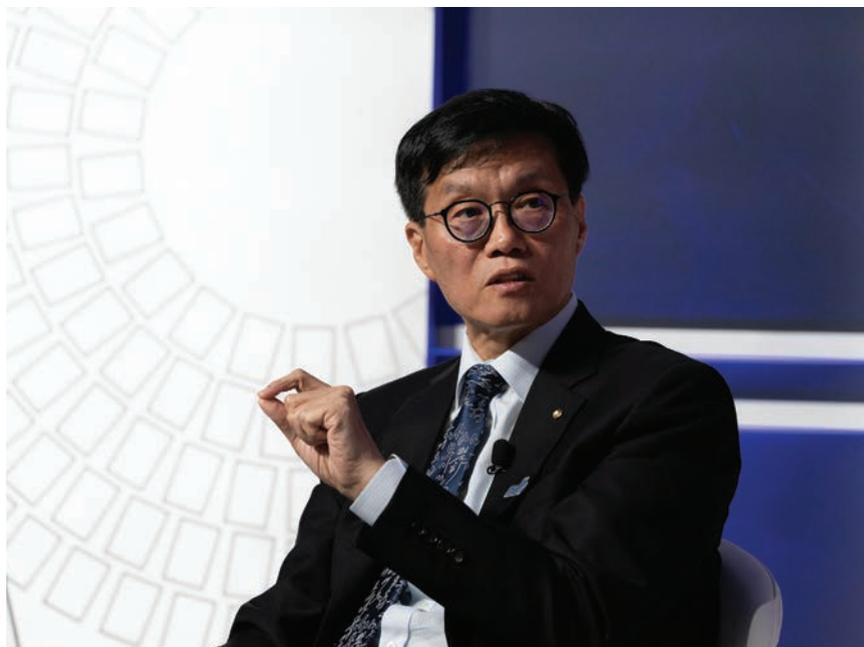


## In the Trenches

# The Transformative Central Banker



Bank of Korea Governor **Chang Yong Rhee** explains the institution's evolving role amid broadening economic challenges

Chang Yong Rhee has long argued that central banks must adapt to new realities. He became Bank of Korea governor in April 2022, amid a global inflation surge and Russia's war on Ukraine, and saw the economy as on the cusp of a great transformation. Population aging, diminished globalization, a rapidly evolving digital economy, and other issues meant it was time for the central bank to study a broader range of subjects.

"Our responsibility cannot be confined to the boundaries of monetary policy alone," he said in his inaugural address. Rhee also noted the emotion of the moment for an economics major now at the policy forefront. After earning his degree from Seoul National University, he attended Harvard University for his doctorate, held academic posts in the United States and Korea, then served in government and international organizations.

The Bank of Korea must also serve as a kind of think tank for the country, Rhee says.

As governor, he has championed efforts to better identify structural economic issues and propose solutions—and to make the Bank of Korea more vibrant, less "temple-like."

Communications and greater public engagement are part of this push, including tailoring multiple channels to various audiences. The monetary authority has expanded focus on videos, visualizations, a new studio, staff media training—and even opened a gift shop.

Rhee discussed his vision for the central bank with F&D's Jeff Kearns.

**F&D:** You were Asian Development Bank (ADB) chief economist and director of the IMF Asia Pacific Department before becoming Bank of Korea governor in 2022. What was it like to go from offering policy advice to receiving it, and what did that teach you?

**CR:** I had several different careers, but luckily my career development is a natural continuation of what I like most, which is economic research and policy advice. My experience at the ADB and IMF taught me invaluable lessons, one of which is looking at the global perspective in understanding economic policies. And it also helps to build an international network, which now plays a very important part in my communication and in my cooperation with multilateral institutions and other countries. It also deepened my appreciation of financial stability by observation of many financial crises across countries. Now, I'm used to looking beyond the traditional inflation-growth trade-off and can see the importance of financial stability. But having said that, I think the nature of the responsibility has changed. Prior to my governorship, my major responsibility at the Fund was to provide policy advice. Now I'm responsible for making a final call, at least on monetary policy, and that carries a lot of weight.

