INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fifth Meeting
April 21, 2022

IMFC Statement by Nam-Ki Hong
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

We deplore the Russian Federation's aggression against Ukraine and demand that the Russian Federation immediately cease the use of force and withdraw its military forces from Ukraine. Russia's invasion of Ukraine has a massive humanitarian impact and detrimental repercussions for global economy. We express our sympathies for the loss of lives as a result of this unprovoked and unjustified war and full solidarity with the people of Ukraine. We call for greater international cooperation and strengthened multilateralism to prevent fragmentation and safeguard global peace and prosperity.

Global Outlook and Risk

The recovery of the global economy continues but is slowing down reflecting the ramifications of Russia's invasion of Ukraine and related sanctions on top of the endemic nature of COVID-19. Global inflation is projected to be higher, with higher food and fuel prices and added global supply chain pressures.

The war in Ukraine is weakening the recovery and exacerbating inflation pressures at a time when the world has not yet recovered from the pandemic. We are deeply concerned about the risk of a food crisis and social unrest in vulnerable countries.

Downside risks to the outlook dominate, though significant uncertainties surround economic projections. In addition to the risks around the war in Ukraine, a further deterioration in the geopolitical environment and the pandemic, there are risks from a sharper slowdown in China, increased social tensions, and higher interest rates that could lead to tightening global financial conditions, widespread debt distress, and a disorderly correction of currently stretched asset prices.

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 much more complex policy trade-offs in a situation of slower economic growth, rising and broadening inflation pressures, and COVID-19 flare-ups, particularly for countries with limited policy space given fiscal responses to the COVID-

19 pandemic. Having credible monetary and fiscal frameworks and implementing policies accordingly will be critical to navigate challenges down the road and improve policy trade-offs. 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.

Multilateral cooperation is even more important than ever at this time when the global economic and financial system and mutual trust, which have been the foundation of global prosperity, are severely threatened. We echo the call for joint efforts to boost equitable access to a comprehensive COVID-19 toolkit, including vaccines, tests, treatments, and enhanced in-country delivery, and remove relevant supply and financing constraints. Fund members should make efforts on restoring a free, resilient, and rules-based multilateral trading system to reinvigorate the recovery momentum and promote innovation.

Fiscal policy needs to correspond to the evolving country-specific circumstances and available policy space. Support should continue to prioritize health spending and protect vulnerable households in a targeted manner, where possible, within credible medium-term frameworks. The focus of fiscal policy should increasingly shift to pursue transformative policies to boost digital and green investment, raise productivity, and promote inclusive growth.

Monetary policy in many countries needs to be normalized to bring down inflation, keep inflation expectations well anchored, and safeguard against medium-term financial stability risks. The pace of monetary tightening should be data-dependent and effectively communicated. Clear forward guidance and communication from major central banks in advanced economies will be critical to minimize adverse spillovers to the rest of the world. Countries should remain vigilant to a further build-up of vulnerabilities and macroprudential policy tools should be appropriately calibrated to limit systemic financial risks.

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 the war in Ukraine, fiscal adjustment, and scarring from the pandemic. We welcome the recently completed review of the Fund's Institutional View on the Liberalization and Management of Capital Flows including policy changes, informed by the work on the Integrated Policy Framework and the IEO evaluation of the Fund's advice on capital flows. We encourage the Fund to strengthen collaboration with other international organizations involved in the design of policies affecting capital flows. 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, within 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 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. In addition, we welcome the Fund's strategy for Fragile and Conflict-affected States (FCS), including Country Engagement Strategies as fundamental to anchor Fund engagement.

We welcome the Fund's work on advancing the debt agenda as we anticipate a significant increase in debt vulnerabilities. The Fund should be actively monitoring fiscal and debt sustainability risks, and members should be assisted as the timely and orderly resolution of debt will be important for some countries. In this regard, we are concerned that implementation of the G20 Common Framework has been slow, and call on the international community to strengthen its implementation for efficient debt restructuring. We encourage efforts to progress the cases of those countries that have requested a debt treatment under the Common Framework.

The Fund should continue to provide financial support through its facilities to members experiencing balance of payments needs, including countries severely affected by the current circumstances such as energy price increases and food insecurity. The Fund must step up 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. Given the changing shape and size of the lending portfolio, the Fund's operations should be bolstered by enhanced enterprise risk management.

We welcome the establishment of the Resilience and Sustainability Trust (RST) to provide affordable financing in support of policy responses to long-term macro-critical challenges by leveraging a voluntary rechanneling of special drawing rights from members with strong external positions to the vulnerable members, including small developing states. We call for early pledges from potential contributors to enable the RST's full operationalization later this year, while strengthening IMF collaboration with the World Bank and other relevant multilateral institutions. We also underscore that it is equally important to cover the remaining resources to meet the total amount being sought for loans and subsidies for the Poverty Reduction Growth Trust and to replenish the Catastrophe Containment and Relief Trust to provide debt service relief for 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 and Fund's governance reform under the 16th GRQ 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.