

## Chang Yong Rhee: Speech - 75th Anniversary of the Bank of Korea

Speech by Mr Chang Yong Rhee, Governor of the Bank of Korea, to commemorate the 75th Anniversary of the Bank of Korea, Seoul, 12 June 2025.

\* \* \*

*I would like to thank Choongwon Park, Taesup Kim, and Byeongrok Lee for their help in preparing this speech. \* This is an unofficial translation of the original speech released on June 12, 2025.*

My dear colleagues at the Bank of Korea,

Seventy-five years ago, the Bank of Korea took its first step with the mission of contributing to the sound development of the national economy through pursuing price stability. Since that day, we have faithfully fulfilled our responsibilities through every chapter of our nation's history, bringing us to where we stand today. I would like to express my deepest respect to our predecessors who devoted themselves to setting and implementing monetary policy over the decades. I also extend my sincere gratitude to the members of the Monetary Policy Board, who continue to serve as a guiding compass for the Bank, and to all the staff who have diligently carried out their duties in their respective roles. Above all, I would like to extend my heartfelt appreciation to the families of our staff, whose steadfast support has been a constant source of strength. This year marks both the 75th anniversary of the Bank of Korea's establishment and the 80th anniversary of national liberation. This is a special year, an opportunity to reflect on our history defined by overcoming numerous crises and achieving remarkable progress. More recently, over the past six months, a rapidly shifting global landscape and escalating political tensions have evoked a sense of crisis reminiscent of the turmoil that followed Korea's liberation.

Globally, geopolitical tensions have persisted due to the wars between Russia and Ukraine and between Israel and Hamas. At the same time, domestically, political instability that escalated following the declaration of martial law late last year has continued, deepening social conflict and division. It has been a period of confusion that can be summed up in one word: "uncertainty". Amid these global and domestic shocks, Korea's economic growth has slowed considerably, and self-employed and small business owners are facing significant difficulties in particular.

Despite these challenges, there remains a silver lining. Although political uncertainty has brought high economic and social costs, the process of overcoming it has reaffirmed the strength and resilience of our democracy. Now, with a new administration in place on a foundation of a mature democracy, we look forward to strengthening social cohesion through unity and restoring economic vitality by prioritizing pragmatism. The Bank of Korea must also do its part to help the nation overcome these hardships by conducting monetary policy based on principle and conviction, and by faithfully fulfilling its responsibilities, including pursuing price stability, that are essential to the future of the national economy and to the well-being of the people.

My dear colleagues,

Economic conditions this year remain highly challenging. As noted in last month's economic outlook, the GDP growth forecast has been revised downward to 0.8% for the

year and to 1.6% for next year, representing a significant downgrade from the February projection. The projected growth rate for this year is the lowest in the past three decades, excluding the periods of the Asian Financial Crisis, the Global Financial Crisis, and the COVID-19 pandemic. It is also highly unusual for an annual growth projection to be lowered by as much as 0.7%p within the span of just three months.

A combination of several factors lies behind this sluggish growth. While the expected slowdown in exports due to tighter U.S. protectionist trade policies is a key contributor, a more critical factor is a delayed recovery in domestic demand amid six months of prolonged political uncertainty. As a result, GDP growth in the first half of this year is expected to come in at just 0.1% compared to the same period last year. In particular, construction investment is projected to contract for five consecutive quarters through the second quarter of this year, emerging as the single largest source of the downward pressure on growth. This is attributable to the correction currently underway in real estate-related debt, which had surged rapidly since the COVID-19 pandemic. Significant uncertainty also looms over the 1.6% growth outlook for next year. While domestic demand is expected to recover gradually going forward, the outlook for exports could differ greatly depending on how U.S. trade policies and global trade negotiations unfold.

The Bank of Korea views the current situation with grave concern and acknowledges the urgency of stimulus policies in that regard. Since October last year, we have cut the Base Rate four times in an effort to reinvigorate the economy, and we intend to maintain an accommodative monetary policy stance for the time being. At the same time, close coordination between monetary and fiscal policy should continue as long as it does not compromise central bank independence. However, in determining the appropriate degree of economic stimulus, it is essential to assess the current low growth not only from a cyclical perspective but also from a structural lens.

