INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Kyungho Choo
Deputy Prime Minister

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, and Vanuatu

STATEMENT BY THE HON. KYUNGHO CHOO
DEPUTY PRIME MINISTER AND MINISTER OF ECONOMY AND FINANCE
(REPUBLIC OF KOREA)
ON BEHALF OF ASIA AND THE PACIFIC CONSTITUENCY

Russia's invasion of Ukraine continues to take a massive humanitarian toll and adversely impact the global economy. We express our sympathy for the loss of life from this unprovoked and unjustified war and full solidarity with the people of Ukraine. We reiterate our call for a speedy and peaceful resolution through diplomatic channels and for greater international cooperation and strengthened multilateralism to prevent fragmentation and safeguard global peace and prosperity.

Global Outlook and Risk

Amidst high uncertainties, the global economic recovery is slowing with previously highlighted downside risks materializing. More than two years of the pandemic, followed by Russia's invasion of Ukraine, are weighing heavily on economic activity; Inflation is at multi-decade highs; debt is elevated; food and energy insecurity are rising; supply-chain and trade disruptions persist; financial conditions are tightening; and capital flow volatility, as well as financial market volatility, have increased.

The growth outlook for most economies is significantly weaker than projected six months ago. Global inflation forecasts are revised up further, and high inflation is lowering living standards, with the most vulnerable hit the hardest.

Downside risks to the outlook dominate. In addition to the risks around Russia's war in Ukraine and the COVID-19 pandemic, there are risks from stubbornly persistent inflationary forces, tightening global financial conditions, large volatility in FX market, widespread debt distress, halting of gas supplies to Europe, and a significant slowdown in China's real estate sector.

Near-term and medium-term risks are significantly intertwined at the current juncture. Geopolitical risks could undermine the ability of the world to address structural challenges such as climate change and sovereign debt resolution. It is worrying that a more fragmented global economy would have adverse, long-lasting implications for trade, investment, and productivity.

Policy Response

Policymakers across the globe are facing complex policy trade-offs in a situation of slower economic growth, rising and broadening inflation pressures, and the lingering COVID-19 pandemic, particularly for countries with limited policy space. Appropriate domestic policies and intensified multilateral cooperation are essential to safeguard macroeconomic and financial stability, bolster resilience, limit negative spillovers, and prevent a major food crisis. At the same time, policymakers should not lose sight of the imperative to address longstanding structural issues and transition towards green, digital, inclusive, and resilient economies. Fund members should make efforts on restoring a free, resilient, and rules-based multilateral trading system to reinvigorate the recovery momentum and promote innovation.

Central banks should remain strongly committed to restore price stability, in line with their respective mandates. To that end, central banks are closely monitoring the impact of price pressures on inflation expectations and will continue to appropriately calibrate the pace of monetary policy tightening in a data-dependent and appropriately communicated manner, ensuring that inflation expectations remain well anchored, while being mindful to safeguard the recovery and limit cross-country spillovers. As we continue to monitor financial vulnerabilities and risks to financial stability, our macroprudential policies will be vigilant to guard against systemic risks as financial conditions tighten, mindful of potential negative procyclical effects.

Fiscal policy needs to correspond to the evolving country-specific circumstances and available policy space. Support measures should protect vulnerable group from the burden of the cost-of-living crisis, but they should be temporary, well-targeted and clearly communicated alongside appropriate exit strategies over the medium-term. At the current juncture, the overall fiscal stance should be calibrated to avoid pro-cyclical impulses that could exacerbate inflation.

Role of the IMF in Supporting Members

We support the Fund's efforts to provide members with real-time policy advice, timely financial support, and necessary capacity development (CD) in this stressed global environment.

With many difficult choices and trade-offs ahead for members, the Fund's policy advice will continue to play a critical role. Advice must be granular and tailored to individual member's circumstances such as macroeconomic policy mix, available policy space, the structure of the economy and financial market conditions. The Fund continues to strengthen multilateral surveillance and analytical work on pressing policy issues, including on inflation and its drivers, international spillovers, particularly from Russia's war in Ukraine, monetary-fiscal policy interactions, and scarring from the pandemic. We welcome the Fund's granular policy advice in line with the Integrated Policy Framework (IPF) according to country-specific circumstances. In the current context, the IPF insights should assist in a smoother and more orderly adjustment in markets to a confluence of unprecedented shocks, especially for emerging market economies where financial markets are shallow and policy instruments and space are both limited.

