International Monetary and Financial Committee

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Statement by Okyu Kwon
Deputy Prime Minister and Minister of Finance and Economy, Korea
On behalf of Australia, Kiribati, Republic of Korea, Marshall Islands, Federated States of Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Philippines, Samoa, Seychelles, Solomon Islands, Vanuatu

Statement by the Hon. Okyu Kwon[1]
Deputy Prime Minister and Minister of Finance and Economy of the Republic of Korea
to the International Monetary and Financial Committee
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We welcome the progress that has been made in the past six months in implementing the Managing Director's Medium-Term Strategy (MTS), especially in the areas of surveillance and quotas and voice.

A core responsibility of the Fund is its surveillance of the international monetary system and of the global economy. We are pleased to note the significant advance of the surveillance agenda since the Spring Meetings, which includes the introduction of a new tool, multilateral consultations, and a review of the foundations of Fund surveillance. The commencement of multilateral consultations to achieve a shared assessment of sustaining growth while correcting global imbalances is a bold way of addressing economic issues that extend beyond national borders. Further, initiatives that improve the surveillance of exchange rate policy and the conduct of surveillance activities, including integrating financial sector issues, will strengthen the core operations of the Fund.

Realigning quotas to reflect economic realities and protecting the voice of low-income countries lie at the heart of the strategy and underpin the extent to which the Fund operates as a global institution. We would like to thank many member countries and authorities for taking a broad view of the interests of the Fund rather than just looking at individual interests during the process of reaching a broad consensus on the reform. We believe that the implementation of a package of reforms, albeit at this early stage, has strengthened and will help restore the legitimacy and effectiveness of the Fund, from which all will ultimately benefit.

While the Fund's original mandate of promoting international monetary co-operation and financial stability remains valid and necessary, the environment in which this mandate is implemented is changing. The Fund's reduced income requires a rigorous assessment of funding sources available to the IMF and a disciplined evaluation of the institution's strengths relative to the roles performed by other institutions. In this regard, we also look forward to the results of the Bank-Fund collaboration review. We commend the Fund for approaching these issues in a proactive and consultative manner to ensure that the high-quality operations of the Fund are sustained over the medium term.

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1 On behalf of the constituency comprising Australia, Kiribati, Korea (Republic of), Marshall Islands (Republic of the), Micronesia (Federated States of), Mongolia, New Zealand, Palau (Republic of), Papua New Guinea, the Philippines, Samoa, Seychelles, Solomon Islands and Vanuatu.

We are hopeful that the ongoing implementation of the Medium-Term Strategy for the Fund, coupled with further concrete actions over the coming years, can lead to the Fund being equipped and ready to face the ever-changing world with greater relevance and legitimacy.

Global Economic Outlook and Policy Challenges

Global expansion remains strong and has become more broad-based, with contributions from the Euro area, Japan, and developing Asia adding to the impetus provided by China, the US and India. The US economy has slowed after exceptionally-strong growth in the first quarter of 2006 and the pace of expansion is expected to moderate, largely reflecting higher oil prices and the effect of higher interest rates on the housing market. Activity in the Euro area has gathered momentum and the prospects for a sustained, more robust expansion have consolidated. Importantly, the expansion in Japan remains on track. Many emerging market economies and developing countries are continuing to perform strongly. The risks to the global economy remain slanted to the downside, with the weight of such risks having risen compared to the World Economic Outlook in April 2006. Downside risks arise from inflationary pressures and associated monetary tightening; oil prices; developments in the US housing market, which could cool more rapidly than anticipated; and the possibility of a disorderly unwinding of global imbalances.

Against the background of important downside risks to the global outlook, we highlight the importance of a shared responsibility for maintaining the foundations for strong global growth for policymakers across the world and reiterate our call for more rapid implementation of the policy strategy for dealing with global imbalances, including boosting national saving in the United States, such as through fiscal consolidation; greater progress on structural reforms in Europe and Japan; reforms to boost domestic demand in emerging Asia, coupled with greater exchange rate flexibility; and increased investment and prudent spending in oil-producing countries, particularly in the Middle East where a large build-up is already in train, consistent with absorptive capacity and cyclical considerations. We agree that a multilateral approach through simultaneous policy initiatives will reduce possible risks that would otherwise be associated with individual actions. In this respect, we endorse the ongoing multilateral consultations by the Fund, which we believe could contribute to this process.

We note with regret the apparent deadlock in the Doha round and the possible threat of rising protectionist pressures. We emphasize that trade liberalization on a nondiscriminatory basis remains the best way to open up new global growth opportunities, address development concerns, and reduce poverty in developing countries. All member countries need to intensify efforts to reinvigorate the process of multilateral trade liberalization.

We believe that high and volatile prices in world energy markets, especially oil, remain a major concern. Addressing this will require continued efforts from all sides, including increased investment to build up adequate production and refining capacity for oil-producing countries, as well as improved energy conservation and energy efficiency for oil-importing countries. Given that recent increased volatility of world oil prices may be partly due to information mismatch between oil producers and consumers, we emphasize the need to strengthen further dialogue between both energy-exporting and importing countries, including more frequent meetings through the International Energy Forum.

Surveillance

We welcome the Fund's efforts to improve surveillance. The proposed initiatives are generally very positive, and promise some significant improvements in Fund surveillance. We believe that the Fund needs to bring a more global perspective to its surveillance, and be forthright in presenting its views on the spill-over effects of members' policies. We support the presented policy agenda as it promises efforts to improve surveillance on several fronts, and is consistent with the IMFC's call (in relation to the Medium-Term Strategy) to 'move rapidly to implementation'.

