

## Juyeol Lee: New Year speech

New Year's address by Mr Juyeol Lee, Governor of the Bank of Korea, at the Bank of Korea, Seoul, 2 January 2015.

\* \* \*

Dear fellow members of the Bank of Korea!

Today is our first day of work in 2015, the year marking the 70th anniversary of national liberation. I would first like to express my sincere appreciation to all of you for so faithfully carrying out your duties under difficult circumstances.

Since returning last April to the Bank of Korea, where I had worked my entire career, I have devoted great efforts to fulfilling my heavy responsibilities as Governor. And looking back I feel rewarded with some sense of achievement and satisfaction, but I also remember even more clearly that last year left much to be desired.

Since the time I took office as Governor, I have thought that monetary policy communication with the market is very important, and I have endeavored to do this in a smooth manner. For effective communication, the accurate forecasts of economic conditions is required. This will enable us to send consistent policy signals and gain the confidence of economic agents. Economic movements changed greatly last year, however, owing mainly to structural changes in the Korean economy and to external and internal shocks, and so the results of our communication with the market were not so satisfactory.

The fact that the effects of our monetary policy were unclear is also disappointing. Although we strengthened our accommodative monetary policy stance further last year, by reducing the Base Rate on two occasions and raising the ceiling on the Bank Intermediated Lending Support Facility, the trend of economic recovery was insufficient, with some even voicing concerns about deflation.

As consumer price inflation was below the target range for a long period of time, controversy over the adequacy of our monetary policy stance continued. In a situation of low inflation resulting mainly from supply-side factors, such as declines in prices of international crude oil and domestic agricultural products, conducting monetary policy only to achieve the inflation target may not be desirable. I think it is disappointing that we did not get this message across properly to economic agents in our country.

Dear members of the Bank of Korea!

It is generally forecast that economic conditions in Korea will improve at least slightly more this year than last. The Korean economy is expected to continue its modest trend of recovery going forward, on the back of improvements in the global economy centering around the US, the sharp declines in international oil prices, and the effects of expansionary macroeconomic policy.

However, it is also true that there are considerable challenges lying ahead of our economy. Looking first into the domestic economy, there are several structural factors weakening our growth potential. Factors such as low fertility and population aging, labor market rigidity, inter-sectoral imbalances, and excessive regulation are reducing the dynamism of the economy, and there is concern as well that the competitiveness of some leading industries in Korea may have weakened. It also cannot be stressed enough that the greatly increased household debt may constrain consumption and undermine financial stability.

In terms of external conditions also, factors that can cause difficulties to the Korean economy lurk everywhere. The possibility can also not be ruled out of economic growth in China continuing to slow, while the euro area and Japan have yet to emerge from their economic sluggishness. In the international financial markets, heightened volatility of cross-border capital movements and price variables such as interest and exchange rates is expected due

to changes in monetary policy in major countries such as a policy rate hike by the U.S. Federal Reserve. The recent plunge in international oil prices will obviously be a positive factor for the world economy, but concerns are emerging about possible adverse effects as well, such as the triggering of economic crises in oil-producing countries and a resultant possibility of international financial market unrest.

Against this backdrop, the top priorities for the Korean economy this year are strengthening its economic fundamentals and boosting its growth potential through spurring structural reform of the overall economy. The Korean government has chosen structural reform as its number one priority in mapping out this year's economic policy directions. However, putting such words into action without setbacks is as important as the drawing up of appropriate plans. Economic agents including firms, financial institutions and households need to realize that they can enjoy the fruits of growth for a long period of time only if they participate in structural reform and endure the resulting pains.

Dear fellow members of the Bank of Korea!

I would like to touch now on the tasks that we will need to focus on this year.

First of all, we should conduct our monetary policy in such a way as to support the recovery of economic growth on a foundation of price stability, while also paying attention to financial stability. Looking ahead, as it is expected that inflation will remain low amid an only modest recovery of domestic economic activity for a considerable time, it is desirable for the Bank to maintain its accommodative monetary policy stance. In this process, given that economic uncertainties remain high we will need to continuously monitor changes in the situations of economic growth, financial stability and price movements.

