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

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1. Opening Remarks

Honorable Chair Mauricio Cárdenas,

Managing Director Christine Lagarde,

President Jim Yong Kim,

Fellow Governors and distinguished guests!

2. The State of the Global Economy

As you know very well, the global economy is currently facing many uncertainties and challenges.

Eight years have passed since the onset of the global financial crisis, yet the recovery momentum is still weak, and it is hard to predict how long this prolonged environment of unprecedented low growth will persist.

Although global financial market unrest has subsided, in large part thanks to decisive policy measures taken by central banks of key countries around the world, the global financial market nevertheless continues to be in a highly fragile state.

We continue to witness investment appetite wane sharply and then rebound again after central banks have taken measures in response to shocks to the market.

Decoupling of the financial market from the real economy is fueling market volatility and at the same time increasing the dependence on policy measures.

And with the prolonged reliance on unconventional policies such as negative interest rate, there is growing concern over the limits and consequences of monetary policies.

3. Policy Suggestions for Recovery of the Global Economy

Against this backdrop, today I would like to share with you my thoughts on what we need to do to promote stable growth of the global economy.

First, we need to continuously support growth with expansionary economic measures in the short-term, while pushing structural reforms to build the momentum for growth in the medium- to long-term.

Slow global demand and weak labor productivity coupled with decelerating trade are putting further downward pressure on the global economy. This climate is underscoring the importance of tackling economic problems through policies more than ever before.

Monetary policies need to remain expansive to ease financial conditions and support the recovery of consumption and investment.

However, monetary policies alone have limited stimulatory effect on the real economy. In other words, monetary policies have to be complemented with effective fiscal investment in areas of need such as employment and infrastructure enhancement to drive demand.

To build the foundation for long-term sustainable growth based on stronger medium- to long-term growth potential, it is critical to continuously push forward with structural reforms.

That said, the Korean government has adopted a diverse mix of policies and measures to prop up growth.

For instance, the Bank of Korea recently cut the benchmark rate to 1.25%, the lowest in history. The government formulated and introduced a supplementary budget this year, and introduced various incentive measures to stimulate domestic spending and investment. And we have set an expansionary budget for next year as well.

Also, continued structural reforms are underway in four key sectors: public, labor, education and financial.

To reinforce meritocracy in public service, a performance-based payroll system was rolled out across public agencies. In addition, a new law was introduced to streamline administrative processes for mergers and acquisitions (M&As) to expedite industrial restructuring.

Countries around the world must join forces to bring the global economy back on track at the earliest possible date, by remaining aligned on implementing strong expansionary macroeconomic policies and structural reforms.

Second, stronger emphasis should be put on inclusiveness in putting economic policies to work.

This summer, the results of the Brexit referendum sent shockwaves across the world's financial markets.

However, market shocks stemming from political reasons may not be a matter confined to the UK.

The political landscape is shifting in the U.S., Europe and a number of emerging countries as well.

Low growth and widening income inequality are exacerbating the public's perception of globalization and technological advances, which are the traditional engines of global economic growth.

Consequently, this is increasingly giving rise to calls for nationalism and isolationism in countries around the world.

Such claims are nothing new, but the political risks we face today are more serious and imminent, and have higher chances of becoming a reality.

Political risks not only pose downward risk to the global economy, but also weaken social cohesion, standing in the way of the recipe most needed to the global economy—structural reforms.

It is for this reason that we must strive to strengthen social cohesion through inclusive economic policies.

Efforts to improve social mobility through job creation as well as investment in education and welfare not only help build the political foundation to implement more rational and growth-friendly policies in the long-term, but can also drive up the growth rate in the short-term as a result.

The last point I would like to highlight is interconnection among countries and strengthening collaborative efforts in policy formulation and implementation.

As I mentioned earlier, the new phenomenon of low growth and changing political landscape may drive a growing number of governments to opt for more inward-looking policies.

However, history has taught us that policies that only serve one's own national interests ultimately bring about results that prove to be less than beneficial.

As such, governments must exercise prudence in implementing policies, weighing the implications and consequences of their national policies.

Most importantly, countries around the world must demonstrate their common and clear commitment against trade protectionism and uphold free trade.

In particular, economic leaders need to exercise strong leadership to make sure that participants of the economy do not succumb to the temptations of protectionism in the current era of low growth.

Policy coordination needs to be reinforced in the area of international finance as well.

As witnessed during the financial market turmoil early this year, financial markets around the world are closely tied together and interact with one another.

This suggests that governments have to make policy decisions taking into account the spillover and reverse spillover effects, and collaborate more closely with one another.

And in response to common risks such as the global financial cycle, governments must work together to put in place a well-established multi-layered financial safety net, for instance bilateral and/or multilateral currency swap arrangements, IMF-RFA cooperation, and IMF resources.

4. Roles of the IMF and WBG

Distinguished guests,

The challenges facing the global economy and financial markets today call for the IMF and WB to play greater roles.

For the most part, the Fund should take the lead in the search for policy measures to break away from the low growth trap and reinforce resilience of the economy.

The current low interest rate environment particularly calls on us to seek more creative alternatives to expand the boundaries of monetary policy and minimize its side effects.

At the last G20 summit meeting, we agreed on the areas of priority for structural reform, guiding principles and indicators.

Now, we must take one step further to gather and share the risks and best practices of undertaking structural reforms by income level. This effort will go a long way in continuously pushing forward with structural reforms. We look forward to the Fund's proactive role in this process.

Another important role of the Fund is facilitating international policy coordination with analytics on the impact of each country's policies on surrounding countries and presenting measures that can minimize negative repercussions.

In particular, clear and objective studies on the consequences and effects of protectionism based on precedent examples will offer meaningful lessons in the political and economic context of today.

In light of recent global economic conditions, we believe the Fund also has a stronger leadership role to play in improving measures to manage capital flows and offering a stronger global financial safety net by remaining sufficiently resourced.

Meanwhile, the World Bank Group, or WBG, needs to extend its activities beyond supporting country-specific development efforts to also creating global public goods by taking measures against climate change and the refugee issue, among others.

This is because development issues, too, are becoming transnational agendas as globalization and integration of the global economy deepen.

The WBG must also continue to spearhead efforts to mobilize development resources.

Creative financing solutions need to be developed to leverage investment capital, and agencies within the WBG should assume roles in directing private sector funds to development areas.

That said, we very much welcome the discussion on “Forward Look,” a vision for the WBG in 2030, at this Annual Meeting.

We look forward to discussions translating into clear action agenda that will lead to visible outcome, and Korea will join hands in the journey towards achieving the vision.

Thank you.