While this year's projected growth is similar to levels seen during the Global Financial Crisis, a simple comparison between the two periods would be misleading. In the mid to late 2000s, Korea's potential growth rate hovered at around 4%, but it has now fallen sharply to below 2% as low birth rates and an aging population have become increasingly pronounced. Although the potential growth rate has declined over time, the amplitude of the economic fluctuations has not narrowed, due to Korea's high external dependence and an export structure heavily concentrated in a few key industries. As a result, the likelihood of negative growth in the case of an external or internal shock has increased significantly compared to the past. The probability of negative quarterly growth, as seen in the first quarter of this year, was estimated at around 14% in 2024, which is roughly three times higher than a decade ago.<sup>[1](#)</sup>

Under the current circumstances, it is clear that stimulus measures are urgently needed for economic recovery. Yet at the same time, in light of these structural shifts, we should also make efforts to prevent continued declines in the potential growth rate and establish a resilient economic structure against cyclical volatility. Excessive reliance on economic stimulus packages, driven by immediate pressures alone, could result in bigger negative side effects.

For instance, excessively lowering the Base Rate would more likely fuel housing price hikes in the Seoul metropolitan area, rather than support a recovery in the real

economy. We need to be mindful that since last March, apartment prices in Seoul have increased at an annualized rate of approximately 7%, and that household lending by the financial sector has also increased at a fast pace. We should break away from the past practice of tolerating excessive investment in real estate in an attempt to give an easy boost to the economy. In addition, although the won/dollar exchange rate has recently declined to the mid-1,300 won level, volatility in the foreign exchange market could reemerge as the interest rate differential between Korea and the U.S. might widen further depending on the pace of the Federal Reserve's rate cuts, and as uncertainty regarding trade negotiations among major economies remains high. Going forward, while the Bank will maintain an accommodative monetary stance, decisions concerning the timing and extent of any further rate cuts will be made with caution based on a thorough assessment of macroeconomic and financial developments.

Building on this awareness, the Bank of Korea has actively sought not only to conduct monetary policy, but also to identify the structural problems of our economy and to propose solutions. For instance, we have diagnosed that Korea's low birth rate and an aging population are rooted in the concentration in the Seoul metropolitan area and in the intense competition in the college entrance system. In response, we have put forward bold institutional reform proposals such as a "balanced development focusing on regional hub cities" and a "regional proportional admissions system" (Chung, M. et al., 2024; Chung, J. et al., 2024). To mitigate the economic and social impact of an aging population, we have explored policy measures like the sustainable employment of older workers, improvements in care services, and the utilization of home pensions after retirement (Oh, S. et al., 2025; Chae, M. et al., 2024; Hwang, I. et al., 2025). In addition, recognizing the vulnerabilities arising from Korea's heavy dependence on exports and its concentration in a few key industries, we have also conducted research into strategies that could help foster intellectual services as a new growth engine for exports (Choi, J. et al., 2025).

The call to pursue structural reform alongside economic stimulus is not unique to Korea. Across Europe, as growth stagnates, there is a growing recognition that the region's deepening reliance on China and Russia and the disruptions from the global supply chain fragmentation are not merely temporary phenomena, but structural vulnerabilities. Efforts are emerging to address these challenges. A prominent example is the report "The Future of European Competitiveness," published in September last year by Mario Draghi, the so-called "Draghi Report." This report provided a comprehensive, long-term analysis of the causes behind Europe's weakening competitiveness and proposed a wide range of policy responses. Since the beginning of this year, there have been notable efforts to strengthen the euro's status as an international currency by integrating the region's capital markets, in response to the rise of U.S. protectionism.

The European case offers some important implications. It is increasingly acknowledged that the slow progress made on structural reform across Europe was not due to a lack of policy proposals, such as those outlined in the Draghi Report, but rather on the absence of political leadership to reconcile divergent national interests. In a self-critical reflection that Europe has carried out reform only in response to an external crisis, the current trade conflict with the U.S. paradoxically presents a valuable opportunity to strengthen its own political leadership.

Structural reform inevitably involves conflicts of interest, and in the process, there will unavoidably be both winners and losers. Without sufficient coordination and broad-based public consensus, even well-designed policies may falter in the face of resistance from interest groups. The various policies proposed by the Bank of Korea are no exception. We hope that the newly launched administration will clearly prioritize its structural reform agenda and demonstrate leadership in managing social conflict, to turn the current crisis into an opportunity. The Bank of Korea will provide full support during these efforts through rigorous analysis and thoughtful policy recommendations.

