INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Nam-Ki Hong
Deputy Prime Minister and
Minister of Economy and Finance

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. NAM-KI HONG
DEPUTY PRIME MINISTER AND MINISTER OF ECONOMY AND FINANCE
(REPUBLIC OF KOREA)
ON BEHALF OF THE ASIA AND THE PACIFIC CONSTITUENCY

Global Outlook and Risk

The global economy is recovering from the pandemic more quickly than previously expected thanks to extensive policy support and rapid progress in vaccine development.

However, the pathway to global recovery will be divergent across countries due to uneven access to vaccines, varying policy space, different economic structures, and pre-existing vulnerabilities. Within countries, certain groups such as the youth, women, and low-skilled workers and contact-intensive sectors are being disproportionately impacted. These divergences could be exacerbated by the digital divide as the pandemic is accelerating the transition towards a digital economy.

The outlook is highly uncertain, primarily associated with the path of the pandemic as well as the speed and extent of vaccination developments. The extent of economic scarring, and how this links to preexisting vulnerabilities, is still a big unknown.

Risks to financial stability from excessive risk-taking and stretched valuations are rising partly on the back of continued monetary easing. Rising interest rates in line with faster recovery in advanced economies could pose significant risks to global financial conditions and capital flows into emerging markets and developing economies.

Policy Response

The key priority continues to be to overcome the immediate health crisis everywhere. Strong international cooperation is necessary for adequate vaccine production, and widespread and equitable distribution of vaccines. There is no public investment that will bring a higher return than vaccines at present.

Macroeconomic policies need to strike a balance between focusing on safely exiting the crisis in the short term and, in the medium term, avoiding scarring and addressing structural issues including developing new growth engines and driving the transition towards green, digital and inclusive economies, while safeguarding financial stability.

Fiscal policy should remain supportive to help vulnerable households and viable firms in a targeted manner, where possible, within credible medium-term frameworks until recovery takes hold. As the recovery gets under way, policymakers need to make every effort to pursue transformative policies to boost digital and green investment, raise productivity, and promote inclusive growth, with positive spillovers provided to trading partners.

Monetary policy should remain accommodative, in line with central banks' mandates. Clear forward guidance and communication from advanced economy central banks will be critical to minimize adverse spillovers to the rest of the world. Countries should remain vigilant to rising risks, with macroprudential policy tools being used preemptively to avoid a legacy of vulnerabilities and limit systemic financial risks.

We must step up support to low-income countries (LICs) and small developing states, including in the Pacific, so that the recovery is shared equally. High quality grants and concessional financing are critical for these members that have limited or no access to markets.

As the world emerges from the enforced isolation of the pandemic, it will be important to return to rebuilding support for multilateral frameworks, especially in global trade. We continue to support an open, transparent, and rules-based trading system under the World Trade Organization.

Role of the IMF in Supporting Members

We support the Fund's efforts to help members navigate a durable exit from the crisis and to nimbly adapt to deliver on its mandate in a rapidly changing world.

We are pleased that the Fund is moving ahead with decisions on a general SDR allocation which will provide much needed liquidity to many emerging and developing economies. The new allocation may not be a silver bullet, but it is still powerful. The impact of the allocation could be further enhanced through well-coordinated structures to redirect the SDR holdings of countries with strong external positions on a voluntary basis to the most vulnerable members.

We welcome the Fund's support to help members transition to full-fledged UCT programs after the initial wave of emergency assistance. We are supportive of scaling up the Fund's capacity for concessional lending to LICs and look forward to comprehensive and constructive discussions on the review of the Fund's concessional financing. Further enhancement to and diversification of the Fund's lending toolkit may need to be explored so that it responds to members' growing financing needs as well as ongoing lessons from the pandemic. Given the changing shape and size of the lending portfolio, the Fund's operations should be bolstered by enhanced enterprise risk management.

With many difficult choices and trade-offs ahead for members, the Fund's policy advice will 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, financial market conditions, and the starting point for individual members. We highlight the importance of integrating surveillance, lending, and capacity development (CD). This is particularly true for small and fragile states with weak absorptive capacity, including those in the Pacific, where high-quality policy advice, hand in hand with strong and effective CD support, is extremely valued. Building on the experience with virtual CD during the pandemic, virtual delivery should continue to complement the in-person approach going forward.

We support the Fund sharpening its macroeconomic tools for effective surveillance and upgrading policy advice. We look forward to the Fund finalizing the Comprehensive Surveillance Review and the review of the Financial Sector Assessment Program. We expect these reviews will help the Fund step up work on the macro-critical implications of emerging areas such as climate change, digitalization, and inclusive growth, within its mandate. We also look forward to the forthcoming 2021 review of the Fund's Institutional View on the Liberalization and Management of Capital Flows, informed by the work on the Integrated Policy Framework and the IEO evaluation of the Fund's advice on capital flows. This up-to-date review allows members to benefit from the appropriate use of policy tools to secure macroeconomic and financial stability in the face of volatile capital flows. In addition, the Fund needs to assist many members who are in uncharted territory with unconventional monetary policy (UMP), including the interactions between the UMP tools and spillovers from their use.

We welcome the Fund's work on advancing the debt agenda as we anticipate a significant increase in debt vulnerabilities. Debt transparency and vulnerabilities must be closely monitored, and members should be assisted as needed to implement efficient debt restructuring. While the G20 DSSI and Common Framework will assist LICs, should debt issues extend to middle-income countries, the Fund and the international community will need to be ready to respond.

It is necessary for the Fund to have close collaboration with other international financial institutions and leverage the expertise of others, especially the World Bank Group. Key policy areas for cooperation include debt treatment, macro-financial surveillance, climate change, digitalization, and human capital investment.

We welcome the effectiveness of the doubling of the New Arrangement to Borrow and the new round of bilateral borrowing agreements with the participation of Korea, Australia, and New Zealand in our constituency. As global risks and vulnerabilities are elevated, 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. We are committed to constructive discussions on the adequacy of quotas and Fund's governance reform under the 16th General Review of Quotas with the aim to conclude by December 15, 2023.

We support that the IMF constantly strives to promote greater inclusion and diversity reflecting its status as a global institution.