We call upon the Fund to keep working towards a convergence of views on the objectives of surveillance to provide staff with a clear mandate when undertaking their broad range of surveillance activities. It is telling that several aspects of Fund surveillance have been criticised on the grounds that the Fund does not have clearly-specified objectives; this has been said of multilateral surveillance, regional surveillance, and exchange rate surveillance. With this in mind, the proposed Review of the *1977 Decision on Surveillance Over Exchange Rate Policies* is a welcome and important development, and notwithstanding divergent views over the scope and desired outcomes of the Review, we consider this to be a very important initiative that will ultimately benefit Fund surveillance.

We look forward to seeing the results of the first multilateral consultations, and are pleased that the Fund is already considering initiating consultations on other topics. The proposed topic of financial stability issues appears to have considerable merit. We also await with interest the forthcoming framework for assessing the effectiveness of Fund surveillance.

We are also encouraged by progress being made by the Fund's Task Force on the integration of financial sector issues into Article IV consultations. Such integration is much needed, given the Fund's mandate on the core workings of the macro economy. We continue to believe that the Fund should augment these types of surveillance initiatives with assessments of the traction of its policy advice, which is the ultimate test of the Fund's relevance and effectiveness.

Emerging market economies

The Fund continues to have an important role to play in emerging market economies in the prevention of crises by encouraging the adoption of sound policies and by identifying vulnerabilities through surveillance activities. The current favourable environment provides an opportunity for the Fund to consider its approach in emerging markets, and it is pleasing that this is occurring. We support the Fund's work aimed at developing a new financing instrument designed to support crisis prevention by members.

We agree that there are many challenges in the design of such an instrument and we are pleased to see that the Fund is consulting with the membership on such an instrument. We encourage the Fund to make greater efforts to reflect the membership's needs, so as to make the new instrument function more efficiently. We look forward to seeing further work on key aspects of such an instrument, including how it would fit in with other Fund instruments and with the Fund's broader financial infrastructure. We also look forward to seeing staff analysis regarding the extent to which such an instrument would have altered the outcome in previous crises, had it been available. We support other important elements of the policy agenda in relation to crisis prevention and resolution, including the further work being done by the Fund to examine any role it can play in supporting regional arrangements, including the Chiang Mai Initiative. We also support the consideration of the lending into arrears policy, which is much overdue.

Low-income countries

We agree that the Fund's engagement in low income countries (LICs) needs to focus on core "macro critical" competencies such as the strengthening of relevant institutional capacity. The Fund has an important role to play in advising on the macroeconomic absorptive capacity of aid in LICs and the macroeconomic impact of increased aid flows and debt relief, and we encourage the Fund's strengthened efforts in providing such advice.

Following the extension of 100 percent debt relief to qualifying members, work on debt sustainability is critical. We look forward to the upcoming work on the Joint Debt Sustainability Framework (DSF) for LICs. We consider that there exists a scope for a stronger linkage to be incorporated between post-debt HIPC Article IV surveillance and the DSF.

We agree that notwithstanding the disappointing developments in the Doha Round, the donor community should push forward vigorously with the delivery of "aid for trade". Regardless of multilateral developments, all countries can benefit from unilaterally reforming their own trade regimes and reducing obstacles to international trade and investment.

This constituency includes quite a number of small (particularly island) member countries, which face development constraints, such as diseconomies of scale, isolation, vulnerability to external shocks and limited institutional capacity. We encourage the Fund to continue to improve alignment of capacity-building activities with the needs of these small member countries. Considering the exemplary role played by PFTAC, the regional approaches for small member countries should continue to be explored.

Governance

We support the Fund's work on improving internal governance. We welcome the package of reform measures proposed on quota and voice, and commend the Managing Director for the way in which he has taken forward the IMFC's April mandate. While significant progress has been made, there is still much to be done by the 2007 Annual Meetings, and at the latest by the 2008 Annual Meetings. An important part of this work will be agreement on a new quota formula. In our view, the new quota formula should give 'predominant weight' to GDP in order to better reflect members' weight in the world economy. The second quota increase and subsequent quota adjustments should continue progress toward the alignment of quotas with economic weight. We welcome the proposals for low-income countries, including the call for at least a doubling of basic votes, with the precise quantum to be decided as part of the 2nd stage, along with a mechanism to protect the ratio to total votes into the future. We need to move to Stage 2 discussions straight after Singapore, progress these as rapidly as possible, and have the amendment of the Articles of Agreement for the basic votes increase ratified simultaneously with the other reforms agreed to in the 2nd stage.

In considering Fund income, we welcome the Managing Director's initiative for an external review and look forward to discussing the outcome of that review early in 2007. It will be important to ensure that a wide range of funding options are considered, and that members are given the opportunity to make decisions regarding their own financing in a well-informed and transparent manner. In the context of declining Fund credit, it continues to be important to maintain careful constraint over expenditures. We support efforts to deliver the Fund's outputs more efficiently.

In addition to work already undertaken to enhance efficiency, we encourage the Board to take up the Managing Director's challenge in the Medium-Term Strategy to reconsider its role and improve its operation. We welcome the forthcoming IEO review of IMF corporate governance to be undertaken in 2007, including the role of the Board. It will also be important for the Executive Board to further consider the process for appointing the Managing Director of the Fund.

Finally, we wish to thank the departing First Deputy Managing Director, Ms. Anne Kruger, for her tireless efforts and warmly welcome her successor, Mr. John Lipsky.