# Juyeol Lee: Opening address – BOK-BIS Joint Conference

Opening address by Mr Juyeol Lee, Governor of the Bank of Korea, at the BOK-BIS Joint Conference, Seoul, 19 November 2018.

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Ladies and gentlemen,

It is a great pleasure for me to welcome all of you today to this BOK-BIS Joint Conference. I would like to express my sincere gratitude to our keynote speaker, Dr. Emanuel Mönch, Head of Research at the Deutsche Bundesbank, and also to BIS General Manager Agustin Carstens and Head of Research Hyun Song Shin, who will join us tomorrow. Let me also thank all of our distinguished moderators, speakers and discussants.

In 2016, the BIS Asian Office suggested Asia-Pacific fixed income markets as a research theme, in recognition of the need to assess the role of such markets and their future development. The BIS Asian Consultative Council(ACC), comprising the central banks in the Asia-Pacific region, also judged this work as timely and has been actively supporting it through the participation of its researchers. After an interim workshop held in Hong Kong in September last year, I am pleased that we have reached the final stage where we can share and discuss the results with each other at today's conference.

As you probably know, prior to the 1997 Asian financial crisis, fixed income markets in the Asia-Pacific region were underdeveloped while financial intermediation depended greatly upon short-term bank borrowings. In such a case, domestic or external shocks that hinder the smooth roll-over of loans can lead to a major crisis – something we learned the hard way. Through this lesson, countries in the region have made great efforts to foster sound financial markets that can support stable economic growth. As a result, our region's fixed income markets have developed remarkably: they are now bigger, more liquid, and more open.

This fixed income market development in the region has brought about two positive changes. First, it has contributed significantly to the successful transition to interest rate-based monetary policy frameworks. Fixed income markets are one of the most important channels through which the effects of policy rate adjustments are transmitted to the real economy. Central banks are now able to assess market expectations more quickly by analyzing bond yields for different maturities, making their policies more effective.

Second, with greater bond investment from abroad, foreign capital is flowing in more diverse ways. It used to come in mostly through short-term bank borrowings or equity investment, but now a considerable portion of capital inflows is invested in local currency-denominated longer-term bonds – this change has made foreign capital flows much more stable.

On the other hand, the development of fixed income markets in the region has also brought new difficulties. First, as foreign investors hold a greater share of bonds in the region, bond yields are greatly affected not only by domestic economic developments or monetary policy, but also by global economic conditions. In addition, there are increased concerns about financial and foreign exchange market unrest in the event of a sudden reversal of capital inflows to the regional bond markets. There have recently been dramatic changes in global economic environment, including the continuing monetary policy normalization by the U.S. Federal Reserve and the rising trade tensions between the U.S. and China. In fact, some emerging market economies with weaker fundamentals have experienced large-scale capital outflows, resulting in more volatile stock prices, exchange rates and interest rates.

So far, we have seen that the development of the fixed income market in the Asia-Pacific region has greatly contributed to better market functioning and a better policy environment, while creating no small difficulties. Against this backdrop, allow me to suggest some policy tasks that countries in the region must first pursue to enhance financial and economic stability.

To begin with, we must enhance the overall resilience of the regional economy so that sudden changes in capital flows triggered by external shocks do not lead to systemic risk. To this end, we must reinforce our capacities and policy space to properly respond to external risks. This may be done by improving current account balances, holding sufficient foreign reserves, and enhancing exchange rate flexibility.

Next, we must continue our international cooperation to reinforce financial safety nets. Asia-Pacific countries have striven to establish regional financial safety nets and develop fixed income markets through the Chiang Mai Initiative Multilateralization(CMIM), the Asian Bond Markets Initiative(ABMI), and the Asian Bond Fund(ABF). We also need to continuously expand our cooperation not only within the region but also with international organizations such as the IMF and BIS to strengthen global financial safety nets.

Last but not least, we have to continue our policy efforts to strengthen fixed income market infrastructure and functioning, such as by seeking diverse investors, making corporate bond markets more vibrant, and improving the processes for bond issuance and trading. I believe that these efforts would expand both the depth and liquidity, and therefore the stability of our region's financial markets.

Ladies and Gentlemen!

The research papers to be presented at today's conference reflect the serious thoughts and ideas of expert researchers on major issues. These include not only the development of fixed income markets in the Asia-Pacific region, but also the impacts of changing global risk preferences on emerging market capital flows, the determinants of fixed income market yields, and the relationship between the term structure of interest rates and macroeconomic variables.

I hope that the research presented at today's conference will spark vigorous debate and allow the sharing of diverse opinions that will help solve the financial and economic problems facing the Asia-Pacific region.

Thank you.