

## **Seong-Tae Lee: Globalisation and its implications for monetary policy**

Opening address by Mr Seong-Tae Lee, Governor and Chairman of The Bank of Korea, at The 14th Central Banking Seminar, Seoul, 7 November 2006.

\* \* \*

### **Opening remarks**

Ladies and gentlemen,

Let me extend a hearty welcome to all central bankers gathered from around the world to take part in the Bank of Korea's "Central Banking Seminar". I would also like to give my special thanks to our keynote speaker Dr. Mario Blejer, Director of the Centre for Central Banking Studies, Bank of England.

This seminar, now in its 14th year, provides a forum for debate on major monetary policy issues and for identifying ways to deal with them. The theme for this year's seminar, "Globalization and Its Implications for Monetary Policy", has of course been discussed many times before now. However, I believe this is an issue that merits central banks' continuing close interest.

### **Currents of globalization**

Globalization accelerated greatly in the 1990s, with the widespread expansion of free trade following launch of the WTO, and with the entry to the global economy of large low-wage countries such as China and India, together with the integration of financial markets supported by the great strides made in information and communication technology.

There can be various different opinions as to whether or not globalization has contributed to heightening human welfare. None would deny, however, that at this moment we live in an environment of ever more rapidly progressing globalization.

Consequently, we need to accurately assess the influences of globalization on the way we live, and handle these influences intelligently. This task is important to the existence of individuals, companies and even countries, and central banks are of course no exception.

### **Globalization and its implications for monetary policy**

Globalization has had a great impact not only on the central bank's primary objective of price stability itself, but also on the conditions for monetary policy conduct.

First of all, globalization has the effect of easing upward pressures on prices worldwide. This can be attributed to the increased productivity and intensified competition between companies that have accompanied globalization, and to the large supply, based on low wages, of cheap goods now available. Owing to this, central banks have been able to attain their inflation targets with relative ease and, as a result, enjoyed increasing credibility.

A number of problems have arisen due to this global phenomenon of low inflation which we can not overlook. As seen in major countries over the past few years, central banks have maintained a low interest rate stance for quite some time, based upon the stability of prices. During this period, however, we have seen worsening global imbalances and sharp rises in house prices in many developed countries.

We also need to watch the development of this global low inflation phenomenon further, to see whether it can be sustained in the time ahead. Recently, the prices of raw materials such as oil and copper have risen sharply in line with the continuing rapid growth in emerging countries like China, and wages in these countries have also begun to rise gradually. In these respects, there is a latent possibility of the disinflationary effects of globalization we have experienced so far shifting into reverse in the future.

Another aspect of globalization, the integration of domestic and foreign financial markets, has led to many difficulties in the practical conduct of monetary policy. The major policy variables of concern to the central bank, including interest rates and exchange rates, are now very greatly influenced by external factors. Central banks of small open economies, in particular, have seen their power to

control these variables considerably weakened. They have come to recognize limitations to their capacity to conduct monetary policy on their own.

In addition to this, the central bank's judgment and forecasting of the economic situation have been made more difficult, owing to the changes in the economic structure and heightened uncertainty arising from globalization. For instance, in judging the likelihood of inflation, it is now also essential to consider the global output gap, in addition to the domestic resource utilization rate.

### **Closing remarks**

Ladies and gentlemen,

Apart from the benign aspects of globalization, it has also ushered in many serious challenges that our central banks now face. I look forward to this seminar providing the opportunity for productive, in-depth discussions of these important issues.

I also hope that, although short, this seminar will lead to establishment of a foundation for increasing policy cooperation among all our central banks, by way of the mutual friendships built up here among participants.

Although the schedule for the seminar is rather demanding, I close with the hope that all participants will also find the time to enjoy the beauty of Korean culture, while relishing the atmosphere of this refreshing late autumn.

Thank you.