Statement by the Hon. OH-SEOK HYUN,
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Honorable Chairman Frieden, Managing Director Lagarde, President Kim, and fellow governors:

Global Economic Outlook

The global financial crisis triggered by the bankruptcy of Lehman Brothers in September 2008 has been prolonged by the fiscal crisis in the Eurozone. Although the global economy became exposed to not only financial but also fiscal risks, the danger of a tail risk event has been avoided mostly through the close policy coordination and the expansionary economic policies by the international community.

Downside risks still remain, but the global economy is stabilizing and recovering from the aftermath of the crisis. As the IMF's World Economic Outlook released earlier this week suggested, the global economy is expected to experience a transition. Major advanced countries are showing signs of recovery, while emerging economies are slowing down, albeit still growing at a high level. As such, the growth of the global economy will be modest. Hence, the focus of economic policies has to be shifted from overcoming the crisis to building new growth momentum and promoting sustainable growth.

Nevertheless, a grain of salt is in order against too much optimism about the future of the global economy.

The normalization of unconventional monetary policy is the greatest uncertainty that the global economy faces today. There are concerns that higher interest rates can cause volatility in global markets, exacerbating vulnerabilities in the global economy. In addition, with high level of the fiscal deficit and public debt of major economies exacerbating uncertainty, lack of a credible midterm fiscal consolidation plan complicates what are already difficult problems faced by countries.

There are, however, differences between the uncertainties we experienced during the global financial crisis and those that we face today. Whereas the uncertainties during the global financial crisis were unpredictable and unmanageable, today we can predict and
manage the uncertainties to a large extent. That difference shows what we can do and what we should do.

**Policy Priorities for a Durable Recovery**

The Korean government would like to make several suggestions for a strong recovery of the global economy.

First, with respect to the unavoidable normalization of unconventional monetary policies, we need to carefully consider the pace and methods of the tapering of the quantitative easing (QE) as well as preparations for beyond.

It is time to accept the inevitability of a QE tapering. As such, we must strengthen a cross-country surveillance on global capital movement, conduct in-depth analysis on the short-term effects of the tapering, and act preemptively. At the same time, the tapering must be implemented in an orderly fashion, predicated on economic developments.

To this end, close communication between countries and clear signaling to the market can help reduce volatilities caused by the tapering and make informed decisions by economic entities.

Second, a credible medium-term fiscal consolidation plan and structural reforms should be executed to increase policy space and improve economic fundamentals.

The Eurozone's response to the fiscal crisis provides a case in point for the importance of fiscal consolidation. Broad based consensus is needed to carry out difficult initiatives such as entitlement reforms.

Moreover, through structural reforms, we need to boost growth potential. In particular, countries with an export-oriented growth model need to be prepared for the likely short-term contraction in demand from the monetary policy normalization. Rebalancing effort to increase domestic demand is also required.

Third, public private partnership and cooperation between multilateral development banks should be strengthened to provide more effective support to low-income countries.

Despite the turmoil from the global financial crisis, low-income countries have posted relatively strong economic growth.

Developing countries that have yet to be on a growth track might lose growth momentum so as to become stagnant during this period of transition. In particular, as the infrastructure requirement in developing countries reaches 1.2-1.5 billion dollars annually, an increase in financing cost can lead developing countries to difficulties in achieving sustainable development.
Given the unfavorable fiscal outlook of donor countries, we need to actively reach out to the private sector for resources.

Also, with multilateral development banks mobilizing resources for infrastructure investment simultaneously, coordination by the World Bank would be helpful in streamlining the various investments for greater effectiveness.

Fourth, the IMF and the World Bank Group should continue with their current reform efforts and further strengthen their capacities.

The 2010 Quota Reform Package needs to be approved immediately. The increase in quotas must take place for the IMF to secure the resources that are needed to effectively respond to the risks in the global economy as well as to better reflect the relative weights of the members in the world economy in view of strong GDP growth of emerging market and developing countries. The Korean government commends many member countries who have approved the reforms, and hopes that others who have yet to approve do so as soon as possible.

Also, with the increased connectivity among countries since the global financial crisis, the IMF needs to strengthen surveillance. The Korean government welcomes the measures by the IMF to enhance the effectiveness of surveillance, confident that they will contribute to the economic stability and policymaking of member countries. Yet, the lack of consistency and evenhandedness in policy recommendations needs to be addressed, so as to engage member countries more in the surveillance activities.

On the other hand, the World Bank Group needs a strong, detailed implementation plan to achieve the twin goals of ending extreme poverty and boosting shared prosperity. Hence, Korea voices strong support for the World Bank Group's Strategy and Change Process for internal reform. The Korean government also welcomes the efforts by the World Bank Group to strengthen cooperation within the Group and improve aid effectiveness. We look forward to the changes demonstrated through tangible results.

**Korea's Policy Effort**

In responding to the global financial crisis, the Korean government has introduced numerous policies to counter the global financial crisis.

In particular, the pursuit of a "Creative Economy" has been at the top of the policy agenda of the new administration. The Creative Economy is our new policy paradigm that goes beyond expanding the existing economic domain to integrate science, industry, and culture in creating new markets and increasing employment.

In addition, The Korean government has also instituted various policies, such as the supplementary budget, measures to facilitate the real estate market, as well as
deregulation to improve the business environment. A "National Employment Roadmap" has been announced to increase overall employment and expand growth potential.

Thanks to such policies, Korea's recent quarter-on-quarter growth recorded above 1% for the first time in nine quarters. Major economic indicators also show signs of improvement.

With such policy room and strong external position, Korean markets are relatively stable compared to those of other emerging market countries. The Korean government will continue in implementing sound macro-financial policies and strengthen its management of risks.

Korea will also actively participate in the international community's efforts and discussions to end extreme poverty and share prosperity.

Particularly, the Korean government firmly supports the opening of the World Bank Korea Office as well as the secretariat of the Green Climate Fund, which will be a platform for greater cooperation between developed and developing countries.

The Korean government reaffirms that it will continue to increase the level of its contributions to the international community significantly, given its unique development experience.

There is a quote from Oriental classics: "For an egg to hatch, a chick needs to break the shell from the inside while a hen breaks the shell from the outside." In the global economy's current transition, each country is similar to the chick that needs to break the shell in order to come out to the uncertain future.

We call on countries for concerted effort on domestic fiscal consolidation and structural reforms as well as greater international cooperation, as they will be critical for a robust global recovery.

Thank you.