

Chang Yong Rhee: New Year Speech

New Year's speech by Mr Chang Yong Rhee, Governor of the Bank of Korea, at the Bank of Korea, Seoul, 1 January 2024.

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My dear colleagues at the Bank of Korea,

Today we start our first day of work in 2024. Let me begin by expressing my heartfelt gratitude to all of you for your best efforts at fulfilling your duties in your respective roles throughout the past year. I would also like to extend my appreciation to all the members of the Monetary Policy Board for their dedication to the conduct of monetary policy. I also thank your families for their unwavering support for your hard work here. As we embark on the Year of the Blue Dragon, I wish all of you will soar like a dragon, achieving success in all your endeavors.

Last year proved to be a busy period in developing the best possible policies and measures in response to the rapidly changing conditions both domestically and internationally. Going through a time of high tension, such as significant policy rate hikes by central banks in major economies to curb inflation, followed by the Silicon Valley Bank incident in the U.S. and the Israel-Hamas conflict, we were never able to let down our guard for even a moment. Amid these heightened external uncertainties, the Bank of Korea conducted monetary policy with the top priority on price stability, while closely monitoring financial stability risks. We kept our Base Rate at a restrictive level of 3.5%, and adopted market stabilization measures to respond actively to unrest in the financial and FX markets, such as the large deposit withdrawals from MG Community Credit Cooperatives.

Fortunately, the Korean economy has recently started to show positive signs, such as a recovery in growth driven by exports and a sustained slowdown in inflation. Major international news agencies have also highly commended the stable trend of economic indicators in Korea, including inflation and employment. All of this was made possible thanks to our fellow Koreans, who, even in challenging conditions, shared the burden of hardships.

This year, global economic growth will likely slow in the aftermath of the continued monetary tightening, and global inflation will continue to moderate. We are also confronted with significant uncertainties in our external conditions, such as the fragmentation of global trade, geopolitical risks surrounding the Middle East and Eastern Europe, and the possibility of abrupt changes in the international landscape depending on election results in major countries. Last year, the IMF projected the global economic growth rate for the next five years to be in the low-3% range on an annual average basis, the lowest level since 1990. This suggests that external conditions will present considerable challenges to the Korean economy.

Having said that, one piece of good news is that the semiconductor business is reviving gradually from its downcycle. Given that the recovery and upcycle in the IT sector usually lasted for over two years, the economy is forecast to continue its recovery driven mainly by exports, with growth rates reaching 2.1% this year and 2.3% next year.

It is very encouraging to see our economy improving, albeit slowly, even when economic growth in major economies is likely to slow this year. Excluding the IT manufacturing sector, however, the recovery might not be strong enough to be felt by all the people, with the growth rate projected to be only 1.7%. Inflation is expected to gradually approach the 2% target, but when it will stabilize at the target still remains uncertain. That is why we are particularly concerned about the hardships faced by vulnerable groups who encounter more challenges due to high inflation and prolonged periods of elevated interest rates.

My dear colleagues,

Last year, most central banks worked toward a common goal, to tackle high inflation, but this year it is anticipated that the policy rate hike cycle in major economies will conclude and policies will differ across countries. In this regard, the Bank of Korea will have more room to make policy decisions with greater focus on domestic conditions. The economic landscape for this year, as well as the final evaluation of last year's policy implementation performance, will depend on how we do our job this year.

In view of this changing economic environment at home and abroad, the Bank of Korea must put the top priority on price stability while at the same time exploring the best policy mix required for economic recovery and financial stability. Finishing up the long inflation fight successfully will be more important than anything. In mountain climbing or a marathon, it is said that the "last mile" indicating the incline just before reaching the summit or the final stretch in a marathon is the most challenging. Although inflation will continue to moderate, the pace could be slower than we expect, dragged down by uncertainties with commodity price movements and accumulated upward cost pressures. However, we must, and will, achieve price stability. We will determine the duration of our restrictive monetary policy stance and the optimal interest rate channel needed to bring inflation back on target, based on close monitoring of uncertainties in the domestic and overseas policy environments.

We should thoroughly prepare for the possibility of financial unrest, which could arise with a continued tightening stance. There are signs of commercial property loans deteriorating in major advanced economies, and some warning signals are also being detected in the domestic market, especially in real estate PF. We should pay special attention to prevent credit risk from increasing, centered on weak links in our economy. The Bank of Korea decided to add loans receivable held by financial institutions to the list of eligible collateral for its lending, to strengthen the liquidity backstop in the financial system in case of an emergency. Thus we need to swiftly come up with relevant arrangements, such as a detailed plan for implementation. We will cooperate with the government and relevant institutions to draw up measures on an orderly resolution of real estate PF and support the process of their implementation.

To make a sophisticated policy mix a success, we need to make more efforts to enhance communication. To this end, we will transition from a semi-annual economic forecast path to a quarterly economic forecast path, and announce this starting in the second half of the year. The release of a detailed economic outlook may raise concerns about forecast errors as uncertainties in domestic and external conditions increase. However, it offers the advantage of allowing economic agents to systematically anticipate shifts in policy direction as they better comprehend the preconditions

underlying central bank forecasts. As the proper formation of expectations among economic agents is all the more important to strengthen the effectiveness of monetary policy, we judged that taking a bold step forward would be desirable. In addition, analysis materials discussed at the Monetary Policy Board and other research papers will be delivered to the general public for better understanding through visualized content, like the "Bank of Korea Financial and Economic Snapshot" and videos.

