



Governor's Statement No. 19

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Statement by the Hon. **KYUNGHWAN CHOI**,  
Governor of the Fund and the Bank for the **REPUBLIC OF KOREA**



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Governor of the Fund and the Bank for the Republic of Korea**

*Kyung-Hwan Choi  
Deputy Prime Minister and Minister of Strategy and Finance  
Republic of Korea*

The Honorable Patrick Pruaitch, IMF Managing Director Madame Christine Lagarde, World Bank Group President Dr. Jim Yong Kim and fellow governors,

**Global Economic Outlook**

We have successfully overcome the global financial crisis and European sovereign debt crisis through bold expansionary policies and close coordination.

However, we now face ‘secular stagnation’ that is quite different from the previous crises.

The global economy is recovering slowly, but the pace is weaker than expected. As countries are at different stages of recovery, crafting a unified response is difficult and downside risks are rising.

Uncertainty remains in the financial markets due to the divergence in monetary policies among advanced economies. With reduced growth potential and low inflation in addition to geopolitical risks in Ukraine and the Middle East, there are increasing concerns that the global economy may have entered an extended period of mediocre growth.

While proven successful in encouraging risk-taking in the financial markets, accommodative policies responding to the crises fell short of restoring confidence and investment in the real economy.

In terms of distribution, absolute poverty has dropped thanks to the emerging markets. Nevertheless, wealth gaps within individual countries as well as inequality at the global-level persist.

Therefore, policies for inclusive and sustainable growth that go beyond merely increasing income-levels are necessary to end extreme poverty and promote shared prosperity.

**Policies for Global Economic Recovery**

Against this background, I would like to make a few suggestions for a robust recovery of the global economy.

First of all, we need a timely policy transition.

So far, fiscal and monetary policies have been at the center of the debate from a short-term

perspective. However, structural reforms in a timely manner are necessary to strengthen supply-side capacity, lift growth potential, and avoid an extended period of low growth. Undertaking structural reforms is not a medium- to long-term task. Structural reforms can also lead to short-term growth by improving economic sentiment, promoting investment and increasing productivity. Based on the political will of its highest ranking decision makers, Korea is implementing swift structural reforms in areas such as the service industry and labor market.

Korea's growth strategy comprising expansionary fiscal policy and timely structural reforms have been viewed favorably by the IMF and OECD.

Second, bold stimulus policy responses are called for.

The emphasis on restoring fiscal soundness in the short-term to improve the credibility of governments was proven successful in the process of overcoming the crises. However, its impact was limited during the global economic recovery that followed.

We are at an opportune time for creative and bold growth-friendly policies tailored to each country's circumstances.

Well-designed expansionary macroeconomic policies encourage labor market participation and promote consumption and investment, which in turn leads to increased tax revenue. In addition, successful structural reforms boosting growth potential can contribute to fiscal soundness in the medium- to long-term.

Recently, Korea is implementing decisive growth-friendly policies. The goal is to prevent falling into a low-level equilibrium, in which domestic consumption and investment slow down with low growth and inflation in the global economy. Such policies are also intended to establish a virtuous cycle between corporate profits and household income.

In order to boost household income, Korea introduced 3 tax packages to increase dividends, wages and investments while implementing reforms in the labor market to encourage job creation.

To raise corporate revenue, the government is expediting regulatory reforms to improve the business climate, nurturing promising industries to increase investment opportunities and laying the foundation for a creative economy.

Korea also plans on providing financial and tax support of more than 40 billion dollars this year and extending its expansionary fiscal policy to next year to revive the economy.

Through such policies, the government hopes to achieve a better balance between domestic demand and exports as well as household and corporate incomes. In addition, Korea looks forward to contributing to the global rebalancing as a responsible member of the international community.

Third, countries must strengthen global policy coordination.

In the process of overcoming financial crises, through spillovers and spillbacks, we have learned how policies of individual countries are interconnected.

With interest rate hikes in advanced economies and possible market adjustments, there are increasing and more complicated risks in the financial markets. If individual countries only prioritize domestic policy goals, their actions may have negative effects on neighboring economies, possibly through volatility in exchange rates. This in turn will throw cold water on not only the global recovery, but ultimately the countries themselves.

To manage these diversified global risk factors and pursue common interests, countries must continue to promote clear communication and close coordination.

Cooperation within the international community is also important for inclusive and sustainable global growth.

Macroeconomic stability, infrastructure investment, and climate change are issues that cannot be addressed by individual countries. The cooperation and support of the international community are also critical to economic growth and structural reforms of low-income countries.

In this regard, the World Bank Group should foster strong partnerships among the private and public sectors as well as multilateral development banks to end extreme poverty and promote shared prosperity.

**Strengthening the Capacity of the IMF and WBG**

For the above-mentioned reasons, the role and capacity of the IMF and the World Bank Group must be strengthened. With a thorough understanding of the circumstances in each country, the Fund should provide accurate analysis and balanced policy recommendations. It should also support each country's efforts toward economic recovery and structural reforms.

Addressing climate change, containing epidemics like Ebola, and facilitating infrastructure investment require close partnerships among the public and private sectors, as well as international organizations, such as the World Bank Group, GCF, and WHO.

I hope that the recent World Bank Group reform will soon bear fruit, such as improved delivery of development assistance to individual countries as well as more effective use of public and private sector resources.

Furthermore, the Bank should seek various partnerships with donors, recipients, as well as other multilateral development banks and organizations, including the GCF.

Based on its experience of transforming from an aid recipient to a donor, as well as through the World Bank Korea Office, Korea will play the role of a bridge between advanced and

developing countries. Korea also remains committed to increasing its intellectual contribution to the international community.

I would also like to emphasize that the IMF quota reform must be approved as soon as possible to ensure the Fund's credibility in preventing crises in the global economy.

### **Closing Remark**

Hua Tuo, a renowned ancient Chinese doctor, prescribed different medicines to two patients with identical symptoms. By addressing the respective causes of the illnesses, he was able to cure them both. I believe we are in a similar situation.

Current low growth and low inflation are caused by structural factors in addition to low demand. Countries have unique conditions and are at different paces of recovery. Due to increased interconnectivity, policies from individual countries will affect the global economy, and countries will be influenced by the global effects.

As we have learned from the tale of prescribing medicine according to the causes, we must have a clear understanding of the global economy. While implementing swift structural reforms, countries should boldly introduce and implement growth-friendly policies tailored to their own circumstances.

Effective communication and coordination should be strengthened for issues that require global policy responses.

During the process, the IMF and World Bank should provide accurate information, thorough analyses, and effective policy recommendations. The institutions should also create a framework to tackle global issues.

I look forward to your wondrous yet effective treatment like Hua Tuo's so that the current 'secular stagnation' will not turn into a chronic disease in the global economy.

Thank you.