My dear colleagues at the Bank of Korea,

The structural reforms I have mentioned so far are efforts to solve problems accumulated from the past. Now, however, we must also prepare for future challenges from a forward-looking perspective. Above all, as digital technologies and artificial intelligence (AI) continue to penetrate every aspect of our economy and society, we are witnessing rapid and fundamental changes in the financial and economic landscape. In this environment, identifying and nurturing new engines of economic growth has become one of our most urgent priorities. Grounded in this awareness, we are committed to not only conducting research, but also to taking concrete action. We have proudly launched our own initiatives that proactively respond to digital innovation and to the growing influence of AI.

With "Project Hangang," the Bank of Korea has recently begun conducting pilot test for a future digital currency infrastructure based on a wholesale central bank digital currency (CBDC) and on tokenized deposits, conducting trials in a real-world environment (Bank of Korea, 2025a). Of course, today's payment systems, including credit cards and mobile payment services, are already highly efficient, but we must not become complacent with current levels of convenience. The digital transformation of finance has moved beyond a race for speed. We are now entering a new phase that demands structural change and greater interconnectedness. The Bank for International Settlements (BIS) has introduced the concept of the "finternet" as a vision for the future of finance (Carstens et al., 2024). This envisions the integration of fragmented financial services across banking, securities, digital payments, and insurance into a unified interface, enabling real-time, user-centric financial management.

To realize this vision, a common digital currency foundation that interconnects all financial institutions is essential, with a CBDC and tokenized deposits at its core. These instruments function as a trusted common unit of settlement for all participants, serve as the technological standard, and can be designed as "programmable money," making them the key enablers of the personalized and automated financial environment envisioned by the finternet. Project Hangang is scheduled to conduct a follow-up test later this year to assess the potential benefits of tokenized deposits and determine whether to move forward with commercialization. In parallel, as KRW-denominated stablecoins not only have the potential to drive innovation in Korea's fintech industry but could also function as substitutes for legal tender, we will work closely with relevant authorities to establish institutional safeguards that ensure their stability and usefulness, while preventing any circumvention of foreign exchange regulations. Additionally,

through our participation in "Project Agorá," in collaboration with major central banks and global institutions, we are helping to build a cross-border digital financial infrastructure aimed at dramatically reducing the cost of international remittances.

Alongside digital finance, AI is rapidly becoming a part of everyday life, and its full potential is still difficult to predict. Korea is among the few countries that are developing "sovereign AI" based on its own language.<sup>2</sup> As AI deployment extends beyond centralized large-scale servers to smaller devices, such as smartphones, it may also open new opportunities for Korea's semiconductor industry. In line with this transformation, the Bank of Korea is currently developing a BOK-specific AI model built on a sovereign AI platform developed by a domestic firm. We plan to implement this model in the second half of this year. We hope this project will serve as a good example of public-private cooperation in developing Korea's AI industry. I also encourage all of our staff to become comfortable using AI tools and to grow into the kind of creative talent that is demanded by this new digital era.

To properly utilize AI technology, cloud computing is essential. AI needs to process large-scale data and conduct high-performance computations, that exceed the limitations of ordinary computers or of internal servers. Until now, the government's "network separation policy" for cybersecurity has been unavoidable in some respects, but at the same time, it has restricted the use of new technologies.<sup>3</sup> However, in light of the rapid spread of AI, we can no longer adhere to traditional methods. Accordingly, the Bank of Korea, for the first time among public institutions, is launching its own AI initiative and, in collaboration with the government, is also carrying out a "network improvement pilot project" as part of this broader effort. We hope that the Bank of Korea's pilot project will contribute to accelerating AI adoption in the public sector. I would also like to take this opportunity to express my deep gratitude to the members of the Monetary Policy Board for their active support for these pioneering efforts, such as Project Hangang and our AI development project, despite many challenges.

