
FSC Chairman's Press Avail
at the
Seoul Foreign Correspondents' Club
12:00 p.m., Friday, May 15, 2009
Press Center, Seoul, Korea

**THE GLOBAL FINANCIAL CRISIS &
KOREA'S FINANCIAL POLICY RESPONSE**

Keynote speech

by

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I. Greetings

Distinguished members of the Seoul Foreign Correspondents' Club, and

Ladies and gentlemen,

It's great to be here with you and I thank you for coming.

I also thank the Seoul Foreign Correspondents' Club for helping us arrange today's meeting and giving me a chance to speak to foreign correspondents about Korea's policy response to the global financial crisis.

It is my hope that today's meeting will shed new light on recent market and policy developments in Korea and what you can expect going forward in terms of financial policy from the FSC.

II. The Financial Crisis and Korea's Response

Policymakers in the U.S. and other major countries have responded aggressively and forcefully to the global financial crisis.

With many characterizing the crisis as the worst since the Great Depression, there was more than ample justification for bold policy measures.

Korea's policymakers acted in a similarly bold fashion to cushion the impact of the crisis on the financial system and the broad economy.

In terms of financial policy, we had **two broad goals** to accomplish:

- safeguarding the financial markets and
- reinstating the financial sector as the patron for the real economy.

Safeguarding the Financial Markets

As the financial crisis began to spread around the world, it became clear to us that we had to act swiftly on several fronts to avoid systemic risk, and maintain the stability of the financial markets.

To stabilize the foreign currency market, the government provided external debt guarantees for domestic banks and signed currency swap arrangements with major countries.

On the other hand, to bring back stability to the financial markets, interest rates were cut and the Bond Market Stabilization Fund was created to increase liquidity and help restore the flow of credit to the real sector.

Steps were also taken to prevent market instability due to abrupt capital outflow from the short-term money market.

Reinstating the Financial Sector as the Patron for the Real Economy

The government also moved swiftly and sufficiently to help banks boost their capital and maintain a steady flow of credit to businesses.

In March, the government set up the Bank Recapitalization Fund and helped eight domestic banks raise their capital.

The government also laid legislative grounds necessary for the creation of the Corporate Restructuring Fund to help resolve distressed corporate assets and the creation of the Financial Stabilization Fund to help financial institutions shore up their capital.

As a result, we now have policy tools we can utilize to ensure ample supply of liquidity in times of widespread distress in the financial system.

Amid a worsening economic slowdown and rising market uncertainty at home and abroad, the government also took a number of measures to preempt credit crunch in the corporate sector and potential distress that could result from it.

Among others, we set up the Corporate Credit Support Task Force to provide assistance to companies experiencing short-term financial difficulty and help them cope with adverse funding conditions, and at the same time, improve the financial structure of their businesses.

We also stepped up assistance to the SMEs by expanding debt guarantees and extending loan maturities.

III. Market Assessment & Policies Ahead

Current Market Assessment

With some of recent economic indicators and corporate earnings showing signs of improvement, investor sentiment appears to be rebounding, and the global financial markets are turning more upbeat about the growth outlook.

The recent surge in the major equity markets reflects the new optimism, and some market observers are hastily wondering whether the global economy has bottomed out already.

The combination of improved prospect for the global economy and aggressive policy responses by the government has clearly boosted market sentiment in Korea.

Foreign liquidity conditions, which deteriorated at a rapid pace following the collapse of Lehman Brothers last year, have improved significantly.

And as both the financial markets and the real economy send more assuring signals, many outside observers who

were earlier pessimistic about our economy are fast becoming more optimistic.

Although these are all very positive signals both locally and internationally, it is not to say that there is no longer any uncertainty in the future course of the economy.

We are still very much in the midst of a major global economic turmoil, and the prevailing expectation is that it will be a while before we see a full recovery.

So, it is still premature, at this stage, to dismiss the likelihood of potential distress in the financial markets, just as it is too early to discount risks in the economy.

In Korea, we do see several economic indicators pointing to more positive directions. But, again, it would be overly optimistic at this point to suggest that a full economic recovery is under way.

Policies Ahead

From a policy standpoint, it is clear that we will need to adopt further preemptive measures to deal with uncertainty in the market.

Let me quickly outline in general terms, **three key objectives** we see as necessary in order to ensure continued financial market stability.

First, we intend to take steps to encourage a virtuous circle of funds between the financial sector and the real economy.

One key aspect of this will be to step up financial regulation and supervision to prevent high volumes of short-term money from flowing into the real estate market, but instead, we will be aiming for a policy regime that encourages funds to flow into the corporate sector.

Second, we intend to look for ways to increase the speed and enhance the efficiency of the restructuring process.

The capacity to absorb shocks arising from the corporate restructuring process has been greatly improved, marked by increased liquidity in the foreign exchange market and stability in the financial markets.

Furthermore, since the legal framework and financial resources for restructuring have already been secured and have been affirmed by the National Assembly in April, the government intends to utilize the resources and take

decisive measures for full-fledged restructuring.

Third, we will be looking for ways to reinforce the soundness of the financial services industry.

This will entail, among others, sustained industry-wide efforts on resolving distressed assets, increasing capital, maintaining an appropriate level of net interest margin, and enhancing management efficiency.

When appropriate, we intend to utilize the Bank Recapitalization Fund, the Corporate Restructuring Fund, the Financial Stabilization Fund, and other tools available to us to help reinforce the soundness of the overall financial sector.

In terms of improving the banks' profitability, we will take steps to bring about improvement in the foreign currency funding structure.

IV. Closing Remarks

In closing, let me stress that the Korean government is not, and will not be, complacent about recent market upswing at home and abroad.

On the contrary, the government sees it as an opportunity to provide fresh vigor and vitality to the economy and pave the way for steady and sustained growth.

In light of the circumstances we are in, what we need is not hasty optimism, but firm, uncompromising resolve to do the hard work necessary to overcome the difficulties we face.

Finally, I would like to assure you that we, the Financial Services Commission, pledge to make every effort to reinvigorate the financial sector to be the firm patron for the recovery of the real economy.

Thank you.