International Monetary and Financial Committee

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IMFC Statement by Il-ho Yoo
Deputy Prime Minister and Minister of Strategy and Finance
Republic of Korea

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

STATEMENT BY THE HON. IL-HO YOO
DEPUTY PRIME MINISTER AND MINISTER OF STRATEGY AND FINANCE
(REPUBLIC OF KOREA)
ON BEHALF OF THE ASIA AND THE PACFIC CONSTITUENCY

Global Outlook and Risk

There have been meaningful changes to the world growth forecast since we met last October. While recovery continues to be uneven across countries and regions, the overall pace of global economic growth is strengthening, reflecting a welcome cyclical rebound and supportive domestic policies, or positive reactions to anticipated policies, of some large economies. Encouragingly, financial market sentiment has been optimistic, reflecting improved risk appetite and shifting expectations regarding the policy settings in major economies. There is a diminishing risk of deflation.

Asia remains the strongest global growth engine. Strong domestic demand, driven by robust private consumption, is a key feature of this positive regional development. The recovery in commodity prices has modestly pushed up headline inflation in many Asian economies and is assisting in the macroeconomic rebalancing required in a number of commodity exporting countries. China is continuing to perform strongly, reflecting the rebounding housing market, robust consumption growth, and continued policy support. Under the three arrows of Japanese economic policy, structural reforms are accelerating and growth has picked up, assisted by stronger net exports. GDP growth trends in our constituency members including Korea, Australia, and New Zealand have also reflected this global momentum. This reflects consistent records of sound policy implementation, including open integrated and flexible economies.

It is important that this momentum be sustained to benefit the global economy and members of this constituency. So, we need to be alert to near- and medium-term challenges and uncertainties. Policy uncertainties in major economies, including policy changes in the United States, a bumpier-than-expected Chinese rebalancing and vulnerabilities in European banks could damage the recent positive momentum.

The possibility of inward-looking policies is a key risk to be tackled in the short-term. This is particularly important to the Asia and the Pacific region given high trade openness and the importance of global value chains. But it poses a risk across the global economy and as the Managing Director mentioned, we should maintain our commitment to openness and multilateralism. At the same time, we need to be aware of how the benefits of the technological progress and integration are being shared within our economies in order to generate more sustainable and inclusive growth that provides economic opportunities for all. Domestic policies have a key role to play.

Furthermore, without paying close attention to medium-term structural headwinds—including aging populations and low productivity—future growth and living standards will be jeopardized.

Policy Priorities

We agree that priority should be given to a well-calibrated policy mix based on the three-pronged approach—fiscal, monetary, and structural policies to address these near-term and medium-term challenges.

While the current accommodative monetary stance continues to be appropriate across much of the world, continued efforts to preserve financial stability are warranted. We should remain vigilant to tighter global financial conditions and capital flow volatility as a result of global risk aversion. It will be important to continue with the global regulatory reform agenda and ensure that there is no backtracking. Exchange rate flexibility remains the most appropriate buffer as a shock absorber. Macroprudential tools can also be used to increase resilience to shocks but a tailored approach reflecting different country circumstances is an effective way to ward off possible systemic risks.

As output gaps continue to close, fiscal policy should focus on increasing potential output. Government expenditure can be reprioritized while keeping a tight rein on recurrent expenditure. It can boost high-return infrastructure investment, including health and education, maintain an effective social protection system, and improve the effectiveness of redistributive mechanisms. However, some countries already have well-developed social safety nets, flexible labor markets, progressive tax systems and accessible skills training, so messages need to be appropriately targeted to each country. Ensuring disciplined expenditure restraint, and effectively mobilizing revenue, is particularly important as many countries are facing constrained fiscal positions. Importantly, fiscal measures should be anchored by a strong medium-term framework that ensures that the debt trajectory is sustainable.

Recognizing that monetary and fiscal policy have limited capacity in some countries, steadfast implementation of structural reform can lift growth, thereby creating the fiscal space to make a favorable feedback loop through higher medium-term growth. Fiscal support can cushion the adverse impact of structural reforms through using well-targeted measures to help affected groups adapt, address any disincentives to labor force participation and promote business investment. To create a more inclusive global economy, effective social safety nets and redistributive policies can assist those that are disadvantaged by globalization and technological change.

