

2nd SEACEN-BOJ Workshop

# Opening Address

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## **(Greetings)**

Honored speakers and participants,

I am very pleased to be here to welcome you all to the 2nd SEACEN-BOJ workshop hosted by the Bank of Korea. We owe a great debt of gratitude to *Dr. Subarjo Joyosumarto*, the Executive Director of the SEACEN Centre, and to all of his staff who are conducting this workshop. I would also like to extend my special thanks to *Dr. Bandid Nijathaworn*, Deputy Governor of the Bank of Thailand, who honors this workshop by his participation as keynote speaker.

The theme of today's workshop, *Communication Strategy for Monetary Policy*, is one of the key challenges that central banks must inevitably address these days, in order to secure effectiveness in their monetary policies. Because monetary policy exercises great influence on the financial markets and real economy through economic agents' expectations, effective communication is vital in order to achieve sound management of these expectations. Recently, interest in communication strategy has grown significantly, centering on international institutions such as IMF and on central banks in the major countries. Considering this situation, I think our workshop this week will be a very meaningful one.

## **(Importance of Monetary Policy Communications and the Korean Experience)**

As you all know well, up until the mid-1990s most central banks, including the U.S. Federal Reserve, maintained secrecy concerning their monetary policy decision processes. In illustration, the U.S. Federal Reserve was described as a 'temple,' concealing numerous secrets.

However, as the paradigm of monetary policy has shifted gradually to openness, communication for monetary policy has become very important. In the background to this development lie the following two factors.

Firstly, with changes in the policy environment due to financial market development, there has been an increased need to improve the effectiveness of monetary policy through communication. From the 1980s, financial liberalization took off and financial markets developed in terms of both quantity and quality. Consequently, it became difficult for central banks to lead the markets in unilateral fashions as before. Accordingly, the understanding of how to best ensure monetary policy effectiveness has switched, so that 'lowering uncertainty and heightening market efficiency by providing more information'

has become superior to 'surprising the markets.' Especially, this awareness has become even more widespread with the focus on importance of 'expectations' under forward-looking monetary policies.

Secondly, as central banks have become more independent, there has been accompanying emphasis on their democratic accountability. With the introduction of inflation targeting regimes from the early 1990s, and for some other reasons, the independence of central banks has been strengthened as an institutional device to secure monetary policy credibility. To facilitate accountability in line with this, central banks have prepared a variety of communication tools to heighten the transparency of their monetary policy administration.

In Korea, too, against this background, the importance of communications for monetary policy has increased greatly since the end of the 1990s. Financial liberalization including interest rate liberalization, which had started to take off from the early 1990s, was further facilitated in the process of dealing with the 1997 financial crisis. Overall conditions enabling the appropriate functioning of financial markets have also improved remarkably. Such changes have made market-oriented monetary policy more necessary than ever before. In these circumstances,

the independence of the Bank of Korea was strengthened significantly with the introduction of an inflation targeting regime in the revised Bank of Korea Act of 1997. In addition, the monetary policy regime shifted to a more market-friendly one, with adoption of the call rate as the operating target.

Accordingly, in order to enhance both the effectiveness of its monetary policy and its own accountability in line with increased independence, the Bank of Korea has come to strengthen its communications, aiming to manage the expectations of the financial markets and the public, as well as to improve its monetary policy transparency.

### **(Concluding Remarks)**

Based upon the background I have just described, central banks have recognized the importance of communications and have been working to improve them. However, there are numerous difficulties in actually establishing and executing communication strategy. One important issue concerns the degree to which, in conditions of uncertainty, the central bank should evaluate and communicate this uncertainty. There are other issues to be studied as well, including what and when to

communicate, whether to discriminate among communication means depending upon the target group, and how to deal with the media.

I hope this workshop over the coming three days will be useful and valuable to all participants, by providing you all with opportunities to engage in deep discussions based upon your own individual countries' experiences. On another matter, I would like to point out that it is still cold out there. I hope that you will all take very good care of yourselves during your stay here in Korea.

In conclusion, I would like to take this chance again to compliment the staff members of the SEACEN Centre and those at the Bank of Korea involved in preparing this workshop, for their excellent work.

Thank you very much.