

Juyeol Lee: 68th 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 68th anniversary, Seoul, 12 June 2018.

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Dear fellow members of the Bank of Korea family!

Today is the 68th anniversary of the Bank of Korea's establishment. Taking this opportunity, 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.

It is judged that the Korean economy is sustaining its solid growth, as consumption and exports continue their favorable movements even though construction and facilities investment are going through adjustments. There are high uncertainties, due to the sluggish employment conditions as well as the financial unrest seen in some emerging market countries, but going forward the domestic economy is expected to grow at a pace that does not diverge greatly from the path forecast in April.

However, there are still several structural problems in our economy, which are limiting the virtuous cycle between growth, employment, income and consumption. Sluggish employment is a result not only of the delayed improvements in business conditions in some industries, but of structural factors such as the dual labor market structure as well. Growth that depends heavily on specific sectors such as capital- and technology-intensive industries can result in weaker economic resilience to external shocks. Household debt that grows more rapidly than household income can limit consumption through increases in borrowers' debt repayment burdens.

I would like to emphasize once again that, when both the domestic and external economies are growing, structural reforms have to be carried out swiftly. During the structural reform process conflicts of interest among economic actors can of course arise. But if we postpone our efforts to resolve our economy's structural vulnerabilities, then it is likely that we will face a much more severe situation in the medium to long term. The government will have to smoothly mediate the disputes among economic actors that can appear in the process of structural reform, and make efforts to ensure that any resulting negative effects can be minimized.

Fellow members of the Bank of Korea!

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

As inflationary pressures on the demand side are still not high, while the domestic economy is expected to continue its solid growth, we will need to maintain our accommodative monetary policy stance. In this process we will however have to consider the facts that the financial imbalances can grow, and, from a longer term perspective, that we need to increase our monetary policy operating capacity to respond to fluctuations in business cycles. From this standpoint, we will have to carefully judge whether it is necessary to adjust the accommodative monetary policy stance further, while closely checking future economic growth and inflation trends, changes in the monetary policies of major countries and the consequent financial stability conditions.

In the second half of this year we will have to consider the inflation target to be applied from next year. The way in which the inflation target is set, and the method by which it is operated, have

direct effects on the central bank's credibility and on whether economic actors' inflation expectations are securely anchored. We will have to closely analyze whether there have been any structural changes in the underlying price flows, and in the relationship between growth and prices, and properly set the inflation target and the period for re-examining it. We will also have to look whether there are any areas that need improvement in how we fulfill our responsibilities for explaining policy.

We will need to strengthen our efforts aimed at enhancing the effectiveness of our policy communication. When uncertainties are high the markets can react sensitively to even small changes in economic conditions, or even to a single word from the policy authorities. It can thus be said that a meticulous communication strategy is demanded, to ensure that consistent communication concerning our policy directions can be achieved.

We will also have to devote special attention to financial stability. Financial and foreign exchange markets in some emerging markets with weak fundamental conditions have experienced unease recently. Given Korea's favorable external soundness it is unlikely that the financial unrest in these countries will spread to affect us. But if overseas risks, from the monetary policy normalizations in major countries and strengthening protectionism for example, materialize simultaneously we will be unable to accurately estimate their effects. We will therefore have to watch even more carefully any changes in these risks.

We can also not afford to be negligent in our research on and our responses related to new issues in economics. We will need to strengthen our analyses of new forms of risk to financial stability and the changes in our monetary policy operating conditions that can occur due to digital innovations such as distributed ledger technology and Fintech. And given that considerable changes in the relations between North Korea and South Korea are expected going forward, it will be necessary as well to prepare in advance for the new role demanded of our central bank, on the basis of our research on the North Korean economy carried out so far.

Fellow Bank of Korea staff!

With regard to our internal management, I have said that over the next four years we will put an emphasis on 'change and innovation,' and improve our systems and customs. To put this promise into practice, we gathered staff members' opinions, among which of those that could be immediately reflected have been put into practice after the necessary institutional arrangements. We delegated to lower levels authority in internal management related for example to human resources affairs, and greatly simplified our reporting procedures. We will have to aspire to devise measures that would improve the matters now under consideration as well. I would like to stress again that the ultimate purpose of these internal management improvements is to heighten our organization's efficiency and productivity.

In view of the fact that the system can control people's thinking and behavior, we will have to push unceasingly ahead with system improvements as well. However, if we want our system improvements to bear fruit, then our organizational culture and our staff members' awareness will also have to change, along with the system. In particular, if the staff members at the senior level firmly accept these changes, take the initiative and set examples for others, then there will be tangible results.

We will also have to devote redoubled efforts to managing the risks that can occur in the conduct of our institution's operations. If we do not properly manage our IT system, security and legal risks, the Bank of Korea's external reputation can be greatly damaged. Before any adverse incident occurs there is a tendency for small problems to gradually appear that provide us with forewarnings. And if such signs are sensed, even if they are only trivial, we should not just dismiss them but must investigate their causes and respond to them thoroughly.

Fellow members of the Bank of Korea!

Recently our economy is continuing to grow at the level of its potential growth rate and maintaining a favorable external credit standing, unlike some EMEs that are experiencing financial and economic unease. I think that you have contributed substantially to this end by fulfilling your duties. But we cannot stop here, and will have to seek change and innovation even more. Only by doing so can we avoid wavering even when confronted with new challenges, and contribute to the continual development of our economy.

Today, as we greet the 68th year since our Bank's establishment, I would like to thank everyone once again for your hard work, and I wish each of you, together with your families, health and happiness always.

Thank you.