

New Year Speech

January 2, 2017

Juyeol Lee

Governor

The Bank of Korea

Dear fellow members of the Bank of Korea,

Today is our first day of work in 2017, and I would like to begin by expressing my sincere appreciation to all of you, for so faithfully carrying out your duties last year. At the opening ceremony for each new year, we always resolve to show renewed spirits of determination, but this year I think even more extraordinary resolutions are called for than in the past.

Looking back on the past year, a series of unexpected shocks at home and abroad caused our economy great difficulties. At the beginning of the year factors such as economic unrest in China, the further decline in international oil prices and uncertainties as to the timing of the policy rate hike by the US Federal Reserve kept us awake. After that the Brexit vote in the UK, the presidential election in the US and political uncertainties at home arose as additional destabilizing factors. As a result of this series of events, our financial and foreign exchange markets were hit by high volatilities, and economic sentiments weakened sharply.

Against this backdrop, in order to support the recovery of our economy's growth the Bank of Korea eased its monetary policy stance further. In March of last year we raised the total ceiling of the Bank Intermediated Lending Support Facility greatly, and in June we cut the Base Rate to 1.25% per annum. Moreover, while closely monitoring the financial and foreign exchange markets at home and abroad, we worked actively to stabilize the markets whenever factors causing instability arose.

Despite these efforts, however, our country's economic growth still fell short of its potential last year. Consumer price inflation also remained considerably below the target. The trend of high growth in household lending continued as our accommodative policy stance became prolonged, and concerns grew about the possibility of household debt causing a contraction in consumption and undermining financial stability.

Dear members of the Bank of Korea,

This year our economy is expected to maintain its modest growth, thanks to the strengthening somewhat of the global economic recovery. If we look around, however, at conditions here at home as well as abroad, there are potential risk factors lurking everywhere that could limit the pace of growth.

First of all, as the movements toward strengthened protectionism in major countries become more evident, it is possible that world trade could contract. Uncertainties concerning the policy directions of the new US administration, the rate hikes by the US Federal Reserve and the UK's Brexit from the EU could cause international financial market unrest, and a delay in the world economic recovery. Domestically, it is hard to rule out the possibility of the lingering political uncertainties having adverse effects not only on the consumption and investment sentiments of economic agents, but on the views of foreign investors concerning our economy as well.

At a time like this, keeping the foreign exchange market and the real economy stable is of primary importance. Given the Korean economy's robust external soundness and financial resilience as well as its adequate policy space, it should be able to withstand shocks of some extent. We cannot just sit back complacently, however. If multiple external risks should materialize all at once, or in concert with a deterioration in domestic conditions, the repercussions can be greater than expected. We should therefore devote every effort to comprehensive risk management, so that we can deal in a timely manner with any such situation that may arise.

We also need to push consistently ahead with reforms to counteract structural problems such as our low birth rate and population aging, the accumulation of household debt, labor market segmentation, and income inequality. If we leave our economy's structural vulnerabilities unresolved, citing the unfavorable conditions currently before us, then the recovery of our growth potential will become even more difficult to attain.

Dear members of the Bank of Korea,

I would like to touch now on the major tasks that we will need to focus on this year.

We will conduct our monetary policy so as to ensure that the recovery of economic growth continues, and that consumer price inflation approaches the target level over a medium-term horizon. Although the pace of inflation will gradually pick up, owing to the rising oil prices, it is forecast that the upward pressures from the demand side will not be great since economic growth is expected to

be only modest. Going forward, maintenance of our current accommodative monetary policy stance for a considerable time will thus be appropriate.

We also need to operate the Bank Intermediated Lending Support Facility in the direction of improving its support for economic growth. The financial support for SMEs suffering temporary financing problems, and for those that contribute to increasing employment, needs to be expanded. Given the considerably changed financial and economic conditions, we will also have to examine the need for reforming our lending facilities over a medium- to long-term horizon.

When carrying out our monetary policy this year, we should devote particular attention to financial stability. As the possibility of expansions in financial and FX market volatilities is high, we will have to carry out stabilization measures actively as needed, while closely monitoring the trends of price variables and capital flows. The upward pressures on market interest rates, which have grown in consequence mainly of the rate hikes by the US Federal Reserve, could aggravate households' debt repayment burdens. We thus need to work, in close consultation with the government and the supervisory authorities, to ease the trend of sharply rising household debt and to prevent the risks of default among the vulnerable groups from escalating.

We must also redouble our efforts to enhance the effectiveness of our monetary policy, and most importantly to increase the accuracy of our economic forecasts. We should devote efforts to continually improving our forecasting model, to using new

technologies such as big data, and to expanding the number of our specialist staff. At the end of last year we released the “General Principles of Monetary Policy Operation,” and resolved to push ahead with improving the contents of the monetary policy statement from the Monetary Policy Board meeting as well as expanding the scope of related reports released to the public. These efforts will heighten the predictability of our monetary policy and thus contribute to enhancing its effectiveness.

We will need as well to respond actively to the digital revolution in the payment and settlement field, which is progressing rapidly. Through cooperation with the financial sector, and with IT specialized enterprises, we will need to establish a foundation facilitating the wider use of FinTech, distributed ledger technology and biometric authentication. While on the one hand working to support the smooth launch and settlement into place of Internet banks, we should at the same time push ahead without delay on the pilot program exploring introduction of a “coinless society”. Central banks of major countries are carrying out in-depth research recently on digital currencies, and we too should begin research on the forms of issuance of, the technical framework for, and the effects on monetary policy and financial stability of digital currencies.

As the Korean economy’s status in the international community has risen, its engagement in external financial cooperation is becoming more important, and the Bank of Korea is for example now expected to take on a strengthened role in international organizations. In responding to this, we need to implement our organization and personnel management in a way that supports improved specialization for these tasks.

In order to help our central bank cope effectively with the rapidly changing domestic and external environments, we must work to enhance the expertise and diversity of our staff. To this end, we should constantly improve our recruitment system and our human resource management framework. We should also continue our efforts to adjust our personnel and remuneration systems in directions whereby the fairness of our staff evaluations is enhanced and job competencies and performances are emphasized. The construction of a new annex building, combining two currently separate buildings, will begin this year together with the remodeling of our main building. We need to all cooperate closely to ensure that this project, as well as other complementary measures including the temporary relocation of our offices and the transfer of unissued banknotes, can be accomplished as planned.

Dear fellow members of the Bank of Korea,

Korea now faces extremely critical political and economic conditions. In this situation it is inevitable that social expectations for the central bank, which is responsible for one axis of the nation's macroeconomic operations, are high. I ask you all to continue devoting your best efforts to fulfill your duties entrusted to you, without faltering and with a full sense of commitment and responsibility.

In carrying out our duties, we should also try to be flexible in our thinking. As we witnessed during the AlphaGo fever last year, the pace and scope of advance of the 4th Industrial Revolution is hard to even imagine. Under circumstances like these, our current experience and knowledge could become less valid in the future,

and the central bank's achievement of its policy goals through reliance on conventional wisdom alone could be difficult. Bearing this in mind, we need to listen carefully to diverse opinions with open minds. Even as we do so, however, it goes without saying of course that we must continue to uphold our fundamental principles as the central bank.

I believe that if all of us work together with firm determination, our economy will be able to overcome the many difficulties now facing it, and advance one step further. In welcoming the new year, I want to wish all of you in our Bank of Korea family very abundant health and happiness.

Thank you.