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Statement by Mr. Kim
Republic of Korea

On behalf of
Australia, Kiribati, Republic of Korea, Republic of the Marshall Islands, Federated States of Micronesia, Mongolia, Republic of Nauru, New Zealand, Republic of Palau, Papua New Guinea, Samoa, Seychelles, Solomon Islands, Tuvalu, Republic of Uzbekistan, and Vanuatu

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(REPUBLIC OF KOREA)
ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Global Outlook and Risk

The world economy has gained momentum since the second half of 2016. In advanced economies, the pickup in growth is broad based. Growth is also projected to rise over this year and the next in emerging market and developing economies. Market optimism is strong, given the gradual pace of monetary policy normalization, supportive domestic polices and a benign global financial environment. With still-weak wage growth and a decline in oil prices, headline inflation is expected to rise only gradually towards central bank targets.

The Asia and Pacific is still a main engine of growth in the global economy. Regional growth is projected to be stronger than was expected in the April WEO, driven by solid consumption, investment and stronger trade growth. Capital inflows to the region have remained strong and financial conditions are expected to stay favorable. Chinese growth has accelerated, reflecting accommodative macroeconomic policies, strong infrastructure spending and resilience in the real estate sector. The Japanese economy also sustained positive growth, driven by fiscal stimulus and strong exports. Our constituency members, with open, integrated and flexible economies, have ridden on the wings of this wind. For Korea, New Zealand and many small states, growth projections have been upgraded and Australia has recorded a 26-year period of sustained economic growth.

Risks are broadly balanced in the near term, while in the medium term remain tilted to the downside. The recovery remains incomplete. On the upside, the cyclical recovery could be stronger and more sustained, driven by stronger confidence and favorable market conditions. However, the recovery faces some risks from the potential for more volatile capital flows as a result of divergent monetary policies of advanced economies, a tendency towards inward-looking policies including rollback of financial regulations and risk of rising protectionism. The stubbornly low inflation levels are impacting nominal wage growth, and the challenges of managing an aging population, climate change and natural disasters loom. Asia also faces a potential escalation of geopolitical tensions that could affect financial market sentiment negatively.

Countries should use this time to build resilience against downside risks, ensure further increases in potential output and raise living standards. As mentioned in the Managing Director's Global Policy Agenda, they should do this taking advantage of the benefits of technological progress and integration, while also managing their potential risks.

Policy Priorities

We support the three-pronged approach to policy with monetary, fiscal and structural policy all needing to contribute to generate strong, sustained and inclusive economic growth. Each of these policies will need to be uniquely calibrated to meet the diverse economic circumstances in countries in the constituency.

Countries should aim to strike a balance between accommodative monetary policy and financial stability risks. Financial market sentiment has remained strong and volatility has remained low, despite increasing U.S. interest rates. However, faster-than-expected increases in interest rates could have significant ramifications for both public and private debt burdens and weigh on investment and consumption. In particular, financial conditions in some countries in the Asia Pacific region could tighten suddenly and cause international investors to withdraw their funds if there are surprises over monetary policy in the U.S. or the Euro area, or events cause abrupt changes in risk preferences, such as sharp rebalancing in China or a rise in geopolitical risks. We urge the IMF to continue to advise a data-driven and well-telegraphed approach to monetary policy normalization in the advanced economies, recognizing the unequal trade-offs between responding too soon and responding too late. Macroprudential tools can also be used to increase resilience to shocks but again a tailored approach is necessary.

Fiscal policy should be growth-friendly, with a view to ensuring debt sustainability over the medium term, while protecting the most vulnerable. Fiscal policy should be focused on ensuring the composition of expenditure is productive, prioritizing quality investments in infrastructure and keeping a close reign on recurrent expenditure. Priority measures should be those that efficiently secure the tax base, mobilizing government revenue to allow distributive policies to help ensure the benefits of economic growth are shared. Countries should ensure fiscal buffers are being rebuilt in order to respond to shocks, especially those vulnerable to natural disasters. Fiscal policy also can be used to help undertake structural reforms and cushion their near-term adverse impacts. Carefully-targeted social expenditure can help reduce hardship among vulnerable groups and can be used to boost consumption. Public debt should be sustainable in the medium-term, anchored by robust frameworks.