As I mentioned earlier, in order to secure the effectiveness and credibility of monetary policy it is essential that we implement our policies in a timely manner and send consistent policy signals by increasing our accuracy in economic forecasting. We should put greater efforts into improving our economic forecasting models and the procedures for outlook forecasting. We should in addition continuously work to improve our monthly Monetary Policy Statement and biannual Monetary Policy Report, so that they can be more effectively utilized as tools for communicating with the market.

This year we have to set the inflation target that we will apply from the year after. To this end we need to seek an appropriate level of inflation supporting sustainable growth of the Korean economy, based upon a comprehensive and systematic analysis of changes in the environment for inflation since the global financial crisis. We should find the most appropriate inflation target, and also thoroughly analyze the target's application time horizon, tolerance range and target indicators.

We will also need to devote our best efforts to securing financial stability, which has grown in its importance as a new central bank mandate. Inasmuch as external risk factors spread to the domestic economy mainly through the financial and foreign exchange markets, we need to work to continuously monitor the international financial markets and take preemptive measures in response when signs of risk are detected. The recent surge in household debt could be a result reflecting the effects of the policies taken by the government and the Bank of Korea, but it is also a sign of the build-up of risk. We thus need to monitor the household debt-related risk more closely, and devote active efforts to mitigating it in cooperation with the government and the other authorities concerned. Greater efforts will be made to strengthen financial system stability, by for example shortening the cycle for review of systemic risks in response to the rapid changes in our financial environment, and by establishing an oversight framework for FinTech, which can affect the payment and settlement system considerably.

For the successful implementation of structural reform, it is required of us that we conduct a serious study of the roles of the central bank and the policy tools that it can employ. Since the global financial crisis, the policy operation targets and tools of major country central

banks have changed dramatically, and in Korea as well calls for redefining the role of the central bank are continuing. Much more study of how to set the future of the Bank of Korea is thus also essential.

Dear fellow colleagues!

Upon my appointment as Governor of the Bank of Korea last year, I mentioned three points related to internal management. I vowed to improve the management administration system and the methods of work that were limiting the efficiency in carrying out our duties, and to modify the organization of the Bank of Korea to enable it to more faithfully fulfil its innate function as a central bank. Related to human resource allocation, I made clear that I will put an emphasis on the personal performance and reputation built up over a long period of time.

These promises of mine are being put into action step-by-step. Your views on tasks for management improvement were gathered and those recognized as necessary have been wholeheartedly accepted. Our organization will be reshaped in the direction of improving our communication with the financial markets, expanding our study and research functions related to monetary policy, and carrying out our financial stability function more effectively. Personnel management will be continuously dealt with in a fair manner, based upon the proposed standards.

However, the management administration system, the organization and our personnel management are no more than just hardware for performing our work well. And no matter how good the hardware is, the whole system will be unable to carry out its function properly if its software is inadequate. And what we need to do now is to update the software that runs the system called the Bank of Korea, meaning our attitudes and the way in which we work.

More than anything, I hope that you will all try to work in more flexible and active manners. In this rapidly changing economic environment, if we merely follow precedent and work passively there is a risk that we may miss something critical. I would like to ask our BOK staff to always deliberate on the current issues in the overall Korean economy and on the Bank of Korea's role. If more BOK staff deliberate deeply, with a sense of ownership, we can come up with better ideas that will lead us to develop more feasible and timely policy measures.

It is also important to be enthusiastic about and devoted to our work. Some of you may feel that your work is trivial, but your work exists because it is indispensable to the Bank of Korea. We need to bear in mind that if one part of a spacecraft breaks down, even just a small part, then that big spacecraft may explode in midair. If we realize deeply that our work does truly matter, then our enthusiasm for it will naturally increase.

My dear colleagues!

This year will be a more difficult time than ever before. We have already successfully overcome great hardships in the past, however, such as the foreign exchange crisis of 1997 and the recent global financial crisis, and in doing so I am proud to say that the Bank of Korea played a substantial role. If on top of your superb capabilities and talent your work attitude is also newly strengthened, then there is no doubt that we will be able to contribute greatly to helping our Korean economy overcome its current difficulties and take another step forward.

In welcoming the new year, I wish all of you in our Bank of Korea family very abundant health and happiness.

Thank you.