

Juyeol Lee: Bank of Korea's 65th anniversary

Speech by Mr Juyeol Lee, Governor of the Bank of Korea, at the commemorating ceremony of the Bank of Korea's 65th anniversary, Bank of Korea, Seoul, 12 June 2015.

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Dear fellow members of the Bank of Korea family,

Today marks the 65th anniversary of the Bank of Korea's foundation as Korea's central bank. On this happy occasion I would like to express my sincere gratitude to all those who have served before us in the Bank of Korea, devoting themselves throughout the years to the development of the Bank and the national economy, and to those who have given us support and encouragement as well. Let me also express my compliments to each and every member of our staff, for faithfully carrying out the duties entrusted to you under difficult conditions.

Since the beginning of this year our economy has shown signs of a modest recovery even though exports have been sluggish, as domestic demand has improved. The Bank of Korea has been cutting its Base Rate and expanded its Bank Intermediated Lending Support Facility since the second half of last year. I think that this large-scale monetary policy easing has underpinned the recovery of economic activities.

In the latter half of this year the Korean economy is expected to sustain its trend of improvement, thanks to the economic recoveries in major advanced economies including the US and to the effects of our expansionary macroeconomic policies. There are still downside risks to its growth path, however, such as the slowdowns in emerging market economies, the weakening of our export momentum, and heightened volatility in the international financial markets. There are also concerns about domestic demand turning sluggish as the sentiments of economic agents contract and consumption slows due to the effects of the MERS (Middle East Respiratory Syndrome) outbreak.

Dear fellow BOK members,

There are not a few challenges remaining that have to be overcome in order for the Korean economy to maintain sound economic growth in the future.

First, looking at the domestic situation, there is a possibility of our growth engines continually weakening due to structural factors not easily resolved within a short space of time. Sectoral imbalances, labor market rigidity and excessive regulation are holding back virtuous cycles between growth and employment and between production and income distribution. In particular, the unemployment problem faced by today's youth, the future leaders of our society, is deeply troubling because it can even weaken our growth potential in the future. It goes without saying that household debt, which has increased greatly in the course of accommodative macroeconomic policy operation to support the recovery of economic growth, is a major risk factor in the economy.

Externally, there are also various latent factors in existence that could negatively affect the Korean economy. It is not easy to rule out the possibility that the sluggishness of our exports could continue into the second half of this year, in line with China's economic slowdown and import substitution strategy and with the weakened price competitiveness of Korean companies due to the depreciations of the Japanese yen and the euro. We also need to be mindful that the uncertainties surrounding the US Federal Reserve's monetary policy normalization and the renegotiation of Greek debt could heighten financial market volatilities at home and abroad.

Dear fellow members of the Bank of Korea family,

Given these conditions, there are numerous issues that the Korean economy needs to address. Among them, I would like to talk briefly now about the tasks that the Bank of Korea needs to focus on as we move into the second half of this year.

First, since it is difficult to be sanguine about the domestic economic recovery continuing, monetary policy should be operated in such a way as to keep our accommodative policy stance in place. Even though the policy environment may change rapidly after the interest rate hikes by the US Fed going forward, I believe we need to be cautious when adjusting our monetary policy stance should the economic recovery prove to be inadequate.

Meanwhile, since there are massive uncertainties surrounding conditions at home and abroad, we need to work to heighten the effectiveness of our monetary policy by striving to increase the accuracy of our assessments of the economic situation and our economic forecasting, and send consistent policy signals to economic agents. We should in addition strive to more effectively operate our Bank Intermediated Lending Support Facility, which has been greatly expanded to support the economic recovery and boost the growth potential.

Inflation is expected to gradually rise in the second half of this year. However, with consumer price inflation still low, due largely to the effects of the low oil prices, there is a possibility of concerns about deflation being continually raised for some time to come. And so we should work to prevent the spread of these concerns by accurately checking and analyzing price conditions, and adequately explaining them to the general public.

In the second half we will meanwhile also have to set our new inflation target, which will be applied from next year. Taking into full account the possibility of structural changes in the inflation environment since the global financial crisis, we will need to strive to find the optimal solutions for the target level, the period of application, and the target indicators.

