

# **Speech Commemorating the Bank's 66th Anniversary**

**2016. 6. 10.**

Juyeol Lee

Governor

The Bank of Korea

Dear fellow members of the Bank of Korea family,

Today marks the 66th anniversary of the Bank of Korea's foundation. On this happy occasion I would like to express my sincere gratitude to all those who served before us in the Bank of Korea over the years, devoting themselves to the development of our Bank and the national economy, and to those who have supported and encouraged us during this time as well. Let me also express my compliments to each and every member of our current staff, for so faithfully carrying out the duties entrusted to you.

Our economy exhibited growth in the mid-2 percent range last year, below our potential growth rate, and it has not shown any clearly marked recovery this year either. The trend of declining exports continues, the improvement in domestic demand such as consumption and investment has been unsatisfactory, and the sentiments of economic agents remain sluggish. Consumer price inflation is also substantially below its newly set 2 percent target.

To cope with these economic conditions, the Bank of Korea greatly increased the support provided under its Bank Intermediated Lending Support Facility in March of this year, and yesterday cut its Base Rate to 1.25 percent per annum.

In view of domestic and external economic conditions, however, it seems unlikely that our economy can easily emerge from its trend of low growth and low inflation in the near future.

First, it is difficult to expect any remarkable improvement in our exports, due to the delays in economic recovery in major countries and the consequent slowdown in growth of world trade. The euro area and Japan have adopted quantitative easing policies and negative policy rates, but the concerns about possible long-term low growth there have persisted. The US economy has exhibited relatively solid growth so far, but given the slowing pace of its improvement in employment the markets expect the US Federal Reserve to delay its policy rate hike. And China, our largest trading counterpart, amid the slowing of its pace of economic growth is also shifting to a domestic demand-centered growth strategy.

The structural factors limiting our domestic demand recovery persist as well, such as our low birth rate and population aging, the buildup in household debt, and excessive slack in manufacturing capacity. And given the corporate restructuring planned going forward, the consumption and investment sentiments of economic agents may contract further.

Against this backdrop, in order to help restore our economy's vitality it is important, along with our implementation of accommodative monetary and fiscal policies, that we carry out structural reforms consistently. In the absence of structural reform our macroeconomic policy will not generate the desired effects, and we will only find our policy space being exhausted.

We should also devote great efforts to discovering and nurturing new growth engines, which can drive our economy going forward. We need to create new industries and new markets, by investing

actively in and fostering digital innovation, the so-called “4th Industrial Revolution”, which is progressing rapidly especially in some advanced countries.

Together with this, we should also work to expand employment. In the past, it was understood that the role of employment was limited to supporting the demand for labor following economic growth. However, as discussed during last month’s Bank of Korea International Conference on Employment and Growth, attention is now focusing on the role of employment in leading growth.

Dear fellow members of the Bank of Korea,

I would like to touch now on the tasks that we will need to focus on from the latter half of this year.

Moving forward we must maintain our accommodative monetary policy stance, with a focus on revival of the domestic economy. This will also work to lessen the negative short-term impacts of corporate restructuring on production, employment and the sentiments of economic agents.

Second, given the long period of monetary easing undertaken to this time, we will need to pay even more attention to financial stability. It is essential to keep a closer eye on developments related to household debt, which has been maintaining a trend of high growth recently, and to carry out macroprudential policies as necessary in a timely manner in consultation with the government

and the supervisory authorities. With the prolongation of our low interest rate stance, economic agents' risk appetites are likely to grow, and imbalances in the financial system in consequence likely to build up. We should therefore devote more attention to these imbalances. We should also not spare efforts in examining the potential risks that can cause expansions in financial market volatility at home and abroad, such as the uncertainties surrounding the US Fed's monetary policy normalization process, and the potential for a resurfacing of financial and economic unrest in China.

If a credit crunch or any other financial instabilities occur in the course of corporate restructuring, the Bank of Korea will have to respond actively through use of various policy tools, including open market operations and its lending facilities. Although the recapitalization of state-owned banks, where worsening capital adequacies are feared, is an issue that should in principle be addressed through fiscal measures, the Bank of Korea has decided to also take part in this project, as a precaution against financial system instability. And going forward the Bank of Korea must do its utmost to fulfill its role in achieving the desired goals, while maintaining its fundamental principles.

We also need to step up our efforts devoted to policy communication. To achieve effective communication there is nothing more important than heightening the accuracy of evaluations of and forecasts for economic conditions, and then delivering consistent policy signals to the market based upon them. The Bank of Korea needs to continuously improve its monetary policy decision statements, while expanding its channels of communication with economic agents. From this year on we have accountability to

provide the public more detailed explanations of our inflation targeting operations. We will therefore have to fulfill this responsibility faithfully, and by doing so will ensure enhanced public understanding of and confidence in our monetary policy.

Dear fellow members of the Bank of Korea,

Given the challenging conditions facing the Korean economy, expectations of the role of the central bank have become higher than ever. The policy environment around us can however be described as one of “radical uncertainty,” since the directions and speed of changes are very hard to understand. Against this backdrop, if we hope to lay out policy alternatives that reflect reality well, then we should change our fundamental patterns of behaviour and thinking decisively. We should also listen carefully to new ideas, with flexible thinking and open minds free from the influence of past custom.

However, this does not mean that we can overlook the basic principles of a central bank. If we are bent on keeping step with external changes without deep reflection, then we may easily forget where we stand and what the *raison d’être* of a central bank is. We must bear in mind the fact that the central bank has to conduct its policies from the long-term perspective of the national economy as a whole, rather than being distracted by short-term outcomes.

As in any organization, it is IT sector capability that will determine the Bank of Korea's development in this 4th Industrial Revolution era. We will therefore have to review how we can change our IT-related work processes, and what areas need supplementing, and if necessary streamline our organization structure accordingly. Given its growing importance, our payment and settlement sector must be enhanced. We should also devote concerted efforts to strengthening our capacities for responding to cyber threats, which have been increasing recently.

It is also important to improve our HR and wage systems in ways that heighten the expertise and diversity of our staff, and focus more on efficiency and competition. We plan to implement certain proposals that we have reviewed in this regard, after soliciting the opinions of staff. The Bank of Korea is currently pursuing construction of an integrated annex building and the remodeling of its headquarters building. We must devote our best efforts to ensure that our new buildings are safe and practical, while being dignified as well.

Dear fellow members of the Bank of Korea!

I would like to urge each of you to continue devoting your very best efforts in carrying out the duties entrusted to you, with strong responsibility and pride as members of our nation's central bank, as you have always done until now. Please remember that, as I have emphasized many times, we are required to maintain much higher levels of morality than other people.

In drawing my remarks to a close, I should like to express my gratitude to all of those who have participated in the preparation of this commemorative event, and I wish you all and all of those whom you hold dear the very best of good health and happiness.

Thank you.

June 10, 2016

Governor

Juyeol Lee