

Juyeol Lee: Opening address – 2017 Bank of Korea International Conference

Speech by Mr Juyeol Lee, Governor of the Bank of Korea, at the 2017 Bank of Korea International Conference, Seoul, 1 June 2017.

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Ladies and gentlemen,

I am delighted to bid a warm welcome to you all, our participants in this Bank of Korea 2017 International Conference. I wish to express my sincerest appreciation to our keynote speakers, Professor Thomas Sargent of New York University and President John Williams of the Federal Reserve Bank of San Francisco, as well as all of our moderators, presenters and discussants. Special thanks to Professor Sargent also for his great help to us again this year in organizing the conference.

It has been nearly a decade now since the Global Financial Crisis. And looking back over these years, the global economy did not emerge from conditions of low growth and low inflation for a long time, even under the unprecedented accommodative fiscal and monetary policies carried out around the world. To make matters worse, financial imbalances increased, mainly in EMEs, as international capital flows into EMEs surged, against a backdrop of continuing low interest rates worldwide, and private debt levels in these countries soared.

Fortunately, the global economy seems to have regained some growth momentum, and the international financial markets are stable. However, trade protectionism and geopolitical risks are increasing in some parts of the world, and the normalization of monetary policy in the US is expected to continue. Productivity growth has also not yet returned to its pre-crisis level. In view of all this, we cannot be sure that the current global economic recovery and financial stability will be sustained. And the structural problems that have built up since the pre-crisis period make it even more difficult to be confident.

In this situation, I think we can take this year's conference as a very meaningful opportunity to look into the challenges that lie ahead for us in the next decade, and to discuss ways of dealing with them. Today, I would like to talk just a bit about some of the challenges that many countries face in common, and about possible policy responses to address them.

First, income inequality has risen as an important global policy agenda. Income gaps among the different social classes have been widening in many countries, and this could impair the virtuous circle by which economic growth leads to increases in employment and income, which then help growth to strengthen further. Recently, globalization and technological innovation are being held responsible for this worsening income inequality. Notably, in the era of the Fourth Industrial Revolution, now in progress, there are concerns that the number of unskilled jobs could decline rapidly. However, we cannot go against the flow of globalization and technological innovation. And in this regard, international organizations such as IMF and World Bank recommend that we should pursue "inclusive" growth, which ensures that many people can share the benefits of growth. More specifically, creating more jobs, increasing household incomes and expanding the social safety net are recognized as relevant policies for promoting inclusive growth. We can talk more about this topic during Session Two today, on "Inclusive Growth and Employment."

Another challenge that we must tackle is population aging, which is progressing rapidly now in many countries. Population aging is likely to undermine economic growth as it reduces the labor supply and saps aggregate demand at the same time. For Korea, in particular, as the pace of our population aging is rapid, but our preparations for it insufficient, the negative effects of population aging on growth seem likely to be substantial. In response to this, proper policy measures need

to be put in place, to ease the rapid drop in elderly consumption while we at the same time strengthen social support related to child birth and child care. The theme of our first session today was chosen to be “Population Aging”, which I think may suggest just how important and urgent this issue is.

Finally, we need to also address the issue of financial imbalances. Since the Global Financial Crisis, international efforts to ensure financial stability have strengthened, as seen in the introduction of global regulatory frameworks such as the Basel III accord and the OTC derivatives market reforms. However, the financial imbalances in major EMEs have accumulated further, driven by greater household and corporate debt leverage in these economies. Financial institutions have been seeking high-risk, high-return investments, in response to their worsening profitability due to the low interest rate environment. In Korea, household debt is already at a historic high, and has been growing faster than incomes, so that it poses a major risk to financial stability. I hope that we will obtain valuable insights related to this tomorrow, in the special session led by the Federal Reserve Bank of New York, on ways of securing financial stability and the role of monetary policy.

So far, I have raised three policy issues — income inequality, population aging and financial imbalances. Besides these, of course, there are many other structural problems that we must face. And the proper policy for dealing with such problems is structural reform, although that is not so easy to carry out, due to factors such as the resulting unemployment and conflicts of interest among different social classes. International organizations such as the OECD, as well as academia, have assessed the structural reforms undertaken in many countries until now to have been insufficient. However, in order to sustain our fledgling growth momentums, our structural reforms need to be intensified. And of course, our macroeconomic policies should also support structural reform. I believe that the theme of Session 3, “Structural Reform and Macroeconomic Policy,” will be helpful to policy makers in the government and the central bank.

Ladies and gentlemen!

The world economy stands at a turning point now. It has shown signs of moving away from the long lasting low growth and low inflation seen since the Global Financial Crisis, but we cannot be sure yet that this recovery will continue going forward. It is my sincere hope that this year’s very opportune Bank of Korea Conference will serve as a fruitful venue for looking back on the last decade since the Global Financial Crisis, for gaining insights into the next decade before us, and for generating constructive policy ideas. I look forward to this Conference being a great success once again.

Thank you.