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Statement by Mr. Lee Republic of Korea

On behalf of

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

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ON BEHALF OF ASIA AND THE PACIFIC CONSTITUENCY

GLOBAL OUTLOOK AND RISKS

The global economy has demonstrated remarkable resilience in the face of successive shocks, but there is no room for complacency. The latest energy shock has had a smaller impact on activity than initially feared, while rapid advances in artificial intelligence (AI) and strong technology-related investment have supported growth. Nevertheless, global growth remains modest and uneven, inflation pressures persist, and uncertainty remains high. Economies with greater policy space or stronger links to technology value chains have generally fared better, while energy importers and many small developing and fragile states face greater headwinds. This divergence risks widening income gaps and slowing convergence.

Geopolitical conflicts, trade tensions, and supply-chain disruptions continue to cloud the outlook. Elevated public debt and higher sovereign yields are narrowing fiscal space, with potentially significant spillovers to the Fund's most vulnerable members. Prevailing inflation dynamics complicate monetary policy, while growing interconnections among sovereigns, banks, and non-bank financial institutions, together with cyber risks, call for continued vigilance. The concentration of investment and market valuations in technology-related activities also underscores the importance of maintaining broad and resilient sources of global growth.

At the same time, structural transformation offers major opportunities. AI and digitalization can become important new engines of productivity, innovation, and growth, while changing patterns of trade and investment create opportunities for economies able to adapt and move up value chains. Realizing these gains will require reliable energy and digital infrastructure, skills, investment, and effective institutions. Policies should facilitate the broad diffusion of new technologies and enable countries at different levels of development to benefit from this transformation.

These challenges are particularly acute for small and vulnerable economies. Limited fiscal buffers, narrow economic bases, remoteness, capacity constraints, and exposure to climate and natural disaster risks can amplify the impact of external shocks. Tighter financing conditions and declining official development assistance add to these pressures. As such, the experience of small and vulnerable economies is different to many larger economies and policy responses and international support should take these diverse circumstances into account.

POLICY RESPONSES

The current environment calls for pragmatic and agile policymaking anchored in credible frameworks. Policymakers should prepare for a range of outcomes through scenario analysis, contingency planning, and clear communication. At the same time, near-term uncertainty should not distract from the reforms and investment needed to strengthen medium-term growth and resilience.

Fiscal policy should balance fiscal sustainability with supporting growth and resilience, with the pace and composition of adjustment tailored to country-specific circumstances. Credible medium-term frameworks should help rebuild buffers while protecting essential social spending and growth-

enhancing investment. Where policy space permits, well-designed measures can further support structural transformation, energy security, and long-term productive capacity.

Monetary policy should remain firmly anchored in price stability, with implementation tailored to evolving inflation dynamics and consistent with prevailing policy frameworks. In the face of supply shocks, policymakers should carefully assess their persistence and the risk of second-round effects and ensure that inflation expectations remain well anchored. Clear communication and policy credibility remain essential. Exchange-rate movements should be assessed in the context of broader macro-financial conditions and market functioning, with the appropriate mix of policy tools deployed where warranted.

Financial-sector policies must keep pace with evolving risks and innovation. Supervisors should closely monitor leverage, liquidity mismatches, sovereign-financial linkages, NBFIs, and cyber vulnerabilities. Safeguarding financial stability should remain the primary objective of regulatory and supervisory frameworks, which should remain risk-based and proportionate and support responsible financial innovation.

Stronger medium-term growth ultimately requires a dynamic private sector, supported by predictable regulation, effective institutions and infrastructure, competition, efficient taxation, and investment in human capital. Harnessing AI and digitalization will also require an enabling environment for adoption, diffusion, and innovation. International cooperation can help countries with more limited infrastructure, financing, skills, and institutional capacity participate in and benefit from this transformation.

International cooperation remains indispensable. Open, transparent, predictable, and mutually beneficial trade and investment frameworks are important foundations for sustainable growth as economies adjust to shifting patterns of trade and supply chains. Domestic reforms and international cooperation should work together to address excessive global imbalances and reduce policy uncertainty, while limiting fragmentation and its costs to the global economy.

ROLE OF THE IMF IN SUPPORTING MEMBERS

The IMF has a central role in helping members navigate a more uncertain and rapidly transforming global economy. Surveillance, lending, and capacity development should work together to identify risks early, strengthen credible policy frameworks, and support durable and inclusive growth, while remaining firmly focused on the Fund's mandate.

We welcome the completion of the Comprehensive Surveillance Review and support its efforts to make surveillance more timely, targeted, integrated, and better tailored to members' circumstances. In particular, stronger analysis of external spillovers and macro-financial linkages, together with enhanced risk assessments and contingency planning, will be important in helping members navigate an increasingly shock-prone global economy. Surveillance should remain flexible and risk-based, while ensuring that policy advice is grounded in institutional capacity, country circumstances, and the broader policy mix.

For small and capacity-constrained members in particular, reform ambition should be matched by practical implementation strategies and effective capacity development.

The Fund should continue to strengthen its analysis of financial, external, and debt vulnerabilities, including those related to NBFIs, digital finance, cyber risks, sovereign-financial linkages, and cross-border spillovers. Rigorous and evenhanded external-sector analysis remains important amid significant

global imbalances and shifting patterns of trade and investment. Continued efforts to prevent and resolve debt distress and strengthen the international debt architecture are also essential, particularly for low-income and vulnerable members.

Helping members harness AI and other transformative technologies as sources of productivity and growth should also be an important part of the Fund's work. Its comparative advantage lies in understanding their macroeconomic implications and translating that analysis into practical, country-specific advice. Particular attention should be given to helping emerging market and developing economies and small states strengthen the infrastructure, skills, financing, and institutions needed to seize these opportunities.

Finally, we reaffirm our support for a strong, quota-based, adequately resourced, and representative IMF at the center of the Global Financial Safety Net. Full implementation of the Sixteenth General Review of Quotas remains important, alongside meaningful progress on further quota and governance reform, including under the Seventeenth Review. Quota shares should better reflect members' relative positions in the world economy while protecting the voice and representation of the poorest and most vulnerable members.

In a world of more frequent shocks, rapid technological change, and shifting patterns of trade and investment, the case for international cooperation has only strengthened. The Fund should remain a trusted platform for its near-universal membership, supported by rigorous analysis, candid policy dialogue, and the ability to adapt. Our constituency stands ready to support an IMF that helps all its members build stronger, more resilient, and more prosperous economies.