

Chang Yong Rhee: Navigating political uncertainty while maintaining independence

FPA medal acceptance speech by Mr Chang Yong Rhee, Governor of the Bank of Korea, at the Foreign Policy Association Statesman Dinner 2025, Seoul, 21 April 2025.

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Thank you, Mr. Fernandez, for that generous introduction. And good evening to the distinguished guests who joined the dinner tonight, including President Lateef and Mr. Euywhan Kim, Korean Consul General in New York. Your warm welcome means more than I can express.

For over a century, the Foreign Policy Association has been a leader in promoting international collaboration through public dialogue and education. Its role as a nonpartisan forum for intellectual discourse is more important than ever today, as the world experiences a rising political divide, geopolitical tensions, and global fragmentation.

I'm deeply humbled and honored to receive this award from the FPA, and especially feel undeserving when I consider past awardees like Chairman Volcker, President Trichet, Managing Director Georgieva, and many others. Also, sharing this award ceremony with the Secretary-General of the OECD, the Honorable Mathias Cormann, makes it even more special.

On a personal note, this medal holds a very special meaning within my family. When I got married, I made a joke to my wife, saying, "As I'll devote my whole life to promoting world peace, you need to take care of everything else for our family." I thank the FPA for vindicating my joke and justifying the many evenings I've spent away from my wife and children.

Acknowledging Global and Korean Headwinds

Currently, we are facing heightened uncertainties. Globally, despite some easing of post-pandemic inflation, trade tensions are intensifying and geopolitical risks persist, reshaping supply chains and deepening global fragmentation, or reglobalization. They have triggered the global financial market turbulence and slowed down global growth. My understanding is that the IMF is going to consider lowering its world economic outlook significantly tomorrow.

Korea is not an exception. As an export-driven economy, it is particularly vulnerable to these external headwinds. Tariffs directly reduce our exports. And, given our deep integration with key supply chain partners, our semiconductor production in Vietnam, electronics and automobile manufacturing in Mexico, and battery production in Canada will all likely be significantly affected. At the same time, weak demand from China-which accounts for over 19% of Korea's exports-is expected to further weigh on our economy.

To make matters worse, current challenges have been especially difficult for Koreans. As you may know, political uncertainty intensified following the former president's

declaration of martial law late last year. After about five months of turbulence, we now hope that the Constitutional Court's recent upholding of the impeachment, along with the upcoming presidential election in June, will help settle this uncertainty behind us.

Nevertheless, "Every cloud has a silver lining." These political events also demonstrated the powerful resilience of Korean democracy.

There had been moments of unrest and deep confrontation among citizens with differing political views. However, the situation was resolved peacefully and constitutionally, and now we are advancing toward the presidential election.

Political Polarization and Central Bank Independence

One thing that I learned as a central banker during this period of political turmoil is the importance of central bank independence-but from a different angle.

We usually understand central bank independence to mean freedom from government interference or fiscal dominance. However, navigating through recent political challenges has made it clear to me that independence from politics is much more vital.

This is particularly true in deeply divided political environments such as Korea right now, where the presidency and parliamentary majority are decided by only a narrow margin of the popular vote.

Governments are appointed by an elected power. By this very nature, during times of heightened political tension, any policy decisions and announcements by governments are often filtered through a political lens and struggle to gain broad trust.

In contrast, a central bank, as Paul Tucker describes it, is an "Unelected Power"-more free from political preference and generally perceived as politically neutral. This allowed us to communicate balanced and apolitical assessments of economic conditions, such as the economic impact of political instability, along with policy recommendations when they were most needed.

Independence with Flexibility

Of course, as Paul Tucker rightly points out in his book, central banks must not exploit the privileges that come with their independence.¹ He argues that central banks should strictly confine themselves to a narrow interpretation of their mandate, which includes price stability and political neutrality in general.

I agree with the spirit of that argument. But I also believe that some degree of flexibility is necessary-particularly in unexpected extreme situations, such as the political instability that Korea just experienced or crises like the pandemic.

Let me recall a conversation I had with a central bank governor from emerging Asia when I served as the IMF's Asia-Pacific Department Director. As many of you know, avoiding fiscal deficit monetization is generally considered one of the non-negotiable mandates of central banks.

However, in 2020, at the height of the COVID-19 crisis, that central bank took the unusual step of purchasing government bonds in the primary market under the spirit of shared burden with the government. As the governor explained to me, it was seen as inevitable to help those suffering from COVID-19, given the unusually large need for fiscal support, the limited financial market depth, and the importance of protecting sovereign credit rating.

Fortunately, the temporary deviation from text book central bank principles turned out to be a happy ending: the country navigated the COVID crisis without damaging its creditworthiness and returned to its pre-pandemic deficit target within two years as planned.

Fundamental concerns about deficit monetization remain valid. However, this case demonstrates how limited, temporary policy flexibility may be necessary depending on the specific nature of economic crisis and the maturity of capital markets.

Likewise, while leading the central bank through recent political turmoil, I often faced situations where my statements could be misinterpreted as political. For example, when both parties held opposing views on fiscal policy during the impeachment process and incoming election, discussing fiscal stimulus risked appearing partisan. Yet as central bank governor, I could not remain silent on its necessity, for two reasons.

First, after the martial law declaration, domestic demand was falling faster than expected. Some degree of fiscal stimulus was needed to alleviate a sharp decline in major market players' economic forecasts early in the year. Second, a bipartisan fiscal package seemed to be the best tool to send the message to global investors that Korea's economy operates independently of political divisions and to protect our credit rating.

While my public advocacy for fiscal stimulus created some controversy over political neutrality as expected, I believe that my decisions will stand the test of time. Yes, central bankers must be politically neutral, but as Keynes said of his mentor Marshall, economists need to be "sometimes as near the earth as a politician."

U.S.-Korea Relationship & Closing

Before I close, I would like to take a moment to highlight the enduring importance of the U.S.-Korea relationship, especially in the presence of many distinguished American leaders here tonight.

Since Korea's liberation in 1945, the U.S. and Korea have stood together as trusted allies, sharing common values, such as freedom, democracy, peace, and prosperity.

I mentioned the resilience of Korean democracy earlier in my remarks, and indeed, the U.S. has always remained alongside us throughout our democratic journey. At a critical crossroads in history, it helped guide Korea away from communism and toward democracy. Especially for the Bank of Korea, it also provided instrumental support in shaping our legal foundations-most notably, the Bank of Korea Act.

Despite the leadership transition and the complex geo-economic landscape in Korea, I remain confident that the U.S.–Korea relationship will be taken to the next level. I believe the ongoing support of those in this room will be truly invaluable.

Once again, I offer my deepest thanks to the FPA for this honor, and I wish the FPA continued flourishing in the years to come.

Thank you.

¹ Tucker, P. (2018). *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State*. Princeton University Press. <https://doi.org/10.2307/j.ctvc7789h>