International Monetary and Financial Committee

Twenty-Second Meeting
October 9, 2010

Statement by Jeung-Hyun Yoon, Minister of Strategy and Finance, Ministry of Strategy and Finance, Republic of Korea

On behalf of Australia, Kiribati, Korea, Republic of, Marshall Islands, Micronesia, Mongolia, New Zealand, Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Vanuatu

**Statement by Mr. Jeung-Hyun Yoon,
Minister of Strategy and Finance, Republic of Korea
to the International Monetary and Financial Committee
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1. On behalf of our constituency countries, I would like to express our appreciation to the Managing Director, the Deputy Managing Directors and Fund staff for the valuable and sustained support that they have provided to the membership through these difficult economic times.

Macroeconomic Outlook and Policy Response

2. It appears that the brunt of the global financial crisis is now behind us. The fragile economic recovery that emerged in 2009 has continued throughout 2010, albeit at a slow pace, with the strong rebound in emerging economies offset by more moderate growth in many advanced economies. Financial conditions have also begun to normalize, following a resurgence of volatility in the second quarter of 2010 driven by sovereign debt concerns in Europe.

3. At the same time, the outlook for global economic activity remains uncertain, with downside risks elevated. For many advanced economies, the pace of recovery is hindered by lingering banking sector vulnerabilities, concerns about the sustainability of sovereign debt, and the effects of persistently high unemployment rates and reduced household wealth on consumption. In contrast, growth momentum is stronger in most emerging markets, such as Asia and Latin America, supported by household spending and investment.

4. Sustaining the global recovery will require a rebalancing of global demand, both from public to private sources and from deficit to surplus economies. Unfortunately, progress in this area has been slow and stronger efforts are required in both advanced and emerging economies. While countries' policy settings will differ according to their individual economic circumstances, they must also be carefully calibrated to achieve the necessary global rebalancing.

    a. First, as discussed further below, restoring the health of the financial sector is critical to sustaining private demand over the medium term and strengthening resilience to future shocks.

    b. Second, more progress needs to be achieved on the fiscal front. Fiscal adjustment needs to start in 2011 in most advanced countries, and must be anchored by credible and growth-friendly medium-term fiscal consolidation plans that address entitlements and other spending pressures.

c. Third, the persistently high unemployment in many countries requires concerted policy action. As well spelled out by ILO Director-General Juan Somaiva, “when growth is not fair, it becomes unsustainable”.

d. Finally, the importance of structural reforms to increase growth potential over the medium term must not be underestimated.

Financial Sector Reforms

5. While the worst of the global financial crisis is behind us, we must maintain our efforts to improve financial regulation and strengthen oversight of financial markets. To restore the health of the financial sector and prevent a resurgence of financial instability, policy priority should be placed on completing financial regulatory reforms. In this regard, we commend the Basel Committee and its membership for reaching agreement on most elements of the Basel III package, which is as a major step in strengthening the financial sector’s resilience to future shocks. We urge the Financial Stability Board, in collaboration with the IMF, to advance its work on the problem of systemically important financial institutions that are ‘too big to fail’ and measures that would enhance the resilience of financial markets. The Fund is making a significant contribution to these efforts, including through its work on the resolution of cross-border banks.

6. As the process of developing new global standards draws to a close, it is important to ensure that these are effectively implemented through higher standards of financial supervision by national authorities.

7. We also welcome the steps taken to make financial sector issues an integral part of Fund surveillance. The Fund’s recent decision to incorporate financial stability component of the Financial Sector Assessment Program into the Article IV consultations should contribute to this outcome. We urge the Fund to continue to play an active role in reinforcing sound financial sector policies in collaboration with the Financial Stability Board and other relevant standard-setting bodies.

IMF Mandate

8. ***Surveillance.*** The crisis reaffirmed the importance of candid, even-handed and independent Fund surveillance. We support the Fund’s initial attempts to address the gaps highlighted by the crisis, including by increased attention to systemic issues in financial sector surveillance. The Early Warning Exercise is an important vehicle in this regard and needs to be extended beyond current risks to emerging, previously unidentified risks. Similarly, we look forward to a refocusing on the Fund’s comparative advantage with particular attention to the issue of spillovers from the systemically important countries and on drawing policy lesson and insights from across the membership. However, while these changes move in the right direction, surveillance is

only effective if it leads to changes in policy. Changes in governance to better reflect economic reality and to enhance Ministerial engagement are required to improve the traction of surveillance, and that requires a strong sense of ownership and commitment to addressing problems by Ministers and national authorities.

