



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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### **Statement by Mr. Koo 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. YUN CHEOL KOO**  
**DEPUTY PRIME MINISTER AND MINISTER OF FINANCE AND ECONOMY (REPUBLIC OF KOREA)**  
**ON BEHALF OF ASIA AND THE PACIFIC CONSTITUENCY**

**GLOBAL OUTLOOK AND RISK**

The global economy is experiencing greater fragility and uncertainty. Beneath an outward appearance of resilience, its foundations have become increasingly vulnerable after years of successive shocks. Major policy shifts—including tariffs, export controls, stricter immigration regimes, and reduced development aid—and the ongoing war in Ukraine were already weighing on confidence and clouding medium-term growth prospects. The unfolding events in the Middle East are compounding these strains, disrupting supply chains, adding to inflationary pressures, weakening growth, and tightening financial conditions. Shocks are becoming more frequent, and transmission channels more complex.

The full implications of the negative supply shock from the Middle East remain uncertain. Much will depend on how long it lasts, how broadly it spreads, and how strongly it is transmitted through energy, food, fertilizer, transportation, tourism, and financial channels. Moreover, the world is confronting this new shock from a weaker starting position than in earlier crises, with less fiscal space, heavier debt burdens, and international cooperation that has become harder to sustain. That combination raises the risk of deeper and longer-lasting scarring.

Although this shock is global, its effects will not be felt evenly—they are likely to be transmitted with lags and to unfold very differently across countries. High energy-import-dependent economies, as well as countries with weak fundamentals, depleted buffers, and limited institutional capacity, will face more severe strains. The burden will be particularly acute for low-income, very small and fragile states already hit by repeated shocks and now facing weaker concessional financing and aid flows. For these members, additional shocks can further erode policy space and delay reforms needed to prepare for future challenges.

**POLICY RESPONSE**

Policymakers should remain balanced, and avoid excessive pessimism. The current environment calls for realism, discipline, pragmatism, and agility. Policy design must be robust across a wide range of scenarios rather than calibrated to a single baseline. Stress-testing, contingency planning, and ready-to-deploy policy playbooks will be essential for sustaining confidence. Credible policies, underpinned by strong institutions and timely, clear communication, will be critical to managing immediate risks and to building resilience over time.

Near-term policy responses must focus on preserving macroeconomic and financial stability. Where support is needed, fiscal policy should protect the most vulnerable through timely, targeted, temporary measures, while remaining anchored in credible medium-term frameworks and consistent with debt sustainability. Monetary policy should remain committed to preserving price stability and clearly communicated, which will help inflation expectations stay anchored. Central bank independence is crucial to achieving these goals. Given limited policy space and significant supply shocks, trade-offs between containing inflation and limiting output losses will become sharper. Coordination between fiscal and monetary authorities can help lessen these trade-offs. Financial risks can also crystallize rapidly, requiring vigilant supervision and, where necessary, temporary and targeted measures to preserve orderly market functioning and contain systemic stress. In addition, policymakers should stand ready

to deploy appropriate tools—including temporary foreign exchange intervention, targeted capital flow management measures, and macroprudential policies—to safeguard external stability and rebuild buffers, consistent with the Fund’s Integrated Policy Framework and mindful of their obligations under the Articles of Agreement.

Pragmatic international cooperation will be indispensable to the response. Open and predictable trade, orderly cross-border labor mobility, and rules-based multilateralism are essential not only for cushioning near-term disruptions, but also for supporting a more stable and adaptable medium-term environment. Efforts to deepen regional and multilateral cooperation should reinforce openness, not create new forms of collective protectionism.

At the same time, today’s response must not crowd out medium-term priorities. Economies will be better equipped to meet future challenges if they continue to advance structural reforms that improve allocative efficiency, better target social protection, strengthen institutions and governance, and support private-sector-led growth. Domestic resource mobilization and, where needed, timely and adequate debt restructuring can help rebuild fiscal space for growth-enhancing spending. Policymakers must also proactively manage transformative forces—digitalization, including artificial intelligence, climate change, the energy transition, and demographic shifts—so that they become engines of growth rather than new sources of exclusion, especially for vulnerable and less-prepared groups.

## **ROLE OF THE IMF IN SUPPORTING MEMBERS**

The IMF has repeatedly been called upon to respond to global shocks. No shock is ever the same, and each has required adaptation. We are confident that, in this new test as well, the Fund will continue to support members through its analytical strength, crisis-tested toolkit, and institutional agility. Amid immediate risks and a highly fluid environment, it needs to be ready to mobilize its full range of instruments and resources with flexibility and speed, including financing where needed. The Fund can also assist members through scenario analysis, country-tailored contingency planning, and guidance on well-calibrated policy mixes. Given the uneven effects of this shock across and even within country groups, differentiated engagement has become more important than ever.

Completing major policy reviews in ways that strengthen the IMF’s traction and effectiveness is a key priority. The Comprehensive Surveillance Review and the Review of Program Design and Conditionality should help ensure that the Fund’s work keeps its focus on macro-critical issues and is responsive to diverse country circumstances. This will matter especially for low-income, small and fragile states facing severe capacity constraints. Capacity development should be closely integrated with surveillance and lending in this regard. Continued efforts to diversify and stabilize CD funding and improve delivery will also be important. The Fund should continue to strengthen its lending toolkit, including emergency and precautionary instruments, while keeping concessional financing adequately resourced and addressing the persistent access challenges faced by small states, including under the PRGT. We also view the review of the Financial Sector Assessment Program as a timely and useful opportunity to ensure that it continues to be adapted to evolving macro-financial risks.

The IMF’s work must also keep pace with structural transformations. Climate, AI, and financial innovations, including stablecoins should not be treated as isolated issues, as they increasingly intersect with fiscal and monetary policy, labor markets, financial stability, and capital flow dynamics. The institution’s comparative advantage lies in bringing these issues together within a coherent macroeconomic and macro-financial framework

and translating them into practical, country-specific advice. For low-income, small and fragile states, the Fund can work with relevant partners to expand access to climate adaptation advice and finance and help ensure that the benefits of digital and AI-related transitions are shared more broadly and inclusively across countries.

The IMF can continue to serve as a platform for coordinated action on shared challenges, grounded in its mandate and expertise. Close collaboration with other international institutions, particularly in energy, agriculture, and transport, is critical at this juncture. Work on global imbalances should be analytically rigorous, transparent, and evenhanded, while grounded in continued engagement and consultation with members. The Fund's analytical work can show that trade restrictions and distortive industrial policies are not compatible with stronger global growth, nor can they provide a durable solution to global imbalances. We further urge the timely completion of work on the debt sustainability framework for low-income countries through close collaboration with the World Bank and other partners.

We underscore the importance of a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net (GFSN). Access across the layers of the GFSN remains uneven. In particular, smaller, more remote, and therefore more vulnerable members continue to face challenges in accessing Fund resources because of limited capacity and disproportionately low quota shares relative to their needs. Timely implementation of the agreed outcomes of the Sixteenth General Review of Quotas is therefore crucial. We also support stronger coordination with Regional Financing Arrangements. Looking ahead, meaningful progress in the Seventeenth Review would signal the membership's continued cooperative spirit. To advance this process, a more pragmatic and inclusive approach, together with clearer sequencing and an indicative timeline, will be important. We fully support quota shares that better reflect members' positions in the world economy. At the same time, while we strongly advocate protection of the quota shares of the poorest members, that principle should also take account of the particular vulnerabilities of small developing states, including Pacific island members, whose structural constraints and exposure to shocks are not always adequately captured by income-based criteria alone.