Seung Park: Phases of the Bank of Korea's 50-year history and the future course of change

Contribution by Mr Seung Park, Governor of the Bank of Korea, to the Korea Herald for its 50th anniversary, 15 August 2003.

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From its foundation in June 1950, the Bank of Korea has, as the country's central bank, devoted great efforts for more than 50 years to the growth and development of the national economy. No sooner had it been established in 1950 than the Korean War broke out, causing it to throw its energies into the efficient financing of the war and to the subsequent post war reconstruction and the building of a modern financial system. It played a great part in facilitating Korea's successful economic development within a short space of time through its positive role in the carrying-out of a series of economic development plans from the early 1960s. Then, from the 1980s, the central bank sought the construction of a stable foundation for the economy and committed itself wholeheartedly to equipping the country with a new financial system, including the interest rate liberalization, which would befit the new financial environments brought about by liberalization and globalization.

In the period of economic modernization, the Bank of Korea's efforts were aimed at underpinning the government's economic policies in terms of finance. In this process, the Bank could not give full attention to the orthodox central bank role of maintaining the soundness of the financial system and the stability of the value of money.

Following the currency crisis in 1997, as the Korean economy began to lay more weight on the market principle and autonomy of economic agents, the central banking system was also required to be more advanced. In this context, the recent passage by the National Assembly (July 23, 2003; Finance and Economy Committee) of the draft revision of the Bank of Korea Act, whose main purposes are to heighten the independence and efficiency of monetary and credit policies and strengthen it in the exercise of its functions, takes on great significance.

Provided the bill is accepted and brought into force, it will above all affect the composition of the Monetary Policy Committee by empowering the central bank's Deputy Governor, as is the case in advanced countries, to sit as an ex officio member, thereby heightening both the independence of the central bank and the linkages between policy decision-making and execution. Furthermore, in view of the length of time required before changes in monetary policy are transmitted to prices, the efficiency of monetary policy will be strengthened by the shift from the current establishment of an annual inflation target to a system of selecting an intermediate (2~3 years) inflation target. Thirdly, the safety and efficiency of payments and settlement system, which are crucial to financial stability, will be augmented by assigning the responsibility for their oversight and overall management to the Bank of Korea.

All in all, the revised legislation will bring the Korean central banking system much closer to convergence with the global standards demanded by the OECD, IMF and other international organizations. It is also forecast to contribute to raising the country's international credibility.

In the years ahead, the Bank of Korea will re-double its efforts to ensuring the stable development of the national economy through the even more efficient conduct of monetary and credit policy from a position of neutrality.

At the same time it will do its utmost to strengthen the policy capacity and to augment the transparency and accountability of the policy decision-making process so as to react in a highly effective manner to the rapid changes and the mounting uncertainties of the financial and economic environment. In doing so, it will win the reputation of being a central bank that enjoys the firm confidence of the general public.