

Choongsoo Kim: The Bank of Korea's profile in the global economic environment

Address by Mr Choongsoo Kim, Governor of the Bank of Korea, upon the Bank of Korea's 61st Anniversary, Seoul, 10 June 2011.

The following is an unofficial English translation of the Governor's address upon the Bank of Korea's 61st Anniversary.

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My dear fellow members of the Bank of Korea,

Today 61 years have passed since the foundation of the Bank of Korea as the central bank. On this day last year we gathered in this place and reflected on the special significance of the Bank of Korea's 60th Anniversary, marking the completion of what is comparable to a 60-year life cycle in the Orient and the beginning of a new one. We expressed our gratitude to the executives and staff who had served before us, with great dedication to this organization's development, and vowed to unite our efforts in opening a new history, founded on the enduring tradition that we have inherited and uphold so dearly. In brief, we set out to create a new profile for the Bank of Korea as a world class central bank, under the banner of a "Global BOK" – the making of which we took as our call in this age.

One year on, today, we gather again on the Bank of Korea's 61st Anniversary, to look into what is required of us to heighten the Bank's profile in the global economic environment that has newly emerged, and to reaffirm our resolution to establish a lofty profile for the Bank in this world.

Understanding of global economic environment

Although we have always faced new circumstances and fresh challenges, we find ourselves in a highly uncertain economic situation now, which makes it difficult even to chart the future course of developments, since the agents of change have become extremely diverse compared to the past and the amplitude of the changes taking place has likewise broadened, particularly in the wake of the global financial crisis. From a worldwide perspective, the global economic trend toward further intensification of the interlinkages among all economic agents, including governments, has become generally pervasive. In such an environment, the role of our past experience and knowledge cannot but be limited when we seek to predict future developments and draw up policies in response. It is thus evident that each country's place in the world economy will depend upon how wisely it goes about overcoming these difficulties, and I would say that overcoming them and moving forward are huge challenges imposed on us.

It is now well known that, in the course of overcoming the global financial crisis, the global economy has moved from an advanced-country-centered framework to a multipolar one, as can be observed in the persistent gap now seen between growth in advanced economies and that in emerging markets, and in the differences in growth paths even among the major advanced countries themselves. Of course, in one dimension this phenomenon may be seen as helping to narrow the income gap between the advanced and the emerging economy blocs. In another dimension, however, some degree of apprehension also arises, as to whether the proposals for addressing the global imbalances now being discussed will indeed enable the global economy to achieve stable growth at an early date backed by policy cooperation among countries of the world. The current state is one in which the uncertainties in the global economy in the throes of overcoming the crisis, and the ensuing risk factors, are not disappearing but lurk constantly around every corner.

In terms of prices as well, we have moved away from the “Great Moderation” that had lasted since the 1990s, and now see global inflationary pressures mounting. A combination of factors, including the sharp run-ups in international commodity prices led by that of oil, the abundant global liquidity, and the demand side pressures arising from economic recovery, are exerting upward pressures on prices. The inflation problem confronting the emerging market bloc in particular represents yet another global policy challenge that must be tackled to ensure global economic balance and stability, one that is set apart from the obscure prospects for recovery in advanced economies and the problems of excessive sovereign debt.

In this way the world economy of today presents a pattern of differentiation among countries, but on the other hand the trend toward an interlinked global economy has grown stronger, where the influence that any one country’s economic policy has on other countries is very much greater than in the past owing to the growing interconnectedness in terms of both finance and the real economy.

I would say that the world economy currently faces two core tasks – the first being to solve at an early stage the problem of the global imbalances, which have been cited as a root cause of the current economic crisis, and restore the global economy to a state of equilibrium, and the second being to draw up proposals that will nip in the bud any repetition of the crisis. To these ends, an action plan for reducing the global imbalances has taken shape under the aegis of the G20, including the setting of indicative guidelines for current account balances and going so far as discussion of proposals to reform the international monetary system. What is more, on the basis of the discussions so far, all-out reforms are currently underway of financial systems and their regulatory and supervisory frameworks, the evolution of which had since the 1980s been based on financial liberalization as a core value. Countries around the world are presently preparing for transition from the Basel II paradigm of regulating the soundness of individual financial institutions to the Basel III paradigm in which regulations are further tightened to control systemic risks in a world where all national economies are interlinked.

