

Choongsoo Kim: 60th anniversary of the Bank of Korea

Address by Mr Choongsoo Kim, Governor of the Bank of Korea, on the occasion of the Bank of Korea's 60th anniversary, Seoul, 11 June 2010.

The following is an unofficial English translation.

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Dear fellow members of the Bank of Korea,

Today we gather to commemorate that day 60 years ago when the Bank of Korea took its first steps as the central bank of the Republic of Korea. Let me begin by taking this opportunity to express my very deepest gratitude to all former members of the Bank, for their dedication to development of the Bank and the national economy. I feel sincere appreciation also to all of those who have taken interest in the Bank over the years, and been so unstinting in their encouragement and sage counsel to make the Bank what it is today. I would like to give warm thanks as well to all current members of our staff, for carrying out your responsibilities so faithfully.

Looking back over the years, the Bank of Korea has contributed more than any other institution to the course that has taken our nation, ever since the Bank's foundation in 1950, from a newly emerging poorest country to one that has grown into OECD membership and further into the position as this year's G20 chair.

Early on, the Bank of Korea actively underpinned both the operation of a wartime economy during the Korean War, immediately after its foundation, and the work of economic reconstruction that followed the war's cessation. From the 1960s, the Bank endeavored to raise investment resources through promotion of savings and to supply money for economic growth, making it possible for the economy to maintain continued rapid growth for many years. From the early 1990s, the Bank of Korea pushed ahead very actively with interest rate liberalization, the realignment of policy financing, and capital and foreign exchange deregulation – in the course of economic opening, internationalization, and the shifting into a market economy in Korea. During the recent global financial crisis, by putting into place bold and resolute policies to counter it, the Bank also contributed notably to the Korean economy's rapid recovery.

Dear friends and colleagues,

The accomplishments of the Bank of Korea over the last 60 years should be highly evaluated. We can never be satisfied with what we are now, however, if we are to open a glorious new chapter in our history, commensurate with the dignity of our entire nation reaching out to the world.

All political, economic and social phenomena are caught up in a process of endless change. And nowadays, with the rapid progress of globalization and informatization, the pace of that change is accelerating still further. Under these circumstances, if we follow the old ways of thinking and patterns of behavior, from when the pace of change was slow and predicting its directions was to some extent feasible, we cannot but slip back onto a path of decline.

We need to think deeply now, to identify what changes in the Bank of Korea's role this new era demands, so that our Bank may stride proudly forward to take its place as a leading central bank in the 21st century. The theme of the "Changing Role of Central Banks" was in this regard chosen for the 2010 Bank of Korea International Conference, held on May 31 and June 1 in celebration of our Bank's 60th anniversary. This was one part of our efforts to discern the new role of our Bank in the changed environment following the recent global financial crisis.

Dear friends and colleagues,

The global financial crisis following the Lehman Brothers collapse inflicted unprecedented shocks on the world economy, raising fundamental questions concerning the economic theories and principles that had long been received wisdom. In this context, perceptions as to the desirable role of the central bank are now shifting greatly.

Until now, the belief has been that the central bank can facilitate sustainable growth by attaining price stability through its operation of monetary policy. This crisis has demonstrated, however, that even under low and stable inflation, imbalances such as sharp run-ups in asset prices can occur, and that this can bring about a financial crisis and severe real economic downturn. In consequence, the argument that ex-post monetary policy response to crisis is by no means simple and gives rise ultimately to massive social costs has gained influence. The opposing view, that a pre-emptive policy response to asset price bubbles could have too many negative side effects, has meanwhile lost support. Against the background of such changing perceptions, argument has arisen recently at home and abroad, about the proposition that the central bank should exercise its financial stability role in a more assertive manner.

To move ahead with strengthening its financial stability role to meet the needs of the times, the Bank of Korea has many tasks to carry out. Above all, the Bank should establish the appropriate scope of its financial stability role, while at the same time obtaining the required policy tools and expanding the range of the counterpart financial institutions embraced by its policy – all of which require wide-ranging social consensus. The problem of realigning its monetary policy framework and methods of conducting policy also needs to be studied in depth with a view to securing the maximum degree of harmonization between the Bank's prime goal of price stability and its financial stability role. Proposals must in addition be carefully arranged to bring about a proper sharing of roles and ensure organic policy cooperation with the other authorities in charge of financial stability, including the government and the supervisory authorities.

In today's global economy, meanwhile, it is very difficult for Korea to maintain financial stability, and to obtain sustainable growth, through its own efforts alone. Our experience of the previous foreign exchange crisis had taught us the necessity of building up foreign currency reserves as a buffer against external shocks. Korea's foreign currency reserves have accordingly continued to increase. As shown during the recent global crisis, however, as a small open economy, Korea can inevitably suffer massive shock even despite its greatly increased foreign reserves – due to abrupt outflows of overseas capital caused by international financial market turbulence.

