

Choongsoo Kim: The challenges ahead for the Bank of Korea in 2010

Inaugural address by Mr Choongsoo Kim, Governor of the Bank of Korea, on the opening up of a new chapter of the Bank of Korea commensurate with its role as the central bank of the chair country of the G20, Seoul, 1 April 2010.

The following is an unofficial English translation.

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Dear members of the Bank of Korea,

Countries around the world are at this time putting every effort into overcoming the global financial crisis. And in contrast to past cases, international policy coordination toward this end has taken the form of practical actions rather than words. Even though the world is shaking off the crisis, however, we know that it is impossible for the global economy to return to its anterior state. But which way should the world now be heading? The world is now seeking a new post-crisis economic paradigm. In this global economic environment, no one can relax its vigilance for even one moment. We have experienced the stern reality that any country can be dragged in an instant into the vortex of economic crisis. At this point in time, I have been named Governor of the Bank of Korea, the central bank of our country. For an economist, the honor of this appointment goes beyond anything words can possibly express. At the same time, of course, I must confess that I feel the pressure of a very heavy responsibility now weighing down on my shoulders.

Let me begin by taking this opportunity to bow my head in deep gratitude and tribute to my forebears at the Bank of Korea, for their devoted dedication in establishing the Bank's standing in a constant and righteous way, following several drastic changes, ever since the Bank was founded 60 years ago. In particular, I would like to express my thanks to my predecessor Governor Lee, Seong Tae, who has contributed so much to overcoming the global financial crisis. I would like to ask Governor Lee for his unstinting guidance and encouragement in the times ahead.

I have previously declared as my principle that I will contribute to upholding the authority of the Bank of Korea. The independence of the central bank is legally guaranteed, and the concepts of neutrality, autonomy and initiative define its very nature. These are sacred values of the central bank, and unless they are upheld we can never say that our mandate has been properly fulfilled. I am now proposing to establish the Bank's authority in enhancing these values. We must, in this regard, work to make sure that the public pays close attention to what the Bank says. And such authority is not bestowed from the outside, but must be built up from within ourselves. It can be established only when we cultivate our abilities. Our words and our will alone do not suffice. It also goes without saying that credibility must be underpinned by true ability.

Dear friends and colleagues,

The crisis that the world economy is now undergoing is an abnormal situation. What is clear, however, is that overcoming it does not mean a return to the pre-crisis situation. The economy has a tendency to change dynamically, a characteristic that has been further reinforced by the modern trends of rapid globalization and informatization. There is a likelihood of risk and uncertainty growing greater the more dynamic the economy is, and at the same time spreading rapidly the more informatized it is. As the world moves closer to forming a single economy, we have learned the hard way that sectors have become much more inter-connected. We must redouble our efforts to adapt to changes, so as not to become estranged or left behind in this process of global transformation. Efforts for policy adjustment between the United States and China to resolve the global imbalances, overcoming the challenges to euro system stability posed by the fiscal crises in some euro-zone countries, the global wealth shift following the emergence of the G20 and the rapid

expansion of Asian economic powers, fixing the financial system so as to rein in economic risk and uncertainty, and redefining the roles of the international financial institutions: those are just a few of the core elements that will shape our drive to establish a new global economic framework.

An appropriate solution to our country's domestic problems can only be derived from the understanding of all these challenges. Regrettably, however, we must bear in mind that there is no textbook solution to guide us in the future. We will be unable to find the correct prescription through approaches based upon our previous understandings of the economy. The current state of affairs requires that we respond wisely by thinking deeply and mustering all our wits to grasp the natures of the problems. International policy coordination may, on the one hand, currently be emphasized because the effects of particular policies adopted by any one country are limited in an open economy. This means that individual countries must cooperate with one another to maximize their policies' impacts. On the other hand, the current international policy cooperation may also have the positive result of reducing the market uncertainties arising from the various policy directions different countries suggest. The characteristics of the Bank of Korea stipulated in the Bank of Korea Act, such as harmonization with government policy, public nature and transparency, may be interpreted as having been defined in this way so as to reduce uncertainties to the maximum extent possible by mitigating asymmetries of information.

Friends and colleagues,

We are living in an age of mounting economic uncertainty at home and abroad. A new international financial architecture is in the course of formation, and the Bank of Korea must very actively seek out its appropriate role as the central bank of the chair country of the G20. Our Bank therefore has much work to do, and we will have to concentrate particularly on solving the following tasks.

First of all, given the risks uncertainty poses to price stability, the Bank of Korea must devote even greater efforts to achieving its mandate of price stability. In essence, economic policy is composed of two pillars: the goals of full employment and of price stability. We must bear in mind that, just as an economy without job growth will be unsustainable, so for an economy without price stability will be prone to crises. Price stability is not only necessary to steer the macroeconomy on a stable course, but is also an indispensable element for preventing worsening of the distribution structure, and particularly for stabilizing the livelihoods of the people.