9. ***The Future Financing Role.*** We welcome the Board's recent decision to strengthen the Fund's crisis-prevention role by refining the Flexible Credit Line and creating the Precautionary Credit Line. This extended tool-kit is now available to the Fund to respond to emerging signs of instability before a crisis escalates and spillovers into the wider membership. We look forward to future work on the Fund's collaboration with the regional financial arrangements, like the Chiang Mai Initiative, and consideration of a possible Global Stabilization Mechanism to deal with systemic crises.

IMF Quota and Governance Reform

10. ***Quota Reform.*** Multilateral decision making must be representative, if it is to be viewed as legitimate and credible. Last year's IMFC endorsement to realign quotas as part of the 14th General Quota Review is clear testimony of members' commitment to this principle. Since then, the Board has had a number of constructive discussions on how to deliver on the IMFC's mandate, and progress has been made in some aspects of this decision. However, we are still a long way from reaching agreement on key aspects of the reforms, and it will be critical to the credibility of the Fund to meet the timetable set out by the IMFC. We must make substantial progress on core elements of the reforms at this Annual Meeting, with a view to finalizing the reforms by the G20 Seoul Summit in November. We need to act efficiently and decisively, and with a willingness to compromise in narrowing the options and converging to the common ground. In parallel, we again urge members that have not voted for the 2008 agreement on quota and voice to do so as soon as possible, and in our constituency we are working through the steps needed to ratify the agreement.

11. ***Governance Reform.*** Effective internal governance arrangements are also critical to the IMF's legitimacy and performance. Reforming such arrangements is a complex process. The unresolved issue of the size and composition of the Executive Board has created significant uncertainty. We therefore urge members to seek a swift resolution that will enable a regular election to be held in the near future. At the same time, we hope that this could renew the momentum of broader governance reforms, where progress has slowed. We would like to reiterate our consistent support for governance reforms to increase the traction of the Fund's advice with policymakers, improve accountability and legitimacy to the membership, and improve the representation of dynamic emerging market economies at the Board in line with their global economic weight.

12. As strong supporters of diversity in staff selection at the Fund, we reiterate our calls for the IMFC to end the long-standing convention of European Managing Directors and clearly indicate the future appointments will be made purely on merit.

Developments in the Pacific Island Countries

13. The global economic crisis has had a significant impact on the Pacific Island Countries (PICs) with some countries hit very hard by lower demand and natural disasters. Recovery from the crisis will also vary with some economies already showing positive signs of recovery than others. Despite improved macroeconomic management in the PICs, the global economic crisis has reinforced the vulnerability of these economies to global developments and natural disasters.

14. We appreciate the work that the Fund has done in the Pacific through its bilateral surveillance, PFTAC and recent Fund programs in response to some of our island members' specific needs. Nonetheless our PIC members consider that the Fund can offer more in terms of being more proactive towards their need for strengthened macroeconomic frameworks and structural changes to improve their resilience to global and natural developments. Strengthening the surveillance of these small island economies, including addressing common regional issues, is one area that the Fund can further build on its partnership with its PIC members.

Conclusion

15. As highlighted in the Fund's WEO and GFSR, the outlook is fragile and uncertain. It would be dangerous for policymakers to assume that the dust from global crisis has begun to settle and that the shock from the crisis is dissipating. We must remain vigilant as we continue our collective efforts towards strong, sustainable and balanced growth.

16. Lastly, my thanks go to Fund management and staff for not only their sustained monitoring and insightful policy advice, but also their pivotal role in supporting the international coordination efforts, such as the G20 meetings, throughout this critical period. As a member of the IMFC and the chair of the G20 Finance Ministers' process this year, I will strive to deepen international cooperation on matters central to the strength of the global economy in the period ahead.