

## Chang Yong Rhee: Speech - 74th Anniversary of the Bank of Korea

Speech by Mr Chang Yong Rhee, Governor of the Bank of Korea, to commemorate the 74th Anniversary of the Bank of Korea, Seoul, 12 June 2024.

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Dear fellow Bank of Korea colleagues,

Today marks the 74th anniversary of the establishment of the Bank of Korea. I wish to express my sincere gratitude to our predecessors who have led us to where we are today and to the esteemed members of the Monetary Policy Board who are always striving to safeguard our national economy. I would also like to thank all our dedicated staff for their hard work in their respective roles during these challenging times. Additionally, I extend my appreciation to everyone who supports and encourages us, particularly the families of our staff.

Today is more meaningful to me personally because it marks the first anniversary of the second half of my tenure, two years after I joined the Bank. Rather than looking back over the past two years, I would like to discuss the road ahead. The challenges we face now are critical, and how we handle them will influence how our past efforts are judged.

Turning first to the monetary policy environment, I am relieved to see signs that our economy has been recovering faster than previously expected, as GDP growth in the last quarter exceeded expectations. Behind these growth indicators, however, there is a clear difference in the pace of recovery between exports and domestic demand, and even within the domestic sector, the perceived recovery varies significantly across segments. While inflation continues to decline, upside risks have increased due to stronger-than-expected growth and higher exchange rate volatility due to uncertainties in major countries' monetary policies, along with persistent geopolitical risks.

I understand that many people are still suffering from high inflation and high interest rates. However, unless inflation is firmly stabilized, the vulnerable will face even greater difficulties due to decreasing real incomes and soaring living costs. Moreover, if a premature pivot to a dovish stance leads back to unstable inflation and necessitates another rate hike, the policy cost at that time will be much higher. Therefore, we need to remain patient and maintain our current tight monetary stance until we are confident that inflation will converge on the target level.

Of course, if we delay the policy shift for too long, it could weaken the recovery of domestic demand and cause market unrest driven by factors such as a continued rise in loan delinquency rates. On the other hand, if we shift the policy stance too early, the slowdown in inflation will decelerate, exchange rate volatility will increase, and the growth in household debt will accelerate. As we enter the final stretch of the fight against inflation, we need to make delicate and balanced judgments that take these trade-offs into account. As highlighted in a recent blog post by the Bank of Korea's

Monetary Policy Department, it is time to recall the principle of, "festina lente," which means, "make haste slowly," a maxim first and foremost advocated by Roman Emperor Augustus in policymaking (Park & Sung, 2024).

The rough waves of steep inflation and the big rate hikes seem to have somewhat subsided. However, we are now facing yet another challenging period that requires us to navigate with even greater precision to avoid any hidden rocks lurking beneath the surface. It is at times like this that the outcomes of policy operations tend to differ country by country, clearly revealing the true capacity of each central bank. Therefore, we should work to enhance the accuracy of our economic forecasts with a modest attitude and carry out policy operations with more calibration, while comprehensively monitoring risks across various scenarios.

In addition to successfully conducting monetary policy, the Bank of Korea has many projects to complete going forward. First, as planned, from August we will publish our economic forecasts more frequently, on a quarterly basis instead of twice a year as at present. This will be a chance to improve the accuracy of our forecasts and to enhance communication with market participants. Second, regarding the disclosure of the views of the Monetary Policy Board members concerning the outlook for the policy rate over the next three months, we will review the effectiveness, as well as the pros and cons, of this approach and mull over ways to improve it with the MPB members. Third, the CD rate is still commonly used in practice, even though it is no longer representative as a benchmark interest rate due to its significant decline in trading volume in the short-term money market. By encouraging financial product traders to use the risk-free reference rate (KOFRR), which is calculated based on actual transactions, as the benchmark instead of the CD rate, we aim to enhance the effectiveness of the transmission channels of monetary policy and contribute to the facilitation of the related derivatives market (Financial Services Commission, 2024). Fourth, after the SVB failure, we have decided to pursue plans to expand the range of eligible collateral for Bank of Korea loans to include loans receivable in order to reinforce liquidity backstops (Bank of Korea, 2023a). We should continue our efforts to establish an institutional infrastructure that ensures a systematic and predictable liquidity support system for both banks and non-bank depository institutions. If necessary, we will also consider revising the Bank of Korea Act in consultation with relevant agencies.

We also need to be proactive in responding to the accelerating digital transformation. First, we will carry out a CBDC pilot test to establish a new financial infrastructure for the future where various private digital currencies, including a wholesale CBDC and tokenized deposits based on it, can be issued and distributed (Bank of Korea, 2023b). In addition, the Bank of Korea will actively participate in Project Agorá, a global financial infrastructure research project jointly launched by the BIS and seven leading central banks (Bank for International Settlements, BIS, 2024). As a non-reserve currency nation, this will be a great opportunity for Korea to participate from the outset in setting new standards for cross-border payment and settlement systems, positioning ourselves as an early rule-setter.

Also, public and financial institutions have faced difficulties in utilizing new technologies, such as cloud services and AI, due to the network separation between their intranet and the internet. Cooperating with other related institutions, such as the National Intelligence Service and the Presidential Committee on the Digital Platform

Government, the Bank of Korea will be the first organization to take part in a pilot program to improve network security protocols in the public sector. I hope this initiative will enable our staff to work anytime and anywhere they want, thereby increasing IT efficiency and work productivity at the Bank of Korea, while also raising awareness of the importance of cybersecurity.

