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Post-crisis Financial Policy

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DONG-SOO CHIN
CHAIRMAN

Financial Services Commission

The speech transcript below is provided for the convenience of the press. Please bear in mind that there may be slight discrepancies with the actual contents

I . Introductory Remarks

Good afternoon, ladies and gentlemen!

Let me first thank Mr. Jae-hong Lee and Mr. Young Chang of UBS Korea for having me here today.

It is also a great pleasure to see so many distinguished business leaders and investors together in one place.

We are now coming to the end of 2009, and winter is almost upon us.

It has been a year of both despair and hope.

But, fortunately, this time around, we are not going to go through the bitter cold we had to bear at the height of the financial crisis last winter.

The global economy has been gradually emerging from the panic of a year ago and there is hope ahead.

Yet, new concerns, such as fears of another asset bubble and major economies' swelling fiscal deficits, are clouding the outlook for the world economy.

In this context, I shall speak today about how the crisis has affected Korea and what the future tasks are for the Korean government.

II. Lessons from the Global Financial Crisis

Now, many wonder what has been the secret behind Korea's vigorous recovery from the crisis.

I would say that one unique contributing factor is our experience with a financial crisis a decade ago.

This put Korea's corporate and financial sectors in strong shape and enhanced the government's ability to manage the crisis.

And yet, the latest crisis demonstrated that our past experience did not entirely work in our favor.

Let me explain.

The origin of the 1997 crisis can be traced to internal distortions and distresses built up during decades of rapid economic growth.

In contrast, the latest crisis originated from outside Korea.

Unlike the major economies that suffered from massive financial implosions, the Korean economy was on a firm footing with healthy corporate and financial sectors.

Despite this, the impact of the crisis on Korea was disproportionately large because of the stigma from the 1997 crisis.

Some overseas media and investors oddly took the view that a second financial crisis could occur in Korea.

This sparked negative perceptions and helped to worsen the crisis.

Our government responded by working to clear up misunderstandings and by minimizing external shocks.

For the first phase, we supplied FX liquidity and entered into currency swaps with the US, China and Japan to stabilize the foreign exchange markets.

For the second phase, we undertook steps to preempt the spread of the crisis and stagnation in the real economy.

This included promptly implementing stimulus measures, bolstering soundness of financial firms, and carrying out corporate restructuring.

The crisis has made us keenly aware that, as an export-led economy with open financial markets, Korea must always be on guard for external shocks.

We have learned that a mechanism to stabilize the foreign exchange market is critical given that we do not have a reserve currency.

We also must shore up the soundness of our financial firms to make the financial system less vulnerable.

Another lesson this crisis gave us is the importance of macro-prudential supervision.

As the crisis unfolded, the need to tighten macro-prudential supervision became obvious.

Financial companies' herding behavior and interconnected markets strained the financial system and made bad things worse.

III. Post-Crisis Financial Policy Tasks

Ladies and gentlemen!

The international community is now turning the attention to post-crisis measures as the global economy begins to bounce back.

It remains unclear, however, whether we will get back on our previous path or whether we will seek a 'new normal'.

What is certain is that we shall see fundamental changes to the global financial order, to a degree similar to those following the Great Depression.

So, as the global financial landscape shifts and evolves, I see a need to stay responsive to changes and to adapt to them.

Reshaping the International Financial Order

First, the Korean government intends to take an active role in reshaping the international financial order in support of the G-20 and the FSB.

As the chair and the host of next year's G-20 summit, Korea is being called upon to demonstrate its global leadership.

Korea welcomes the opportunity and intends to play a bridge role between developed and developing economies.

We will also stick to standards agreed upon in the international community and successfully host next year's G-20 summit.

Reformulating Financial Regulation

Secondly, we shall devise financial regulations suitable for Korea by considering both international consensus and our own problems that arose in the crisis.

The goal is to build an optimal regulatory framework that takes into account our own financial market situation and development background.

In this respect, we already have a policy scheme drawn up to make our foreign exchange sector less vulnerable to disruptions.

We plan to begin implementing this scheme next year.

Let me add that, in determining the optimal level of regulation, we will be cautious and prudent so as not to undermine market competition and innovation.

Envisioning Korea's Financial Industry

Thirdly, the government is putting much thought into its vision for the post-crisis Korean financial industry.

Before the crisis, the government had been striving to invigorate Korea's financial sector, as it lagged behind the advanced markets.

We passed a major law to spur innovation in the capital markets.

And we also pursued policies to try to turn Korea into a financial hub.

However, the crisis has given rise to skepticism, and the fact is that the momentum behind such initiatives has somewhat waned.

Yet Korea's financial industry has not been overbuilt unlike the advanced markets at the heart of this crisis.

In short, we still have room to grow.

As such, we shall embark on a medium- to long-term vision to further Korea's financial industry, while keeping financial system stability in mind.

Korea is proud of having competitive global players in IT, electronics, shipbuilding and other real sectors.

Accomplishing the same feat in the financial sector won't be easy.

But Korea will do its utmost to design and implement a coherent development strategy for our financial industry.

IV. Concluding Remarks

Ladies and gentlemen!

Korea's recent 'astonishing rebound' has earned much praise from overseas observers.

Even so, the Korean government will not be complacent about improving our fundamentals and regaining growth momentum.

We believe that our rapid economic recovery has banished the stigma from 1997 financial crisis.

And it is my hope that a Pygmalion effect of 'positive expectations producing positive results' will take root.

With that, let me conclude by expressing my confidence that today's gathering will serve as a meaningful occasion for all of you.

Thank you so much.