That being said, we must remain vigilant, despite such efforts, given that there is no guarantee that the global economy will escape the present crisis, nor that future economic crises can be adequately prevented. We should bear in mind that problems may arise at any time, from defects in the system themselves or from the inappropriate administration of them, particularly in a situation in which no legal establishment to discipline the global economy, *i.e.*, a global jurisdiction exists. I would characterize our current era as one in which the

awareness of these problems has actually elevated the sharing of information and policy cooperation among governments and central banks worldwide into a very important issue.

Trend of establishing new roles for the Central Bank

Dear friends and colleagues,

Given that the world economy is rapidly changing, in terms of both finance and the real economy, the roles played by the central bank must also change. It must be clearly understood that the central bank is no exception to being subject to change – in that, like any other economic entity, it also cannot stand still in history but possesses the same characteristics as a ceaselessly evolving creature. Although the history of central banks stretches back over 300 years, I believe their roles are in the process of changing even today. It also goes without saying that, in the course of exploring ways of overcoming the global financial crisis, the role of the central bank is appraised as having become more important than at any time in the past. For example, the “post-crisis role of central banks” has been a theme discussed in great depth in academic circles, and we may well be looking toward change in the direction of a heightening of the duties and authorities of the central bank relative to the past.

The bimonthly meetings of central bank governors held by the Bank for International Settlements (BIS), the G20 meetings, the IMF Annual Meetings, the Basel Committee on Banking Supervision (BCBS), the Financial Stability Board (FSB) and the like may be seen as international forums that have taken on a pivotal role in the establishment of a new international economic order. And the fact that central bank governors take part in all of these meetings may serve as decisive evidence confirming the further enhancement of the role of central banks to a greater degree than ever before.

In the process of overcoming the global financial crisis, the international financial community and academia have enthusiastically advocated central banks playing a more active role in safeguarding financial stability, in addition to fulfilling their basic mandate of price stability. This is based on the recognition that the central bank should not only play its traditional role as lender of last resort, through the supply of urgently needed liquidity in times of crisis, but also prevent financial system instability by means of the macro-prudential policies newly put forward to restrain the systemic risks seen to have been at the root of the global financial crisis. In fact, the US and the UK which were the epicenters of the global financial crisis are already reorganizing their relevant systems in this direction.

Another weighty duty that we must carry out as a top priority is timely improvement of the central bank's method of conducting policies in line with the changing economic environment that we are currently addressing. In the current context, where the interconnectedness of the global economy has intensified greatly and the importance of a collective response to major international financial issues has been accentuated, a global perspective is required of us all – that will enable us in our policy operations to take into account not merely domestic economic conditions alone, but also broader matters including global economic trends and the changes in the policy of each country.

Major policy tasks for the Bank of Korea

Dear fellow members of the Bank of Korea,

Today, on the occasion of our anniversary, we cannot but rethink the question of what vision the Bank of Korea should hold in preparing for the future, given these conditions at home and abroad. If the central bank is to become a main axis in the running of the national economy, we should bear in mind that our ways of thinking and patterns of behavior are never to be isolated from social and economic norms and practices. We must keep an eye on changes in the markets at all times, and possess the ability to understand economic activities in every sector and not just in finance alone. We should not become mired in past know-how and concepts which take no consideration of the changing circumstances of the era. And it is for these reasons that I would point out the need that our activities be always informed by the twin principles of “relevance to reality”, meaning that our operations should be intimately linked to the realities on the ground, and of “globalization”.

In the course of the last 60 years, which have seen Korea grow from a poverty-stricken nation to a G20 member country, the Bank of Korea has contributed greatly to economic development as the “Central Bank of the Republic of Korea”. I believe that we are now called upon to develop into a “World Class Bank of Korea” while carrying on this tradition.

Over the last one year, we have taken a huge step toward a new advance, through the structural reform of our organization and improvements in our modes of operation. Going ahead, in conjunction with these efforts, we look forward to accomplishing our vision of a “Global BOK” by striving even more to change our perceptions and build our capacities, driven by the impetus for change coming from within.

Dear friends and colleagues,

There are many tasks to be pursued if we are to realize our vision through actual deeds, rather than seeing it stay as a mere catchword. I would say that the following challenges await those departments with responsibilities related to actual policy.

First of all, a new monetary policy paradigm appropriate to global financial and economic conditions previously mentioned and to the changing role of the central banks must be sought out. The conduct of policies based on their relevance to the Korean economy, while at the same time accurately charting the ebbs and flows of the world economy, is called for. We will also need to assiduously study methods of monetary policy operation that can bring about financial stability as well as firmly anchoring price stability.