We expect the continued refinement of surveillance activities will help the Fund engage on the macro-critical implications of emerging areas such as climate change, digitalization, and inclusive growth, in line with its mandate. We stress the need for the Fund to have close and effective collaboration with other international financial institutions such as the World Bank Group and leverage their expertise. We look forward to the IMF's analytical work on the implications of digital money for global financial stability and the International Monetary System, policy frameworks for crypto assets, and improving cross-border payment arrangements. We support the IMF's work to enhance engagement on social spending and provide customized support for the fragile and conflict-affected states.

We highlight the importance of integrating surveillance, lending, and CD. This is particularly true for small and fragile states with limited absorptive capacity, including those in the Pacific, where high-quality policy advice, hand in hand with strong and effective CD support, is extremely valued. We encourage the IMF to implement a 'Specific, Measurable, Achievable, Relevant and Time-bound (SMART)' Management Implementation Plan in response to the Independent Evaluation Office (IEO)'s evaluation of the Fund's Engagement with Small Developing States. We look forward to the review of the strategic framework for CD, following IEO recommendations.

We support the Fund's work on advancing the debt agenda, as the risk of debt distress is a growing concern for much of the membership. We welcome the recent progress made on Zambia's debt restructuring under the G20 Common Framework and look forward to further discussion on the proposals to facilitate more effective functioning of the Common Framework. We see great merit in the IMF's work on collateralized financing practices, strengthening contractual provisions to support debt restructurings, improving debt transparency, and implementation of the revised sovereign-arrears policies.

The Fund should continue to provide financial support with adequate safeguards to members experiencing balance of payments difficulties. The Fund should ensure that its facilities remain effective to address potentially larger and more acute financing needs of its members, as they navigate these volatile times and prepare for future shocks. The Fund must step up to support to low-income countries (LICs) and small developing states, including those in the Pacific. High quality grants and concessional financing are critical for these members that have limited or no access to markets. We support ongoing efforts to ensure all countries have full and affordable access to the international payments system, and value work on shoring up Correspondent Banking Relationships for small states in the Pacific and other afflicted regions.

We look forward to the operationalization of the Resilience and Sustainability Trust (RST) that will provide members affordable financing in enhancing resilience to climate shocks and pandemic preparedness. To maximize members' benefit from the RST, it must play a catalytic role through strengthened collaboration with the World Bank and other relevant multilateral institutions and attracting additional climate finance from the private sector. We call for additional voluntary contributions to the RST as well as timely conversion of existing pledges into agreements. We welcome the new Food Shock Window (FSW) under the IMF's emergency financing instruments as well as the new Staff Monitored Program with targeted Executive Board Involvement, which will help enhance support to members facing urgent balance of payments needs related to the global food shock. We also underscore that it is equally important to close the remaining funding gap in the Poverty Reduction Growth Trust for loans and subsidies and to replenish the Catastrophe Containment and Relief Trust to provide debt service relief in the event of further shocks.

It is important that the Fund should remain a strong, quota-based, and adequately resourced institution at the center of the global financial safety net and that the Fund's lending capacity should remain at the current level at a minimum. We are of the view that the key priority is to reduce out-of-lineness by adjusting quota shares to better reflect the changing positions of member countries in the global economy while protecting the voice and representation of the poorest members. We are committed to constructive engagement in discussions on the adequacy of quotas, quota formula, realignment of quota shares, as well as Fund's governance reform under the 16th GRQ with the aim to conclude by December 15, 2023.

We support that the IMF consistently strives to promote greater inclusion and diversity, reflecting its status as a global institution. We welcome the IMF's continued efforts to attract talent to support existing and new priority areas and improve staff diversity and inclusion. We also support increasing gender diversity in the Executive Board. We also support the IMF's efforts to strengthen its Enterprise Risk Management framework to underpin responsible risk taking in fulfilling its mandate. We look forward to the implementation of the recommendations of the Institutional Safeguards Review.