

Chang Yong Rhee: Speech - 73rd Anniversary of the Bank of Korea

Speech by Mr Chang Yong Rhee, Governor of the Bank of Korea, to commemorate the 73rd Anniversary of the Bank of Korea, Seoul, 12 June 2023.

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I would like to thank Byungkuk Kim and Moonsun Bae for their help in preparing this speech.

Dear fellow members of the Bank of Korea,

Today marks the 73rd anniversary of the establishment of the Bank of Korea. I wish to express my sincere gratitude to our predecessors. They devoted themselves to the growth of the Bank of Korea and to our economic development. I would also like to thank the members of the Monetary Policy Board for their ongoing efforts on behalf of the national economy, as well as the staff across all departments, including policy, management and field operations, for their hard work in their respective roles. Additionally, I also extend my appreciation to the families who have consistently supported our staff behind the scenes.

The anniversary of our founding carries great significance every year. However, it feels even more meaningful this time as it marks the first time for us to return to our newly renovated headquarters after six years. Just two weeks ago, the Bank of Korea hosted the BOK International Conference 2023 in this very building. It was great that the Bank was able to cut down on expenses by utilizing our own Conference Hall. I was even more pleased to hear congratulatory remarks from many esteemed guests, saying that our new building might be unrivaled internationally. There is more. Like the famous saying, "We shape our buildings. Thereafter, they shape us." suggests, our staff can now communicate freely and creatively not only in their offices, but also in various open spaces, including the central lobby, 2nd-floor lounge, 4th-floor break area, and library. Once again, I would like to convey my genuine appreciation to everyone involved in this renovation project, including our staff in the relevant departments, such as the Renovation Project Office and the Office of Property Management, for faithfully fulfilling their duties despite numerous challenges during the construction period. In particular, I have observed a significant increase in the workload related to security and property management in the new building. I want to acknowledge and thank the security and maintenance staff in charge.

Moving on, as this is the anniversary of our founding after a year as the Governor, it is a time to reflect on the past year. We have worked tirelessly together to navigate the challenging economic situations. Amid rapidly rising inflation in major economies, Korea's consumer price inflation also rose to as high as 6.3% last July. The Bank of Korea responded swiftly to this by raising the Base Rate to 3.5%, and, fortunately, inflation came down to 3.3% last month. However, since core inflation, an indicator of underlying inflation trends, has been moderating at a slower pace, it is premature for us to lower our vigilance. Therefore, we should conduct our policy more elaborately in

overall consideration of downside risks to growth, financial stability risks, and monetary policy changes in major economies, including the U.S. Federal Reserve, while closely monitoring the pace of slowdown in consumer price inflation going forward.¹

As you may well recall, amid the U.S. Federal Reserve's acceleration of its stance of monetary policy tightening in the second half of last year, the Korean won to U.S. dollar exchange rate surged. And then to make matters worse, the default of a Legoland developer occurred on top of that, deepening the stress in domestic financial and foreign exchange market. In response, the Bank of Korea, in close policy coordination with the government and supervisory authorities, actively strove to stabilize markets and played a crucial role in overcoming the crisis.² In the process, the sound banking sector played an important part as the bedrock of support. Although the sluggish housing market has shown signs of an easing recently, it is still necessary to remain attentive to risks in the financial sector, as the delinquency rates of real estate loans rose. Over the medium- to long-term horizon, we will have to explore avenues to carry out modest deleveraging of household debt through cooperation with relevant government agencies to prevent further buildup of financial imbalances.

We have witnessed considerable changes in internal management as well. We swiftly implemented a plan to innovate our organization and HR management, which had been drawn up through a series of discussions. We also began to make efforts to improve our organizational culture, by, for example, spreading a culture of debate and expanding the sharing of information. Thanks to everyone's participation, I believe that, we are seeing positive changes in becoming the "vibrant Bank of Korea", from the image of us being the "temple-like Bank of Korea". I am grateful that more reports on major economic issues have been published externally, and that staff at our regional branches are actively engaging as ambassadors for the Bank. However, it is also true that there have been no visible outcomes concerning the wage issue, delegation of authority, or our "work diet". As these issues require more time to resolve, we need to make continuous efforts toward improvement.

The past one year has been challenging, but it seems that the next one will not be any easier. In particular, the Bank's genuine capability will face a crucial test. Over the past one year, most central banks, including the Bank of Korea, rapidly raised their policy rates due to high inflation, and there was a consensus among our citizens that price stability was the top priority. However, it is highly likely that inflationary trends and economic conditions will vary from country to country this year. This means that a sophisticated policy response has become more important considering the trade-off between prices and growth, and the true capabilities of central banks in each country will be clearly revealed in this process.

This also applies to our organizational management. Without tangible results, there will only be disappointment surrounding our organizational innovation. Now is the time to intensify our endeavors to achieve concrete outcomes so that there will be no complaints that "our management is all talk and no action".

Dear fellow members of the Bank of Korea,

For the Bank of Korea to make progressive changes in both policy and internal management, a shift in mindset is required. This is because the environment

surrounding us is changing rapidly. The overall economy is experiencing significant changes, affected by not only internal factors, such as low birth rate and aging population, but also by the 'new normal' after the pandemic, fragmentation of the global economy, a deepening of geopolitical conflict, and the proliferation of innovative IT, such as artificial intelligence. Rather than sticking to our past successes, we need to be prepared to make bold changes that align with this new landscape.

