Myun-Shik Yoon: Opening address - BOK-SNU Institute for Research in Finance and Economics International Conference "Changing Inflation Dynamics"

Opening address by Mr Myun-Shik Yoon, Senior Deputy Governor of the Bank of Korea, at the BOK-SNU Institute for Research in Finance and Economics International Conference "Changing Inflation Dynamics", Seoul, 3 November 2017.

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Introduction

Good morning, Ladies and Gentlemen.

I am very pleased that the Bank of Korea and Seoul National University are co-hosting this international conference today on inflation dynamics, which have recently drawn attention from academia and central banks around the world. I welcome you all most sincerely.

Let me express my special gratitude to Professor Chan Wook Park, Vice President of Seoul National University, who will deliver some welcome remarks shortly. I would also like to thank Professor Kiyotaki, our keynote speaker, and all of our session moderators, speakers, discussants and panelists. I am very grateful as well to Professor Yeongseop Rhee, Director of the SNU Institute for Research in Finance and Economics, and his staff, for their efforts in so thoroughly preparing this conference.

Recent inflation conditions

The global economy has been emerging recently from a long-term economic slowdown, as economic conditions in both advanced and emerging market economies are now improving. This is assessed as due in large part to the active and bold monetary policies to achieve economic recovery pursued by the world's central banks, which have been often referred to as 'The Only Game in Town.'

When we look at inflation, however, we find that it has not emerged from its much reduced level seen since the global financial crisis. And there have thus been active discussions recently on the weakened linkage between economic activities and prices, and on the changes in inflation dynamics that have led to talk of so-called "missing inflation."

In Korea as well, our economic activities continue to improve steadily, thanks to the favorable global conditions for example and despite the recent uncertainties surrounding our domestic and overseas conditions. But core inflation, which reflects our demand-side inflationary pressures, is still in the mid-1% range.

Research on the recent persistently low inflation

Discussions of the causes for the divergence between economic conditions and prices are developing actively these days. The most representative argument concerns a so-called Phillips Curve flattening, involving a weakened relationship between economic slack and inflation. Specifically, it is said that the degree to which economic conditions are reflected in wage and price decisions has fallen compared to the past, in consequence of intensified corporate competition, structural changes in the labor market and the anchoring of price stability.

Other research has concentrated on structural factors that are said to be pulling inflation down. Studies focused on the decline in inflation expectations claim that, as the level of expected prices has fallen during the long period of low inflation, real inflation has slowed as a result. Besides this, views have also been raised stating that supply-side shocks, including innovations in distribution and technological advancements, have led to a continued structural weakening of inflation pressures.

However, there are also many who find it hard to see the recent weakening relationship between economic conditions and prices as a structurally fixed development. Two representative grounds for this argument are the non-linearity of the Phillips Curve, implying that under conditions of economic slack the influence of economic conditions on prices could temporarily decline, and the time lag between economic activities and their effects on prices.

Ultimately, regarding the question of whether the inflation dynamics have changed, and the causes for this if they have, we need to monitor any increase in demand-side pressures and the resulting price movements as the economic recovery strengthens going forward. In-depth follow-up studies will also need to be conducted continuously, at the same time.

Implications of changing inflation dynamics for monetary policy

An accurate understanding of the relationship between economic activities and inflation is critical for effective monetary policy implementation and communication with the general public. As inflation remains low even despite their economic recoveries, the US and other major advanced countries have faced difficulties in deciding when and at what pace they will reduce their degrees of monetary policy easing.

This also shows the need for continuing more in-depth analysis of the relationship between economic activities and inflation. In particular, central banks that are operating inflation targeting regimes may fall into dilemmas as they try to decide on policy options, while dealing with their tasks both of anchoring inflation at the target level, and of achieving macroeconomic and financial stability.

Concluding remarks

Ladies and gentlemen,

I believe that the results of the research to be presented and discussed here today will be very useful to the Bank of Korea also. The studies on pricing behavior and case analyses of major countries will help us to better understand the inflation dynamics. And the research undertaken to discover effective monetary policy measures will help us in conducting our future monetary policy.

I hope that you will find today’s conference useful and informative, and I look forward to hearing many insightful ideas that will help us all to cope with the challenges that we now face.

Before closing, I would like to express once again my very deep gratitude to all participants, who have taken time from their busy schedules to be here, and especially to all staff members from our Bank and from SNU, who have worked so hard to make this conference possible.

Thank you.