International Monetary and Financial Committee

Thirty-Seventh Meeting
April 20–21, 2018

Statement No. 37-5

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

STATEMENT BY THE HON. DONG-YEON KIM
DEPUTY PRIME MINISTER AND MINISTER OF STRATEGY AND FINANCE
(REPUBLIC OF KOREA)
ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Global Outlook and Risk

Spring has come not only to Washington D.C., but also to the global economy with growth of 3.9 percent forecasts in 2018 and 2019. Advanced economies are growing faster than potential and growth in emerging market and developing countries has firmed further since we met last October. Of note, global growth in 2017 was the fastest since 2011 and two-thirds of counties experienced faster growth in 2017 than in the previous year. Also, it is very welcome that recent growth is accompanied by an upswing in global investment and trade.

But some members do not yet feel the spring spirit. Asia and the Pacific continues to be the most dynamic region notwithstanding increased financial market volatilities. China is expected to grow by 6.6 percent and Japan is forecast to enjoy positive growth for 8 consecutive quarters. Some of our constituency members have also ridden on the wings of this wind. Korea has returned to 3 percent growth in 3 years and gained renewed growth. Australia's economic expansion remains solid, building on 26 consecutive years of economic growth. New Zealand continued to enjoy a period of solid expansion and expected to be around trend. However, Papua New Guinea and the small Pacific states in our constituency are not expected to experience sustained longer-term growth mainly due to significant downside risks related to natural disasters. In Mongolia, which is currently implementing an IMF-supported program, and Uzbekistan, which set out an ambitious reform agenda last year, sufficient buffers are expected in response to implemented policy changes.

A sudden frost could freeze all spring blooms. Although the IMF assesses that upside and downside risks to the short-term outlook are broadly balanced, beyond the next few quarters the risks are to the downside. The multilateral trade system is at risk of fragmentation with escalating trade conflict. More rapid monetary tightening than currently expected could trigger tighter global financial conditions and raise the risk of capital flow reversals from emerging markets. Favorable financial conditions and low interest rates since the global financial crisis also have led to an historically-high buildup of debt. Aging populations and slow productivity growth means that potential growth is expected to settle below pre-crisis levels in advanced countries and living standards in many emerging market and developing countries could risk falling further behind.

Policy Priorities

It is timely to remember that 'united we stand, divided we fall.' Global trade tensions have the capacity to stem the recent pickup in growth, trade and investment. We should remain firmly committed to open trade and foreign investment policies within a cooperative multilateral trading framework. Against this background, the recent agreement on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership is a positive step. It is also important to complete the global financial regulatory reform agenda and leverage our global expertise on areas with limited regulation such as financial technology, cyber threats, and crypto assets to limit potential risks to financial stability.

Inaction now means limited choices later. We should use good times to strengthen the recovery and build buffers. Monetary policy needs to reflect mandates and be mindful of financial stability risks. Effective regulatory frameworks can be used to contain excess volatility and systemic risk in the market. Fiscal buffers need to be rebuilt to provide the capacity to respond to shocks, including for small states vulnerable to natural disasters. Where there is fiscal space, infrastructure gaps can be narrowed and labor force participation can be strengthened, including through stronger family-friendly policy. Fiscal policy can also be used to foster social protection and growth-enhancing structural reforms, including through strengthening social safety nets.

It remains important to 'fix the roof while the sun is shining.' Ageing populations and slower productivity growth is holding down potential growth. Measures to encourage labor-force participation of underrepresented groups can be an important source of sustainable growth and help to adapt to the ongoing demographic change, particularly in parts of this constituency that risk growing old before becoming rich. Labor market reforms including active labor market programs can also support higher real wages. Productivity can be increased by efficient regulation, promoting competition, and fostering innovation in small and medium-sized entrepreneurs. These policies also provide the foundation for diversification in small economies that can rely heavily on one industry. Harnessing the digital revolution is an important potential source of growth but it can also come with costs and governments need to consider appropriate regulatory. Differences in access to technology across countries can also result in a 'digital divide' where some are left behind. Measures may be needed to address infrastructure needs and digital literacy.