**F&D:** In speeches, you've mentioned topics including aging and immigration and artificial intelligence. Do central banks need to evolve beyond traditional roles to better address, say, deeper structural forces to underpin long-term growth?

**CR:** This is a sensitive issue in Korea. Some believe I'm a weird governor because I talk not only about monetary policy but also about structural issues such as aging, education, and many issues related to the labor market. But that's not inconsistent with the central bank's mandate, which is price stability. To make proper monetary policy, you need a good understanding of the driving forces of change in the economic policy environment. For example, whether changes are due to cyclical or structural issues. The recent slowdown of economic growth in Korea is one example. I think structural issues such as aging, and the changing nature of the global supply chain, play as important a role as the cyclical factors. So, in some sense, to understand why our growth rate is going down and how much it is because of cyclical factors we need to offset, you really need a good understanding of the driving force for structural changes too. With that in mind, the Bank of Korea must be a leading think tank for Korea as a whole, not just a central bank.

**F&D:** When you compare your institution with other central banks, or talk to other governors, how do you think its role compares? Is your bank's scope narrower or broader?

**CR:** When I look at central banks in Europe and the United States and elsewhere, finance ministers and central bankers have always communicated with each other and talked about fiscal policy too. Monetary policy is made by the central bank, but talking and communicating about structural issues is a natural thing, and Korea has been an exception.

The structural factors driving our economy have become much more important. Korea has a rapidly aging population, and we have an export-dominated economy in a global environment that's changing quite sig-

**“The structural factors driving our economy have become much more important.”**

nificantly. So without touching on these issues, we can't make proper monetary policy. This changing environment means we must be more open to studying these structural issues.

**F&D:** Looking around the world, is central bank independence under pressure?

**CR:** Central bank independence is very important, especially in achieving price stability.

We had to raise the interest rate very rapidly in 2022. At the time, that wasn't popular. But I could explain to the public that my mandate is price stability, inflation targeting is our objective, and the central bank must independently make hard decisions.

Independence is key, but there is some misunderstanding. The central bank has many other functions, such as financial market stability, and sometimes we act as a lender of last resort. Sometimes we are involved in resolving bankrupt financial institutions. These are the areas in which you need to communicate and cooperate with the government. This job can't be done by the central bank alone. Central bank independence is key for price stability and other operations, but at the same time, the central bank must cooperate with the government.

**F&D:** Given the sensitivities, how do you communicate why the central bank should take a broader view of what it means to steer the economy, going beyond traditional concepts such as inflation and interest rates to more structural and societal factors?

**CR:** This isn't easy, because structural issues have no simple answer. They're quite complex. And when you address structural issues, there are always winners and losers.

When you recommend some policies, the evaluation is quite different, depending on whether they are winners or losers. Also, people's perception is very hard to change. For example, if you ask a man on the street what the proper economic growth rate in Korea should be, based on our high-growth period in the past couple of decades, many people will say that at least 3 percent, even over 4 percent, is a proper growth rate. But because of aging and other changes, our potential GDP growth rate is now about 2 percent or below.

It's very hard to tell people that the situation has changed. Now we need to change our behavior and perception. That's why communication is difficult, and why we need high-quality research. More importantly, research should be easy for people to read. That's the importance of communication—but that's not an easy task.

**F&D:** Public opinion surveys show more favorable responses and a higher assessment of the bank's credibility. Do you link that to your broader view of explaining the bank, what it does, and why it should change?

**CR:** Many people still believe that it's a virtue for the central bank to communicate in the traditional way, which is to focus on monetary policy and try to deliver the message in a way that is not very clear so as not to cause a market impact. We are in the process of changing that perception, but it may take time. **F&D**

*This interview has been edited for length and clarity. Visit [www.imf.org/podcasts](http://www.imf.org/podcasts) to hear the full interview.*

