

Juyeol Lee: 71st 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 71st anniversary, Seoul, 11 June 2021.

* * *

Dear fellow members of the Bank of Korea family!

Today marks the 71st 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 despite these difficult conditions caused by the prolonged COVID-19 pandemic.

Our economy has recently been showing a faster-than-expected recovery from the slump caused by the COVID-19 shock. Recovery in face-to-face service industries is still slow and employment conditions for vulnerable groups are still difficult. However, exports are growing strongly and facilities investment is exhibiting a trend of robust recovery. Consumption is also gradually emerging from its slump. The financial and foreign exchange markets have remained stable since the latter half of last year, after showing drastic volatility at the early phase of the COVID-19 outbreak.

There are latent uncertainties associated with the pandemic, but our economy is forecast to show a more clearly marked recovery in the second half of this year. Against a backdrop of stronger growth in major economies, our exports and investment are expected to remain robust and consumption to improve further. The rapid recoveries at home and abroad are greatly attributable to the active policy responses of governments and central banks around the world, and recently have been helped by the easing of restrictions on economic activity with expanding vaccinations.

Dear fellow members of the Bank of Korea!

The unprecedentedly bold economic stimulus measures by the policy authorities of major economies including Korea were a great help in overcoming a sudden crisis that hit without warning. They contributed significantly to mitigating instability in employment and income by preventing severe economic contraction. However, it is also true that, in this process, imbalances between sectors and groups have exacerbated. As economic agents display greater appetite for risk, asset prices have risen more rapidly relative to the real economy. As a result, asset inequality has widened, and private debt has increased greatly. Recently, there has also been growing concern over global inflation.

Therefore, going forward we should carefully conduct policy to sustain the trends of recovery in the economy and employment, while making efforts to prevent the build-up of these imbalances. While encouraging capital concentrated in asset markets to flow into more productive sectors, we should manage the leverage of economic agents at a stable level. Moreover, the expansionary measures taken so far in response to the crisis must be appropriately adjusted in conjunction with improvements in financial and economic conditions. This is essential for the stable and sustainable growth of our economy.

Continuous policy efforts are also needed to prepare for the post-pandemic era. In line with the currents of the times of the global economy, such as the shift to an eco-friendly economy and the Fourth Industrial Revolution, many countries are racing to take up dominant positions in relevant industries. In the near future, the Great Divide will appear between countries and industries that apprehend this changing tide as an opportunity to create new growth engines and take a new

leap forward, and those that do not. In order for our companies and furthermore, our economy to secure competitive advantages, reforms of the industrial structure and regulatory framework must be accelerated. Most of all, we need to strive to create an environment where innovation capacity in the private sector can lead to enhanced productivity and employment opportunities.

Dear fellow members of the Bank of Korea!

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

If our economy is expected to sustain a trend of robust recovery, we will need to, at the proper time, begin to normalize the current accommodative monetary policy in an orderly manner.

The timing and speed of adjusting the degree of monetary accommodation must be determined while closely examining the developments of the pandemic, the solidity and sustainability of the economic recovery, and the risk of build-up of financial imbalances. In this process, we should of course fully communicate with economic agents in advance so that they can prepare for policy normalization without being heavily impacted.

We should promote stability in the financial and FX markets. Going forward, domestic and overseas financial markets could show higher volatility due to global inflation and changing expectations about the monetary policy of major economies. We should closely monitor factors causing market unrest and take timely measures to stabilize the markets if needed. The buildup of household debt has become even more serious, as leveraged investment has expanded in real estate, stocks and even crypto-assets recently. If COVID-19 support measures such as the extension of debt repayment schedules expire, a large number of vulnerable borrowers may face difficulties with debt repayment. We will need to thoroughly examine how these domestic and overseas risk factors will affect our financial system and work closely with the government and the supervisory authorities to seek appropriate measures.

We will also have to proactively cope with the changing payment and settlement environment. With the accelerating digital transformation, there could be a growing need for the introduction of central bank digital currency (CBDC), and we need to be thoroughly prepared in this regard. The simulation test for CBDC scheduled to begin in the second half of this year must be carried out as planned, to examine the functions and usages of CBDC. Sustainable innovation in the payment and settlement systems, such as the expansion of Fintech and the diversification of electronic payment instruments, can be ensured only when such innovation is based on safety. Safety of the payment and settlement systems can be guaranteed when the central bank faithfully fulfills its roles as both an overseer and an operator. In this regard, we must make an effort so that legal and institutional improvements will be made in a way that further clarifies the roles and responsibilities of the Bank of Korea in line with the changes in the payment and settlement environment.

Recently, there has been a growing consensus about a need for central banks to actively respond to climate change risks. Climate change is seen as a new type of financial risk, and the transition to a low-carbon economy is expected to have a great impact on the real economy. We should begin our research in earnest on the effects of climate change and the central bank's measures to deal with it.

Dear fellow members!

Suffering from two crises over the past decade or so, the policy implementation conditions of the central bank have changed greatly, while public expectations for the Bank of Korea have heightened further. The recent rapid progress in digital innovation, which is facilitating changes in the financial ecosystem and industrial structure, also has a significant impact not only on payment and settlement and financial stability, but also on all other aspects of central banking

including monetary policy, research, and statistics compilation. In order to carry out our duties effectively under this fast-changing environment, we will need to further enhance our flexibility and expertise.

We are also experiencing a major change in our staffs' views of the organizational culture and management system, which have been formed on long-standing social environment and customs. We should improve our business practices and organizational culture, and bring innovation to our administrative and personnel management system, in line with the changing times. To this end, starting with the assessment of our organizational culture last year, we have been working on developing a medium- and long-term plan this year to bring innovative change to our administrative and personnel management system. With the help of professional consulting firms, the plan will include a fundamental improvement roadmap across the organization and personnel overall. We will need to come up with reasonable and practical solutions.

When carrying out innovation in the administrative and personnel management system, voluntary participation by staff is essential. In pursuit of innovation in any organization, conflicts of interest among members naturally occur, making it difficult to build a consensus. However, if we deal with this challenge wisely, our status as a pivotal policy making body will be reinforced further and staff members' pride will be enhanced.

Members of the Bank of Korea family!

Even in the face of the COVID-19 pandemic, the Bank of Korea has been able to fulfill its role without cessation, which I believe is attributable largely to our staff members' hard work. Having said that, our economy is not yet fully free from the effects of the pandemic, and ahead of us lie a number of problems that we could not anticipate in the process of responding to the crisis. Furthermore, we are now at a very crucial juncture where there are also policy tasks that have been building up and need to be dealt with to sustain stable growth. With a sense of mission as central bankers, we should do our utmost to fulfill the duties and responsibilities entrusted to us in our positions. 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.