Secondly, in the course of overcoming the global financial crisis, it has now become generally acknowledged that the central bank's role in preserving financial stability is more important than ever before. Of course, the definition of the role of each individual central bank reflects the characteristics of its own nation's economy, which is influenced by historical changes in the particular local environment. In our current global economic climate, however, central banks are shifting towards going beyond the unique circumstances of their own individual countries, and dealing collectively with common issues in the world economy through policy coordination. The latest trend is toward a reinforcement of the financial stability role of the central bank. And we, too, at the Bank of Korea, must meet and overhaul various relevant institutions and practices, a task that is emerging as an important priority for our national economy. Dedicated efforts should also be devoted toward cooperating closely with the government and the supervisory authorities, for the sake of financial stability.

Thirdly, the Bank must endeavor to communicate seamlessly with the markets. In a democratic society, the best of intentions and their outcomes vary more often than not. Further, a well-intended policy may even bring about bad results. This is because, at times, the thoughts and actions of economic agents are dictated merely by what is perceived to be real, rather than by reality itself. Accordingly, we must always seek to appropriately bridge the gap between reality and their perception of it. This is exactly why the importance of communication is being emphasized. The central bank also performs the role of providing

important information that the markets need, including of course information on monetary policy. Such information must be provided in a timely manner, and the greatest care must be taken so as not to lead economic agents into confusion.

Fourthly, the Bank of Korea's capacity as a central bank to carry out research and study must be heightened even further. The Bank's analytical capabilities should be enhanced, so that its research output is actively sought after in the formulation of not just our own monetary policy, but also the government's policies. We must bear in mind that the quality of a country's policy-making depends to a large degree upon the stature of its central bank as a storehouse of reliable information.

My dear colleagues,

Korea is recognized as one of the economies that have been the fastest to recover from the global financial crisis among OECD member countries. Let me emphasize once again that the Bank of Korea has made a great contribution to this achievement. Although we are lucky to have staged such a rapid recovery, I would like to state clearly that we cannot as a result become self-complacent. We should never forget that the global financial crisis had the greatest impact, among all nations, on Korea. We should also endeavor to fully fathom why Korea was hit harder by the crisis than other economies were, and showed negative growth of over 20%, on an annualized rate, just after the crisis erupted in the fourth quarter of 2008. What are the weak points of our economy? What do we know about them? Other OECD countries are busy analyzing the damages inflicted on their growth potentials. What about our own growth potential – is it sound? Although crises are invariably accompanied by pain, we can also learn a lesson from a crisis. As the saying goes, "Don't waste a crisis". I would deem crises as providing their sufferers with very valuable lessons. From a historical perspective we should never overlook the fact that crises have a tendency to recur. If we go back to "business as usual", we cannot possibly say that we have learned from the crisis. Did our way of thinking change? Did our way of conduct change? Did our organization change in response to the global financial crisis?

I believe that public expectations of the central bank and the importance of its role are greater now than ever before. An exit strategy refers to the unwinding of the various emergency measures that were introduced in the process of overcoming the financial crisis. We need to marshal our combined wisdom to seek the most appropriate ways to exit, while paying attention to changes in the economic environment both at home and abroad. We must be able to chart a course for the future and take carefully thought-out measures that the markets will voluntarily comply with. On the other hand, thinking on the new roles of the central bank must also take on a new dimension. These ponderings should be raised to a level at which they ultimately contribute to the development of our nation. It is true that we have as rivals our peers within the organization and elsewhere in the domestic sphere. But at the same time, we must regard the central bankers of other nations and entities, such as the US, the EU, Japan, China and the UK, as our true competitors. If we fall behind them in terms of contributions made to national development, we cannot say that we are fulfilling our responsibilities. This should be the yardstick for judging the international competitiveness of a central bank. Please always bear in mind that your competing counterparts are in the central bank of other nations. It goes without saying that we must also step up our efforts to enhance cooperation with them. I expect such efforts to shift our thinking and behavior from being retrospective and inward-looking to a future-oriented and global-looking one.

As Governor of the Bank of Korea, I have unbounded confidence in your ability and highly value your pride in the Bank. It is inconceivable that the Bank, made up of the most talented people in Korea, cannot come up with solutions to Korea's economic issues. I have held various posts before coming here. I think all of them will together serve as a cornerstone for me to fulfill my responsibilities as Governor of the Bank of Korea. At this difficult time, all of us working for the central bank must rethink the mission for our time. In the global age in which economic borders are disappearing, we must boldly break down barriers that have

limited our scope for thinking and behavior. Let us not be entrapped by outdated ideologies or theories but gather our wits for us to overcome new challenges with courage and wisdom. Of course, we need to hold ourselves to stricter standards in order to exercise such leadership. No change enforced by others can ever be effective, but the initiative for the change needs to come from within. Nowadays “national dignity” is at the center of public concerns. In order to elevate our nation’s dignity, a shift in the values of all members of our society is required. The leadership of our society, in particular, is expected to be bound by lofty moral obligations, such as “noblesse oblige”, and businesses are required to carry out faithfully their corporate social responsibilities. If we succeed in elevating the authority of the Bank both nationally and internationally, that will be a way to contribute greatly to elevating the dignity of the entire nation. Let us join hands to do our best and move forward with pride in being members of the central bank of the G20 chair country. May we together resolve to open a glorious new chapter in our history as the central bank of Korea in this year that sees the 60th anniversary of its foundation. It may still be recognized in years yet to come as a central bank that paved the way for the long-term development of the nation.

Thank you.