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

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Current Global Economic Environment

Honorable Chairperson Bedoumra of the Board of Governors, Managing Director Lagarde of the International Monetary Fund, President Kim of the World Bank Group, and my fellow distinguished governors, it is my honor and privilege to address before you.

The global economy is overshadowed with concerns of the “New Mediocre”. Advanced economies are making a weak economic recovery, and further economic slump is stagnating recovery in emerging market and developing economies.

Amid increasing global economic uncertainties arising from the timing and the speed of the U.S. Fed’s policy rate hike and the concerns on the economic slow-down in China, the downward risk is also on the increase as demonstrated by the fluctuation of asset prices, the persisting low commodity price, the deepening of the strong dollar, and the depreciation of emerging market currencies.

The pace of recovery is also becoming more uneven. This makes international policy coordination even more difficult as the differing pace diversifies policy demands of individual countries.

Such global growth slump and increase of uncertainties are indeed important and pressing challenge for all of us, as we strive hard to achieve Sustainable Development Goals by 2030.

Path to Global Economic Recovery

Against this backdrop, I would like to suggest four areas in which we should put together our best effort to strengthen the global economy’s pace of recovery.

First, we need to reinvigorate the economy through expansionary policies at both micro and macro levels.

Unified and decisive macro policies are necessary to turn around the economic slump that has been prevailing for a long time and minimize economic uncertainties.
It is also important, in this process, to induce abundant liquidity in the financial sector to become productive business investments.

Korea experienced a non-economic externality from the Middle East Respiratory Syndrome Outbreak in a difficult situation, when its exports were down and the recovery momentum was not sufficiently diffused in the first half of this year.

To quickly absorb the unexpected shock and avoid falling into low-growth, low-price spell, the Korean government deployed a combination of macro expansionary policies and micro reinvigoration plans – a 22-trillion dollar worth of fiscal stimulus package with supplementary budget and various policies to boost consumption and tourism.

The government also prepared an expansionary budget for the next year to keep the hard-earned recovery momentum going. We aim to achieve medium and long term fiscal soundness by creating a virtuous circle of the economic recovery from the fiscal expansion and the resulting increase in the government revenues.

Second, we need to enhance our economic fundamentals through prompt structural reforms. Through rapid implementation of strict economic structural reform, we should enhance supply-side capabilities and growth potentials, to prevent the low-growth trend from settling-in.

Improved overall economic sentiment, renewed investment flow, and productivity improvement will not only expand short-term demand, but also help build long-term growth potential.

In this context, Korea is now pushing for full-scale four-sector reforms in labor, finance, education and public sector.

In particular, we plan to drive visible results – which span from productivity and growth potential improvement to job creation – by carrying out result-oriented, performance-centric reforms based on shared understanding that has been forged.

In public sector, debt reduction goal was met two years earlier than expected. It increased fiscal soundness in public sector and was well-received by international financial market.

In labor sector, a historical agreement was reached at the tripartite committee of labor, management, and government through a self-induced compromise and created a stepping stone for another great leap. The agreement is particularly notable, in that it was not a “forced” compromise upon a crisis, but was a voluntary one to improve the growth potential for the future. In this context, the agreement is all the more significant as it now provides a momentum for the entire four-sector reforms.

Third, we should strengthen global policy coordination and the international financial safety net.

Expansionary, growth-friendly macro policies and prompt structural reforms should be calibrated to specific situations each country faces. However, they must not endanger international coordination: One lesson the last crisis taught us is that the spillover and the spillback of the accommodative policies of advanced economies can have a significant impact.

If countries only focus on such domestically-targeted policy objectives such as early termination or excessive prolongation of accommodative policies, this will extinguish global recovery trend. We must keep in mind that adopting such policy objectives would haunt us back.

Therefore, all of us should pursue common interest through clear international communication and strengthening of international coordination.

In addition, we are seeing various risk factors, small and large: For example, the spread of financial and foreign exchange market volatilities of emerging markets including China, and the Greek Crisis.

Recently, foreign exchange volatility and financial markets uncertainties in emerging markets, which now take up a large part in the global economy, are being identified as major risk factors.

As we all have witnessed from the Chinese market volatilities in August this year, there is a great need for concrete and effective global financial safety net – such as multilateral currency swap, the IMF-RFA cooperation, and macro-prudential measures – especially when we consider how connected the global financial markets are.

The IMF, the World Bank, and Global Economic Recovery

Throughout the recovery process, the global economy will greatly benefit from the IMF, if the Fund proposes various policy directions that balance global and country-specific environments.

The IMF would strengthen surveillance activities and propose methods of international coordination for individual countries to effectively respond to crisis. At the same time, I also hope that the Fund will play an active role in building a multi-layered financial safety net.

Through these efforts, the IMF can also further enhance its credibility and legitimacy.

Moreover, the Fund should implement the 2010 Reforms as immediately as possible, so that it can become the center for building an effective global financial safety net.

In this regard, I request the Fund to assume an active role in the discussions on the Interim Solutions to the 2010 Reforms, and in ensuring timely conclusion of the discussions by the end of the year.

Indeed, the world should pay more attention to fragile, low-income countries, which are most vulnerable to the global growth slowdown and downward risks.

In this context, I deeply sympathize with President Kim's leadership and efforts on the reforms that aim to improve efficiency and effectiveness of the WBG. I support an increased role for the

WBG in implementation of the 2030 Agenda for sustainable development, development financing, private-sector development, and tackling global issues.

In particular, I hope priority consideration and reinforced support would be given to small island countries.

Maximizing its experience with a remarkable economic growth in the 20th century, Korea will not spare its support for sustainable development initiatives.

Thank you.