

Juyeol Lee: 69th 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 69th anniversary, Seoul, 12 June 2019.

* * *

(This is an unofficial translation prepared by the Bank's staffs based on original speech released on June 12, 2019.)

Dear fellow members of the Bank of Korea family!

Today is the 69th anniversary of the Bank of Korea's establishment. I wish to express my sincere gratitude to our predecessors who devoted themselves to the development of the Bank of Korea and our economy, and to the many people who have supported and encouraged the Bank. I would like to say in addition how much I appreciate the efforts of all members of our staff, who are faithfully fulfilling the duties entrusted to them in their positions.

Economic growth has faltered this year, as the pace of increase in consumption has slowed amid declines in exports and investment.

Going forward, government expenditures are expected to expand and slumps in investment and exports to ease. However, it is judged that uncertainties surrounding the growth path have further increased.

This stems from changes in the external environment. There is a higher possibility that global trade could shrink with the deepening trade dispute between the US and China. The recovery of the semiconductor industry could come later than expected. As Korea depends heavily on exports led by specific industries, growth is bound to be influenced by how these uncertainty factors evolve.

Domestically, there are structural factors that limit the growth of the Korean economy: a low birthrate and aging population, weakening competitiveness in core industries, and a dual labor market structure. The pace of increase in household debt has recently slowed somewhat, but considering its very high aggregate volume and remaining risk factors, we cannot let our guard down.

Under these circumstances, the policy authorities need to manage the macroeconomy so that growth momentum is sustained, while working on structural reforms from a medium- to long-term perspective to enhance growth potential. Macroeconomic policy needs to be effectively pursued, while carefully judging policy capacity and impact. At the same time, we need to step up our efforts to improve economic fundamentals. We should consistently pursue the discovery of new growth engines, the revitalization of high value-added service industries, the improvement of labor market flexicurity, and the rationalization of regulations. This is a moment that calls for urgent resolve: if we don't change because of immediate difficulties, we will pay a higher price in the future.

Fellow members of the Bank of Korea!

I would like to talk now about some of the things that our Bank will have to focus on carrying out from the second half of this year.

In our monetary policy operations, we will work to ensure that stable growth is sustained and inflation converges to its target over a medium-term horizon, while paying close attention to financial stability. Considering that uncertainties about external factors have heightened significantly, especially with respect to the US-China trade dispute and the semiconductor

industry, we will act appropriately depending on changes in economic conditions while closely examining the related trends and impacts. To this end, we should formulate policy implementation strategies for various scenarios so that we can cope with changes in domestic and external conditions in a timely manner. We will also take into consideration financial stability risk factors as well, such as household debt and capital flows.

We will also need to work even harder to enhance the effectiveness of our policy communication. With uncertainties growing more and more, markets are reacting sensitively to changes in economic conditions. We will accordingly need to provide more detailed explanations about the background to our monetary policy decision-making and also about changes in major risks. As inflation has remained far below its target level, we will need to examine on a regular basis how the inflation target is managed and explain in detail to enhance economic agents' understanding of inflation conditions.

We will have to make ourselves fully prepared to cope with changes in the monetary policy environment over a longer-term horizon. Major country central banks and academia have recently focused on changes in the traditional causal relationships among economic variables and monetary policy transmission channels, which have been caused by changes in the economic structure.

Wide-ranging discussions are also taking place about how to improve monetary policy frameworks to enhance the policy effectiveness in the current low inflation and low interest rate environment. While looking at ongoing research and discussions in major countries, we should think carefully about which measures are applicable to Korea.

We will also have to devote special attention to financial and FX market stability. Mounting concerns about global economic growth are keeping long-term interest rates at low levels at home and abroad. Stock prices and exchange rates are also highly volatile. We will have to closely monitor changes in domestic and external risks as well as developments in financial markets, and if necessary, we should actively carry out market stabilization measures.

We will also need to respond to the rapid changes in the payment and settlement environment. With the advancement of IT technologies, new payment instruments are emerging and the participation of non-financial institutions in the payment services market is increasing. The innovation in the payment and settlement industry will help enhance market effectiveness and productivity. But on the other hand, we will have to pay more attention to ensure safety as such innovation will also heighten systemic linkages and complexity and introduce new types of risks. We will also need to complete, without delay, the establishment of the Next Generation BOK-Wire+, which is scheduled to commence operations in 2020.

Fellow Bank of Korea staff!

Considering the recent economic environment, high uncertainty seems to have become a constant. Some even say that we have entered the era of the so-called "new abnormal," a persistent situation where it is hard to predict what will happen even in the near future. Against this backdrop, if the central bank wants to gain greater trust from the general public, we need to enhance our policy capacity by heightening staff expertise, while communicating

actively with the outside.

First, in order to propose new alternatives in this rapidly changing policy environment, it is imperative to pay close attention to a variety of outside opinions. Homogeneous thinking could be an advantage in running an organization, but it could also make it difficult to deal with the changing environment by narrowing perspectives and constraining flexibility of thought. In this sense, we need to engage in active exchanges with outside parties and make a level-headed review as to whether there are problems with the logic and points of views that we have until now

taken for granted.

This could provide a chance to generate “creative abrasion” within our organization. While recently carrying out an overall review of its monetary policy framework, the Fed has conducted the “Fed Listens” program in which it gathers opinions from academia and local communities. I think such efforts by the Fed speak volumes of the importance of communication with the public.

We should also strive more to strengthen our expertise. In a situation where knowledge and information changes rapidly, it is important to arm ourselves with response capabilities by detecting such changes and learning new things. It is not those who are strong but rather those who are well adapted to the environment who are likely to survive. We should consistently work to improve ourselves in order not to be left behind by change. And in terms of

organization and human resources management as well, we will have to provide full support in this regard.

Meanwhile, the Bank of Korea will enforce a 52-hour workweek policy starting next month. To carry out the central bank’s duties under the changed working conditions, we will need to continuously improve our work methods so that we can utilize our resources efficiently within the limited time frame. Our staff members will also have to concentrate more on their work.

Dear fellow members of the BOK family!

As uncertainties concerning economic conditions have further heightened, amid a number of accumulated problems facing our economy that require resolution, the general public is likely to pin high hopes on the central bank. We should do our best in executing our duties with firm resolution.

Today, as we greet the 69th year since our Bank’s establishment, I would like to thank everyone once again for your hard work, and I wish each one of you, together with your families, health and happiness always.

Thank you.