Dear fellow Bank of Korea colleagues,

When we look further ahead, what we need to do doesn't stop here. Facing numerous structural problems that have accumulated and deepened over time, such as a low birth rate & an aging population, regional imbalances & overconcentration in the capital region, pension depletion & old-age poverty, education issues, income and asset inequality, and dualism in the labor market, we should not limit our research scope to solely monetary policy.

Let's say we successfully win the fight against inflation. Even so, high levels of prices will still remain as a burden on the cost of living, and this cannot be managed solely through monetary policy. In order to reduce Korea's high costs for essentials compared to major economies, we need to ponder more foundational solutions, such as diversifying supply channels and reforming the distribution system (Im et al., 2024). The low birth rate & an aging population, through the spiral of regional imbalances & overconcentration in the capital, have been hampering Korea's growth potential for a long time (Chung et al., 2023; Hwang et al., 2023). We urgently need to find a way to break this vicious cycle. The high level of household debt also needs to be controlled so it doesn't hinder financial stabilization. Recently, the debt ratio decreased due to the upward revision of nominal GDP after the national account base year was changed. It remains unchanged, however, that the household debt issue is still a threat to the Korean economy, so we must continue working hard to stabilize it downward (Lee & Kang, 2023).

We cannot expect sustainable growth without addressing these structural problems, as we will face a huge social shift in the light of climate change and AI innovations. This explains why the Bank of Korea needs to become a top-tier think tank in Korea by advocating for structural reform and working closely with the government and related institutions, not only just conducting monetary policy.

Various interest groups may create some noise as change is brought to a deep-rooted structure. Indeed, some might be skeptical of or criticize the Bank of Korea, which has no legal authority to do so, for dealing with sensitive social issues. However, because the Bank of Korea is free from those interests and has no legal authority, it can analyze the current status from a more neutral perspective and propose solutions from the long-term view. With a responsibility to provide a blueprint for economic growth, we must continue playing our role in offering alternatives for structural reform.

However, even our policy proposals will be nothing but empty echoes if they are not backed by expertise. For our policy messages to resonate and gain consensus, the quality of our research should gain trust from the outside the bank. This trust can only be earned through our continuous efforts to enhance our expertise and capabilities.

Dear fellow members of the BOK family,

We have been driving various changes, including new management and personnel measures, to meet the people's growing expectations of the central bank and to foster a sound organizational culture. I believe we are seeing some positive results both in and out of our Bank. Internally, there has been more active information sharing and debate among our staff, while externally our policy proposals are drawing significant social response. Our policy communication through various channels, including blogs and social media, has also attracted attention.

Now our focus should be put on developing this momentum of change even further so that it becomes deeply rooted in our organizational culture. This can be facilitated by establishing a horizontal organization based on a shared consensus for change, and participating voluntarily out of a sense of ownership. While the organization can chart the course for the great ship Bank of Korea, it is you who hold the helm and steer the path. We must create a culture where people feel free to bring ideas from the bottom up and implement their ideas through cross-functional collaboration and task forces, instead of being told what to do. Individual outcomes earned through this process should be freely made public and recognized as one's own achievement. The "smart maverick," recently proposed in a report by our Economic Research Institute as the key driver of innovation in our economy, is someone we also need at our Bank (Lee et al., 2024). I hope our staff will from time to time think out of the box and actively propose ideas just like a "smart maverick" would, taking the initiative in our innovation efforts. I look forward to seeing such a culture established soon. I also ask you to keep moving forward with strong faith in each other, so that the series of measures we have pursued will yield the hoped-for results.

Dear fellow Bank of Korea colleagues,

On my office desk, there is a plaque with a quote from former U.S. President Ronald Reagan that says, "There is no limit to what a man can do or where he can go if he doesn't mind who gets the credit." The capabilities of the Bank of Korea will double if we remove the barriers between departments and work together with a mindset that everyone shares the credit, rather than arguing over who will get the reward. Similarly, we could do more if we weren't so worried about being assigned responsibility when things go wrong. If we avoid controversy and blame out of fear, we'll always stay in the same place, and progressive change will be elusive. A broken clock that has stopped can still be right twice a day, but we cannot comfort ourselves by calling it reliable.

It has been my ambition since I took office to transform the Bank of Korea from a "temple-like Bank of Korea" to a "vibrant Bank of Korea," and I believe that we are moving forward together along that path. Change, and the road less traveled, is not always comfortable, and there will be voices that say we are on the wrong path. However, as we embark along this new path, we must keep in mind that it is our choice to move forward without hesitation, or to retrace our steps backward into the past. The Bank of Korea should strengthen its role as a producer of knowledge at the frontiers of each field, not just a consumer or intermediary of knowledge, and the pain and controversy that accompany this process should be overcome by our capabilities.

As we celebrate our 74th anniversary, I would like to express my appreciation once again to all of you for your hard work. The Bank has been able to achieve significant results in a difficult environment largely thanks to the dedication of our staff, who have

done their best to fulfil their responsibilities even in less visible areas like customer service, facilities operations, cash processing, security management, and business support. I would also like to extend my gratitude to the janitorial staff who strive to maintain a clean working environment, and to the daycare teachers who provide a comfortable care environment for our employees' children, and to the healthcare workers who genuinely take care of our employees' health. I would also like to express my gratitude and support to our employees who serve as ambassadors of the Bank in regional headquarters and in other countries. I wish all of you and your families the best of health and happiness.

Thank you.

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