My dear colleagues,

As you are well aware, the Korean economy is indisputably among the ranks of advanced economies. The era of relying on fiscal expansion and debt accumulation based on low interest rates in an ad hoc manner to spur growth whenever the economy faces challenges has come to an end. Fiscal demand to address the impending entry into a super-aged society appears to be on the rise. The surge in household debt over time has reached a level that undermines growth potential. Fortunately, fiscal debt has recently been decreasing and household debt has been increasing at a slower pace, but there are still so many diverse factors that hinder the sustainable growth of our economy. The Bank of Korea should devote more efforts to finding solutions to many structural issues that have been insufficiently examined, all while dealing with inflation.

The Bank of Korea will need to carefully examine the structural causes of and institutional remedies for past real estate price surges and PF insolvencies, as well as whether the current regulatory and supervisory framework is sufficient to address future digital-age bank runs. Given the significance of non-bank financial institutions, it is imperative to explore ways to further enhance our liquidity support mechanism. Moreover, we need to delve deeply into whether the capacity of the exchange rate to absorb external shocks is being adequately utilized in consideration of our heightened external soundness. This is not a task solely for the Bank of Korea. Rather, it should be a collaborative effort involving the financial authorities. As we look ahead, it is crucial to maintain continuous structural reforms in the mid- to long-term. We will need to collaborate closely with the government and come up with effective policy alternatives to tackle challenges like the low birth rate, an aging population, regional concentration in the Seoul metropolitan area, and the decline of rural regions. We, together with the government, should also be able to present viable alternatives regarding the direction and methods for strengthening our economic resilience in this changing landscape, including global supply chain restructuring and the climate crisis.

I am extremely proud to acknowledge the significant social impact generated by the various reports you all prepared last year, which proposed policy suggestions across a diverse range of sectors. Reports addressing the extreme demographic structure issues arising from the phenomenon of an ultra-low fertility rate,¹ a diagnosis of household debt from a long-term structural perspective,² a study of production and supply chain dynamics in major manufacturing industries across regions,³ and balanced development focusing on hub cities⁴ are all notable examples. Several blogs addressing key current issues also garnered significant attention. Moving forward, the Bank of Korea will actively propose policy alternatives to improve the structure of our economy based on such in-depth research.

Furthermore, we aim to step up our response to the accelerating digital transformation in finance and the economy. This year, we plan to run a pilot test involving approximately 100,000 people who will engage in actual transactions to explore the introduction of a desirable central bank digital currency (CBDC). The insights we gain from this initiative are expected to set an example for central banks worldwide and to elevate Korea's status as a digital powerhouse. Efforts to streamline business processes and enhance productivity using AI technologies will also continue. Additionally, we are committed to working closely with the government to put in place essential measures that will make our foreign exchange market more open and competitive.

My dear colleagues at the Bank of Korea,

I have talked about key tasks that we have to carry out for the sake of optimal policy operation this year and the Bank's role to play as a top-tier think tank, but none of this will be possible without the support of each individual's capabilities. I have noticed numerous changes made possible by your ceaseless efforts, as well as by the successful introduction of innovative measures regarding management and personnel. There has also been positive feedback coming from the outside, too. I believe that this is attributable to your hard work, and I would like to ask for your continued efforts in honing your skills with a spirit of meticulousness to take them to the next level. I have also been working hard to enhance the Bank of Korea's competitiveness by improving benefits commensurate with our staff's expertise, and I will spare no effort in this regard going forward, as well.

This year, the Korean economy will continue its voyage toward a better future. We may encounter unexpected storms from time to time. Sure, it would be important to wisely navigate through the waves we face moment by moment. However, we cannot afford to make the mistake of focusing only on overcoming the waves and losing sight of the direction of our economy. Let us work together to ensure that the Bank of Korea becomes a reliable compass, presenting a future vision with forward-looking perspective and insight.

Lastly, let me extend my heartfelt gratitude once again to all our staff for doing their utmost in their respective areas with unwavering commitment. In particular, I would like to thank all the clerical staff and security guards for faithfully fulfilling their duties of facilities operation and security management since we moved back into our new headquarters last year, and my thanks also go to all the janitorial staff who have worked hard to maintain a pleasant and clean work environment for us all. In addition, I would like to express my appreciation to those in some of the more inconspicuous positions, such as customer service and cash management, for all their best efforts.

I hope that this will mark yet another year for the Bank of Korea to stay ahead of the curve for the Korean economy. As we greet this new year, I want to wish you and your family all the very best of health and good luck.

Thank you.

I would like to thank Byungkuk Kim, MoonSun Bae, and Youngrae Kim for their help in preparing this speech. (This is an unofficial translation prepared by the Bank's staff based on the original speech released on January 1, 2024.)

¹ "Ultra-Low Fertility Rate and Super-Aged Society: Causes, Effects, and Measures for Extreme Demographic Structure" (Hwang, I. D. and 11 other authors, *Korea Economic Outlook*, Bank of Korea, November 2023).

² "Causes, Effects, and Softlanding Plans of Household Debt Growth from a Long-Term Structural Perspective" (Lee, K. T. and Kang, H. K., *BOK Issue Note*, No. 2023-22, July 2023).

³ "Map of Major Manufacturing Industry Production and Supply Chains in Korea" (Regional Economy Research Division, Bank of Korea, August 2023).

⁴ "Interregional Population Migration and Regional Economies" (Chung, M. S., Kim, U. J., Lee, H. S., Hong, S. J., and Lee, D. Y., *BOK Issue Note*, No. 2023-29, November 2023).