We will also need to pay particular attention to financial stability. In view of the various latent external risk factors, such as the possibilities of huge surges in international capital movements and of financial turbulence in vulnerable emerging market economies triggered by the US Fed's hiking of interest rates, and the uncertainties related to the Greek economy, we must keep a close watch on international financial market conditions, and if any destabilizing factors are detected put into place measures to tackle them before it becomes too late.

We need to heighten our caution concerning the rapidly growing household debt. The general consensus is that the probability of household debt threatening our economy's stability is not high for now, but if its current rapid growth persists it could work to constrain household consumption and destabilize the financial system. We should therefore respond actively to the household debt problem, in closely cooperation with the government and the supervisory authorities.

Efforts to support structural reform are also crucial. Structural reform should in principle be led by the government, but there will be some tasks that the Bank of Korea should carry out. We should bear in mind that it is essential above all to maintain our monetary policy stance at an appropriate level, in order to ensure not only macroeconomic stability but also the smooth implementation of structural reform. This is because, if the degree of monetary policy accommodatingness is inadequate, economic recovery will be delayed and make it difficult for the economy to withstand the shocks from structural reform. If on the other hand easing is excessive, then this could weaken economic agents' incentives for reform.

There could be a need to strengthen our research studies related to structural reform and put forward feasible policy alternatives. As we have witnessed in the process of public sector reform, even if the policy directions for structural reforms have been properly established, their implementation remains difficult unless they are supported by social consensus. In this context, the Bank of Korea's research findings related to structural reform should contribute to the understanding and participation of economic agents in structural reform.

Dear fellow members of the Bank of Korea,

In situations characterized by a high degree of uncertainty like that of today, we must reevaluate our mind-sets and accustomed patterns of behaviour so that the Bank of Korea can fulfill the role entrusted to it and, going one step further, suggest appropriate policy options for completing the national policy tasks.

I have been emphasizing this at every opportunity since taking office last year, and wish to urge all of you once again to be both more flexible and more positive in your thinking when carrying out your duties. When the policy environment is complex and changes rapidly, it is difficult to develop effective policy measures if we rely on past practices and experience alone. We must therefore have the open-mindedness to listen to demands from various segments of the society, as well as to new opinions from within our own organization. Creative ideas should not be rejected just because they do not fit in with the existing framework of policy operation or methods of conducting our duties.

Next, we also need to adopt more proactive attitudes when carrying out our duties. If we just carry them out by following our superiors' orders or following precedents, without making any efforts on our own to actively seek out current pending issues and present solutions, then we cannot develop either as individuals or as an organization.

In terms of management administration, we will make every effort so that these mind-sets and patterns of behavior can take hold. To heighten the diversity and dynamism of staff, we will broaden our methods of staff recruitment insofar as this does not harm organizational stability. In relation to human resource management, as major criteria in our evaluations we will take into account not just performance and reputation, but also the spirit of enterprise and creativity. I also want to urge you to redouble your efforts to create a dignified organizational culture befitting the character of a central bank, based upon mutual respect and confidence and consideration for others.

In commemorating our 65th anniversary we have chosen the public interest, independence, accountability, open communication and professionalism as the Bank of Korea's core values. As these values have been decided upon by all members of the Bank, we should do our utmost to ensure that they do not remain mere empty words, but are fully incorporated into the operation of this organization and the exercise of our duties.

Successfully settling into place the soon to be implemented retirement age extension and the peak wage system are other tasks that we cannot neglect. We must gather our wisdom, so as to harness effectively the experience and wisdom of our senior staff members, and to ensure that the peak wage system makes a real contribution to increasing youth employment.

Dear fellow members of the Bank of Korea,

As you have always done until now, I would like to urge each of you to continue devoting your best efforts to carrying out the duties entrusted to you, imbued with a sense of mission as a central banker. If we all possess passionate but non-self-interested attitudes of public servants, we can make great contributions to overcoming the difficulties faced by the Korean economy.

In drawing my remarks to a close, I should like to express my gratitude to all of those participated in the preparation of this commemorative event, and wish you all and all of those whom you hold dear the very best of good health and the greatest of happiness.

Thank you.