Structural reforms need to focus on lifting productivity and potential growth. Continued labor-market reform efforts, including alleviating duality and enhancing flexibility, are critical to increasing job creation and supporting higher real wages. Measures to increase female and mature-age labor-force participation along with migration should be considered to provide opportunities for all while also helping to adapt to demographic changes. Boosting productivity in the service sector by promoting competition and deregulation in healthcare, education, and professional services is another area of focus. To address overcapacity and declining industrial growth prospects, a proactive approach to corporate restructuring is needed in some countries. For SMEs, policies should prioritize fostering growth and innovation, rather than shielding less competitive firms.

Maintaining our commitment to openness and integration through an effective multilateral framework is critical to revitalize the global economy. Trade and financial integration lifted hundreds of millions out of poverty and the multilateral framework led to huge global welfare gains. The economic progress of members of this Constituency have been enhanced by trade, foreign investment, and effective migration policies, which remain an important part of our future prosperity. In order that all countries can continue to benefit from sustained and inclusive growth, international cooperation needs to play a key role to promote a rules-based and open trading system.

Role of the Fund in Supporting Members

We welcome the Fund's continued endeavors to become a more Agile, Integrated, and Member-focused (AIM) institution. The challenges facing the global economy underscore the importance of the Fund's role in enhancing the IMS, providing more member-focused advice, advocating openness, and cooperating with partner agencies.

We support the Fund's work to address gaps in the international monetary system to help align it better with the needs of the global economy. The Fund remains quota based to ensure the legitimacy of its governance and the progress on the 15th General Review of Quotas should remain a key priority. More must be done to ensure the Fund 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 appreciate the Fund exploring options to strengthen the global financial safety net. In this vein, we look forward to progress on designing a new lending toolkit to ensure that the Fund plays a central role in improving the Global Financial Safety Net (GFSN). We also welcome efforts to improve collaboration with regional financial agreements such as the Chiang Mai Initiative Multilateralization in the region as another step in ensuring the effectiveness of the GFSN.

We look forward to the Fund making more member-tailored and evenhanded recommendations on the role of macroprudential measures, as well as assessments of fiscal space and the external sector. We appreciate the Fund's efforts to elaborate on the role of macroprudential measures and their potential relationship with capital flow management measures. It is timely and pertinent to the recent tightening of global financial condition in our region. We look forward to fiscal space and external sector assessments reflecting country-specific factors including the speed of population aging and future contingency cost. Evenhandedness between countries requires a country-specific approach not a simple one-size-fits-all remedy. We welcome the Fund's commitment to refine its external balance assessment model and methodology to provide credible, transparent, and vigorous assessments.

We welcome that the Fund is giving a high priority to many of the economic issues facing our Constituency. We support the Fund's engagement to enhance growth and boost resilience for small states impacted by natural disasters and climate change. We appreciate the Fund's ongoing efforts working with other international institutions to explore ways to address correspondent banking relationships. We also look forward to seeing the review of the debt sustainability framework for low-income countries take into account the particular issues facing our small island countries.

The continued high quality analytical work undertaken by the Fund feeds into its own policy recommendations and informs our members' policy deliberations. We note, in particular, the Fund's ongoing work to assess the distribution of benefits from trade, financial integration and technological advancements and the assessment of policies that can assist all members of the community to adapt to economic change. We also look forward to the continuing work on the challenges of the digital economy and structural policies that can boost potential growth, including the evolving role of technology.

The Fund should continue to develop diverse talents. We encourage the Fund to continue to improve gender and regional diversity in its workforce, which is critical to the Fund's legitimacy and ability to deliver on its global mandate. We also anticipate that the Fund will review its Human Resources strategy to drive diversity. We also support efforts to improve the gender diversity of the Board.

We encourage the Fund to continue communicating and coordinating with other institutions such as the World Bank, OECD, BIS, and international fora including G-20. We welcome that the Fund 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 Fund's support for the G-20 Compact with Africa initiative.