For instance, the primary target for our policy has been banks. In the Bank of Korea Act, the phrase "financial institutions" refers to banks only. However, the share of deposits at non-bank financial institutions already surpassed that at banks in the early 2000s, and their settlement via BOK-Wire+ has grown continuously. Transactions between banks and non-banks have also increased, leading to greater interconnectedness among them. Given the increasing importance of non-banks and the complexity of the system, relying solely on addressing banks poses challenges in achieving our financial stability goal for the overall economy. We cannot turn a blind eye to this issue just because we do not have supervisory authority over non-banks. We must come up with a way to achieve financial stability by further strengthening policy coordination with other supervisory authorities, or even by reforming the system itself, if necessary.

Another example would be the effectiveness of liquidity management. As the persistent current account surplus has continued to provide a large volume of liquidity from the external sector to the Korean economy, , the Bank of Korea's liquidity management has centered on absorbing this liquidity. However, it is time for us to prepare for potential changes in our current account balance and in what are adequate amounts of liquidity, as a result of the changing economic structure at home and abroad. In this regard, we need to break away from focusing on liquidity absorption and improve our management system to ensure flexible liquidity provision in peacetimes as well.

At the same time, as shown in the recent collapse of Silicon Valley Bank, the development of mobile banking and other information technologies has also enabled rapid movements of massive amounts of funds between institutions, thereby accelerating the speed of stress propagation. In order to better respond to this evolving environment, we need to consider augmenting our policy tools for immediate use when a stress is detected, such as new lending facilities.

We should also work out a way to use rapidly-developing IT and apply software like ChatGPT to our jobs to improve the efficiency of our daily tasks. This year, particularly, in line with the latest trends in payment and settlement innovation, we will focus on getting ourselves fully ready for the shift of our retail payment system to a real-time gross settlement (RTGS) method and for the launch of a central bank digital currency (CBDC).³

We must also change the way we conduct our internal management in an effort to adapt to the structural changes of the environment that I mentioned earlier. Over the past several decades, the Bank of Korea has been able to attract top-tier talent quite easily. As the private sector has developed rapidly, however, competition to secure talent has now become more intense. That is why our salaries and benefits should be stepped up to a competitive level.

Furthermore, the focus of our personnel policy should also be on developing incoming employees into top-notch experts, going beyond efforts to recruit high-fliers. The days when a prestigious university degree alone certifies your excellence has now come to an end. Given the fast-evolving nature of work-related knowledge, we all need to strive to improve ourselves and develop expertise, while the Bank needs to provide you with its full support. It is time for us to focus our endeavors on replacing the outdated belief, that only exceptional talent can get into the Bank of Korea, with a new perspective, where anyone with a decade of experience at the Bank of Korea will be worth scouting by headhunters.

In order to achieve this, it is necessary to delegate job authority effectively, empowering individuals to take responsibility and make key decisions even at lower levels. Also, we need to break away from the existing framework, where authority and responsibility were concentrated in a few hands and where only the Governor represented the Bank of Korea. Sharing information across the bank is crucial to prevent any monopolization of information within our organization. Furthermore, when engaging in external communication, each one of us needs to embody our role as representatives of the BOK and as experts in our respective fields. I will support these changes by reinforcing our human resources and performance evaluation systems, to ensure that employees who take the lead in driving these changes receive appropriate rewards and recognition for their contributions.

Dear members of the Bank of Korea,

I want to highlight once again that the upcoming year will be a crucial period that requires changes in both policy decisions and in our own organizational management more than ever. Given the diverse economic conditions prevailing across countries, it is imperative for us to conduct a more sophisticated policy operation to promote the stability of the Korean economy. At the same time, we must actively perform our role as a government policy advisor, contributing to the medium- to long-term direction of the Korean economy. Also, in terms of organizational management, our focus should be on ensuring that our staff can tangibly experience the benefits of a more rewarding and fulfilling work life.

As the old saying goes, we should create the new by learning from the old. Let's build upon the achievements of our predecessors and create a new tradition to elevate the status of the Bank of Korea. I specifically would like to encourage our younger employees to be at the forefront of this transformation. I've heard that these days younger people often ask, "Why?" or, "Me?" or, "Now?" when assigned a task. Here at the BOK, I hope that our younger employees will feel more confident and proactive in asking such questions to their superiors. If they were to ask me these questions, my answers would be something like this. "Why? Because we need to change." "Me? Yes, you, because you are the very generation that feels the need to change the most." "Now? Absolutely, because if not, we will be left behind."

As I have repeatedly emphasized, this is that everyone can express their own views regardless of seniority. I encourage you to move away from the mindset of merely accepting instructions from your senior officials, even when it is challenging to agree with them, and to step forward actively to bring about a change in this regard. Also, I would like to kindly remind our senior officials that they must recognize their duty to

nurture future leaders and to cultivate an environment where younger employees can fearlessly question conventional practices. In order to learn from the past, to forge a new path forward, we need to combine the fresh ideas of our younger employees with the wisdom of our senior members. This year, let us work together to make the Bank of Korea a pioneer of change without compromising its core essence as the central bank of Korea. I will take the lead and spare no effort.

As we celebrate our 73rd anniversary, I would like to once again express my sincere appreciation to all of you for your hard work. I wish you and your family all the very best.

Thank you.

References

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¹ For details, see "Key Risk Factors in the Conditions of Medium-term Policy Operations" (Bank of Korea Blog, May 2023, only in Korean).

² For details, see "-4. Financial and Foreign Exchange Markets" in the Monetary Policy Report (Bank of Korea, December 2022); and "Increasing Risks in the Financial Sector" in the Monetary Policy Report (Bank of Korea, June 2023).

³ For details, see ". Future Policy Directions" in the Payment and Settlement Systems Report 2022 (Bank of Korea, April 2023).