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KEYNOTE OPENING ADDRESS

KOREA'S FINANCIAL SECTOR
DEVELOPMENT AND KEY POLICIES
AHEAD

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Chairman
Financial Services Commission

Greetings

Good morning,
Ladies and gentlemen,

It's great to speak to you this morning.

Let me begin with my sincere thanks to Economist Intelligence Unit and Charles Goddard, Asia-Pacific Editorial Director, for hosting today's conference and inviting me to speak.

I am delighted to join so many distinguished speakers and guests to share and debate ideas that will shape the future of finance in Asia-Pacific.

For my time this morning, I would like to make some observations about recent global economic issues.

I will then follow up with some thoughts on Korea's financial market policy.

Perspectives on Recent Global Developments

Ladies and gentlemen,

My take on the ongoing uncertainty in the global markets is that it is very much an aftereffect of the 2008 global financial crisis.

This time, however, there are some considerable differences in the nature of the uncertainty and our capacity to deal with it.

As you know, the 2008 crisis was caused by the financial sector which collapsed with the bursting of leverage-driven bubbles.

In the face of a looming market collapse, policy makers around the world set a clear common goal of safeguarding the financial system and so, closely cooperated to achieve the goal.

With forceful, coordinated fiscal and monetary stimulus, the global economy soon began to pick up again.

By contrast, the uncertainty we are facing now stems from real sector that remains sluggish even after sustained stimulus policies for the past few years.

Because economic circumstances and expected effects of certain policies vary widely across countries, we are not likely to see yet another round of forceful, globally unified action to tackle sluggish growth.

In fact, the reality this time may well be that the extended post-crisis expansionary policies have significantly diminished our capacity to further stimulate the economy.

Let's take a look at the reality of the global economy.

The first is the euro-zone sovereign debt crisis.

I would like to note that the loss of autonomous exchange rate and interest rate policies more or less forced several euro-zone economies to rely too much on their fiscal options.

So they must now grapple with a mounting debt crisis.

The absence of exchange rate and interest rate flexibility also means no effective risk adjustment or cost sharing through the market.

So, uncertainty persists on how long it will take for the euro-zone to make a remarkable

turnaround for their economic stability.

For the United States with the substantial twin deficits, it seems also difficult to restore momentum for a robust pace of recovery.

Indeed, with limited fiscal options and policy rate already near zero, it is doubtful whether additional monetary easing will in fact improve the performance of the economy in any meaningful fashion.

Moreover, any sudden shift in the U.S. dollar policy aimed at spurring export growth is probably not feasible in the near term as it will upset the existing global trade relations.

In Japan, the aftermath of the March earthquake, coming on top of an already underperforming economy, has heightened the likelihood of prolonged sluggishness.

And for China which has served as the world's factory and market, is expected to continue monetary tightening to fight inflation.

It will inevitably lead to a further contraction of a global demand.

All in all, World Bank President Robert Zoellick

aptly captured our growth predicament last month at the Jackson Hole meeting by noting that risks to the global economy are intensifying but we have fewer options to deal with them.

Although it is unlikely that the global economy will encounter a sudden and unexpected outbreak of major crisis like the one we had back in 2008, it seems likely that the economic turmoil we are facing will last for quite a long time.

Korea's Financial Policy

Let me now say a few words about our financial policy under such global circumstances.

As you know, the global financial crisis in 2008 dealt a heavy blow to our markets and economy.

But we responded with proactive and preemptive policy measures, so, Korea's pace of recovery as a result was the fastest among the OECD countries.

More recently, global recession worries gripped

our markets, but we see volatility gradually abating with more upbeat investor sentiment.

Looking ahead, any shocks to global markets will surely be felt in our markets.

But I have no doubt that our markets are now more than resilient enough to deal with them and will only get more resilient as we continue to reinforce our market foundation.

Furthermore, compared to other major economies, we have more flexibility in our policy response to crises, with sound fiscal health and adequate capacity for monetary policy.

More specifically, Korea's foreign exchange reserves now stand more than 310 billion dollars.

And the short-term external debt, which used to be above 50 per cent of the total not long ago, has recently dropped below 40 per cent.

The overall bank soundness has significantly improved as well.

The loan-to-deposit ratio which used to hover around 120 percent, has remained stable at

below 100 percent.

And the BIS capital ratio is now higher than 14 percent.

I would also stress that we are taking steps to deal with household debt and the troubled mutual savings banks.

For household debt growth, we have implemented a number of measures to bring it under control.

And we have made it clear that additional steps, if needed, will be taken to achieve our goal.

For the distressed mutual savings banks, I can tell you that restructuring will pick up the pace going forward, and no systemic risk will arise from them.

As we take steps to safeguard and reinforce financial stability, we intend to make sure that the financial industry continues to thrive and advance.

In this regard, we are undertaking new efforts to promote home-grown investment banks and introduce hedge funds.

We are now launching an overall reform of our capital market system to improve market efficiency and transparency.

On top of these reformative efforts, the revision of Capital Markets Act, now under way, will pave the way for Korea's financial market to be more transparent and predictable so that it can equally compete with any other financial markets.

There are also efforts under way to improve bank governance structure.

So the board can exercise more effective checks and balances on the management and assume tighter oversight on the bank's risk-taking activities.

Finally, I would like to note that we will be looking to revamp the financial consumer protection structure as key part of our push for the advancement of the financial system.

Closing

Ladies and gentlemen,

It is said that the word "crisis" is derived from the Greek word "krinein," a medical term meaning the turning point of a disease, for better or worse.

In the East, the word "crisis" similarly denotes the duality of risk and opportunity.

In many ways, Korea's economic success over the decades—the Miracle of Han River—has been made possible by turning risk into opportunity to renew, reinvigorate, and regenerate.

So, as before, we will continue to look for new opportunities to sustain the dynamic growth of the Korean economy.

I very much appreciate the opportunity to speak to you this morning and look forward to hearing your open and candid contributions to the challenges ahead.

Thank you.