

Choongsoo Kim: Strengthening central bank cooperation

Closing dinner speech by Dr Choongsoo Kim, Governor of the Bank of Korea, at the BIS bimonthly meetings, Sydney, 24 February 2014.

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Thank you, Christian, for a very kind introduction. I still vividly remember your office the first time we met in Paris. I appreciated very much that you met me despite your busy schedule. I also envied you, as we Koreans must take a more than 10 hour-flight to see and visit the Chateau, but you French Central Bank people enjoy your lives working at the gorgeous Chateau.

Governor Glenn Stevens of the Reserve Bank of Australia, ladies and gentlemen joining us here today...

It is a great honor and pleasure for me to stand before you all, in Sydney, one of the most beautiful and great port cities in the world.

First of all, I wish to express my sincere appreciation to Governor Stevens, for hosting this event with the warmest hospitality. My thanks also go to General Manager Caruana, who has given Bank of Korea staff many opportunities to gain valuable experience working with the BIS.

Looking back, I find that my four years of service as Governor have been influenced the most by activities of the BIS. This has been very instrumental to me in learning what central banking is all about. I am sure that my life as Governor would have been much less fruitful and rewarding had there been no BIS. And taking this opportunity, I would like to talk about three things in this regard today.

First, let me begin by telling you why I have loved coming to Basel. The reason why I have especially enjoyed the BIS meetings is that this is a peer group meeting, in which Governors can network with each other through intimate and frank discussions.

I have gathered much information necessary to my work as a central bank governor through attending these meetings over the past four years. This has been an indescribably valuable experience to me, someone not originally from the central bank community.

The BIS is acknowledged as a world-class institution and knowledge base, which leads the way in dealing with the main issues of the global economy.

I have learned a great deal not only from participating in the BIS-led discussions, but also from reading the excellent background notes prepared by the Secretariat. And these are the two things that I will miss most in the future.

One notable trend seen in the recent recovery from the global crisis is that central banks are now becoming knowledge institutions even more academic than academia itself. And the true knowledge institution is the BIS, where the governors of central banks gather to share ideas and strengthen their cooperation in this regard.

In addition, as a courageous trailblazer, the BIS has I think very excellently fulfilled its mission of providing clear ideas on ways of meeting the expectations for the increased role of central banks, and of plugging any gaps between their current roles and social accountability.

Secondly, I would like to express my hope to see a strengthened role for the BIS going forward, in bringing a global equilibrium to the world economy by filling the gap due to our lack of a global jurisdiction.

In going through the global financial crisis recently, we have realized that all economies are highly interconnected, and that advanced and emerging market economies are no longer separate but now in the same boat. As General Manager Caruana mentioned during one

speech last year, cooperation among central banks is now a necessity, given the trend of market fragmentation and re-nationalization since the global financial crisis together with the increases in globalization and interconnectedness.

Based upon this mindset we have all gained new ideas during our discussions at the BIS Governors meetings, and, while seeking a new basis for monetary policy, come to realize that we can find mutually beneficial solutions for both advanced countries and EMEs.

International cooperation in the “Basel way”, and informal exchanges of policy experience, have become critical factors for multilateral surveillance. And as the BIS has played an instrumental role in opening up new policy areas for central banks in this process, central banks have become capable of responding well to their new challenges and opportunities.

Although the Bank of Korea is not a regulator or supervisor of financial markets, we have learned many lessons from the discussions at the BIS Governors meetings, of the responses taken by the BIS to the global financial crisis.

I also believe the meetings to have been very meaningful in that these experiences contributed to the inclusion of financial stability among the mandates of the Bank of Korea, under the Bank of Korea Act revision that took place during my term.

Thirdly, like most of you I have spent the majority of my time during the past four years seeking ways to overcome the global financial crisis and to establish a new system of financial regulation to prevent future crises. And so let me tell you now of one personal episode related to economic crisis management.

When I taught graduate school economics at one private university in Korea in 1998, right after the Asian financial crisis, I set up a course there on “Economic Crisis Management”, which was to my knowledge the first and only course of its kind in Korea, thinking that economic crisis management would become a buzzword in the global market in the future. I taught this graduate-level course for five years, with my students including mid-level career government officials from many developing economies. The course turned out to be very popular, and I was asked by many universities around the world to send them the syllabus.

In a similar vein, in carrying out my duties as Governor I have felt great academic curiosity about the character of the recent global financial crisis. And my conclusion has been that the recent crisis has been a composite one, in that it has involved all facets of past crises, including excessive financial liberalization policies such as financial engineering for example of derivatives, contagion to neighboring economies, large amounts of public debt, rigid exchange rate regimes, the generation of innocent bystander victims, and inefficient financial surveillance and regulation.

One notable difference this time, however, which has distinguished the recent crisis from past ones, is that our central banks have taken bold monetary and financial regulatory measures in response, through which collapse of the global financial system has been prevented.

Yes, this time has indeed been different in that way. And we are all very well aware that the BIS has been of great help in this process.

I am relieved that the global financial crisis has now cooled down somewhat, at this time of my departure from my post as a governor. However, considering the saying that “It’s not over until it’s over”, one of my favorite Yogi Berra quotes, I hope that the global economy does not let its guard down until the crisis has been completely overcome. In particular, fundamental solutions such as the establishment of a global jurisdiction are still necessary.

And as there are multiple disequilibria at present, I expect the BIS to play a certain role in solving this problem as well.

Meanwhile, I believe strongly that all of our central banks will respond adequately to the many difficulties we face, while broadening our mutual understandings of each other through the BIS meetings.

Before concluding my speech, I would like to leave the following message to you all, hoping that you will find it food for further thought. I think that we live in an economy in which prices including foreign exchange rates overshoot, markets then overreact, and policymakers subsequently tend to over-respond. The consequence is high market volatility. At the same time, as the costs of type I errors, such as a missed call of a crisis, are so devastating, a new tendency prevails of making too many type II errors, for example by sending false signals of crisis.

And while the social costs of such a type II error may be latent or unmeasurable at the moment, taken all together the repetition of such errors will have non-negligible social costs, which will have subsequent negative impacts on the growth potential of the economy. I do hope you will come up with optimal solutions to this and to the other problems I have noted.

During a crisis period we tend to become over-cautious. And so I would like to remind you of what Winston Churchill said in this regard: “A pessimist sees the difficulty in every opportunity, and an optimist sees the opportunity in every difficulty.” I hope to see more central bankers adopting this latter, optimist’s view in the coming years.

To bring my speech to an end, I would like to once again express my deep gratitude to my fellow governors for their cooperation, and to the BIS staff for their arrangement of this wonderful meeting.