We will need to strive actively to form a concrete foundation for strengthening the Bank's role in financial stability. We must harness all our wisdom to devise various arrangements that can uphold the framework of international cooperation – in regard for example to the scope of the central bank's financial stability mandate, to the associated policy instruments, and to the framework for conduct of the policies concerned. In view of the fact that in this global era financial stability cannot be achieved by the efforts of any single country alone, it is vital to build up international financial cooperation and global networks. For this very reason, I would emphasize the importance of establishing an environment in which international standards can be applied.

In parallel with our pursuit of price stability and financial stability, we should press persistently forward with efficient conduct of our currency-issuing business and advancement of the payment and settlement system. Heightening payment and settlement system stability, in line with the new international standards being drawn up under the auspices of the BIS, is a vital task as well.

We must also continue our endeavors to mitigate the volatility of foreign capital flows. The Bank of Korea, in coordination with the government, intends to implement seamlessly a Macro-prudential Stability Levy on non-core foreign currency liabilities as scheduled in the latter half of this year. In addition, we will need to strengthen our monitoring of the international and domestic financial and foreign exchange markets, and if necessary devise supplementary measures, while remaining on guard against the possibility of heightened capital flow volatility caused for instance by overseas risk factors.

The efficient operation and administration of the foreign exchange holdings that constitute reserve assets for external payments in times of emergency are of the utmost importance. We must maintain our efforts to maximize our operational capacities, by enhancing the effectiveness of the operating framework and heightening the expertise of staff, befitting a time when the foreign exchange reserves amount to more than 300 billion dollars.

Ongoing pursuit of internal reform at the Bank of Korea

Dear friends and colleagues,

In keeping with the rapidly shifting external environment, the pace of our internal reforms will have to be spurred on still further. It is vital above all to augment the Bank of Korea's research capabilities, in order for it to not only fulfill its duties as a policy authority but also develop into a first class economic research institute, equipped with the expertise to diagnose a wide variety of economic issues and present prescriptions for addressing them. While striving to improve the quality of the economic statistics, we must maximize the synergy effects of our departments charged with undertaking research through the activities of the newly-introduced Research Committee, the promotion of matrix-type combined research, and joint research with international organizations, consequently consolidating the institutional memory of the Bank of Korea. Through these steps we will have to move to

heighten the quality of the Bank of Korea's research and analyses enough to be duly recognized within the international community.

In aiming for a "Global BOK", the importance of cultivating human talent can hardly be overstated. The greatest assets of the central bank are its human resources. While strengthening staff competencies and international networks through the continued propulsion of secondments to foreign central banks and staff entry to international organizations, we intend to take to a further stage the "Global Initiative Program" that started early this year. We will have to continually provide our staff of all ranks with wide-ranging training opportunities to build individual capacities.

We must be resolute in our will to heighten still further the profile of the central bank in contributing to the national economy, all the more so in these times of change we now find ourselves in. Internal reform is a task that cannot be hesitated over for even one moment in our quest to grow as a central bank with prestige and strong public credibility. We must ensure that the Bank of Korea is appreciated by the entire nation for the worth of its whole range of activities and organization, by contributing substantially to the development of regional communities through the operations of our regional branches, and aim to improve our organizational management, for example, by strengthening the functions of our overseas representative offices.

My dear friends and colleagues of the Bank of Korea,

We should not forget that, as the interest and anticipations of society in regard to the central bank are heightened, our duties become much greater. Pushing the bounds of our capacities forever outward, we need to be conscious of our lofty mission and adopt an attitude of strict self-discipline.

As I draw toward the end of my anniversary address today, I would once more like to emphasize that in order to play our part with excellence as a central bank and efficiently conduct policies in today's global era, the bounds of our consciousness and our spheres of activities should no longer be restricted to Korea alone but must extend to the world, and our ways of thinking and acting are necessarily inseparable from those of our society. I look forward to great efforts from each and every member of the Bank in embarking on the drive to create a "Global BOK", and I offer you my heartfelt encouragement.

When we gather here in a year's time to celebrate the 62nd anniversary of the Bank's foundation, may it be with a consciousness of dedication to being in the fore in developing the organization, so that we may take pride in having advanced the position of the Bank of Korea a stage further. On this occasion of the 61st anniversary, I thank you all again very sincerely for your endeavors, and I wish the best of health and happiness to you all and to those whom you hold dear.

Thank you very much.