Role of the IMF in Supporting Members

We strongly support an open and rules-based multilateral system. We underscore the importance of the IMF not only in highlighting the benefit of the free trade, but also in coordinating with other institutions to promote an open and rules-based multilateral system. Developments in international taxation should continue to be considered in IMF surveillance through cooperation with other institutions such as the Platform for Collaboration on Tax, focusing on macro-economic and spill-over effect. There is also a role for the IMF alongside the FSB, to support the completion of the global financial reform agenda and leverage global expertise on topics including on financial technology, crypto-assets, and cyber risks to benefit the membership. We encourage further exploration of the opportunities provided by Fintech innovations within a stable and supportive regulatory system.

The IMF should continue to develop tailored policy advice to individual members. We expect the IMF to conduct a rigorous, evenhanded, and candid assessment of global imbalances. We encourage the IMF to continually review and evaluate the effectiveness of the external sector model, continuing to build on the lessons learned, frank feedback from stakeholders, and improvements in data quality. Capital flows are an essential part of the international monetary system, bring both direct and indirect benefits as well as potential risks. We urge to consider the challenges arising from capital inflows into domestic property markets in a nuanced and constructive way, including in the application of the institutional view on capital flow management. We support for the focus of the governance guidance on finding workable solutions to improve governance arrangements rather than labelling. With rising debt vulnerabilities in many countries, particularly in LICs, we call on the IMF and WBG to immediately develop a joint multi-pronged action plan to enhance debt transparency and address LIC debt sustainability. We urge the IMF to work closely with borrower and creditor governments on this workstream, including strengthening fiscal frameworks, tacking significant data gaps and strengthening data provision, improving debt management capacity and promoting sustainable lending practices.

We appreciate the increased attention paid by the IMF to issues facing small island states, including increasing resilience to natural disasters and climate change, addressing the loss of correspondent banking issues, assessments of debt sustainability, and improving financial inclusion, including addressing issues arising from crypto-assets. We are looking forward to further exploring the adequacy of the IMF's natural disaster tools in the context of the low-income countries' facilities review. We welcome the IMF's ongoing efforts in working with other institutions and regulatory authorities to address issues with correspondent banking relationships. We expect that the revised debt sustainability framework, that will be rolled out from this July, and the updated staff guidance note on the Fund's engagement with small developing states will improve the Fund's ability to take account the particular issues facing small island countries in surveillance and the provision of capacity development. As crypto-assets are raising some immediate issues for some members of this constituency, we look forward to continuing investigations into the opportunities it can provide to improve financial inclusion, but also the potential costs for countries with limited regulatory capacity. We encourage the IMF 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 continue to stress the importance of further strengthening the global financial safety net and filling the gaps in the global financial architecture. This includes ensuring that the IMF is adequately resourced to fulfil its role at the center of the GFSN, and that it is based on quota that reflects relative weights in the world economy. We look forward to concrete progress on the Fifteenth General Review of Quotas, ahead of the 2019 deadline and by delivering on the changes to Board seats that remain outstanding from the 2010 governance reforms. Strengthen collaboration between the IMF and Regional Financial Arrangements can also contribute to a more robust global financial safety net.

Lastly and not least, we support the IMF constantly strives to be more efficient as well as promote greater inclusion and diversity reflecting its status as a global institution. We encourage continued reprioritization of IMF's resources, reflecting an awareness of the tighter fiscal controls on public sector recurrent expenditure in many member countries. We look forward to the update of the HR strategy towards achieving greater gender and regional diversity. We also hope to see firm progress towards meeting diversity benchmarks in the upcoming diversity and inclusion report. We support promoting gender diversity in the Executive Board and welcome the progress report to the Board of Governors.