. The bond spread of the periphery countries are on the rise again, while concerns persist over their fiscal sustainability. The situation is not too good with the real economy either. Due to a confluence of less fiscal spending and weaker domestic and global demand, the Eurozone is expected to suffer from recession for some time.

To make matters worse, emerging economies are losing steam. This includes the BRIC economies, which served as key drivers of global growth so far. Economic slowdowns in advanced economies caused demand to contract, which dealt a blow to the emerging economies' exports. On the other hand, abnormal weathers caused a sharp hike in international grain prices. And there is a high possibility that political unrest in the Middle East could drive up oil prices. In the face of inflationary risks, it is becoming harder for emerging economies to come up with the right policy measures.

To overcome these uncertainties and place the global economy on a solid recovery path, we need to put our heads together once again. Global efforts are needed, if we are to address economic slowdowns in the short-term and pave the way for sustainable growth in the mid- to long-term.

In this context, I would like to emphasize several points.

### **III. Path to Global Economic Recovery**

My first point: we need to strengthen all layers of international policy coordination.

Owing to the strengthened international economic linkages, economic problems and policies of major countries can now spillover across the globe. And as global economic uncertainties intensify, countries could fall back to protectionism to safeguard national interests. To achieve sustainable global growth, we need to overcome national interests and step up policy cooperation at the global level.

Now, the biggest downside risk to the global economy is a potential escalation of the Eurozone crisis. To prevent this from being realized, efforts are needed from all ends.

First, much work is required at the epicenter of the crisis: the Eurozone. The Eurozone countries need to push ahead with fiscal consolidation through vigorous restructuring, thereby restoring market confidence. Furthermore, the countries need to exercise a strong political leadership to upgrade the existing union.

Second, the countries outside the Eurozone must come up with an appropriate policy mix to address the crisis. This means, the advanced countries need to come up with a reliable fiscal consolidation plan along with accommodative monetary policies. The emerging countries should be able to secure crisis response capacity and mitigate capital flow volatility.

Third, at the regional level, we need to strengthen surveillance and set up financial safety nets. If I may take Asia for example, the ASEAN+3 countries established the ASEAN+3 Macroeconomic Research Office (AMRO) to strengthen regional economic monitoring. In addition, Korea, as a co-chair of this year's ASEAN+3 process, led efforts to double the size of the Chiang Mai Initiative Multilateralization (CMIM) and expanded its function to cover crisis prevention.

Fourth, at the global level, we should work towards strengthening the firewall and broadening global financial safety nets. In this regard, the IMF deserves much credit for securing additional resources of 456 billion US dollars, improving credit lines, and adopting the Integrated Surveillance Decision (ISD). I am proud to mention that Korea also took part in the efforts to stabilize the global financial market by pledging to contribute 15 billion US dollars of bilateral loans to the IMF.

Let me now turn to my second point—there is a strong need to find a balance between economic recovery and fiscal consolidation.

Fiscal consolidation remains imperative, if we are to overcome the current crisis. But at the same time, we need to prevent it from causing a recession.

In order to strike a balance between the two conflicting goals, we must undertake fiscal consolidation in a gradual manner. Fiscal consolidation should be accompanied by flexible monetary policies. At the same time, fiscal consolidation should go hand-in-hand with efforts to explore ways to enhance growth potential in the mid- to long-term. In addition, we should minimize profligate fiscal spending and increase spending on growth-enhancing investments in infrastructure, R&D and human resources.

Within this context, Korea is working to maintain a healthy fiscal position, particularly in light of potential risk factors—namely, growing economic uncertainties and increasing welfare demand. Korea plans to balance its budget next year, and gradually expand fiscal surplus from 2014. It is also making efforts to set the stage for the future. The efforts are largely twofold: one, saving financial resources by restructuring inefficient and unproductive business projects; and two, allocating more resources for facility investment, job creation and investment in green growth, in order to improve growth potential.

Along these lines, I am happy to note that all three major rating agencies—Moody's, Fitch and S&P—upgraded Korea's sovereign credit rating, in which I believe Korea's sound fiscal position served as a key rating trigger.

Let me move on to my third point—we need to assist the developing countries in building the foundation for a sustainable and inclusive growth over the mid- to long-term horizon.

To deliver on this, we must improve aid effectiveness by respecting the ownership of the aid recipient countries. As well, we need to focus on helping the recipient countries identify new growth engines that will work best in each country. In particular, we should provide effective assistance in the fields of infrastructure, R&D and education, along with practical development experience aligned to the systems of recipient countries.

To this end, Korea continues to make multi-faceted efforts to share its development experience with the developing countries, as it is the only country that successfully went from a recipient to a donor country. Korea has consistently expanded the volume of ODA during the last several years, despite the adverse economic situation. According to ODA statistics from the OECD Development Assistance Committee (DAC), Korea ranked 17th among 23 member countries in terms of ODA, up one place from last year, with a total contribution of 1.32 billion US dollars.

In view of the rising demand for infrastructure construction in the developing countries, Korea increased the size of the Economic Development Cooperation Fund (EDCF) to 410

million US dollars, which is a 25% growth from last year. It is also on the course to expand the Knowledge Sharing Program (KSP), designed to share Korea's development know-how with the global community.

Going forward, Korea will continue to raise the ODA volume. Also, it will focus its assistance on fields where it has comparative advantage, including policy consulting services and green growth. And by doing so, it is committed to play a greater role in the development world.

In relation to the cooperation with the World Bank, Korea plans to increase the size of the KSP Joint Consulting Project, which was established last year. As well, it will launch the Green Growth Fund worth 40 million US dollars this year. I strongly believe such efforts will help the developing countries lay the groundwork for sustainable growth.

My final point—the IMF needs to move ahead with the quota and governance reforms, to facilitate economic recovery and promote sustainable growth in the global economy.

At a time of unprecedented uncertainties, the global community has placed more expectations on the role of the IMF. For the IMF to fully assume its role as an international lender of last resort, it must push forward with the agreed reforms on a timely basis.

To start, the IMF needs to quickly proceed with the 2010 reform package. At the G20 Seoul Summit, leaders agreed to effectuate the 2010 reforms by the 2012 Annual Meetings. But the voting power requirement has not been met yet. Therefore, I encourage IMF members to take necessary steps to implement the reforms.

Also, the quota formula review should be completed by its deadline of January 2013. We continue to see a divergence in views on some key issues regarding the quota formula. I believe it is time for IMF members to move away from unnecessary debate, and work towards an agreement.

#### **IV. Closing Remarks**

The global economy has been shaken by a chain of economic and fiscal crises. Michael Spence, a 2001 Nobel laureate in economics, predicted that the global recovery could remain elusive for some time. In his book, Spence wrote: "Given the magnitude of the shock from the recent crisis, the difficulty of restoring employment, the incentives for protectionist solutions, and the potential for divisive politics, it would be easy to be pessimistic." But he added that "the newfound dynamism of the developing countries, combined with a righting of the advanced-country ships, will likely set us on a new sustainable course," stressing the importance of global cooperation.

As predicted by the IMF, it might take us some time to place the global economy on the recovery track, as downside risks continue to linger. But history shows, challenging times always come with opportunities to take the next great leap forward. What matters is how we

deal with the crisis we are facing today. That will determine the ultimate longevity and severity of the crisis. With stronger cooperation and consistent efforts at the global level, I am confident that we could contain the crisis at an early stage.

Thank you.