My dear colleagues,

Over the past three years, many changes have taken place within the Bank of Korea. We have made efforts toward new management innovations, such as reforming the evaluation system, restructuring the organization, delegating more authority to lower levels, and promoting a culture of information sharing and open discussion. As a result, the Bank of Korea's organizational capabilities have been significantly strengthened. Research reports we have published have sparked social responses, and our standing as a think tank for the national economy has been further strengthened. This is not just my personal view, but one that has also been affirmed by external evaluations, as well. According to a recent public perception survey concerning the Bank of Korea, the proportion of favorable responses rose by 9.6%p from last year, surpassing the 50% mark for the first time. The public's assessment of the Bank's credibility also increased by 18.2%p, reaching 66% (Bank of Korea, 2025b).<sup>4</sup> I would like to sincerely thank all of you for your active participation in these efforts for change and innovation.

There have also been significant changes in our public communications. Christine Lagarde, the president of the European Central Bank, once emphasized "humility" as the key principle in central bank communication, stating that we need to narrow the gap with the public through simple and clear messages. The Bank of Korea has also been

striving to communicate through multiple channels that are tailored to various audiences. The "Financial and Economic Snapshot" provides visualized information to help people better understand economic trends. Our YouTube content has become more diverse, ranging from "BOK Inside," which captures the daily lives of our staff, to "BOK Overseas Briefings" from our overseas representative offices. Starting this week, we are opening a gift shop at the Bank of Korea Money Museum to showcase souvenirs that represent the Bank of Korea, with the aim of raising the Bank's brand awareness.

We have also established a dedicated studio to improve the quality of our media content and are providing systematic media training for our staff. I am especially pleased and encouraged by the active media engagement of our younger employees, not only at headquarters but also at our regional offices. Thanks to these continued efforts, the number of subscribers to the Bank of Korea's YouTube channel has surpassed the Silver Creator Award threshold and is now nearing 110,000. We look forward to continued growth, with the aim of surpassing 150,000 subscribers in the near future.

Over the past three years, as I worked alongside all of you, I have witnessed the high level of competence demonstrated by our employees. The favorable assessments of our structural reform reports were only made possible by the in-depth analyses that supported them. I believe the quality of our work stands on par with that of any international institution, such as the IMF. Moving forward, I hope each of you will believe in your own potential and approach your work with greater initiative.

Of course, there are still several areas that require improvement, and some aspects have yet to meet expectations. More than anything, I encourage you to not limit yourselves to passively carrying out tasks directed from above, but to ask your own questions and to take the initiative in driving change within our organization. In my first commemorative speech marking the Bank's anniversary, delivered shortly after taking office, I emphasized the need to build an organizational culture where, "everyone can express their own views regardless of seniority." Some noticeable progress has been made toward such a "vibrant Bank of Korea," but there are still not many employees who feel comfortable saying, "Governor, I'm not sure I agree with you." I hope to see more change in this regard going forward. My office door is always open.

Winston Churchill once said, "To improve is to change; to be perfect is to change often." The progress we have made so far is a valuable outcome made possible by the collective dedication of all our staff. I hope that this spirit of change will continue to flourish so that a self-sustaining, enduring culture of innovation can take firm root within the Bank.

As we stand at this meaningful milestone of our 75th anniversary, I would like to once again express my heartfelt gratitude to all of you who have made today's achievements possible. In covering so many topics in today's speech, I remain mindful that I was unable to extend specific words of appreciation to our colleagues who work quietly and tirelessly in essential areas such as currency management, security, customer service, business support, and facility maintenance. I am deeply aware that your dedication and hard work are truly the backbone of this organization. I believe that the time we build

together will lay a strong foundation not only for the future of the Bank of Korea, but also for a brighter future of our national economy. I sincerely wish you and your families continued health and happiness. Thank you.

---

<sup>1</sup> Park, K. et al. 2025. "The Recent Increase in Contraction Frequency, Structural Reform Alongside Cyclical Responses is Urgently Needed."

<sup>2</sup> sovereign AI" is broadly defined as an AI system that is built and operated using a country's own data and infrastructure, with the ability to accurately reflect and understand a nation's or region's institutions, culture, history, and values, or the capacity to develop and manage such a system.

<sup>3</sup> The Bank of Korea has been physically separating its internal and external computer networks since 2016 to protect its internal information systems from cyber threats.

<sup>4</sup> A survey of 1,000 individuals from the general public by the external research agency Hankook Research, conducted on Feb. 10-13, 2025.