



SPEECHES

Opening Remarks

**Opening Address of Mr. Seong Tae Lee,
Deputy Governor, The Bank of Korea for the
SEACEN-BOJ Course on Monetary Policies and Strategies
Gwangju, Korea, 29 August 2005**

Ladies and gentlemen,

Good morning,

I am delighted that the SEACEN Centre and the Bank of Korea are together holding the "The 5th SEACEN-BOJ Course on Monetary Policies and Strategies". I sincerely welcome all my fellow central bankers who have come from throughout the whole of East Asia to participate in this course. In addition, I would like to express my gratitude to Dr. Subarjo Joyosumarto, the Executive Director of the SEACEN Centre, and all of his staff, who are always striving to support mutual cooperation among member central banks.

This course aims to promote the understanding of monetary policy frameworks, instruments, and operations. A number of experts will be dealing with various topics over the coming 10 days. So, I would like to say a few words here about the experiences of major central banks in monetary policy operations since 2000 and some of the issues involved.

With the bursting of the dot-com bubble at the beginning of 2000, the world economy showed a slowdown of its pace of growth from the second half of that year. Notably after the "terror attacks" of September 11, 2001, world economic growth shrank more sharply owing to the geopolitical risks and the steep run-up in oil prices. In response, almost all central banks greatly eased their monetary policy stances. For example, the Federal Reserve lowered its Federal Funds target rate thirteen times between January 2001 and June 2003, bringing it down from 6.5% to 1.0%. Although the FRB has been gently ratcheting up its policy rate since last year, the interest rates of major advanced countries including the United States are historically low levels.

In consequence, the world economy, and particularly the US economy, have been recovering their growth momentum since the second half of 2003. Prices have maintained a stable pattern with the supply on a large scale of low-price goods from emerging countries such as China, offsetting the sharp rises in prices of raw materials including crude oil. However, in the course of these developments, several new issues have arisen concerning certain worrisome side-effects.

First of all, real-estate prices have been rising steeply in many countries owing to the low interest rate policy. Consequently, many have voiced their concern over possible bubbles forming in the real-estate market worldwide. The world economy could be thrown into chaos in the event of the bursting of the huge bubbles formed in the real-estate market.

In addition, economic agents are exposed to serious interest rate risks as households have taken on much heavier liabilities owing to the low interest rate stance that has prevailed for some length of time. As monetary policy in individual countries shifts away from its accommodative stance, there is the possibility of financial stability being threatened by an increase in non-performing loans.

Finally, global economic imbalances have worsened as the pace of economic growth in major countries has been accelerated by the low interest rate stance. While the US twin-deficits are constantly piling up, the East-Asian countries continue to run current account surpluses on a large scale. Such imbalances may spark trade conflicts between countries and throw international financial markets into deep shock as they unwind.

As we can see from these examples, central banks constantly face new challenges due to the changes in the financial and economic situation. To overcome them, it is vital for central bankers, and especially younger members of staff like most of you, to widen their knowledge and accumulate ample experience in monetary policies. By the way, I trust that this course will provide you all the opportunity to deepen your understandings of the monetary policy, and to share your diverse experiences in monetary policy operations, which vary from country to country.

In addition, I hope that this meeting will serve as a bridge to improve mutual cooperation and partnership among central bank staff throughout East Asia. Especially, as this course is being held in Gwangju, which is one of the most famous art-loving cities in Korea. I do hope that you have the time to enjoy both the beauty and the flavor of Korean culture even though you are on a tight schedule. In closing, I once again bid a hearty welcome to all participants.

Thank you.