The drive for international policy cooperation must consequently be strengthened still further, in concert with individual countries' own efforts for financial stability. The Bank of Korea will pursue its policy cooperation with other central banks more resolutely. It also needs to play an active part in the international discussions on such issues as construction of a global financial safety net and the framing of preventive measures against crisis recurrence.

Dear friends and colleagues,

The Bank of Korea, as an institution with its hands on one major lever of national economic policy, must strengthen still further its overall capacity, so that it can better carry out its leading role in helping the nation respond proactively to new trends in the world economy.

Expanding our capabilities in research and study is the top priority in this regard. In today's rapidly evolving economic environment, we need to constantly question whether the familiar economic theories and results of empirical analysis still hold. At the same time, we must redouble our efforts to seek theoretical understandings that accord with the realities we observe. There are inevitably limitations on trying to grasp or estimate economic realities that are changing day by day on the basis of conventional theories, models and experiences. We

must therefore devote our best efforts to developing new approaches and analytical techniques, that correspond more closely to the real world.

We will also work to ensure that the outcomes and publications of the Bank of Korea's research can be utilized more productively and effectively for the sake of the national economy. In any country, the results of research undertaken by its central bank should be put to good use by a wide range of economic agents, in the government, academia and the financial markets. By accessing the information provided by the central bank, economic agents are assisted in their own economic activities, while coming also to thoroughly understand both the significance of the central bank's existence and its policy intentions. Consequently, reinforcement of the Bank of Korea's research capacities will contribute to increasing its monetary policy effectiveness, while at the same time enhancing its credibility and prestige.

The Bank of Korea must also equip itself as soon as possible with the capacity to assume its proper role in international financial circles. From the experience of this global financial crisis, we have realized how crucial it is to make connections with major central banks and international financial organizations. In this respect the importance of strengthening the cultivation of our international capabilities cannot be overemphasized.

Dear friends and colleagues,

While striving consistently toward these development objectives, from a medium and long-term perspective, we must also pay close attention to a number of tasks facing us, whose pursuit should be emphasized in the second half of this year.

Recently, we have witnessed sovereign debt problems in several southern and central European countries and rising tensions surrounding the Korean Peninsula. The financial markets have as a result shown repeated patterns of unrest – characterized by the heightened volatility of price variables including share prices and exchange rates. In consideration of the linkages between the share, bond and foreign exchange markets, we must closely analyze the possibility of risk spreading between these markets, and if necessary act energetically to ensure market stability through such means as our open market operations.

Interest rate policy will be operated by taking into overall consideration prices, economic activity and financial market conditions. In this process, particular attention needs also to be paid to the impacts of internal and external risk factors on the trend of economic recovery, as well as to the possibility of imbalances arising from our continued financial easing stance.

At times like the present, when there is great uncertainty surrounding the economy at home and abroad, the likelihood is strong of economic agents reacting quite sensitively to even mild shocks. Especially in this situation, we must devote ourselves even more to strengthening our communication with the markets, in order to prevent any amplification of financial market volatility due to transitory developments.

At the next Meeting of Finance Ministers and Central Bank Governors, ahead of the G20 Summit in Seoul this November, we will in addition do our utmost, as joint chair, to facilitate meaningful and practicable agreements regarding the principal agenda items.

Dear Bank of Korea members,

At the time of its 60th anniversary, the Bank of Korea must work to improve its organization in line with the changing environment – in order to be reborn as a leading central bank carrying out the role demanded of it by the times and whose prestige is well recognized by the public. The future vision of the Bank, toward which its organizational reform is directed, should incorporate not only the hopes of its members but also the opinions of outside users of central bank services including the government, financial institutions and academia. Case studies of major central banks in advanced countries should of course be considered as well.

As you are aware, a fundamental diagnosis of the Bank of Korea's organization is currently under way. After identifying the tasks required to reform our organization, through a process of opinion gathering both within and without, we plan to employ a consulting agency with a reputation for expertise and objectivity, and request a proposal for a specific restructuring plan.

The actual initiative to achieve successful organizational reform must come from within the Bank itself, however. I think it desirable to adopt a firm policy, of moving consistently forward on the basis of agreement among and participation by all members of our staff, rather than a strong policy that is unilateral and one-off in character.

Dear fellow members of the Bank of Korea,

On this special day, marking the 60th anniversary of the Bank of Korea's foundation, all members of staff should stand ready, with fresh will and resolution, to bring about our Bank's advancement to the level of a leading central bank in the 21st century. As agents of change, all of us are marching strongly toward the future, so that the Bank may before long stand on a par with the central banks of advanced countries and gain recognition as a central bank whose prestige is widely respected. I truly appreciate the great pride, sense of responsibility, and sincerity of our staff. I will devote my utmost efforts to ensuring that these capabilities are focused to contribute greatly to the development both of our organization and of our nation's economy.

Drawing my remarks to a close, I should like to express my particular gratitude to all those of you who have worked so hard in preparing the 60th anniversary ceremony. I wish you and those that you hold dear the best of health and the greatest of happiness.

Thank you.