

Juyeol Lee: Rebalancing an economy after the global financial crisis

Opening address by Mr Juyeol Lee, Governor of the Bank of Korea, at the Bank of Korea-IMF Regional Office for Asia and the Pacific Joint Conference, Seoul, 20 November 2014.

* * *

Ladies and gentlemen,

I am delighted to welcome you all to Seoul, for the Bank of Korea-IMF OAP Joint Conference. I wish to thank Director Odd Per Brekk of the IMF Regional Office for Asia and the Pacific, the conference co-organizer; Senior Fellow John Lipsky of Johns Hopkins University, our keynote speaker; President John C. Williams of the San Francisco Fed, and all program participants including our moderators, speakers, and discussants.

The world economy is gradually recovering now, six years after the global financial crisis, but the pace of recovery remains painfully slow. It is well known that at the root of the financial crisis were the global imbalances, accumulated over a long time, and we also know that the structural imbalances, which worsened in each country during the crisis remain in place and continue to limit recovery today.

History tells us that the more unbalanced an economy is, the lower its level of growth and the greater its vulnerability to negative external shocks. The correction of economic imbalances is therefore essential for preventing future crises and for achieving sustainable growth. Against this backdrop, I think that this conference focused on the issue of economic rebalancing is both deeply meaningful and timely.

Looking back, during the so-called “great moderation” in the 2000s, imbalances in many aspects had been built up and spread, both externally and internally. Globally, the external imbalances between countries running current account surpluses and those running current account deficits worsened. At the individual country level, various internal imbalances were also accumulating, such as financial imbalances, increased fiscal deficits, and widening gaps in output between the service and the manufacturing sectors.

From the global perspective, the external imbalances seem to have narrowed somewhat recently. This is due to the sluggishness of demand in the deficit countries, rather than to any improved competitiveness in their export sectors or to expansions in domestic demand in the surplus countries. From the individual country perspective, however, internal imbalances continue to exist, and in some cases have even worsened. And when the global economy picks up, the external imbalances are likely to worsen again. Without fundamental rebalancing, a full-fledged recovery of world economy may be a remote possibility. But rebalancing within a short period of time is no trivial task. It will require more proactive and concerted policy efforts than are currently being made.

The recent expansionary macroeconomic policies undertaken in response to the sluggish economic growth are, as I see it, temporary measures, and not ultimate solutions to rebalancing. They serve to mature conditions for carrying out structural reforms that are essential to remedying the imbalances. In this regard, the following can be suggested as structural solutions for rebalancing. First, the current account surplus economies need to expand their domestic sectors, and thereby establish a virtuous circle between output, employment, and income. The current account deficit countries, on the other hand, need to nurture their manufacturing industries, so as to improve their bases for exporting. In individual countries, the imbalances between their real and financial economies, and between their manufacturing and service sectors, need to be corrected, while they must also work to reduce their debts and the disparities between income classes within their populations.

To secure the impetus for sustainable growth, countries will also need to work together and combine their wisdom. The Brisbane Action Plan, a set of comprehensive growth strategies

presented by the G20 Summit last weekend, is one result of such combined wisdom, arrived at after long discussion among member countries, and will be useful in the future rebalancing in each country.

During this two-day conference, we will deal with the topics of rebalancing the economy in five separate presentations, as well as in a panel discussion participated in by former and current policymakers from major countries. I look forward to participants reaping many useful ideas here, and to this conference contributing to rebalancing and to the restoration of sustainable growth.

Thank you.