Structural reforms should continue to focus on boosting potential output and creating jobs. Labor market reforms can increase job creation and support higher real wages. Measures to increase female and youth labor-force participation provide opportunities and help to adapt to the ongoing demographic changes in parts of this constituency. Productivity gains can be achieved in countries across the constituency by reducing the regulatory burden on business, including in service sectors, fostering growth and innovation in SMEs, promoting competition across the economy and maintaining open and free trade.

Role of the IMF in Supporting Members

We support the IMF's efforts to help member countries identify the right policy mix to bolster strong, sustained and inclusive growth, build a strong global financial safety net (GFSN), enhance multilateral cooperation and explore new analytical approaches.

The IMF should continue to develop policy advice that is tailored to individual members. We are looking forward to external sector assessments reflecting country-specific factors, including such factors as the speed of population aging and related future contingency costs. We welcome the refinement of the external balance assessment model and methodology to improve credibility, transparency and even-handedness. We also appreciate the IMF's efforts to offer practical guidance on ensuring a consistent implementation of its institutional view on capital flows, focusing on those policies that are economically significant. On governance and corruption, we support the IMF focusing on its comparative advantage and using its evidence-based analytical frameworks to show the positive impact on growth of good governance.

We appreciate the IMF devoting attention to many of the economic issues facing small states, including those represented by this constituency and look forward to continuing engagement on the policy options for small and resource-constrained states. We support the IMF's integration of climate change issues into surveillance for small states impacted by natural disasters and climate change. We support the revised Debt Sustainability Framework for Low-Income Countries and trust that in using it, staff will take into account the particular issues facing small island countries. We also welcome the IMF's ongoing efforts in working with other international institutions, the private sector, and regulatory authorities to address issues with correspondent banking relationships.

We support the IMF's initiative to build a strong, reliable and coherent GFSN. The IMF should be a representative, quota-based and adequately-resourced institution at the center of the GFSN. Quotas should provide by far the bulk of the IMF's lending resource, replacing temporary borrowing agreements. Quotas should also move in line with movements in countries' economic weight in the global economy. More must be done to ensure the IMF is appropriately representative of the contributions of its members in the global economy, both by making significant progress on the 15th General Review of Quotas and by delivering on the remaining changes to Board seats from the 2010 governance reforms. In this vein, we look forward to working toward completing the 15th General Review of Quotas and agreeing on a new quota formula by the 2019 Spring Meetings and no later than the 2019 Annual Meetings. We also support the IMF's work to further strengthen the GFSN. We welcome the IMF's effort to launch pilot projects improving collaboration with regional financial agreements including with the Chiang Mai Initiative Multilateralization. Further refinement of the IMF lending toolkit could also support building a strong GFSN.

The IMF should continue communicating and coordinating with other institutions to promote a multilateral system and share the benefits of integration. The IMF should work with international standard setters to complete the global financial regulatory reform agenda. Developments in international taxation and multilateral analysis of global spillovers from domestic policies should continue to be considered in surveillance through cooperation with other institutions. We encourage the IMF's plans to continue to support the 2030 Sustainable Development Goals and the Financing for Development agenda by supporting low income countries, fragile states and small states. We also appreciate the IMF's support for the infrastructure policy support initiative in surveillance and the G-20 Compact with Africa initiative.

We support continuing work on the challenges of the digital economy and structural policies that can boost potential growth, including analyzing the macroeconomic and distributional effects of technology and integration. Fintech could also provide a new opportunity to enhance financial inclusion in emerging market and developing countries. The IMF, alongside the FSB, is in a position to initiate dialogue among experienced regulators, investors, and policymakers to play a role in facilitating coordination, supporting information sharing and designing coordinated policies to prevent systemic cyber risk and address cross-border tax issues.

We support the IMF's continued efforts to enhance the legitimacy of, and ability to deliver on, its global mandate. The focus on promoting greater inclusion and diversity both in gender and region, will add directly to the IMF's legitimacy as a global institution and improve its policy and decision making. We look forward to the Diversity initiatives being announced as a part of the roll-out of the new HR Strategy and urge the Board to continue to work towards achieving greater gender diversity. Continued careful budget management will be needed to ensure that the IMF can deliver on its mandate, and at the same time reflect an awareness of the tighter fiscal controls on public sector recurrent expenditure in many member countries.