

## Juyeol Lee: 67th anniversary of the Bank of Korea

Speech by Mr Juyeol Lee, Governor of the Bank of Korea, at the commemorating ceremony of the Bank of Korea's 67th anniversary, Seoul, 12 June 2017.

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Dear fellow members of the Bank of Korea family,

Today marks the 67th anniversary of the Bank of Korea's foundation. I would like to take this opportunity to express my sincere gratitude to all those who served before us in the Bank of Korea over the years, devoting themselves to the development of our Bank and the national economy, and to those who have supported and encouraged us as well. Let me also express my compliments to each and every member of our current staff, for so faithfully carrying out the duties entrusted to you.

Although consumption still appears to be recovering only modestly, it is judged that the pace of growth in our economy is accelerating, as exports are increasing rapidly and investment is also showing favorable movements. As these trends continue, it is expected that the economic growth rate for this year will exceed the forecast in April. Notably, if measures to expand fiscal expenditures to create jobs and for other purposes are implemented by the new government, then the pace of growth will accelerate even further.

However, looking at the economic environments at home and abroad, there are still numerous potential risks preventing us from complacency about this positive growth outlook. If our trade relations with major countries become strained, owing to stronger trade protectionism for example, the negative impacts on our economy with its heavy dependence on exports can be high. Additional rate hikes and the reduction of its balance sheet by the US Federal Reserve, as well as political uncertainties in major countries and geopolitical risks related to North Korea, can also at times lead to increased financial market volatility and even work to limit our growth.

On the domestic front, there are a variety of difficult structural problems causing the recovery in our economic vitality to slow. Factors such as our low birth rate and population aging, inter-sectoral imbalances, and the dual structure in the labor market have been weakening our growth potential and the virtuous cycle in our economy. Further, owing to delays in industrial advancement and in finding new drivers of growth, improvements in productivity and the creation of high-quality jobs are not being properly achieved. As household debt has continued to grow faster than household income for a long time, concerns are rising that household debt can constrain consumption and undermine financial stability.

We will need to overcome these structural problems wisely in order to sustain our recent growth momentum over the medium- to long-term. First, we will need to loosen the many competition-restricting regulations and eliminate unfair trade practices, so as to create an environment favorable to dynamic technological innovation and the brisk advent of new industries. Together with this, we must devote efforts to easing the sectoral imbalances in our economy and restoring its virtuous cycle. As the government is working from multi-faceted perspectives to devise measures for resolving our structural problems, the policy authorities and economic agents will need to work together so that the measures undertaken by the government can achieve their desired results.

Dear fellow members of the Bank of Korea family,

Now I would like to talk about several of the tasks that the Bank of Korea needs to focus on going forward.

Despite the recent accelerating pace of growth, we will need to maintain our accommodative

monetary policy stance for some time, in view of the continuing high uncertainties as to the growth path and the not so great inflationary pressures on the demand side. However, if economic conditions show more clear improvements, with the economic recovery being sustained for example, then we may need to adjust the degree of our monetary policy accommodation, and will therefore need to carry out a thorough review of this possibility. In conducting monetary policy, it is also necessary to stress the importance of financial stability-related issues such as the pace of increase in household debt and the monetary policy normalization by the US Fed.

There have been various economic policies drawn up since the new government took office. We will need to take a closer look at the impacts which these policies will have on our monetary policy environment, including macroeconomic and financial stability conditions. We will also need to work to keep our monetary policy in sync with the government's policies. We must in addition actively propose effective and feasible policy options, through practical application of our research capacities, so as to ensure that the government's policies can better lead the development of our nation's economy.

We will have to devote even greater attention to financial stability. Above all, we must concentrate our best efforts on easing the trend of sharply rising household debt, which is a potential risk to the financial system. While redoubling our endeavors for the monitoring of household debt trends, analysis of the factors causing it to increase, and assessment of the related risks, we should also contribute to the formulation of effective measures for responding as necessary, in close consultation with the government and the supervisory authorities.

We must maintain our robust external soundness as well. We will need to closely monitor developments in terms of factors causing global financial market unease that could lead to expanded exchange rate or capital flow volatility. If the financial and foreign exchange markets become unstable, then market stabilization measures appropriate to the circumstances should be carried out in a timely manner. We will in addition need to work to strengthen the multi-level financial safety nets, through financial cooperation with international organizations and regional cooperative bodies.

As the convergence of IT and finance accelerates, the environment for our payment and settlement-related work is changing rapidly, and in view of this we should continue to expand and improve the related infrastructures and services. We will also need to carry out in-depth research on the implications that the establishment of Internet-only banks, and the extensive use of digital currencies, have had on conditions for monetary policy operation and the payment and settlement system.

Dear fellow members of the Bank of Korea,

In times of high uncertainties like those now facing us, it will inevitably be difficult for the central bank to accurately analyze economic conditions and carry out an optimal monetary policy based upon this analysis. No matter what the circumstances, however, we need to faithfully fulfill the mandate bestowed upon us. Only by doing so can we contribute to sound economic development and gain even greater public trust. To this end, all members of our Bank's staff should work to strengthen their expertise, by striving to develop themselves and to fully exercise their potentials. We must also open our minds and listen to diverse voices directed at the central bank, such as outside requests and opinions of economic experts at home and abroad, without being shackled by our existing knowledge and experience. We should continue working to increase the transparency and predictability of our policies, so that economic agents are able to enhance their understandings of our monetary policy and form rational expectations as to our policy directions.

The more a society advances, the higher the level of morality and social responsibility demanded of those in the public sector. And central bankers are of course no exception. We must therefore

work to bring our ways of thinking and our code of conduct into step with the new values and norms arising with the changes of the times. Not only as members of this organization, but in our own everyday lives as well, we as central bankers should spare no effort in self-management to uphold our dignity. We should also take the lead in showing consideration for the socially disadvantaged, while strengthening our community service activities as well.

Fellow members of the Bank of Korea,

I am filled all the more with emotion now because today's ceremony celebrating the Bank of Korea's foundation will be the last event held in this building, which has been with us here for 50 years. We must make sure that the construction and renovation project preparing our new home is successful. While being mindful to ensure that no safety accidents nor security issues occur during the process of staff relocation and construction, we should also see to it that we do not cause any inconveniences to the general public.

Thanking the staff involved in the preparation of this commemorative event, I want to wish all of you and your families the very best of good health and the greatest happiness.

Thank you.