

Juyeol Lee: Bank of Korea's 64th anniversary

Speech by Mr Juyeol Lee, Governor of the Bank of Korea, at the commemorating ceremony of the Bank of Korea's 64th anniversary, Bank of Korea, Seoul, 12 June 2014.

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Dear fellow members of the Bank of Korea family,

Today marks the 64th anniversary of the foundation of the Bank of Korea. On this occasion I should like to express my sincere gratitude to those who served in the Bank of Korea before me, devoting themselves over many years to our Bank's development, and also to those who have been unstinting in their encouragement and sage counsel. I wish in addition to commend all members of our staff for their hard work in faithfully carrying out the duties entrusted to them.

The Korean economy is showing signs of slowing down in its recovery, due to weakening to some extent of consumption under the influence primarily of the recent Sewol ferry accident, while exports remain buoyant owing to the modest growth in the world economy.

During the second half of this year we expect the Korean economy to maintain its trend of improvement as exports continue their steady movements, and consumer price inflation to gradually rise from its current low level. However, together with external risk factors including changes in the US Fed's monetary policy stance, there are downside risks to growth present domestically as well, including the after-effects of the Sewol ferry accident and the appreciation of the Korean won, and there is thus a need to closely monitor the trends of these conditions.

Dear fellow members of the Bank of Korea family,

The recent domestic and foreign economic environments are giving us much cause for concern.

First, the uncertainties concerning the external economic environment are still very high and have become more complex. In terms of growth, worries are increasing about a weakening of growth momentums in emerging market countries. On the prices front, we have not yet ascertained clearly whether the current low level of global inflation is a phenomenon that has emerged in the course of the business cycle, or a structural change. International financial market conditions are also growing increasingly complex due to the divergent monetary policy stances of the major advanced countries.

Our domestic difficulties are also by no means trivial. Above all, we cannot but worry about the possible weakening of our economy's growth potential caused by population aging and the delay in improvement of investment conditions. And resolving the imbalances accumulated across various sectors of the economy – such as our economy's heavy structural dependence on exports rather than domestic demand, the polarizations of income between large companies and SMEs and between regular and temporary employees, and the buildup of household debt – is a task that cannot be delayed any longer.

In order for the Bank of Korea to carry out its proper role of leading the national economy in the correct direction under these conditions, an accurate judgment of the situation and timely implementation of the appropriate policies are above all important. I would like to emphasize once again that we should be unsparing in our endeavors to closely analyze the shifts in international and domestic economic conditions and their influences, and to formulate the optimal policies in response.

Fellow members of the Bank of Korea,

I would like now to discuss the matters that the Bank of Korea should focus and concentrate on from the second half of this year.

Our interest rate policy operations will need to comprehensively take into account not only the economic situation in the second half of the year but also the situations in the medium to long term beyond next year. Within the scope of maintaining price stability, we must provide support to sustain the recovery of Korea's economic growth trend. In doing so we will need to scrutinize very closely the changes in major advanced countries' monetary policies and their influences, the pace of the recovery in domestic economic activity, and the effects arising from continuation of the accommodative monetary policy stance.

We must also strive to do our utmost for the stability of our financial and foreign exchange markets. We will have to enhance our capacities for early detection of and prompt response to factors posing risks to financial stability, through the establishment of a comprehensive framework for the monitoring of macroprudential conditions. To prepare for a possible increase in financial market volatility triggered by the emergence of risk factors at home and abroad, measures to more effectively utilize open market operations should be explored. Additionally, we will need to continue our efforts to enhance the qualitative development of the foreign exchange market, so as to strengthen its capacity for autonomous absorption of external shocks. In the management of the foreign exchange reserves, we will place our emphasis on securing their safety and liquidity as external payment reserves of the last resort.

We will have to redouble our efforts to strengthen the central bank's credibility with the general public and with the markets, through constant dialogue with the markets. While maintaining policy consistency, we should at the same time improve our methods and tools of communication so as to better convey to the market the substance and background of our policy decisions.

Nor should we neglect efforts to prepare for the day when unification comes. We must carry out detailed analyses of the major issues pertaining to finance and the economy during unification, including currency integration, and explore effective policy options.

Fellow members of the Bank of Korea staff,

We must above all brace ourselves anew to carry out our duties, so that the Bank of Korea can develop further as a policy institution enjoying public confidence in the current situation where our economy is facing difficulties and policy conditions are shifting rapidly.

As a first step, it will be desirable for us all to carry out our tasks with active and progressive attitudes. Recently the public's expectations regarding expansion of the role of the Bank of Korea have been gradually growing larger. And before being told what to do by the public, we must ourselves actively examine the best ways of contributing to the development of our national economy, and incorporate them into our policy operations.

We will also need to strive harder to enhance our expertise. It is no exaggeration to say that a central bank's competitiveness lies in its acquisition of high degrees of expertise in the research and policy fields. We need to examine objectively whether our economic analysis and forecasting techniques and methods of operating our policy instruments, which were evaluated highly in the past, are still as effective in this transformed economic environment. We will be called upon to act boldly to carry out any related improvements, as and where needed.

Last but not least, we will need to foster mutual trust and harmony. We should bear firmly in mind that it is the creation of the sense of unity among our staff that drives the development of the Bank. Even while competing in good faith with other departments and colleagues, we must never lose a spirit of mutual regard and cooperation.

My dear fellow members of the Bank of Korea staff,

The recent tragic Sewol accident has come as a painful lesson to us all, of the type of tragedy that can occur if each member of society does not fulfil his or her given duties and responsibilities. We should take this opportunity to look back objectively, to see whether we

have been fully carrying out the tasks entrusted to us as members of an important policy institution charged with one major aspect of the national economy.

I would urge you all to do your very best in carrying out the duties entrusted to you, imbued with a sense of duty to contribute to the development of our national economy and with a spirit of public service dedicated to the stability of people's lives. Please bear firmly in mind also that high standard of moral virtue and legal compliance are required of you as employees of the central bank, and thus steady your minds and adhere to the straight and narrow path of virtue in selflessly carrying out your duties.

To draw my remarks to a close, I should like to voice my gratitude to all of those involved in the preparation of this commemorative event, and wish you all and those whom you hold dear the very best of good health and the greatest of happiness.

Thank you very much.